

Budget Perspectives

Macroeconomic Outlook

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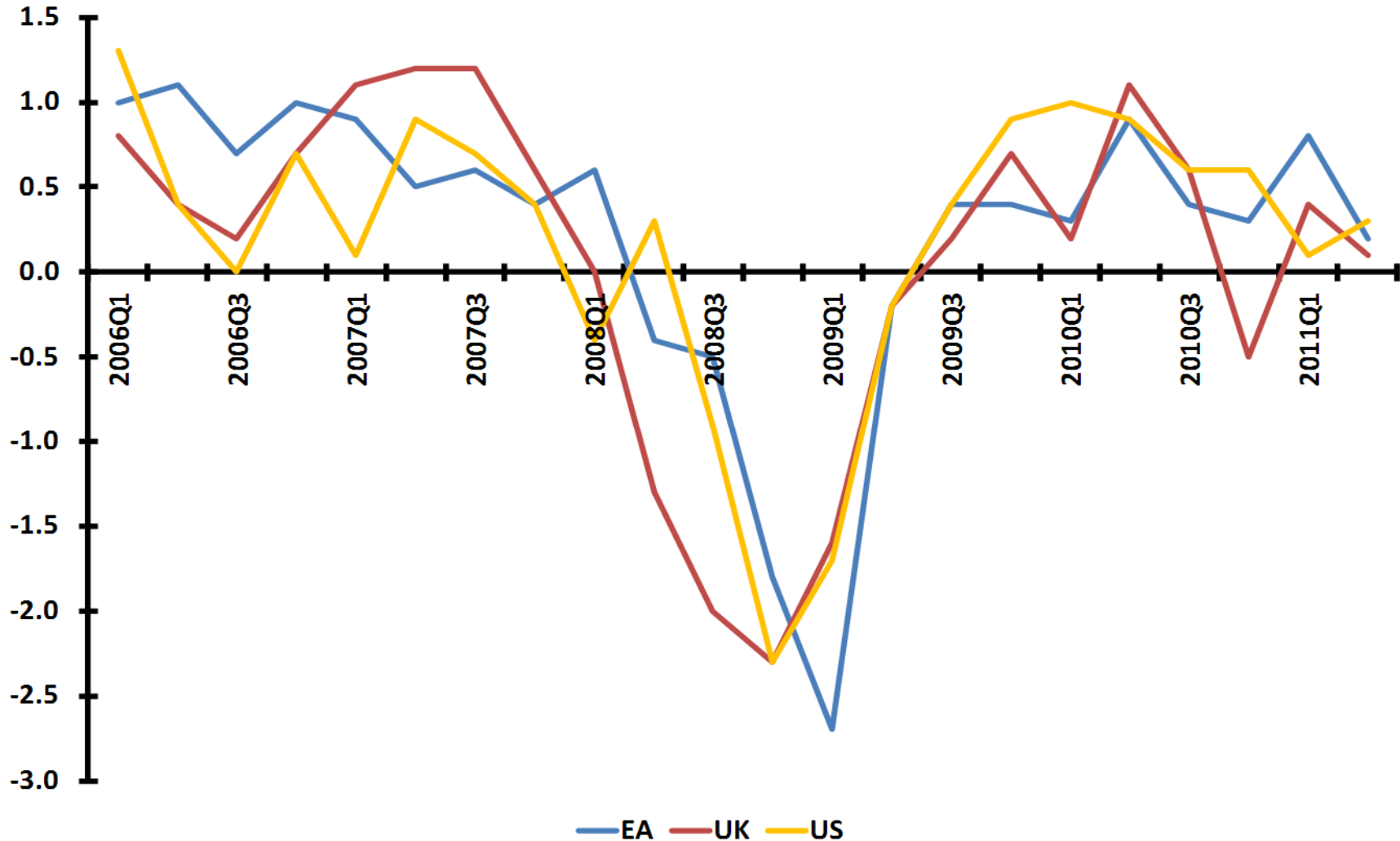
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International Developments

- Twin-track growth in global economy
- Developed Economies
 - US, UK, Eurozone
- Newly Emerging Economies
 - China India

Economies are growing slowly...



...but are only beginning to reach previous peak



United States

- Growth slowed in final quarter of 2010 and remained sluggish to mid-2011 at least
- Monetary policy eased: “Operation Twist”
 - Reduces long-term interest rates
- September non-farm employment increased marginally
 - Inference is that output improved

United Kingdom

- Big fiscal adjustment underway
- Expectation was that external demand would replace lost domestic demand
- This has not been fully realised
- Economy is weakening
- Monetary Policy loosened in early October
 - May see some beneficial effects
- Fiscal Policy still restrictive
- Inflation remains high, but forecast inflation much lower and closer to target

Newly Emerging Economies

- Continued fast growth
- Large Balance of Payments surpluses
- Increasing inflation
- Issues:
 - Exchange rates
 - Fiscal stimulus
 - Transfer to households and away from profits

Eurozone

- Growth faltered
- Debt crisis
 - Impossible to isolate economies
 - Linked through monetary and financial integration
 - This is now self-evident
 - Need for a eurozone solution
 - Hampered by poor political structures and legal restrictions
 - German v French approach
 - Uncertainty has damaged and delayed investment

Eurozone

- Concerns about level of bank and sovereign indebtedness
- Monetary policy too focused on the short-term
 - Current inflation not a good guide to future inflation
 - Energy price spiking
 - Too restrictive
 - Exceptional circumstances require exceptional policy

Irish Economy

- Bank Restructuring
 - Banks now recapitalised
 - Deleveraging is underway
 - Credit supply is contracting
- Public Finances
 - Troika Agreement
 - On target this year
 - Revenue higher, expenditure lower
 - 2012 target can be met with a €3.6bn adjustment
- Unemployment remains elevated

Irish Economy

- Domestic demand still weak
 - Still a huge fiscal adjustment underway
 - Savings ratio still very high
- Export demand
 - Multinationals: goods and services still growing
 - Indigenous firms: seeking overseas markets to replace lost domestic demand
 - Fairly successful

Irish Economy

Volume growth (%)	2010	2011	2012
GDP	-0.4	1.8	2.3
GNP	0.3	0.2	0.7
Unemployment	13.6	14.3	14.5
CPI inflation	-1.0	3.0	1.0

Conclusion

- Fiscal contraction still necessary for 3-4 years
- Amount of contraction less than 2009-2011
 - Growth factors will be dampened less
 - Economy should experience faster growth in 2012-2015
 - If savings rate falls then even faster growth

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