An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
Quarterly Economic and Fiscal Commentary – Q4 2018
PBO Publication 5 of 2019
Séanadh

Is í an Oifig Buiséid Pharlaininteach (OBP) a d’úllmhaigh an doiciméad seo de réir na feidhmeanna atá leagtha síos san Acht um Choimisiún Thithe an Oireachtais, 2003 (mar a leasaíodh), mar ás do Chomhaltaí Thithe an Oireachtais ina gcuid dualgas parlaiminteach. Féadfaidh an OBP aon fhaisnéis atá ann a bhaint as nó a leasú aon tráth gan fógra roimh ré. Níl an OBP freagrach as aon tagairtí d’aon fhaisnéis atá á cothabháil ag tríú páirtithe nó naíosc chuid aon fhaisnéis den sórt sin ná as ábhar aon fhaisnéise den sórt sin. Tá baill foirne an OBP ar fáil chun ábhar na bpáipéar seo a phlé le Comhaltaí agus lena gcuid foirne ach ní féidir leo dul i mbun plé leis an mórphobal nó le heagraíocht seachtracha.

Disclaimer

This document has been prepared by the Parliamentary Budget Office (PBO) in accordance with its functions under the Houses of the Oireachtas Commission Act 2003 (as amended) for use by the Members of the Houses of the Oireachtas to aid them in their parliamentary duties. It is not intended to be either comprehensive or definitive. The PBO may remove, vary or amend any information contained therein at any time without prior notice. The PBO accepts no responsibility for any references or links to or the content of any information maintained by third parties. Staff of the PBO are available to discuss the contents of these papers with Members and their staff, but cannot enter into discussions with members of the general public or external organisations.
Contents

Introduction 2
Executive summary 4
Latest macro-economic developments 7
  Economic growth 7
  Other economic indicators 10
Macroeconomic risks 20
  External risks 20
  Domestic economic risks 25
Fiscal developments 30
  Taxation and other revenue 30
  Overall Exchequer expenditure 36
  Expenditure commentary 42
  Overall balance 45
  Government debt 48

Box 1: The Construction Sector 17
Box 2: European Semester: Macroeconomic Imbalances 23
Box 3: Economic Overheating 27
Box 4: Tax Revenue Buoyancy 34
Box 5: Supplementary Pension Auto-enrolment 40
Box 6: Fiscal Space and Fiscal Stance 46

Appendices 50
This Quarterly Economic and Fiscal Commentary is the sixth produced by the Parliamentary Budget Office (PBO) of the Houses of the Oireachtas. This is the first commentary since the Parliamentary Budget Office was established on a statutory basis. The Parliamentary Budget Office provides to the Houses of the Oireachtas and/or Oireachtas Committees fiscal and economic information, analysis and advice that is independent and impartial.

The PBO’s Quarterly Commentary updates Members on economic and fiscal developments, highlighting areas of interest and concern. In addition, the PBO uses the commentary to bring associated issues to the attention of Members.

The Irish economy maintained its momentum in 2018. High economic growth has translated to high employment growth and the number employed in Ireland is now at the highest level since the State was founded. In addition, the unemployment rate is almost back to pre-crisis levels. However, the benign global economic environment that has facilitated Ireland’s economic recovery from the financial crisis seems to be more turbulent. The main international economic forecasting bodies now suggest that global economic growth in this cycle has peaked and are predicting a modest slowdown in economic growth in 2019 and 2020. Ireland’s main trading partners all face major economic risks in 2019 including, amongst others, Brexit in the UK and EU, the potential of further trade disruption between the US and China and increased interest rates in the US.

In terms of fiscal developments the surge in Corporation Tax revenue now seems to suggest that there will be a small nominal General Government Surplus in 2018. However, it is unclear at this stage what this means for the Structural Budget Balance as at least €700 million of the Corporation Tax revenue has been judged to be due to a one-off adjustment in international accounting standards.

The unexpected Corporation Tax receipts in 2018 have to some extent masked a number of other fiscally important issues. These include:

- Excise duties and stamp duty receipts which are collectively approximately €600 million less than originally expected. Given that economic growth is robust the reasons for this seem to be poor forecasting and policy changes that were not adequately costed (including the effects of increasing stamp duties on commercial property and the change to plain tobacco packaging).

- The large over-profile increase in gross Voted expenditure of €1.3 billion, with almost €650 million over profile spending in Health, €300 million in Employment and Social Protection, €121 million in Housing, Planning and Local Government, €139 million in Education and Skills (mostly pensions) and €93 million in the Justice and Equality group of Votes.

- Almost €500 million in over-profile receipts between ‘other’ Appropriations-in-Aid and ‘other’ non-tax revenue that there is little or no information on.

- National Debt interest was €312 million below profile.
Without the unexpected increase in Corporation Tax revenue and some other receipts the achievement of a budget surplus would have been in doubt. The PBO and others (including the Irish Fiscal Advisory Council and the Central Bank of Ireland) have frequently highlighted that financing increases in permanent expenditure from volatile and potentially unsustainable sources of revenue is unwise. The lesson from the recent economic and financial crisis that unsustainable increases in current expenditure increase the risk of the Government having to scale back public services (in a procyclical way) when economic growth falters should be heeded.

Lower economic growth than expected (due to a disorderly Brexit or lower international trade, etc.) will lead to revenue shortfalls through lower income and indirect taxes. This could be exacerbated if the lower growth is due to a slowdown or decrease in international trade and in turn affects profits from multinational companies. Such a fall would impact on Corporation Tax receipts. Given that Corporation Tax is mostly collected at the end of the year (October to December) and is based on the previous year’s profits, it could be well into 2020 before a shortfall in Corporation Tax becomes apparent. This risk, as well as risks from the concentration of Corporation Tax revenue in a small number of companies, need to be monitored.

Finally, along with the standard economic and fiscal analysis, this issue includes information boxes on selected issues including:

- The construction sector – this box looks at some of the main trends in the construction sector over time.
- European Semester: Macroeconomic Imbalances – this box briefly examines the macroeconomic imbalances identified for Ireland by the European Commission.
- Economic overheating – this box examines the concept of overheating and provides a heat-map of selected variables which may help indicate if Ireland is experiencing overheating.
- Tax revenue buoyancy – this box examines the link between economic growth and tax revenue increases.
- Supplementary pension auto-enrolment – this box summarises the Government’s recent “strawman proposal” on pension auto-enrolment and examines the fiscal consequences.
- Fiscal space and fiscal stance – this box discusses the concepts of fiscal space and fiscal stance and discusses the amount of gross fiscal space available as well as how capital smoothing affects fiscal space.

Annette Connolly  
Director of the Parliamentary Budget Office  
Houses of the Oireachtas Service
This PBO Quarterly Economic and Fiscal Commentary (Q4 2018) summarises the latest macroeconomic economic and fiscal information available. It comes at a time of strong domestic economic growth but heightened international uncertainty due in part to the unknown outcome of the Brexit process.

Macro-economic developments

The CSO’s latest quarterly data (published in mid-December) shows robust economic growth as measured by GDP and GNP in the first three quarters of 2018. Most forecasters are expecting that GDP growth in Ireland for 2018 will be in the region of 7.5%-8%. The Department of Finance is expecting economic growth of 4.2% in 2019.

Almost all of the main economic indicators are performing strongly – employment (at 2.26 million), for example, now exceeds the pre-crisis peak and the unemployment rate (5.3%) is at its lowest level since early 2008.

The House of Commons has rejected the Withdrawal Treaty agreed between the European Union and the UK Government. This means the shape of Brexit is currently unknown and the probability of a “no deal” Brexit has risen. The implications of this for the Irish economy and thus on Government finances are difficult to measure given the uncertainty and lack of clarity over the preparedness of the Government, Irish businesses and multinational businesses based in Ireland.

There are also other risks facing the economy including trade tension between the United States of America and China, the potential for the Irish economy to overheat and issues with housing supply. These latter risks are addressed in two Boxes (overheating and the construction sector) in this Quarterly. In addition, the European Commission has identified, amongst others, the high level of public and private debt, as well as increasing house prices as macroeconomic imbalances in Ireland.

Fiscal developments

Revenue

Overall Central Government revenue by source (excluding transactions with no General Government Balance impact such as inter-Government loan transactions) was €69.75 billion in 2018, which was €2.2 billion or 3.3% above expectations at the beginning of the year:

- Tax revenues were almost €55.6 billion, and €1.4 billion above profile;
- Appropriations-in-Aid were €12.6 billion, and €493 million above profile; and
- Non-tax revenue was €1.57 billion, and €321 million above profile.
Overall, year-on-year revenue was up €4.7 billion or 7.3%. The year-on-year comparison is affected by the re-designation from 2018 of Motor Tax as an Exchequer tax (and paid directly into the Central Fund), with Local Property Tax going directly to the Local Government Fund. If these taxes are excluded from the year-on-year comparison, then overall Exchequer revenue was up €4.24 billion or 6.6%.

While the increase in Corporation Tax revenue (€1.88 billion or 22.1% above profile) has been the focus of much commentary, many other revenue sources (such as Central Bank income, PRSI, capital taxes) are ahead of profile. However, there were significant shortfalls compared to profile in excise duty and stamp duty receipts. In addition, there was almost €500 million in unexpected ‘other’ Government revenue for which there is little detail as to its source.

Corporation Tax receipts are the main driver of the increase in revenue in 2018. In Budget 2019, the Government announced that there was a one-off gain of approximately €700 million in 2018 due to changes in international accounting standards. Corporation Tax revenue for 2018 came in a further €780 million above the Budget 2019 forecast. This has implications for 2019 as it is likely that Corporation Tax revenue for 2019 will be revised upwards.

Income from dividends was €13 million or 5.4% below profile and overall income from dividends was €92 million below such income in 2017 – though much of this decrease was anticipated. Dividends from the E.S.B. were €105 million lower in 2018 than in 2017.

Expenditure

At the end of 2018, overall Central Government expenditure (excluding transactions with no General Government Balance impact) equalled €71.8 billion, €828 million above profile and €4.8 billion (or 7.2%) more than in 2017. This was composed of €63 billion in Voted expenditure, €2.9 billion in non-Voted expenditure and €5.8 billion in interest on the National Debt:

- Gross Voted Current Expenditure was €1.1 billion (2%) above profile; this is a significant change from end-Q3 when Gross Voted Current Expenditure was only 0.6% or €265 million over profile. This was driven by the following Vote groups:
  - Health is €625 million (4.2%) above profile;
  - Employment Affairs and Social Protection is €302 million (1.5%) above profile;
  - Education & Skills is €140 million (1.5%) above profile; and
  - Justice & Equality is €101 million (4.1%) above profile.

- Gross Voted Capital Expenditure was €188 million (3.2%) above profile; this has also deviated significantly since end-Q3, when capital expenditure was €253 million below profile. The most significant over-profile expenditure was in Housing, Planning and Local Government of €143 million (8.8%).

These figures compare the Exchequer provisional outturn to the Revised Estimates for Public Services 2018 (i.e. excluding Supplementary Estimates). The Supplementary Estimates did provide for an additional €1,301 billion in gross Voted expenditure and accordingly the actual provisional outturn was almost €200 million less than the final amounts approved by Dáil Éireann for 2018.

Much of the increase in expenditure is, in effect, financed by the increased Corporation Tax receipts. This taxation source is volatile, the types of expenditure being committed to are generally less so. In the Health and the Education and Skills Votes pay is the primary source of current expenditure, and this category of expenditure was difficult and slow to reduce.
during the last fiscal crisis. In addition, the current economic conditions are facilitating stable social protection expenditure, even though payment rates are rising. Given the risk inherent in the current domestic and international macroeconomic environment, the reliance upon cyclical tax revenue sources to fund non-cyclical expenditure is a key challenge for management of the public finances.

**Overall balance**

The Exchequer Balance shows a surplus of €106 million at the end of 2018. This is €2.552 billion better than was profiled. This improvement is a result of tax and non-tax revenue being €2.2 billion higher than profiled and non-general government impacting revenue being €1.3 billion higher than expected. This unexpected revenue was offset somewhat by general government expenditure of €0.8 billion and non-general government impacting expenditure of €165 million being higher than projected.

