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Budget 2020

#Budget2020

Budget 2020…

- Budget 2020 is framed on the assumption of a disorderly Brexit.
- The impact of Brexit means the Government will target a budget deficit in 2020.
- The economic forecasts underpinning this Budget have been endorsed by the Irish Fiscal Advisory Council (IFAC).

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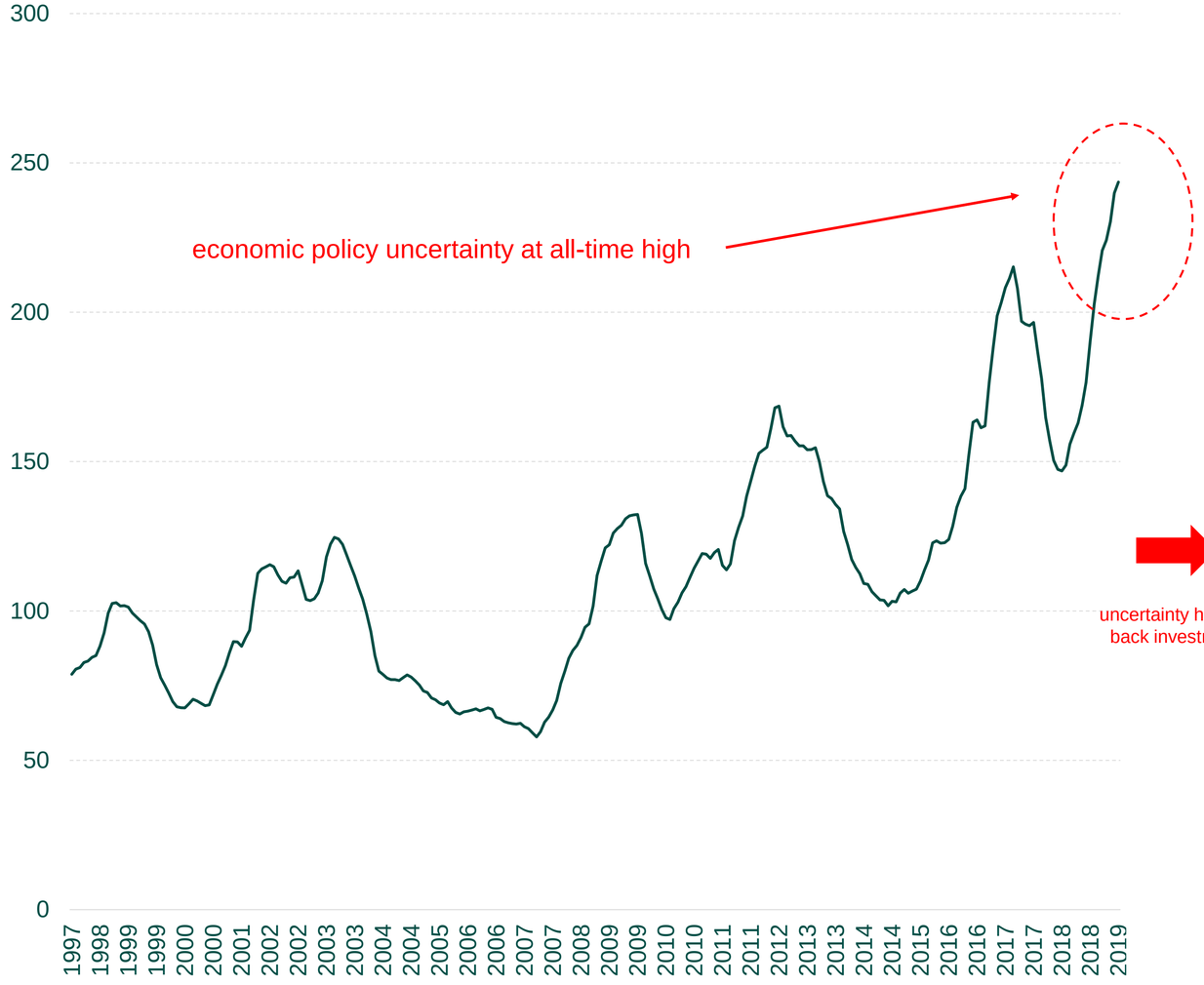
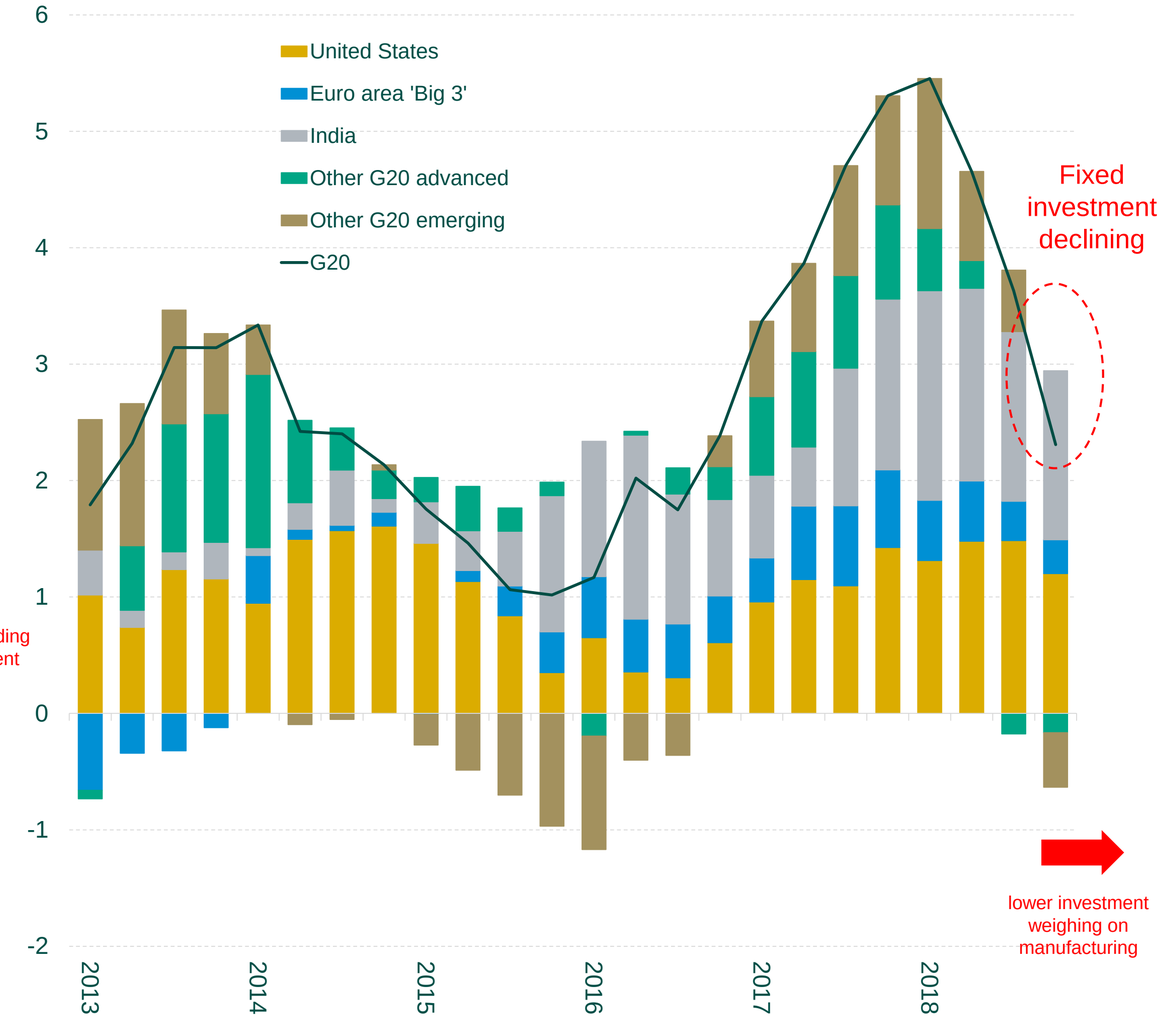
External environment: mounting evidence of turning point

