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From:	Joe Cullen, Financial Counsellor, Permenant Representation of Ireland to the EU
date of receipt:	11 May 2015
To:	Mr Carsten PILLATH, Director General, Council of the European Union
Subject:	Ireland's Stability Programme - April 2015 Update

Delegations will find attached Ireland's Stability Programme - April 2015 Update.

Buan Ionadaíocht
na hÉireann
chuig an Aontas Eorpach

Permanent Representation
of Ireland
to the European Union

Mr Carsten Pillath
Director-General
Economic Affairs and Competitiveness
General Secretariat of the Council of the European union
Rue de la Loi 175
1048 Brussels

8 May 2015

Dear Mr Pillath

Please find enclosed Ireland's Stability Programme Update for 2015 which has been prepared in accordance with the requirements of the European Semester.

It is Ireland's national medium-term fiscal plan and includes an update of the economic and fiscal outlook.

The document incorporates horizontal guidance provided by the European Council to Member States in December 2014 and March 2015 as part of the discussions on the Annual Growth Survey. It also reflects the December 2010 ECOFIN Council recommendations to Ireland under the Excessive Deficit Procedure. It has been prepared in line with the September 2012 guidelines on the format and content of Stability and Convergence Programmes. It was presented in draft form to Dáil Éireann on 28 April 2015 alongside the Spring Economic Statement 2015.

This Update of the Stability Programme should be read in conjunction with the 2015 Update of Ireland's National Reform Programme (NRP), which outlines progress to date in achieving Ireland's national targets within the context of the Europe 2020 Strategy.

Yours sincerely

Joe Cullen
Financial Counsellor

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2015

STABILITY PROGRAMME UPDATE

Incorporating the Department of Finance's Spring Forecasts

APRIL 2015

An Roinn Airgeadais
Department of Finance

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Ireland's Stability Programme
April 2015 Update

Incorporating the Department of Finance's spring forecasts

Foreword

This Update of Ireland's Stability Programme takes account of Budget 2015 and other Government initiatives. It is Ireland's national medium-term fiscal plan and includes an update of the economic and fiscal outlook. This finalized document was submitted to the European Commission on 30 April 2015 in accordance with the requirements under the European Semester.

The document incorporates horizontal guidance provided by the European Council to Member States in December 2014 and March 2015 as part of the discussions on the Annual Growth Survey. It also reflects the December 2010 ECOFIN Council recommendations to Ireland under the Excessive Deficit Procedure. It has been prepared in line with the September 2012 guidelines on the format and content of Stability and Convergence Programmes. It was presented in draft form to Dáil Éireann on 28 April 2015 alongside the Spring Economic Statement 2015.

This Update of the Stability Programme should be read in conjunction with the 2015 Update of Ireland's National Reform Programme (NRP), which outlines progress to date in achieving Ireland's national targets within the context of the Europe 2020 Strategy.

The analysis and forecasts contained in this document are based on data available to late-March 2015. The macroeconomic forecasts contained herein were endorsed by the Irish Fiscal Advisory Council on 31 March 2015.

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Chapter 1
Overview and General Policy Strategy

1.1 Policy Strategy

Since taking office in 2011, this Government has implemented a range of policies designed to boost growth while maintaining prudent public finances. The accompanying Spring Economic Statement sets out the Government's structural reform efforts in this regard. Tax policy has been used to support specific sectoral initiatives which have the aim of boosting employment, while taxes on labour were reduced in the last Budget. The Government has prioritised labour market activation and re-skilling so that those who became unemployed during the crisis are best equipped to find work. Significant capital has been invested in the banks, and the share of that capital that has been recovered is growing. Ensuring credit flow to viable SMEs is also a key priority given the importance of these enterprises to employment.

It is clear that the Government's strategy is working. Unemployment is falling and economic activity is rising. Domestic demand contributed positively to growth last year for the first time since the crisis. Credit advanced to the SME sector has started to rise and private investment is growing. The cost of sovereign borrowing has fallen dramatically since July 2011, on the back of the reductions secured in interest rates as well as increased market confidence. Fiscal performance has been solid, with overachievement against targets in all years.

This Stability Programme sets out the Government's macroeconomic and fiscal projections for the next number of years. The excessive deficit will be corrected this year. Thereafter, policy will be set in line with the requirement to move towards Ireland's medium-term budgetary objective which is a balanced budget in structural terms.

The accompanying National Reform Programme (NRP) sets out Ireland's progress on Country-Specific Recommendation (CSR) implementation, as well as progress toward the EU 2020 targets across a range of policy measures. It also reports on other areas of reform and reports on the use of structural funds.

1.2 Economic and Budgetary Outlook

First estimates suggest that the Irish economy grew by 4.8 per cent in GDP terms last year, with broadly equal contributions from net exports and domestic demand, the latter expanding for the first time since the crisis began. The economic recovery is yielding positive dividends in the labour market where employment growth has resumed and unemployment has fallen 5 percentage points from its peak.

The short-term outlook remains positive. Trading partner growth is picking up, while the decline in the euro's exchange rate and the fall in oil prices since the mid-part of last year represent important tailwinds. With the recovery in domestic demand likely to continue, GDP

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growth of 4.0 per cent is forecast for this year; this would bring the level of GDP above its pre-crisis peak with, importantly, economic activity more balanced between domestic demand and exports. For next year, the current projection is for GDP growth of 3.8 per cent. Over the medium term, growth is expected to move in line with the economy's potential growth rate, estimated to be in the region of 3 per cent per annum.

Table 1: Economic growth, general government balance and debt ratio

	2014	2015	2016	2017	2018	2019	2020
Real GDP (% change)	4.8	4.0	3.8	3.2	3.2	3.0	3.0
Employment (% change)	1.7	2.2	2.2	1.9	1.9	1.8	1.7
Total Employment ('000)	1,915	1,960	2,000	2,040	2,080	2,115	2,155
Unemployment (rate)	11.3	9.6	8.8	8.4	7.8	7.3	6.9
General government balance (% of GDP)	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
EDP target* (% of GDP)	-5.1	-2.9	—	—	—	—	—
Debt ratio (year-end, % of GDP)	109.7	105.0	100.3	97.8	93.6	89.4	84.7
Net debt position (% of GDP)*	89.9	86.6					

* EDP targets and net debt position are for 2014 and 2015 only
Source: 2014 - CSO; 2015 to 2020 - Department of Finance

Tax receipts have been very strong in the opening quarter of this year and as a result, the full-year tax revenue forecast has been revised upwards by €1 billion (around 0.5 per cent of GDP). With expenditure evolving broadly in line with expectations, and taking into account one-off factors, a general government deficit of 2.3 per cent of GDP in 2015 is now expected, consistent with the requirement to correct the excessive deficit this year. Further improvements in the headline balance are foreseen post-2016 (see table 1). These projections are carried out on a no-policy-change basis and do not preclude specific policy measures to be announced at Budget time.

It should also be stressed that, from 2016 onwards, the requirements of the preventive arm of the Stability and Growth Pact mean rapid progress towards our medium term budgetary objective is needed. Progress will be assessed on the basis of two pillars: the change in the structural balance and expenditure growth relative to the expenditure benchmark.

The debt-to-GDP ratio is now on a firm downward path, having peaked in 2013. This year, the debt ratio should fall to 105.0 per cent of GDP. Net debt, which excludes liquid and semi-liquid assets, is much lower at an estimated 86.6 per cent of GDP.

Chapter 2
Economic Outlook

2.1 Summary

High-frequency data point to another year of strong output growth in Ireland. Demand in key export markets continues to improve, while the depreciation of the euro exchange rate and the decline in energy prices constitute important tailwinds for the economy. Business and consumer confidence continue to improve and domestic demand should contribute positively to output growth once again this year. GDP is projected to increase by 4.0 per cent, yielding a positive dividend in the labour market, where unemployment should dip below 9 per cent by end-year.

2.2 Macroeconomic Outturn 2014

First estimates of full-year economic activity for 2014 were published by the Central Statistics Office (CSO) in mid-March. These show GDP growth of 4.8 per cent (GNP growth of 5.2 per cent) last year. Overall, the contribution to growth was more broadly balanced than in recent years, with domestic demand growing on a full-year basis for the first time since 2007. The level of GDP in real terms has returned to just over 2008 levels (see figure 1).

Private consumption grew by just over 1 per cent, although relatively weak consumption of services partially offset strong consumer expenditure on goods. The recovery in investment spending continued to gain momentum, albeit off a relatively low base. Export performance was very strong in 2014 growing by 12.6 per cent, with the level of exports now at an all-time high. Double-digit import growth was recorded, reflecting the high import content of final demand in Ireland. Net exports contributed just over 2 percentage points to growth last year, with the CSO noting that the expansion in contract manufacturing last year had a negligible impact on full-year growth in value added.

2.3 Macroeconomic Projections 2015

Trading partner growth should be reasonably solid this year (see table 2). Incoming data suggest continued momentum in the UK, and despite an expected weak first quarter, a strong performance is expected once again for the US economy. Importantly, high frequency data relating to the euro area have been somewhat better than initial expectations: lower oil prices, the stance of monetary policy and the (partly-related) depreciation of the exchange rate all seem to be contributing to a more positive assessment of short-term prospects for the region. Having said that, the recovery in the euro area is at an early stage and remains fragile.

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On foot of relatively strong external demand, as well as competitiveness improvements, export growth of 7.6 per cent is projected for this year (the slowdown relative to last year reflects the assumption of an unwinding of contract manufacturing).

Table 2: External assumptions

	2014	2015	2016	2017	2018	2019	2020
External GDP growth				*% change*			
United States	2.4	3.5	3.2	3.0	2.7	2.6	2.6
Euro area	0.9	1.3	1.9	1.7	1.6	1.6	1.6
United Kingdom	2.6	2.6	2.4	2.4	2.4	2.4	2.4
Technical assumptions							
Euro-sterling exchange rate	0.81	0.72	0.72	0.72	0.72	0.72	0.72
Euro-dollar exchange rate	1.33	1.09	1.08	1.08	1.08	1.08	1.08
Brent crude (dollars per barrel)	100	61	68	71	73	73	73

Source: European Commission Winter Forecasts; projections for beyond 2016 are taken from the IMF World Economic Outlook October 2014

Note: Exchange rates and oil prices (spot and futures) calculated on the basis of a ten-day moving average to 13 March 2015 and unchanged thereafter.

Domestic demand should contribute positively to growth once again this year. Private consumption is forecast to grow by 2.4 per cent, on the back of increases in household incomes as well as the assumption of a modest decline in the savings rate. Strong retail sales growth in the opening months of this year support this assessment. Investment spending is set to increase at a double-digit rate once again this year,
with strong contributions from all the sub-components of investment[1]. Government consumption is set to grow modestly in line with fiscal objectives. Finally, imports are projected to increase by 8.7 per cent this year.

Taking all of these factors into account, GDP growth of 4.0 per cent is forecast for this year; such a growth rate would bring the level of GDP above its pre-crisis peak. The recovery in domestic demand as well as the assumption of a strong performance from indigenous exporting sectors mean that GNP should also grow strongly this year – a growth rate of 3.9 per cent is projected.

[1] However any increase in purchases of aircraft from the very low levels recorded in 2014 (see chart) could boost the overall investment growth rate considerably in 2015. The net effect on GDP would be neutral given the import content.

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Table 3: Macroeconomic prospects

	2014*	2014	2015	2016	2017	2018	2019	2020
	€m	year-on-year per cent change						
Real GDP	181,330	4.8	4.0	3.8	3.2	3.2	3.0	3.0
Nominal GDP	185,412	6.1	6.9	5.4	4.2	4.4	4.2	4.2
Real GNP	153,485	5.2	3.9	3.5	2.7	2.6	2.5	2.5
Components of GDP	*€m*	*year-on-year per cent change (real)*						
Private consumption	82,732	1.1	2.4	2.5	1.4	1.3	1.3	1.3
Government consumption	26,309	0.1	1.1	1.6	1.0	1.0	1.0	1.0
Investment	29,251	11.3	15.3	12.1	8.1	4.7	3.9	4.0
Stock changes (% of GDP)**	1,733	1.0	0.6	0.4	0.2	0.2	0.2	0.2
Exports	207,846	12.6	7.6	4.8	4.3	4.3	4.3	4.3
Imports	-167,527	13.2	8.7	5.4	4.2	3.7	3.8	3.9
Contributions to real GDP growth		*annual percentage point contribution*						
Domestic demand		2.3	3.7	3.5	2.3	1.7	1.5	1.5
Stock changes		0.5	-0.3	-0.2	-0.1	0.0	0.0	0.0
Net exports		2.2	0.6	0.5	1.0	1.5	1.5	1.4
Current prices (nearest €25m)		*€ millions*						
GDP		185,400	198,275	208,900	217,775	227,325	236,900	246,775
GNP		158,450	168,950	176,850	182,375	188,250	193,950	199,875

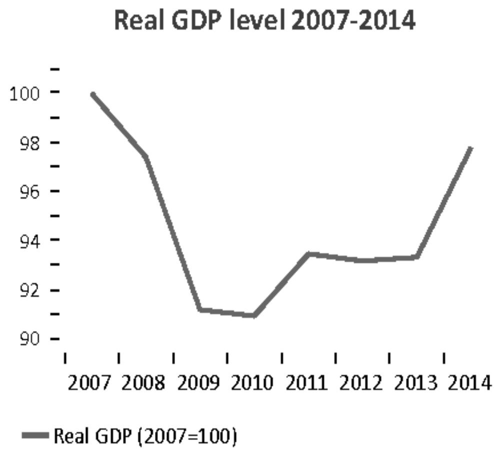
Source: 2014 - CSO; 2015 to 2020 - Department of Finance.

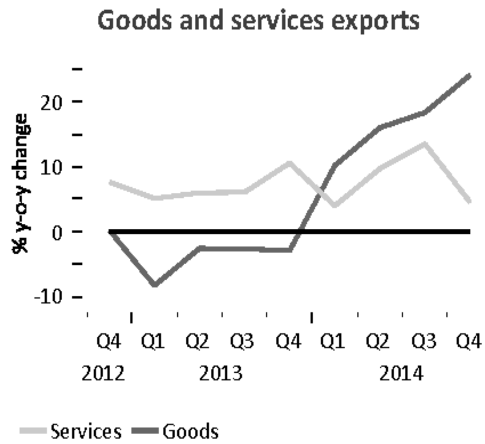
Notes: Rounding can affect totals.

*Expenditure components are shown in constant 2012 prices except for nominal GDP which is in current prices

**Stock changes are assumed unchanged 2017-2020 in nominal terms but fall as a share of GDP by the end of the forecast horizon.

