

SUMMARY

The latest *Quarterly National Accounts* show that the preliminary estimates of GNP and GDP growth for 2005 were 5.4 per cent and 4.7 per cent respectively. These figures imply that economic growth in terms of GNP was at its highest rate since 2000. Hence, the economy is performing strongly and is expected to continue doing so in 2006 and 2007. For 2006, we are forecasting a real GNP expansion of 5.1 per cent (4.8 per cent in GDP). For 2007, the corresponding forecast is 5.3 per cent for GNP (5.1 per cent for GDP).

Growth in 2005 was driven by domestic factors. Investment grew by 13.1 per cent, its largest increase so far this decade. Consumption also grew strongly at a rate of 5.6 per cent. However, the export performance of the economy was disappointing with growth of only 1.8 per cent. This poor export performance contributed to a deterioration in the current account balance. In 2004, the current account deficit was equal to 0.9 per cent of GNP; in 2005, this widened to 2.3 per cent of GNP.

For 2006, we expect domestic factors to remain the main drivers of economic growth. Consumption is expected to grow by 5.9 per cent in 2006 and by 6.4 per cent in 2007. The increase in the rate of growth between the two years is largely related to the maturing of SSIA's, the bulk of which will mature in 2007 rather than 2006. Investment demand will remain strong with growth rates forecast of 7.8 per cent in 2006 and 6.9 per cent in 2007. We expect to see an increase in the growth of government spending in 2007 as suggested by previous trends in public spending around elections. This will contribute to the general government deficit rising from zero per cent in 2006 to almost 1 per cent in 2007. Although we include this effect in our forecast, we also warn against excessive increases.

We forecast an improvement in Ireland's export performance with growth rates of 3.5 per cent in 2006 and 4 per cent in 2007. These forecasts are based on a favourable external context, in particular a pick up in growth in the Euro Area. Following growth of just 1.4 per cent in 2005, growth in the Euro Area is expected to rise to 2.2 per cent in 2006 and to remain strong in 2007 at 2 per cent. One additional implication of the improving situation in the Euro Area is that interest rates are likely to rise. We expect the ECB main refinancing rate to reach 3 per cent by the end of 2006 and 3.5 per cent by the end of 2007. Regarding exchange rates, we are forecasting relatively stable rates but remain mindful of the large and growing current account deficit in the United States which has the potential to lead to a dollar devaluation.

On employment, we expect 2006 and 2007 to produce increases of 67,000 and 60,000 respectively. Accounting for new labour market entrants and a marginal increase in participation, these employment increases imply gross immigrant inflows of 53,000 in 2006 and 48,000 in 2007. On inflation, we are forecasting a CPI rate of 2.8 per cent in 2006 and a moderation in 2007 with a rate of 2.6 per cent expected.

In the General Assessment, we highlight two concerns. First, we reflect on the poor export performance of recent years and review the evidence linking Ireland's declining competitiveness to this poor performance. Second, we note the acceleration in house prices in recent months and voice a concern regarding ongoing developments in the housing market.

PRELIMINARY NATIONAL ACCOUNTS 2005

A: Expenditure on Gross National Product

	2004	2005	Change in 2005				
			€m	Preliminary €m	€m		%
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	68,540	73,875	5,335	3,840	7.8	2.1	5.6
Public Net Current Expenditure	20,807	22,778	1,971	651	9.5	6.2	3.1
Gross Fixed Capital Formation	36,290	43,246	6,956	4,741	19.2	5.4	13.1
Exports of Goods and Services (X)	123,519	127,218	3,699	2,275	3.0	1.1	1.8
Physical Changes in Stocks	793	125	-668	-632		0.0	-79.8
Final Demand	249,949	267,242	17,293	10,720	6.9	2.5	4.3
less:							
Imports of Goods and Services (M)	100,687	106,159	5,472	4,671	5.4	0.8	4.6
less:							
Statistical Discrepancy	705	761	56	-874			
GDP at Market Prices	148,556	160,322	11,766	6,923	7.9	3.1	4.7
less:							
Net Factor Payments (F)	-24,306	-24,699	-393	-236	1.6	0.6	1.0
GNP at Market Prices	124,250	135,623	11,373	6,709	9.2	3.6	5.4

B: Gross National Product by Origin

	2004	2005	Change in 2005	
			€m	%
Agriculture, Forestry, Fishing	2,912	2,898	-15	-0.5
Non-Agricultural: Wages, etc.	58,220	64,424	6,204	10.7
Other:	54,289	56,316	2,027	3.7
Adjustments: Stock Appreciation	-309	-410		0.0
Statistical				
Discrepancy	705	761	56	7.9
Net Domestic Product	115,818	123,988	8,170	7.1
less:				
Net Factor Payments	-24,306	-24,699	-393	1.6
National Income	91,512	99,289	7,777	8.5
Depreciation	15,749	16,758	1,008	6.4
GNP at Factor Cost	107,261	116,047	8,786	8.2
Taxes less Subsidies	16,989	19,576	2,587	15.2
GNP at Market Prices	124,250	135,623	11,373	9.2

C: Balance of Payments on Current Account

	2004	2005	Change in 2005
Exports (X) less Imports (M)	22,832	21,059	-1,773
Net Factor Payments (F)	-24,306	-24,699	-393
Net Transfers	307	570	263
Balance on Current Account	-1,167	-3,070	-1,903
as % of GNP	-0.9	-2.3	-1.3