Global economic policy uncertainty (12mma), 1999=100



uncertainty holding back investment

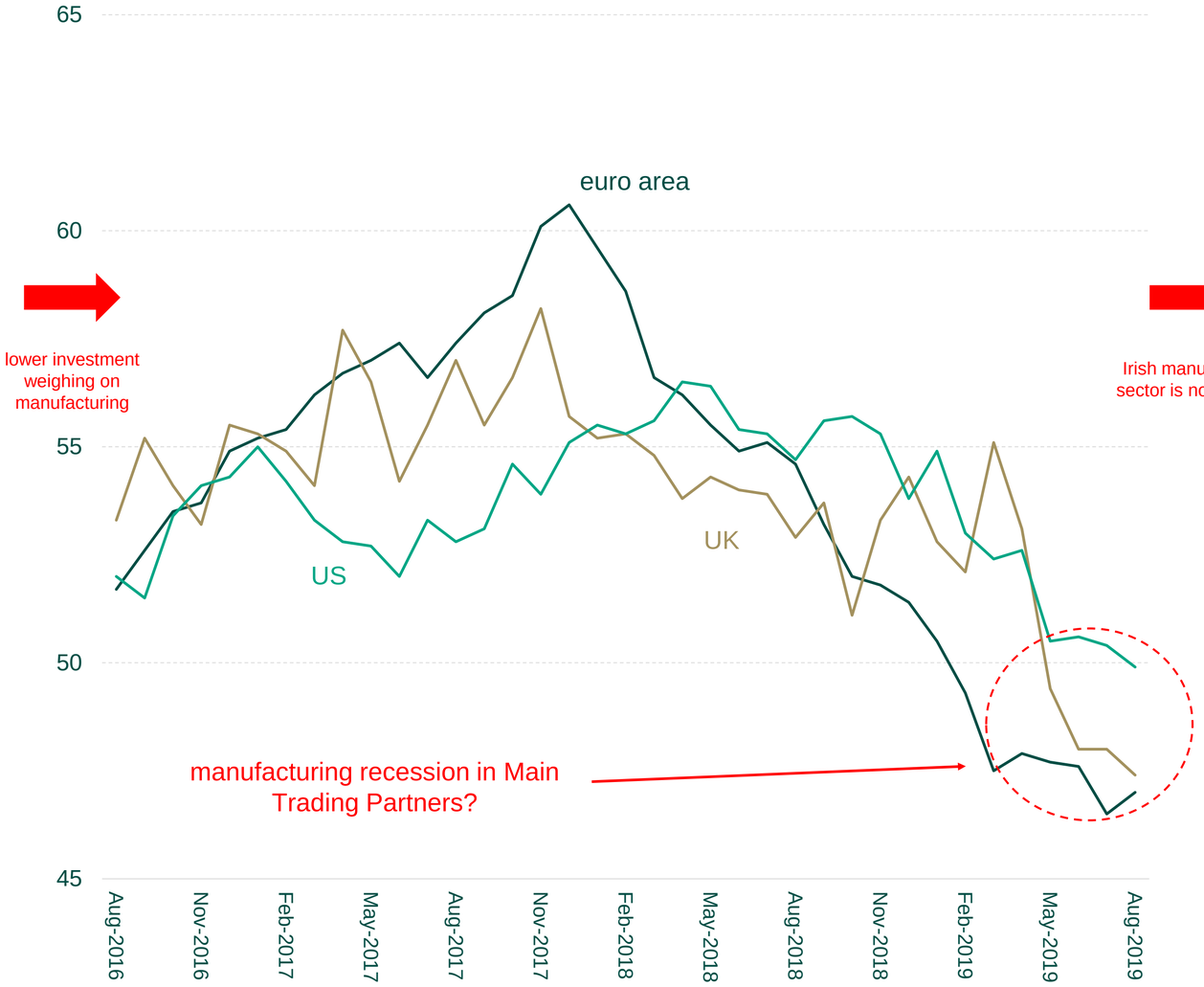
Fixed investment in G20 countries: pp cont. to y/y change



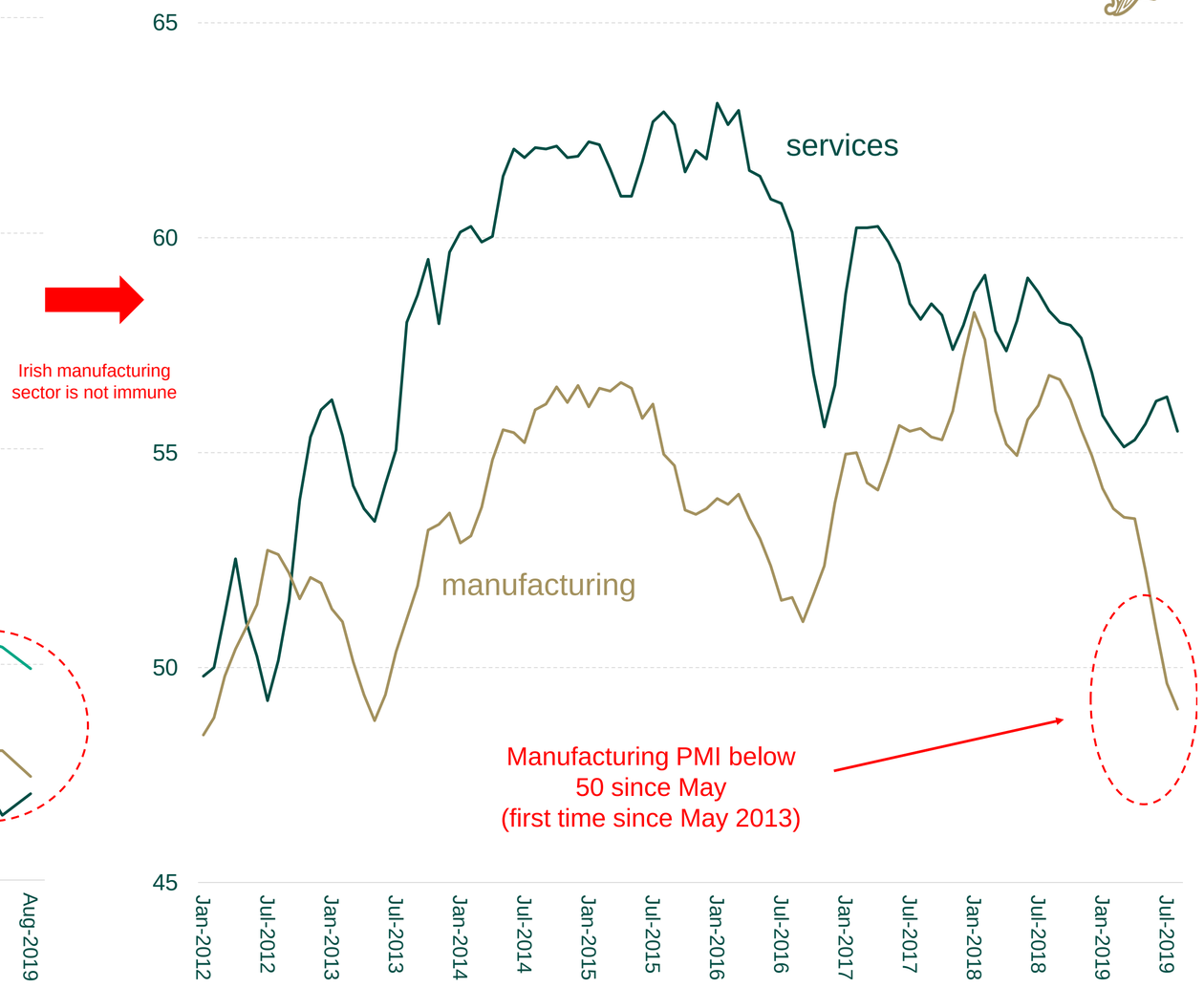
lower investment weighing on manufacturing

Weaker investment driving a “global manufacturing recession”?

PMI_manufacturing: major trading partners (< 50 = contraction)