Figure 1: Economic Trends





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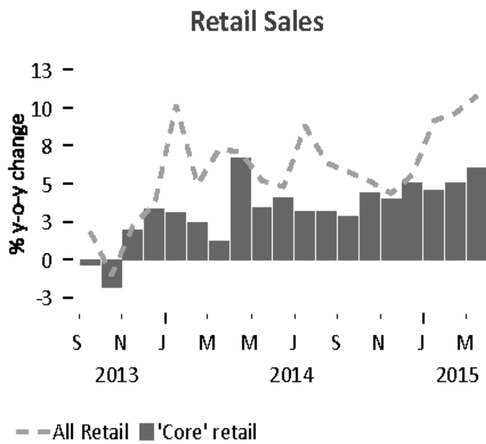
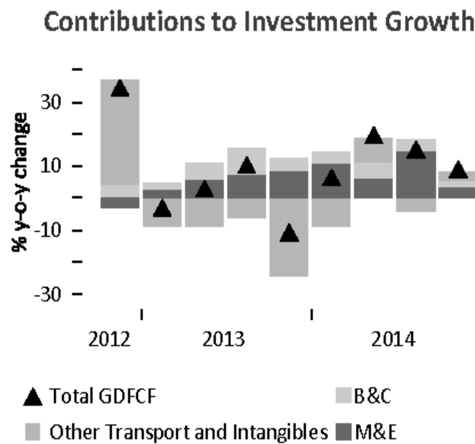
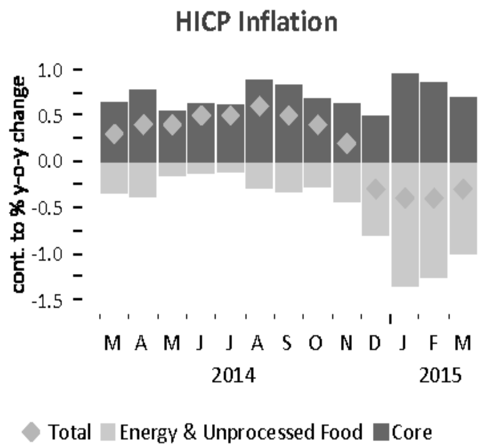
Source: CSO

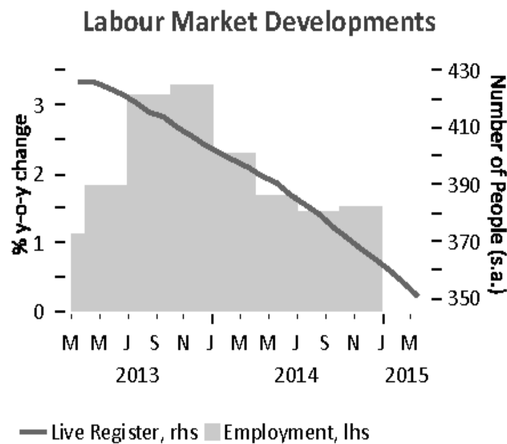




Source: CSO

Source: CSO, Department of Finance





Source: CSO, Department Finance

Source: CSO

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2.4 Medium-Term Growth Prospects 2016 to 2020

Turning to next year where the current indications are for continued economic recovery. Forecasts from the IMF and others point to further solid growth in key trading partners which, in turn, should support a further expansion of exports, with a renewed shift in the balance of exports towards services. Further growth in household income should support consumer spending, although the need to repair household balance sheets will continue to restrain expenditure at least to some extent. The investment-to-GDP ratio is assumed to increase further, given that current investment levels (relative to economic activity) remain below historical norms.

On the basis of estimated potential output based on the harmonised methodology, the output gap is assumed to turn positive this year before turning negative towards the end of the forecast horizon; growth is assumed to evolve broadly in line with the potential growth rate of the economy which, according to the harmonised methodology applied at an EU level, is in the region of 3 per cent per annum over the second half of this decade.

Current account

The current account recorded a surplus of 6.2 per cent of GDP in 2014, up from 4.4 per cent in 2013. Last year saw strong growth in the trade balance which was not matched by growth in the income balance[2]. Income inflows last year grew particularly strongly and this effect is likely to carry over into 2015 somewhat, pushing up the current account balance this year. Over the medium term, the current account surplus is likely to fall slowly, as higher levels of investment lead to a narrowing of the domestic saving-investment gap.

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[2] The CSO has indicated that the impact of 're-domiciled plcs' on the year-on-year growth in the income balance fell out in 2014, with the effect essentially the same as in 2013. This effect is estimate to add about 4 percentage points to the level of the current account balance. For more see FitzGerald (2013) "The Effect of Re-domiciled Plcs on Irish Output Measures and the Balance of Payments": "https://www.esri.ie/UserFiles/publications/RN20130102.pdf

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Table 4: External balance

	2014	2015	2016	2017	2018	2019	2020
Current account (% of GDP)	6.2	7.2	6.4	5.5	5.0	4.5	4.0
Current account (% of GNP)	7.2	8.5	7.5	6.6	6.1	5.5	4.9
Of which: (% of GDP)							
- Balance on goods and services	21.4	22.6	22.3	22.3	22.7	23.1	23.4
- Income Balance	-15.2	-15.4	-15.9	-16.7	-17.7	-18.6	-19.4

Source: 2014 - CSO; 2015 to 2020 - Department of Finance. All data on a BPM6 basis.

The CSO has indicated that a change to how aircraft leasing activity is recorded in the national accounts and balance of payments will be outlined in the coming months. As such, the risk of revision to the current account forecasts from changes to statistical methodology is high.

2.5 The Labour Market

Labour market dynamics show continued evidence of strengthening. Latest available data indicate nine successive quarters of annual employment growth with employment levels some 95,000 (or about 5 per cent) above the trough seen in 2012. Since the low point in early 2012, a third of all jobs lost during the crisis have now been regained.

The composition of employment growth is also showing signs of strengthening with growth exclusively driven by gains in full-time employment. Although part-time employment has begun to fall (and indicators of part-time underemployment prevalent during the crisis are beginning to abate), the response of participation rates has remained muted. Despite a positive contribution from participation to labour force movements in 2013, this trend then reversed in 2014, which is somewhat unusual at this stage of the economic cycle in Ireland.

The outlook for employment remains relatively strong, with growth of 2.2 per cent projected for this year. The seasonally-adjusted unemployment rate has fallen consistently since the second quarter of 2012, reaching 10.4 per cent in the final quarter of 2014. More up-to-date evidence from the Live Register suggests the standardised unemployment rate fell to 10.0 per cent in March.

Over the second half of this decade, employment growth averaging around 40,000 (about 2 per cent) jobs per annum is anticipated. Alongside employment growth, aggregate labour supply is expected to respond positively with the dominant contribution coming through the demographic channel, including net inward migration over the medium term.

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Earnings data point towards a recovery in wages across a number of sectors, most notably within the private sector. Pay bill developments will be driven by a combination of trends in hourly pay and growth in hours worked. A projected uplift in hours worked, reflecting in part the consolidation towards full-time employment growth, alongside modest growth in wages per employee suggest stable pay bill developments over the forecast horizon.

Table 5: Labour market developments

	2014	2014	2015	2016	2017	2018	2019	2020
	('000s)	*year-on-year % change (unless otherwise stated)*						
Employment	1,915	1.7	2.2	2.2	1.9	1.9	1.8	1.7
Unemployment rate (QNHS basis)	243	11.3	9.6	8.8	8.4	7.8	7.3	6.9
Labour productivity (GDP per person employed)		3.0	1.7	1.5	1.2	1.2	1.2	1.2
Compensation of employees*		3.2	4.6	5.2	4.6	4.6	4.5	4.6
Compensation per employee*		1.4	2.3	2.9	2.6	2.6	2.7	2.8

*Non-agriculture sector.
Source: 2014 - CSO; 2015 to 2020 - Department of Finance.

2.6 Price Developments

As measured by the Harmonised Index of Consumer Prices (HICP), inflation averaged 0.3 per cent last year. This moderate rate of inflation can be attributed to falling oil prices which more than halved during the second half of last year.

Inflationary pressures are expected to remain relatively muted again this year, with headline inflation averaging -0.4 per cent in the first quarter. Futures prices for oil suggest that the drag from energy prices will continue until the second half of the year. Core inflation (i.e., excluding energy and unprocessed food), which gives a better indication of underlying developments in the economy, averaged 1.0 per cent in the first quarter. Inflation is being driven by increases in services prices, reflecting both administered price increases as well as the general pick-up in domestic demand. Taking all of these factors into account, HICP inflation is expected to average 0.2 per cent this year before accelerating next year as the impact of falling energy prices wanes and domestic demand strengthens further.

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Table 6: Price developments

% change	2014	2015	2016	2017	2018	2019	2020
GDP deflator	1.2	2.8	1.5	1.0	1.2	1.2	1.2
Private consumption deflator	1.6	0.6	1.3	1.6	1.9	1.9	1.9
Harmonised index of consumer prices (HICP)	0.3	0.2	1.1	1.5	1.7	1.9	1.9
Export price deflator (goods and services)	0.3	3.1	0.9	0.8	0.8	0.8	0.8
Import price deflator (goods and services)	0.6	1.6	0.7	1.2	1.2	1.2	1.2

Source: 2014 - CSO; 2015 to 2020 - Department of Finance.

In terms of the GDP deflator – which accounts for prices changes in all components of demand and, as such, is the broadest measure of price developments in the economy – an increase of 2.8 per cent is forecast for this year. This reflects a large positive terms-of-trade effect, mainly due to recent exchange rate developments. This is expected to moderate next year before turning negative in the outer years. The private consumption deflator will continue to record higher growth than the HICP in the near term due to the impact of rising private and imputed rents and their weight in the private consumption deflator basket.

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Chapter 3
Fiscal Outlook

3.1 Fiscal Outturn 2014

Budget 2015 projected a deficit of 3.7 per cent of GDP for last year. The actual outturn is now estimated at 4.1 per cent of GDP (see figure 3 for recent performance against EDP targets). There are a number of reasons for the changes since Budget day but a significant portion reflects policy decisions on the part of the Government which impacted the timing of certain receipts and expenditures.

The tax revenue end-year outturn for 2014 was higher than expected at Budget time. For the full-year 2014, tax revenue grew by 9.2 per cent with significant increases across all the major tax heads. Tax revenues finished the year €242 million above the forecast set out on Budget day 2015.

Over the course of the year, the strongest performing tax heads against profile were capital gains tax and stamp duties. At the same time, income tax, VAT and corporation tax receipts recorded significant growth in year-on-year terms.

Overall, net voted expenditure for the year, at €42.2 billion, was €841 million (2 per cent) above profile. In comparison to 2013, net voted expenditure was down €848 million (2 per cent). Gross voted expenditure of €54 billion was €1,017 million (1.9 per cent) above profile. In year-on-year terms, gross voted expenditure was down €507 million (0.9 per cent).

3.2 Fiscal Outlook 2015

Budget 2015 targeted a deficit of 2.7 per cent of GDP in 2015, well inside the 3 per cent of GDP deficit limit. Developments in the intervening period have been primarily positive and the deficit is now forecast to be in the region of 2.3 per cent of GDP.

Tax performance

Taking account of the cuts in taxation announced in Budget 2015, tax revenue was forecast to increase by around 4.5 per cent year-on-year in 2015 (excluding the impact of the levy on pension funds[3]). The performance through the first quarter of 2015 has been positive (see recent performance in figure 3) and has exceeded expectations with taxes ahead of profile by

[3] €740 million was collected in 2014 in respect of the levies on pension fund assets. In 2015, these levies are being reduced from a combined level of 0.75 per cent in 2014 to a rate of 0.15 per cent and is legislated to end thereafter. This results in a distorted picture when comparing headline year-on-year growth rates.

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€545 million or 5.5 per cent, which represents a year-on-year increase of €1,238 million (13.4 per cent).

Of particular note is the strong performances across of all of the major tax heads (see table 7 below). Income tax, the largest tax head, is up 7.7 per cent in year-on-year terms and €136 million or 3.3 per cent above profile. The year-on-year performance is primarily due to strong PAYE tax receipts and is consistent with the recovering labour market, despite income tax reductions designed to cost €490 million introduced in Budget 2015.

Table 7: Analysis of taxation receipts – cumulative performance against profile

Exchequer Tax Receipts	**end-March 2015 outturn €m**	**end-March 2015 target €m**	**excess/ shortfall €m**	**excess/ shortfall %**
Income Tax (including USC)	4,241	4,105	136	3.3
VAT	3,797	3,774	23	0.6
Corporation Tax	555	298	257	86.3
Excise	1,177	1,150	27	2.3
Stamps	236	179	57	31.8
Capital Gains Tax	68	71	-4	-5.0
Capital Acquisitions Tax	30	30	0	0.4
Customs	75	59	16	26.2
Levies	0	0	0	n/a
Local Property Tax	244	257	-14	-5.3
Unallocated Tax Deposits	46	0	46	n/a
Total	**10,469**	**9,924**	**545**	**5.5**

Source: Department of Finance.

Table 8: Analysis of taxation receipts – cumulative year-on-year performance

Exchequer Tax Receipts	**end-March 2015 €m**	**end-March 2014 €m**	**year-on-year change €m**	**year-on-year change %**
Income Tax (including USC)	4,241	3,939	302	7.7
VAT	3,797	3,366	431	12.8
Corporation Tax	555	256	299	116.7
Excise	1,177	1,104	73	6.6
Stamps	236	151	85	56.2
Capital Gains Tax	68	98	-30	-31.0
Capital Acquisitions Tax	30	30	0	0.3
Customs	75	47	28	60.1
Levies	0	0	0	40.9
Local Property Tax	244	215	29	13.5
Unallocated Tax Deposits	46	26	20	79.9
Total	**10,469**	**9,232**	**1,238**	**13.4**

Source: Department of Finance.

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As expected, the increase in personal consumption has boosted VAT and excise duties performance, with receipts up €23 million (0.6 per cent) and €27 million (2.3 per cent) respectively above profile. In year-on-year terms, VAT receipts are up €431 million or 12.8 per cent and excise duties are up 6.6 per cent. Strong car sales in the first quarter (up approximately 30 per cent year-on-year) are a significant contributory factor. In addition, corporation tax receipts of €555 million were recorded to end-March, some €257 million more than had been profiled. However, some of the over-performance can be attributed to a series of unexpected payments. The other contributing factor is improved corporate profitability.

While the performance in the first three months of the year is very encouraging, a number of risks remain, both specific and more general, to the tax forecast. Nevertheless, the strong performance gives confidence that the Budget 2015 forecast for tax revenues for 2015 of €42.3 billion will be exceeded and the new forecast is for an additional €1.0 billion i.e. €43.3 billion. However, in line with historical practice, monthly reporting of the Exchequer performance will continue to be against the original Budget 2015 profiles.

Non-tax revenue performance

Turning to estimates of non-tax revenue for 2015, this has increased by almost €0.4 billion from the Budget 2015 estimate. This is primarily driven by increased surplus income from the activities of the Central Bank of Ireland (€0.3 billion).

In terms of capital resources, the estimate for 2015 has increased by €1.1 billion. Just over €1.6 billion, relating to the proceeds from the sale of Bank of Ireland preference shares in 2013, was transferred from the National Pension Reserve Fund (NPRF) to the Exchequer in March of this year to part-finance the early repayment of the IMF loan facility. Offsetting this to some extent, the sinking fund payment was eliminated in Finance Bill 2014 (€0.6 billion). The annual sinking fund payment, while appropriate to the era of its introduction, had in more recent times proved to be a circuitous procedure with a significant administrative burden and this is why it was removed. It was also Exchequer and general government neutral.

Expenditure

The current estimate for central fund expenditure for 2015 has been reduced by €1.2 billion. Reduced interest expenditure accounts for almost €0.5 billion of the reduction on foot of an improved interest rate environment and earlier-than-profiled repayment of the IMF loan facility. Effectively, this involves the replacement of relatively costly IMF loans with cheaper market based financing. The remainder of the reduction is due to the removal of the annual sinking fund payment.

The Revised Estimates for Public Services 2015 (REV) sets out the detailed allocations for all Government Departments. Total gross voted expenditure for 2015 is €53.2 billion with net voted expenditure projected to be €41.7 billion.

The gross amount allocated for 2015 reflects the disestablishment of the Health Service Executive (HSE) Vote in line with the provisions of the Health Service Executive (Financial Matters) Act 2014. The expenditure of the HSE is now being met through a grant from the

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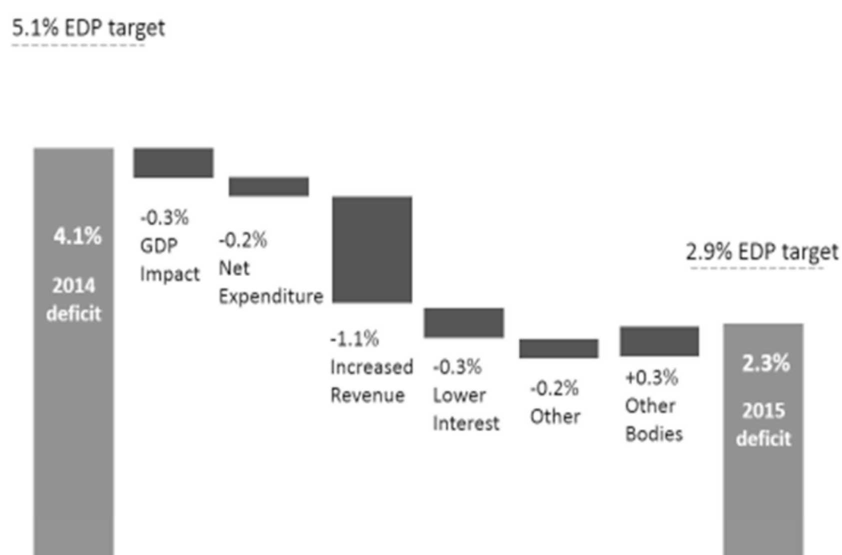
Minister for Health and the technical changes arising from its disestablishment are reflected in the Revised Estimates Volume (REV).
Gross voted expenditure up to the end of March 2015 was €62 million (0.5 per cent) lower than profiled. Net voted expenditure was €146 million (1.4 per cent) below profile driven by PRSI receipts to the Social Insurance Fund being 6.4 per cent ahead of profile in the first quarter.

