



# Irish Fiscal Advisory Council

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## Resolving the Crisis: Where do we Stand?

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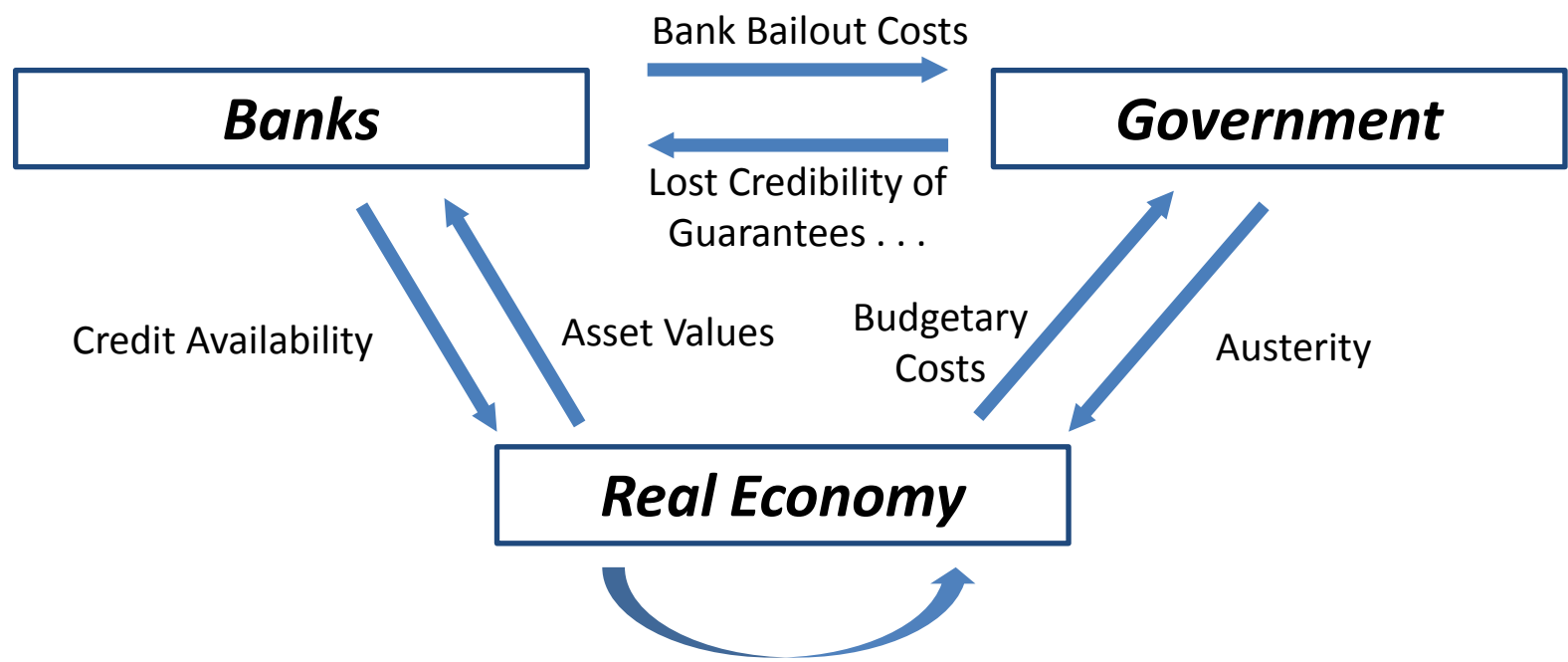
# Overview

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- Anatomy of a crisis
- Achievements
- Continuing challenges



# Anatomy of a crisis: Vicious feedback loops



# A huge fiscal adjustment has been required

	Billions of Euro
<b>July 2008</b> Expenditure adjustments	1.0
<b>Budget 2009 (October 2008)</b> Revenue raising measures	2.0
<b>February 2009</b> Expenditure adjustments	2.1
<b>Supplementary budget (April 2009)</b> Revenue-raising & expenditure-reducing measures	5.4
<b>Budget 2010 (December 2009)</b> Revenue-raising & expenditure-reducing measures	4.1
<b>Budget 2011 (December 2010)</b> Revenue-raising & expenditure-reducing measures	6.0
<b>Budget 2012 (December 2011)</b> Revenue-raising & expenditure-reducing measures	3.5
<b>Budget 2013 (December 2012)</b> Revenue-raising & expenditure-reducing measures	3.5
<b>Planned Adjustments: 2014 – 2015</b> Revenue-raising & expenditure-reducing measures	4.5
<b><i>Total actual and planned adjustment</i></b>	<b><i>32.1 (≈ 20 % of GDP)</i></b>