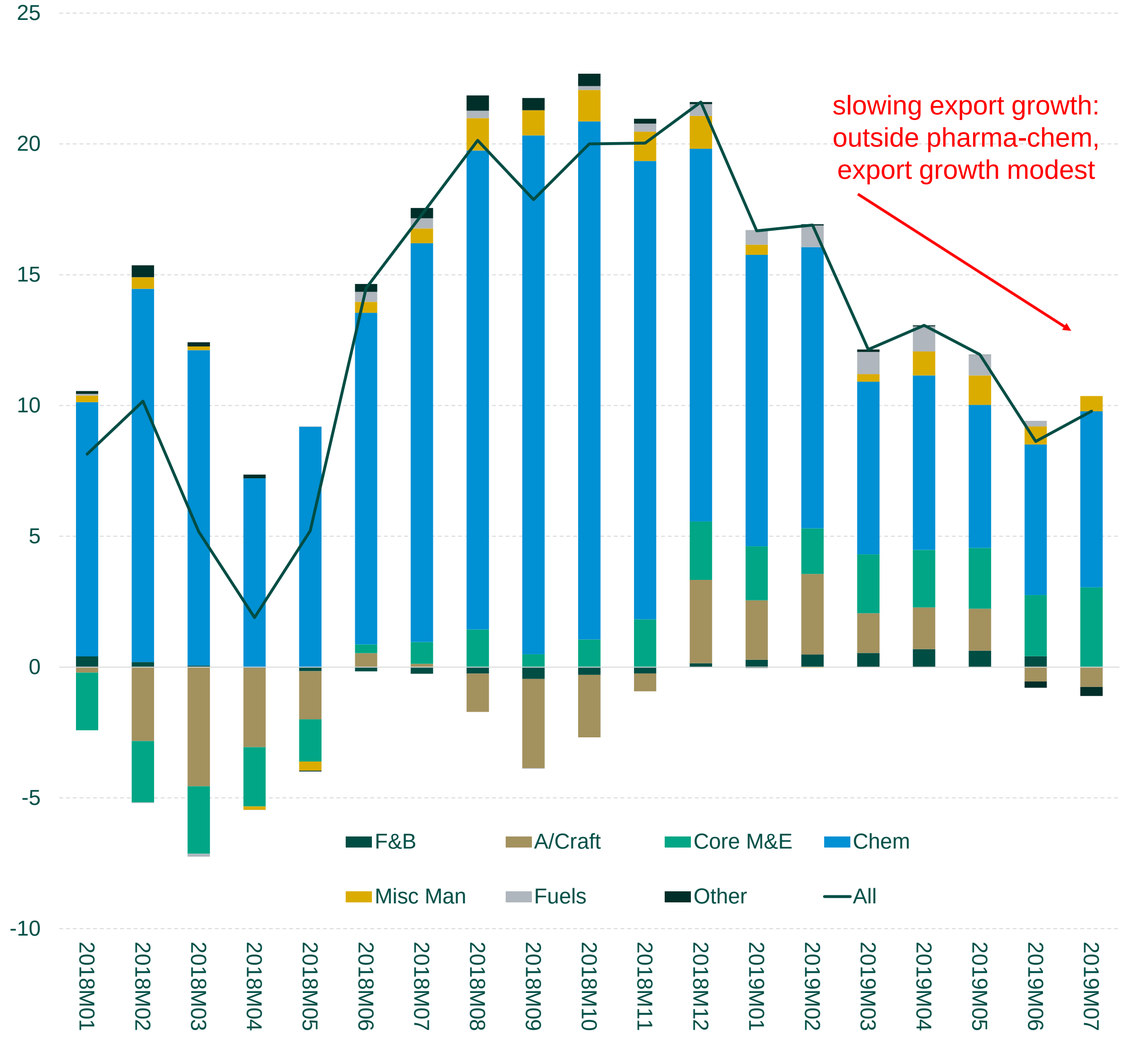


Irish PMIs (< 50 = contraction)

