Rialtas na hÉireann
Government of Ireland

Stability Programme Update - Summary

APRIL 2023

Prepared by Economics Division
Department of Finance
www.gov.ie/finance

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Summary

> Irish economic data have surprised on the upside and the near-term outlook is somewhat better than anticipated at the time of *Budget 2023*. That said, near-term prospects remain highly uncertain, against a fragile global economic backdrop.

> Three inter-related headwinds have weighed on activity over the past year:

- Russia's invasion of Ukraine, which triggered a severe energy price shock;
- Broadening of price pressures to non-energy goods and services;
- Front-loaded monetary policy response to higher core inflation.

> Despite the powerful headwinds faced over the past year, the Irish economy has proven to be remarkably resilient. This is most apparent in the labour market, where the rate of unemployment is close to historic lows and the number of people at work is at its highest ever level.

> Energy prices have reversed more rapidly than previously assumed and, on this basis, headline inflation is now on a downward trajectory. For this year, headline inflation is projected at 4.9 per cent, with a further moderation to 2.5 per cent next year.

> Non-energy (core) inflation has proven more persistent, *inter alia* due to wider imbalances in the economy.

> Nevertheless, the easing of headline inflation from the second quarter of this year will support real disposable income, which is assumed to strengthen as the year progresses.

> The recovery in real incomes should support consumer spending, which is projected to increase by 3.9 per cent this year and by 3.8 per cent next year.

> This, in turn, underpins an upward revision to Modified Domestic Demand (MDD, a measure of the domestic economy), which is now expected to increase by 2.1 per cent this year. MDD is projected to expand further – by 2.5 per cent – next year.

> Counter-cyclical budgetary support during the pandemic has paved the wav for a rapid recovery in the labour market, where employment is now at its highest level ever. Further strong employment growth is anticipated in the near term: the number of people employed is set to increase by 1.6 and 1.4 per cent, respectively, this year and next.

> In the absence of any shock to the economy, the unemployment rate is likely to remain at around 4½ per cent, consistent with any reasonable measure of "full employment".

> Beyond the short-term, economic activity is assumed to evolve in line with the economy's supply capacity. Over the second half of this decade output, as measured by GNI*, is projected to grow at an average annual rate of 2¼ per cent, a more moderate rate than in recent decades reflecting *inter alia* an ageing population.

> Excluding estimated windfall taxes, an underlying general government deficit of €1.8 billion (0.6 per cent of GNI*) is projected for this year. For next year, an underlying general government surplus of €4.4 billion (1.5 per cent of GNI*) is projected.

> Public indebtedness next year is projected at €224.4 billion; pre-pandemic this figure was closer to €203.4 billion.

> Changes in the population structure will necessitate an additional €7-8 billion public expenditure each year than at the beginning of the decade simply to maintain existing levels of service.

