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# The economic and budgetary situation – a stock-take

ESRI Budget Perspectives Conference, 2023

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# Birds eye view



- Global economy – intersection of cyclical and structural factors
- Domestic economy – supply (rather than demand) the binding constraint
- The public finances – headline masks underlying vulnerabilities
- Summary and risks

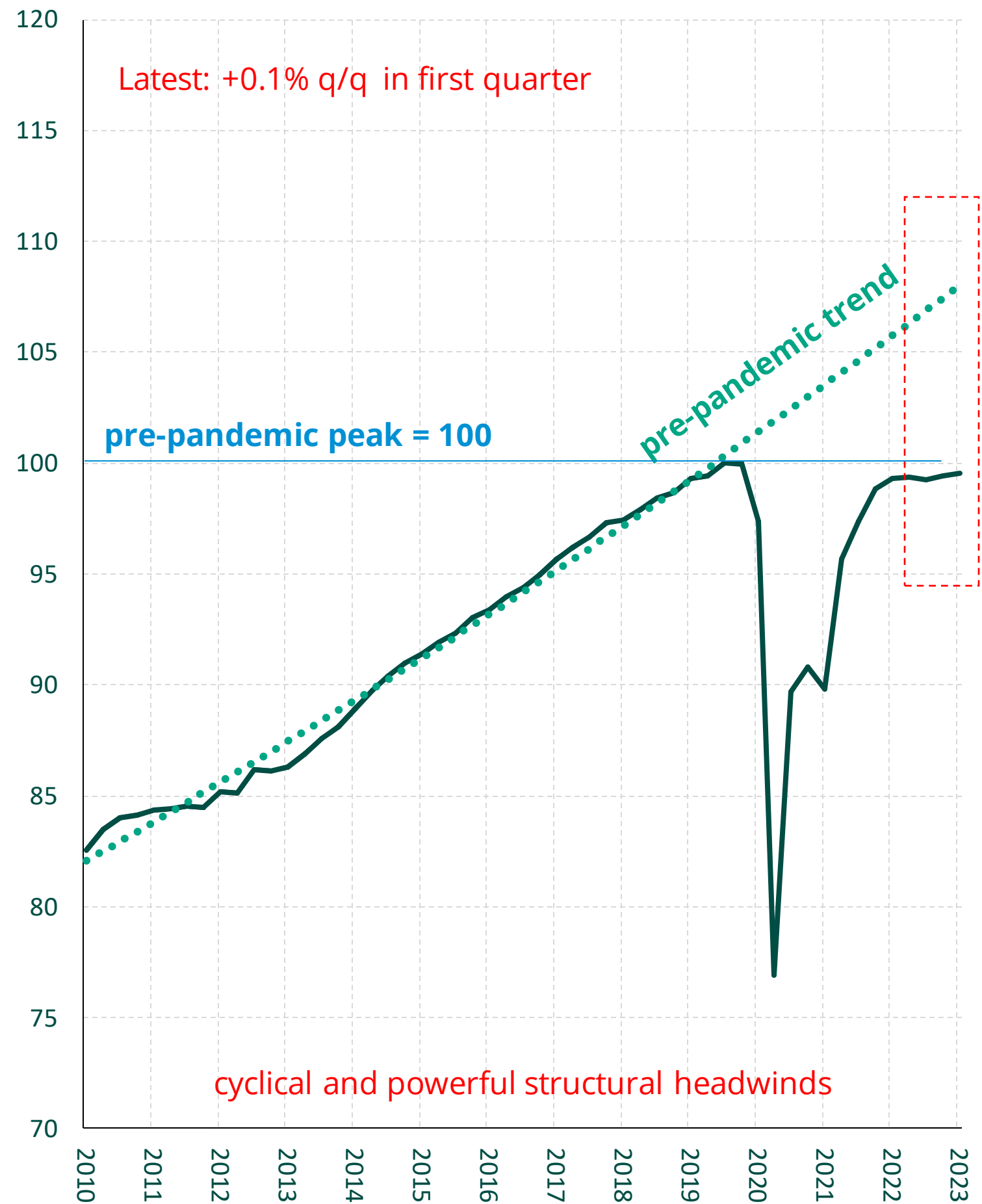


# Global economy – intersection of cyclical and structural factors

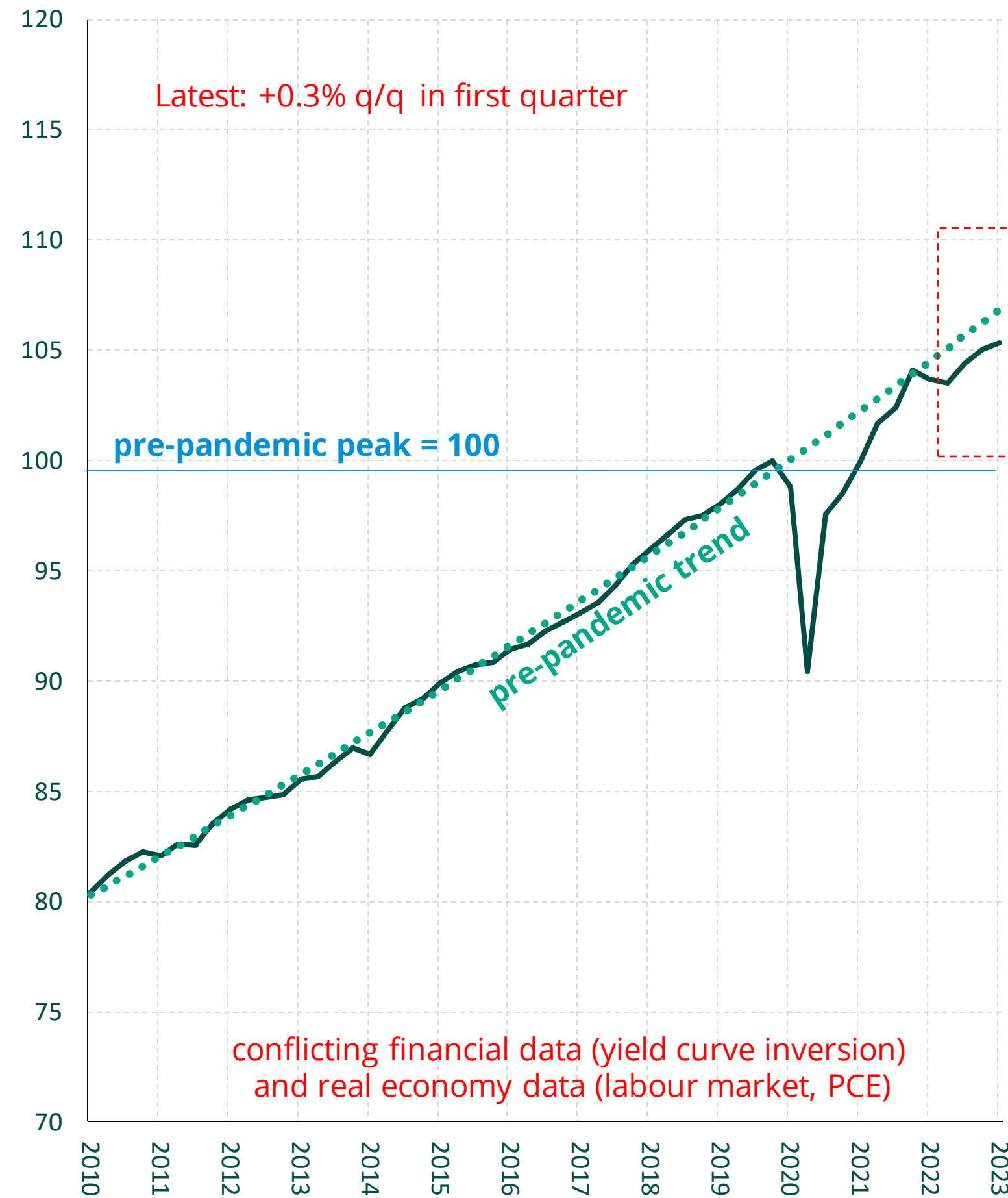
# Key export markets: demand slowing amid tightening monetary policy



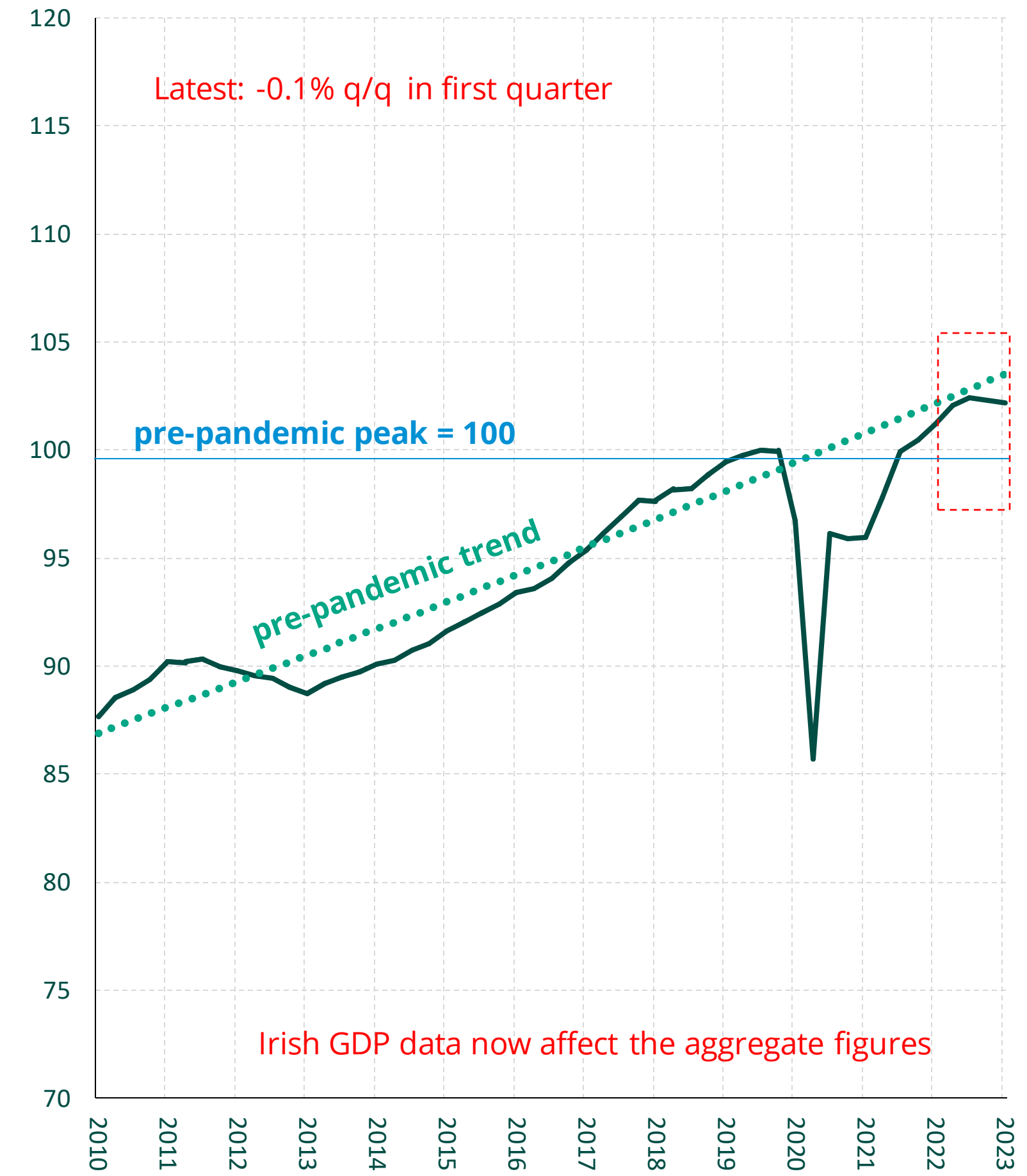
### GDP\_UK: an economic 'slow puncture'



### GDP\_US: 'soft' or 'hard landing?'



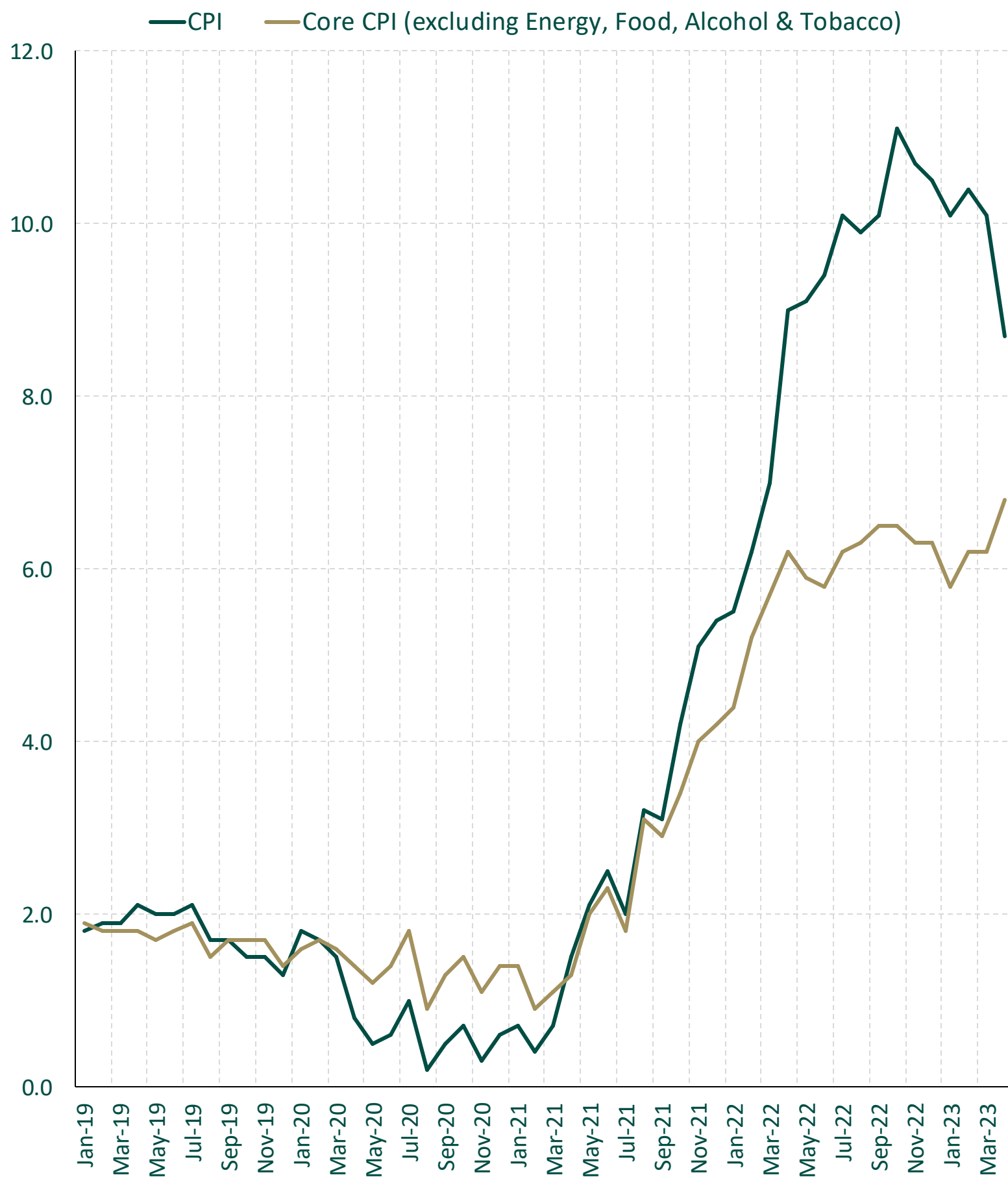
### GDP\_EA: two successive quarters of contraction



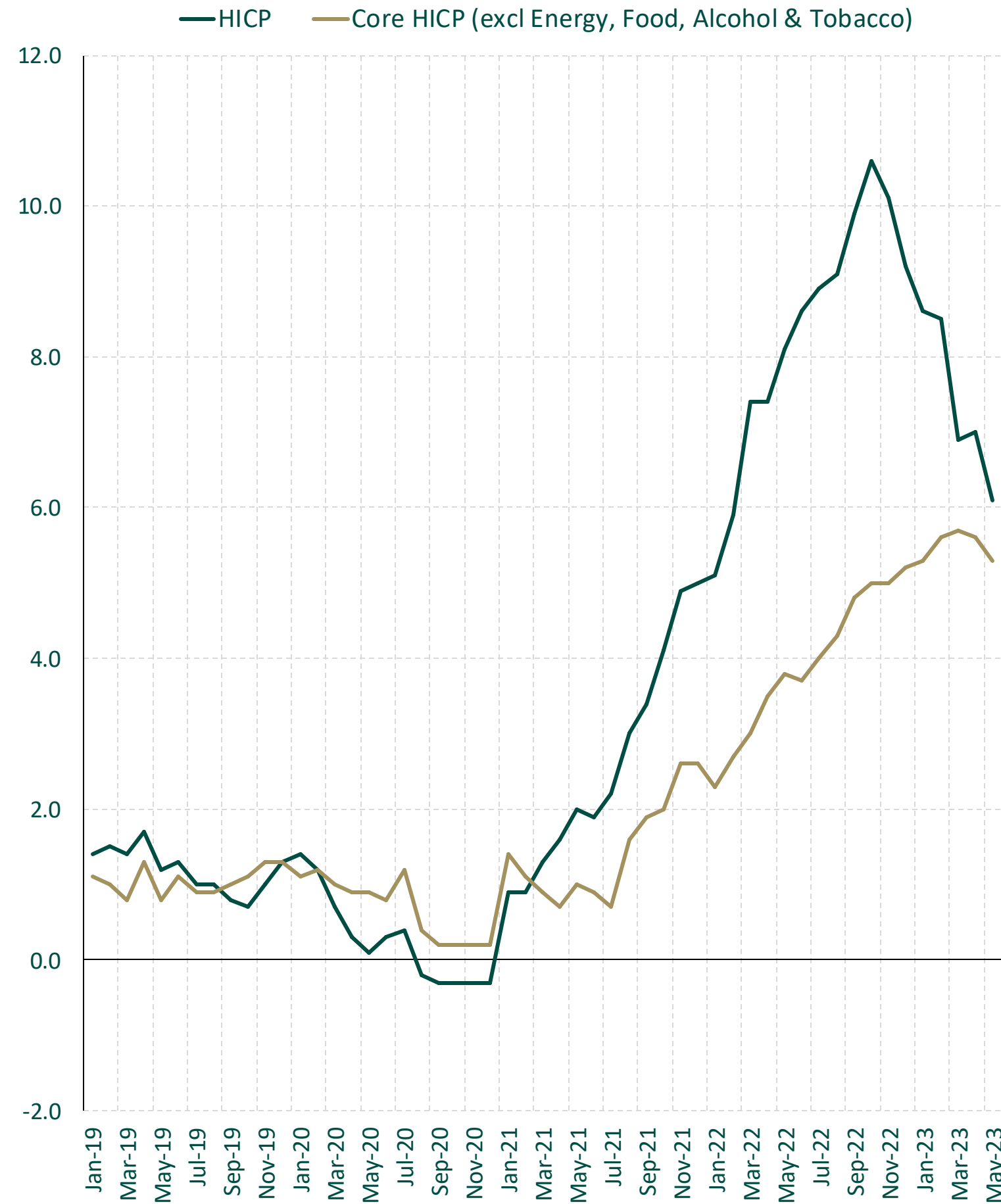
# Inflation persistence: core inflation yet to reach turning point



