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Department of Finance

Budget 2024 – Economic Development and Outlook

Presentation to Irish Fiscal Advisory Council

Economics Division

26th September 2023

Birds-eye view



Key changes since Spring forecasts

- Weaker outlook for the external environment
- Continued escalation of monetary policy tightening
- Pickup in wholesale oil prices
- Fiscal policy – SES and (assumed) *Budget 2024* once-off measures

Short-term outlook

- More persistent inflationary pressure
- Monetary policy weighing on consumer spending and investment – temporary support from fiscal stimulus
- Exports affected by external conditions and sector (or product) specific factors
- Capacity constraints - labour market, housing market, etc.
- At (or probably past) the peak of the economic cycle

Risks

- More severe impact of monetary policy
- Weaker external environment & geo-fragmentation
- Sector-specific shocks
- Further commodity price shocks

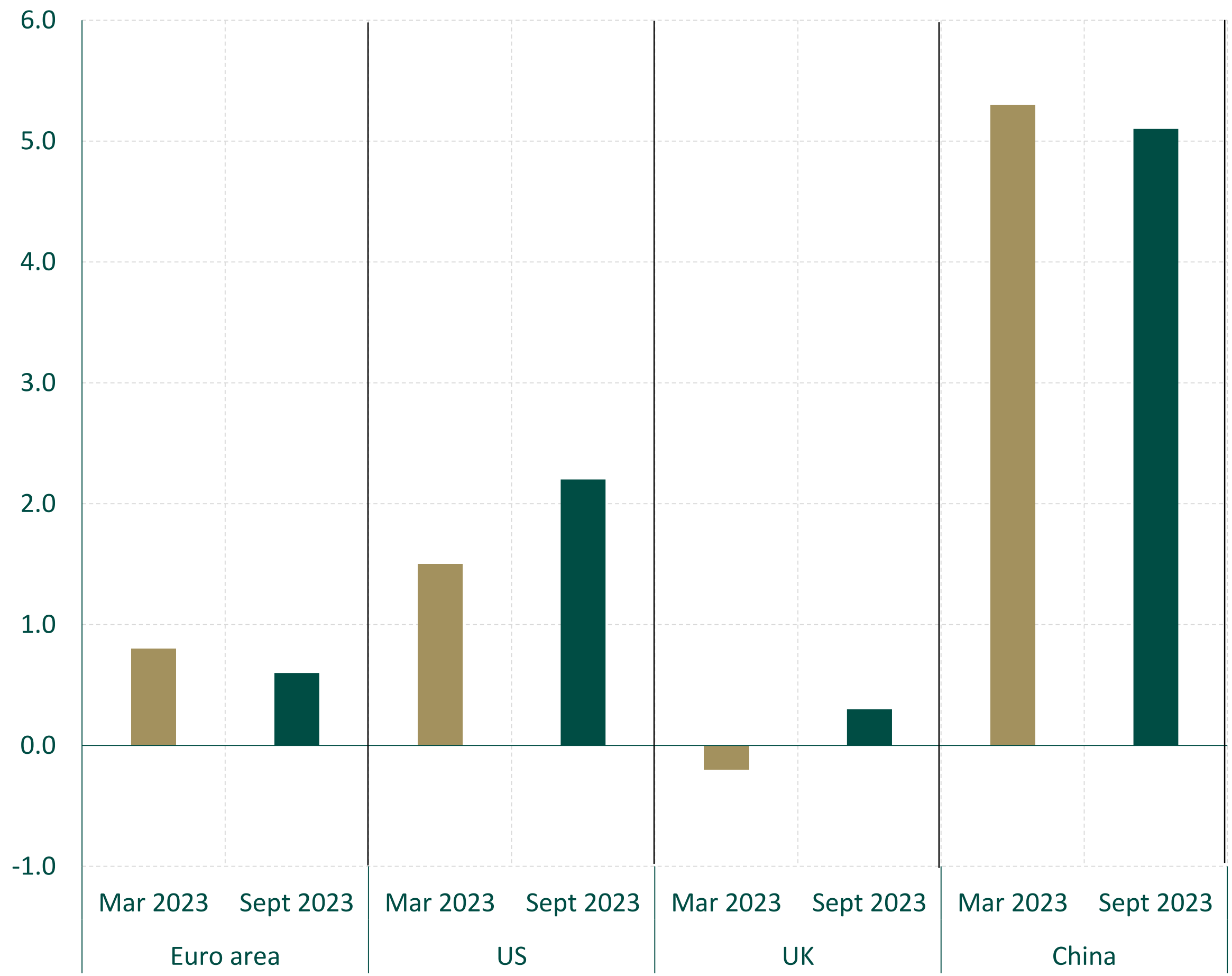


Global backdrop

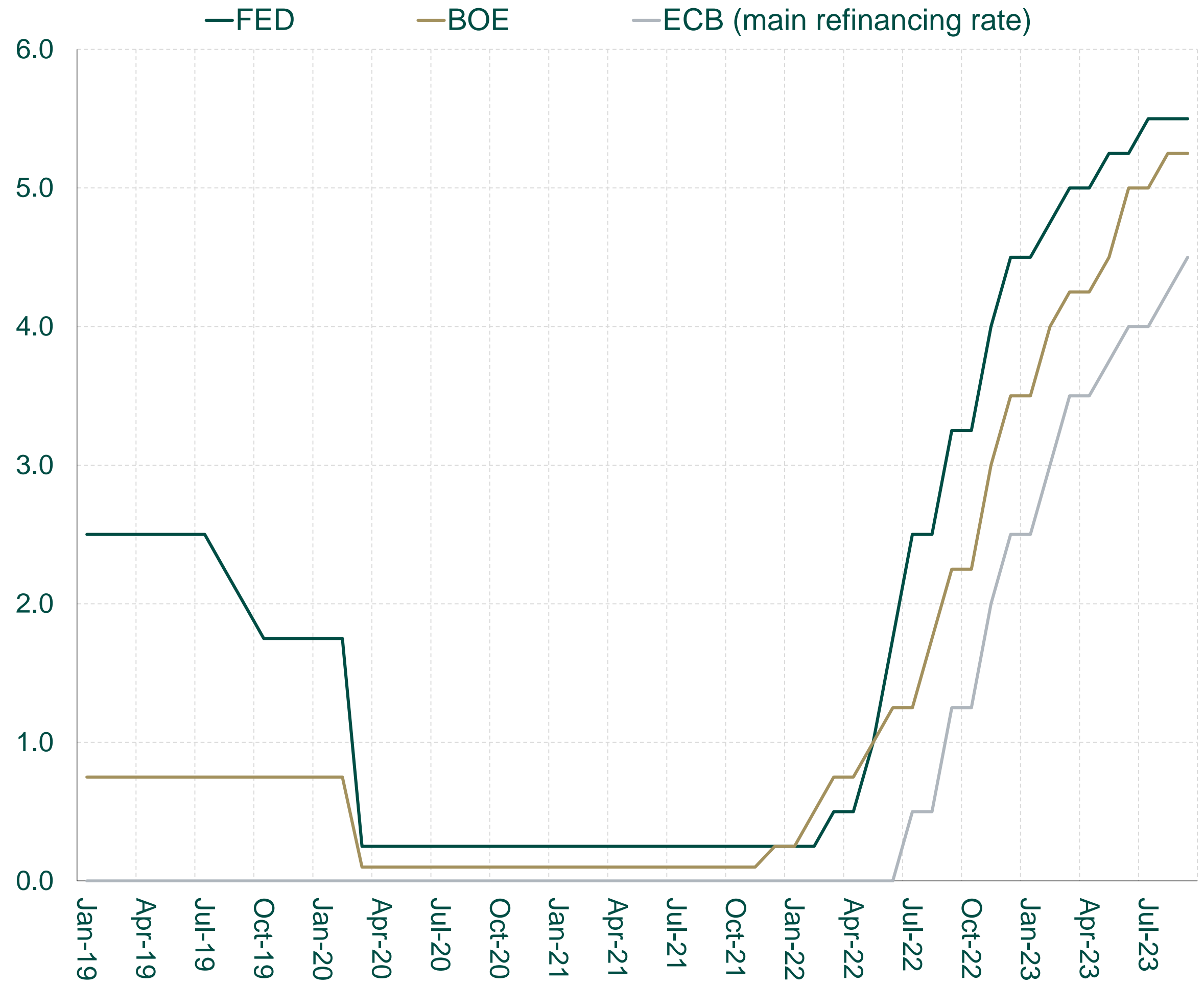
Global outlook = slightly less optimistic with global trade revised down



GDP growth 2023: March vs September



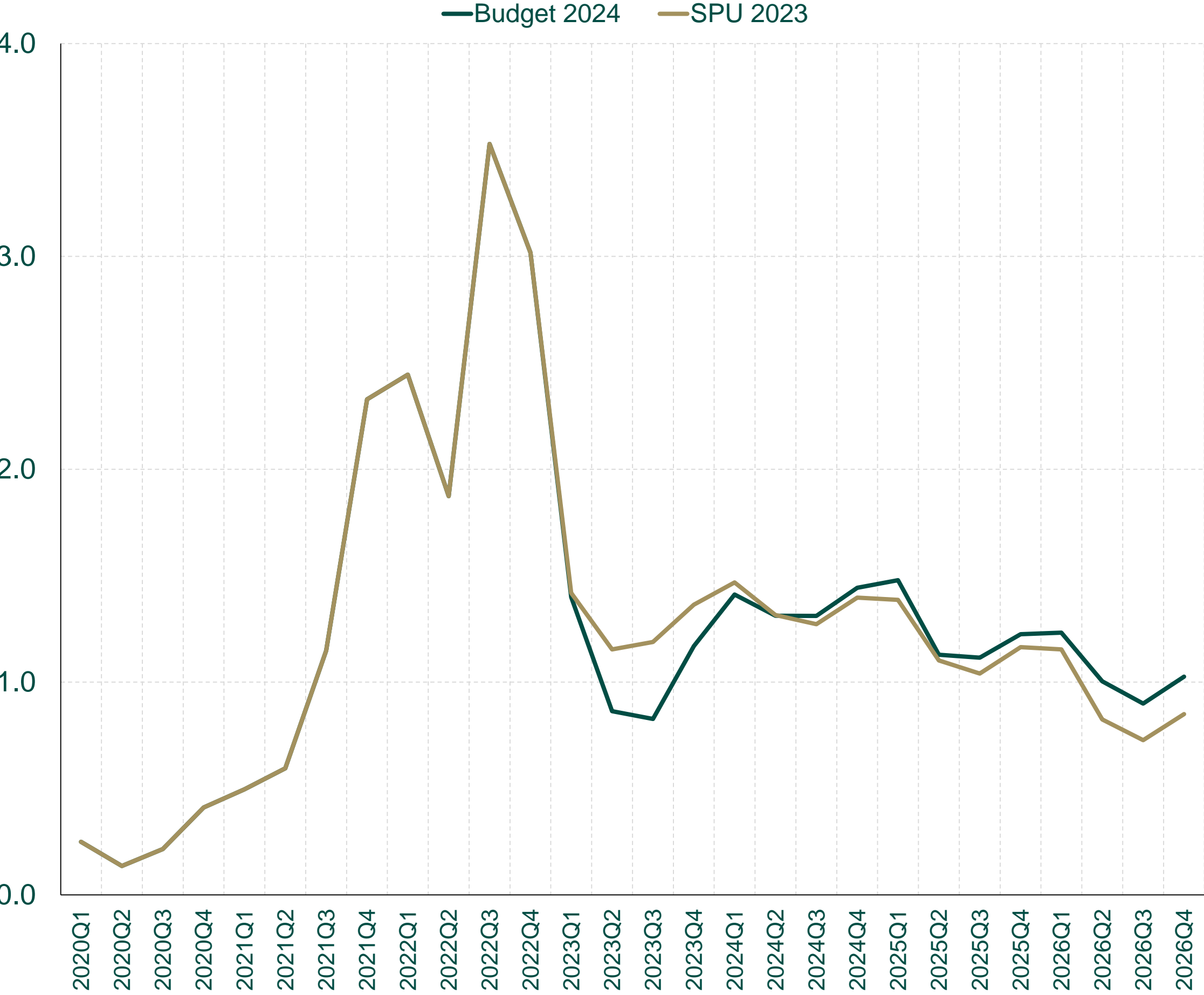
Monetary policy = continued headwind



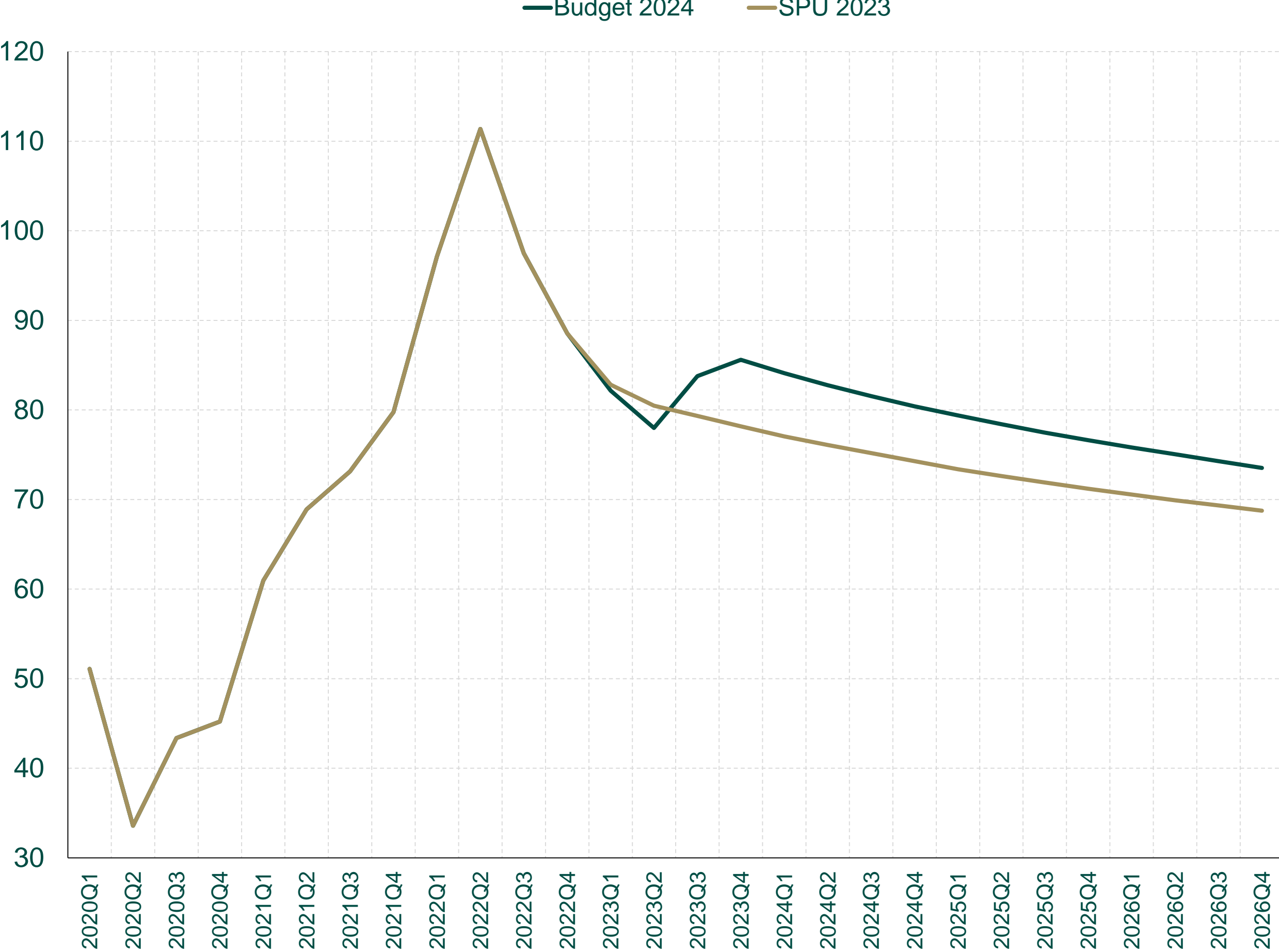
Increase in oil prices since Spring forecasts, gas broadly unchanged



