

# BUDGET

## 2015

BAILE ÁTHA CLIATH  
ARNA FHOILSIÚ AG OIFIG AN tSOLÁTHAIR  
Le ceannach díreach ó  
FOILSEACHÁIN RIALTAIS,  
52 FAICHE STIABHNA, BAILE ÁTHA CLIATH 2  
(Teil: 01 – 6476834 nó 1890 213434; Fax 01 – 6476843)  
nó trí aon díoltóir leabhar.

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DUBLIN  
PUBLISHED BY THE STATIONERY OFFICE  
To be purchased from  
GOVERNMENT PUBLICATIONS,  
52 ST. STEPHEN'S GREEN, DUBLIN 2.  
(Tel: 01 – 6476834 or 1890 213434; Fax: 01 – 6476843)  
or through any bookseller.

Price €10.00



# **Budget 2015**

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# **Summary of 2015 Budget Measures Policy Changes**



# Summary of 2015 Budget Measures

## Policy Changes

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## Taxation Measures for Introduction in 2015

Measure	Yield/Cost 2015	Yield/Cost Full Year
<b>Income Tax</b>  An increase in the standard rate band of income tax by €1,000 from €32,800 to €33,800 for single individuals and from €41,800 to €42,800 for married one earner couples. A reduction in the higher rate of income tax from 41% to 40%.	-€292m	-€405m
<b>USC</b>  Incomes of €12,012 or less are exempt. Otherwise, €0 to €12,012 @ 1.5% €12,013 to €17,576 @ 3.5% €17,577 to €70,044 @ 7% €70,044 to €100,000 @ 8% PAYE income in excess of €100,000 @ 8% Self-employed income in excess of €100,000 @ 11% Extension of the exemption from the 7% rate of USC for medical card holders whose aggregate income does not exceed €60,000, who will now pay a maximum rate of 3.5% USC. Individuals aged 70 years and over whose aggregate income is €60,000 or less will pay a maximum rate of 3.5% USC.	-€186m	-€237m
<b>VAT</b>  <b>2015 Place of Supply Changes</b> Cross-border EU telecommunications, broadcasting and electronically supplied services, from 1 January 2015, will be charged to VAT in the Member State of the consumer and not the supplier. As a net recipient of these services, it is estimated that Ireland will gain VAT revenues of €100m in 2015, rising to €150m in 2019.	+ €100m in 2015/16; and €125m in 2017/18	+ €150m from 2019 on

<p><b>Excise Duties</b></p> <p><b>Tobacco Products Tax</b>  The excise duty on a packet of 20 cigarettes is being increased by 40 cents (including VAT) with a pro-rata increase on the other tobacco products, with effect from midnight on 14 October 2014. The excise duty on roll-your-own tobacco is being increased by an additional 20 cents (including VAT) per 25g pouch with effect from midnight on 14 October 2014.</p> <p><b>Betting Duty</b>  The enactment of the Betting (Amendment) Bill 2013 will allow for the extension of Betting Duty to remote operators and betting exchanges in 2015.</p> <p><b>Vehicle Registration Tax (VRT)</b>  The VRT reliefs available for the purchase of hybrid electric vehicles, plug-in hybrid electric vehicles, plug-in electric vehicles, and electric motorcycles are being extended to 31 December 2016.</p> <p><b>Extension of qualifying limit for excise duty relief for microbreweries</b>  The special relief reducing the standard rate of Alcohol Products Tax by 50% on beers produced in microbreweries which produce not more than 20,000 hectolitres per annum is being extended to apply to microbreweries which produce not more than 30,000 hectolitres per annum.</p> <p><b>Deferral of Excise Payment on Mineral Oil</b>  A 30 day deferral of excise duty is provided for mineral oil. To allow for Revenue to revise the collection system, this measure will be subject to a commencement order. This has an Exchequer cash-flow cost but does not impact general government deficit.</p>	<p>+€53m</p> <p>+€25m</p> <p>-€3m</p> <p>-€0.2m</p> <p>-</p>	<p>+€53m</p> <p>+€25m</p> <p>-€3m</p> <p>-€0.2m</p> <p>-</p>
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Commission. Hotels, guest houses and self-catering accommodation will remain eligible for a further 3 years and the operating and managing of nursing homes will be included for 3 years.		
<b>Seed Capital Scheme</b> The scheme is being rebranded as “Start-Up Relief for Entrepreneurs” (SURE) and being extended to individuals who have been unemployed up to 2 years.	-	-
<b>Rent-A-Room Relief</b> The threshold for exempt income under the rent-a-room scheme is being increased to €12,000 per annum.	-€0.4m	-€0.4m
<b>Water Charges</b> Tax relief at 20% will be provided on water charges, up to a maximum of €500 per annum. This relief will be paid in arrears.	-	-€40m
<b>Home Renovation Incentive</b> The HRI is being extended to include rental properties owned by landlords subject to income tax.	-	-€3m
<b>CAPITAL GAINS TAX</b>		
<b>Property purchase incentive</b> The incentive relief from CGT (in respect of the first 7 years of ownership) for properties purchased between 7 December 2011 and 31 December 2014 is not being extended beyond 31 December 2014. Where property purchased in this period is held for seven years the gains accrued in that period will not attract CGT.	-	-
<b>Windfall tax</b> Windfall tax provisions introduced in 2009 which apply an 80% rate of tax to certain profits or gains	-	-

from land disposals or land development, where those profits or gains are attributable to a relevant planning decision by a planning authority, are being abolished from 1 January 2015.		
<b>Agri-Taxation Review/ Farming Measures</b>		
<b>Income Tax</b>		
Increase the amounts of income exempted from long term leasing by 50% and introduce a fourth threshold for lease periods of 15 or more years with income of up to €40,000 being exempted.	-€1.2m	-€4m
Allow relief where the lessee is a company	-€0.6m	-€2m
Remove the 40 years of age threshold for leasing relief	-€0.3m	-€1m
Allow income averaging where there is on-farm diversification	-€0.3m	-€1m
Increase income averaging from 3 to 5 years	-€0.9m	-€3m
<b>VAT - Increase in the Farmer's Flat-Rate Addition from 5% to 5.2%</b>		
The farmer's flat-rate addition will be increased from 5% to 5.2% with effect from 1 January 2015. The flat-rate scheme compensates unregistered farmers for VAT incurred on their farming inputs. The flat-rate addition is reviewed annually in accordance with the EU VAT Directive and the increase to 5.2% in 2015 continues to achieve full compensation for farmers.	-€10m	-€12m
<b>CGT- Relief for Farm Restructuring</b>		
Farm restructuring relief is available where the first transaction in the restructuring (e.g. sale, purchase or exchange of land) is carried out by 31 December 2015 with the restructuring to be completed within 24 months. The deadline for the completion of the first restructuring transaction is being extended to 31	-€2.5m	-€2.5m

December 2016.		
Teagasc certification guidelines are being amended to enable whole farm replacement to be eligible for the relief subject to meeting the conditions laid down by Teagasc.		
<b>CGT Retirement Relief</b> CGT retirement relief is being amended so that, subject to other conditions, land that has been leased for up to 25 years in total (increased from 15) ending with disposal will qualify for the relief.	-	-
Amendments are also being made to provide (in the case of land disposals outside the family) that land currently let under conacre arrangements which end with disposal on or before 31 December 2016 or which (before 31 December 2016) is instead leased out for minimum periods of 5 years to a maximum of 25 years ending with disposal will, subject to other conditions, also qualify for CGT retirement relief.	-€0.5m	-€0.5m
<b>CAT Agricultural Relief</b> Changes are being introduced to target CAT agricultural relief to active farmers. From 1 January 2015, and subject to other conditions, the relief will be available only in respect of agricultural property gifted to or inherited by active farmers and to individuals who are not active farmers but who lease out the property on a long-term basis for agricultural use to such farmers.	+€2.5m	+€3.5m
<b>Stamp Duty on Agricultural Leases</b> Agricultural leases between 5 and 35 years in duration to active farmers will be exempt from Stamp Duty.	-€0.1m	-€0.1m
<b>Consanguinity Relief</b> Consanguinity relief, which applies to transfers of non-residential property to certain relatives, is due	-€2m	-€2m

<p>to expire on 31 December 2014.</p> <p>This relief, which halves the applicable rate of Stamp Duty, will be extended for a period of three years in certain circumstances where the transferor is 65 years or under and the transferee is an active farmer.</p>		
<p><b>Corporation Tax</b></p> <p><b>R&amp;D Tax Credit</b> The 25% tax credit applies to the amount of qualifying R&amp;D expenditure incurred by a company in a given year that is in excess of the amount spent in 2003. This 2003 base year restriction is now being removed from 1 January 2015.</p> <p><b>3 Year Relief for Start-up Companies</b> This measure provides relief from corporation tax on trading income (and certain capital gains) of new start-up companies in the first 3 years of trading. This relief is being extended to new business start-ups in 2015 and a review of the operation of this measure will take place in 2015.</p> <p><b>Capital Allowances for the Provision of Specified Intangible Assets</b> This measure provides capital allowances for expenditure incurred by a company on the provision of certain intangible assets for use in a trade.</p> <p>The use of such allowances in any accounting period is currently restricted to a maximum of 80% of the trading income from the relevant trade in which the acquired assets are used. This 80% restriction on aggregate allowances (and any interest expense incurred on borrowings to fund the expenditure) will be removed.</p>	<p>-€50m</p> <p>-€2m</p> <p>-€12m</p>	<p>-€50m</p> <p>-€2m</p> <p>-€27m</p>

<b>Accelerated Capital Allowances for Energy Efficient Equipment</b> This is a measure to incentivise companies to invest in energy efficient equipment. This measure was due to expire at the end of 2014 and following a review by the Department of Communications, Energy and Natural Resources is being extended to the end of 2017.	-€1m	-€1m
<b>DIRT</b>  <b>First time buyers DIRT relief</b> A relief from DIRT on savings used by first time house buyers towards the deposit on a home.	-€2.8m	-€2.8m



**Taxation Annex to the Summary  
of 2015  
Budget Measures**



**Taxation Annex to the Summary**  
**of 2015**  
**Budget Measures**

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## **ANNEX A**

### **The Effect of Budget 2015 Measures On Different Categories of Income Earners**

#### **Contents**

**(i) Examples showing the impact of Budget 2015 Income Tax and USC changes for Different Categories of Married/Civil Partners and Single Income Earners**

Examples 1 to 6 show the changes in Income Tax and Universal Social Charge for various categories of income earners. Family Income Supplement payments are included in the calculations, where relevant. The examples are based on specimen incomes with the basic tax credits including the home carer tax credit, where relevant. The examples do not take account of additional tax reliefs such as Mortgage Interest Relief. Variations can arise due to rounding.

**(ii) Average Tax Rates**

Tables showing average tax rates for the years 2001 to 2015 for various household types are included.

**(iii) Distribution of Income Earners**

A table showing the distribution of income earners on a 2014 and Post-Budget 2015 basis.

**(iv) Illustrative Cases**

A number of illustrative cases are included which demonstrate the total tax liability and net pay for 2014 and 2015. Where appropriate, some cases also show changes to Child Benefit announced in this Budget.

(i) Examples showing the effects of Budget changes on different categories of single and married income earners

**EXAMPLE 1**

Single person, no children, private sector employee taxed under PAYE  
Full rate PRSI contributor

Gross Income	Income Tax		PRSI		Universal Social Charge		Net Income		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	€	€	%
<b>12,000</b>	0	0	0	0	279	0	11,721	12,000	279	5	2.4%
<b>15,000</b>	0	0	0	0	399	285	14,601	14,715	115	2	0.8%
<b>17,542</b>	208	208	0	0	547	374	16,787	16,960	173	3	1.0%
<b>25,000</b>	1,700	1,700	1,000	1,000	1,069	895	21,231	21,405	174	3	0.8%
<b>35,000</b>	4,162	3,940	1,400	1,400	1,769	1,595	27,669	28,065	396	8	1.4%
<b>45,000</b>	8,262	7,940	1,800	1,800	2,469	2,295	32,469	32,965	496	10	1.5%
<b>55,000</b>	12,362	11,940	2,200	2,200	3,169	2,995	37,269	37,865	596	11	1.6%
<b>70,000</b>	18,512	17,940	2,800	2,800	4,219	4,045	44,469	45,215	746	14	1.7%
<b>75,000</b>	20,562	19,940	3,000	3,000	4,569	4,444	46,869	47,616	747	14	1.6%
<b>100,000</b>	30,812	29,940	4,000	4,000	6,319	6,444	58,869	59,616	747	14	1.3%
<b>125,000</b>	41,062	39,940	5,000	5,000	8,069	8,444	70,869	71,616	747	14	1.1%
<b>150,000</b>	51,312	49,940	6,000	6,000	9,819	10,444	82,869	83,616	747	14	0.9%
<b>175,000</b>	61,562	59,940	7,000	7,000	11,569	12,444	94,869	95,616	747	14	0.8%

## EXAMPLE 2

Married couple, one income, no children, private sector employee taxed under PAYE  
Full rate PRSI contributor

Gross Income	Income Tax		PRSI		Universal Social Charge		Net Income		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	€	€	%
<b>12,000</b>	0	0	0	0	279	0	11,721	12,000	279	5	2.4%
<b>15,000</b>	0	0	0	0	399	285	14,601	14,715	115	2	0.8%
<b>17,542</b>	0	0	0	0	547	374	16,995	17,168	173	3	1.0%
<b>25,000</b>	50	50	1,000	1,000	1,069	895	22,881	23,055	174	3	0.8%
<b>35,000</b>	2,050	2,050	1,400	1,400	1,769	1,595	29,781	29,955	174	3	0.6%
<b>45,000</b>	4,722	4,490	1,800	1,800	2,469	2,295	36,009	36,415	406	8	1.1%
<b>55,000</b>	8,822	8,490	2,200	2,200	3,169	2,995	40,809	41,315	506	10	1.2%
<b>70,000</b>	14,972	14,490	2,800	2,800	4,219	4,045	48,009	48,665	656	13	1.4%
<b>75,000</b>	17,022	16,490	3,000	3,000	4,569	4,444	50,409	51,066	657	13	1.3%
<b>100,000</b>	27,272	26,490	4,000	4,000	6,319	6,444	62,409	63,066	657	13	1.1%
<b>125,000</b>	37,522	36,490	5,000	5,000	8,069	8,444	74,409	75,066	657	13	0.9%
<b>150,000</b>	47,772	46,490	6,000	6,000	9,819	10,444	86,409	87,066	657	13	0.8%
<b>175,000</b>	58,022	56,490	7,000	7,000	11,569	12,444	98,409	99,066	657	13	0.7%

**EXAMPLE 3**

Married couple, one income, two children, private sector employee taxed under PAYE  
Full rate PRSI contributor

Gross Income	Income Tax		PRSI		Universal Social Charge		Child Benefit		Net Income*		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	%
€	€	€	€	€	€	€	€	€	€	€	%	€	
<b>12,000</b>	0	0	0	0	279	0	3120	3240	26,593	26,836	243	5	0.9%
<b>15,000</b>	0	0	0	0	399	285	3120	3240	27,757	27,939	183	4	0.7%
<b>17,542</b>	0	0	0	0	547	374	3120	3240	28,747	28,936	189	4	0.7%
<b>25,000</b>	0	0	1,000	1,000	1,069	895	3120	3240	31,095	31,285	190	4	0.6%
<b>35,000</b>	1,240	1,240	1,400	1,400	1,769	1,595	3120	3240	34,751	35,045	294	6	0.8%
<b>45,000</b>	3,912	3,680	1,800	1,800	2,469	2,295	3120	3240	39,939	40,465	526	10	1.3%
<b>55,000</b>	8,012	7,680	2,200	2,200	3,169	2,995	3120	3240	44,739	45,365	626	12	1.4%
<b>70,000</b>	14,162	13,680	2,800	2,800	4,219	4,045	3120	3240	51,939	52,715	776	15	1.5%
<b>75,000</b>	16,212	15,680	3,000	3,000	4,569	4,444	3120	3240	54,339	55,116	777	15	1.4%
<b>100,000</b>	26,462	25,680	4,000	4,000	6,319	6,444	3120	3240	66,339	67,116	777	15	1.2%
<b>125,000</b>	36,712	35,680	5,000	5,000	8,069	8,444	3120	3240	78,339	79,116	777	15	1.0%
<b>150,000</b>	46,962	45,680	6,000	6,000	9,819	10,444	3120	3240	90,339	91,116	777	15	0.9%
<b>175,000</b>	57,212	55,680	7,000	7,000	11,569	12,444	3120	3240	102,339	103,116	777	15	0.8%

\*Includes Family Income Supplement where applicable



**EXAMPLE 4**

Single person, no children, taxed under Schedule D

Gross Income	Income Tax		PRSI		Universal Social Charge		Net Income		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	€	€	%
<b>12,000</b>	750	750	500	500	279	0	10,471	10,750	279	5	2.7%
<b>15,000</b>	1,350	1,350	600	600	399	285	12,651	12,765	115	2	0.9%
<b>17,542</b>	1,858	1,858	702	702	547	374	14,435	14,608	173	3	1.2%
<b>25,000</b>	3,350	3,350	1,000	1,000	1,069	895	19,581	19,755	174	3	0.9%
<b>35,000</b>	5,812	5,590	1,400	1,400	1,769	1,595	26,019	26,415	396	8	1.5%
<b>45,000</b>	9,912	9,590	1,800	1,800	2,469	2,295	30,819	31,315	496	10	1.6%
<b>55,000</b>	14,012	13,590	2,200	2,200	3,169	2,995	35,619	36,215	596	11	1.7%
<b>70,000</b>	20,162	19,590	2,800	2,800	4,219	4,045	42,819	43,565	746	14	1.7%
<b>75,000</b>	22,212	21,590	3,000	3,000	4,569	4,444	45,219	45,966	747	14	1.7%
<b>100,000</b>	32,462	31,590	4,000	4,000	6,319	6,444	57,219	57,966	747	14	1.3%
<b>125,000</b>	42,712	41,590	5,000	5,000	8,819	9,194	68,469	69,216	747	14	1.1%
<b>150,000</b>	52,962	51,590	6,000	6,000	11,319	11,944	79,719	80,466	747	14	0.9%
<b>175,000</b>	63,212	61,590	7,000	7,000	13,819	14,694	90,969	91,716	747	14	0.8%

