

BUDGET 2016

Economic Outlook and Fiscal Developments in Ireland



An Roinn Airgeadais
Department of Finance

BUDGET 2016

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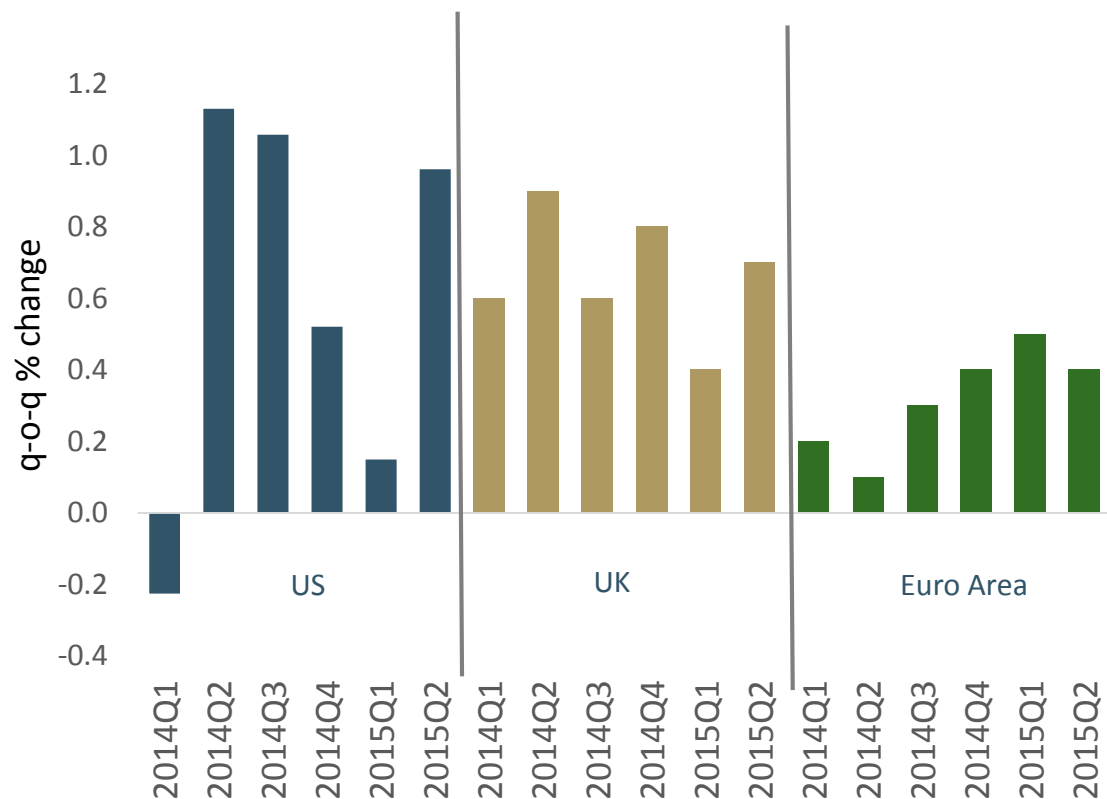


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Main trading partners performing well...

