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Legend

F Facilitator
LO Luca Onorante
JF John Flynn
GF Gabrielle Fagan
LS Laura Slattery, Irish Times
CH Conor Humphries, Reuters
EQ Eamon Quinn, Examiner
CK Colm Kelpie, Irish Independent

F So good morning. Welcome to the summer quarterly bulletin. Let me introduce our Chief Economist Gabrielle Fagan, Luca Onorante our Head of Monetary Policy Division and John Flynn, Head of Irish Economic Analysis. So we'll kick off with the presentation from Luca please.

LO Good morning. A few words about the international environment. Yes, let me start with key messages. First of all the euro economy is ongoing and seems to be taking robustness. In the past it used to be driven mostly by external factors like net exports and now internal demand seems to be progressively kicking in. Unemployment has been falling further, now its 10.1% and sentiment indicators are kind of hovering in a positive territory still. Inflation remains very subdued. It just turned positive in June at 0.1% and is not expected to pick up too much in 2016. Actually the expectation is for 0.2% by the end of the year. This pick up compared to the past is due to accumulative monetary policy of the European Central Bank and to the energy component which is benefitting from base effects due to higher oil prices. When we go to the risks, well this time it's quite easy to identify the main risk. The main risks are the economic consequences of Brexit, and a related risk that we have been observing in the days of the referendum is that the Brexit referendum has increased overall uncertainty and this has put some pressure on the banking system, in particular in those parts of the banking system that have still a high number of non-performing loans. We have two boxes in the international part which may be of interest for you. The first one is on labour market reforms in the euro area and the second is about China, about Chinese capital flows and the role of capital controls.

Let me start with the economic recovery. As we said the recovery seems to gain further strength. GDP has been picking up, 0.6%, in the first quarter of 2016, 1.7% year-on-year just like at the end of 2015. Actually the last number is more positive than the corresponding numbers of UK, US and Japan and the recovery has transitioned from one driven by net exports. So net exports were contributing positively, now less so because the global cycle in particular in emerging markets that were export markets has slowed down a bit into a recovery driven by domestic demand which is overall good news.

Let's look a bit ahead. We have no hard data for Q2. The first estimate of Q2 for the Euro area will come out this Friday but we can look at some partial information. First of all unemployment. Unemployment in May has been falling down to 10.1%. If you look at the chart you see that this value is kind of the best value in quite some time, in a few years and sentiment indicators notably the most recent the PMI have been going slightly down for 53.2% to 52.9% but basically they're still well above 50%, so in positive territory.

We turn now to inflation. Inflation has been turning positive in June for the first time after a few months and it's at 0.1% year-on-year. At the end of the year it's not expected to go much higher, 0.2% and then it's expected to go higher further in 2017. On the positive side there is the contribution of the ECB accommodative policy, especially over the last measures of last March and on the negative side we see that inflation expectations, market-based inflation expectations which are the only ones that we have at the moment, have been going down after the outcome of the Brexit referendum, about 0.1% long-term expectations.

We come now to the thing you have all been waiting for, Brexit, so the outcome of the referendum was obviously a surprise especially for the markets. It would be important for the UK in the outlook, for Ireland I will leave the floor to John Flynn. We should probably not overestimate the effect for the euro area. On the one hand the UK is an important trading partner for the euro area. It's like the second one after the US and on the other hand the openness is about 10%, so if this 10% should become 9% or 8% the total trade would not change in ways that we haven't seen before. The main thing that we have been seeing is a raise of the general level of uncertainty and so uncertainty about negotiation will be the key factor. The best possible outcome let's say would be a swift negotiation that reduces as much as possible the period of uncertainty and a positive outcome which means not simply WTO international rules but something that is as little disruptive as possible both from the point of view of trade and investment. A related risk is that fact that the results of the UK referendum could actually trigger a reflection on the process of integration. On the one side we have kind of a tendency of some parties in some countries to call for other referendums, on the other side one could have also a positive risk because this could lead politicians to think about a deepening of the concept of the union. We have no hard data on Brexit at the moment so we are kind of a bit in the air but what we have seen is that markets moved and basically came back after a while, so not something unseen before. We have seen movements in the exchange rate in particular sterling has depreciated towards the euro and at the same time there has been some kind of safe haven movement towards the dollar. So the euro has depreciated relative to the dollar and overall effect hasn't been dramatic and what we see is that uncertainty indicators are on the rise. So these will be the main things going ahead.