The Government has indicated that the surplus in the Exchequer balance will translate to a small surplus in the General Government Balance. The expected general Government surplus in 2018 should, all things being equal, lead to a surplus in 2019 compared to the Budget day expectation of a balanced budget. In addition, the impact of the final fiscal figures on the Structural Budget Balance for 2018 and whether or not the EU fiscal rules were met, also needs to be considered. New estimates of the Structural Budget Balance will be published in the Government’s draft Stability Programme Update due in mid-April.

PBO analysis suggests that the gross fiscal space under the EU’s Expenditure Benchmark is forecast to be €4.3 billion in 2020, €5.2 billion in 2021, €5.2 billion in 2022 and €5 billion in 2023. This amounts to an additional €19.7 billion over the 4 year period based on current data. However, given the pro-cyclical nature of the Expenditure Benchmark\(^1\) it would not be prudent to use all the fiscal space allowed by the Benchmark over the period. Furthermore, the PBO calculates that from 2020 on, due to increases in public capital expenditure in the previous three years (on current plans), capital smoothing will have the effect of increasing the amount of fiscal space used by public investment. The consequence will be that increasing capital expenditure will no longer be a way to increase overall expenditure above the long run potential growth rate of the economy.

**Government debt**

The Department of Finance forecasts that Gross General Government Debt was €206 billion at the end of 2018. This corresponds to 64% of GDP, against the target of below 60% set in the Treaty on the Functioning of the European Union.

In 2019, €15 billion in bonds are expected to mature, and the NTMA was holding €15.3 billion in cash at the end of 2018. The NTMA plans to issue €16 billion in long-term bonds during 2019, and a further €2.9 billion in other funding sources (e.g. State Savings). On 9 January 2019, the NTMA raised €4 billion through the syndicated sale of a new 10-year bond maturing in May 2029. The funds were raised at a yield of 1.123%. Thus, one quarter of 2019’s planned funding through bond issuance is complete.

---

\(^1\) See PBO (2018) Potential Output, the Output Gap and Associated Key Issues for Fiscal Policy-making in Ireland.
Latest macro-economic developments

The resources available to facilitate Government expenditure and public service delivery are dependent on taxation and therefore on the state of the Irish economy. This section briefly outlines the latest macro-economic developments, and provides commentary on some of the main risks facing the economy in the short to medium term.

Economic growth

The Irish economy, as measured by Gross Domestic Product (GDP) grew strongly in 2017. Annual GDP grew by 7.2% and Gross National Product (GNP) grew by 4.4%. This growth was mainly driven by a large increase in net exports linked to the activities of foreign-owned multinational companies. However, the domestic economy also grew strongly, with Modified Gross National Income (GNI*) growing by 3%.

Latest quarterly economic growth statistics

The CSO’s latest quarterly economic growth statistics (published in mid-December), show robust economic growth as measured by GDP and GNP in 2018 (Figure 1a).

GDP, on a seasonally adjusted basis grew by 0.9% in Q3 2018 relative to Q2 2018 (Figure 1b), and was 4.9% higher compared with Q3 2017. GNP grew by 5.2% from Q2 to Q3 2018, and 3.1% from Q3 2017 to Q3 2018.

Figure 1a: Seasonally adjusted GDP and GNP at constant prices by quarter (2017-2018)


Drivers of quarterly economic growth

Differences in quarterly GDP between Q2 2018 and Q3 2018 were driven by investment (as measured by Gross Fixed Capital Formation) which rose by 21.8% in the quarter and Government consumption which was up 1.8%. Exports were up by 1.5% in the quarter and consumption rose slightly (up 1.0%). However, imports were up 7.1% over Q2 which acted as a drag on overall GDP growth.

Modified final domestic demand, an indicator from the CSO that strips out some activities of multinational companies (e.g. R&D and aircraft leasing) to get a better picture on underlying spending and output in the domestic economy, increased by 0.6% in Q3 2018. This compares to 1.4% growth in Q2 2018. It is up 4.1% over Q3 2017.

The latest quarterly economic growth figures show robust year-on-year growth. While strong exports (mainly by foreign multinationals) is a significant driver of growth – measures of domestic economic growth are also strong.
Economic growth forecasts for 2018 and 2019

Table 1 shows the forecasts of the major institutions that estimate Irish economic growth.

Table 1: GDP Forecasts by forecasting institution and date of forecast release

<table>
<thead>
<tr>
<th>Forecasting Organisation</th>
<th>Date</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Commission</td>
<td>Nov-18</td>
<td>7.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Department of Finance</td>
<td>Oct-18</td>
<td>7.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Central Bank of Ireland</td>
<td>Jan-19</td>
<td>7.5</td>
<td>4.4</td>
</tr>
<tr>
<td>IMF</td>
<td>Oct-18</td>
<td>4.7</td>
<td>4.0</td>
</tr>
<tr>
<td>ESRI</td>
<td>Dec-18</td>
<td>8.2</td>
<td>4.2</td>
</tr>
<tr>
<td>OECD</td>
<td>Oct-18</td>
<td>5.9</td>
<td>4.1</td>
</tr>
</tbody>
</table>


The Department of Finance published updated economic forecasts, endorsed by the Irish Fiscal Advisory Council, as part of Budget 2019. Many of the fiscal estimates (i.e. tax revenue and certain expenditure) of Budget 2019 are based on these forecasts.

The relatively large revisions in the Government’s forecasts especially for 2018 (the previous forecast was for 5.6% GDP growth) again highlight the volatility and accuracy of GDP forecasts and suggests that caution be taken when using such forecasts as the basis for budgetary decisions.

There was a large increase in Corporation Tax revenue in 2018, including windfall gains due to an accountancy standard change. While not on the same scale as 2015, the year-on-year increase in tax revenue was almost €2.2 billion or 26.6%. In 2015 the increase in Corporation Tax revenue was €2.3 billion or 48.9% – this increase was in part due to the same changes in corporate governance arrangements of multinational companies and led to a GDP increase of almost 25% in 2015 (in effect a level shift due that had little to do with domestic economic activity). The final 2015 GDP figure only became apparent in July 2016 – it was not picked up in the quarterly figures throughout 2015 or early 2016. While not on the same scale as in 2015 (in percentage terms at least) the increase could signal significant upwards revisions in 2018 GDP.

The 2019 forecasts in Table 1 are based on the assumption of a transition period involving little change to current trading relations between the United Kingdom and the European Union after Brexit in March. The Central Bank of Ireland’s latest quarterly has suggested that growth in 2019 would be three percentage points lower in a no-deal Brexit scenario compared to a scenario with a transition period. Obviously, a no-deal Brexit would be a shock to the Irish economy and this is discussed later in the macroeconomic risks section on p.20.
Other economic indicators

To understand the prevailing trends in the Irish economy, a more comprehensive analysis of a set of economic indicators is required. Such indicators are available more frequently and therefore can be used for a timelier analysis of recent economic developments than GDP, GNP, or GNI*.

Employment and unemployment statistics show whether economic growth is translating into employment growth. Wages indicate potential purchasing power and increasing wage levels generally lead to stronger disposable income which positively affects consumption.

Consumer prices reflect inflation, and increased prices can indicate higher demand and is typically associated with economic growth. However, inflation can remain low during periods of substantial economic growth, as is the case with Ireland currently. A depreciating sterling and dollar, relative to euro, leads to lower prices for Irish imports, subduing inflation somewhat. Looking at developments in retail, services, and industrial production give us an indication of the performance of these sectors.

Due to the very open nature of the Irish economy and its dependence on trade, the level of exports, imports, and the balance of payments, are key indicators of economic performance.
Employment growing at 3.1% year-on-year

The latest figures show the numbers employed at 2.265 million is growing at 3.1% year-on-year.

Approximately 68,100 net jobs were added in the year to Q3, with 10,700 added in Q2 itself. This is the lowest quarterly increase in persons employed since Q2 2017.

Unemployment rate continues to fall

The number unemployed is approximately 136,100. This is a small decrease over the first half of 2018. Based on the quarterly figures the fall in the numbers unemployed seems to be beginning to bottom out.

The unemployment rate was 5.7% in Q3 2018.

The latest monthly unemployment (December 2018) rate is 5.3% with 127,100 persons unemployed. However, these monthly estimates of the unemployment rate have a pattern of being revised upwards after the Labour Force Survey is published each quarter.

Retail sales continue to grow

Seasonally adjusted retail sales (excluding motor trades) are 1.9% higher in November 2018 compared to a year ago. Retail sales growth has been relatively strong since January 2017.

Sectors that saw particularly large increases in the volume of retail activity in the year to November 2018 were: electrical goods (24%), furniture & lighting (12.9%), and books, newspapers & stationery (11.1%). Sales declined in other Retail Sales (-17.7%), Department Stores (-2.1%) and food, Beverages & Tobacco (-1.3%) were also lower.

Service sales experienced very strong growth in September

The services value index increased 10.8% year-on-year in November 2018 and was down 0.7% over October 2018. There was very strong growth in September and that level has been maintained through to November.

The service sectors showing the strongest year-on-year growth were information and communication (increased 28.1%), administrative and support service (increased 21.3%), transportation and storage (increased 17.6%), accommodation and food services (increased 6.2%) and wholesale and retail (increased 4.5%).
Manufacturing industries production slowing down from Summer

As measured by the CSO, volume of production in manufacturing industries was 11.5% lower in November 2018 compared to November 2017. In addition, manufacturing output seems to have declined in October and November.

Industrial turnover (i.e. the value of production) is generally moving in line with volume of production.

Employee average weekly earnings growing at 2.1% annual rate

Seasonally adjusted average weekly earnings in Q3 2018 were €749.05, an increase of 0.7% from the previous quarter and up 2.1% compared to Q3 2017.

All sectors showed earnings growth with strong year-on-year earnings growth in the arts, entertainment, recreation and other services activities sector (+7.2%), accommodation and food services sector (+6.1%), transportation and storage sector (+5.8%) and information and communication sector (+5.3%).
Inflation is still subdued

Inflation as measured by the Consumer Price Index was 0.7% in the year to December 2018 and is still subdued. Annual average inflation in 2018 was 0.5%. There was a slight rise (half a percentage point) between June and October mainly due to price increases in energy products (fuel for transport and home heating oil) but energy products prices fell in November.

Ireland has one of the lowest inflation rate in the euro area, well below the 1.9% average rate. Energy prices have driven euro area inflation upwards in 2018. The ECB is predicting that euro area inflation will average 1.6% in 2019, though with a range of between 1.1% and 2.1%.4

% change compared to same month in previous year.
Exports of goods and services in Q3 2018 were up 1.5% compared to Q2 2018 and up 9.5% compared to Q3 2017.

Imports on the other hand grew 7.1% in the quarter and were up 15.7% on the same quarter in 2017.

This difference in the growth rates of imports and exports means that net exports, while still a significant contributor to economic output, fell in Q3.

Ireland’s current account in large Balance of Payments surplus

Ireland’s Current Account balance has been in surplus since Q3 2017. The CSO estimates that the Current Account balance for the first three quarters of 2018 was 12.3% of GDP (up from 7.2% of GDP for the same period in 2017).

However, the CSO have noted that there are significant distortions caused to Irish current account data by the activities of large multinational firms. Overall, the Current Account balance shows aggregate income inflows into Ireland, though mainly driven by trade by multinational companies.
These indicators are indicative of strong economic performance in the first three quarters of 2018. The notable exception is industries’ production and turnover which is volatile and shows no discernible trend over the past two years. Most of the indicators for which there is monthly data (retail sales, services, unemployment and tax revenue (see next section)) show that this growth is continuing into quarter 4. Again manufacturing industries’ production and turnover is an exception.

The PBO’s previous quarterly pointed out that the trends in these indicators for the first half of 2018 suggested that Government economic growth forecasts would be revised upwards for both 2018 and 2019. This prediction proved accurate.
Box 1: The construction sector

The construction industry plays a prominent role in driving developments in the Irish economy. In the past, movements in the construction sector have been highly pro-cyclical with activity peaking in 2006/07 followed by a large decline in the sector caused by and contributing to an unprecedented economic and financial crisis. In recent years, the sector has experienced a strong recovery (albeit from a low base) and is growing in significance to the Irish economy. Despite this recent growth, housing market difficulties remain with housing supply growth lagging behind growth in demand. This box provides an analysis of employment trends over time and in comparison with other EU countries. It also briefly discusses main linkages between construction output, tax revenues and economic overheating.