Wholesale gas prices, £ per therm



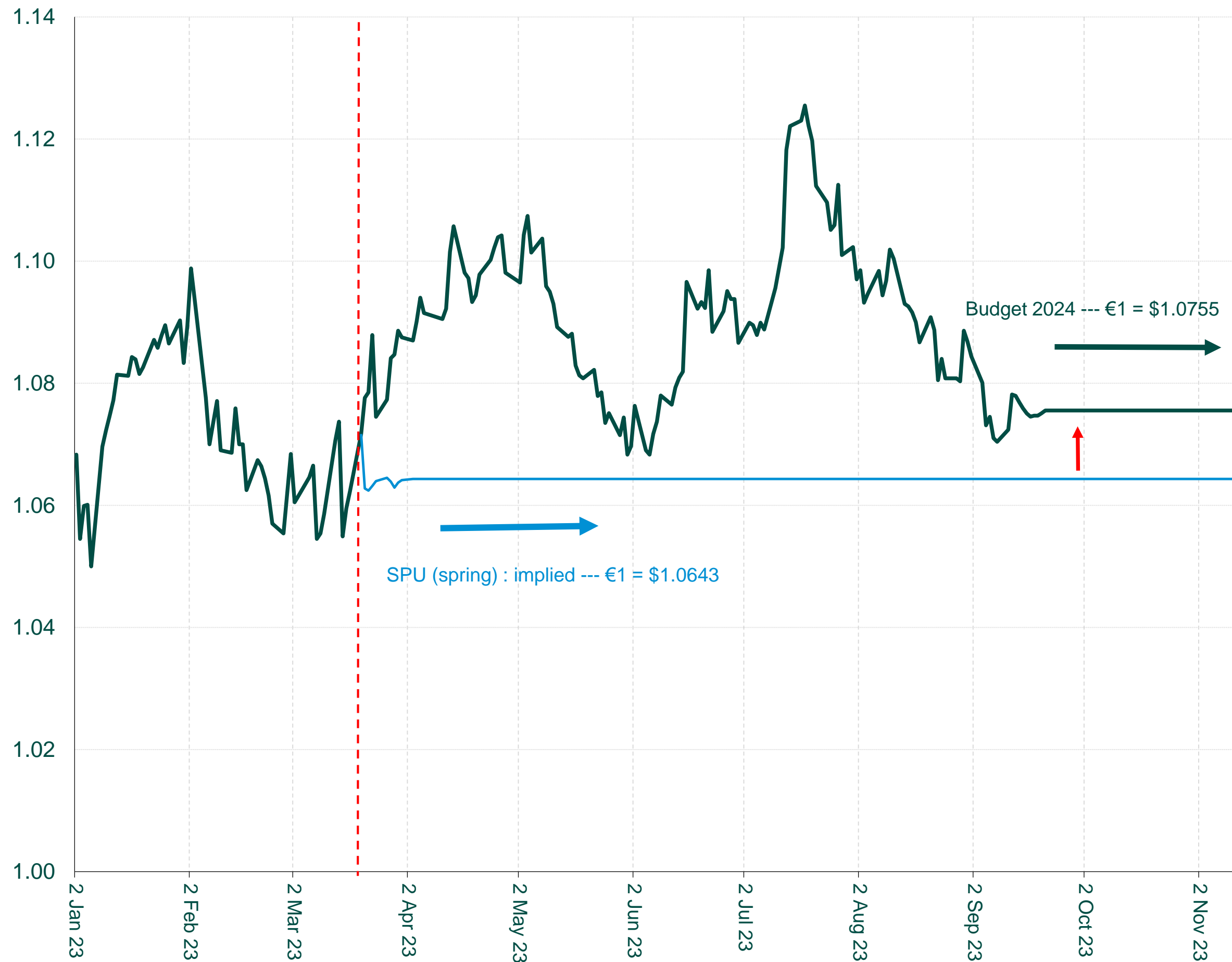
Wholesale oil prices, \$ per barrel



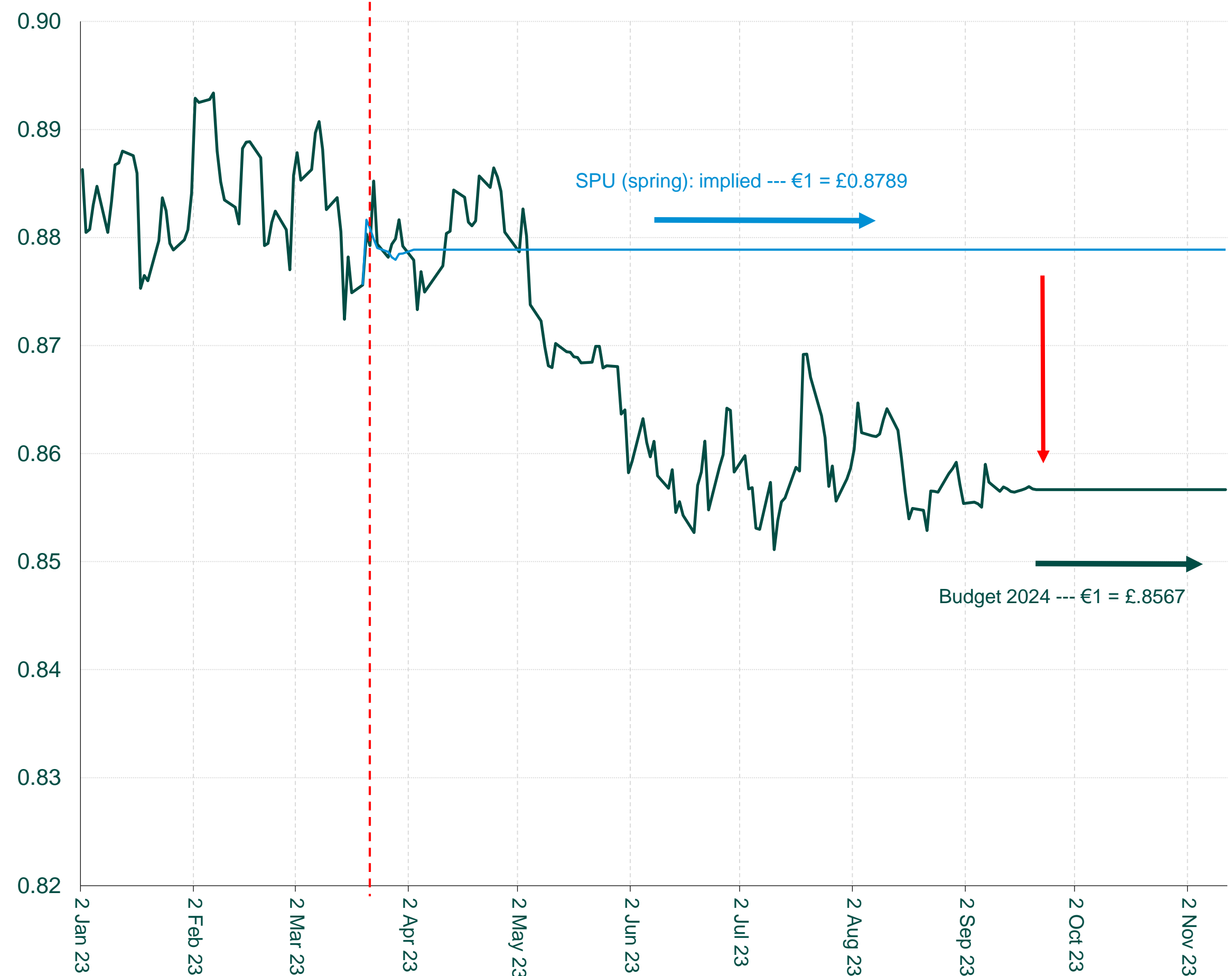
Exchange rate developments



Euro-dollar bilateral rate



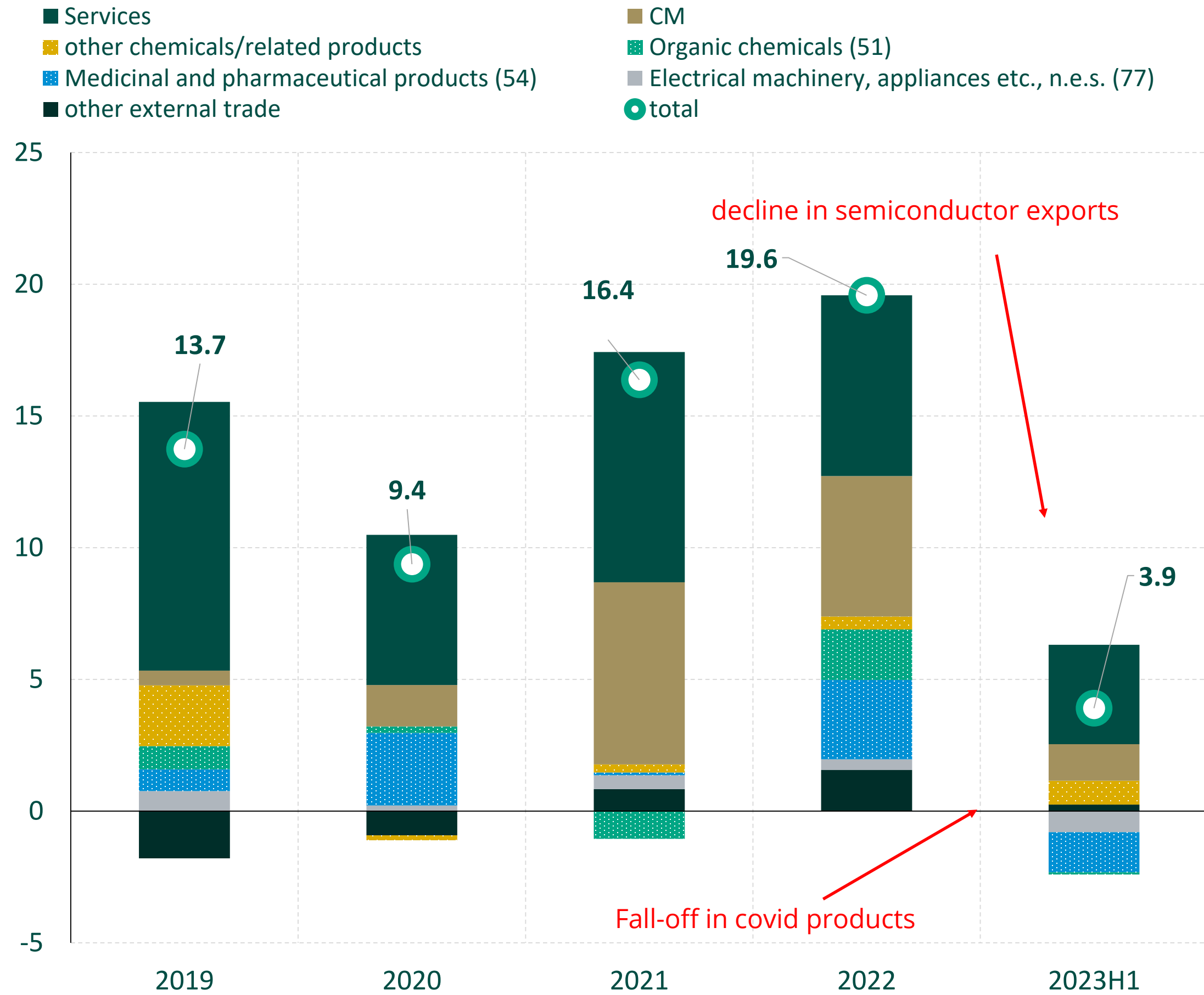
Euro-sterling bilateral rate



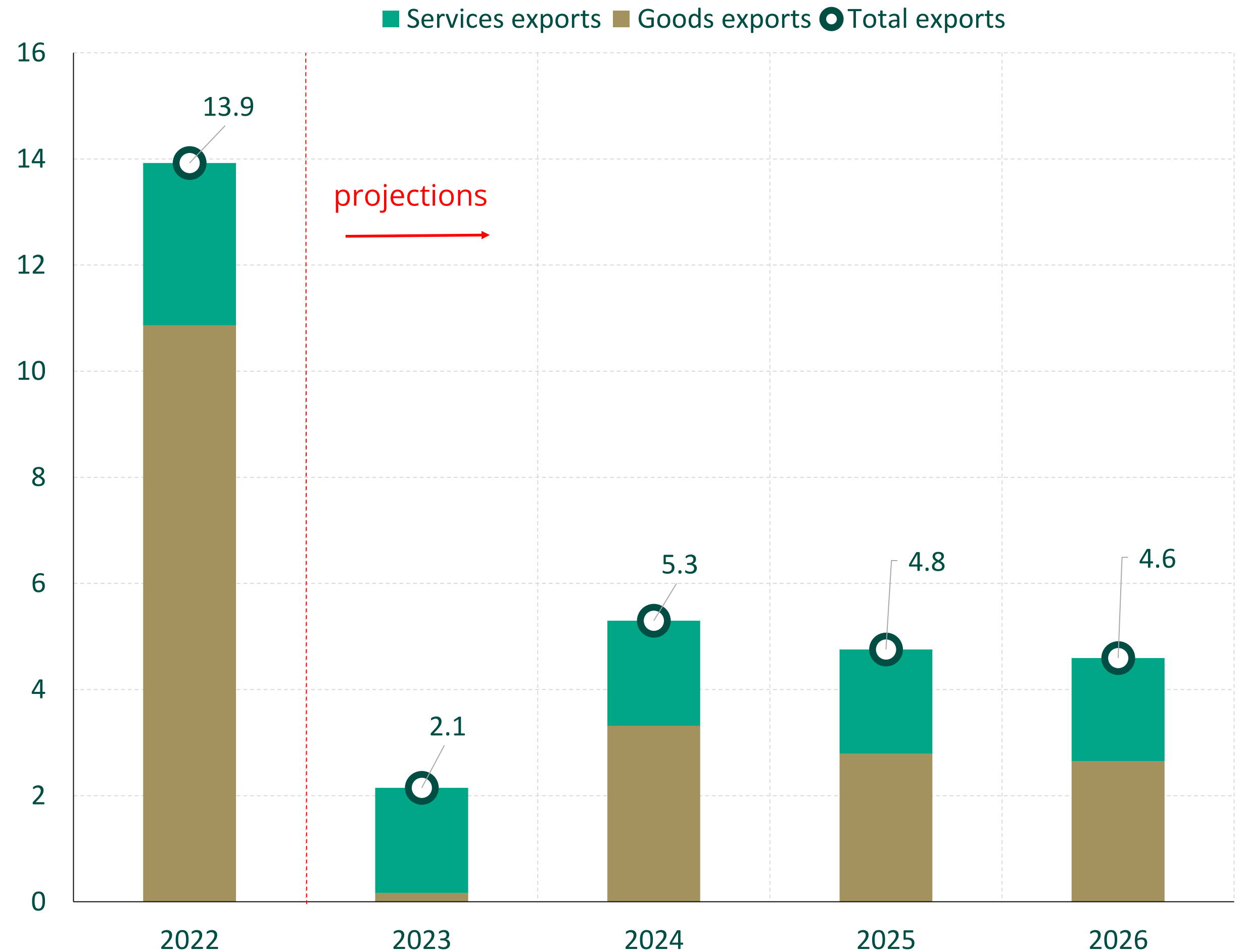
Weak export growth driven by flat goods in 2023



