

Minister Donohoe publishes economic forecasts that will underpin Budget 2021

From [Department of Finance](#)

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- the Department of Finance's Budget 2021 forecasts show that both COVID-19 and a disorderly end to the 'transition period' will have a significant impact on the Irish economy
- modified domestic demand – proxy for domestic economy to fall by -6.5 per cent this year
- GDP is projected to fall by -2.5 per cent in 2020 and to grow by only 1.4 per cent in 2021
- impact of COVID-19 on GDP is less than previously expected, mainly due to the resilience of Multi-National Company (MNC)-dominated exports, however the hit to the domestic economy has been severe
- employment set to fall by 13.8 per cent this year this with an annual average unemployment rate of just under 16 per cent this year, and 10.7 per cent in 2021
- economic forecasts have been endorsed by the Irish Fiscal Advisory Council

The Minister for Finance, Paschal Donohoe TD, has today (Tuesday) published his department's macroeconomic forecasts that will underpin Budget 2021. These forecasts were endorsed by the Irish Fiscal Advisory Council on 28 September – this is a legal requirement for all euro area Member States.

Commenting on the endorsement, Minister Donohoe said:

"I welcome the Irish Fiscal Advisory Council endorsement of the macroeconomic projections for Budget 2021.

"The macroeconomic projections are based on two key assumptions: firstly, from the beginning of next year, bilateral trade between the UK and the EU will be on World Trade Organisation terms and secondly, a widespread vaccination for COVID-19 will not be available.

"Under this scenario, my department is projecting that GDP will fall by -2.5 per cent this year. While this headline figure is less severe than envisaged in the spring, it reflects the contribution to GDP from parts of the multinational sector*. Other – more relevant – indicators confirm a severe economic fall-out from the pandemic. Modified Domestic Demand, perhaps the best indicator of domestic economic conditions, is projected to fall by 6.5 per cent this year.

“Under the assumption of a disorderly end to the transition period, there will likely be significant disruption to trade next year. GDP is projected to grow by 1.4 per cent, around three percentage points lower than it would otherwise be if a Free Trade Agreement was put in place.

“While the economic decline is expected to be less severe in 2020 than previously envisaged there is no doubt that we have experienced a significant shock since March and the onset of COVID-19. On the plus side, however, it is important to note that employment is expected to grow by around 7% or 145,000 jobs next year, having a very real impact on the economy and society more generally.

“The pandemic, however, will result, in all likelihood, in some level of permanent damage to the economy – so-called ‘scarring effects. However, policy can help to minimise these. The forthcoming Budget will continue to provide counter-cyclical support to the economy and provide details on the Recovery Fund which is provided for in the Programme for Government.”

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- it is important to put this figure in context as GDP is not an accurate measure of what is going on in the domestic Irish economy, given the size of the multinational sector
- to put it another way: we’ve had a significant upward revision from earlier forecasts published in the spring, but this is largely due to the strong performance of parts of the exporting sectors, most notably in the pharmaceuticals sector where exports have surged this year
- while these exports are of course welcome, the spill-overs to the rest of the economy are somewhat limited: they are not as employment-intensive as our own domestic enterprises and the profits are recycled to non-resident shareholders

Notes

The Irish Fiscal Advisory Council has a statutory obligation under the Fiscal Responsibility Act 2012 to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance on which Budget 2021 will be based.

The department provided its Budget 2021 forecasts—which cover a two-year-ahead forecast horizon—to the Council on 21 September 2020, and discussed these with the Council secretariat. The Council discussed these forecasts with the Department of Finance on 25 September 2020, ahead of the Council’s endorsement meeting.

The department’s Budget 2021 disorderly Brexit projections are based on results from joint research undertaken between the ESRI and the Department of Finance published in March 2019. They also rely on another research project by the department and the ESRI published earlier this month that looked at the joint impact of COVID-19 and Brexit at a sectoral level.

The department’s presentation to the Fiscal Council (published today alongside the endorsement letter from the Fiscal Council) sets out the department’s views on the economic outlook and risks, its methodological approach to formulating a set of no-deal projections,

and the projections themselves covering the period 2020-2021. A summary of the projections for this year and next is provided below.

Table 1

Growth rate (unless otherwise stated)	2019	2020	2021
GDP	5.6	-2.5	1.4
GNP	3.4	-3.1	1.3
Domestic demand	3.3	-6.5	3.9
Employment	2.9	-13.8	7.1
Unemployment rate	5.0	15.9	10.7

The broad strategy for Budget 2021 was set out by Ministers Donohoe and McGrath on 16 September. Budget 2021 will focus on providing further support to the economy. Policy decisions will prioritise management of the COVID-19 crisis and Brexit. Any further measures will be targeted at the three priorities in the Programme for Government – health, housing and climate change.

Around €9 billion will be spent on COVID-specific measures in 2021, most notably in the areas of health and social welfare.

The Department of Finance is currently analysing the latest data on both the Exchequer and non-Exchequer side, however, at present, the no-policy-change deficit in 2021 is estimated to be in the order of 4½ to 5½% of GDP. This will be confirmed in the forthcoming pre-Budget White Paper. Further details on the exchequer position will be given later this week in the monthly fiscal monitor which will include the September exchequer numbers.

[IFAC Endorsement Letter - September 2020](#)



Presentation to IFAC Budget 2021 Macroeconomic Outlook

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