

BUDGET 2016

ECONOMIC AND FISCAL OUTLOOK

(Incorporating Economic and Fiscal Statistics and Tables)

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Economic Developments and Outlook

Summary

In real terms the levels of GDP and GNP passed their pre-crisis peaks in 2014. Taking into account the population increase over the period, the level of GDP per person passed its pre-crisis peak in the second quarter this year, with GNP per capita only marginally behind. Both of these metrics provide hard evidence of the sustained nature of the recovery.

The pace of economic recovery strengthened in the first half of this year, with annual growth rates of 7.2 and 6.7 per cent in the first and second quarters respectively. The recovery also continues to broaden, with all of the components of demand making a positive contribution to GDP growth. High frequency indicators suggest the strong economic performance has continued into the third quarter. As a result, GDP growth of 6.2 per cent is now projected for this year, while an increase of 4.3 per cent is expected for next year.

The recovery in output is yielding positive dividends in the labour market, where strong employment gains have been recorded in the first half of the year. Employment growth of 2.8 per cent (53,000 jobs) is projected for this year, with the unemployment rate expected to average 9.5 per cent. A further reduction in the unemployment rate is forecast for next year, with an average rate of 8.3 per cent currently expected. Inflationary pressures remain subdued, both domestically and in the wider euro area.

Table 1: Key Macroeconomic Forecasts¹

<i>per cent change, unless otherwise stated</i>	2014	2015	2016
Real GDP	5.2	6.2	4.3
Inflation (HICP)	0.3	0.1	1.2
Employment	1.8	2.8	2.4
Unemployment (% of labour force)	11.3	9.5	8.3
Nominal GDP (nearest €25m)	189,050	210,150	223,125

Source: CSO for outturn data, Department of Finance for forecasts.

Recent macroeconomic developments and short-term prospects

External demand

Trading partner growth has been reasonably solid this year (see Table 2). High frequency data suggest continued momentum in the US and UK economies; in the euro area economic activity has – not unexpectedly – increased at a more modest pace. Importantly, the stance of monetary policy in the euro area relative to that of other advanced economies has been associated with a large depreciation of the euro this year. For next year, the OECD and IMF are projecting a continuation of relatively strong growth in Ireland's main export markets.

Elsewhere, the pace of economic expansion has slowed and the outlook has become increasingly uncertain. In particular, the dataflow for many Emerging Market Economies has been weaker-than-expected, while world trade growth has stagnated. Some of this relates to the apparent re-balancing of the Chinese economy, and concerns regarding the near-term outlook have prompted higher levels of uncertainty. At this stage, spill-over effects to Ireland's main trading partners appear to have been limited; however, a more pronounced impact cannot be ruled out.

Against this background, export growth has been very strong, with year-on-year growth of nearly 14 per cent recorded in the first half of the year. Double-digit growth rates were recorded for both goods and services, while high frequency data point to continued strong

¹ All macroeconomic forecasts are generated on an ESA 2010 and BPM6 basis

growth in the third quarter. For this year, export growth of just under 12 per cent is forecast, with a growth rate of nearly 7 per cent projected for 2016.

Table 2: External Assumptions

<i>per cent change, unless otherwise stated</i>	2014	2015	2016
External GDP Growth			
Euro Area	0.9	1.6	1.9
United States	2.4	2.4	2.6
United Kingdom	3.0	2.4	2.3
Technical Assumptions			
Euro-Sterling Exchange Rate	0.81	0.73	0.73
Euro-Dollar Exchange Rate	1.33	1.11	1.12
Brent Crude (US \$ per barrel)	100	55	54

Source: OECD interim economic outlook.

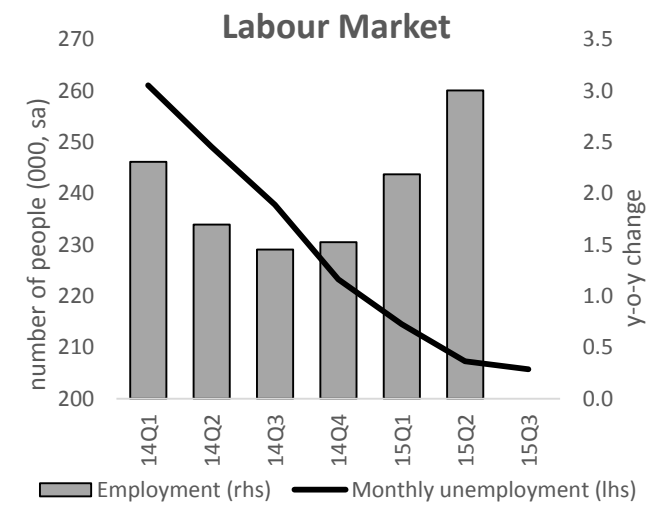
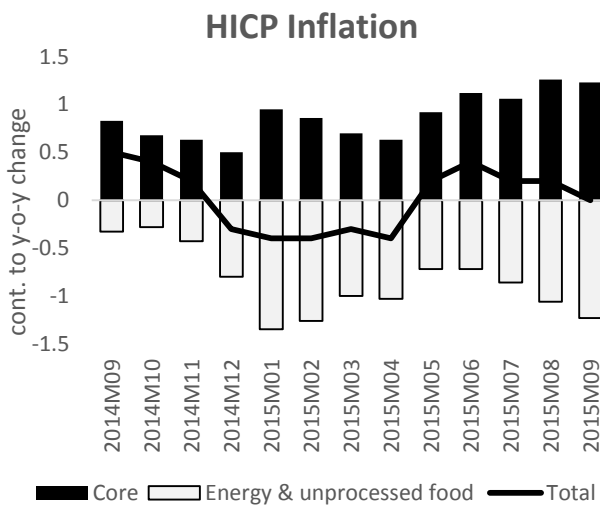
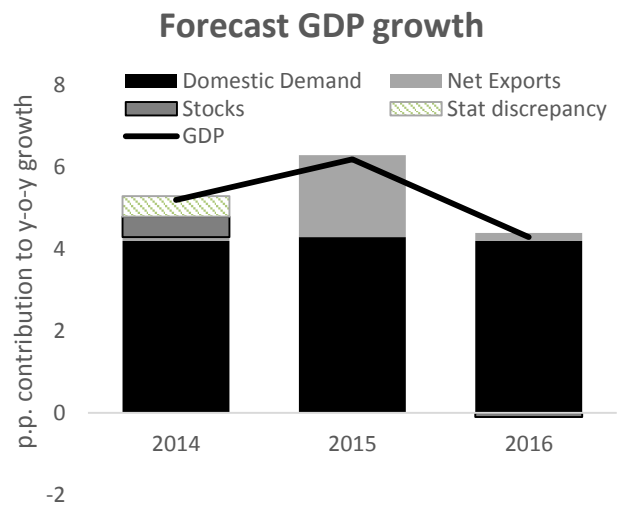
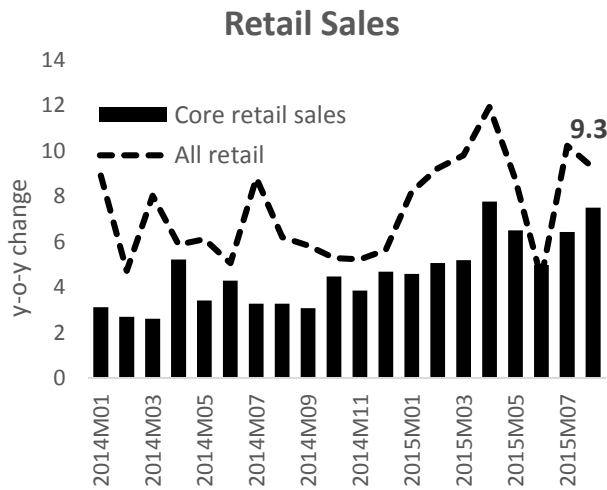
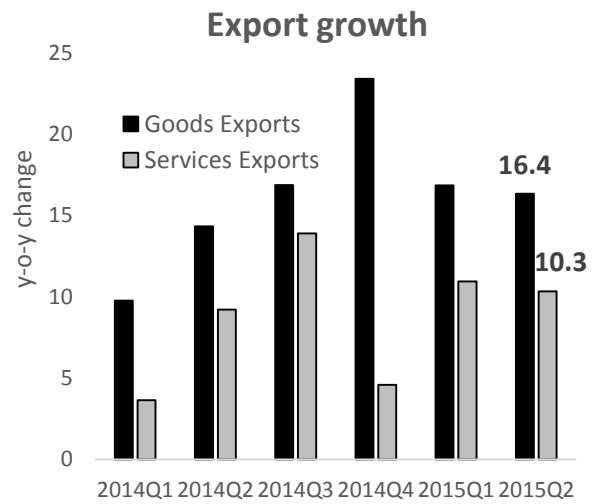
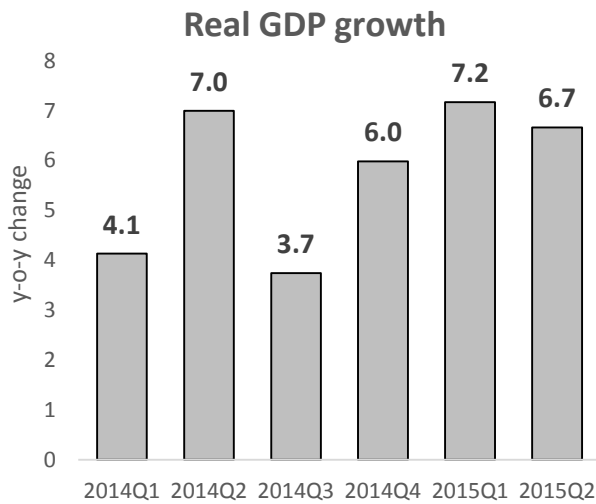
Note: Exchange rates and oil prices (futures) calculated on the basis of a ten-day moving average to mid-September and unchanged thereafter.

Domestic demand

The recovery in domestic demand is now firmly established. Spending by households has been robust this year, growing at an annual rate of 3.3 per cent in the first half of this year, buoyed by employment gains, increases in disposable income on foot of declining oil prices, and improved confidence. High frequency indicators (e.g. retail sales, new car licenses, consumer sentiment) suggest the positive momentum has continued into the third quarter. As a result, personal consumer expenditure is projected to increase by 3.5 per cent this year, with the same rate of growth projected for next year.

Investment activity is set to record double-digit growth this year, with a growth rate of 13 per cent projected. Increased investment spending is likely to be broadly-based, with all of the main subcomponents – building and construction, core (i.e. excluding aircraft) machinery and equipment and investment in intangible assets – performing strongly. A similar pace of increase is envisaged for next year.

Figure 1: Economic Trends and Outlook



Imports and the balance of payments

The improvement in final demand (i.e. consumption, investment and exports) has also been associated with strong import growth. This is not surprising given the high import content of final demand in Ireland. Imports in the first half of the year were around 16 per cent higher than in the same period of last year, although part of this reflects a large one-off acquisition of a patent by an Irish-resident company in the first half of the year. For the year as a whole imports are expected to grow by just over 12 per cent, with a growth rate of 8.2 per cent expected next year.

A large surplus on the current account of the balance of payments was recorded in the first half of the year, in part due to a substantial improvement in the terms-of-trade (which, in turn mainly reflects exchange rate movements). A surplus of 6.9 per cent of GDP is forecast for this year, with a modest decline in the surplus in prospect for next year.

Labour market

Labour market conditions continue to strengthen. Consecutive gains in employment have been posted over the past ten quarters, with some 130,000 additional jobs created since the low-point reached in mid-2012. Employment growth remains broad-based, with increases recorded in the majority of sectors reported by the CSO.

The latest figures show that in the first half of this year, employment grew by 2.6 per cent year-on-year, corresponding to an annual increase of 50,000 jobs. Particularly strong growth of 18.8 per cent was recorded in the construction sector. Overall, jobs growth has been characterised by a robust expansion in full-time employment. This is consistent with evidence of a significant contraction in part-time under-employment, together with an economy-wide pick-up in the number of hours worked. In overall terms, employment growth of 2.8 per cent is forecast for this year, with growth of 2.4 per cent assumed for next year. This would imply labour productivity growth of 3.4 per cent in 2015, slowing to 1.8 per cent in 2016.

Labour supply has also begun to increase in response to the improved economic situation. Therefore, while the unemployment rate continues to fall, its pace of decline has not been as strong as the growth in employment would suggest. Having said that, the unemployment rate fell to 9.4 per cent in September; this represents a decline of almost 6 percentage points from its peak in 2012.

Table 3: Labour market developments

<i>per cent change, unless otherwise stated</i>	2014	2015	2016
Employment	1.8	2.8	2.4
Unemployment rate (annual average)	11.3	9.5	8.3
Labour productivity (GDP per person employed)	3.4	3.4	1.8
Compensation of employees	3.5	4.9	4.9
Compensation per employee	1.8	2.1	2.4

Source: CSO for outturn data, Department of Finance for forecasts.

Price developments

The annual rate of inflation, as measured by the harmonised index of consumer prices (HICP), has been very modest this year, moving from slightly negative territory in the first quarter to slightly positive territory subsequently. Headline inflation is now expected to average 0.1 per cent this year. The very low rate of inflation reflects, in no small part, the decline in oil prices over the past year or so; core inflation (i.e. excluding the impact of energy and unprocessed food prices) has been running at around 1 per cent in recent quarters. For next year, oil price declines will be less of a drag. Taking this and other factors into account, HICP inflation is projected to average 1.2 per cent in 2016.

In terms of the GDP deflator – which accounts for price changes in all components of demand and, as such, is the broadest measure of price developments in the economy – an increase of 4.6 per cent is forecast for this year. This reflects a large positive terms-of-trade effect, mainly due to exchange rate developments. On the basis of technical assumptions regarding unchanged exchange rates, no significant change in the terms-of-trade is anticipated for next year. As a result, the change in the GDP deflator is expected to be more modest.