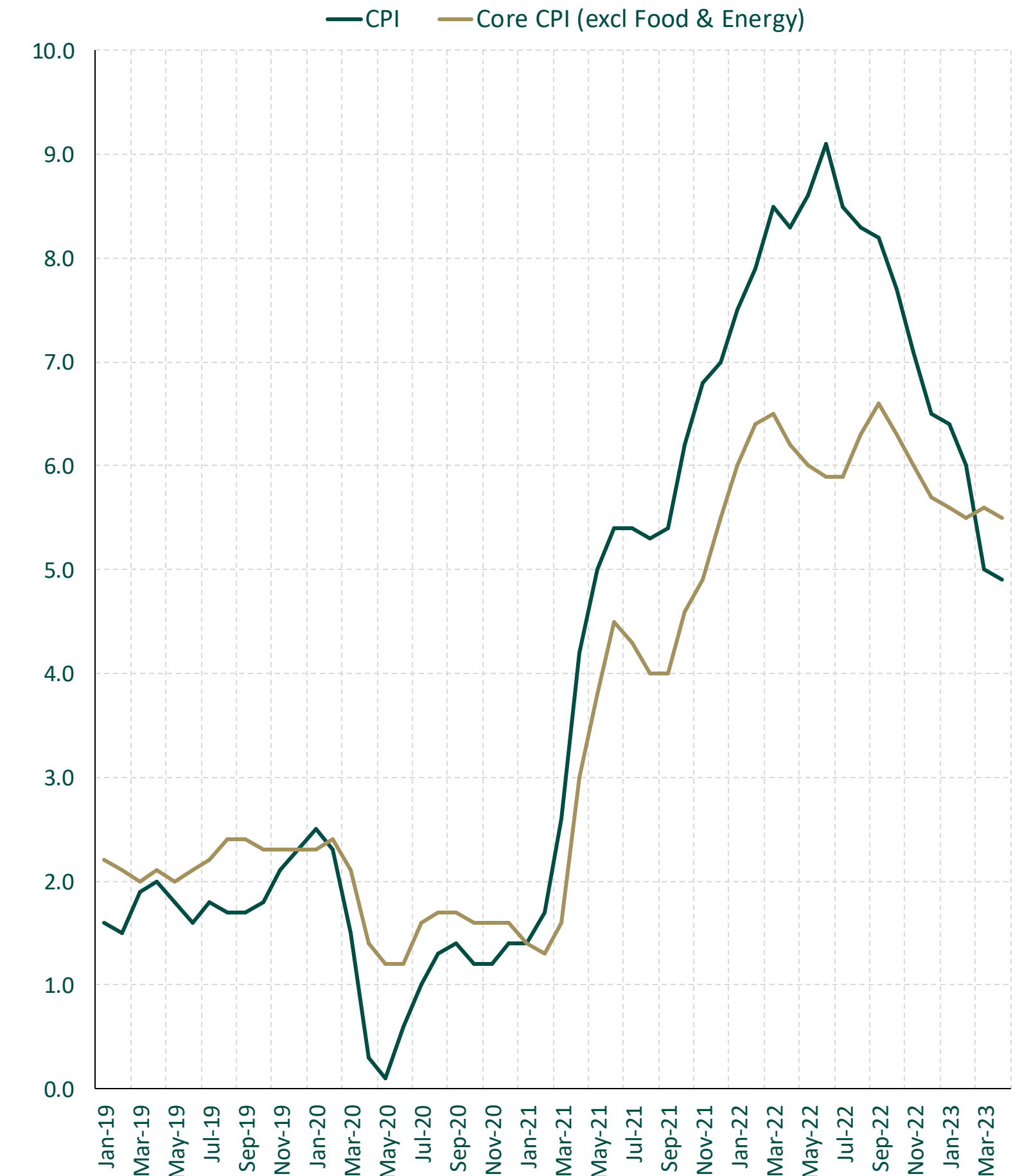
## Core inflation at c.7 per cent in the UK



## Core inflation may have peaked in euro area



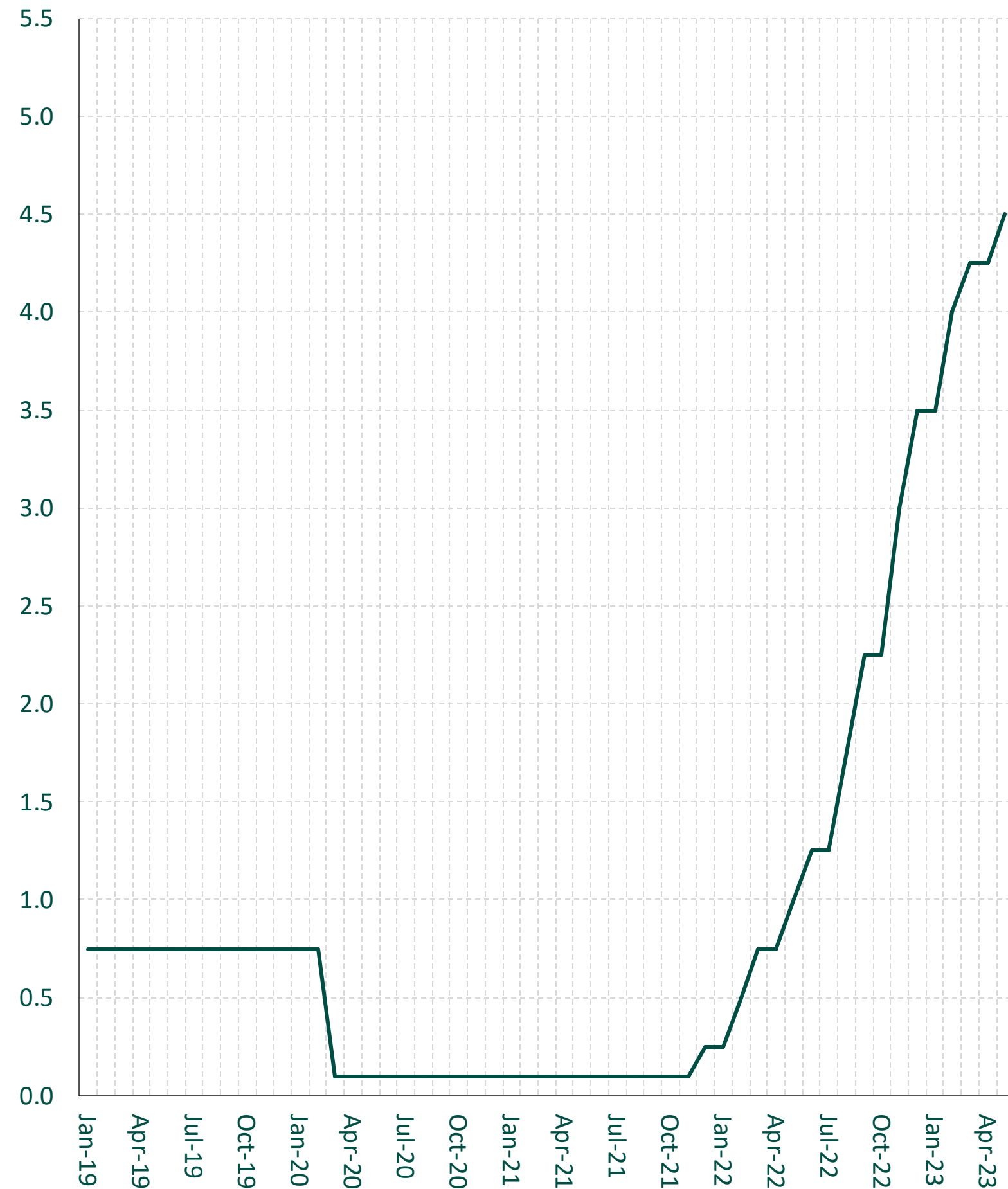
## Core inflation easing gradually in the US



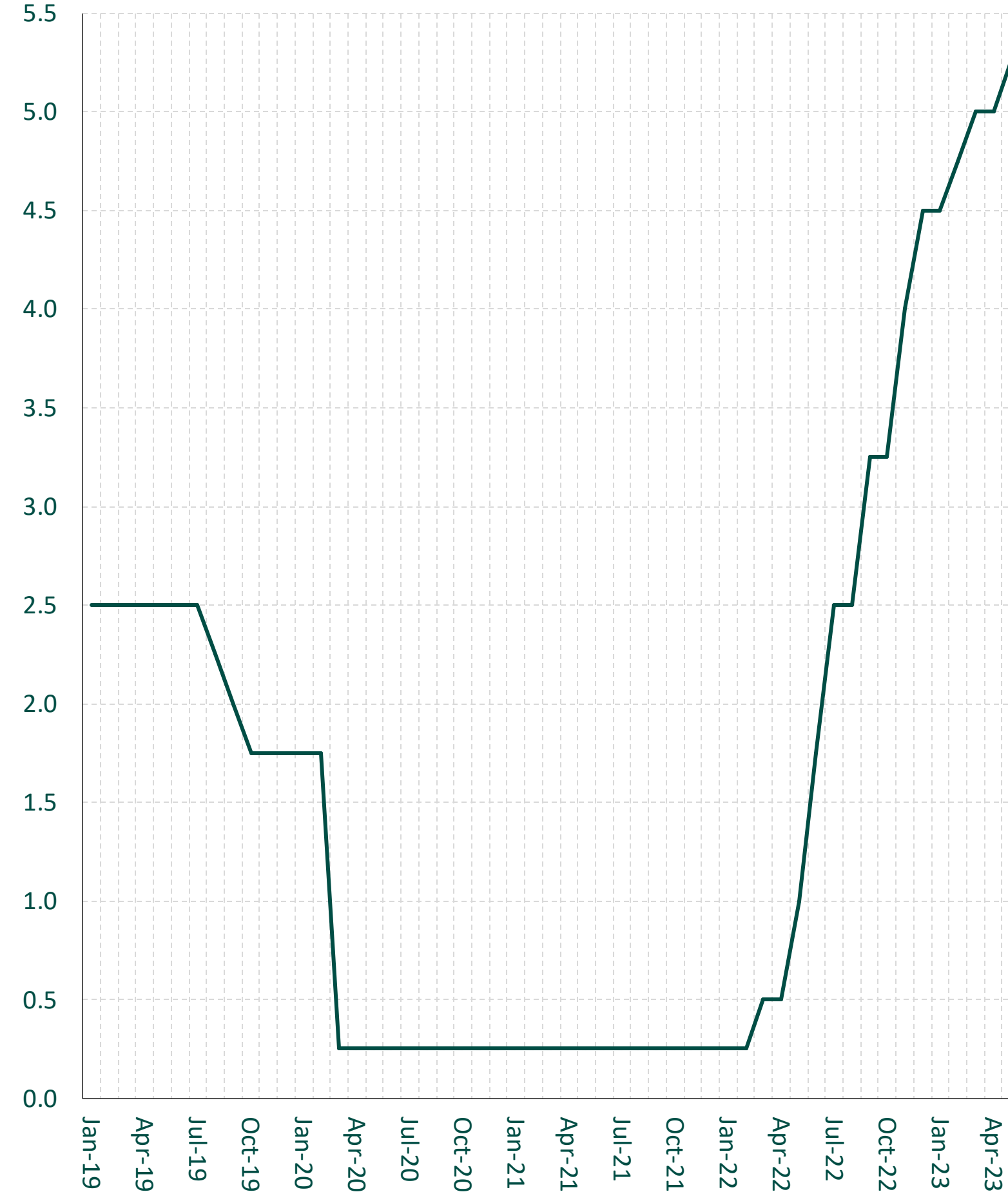
# Synchronised monetary tightening – with transmission lags



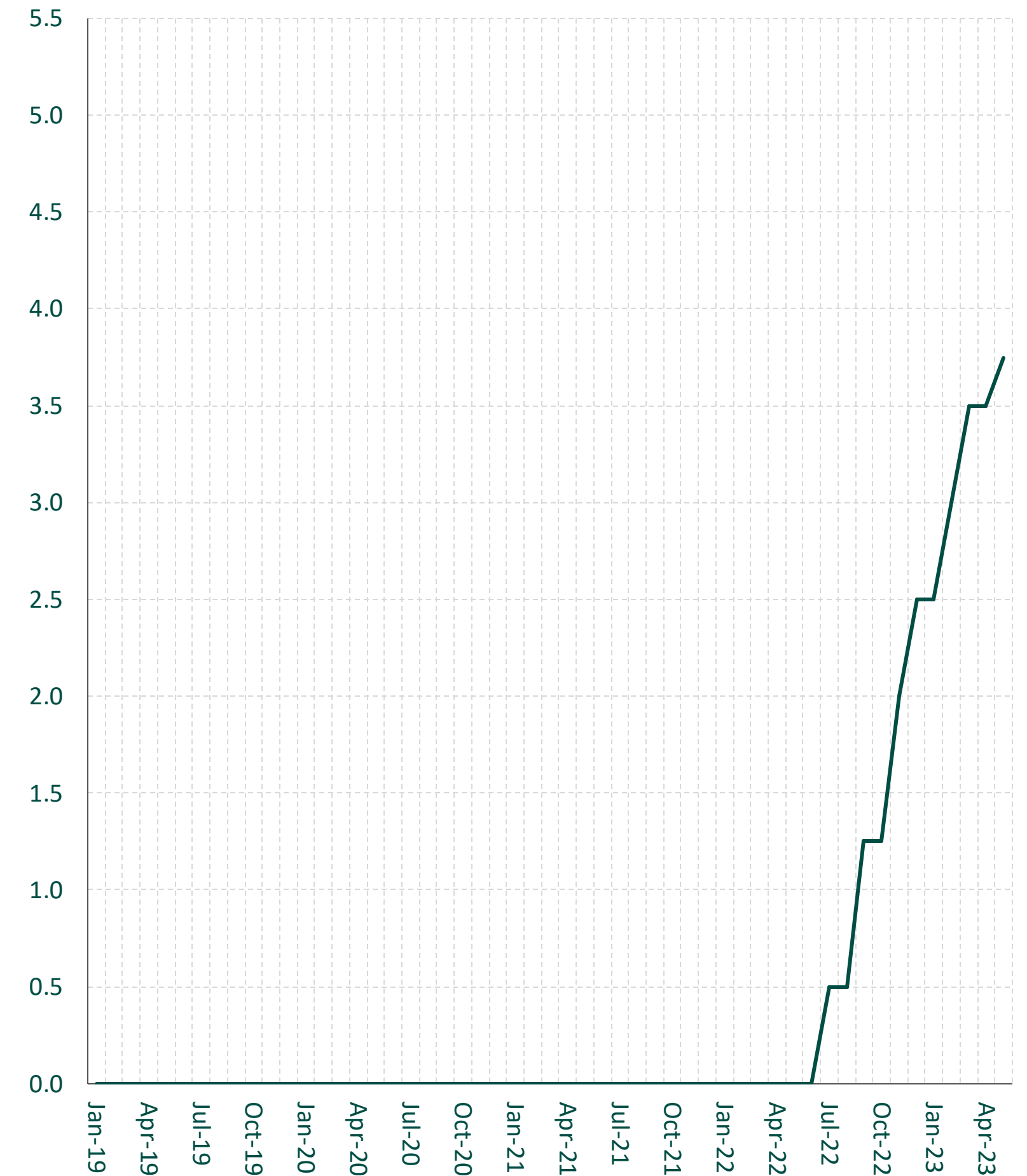
UK: policy rates +440 bps since low-point



