DÁIL ÉIREANN

AN COISTE UM FHORMHAOIRSIÚ BUISÉID

COMMITTEE ON BUDGETARY OVERSIGHT

Dé Céadaoin, 6 Nollaig 2017

Wednesday, 6 December 2017

The Select Committee met at 2 p.m.

MEMBERS PRESENT:

Deputy Richard Boyd Barrett,	Deputy Pearse Doherty,
Deputy Colm Brophy,	Deputy Martin Heydon,
Deputy Thomas P. Broughan,	Deputy Michael McGrath,
Deputy Dara Calleary,	Deputy Eamon Ryan.

DEPUTY JOHN LAHART IN THE CHAIR.

The select committee met in private session until 2.20 p.m.

Fiscal Assessment Report: Irish Fiscal Advisory Council

Vice Chairman: I remind witnesses and members to turn off their mobile phones as the interference from mobile phones affects the sound quality and transmission of the meeting. I welcome Mr. Seamus Coffey, chairman of the Irish Fiscal Advisory Council, IFAC. He is accompanied by Mr. Michael Tutty, Dr. Martina Lawless, Mr. Sebastian Barnes, Mr. Eddie Casey and others who Mr. Coffey might introduce if he needs to. I thank the witnesses for making themselves available to the committee today. We are meeting about the fiscal assessment report.

Before we hear the witness's opening statement I want to draw attention to the position of privilege which applies to officials who may contribute to proceedings. Witnesses are protected by absolute privilege in respect of their evidence to the joint committee. However, if they are directed by it to cease giving evidence on a particular matter and continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or an entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official, either by name or in such a way as to make him or her identifiable.

Mr. Seamus Coffey: On behalf of the IFAC, I thank the committee for the opportunity to discuss our recent fiscal assessment report. Joining me today are council members, Dr. Martina Lawless, Mr. Michael Tutty and Mr. Sebastian Barnes. Mr. Eddie Casey, Ms Kate Ivory, Ms Ainhoa Osés Arranz and Mr. Kevin Timoney from the IFAC secretariat are also present.

The IFAC's work is enriched by its interactions with the committee and we continue to value these engagements. We hope we can continue to interact meaningfully with elected representatives and I would also like to acknowledge the ongoing interaction between the secretariat and the Oireachtas staff to support these meetings. The IFAC published its 13th fiscal assessment report on 29 November. The report covers all aspects of the IFAC's mandate, as set out in the Fiscal Responsibility Acts 2012 and 2013. This includes: an assessment of the appropriateness of the broad fiscal stance set out by the Government; an assessment of the macroeconomic and budgetary forecasts in budget 2018 incorporating the IFAC's endorsement function of those forecasts; and an assessment of compliance with both Irish and EU fiscal rules. The IFAC welcomes the fiscal stance adopted by the Government in budget 2018 for next year and assesses it as conducive to prudent economic and budgetary management. There are two key positives to draw from the budgetary stance.

First, budget 2018 demonstrated how limits imposed by the rules can be flexible to the priorities a government may have. In budget 2018, a number of revenue-raising measures, estimated as yielding €830 million for 2018, were introduced in addition to €500 million in revenues raised through non-indexation of the tax system. These revenue-raising measures enabled corresponding increases in government spending over and above the increases that were already allowed under the rules.

The discretion for a government to use tax policy changes is an essential feature to understand. The rules set a limit for the pace at which non-interest spending can increase sustainably. That limit is based on an estimate of how fast revenue growth can be expected to rise on average when the economy is performing at its long-run potential. However, those limits are set before any tax policy changes are considered. Tax policies that increase revenue in a sustainable manner, that is, in a way that can be expected to last over the long run, allow a government to grow spending at a faster pace than the initial limits set by the rules. Correspondingly, tax cuts constrain the pace at which spending may grow.

A second positive that the IFAC noted in budget 2018 was that it also saw the Government follow through on its earlier plans. Those plans, which were to keep net spending and tax plans within the available gross fiscal space for 2018 of around €1.7 billion, had been set out in the Department of Finance's summer economic statement 2017. The IFAC's subsequent pre-budget 2018 statement recommended these plans be adhered to.

Budget 2018, therefore, avoided a repeat of the within-year spending increases visible in recent years, which followed surprise gains to the public finances. Such surprise gains included increases in volatile corporation tax receipts and lower-than-expected interest costs. The IFAC had advised against using these gains to fund permanent expenditure increases, given uncertainties about their sustainability. As the IFAC has noted on numerous occasions, corporation tax receipts are the most volatile of the main tax heads. They are prone to very large forecast errors, they are exposed to a number of risks and they are highly concentrated with close to €2 in €5 of corporation tax receipts attributable to just ten companies. Risks include potential reversals in receipts due to changes in global tax policies, and various company-specific factors that might see their taxable profits decline or decisions to relocate take place.

In 2018, the Government is expected to meet a key target under the fiscal rules. This target, known as the medium-term objective, MTO, is for a structural deficit of 0.5% of GDP. The IFAC has often noted that there are a number of shortcomings to the methodology used to estimate the structural deficit, primarily the adjustments that correct for the effects of the economic cycle. However, the IFAC, using its own estimates of the cyclical position of the economy and a broader economic assessment, assesses that the budgetary position is now likely to be close to balance in structural terms.

A key challenge over the coming years is to ensure that the underlying budgetary position is not allowed to deteriorate excessively again. If this were to happen, another painful correction of the public finances might ultimately be required. This could happen if temporary or cyclical revenues were not recognised as such and instead were used to fund long-lasting expansions in government spending or a narrowing of the tax base, as has often happened in the past.

Looking beyond 2018, the budget plans allow for a gradual pace of debt reduction, moderate increases in current expenditure, and a ramping up of public investment to rates that are among the highest in the EU, while also complying with the requirements of the fiscal rules. With strong growth rates forecast and low effective interest rates on government debt, this should facilitate a steady pace of debt reduction from ratios that are still among the highest in the OECD. At present we have the fourth highest net debt to GNI* ratio and fifth highest net debt to government revenue ratio.

The plans also allow for the services and supports to be maintained allowing for demographic and price pressures, while also expanding public investment from its recent low levels. The IFAC's illustrative estimate of the cost of providing today's level of public services over the forecast horizon to 2021 implies that the spending increases currently budgeted for in budget 2018 over 2019-2021 would fully accommodate demographic pressures and the cost of maintaining real public services and benefits. By 2021, public investment is planned to rise to ratios that, across a number of measures, would be higher than that of EU peers.

However, risks remain. We do not see significant evidence of overheating in the economy at present, although there is a risk that the economy may experience overheating should a rapid, albeit necessary, response from the construction sector to persistent supply shortfalls arise which is not offset by countercyclical measures elsewhere. Improvements in the public finances in such circumstances might primarily reflect cyclical or transient developments. There are also a number of downside risks. Although a hard Brexit is the central scenario envisaged in budget 2018, the impact of Brexit is highly uncertain, as is the timing of its economic effects. These effects could be more negative, more persistent and more upfront than currently forecast. An additional risk is posed by potential future tax changes to tax arrangements among Ireland's trading partners. Important domestic risks relate to the housing market and the highly concentrated production base.