Key Points

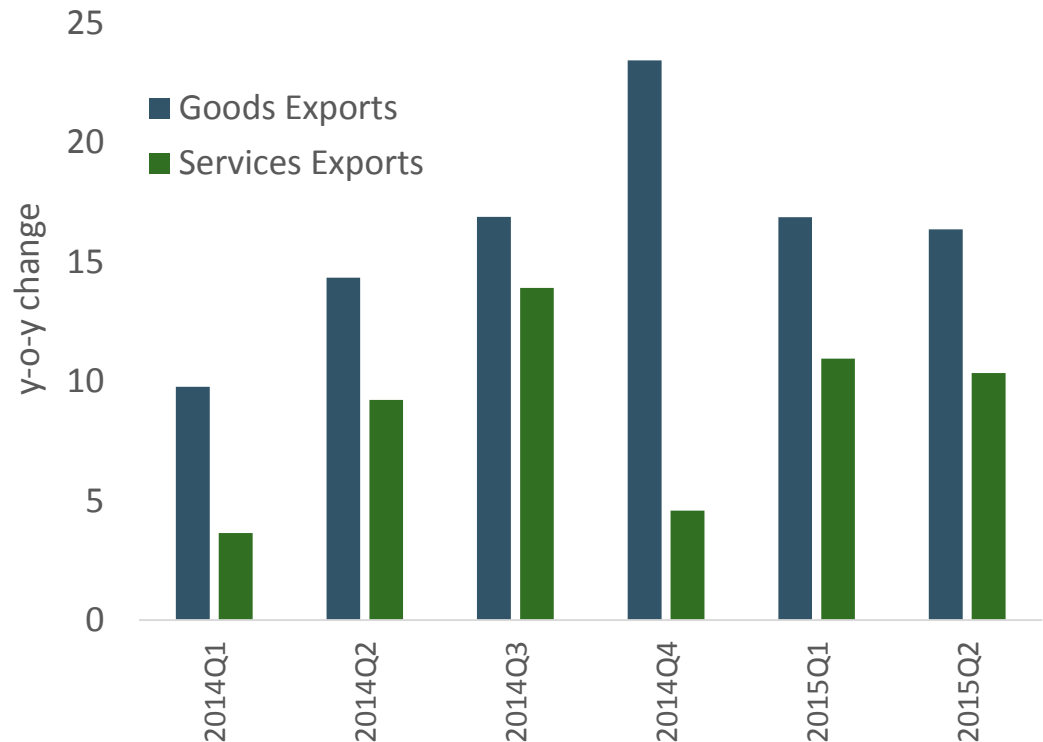
- US and UK performing reasonably well.
- Modest growth in the euro area.
- Slowdown in emerging markets.



Export growth has been very strong...

Key points

- Strong growth in export growth in Q2 – exports up 13.6% in year-on-year terms.
- Growth is broadly based with double-digit growth rates recorded for both goods and services.
- Trade surplus at near historic highs.