Figure 10 shows employment trends in construction over time in Ireland and for selected EU countries from 2006 to 2018. Ireland shows a similar trend to Spain with a large share of workers employed in construction in 2006 and 2007, followed by a period of continued declines in construction employment. This is in sharp contrast with the experiences of Austria and Germany, which more closely follow the EU average with a somewhat steady trend shown over the period. This is not surprising given that both Ireland and Spain experienced a property and credit bubble during that period. In 2018, Ireland is estimated to be close to the EU average of 6.8% employed in construction, but still 5.3 percentage points below its peak share.

Figure 10: Selected EU countries’ share of employment in the construction sector 2006-2018 (%)
While the share of employment in construction has remained somewhat static in Ireland over the past number of years at just under 7% of total employment, construction outputs have been increasing. Figure 11 shows the index of building and construction in Ireland from Q1 2004 to Q3 2018. Similar to trends in employment, total construction peaked in Q4 2006 followed by a period of persistent decreases before the trend bottoming out in 2010. The volume of construction has increased in the last number of years with volume 83% higher in Q3 2018 compared to the 2010 base, but still significantly below peak levels.

Figure 11: Building and construction output volume index by quarter, 2004-2018

Despite the increase in building and construction output seen in the last few years housing supply is lagging behind demand. Significant housing supply pressures persist and house prices have experienced significant increases with the increase in list prices estimated to be 5.5% in 2018. With the economy nearing full employment, it is uncertain how much the construction industry can continue to grow without additional construction workers. The sector has identified skill shortages as one of its biggest challenges. A recent paper from the ESRI has suggested that in the absence of significant efficiencies, employment levels in construction need to increase significantly in order to increase housing supply, and that much of this additional labour would have to come from inward migration.

Historically, the construction sector has represented a very tax-rich revenue base. Changes in construction activity have contributed to changes in government revenues. Data from Revenue (see Figure 12) shows that construction-related receipts have increased from 2% (€0.57 billion) in 2011 to 3% (€1.23 billion) in 2017 of total revenues received, however this does not include property related revenues such as stamp duty or property tax. The largest contributor in 2017 comes from PAYE income tax and USC (46%), followed by self employed income tax (23%).

Source: CSO, Volume of Production Index in Building and Construction (2010 = 100)

---

Bodies such as the IFAC and the ESRI have highlighted that a construction boom could lead to overheating in the future. In Ireland, developments in construction activity need to be monitored to identify the emergence of overheating pressures (as this played a significant role in the pre-crisis period). However, although the construction sector is growing, employment in construction and total building and construction output are still below their peak levels, as well as below long-term averages.
The Irish economy is performing well with the main economic indicators registering significant activity. However, there are a number of potential risks facing the economy and thus Government finances which this section will briefly discuss.

**External Risks**

**Brexit**

The UK currently plans to leave the EU in March 2019. To facilitate an orderly exit, the EU and the UK Government have provisionally agreed a Withdrawal Treaty and a Political Declaration on future EU-UK relations. The Withdrawal Treaty sets out a transition period until the end of 2020, during which EU law will continue to apply to the UK, a Protocol on Ireland and Northern Ireland (the ‘backstop’ solution) and a financial settlement. The EU and the UK have also agreed a Political Declaration on the framework of their future relationship. The Withdrawal Treaty has yet to be ratified by the European and UK parliaments and faces considerable opposition in the latter (the vote on the agreement in the House of Commons was defeated by a large margin on 15 January); therefore the nature of the future trading relationship between the EU and the UK still remains unclear. While the impact of Brexit on Irish economic activity is unquestionably negative, the size and scale of this impact is highly uncertain. At present, the risk of a no-deal or ‘hard’ Brexit remains a strong possibility.

The UK is Ireland’s third largest export market, with approximately 10% of total Irish goods exports in 2018 going to the UK. The UK is Ireland’s largest supplier of goods imports, with approximately an approximate 20% share in 2018. In addition, approximately 36% of Irish agricultural exports were destined for the UK.\(^8\)

In terms of services, the UK is Ireland’s largest export market, with 16.4% of total service exports in 2017. The UK is Ireland’s third largest source of service imports, with 9.2% of total service imports in 2017.\(^9\) In the absence of a withdrawal agreement and/or trade agreement between the EU and UK, trade between Ireland and the UK will be subject to World Trade Organisation (WTO) rules. The imposition of WTO rules would act as a significant barrier to trade.

The impact of Brexit on the economy will be significant with the ESRI\(^10\) forecasting a reduction of one percentage point in the growth rate under an European Economic Association (EEA) style agreement scenario and a reduction of 1.4 percentage points under a WTO type scenario for 2019, compared to a no Brexit baseline. In addition, the ESRI forecasts a reduction of 2.3 percentage points in GDP under the EEA agreement scenario and a reduction of 3.8 percentage points under the WTO type scenario by 2027. The Central Bank of Ireland has estimated a more severe effect in 2019 and in the longer term. Its latest quarterly\(^11\) suggests that a no-deal Brexit would reduce GDP growth by 3 percentage points in 2019 and by a further three percentage points in the longer term.

---

\(^8\) All figures in this paragraph based on the share of goods imports and export from and to the UK from January to October 2018 based on CSO (2018) Trade Statistics October 2018.


The main initial impacts from a ‘no deal’ Brexit will be two-fold:

- Disruption to trade through customs checks/inspections, supply chain disruptions, regulatory checks, etc.
- Prices of goods and service through customs duties, exchange rate movements, the effects of potential stockpiling or scarcity, etc.

Some of these effects may arise before end-March if a ‘no deal’ Brexit becomes increasingly likely.

**Euro/sterling exchange rate**

A further difficulty connected to the UK decision to leave the EU has been the fall in value of sterling relative to the euro. This has been further compounded by strong performance by the euro possibly due to different monetary strategies between Bank of England and ECB as the Eurozone and the UK are at different stages of the recovery from the financial crisis.

The euro/sterling exchange rate is a key factor in trade of goods and services between Ireland and the UK, with the history of the euro/sterling exchange rate in Figure 13. Fluctuations in the exchange rate can adversely affect Irish exporters by increasing the relative costs of their goods and services in the UK market. On average the exchange rate in 2018 was €1 = £0.8847 and this is 8% above the 2016 level, the year of the Brexit referendum. Further currency movements could see increased pressure on the competitiveness of Irish goods and services. Exchange rate volatility would also be a challenge for the tourism sector in Ireland.

**Figure 13: Euro/sterling daily exchange rate, 1999-2019**

Source: European Central Bank *Euro foreign exchange reference rates.*
Global economy

As a highly globalised economy, Ireland’s economic performance is heavily influenced by changes in international demand. Through 2019, the global economy is expected to continue to display relatively strong growth, with advanced economies estimated to continue to expand in 2019. The OECD expects global growth to slow from 3.7% in 2018 to 3.5% in 2019 and 2020\(^{12}\) (a downward revision from its forecasts in the OECD Economic and Interim Outlook for May 2018). The World Bank expects lower global GDP growth of 3% in 2018 and 2.9% in 2019.\(^{13}\) These forecasts suggest that global economic growth in this cycle has peaked and are predicting a modest slowdown in economic growth in 2019 and 2020.

Table 2 shows the most recent growth forecasts for Ireland’s major trading partners from the OECD. The OECD has reduced its forecasts slightly since its previous estimates. Ireland’s main trading partners all face major economic risks in 2019 including, amongst others, Brexit in the UK and EU, the potential of trade disruption between the US and China, increased interest rates in the US.

Table 2: Growth forecasts for main Irish trade partners

<table>
<thead>
<tr>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro Area</td>
</tr>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>United States</td>
</tr>
</tbody>
</table>


Growth for the euro area is expected to be 1.8% in 2019 (see Table 2). As noted in the ESRI’s Quarterly Economic Commentary, Winter 2018, economic activity in the EU continues to slow, with a fall of 0.2% in GDP quarterly growth rate in Q3 2018. The Central Bank of Ireland expects moderate growth in the euro area based on European Central Bank forecasts. These forecasts highlight the risks to euro area growth relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility.\(^{14}\)

Despite relatively strong global growth, significant risks persist. Protectionist trade policy is a threat to global growth. The IMF estimates that the current disruption to world trade could lower global GDP by 0.4% in 2018 and by 0.5% in 2019.

While Ireland has availed of tariff exemptions in respect of US imports of aluminium and steel products, the wider impact on global GDP would likely impact on Irish growth prospects. Recent analysis by the Central Bank of Ireland\(^{15}\) highlights the extent to which Irish growth depends on changes to external demand. They estimate that the effect on Irish exports of a change in global demand is almost double the effect of a similar change in exchange rates. Similarly, the ESRI estimates\(^{16}\) that a fall in global GDP of 1% would manifest as a similar decline in Irish GDP.

---

Box 2: European Semester: Macroeconomic imbalances

As part of the European Semester process the European Commission must evaluate if a country’s economy is experiencing macroeconomic imbalances. It does this through the Alert Mechanism Report. The Alert Mechanism Report provides a summary of the position of Member States across 14 macroeconomic indicators. These indicators are quantified for each country and reflected in a scoreboard, where the indicator is compared to an agreed threshold. Imbalances identified in the 2019 European Semester: Alert Mechanism Report (published in November 2018) have the potential to impact upon budgetary priorities for 2020 through the EU’s Country Specific Recommendations which should be adopted in July 2019. In the Alert Mechanism Report, the European Commission decides whether to carry out an in-depth review of each Member State.

In March 2018, in the in-depth review, the European Commission concluded that Ireland was experiencing macroeconomic imbalances, in particular involving vulnerabilities from large stocks of public and private debt and net external liabilities. The 2019 European Semester: Alert Mechanism Report, which is based on 2017 data, concluded that an in-depth review is again necessary as a number of indicators are beyond the indicative threshold (see Table 3), namely the net international investment position (NIIP), the real effective exchange rate (REER), private debt, public debt as well as the annual change in real house prices. All these indicators were also above threshold levels in the previous Alert Mechanism Report.\(^{17}\)

Table 3: Ireland’s Macroeconomic Imbalance Procedure Scoreboard breaches 2017 and 2018

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Net international investment position</th>
<th>Consolidated Private Sector Debt</th>
<th>General Government Gross Debt</th>
<th>Real effective exchange rate</th>
<th>House Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measure</td>
<td>% of GDP % of GDP % of GDP 3-year % change 1 year % change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thresholds</td>
<td>-35% 133% 60.0% ±5% 6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland 2018</td>
<td>-149.3 243.6% 68.4% -6.2% 9.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ireland 2017</td>
<td>(-176.2%) (278.1%) (72.8%) (-6.6%) (6.6%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Ireland’s net international investment position and Consolidated Private Sector Debt are distorted by the activities of foreign-owned multinational companies with limited connections to the domestic economy. The main imbalances that the European Commission is concerned with include household debt and non-performing loans, house price growth, and the still elevated level of Government debt.

The European Commission commented on the volatility of Ireland’s current account balance which is influenced by the activities of foreign-owned multinational companies.

---

\(^{17}\) See PBO (2018) European Semester 2018 and how it interacts with Ireland’s Budget 2019 for additional analysis of the breaches for 2018.
**Oil Prices and Reserves**

Ireland’s economy, as a large net energy importer, is influenced by oil price movements. Oil prices are projected to rise from $54.40 per barrel in 2017 to $71.54 per barrel in 2018 (up 32% relative to 2017) and $71.69 per barrel in 2019. Oil price increases have been driven largely by curbs in production and geo-political uncertainty, with demand pressures arising from continued global growth. The increasing price of oil has been a significant contributor to inflation (contributing to increases in the price of energy products such as home heating and transport fuel). The year-on-year change in the Consumer Price Index in November 2018 excluding energy prices was -0.1% compared to the 0.6% increase when energy products are included.

Approximately 76% of Ireland’s imported oil comes from the UK and the UK holds 12% of Ireland’s oil reserves. Under a European Regulation, Ireland must keep 90 days of oil supplies in reserve in the jurisdiction or in other member state. The National Oil Reserve Agency (NORA) holds 57% of the 90 days supply in Ireland. A disorderly Brexit could be a potential risk to imports and result in Ireland breaching of EU regulations.

