An Roinn Airgeadais
Department of Finance

Global economic developments
- implications for Irish economy

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Presentation to IDA Executive Committee
25th February 2019

Birds-eye view

- Global economy: headwinds picking up
  - high frequency data have disappointed
  - factors at work
    - : mature phase of cycle?
    - : structural?
  - longer term issues
    - : de-globalisation / re-shoring
    - : slowing “trend growth” in advanced economies

- All eyes on Brexit
  - transmission channels
  - quantifying the impact

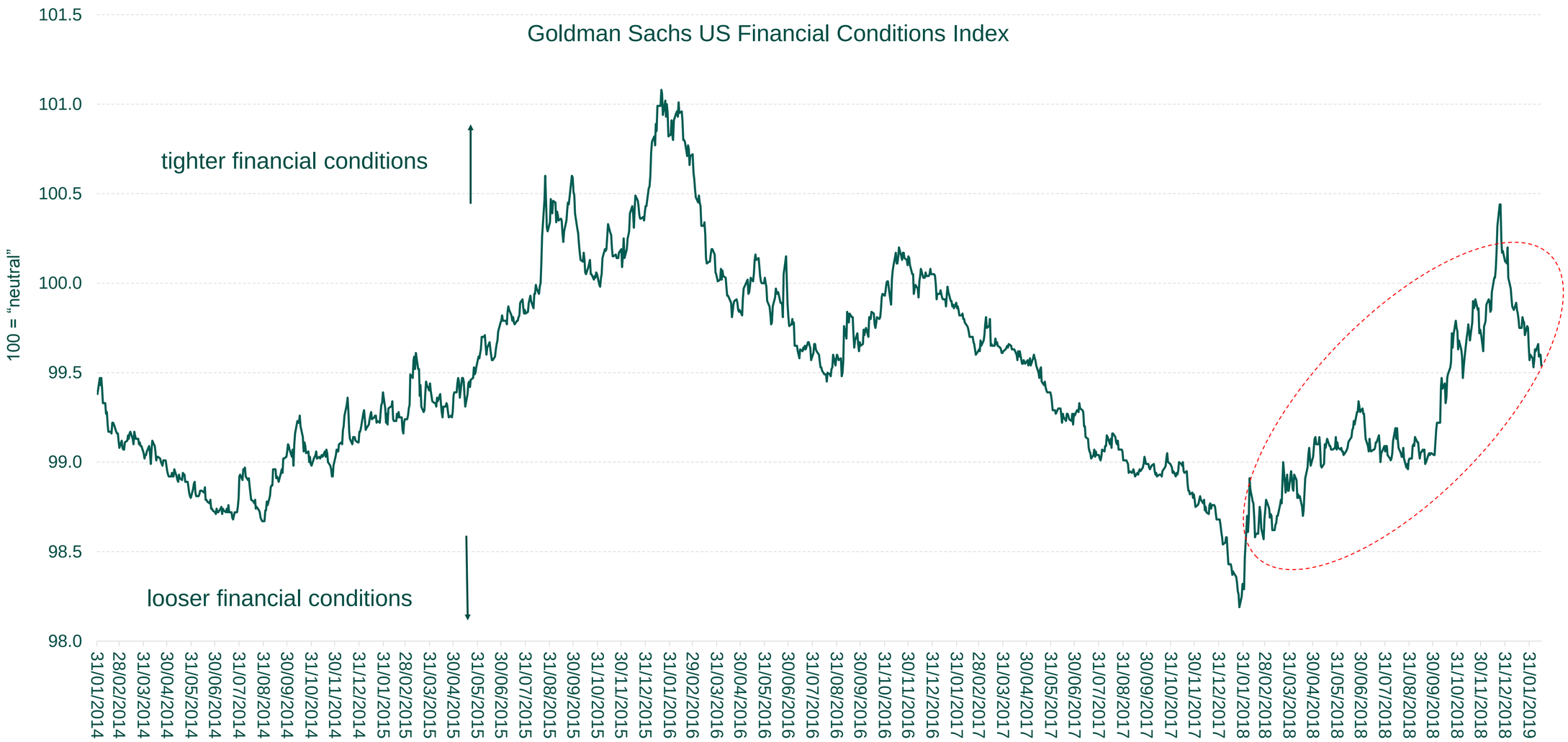
- Short-term outlook for the Irish economy