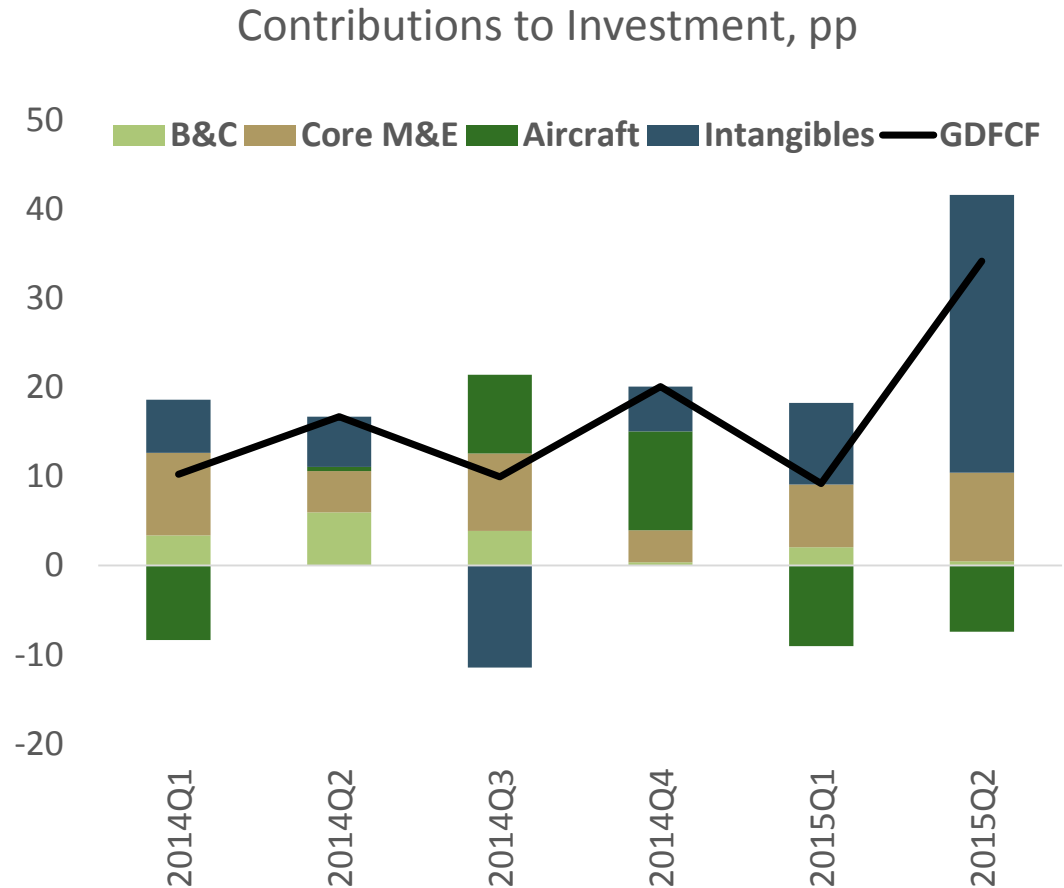


Source: CSO

Investment cycle has led domestic recovery...

Key points

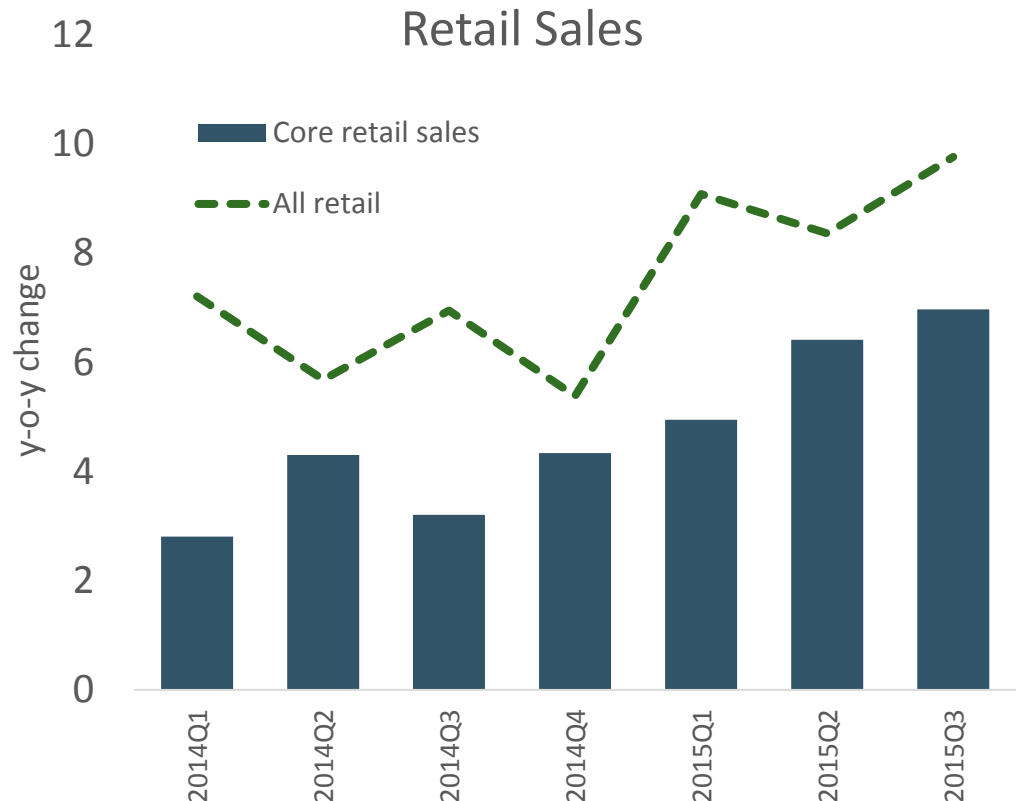
- Main subcomponents of investment (e.g., building and construction, and 'core' machinery and equipment) performing strongly.



Consumer spending now playing a more prominent role...

Key points

- Retail sales very strong in 2015, up 9% to end-August y-o-y.
- Supported by strong car sales – new cars licensed for the first time up almost 32% to end-September (y-o-y).