3.3 Transition of the Deficit

Figure 2: Transition from 2014 to 2015 of general government deficit



Source: Department of Finance;
Diagram not drawn to scale; all variables as a percentage of GDP

Transition from 2014 to 2015 deficit

Figure 2 begins with the 2014 general government deficit of 4.1 per cent of GDP. All further adjustments display the difference between the 2014 and 2015 items in order to arrive at the projected 2015 deficit figure. A negative adjustment improves the deficit while a positive adjustment has the opposite effect. Changes are shown on a general government basis.

- With year-on-year nominal GDP growth of 6.9 per cent there is a denominator-effect improvement to the deficit ratio of about 0.3 percentage points.
- Net-voted expenditure is expected to be roughly €340 million lower in 2015 than 2014. The primary reason for the difference is increased PRSI receipts due to higher employment figures.

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- General government taxes are expected to be €2.1 billion higher than those collected in 2014. This increase is predominantly as a result of higher economic activity and consequent higher employment figures. However, this figure also encompasses the effect of some Budget 2015 measures which included reductions to some taxes, particularly certain aspects of income tax.
- Projected interest expenditure for 2015 is approximately €640 million lower than 2014 due to the early repayment of IMF lending and subsequent re-financing (including of other debt) at lower rates, as well as the lower interest rate environment.
- Other items include dividend payments received from commercial-state bodies and the Central Bank of Ireland.
- Other bodies comprise the non-market public corporations, extra-budgetary funds, Irish Water, IBRC and the NPRF.

Box 1: Irish Water

As a result of the approach agreed between the CSO and Eurostat during the 2014 EDP dialogue visit, Irish Water has provisionally been classified within general government for the March EDP results, pending a final classification decision by Eurostat. As such, for consistency, Irish Water has also been included within general government in this publication. However, it should be noted that a CSO classification proposal on Irish Water is currently with Eurostat. This is a closed process and CSO now will await the final adjudication of Eurostat. The final decision will be reflected in the October 2015 EDP results and the Budget 2016 publication.

Pending this final adjudication, it is prudent for forecasting purposes to treat all of Irish Water's forecast expenditure as general government expenditure on a provisional basis. Revenues generated by Irish Water are also included in general government revenue with all transactions between government bodies and Irish Water being consolidated.

Similarly, borrowing required for Irish Water expenditure is included in general government debt on a provisional basis.

Table 9: Impact of Irish Water on general government balance and debt 2014-2020

	2014	2015	2016	2017	2018	2019	2020
Net impact on GGB (€ billion)	-0.34	-0.58	-0.39	-0.26	-0.29	-0.45	-0.37
Net impact on GGB (pp of GDP)	-0.18	-0.29	-0.19	-0.12	-0.13	-0.19	-0.15
Net impact on GG debt (pp of GDP)[1]	0.08	0.29	0.47	0.57	0.67	0.83	0.95

Source: Department of Finance, CSO, the Department of Environment, Community and Local Government (forecasts for 2017-2020 provided subject to future budgetary and regulatory review).
[1]Two-year bridging facility provided by National Pensions Reserve Fund (NPRF) in 2013 and extended in 2014 had no impact on general government debt.

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Table 9 highlights the impact on the deficit and debt of including Irish water in general government. The profile of the impact on the deficit is heavily influenced by the capital investment plans of Irish Water.

3.4 Fiscal Outlook 2016 to 2020

In terms of the outlook for 2016, assuming a budgetary package of €1.2 billion, evenly split between taxation and expenditure, the forecast deficit is 1.7 per cent of GDP. This represents a continued improvement on the estimated 2015 deficit of 2.3 per cent. Most of this improvement is attributable to buoyant tax receipts on the back of a growing economy.

The post 2016 projections revert to a no-policy-change scenario other than a provision for demographic pressures and indexation of the income tax system[4]. On this basis, the forecast is a broadly balanced budget in headline terms by around 2018. Notwithstanding the limitations associated with a no-policy-change scenario, projections suggest an average annual improvement in the structural balance of over 1 percentage point per annum over the period 2015 to 2020.

Tax performance

The tax forecast for 2016 takes account of the taxation package outlined above and the impact of previous budgetary measures. As the SPU is setting the broad parameters of the fiscal space for 2016, specific budgetary measures have not been reflected in the document. Rather, an assumption is made that the €0.6 billion in tax measures are reductions in income tax. There is also positive buoyancy of approximately €0.3 billion as a result of the budgetary package of €1.2 billion and this primarily manifests itself in the consumption taxes.

Beyond 2016, taxation is estimated to continue to grow broadly in line with nominal GDP growth when the costs of indexation are excluded. Nominal GDP growth is expected to average 4.3 per cent over the period. It is worth pointing out that there is a significant decline in the revenue growth rate in 2017 and a corresponding increase in 2018. However, this is primarily due to a Single Euro Payment Area (SEPA) and the available number of banking days at the end of 2017. As a result approximately €1.0 billion of taxes will be delayed from 2017 into 2018. While this does impact on the Exchequer tax revenue forecast, it does not impact on the general government balance as these taxes will be accrued back to 2017.

In relation to some of the specific tax heads, income tax will continue to become more important as a proportion of the total tax take on the assumption of continued recovery in the

[4] There is a technical assumption of indexation of the income tax system of around 2 per cent, the medium-term increase in non-agricultural wages

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labour market and wage developments (see figure 3). In addition, the consumption taxes - VAT and excise - are expected to grow in line with growth in domestic demand over the period on the back of increased household incomes and personal consumption.

The traditional estimated relationship between nominal GDP growth and tax revenue was a unitary elasticity. This means that every one percentage point change in nominal GDP gave an additional one percentage point of tax. In recent years, the growth in tax revenue has been greater than the growth in nominal GDP, implying an elasticity of greater than one. While it is expected that the elasticity will return to historical norms, this could continue in the short run and provide some upside to the forecasts.

Non-tax revenues

Annual non-tax revenue receipts are expected to decline significantly, by €1.0 billion to €2.0 billion, over the 2016 to 2020 period. One-off dividends as a result of the current asset disposal programme, mainly from the commercial semi-states, are expected to cease while the surplus income received from the Central Bank will return to more normal levels after the peak forecast for 2015. This reduction in non-tax revenues is one of the key reasons why the ratio of revenue to GDP declines over time.

Capital resources will benefit from the redemption of €2 billion of contingent convertible capital notes (CoCos) in AIB and PTSB in 2016[5] before returning to an annual amount of just under €1 billion. As the CoCos were considered financial transactions, there is no benefit to the general government balance as a result of the payback, although the transactions are debt-reducing. More generally, it should be noted that the vast bulk of capital resources do not impact the general government balance.

Expenditure

Central Fund expenditure is forecast to decline over the forecast horizon from €9.9 billion to €9.7 billion, driven by a decrease in assumed interest rates over the coming years, somewhat offset by an increase in the contribution to the EU budget. The contribution to the EU Budget is largely determined on the basis of Ireland's gross national income (GNI) - Irish GNI is set to grow at a quicker pace than the EU average, and as such, Ireland will be making an increasing contribution.

Total gross voted expenditure in 2016 is estimated at €53.7 billion with gross voted current expenditure amounting to €50.0 billion. Relative to 2015, gross voted current expenditure increases by €0.6 billion, after account is taken of the crystallisation of an accrual relating to Exchequer pay and pensions in 2015.

[5] The fiscal forecasts do not reflect the expected early redemption of the PTSB CoCos signalled in the SES.

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Post-2016, the expenditure projections on a no-policy-change basis include an additional amount of €0.3 billion in voted current expenditure each year to accommodate demographic pressures, primarily in Social Protection, Health and Education. The capital expenditure ceilings post 2017 are left unchanged in nominal terms. This is a technical assumption pending publication of the capital review.

Table 10: Budgetary projections 2015-2020

€ million	2014	2015	2016	2017	2018	2019	2020
CURRENT BUDGET							
Expenditure							
Gross Voted Current Expenditure	50,455	49,715	50,045	50,345	50,645	50,945	51,245
Non-Voted (Central Fund) Expenditure	10,730	9,770	9,895	9,595	9,795	9,810	9,690
Gross Current Expenditure	**61,185**	**59,485**	**59,940**	**59,940**	**60,440**	**60,755**	**60,935**
less Expenditure Receipts and Balances	11,435	11,205	11,135	11,450	11,760	12,150	12,560
Net Current Expenditure	**49,750**	**48,280**	**48,805**	**48,490**	**48,680**	**48,605**	**48,375**
Receipts							
Tax Revenue	41,280	43,300	45,290	45,865	49,925	50,835	52,875
Non-Tax Revenue	2,965	3,350	3,090	2,280	2,080	2,035	2,050
Net Current Revenue	**44,245**	**46,650**	**48,380**	**48,145**	**52,005**	**52,870**	**54,925**
CURRENT BUDGET BALANCE	**-5,505**	**-1,630**	**-425**	**-345**	**3,325**	**4,265**	**6,550**
CAPITAL BUDGET							
Expenditure							
Gross Voted Capital	3,550	3,670	3,690	3,785	3,785	3,785	3,785
Non-Voted Expenditure	1,635	1,215	900	890	900	885	885
Gross Capital Expenditure	**5,185**	**4,885**	**4,590**	**4,675**	**4,685**	**4,670**	**4,670**
less Capital Receipts	350	300	300	300	300	300	300
Net Capital Expenditure	**4,835**	**4,585**	**4,290**	**4,375**	**4,385**	**4,370**	**4,370**
Capital Resources	**2,155**	**2,750**	**2,930**	**980**	**990**	**990**	**980**
CAPITAL BUDGET BALANCE	**-2,680**	**-1,835**	**-1,360**	**-3,395**	**-3,395**	**-3,380**	**-3,390**
EXCHEQUER BALANCE	**-8,185**	**-3,465**	**-1,785**	**-3,740**	**-70**	**885**	**3,160**
GENERAL GOVERNMENT BALANCE	**-7,630**	**-4,610**	**-3,580**	**-2,055**	**-290**	**1,645**	**4,075**
% of GDP	-4.1	-2.3	-1.7	-0.9	-0.1	0. 7	1.7

Source: Department of Finance

Notes:

- Figures may not sum due to rounding
- This table is prepared on a cash basis. The comparison between 2015 and 2016 is impacted by an amount of €270m that represents the crystallisation of a pay and pensions accrual. Excluding this amount the year on year increase in voted current expenditure is €600m.
- The voted expenditure amounts do not include a provision to cover inflationary pressures. Each 1% on the Exchequer pay & pensions bill costs €175m and 1% on Social Protection payments amounts to €185m.
- It is assumed that capital expenditure increases in line with published figures into 2017. Post 2017, the allocation is left unchanged in nominal terms. This is a technical assumption and these allocations will be revised upwards when the Capital Review is published in due course.

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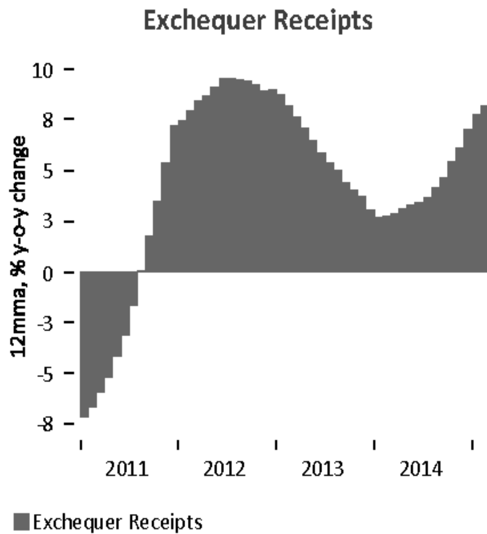
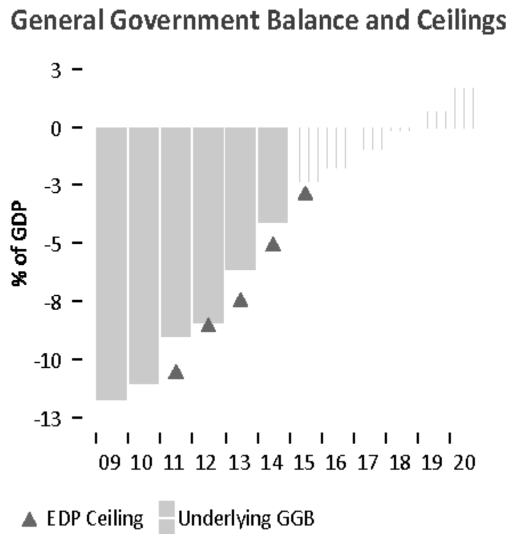
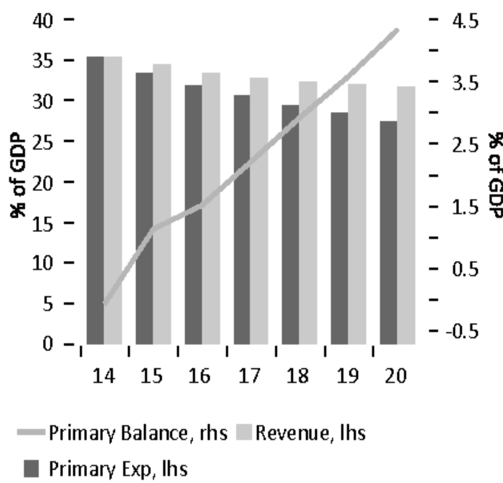
Figure 3: Fiscal trends



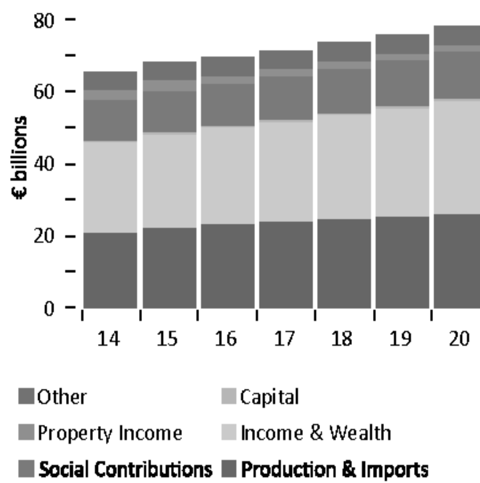
Source: Department of Finance



Source: Department of Finance



Source: Department of Finance



Source: Department of Finance

3.5 Debt Developments

Debt position and outlook

The general government debt-to-GDP ratio has increased significantly since 2007, peaking at 123.2 per cent of GDP in 2013. It is now on a firm downward trajectory. The CSO's current estimate of general government debt at the end of 2014 is €203.3 billion or 109.7 per cent of GDP. This is consistent with the estimate of €203.2 billion projected in the Budget 2015 last October.

Figure 4 shows the compositional breakdown of the end-2014 stock of debt. The diagram shows that 57 per cent of government debt was held in the form of government bonds. Of the total stock of debt 12 percentage points relates to the floating rate bonds issued in 2013 to replace the IBRC promissory notes held by the Central Bank of Ireland. Funding sourced under the EU-IMF Programme – which consists of loans from the IMF; the European Financial Stabilisation Mechanism (EFSM); the European Financial Stability Facility (EFSF); as well as bilateral loans from the UK, Sweden and Denmark - comprised a further 30 per cent of the stock of government debt at end-2014. This figure reflects the early repayment to the IMF – in December 2014 – of SDR 7.64 billion[6] (approximately €9 billion). State savings, short term paper and other debt make up the remaining 13 per cent of general government debt.

Figure 4: Composition of general government debt at end-2014

[6] IMF loans are denominated in Special Drawing Rights (SDRs), an international reserve asset created by the IMF, the value of which is based on a basket of four key international currencies; €, ¥, £STG and US$. A further SDR 8.05 billion was repaid in Q1 2015.