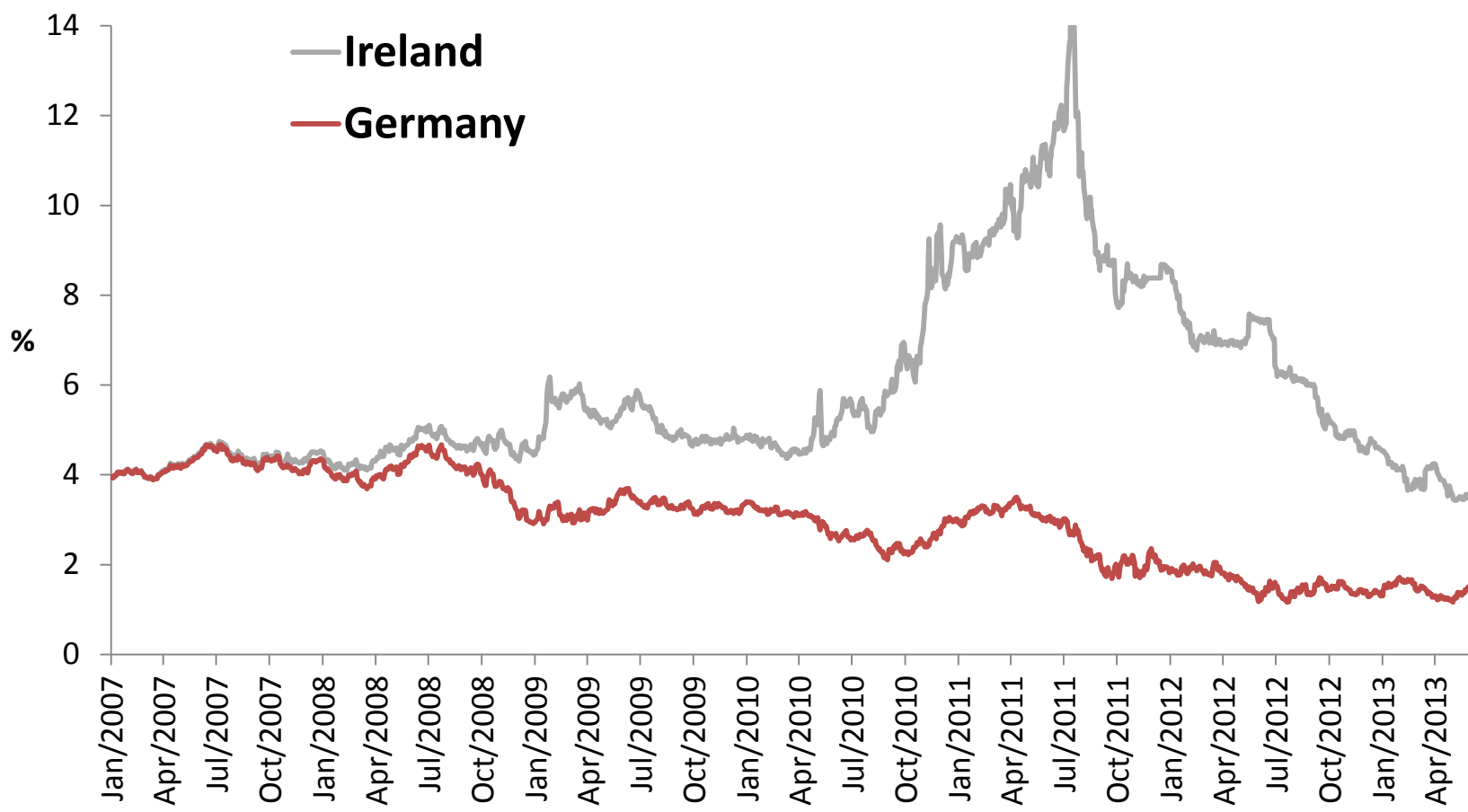
# A difficult balancing act

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- Recognition that fiscal adjustment measures will slow the economy in the short run
- Key question: Is austerity working to stabilise the public finances and restore the creditworthiness/borrowing capacity of the State?