**EXAMPLE 5**

Married couple, one income, no children, taxed under Schedule D

Gross Income	Income Tax		PRSI		Universal Social Charge		Net Income		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	€	€	%
<b>12,000</b>	0	0	500	€500	279	0	11,221	11,500	279	5	2.5%
<b>15,000</b>	0	0	600	600	399	285	14,001	14,115	115	2	0.8%
<b>17,542</b>	208	208	702	702	547	374	16,085	16,258	173	3	1.1%
<b>25,000</b>	1,700	1,700	1,000	1,000	1,069	895	21,231	21,405	174	3	0.8%
<b>35,000</b>	3,700	3,700	1,400	1,400	1,769	1,595	28,131	28,305	174	3	0.6%
<b>45,000</b>	6,372	6,140	1,800	1,800	2,469	2,295	34,359	34,765	406	8	1.2%
<b>55,000</b>	10,472	10,140	2,200	2,200	3,169	2,995	39,159	39,665	506	10	1.3%
<b>70,000</b>	16,622	16,140	2,800	2,800	4,219	4,045	46,359	47,015	656	13	1.4%
<b>75,000</b>	18,672	18,140	3,000	3,000	4,569	4,444	48,759	49,416	657	13	1.3%
<b>100,000</b>	28,922	28,140	4,000	4,000	6,319	6,444	60,759	61,416	657	13	1.1%
<b>125,000</b>	39,172	38,140	5,000	5,000	8,819	9,194	72,009	72,666	657	13	0.9%
<b>150,000</b>	49,422	48,140	6,000	6,000	11,319	11,944	83,259	83,916	657	13	0.8%
<b>175,000</b>	59,672	58,140	7,000	7,000	13,819	14,694	94,509	95,166	657	13	0.7%

### EXAMPLE 6

Married couple, one income, two children, taxed under Schedule D

Gross Income	Income Tax		PRSI		Universal Social Charge		Child Benefit		Net Income		Total Change		Change as % of Net Income
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	Per Year	Per Week	
€	€	€	€	€	€	€	€	€	€	€	€	€	%
<b>12,000</b>	0	0	500	500	279	0	3,120	3,240	14,341	14,740	399	8	2.8%
<b>15,000</b>	0	0	600	600	399	285	3,120	3,240	17,121	17,355	235	5	1.4%
<b>17,542</b>	0	0	702	702	547	374	3,120	3,240	19,414	19,707	293	6	1.5%
<b>25,000</b>	890	890	1,000	1,000	1,069	895	3,120	3,240	25,161	25,455	294	6	1.2%
<b>35,000</b>	2,890	2,890	1,400	1,400	1,769	1,595	3,120	3,240	32,061	32,355	294	6	0.9%
<b>45,000</b>	5,562	5,330	1,800	1,800	2,469	2,295	3,120	3,240	38,289	38,815	526	10	1.4%
<b>55,000</b>	9,662	9,330	2,200	2,200	3,169	2,995	3,120	3,240	43,089	43,715	626	12	1.5%
<b>70,000</b>	15,812	15,330	2,800	2,800	4,219	4,045	3,120	3,240	50,289	51,065	776	15	1.5%
<b>75,000</b>	17,862	17,330	3,000	3,000	4,569	4,444	3,120	3,240	52,689	53,466	777	15	1.5%
<b>100,000</b>	28,112	27,330	4,000	4,000	6,319	6,444	3,120	3,240	64,689	65,466	777	15	1.2%
<b>125,000</b>	38,362	37,330	5,000	5,000	8,819	9,194	3,120	3,240	75,939	76,716	777	15	1.0%
<b>150,000</b>	48,612	47,330	6,000	6,000	11,319	11,944	3,120	3,240	87,189	87,966	777	15	0.9%
<b>175,000</b>	58,862	57,330	7,000	7,000	13,819	14,694	3,120	3,240	98,439	99,216	777	15	0.8%

**(ii) AVERAGE EFFECTIVE TAX RATES ON ANNUAL EARNINGS IN % TERMS\***  
**FULL RATE PRSI**

B.12

<b>FULL RATE PRSI</b>	<b>SINGLE</b>														
<b>Gross Income €</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009 (s)/2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>15,000</b>	9.5%	7.7%	6.8%	5.2%	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%
<b>20,000</b>	15.2%	13.8%	13.1%	11.9%	8.4%	7.1%	5.1%	4.4%	5.4%	6.4%	9.8%	9.8%	11.1%	11.1%	10.2%
<b>25,000</b>	17.3%	16.2%	15.7%	14.7%	13.5%	12.5%	10.9%	8.3%	9.3%	10.3%	14.0%	14.0%	15.1%	15.1%	14.4%
<b>30,000</b>	22.2%	19.3%	18.9%	18.1%	16.0%	14.7%	13.4%	12.9%	13.9%	16.9%	16.8%	16.8%	17.7%	17.7%	17.1%
<b>40,000</b>	28.3%	26.4%	26.1%	25.5%	24.0%	21.9%	19.7%	18.6%	19.1%	22.1%	24.2%	24.2%	24.8%	24.8%	23.7%
<b>60,000</b>	33.6%	32.4%	32.3%	32.0%	31.1%	29.8%	28.1%	27.5%	28.2%	31.7%	33.4%	33.4%	33.9%	33.9%	32.8%
<b>100,000</b>	37.9%	37.1%	37.0%	36.9%	36.3%	35.6%	34.2%	33.8%	34.6%	39.2%	40.9%	40.9%	41.1%	41.1%	40.4%
<b>120,000</b>	38.9%	38.3%	38.2%	38.1%	37.6%	37.0%	35.7%	35.4%	36.5%	41.1%	42.7%	42.7%	42.9%	42.9%	42.3%

<b>FULL RATE PRSI</b>	<b>MARRIED/CIVIL PARTNER ONE INCOME TWO CHILDREN</b>														
<b>Gross Income €</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009 (s)/2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>15,000</b>	2.2%	2.2%	2.2%	2.2%	2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%
<b>20,000</b>	4.7%	4.7%	4.7%	4.7%	2.7%	2.7%	2.7%	2.7%	3.7%	4.7%	6.3%	6.3%	7.6%	7.6%	6.7%
<b>25,000</b>	8.7%	7.1%	6.5%	5.5%	4.9%	4.9%	4.9%	2.9%	3.9%	4.9%	7.2%	7.2%	8.3%	8.3%	7.6%
<b>30,000</b>	11.6%	10.2%	9.8%	9.0%	7.8%	6.7%	5.1%	5.1%	6.1%	9.1%	8.6%	8.6%	9.5%	9.5%	8.9%
<b>40,000</b>	16.6%	15.7%	15.5%	14.9%	13.2%	11.5%	10.2%	9.4%	10.4%	13.4%	14.2%	14.2%	14.9%	14.9%	14.5%
<b>60,000</b>	25.9%	25.3%	25.1%	24.8%	23.9%	22.5%	20.8%	19.8%	20.5%	24.0%	26.2%	26.2%	26.6%	26.6%	25.7%
<b>100,000</b>	33.2%	32.8%	32.8%	32.6%	32.0%	31.2%	29.7%	29.2%	30.0%	34.6%	36.5%	36.5%	36.8%	36.8%	36.1%
<b>120,000</b>	35.0%	34.7%	34.6%	34.5%	34.0%	33.3%	32.0%	31.6%	32.6%	37.2%	39.1%	39.1%	39.3%	39.3%	38.8%

\*Average Effective Tax Rates 2001-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.

Average Effective Tax Rates 2011-2015: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.

Calculations only account for the standard employee credit, personal income tax credit and home carer credit where relevant.

(s)Supplementary Budget 2009

**AVERAGE EFFECTIVE TAX RATES ON ANNUAL EARNINGS IN % TERMS\***  
**MODIFIED RATE PRSI**

<b>MODIFIED RATE PRSI</b>	<b>SINGLE</b>														
<b>Gross Income €</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009 (s)/2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>15,000</b>	8.1%	6.3%	5.4%	3.8%	1.8%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%
<b>20,000</b>	13.3%	11.9%	11.2%	10.0%	6.6%	5.2%	3.2%	2.5%	3.5%	4.5%	7.9%	7.9%	8.0%	8.0%	7.1%
<b>25,000</b>	15.2%	14.1%	13.6%	12.6%	11.5%	10.4%	8.8%	6.2%	7.2%	8.2%	11.9%	11.9%	12.0%	12.0%	11.3%
<b>30,000</b>	19.9%	17.1%	16.6%	15.8%	13.8%	12.5%	11.1%	10.7%	11.7%	14.7%	14.6%	14.6%	14.6%	14.6%	14.0%
<b>40,000</b>	26.1%	24.0%	23.7%	23.0%	21.6%	19.5%	17.2%	16.1%	16.6%	19.6%	21.7%	21.7%	21.7%	21.7%	20.6%
<b>60,000</b>	32.0%	30.7%	30.5%	30.1%	29.1%	27.8%	25.9%	25.3%	25.9%	29.0%	30.8%	30.8%	30.8%	30.8%	29.7%
<b>100,000</b>	36.8%	36.0%	35.9%	35.7%	35.1%	34.3%	32.8%	32.4%	33.2%	37.1%	38.8%	38.8%	38.8%	38.8%	38.1%
<b>120,000</b>	38.0%	37.3%	37.2%	37.0%	36.6%	35.9%	34.6%	34.2%	35.2%	39.3%	41.0%	41.0%	41.0%	41.0%	40.4%

<b>MODIFIED RATE PRSI</b>	<b>MARRIED/CIVIL PARTNER ONE INCOME TWO CHILDREN</b>														
<b>Gross Income €</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009 (s)/2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>15,000</b>	0.8%	0.8%	0.8%	0.8%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	2.7%	2.7%	2.7%	1.9%
<b>20,000</b>	2.8%	2.8%	2.8%	2.8%	0.8%	0.8%	0.8%	0.8%	1.8%	2.8%	4.4%	4.4%	4.5%	4.5%	3.6%
<b>25,000</b>	6.6%	5.0%	4.4%	3.5%	2.9%	2.9%	2.9%	0.9%	1.9%	2.9%	5.1%	5.1%	5.2%	5.2%	4.5%
<b>30,000</b>	9.3%	8.0%	7.5%	6.7%	5.5%	4.5%	2.9%	2.9%	3.9%	6.9%	6.4%	6.4%	6.4%	6.4%	5.8%
<b>40,000</b>	14.4%	13.3%	13.0%	12.4%	10.8%	9.1%	7.7%	6.9%	7.9%	10.9%	11.8%	11.8%	11.8%	11.8%	11.4%
<b>60,000</b>	24.3%	23.6%	23.3%	23.0%	21.9%	20.5%	18.6%	17.6%	18.2%	21.3%	23.5%	23.5%	23.5%	23.5%	22.6%
<b>100,000</b>	32.2%	31.8%	31.6%	31.4%	30.7%	29.9%	28.4%	27.7%	28.5%	32.5%	34.4%	34.4%	34.4%	34.4%	33.8%
<b>120,000</b>	34.1%	33.8%	33.7%	33.5%	32.9%	32.2%	30.9%	30.4%	31.4%	35.4%	37.3%	37.3%	37.4%	37.4%	36.8%

\*Average Effective Tax Rates 2001-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.

Average Effective Tax Rates 2011-2015: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.

Calculations only account for the standard employee credit, personal income tax credit and home carer credit, where relevant.

(s)Supplementary Budget 2009

**AVERAGE EFFECTIVE TAX RATES ON ANNUAL EARNINGS IN % TERMS\***  
**SELF EMPLOYED**

<b>SELF EMPLOYED</b>	<b>SINGLE</b>														
<b>Gross Income €</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009 (s)/2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>15,000</b>	13.7%	12.9%	12.9%	12.9%	12.5%	12.1%	11.3%	10.8%	10.8%	10.8%	15.7%	15.7%	15.7%	15.7%	14.9%
<b>20,000</b>	18.0%	17.4%	17.4%	17.4%	15.1%	14.9%	14.2%	13.9%	14.9%	15.9%	19.3%	19.3%	19.3%	19.3%	18.5%
<b>25,000</b>	19.4%	18.9%	18.9%	18.9%	18.7%	18.5%	18.0%	15.7%	16.7%	17.7%	21.7%	21.7%	21.7%	21.7%	21.0%
<b>30,000</b>	23.7%	21.4%	21.4%	21.4%	20.2%	19.6%	19.1%	18.9%	19.9%	22.9%	23.2%	23.2%	23.2%	23.2%	22.6%
<b>40,000</b>	29.5%	27.8%	27.8%	27.8%	26.9%	25.3%	23.8%	22.8%	23.3%	26.3%	29.0%	29.0%	29.0%	29.0%	27.8%
<b>60,000</b>	35.4%	34.2%	34.2%	34.2%	33.6%	32.6%	31.2%	30.6%	31.2%	34.2%	36.6%	36.6%	36.6%	36.6%	35.6%
<b>100,000</b>	40.0%	39.3%	39.3%	39.3%	39.0%	38.3%	37.1%	36.7%	37.5%	41.3%	42.8%	42.8%	42.8%	42.8%	42.0%
<b>120,000</b>	41.2%	40.6%	40.6%	40.6%	40.3%	39.8%	38.7%	38.4%	39.4%	43.2%	44.8%	44.8%	44.8%	44.8%	44.3%



<b>SELF EMPLOYED</b>	<b>MARRIED/CIVIL PARTNER ONE INCOME TWO CHILDREN</b>														
<b>Gross Income €</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009 (s)/2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>15,000</b>	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	6.7%	6.7%	6.7%	6.7%	5.9%
<b>20,000</b>	7.2%	6.0%	6.0%	6.0%	3.4%	3.0%	3.0%	3.0%	4.0%	5.0%	7.6%	7.6%	7.6%	7.6%	6.7%
<b>25,000</b>	10.8%	9.8%	9.8%	9.8%	9.3%	8.9%	7.8%	4.8%	5.8%	6.8%	11.8%	11.8%	11.8%	11.8%	11.1%
<b>30,000</b>	13.2%	12.3%	12.3%	12.3%	11.9%	11.6%	10.7%	9.8%	10.8%	13.8%	15.0%	15.0%	15.0%	15.0%	14.4%
<b>40,000</b>	17.9%	17.1%	17.1%	17.1%	16.1%	14.9%	14.3%	13.6%	14.6%	17.6%	19.0%	19.0%	19.0%	19.0%	18.6%
<b>60,000</b>	27.6%	27.1%	27.1%	27.1%	26.4%	25.3%	23.8%	22.9%	23.5%	26.5%	29.4%	29.4%	29.4%	29.4%	28.5%
<b>100,000</b>	35.3%	35.1%	35.1%	35.1%	34.6%	34.0%	32.7%	32.1%	32.9%	36.7%	38.4%	38.4%	38.4%	38.4%	37.8%
<b>120,000</b>	37.3%	37.0%	37.0%	37.0%	36.7%	36.1%	35.0%	34.5%	35.5%	39.4%	41.2%	41.2%	41.2%	41.2%	40.8%

\*Average Effective Tax Rates 2001-2010: Total of Income Tax, Levies (Income and Health) and PRSI as a proportion of gross income.

Average Effective Tax Rates 2011-2015: Total of Income Tax, PRSI and Universal Social Charge as a proportion of gross income.

Calculations only account for the personal income tax credit and home carer credit, where relevant.

(s)Supplementary Budget 2009

**(iii)ESTIMATED DISTRIBUTION OF INCOME EARNERS ON THE INCOME TAX FILE FOR 2014 AND 2015**

	Exempt (standard rate liability covered by credits or age exemption limits)	Paying tax at the standard rate* (including those whose liability at the higher rate is fully offset by Credits)	Higher rate liability NOT fully offset by credits	Total
2014	883,400 38%	982,400 43%	432,600 19%	2,298,400
2015 on a post budget basis	880,700 38%	1,029,500 44%	431,000 18%	2,341,200

**Notes:**

1. Distributions for 2015 are estimates from the Revenue tax-forecasting model using actual data for the year 2012, adjusted as necessary for income and employment trends in the interim.
2. Figures are provisional and likely to be revised
3. A jointly assessed married couple/civil partnership is treated as one tax unit.
4. Percentages are rounded to the nearest percentage point

#### (iv) ILLUSTRATIVE CASES

These cases deal with basic personal tax credits, the employee tax credit, the home carer credit, the age credit, the age exemption limits, the standard rate bands, PRSI and the Universal Social Charge (USC). Social welfare payments such as the State Pension and Child Benefit are included where relevant. Additional tax reliefs such as Mortgage Interest Relief and Rent Relief are not taken into account. Some figures are rounded to the nearest euro.

##### Example 1

Denise and Ray are married with two children, Michelle aged 6 and Megan aged 4. Denise works in the home. Ray works in the public sector earning €59,300 per annum. The couple will see a gain of €598 in their annual net income due to this Budget.

	2014	2015
	€	€
Gross Income	59,300	59,300
Pension Contribution	3,016	3,016
Pension related Deduction	4,055	4,055
Income tax liability	6,876	6,572
PRSI liability	2,372	2,372
USC liability	<u>3,470</u>	<u>3,296</u>
Total tax liability	12,718	12,240
Child Benefit	3,120	3,240
Net Income	42,631	43,229
Annual Gain		598
Change as a % of net income		1.4%

## Example 2

Benny and Ann Marie are married and have four children, Louise, Andrew, Laura and Amy all aged under 12. Ann Marie works in a private sector nursing home and has income of €70,000. Benny works in the family home. The family will see a gain of €896 in their annual net income due to this Budget.

	2014	2015
	€	€
Gross Income	70,000	70,000
Income tax liability	14,162	13,680
PRSI liability	2,800	2,800
USC liability	<u>4,219</u>	<u>4,045</u>
Total tax liability	21,181	20,525
Child Benefit	6,240	6,480
Net Income	55,059	55,955
Annual Gain		896
Change as a % of net income		1.6%

### Example 3

Niall and Sarah are married with three children, Rachel, Kevin and George, who are aged 8, 10 and 12 years. Niall is a nurse and Sarah is a Garda. They both joined the Public Sector in 1999. They earn €55,000 and €50,000, respectively. The family will see a gain of €1,204 in their annual net income due to this Budget.

	2014	2015
	€	€
Gross Income	105,000	105,000
Pension contribution	5,148	5,148
Pension Related Deduction	<u>6,750</u>	<u>6,750</u>
Taxable Income	93,102	93,102
Income tax liability	17,796	17,121
PRSI liability	4,200	4,200
USC liability	<u>5,988</u>	<u>5,639</u>
Total tax liability	27,984	26,960
Child Benefit	4,680	4,860
Net Income	69,798	71,002
Annual Gain		1,204
Change as a % of net income		1.7%

#### Example 4

Michael is a single parent and is the primary carer of his daughter, Sophie aged 2. He is employed full time as retail store manager earning €40,000 per annum. Michael will see a gain of €466 in his annual net income due to this Budget.

	2014	2015
	€	€
Gross Income	40,000	40,000
Income tax liability	3,722	3,490
PRSI liability	1,600	1,600
USC liability	<u>2,119</u>	<u>1,945</u>
Total tax liability	7,441	7,035
Child Benefit	1,560	1,620
Net Income	34,119	34,585
Annual Gain		466
Change as a % of net income		1.4%

### Example 5

Gerry and Brenda have three children, Seamus, Marianne and Sinéad, all aged under 10. The family holds a full medical card. Brenda works part-time and earns €20,000. Gerry works full-time earning €35,000 per annum. The family will see a gain of €534 in their annual net income due to this Budget.

	2014	2015
	€	€
Gross Income	55,000	55,000
Income tax liability	4,400	4,400
PRSI liability	2,200	2,200
USC liability	<u>1,799</u>	<u>1,445</u>
Total tax liability	8,399	8,045
Child Benefit	4,680	4,860
Net Income	51,281	51,815
Annual Gain		534
Change as a % of net income		1%

### Example 6

John is single and working full time on the minimum wage. John will see a gain of €173 in his annual net income due to this Budget.

