Macroeconomic and Fiscal Framework

2009-2013

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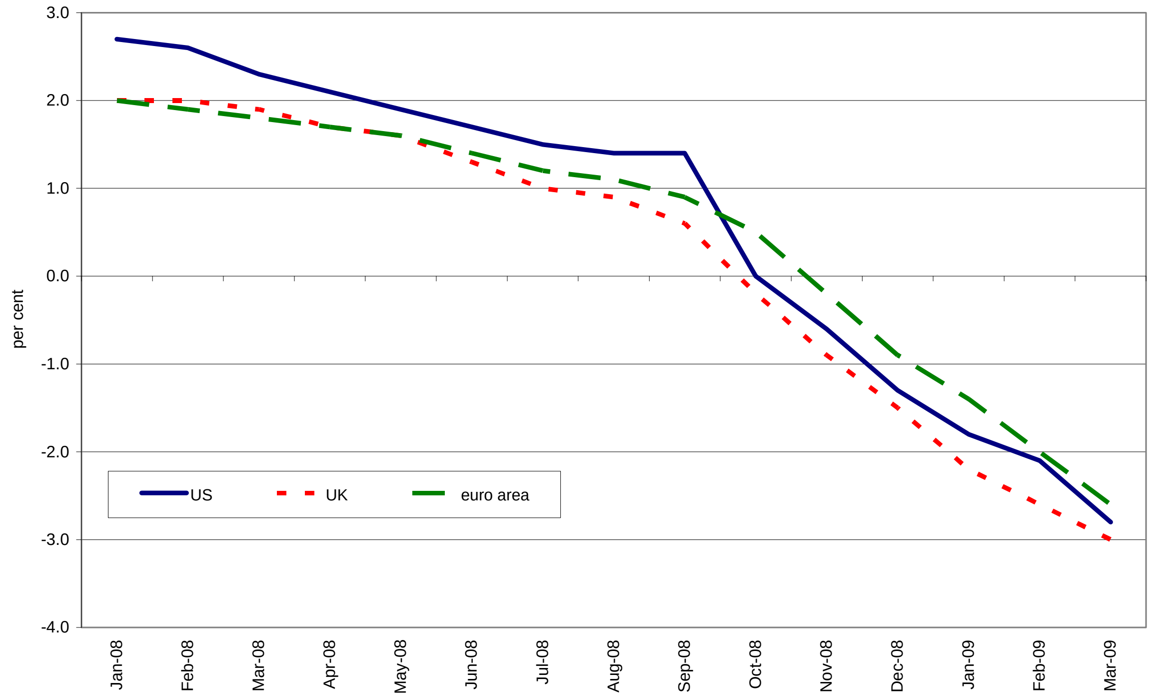
Contents

1 Economic Outlook 2009-2013

The external environment in 2009

The origins of the current international economic difficulties lie in the collapse of the market for US sub-prime mortgage debt from mid-2007. This sector-specific credit market shock quickly spread to affect nearly all types of financial markets and triggered a global credit shock which intensified dramatically following the collapse of Lehman Brothers last September. On foot of this, the outlook for the global economy – and for our main export markets in particular – deteriorated at a very rapid pace from the autumn of last year. This sharp decline in the global outlook is captured in figure 1 below which illustrates why all forecasts for the Irish economy since last autumn were subsequently overtaken by events.

Figure 1: Consensus GDP forecasts for 2009 in our main trading partners[1]



Source: Consensus Economics.

Incoming data relating to developments in 2009 are consistent with a sharp decline in output in the world's advanced economies this year. In addition, available indicators – such as those produced by the OECD[2] – suggest a substantial reduction in world trade volumes in the early months of this year, resulting in a difficult environment for the exporting sector in Ireland.

In terms of the international environment, the forecasts underpinning the analysis in this document are those published by the OECD at end-March (table 1). As is evident, these envisage a sharp contraction in virtually all of our main trading partners this year.

[1] Chart shows consensus GDP forecasts for our main trading partners for 2009 produced each month from January last year to March of this year (latest available).

[2] The World Trade Monitor published by the CPB Netherlands Bureau of Economic Policy Analysis is also useful in this regard.

Table 1 – GDP Growth in Ireland's Main Trading Partners (%)

	2008	2009	2010
Euro area	0.7	-4.1	-0.3
: Germany	1.0	-5.3	0.2
: France	0.7	-3.3	-0.1
: Italy	-1.0	-4.3	-0.4
UK	0.7	-3.7	-0.2
US	1.1	-4.0	0.0
World trade growth	2.5	-13.2	1.5

Source: OECD Economic Outlook Interim Report, March 2009.

In addition to falling demand in our main export markets, the appreciation of the euro-sterling exchange rate, which is compounding the deterioration in price and wage competitiveness in recent years, will also impact on the export performance. While around one-fifth of our exports are destined for the UK, this figure understates the importance of the UK market to the domestic economy, given the sectoral composition of our exports to the UK. A further complicating factor relates to sector-specific developments, with exports of computer hardware and possibly financial services likely to remain under pressure given recent developments. When all of these factors are taken into account, the volume of exports is projected to contract by 6.1 per cent this year, following a decline of 0.4 per cent last year.

Domestic Developments in 2009

National accounts data show that economic activity went into reverse last year, the first time this has happened in a quarter of a century. The full-year decline in GDP was 2.3 per cent while that for GNP was 3.1 per cent. In terms of the components of demand, the sharpest fall was recorded in investment spending, which declined by just under 20 per cent last year. This was mainly due to lower levels of residential investment, which subtracted around 3¼ percentage points from the overall level of activity.[3] Personal consumption expenditure fell by 0.8 per cent last year, a reflection of fairly modest disposable income growth combined with a deterioration in consumer sentiment over the course of the year.

A further substantial decline in domestic demand is in prospect this year. On the basis of new housing starts data, completions for the year as a whole look set to be around 20,000 units, which would amount to an annual decline of nearly two-thirds and would subtract about 3¾ percentage points from the level of economic activity. Other components of construction investment also look set to decline, with negative consequences for employment in this sector. In overall terms, therefore, investment spending is projected to decline by 27 per cent this year.