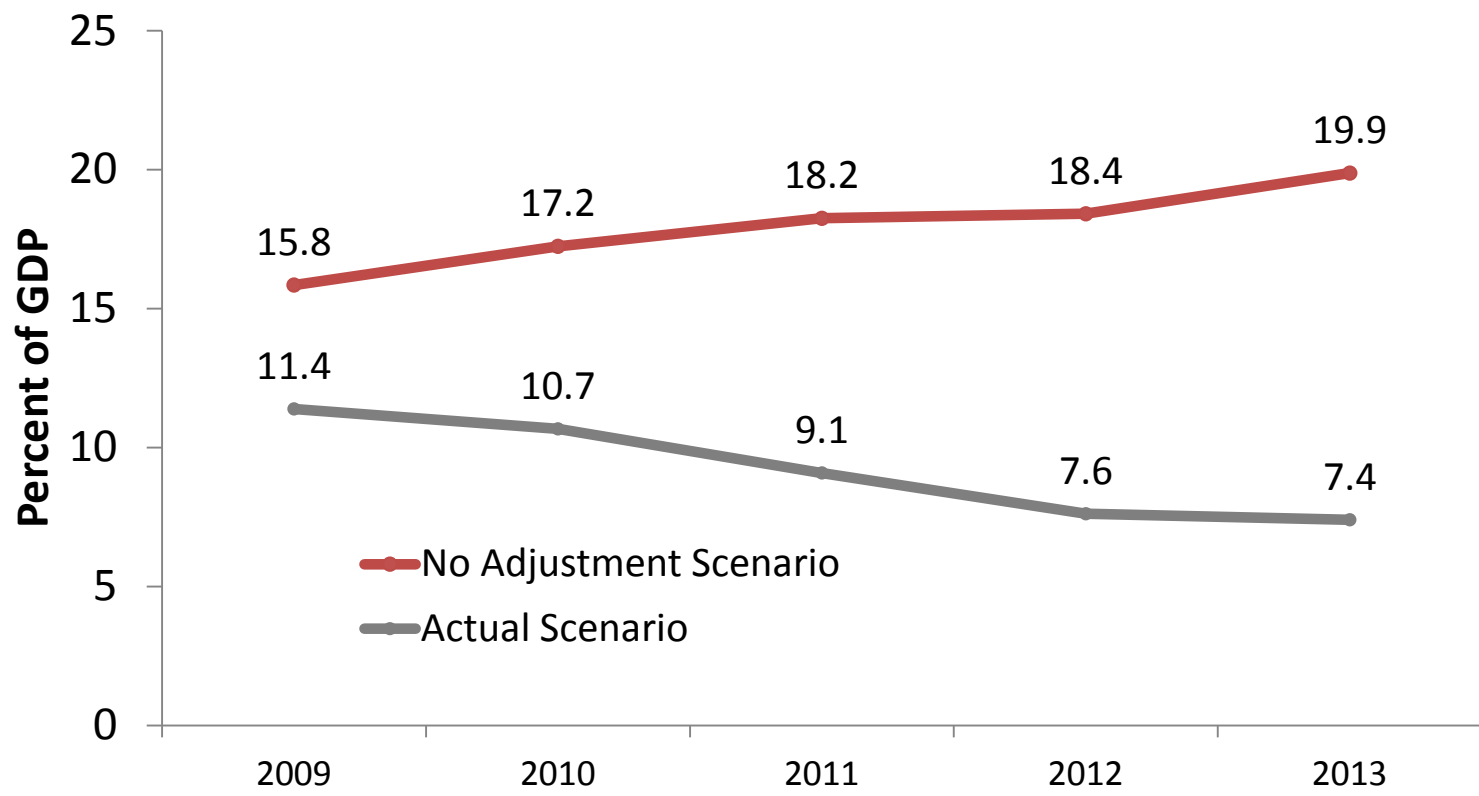


# Significant improvement in creditworthiness



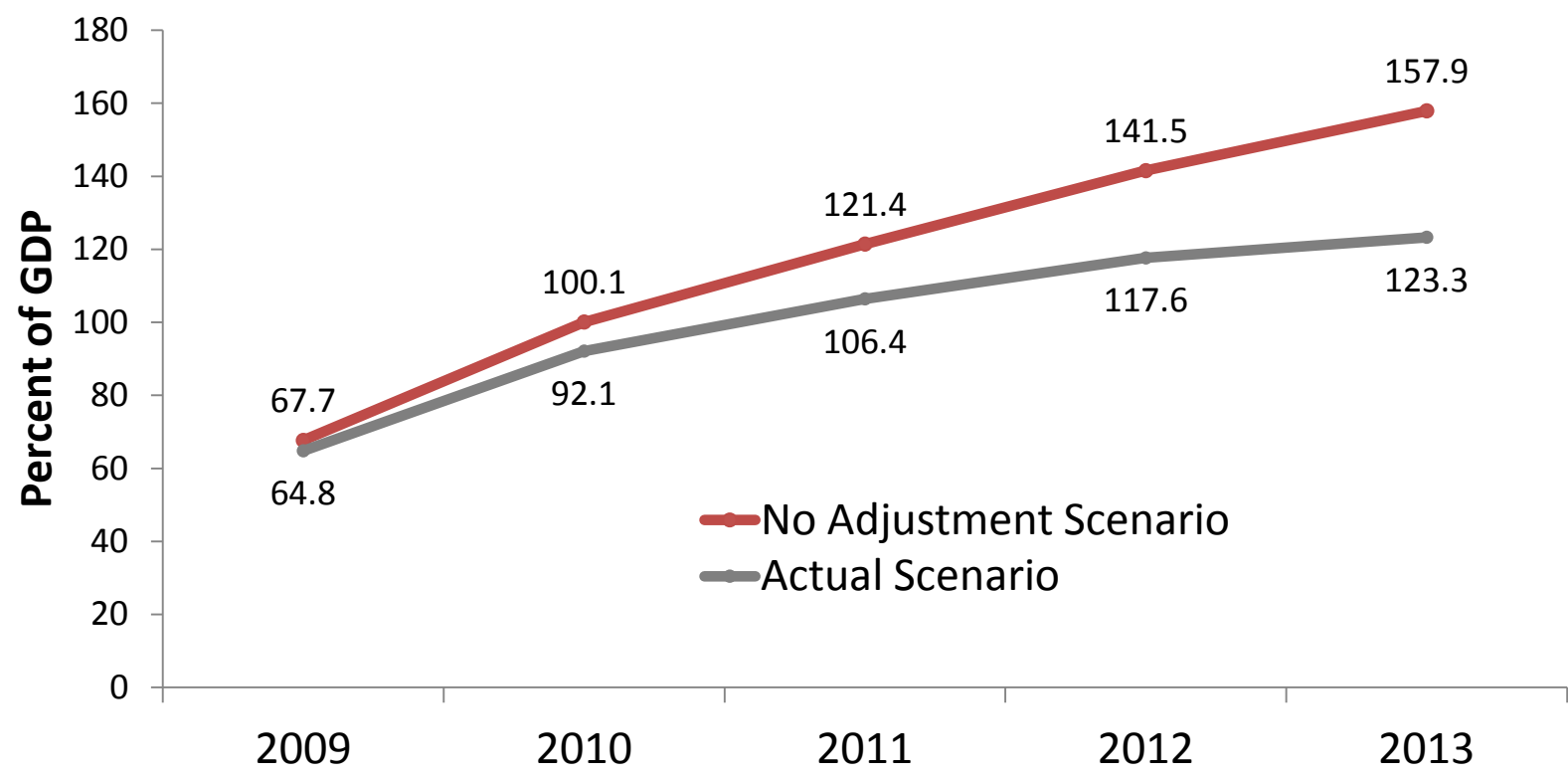


# Public finances were on an unsustainable path