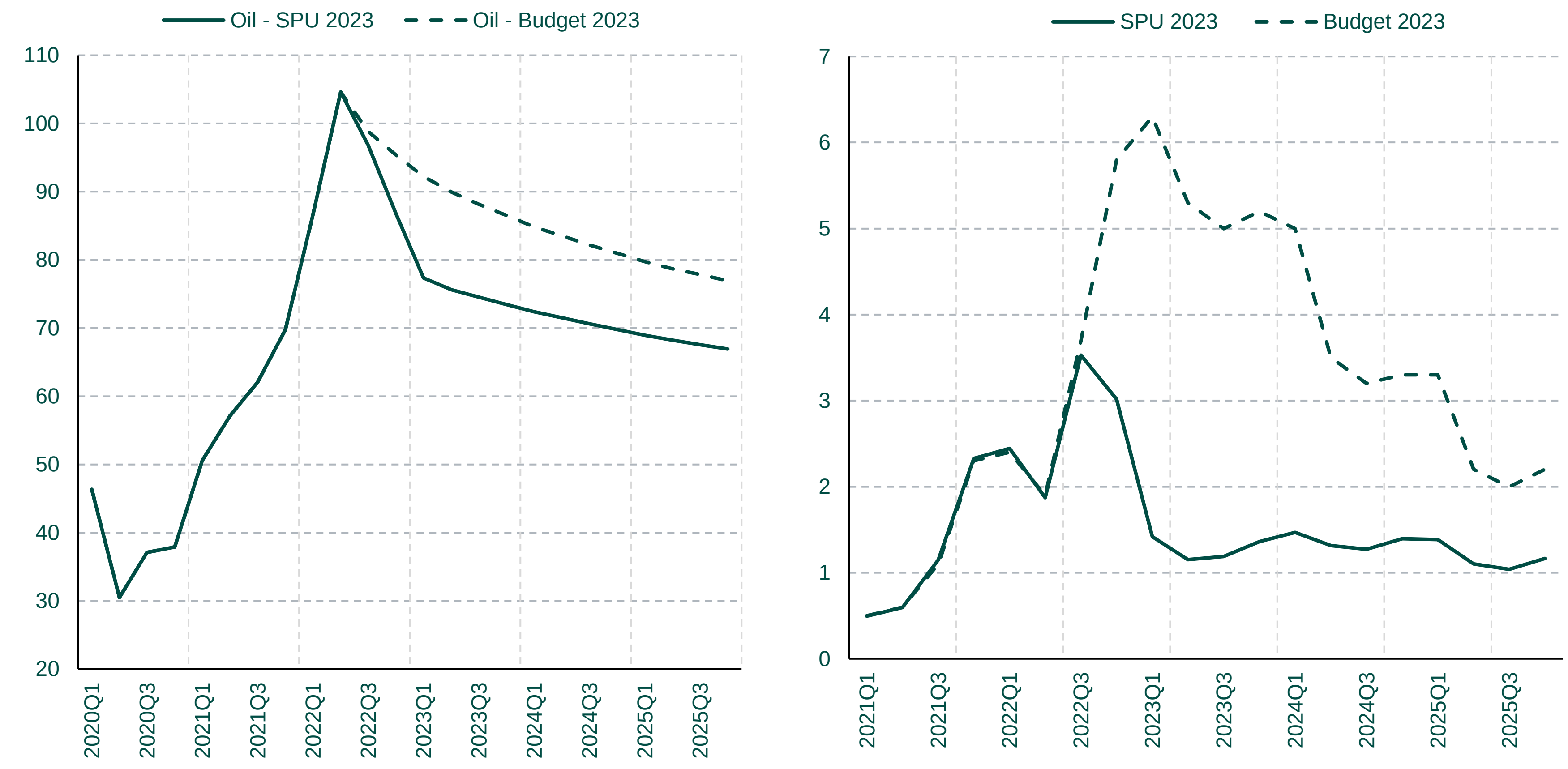
Table 2: Summary – main economic and fiscal variables					
	2022	2023	2024	2025	2026
Economic activity			***per cent change***		
Real GDP	12.0	5.6	4.1	4.9	4.4
Modified domestic demand	8.2	2.1	2.5	3.2	3.4
Real GNI*	9.3	1.6	2.1	2.5	2.3
Prices			***per cent change***		
HICP	8.1	4.9	2.5	2.0	2.0
Core HICP^	5.0	4.4	3.2	2.6	2.5
External trade			***per cent GNI****		
Modified current account	9.7	9.1	8.7	8.0	7.2
Labour market			***per cent change (unless stated)***		
Total Employment, '000	2.547	2,588	2,624	2,662	2,704
Employment	6.6	1.6	1.4	1.5	1.6
Unemployment, per cent	4.5	4.4	4.5	4.5	4.5
Public finances			***per cent GNI* (unless stated)***		
: flow position					
General government balance, (€bn)	8.0	10.0	16.2	18.1	20.8
General government balance	3.0	3.5	5.4	5.8	6.3
Underlying general government balance,(€bn~)	-2.8	-1.8	4.4	6.7	8.4
: stock position					
General government debt (€bn)	224.8	223.5	224.4	220.2	215.0
General Government debt ratio	83.3	78.8	75.4	70.4	65.4

~ underlying fiscal balance excludes the Department's estimate of corporation tax receipts that may be 'windfall' in nature
^ core HICP inflation is the headline figure excluding unprocessed food and energy
Source: CSO for 2022; Department of Finance for 2023-2026.