Let me go to some numbers to conclude. These are forecasts of institutions, recent forecast of leading institutions. Let me clarify they do not include Brexit. So this is before the Brexit referendum. Real GDP growth is expected to hover at around 1.6% in 2016 and go slightly higher in 2017, 1.7%. When we turn to inflation we expect low numbers for 2016. We are basically at 0.2% and then in 2017 inflation are supposed to pick up following the energy component at somewhere about 1% - 1.5% year-on-year. I pass the word to John Flynn. Thank you.

JF Cheers. So assessing, I suppose, starting off I suppose the overall comment we'd make is that assessing both the performance and prospects for the Irish economy has been made more problematic respectively by two things. I suppose the scale of the revisions to the 2015 national accounts that we've seen and then by as Luca has been talking about the outcome of the Brexit referendum in the UK. The recently published national accounts for 2015 have resulted in a large upward level shift in the level of real and nominal GDP, namely due to a sharp rise in the recorded growth rise of net exports, a very sharp rise. Now, as you know the revisions were substantial with the growth rate of real GDP rising to just over 26%, real GDP now estimated at being just slightly below 19% and nominal GDP estimating as more or less have gone up by about a third last year. Now the upward revision to nominal GDP mechanically improves the most commonly used measures of the fiscal stance and sort of impacts on their kind of usefulness or meaningfulness. While the scale of the revisions is exceptional its important the emphasise that the data is compiled in compliance with agreed international standards and the revisions are explained, when we look at them, they're explained in the main by factors related to the operations of multinational companies and in particular a number of things that we see going on in recent years. So we've seen some corporate restructurings where balance sheets essentially of companies have been relocated to Ireland. We've seen the transfer of intellectual property in other assets to Ireland and then we've seen corporate inversions involving Irish entities and we've also then seen a growth in aircraft leasing activities as well and I mean the combination of these things as I say has lead to a substantial increase in Ireland's measured capital stock and the economic activity associated with these developments has given rise to further strong growth in contract manufacturing which has boosted growth of exports as recorded in the national accounts. So as a result there's been a type of statistical onshoreing of economic activity, with the national accounts now including a significant amount of economic activity carried out elsewhere but recorded as part of Irish GDP and GNP. Now while GDP and GNP measures distort then the overall growth of domestic economic activity in Ireland in 2012, it shouldn't overshadow really the tangible improvements that we've seen taking place on the domestic side of the economy in recent years because if you look at a broader range of domestic spending and activity indicators, they suggest that domestic economic activity continues to expand at a reasonable healthy rate. So, for example, if we look at consumer spending we've seen very strong growth in consumer spending. Last year up by 4.5% and pretty strong growth in the first half of this year as well from what we can see and that's been supported by solid gains in employment and rising earnings. If we look at investment net of aircraft and intangibles again, the performance there has been pretty solid. We've seen double digit rates of increase in machinery and equipment investment and also in building and construction. So both of those as I say have continued to grow at more or less double digit pace. A measure we've tended to look at and we've talked about in the last few bulletins has been what we've called underlying domestic demand and underlying domestic demand as we defined it is made up essentially of personal expenditure on goods and services, net government expenditure on goods and services and investment excluding investment in aircraft and intangibles and if we look at that measure it grew by sort of 5% last year, you know, and together with employment growing by 2.5% and compensation per employee growing by slightly more than that it kind of points to growth in domestic activity sort of in the region of 5%, kind of give or take, maybe slightly more and these underlying developments probably present a more accurate picture of the underlying growth dynamic of the domestic economy. So it's important to keep these in mind then when you turn to look at the prospects for the economy and the outlook for the economy.