# Debt ratio would have reached almost 160% of GDP

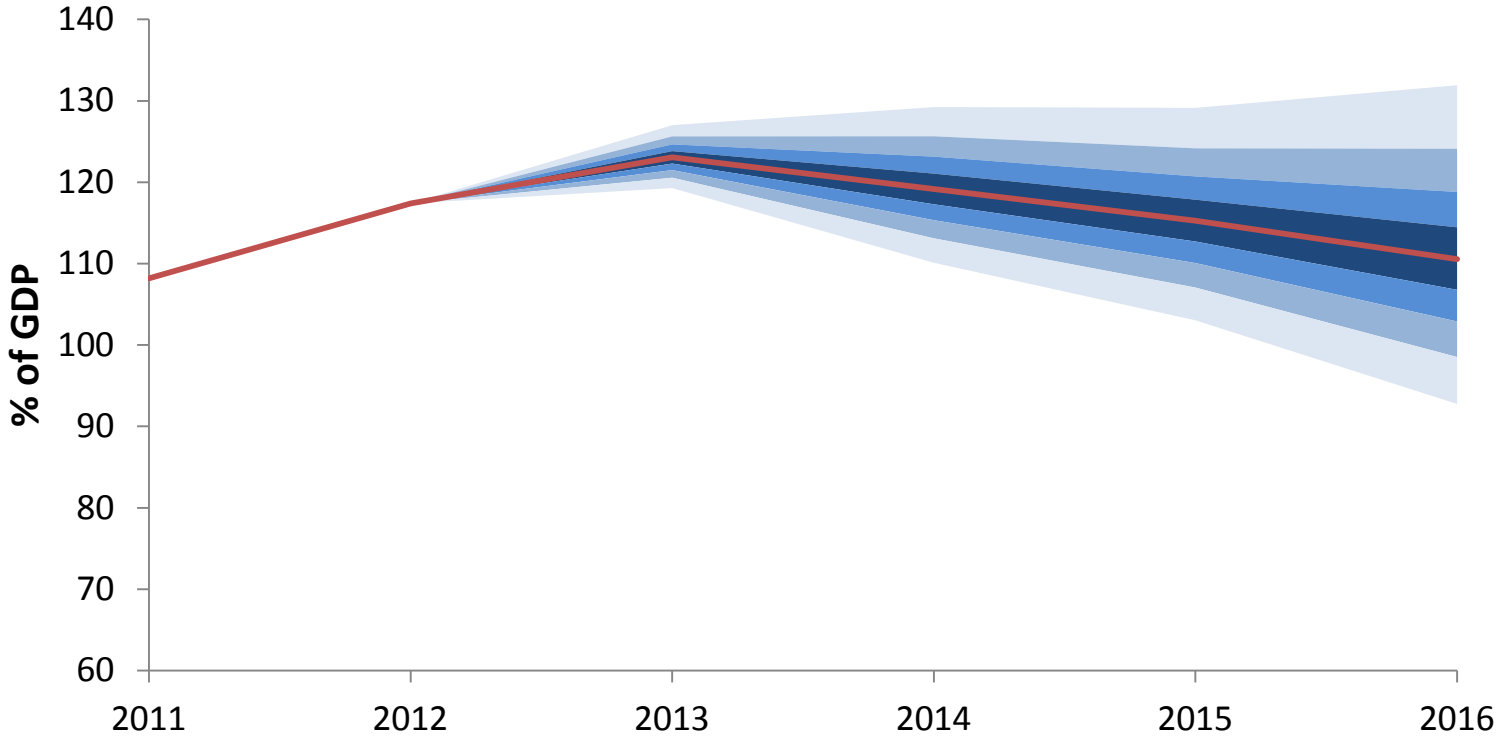






# But significant risks remain

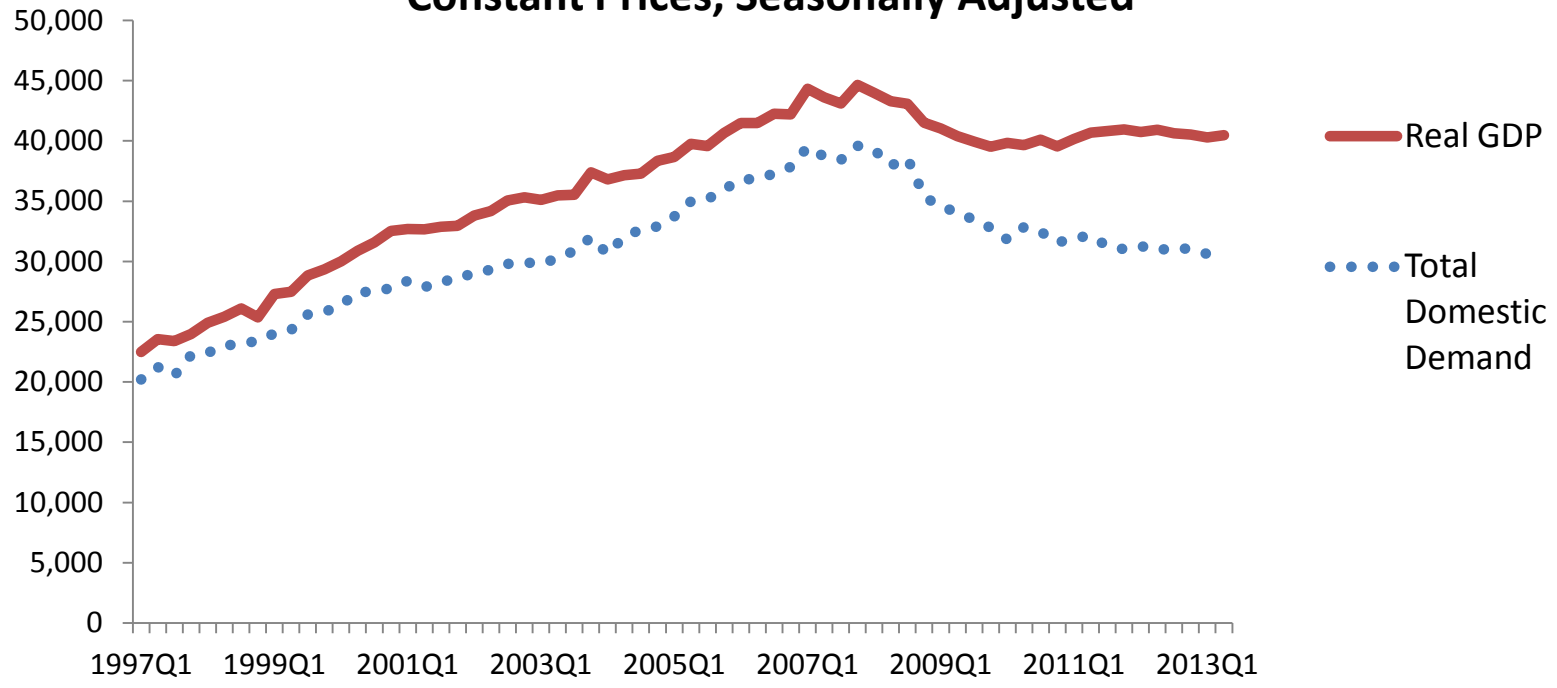
