



An Roinn Airgeadais
Department of Finance

Budget 2021: Emerging economic and fiscal situation

Presentation to Tax Strategy Group

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Birds-eye view



- Economic fall-out from lockdown
- Post-lockdown developments
- The public finances
- Summary and conclusions

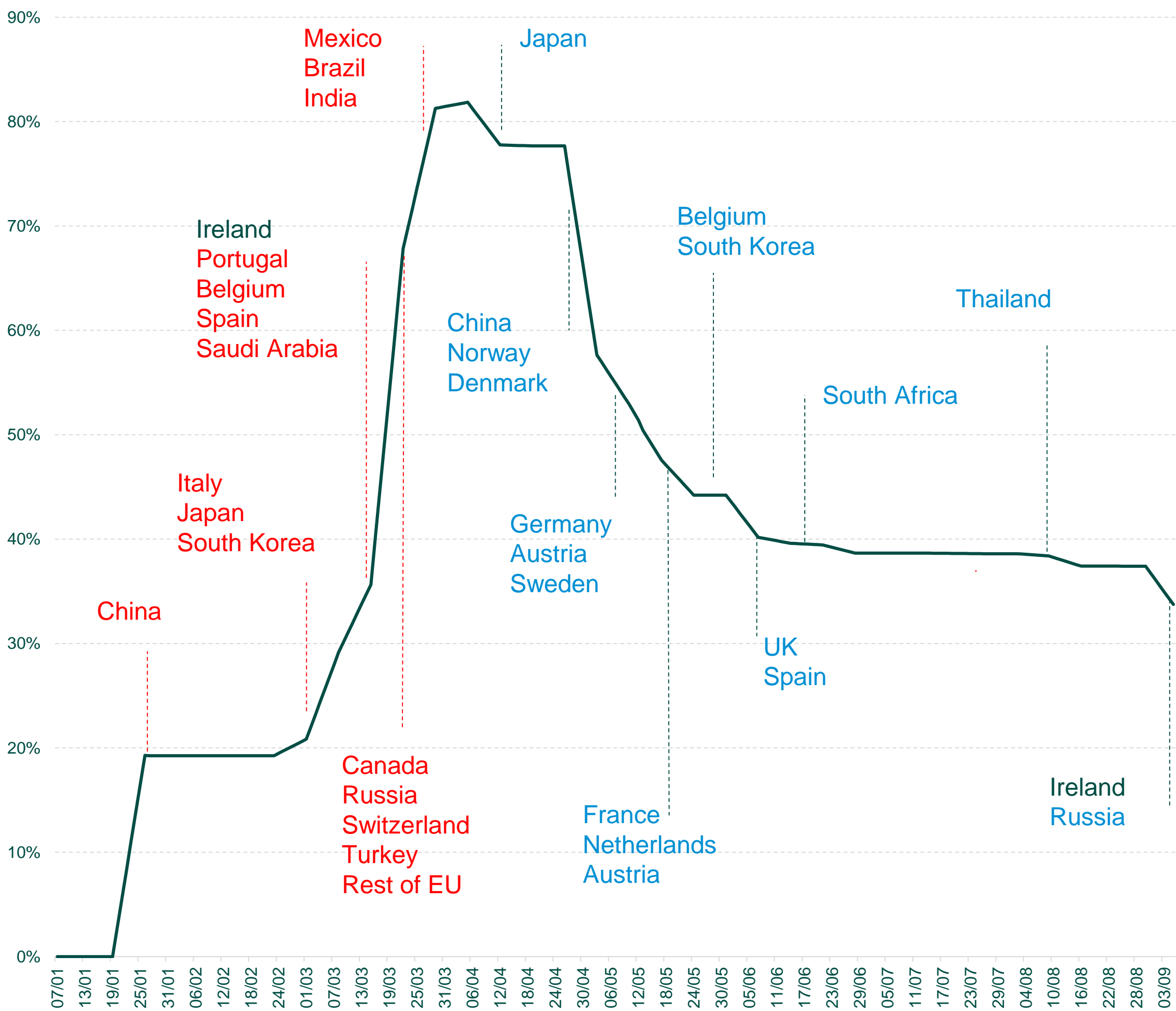


Economic fallout from lockdown

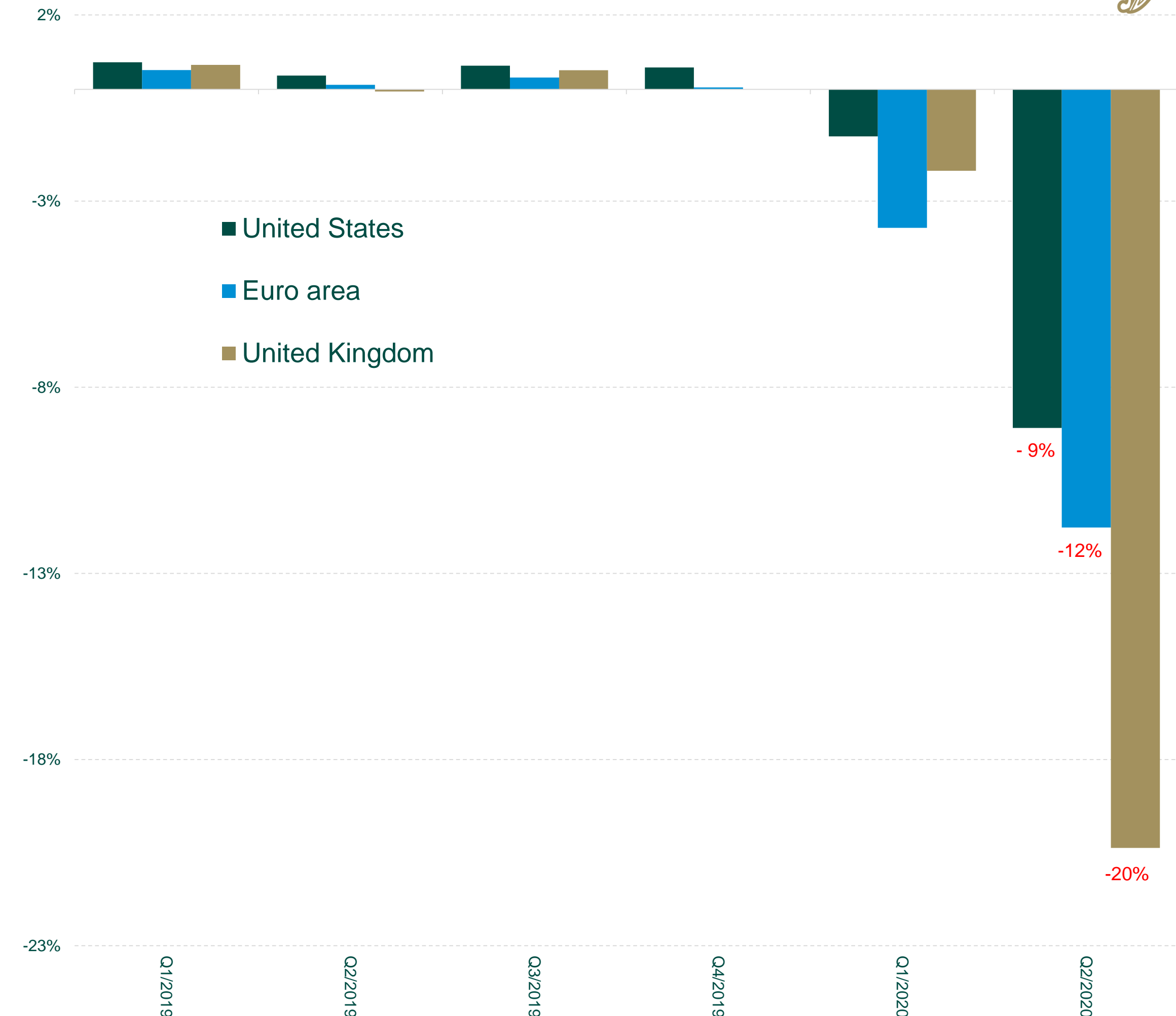
External developments: global symmetric shock