Moving onto the next slide, I suppose, looking ahead, assessing the outlook of the economy as I said is further complicated by the outcome of the Brexit referendum in the UK. Our overall assessment is that both in the short-term and in the longer terms the economic impact of Brexit in Ireland is set to be negative and material. You know, the close relationship between the Irish and the UK economy creates a particular exposure to the Irish economy from Brexit and while in aggregate we've seen that the Irish economy has become less reliant on the UK as a trading partner over recent decades, the UK remains a particularly important trading partner or a particularly important market for some sectors particularly for indigenous firms. So if you look at sectors like agri-food, if you look at sectors like clothing and footwear or tourism they continue to have a high dependency on the UK and could be affected to a greater extent than kind of economy in aggregate might be by these developments. Now, the problem we have in trying to forecasting is quantifying the impact of Brexit with much precision is difficult. Essentially you can think of two periods, you can think of a transition or interim period in which the longer arrangements are being worked out and then you can think of the long-term when the arrangements have been worked out. The difficulty in a transition period is that you could experience kind of heightened uncertainty and risk aversion. So there could be either a protracted period of that or bouts of that or spikes of that which makes it difficult to sort of incorporate or think about when you're trying to forecast as to how you quantify that. In the longer term the issue you have is that there is a wide range of possible outcomes here in terms of what the long-term arrangements may end up being and again that makes quantification difficult. So you end up thinking about different types of possible scenarios. Qualitatively, however, I think it's pretty clear that both in the short run and in the long run Brexit is likely to adversely affect the Irish economy. If we think about the two periods a little bit in the near term the downside risks for the Irish economy and this is also the case for the UK and the broader kind of European economy-the downside risks arise mainly from potential macro economic financial and currency effects related to the uncertainty in the transition period and kind of ups and downs in that uncertainty and an important element of that uncertainty revolves around the terms of the future relationship between the UK and the EU, how long it takes to workout that relationship and then ultimately, you know, the impact of the new relationship may be. In the longer run kind of once a relationship is established the impact of Brexit on Ireland will be influenced obviously by the nature of the relationship between the EU and the UK and then obviously how both economics evolve subsequently. You know, the nature and scale of the eventual macro impact will be influenced by the extent to which the arrangements change the free movements of good, services and lending capital, you know, which is currently facilitated through the operation of the single market and the channels through which we will those things will be trade, the labour market and FDI. So they will be the things that we will need to watch.