	2014	2015
	€	€
Gross Income	17,542	17,542
Income tax liability	0	0
PRSI liability	0	0
USC liability	<u>547</u>	<u>374</u>
Total tax liability	547	374
Net Income	16,995	17,168
Annual Gain		173
Change as a % of net income		1%



### Example 7

Patrick and Éilis are a retired couple. Éilis is aged 69 and Patrick is aged 71. Patrick has a Contributory State Pension (€22,703), which includes an adult dependent allowance in respect of Éilis, and an occupational pension of €50,000 per annum. The couple will see a gain of €798 in their annual net income due to this Budget.

	2014	2015
	€	€
State Pension	22,703	22,703
Occupational Pension	<u>50,000</u>	<u>50,000</u>
Gross Income	72,703	72,703
Income tax liability	15,590	15,081
PRSI liability	0	0
USC liability	<u>1,799</u>	<u>1,510</u>
Total tax liability	17,389	16,591
Net Income	55,314	56,112
Annual Gain		798
Change as a % of net income		1.4%

### Example 8

Laurina is single, no children and self-employed with income of €120,000 per annum. She pays a pension contribution of 5% of her gross income. She will see an annual gain of €687 due to this Budget.

	2014	2015
	€	€
Gross Income	120,000	120,000
Pension Contribution	6,000	6,000
Income tax liability	38,202	37,190
PRSI liability	4,800	4,800
USC liability	<u>8,319</u>	<u>8,644</u>
Total tax liability	51,321	50,634
Net Income	62,679	63,366
Annual Gain		687
Change as a % of net income		1.1%

# **BUDGET 2015**

## **ECONOMIC AND FISCAL OUTLOOK**

**(Incorporating Economic and Fiscal Statistics and Tables)**



**Budget 2015**  
**Economic and Fiscal Outlook**  
**(Incorporating Economic and Fiscal Statistics and Tables)**

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## Economic Developments and Outlook

**Table 1: Key Macroeconomic Forecasts 2013-2018<sup>1</sup>**

	2013	2014	2015	2016	2017	2018
<i>per cent change, unless otherwise stated</i>						
Real GDP	0.2	4.7	3.9	3.4	3.4	3.4
Inflation (HICP)	0.5	0.5	1.1	1.4	1.4	1.4
Employment	2.4	1.8	2.4	1.9	1.9	1.9
Unemployment (% of labour force)	13.1	11.4	10.2	9.4	8.9	8.1
Nominal GDP (rounded to nearest €25m)	174,800	183,800	193,475	203,400	213,925	224,950

*Source: 2013 CSO; 2014-2018 Department of Finance forecasts.*

### Summary

Real economic activity has surprised on the upside in the first half of 2014, with exports performing strongly and a recovery in domestic demand underway. This is projected to continue during the second half of this year and into next. As a result GDP growth of 4.7 per cent is projected for this year while an increase of 3.9 per cent is expected for next year.

The recovery in the labour market continues, aided by the shift in composition of economic activity to more domestic sources which, by their nature, are typically more labour intensive. Employment growth is set to pick up to almost 2½ per cent in 2015 with unemployment falling to just over 10 per cent. Inflationary pressures remain subdued, both domestically and in the wider euro area.

Over the medium term (2016-2018), GDP is forecast to grow broadly in line with potential at around 3½ per cent, with more balanced contributions from net exports and domestic demand. Employment growth is set to continue with unemployment falling to just over 8 per cent by the end of the forecast horizon.

### Recent macroeconomic developments

#### External demand

Economic activity in Ireland's main trading partners has been mixed in the year to date with relatively robust growth in both the UK and US, while the euro area continues to under-perform. Projections for GDP growth in these regions are set out in table 2. High frequency indicators suggest that the momentum of the US and UK economies remains strong while growth in the euro area looks set to remain subdued, notably as a result of performance in the area's three largest economies (Germany, France and Italy).

Despite this mixed performance in trading partners, export growth in the first half of 2014 has been particularly strong, at 10 per cent. Of particular note is the rebound in goods exports after the pharma-led weakness in 2012 and 2013. Some of

<sup>1</sup> All macroeconomic forecasts are generated on an ESA 2010 and BPM6 basis

this strength in exports is down to the issue of ‘contract production’ (see box 1). For 2014 as a whole exports are forecast to rise by 8.3 per cent, moderating to 4.8 per cent next year, closer in line with trading partner growth.

### **Domestic demand**

Private consumption is set to grow by 1.7 per cent this year. Although purchases of durable goods has been healthy, continued weakness in consumption of services is in evidence. Private consumption is set to pick up to 2.7 per cent next year on the back of continued employment growth and a more relaxed fiscal stance feeding through to household incomes. Government consumption growth in the first half of 2014 (at 5.3 per cent) was particularly strong. This is largely a statistical effect due to the effect of longer hours worked under the Haddington Road Agreement (HRA). Overall investment activity is set to grow by 14.6 per cent in 2014, driven by solid improvements in business investment (including anticipated aircraft purchases) and some growth in intangibles. Building and construction activity is projected to expand in 2014 and 2015, in response to identified supply shortages and the recent rise in property prices. The individual components of investment often display very different dynamics and for simplicity are set out in Table 3(a).

Imports are forecast to rise by 8.8 per cent this year, reflecting the import-intensive nature of consumption and investment, before moderating next year. The current account (of the balance of payments) surplus is likely to rise this year to 4.9 per cent of GDP, and then decline next year to 4.4 per cent of GDP. The improvement in the trade balance is partly offset by factor flows to foreign-owned parent firms.

### **Box 1: Impact of contracted production on GDP**

Exports grew by 13.0 per cent year-on-year in the second quarter, with goods exports up nearly 16 per cent. This has not been matched by proportionate import growth, despite the growth in domestic demand in the same period. As a result net exports have increased by 11.0 per cent year-on-year in the second quarter to stand at €11.2 billion, or 24 per cent of GDP.

Part of the strong performance in goods exports can be put down to what is known as ‘contracted production’. Contracted production occurs when an Irish-resident (though not necessarily Irish-owned) enterprise contracts a plant abroad to produce a good for supply to a third country. The sale of the good is recorded as an Irish export as the economic ownership of the good prior to sale is regarded as belonging to the Irish-resident enterprise<sup>2</sup>. Imports used in the production process are also recorded as Irish imports. Neither these exports nor imports associated with contracted production are recorded in the monthly trade series which is based on measurement of when goods physically cross the Irish border<sup>3</sup>. The

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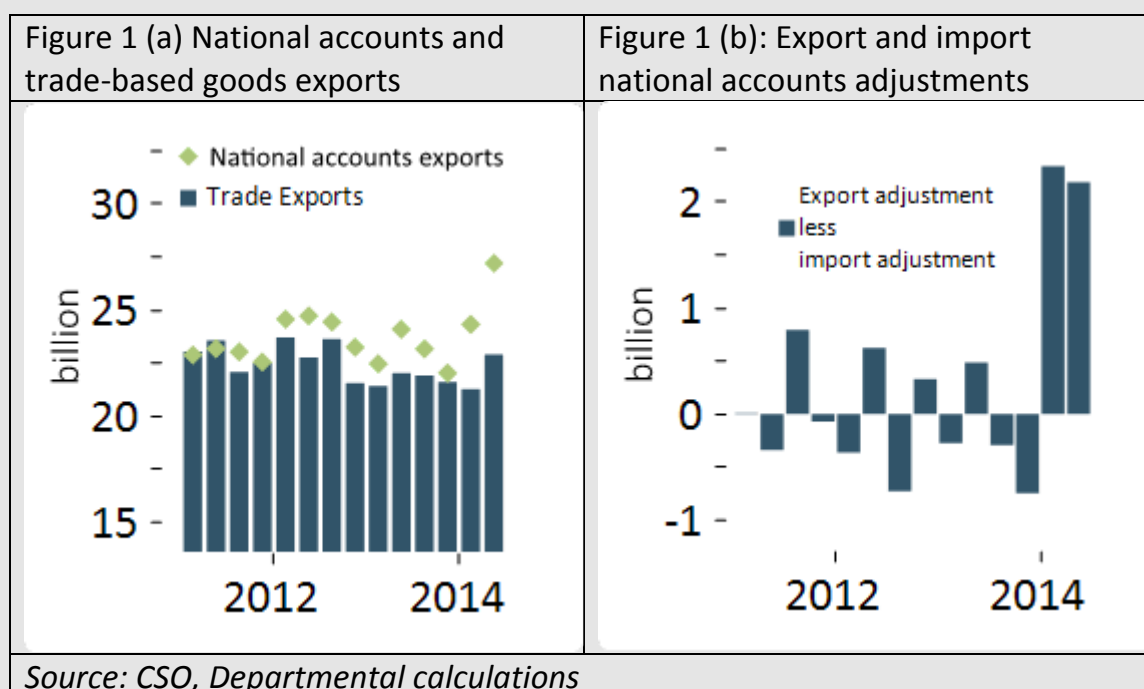
<sup>2</sup> Often the contract manufacturer can be part of the same multinational group

<sup>3</sup> However this production will appear in the monthly industrial production series



contracted production effect forms part of what are known as ‘national accounts adjustments’ to the trade-based series.

Figure 1 (a) shows national accounts- and trade-based measures of goods exports in current prices on a quarterly basis. The national accounts measure is usually greater than the trade-based measures of exports. However, the divergence widened in the first and second quarters of this year. An equivalent adjustment is made to national accounts measures of imports (not shown), and the national accounts-based measure is also usually higher too. The difference between the import and export national accounts adjustments are shown in Figure 1 (b). These effects have broadly offset each other in recent years, meaning no impact on net exports. However this relationship appears to have broken down in the first half of 2014. The export adjustment has increased considerably more than the import adjustment and is believed to be associated with a sharp increase in contracted production, adding significantly to the contribution of net exports to GDP growth.



Contracted production involves very little employment effect or second-round impact on the wider economy and complicates the task of forecasting net exports. Developments in contract production are sector- and product-specific and have little relationship with concurrent indicators of export performance. As such they have the potential to unwind or accelerate with potentially large impacts on measured GDP.

**Table 2: External Assumptions**

<i>% change</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>External GDP Growth</b>						
Euro Area	-0.4	0.8	1.1	1.7	1.7	1.6
United States	2.2	2.1	3.1	3.0	3.0	2.7
United Kingdom	1.8	3.1	2.8	2.4	2.4	2.4
<b>Technical Assumptions</b>						
Euro-Sterling Exchange Rate	0.85	0.81	0.79	0.79	0.79	0.79
Euro-Dollar Exchange Rate	1.33	1.34	1.29	1.29	1.29	1.29
Brent Crude (US \$ per barrel)	109	106	103	101	99	98

*Source: OECD Interim Economic Assessment September 2014; projections beyond 2015 are taken from the IMF World Economic Outlook October 2014*

*Note: Exchange rates and oil prices (futures) calculated on the basis of a ten-day moving average to 18 September 2014 and unchanged thereafter.*

### **Medium-term growth prospects 2016 - 2018**

The forecasts assume a continuation of strong growth over the 2016 to 2018 period. Growth of about 3½ per cent per annum is anticipated, broadly in line with estimated potential. However, it must be acknowledged that the concept of potential growth is less meaningful in an Irish context than for larger, more closed economies. After the domestic demand-driven developments of 2014 and 2015, a more even contribution from net exports and domestic activity is expected. Consumption is expected to grow broadly in line with household incomes and investment is set to rise as a share of GDP from its current relatively low level.

**Table 3: Macroeconomic prospects and external balance, 2013 – 2018**

	2013	2013	2014	2015	2016	2017	2018
	€m	<i>year-on-year percentage change</i>					
Real GNP	145,929*	3.3	4.1	3.6	3.1	3.1	3.1
Real GDP	173,054*	0.2	4.7	3.9	3.4	3.4	3.4
Nominal GNP	147,506	4.4	4.6	5.0	4.8	4.8	4.8
Nominal GDP	174,792	1.2	5.2	5.3	5.1	5.2	5.2
<i>current</i>							
<b>Components of GDP</b>	2012	<i>year-on-year percentage change unless otherwise stated</i>					
	<i>prices</i>						
Personal consumption	83,334	-0.8	1.7	2.7	1.4	1.3	1.3
Government consumption	25,956	1.4	4.8	2.3	0.0	0.0	0.0
Investment	26,541	-2.4	14.6	12.7	7.6	7.5	5.1
Changes in inventories and net acquisition of valuables (% of GDP)	837	0.5	0.4	0.2	0.2	0.2	0.2
Exports	184,056	1.1	8.3	4.8	4.3	4.3	4.7
Imports	147,694	0.6	8.8	5.3	3.6	3.6	3.6
<b>Contributions to real GDP growth</b>		<i>annual percentage point contribution</i>					
Domestic demand		-0.6	3.6	3.6	1.9	1.9	1.5
Changes in inventories and net acquisition of valuables (P.52 + P.53)		0.3	-0.1	-0.2	0.0	0.0	0.0
Net exports		0.6	1.3	0.5	1.5	1.5	1.9
		<i>€ millions</i>					
Nominal GDP (rounded to nearest €25m)		174,800	183,800	193,475	203,400	213,925	224,950
Nominal GNP (rounded to nearest €25m)		147,500	154,250	162,000	169,750	177,925	186,475
<b>External balance</b>		<i>per cent of GDP</i>					
Current account (% of GDP)		4.4	4.9	4.4	4.9	5.2	5.5

Source: 2013 CSO; 2014-2018 Department of Finance forecasts.

Rounding may affect totals

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

\*Constant 2012 price terms

**Table 3(a): Components of Gross Domestic Fixed Capital Formation (GFCF)**

	2013	2014	2015	2016	2017	2018
	<i>year-on-year percentage change</i>					
<b>Investment (GFCF)</b>	-2.4	14.6	12.7	7.6	7.5	5.1
<i>Of which:</i>						
Building and construction	14.1	9.3	10.4	6.0	6.4	6.9
Core machinery and equipment	33.0	30.0	15.0	12.0	12.0	6.0
Other transport equipment and intangibles	-27.4	11.0	13.8	13.8	5.2	2.4

Source: 2013 CSO; 2014-2018 Department of Finance forecasts.

Note: 'Core machinery and equipment' excludes 'other transport equipment', largely aircraft. This is grouped with 'intangibles', a new inclusion in GDP since the transition to ESA 2010 which consists mainly of R&D expenditure

## The labour market 2014-2018

After bottoming out in the first quarter of 2012, employment has now risen for seven consecutive quarters. Latest available quarterly national household survey (QNHS) data indicate employment grew by 2 per cent in the first half of 2014 relative to the same period last year, corresponding to an increase of 37,000 jobs. The bulk of jobs growth has been in full-time employment rather than the gains in part-time employment which characterised earlier recovery trends. Growth in employment has been broadly based, with 10 of the 14 sectors recording positive annual growth.

For the year as a whole, employment is projected to grow by 1.8 per cent (34,500 jobs). Unemployment continues on a steady downward trajectory with the QNHS indicating a rate of 11.5 per cent in the second quarter. An acceleration in the rate of reduction of Live Register claimants in the interim suggests further downward momentum throughout the remainder of the year. The standardised rate of unemployment reached 11.1 per cent in September, its lowest level in five-and-half years. Weaker participation this year is acting as a drag on labour force growth which is now expected to contract slightly in 2014. An average unemployment rate of 11.4 per cent is projected for this year.

For next year, employment is projected to grow by 2.4 per cent, with the bulk of this assumed to be in full-time employment. The participation rate is forecast to increase (as is typically the case at this stage of the economic cycle in Ireland), pushing upwards the size of the labour force. As a result, unemployment is projected to fall to just over 10 per cent next year. In the absence of an adverse shock to the economy, unemployment should continue falling over the forecast horizon.

**Table 4: Labour market developments**

	2013	2014	2015	2016	2017	2018
	<i>% change (unless otherwise stated)</i>					
Employment	2.4	1.8	2.4	1.9	1.9	1.9
Unemployment rate (QNHS basis)	13.1	11.4	10.2	9.4	8.9	8.1
Labour productivity (GDP per person employed)	-2.1	2.8	1.4	1.4	1.4	1.4
Compensation of employees	3.4	3.7	4.9	4.5	4.7	4.7
Compensation per employee	2.4	1.8	2.4	2.5	2.7	2.8

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

Following the unusual fall evident last year (largely owing to the sector-specific impact of the patent cliff), labour productivity is set to rebound this year, and is assumed to account for just under half of the output growth over the forecast horizon. Whilst wage growth remained compressed throughout the crisis, modest growth in wages per employee averaging 2 per cent over this year and next is now anticipated.

## Price developments

As measured by the harmonised index of consumer prices (HICP), inflation averaged just 0.4 per cent in the first nine months of the year. This low rate of growth is in no small part due to the fall in the price of goods, notably commodity and non-energy industrial goods prices. Service price inflation remains relatively moderate. HICP inflation is projected to average 0.5 per cent this year.

Inflationary pressures are expected to pick up slightly next year. On the basis of futures prices, the energy component of the index is not expected to exert a significant downward drag that was evident this year. In addition, the recovery in domestic demand is likely to see a gradual increase in services price inflation, so that for the year as a whole, inflation is projected to average 1.1 per cent.

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 0.4 per cent is forecast for this year, strengthening to 1.3 per cent next year. The pickup, in the main, reflects an assumed improvement in the terms of trade, due to recent exchange rate developments.

**Table 5: Price developments**

<i>Annual % Change</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
GDP deflator	1.0	0.4	1.3	1.7	1.7	1.7
Private consumption deflator	1.9	1.0	1.2	1.4	1.6	1.6
Harmonised index of consumer prices (HICP)	0.5	0.5	1.1	1.4	1.4	1.4
Public consumption deflator	-1.2	-3.5	0.3	1.0	1.0	1.0
Investment deflator	1.0	1.5	1.2	1.4	1.4	1.4
Export price deflator	-0.3	0.3	1.3	1.3	1.3	1.3
Import price deflator	-0.2	0.4	1.3	1.1	1.1	1.1

*Source: 2013 CSO; 2014-2018 Department of Finance forecasts*

**Table 6: External Balance**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Current account (% of GDP)	4.4	4.9	4.4	4.9	5.2	5.5
Current account (% of GNP)	5.2	5.8	5.3	5.9	6.4	7.5
Of which: (% of GDP)						
- Balance on goods and services	20.8	21.7	21.4	22.1	22.8	24.0
- Balance of primary incomes and transfers	-16.4	-16.8	-17.0	-17.2	-17.5	-18.5
Capital account (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0

*Source: 2013 CSO; 2014-2018 Department of Finance forecasts*

*Note: Totals may not sum due to rounding*

**Table 7: Comparison with previous forecast**

	2014	2015	2016	2017	2018
Real GDP growth (%)	4.7	3.9	3.4	3.4	3.4
- Previous forecast	2.1	2.7	3.0	3.5	3.5
- Difference	+2.6	+1.2	+0.4	-0.1	-0.1

*Source: Department of Finance forecasts*

The level of GDP has been revised up for 2014 and 2015. Three main factors are behind this:

- **Revisions:** The level of 2013 GDP was revised up by almost 7 per cent compared to first estimates in July 2014. This impacts the level of GDP over the forecast horizon.
- **Strong Q1 and Q2:** GDP grew by 5.8 per cent in the first half of 2014, due to both strong net export and domestic demand performance. This has a 'carryover' effect into the second half of 2014 and into 2015.
- **Fiscal stance:** previous assumptions underpinning the macroeconomic forecast included consolidation of €2bn in 2015, which is no longer the case.