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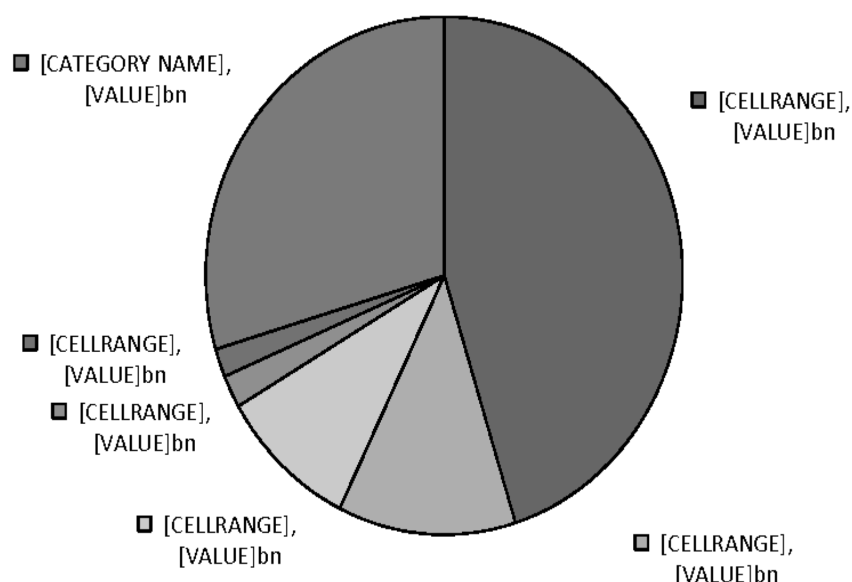

Source: Department of Finance, NTMA and CSO

General government debt is projected at €208.2 billion or 105.0 per cent of GDP at end-2015. The improvement in the debt ratio in 2015 is 4.7 percentage points. In terms of debt dynamics, there was very little change in the nominal stock of debt between 2014 and 2015 however nominal growth is set to exceed the average interest rate by over 3 percentage points this year which reduces the debt ratio. A primary balance is set to be recorded this year, with the balance set to further improve over the forecast horizon. Government debt is forecast to fall towards 100 per cent of GDP by end 2016. Government debt would fall below 100 per cent of GDP in 2016 as a result of any asset disposals, most likely the sale of Government stakes in the banking sector.

The projected evolution of general government debt for Ireland over the period 2014-2020 is shown in table 11. The table shows that that the debt-to-GDP ratio is improving at a rate greater than the minimum reduction of five per cent of the gap to 60 per cent per year (averaged over three years) which is required under the debt criterion of the Stability and Growth Pact (SGP).

Table 11: General government debt 2014-2020

	2014	2015	2016	2017	2018	2019	2020
General government debt (€ bn)	203.3	208.2	209.5	213.0	212.7	211.7	208.9
Debt-to-GDP ratio (%)	109.7	105.0	100.3	97.8	93.6	89.4	84.7
Annual improvement in debt-to-GDP ratio (%)	-13.5	-4.7	-4.7	-2.5	-4.2	-4.2	-4.7

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

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Based on a set of prudent macroeconomic and fiscal assumptions, general government debt is likely to reach 60 per cent of GDP around the middle of the next decade. Debt interest costs are set to fall to approximately 10 per cent of general government revenues in 2015, down from 13 per cent in as recently as 2013. The early repayment of the portion of IMF loans which were subject to the highest rate of interest is a key factor aiding this reduction. Over the medium term the ratio of debt interest to general government revenue is expected to decline further to around 9 per cent.

Gross debt and net debt

General government debt, as defined under the Excessive Deficit Procedure (EDP) regulation, is a gross measure of government liabilities. Net general government debt (obtained by deducting the value of the financial assets corresponding to the categories of financial liabilities which comprise general government gross debt) is reported in table 12. The assets deducted include: Exchequer cash and liquid assets, NPRF cash and investments, IBRC cash and loan assets and other cash and assets held by central government.

Table 12: General government debt and net general government debt 2014 and 2015

End-year	2014	2015
% of GDP		
General government debt	109.7	105.0
EDP debt instrument assets	19.8	18.4
Net debt position	89.9	86.6

Source: Department of Finance, NTMA , and CSO

Credit ratings

During 2014, Ireland enjoyed a number of credit rating upgrades. Ireland now has an investment grade credit rating with all of the main rating agencies:

- Moody's restored Ireland to investment grade status with a rating of Baa3 and a positive outlook in January 2014. This was followed in May 2014 by a further two-notch upgrade to Baa1.
- Standard & Poor's upgraded Ireland's sovereign credit rating to A- in June 2014 and then subsequently upgraded the rating again, to A in December.
- Fitch also upgraded Ireland's rating to A- in August 2014.

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Funding Developments

The NTMA announced in December 2014 that it planned to raise €12 - €15 billion in long-term Government bonds over the course of 2015. In the first quarter of the year, a total of €9.5 billion was raised:

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- In January, the NTMA sold €4 billion of a new 7-year benchmark bond maturing in 2022 through syndication. The funds were raised at a yield of 0.867 per cent.
- In February, the NTMA raised a further €4 billion, at a yield of 2.088 per cent through the syndicated sale of a new 30-year euro benchmark bond, the first such bond issued by Ireland.
- February also saw the first bond auction of the year with €500 million of the benchmark 15-year bond[7] issued at a yield of 1.563 per cent.
- The bond auction in March saw another €1 billion of the 30-year benchmark bond sold. The yield was 1.307 per cent.

Figure 5 shows the maturity profile of Ireland's long-term marketable and official debt – Government bonds and EU-IMF Programme loans – at end-March 2015.

The chart reflects the early repayment, between December 2014 and March 2015, of the portion of the IMF loan (SDR 15.7 billion or just over €18 billion) which was subject to the highest rate of interest. The residual balance on the IMF loan now stands at SDR 3.8 billion (approximately €4.8 billion) and is subject to interest at the SDR interest rate plus a margin of 1 per cent. The balance of the IMF loan is due to amortise over the period 2021-2023.
Following the maturity extensions on the European portion of the loans granted in 2013, the first of the EFSF maturities is not until 2029 while it is not expected that Ireland will have to refinance any EFSM loans before 2027[8]. However, the bilateral loans from the UK, Sweden and Denmark which formed part of the EU-IMF Programme do begin to mature over the current forecast horizon. In total €4.6 billion of bilateral loans are due to mature over the course of 2019 and 2020.

The Exchequer Borrowing Requirement (EBR) is narrowing and is projected to drop to below €2 billion in 2016. However, the current outstanding balance of the April 2016 Treasury Bond maturity is €8.1 billion. Given the front-loaded nature of the EBR, the NTMA is targeting cash and other short-term investment balances of €11-12 billion at end-2015, similar to the end-2014 level.

Looking further ahead, there are significant bond redemptions over the medium term which must be adequately and prudently funded. The current outstanding balance on the six benchmark bonds maturing over the period 2017 to 2020 is €50 billion.

Figure 5: Maturity profile of long-term marketable and official debt as at end-March 2015

[7] A new 15-year benchmark bond, maturing in 2030, was issued in November 2014.
[8] The revised maturity dates of individual EFSM loans will only be determined as they approach their original maturity dates, the first of which is in December 2015 (€5 billion).

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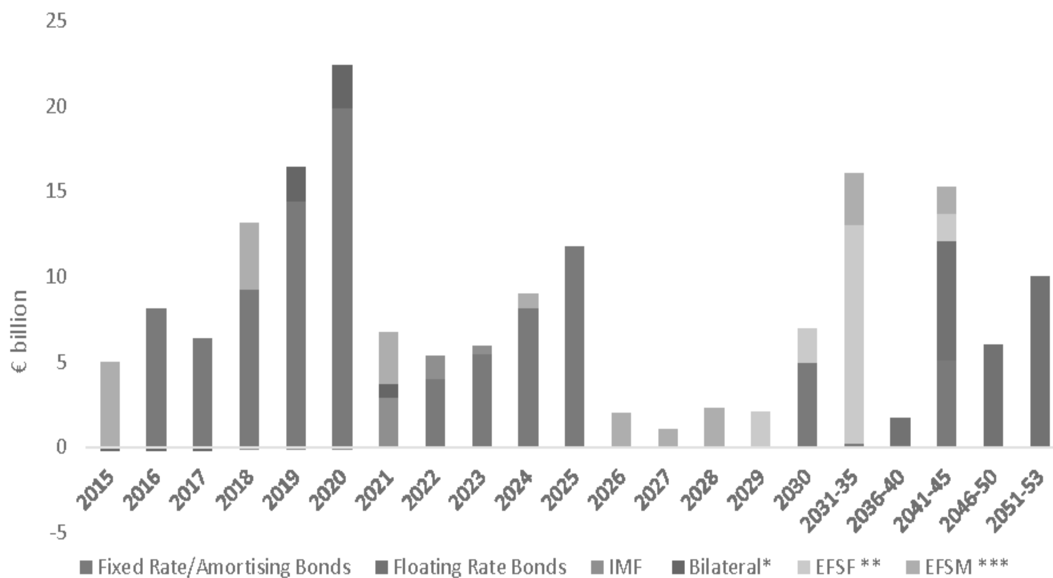

Source: NTMA
Notes: The figures underpinning the chart are unaudited and include the effect of currency hedging transactions.
* Bilateral loans were provided from the UK, Sweden and Denmark.
** EFSF loans reflect the maturity extensions agreed in June 2013.
*** EFSM loans are subject to a seven-year extension. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027. However, the revised maturity dates of individual EFSM loans will only be determined as they approach their original maturity dates. The original EFSM maturities are reflected in the chart above.

Debt dynamics and the stock-flow adjustment

In analysing debt developments, it is helpful to consider the components of the stock-flow adjustment. These are effects that change the debt ratio which are not due to the deficit of the given year. The main component of the stock-flow adjustment, in nominal terms, is the change in cash and other financial assets. An increase, for instance, indicates borrowing beyond the need to fund the deficit. Operations in financial instruments such as loans, investments and other equity transactions do not affect the general government deficit but impact on funding requirements. These operations are also part of the stock-flow adjustment. Table 13 sets out the stock-flow adjustment over the forecast horizon.

Table 13: General government debt developments

% of GDP	2014	2015	2016	2017	2018	2019	2020
Gross debt	109.7	105.0	100.3	97.8	93.6	89.4	84.7
Change in gross debt (=1+2+3)	-13.5	-4.6	-4.7	-2.5	-4.2	-4.2	-4.7
Contributions to change in gross debt ratio:							
1. General Government Balance	4.1	2.3	1.7	0.9	0.1	-0.7	-1.7
2. Stock-flow adjustment	-10.6	0.1	-1.1	0.7	-0.2	0.3	0.5
3. Nominal GDP contribution to Δ in debt ratio	-7.1	-7.1	-5.3	-4.1	-4.1	-3.8	-3.6
Composition of GGB							
4. General Government Balance	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
5. Interest expenditure	-4.0	-3.5	-3.2	-3.2	-3.1	-2.9	-2.7

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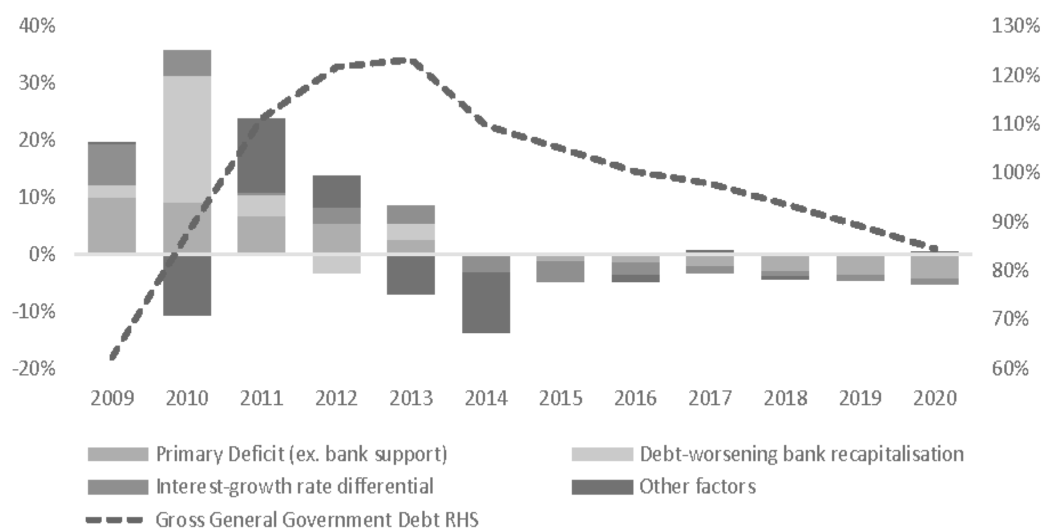
6. Primary balance (= 4 - 5)	-0.1	1.1	1.5	2.2	2.9	3.6	4.3
Composition of stock-flow adjustment							
7. Change in liquid assets	-4.8	0.3	-0.1	-0.2	-0.2	-0.2	0.0
8. Interest adjustments	0.1	0.2	0.2	0.1	0.1	0.1	0.1
9. Equity transactions	0.2	-0.1	-1.3	0.0	0.0	0.0	0.0
10. Accrual adjustments	-0.1	0.3	0.2	0.6	-0.3	0.2	0.1
11. Impact of NPRF	0.2	-0.6	0.2	0.2	0.2	0.2	0.2
12. Impact of IBRC	-6.2	-0.4	0.0	0.0	0.0	0.0	0.0
13. Collateral held	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0
14. Net discounts	0.1	0.2	0.1	0.1	0.1	0.1	0.1
15. Other	-0.1	0.2	-0.2	0.0	0.0	0.0	0.0
Memorandum item:							
Average interest rate (per cent)	3.7	3.3	3.2	3.2	3.3	3.2	3.2

Source: 2014 CSO, 2015-2020 Department of Finance

Figure 6: Contributions to general government debt (% GDP)



Source: Department of Finance. Bank related costs using CSO April 2015 EDP data on impact of banking interventions.

Table 14: Requirements and path for the general government balance

% of GDP	**2011**	**2012**	**2013**	**2014**	**2015**
EDP ceiling for general government balance	-10.6	-8.6	-7.5	-5.1	-2.9
Underlying general government balance*	-8.8	-8.1	-5.8	-4.1	-2.3

Source: Department of Finance and CSO.
*Excluding support for the banking sector.

3.6 Structural Budget Balance and Medium Term Budgetary Objective (MTO)

On the basis of a an illustrative budgetary stimulus package of €1.2 billion in 2016, with no policy change assumed thereafter, over the horizon to 2020 aggregate demand is expected to grow by an average of 3.4 per cent per annum. Harmonised estimates of the economy's growth potential suggest aggregate supply will expand slightly short of this, in the region of 3 per cent per annum.

On this basis, estimates using the required harmonised methodology suggest the emergence of a positive output gap over 2015 to 2018. This relates largely to the slow response of potential labour supply to improving economic conditions. Estimates of the level of structural unemployment (NAWRU) signal the persistence of a negative unemployment gap until 2017 suggesting near-term overheating in the labour market - something which is clearly implausible in the context of Ireland's nascent labour market recovery. Harmonised estimates of the NAWRU derived using the SPU demand side macroeconomic outlook suggest structural unemployment will return to 6½ per cent by 2020[9].

The resulting supply-side outlook underpins the path for the output gap. This path suggests the component of the deficit owing to the economic cycle turns positive over 2015 to 2018. As a result, a greater improvement in headline deficit is required to support a minimum structural adjustment path as required under EU fiscal rules. From a starting position of −4.0 per cent of GDP in 2014, the structural deficit is projected to improve by an average of 1.1 per annum, reaching balance and thus obtaining the MTO by 2018-2019.

Table 15: Cyclical developments

[9] This is based on the harmonised new Keynesian Philips curve model which uses the change in wage share to identify the unemployment gap. The fit of this Philips curve is limited in Ireland's case. If an alternative estimation of structural unemployment is estimated using a HP filter approach the implied structural effort in 2016 is closer to ½ per cent of GDP.