US: policy rates +500 bps since low-point



euro area: policy rates +375 bps

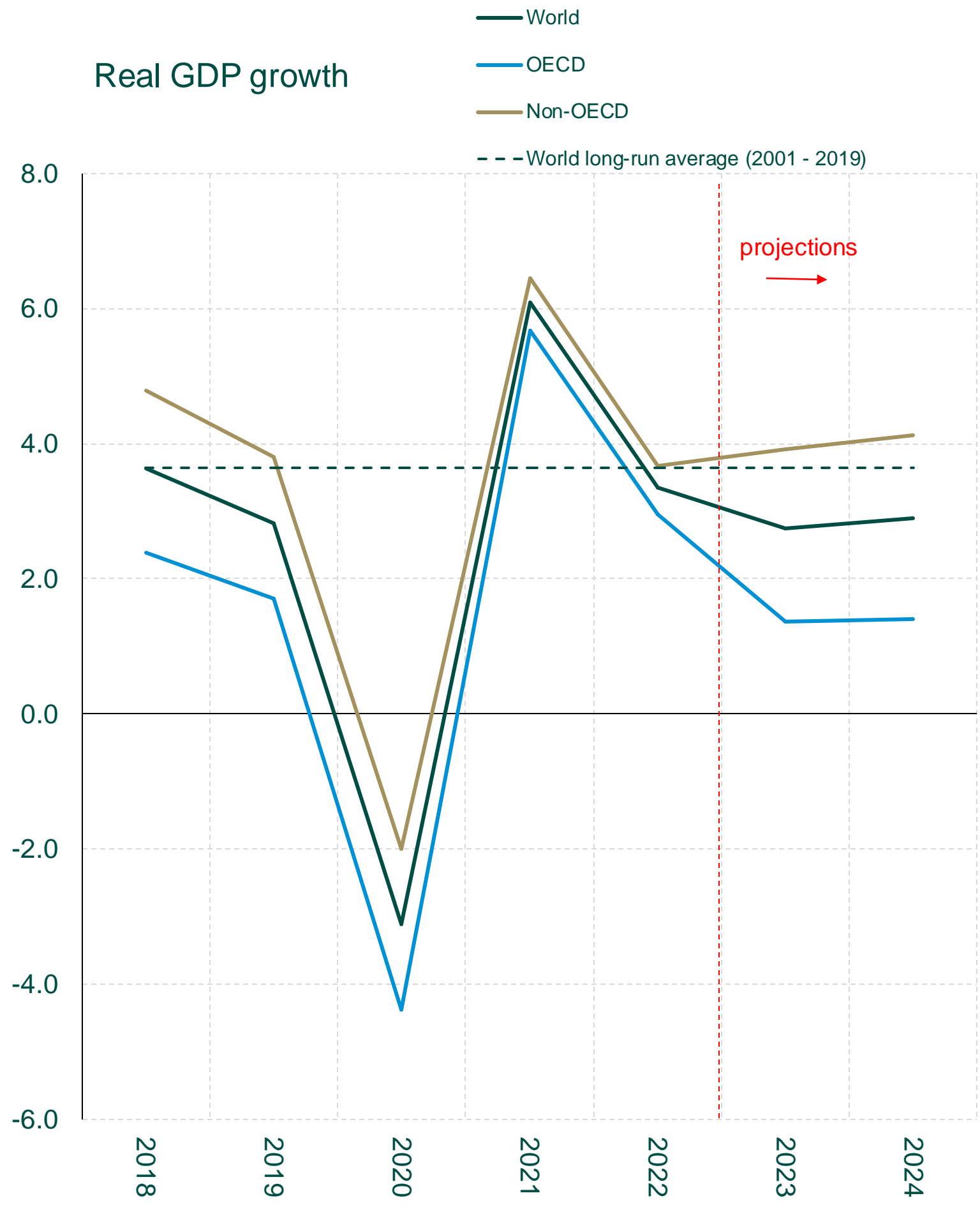




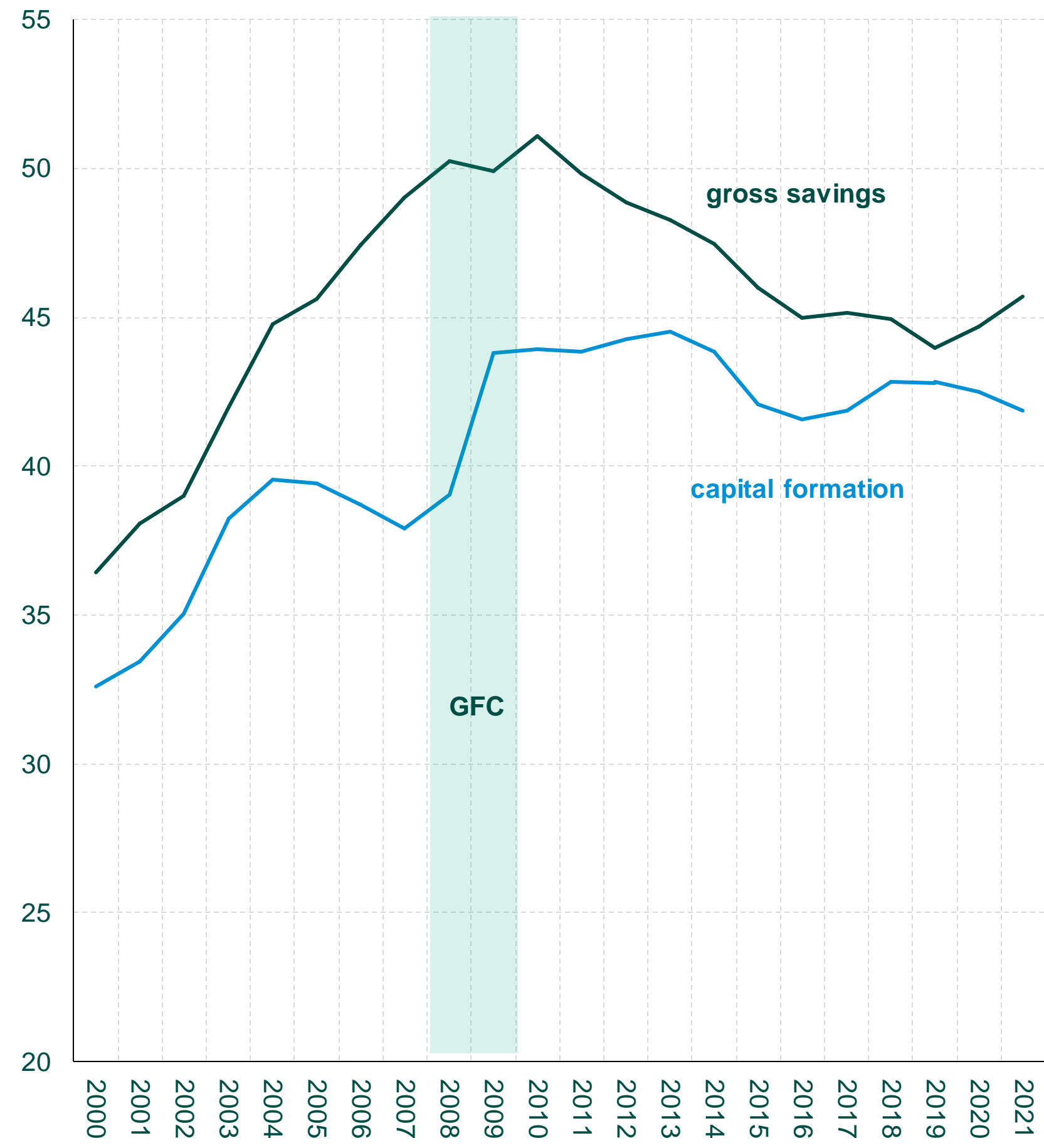
# Beyond the cyclical: slow-moving structural changes underway globally



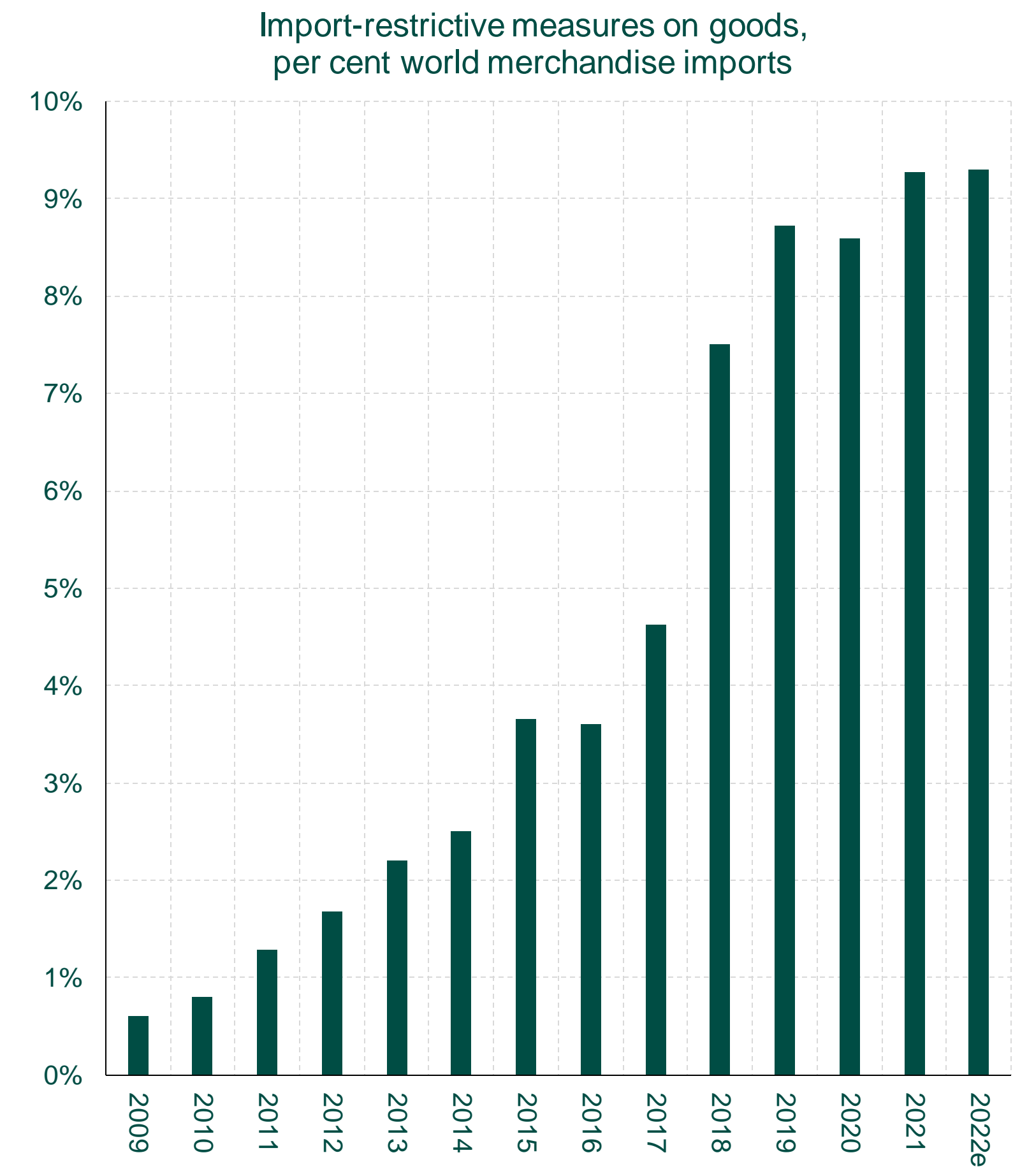
## Slower growth = permanent feature in OECD



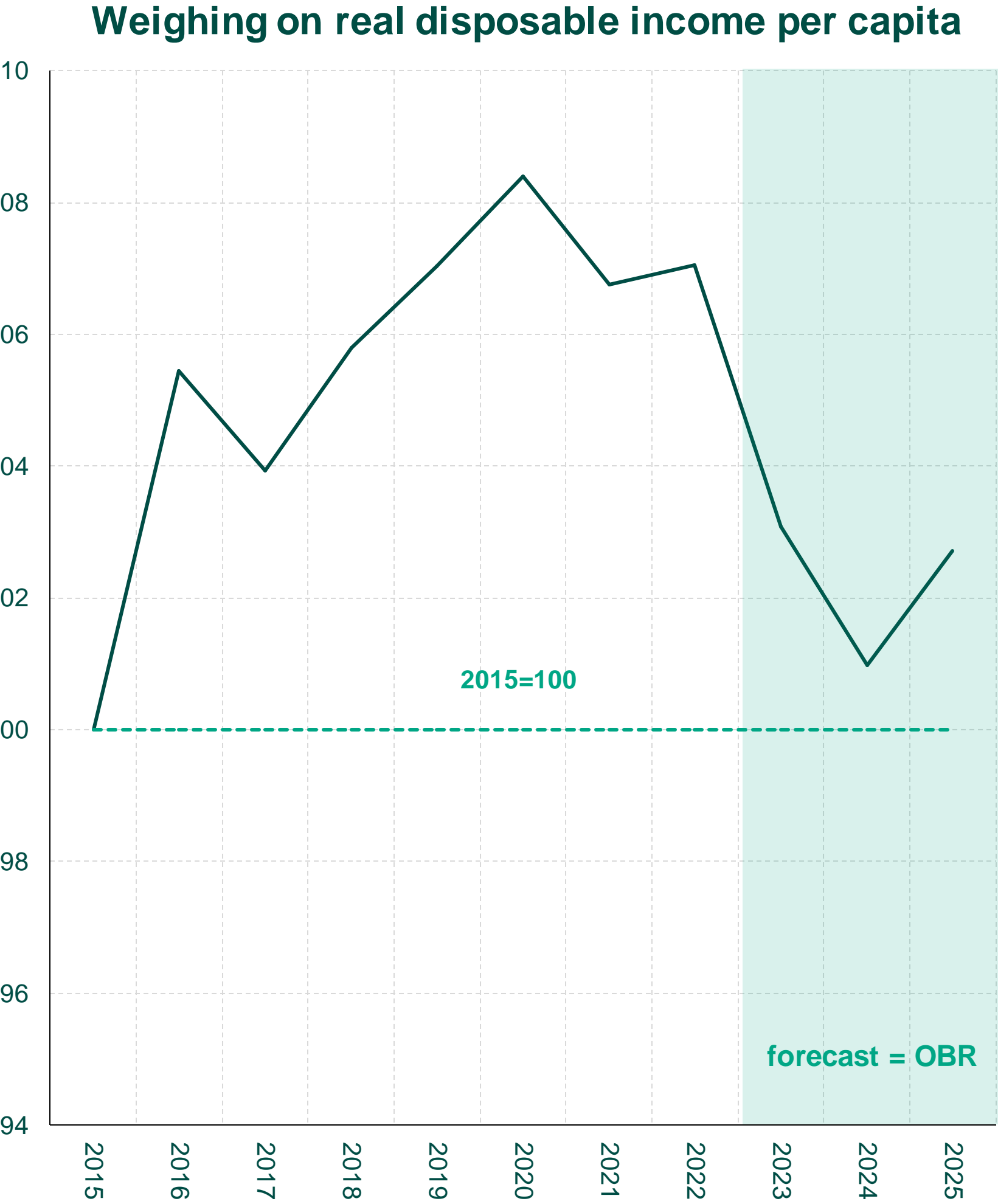
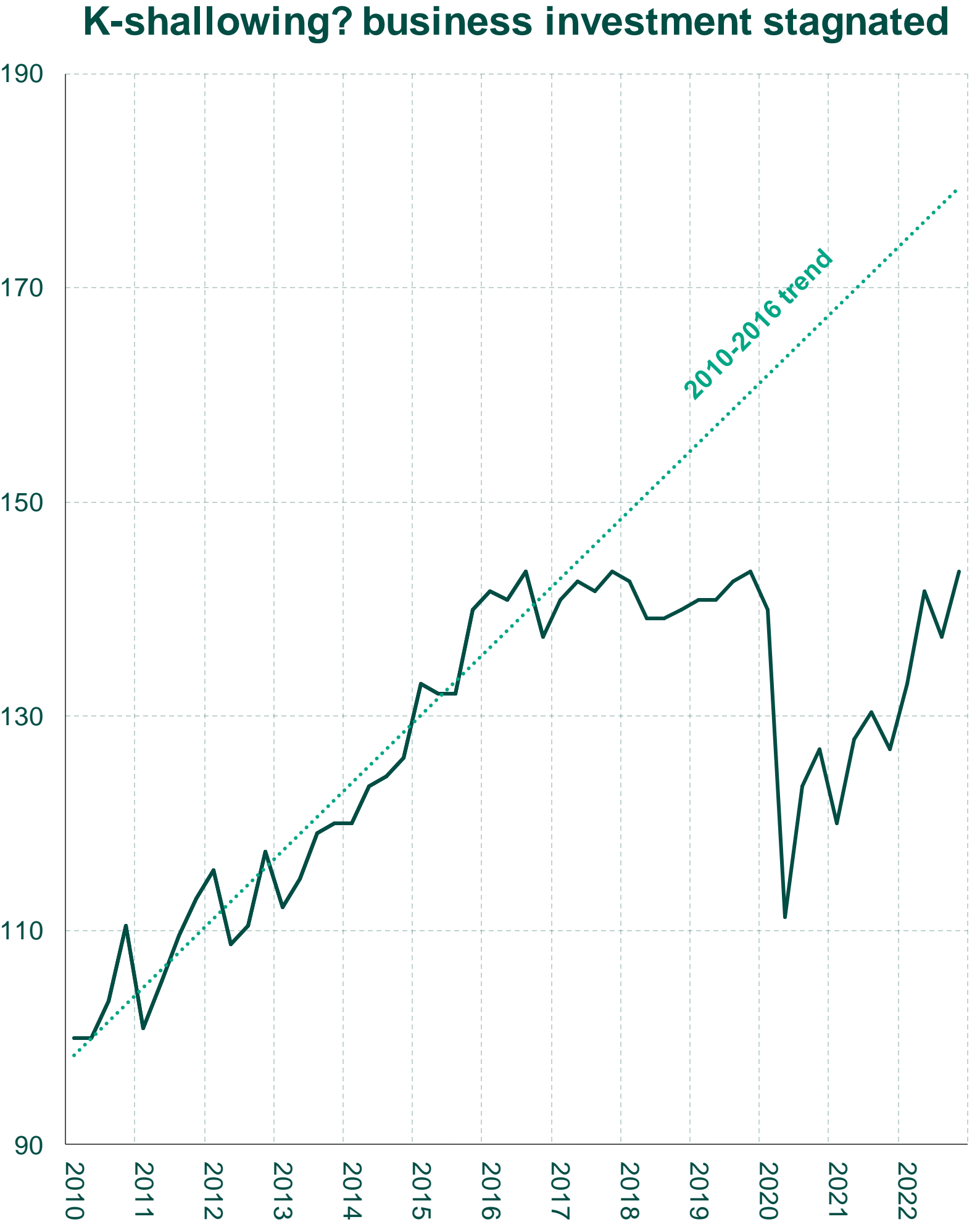
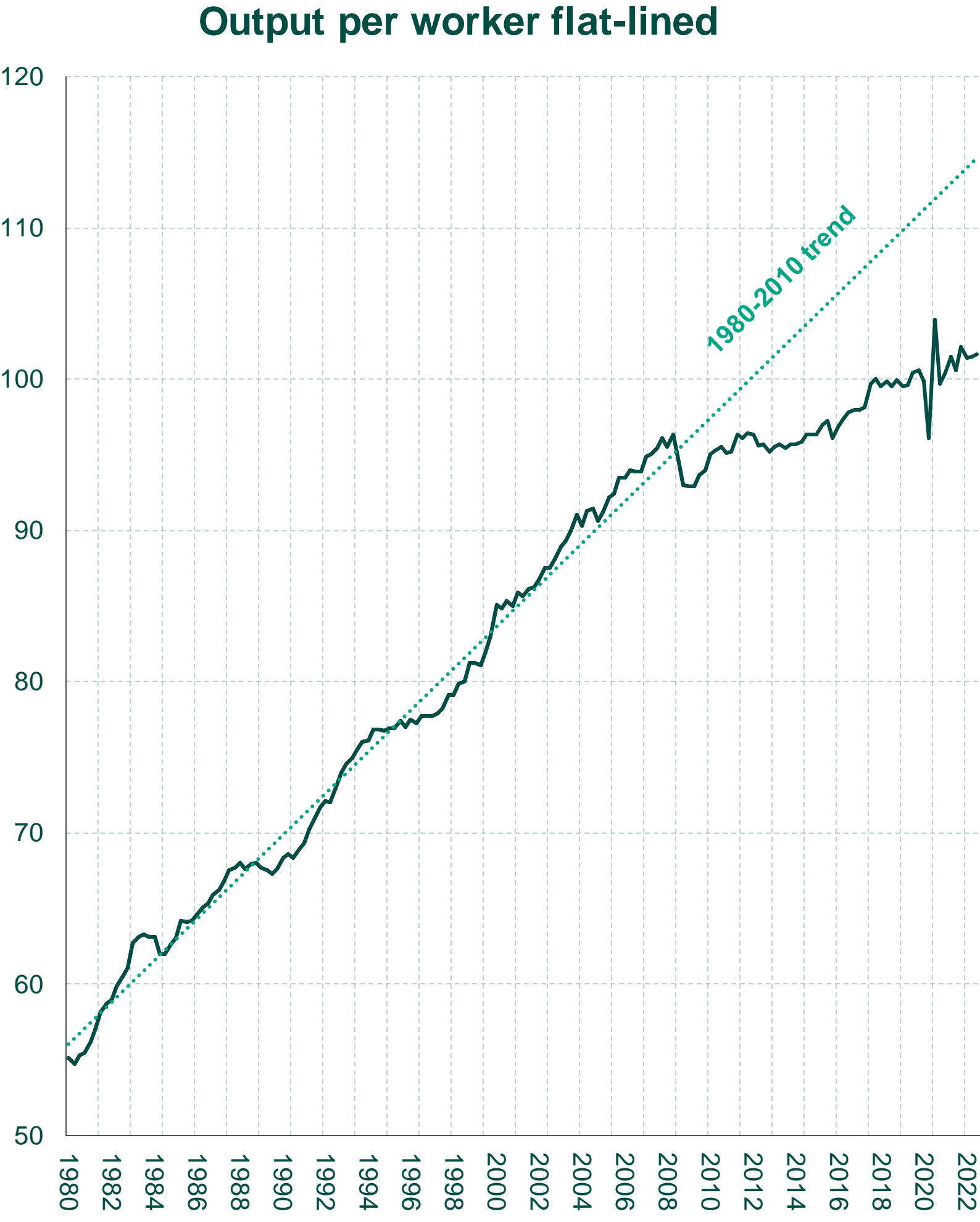
## Rebalancing of Chinese economy: smooth?