The current prospects are for a very large decline in the volume of personal consumption expenditure this year. Household incomes are being adversely affected by declining employment, a rising direct tax burden and, possibly, falling nominal wages, although declining prices are providing some support to real incomes. Moreover, in an environment of heightened uncertainty regarding the future and rising job insecurity, households appear likely to save a larger portion of their disposable incomes for precautionary reasons: accordingly, the savings rate of the household sector is assumed to rise. When account is taken of all these factors, a reduction in the volume of personal consumption expenditure

[3] This is a purely mechanical estimate which does not take account of lost output in related areas.

of 7.8 per cent is forecast for this year, a significant downward revision from the forecast published in January. Public consumption is forecast to decline by 0.4 per cent.

The volume of imports is projected to fall by just over 10 per cent this year, given the significant decline in final demand. In overall terms, therefore, GDP is forecast to decline by 7.7 per cent this year with GNP projected to fall by 8.0 per cent.

 - *Labour Market*
Conditions in the labour market weakened substantially over the course of last year. Falling employment in the labour-intensive construction sector was the initial cause of weakness, but by the final quarter, employment was on a downward path in almost all parts of the private sector with the annual rate of overall employment loss reaching just over 4 per cent. However, since then the pace of deterioration in the labour market has accelerated. For instance, while not designed to measure unemployment, the number on the Live Register rose at an exceptionally fast pace in the first three months of this year. While the rate of increase in March showed some tentative signs of easing, the number on the Live Register is projected to average around 440,000 this year on the basis of current trends.

For this year as a whole, total employment is projected to fall by 7.8 per cent, an unprecedented rate of decline. The labour force should also decline, as some outward migration and lower participation rates more than offset the natural increase in the population of working age. As a result, the unemployment rate is expected to average about 12½ per cent for the year as a whole.

 - *Consumer Price Developments*
As measured by annual changes in the consumer price index (CPI), the rate of inflation has been on a downward trajectory since the middle of last year, and turned negative in January of this year for the first time since the second quarter of 1960. The easing of inflationary pressures reflects a number of factors, including favourable base effects, declining energy prices, lower mortgage interest repayments, and a general moderation in price pressures due to the slowdown in the economy. The pace of price decline is set to accelerate in the coming months so that for the year as a whole, price levels on a CPI basis are forecast to fall by 3.9 per cent. This would be the first full-year decline since 1946.

On the basis of the harmonised index of consumer prices (HICP), which amongst other things strips out the impact of lower mortgage interest repayments, prices are projected to decline by 1.4 per cent for the year as a whole.

The main factors currently depressing consumer prices – declining mortgage interest repayment costs and falling energy prices – are essentially temporary in nature. Once these stabilise, a return to low but positive inflation in both CPI and HICP terms is projected. In other words, a sustained period of declining prices does not appear to be in prospect at this stage.

 - *Balance of Payments*
Last year, the current account of the balance of payments recorded a deficit of 5.4 per cent of GNP. However, by the final quarter, the current account was effectively balanced for the first time since 2004.

The current account of the balance of payments is the difference between domestic savings and domestic investment, and the improvement in the final quarter of last year means that domestic savings and investment were almost in balance. In broad terms, this trend is likely to pertain this year. While the gap on the public side is likely to rise, savings in the private sector are likely to exceed investment. This is because of rising household savings (for precautionary reasons) together with lower investment in housing and corporate assets. This will help offset the rise in public sector dis-saving, resulting in an improvement in the current account position, which is likely to be in surplus by next year. Clearly, it is the current account position - as distinct from the government position - which defines the national dependence on external funding, and in this regard, the prospect of a small current account deficit this year, becoming positive thereafter, is a significant development.

Table 2 – Macroeconomic Prospects

% change	**2009**	**2010**	**2011**	**2012**	**2013**
GNP growth	-8.0	-2.8	2.5	4.0	3.8
GNP at current market prices (€m)	144,000	140,275	146,250	154,975	163,750
GDP growth	-7.7	-2.9	2.7	4.2	4.0
GDP at current market prices (€m)	171,500	167,100	174,800	185,325	196,050
Components of real GDP					
Personal consumption	-7.8	-3.7	1.1	2.4	2.6
Public consumption	-0.4	0.0	0.0	0.0	0.0
Investment	-27.0	-16.0	7.4	9.9	10.0
Exports of goods and services	-6.1	-3.1	3.0	4.0	3.9
Imports of goods and services	-10.1	-6.1	2.1	2.7	3.2
External trade					
Current account (% GNP)	-0.6	1.8	2.5	3.2	3.6
Price developments					
HICP	-1.4	0.5	1.9	1.8	1.8
CPI	-3.9	0.3	2.0	2.0	2.0
Labour market					
Unemployment (% of labour force)	12.6	15.5	15.0	13.5	11.8
Employment	-7.8	-4.6	0.5	2.2	2.4
Labour productivity (GDP basis)	0.1	1.8	2.2	1.9	1.6

Source: Department of Finance forecasts.

Outlook for next year and beyond

The current working assumption among the main international forecasting agencies is that a modest global recovery will set in over the course of next year. This is underpinned by the assumption that the large policy stimuli – both monetary and fiscal – currently in place, together with measures taken internationally to improve the functioning of the global financial system, will lead to an improvement in world demand. On the basis of OECD projections,[4] while GDP growth in our major trading partners is projected to be close to potential by the end of next year, it will be essentially flat for the year as a whole. Taken in conjunction with the projection of only a modest improvement in world trade and our

[4] These are broadly similar in magnitude to those published by the IMF in mid-March.

weak competitive position, a further, albeit more modest, decline in Irish exports is likely for next year. In the period 2011 – 2013, as world growth is firmly established, Irish exports are expected to recover.

With evidence of a stock overhang, housing investment is likely to continue its downward trend next year. However, given that the sector's weight in GDP will have fallen significantly from its peak of 11 per cent in 2006, the impact of any further contraction on aggregate demand will be considerably less than that experienced in recent years. Commercial investment is also likely to remain weak, so that total investment is projected to continue declining next year. Personal consumption expenditure will be negatively affected by a further decline in disposable income with both employment and take-home pay likely to continue to fall. Imports should contract once again given the projected fall in final demand, so that in overall terms, GNP is forecast to contract by 2.8 per cent next year (GDP by 2.9 per cent)

The profile thereafter is one of gradual economic recovery in Ireland. The projections over the period 2011-2013 are broadly similar to those contained in the *Addendum to the 2009 Stability Programme Update*, published in January, with one modification: because the current downturn is deeper than initially assumed, the amount of spare capacity is consequently greater. Therefore, once the recovery begins, growth is projected to be somewhat stronger than originally assumed as this additional spare capacity is brought into productive use. In summary terms, based on the assumption of a global recovery, the Irish economy is projected to expand at an average rate of around 3½ per cent per annum over the period 2011-2013. This is above the estimated trend growth rate – estimated to be in the region of 3 per cent – and reflects additional spare capacity being brought into productive use over the period.