Table 4: Price developments

<i>per cent change</i>	2014	2015	2016
GDP deflator	0.1	4.6	1.8
Private consumption deflator	1.7	0.9	1.8
Harmonised index of consumer prices (HICP)	0.3	0.1	1.2
Export price deflator	0.2	5.6	1.7
Import price deflator	0.3	2.6	1.5

Source: CSO for outturn data, Department of Finance for forecasts.

Table 5: Short Term Economic Outlook

	2014	2015	2016
	<i>year-on-year percentage change</i>		
Real GNP	6.9	5.5	3.9
Real GDP	5.2	6.2	4.3
Nominal GNP	7.1	10.2	5.8
Nominal GDP	5.3	11.2	6.2
Nominal GDP (nearest €25m)	189,050	210,150	223,125
Nominal GNP (nearest €25m)	162,875	179,500	189,975
Components of GDP	<i>year-on-year percentage change</i>		
Personal consumption	2.0	3.5	3.5
Government consumption	4.6	1.9	1.1
Investment	14.3	13.0	12.5
Stock changes (% of GDP)	1.0	0.8	0.6
Exports	12.1	11.9	6.9
Imports	14.7	12.1	8.2
Contributions to real GDP growth	<i>annual percentage point contribution</i>		
Domestic demand	4.2	4.3	4.2
Stock changes	0.5	0.0	-0.1
Net exports	0.1	2.0	0.2
External balance	<i>per cent of GDP</i>		
Current account	3.6	6.9	6.2
- Balance on goods and services	18.3	22.2	21.7
- Balance of primary incomes and transfers	-14.7	-15.3	-15.5

Source: CSO for outturn data, Department of Finance for forecasts

Rounding may affect totals

Note: the reconciliation between the IFAC-endorsed and final forecasts as presented in this chapter is set out later in this document.

Medium-term growth prospects 2017 – 2021

Medium term forecasts are set out in Table A.10 of the appendix. The forecasts assume a potential growth rate averaging around 3½ per cent per annum over 2017-2021, as well as a gradual closing of the output gap. It must be acknowledged that the concept of potential growth is less meaningful in an Irish context than for larger, more closed economies; this is evident from the positive output gap currently estimated for this year, which is inconsistent with, for instance, an unemployment rate that is still relatively high.

With domestic demand set to be the primary driver of growth in 2016, a more even contribution from net exports and domestic activity is expected over the medium term. On the domestic side, personal consumer expenditure is expected to grow broadly in line with household incomes and investment is set to rise as a share of GDP towards more normalised levels. Exports and imports are expected to grow in line with trading partner demand and weighted final demand respectively.

Employment growth averaging 1.8 per cent per annum over the 2017-2021 period is envisaged, resulting in implied productivity growth of 1.3 per cent. Driven by a resumption in positive inward migration, together with a pickup in participation rates, aggregate labour supply is expected to increase over the medium-term horizon. As a result, the unemployment rate is projected to fall steadily towards 6 per cent by the end of the forecast horizon.

Table 6: Comparison with previous forecast

<i>per cent change</i>	2014	2015	2016
Real GDP growth	5.2*	6.2	4.3
- Previous forecast	4.8**	4.0	3.8
- Difference	0.4	2.2	0.5

Source: Department of Finance forecasts.

Note: Previous forecast in Stability Programme Update April 2015.

* From CSO National Income and Expenditure Annual Results 2014, released 30 July 2015.

** From CSO Quarterly National Accounts, Fourth Quarter 2014, released 12 March 2015.

Fiscal Outlook

Table 7: Key Fiscal Forecasts 2015-2021

% of GDP	2015	2016	2017	2018	2019	2020	2021
General Government Balance	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
Structural Budget Balance	-3.2	-2.5	-1.4	-0.3	0.6	1.5	2.5
Change in structural balance		0.8	1.1	1.1	0.9	0.9	1.1
General Government Debt	97.0	92.8	90.3	86.7	83.5	79.8	75.7
Exchequer Balance (€ billion)	-2.8	-1.7	-4.0	-0.6	0.2	1.8	3.7

Source: Department of Finance. Rounding affects totals.

Summary: fiscal developments in 2015

A headline deficit of 2.1 per cent of GDP is projected for this year. This means that Ireland will correct its 'excessive deficit' in a timely manner, consistent with the ECOFIN Council recommendations made to Ireland in late-2010. Formal abrogation of the excessive deficit procedure will likely take place in the summer of next year on the basis of actual (rather than projected) data supplied to *Eurostat* at the end of March.

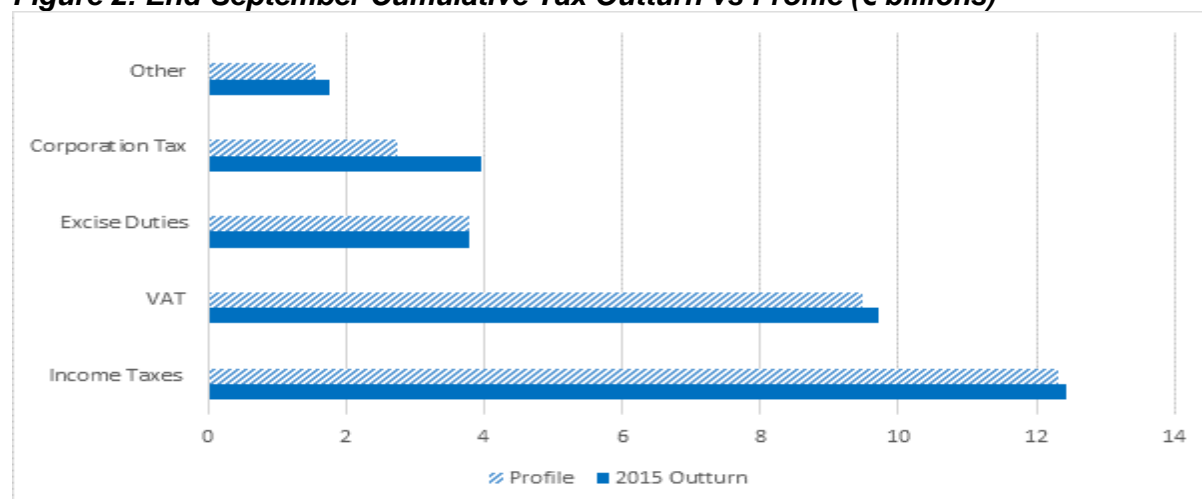
The projected deficit outturn for this year is somewhat better than forecast in the April 2015 Update of the Stability Programme. In the year to end-September, taxation receipts have been stronger than anticipated (see Figure 2). The over-performance – relative to the profile for monthly receipts – is mainly due to very strong corporation tax receipts, with most of the remaining key tax heads broadly in line with expectations. On this basis, tax receipts are now projected to amount to €44.6 billion this year, 5.5 per cent above profile and 8.1 per cent higher than last year.

This strong performance of taxation means that emerging expenditure pressures in 2015 can be accommodated while at the same time still achieving a headline deficit that is better than earlier expectations.

Taxation

All of the major taxes are significantly up in year-on-year terms and ahead of, or broadly in line with, profiled receipts. Of particular note is the very strong performance of corporation tax, which is up €1,209 million on profile at end-September; this is primarily due to improved trading conditions, principally amongst the multinational sector.

Figure 2: End-September Cumulative Tax Outturn vs Profile (€ billions)



In relation to income tax (the largest tax-head), performance in the first nine months has been strong, with receipts up 5.7 per cent in year-on-year terms. The year-on-year performance is a combination of strong PAYE and other income tax receipts and is consistent with the recovering labour market. The only shortfall of significance in the components of income tax is DIRT, where receipts are some €180 million below profile. As deposit levels as reported by the Central Bank are relatively stable, the underperformance is likely due to lower interest rates on retail deposit accounts. Taking account of the DIRT shortfall, the surplus over profile would be more substantial than the €120 million reported at end-September. In terms of the end-year forecast, strong receipts are expected from the self-employed returns in October / November and these should support the end-year forecast.

The increase in personal consumer expenditure has boosted VAT and excise duties, with receipts up €742 million (8.3 per cent) and €211 million (5.9 per cent) respectively in year-on-year terms. Strong car sales in the first nine months of the year (up 31 per cent year-on-year) are a significant contributory factor. The impressive performance of VAT has been broad based across a wide variety of sectors and this bears out the trend from recent retail sales data. It is expected that the trend in VAT will continue, resulting in a surplus above profile of €250 million by year-end. Excise duties are expected to come in on profile for the year.

Looking at the remaining tax-heads in aggregate, which are primarily capital taxes and stamp duties, these are expected to close the year some €315 million ahead of profile. This is reflective of increasing asset prices, transactions in the property market and share disposals.

Taking account of the performance in the year-to-date, it is now expected that tax revenues will finish the year some €2.3 billion, or 5.5 per cent, above the Budget 2015 target. Most, though not all, of this over-performance enters into the base for 2016.

Non-tax revenue

Non-tax revenues are expected to be €435 million higher than forecast in Budget 2015. This is driven by increased surplus income (€300 million) from the Central Bank as a result of capital gains realised on the floating rate bonds. While this will benefit the Exchequer and ultimately result in lower debt, there is no benefit to the general government deficit as a result of the statistical treatment of dividends related to capital gains. It should also be noted that non-tax revenue estimates benefitted from the receipt of some €300 million in special dividends from the ESB and ERVIA.

The transfer of €1.6 billion from the NPRF in respect of the Bank of Ireland preference shares and the proceeds from the sale of PTSB shares and CoCos, represents over €2 billion of a return to the taxpayer from the State's investment in the banking sector. While these have no impact on the general government deficit (financial transactions) they do reduce the general government debt. The proceeds from the sale of the Government's shareholding in Aer Lingus were also received into the Exchequer and are being invested in the Irish Strategic Investment Fund, to establish the Connectivity Fund - which is to be structured as a sub-portfolio of the ISIF.

An alternative presentation of the Exchequer forecasts for 2015 and 2016 is contained in Table 19 on page C.37. This separates Exchequer revenue and expenditure into further detail on a gross basis and strips out a significant portion of non-general government impacting transactions.

Voted Expenditure

Turning to the spending side, the Revised Estimates for Public Services 2015 (REV) set out a total allocation for Departmental expenditure in 2015 of €53.2 billion with current expenditure of €49.6 billion and capital expenditure of €3.6 billion. The net voted expenditure allocation in REV 2015 is €41.7 billion.

The forecast outturn for 2015 estimates that total gross voted expenditure for the year will be €54.9 billion with gross voted current expenditure 2.9% above the REV allocation and gross voted capital expenditure 6% higher than the REV amount. The current expenditure increases reflect decisions to allocate additional funding in particular to Health and Social Protection with additional capital funding provided to support the work of the Departments of Transport, Education, and Jobs, Enterprise and Innovation.

Non-voted expenditure

Interest expenditure for 2015 is expected to be €7.0 billion, around €150 million lower than projected at the time of the April SPU. This primarily reflects a more favourable interest rate environment, issuance coming in at the lower end of the range as well as the impact of debt management activity. Other aspects of non-voted expenditure are broadly unchanged.

Exchequer and general government balance

Taking account of all the factors set out above, the Exchequer deficit for 2015 is now forecast to be €2.8 billion, some €0.7 billion below the forecast in the SPU last April.

In April, nominal GDP for 2015 was projected at €198 billion. Given the stronger-than-expected nominal growth rate, the level of GDP for this year is now projected at €210 billion, which *ceteris paribus* improves the general government deficit by around 0.1 per cent of GDP.

When account is taken of the likely Exchequer position, developments in, *inter alia*, other arms of government and the higher level of GDP (i.e. the denominator), a general government deficit amounting to 2.1 per cent of GDP (€4.4 billion) is projected for this year, the lowest since 2007. In addition, a primary surplus – that is the general government position before debt interest payments are taken into account – amounting to 1.2 per cent of GDP is projected for this year.

Summary: fiscal outlook for 2016

Fiscal policy over the last number of years has been guided by the objective of achieving a deficit of less than 3 per cent of GDP by end-2015 and thereafter moving to a balanced budget. This nominal target, and the intermediate milestones, provided a clear and easily understood anchor for fiscal policy.

Budget 2016 is framed under the rules of the preventive arm of the Stability and Growth Pact (SGP). While the rules are somewhat complex, the underlying principle is to ensure the sustainability of the public finances.

The key requirement of the preventive arm is to be at, or on the adjustment path towards a balanced budget in structural terms.² Compliance with this requirement is assessed on the basis of two pillars: the annual improvement in the structural balance and annual changes in expenditure (net of discretionary revenue measures) relative to a benchmark rate of expenditure growth (the so-called expenditure benchmark).

² The structural balance removes one-offs and the effects of the economic cycle from the headline balance.

A brief description of these rules is provided below for information.

Budgetary Rule

Ireland is required to make progress towards its Medium Term Objective (MTO), which is a balanced budget in structural terms. The rate of progress, or the adjustment path, as it is known is set in accordance with the SGP. For Member States whose debt is at or below a debt to GDP ratio of 60 per cent, the improvement in the structural balance has to be “at least” 0.5 per cent of GDP. For Member States, such as Ireland, whose debt to GDP ratio is over 60 per cent, the annual improvement has to be “more than” 0.5 per cent of GDP which is taken to be 0.6 per cent of GDP.

Expenditure Benchmark

The Expenditure Benchmark (EB) is a complementary requirement introduced by the six-pack reforms to the SGP. It assists Member States to maintain or reach their MTO by explicitly setting the rate at which public expenditure can grow in the absence of revenue-raising measures. The Expenditure Benchmark allows expenditure growth at a level equivalent to the potential growth rate of the economy for countries already at their MTO. Ireland is not yet at its MTO and, therefore, public expenditure growth has to be at a rate below the potential growth rate of the economy. To ensure this, a Convergence Margin is applied to reduce the permitted growth rate of expenditure. The Convergence Margin will be applied until the MTO is reached and is designed to ensure that the necessary minimum structural adjustment is made each year.