Product specific fall in goods outturns in H1
contribution to y/y % value change



Total export growth, contribution to y/y % change



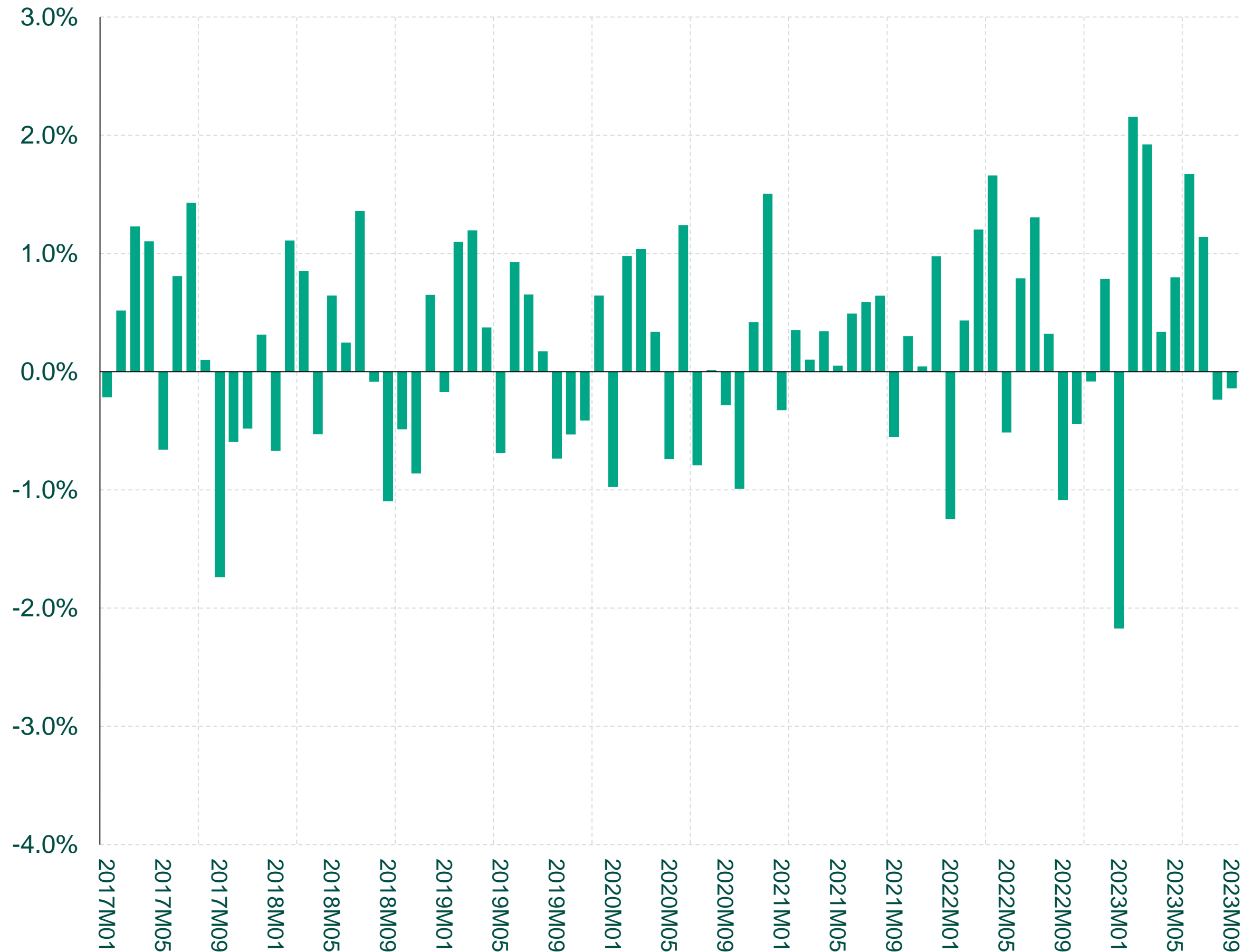


Short-run demand side

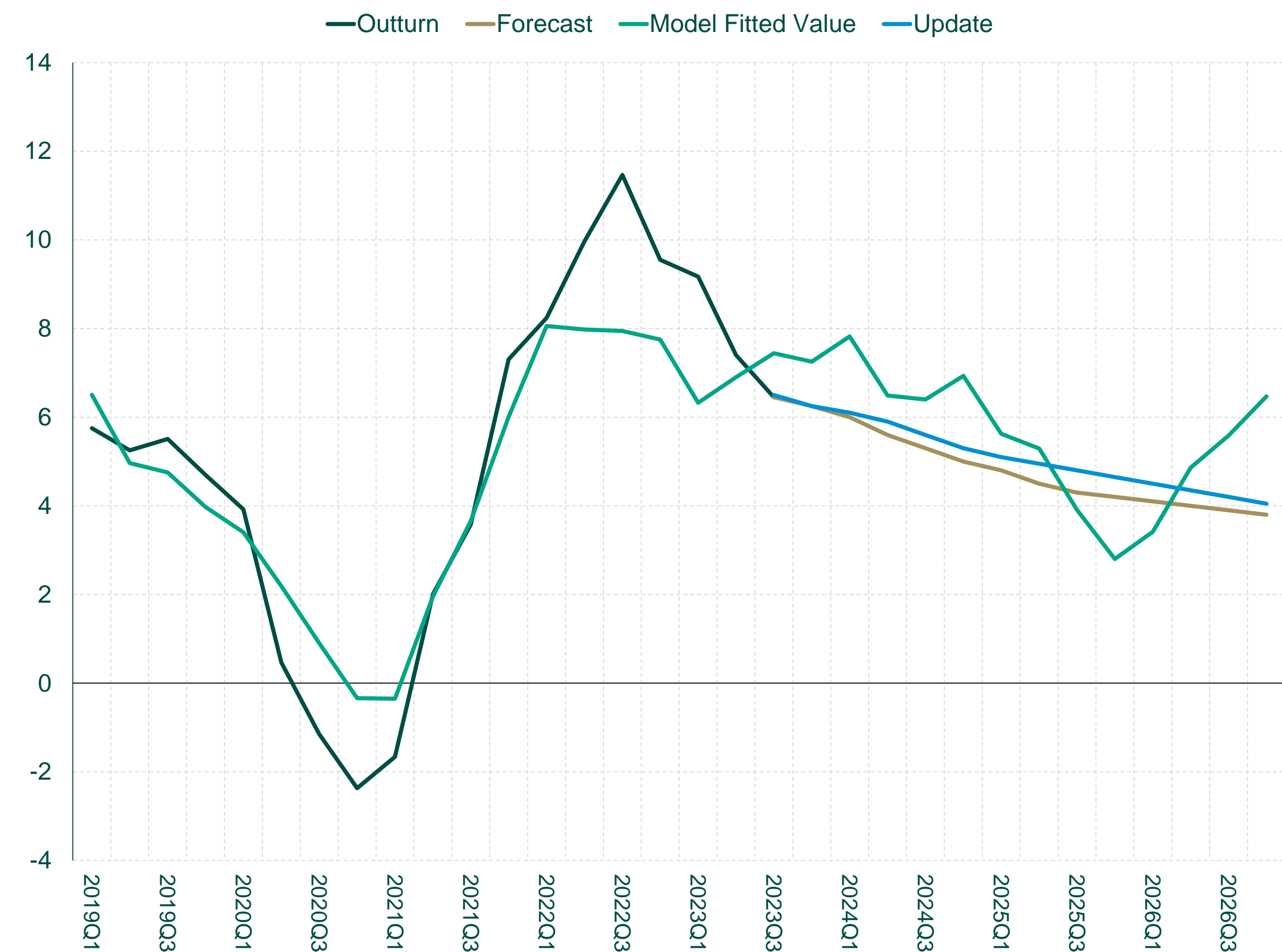
Core inflation developments



Seasonality in Core Services



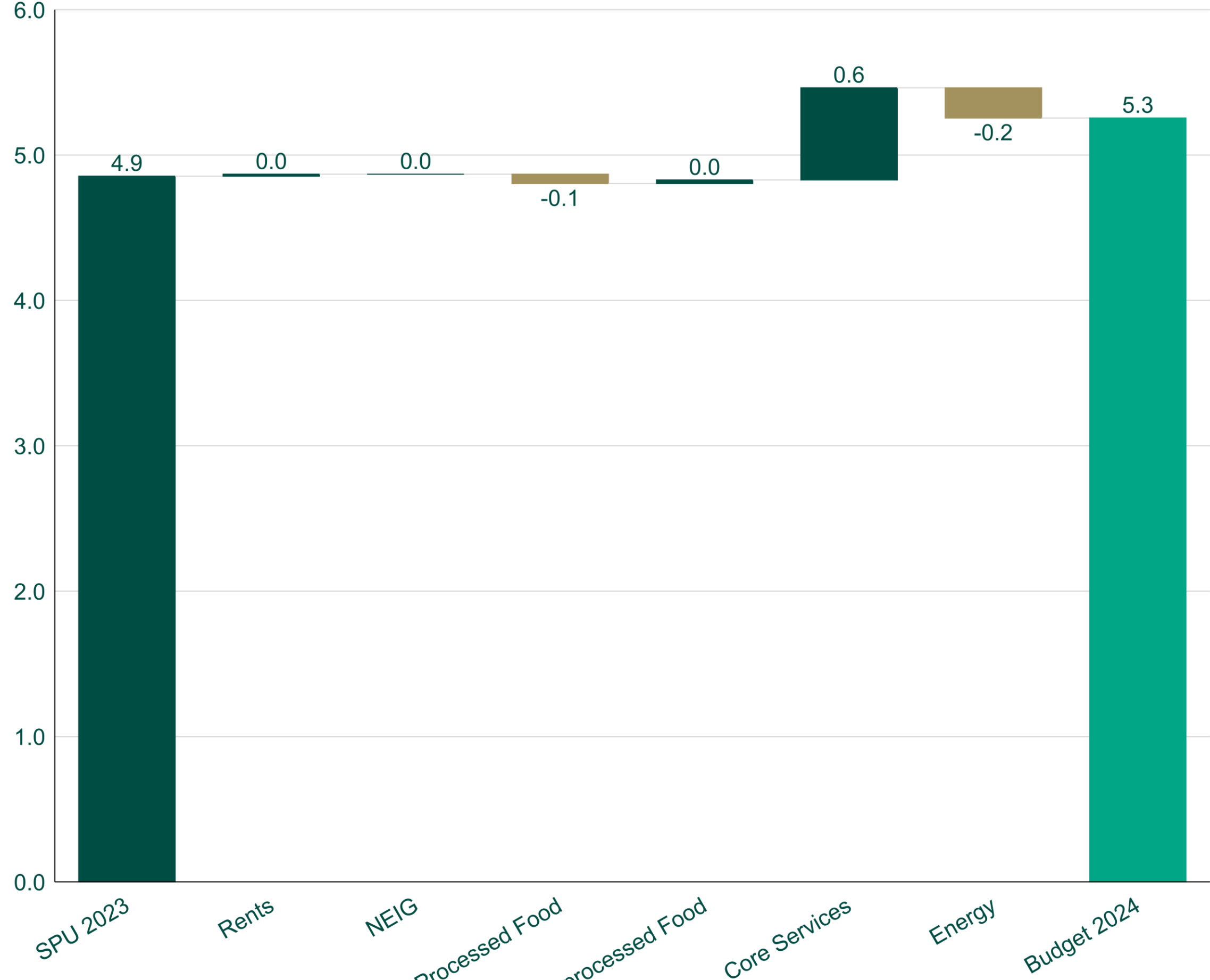
Rent inflation



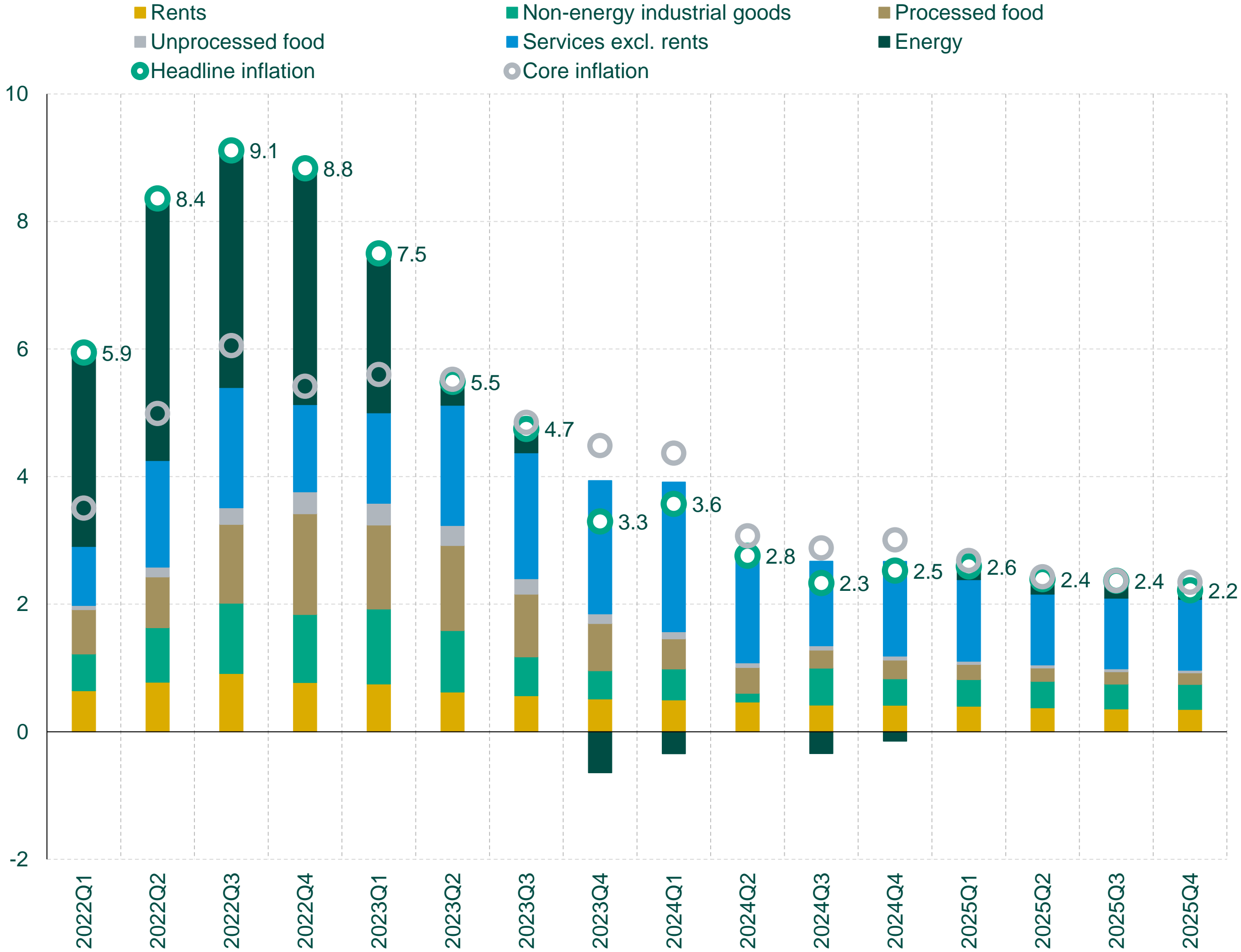
Inflation anticipated to remain high driven by persistent core inflation



Contribution to change in 2023 HICP inflation forecast



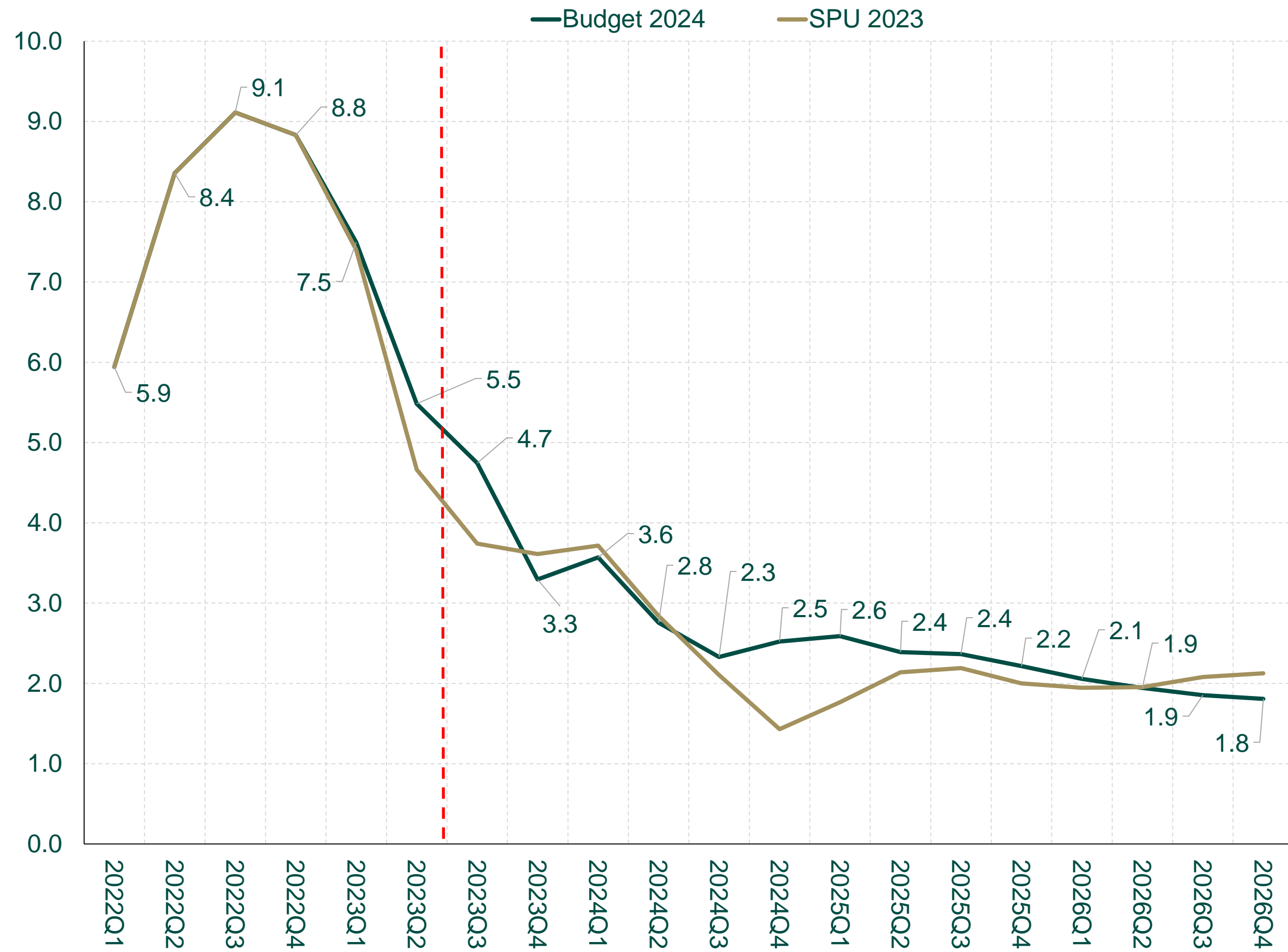
Contribution to y/y growth in headline inflation, pp



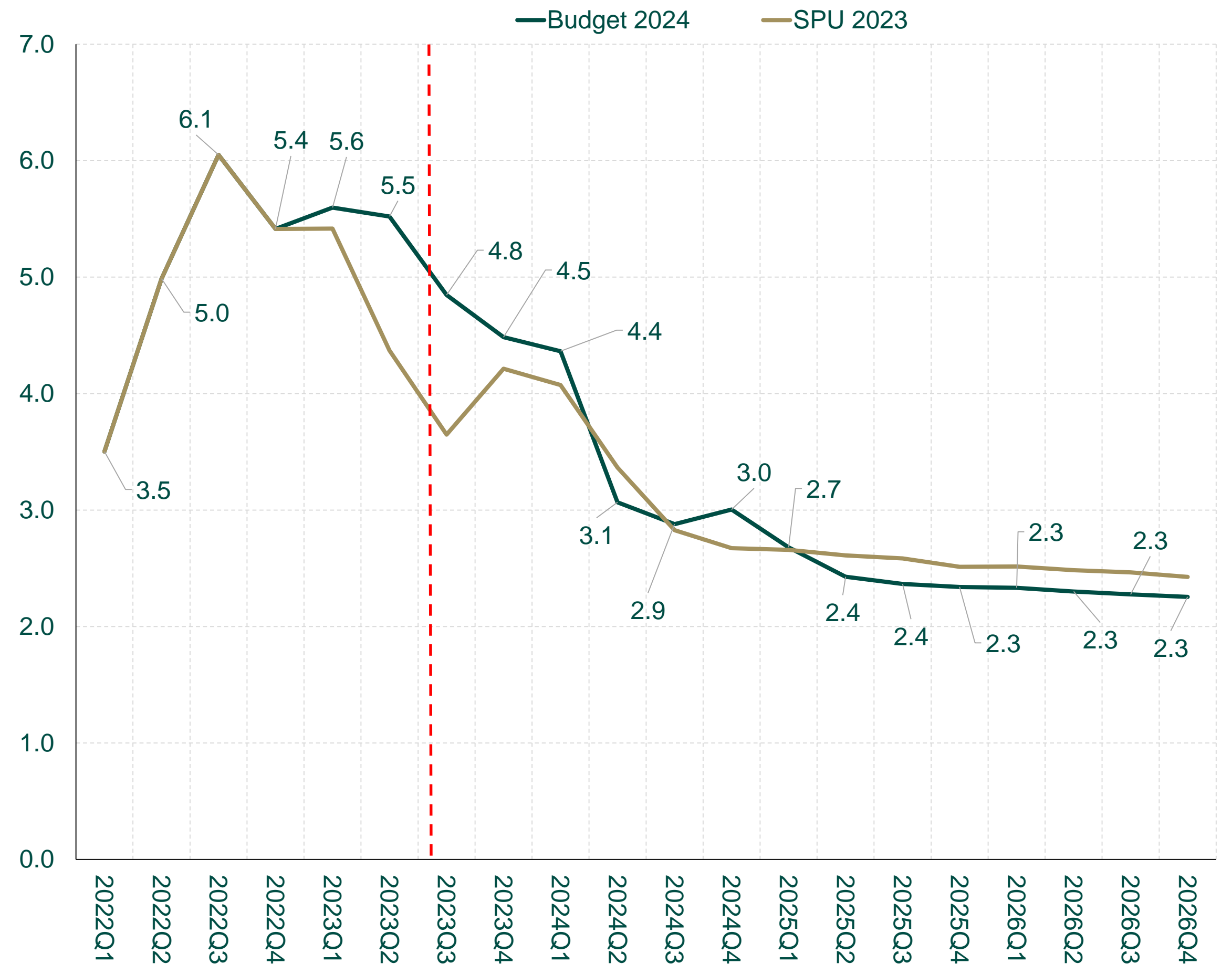
Inflation to decline more slowly than previously anticipated



Headline HICP, y/y % change



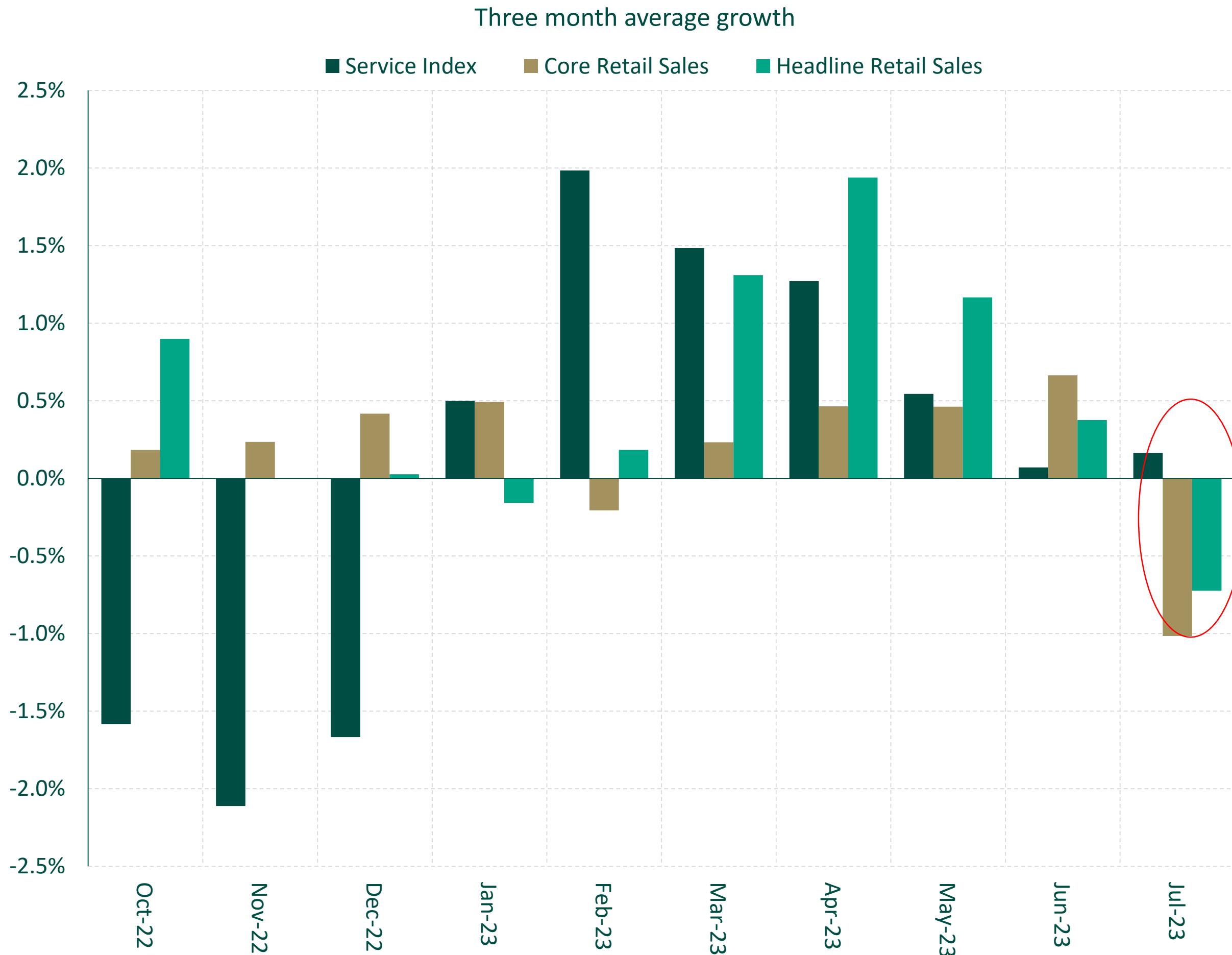
HICP excl. energy & unprocessed food, y/y % change