Risks to the projections

Economic forecasting is inherently uncertain, and in the current environment the uncertainties are heightened to a considerable degree, with both the demand- and supply-sides of the economy being affected by recent developments. In terms of the latter, the scale of actual or likely outward migration is unknown at present, and this has implications for the public finances as well as for our potential growth rate. Therefore, while the projections outlined above represent a credible scenario for the next few years, it is appropriate to outline the risks to the forecasts.

The majority of risks to the outlook in Ireland appear to be on the downside. The main identifiable risks include:

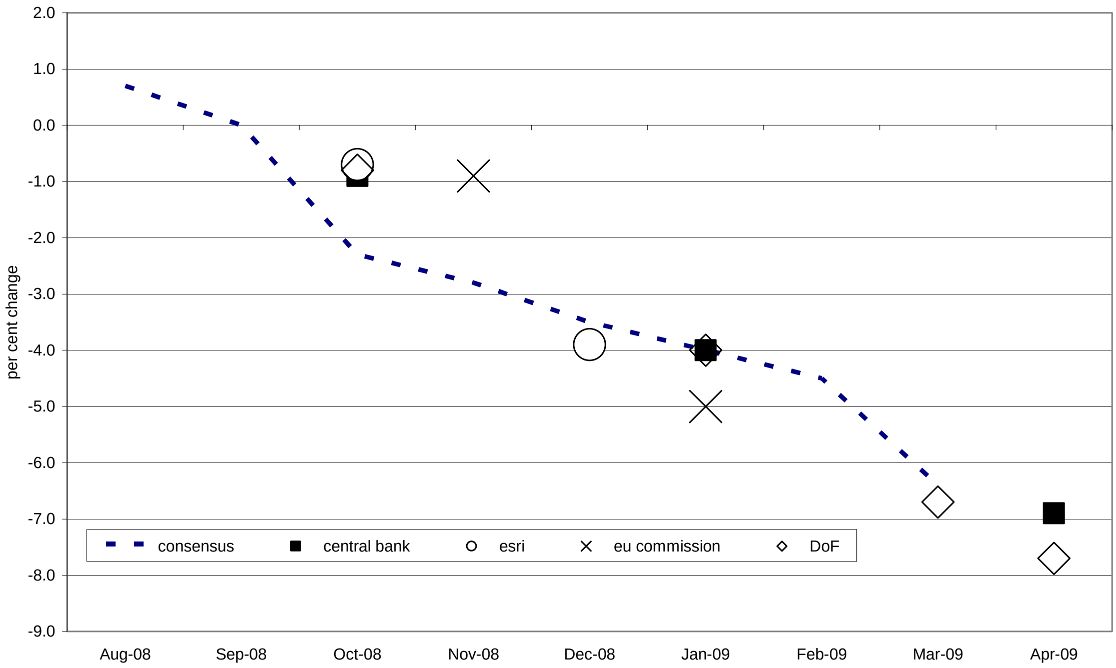
- A steeper or more prolonged downturn in our main trading partners;
- The possibility that global financial market problems persist for longer than expected;
- Further exchange rate appreciation, particularly against sterling;
- The possibility that declining price levels (in Ireland and possibly in our main export markets) feed into expectations and lead to a more prolonged deflationary environment;
- Further out, there is the possibility that cyclical unemployment may become structural, thus limiting the ability of the economy to achieve growth above trend.

The main upside potential stems from the possibility that the various stimulus packages being put in place around the globe have a more rapid and more beneficial impact on world demand than is currently assumed.

Range of forecasts

Figure 2 shows the evolution of various Irish GDP forecasts for 2009 since the mid-part of last year, and illustrates the difficulty associated with projecting economic developments in the current exceptionally uncertain environment.

Figure 2: Evolution of 2009 GDP growth forecasts



Source: Reuters, EU Commission, Central Bank, ESRI and Department of Finance.

The consensus forecast is that produced by Reuters at the end of each month and consists of mainly private sector, financial market forecasts. GDP projections published by the Central Bank, ESRI, the EU Commission and the Department of Finance (pre- and post-Budget) are shown also. It should be noted that the underlying assumptions may be different in each case; for example, the Central Bank's April forecast is purely on a pre-budget basis.

The chart clearly demonstrates a downward revision to the 2009 economic outlook among all institutions. This would appear to reflect two key factors. Firstly, domestic data which have emerged – both soft and hard indicators – have been very poor. Secondly, the international environment has deteriorated at a very fast pace with obvious implications for the Irish economy. This is evident from the sharp downward revisions to the global outlook (as illustrated earlier).

Table 3 below compares the Department's latest forecast for the main aggregates with those of other recent forecasts. In making comparisons, it should be borne in mind that the assumptions underpinning the forecasts may be different.

Table 3 – Comparison of Macroeconomic Forecasts for Ireland for 2009

		Annual % change			
Institution	**Publication**	**GDP**	**GNP**	**HICP**	**Employment**
Department of Finance	*April Budget*	-7.7	-8.0	-1.4	-7.8
Consensus ^	*End-March 2009*	-6.4	-6.9	-0.7	n.a.
Central Bank of Ireland *	*Bulletin No. 2 April 2009*	-6.9	-7.1	-1.3	-7.5

Source: Department of Finance and institutions cited.
^ The Reuters consensus forecast refers to a poll of 11 economists mostly in the financial sector.
** Central Bank forecast does not take budgetary measures into account. This is also the case for some of the private sector forecasts in the consensus.*

2 Fiscal Outlook 2009-2013

The Public Finances in 2009

The worsening in the economic environment has had significant negative consequences for the public finances. Prior to the corrective action taken in this Supplementary Budget, a General Government deficit of -12¾ per cent of GDP was anticipated for 2009. This would have represented a significant deterioration from the deficit of -7 per cent of GDP recorded in 2008 and from the surpluses recorded in ten of the eleven years up to 2007.