**International tax environment**

Corporation Tax receipts are a volatile source of revenue for Government. The 2018 Corporation Tax receipts have increased by 143% since 2013 (with a 49% increase in 2015 alone).

As a share of total Government tax revenue, receipts from Corporation Tax accounted for 18.6% in 2018, above the long-term average of 13.4% (from 1995 to 2017). In addition, individuals employed by foreign-owned multinationals make up 21% of the income tax base.\(^\text{18}\)

Corporation Tax receipts are also a concentrated source of revenue, with the top 10 firms contributing to almost 40% of Corporation Tax receipts. The IFAC note that the direct impact of one such large firm leaving Ireland would be to reduce Government revenues by over €330 million\(^\text{19}\) (mostly due to lost Corporation Tax receipts).

Given the importance of Corporation Tax receipts, changes in the international tax environment could be a significant risk. Specifically, the prospect of a single common consolidated corporate tax base (CCCTB) in the EU, risks undermining Ireland’s ability to attract and/or retain foreign-direct investment.

**Monetary policy**

The normalisation of the ECB’s monetary policy stance is a particular future risk for Ireland as debt levels in Ireland remain high. The ECB has ended its bond buying programme in December 2018 and may begin to increase its standard interest rates by end 2019.

---
In 2017, the Debt-to-GDP ratio was 68.4% while the Debt-to-GNI* ratio was 111.1%. In nominal terms, General Government Debt was €201.3 billion in 2017 and is projected to increase to €207.7 billion by 2021. The increase in nominal debt while the economy is growing strongly is a cause of concern. Using GNI* as a denominator, Ireland shows the fourth highest debt burden in the EU-28. While much of the debt is at fixed interest rates and in the short-term 2019’s financing needs have been met, in the medium term (from 2021 and beyond) increased interest rates may increase the overall interest burden. Given the size of the debt and the end of the ultra-low interest rate environment, it is prudent for the Government to reduce the debt burden.

The ECB’s actions will also likely increase interest rates for businesses and individuals in the medium-term. The IMF has warned that Irish households are highly-leveraged and a sharp increase in interest rates will likely exacerbate the debt service burden.

**Domestic economic risks**

As previously discussed, the Irish economy is broadly performing well with a number of economic indicators seeing improvements in the latest quarter. However, there are particular domestic risks to the economy which must be considered alongside any forecast of Irish economic growth. The PBO would like to focus on two domestic risks that were highlighted by the Department of Finance; overheating of the domestic economy and housing supply pressures, and one risk that was raised by IFAC, inappropriate fiscal policy.

**Overheating of the domestic economy**

Overheating occurs when the demand for goods and services is increasing significantly faster than supply. The Department of Finance estimates that although the economy is not currently overheating, overheating risks will emerge with a positive output gap estimated for 2019 and larger positive output gaps estimated in the coming years. An overheating economy is ultimately unsustainable and can lead to large decreases in revenues, high unemployment and loss of competitiveness when it inevitably corrects.

For a further discussion of economic overheating in the Irish economy see Box 3 and PBO Publication 3 of 2019 – *A Primer on Economic Overheating*.

**Housing supply pressures**

Housing supply pressures continue to be a risk which threatens Irish competitiveness. Low supply relative to demand is leading to higher housing costs and a higher cost of living, putting upward pressure on wages. This negatively affects Ireland’s competitiveness as high wages could lead to Ireland becoming less attractive for investment.

However, activity in the construction market has increased in the last number of years and the ESRI estimates almost 25,000 new dwellings will be built in 2019.20 IFAC have estimated that residential construction will increase to over 7% of GNI* in 2019, above the long-term average of 6% but below the 2006 peak of 14% of GNI*.

A large amount of activity in the construction sector can contribute to overheating in the economy and historically, periods of above trend activity in construction have been associated with periods of overheating. A more in depth analysis of the Irish construction sector and trends in construction can be found in Box 1.

Inappropriate fiscal policy

Fiscal policy is the key tool in preventing overheating in an economy particularly in a monetary union when monetary policy is constrained. If fiscal policy is pro-cyclical, overheating can be stimulated and persist for a number of years.

The PBO and IFAC have raised concerns about the Irish budget for 2019 with regards to economic prudency. There is little evidence that a counter-cyclical fiscal stance has been pursued in the Budget and questions still remain regarding the sustainability of the revenue base.

Furthermore, the Irish budget is informed by macroeconomic and fiscal assumptions regarding real and potential GDP. These estimates underpin forecasted estimates of revenue which in turn inform expenditure decisions. The macroeconomic estimates used to inform Budget 2019 are based on the assumption of an 'orderly' Brexit, involving a transition period until 2020 followed by a ‘soft’ exit including a bilateral trade agreement between the UK and EU27. As uncertainty regarding the outcome of Brexit remains significant, the assumption of an ‘orderly’ Brexit may not hold and therefore planning a budget based on this assumption might not be prudent.

If GDP growth is one percentage point lower than forecast, estimates of tax revenue will also be lower than estimated. The exact effect varies by tax but overall tax revenue is likely to be approximately 0.8% lower than estimated (see Box 4). Thus if an alternative Brexit scenario lowers economic growth forecasts in 2019 by 1.4 percentage points (based on ESRI forecasts referenced above), tax revenue could be approximately €650 million below forecast. In the more severe Central Bank of Ireland scenario of a 3 percentage point fall in GDP growth in 2019 arising from a no-deal Brexit, total tax revenue could be approximately €1.4 billion lower than expected. This is 0.4% of GDP. Expenditure on unemployment benefit would also likely increase above forecasts and thus the fiscal target of a balanced budget in 2019 would be missed, other things being equal. The gap could widen in 2020 and beyond as growth slows further.

Lower economic growth than expected (due to a disorderly Brexit or lower international trade, etc.) will lead to revenue shortfalls through lower income and indirect taxes. This could be exacerbated if the lower growth is due to falls in international trade and thus affect profits from multinational companies. Such a fall would impact on Corporation Tax receipts. Given that Corporation Tax is mostly collected at the end of the year (October to December) and are mostly based on the previous years profits it could be well into 2020 before a shortfall in Corporation Tax becomes apparent. This risk and well as risks from the concentration of Corporation Tax revenue in a small number of companies need to be monitored.
Box 3: Economic Overheating

Recently, much attention has been given to whether the Irish economy is overheating or not. Both the Irish Fiscal Advisory Council (IFAC)\(^{21}\) and the Department of Finance\(^{22}\) have assessed that while the economy is not currently overheating, overheating pressures could begin to emerge in the near future.

Economic overheating describes the situation where total demand for goods and services in an economy is increasing significantly faster than supply. When an economy is overheating it is operating beyond potential capacity, meaning that supply is unable to match demand, due to lack of available resources such as labour and capital. Overheating is problematic as it can lead to unsustainable price increases, falls in competitiveness and the accumulation of large levels of debt.

The output gap is the lead indicator used to identify the cyclical position of an economy and to determine whether the economy is overheating. The output gap is the difference between the actual output being produced (generally measured by real GDP) and its potential level (the amount of output that an economy can produce while maintaining a constant level of inflation). When the output gap is positive, actual output exceeds potential output and the economy is assessed to be at risk of overheating. Potential output and the output gap are not observable and there are a number of different ways they can be estimated.

The European Commission’s Commonly Agreed production function Methodology (CAM) represents the main methodological approach for estimating the output gap in Ireland and it is required for assessing compliance with the fiscal rules of the Stability and Growth Pact (SGP). Figure 14 shows the estimation of the output gap using the EU methodological approach from 2003 to 2020. Clear overheating is seen prior to 2007, followed by large negative output gaps during the recession. The Irish economy is projected to operate close to potential output in 2018, with overheating pressures expected to begin to emerge in the near future.

Figure 14: Output Gap in Ireland 2003-2020

Source: AMECO (annual macro-economic database of the European Commission)

---


The CAM has historically lacked accuracy and has been subject to large revisions for Ireland and other EU countries. This was particularly evident during the pre-crisis period where the output gap was originally estimated to be slightly negative, however it was revised to be largely positive. Due to the inaccuracy of the CAM, alternative methodologies have been developed by the Department of Finance and the Irish Fiscal Advisory Council. Some of these approaches advocate analysing a number of variables, in addition to the output gap, to assess overheating. A benefit of these multi-indicator approaches is that they recognise overheating can be caused by a number of different factors in the economy.

Figure 15 draws from the work of the IFAC to illustrate a ‘heat map’ for a selected number of variables capturing different aspects of the Irish economy. While heat maps methods do not quantify exactly how much the economy is either over performing or under performing, it is a straightforward way to display information on a number of economic indicators.

Variables shaded red, show imbalances with such variables performing above long-term trends, which may be an indication of overheating. Conversely, variables shaded in blue show imbalances where the variable is below the long-term trend, which may indicate the economy is performing under capacity. The deepness of the colour indicates how much the variable is deviating from the long-term trend. The abundance of red variables prior to 2008 show the overheating that the Irish economy was experiencing, whereas the blue variables post 2008 indicate that the economy was in a recession. The position of the economy in 2017 and 2018 is more uncertain with a mixture of pale blue and pale red variables found.

25 This heat map was produced using the same methodology as proposed by IFAC. For more information and a further discussion of heat maps see IFAC (2018) A Heat Map for Monitoring Imbalances in the Irish Economy.
In addition to indicators commonly analysed in multi-indicator approaches, the PBO propose additional indicators which are relatively easy to measure and understand without having an in-depth knowledge of overheating. A discussion of these indicators and a more in-depth discussion of overheating can be found in PBO Publication 3 of 2019 – *A Primer on Economic Overheating*. 

*Source: PBO calculations on data from the following sources; AMECO (output gap, inflation); CSO (unemployment); International Labour Organisation (construction employment); Central Bank of Ireland (private credit); OECD (household expenditure).

* data for 2018 not yet available.*
This section outlines the main fiscal developments in Q4 2018, focusing on the Exchequer Returns from the Fiscal Monitor: December 2018 in particular Appendix II and V. Appendix 1 and 2 of this paper reproduce Appendix II of the Fiscal Monitor – the Analytical Exchequer Statement.

There are number of fiscal issues addressed throughout this section (in boxes) which include:

- Tax revenue buoyancy – examining the link between economic growth and tax revenue increases;
- Supplementary pension auto-enrolment – summarising the Government’s recent “Strawman Proposal” on pension auto-enrolment and examining the fiscal consequences; and
- Fiscal space and fiscal stance – examining the concepts of fiscal space and fiscal stance and calculating the amount of gross fiscal space available in 2020, as well as how capital smoothing affects fiscal space.

**Taxation and other revenue**

Figure 16 shows Central Government revenue by source (excluding transactions with no General Government Balance impact such as inter-Government loan transactions). Overall revenue was €69.75 billion, which was €2.2 billion or 3.3% above expectations at the beginning of the year:

- Tax revenues were almost €55.6 billion, and €1.4 billion above profile;
- Appropriations-in-Aid were €12.6 billion, and €493 million above profile; and
- Non-tax revenue was €1.57 billion and €321 million above profile.

Overall, year-on-year revenue was up €4.7 billion or 7.3%. The year-on-year comparison is affected by the change from 2018 of Motor Tax becoming an Exchequer tax, with Local Property Tax going directly to the Local Government Fund. If these taxes are excluded from the year-on-year comparison then overall Exchequer revenue was up €4.24 billion or 6.6%.

While the increase in Corporation Tax revenue has been the focus of much commentary, many other revenue sources (such as Central Bank income, PRSI, capital taxes) are ahead of profile. However, there were significant shortfalls compared to profile in excise duty and stamp duty receipts and these are explored below.

The outturn for Exchequer revenue for 2018 is also ahead of what was expected in October when Budget 2019 was announced. At Budget time revenue was expected to be €69 billion and thus the outturn was over €700 million higher than this. Almost all of this unexpected increase was due to Corporation Tax.
Taxation as a whole was €1.38 billion above profile for the year. While there is an overall variance of 2.6% above profile, individual taxes experienced significant variance both above and below profile. The significant above profile taxation classes were (see Figure 16):

- Corporation Tax is €1.88 billion or 22.1% above profile;
- Capital Gains Tax was €149 million or 17.6% above profile; and
- Capital Acquisitions Tax was €52 million or 11.2% above profile.

However, there were significant under profile receipts in a number of taxation classes including:

- Excise Duties were €402 million or 6.9% below profile; and
- Stamp Duties were €217 million or 13.0% below profile.