Recognising these challenges, the IFAC makes a number of recommendations. In particular, it recommends that the Government adopt an approach that sets out a credible plan for the medium term. This should include a firmer commitment to use the expenditure benchmark as an anchor for fiscal policy even when the MTO is met and a strengthening of the proposed design of the rainy day fund. The fund could serve as a useful countercyclical tool to ensure more sustainable growth and prudent management of the public finances. However, the current proposal is not adequate to achieve the necessary countercyclical effects and is small in size. Achieving these goals within the EU fiscal rules is a difficult challenge and remains to be fully addressed. The IFAC also calls for a development of the Department's toolkit for assessing the cyclical position of the economy beyond the EU's commonly agreed methodology and, finally, adhering to a target for public investment spending over the medium term. These measures should help to alleviate known measurement issues and prevent an excessively expansionary fiscal stance from being followed as in previous cyclical upswings. They would also allow the Government to reduce high debt levels and help avoid the need for a correction in the future.

I thank the committee for giving us with the opportunity to attend. We look forward to taking questions and hearing the views of members.

Vice Chairman: I thank Mr. Coffey. We have loads of time and plenty of questions. Given that everybody has the same mandate, I will be very flexible. However, I have a big mallet if any of the members abuse that flexibility. Deputy Pearse Doherty is first up.

Deputy Pearse Doherty: Cuirim fáilte roimh an IFAC chuig an gcoiste. I will begin with Brexit. Something that has appeared in a number of reports is the fact that the Department of Finance has underestimated the potential impact of a hard Brexit. IFAC also outlines that in this report. The Department estimates a 4% impact on GDP. How much of a divergence does IFAC see in this regard? How much greater could the impact be in view of the fact that IFAC believes the Department of Finance forecast scenario for Brexit is flawed? Would it be fair to say that it is flawed?

Mr. Seamus Coffey: We are not saying that the approach is flawed. We are just saying that these estimates cannot be precise and that if one takes a different approach, one may come up with a different answer. In terms of the current forecasts that the Department of Finance has adopted, they are, to be fair, based on a hard Brexit as the central scenario. However, some of the modelling has taken the approach of looking at the impact, particularly on trade. It also considers the impact on our trade with the UK to be equivalent to that of an average trading partner whereas it is likely that the latter is not similar to an average trading partner, particularly for the type of industries which do most of their trade with the UK, which may be in the indigenous domestic sector and which may be labour-intensive. If one considers the UK to be an average trading partner, one may be underestimating those impacts, particularly from the labour side.

Deputy Pearse Doherty: Is it not a case of the UK either being or not being an average trading partner? I would imagine that the UK is not an average trading partner and that, therefore, there is a flaw in how the Department is projecting this.

Mr. Seamus Coffey: We are saying that one could adopt a different approach. One could say that the impact on trading with the UK of growth in that jurisdiction could have a proportionately larger impact on Ireland relative to, say, a drop in growth in other countries in light of issues relating to proximity, the nature of the relationship between the two countries and the fact that some of the products that are traded between Ireland and the UK are essentially exclusively traded because of the tastes, etc., of people in the two countries. We are just flagging that there is potential for the impact to be larger than that currently built into the forecast. While I am recognising, in the first instance, that a hard Brexit is the central scenario and that compared with those that were produced prior to the UK referendum, recent growth forecasts have been revised down significantly - the revision was approximately half a percentage point of growth every year over the forecast horizon, which is a significant downward revision - we are saying, as with any forecast, one cannot really be sure or certain. We are also saying that there is potential for Brexit to have a more upfront, concentrated and deeper impact than that built into the forecast.

To argue that the Department's approach is flawed is quite difficult because forecasting is, by its nature, a difficult concept. In our view, one should not put too much emphasis on point estimates and state that this is exactly what will happen. There is a range or spread of possible outcomes.

Deputy Pearse Doherty: I can appreciate that any forecast is a guesstimate but the inputs are important. In some cases, one knows some of the inputs in the analysis one is doing. Has IFAC engaged with the Department in respect of its estimate regarding the impact of a hard Brexit? If so, over what period has it been engaged with the Department?

Mr. Seamus Coffey: In terms of engagement on forecasts, we have the formal endorsement function. Prior to the publication of the budget and the stability programme update, SPU, we are presented with the macroeconomic forecast of the Department of Finance. It is our function to endorse those or otherwise. In all cases to date, they have been endorsed.

Deputy Pearse Doherty: Our guests from IFAC are not the only witnesses who have suggested that the Department of Finance has underestimated the impact of a hard Brexit. Other witnesses talked about labour intensity in terms of trade and the shock impact. There has been an engagement on this matter. Now IFAC is again stating clearly that the Department is of the view that Britain is an average trading partner which, clearly, it is not. It is not that it may be or it could be - it is not. Is IFAC concerned that over the period of a year and a half during which the ESRI has been engaging with the Department of Finance, we still have a situation where certain inputs that give us this type of calculation have not been addressed?

Mr. Seamus Coffey: When it comes to the overall endorsement, there are many elements that feed in to the growth forecast. This may be an area where we have concerns about a negative impact not being sufficiently estimated but, equally, we can have concerns in the other direction where we feel there might be positive developments that are not being fully reflected. Although we might endorse the forecasts based on where they are as a central scenario, we may have concerns in both directions and perhaps Brexit would be one in respect of which we would have concerns in a negative direction.

In terms of changing the overall forecast, we are not massively concerned about the actual point forecast itself. The issue would be that, from a policy perspective, we should accept that there are risks, both downside and upside, to the growth forecast. The risk we are highlighting is that there is a potential harder impact from Brexit than is currently built into the forecast. It is not necessarily that one has to change them but maybe that, when it comes to assessing policy, caution should be exercised regarding what one sees happening in the future.

Deputy Pearse Doherty: I understand the point. I am obviously concerned about what is the best estimate of a hard Brexit. It is important that we know that. If organisations, such as IFAC and the ESRI, are coming forward telling us that the Department of Finance is underestimating a hard Brexit, and, as IFAC has pointed out, that the forecast scenario used by the Department has serious shortcomings, it is a concern because it is on Brexit today and it could be on something else tomorrow. Is there a willingness for the Department to take on board the concerns of IFAC or is the Department disputing those concerns?

Mr. Seamus Coffey: There is a process for the Department to take on board our concerns through the endorsement function. We can raise issues through that process. If it came to it, we would not necessarily have to endorse the functions.