While increases in unemployment-related spending have had a negative impact, the large deficits this year and last are mainly the result of the very poor performance of tax revenues. This year, even with the revenue raising measures set out in the Supplementary Budget, tax revenues, at €34.4 billion, are expected to be 27 per cent below 2007 levels.

The decline in capital taxes (Capital Gains Tax, Capital Acquisitions Tax and Stamp Duty) is of particular note. From the mid-part of this decade, revenue from these taxes increased significantly, driven by the strength of the construction sector and by increasing asset values. The share of these taxes in total taxation revenue rose rapidly, peaking at nearly 16 per cent in 2006. From 2007 onwards, however, revenue from these tax heads has been adversely affected by negative developments in property and financial markets. At this stage, the overall yield from capital taxation is back at the levels last seen in the early part of this decade. This development presents a significant gap in Exchequer revenue which will not be replenished as the economic cycle improves over the coming years. As such this represents a significant structural gap in the revenue base.

Actions taken to address the weakening Public Finances

Starting last July, the Government introduced a number of measures designed to restore order to the public finances.

- July 2008 – delivered savings of €440 million in 2008 and €1 billion in 2009.
- October 2008 – Budget 2009 delivered strict containment of expenditure and a range of revenue raising measures of almost €2 billion.
- January 2009 – published the Addendum to the Irish Stability Programme Update setting out a medium-term plan to return the General Government Deficit below the 3 per cent of GDP deficit limit by 2013. Underpinning that plan was the need to find savings of up to €2 billion in 2009.
- February 2009 - expenditure savings of €2 billion in a full year announced. The most significant component of this package was the introduction of a pension-

related pay deduction for public servants. In addition, the postponement of the next rounds of the Social Partnership pay agreement ‘Towards 2016’ secured savings on the pay bill. In 2010 these are estimated to achieve of up to €1 billion in savings.

Measures Delivered in this Supplementary Budget

Section II – Summary of Budget Measures – set out the specific expenditure and taxation measures announced in the Supplementary Budget.

An additional €1.8 billion is being raised over the remainder of 2009, consisting of an additional €1 billion in tax revenue and an additional €799 million from the changes in PRSI and Health Levy arrangements. The additional €1 billion in tax revenue is equivalent to €1.9 billion in a full year. As a result of this, tax revenue in 2009 is now forecast to yield €34.4 billion. By end-March, €8.5 billion had already been collected, representing about 25 per cent of the annual target, which is in line with the average proportion collected in the first quarter of each year over the last decade.

In addition, the changes to PSRI and Health Levy arrangements will yield €1.65 billion in a full year. The impact of this additional income for the State means that Departments will have lower net expenditure on a post-budget basis.

In terms of expenditure, further adjustments of €886 million in gross current expenditure and €576 million in capital have been announced. While capital expenditure has been reduced, it still represents 5 per cent of GNP, which remains high by international standards.

In addition to the above measures, the Government will receive over a two year period the value of the assets of the third level university pension funds and the pension funds of the non-commercial semi-state bodies. The public finances will also benefit from the substantial amounts of funds that are now being paid on a quarterly basis by the six covered financial institutions in respect of the Government Guarantee they have received.

Taking account of the impact of the measures in the Supplementary Budget, a General Government Deficit of -10¾ per cent of GDP is now forecast for 2009. Table 4 below shows the pre and post adjustment Exchequer and General Government Deficits.

Table 4: Budgetary Path 2009

	Pre-Adjustment	**Post-Adjustment**
Exchequer Balance (€m)	- €23 billion	- €20.35 billion
General Government Balance (% of GDP)	-12¾%	-10¾%

Economic impact of the Supplementary Budget Measures in 2009

The Supplementary Budget adjustments of €3.3 billion that are being implemented during the year are equivalent in full year terms to a package of over €5 billion. Quantifying the impact of these measures on economic activity is an inherently uncertain exercise and requires a combination of econometric model simulations and judgement. It is estimated that the level of economic activity will be reduced by about 1 percentage point on foot of the Supplementary Budget.

Table 5 below sets out the loss in tax revenue that is assumed to be associated with the introduction of the €3.3 billion package in 2009. On this basis an estimated €577 million in lost revenue needs to be factored into the budgetary arithmetic - this is usually referred to as negative tax buoyancy.

Table 5: The Impact of the Supplementary Budget on the Fiscal Position in 2009

		€m	€m
Total Supplementary Budget Package:			3,268
Tax Measures:			
	Income Tax	+754	
	Value Added Tax	-2	
	Capital Gains Tax	+30	
	Capital Acquisitions Tax	+31	
	Stamp Duties	+110	
	Excise Duties	+84	
	Total Tax Measures	+1,007	
	PRSI/Health Levies	+799	
Expenditure Measures:			
	Current:	-886	
	Capital	-576	
Impact on Tax Projections of Budgetary Measures =		***-577***	
Current Revenue			
Pre-Budget Tax Revenue			33,970
Post Budget Tax Revenue			34,400
Non Tax Revenue			852
Post Budget Current Revenue			**35,252**
Current Expenditure			
Pre Budget Net Voted Expenditure			41,916
Post Budget Net Voted Expenditure (less Dept Balances)			40,511
Non Voted Current (Central Fund) Expenditure			5,855
Post Budget NET Current Expenditure			**46,365**
CURRENT BUDGET BALANCE			**-11,113**
CAPITAL BUDGET BALANCE			**-9,236**
EXCHEQUER BALANCE			**-20,350**

Note: Rounding may impact on totals

Public Finances 2010 - 2011

This Supplementary Budget represents a new departure for Budget formulation in Ireland. For the first time multi-annual plans are contained in the budgetary projections. Measures amounting to €2.25 billion and €2.5 billion in additional spending cuts in each of the years 2010 and 2011 will be delivered. (See Table 6).

The policy decisions underlying these reductions are already in train. They entail further reductions in pay costs, numbers and the full range of expenditure programmes. There is no provision for extra social spending, other than dictated by demography and unemployment. There will be a cap on capital spending and efficiencies will be found throughout the public sector. Savings on day-to-day spending will be made through more targeted welfare provision and further reductions in public service costs and numbers. Sharper targeting of programme spending and more efficient use of resources across the board will also be required. Planning for the identification and delivery of these necessary savings will now proceed at a much earlier stage in the process of budgetary formation than in the past.

