

BUDGET 2013

**ECONOMIC AND FISCAL
OUTLOOK**

(Incorporating Economic and Fiscal Statistics and Tables)

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BUDGET 2013 ECONOMIC AND FISCAL OUTLOOK

The *Medium-Term Fiscal Statement (MTFS)* was published in mid-November, and detailed the economic and fiscal outlook both for next year and over the medium term. This assessment remains valid, although minor changes have been incorporated here in order to reflect recently published revisions to labour market data and the end-November Exchequer Returns. Post publication of the *MTFS*, the Government decided to alter slightly the composition of the budgetary adjustment package for 2013. Further detail is set out in the *Fiscal Outlook 2013* section.

Table 1 below sets out the latest forecasts of the key macroeconomic and fiscal variables.

Table 1: Key Macroeconomic and Fiscal Variables Forecasts 2012-2015

	2012	2013	2014	2015
<i>Macroeconomic Forecasts (% change, unless otherwise stated)</i>				
Real GNP	1.4	0.9	1.7	2.1
Real GDP	0.9	1.5	2.5	2.9
Inflation (HICP)	2.1	1.7	1.8	2.0
Employment	-0.7	0.2	0.9	1.3
Unemployment (% of labour force)	14.9	14.6	14.1	13.1
<i>Fiscal Forecasts (% of GDP, unless otherwise stated)</i>				
Underlying General Government Balance	-8.2	-7.5	-5.1	-2.9
General Government Debt	118	121	120	117
Exchequer Borrowing Requirement (€ billion)	15.7*	15.4	11.5	7.6

Source: Department of Finance

Notes:

*Excludes the 2012 IBRC Promissory Note payment which was settled with a Government bond.

ECONOMIC AND FISCAL OUTLOOK

ECONOMIC DEVELOPMENTS 2012

The Irish economy will grow moderately once again this year...

The latest data are consistent with another modest increase in economic activity this year. GDP is expected to expand by 0.9% in real terms with GNP increasing by 1.4%.

As was the case last year, recovery is being led by external demand. Exports are set to grow by 3.0% this year which, when combined with a broadly static level of imports, results in a positive contribution to growth from net exports. This projection takes into account the relatively good performance of exports in the first half of the year. High-frequency data relating to the third and fourth quarters on this front have been mixed. For instance, purchasing managers' indices relating to export orders for both the manufacturing and service sectors have been in expansionary territory for most months, significantly so in the case of services. On the other hand, there has been some weakness in both the production and exports of chemicals and pharmaceuticals, although at this stage it remains to be seen whether this is a temporary softness or the emergence of a trend.

Domestic demand is set to contract for the fifth successive year, albeit at a slower pace than in previous years, as private consumption, government consumption and investment continue to fall. Fiscal consolidation, still-falling employment levels, household deleveraging and ongoing uncertainty are all holding back consumer spending. Having said that, there have been some positive developments in recent months. For instance, retail sales (both core and headline) have been in positive year-on-year territory for a number of months. On the investment front, spending by firms remains at low levels due to weak demand and high levels of indebtedness.

GNP is set to grow by 1.4% this year. This is a stronger pace of growth than that projected for GDP, and takes into account the large reduction in net factor outflows recorded in the second quarter. This development is also contributing to a further improvement in the current account of the balance of payments, which is expected to record a surplus equivalent to 3.4% of GDP this year. It is unclear as to whether these outflows will unwind in the second half of the year, meaning that there is considerable uncertainty attached to both the GNP and balance of payments forecasts for 2012.

Some signs of stabilisation in the labour market...

Conditions in the labour market remain weak, although there are some signs of stabilisation. Revised data from the quarterly national household survey show that job losses are continuing in some sectors such as construction and retail, but that employment is increasing in sectors associated with exports, such as ICT. Taking into account data for the first three quarters of the year, the level of employment is now expected to decline by around 0.7% this year.

During the crisis the increase in unemployment has been lower than the fall in employment. This phenomenon is explained by the decline in labour supply, reflecting net outward migration as well as falling participation rates. This trend has continued this year, with the labour force falling by an estimated 0.5%, resulting in an average unemployment rate of 14.9%.

Consumer price inflation remains relatively moderate...

Turning to price developments, the latest figures show that underlying inflationary pressures remain fairly muted reflecting, in part, the weakness of the domestic economy.

The main contribution to headline inflation has come from energy prices, on foot of commodity price movements over the year. As measured by the harmonised index of consumer prices (HICP), inflation looks likely to average 2.1% this year, which would be the fifth successive year in which Irish consumer price inflation was below the euro area average.

FISCAL DEVELOPMENTS 2012

The deficit in the public finances continues to reduce although it remains too large...