We are focused in the discussion here on the impact of a hard Brexit, as built in as the central scenario. Of course, there is no guarantee that a hard Brexit will happen. Even if one was to increase the negative impact of a hard Brexit, in an overall case one must work out how likely is that to happen. We obviously do not know the answer to that, and this week has presented numerous difficulties in that regard. Having a hard Brexit as one's central scenario - and maybe not going to the limits of how bad that could be - is likely to be a plausible central scenario given the range of possible outcomes .

Deputy Pearse Doherty: On the issue of stamp duty, something that has been raised in the committee - and in the Chamber for quite a period as the Finance Bill was going through these Houses - was the estimation that the Department is putting on the increase to 6% of commercial stamp duty. The IFAC report refers to overly optimistic forecasts in that regard. We have seen from others that €9.4 billion of transactions would be required. Some experts in the field suggest that it could be half that amount. We also note that the Department has introduced an exemption where 25% of residential property, if it is part of this scheme, will be exempt from the higher 6%. Has IFAC done any calculations on by how much the Department is overestimating the receipts from the increase in commercial stamp duty? Is IFAC concerned about that exemption? Despite that 75% of it would be commercial, if one has got a couple of luxury apartments at the top of a development down in the docks, one would only be paying the lower rate of stamp duty. While appalling, that is for another day. In terms of the hole that could emerge in the public finances, has IFAC done any calculations? Is it far off the €376 million that the Department has estimated?

Mr. Michael Tutty: I will respond to that. We have been trying to get more information on the basis for the estimate contained in the budget documentation.. We have not managed to get the sort of information that we would need. We have no real information. What we were more concerned about - even than whether the estimate for 2018 is correct - was the fact that we are at probably what is a peak of commercial development at present. There has been a big ramp-up in commercial development in recent years. Activity is unlikely to remain at the current level and is likely to decline in future years. If we were basing our permanent expenditure on cyclical revenues, such as that relating to commercial stamp duty, we would be concerned. We have been discussing corporation tax for some time and we are also worried about regarding the ramp-up in revenue from this tax as permanent. The same arises in respect of stamp duty because there is likely to be a downturn in commercial property in the coming years. That will reduce the yield from this extra stamp duty. While we do not have any firm information on the actual yield for 2018, even if the Department is correct, we would still consider this as a yield that will diminish over time and one which will need to be addressed over time. We have tried to obtain more information on the basis for projections. As we do not have independent information available to us, we do not have anything to say on what the yield will be.

Deputy Pearse Doherty: The estimate from the Department of Finance was very much linear, in other words, if activity increased by 1%, the increase in the yield would be a certain amount and if it increased by 2%, the yield would increase be Y amount. The estimate did not take account of behavioural changes and was, therefore, basic and crude. In addition, it did not take into account the exemption the Department introduced allowing 25% in the case of residential development to be exempt from the 4% increase. I accept that this is a policy matter, one with which I disagree. Is IFAC concerned about this aspect of the calculation? Given that the figures presented go to the credibility of the budget, is this a matter of concern for the council?

Mr. Michael Tutty: Yes, it is certainly a concern but the amounts are not huge. Given the volatility in overall tax revenue in any event, I presume that irrespective of what the shortfall might be, it will not make a major dent in the figures. However, it would certainly be better to have a good estimate of the tax revenue from a measure such as this than to have one that seems to be based on a rule of thumb about continuing what is there. We assume the Department is examining the loopholes reported in the media and so forth and taking action on them. I have not been keeping in touch with what is happening in the Finance Bill.

Deputy Pearse Doherty: In terms of medium-term planning, ceilings and so forth, which are issues on which IFAC has taken a consistent position, we have projections for the next three years in terms of macro figures for the fiscal space. When the committee discussed this issue previously, I requested that we ask the Department to produce five-year figures because thus far it has refused to do so and has no intention of doing so. How important is it to have figures for five years as opposed to the figures for three years the Department currently produces? Not only are five-year figures not published, the Department has informed us that it has not made any calculations beyond 2021. I thought it might have some information that it was choosing not to publish for reasons of volatility or whatever but it has not even made a calculation. Is that a prudent position in the view of IFAC?

Mr. Seamus Coffey: We would prefer if the Department stuck to the previous approach where its forecasting period was extended by one year relative to what is in the budget. The budget document stops at 2021. If it had adhered to the previous approach, it would have gone as far as 2022. When it comes to specific measures such as fiscal space *per se* the actual number itself, just like the growth forecast, is not extremely important. However, we would like to see an approach taken that reaches that number. We would like the one-year extension for growth forecasts to be applied again. We would like the components of economic growth, the fiscal forecast and the Government balance extended by an extra year, as was the case with the previous stability programme updates and budgets. We would like the additional year to be applied not only to estimates of fiscal space but to all measures in the budget documents.

Vice Chairman: Deputy Pearse Doherty had a good run. He may make a further contribution if we have time.

Deputy Dara Calleary: I welcome the team from IFAC. To return to the Brexit scenario the Secretary of State for Exiting the European Union, Mr. David Davis, told the British Parliament this morning that Brexit would provoke a paradigm change in the United Kingdom economy similar to the crash of 2008. If that is true, would it fit into the advisory council's forecast or would the consequences be more excessive than it has forecast?

Mr. Seamus Coffey: If the UK economy was to crash, the impact would be more negative than is currently built into the forecasts. The current forecasts are based largely on what was produced in the UK. We looked at the impact on the UK economy and adopted that across Ireland. If UK growth, employment and consumption were to be lower, we asked what impact this would have on Ireland. If the impact on the UK was to be greater, by consequence the impact on Ireland would be greater.

Deputy Dara Calleary: Are the Departments of Finance and Public Expenditure and Reform doing enough to prepare the economy and various Departments for that type of scenario?

Mr. Seamus Coffey: In terms of preparing the economy, from our perspective, our primary view would be to put the public finances in a position that they can deal with such an adverse shock. Significant strides have been made in recent years, primarily because of domestic developments, to improve the public finances and we are now in a position where the Government accounts are almost in balance. In our view, they are in balance in structural terms. The debt, while still high, is on a declining trajectory. These efforts should not stop now. If we see the potential for a large negative shock in future, we should prepare and create the buffers to handle such a scenario. We have made significant improvements but if we believe such a scenario is likely, we should continue with current efforts to improve the public finances.

Deputy Dara Calleary: In the context of concerns about the economy overheating, IFAC referred to construction and the ramping up of public investment. What safeguards or brakes should be applied to the forthcoming capital plan to ensure this type of overheating does not occur?

Mr. Seamus Coffey: Overheating is a broad concept for the economy. Increasing public capital spending will not, in itself, lead to overheating in the economy. One looks at the entire spectrum of activity that is occurring. If the ramping up of public capital spending was to be associated with a rapid rise in private construction, particularly in residential development, and we were to see consumption rise rapidly, the economy would begin to perform beyond its potential. This is a scenario with which we are familiar. Ten years ago, we were at a level of economic activity that was not sustainable. We would prefer, in circumstances where we find that certain elements of the economy may be performing above sustainable levels, to cut back elsewhere by introducing offsetting measures that will ensure overall activity in the economy is placed on a sustainable footing. We would not view increasing public capital spending on its own as a danger. It is about taking a broad approach. On the issue of overheating, we try to look across a range of measures to identify problems, hopefully before or as they emerge, and then put in place measures to offset them. On its own, public capital spending will not lead to problems.

