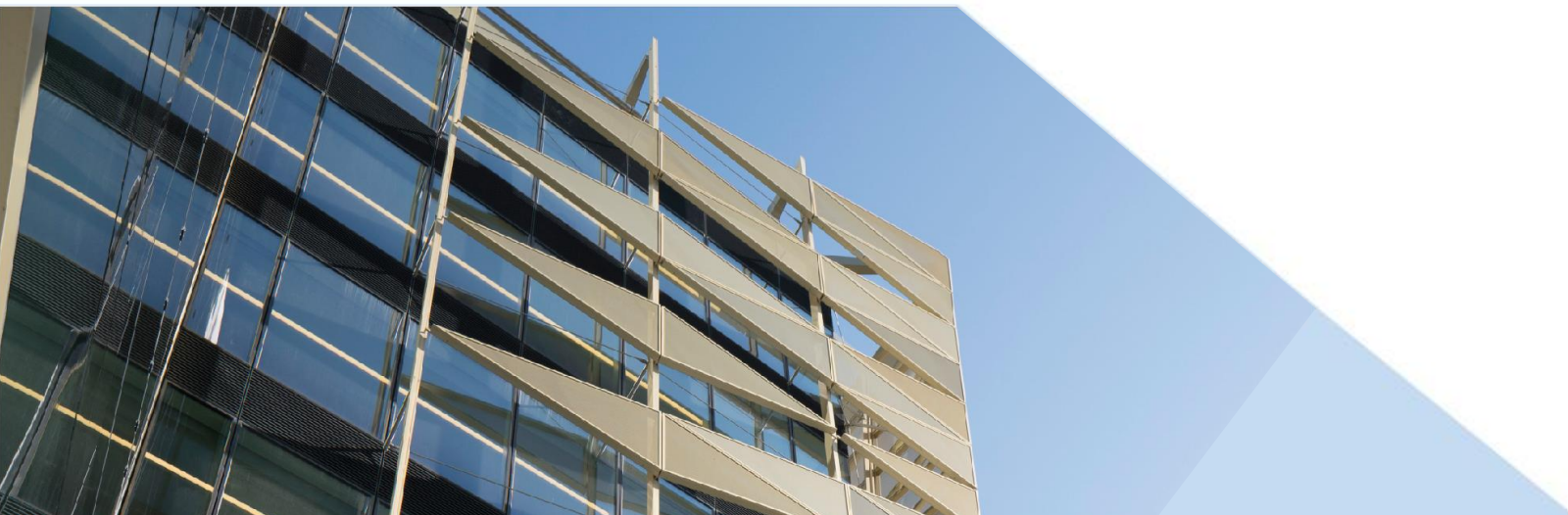




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The Irish Economy: Performance, Risks and Challenges

Terry Quinn and Thomas Conefrey
Civil Society Roundtable, 29 November 2019

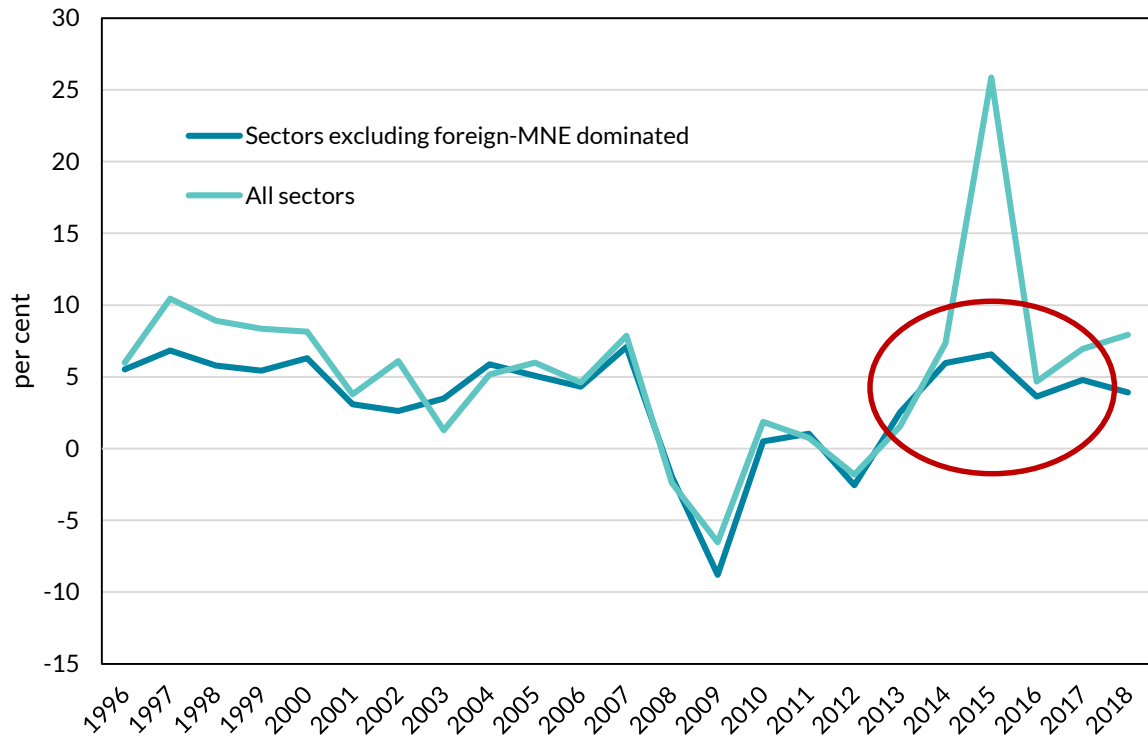
Outline

- The Irish economy: where are we now?
 - Economic activity
 - Employment and migration
 - Incomes
 - Prices
- Short-term outlook
- Risks
 - Brexit
 - Overheating
- Long-term challenges
 - Population ageing
 - Climate change



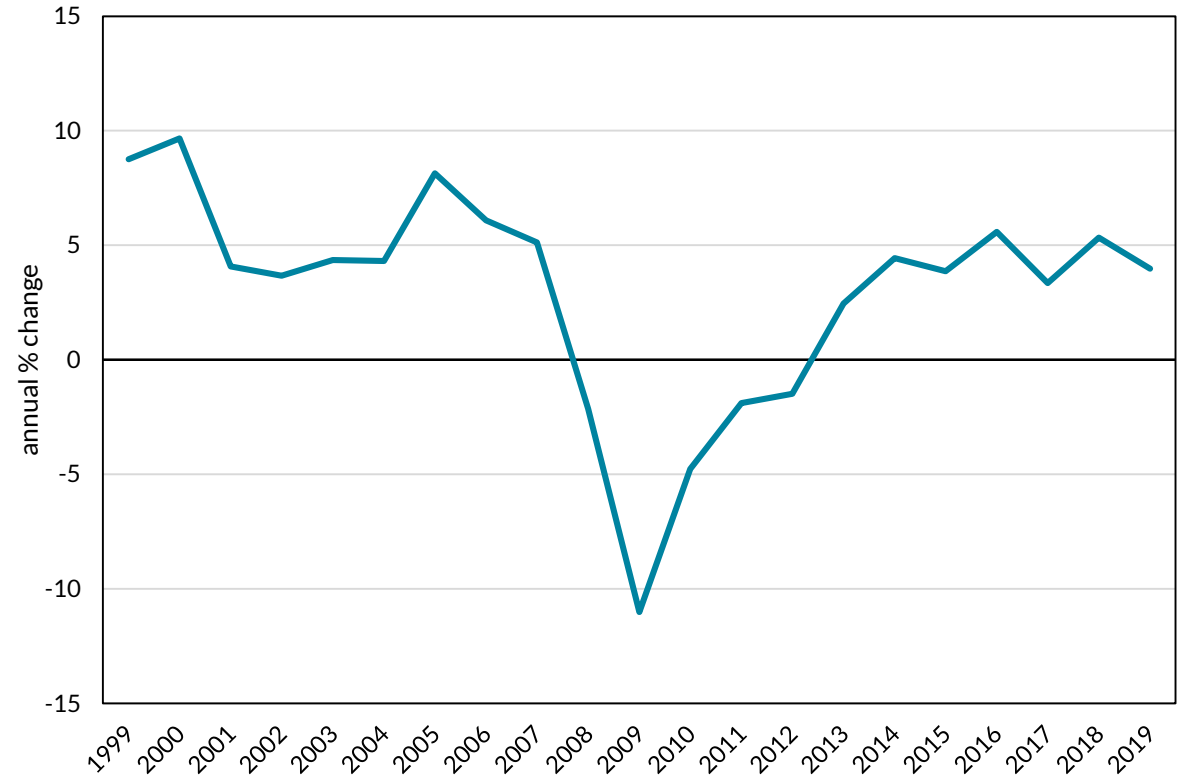
Stripping out distortions, steady and sustained recovery in domestic economy

Real GVA by sector



Source: CSO.

Real underlying domestic demand

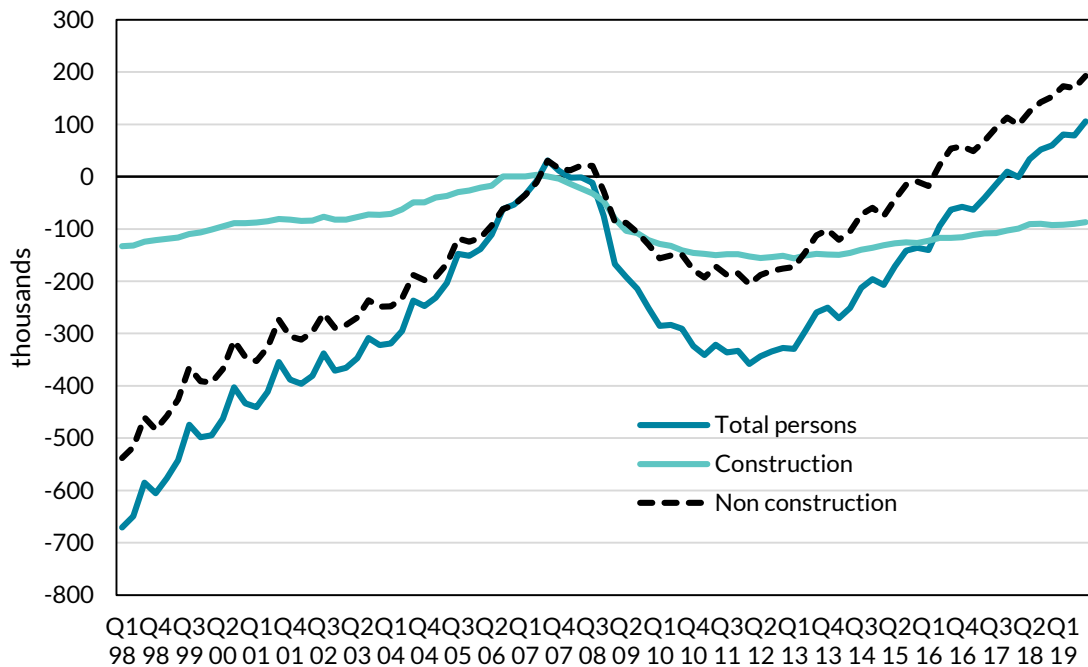


Source: CSO.



