



Presentation to
“Building the Economic Foundations for the next 400”

Kilkenny Borough Council
Municipal Policy Committee

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Background

- > Construction as a percentage of GNP amounted to 24% in 2007. This will decline to < 8% in 2010 leading to cumulative decline in GNP over three years to 2010 of at least 10%. Impact exacerbated by knock on impacts of global economic decline.
- > This will lead to a major decline in tax revenues leading to a Government borrowing requirement in 2009 of 10-12% GDP.
- > Construction boom over five years to 2007 driven by enormous increase in bank lending to domestic economy over an extended period. Bank lending now at c. 250% GNP, 75% of GNP more than other high borrowing economies.
- > Annual bank lending has declined from c. 45% of GNP in 2006 to a net repayment in the last 3 months of 2008, giving an indication of the scale of demand removal arising from this source.
- > These factors leading to drop in residential and commercial property prices, currently running at c. 30% but with further to go.

- > Bank lending financed to a significant extent by cross border interbank borrowing, which reached €120 Bn or 80% of GNP in mid 2008 (similar to US (China purchase of MBS, UK, Spain). Now declining but being replaced by borrowing from ECB.
- > Stocks of outstanding Government debt is currently low at (net of pension fund) about 20% of GDP.
- > However, market concern is about the size of 2009 deficit (10 – 12% GDP) combined with contingent liability for banks guarantee. In the short term, the latter is a funding issue (not a call on government expenditure as such) but may turn into an expenditure issue depending on bad loan write – offs.
- > Government expenditure 63 BN
 - Pay 22 BN, SW 20 BN
 - Capital 8BN, Other 13 BN
- > Tax Revenue circa 40BN
- > 3% GDP Circa 60BN

Actions Needed

- > Against background of huge private sector debt, only way to boost economic demand is through exports. This should be an absolute National Priority.
- > Unlike other countries (Iceland, Asia 1998, Scandinavia, early 1990s) devaluation is not an option, which is major issue.
- > We must bring about internal cost reduction to mimic the impact of devaluation
- > This is happening in Private Sector
- > out of 1.8 million private sector workforce
 - 400,000 redundancies
 - 2000,000 large remuneration reductions
- > Measures Taken
 - Needs to replicate in public Sector. Major gap leading to enormous labour market distortion

Some Positives

- > Competitiveness seriously damaged but not destroyed
- > Large relative improvement underway
- > My view is that bottom of cycle is Q4 2008, Q1 2009
- > Flexible, motivated, English speaking workforce
- > Part of Euro – close to US and UK. This has its difficulties (Sterling) but is a strong strategic position for a country with only 4m people.

- > Commercial and Public Sector infrastructure massively improved over last 10 years
- > Further improvement to come
- > Massive improvement in accessibility – low cost airline revolution
- > Low density, sophistication of experience and natural beauty makes Ireland an attractive place

Kilkenny

- > Attractive City located within attractive region
- > Better accessibility major plus commercially
- > Build and promote creative cluster around design
- > Promote efficiency in business operating environment
- > Planning – speed vital to enable early construction of new commercially viable prospects.