Share of global economy in lockdown



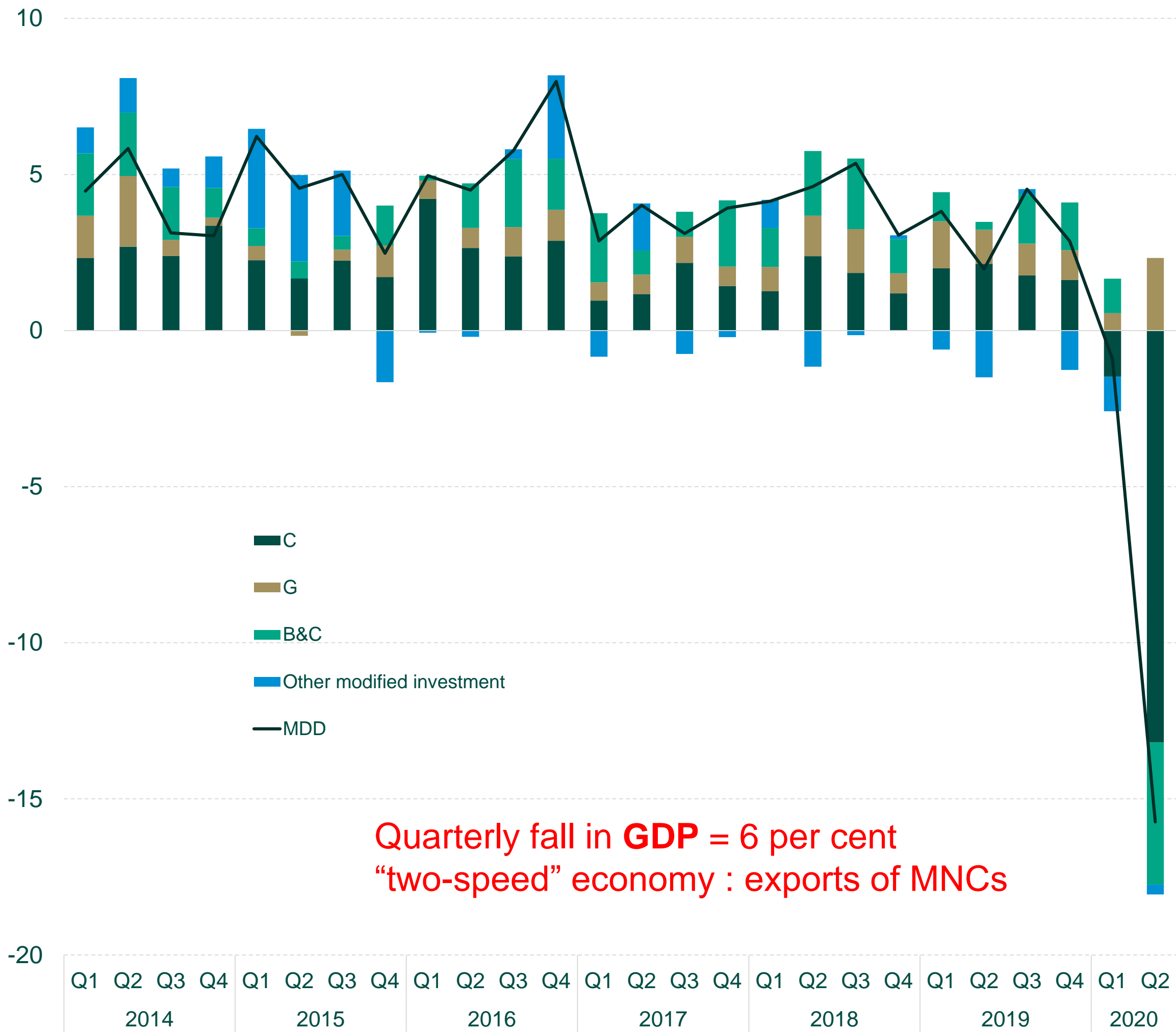
Record GDP fall in key trading partners



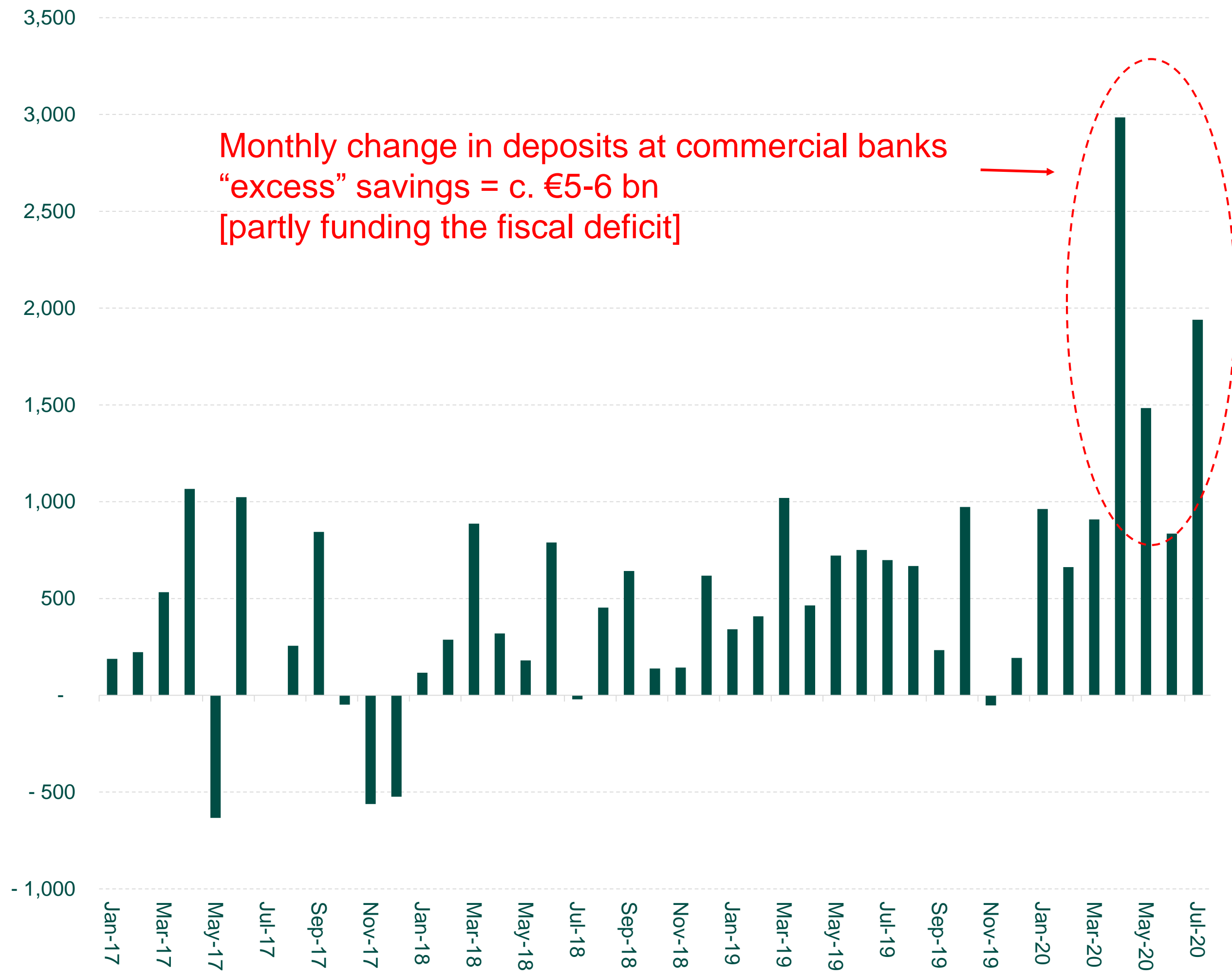
Ireland: largest economic contraction on record



