2017

STABILITY PROGRAMME UPDATE

Incorporating the Department of Finance's Spring Forecasts

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An Roinn Airgeadais
Department of Finance

Ireland's Stability Programme April 2017 Update

Incorporating the Department of Finance's Spring Forecasts

Foreword

This Update of Ireland's Stability Programme takes account of Budget 2017 and other Government initiatives. It is Ireland's national medium-term fiscal plan and includes an update of the economic and fiscal outlook. This document was submitted to the European Commission on 2 May 2017 in accordance with the requirements of the European Semester.

It was presented in draft form to Dáil Éireann on 11 April prior to submission.

The document incorporates horizontal guidance provided by the European Council to Member States in December 2016 and March 2017 as part of the discussions on the Annual Growth Survey. It has been prepared in line with the July 2016 guidelines on the format and content of Stability and Convergence Programmes.

This document should be read in conjunction with Ireland's National Reform Programme (NRP) 2017, which sets out policies being advanced in response to challenges identified by the European Commission in its Country Report on Ireland, and which reports on progress towards our Europe 2020 Strategy targets.

The analysis and forecasts contained in this document are based on macroeconomic data available to end-March 2017. The fiscal projections are based on data to end-April. The macroeconomic forecasts contained herein were endorsed by the Irish Fiscal Advisory Council on 4 April 2017.

In order to further enhance the budgetary framework, the Department of Finance is now publishing its macroeconomic and fiscal forecasts on an *ex-post* basis, i.e. incorporating the fiscal outlook as set out in Budget 2017.

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Chapter 1
Overview and General Policy Strategy

1.1 Policy Strategy

While headline GDP figures in Ireland can be difficult to interpret, a wider suite of indicators clearly show an economy that is performing strongly. This is perhaps most evident from the evolution of the unemployment rate which, at 6.4 per cent, is now around 8¾ percentage points below its peak.

That said, a continuation of robust economic expansion cannot be taken for granted, with significant challenges on the horizon that could potentially derail the recovery. Many of these are beyond the control of domestic policy-makers. The UK's exit from the European Union - expected in 2019 but with the potential to adversely affect the Irish economy in advance of that - and the uncertainty associated with the policy stance in the US are amongst the most prominent factors casting a shadow over future growth prospects.

The over-arching policy priority, in these circumstances, is to improve the resilience of the economy so that adverse developments – if and when these occur – can be absorbed with minimal fall-out. The Government will continue to manage the public finances in a prudent manner, and to implement competitiveness-oriented policies – including those that address emerging bottlenecks – in order to build upon the gains of recent years.

From a fiscal policy perspective, the first priority is to achieve a balanced budget in structural terms. This is now within sight – on the basis of current Department of Finance projections, the structural deficit will be almost eliminated next year. The second, and related, priority is to reduce the level of public indebtedness in order to minimise debt service costs and to reduce the vulnerability of the economy. The Government continues to make significant progress in this regard.

However, reflecting the still-high levels of public debt and the need to build up a safety buffer, the Minister for Finance has announced – as part of Budget 2017 – a new debt target of 45 per cent of GDP to be achieved by the mid-part of the next decade. The Government has also announced that a 'rainy day' fund will be established in the year following the achievement of Ireland's medium term objective (i.e. a balanced budget in structural terms). Finally, the Government has announced that, subject to market conditions, it will begin the process of divesting itself of its banking assets, and that the proceeds will be used for debt-reduction.

1.2 Economic and Budgetary Outlook

The strength of economic activity in Ireland surprised on the upside in the second half of last year and this momentum appears to have carried into this year. Accordingly, the baseline forecast is for GDP growth of 4.3 per cent this year, an upward revision from the forecast that underpinned the 2017 Budget last October. For next year, a growth rate of 3.7 per cent is currently projected.

Forecasting short- and medium-term economic trends is more difficult than usual at the current juncture. For instance, notwithstanding the positive dataflow in recent months, it is clear that the international backdrop is one of heightened uncertainty at present. Perhaps the most important source of uncertainty relates to the future relationship between the EU and the UK and, in particular, what format the trading relationship will take, once the UK leaves the European Union which is expected at the end of the first quarter of 2019. The policy mix in the US – that is the respective roles of monetary and fiscal policy – is an additional source of uncertainty. More generally, any move towards protectionist policies and / or an unravelling of global value chains would have a detrimental impact on a highly integrated, globalised economy such as Ireland's.

On the domestic front, the information content in key macro-economic aggregates (GDP, GNP, investment, exports, imports) has been limited by *inter alia* the on-shoring of intellectual property, changes in outsourcing practices (so-called 'contract manufacturing') and the concentration of economic activity in a relatively small number of sectors. While compiled in line with best international practice, headline figures need to be treated with caution and a wider suite of indicators should be used in any assessment of cyclical developments in Ireland.

Table 1: Summary table – key economic and fiscal variables

% change (unless stated)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Economic Activity						
Real GDP	5.2	4.3	3.7	3.1	2.7	2.5
Real GNP	9.0	4.2	3.5	2.8	2.3	2.1
Balance of Payments						
Trade balance (per cent of GDP)	23.2	29.6	29.2	28.9	28.7	28.6
Current account (per cent of GDP)	4.7	10.9	10.4	9.8	9.4	9.1
Inflation						
HICP	-0.2	0.6	1.2	1.8	1.9	1.9
'Core' HICP	0.5	0.1	1.2	1.8	1.9	1.9
GDP deflator	-1.2	1.2	1.3	1.5	1.7	1.7
Labour Market						
Total Employment ('000)^	2,020	2,075	2,125	2,165	2,195	2,225
Employment	2.9	2.7	2.4	1.9	1.5	1.4
Unemployment (per cent)	7.9	6.4	5.8	5.5	5.5	5.5
Public Finances (per cent of GDP)						
General government balance	-0.6	-0.4	-0.1	0.1	0.6	1.0
Structural balance % of potential GDP	-1.4	-1.2	-0.5	-0.2	0.4	1.0
Debt ratio (year-end)	75.4	72.9	71.2	69.5	65.2	62.9
Net debt position (year-end)*	66.0	63.7	-	-	-	-

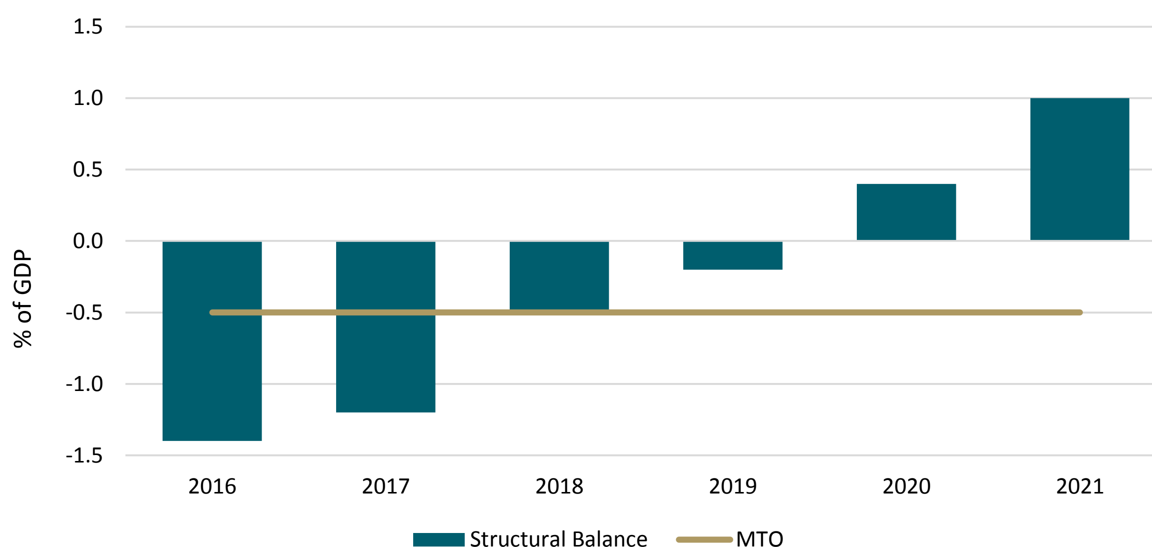
* Net debt position is for 2016 and 2017 only.

^ nearest 5,000.

Source: 2016 - CSO; 2017 to 2021 - Department of Finance.

Turning to the public finances, the headline deficit amounted to 0.6 per cent of GDP last year; when account is taken of one-off factors, the underlying deficit was 0.8 per cent. For this year, tax receipts amounting to €50.6 billion were projected at the time of the Budget and this forecast remains unchanged. Voted expenditure is assumed to evolve in line with the projection set out in the Revised Estimates Volume. Taking into account all other factors, a headline deficit of 0.4 per cent of GDP is projected for this year. This would be consistent with a structural deficit of 1.2 per cent of GDP. For next year, on the basis of the allocation of fiscal space as set out at Budget time, as well as current projections for the headline budget balance and GDP, a structural deficit of 0.5 per cent is in prospect, consistent with achievement of Ireland's medium term objective, the anchor of the preventive arm of the Stability and Growth Pact (see figure 1 below).

Figure 1. Structural Balance and MTO



Source: Department of Finance

While high, the debt-to-GDP ratio has been on a downward path since peaking in 2012/2013, reaching 75.4 per cent last year. A further decline – to 72.9 per cent – is projected for this year. Importantly, the Government – through the NTMA – has accumulated significant liquid and semi-liquid assets, the effect of which is to reduce net public indebtedness, which amounted to 66.0 per cent of GDP at the end of last year. Any proceeds from divesting the State of its financial assets in AIB will not impact upon the deficit (as this is deemed a financial transaction) but will reduce the level of public indebtedness.

Chapter 2
Economic Outlook

2.1 Summary

The baseline forecast is for solid growth once again this year, with GDP projected to increase by 4.3 per cent, 0.8 percentage points higher than assumed at the time of the Budget in October. Both net exports and underlying domestic demand – that is excluding the volatile components of investment spending – should contribute positively this year. The labour market should benefit accordingly, with further gains in employment and a reduction in the unemployment rate to an average rate of 6.4 per cent for the year as a whole in prospect. Some of the factors that have held back inflation are likely to persist in the short-term, with consumer price inflation projected to increase by just 0.6 per cent.

While there are both upside and downside risks to the central scenario, downside risks dominate at present. On the upside, measured GDP could once again benefit from the ongoing process of globalisation and the fragmentation of production chains. On the downside, risks are more numerous and mainly external in origin (see Chapter 4).

2.2 Macroeconomic Outturn 2016

First estimates show that GDP increased by 5.2 per cent last year, a percentage point higher than assumed at the time of the Budget. This reflects, in the main, stronger-than-anticipated activity in the second half of the year.

The headline export performance – with growth of 2.4 per cent recorded for the year as a whole – was heavily influenced by lower exports of goods produced abroad under contract from an Irish-based entity. Once these are excluded, the underlying performance of both goods and services exports was fairly robust last year.

On the domestic front, investment recorded a strong performance, although the headline figure was affected by a surge in investment in intangible assets in the fourth quarter of last year (in the short-term this is GDP-neutral as the intangible assets were sourced from abroad and therefore treated as imports in a national accounting framework). Investment in building and construction continued to recover, albeit off a relatively low base. Personal consumer spending increased by 3 per cent last year, as household income continued to benefit from *inter alia* higher levels of employment and the absence of inflation. At an aggregate level, households maintained their savings from disposable income at broadly unchanged levels.

Imports of goods and services increased sharply last year with growth of 10.3 per cent recorded, mainly due to a substantial increase in imports of intangible assets, i.e. imports of R&D, in the final quarter. One important consequence of this was a large, temporary one-off decline in the trade balance last year; as a result, the surplus on the current account of the balance of payments fell to under 5 per cent of GDP last year, having been in double digits the previous year.

Ongoing economic recovery continues to yield a positive return in the labour market. Total employment rose by 2.9 per cent last year and, by year-end, all sub-categories of employment measured by the CSO were in positive territory. With employment creation exceeding growth in the labour force, unemployment remained on a downward path.

On the nominal side, the decline in oil prices during 2016 and the appreciation of the euro-sterling exchange rate over the course of the year helped to keep a lid on inflationary pressures, with consumer prices (HICP basis) declining by 0.2 per cent. As anticipated, the GDP deflator – a wider measure of inflationary pressures in the economy – fell by 1.2 per cent last year, in part due to a deterioration in the terms-of-trade.

2.3 Macroeconomic Projections 2017

The external economic environment is one of heightened uncertainty. Notwithstanding the decision to leave the European Union, economic activity in the UK has, thus far, remained resilient. However, the evidence that exit will be detrimental to the UK economy is fairly compelling, and the short- and medium-term trajectory for growth in a key trading partner is far from clear. At the same time, the expected shift in the policy stance in the US – an easing of fiscal policy with a likely tightening of monetary policy – could have implications for global economic activity via the demand, exchange rate and financial market channels.

The baseline forecast is for a gradual firming of activity in key export markets this year, continuing into next year. According to the European Commission Winter 2017 forecasts (table 2), economic activity in the UK is projected to increase by 1.5 per cent this year and by 1.2 per cent in 2018. Short-term prospects for the euro area economy are relatively good, while in the US an acceleration in the growth rate is projected, which could be amplified by any fiscal stimulus.

Table 2: External assumptions

% change (unless stated)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
External GDP growth						
United States	1.6	2.3	2.2	1.9	1.7	1.6
Euro area	1.7	1.6	1.8	1.5	1.5	1.5
United Kingdom	1.8	1.5	1.2	1.8	1.9	1.9
Technical assumptions						
Euro-sterling exchange rate (€1=)	0.82	0.87	0.87	0.87	0.87	0.87
Euro-dollar exchange rate (€1=)	1.11	1.06	1.06	1.06	1.06	1.06
Brent crude (dollars per barrel)	45	55	55	55	55	55

Sources: Eurostat; European Commission forecasts for 2017-2018. Projections from 2019 to 2021 are taken from the IMF World Economic Outlook (Oct 2016).

Note 1: Oil prices (futures) in 2017 and 2018 are calculated on the basis of futures as of mid-March 2017 and remain unchanged thereafter.

Note 2: Exchange rate outturns as of mid-March 2017, and unchanged thereafter.

In summary, therefore, external demand is expected to be relatively strong this year. The relative competitive position of the economy, at least in aggregate terms, is broadly unchanged from that assumed at the time of the Budget. Against this background, a relatively

solid Irish export performance is projected for this year. While high frequency data are still relatively limited at this stage, the available figures (monthly trade data and the export orders component of the purchasing managers' indices) support this assessment. A key unknown is the role of 'contract manufacturing'; this form of outsourcing significantly boosted exports in 2015 but was a drag on the overall export performance last year. Importantly, there is little, if any, domestic impact of such activity. Assuming a modest positive contribution from this source, overall exports are projected to increase by 5.0 per cent this year.

Investment spending looks set to put in another strong performance this year, although the headline figure is distorted by base effects. Leading indicators point to strong investment in building and construction while the ongoing recovery in domestic and international demand should support further investment in (core) machinery and equipment. Investment in intangible assets and some other components (such as aircraft) is extremely volatile – last year, for instance, total investment rose by over 45 per cent due, in large part, to the on-shoring of intellectual property assets. A technical assumption is made that there is no repetition of such investment this year, with the result that the level of investment falls relative to last year's exceptionally high level. Abstracting from this 'base effect', it is clear that 'underlying' investment is considerably stronger than suggested by the headline figure.

Consumer spending is forecast to increase by 2.8 per cent this year. Household incomes should benefit from continued growth in labour income as employment and earnings per worker expand. Other components of household disposable income are also expected to increase, while the assumed modest pace of inflation will support disposable income growth. A modest decline in the household savings rate is assumed. In terms of high frequency data, core retail sales were up over 6 per cent year-on-year to end-February, while consumer sentiment remains solid and is well above its long run average.

Imports of goods and services are expected to fall by 2 per cent this year. The annual decline in imports is the counter-part to the assumed fall in investment – the sharp increase in imports last year was essentially the mirror-image of the increased investment in intangible assets; as this investment is assumed not to be repeated, imports should fall accordingly. If the relevant investment transactions were excluded, imports would rise this year.

In aggregate terms, therefore, GDP is projected to increase by 4.3 per cent this year. GNP is forecast to increase by 4.2 per cent.

