It is a pleasure to be here this evening (and special thanks to Des for the invitation). I especially welcome the opportunity to take a longer perspective on things – beyond the end of this month at least! – to think about the task ahead.

When thinking about the future and long term prospects, a point that resonated with me was made by the late Hans Rosling – a Swedish physician and academic, amongst other things – who spoke about being a ‘possibilist’, not an optimist. He describes it as someone who neither hopes nor fears without reason, who recognises human progress, and that progress convinced him that further progress is possible. But further progress has to be worked for, it is not a given.

Globally, the number of people living below the poverty line has reduced. Child mortality has also reduced while life expectancy has improved. Access to water and healthcare has increased. Female participation in the work force is up. However, policymakers, journalists, academics and think tanks alike must constantly ensure that we do not take these for granted and that further progress is being made.

A common refrain these days is that the current generation may be the first in recent history to be worse off than their parents. Job and income insecurity, housing difficulties, poor pension take up and global issues such as climate change all pose challenges. The task for policy makers in every sphere, including central banks is not to accept this premise as a given. Our task is to work towards solutions, from the short to the long term – that enable us to sustain the progress we have made and combat the biggest threats we face.

Taking this longer term perspective is important. We can too often get caught up in the day to day, and forget about the bigger picture, the longer view.

This is especially true when we live in such unpredictable times, with seemingly unprecedented shifts in the status quo due to political uncertainty.

Central banks can play an important role in analysing longer term issues. Independent of politics and of election cycles. One can think of stability as the broad objective of central banks. Stability of prices, of credit, of the financial system. Most importantly however is the effect the stability of these economic variables have on public welfare, on households, on families, on businesses, on consumers, on people.

Stable prices are especially important for low income households as due to the different mix of goods households purchase, price inflation tends to affect lower income households more. And stable prices help households to plan for the future with confidence.

Stability enables businesses to grow, to create new jobs. Stability enables governments to make sustainable, long-term investment decisions in health, education or transport for example.

The public good is a fundamental guiding principle of all that we do at the Central Bank of Ireland. It is enshrined in our public service ethos, our vision, and indeed our mandate.

Looking back at the original Central Bank Act of 1942, it outlines "In what pertains to the control of credit, the constant and predominant aim shall be the welfare of the people as a whole."

Indeed this Act echoes Article 45 of the Constitution. This is also reflected in our mission statement today, we serve the "public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy."
We are also well placed to conduct research into issues that will have long term implications for the economy. Assessing changing trends from an economic perspective, providing independent analysis, identifying risks and vulnerabilities and taking action where we are mandated to do so.

This evening I will discuss three long-term issues that intersect across economic and social vulnerabilities: the supply of credit, climate change and demographics.

A particularly alarming aspect of climate and demographic change is that they are challenges for right now not only for the future. It is not a question of will they, won’t they, but how do we best respond to them.

All three areas will require action across policy makers, the private sector, indeed, society as a whole, so that in the future we will not feel that we have regressed, but that we will see there is progress still to be made.

And while there are many issues that affect ordinary individuals across economic and social lines, my focus in these remarks is on macroeconomic long term issues.

Ireland: income, inequality and credit provision

The development of the Irish economy over the last decades has been remarkable.

We were one of the poorest members of the European Union on joining, to now being one of the more prosperous. However this trend has been scarred by unsustainable highs and damaging lows.

And we know that these lows were distributed differently across society.

Younger and lower income households bore the brunt of job losses and wage cuts in the last recession.

While the concentration of over indebtedness was in households where the head was born in the 1970s and 1980s.

This group cut their spending to prioritise debt repayments and in some cases sought debt resolution through insolvency arrangements.

There was a sharp rise in market income inequality. However, by one measure, disposable income inequality was more stable over the period, illustrating the heavy lifting by taxes and transfers in Ireland.

Compared with other OECD members, the taxes and transfers system here results in the greatest difference between market and disposable income inequality as measured by the Gini coefficient.

However, I recognise that measuring inequality is a challenge, and one that TASC and others here this evening spend considerable time on. And while using one number is a blunt measurement, it does enable a comparison across countries.

Furthermore, income is but one type of inequality, wealth inequality is another. When last measured in 2013, Ireland was placed in the middle of our European peers. However, since the 1980s the level of wealth inequality had substantially increased.

We know from surveys we conduct with the Central Statistics Office (CSO) that indebtedness plays a key role in the net wealth distribution, or inequality.

At the Central Bank we are used to looking at areas of macroeconomic vulnerability, while TASC and other groups are I understand, in the main, focused on inequality, social vulnerabilities and change.

It is important to remember that these vulnerabilities intersect.

A core part of what we do aims to build resilience of households and businesses and ensure the stable provision of credit.

Against this backdrop, let me now turn to borrowing and indebtedness in the context of the mortgage rules we have in place.

Research shows that when crises follow periods of high leverage or excessive lending and borrowing the recoveries are slower and the recessions are deeper.

Excessive credit growth independent of incomes can have a severely negative effect on household welfare.

The recent crisis in Ireland was testament to that, and as I just noted, it affected different groups in different ways.

A decade on, households are recovering from the crisis. The number of households in arrears continues to decline and the economy is nearing full employment.

Yet, the legacy remains. In comparison to our European peers, Ireland ranks fifth comparing ratios of household debt to disposable income.

In order to prevent future occurrences of such damaging over-indebtedness to households, the Central Bank introduced so called macroprudential tools to guard against excessive loosening of lending standards in the economy.
It is important to recall that neither the price level, nor the level of growth of house prices are the objective. Moreover overall housing policy is not within the mandate of the Central Bank.

