

# BUDGET 2017

# Economic Developments and Outlook for Ireland



An Roinn Airgeadais  
Department of Finance

## **Section 1 Macroeconomic Developments**

Section 2 Macroeconomic Outlook

Section 3 Developments in the Public Finances



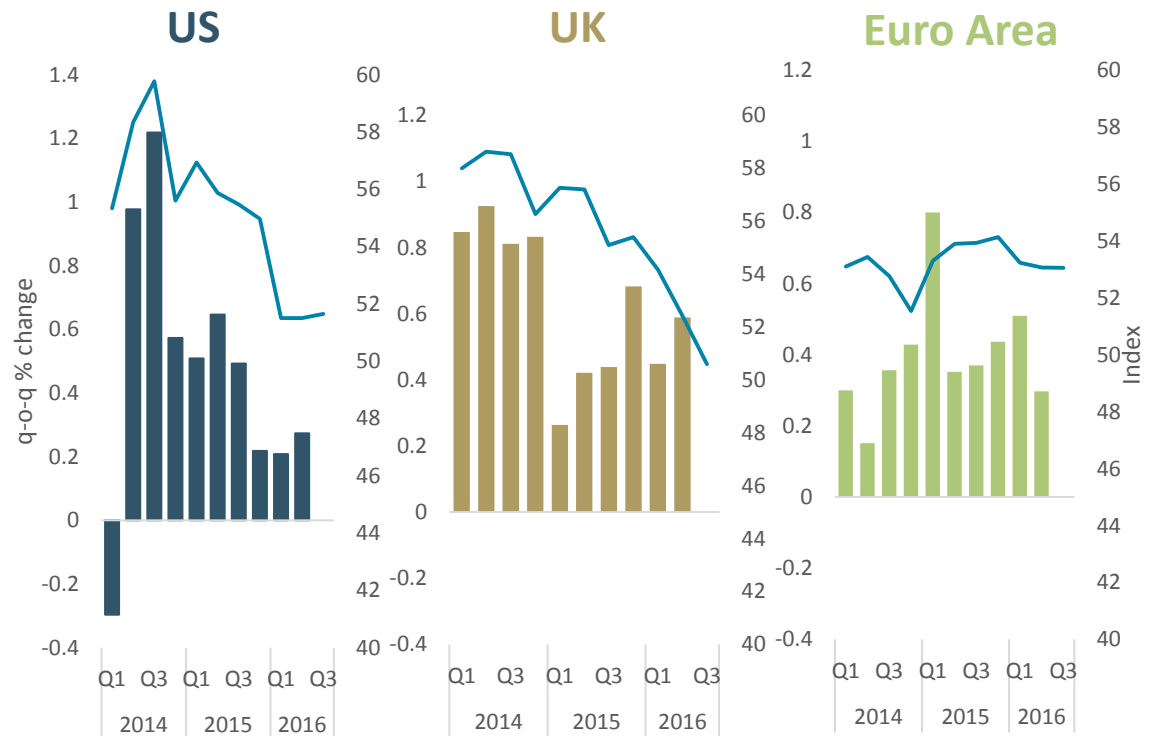
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# Economic growth in Ireland's key trading partners slowing...

## Key points

- US, Euro area and UK growth slowing.
- Impact of Brexit vote still unfolding.

■ US GDP (left) ■ UK GDP (left) ■ EA GDP (left) — Composite PMI (right)



Sources:

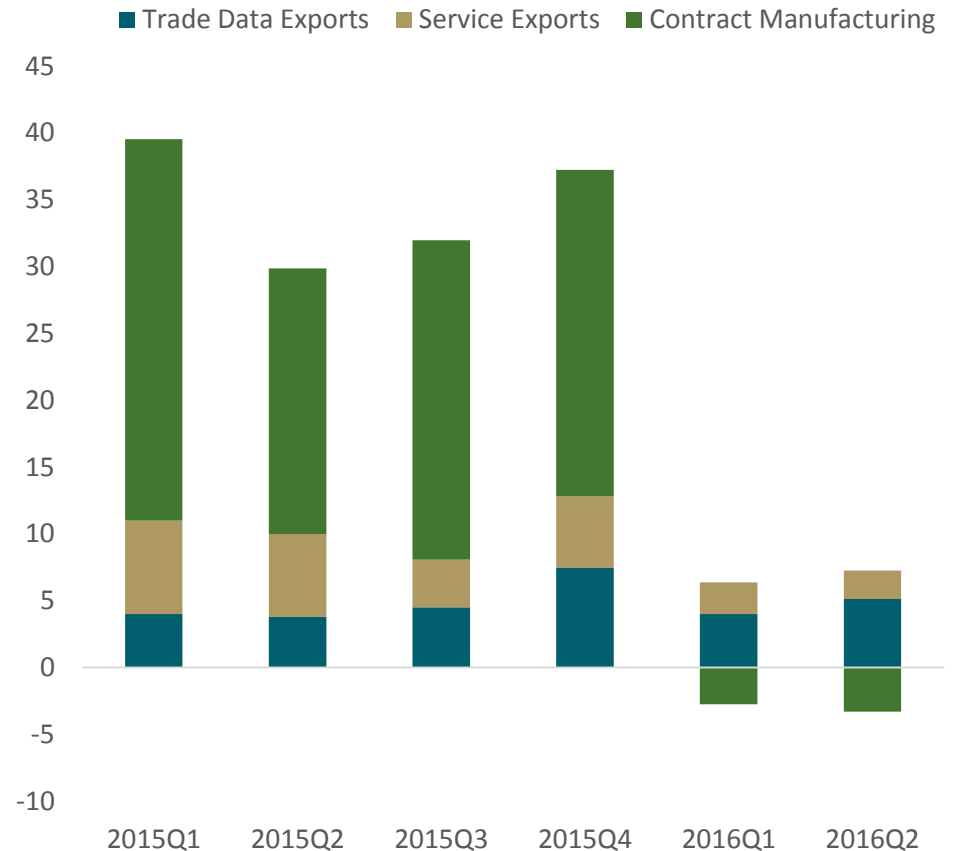
1. GDP: US: Bureau of Economic Analysis; UK: Office for National Statistics; Euro Area: Eurostat
2. PMI: Markit

# Underlying exports remain strong in H1...

## Key Points

- Export growth while still robust, has moderated reflecting the slowdown in global trade and depreciation of sterling in the first half of the year.
- Contract manufacturing now acting as a drag on headline export growth.

### Contribution to export growth



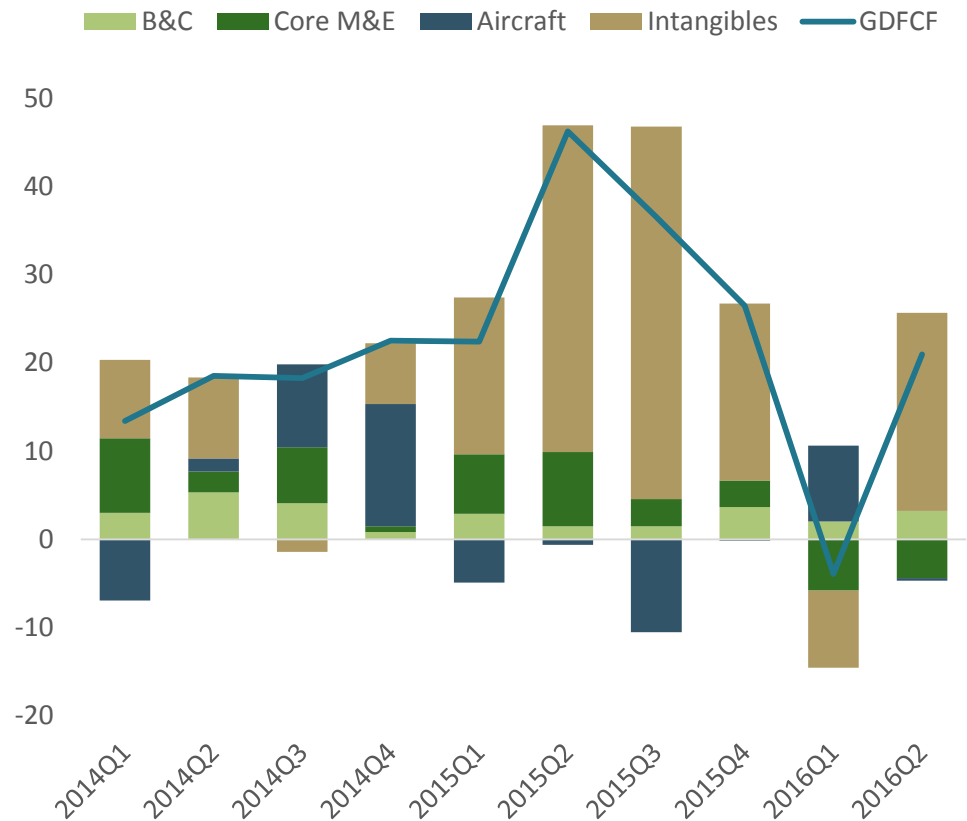
Source: CSO, DoF calculations

# Investment cycle has led domestic recovery...

## Key Points

- Investment remains strong driven by investment in intangibles and building and construction.