## Global trade barriers becoming more common



# Focus on UK: powerful structural headwinds





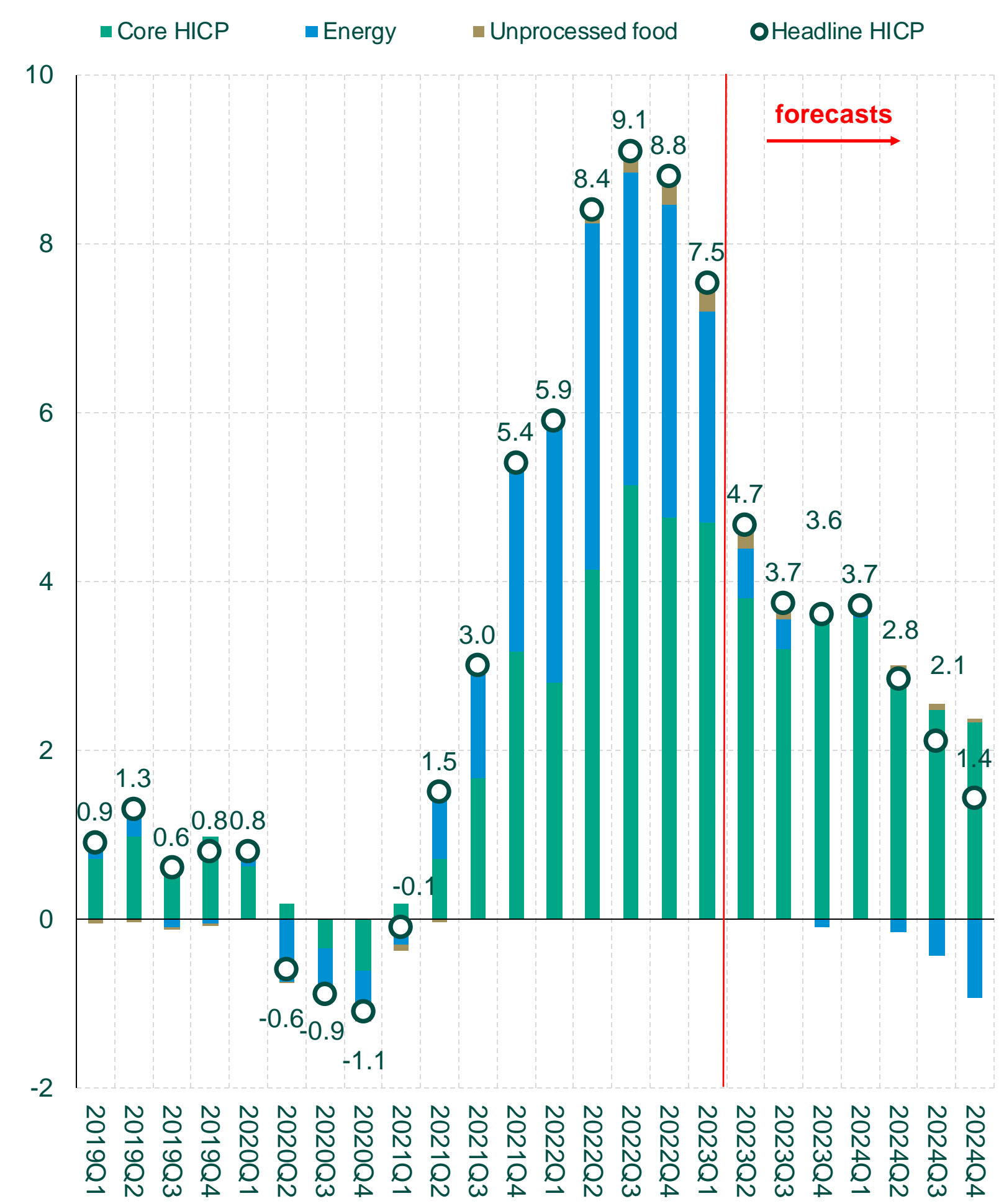


Domestic economy – supply (rather than demand) the binding constraint

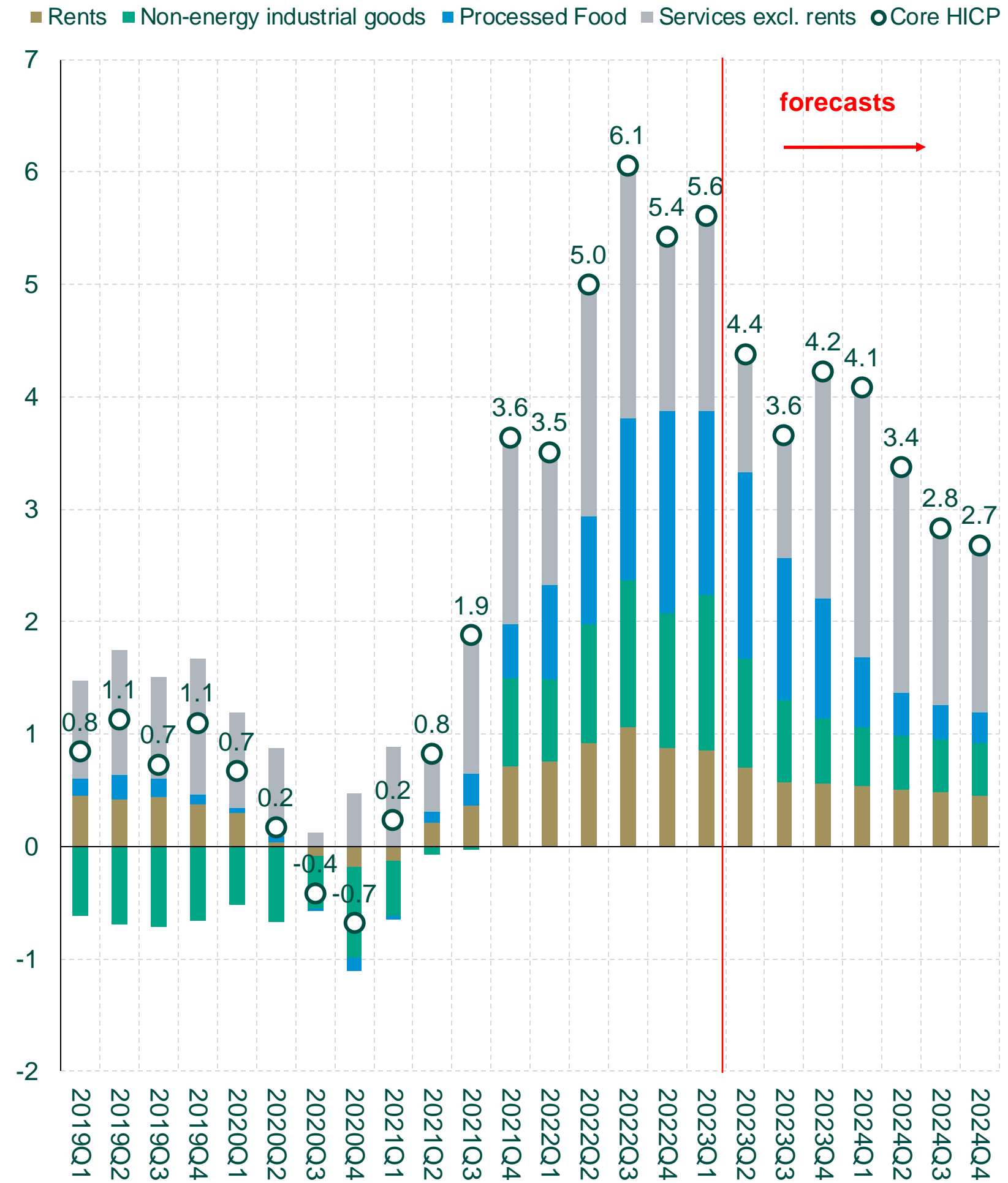
# Headline inflation past turning point, 'core' inflation more persistent



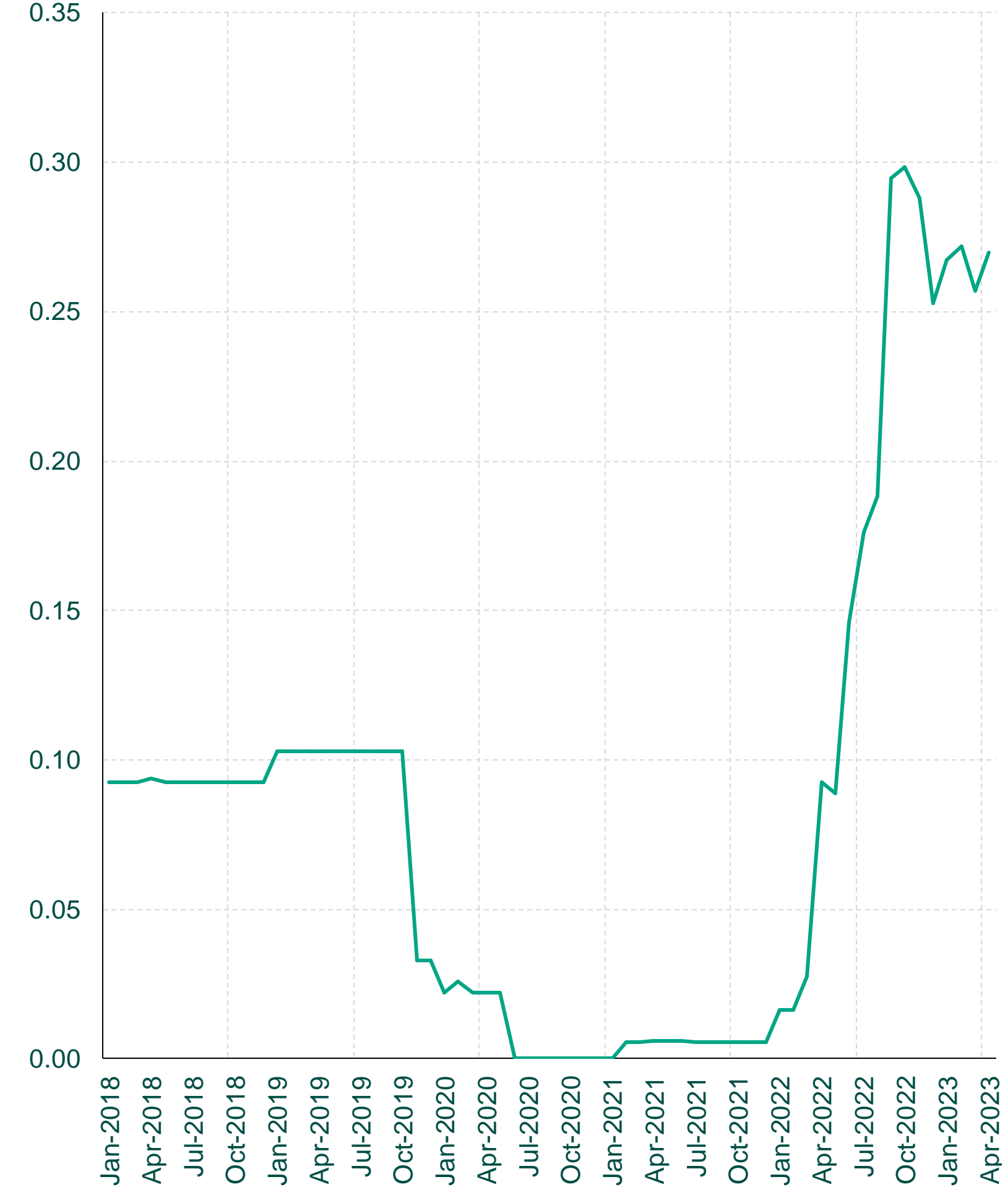
## Rebalancing of energy markets - inflation, pp



## D-S imbalances driving core inflation, pp



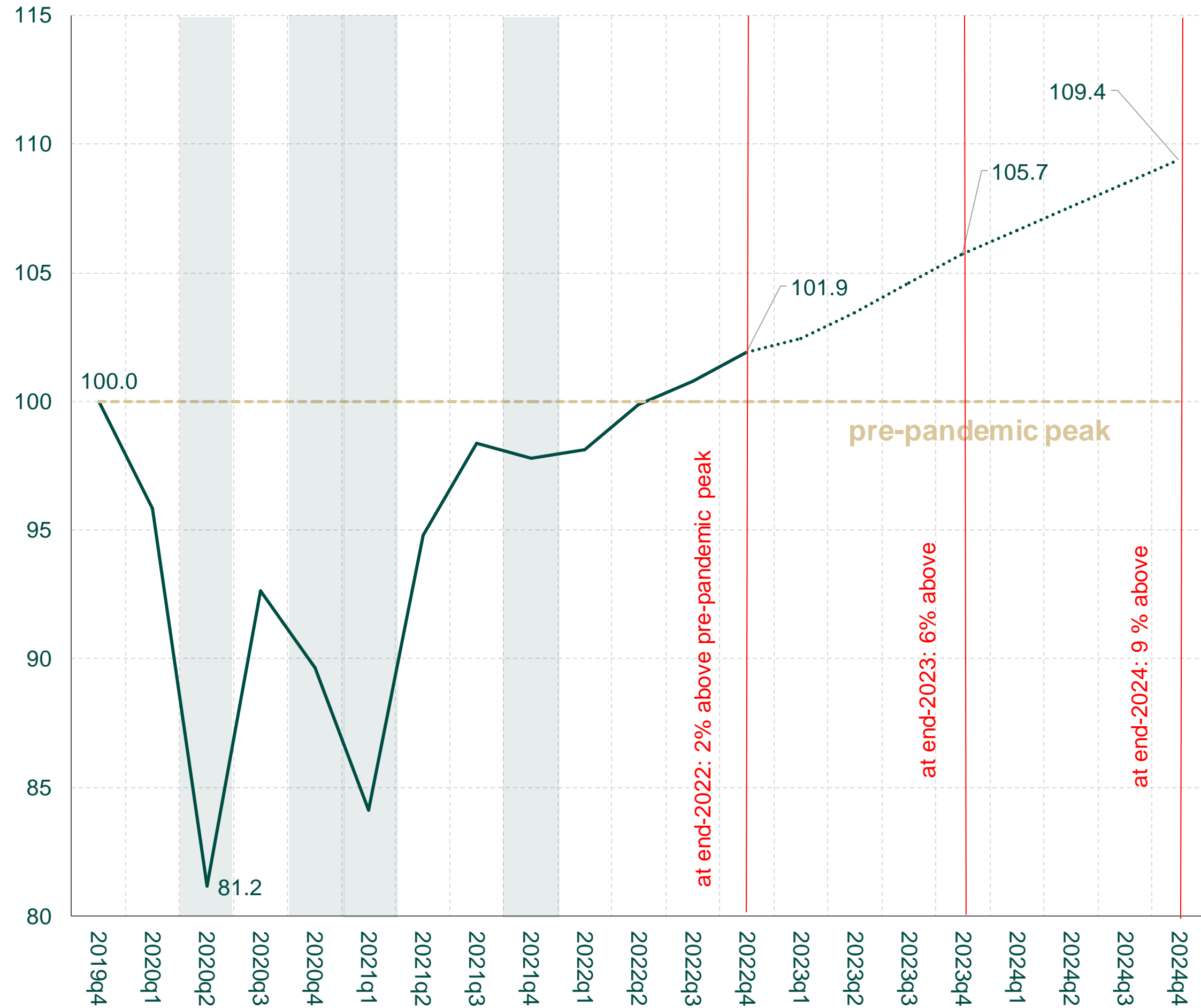
## Share of core basket >5% for > a year