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	2014	2015	2016	2017	2018	2019	2020
1. Real GDP growth (%)	4.8	4.0	3.8	3.2	3.2	3.0	3.0
2. General government balance (% of GDP)	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
3. Interest expenditure (% of GDP)	4.0	3.5	3.2	3.2	3.1	2.9	2.7
4. One-off and other temporary measures (% of GDP)	0.3	0.1	0.1	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)	2.0	2.7	3.2	3.5	3.6	3.6	3.6
Contributions to potential growth							
- labour	0.5	0.9	1.2	1.5	1.6	1.6	1.5
- capital	0.4	0.7	1.0	1.1	1.1	1.1	1.2
- total factor productivity	1.1	1.0	0.9	0.9	0.8	0.8	0.9
6. Output Gap	-0.9	0.4	1.0	0.7	0.4	-0.2	-0.8
7. Cyclical budgetary component	-0.5	0.2	0.5	0.4	0.2	-0.1	-0.4
8. Structural budget balance [2-4-7]	-4.0	-2.6	-2.3	-1.3	-0.3	0.8	2.1
9. Structural primary balance [2+3-4-7]	0.1	0.8	0.9	1.8	2.7	3.7	4.8

Source: Department of Finance. Estimates of output gap based on harmonised value of NAWRU upper bound = 0.3038 and a lambda smoothing parameter for the participation rate of 100. Cyclical budgetary component based on estimated elasticity of 0.53 (EC-OECD 2014).

Box 2: Illustrative application of the expenditure benchmark

The figures below set out an illustrative application of the expenditure benchmark for Ireland in 2015 and 2016, although the provisions of the benchmark will only formally apply from 2016 onwards. To isolate the benefit which these negotiations have successfully delivered, the spending space consistent with the benchmark is compared both ex-ante and ex-post. The negotiations have resulted in some 0.4 per cent of GDP in additional fiscal space in 2016.

The ex-post figures incorporate the higher potential output path resulting from the population arrangement, the annual update in both the reference rate and convergence margin components of the benchmark. As Ireland must deliver 'greater than 0.5 pp' correction per annum, the convergence margin should be scaled appropriately. For consistency with 2015 spending outturns, the SPU estimate of the 2016 GDP deflator is used to translate spending allowances into nominal levels.

The Ex-post scenario incorporates the impact of higher potential output in reference rate estimates following 1 April Economic Policy Committee agreement and the annual update of the reference rate. The annual update of the convergence margin was put in place in Spring 2014 and forms part of the 'status quo' assumptions. The nominal fiscal space is estimated on the basis of projected permitted benchmark spending level outturns for 2015 consistent with SPU 2015.

As the table demonstrates, projected growth for the purposes of the benchmark in 2016, is below that which is permitted, confirming compliance with this metric. Detailed calculations behind these figures are set out in the SPU annex Table A10.

It should be noted however that the Commission's assessment of Ireland's compliance with these provisions will be based on its own estimates for the deflator path averaged between the respective Spring and Autumn forecast rounds in each year.

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	2015	2016
Ex-ante status quo		
Reference rate	0.7	0.7
Convergence margin	1.7	1.8
Real permitted expenditure growth %	-1.1	-1.1
Nominal permitted expenditure growth %		0.4
A. Nominal general government fiscal space € million		240
Ex-post negotiations		
Reference rate	1.5	1.9
Convergence margin	1.8	1.8
Real permitted expenditure growth %	-0.3	0.05
Nominal permitted expenditure growth %		1.6
B. Nominal general government fiscal space € million		1,030
Buoyancy effect		300
Implied nominal general government fiscal space € million*		**1,330**[10]
Marginal benefit of negotiations on nominal spending space (% GDP) [B-A]		**0.4 %**

Note: Real permitted growth % = RR-CM. Nominal permitted % = [1+ RR-CM/100*% PVGD] where PVGD = GDP deflator. Nominal general government fiscal space is on a net basis, i.e. net of discretionary revenue measures (DRM). Final nominal general government fiscal space includes the estimated impact of positive buoyancy arising from implementation of a €1.2bn budgetary package.
*Calculations behind projected benchmark spending are set out in SPU Table A10.

The Irish Fiscal Advisory Council, in a note[11] released on 1 April, acknowledged that the use of outdated potential growth rate figures in the calculation of the reference rate could result in an inappropriate fiscal stance for Ireland and advocated an approach whereby there would be an update of the reference rate for 2016. The agreement reached by the Department goes further, in that there will now be an annual updating of all components of the benchmark. Given the expected recovery in potential GDP growth over the medium-term, this will have an important bearing on the fiscal stance.

Given the implications of the annual update in reference rate and the benefit resulting from the incorporation of more plausible population projections, Ireland will not avail of the transitional arrangement in place for 2016. Instead, Budget 2016 will frame spending decisions using a yearly updated reference rate. Actual estimates of the benchmark parameters (the base year (2015) nominal benchmark level, reference rate, convergence margin and deflator paths) will be based on the appropriate, latest available outlook when Budget decisions are being framed in October 2015.

As a result, the above calculations should be seen as indicative and are used purely to illustrate the benefit in terms of prospective fiscal space which these successful negotiations have delivered.

[10] A budgetary package of €1.2 billion in new measures is designed with reference to the quantum of general government fiscal space. A prudent provision is made to allow for other potential costs, for example, an increase in EU Budget contributions which is a mandatory non-voted expenditure.
[11] http://www.fiscalcouncil.ie/wp-content/uploads/2012/01/ExpenditureBenchmarkNote_310315_Final_1.6.pdf

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Chapter 4
Risk and Sensitivity Analysis

4.1 Summary

This chapter sets out topical risks which could impact economic performance in Ireland over the short- to medium-term. Quantitative estimates of the impact of particular shocks on the Irish economy are also provided. Given the openness of the Irish economy and the high indebtedness of the household sector, deviations from baseline forecasts can have a high impact on output and fiscal ratios.

Overall, the risks to the central scenario are broadly balanced. Developments since Budget 2015 was announced in October of last year have been broadly positive. In particular, the decline in oil prices, as well as the depreciation of the euro against the dollar and sterling compared to Budget 2105 expectations, is a positive for the Irish economy. On the downside, while the incipient euro area recovery is welcome, growth has disappointed in the past due to structural issues and any slowdown could dampen demand for Irish exports.

A broader array of risks will be set out in the forthcoming National Risk Assessment 2015.

4.2 Risks to the Forecast

The macroeconomic and fiscal projections set out in this document represent the Department of Finance's baseline scenario for the 2015-2020 period. There is, of course, considerable uncertainty regarding short-term developments – in other words how the components of aggregate demand will evolve in the near term. Over the short term, risks to the outlook appear broadly balanced.

On the upside, oil prices have declined by about a third vis-à-vis the assumptions that underpinned the Budget. This is a positive gain for the Irish economy which is a net energy importer. The real purchasing power of households has increased and the competitiveness of firms has also increased as input costs are lowered. It is worth noting that there is potential for downside risks associated with the oil price declines if oil prices rise faster than expected.

The other main positive development compared to Budget 2015 expectations is the decline in the bilateral exchange rate of the euro vis-à-vis sterling and the US dollar. This has pushed down Ireland's nominal effective exchange rate (NEER) considerably given that the majority of Irish exports are destined for markets outside the euro area, namely the UK and US. This boosts the competitiveness of production based in Ireland and suggests upside risk to the export forecast.

On the downside, the high indebtedness of the Irish household sector may act as a drag on growth over the medium term. The household debt-to-income ratio fell to 177 per cent at the

end of the third quarter in 2014, continuing the decline of recent years. Nevertheless, household indebtedness in Ireland is high in comparative terms compared to our euro area peers and households may choose to prioritise debt reduction over raising consumption as household incomes rise. As a small regional economy in a single currency zone, Ireland is vulnerable to losses of competitiveness through wage and/or productivity developments that are out of line with those in the euro area and beyond.

The euro area economy has shown encouraging signs in recent months. Nevertheless, growth has disappointed in the euro area in the past and any slowdown in growth could impact on activity in Ireland via the trade channel. While there has been no significant contagion to date, financial stress has the potential to re-emerge with the uncertainty surrounding developments in Greece. The risks of a return to global financial market turbulence could also possibly increase, due to asset market mispricing or low market liquidity.

On the nominal side, inflationary pressures remain weak in advanced economies and in Ireland. Any acceleration in deflationary trends could serve to raise the real interest rate and depress aggregate demand as firms and households reduce investment and consumption. In this regard, the commencement of the Expanded Asset Purchase Programme (EAPP) by the European Central Bank (ECB) is a welcome development, however, there is a risk that at given proximity to the current lower-bound interest rate, the EAPP may not have the desired impact of stimulating aggregate demand.

The Irish banking system in 2015 is also now in a much stronger position with the banks continuing to make significant progress in restoring their financial health and benefitting from the recent improvement in the macroeconomic environment. The results of the ECB Comprehensive Assessment reinforces confidence in the strength of the Irish banking system. However, vulnerabilities in the asset books of Irish banks may continue to weigh on bank credit ratings.

Geopolitical tensions may also continue to pose a downside risk given current tensions in Russia and the Ukraine as well as in the Middle East.

4.3 Fiscal Risks

Risks to the fiscal forecast can arise from specific events or from the changing economic environment. The economic risks outlined below all have, to varying degrees, potential fiscal implications.

In terms of forecasting receipts from the different tax categories, each tax category responds at different rates to changes in the level of economic activity, rate of transaction or level of asset prices. Tax forecasting is also dependent on the relationships between economic activity, tax bases and tax revenues in prior years. These relationships can evolve over time and as the forecast of tax receipts for a given year is based on the performance in preceding years, the availability of the most recent data can reduce the risk to the forecast for particular tax heads.

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Of particular note is the performance of taxes in 2014 and the early months of 2015. Income tax and VAT in particular grew at rates far in excess of what was suggested by growth in the macroeconomic variables and the established elasticity. As such, there could be upside to the tax forecasts although the judgement element of the forecast should help to minimise any differential.

In terms of potential volatility, the change in budgetary timetable from December to October increases the risk to the forecast, both to the upside and downside, as revenue from some tax heads are not spread evenly throughout the year. For example, over 40 per cent of receipts from corporation tax in 2015 are forecast for the final three months of the year, while receipts from self-employed taxpayers are expected in November.

The fiscal forecasts also include estimates for interest expenditure which are based on both the existing stock of debt and projected debt issuance over the forecast horizon. While the majority of the existing stock of debt carries fixed rates of interest, there are floating rate exposures, including the floating rate bonds issued in early 2013 to replace the IBRC promissory notes. Market sentiment towards Ireland is currently positive given the significant economic, fiscal and financial progress made by the State and the cost of new debt issuance is at record low levels. Potential changes in market sentiment towards the sovereign or any upward movement in the interest rate regime globally could affect the price of funding. Any unanticipated increase in the cost of borrowing represents a downside risk to the public finance forecast.

Contingent liabilities

As part of drive to improve fiscal transparency, the Departments of Finance and Public Expenditure and Reform have been publishing improved data about the State's future liabilities and exposures. The largest exposure in terms of guarantees is in relation to NAMA and the Eligible Liabilities Guarantee (ELG) scheme. Encouragingly, exposure to these guarantees have been declining significantly over recent years. Indeed, assuming current market performance is sustained, NAMA is confident it will be in a position to fully repay its borrowings – both senior and subordinated - and hopes to achieve a surplus over its life, thus eliminating the State's contingent liability. The board's best estimate is that NAMA can expect to complete much of its work by end-2017 or mid- 2018.

Table 16: Contingent Liabilities (at end-year)

% of GDP	**2012**	**2013**	**2014**
Public guarantees	66.9	32.1	13.7
of which linked to the financial sector			
Eligible Liabilities Guarantee	42.1	11.5	5.5
Exceptional Liquidity Assistance	9.3	-	-
National Asset Management Agency and National Asset Resolution Limited	14.7	19.8	7.3
other	0.8	0.8	0.9

Source: Department of Finance, CSO

In addition to the contingent liabilities outlined above, the State has certain other long-term future payment liabilities which are contractually conditional on the continued availability to the State of public infrastructure provided under public private partnerships (PPPs). Typically, the PPP structure involves the private sector being responsible for the construction, up-front financing, and maintenance of an infrastructure asset and also possibly its design and/or operation. Following construction, the asset is made available for public use and is paid for by the State by way of an annual unitary payment to the PPP company over an extended period (usually 20-25 years) following which the asset comes into State ownership.

The Department of Public Expenditure & Reform publishes information on the PPP programme including the level of estimated outstanding future financial commitments in nominal terms arising under existing PPP contracts. The data for recent years is as follows:

- €4,150 million at end 2012
- €4,350 million at end 2013
- €4,140 million at end 2014

Seperately, as a member of various international organisations, Ireland has entered into commitments to provide capital. Statement 1.8 (b) of Finance Accounts 2013 provides details of investments in international bodies under international agreements, and the changes within the previous fiscal year. The most significant of these by far is Ireland's capital contribution to the European Stability Mechanism of approximately €1.3 billion.

There is a distinction between paid-in capital (this is funding which has already been made to the organisation) and callable capital (which is funding which may be called upon by the organisation concerned when needed). In general, capital paid into these organisations is classified as investments with no effect on the general government deficit. However, money borrowed to pay the capital does increase general government debt, and is already included in this figure.

4.3 Sensitivity Analysis

The sensitivity analysis contained in this chapter assesses how the key budget variables (revenue, expenditure, deficit and debt) might evolve in the event of deviation from the baseline macroeconomic scenario. Deviations from the baseline economic scenario could arise from external or domestic sources, with differing implications for the evolution of the public finances.

In terms of the external situation, simulations show that a 1 per cent permanent increase in world output would have a favourable impact on Irish exports and lead to an increase in Ireland's GDP of about 1 per cent by 2020. This, in turn, would reduce the deficit by around one third of a percentage point relative to baseline. The results are broadly symmetric in that a

permanent reduction in world output would have a negative impact on Ireland's output and the fiscal variables of a similar magnitude.

As outlined earlier, household savings behaviour will be an important driver of domestic demand trends over the coming years. Simulations show that if the savings rate was permanently 1 percentage point higher than assumed, the level of GDP would be around 0.2 percentage point lower, with an adverse impact on the deficit.

While unlikely in the short term, higher policy-induced interest rates would have a dampening impact on Ireland's economic activity. Simulations suggest that a 1 percentage point increase in policy interest rates could reduce the level of GDP by almost 2½ percentage points by 2020. This effect is especially pronounced given the large debt overhang. Such a deterioration in the economy would add almost 1 percentage point to the budget deficit by 2020.

Table 17: Impact on main aggregates

		2015	2016	2017	2018	2019	2020
		1 per cent increase in world output					
Real GDP	% change compared to base	0.8	0.9	1.0	1.1	1.1	1.1
Total Revenue	% change compared to base	0.2	0.4	0.7	0.9	1.0	1.0
Total Expenditure	% change compared to base	-0.1	-0.1	0.0	0.0	0.0	0.0
Deficit-GDP Ratio	pp change compared to base	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3
Debt-GDP Ratio	pp change compared to base	-0.9	-1.3	-1.6	-1.9	-2.2	-2.4
Primary Balance–GDP Ratio	pp change compared to base	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
		1 percentage point increase in savings rate					
Real GDP	% change compared to base	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Total Revenue	% change compared to base	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3
Total Expenditure	% change compared to base	0.0	0.0	0.0	0.0	0.1	0.1
Deficit-GDP Ratio	pp change compared to base	0.1	0.1	0.1	0.1	0.1	0.1
Debt-GDP Ratio	pp change compared to base	0.4	0.5	0.6	0.7	0.8	0.9
Primary Balance–GDP Ratio	pp change compared to base	0.1	0.1	0.1	0.1	0.1	0.1
		1 percentage point increase in interest rate					
Real GDP	% change compared to base	-0.3	-1.4	-2.1	-2.4	-2.4	-2.2
Total Revenue	% change compared to base	-0.7	-1.7	-2.1	-2.3	-2.1	-1.7
Total Expenditure	% change compared to base	0.2	0.5	0.6	0.7	0.7	0.7
Deficit-GDP Ratio	pp change compared to base	0.4	0.8	0.9	1.0	0.9	0.8
Debt-GDP Ratio	pp change compared to base	1.7	3.5	5.3	6.7	7.4	7.7
Primary Balance–GDP Ratio	pp change compared to base	0.3	0.6	0.6	0.6	0.4	0.2

Source: Economic and Social Research Institute

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Table 18: Range of forecasts

2015		annual % change			
		GDP	GNP	HICP	Employment
Department of Finance	April 2015	4.0	3.9	0.2	2.2
Central Bank of Ireland	April 2015	3.8	3.9	0.7	2.1
IMF	April 2015	3.9	n/a	0.2	2.0
ESRI	March 2015	4.4	4.1	0.1[12]	2.6
European Commission	February 2015	3.5	n/a	0.3	2.2
OECD	November 2014	3.3	n/a	0.5	n/a
2016		*annual % change*			
		GDP	**GNP**	**HICP**	**Employment**
Department of Finance	April 2015	3.8	3.5	1.1	2.2
Central Bank of Ireland	April 2015	3.7	3.5	1.7	2.2
IMF	April 2015	3.3	n/a	1.5	1.9
ESRI	March 2015	3.7	3.5	1.0	2.8
European Commission	February 2015	3.6	n/a	1.3	1.9
OECD	November 2014	3.2	n/a	1.2	n/a

Source: Institutions cited

4.5 Comparison with last year's Update

Table 19 compares the headline macroeconomic and fiscal figures with the projections set out in the April 2014 Update of the Stability Programme. The outturn for 2014 GDP was

[12] The ESRI's inflation figure in 2015 and 2016 refers to Consumer Price Index (all other institutions refer to HICP).

considerably larger than anticipated and is attributable to over-performance both of domestic demand and net exports.