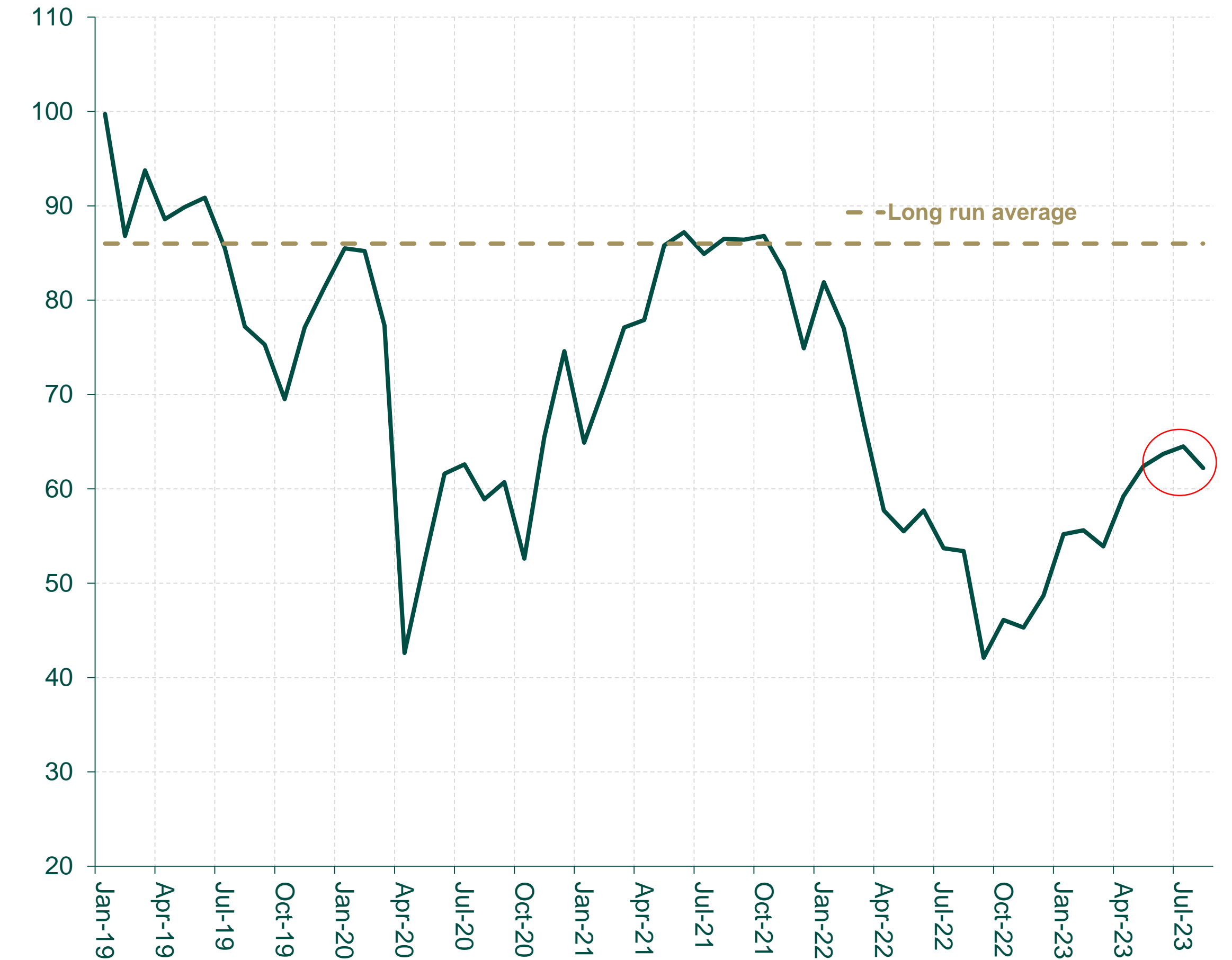
Consumer spending: Q3 2023



Retail sales, Services index



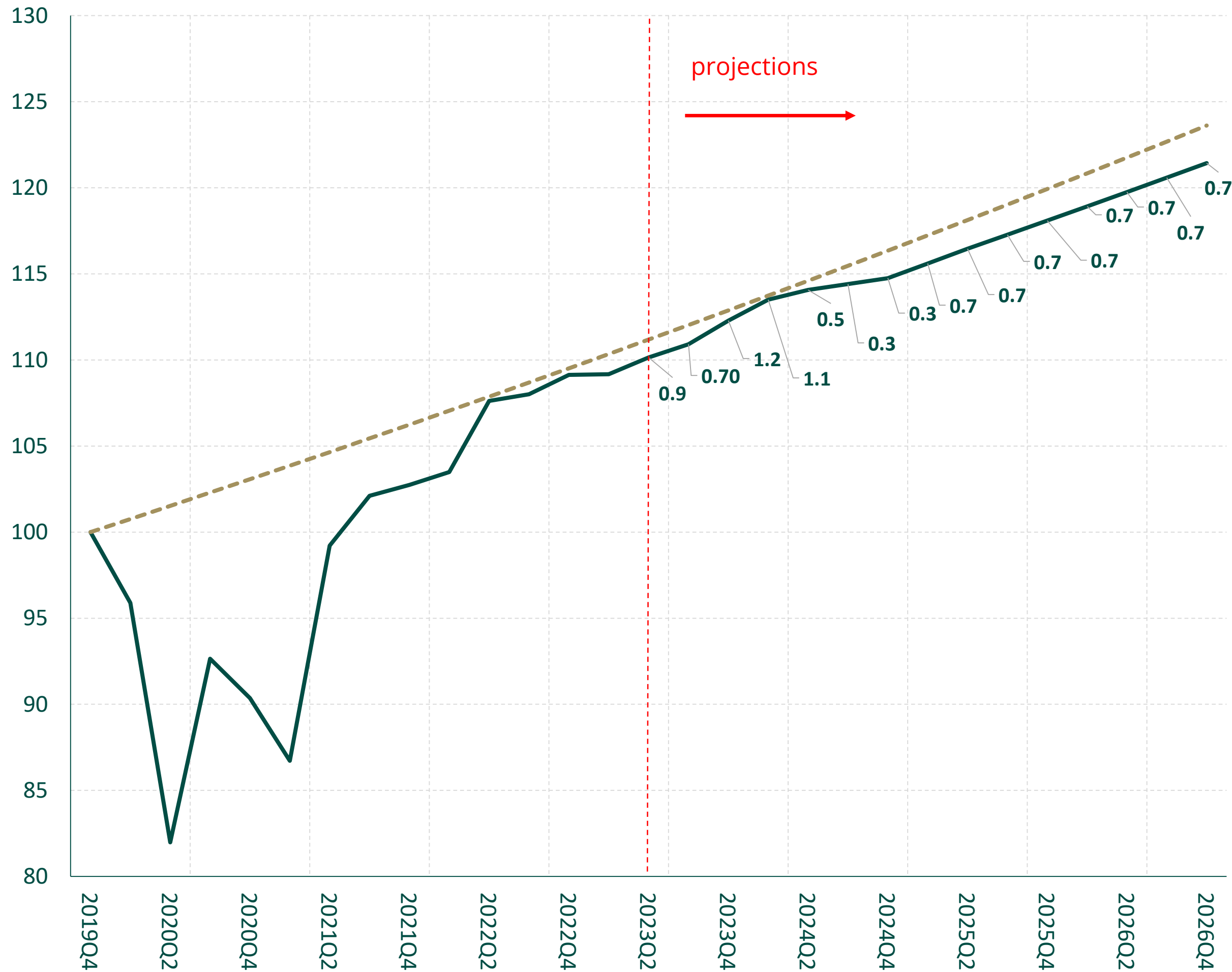
Consumer Sentiment Index



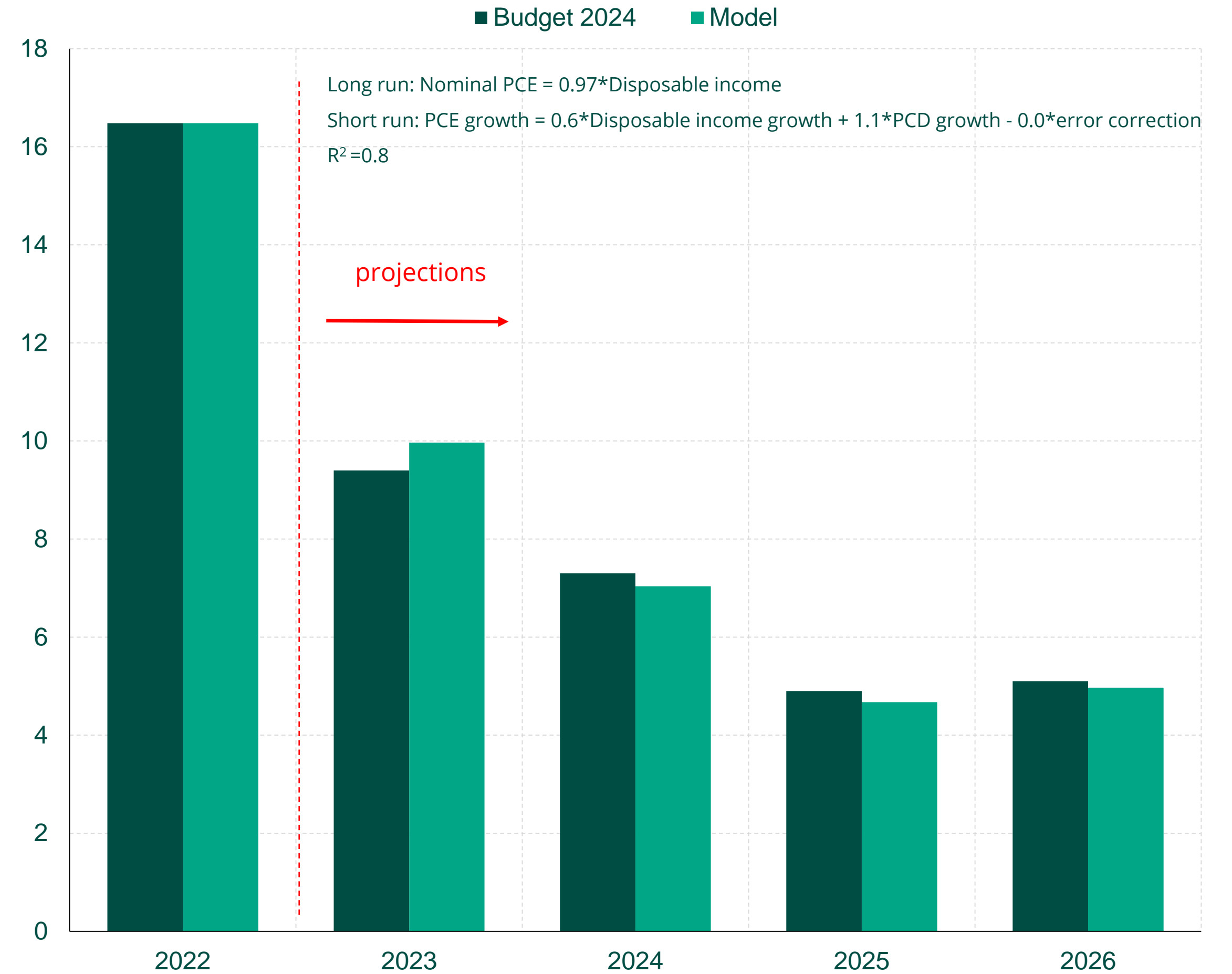
Pick-up in consumption driven by cost of living measures



Real PCE Budget 2024, 2019Q4=100



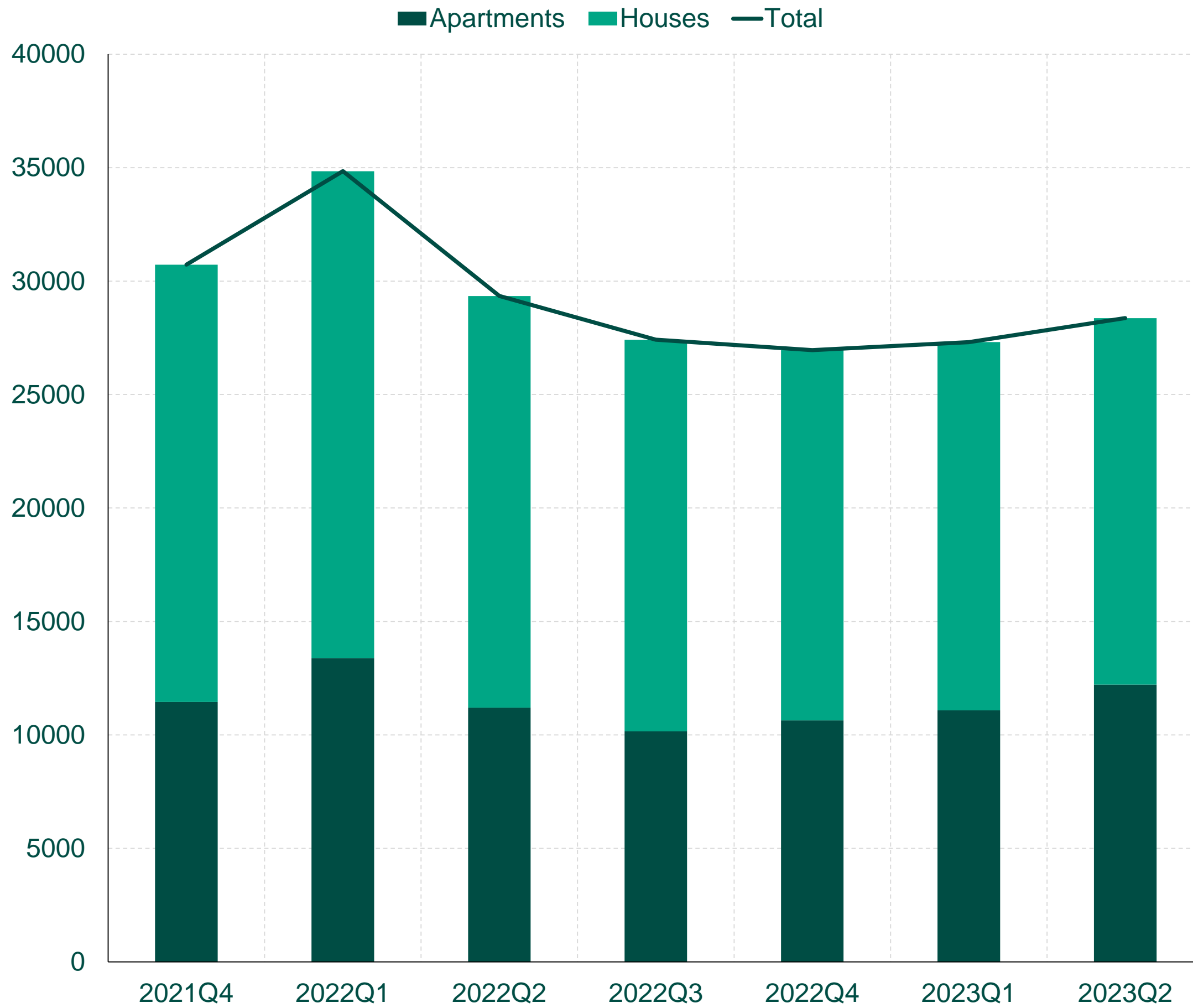
Nominal consumption model, annual % growth



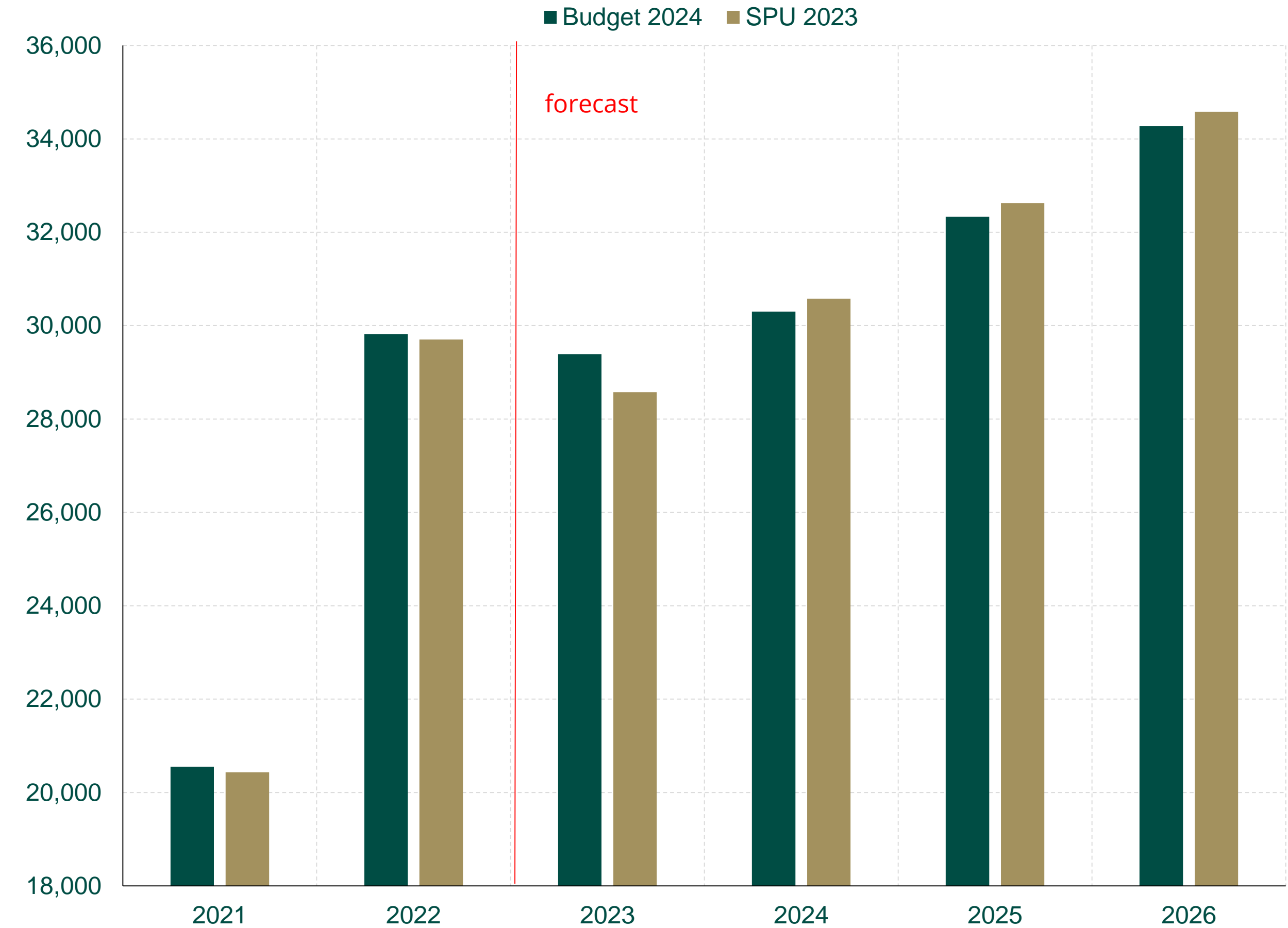
Housing investment: developments and outlook



Housing Commencements by type (4QRS)



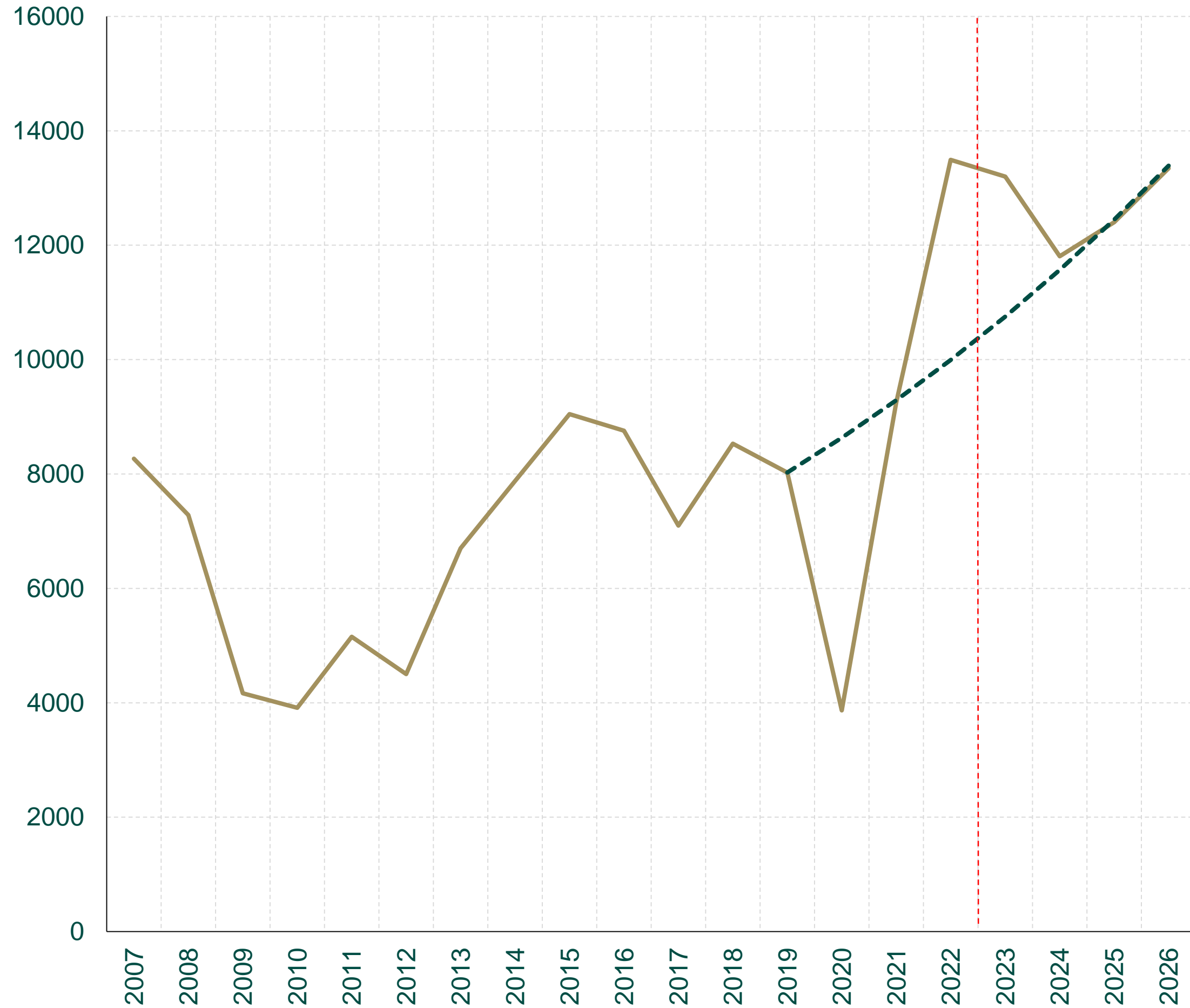
Housing completions forecast



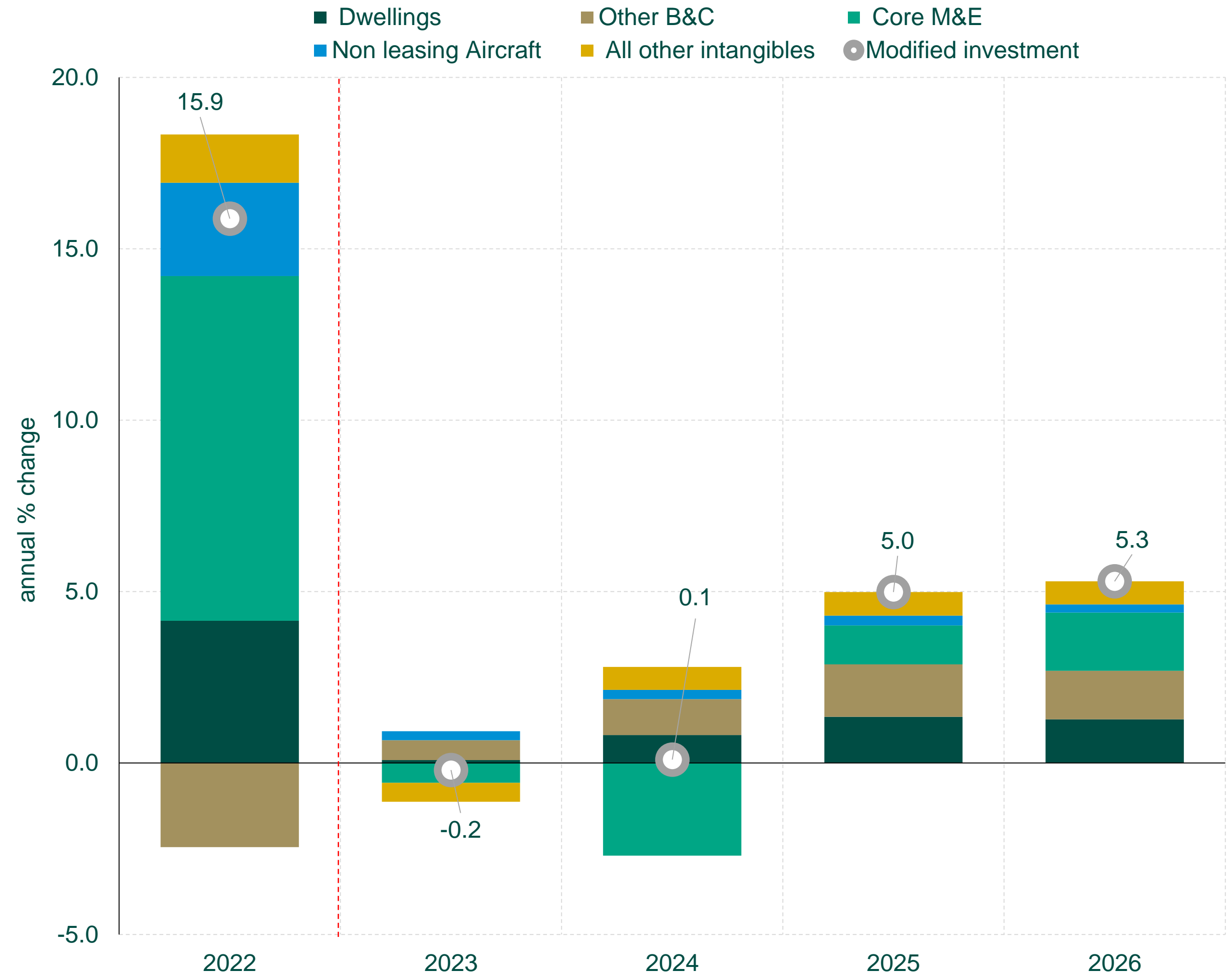
Modified investment: developments and outlook