Deputy Dara Calleary: Arising from Mr. Tutty's remarks, what kind of relationship does IFAC have with the Department of Finance? Did I detect a certain level of frustration about getting information from the Department on stamp duty?

Mr. Seamus Coffey: I would not say the frustration in respect of stamp duty is solely with the Department of Finance because it is not necessarily the primary source of that information. One would look at the level of transactions, the amount of tax and the composition of stamp duty being collected. I am not necessarily sure that the primary source for this information would be the Department of Finance.

In the main, our relationship with the Department is very good. There is ongoing interaction between the secretariat and the staff of the Department in terms of looking at the available economic data and the approaches taken to addressing some of the problems that have occurred. We have had co-operation on a number of occasions when we were dealing with issues such a growth rate of 26% and how it feeds into the budgetary documents. There is ongoing interaction on estimating the supply side of the economy and the idea of when one knows the economy is preforming above its potential. Naturally, there will be some interactions that could be considered slightly antagonistic but that is because of the nature of the relationship. It is our job to question and at times people can view those questions as being perhaps overly burdensome. If that happens, it is simply a function of the role we have but in the main the relationship is good.

Deputy Thomas P. Broughan: I welcome the witnesses from IFAC. In the context of recent figures on income tax and unemployment generally, did Mr. Coffey find it disappointing that there seems to be a fall in income tax in spite of coming close to full employment? I say that in light of the fact that Mr. Coffey has always been giving us the clear message that broadening the tax base is critical.

Mr. Seamus Coffey: The performance of income tax during 2017 is something on which we have been keeping a reasonably close eye. It is not necessarily that income tax has not been hugely tracking the performance in the labour market but that, perhaps, it has been falling short of expectations. There may be an issue with the forecast for income tax that has been generated in the past couple of years. A number of reasons have been put forward as to why income tax has been falling short of expectations, primarily related to the large number of changes – almost €2 billion of changes were introduced as revenue-reducing measures against the USC in the past couple of years. It does appear that there has been an underestimation of the impact of those changes and that they led to a greater revenue reduction than was anticipated. That has been corrected for 2018. As a result, the forecast from 2018 onward should not have that underestimation of the revenue measures as part of them.

A second reason put forward is that there was a misallocation between the impact of the revenue-reducing measures between the self-employed and PAYE workers. It was expected that the November receipts, which we have just seen, would see a rebalancing and that the shortfall that had been seen up to October would in some sense be corrected in November. That did not happen, however. In fact, the receipts fell even further behind in November and are now €250 million behind where they were expected to be. They are still up in year-on-year terms and growing by more than 4% but they are not growing as fast as was expected. There are various issues being looked at that seek to explain it. We do not think it is necessarily reflective of developments in the labour market because we have been tracking PRSI receipts, which equally are substantial and which are linked to the labour market. Those receipts are growing at a rate of 7%. They are more reflective of the increase in employment number and the increase in pay we are seeing in the economy. PRSI is not really affected by budgetary measures. There has been a divergence in recent years. PRSI receipts are ahead of expectations. They are close to €200 million ahead of what was expected by the end of November. We have been keeping a close eye on income tax and the rebalancing that was expected in November. Perhaps there was a belief that there were more self-employed people registering with Revenue or in the economy. At this stage, it is not being reflected in the figures but it could be that we would not see those returns until next year because the 2017 self-assessed tax returns will not be filed until next year.

Deputy Thomas P. Broughan: On the previous occasion, Mr. Coffey responded to a question from my colleague, Deputy Calleary, on Brexit and European corporate tax changes. He seemed to regard the tax change as a greater threat because of our huge dependence on this single area of taxation. Has he changed his views on that?

Mr. Seamus Coffey: The view would depend on how one might assess the impact of these. For example, what would be the impact of a common consolidated corporate tax base, CCCTB, versus the impact of Brexit? If one looks at them in terms of the impact, the CCCTB would be far greater than even a hard Brexit but then, if one looks at the likelihood and the possibility of those happening, Brexit is going to happen. We are not quite sure of the nature of it but it is going to happen, whereas the CCCTB seems very unlikely to happen. While the impact of it in my view would be greater its likelihood is far less.

Deputy Thomas P. Broughan: Mr. Coffey talked about a credible medium-term plan but it is credible in his terms. We get very frustrated about what every citizen can see is a dysfunctional housing market and then one is talking, among other things, about overheating, credible plans and the rainy day fund. Is Mr. Coffey taking into account the fact that here is a huge chunk of our economic activity which is dysfunctional and which has not been delivering? There is no supply pipeline or it is barely beginning to start. Is it the case that the whole economy is going out of kilter?

Mr. Seamus Coffey: I suppose one of the reasons we would be concerned about the housing market is just because the output is so low and much higher output is needed. On foot of the supply shortfall in recent years, we do not need to reach an equilibrium level of housing output, whatever that may be. Rather, we need to exceed it for a period in order to deal with the shortfall that has built up in recent years. Our concern is that may happen. We may get a large increase in housing output but if it is dealing with the shortfall that has built up in recent years that is not a sustainable level of output. It will then drop down so any revenues that arise, because housing construction is tax-rich from a Government perspective, should be considered temporary and transitory. As Deputy Broughan said, it is about looking at the overall impact on the broader economy. Perhaps there is an excess focus on this one particular area which is, as the Deputy noted, malfunctioning. However, our concern is that if and when housing output does increase - both in the context of public capital spending on housing and maybe, in particular, private spending on housing - we do take into consideration the fact that some of those increases may be temporary.

Deputy Thomas P. Broughan: I thank Mr. Coffey.

Deputy Richard Boyd Barrett: Following directly on from that, is that not an argument for addressing the current housing crisis to a far greater extent than we are through direct public housing provision because that does not distort the tax base, as well as the fact that it provides cheaper and affordable housing for people? Even from a fiscal sustainability point of view is it not preferable?

Mr. Seamus Coffey: There would not necessarily be a distortion on taxation but there would be an impact because people employed to build public housing would pay income tax and other revenue sources would benefit. It is not necessarily just the direct or indirect taxes one might collect from the house itself, one would have the taxes on the labour element involved so there is a potential impact on the revenue base but I admit it would not be as large.

Deputy Richard Boyd Barrett: Mr. Coffey expressed concern about stamp duty but that would not come into play in public housing provision.

Mr. Seamus Coffey: Our main concerns about stamp duty relate to the changes on the commercial side. The rates for residential stamp duty remain unchanged. The amount of revenue in terms of the commercial changes would be quite small.

Deputy Richard Boyd Barrett: My point is that they do not come into play in direct public housing provision.