Q2: modified domestic demand = -16 per cent



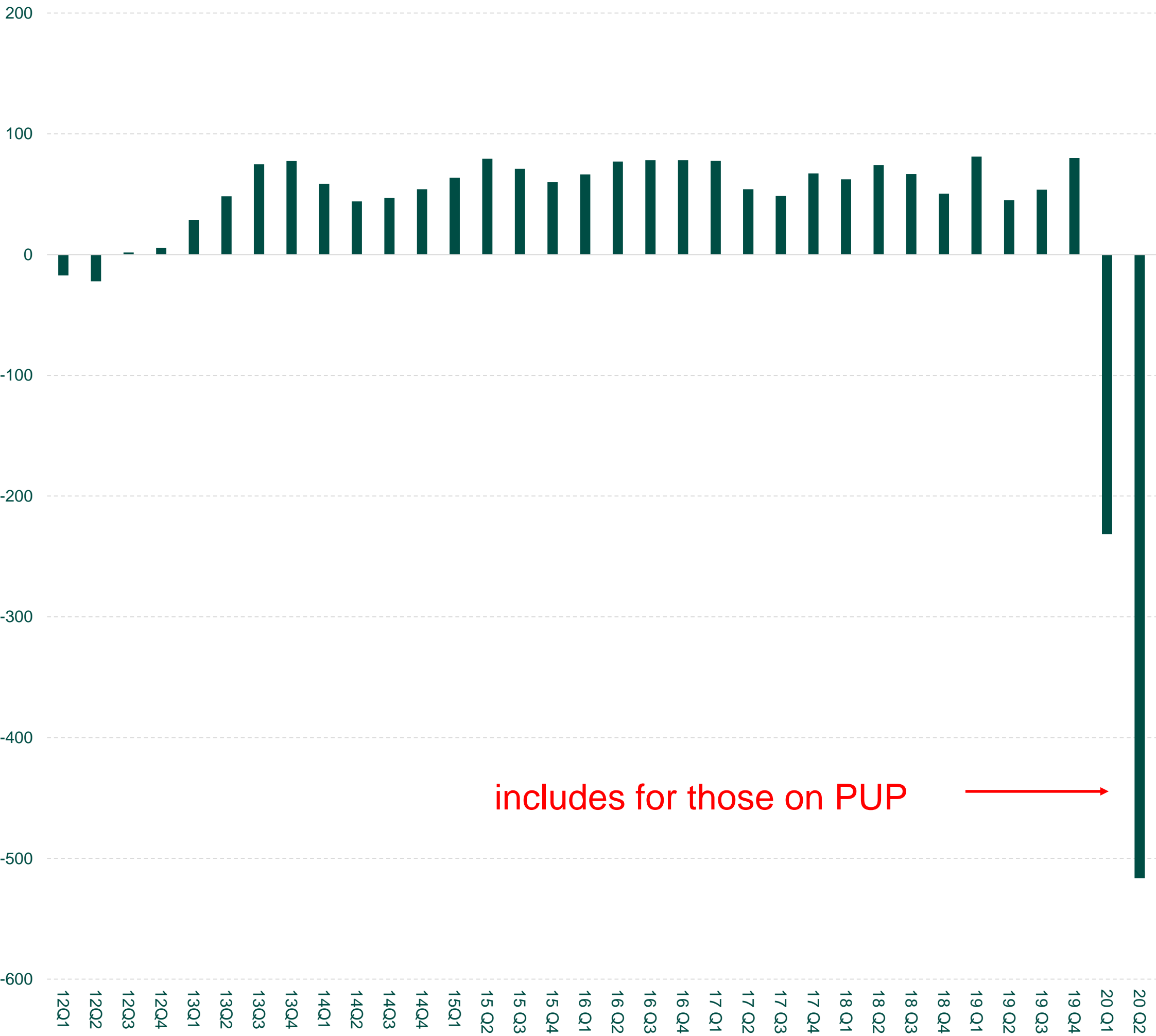
Surge in household savings, voluntary and involuntary



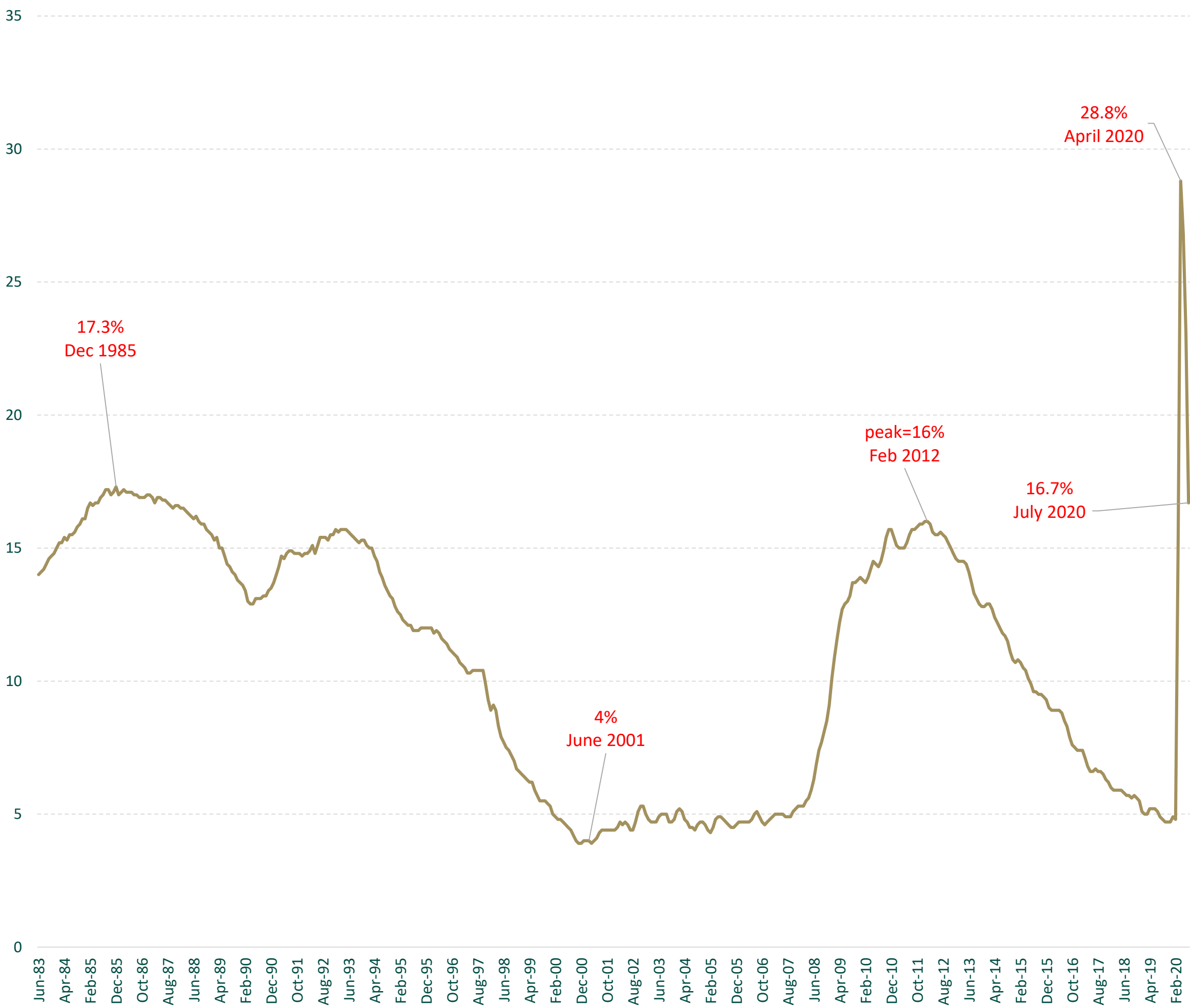
Fall-out in the labour market unprecedented