In 2010, an additional €1.75 billion in taxation will be raised, which will equate to €2.5 billion in a full year. In 2011, the target will be to raise up to an additional €1.5 billion, which will rise to €2.1 billion in a full year. Options to raise this may include the taxation of Child Benefit, the introduction of a Carbon Tax, a form of property tax and significant further base broadening through the elimination of unnecessary reliefs and a review of all areas of tax exempt incomes.

The Commission on Taxation and the Special Group on Public Service Numbers and Expenditure Programmes which are currently underway will have an important role to play in identifying measures that will improve the budgetary situation in the coming years.

Table 6: Additional Annual Measures to be delivered in 2010 and 2011

	2010		**2011**	
	First Year	Full Year	First Year	Full Year
Taxation	€1,750m	€2,500m	€1,500m	€2,100m
Current Expenditure	€1,500m	€1,500m	€1,500m	€1,500m
Capital Expenditure	€750m	€750m	€1,000m	€1,000m
Total	**€4,000m**	**€4,750m**	**€4,000m**	**€4,600m**

Regarding the later years – 2012 and 2013 – based on the current forecasts additional unallocated amounts are required to ensure that the deficit will be below 3 per cent of GDP by 2013. The scale and nature of these measures will depend to a great extent on the strength of the economic cycle but the Government is determined to ensure that the General Government deficit will be below the 3 per cent of GDP level by end-2013. Table 7 sets out the budgetary arithmetic for the period out to 2013.

Table 7: Budgetary Projections 2009 – 2013

	2009	2010	2011	2012	2013
	€m	€m	€m	€m	€m
CURRENT BUDGET					
Expenditure					
Gross Voted Current Expenditure	56,588	56,757	56,111	56,892	57,672
Non-Voted (Central Fund) Expenditure	5,855	7,796	9,304	10,526	11,247
Gross Current Expenditure	**62,442**	**64,553**	**65,415**	**67,418**	**68,918**
less Expenditure Receipts and Balances	16,077	13,816	13,531	14,085	14,372
Net Current Expenditure	**46,365**	**50,737**	**51,884**	**53,333**	**54,546**
Receipts					
Tax Revenue	34,400	35,375	38,971	41,354	43,735
Non-Tax Revenue	852	765	722	722	723
Net Current Revenue	**35,252**	**36,141**	**39,693**	**42,076**	**44,458**
Additional Annual Adjustment				4,000	3,000
Adjustment in base from preceding year					4,000
CURRENT BUDGET BALANCE	**-11,113**	**-14,596**	**-12,191**	**-7,257**	**-3,089**
CAPITAL BUDGET					
Expenditure					
Gross Voted Capital	7,329	6,621	5,491	6,000	6,000
Non-Voted Expenditure	871	832	825	820	820
Payment to the NPRF	3,000	0	1,449	1,550	1,637
	11,200	7,453	7,765	8,370	8,458
less Capital Receipts	465	481	479	479	479
Net Capital Expenditure	**10,735**	**6,972**	**7,286**	**7,891**	**7,979**
Capital Resources	**1,499**	**1,665**	**1,716**	**1,706**	**1,710**
CAPITAL BUDGET BALANCE	**-9,236**	**-5,307**	**-5,570**	**-6,185**	**-6,269**
EXCHEQUER BALANCE	**-20,350**	**-19,903**	**-17,762**	**-13,442**	**-9,358**
Accrual adjustments	0	506	433	438	540
Adjustment for financial transactions and PPPs	8	-56	-71	-78	-78
Extra-Budgetary funds and Non-Commercial State Bodies	2,128	1,565	2,641	2,905	3,166
Net Borrowing/Surplus of Local Government	-200	-200	-200	-200	-200
GENERAL GOVERNMENT BALANCE	**-18,413**	**-18,088**	**-14,959**	**-10,377**	**-5,929**
% of GDP	-10¾%	-10¾%	-8½%	- 5½%	-3%

Rounding may impact on totals

Debt Level and Developments

It must be accepted that in lending to Ireland, investors will have regard to the state of our economy and public finances as well as the structural issues surrounding the Irish banking system. Consequently, for so long as Ireland – like all other industrialised countries – relies on debt markets for funding, Ireland must have regard to the needs of those investors.

The deterioration in the public finances has meant that it has been necessary to undertake large-scale borrowing. This has been possible because Ireland started with a relatively low public debt burden. At end 2008, the General Government debt stood at 43 per cent of GDP but when account is taken of the cash held by the National Treasury Management Agency (NTMA) and the assets in the National Pensions Reserve Fund, the net debt position was closer to 22 per cent of GDP.

In relation to the funding of the significant borrowing now underway, the NTMA has recently successfully raised significant sums on the international markets. Since the start of the year over €11 billion has been raised through the issuance and auction of bonds. In March the NTMA held the first in a series of auctions of Irish Treasury Bills which raised €1½ billion. In addition, the NTMA has built up the Exchequer's cash balances at end 2008 which has assisted in the timing of borrowing in 2009.

Table 8 below shows the evolution of the debt to GDP ratio over the forecasting period.

Table 8: General Government Debt Developments

	2009	**2010**	**2011**	**2012**	**2013**
GG Debt % of GDP	59%	73%	78%	79%	77%

Structural Budget Balance

Fluctuations in the economic cycle can have a significant impact on the fiscal position in any given period. In principle, the structural budget balance – the headline figure adjusted for the impact of the economic cycle – provides a more meaningful benchmark for assessing fiscal developments. In practice, however, there are considerable uncertainties attached to estimates of the structural position, especially in an Irish context. Notwithstanding these uncertainties, estimates of the structural position are presented below, with the output gap determined on the basis of the harmonised methodology developed jointly by the EU Commission and the Member States. The sensitivity of the General Government Balance to the economic cycle is taken to be a factor of 0.4. (See Table 9).