Core M&E investment



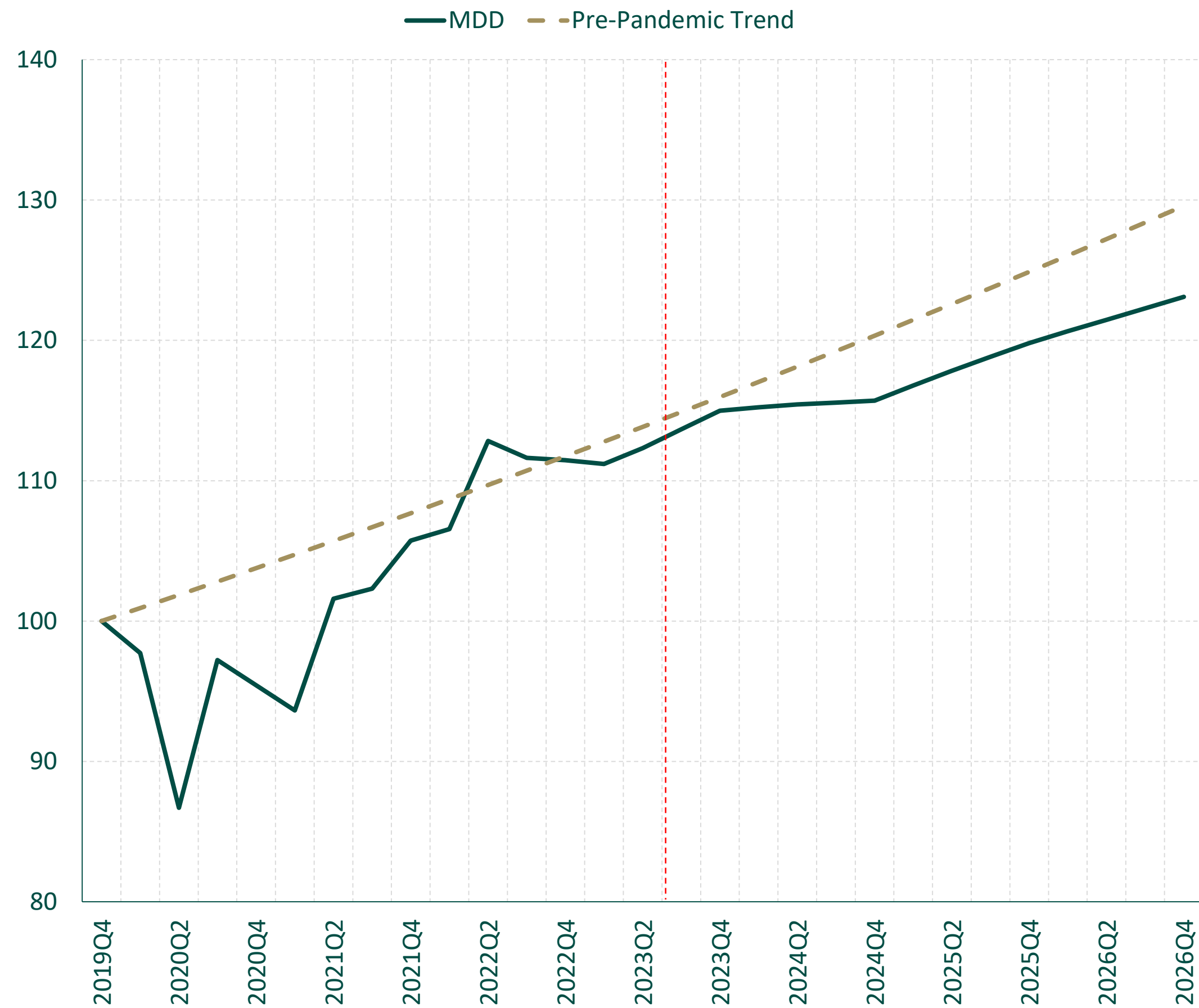
Modified investment: contribution



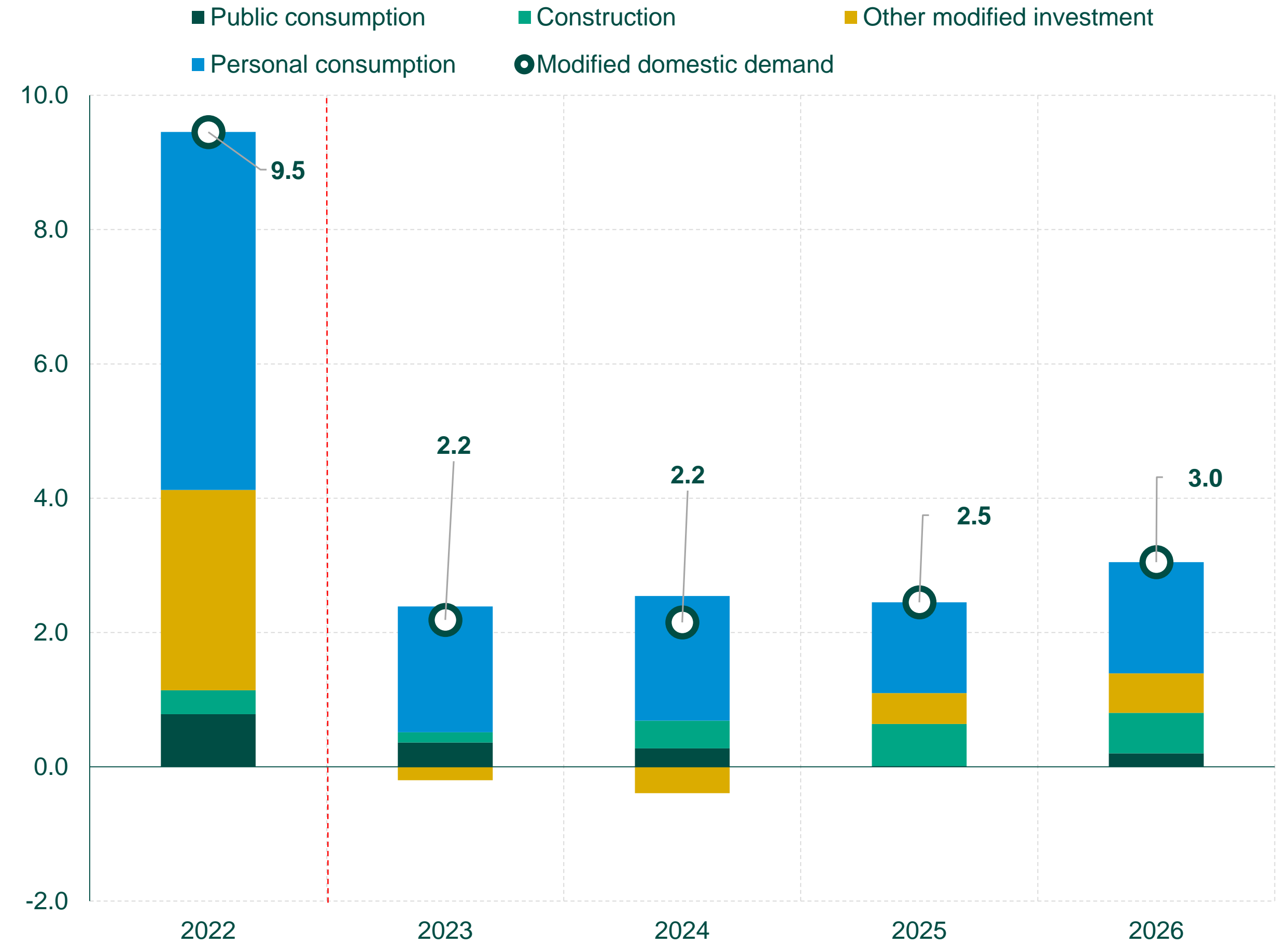
Modified Domestic Demand: developments and outlook



