

# SUMMARY

The Irish economy has reached the inevitable slowdown in its remarkable, near decade long growth performance. We are forecasting rates of output growth for this year and next that are well below the economy's potential in the medium term. Our forecast for output growth in 2003 is 2.6 per cent in real GDP and 2.4 per cent in real GNP terms. The prospects for 2004 are projected to be 3.1 and 2.9 per cent in real GDP and real GNP terms respectively. The slowdown is most marked in the diminished prospects for employment growth at rates at or below 1 per cent, with the rate of unemployment forecast to rise well above 5 per cent in 2003 and to average 5.7 per cent in 2004.

Economic stagnation persists globally despite the partial easing in geopolitical uncertainty in the aftermath of the war in Iraq. The primary focus in the major economic blocks is on returning global economic growth towards potential levels through a combination of expansionary fiscal policy initiatives and further monetary easing. The necessary rebalancing in global economic fortunes has resulted in a rapid depreciation in the value of the US dollar towards more fundamentally justified levels. The speed and extent of the euro appreciation, along with the tendency for exchange rates to overshoot their fundamental levels, heightens the competitiveness challenge for Ireland in the short term given its considerable exposure to non-euro area based trade.

The strong appreciation of the euro throughout the first half of 2003, coupled with the slower growth in output, is bringing about a strong dis-inflationary trend in Irish consumer prices. While excess demand pressures are abating considerably, inflation in consumer prices nonetheless remains high relative to Ireland's main trading partners. The headline inflation rate is expected to average 3.8 per cent in 2003 before moderating further to an average of 2.7 per cent in 2004. In terms of the Harmonised Index of Consumer Prices (HICP), Irish inflation is expected to remain the highest within the euro area, placing considerable pressure on relative cost competitiveness.

The announcement by the UK government that it would postpone the decision on euro entry keeps open the potential for significant depreciation of sterling against the euro in the medium term. This exposure for indigenous trading firms, in particular those with high levels of trade with the UK, places greater pressure on ensuring that productivity trends and domestic cost bases are sufficiently flexible to help preserve the international market share captured during the extended period of a weaker currency. The rapid price growth in the non-internationally traded sectors of the economy has been a significant contributor to the increasing domestic cost base in recent years. The onus for restoring competitiveness in response to currency movements falls upon this sheltered sector as much as the exposed trading sectors. Progress in regulatory reform in these sheltered sectors must be given renewed emphasis in order to meet the competitive challenges a stronger currency has brought. The benefit from a stronger currency allows euro area interest rates to remain low in the short term cushioning some of the financial stress for industry and households. Even this is a short-term boon as the realistic expectation is for interest rates to rise over the medium term, making immediate action on restoring domestic cost competitiveness more compelling.

## PRELIMINARY NATIONAL ACCOUNTS 2002

### A: Expenditure on Gross National Product

	2001	2002	Change in 2002				
	€m	Preliminary €m	€m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	55,144	59,724	4,581	1,434	8.3	5.6	2.6
Public Net Current Expenditure	15,288	17,264	1,976	1,269	12.9	4.3	8.3
Gross Fixed Capital Formation	26,670	28,521	1,851	112	6.9	6.5	0.4
Exports of Goods and Services (X)	112,368	119,128	6,760	4,317	6.0	2.1	3.8
Physical Changes in Stocks	279	41	-238	-176			
<b>Final Demand</b>	<b>209,749</b>	<b>224,678</b>	<b>14,929</b>	<b>6,956</b>	<b>7.1</b>	<b>3.7</b>	<b>3.3</b>
less:							
Imports of Goods and Services (M)	95,491	95,237	-254	-923	-0.3	0.7	-1.0
<b>GDP at Market Prices</b>	<b>114,258</b>	<b>129,441</b>	<b>15,183</b>	<b>7,879</b>	<b>13.3</b>	<b>6.0</b>	<b>6.9</b>
less:							
Statistical Discrepancy	-221	-251	-30	707			
<b>Adjusted GDP</b>	<b>114,479</b>	<b>129,692</b>	<b>15,213</b>	<b>7,172</b>	<b>13.3</b>	<b>6.6</b>	<b>6.3</b>
less:							
Net Factor Payments (F)	17,677	24,957	7,280	6,633	41.2	2.7	37.6
<b>GNP at Market Prices</b>	<b>96,802</b>	<b>104,735</b>	<b>7,933</b>	<b>539</b>	<b>8.2</b>	<b>7.6</b>	<b>0.6</b>