Table 9: Cyclical Developments

% of GDP		2009	2010	2011	2012	2013
Economic developments						
GDP growth	(1)	-7.7	-2.9	2.7	4.2	4.0
Potential GDP growth	(2)	-0.7	-0.9	1.1	1.4	1.7
- contribution of labour		-1.6	-1.5	0.3	0.3	0.3
- contribution of capital		0.6	0.3	0.4	0.5	0.6
- contribution of total factor productivity		0.4	0.4	0.5	0.6	0.7
Output gap	(3)	-6.3	-8.2	-6.8	-4.3	-2.1
Cyclical component of headline balance	(4) = (3)*0.4	-2.5	-3.3	-2.7	-1.7	-0.8
Headline fiscal developments						
Actual balance	(5)	-10.7	-10.8	-8.6	-5.6	-3.0
Interest expenditure	(6)	2.2	3.1	3.8	4.1	4.2
Structural fiscal developments						
Structural balance	(7) = (5) – (4)	-8.2	-7.5	-5.9	-3.9	-2.2
Structural primary balance	(8) = (7) + (6)	-6.0	-4.4	-2.1	0.2	2.0

Source: Department of Finance calculations.
Note that rounding can affect totals.

Appendix: Detailed Budgetary Tables

Taxation Receipts – Post-Budget Projections 2009-2011

	2009 €m	**2010 €m**	**2011 €m**
Income Tax	12,475	12,135	12,520
Value Added Tax	11,420	11,060	11,370
Corporation Tax	3,740	3,840	4,375
Excise	4,634	4,500	4,530
Stamp Duties	980	970	1,030
Capital Gains Tax	625	610	621
Capital Acquisitions Tax	295	300	310
Customs	230	210	215
Levies	1	-	-
Additional Package in 2010		1,750	2,500
Additional Package in 2011			1,500
Total Tax Revenue	**34,400**	**35,375**	**38,971**

SUMMARY OF GROSS EXPENDITURE (CAPITAL AND CURRENT)*

by Ministerial Vote Group

Ministerial Vote Group	2008 Provisional Outturn	**2009 Pre-Budget Estimate**	**Adjust-ments**	**2009 Post-Budget Estimate**	% Change Post-Budget Estimate over Provisional Outturn
	€000	**€000**	**€000**	**€000**	**%**
Taoiseach's (including Legal Votes)	187,144	**189,782**	(2,000)	**187,782**	0.3%
Current	187,144	**189,782**	(2,000)	**187,782**	0.3%
Capital	-	-	-	-	
Finance Group	1,580,228	**1,470,390**	(22,500)	**1,447,890**	-8.4%
Current	1,264,383	**1,246,683**	(7,500)	**1,239,183**	-2.0%
Capital	315,845	**223,707**	(15,000)	**208,707**	-33.9%
Justice Group	2,713,990	**2,597,137**	(21,000)	**2,576,137**	-5.1%
Current	2,564,780	**2,451,407**	(11,000)	**2,440,407**	-4.8%
Capital	149,210	**145,730**	(10,000)	**135,730**	-9.0%
Environment, Heritage and Local Government	3,168,561	**2,902,777**	(220,000)	**2,682,777**	-15.3%
Current	953,871	**895,520**	(20,000)	**875,520**	-8.2%
Capital	2,214,689	**2,007,257**	(200,000)	**1,807,257**	-18.4%
Education and Science	9,293,797	**9,574,536**	(81,000)	**9,493,536**	2.1%
Current	8,464,175	**8,670,628**	(27,000)	**8,643,628**	2.1%
Capital	829,622	**903,908**	(54,000)	**849,908**	2.4%
Community, Rural and Gaeltacht Affairs	541,783	**491,170**	(15,000)	**476,170**	-12.1%
Current	388,043	**357,995**	(15,000)	**342,995**	-11.6%
Capital	153,740	**133,175**	-	**133,175**	-13.4%
Foreign Affairs	1,023,221	**918,290**	(100,000)	**818,290**	-20.0%
Current	1,007,177	**905,242**	(100,000)	**805,242**	-20.0%
Capital	16,044	**13,048**		**13,048**	-18.7%
Communications, Energy and Natural Resources	485,987	**544,682**	(25,000)	**519,682**	6.9%
Current	359,784	**364,474**	(10,000)	**354,474**	-1.5%
Capital	126,203	**180,208**	(15,000)	**165,208**	30.9%
Agriculture, Fisheries and Food	2,104,568	**2,007,053**	(22,000)	**1,985,053**	-5.7%
Current	1,418,284	**1,553,454**	(44,593)	**1,508,861**	6.4%
Capital	686,284	**453,599**	22,593	**476,192**	-30.6%
Transport	3,719,627	**3,417,564**	(315,000)	**3,102,564**	-16.6%
Current	733,337	**719,520**	(15,000)	**704,520**	-3.9%
Capital	2,986,290	**2,698,044**	(300,000)	**2,398,044**	-19.7%
Health and Children	16,146,887	**16,140,833**	(186,000)	**15,954,833**	-1.2%
Current	15,468,359	**15,632,611**	(166,000)	**15,466,611**	0.0%
Capital	678,528	**508,222**	(20,000)	**488,222**	-28.0%
Enterprise, Trade and Employment	1,923,504	**1,913,180**	25,000	**1,938,180**	0.8%
Current	1,472,880	**1,449,789**	-	**1,449,789**	-1.6%
Capital	450,624	**463,391**	25,000	**488,391**	8.4%
Arts, Sport and Tourism	708,148	**551,872**	(11,500)	**540,372**	-23.7%
Current	433,643	**411,381**	(6,500)	**404,881**	-6.6%
Capital	274,505	**140,491**	(5,000)	**135,491**	-50.6%
Defence	1,080,563	**1,047,583**	(16,000)	**1,031,583**	-4.5%
Current	1,053,534	**1,024,189**	(11,000)	**1,013,189**	-3.8%
Capital	27,029	**23,394**	(5,000)	**18,394**	-31.9%
Social and Family Affairs	17,716,936	**21,571,322**	(300,000)	**21,271,322**	20.1%
Current	17,705,536	**21,560,514**	(300,000)	**21,260,514**	20.1%
Capital	11,400	**10,808**	-	**10,808**	-5.2%
Pay Contingency	-	**40,000**	-	**40,000**	
Additional Payroll Savings	-	-	(150,000)	**(150,000)**	
Total:-	62,394,944	**65,378,171**	**(1,462,000)**	**63,916,171**	2.4%
Plus Capital Carryover	128,453	-	-	-	
Total Including Capital Carryover:-	62,523,397	**65,378,171**	**(1,462,000)**	**63,916,171**	2.2%
Current	53,474,931	**57,473,189**	**(885,593)**	**56,587,596**	5.8%
Capital	9,048,466	**7,904,982**	**(576,407)**	**7,328,575**	-19.0%

This table includes voted expenditure and expenditure from the National Training Fund and from the Social Insurance Fund as it provides a more complete picture of overall Government expenditure.