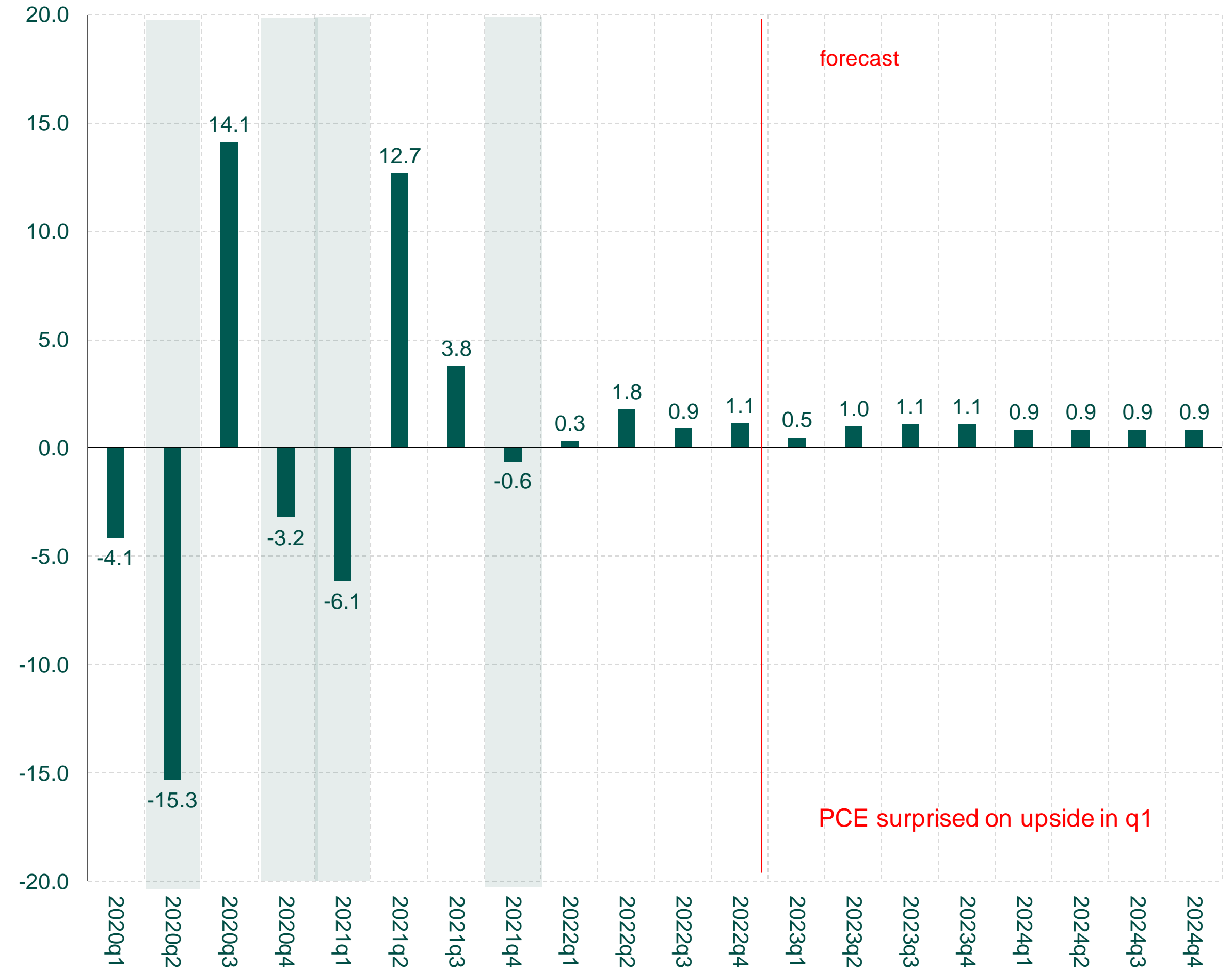
# Spring forecasts: lower inflation → boost real Y<sub>d</sub> → support expansion of PCE



Level of consumer spending 2023q1-2024q4, s.a.



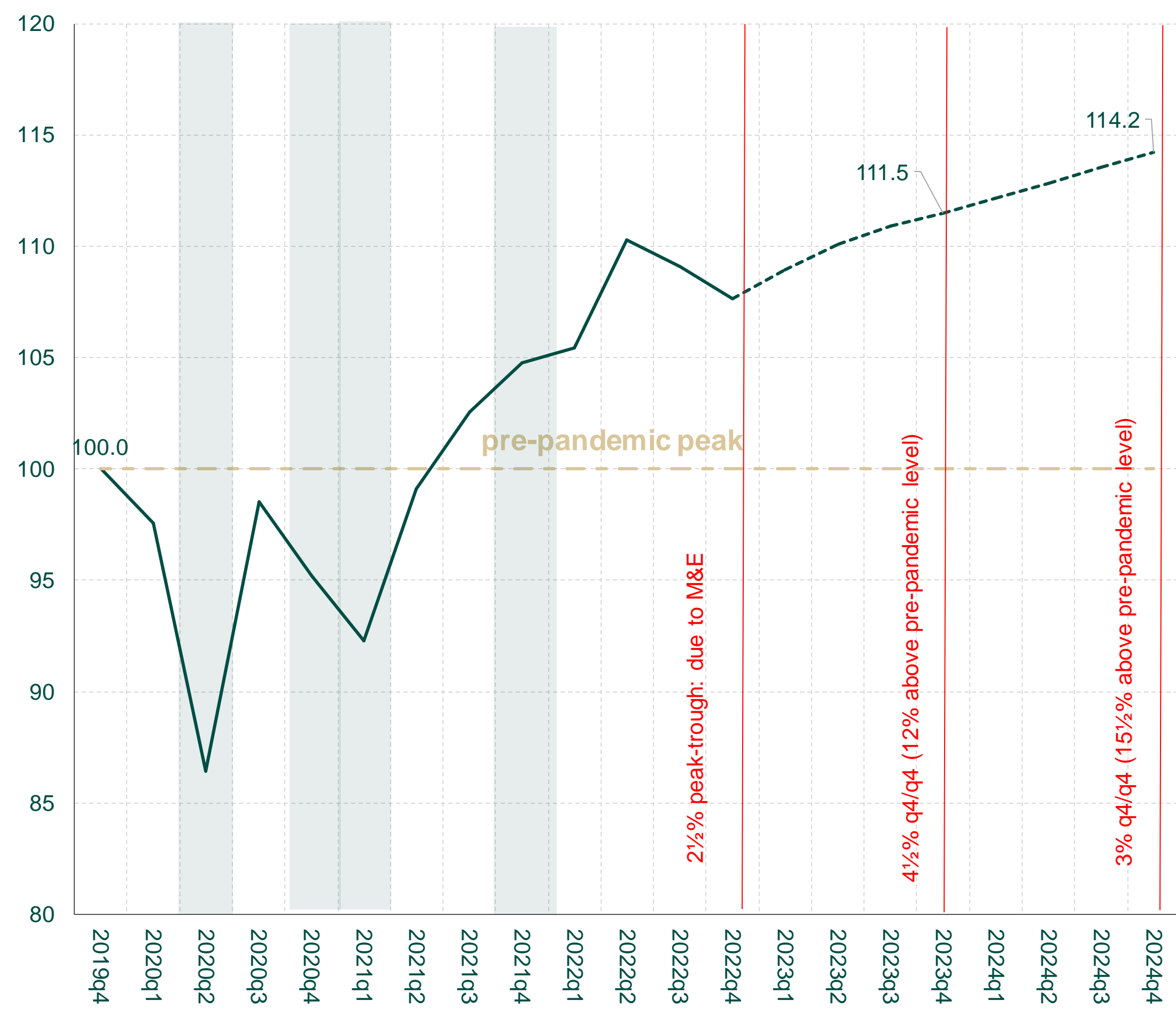
Growth rate of consumer spending 2023q1-2024q4, q/q s.a.



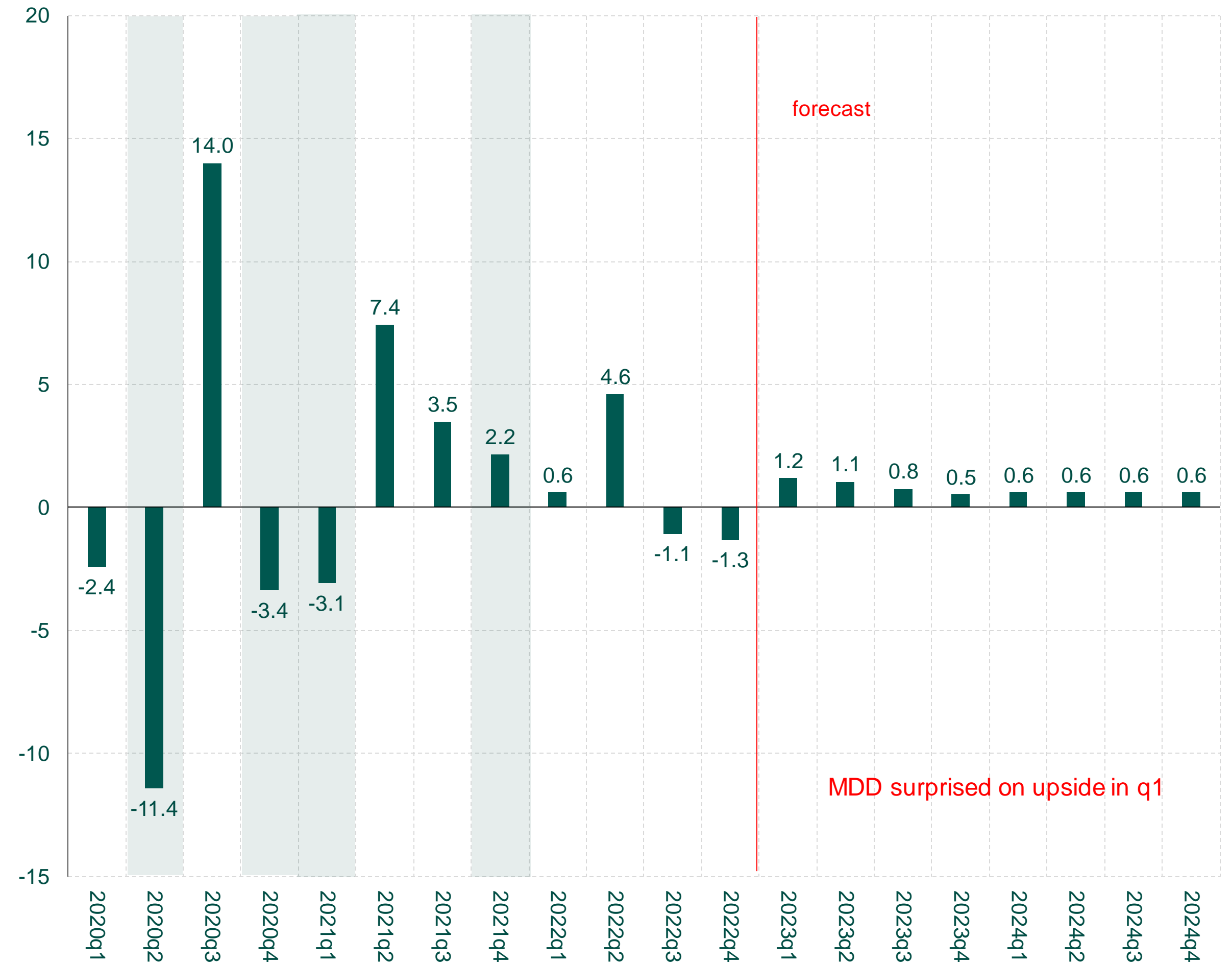
# Spring forecasts: stronger PCE → with recovery in I\_spending → MDD



Level of MDD 2023q1-2024q4, s.a.



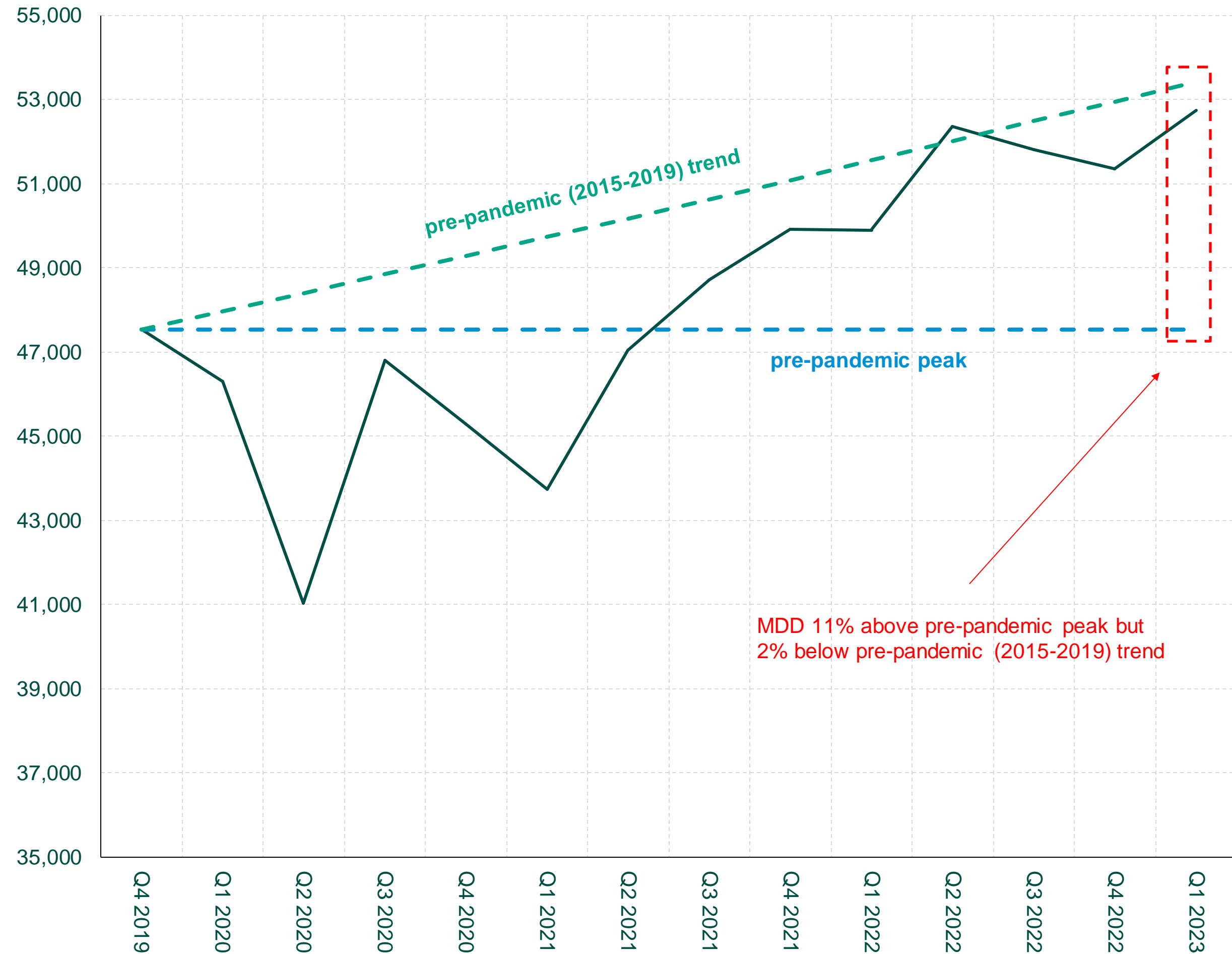
Growth rate of MDD 2023q1-2024q4, q/q s.a.



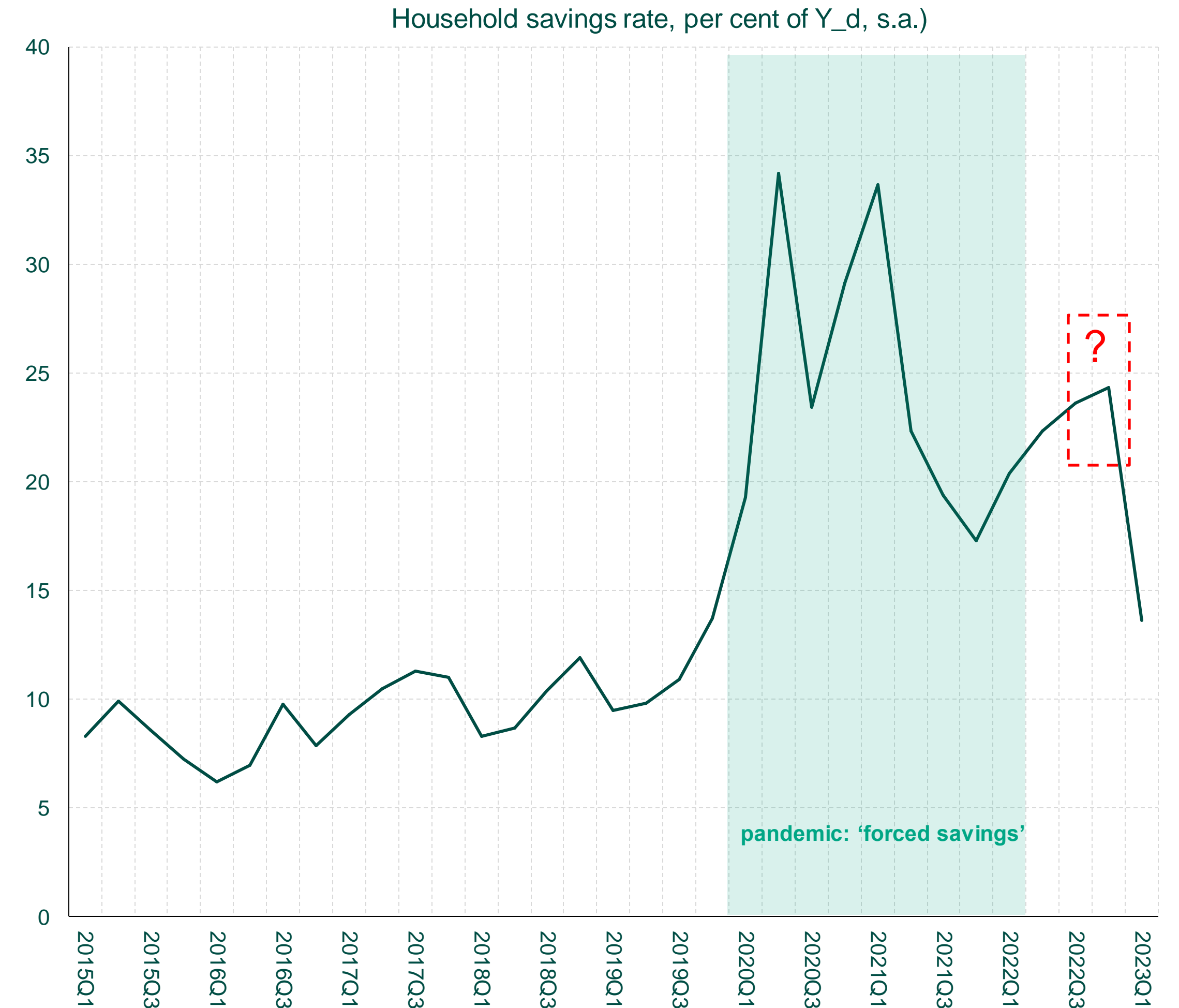
# Provisional data show MDD surprised on upside in q1