Over the medium term, the growth outlook is assumed to be largely the same as the Stability Programme 2014. A greater focus on the medium-term outlook will take place at the time of the April 2015 Stability Programme.

## Fiscal Outlook

**Table 8: Key Fiscal Forecasts 2014-2018**

<i>% of GDP</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Underlying General Government Balance	-3.7	-2.7	-1.8	-0.9	0.3
General Government Debt	110.5	108.5	104.0	100.5	95.4
Exchequer Borrowing Requirement (€ billion)	7.9	6.5	3.1	3.9	-0.5

*Source: Department of Finance*

### **Fiscal Outlook 2014**

Ireland remains on track to meet its obligations under the Excessive Deficit Procedure (EDP), with the underlying general government deficit for 2014 forecast to be 3.7% of GDP. This represents a significant over-performance against the target of 5.1% under the EDP, and against the forecast of 4.8% in April's Stability Programme Update.

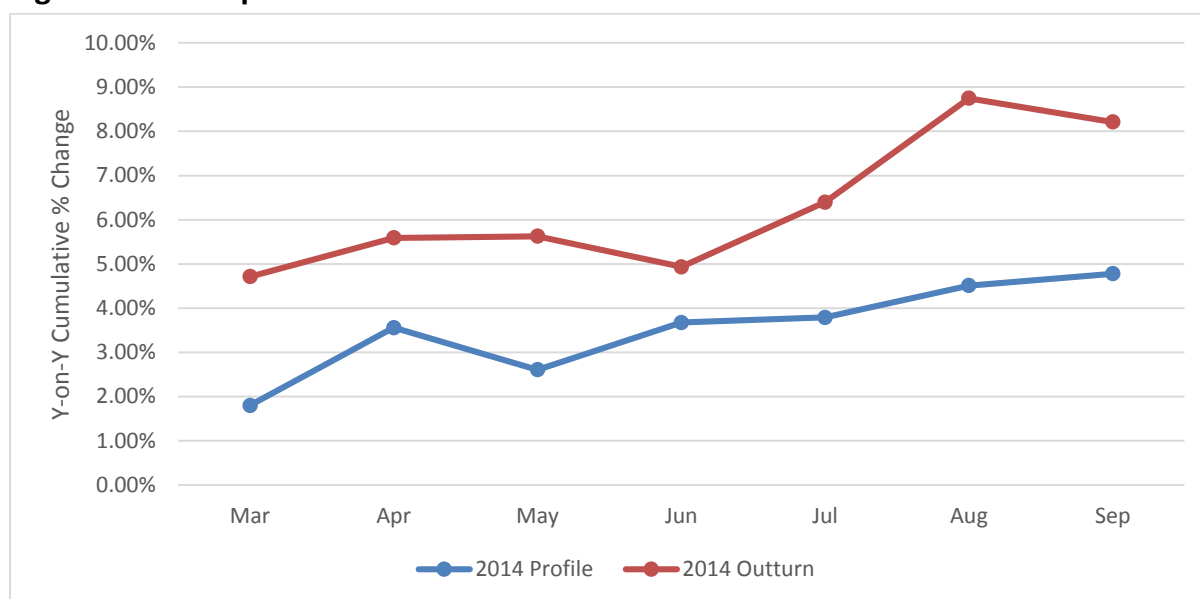
Tax revenues for the full year are now expected to be just over €41bn, which is some €1bn or 2.5% higher than forecast. While expenditure to September remains broadly in line with estimates, overspends are evident in some departments, and year-end gross expenditure is expected to be about 1% over profile. In addition to the performance of tax, a number of statistical changes have improved the deficit outlook.

Overall, the expected 2014 outturn provides a sound fiscal foundation on which to base the first budgetary set-piece since Ireland successfully exited the EU-IMF Programme last year.

### *Drivers of end-year forecast*

Turning first to the tax performance, in the period to end-September, taxes are some €0.9bn ahead of profile on an underlying basis. Encouragingly, all of the major tax heads are ahead of profile and significantly up in year-on-year terms. The graph below shows the year-on-year growth profiled and the actual outturn for the year to date.

**Figure 2: End-September Cumulative Tax Revenue Outturn vs Profile**



Source: Department of Finance

The impressive performance of the consumption taxes, excise and VAT, on the back of improved consumer confidence and better than expected domestic demand is particularly noteworthy. These taxes are both up 6.5% year-on-year. In terms of the components of excise, robust growth has been particularly evident in Vehicle Registration Tax (VRT) and receipts relating to fuel. The recovery in VAT has been broad based across a wide variety of sectors. It is expected that these trends in VAT and excise will continue, with surpluses above profile of €330m and €265m forecast for end-year respectively.

Looking at income tax, the largest tax head, performance in the first nine months has been strong, with year-on-year growth of 8.8%. If account is taken of the shortfall in DIRT receipts of c. €100m, the surplus over profile would be more substantial than the €136m reported at end-September. In aggregate terms, there is no further improvement relative to profile expected at year-end.

There has also been an over-performance relative to forecast in some of the other key tax heads, with corporation tax performing particularly well, up €108m against profile at end-September. On the basis of information to hand, it is likely that this over-performance will be maintained for the full year, although it includes specific once-off factors which will not enter the base for 2015. Stamp duties represent the other significant contributor to the overall surplus, with volumes increasing across most of the sub-heads, particularly property transactions and the pension levy. The pension levy has outperformed expectations by c.€70m as a result of an appreciation in the capital value of pension funds. Taking stamp duties as a whole, the estimated end-year outturn relative to Budget is a surplus of €200m.

Taking account of the overall nine month position, the Department of Finance is now of the view that tax revenues will finish the year as a whole some €1bn or 2.5% above



the 2014 Budget day target. However, not all of this over-performance enters the base for 2015.

There are also a number of other developments in non-tax revenue and non-voted spending that impact the end-year outlook. The Central Bank surplus received was some €200m higher than expected, and special dividends from commercial semi-state bodies were also higher than originally expected. Ireland's contribution to the EU Budget is expected to be approximately €150m higher than the figure included in Budget 2014, due to a number of factors including upward revisions to Ireland's estimated gross national income (GNI) for previous years requiring retrospective balancing payments and proposed amendments to the 2014 budget for supplementary funding.

On a like-for-like basis, general government interest expenditure for 2014 is expected to be around €200m lower than projected at the time of the April SPU. This primarily reflects a more favourable interest rate environment generally, including with respect to the floating rate bonds as well as the impact of debt management activity.

Turning to the spending side, the *Revised Estimates for Public Services 2014 (REV)* set out the allocations for Departmental expenditure in 2014. In gross spending terms<sup>4</sup>, the 2014 allocation, at €49.6 billion for current expenditure and €3.3 billion for capital expenditure was almost 3% lower than the 2013 gross expenditure outturn figure of €54.6 billion.

As reported in the end September Exchequer Returns the overall Departmental gross voted expenditure to the end of September at €39.4 billion was €227 million or 0.6% above profile. Day-to-day, current spending was €352 million above profile with capital €124 million below profile.

In relation to net voted expenditure, the end-September position was €14 million above profile. The net expenditure position reflects higher than anticipated receipts from PRSI contributions.

The 2014 end year position for Departmental expenditure, included in the Budgetary projections, assumes that in overall terms expenditure will continue over profile through to the end of the year and will finish the year 1.9% below 2013 and approximately 1% above profile.

The European System of Accounts (ESA) which is the accounting framework used in the preparation of national accounts, was updated with effect from 1 September by the introduction of ESA 2010. The updated methodology results in an improvement in the deficit-to-GDP ratio in two ways. Firstly, the nominal level of GDP, i.e. the

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<sup>4</sup> Overall expenditure by Departments, whether funded directly by the Exchequer or through Departmental receipts ("appropriations-in-aid")

denominator, was increased by approximately c.€7bn on foot of a reclassification of R&D spending and other methodological changes. Other statistical changes unrelated to ESA 2010 brought the full upward revision to €10.7bn, or 6.5% above the previous estimate. Secondly, the nominal general government balance is improved by methodological reforms affecting the treatment of pension schemes taken over by the State and the treatment of swaps used in the management of the national debt.

Overall, taking these factors into account, the underlying general government deficit for 2014 is forecast at 3.7% of GDP, well within the EDP ceiling of 5.1% of GDP and a significant improvement over the SPU forecast of 4.8%.

Additionally, an underlying general government primary surplus is forecast for the first time since 2007. This means that, excluding debt service costs, revenues are sufficient to meet expenditures. Indeed, this represents a debt reducing primary surplus, which is a key metric in assessing the underlying sustainability of Ireland's public finances and an important step towards lowering our debt levels.

## **Fiscal outlook 2015**

### *Overview*

The principal anchor for fiscal policy for the last number of years has been to achieve a deficit of less than 3% of GDP by end 2015, which will allow Ireland to exit the Excessive Deficit Procedure (EDP). The 2014 Stability Programme Update (SPU), which was based on the available economic and fiscal data in mid-April, forecast that a consolidation package of €2.0bn would be necessary to achieve this target. However, on foot of a number of positive developments, outlined below, the target can be achieved without the need for this consolidation package.

In terms of what has changed since the projections in the SPU, perhaps most noticeable has been the significant increase in the nominal level of GDP from €174bn to €193bn. This effect is roughly evenly split between the impact of statistical revisions and the improved economic outlook in the first half of the year. The denominator impact alone improves the general government deficit ratio by about 0.3 percentage points while the statistical treatment of swaps and pensions improves the nominal deficit by 0.2 percentage points. In addition to this, the tax base improved by about €0.9bn compared to expectations.

### *Impact of budget measures on the fiscal position in 2015*

The introduction of reductions in the income tax burden and increased spending is likely to have a positive short-run impact on aggregate demand. As such, the 'final' GDP forecast underpinning the Budget has been revised up compared to the endorsed forecast (a reconciliation exercise is carried out in the section on endorsement). The second round impact of stronger domestic demand is greater tax yield. As such, the net cost of the €1,050m Budget package is lower than the headline amount through this 'positive buoyancy effect'.

Looking at the individual taxheads, as would be expected with an increase in household incomes and personal consumption, VAT and excise, show a significant level of buoyancy compared to the White Paper. There are also expected to be various second round effects on income tax with increased employment driven by increased consumption.

These impacts are set out in Table 9 which shows the difference between the fiscal aggregates set out in the 2015 White Paper on Receipts and Expenditures and Budget 2015. With regard to tax revenue, the forecast of €42,755m in the White Paper is reduced by the €420m headline cost of the tax measures and the €190m cashflow effect of the mineral oils excise deferral (which has no general government impact). These reductions are offset by the tax buoyancy effect described above, which is calculated at €155m.

Other changes include an increase in net voted expenditure of €630m. The gross increase in the current voted expenditure ceiling of €470m is somewhat offset by an increase in appropriations-in-aid of €50m. Non-tax revenue is also increased by €250m as a result of an increase in special dividends.

**Table 9: The Impact of *Budget 2015* on the Fiscal Position in 2015**

	€m	€m
<b><u>Total Budget Package:</u></b>		<b>1,050</b>
<b><u>Net New Tax Measures:</u></b>		<b>-420</b>
Income Tax (including DIRT)		-485
Excise Duty (including VRT)		+65
Other		-5
Corporation Tax		-95
VAT (including from Excise Increases)		+100
Exchequer cash cost arising from deferral of excise duty on mineral oils		-190
Technical adjustment for re-estimation of national lottery surplus		70
<b><u>Net New Expenditure Measures:</u></b>		<b>630</b>
Current		420
Capital		210
<i>Impact of New Measures on Budget 2015 Tax Forecast</i>		<i>+155</i>
	<b><u>WHITE PAPER</u></b>	<b><u>BUDGET 2015</u></b>
<b><u>Current Revenue</u></b>	€m	€m
Tax Revenue	42,755	42,300
Non-Tax Revenue	2,635	2,955
<b>Current Revenue</b>	<b>45,390</b>	<b>45,255</b>
<b><u>Current Expenditure</u></b>		
Net Voted	37,615	38,035
Non-Voted	<u>10,940</u>	<u>10,950</u>
<b>Net Current Expenditure</b>	<b>48,555</b>	<b>48,985</b>
<b>CURRENT BUDGET BALANCE</b>	<b>-3,160</b>	<b>-3,730</b>
<b><u>Capital Receipts</u></b>	<b>1,630</b>	<b>1,630</b>
<b><u>Capital Expenditure</u></b>		
Net Voted	3,045	3,255
Non-Voted	<u>1,130</u>	<u>1,130</u>
<b>Net Capital Expenditure</b>	<b>4,170</b>	<b>4,385</b>
<b>CAPITAL BUDGET BALANCE</b>	<b>-2,540</b>	<b>-2,755</b>
<b>EXCHEQUER BALANCE</b>	<b>-5,700</b>	<b>-6,485</b>
<b>UNDERLYING GENERAL GOVERNMENT BALANCE</b>	<b>-4,610</b>	<b>-5,195</b>
<b>% of GDP</b>	<b>-2.4</b>	<b>-2.7</b>

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

Notes:

- Rounding can affect totals.

- The current and capital expenditure figures are consistent with the aggregate figures as per the Expenditure Report 2015.

## Outlook

Despite nominal GDP growth of 5.3%, tax revenue is only expected to grow by 3.1% in 2015. While the headline tax growth figure looks weak compared to the growth of nominal GDP, there are a number of factors which are driving this. A significant change is the expiry of the pension levy of 0.6% which was used to fund measures in the Jobs Initiative. This was estimated to have yielded in the region of €590m in 2014. Adjusting for this and the impact of the excise deferral on mineral oils and the impact of Budget measures, forecast tax growth is of the order of 5.5%. For reference, there is negligible carry over from measures introduced in Budget 2014.

Looking at the individual tax heads, after the Budget measures have been taken into account, income tax will increase by 4.7%. This is driven by a combination of a recovering labour market, with modest growth in wages and continuing expansion of employment. The consumption taxes, excise and VAT, are forecast to continue to grow on the back of an improved outlook for domestic demand.

**Table 10: Exchequer Tax Revenues 2014-2015**

	Estimated Outturn 2014	Budget Forecast 2015	Forecast Y-on-Y Change
	€m	€m	%
Customs	260	285	+9.8
Excise Duty*	5,080	5,245	+3.2
Capital Gains Tax (CGT)	400	415	+4.3
Capital Acquisitions Tax (CAT)	330	400	+20.9
Stamp Duty	1,675	1,185	-29.2
Income Tax	17,180	17,980	+4.7
Corporation Tax	4,525	4,575	+1.1
VAT	11,070	11,775	+6.4
Local Property Tax	520	440	-15.8
<b>Total</b>	<b>41,040</b>	<b>42,300</b>	<b>+3.1</b>

Source: Department of Finance.

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

\*Excise duties no longer include receipts from Motor Tax which are reflected in non-tax revenues

The gross voted current expenditure of Government Departments is now forecast at €50.1 billion in 2015, an increase of 0.9% on the 2014 current expenditure allocation of €49.6 billion set out in the *Revised Estimates for Public Expenditure 2014*. The gross voted capital expenditure envelope of €3.5 billion represents an increase of 6.2% relative to the allocation of €3.3 billion in 2014. In overall terms expenditure is being held steady with some targeted increases in areas of priority, particularly social housing and some welfare supports.

For 2015, total general government interest expenditure is projected to be over €800 million lower than the equivalent SPU estimate. Again this reflects the more favourable outlook for interest rates. In addition, provision for projected savings

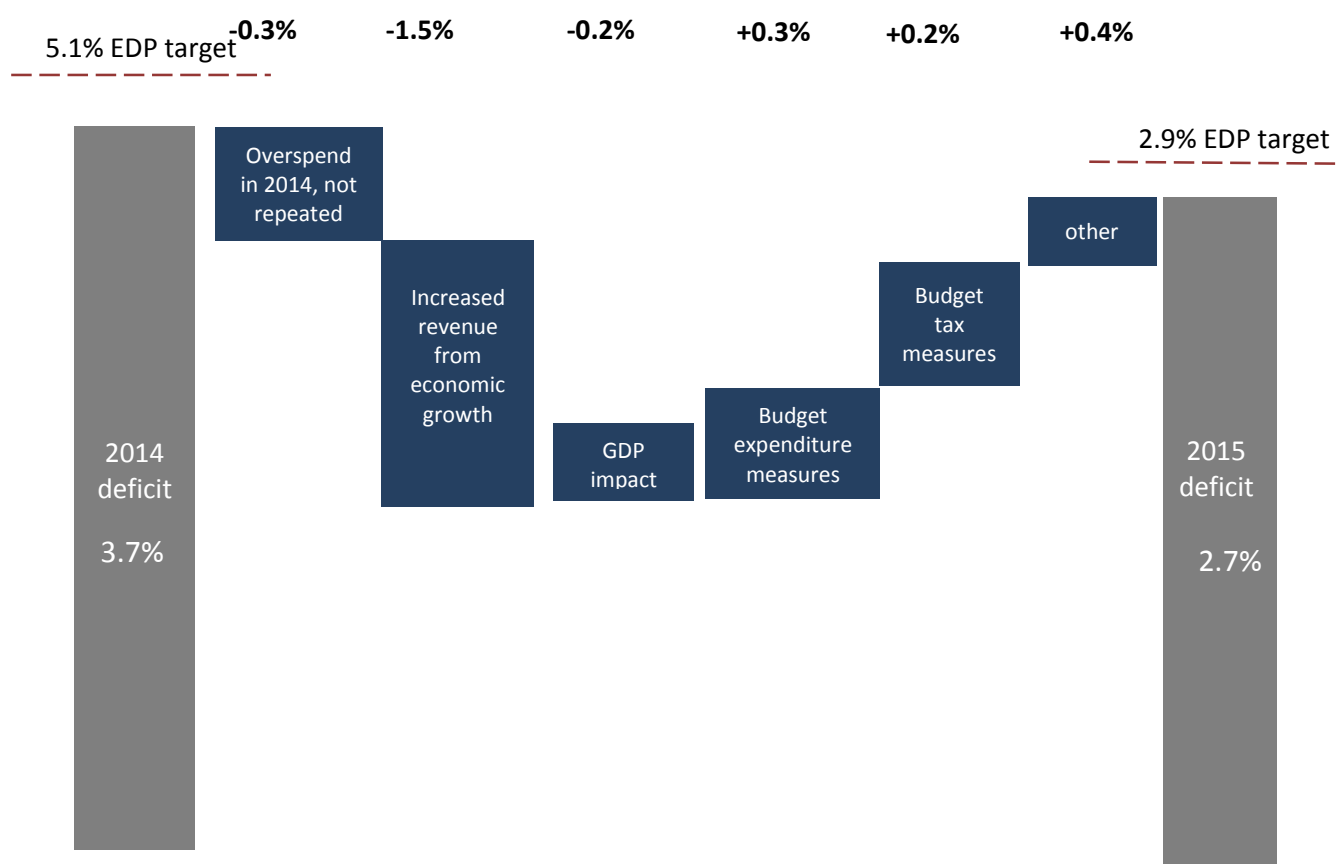
arising from the early repayment of a portion of the IMF loans are included in the estimate on the basis of the broad political support indicated at the September ECOFIN meeting. This is of course subject to the completion of all national approval procedures. The approval process for the overall waiver for the EFSF and EFSM has been completed. There will be no early repayment until all approvals are in place. The only other significant change in non-voted current expenditure is the increase in the EU budget contribution of some €65m compared to 2014.

