

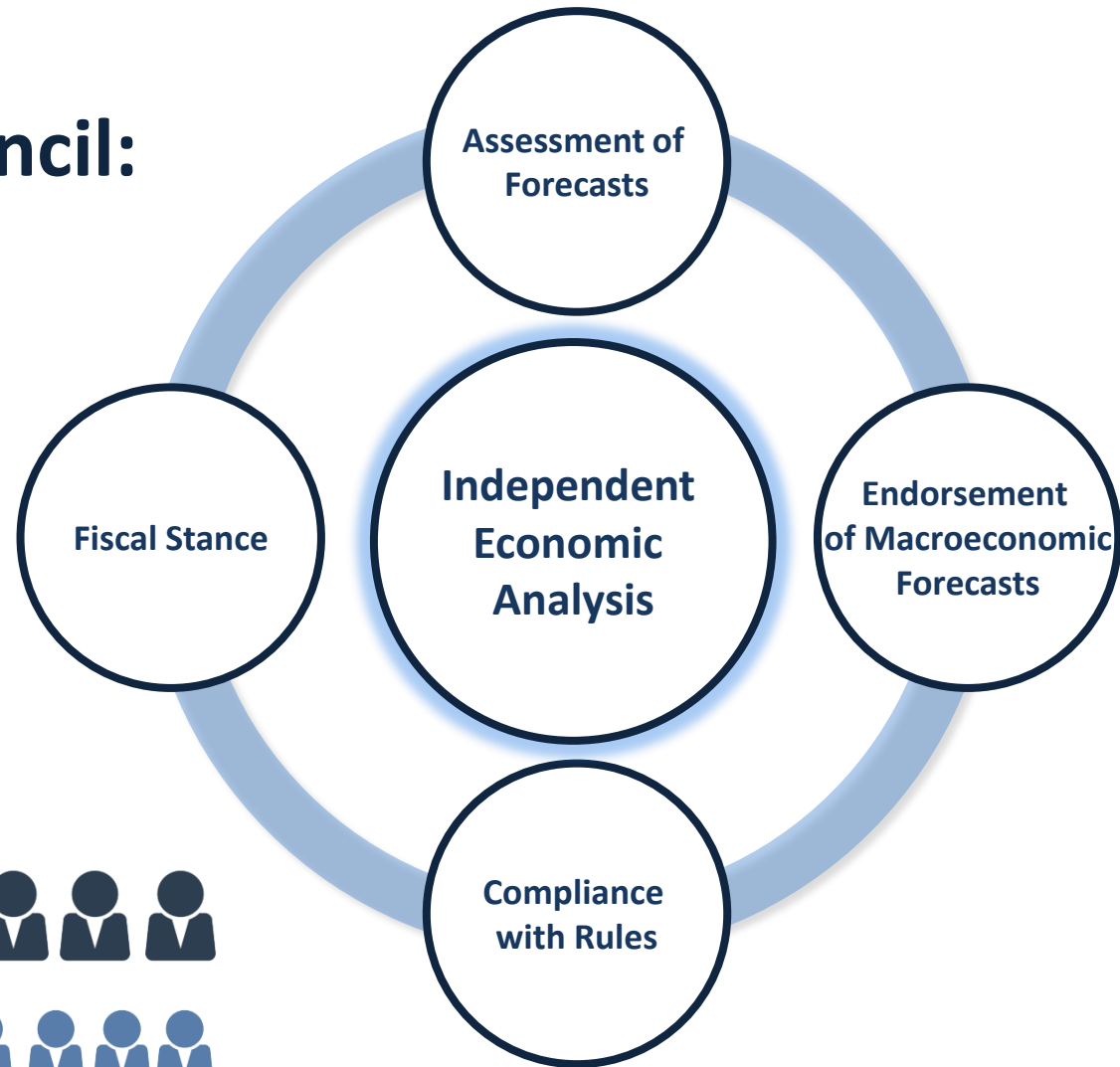
**Irish Fiscal
Advisory Council**

**Fiscal Assessment Report
November 2017**

28th November 2017

Mandate of the Council:

13th Fiscal Assessment Report



Five-member Council



Six-member Secretariat



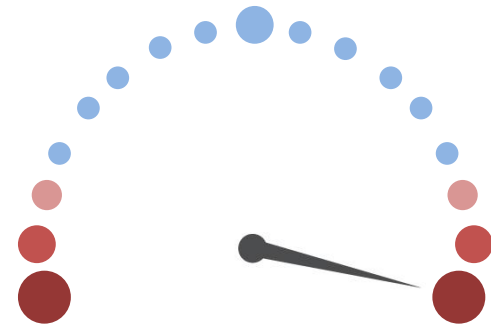
Key Messages (1)

- **The Council assesses the Government's stance as set out for next year in *Budget 2018* to be conducive to prudent economic and budgetary management**
 - Government increased spending at faster pace than initial limit permitted under domestic/EU fiscal rules by introducing revenue-raising measures.
 - Followed through on its own plans to stay within available gross fiscal space for 2018 of €1.7 billion (Council had recommended it adhere to these plans).
 - Plans also allow for gradual debt reduction; moderate increases in current spending; and a ramping up of public investment to rates among highest in EU, while complying with fiscal rules.



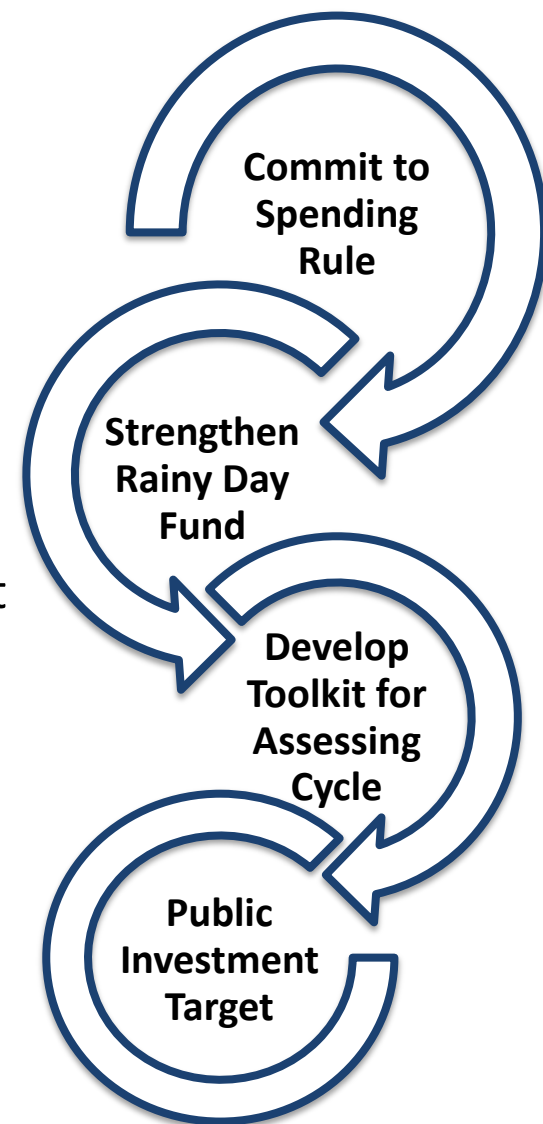
Key Messages (2)

- **However, there is a risk that the economy may experience overheating in coming years.**
 - This could happen if a rapid – albeit necessary – response from construction sector to persistent supply shortfalls were to arise, not offset by countercyclical measures elsewhere.
 - Any temporary revenue inflows should then be used to reduce debt at a faster pace or to build up buffers against future shocks.



Key Messages (3)

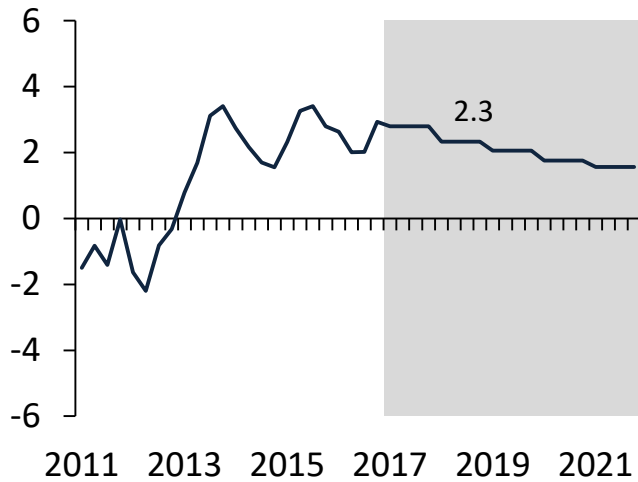
- **The Government should set out a credible plan for the medium term so that a procyclical pattern of budgetary increases does not occur as has often been the case:**
 - (i) firmer commitment to the spending rule as an anchor for fiscal policy
 - (ii) strengthening proposed Rainy Day Fund so that it achieves countercyclical effects and is adequate in size
 - (iii) developing toolkit for assessing cyclical position of the economy
 - (iv) adhering to a target for public investment spending over the medium term