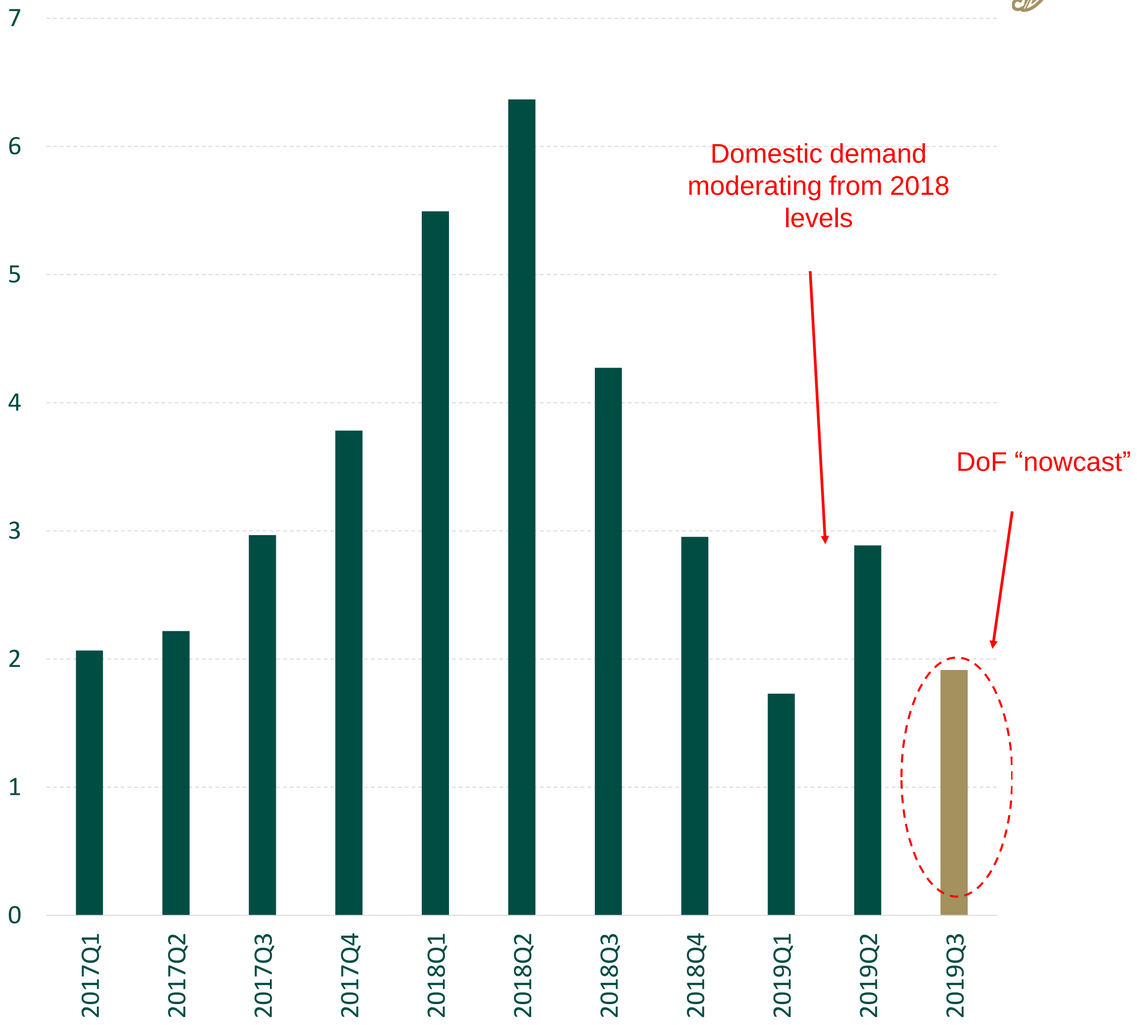


Soft data borne out by hard data in Ireland

Contribution to y/y goods export change, pp

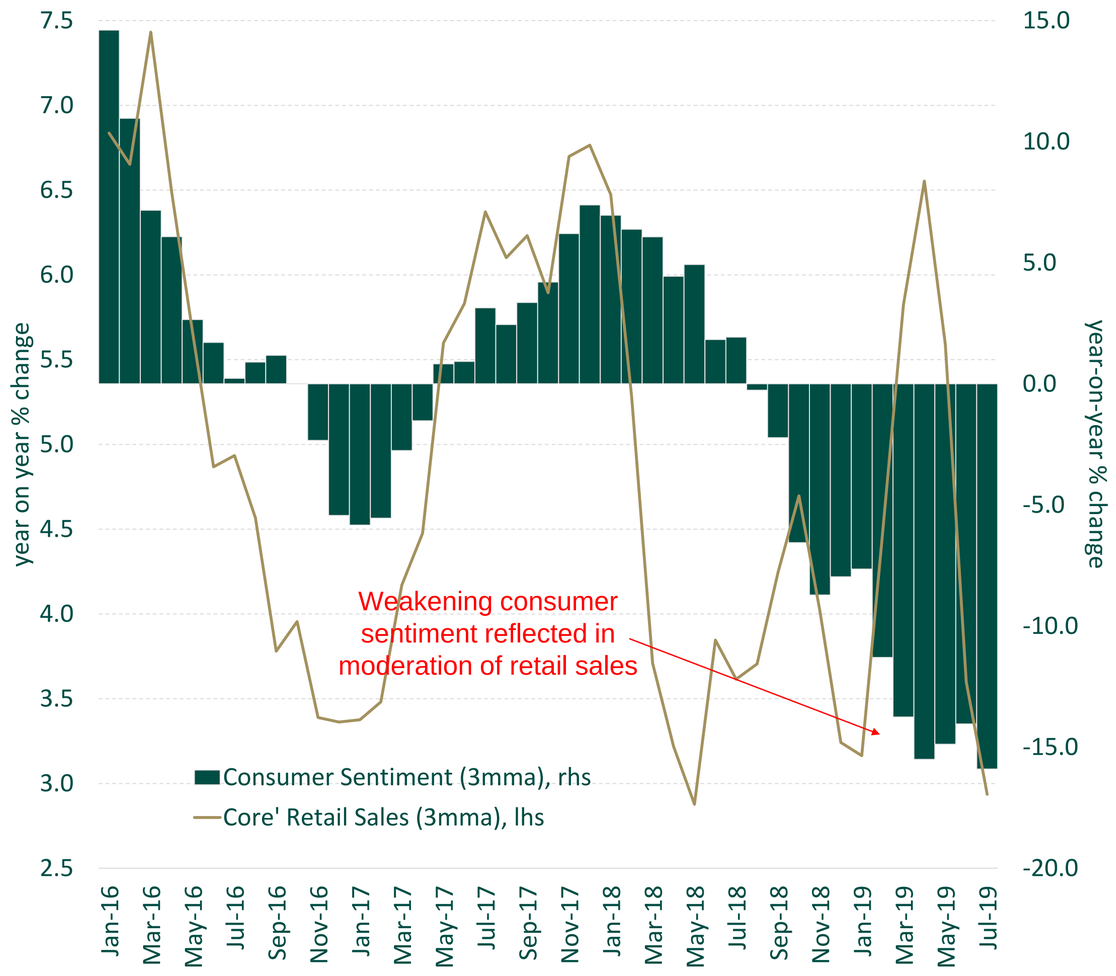


Modified domestic demand, y/y per cent change

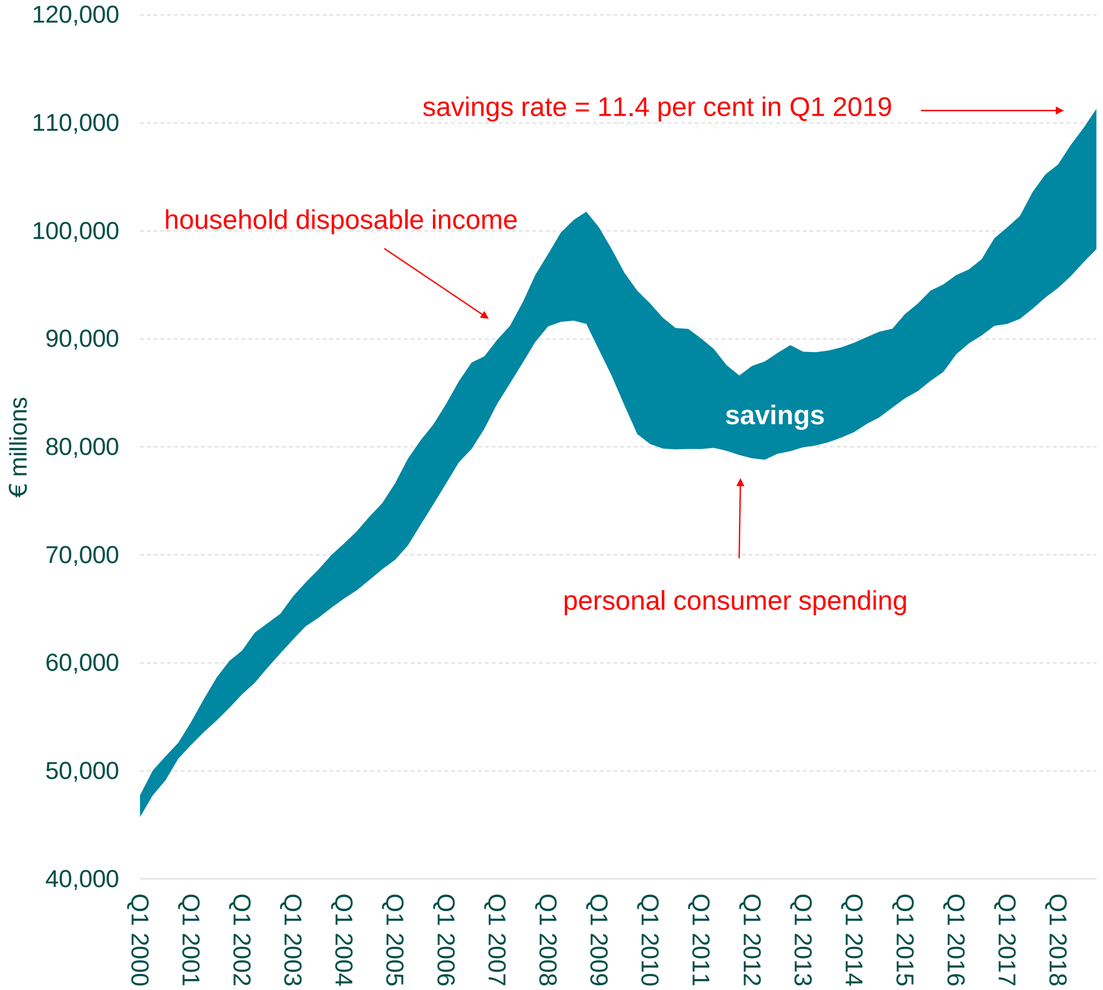


Not just external sector: household sector increasingly cautious

Retail Sales vs Consumer Sentiment

