Box F: Public Capital and Investment Expenditure

This Box examines recent trends in public capital and investment expenditure in Ireland on a gross and net basis. *SPU 2017* plans for an increase of €5.14 billion in capital expenditure, consistent with the review of the *Infrastructure and Capital Investment Plan 2016-2021.* This expenditure should increase the stock of public infrastructure in Ireland somewhat after a period of consolidation in the face of estimated depreciation. However, net fixed capital formation will still remain below average levels over the 2000 to 2008 period.

Recent trends in Gross Fixed Capital Formation

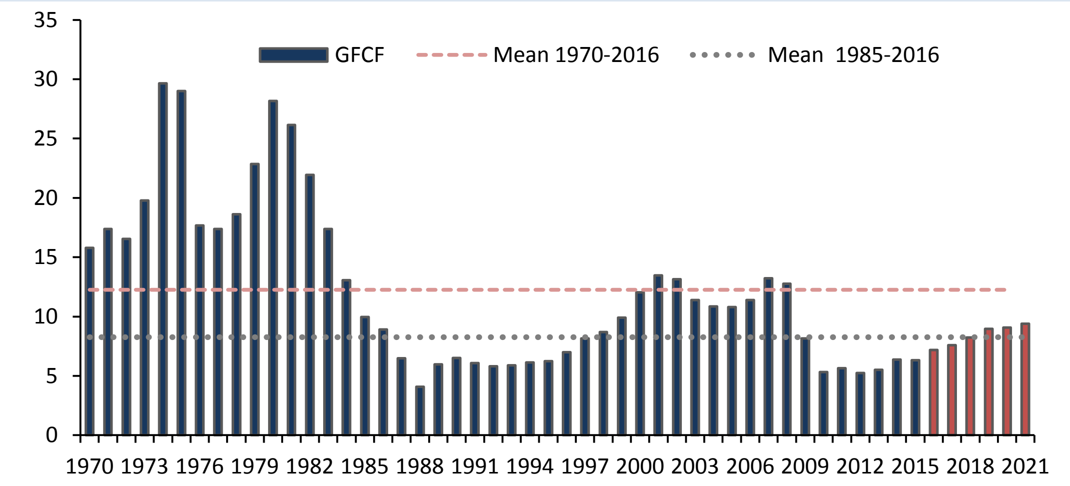
In the lead-up to the crisis investment in public capital, as a share of primary expenditure, was consistently over 10 per cent in the period 2000 to 2008, with a peak of 13.5 per cent in 2001 (Figure F.1). The consolidation of the public finances saw public investment roughly halved, as a share of primary expenditure, over the following years, with gross fixed capital investment in 2016 approximately half of its peak level in 2008. It is important to note that although investment levels fell sharply over the crisis period, considerable capital investment in the years running up to 2008 did much to address infrastructural deficits in the State (Kennedy, 2016).

SPU 2017 plans an increase in investment as a share of primary expenditure over the period 2017-2021, reaching 9.4 per cent in 2021. This proportion includes the additional €5.14 billion to be allocated in the review of the *Infrastructure and Capital Investment Plan 2016-2021.*

Figure F.2 shows Ireland's public capital stock per capita in contrast to select comparator countries. Ireland's public capital stock was above all the comparator countries, bar the UK, for most of the period (1998-2014).

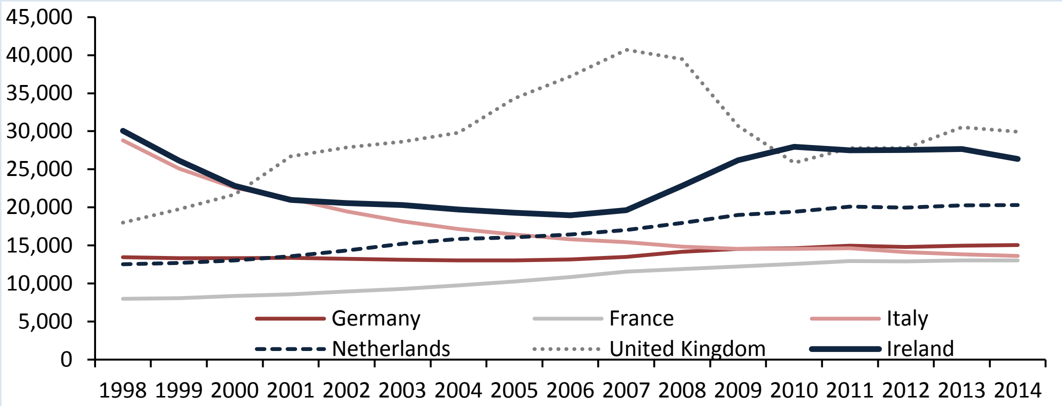
Figure F.1: Public Investment

General Government GFCF as a Share of Primary Expenditure (1970-2021)



Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Primary Expenditure equals total expenditure less interest repayments on government debt. Red bars indicate *SPU 2017* forecasts, which take account of the planned allocation of €5.14 billion under the Review of Capital Plan.