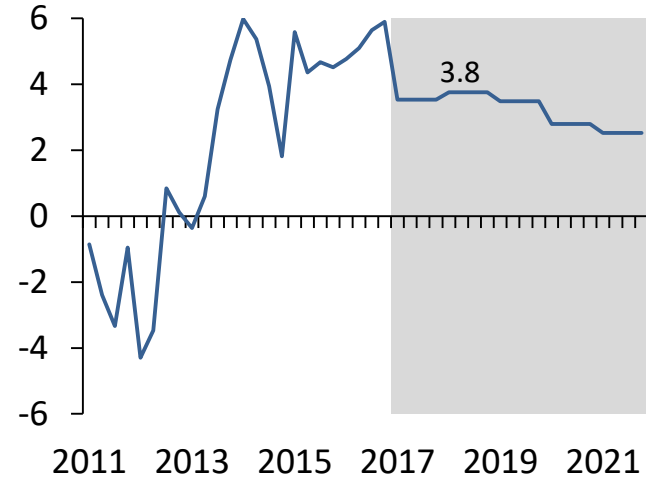
Continued Strong Growth Forecast

% change volumes unless stated

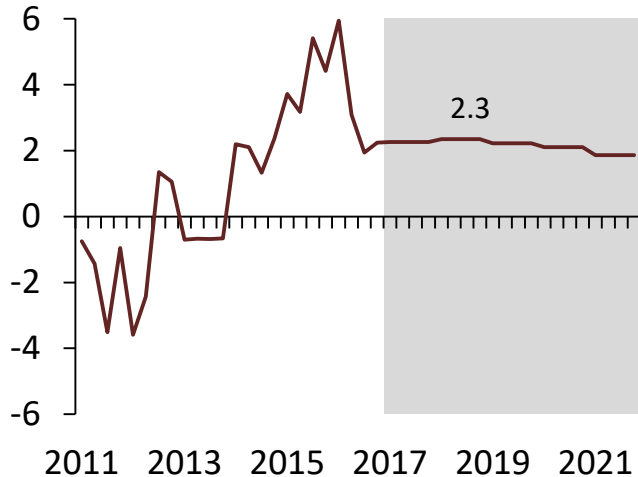
A. Employment



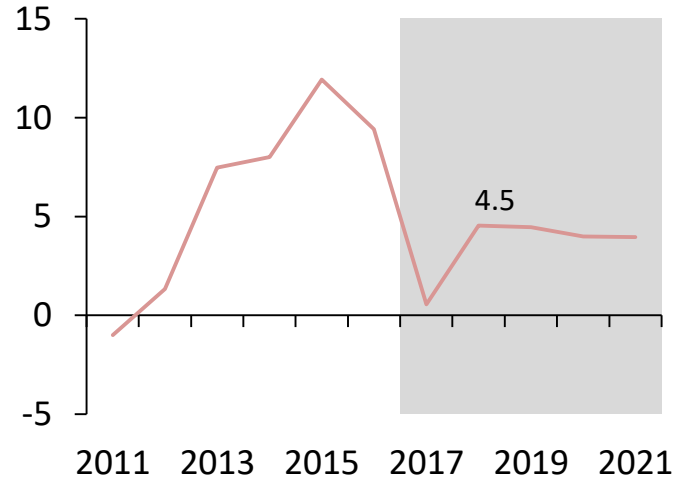
B. Underlying Domestic Demand



C. Personal Consumption



D. Nominal GNI*

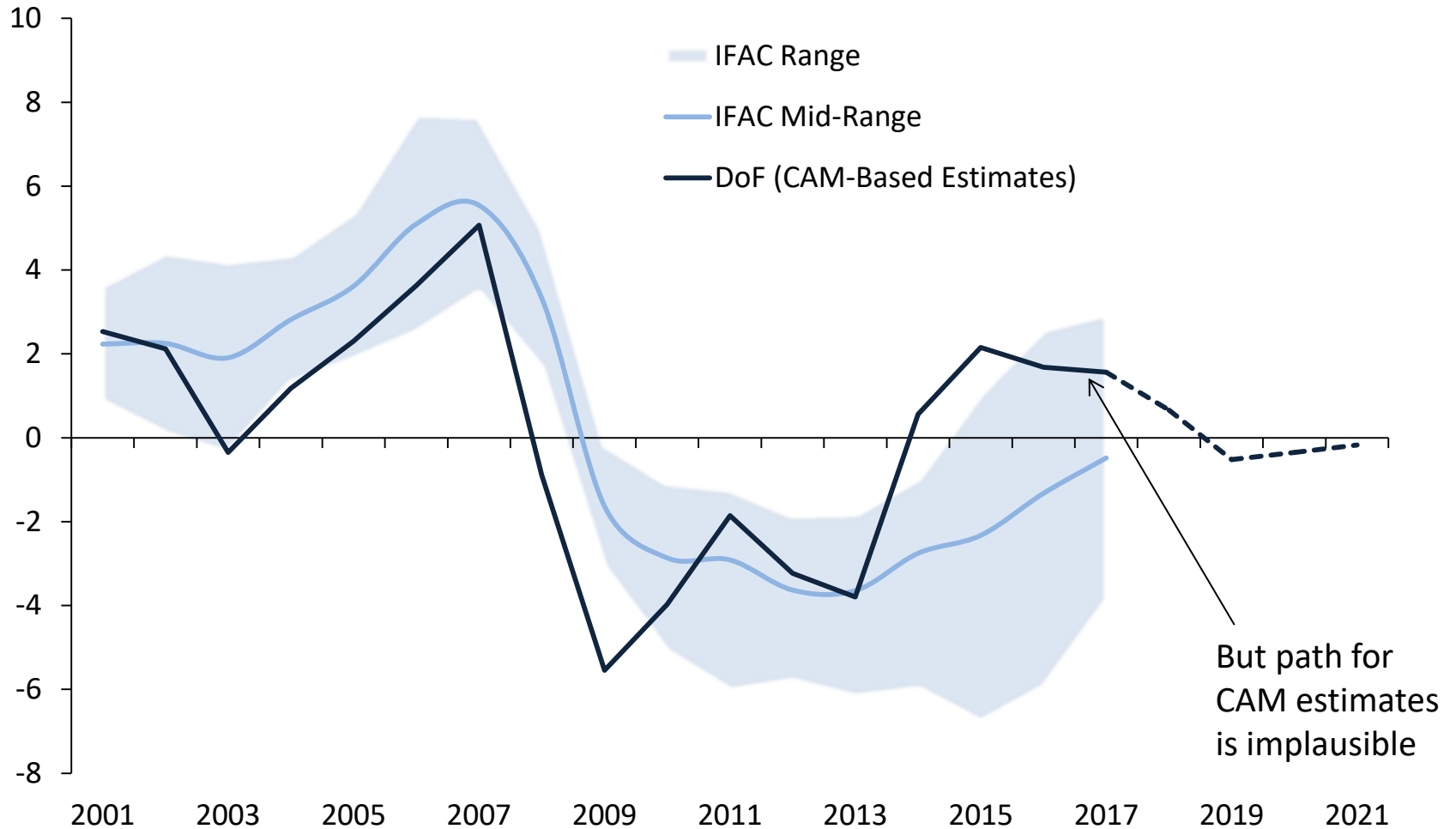


Sources: CSO; Department of Finance (*Budget 2018*); and internal IFAC calculations.