FORECAST NATIONAL ACCOUNTS 2006

A: Expenditure on Gross National Product

	2005	2006	Change in 2006				
	Preliminary €m	Forecast €m	€m		Value	%	
			Value	Volume		Value	Price
Private Consumer Expenditure	73,875	80,189	6,314	4,359	8.5	2.5	5.9
Public Net Current Expenditure	22,778	25,056	2,278	729	10.0	6.6	3.2
Gross Fixed Capital Formation	43,246	49,003	5,757	3,377	13.3	5.1	7.8
Exports of Goods and Services (X)	127,218	133,382	6,164	4,453	4.8	1.3	3.5
Physical Changes in Stocks	125	138	13	13		0.0	10.0
Final Demand	267,242	287,769	20,527	12,825	7.7	2.7	4.8
less:							
Imports of Goods and Services (M)	106,159	112,697	6,538	5,202	6.2	1.2	4.9
less:							
Statistical Discrepancy	761	1,187	426	-3			
GDP at Market Prices	160,322	173,884	13,562	7,627	8.5	3.5	4.8
less:							
Net Factor Payments (F)	-24,699	-25,124	-425	-741	1.7	-1.2	3.0
GNP at Market Prices	135,623	148,761	13,138	6,910	9.7	4.4	5.1

B: Gross National Product by Origin

	2005	2006	Change in 2006	
	Preliminary €m	Forecast €m	€m	%
Agriculture, Forestry, Fishing	2,898	2,957	59	2.1
Non-Agricultural: Wages, etc.	64,424	70,297	5,873	9.1
Other:	56,316	59,992	3,676	6.5
Adjustments: Stock Appreciation	-410	-200	210	-51.2
Statistical Discrepancy	761	1,187	426	56.0
Net Domestic Product	123,988	134,232	10,244	8.3
less:				
Net Factor Payments	-24,699	-25,124	-425	1.7
National Income	99,289	109,109	9,819	9.9
Depreciation	16,758	18,105	1,347	8.0
GNP at Factor Cost	116,047	127,213	11,167	9.6
Taxes less Subsidies	19,576	21,547	1,971	10.1
GNP at Market Prices	135,623	148,761	13,138	9.7

C: Balance of Payments on Current Account

	2005	2006	Change in 2006
	€m	Forecast €m	€m
Exports (X) less Imports (M)	21,059	20,685	-374
Net Factor Payments (F)	-24,699	-25,124	-425
Net Transfers	570	350	-220
Balance on Current Account	-3,070	-4,089	-1,019
as % of GNP	-2.3	-2.7	-0.5

FORECAST NATIONAL ACCOUNTS 2007

A: Expenditure on Gross National Product

	2006	2007	Change in 2007				
	Preliminary €m	Forecast €m	€m		%		
			Value	Volume	Value	Price	Volume
Private Consumer Expenditure	80,189	87,284	7,095	5,132	8.8	2.3	6.4
Public Net Current Expenditure	25,056	27,687	2,631	927	10.5	6.6	3.7
Gross Fixed Capital Formation	49,003	54,771	5,768	3,402	11.8	4.5	6.9
Exports of Goods and Services (X)	133,382	140,521	7,139	5,335	5.4	1.3	4.0
Physical Changes in Stocks	138	151	14	14		0.0	10.0
Final Demand	287,769	310,414	22,645	14,712	7.9	2.6	5.1
less:							
Imports of Goods and Services (M)	112,697	119,866	7,169	5,748	6.4	1.2	5.1
less:							
Statistical Discrepancy	1,187	1,354	167	61			
GDP at Market Prices	173,884	189,193	15,309	8,903	8.8	3.5	5.1
less:							
Net Factor Payments (F)	-25,124	-25,591	-467	-1,005	1.9	-2.1	4.0
GNP at Market Prices	148,761	163,603	14,842	7,931	10.0	4.4	5.3

B: Gross National Product by Origin

	2006	2007	Change in 2007	
	Preliminary €m	Forecast €m	€m	%
Agriculture, Forestry, Fishing	2,957	3,046	89	3.0
Non-Agricultural: Wages, etc.	70,297	76,185	5,888	8.4
Other:	59,992	65,000	5,008	8.3
Adjustments: Stock Appreciation	-200	-200	0	0.0
Statistical Discrepancy	1,187	1,354	167	14.1
Net Domestic Product	134,232	145,385	11,152	8.3
less:				
Net Factor Payments	-25,124	-25,591	-467	1.9
National Income	109,109	119,794	10,686	9.8
Depreciation	18,105	19,891	1,786	9.9
GNP at Factor Cost	127,213	139,685	12,472	9.8
Taxes less Subsidies	21,547	23,917	2,370	11.0
GNP at Market Prices	148,761	163,603	14,842	10.0

C: Balance of Payments on Current Account

	2006	2007	Change in 2007
	€m	Forecast €m	€m
Exports (X) less Imports (M)	20,685	20,655	-30
Net Factor Payments (F)	-25,124	-25,591	-467
Net Transfers	350	350	0
Balance on Current Account	-4,089	-4,586	-497
as % of GNP	-3	-3	-0.1