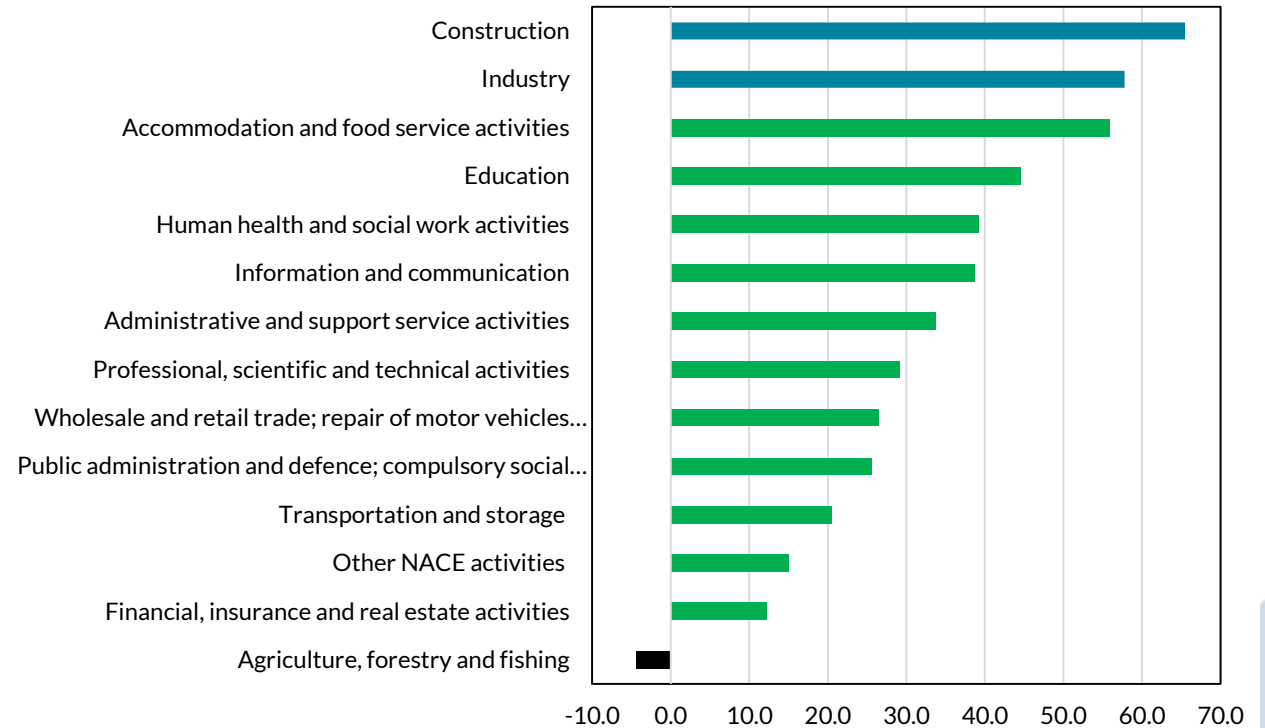
Services sector expands, construction now much smaller

Employment relative to 2007 average: construction and non-construction



Source: CSO.

Change in employment from trough (2019Q3 - 2012Q1)



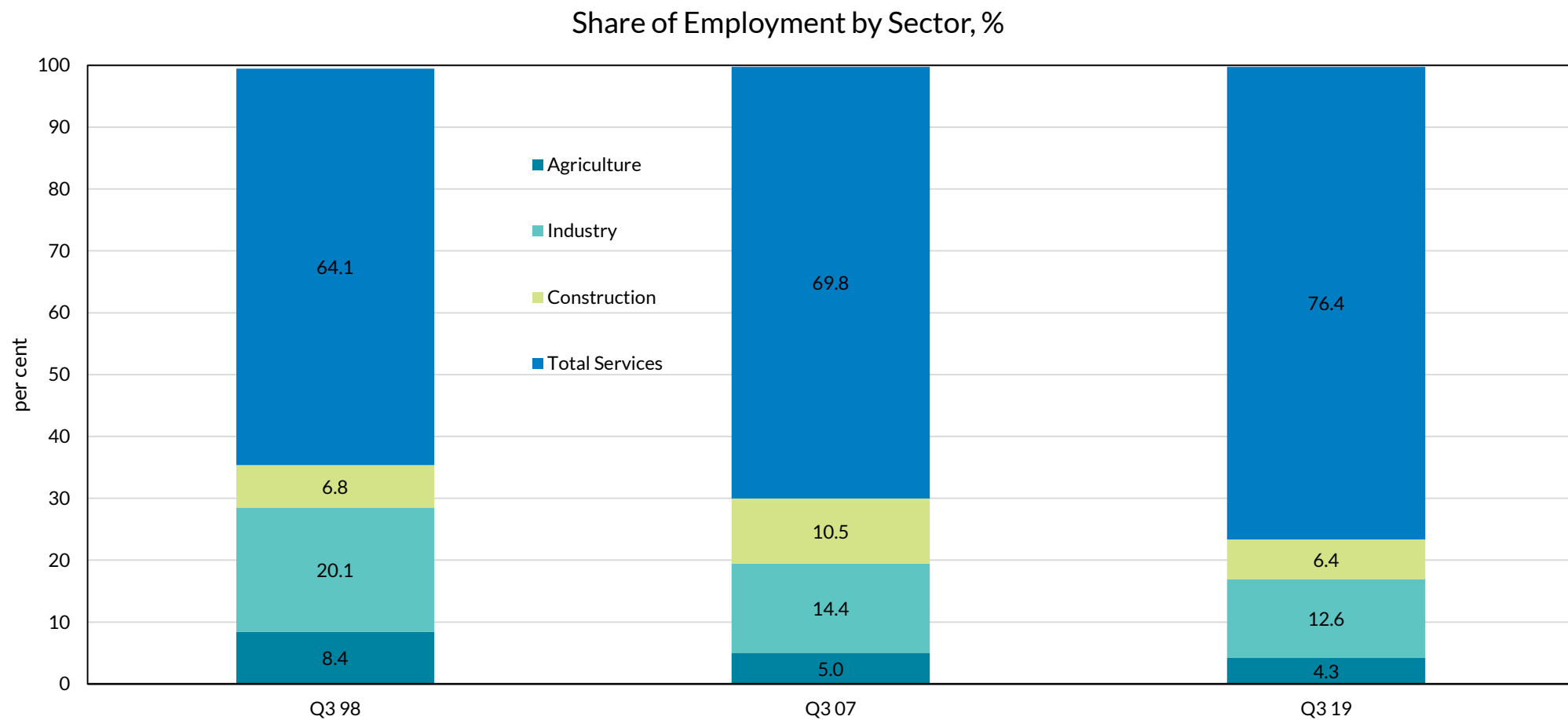
Source: CSO.



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Composition of employment has changed



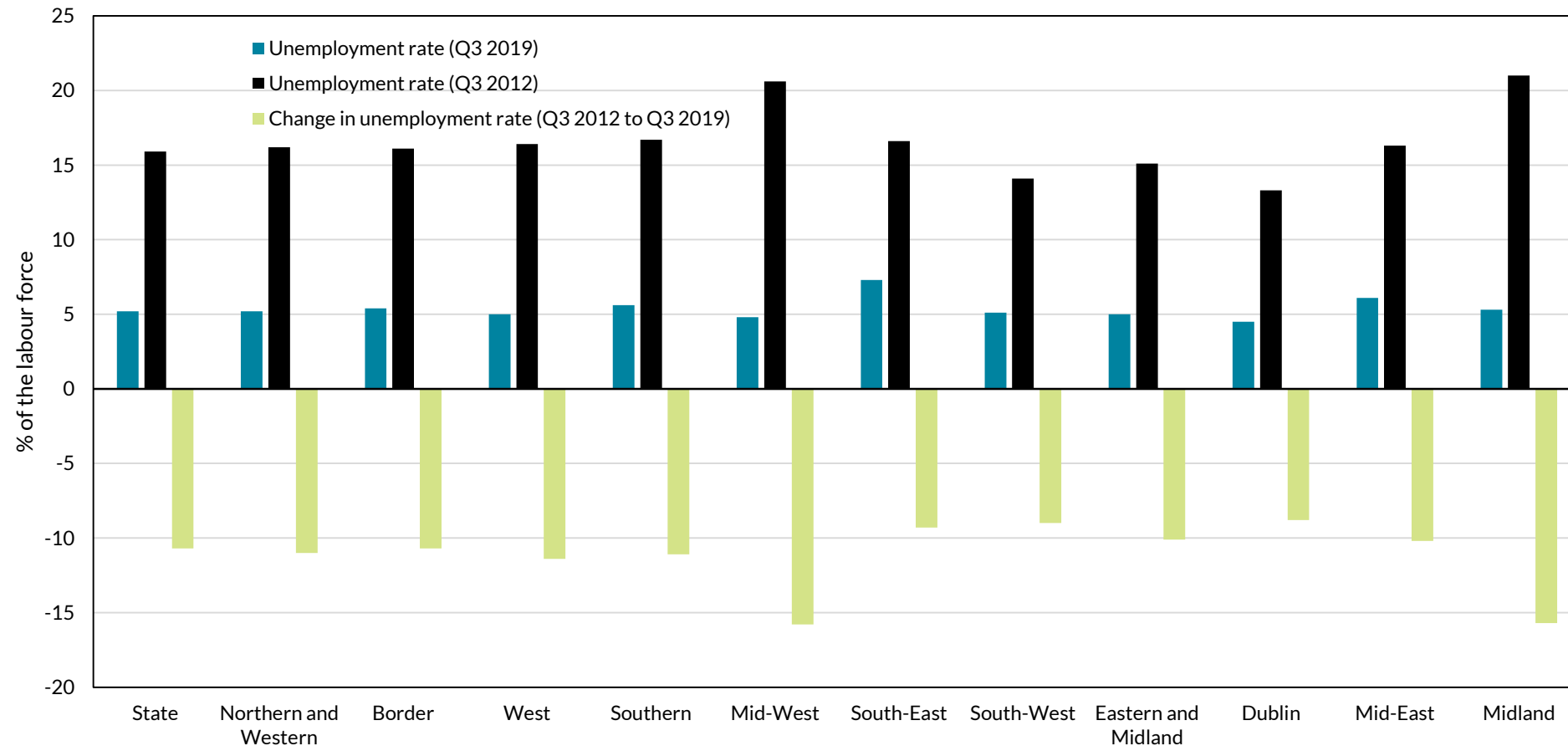
Source: CSO.