As regards the public finances, the position continues to improve on foot of the implementation of consolidation measures and a return to modest GDP growth over the course of 2011 and 2012. The General Government deficit for 2012 is now estimated at 8.2% of GDP, down from equivalent underlying estimated deficits of 9.1% and 10.7% in 2011 and 2010 respectively.

However, at 8.2% of GDP this year, the deficit will be one of, if not the highest in the EU. This highlights the need for the continued implementation of consolidation measures in 2013 and beyond.

Having achieved the 2011 *EU/IMF Programme* deficit limit of 10.6% of GDP by a significant margin, the State is on track to meet this year's 8.6% deficit limit also. In addition, end-quarter Exchequer primary balance and Central Government net debt targets set as part of the *EU/IMF Programme* continue to be met, most recently for end-September. The next of these targets are set for end-December 2012.

Latest available fiscal data show robust tax revenue growth in the year-to-date but a weaker than expected outturn in November...

The Exchequer Returns for the period to end-November were published on 4 December.

In summary, Exchequer tax revenue of €33.8 billion was collected in the first eleven months of 2012. When compared to the same period in 2011, and adjusting for the impact of delayed corporation tax receipts and a PRSI/income tax reclassification issue this year, tax receipts grew by a robust 4.5% in the period to end-November.

It is the case however that aggregate tax revenues have fallen behind cumulative profile following the shortfall recorded in the month of November. Weaker than expected income tax returns from the self-employed was the main reason behind this shortfall.

Income tax is now 1.6% behind profile cumulatively. However it is up almost 7% year-on-year, on an adjusted basis. This is a strong performance, especially considering that there were no income tax increases introduced in *Budget 2012*. Much of this year-on-year growth is therefore attributable to carryover effects from measures introduced in *Budget 2011*.

VAT receipts have performed well throughout the year and following another monthly surplus in November – the fourth in the last five months, three of which were VAT “due” months – are now 1.8% ahead of target. For the year as a whole, and on foot of the two percentage point increase in the standard rate introduced in *Budget 2012*, a 2.6% increase was forecast. Receipts at end-November were 4.4% higher year-on-year.

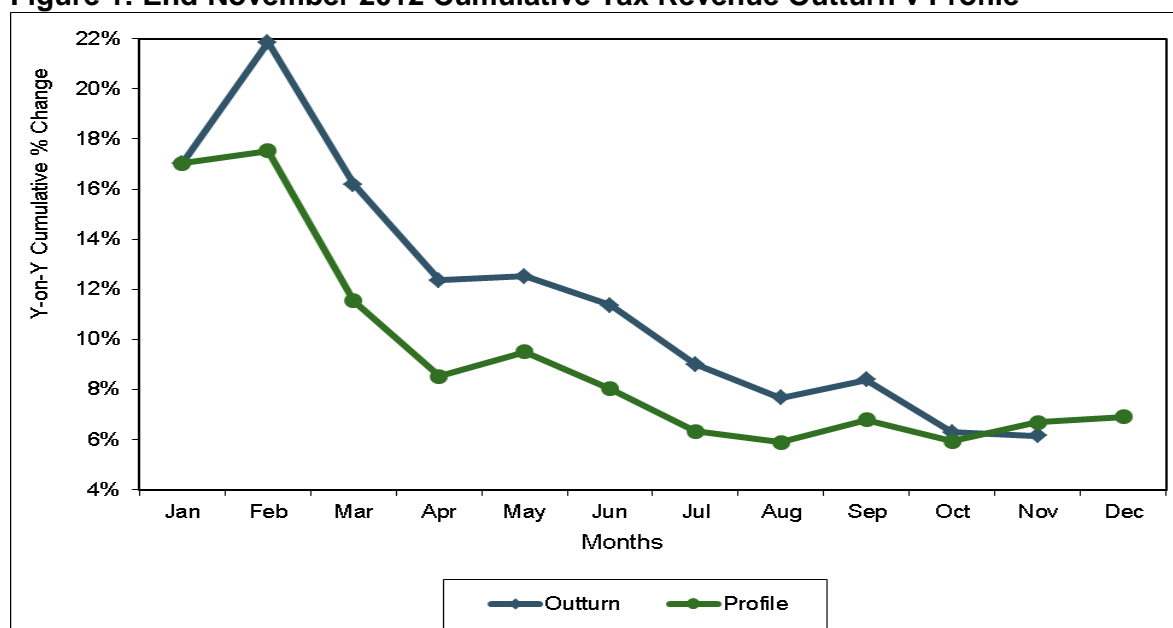
Corporation tax receipts are now just marginally (0.5%) behind target on a cumulative basis. Receipts in November – by far the biggest month of the year in terms of collection – were €46 million below target. They were however almost 11% above the collection in November 2011.

Excise receipts have weakened noticeably since mid-year and at end-November were 4.2% below profile.