## Modified Domestic Demand = +2.7 per cent q/q



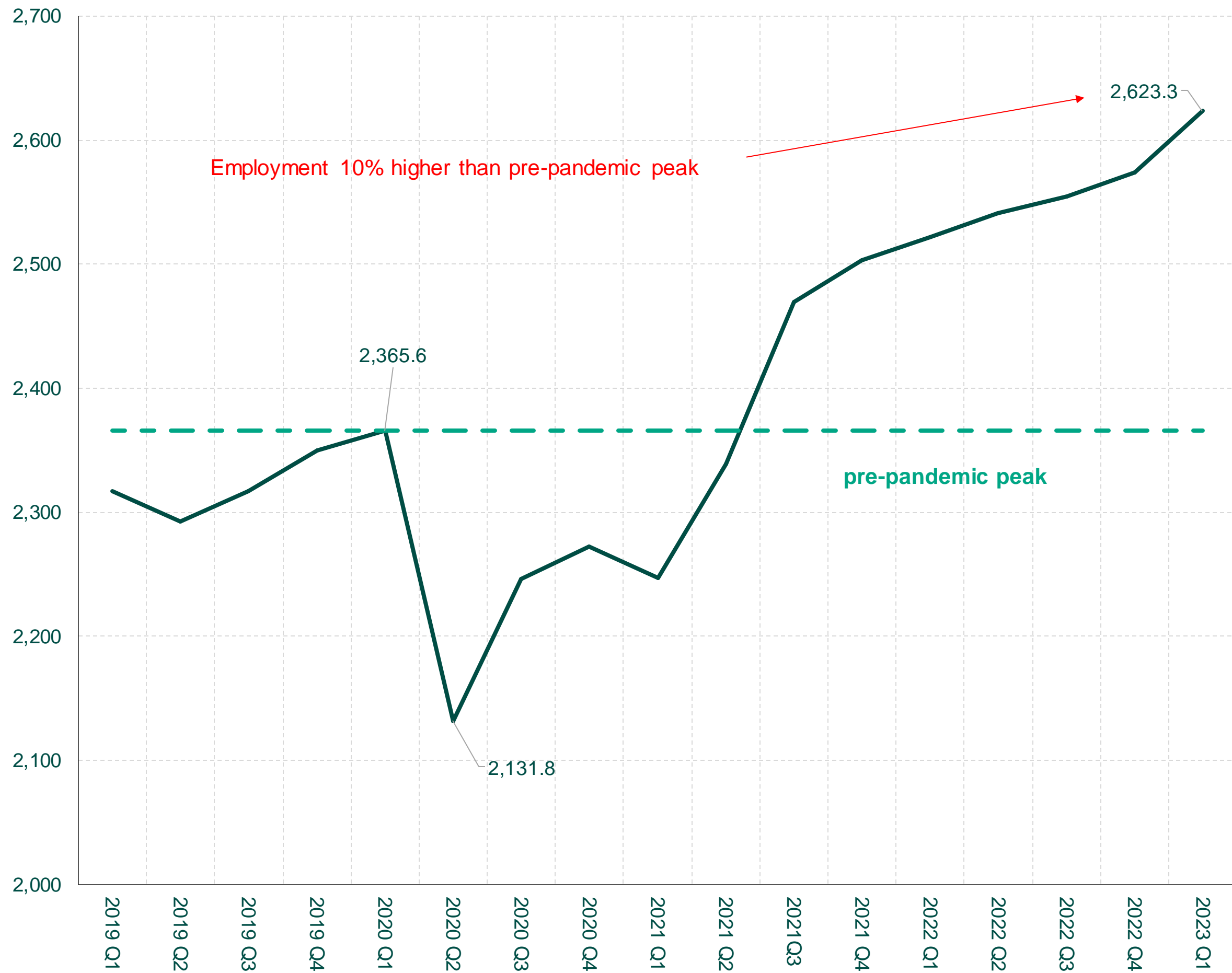
## with (finally) a re-normalisation of savings



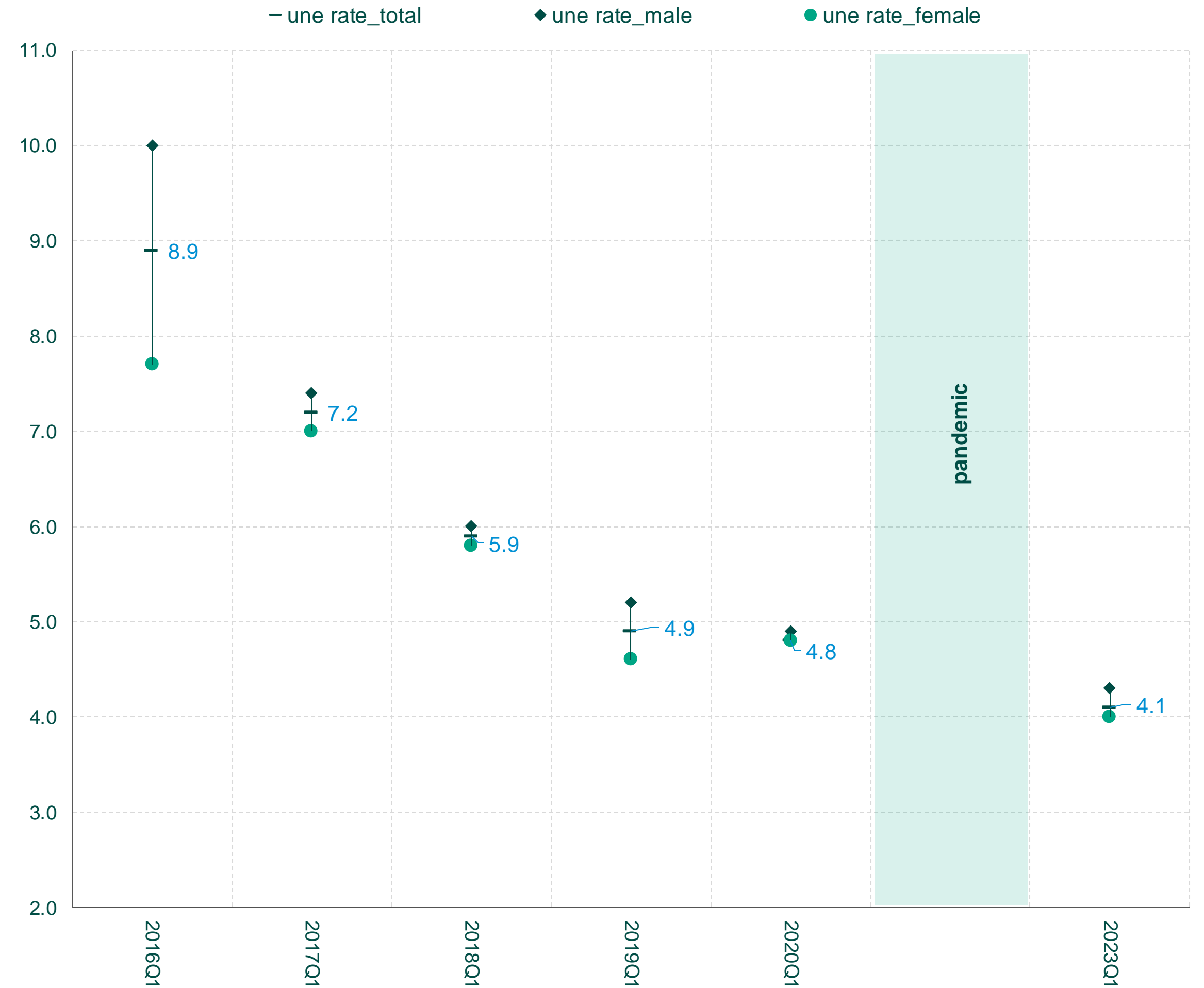
# Rapid rebound paying dividends in the labour market



## Recovery in demand = employment-rich



## ...with economy now at full-employment



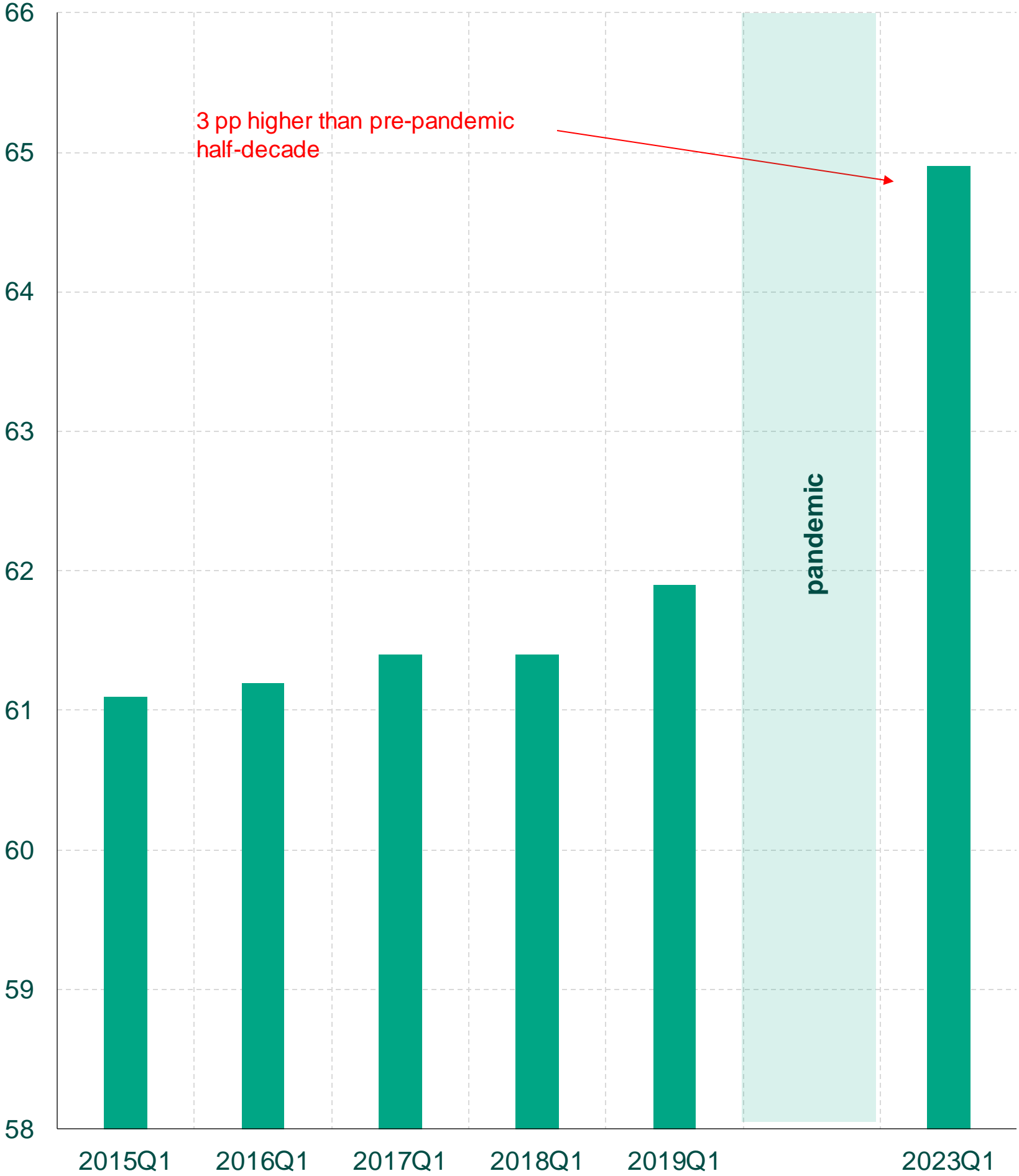


# Some 'structural' changes in labour market ?



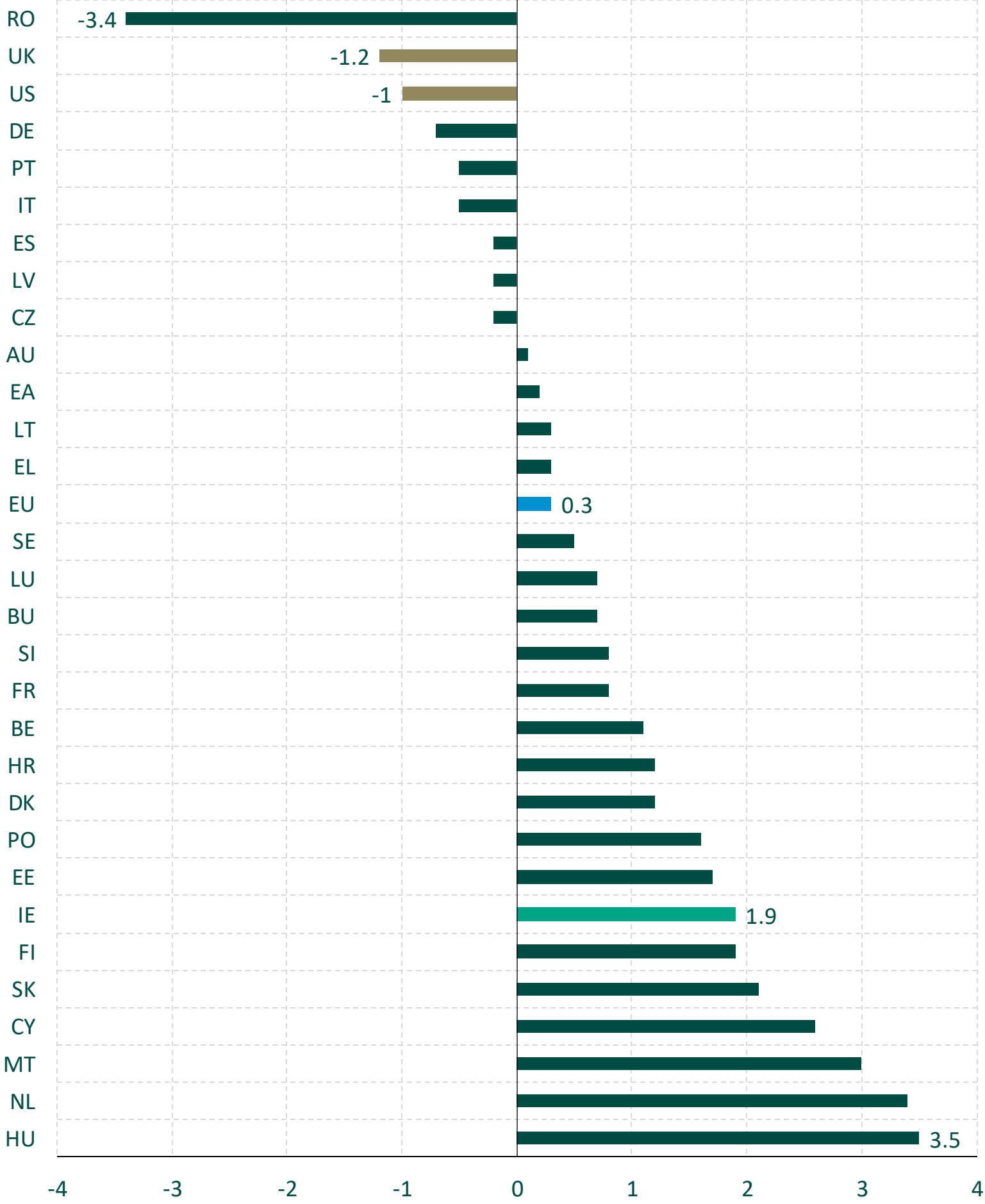
## No 'big quit' / 'great resignation' in Ireland