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Labour market recovery has been broad based



Source: CSO.

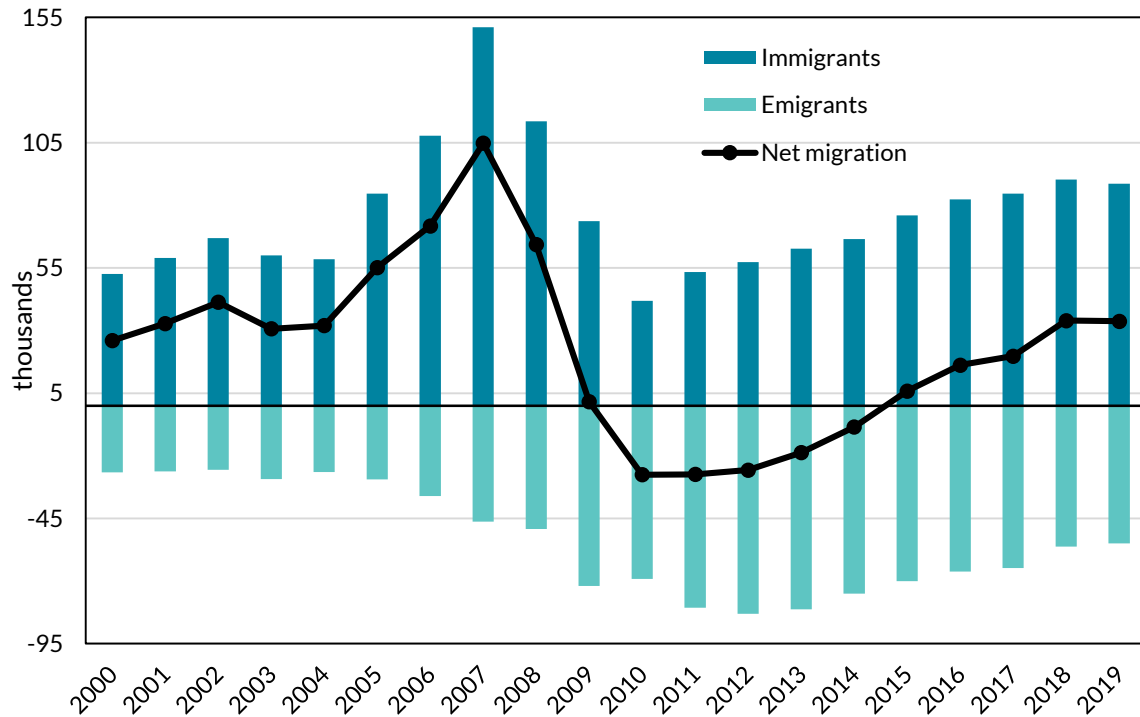


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Net inward migration has resumed and is driving employment growth

Migration, thousands



Source: CSO.

Change in Irish and non-Irish employment



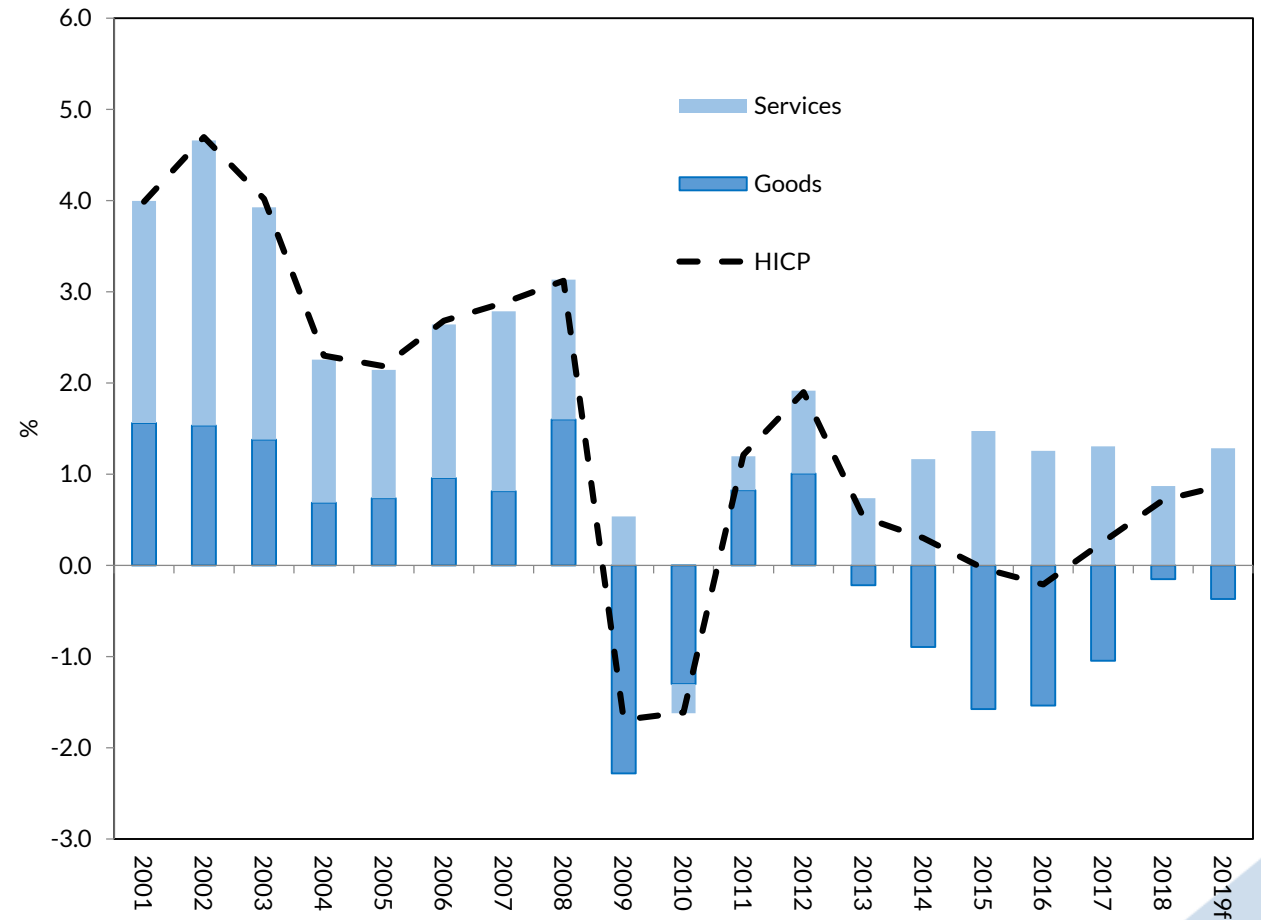
Source: CSO.



Inflation has been weak

- HICP inflation averaged 0.9 per cent for the January to August 2019 period.
- Price developments have been characterised by strong growth in services, particularly energy and rents.
- We expect continuation of weak goods price inflation over the projection horizon, with the negative contribution moderating towards zero.
- Inflation forecasts are for a moderate increase in prices over the forecast horizon.

Inflation Contributions



Source: CSO.