Table 3: Macroeconomic prospects

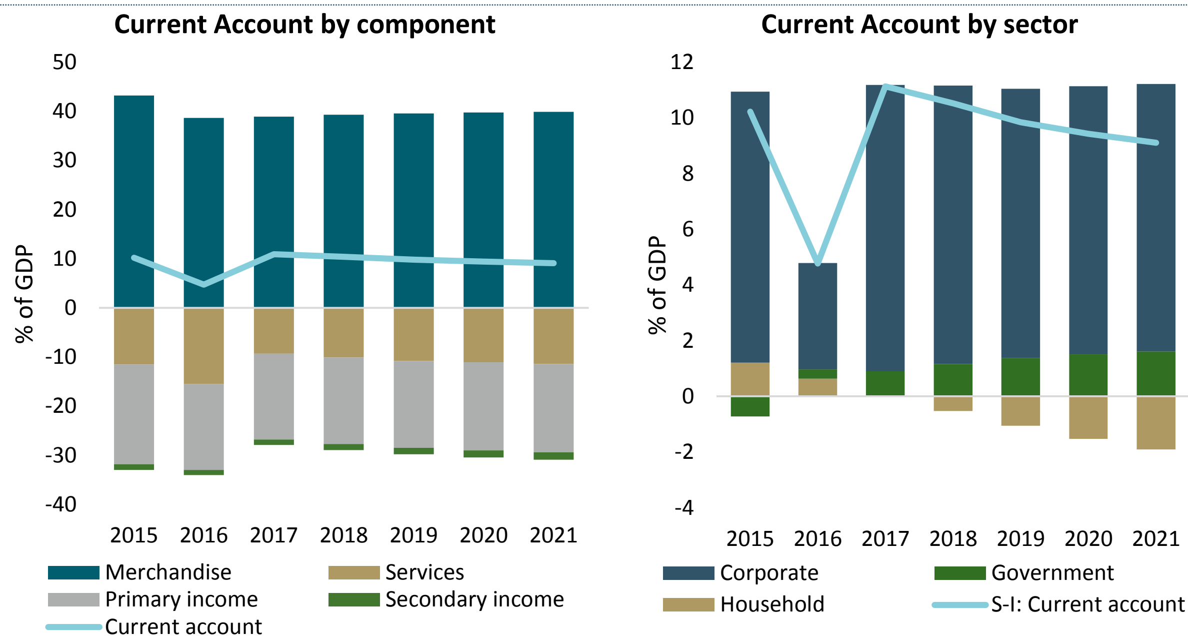
	2016	2017	2018	2019	2020	2021
	year-on-year % change					
Real GDP	5.2	4.3	3.7	3.1	2.7	2.5
Nominal GDP	3.9	5.5	5.0	4.6	4.4	4.2
Real GNP	9.0	4.2	3.5	2.8	2.3	2.1
Components of GDP	*year-on-year % change (real)*					
Personal consumption	3.0	2.8	2.7	2.5	2.2	2.0
Govn. consumption	5.3	2.6	2.1	2.0	1.9	1.8
Investment	45.5	-17.1	5.4	4.3	3.3	2.9
Stock changes^	0.3	0.0	0.0	0.0	0.0	0.0
Exports	2.4	5.0	5.1	4.2	3.9	3.8
Imports	10.3	-2.0	5.3	4.5	4.2	4.0
Contributions to GDP growth	*annual percentage point contribution*					
Domestic demand	11.3	-3.7	2.5	2.1	1.8	1.6
Net exports	-6.5	8.0	1.2	1.0	0.9	0.8
Stock changes	0.3	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.1	0.0	0.0	0.0	0.0	0.0
Current prices (nearest €25m)	*€ millions*					
GDP	265,825	280,575	294,675	308,175	321,625	335,075
GNP	218,375	230,025	241,425	252,050	262,500	272,925

Source: 2016 - CSO; 2017 to 2021 - Department of Finance. Rounding can affect totals.
^ contribution to GDP growth.

2.4 Balance of Payments

The assumed sharp fall in imports, together with the assumption of reasonably strong exports should lead to an expansion of the trade surplus this year, although a modest decline in the terms-of-trade (the price of exports relative to imports) will counteract this somewhat. While net factor outflows are projected to increase, the pace of increase will be restrained by high levels of depreciation of foreign-owned capital assets in Ireland (as depreciation is a charge against profits, the high rate of depreciation on parts of the capital stock – mainly absorbed by the foreign owners – can depress profitability and hence profit outflows). In overall terms, a current account surplus of the order of 11 per cent of GDP is expected for this year; if this is confirmed by end-year data it would be the largest surplus on record. This current account surplus means that *ceteris paribus* the nation as a whole is reducing its net international liabilities.

Figure 2: Balance of Payments



Source: CSO, Department of Finance

Table 4: Savings, investment and the balance of payments

% of GDP	2016	2017	2018	2019	2020	2021
Investment (gross)^	29.9	24.1	24.6	25.0	25.1	25.3
of which:						
- Building and Construction	6.2	6.9	7.6	8.2	8.6	8.8
- Other Investment	23.0	16.6	16.4	16.2	16.0	15.9
- Tangible assets	6.9	6.8	6.8	6.7	6.7	6.7
- Intangible assets	16.1	9.8	9.6	9.4	9.3	9.2
- Change in Stocks	0.7	0.7	0.7	0.6	0.6	0.6
- Statistical Discrepancy	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Savings (gross)	34.6	35.0	35.0	34.8	34.6	34.3
of which:						
- Households	3.9	3.8	3.7	3.5	3.3	3.2
- Corporate	28.7	28.5	28.4	28.1	27.9	27.7
- Government	2.0	2.6	2.9	3.1	3.3	3.5
Current account	4.7	10.9	10.4	9.8	9.4	9.1
of which:						
- trade balance	23.2	29.6	29.2	28.9	28.7	28.6
- income and transfers balance	-18.5	-18.7	-18.8	-19.0	-19.3	-19.5

Source: 2016 - CSO; 2017 to 2021 - Department of Finance. All data on a BPM6 basis. Rounding can affect totals.

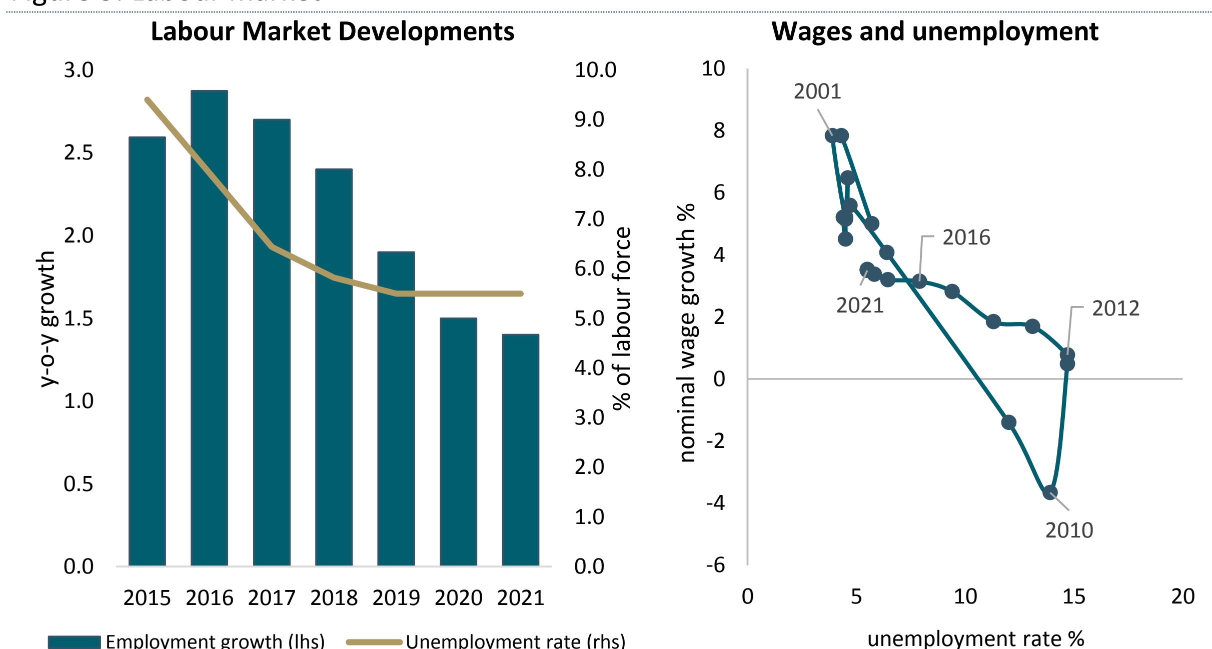
^ More specifically, Gross Capital Formation which is the sum of gross domestic fixed capital formation, changes in stocks and the statistical discrepancy.

2.5 The Labour Market

In a situation in which headline activity measures (such as GDP, trade, industrial production, etc.) are difficult to interpret, labour market developments arguably provide the best barometer of economic activity in Ireland at present.

Employment increased by 2.9 per cent (56,000 jobs) last year. Overall employment growth accelerated in the second half of last year and early indications point to continued solid gains in the early part of the year – the monthly unemployment rate has fallen in each month during the first quarter. For this year, an employment increase of 2.7 per cent (55,000 jobs) is projected, with the bulk of these in full-time employment. Employment growth should once again out-pace labour force growth with the result that a further decline in unemployment is anticipated. For the year as a whole, the unemployment rate should average 6.4 per cent, which would be consistent with the rate falling below 6 per cent by year-end.

Figure 3: Labour market



Source: CSO, Department of Finance

Table 5: Labour market developments

% change (unless stated)	2016	2017	2018	2019	2020	2021
Employment	2.9	2.7	2.4	1.9	1.5	1.4
Unemployment rate (per cent)	7.9	6.4	5.8	5.5	5.5	5.5
Labour productivity^	1.9	1.4	1.1	1.0	1.1	1.0
Compensation of employees*	6.1	6.0	5.8	5.4	5.0	4.9
Hours worked per worker	0.4	0.2	0.2	0.2	0.1	0.1
Compensation per employee*	3.1	3.2	3.4	3.5	3.5	3.5

^ GDP per hour worked.

*Non-agricultural sector.

Source: 2016 - CSO; 2017 to 2021 - Department of Finance. The wage bill figure for 2016 is a Department of Finance estimate pending 2016 National Income and Expenditure release.

2.6 Price Developments

In recent years, the inflation rate in Ireland and in advanced economies more generally has hovered around zero, prompting some concerns regarding self-fulfilling expectations and involving a 'non-standard' response by the monetary authorities in some regions. In terms of this year, price inflation is expected to remain moderate with the HICP forecast to increase by just 0.6 per cent for the year as a whole. The lagged impact of the appreciation of the euro-sterling bilateral exchange rate will dampen external inflationary pressures, although futures data for oil prices suggests a modest positive contribution from this component. Services price inflation – excluding a number of one-off factors – should accelerate this year, given relatively robust domestic demand. Core inflation, which strips out the volatile energy and unprocessed food components – is forecast to increase by 0.1 per cent this year.

Table 6: Price developments

% change	2016	2017	2018	2019	2020	2021
GDP deflator	-1.2	1.2	1.3	1.5	1.7	1.7
Personal consumption deflator	1.0	1.6	2.0	2.1	2.1	2.1
Harmonised index of consumer prices (HICP)	-0.2	0.6	1.2	1.8	1.9	1.9
Core HICP inflation	0.5	0.1	1.2	1.8	1.9	1.9
Export price deflator (goods and services)	-1.8	1.4	0.7	0.9	1.1	1.1
Import price deflator (goods and services)	-1.2	1.9	1.0	1.1	1.2	1.2
Terms of trade (good and services)	-0.7	-0.5	-0.3	-0.3	-0.1	-0.1

Source: 2016 - CSO; 2017 to 2021 - Department of Finance. Rounding can affect totals.

The GDP deflator – a measure of the price changes in the economy as a whole – is forecast to increase by 1.2 per cent this year. On the basis of the technical assumption of unchanged exchange rates from those prevailing at mid-March, a modest deterioration in the terms-of-trade is projected for this year.

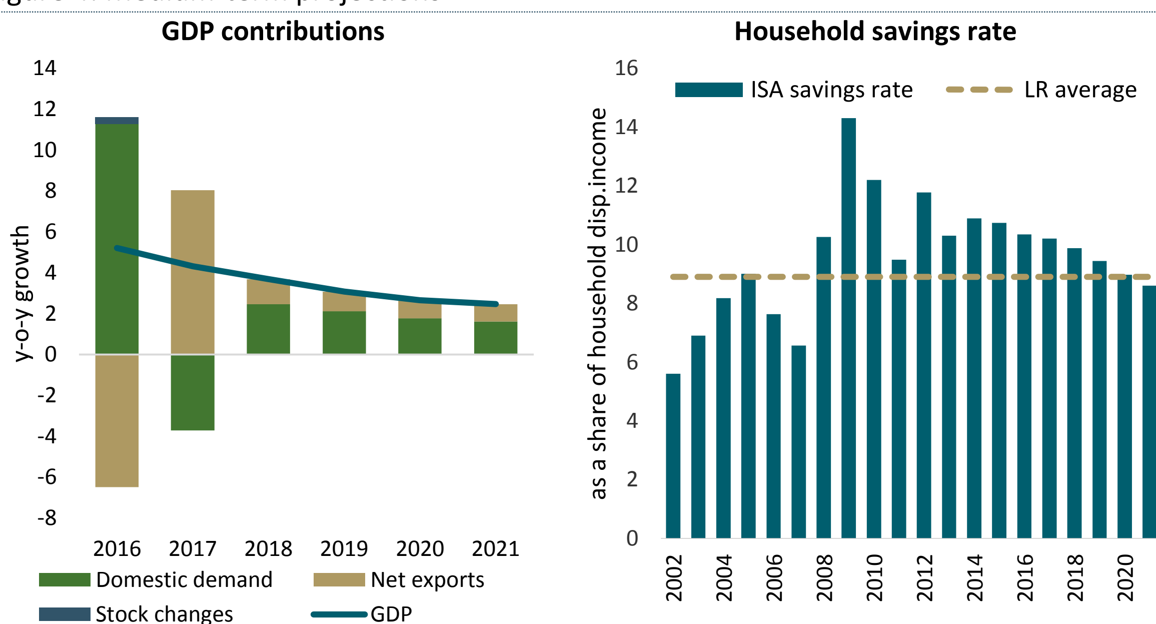
2.7 Medium-Term Growth Prospects 2018 to 2021

The medium term forecasts assume a potential growth rate averaging around 3½ per cent per annum over 2018-2021, with a closing of the output gap by 2021. It must be acknowledged that the concept of potential growth is less meaningful in an Irish context given *inter alia* the cross-border mobility of capital and labour. For instance, the harmonised methodology

applied in this document and in other Member States points towards a positive output gap in Ireland at present, which is inconsistent with the absence of inflationary pressures.

A further complication relates to the impact of the UK's exit from the European Union which is assumed to occur in the first quarter of 2019. While the immediate impact of this on the Irish economy would be on the demand-side, it is reasonable to assume that the supply-side of the economy would also be adversely affected. The forecasts for 2019 and beyond take into account, in so far as possible, the estimated impact of this shock to the economy. It must be recognised, however, that a multitude of factors such as the post-exit nature of the trading arrangements between the UK and the EU have yet to be settled and so medium-term forecasts are subject to considerable uncertainty. Revised forecasts will be published by the Department once there is greater certainty on the various economic issues.

Figure 4: Medium-term projections



Source: CSO, Department of Finance

Over the medium-term, personal consumer expenditure is expected to grow slightly faster than (real) household incomes, i.e. the household savings rate is assumed to moderate gradually over the medium term as *inter alia* household balances sheets improve. Investment as a share of GDP is assumed to revert to more 'normal' levels, with a likely increase in the relative share of intangible assets in the capital stock. Exports are expected to grow in excess of trading partner demand growth reflecting compositional effects, i.e. the concentration of Irish exports in 'high-growth' sectors. Imports are projected to grow in line with weighted final demand.

Employment growth averaging just under 2 per cent per annum over the 2018-2021 period is envisaged, resulting in implied labour productivity growth of just over 1 per cent. Inward migration is assumed to continue over the medium term, while participation rates should also increase. In overall terms, employment growth should exceed growth in the labour force, albeit by a lower margin than has been the case in recent years. In these circumstances, the

unemployment rate is projected to fall steadily towards 5½ per cent by 2018, remaining at this level over the remainder of the forecast horizon.

2.8 Comparison of short-term forecasts

Table 7 below compares the Department's forecasts with those of other public sector institutions, both domestic and international, for the main macro-economic variables.

Table 7: Range of forecasts (annual % change)

2017	**GDP**	**GNP**	**HICP**	**Employment**
Department of Finance	4.3	4.2	0.6	2.7
Central Bank of Ireland	3.5	3.3	0.7	2.6
IMF	3.5	n.a.	0.9	2.3
ESRI	3.8	3.5	0.7	2.9
European Commission	3.4	n.a.	0.9	2.1
OECD	3.2	n.a.	1.5	n.a.
2018	**GDP**	**GNP**	**HICP**	**Employment**
Department of Finance	3.7	3.5	1.2	2.4
Central Bank of Ireland	3.2	2.8	1.2	1.9
IMF	3.2	n.a.	1.5	1.3
ESRI	3.6	3.4	1.0	2.3
European Commission	3.3	n.a.	1.0	1.8
OECD	2.3	n.a.	2.0	n.a.

Source: Central Bank, Quarterly Bulletin, April 2017; IMF, World Economic Outlook, April 2017; ESRI, Quarterly Economic Commentary, March 2017; European Commission, Winter Forecasts 2017, February 2017; OECD, Economic Outlook, November 2016.

The main reason for the difference between the Department of Finance and European Commission forecast relates to timing. In particular, the Department's forecast takes into account the very strong growth rate recorded for the final quarter of last year (figures were not available at the time of the Commission's Winter forecast), and the strong carry-over impact of these figures.