With the exception of capital acquisitions tax (CAT), each of the 4 smaller tax-heads performed in line with, if not slightly better than profile at end-November and this is expected to remain the position come end-year.

Figure 1 shows the cumulative performance of tax revenues in the period to end-November 2012 as compared to the revised profile for tax revenue published in early May.

Figure 1: End-November 2012 Cumulative Tax Revenue Outturn v Profile



Source: Department of Finance

Taking account of the end-November position, the Department of Finance is now of the view that tax revenues for the year as a whole will be just over €200 million (around ½%) below profile. This assumes a further minor shortfall in the month of December, consistent with the weakening compared to profile in recent months.

Turning to the spending side, total net voted expenditure at end-November, at €40.6 billion was €249 million (0.6%) above profile. The underlying expenditure position – which adjusts for a €376 million shortfall in PRSI receipts – shows a cumulative underspend of €127 million at end-November.

Net voted current expenditure recorded an overspend of €654 million (1.7%) in the period to end-November. Adjusting for this PRSI shortfall however, the current overspend is reduced to €278 million.

12 of the 16 Vote Groups recorded current underspends in the period to end-November. However, 2 Vote Groups continue to register large overspends. The Social Protection Vote Group current overspend is now €614 million (€238 million excluding the PRSI shortfall) mainly due to pressures in the Jobseekers Allowance area. The Health Vote Group current overspend at end-November was €366 million.

The expected outturn for net voted current expenditure this year is approximately €850 million higher than profiled. It must be acknowledged however that the PRSI shortfall accounts for close to half of this overspend.

Net voted capital expenditure is €405 million (14.2%) behind profile at end-November. While it is expected that some of this spending shortfall will be closed before end-year, an overall saving of some €116 million is now foreseen for the year as a whole.

In overall aggregate terms therefore, total net voted expenditure is now estimated at €45.3 billion in 2012.

On track to better the EU/IMF Programme deficit target for the second consecutive year...

The current estimate of the Exchequer deficit for 2012 is €15.7 billion, largely unchanged from the estimate in the November 2012 *MTFS*. The lower than expected outturn for tax revenue is largely offset by the much better outturn from the Spectrum auction, which is expected to generate cash revenues of some €450 million for the Exchequer this year.

Consistent with this latest estimate of the Exchequer deficit, the emerging General Government deficit estimate, at 8.2% of GDP, is slightly better than the *MTFS* estimate, owing primarily to an improvement in the financial position of the non-commercial State sponsored bodies, which form part of the General Government sector but which are not reflected in the Exchequer.

Importantly, the emerging deficit outturn for 2012 is within the 8.6% of GDP limit set under the *EU/IMF Programme*. This means the annual deficit limit set as part of the *Programme* will be more than achieved for the second year running. In addition all eight end-quarter Exchequer primary balance and Central Government net debt targets set as part of the *EU/IMF Programme* have been met, most recently for end-September.

ECONOMIC OUTLOOK 2013

Moderate growth in Ireland expected for next year...

The external environment in which the Irish economy operates remains challenging. The outlook for 2013 in many of our main export markets has deteriorated relative to earlier expectations, and leading indicators are, in many cases, pointing in the wrong direction.

Having said that, policy announcements at European level over the summer and autumn have seen a calming of financial markets and a broad-based reduction in sovereign bond yields in recent months.

A further modest expansion of economic activity is anticipated next year, with GDP currently expected to increase by 1.5% in real terms (GNP by 0.9%), projections which are unchanged from those presented in the MTF5. The pattern of growth will be similar to that of the past two years, with a positive contribution from the exporting sectors, offsetting a further, although more moderate contraction of domestic demand.

GDP forecasts for our main trading partners are set out in Table 2. Economic activity in the euro area is expected to increase slightly next year. In the UK, modest output growth is expected. A downside risk is the uncertainty surrounding the resolution of US budget negotiations, although forecast growth for the US remains comparatively robust.

In terms of the impact of these developments on the demand for Irish-produced goods and services, it is expected that export growth will average 3.3% next year, with services exports leading the way. However, risks to the export forecast are weighed to the downside for two main reasons. Firstly, risks to growth in our main export markets appear tilted to the downside; weaker-than-anticipated GDP growth in these regions could translate into slower export growth in Ireland. Secondly, there is a risk related to the pharma-chem sector and, in particular, how production and exports will evolve in an environment where some products are coming off-patent.