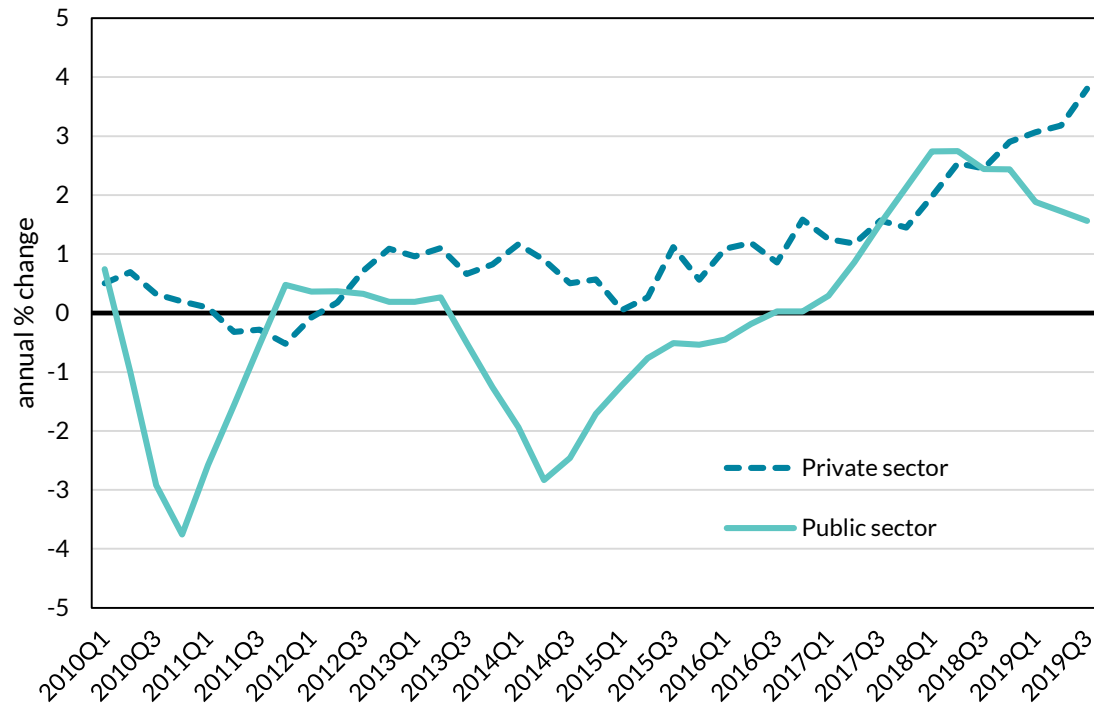


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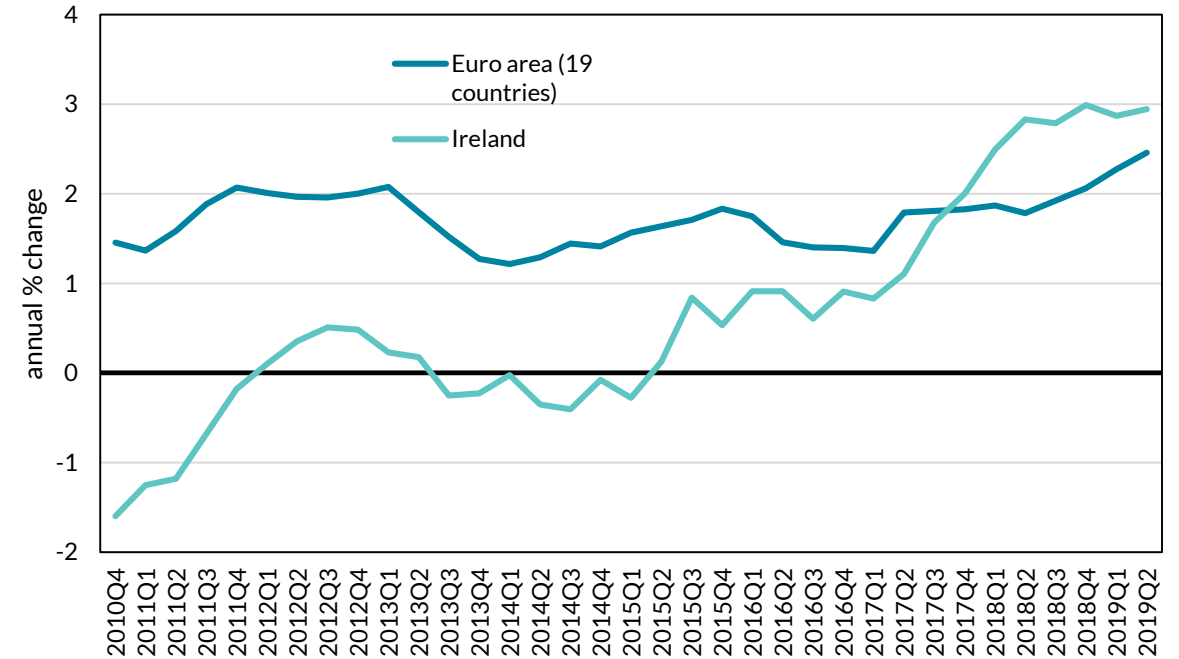
Economic recovery has generated an acceleration in wage growth

Average hourly earnings, annual change, four quarter moving average



Source: CSO.

Annual economy-wide hourly wages, annual change, four quarter moving average



Source: Eurostat.

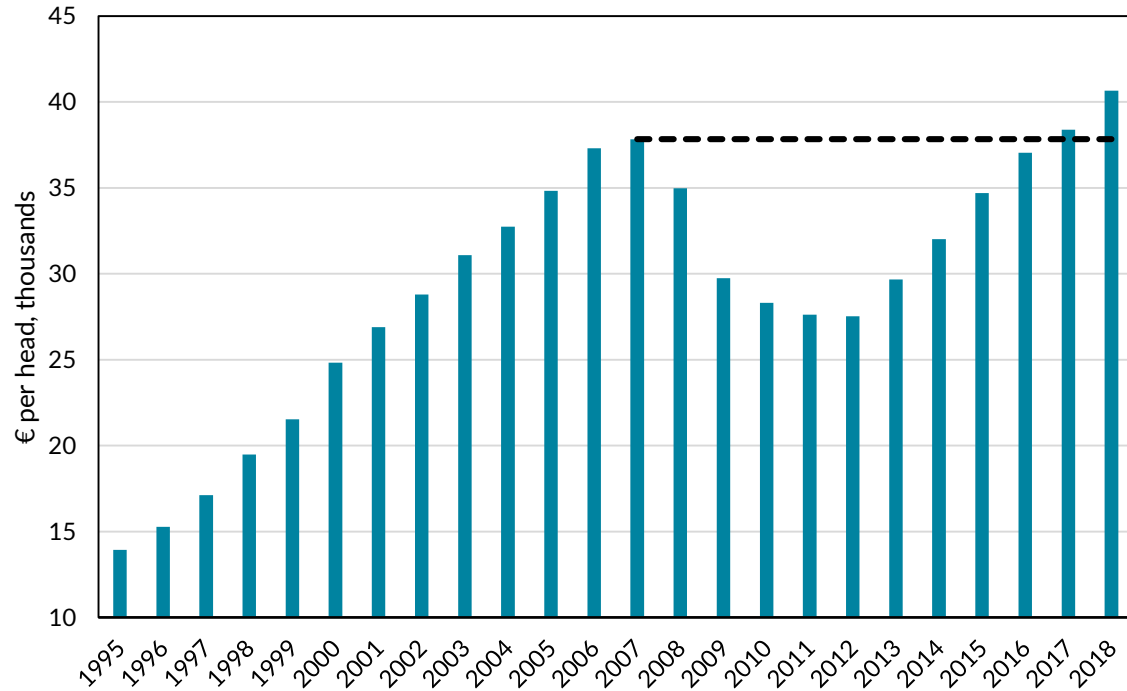


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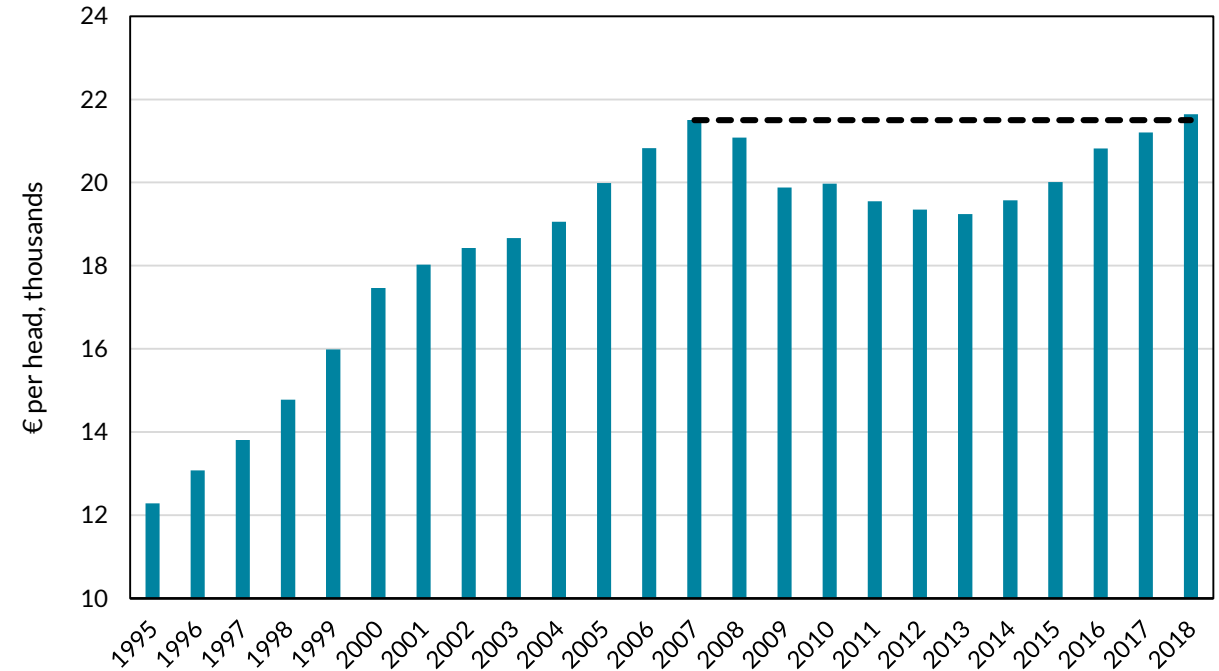
Living standards have recovered after over a decade

Nominal GNI* Per Capita



Source: CSO.