2.9 Comparison with last year's Update

Table 8 compares the headline macroeconomic and fiscal figures with the projections set out in the April 2016 Update of the Stability Programme. As is evident, the outturn for GDP growth last year was stronger than originally anticipated and is attributable to the over-performance both of domestic demand and underlying net exports.

Table 8: Comparison with previous Stability Programme Update

	2016	2017	2018	2019	2020	2021
Real GDP growth (%)						
- Previous forecast	4.9	3.9	3.9	3.3	3.1	2.9
- Current update	5.2	4.3	3.7	3.1	2.7	2.5
- Difference	+0.3	+0.4	-0.2	-0.2	-0.4	-0.4
Net lending of general government (% of GDP)						
- Previous forecast	-1.1	-0.4	0.4	1.2	2.0	2.8
- Current update	-0.6	-0.4	-0.1	0.1	0.6	1.0
- Difference	+0.5	0.0	-0.5	-1.1	-1.4	-1.8
General government gross debt (% of GDP)						
- Previous forecast	88.2	85.5	81.3	77.7	73.3	68.9
- Current update	75.4	72.9	71.2	69.5	65.2	62.9
- Difference	-12.8	-12.6	-10.1	-8.2	-8.1	-6.0

Source: CSO, Department of Finance

Note: Totals may not sum due to rounding.

Chapter 3
Fiscal Outlook

3.1 Summary

The headline general government deficit for 2016 was 0.6 per cent of GDP, some 0.3 percentage points better-than-projected at Budget time. On an underlying basis, when one-off revenues[1] are removed, the deficit was 0.8 per cent of GDP.

The structural deficit is projected to be 0.5 per cent of GDP next year, confirming that Ireland remains on-course to achieve its medium-term budgetary objective of a structural budget balance of -0.5 per cent of GDP in 2018.

The debt ratio continues to decline reaching 75.4 per cent of GDP last year and is forecast to continue on a downward trajectory over the forecast horizon.

3.2 Fiscal Outturn 2016

On an Exchequer basis, the tax revenue end-year outturn for 2016 was 1.4 per cent (€639 million) above the Budget 2016 forecast. In addition, tax receipts grew by 5.0 per cent (€2.3 billion) year-on-year with strong increases recorded across the four major tax-heads.

On the spending side, overall gross voted expenditure of just under €56 billion for 2016 was 0.3 per cent (€0.14 billion) above the *Revised Estimates Volume* (REV) 2016 profile, with the additional spending accommodated through supplementary estimates approved by Dáil Éireann. Gross voted current expenditure was 0.2 per cent (€0.1 billion) below profile. Gross voted capital expenditure was 6 per cent (€0.25 billion) above profile primarily reflecting additional expenditure on school building works and repairs to transport infrastructure arising from flood damage. In year-on-year terms, gross voted expenditure was €1.4 billion (2½ per cent) higher than in 2015. Gross voted current expenditure was higher by €0.9 billion (1.8 per cent) with gross voted capital expenditure up by €0.5 billion (13 per cent).

Taking these developments into account, the general government deficit of 0.6 per cent of GDP is better-than-assumed at Budget time. Excluding a one-off revenue measure, (see footnote 1); the underlying deficit is estimated at 0.8 per cent of GDP. The Central Statistics Office published[2] the headline general government deficit for 2016 on 11 April.

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[1] A prepaid margin (plus interest) on the borrowings from the European Financial Stability Facility of €555m was repaid to the Exchequer in 2016. For further information see release referred to in note 2 below.

[2] http://www.cso.ie/en/statistics/nationalaccounts/governmentfinancestatistics/ - this release was updated on 24 April to align with the final Excessive Deficit Procedure tables published by Eurostat.

3.3 Fiscal Outlook 2017

Tax forecast

Taking account of the Budget 2017 tax package, Exchequer revenues were forecast to increase by 5.2 per cent year-on-year in 2017. As indicated below, tax receipts in the first quarter rose by 3.2 per cent (€356 million) relative to the same period last year, although these were 2.4 per cent (€282 million) behind expectations.

Table 9: Analysis of taxation receipts – against profile

Exchequer Tax Receipts	Outturn €m	Target €m	excess/shortfall €m	excess/shortfall %
Income Tax (inc. USC)	4,417	4,597	-180	-3.9
VAT	4,568	4,417	151	3.4
Corporation Tax	520	697	-177	-25.3
Excise	1,277	1,368	-91	-6.6
Stamps	223	262	-40	-15.1
Capital Gains Tax	92	95	-3	-3.5
Capital Acquisitions Tax	43	43	0	-0.5
Customs	73	77	-4	-5.5
Levies	0	0	0	0
Local Property Tax	225	217	7	3.3
Unallocated Tax Deposits	55	0	55	-
Total	11,492	11,775	-282	-2.4

Source: Department of Finance.

Table 10: Analysis of taxation receipts – year-on-year

Exchequer Tax Receipts	end-March 2017 €m	end-March 2016 €m	y-on-y €m	y-on-y %
Income Tax (inc. USC)	4,417	4,355	62	1.4
VAT	4,568	3,895	673	17.3
Corporation Tax	520	654	-134	-20.5
Excise	1,277	1,522	-244	-16.1
Stamps	223	229	-6	-2.8
Capital Gains Tax	92	113	-21	-19.0
Capital Acquisitions Tax	43	35	8	22.1
Customs	73	69	4	5.2
Levies	0	0	0	0
Local Property Tax	225	216	9	4.2
Unallocated Tax Deposits	55	47	8	16.2
Total	11,492	11,136	356	3.2

Source: Department of Finance.

At end-March, the standout performer across the four main tax heads has been VAT, recording annual growth of just over 17 per cent or €673 million. This is 3.4 per cent or €151 million above target, with lower-than-expected repayments and buoyant receipts from some VAT components being the main drivers.

Over the same period receipts from both income and corporation tax have been lower-than-profiled. Income tax is down 3.9 per cent (€180 million) versus profile and can be attributed to a number of sub-components within this heading. With regards to corporation tax, revenues are €177 million below expectations which may rebalance over the year. A key feature of this heading is that receipts are non-linear across the tax calendar, with May, June and November the key payment months, accounting for over 60 per cent of total revenues. By way of year-on-year comparison, income tax has performed steadily with growth of 1.4 per cent recorded in the year to end-March, whilst corporation tax, is 21 per cent (€134 million) lower.

Turning to excise duties, these are 6.6 per cent or €91 million below target, with under-performance across a number of components. Excises are down 16.1 per cent or €244 million year-on-year, primarily due to a base effect arising from significant stocking-up of tobacco products during 2016 in advance of the anticipated implementation of plain packaging.

In overall terms the tax performance over the first quarter has shown modest annual growth, albeit slightly below expectations. With just three months tax data it remains too early to properly discern any firm trends and underpins the decision to leave the 2017 SPU tax forecast unchanged from Budget 2017. Nonetheless a number of risks remain, both specific and more general, to the tax forecast and these are set out in Chapter 4.

Non-tax revenue

Non-tax receipts are projected to be approximately €0.2 billion higher this year relative to the *Budget 2017* estimate, primarily due to an expected increase in Central Bank surplus income. However, these increased revenues fully offset an expected €0.2 billion reduction in capital resources from a combination of factors including reduced loan repayments to the Exchequer. Higher-than-expected ERDF receipts also help mitigate this capital resources shortfall.

Capital resources are forecast to be lower than in recent years, reflecting reduced Exchequer revenues emanating from the State's support to the financial sector such as the sale of contingent convertible capital notes in AIB and PTSB or sale of shares in BoI. No assumption is made in relation to possible Exchequer receipts from further such disposals over the SPU forecast horizon.

Expenditure

Assumptions for non-voted Central Fund expenditure for this year are €0.15 billion lower than in Budget 2017. These arise from expectations of lower debt servicing costs and a modest decline in Ireland's projected EU budget contribution.

In terms of voted expenditure, REV 2017 sets out the detailed allocations for all Government Departments. Total gross voted expenditure is €58.1 billion, with net voted expenditure projected to be €45.9 billion.

In relation to the year-to-date, gross voted expenditure to end-Q1 2017 was 0.9 per cent (€130 million) lower than profiled and up 5.5 per cent (€709 million) year-on-year. Gross current expenditure year-on-year is higher by €464 million (3.7 per cent) with gross capital expenditure higher by €244 million (52.3 per cent). The growth in capital investment reflects

higher expenditure on the housing programme. Net voted spending was 1.1 per cent or €123 million below expectations, but is 5.7 per cent (€583 million) higher in annual terms.

Departments are managing public expenditure within their expenditure allocations for the year with, at this stage, no significant spending pressures evident from the Q1 position. There is an additional cost of €0.12 billion arising this year from the decision to bring forward to April, from September, a pay increase due under the Lansdowne Road Agreement. This cost is to be met from available public resources taking into account the scope for reallocation of expenditure. The extent to which Departments are in a position to meet this additional cost will only be determined later in the year. The Government will monitor the position closely and will consider how best to meet any additional funding requirements where the need arises.

Taking all of these developments into account, the Exchequer borrowing requirement has improved by €0.1 billion since Budget 2017. However, the statistical treatment of certain extra non-tax revenues means that, while Exchequer-positive, they do not benefit the general government balance. Accordingly, the general government deficit for 2017 remains unchanged relative to the existing baseline projection of 0.4 per cent of GDP.[3]

3.4 Fiscal Outlook 2018-2021

In terms of the 2018 outlook, the projected headline general government deficit is 0.1 per cent of GDP, representing a 0.2 percentage point improvement from the Budget. This is primarily driven by a compositional change within the Central Bank surplus income, whereby more of this now benefits the deficit, assisted by other improvements including from non-commercial semi-state bodies and the Social Insurance Fund (SIF).

Over the remainder of the forecast horizon a small general government surplus of 0.1 per cent of GDP will be achieved in 2019, growing gradually thereafter, albeit marginally weaker relative to the position set out in Budget 2017 as a weaker Exchequer position is partially offset by lower levels of Central Bank capital gains and increased surplus on the SIF aiding the headline balance. Projections are provided on an *ex post* basis based on fiscal policy assumptions contained in the *Programme for a Partnership Government.*

Finally, the fiscal projections prudently make no assumption around the disposal of the State's shareholding in a number of financial institutions. Normally these provide no benefit to the headline balance as in general government accounting terms, they are considered as financial transactions, i.e. they represent the exchange of an asset for cash. The Government has stated its intention to use such receipts to pay down debt and help reduce the associated servicing burden.

[3] This figure (and the general government figure for later years) includes revenues amounting to 0.1 per cent of GDP in respect of domestic water charges, as this reflects the prevailing statutory position and no decision has yet been taken regarding the funding of domestic water provision.

Tax forecast

Taxes are expected to grow at an annual average of 5.2 per cent over the 2018 – 2021 forecast horizon. With nominal GDP averaging 4.5 per cent growth over the corresponding period, this implies an aggregate tax-to-GDP elasticity of 1.1, in line with established norms.

In relation to some of the specific tax headings, income tax and VAT will continue to maintain their dominant position, accounting for around two-thirds of the overall tax yield. For the former this is underpinned by positive labour market developments, with consumption taxes, including excises, expected to grow in line with domestic demand. Corporation taxes will account for just about 15 per cent of all tax revenues, which is within previous parameters.

Non-tax revenue

Total non-tax revenues over the 2018 – 2021 forecast period are now projected to be lower-relative to the Budget 2017 estimate. This is mainly due to a combination of decreasing projections of Central Bank surplus income, along with assumed reductions in some semi-state dividends and other receipts. Whilst lower Central Bank receipts (from 2019) are Exchequer-negative, compositional changes within these revenues means there will be less capital gain from the disposal of the floating rate notes to be offset against the general government balance.

Capital Investment Plan

The Capital Plan sets out a €42 billion framework to address our priority infrastructure needs up to 2021, including €27 billion in Exchequer spend. Government identified an additional €5.14 billion funding for capital in the 2016 Summer Economic Statement. From this additional capital, €2.2 billion was allocated to the Government's initiatives aimed at tackling the housing crisis, as detailed in the Action Plan on Housing and Homelessness. Taking account of further allocations made in Budget 2017, approximately €2.65 billion remains to be allocated over the period 2018-2021.

A review of the Capital Plan has now commenced. The purpose of this review is to inform decisions by Government on revised capital allocations in the context of Budget 2018. The priority for the review is to ensure that the additional capital funding continues to be aligned with national economic and social priorities, consistent with Programme for Government objectives, and helps to underpin sustainable medium-term economic growth and future growth potential.

Expenditure

Non-voted expenditure is projected to gradually increase relative to the Budget 2017 forecast. An expected gradual unwinding of the currently favourable interest rate environment means debt servicing costs, which comprise nearly two thirds of Central Fund expenditure, will begin easing upwards. Furthermore, Ireland's continuing economic growth, which raises our relative share of EU Gross National Income, is expected to see our EU contribution budget continue to increase. Voted expenditure amounts for 2018-2021 are unchanged since Budget 2017. Over this period total gross voted expenditure grows by an annual average of 3⅓ per cent, with day-to-day expenditure (gross voted current expenditure) growing by an annual average of 2½ per cent and voted capital expenditure by an average of 12½ per cent.

3.5 Comparison of fiscal forecasts

Table 11 below illustrates a range of forecasts by public sector organisations for key Irish fiscal metrics. The main reason for the difference between the Department of Finance and European Commission forecast relates to timing. In particular, the Department's projections take into account more recent forecasts of economic, fiscal and general government developments whilst the Commission's are from their earlier Winter forecast. These will be updated in their Spring forecasts to be published in May.

Table 11: Range of fiscal forecasts (% of GDP)

2017	**GG debt**	**GG balance**	**Structural Balance**
Department of Finance	72.9	-0.4	-1.2
IMF	74.8	-0.5	-0.8
ESRI	70.8	-0.1	n/a
European Commission	73.6	-0.6	-1.4
OECD	75.0	-0.5	n/a
2018	**GG debt**	**GG balance**	**Structural Balance**
Department of Finance	71.2	-0.1	-0.5
IMF	73.4	-0.3	-0.5
ESRI	67.2	0.5	n/a
European Commission	72.6	-0.6	-1.0
OECD	72.2	0.0	n/a

Source: IMF, World Economic Outlook, April 2017; ESRI, Quarterly Economic Commentary, March 2017; European Commission, Winter Forecasts 2017, February 2017; OECD, Economic Outlook, November 2016.

Table 12: Budgetary Projections 2016-2021

€ million	2016	2017	2018	2019	2020	2021
CURRENT BUDGET						
Expenditure						
Gross Voted Current	51,770	53,530	54,715	56,070	57,520	58,960
Non-Voted (Central Fund)*	9,575	9,405	9,815	9,615	9,575	8,840
Gross Current Expenditure	**61,345**	**62,935**	**64,530**	**65,685**	**67,095**	**67,805**
less A-in-A's# and Balances	11,720	11,850	11,880	11,945	12,040	12,130
Net Current Expenditure	**49,620**	**51,090**	**52,650**	**53,740**	**55,055**	**55,675**
Receipts						
Tax Revenue	47,865	50,620	53,540	56,385	59,125	61,995
Non-Tax Revenue	3,105	2,790	2,060	1,670	1,635	1,470
Net Current Revenue	**50,970**	**53,410**	**55,600**	**58,060**	**60,760**	**63,465**
CURRENT BUDGET BALANCE	**1,345**	**2,320**	**2,950**	**4,320**	**5,705**	**7,790**
CAPITAL BUDGET						
Expenditure						
Gross Voted Capital	4,215	4,540	5,295	6,070	6,675	7,285
Non-Voted Capital (Central Fund)*	1,140	1,100	1,110	1,100	1,100	1,100
Gross Capital Expenditure	5,355	5,645	6,405	7,170	7,775	8,385
less A-in-A's#	275	255	270	270	270	270
Net Capital Expenditure	**5,080**	**5,385**	**6,135**	**6,900**	**7,505**	**8,115**
Capital Resources	**2,720**	**1,015**	**960**	**1,240**	**950**	**960**
CAPITAL BUDGET BALANCE	**-2,360**	**-4,370**	**-5,180**	**-5,665**	**-6,555**	**-7,155**
Contingency Reserve	0	0	0	1,000	1,000	1,000
EXCHEQUER BALANCE	**-1,015**	**-2,050**	**-2,225**	**-2,345**	**-1,850**	**-365**
Walk from Exchequer to GG balances<	-510	840	1,870	2,670	3,650	3,675
GEN GOVT BALANCE (GGB)	**-1,525**	**-1,210**	**-355**	**325**	**1,800**	**3,310**
GGB % of GDP	**-0.6**	**-0.4**	**-0.1**	**0.1**	**0.6**	**1.0**
Output Gap % of potential GDP	1.2	1.4	0.8	0.5	0.3	0.0
Structural Balance % of potential GDP	-1.4	-1.2	-0.5	-0.2	0.4	1.0
Memo: Government Expenditure Ceiling	**55,985**	**58,070**	**60,010**	**62,140**	**64,195**	**66,245**

Source: Department of Finance

Figures are rounded to the nearest €5 million and may affect totals.