### B: Gross National Product by Origin

	2001	2002	Change in 2002	
	€m	Preliminary €m	€m	%
Agriculture, Forestry, Fishing	3,310	3,140	-170	-5.1
Non-Agricultural: Wages, etc.	46,857	50,986	4,129	8.8
Other:	44,830	52,614	7,784	17.4
Adjustments: Stock Appreciation	190	950		
Financial Services	-4,038	-3,966	72	
Statistical Discrepancy	-221	-251	-30	
<b>Net Domestic Product</b>	<b>90,928</b>	<b>103,473</b>	<b>12,545</b>	<b>13.8</b>
less:				
Net Factor Payments	17,677	24,957	7,280	41.2
<b>National Income</b>	<b>73,251</b>	<b>78,516</b>	<b>5,265</b>	<b>7.2</b>
Depreciation	11,466	12,628	1,162	10.1
<b>GNP at Factor Cost</b>	<b>84,717</b>	<b>91,144</b>	<b>6,427</b>	<b>7.6</b>
Taxes less Subsidies	12,085	13,591	1,506	12.5
<b>GNP at Market Prices</b>	<b>96,802</b>	<b>104,735</b>	<b>7,933</b>	<b>8.2</b>

### C: Balance of Payments on Current Account

	2001	2002	Change in 2002
	€m	Preliminary €m	€m
Exports (X) less Imports (M)	16,877	23,891	7,014
Net Factor Payments (F)	-17,677	-24,957	-7,280
Net Transfers	455	882	428
<b>Balance on Current Account</b>	<b>-345</b>	<b>-184</b>	<b>162</b>
GNPA as % of GNP	-0.4	-0.2	0.2

# FORECAST NATIONAL ACCOUNTS 2003

## A: Expenditure on Gross National Product

	2002		2003		Change in 2003		
	Preliminary €m	Forecast €m	€m		Value	%	
			Value	Volume		Value	Price
Private Consumer Expenditure	59,724	63,298	3,574	1,433	6.0	3.5	2.4
Public Net Current Expenditure	17,264	18,920	1,656	173	9.6	8.5	1.0
Gross Fixed Capital Formation	28,521	29,301	781	-146	2.7	3.3	-0.5
Exports of Goods and Services (X)	119,128	115,927	-3,201	74	-2.7	-2.7	0.1
Physical Changes in Stocks	41	254	213	170			
<b>Final Demand</b>	<b>224,678</b>	<b>227,700</b>	<b>3,022</b>	<b>1,704</b>	<b>1.3</b>	<b>0.6</b>	<b>0.8</b>
less:							
Imports of Goods and Services (M)	95,237	91,673	-3,564	-1,324	-3.7	-2.4	-1.4
<b>GDP at Market Prices</b>	<b>129,441</b>	<b>136,027</b>	<b>6,586</b>	<b>3,029</b>	<b>5.1</b>	<b>2.7</b>	<b>2.3</b>
less:							
Statistical Discrepancy	-251	62	313	-316			
<b>Adjusted GDP</b>	<b>129,692</b>	<b>135,965</b>	<b>6,273</b>	<b>3,345</b>	<b>4.8</b>	<b>2.2</b>	<b>2.6</b>
less:							
Net Factor Payments (F)	24,957	25,086	129	837	0.5	-2.7	3.4
<b>GNP at Market Prices</b>	<b>104,735</b>	<b>110,880</b>	<b>6,145</b>	<b>2,508</b>	<b>5.9</b>	<b>3.4</b>	<b>2.4</b>

## B: Gross National Product by Origin

	2002		2003		Change in 2003	
	Preliminary €m	Forecast €m	€m		%	
			€m	%		
Agriculture, Forestry, Fishing	3,140	3,260	120	3.8		
Non-Agricultural: Wages, etc.	50,986	53,823	2,837	5.6		
Other:	52,614	54,462	1,848	3.5		
Adjustments: Stock Appreciation	950	19				
Financial Services	-3,966	-4,167	-201			
Statistical Discrepancy	-251	62	313			
<b>Net Domestic Product</b>	<b>103,473</b>	<b>107,458</b>	<b>3,986</b>	<b>3.9</b>		
less:						
Net Factor Payments	24,957	25,086	129	0.5		
<b>National Income</b>	<b>78,516</b>	<b>82,373</b>	<b>3,857</b>	<b>4.9</b>		
Depreciation	12,628	13,571	943	7.5		
<b>GNP at Factor Cost</b>	<b>91,144</b>	<b>95,943</b>	<b>4,800</b>	<b>5.3</b>		
Taxes less Subsidies	13,591	14,936	1,345	9.9		
<b>GNP at Market Prices</b>	<b>104,735</b>	<b>110,880</b>	<b>6,145</b>	<b>5.9</b>		