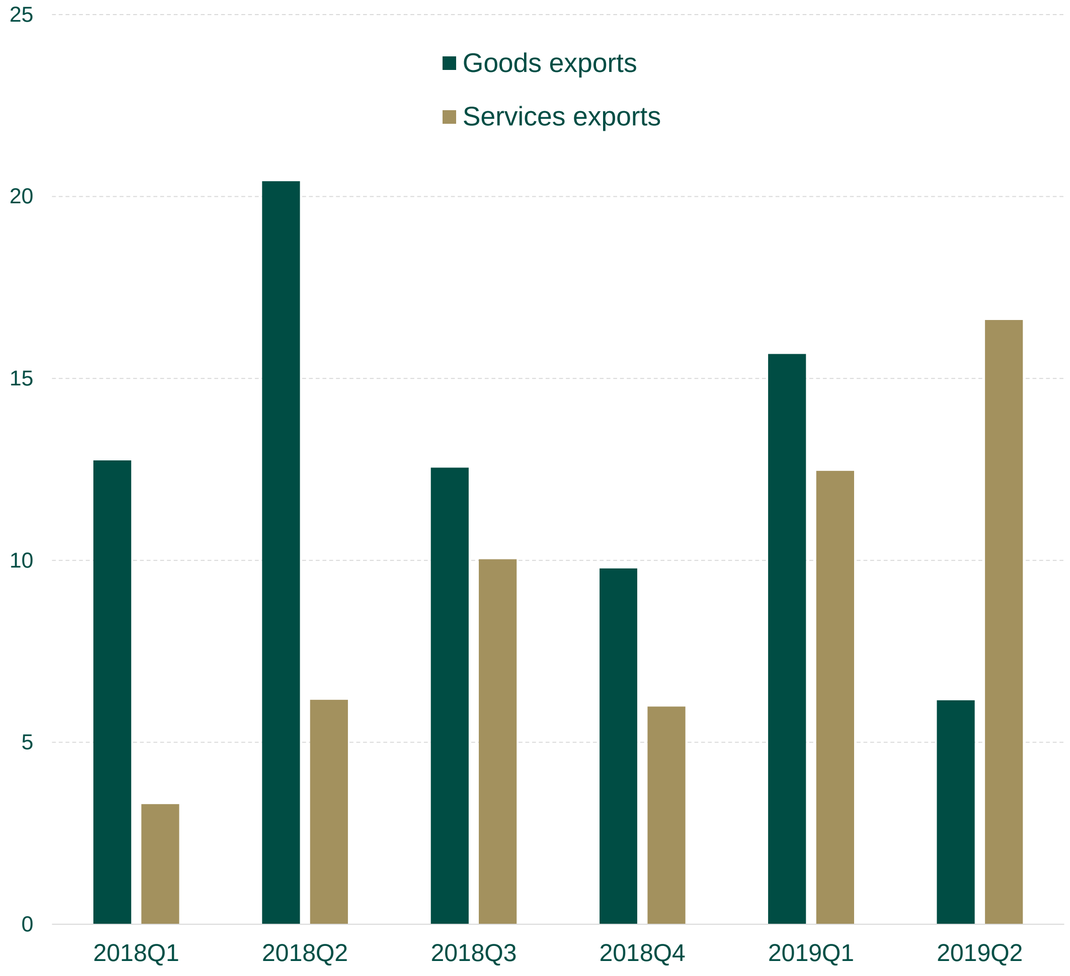


Savings rate: precautionary behaviour

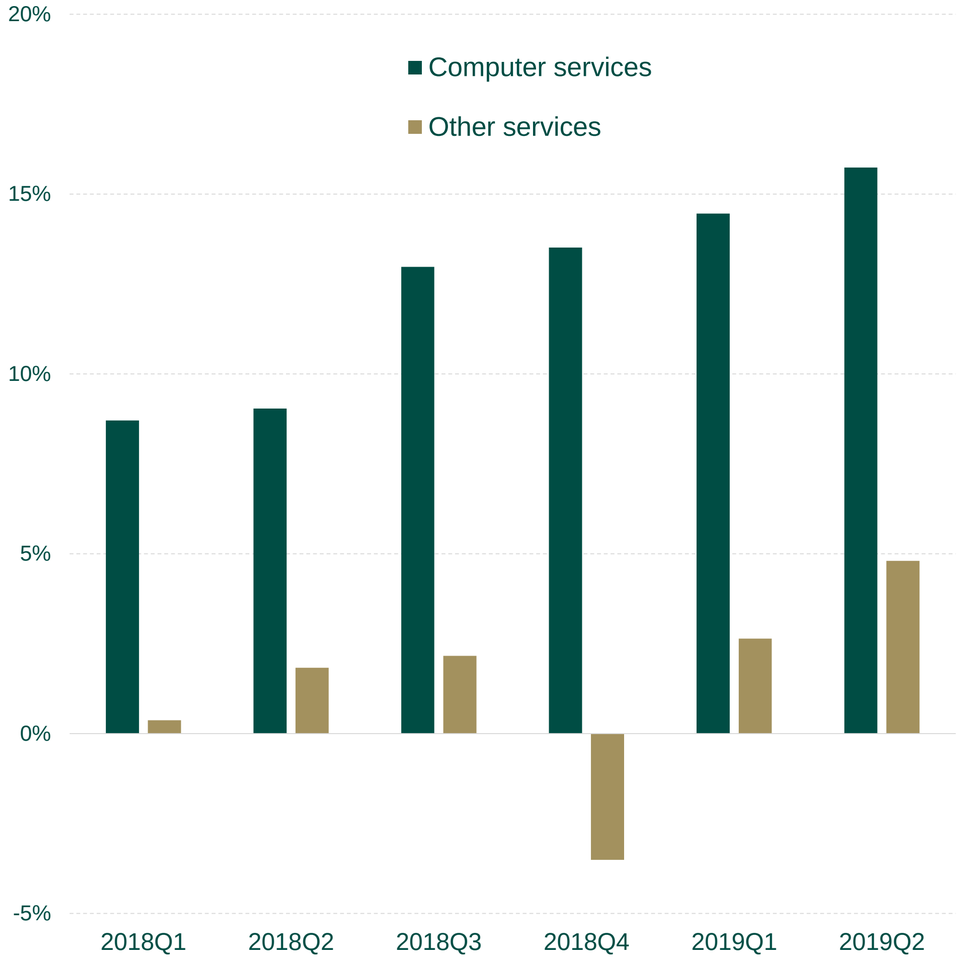


But export portfolio = source of resilience

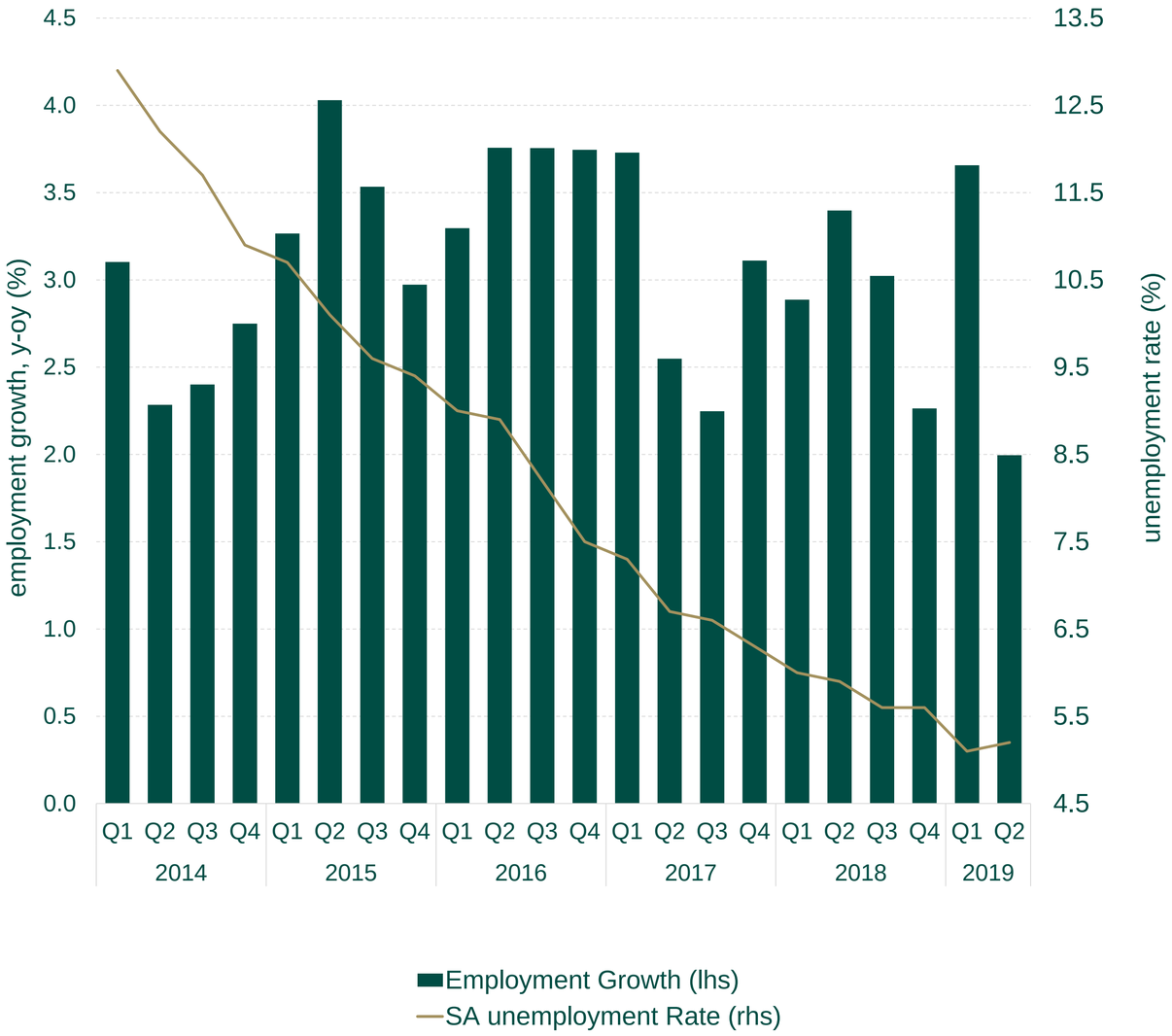
Real export growth, y/y per cent change



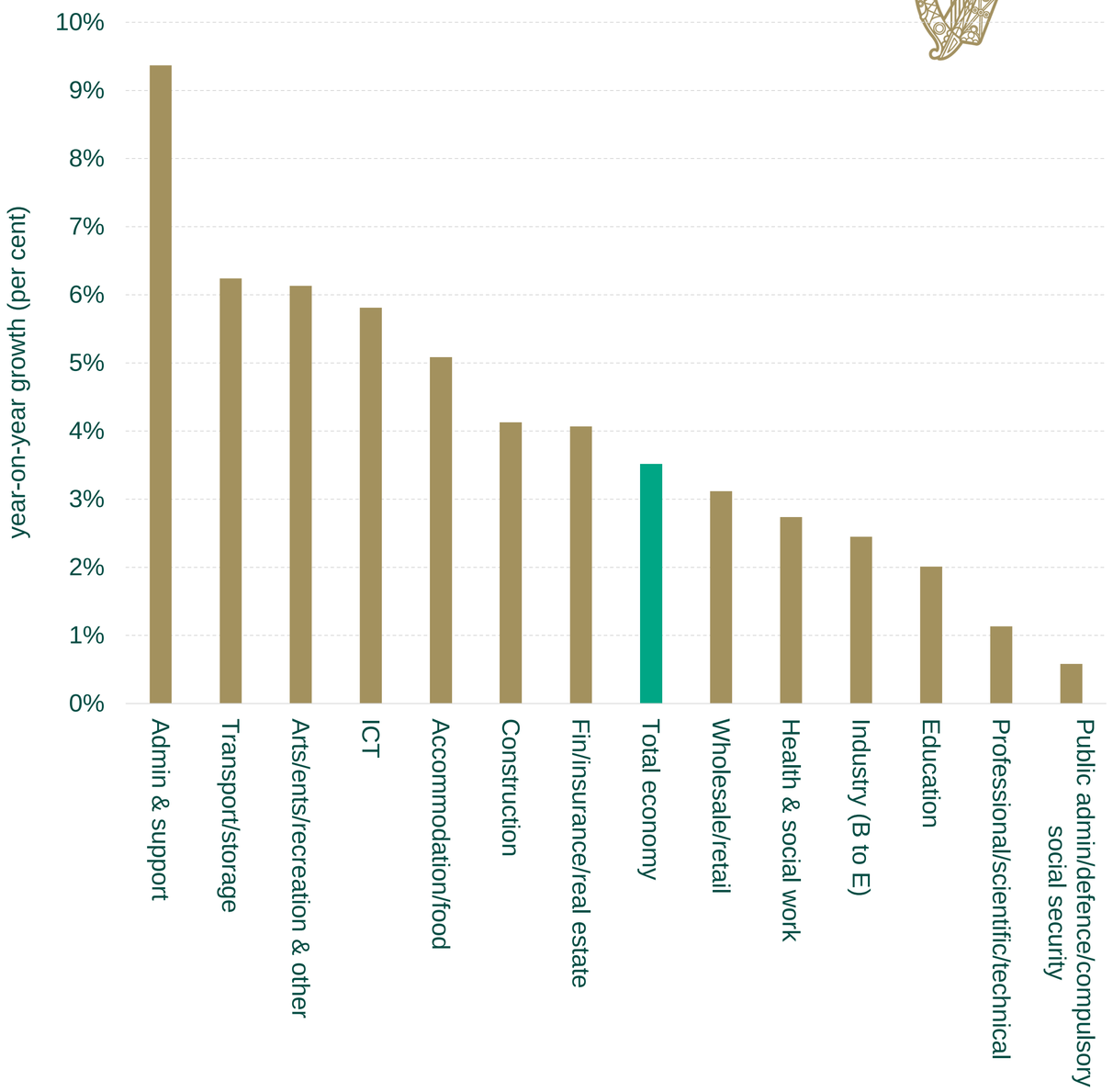
The importance of services, especially ICT