Economy Close to its Potential

Figure 1.2: Ireland's Output Gap Estimates

Percentage of potential output

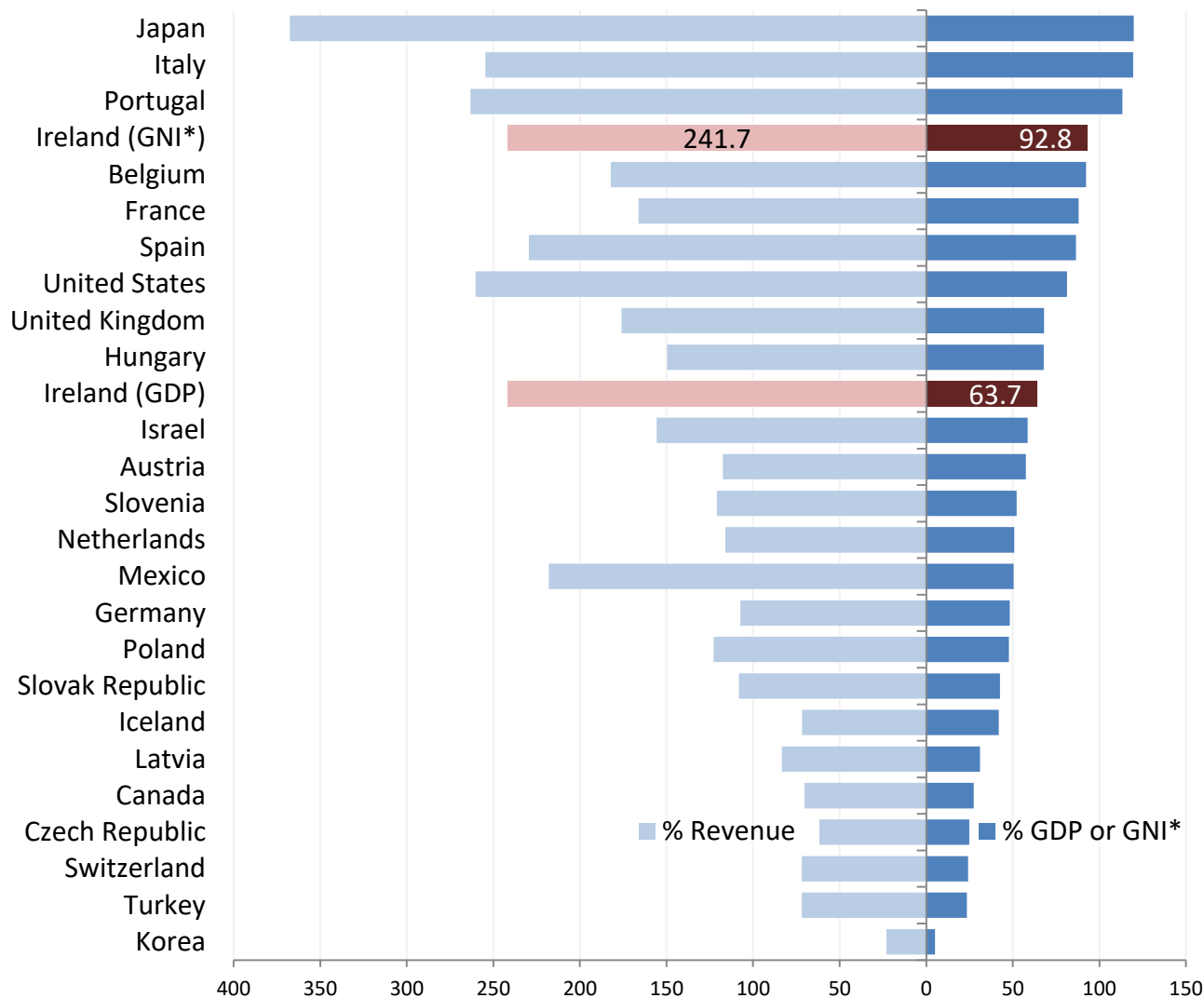


Sources: Department of Finance (*Budget 2018*); and internal IFAC calculations.

Debt levels remain high

OECD Countries Net Government Debt (Top 25 Countries)

End-2016 net general government debt as % revenue (LHS); and as % GDP or GNI* (RHS)



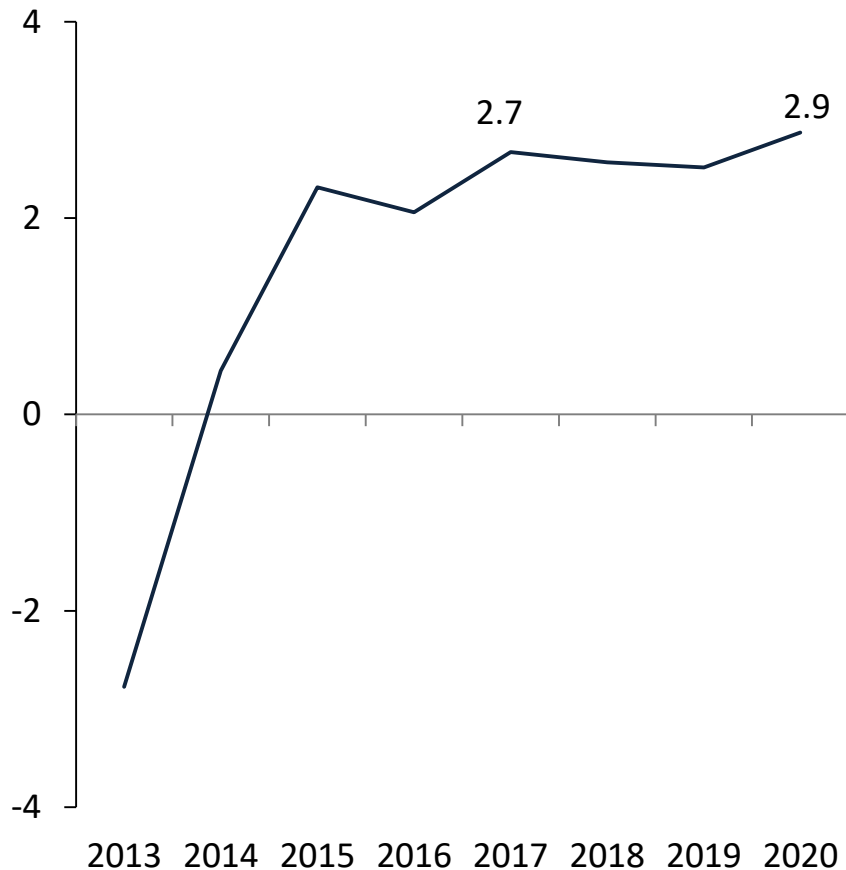
Sources: IMF; OECD; Eurostat; CSO.

Primary Balance Changes Slowing

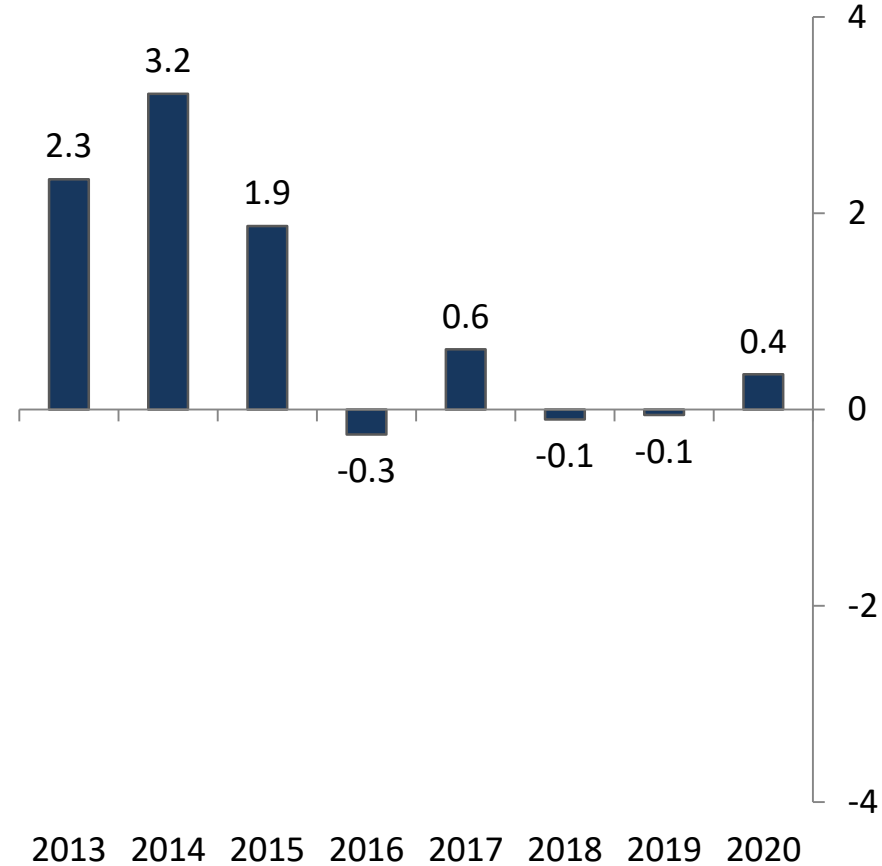
Level and Annual Changes in the Primary Balance

% of GNI*, general government basis

A. Level of Primary Balance



B. Annual Changes (percentage points)



Sources: Department of Finance (*Budget 2018*); CSO; and internal IFAC calculations.