In terms of non-tax revenues, there is an increase in the forecast surplus of the Central Bank, rising from €1.2bn to €1.4bn. An element of this relates to capital gains realised on the sale of the floating rate notes and will be used to reduce the debt. There is also a significant contribution from dividends including special dividends relating to the sale of assets in commercial semi-state companies. Against this the closure of the ELG scheme to new liabilities in 2013 will see decreasing amounts of guarantee fees. Overall, about €3.0bn is expected to be collected from non-tax revenues.

Capital receipts are projected to decline in 2015. The sale of the National Lottery licence in 2014 generated €405m for the Exchequer. There are no expectations of significant State asset sales in the 2015 forecasts.

Overall, an underlying general government deficit of 2.7% of GDP is forecast for 2015. Targeting a deficit lower than necessary under the EDP demonstrates Ireland's commitment to continue managing its public finances in a prudent fashion in the post-programme environment.

**Figure 3: Transition from 2014 to 2015 general government deficit**



Notes:

Diagram not drawn to scale.

The diagram starts with the 2014 general government deficit of 3.7 per cent of GDP. All further adjustments show the difference between 2015 and 2014 items to arrive at the 2015 deficit. A negative adjustment lowers and improves the deficit while a positive adjustment has the opposite effect.

The diagram shows changes on a general government basis.

- **Overspend:** The overspend on gross voted expenditure in 2014 is assumed not to be repeated in 2015. This was set out in the no-policy change scenario contained in the White Paper.
- **Increased revenue from economic growth:** This reflects tax increases on the back of nominal GDP growth of 5.3% and also includes €0.8bn of A-in-A's including PRSI receipts associated with a strong labour market.
- **GDP impact:** this reflects the impact of an increased nominal GDP from €183bn to €193bn when expressing the nominal deficit as a % of GDP.
- **Budgetary expenditure measures:** €630m in net new expenditure increases which is composed of €420m in current voted spending and €210m in capital.
- **Budgetary tax measures:** Net tax package of €420m which is predominantly focused on the income tax space.
- **Other:** this includes the non-repeat of the sale of State Assets

### **Fiscal Outlook 2016-2018**

Following the expected exit from the EDP post 2015, Ireland will be subject to the preventive arm of the Stability and Growth Pact. The primary purpose of the requirements of the preventive arm is to ensure that the unsustainably high levels of expenditure growth seen prior to 2008 – not just in Ireland but elsewhere – will not pose a risk to fiscal sustainability across Member States in the future.

The fiscal rules which are of most relevance for Ireland are the Expenditure Benchmark and the requirement for a minimum annual improvement in the structural balance (progress towards the Medium Term Budgetary Objective (MTO)). The third pillar of the new rules, an improvement in the debt ratio of 1/20<sup>th</sup> of the excess over 60% of GDP will not apply to Ireland until 2019 onwards. A brief description of the most relevant rules is provided below for information.

○ **Medium Term Objective (MTO)**

Ireland will be 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 out in the SGP. For Member States whose debt is at or below a debt to GDP ratio of 60%, the improvement in the structural balance has to be “at least” 0.5% of GDP. For Member States, such as Ireland, whose debt to GDP ratio is over 60% of GDP, the annual improvement has to be “more than” 0.5% 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. The difference between the growth rate of the economy and the growth rate in public expenditure levels is known as the Convergence Margin. The Convergence Margin (CM) will be applied until the MTO is reached and is designed to ensure that the necessary minimum structural adjustment is made each year.

*Revenue developments*

In relation to specific developments on the revenue side, tax is estimated to continue to grow broadly in line with nominal GDP which averages about 5% over the period. It is also noticeable that there is a substantial drop in Exchequer tax revenue in 2017 and a corresponding increase in 2018. As a function of SEPA and the number of banking days at the end of the year, c. €1.0bn of taxes will flow from 2017 to 2018. While this does impact on the Exchequer tax forecast, it does not impact on the general government balance as these taxes are accrued back to 2017.

There are also specific fiscal events which are quite significant, such as the repayment of the contingent convertible capital notes by AIB and Permanent TSB in 2016. These transactions will bring in €2bn in cash for the Exchequer but will not improve the general government balance as they are classified as financial transactions.



### *Expenditure*

There are uncertainties with regard to the interpretation and implementation of the fiscal rules. For the purposes of the budgetary projections in the following Table, there is a technical assumption that voted expenditure continues at 2015 levels and taxation measures for the outer years are not embedded in the budgetary numbers at this stage. Because of this technical assumption, the spending aggregates in this Table differ from the 2016 and 2017 details set out in the Expenditure Report. Priorities, which have been outlined in the Budget, and included in the ceilings in the Expenditure Report, will be addressed in subsequent Budgets when there is technical clarity around the quantum of fiscal space.

The current interest expenditure projections for the latter years of the forecast horizon are also significantly lower, of the order €1bn, than the equivalent SPU estimates. Again, this makes an assumption around projected savings from the IMF loans and the more favourable interest rate environment.

### *General government balance*

The deficit figures in the period 2016 to 2018 are based on the technical assumptions outlined above in relation to voted expenditure and taxation. Consequently, the deficit figures in Table 11 below are somewhat understated as the effect of these technical assumptions is to apply all available fiscal space to deficit reduction.

The final determination of overall expenditure ceilings and taxation measures in this period will be made by Government in line with the fiscal rules under the Stability and Growth Pact, with specific reference to the Expenditure Benchmark. At that time, the full amount of additional fiscal space available to Government to meet expenditure requirements and other policy priorities can be more accurately assessed.

**Table 11: Budgetary Projections 2014-2018**

€ million	2014	2015	2016	2017	2018
<b>CURRENT BUDGET</b>					
<b><u>Expenditure</u></b>					
Gross Voted Current	50,105	50,075	50,075	50,075	50,075
Non-Voted Current (Central Fund)	10,815	10,950	11,200	11,300	11,815
<b>Gross Current</b>	<b>60,920</b>	<b>61,025</b>	<b>61,275</b>	<b>61,375</b>	<b>61,890</b>
less Expenditure Receipts and Balances (including PRSI)	11,220	12,040	12,150	12,465	12,810
<b>Net Current</b>	<b>49,700</b>	<b>48,985</b>	<b>49,125</b>	<b>48,910</b>	<b>49,080</b>
<b><u>Receipts</u></b>					
Tax Revenue	41,040	42,300	44,430	45,490	50,035
Non-Tax Revenue	3,050	2,955	2,500	2,265	2,270
<b>Net Current Revenue</b>	<b>44,090</b>	<b>45,255</b>	<b>46,930</b>	<b>47,755</b>	<b>52,305</b>
<b>CURRENT BUDGET BALANCE</b>	<b>-5,610</b>	<b>-3,730</b>	<b>-2,195</b>	<b>-1,155</b>	<b>3,225</b>
<b>CAPITAL BUDGET</b>					
<b><u>Expenditure</u></b>					
Gross Voted Capital	3,435	3,550	3,550	3,550	3,550
Non-Voted Capital	1,375	1,130	1,220	1,090	1,090
<b>Gross Capital</b>	<b>4,810</b>	<b>4,680</b>	<b>4,770</b>	<b>4,640</b>	<b>4,640</b>
less Capital Receipts	335	290	295	295	295
<b>Net Capital</b>	<b>4,475</b>	<b>4,390</b>	<b>4,475</b>	<b>4,345</b>	<b>4,345</b>
<b>Capital Resources</b>	<b>2,155</b>	<b>1,635</b>	<b>3,525</b>	<b>1,595</b>	<b>1,640</b>
<b>CAPITAL BUDGET BALANCE</b>	<b>-2,320</b>	<b>-2,755</b>	<b>-950</b>	<b>-2,750</b>	<b>-2,705</b>
<b>EXCHEQUER BALANCE</b>	<b>-7,930</b>	<b>-6,485</b>	<b>-3,145</b>	<b>-3,905</b>	<b>520</b>
<b>GENERAL GOVERNMENT BALANCE</b>	<b>-6,890</b>	<b>-5,315</b>	<b>-3,875</b>	<b>-1,930</b>	<b>565</b>
<b>% of GDP</b>	<b>-3.7%</b>	<b>-2.7%</b>	<b>-1.9%</b>	<b>-0.9%</b>	<b>0.3%</b>
<b>UNDERLYING GENERAL GOVERNMENT BALANCE</b>	<b>-6,875</b>	<b>-5,195</b>	<b>-3,760</b>	<b>-1,930</b>	<b>565</b>
<b>% of GDP</b>	<b>-3.7%</b>	<b>-2.7%</b>	<b>-1.8%</b>	<b>-0.9%</b>	<b>0.3%</b>
<b>UNDERLYING GENERAL GOVERNMENT PRIMARY BALANCE</b>	<b>599</b>	<b>2,185</b>	<b>3,896</b>	<b>6,157</b>	<b>9,016</b>
<b>% of GDP</b>	<b>0.3%</b>	<b>1.1%</b>	<b>1.9%</b>	<b>2.9%</b>	<b>4.0%</b>
<b>Nominal GDP (rounded to nearest €25m)</b>	<b>183,800</b>	<b>193,475</b>	<b>203,400</b>	<b>213,925</b>	<b>224,950</b>

**Notes:**

- As there are still uncertainties with regard to the interpretation and implementation of the fiscal rules, there is a technical assumption that voted expenditure ceilings remain fixed at 2015 levels. Similarly, taxation measures for the outer years are not embedded in the budgetary numbers at this stage. Priorities, which have been outlined in the Budget and

Expenditure Report, will be addressed in subsequent Budgets when there is technical clarity around the quantum of fiscal space.

- Figures rounded to the nearest €5m.

- Rounding may affect totals.

- The underlying balance: the net lending of general government adjusted for the effect of certain expenditures into the financial sector, which may be excluded for the purposes of assessing adherence to EDP targets. For further detail see tables A1 and A2.2 in the Additional Fiscal and Statistics Tables section.

- For an explanation of the "walk" from Exchequer Balance to General Government Balance, see table A1 in the Additional Fiscal Statistics and Tables section.

## **Structural budget balance and the medium-term objective**

Following correction of the excessive deficit in 2015, the fiscal rules will require that Ireland make rapid progress toward achieving a medium-term objective (MTO) of a balanced budget in structural terms. The structural budget balance is the budgetary position which would prevail in the absence of the economic cycle. Compliance with requirements set under the fiscal rules oblige Ireland to implement at least 0.5pp of GDP in structural budgetary correction per annum until the MTO is achieved.

Figures shown in Table 12 are produced using the required harmonised EU approach to estimate the potential output of the Irish economy. These suggest potential growth in the region of 3¾ per cent per annum over 2014 to 2018.

**Table 12: Cyclical developments**

	2014	2015	2016	2017	2018
<i>as % of GDP unless otherwise stated</i>					
1. Real GDP growth (%)	4.7	3.9	3.4	3.4	3.4
2. Headline general government balance	-3.7	-2.7	-1.9	-0.9	0.3
3. Interest expenditure	4.1	3.8	3.8	3.8	3.8
4. One-off and temporary measures*	0.7	0.1	0.1	0.0	0.0
5. Potential GDP growth	2.1	2.7	3.4	3.8	3.9
<i>Contributions to potential GDP growth</i>					
Labour	0.7	1.1	1.5	1.7	1.8
Capital	0.5	0.7	0.8	0.9	1.0
Total factor productivity	0.9	1.0	1.0	1.1	1.1
6. Output gap (% pot GDP)	-0.1	1.0	1.0	0.7	0.1
7. Cyclical budgetary component	-0.1	0.5	0.5	0.3	0.1
Structural budget balance(2-4-7)	-4.4	-3.4	-2.5	-1.2	0.2
<i>annual improvement in SBB</i>	0.1	1.0	0.8	1.3	1.4
Structural primary balance (2+3-4-7)	-0.3	0.4	1.2	2.5	3.9

Source: Department of Finance projections using harmonised EU methodology for calculation of the output gap. \*Both the 2011 and 2014 pension fund levies are treated as temporary. In 2014, the CSO reclassified the Pension Levy from a one-off capital tax D.91 to a recurrent tax on wealth D.59. This is the convention used in Table A.2, Annex 1.

Comparison of the supply-side potential of the economy between Budget 2015 and the April 2014 Stability Programme Update is complicated by the changeover in

statistical classification from the ESA95 system of accounts to ESA 2010<sup>5</sup>. As a result of this change, contributions from capital to the level of potential output are more positive, in line with the greater share of research and development spending now captured in the capital stock under these new statistical rules.

The opening up of a positive output gap relative to underlying potential suggests the economy is projected to operate above the hypothetical level consistent with no wage or prices pressures until 2018. Projections are consistent with an average annual improvement in the structural budget balance of almost one percentage points per annum over the period to 2018. This outlook indicates a position of budget balance in structural terms will be reached by 2018, consistent with the required annual effort under the fiscal rules.

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<sup>5</sup> All else equal, the changeover suggests a slightly higher path for structural unemployment consistent with a less negative output gap over the years to 2014 and a more positive post-crisis output gap.

**Table 13: Fiscal forecast 2014 – 2015 – Alternative format**

	2014 €m	2015 €m	Y-on-Y €m	Y-on-Y %
<b><u>NON FINANCIAL TRANSACTIONS</u></b>				
<b>REVENUES</b>	<b>56,187</b>	<b>57,683</b>	<b>1,497</b>	<b>2.7%</b>
<b>Tax Revenue</b>	<b>41,040</b>	<b>42,300</b>	<b>1,260</b>	<b>3.1%</b>
Income tax	17,180	17,980	800	4.7%
VAT	11,070	11,775	705	6.4%
Excise duties	5,080	5,245	165	3.2%
Corporation tax	4,525	4,575	50	1.1%
Stamp duties	1,675	1,185	-490	-29.3%
Local property tax	520	440	-80	-15.4%
Customs	260	285	25	9.6%
Capital gains tax	400	415	15	3.8%
Capital acquisitions tax	330	400	70	21.2%
<b>A-in-A's (Includes PRSI, NTF and balances)</b>	<b>11,555</b>	<b>12,330</b>	<b>775</b>	<b>6.7%</b>
<b>Non-Tax Revenue</b>	<b>3,040</b>	<b>2,947</b>	<b>-93</b>	<b>-3.1%</b>
Central Bank surplus income	1,212	1,400	188	15.5%
Bank guarantee fees	183	97	-86	-47.0%
Dividends	493	469	-24	-4.8%
Interest on Contingent Capital notes	200	200	0	0.0%
Other	953	781	-172	-18.0%
<b>Capital Resources</b>	<b>551</b>	<b>106</b>	<b>-445</b>	<b>-80.8%</b>
Sale of State property	405	0	-405	-100.0%
Other	146	106	-40	-27.6%
<b><u>EXPENDITURE</u></b>	<b>63,918</b>	<b>63,945</b>	<b>28</b>	<b>0.0%</b>
<b>Gross Voted Current Expenditure</b>	<b>50,105</b>	<b>50,075</b>	<b>-30</b>	<b>-0.1%</b>
<b>Non-Voted Current Expenditure</b>	<b>10,181</b>	<b>10,308</b>	<b>128</b>	<b>1.3%</b>
Interest on National debt	7,504	7,697	193	2.6%
Debt management expenses	114	130	16	14.0%
EU Budget Contribution	1,735	1,800	65	3.7%
Other	828	681	-146	-17.7%
<b>Gross Voted Expenditure Capital</b>	<b>3,435</b>	<b>3,550</b>	<b>115</b>	<b>3.3%</b>
<b>Non-Voted Capital Expenditure</b>	<b>197</b>	<b>12</b>	<b>-185</b>	<b>-93.9%</b>
Capital Contribution to Irish Water	185	0	-185	-100.0%
Other	12	12	0	0.0%
<b><u>BALANCE OF NON-FINANCIAL TRANSACTIONS</u></b>	<b>-7,731</b>	<b>-6,262</b>	<b>1,469</b>	<b>-19.0%</b>
<b><u>FINANCIAL TRANSACTIONS</u></b>				
<b>REVENUES</b>	<b>1,614</b>	<b>1,537</b>	<b>-77</b>	<b>-4.8%</b>
<b>Non-Tax Revenue</b>	<b>10</b>	<b>8</b>	<b>-2</b>	<b>-15.8%</b>
Other	10	8	-2	-15.8%
<b>Capital Resources</b>	<b>1,604</b>	<b>1,529</b>	<b>-76</b>	<b>-4.7%</b>
FEOGA	715	800	85	11.9%
Loan Repayments	256	87	-169	-66.0%
Sinking Fund	634	642	8	1.3%
<b><u>EXPENDITURE</u></b>	<b>1,811</b>	<b>1,759</b>	<b>-52</b>	<b>-2.9%</b>
<b>Non-Voted Current Expenditure</b>	<b>634</b>	<b>642</b>	<b>8</b>	<b>1.3%</b>
Sinking Fund	634	642	8	1.3%
<b>Non-Voted Capital Expenditure</b>	<b>1,178</b>	<b>1,118</b>	<b>-60</b>	<b>-5.1%</b>
Exchequer Loans	850	850	0	0.0%
Equity in Irish Water	0	200	200	n/a
Other	328	68	-260	-79.4%
<b><u>BALANCE OF FINANCIAL TRANSACTIONS</u></b>	<b>-197</b>	<b>-223</b>	<b>-25</b>	<b>12.8%</b>
<b>Exchequer Balance</b>	<b>-7,930</b>	<b>-6,485</b>	<b>1,446</b>	<b>18.2%</b>

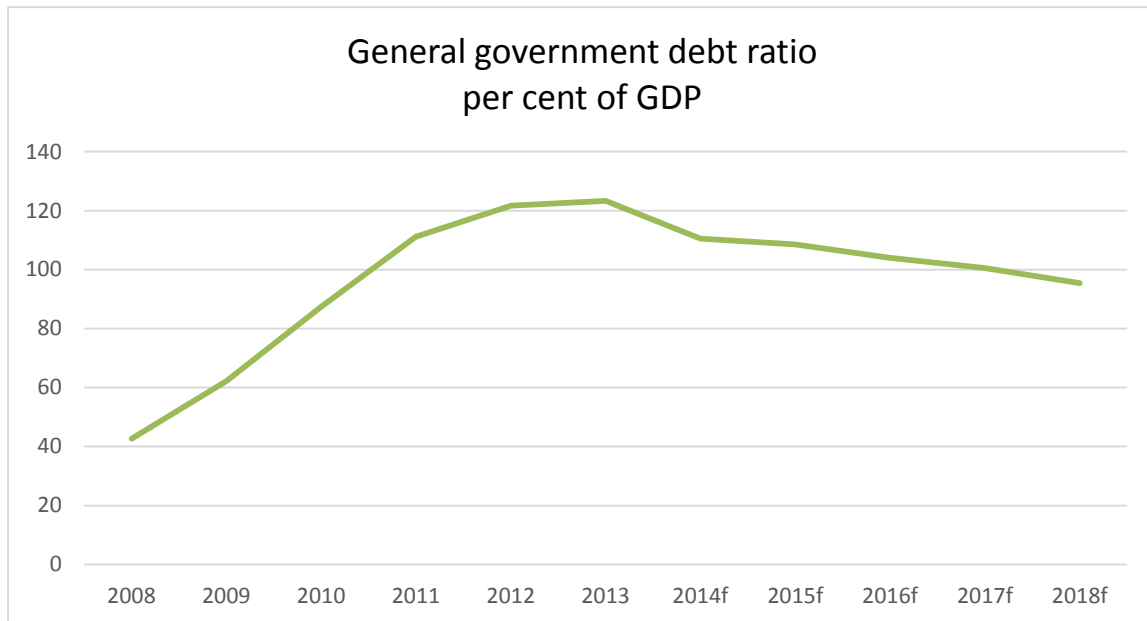
*Rounding may affect totals.*

*This is for illustrative purposes only.*

## Debt Analysis and Funding Position

The general government debt to GDP ratio of Ireland rose dramatically in the years from 2008 to 2011 as a result of a collapse in revenues, declining economic activity and the substantial State support provided to the banking sector. Of particular note were the promissory note structure introduced in 2010 which added 19 percentage points to the debt ratio, and the classification of IBRC in general government in July 2011 adding a further 12 percentage points.<sup>6</sup>

**Figure 4: Debt to GDP ratio 2008-2018, Ireland (ESA 2010 accounting)**



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

The cumulative result of fiscal consolidation since 2008 and economic growth since 2011 is that the gap between Ireland's expenditure and revenues has narrowed as a share of GDP. All deficit targets have been met or exceeded each year since 2011, with the current year deficit estimated to be 3.7% of GDP. In addition the increase in GDP since 2009 has also improved the debt to GDP ratio. Furthermore the majority of IBRC liabilities have been paid down since its liquidation in February 2013. As a result, Ireland's debt to GDP ratio is expected to have peaked at 123.3 per cent of GDP in 2013, to fall significantly in 2014 and to continue to decline thereafter.

