

Macroeconomic forecasts for 2017

Opening statement

by John McCarthy

Chief Economist, Department of Finance

to Oireachtas Select Committee on Budgetary Oversight

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Introduction

Thank you Chairman for the opportunity to present the short-term economic outlook in advance of the Budget.

I am accompanied by colleagues from the macroeconomic forecasting team: Feargal O'Brolchain, Laura Weymes, Javier Papa and Ian Power.

Background

Since 2013, reforms to economic governance mean that for euro area Member States, budgets must be based on macroeconomic forecasts that are either produced or endorsed by an independent body.

In Ireland, as in the majority of euro area Member States, we have gone down the endorsement route, with the endorsement function assigned to the Irish Fiscal Advisory Council (the 'Council').

Forecast endorsement process

For Budget 2017, the endorsement process has been underway since mid-September.

As set out in the Memorandum of Understanding¹ between the Department and the Council, we will present our assessment of the outlook this afternoon to the Council. For the Budget, the Council has a role in assessing the short-term projections, namely those for this year and next.

Presentation to the Committee

We have provided to the Committee the same presentation that will be provided to the Council. We will put this on the Department's website this evening.

The economic projections that we are presenting are based on the assumption of a budgetary package of €1 billion split 2:1 between expenditure and taxation as set out in the Government's *Summer Economic Statement* published in June.

Finally, as is the norm, we will comment on technical aspects of the forecasts and will not discuss policy issues. Similarly, we are not in a position to discuss the fiscal situation and I would stress that neither of these issues will be discussed with the Council.

¹ The Memorandum of Understanding (available on the website of both Institutions) sets out the logistics of the endorsement exercise.

Presentation of Department's projections

In high level terms, we are projecting GDP growth of 4.2 per cent this year followed by growth of 3.5 per cent next year. We have reduced next year's forecast by c. ½ percentage points to take into account the uncertainty associated with Brexit.

These forecasts are contingent upon continued growth in external markets. In this context, it is fair to say that the current outlook is characterised by considerable uncertainty, with the impact of the Brexit vote still unfolding.

But there are other issues – including a prolongation of relatively subdued growth in many advanced economies which has led some to question whether the world economy has entered a permanently lower growth phase (so-called 'secular stagnation').

In overall terms, it is our assessment that the balance of risk to the central scenario is firmly tilted to the downside.

There are also issues associated with assessing trends in the Irish economy at present, given that the information content within key aggregates – GDP and GNP – is more limited than elsewhere. This is perhaps most evident from the exceptionally high growth figure recorded last year; a figure which is clearly mis-aligned with actual developments 'on the ground'.

More generally, the highly globalised nature of the Irish economy and the concentration of activity means that confidence bands around any short-term forecast will necessarily be relatively wide. In these circumstances, it is

necessary to look beyond aggregate measures of activity in order to properly gauge economic trends.

Turning to the presentation: Ian will briefly outline the latest domestic economic developments; Laura will discuss the labour market outlook and Javier will discuss price dynamics.

I will then summarise the key trends and what these mean for the short-term economic outlook.

ENDS