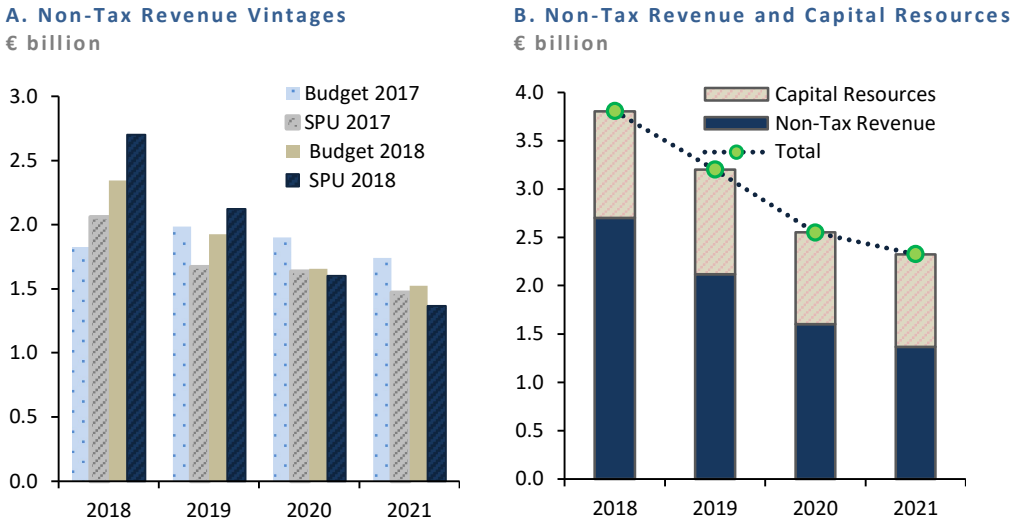
average for 2019–2021). For 2018, changes to scheduled receipts from IBRC are expected to benefit the Exchequer by €0.2 billion.[50] For the medium term, forecasts on capital resources do not include assumptions on the resolution of the financial crisis, as discussed in the fiscal risks matrix (Table 3.5). The *SPU 2018* forecasts on capital resources are displayed in panel B of Figure 3.12.

Figure 3.12: Non-Tax Revenue and Capital Resources



Sources: Department of Finance; and internal IFAC calculations.

Box G: Capital Expenditure and the National Development Plan

In light of the recently published National Development Plan, this box examines how previous and current plans for capital spending have evolved over time. Figure G.1 shows the evolution of planned gross voted capital expenditure along with the outturns.

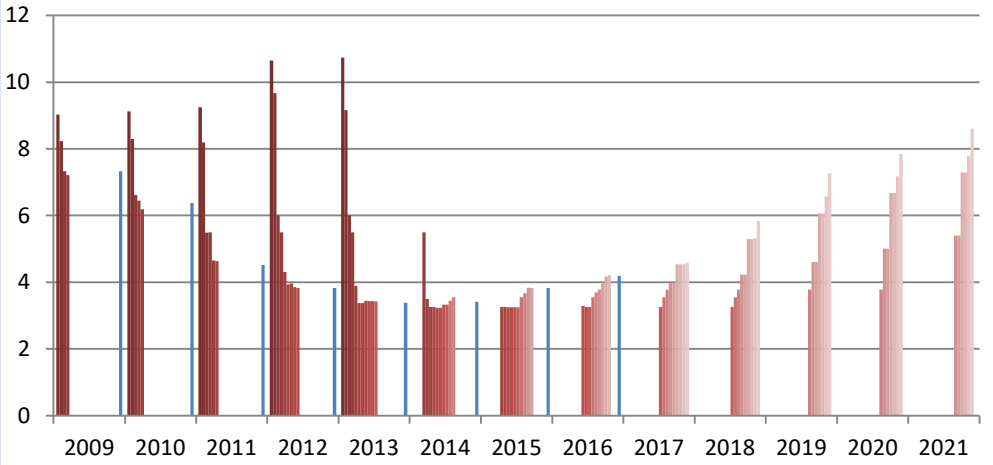
Plans for future capital expenditure appear to be linked to the economic cycle. In the 2009 – 2014 period, previously ambitious plans for investment were curtailed after the crisis took hold. For future years, one can see that planned capital expenditure has been revised up significantly over successive budgets. This has happened as Ireland has experienced strong growth as part of a cyclical upturn.

The National Development Plan notes that public investment as a share of GDP both in Ireland and in the EU averaged at around 3 per cent for the period 1995-2015. The National Development Plan indicates that public capital investment is to reach 4 per cent of GNI* in 2024 (the Government's targeted level) and average at that level over the period 2022 – 2027. If taking GNI* as an appropriate measure of national income for Ireland, then public capital investment in Ireland would be well above the EU average.