## Debt to GDP Ratio





# Mixed signals from the real economy

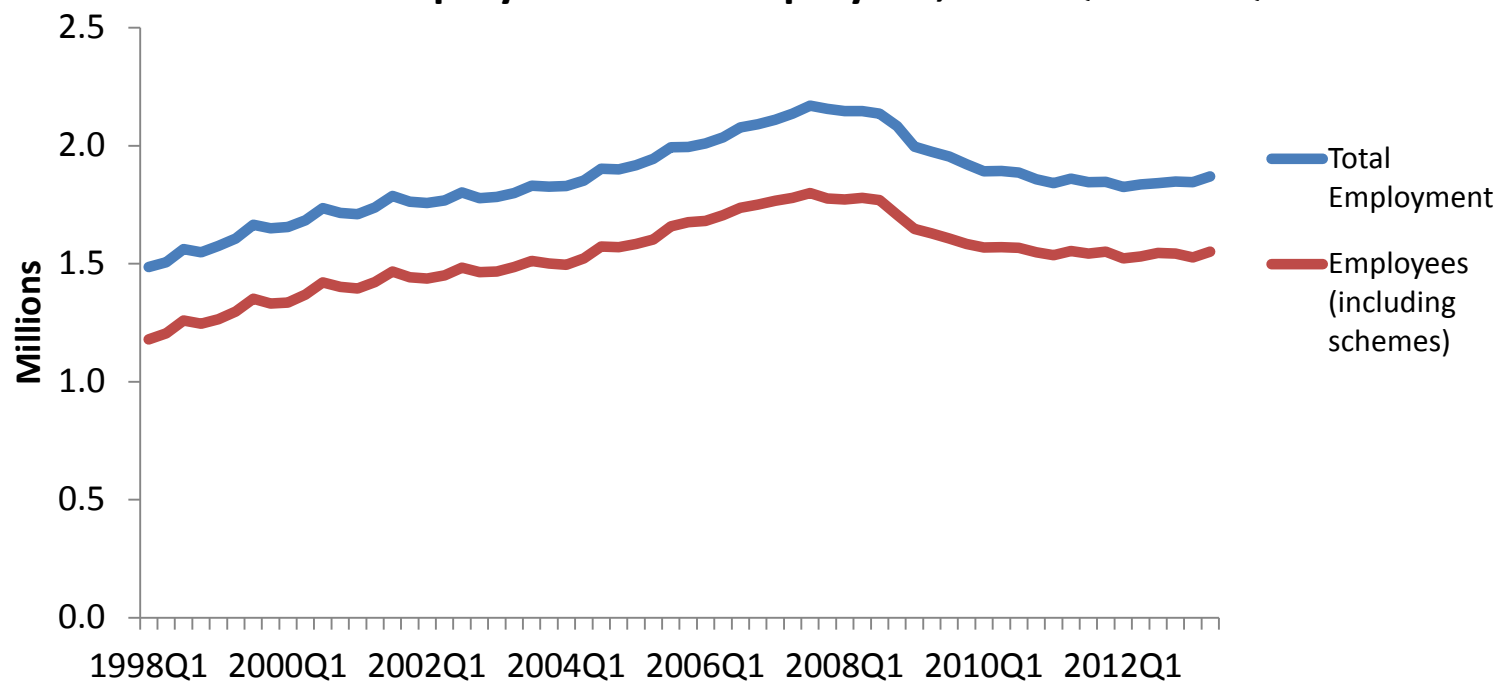
**Quarterly GDP and Total Domestic Demand,  
Constant Prices, Seasonally Adjusted**