Real Consumption Per Capita



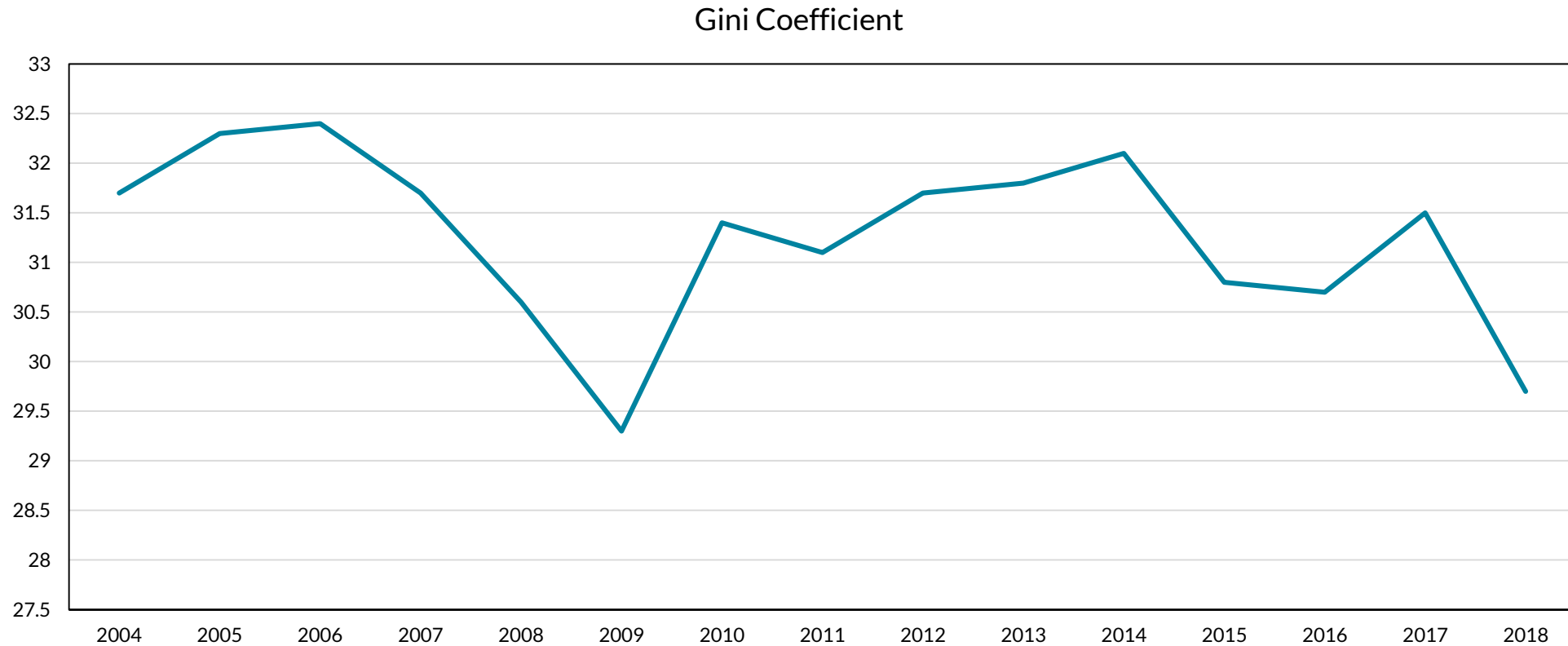
Source: CSO.



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Inequality has fallen during the recovery – Gini within a narrow range



Source: CSO.

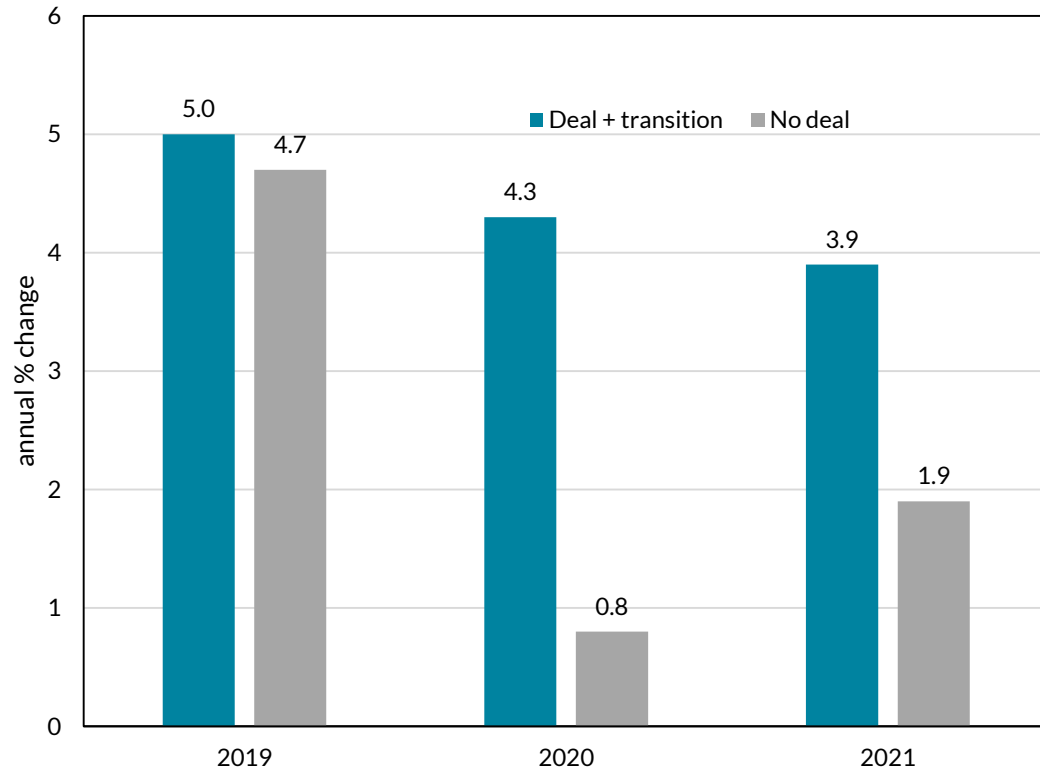


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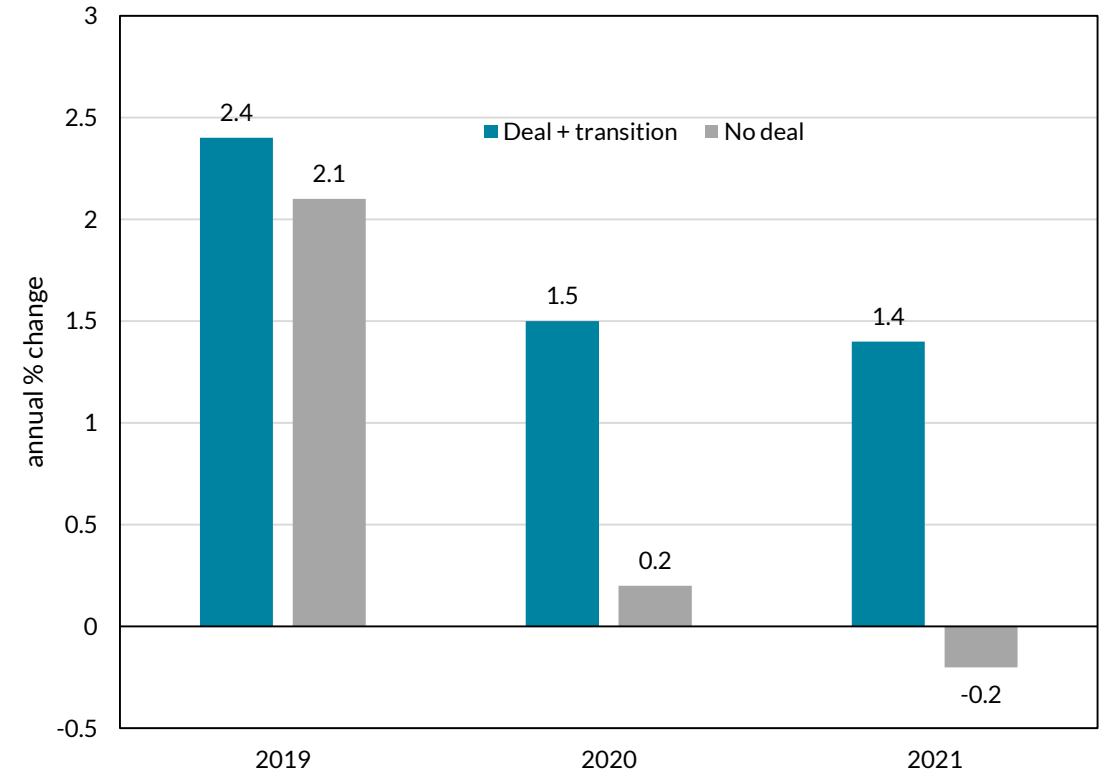
Outlook contingent on Brexit outcome

Real Output



Source: Central Bank Quarterly Bulletin, October 2019.

Employment



Source: Central Bank Quarterly Bulletin, October 2019.



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Risks and Long-Term Challenges

Short-term risks

1. Brexit / international slowdown
2. Overheating

Long-term challenges

1. Population ageing
2. Climate change



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A range of Brexit outcomes are still possible