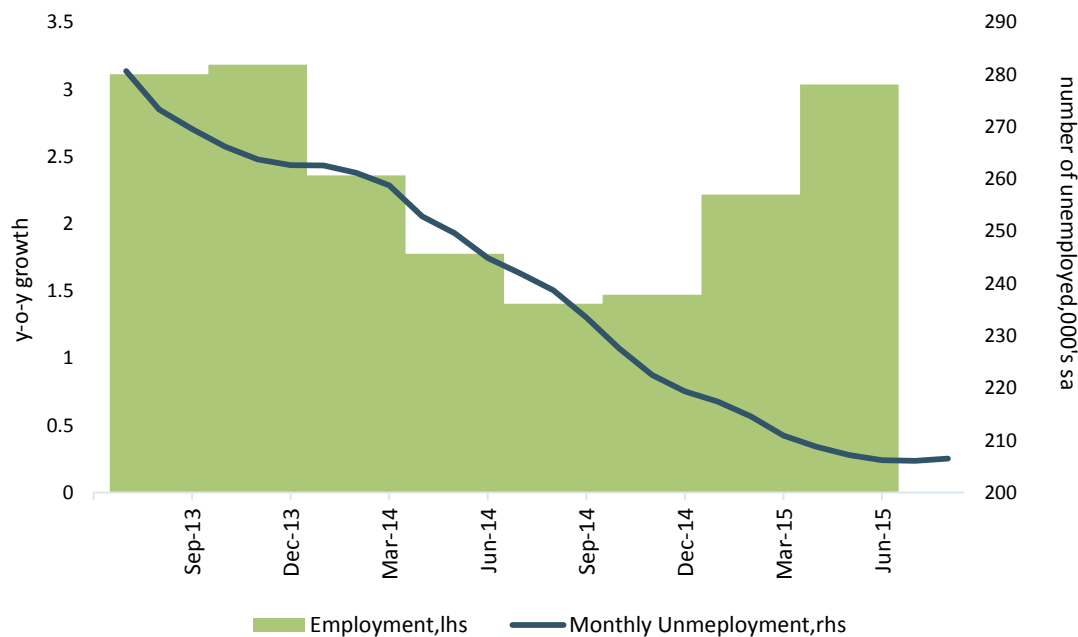


Source: CSO

Labour market showing continued momentum...

Key Points

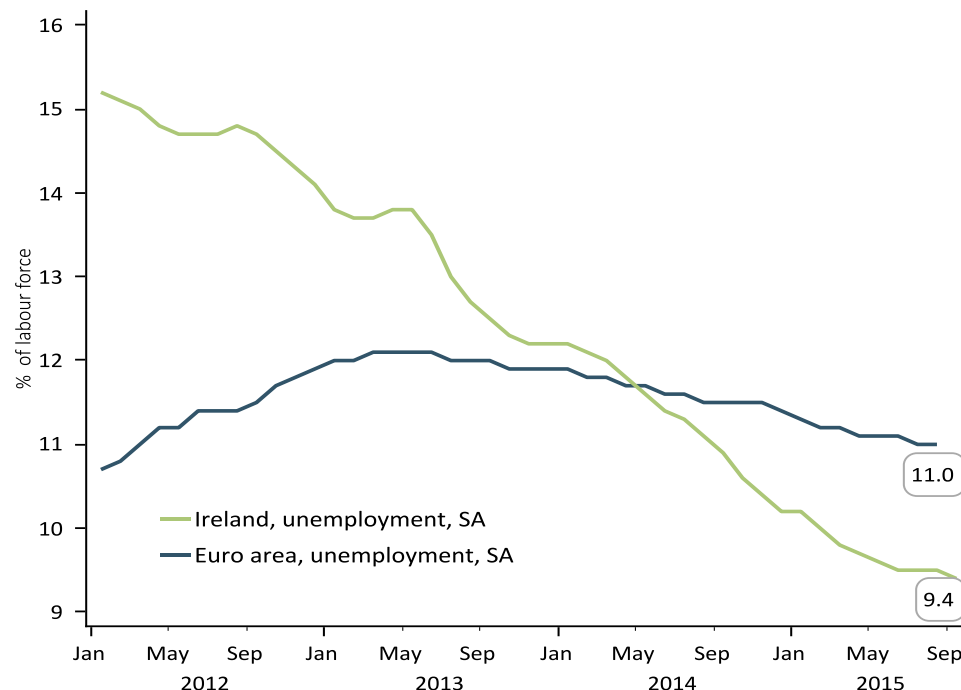
- Employment levels have increased by over 7 per cent since the low-point in mid-2012, (+130,000 jobs).
- Growth remains broad-based with 13 out of 14 sectors posting employment gains relative to trough levels.
- The number of unemployed people continues to decline, falling to 205,000 in September.