Note: Fiscal forecasts are presented on an *ex-post* basis & assume distribution of estimated fiscal space in-line with the 2016 *Programme for a Partnership Government,* as set out in the 2016 Summer Economic Statement.

* The Central Fund, provided for under the Constitution, is except where provided otherwise by law, the destination of all State revenues and the source of all Government spending.

Appropriations-in-Aid.

< See Annex 1, Table A1 for explanation of net differences between EBR and GGB

Table 13: Budgetary Projections 2016-2021 (Analytical Format)

€ million	2016	2017	2018	2019	2020	2021
(A) Revenue	**62,100**	**64,420**	**66,870**	**69,380**	**72,165**	**74,930**
Tax Revenue	47,865	50,620	53,540	56,385	59,125	61,995
A-in-A's (includes PRSI, NTF and balances)#	11,995	12,105	12,150	12,215	12,310	12,400
Non-tax revenue	2,165	1,660	1,140	740	690	495
Capital Resources	75	35	40	40	40	40
(B) Expenditure	**65,085**	**67,010**	**69,360**	**71,290**	**73,305**	**74,620**
Gross Voted Current Expenditure	51,770	53,530	54,715	56,070	57,520	58,960
Non-Voted Current Expenditure	9,100	8,940	9,350	9,150	9,110	8,375
Gross Voted Capital Expenditure	4,215	4,540	5,295	6,070	6,675	7,285
(C)=(A-B) Balance excluding transactions with no general government impact	**-2,985**	**-2,590**	**-2,490**	**-1,910**	**-1,140**	**310**
Non general government impacting items						
(D) Revenue	**3,585**	**2,110**	**1,840**	**2,130**	**1,855**	**1,895**
Non-Tax Revenue	940	1,130	920	930	945	975
Capital Resources	2,645	980	920	1,200	910	920
(E) Expenditure	**1,615**	**1,565**	**1,575**	**2,565**	**2,565**	**2,565**
Non-Voted Current Expenditure	475	465	465	465	465	465
Non-Voted Capital Expenditure	1,140	1,100	1,110	1,100	1,100	1,100
Contingency Reserve	0	0	0	1,000	1,000	1,000
(F)=(D-E) Transactions with no general government impact	**1,970**	**545**	**265**	**-435**	**-710**	**-670**
(G)=(C+F) Exchequer Balance	**-1,015**	**-2,050**	**-2,225**	**-2,345**	**-1,850**	**-365**
Walk from Exchequer to GG balances<	-510	840	1,870	2,670	3,650	3,675
GEN GOVT BALANCE (GGB)	**-1,525**	**-1,210**	**-355**	**325**	**1,800**	**3,310**
GGB % of GDP	**-0.6**	**-0.4**	**-0.1**	**0.1**	**0.6**	**1.0**
Output Gap % of potential GDP	1.2	1.4	0.8	0.5	0.3	0.0
Structural Balance % potential GDP	-1.4	-1.2	-0.5	-0.2	0.4	1.0
Memo: Government Expenditure Ceiling	**55,985**	**58,070**	**60,010**	**62,140**	**64,195**	**66,245**

Source: Department of Finance

Figures are rounded to the nearest €5 million and may affect totals.

Note: Fiscal forecasts are presented on an *ex-post* basis & assume distribution of estimated fiscal space in-line with the 2016 *Programme for a Partnership Government,* as set out in the 2016 Summer Economic Statement.

Appropriations-in-Aid.

< See Annex 1, Table A1 for explanation of net differences between EBR and GGB

3.6 Structural Budget Balance and Medium-Term Objective

Since correcting the excessive deficit in 2015 (with formal abrogation of the excessive deficit procedure in 2016), the fiscal anchor has been the so-called Medium Term Budgetary Objective (MTO) of a balanced budget in 2018. This is defined as a structural deficit of 0.5 per cent of GDP. As has been previously indicated these calculations are highly sensitive and will change on foot of the figures for actual GDP growth, the actual deficit and decisions on how any fiscal space is allocated. Furthermore, estimates of the business cycle generated using the commonly agreed methodology are not always suitable in an Irish context, given *inter alia* the openness of the labour market.

Table 14: Cyclical developments

% of GDP (unless stated)	2016	2017	2018	2019	2020	2021
1. Real GDP growth	5.2	4.3	3.7	3.1	2.7	2.5
2. General government balance	-0.6	-0.4	-0.1	0.1	0.6	1.0
3. Interest expenditure	2.3	2.1	2.0	1.9	1.7	1.6
4. One-off / temporary measures	0.2	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)	**5.1**	**4.2**	**4.3**	**3.5**	**3.0**	**2.8**
Contributions to potential growth						
- labour	1.6	1.8	1.7	1.0	0.5	0.4
- capital	1.2	0.2	0.4	0.3	0.4	0.3
- total factor productivity	2.1	2.2	2.1	2.1	2.1	2.1
6. Output Gap	**1.2**	**1.4**	**0.8**	**0.5**	**0.3**	**0.0**
7. Cyclical budgetary component	0.6	0.7	0.4	0.3	0.2	0.0
8. Structural budget balance [2-4-7]	-1.4	-1.2	-0.5	-0.2	0.4	1.0
9. Structural primary balance [2+3-4-7]	0.9	1.0	1.5	1.7	2.1	2.6

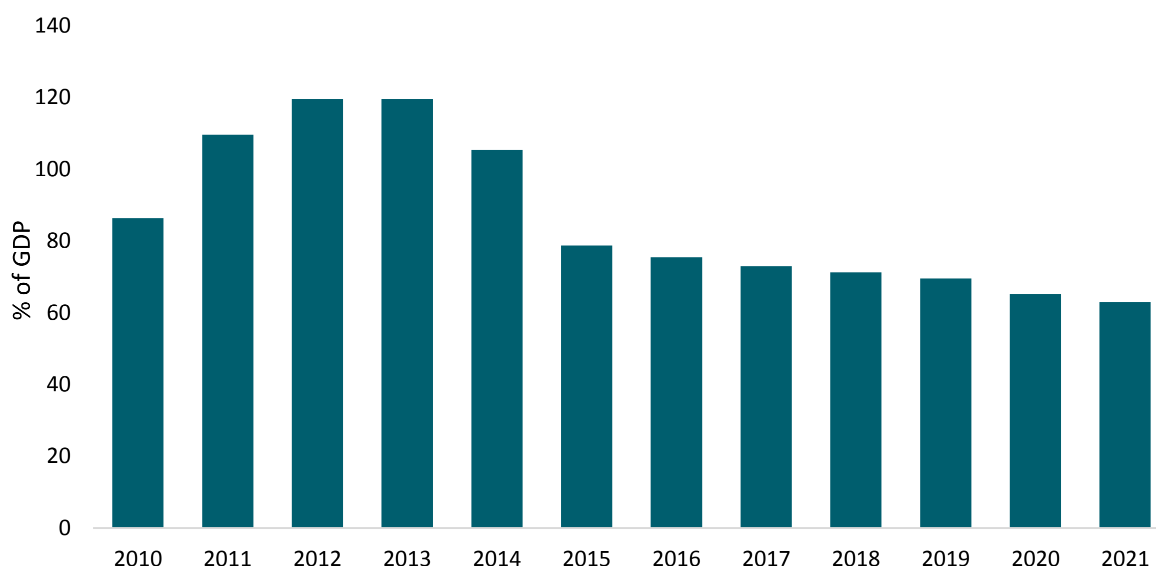
Source: Department of Finance. Estimates of output gap based on harmonised methodology and assumed mechanical closure of output gap from 2019 onwards. Cyclical budgetary component based on estimated elasticity of 0.53 (EC-OECD 2015).

3.7 Debt Developments

Debt position and outlook

Ireland's year-end general government debt-to-GDP ratio has been steadily falling since its peak in 2012/2013 at just under 120 per cent. At end-2016 it stood at 75.4 per cent, a decline of 44 percentage points since its peak. Strong nominal economic growth and declining public sector deficits have been the main factors behind the sharp fall in the debt ratio as well as the exceptional nominal output growth recorded in 2015 (32 per cent). As a result Ireland is on track to meet the 60 per cent GDP ratio as mandated by the Stability and Growth Pact early in the next decade. In *Budget 2017*, the Minister for Finance announced a revised debt-to-GDP target of 45 per cent, that should be achieved in the mid-to late 2020s. While helping to provide additional fiscal 'shock absorption' capacity, this target also addresses concerns that as a small open economy we are vulnerable to instability in the real economy and financial sector. This will complement the contingency or 'rainy day' fund to be established following the achievement of a balanced budget in 2018 which will help provide a further counter-cyclical buffer.

Figure 5: General Government Debt

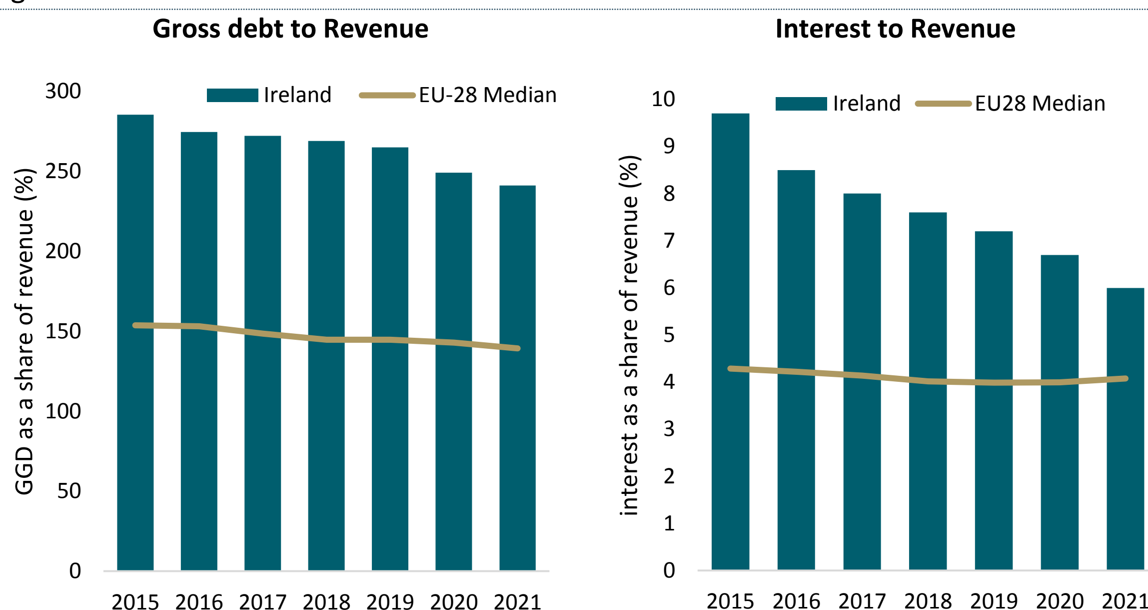


Source: CSO, Department of Finance

The end-2016 ratio is 0.6 percentage points of GDP lower than projected in *Budget 2017*, due to factors including higher nominal GDP and lower year-end floating rate bond balances. In nominal terms there was a reduction of some €0.8 billion in the debt stock, from €201.4 billion in 2015 to €200.6 billion in 2016.

The relevance of debt to GDP as a means to assess Ireland's debt sustainability was called into question following the unexpected upwards revision of 32 per cent in 2015 of Ireland's GDP figure. This is reflective of the small and open nature of the Irish economy and, relatedly, the increased impact of globalisation. Further, it also reflects how changes to international statistical classifications can have a disproportionate impact on measures of economic activity in Ireland. In light of these issues Budget 2017 proposed alternate means of assessing debt sustainability such as Interest to Revenue and Gross Debt to Revenue. These measures are less prone to distortion from the effects of globalisation as they relate more so to domestic indicators.

Figure 6: Alternative debt metrics



Source: CSO, Department of Finance, IMF

Table 15: General government debt developments 2016-2021

	2016	2017	2018	2019	2020	2021
Gross debt (*€ billions)*	200.6	204.6	209.8	214.1	209.7	210.9
% of GDP						
Gross debt	75.4	72.9	71.2	69.5	65.2	62.9
Change in gross debt (=1+2+3)	-3.3	-2.5	-1.7	-1.7	-4.3	-2.3
Contributions to change in gross debt ratio:						
1. General Government Deficit	0.6	0.4	0.1	-0.1	-0.6	-1.0
2. Stock-flow adjustment	-0.9	1.0	1.6	1.5	-0.8	1.3
3. Nominal GDP cont. to Δ in debt ratio	-3.0	-4.0	-3.5	-3.1	-2.9	-2.6
Composition of GGB						
4. General Government Balance	-0.6	-0.4	-0.1	0.1	0.6	1.0
5. Interest expenditure	-2.3	-2.1	-2.0	-1.9	-1.7	-1.6
6. Primary balance (= 4 - 5)	1.8	1.7	1.9	2.0	2.3	2.6
Composition of stock-flow adjustment						
7. Change in liquid assets	-0.8	0.3	0.9	0.5	-2.2	0.0
8. Interest adjustments	0.2	0.1	0.1	0.1	0.1	0.0
9. Equity transactions	-0.9	-0.4	-0.2	-0.3	-0.2	-0.2
10. Accrual adjustments	0.1	0.2	0.2	0.2	0.2	0.1
11. Impact of ISIF	0.1	0.1	0.1	0.1	0.1	0.1
12. Impact of IBRC	0.0	0.0	0.0	0.0	0.0	0.0
13. Collateral held	-0.1	0.0	0.0	0.0	0.0	0.0
14. Other	0.4	0.7	0.6	1.0	1.2	1.3
Memorandum item:						
Average interest rate (per cent)	3.1	3.0	2.9	2.8	2.6	2.5

Source: 2016 CSO, 2017-2021 Department of Finance

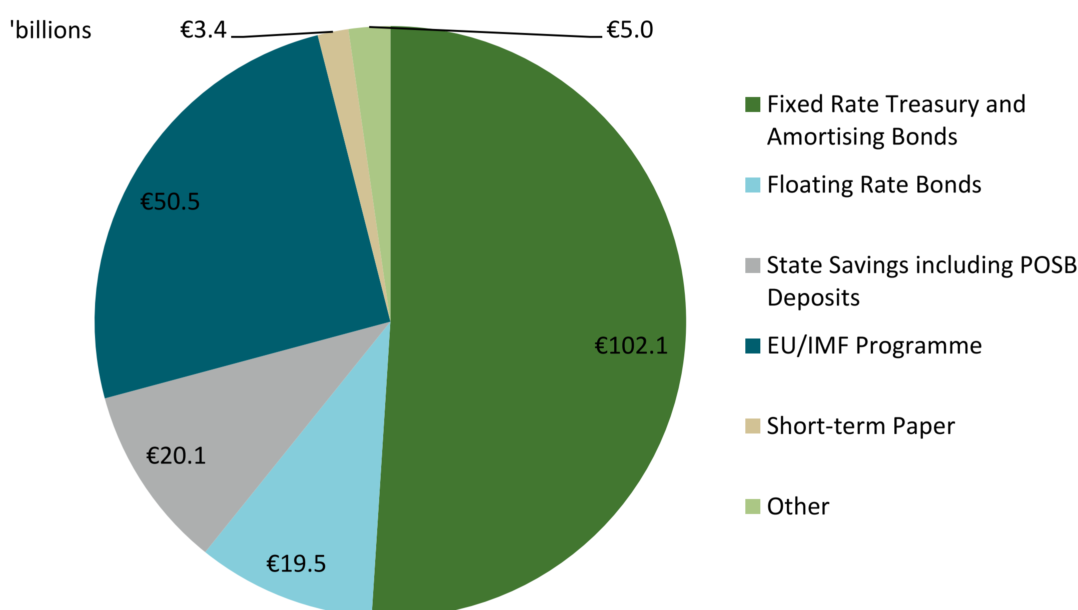
Looking ahead, the debt ratio is expected to continue on a downward path. Nominal GDP growth is forecast to be above the average interest rate on Government debt again in 2017, while the State is expected to generate a primary surplus of 1.7 per cent of GDP this year. As a result, Government debt is forecast to be €204.6 billion or 72.9 per cent of GDP by end-2017, well below the projected euro area average.

Debt composition

Figure 7 shows the compositional breakdown of the stock of government debt at end-2016. There is little change in the overall composition from end-2015.

Some 61 per cent was in the form of government bonds at end-2016, with 10 per cent of the total debt in the form of floating rate bonds issued in 2013 to replace the IBRC promissory notes held by the Central Bank of Ireland. The outstanding balance of these bonds declined by €3 billion in 2016, to €19.5 billion at year-end and has since been reduced by a further €1 billion.

Figure 7: Composition of general government debt at end 2016



Source: Department of Finance, NTMA (National Debt data provider) and CSO. Rounding may affect totals.
Note: The "other" category includes consolidation adjustments in respect of debt, including Government bonds, held by General Government entities.

Funding sourced under the EU/IMF Programme – consisting of loans from the IMF; the European Financial Stabilisation Mechanism (EFSM); the European Financial Stability Facility (EFSF); as well as bilateral loans from the UK, Sweden and Denmark – comprised a further 25 per cent of the debt stock at end-2016. State savings, short term paper and other debt make up the balance of the circa €200 billion outstanding.