Mr. Seamus Coffey: They do not.

Deputy Richard Boyd Barrett: So that anxiety would be significantly limited if the big shortfall in affordable housing provision was done directly by the State.

Mr. Seamus Coffey: I am not sure that one of the best ways of addressing a concern about increasing Government revenue is to have even larger increases in Government spending or that one way to reduce risks on the revenue side would be to fully fund expenditure.

Deputy Richard Boyd Barrett: Except that public housing is self-financing.

Mr. Seamus Coffey: That may be the case. It is difficult to say. One issue when it comes to public housing and public capital expenditure on housing is that it is increasing. It is ramping up. If one looks at 2015, the total capital spend on housing was approximately €350 million. By next year it will be more than €1.1 billion. That is a trebling in just three years.

Deputy Richard Boyd Barrett: I ask Mr. Coffey to consider this premise because I think it is very important. One of the biggest factors likely to contribute to overheating is the chronic under-provision of affordable housing. What happened previously is that we had an enormous property boom and the housing crisis was getting worse during that period, even before the crash. We were having record levels of output but it was directed at selling for a profit and the prices were unsustainable because people's incomes could not match them and they had to get themselves into a lot of debt. With public housing one does not have that problem so people do not incur big debts. There is a revenue stream that is self financing over an approximate period of 30 years. The other big advantage is that it keeps a lid on property prices generally and it stops the distortions developing even in the private market. Is that not a win-win?

Mr. Seamus Coffey: The distortions Deputy Boyd Barrett is discussing in the context of the previous housing bubble were significant. We hope, from outside of the fiscal perspective, that they are being addressed. We have changes in the macroprudential and lending rules now being addressed and enforced by the Central Bank to try to limit the increase in lending associated with any individual household buying a house. That should in itself put a curb on prices. At present, such is the nature of the shortfall in supply cash buyers are predominant and lending rules do not have an impact there but as the output begins to increase and more buyers are debt financed those rules will hopefully curb the price increases.

Deputy Richard Boyd Barrett: That is exactly my point. Currently, prices are already nearly back to peak levels whereas incomes are certainly not in terms of purchasing power so there is a problem. In many cases, people cannot buy at these prices and if they are going to buy, they are going to have to take on a lot of debt. That is a fiscal risk. It is not just a housing problem. It is also a fiscal risk surely if the social housing provision of the State relies, very significantly, on leasing and other arrangements with private sector providers that are charging the State very high prices. That is the case. Is that not a fiscal risk that the Irish Fiscal Advisory Council, IFAC, should be warning about? Should we not be concerned that there is an over-reliance on the private market to deliver affordable housing and that this liability could balloon massively if property prices continue in their current direction?

Mr. Seamus Coffey: There is no doubt that that risk has been assessed as being present, because the public capital spending on housing is set up to ramp up significantly. If there was going to be continued reliance on leasing arrangements with private owners, we would not see that increase in public capital spending on housing. As I said, such spending was €350 million in 2015. Next year it will be more than €1.1 billion. That includes funding for local authorities to build, buy and improve houses. There is clearly a recognition that there must not be an over-reliance on private providers of housing, and that we will have-----

Deputy Richard Boyd Barrett: I would just-----

Vice Chairman: Deputy, please allow the witness to finish.

Mr. Seamus Coffey: The issues that Deputy Boyd Barrett refers to have been identified by the Department of Housing, Planning and Local Government, and the Department is moving to address them. One issue we have examined is the nature of the consolidation the country went through where we had an excessive budget deficit that had to be brought under control. The area that suffered the most was public capital spending. There were cuts of almost 60% to the spending levels seen in 2007 and 2008 in contrast with cuts of 6% or 7% on primary spending. The largest impact was on capital spending. It is not a surprise then that when we get the public finances into a better position and have the opportunity to increase spending, public capital spending is ramped up. It may not be happening as fast as the Deputy wishes it to happen, but there is no doubt that it is happening and it is going to happen.

Deputy Richard Boyd Barrett: There are a couple of other issues I wanted to raise. However, I would suggest that Mr. Coffey should look very closely at this issue from a fiscal point of view. Long before the housing crisis was publicly acknowledged, I warned Dr. John McHale that it was coming. He said he would look at it, but did not recognise it as a danger. A year later, everybody on this committee and the Committee on Finance, Public Expenditure and Reform, and Taoiseach recognised it as a danger. Here is something I think the IFAC should look at. Mr. Coffey should look at the reliance on private sector provision of social and affordable housing in the Government's housing plans under Rebuilding Ireland and the cost that will be incurred to the State. Out of a total of 130,000 proposed social housing units, between 60,000 and 70,000 are going to come from the private sector, through leasing arrangements or housing assistance payment, HAP, arrangements. The cost of that to the State is going to be vast. If we compare this cost with that of the direct provision of housing, we see that upfront capital costs would be bigger and long-term costs would be much less. We will have no control of that if the market continues according to current trends. The Irish Fiscal Advisory Council should look at that as a serious fiscal risk.

Mr. Seamus Coffey: Expenditure on housing is one of the categories that we have looked at. We have observed that the peer EU countries that we have examined do not tend to have high public capital spending on housing. They may have a different way of going about it, but they tend to rely on private providers to a certain extent. Maybe those private providers are primarily based in the non-profit sector, which I assume is included in the figure of 60,000 to 70,000 that the Deputy refers to.

Deputy Richard Boyd Barrett: No.

Mr. Seamus Coffey: We wanted to determine if Ireland's level of public capital spending on housing was comparable to-----

Deputy Richard Boyd Barrett: I agree with Mr. Coffey. His point is absolutely right. Housing associations are involved in the rest of Europe. That is not what is happening in the Rebuilding Ireland plan. They have slightly changed the balance, essentially because of people protesting over the last year. However, the change is only very slight. Looking at the Rebuilding Ireland proposals, we see that the majority of delivery still depends on private sector providers. That is very alarming. I do not see how it will deliver affordable housing, but even if it happens, it will be a huge call on the public finances which will grow exponentially over the following years. I suggest that this should be looked into.

I want to raise also Ireland's reliance on the corporate tax receipts from a very small number of multinational corporations, MNCs. The witnesses' warnings about Brexit could be added to this consideration. Do the witnesses not think that due to these considerations, we must radically reconfigure our economy? Another danger, which has not been mentioned, is climate change. The cost of not meeting our climate change targets is another potentially big financial call on public revenues. Would the witnesses not say that all three of those very serious risks mean that we have to reconfigure our economy radically? In that context, is it sensible for the IFAC to suggest that one of our buffers should be the rainy day fund rather than using revenues while we have them and putting them into strategic investment in key areas where we could diversify the economy on a more sustainable basis? The rainy day fund just creates a cash buffer, as it were, whereas strategic investment creates a buffer of sustainable investment in areas that would diversify the economy and make it less vulnerable in some of those areas, such as renewable energy, which would lessen the focus on MNCs, beef exports to Britain and so on. This is where we should now be thinking of investing whatever funds we have for this purpose.