Rather, the mortgage measures – which we have now had in place for a number of years – are designed to build the resilience of both borrowers and lenders.

These measures are designed to prevent a re-emergence of a credit price spiral.

So that a pool of borrowers aren’t chasing a smaller pool of houses at ever higher prices fuelled by credit.

And while the supply of credit is one piece of a complex housing market, one thing is certain, higher levels of indebtedness for families are not going to solve the complex issues at play.

Instead, higher debt burdens increase the vulnerability of families and households in the event of a future downturn.

Climate Change, social and economic vulnerabilities

When thinking of long term macroeconomic challenges, issues that intersect economic and social realms, climate change is a crucial issue.

It is an area where we need to work towards solutions, where progress needs to be made, and urgently.

There are substantial climate risks, and these touch all sectors of society, households, governments, businesses, and banks or the financial system more widely.

From a central banking perspective, these risks can be thought of as transitional and physical.

The physical risks are the climate related damage, the lost lives, the economic cost.

It is not hard to think of the physical signs of this change, the extreme weather events that are increasingly on the news, or that July 2019 was recorded as the hottest month on earth.14

These physical risks affect the financial system most directly through the insurance sector. It is worth noting that when these physical risks materialise, there is a further risk that they will be felt most by people in lower income countries, regions or households, so called climate injustice.15

As a central bank, we look at the many channels of physical risks to the financial system, however tonight I will not focus on these.16

An area of climate change where the Central Bank has been relatively more focused is on transitional risks.

These can be thought of as the cost or effects of moving towards a low carbon economy and the uncertainties related to this timing and speed of the adjustment.17

In order for this transition to take place, it will need financing. The financial sector has a big role to play to intermediate savings to investments that will help us transition to a low carbon economy.

Green bonds is a starting point, but as my colleague at the Bank of England, Governor Mark Carney has noted, green finance will need to be mainstream.18

Central banks can contribute to creating an environment where climate related financial risks can be more efficiently assessed and considered. But first we must have clear definitions of what sustainable products and investments are.

The European Commission has taken steps towards this goal with its action plan for sustainable finance. The Central Bank has contributed to this work, looking at the integration of sustainability risks and factors.19

In addition, we are members of the Network for Greening the Financial System (NGFS). This is a group of central banks and supervisors who exchange experiences and share best practices.20

The group aims to contribute to the development of environment and climate risk management in the financial sector and to mobilize mainstream finance to support the transition toward a sustainable economy.

I am encouraged by the greater sense of urgency and the louder calls for action surrounding climate change we have seen and heard in recent weeks and months.

This requires a coordinated global policy response, across countries and governments, across social, economic, public and private bodies.

Demography and the world of work

The third and final issue I wish to turn to demographics. How will societies cope with aging populations and lower birth rates. This is a topic that may seem less pressing, however that does not mean we can be complacent.
It is an area that will have macroeconomic implications and so is an area we need to better understand.

As fertility rates decrease and life expectancy increases; the dependency ratio, the share of the old and the young that depend on the working age population is rising, particularly in advanced countries.

Relative to our European neighbours, we are a young nation, Ireland has the lowest proportion of over 65 year olds.21

Further, in comparison to other European countries, Ireland is estimated to have public ageing costs at the lower end of the scale.22

In some ways we are behind the European ageing curve, it is a more pressing issue for our neighbours right now. But we should not be complacent, it is only a matter of time before we also feel the effects of an aging population.

The latest CSO projections are for an extra 1.6 million people in the country by 2050 – tilted far more towards older age groups than is currently the case. In 2019, one in 30 of the population was over eighty, while in 2050 it is expected to rise to one in 12.23

Public ageing costs come from pensions, health and long term care for example, with knock-on considerations for public debt. There are macroeconomic implications for potential growth, savings and even aggregate wage growth.

We cannot talk about demographics and not mention migration. In some ways, you can consider Ireland as a small regional labour market in Europe, and migration – both in and out – is an inescapable part of our social and economic history.

In our most recent Central Bank Quarterly Bulletin, we noted that reaching the limits of domestic sources to meet labour demand inevitability means a greater role for inward migration to support sustainable employment growth.24

In the last two years, three quarters of growth in the working age population came from inward migration – from both EU and non-EU countries, including many returning Irish immigrants. We know that in some sectors and occupations – in health, IT and construction – migrants fill up to half of all job vacancies.25

However, the report also cautions that in the past when inward migration played a key role in the pre-crisis period, this coincided with EU enlargement.

Looking forward, the source of migration is less clear.

Understanding how ageing populations will affect economies is a challenge.

If not addressed with appropriate policy responses ageing populations could have adverse implications for public debt trajectory and potential growth.

Research is ongoing on how these demographic changes will alter our future.

As I said earlier, it is also important to think about long term issues, concerns that go beyond the end of this month!

While human progress has been made, there is a sentiment that the current generation may be worse off than that of their parents.

The task for policy makers in every sphere, including central banks is not to accept this premise as a given.

We need to work towards solutions, from the short to the long term – that enable us to sustain the progress we have made and combat the biggest threats we face.

Thank you for your time and I look forward to our discussion this evening.

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1 I would like to thank Caroline Mehigan & Micheal O’Keeffe for their assistance in preparing my remarks.


3 Ibid


5 Eurostat (2019). “Mean and median income by household type - EU-SILC and ECHP surveys” for 1995-current data, using mean (median) data, in 1995 Irish median household income was 80% (75%) of the EU 15 value, and in 2017 was 140% (135%) of the EU 28 value. See article by my colleague on the Central Bank Commission, Professor John Fitzgerald, Irish Times: EU has helped transform living standards of Europe’s people (26 January 2018).