The GDP forecast for this year has been revised upwards on the back of both carryover from 2014 as well as the positive high-frequency data in the interim.

Table 19: Comparison with previous Stability Programme Update

	2014	2015	2016	2017	2018	2019	2020
Real GDP growth (%)							
- Previous forecast	2.1	2.7	3.0	3.5	3.5	—	—
- Current update	4.8	4.0	3.8	3.2	3.2	3.0	3.0
- Difference	2.7	1.3	0.6	-0.3	-0.2	—	—
Net lending of general government (% of GDP)							
- Previous forecast	-4.8	-2.9	-2.2	-1.2	-0.0	—	—
- Current update	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
- Difference	0.7	0.6	0.5	0.2	-0.1	—	—
General government gross debt (% of GDP)							
- Previous forecast	121.4	120.0	115.9	112.0	107.2	—	—
- Current update	109.7	105.0	100.3	97.8	93.6	89.4	84.7
- Difference	11.7	15.0	15.6	14.2	13.6	—	—

Source: CSO, Department of Finance

Note: Totals may not sum due to rounding. 2019 and 2020 variables were not forecast in Stability Programme 2014.

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Chapter 5
Quality of the Public Finances

5.1 Summary

The Medium Term Expenditure Framework was one of the key budgetary reforms introduced in recent years. The first *Comprehensive Review of Expenditure* was undertaken in 2011 and the second in 2014. This process allows for a review of all voted public expenditure with focus on the most efficient use of public resources in delivering effective services.

A number of reforms are being introduced to the domestic budgetary process this year, including the first Spring Economic Statement and a National Economic Dialogue to take place during the summer. As a further potential reform, the Government will examine the possibility of establishing an Independent Budget Office.

5.2 Quality of the Public Finances

Domestic budgetary reforms

A number of important budgetary reforms have been introduced in recent years including the establishment of the Irish Fiscal Advisory Council (IFAC), enhanced fiscal rules and co-ordination of budgetary timelines across Europe. These have enhanced the transparency and credibility of the budgetary process and have been outlined in detail in previous Stability Programme Updates.

The Spring Economic Statement (SES) which will be published in April sets out the broad economic and fiscal parameters for the October Budget and will assist in framing policy discussions during the summer months.

A new National Economic Dialogue will take place over the summer as a means of widening consultation on the forthcoming Budget with key stakeholders, while respecting the role of the Government and the Oireachtas to take policy decisions. A public call for written Budget submissions will follow the National Economic Dialogue. All submissions will be published.

The mid-October Budget will then update the economic and fiscal outlook and set out detailed policy measures to be implemented in the following year. The subsequent Finance Bill and other legislation will implement these measures.

The Government will consider the establishment of an Independent Budget Office, and while it is not possible to commit to definite timeframes, this is a policy that would only be fully in place after the next election. This would allow for independent costings of policy proposals, taking into account second-round effects (i.e. economic) as well as looking over a multi-year horizon. More detail on these reforms can be found in Chapter 5 of the SES.

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Comprehensive Review of Expenditure

The Medium-Term Expenditure Framework was one of the key budgetary reforms introduced in recent years. Multiannual expenditure ceilings for the period 2011 to 2014 were published in the *Comprehensive Expenditure Report 2011 – 2014* following completion of the first Comprehensive Review of Expenditure. The framework for multiannual expenditure ceilings was subsequently put on a statutory basis in the Ministers and Secretaries (Amendment) Act 2013.

Periodic reviews of public expenditure now form a fundamental part of Ireland's revised budgetary process and Medium-Term Expenditure Framework. The second Comprehensive Review of Expenditure was completed in October 2014 with the publication of the *Comprehensive Expenditure Report 2015 – 2017*. This process allowed for a review of all voted public expenditure with significant attention placed on the need to achieve the most efficient use of public resources in delivering effective services.

Led by the Department of Public Expenditure and Reform, the Review involved all Government Departments examining expenditure across their main spending areas, setting out priority areas and future pressures and identifying opportunities for reform and efficiency savings. This was supplemented by cross-cutting analytical papers prepared by the Irish Government Economic and Evaluation Service. The public and other interested parties were invited to submit comments and suggestions in relation to public expenditure as part of the Review.

The analysis and assessment work carried out during the Review formed the basis of budgetary discussions and informed the decisions of Government regarding expenditure ceilings at Budget time last October.

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Chapter 6
The Excessive Deficit Procedure

6.1 Summary

Significant progress has been made in terms of implementing the Council recommendations addressed to Ireland in December 2010 under the Excessive Deficit Procedure (EDP). A deficit of 2.3 per cent is projected for this year, thus bringing closure of the EDP within sight.

6.2 Background

In April 2009, the Council adopted a decision under article 126(6) of the Treaty on the Functioning of the EU (TFEU) that, for the first time, an excessive deficit existed in Ireland, and adopted recommendations under 126(7) TFEU that *inter alia* Ireland correct its excessive deficit by 2013. A number of additional steps in the procedure were undertaken between April 2009 and July 2010 (for more detail see the April 2012 Update of the Irish Stability Programme). In December 2010, as part of the programme of external financial assistance, the Council adopted revised recommendations to Ireland and extended the deadline for correction of the excessive deficit to 2015.

The December 2010 recommendations were essentially three-fold. The first requirement was for Ireland to implement budgetary measures to ensure that the annual fiscal deficit (excluding direct support for the banking sector) was at or below pre-determined ceilings over the 2011-15 period (see table 20). Secondly, in order to achieve these nominal targets, the Council recommended an improvement in the structural budget balance of at least 9.5 per cent of GDP over 2011-2015. Finally, the Council recommended various institutional reforms in order to limit risks to the budgetary adjustment.

The Council requested the Irish authorities to report on the implementation of these recommendations in each Update of Stability Programme over the period 2011-2015. The purpose of this chapter is to fulfil the latter requirement.

6.3 Progress in Implementing the European Council's Recommendations

Significant progress has been made in implementing the recommendations addressed to Ireland in December 2010.

In relation to the headline deficit, the outturn in each year over the period 2011 to 2014 was well below the ceiling imposed by the European Council (see table 20). For this year, a deficit of 2.7 per cent of GDP (i.e. below the Treaty reference value of 3 per cent) was projected at the time of the 2015 Budget; as outlined earlier in this document, the deficit for this year is now

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projected at 2.3 per cent of GDP. As a result, correction of the excessive deficit is expected this year, although formal abrogation of the excessive deficit procedure will only take place as part of the 2016 European Semester (the excessive deficit procedure can legally only be closed on the basis of outturn – as opposed to projected – data).

Table 20: Requirements and path for the general government balance

% of GDP	2011	2012	2013	2014	2015
EDP ceiling for general government balance	-10.6	-8.6	-7.5	-5.1	-2.9
General government balance*	-8.8	-8.1	-5.8	-4.1	-2.3

Source: Department of Finance.
* excluding support for the banking sector. 2015 is forecast.

In terms of the fiscal effort, top-down estimates based on the change in the structural balance need to be treated with caution in an Irish context, given the uncertainty attached to estimates of the output gap, particularly during periods of stress.

Finally, significant improvements have been made to the budgetary architecture, including the establishment on a statutory basis of the Irish Fiscal Advisory Council and the introduction of a Medium-Term Budgetary Framework.

In summary, therefore, the Council recommendations are being complied with and Ireland remains on track to correct the excessive deficit within the required timeline.

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Chapter 7
Long-Term Sustainability of the Public Finances

7.1 Summary

While Ireland's population is currently one of the youngest in the EU, unfavourable demographic trends in the coming decades will have significant implications for the economy and the evolution of the public finances. Foremost amongst these is a rise in age-related public expenditure as a larger share of the population move into age brackets requiring such spending. Given the budgetary implications of likely demographic shifts, a range of reform measures have been implemented in recent years in order to mitigate the impact on the public finances.

7.2 Background

Ireland's demographic profile is set to change significantly over the coming decades with the share of the population aged 65 years and over expected to double between 2013 and 2050. Alongside this, the share of the working age population is expected to fall from approximately 60 per cent in 2013 to 50 per cent in 2050 contributing to a significant rise in the old-age dependency ratio. Whereas in 2013 there were three and a half people employed for every retired (inactive) person over 65, this figure is projected to fall to just over one and a half by 2050.

Given the importance of population ageing (in Ireland and elsewhere in the EU), the EU Economic Policy Committee undertakes an assessment every three years reviewing the impact of long term demographic trends on the public finances of the Member States. The results below pertain to the Ageing Report 2015 (to be published shortly) and are based on long-term demographic projections produced unilaterally by Eurostat (EUROPOP2013)[13]. The Report outlines age-related expenditures covering pensions, health care, long-term care, education and unemployment benefits. All components with the exception of the pensions element were produced unilaterally on a harmonised basis by the Commission.

These projections will be used in the context of the European Semester to identify policy challenges in the area of age-related spending (as the quantitative underpinning for Country-Specific Recommendations), for annual assessments of the sustainability of the public finances (to update the long run sustainability S1 and S2 indicators) and for updating Member State's medium-term (budgetary) objectives (MTOs).

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[13] The results assume no further policy change over the period to 2060 beyond those announced to date.

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Ireland has significant reservations around the population projections used in this exercise, where a significant net negative outward migration out to 2037 is estimated by the Eurostat model for migration flows. Based on assumptions about future cyclicality of net migration, Ireland expects that net migration will close (and change sign) significantly more rapidly than is envisaged under the EUROPOP2013 projections. However, Eurostat has adopted for Ireland the same methodology used for other countries. Whilst an exception for the basis of population projections for Ireland was endorsed by the EPC on 1 April 2015 for future t+10 projection exercises (up to 2025), the impact of this agreement is not reflected in AR15 projections. As a result, any assessment of implied future policy challenges based on figures contained in the 2015 Ageing Report should reflect this concern.

7.3 Long-Term Budgetary Prospects

Despite significant demographic pressures over the coming decades, Ageing Report projections suggest that increases in total age-related expenditure will be modest rising by some 1.9 percentage points of GDP reaching 23.9 per cent of GDP in 2060. This is a significant improvement relative to the 2012 Ageing Report where age-related spending was expected to rise by 4.3 percentage points of GDP over the same period.

The positive impact of reform measures is clearly evident in relation to pension expenditure[14] with a reduction in pension benefits and coverage of the population aged 65 and over partially offsetting demographic pressures over the forecast period. As a result, total pension expenditure is set to increase by a modest 1.1 percentage points of GDP in the 2015 Ageing Report compared to the larger increase of 3.8 percentage points of GDP under the previous exercise.

It should again be noted that the underlying assumptions below were produced by the European Commission and should not be misinterpreted as consistent with or an extension beyond 2020 of the 2015 Stability Programme Update projections.

[14] The Ageing Report adopts a broad definition of pensions, which also includes schemes such as invalidity pension, illness benefit, disability allowance and carer's allowance.

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Table 21: Long-term spending projections

% of GDP unless otherwise stated	2013	2020	2030	2040	2050	2060
Total age-related expenditure [1-5]	**22.1**	**22.9**	**23.9**	**24.6**	**25.6**	**23.9**
1. Total pension expenditure	7.4	8.0	9.1	10.0	10.0	8.4
Social security pensions	5.5	5.5	6.4	7.4	8.0	7.0
Gross occupational pensions (Public Service)	1.8	2.5	2.7	2.6	2.0	1.4
2. Health care	6.0	6.3	6.9	7.3	7.3	7.2
3. Long-term care	0.7	0.7	0.9	1.1	1.3	1.4
4. Education expenditure	6.0	6.4	5.8	5.2	6.0	5.9
5. Other age-related expenditures (Unemployment benefit)	2.1	1.5	1.2	1.0	1.0	1.0
Underlying Assumptions	**2013**	**2020**	**2030**	**2040**	**2050**	**2060**
Labour productivity growth	-0.1	1.4	1.6	1.5	1.5	1.5
Potential GDP (growth rate)	0.5	1.4	1.8	1.4	1.9	2.7
Participation rate males	76.9	74.5	72.1	73.5	73.9	72.9
Participation rate females	62.7	63.1	63.1	64.1	63.4	63.1
Total participation rates aged 15-64	69.7	68.8	67.6	68.8	68.7	68.2
Share of population over 65 years old	12.4	15.0	19.4	23.1	24.9	21.4
Economic old-age dependency ratio	28.7	34.5	43.9	53.9	63.0	52.5

Source: Economic Policy Committee and European Commission using Commission forecasts out to 2060. As reported in *2015 Ageing Report Economic and Budgetary projections for the EU28 Member States 2013-2060*. Based on EUROPOP2013 population projections.

Note: Participation rates refer to 15-64 cohorts. Economic old-age dependency ratio refers to inactive population over 65 as a share of employed population aged 15 to 64.

Further detail of the above projections will be set out in the forthcoming Ageing Report and accompanying Country Fiche for Ireland. A sensitivity analysis was also conducted around the baseline to assess the robustness of the public pension projections. The results of the harmonised range of shocks endorsed by the EPC are illustrated below. The most significant impact relates to the 'policy scenario' (linking statutory retirement age to changes in life expectancy). Results suggest this would support sustainability, reducing pension related spending by approximately 0.5 percentage points of GDP by 2050.

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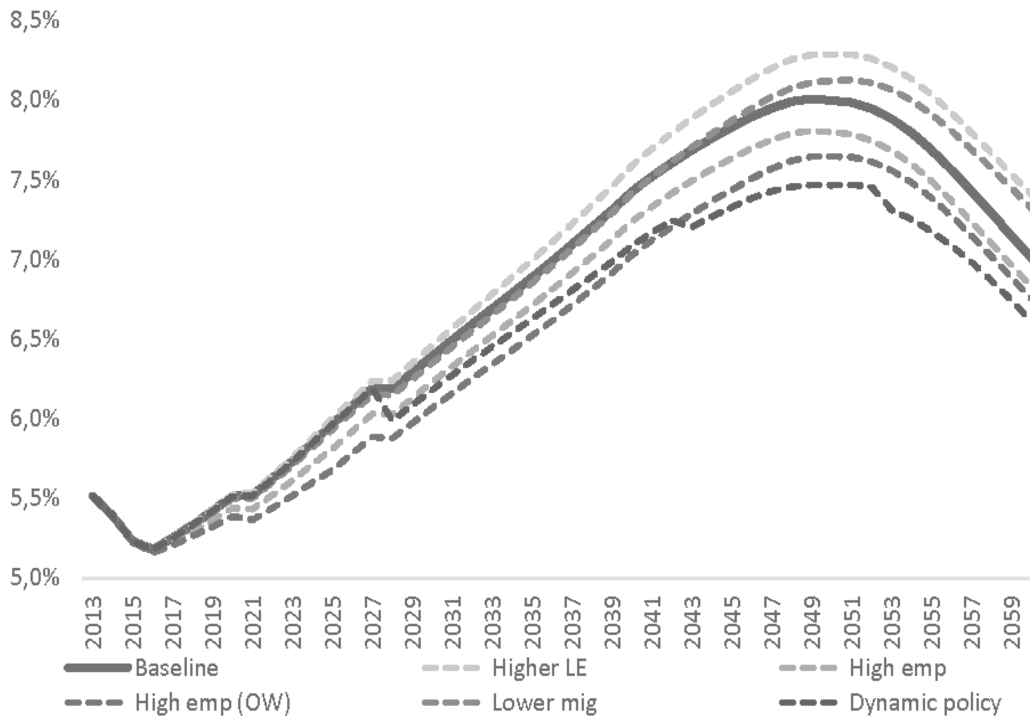
Figure 7: Sensitivity analysis: Public pension expenditure as a share of GDP



Source: Department of Finance

Note: Policy scenario shifts the statutory retirement age, every five years, by the entire past five years' increase in life expectancy (only full-year step increases are modelled).