Based on compliance with the expenditure benchmark, estimated fiscal space of the order €1.2 - €1.5 billion was outlined in the Spring Economic Statement. This provided a basis for debate on expenditure and taxation priorities in the interim, including at the National Economic Dialogue held in July 2015.

Compliance with the fiscal rules in 2016

Looking first at the improvement in the structural balance, the minimum improvement required to comply with the fiscal rules in 2016 is 0.6 per cent of GDP. As can be seen from Table 11, the forecast improvement in Ireland’s structural balance in 2016 is 0.8 per cent of GDP, which is above the minimum required.

With regard to the expenditure benchmark, Table A8 in the annex illustrates the relevant calculation. While the final assessment will be performed by the European Commission on an *ex-post* basis in 2017, the calculations set out in the annex show that the growth in general government expenditure, net of discretionary revenue measures, is in compliance with the requirements.

Therefore, Budget 2016 is compliant with both pillars on an *ex-ante* basis. Compliance with the fiscal rules and not deviating from a pre-announced fiscal package should engender confidence in the markets that Ireland is serious about not repeating the boom-bust cycles of the past.

Taxation

Turning to the individual components of the forecast, taxation revenue is projected to increase by 5.8 per cent next year. This forecast is based on the assumption of nominal GDP growth of 6.2 per cent as well as the discretionary reductions announced in the Budget, while specific factors such as a reduction in stamp duties (due to expiry of pension levy), are also taken into

account. The forecast also takes into account 'second-round' effects associated with the discretionary measures announced in the budget – reduced taxation and increased spending generate additional economic activity which, in turn, generates additional tax receipts (sometimes called 'revenue buoyancy'). Estimates of this effect are set out in Table 9.

Looking at the individual tax-heads as per Table 8, the year-on-year increase is broad based. In terms of income tax, excluding the impact of the 2016 budgetary package, revenue was projected to increase by 7.6 per cent on foot of continued employment growth as well as assumed increases in per capita earnings. This is reduced to 4.4 per cent when the impact of the cuts in USC and income tax are taken account of. Taxes related to consumer spending – mainly VAT and excise duties – are projected to increase by 6.9 and 7.6 per cent, respectively. Notwithstanding the strong performance of corporation tax in 2015, a reversion towards more normal levels of growth based on gross operating surplus is assumed in the forecast.

Table 8: Exchequer Tax Revenues 2015-2016

	Estimated Outturn 2015	Forecast Y-on-Y Change	Budget Forecast 2016	Forecast Y-on-Y Change
	€m	%	€m	%
Customs	355	31.6	390	10.1
Excise Duty	5,245	5.1	5,645	7.6
Capital Gains Tax (CGT)	555	-1.1	590	6.0
Capital Acquisitions Tax (CAT)	370	3.7	375	1.5
Stamp Duty	1,320	-21.7	1,320	0.1
Income Tax	18,200	6.1	18,995	4.4
Corporation Tax	6,130	32.9	6,615	7.9
VAT	12,025	7.8	12,860	6.9
Local Property Tax	440	-10.9	440	0.0
Total	44,640	8.1	47,225	5.8

Source: Department of Finance.

Figures are rounded to the nearest €5 million. Year-on-year changes reflect actual figures.

Non-tax revenue

In relation to non-tax revenue, the most significant change in 2016 vis-à-vis 2015 is the expected reduction of €130 million in the Central Bank surplus income. This is as a result of lower interest income from the special portfolio and the Bank's discretionary investment portfolio. As was the case in previous years, significant dividends are expected to be transferred to the Exchequer from the commercial semi-states. However, as Ervia's special dividends are in excess of their entrepreneurial profits, a significant portion of the proceeds will not impact on the general government deficit. They do, however, reduce the Exchequer Borrowing Requirement (EBR) and hence lower general government debt.

In terms of capital resources, the substantial increase evident relates to the redemption of the AIB contingent convertible capital notes of €1.6 billion. This has always been factored into the forecasts and does not represent any upside to the EBR.

Voted expenditure

The gross voted current expenditure of Government Departments is now forecast at €51.5 billion in 2016, an increase of 0.9% on the 2015 current expenditure forecast outturn of €51 billion. The gross voted capital expenditure envelope of €3.8 billion is broadly in line with the forecast outturn for 2015.

Strengthened economic growth, combined with careful management of the public finances, mean that it is possible to increase public expenditure modestly for a second year in succession. This will help ensure that the public finances remain on a sustainable footing.

Non-voted expenditure

Debt servicing costs are, by far, the largest component of non-voted spending. In accrual terms, servicing the national debt is expected to cost €6.6 billion in 2016. The fall in costs vis-à-vis 2015 reflects the full year impact of the repayment of the IMF loans and lower cost of funding on programme related loans. Given the strong rebound in economic growth, Ireland's Gross National Income, on which the EU Budget contribution is based, has increased significantly. This translates directly into increases in the EU Budget contribution, which is expected to increase from €1,840 million to €1,975 million in 2016.

Exchequer and general government balance

In overall terms, an Exchequer Borrowing Requirement of €1.7 billion is projected for next year. The headline general government deficit is projected to be 1.2 per cent of GDP which represents a 0.9 per cent improvement over 2015. Under the harmonised approach for calculating the business cycle (the output gap), only a small amount of this improvement is cyclical in nature; in other words, the bulk of the improvement is structural in nature and is consistent with being on the adjustment path towards a balanced budget in structural terms.

Impact of budget measures on the fiscal position in 2016

The reduction in the income tax burden and increased spending have a positive short-run impact on aggregate demand, which, in turn, generates taxation revenue ('buoyancy'). In terms of the individual tax-heads, VAT and excise show a significant level of buoyancy compared with the *White Paper* projections. In addition, increased employment arising from the additional activity coupled with the increase in public sector pay under the Lansdowne Road Agreement generates higher income tax receipts. These increases in revenue have been incorporated into the overall budgetary arithmetic. When comparing the tax forecasts between the Budget and *White Paper*, it should be noted that the *White Paper* assumed a first year cost of indexation of the tax system of €0.3 billion (see Table 9 which shows the difference between the fiscal aggregates set out in the *2016 White Paper on Receipts and Expenditures and Budget 2016*).

Table 9: The Impact of *Budget 2016* on the Fiscal Position in 2016

	€m	€m
<u>New Tax Package:</u>		-690
Income tax		-595
Corporation Tax		-35
Capital Taxes		-55
Motor Tax*		-45
PRSI*		-20
Excise		60
<u>Other Tax Policy Decisions:</u>		375
Compliance measures		75
Non-indexation of tax system		300
<u>New Expenditure Measures:</u>		770
Current		795
Capital		-25
Technical adjustment to current expenditure in the White Paper**	35	
<i>Impact of New Measures on Budget 2016 Tax Forecast</i>		230
	<u>WHITE</u>	<u>BUDGET</u>
	<u>PAPER</u>	<u>2016</u>
	€m	€m
<u>Current Revenue</u>		
Tax Revenue	47,240	47,225
Non-Tax Revenue	<u>3,200</u>	<u>3,160</u>
Current Revenue	50,440	50,385
<u>Current Expenditure</u>		
Net Voted	39,305	40,100
Non-Voted	<u>9,810</u>	<u>9,810</u>
Net Current Expenditure	49,115	49,910
CURRENT BUDGET BALANCE	1,325	475
<u>Capital Receipts</u>	2,435	2,435
<u>Capital Expenditure</u>		
Net Voted	3,505	3,480
Non-Voted	<u>1,095</u>	<u>1,095</u>
Net Capital Expenditure	4,600	4,575
CAPITAL BUDGET BALANCE	-2,165	-2,140
EXCHEQUER BALANCE	-840	-1,665
GENERAL GOVERNMENT BALANCE	-1,895	-2,755
% of GDP	-0.9	-1.2

Sources: Department of Finance & Department of Public Expenditure and Reform.

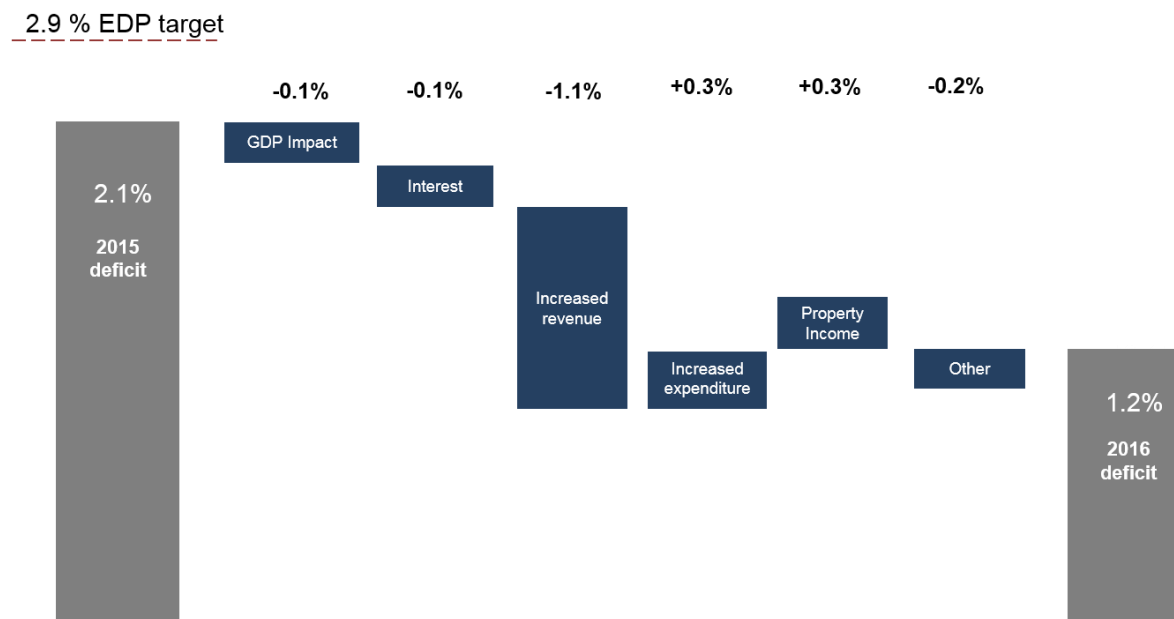
Notes:

There is a €10 million impact on interest accruals in the general government walk arising from the Budget package. Coupled with rounding and the measures outlined above, this explains the walk between the White Paper and Budget.

** PRSI and Motor Tax measures do not impact on tax revenue. The impact of these measures manifest themselves through lower A-in-A's and non-tax revenue respectively.*

*** Technical adjustment for current spending relates to the Government decision to pay a 75% of Christmas bonus in 2015 with knock on implications for 2016 no-policy change figures. A payment of 50% had been built into the White Paper.*

Figure 3: Transition from 2015 to 2016 general government deficit



Source: Department of Finance;
All variables as a percentage of GDP

Notes:

Diagram not drawn to scale.

The diagram begins with the 2015 general government deficit figure of 2.1 per cent of GDP. All further adjustments display the difference between 2015 and 2016 in order to arrive at the 2016 deficit figure. It should be noted that in this representation a negative adjustment improves the deficit while a positive change has the opposite effect. Changes are shown on an overall general government basis.

- With year-on-year nominal GDP growth of [6.2] per cent there is a denominator effect improvement to the deficit ratio of about 0.1 percentage points.
- Projected interest expenditure is approximately €160 million lower than 2016 due to the reduction in borrowing requirements and the refinancing of debt at lower interest rates.
- Total revenue income, due to increased taxation income, is anticipated to grow over the majority of the main tax headings with an overall increase in excess of €2.4 billion compared to taxes collected in 2015. This is in line with the aforementioned improved economic activity while also accounts for Budget 2016 measures whereby there have been reductions to certain taxes.
- Net-voted expenditure is expected to be around €530 million higher in 2016 compared to 2015. This is primarily due to demographic changes.
- Property income has reduced to as a result of the reduction in dividend income received from both Commercial bodies and the Central Bank.
- Other items improving the deficit include the effect of bodies classified within general government. This comprises reduced losses for Irish Water and the progression in the liquidation of IBRC.

Summary: Fiscal Outlook 2017-2021

Revenue developments

In relation to specific developments on the revenue side, tax is estimated to continue to grow broadly in line with nominal GDP growth, which averages about 4½% per annum over the period. It should be noted that there is a provision for indexation of the income tax system at a cost of c. €0.4 billion per annum in the baseline figures which reduces the headline year-on-year growth rates. As mentioned previously, there is a substantial drop in Exchequer tax revenue in 2017 and a corresponding increase in 2018. This is as a result of the impact of the Single European Payments Area (SEPA) and the number of banking days at the end of 2017 and will lead to c. €1.0bn of taxes flowing from 2017 to 2018. While this does impact on the Exchequer tax forecast, it does not impact on the general government balance as the bulk of these taxes will be accrued back to 2017.

It should be noted that there are no banking related transactions included in the forecast post 2016. As it is the stated intention of Government to divest these assets over time, these would all represent upside to the debt forecasts.

Expenditure

The recently published capital investment framework sets out the Government's commitment to an Exchequer investment plan of €27 billion over the six-years 2016-2021. This investment will increase the State's infrastructure, support economic recovery and jobs, support sustainable communities throughout Ireland and provide modern, fit for purpose buildings to deliver services to our citizens.

The Capital Plan has been carefully designed to meet the needs of a growing economy, to improve the delivery of services to communities, and maximise the benefits of support by providing Exchequer investment throughout the country. It builds on the recovery, addresses emerging pressures – especially on transport networks- supports the regions, and provides social infrastructure to enhance quality of life and is responsive to environmental challenges. The capital envelopes in the Plan are reflected in the fiscal projections out to 2021.

The current expenditure amounts in the fiscal projections post 2016 take account of certain demographic pressures and the impact on the pay and pensions bill of the Lansdowne Road Agreement. The final amounts to be allocated to expenditure in each year will fall to be considered by Government as part of the relevant budgetary process.