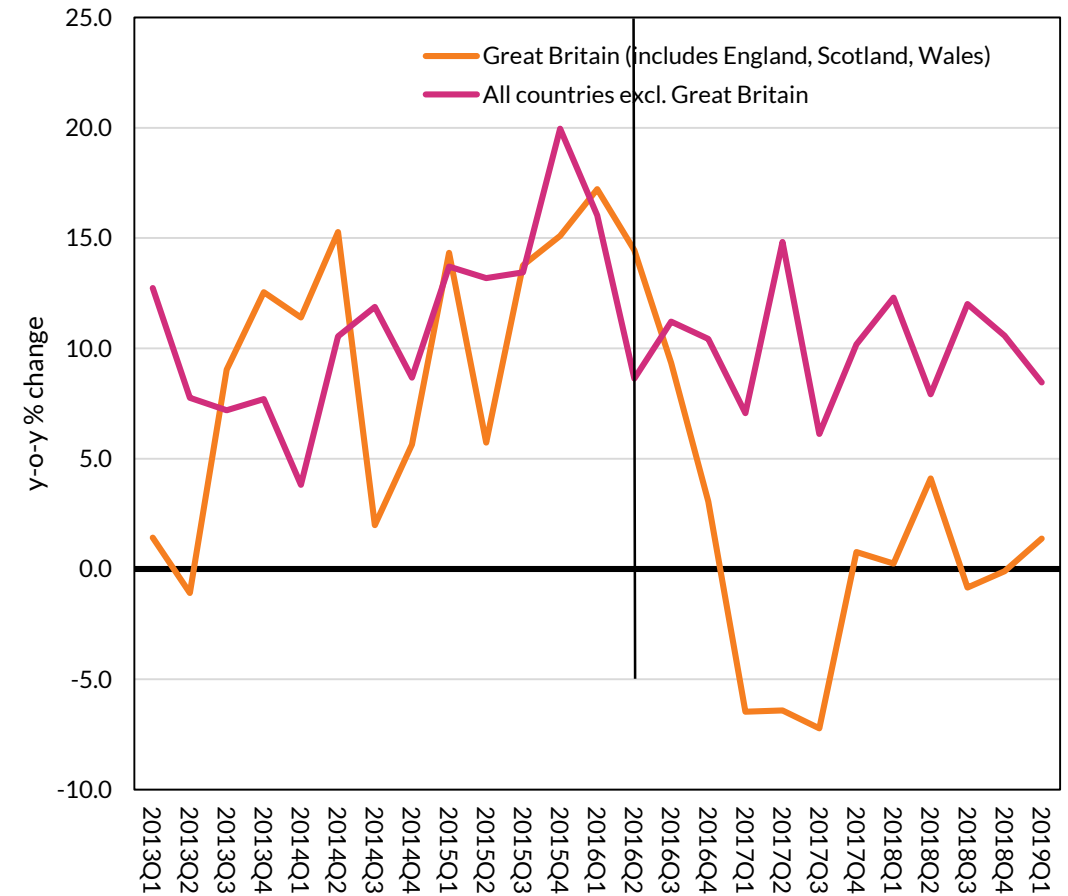
1. Revised withdrawal agreement is not ratified before 31 January 2020 and UK leaves EU – **disorderly Brexit**
2. Revised withdrawal agreement is ratified and UK-EU FTA is concluded by December 2020 – **FTA**
3. Revised withdrawal agreement is ratified and UK-EU FTA is not concluded by December 2020. UK extends EU membership and negotiations are prolonged – **delay + uncertainty**
4. Revised withdrawal agreement is ratified and UK-EU FTA cannot be concluded in time for December 2020 deadline. No extension. UK leaves on WTO terms – **WTO**
5. No Brexit / delayed Brexit / customs union



Impact of Brexit

- All scenarios imply continued uncertainty for households and firms, at a minimum over the short run.
- Already evidence that Brexit has not been **costless** for the UK and Ireland.
- Current UK preference in favour of **FTA-type** agreement with EU.
- Represents an improved outcome relative to a WTO arrangement and would avoid some short-run disruption.
- Basic FTA would still create difficulties for exposed sectors:
 - **Non-tariff barriers** for the agri-food sector - exposure of beef.
 - What arrangements for **services** trade?

Overseas Visitors to Ireland from Great Britain and Rest of the World, annual % change



Source: CSO

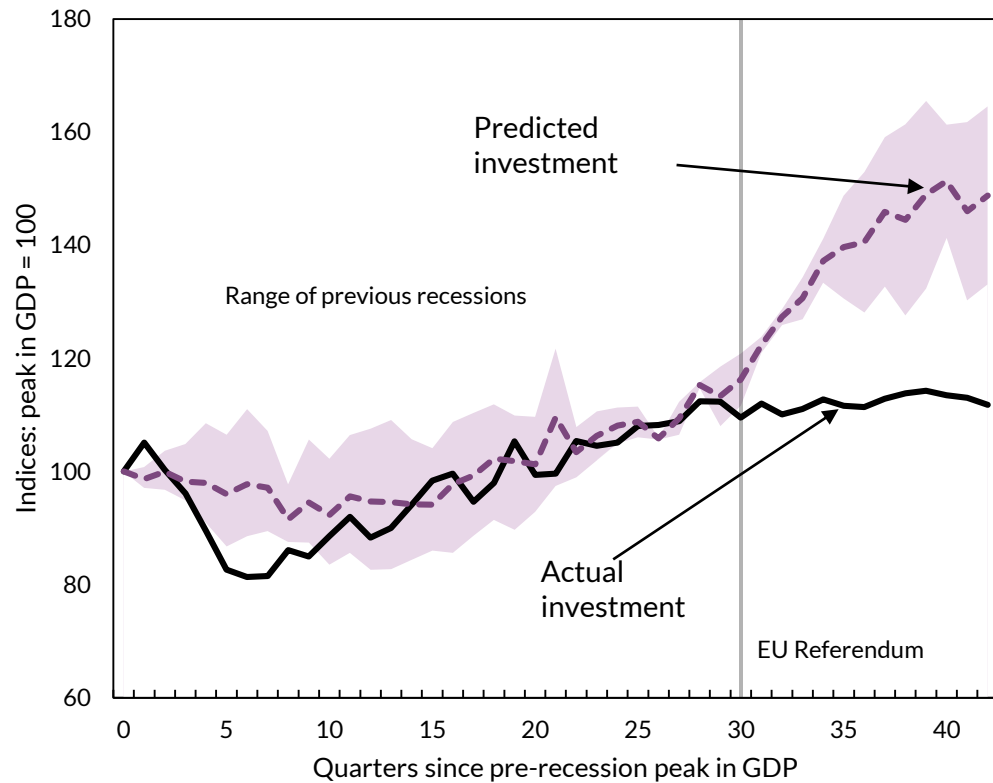


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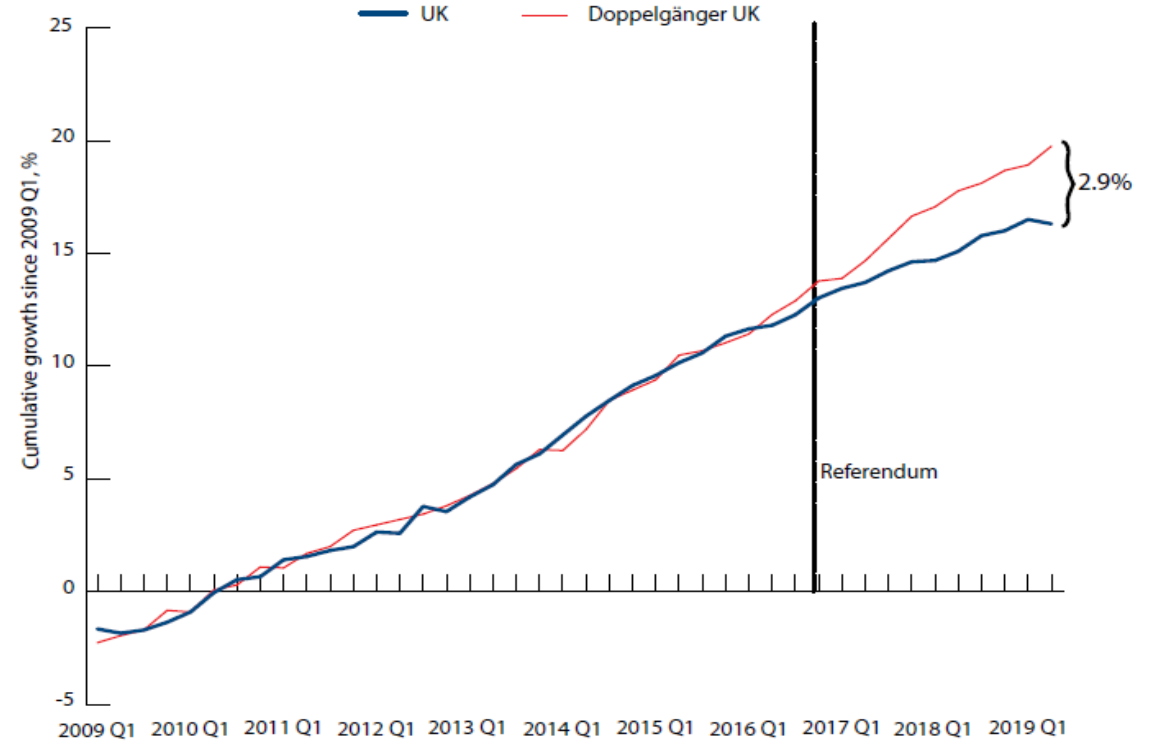
Estimated Cost of Brexit So Far

UK Business Investment



Source: Bank of England

UK GDP



Source: Centre for European Reform.

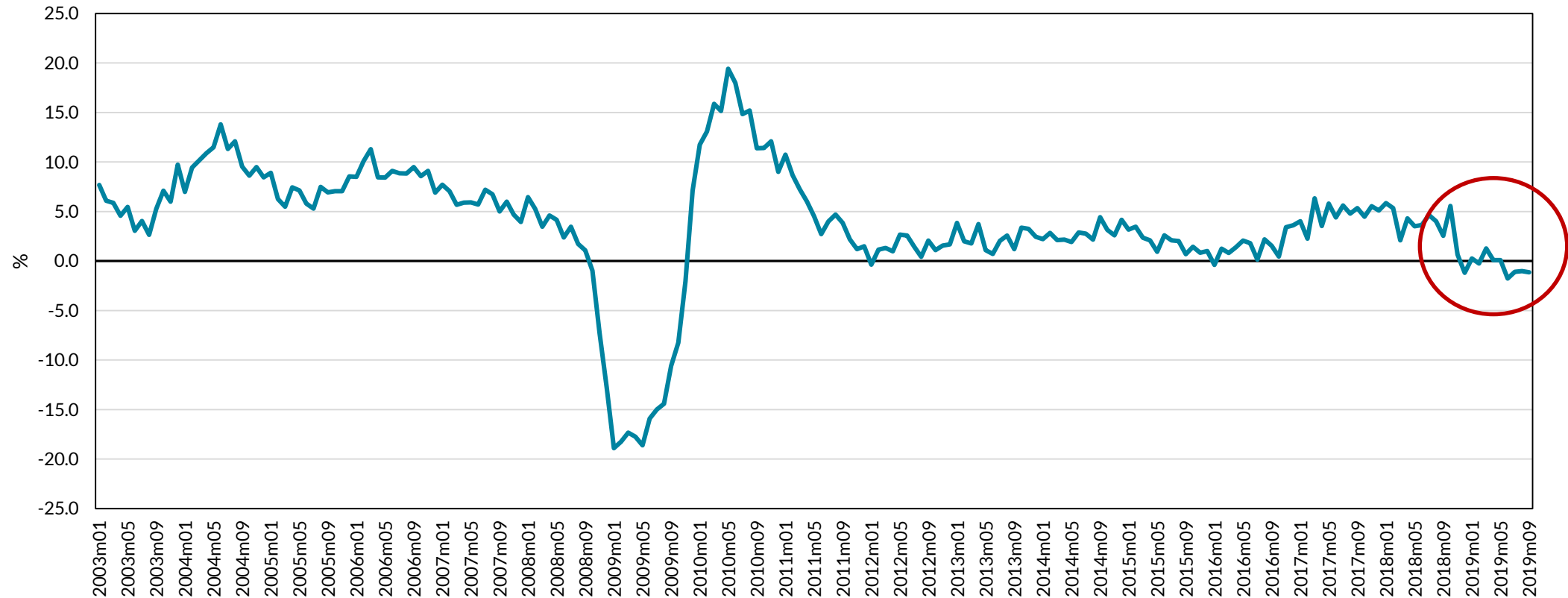


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Meanwhile, concerns about trade not confined to Brexit...