Figure 1: Global energy prices at end-March are much lower than assumed in the autumn forecasts

A: **crude oil (Brent),** € per barrel

B: **wholesale gas prices,** £stg per therm

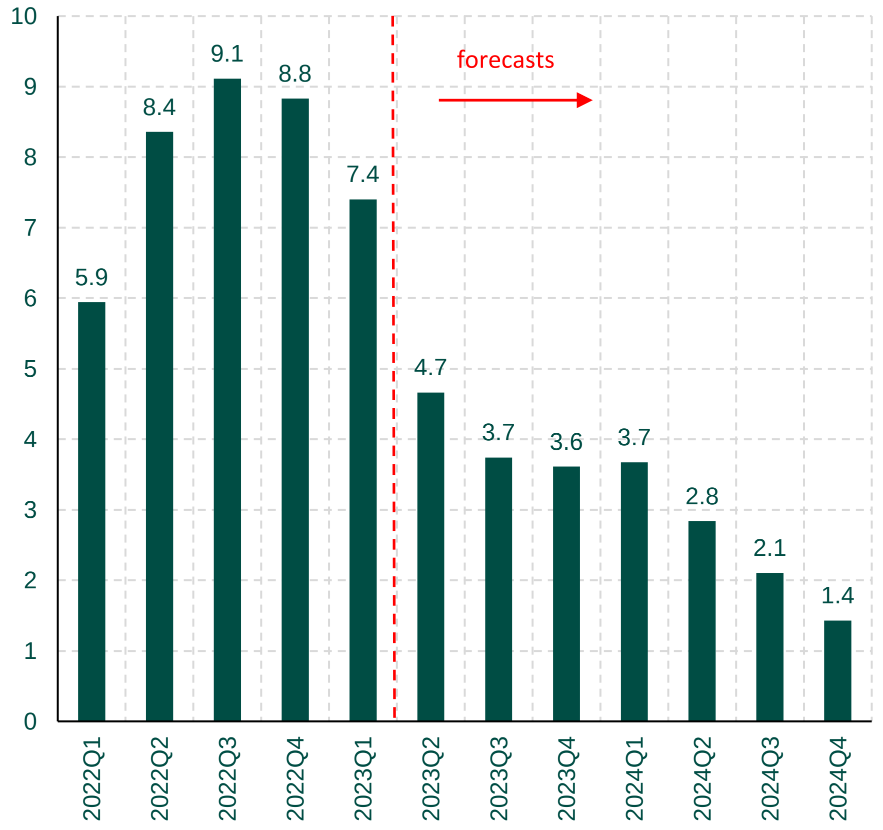


Source: Macrobond

Source: Macrobond

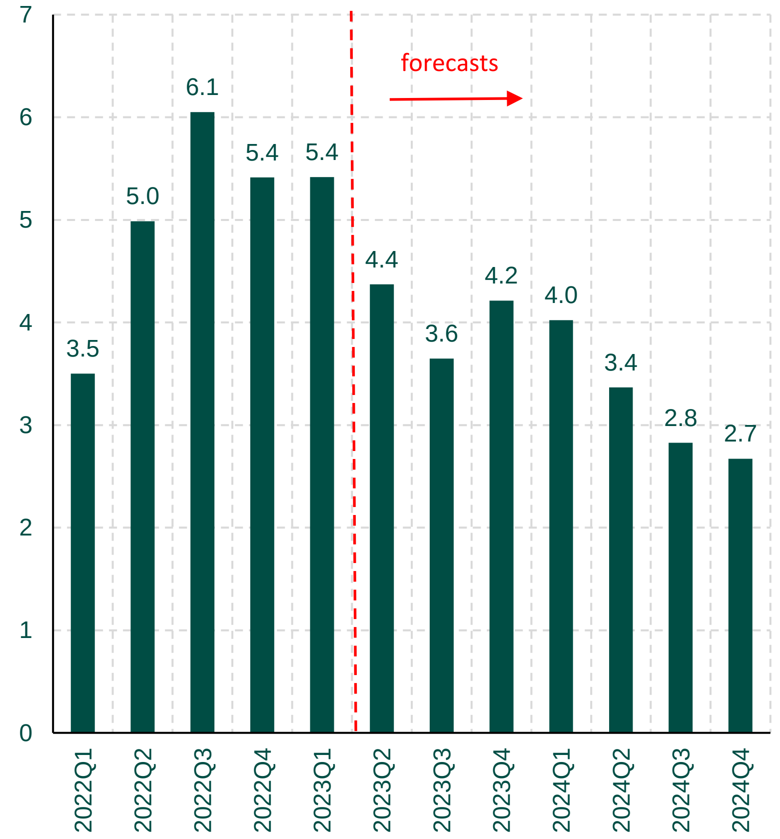
Figure 2: Headline inflation looks set to ease though 'core' inflation has proven to be more persistent