- Horizon scanning: medium- and longer-term challenges

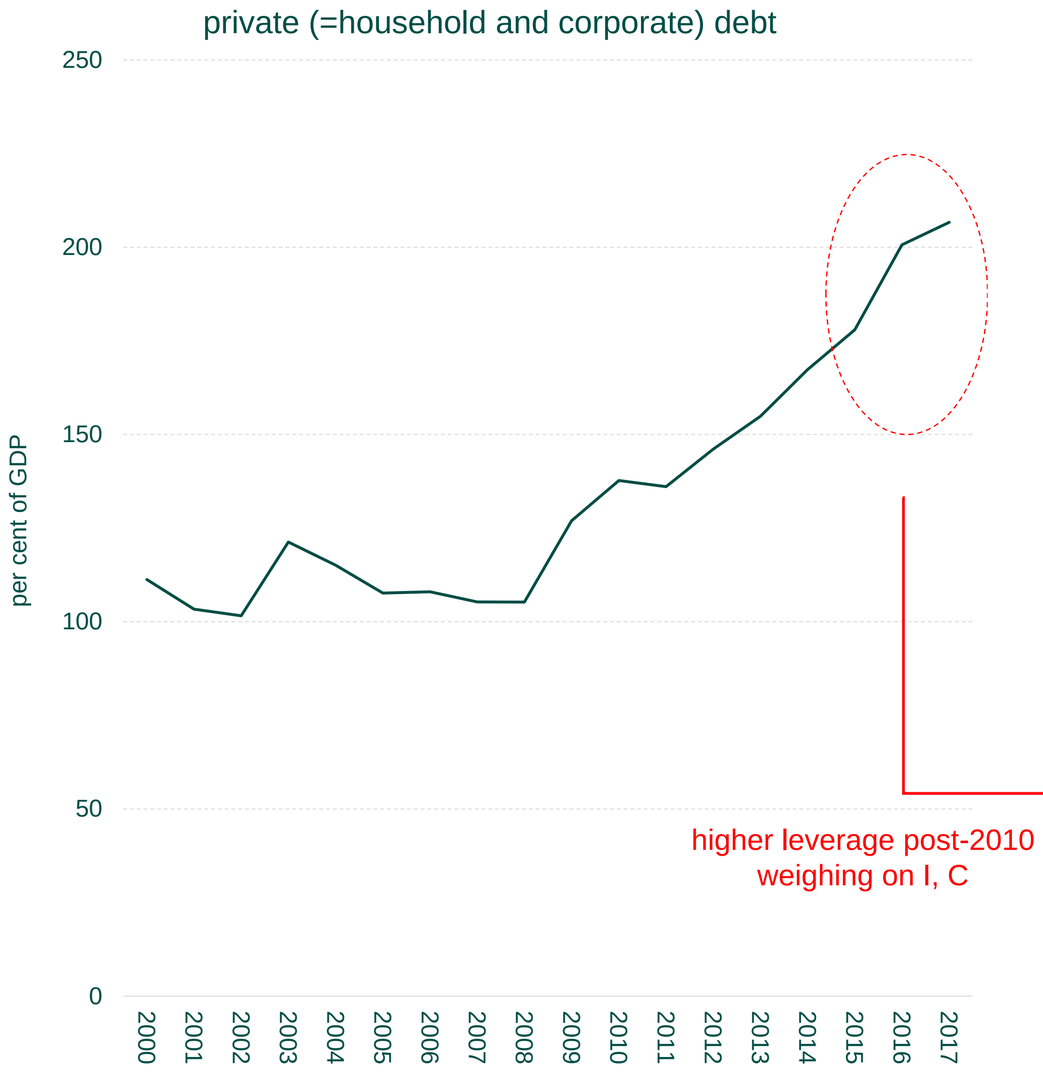
- Conclusion

Global economy: headwinds picking up

Increased risk aversion : trade tensions, concerns re. Chinese economy, EMEs

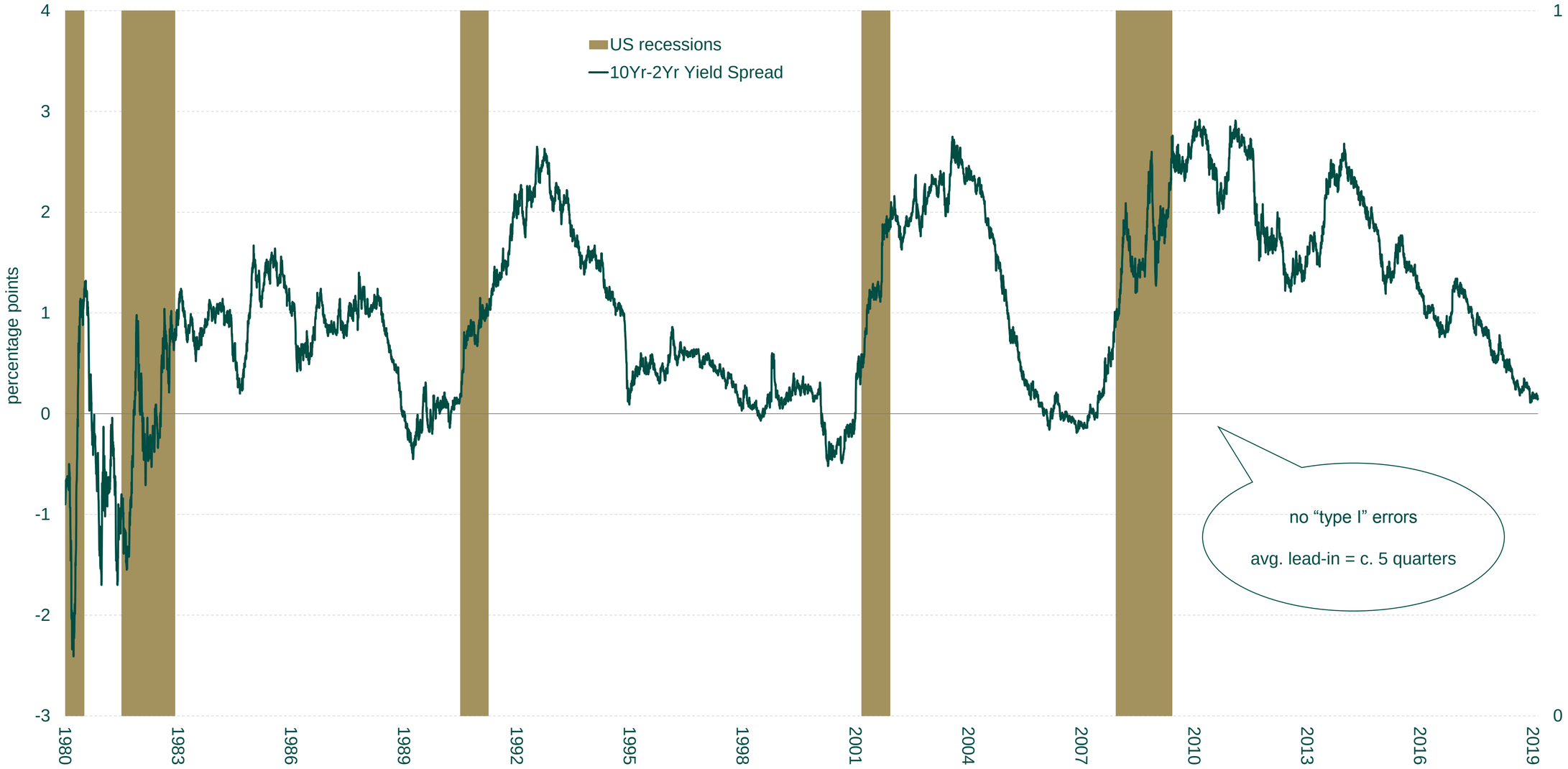


Possible spill-overs from slowdown in China – direct exposure limited

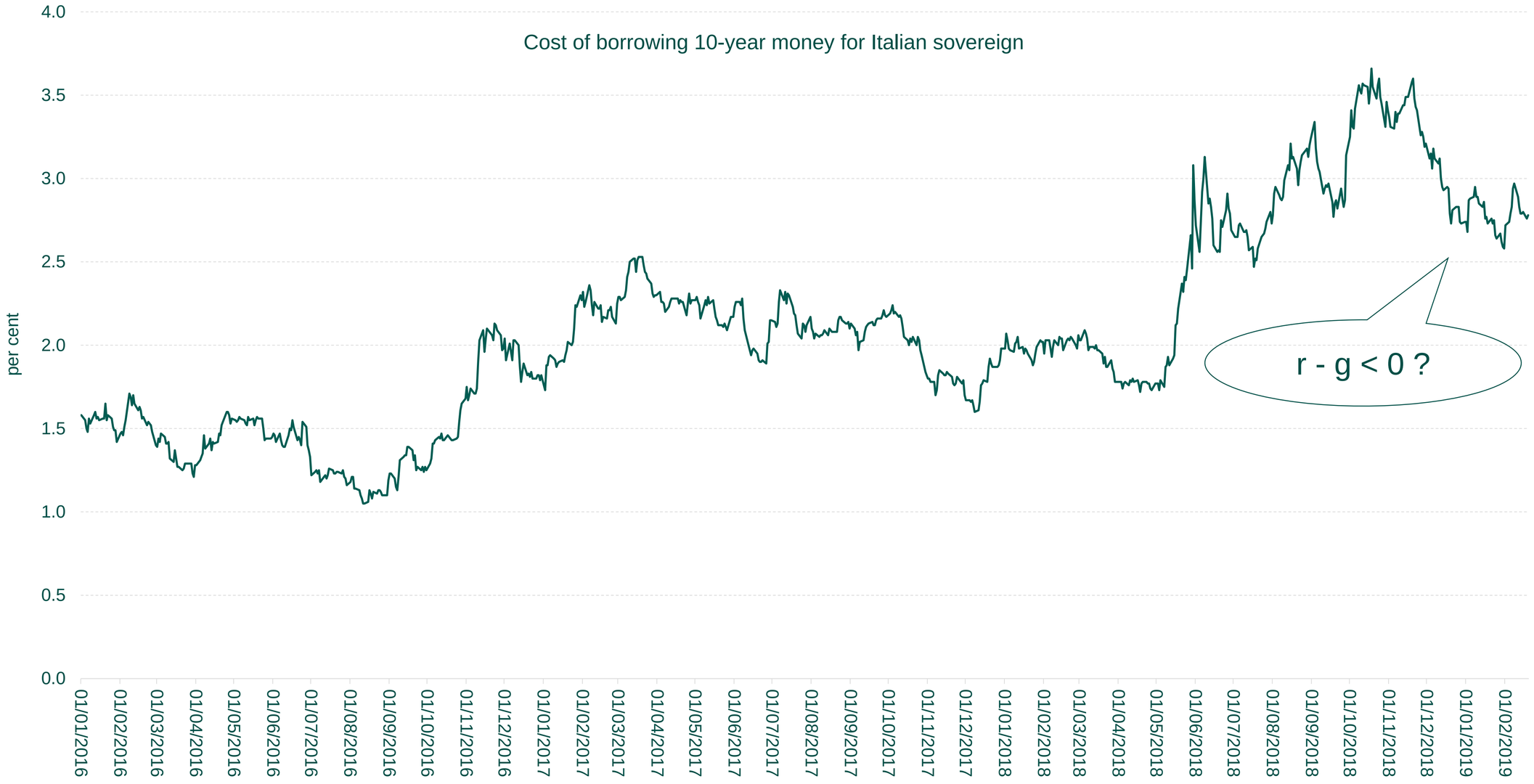


Trade-tensions: de-globalisation and re-shoring?