Change in employment levels (000's y/y)



Unemployment rate = highest level ever [c. twice GFC rate]



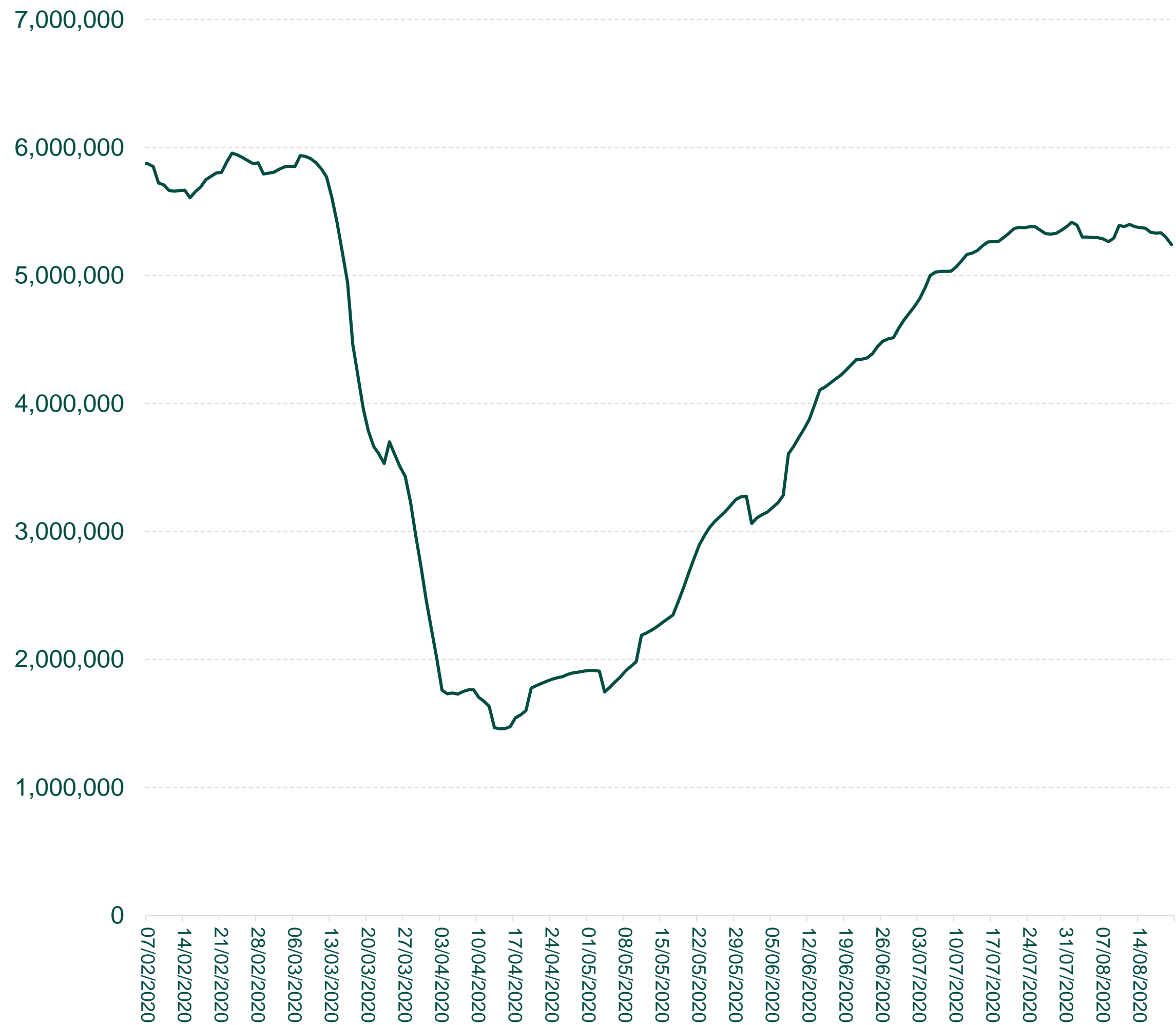


Post-lockdown economic developments

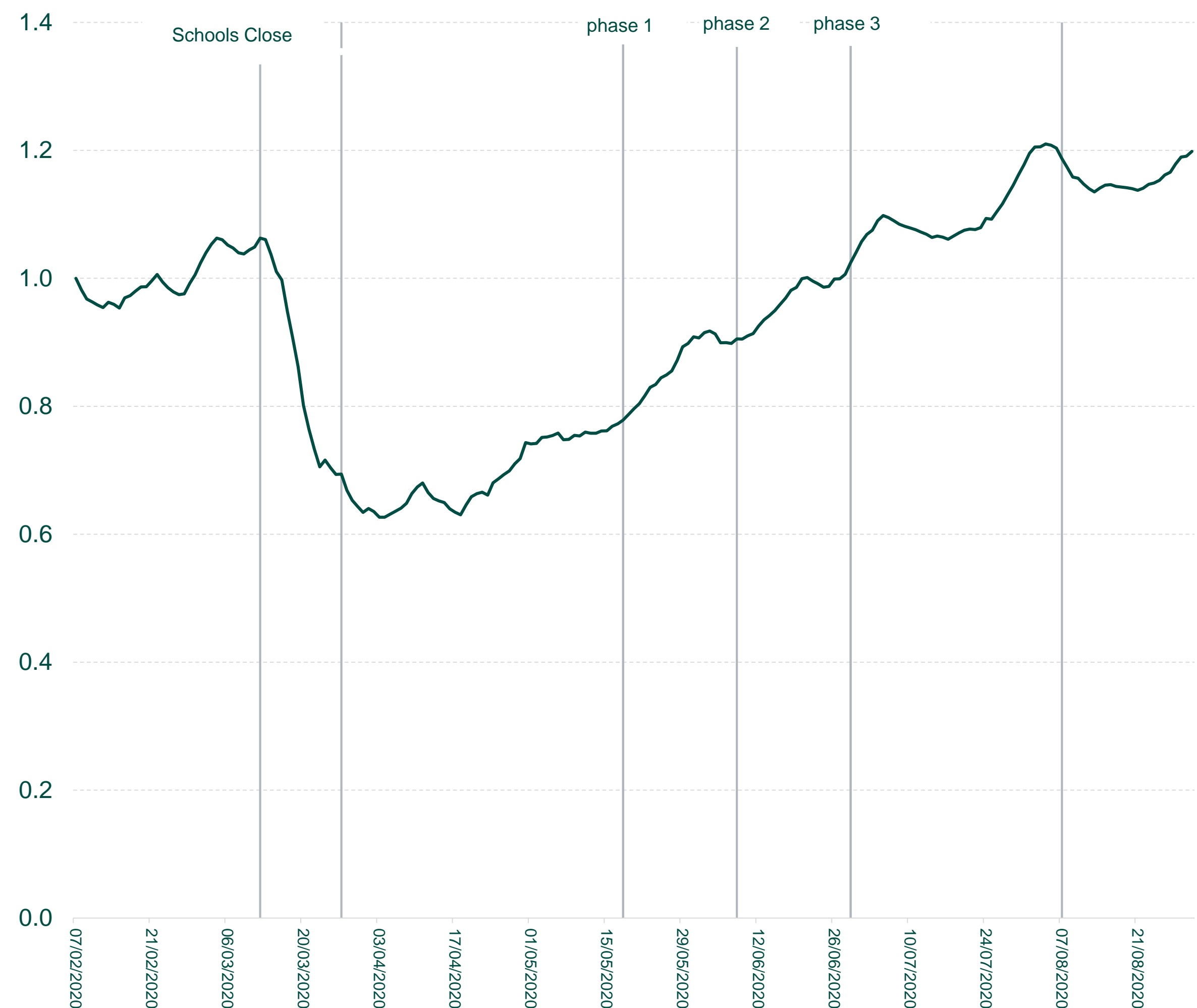
Ultra-high frequency data confirm gradual pick-up in q3