Real MDD growth, 2019Q4 = 100



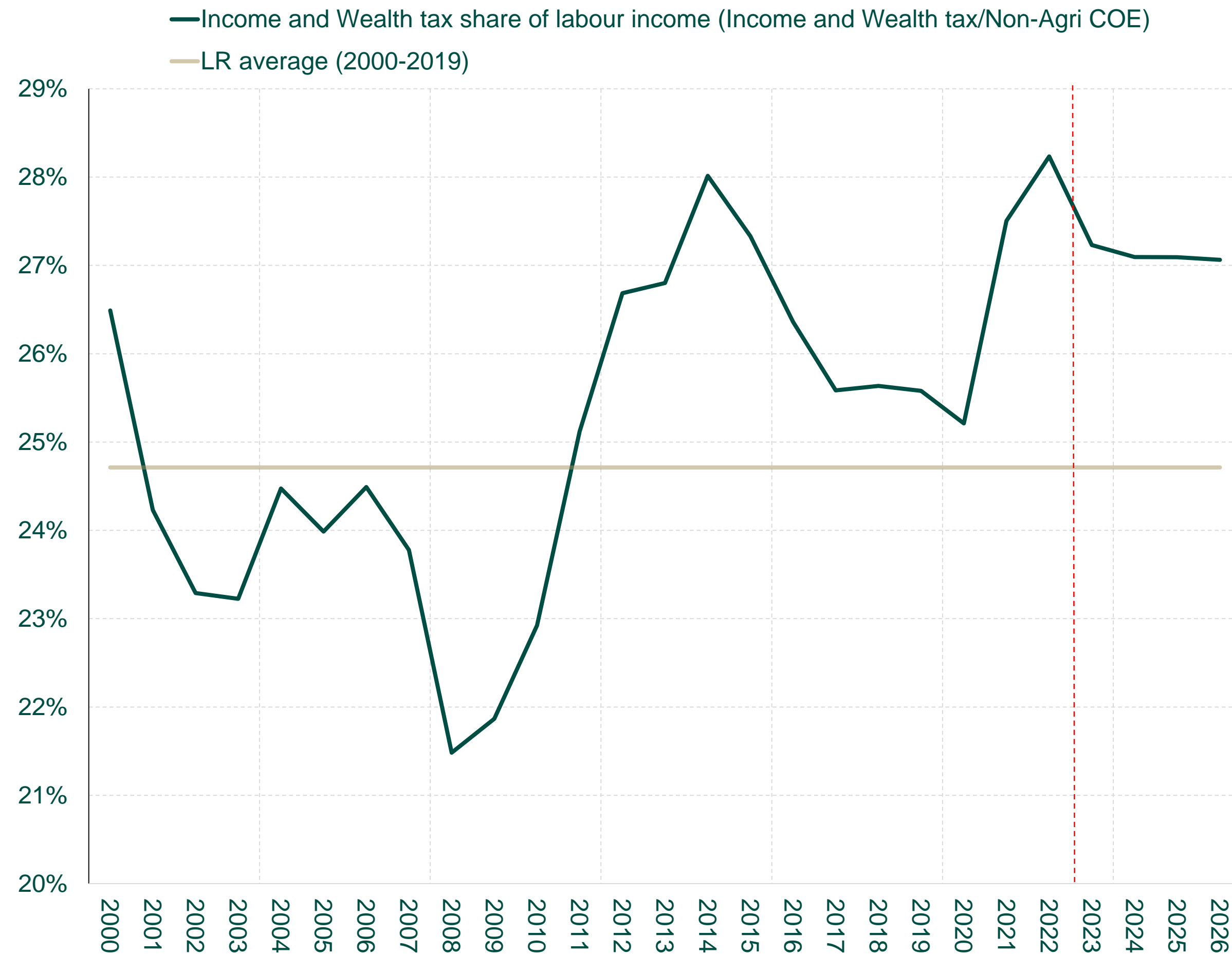
MDD Contribution Chart



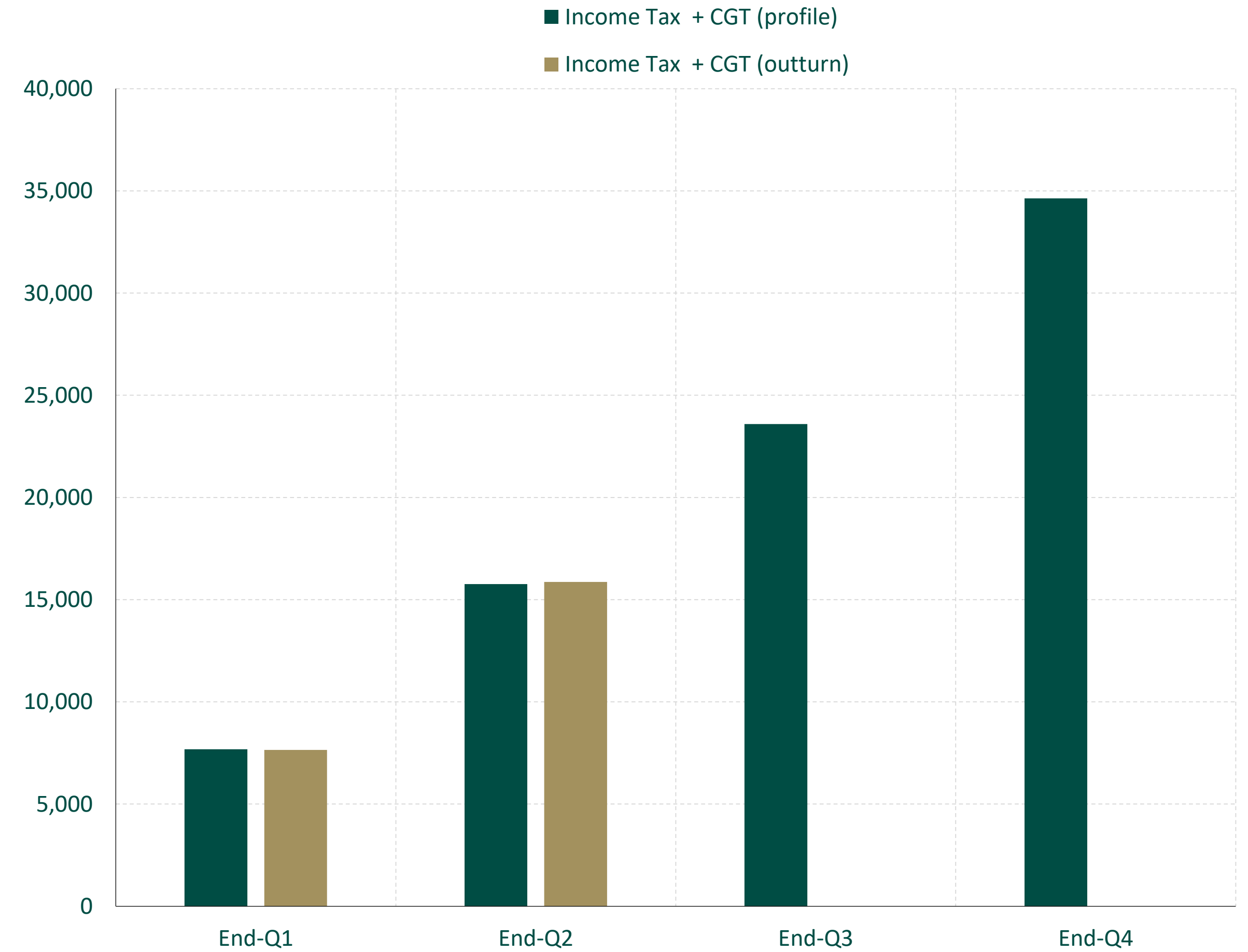
Income tax ratio



Income & wealth tax to COE ratio



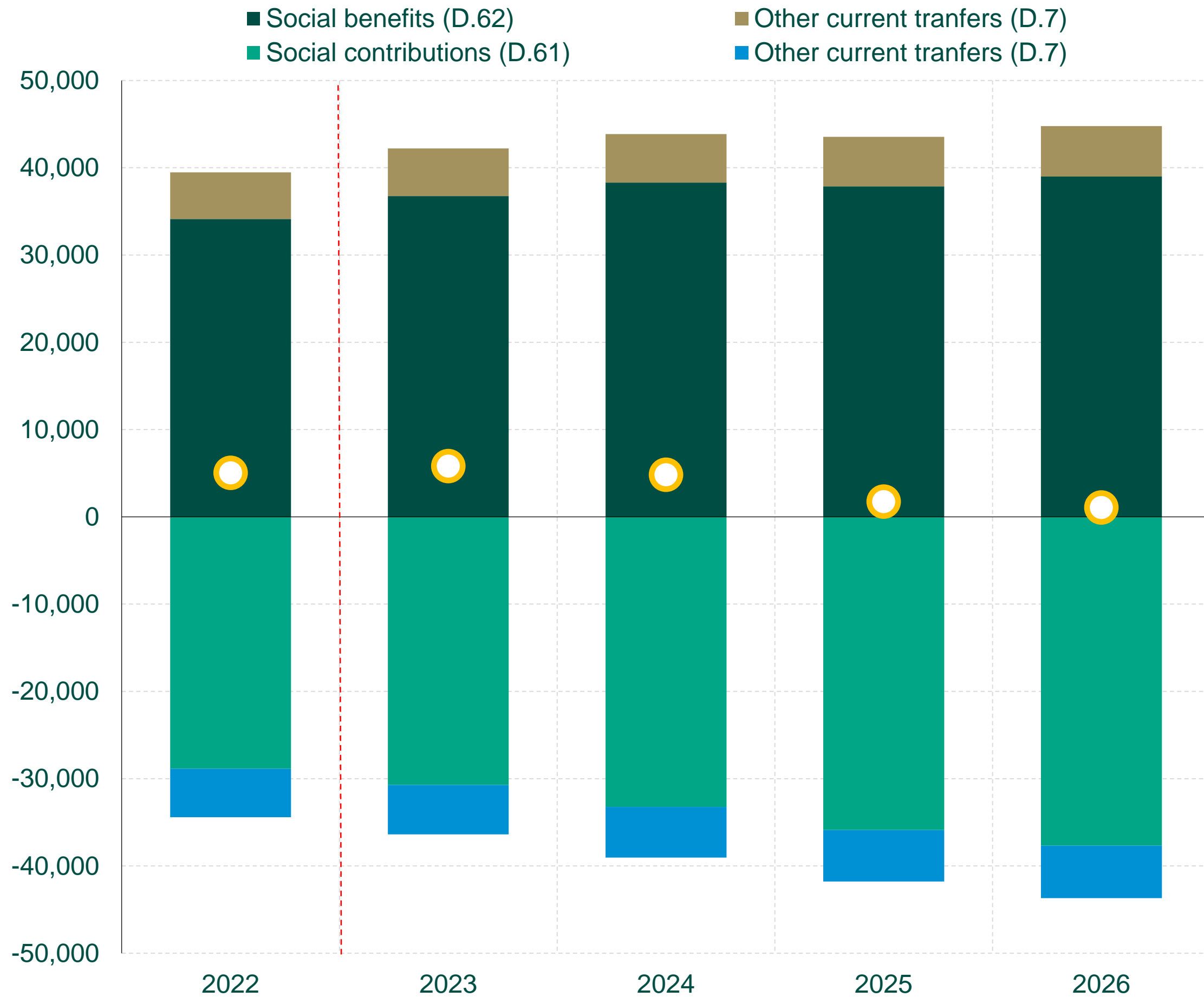
Income Tax & CGT Profile V's Outturn



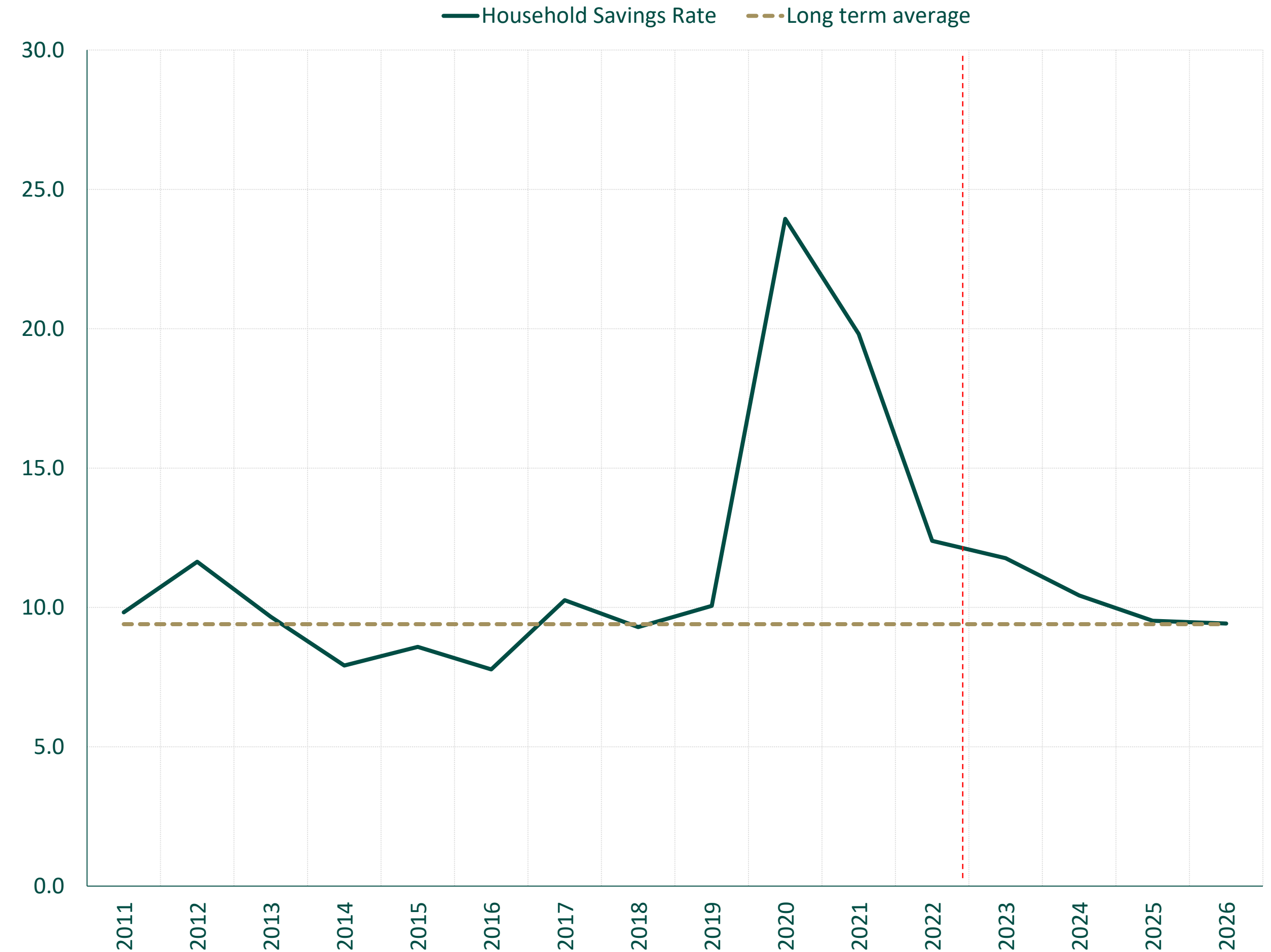
Household net transfers



Gross transfers to households, € mn



Household savings rate, per cent Y_d



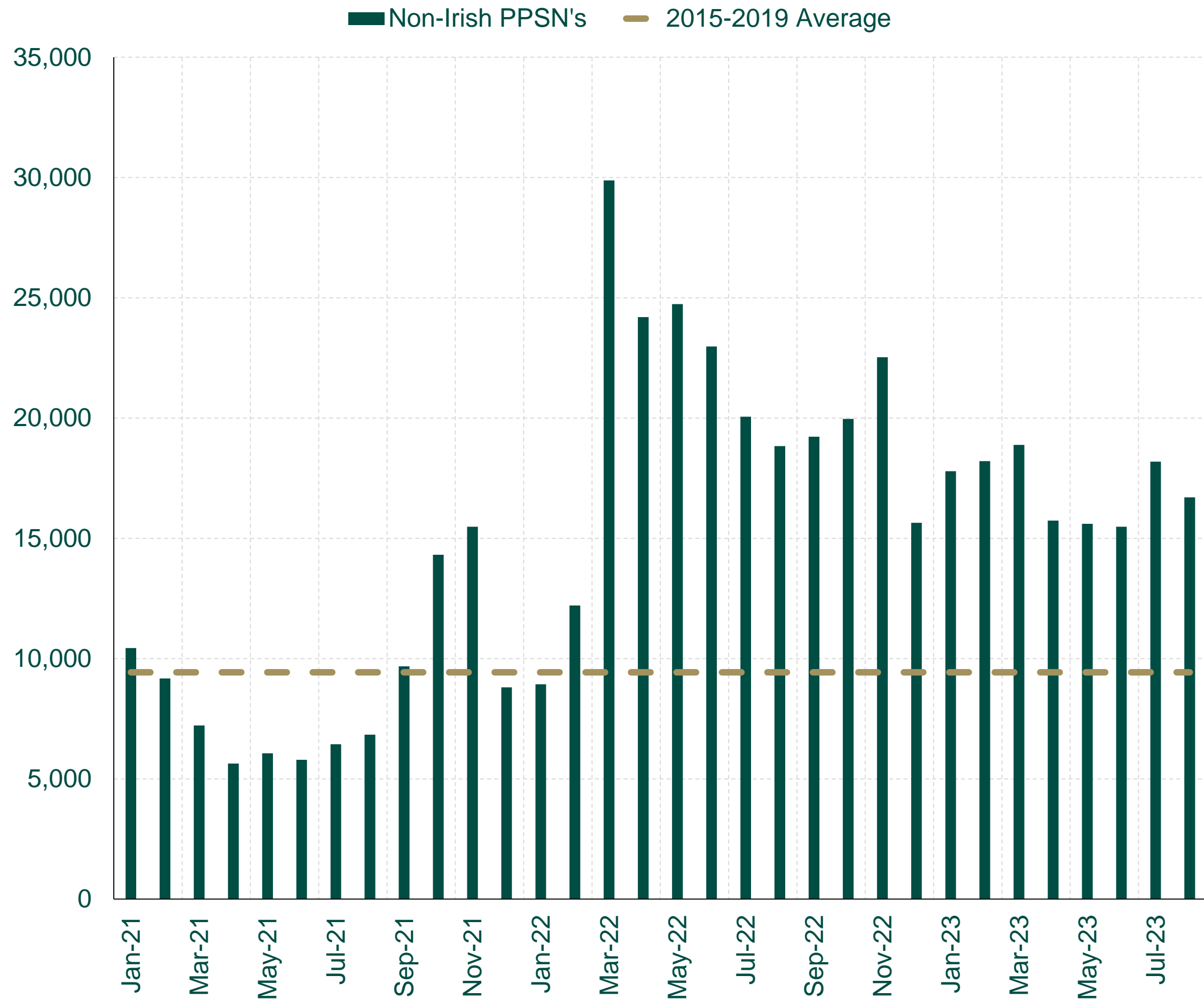


Labour Market

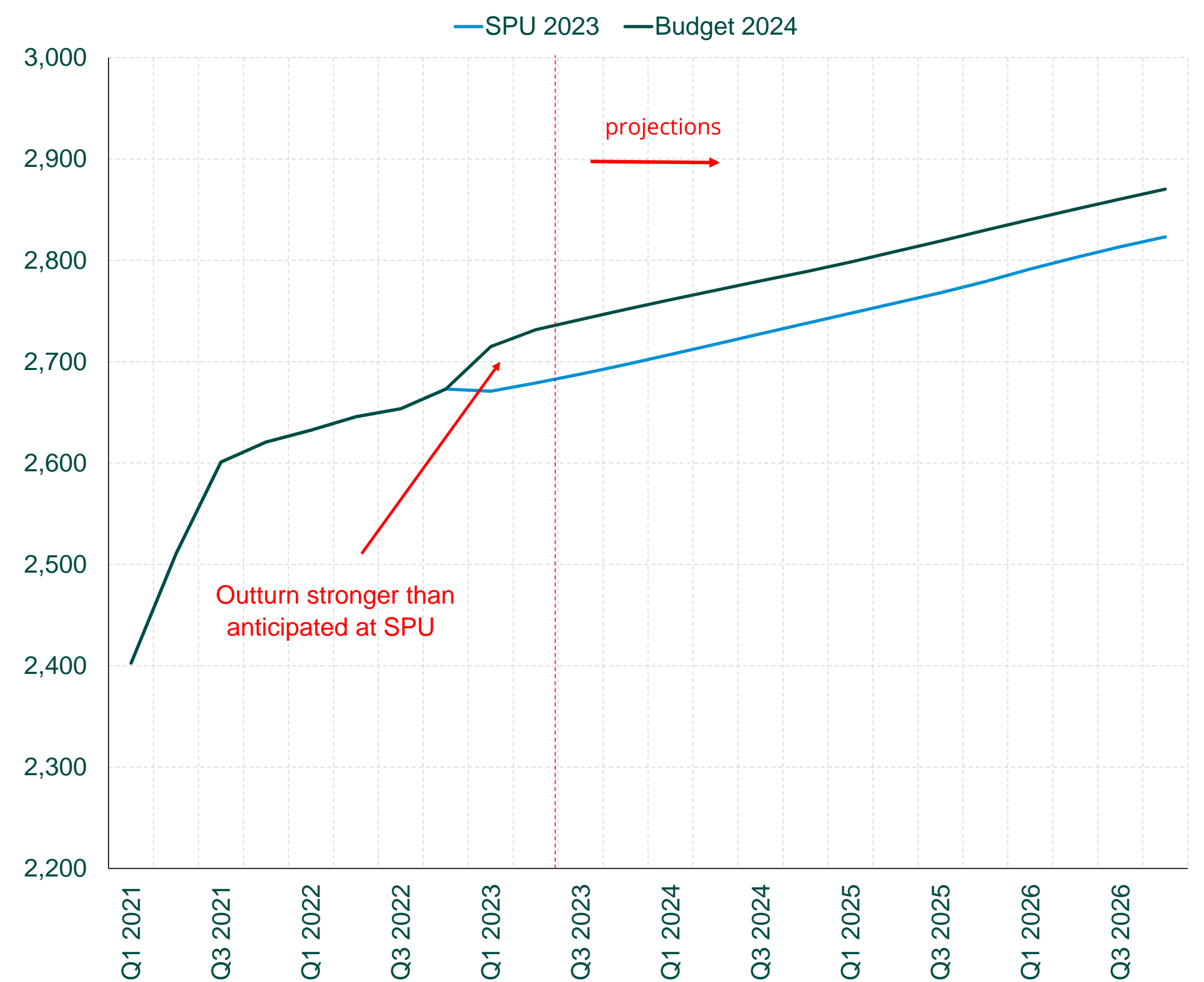
Continued strong inward migration to drive labour force growth in H2 2023



Non-Irish PPSN issuances higher than expected at SPU



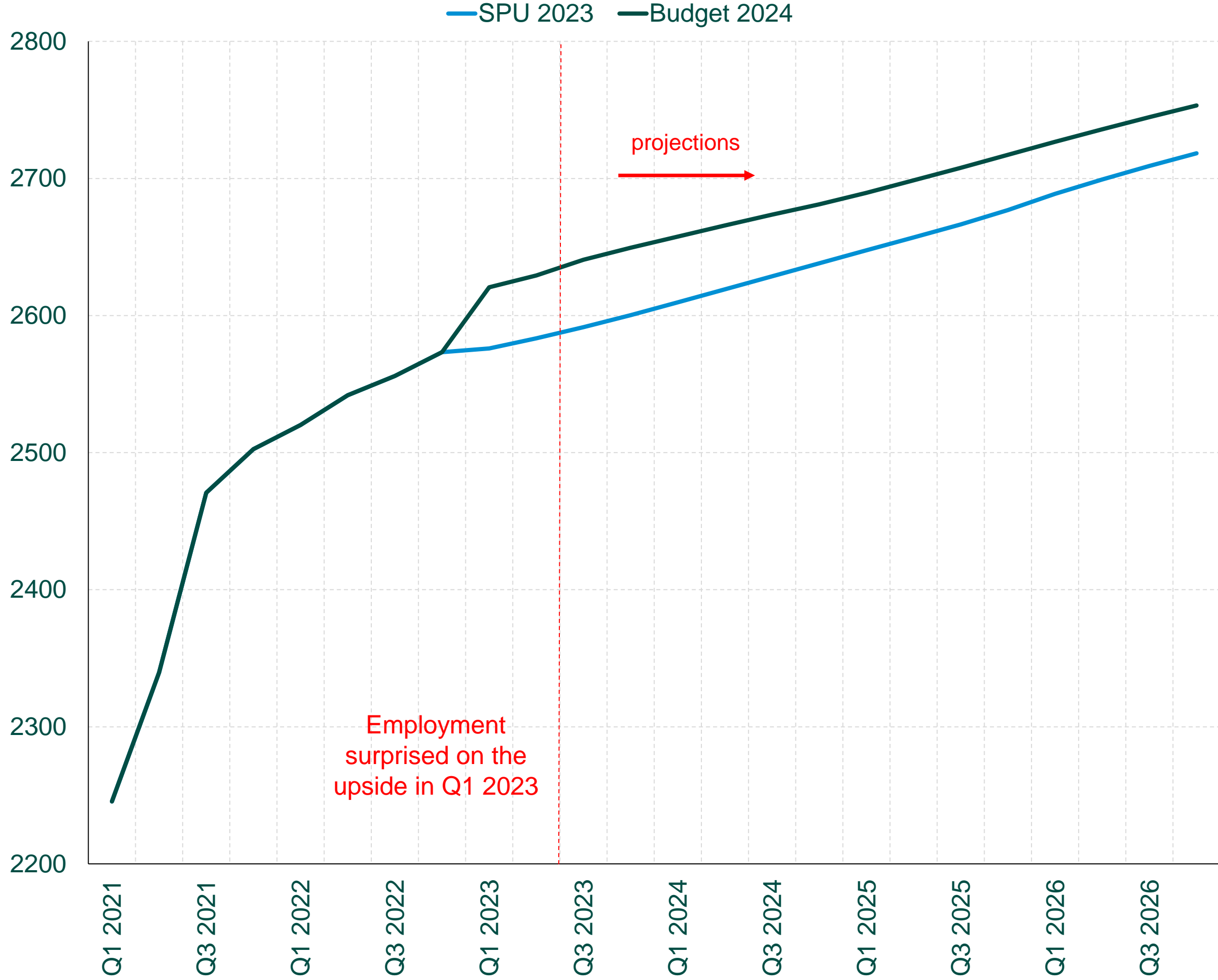
Labour force, '000



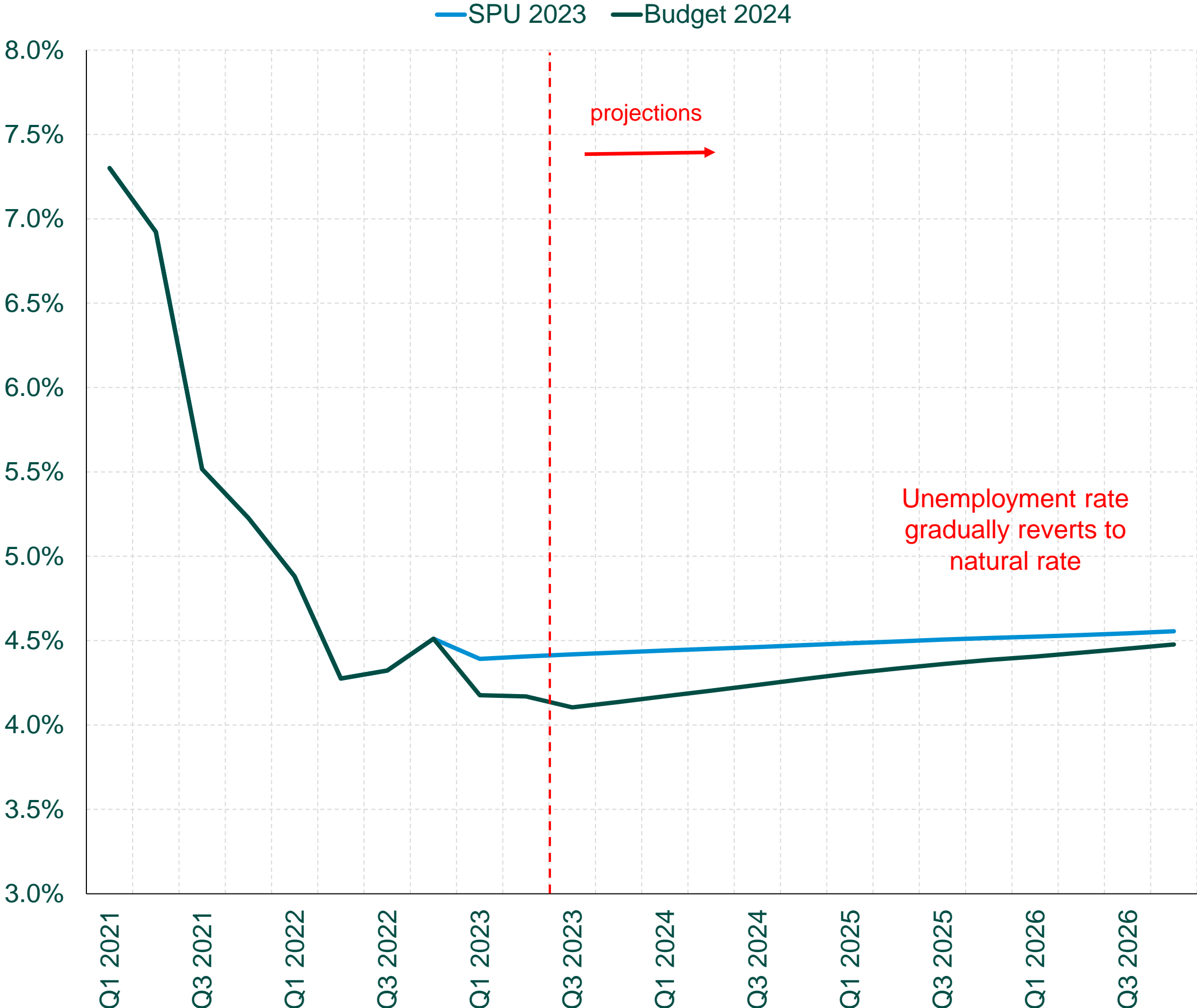
Employment growth to slow in line with outlook for domestic demand



Employment, 000



Unemployment rate, per cent



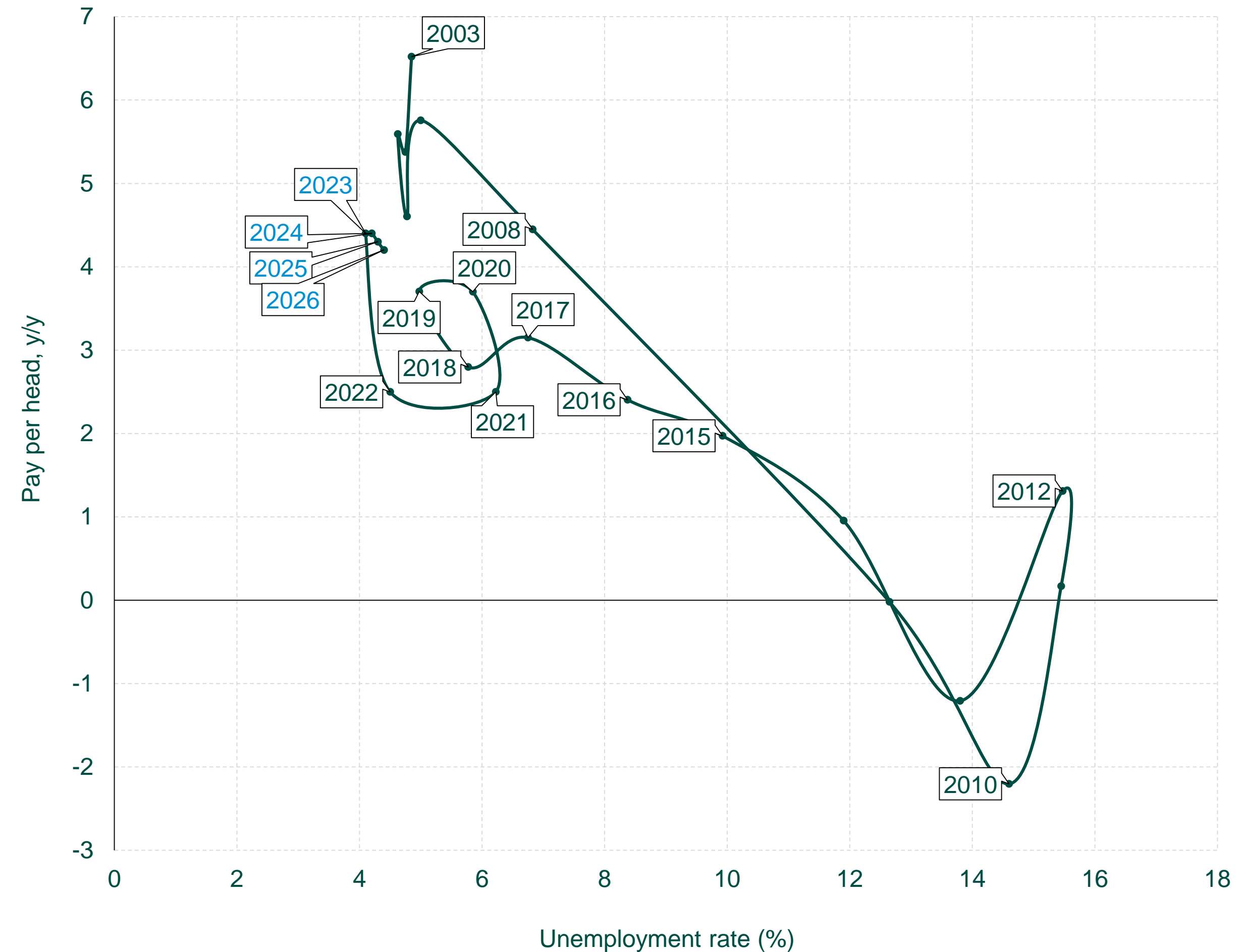
Wage growth to pick up as labour market remains relatively tight