Credit ratings

There were some positive developments for Ireland's credit rating during 2016. In February 2016, Fitch upgraded Ireland's long-term sovereign credit rating to A with a stable outlook

while in May Moody's upgraded the long-term rating to A3 and maintained its positive outlook.

Ireland has now regained its 'A' category credit rating with all of the rating agencies. The current ratings with the three main rating agencies are outlined in table 16 below.

Table 16: Irish Sovereign Credit Ratings*

Rating Agency	Long-term rating	Short-term rating	Outlook
Standard & Poor's	A+	A-1	Stable
Moody's	A3	P-2	Positive
Fitch Ratings	A	F1	Stable

*As at mid-March 2017

Funding Developments

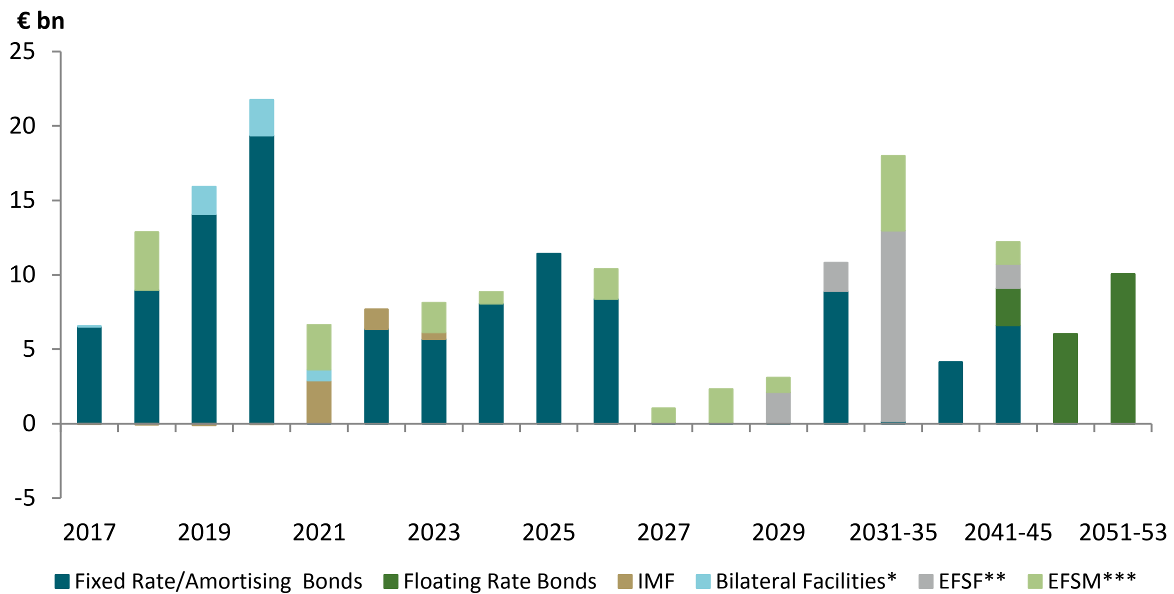
The NTMA announced in December 2016 that it planned to issue €9 - €13 billion of long-term Government bonds over the course of 2017. In the first quarter of the year, €6.5 billion was raised at a weighted average yield of 1.45 per cent and with a weighted average maturity of close to 17 years. The issue, in January 2017, of a new 20-year benchmark bond via syndication raised €4 billion at a yield of 1.73 per cent. There were also two separate dual bond auctions in the first quarter of the year, with the sale of bonds maturing in 2022, 2026 and 2045 raising an aggregate total of €2.5 billion.

While still low in absolute terms, sovereign bond yields generally, including for Ireland, have increased since Budget 2017; the rise primarily reflecting increasing inflation expectations. The yield on the benchmark Irish Government bond maturing in 2026 for example has increased from a low of just over 0.3 per cent at end-September 2016 to the present level of circa 1 per cent.

The NTMA expects to hold cash and liquid assets of approximately €9-10 billion at end-2017. The next bond maturity is in October 2017; the current balance outstanding is €6.2 billion. The 2018 bond maturity is also in October; the current outstanding balance is just under €9 billion.

Looking ahead to the medium-term, there are significant bond redemptions to fund, particularly in 2019 and 2020 when four separate Government bonds mature. The current aggregate outstanding balance on these bonds is just over €33 billion. Bilateral loans from the UK, Denmark and Sweden also begin to mature in 2019. The next IMF maturity is in 2021.

Figure 8: Ireland's long-term Marketable & Official Debt



Figures are unaudited figures and include the effect of currency hedging transactions, where applicable.
**Bilateral loans were provided from the United Kingdom, Sweden and Denmark.*
***EFSF loans reflect the maturity extensions agreed in June 2013.*
****EFSM loans are also subject to a seven year extension. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027. However, the revised maturity dates of individual EFSM loans will only be determined as they approach their original maturity dates. The graph reflects both original and revised maturity dates of individual EFSM loans.*

Chapter 4
Risk and Sensitivity Analysis

4.1 Summary

The degree of uncertainty remains high. While the central scenario is for reasonably strong growth in the short-term, a variety of factors – both domestic and external – could move the economy off this baseline trajectory, with adverse implications for the public finances and for domestic living standards. While there is some upside potential, the balance of risk is quite clearly firmly tilted to the downside at the current juncture.

The National Risk Assessment (NRA) is an annual whole-of-government horizon scanning exercise in which broader risks to Ireland's well-being are assessed. It provides a comprehensive assessment of risks from an economic, social, environmental, geo-political and technological perspective. The NRA finds that the main risks in Ireland at the current juncture pertain to Brexit/uncertainty over the UK's relationship with the EU, weak global economic growth, infrastructure deficits, international terrorism and expenditure pressures[4].

4.2 Risks to the Economic Forecast

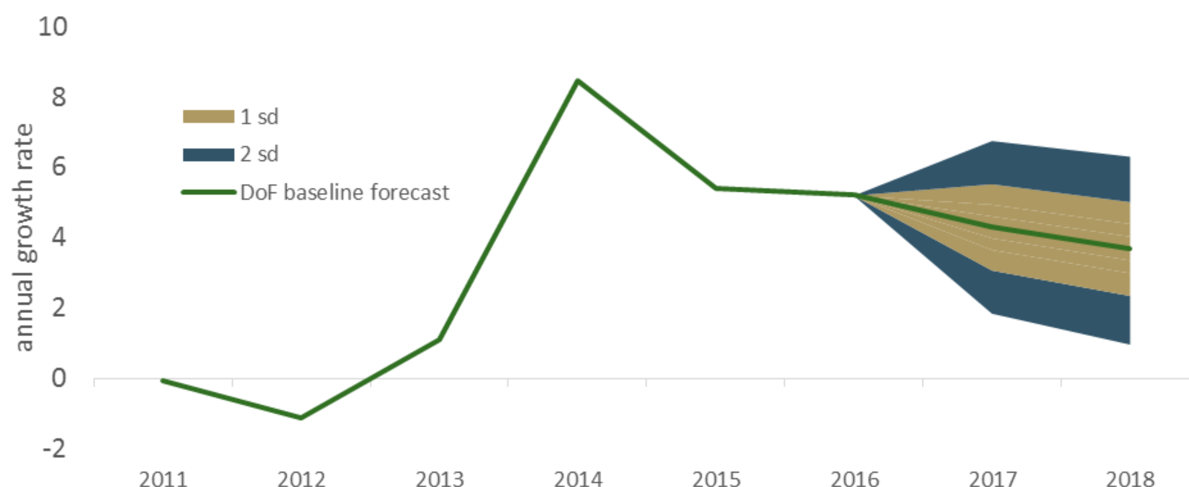
The baseline scenario is for GDP growth of 4.3 per cent this year, with annual average growth of 3 per cent thereafter (in line with past and best international practice, medium term forecasts assume a closure of the output gap with growth in line with potential thereafter).

The projections are, as always, contingent forecasts; they are based upon assumptions for key inputs such as trading partner growth, the evolution of commodity prices, etc. and assumptions for how the economy responds to these factors. The purpose of this chapter is to set out the main identifiable risks which, if they were to materialise, could alter the economic and fiscal trajectory in Ireland over the short- and medium-term. Quantitative estimates of the impact of particular shocks on the Irish economy and on the public finances are also provided.

Despite the recent strong performance of the Irish economy, the balance of risk to the baseline forecast remains tilted to the downside. This is mainly a reflection of heightened international uncertainty, and it would appear that external risks have intensified since the Budget last October. This uncertainty is reflected in the fan chart set out in figure 9 below.

[4] The Department of Finance inputs into this national exercise in respect of economic risks.

Figure 9. Confidence bands for real GDP growth, 2017-2018



Source: Department of Finance Calculations, SD=standard deviation
Note: The growth rate for 2015 is based on growth in underlying domestic demand

4.3 Risks to the Economic and Fiscal Forecasts

A risk assessment matrix – which lists the main identifiable economic risks as well as an assessment of their relative likelihood and impact – is set out in table 17. The principal downside risks in the short-term relate to trading partner growth and the potential for further appreciation of the euro-sterling exchange during the upcoming Brexit negotiations. Over the medium term, key risks include the concentrated nature of Ireland's industrial base and competitiveness developments.

Equally a fiscal assessment matrix is set out in table 18 containing the main identifiable risks impacting upon the budgetary position. The key downside, domestic-facing risks include those relating to expenditure expectations, tax revenue forecasts and EU budget contributions which is based on *inter alia* relative GNI developments. On the external side risks include bond market developments and changes to the macro-economic drivers which anchor the tax forecasts.

Table 17: Macro-economic Risk Assessment Matrix

Risk	*Likelihood*	*Impact and main transmission channel*
External		
External demand shock	**Medium**	**High** – while growth is picking up in many advanced economies, it remains fragile and subject to downside risk while imbalances remain a feature of some Emerging Market Economies.
Geopolitical factors	**Medium**	**High** – geopolitical factors have the potential to disrupt growth in key regions and generate headwinds for output and employment in Ireland.
Trade protectionism	**Medium**	**High** – the Irish economy is deeply embedded in the global economy and has benefitted enormously from the globalisation process, so any reversal would have a detrimental impact.
Policy uncertainty in the US	**Medium**	**Medium** – there is, at present, no clarity regarding the likely policy stance in the US, including in relation to taxation policy.
Exchange rate re-alignment	**High**	**High** – further appreciation of the euro-sterling exchange rate cannot be ruled out, which would pose significant challenges for Irish exports to the UK (especially for more 'traditional' sectors).
Rapid rebound in oil prices	**Low**	**Low** – as an energy importer, higher oil prices would reduce consumer spending power and lower corporate profitability in Ireland.
Global financial market conditions	**Medium**	**Medium** – the interest rate cycle has turned in many regions and the 'normalisation' process for the global financial system may not be smooth, with implications for the cost of capital.
"Hard-Brexit"	**High**	**High** – post-Brexit, a WTO-type arrangement between the EU and UK would have a detrimental impact on Irish-UK trade.
Domestic		
Concentrated industrial base	**Low**	**High** – Ireland's industrial base is highly concentrated in a small number of high-tech sectors, with the result that output and employment are exposed to firm- and sector-specific shocks.
Loss of competitiveness	**Medium**	**High** – as a small and open economy, Ireland's business model is very much geared towards export-led growth, which, in turn, is sensitive to the evolution of cost competitiveness.
Private sector deleveraging	**Low**	**Medium** – notwithstanding recent improvements, levels of household and NFC debt remain high in Ireland, which may prompt stronger-than-assumed deleveraging over the medium term.
Housing supply pressures	**High**	**Medium** – supply constraints in the housing sector can adversely impact on competitiveness by *inter alia* restricting the mobility of labour.

Table 18: Fiscal Risk Assessment Matrix

Risk	*Likelihood*	*Impact and main transmission channel*
Domestic		
Budgetary pressures	**Medium**	**High** – potential downside risk arising from excessive public expectations regarding budgetary policy.
Concentration of corporate tax receipts	**High**	**Medium** – corporation tax revenue has increased significantly in recent years and the 'Top 10' payers contribute just under 40 per cent of this tax, leaving this component of the public finances exposed to idiosyncratic shocks creating a concentration risk.
Financial sector developments	**Low**	**Medium** – risks exist in relation to the non, or lower- than-expected payment of bank dividends to their shareholders (including the State). These are a function of ongoing business performance & outlook, regulatory requirements and are subject to bank board and supervisory control over which the State has no control.
Receipts from resolution of financial sector crisis	**Low**	**Medium** – budgetary projections prudently exclude any assumptions around the State's disposal of shareholding in a number of financial institutions. Also receipts from the termination of NAMA or wind-up of the Credit Union Restructuring Board are excluded. This is due to the difficulty in projecting the timing, prevailing market conditions or the final realised surplus funds around these. All of these represent a likely upside risk to the baseline scenario
EU budget contribution	**Medium**	**Medium** – stronger-than-expected growth in national income (or statistical changes) can increase the Irish contribution to the EU budget, while over the medium term there is no clarity on how the UK's exit will impact upon the EU Budget.
Contingent liabilities	**Low**	**Medium** – contingent liabilities continue to decline although the public finances would be adversely affected in the event these liabilities were 'called' (table 20 provides more detail).
External		
Bond market conditions	**Low**	**Medium** – government financing has benefitted from supportive bond market conditions. Any change this environment could lead to an unanticipated rise in debt interest. However, as the bulk of outstanding public debt is at fixed rates, this helps to mitigate this risk.
Changes to tax 'drivers'	**Medium**	**Medium** – macroeconomic 'drivers' are used to forecast taxation receipts. As an economy evolves in response to emerging developments, changing the assumptions which underpin the tax forecasts, these point-in-time fiscal estimates can vary.
EU-level climate change developments	**High**	**High** – Ireland is obliged to reduce greenhouse gas emissions by 20 per cent on 2005 levels by 2020. EPA projections indicate that will not be met without the purchase of additional emissions allowances, which is likely to prove costly.

Any shock to the economy would clearly have implications for the evolution of the public finances. However, the magnitude of this effect is sensitive to the type of shock and channel through which it were to originate. A number of stylised shocks are presented below outlining how key macro-fiscal aggregates might evolve in the event of a deviation from the baseline economic forecasts. The baseline is the path of the economy absent the outlined shock.

Table 19: Sensitivity analysis

		2017	2018	2019	2020	2021
		1 per cent decrease in world output				
GDP*	% change compared to base	-0.2	-0.5	-0.7	-0.9	-1.0
Exports	% change compared to base	-0.4	-0.8	-1.1	-1.3	-1.4
Wages	% change compared to base	0.0	-0.1	-0.2	-0.3	-0.5
Unemployment Rate	pp change compared to base	0.1	0.2	0.4	0.5	0.5
Deficit-GDP Ratio	pp change compared to base	0.0	-0.1	-0.1	-0.2	-0.2
Debt-GDP Ratio	pp change compared to base	0.1	0.5	0.8	1.2	1.6
		1 percentage point interest rate increase				
GDP*	% change compared to base	-0.6	-1.3	-1.7	-1.8	-1.8
Exports	% change compared to base	-0.9	-2.0	-2.5	-2.6	-2.6
Wages	% change compared to base	-0.1	-0.3	-0.5	-0.6	-0.8
Unemployment Rate	pp change compared to base	0.1	0.3	0.6	0.7	0.7
Deficit-GDP Ratio	pp change compared to base	-0.1	-0.2	-0.3	-0.3	-0.3
Debt-GDP Ratio	pp change compared to base	0.3	1.0	1.5	2.0	2.3

Source: Economic and Social Research Institute, based on COSMO model estimates.
*Using total gross value added as a proxy.

In terms of risks from the external environment, a permanent reduction in the level of global output would dampen Irish growth with impacts transmitted primarily through the trade channel. Overall, the level of output would be 1 per cent lower after 5 years. This, in turn, would worsen the deficit path with the effect reaching 0.2 of a percentage point after five years.

The potential impact of a change in policy interest rates is also presented. The shock is simulated as a one percentage point increase over 5 years in the main ECB rate and leads to lower world demand for Irish exports, especially driven by output in the euro area being below the baseline level, and a strengthening of the euro relative to the baseline which has a negative competitiveness effect on Ireland. This scenario results in the level of Irish output being 1.8 per cent below baseline and unemployment being 0.7 percentage points higher than the baseline forecast after 5 years.