Budget sticks to €1.7 billion fiscal space

Gross Fiscal Space and Budgetary Measures

€ billions

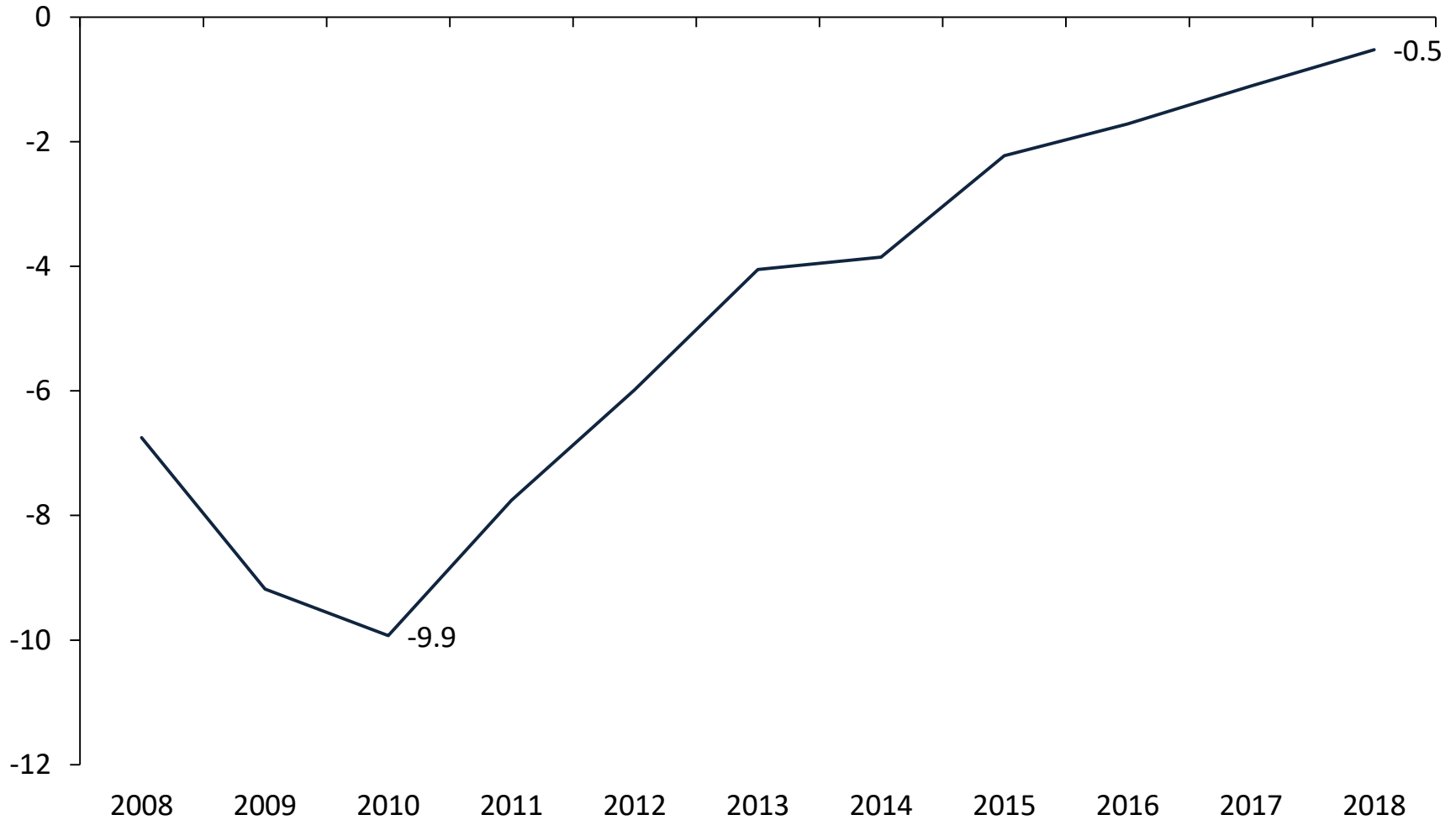
	Yield	Cost	Total
Starting Point			
Gross Fiscal Space			1.7
Pre-Committed Spending		-0.9	
Carryover Costs of <i>Budget 2017</i>		-0.65	
Non-Indexation of Tax System	+0.5		
<i>Nominal Resources for New Measures Prior to Budget 2018</i>			0.65
Budget Package			
New Current Expenditure		-0.87	
New Capital Expenditure		-0.22	
USC		-0.18	
Income Tax		-0.16	
Stamps	+0.38		
Corporation Tax	+0.15		
Compliance	+0.10		
Other	+0.20		
<i>Total Budget 2018 Package</i>	+0.83	-1.43	-0.60

Sources: Department of Finance (*Budget 2018*); and internal IFAC calculations.

Medium-Term Objective

Structural Balance

% potential GDP (based on Commonly Agreed Methodology)

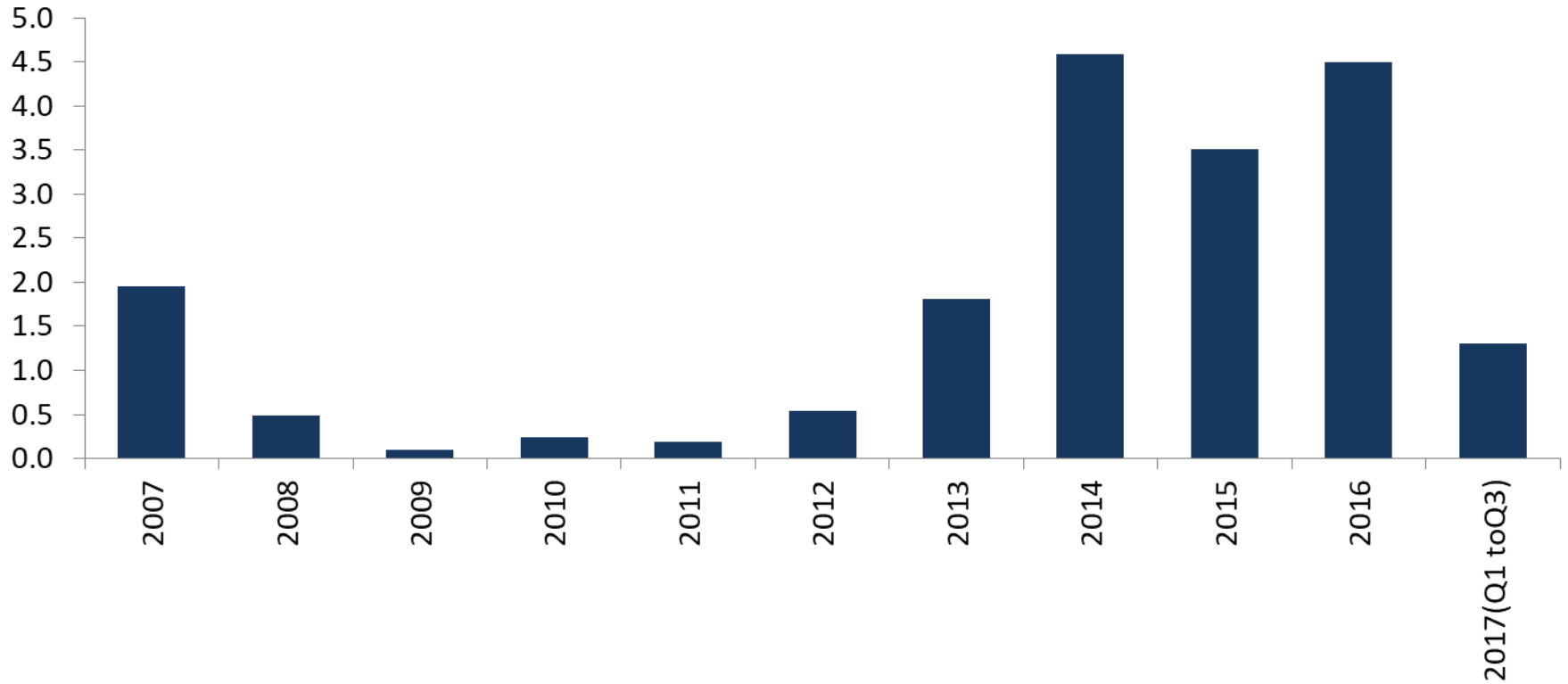


Sources: CSO, *Budget 2018*; and Internal IFAC calculations.

Note: The structural balance is the general government balance net of one-off items as a share of GDP, adjusted for the impact of the business cycle. The above estimates are based on CSO *Government Finance Statistics*, *Budget 2018* forecasts and IFAC assessments of one-off items.

Commercial Property

Irish Commercial Property Investment Turnover € billion

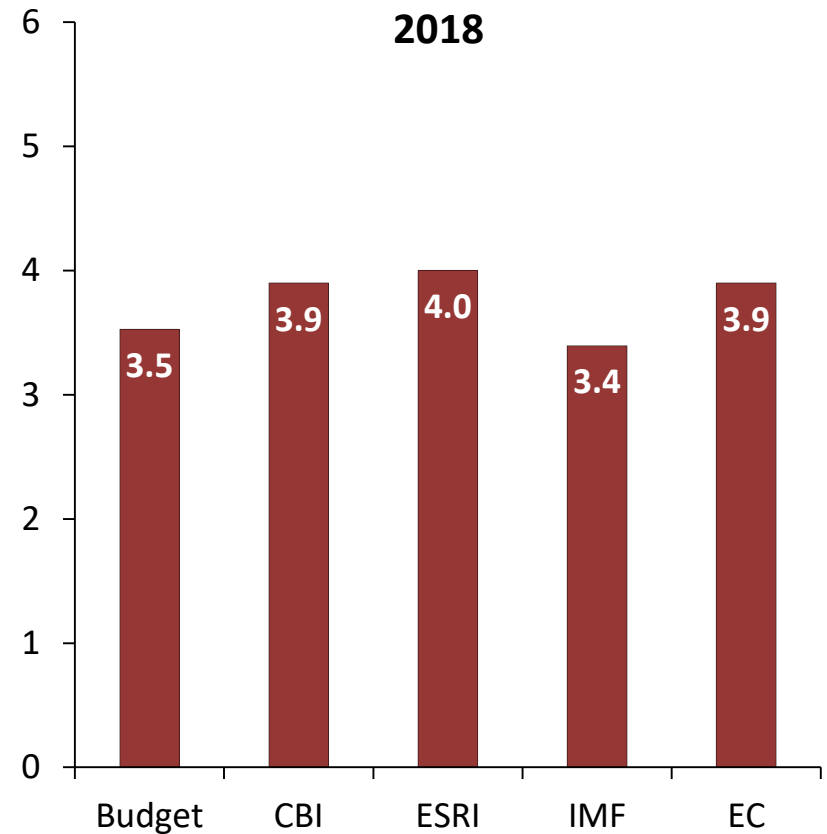
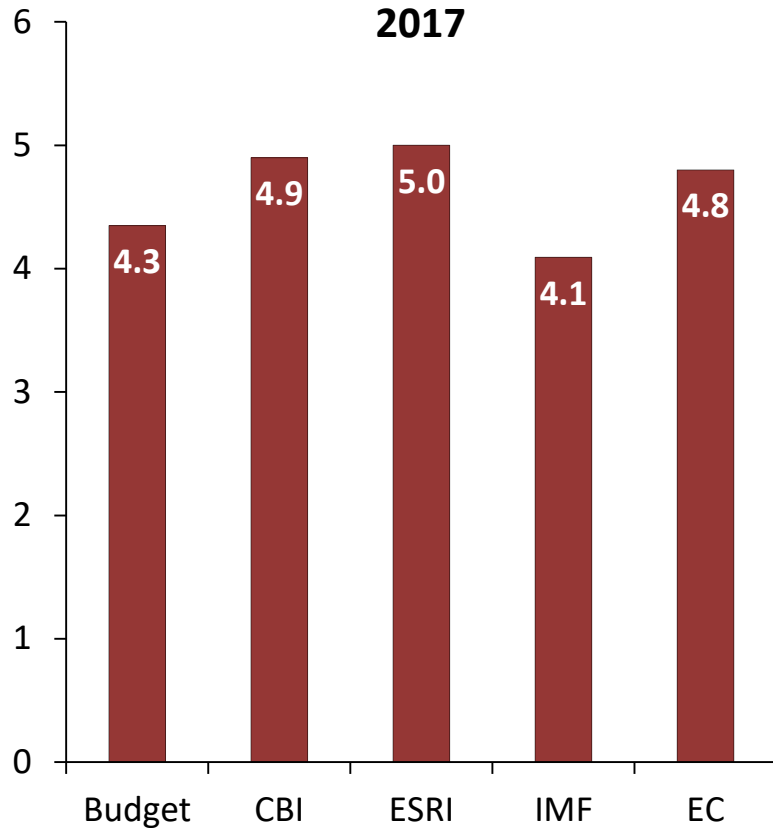


Source: CBRE.