Unemployment now below euro area average...

Key Points

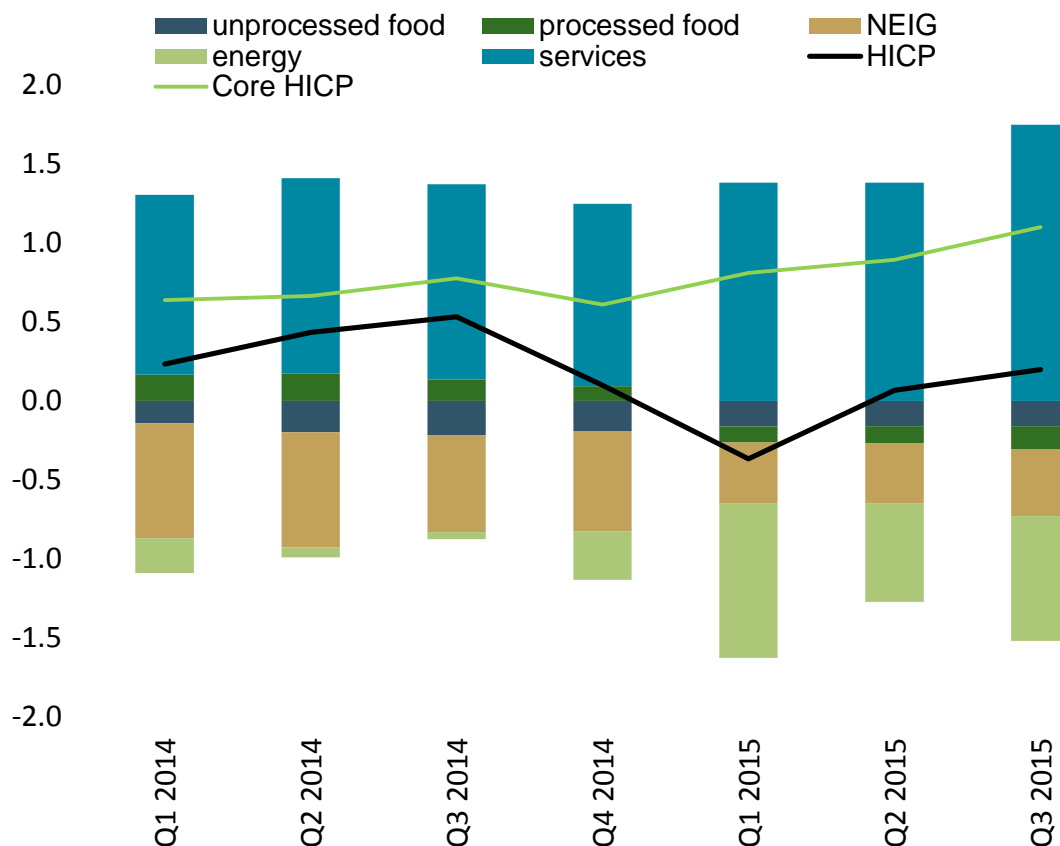
- The unemployment rate has fallen by almost 6 pp since early 2012, and is now well below the euro-area average of 11 per cent.
- Unemployment rate of 9.4% recorded in September 2015.



Falling oil prices continue to weigh on inflation...

Key Points

- As measured by the HICP, the price level has remained unchanged compared to September 2014.
- Core HICP inflation (which excludes unprocessed food and energy prices) was up 1.1 per cent on average this year
- Energy effect has weighed down on inflation in the year to date.



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Budget 2016 macroeconomic forecasts

Year-on-Year % change	2014 outturn	2015	2016
GDP	5.2	6.2	4.3
GNP	6.9	5.5	3.9
Nominal GDP	5.3	11.2	6.2
Personal Consumption	2.0	3.5	3.5
Government Consumption	4.6	1.9	1.1
Investment	14.3	13.0	12.5
Stocks (pp cont)	0.5	0.0	-0.1
Exports	12.1	11.9	6.9
Imports	14.7	12.1	8.2
HICP	0.3	0.1	1.2
GDP Deflator	0.1	4.6	1.8
Current a/c (% of GDP)	3.6	6.9	6.2
Employment (% y-o-y growth)	1.8	2.8	2.4
Unemployment rate (annual average)	11.3	9.5	8.3
Labour productivity (GDP per person employed)	3.4	3.4	1.8

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Excessive deficit to be corrected this year

Key Points

- On target to correct the excessive deficit this year.
- Deficit is forecast as 2.1% of GDP against a ceiling of 2.9% of GDP.
- Primary surplus of almost €2.5 billion forecast for 2015.