Mr. Seamus Coffey: Similar to the commentary on budget 2018 as a whole, if these are to be priorities, there really is no restriction on us devoting our resources towards them. It is simply a matter of choosing our priorities. If the Deputy thinks a repositioning of the economy is required and resources should be devoted to particular areas, that choice is available. It is not up to us to deny or allow that choice. It is available given that resources are there and additional resources will be created. This budget included revenue-raising measures that allowed increases across a range of areas. If one argues that those proposals are where the priorities should lie-----

Deputy Richard Boyd Barrett: I clearly think they are a risk. Am I out of time, Chair?

Vice Chairman: The Deputy is close to it. I will indulge him.

Deputy Richard Boyd Barrett: I clearly think they are a risk. However, is it not part of the

IFAC's job to identify those risks? The witnesses have identified some risks. They say Brexit is a risk and they note the over-reliance on MNCs. Is it not the logical follow-on that we must diversify away from those areas? To diversify, we must invest and do so strategically, I would have thought. Why emphasise the rainy day fund over strategic investment in areas that would buffer us, to use Mr. Coffey's term, from risks that are clearly identifiable? The fines arising from climate change and the impact of climate change are not speculative ideas or guesswork. They are going to happen.

Vice Chairman: In answering that, I ask Mr. Coffey to say something about his risk matrices. They are behind him, in true pantomime fashion.

Mr. Sebastian Barnes: While Mr. Coffey is reading the risk matrix, I will answer that question. Mr. Coffey spoke about how the money is spent. In that regard, there is a real need to prioritise. It is not the council's business to think about how to prioritise, but there is scope to do so. That is what politicians should be thinking about. There is a difference between how to spend money and how much to spend. We are not advocating putting money into the rainy day fund this year, because we think the economy is broadly balanced. However, if we continue to have very strong growth in the next few years but in a way that is ultimately not sustainable, it would lead to a more balanced pattern of growth and perhaps accommodate spending in other areas to build up the rainy day fund. That would help to balance the economy on the upside. If some of these risks do hit, for example, if we wake up in 2020 and discover that there has been a really nasty Brexit and the economy is doing badly, the rainy day fund can then be unwound. Spending could be delayed until the risk happens, and that money will then be available in a way that it would not otherwise be. There is a distinction between prioritisation and dealing with very important emerging risks on the one hand, and the pace of the overall balance over time on the other. We are arguing for building up the rainy day fund while the times are good, as a contingency to use if there is a downturn. Of course, if that money has not been put into a rainy day fund, if it has been locked into spending, it would be much harder to adjust if these risks do come to pass, which obviously we hope does not happen.

Mr. Seamus Coffey: In regard to the risks, I note that on the slide containing our risk matrix, three of the first four fiscal risks we have listed are the EU climate change targets, the unanticipated effects of a hard Brexit, and the concentration of tax receipts on corporation tax. It is not just Deputy Boyd Barrett who is in a position to identify these. We are also trying to identify them.

Deputy Eamon Ryan: I apologise for missing the presentation. If there is a written one, I am sure I will get the document. I want to ask about one specific matter, namely, a recent IMF technical assistance report on public expenditure in Ireland. I do not know whether the IFAC was involved. The report has a range of recommendations. The worry is that it has identified an efficiency gap in the Irish economy. By comparison with our peer countries, it is quite significant, at 58%. I refer to our level of expenditure and the capital stock outcome. Therefore, we must take seriously the recommendations on how we might improve, particularly when our capital expenditure is about to be ramped up. The report is quite critical of PPPs and calls for much more rigorous assessment and more open, transparent cost-benefit analyses. It calls for a better cost-savings ratio before anything further is agreed. It calls for a new public spending code and for much greater transparency across the board in the assessment of our capital stock and future fiscal commitments regarding PPPs and other measures. The report seeks the setting up of an infrastructure project unit with the Department of Public Expenditure and Reform. The Department might have written the recommendation itself. Was the IFAC engaged in the process? Did it review the paper? On the recommendation to have an infrastructure project unit within the Department, the National Economic and Social Council, NESC, has done some work on examining the UK experience with the National Infrastructure Commission and so on. Has the IFAC considered any of this analysis? Is it informing its recommendations from a fiscal advisory perspective?

Mr. Eddie Casey: On the question on engagement, the secretariat of the council met the team and provided technical support. We had produced publications in this area previously in which we considered total investment expenditure, depreciation and the public capital stock. The authors of the report were interested in obtaining our views in this regard. We found the team to be very effective. The report is an excellent one. I will let Mr. Seamus Coffey elaborate on the content.

Mr. Seamus Coffey: We have been involved in the background work on the report in terms of meeting the team. In many areas, our views are similar to those identified by the IMF in the report. There are difficulties with this because it can be quite difficult to get accurate figures on the public capital stock. What is one measuring in terms of roads, infrastructure, buildings and other things owned by the Government? It appears the quite high level of public capital expenditure we have had in Ireland has not resulted in the value for money such expenditure might be expected to generate. The utilisation benefit of some of the projects may not be matched by the expenditure that goes into them. Therefore, with regard to the efficiency shortfall identified, the IMF assesses the output and level of activity associated with additions to capital stock. From an Irish perspective, it is saying there should have been greater increases in activity. In a crude way, one could measure the trend by considering the motorway network, for example, to determine the utilisation rate, the level of traffic and whether that level warrants a two-lane motorway between certain locations. One could also examine the rail network. The rail operator has recommended at times that certain rail routes, which have received substantial amounts of public funding in recent years, should no longer operate. Some of the project choices do not appear to be optimal from an economic efficiency perspective. If, over the coming years, public capital spending is to be ramped up, as predicted, facing a doubling of the 2015 level by 2021, we should ensure the money is going in the appropriate direction. These are huge sums of money and we should be getting value from the expenditure. It should not simply be a matter of economic activity. We should be seeking to improve both our physical and technological infrastructure and to make improvements in the other areas to which this money is devoted. Billions of euro are to be spent over the coming years. If the IMF has identified shortfalls in spending, we should be ensuring this does not happen in the future.

Deputy Eamon Ryan: I share Mr. Coffey's concerns, including on the motorway programme. The motorway programme was always going to involve a massive over-investment. We were building motorways with a capacity of 80,000 vehicles per day when we knew we would never have more than 5,000 to 10,000 on them per day. I was always bewildered by how the Department of Finance could throw money at that. My concern is sharpened by how the main part of our new national planning framework apparently involves more inter-urban motorways. IBEC's main job seems to be to get more PPP projects for more motorways. That was its submission on the national planning framework. It was a matter of more motorways everywhere. Does the council share my concern regarding PPPs?