A: Headline HICP – annual per cent change



Source: Department of Finance

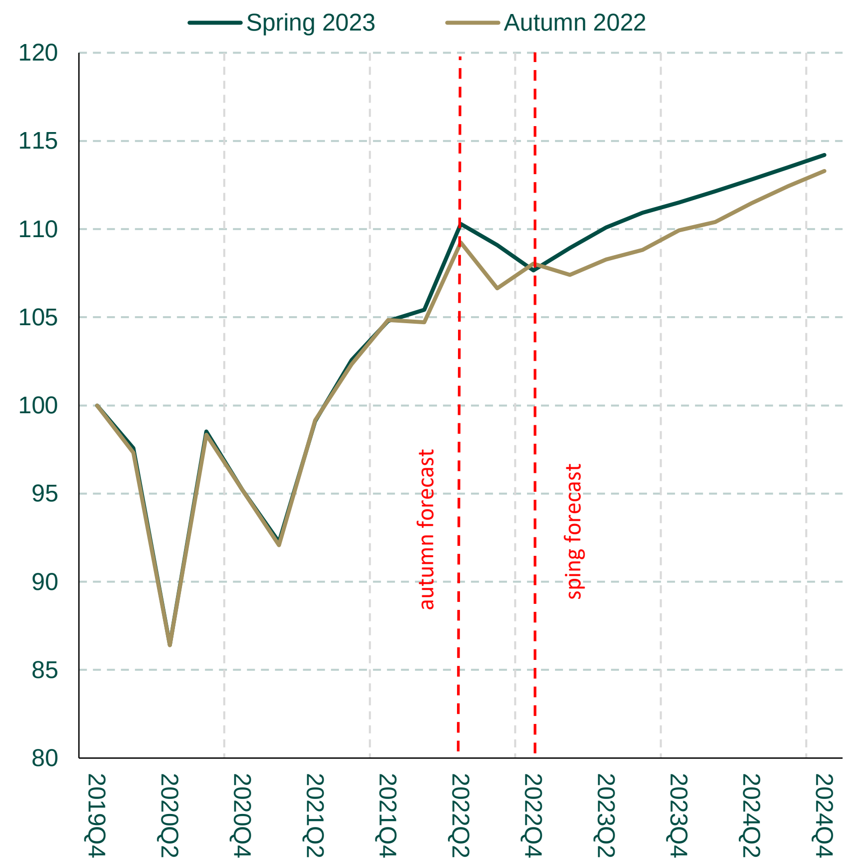
B: Core HICP – annual per cent change



Source: Department of Finance

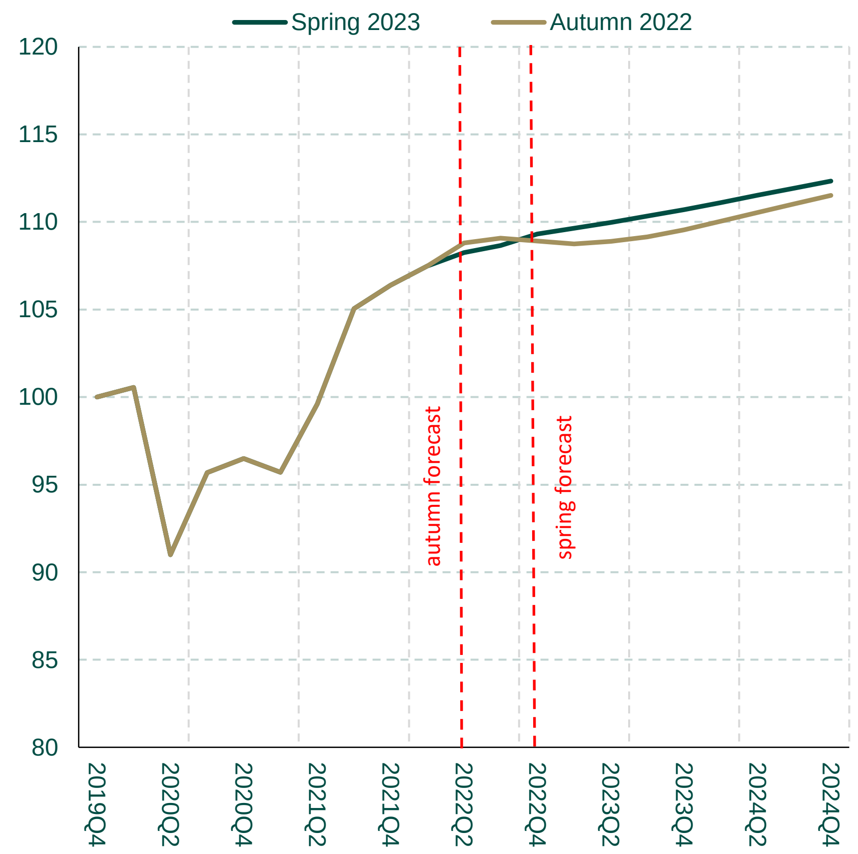
Figure 3: Lower inflation means that near-term forecasts have been revised upwards relative to previous vintage

A: Modified domestic demand, 2019Q4 =100



Source: CSO and Department of Finance.