Yield curve “near-inversion” in the US

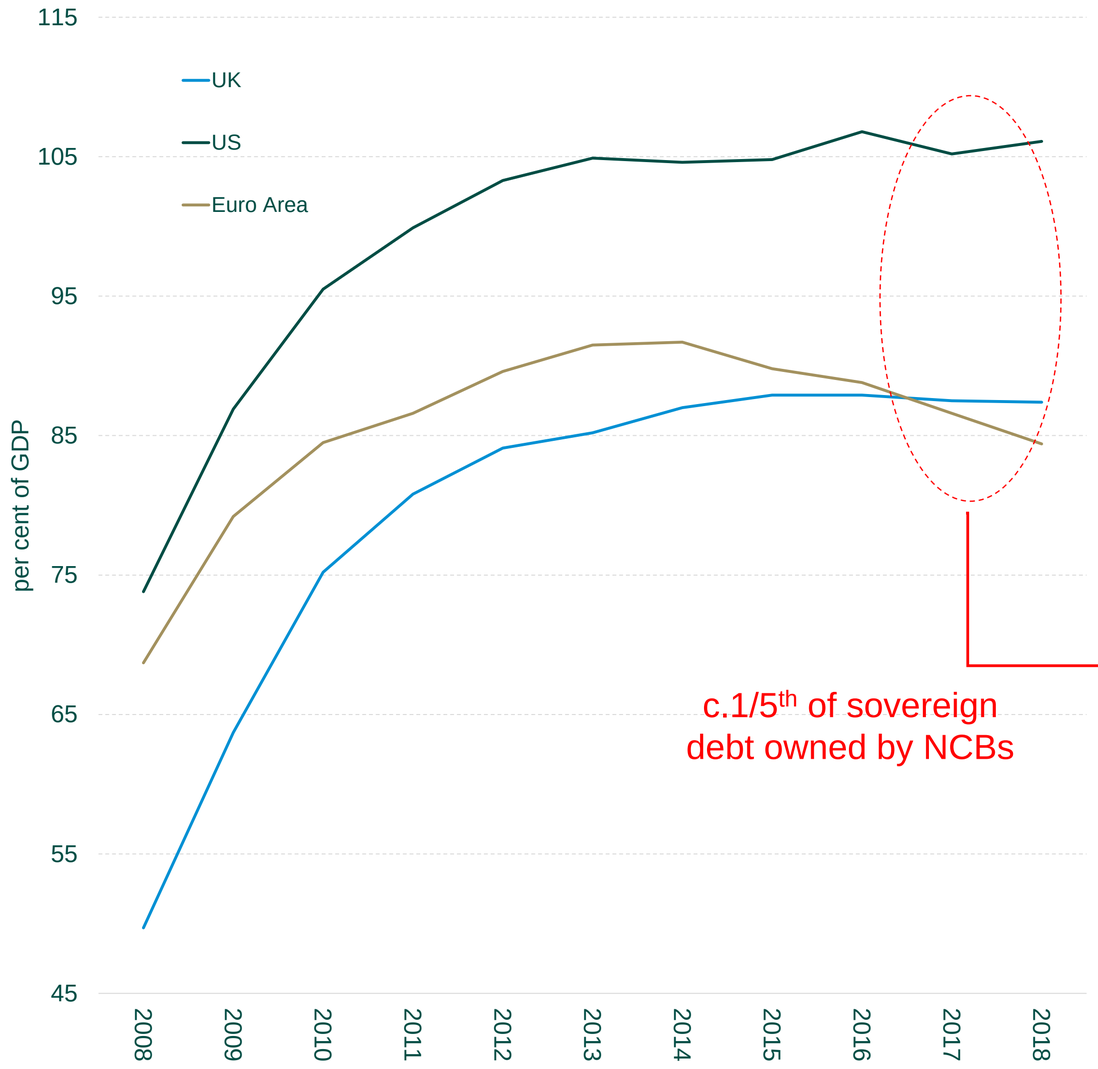


Some concerns re. euro area architecture have re-surfaced

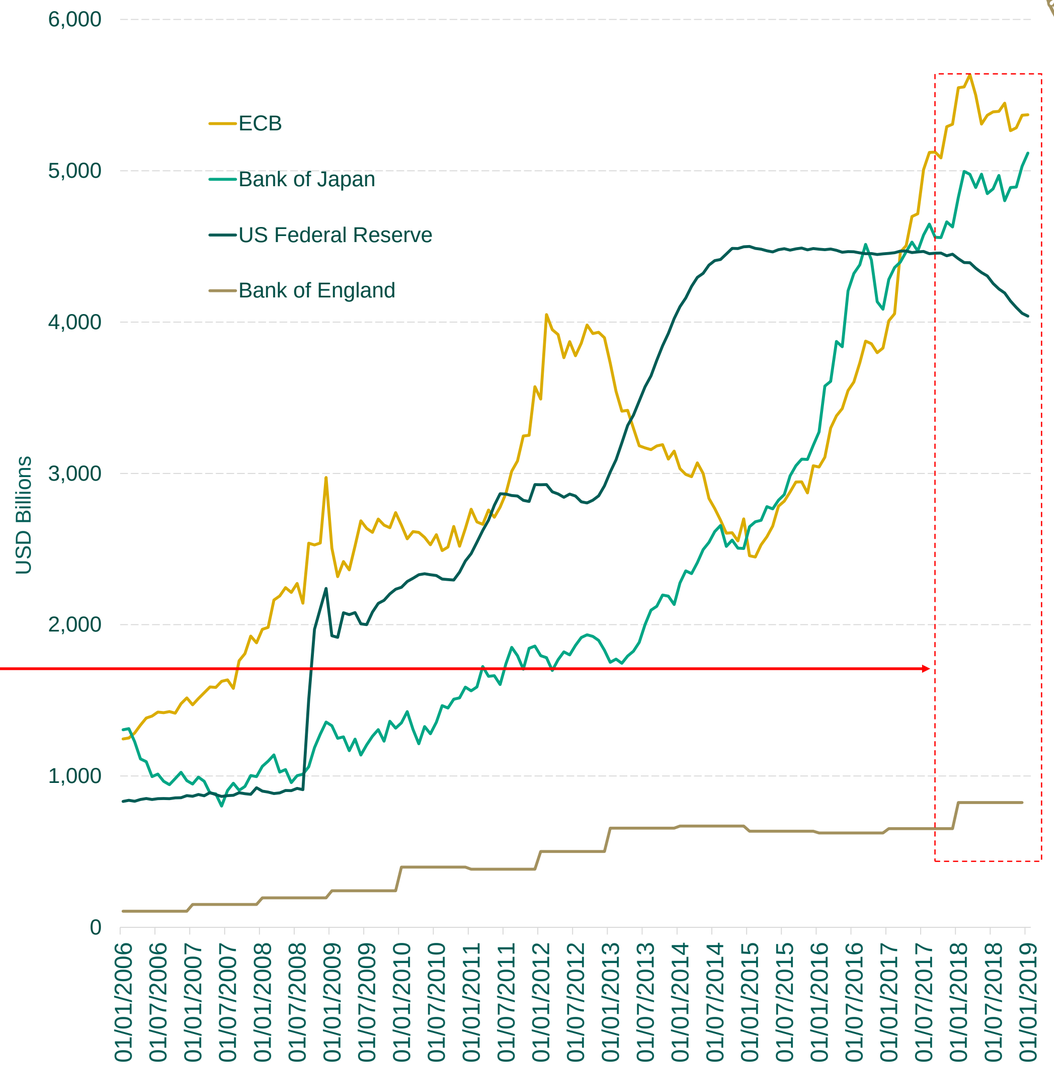


Scope for macroeconomic policy (fiscal, monetary) to respond?