participation rate (both sexes) - ILO 15-74, per cent

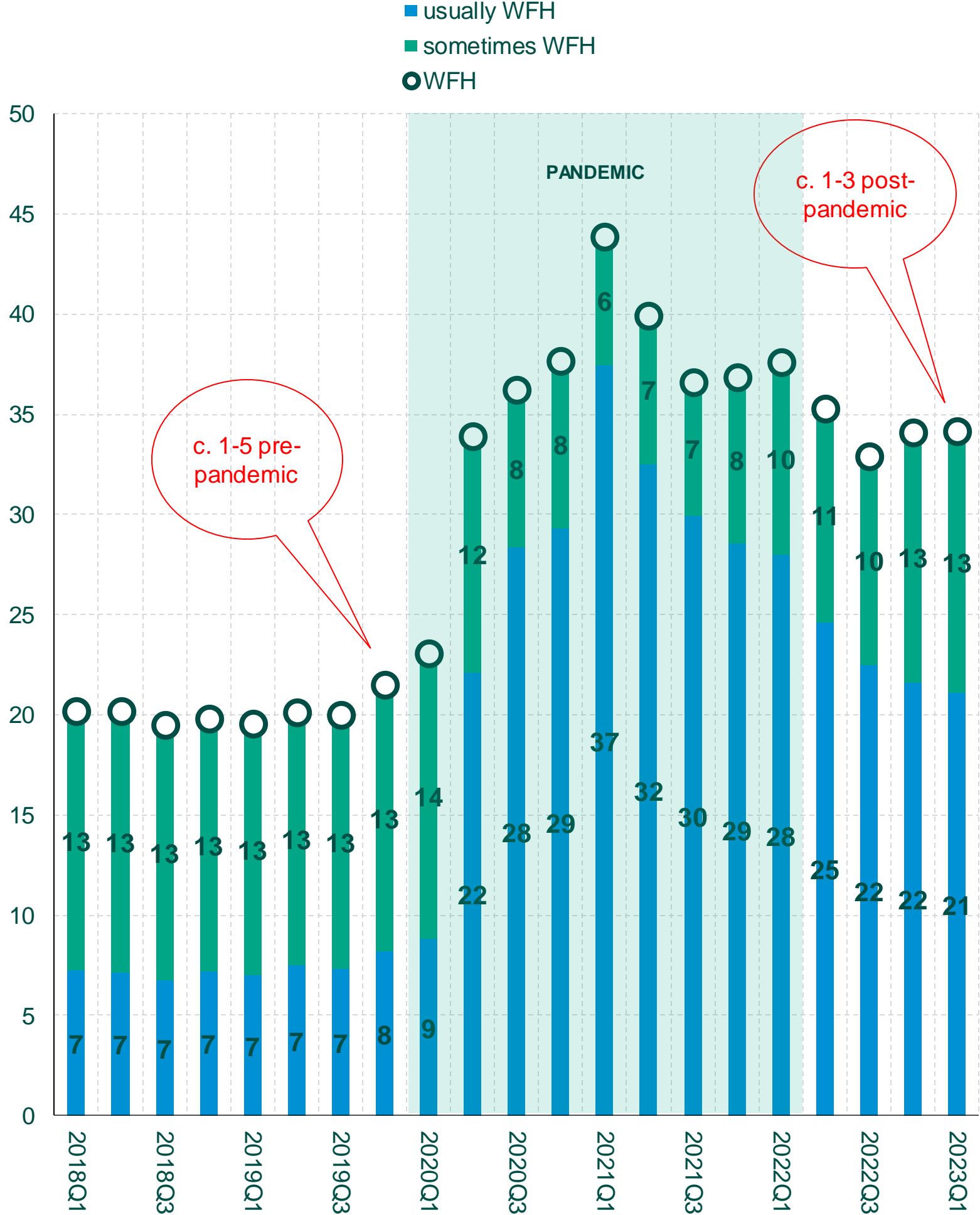


## some labour market scarring elsewhere

participation rate (both sexes): 2022q4 vs 2019q4 per cent



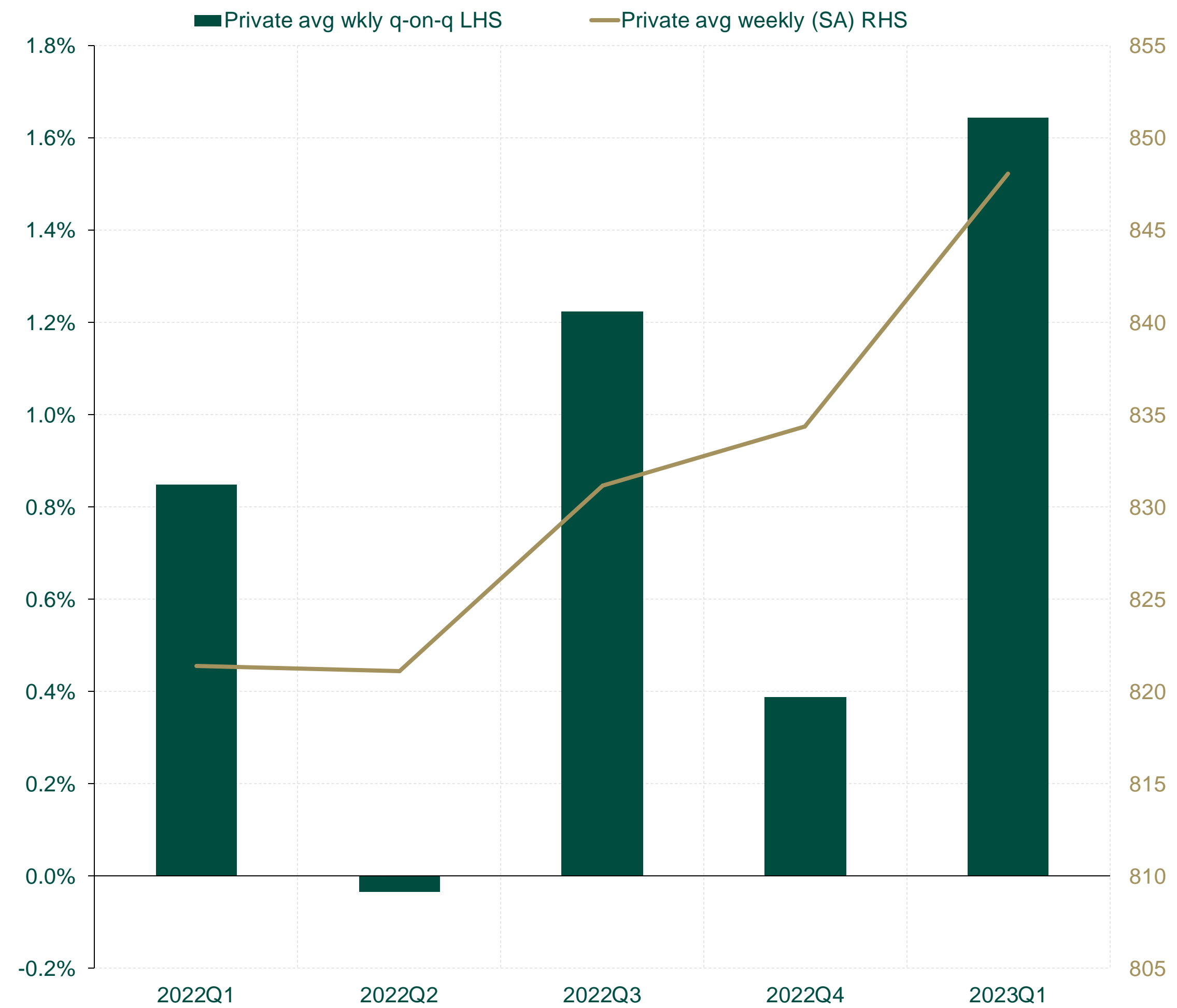
## role of remote working?



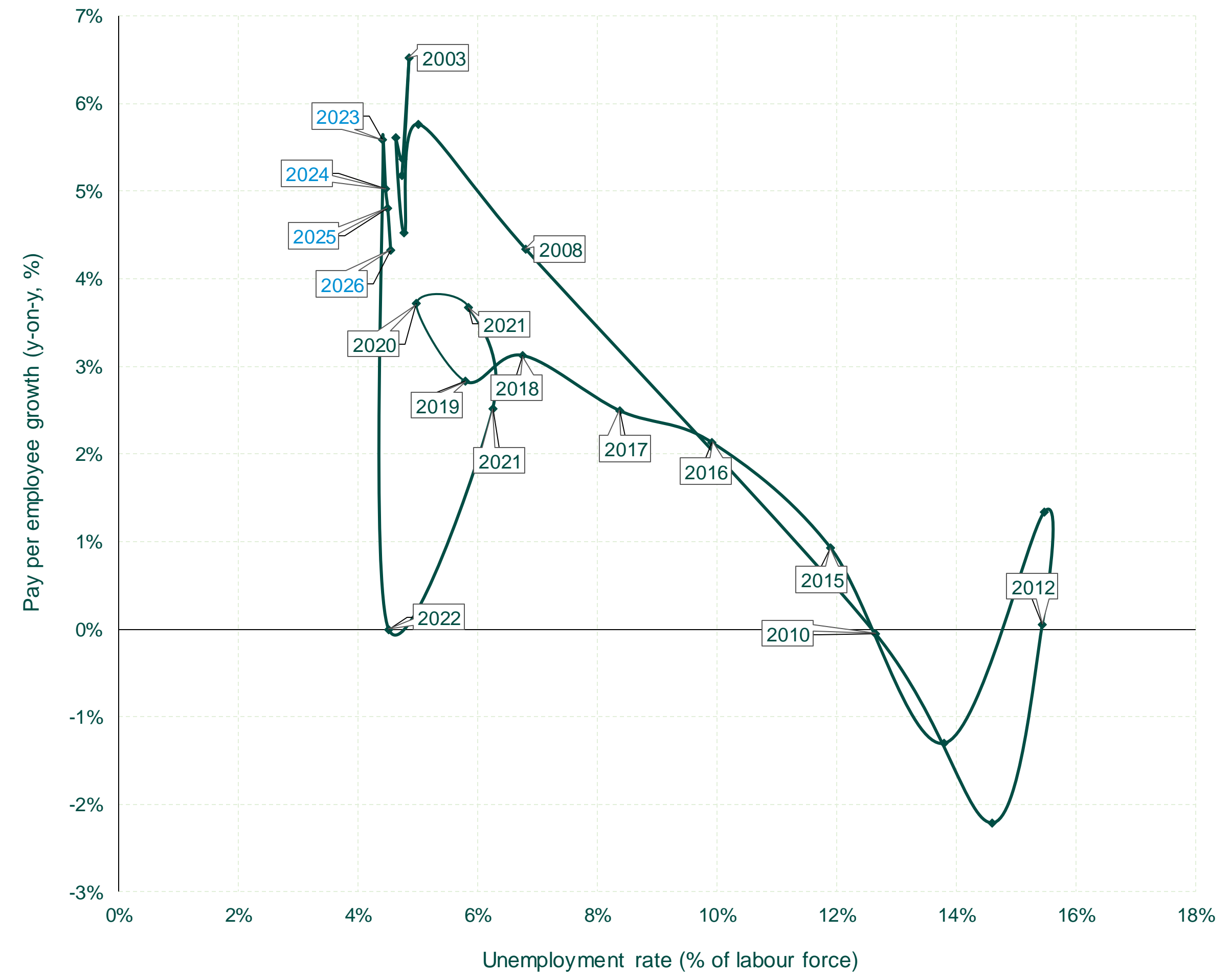
# Relative bargaining power between capital and labour has shifted



## Private sector (nominal) wage inflation picking up



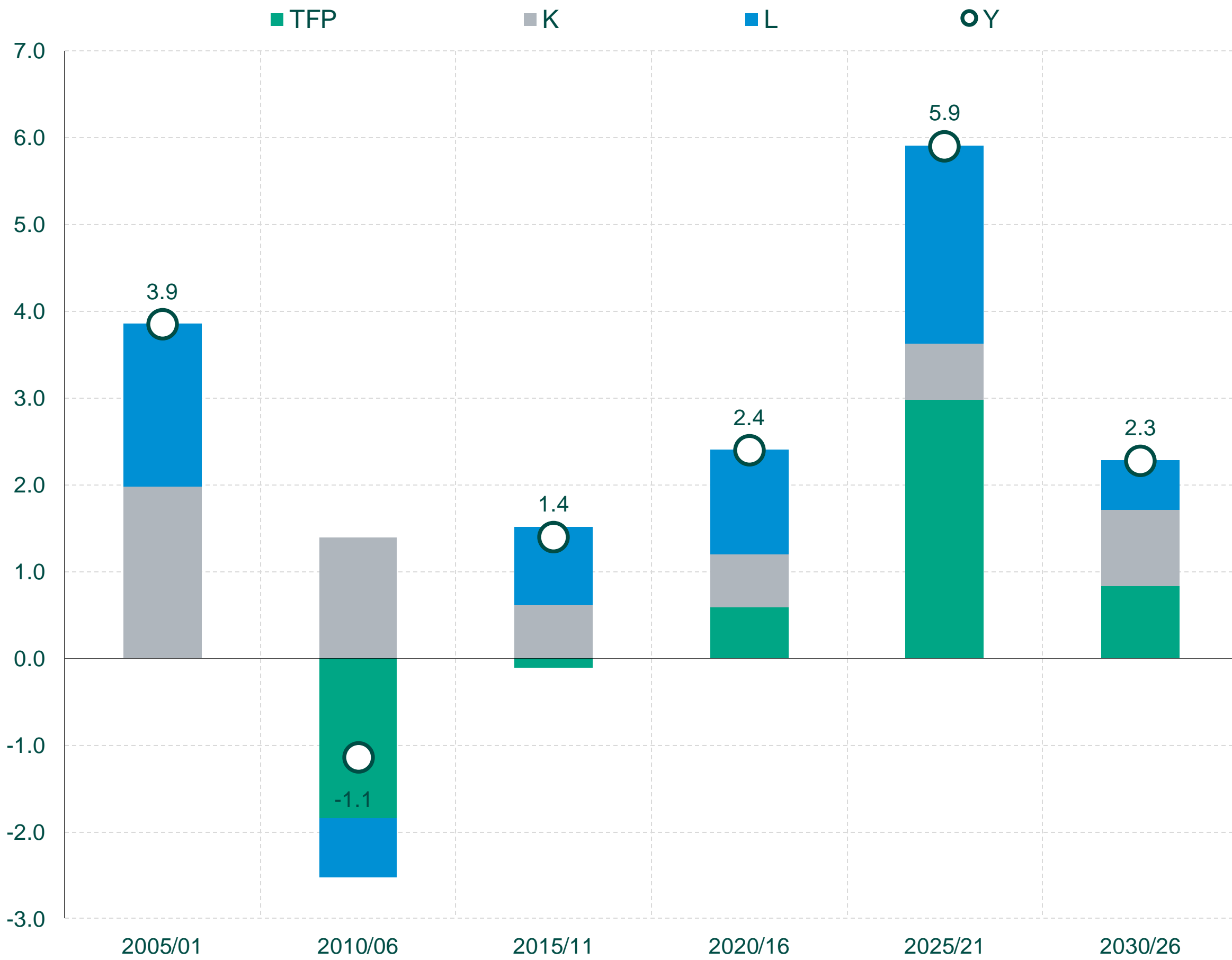
## Wage dynamics reflect tight labour market



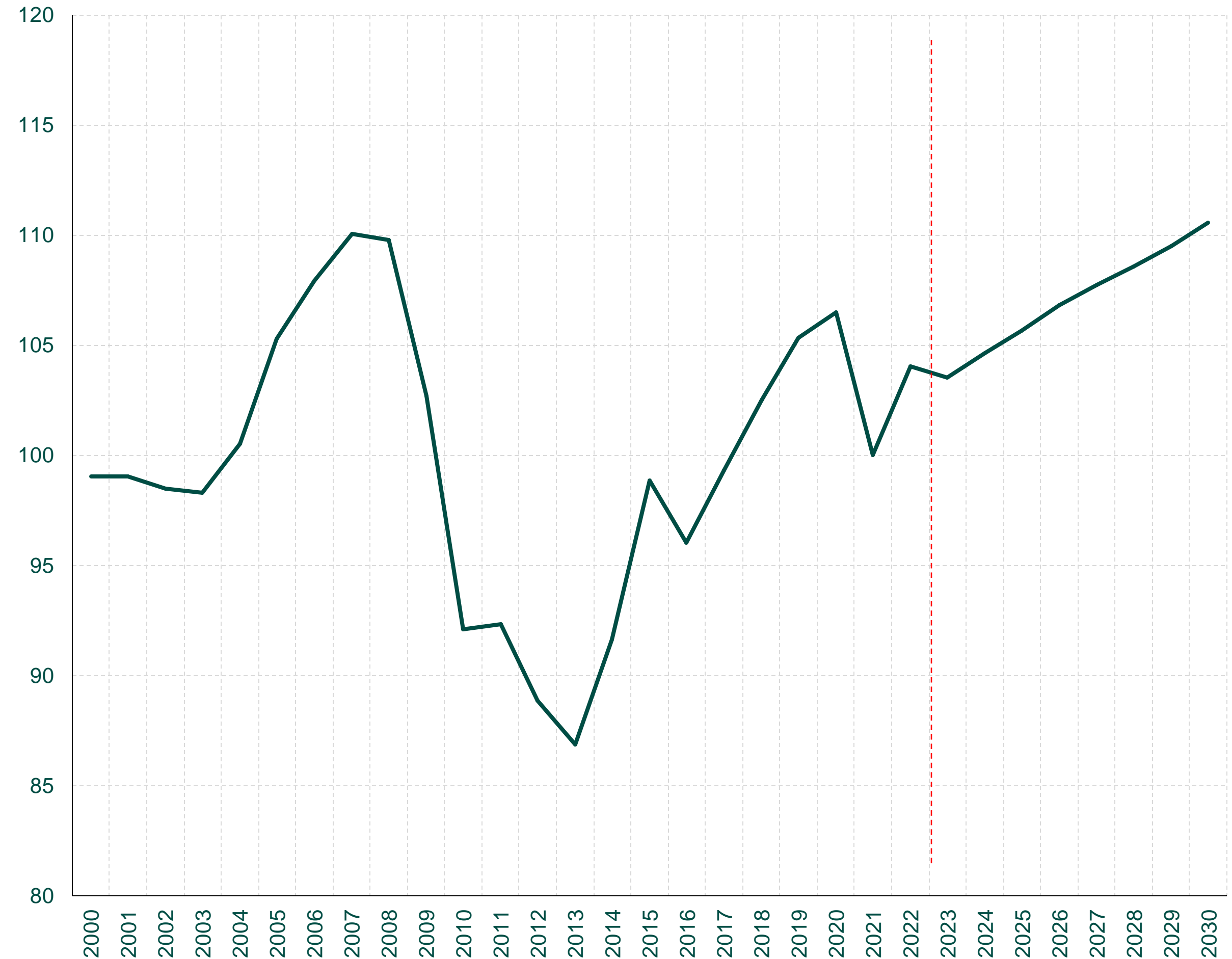
# A short de-tour: medium-term projections confirm slowing potential growth