## C: Balance of Payments on Current Account

	2002		2003		Change in 2003	
	€m	Forecast €m	€m			
			€m	%		
Exports (X) less Imports (M)	23,891	24,254	363			
Net Factor Payments (F)	-24,957	-25,086	-129			
Net Transfers	882	285	-598			
<b>Balance on Current Account</b>	<b>-184</b>	<b>-547</b>	<b>-364</b>			
as % of GNP	-0.2	-0.5	-0.3			

## FORECAST NATIONAL ACCOUNTS 2004

### A: Expenditure on Gross National Product

	2003	2004	Change in 2004				
	Forecast €m	Forecast €m	€m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	63,298	66,824	3,526	2,215	5.6	2.0	3.5
Public Net Current Expenditure	18,920	20,350	1,430	265	7.6	6.1	1.4
Gross Fixed Capital Formation	29,301	30,353	1,051	342	3.6	2.4	1.2
Exports of Goods and Services (X)	115,927	119,322	3,395	3,079	2.9	0.3	2.7
Physical Changes in Stocks	254	190	-64	-75			
<b>Final Demand</b>	<b>227,700</b>	<b>237,038</b>	<b>9,338</b>	<b>5,826</b>	<b>4.1</b>	<b>1.5</b>	<b>2.6</b>
less:							
Imports of Goods and Services (M)	91,673	94,218	2,545	1,050	2.8	1.6	1.1
<b>GDP at Market Prices</b>	<b>136,027</b>	<b>142,820</b>	<b>6,793</b>	<b>4,776</b>	<b>5.0</b>	<b>1.4</b>	<b>3.5</b>
less							
Statistical Discrepancy	62	474	-412	553			
<b>Adjusted GDP</b>	<b>135,965</b>	<b>142,346</b>	<b>6,381</b>	<b>4,222</b>	<b>4.7</b>	<b>1.5</b>	<b>3.1</b>
less:							
Net Factor Payments (F)	25,086	26,114	1,028	959	4.1	0.3	3.8
<b>GNP at Market Prices</b>	<b>110,880</b>	<b>116,233</b>	<b>5,353</b>	<b>3,264</b>	<b>4.8</b>	<b>1.8</b>	<b>2.9</b>

### B: Gross National Product by Origin

	2003	2004	Change in 2004	
	Forecast €m	Forecast €m	€m	%
Agriculture, Forestry, Fishing	3,260	3,390	130	4.0
Non-Agricultural: Wages, etc.	53,823	56,164	2,341	4.3
Other:	54,462	57,044	4,582	4.7
Adjustments: Stock Appreciation	19	-450		
Financial Services	-4,167	-4,505	-338	
Statistical Discrepancy	62	474	412	
<b>Net Domestic Product</b>	<b>107,458</b>	<b>112,116</b>	<b>4,658</b>	<b>4.3</b>
Net Factor Payments	25,086	26,114	1,028	4.1
<b>National Income</b>	<b>82,373</b>	<b>86,003</b>	<b>3,630</b>	<b>4.4</b>
Depreciation	13,571	14,222	651	4.8
<b>GNP at Factor Cost</b>	<b>95,943</b>	<b>100,224</b>	<b>4,281</b>	<b>4.5</b>
Taxes less Subsidies	14,936	16,008	1,072	7.2
<b>GNP at Market Prices</b>	<b>110,880</b>	<b>116,233</b>	<b>5,353</b>	<b>4.8</b>

### C: Balance of Payments on Current Account

	2003	2004	Change in 2004
	Forecast €m	Forecast €m	€m
Exports (X) less Imports (M)	24,254	25,104	850
Net Factor Payments (F)	-25,086	-26,114	-1,028
Net Transfers	285	190	-95
<b>Balance on Current Account</b>	<b>-547</b>	<b>-820</b>	<b>-273</b>
as % of GNP	-0.5	-0.7	-0.2