World trade volumes, annual % change



Source: CPB World Trade Monitor.



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2. Avoiding Boom-Bust Dynamics

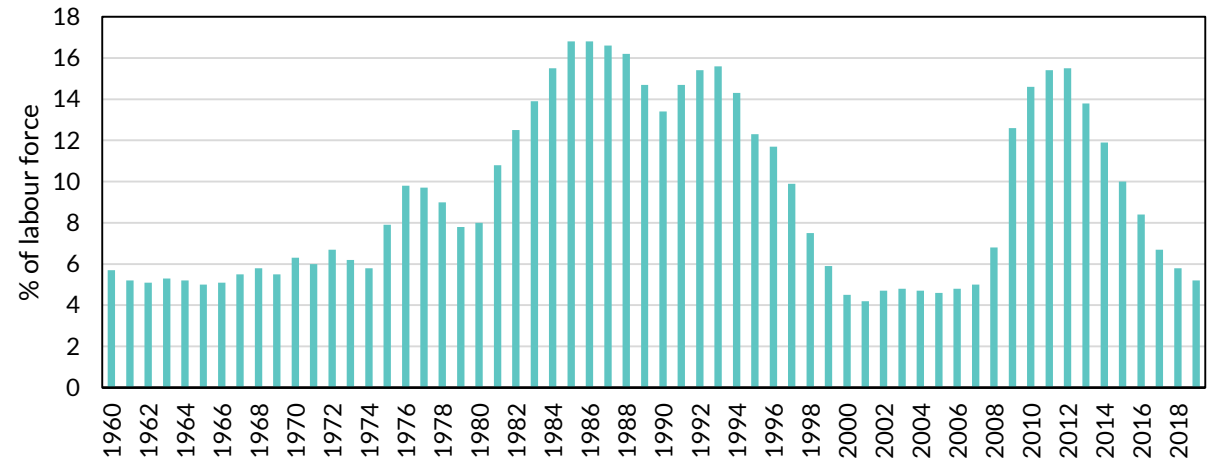
- Economy is now at an advanced stage of the business cycle.
- Assuming a damaging Brexit outcome is avoided, important that policy seeks to avoid a recurrence of damaging boom-bust growth dynamics.
- Need to accommodate an increase in housing supply to meet estimated demand.
- Important role for fiscal policy to minimise risks to the public finances and ensure economy remains on a sustainable growth path.
 - Corporation tax risks.



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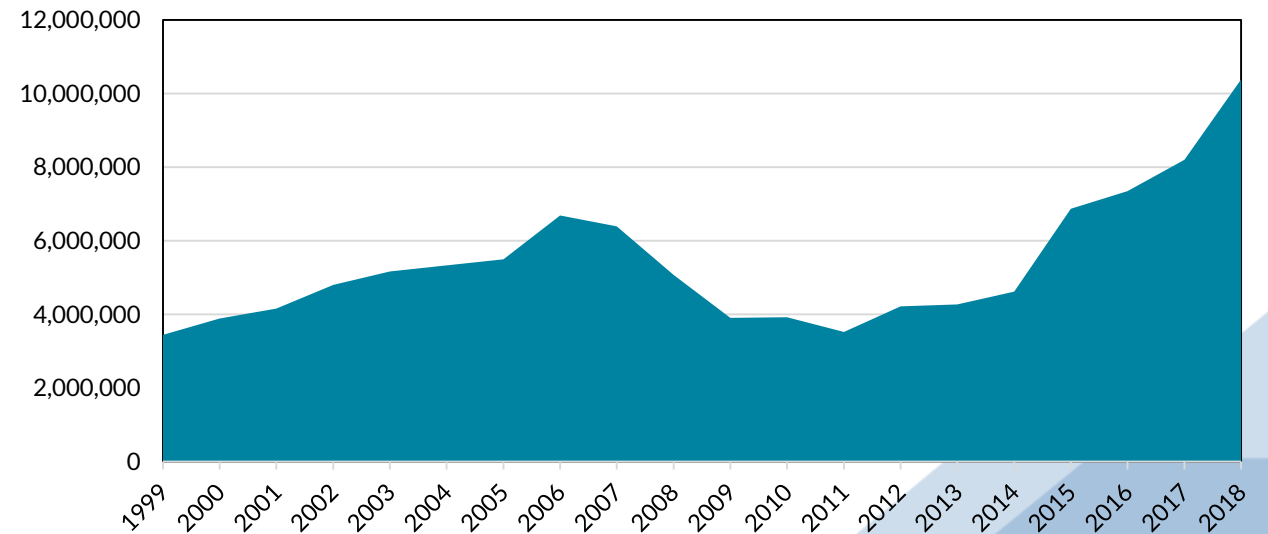
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Unemployment Rate 1960-2019



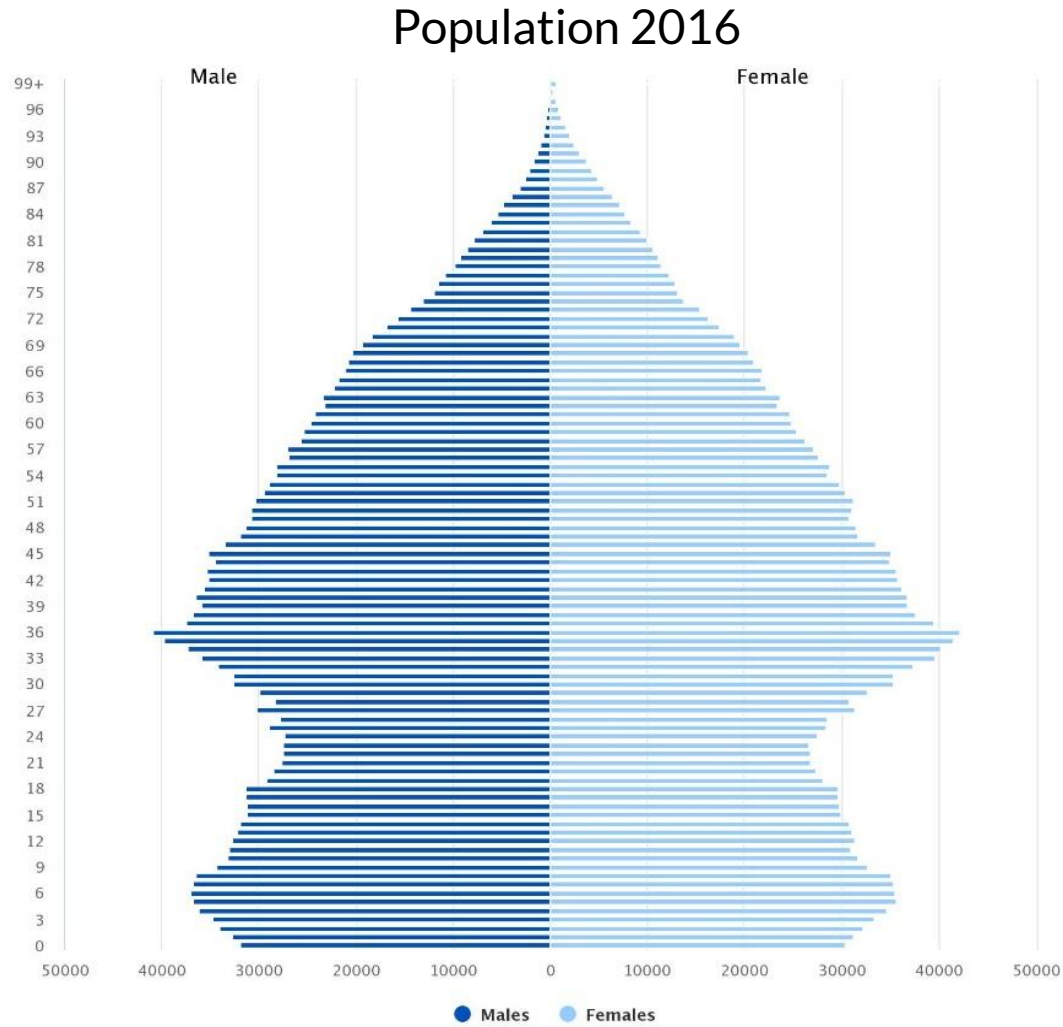
Source: CSO.