Real GDP Growth Forecasts

Real GDP Growth Forecasts

Percentage change, year-on-year

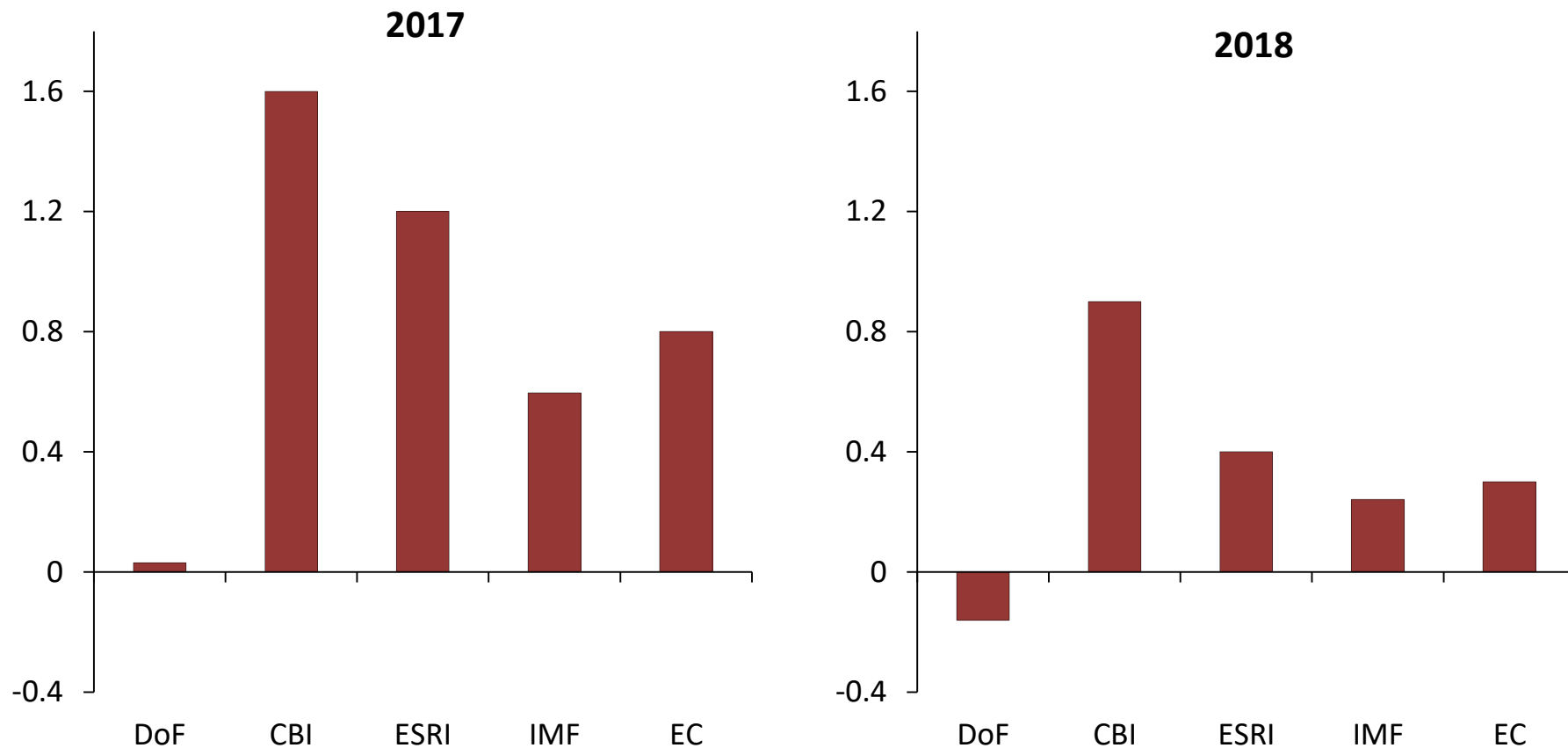


Sources: Budget 2018; ESRI (Quarterly Economic Commentary, Autumn 2017); IMF (World Economic Outlook, October 2017); Central Bank Quarterly Bulletin, October 2017; and European Commission (European Economic Forecast, November 2017).

Changes in Real GDP Growth Forecasts

Changes in Real GDP Growth Forecasts

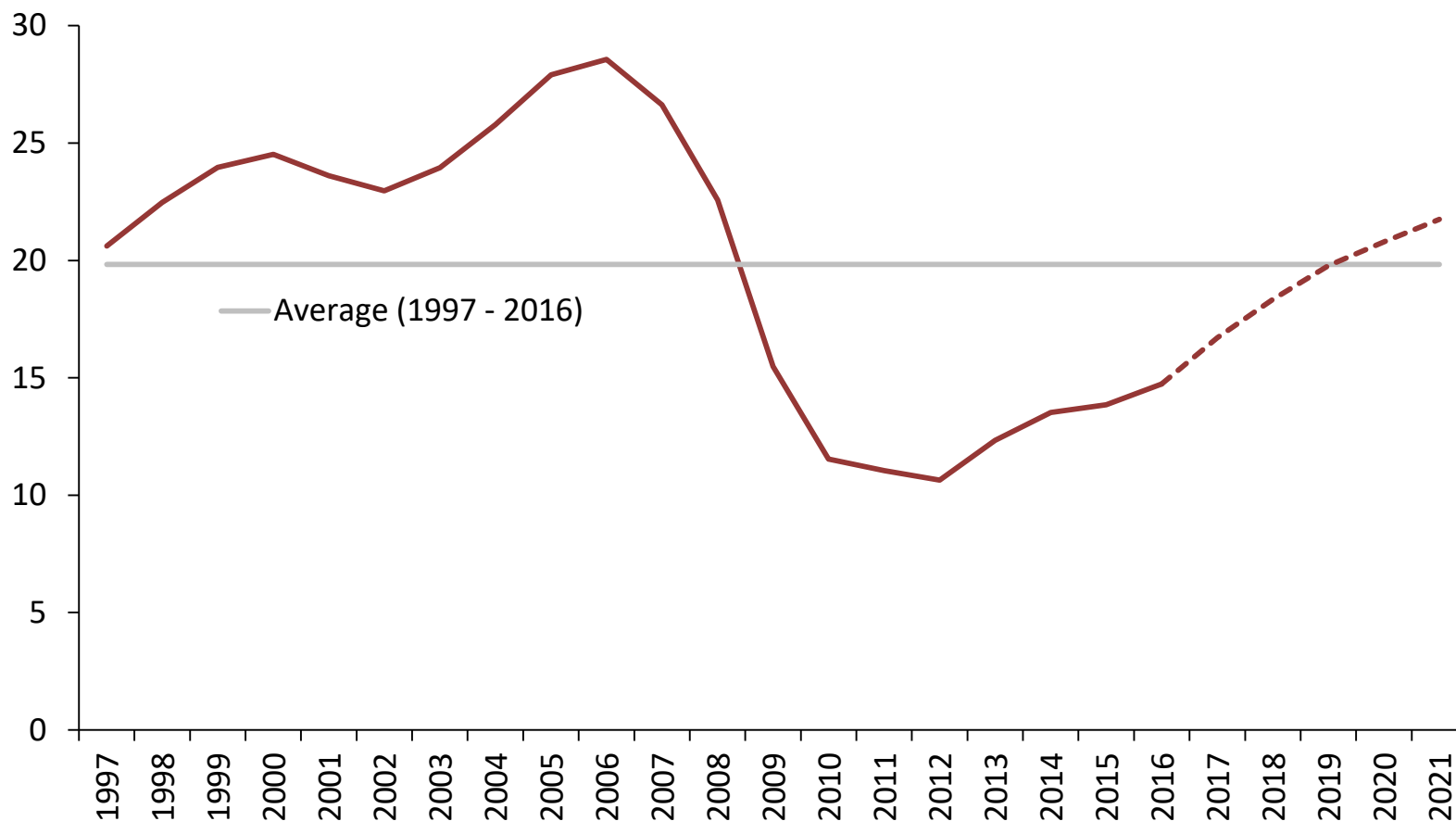
Latest Forecasts – Spring Vintages



Sources: Budget 2018; SPU 2017; ESRI (Quarterly Economic Commentary, Spring 2017 and Autumn 2017); IMF (World Economic Outlook, April 2017 and October 2017); Central Bank Quarterly Bulletin, April 2017 and October 2017; and European Commission (European Economic Forecast, May 2017 and November 2017).