Contributions to COE growth, per cent change



Phillips curve



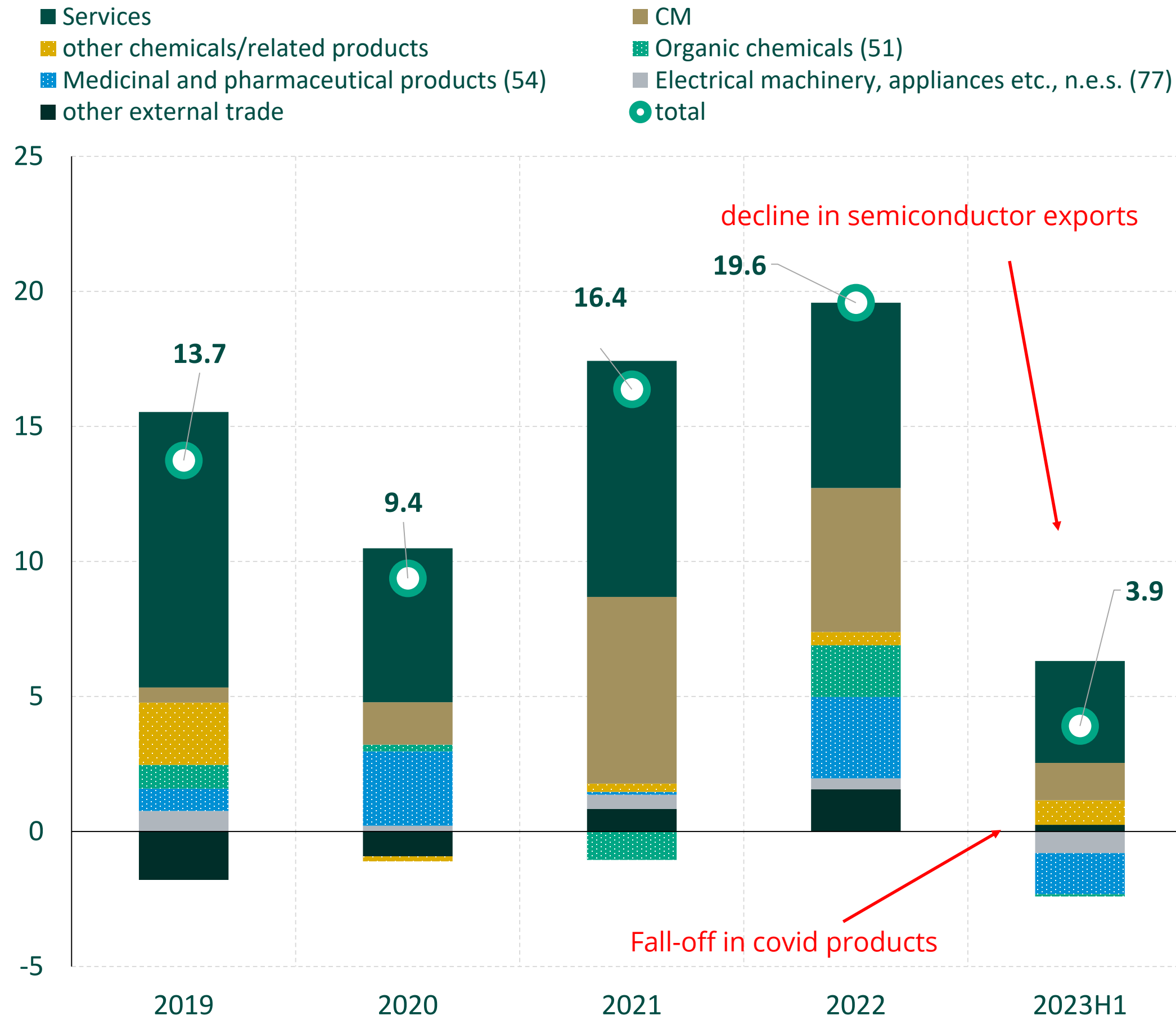


External developments and implications for trade

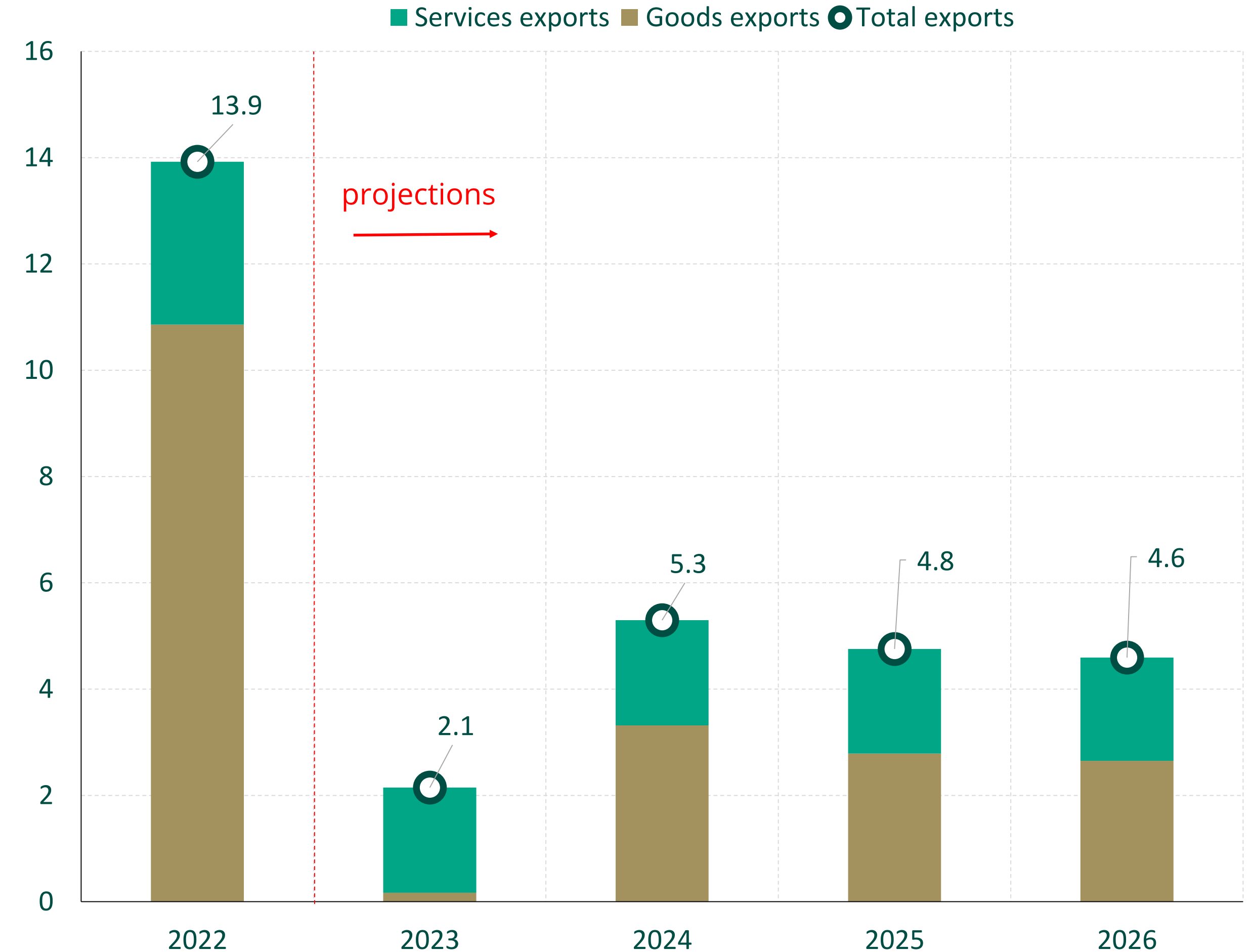
Weak export growth driven by flat goods in 2023



Product specific fall in goods outturns in H1, contribution to y/y % value change



Total export growth, contribution to y/y % change



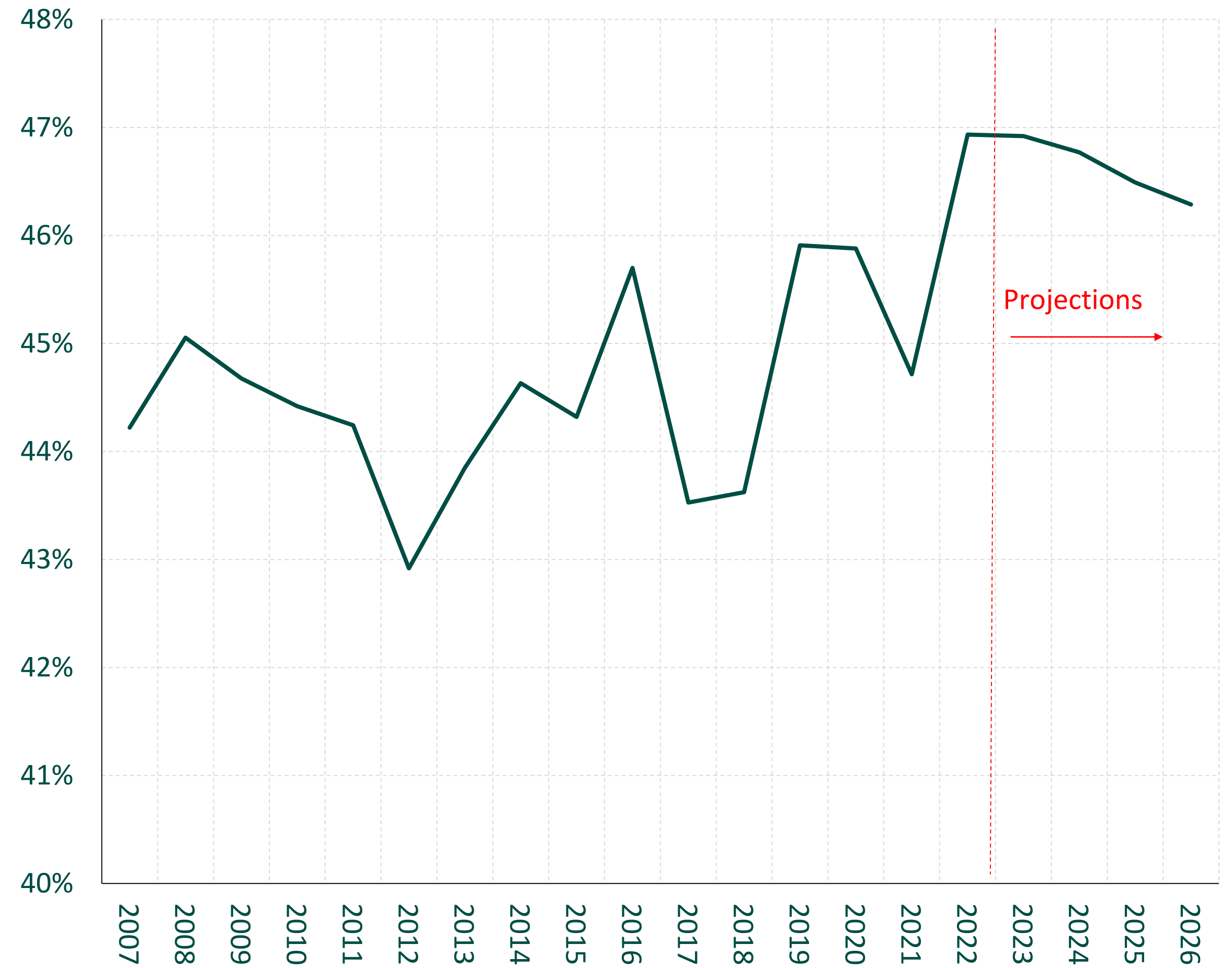
Modified import growth driven by MDD and exports



Modified imports growth forecast y/y % change



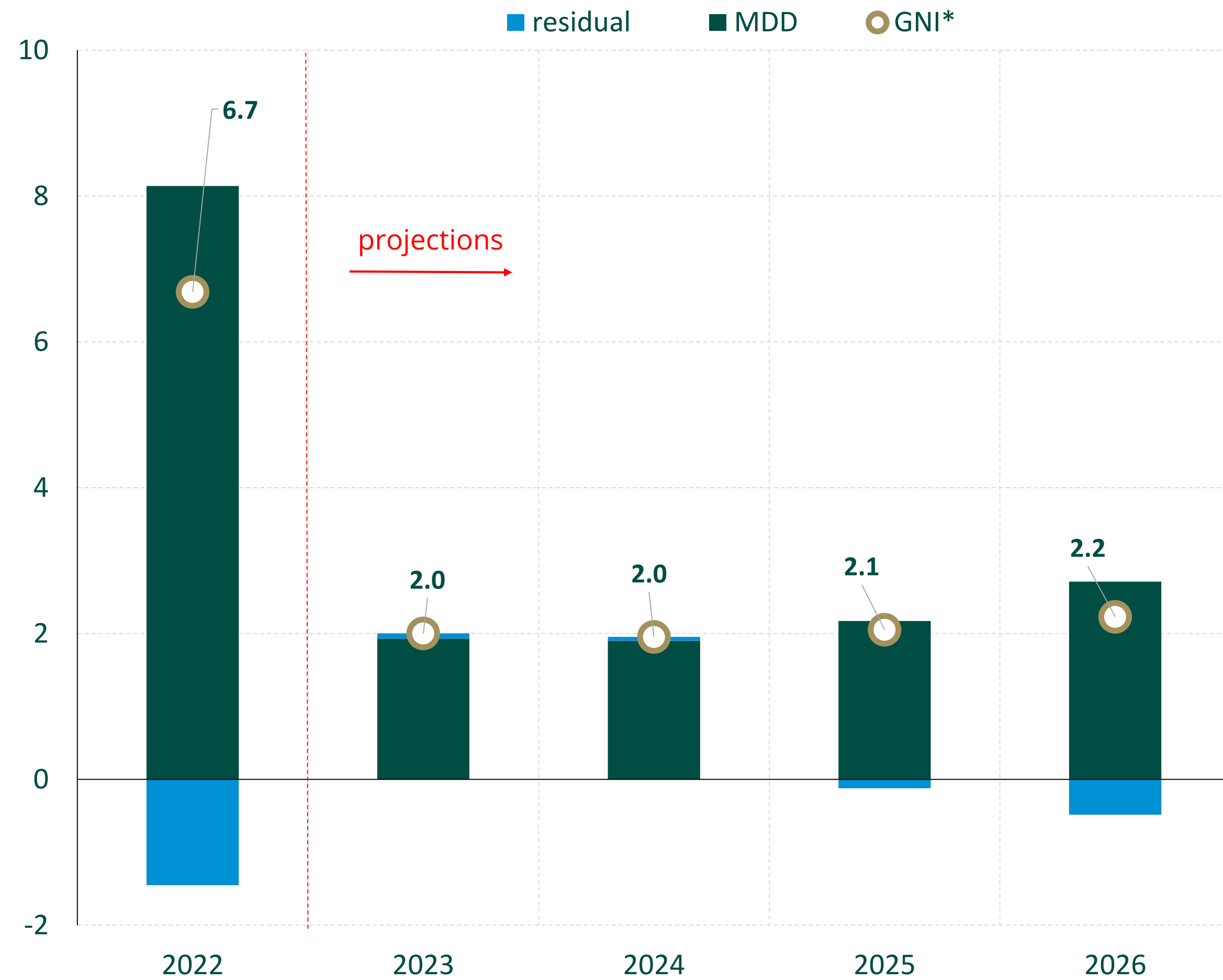
Modified import share of modified final demand, %



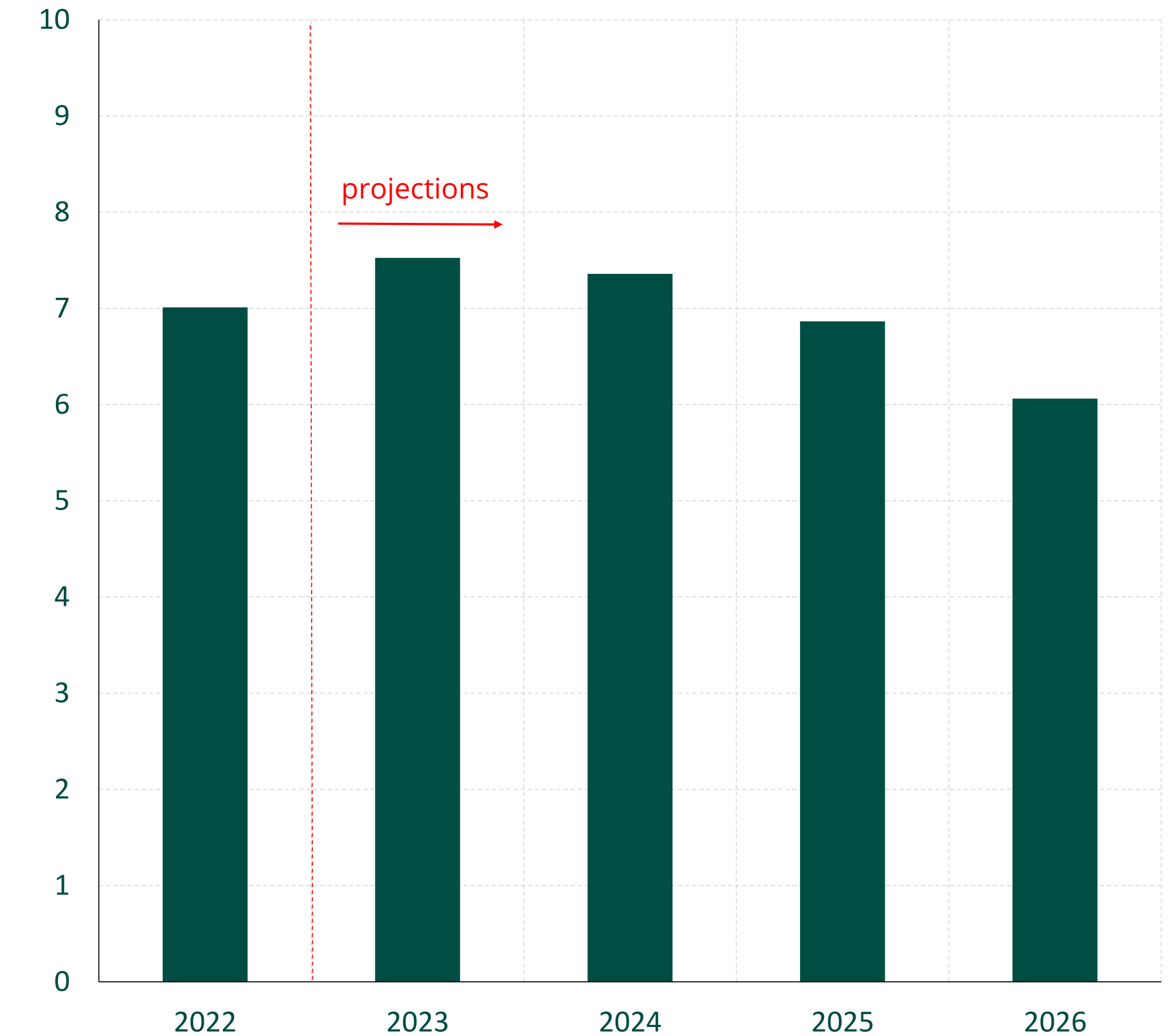
Modified GNI driven by growth in MDD



Real GNI* growth, contribution to y/y % change



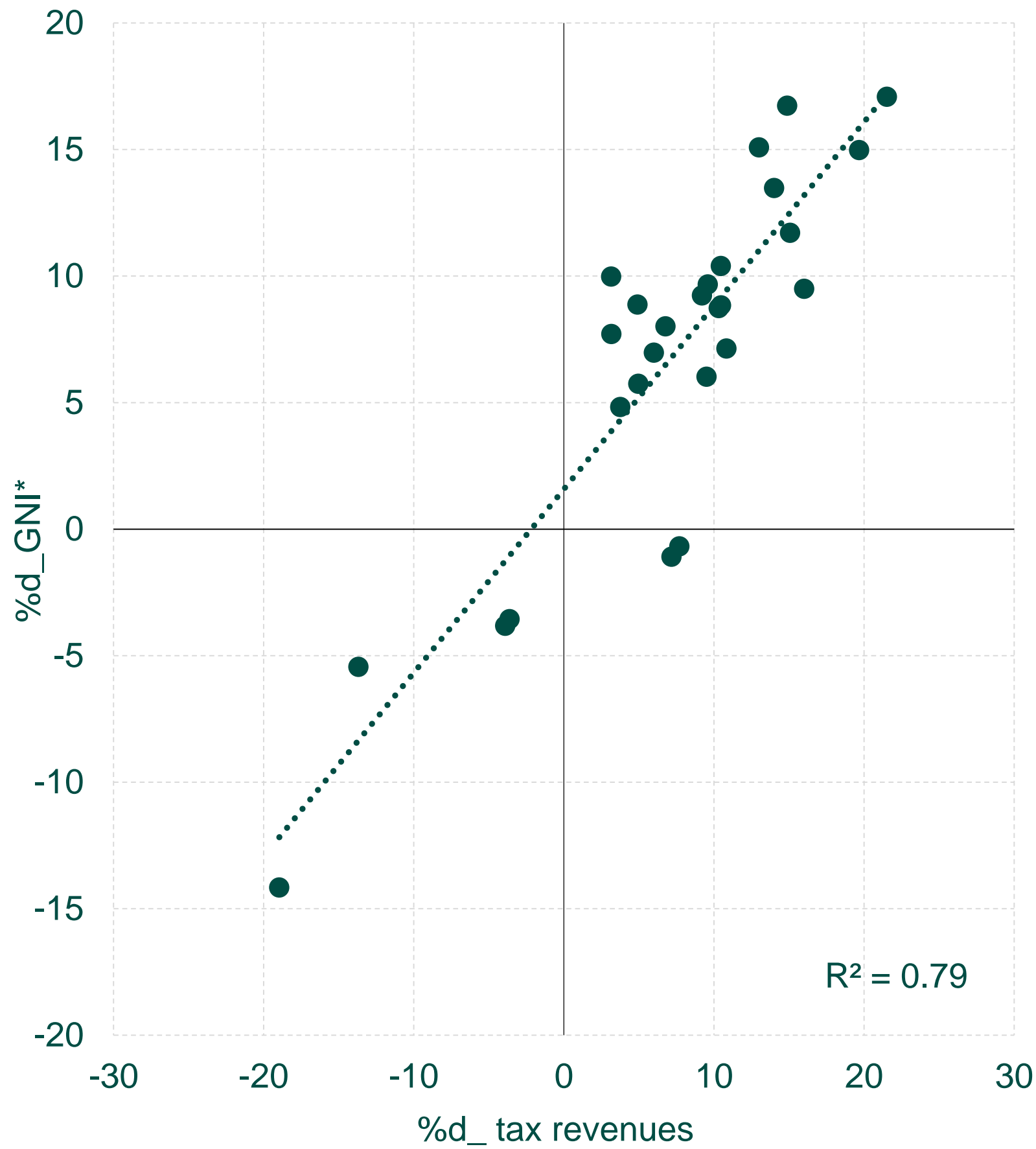
Modified current account, % of GNI*



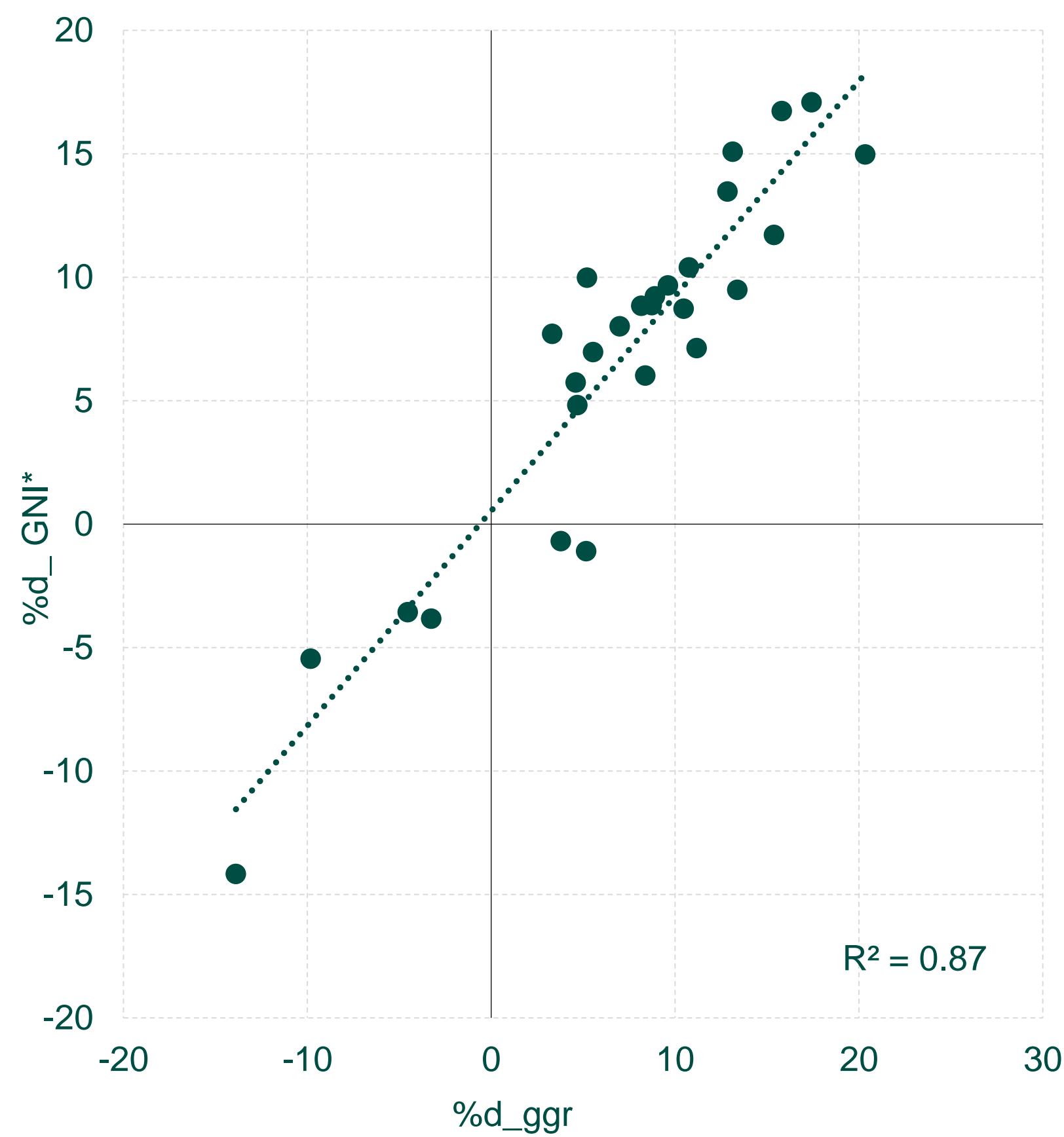
Using tax revenues as a means for projecting GNI* (...in t-1/t)