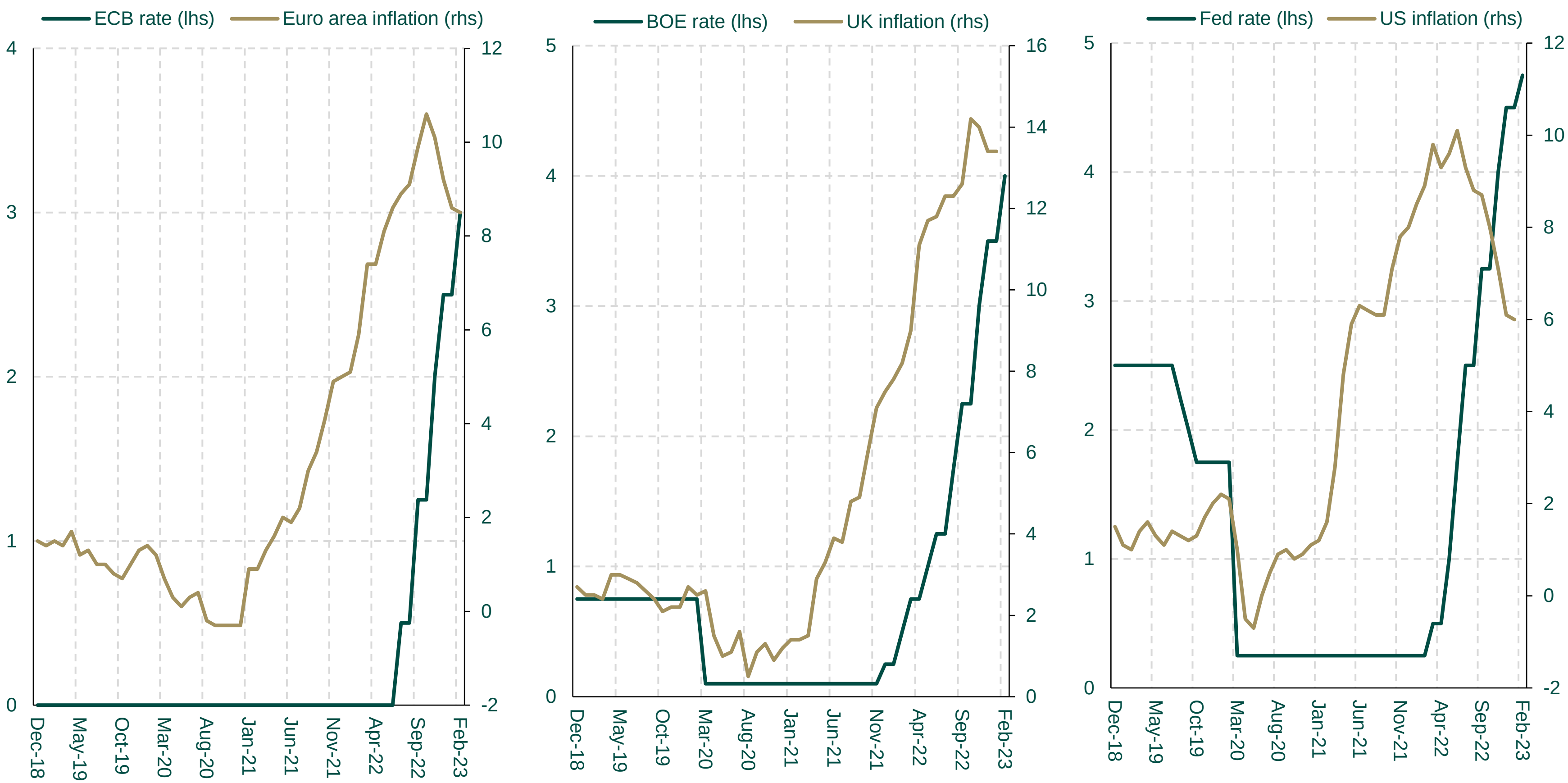
B: Employment, 2019Q4=100



Source: CSO and Department of Finance.

Figure 4: Though aggressive, synchronised tightening of monetary policy is a headwind

A: **euro area,** per cent | B: **UK,** per cent | C: **US,** per cent



Source: European Central Bank, Bank of England, Federal Reserve

Figure 5: Government support has paved the way for a post-pandemic rapid recovery in the labour market