Public debt has risen sharply since crisis, limiting fiscal capacity



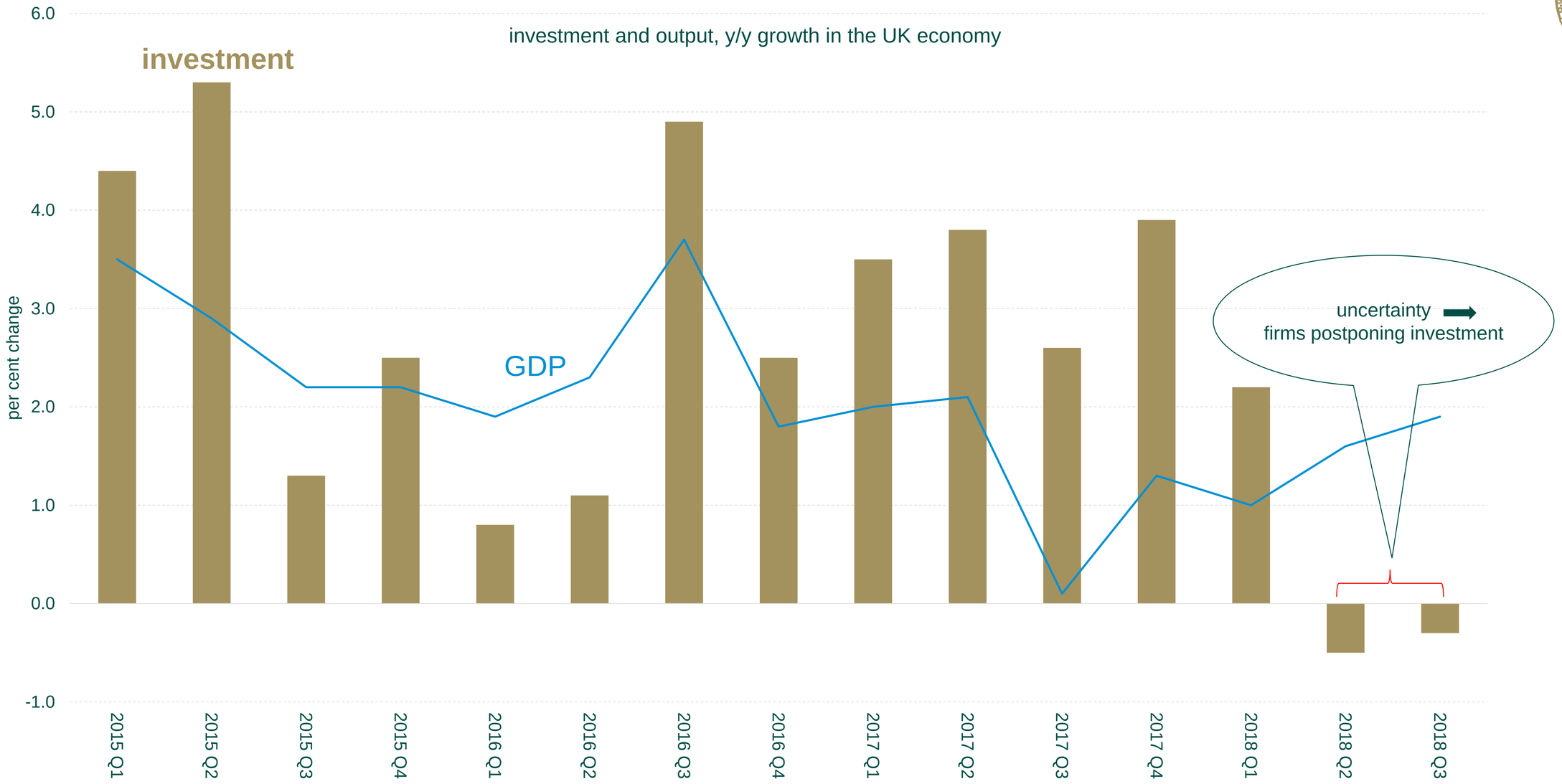
Central bank balance sheets have expanded