Now as I said in terms of thinking about what this means for the forecast-quantifying it over the forecast horizon is not straightforward because as I say not much can be said with precision about the scale and nature of the uncertainly-there's a risk aversion that you might see in coming years and heightened uncertainty and risk aversion could generate kind of macro economic, financial and currency market effects which we're aware of. We've looked this and sort of tried to look at it in a couple of different ways and one way we looked at it was we went back to some internal work that we carried out in the bank which looked at the potential longer impact of Brexit and we've tried to approximate the heightened uncertainty in coming years as closely resembling developments in the first two years of an adverse scenario where the UK leaves the EU without a negotiated bilateral trade agreement it falls back on WT rules so we said okay we'll try and proxy the uncertainty in coming years in this way by assuming that its similar to the first couple of years of an adverse shock and these are the results that it showed on this table here. Now in doing that we used a Bayesian vector autoregression modelling approach and essentially what we did was we constructed a baseline scenario based on the expected path for foreign demand if you like in the absence of Brexit and then introduced a Brexit shock and sought to see what sort of impact that would have on GDP in Ireland and on macro aggregates here. So, as I say these estimates are shown in the table here and reflecting the mid-year timing of the referendum, the estimated negative impact on growth this year we reckoned is likely to be about 0.2%, but its comparatively small but it reflects the fact that this happening in the middle of the year so a lot of the things are already said for this year. We expect to see more significant impact in 2017 and we've lowered the growth rate for 2017 as compared to our previous forecast by 0.6 per cent. Now as you can see from the table and this arises in the main from a less favourable outlook for exports. So we've pulled, we were assuming that the main channel through which Brexit will impact on us in the short-term will be through its impact on exports, so it's seen as being less favourable. Investment is also projected to be adversely affected and in part that reflection is less favourable growth environment and also some element of heightened uncertainty. The results suggest a more moderate impact on consumption but you would also may be have to make an additional allowance for weaker consumers sentiment. So if we saw a sharp weakening of consumer sentiment it could pull those numbers down a bit and there's also an adverse affect, some adverse affect on employment. Now, more generally we acknowledge that there's a good deal of uncertainty in doing this sort of exercise and in the estimates that we show here but we've tried to crosscheck them in a number of ways. For example, in recent days we saw the IMF update its world economic outlook so it came too late to be included in the international forecast but what it shows is in the world economic outlook update published by the IMF is that they've revised down their UK growth forecast for this year by 0.2 per cent and for next year by 0.9 per cent, so these numbers on the back of that and looking at what we've seen in financial markets and the exchange rate I think are broadly plausible. We've also done a number of other exercises where we've tried to look post referendum if you factor in say these revisions and what's happened to currency markets. What might come out and again it points to something kind of broadly similar to here. So it broadly corroborates what we've seen here. Now turning to what this implies for the forecast then, so if we look at the next slide, so that is the forecast slide. So in addition to these estimates of the potential Brexit impact we're forecasting on the basis that the 2015 national accounts revisions represent the level shift which is mainly related to corporate restructuring and which doesn't affect the underlying growth dynamics of the economy so we're assuming that we've seen a shift in 2015 and that it doesn't impact on the underlying growth dynamics and then we factored in our Brexit estimates as well. So with these caveats then our latest forecast is for GDP to grow by 4.9 per cent this year and by 3.6 per cent in 2017 and that's 0.2 per cent and 0.6 per cent lower than the numbers that we published in the last bulletin. Now despite the rising uncertainty following the Brexit referendum domestic demand is still expected to drive growth in the main over the forecast horizon and the outlook for growth and consumption and investment spending remain healthy although as you can see from the forecast growth rates are projected to moderate to both over the forecast horizon and if we thinks in terms of the underlying domestic demand measure I was talking about earlier, that having grown by around 5% this year we seen underlying domestic demand growing by about 4% next year and by just under 3%-sorry-under 4% this year and by just 3% in 2017 and this projected slowdown reflects obviously some impact from Brexit factors. Looking then at the various components of the forecast. So if you look at consumption, consumer spending grew by 4.5% last year which is the fastest rate of growth in quite some time, in almost a decade and while some of that was a catch-up for the weakness of consumer spending in recent years, the main driver has been the pick-up in the growth in employment and incomes. We've seen fairly positive data for the first half of the year of consumer spending and on the basis of that and supported by continued solid growth in employment and incomes which we've factored in for this year, we see consumption growing by 4% next year. Now on the back of a slowdown in employment which we would have seen as moderating anyway but then may be added to a little bit by Brexit, we see consumer spending slowing to about 2.3% next year.

Investment obviously is quite difficult, you know, given the revisions of the national accounts but the Brexit decision has motivated some downward revision to that and we focused on machinery and equipment investment because we see may be investment decision there being either delayed or we see lower levels of investment in terms of machinery and equipment. We still see fairly positive growth in investment but if you look at underlying investment excluding intangibles and aircraft we see that growing by about 6% on average over the two years.

Exports and imports are difficult but as I say we're forecasting on the basis that revisions to the trade figures in 2015 are treated as a very large one-off level shift and accordingly, you know, we assume that these revisions are taken to apply change in the level of exports rather than in the rate of growth. So on that basis then, reflecting kind of weaker external demand and a less favourable external environment we project that export growth and moderate with growth of 6.4% this year and 4.5% next year and that import growth will also moderate as well so we see that kind of moderating and inflation basically we don't, we continue to see inflation is pretty low at the moment. We continue to see it staying low next year and rising modestly the following year. Now finally the balance of risks in this case, I suppose, the key thing to say is probably that while uncertainties in relation to Brexit down on growth the economic outlook is still relatively favourable but there are risks and the risk projections are firmly rated to the downside and these risks reflect the possibility of a more adverse impact on the UK, the possibility of a larger spill over is mentioned to the international economy or the potential for more negative domestic affects, so that we see impacts on consumer investment sentiment and we have to keep an eye on that obviously adversely moderate affects so that would broadly summarise the outlook for the domestic economy so I return to Gabriel.