7.4 Policy Strategy

A range of policy reforms have been introduced in recent years to address the budgetary challenges posed by population ageing. For example:

Public service pensions

The Single Public Service Pension Scheme (Single Scheme) for all new entrants took effect from 1 January 2013. Under this scheme, pension benefits are based on career average earnings rather than final salary. The pension age is now linked to the statutory state pension age of 66, rising progressively to 67 and 68. In addition, post-retirement pension increases will now be linked to consumer prices rather than wage movements of existing public servants. These changes are reflected in the gross occupational pensions (public service pension) shown in Table 21.

Department of Public Expenditure and Reform estimates suggest that annual savings from the introduction of this scheme would amount to €1.8 billion, with over a half due to changes to indexation, almost a third due to the impact of career averaging, and the remainder from the increase in pension age. This will significantly reduce longer-term pension costs once this cohort begins to retire.

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State Pensions

A number of reform measures have been implemented in recent years to further help improve the long-run sustainability of the public pension system. For instance, the State Pension (Transition) was abolished in 2014, while the qualifying age for State Pensions increased to 66 in 2014, and has been legislated to rise to 67 in 2021 and then to 68 in 2028. Separately, the criteria to qualify for a contributory pension have been amended to increase the minimum number of years of required contributions from five to ten years in April 2012.

In addition to the above, the National Pensions Framework provided for a 'total contributions approach' to replace the current average contributions test for the State Pension (Contributory) from 2020 onwards. Under this approach, a person will accumulate 1/30th of a pension for each year of PRSI contributions up to a maximum of 30/30ths. To qualify for the contributory State Pension, a person must make 10 years (or 520 weeks) worth of contributions, at which point they will receive 10/30ths of the full pension amount. This is designed to ensure that the level of pension payments will be directly proportionate to the number of PRSI contributions paid by the person over their working life, thereby removing some of the anomalies associated with the current averaging approach.

Long-term care

The aim of the Nursing Homes Support Scheme (also known as the 'Fair Deal') introduced in October 2009 is to put the financing of individuals' long-term residential care needs on a fair and equitable basis, whereby people contribute towards the cost of their long-term nursing home care according to their means and can enter any nursing home (public, private or voluntary) subject to it having an available bed and being able to cater for their particular needs.

The Scheme is currently being reviewed taking account of Government policy, demographic trends and the fiscal situation. The Review is examining the on-going sustainability of the Scheme, the cost of long-term residential public and private care, the balance of funding between residential long-term care and community-based services. It will also make recommendations for the future operation and management of the Scheme. Work on the Review is nearing completion.

Further issues under consideration in designing services and supports for the older population include not only residential provision but also community and home-based supports, together with new models of residential care.

7.5 Conclusion

A range of policy measures have been undertaken over recent years to address the budgetary implications of population ageing including legislated step-increases in the state pension age over time, a multi-year nominal freeze in State Pension payment rates, the planned introduction of a total contributions approach for the State Pension (Contributory), reform of public service pension entitlements and moves to place long-term care expenditure on a more

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sustainable footing. These reform measures will help mitigate the impact of demographic pressures over the coming decades.

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Annex 1
Supplementary Data

Table A1: Explanation of net differences between the Exchequer borrowing requirement and general government balance, 2014-2020

€ million	2014	2015	2016	2017	2018	2019	2020
(a) Exchequer balance	-8,185	-3,470	-1,785	-3,745	-75	880	3,155
(b) Exclude equity and loan transactions	290	-130	-2,650	-60	-65	-65	-75
(c) Adjust for interest accrual	175	340	510	135	170	200	290
(d) Adjust for tax accruals	490	265	275	1,245	-800	220	220
(e) Adjust for other accruals	-675	320	55	130	120	150	140
(f) Impact of NPRF	375	-1,285	385	390	385	400	405
(g) Other government bodies	-5	-140	-130	-5	35	45	60
(h) Net lending/borrowing of NCSSBs	-80	-520	-235	-145	-65	-180	-125
(i) Surplus of the Social Insurance Fund	-14	0	0	0	0	0	0
(j) Net lending of Local Government	0	0	0	0	0	0	0
(k) General government balance (=a to j)	-7,630	-4,615	-3,580	-2,060	-285	1,645	4,070
(l) Financial sector measures	15	120	120	0	0	0	0
(m) Underlying balance	-7,615	-4,495	-3,460	-2,060	-285	1,645	4,070
(n) Underlying balance as % of GDP	-4.1%	-2.3%	-1.7%	-0.9%	-0.1%	0.7%	1.7%
(o) Nominal GDP	185,400	198,275	208,900	217,775	227,325	236,900	246,775

Source: Department of Finance, Department of Public Expenditure and CSO estimates

Notes:

Rounding may affect totals

Table A1 shows a reconciliation from the Exchequer balance to the general government balance. The general government balance measures the fiscal performance of all arms of Government, i.e. central government; Local Authorities and non-commercial State sponsored bodies, as well as funds such as the SIF and the NPRF which are managed by Government agents. It thus provides an accurate assessment of the fiscal performance of a more complete 'Government' sector. It does not reflect the position of commercial State sponsored bodies as these agencies are classified as being outside the general government sector.

The general government balance is calculated in accordance with ESA2010, a consistent standard developed by the EU to facilitate budgetary comparisons between EU Member States in accordance with their obligations under the Maastricht Treaty.

a. The Exchequer Balance is the traditional domestic budgetary aggregate which measures the net surplus or deficit position of the Exchequer account. It is the difference between total receipts into and total expenditure out of the Exchequer account of the Central Fund.

b. Equity and loan transactions are excluded from the balance on the basis that they affect the composition but not the level of assets and liabilities.

c. Interest expenditure by general government is calculated on an accruals basis and includes an adjustment to remove the impact of interest rate swaps. This item also includes an adjustment for the repayment of EBS promissory note.

d. & e. Adjustments required in respect of certain transactions recorded on an accruals basis including tax accruals, Departmental balances, EU transfers and the impact of the capital carryover.

f. This is the net lending/borrowing of the NPRF. This fund is within the general government sector and transactions within the sector do not have an impact on the general government balance.

g. Transfers between units within the general government sector do not affect the general government balance.

h, i, j & k. These adjustments add the net lending/borrowing of other government bodies and local government to arrive at a full concept of general government. The CSO has provisionally classified Irish Water to central government. This is a

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preliminary and provisional classification, agreed with Eurostat, pending a final classification decision. This approach was agreed between CSO and Eurostat during the 2014 EDP dialogue as a prudential measure in the event that a final classification decision on Irish Water had not been reached by the time of the March EDP notification. A classification proposal on Irish Water is currently with Eurostat. The final decision will be reflected in the October 2015 EDP results and in Budget 2016.

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

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Table A2.1: General government budgetary forecasts 2014-2020

	ESA	2014	2014	2015	2016	2017	2018	2019	2020
		€m							
Net lending (EDP B.9) by sub-sector									
1. General government (=6-7)	S.13	-7,629	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
p.m.: Underlying balance		-7,615	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
2. Central government	S.1311	-7,626	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
3. State government	S.1312								
4. Local government	S.1313	-3	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	M							
General government (S.13)									
6. Total Revenue	TR	64,696	34.9	34.3	33.2	32.6	32.2	31.9	31.6
7. Total Expenditure	TE	72,326	39.0	36.6	34.9	33.6	32.3	31.2	29.9
8. Net lending/borrowing (=6-7)	B.9	-7,629	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
9. Interest expenditure	D.41	7,502	4.0	3.5	3.2	3.2	3.1	2.9	2.7
10. Primary balance (=1+9)		-127	-0.1	1.1	1.5	2.2	2.9	3.6	4.4
11. One-off and other temporary measures		618	0.3	0.1	0.1	0.0	0.0	0.0	0.0
Selected components of revenue									
12. Total taxes (12=12a+12b+12c)		46,342	25.0	24.4	24.1	23.8	23.7	23.5	23.4
12a. Taxes on production and imports	D.2	20,770	11.2	11.2	11.1	10.9	10.7	10.6	10.4
12b. Current taxes on income, wealth etc.	D.5	25,216	13.6	13.1	12.9	12.7	12.8	12.8	12.8
12c. Capital taxes	D.91	356	0.2	0.2	0.2	0.2	0.2	0.2	0.2
13. Social contributions	D.61	10,823	5.8	5.7	5.4	5.4	5.3	5.3	5.3
14. Property Income	D.4	2,946	1.6	1.4	1.0	0.9	0.8	0.8	0.7
15. Other		4,586	2.5	2.7	2.6	2.5	2.4	2.3	2.2
16. (=6) Total revenue (=12+13+14+15)	TR	64,696	34.9	34.3	33.2	32.6	32.2	31.9	31.6
p.m.: Tax burden		57,618	31.1	30.4	29.8	29.5	29.2	29.0	28.9
Selected Components of Expenditure									
17a. Compensation of employees	D.1	18,614	10.0	9.7	9.3	9.0	8.7	8.4	8.1
17b Intermediate consumption	P.2	8,686	4.7	4.9	4.6	4.4	4.3	4.1	3.9
18. Social payments (18 = 18a+18b)		28,533	15.4	13.9	13.2	12.7	12.2	11.7	11.3
18a. Social transfers in kind supplied via market producers	D.63	4,997	2.7	2.4	2.3	2.2	2.1	2.1	2.0
18b. Social transfers other than in kind	D.62	23,536	12.7	11.4	10.9	10.5	10.0	9.7	9.3
19=9 Interest expenditure	D.41	7,502	4.0	3.5	3.2	3.2	3.1	2.9	2.7
20. Subsidies	D.3	1,744	0.9	1.0	1.0	1.0	0.9	0.9	0.9
21. Gross fixed capital formation	P.51	3,512	1.9	1.8	1.8	1.6	1.6	1.6	1.5

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22. Capital Transfers	D.9	1,163	0.6	0.6	0.6	0.5	0.5	0.5	0.5
22. Other		2,572	1.4	1.3	1.2	1.2	1.1	1.1	1.1
23=7 Total expenditure (=17+18+19+20+21+22)	TE	72,326	39.0	36.6	34.9	33.6	32.3	31.2	29.9
p.m. : Government consumption	P.3	30474	16.4	16.0	15.4	14.9	14.4	13.9	13.4
GDP at current market prices (€ billion)	B.1*g	185,400	185,400	198,275	208,900	217,775	227,325	236,900	246,775

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

Table A2.1 sets out the general government deficit for the years 2014-2020 in terms of selected components of general government receipts and expenditures. Note that the revenue and expenditure forecasts for 2016-2018 reflect the adjustment path necessary to achieve the MTO which is the overarching fiscal policy of the Government. Specific policy decisions which will be made in the context of annual budgets are not reflected in these forecasts.

Notes to table A2.1:

- Item 1: Net lending by general government is identical with the general government balance.
- Item 9 & 19: Interest expenditure by general government is calculated on an accruals basis and includes interest rate swaps.

Item 12a: Taxes on production and imports include VAT; customs, excise and stamp duty; local authority rates; the non-household part of motor tax; the stamps collected by the Risk Equalisation Fund; and the local property tax.

- Item 12b: Current taxes on income and wealth comprise income tax; capital gains tax; corporation tax; the banking levy introduced in Budget 2014; and the household part of motor tax and of television licences.
- Item 12c: Capital taxes comprise capital acquisitions tax and the pension funds and bank levies.
- Item 13: Social contributions consist mainly of contributions to the Social Insurance Fund. Imputed social contributions are also included.
- Item 14: Property income is made up of investment or dividend income.

-Item 15: Other receipts include miscellaneous receipts such as Departmental receipts (appropriations in aid), rents and receipts from abroad, receipts by non-commercial State sponsored bodies and miscellaneous capital receipts.

- Item 17a: Compensation of Employees includes wages and salaries as well as an estimate of the amount that would have to be contributed if public sector pensions were actually funded schemes.
- Item 17b: Intermediate consumption is current spending on goods and services by government units.
- Item 19: Social transfer payments include pensions; child benefit; payments for medical goods; transfers to the rest of the world; and other unrequited payments to households. Social transfers in kind include such items as free travel on public transport and fuel allowances.
- Item 22: Gross fixed capital formation is acquisitions less disposals by government of capital formation such as construction and machinery.
- Item 23: Other expenditure includes transfer payments to non-government bodies and capital grants. It also includes acquisitions less disposals of non-produced assets such as royalties, mobile phone licences and the licence to operate the National Lottery.

Memo items:

Tax burden: the sum of total taxes (D.2, D.5 and D.91), social contributions (D.61) and EU taxes.

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

Government consumption: This is comprised of expenditures on compensation of employees; goods and services; social transfers in kind; plus depreciation; less miscellaneous receipts. This aggregate is government's contribution to expenditure on GDP.

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Table A2.3: Comparison of vintages of Receipts and Expenditures

Table A2.2: General government budgetary forecasts 2014-2020

	ESA code	2014	2015	2016	2017	2018	2019	2020
Revenue								
Taxes on production and imports	D.2	20,770	22,155	23,115	23,765	24,385	25,085	25,780
Current taxes on income, wealth	D.5	25,215	25,895	26,900	27,745	29,040	30,255	31,590
Capital taxes	D.91	355	400	380	395	405	415	430
Social contributions	D.61	10,825	11,310	11,365	11,735	12,105	12,500	12,995
Property Income	D.4	2,945	2,805	2,165	2,040	1,885	1,845	1,665
Other		4,585	5,415	5,365	5,385	5,395	5,420	5,435
Total revenue	TR	64,695	67,980	69,290	71,060	73,215	75,525	77,895
Expenditure								
Compensation of employees	D.1	18,615	19,165	19,505	19,610	19,715	19,825	19,905
Intermediate consumption	P.2	8,685	9,635	9,525	9,615	9,735	9,685	9,695
Social payments	D.6	28,535	27,465	27,540	27,620	27,685	27,825	27,915
Interest expenditure	D.41	7,500	6,860	6,750	6,890	6,950	6,890	6,680
Subsidies	D.3	1,745	2,065	2,075	2,090	2,100	2,105	2,105
Gross fixed capital formation	P.51	3,510	3,660	3,670	3,560	3,590	3,775	3,710
Capital Transfers	D.9	1,165	1,220	1,265	1,195	1,130	1,120	1,120
Other		2,570	2,520	2,540	2,540	2,600	2,660	2,695
Total expenditure	TE	72,325	72,595	72,875	73,120	73,500	73,880	73,825
General government balance	B.9=TR-TE	-7,630	-4,610	-3,580	-2,055	-290	1,645	4,075
Financial measures affecting B.9		15	120	120	0	0	0	0
Underlying balance		-7,615	-4,495	-3,460	-2,060	-285	1,645	4,070
Underlying GGB as % of GDP		-4.1%	-2.3%	-1.7%	-0.9%	-0.1%	0.7%	1.7%

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

Notes: - Rounding may affect totals.

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

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Document	Budget 2015	SPU 2015	Total Δ	Classification Δ	New data	Other Δ	Notes
Reference period	2015	2015					
Revenue							
Taxes on production and imports	21,435	22,155	720	485	328	-93	2,3,7
Current taxes on income, wealth	25,385	25,895	510		496	14	3
Capital taxes	550	400	-150	-150		0	3,7
Social contributions	10,855	11,310	455			455	6
Property Income	2,510	2,805	295		309	-14	5
Other	4,930	5,415	485	500		-15	
Total revenue	65,655	67,980	2,325	835	1,333	347	
Expenditure							
Compensation of employees	18,810	19,165	355		355	0	
Intermediate consumption	8,770	9,635	865	491	124	251	1
Social payments	27,935	27,465	-470			-470	
Interest expenditure	7,380	6,860	-520		-520	0	4
Subsidies	1,665	2,065	400	335		65	2
Gross fixed capital formation	2,760	3,660	900	681		219	1
Capital transfers	940	1,220	280		123	157	
Other	2,710	2,520	-190			-190	
Total expenditure	70,970	72,595	1,625	1,507	82	36	
General government balance	-5,315	-4,610	700	-672	1,051	310	
Underlying balance	-5,195	-4,495	700				

Source: Department of Finance

Notes- Rounding may affect totals.