Number of cars on Irish roads

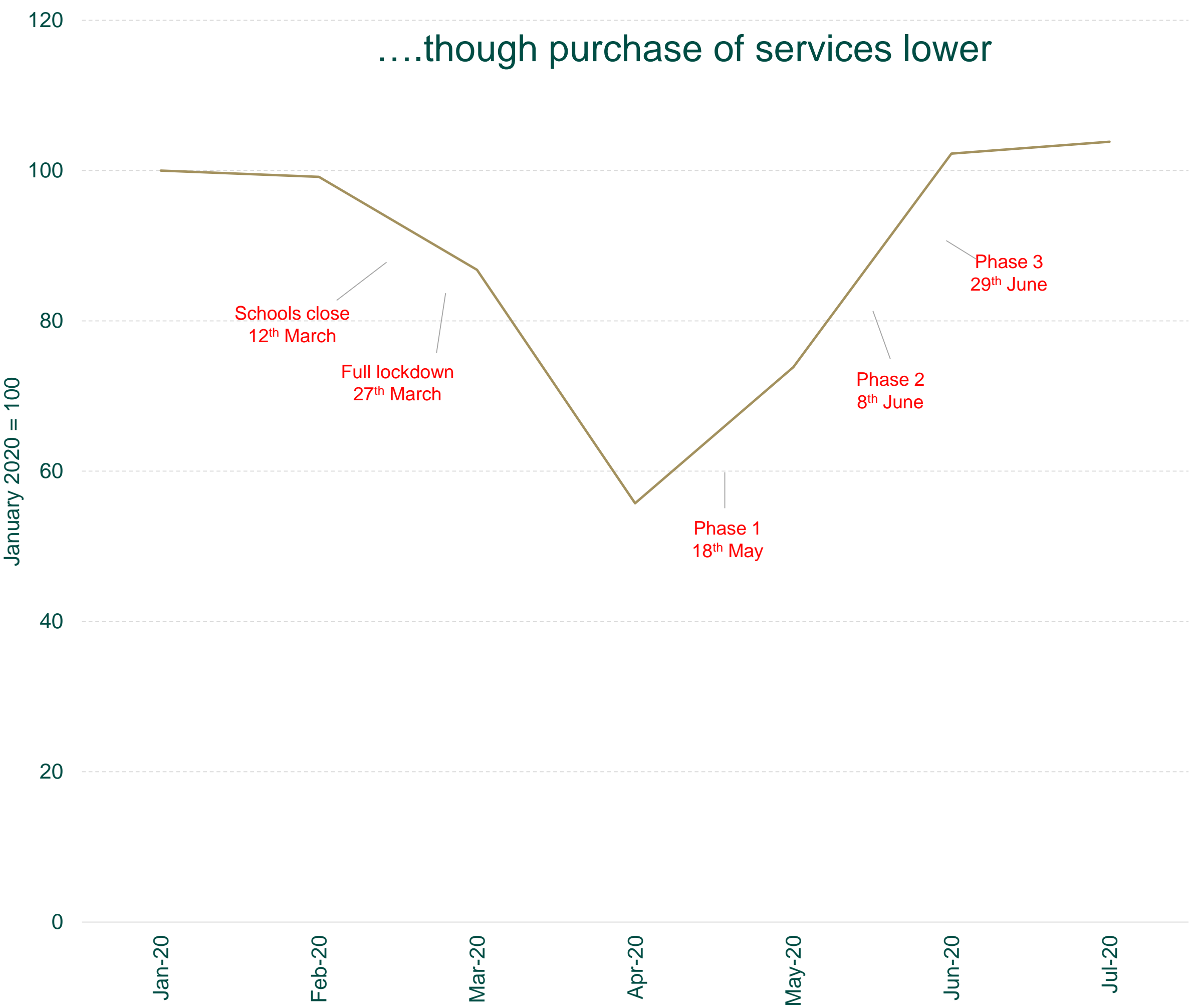


Payment transactions ['Revolut']

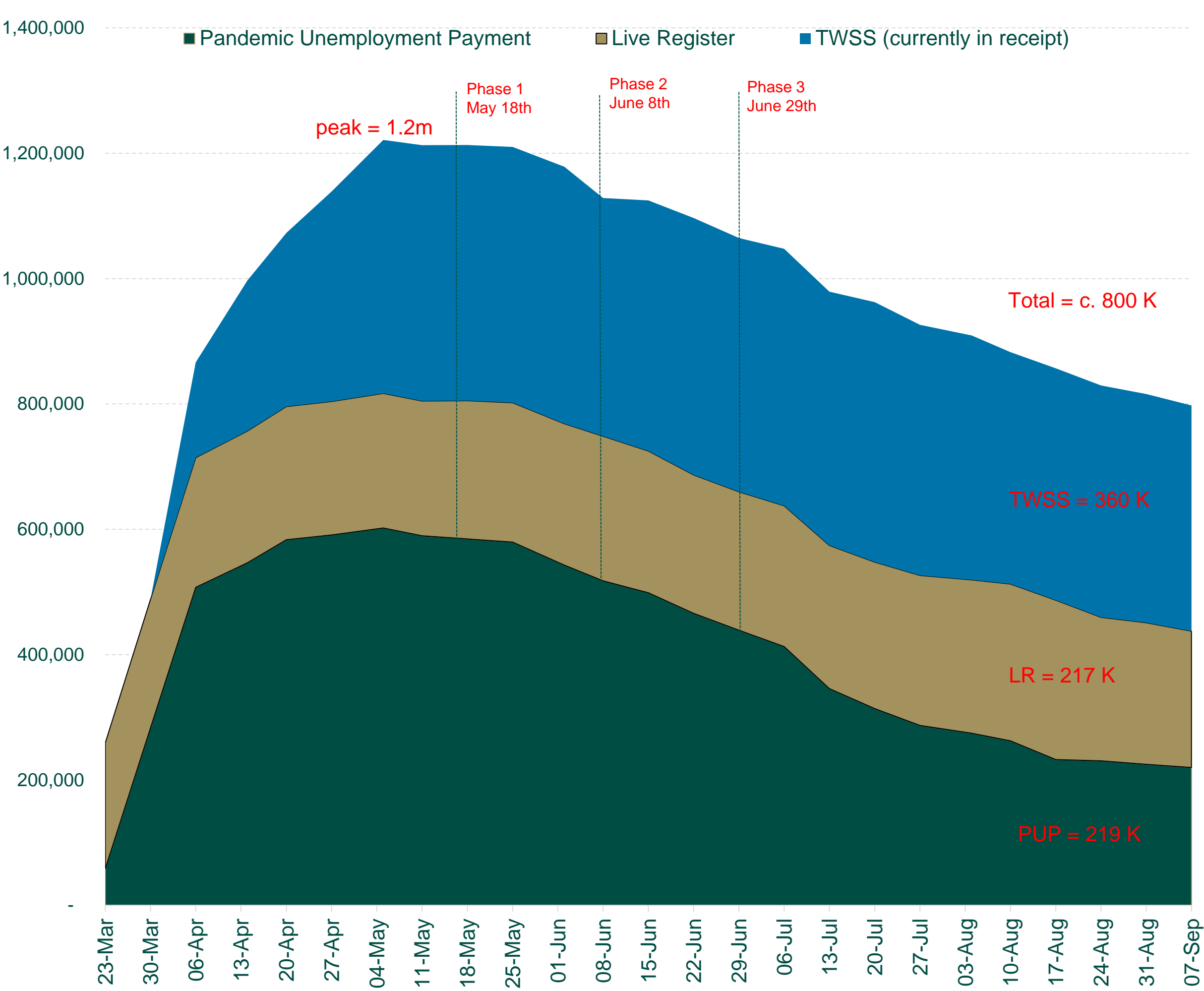


Initial bounce-back during the summer

Retail sales [=goods] suggest release of pent-up demand



Unemployment / under-employment extremely high



Economic outlook



- For 2020:
 - : MNC sector has done most of ‘heavy lifting’ [imports a ‘shock-absorber’]
 - : severe hit in Q2, partial bounce-back in Q3, modest growth thereafter
 - : NX likely to positively contribute to growth, with negative contribution from MDD
- For 2021
 - : **key assumption = no vaccine**
 - : continued modest growth throughout 2021
 - : EU-UK trade relationship?
 - tariffs
 - non-tariff barriers
 - supply-chain disruption
- For 2022 onwards
 - : scarring effects? [equilibrium unemployment / lower productivity]
 - : legacy effects? [public debt overhang / spillovers to banking sector / re-(near-)shoring / deglobalisation]