Table 10: Budgetary Projections 2015-2021

€ million	2015	2016	2017	2018	2019	2020	2021
CURRENT BUDGET							
Expenditure							
Gross Voted Current	51,040	51,475	52,195	52,815	53,195	53,630	54,090
Non-Voted Current (Central Fund)	9,685	9,810	9,585	9,765	9,690	9,685	9,275
Gross Current	60,725	61,285	61,780	62,580	62,885	63,315	63,365
less Expenditure Receipts and Balances (including PRSI)	11,535	11,375	11,375	11,375	11,375	11,375	11,375
Net Current	49,190	49,910	50,405	51,205	51,510	51,940	51,990
Receipts							
Tax Revenue	44,635	47,225	48,440	52,880	54,205	56,600	59,155
Non-Tax Revenue	3,390	3,160	1,845	1,805	1,940	1,965	1,800
Net Current Revenue	48,025	50,385	50,285	54,685	56,145	58,565	60,955
CURRENT BUDGET BALANCE	-1,165	475	-120	3,480	4,635	6,625	8,965
CAPITAL BUDGET							
Expenditure							
Gross Voted Capital	3,835	3,780	3,970	4,230	4,600	5,000	5,400
Non-Voted Capital	1,710	1,095	1,115	1,125	1,115	1,115	1,115
Gross Capital	5,545	4,875	5,085	5,355	5,715	6,115	6,515
less Capital Receipts	315	300	300	300	300	300	300
Net Capital	5,230	4,575	4,785	5,055	5,415	5,815	6,215
Capital Resources	3,565	2,435	950	960	960	950	950
CAPITAL BUDGET BALANCE	-1,665	-2,140	-3,835	-4,095	-4,455	-4,865	-5,265
EXCHEQUER BALANCE	-2,825	-1,670	-3,955	-615	175	1,760	3,700
GENERAL GOVERNMENT BALANCE	-4,390	-2,755	-1,265	520	2,565	4,730	6,990
<i>% of GDP</i>	<i>-2.1%</i>	<i>-1.2%</i>	<i>-0.5%</i>	<i>0.2%</i>	<i>1.0%</i>	<i>1.8%</i>	<i>2.5%</i>

Structural budget balance and the medium-term objective

Achieving a balanced budget in structural terms is the cornerstone of the fiscal rules that apply from next year onwards. Table 11 sets out the estimates of the structural balance. The harmonised methodology shows a positive output gap (2.5 per cent) in 2016, which is inconsistent with other measures of capacity utilisation in Ireland. Nevertheless, the figures

also show that the bulk of the improvement in the headline deficit next year is structural in nature. Moreover, the improvement is consistent with being on the adjustment path towards a balanced budget. On this trajectory, Ireland would achieve a balanced budget in structural terms by 2019.

Table 11: Cyclical developments

<i>As % of GDP unless otherwise stated</i>	2015	2016	2017	2018	2019	2020	2021
1. Real GDP growth (%)	6.2	4.3	3.5	3.2	3.1	3.0	2.9
2. General government balance	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
3. Interest expenditure	3.2	3.0	2.9	2.8	2.6	2.5	2.3
4. One-off and temporary measures	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth	3.4	4.1	4.3	3.8	3.3	3.2	3.5
<i>Contributions to potential GDP growth</i>							
Labour	1.2	1.7	1.9	1.5	1.0	0.8	1.1
Capital	0.8	1.0	1.2	1.2	1.3	1.3	1.3
Total factor productivity	1.4	1.3	1.2	1.1	1.0	1.0	1.0
6. Output gap (% pot GDP)	2.3	2.5	1.6	1.0	0.8	0.6	0.0
7. Cyclical budgetary component	1.2	1.3	0.9	0.6	0.4	0.3	0.0
Structural budget balance(2-4-7)	-3.2	-2.5	-1.4	-0.3	0.6	1.5	2.5
<i>annual improvement in SBB</i>	0.2	0.8	1.1	1.1	0.9	0.9	1.1
Structural primary balance (2+3-4-7)	0.0	0.5	1.5	2.4	3.2	4.0	4.8

Source: Department of Finance projections using harmonised EU methodology for calculation of the output gap. Temporary measures no longer include 2014 banking levy revenues.

Debt Analysis and Funding Position

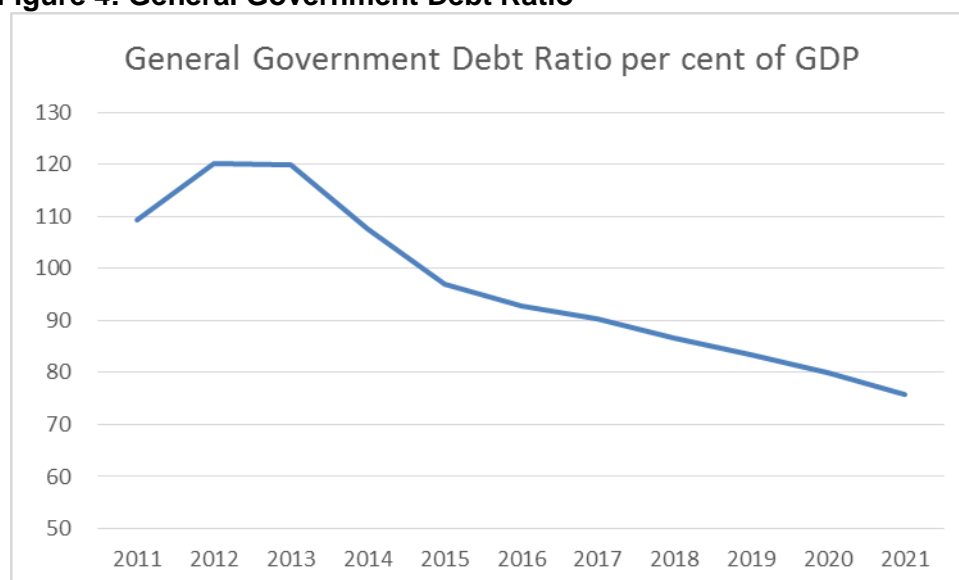
Since peaking in 2012 at 120.2 per cent of GDP Ireland's general government debt to GDP ratio has been on a downward trajectory and is forecast to be below 100% at the end of this year. Strengthening economic growth and an improving fiscal position have been important factors in this regard.

Nominal GDP was €189 billion in 2014 compared with €174m in 2012 and is now forecast to be €210 billion this year. The general government balance which was 8 per cent of GDP in 2012 dropped below 4 per cent last year and is now estimated at 2.1 per cent this year.

A further significant contributory factor in the reduction in the ratio to just below 108 per cent at end-2014, from 120 per cent of GDP at end -2013 was the repayment of IBRC liabilities from monies generated through the sale of assets by the special liquidator.

This improvement in the ratio is expected to continue over the forecast horizon on foot of continued economic growth and further improvements in the fiscal position.

Figure 4: General Government Debt Ratio



The current debt position and outlook

The CSO's current estimate of Ireland's general government debt at the end-2014 is € 203.2 billion. This has barely changed from the estimate reported in the *Stability Programme Update (SPU), April 2015*. However, owing to the denominator effect of revisions to GDP the debt ratio improved from the 109.7 per cent of GDP estimated in April to 107.5 per cent estimated currently.

In the SPU end-2015 general government debt was forecast to be €208.2 billion or 105 per cent of GDP. The current end-2015 estimate is €203.8 billion or 97 per cent of GDP. The improvement is due to a combination of factors including bond issuance at the midpoint rather than the upper bound of the announced range as well as the cancellation of €1 billion of the floating rate bonds purchased from the Central Bank of Ireland. There is also a greater than expected level of lending to the exchequer by other entities within the general government sector – this debt is consolidated and is therefore excluded from total general government debt.

There is little movement in the value of gross government debt at end-2015 compared to end 2014. Nominal bond issuance by the NTMA of €13.4³ billion has been largely offset by:

- early repayments to the IMF totaling just over €9 billion;
- the €2.2 billion 2015 Treasury Bond maturity in February, and
- the €1 billion reduction in the outstanding balance of the floating rate bonds.

As regards the stock flow adjustment the liquidation of IBRC is no longer having a significant impact while the expected reduction in cash and other financial assets in 2015 is not as pronounced as in 2014.

The significant strengthening of GDP however means that the projected end-2015 debt ratio is over 10 percentage points of GDP lower than at end-2014. The forecast movement of debt levels and debt dynamics can be seen in Table 12.

Table 12: General government debt developments

	2014	2015	2016	2017	2018	2019	2020	2021
Gross Debt (€bn)	203.2	203.8	207.1	210.9	211.6	212.4	211.6	208.9
<i>% of GDP</i>								
Gross debt	107.5	97.0	92.8	90.3	86.7	83.5	79.8	75.7
Change in gross debt (=1+2+3)	-12.5	-10.5	-4.2	-2.5	-3.6	-3.2	-3.6	-4.1
<i>Contributions to change in gross debt ratio:</i>								
1. General Government Deficit	3.9	2.1	1.2	0.5	-0.2	-1.0	-1.8	-2.5
2. Stock-flow adjustment	-10.3	-1.8	0.2	1.1	0.5	1.3	1.5	1.5
3. Nominal GDP contribution to Δ in debt ratio	-6.1	-10.8	-5.6	-4.2	-3.9	-3.6	-3.3	-3.1
<i>Composition of GGB</i>								
4. General Government Balance	-3.9	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
5. Interest expenditure	-4.0	-3.2	-3.0	-2.9	-2.8	-2.6	-2.5	-2.3
6. Primary balance (= 4 - 5)	0.1	1.1	1.7	2.3	3.0	3.6	4.3	4.8
<i>Composition of stock-flow adjustment</i>								
7. Change in cash and other financial assets	-4.7	-0.6	0.0	-0.2	-0.1	0.1	0.3	0.2
8. Interest adjustments	0.1	0.2	0.2	0.0	0.1	0.0	0.0	0.0
9. Equity transactions	0.2	-0.6	-1.1	0.0	0.0	0.0	-0.1	0.0
10. Accrual adjustments	0.0	0.3	0.2	0.6	-0.2	0.2	0.2	0.2
11. Impact of ISIF	0.2	-0.5	0.2	0.2	0.2	0.1	0.1	0.1
12. Impact of IBRC	-6.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
13. Collateral held	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
14. Other	0.0	-0.2	0.8	0.6	0.6	0.9	0.9	1.0
<i>Memorandum item:</i>								
Average interest rate (per cent)	3.5	3.3	3.2	3.2	3.2	3.1	3.1	3.0

Source: 2014 CSO, 2015-2021 Department of Finance

Gross debt and net debt

General government debt, as defined under the Excessive Deficit Procedure (EDP) regulation, is a gross measure of consolidated government liabilities. Net general government debt

³ Includes proceeds of non-competitive auctions.

(obtained by deducting the value of the financial assets corresponding to the categories of financial liabilities which comprise GG Gross Debt) is reported in Table 13. EDP debt instrument assets include: Exchequer cash and other financial assets, Ireland Strategic Investment Fund (ISIF) cash and certain investments, IBRC cash and loan assets and other cash and assets held by central government.

The forecast end-2015 net debt position is just under 6.8 percentage points of GDP better than the corresponding SPU estimate. A reduction in the level of EDP assets is offsetting the improvement in the gross debt ratio somewhat.

Table 13: General government debt and net general government debt 2014 and 2015

End-year	2014	2015
<i>% of GDP</i>		
General government debt	107.5%	97.0%
EDP debt instrument assets	19.6%	17.0%
Net debt position	87.8%	80.0%

Source: Department of Finance, NTMA , and CSO

Credit ratings

Ireland has an investment grade credit rating with all of the main rating agencies, following a series of credit rating upgrades during 2014:

- Moody's restored Ireland to investment grade with a rating of Baa3 and a positive outlook in January 2014. This was followed in May 2014 by a further two-notch upgrade to Baa1. In September of this year, Moody's affirmed its long-term rating at Baa1 while revising its outlook for Ireland from stable to positive.
- Standard & Poor's upgraded Ireland's sovereign credit rating to A- in June 2014 and then subsequently upgraded the rating again, to A in December 2014. The most recent move, to A+ with a stable outlook, came in June of this year.
- Fitch also upgraded Ireland's rating to A- in August 2014. In August 2015, Fitch revised its outlook for Ireland to positive from stable, and affirmed its long-term rating at A-.

Funding Requirements

The NTMA announced in December 2014 that it planned to issue €12 - €15 billion of long-term Government bonds over the course of 2015. €13.0 billion has been raised to date this year including:

- €4 billion in January through the syndicated sale of a new 7-year benchmark bond maturing in 2022. The funds were raised at a yield of 0.867 per cent.
- A further €4 billion in February, at a yield of 2.088 per cent, through the syndicated sale of a new 30-year euro benchmark bond, the first such bond issued by Ireland.
- €5 billion⁴ through a series of bond auctions, the most recent of which took place on 8 October when €1 billion of the 15-year benchmark bond was issued at a yield of 1.653 per cent.

⁴ Includes funds raised from non-competitive auctions.

The NTMA is not due to hold any further bond auctions in 2015.

Figure 5 shows the maturity profile of Ireland’s long-term marketable and official debt – Government bonds and EU-IMF Programme loans – at end-September 2015.

The chart reflects the early repayment, between December 2014 and March 2015, of the portion of the IMF loan (SDR 15.7 billion or just over €18 billion) which was subject to the highest rate of interest charge. The residual balance on the IMF loan now stands at SDR 3.8 billion (€4.7 billion) and is subject to interest at the SDR interest rate plus a margin of 1 per cent. The balance of the IMF loan is due to amortise over the period 2021-2023.