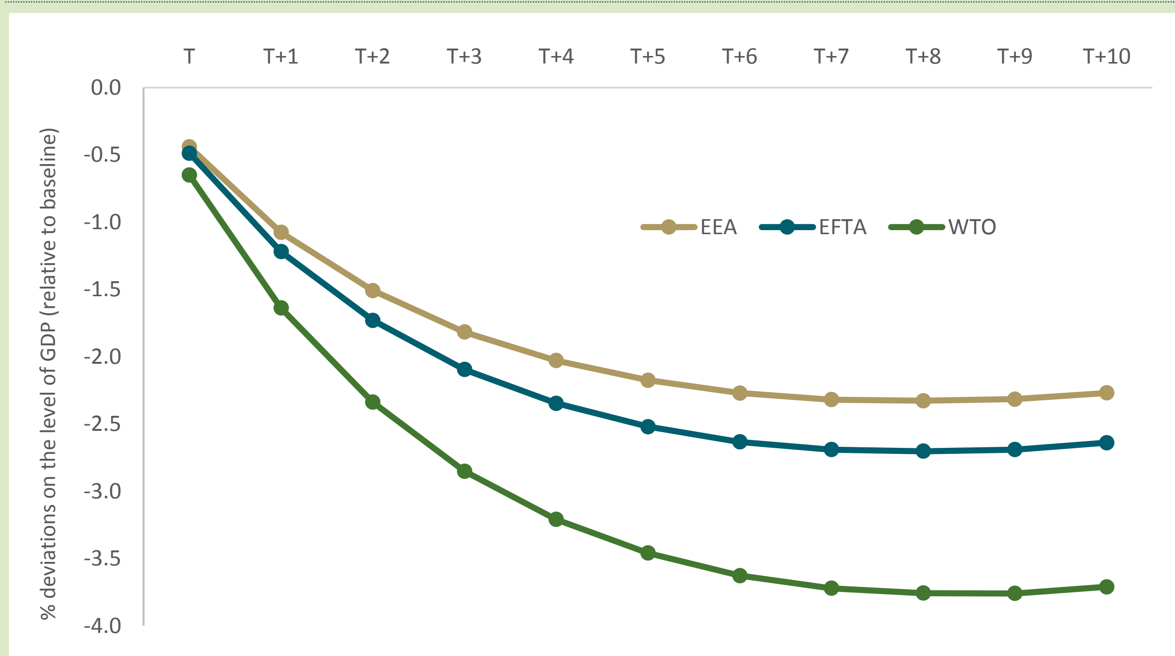
Box 1: Impact of Brexit on Irish output

The UK's departure from the European Union will likely have a negative impact on economic developments in Ireland. In order to assess the likely impact, joint research was conducted and published by the Department of Finance and the ESRI.

The modelling work captures the direct impacts from the UK as well as the indirect impacts on Ireland stemming from the international consequences of a UK exit. Given the uncertainty over the final EU-UK relationship, three scenarios were considered: an EEA (Norwegian) model, a Swiss EFTA model, and a WTO model representing a hard Brexit. In view of Prime Minister May's speech on 17 January, the final outcome is likely to be a bespoke trade agreement outside the single market.

The paper highlights that the impact on the Irish economy will be severe in the medium to long term. As shown in the figure below, ten years after a UK exit, the level of Irish output is projected to be almost 4 percent (i.e. WTO scenario) below a baseline of what it otherwise would have been in a no-Brexit scenario. The level of employment would be 2 percentage points below baseline after a decade while, in the absence of a policy response, the debt ratio would be around 10 percentage points higher after a decade.

Impact of Brexit on the level of real output in Ireland across the three scenarios



Source: ESRI and Department of Finance analysis

Contingent and future liabilities

A contingent liability arises in a situation where past or current actions or events create the risk of a call on the Exchequer funds in the future. The 2015 Appropriation Accounts for year ended 31 December 2015[5] were published in September 2016. While the amounts are not all quantifiable, notes on the contingent liabilities are listed in the Appropriation Accounts of the various votes.

The Other[6] category in table 20 relates to entities such as CIE, Insurance Acts, the Housing Finance Agency and the Credit Guarantee Act. Additional details on most of these can be accessed in the 2015 Finance Accounts (Statement 1.11).

Table 20: Contingent Liabilities (at end-year)

% of GDP	2014	2015	2016
Public guarantees	13.0	4.9	2.0
of which linked to the financial sector			
Eligible Liabilities Guarantee	5.3	1.3	0.5
Exceptional Liquidity Assistance	0.0	0.0	0.0
National Asset Management Agency	7.0	3.2	1.0
Other	0.7	0.5	0.5

Source: Department of Finance, CSO

The National Asset Management Agency (NAMA) recently announced that it has redeemed another €1.1 billion of Senior debt, its first redemption in 2017. This brings to €28.7 billion the amount of NAMA Senior Debt that has been redeemed to date, or 95 per cent of the €30.2 billion senior debt originally issued, leaving €1.5 billion outstanding.

Other liabilities

The State has certain other long-term future payment liabilities which are contractually conditional on the continued availability to the State of public infrastructure provided under public private partnerships (PPPs). PPPs involve contractual arrangements between the public and private sectors for the purpose of delivering infrastructure or services which are traditionally provided by public sector procurement. Under PPPs, infrastructure is delivered by a private sector firm and the asset is made available for public use, paid for by the State by way of an annual unitary payment over the period of the contract (typically 20 – 25 years). At the end of the contract period, the asset comes into State ownership.

The Department of Public Expenditure and Reform publishes information on the PPP programmes including the estimated level of outstanding future financial commitments in nominal terms arising under existing PPP contracts[7]. The calculation of the contractual capital value of all Irish PPPs as at 31st December 2016 is €0.5 billion on the government balance sheet, and €4.3 billion off-balance sheet amounting to a total of €4.8 billion.

[5] http://audgen.gov.ie/documents/annualreports/2015/appacc/en/appaccs2015.pdf

[6] http://www.finance.gov.ie/what-we-do/public-finances/annual-finance-accounts/finance-accounts/finance-accounts

[7] www.ppp.gov.ie

The Department of Public Expenditure and Reform is preparing an actuarial valuation of the accrued to date pension obligations for current and former public service employees. This exercise is being undertaken by the Department on behalf of the Central Statistics Office (CSO). This actuarial review commenced in 2016 using data as at 31st December 2015 and will be finalised over 2017[8].

The separate liability for the Old Age State Pension is assessed as part of the actuarial reviews of the Social Insurance Fund (SIF) which are required to be carried out every five years. The Department of Social Protection is responsible for these actuarial assessments. A further actuarial review of the SIF is currently underway and will be finalised over 2017.

On foot of EU Regulation (EU) 549/2013 the CSO will be required to report on the gross liabilities of Irish pension schemes as part of the National Accounts.

Separately, as a member of various international organisations, Ireland has entered into commitments to provide capital. This can take the form of paid-in capital or callable capital. Paid-in capital is funding which has already been made to the organisation and callable capital is funding which may be called upon by the organisation if needed. The most significant of these contingent or potential liabilities is Ireland's callable capital contribution of approximately €9.87 billion to the European Stability Mechanism.

[8] http://www.per.gov.ie/en/public-service-pensions-accrued-liability/

Box 2: NAMA Senior Debt – Contingent Liability almost eliminated

The National Asset Management Agency (NAMA) was established in late 2009 to remove problem property and development land loans from participating banks' balance sheets.

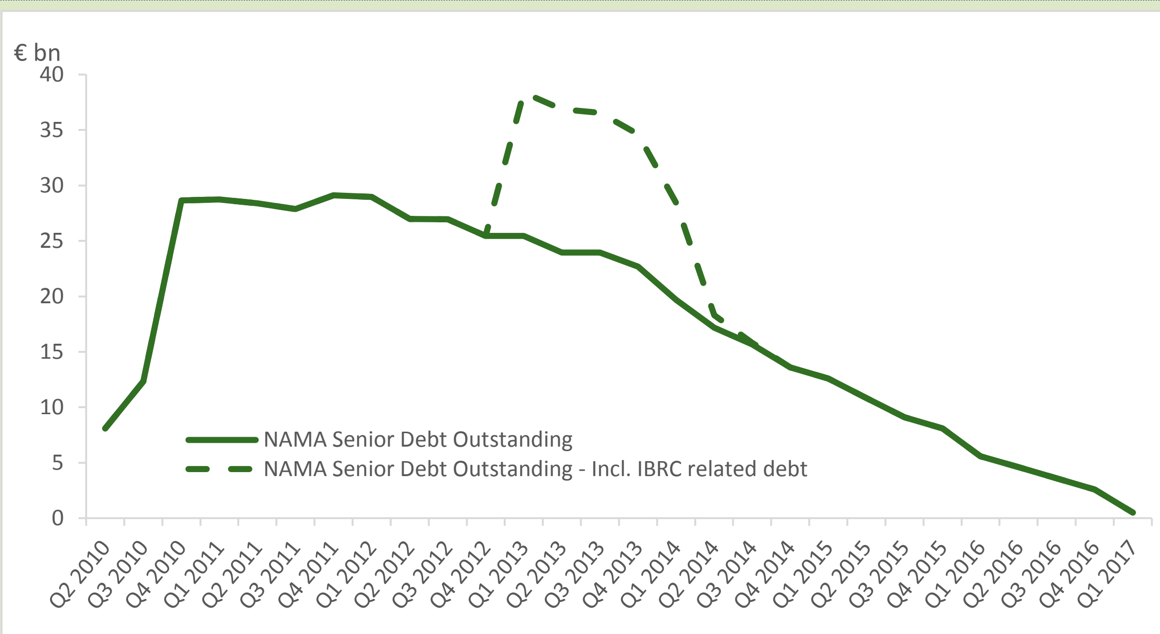
NAMA acquired loans with a par value of €74bn for €31.8bn, mainly funded by €30.2bn government guaranteed NAMA senior debt, a significant contingent liability for the State, and €1.6bn of subordinated debt.

As part of the liquidation of IBRC (Irish Bank Resolution Corporation), NAMA was directed to acquire from the Central Bank a loan facility deed and floating charge over certain IBRC assets for €12.9 billion of government guaranteed NAMA senior debt. This increased the State's NAMA related-contingent liability to a peak level of €38.4bn. By 22 October 2014, the €12.9bn of NAMA senior debt had been redeemed with IBRC liquidation proceeds.

Through intensive asset management and sales, NAMA has generated sufficient cash to redeem 98 per cent of its senior debt, effectively eliminating the State's contingent liability which now stands at just €500m, or 2 per cent of the €30.2bn originally issued.

NAMA expects to fully repay its remaining senior debt before end-2017, completely eliminating the State's contingent liability three years ahead of schedule.

NAMA Senior Debt – The State's Contingent Liability



Source: NAMA and Department of Finance

Chapter 5
Quality of the Public Finances

5.1 Summary

The 2016 Stability Programme Update outlined a number of reforms to the budgetary process introduced in recent years to enhance the quality of public finances and ensure that public monies are spent in an effective and correct manner. These have included the procedures set out in the Public Spending Code which apply whenever public money is spent or invested, augmentation of the Irish Government Economic and Evaluation Service (IGEES) tasked with carrying out evaluations and value for money reviews and the development of the performance budgeting initiative which strengthens the link between the resources allocated to Departments and what is delivered. These reforms are being reviewed on an ongoing basis and revised and augmented as necessary to maximise their effectiveness. This includes the publication of a Mid-Year Expenditure Report (MYER) as part of the whole of year budgetary cycle; and the proposed publication of a Performance Report in Spring 2017 which will provide quantitative information about public services delivered in 2016.

5.2 Spending Review

In recognition of competing expenditure priorities and the need to shift emphasis away from the incremental nature of the annual Estimates process, a decision was made to undertake a Spending Review in 2017 to assess the effectiveness of programmes in light of, for example, changes in Government priorities as well as proposals for additional spending under existing expenditure programmes. The review differs from the 'comprehensive' reviews of expenditures carried out in previous years, moving to a 'rolling' system of selective reviews. A significant proportion of current Departmental expenditure will be examined this year, with the remainder to be covered in 2018 and 2019.

5.3 Other reforms

In recent years, additional reforms have been implemented to Ireland's budgetary framework. These are intended to permit a more open budgetary process, allow stronger dialogue with the Dáil and facilitate the continued central role of Government in the development of budgetary proposals, consistent with the maintenance of stable public finances.

The annual budget process now starts with publication of the Spring/Summer Economic Statement setting out the broad parameters for macroeconomic growth and the fiscal outlook and constraints over the medium term. This is followed by a National Economic Dialogue in June/July to facilitate an open and inclusive exchange on the competing economic and social priorities facing Government.

Further developments in the reformed Budget process include the Minister for Public Expenditure & Reform publishing a Mid-Year Expenditure Report. This presents the baseline for Departmental expenditure and provides the starting point for examination of budgetary priorities by the Oireachtas. In addition, the Department of Finance of Tax Strategy Papers

are circulated to the relevant sectoral Oireachtas Committees. These set out existing measures across all tax heads, contain issues for discussion and costed options for tax changes, taking Programme for Government commitments into account. Finally, last year the Budget Oversight Committee was established and work is underway this year to establish a Parliamentary Budget Office.

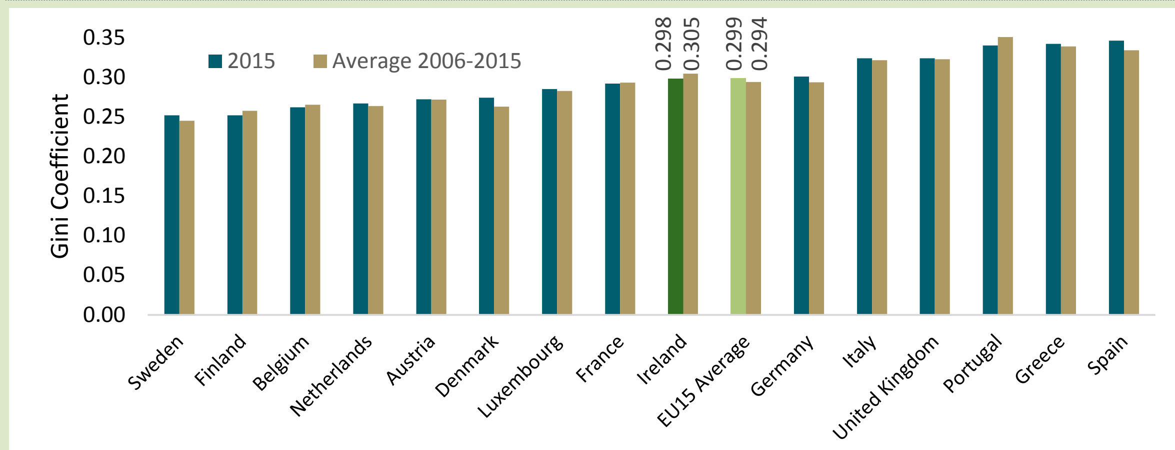
These further reforms will further improve the formulation, oversight and discussion of fiscal policy in Ireland and help enhance the quality of the public finances. These reform measures also go towards addressing some of the issues highlighted by the OECD in its report on Irish parliamentary budgetary oversight from November 2015.

The European Commission has, following lengthy consultation with Member States, announced changes in how it will assess compliance with the obligations of the Stability and Growth Pact. It will place greater emphasis in the assessment on the expenditure benchmark as it is more predictable and less affected by factors that lie outside government control. The European Commission is now going to take the impact of one-off measures systematically into account in the overall assessment. This will ensure that the assessment of the expenditure benchmark is more consistent with the calculation of the structural balance, which has always excluded one-offs. In addition, the European Commission has also decided to set the GDP deflator for the coming year in its Spring Economic Forecasts. This welcome change from the previous practice of using the average of the Spring and Autumn Economic Forecasts, with the latter being published after Member States had done their budgets, will assist with budgetary planning.

Box 3: Income Distribution in Ireland

The Gini coefficient is a measure of the distribution of income where 0 represents a situation where all households have an equal income and 1 indicates that one household has all national income. The Gini coefficients presented here are on the basis of equivalised household disposable income.[9]

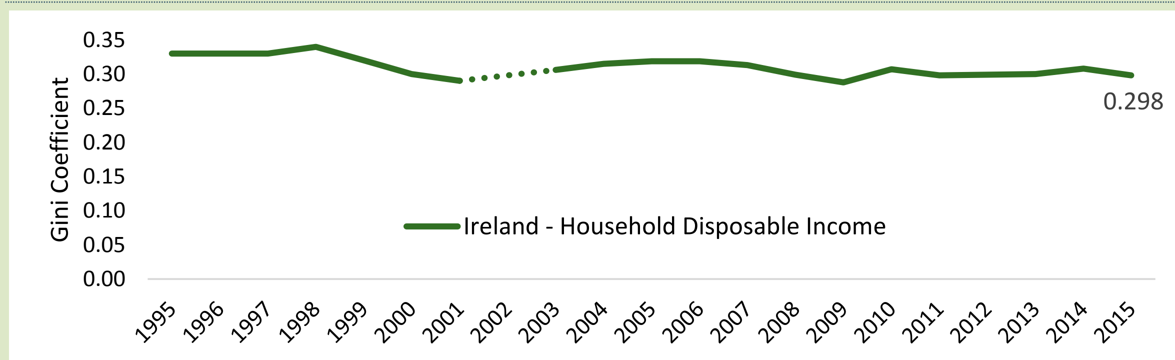
Gini coefficient of equivalised income – EU15 Countries



Source: Eurostat [ilc_di12]

Using Eurostat data, it is possible to compare Ireland's Gini coefficient to that of other European countries. The most recent data (2015) show Ireland's Gini coefficient to be very close to the EU15 (unweighted) average, and in the middle third of the EU15 countries. A similar story holds when the Gini 10-year average is considered.