Contributions to Investment, pp

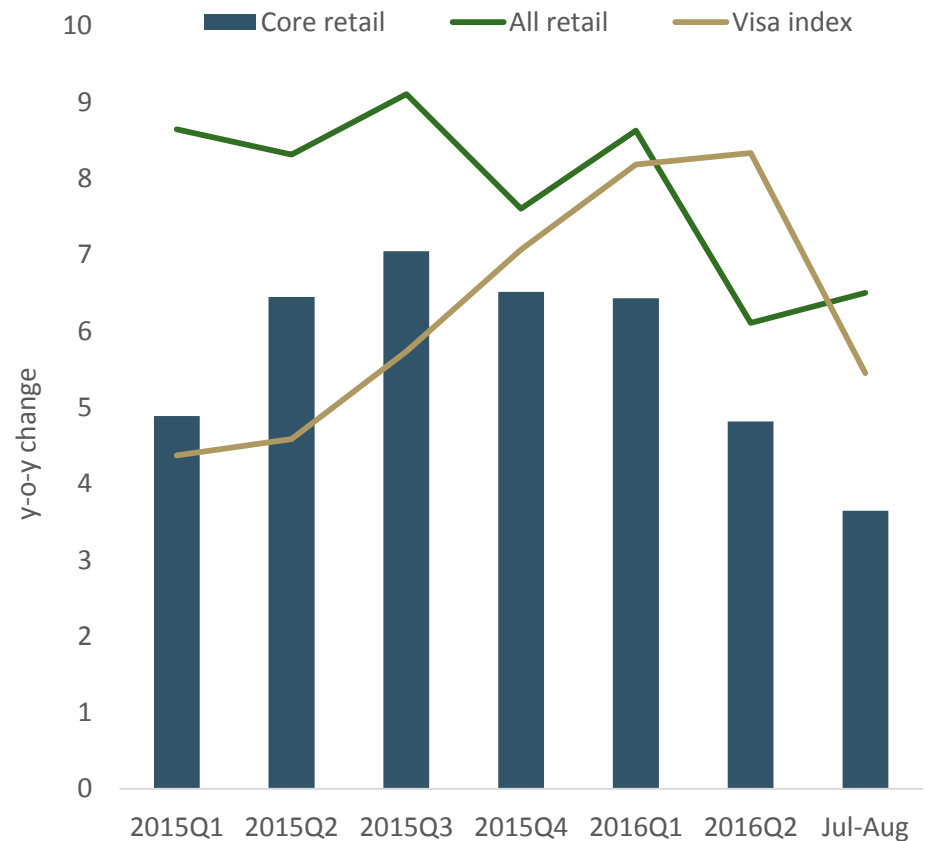


Source: CSO

# Consumer spending robust in the first half of 2016...

## Key Points

- Retail Sales robust in 2016, up 5.2 per cent to end-August y-o-y.
- Supported by strong car sales – new cars licensed for the first time up almost 20 per cent to end September (y-o-y).