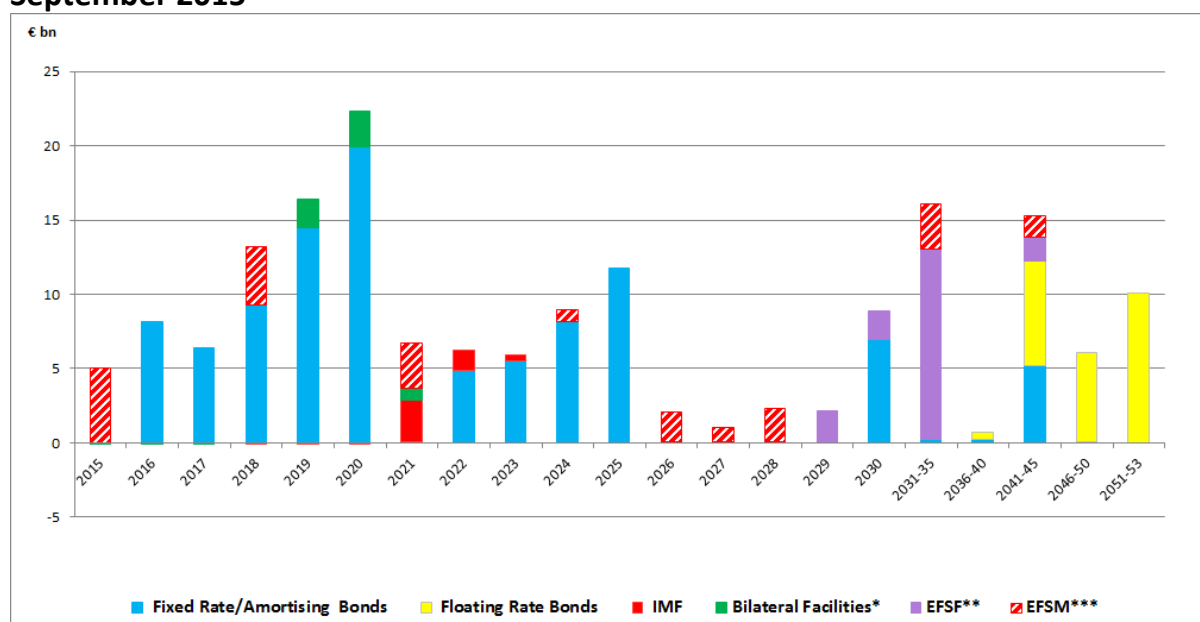
Following the maturity extensions granted in 2013, the first of the EFSF maturities is not until 2029 while it is not expected that Ireland will have to refinance any EFSM loans before 2027. In that context the EU has recently completed three separate funding transactions as part of the process of re-financing the first of the original EFSM maturities – €5 billion in December 2015.

However, the bilateral loans from the UK, Sweden and Denmark which formed part of the EU-IMF Programme mature over the period 2019-2021.

The Exchequer Borrowing Requirement (EBR) is narrowing and is projected to drop to just below €1.7 billion next year. However, the current outstanding balance of the April 2016 Treasury Bond is €8.1 billion. Given the front-loaded nature of the EBR, the NTMA is targeting cash and other short-term investment balances of in the region of €10-11 billion at end-2015.

Looking further ahead, there are significant bond redemptions over the medium term which will be adequately and prudently funded by the NTMA. The current outstanding balance on the six benchmark bonds maturing over the period 2017 - 2020 is €50 billion.

Figure 5: Maturity Profile of long-term marketable and official debt at end-September 2015



Source: NTMA

Notes: Figures in the table are unaudited and include the effect of currency hedging transactions.

* Bilateral loans were provided from the UK, Sweden and Denmark.

** EFSF loans reflect the maturity extensions agreed in June 2013.

*** EFSM loans are 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 original EFSM maturities are reflected in the graph above.

Statement of Risks and Sensitivity Analysis

Overview

This section deals with the main identifiable risks to the economic and budgetary forecasts. A broader assessment of risks more generally is set out in the National Risk Assessment.⁵ A sensitivity analysis sets out the impact of different economic scenarios, while the final section provides more detail on the State's contingent liabilities.

Fiscal Risks

Risks to the fiscal forecast, can arise from specific events or from changes to the economic outlook. It is important to emphasise that there are both upside and downside risks. For instance, economic growth could be stronger or weaker than assumed, and this would impact on the fiscal situation. Moreover, there are factors which will affect the public finances but where the timing is not clear (e.g. disposal of banking assets). There are also factors that simply cannot be foreseen, which emphasises the importance of horizon scanning such as that set out in the National Risk Assessment.

Forecasting receipts from the different tax-heads has to take account of the fact that each tax head responds at different rates to changes in the level of economic activity. While local property taxes for example are relatively stable, income, consumption and transaction taxes are generally more sensitive to the level of economic activity.

Tax forecasting is dependent on the relationships between economic activity, tax bases and tax revenues in prior years. These relationships can evolve over time and as the forecast of tax receipts for a given year is influenced to a great extent by the receipts in the preceding year, the availability of the most recent data can reduce the risk to the forecast for particular tax heads.

This is particularly relevant given the performance of corporation tax through the first nine months of 2015, which is up 45 per cent year-on-year, and the fact that over 40 per cent of corporation tax receipts are due in October/November. Given that the May/June receipts earlier this year include the preliminary payment for 2015, the 2015 forecast assumes a continuation of the year-on-year growth. However, given the concentration risks in corporation tax, with the top 10 taxpayers accounting for about a third of overall revenue, this tax head is subject to greater swings than most. This increases the risks inherent in the revenue forecasts in years t+1 and beyond. Having said that, it is clear that tax revenue has performed strongly in the last few years and this performance has been broadly based across almost all tax heads.

With regard to the revenue forecasts, it is worth noting that the Irish Fiscal Advisory Council recently published an assessment of the Department of Finance's tax forecasts. Importantly, they found that the forecasts contained no bias, negative or positive.

As is the norm, the fiscal forecasts include estimates for interest expenditure which are based on both the existing stock of debt and projected debt issuance over the forecast horizon. Although yields on Irish Government bonds are currently close to historical lows – with the

⁵ The National Risk Assessment is an annual horizon scanning exercise in which broader risks to Ireland's well-being are assessed. It not only looks at risks from an economic perspective; environmental, geo-political, social and technological areas of risk are also considered. Of these risk areas the Department of Finance is directly responsible (and therefore will act as a lead department) for the following five economic risks– (i) Uncertainties about impact of Quantitative Easing, (ii) The re-emergence of the euro area sovereign debt crisis, (iii) Vulnerabilities in the banking system, (iv) Weak economic growth or slowdown in world growth, and (v) Public debt and private debt sustainability.

For further detailed information see [National Risk Assessment 2015](#)

most recent auction of 15-year debt on 8th October issued at a yield of 1.65% – the interest expenditure estimates are based on the path of interest rate futures, which is somewhat less benign than present conditions. This is prudent and best practice internationally. In terms of volatility around the debt interest forecast, while there is some floating rate exposure, it should be noted that most of the outstanding stock of debt is fixed rate debt.

Market sentiment towards Ireland is currently positive thanks to the significant economic, fiscal and financial progress made by the State. Changes in market sentiment towards Ireland or changes in market sentiment generally – for example, a re-emergence of turbulence in the Eurozone – could impact investor confidence and affect the price of funding.

A further specific fiscal risk concerns the EU Budget and the timing around the Own Resources Decision, which is yet to be ratified by all Member States, and which would involve an increased EU Budget contribution from Ireland.

Over the longer term, there are fiscal risks arising from the potential under-achievement of legally binding climate change targets. Under the EU Effort Sharing Decision, which covers the period 2013 -2020, Ireland is obliged to achieve a 20% Greenhouse Gas emissions reduction (compared to 2005 levels) in certain sectors. At the moment, the EPA is estimating that Ireland's emissions are not in line with this reduction. This potential under-achievement poses a risk to the Exchequer as failure to comply with the set target will incur compliance costs of possible hundreds of millions of euro per annum as Ireland will be required to make good any underachievement on target through the purchase of carbon credits until such time as the target is complied with.

Further potential costs for Ireland may also arise in the context of a new EU climate and energy framework for the period 2020-2030 which will replace the current 2013-2020 arrangements and will set new, additional emissions reduction targets.

No banking-related transactions have been factored into the deficit or debt forecasts post 2016. Ireland retains stakes in three domestic banks, AIB (99.8%), Bank of Ireland (13.9%) and PTSB (74.9%) which are valued in the region of €15 billion and it is stated Government policy that these will be divested over the medium to long term. The liquidation of IBRC is ongoing, however, once complete it is expected that there will be surplus funds which will be distributed to creditors, of which the State is the largest. The NAMA Board recently advised that the Agency has revised its projected terminal surplus from €1bn to €1.75bn. This upward projection is subject, in particular, to market conditions remaining favourable and it remains very difficult to indicate what the anticipated surplus position will be when NAMA completes its work. These all represent upside to baseline debt forecasts.

Economic Risks

The central scenario underpinning the analysis in this document is one in which growth in our main trading partners remains reasonably strong, and domestic demand continues to recover.

However, risks to the economic forecast are, on balance, tilted to the downside, and are mainly external in origin. In particular, growth in Emerging Market Economies (EMEs) has disappointed this year, and there are concerns regarding the growth transition in China. EMEs have been an important growth engine in recent years, and while Ireland's direct trade exposure remains relatively small, the Irish economy would be exposed to a more generalised slowdown in the world economy. In this regard, the exchange rate and financial market are also potentially important transmission channels. Geopolitical issues also have the potential to de-rail the global economy. An additional complicating factor relates to the timing and pace of monetary policy tightening in the US.

On the domestic front, while falling the high level of private debt remains a concern, and any deterioration in the external environment could prompt households and firms to increase the pace of deleveraging, with adverse implications for domestic demand.

Sensitivity analysis

Table 14 (overleaf) sets out estimates of the impact of a series of stylised shocks on the macroeconomic and public finance outlook for Ireland. Shocks illustrated include the impact of a one per cent change in global growth, an increase in the rate of household savings and an increase in interest rates. These impacts are generated using the ESRI's structural macroeconomic model (HERMES). The HERMES results are broadly symmetric and linear and, within plausible bounds, can be scaled up or down to reflect a greater or lesser shift than that modelled. Whilst the baseline estimates underpinning Budget 2016 have changed relative to the April Stability Programme Update, the marginal impact of these shocks remains broadly comparable.

A permanent one per cent decrease in global output levels would reduce Irish GDP by 1 per cent relative to baseline, primarily exerted through the trade channel, resulting in an upward impact on the deficit of a $\frac{1}{4}$ per cent of GDP. A shock to global growth prospects can be assumed to impact Irish macro-fiscal dynamics in a broadly symmetric manner, with the effect of an increase in global growth working in the opposing direction.

Were the household savings rate to remain permanently elevated at 1 percentage point higher than baseline assumptions, this would reduce relative GDP levels by a $\frac{1}{4}$ of a percent. Although unlikely in the current external environment, an upward shift in policy-set interest rates would suppress Irish economic activity levels, with the cumulative impact reaching some 2½ percentage points by 2019. Such an effect would significantly hamper debt reduction efforts. This effect would leave the deficit some 1 percentage point higher in 2019 relative to baseline assumptions.

Table 14: Impact on main aggregates

	compared with baseline	2016	2017	2018	2019	2020	2021
1 per cent decrease in World Output							
GDP	% change	-0.8	-0.9	-1.0	-1.1	-1.1	-1.1
Total Revenue	% change	-0.2	-0.4	-0.7	-0.9	-1.0	-1.0
Total Expenditure	% change	0.1	0.1	0.0	0.0	0.0	0.0
Deficit-GDP Ratio	pp change	0.1	0.2	0.2	0.3	0.3	0.3
Debt-GDP Ratio	pp change	0.9	1.3	1.6	1.9	2.2	2.4
Primary Balance – GDP Ratio	pp change	0.1	0.1	0.2	0.2	0.2	0.2
1 percentage point increase in Savings Rate							
GDP	% change	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Total Revenue	% change	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3
Total Expenditure	% change	0.0	0.0	0.0	0.0	0.1	0.1
Deficit-GDP Ratio	pp change	0.1	0.1	0.1	0.1	0.1	0.1
Debt-GDP Ratio	pp change	0.4	0.5	0.6	0.7	0.8	0.9
Primary Balance – GDP Ratio	pp change	0.1	0.1	0.1	0.1	0.1	0.1
1 percentage point increase in Interest Rate							
GDP	% change	-0.3	-1.4	-2.1	-2.4	-2.4	-2.2
Total Revenue	% change	-0.7	-1.7	-2.1	-2.3	-2.1	-1.7
Total Expenditure	% change	0.2	0.5	0.6	0.7	0.7	0.7
Deficit-GDP Ratio	pp change	0.4	0.8	0.9	1.0	0.9	0.8
Debt-GDP Ratio	pp change	1.7	3.5	5.3	6.7	7.4	7.7
Primary Balance – GDP Ratio	pp change	0.3	0.6	0.6	0.6	0.4	0.2

Source: Economic and Social Research Institute

**Table 15: Range of Forecasts
Comparison of 2015 forecasts**

2015		Annual % change			
		GDP	GNP	HICP	Employment
Department of Finance	Oct 2015	6.2	5.5	0.1	2.8
Central Bank of Ireland	Oct 2015	5.8	5.3	0.3	2.4
IMF	Oct 2015	4.8	n/a	0.2	n/a
ESRI	Sept 2015	6.0	5.9	0.1	2.8
European Commission	May 2015	3.6	n/a	0.4	1.6
OECD	June 2015	3.5	n/a	0.1	n/a

Comparison of 2016 forecasts

2016		Annual % change			
		GDP	GNP	HICP	Employment
Department of Finance	Oct 2015	4.3	3.9	1.2	2.4
Central Bank of Ireland	Oct 2015	4.7	4.4	1.5	2.2
IMF	Oct 2015	3.8	n/a	1.5	n/a
ESRI	Sept 2015	4.5	4.0	1.2	2.4
European Commission	May 2015	3.5	n/a	1.5	1.5
OECD	June 2015	3.3	n/a	1.7	n/a

Source: Institutions cited.

Comparison with 2015 Stability Programme Update

Table 16 compares the headline macroeconomic and fiscal figures with the projections set out in the April 2015 Update of the Stability Programme.