Gini coefficient of equivalised income – Ireland



Source: Eurostat [ilc_di12]

Looking at the full period for which data are available, it is possible to observe the development of the Gini coefficient in Ireland since 1995. As is evident, the Gini coefficient declined in the second half of the 1990s and has remained relatively stable since then.

[9] Equivalisation adjusts household income on the basis of household size and composition. Eurostat uses a scale of 1 for the first adult, 0.5 for subsequent adults and 0.3 for children (aged under 14). In this way the income of all households is expressed in terms of a single adult household. For instance, a single adult household with an actual income of 100 (100 ÷ 1 = 100) is considered to have the same equivalised income as a two adult household with an income of 150 (150 ÷ {1+0.5} =100).

Chapter 6
Long-Term Sustainability of the Public Finances

6.1 Summary

While Ireland's population is currently one of the youngest in the EU, unfavourable demographic trends in the coming decades will have significant implications for the economy and the evolution of the public finances. Foremost amongst these is a rise in age-related public expenditure as a larger share of the population moves into age brackets requiring such spending. Given the budgetary implications of likely demographic shifts, a range of reform measures have been implemented in recent years in order to mitigate the impact on the public finances.

6.2 Background

Ireland's demographic profile is set to change significantly over the coming decades with the share of the population aged 65 years and over expected to double between 2013 and 2050. Alongside this, the share of the working age population is expected to fall from approximately 60 per cent in 2013 to 50 per cent in 2050 contributing to a significant rise in the old-age dependency ratio. Whereas in 2013 there were three and a half people employed for every retired (inactive) person over 65, this figure is projected to fall to just over one and a half by 2050.

Given the importance of population ageing (in Ireland and elsewhere in the EU), the EU Economic Policy Committee (EPC) undertakes an assessment every three years reviewing the impact of long term demographic trends on the public finances of the Member States. The results below relate to the Ageing Report 2015 (AR2015[10]) and are based on long-term demographic projections produced unilaterally by Eurostat (EUROPOP2013). The Report outlines age-related expenditures covering pensions, health care, long-term care, education, and unemployment benefits. All components with the exception of the pensions element were produced unilaterally on a harmonised basis by the Commission.

These projections are used in the context of the European Semester to identify policy challenges in the area of age-related spending (as the quantitative underpinning for Country Specific Recommendations), for annual assessments of the sustainability of the public finances (to update the long run sustainability S1 and S2 indicators) and for updating Member State's medium-term (budgetary) objectives (MTOs).

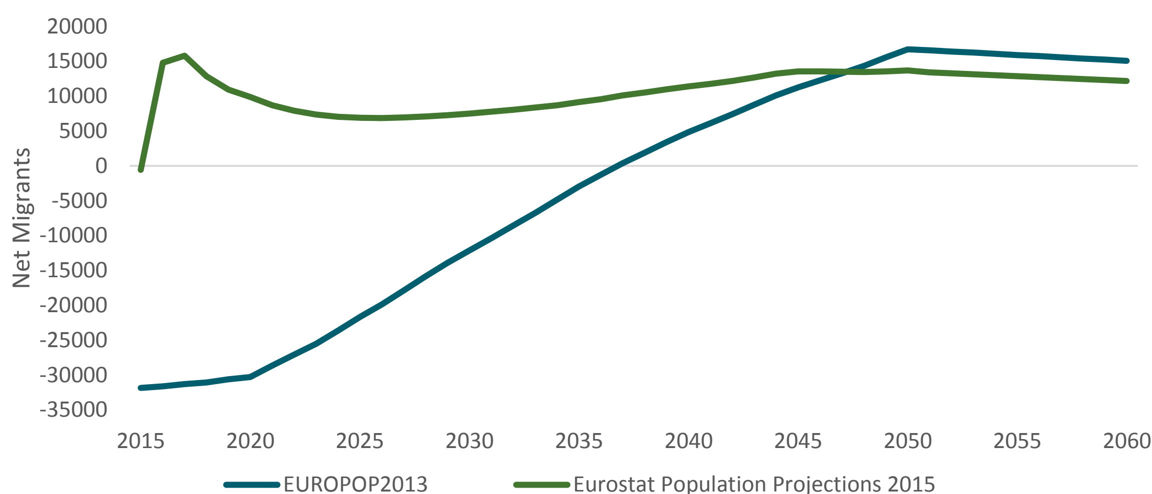
Ireland has significant reservations around the population projections used in this exercise, where a significant net negative outward migration out to 2037 is estimated by the Eurostat model for migration flows. The latest population data from the CSO shows net migration turning positive last year some 20 years earlier than envisaged under the EUROPOP2013 projections. However, Eurostat has adopted for Ireland the same methodology used for other countries. Whilst an exception for the basis of population projections for Ireland was endorsed by the EPC on 1 April 2015 for future t+10 projection exercises (up to 2025), the

[10] Budgetary projections and statistical annex tables can be found at:
http://ec.europa.eu/economy_finance/publications/european_economy/ageing_report/index_en.htm

impact of this agreement is not reflected in AR15 projections. As a result, any assessment of implied future policy challenges based on figures contained in the 2015 Ageing Report should reflect this concern.

Work is currently underway on preparation of the next Ageing Report, due for publication in 2018. The updated Report will use the latest population projections produced by Eurostat[11]. These projections adopt a more positive migration profile for Ireland with net inward migration projected in every year over the forecast horizon from 2016.

Figure 10. Different long-term net migration projections



Source: Eurostat

6.3 Long-Term Budgetary Prospects

Despite significant demographic pressures over the coming decades, the 2015 Ageing Report projections suggest that increases in total age-related expenditure will be modest rising by some 1.9 percentage points of GDP reaching 23.9 per cent of GDP in 2060. This is a significant improvement relative to the 2012 Ageing Report where age-related spending was expected to rise by 4.3 percentage points of GDP over the same period.

[11] Population Projections 2015 conducted by Eurostat can be found at: http://ec.europa.eu/eurostat/data/database?node_code=proj.

Figure 11. Population by age group and sex as a share of total

Source: Department of Finance calculations based on Eurostat 2015 population projections

Table 21: Long-term spending projections

% of GDP unless otherwise stated	2013	2020	2030	2040	2050	2060
Total age-related expenditure	**22.1**	**22.9**	**23.9**	**24.6**	**25.6**	**23.9**
- Total pension expenditure	7.4	8.0	9.1	10.0	10.0	8.4
: Social security pensions	5.5	5.5	6.4	7.4	8.0	7.0
: Gross occupational pensions (Public Service)	1.8	2.5	2.7	2.6	2.0	1.4
- Health care	6.0	6.3	6.9	7.3	7.3	7.2
- Long-term care	0.7	0.7	0.9	1.1	1.3	1.4
- Education expenditure	6.0	6.4	5.8	5.2	6.0	5.9
- Other age-related expenditures*	2.1	1.5	1.2	1.0	1.0	1.0
Underlying Assumptions	**2013**	**2020**	**2030**	**2040**	**2050**	**2060**
Labour productivity growth	-0.1	1.4	1.6	1.5	1.5	1.5
Potential GDP (growth rate)	0.5	1.4	1.8	1.4	1.9	2.7
Participation rate males	76.9	74.5	72.1	73.5	73.9	72.9
Participation rate females	62.7	63.1	63.1	64.1	63.4	63.1
Total participation rates aged 15-64	69.7	68.8	67.6	68.8	68.7	68.2
Share of population over 65 years old	12.4	15.0	19.4	23.1	24.9	21.4
Economic old-age dependency ratio	28.7	34.5	43.9	53.9	63.0	52.5

Source: Economic Policy Committee and European Commission using Commission forecasts out to 2060. As reported in *2015 Ageing Report Economic and Budgetary projections for the EU28 Member States 2013-2060*. Based on EUROPOP2013 population projections. Baseline in the 2015 Ageing Report was 2013.

Note*:* Participation rates refer to 15-64 cohorts. Economic old-age dependency ratio refers to inactive population over 65 as a share of employed population aged 15 to 64.

* Unemployment benefit

Further detail on the above projections is set out in the 2015 Ageing Report and the accompanying Country Fiche for Ireland. A sensitivity analysis was also conducted around the baseline to assess the robustness of the public pension projections. The most significant impact relates to the 'policy scenario' (linking statutory retirement age to changes in life expectancy). Results suggest this would support sustainability, reducing pension related spending by approximately 0.5 percentage points of GDP by 2050.

6.4 Policy Strategy

A range of policy reforms have been introduced in recent years to address the budgetary challenges posed by population ageing. For example:

Public service pensions

The Single Public Service Pension Scheme (Single Scheme) for all new entrants to public service employment took effect from 1 January 2013. Under this scheme, pension benefits are based on career average earnings rather than final salary. The Single Scheme pension age is linked to the statutory state pension age of 66, rising progressively to 67 in 2021 and 68 in 2028. In addition, post-retirement pension increases for Single Scheme members are linked to consumer prices (CPI) rather than wage movements of existing public servants

Department of Public Expenditure and Reform estimates suggest that the introduction of this scheme will reduce long-term expenditure on public service pensions by an estimated 35 per cent, with over a half of those savings due to changes to indexation (CPI linkage), almost a third due to the impact of career averaging, and the remainder arising from the increase in

pension age. A significant and growing reduction in longer-term pension costs is therefore envisaged once this cohort begins to retire.

State Pensions

A number of reform measures have been implemented in recent years to further help improve the long-run sustainability of the public pension system. For instance, the State Pension (Transition) was abolished in 2014, which had the effect of increasing the State Pension Age to 66 in 2014, and this has been legislated to rise to 67 in 2021 and then to 68 in 2028. Separately, the criteria to qualify for a contributory pension have been amended to increase the minimum number of years of paid contributions required for a contributory pension, from five to ten years in April 2012.

In addition to the above, the National Pensions Framework proposed a 'total contributions approach' to replace the current 'yearly average' contributions test for the State Pension (Contributory) from 2020 onwards. Under that current approach, contributions accumulated will produce a pro-rata pension entitlement, with a maximum rate payable to people who have attained a certain amount of contributions at State pension age (this maximum has yet to be set). This would ensure that the level of pension payments would be directly proportionate to the number of social insurance contributions the person has over their working life, thereby removing some of the anomalies associated with the current averaging approach.

Long-term care

The aim of the Nursing Homes Support Scheme (also known as the 'Fair Deal') introduced in October 2009 is to put the financing of individuals' long-term residential care needs on a fair and equitable basis, whereby people contribute towards the cost of their long-term nursing home care according to their means and the State will pay the balance of the cost. An applicant to the Scheme can enter any nursing home (public, private or voluntary) subject to it having an available bed and being able to cater for their particular needs.

When the Scheme commenced in 2009, a commitment was made that it would be reviewed after three years. The report of the review was published in July 2015. The review included a general examination of the Scheme, as well as the balance between residential care and care in the community, and the cost of long-term care in public and private residential facilities. An Interdepartmental/Agency Working Group has been established to progress the recommendations contained in the Review. An initial report on progress was submitted to the Cabinet Committee on Health in September 2016. Once all of the relevant Review recommendations have been considered, any amendments required to the Scheme will be identified.

It is Government policy that long-term nursing home care should be a last resort and we want to develop home care services to provide a viable alternative to nursing home care for a greater number of people.

Government considers that a standalone funding scheme designed for homecare that recognises its particular characteristics together with regulation of homecare services is needed. However, a significant amount of detailed preparation needs to be done before final decisions are taken on the form of a home care scheme and the regulation of these services.

In 2016 the Department commissioned the Health Research Board to carry out an evidence review of international approaches to the regulation and financing of home care services. This will be published shortly. The Department will also undertake a mapping exercise of current service provision nationally, taking into account the scale and diversity of services funded by the HSE. This work will be used to identify major policy options for a new statutory homecare scheme – around the areas of regulation, financing, assessment and eligibility.

Once this is complete a public consultation will be launched to allow stakeholders, including older people themselves, their families and healthcare workers to express their views regarding a new homecare scheme.

The Department of Housing, Planning, Community and Local Government, in conjunction with the Department of Health is developing policy options for supported housing/housing with care so that older people have a wider range of residential care choices available to them. Both Departments, the HSE and Dublin City Council are currently working on developing a demonstration project to provide housing with support for older people in line with *Rebuilding Ireland - Action Plan for Housing and Homelessness*.

6.5 Conclusion

A range of policy measures have been undertaken over recent years to address the budgetary implications of population ageing including legislated step-increases in the state pension age over time, the planned introduction of a total contributions approach for the State Pension (Contributory), reform of public service pension entitlements and moves to place long-term care expenditure on a more sustainable footing. These reform measures will help mitigate the impact of demographic pressures over the coming decades.

Annex 1
Supplementary Data

Table A1: From Exchequer Borrowing Requirement to General Government Balance

€ million	2016	2017	2018	2019	2020	2021
(a) Exchequer balance	-1,010	-2,050	-2,225	-2,345	-1,850	-365
(b) Exclude equity and loan transactions	-2,485	-1,055	-710	-1,035	-785	-820
(c) Adjust for interest accrual	575	200	335	210	310	-45
(d) Adjust for tax accruals	100	420	375	345	340	310
(e) Adjust for other accruals	120	200	150	180	170	160
(f) Net lending/borrowing of non-commercial State bodies	370	125	240	45	240	235
(g) Impact of ISIF/NPRF	200	290	340	340	340	340
(h) Net Surplus of the Social Insurance Fund	370	665	1,090	1,535	1,980	2,440
(i) Net Surplus of other EBF's	-20	-10	50	50	45	55
(j) Net Surplus of Local Government	265	0	0	0	0	0
(k) Rainy Day Fund	0	0	0	1,000	1,000	1,000
(k) General government balance (=a to k)	-1,525	-1,210	-355	325	1,800	3,310
(l) Financial sector measures	15	0	0	0	0	0
(m) Underlying balance	-1,510	-1,210	-355	325	1,800	3,310
(n) General government balance as % of GDP	-0.6%	-0.4%	-0.1%	0.1%	0.6%	1.0%
(o) Underlying balance as % of GDP	-0.6%	-0.4%	-0.1%	0.1%	0.6%	1.0%
(p) Nominal GDP	265,835	280,565	294,680	308,185	321,625	335,065

Sources: Department of Finance, Department of Public Expenditure and Reform, Central Statistics Office (CSO) and National Treasury Management Agency (NTMA) estimates.

Notes: Rounding may affect totals

Table A1 shows a reconciliation from the Exchequer balance to the general government balance. The general government balance measures the fiscal performance of all arms of Government, i.e. central government; Local Authorities and non-commercial State sponsored bodies, as well as funds such as the SIF and the ISIF which are managed by Government agents. It thus provides an accurate assessment of the fiscal performance of a more complete 'Government' sector. It does not reflect the position of commercial State sponsored bodies as these agencies are classified as being outside the general government sector. The general government balance is calculated in accordance with ESA2010, a consistent standard developed by the EU to facilitate budgetary comparisons between EU Member States in accordance with their obligations under the Maastricht Treaty.

a. The Exchequer Balance is the traditional domestic budgetary aggregate which measures the net surplus or deficit position of the Exchequer account. It is the difference between total receipts into and total expenditure out of the Exchequer account of the Central Fund.

b. Equity and loan transactions are excluded from the balance on the basis that they affect the composition but not the level of assets and liabilities.

c. Interest expenditure by general government is calculated on an accruals basis and includes an adjustment to remove the impact of interest rate swaps. This item also includes an adjustment for the repayment of EBS promissory note.

d. & e. Adjustments required in respect of certain transactions recorded on an accruals basis including tax accruals, Departmental balances, EU transfers and the impact of the capital carryover.

g. This is the net lending/borrowing of the ISIF. This fund is within the general government sector and transactions within the sector do not have an impact on the general government balance.

f, h, i, j & k. These adjustments add the net lending/borrowing of other government bodies and local government to arrive at a full concept of general government.

m. This reflects potential deficit worsening expenditure of payments into the financial sector. For the purposes of assessing adherence to EDP general government balance targets, this expenditure is therefore excluded.