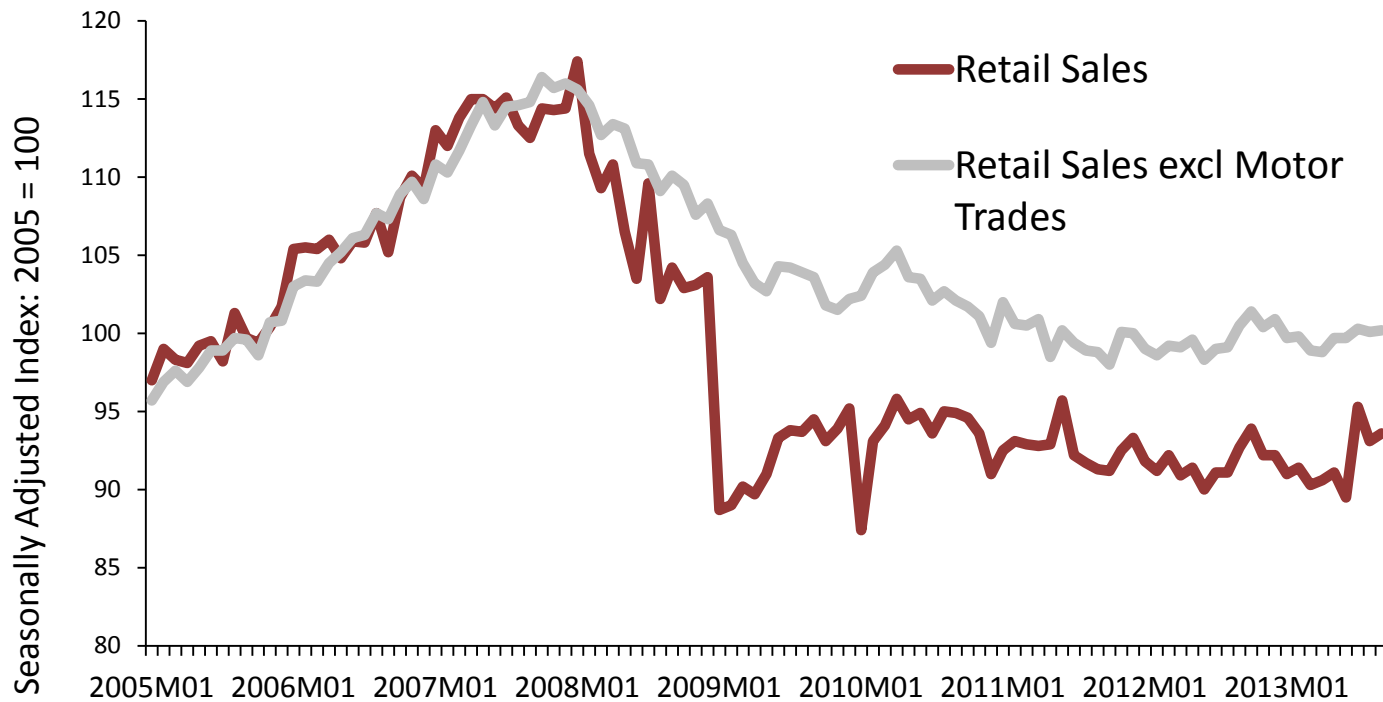
# Encouraging employment developments

**Quarterly National Household Survey:  
Total Employment and Employees, 1998Q1-2013Q2**





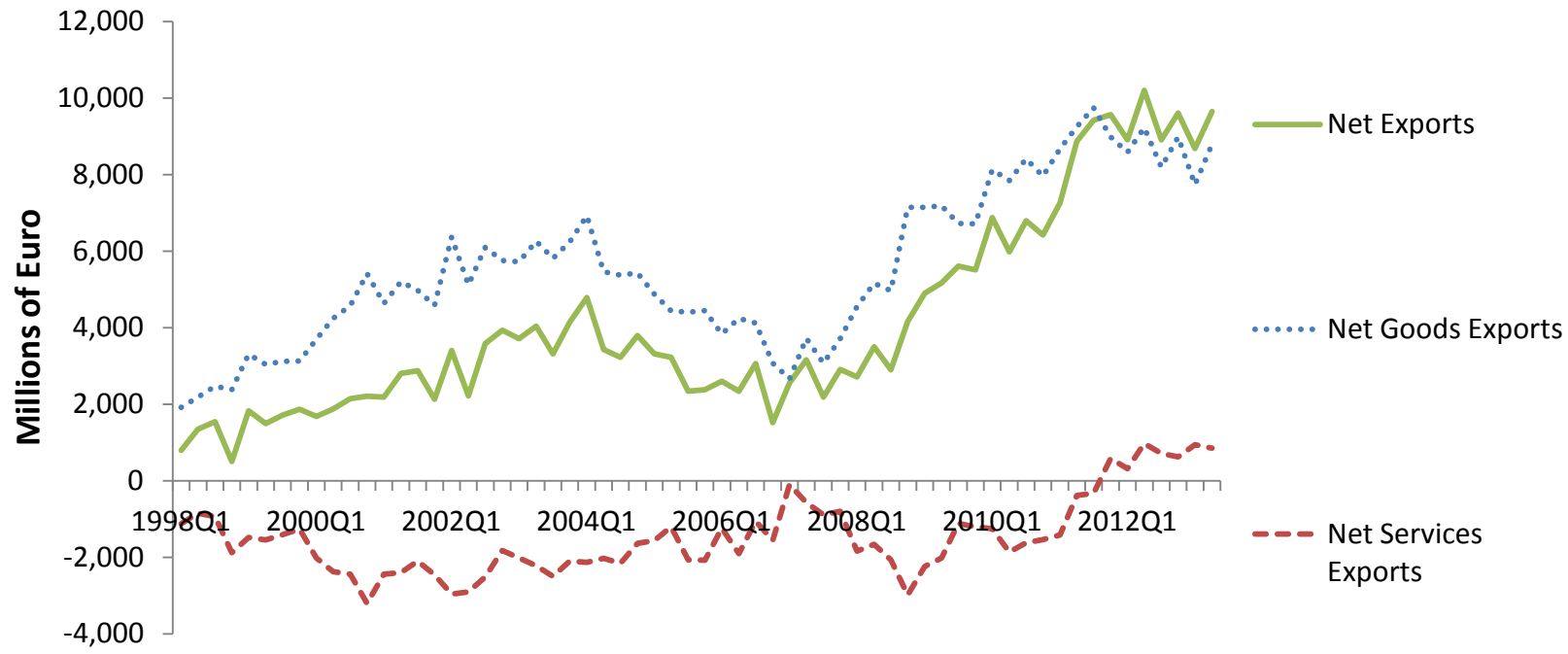
# Retail sales showing signs of stabilisation





# But weakening of net export performance

**Net Goods and Services Exports**  
Constant Prices, Seasonally Adjusted, 1998Q1-2013Q2





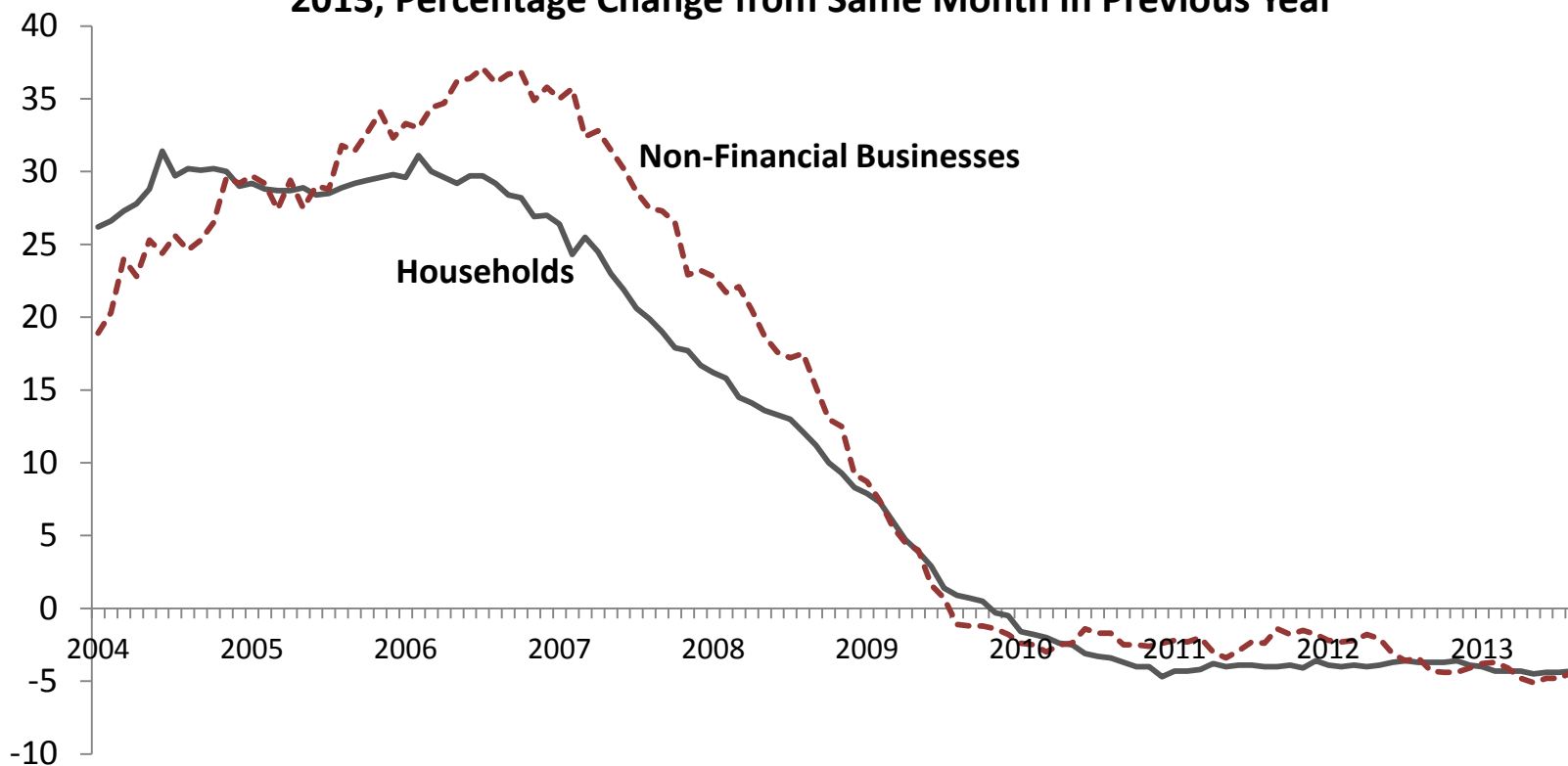
**Downside risk . . .**

**Persistence of the *balance sheet*  
*recession***



# Credit still contracting

**Growth Rates in Credit to the Private Sector, January 2004 to August 2013, Percentage Change from Same Month in Previous Year**