The GDP forecast for this year has been revised upwards on the back of both carryover from the first half of the year as well as the positive high-frequency data in the interim.

Table 16: Comparison with 2015 Stability Programme Update

	2015	2016	2017	2018	2019	2020	2021
Real GDP growth (%)							
- Previous forecast (SPU)	4.0	3.8	3.2	3.2	3.0	3.0	
- Current update	6.2	4.3	3.5	3.2	3.1	3.0	
- Difference	2.2	0.5	0.3	0.0	0.1	0.0	
Net lending of general government (% of GDP)							
- Previous forecast (SPU)	-2.3	-1.7	-0.9	-0.1	0.7	1.7	-
- Current update	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
- Difference	0.2	0.5	0.4	0.3	0.3	0.1	-
General government gross debt (% of GDP)							
- Previous forecast (SPU)	105.0	100.3	97.8	93.6	89.4	84.7	-
- Current update	97.0	92.8	90.3	86.7	83.5	79.8	75.7
- Difference	8.0	7.5	7.5	6.9	5.9	4.9	-

Source: CSO, Department of Finance

Contingent Liabilities

A contingent liability arises in a situation where past or current actions or events create the risk of a call on Exchequer funds in the future. The 2014 Appropriation Accounts⁶ for the year ended 31 December 2014 were published in September. While the amounts are not all quantifiable, notes on contingent liabilities are listed in the Appropriation Accounts of various Votes.

Table 17: Contingent liabilities

% of GDP	2012	2013	2014
Public guarantees <i>of which linked to the financial sector</i>	66.1	31.2	13.3
Eligible Liabilities Guarantee	41.6	11.2	5.4
Exceptional Liquidity Assistance	9.2	0.0	0.0
National Asset Management Agency	14.6	19.3	7.2
Other	0.8	0.7	0.7

Source: Department of Finance, CSO.

The Other category in Table 17 above relates to entities such as CIE, European Investment Banks Act, Insurance Acts, and the Credit Guarantee Act. Additional details on most of these can be accessed in the 2014 Finance Accounts (Statement 1.11)⁷.

The National Asset Management Agency (NAMA) recently announced that it has redeemed another €1.75 billion of Senior Bonds, its third redemption in 2015. This brings to €21.1 billion the amount of Senior Debt redeemed to date, 70% of the €30.2 billion of Senior Debt originally issued in 2010 and 2011 to acquire bank loans.

Items which are not included above – areas where the State has potential exposure

- Public Private Partnerships

Public Private Partnerships (PPPs) involve contractual arrangements between the public and private sectors for the purpose of delivering infrastructure or services which were 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).

The Department of Public Expenditure and Reform publishes information on the PPP programme including the level of estimated outstanding future financial commitments in nominal terms arising under existing PPP contracts. The calculation of the contractual capital value of all Irish PPPs as at 31st March 2015 is €496.8 million on the government balance sheet, and €5,375.6 million off-balance sheet. In total, this is €5.87 billion.

- Public Sector Pensions

The Department of Public Expenditure and Reform measures the accrued liability of the pension promise the State has made to its serving and former employees. The separate liability for State pensions is assessed as part of the actuarial reviews of the Social Insurance Fund which are carried out at 5 yearly intervals. Under European law from 2017, Ireland will be required to give an estimate of its total accrued pension liabilities, based on a standard series of assumptions, for publication in its national accounts.

⁶ <http://www.audgen.gov.ie/documents/annualreports/2014/appacc/en/appaccs2014.pdf>

⁷ <http://finance.gov.ie/sites/default/files/FINANCE%20ACCOUNTS%202014%20Final.pdf>

Following an actuarial assessment carried out by Departmental staff, this accrued liability figure – of all expected future superannuation (or pension) payments to current public servants and their spouses in respect of service to the end of 2012, plus the full liability for all future payments to current and preserved pensioners and to their spouses, based on current pension rules – has been estimated as amounting to €98 billion as of the end of 2012.

Further details related to this assessment and providing context are available here: <http://www.per.gov.ie/monitoring-and-managing-expenditure-now-and-into-the-future-measuring-the-accrued-public-service-pension-liability/>

- **Callable capital in international organisations**

Ireland is committed to providing capital to international organisations of which it is a member. This can take the form of paid-in capital and callable capital. Paid-in capital is funding which has already been contributed to organisations, whereas callable capital is funding which may be called on only as and when required by the organisations. In general, capital paid into these organisations is classified as investments with no effect on the general government deficit. However, money borrowed to pay the capital does increase general government debt, and is already included in the figure. Details of when a call may be made are supplied on the websites of the organisations.⁸

The 2014 Finance Accounts (Statement 1.8(b)) provide details of investments in international bodies under international agreements, and the changes within the previous fiscal year.⁹ While it includes details of capital contributions to organisations such as the European Bank for Reconstruction and Development and the European Investment bank, the most significant is Ireland's capital contribution to the European Stability Mechanism of approximately €1.3 billion.

⁸ An example of the categories under which a call may be made can be found here, at question A10. <http://www.esm.europa.eu/about/publications/index.htm>

⁹ Finance Accounts published 25th September 2015 <http://finance.gov.ie/sites/default/files/FINANCE%20ACCOUNTS%202014%20Final.pdf>

Budgetary Framework and Reform

A number of important budgetary reforms have been introduced in recent years, including the establishment of the Irish Fiscal Advisory Council (IFAC), enhanced fiscal rules and co-ordination of budgetary timelines across Europe. These have served to enhance the transparency and credibility of the budgetary process.

From 2016, Ireland will be subject to the requirements of the preventive arm of the Stability and Growth Pact. The key requirement of the preventive arm is to be at or on the adjustment path towards the medium term budgetary objective (MTO). In Ireland's case, the MTO is for a balanced budget in structural terms. In addition, there is a requirement to reduce the debt-to-GDP ratio on an annual basis by 1/20th of the difference between the actual ratio and the 60 per cent of GDP threshold.

Developments at EU level also include the two-pack of economic governance regulations, which came into force in May 2013 and which has led to a number of changes to Ireland's budgetary system. The regulations harmonised the budgetary timeline and introduced the requirement for euro area Member States to publish their draft budget for central government and the main parameters of all other general government sub-sectors no later than 15 October each year. The Budget must be based on macroeconomic projections which are endorsed or produced by an independent body at national level. The common budgetary timeline also foresees that the final budget is adopted or fixed upon annually by 31 December.

The budgetary framework has been further enhanced at national level with the publication, for the first time this year, of a Spring Economic Statement (SES) which set out the broad economic and fiscal parameters for Budget 2016. The publication of the SES also involved a debate in the Dáil. In its Fiscal Assessment Report in June, the IFAC welcomed this development, noting that it improved fiscal transparency. This new development of quantifying the level of fiscal space early in the year, well in advance of the Budget, formed the basis for discussion in an open forum in the new National Economic Dialogue (NED) on how the limited room for manoeuvre can best be spent. The NED was another innovation, which involved an open discussion among representatives of all sections of Irish society of the priorities for the years ahead.

Social Impact Assessment

The Department of Finance conducts distributional assessments of proposed tax measures in line with the Government's commitment to undertake a Social Impact Assessment (SIA) of the Budget. This incorporates examination of financial incentives to work. The SIA process also included the presentation of papers from the Department of Finance and the Department of Social Protection to the Tax Strategy Group which met in September. These papers examined the distributional impacts of a range of tax and social welfare measures. These analyses are in addition to the comprehensive social impact assessment document that the Department of Social Protection publishes in the months following the Budget.

Local government main parameters

The material in Table 18 represents a current best estimate of local government 2016 financing. These figures will be updated for the publication of the Revised Estimates Volume, which will take into account further key elements in this process.

This table is published in line with the requirements of Regulation (EU) 473/2013, on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, which requires the main parameters of sub-sectors of general government to be included in the Budget.

Table 18: Preliminary estimate of local government capital and current income and expenditure for the forthcoming financial year

	€
Overall balance (1 - 2)	-42,799,753
1. Total Revenues / inflows	5,205,847,458
Rates / NPPR (net of bad debt provision for rates)	1,321,347,560
Property income	392,928,612
Other receipts	1,527,911,064
Inflows from central government ¹	1,839,707,971
Inflows from operations in financial instruments ²	123,952,251
2. Total expenditure / outflows	5,248,647,211
Compensation of employees ³	1,741,625,990
Interest paid to non government ⁴	9,957,858
Social benefits (transfer payments to households)	308,317,223
Capital transfers (capital grants paid)	163,821,531
Other expenditure (net of bad debt provision for rates)	2,767,466,195
Outflows to central government ⁵	214,095,674
Outflows from operations in financial instruments ⁶	43,362,740

Figures may not sum due to rounding.

Source: Department of Environment, Community and Local Government

Notes

1. *Grants and subsidies*
2. *Loans*
3. *Including pensions*
4. *Interest paid other than to the HFA, OPW or NTMA*
5. *Interest and principal paid to the HFA, OPW and NTMA*
6. *Principal repaid, other than to the HFA, OPW or NTMA*

Table 19: Alternative presentation of 2015/2016 Exchequer forecasts

Table 19: Budget 2016 Exchequer Forecast (Alternative Format)

	2015 €m	2016 €m	Y-on-Y €m	Y-on-Y %
(A) REVENUE	59,198	60,763	1,565	2.6%
Tax Revenue	44,637	47,225	2,588	5.8%
Income tax	18,199	18,994	795	4.4%
VAT	12,025	12,860	835	6.9%
Excise duties	5,245	5,643	398	7.6%
Corporation tax	6,130	6,614	484	7.9%
Stamp duties	1,320	1,322	2	0.1%
Local property tax	438	438	0	0.0%
Customs	355	391	36	10.1%
Capital gains tax	555	589	34	6.1%
Capital acquisitions tax	370	375	5	1.4%
A-in-A's (Includes PRSI, NTF and balances)*	11,853	11,677	-176	-1.5%
Fund receipts (PRSI)	8,340	8,491	151	1.8%
Fund receipts (NTF)	362	363	1	0.3%
Other A-in-A's (inc Departmental Balances)	3,151	2,823	-328	-10.4%
Non-Tax Revenue	2,609	1852	-757	-29.0%
Central Bank surplus income	1,419	983	-436	-30.7%
Dividends	447	263	-184	-41.2%
National Lottery Surplus	197	203	6	3.0%
Interest on Contingent Capital notes	191	160	-31	-16.3%
Bank guarantee fees	73	22	-52	-70.6%
Other	282	222	-60	-21.4%
Capital Resources	99	9	-90	-90.9%
Other	99	9	-90	-90.9%
(B) EXPENDITURE	64,129	64,642	513	0.8%
Gross Voted Current Expenditure	51,040	51,476	436	0.9%
Non-Voted Current Expenditure	9,242	9373	131	1.4%
Interest on National debt	6,990	6,988	-2	0.0%
Debt management expenses	138	135	-3	-2.2%
Oireachtas Commission	107	131	24	22.0%
EU Budget Contribution	1,840	1,975	135	7.3%
Other	166	144	-23	-13.7%
Gross Voted Capital Expenditure	3,835	3,781	-54	-1.4%
Non-Voted Capital Expenditure	12	12	0	0.0%
(C) = (A-B) BALANCE EXCLUDING TRANSACTIONS WITH NO GENERAL GOVERNMENT IMPACT	-4,931	-3,879	1,052	-21.3%
NON GENERAL GOVERNMENT IMPACTING TRANSACTIONS				
(D) REVENUE	4,248	3,730	-518	-12.2%
Non-Tax Revenue	780	1306	526	67.5%
Central Bank surplus income (No GG impact)	290	598	308	106.2%
Dividends (No GG impact)	0	267	267	n/a
Transfer from Local Government Fund	484	441	-43	-8.9%
Other	6	0	-6	-100.0%
Capital Resources	3,468	2,424	-1,044	-30.1%
Sale of Contingent Capital notes	508	1,600	1,093	215.3%
Sale of State property	335	0	-335	-100.0%
Transfer from NPRF	1,634	0	-1,634	-100.0%
FEOGA	677	700	23	3.4%
Loan Repayments	278	71	-208	-74.5%
Other	36	53	17	47.7%
(E) EXPENDITURE	2,140	1,520	-620	-29.0%
Non-Voted Current Expenditure	442	438	-4	-0.9%
Transfer of LPT to Local Government Fund	438	438	0	0.0%
Other	4	0	-4	-100.0%
Non-Voted Capital Expenditure	1,698	1,082	-616	-36.3%
Exchequer Loans	799	820	21	2.6%
Loans to Irish Water	96	58	-38	-39.6%
Capital Contribution to Irish Water	0	184	184	n/a
Repayment of HFA loans	423	0	-423	-100.0%
Transfer to ISIF	335	0	-335	-100.0%
Other	45	20	-25	-56.2%
(F) = (D-E) TRANSACTIONS WITH NO GENERAL GOVERNMENT IMPACT	2,108	2,210	102	4.9%
(G) = (C + F) EXCHEQUER BALANCE	-2,823	-1,669	1,154	-40.9%
<i>Rounding may affect totals</i>				
<i>This is for illustrative purposes only</i>				
<i>Additional information:</i>				
Exchequer Primary Balance	4,167	5,319	1,152	27.7%
* A surplus of circa €250 million is estimated for the Social Insurance Fund and the National Training Fund in 2016				

IFAC Endorsement – Letter and Associated Material

Endorsement

Following the passing of the two-pack Regulation (EU) 473/2013 which came into force on 30 May of 2013, both the Budget and Stability Programme Update must be based on macroeconomic forecasts which are either produced or endorsed by an independent body at national level. In Ireland, the endorsement route has been selected, and the Irish Fiscal Advisory Council (IFAC) was assigned the task of endorsement in the Ministers and Secretaries (Amendment) Act 2013. The procedures underlying the endorsement process have been set out in a Memorandum of Understanding (MoU), which was agreed between the Department of Finance and the IFAC. The latest version of the MoU (February 2015), is available on the Department of Finance's website.

