The Irish Economy
Current Position & Future Outlook

PSEU-IMPACT Conference
July 18th 2012

Dr Micheál Collins
Senior Research Officer
NERI (Nevin Economic Research Institute)
Dublin
mcollins@NERInstitute.net

Overview

1. The Economy Now
   * Growth, Unemployment, Deficits & Debt

2. The Economic Outlook
   * Growth, Unemployment, Deficits & Debt

3. Implications & Challenges
1. The Economy Now

Growth

- low versus targets
- dependence on exports
- domestic demand = weak
  - Crash
  - Cutbacks
  - Confidence
  - Credit

Domestic Demand and its decline

\[ \downarrow €11b \text{ per qtr} \]
\[ \downarrow €48b \text{ per year} \]
\[ \downarrow €10,500 \text{ per person} \]
Unemployment

- high versus targets/expectations

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget 2012</td>
<td>14.3</td>
<td>14.1</td>
<td>13.5</td>
<td>12.9</td>
<td>11.6</td>
</tr>
<tr>
<td>SPU – April 2012</td>
<td>14.4</td>
<td>14.3</td>
<td>13.6</td>
<td>12.8</td>
<td>11.7</td>
</tr>
<tr>
<td>CSO – actual</td>
<td>14.4</td>
<td>14.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSO – predict</td>
<td></td>
<td></td>
<td></td>
<td>14.9</td>
<td></td>
</tr>
</tbody>
</table>

Unemployment: growth & level

Source: CSO, QNHS various editions
Deficits and Debt

• spending > income
  o spending: fairly static
    • Debt service
    • Unemployment
  o tax collapse
  o low-tax still...narrow base
  o low growth and limited international recovery
- **Climbing National Debt = €170bn (end 2011)**
  
  About 25% = Banking Debt (€42bn)

- **Even with restructuring**
  - Interest Burden = heavy
  - Versus the past
  - Impacts on future exchequer decisions

---

**Debt increase over time**

![Graph showing Ireland's National Debt as % GDP from 1995 to 2015](chart.png)
Debt burden and its servicing

note: lower if restructure some debt

Chart 24: Interest on GGD to tax revenue, %

2. The Economic Outlook

Growth

- weak
- government targets are ambitious
- Budget 2013: $2.5\%$ GDP
- international outlook = unstable
- large scale off-the books domestic stimulus
Unemployment

- a crisis
- limited real attention...not going away
- 10% in 2017 at best
- long-term unemployment
- retraining & community employment
- exchequer implications
  - welfare payments
  - lost taxes
  - retraining costs
**Deficits & Debt**

- likely some move on debt restructure
- even so
  - level is high and servicing costs remain high
  - 12-15% of the current tax take (was 5%)
- some big assumptions:
  - big reduction in GGB from 2013-2014

### Government Borrowing (GGB), 2012-15 €m

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>GGB</td>
<td>-€13,115</td>
<td>-€12,355</td>
<td>-€8,140</td>
<td>-€4,950</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>%</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>GGB</td>
<td>-8.3%</td>
<td>-7.5%</td>
<td>-4.8%</td>
<td>-2.8%</td>
</tr>
</tbody>
</table>
Deficits & Debt

- likely some move on debt restructure
- even so
  - level is high and servicing costs remain high
  - 12-15% of the current tax take (was 5%)
- some big assumptions:
  - big reduction in GGB from 2013-2014
  - how?
  - ‘unallocated savings’
    - 2013 = €180m
    - 2014 = €830m (€650m + €180m)

3. Implications & Challenges

- Economy still very weak
- Weak outlook
- Exchequer challenges remain
- Options around:
  - reducing expenditure
  - increasing revenue
  - likely a mix of both
  - vulnerability of those dependent on the public purse
- Resetting the economy…challenging
www.NERInstitute.net