## Contributions to GNI\* growth, pp



## Income (GNI\*) per capita, 2021=100



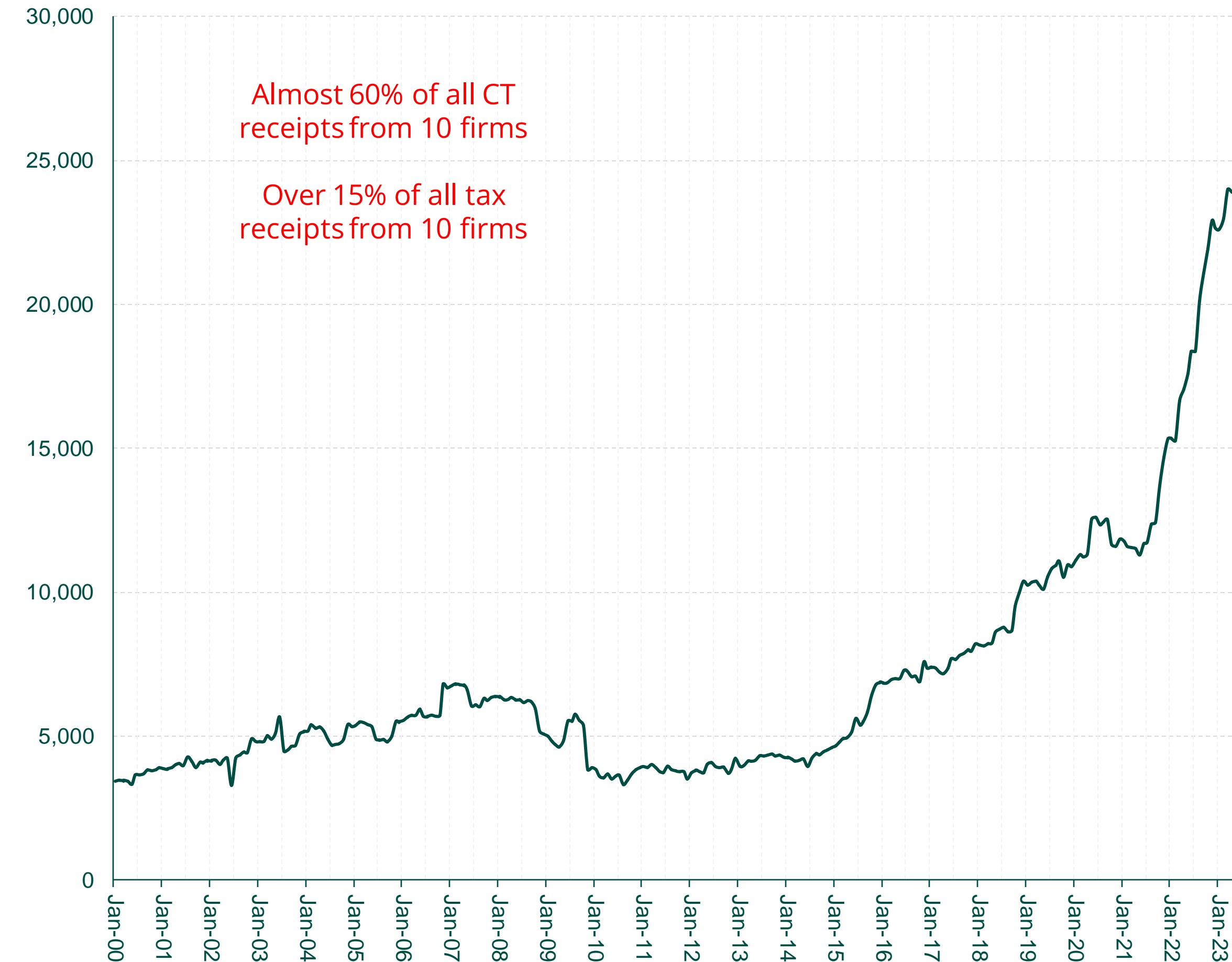


# The public finances – headline position masks underlying vulnerabilities

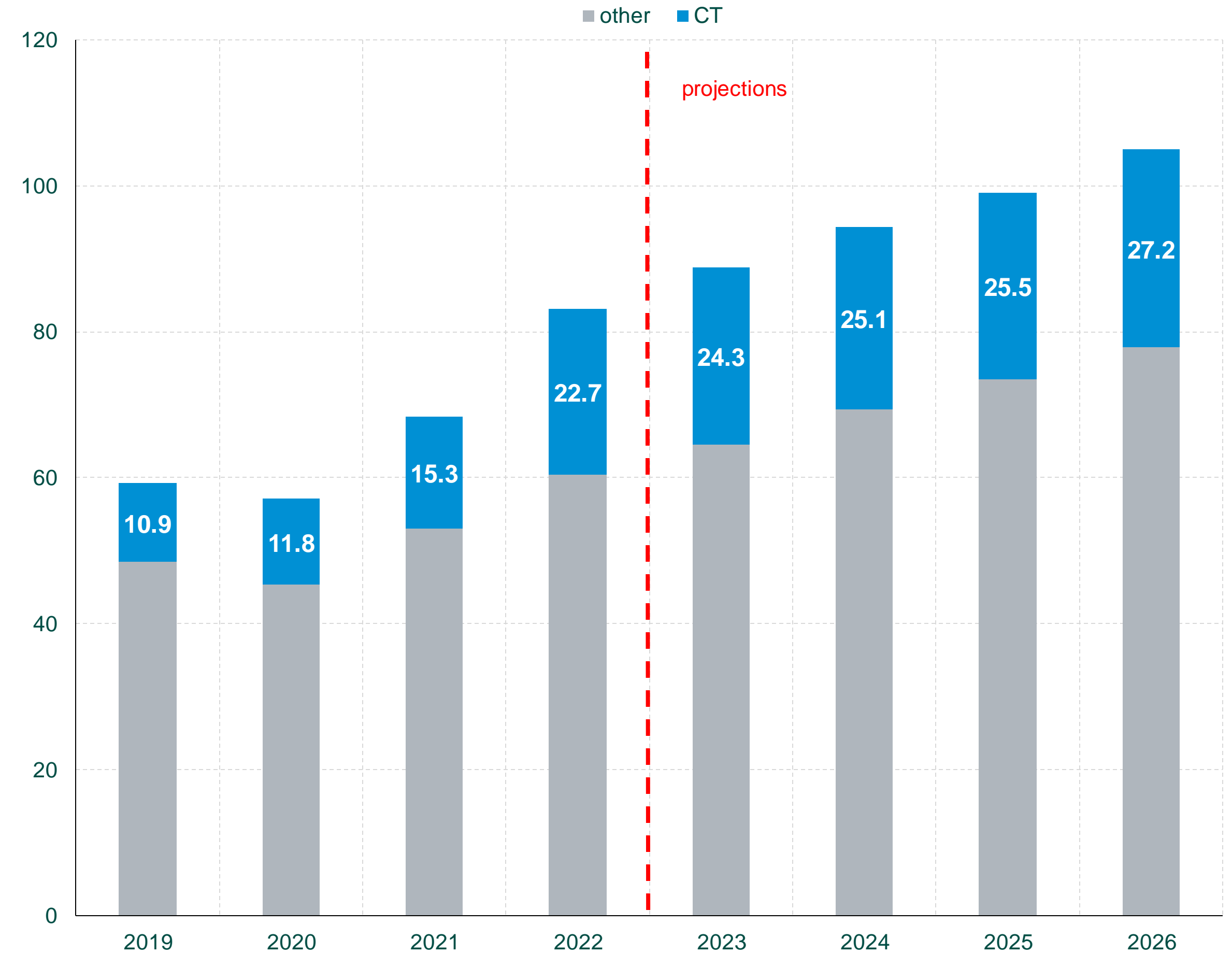
# REVENUE-SIDE: Corporate tax receipts defy gravity – but for how long ?



c. Five-fold increase in a decade, € billions



Projections contingent upon no shocks, € billions



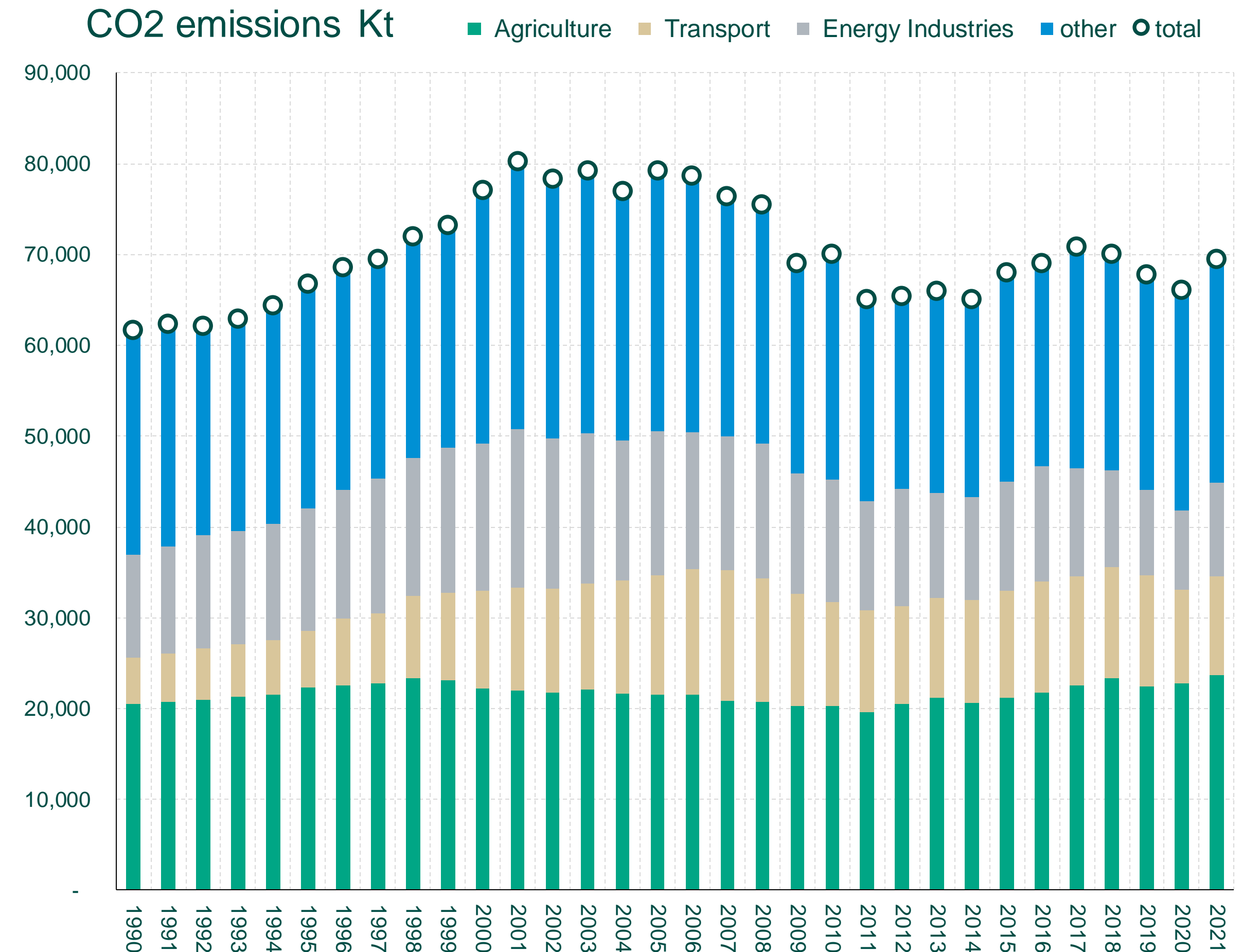
# EXPENDITURE-SIDE: demographic and other pressures set to intensify



## Age-related expenditure – impacting on annual budget



## De-coupling economy / emissions : costly

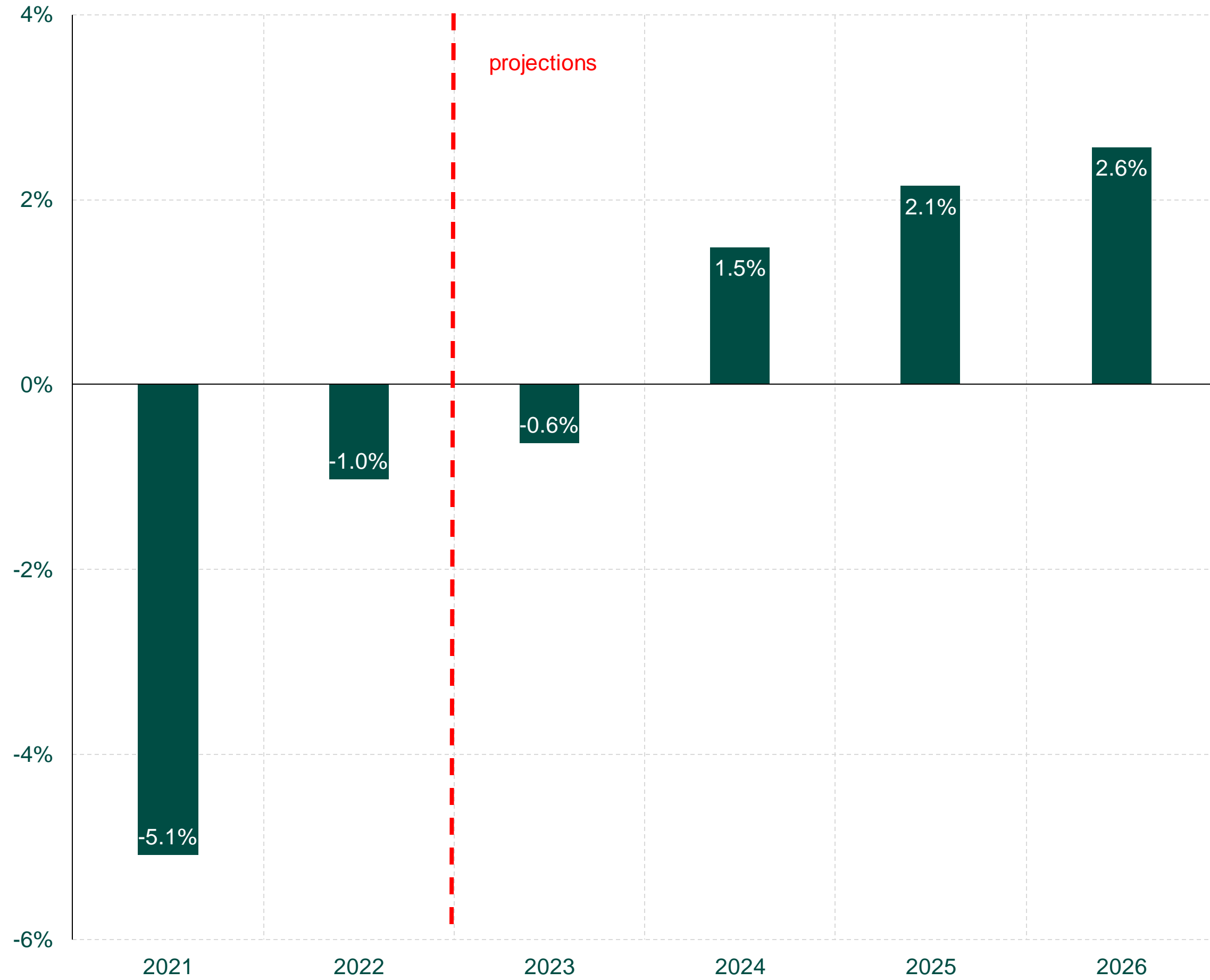




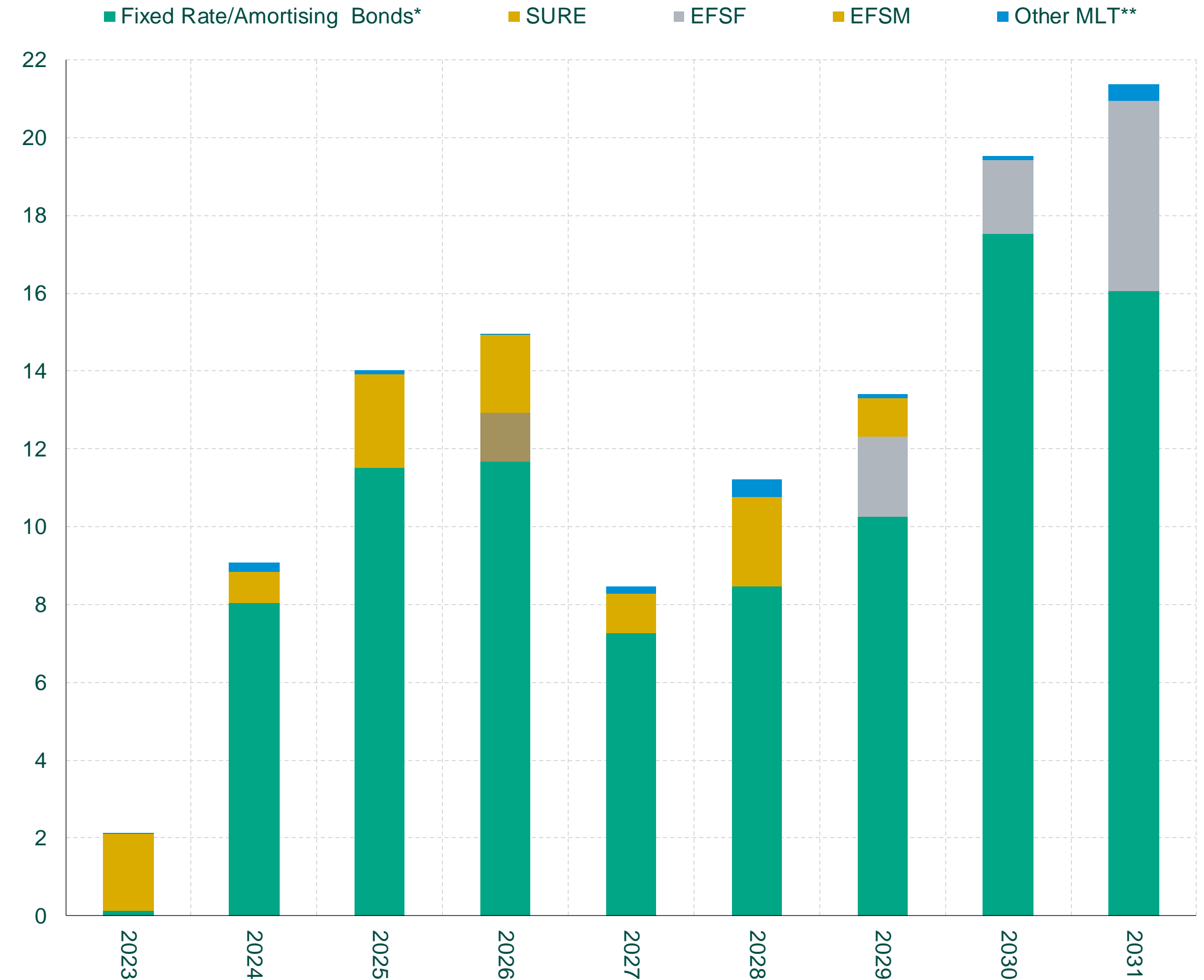
# BOTTOM LINE: projections of surplus are not guaranteed



GGB\* in deficit this year, % of GNI\*



Financing needs – ‘QE debt’ needs to be financed at higher rates





# Summary and risks

# Risk matrix: risks are firmly tilted to the downside



	upside	downside
near-term	Stronger MNC performance	Stickier inflation – sharper monetary policy response
	Unwinding of ‘excess’ savings (c. €10-15 bn)	Financial sector – credit disruption/feedback loops
	Net inward migration – boost demand and supply	Escalation of war / geo-economic tensions
		Larger fall-out from ICT ‘normalisation’
		Energy / commodity price shocks
medium-term	Digitalisation / Artificial Intelligence	Digitalisation / Artificial Intelligence
		Polarisation of global economy / near-shoring
		Climate-driven economic disruption

# SPU 2023 forecasts, annual per cent change unless stated



	2022	2023	2024	2025	2026
GDP	12.0	5.6	4.1	4.9	4.4
Modified Domestic Demand	8.2	2.1	2.5	3.2	3.4
GNI*	9.3	1.6	2.1	2.5	2.3
Consumer spending	6.6	3.9	3.8	3.4	3.4
Exports	15.0	7.8	4.9	5.4	4.7
Employment	6.6	1.6	1.4	1.5	1.6
Unemployment (rate)	4.5	4.4	4.5	4.5	4.5
Inflation (HICP)	8.1	4.9	2.5	2.0	2.0
General government balance, € bn	8.0	10.0	16.2	18.1	20.8
General government balance, per cent GNI*	3.0	3.5	5.4	5.8	6.3
GGB exc. windfall corporate tax, € bn	-2.8	-1.8	4.4	6.7	8.4
General government debt, € bn	224.8	223.5	224.4	220.2	215.0



### Disclaimer and other information:

The forecasts in this presentation are those of the Department of Finance set out in its spring forecasts (SPU, April 2023).

Views are those of the presenter and not necessarily those of the Minister or Department of Finance.

Outturn data are sourced from a variety of sources including the Department of Finance, Central Statistics Office, European Commission (AMECO), macrobond, Central Bank of Ireland, World Bank and Our World in Data.

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