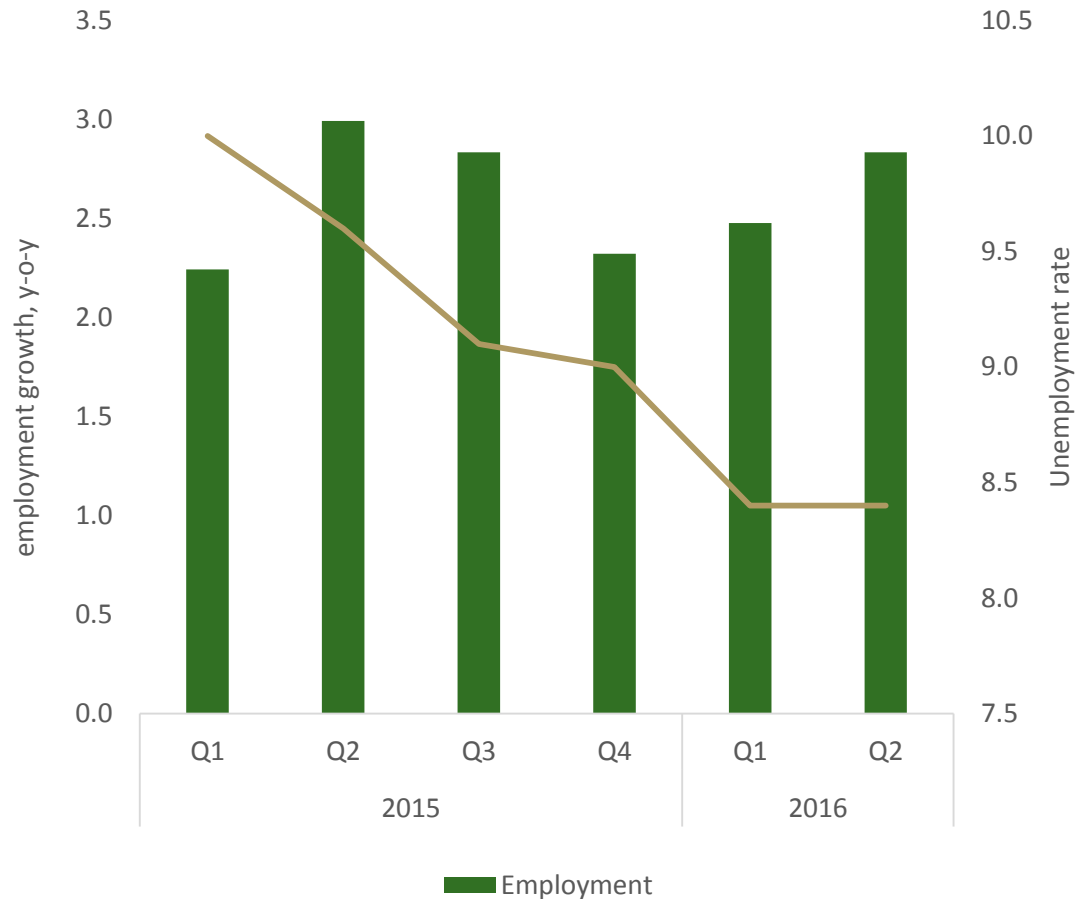


Source: CSO, VISA/Markit

# Highest employment volumes since 2009...

## Key Points

- Employment levels have increased by 10 per cent since the low-point in 2012 (+ 180,000 jobs).
- Growth remains broad based with all sectors posting employment gains relative to trough levels.
- The number of unemployed people continues to decline, falling to 172,900 in September.

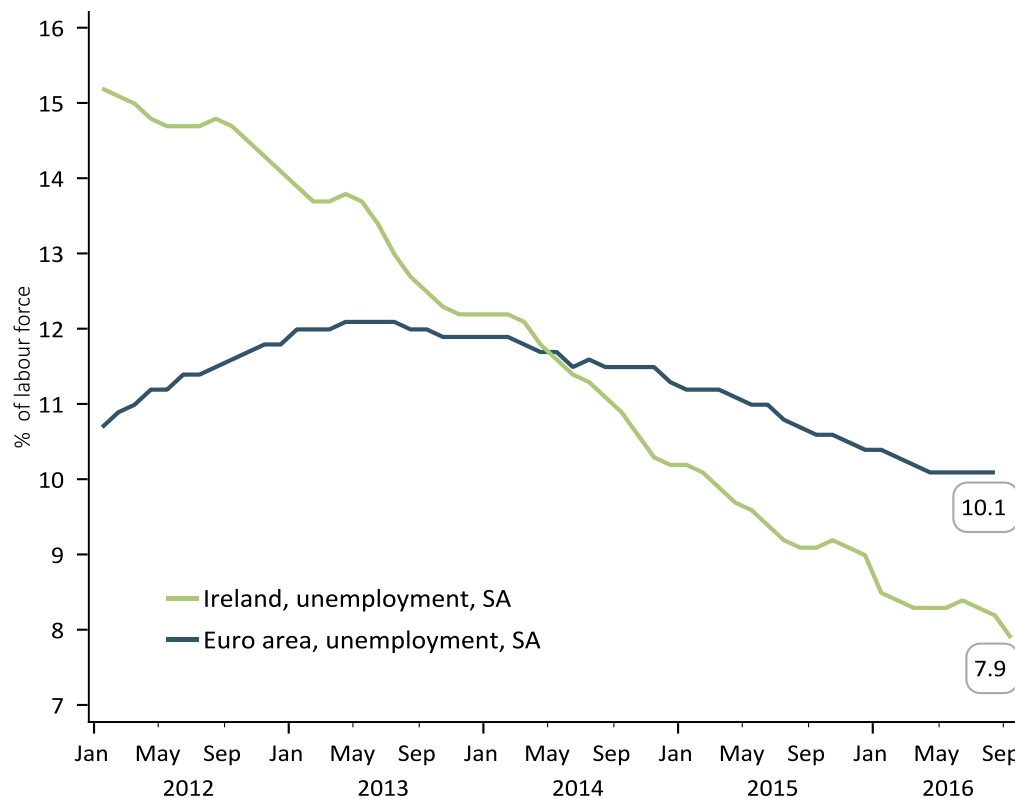


Source: CSO QNHS

# Unemployment now below euro area average...

## Key Points

- The unemployment rate has fallen by over 7pp since early 2012, and is well below the euro-area average of 10.1 per cent.
- Unemployment rate of 7.9 per cent recorded in September 2015.