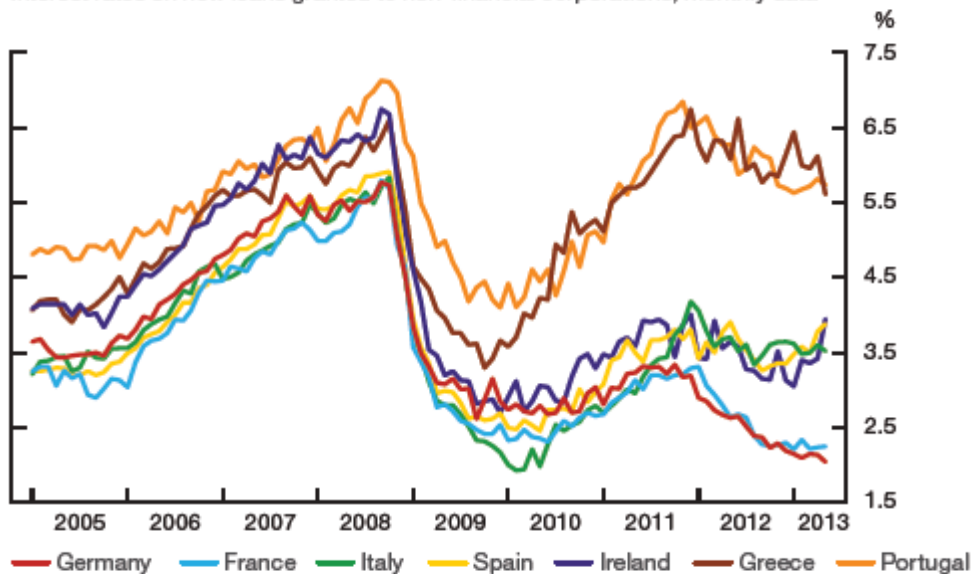
Source: Central Bank of Ireland



# Fragmentation within the Euro Zone

**Chart 9: Financial fragmentation continues to impair the transmission of monetary policy in the euro area**

Interest rates on new loans granted to non-financial corporations, monthly data



Note: Data for Greece include only those loans with a maturity of up to 1 year.