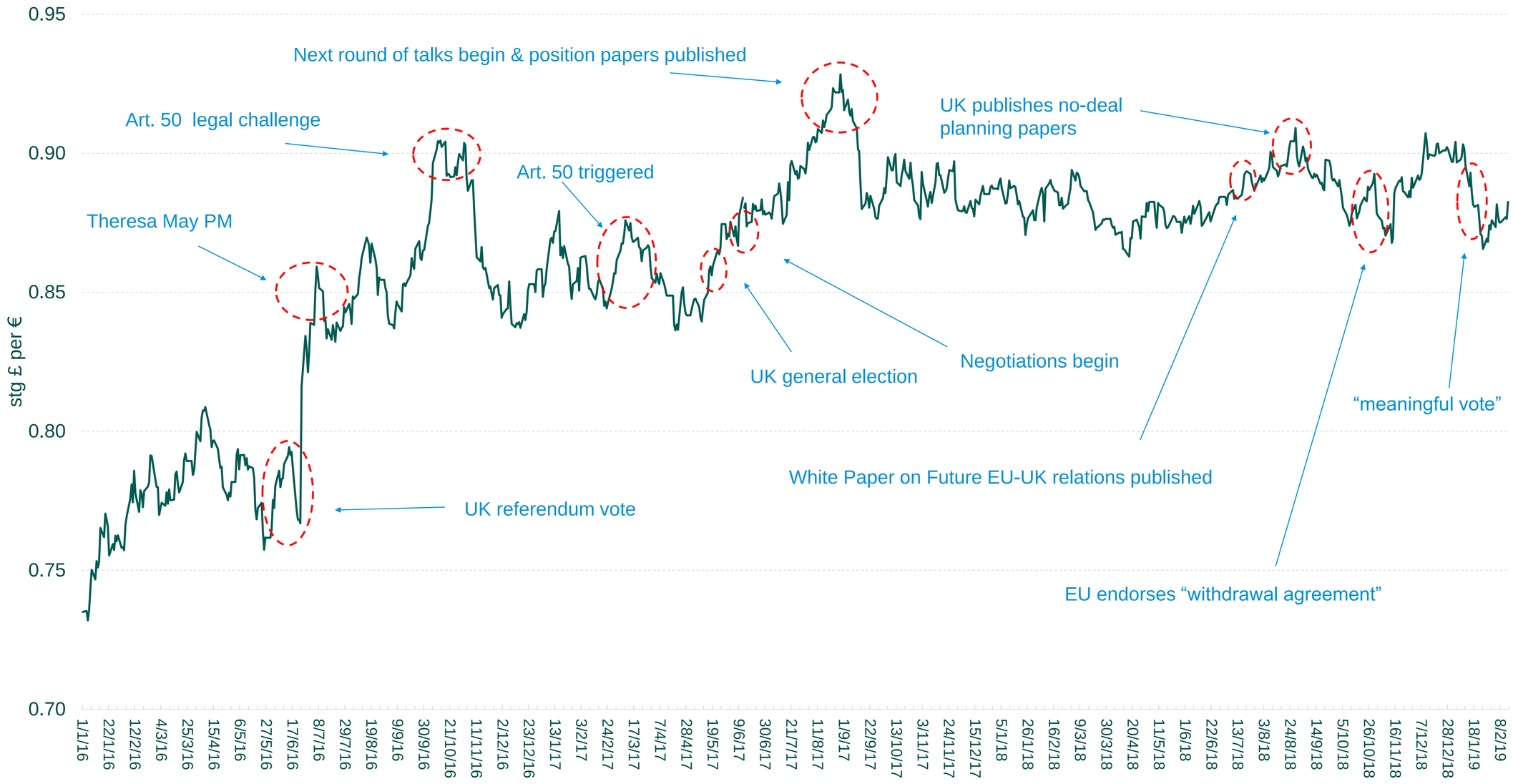
c.1/5th of sovereign debt owned by NCBs

All eyes on Brexit

UK business slamming on the brakes

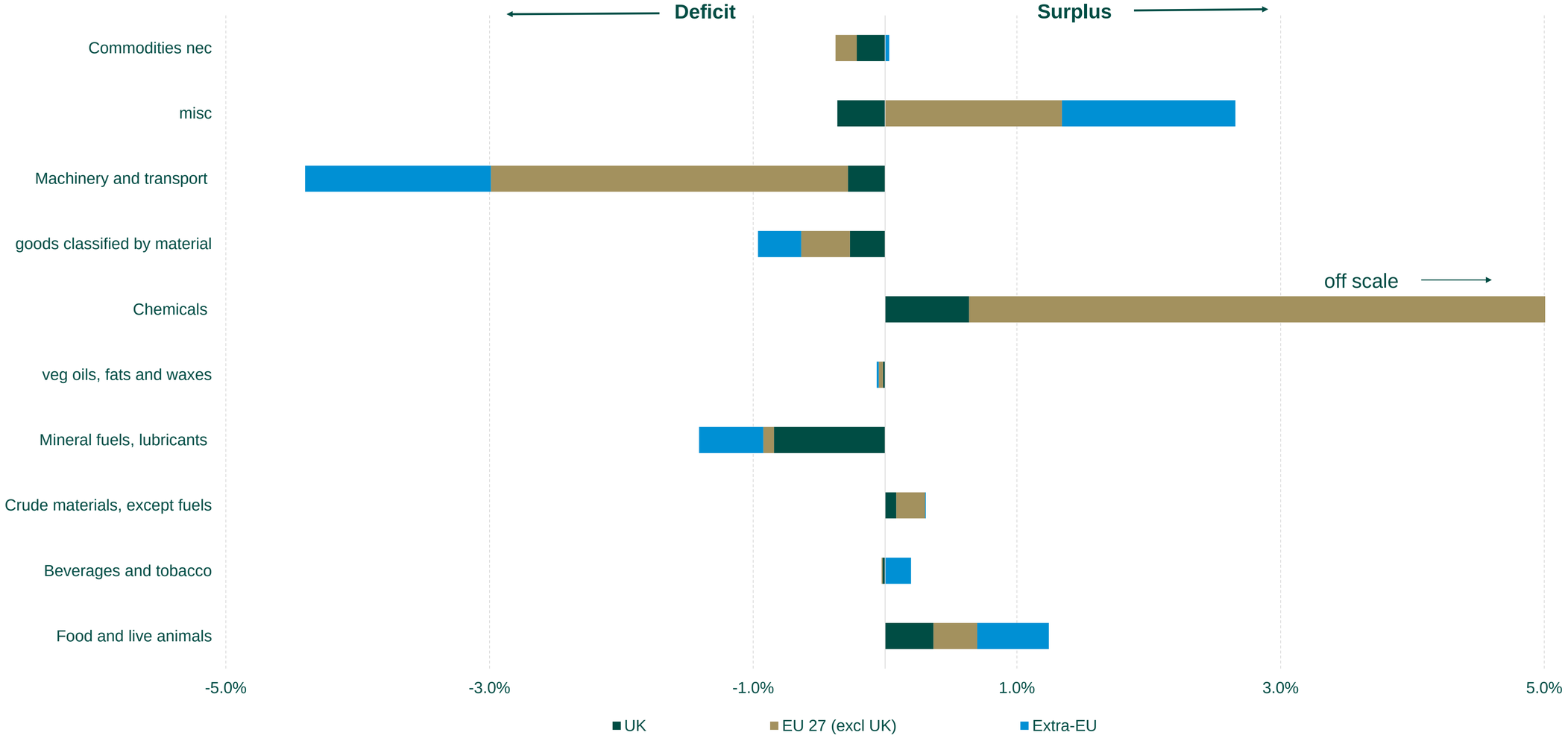


€ / stg£ bilateral exchange rate = key transmission channel



Export channel but also the import channel

External trade balance by sector, per cent of GDP [average 2015-2018]



Other transmission channels

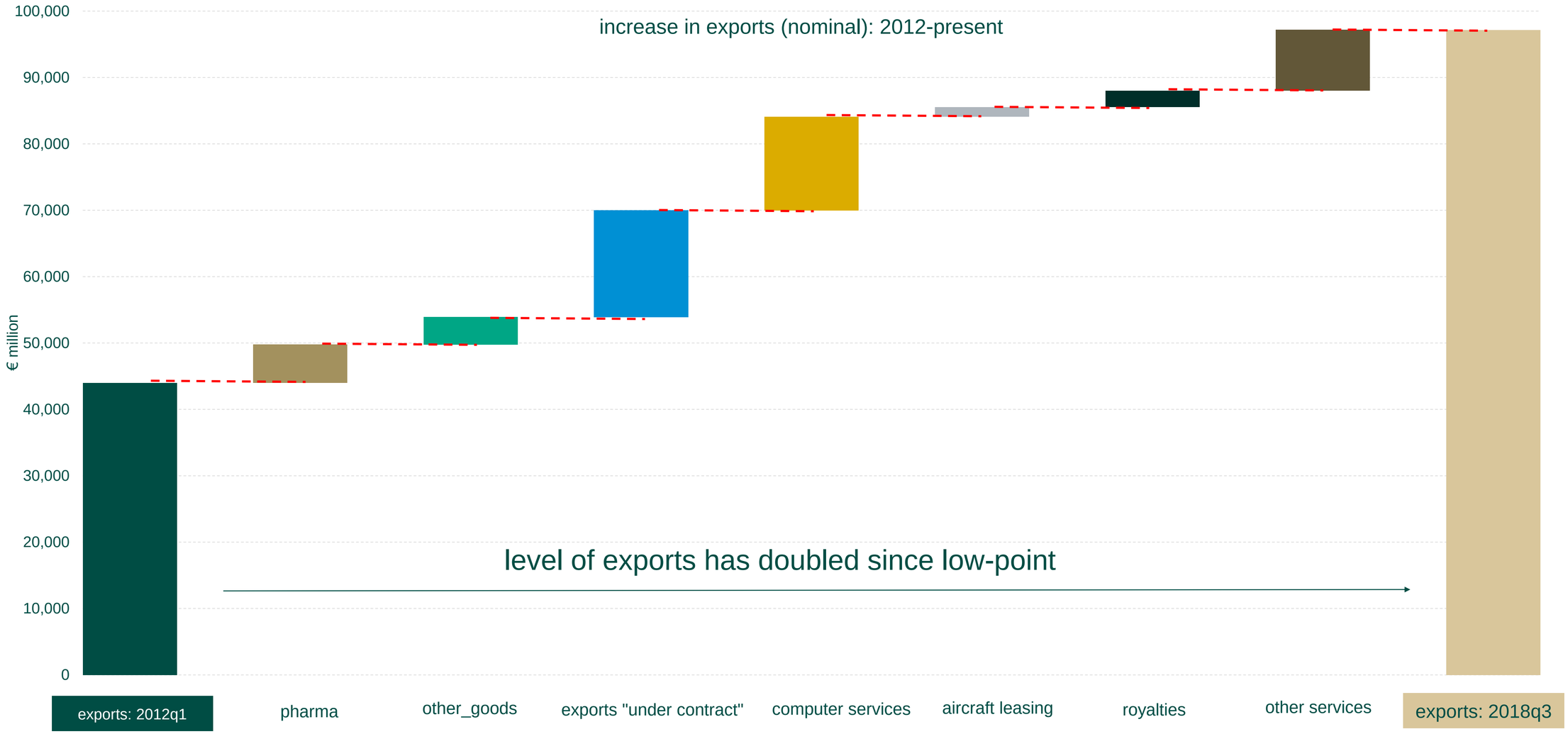
- exports ➡ trade costs
  - tariff barriers
    - : WTO in ‘disorderly’ exit
  - non-tariff barriers
    - : rules-of-origin / certification / labelling / etc.

- consumption ➡ import prices
  - imposition of tariffs on imports
  - supply chain disruption
    - : c. ¼ of imported goods sourced from UK = consumer and intermediate goods
  - partly offset by ER effects
  - precautionary saving

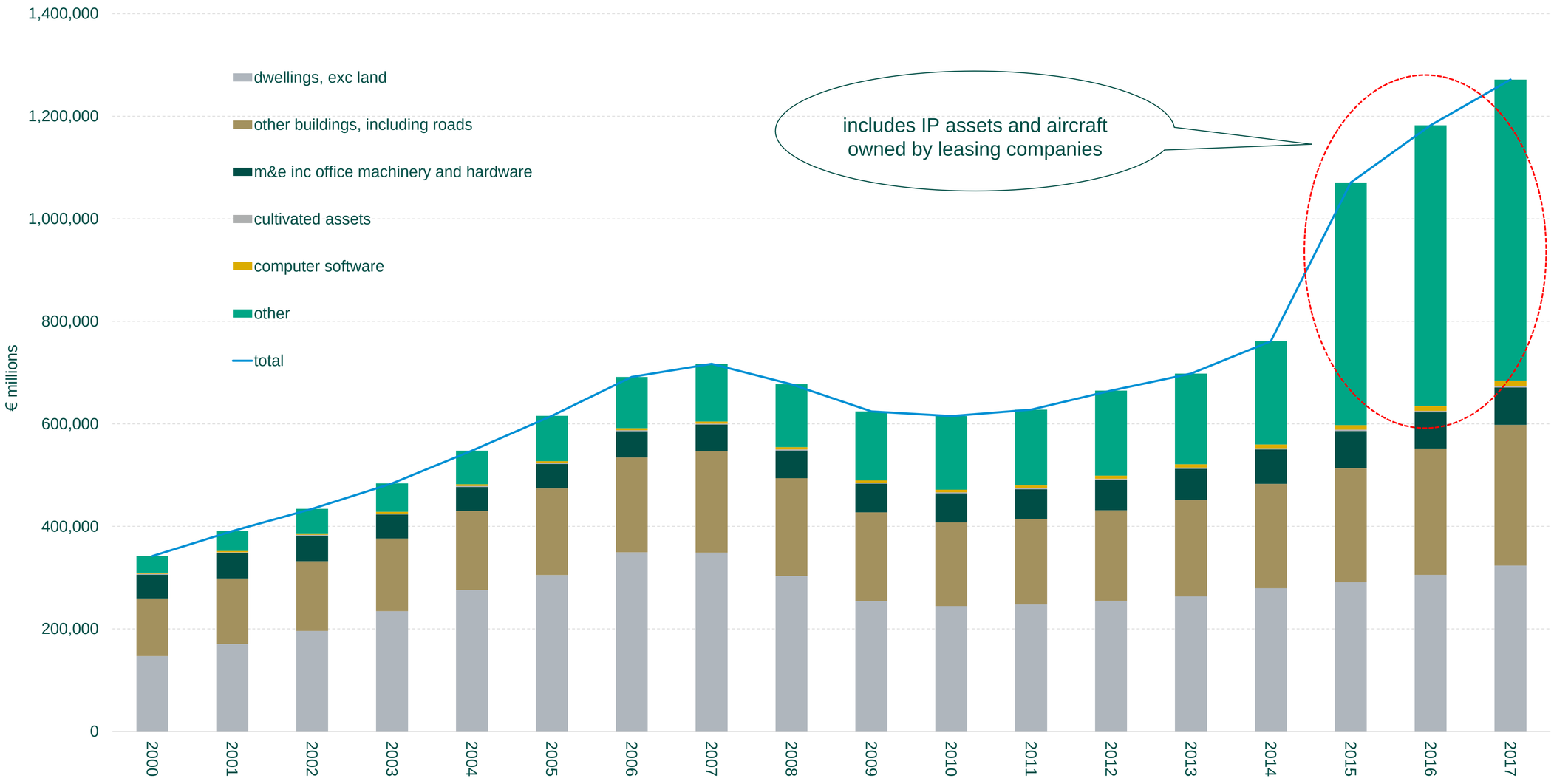
- investment
  - uncertainty
  - input prices
  - cost of capital
  - offset by FDI inflows