### The current debt position and outlook

The CSO's current estimate of Ireland's general government debt at the end of 2013 is €215.6 billion or 123.3 per cent of GDP. This represents an increase of €12.6 billion on the same estimate reported in the *Stability Programme Update (SPU)*, April 2014. The main reason for the change is the inclusion of the debt liabilities of IBRC (in liquidation) in the estimate of general government debt under the new ESA 2010

<sup>6</sup> The reclassification of IBRC in general government under the new ESA accounting system was made in June 2014 and is applied retroactively from its creation in July 2011.

accounting rules adopted by all EU Member States on 1st September 2014. Also, under the new accounting rules, Ireland's GDP increased significantly, and as a result, the current debt ratio estimate for end-2013 is roughly the same as that reported in the April SPU. See Box 2 in the Budgetary Framework and Reform section for more information on the switch-over to ESA 2010.

General government debt is projected to be €203.2 billion or 110.5 per cent of GDP at end-2014. This represents an improvement of €12.4 billion compared to end-2013. The funding of the Exchequer Borrowing Requirement (EBR) is largely offset by a decrease in cash assets and therefore the improvement in the debt position is largely due to the IBRC liabilities being repaid from monies generated through the sale of assets by the special liquidator. The strengthening growth in GDP is a further contributory factor to the improvement in the debt ratio.

The projected evolution of general government debt for Ireland over the period 2013-2018 is shown in table 14.

**Table 14: General government debt 2013-2018**

Year	2013	2014	2015	2016	2017	2018
General government debt (€ bn)	215.6	203.2	209.9	211.6	215.0	214.7
Debt-to-GDP Ratio (%)	123.3	110.5	108.5	104	100.5	95.4

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

### **Gross debt and net debt**

General government debt, as defined under the Excessive Deficit Procedure (EDP) regulation, is a gross measure and consists of certain liabilities that require payment by the debtor to the creditor at a date or dates in the future. The net general government debt figure (obtained by deducting the financial assets corresponding to those liabilities used in the calculation of general government debt) is reported in table 15.

**Table 15: General government debt and net general government debt 2013 and 2014**

End-year	2013	2014
	% of GDP	
General government debt	123.3	110.5
EDP debt instrument assets	31.3	19.7
Net debt position	92.0	90.8

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

Note that the net debt ratio of 92.0 per cent at end-2013 is considerably lower than that estimated in the April SPU. This is due to the increase in the estimate of GDP under ESA 2010.

### **Cash Balances**

At end-2013, the Exchequer had cash and other short-term investments of €18.5<sup>7</sup> billion, which meant that it was fully funded into the first quarter of 2015, consistent with the stated aim of having 12-15 months of advance funding in place when the EU-IMF Programme reached its conclusion.

The significant reduction expected in cash and other financial assets by end-2014 will assist (along with the reduction of the liabilities associated with IBRC and strengthening nominal GDP growth) in reducing the end-2014 general government debt-to-GDP ratio, to an estimated 110.5 per cent.

### **Credit Rating**

Ireland is now rated as investment grade by all of the main credit rating agencies. Standard and Poor's (S&P), Fitch and DBRS have assigned a sovereign credit rating of A- while Moody's and R&I are one notch lower at Baa1/BBB+.

2014 saw a series of rating upgrades, starting with the return to an investment grade rating by Moody's in January. Moody's followed this in May with a further two notch upgrade to Baa1, with stable outlook. R&I affirmed its rating at BBB+ in January also.

Fitch upgraded Ireland's rating to A- with stable outlook in August while S&P and DBRS both moved to A- with positive outlook in June and September respectively.

The rating agencies cited a number of positive developments as key drivers of these upgrades. These include a strengthened growth outlook for the Irish economy, which puts debt levels on a downward path and further assists the general government finance position. The improved market financing conditions were also noted as a positive, as were NAMA's accelerated asset sales and debt redemptions, which reduce Ireland's contingent liabilities.

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<sup>7</sup> Total cash and other financial assets stood at €23.6 billion at end-2013, of which €18.5 billion was readily available or available at short-notice.



## **Funding Requirements**

The State's funding requirements over the coming decade were reduced significantly following the February 2013 IBRC Promissory Note transaction and the agreed extension, in June 2013, of EFSF and EFSM loan maturities. The Promissory Note transaction means that the Exchequer no longer has to fund an annual payment of €3.06 billion to IBRC. The maturity extensions mean that Ireland is not expected to have to refinance any of its EFSF or EFSM loans until 2027 at the earliest.

The *4.5% Treasury Bond 2015* redemption next February is relatively modest, at €2.2 billion currently. Together with the projected Exchequer Borrowing Requirement of €6.5 billion, the 2015 funding requirement is projected at approximately €8.7 billion. In addition, under the current amortisation schedule, €0.5 billion of IMF Programme loans are presently due to mature in 2015.

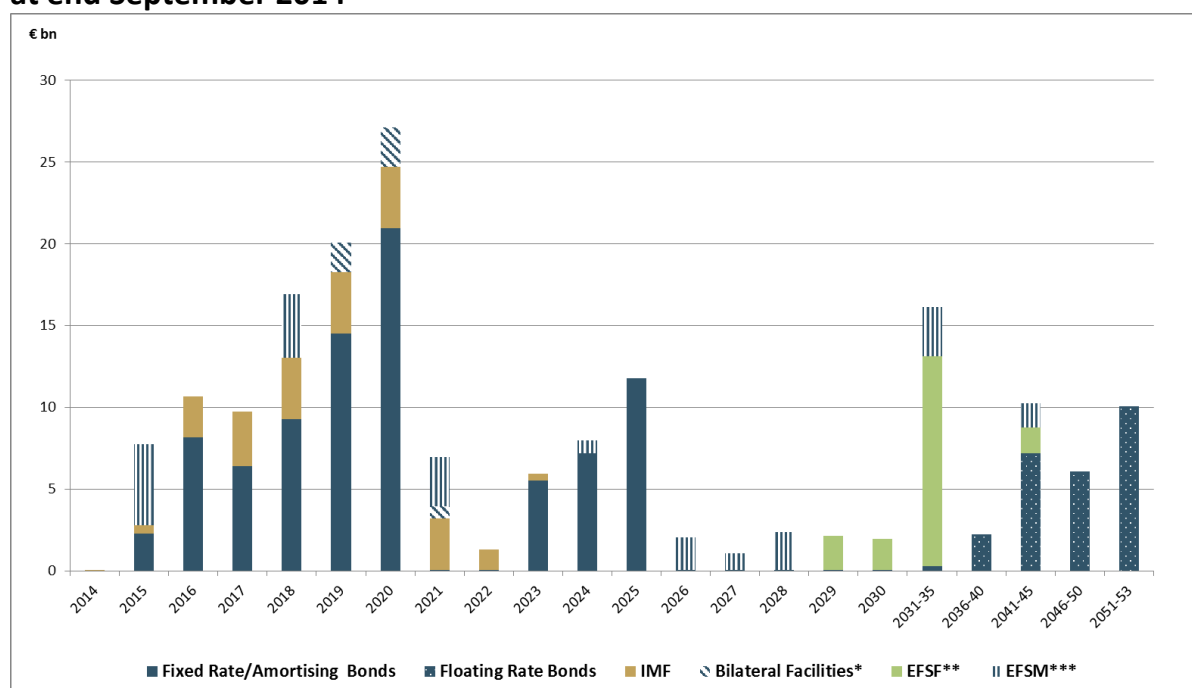
Subject to satisfactory progress with respect to the protocols required, the State is planning to repay early a portion of its IMF Programme loans.

The State is already fully funded for 2015. Issuance over the course of next year will represent pre-funding of 2016 needs.

While the EBR is projected to decline over the forecast horizon, to €0.5 billion by 2018, there are significant bond maturities over the period 2016-2018 and beyond which must be adequately and prudently funded. The outstanding balance on the *4.6% Treasury Bond 2016* has already been reduced by more than €2 billion following the NTMA's buy-back and switch transaction in July.

The figure below shows the maturity profile of Ireland's long-term marketable and official debt – bonds and EU/IMF Programme loans – as at end-September 2014. The graph does not reflect the planned early repayment of a portion of Ireland's IMF Programme loans. As such the first of the IMF loan amortisations (€0.5 billion) is reflected in 2015, as is the current position.

**Figure 5: Maturity Profile of Ireland's Long-Term Marketable and Official Debt at end September 2014**



Source: NTMA

**Notes:**

\* Bilateral loans were provided by the United Kingdom, Sweden and Denmark.

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

\*\*\* EFSM loans are also 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 chart above.

### Debt dynamics and the stock-flow adjustment

In analysing debt developments, it is helpful to consider the components of the stock-flow adjustment. These are effects that change the debt ratio which are not due to the deficit or the growth-interest rate differential in a given year. The main component of the stock-flow adjustment, in nominal terms, is the change in cash and other financial assets. An increase, for instance, indicates borrowing beyond the need to fund the deficit. Operations in financial instruments such as loans, investments and other equity transactions do not affect the deficit but impact on funding requirements. These operations are also part of the stock-flow adjustment. Table 16 sets out the stock-flow adjustment over the forecast horizon.

**Table 16: General government debt developments**

(% of GDP)	2014	2015	2016	2017	2018
Gross debt	110.5	108.5	104.0	100.5	95.4
Change in gross debt (=1+2+3)	-12.8	-2.0	-4.5	-3.5	-5.1
<b>Contributions to change in gross debt ratio:</b>					
1. General Government Deficit	3.7	2.7	1.9	0.9	-0.3
2. Stock-flow adjustment	-10.5	0.8	-1.1	0.7	0.1
3. Nominal GDP contribution to change in debt ratio	-6.0	-5.5	-5.3	-5.1	-4.9
<b>Composition of GGB:</b>					
4. General Government Balance	-3.7	-2.7	-1.9	-0.9	0.3
5. Interest expenditure	-4.1	-3.8	-3.8	-3.8	-3.8
6. Primary balance ( = 4 - 5 )	0.3	1.1	1.9	2.9	4.0
<b>Composition of stock-flow adjustment:</b>					
7. Change in liquid assets	-4.1	-0.2	-0.4	-0.2	0.1
8. Interest adjustments	0.1	0.2	0.2	0.0	0.0
9. Equity transactions	0.1	-0.1	-0.8	0.1	0.1
10. Accrual adjustments	0.0	-0.1	0.0	0.0	0.0
11. Impact of NPRF	0.2	0.2	0.2	0.2	0.2
12. Impact of IBRC	-6.2	-0.4	0.0	0.0	0.0
13. Collateral held	0.0	0.0	0.0	0.0	0.0
14. Net discounts	0.1	0.1	0.1	0.1	0.1
15. Other	-0.6	1.0	-0.3	0.6	-0.4
<b>Memorandum item:</b>					
Average interest rate (%)	3.7	3.5	3.6	3.8	3.9

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

## **Statement of Risks and Sensitivity Analysis**

### **Overview**

In line with previous macroeconomic and fiscal publications, this section deals with the fiscal and economic risks to our budgetary forecasts. The main risks are identified, along with a sensitivity analysis and a comparison of the Department's macroeconomic forecasts against those of other agencies.

In addition, a section dealing with the draft National Risk Assessment, the financial sector and information on other areas where the State has potential exposure such as contingent liabilities has been included.

### **Risks to the forecasts**

The estimates of revenue and expenditure in the Budget incorporate assumptions and judgements based on the best information available at the time of publication. A range of factors will influence the actual outcome. To the extent that the economic outlook were to differ from official forecasts, or the historically observed relationships between the economy and tax revenues were to change, the impact will flow through to actual fiscal outcomes. The purpose of this section is to identify risks that could result in the fiscal targets not being achieved.

### **Fiscal Risks**

Risks to the fiscal forecast can arise from specific events or from the changing economic environment. The inclusion of an item as a risk to the fiscal forecast must be considered in the context of the likelihood of its occurrence and the potential impact on the fiscal forecast.

In terms of forecasting receipts from the different tax-heads, 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 also 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 based on the performance in preceding year, the availability of the most recent data can reduce the risk to the forecast for particular tax heads. The change in budgetary time table from December to October increases the risk to the forecast, as revenue from some tax heads are not spread evenly throughout the year. For example, over 40% of receipts from corporation tax in 2014 are forecast for the final 3 months of the year, while receipts from self-employed taxpayers are expected in November.

Furthermore, losses made by firms during a downturn can be used to offset taxes incurred during the recovery, which makes forecasting the quantum and timing of corporation tax receipts more complex.

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 at historical lows – with the most recent auction of 10-year debt on 9 October achieving a yield of 1.63% – the interest expenditure estimates prudently provide for a somewhat less benign future interest rate environment. While the majority of the existing stock of debt carries fixed rates of interest, there are floating rate exposures, including the floating rate bonds issued in early 2013 to replace the IBRC promissory notes.

Market sentiment towards Ireland is currently positive given the significant economic, fiscal and financial progress made by the State, coupled with its emergence from the EU-IMF Programme in late 2013. 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.

### **Economic Risks**

Ireland is particularly vulnerable to shocks to global growth given the openness of the economy. At the current juncture, while a positive outlook for US and UK economies prevails, weakness in recent euro area data has increased the probability of a contraction in activity and this could translate into weaker-than-expected demand for Irish exports.

On the nominal side, inflation has surprised on the downside over the last number of quarters at a global level, and in particular in the euro area. Inflationary pressures remain weak at the moment in Ireland too. Any acceleration in deflationary trends could serve to raise the real interest rate and depress aggregate demand as firms and households reduce investment and consumption. It is also the case that geopolitical risks have increased in recent months; any acceleration in these could pose downside risks for growth.

From an industry perspective, Ireland remains dependent on the FDI sector for the bulk of export activity and a considerable share of employment. However, the continued success of the FDI sector is vulnerable over the medium term to any loss of recent competitiveness gains, shifts in demand for products, or indeed changes in the tax regime at global level.

Domestically, household debt remains elevated. Although it remains on a steady downward trend as a ratio of household income, any unanticipated rise in interest rates has the potential to dampen private consumption growth in the near term. On the upside, any faster-than-anticipated pick-up in investment from its current low level could boost domestic demand.

Although the public debt-to-GDP ratio peaked in 2013 and is expected to be 110% by end 2014, it remains very high by historical standards.

### **Sensitivity analysis**

Table 17 (below) 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). Whilst the baseline estimates underpinning Budget 2015 have changed relative to the April Stability Programme Update, the marginal impact of these shocks remains broadly comparable.

A permanent one per cent increase in global output levels would raise Irish GDP by 1 per cent relative to baseline, primarily exerted through the trade channel, with this benefit resulting in a downward 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 a deterioration 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 2018. Such an effect would significantly hamper debt reduction efforts. This effect would leave the deficit some 1 percentage point higher in 2018 relative to baseline assumptions.

**Table 17: Impact on main aggregates**

		2015	2016	2017	2018
<b>1 per cent increase in World Output</b>					
GDP	% change compared with base	0.8	0.9	1.0	1.1
Total Revenue	% change compared with base	0.2	0.4	0.7	0.9
Total Expenditure	% change compared with base	-0.1	-0.1	0.0	0.0
Deficit-GDP Ratio	pp change compared with base	-0.1	-0.2	-0.2	-0.3
Debt-GDP Ratio	pp change compared with base	-0.9	-1.3	-1.6	-1.9
Primary Balance – GDP Ratio	pp change compared with base	-0.1	-0.1	-0.2	-0.2
<b>1 percentage point increase in Savings Rate</b>					
GDP	% change compared with base	-0.3	-0.3	-0.3	-0.3
Total Revenue	% change compared with base	-0.3	-0.4	-0.4	-0.4
Total Expenditure	% change compared with base	0.0	0.0	0.0	0.0
Deficit-GDP Ratio	pp change compared with base	0.1	0.1	0.1	0.1
Debt-GDP Ratio	pp change compared with base	0.4	0.5	0.6	0.7
Primary Balance – GDP Ratio	pp change compared with base	0.1	0.1	0.1	0.1
<b>1 percentage point increase in Interest Rate</b>					
GDP	% change compared with base	-0.3	-1.4	-2.1	-2.4
Total Revenue	% change compared with base	-0.7	-1.7	-2.1	-2.3
Total Expenditure	% change compared with base	0.2	0.5	0.6	0.7
Deficit-GDP Ratio	pp change compared with base	0.4	0.8	0.9	1.0
Debt-GDP Ratio	pp change compared with base	1.7	3.5	5.3	6.7
Primary Balance – GDP Ratio	pp change compared with base	0.3	0.6	0.6	0.6

Source: Economic and Social Research Institute.