Underlying Investment

Underlying Investment Percentage of GNI*



Sources: CSO, *Budget 2018*; and Internal IFAC calculations.

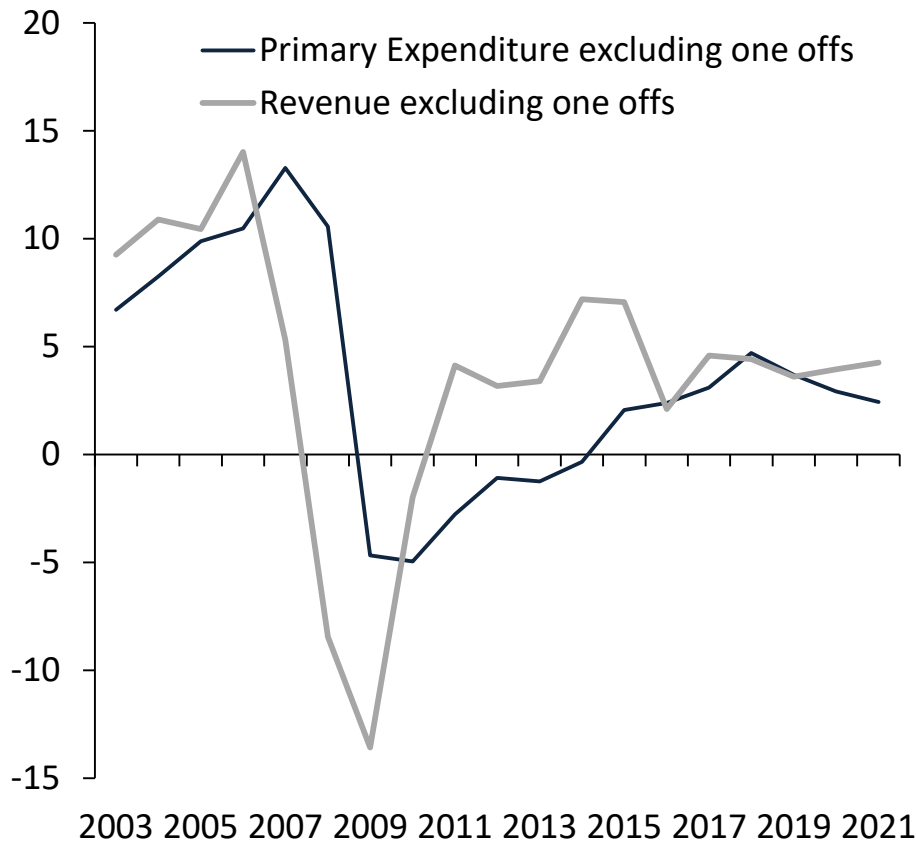
Note: Underlying investment excludes investment in aircraft and intangibles. GNI* is assumed to grow at the same rate as GNP, the dashed line represents *Budget 2018* forecasts.

Forecasts of the Public Finances

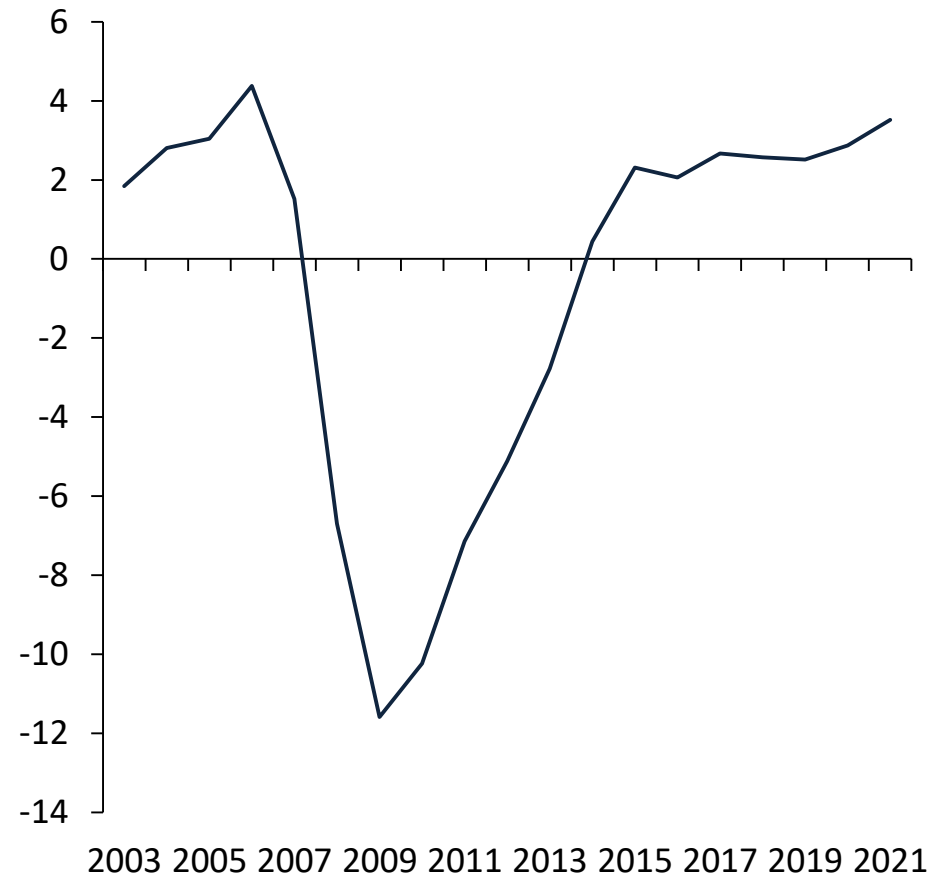
Primary Expenditure, Total Revenue and the Primary Balance

Percentage change year-on-year (Panel A); % of GNI * (Panel B)

A. Primary Expenditure and Revenue



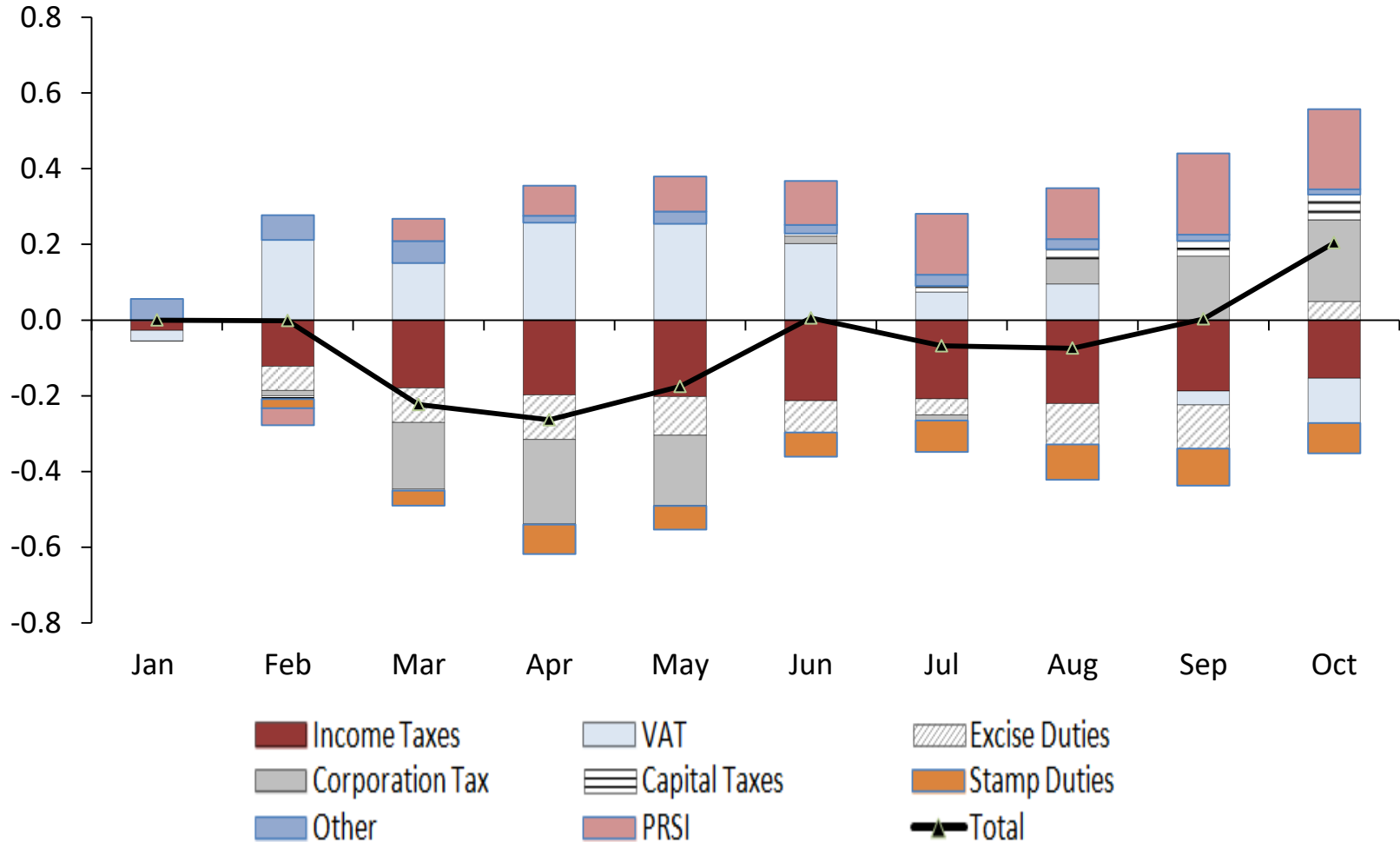
B. Primary Balance



Sources: Department of Finance (*Budget 2018*); and internal IFAC calculations.