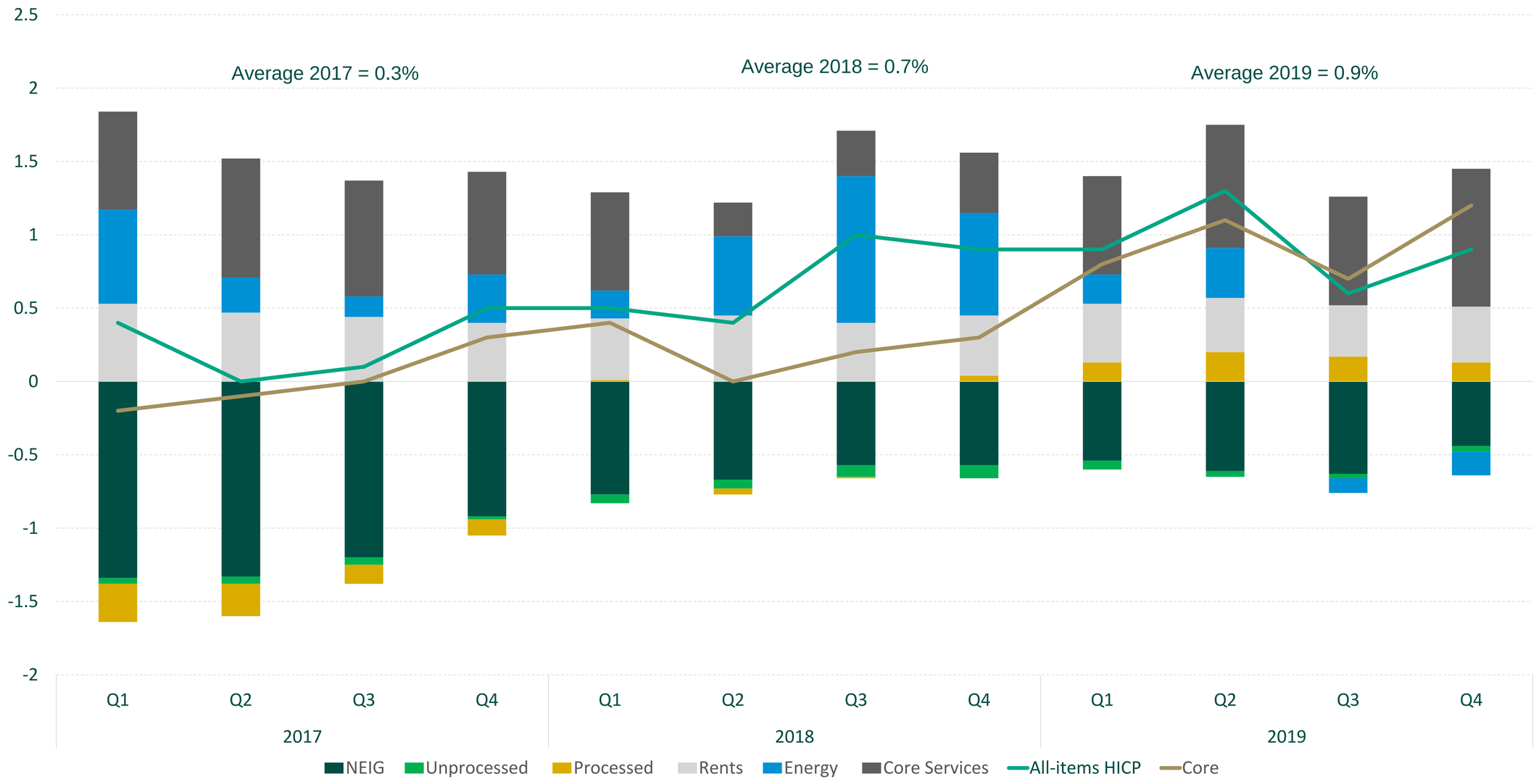
Employment and wage growth remain strong



y-on-y growth, weekly earnings, Q2 2019 (4qma)



Inflation drag from goods prices, while service prices grow strongly…



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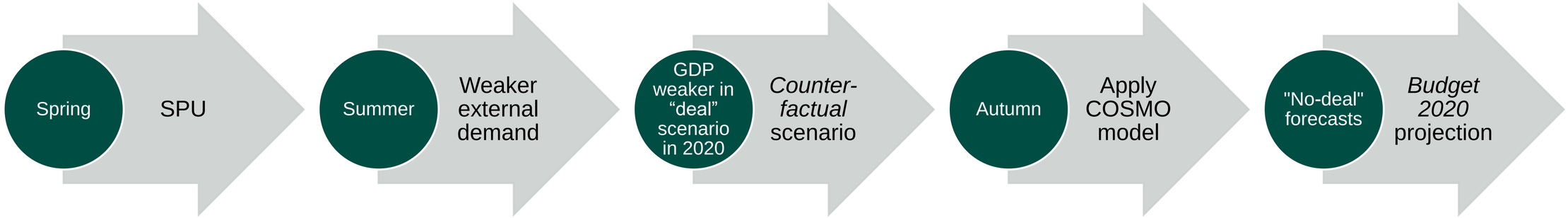
Constructing a disorderly exit economic forecast

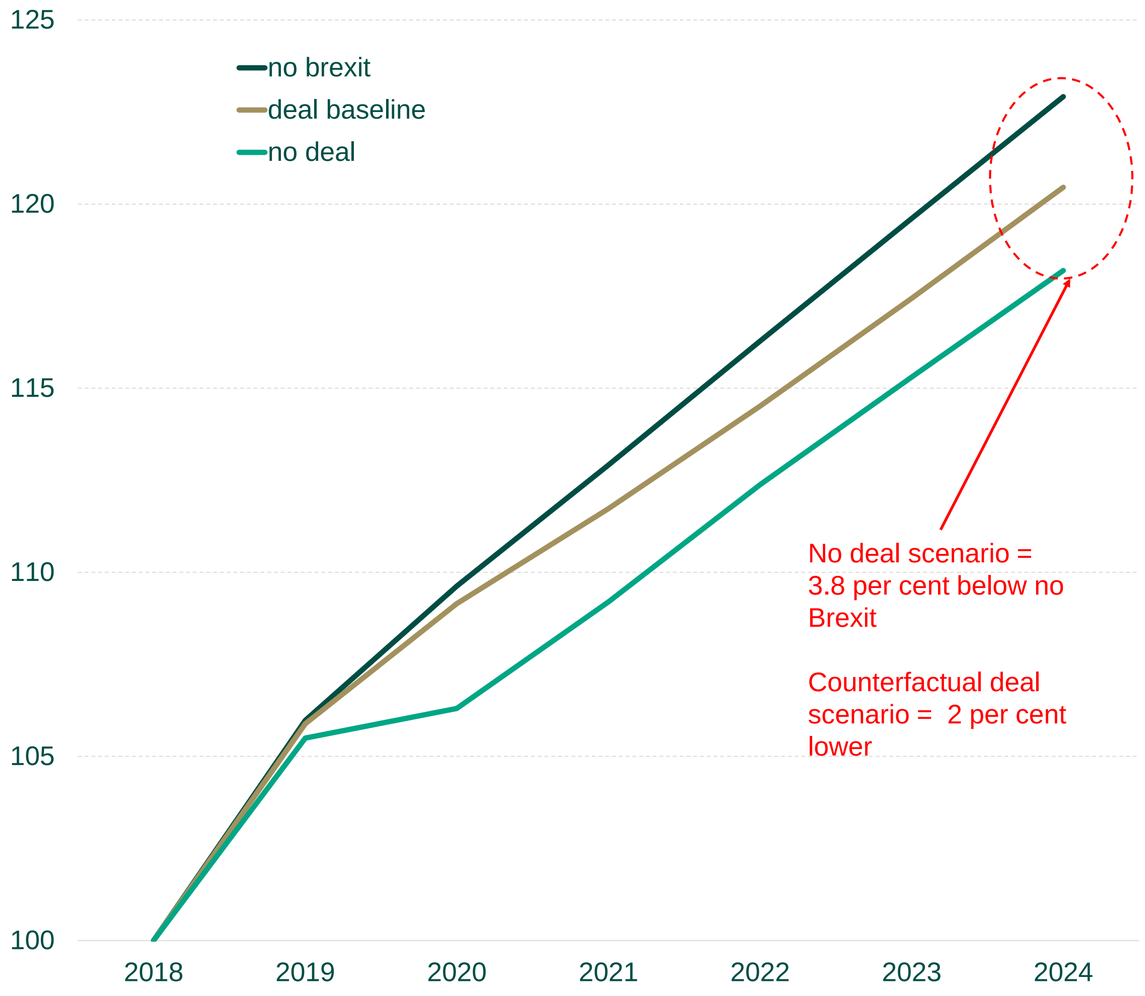
- Government decision:
  - budget based on disorderly UK exit
- Need to construct ‘no deal’ economic outlook
- Operationalising this involves:

  i) create a counterfactual ‘deal’ scenario
  ii) apply COSMO model ‘no-deal’ scenario results to the counterfactual
  iii) arrive at ‘no deal’ projection
- Sequencing