Corporation tax revenue

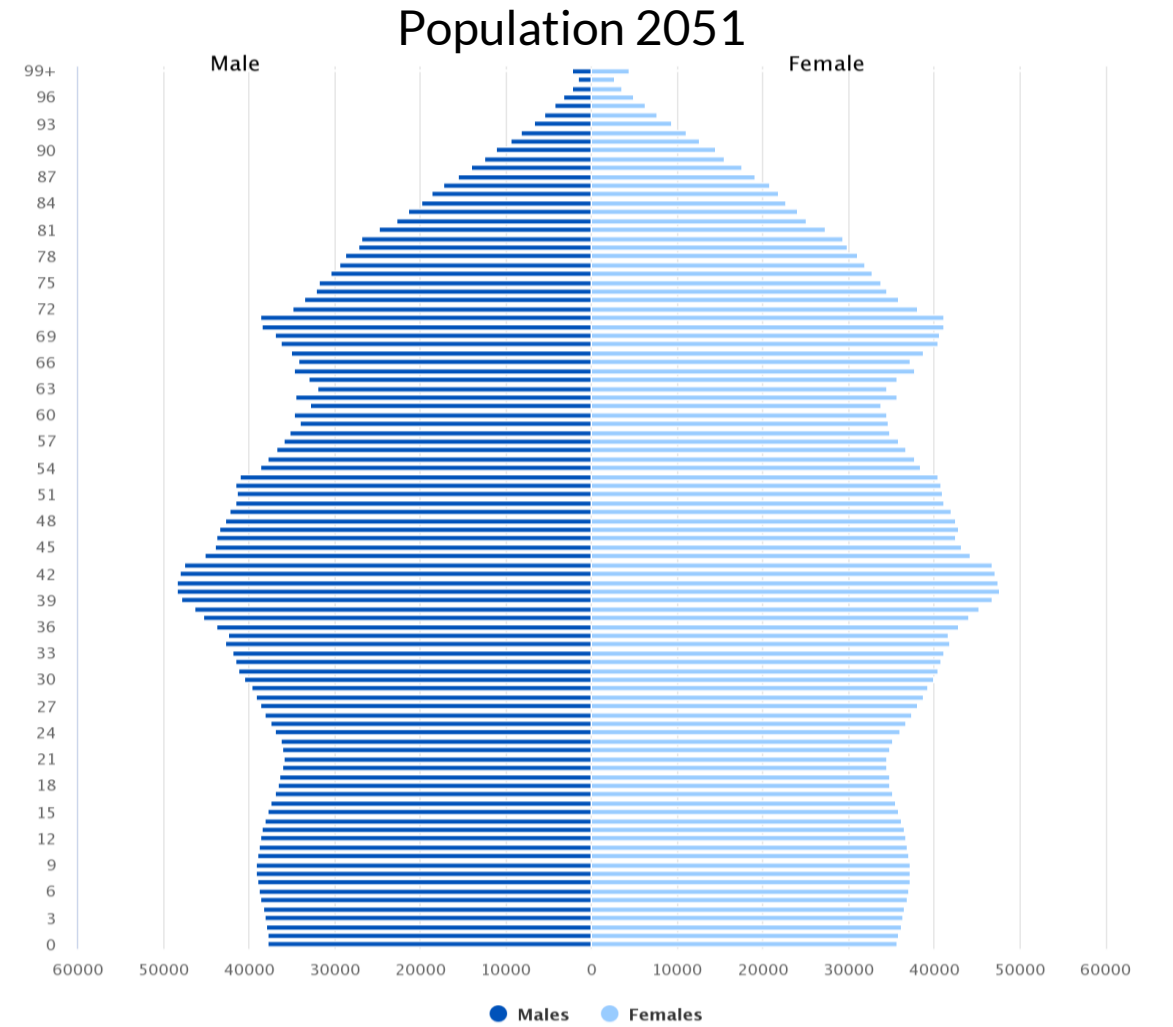


Source: Department of Finance.

1. Long-Term Challenges: Population Ageing



Source: CSO Ireland



Source: CSO Ireland



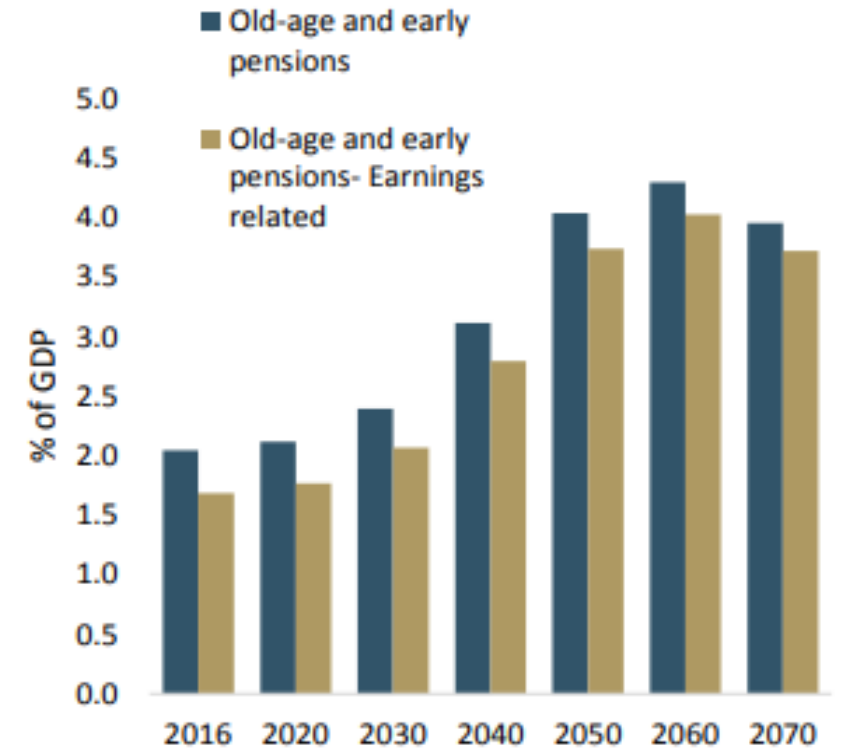
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1. Population Ageing

- The size of the 65-plus cohort is set to nearly double between 2016 and 2040 (from just over 600,000 to 1.2 million).
- The old-age dependency ratio is projected to rise from 21 per cent to 37 per cent.
- The ageing of the population has implications across a range of dimensions:
 - It will affect the aggregate **growth rate** of the economy
 - Ageing poses challenges for **public and private pensions**
 - Ageing will affect the provision of long-term care, the **healthcare** system and the education system.

Public social security pension expenditure



Source: European Commission Ageing Report 2018, Ireland Country Fiche.

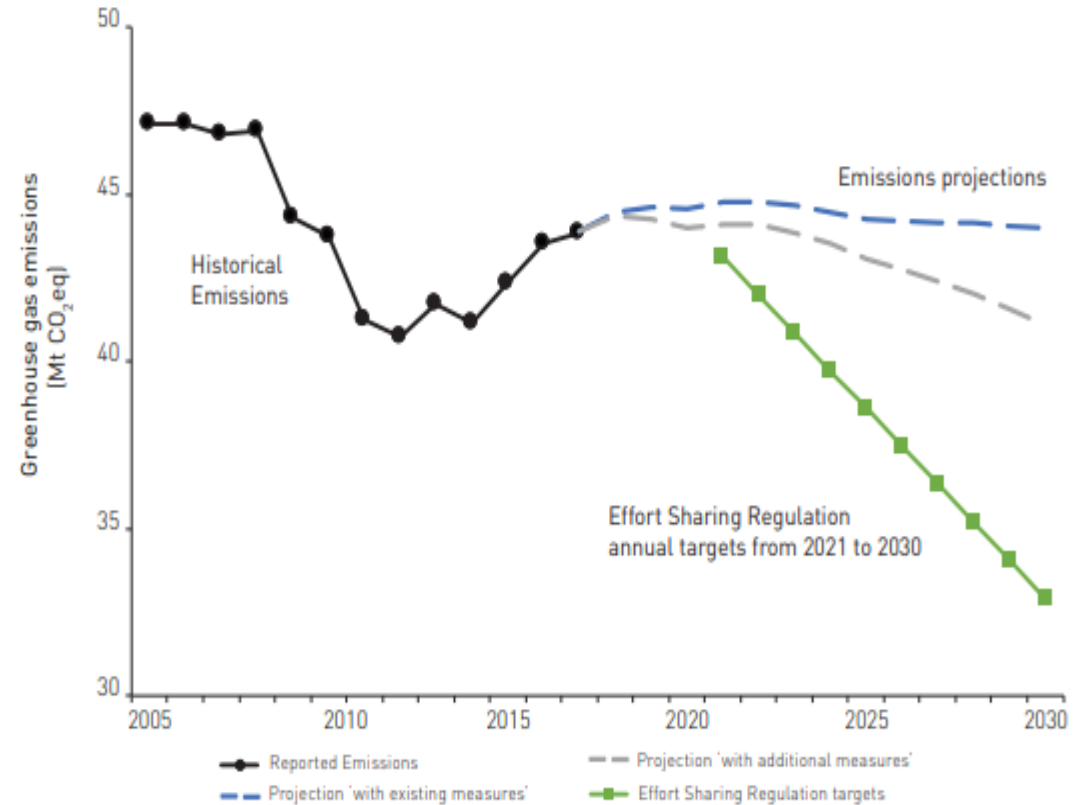


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2. Longer-Term Issues: Climate Change

- Ireland is currently off track to meet its emission reduction targets, even with additional measures currently planned.
- Climate Change Advisory Council: raise carbon tax from €20 to €80 by 2030; current GHG emissions rising – adjustment needed.
- Implications for the energy sector, households, firms (financial and non-financial), public sector.
- Climate change poses challenges for the economy and financial system through two broad channels:
 - **Physical risks:** from severe weather events, storms, flooding.
 - **Transition risks:** transition to a low-carbon economy requires investment by households, firms and the government.



2. Climate-Related Economic and Financial Risks

- **Macroeconomic impacts:** inflationary pressures might arise from a decline in the national and international supply of commodities or from productivity shocks caused by weather-related events such as droughts, floods, storms and sea level rises. These climate events could impact the capital stock.
- **Financial stability:** flood risk to mortgage portfolios, fall in agricultural output, tighter energy standards impact property exposures, stranded assets (e.g. oil and gas fields) impair loan portfolios, auto production (will consumers delay car purchase?).
- **Market:** Severe weather events could lead to re-pricing of sovereign debt, securities and derivatives.
- **Operational:** effect of severe weather on business continuity. Changing sentiment on climate change raises reputational risks.
- Will carbon policies deliver a **smooth transition**? Excessively-accelerated or excessively-delayed policy packages pose risks.
- **Climate resilience** is an integral component of the overall resilience of the financial system and the economy.
- For the **Central Bank**, recognition that climate change needs to be incorporated into our **macroeconomic and financial stability** assessments.



References

- <https://www.centralbank.ie/docs/default-source/publications/climate-change-and-the-irish-financial-system-presentation.pdf>



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