Source: CSO

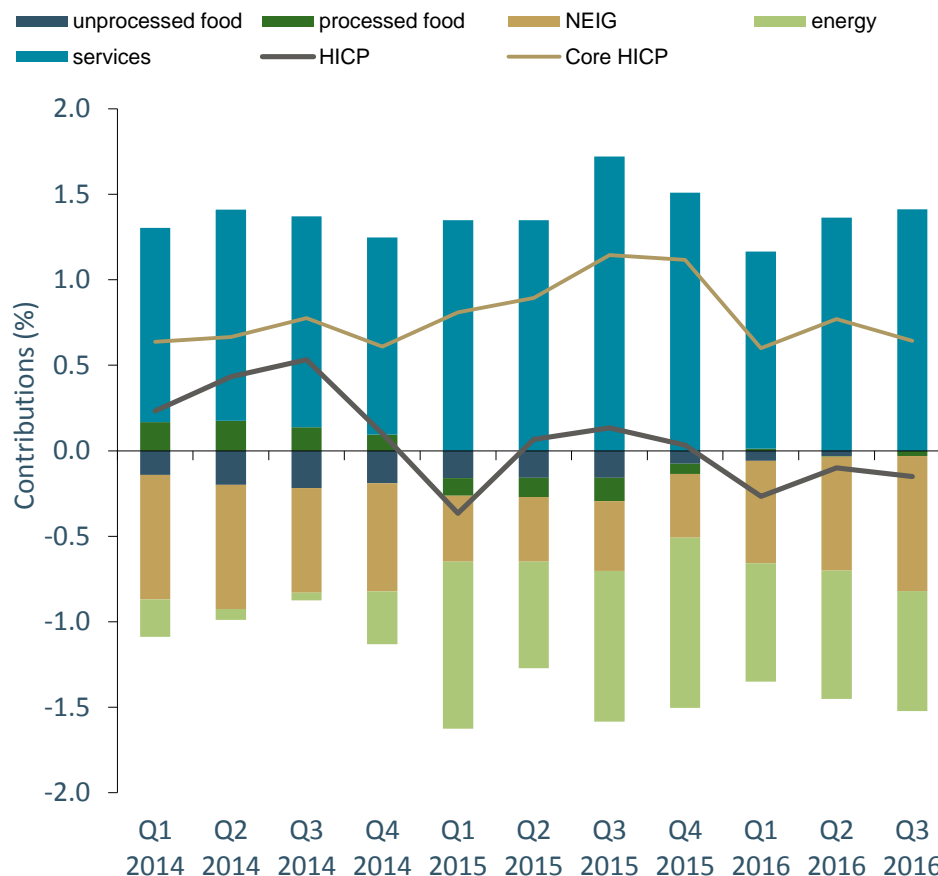


# The drag on inflation from falling energy prices is starting to fade....

## Key Points

- As measured by the HICP, the price level is 0.4 per cent lower compared to August 2015.
- Core HICP inflation (which excludes unprocessed food and energy prices) was up 0.8 per cent on average this year.

Headline vs Core HICP Annual Inflation - Breakdown



Source: Eurostat

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# Budget 2017- Macroeconomic Outlook...

Year-on-year % change	2015	2016	2017	2018	2019	2020	2021
GDP	26.3	4.2	3.5	3.4	3.2	2.8	2.6
GNP	18.7	7.5	3.3	3.2	3.0	2.6	2.4
Nominal GDP	32.4	2.8	4.5	4.6	4.5	4.2	4.1
Personal Consumption	4.5	3.3	2.9	2.2	1.8	1.5	1.3
Govt Consumption	1.1	5.9	2.4	1.3	1.0	0.9	0.9
Investment	32.7	15.8	6.0	4.7	4.3	3.5	3.4
Exports	34.4	3.6	4.5	4.8	4.7	4.2	4.0
Imports	21.7	5.9	5.1	4.8	4.5	4.1	3.9
HICP	0.0	-0.1	1.3	1.8	1.9	1.9	1.9
GDP Deflator	4.9	-1.3	1.0	1.1	1.2	1.4	1.5
Employment	2.6	2.6	2.1	2.1	1.8	1.6	1.4
Unemployment (rate)	9.5	8.3	7.7	7.3	6.9	6.5	6.1
Contributions to growth (p.p)*							
Domestic Demand	8.9	5.1	2.8	2.1	1.9	1.6	1.5
Change in Stocks	-0.8	0.1	0.0	0.0	0.0	0.0	0.0
Net Exports	18.3	-1.0	0.7	1.3	1.4	1.2	1.1