Mr. Seamus Coffey: An oversight in my previous answer was that I did not address the issue of PPPs. One must ask where the risk lies. If huge sums of money are to be devoted to a project and there is to be a partnership, is the risk being divided? In the case of some of the transport projects undertaken on this basis, the risk lies almost entirely on the Government side. What benefit to the public finances is achieved by adopting this approach, particularly when we have traffic estimates set in 2006 and 2007 based on growth projections that turned out to be wildly optimistic? The Government must then step in and fund shortfalls owing to incorrect traffic projections, thereby increasing spending in the future. We have concerns over PPPs based on the question of whether one is actually moving the risk on to somebody else. There can be benefits in terms of raising revenue but the risks should be divided.

Deputy Eamon Ryan: I have one other question on that. Regarding the review of the public spending code, I have been asking the Minister for Finance recently the price of carbon he uses in multi-criteria analysis. I was shocked to hear he is using a price of €7 per tonne, or whatever the current emissions trading system, ETS, price is. I understand the European Investment Bank uses a price of €14 per tonne and the World Bank uses a similar one. The US Government set it at €60 per tonne when Mr. Obama was US President. It is not surprising that all the investments we are making are leading to a high-carbon economy. Emissions are rising across all sectors. The Department of Finance seems completely-----

Mr. Seamus Coffey: Have we a high-carbon economy?

Deputy Eamon Ryan: We do. We have carbon emissions that are among the highest in the world *per capita*, and the rate is rising at speed across all sectors. Nothing in our public capital planning framework is doing anything to address it. The council has mentioned this issue in the past. Has it done any further work on how we price carbon? The Minister for Finance effectively asked for help when I asked my question. He said he guessed €7 per tonne was wrong because the ETS is not working and asked for advice. Has the council done any work with the Department of Finance on pricing carbon?

Mr. Seamus Coffey: No. The price of carbon is not something we have addressed. As with the concerns over PPPs and the permits available, the price was based on forecasts that turned out to be very optimistic. The amount available exceeds anything that would create a higher price. The price of carbon and its input on projects are not matters we have addressed. What we have examined in terms of the fiscal side of the climate change targets is the potential for fines to have an impact on the fiscal outcomes. It looks like they could be very large. We have identified a risk in this regard but we have not addressed the price of carbon itself.

Deputy Eamon Ryan: My concern is wider in that we are investing in infrastructure that will not be fit for the future. Everything is changing. The Paris Agreement commits us to decarbonising our energy and transport systems. If we continue with inappropriate investment decisions now, not only will we face fines for failure to comply but we will face having the wrong infrastructure and effectively the wrong economy.

Let me return to my first question. Given my concerns, it seems that the Department of Public Expenditure and Reform has no understanding of the urgency of this climate issue and no ability to cost or assess projects to make infrastructural decisions based on moving towards a sustainable economy. It seems completely blind to this as a threat. If we put an infrastructure project unit within the Department, is there not a risk that we are just doubling up on a system therein that simply does not get the need to move towards a sustainable, renewable low-carbon economy?

Mr. Seamus Coffey: With regard to our previous point on increases in public capital expenditure and the likelihood that all elements will be addressed, and the question of whether the impact on carbon emissions will in turn have an impact on the use of the resources and, potentially, on meeting climate targets, these issues should be taken into account. If there are concerns over the price of carbon that might be generated or fines that might arise, they should be taken into account. This is the way the framework is going. I am not quite sure whether it is fair to say the Department is fully blind to this but we hope it is being taken on board.

Vice Chairman: When I took out my mortgage many years ago interest rates were peaking at 14% or 15%, which frightened people and did not allow them any kind of life for a period. Mortgages at present are being taken out at the bottom of the market and at the lowest interest rates, for 20 or 25 years. What is the medium to long-term prospect for someone who may be three or four years into a mortgage now?

Mr. Seamus Coffey: We are straying far outside our mandate in respect of comments on interest rates. We address interest rate expectations because the Government has a large debt linked to interest rates. It is not just a household problem. I am not sure there is a general view in Ireland, particularly for new borrowers, that interest rates are low compared with other EU countries. Compared with the 14% or 15% rate that existed in the past, Ireland has relatively high borrowing costs for new borrowers. Interest rates may have been 14% or 15% for previous generations but inflation was a substantial feature of economic life at the time, with rates of 10%, 12% or 14%. While there were many moving parts, the changes to real income might not have been as dramatic. Moves over recent decades have been to curb inflation, to give independence to central banks and try to drag down inflation expectations. Perhaps over the past decade that process has been too successful. One reason for our low interest rate is that inflation is so low. That looks like being so for the coming years.

Government debts, which to all intents and purposes look out possibly to an infinite horizon, are not being eroded by inflation. Their value in real terms is being maintained. To someone looking at it from the perspective of today, the mortgage on which the Vice Chairman was paying a rate of 14% or 15% would appear tiny because of the impact of inflation. The debt for a household with a mortgage, and a Government with a substantial public debt of €200 billion, will not be reduced in real terms to the same extent due to the success in curbing inflation over recent decades. Inflation is viewed as a negative factor because it adds to uncertainty, has an impact on investment decisions and the mantra of low and stable inflation has taken hold but the trade-off between inflation and interest is not at the high level it was in the past.

Vice Chairman: On significant criticism on foot of the crash was that save for the occasional voice in the wilderness, many things that came to pass were not flagged and some of the advice offered was not salient. Where is the intersection between the Irish Fiscal Advisory Council, the Minister and the Department in respect of the council's advice?

Mr. Seamus Coffey: One reason for the creation of the council was to offer an independent viewpoint. The critical aspect may not be our interaction with the Minister or the Department of Finance but our contribution to the debate as a whole, interaction here with Members of the Houses, contributions to the public debate through the media and the independent assessment we do. Perhaps ten or 15 years ago, that work was left to a few lone voices in the wilderness. Now there is an institution whose mandate is to observe, assess and identify problems.

We frequently state that problems that emerge in the future will not be the same as the problems we had in the past. We might look back and identify signals and indicators that should have been noted in previous periods as being points of concern but the ones in the future could be different. We try to broaden our view.

We write fiscal assessment reports, get a response from the Minister in a couple of weeks. We interact with the Department of Finance through the endorsement of the macroeconomic forecasts. That process is probably aligned with a greater scrutiny of what is undertaken. It can be hard to identify what we are achieving but just as one does not put an alarm on a house hoping it will go off, merely by our presence we can perhaps inform the debate, identify issues that can lead to problems and hope that they do not arise.

Deputy Martin Heydon: How can we strengthen the rainy day fund? Does Mr. Coffey think three years is an appropriate medium-term horizon for the fund?

Mr. Seamus Coffey: We wanted the rainy day fund to do a bit more. It looks like a very passive design. Once the public finances are back in balance in structural terms, a contribution of €500 million per annum will be made over three years. It is not offering the counter-cyclical benefits that a rainy day fund could provide. We are trying to set money aside in good times to have resources available when the rainy day comes. A fund based on a fixed contribution over a short period that does not come to a large sum of money does not appear to offer the counter-cyclical benefits that a more actively designed model could.