Corporation Tax receipts are the main driver of the increase in tax revenue in 2018. This continues the trend discussed in the PBO’s Pre-Budget 2019 Commentary and previous PBO Quarterlies of unexpected increases in Corporation Tax revenue. In Budget 2019 the Government announced that there was a one-off gain of approximately €700 million in 2018 due to changes in international accounting standards. Even accounting for this change, Corporation Tax revenue for 2018 has come in a further €780 million above the Budget 2019 forecast. This has implications for 2019 and beyond. Currently, Corporation Tax revenue for 2019 is projected to be €9.5 billion or €900 million below 2018 levels. Even accounting for the one-off in 2018 it is likely that Corporation Tax revenue for 2019 will be revised upwards.

As the PBO and others, including the Government, have pointed out, approximately 40% of Corporation Tax revenue is from 10 multinational companies. As the Budget 2019 Economic and Fiscal Outlook points out, this level of concentration leaves the Exchequer “exposed to idiosyncratic shocks”. The recent profit warning announcement from Apple Inc., which revised downwards Apple’s forecast revenue significantly for Q4 2018, demonstrates that being dependent on individual companies is a risk. While the direct effect of this warning on Irish tax revenue is difficult to estimate, Apple by its own admission is a large tax payer in Ireland. The increase in capital taxes (Capital Gains Tax and Capital Acquisitions Tax i.e. inheritance and gift tax), suggest a buoyant economy with rising asset prices. Both are well above the 2018 profile and 2017 outturns.

The main transactional taxes (i.e. Stamp Duty and Excise Duty) are together almost €620 million below profile. Excise duties raised €507 million less in 2018 than in 2017. This is notwithstanding the fact there were increases in stamp duty for commercial property in Budget 2018, the introduction of the Sugar Sweetened Drinks Tax (SSDT) in April 2018, and increases in tobacco excise duties in Budget 2018 and Budget 2019. As previously highlighted by the PBO, the under performance against profile suggests a need to examine the forecast models that underpin the profiles and how Budget changes are costed for these specific taxes. Disaggregated data is not yet available on the outturn for individual excise duties but the Department of Finance states that the under profile result for excise duties is “chiefly due to the distorting impact of the 2017 plain packaging initiative, upon tobacco receipts”. As plain packaging is now implemented the distortion caused by the transition period should no longer affect 2019 receipts. However, the behavioural change the policy was introduced to induce may not be fully accounted for in the estimates of 2019 receipts.

The largest tax receipt categories, income tax and VAT, were €203 million below and €144 million above profile respectively. This is a deviation from profile of 1% or less in both cases and is not particularly noteworthy except to suggest that the Department of Finance’s forecast models seem to be robust for these categories. The year-on-year growth in these tax receipt categories (income tax 6.2% and VAT 7.0%) suggest robust economic growth in 2018.

---

27 According to a statement on its website Apple paid $1.5 billion in tax to Ireland over three years or 7 percent of all Irish corporate income taxes receipts over the period. This does not include the €14.3 billion paid by Apple to Ireland due to an EU state aid case which is under appeal.
**Appropriations-in-aid**

Appropriations-in-aid were €493 million above profile in 2018 with receipts from Pay-Related-Social-insurance (PRSI) €197 million or 2.1% over profile. ‘Other’ Appropriations-in-Aid including Departmental Balances were €297 million or 11.7% above profile. It is unclear what is driving this increase in ‘other’ Appropriations-in-aid however it is likely related to EU funding. The main above-profile ‘other’ Appropriations-in-aid were in Agriculture, Food and the Marine (€188 million) and Education and Skills (€67 million).

**Non-tax revenue and Capital Resources**

Non-tax revenue and Capital Resources are significantly above profile by €321 million or 25.7%. A number of different areas are contributing to this:

- Central Bank surplus income of €673 million is €114 million or 20.4% above profile; and
- ‘Other’ revenue including Capital Resources is €206 million or 85.8% above profile.

Income from dividends was €13 million or 5.4% below profile and overall income from dividends was €92 million below such income in 2017 – though much of this decrease was anticipated. Dividends from the E.S.B. were €105 million lower in 2018 than in 2017.

Most of the increase (and over profile income) from Capital Resources is due to receipts from the European Regional Development Fund which is up €80 million on 2017.

Exactly what is driving the over-performance of the ‘Other’ heading is difficult to identify as the Fiscal Monitor does not give any information to clarify what is happening which these receipts. There is no clear explanation for the increase in receipts to Government Departments. In the Exchequer Statement, a year-on-year comparison is provided, but the profile is not. Within these more detailed headings, the two areas that have the largest year-on-year increases are ‘Other Receipts collected by Departments’ and ‘Miscellaneous’. Neither of these headings provides clear context for the income being recorded. Thus, the significance of this large improvement over profile and its sustainability is difficult to ascertain.

**Non-General Government Balance impacting revenue**

There are four main elements of revenue with no General Government Balance impact in the Exchequer Statement (see Appendix 2):

- Payments of €740 million received from the European Commission for implementation of the European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development;
- Repayments of advances to the Supply Account were €193 million.29 These loan repayments are not included when calculating the general government balance, and have no impact on the outturn figures for the fiscal rules;
- Central Bank Surplus Income (with no general government impact) of €1,428 million is €467 million (48.6%) over-profile. This is attributable to the accelerated redemption of floating rate notes by the NTMA; and

---

29 These are repayments made to the Exchequer for advances that were made to the Paymaster General’s Supply Account to ensure there was sufficient money in the account for Departments to meet expenditure demands.
‘Other’ Capital Resources – this amounted to above profile receipts of €818 million. This amount is made up of repayments from the Credit Institutions Resolution Fund (€240 million) and the Credit Union Fund (€238 million). These funds were set up in 2011 and 2012 respectively and each received €250 million in repayable advances from the Exchequer. These Funds are used to restructure Credit Unions in financial difficulties and are funded through levies on Credit Unions. It appears that a decision has been made to reduce the overall level of resources in the Funds and thus repay the Exchequer a large share of its original advances. In addition, the Exchequer received almost €340 million from the winding up of the Irish Bank Resolution Corporation (IBRC) in December 2018. A further approximately €200 million is due from IBRC shortly. Additional revenue to the State may be due from the liquidation of IBRC depending on its remaining assets and liabilities though the amount and timing of such payments are unclear at present.

### Box 4: Tax Revenue Buoyancy

This Box examines aggregate tax revenue buoyancy with respect to developments in Gross Domestic Product (GDP) and alternative measures of a country’s economic output (namely Gross National Product (GNP), Modified Gross National Income (GNI*) and Gross Value Added (GVA)). Furthermore it provides separate buoyancy estimates for income tax, Value-Added Tax (VAT) and Corporation Tax with respect to these aggregate indicators of economic performance. The results discussed in this box are a short summary of forthcoming work by the PBO’s Budgetary Research team.

Although they are closely related and often used interchangeably, the “buoyancy” and “elasticity” of tax revenue are distinct concepts. Fundamentally, buoyancy estimates capture the overall responsiveness of tax revenue to changes in the underlying macroeconomic base, including changes that may result from policy actions. However, elasticities aim to capture a counter-factual scenario, that is, they measure the responsiveness of tax revenue to changes in the underlying macroeconomic base, while removing (or controlling for) the impact of policy actions.

Forecasts of macroeconomic variables are ultimately used to predict tax revenue. In this way, a greater understanding of the buoyancy of the tax system (that is, how responsive it is to changes in economic growth) facilitates more accurate revenue forecasting. Revenue buoyancy is also closely linked to fiscal sustainability. Buoyancy estimates are fundamental in calculating cyclically-adjusted and structural budget balances (core indicators within the Stability and Growth Pact fiscal surveillance framework of the European Commission).

---

30 Department of Finance (2018) Statement from Minister Donohoe regarding Special Liquidators’ payment of final dividend to unsecured creditors of IBRC.
Table 4: Tax revenue buoyancy estimates; PAYE, VAT, Corporation Tax and Total Revenue, 1995-2017

<table>
<thead>
<tr>
<th>A 1% change in</th>
<th>Total Revenue</th>
<th>PAYE</th>
<th>VAT</th>
<th>Corporation Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>0.83</td>
<td>0.39</td>
<td>0.88</td>
<td>1.63</td>
</tr>
<tr>
<td>GNP</td>
<td>1.01</td>
<td>0.58</td>
<td>1.10</td>
<td>1.74</td>
</tr>
<tr>
<td>GNI*</td>
<td>1.06</td>
<td>0.69</td>
<td>1.20</td>
<td>1.53</td>
</tr>
<tr>
<td>GVA</td>
<td>0.76</td>
<td>0.34</td>
<td>0.82</td>
<td>1.58</td>
</tr>
<tr>
<td>Average</td>
<td><strong>0.92</strong></td>
<td><strong>0.50</strong></td>
<td><strong>1.00</strong></td>
<td><strong>1.62</strong></td>
</tr>
</tbody>
</table>

Note: These estimates are based on the estimation of equation $\text{dln}(T) = \alpha + \beta \text{dln}(Y)$ (see below) for Total Revenue, PAYE, VAT and Corporation Tax using the macroeconomic variables listed in the table as the individual independent variables. Tax revenue data is taken from the statistical database of the Department of Public Expenditure and Reform, while macroeconomic data is taken from the CSO. $\text{dln} (T)$ is the first difference of the logarithm of a given tax revenue stream and $\text{dln} (Y)$ is the first difference of the logarithm of a measure of economic activity. The buoyancy of the tax category is indicated by the $\beta$ coefficient in the equation.

Table 4 shows the results of the PBO’s analysis for the period of 1995 to 2017. A 1% increase in GDP is expected to increase overall tax revenue by 0.83%, PAYE revenue by 0.39%, VAT revenue by 0.88% and Corporation Tax revenue by 1.63%. The buoyancy of total tax revenue with respect to GDP (slightly below one) corresponds to the gradual decline in the tax-to-GDP ratio that Ireland has experienced, from 25% in 1995 to 17% in 2017.

The relatively low estimates for the buoyancy of PAYE shows the disconnect between economic growth (as measured by GDP especially) and PAYE income tax revenue i.e. increasing economic growth does not lead to a proportional increase in income tax revenue.

Generally, a buoyancy estimate in excess of one implies that any change in GDP will result in an even greater change in revenue. This is desirable from the perspective of long-term fiscal sustainability, assuming that the demand for public expenditure is also increasing over time (factoring in demographic pressures). Furthermore, buoyancy estimates that are greater than one also indicate that the tax in question is an effective stabilisation tool for smoothing the effects of the economic cycle (that is, a particularly large increase in tax receipts during periods of strong economic growth signals that the tax system is effective in taking more money out of the economy when the economy is performing well, while the reverse is true in the event of an economic downturn).
Overall Exchequer expenditure

At the end of 2018, overall Central Government expenditure (excluding transactions with no General Government Balance impact) equalled €71.8 billion, €828 million above profile and €4.8 billion (or 7.2%) more than in 2017. This was made up of €63 billion in Voted expenditure, €2.9 billion in non-Voted expenditure and €5.8 billion in interest on the National Debt:

- Gross Voted Current Expenditure was €1.1 billion (2%) above profile; this is a significant change from end-Q3 when Gross Voted Current Expenditure was only 0.6% or €265 million over profile. Expenditure at end-Q3 was also significantly above profile by comparison with Q2;
- Gross Voted Capital Expenditure was €188 million (3.2%) above profile; this has also deviated significantly since end-Q3, when capital expenditure was €253 million below profile;
- Gross Non-Voted Current Expenditure was €160 million (5.1%) below profile; and
- Interest on the National Debt was €312 million (5.1%) below profile.

Gross Voted current expenditure

As noted above gross Voted current expenditure is €1.1 billion or 2% over profile. This position is driven by above profile spending in a number of Vote Groups (see Figure 18):

- Health is €625 million (4.2%) above profile;
- Employment Affairs and Social Protection is €302 million (1.5%) above profile;
- Education & Skills is €140 million (1.5%) above profile;
- Justice & Equality is €101 million (4.1%) above profile;
- Transport, Tourism and Sport is €36 million (5.1%) above profile; and
- Children and Youth Affairs is €5 million (0.4%) above profile.