\* Rounding may affect totals

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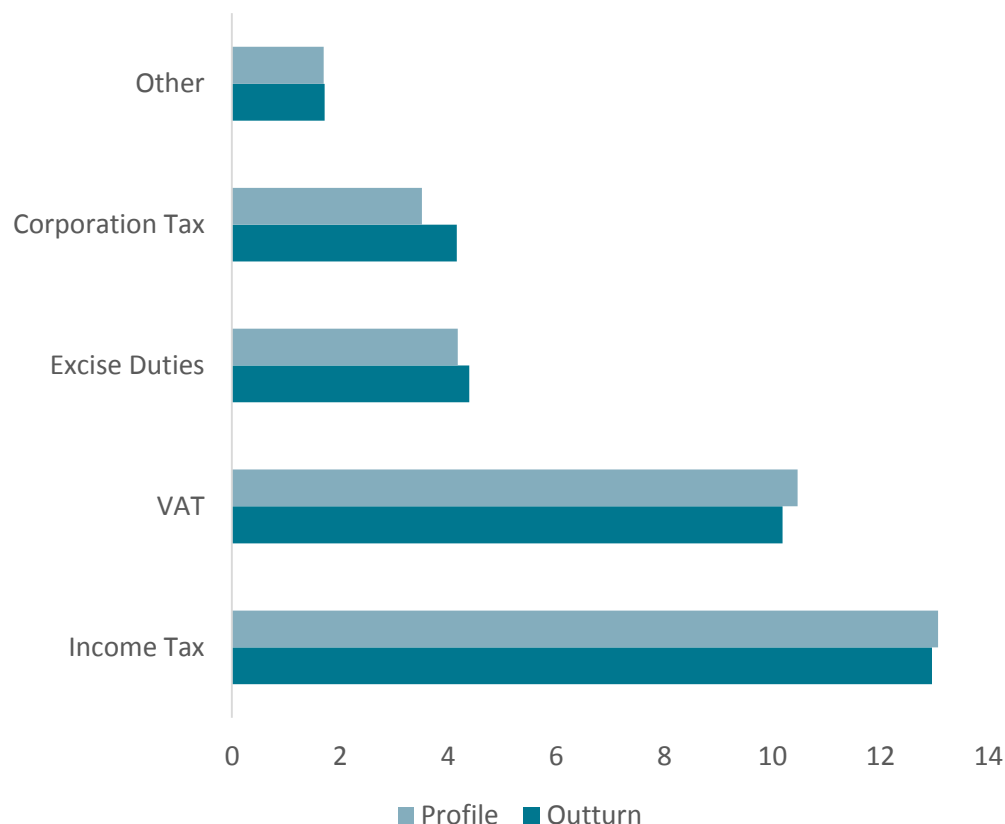
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# Tax performance year to date...

## Key points

- Tax receipts of €33,408 million to end Q3, up €1,788 million (5.7%) year-on-year and up €484 million (1.5%) on profile).
- Strong year-on-year growth across all main tax heads.
- Corporation tax driving over performance against profile.
- Forecast for tax receipts in 2016 is now €48,135 million, over €900 million than forecast in Budget 2016.