[50] Given that the majority of these are financial transactions, this will not impact the general government revenue.

Figure G.1: Vintages of planned capital spending

€ billion, gross voted capital expenditure



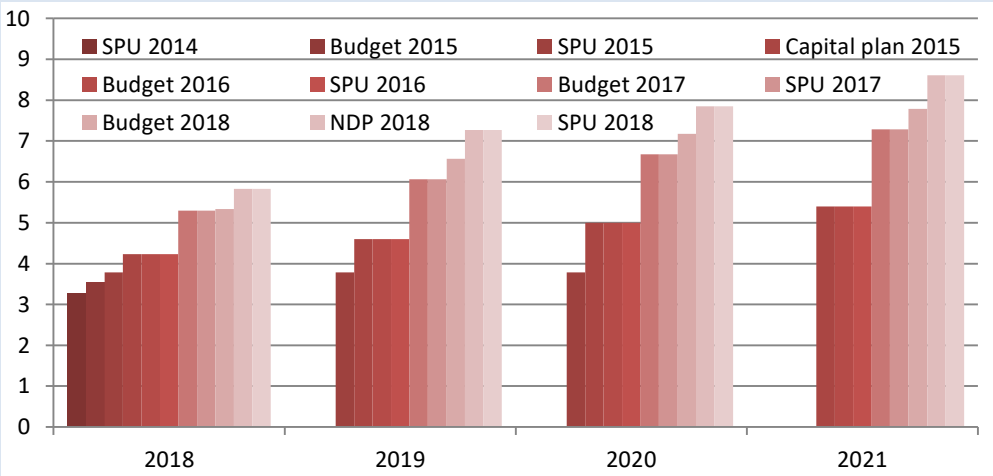
Sources Department of Finance; and internal IFAC calculations.
Note: Outturns in blue, darker red bars indicate older vintages; lighter red bars indicate more recent vintages. The oldest vintage used is the 2007 Capital plan, while the most recent vintage is SPU 2018. All SPUs, budgets and capital plans in the intervening period are included.

As noted in the last *Fiscal Assessment Report* (Box G, IFAC 2017d), committing to a specified level of investment (as a percentage of an indicator such as GNI*) could prove useful in setting fiscal policy. If adhered to over the cycle, it could help prevent cuts to public investment in downturns and excessive growth in cyclical upswings.

However, looking at plans as they stand, public investment is set to increase by a third between 2018 and 2021. Given that growth is already forecast to be strong over this period, this increase in capital expenditure will need to be carefully managed as part of the overall fiscal stance to ensure it does not contribute to potential overheating.[51]

Figure G.2: Vintages of planned capital expenditure (2018–2021)

€ billion, gross voted capital expenditure



Sources: Department of Finance; and internal IFAC calculations.
Note: Darker red bars indicate older vintages; lighter red bars indicate more recent vintages.

[51] The midpoint of alternative GDP estimates of the output gap in *SPU 2018* shows a positive output gap from 2019 to 2021.

Figure G.2 illustrates the upward revisions to gross voted capital spending plans (2018 - 2021) in recent years. Over the period 2019–2021, planned gross voted capital expenditure (in the National Development Plan and *SPU 2018*) is 58 per cent higher than was the case in the previous capital plan (Department of Public Expenditure and Reform, 2015). While these revisions have been taking place, there has been continuing strong growth and declining unemployment as a cyclical recovery took hold.

General Government Debt

Figure 3.13 shows the evolution of debt as forecast in *SPU 2018*. The debt-to-GDP ratio has fallen substantially since 2012. Two factors have played a significant role. The first is related to the high level of measured GDP growth in 2015. The second involves the liquidation of the IBRC, which led to lower liabilities being measured on the Government's balance sheet (in 2011, this had led to an increase in government liabilities of €20.9 billion; stripping out these liabilities, gross debt to GDP would have been 4 per cent lower annually). While the *Stability and Growth Pact* reference value of 60 per cent is set in terms of debt-to-GDP, it is worth remembering that for Ireland this 60 per cent of GDP reference value would be equivalent to 87 per cent of GNI* (using 2016 nominal outturns for both variables), which would rarely be considered a "safe" level of debt. Using GNI* or revenue as a denominator, government debt remains high relative to other OECD countries (see Figure 1.5 in Chapter 1).

Given some of these distortions and the relatively high cash balances run by the NTMA, net debt to GNI* is a more informative measure. Using this metric, the decline in debt levels is more gradual since 2012 and debt is expected to fall to 83 per cent in 2018 before falling to 76.3 per cent in 2021 (Figure 3.13).