GF Thank you very much John. As you know forecasters always tend to say "it's a very difficult time to forecast, there's so much uncertainty out there". Well on this occasion it's actually true. If you think of what's happened, the revision to GDP numbers last year and the outcome of the Brexit referendum means we're in a period of extremely high uncertainty regarding the prospects for the Irish economy. As well as this some of our key metrics that we use in economic analysis but also in public finance analysis and fiscal policy have become much less meaningful. If you think in terms of things like ratios to GDP, the deficit to GDP ratio, the debt to GDP ratio. Just to give you one example as a result of the revisions to GDP level the debt ratio for 2015 falls from 94% to 79%. That's a very dramatic change and in a context in which the actual level of debt measured in billions is still the same and in a sense the capacity of the economy to service that debt is still the same. So our traditional fiscal ratios now are becoming less meaningful, have become somewhat less meaningful than they were in the past. In addition the fiscal rules, the European fiscal rules that we have depend very heavily on GDP and related concepts. So they depend on the GDP as I mentioned but they depend on measures of potential output growth. They depend on measures of the output gap, the gap between the potential level of output and the actual level of output. All of these indicators which in any event had problems in the Irish context before the revision have been heavily distorted and are likely to be heavily distorted by the revisions to the GDP numbers that were published recently.

So in the context of the public finances and how should one react in such an environment? Well I think the natural thing to do and what we would be suggesting is to shift focus a little bit from ratios in terms of GDP to nominal values and in terms, if we do that and we take the previous plans that were there this would suggest, for example, in our view that instead of talking in terms of GDP ratios or in terms of structural changes in the budget balance and so forth, one should focus on the overall nominal figures. At least give more weight to the overall nominal figures, and that would have an implication that governments should aim for a budget balance which is close to being balanced in 2018 in nominal terms.

The second important lesson that we learn is-and we have learnt this in the crisis-is we've seen very dramatic upward revisions in GDP as a consequence in the restructuring of multinationals. In the future there may be additional multinational restructuring but it may not necessarily lead to an upward revision. It could be a downward revision if companies decide to relocate their intellectual property elsewhere. So this puts an additional source of risk there and in that context it is very important to learn the lesson of the crisis which was that the government has to be quite careful in relying on volatile sources of revenue which may turn out to be transitory, which may be reversed if there is some shock in order to ensure that there is a pursuit of a prudent fiscal situation. Now it's clear, as John has clearly documented and set out there Brexit is set to adversely affect growth in both the short and the long term for the economy. Some effect is already incorporated into this forecast in the bulletin but it's an estimate. There are lots of issues that are surrounding that. For example, what assumption do you make regarding the nature of the relationship between the UK and the rest of the EU post Brexit? What tools, what models, what information do you have to take? So the severity of this impact is difficult to gauge. It is an estimate and we think that when we look at what we've done we can certainly see that the impacts on the Irish economy could be larger than what we have pencilled in to the forecast. There's a downside risk but in any event there is really quite a considerable amount of uncertainty both ways facing the economy as a result of Brexit. So in this environment of heightened uncertainty, I think the best path that policy can take is to try and bring stability to the economy, reduce the degree of uncertainty by sticking to a steady, medium term orientation by adhering to the fiscal plans that have been announced and adopted so as to reassure both the public and the markets that things are on the right track and that the economy would be in good shape to withstand the future shocks that may come down the tracks. Thank you very much.

F Thank you and we're now open for questions and if you could just wait for the microphone.

GF One thing about the articles.

JF So on this occasion we have two articles published and we have the authors here so if you want to follow-up on any of these. The first article is produced by our statistics department and it looks at estimating the amount of cash buyers and transactions volumes in the residential property market since 2000. So we have the authors here if you have any questions on that plus there is a video available on the website where that article is discussed and then secondly an article from the financial market's division which looks at development on (31:45) monitoring policy operations over the past year or so and again the authors are here if you have any questions on that. So just to mention those to you.

F I'll take the first question. Conor Humphries please from Reuters.