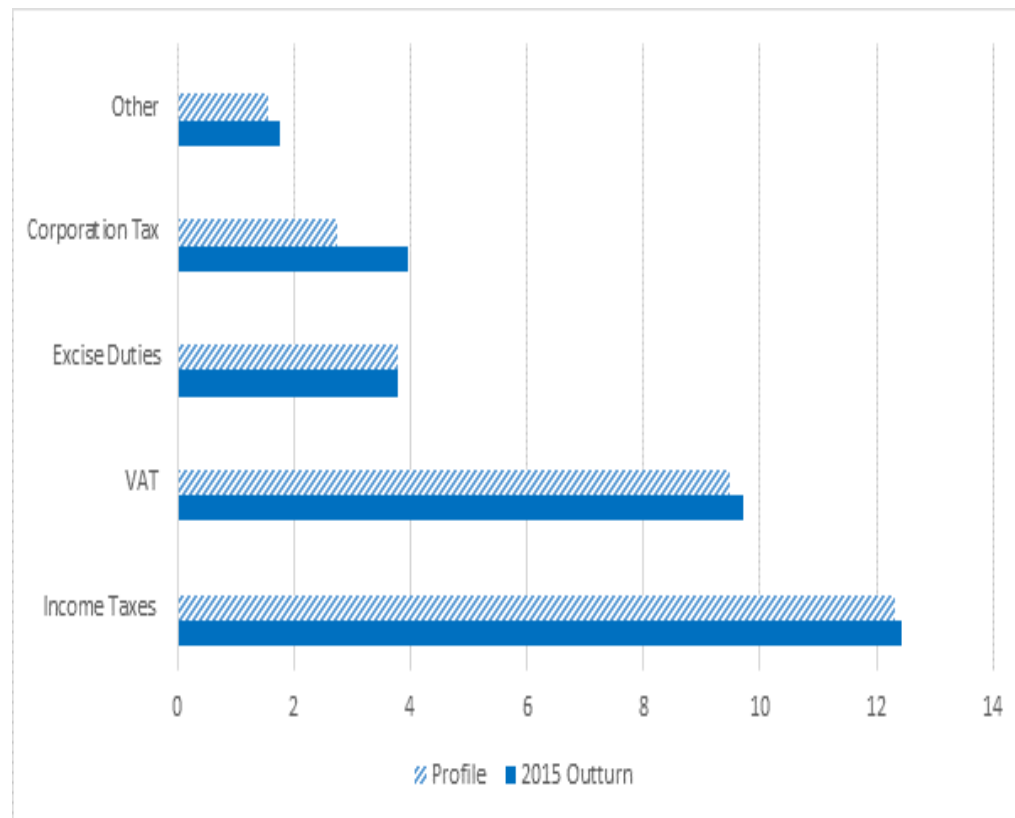


Fiscal performance strong in 2015

Key Points

- Tax receipts of €31,620 million to Q3, up 9.5% year-on-year and €1,740 million (5.8%) above expectations
- Strong year-on-year growth across all main tax heads
- Corporation tax driving over performance against profile
- Tax receipts for 2015 now expected to exceed €44,500 million.