**Table 18: Range of Forecasts**  
**Comparison of 2014 forecasts**

<b>2014</b>		<b>Annual % change</b>			
		<b>GDP</b>	<b>GNP</b>	<b>HICP</b>	<b>Employment</b>
Department of Finance	Oct 2014	4.7	4.1	0.5	1.8
Central Bank of Ireland	Oct 2014	4.5	4.9	0.6	1.6
IMF	Oct 2014	3.5	n/a	0.6	n/a
ESRI	Oct 2014	5.0	4.9	0.3	1.8
European Commission	May 2014	1.7	n/a	0.6	2.4
OECD	Sept 2014	1.9	n/a	0.3	n/a

Source: Institutions cited.

**Comparison of 2015 forecasts**

<b>2015</b>		<b>Annual % change</b>			
		<b>GDP</b>	<b>GNP</b>	<b>HICP</b>	<b>Employment</b>
Department of Finance	Oct 2014	3.9	3.6	1.1	2.4
Central Bank of Ireland	Oct 2014	3.4	3.1	1.2	1.7
IMF	Oct 2014	3.0	n/a	0.9	n/a
ESRI	Oct 2014	5.3	5.2	1.0	2.7
European Commission	May 2014	3.0	n/a	1.1	2.3
OECD	Sept 2014	2.2	n/a	0.7	n/a

Source: Institutions cited.

## National Risk Assessment

A draft National Risk Assessment (NRA) was published in April<sup>8</sup>. The purpose of the assessment is to identify the risks (both financial and non-financial) which might have an adverse impact on Ireland's well-being.

The draft National Risk Assessment references economic risks including debt sustainability (which includes private debt overhang, deflation, and the risks of the fiscal rules), weaker than expected economic growth, the risk of a resurgence of the euro area debt crisis, banking issues, dependence on multi-national corporations, competitiveness, and human capital. Throughout the Budget and Expenditure Report, further detail and forecasts with regard to most of these topics is expanded upon.

A summary of the main risks facing the Irish economy which were highlighted in the draft assessment is presented in Table 18 below.

**Table 19: Extract from Draft NRA**

Risk	Source of Risk
Economic growth risks	<ul style="list-style-type: none"><li>• <i>Debt Sustainability</i></li><li>• <i>Weaker-than-expected economic growth</i></li><li>• <i>Re-emergence of the eurozone sovereign debt crisis</i></li><li>• <i>Vulnerabilities in the banking system</i></li><li>• <i>Importance of MNCs to Irish economy</i></li><li>• <i>Loss of Competitiveness</i></li><li>• <i>Human Capital</i></li></ul>

Source: Draft National Risk Assessment April 2014

## Specific Contingent Liabilities and other items where the State has potential exposure

As part of the IMF's Fiscal Transparency Assessment<sup>9</sup>, it was highlighted that while reporting on Ireland's quantified contingent liabilities and other specific fiscal risks is comprehensive, it is scattered across a number of documents published by different agencies. To assist with access to these various sources of specific information that is already available, information and links are set out below.

<sup>8</sup> [http://www.taoiseach.gov.ie/eng/Publications/Draft\\_National\\_Risk\\_Assessment\\_2014.pdf](http://www.taoiseach.gov.ie/eng/Publications/Draft_National_Risk_Assessment_2014.pdf)

<sup>9</sup> <https://www.imf.org/external/pubs/ft/scr/2013/cr13209.pdf>



## Contingent Liabilities

A table showing contingent liabilities is contained in the annex and repeated here.

% of GDP	2013	2014
Public guarantees	66.9	32.1
<i>of which linked to the financial sector</i>		
Eligible Liabilities Guarantee	42.1	11.5
Exceptional Liquidity Assistance	9.3	-
National Asset Management Agency	14.7	19.8
other	0.8	0.8

Source: Department of Finance, CSO.

Other guarantees referred to above relate to IBRC, CIE, Insurance Acts, Housing Finance Agency, and the Credit Guarantee Scheme.

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

### - Public Private Partnerships

A Public Private Partnership (PPP) is an arrangement between the public and private sectors (consistent with a broad range of possible partnership structures) with clear agreement on shared objectives for the delivery of public infrastructure and/or public services by the private sector that would otherwise have been provided through traditional public sector procurement.

The CSO publish details of Public Private Partnerships as part of the Government Finance Statistics publication<sup>10</sup>. This includes details of roads and PPPs which are part of the local authority sub-sector of government. The calculation of the contractual capital value of all Irish PPPs as at 31<sup>st</sup> March 2014 is €498.6 million on the government balance sheet, and €5,244.9 million off-balance sheet. In total, this is €5.74 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.

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

<sup>10</sup> PPP information is available as part of the Government Finance Statistics publication. , The PPP spreadsheet can be reached directly through the second link - <http://www.cso.ie/en/releasesandpublications/nationalaccounts/governmentfinancestatistics/> <http://www.cso.ie/en/media/csoie/releasespublications/documents/economy/2014/PPP2014.xlsx>

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**

As a member of various international organisations, Ireland has entered into commitments to provide capital. The 2013 Finance Accounts, Statement 1.8(b) provide details of investments in international bodies under international agreements, and the changes within the previous fiscal year.<sup>11</sup>

There is a distinction between paid-in capital (this is funding which has already been made to the organisation) and callable capital (which is funding which may be called upon by the organisation concerned when needed). 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.<sup>12</sup>

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<sup>11</sup> Finance Accounts published 26<sup>th</sup> September 2014

<http://www.finance.gov.ie/sites/default/files/Finance%20Accounts%202013.pdf>

<sup>12</sup> 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>

## Budgetary Framework and Reform

### Developments on the expenditure side

As part of the *Medium Term Expenditure Framework*, *Three-year Ministerial Expenditure Ceilings* are set. These are legally binding.<sup>13</sup> While constraining expenditure, they give Departments greater clarity to plan over the medium term.

*Spending Reviews* are intended to be conducted every three years to prioritise multi-year expenditure ceilings. The 2014 Comprehensive Review of Expenditure is the second spending review; the first was in 2011.

The *Public Spending Code* sets out the rules and guidance for expenditure appraisal and Value for Money standards across the public services. It covers both current and capital expenditure.

*Performance Budgeting* focuses on the quality and efficiency of services and the outcomes for Irish society. Indicators are published in the Book of Estimates, and on the IrelandStat website.

The *Irish Government Economic and Evaluation Service* (est. 2012) is an integrated service with 80 professionals across 14 Government Departments. The IGEES plays a lead role in evaluating the effectiveness and efficiency of Government programmes and policies underpinning evidence-based policymaking.

*Whole of Year Budgeting* allows for year-round engagement by the Oireachtas with the Estimates discussion. Previously, the Oireachtas considered expenditure allocations after they had been settled by Government and presented in the Book of Estimates.

### Developments on the revenue side

In the Medium-Term Economic Strategy (MTES), published in December 2013, the Government committed to ensure that Ireland maintains a competitive and fair taxation policy. More specifically, as regards tax expenditures, it indicated that these could be used in limited circumstances of demonstrable market failure and where a tax-based approach was more efficient than a direct expenditure intervention. It also provided that tax expenditures should be time bound and subject to both ex ante evaluation and regular review. As part of this commitment, the Department of Finance is publishing with the Budget documentation a report on tax expenditures including guidelines for tax expenditure evaluation. These guidelines aim to promote a consistent, high quality standard in tax expenditure evaluation. In line with this overall approach, comprehensive reviews of the Employment and Investment Incentive (EII) and Seed Capital Scheme (SCS), the Special Assignee Relief Programme (SARP) and the Foreign Earnings Deduction

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<sup>13</sup> The Department of Public Expenditure & Reform has published a detailed Circular setting out how this system works: <http://circulars.gov.ie/pdf/circular/per/2013/15.pdf>

(FED), which included public consultation exercises, were carried out in advance of Budget 2015. The results of these reviews have formed part of the Minister's deliberations for Budget Day.

In addition, an Agri-tax review was launched by the Minister for Finance, in conjunction with Minister Coveney, in Budget 2014.

The review covered three distinct areas:

- Public consultation
- Independent cost benefit analysis
- International comparison with other jurisdictions

A final report from the inter-Departmental working group overseeing the review will be launched as a Budget 2015 publication.

Finally, as part of the Department's commitment to evidence based policy making, the results of an *Economic Impact Assessment of Ireland's Corporation Tax Policy* is being published on Budget day. This extensive research which was conducted by the Department shows how important FDI is for the Irish economy. It also highlights how important it is that Ireland has a competitive corporation tax offering while at the same time plays by the rules that govern international trade. This underpins Ireland's strategy to "play fair and play to win" on corporation tax.

### **European developments**

A number of changes have taken place in the Irish fiscal system which contribute to greater transparency, stability and openness. Ireland requested that the IMF complete a Fiscal Transparency Assessment, in order to identify where Ireland fell below best practice, and are implementing the relevant changes as appropriate. Among other changes over the last few years, an independent fiscal council was introduced and placed on a statutory basis, new fiscal rules were legislated for following a referendum, and all the elements of the new European fiscal system have been introduced into the Irish system. This means that in addition to the existing Stability and Growth Pact rules, such as the requirement not to run an excessive deficit over 3% and to keep below the level of 60% debt to GDP, Ireland also has three new rules.

At present, Ireland is subject to an Excessive Deficit Procedure under the Stability and Growth Pact. Ireland is on track to correct its excessive deficit by 2015. Thereafter, the public finances in Ireland will no longer be subject to the corrective arm of the Stability and Growth Pact but subject to the requirements of the preventive arm and the 'fiscal compact'.

The rules under the preventative arm specify the need to make progress towards the medium term budgetary objective (MTO) of a balanced budget after taking into account the impact of the economic cycle (i.e. in structural terms). In particular, the preventive arm sets out the requirement for an annual correction in the level of the structural balance (an improvement of 0.5 per cent per annum as a benchmark),

without specifying when this position should be achieved. Even though Ireland is not subject to the balanced budget rule yet, Table 12 lays out Ireland's structural adjustment path into the future.

In addition, there is a debt rule which requires that debt in excess of the 60% debt to GDP ratio must be reduced by at least  $1/20^{\text{th}}$  per year based on changes over the last three years. There is a transition period for Member States, including Ireland, that were subject to an excessive deficit procedure on 8 November 2011. This means that the  $1/20^{\text{th}}$  rule will fully apply in 2019. Over the three year period before this, Ireland is required to make sufficient progress towards compliance. This will be assessed by the Commission and the Council of Economic and Finance Ministers (ECOFIN). Table 13 shows Ireland's debt-to-GDP path, which is on a downward trajectory.

Complementary to the MTO is the 'expenditure benchmark,' which helps ensure control of the growth in general government expenditure. It provides that general government (GG) expenditure (including the local government sector) does not grow faster than the potential growth rate of the economy when a Member State is at its MTO, and when it is not, that GG expenditure growth is constrained to assist the Member State to get to their MTO. This is done by calculating the benchmark incorporating a "convergence margin" which is calculated to ensure that the required annual adjustment of at least 0.5% of GDP towards the MTO in structural terms is achieved.

The introduction of the expenditure benchmark means that there is effectively a fixed amount of funding to be allocated between the various requirements of the State. The growth of this "fixed pot" is subject to a strict formula, and additional expenditure requirements must be funded by discretionary revenue increases (primarily tax increases) or expenditure cuts elsewhere. In order to translate this calculation into the Irish system, binding expenditure ceilings were introduced through legislation.

Other changes to improve transparency include a monthly alternative presentation of the Exchequer Returns, monthly published tables showing revenues and expenditures of all sub-sectors of general government, and an annual version of the alternative presentation to complement the monthly presentation, at Table 13 in the Fiscal Outlook section.

Finally, this year there are two new sets of tables published at budget time. One set includes tables as required under Article 10(3) of Regulation (EU) 473/2013. These tables show the measures taken to achieve the excessive deficit target in a more standardised format than those included in the Budget. They replicate a number of the tables in the Budget, and present the material in a slightly different way. These tables were first prepared in April, in conjunction with Ireland's update of the Stability Programme.

The second set of tables are those included in the Draft Budgetary Plan, which Ireland is completing for the first time in 2014. To allow for easier comparisons across the euro area, all member states not in a macroeconomic adjustment programme publish their draft budgetary plan, a harmonised set of tables, on or before 15<sup>th</sup> October. These tables contain economic and fiscal data, and also show some additional material, such as how the measures in the draft budgetary plan will assist in meeting Ireland's Country Specific Recommendations or Europe 2020 targets.

This requirement was introduced in 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, the same Regulation which led to the changed budget timeline last year. As Ireland was subject to an EU-IMF Programme of Financial Support until the end of 2013, it was explicitly exempt from this requirement. As Ireland has left this programme, it is now required to present the draft budgetary plan.

#### **Local government main parameters**

The material in Table 20 represents a current best estimate of local government 2015 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 20: Preliminary estimate of local government capital and current income and expenditure for the forthcoming financial year**

	€m
Overall balance (1 - 2)	<b>-24.3</b>
<b>1. Total Revenues / inflows</b>	<b>5,176.0</b>
Rates / NPPR (net of bad debt provision for rates)	1,351.8
Property income	455.4
Other receipts	1,515.8
Inflows from central government <sup>1</sup>	535.7
Inflows from operations in financial instruments <sup>2</sup>	1,317.3
<b>2. Total expenditure / outflows</b>	<b>5,200.4</b>
Compensation of employees <sup>3</sup>	1,713.5
Interest paid to non government <sup>4</sup>	12.4
Social benefits (transfer payments to households)	288.6
Capital transfers (capital grants paid)	108.7
Other expenditure (net of bad debt provision for rates)	892.9
Outflows to central government <sup>5</sup>	98.7
Outflows from operations in financial instruments <sup>6</sup>	2,085.6

*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*

### **Box 2: Implementing New International Standards for National Accounts**

From September 2014, the new framework for national accounts statistics 'ESA 2010' (European System of Accounts) has entered into force. It replaces the old framework of ESA 1995. The new framework essentially modernises the previous standards contained in ESA 1995. Such changes are needed periodically in order to adapt the national accounts to the changing dynamics of economic activity, such as the advent of the knowledge economy. Updates are also needed in order to comply with international standards and preserve statistical comparability beyond the EU.

The changes in ESA 2010 are important but not radical. The biggest change is that research and development spending is now being recorded as final expenditure on investment rather than as intermediate consumption. This increased the level of recorded GDP and has had a small positive impact on the historic annual growth rates. The new methodology also provides for more comparable information on pension liabilities, which is clearly important in light of ageing societies. It also provides more precise principles for classifying units into or outside of the government sector.

These revisions have a considerable impact on fiscal variables which are expressed as a ratio of GDP. Upward movement in GDP (the denominator) will make the ratio smaller even if the numerator remains unchanged. Gross debt as a percentage of GDP has improved by approximately 5 percentage points and general government deficit by approximately 0.4 percentage points due to ESA 2010 changes to the level of GDP.

Other changes that affect debt and deficit include;

#### **Reclassification of Irish Bank Resolution Corporation (IBRC)**

Under ESA 95 standard entities that were classified as Monetary Financial Institutions were by definition excluded from the general government sector. This automatic exclusion no longer applies under ESA 2010 and as a result IBRC is reclassified in the general government sector. The reclassification applies from the date of the merger of Anglo Irish Bank and Irish Nationwide Building Society on 1 July 2011.

#### **Impact of reclassification of IBRC on debt and deficit (% of GDP)**

	2011	2012	2013	2014
<b>general government deficit</b>	-0.2	-0.4	0.7	0
<b>gross debt</b>	12.2	10.3	7.2	0.8

*Source: Department of Finance*

#### **Swaps**

Under ESA 95 the government deficit data related to the EDP (EDP B.9) differed from the deficit according to ESA 95 (B.9) by the inclusion in the interest calculation of flows relating to swaps and forward rate agreements. This difference is now eliminated under ESA 2010 with the EDP concept of interest being aligned with the ESA concept – i.e. no adjustment for swaps.

#### **Impact of adjustment for swaps on deficit (% of GDP)**

	2011	2012	2013	2014
<b>general government deficit</b>	-0.08	-0.13	-0.16	-0.15

*Source: Department of Finance*

#### **Pension Funds**

There has been a change to the treatment of pension liabilities of the pension fund of a corporation which had a negative impact on general government deficit in 2009 and 2010, at which time government assumed responsibility for the pension schemes of the universities and of a number of semi-state bodies details of which can be seen in Government Finance Statistics Q1 2014 published by the CSO 29 July 2014. In later years the imputed revenue results in a small deficit improvement (approximately 0.5% of GDP in 2014).



**Other Changes**

Under ESA 2010 there are a number of changes that have no impact on the general government debt or deficit but have an effect on the details of general government receipts and expenditure. There is a change from net recording to gross recording of tax credits for mortgage relief and health insurance premiums and EU VAT payments. Also Institutes of Technology have been re-classified from the local government sub-sector to central government.

## **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, and was made public in August 2013. A revised MoU, which provided for endorsement of the SPU forecasts, was agreed and published in February 2014.

In relation to the economic forecasts underpinning Budget 2015, the endorsement process began in late September with the submission of provisional forecasts by Departmental staff, and subsequent discussions with the IFAC secretariat and council respectively. A letter of endorsement (below) was received from the Chair of the IFAC on Monday 6 October 2014. Department of Finance staff subsequently presented the endorsed macroeconomic forecasts to the Joint Oireachtas Committee on Finance, Public Expenditure and Reform on 7 October 2014.

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

## Letter of endorsement



**Comhairle Chomhairleach Bhuiséadach na hÉireann**  
**Irish Fiscal Advisory Council**

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Cearnóg Whitaker  
Cé Sir John Rogerson  
Baile Átha Cliath 2

Whitaker Square  
Sir John Rogerson's Quay  
Dublin 2

06 October 2014

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 2015* will be based.<sup>14</sup>

The *Budget 2015* forecasts were provided to the Council on 24 September 2014 and discussed by the Council with Department of Finance staff on 02 October 2014, ahead of the Council's endorsement meeting.

**The Irish Fiscal Advisory Council endorses as within the range of appropriate projections the set of macroeconomic forecasts prepared by the Department of Finance for *Budget 2015* for the years 2014 and 2015.**

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).<sup>15</sup>

The Council notes recent changes in the size of Ireland's measured net exports in the National Accounts related to contract manufacturing. These contributed to the exceptionally strong GDP performance in the first half of 2014. In addition to the usual uncertainties, identifying the underlying pattern of growth in the economy is more difficult given these developments.

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

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Comhairle/Council: John McHale (Chair) · Sebastian Barnes · Alan Barrett · Donal Donovan · Róisín O'Sullivan.

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<sup>14</sup> 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".

<sup>15</sup> The Memorandum of Understanding between the Department of Finance and the Council as amended in 2014 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. The fiscal assumptions underpinning the endorsed forecast were technical in nature as the final quantum and precise measures in Budget 2015 had not been finalised. The technical assumption of no policy change was made: in other words no discretionary revenue or expenditure measures were assumed. The final forecast includes the economic impact of the measures introduced as part of Budget 2015 of €1,050m.

The first two columns of Table B2-B5 show the final forecasts, the third column shows the endorsed projections while the final column shows the difference. There are no differences for 2014 as the economic impact of Budget measures will be felt from 2015 only. Forecasts covering the period 2016-2018 are not subject to endorsement by IFAC and are not shown here.

