

versus 3 per cent for the Department), it seems reasonable to conclude that the EC and the IMF have not diverged in any noteworthy way from the medium-term picture presented in the SPU. Table 2.2 shows that forecasts for nominal GDP in 2015 lie within a very tight range, from €183 billion to €185 billion.

Box 2.1: Irish Growth Forecasts

There are a number of institutions currently producing growth forecasts for the Irish economy. The ESRI and the Central Bank of Ireland (CBI) typically produce four sets of forecasts per year. The Department of Finance produces forecasts in the Pre Budget Outlook and in the annual Budget. As part of the move towards the European Semester,⁶ the Department is now also required to submit a Stability Programme Updates (SPU) in April of each year. Prior to this, the SPU, which also contains a set of macroeconomic forecasts, was published with the annual Budget. Since 2010, the IMF and the EC have begun to produce forecasts for Ireland on a more regular basis than was previously the case. In this Box, the degree to which forecasts have been revised over the past 18 months is considered.

2011

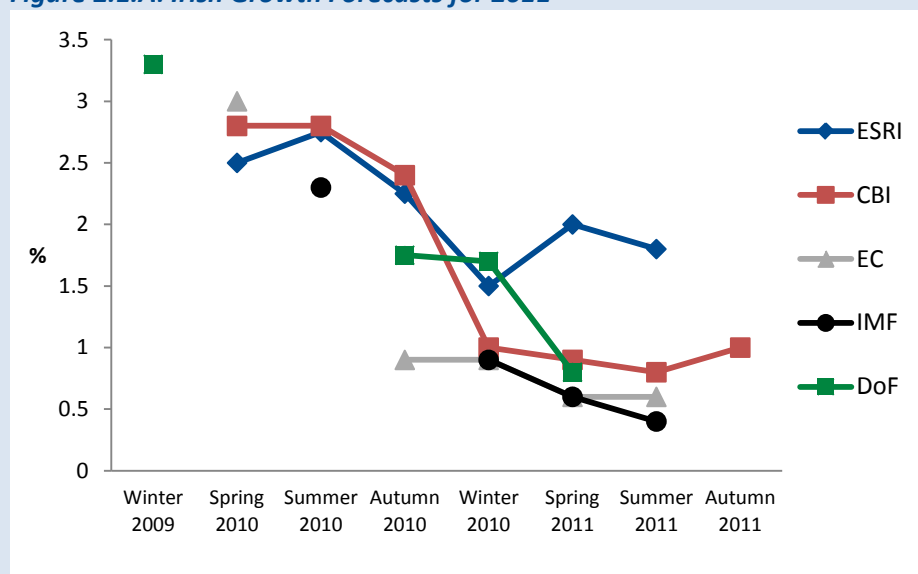
Figure 2.1.A shows GDP growth forecasts for 2011, starting with the Budget 2010 projection of 3.3 per cent. The forecasts that emerged in the first half of 2010 from the ESRI, the CBI and the EC were lower, with GDP growth expected to be between 2.5 per cent and 3 per cent in 2011. Further downward revisions were implemented by these agencies throughout 2010, driven by increasingly weaker prospects for domestic demand. By December 2010, the Department of Finance's 2011 forecast was adjusted to 1.7 per cent, before being revised downwards again to 0.8 per cent in April 2011. By the spring of 2011, the Department of Finance's forecast was close to those of the IMF, the EC and the CBI which ranged between 0.6 per cent and 0.9 per cent. The ESRI forecast, however, was higher at 2 per cent. In the summer of 2011 both the ESRI and the CBI revised their GDP forecasts further to 1.8 per cent and 0.8 per cent respectively. The IMF published another downward revision to its GDP forecast in September 2011. In October of this year, however, the CBI revised its GDP forecast for 2011 upwards by 0.2 per cent.

The general pattern suggests that as more information has become available, forecasts for 2011 GDP growth have been revised downwards systematically.

⁶ The economic crisis revealed a need for stronger economic governance and coordination at EU level. A new governance architecture, the European semester, was approved by EU Member States in September 2010. As part of the new structure, the EU and the euro area will coordinate *ex ante* their budgetary and economic policies, in line with both the Stability and Growth Pact and the Europe 2020 Strategy.

The ESRI and the CBI were the only agencies to have diverged from this path.

Figure 2.1.A: Irish Growth Forecasts for 2011



2012

The degree to which GDP forecasts for 2012 have been revised is displayed in Figure 2.1.B. The IMF began forecasting 2012 GDP growth in the summer of 2010 while the EC issued their first such forecast in the autumn of 2010. The Central Bank, the ESRI and the Department of Finance issued similar forecasts 3 months later. It is also evident from Figure 2.1.B that downward revisions have been made by the Central Bank in each of their latest three forecasts, from 2.3 per cent in January 2011 to 1.8 per cent in October. The Department of Finance’s projection was revised downwards by 0.7 per cent between December 2010 and April 2011, driven mainly by a large downward revision of investment expectations. The IMF’s initial forecast for 2012 was 2.5 per cent. This has since been revised downwards to 1.5 per cent, 0.4 per cent lower than that of the EC. The downward revision was due to lower expectations for private consumption.

As was the case with the 2011 forecasts, the ESRI’s spring 2011 forecast was revised upwards and was also the highest of all forecasts issued at that time. The ESRI has since been revised GDP growth downwards to 2.25 per cent, due mainly to weaker domestic demand expectations.

2013-2015

The Department of Finance, the IMF and the EC issue forecasts for GDP growth out to 2015. Figure 2.1.C shows that these medium term forecasts have also been subjected to downward revisions in recent months. The IMF and the EC have implemented minor revisions to date. The Department of

Finance’s forecast, however, was revised significantly downward since the publication of Budget 2011. There is a growing consensus that GDP will grow by approximately 3 per cent per annum in both 2014 and 2015.

Figure 2.1.B: Irish Growth Forecasts for 2012

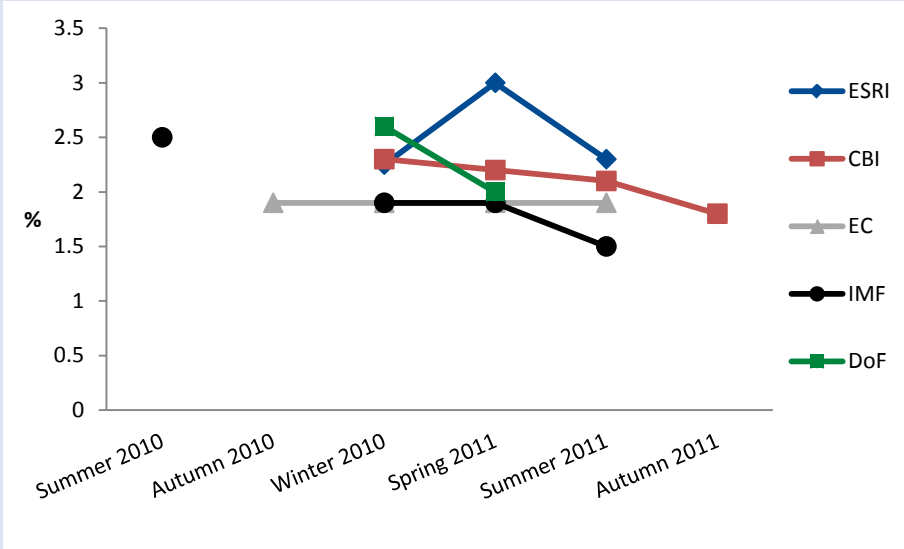


Figure 2.1.C: Growth Forecasts 2011-2015