Tax and PRSI Performance

Tax and PRSI Performance Cumulative Outturn-Profile (2017), €billion

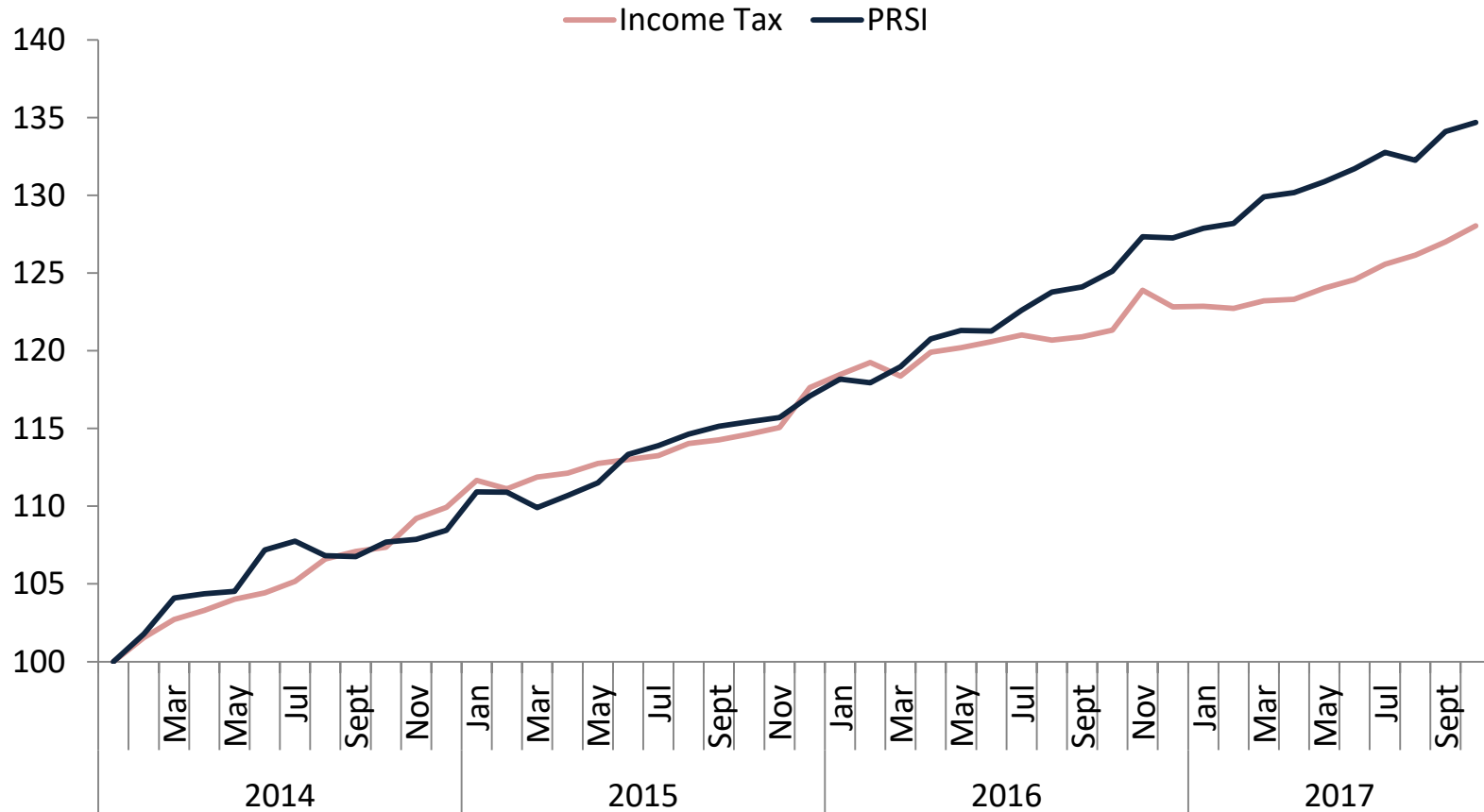


Sources: Department of Finance; and internal IFAC calculations.

Income Tax and PRSI

Income Tax and PRSI

Index of 12-month rolling sums of Income Tax and PRSI, January 2014=100

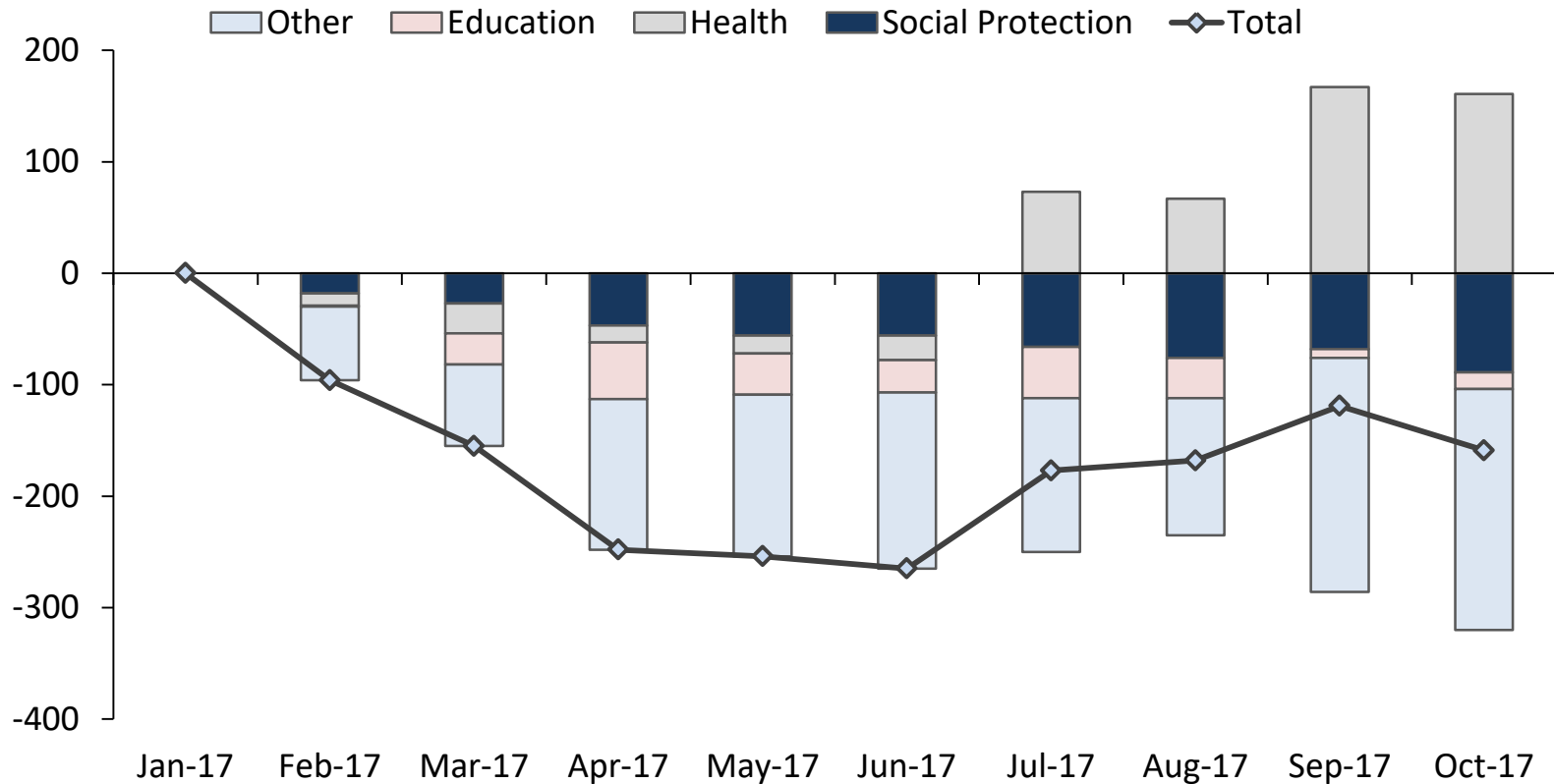


Sources: Department of Finance; and internal IFAC calculations.

Gross Current Spending

Gross Current Expenditure Relative to Budget 2017 Profile

€ millions



Sources: Department of Finance; and internal IFAC calculations.