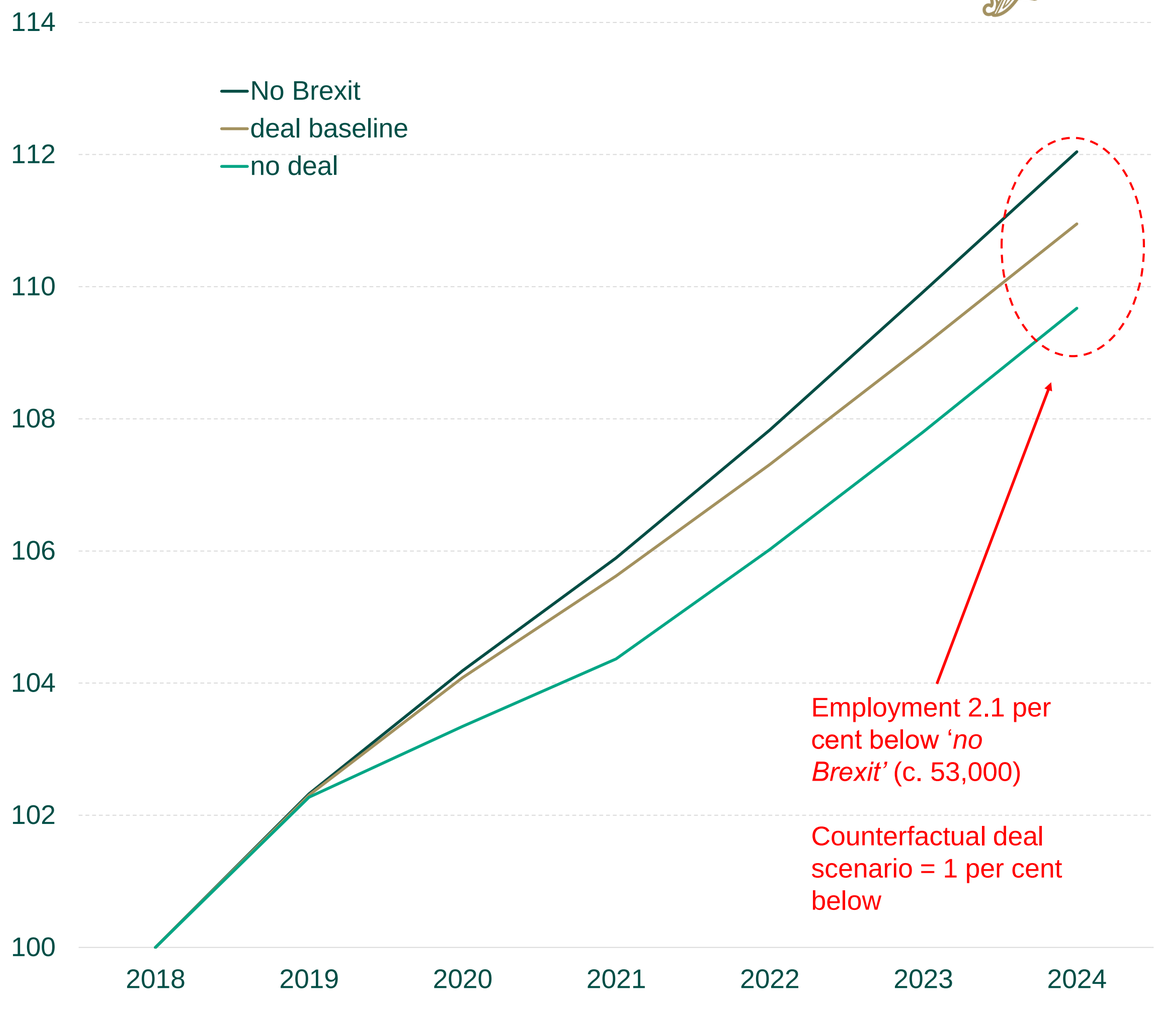


Impact of Brexit on Ireland – real GDP

Level of GDP, 2018=100



Level of employment, 2018=100



Key variables: forecast under disorderly Brexit

year-on-year % change	2019	2020	2021	2022	2023	2024
GDP	5.5	0.7	2.5	2.8	2.7	2.6
GNP	4.3	-0.1	2.4	2.5	2.4	2.3
Nominal GDP	5.9	2.4	3.9	4.3	4.1	4.1
Personal Consumption	2.7	1.4	1.9	2.1	2.3	2.4
Govt Consumption	4.5	3.5	2.0	2.0	2.0	2.0
Investment	50.4	-24.0	-3.6	3.9	3.9	3.9
Exports	10.2	0.9	4.2	4.1	4.0	3.9
Imports	22.6	-6.5	2.9	4.4	4.6	4.5
HICP	0.9	1.3	1.4	1.8	2.0	2.1
GDP Deflator	0.4	1.6	1.4	1.4	1.4	1.4
Employment	2.4	0.8	1.1	1.5	1.7	1.9
Unemployment (rate)	5.2	5.7	5.9	5.9	5.7	5.5
contributions to growth (p.p)*						
Final Domestic Demand (exc. stocks)	13.2	-7.2	-0.1	1.8	1.9	2.0
Change in Stocks	-0.1	0.0	0.0	0.0	0.0	0.0
Net Exports	-7.6	7.9	2.5	1.0	0.8	0.7
Modified Domestic Demand (exc. stocks)	1.8	0.8	1.3	1.4	1.5	1.5
Modified Net Exports	3.8	-0.1	1.2	1.4	1.2	1.1

Risk matrix – firmly tilted to the downside

Downside	Upside
Brexit outcome worse than model projection	Sectoral strength (ICT, Pharma etc.)
Continued weakness in world demand	Brexit – UK exit with a deal
Trade tensions spill over to the EU	
Repricing of risk	
Oil price – supply shock persists	

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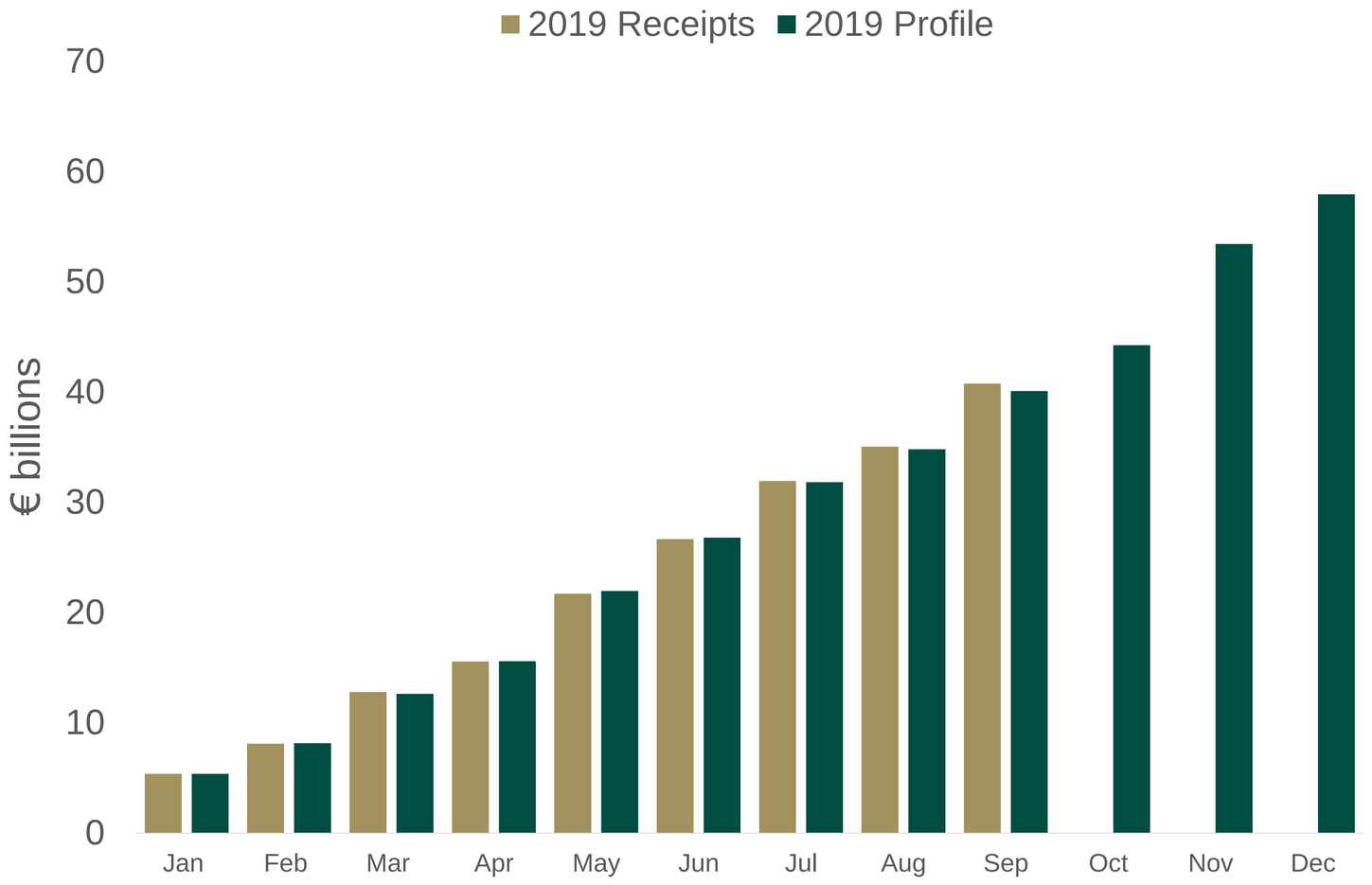
Tax performance year to date…

Key points

- Tax revenues of €40.8 billion were received to end Q3 2019, slightly ahead of target (up 1.7% or €0.7 billion).
- In year-on-year terms, tax revenues are up 8.7% or €3.3 billion.