In relation to the economic forecasts underpinning Budget 2016, the endorsement process began on 22 September with the submission of provisional forecasts to IFAC by the Department of Finance, followed by detailed technical discussions between Departmental staff and the IFAC secretariat on 24 September. The forecasts were subsequently discussed with the IFAC Council on 1 October. A letter of endorsement (below) was received from the Chair of the IFAC on Friday 2 October 2015. Department of Finance staff subsequently presented the endorsed macroeconomic forecasts to the Joint Oireachtas Committee on Finance, Public Expenditure and Reform on 6 October 2015.

IFAC will provide detailed commentary on the Department's macroeconomic forecast in its forthcoming Fiscal Assessment Report.

Letter of endorsement



Cearnóg Whitaker | Whitaker Square
Cé Sir John Rogerson | Sir John Rogerson's Quay
Baile Átha Cliath 2 | Dublin 2

02 October 2015

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 *Budget 2016* will be based.¹⁰

The *Budget 2016* forecasts were provided to the Council on 22 September 2015 and discussed by the Council with Department of Finance staff on 01 October 2015, ahead of the Council's endorsement meeting.


The Irish Fiscal Advisory Council (IFAC) endorses as within the range of appropriate projections the set of macroeconomic forecasts prepared by the Department of Finance for *Budget 2016* for the years 2015 and 2016.

The Council is satisfied that the forecasts are within its endorsable range, taking into account the methodology and the plausibility of the judgements made. The key variables taken into account in the endorsement are those listed in Section 2 of the Memorandum of Understanding (MOU).¹¹

In relation to the supply-side projections for potential output and the output gap to be published in *Budget 2016*, the correct application of the common European Commission (EC) methodology to estimate trend supply-side variables has been verified. As noted in the June 2015 *Fiscal Assessment Report*, due to the difficulties associated with estimating supply-side variables using the EU methodology, the Council's endorsement refers only to the actual demand-side projections. IFAC notes that work is underway by the Department of Finance to develop alternative approaches to estimating potential output and the output gap.

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 November.

Yours sincerely,



John McHale
Chair, Irish Fiscal Advisory Council

Comhairle/Council: John McHale (Chair) . Sebastian Barnes. Ide Kearney . Róisín O'Sullivan. Michael G. Tutty

¹⁰ 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".

¹¹ The Memorandum of Understanding between the Department of Finance and the Council as amended in 2015 sets out the agreed modalities of the endorsement function in relation to the Budget and the Stability Programme Update (SPU).

IFAC-endorsed macroeconomic forecasts

Endorsed and final forecasts

The following tables set out the forecast which have been endorsed by IFAC and the final forecasts which underpin the Budget.

Both endorsed and final forecasts are based on external assumptions which were finalised on 18 September. Whilst the final macroeconomic forecast underpinning the Budget incorporate a Budget package of €1.5 billion, the fiscal assumptions underpinning the endorsed forecast assumed a Budget package in the order of €1.2 billion in 2016 as the precise measures in Budget 2016 had not been finalised. The incorporation of the additional €300 million in 2016 adds approximately 0.1 percentage points to the real GDP growth rate for that year. A reconciliation between the final and endorsed forecasts is included in the tables below (forecasts covering the period 2017-2021 are not subject to endorsement by IFAC).

Table B1: Macroeconomic developments

	2015 <i>final</i>	2016 <i>final</i>	2016 <i>endorsed</i>	Difference (pp)
	<i>year-on-year % rate of change (unless otherwise stated)</i>			
Real GDP	6.2	4.3	4.2	+0.1
Nominal GDP	11.2	6.2	6.1	+0.1
<i>Components of real GDP</i>				
Private final consumption expenditure	3.5	3.5	3.3	+0.2
Government consumption expenditure	1.9	1.1	1.1	-
Gross fixed capital formation	13.0	12.5	12.5	-
Stock changes (% of GDP)	0.8	0.6	0.6	-
Exports of goods and services	11.9	6.9	6.9	-
Imports of goods and services	12.1	8.2	8.2	+0.1

Source: Department of Finance forecasts.

Note: Rounding may affect totals.

Table B2: Price developments

	2015 <i>final</i>	2016 <i>final</i>	2016 <i>endorsed</i>	Difference (pp)
	<i>year-on-year % rate of change</i>			
GDP deflator	4.6	1.8	1.8	-
Private consumption deflator	0.9	1.8	1.7	+0.1
HICP	0.1	1.2	1.1	+0.1
Export price deflator	5.6	1.7	1.7	-
Import price deflator	2.6	1.5	1.5	-

Source: Department of Finance forecasts

Note: Rounding may affect totals

Table B3: Labour market developments

	2015 <i>final</i>	2016 <i>final</i>	2016 <i>endorsed</i>	Difference (pp)
	<i>year-on-year % rate of change</i>			
Employment, persons	53,000	48,000	47,000	+1000
Unemployment rate (%)	9.5	8.3	8.4	-0.1
Labour productivity, persons	3.4	1.8	1.8	-
Compensation of employees	4.9	4.9	4.8	+0.1
Compensation per employee	2.1	2.4	2.4	-

Source: Department of Finance forecasts

Note: Rounding may affect totals.

Table B4: Sectoral balances

	2015 <i>final</i>	2016 <i>final</i>	2016 <i>endorsed</i>	Difference (pp)
	<i>% GDP</i>			
Current account (% of GDP)	6.9	6.2	6.2	-

Source: Department of Finance forecasts

ADDITIONAL FISCAL STATISTICS AND TABLES

Table A1: Explanation of net differences between the Exchequer borrowing requirement and general government balance, 2014-2021

<i>€ million</i>	2014	2015	2016	2017	2018	2019	2020	2021
	outturn				projected			
(a) Exchequer balance	-8,185	-2,825	-1,670	-3,955	-620	175	1,760	3,700
(b) Exclude equity and loan transactions	290	-1,210	-2,445	-50	-60	-120	-145	-90
(c) Adjust for interest accrual	175	330	500	120	155	135	120	-60
(d) Adjust for tax accruals	545	380	280	1,320	-700	305	315	315
(e) Adjust for other accruals	-570	145	165	155	145	175	170	160
(f) Impact of ISIF	375	-955	345	355	365	375	390	390
(g) Other government bodies	30	25	-10	-5	35	45	55	45
(h) Net lending/borrowing of NCSSBs	-45	-655	-170	140	110	-50	75	75
(i) Surplus of the Social Insurance Fund	79	0	249	660	1,087	1,529	1,988	2,448
(j) Net lending of Local Government	0	423	0	0	0	0	0	0
(k) General government balance (=a to j)	-7,330	-4,385	-2,765	-1,260	520	2,570	4,730	6,985
(l) General government balance as % of GDP	-3.9%	-2.1%	-1.2%	-0.5%	0.2%	1.0%	1.8%	2.5%
(m) Nominal GDP	189,050	210,150	223,125	233,575	244,025	254,450	265,025	275,825

Source: Department of Finance, Department of Public Expenditure, CSO and 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. This table is consistent with the CSO Government Finance statistics release of October 2015.

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.

f. 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.

g. Transfers between units within the general government sector do not affect the general government balance.

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

Table A2.1: General government budgetary forecasts 2014-2021

	ESA	2014	2014	2015	2016	2017	2018	2019	2020	2021
		€m								
Net lending (EDP B.9) by sub-sector										
1. General government (=6-7)	S.13	-7,329	-3.9	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
2. Central government	S.1311	-7,408	-3.9	-2.3	-1.4	-0.8	-0.2	0.4	1.0	1.6
3. State government	S.1312	M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S.1313	0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	M	0.0	0.0	0.1	0.3	0.4	0.6	0.8	0.9
General government (S.13)										
6. Total Revenue	TR	64,975	34.4	33.0	31.9	31.6	31.4	31.2	31.1	30.9
7. Total Expenditure	TE	72,304	38.2	35.1	33.2	32.1	31.1	30.2	29.3	28.4
8. Net lending/borrowing (=6-7)	B.9	-7,329	-3.9	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
9. Interest expenditure	D.41	7,506	4.0	3.2	3.0	2.9	2.8	2.6	2.5	2.3
10. Primary balance (=1+9)		178	0.1	1.1	1.7	2.3	3.0	3.6	4.3	4.8
11. One-off and other temporary measures		-468	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Selected components of revenue										
12. Total taxes (12=12a+12b+12c)		46,398	24.5	23.7	23.4	23.3	23.3	23.2	23.2	23.2
12a. Taxes on production and imports	D.2	21,104	11.2	10.6	10.5	10.5	10.4	10.4	10.3	10.2
12b. Current taxes on income, wealth	D.5	24,938	13.2	12.9	12.7	12.6	12.7	12.7	12.8	12.8
12c. Capital taxes	D.91	356	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
13. Social contributions	D.61	10,899	5.8	5.5	5.3	5.3	5.2	5.2	5.1	5.1
14. Property Income	D.4	2,861	1.5	1.3	0.9	0.7	0.7	0.7	0.7	0.6
15. Other		4,818	2.5	2.5	2.3	2.3	2.2	2.1	2.0	2.0
16. (=6) Total revenue (=12+13+14+15)	TR	64,975	34.4	33.0	31.9	31.6	31.4	31.2	31.1	30.9
p.m.: Tax burden		57,750	30.5	29.4	29.0	28.8	28.7	28.6	28.6	28.5
Selected Components of Expenditure										
17a. Compensation of employees	D.1	18,597	9.8	9.3	8.9	8.7	8.5	8.2	7.9	7.6
17b. Intermediate consumption	P.2	8,783	4.6	4.6	4.3	4.2	4.1	3.9	3.8	3.7
18. Social payments (18 = 18a+18b)		28,121	14.9	13.4	12.6	12.0	11.5	11.1	10.8	10.4
18a. Social transfers in kind supplied via	D.63	4,209	2.2	2.0	1.9	1.8	1.7	1.7	1.6	1.6
18b. Social transfers other than in kind	D.62	23,912	12.6	11.4	10.7	10.2	9.8	9.5	9.2	8.9
19=9 Interest expenditure	D.41	7,506	4.0	3.2	3.0	2.9	2.8	2.6	2.5	2.3

20. Subsidies	D.3	1,858	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.7
21. Gross fixed capital formation	P.51	3,688	2.0	2.0	1.9	1.8	1.8	2.0	2.0	2.1
22. Capital Transfers	D.9	1,123	0.6	0.5	0.5	0.5	0.4	0.4	0.4	0.4
23. Other		2,627	1.4	1.2	1.2	1.2	1.2	1.1	1.1	1.1
24=7 Total expenditure (TE	72,304	38.2	35.1	33.2	32.1	31.1	30.2	29.3	28.4
p.m. : Government consumption	P.3	32,422	17.2	16.1	15.4	14.9	14.6	14.0	13.6	13.3
GDP at current market prices (€ billion)	B.1*g	189,050	189,050	210,150	223,125	233,575	244,025	254,450	265,025	275,825

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

Table A2.1 sets out the general government deficit for the years 2014-2021 in terms of selected components of general government receipts and expenditures.

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 23: Other expenditure includes transfer payments to non-government bodies and capital grants. 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.

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)

	ESA code	2014	2015	2016	2017	2018	2019	2020	2021
Revenue									
Taxes on production and imports	D.2	21,105	22,330	23,445	24,625	25,440	26,355	27,260	28,200
Current taxes on income, wealth	D.5	24,940	27,100	28,325	29,435	30,960	32,350	33,835	35,430
Capital taxes	D.91	355	370	375	390	380	400	410	415
Social contributions	D.61	10,900	11,555	11,875	12,270	12,715	13,135	13,585	14,045
Property Income	D.4	2,860	2,745	2,065	1,685	1,685	1,800	1,855	1,765
Other		4,820	5,310	5,205	5,325	5,340	5,385	5,390	5,385
Total revenue	TR	64,975	69,405	71,285	73,730	76,515	79,425	82,330	85,245
Expenditure									
Compensation of employees	D.1	18,595	19,515	19,870	20,305	20,705	20,835	20,955	21,090
Intermediate consumption	P.2	8,785	9,615	9,670	9,760	9,930	9,925	9,995	10,105
Social payments	D.6	28,120	28,240	28,010	28,130	28,170	28,345	28,560	28,785
Interest expenditure	EDP_D.41	7,505	6,745	6,585	6,715	6,725	6,655	6,655	6,385
Subsidies	D.3	1,860	1,930	1,960	1,965	1,985	2,010	2,020	2,030
Gross fixed capital formation	P.51	3,690	4,135	4,205	4,225	4,515	5,075	5,410	5,810
Capital Transfers	D.9	1,125	1,035	1,090	1,105	1,095	1,095	1,045	1,045
Other		2,625	2,580	2,665	2,785	2,875	2,915	2,960	3,015
Total expenditure	TE	72,305	73,795	74,050	74,990	75,995	76,855	77,605	78,260
General government balance	B.9=TR-TE	-7,330	-4,385	-2,765	-1,260	520	2,570	4730	6,985
General government balance as % GDP		-3.9%	-2.1%	-1.2%	-0.5%	0.2%	1.0%	1.8%	2.5%

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

Document Reference period	SPU 2015 2015	Budget 2016 2015	Total Δ	Classification Δ	Revised Data Δ	Changes in methodology	Other Δ	Notes
Revenue								
Taxes on production and imports	22,155	22,330	175		175		0	1
Current taxes on income, wealth	25,895	27,100	1,205		1205		0	1
Capital taxes	400	370	-30		-30		0	
Social contributions	11,310	11,555	245		265		-20	
Property Income	2,805	2,745	-60		-30		-30	5
Other	5,415	5,310	-105			-125	20	3
Total revenue	67,980	69,405	1425		1,585	-125	-30	
Expenditure								
Compensation of employees	19,165	19,515	350		300	50	0	2,4
Intermediate consumption	9,635	9,615	-20		-15		-5	
Social payments	27,465	28,240	775		775		0	2
Interest expenditure	6,860	6,745	-115		-115		0	
Subsidies	2,065	1,930	-135		-135		-0	
Gross fixed capital formation	3,660	4,135	475		460		15	2
Capital transfers	1,220	1,035	-185		-185		0	
Other	2,520	2,580	60				60	2
Total expenditure	72,595	73,795			1,085	50	50	
General government balance	-4,610	-4,385						

Source: Department of Finance

Notes- Rounding may affect totals.

