

Macro-Economic Risk Update

SAI

October 13th 2016



Jim

Power

The Global Economic Context

- 2008 legacy still very real
- Global background highly unusual
- Sluggish growth & lack of inflation key characteristics
- Interest rates & bond yields at historic lows
- Quantitative Easing
- Zero ECB interest rates to persist
- Significant Economic & Non-Economic risks

Global Risk Factors (1)

- Global economy –Secular Stagnation
- Unusual policy environment
- Impact of Quantitative Easing
- Unprecedented bond yields
- Historically low official interest rates
- Equity markets – defying gravity?
- Commodity prices

Global Risk Factors (2)

- China
- EU strains
- Migration crisis
- European banking system
- Demographics/Pensions
- Global political discord
- Global terrorism
- Geo-political tensions
- Brexit

Brexit -What Happens Next?

- Article 50 will be triggered by end-March
- Once Article 50 triggered, negotiation power shifts to EU-27
- What sort of deal if UK exits?
- Norway has access to EU through EEA – but pays 90% of UK contribution per capita
- Switzerland – bilateral trade deals, pays 50% of EU contribution
- Have to sign up to rules & regulations of SEM
- Negotiations would take at least 2 years

Economic Impact on UK

- Short-term v Long-term impacts
- Economy has held up well since vote, but business investment vulnerable
- Impact on inward investment
- Lower regulations- spurious argument
- Migration – loss of EU migrants not good
- Short-term exit would be bad for UK economy
- Longer-term the UK economy would have to adjust

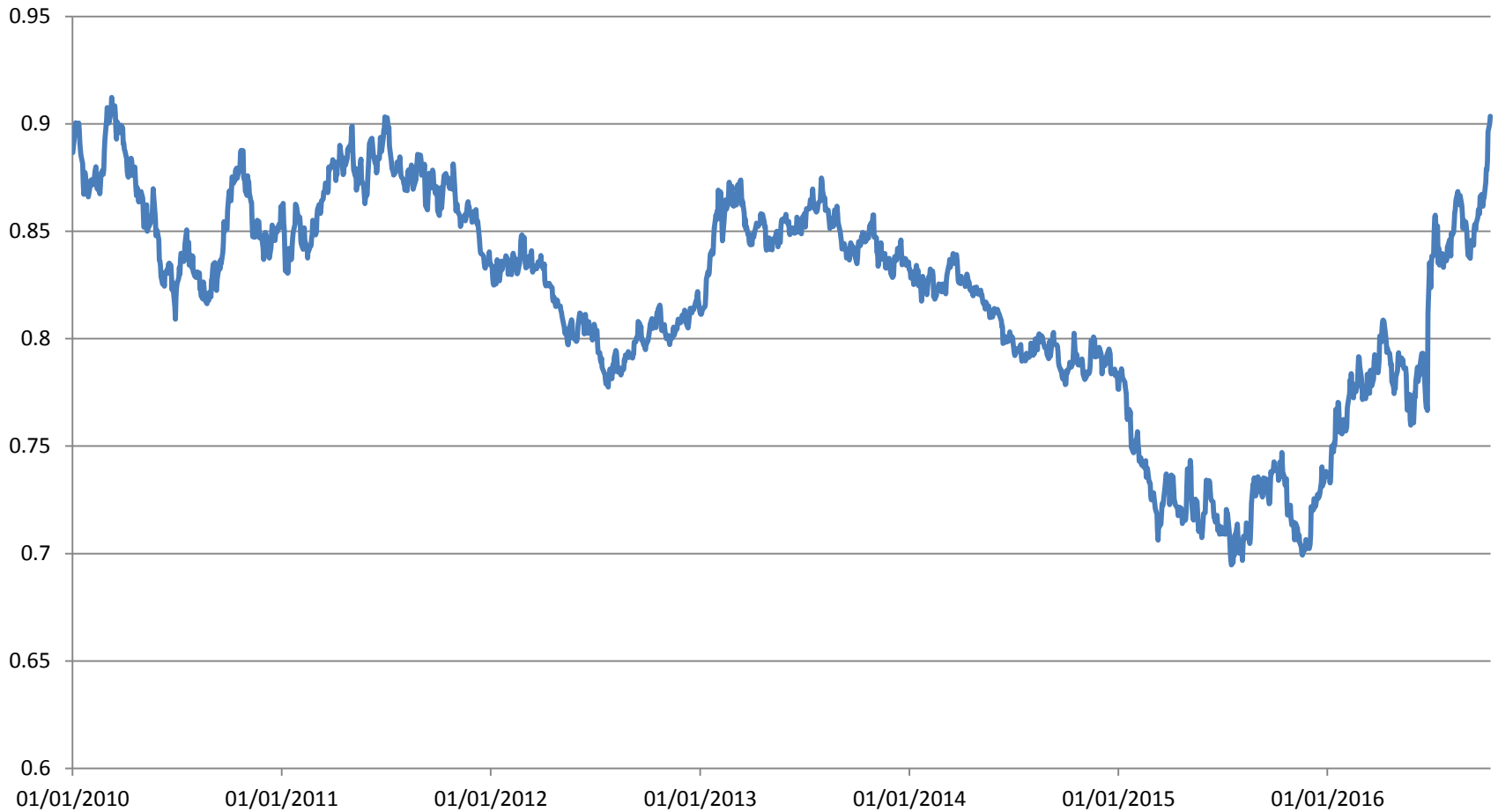
Brexit & Ireland

- Impact on sterling?
- Impact on UK economy?
- FDI – possible opportunity?
- UK to cut CT rate to 15%?
- Northern Ireland border?
- Impact on EU?
- Many ‘unknown unknowns’
- Difficult to see too many positives

‘Brexit Department not being backward about appearing before parliament, but the house may not be overwhelmed by the detail so far’

David Davis

Sterling Under Significant Pressure



Trends in Irish Taxation

	2006	2016f	2017f
Expenditure Taxes	€19.3 bln	€18.6 bln	€19.7 bln
% Tax Take	42.4%	38.7%	38.9%
Income Tax	€12.4 bln	€19.1 bln	€20.2 bln
% Tax Take	27.2%	39.9%	40.0%
Corporation Tax	€6.7 bln	€7.5 bln	€7.7bln
% Tax Take	14.7%	15.6%	15.2%
Capital Taxes	€3.5 bln	€1.1 bln	€1.1 bln
% Tax Take	7.6%	2.3%	2.3%
Total Tax Take (€bln)	€45.5 bln	€48.1bln	€50.6 bln

The Economic Context for Ireland

- Global challenges – Brexit top of the pile
- Irish economy in strong statistical recovery
- The domestic challenges very obvious
- Housing
- Demand for more & better public services, but fiscal limitations
- Pay Pressures building
- Regional balance of economic activity – now a big focus
- ‘New Politics’ & poor policy making

Economic Assumptions Budget 2017

	2016f	2017f	2018f
GDP	+4.2%	+3.5%	+3.4%
GNP	+7.5%	+3.3%	+3.2%
Consumption	+3.3%	+2.9%	+2.2%
Investment	+15.8%	+6.0%	+4.7%
Exports	+3.6%	+4.5%	+4.8%
Unemployment Rate	8.3%	7.7%	7.3%
Employment (000s)	2,015	2,060	2,103

THANK YOU!