SUMMARY OF NET EXPENDITURE (CAPITAL AND CURRENT)

by Ministerial Vote Group

Ministerial Vote Group	2008 Provisional Outturn	**2009 Pre-Budget Estimate**	**Adjust-ments**	**2009 Post-Budget Estimate**	% Change Post-Budget Estimate over Provisional Outturn
	€000	**€000**	**€000**	**€000**	%
Taoiseach's (including Legal Votes)	185,600	**182,989**	(2,000)	**180,989**	-2.5%
Current	185,600	**182,989**	(2,000)	**180,989**	-2.5%
Capital	-	-	-		-
Finance Group	1,406,175	**1,281,644**	(22,500)	**1,259,144**	-10.5%
Current	1,090,330	**1,057,937**	(7,500)	**1,050,437**	-3.7%
Capital	315,845	**223,707**	(15,000)	**208,707**	-33.9%
Justice Group	2,590,462	**2,407,310**	(21,000)	**2,386,310**	-7.9%
Current	2,441,252	**2,261,580**	(11,000)	**2,250,580**	-7.8%
Capital	149,210	**145,730**	(10,000)	**135,730**	-9.0%
Environment and Local Government	3,154,343	**2,881,008**	(220,000)	**2,661,008**	-15.6%
Current	939,654	**873,751**	(20,000)	**853,751**	-9.1%
Capital	2,214,689	**2,007,257**	(200,000)	**1,807,257**	-18.4%
Education and Science	9,028,373	**8,981,030**	(81,000)	**8,900,030**	-1.4%
Current	8,216,010	**8,086,122**	(27,000)	**8,059,122**	-1.9%
Capital	812,363	**894,908**	(54,000)	**840,908**	3.5%
Community, Rural and Gaeltacht Affairs	491,831	**459,140**	(15,000)	**444,140**	-9.7%
Current	359,969	**344,215**	(15,000)	**329,215**	-8.5%
Capital	131,862	**114,925**		**114,925**	-12.8%
Foreign Affairs	984,364	**876,636**	(100,000)	**776,636**	-21.1%
Current	968,320	**863,588**	(100,000)	**763,588**	-21.1%
Capital	16,044	**13,048**		**13,048**	-18.7%
Communications, Energy and Natural Resources	248,715	**290,442**	(20,000)	**270,442**	8.7%
Current	122,719	**110,484**	(5,000)	**105,484**	-14.0%
Capital	125,996	**179,958**	(15,000)	**164,958**	30.9%
Agriculture, Fisheries and Food	1,696,214	**1,621,137**	(22,000)	**1,599,137**	-5.7%
Current	1,012,118	**1,167,539**	(44,593)	**1,122,946**	11.0%
Capital	684,096	**453,598**	22,593	**476,191**	-30.4%
Transport	3,107,482	**2,814,054**	(315,000)	**2,499,054**	-19.6%
Current	538,576	**545,385**	(15,000)	**530,385**	-1.5%
Capital	2,568,906	**2,268,669**	(300,000)	**1,968,669**	-23.4%
Health and Children	13,857,034	**13,426,037**	(905,000)	**12,521,037**	-9.6%
Current*	13,188,367	**12,924,815**	(885,000)	**12,039,815**	-8.7%
Capital	668,667	**501,222**	(20,000)	**481,222**	-28.0%
Enterprise, Trade and Employment	1,433,740	**1,441,931**	25,000	**1,466,931**	2.3%
Current	983,686	**978,620**	-	**978,620**	-0.5%
Capital	450,054	**463,311**	25,000	**488,311**	8.5%
Arts, Sport and Tourism	706,614	**546,114**	(11,500)	**534,614**	-24.3%
Current	432,434	**405,623**	(6,500)	**399,123**	-7.7%
Capital	274,180	**140,491**	(5,000)	**135,491**	-50.6%
Defence	1,058,350	**999,253**	(16,000)	**983,253**	-7.1%
Current	1,034,391	**976,859**	(11,000)	**965,859**	-6.6%
Capital	23,959	**22,394**	(5,000)	**17,394**	-27.4%
Social and Family Affairs	9,319,464	**11,111,079**	(195,400)	**10,915,679**	17.1%
Current	9,308,064	**11,100,271**	(195,400)	**10,904,871**	17.2%
Capital	11,400	**10,808**	-	**10,808**	-5.2%
Pay Contingency**	-	**36,000**	100,000	**136,000**	-
Additional Payroll savings	-	**-**	(130,000)	**(130,000)**	-
Total	49,268,761	**49,355,804**	**(1,951,400)**	**47,404,404**	-3.8%
Plus Capital Carryover	128,453	-			
Total Including Capital Carryover:-	49,397,214	**49,355,804**	**(1,951,400)**	**47,404,404**	-4.0%
Current	40,821,490	**41,915,778**	**(1,374,993)**	**40,540,785**	-0.7%
Capital	8,575,724	**7,440,026**	**(576,407)**	**6,863,619**	-20.0%