All other Vote Groups are below profile. The largest underspend by absolute value is €23 million in Housing, Planning & Local Government, equating to 1.3% of the overall estimate for the year. Proportionally, the largest underspend is 2.9% (or €11 million) in Communications, Climate Action and Environment.

The total underspend in Vote groups where expenditure is below profile is €79 million compared to an over-profile expenditure of €1.2 billion in Vote groups where expenditure exceeds profile. Taken together, this results in the €1.1 billion aggregate spend above profile in gross Voted current expenditure.
Compared to final Estimates for 2018 i.e. including the Supplementary Estimates (as published in the Revised Estimates for Public Services 2019) every Vote Group except Health is below profile. Health appears to be on profile exactly, having spent the entire Supplementary Estimate received. The largest variance by absolute value is €32 million (2%) in Housing, Planning and Local Government, while the largest proportionally is Foreign Affairs and Trade, which is below profile by 3.2% (€23 million).

**Gross Voted capital expenditure**

During the first 11 months of the year capital expenditure was consistently below profile. However, this trend reversed in December, resulting in capital expenditure €188 million (3.2%) above profile. Most of this above profile expenditure is due to the Supplementary Estimates for 2018 approved by Dáil Éireann in December.

Six Ministerial Vote Groups have above profile spending at end-2018:

- Housing, Planning and Local Government: €143 million (8.8%);
- Agriculture, Food and the Marine: €25 million (10%);
- Health: €20 million (4%);
- Defence: €19 million (24.7%);
- Public Expenditure and Reform: €16 million (9%); and
- Transport, Tourism and Sport: €4 million (0.3%).

All other Vote Groups are either broadly on-profile or slightly below (with underspends ranging from €1 million to €19 million, with a total underspend of €38 million).

When we compare the Exchequer provisional outturn to the final Estimates for 2018 from the Revised Estimates for Public Services 2019 (which includes the Supplementary Estimates), Housing, Planning and Local Government, and Defence are both slightly above their final approved figure, with a variance of €24 million and €19 million, respectively. This means that underspends on the current side of the budget have been used to fund overspends on the capital side in these two areas.
Figure 18: Variance in Gross Voted Capital Expenditure by Vote Group to end-December 2018 (€ millions)

Box 5: Supplementary Pension Auto-enrolment

The OECD Review of Pension Systems: Ireland found that “[p]rivate pension coverage, both in occupational and personal pensions, is uneven and needs to be increased urgently” and that increasing coverage could be achieved through “compulsion, soft-compulsion, automatic enrolment; and/or improving existing financial incentives.”

Ireland’s pension system is made up of three pillars – State Pensions, Occupational Pensions and Private Pensions. The Department of Employment Affairs and Social Protection administers the first pillar – the State Pension. Based on the OECD Review, the Government has decided to implement an auto-enrolment system to increase coverage in the second pillar. Research has shown that Ireland’s current occupational and private pension coverage is concentrated among higher earners, and that tax relief provides greater incentives to higher earners. As Figure 19 shows, those who contribute to pensions have higher earnings than the overall population of earners. The goal of the auto-enrolment (AE) proposal presented by the Department of Employment Affairs and Social Protection is to increase the pension coverage among lower earners, to supplement income from the State Pension and improve post-retirement living standards.

Figure 19: Earnings by all earners and those who contribute to pensions


The Strawman Proposal\textsuperscript{33} issued for public consultation in August 2018 has a number of key features:

- Employees aged 23–60 and earning over €20,000 \textit{per annum} will be automatically enrolled if they are not already contributing to a supplementary pension;
- Contributions will be based upon Gross Annual Salary;
- When the system is launched, the employee and their employer will each make a 1\% of Gross Annual Salary contribution to the member’s account. This will increase by 1 percentage point each year until it reaches 6\% from both;
- The State will provide a financial incentive, described as “€1 for every €3” saved by the member, i.e. a 2\% of Gross Annual Salary State contribution (assuming a 6\% contribution by employees);
- The system will be managed by a Central Processing Authority (CPA), with four providers contracted to manage the pension funds directly; and
- Members who do not select a provider or fund will be assigned by ‘carousel’ and defaulted to the lowest risk asset types.

Responses to the Strawman have raised a number of concerns about the design of the proposed system:

- The interaction between the auto-enrolment (AE) system and the existing market for pension schemes is not clearly set out in the proposal. Responses to the document raise concerns that the AE system is expected to operate alongside and in isolation from the existing market, but that “we do not think it is likely to be [the] case as employers respond to availability of a new form of retirement income provision.”\textsuperscript{34} In addition, the 2\% incentive being provided under the AE system is likely to encourage some members of existing schemes to opt-in to the AE system, depending on how pension tax relief is dealt with in the final system.
- The €20,000 eligibility threshold for auto-enrolment does not appear to be tied to changes in the Consumer Price Index or average wages. In the long term, this threshold may need to be increased to continue to meet its aim.
- The low-risk default offering may offer insufficient returns to outpace inflation over the life of a pension account. Some of the responses to the Strawman Proposal have pointed out that private pension managers tend to use higher-risk assets early in the life of the pension account, moving to lower-risk assets later in the worker’s career.

\textsuperscript{33} The Department describes a Strawman Proposal as “a high-level draft intended to generate discussion and to prompt suggestions”. See: A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland, Department of Employment Affairs and Social Protection, p. 7.

The Strawman Proposal does not provide a projection of the cost of the State incentive included in the scheme. The Strawman does provide an estimate of the population (410,000) that will be affected by the reform. Assuming that the average earnings among this group is the same as across the private sector as a whole (which it is unlikely to be for several reasons), this would suggest an annual cost of at least €250 million in respect of the State incentive once it reaches the full 2% contribution. However, if employees currently paying into pension schemes are encouraged to opt into the auto-enrolment system, this may change the result. It will have also have consequences for the amount of tax reliefs claimed on pensions.

A number of areas have not been described in detail by the Strawman Proposal:

- How the AE system will interact with the existing pensions market;
- How the State support will be financed;
- If reforms will be made to the tax relief for pension contributions; and
- How the change in disposable income for workers, and increased cost of labour, will affect the economy.

The Minister for Employment and Social Protection has recently stated that the results of the public consultation on auto-enrolment could “change the shape of the plans”.

**Expenditure commentary**

In its previous Quarterly Commentary, the PBO said that “the capital under-spend is likely to close in Q4 2018” and that “likely Supplementary Estimates in Health, Employment and Social Protection, and Education and Skills will mean that current expenditure will be well above profile.” These predictions proved accurate. The key development between Q3 and Q4 of 2018 was the approval of Supplementary Estimates for a large number of Votes. Table 5 shows the most significant of these Supplementary Estimates (those with a value of over €100 million).

---

36 This group excludes those already making pension contributions, which excludes many higher earners. In addition, it excludes all those under 23 or over 60, and all those earning below €20,000. Without reliable and detailed data on the composition of earners at different ages, and the breakdown of the earnings of those with and without pensions, the average earnings of the group cannot be accurately calculated.
37 Average Annual Earnings calculated based on CSO Table EHQ08, averaged over Quarters 1-3 of 2018. This calculation does not fully account for those earning over €75,000 (i.e. it uses the average below €75,000, so includes State payments that the proposed design would exclude), and the actual figure may be slightly less.
38 Irish Times (2019) Regina Doherty signals end to €5 increases in social welfare payments.
### Table 5: 2018 Supplementary Estimates with value over €100 million

<table>
<thead>
<tr>
<th>Vote No. and Title</th>
<th>Net Expenditure</th>
<th>Gross Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>38 – Health</td>
<td>€655 million</td>
<td>€645 million</td>
</tr>
<tr>
<td>26 – Education and Skills</td>
<td>€181.7 million</td>
<td>€147 million</td>
</tr>
<tr>
<td>34 – Housing, Planning and Local Government</td>
<td>€130 million</td>
<td>€130 million</td>
</tr>
<tr>
<td>37 – Employment Affairs and Social Protection</td>
<td>€139 million</td>
<td>€132 million</td>
</tr>
</tbody>
</table>


### Table 6: Comparison of Variance in Gross Voted Expenditure for 2018 from Revised Estimates for Public Services (REV) 2018 and 2019 (€ millions)

<table>
<thead>
<tr>
<th>Ministerial Vote Group</th>
<th>Variance from Original Estimate</th>
<th>Variance from REV 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Food and the Marine</td>
<td>19 1.2%</td>
<td>-11 -0.7%</td>
</tr>
<tr>
<td>Business, Enterprise and Innovation</td>
<td>-26 -3.0%</td>
<td>-26 -3.1%</td>
</tr>
<tr>
<td>Children and Youth Affairs</td>
<td>3 0.2%</td>
<td>-18 -1.3%</td>
</tr>
<tr>
<td>Communications, Climate Action and Environment</td>
<td>-12 -2.0%</td>
<td>-12 -2.1%</td>
</tr>
<tr>
<td>Culture, Heritage and the Gaeltacht</td>
<td>-1 -0.2%</td>
<td>-1 -0.3%</td>
</tr>
<tr>
<td>Defence</td>
<td>0 0.0%</td>
<td>4 -0.3%</td>
</tr>
<tr>
<td>Education &amp; Skills</td>
<td>139 1.4%</td>
<td>-26 -0.3%</td>
</tr>
<tr>
<td>Employment Affairs &amp; Social Protection</td>
<td>299 1.5%</td>
<td>-22 -0.1%</td>
</tr>
<tr>
<td>Finance</td>
<td>-7 -1.4%</td>
<td>-7 -1.5%</td>
</tr>
<tr>
<td>Foreign Affairs and Trade</td>
<td>-8 -1.1%</td>
<td>-24 -3.2%</td>
</tr>
<tr>
<td>Health</td>
<td>645 4.2%</td>
<td>0 0.0%</td>
</tr>
<tr>
<td>Housing, Planning &amp; Local Government</td>
<td>121 3.7%</td>
<td>10 0.3%</td>
</tr>
<tr>
<td>Justice &amp; Equality</td>
<td>93 3.6%</td>
<td>-11 -0.4%</td>
</tr>
<tr>
<td>Public Expenditure and Reform</td>
<td>15 1.2%</td>
<td>-23 -1.9%</td>
</tr>
<tr>
<td>Rural and Community Development</td>
<td>-1 -0.6%</td>
<td>-2 -0.7%</td>
</tr>
<tr>
<td>Transport, Tourism and Sport</td>
<td>39 1.9%</td>
<td>-4 -0.2%</td>
</tr>
<tr>
<td>Total Gross Voted Expenditure</td>
<td>1,301 2.1%</td>
<td>-192 -0.3%</td>
</tr>
<tr>
<td>Current Expenditure</td>
<td>1,113 2.0%</td>
<td>-197 -0.3%</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>188 3.2%</td>
<td>4 0.1%</td>
</tr>
</tbody>
</table>


---

Where Net and Gross Supplementary Estimates differ, this is a result of a change in the Appropriations-in-Aid, which changes the Net Expenditure requirement from the Exchequer, but does not impact the Gross Expenditure figure.
Table 5 and 6 above shows the expenditure pressure in the Health Vote in 2018 as it is the only Vote Group where the entire Estimate (including the €645 million gross Supplementary Estimate) was fully spent.

Figure 20 shows, the overall level of variance from profile in 2018 is lower than in 2014 and 2015, but this is more concerning given the sequence of year-on-year increases since 2016. In 2015, while there was over profile expenditure, in total Voted expenditure fell from the previous year. Since then there have been increases in voted expenditure and over-profile expenditure has become a larger share of this. This suggests that expenditure management is weakening.

As shown in the previous section much of the increase in expenditure is, in effect, financed by increasing Corporation Tax revenue. However, while the growth in this taxation source is volatile, the types of expenditure being committed to are generally less so. In the Health and the Education and Skills Votes pay is the primary source of current expenditure, and this category of expenditure was difficult and slow to reduce during the last fiscal crisis. In addition, the current economic conditions are facilitating stable social protection expenditure, even though payment rates are rising. Given the risk inherent in the current domestic and international macroeconomic environment, the reliance upon cyclical tax revenue sources to fund non-cyclical expenditure is a key challenge for management of the public finances.

Figure 20: Gross Voted expenditure increase and variance from profile 2013-2018 (€ millions)

Source: Department of Finance (various dates) Analytical Exchequer Statements 2013-2018.