Tax revenue to end-September 2015



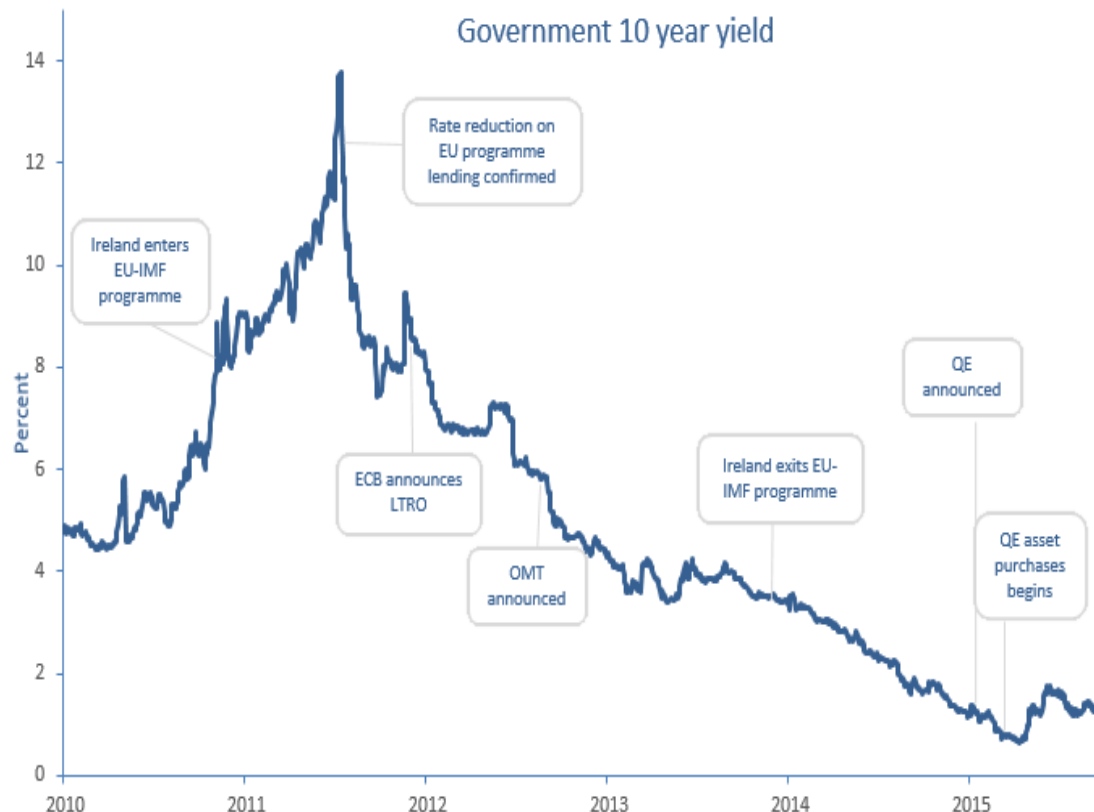
New Fiscal Rules

- With the correction of the excessive deficit in 2015, Budget 2016 will be the first budget framed under the preventive arm of the Stability and Growth Pact.
- Future growth in general government expenditure linked to the potential growth rate of the economy.
- Improvement in the structural balance of greater than 0.5% of GDP required annually until the medium term budgetary objective is achieved.
- Reduce debt ratio to 60% of GDP - growth will do the heavy lifting.

Yields on Irish debt continue to fall...