*includes increase in Health levy

**includes adjustments to the pension-related deduction

Summary of Gross Current Expenditure 2009

Vote		Pre-Budget Estimate €000s	Adjustments in Budget €000s	Post Budget Estimate €000s
1	President's Establishment	3,509		3,509
2	Department of the Taoiseach	35,786	-2,000	33,786
3	Office of the Attorney General	18,233		18,233
4	Central Statistics Office	55,680		55,680
5	Office of the Comptroller and Auditor General	13,303		13,303
6	Office of the Minister for Finance	81,135	-1,000	80,135
7	Superannuation and Retired Allowances	345,985		345,985
8	Office of the Appeals Commissioner	631		631
9	Office of the Revenue Commissioners	458,616	-3,000	455,616
10	Office of Public Works	296,093	-3,000	293,093
11	State Laboratory	9,975		9,975
12	Secret Service	700		700
13	Chief State Solicitor's Office	38,207		38,207
14	Office of the Director of Public Prosecutions	41,876		41,876
15	Valuation Office	13,582		13,582
16	Public Appointments Service	13,608	-500	13,108
17	Office of the Commission for Public Service Appointments	1,243		1,243
18	Office of the Ombudsman	8,303		8,303
19	Justice, Equality and Law Reform	445,498	-524	444,974
20	Garda Síochána	1,532,392	-10,289	1,522,103
21	Prisons	340,743	-107	340,636
22	Courts Service	93,334	-65	93,269
23	Property Registration Authority	39,440	-15	39,425
24	Charitable Donations and Bequests	470		470
25	Environment, Heritage and Local Government	895,520	-20,000	875,520
26	Education and Science	8,670,628	-27,000	8,643,628
27	An Roinn Gnóthaí Pobail, Tuaithe agus Gaeltachta	357,525	-15,000	342,525
28	Foreign Affairs	235,070		235,070
29	International Co-operation	670,172	-100,000	570,172
30	Communications, Energy and Natural Resources	364,474	-10,000	354,474
31	Agriculture and Food	1,553,454	-44,593	1,508,861
32	Transport	719,520	-15,000	704,520
33	National Gallery	9,321	-90	9,231
34	Enterprise, Trade and Employment [(a)]	1,449,789		1,449,789
35	Arts, Sport and Tourism	402,060	-6,410	395,650
36	Defence	815,189	-11,000	804,189
37	Army Pensions	209,000		209,000
38	Social and Family Affairs[(a)]	21,560,514	-300,000	21,260,514
39	Health and Children	523,040		523,040
40	Health Service Executive	14,614,653	-60,000	14,554,653
41	Office of the Minister for Children	494,918	-106,000	388,918
	Pay Contingency	40,000		40,000
	Additional Pay Savings	-	-150,000	-150,000
	Total Gross Voted Current Expenditure	**57,473,189**	**-885,593**	**56,587,596**
Less	*Appropriations-in-Aid* [(b)]	15,557,411	489,400	16,046,811
	Departmental Balances			30,000
	Total Net Voted Current Expenditure	**41,915,778**	**-1,374,993**	**40,510,785**

(a) Including expenditure from the Social Insurance Fund and the National Training Fund.

(b) The Appropriations-in-Aid figure includes expenditure from the Social Insurance Fund and the National Training Fund on a technical basis. The Budget adjustments to Appropriations in Aid include changes to the pension related deduction.

Summary of Gross Capital Expenditure 2009

Vote		Pre-Budget Estimate €000s	Adjustments in Budget €000s	Post Budget Estimate €000s
6	Office of the Minister for Finance	2,230	-1,000	1,230
9	Office of the Revenue Commissioners	9,185	-4,000	5,185
10	Office of Public Works	212,292	-10,000	202,292
19	Justice, Equality and Law Reform	22,740	-2,500	20,240
20	Garda Síochána	46,954	-2,100	44,854
21	Prisons	40,783	-2,100	38,683
22	Courts Service	30,858	-2,100	28,758
23	Property Registration Authority	4,395	-1,200	3,195
25	Environment, Heritage and Local Government	2,007,257	-200,000	1,807,257
26	Education and Science	903,908	-54,000	849,908
27	An Roinn Gnóthaí Pobail, Tuaithe agus Gaeltachta	133,175	-15,000	118,175
28	Foreign Affairs	12,078		12,078
29	International Co-operation	970		970
30	Communications, Energy and Natural Resources	180,208		180,208
31	Agriculture and Food	453,599	22,593	476,192
32	Transport	2,698,044	-300,000	2,398,044
33	National Gallery	2,000		2,000
34	Enterprise, Trade and Employment	463,391	25,000	488,391
35	Arts, Sport and Tourism	138,491	-5,000	133,491
36	Defence	23,394	-5,000	18,394
38	Social and Family Affairs	10,808		10,808
39	Health and Children	15,450		15,450
40	Health Service Executive	430,263	-20,000	410,263
41	Office of the Minister for Children	62,509		62,509
	Total Gross Voted Capital Expenditure	**7,904,982**	**-576,407**	**7,328,575**
Less	Appropriations-in-Aid	464,956	0	464,956
	Total Net Voted Capital Expenditure	**7,440,026**	**-576,407**	**6,863,619**

Gross Expenditure Projections 2010 and 2011

	Ministerial Vote Group	2010 *€000s*	2011 *€000s*
	Current Expenditure Allocations:		
1	Agriculture, Fisheries and Food	1,370,584	1,370,653
2	Arts, Sport and Tourism	405,010	404,995
3	Communications, Energy and Natural Resources	345,091	345,384
4	Community, Rural and Gaeltacht Affairs	330,178	329,778
5	Defence	1,013,189	1,013,189
6	Education and Science	8,626,880	8,731,988
7	Enterprise, Trade and Employment[(a)]	1,453,656	1,453,656
8	Environment and Local Government	865,520	914,520
9	Finance Group	1,264,123	1,306,180
10	Foreign Affairs	797,050	827,050
11	Health and Children	15,641,256	16,011,256
12	Justice Group	2,570,955	2,623,856
13	Social and Family Affairs[(a)]	22,871,191	23,007,085
14	Taoiseach's Group	194,971	225,435
15	Transport	746,884	785,788
	Unallocated Current Expenditure Adjustments[(b)]	-1,740,000	-3,240,000
	Total Gross Voted Current Expenditure	**56,756,538**	**56,110,813**
less	Appropriations-in-Aid	13,816,255	13,531,221
	Total Net Voted Current Expenditure	**42,940,283**	**42,579,592**
	Capital Aggregate Allocation:		
	October 2008 Gross Capital Envelope Allocation	8,297,221	8,192,506
	Envelope Adjustments[(c)]	1,676,532	2,701,532
	Total Gross Voted Capital Expenditure	**6,620,689**	**5,490,974**
less	Appropriations-in-Aid	480,981	478,981
	Total Net Voted Capital Expenditure	**6,139,708**	**5,011,993**

(a) Including expenditure from the Social Insurance Fund and the National Training Fund.

(b) This includes the impact of unallocated Payroll savings from the 2009 Supplementary Budget, additional savings of €1,500 million in each of 2010 and 2011 and other adjustments. The savings in 2010 and 2011 will arise across all programme areas, including, for example, through increases in fees and charges and further reductions in public services costs and numbers and changes to expenditure programmes.

(c) Includes effect of February 2009 savings, Supplementary Budget 2009 adjustments and further envelope adjustments of €750 million in 2010 and €1,000 million in 2011. The adjustments in these years will involve the prioritisation and re-scheduling of investment in favour of employment-intensive projects in construction and economic infrastructure.