Short-term outlook for the Irish economy

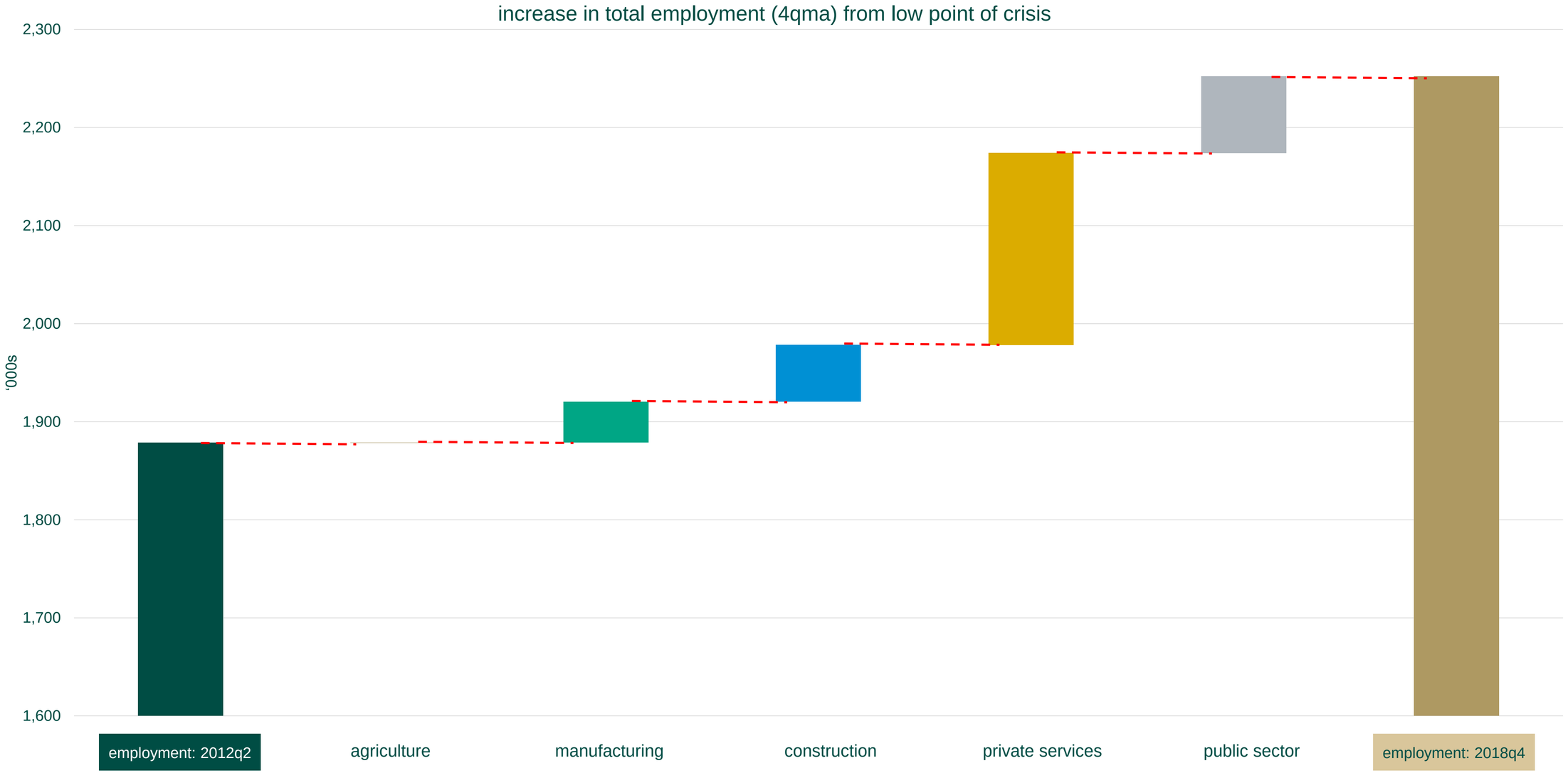
Exports continue to lead the way, less-so in labour-intensive sectors



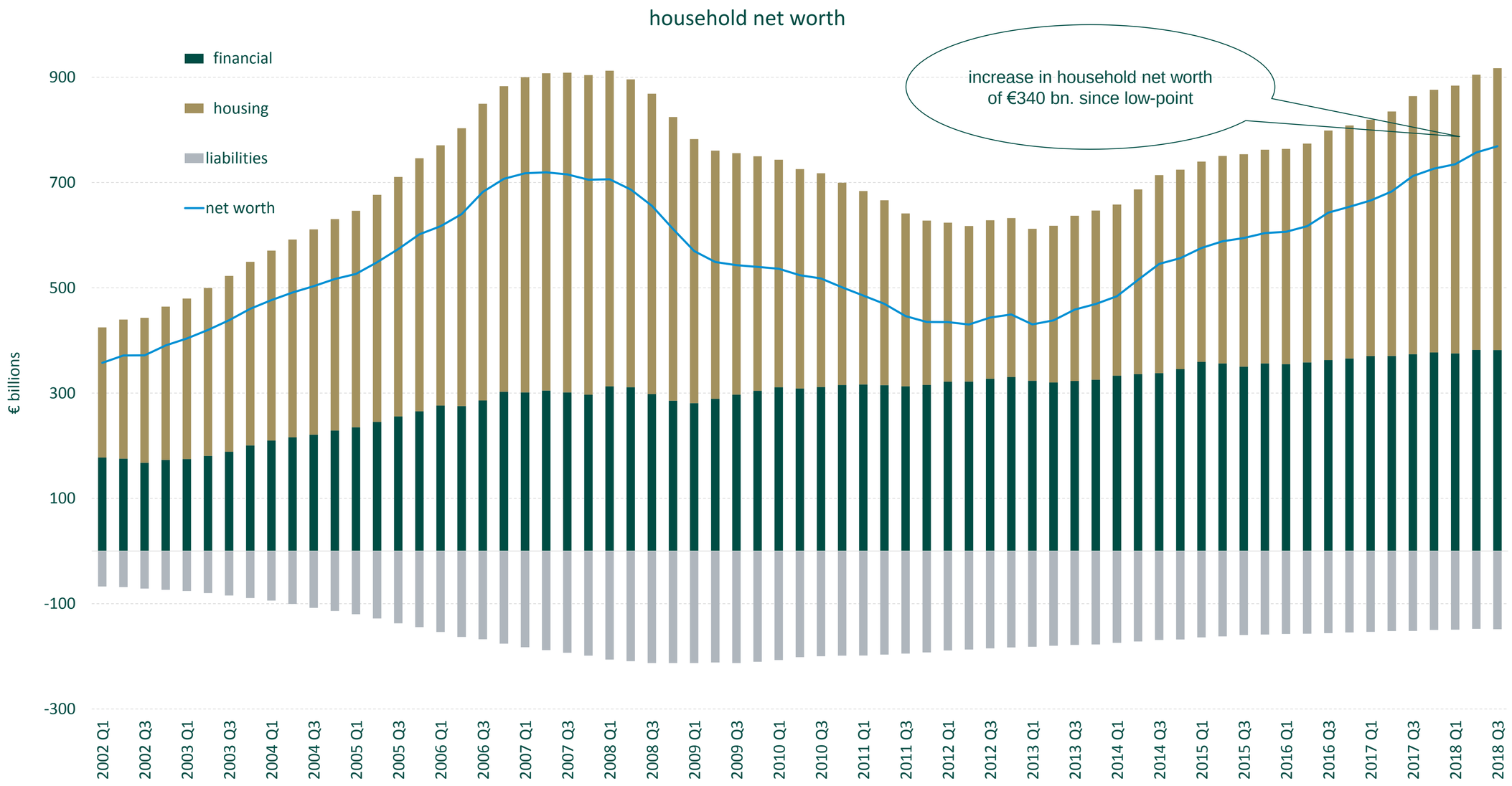
Investment in IP and aircraft continue to boost capital stock