41 The Gross Supplementary Estimate under the Health Vote was €645 million. The total exchequer requirement for the Supplementary Estimate was €655 million, as it included a shortfall in income of €10 million.

Overall balance

The Exchequer Balance shows a surplus of €106 million at the end of 2018. This is €2.55 billion better than was profiled. This improvement is a result of tax and non-tax revenue (€2.2 billion higher than profiled) and non-general government impacting revenue (€1.3 billion higher than expected). This increased revenue is offset by Exchequer expenditure (€0.8 billion) and non-general government impacting expenditure (€165 million) higher than projected.

Excluding non-general government impacting transactions a number of factors affected the Exchequer balance:

- Tax Revenues are €1.4 billion over profile, driven largely by €1.8 billion in unexpected Corporation Tax receipts;
- Appropriations-in-Aid (including PRSI) are €493 million above profile; and
- Other Revenues are €321 million above profile.

Taken together, the Exchequer revenues (excluding non-general government impacting transactions) are €2.2 billion above profile. However, due to significant overruns in spending (especially of €645 million under the Health Vote), the Exchequer position (excluding non-general government impacting transactions) has only improved by €1.4 billion above profile.

There are also a number of expenditure savings that help the Exchequer balance including:

- €338 million in reduced cost of managing and financing the national debt; and
- €131 million less in EU budget contributions than profiled.

The Government has indicated that the surplus in the Exchequer balance will translate to a small surplus in the General Government Balance. The CSO produces the statistics on the General Government Balance and the preliminary estimates should be available in April. The revenue environment for the Exchequer in 2018 was unexpectedly favourable. However, Voted expenditure pressures mean that the windfall gains outlined above were not fully utilised to mitigate against the external risks faced by Ireland in the short to medium term, e.g. a disorderly Brexit, international trade tensions, EU and international reform of Corporation Tax regimes, etc. Reducing debt and containing expenditure growth would have been good risk mitigation strategies in order to increase the fiscal capacity of the Irish State to address these risks if they arise.

The expected general Government surplus in 2018 should, all things being equal, translate to an expected surplus in 2019 from the Budget day expectation of a balanced general Government budget. However, other issues including the once-off nature of some of the Corporation Tax receipt increases may mean the forecast will not change dramatically.

Finally, the impact of the final fiscal figures on the Structural Budget Balance in 2018 and thus the achievement of the EU fiscal rules also needs to be considered. New estimates of the Structural Budget Balance will be published in the Government’s draft Stability Programme Update due in mid-April.
Box 6: Fiscal Space and Fiscal Stance

Fiscal space is usually defined as the level of financial resources available for public expenditure increases and tax reductions in the Budget under the EU Fiscal Rules. Revised estimates for the fiscal space are produced twice a year: in spring with the publication of the Stability Programme Update and in autumn along with the Draft Budgetary Plan. The Summer Economic Statement, which is published in July, usually provides a clearer breakdown of the fiscal space (the quantum that is allocated to current expenditure, capital, pre-commitments, etc.) based on the Stability Programme Update figures.

The fiscal space is derived using the EU Expenditure Benchmark (i.e. the Spending rule). The key parameters underpinning the Expenditure Benchmark (reference rate and GDP deflator) are frozen before the Budget by the European Commission’s Spring Economic Forecasts. As an example, next spring the EU Commission’s Spring forecasts will set the Expenditure Benchmark for Budget 2020 when they will freeze the reference rate (10 year average of potential GDP) and the GDP deflator.

The ‘fiscal stance’ is defined in the Fiscal Responsibility Act 2012 as “the change in the annual structural balance of the general government, excluding interest payments on the general government debt expressed as a percentage of gross domestic products at market prices, for a year relative to the preceding year”. In recent parliamentary question responses the Minister for Finance and Public Expenditure and Reform has defined fiscal stance as “the position that is right for the economy at this point in time and ensures steady, sustainable improvements in public services and living standards.” In effect, the term is used to describe the approach to fiscal policy the Government takes during the economic cycle i.e. if fiscal policy is pro-cyclical or counter-cyclical. Most economists and economic commentators would suggest that fiscal policy be counter-cyclical.

The Government states that it has moved away from fiscal space as an anchor for Irish fiscal policy because the Expenditure Benchmark is proving to be pro-cyclical for Ireland. In addition, the use of GDP growth can be misleading in the Irish case for well documented reasons.

Gross and Net Fiscal Space

Table A8 of the Budget 2019 Economic and Fiscal Outlook shows the application of the Expenditure Benchmark and an assessment of compliance with the Spending rule. However, the table does not show the overall fiscal space available under the Spending rule. The PBO has provided further calculations in the table based on the material provided by Government (Table 7 over). Our analysis suggests that the gross fiscal space is forecast to be €4.3 billion in 2020, €5.2 billion in 2021, €5.2 billion in 2022 and €5 billion in 2023. This amounts to an additional €19.7 billion of fiscal space over the 4 year period based on current data.

---

43 The reference rate is a calculation of the 10 year average growth rate of potential GDP (the 10 years are the five years before the Budget year and four years after).
44 The GDP Deflator is a measure of inflation.
45 For example see Response to PQ No. 44 of 08/11/2018.
The *Summer Economic Statement*, usually provides a clearer breakdown of the fiscal space (the quantum that is allocated to current expenditure, capital, pre-commitments, etc.). It sets out, in nominal terms, the gross fiscal space; discretionary revenue measures which increase fiscal space; pre-committed fiscal space for expenditure; and other miscellaneous expenditure changes, including unallocated use of the fiscal space that the Government has stated it will use.

This leaves net fiscal space, from which an allocation to the Rainy Day Fund is to be made (of €500 million *per annum* from 2020-2023). Some of the remaining net fiscal space may be required to ensure compliance with the other EU budgetary rule – the Structural Budget Balance rule. While the rules are designed to complement each other, they can permit different allowable increases in expenditure and thus a “margin of compliance” may be needed to ensure both rules are met.

The PBO does not have sufficient information to calculate the transition from gross fiscal space (as outlined in Table A8) to net fiscal space. In addition, changing economic forecasts, as well as announcing or implementing expenditure policies mean that the fiscal space calculations change and thus the fiscal space available in one set of forecasts can be very different from the next.

**Table 7: Application of Expenditure Benchmark, € billions (unless stated)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government Expenditure</td>
<td>77.3</td>
<td>81.1</td>
<td>85.3</td>
<td>87.8</td>
<td>91.0</td>
<td>92.5</td>
<td>94.9</td>
</tr>
<tr>
<td>· Interest Expenditure</td>
<td>5.8</td>
<td>5.3</td>
<td>5.0</td>
<td>4.7</td>
<td>4.5</td>
<td>4.8</td>
<td>5.1</td>
</tr>
<tr>
<td>· Expenditure co-financed by EU</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>· Gross Fixed Capital Formation (GFCF)</td>
<td>5.4</td>
<td>6.8</td>
<td>7.7</td>
<td>8.0</td>
<td>8.3</td>
<td>8.7</td>
<td>9.3</td>
</tr>
<tr>
<td>· Cyclical Unemployment Expenditure</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.3</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>A. Corrected Expenditure Aggregate</strong></td>
<td>70.4</td>
<td>74.2</td>
<td>78.3</td>
<td>81.2</td>
<td>84.7</td>
<td>86.0</td>
<td>88.0</td>
</tr>
<tr>
<td>· Discretionary Revenue Measures (DRM)</td>
<td>-0.1</td>
<td>0.9</td>
<td>1.0</td>
<td>0.3</td>
<td>0.1</td>
<td>-0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Corrected Expenditure Aggregate net of DRMs</td>
<td>70.5</td>
<td>73.3</td>
<td>77.3</td>
<td>80.9</td>
<td>84.6</td>
<td>86.2</td>
<td>88.0</td>
</tr>
<tr>
<td><strong>Macro-Economic Developments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>B. GDP Deflator (per cent change)</strong></td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>C. Expenditure Benchmark growth rate (real, %)</strong></td>
<td>1.3</td>
<td>1.2</td>
<td>4.0</td>
<td>3.7</td>
<td>4.6</td>
<td>4.4</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>D. Expenditure Benchmark growth rate (nominal, %)</strong></td>
<td>2.5</td>
<td>2.5</td>
<td>5.3</td>
<td>5.5</td>
<td>6.4</td>
<td>6.1</td>
<td>5.8</td>
</tr>
<tr>
<td>*<em>E. Fiscal Space in € bn, (A (previous year)<em>D/100)</em></em></td>
<td>1.8</td>
<td>3.9</td>
<td>4.3</td>
<td>5.2</td>
<td>5.2</td>
<td>5.0</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Budget 2019 Economic and Fiscal Outlook Tables A8 and PBO calculations (lines D and E).*
Gross Fiscal Space and Capital Smoothing

When assessing compliance with the Expenditure Benchmark, nationally financed government gross fixed capital formation is smoothed over a four-year period. This is known as ‘capital smoothing’ and in effect, allows the increase in publicly financed investment to use up one quarter of the amount of fiscal space a similar increase in current expenditure would in the year it is spent. However, in the following three years the amount of fiscal space is also reduced by one quarter of the first year’s increase in public investment. In each year this means that the fiscal space used will be impacted by four years of changes in public investment and thus one year’s change in public investment cannot be taken in isolation.

Capital smoothing in effect changes the amount of the fiscal space used by the changing expenditure on public GFCF or investment. The actual effect depends on the changes in expenditure on public investment in the current year and the previous three years. The PBO calculates that from 2020 due to increases in public capital expenditure in the previous three years (on current plans) capital smoothing will have the effect of increasing the amount of fiscal space used by changing public investment rather than decreasing it as has happened up to 2019. This is the logical effect of capital smoothing as eventually the increases in capital expenditure must use up fiscal space. The consequence will be that, from 2020 for a number of subsequent years, increasing capital expenditure will no longer be a way to increase overall expenditure above the long run potential economic growth rate.

Government debt

The Department of Finance forecasts that Gross General Government Debt was €206 billion at the end of 2018 (see Table 9). This corresponds to 64% of GDP, against the target of below 60% set in the Treaty on the Functioning of the European Union.

Throughout 2018, the NTMA has followed a strategy of reducing the debt expected to mature in the short-term, and extending the average maturity of debt while reducing the average interest rate. As a result, Ireland’s weighted debt maturity is 9.6 years, compared to a euro-area average of 7.4. Interest costs are expected to continue to fall, and are well below projections made in previous years (Table 8).

Table 8: SPU 2015 and Budget 2019 forecasts for Interest on government debt, 2018-2020

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability Programme Update 2015</td>
<td>6,950</td>
<td>6,890</td>
<td>6,680</td>
</tr>
<tr>
<td>Budget 2019: Economic and Fiscal Outlook</td>
<td>5,815</td>
<td>5,320</td>
<td>5,090</td>
</tr>
<tr>
<td>Reduction in Interest forecast</td>
<td>1,135</td>
<td>1,570</td>
<td>1,590</td>
</tr>
</tbody>
</table>


Current expenditure in one year does not affect the use of fiscal space in subsequent years.

While the European Union’s debt target is not yet met, the Government estimates that Ireland will be very close to the target at the end of 2019, and will be below the target threshold in 2020. Table 9 details the Government’s forecasts for the movement of General Government Debt from 2018 to 2022. This shows that the Government is relying upon GDP growth to bring the Debt-to-GDP ratio in line with the EU’s fiscal rules – the nominal value of Ireland’s gross debt is relatively static over the period fluctuating between €203 billion and €210 billion. Table 9 also shows the Debt-to-GNI* ratio which is expected to be 101% in 2019. For Ireland, debt-to-GNI* is a better debt-to-output ratio than debt-to-GDP as GDP in Ireland is distorted by the activities of multi-national companies.