CH Thank you. Can you put any numbers on the kind of likelihood of the worst case scenario in terms of the Brexit impact? What kind of probability are you assigning to the various scenarios?

JF As I mentioned when I talking there, one of the issues in quantification is that there is a wide range of possibly outcomes here so you've got everything from, you know, on the one side an European economic area arrangement to somewhere in the middle and it would depend on what shading of it, some sort of series of bilateral negotiated trade agreements to…in the absence of that kind WTO rules become the default. Now, the way we've thought about these is to think about them as different scenarios with different outcomes. An EEA scenario would have much milder impact if that was what emerged. WTO is the most adverse. What we haven't, I mean, you know, the signals in terms of where this where goes, you know, we're probably at early stages. Signals keep changing so we can't think really about well is one more probably than another. I mean we know what the best outcome for the Irish economy would be but, you know, it depends obviously on the UK's choices here and then it obviously has to be negotiated and agreed at EU level as well. So we haven't thought about sort of probabilities or weightings in that way.

CH Just one other question. On the CSO issue do you have any recommendations in terms of changes to methodology or kind of alternative indexes that would be preferable to the kind of GDP, GNP…What can Ireland do about these anomalies?

GF Well that's a good question because it raises the point that I wanted to make in any event that CSO has announced it is establishing a group to look into the construction of alternative indicators which will give more accurate predictions on what's going in the domestic economy and we very much welcome the establishment of that group and we are actually going to participate at a senior level in the group. The group, I think, will report sometime in October or thereabouts of this year, it will start its work very soon. So we are involved in this and we will be actively participating in that. We have in the past as John mentioned come up with indicators such as underlying domestic demand which we think gives a more accurate picture of the underlying economy. We've also published, for example, in our, I think, in the last Quarterly Bulletin a heat map of growth in Ireland which sort of combines a range of different indicators. So there are a range of possibilities which can be used and I'm sure this group will look into all of those in great detail and come up with some useful indicators which will play a prominent in the future of analysis in the Irish economy.

F Eamon Quinn, Irish Examiner.

EQ Just the same point: Whatever the CSO comes up with will you press Europe or the EU to take on these measures for the ratios?

GF I think the issue of Europe is different because the sort of problems we have in Ireland are so extreme, such an extreme case. Such an open economy where the actions of a small number of companies can have very major impacts on the aggregates. That's not the case in other Euro area counties. It's not the case in the Euro as whole, so from a Euro area point of view I think it is probably not necessary to use such indicators, however, its very important and here we will be very active in the various group fora in getting across the message that to understand what's going on in the Irish economy you have to be very cautious in using number like headline GDP and this is where these other indicators will come into play and we'll more than active in drawing attention of other European authorities to these, particularly in the context of the Euro system.

F Colm Kelpie from the Irish Independent.

CK Just on the same issue, you and others have long warned about the impact of GDP and the Irish figures and so on. What was the extent of this envisaged? I mean did this come as a surprise to you when it was announced or did the scale of this…?

GF I think as you, I suppose, said some of the issues that are involved are not new, like aircraft leasing, re-domiciling of firms, contract manufacturing, we've talked about these in the past but the sheer scale was completely unanticipated. So we essentially had only a very short notice but I think we learnt about the numbers just shortly before the official publication and the magnitude, I think, shocked or surprised us in some ways and I think it's the same for all other analysts of the Irish economy. So it was a really dramatic revision, unprecedented and something that we were not anticipating.

F Thank you, there may be another question from Conor.

CH Sorry just quickly, would you have concerns that there are kind of fundamental instabilities in the Irish economy which are reflected in these numbers or is it purely an accounting issue? I mean would advise the government to look at maybe reducing these flows? Is there dangers to the Irish economy from these, from the things which caused the huge jump in GDP or is it just an accounting anomaly?

GF Well there is an account issue very clearly but I think as I tried to get across the message there's also an uncertainty that is being added to the economy by this vulnerability or impacts of transactions by a small number of companies and overall aggregates. I don't think we would go from that to say the government should take policy action. I mean I don't think that necessarily be warranted, but certainly in terms of analysis and in terms of, you know, preparing the public finance and ensuring the public finances are in a sustainable and sound footing, these uncertainties should be taken into account.