Growth continues to pay dividends in the labour market

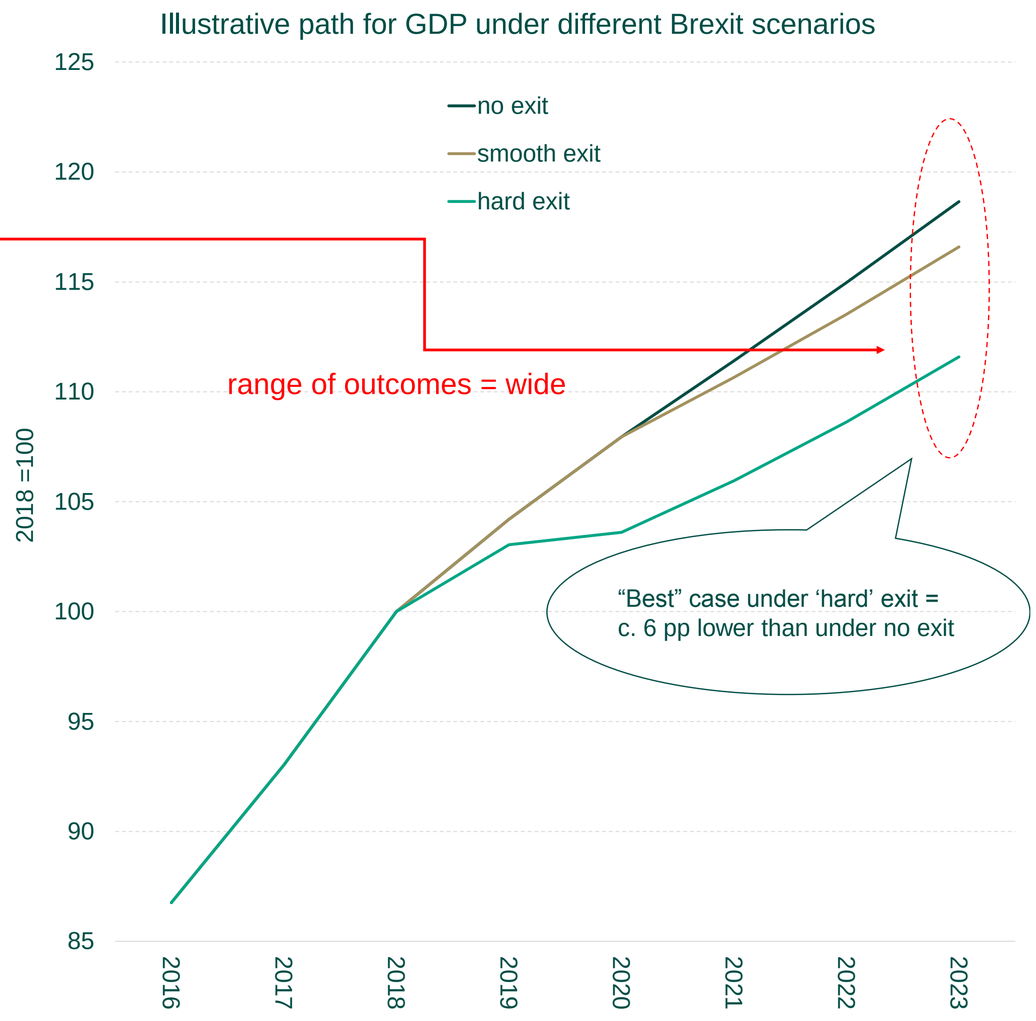


Rising incomes and fading deleveraging supporting consumption



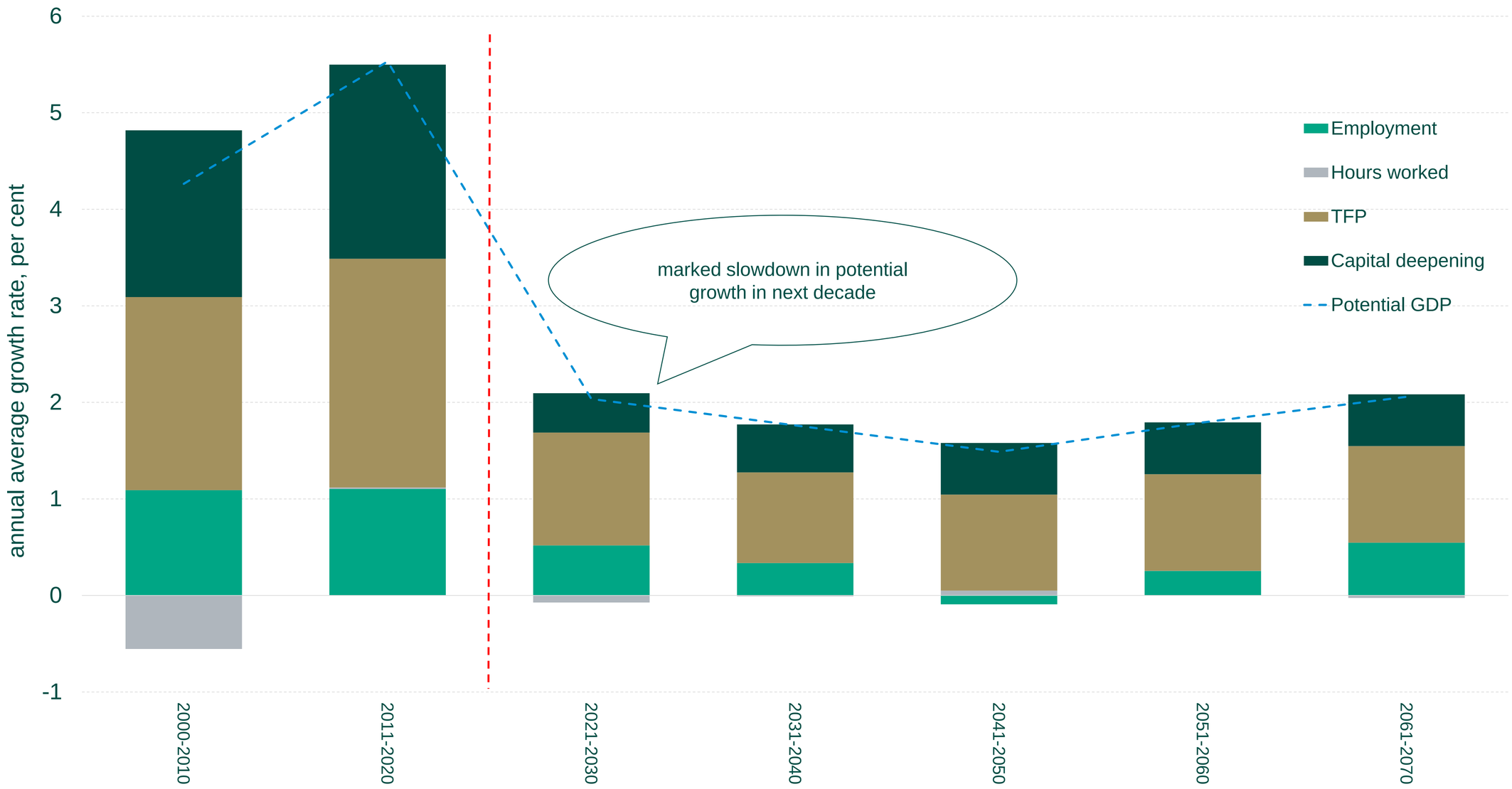
Forecasting in a highly uncertain environment