Figure F.2: International Comparison Public Capital Stock
Real Non-Financial Assets, € per capita

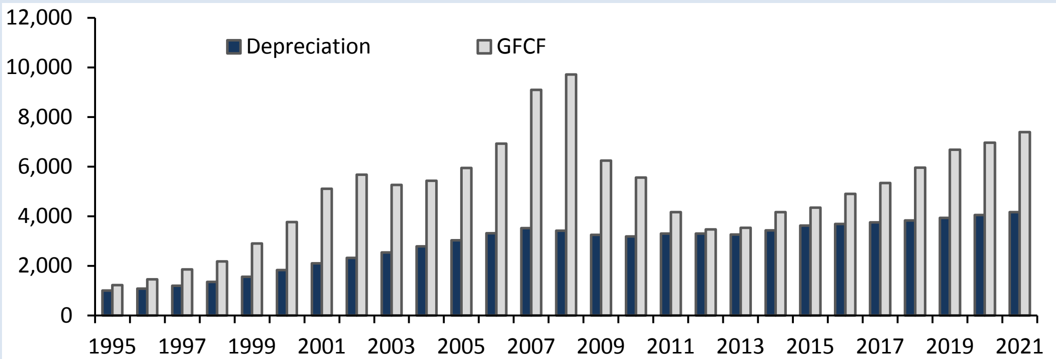


Sources: CSO; Department of Finance; Eurostat; and internal IFAC calculations.
Note: Irish Non-Financial Assets computed using the Perpetual Inventory Model (PIM) method (see Kennedy, 2016); population is as of 1 January. In practice, stock estimates are comprised of fixed assets in public administration and defence, education, health and local authority housing.

Net Fixed Capital Investment

Net fixed capital investment describes public investment in capital, less depreciation of assets. To increase the level of the public capital stock, gross investment would have to exceed depreciation. Figure F.3 shows the trends in gross investment and estimated depreciation in Ireland for recent years and the forecast period covered by *SPU 2017* (2017-2021).

Figure F.3: Gross Public Investment and Depreciation
€ Millions (1995-2021)

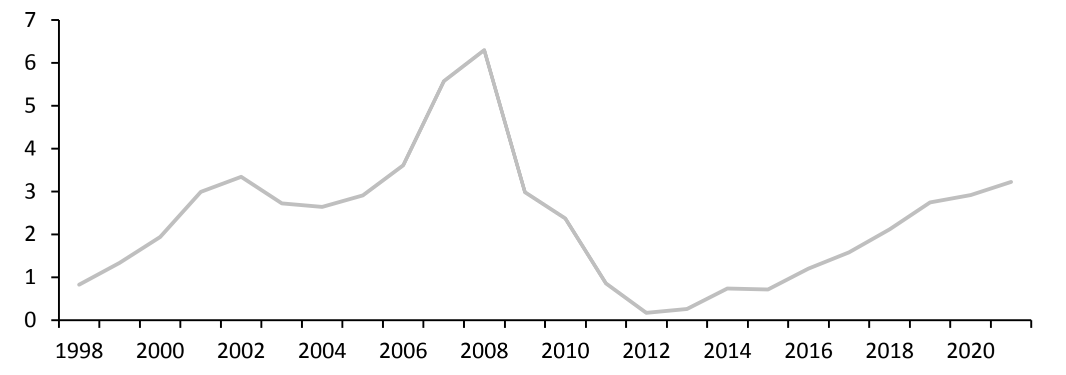


Sources: CSO, *SPU 2017* Internal IFAC calculations
Note: Depreciation (GG Consumption of Fixed Capital (CFC)) is assumed to be 4 per cent per annum over the period 2016-2021. GFCF forecasts 2017-2021 as per *SPU 2017.*

From 2000 to 2008 investment far exceeded depreciation of fixed capital. However, since 2008, the fall in investment has led to a substantial decrease in this gap, with investment and depreciation approximately equal in 2013. This implies that investment was only enough to maintain the existing stock, rather than to increase it. Increased public investment over the forecast period (2017-2021) is expected to lead to an increase in net fixed capital formation. However, by 2021, net fixed capital formation is expected to reach 91 per cent of the average level over the period 2000 to 2008 (a period in which considerable capital investment took place addressing previous infrastructural deficits). Figure F.4 shows net public investment over the period 1998 to 2021.

Figure F.4: Net Fixed Capital Formation

€ Billion, 1998-2021



Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Depreciation (GG Consumption of Fixed Capital (CFC)) is assumed to be 4 per cent per annum over the period 2016-2021. GFCF forecasts 2017-2021 as per *SPU 2017.*

Gross fixed capital formation is forecast to grow at an average of 9 per cent per annum over the forecast period (2017 – 2021). After a prolonged period of negative growth (an average of -5 per cent 2008-2016) it may be expected that a certain degree of unmet demand is present. Given this limited level of investment since 2008, maintaining such low growth in capital expenditure may be difficult in view of expected economic growth and demographic projections. For example, the Department of Transport, Tourism and Sport (2015) estimated a €300 million gap to maintain the land transport system.[1] One area where investment pressures might be expected to arise is in relation to the housing sector where supply is understood to have fallen short of estimated annual demand in recent years (see Chapter 2).

[1] http://igees.gov.ie/wp-content/uploads/2015/04/Transport-Trends-2015-Final.pdf, Department of Transport Tourism and Sport (2015), Transport Trend, An Overview of Ireland's Transport Sector.