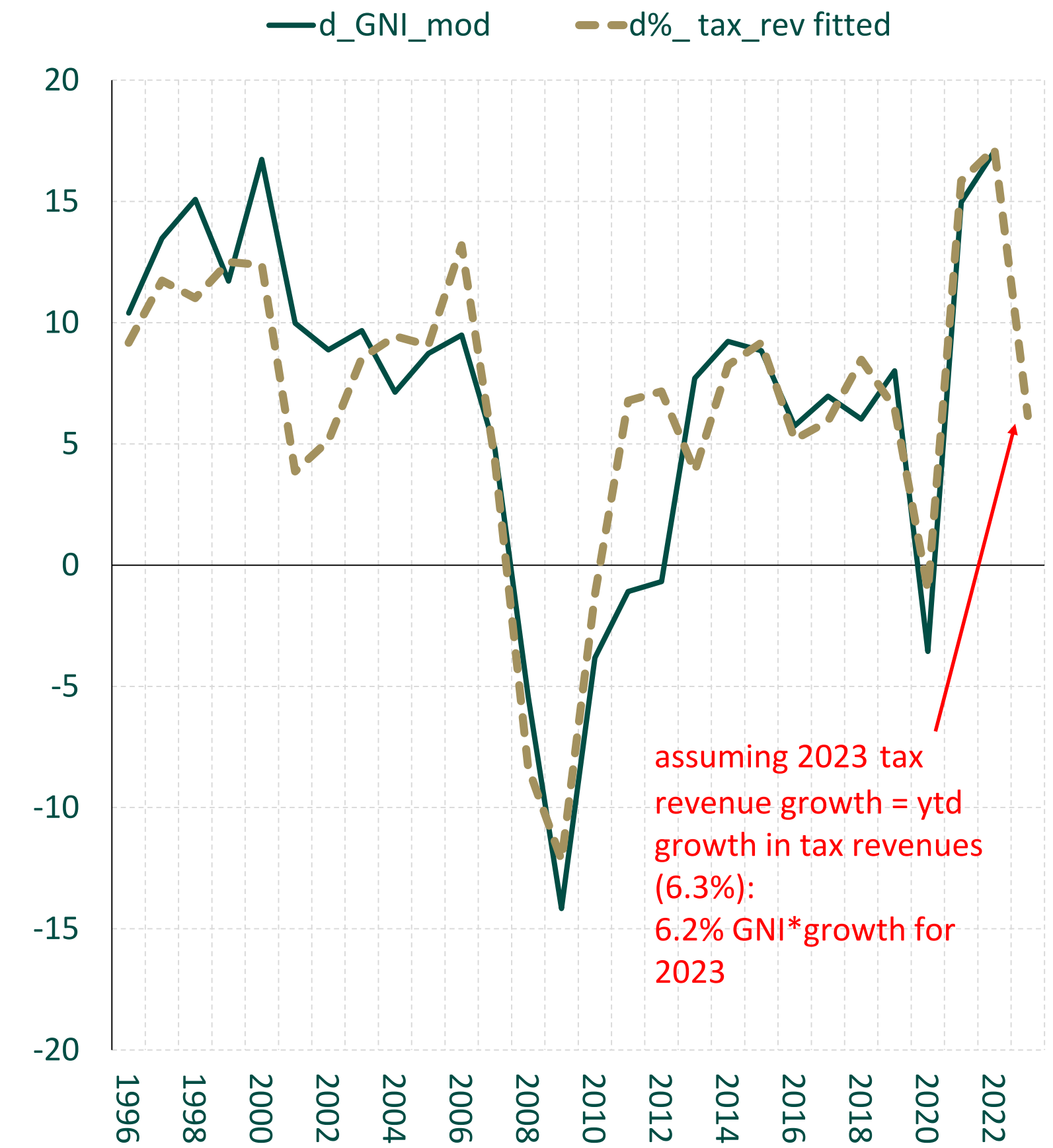
close fit: %change exchequer revenues & GNI*



closer fit: % change general gov revenue



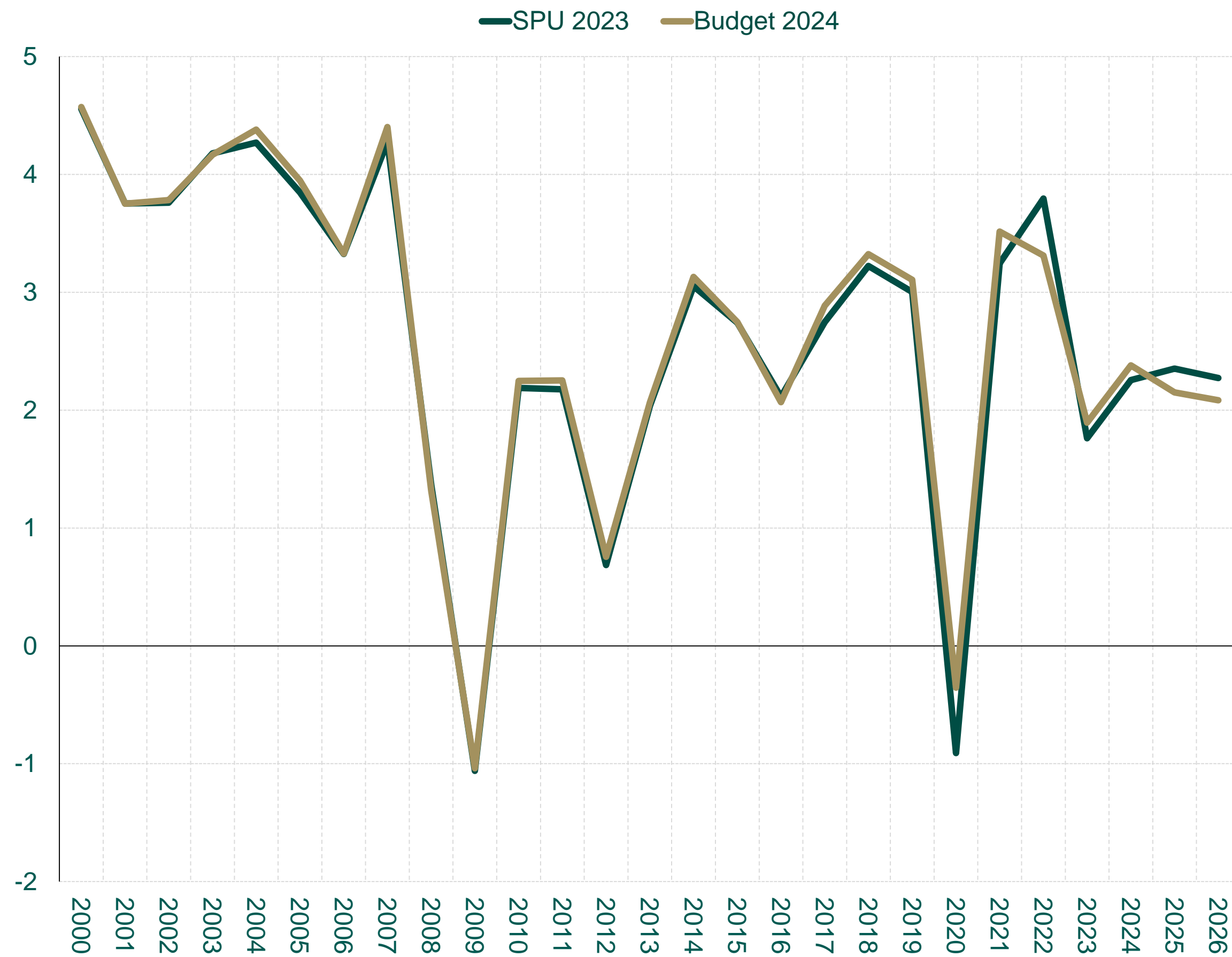
$\%d_GNI^* = 1.58 + 0.73 * \%d_tax$



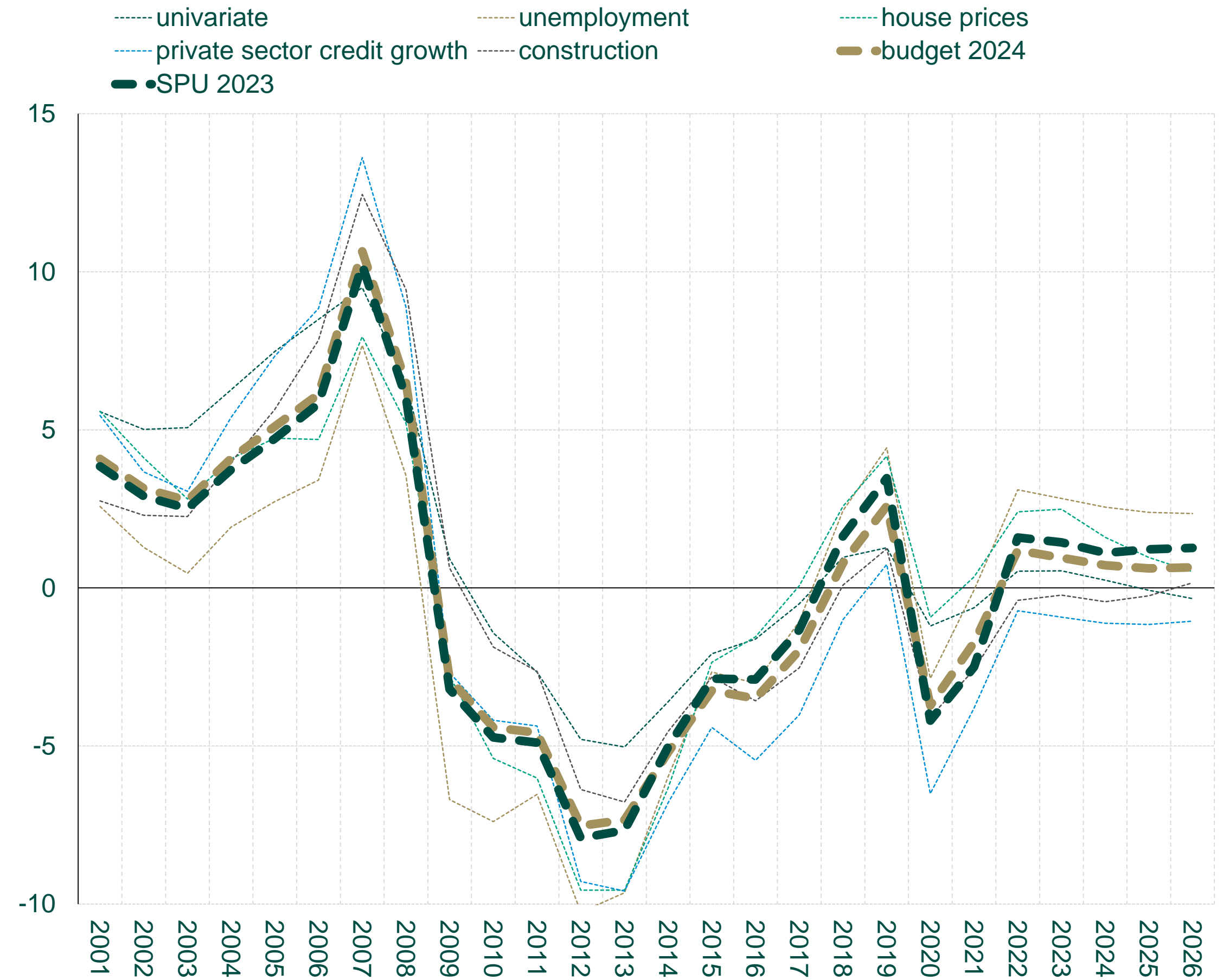
Alternative output gap measure: Domestic GVA Kalman Filter



Domestic potential output growth, %



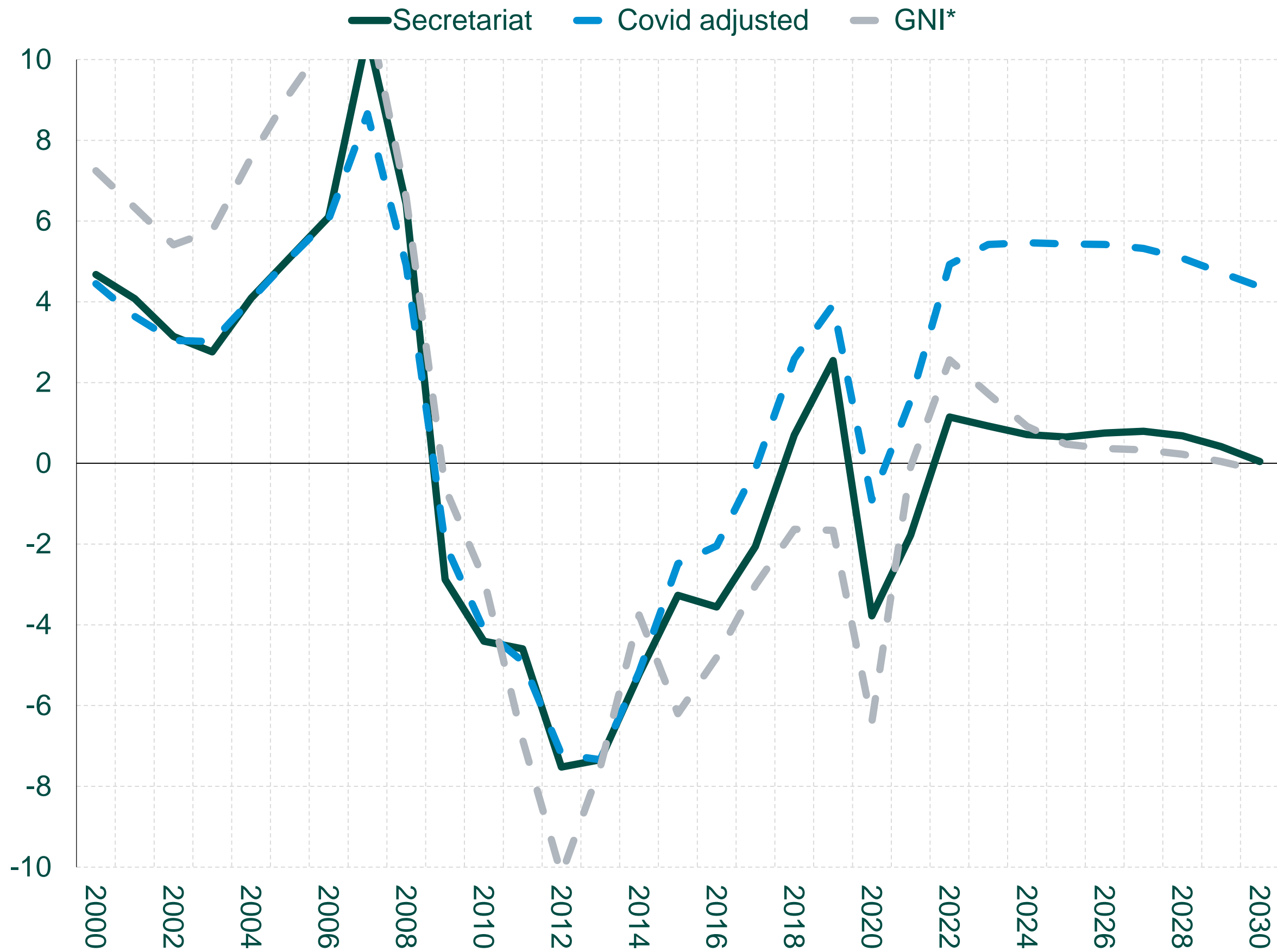
Domestic output gap, %



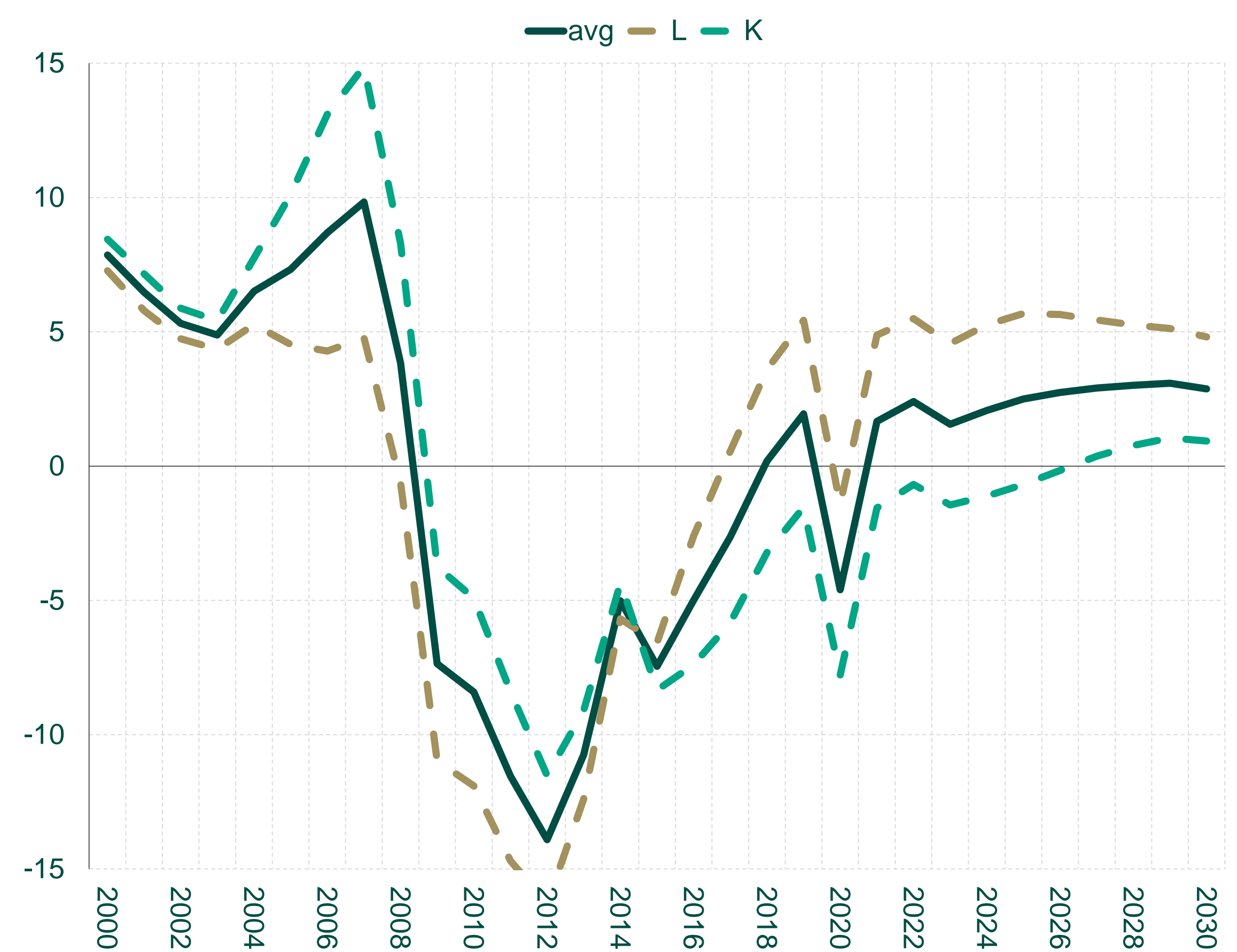
Range of output gap estimates



Kalman filter, domestic output gap %



Borio et al (2013), GNI*-based output gap %





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The forecasts in this presentation are those of the Department of Finance.

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

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