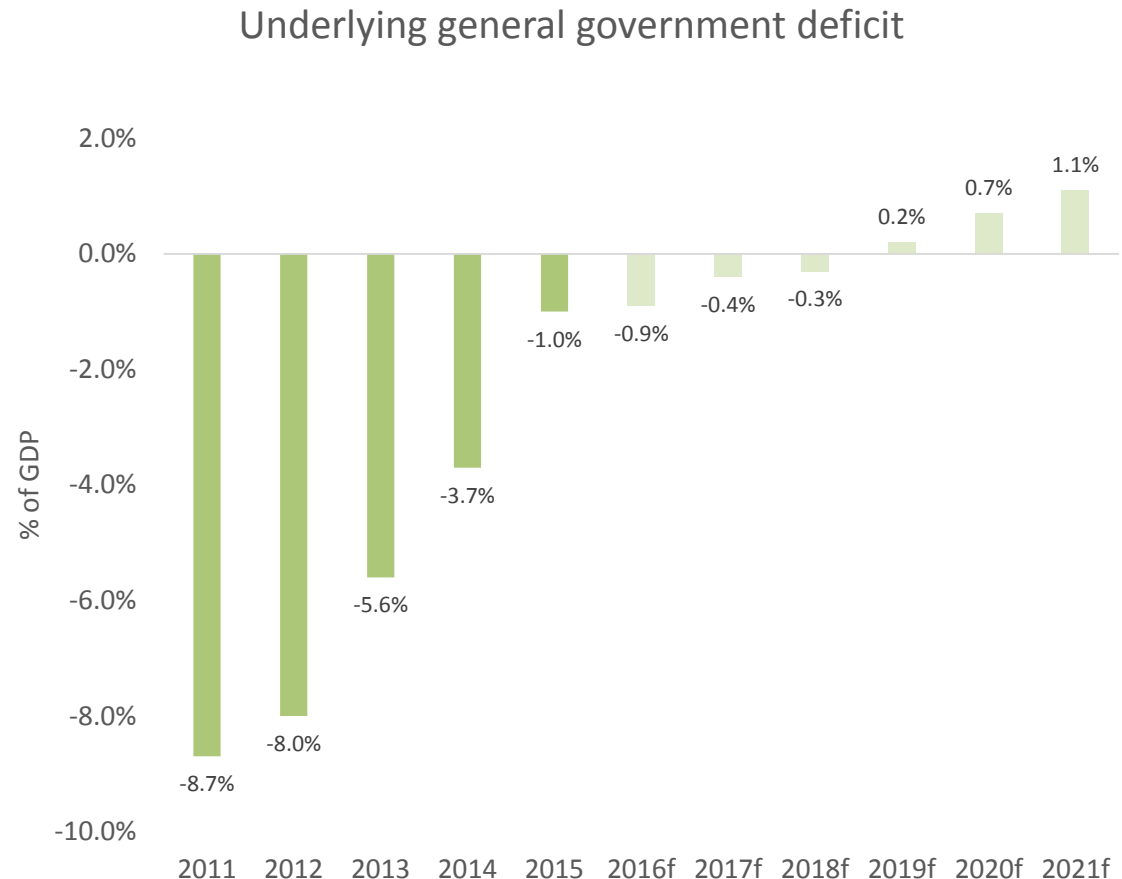
Tax revenue to end-September 2016



# On-going improvement in the general government deficit...

## Key Points

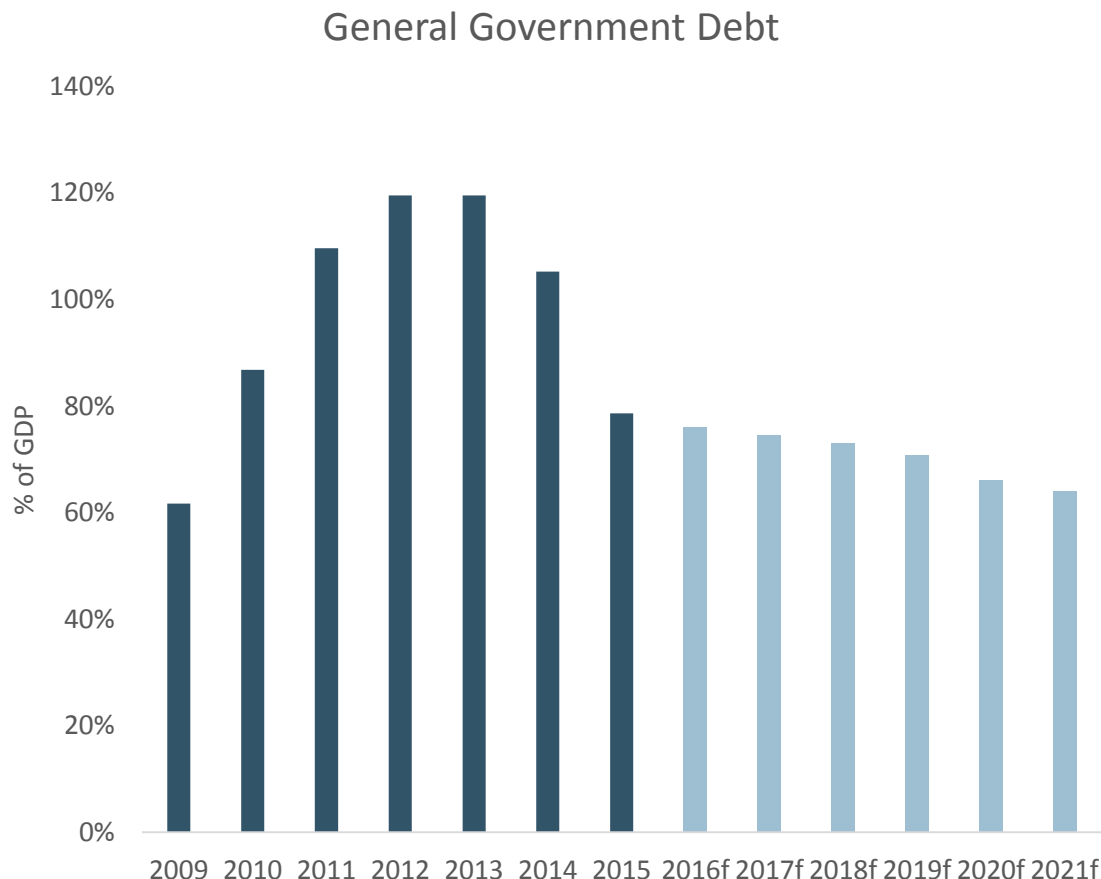
- Deficit is forecast as 0.9% of GDP for 2016, improving to 0.4% of GDP for 2017.
- General government surplus is forecast for 2019.