A: unemployment – per cent

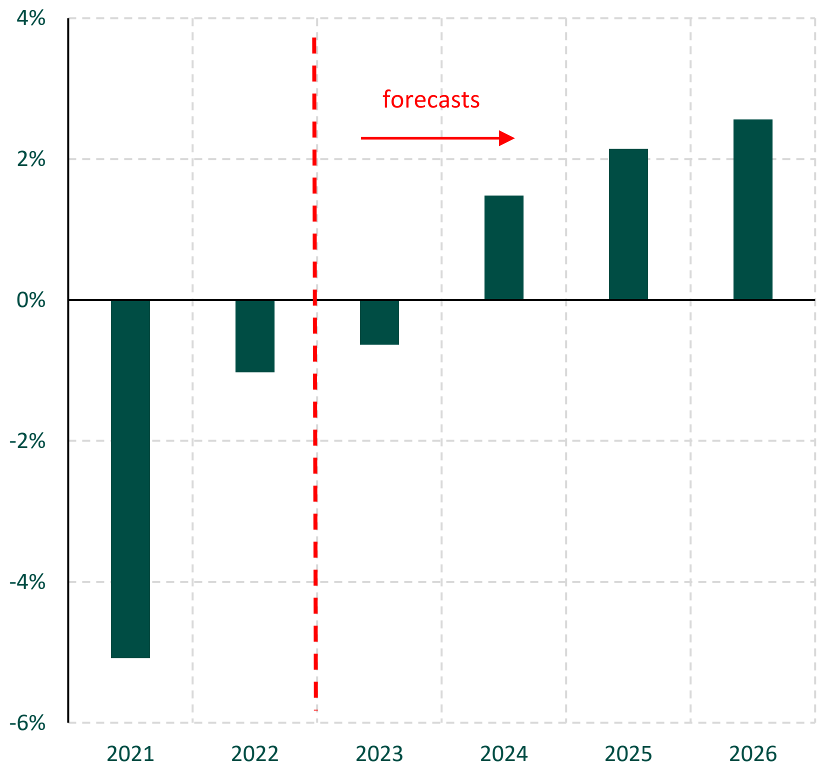
B: labour force participation rates 15+, per cent

Source: Department of Finance

Source: Department of Finance; trend = 2015-2019

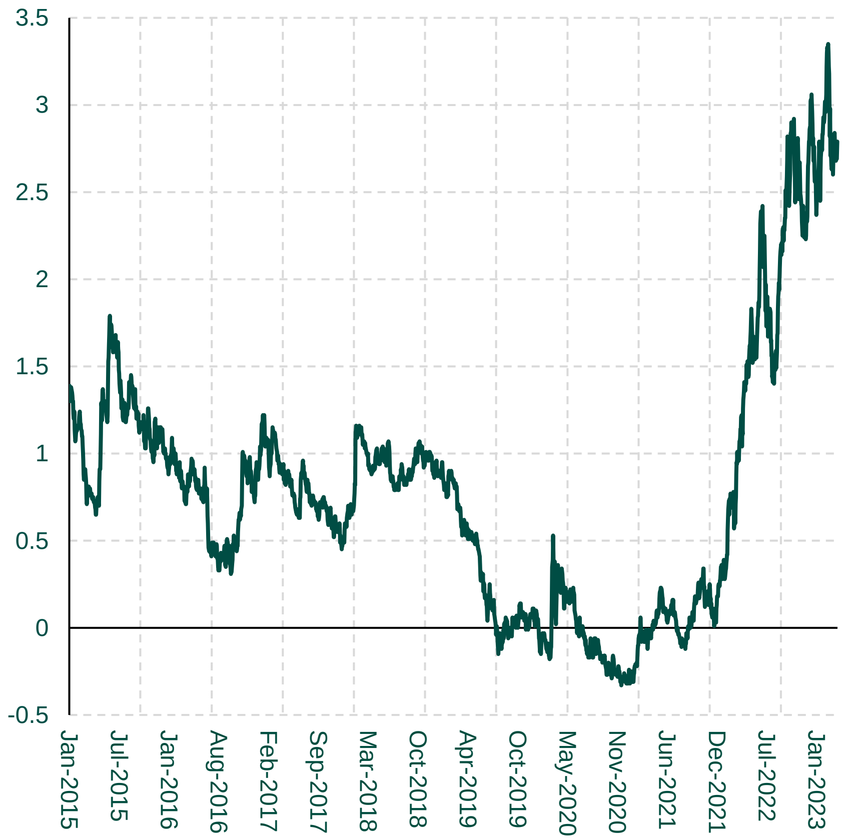
Figure 6: headline fiscal position is inflated by corporate tax receipts

A: Underlying general government balance, per cent GNI*



Underlying balance excludes estimated excess corporate tax receipts.
Source: CSO and Department of Finance estimates.

B: Irish sovereign 10-year borrowing costs, per cent



Source: Macrobond

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