Source: European Central Bank

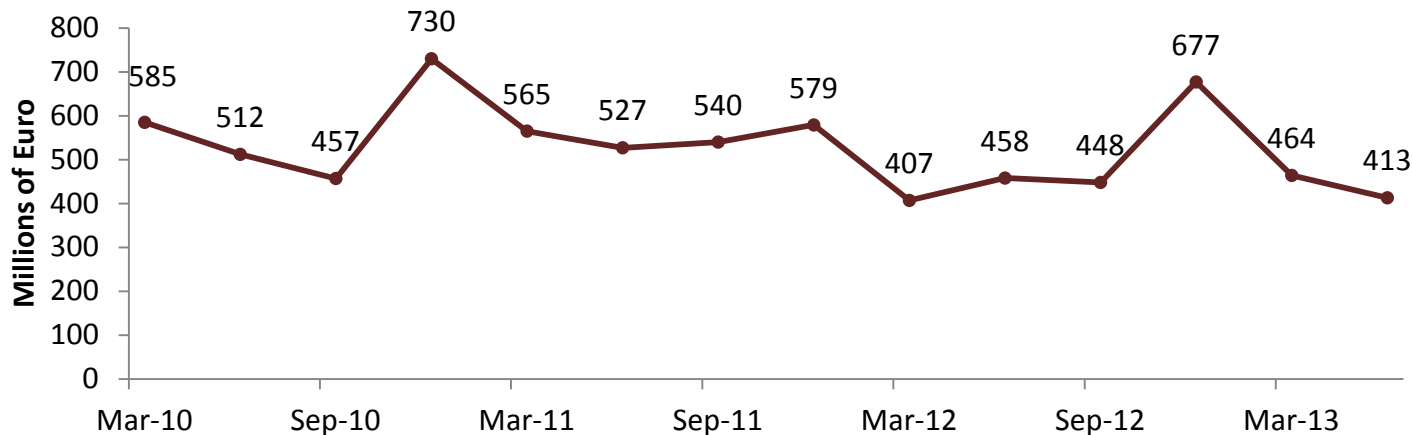
Last observation: May 2013





# Limited new lending to SMEs

**New Credit Advanced to Non-Financial/Non-Property Irish SMEs,  
March 2010 to June 2013**

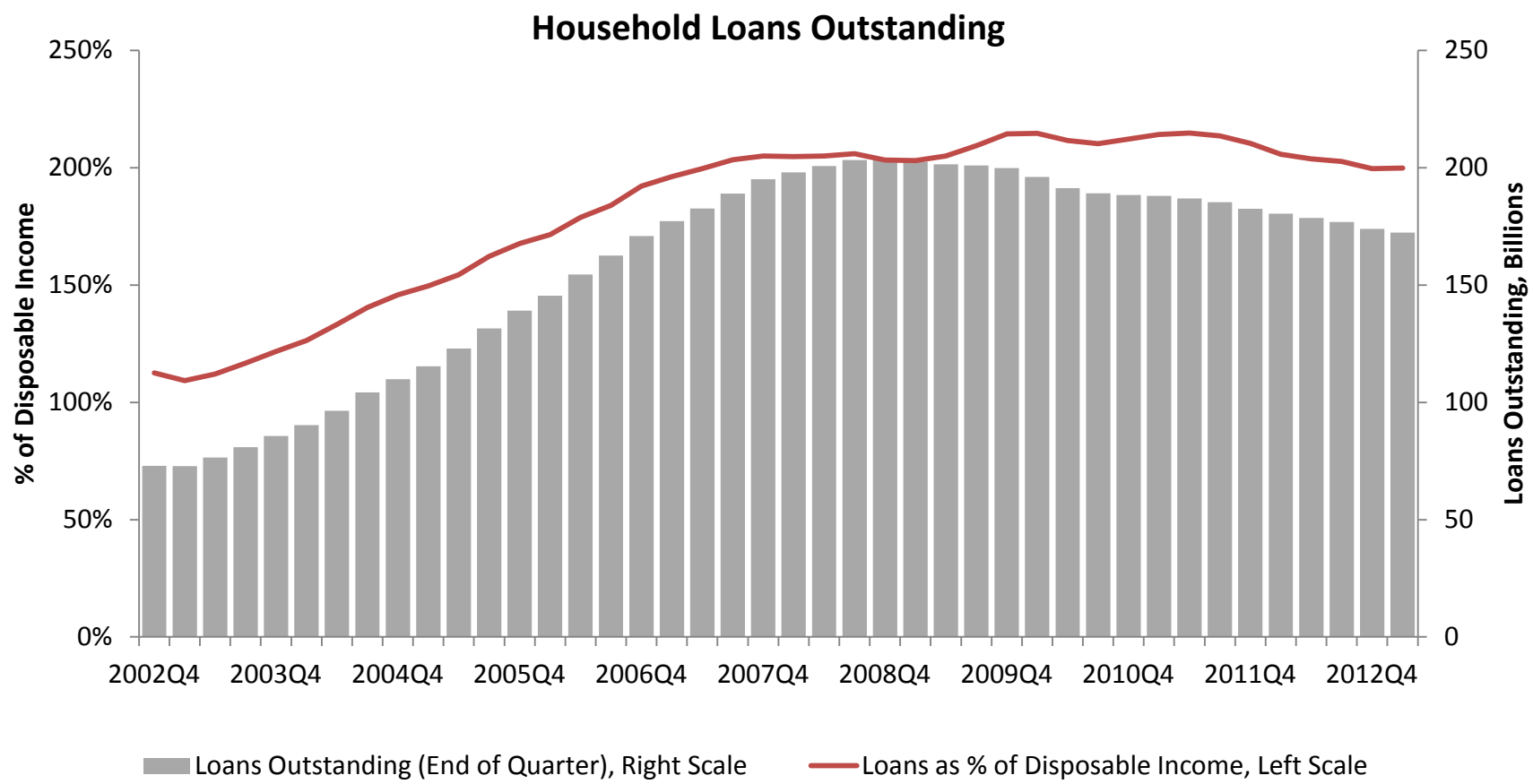


*Note:* Gross new lending is the amount of new credit facilities drawn-down during the quarter by SME counterparties, i.e. where this credit facility was not part of the outstanding amount of credit advanced at the end of the previous quarter. Gross new lending is defined to exclude renegotiations or restructuring of existing loans.

*Source: Central Bank of Ireland*



# Difficult household balance sheet repair continues

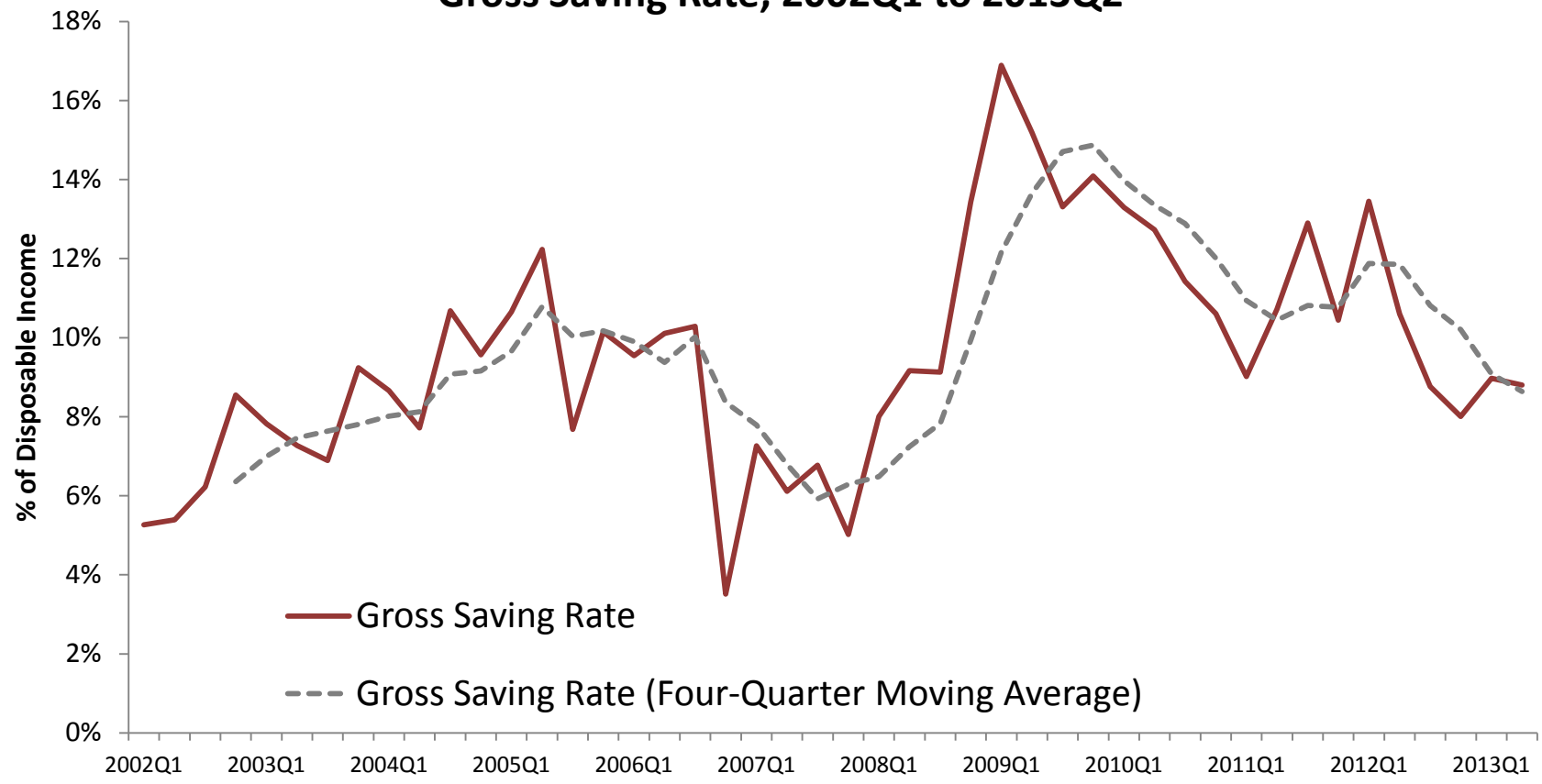


Note: Disposable income equals sum over last four quarters  
 Source: Central Bank of Ireland (Loans); Central Statistics Office (Disposable Income)



# Saving rate still high, but falling

**Gross Saving Rate, 2002Q1 to 2013Q2**



Source: CSO



# Summing up

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- Significant achievements in stabilising vicious feedback loops
- But headwinds/risks remain
- Policy will require difficult balancing acts for some time