We recognise there are difficulties in setting it up. If it could be easily achieved, one could imagine there would be templates around the world of which we could avail. While it may be theoretically attractive to have this counter-cyclical element in place, given the constraints of the fiscal rules that are already there, it is easy to save money in good times but how can we ensure we can access and spend it when we actually want it? There are difficulties to overcome. The proposal could have merits but we would like to see it go a bit further and be more active.

Deputy Martin Heydon: If it got going as a decent starting point, when we have constrained budgets and could do more when the budgets are more expansionary, notwithstanding Mr. Coffey's comments, what steps could we take to make it more proactive and improve its counter-cyclical nature?

Mr. Seamus Coffey: The question is whether, because of some of the risks identified, the economy would need some fiscal stimulus or support three or four years down the line. If the buffers have been built up, not necessarily making a fixed contribution but running towards a structural balance and if the economy is performing quite well, that should mean a surplus in nominal terms once the impact of the business cycle is stripped out. There are surpluses in nominal terms such that if the economy hits a downturn those surpluses should evaporate as tax revenues fall and income supports such as unemployment benefit have to be paid. If the economy needs a stimulus and we access funds from the rainy day fund, that would be active but that would be based on the first part, that is, running the surpluses in nominal terms, when there is a strongly performing economy. It is not an active or solid counter-cyclical policy to say we will spend more money in a downturn and spend resources as they come in when the economy is performing strongly.

Vice Chairman: Our meeting on 16 January will be devoted to the rainy day fund among other things.

Deputy Thomas P. Broughan: In its document the council makes a profound criticism of the commonly agreed methodology, CAM, saying the production function is flawed, and gross domestic product, GDP, gross national income, GNI*, and so on. Has the council put forward a credible alternative methodology that could be produced side by side by the Department of Finance to give us less pro-cyclical and more medium-term strength in forecasting?

Mr. Seamus Coffey: Criticisms of the CAM have been an ongoing point made by the fiscal council, as well as by the Department of Finance itself in documents dating back to the early 2000s. We have addressed it through our endorsement process of examining the real side of the economy in respect of the expenditure approach, consumption, investment etc. It also looks at the supply side and the potential of the economy. The view of the Irish Fiscal Advisory Council, IFAC, and others is that the CAM does not give a good view of the supply side of the economy. We provide and publish alternative estimates in our report, as can be seen. Over the last years they have been very divergent from the estimates that appear in the budget documents which do not appear plausible and, at present, seem to be the base for fiscal policy. They would indicate that the economy has been overheating to a significant degree since 2015 with a positive output gap of over 2%. There is a potential for 2% of all economic activity in Ireland to be on a non-sustainable footing and that could decline. The estimates have shown that has been declining over the past couple of years but that does not tie to our view of the economy. We think the view the Department of Finance and other agencies might have is that the economy is recovering from a very deep downturn, that there is remaining potential in the economy and that it is not the case that we are already overheating, that there is still slack in the economy and that the output gap remains negative. Our estimate for 2017 is that there is a negative output gap.

As we said earlier when asked about our interaction with the Department of Finance, there is ongoing work, both by the Department of Finance and ourselves, to get a better estimate of this. We recognise that the commonly agreed methodology has legal underpinnings within the Stability and Growth Pact so there is a necessity to estimate it but one is not limited to it. Other approaches can be taken. We have assessed a range of other approaches, many of which we feel are superior to the commonly agreed methodology and we hope the Department of Finance would move towards using some of those.

Deputy Richard Boyd Barrett: I forgot to thank Mr. Coffey in my initial contribution. If I was being rapid with the questions, it was only because I was up against the clock.

Mr. Seamus Coffey: No problem.

Vice Chairman: It is the slowest moving clock I have ever been in charge of.

Deputy Richard Boyd Barrett: I know. I appreciate all the work. Mr. Coffey is coming in next year to talk about corporate tax, is he not?

Vice Chairman: Witnesses will come in to speak about corporation tax. We do not have a note about that yet, do we?

Deputy Richard Boyd Barrett: On the report?

Mr. Seamus Coffey: I was at the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach, last week.

Vice Chairman: We will just get January sorted, anyway.

Deputy Richard Boyd Barrett: We asked Mr. Coffey before the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach met but we did not get him in.

Mr. Seamus Coffey: I was with that committee last week but I have not been before this committee for the report.

Deputy Richard Boyd Barrett: We were hoping to get Mr. Coffey in and thought we agreed that he was coming in next year. I hope he is coming in.

Mr. Seamus Coffey: At the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach last week-----

Deputy Richard Boyd Barrett: Do not worry about the finance committee. This is the Committee on Budgetary Oversight.

Vice Chairman: I will flag for Mr. Coffey that we will be dealing with this in the new year and he should expect an invitation.

Deputy Richard Boyd Barrett: Mr. Coffey identified that the knowledge development box, intangible assets, allowances and so on that were benefitting a small number of IT companies was not necessarily translating into higher levels of investment. Does he think that needs to be looked at? Developing and innovation is part of developing a sustainable economic model. If available public expenditure is going into a small number of companies and it is not translating into higher levels of investment, would Mr. Coffey think, as seems to be implied in his report, that we should be much more focused on that investment going into public universities or other areas which are likely to actually yield real economic activity and gains to the economy?

Mr. Seamus Coffey: The choice of using whatever resources are available is largely a policy choice. It is not something the Irish Fiscal Advisory Council would get hugely into. Some of the concerns we have raised about the issues the Deputy has addressed are whether they are reflective of increased resources. Are some of these developments from multinationals and the impact they have on our national accounts, our gross domestic product and our gross national product reflective of our ability to provide public services or to service debt? Our view and the view of many would be that they are not. Even within that, one identifies certain choices that are made relating to corporation tax policy, such as the research and development tax credit, the use of which has increased significantly over the last years. As long as the overall use of resources is maintained within the broad fiscal parameters as we see them, it is not necessarily IFAC's view that these should not be undertaken but we identify things that have grown substantially in recent years.

Vice Chairman: I thank Mr. Coffey. I acknowledge the preparation work of his team. We appreciate it and its thoroughness and that they answered all the questions today. Dr. Lawless is the only one who did not speak. Is there anything that she wanted to contribute?

Dr. Martina Lawless: No.

Vice Chairman: I thank the chair, Mr. Coffey, and the other council members, Mr. Sebastian Barnes, Mr. Eddie Casey, Mr. Michael Tutty and other members sitting in the background, Mr. Kevin Timoney, Ms Kate Ivory and Ms Ainhoa Osés Arranz. I thank the Deputies too. I acknowledge the continued work of our Parliamentary Budget Office and its director for the work, preparation and background material it provides to us. I thank the clerk, the officials and our audio-visual team, without whom we would not be broadcast.

The select committee adjourned at 3.36 p.m. until 4 p.m. on Tuesday, 12 December 2017.