Public Finances

Fiscal position – must remain ‘in the pack’



- **Outlook:** (currently being revised)
 - discretionary measures €24 billion = large by international standards
 - **deficit** of up to €30 billion = -10% GDP (-17% of GNI*)
 - part structural (un-related to economic cycle)
 - **debt** of 125% of GNI*
 - amongst the highest in the developed world
 - rise further next year
 - revenue base v. exposed to corporation tax receipts
- **Debt will have to be re-financed in coming years**
 - at a higher rate / cost
 - market sentiment can change rapidly (eg. 2008 / 09)
 - removal of ECB support in June next year

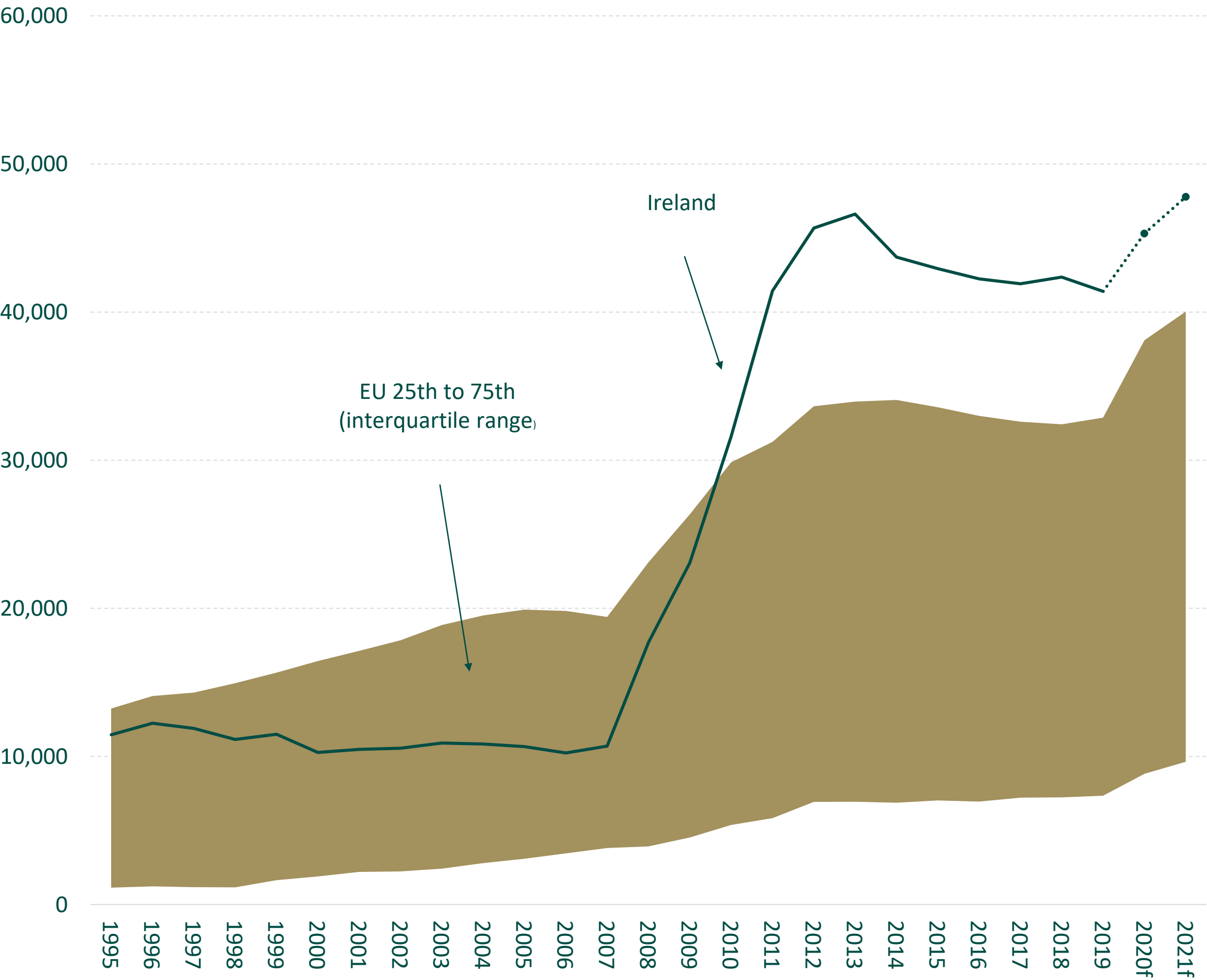
Public debt – large and rising and high vs peers



Gross debt, per cent of GDP/GNI*, SPU forecast



Debt-per-capita, IE relative to EU27 second and third quartiles. €



Summary



- Economy in finely balanced position
 - shock = disproportionate impact on labour-intensive service sectors
- Labour market has borne the brunt
 - some firms / sectors no longer viable
 - pace of technological change has accelerated (on-line shopping / payments)
- Budgetary policy must walk a fine line
 - support economy
 - ensure fiscal sustainability
- Disorderly Brexit will impose additional economic and fiscal costs
- Any loss of corporation taxation receipts would have serious consequences for sustainability

Next steps



Date	Event
20 th September	Finalisation of economic forecasts and transmission to IFAC
29 th September	Presentation of IFAC Council
2 nd October	Publication of q3 exchequer numbers
9 th October	Publication of White Paper
13 th October	Presentation of <i>Budget 2021</i>
15 th October	Submission of DBP to European Commission / Council
Q4	Publication and enactment of Finance Bill / Social Welfare Bill / etc.



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