# Debt ratio continues to decline

## Key points

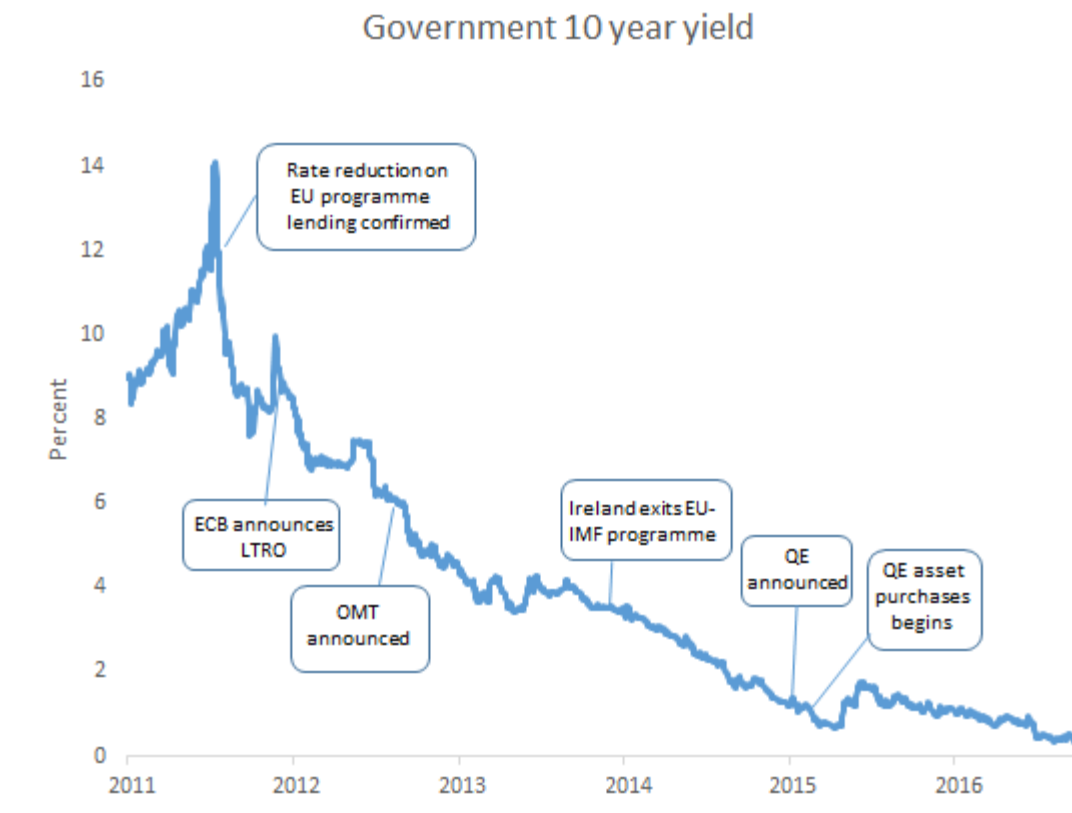
- Debt ratio peaked in 2012 and 2013.
- Significant decline in the debt ratio in 2015 primarily due to the large revision to 2015 GDP in the July 2016 National Accounts.
- Decline in debt ratio expected to continue over the forecast horizon.
- Net debt at end 2015 was 66.9% of GDP.



# Yields on Irish Debt

## Key Points

- Irish yields have stayed steady through 2016, trading below 1% for most of the year.
- 10-year yield is down from a peak of 14% in July 2011.
- A rating from all main rating agencies.





# Budget 2017 fiscal forecast

	2015	2016	2017	2018	2019	2020	2021
General government balance (% of GDP)	-1.9	-0.9	-0.4	-0.3	0.2	0.7	1.1
<i>General government primary balance (% of GDP)</i>	0.7	1.4	1.8	1.8	2.1	2.4	2.6
Structural Budget Balance (% of GDP)	-2.2	-1.9	-1.1	-0.5	0.0	0.6	1.1
Debt-to-GDP ratio	78.6	76.0	74.3	72.7	70.2	65.8	63.0

# Fiscal Rules

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- Budget 2017 is the second budget framed under the preventive arm of Stability and Growth Pact.
- Budget 2017 is compliant with the Preventive Arm of SGP.
- Having corrected the excessive deficit in 2015, the new fiscal anchor is to achieve the Medium Term Budgetary Objective (MTO) of balanced budget, defined as a deficit of 0.5 % of GDP in structural terms.
- The MTO is forecast to be achieved in 2018.

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