-Table A2.3 compares the forecast of receipts and expenditures for 2015 as set out in Budget 2015 with the current forecast (April 2015).

The layout of this table presents the changes in vintages of 2015 data since Budget 2015, October 2015.

The differences (Δ) are displayed under categories relating to new data, re-classifications, and other items.-Some particular identifiable changes are detailed in the notes. Some particular identifiable changes are detailed in the notes.

1. Irish Water is provisionally classified within general government thereby leading to increases in certain aspects of expenditure particularly capital formation and intermediate consumption.

2. The Public Service Obligation (PSO) levy is charged to all electricity customers in order to ensure security of supply and national energy policy objectives. The levy has been reclassified under production taxes and the corresponding redistribution categorised under production subsidies.

3. The increase in tax revenue is primarily due to revised forecasts following the incorporation of improved economic growth and employment figures.

4. Projected interest expenditure for 2015 has decreased due to the early repayment of IMF lending and subsequent re-financing (including of other debt) at lower rates, as well as the lower interest rate environment.

5. The property income figure includes better than improved Central Bank and commercial semi-state income.

6. PRSI contributions have increased in line with the improvement in employment figures.

7. There was a reclassification of the bank levy on DIRT accounts from Capital taxes to taxes on production and imports.

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Table A3: General government interest expenditure 2014-2020

	2014	2015	2016	2017	2018	2019	2020
	€ millions and %						
National Debt Cash Interest	7,466	7,142	7,194	6,941	7,050	7,008	6,879
% of GDP	4.0%	3.6%	3.4%	3.2%	3.1%	3.0%	2.8%
National Debt Cash Interest Accruals	116	-93	-248	70	-21	-108	-249
Consolidation and grossing	-9	6	1	14	-6	5	19
Accrued promissory note interest	12	11	10	10	10	10	10
Other	-83	-203	-205	-143	-82	-26	21
Total Interest on ESA2010 basis	7,502	6,861	6,751	6,891	6,951	6,889	6,679
% total General government revenue	12%	10%	10%	10%	9%	9%	9%
% of GDP	4.0%	3.5%	3.2%	3.2%	3.1%	2.9%	2.7%

Sources: CSO, Department of Finance and NTMA (National Debt data provider)
Notes: Rounding may affect totals

Table A4: Projected movement in general government debt 2014-2020

€ billion	2014	2015	2016	2017	2018	2019	2020
Opening general government debt	215.3	203.3	208.2	209.5	213.0	212.7	211.7
Exchequer borrowing requirement	8.2	3.5	1.8	3.7	0.1	-0.9	-3.2
Change in Exchequer Deposits	-8.8	0.7	-0.3	-0.4	-0.5	-0.4	0.1
Net lending of local government and NCSSBs	-0.4	1.1	0.4	0.2	0.0	0.2	0.1
Change in collateral held	0.1	0.1	-0.3	-0.2	0.0	0.0	-0.1
Other	-11.0	-0.4	-0.4	0.2	0.1	0.2	0.2
Closing general government debt	203.3	208.2	209.5	213.0	212.7	211.7	208.9
General government debt to GDP ratio (% of GDP)	109.7%	105.0%	100.3%	97.8%	93.6%	89.4%	84.7%

Sources: CSO, Department of Finance and NTMA (National Debt data provider)
Notes: Rounding may affect totals

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Table A5: Breakdown of revenue

	2014	2014	2015	2016	2017	2018	2019	2020
	€ million	*% of GDP*						
Total revenue at unchanged policies[1]	64,695	34.9	34.2	33.2	32.7	32.2	31.9	31.7
Discretionary revenue[2]	1.2	0.6	-0.4	-0.2	-0.1	0.0	0.0	0.0

Source: Department of Finance

Notes:

1 Total general government revenue on the basis already implemented up to and including Budget 2015.

2. Discretionary revenue measures include PRSI adjustments and are inclusive of carry-over from previous years. Figures are as per Budget 2015 and incorporate previous budgetary measures.

Table A6: Expenditure developments

	2014	2014	2015	2016	2017	2018	2019	2020
	€ million	*% of GDP*						
Expenditure on EU Programmes fully matched by revenue from EU funds	307	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Expenditure fully matched by mandated revenue increases	0	0	0	0	0	0	0	0
Non-discretionary changes in unemployment benefit expenditure*	56	0.1	-0.1	-0.1	0.0	0.0	0.0	0.1

Source: Department of Finance calculations and Department of Public Expenditure and Reform

*Broad methodology for calculation is set out in SPU 2013

Table A7: Contingent liabilities

% of GDP	2012	2013	2014
Public guarantees	66.9	32.1	13.7
of which linked to the financial sector			
Eligible Liabilities Guarantee	42.1	11.5	5.5
Exceptional Liquidity Assistance	9.3	0.0	0.0
National Asset Management Agency & National Asset Resolution Limited	14.7	19.8	7.3
other	0.8	0.8	0.9

Source: Department of Finance, CSO

Table A8: Budgetary plans

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% of GDP	2014	2015	2016	2017	2018	2019	2020
1. General government balance	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
2. Structural balance	-4.0	-2.6	-2.3	-1.3	-0.3	0.8	2.1
3. Cyclical budgetary component	-0.5	0.2	0.5	0.4	0.2	-0.1	-0.4
4. One-offs and other temporary measures	0.3	0.1	0.1	0.0	0.0	0.0	0.0
5. General government balance	-4.1	-2.3	-1.7	-0.9	-0.1	0.7	1.7
6. Total revenues	34.9	34.3	33.2	32.6	32.2	31.9	31.6
7. Total expenditure	39.0	36.6	34.9	33.6	32.3	31.2	29.9
Amounts to be excluded from the expenditure benchmark							
7a. Interest expenditure	4.0	3.5	3.2	3.2	3.1	2.9	2.7
7b. Expenditure on EU programmes fully matched by EU funds revenue	0.2	0.2	0.2	0.2	0.2	0.2	0.2
7c. Cyclical unemployment benefit expenditure*	0.0	-0.1	-0.1	0.0	0.0	0.0	0.1
7d. Effect of discretionary revenue measures	0.6	-0.4	-0.2	-0.1	0.0	0.0	0.0
7e. Revenue increases mandated by law	0	0	0	0	0	0	0
8. Tax burden	31.1	30.4	29.8	29.5	29.2	29.0	28.9
9. Gross debt	109.7	105.0	100.3	97.8	93.6	89.4	84.7

Source: Department of Finance
*Broad methodology for calculation based on estimation of unemployment gap is set out in SPU 2013.

Table A9: Macroeconomic assumptions

	2014	2015	2016	2017	2018	2019	2020
1 Real GDP growth	4.8	4.0	3.8	3.2	3.2	3.0	3.0
2. Nominal GDP growth	6.1	6.9	5.4	4.2	4.4	4.2	4.2
3 GDP deflator growth	1.2	2.8	1.5	1.0	1.2	1.2	1.2
Potential GDP growth	2.0	2.7	3.2	3.5	3.6	3.6	3.6
Output gap	-0.9	0.4	1.0	0.7	0.4	-0.2	-0.8
Employment growth	1.7	2.2	2.2	1.9	1.9	1.8	1.7
Hours worked*	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Unemployment rate	11.3	9.6	8.8	8.4	7.8	7.3	6.9
Gross fixed capital formation	11.3	15.3	12.1	8.1	4.7	3.9	4.0
Compensation per employee**	1.4	2.3	2.9	2.6	2.6	2.7	2.8

Source: Department of Finance
*Based on AMECO HPERE definition.**Based on AMECO HWCDW definition. Differs from non-agriculture wages per head reported in table 5.

Table A10: Application of Expenditure Benchmark

€ millions unless otherwise stated	2015	2016
1 General government expenditure	72,595	72,875
2. Interest expenditure	6,860	6,750
3 Government expenditure co-financing EU expenditure	400	420
4. Gross fixed capital formation (t)	3,660	3,670
5. Annual average gross fixed capital formation (t -3 to t)	3,410	3,485
6. Cyclical unemployment expenditure	-160	-150

7. Corrected expenditure aggregate [1-2-3-(4-5)-6]	65,245	65,670
8. Net discretionary revenue measures (DRM)*		-340
9. Corrected expenditure aggregate net of DRM [7-8]		66,010
10. Net actual expenditure growth % [9_t-7_{t-1})/7_{t-1}]		1.2%
Deviation from benchmark in year t as % of GDP (if positive breaches benchmark)		-0.1%
Reference rate potential growth		1.9
Convergence margin		1.8
Real expenditure growth rate		0.05
Change in GDP deflator (%PVGD)**		1.0152
Permitted nominal expenditure growth % [1+(RR-CM/100))*%PVGD)-1]		1.6%

Source: Department of Finance

*Net DRM including carryover of Budget 2015 measures and the net impact of 2016 budgetary package. RR and CM as per WIN15 amended for 1 April EPC endorsement.

**Using SPU estimate for 2016 % PVGD. GDP deflator applied by the European Commission in ex-ante assessment of benchmark compliance will use average of SPR15 and AUT15 Commission estimates.

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Annex 2
Ireland's National Reform Programme
Summary of Progress

Preparation of Ireland's National Reform Programme (NRP) is an important part of the European Semester process.

Ireland's NRP reports on the progress made in implementing our Country Specific Recommendations (CSRs) identified in 2014. CSRs are tailored, concrete recommendations for actions in areas where it is considered that individual Member States should focus their reform efforts.

Ireland received seven CSRs covering the following areas:

1) Budgetary/fiscal policy to ensure deficit and debt reduction;
2) Advancing reform of the healthcare sector, including financial management systems and pharmaceutical spending;
3) Improving active labour market policies, with a particular focus on the long-term unemployed, the low skilled and youth, including reform of further education and training;
4) Tackling low work intensity households, including facilitating female labour market participation and access to childcare;
5) SME policy, including access to finance;
6) Performance of the banks on mortgage arrears and distressed SME loans; and
7) Reducing costs and improving efficiency of legal services and Courts processes.

The 2015 NRP also reports on progress towards our Europe 2020 targets under five headline targets:

1) Employment
2) Research and Development
3) Climate Change and Energy
4) Education
5) Poverty

The NRP also reports on other areas of reform, including public sector reform and local government reform, and reports on the use of structural funds.

Stakeholder engagement is an important part of the European Semester process, and the NRP reports on engagement with representatives of civil society, regional representatives, and the national parliament.

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Annex 3
Irish Fiscal Advisory Council's Endorsement of the Macroeconomic Forecasts

Endorsement Background

Following the passing of the two-pack Regulation (EU) 473/2013 which came into force on 30 May of 2013, both the Budget and Stability Programme Update must be based on macroeconomic forecasts which are either produced or endorsed by an independent body at national level. In Ireland, the endorsement route has been selected, and the Irish Fiscal Advisory Council (IFAC) was assigned the task of endorsement in the Ministers and Secretaries (Amendment) Act 2013. The procedures underlying the endorsement process have been set out in a Memorandum of Understanding (MoU). The latest version of the MoU (February 2015) is available on the Department of Finance's website: www.finance.gov.ie/sites/default/files/IFAC_DoF_Forecasting_MoU_Final_Readable.pdf.

Endorsement Process 2015

The macroeconomic forecasts for to underpin the Stability Programme Update were submitted to IFAC on 24 March 2015 and discussed between Department of Finance staff and the IFAC on 26 March. The forecasts were subsequently discussed with the full IFAC Council on 30 March.

A letter from the Chair of the IFAC to Secretary General Derek Moran followed on 31 March endorsing as within the range of appropriate projections the set of forecasts provided by the Department of Finance. The letter of endorsement is attached on the following page and is available on the IFAC website: www.fiscalcouncil.ie. A detailed assessment of the forecast will follow in IFAC's Fiscal Assessment Report (FAR) in the coming months.

The 'final' forecasts included in this Stability Programme and the accompanying Spring Economic Statement differ somewhat from those endorsed by the IFAC. Specifically, the 'final' forecasts include the economic impact of an extra €1.2 billion in 2016 of fiscal measures which were not included in the set of forecasts supplied to IFAC for endorsement. These improve the growth rates of certain aggregates in 2016 but generally only impact on the levels in subsequent years. The overall impact is to increase the forecast rate of growth in 2016 by 0.2 percentage points to 3.8 per cent. As provided for the in the MoU between the Department and IFAC, a reconciliation table between 'final' and 'endorsed' numbers is included in the following tables B1 – B3.

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Table B1: Macroeconomic developments

year-on-year % rate of change (unless otherwise stated)	**2015** *final*	**2016** *final*	**2016** *endorsed*	**Difference (pp)**
Real GDP	4.0	3.8	3.6	**0.2**
Nominal GDP	6.9	5.4	5.1	**0.3**
Nominal GDP (€m)	198,275	208,900	208,325	**575**
Components of real GDP				
Private final consumption expenditure	2.4	2.5	2.0	**0.5**
Government final consumption expenditure	1.1	1.6	1.0	**0.6**
Gross fixed capital formation	15.3	12.1	11.3	**0.8**
Exports of goods and services	7.6	4.8	4.8	**0.0**
Imports of goods and services	8.7	5.4	5.1	**0.3**
Contributions to real GDP growth				
Final domestic demand	3.7	3.5	3.0	**0.5**
Changes in inventories and net acquisition of valuables	-0.3	-0.2	-0.2	**0.0**
External balance of goods and services	0.6	0.5	0.7	**-0.2**

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

Table B2: Price developments

year-on-year % rate of change	**2015** *final*	**2016** *final*	**2016** *endorsed*	**Difference (pp)**
GDP deflator	2.8	1.5	*1.4*	**0.1**
Private consumption deflator	0.6	1.3	*1.3*	**0.0**
HICP	0.2	1.1	*1.1*	**0.0**
Export price deflator (goods and services)	3.1	0.9	*0.9*	**0.0**
Import price deflator (goods and services)	1.6	0.7	*0.7*	**0.0**

Source: Department of Finance forecasts. The GDP and PCD deflators shown above are not identical to PVGD and PCPH used for purposes of the NAWRU and expenditure benchmark.

Table B3: Labour market developments

year-on-year % rate of change	**2015** *final*	**2016** *final*	**2016** *endorsed*	**Difference (pp)**
Employment, persons	2.2	2.2	*2.0*	**0.2**
Unemployment rate (%)	9.6	8.8	*9.0*	**-0.2**
Labour productivity, persons	1.7	1.5	*1.5*	**0.0**
Compensation of employees	4.6	5.2	*4.6*	**0.6**
Compensation per employee	2.3	2.9	*2.5*	**0.4**

Source: Department of Finance forecasts

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Cearnóg Whitaker
Cé Sir John Rogerson
Baile Átha Cliath 2

Whitaker Square
Sir John Rogerson's Quay
Dublin 2

31 March 2015

Dear Secretary General Moran,

The Council has an obligation under the Fiscal Responsibility Act to endorse as appropriate the macroeconomic forecasts prepared by the Department of Finance on which *Stability Programme Update 2015* (*SPU 2015*) will be based.[1]

The *SPU 2015* forecasts were provided to the Council on 24 March 2015 and discussed by the Council with Department of Finance staff on 30 March 2015, ahead of the Council's endorsement meeting.

Medium-term forecasts are subject to a greater degree of uncertainty than forecasts for the current and following year. The medium-term forecasts are informed by a set of supply-side estimates in the SPU based on the methodology commonly agreed between EU member states and the European Commission.

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

A detailed discussion of the endorsement process and an assessment of the macroeconomic projections will be provided in the Council's forthcoming *Fiscal Assessment Report*, which is scheduled for publication in June.

Yours Sincerely

John McHale
Chair, Irish Fiscal Advisory Council

[1] The Fiscal Responsibility Act 2012, as amended by the Ministers and Secretaries (Amendment) Act 2013, states that: "The Fiscal Council shall— (a) endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

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

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