Key Points

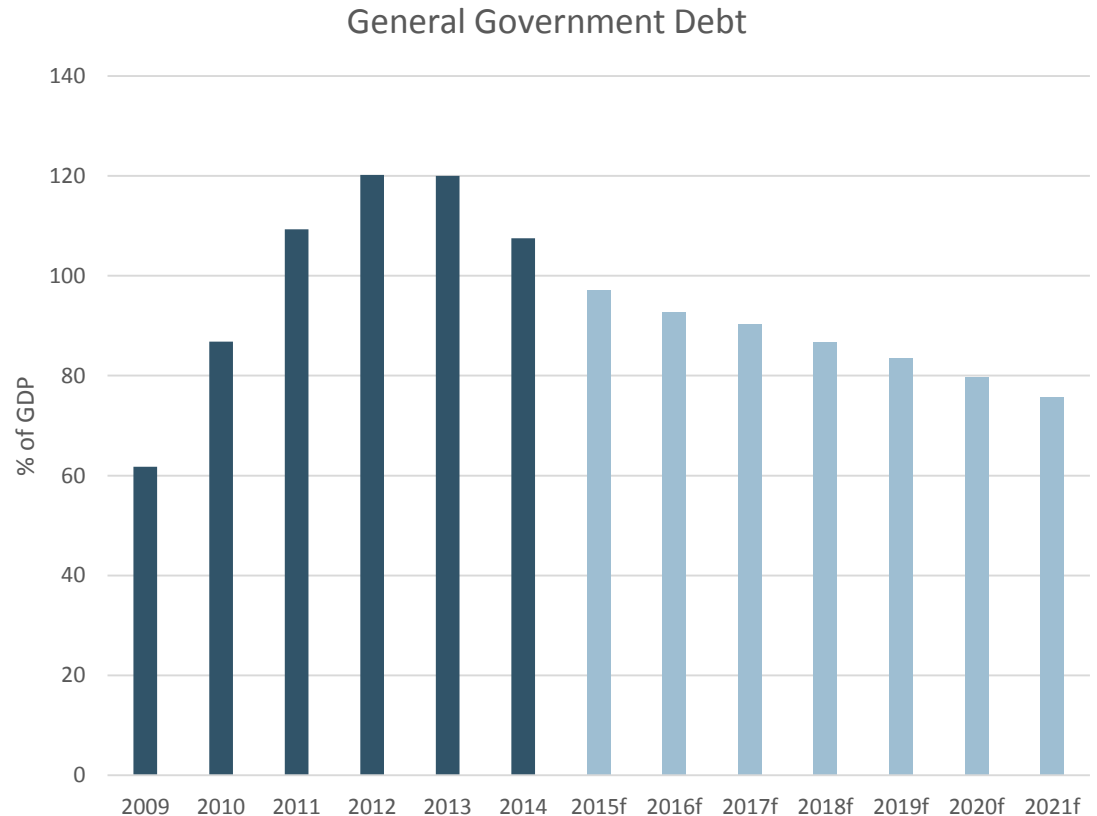
- Irish yields have stayed steady through 2015, trading below 1.8%.
- 10-year yield is down from a peak of 14% in July 2011.
- Modest spread against the German Bund.



Debt ratio on downward trajectory

Key points

- Debt ratio peaked in 2012.
- Stock flow adjustments helped the significant decline in the debt ratio in 2014.
- Decline in debt ratio expected to continue over the forecast horizon.
- Net debt at end 2014 was 87.8% of GDP.



Budget 2016 fiscal forecasts

	2014	2015	2016	2017	2018	2019	2020	2021
General government balance (% of GDP)	-3.9	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
<i>General government primary balance (% of GDP)</i>	0.1	1.1	1.7	2.3	3.0	3.6	4.3	4.8
Structural Budget Balance (% of GDP)	-3.4	-3.2	-2.5	-1.4	-0.3	0.6	1.5	2.5
Debt-to-GDP ratio	107.5	97.0	92.8	90.3	86.7	83.5	79.8	75.7

Appendix – Budget 2016 macroeconomic forecasts

Year-on-Year % change	2014 outturn	2015	2016	2017	2018	2019	2020	2021
GDP	5.2	6.2	4.3	3.5	3.2	3.1	3.0	2.9
GNP	6.9	5.5	3.9	3.2	2.7	2.7	2.7	2.6
Nominal GDP	5.3	11.2	6.2	4.7	4.5	4.3	4.2	4.1
Personal Consumption	2.0	3.5	3.5	2.0	1.8	1.7	1.6	1.5
Government Consumption	4.6	1.9	1.1	1.0	0.9	0.9	0.9	0.9
Investment	14.3	13.0	12.5	8.9	4.8	4.5	4.7	4.7
Stocks (pp cont)	0.5	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Exports	12.1	11.9	6.9	4.9	4.7	4.4	4.3	4.2
Imports	14.7	12.1	8.2	5.4	4.5	4.1	4.1	4.1
HICP	0.3	0.1	1.2	1.5	1.7	1.9	1.9	1.9
GDP Deflator	0.1	4.6	1.8	1.2	1.2	1.2	1.2	1.2
Current a/c (% of GDP)	3.6	6.9	6.2	5.4	5.1	4.9	4.6	4.2
Employment (% y-o-y growth)	1.8	2.8	2.4	2.0	1.9	1.8	1.7	1.6
Unemployment rate (annual average)	11.3	9.5	8.3	7.7	7.2	6.8	6.4	6.2
Labour productivity (GDP per person employed)	3.4	3.4	1.8	1.5	1.3	1.3	1.3	1.3

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