Table A2.1: General government budgetary forecasts 2016-2021

	ESA	2016	2016	2017	2018	2019	2020	2021
		€m						
Net lending (EDP B.9) by sub-sector								
1. General government (=6-7)	**S.13**	**-1,525**	**-0.6**	**-0.4**	**-0.1**	**0.1**	**0.6**	**1.0**
p.m.: Underlying balance		-1,510	-0.6	-0.4	-0.1	0.1	0.6	1.0
2. Central government	S.1311	-1,790	-0.7	-0.4	-0.1	0.1	0.6	1.0
3. State government	S.1312	0	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S.1313	265	0.1	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	0	0.0	0.0	0.0	0.0	0.0	0.0
General government (S.13)								
6. Total Revenue	TR	73,035	27.5	26.8	26.5	26.2	26.2	26.1
7. Total Expenditure	TE	74,560	28.0	27.2	26.6	26.1	25.6	25.1
8. Net lending/borrowing (=6-7)	**B.9**	**-1,525**	**-0.6**	**-0.4**	**-0.1**	**0.1**	**0.6**	**1.0**
9. Interest expenditure	D.41	6,180	2.3	2.1	2.0	1.9	1.7	1.6
10. Primary balance (=1+9)		4,650	1.8	1.7	1.9	2.0	2.3	2.6
11. One-off and other temporary measures		450	0.2	0.0	0.0	0.0	0.0	0.0
Selected components of Revenue								
12. Total taxes (12=12a+12b+12c)		53,090	20.0	19.9	19.9	19.9	19.9	19.9
12a. Taxes on production and imports	D.2	23,580	8.9	8.8	8.7	8.7	8.7	8.6
12b. Current taxes on income, wealth etc.	D.5	29,100	10.9	11.0	11.0	11.1	11.1	10.9
12c. Capital taxes	D.91	410	0.2	0.1	0.1	0.1	0.1	0.4
13. Social contributions	D.61	12,105	4.6	4.5	4.4	4.3	4.3	4.2
14. Property Income	D.4	1,735	0.7	0.6	0.4	0.3	0.3	0.2
15. Other		6,100	2.3	1.9	1.8	1.7	1.7	1.7
16. (=6) Total revenue (=12+13+14+15)	**TR**	**73,035**	**27.5**	**26.8**	**26.5**	**26.2**	**26.2**	**26.1**
p.m.: Tax burden		65,760	24.7	24.6	24.5	24.4	24.4	24.4
Selected components of Expenditure								
17a. Compensation of employees	D.1	19,450	7.3	7.2	7.1	6.9	6.8	6.6
17b. Intermediate consumption	P.2	9,690	3.6	3.6	3.3	3.1	3.0	2.9
18. Social payments (18 = 18a+18b)		28,455	10.7	10.3	9.8	9.4	9.1	8.8
18a. Social transfers in kind supplied via market producers	D.63	5,340	2.0	2.0	1.9	1.8	1.7	1.7
18b. Social transfers other than in kind	D.62	23,115	8.7	8.3	7.9	7.6	7.4	7.1
19=9 Interest expenditure	D.41	6,180	2.3	2.1	2.0	1.9	1.7	1.6
20. Subsidies	D.3	1,715	0.6	0.6	0.6	0.5	0.5	0.5
21. Gross fixed capital formation	P.51	4,900	1.8	1.9	2.0	2.2	2.2	2.2
22. Capital Transfers	D.9	1,365	0.5	0.4	0.4	0.4	0.4	0.4
23. Other		2,805	1.1	1.1	1.2	1.1	1.1	1.1
24. Resources to be allocated		0	0.0	0.0	0.2	0.5	0.8	1.1
25=7 Total expenditure (=17+18+19+20+21+22+23)	**TE**	**74,560**	**28.0**	**27.2**	**26.6**	**26.1**	**25.6**	**25.1**
p.m. : Government consumption	P.3	33,600	12.6	12.7	12.2	11.8	11.3	11.0
GDP at current market prices (€ billion)	B.1*g	265,835	265,835	280,565	294,680	308,185	321,625	335,065

Sources: Department of Finance, Department of Public Expenditure and Reform, CSO and NTMA.

Table A2.1 sets out the general government deficit for the years 2016-2021 in terms of selected components of general government receipts and expenditures. Note that the revenue and expenditure forecasts for 2017-2018 reflect the adjustment path necessary to achieve the MTO which is the overarching fiscal policy of the Government. Specific policy decisions which will be made in the context of annual budgets are not reflected in these forecasts.

Notes to table A2.1:

- Item 1: Net lending by general government is identical with the general government balance.
- Item 9 & 19: Interest expenditure by general government is calculated on an accruals basis and excludes interest rate swaps.
- Item 12a: Taxes on production and imports include VAT; customs, excise and stamp duty; local authority rates; the non-household part of motor tax; the stamps collected by the Risk Equalisation Fund; and the local property tax.
- Item 12b: Current taxes on income and wealth comprise income tax; capital gains tax; corporation tax; the banking levy introduced in Budget 2014; and the household part of motor tax and of television licences.
- Item 12c: Capital taxes comprise capital acquisitions tax and the pension funds and bank levies.
- Item 13: Social contributions consist mainly of contributions to the Social Insurance Fund. Imputed social contributions are also included.
- Item 14: Property income is made up of investment or dividend income.
- Item 15: Other receipts include miscellaneous receipts such as Departmental receipts (appropriations in aid), rents and receipts from abroad, receipts by non-commercial State sponsored bodies and miscellaneous capital receipts.
- Item 17a: Compensation of Employees includes wages and salaries as well as an estimate of the amount that would have to be contributed if public sector pensions were actually funded schemes.
- Item 17b: Intermediate consumption is current spending on goods and services by government units.
- Item 18: Social transfer payments include pensions; child benefit; payments for medical goods; transfers to the rest of the world; and other unrequited payments to households. Social transfers in kind include such items as free travel on public transport and fuel allowances.
- Item 21: Gross fixed capital formation is acquisitions less disposals by government of capital formation such as construction and machinery.
- Item 22. Capital Grants, including grants for capital investment.
- Item 23: Other expenditure includes transfer payments to non-government bodies. It also includes acquisitions less disposals of non-produced assets such as royalties, mobile phone licences and the licence to operate the National Lottery.

Memo items:

Tax burden: the sum of total taxes (D.2, D.5 and D.91), social contributions (D.61) and EU taxes.

The underlying balance: the net lending of general government adjusted for the effect of certain expenditures into the financial sector.

Government consumption: This is comprised of expenditures on compensation of employees; goods and services; social transfers in kind; plus depreciation; less miscellaneous receipts. This aggregate is government's contribution to expenditure on GDP.

Table A2.2: General government Receipts and Expenditures (Nominal) 2016-2021

€ million	**ESA code**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenue							
Taxes on production and imports	D.2	23,580	24,815	25,765	26,815	27,850	28,900
Current taxes on income, wealth	D.5	29,100	30,825	32,490	34,130	35,740	37,430
Capital taxes	D.91	410	245	330	360	380	435
Social contributions	D.61	12,105	12,490	12,875	13,200	13,705	14,195
Property Income	D.4	1,735	1,605	1,230	915	965	830
Other		6,100	5,215	5,340	5,375	5,515	5,625
Total revenue	TR	73,035	75,195	78,025	80,800	84,155	87,415
Expenditure							
Compensation of employees	D.1	19,450	20,295	20,805	21,355	21,890	21,995
Intermediate consumption	P.2	9,690	10,095	9,835	9,555	9,515	9,830
Social payments	D.6	28,455	28,840	28,895	29,055	29,255	29,480
Interest expenditure	D.41	6,180	6,025	5,955	5,840	5,595	5,265
Subsidies	D.3	1,715	1,585	1,640	1,640	1,640	1,650
Gross fixed capital formation	P.51	4,900	5,335	5,955	6,680	6,965	7,390
Capital Transfers	D.9	1,365	1,050	1,240	1,280	1,310	1,345
Other		2,805	3,185	3,445	3,475	3,580	3,555
Resources not allocated		0	0	610	1,595	2,615	3,595
Total expenditure	TE	74,560	76,410	78,380	80,470	82,360	84,105
General government balance	B.9=TR-TE	-1,525	-1,210	-355	325	1,800	3,310

Sources: Department of Finance and Department of Public Expenditure and Reform, CSO and NTMA.
Notes: Rounding may affect totals.
- Table A2.2 is a reproduction of Table A2.1 showing the main aggregates of government revenue and expenditure at nominal values.

Table A2.3: Comparison of vintages of Receipts and Expenditures for 2017

€ million	Budget 2017	SPU 2017	Total Δ	Classification Δ	Revised data Δ	Other Δ	Notes
Revenue							
Taxes on production and imports	24,740	24,815	75	-	75	0	1
Current taxes on income, wealth	30,460	30,825	365	-	365	0	1
Capital taxes	360	245	-115	-	-115	0	1
Social contributions	12,385	12,490	105	-	105	0	1
Property Income	1,830	1,605	-225	-	-225	0	1
Other	5,545	5,215	-330	-	-260	-70	2
Total revenue	75,320	75,195	-125	-	-55	-70	2
Expenditure							
Compensation of employees	20,550	20,295	-255	-	-255	0	1
Intermediate consumption	9,720	10,095	375	-	375	0	1
Social payments	28,780	28,840	60	-	60	0	1
Interest expenditure	6,085	6,025	-60	-	-60	0	1
Subsidies	1,650	1,585	-65	-	-65	0	1
Gross fixed capital formation	5,075	5,335	260	-	260	0	1
Capital transfers	1,510	1,050	-460	-	-460	0	1
Other	3,185	3,185	0	-	0	0	1
Total expenditure	76,555	76,410	-145		-145	0	1
General government balance	-1,235	-1,210	25	-		-	

Source: Department of Finance

Notes: Rounding may affect totals.

-Table A2.3 compares the forecast of receipts and expenditures for 2017 as set out in Budget 2017 with the current forecast (April 2017).

The layout of this table presents the changes in vintages of 2017 data since Budget 2017, October 2016.

The differences (Δ) are displayed under categories relating to new data, re-classifications, and other items. Some particular identifiable changes are detailed in the notes.

1. For SPU 2017 there were no policy or statistical decisions impacting the 2017 data therefore the majority of movements relate to revised data primarily based on updated outturns from the CSO.
2. Estimated reduction in water charge revenue due to the suspension of charges in the first half of 2017.

Table A3: General government interest expenditure 2016-2021

€ million	2016	2017	2018	2019	2020	2021
National Debt Cash Interest	6,738.9	6,195.0	6,276.0	6,075.0	5,921.0	5,206.0
% of GDP	*2.5%*	*2.2%*	*2.1%*	*2.0%*	*1.8%*	*1.6%*
National Debt Cash Interest Accruals	-295.9	19.3	-162.3	-95.4	-249.1	58.7
Consolidation and grossing	-53.5	-47.2	-61.6	-116.6	-113.4	-82.0
Accrued promissory note interest	0.0	0.0	0.0	0.0	0.0	0.0
Other	-211.8	-143.1	-95.3	-20.8	38.1	81.4
Total Interest on ESA2010 basis	6,177.7	6,024.0	5,956.7	5,842.2	5,596.5	5,264.2
% total General government revenue	*8.5%*	*8.0%*	*7.6%*	*7.2%*	*6.7%*	*6.0%*
% of GDP	2.3%	2.1%	2.0%	1.9%	1.7%	1.6%

Sources: Department of Finance, CSO and NTMA (National Debt data provider)

Notes: Rounding may affect totals

Table A4: Projected movement in general government debt 2016-2021

€ billion	2016	2017	2018	2019	2020	2021
Opening general government debt	201.4	200.6	204.6	209.8	214.1	209.7
Exchequer borrowing requirement	1.0	2.0	2.2	2.3	1.8	0.4
Change in Exchequer Deposits	-2.1	0.9	2.5	1.4	-6.9	0.1
Net lending of NCSSBs	0.8	0.5	0.4	0.1	0.2	0.3
Net lending of local government	0.3	0.0	0.0	0.0	0.0	0.0
Change in collateral held	-0.3	-0.1	-0.1	-0.1	0.0	-0.1
Other	-0.6	0.7	0.1	0.5	0.5	0.5
Closing general government debt	200.6	204.6	209.8	214.1	209.7	210.9
General government debt to GDP ratio	75.4%	72.9%	71.2%	69.5%	65.2%	62.9%

Sources: Department of Finance, CSO and NTMA.

Notes: Rounding may affect totals

Table A5: Breakdown of revenue

	2016	2016	2017	2018	2019	2020	2021
	€ million	*% of GDP*					
Total revenue at unchanged policies	73,826	27.8	26.8	26.4	26.3	26.2	26.2
Discretionary revenue	-791	-0.3	0.0	0.0	0.0	0.0	-0.1

Source: Department of Finance

Table A6: Expenditure developments

	2016	2016	2017	2018	2019	2020	2021
	€ billion	*% of GDP*					
Expenditure on EU Programmes fully matched by revenue from EU funds	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Expenditure fully matched by mandated revenue increases	0	0	0	0	0	0	0
Non-discretionary changes in unemployment benefit expenditure*	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0

Source: Department of Finance calculations and Department of Public Expenditure and Reform
*Broad methodology for calculation is set out in SPU 2013

Table A7: Budgetary plans

% of GDP	2016	2017	2018	2019	2020	2021
1. General government balance	-0.6	-0.4	-0.1	0.1	0.6	1.0
2. Structural balance % of potential GDP	-1.4	-1.2	-0.5	-0.2	0.4	1.0
3. Cyclical budgetary component	0.6	0.7	0.4	0.3	0.2	0.0
4. One-offs and other temporary measures	0.2	0.0	0.0	0.0	0.0	0.0
5. General government balance	-0.6	-0.4	-0.1	0.1	0.6	1.0
6. Total revenues	27.5	26.8	26.5	26.2	26.2	26.1
7. Total expenditure	28.0	27.2	26.6	26.1	25.6	25.1
Amounts to be excluded from the expenditure benchmark						
7a. Interest expenditure	2.3	2.1	2.0	1.9	1.7	1.6
7b. Expenditure on EU programmes fully matched by EU funds revenue	0.2	0.2	0.2	0.2	0.2	0.2
7c. Cyclical unemployment benefit expenditure*	-0.1	-0.1	0.0	0.0	0.0	0.0
7d. Effect of discretionary revenue measures	-0.3	0.0	0.0	0.0	0.0	-0.1
7e. Revenue increases mandated by law	0.0	0.0	0.0	0.0	0.0	0.0
8. Tax burden	24.7	24.6	24.5	24.4	24.4	24.4
9. Gross debt	75.4	72.9	71.2	69.5	65.2	62.9

Sources: Department of Finance, CSO and NTMA
*Broad methodology for calculation based on estimation of unemployment gap is set out in SPU 2013.

Annex 2
Ireland's National Reform Programme
Summary of Progress

Preparation of our National Reform Programme (NRP) is an important part of the European Semester process.

Ireland's NRP reports on the progress made and measures taken to address key economic and social policy challenges, including those identified in the European Commission's Country Report on Ireland published in February. These include

- Decision of the UK to leave the EU
- Measures to support housing supply and spatial planning
- Cost-effectiveness and sustainability of the healthcare system

The NRP also reports on progress addressing the policy recommendations given to Ireland under the 2016 European Semester process. Country Specific Recommendations (CSRs) are tailored, concrete recommendations for actions in areas where it is considered that individual Member States should focus their reform efforts. Ireland received three CSRs in 2016 covering:

- Public finances and investment;
- Labour market activation policies and investment; and
- Sustainable resolution of non-performing loans.

The NRP also outlines progress towards the five headline targets under the Europe 2020 Strategy covering:

- Employment
- Research and Development
- Climate Change and Energy
- Education
- Social Inclusion

The NRP also outlines the use of European Structural and Investment Funds to meet Europe 2020 objectives, and reports on stakeholder engagement which is regarded as an important component in the European Semester process.

Annex 3
Irish Fiscal Advisory Council's Endorsement of the Macroeconomic Forecasts

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Cearnóg Whitaker
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04 April 2017

Dear Secretary General Moran,

The Council has an obligation under the Fiscal Responsibility Act to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance on which *Stability Programme Update 2017* (*SPU 2017*) will be based.[1] The *SPU 2017* forecasts were provided to the Council on 22 March 2017 and discussed by the Council with Department of Finance staff on 27 March 2017, ahead of the Council's endorsement meeting.

The Council's approach to endorsement of the macroeconomic forecasts has three elements: a comparison of the Department of Finance's macroeconomic forecasts to IFAC's Benchmark forecasts; consideration of the methodology used to produce the forecasts; and a review of past forecast errors for evidence of systematic bias.

The Irish Fiscal Advisory Council endorses as within the range of appropriate forecasts the set of medium-term macroeconomic projections prepared by the Department of Finance for *SPU 2017*.

The Department's supply-side estimates are produced in line with the EU Commonly Agreed Methodology (CAM), which is used primarily for fiscal surveillance by the European Commission. The mechanical application of this methodology to estimate trend supply-side variables in *SPU 2017* has been verified. However, as highlighted by the Council in previous Fiscal Assessment Reports and on numerous occasions by the Department of Finance, the CAM is not well equipped to estimate the supply side of the Irish economy. Furthermore, the results do not reflect the Department's own views regarding the cyclical position of the economy.

It is essential that the Department's macroeconomic forecasts for the medium term are well-founded to provide a sound basis for setting the economy and the public finances on a sustainable path. The Council welcomes the Department's commitment to develop an alternative to the CAM for medium-term forecasts in the coming twelve months, alongside continuing to produce the CAM estimates to meet legal requirements.

A detailed discussion of the endorsement process and an assessment of the macroeconomic projections will be provided in the Council's forthcoming *Fiscal Assessment Report*, which is scheduled for publication in June.

Yours sincerely,

Seamus Coffey, Chair.

[1] The Fiscal Responsibility Act 2012, as amended by the Ministers and Secretaries (Amendment) Act 2013, states that: "The Fiscal Council shall— (a) endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

Comhairle/Council: Seamus Coffey (Chair) · Sebastian Barnes · Íde Kearney · Michael G. Tutty · Martina Lawless.

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