-Table A2.3 compares the forecast of receipts and expenditures for 2015 as set out in SPU 2015 with the current forecast (October 2015).

1. The increase in tax revenue is primarily due to revised forecasts following the incorporation of improved economic growth and employment figures.
2. Expenditure increases reflect the increased expenditure included in the in financial outturn of 2015 published by the Department of Public Expenditure and Reform in the Expenditure Report 2016.
3. Irish Water revenue revised following Eurostat decision July 2015.
4. Increased coverage of bodies in department survey of general government sector.
5. Property Income has decreased due to reduction in dividends received.

Table A3: General government interest expenditure 2014-2021

	2014	2015	2016	2017	2018	2019	2020	2021
	<i>€ millions and %</i>							
National Debt Cash Interest	7,466	6,990	6,988	6,711	6,772	6,655	6,623	6,126
% of tax revenue	18%	16%	15%	14%	13%	12%	12%	10%
% of GDP	3.9%	3.3%	3.1%	2.9%	2.8%	2.6%	2.5%	2.2%
National Debt Cash Interest Accruals	116	-71	-226	98	-1	-42	-78	76
Consolidation and grossing adjustments	-9	-2	-15	-5	-18	7	34	80
Accrued promissory note interest	12	11	10	9	8	7	6	5
Other	-79	-182	-173	-99	-35	28	70	98
Total Interest on ESA2010 basis	7,506	6,745	6,583	6,714	6,725	6,654	6,655	6,385
% total General government revenue	12%	10%	9%	9%	8%	8%	8%	7%
% of GDP	4.0%	3.2%	3.0%	2.9%	2.8%	2.6%	2.5%	2.3%

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

Notes: Rounding may affect totals

Table A4: Projected movement in general government debt 2014-2021

€ billion	2014	2015	2016	2017	2018	2019	2020	2021
Opening general government debt	215.3	203.2	203.8	207.1	210.9	211.6	212.4	211.6
Exchequer borrowing requirement	8.2	2.8	1.7	4.0	0.6	-0.2	-1.8	-3.7
Change in Exchequer Deposits	-8.8	-1.3	0.1	-0.4	-0.1	0.3	0.7	0.7
Net lending of local government & NCSSBs	-0.3	1.0	1.2	0.3	0.1	0.4	-0.1	-0.1
Change in collateral held	0.1	-0.1	-0.3	-0.2	0.0	-0.0	-0.1	0.0
Other	-11.2	-1.8	0.5	0.2	0.1	0.4	0.4	0.4
Closing general government debt	203.2	203.8	207.1	210.9	211.6	212.4	211.6	208.9
General government debt to GDP ratio	107.5%	97.0%	92.8%	90.3%	86.7%	83.5%	79.8%	75.7%

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

Notes: Rounding may affect totals

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Table A.5: Contingent liabilities

% of GDP	2012	2013	2014
Public guarantees <i>of which linked to the financial sector</i>	66.1	31.2	13.3
Eligible Liabilities Guarantee	41.6	11.2	5.4
Exceptional Liquidity Assistance	9.2	0.0	0.0
National Asset Management Agency	14.6	19.3	7.2
Other	0.8	0.7	0.7

Source: CSO, Department of Finance.

Table A.6: Breakdown of revenue

	2015	2015	2016	2017	2018	2019	2020	2021
	€ billion	% of GDP						
Total revenue at unchanged policies	69.4	33.0	31.9	31.6	31.4	31.2	31.1	31.0
Discretionary revenue	-0.9	-0.4	-0.3	-0.1	0.0	0.0	0.0	0.0

Source: Department of Finance.

Table A.7: Budgetary plans

% GDP	2014	2015	2016	2017	2018	2019	2020	2021
1. General government balance	-3.9	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
2. Structural balance	-3.4	-3.2	-2.5	-1.4	-0.3	0.6	1.5	2.5
3. Cyclical budgetary component	-0.2	1.2	1.3	0.9	0.6	0.4	0.3	0.0
4. One-offs and other temporary measures	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
5. General government balance	-3.9	-2.1	-1.2	-0.5	0.2	1.0	1.8	2.5
6. Total revenues	34.4	33.0	31.9	31.6	31.4	31.2	31.1	30.9
7. Total expenditure	38.2	35.1	33.2	32.1	31.1	30.2	29.3	28.4
Amounts to be excluded from the expenditure benchmark								
7a. Interest expenditure	4.0	3.2	3.0	2.9	2.8	2.6	2.5	2.3
7b. Expenditure on EU programmes fully matched by EU funds revenue	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
7c. Cyclical unemployment benefit expenditure	0.0	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.1
7d. Effect of discretionary revenue measures	0.6	-0.2	-0.3	0.0	0.2	0.2	0.2	0.1
7e. Revenue increases mandated by law	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
8. Tax burden	30.5	29.4	29.0	28.8	28.7	28.6	28.6	28.5
9. Gross debt	107.5	97.0	92.8	90.3	86.7	83.5	79.8	75.7

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

Notes:

- Rounding may affect totals

Table A8: Application of Expenditure Benchmark

<i>€ billions unless otherwise stated</i>	2015	2016	2017	2018	2019	2020	2021
1. General government expenditure	73.8	74.1	75.0	76.0	76.9	77.6	78.3
2. Interest expenditure	6.7	6.6	6.7	6.7	6.7	6.7	6.4
3 Government expenditure co-financing EU expenditure	0.4	0.4	0.5	0.5	0.5	0.5	0.6
4. Gross fixed capital formation (t)	4.1	4.2	4.2	4.5	5.1	5.4	5.8
5. Annual average gross fixed capital formation (t -3 to t)	3.7	3.8	4.1	4.3	4.5	4.8	5.2
6. Cyclical unemployment expenditure	-0.3	-0.4	-0.3	-0.3	-0.4	-0.6	-0.4
7. Corrected expenditure aggregate 1-2-3-(4-5)-6	66.5	67.0	67.9	68.8	69.5	70.4	71.1
8. Net discretionary revenue measures (DRM)*		-0.7	0.1	0.5	0.4	0.4	0.4
9. Corrected expenditure aggregate net of DRM 7-8		67.8	67.8	68.3	69.1	70.0	70.7
Reference rate potential growth**		1.9	2.8	3.1	3.3	3.4	3.5
Convergence margin		1.8	2.0	2.1	2.1	2.2	2.2
11. Benchmark growth rate applied (RR-CM)		0.1	0.8	1.0	1.2	3.4	3.5
12. Real expenditure growth rate $100 \cdot (1+14)/100 / (1+13)/100 - 1$		0.1	0.0	-0.6	-0.7	-0.6	-0.8
13. GDP deflator (%PVGd)		1.7	1.2	1.2	1.2	1.2	1.2
14. Permitted nominal expenditure growth $1 + (11/100) \cdot 13 - 1$		1.8	1.9	2.2	2.4	4.6	4.7
15. Permitted expenditure ceiling $7 \cdot (1+14) - 1$		67.7	68.4	69.4	70.4	72.7	73.7
Gross fiscal space available $15t - 7t - 1$		1.2	1.3	1.5	1.6	3.2	3.3
Net fiscal space available							
<i>Deviation in year t from benchmark ceiling</i> $7 \cdot (-12 + 11)$		0.0	0.5	1.1	1.3	2.7	2.9
Deviation as % GDP (negative indicates breach of benchmark)		0.0	0.2	0.4	0.5	1.0	1.0

Source: Department of Finance

*Net DRM including carryover of Budget 2015 measures and the net impact of 2016 budgetary package. DRM from 2018 onwards includes indexation of tax bands only. **The 2016 reference rate set as 10-year average potential GDP growth as of Spring 2015 Commission forecasts. From 2017, the reference rate is an annually updated moving average consistent with Budget 2016 harmonised potential output estimates. 2016 GDP deflator taken as average of SPR15 PVGD for 2016 and Budget 2016 estimate for 2016. Convergence margin set to deliver 0.6pp per annum structural adjustment until MTO is met. Benchmark rate applied from 2020 onwards contains no margin as MTO is met in 2019.

Table A8 above outlines a purely illustrative application of the expenditure benchmark consistent with the Budget macro-fiscal projections in order to assess the fiscal space available over the medium-term for taxation reduction, expenditure increases or debt reduction. This illustrative scenario is based on the assumption of achieving the MTO by 2019. It should be noted Ireland's MTO, like that of all other Member States is subject to review by the end of this year.

The table below sets out the walk between the gross fiscal space consistent with the expenditure benchmark and the nominal space available over the medium term. The choice of measures will be a matter for decision by the next government.

Table A9: Walk from Gross to Net Fiscal Space

<i>€ billions unless otherwise stated</i>		2016	2017	2018	2019	2020	2021
1. Gross Fiscal Space		1.2	1.3	1.5	1.6	3.2	3.3
2. Net discretionary revenue measures (DRM)*		0.7	(0.1)	(0.5)	(0.4)	(0.4)	(0.4)
3. Adjusted Fiscal Space		0.5	1.4	2.0	2.0	3.6	3.7
4. Other voted expenditure including demographics		0.4	0.4	0.3	0.4	0.4	0.5
5. Public Capital Plan		0.1	0.2	0.4	0.8	1.2	1.6
<i>of which Fiscal Space used*</i>		0.0	0.0	0.1	0.2	0.3	0.3
6. Lansdowne Road Agreement		-	0.3	0.3	-	-	-
7. Central Fund expenditure increases (non-voted)		0.3	0.2	0.1	0.0	0.0	0.1
8. General government elements							
9. Intra-annual movement in EB components		0.4	0.2	(0.0)	(0.1)	0.2	(0.1)
10. LA and NCSSBs		(0.4)	(0.1)	0.0	0.2	(0.1)	(0.0)
11. Other GG expenditure		(0.2)	(0.1)	0.1	0.1	0.1	0.0
12. Net Fiscal Space remaining [1-Σ2-10]		0.0	0.5	1.1	1.3	2.8	2.9

*For the purposes of the Expenditure Benchmark Capital Formation is smoothed over a 4 year average, as a result only a quarter of the increases in the Public Capital plan have an impact on fiscal space.

As outlined in the Expenditure Report, an element of the budget package relates to the non-recurrence in 2016 of a one-off cost arising from pay and pensions in 2015. This reconciles the difference between the €1.5 billion package and gross fiscal space of €1.2 billion above.

Table A.10: Macro-Economic aggregates to 2021

	2014	2015	2016	2017	2018	2019	2020	2021
<i>% change unless specified</i>				<i>year-on-year change</i>				
Real GNP	6.9	5.5	3.9	3.2	2.7	2.7	2.7	2.6
Real GDP	5.2	6.2	4.3	3.5	3.2	3.1	3.0	2.9
Nominal GDP (rounded to nearest €25m)	189,050	210,150	223,125	233,575	244,025	254,450	265,025	275,825
Components of GDP				<i>year-on-year real percentage change</i>				
Personal consumption	2.0	3.5	3.5	2.0	1.8	1.7	1.6	1.5
Government consumption	4.6	1.9	1.1	1.0	0.9	0.9	0.9	0.9
Investment	14.3	13.0	12.5	8.9	4.8	4.5	4.7	4.7
Stock changes (% of GDP)	1.0	0.8	0.6	0.6	0.5	0.5	0.5	0.5
Exports	12.1	11.9	6.9	4.9	4.7	4.4	4.3	4.2
Imports	14.7	12.1	8.2	5.4	4.5	4.1	4.1	4.1
Investment (GFCF)				<i>year-on-year real percentage change</i>				
Of which:								
Building and construction	9.7	8.2	12.4	16.6	6.9	5.9	6.3	6.2
Core machinery and equipment	33.2	20.0	15.0	7.5	6.0	6.0	6.0	6.0
Other transport equipment and intangibles	9.7	13.3	13.3	3.4	2.3	2.3	2.4	2.4
Contributions to real GDP growth				<i>Annual percentage point contribution</i>				
Domestic demand	4.2	4.3	4.2	2.9	2.0	1.9	1.9	1.9
Stock changes	0.5	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Net exports	0.1	2.0	0.2	0.6	1.2	1.2	1.1	1.0
Statistical discrepancy	0.5	-	-	-	-	-	-	-
Price developments								
HICP	0.3	0.1	1.2	1.5	1.7	1.9	1.9	1.9
GDP deflator	0.1	4.6	1.8	1.2	1.2	1.2	1.2	1.2
Personal Consumption Deflator	1.7	0.9	1.8	1.7	1.9	1.9	1.9	1.9
Labour market				<i>year-on-year real percentage change</i>				
Employment	1.8	2.8	2.4	2.0	1.9	1.8	1.7	1.6
Unemployment (QNHS basis)	11.3	9.5	8.3	7.7	7.2	6.8	6.4	6.2
Compensation of employees	3.5	4.9	4.9	4.6	4.6	4.4	4.4	4.3
Compensation per Employee	1.8	2.1	2.4	2.6	2.6	2.6	2.6	2.6
External				<i>Per cent of GDP</i>				
Current Account	3.6	6.9	6.2	5.4	5.1	4.9	4.6	4.2
Cyclical Developments								
Potential GDP Growth	2.7	3.4	4.1	4.3	3.8	3.3	3.2	3.5
Contribution to potential growth								
- labour	0.8	1.2	1.7	1.9	1.5	1.0	0.8	1.1
- capital	0.5	0.8	1.0	1.2	1.2	1.3	1.3	1.3
- total factor productivity	1.4	1.4	1.3	1.2	1.1	1.0	1.0	1.0
Output Gap	-0.4	2.3	2.5	1.6	1.0	0.8	0.6	0.0