**Table B1: Background assumptions**

	<b>2014</b>	<b>2015</b>
Euro-Sterling Exchange Rate	0.81	0.79
Euro-Dollar Exchange Rate	1.34	1.29
Brent Crude (US \$ per barrel)	106	103

*Source: Department of Finance forecasts. Note: no difference in background assumptions used between endorsed and final*

**Table B2: Macroeconomic developments**

	<b>2014 final</b>	<b>2015 final</b>	<b>2015 endorsed</b>	<b>Difference (pp)</b>
	<i>year-on-year % rate of change (unless otherwise stated)</i>			
Real GDP	4.7	3.9	3.6	0.3
Nominal GDP	5.2	5.3	5.0	0.3
<i>Components of real GDP</i>				
Private final consumption expenditure	1.7	2.7	2.2	0.5
Government final consumption expenditure	4.8	2.3	1.0	1.3
Gross fixed capital formation	14.6	12.7	12.5	0.2
Changes in inventories and net acquisition of valuables (% of GDP)	0.4	0.2	0.2	-
Exports of goods and services	8.3	4.8	4.8	-
Imports of goods and services	8.8	5.3	5.1	0.2

Source: Department of Finance forecasts.

Note: contributions to growth may not sum due to rounding and/or the impact of the statistical discrepancy.

**Table B3: Price developments**

	<b>2014 final</b>	<b>2015 final</b>	<b>2015 endorsed</b>	<b>Difference (pp)</b>
	<i>year-on-year % rate of change</i>			
GDP deflator	0.4	1.3	1.3	-
Private consumption deflator	1.0	1.2	1.1	0.1
HICP	0.5	1.1	1.0	0.1
Export price deflator (goods and services)	0.3	1.3	1.3	-
Import price deflator (goods and services)	0.4	1.3	1.2	0.1

Source: Department of Finance forecasts

**Table B4: Labour market developments**

	<b>2014 final</b>	<b>2015 final</b>	<b>2015 endorsed</b>	<b>Difference (pp)</b>
	<i>year-on-year % rate of change</i>			
Employment, persons	1.8	2.4	2.2	0.2
Unemployment rate (%)	11.4	10.2	10.2	-
Labour productivity, persons	2.8	1.4	1.4	-
Compensation of employees	3.7	4.9	4.7	0.2
Compensation per employee	1.8	2.4	2.4	-

Source: Department of Finance forecasts

**Table B5: Sectoral balances**

	<b>2014</b> <i>final</i>	<b>2015</b> <i>final</i>	<b>2015</b> <i>endorsed</i>	<b>Difference</b> <b>(pp)</b>
	% GDP			
Current account (% of GDP)	4.9	4.4	4.6	-0.2

Source: Department of Finance forecasts

## ADDITIONAL FISCAL STATISTICS AND TABLES

The introduction of ESA 2010 necessitated substantial changes to the models used to generate the tables A2.1 and A2.2 and as a result there were minor discrepancies in the allocation of expenditure in the tables originally published in this document. These tables were revised in the Corrigendum to Budget 2015 (<http://www.finance.gov.ie/what-we-do/public-finances/publications/presentations-reports/corrigendum-budget-2015>) and published on 4th November 2014. This document has subsequently been updated in line with the corrigendum.

**Table A1: Explanation of net differences between Exchequer Borrowing Requirement and General Government Balance**

€ millions	2013	2014	2015	2016	2017	2018
	outturn		projected			
(a) Exchequer balance	-11,495	-7,935	-6,485	-3,150	-3,910	520
(b) Exclude equity and loan transactions	-380	110	-150	-1675	155	155
(c) Adjust for interest accrual	300	215	380	330	-65	-10
(d) Adjust for tax accruals	40	205	435	175	1230	-745
(e) Adjust for other accruals	650	80	105	-10	65	40
(f) Impact of NPRF	590	360	365	365	360	390
(g) Transactions between government bodies	-80	-65	-110	-100	55	60
(h) Net lending/borrowing of non-commercial State sponsored bodies	230	155	205	185	175	155
(i) Net Surplus of the Social Insurance Fund	-4	0	0	0	0	0
(j) Net (Borrowing)/Surplus of Local Government	44	0	0	0	0	0
(k) General government balance (=a to k)	-9,965	-6,890	-5,315	-3,880	-1,930	565
(l) Financial sector measures affecting the balance	20	15	120	120	0	0
(m) Underlying balance	-9,945	-6,875	-5,195	-3,760	-1,930	565
(n) Underlying balance as % of GDP	-5.7%	-3.7%	-2.7%	-1.8%	-0.9%	0.3%
(o) Nominal GDP	174,791	183,800	193,475	203,400	213,925	224,950

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 NPRF 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.*

*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 NPRF. 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.*

*l. This reflects potential deficit worsening expenditure of payments into the financial sector. For the purposes of assessing adherence to EDP general government balance targets, this expenditure is therefore excluded.*



**Table A.2.1: General Government Balance (GGB) Estimates 2013-2018 (revised table)**

	ESA	2013 €m	2013 outturn	2014	2015 per cent of GDP projected	2016	2017	2018
<b>Net lending (EDP B.9) by sub-sector</b>								
1. General government (=6-7)	S.13	-9,965	-5.7	-3.7	-2.7	-1.9	-0.9	0.3
p.m.: Underlying balance		-9,945	-5.7	-3.7	-2.7	-1.9	-0.9	0.3
2. Central government	S.1311	-10,011	-5.7	-3.7	-2.7	-1.9	-0.9	0.3
4. Local government	S.1313	44	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	0	0.0	0.0	0.0	0.0	0.0	0.0
<b>General government (S.13)</b>								
6. Total Revenue	TR	60,837	34.8	34.8	33.9	33.3	32.7	32.3
7. Total Expenditure	TE	70,804	40.5	38.6	36.7	35.2	33.6	32.1
8. Net lending/borrowing (=6-7)	B.9	-9,967	-5.7	-3.7	-2.7	-1.9	-0.9	0.3
9. Interest expenditure	D.41	7,657	4.4	4.1	3.8	3.8	3.8	3.8
10. Primary balance ( = 1 + 9)		-2,310	-1.3	0.3	1.1	1.9	2.9	4.0
11. One-off and other temporary measures		34	0.0	0.7	0.1	0.1	0.0	0.0
<b>Selected components of revenue</b>								
12. Total taxes								
(12=12a+12b+12c)		42,489	24.3	25.0	24.5	24.2	24.0	24.0
12a Taxes on production and imports	D.2	19,019	10.9	11.0	11.1	10.8	10.7	10.4
12b Taxes on income & wealth	D.5	23,192	13.3	13.7	13.1	13.1	13.2	13.4
12c Capital taxes	D.91	278	0.2	0.3	0.3	0.3	0.2	0.2
13. Social contributions	D.61	10,301	5.9	5.8	5.6	5.6	5.3	5.1
14. Property Income	D.4	3,142	1.8	1.6	1.3	1.1	0.9	0.9
15. Other		4,905	2.8	2.5	2.5	2.4	2.4	2.3
16. (=6) Total revenue	TR	60,837	34.8	34.8	33.9	33.3	32.7	32.3
(=12+13+14+15)								
p.m.: Tax burden		53,227	30.5	31.0	30.4	30.0	29.6	29.3
<b>Selected components of expenditure</b>								
17a Compensation of employees	D.1	18,652	10.7	10.2	9.7	9.2	8.8	8.4
17b Intermediate consumption	P.2	8,272	4.7	5.0	4.5	4.4	4.2	4.0
18. Social payments (= 18a+18b)		28,603	16.4	15.3	14.4	13.6	12.9	12.2
18a. Social transfers in kind supplied via market producers	D.63	4,594	2.6	2.5	2.3	2.2	2.1	2.0
18b. Social transfers other than in kind	D.62	24,008	13.7	12.8	12.1	11.4	10.8	10.2
19=9 Interest expenditure	D.41	7,657	4.4	4.1	3.8	3.8	3.8	3.8
20. Subsidies	D.3	1,508	0.9	0.8	0.9	0.9	0.9	0.8
21. Gross fixed capital formation	P.51	3,117	1.8	1.5	1.4	1.4	1.3	1.3
22. Capital transfers	D.9	1,000	0.6	0.4	0.5	0.5	0.4	0.4
23. Other		1,994	1.1	1.2	1.4	1.3	1.3	1.2
24=7 Total expenditure	TE	70,804	40.5	38.6	36.7	35.2	33.6	32.1
(=17+18+19+20+21+22)								
p.m. : Government consumption (nominal)	P.3	29,464	17.5	17.1	15.9	15.2	14.3	13.7
GDP at current market prices	B.1*g	€m	174,791	183,800	193,475	203,400	213,925	224,950

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

Notes:

- Rounding may affect totals.
- Table A2.1 sets out the general government deficit for the years 2013-2018 in terms of selected components of general government receipts and expenditures. Note that these are the first set of fiscal forecasts presented under ESA 2010
- 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.
- Item 12a: Taxes on production and imports, D.2, 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 on rented and owner-occupied dwellings.
- Item 12b: Current taxes on income and wealth, D.5, comprise income tax; capital gains tax; corporation tax; the household part of motor tax and of television licences; pension funds and bank levies; and the LPT on holiday homes and vacant dwellings.
- Item 12c: The main component of capital taxes D.91, is capital acquisitions tax.
- Item 13: Social contributions, D.6, 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, D.1, 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, P.2, is current spending on goods and services by government units.
- Item 18: Social transfer payments, D.6, 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, fuel allowances and the child-based free allowance related to water charges.
- Item 20: Subsidies, D.3, include payments to commercial State sponsored bodies such as CIÉ and the flat free allowance associated with water charges.
- Item 22: Gross fixed capital formation, P.51, 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.*

*The underlying balance: the net lending of general government adjusted for the effect of certain expenditures into the financial sector.*

*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 A.2.2: General Government Receipts and Expenditures (nominal) (revised table)**

Description	ESA code	2013	2014	2015	2016	2017	2018
€ millions							
<i>Revenue</i>							
Taxes on production and imports	D.2	19,020	20,240	21,435	21,985	22,790	23,435
Current taxes on income, wealth	D.5	23,190	25,140	25,385	26,725	28,225	30,115
Capital taxes	D.91	280	480	550	530	400	420
Social contributions	D.61	10,300	10,590	10,855	11,295	11,330	11,465
Property Income	D.4	3,140	2,950	2,510	2,235	2,010	2,100
Other		4,905	4,605	4,930	4,890	5,095	5,180
Total revenue	TR	60,835	64,010	65,655	67,665	69,850	72,715
<i>Expenditure</i>							
Compensation of employees	D.1	18,650	18,665	18,810	18,805	18,800	18,800
Intermediate consumption	P.2	8,270	9,200	8,770	8,960	8,975	9,075
Social payments	D.6	28,605	28,125	27,935	27,725	27,560	27,440
Interest expenditure	EDP_D.41	7,655	7,475	7,380	7,655	8,085	8,450
Subsidies	D.3	1,510	1,555	1,665	1,895	1,910	1,880
Gross fixed capital formation	P.51	3,115	2,845	2,760	2,820	2,845	2,825
Capital transfers	D.9	1,000	825	940	960	905	910
Other		1,995	2,205	2,710	2,730	2,700	2,765
Total Expenditure	TE	70,805	70,895	70,970	71,545	71,780	72,150
General government balance	B.9=TR-TE	-9,965	-6,890	-5,315	-3,880	-1,930	565
Financial Sector measures affecting the balance		20	15	120	120	0	0
Underlying balance		-9,945	-6,875	-5,195	-3,760	-1,930	565
GDP at current market prices		174,791	183,800	193,475	203,400	213,925	224,950
Underlying GGB as % of GDP		-5.7%	-3.7%	-2.7%	-1.8%	-0.9%	0.3%

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

Notes:

- Rounding may affect totals.
- Table A2.2 is a reproduction of Table A2.1 showing the main aggregates of government revenue and expenditure at nominal values.
- Financial sector measures affecting the balance: This reflects potential deficit worsening expenditure into the financial sector and the credit union sector which may be excluded for the purposes of assessing adherence to EDP targets.
- The underlying balance: the net lending of general government adjusted for the effect of financial measures.

**Table A2.2.3: Comparison of vintages of Receipts and Expenditures**

Document		SPU 2014	Budget 2015	total Δ	ESA 2010	classification Δ	new data	other Δ	notes
Reference period		2014	2014						
<i>Revenue</i>									
Taxes on production and imports	D.2	19,555	20,240	685	220	-138	765	-162	1, 2
Current taxes on income, wealth	D.5	23,335	25,140	1,805	594	878	280	54	1, 2, 3
Capital taxes	D.91	1,050	480	-570		-665	-50	145	3
Social contributions	D.61	10,140	10,460	320				320	
Property Income	D.4	2,525	2,950	425	234	-10	208	-6	4
Other		4,300	4,565	265				265	
Total revenue	TR	60,905	63,840	2,935	1,047	65	1,203	615	
<i>Expenditure</i>									
Compensation of employees	D.1	18,275	18,685	410				410	
Intermediate consumption	P.2	8,190	8,835	645	147	202		296	4, 5
Social payments	D.6	27,940	28,275	335	294			41	
Interest expenditure	D.41	7,965	7,475	-490			-490	0	
Subsidies	D.3	1,360	1,565	205	400			-195	1
Gross fixed capital formation	P.51	2,720	2,860	140				140	
Capital transfers	D.9	975	830	-145	-89			-56	4
Other		1,570	2,210	640	220			420	1
Total expenditure	TE	68,990	70,725	1,735	972	202	-490	1,051	
General government balance	B.9	-8,090	-6,890	1,200	75	-137	1,693	-436	
Underlying balance		-8,040	-6,875	1,165					

Source: Department of Finance estimates

**Notes**

-Table A2.3 compares the forecast of receipts and expenditures for 2014 as set out in the Stability Programme Update publication of April 2014 with the current forecast (October 2014).

The new layout of this table presents the changes in vintages of 2014 data since the Stability Programme Update, April 2014.

The differences (Δ) are set out under the following categories. ESA 2010 changes (changes that are as a result of the new framework for national accounts statistics); changes that result from a reclassification of expenditure or receipt codes are in the classification category; changes that result from updating data through surveys, or because of the availability of new data (in particular revised 2014 expenditures and the latest CSO data for 2013) are in the new data category; balancing adjustments, corrections and eliminations of residuals fall into the other category.

-Some particular identifiable changes are detailed in the notes.

1. These tables are the first tables to be presented under the ESA 2010. Note 1 refers to ESA 2010 changes with an impact on the components of receipts and expenditure but with no impact on the deficit. These include a change from net recording to gross recording of tax credits for mortgage relief and health insurance premiums and EU VAT payments.

2. The CSO conducted a review of the method used to allocate motor tax receipts between household and business users and have determined that the amount allocated to businesses (under D.2) needed to be reduced with a corresponding increase to households (under D.5).

3. The Pension Levy was classified as a capital tax (under D.91) as it was originally introduced as a temporary measure for 4 years. However as the levy was not terminated in 2014 it has been reclassified as a recurrent tax on wealth (under D.5) from its inception.

4. Under ESA 2010 IBRC has been reclassified under general government.

*5. Institutes of Technology have been re-classified from the local government sub-sector to central government.*

**Table A.3: Projected General Government Interest Expenditure 2014-2018**

€ million	2014	2015	2016	2017	2018
National Debt Cash Interest	7,504	7,697	7,878	7,929	8,321
% tax revenue	18%	18%	18%	17%	17%
% of GDP	4.1%	4.0%	3.9%	3.7%	3.7%
National Debt Interest Accruals	68	-143	-175	166	88
Consolidation and Grossing Adjustments	37	-4	38	23	57
Accrued Promissory Note Interest	11	11	10	10	10
Other	-147	-181	-95	-40	-25
<b>Total Interest on ESA2010 basis</b>	<b>7,474</b>	<b>7,380</b>	<b>7,656</b>	<b>8,087</b>	<b>8,451</b>
% total General Government revenue	12%	11%	11%	12%	12%
% of GDP	4.1%	3.8%	3.8%	3.8%	3.8%

Sources: Department of Finance & NTMA

Notes:

- Rounding may affect totals

**Table A.4: Projected movement in general government debt 2014-2018**

€ billion	2014	2015	2016	2017	2018
Opening General Government Debt	215.6	203.2	209.9	211.6	215.0
EBR	7.9	6.5	3.2	3.9	-0.5
Change in Exchequer Deposits	-7.5	-0.3	-0.7	-0.4	0.3
Net Lending of Local Government & NCSSBs	0.1	-0.3	-0.2	-0.2	-0.2
Change in collateral held	0.2	-0.3	-0.2	-0.2	-0.0
Other	-13.1	1.2	-0.3	0.3	0.1
Closing General Government Debt	203.2	209.9	211.6	215.0	214.7
<b>General Government Debt-to-GDP Ratio</b>	<b>110.5%</b>	<b>108.5%</b>	<b>104.0%</b>	<b>100.5%</b>	<b>95.4%</b>

Sources: Department of Finance & NTMA

Notes:

- Rounding may affect totals

**Table A.5: Contingent liabilities**

% of GDP	2013	2014
Public guarantees	66.9	32.1
<i>of which linked to the financial sector</i>		
Eligible Liabilities Guarantee	42.1	11.5
Exceptional Liquidity Assistance	9.3	-
National Asset Management Agency	14.7	19.8
other	0.8	0.8

Source: Department of Finance.

**Table A.6: Breakdown of revenue**

	2014	2014	2015	2016	2017	2018
	€ billion			% of GDP		
Total revenue at unchanged policies	63.8	34.7	33.8	33.2	32.7	32.5
Discretionary revenue	1.2	0.7	-0.4	-0.3	-0.1	0.0

Source: Department of Finance.

**Table A.7: Budgetary plans**

	2013	2014	2015	2016	2017	2018
<b>% GDP</b>						
1. General government balance	-5.7	-3.7	-2.7	-1.9	-0.9	0.3
2. Structural balance	-4.4	-4.4	-3.4	-2.5	-1.2	0.2
3. Cyclical budgetary component	-1.3	-0.1	0.5	0.5	0.3	0.1
4. One-offs and other temporary measures	0.0	0.7	0.1	0.1	0.0	0.0
5. General government balance	-5.7	-3.7	-2.7	-1.9	-0.9	0.3
6. Total revenues	34.8	34.7	33.7	32.9	32.3	32.1
7. Total expenditure	40.5	38.5	36.4	34.8	33.2	31.8
Amounts to be excluded from the expenditure benchmark						
7a. Interest expenditure	4.4	4.1	3.8	3.8	3.8	3.8
7b. Expenditure on EU programmes fully matched by EU funds revenue	0.2	0.2	0.2	0.2	0.2	0.2
7c. Cyclical unemployment benefit expenditure*	0.1	0.0	-0.1	0.0	0.0	0.0
7d. Effect of discretionary revenue measures	0.8	0.5	0.2	0.0	0.0	0.0
7e. Revenue increases mandated by law	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
8. Tax burden	30.5	30.9	30.2	29.8	29.5	29.3
9. Gross debt	123.3	110.5	108.5	104.0	100.5	95.4

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

Notes:

- Rounding may affect totals