	2018	2019	2020
GDP	7.5	4.2	3.6
BoP (% GDP)	12.0	11.7	11.5
Inflation	0.7	1.5	1.7
Employment (% change)	3.0	2.8	2.2
Unemployment (%)	5.8	5.2	5.0
GGB (% GDP)	-0.1	0.0	0.3
GG debt (% GNI*)	105.2	101.0	93.1

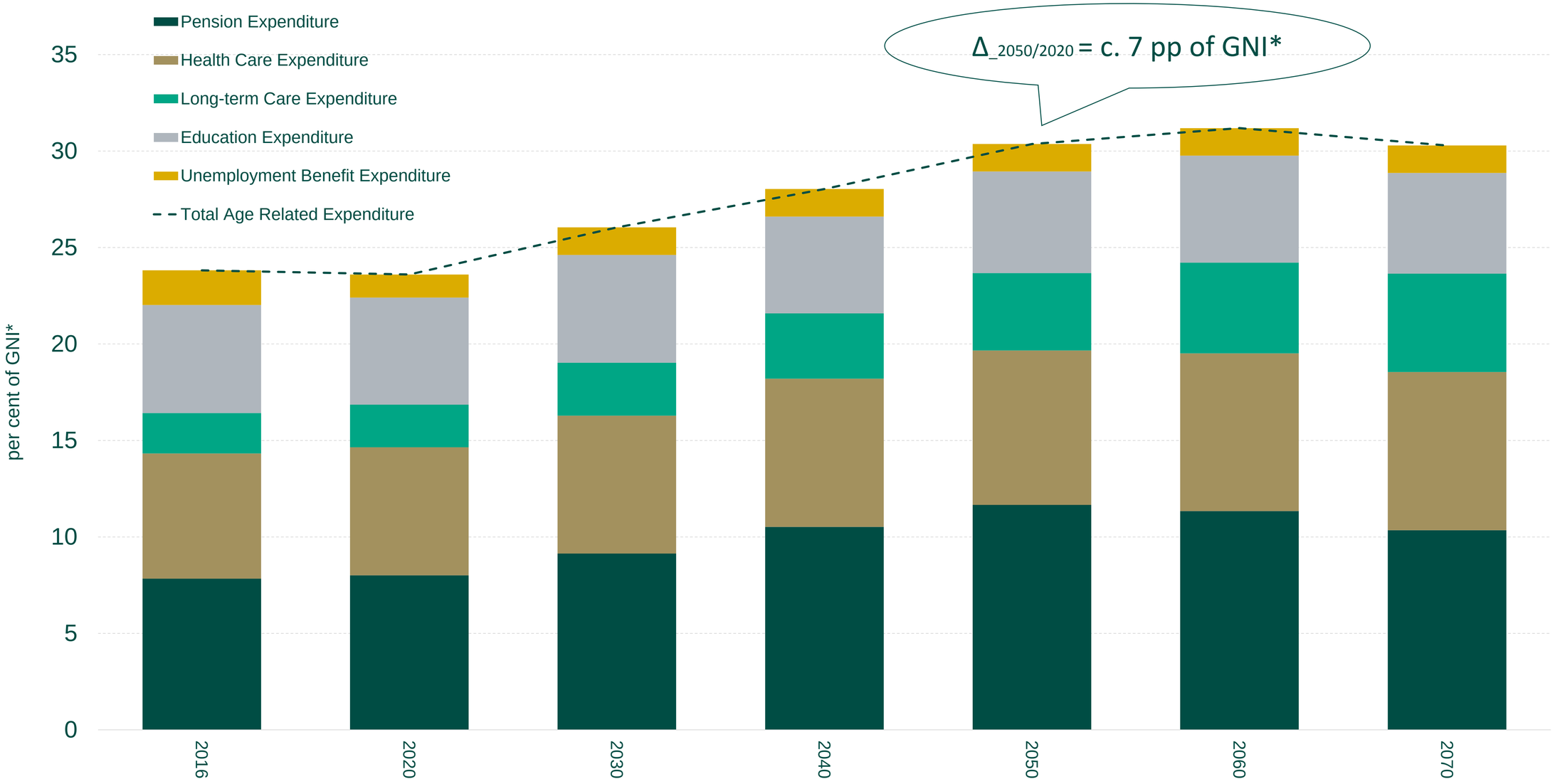


Horizon scanning: medium- and longer-term challenges

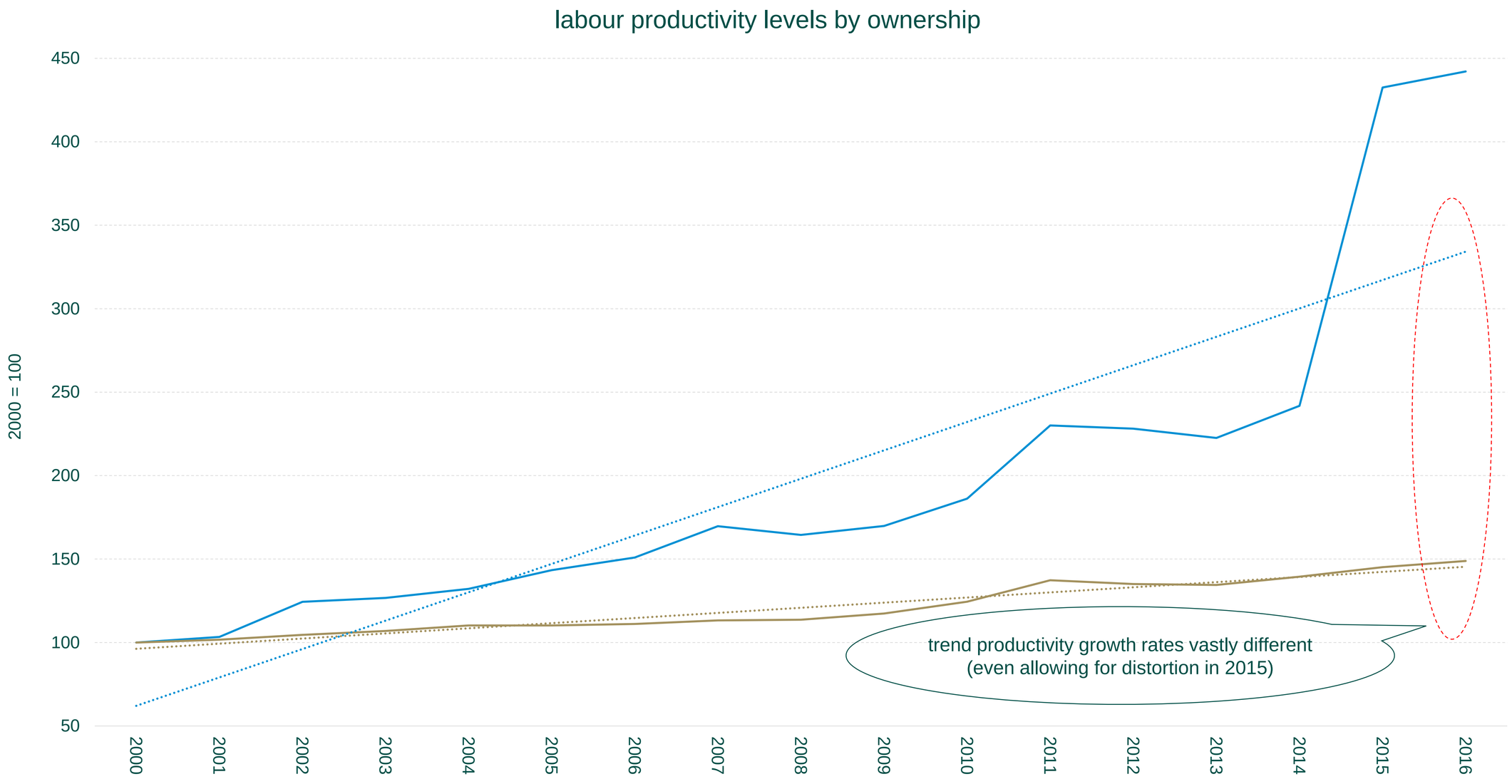
Ageing: supply-side constraints increasingly binding



Age-related public expenditure set to increase, esp. pensions



Importance of productivity – need for greater diffusion



Conclusion

Main take-aways

- Global economy
  - momentum has softened
  - maturing cycle
- Secular forces may also be at play
  - “peak globalisation”???
- Brexit casts a long shadow
- Need to look beyond the short-term

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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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