### Table 9: Forecasts for Gross General Government Debt (GGD) 2018-2022

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross GGD</td>
<td>€206bn</td>
<td>€210bn</td>
<td>€203bn</td>
<td>€208bn</td>
<td>€208bn</td>
</tr>
<tr>
<td>Debt-to-GDP</td>
<td>64%</td>
<td>61%</td>
<td>56%</td>
<td>55%</td>
<td>53%</td>
</tr>
<tr>
<td>Debt-to-GNI*</td>
<td>105%</td>
<td>101%</td>
<td>93%</td>
<td>91%</td>
<td>88%</td>
</tr>
<tr>
<td>General Govt Revenue&lt;sup&gt;48&lt;/sup&gt;</td>
<td>255%</td>
<td>246%</td>
<td>229%</td>
<td>224%</td>
<td>216%</td>
</tr>
</tbody>
</table>


In 2019, €15 billion in bonds are expected to mature. The NTMA plans to issue €16 billion in long-term bonds during 2019, and a further €2.9 billion in other funding sources (e.g. State Savings). In addition, the NTMA held €15.3 billion in cash at the end of 2018. On 9 January, the NTMA raised €4 billion through the syndicated sale of a new 10-year bond maturing in May 2029. The funds were raised at a yield of 1.12%. Thus, one quarter of 2019’s planned funding is complete. A further Bond issuance is due in February.

The PBO released *General Government Debt – Key Issues to Consider* in November 2018 which discusses Irish Government debt in more detail.

---

<sup>48</sup> The PBO has recalculated this using data from Budget 2019, the source has different values for this ratio.
<sup>49</sup> Ibid.
<table>
<thead>
<tr>
<th></th>
<th>End-Dec 2018 Outturn</th>
<th>End-Dec 2018 Profile</th>
<th>Outturn v Profile €m</th>
<th>Outturn v Profile %</th>
<th>End-Dec 2017 Outturn</th>
<th>Y-on-Y €m</th>
<th>Y-on-Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tax Revenue and Appropriations-in-Aid</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>21,242</td>
<td>21,445</td>
<td>-203</td>
<td>-0.9%</td>
<td>20,009</td>
<td>1,233</td>
<td>6.2%</td>
</tr>
<tr>
<td>VAT</td>
<td>14,234</td>
<td>14,090</td>
<td>144</td>
<td>1.0%</td>
<td>13,303</td>
<td>931</td>
<td>7.0%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>5,418</td>
<td>5,820</td>
<td>-402</td>
<td>-6.9%</td>
<td>5,925</td>
<td>-507</td>
<td>-8.6%</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>10,385</td>
<td>8,505</td>
<td>1,880</td>
<td>22.1%</td>
<td>8,201</td>
<td>2,184</td>
<td>26.6%</td>
</tr>
<tr>
<td>Stamp duties</td>
<td>1,453</td>
<td>1,670</td>
<td>-217</td>
<td>-13.0%</td>
<td>1,204</td>
<td>249</td>
<td>20.7%</td>
</tr>
<tr>
<td>Motor Tax</td>
<td>977</td>
<td>985</td>
<td>-8</td>
<td>-0.9%</td>
<td>0</td>
<td>977</td>
<td>n/a</td>
</tr>
<tr>
<td>Local Property tax</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
<td>477</td>
<td>-477</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Customs</td>
<td>333</td>
<td>345</td>
<td>-12</td>
<td>-3.6%</td>
<td>331</td>
<td>2</td>
<td>0.5%</td>
</tr>
<tr>
<td>Capital gains tax</td>
<td>994</td>
<td>845</td>
<td>149</td>
<td>17.6%</td>
<td>826</td>
<td>167</td>
<td>20.2%</td>
</tr>
<tr>
<td>Capital acquisitions tax</td>
<td>522</td>
<td>470</td>
<td>52</td>
<td>11.2%</td>
<td>460</td>
<td>63</td>
<td>13.7%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
<td>0</td>
<td>0</td>
<td>-100.0%</td>
</tr>
<tr>
<td>PRSI receipts</td>
<td>9,371</td>
<td>9,175</td>
<td>197</td>
<td>2.1%</td>
<td>8,896</td>
<td>475</td>
<td>5.3%</td>
</tr>
<tr>
<td>National Training Fund receipts</td>
<td>415</td>
<td>415</td>
<td>0</td>
<td>0.0%</td>
<td>357</td>
<td>58</td>
<td>16.3%</td>
</tr>
<tr>
<td>Other Appropriations-in-Aid (including Departmental Balances)</td>
<td>2,834</td>
<td>2,538</td>
<td>297</td>
<td>11.7%</td>
<td>3,008</td>
<td>-174</td>
<td>-5.8%</td>
</tr>
<tr>
<td><strong>Total Tax Revenue and Appropriations-in-Aid</strong></td>
<td>68,178</td>
<td>66,303</td>
<td>1,876</td>
<td>2.8%</td>
<td>62,998</td>
<td>5,180</td>
<td>8.2%</td>
</tr>
<tr>
<td>€ m</td>
<td>End-Dec 2018 Outturn</td>
<td>End-Dec 2018 Profile</td>
<td>Outturn v Profile €m</td>
<td>Outturn v Profile %</td>
<td>End-Dec 2017 Outturn</td>
<td>Y-on-Y €m</td>
<td>Y-on-Y %</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------</td>
<td>---------------------</td>
<td>----------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-tax Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Bank Surplus Income</td>
<td>673</td>
<td>559</td>
<td>114</td>
<td>20.4%</td>
<td>952</td>
<td>-279</td>
<td>-29.3%</td>
</tr>
<tr>
<td>National Lottery</td>
<td>225</td>
<td>210</td>
<td>15</td>
<td>7.0%</td>
<td>227</td>
<td>-2</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Dividends</td>
<td>232</td>
<td>246</td>
<td>-13</td>
<td>-5.4%</td>
<td>324</td>
<td>-92</td>
<td>-28.3%</td>
</tr>
<tr>
<td>Other</td>
<td>348</td>
<td>161</td>
<td>187</td>
<td>116.3%</td>
<td>478</td>
<td>-130</td>
<td>-27.3%</td>
</tr>
<tr>
<td>Capital Resources</td>
<td>92</td>
<td>73</td>
<td>19</td>
<td>26.0%</td>
<td>31</td>
<td>62</td>
<td>202.3%</td>
</tr>
<tr>
<td><strong>Total non-tax revenue and capital resources</strong></td>
<td>1,570</td>
<td>1,249</td>
<td>321</td>
<td>25.7%</td>
<td>2,011</td>
<td>-441</td>
<td>-21.9%</td>
</tr>
<tr>
<td><strong>(A) Total REVENUE</strong></td>
<td>69,748</td>
<td>67,551</td>
<td>2,197</td>
<td>3.3%</td>
<td>65,009</td>
<td>4,739</td>
<td>7.3%</td>
</tr>
<tr>
<td><strong>EXPENDITURE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross Voted Current</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment Affairs and Social Protection</td>
<td>20,303</td>
<td>20,001</td>
<td>302</td>
<td>1.5%</td>
<td>19,911</td>
<td>392</td>
<td>2.0%</td>
</tr>
<tr>
<td>Health</td>
<td>15,464</td>
<td>14,839</td>
<td>625</td>
<td>4.2%</td>
<td>14,346</td>
<td>1,118</td>
<td>7.8%</td>
</tr>
<tr>
<td>Education and Skills</td>
<td>9,483</td>
<td>9,343</td>
<td>140</td>
<td>1.5%</td>
<td>8,905</td>
<td>578</td>
<td>6.5%</td>
</tr>
<tr>
<td>Other</td>
<td>11,804</td>
<td>11,758</td>
<td>46</td>
<td>0.4%</td>
<td>10,806</td>
<td>998</td>
<td>9.2%</td>
</tr>
<tr>
<td><strong>Total Gross Voted Current</strong></td>
<td>57,054</td>
<td>55,941</td>
<td>1,113</td>
<td>2.0%</td>
<td>53,968</td>
<td>3,087</td>
<td>5.7%</td>
</tr>
<tr>
<td><strong>Non-Voted Current Primary</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt management expenses</td>
<td>169</td>
<td>188</td>
<td>-19</td>
<td>-10.0%</td>
<td>135</td>
<td>34</td>
<td>25.6%</td>
</tr>
<tr>
<td>Oireachtas Commission</td>
<td>131</td>
<td>118</td>
<td>13</td>
<td>10.7%</td>
<td>109</td>
<td>21</td>
<td>19.2%</td>
</tr>
<tr>
<td>EU Budget Contribution</td>
<td>2,519</td>
<td>2,650</td>
<td>-131</td>
<td>-4.9%</td>
<td>2,016</td>
<td>503</td>
<td>24.9%</td>
</tr>
<tr>
<td>Other</td>
<td>139</td>
<td>162</td>
<td>-23</td>
<td>-14.5%</td>
<td>100</td>
<td>39</td>
<td>39.2%</td>
</tr>
<tr>
<td><strong>Total Non-Voted Current Primary</strong></td>
<td>2,958</td>
<td>3,118</td>
<td>-160</td>
<td>-5.1%</td>
<td>2,360</td>
<td>598</td>
<td>25.3%</td>
</tr>
<tr>
<td>€ m</td>
<td>End-Dec 2018 Outturn</td>
<td>End-Dec 2018 Profile</td>
<td>Outturn v Profile €m</td>
<td>Outturn v Profile %</td>
<td>End-Dec 2017 Outturn</td>
<td>Y-on-Y €m</td>
<td>Y-on-Y %</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Voted Capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport, Tourism and Sport</td>
<td>1,331</td>
<td>1,327</td>
<td>4</td>
<td>0.3%</td>
<td>1,124</td>
<td>207</td>
<td>18.4%</td>
</tr>
<tr>
<td>Education and Skills</td>
<td>744</td>
<td>745</td>
<td>-1</td>
<td>-0.2%</td>
<td>692</td>
<td>52</td>
<td>7.5%</td>
</tr>
<tr>
<td>Housing, Planning and Local Government</td>
<td>1,774</td>
<td>1,632</td>
<td>143</td>
<td>8.7%</td>
<td>792</td>
<td>982</td>
<td>123.9%</td>
</tr>
<tr>
<td>Other</td>
<td>2,162</td>
<td>2,120</td>
<td>43</td>
<td>2.0%</td>
<td>1,977</td>
<td>185</td>
<td>9.4%</td>
</tr>
<tr>
<td><strong>Total Gross Voted Capital</strong></td>
<td>6,011</td>
<td>5,823</td>
<td>188</td>
<td>3.2%</td>
<td>4,585</td>
<td>1,427</td>
<td>31.1%</td>
</tr>
<tr>
<td>Interest on National Debt</td>
<td>5,791</td>
<td>6,104</td>
<td>-312</td>
<td>-5.1%</td>
<td>6,092</td>
<td>-301</td>
<td>-4.9%</td>
</tr>
<tr>
<td>(B) Total EXPENDITURE</td>
<td>71,815</td>
<td>70,986</td>
<td>828</td>
<td>1.2%</td>
<td>67,005</td>
<td>4,810</td>
<td>7.2%</td>
</tr>
<tr>
<td>(C) = (A-B) Balance excluding transactions with no general government impact</td>
<td>-2,066</td>
<td>-3,435</td>
<td>1,369</td>
<td>39.8%</td>
<td>-1,995</td>
<td>-71</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>

Note: The main transactions with no general government impact are not listed in this table. Their removal allows better visibility of the day-to-day receipts into and expenditure from the Exchequer account. See Appendix 2 for these transactions. Comparisons of revenue between 2017 and 2018 are affected by making Motor Tax an Exchequer tax in 2018 with Local Property Tax going directly to the Local Government Fund.

### Appendix 2: Exchequer transactions with no General Government Balance Impact (€ millions)

<table>
<thead>
<tr>
<th>€ m</th>
<th>End-Dec 2018 Outturn</th>
<th>End-Dec 2018 Profile</th>
<th>Outturn v Profile €m</th>
<th>Outturn v Profile %</th>
<th>End-Dec 2017 Outturn</th>
<th>Y-on-Y €m</th>
<th>Y-on-Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Balance excluding transactions with no general government impact</td>
<td>-2,066</td>
<td>-3,435</td>
<td>1,369</td>
<td>39.8%</td>
<td>-1,995</td>
<td>-71</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>

Publications

Publication 1 of 2019 – *Demographics and Voted Expenditure 03 January 2019*

Publication 2 of 2019 – *Budgetary Cycle 2019 11 January 2019*

Publication 3 of 2019 – *A Primer on Economic Overheating: What it means and how to measure it 17 January 2019*

Publication 4 of 2019 – *Scrutiny of Votes in the Revised Estimates for Public Services 2019 - An Analysis of Vote 33 as a model 17 January 2019*