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Budget 2020 Fiscal Outlook…

	2019	2020	2021	2022	2023	2024
General government balance (% of GDP)	0.2	-0.6	-0.2	0.1	0.4	0.7
General government primary balance (% of GDP)	1.6	0.6	0.8	1.1	1.4	1.7
Debt-to-GDP ratio	59.3	56.5	56.4	54.4	53.8	53.0
Debt-to-GNI* ratio	100.2	97.4	97.7	94.9	94.5	93.9
Structural Budget Balance (% of GDP)	-0.4	-0.4	-0.5	-0.7	-0.7	-0.5

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General government balance…

Key points

- General government balance of 0.2% of GDP forecast for 2019, deteriorating to -0.6% of GDP in 2020.
- The deterioration in the general government balance next year reflects the impact of Brexit on the economy and increased expenditure to support affected sectors.

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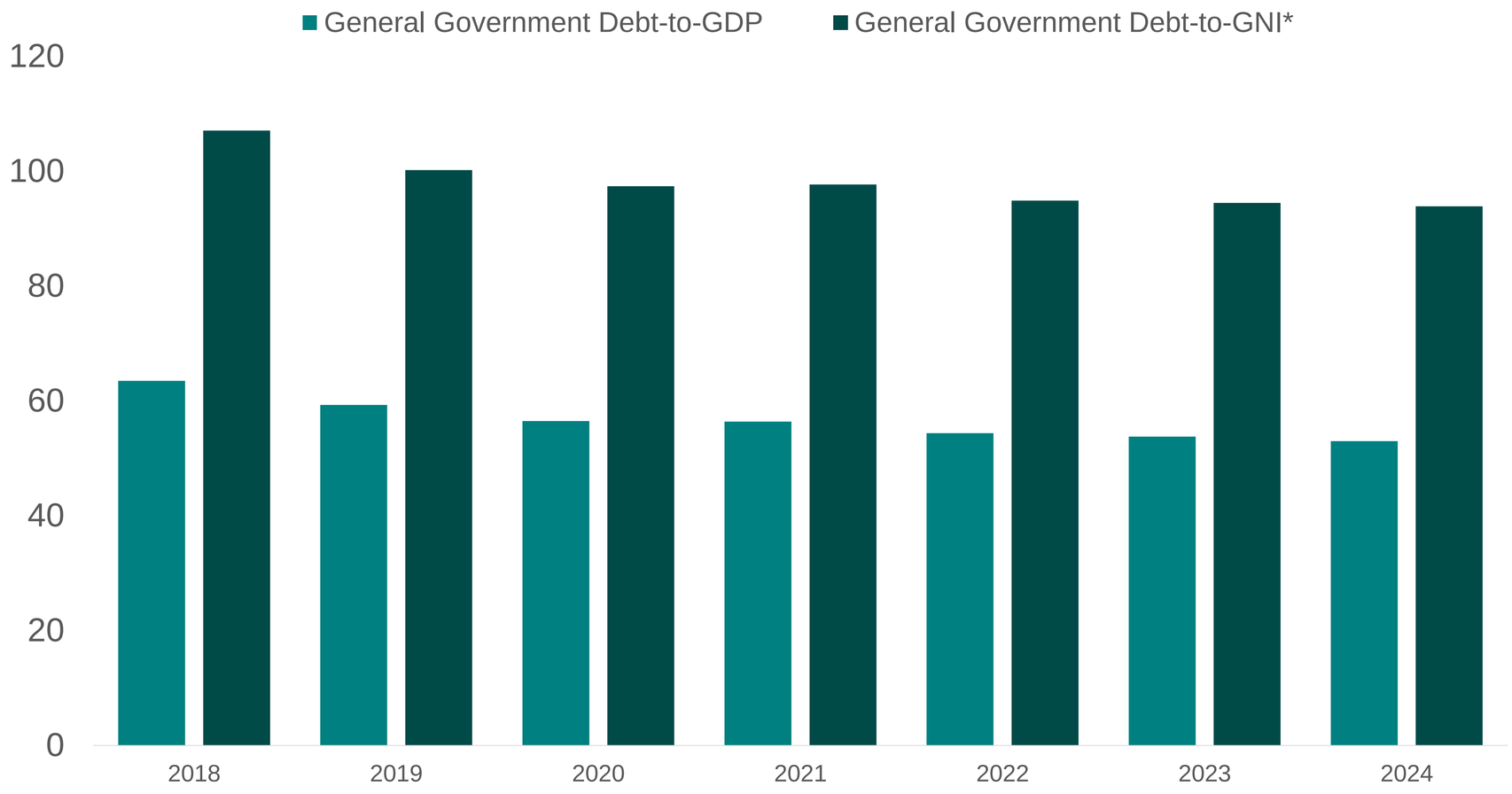
General government debt…

Key points

- General government debt of 59.3% of GDP forecast for 2019. This represents a 4.2 percentage point improvement on the end-2018 position. This compares to an expected 3.7 percentage point improvement at the time of the spring forecasts.
- This further improves to 56.5% of GDP in 2020.
- As a percentage of GNI* our debt ratio for 2019 is 100.2 improving by 2.8 percentage points to 97.4 in 2020.



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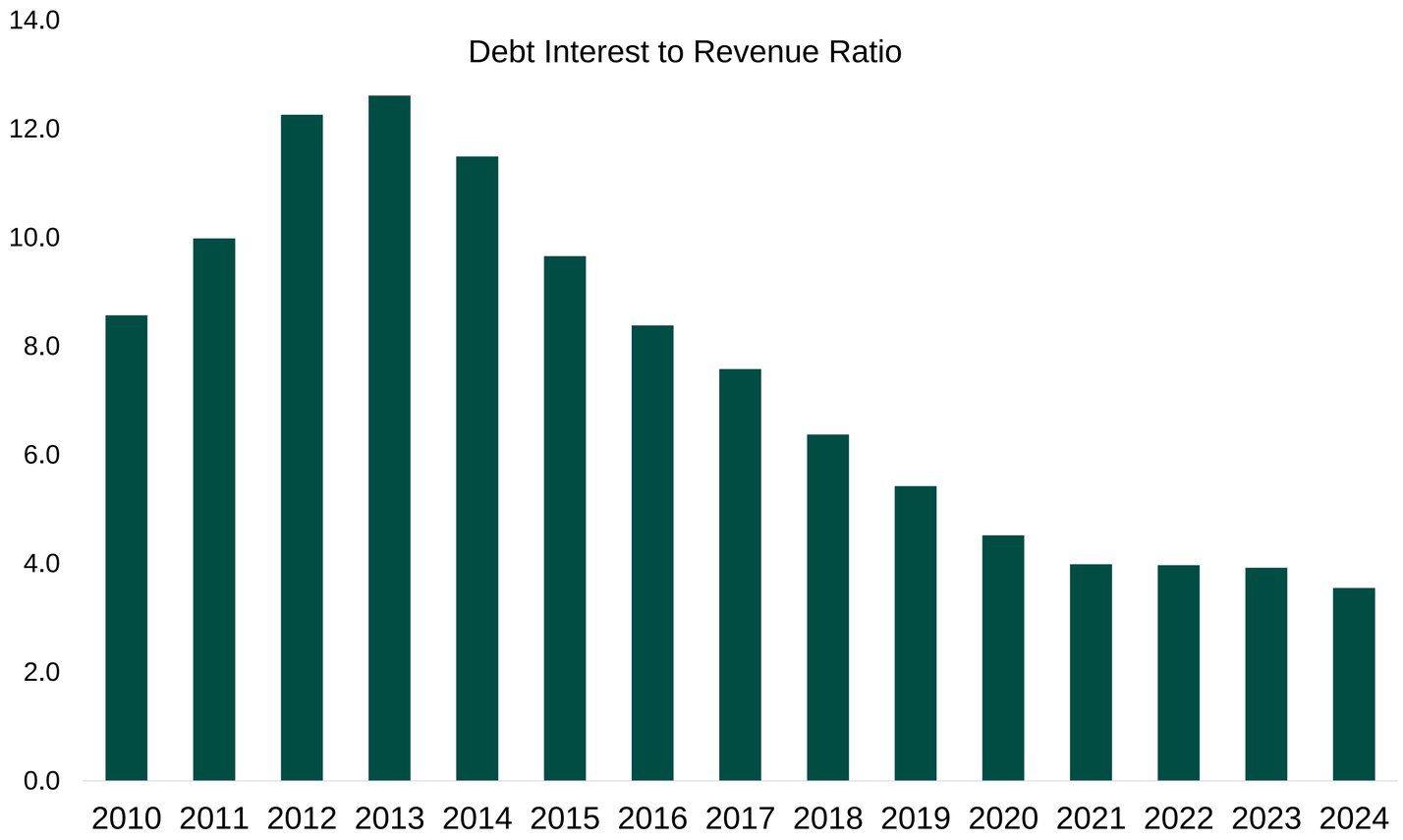
General government debt…

Key Points

- Debt interest payments as a percentage of total general government revenue is a useful way of assessing debt sustainability.
- As this measure is dependent on domestic revenue streams, it is less prone to distortion by the effects of globalisation on the Irish economy.
- Using this and alternate measures, such as debt-to-GNI* gives a more accurate read of Ireland's level of indebtedness.
- Despite improvements the level of public debt in Ireland remains high by both historical and international standards.
- That is why it is crucial that we prioritise the reduction of this burden – a key factor in ensuring the continued stability of the public finances.



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