Exchequer Tax Forecasts

Exchequer Tax Revenue Forecasts 2019-2021

€ billion

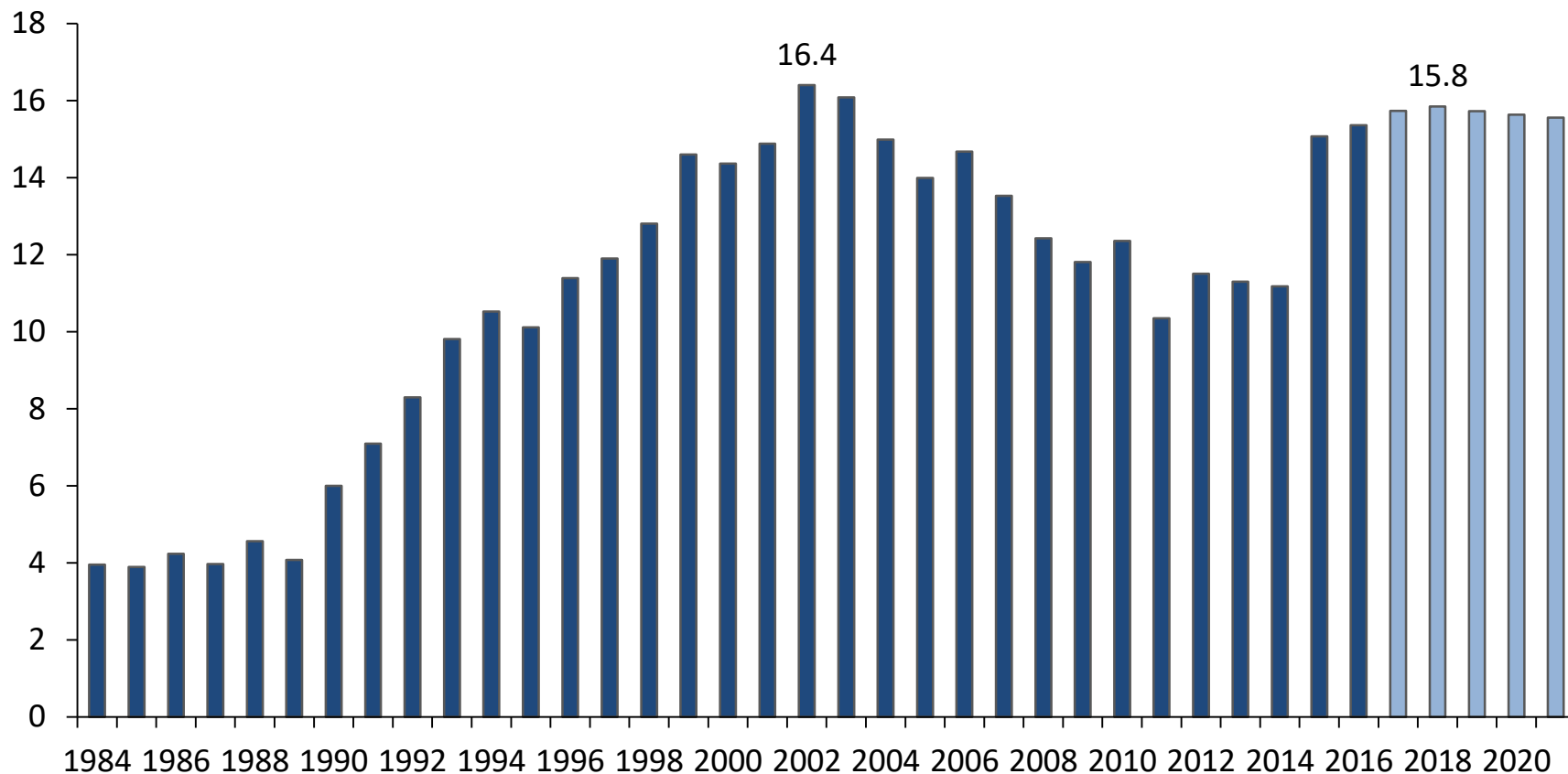
	2019	2020	2021
Tax Revenue	56.4	59.1	62.0
Income tax	22.5	23.7	25.1
VAT	15.0	15.8	16.6
Corporation tax	8.9	9.2	9.6
Excise duties	6.0	6.2	6.3
Other	4.0	4.2	4.4

Sources: Department of Finance (*Budget 2018*).

Corporation Tax Receipts

Corporation Tax Receipts as a Share of Revenues

% Total Exchequer Tax Receipts



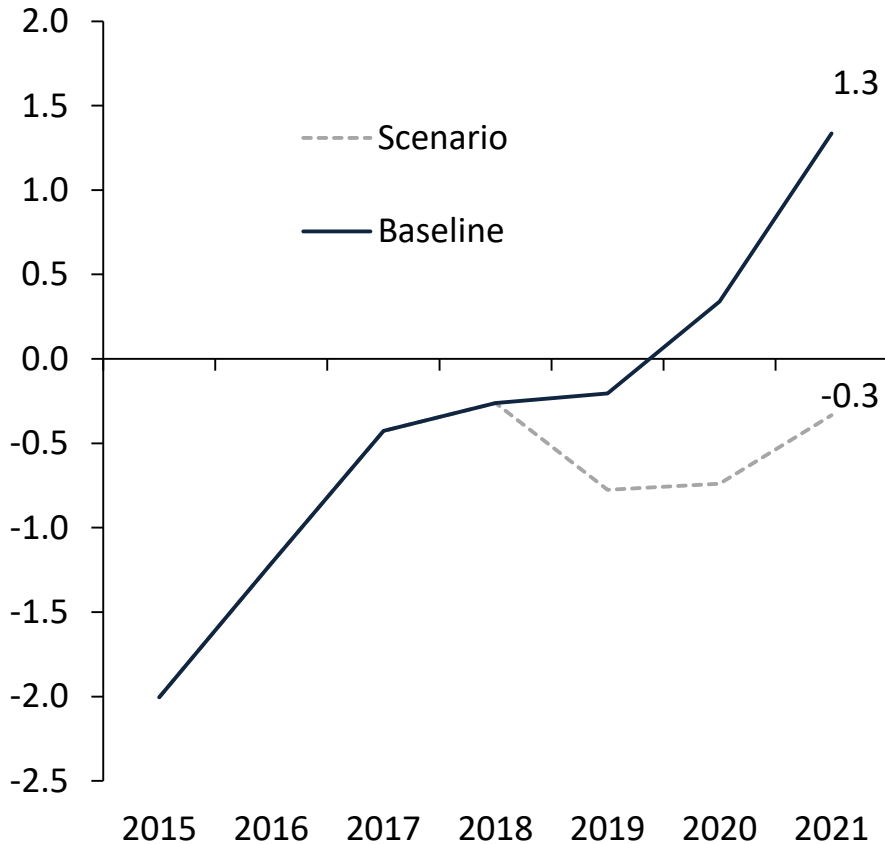
Sources: Department of Finance (*Budget 2018*); and internal IFAC calculations.

Scenario for Full Use of Fiscal Space

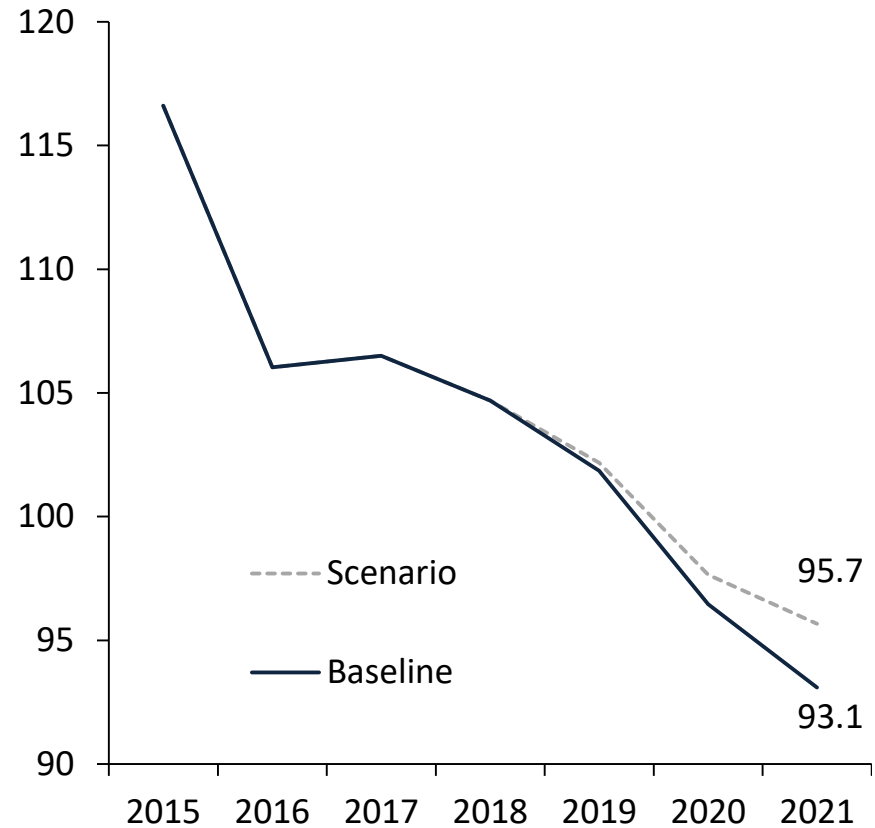
Full Use of Fiscal Space Scenario (2019–2021)

Percentage of GNI*, general government basis

A. Budget Balance



B. Gross Debt



Sources: Department of Finance (*Budget 2018*); CSO; and internal IFAC calculations.

Recap of Key Messages

- The Council assesses the Government's stance as set out for next year in *Budget 2018* to be conducive to prudent economic and budgetary management.
- However, there is a risk that the economy may experience overheating in coming years.
- The Government should set out a credible plan for the medium term so that a procyclical pattern of budgetary increases does not occur as has often been the case.