F Laura Slattery please of the Irish Times.

LS Just on that point you mentioned the possibility that we would see a downward revision on that scale. How likely is that?

GF I don't necessarily think it's likely but I mean these sorts of events, I mean we've seen dramatic movements as a result of transactions by a few individual companies in one direction. We can't assess. We didn't anticipate the magnitude of this. There's nothing to rule out that you could have movements in the other direction. So one should be very cautious when we're in an economy of this kind where individual transactions by a small number of companies are dramatically affecting your headline numbers. That just tells you 'be cautious'. It doesn't necessarily mean there's going to be a reversal or it doesn't mean that we will see a downward affect but what goes up can possibly come down and one should be aware of that possibility.

LS And just on the Brexit negotiations timescale, do you have any expectations along those lines? You mentioned the possibility that the interim period could see a lot of risk adverse behaviour and I presume you don't want to see that period being protracted, you know, indefinitely?

JF Well, I suppose, the timetable as it's kind of formally laid out is that once the UK gives notification under Article 50, there's this two year clock going, em, now there's quite a lot to conclude and to be agreed in a two year period, so it would be hoped that that could be done or that could be done without any great delay. But I mean the key in terms of uncertainty and sort of spikes and risk aversion, the key, I suppose, would be that there would be good progress or solid progress made so that it would be pretty clear kind of where things are going, em, so if that was happening, then it probably makes a situation more manageable, it reduces the adverse impacts. If that is not happening then and it looks like the period is drawn out then it becomes more, it probably becomes more problematic but we're very much in the early stages of this. I mean the best thing would be to stick to the timetable and to, you know, further to be sort of good progress in terms of where it's going, so that we would have a clear picture. So that would be the best outcome if it could happen.

F Okay, Colm Kelpie from the Irish Independent again.

CK Thanks, I know you've been reluctant Gabrielle in the past to talk about the specifics of budget policy or budgetary policy but in terms of the billion euro fiscal space this year and the summer economic statement and so on, in light of what you've been saying this morning about the uncertainty and the Brexit stuff, is that, the government said there's no impact in the fiscal space this year and so on. Is that a wise decision do you believe or what impact do you think it should have there?

GF Well as you say I'll stick to my traditional policy of reluctance (laughs), but I do believe that looking forward we will some estimates, you know, the expenditure benchmark will change as a result of these revisions. The structural budget balance estimates will change but, you know, these changes they are mechanical computations which don't have particularly significant economic meaning when we think of the prospects of the economy. That's why we say maybe its best at this point in time to put a particular weight on nominal measures, nominal deficits and so forth rather than getting into these ratios and complicated adjusted ratios where the computations really are heavily distorted by what we've seen happening in 2015.

F Okay thank you very much. Are there any final questions? Eamon Quinn.

EQ I suppose again a similar issue there's a small number of Irish sectors which are in the firing line. You don't recommend any special treatment?

GF For Brexit you mean?

EQ Yeah due to Brexit for, you know, agri, for clothing and other areas?

JF I mean no. I mean in terms of, I mean this is an issue for the overall economy and I say for the agri, if you look at it in aggregate overall trade dependence on the UK market has gone down but obviously there are certain sectors which are more dependent than others but, I mean, no. I mean, you know, we've seen… Kind of one of the things we've seen is that say if you compare now to kind of periods in the past when this happened, the economy has become much more flexible. Its ability to absorb things has become much more flexible. I mean, you know, what's interesting to note is that while there has been significant movement in the sterling exchange rate since the referendum, I mean the current level of the sterling exchange rate is broadly similar or even, I mean, you know, slightly different but well broadly similar say to the average of what we've seen say in the 2009 – 2014 period. In fact we've lived with kind of higher euro sterling rate than in the past so again I mean it's about relying on the flexibility of the economy. I mean we've seen over time that, you know, trade has diversified as well, and trade patterns have diversified and you can probably expect to see more of this, a little bit more in the longer run anyway, but I mean its not something that we factored into our forecast but it would be a natural reaction to something like this.

F Okay, if there are no further question then we'll close. Thank you very much.