Table 2: External Assumptions

<i>% Change</i>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
External GDP Growth				
G20 countries	1.4	1.5	2.2	2.5
Advanced G20 countries	-0.4	1.1	2.2	2.6
United States	2.2	2.1	2.9	3.4
Euro Area	-0.4	0.2	1.2	1.5
United Kingdom	-0.4	1.1	2.2	2.6
Technical Assumptions				
Euro-Sterling Exchange Rate	0.81	0.81	0.81	0.81
Euro-Dollar Exchange Rate	1.28	1.29	1.29	1.29
Brent Crude (US \$ per barrel)	111.9	108.1	103.0	98.6
Brent Crude (€ per barrel)	87.1	84.2	80.2	76.7

Sources: IMF World Economic Outlook October 2012 (growth outlook); Macrobond (oil and currency)

Notes:

- Exchange rate figures are Department of Finance technical assumptions involving the maintenance of unchanged rates from those in early December (10 day average).

- Oil price figures are based on market futures in early December (10 day average).

Domestic demand is set to remain fairly muted once again in 2013. The largest component of domestic demand is consumer spending and this is likely to decline by around 0.5%, reflecting *inter alia* continued high savings by the household sector. Investment is set to increase by 3.2% from 2012 levels, in line with continued FDI inflows as well as increased investment in social infrastructure. Government consumption is forecast to fall by 2.7%, in line with the policy objective of reducing public service employment.

With imports projected to increase in line with final demand, GDP is forecast to grow by 1.5% next year. Given the composition of activity, and in particular the assumed contribution from the foreign-owned exporting sectors, an increase in net factor outflows is assumed, so that GNP growth is likely to be lower than GDP, at 0.9% next year.

Table 3: Economic Outlook 2012 - 2015

<i>% change, unless otherwise stated</i>	2012	2013	2014	2015
Real GNP	1.4	0.9	1.7	2.1
Nominal GNP (rounded to nearest €25m)	130,850	133,900	137,775	142,325
Real GDP	0.9	1.5	2.5	2.9
Nominal GDP (rounded to nearest €25m)	163,150	167,725	174,100	181,400
Components of Real GDP				
Private Consumption	-2.0	-0.5	1.0	1.2
Government Consumption	-4.0	-2.7	-2.3	-1.5
Investment	-3.8	3.2	8.3	4.4
Exports	3.0	3.3	4.3	4.8
Imports	0.0	2.3	3.9	3.8
BOP Current Account (% of GDP)	3.4	4.3	4.2	4.3
Contributions to Real GDP Growth				
Domestic Demand (excluding stocks)	-2.1	-0.3	1.0	0.8
Changes in stocks	-0.2	0.2	0.1	0.0
Net Exports	3.2	1.6	1.4	2.1
Price Developments				
HICP	2.1	1.7	1.8	2.0
GDP Deflator	1.7	1.3	1.3	1.3
Labour Market				
Employment	-0.7	0.2	0.9	1.3
Unemployment (% of labour force)	14.9	14.6	14.1	13.1

Source: Department of Finance

Rounding may affect totals

Modest improvement in labour market expected...

A modest increase in the level of employment is expected next year. This is based on the assumption of further employment growth in the exporting sectors as well as positive dividends from the various labour market initiatives. However, some employment losses in sectors subject to continued downsizing appear inevitable. Taking into account labour force projections, a small reduction in unemployment is envisaged for next year, with the unemployment rate forecast to average 14.6% for the year as a whole.

Consumer price inflation set to remain moderate...

Inflationary pressures are set to remain relatively contained next year. Underlying price increases are assumed to be relatively moderate, given continued weak domestic demand. In addition, based on market expectations regarding wholesale price developments, energy prices are not expected to contribute to headline inflation to the same extent as this year. Taking account of indirect tax and other budgetary measures, HICP inflation is forecast to average 1.7% next year. The GDP deflator, the widest measure of price changes in the economy, is set to increase by 1.3%.

Comparison of forecasts...

Table 4 compares the Department's main macroeconomic forecasts for 2013 with those from other agencies. The Department's GDP forecast is towards the mid-range. In relation to the labour market, the Department's forecast for employment is broadly in line with other institutions, while the forecast for HICP inflation is at the upper end of the spectrum.

Table 4: Comparison of Macroeconomic Forecasts for Ireland for 2013

		<i>Annual % Change*</i>			
		<u>GDP</u>	<u>GNP</u>	<u>HICP</u>	<u>Employment</u>
Department of Finance	<i>December 2012</i>	1.5	0.9	1.7	0.2
Reuters Consensus	<i>November 2012</i>	1.5	0.6	1.5	n/a
OECD	<i>November 2012</i>	1.3	n/a	1.3	n/a
European Commission	<i>November 2012</i>	1.1	n/a	1.3	0.0
ESRI	<i>September 2012</i>	2.1	0.7	n/a	-0.2
Central Bank	<i>October 2012</i>	1.7	0.7	1.3	0.1
IMF	<i>October 2012</i>	1.4	0.7	1.0	0.4

Source: Institutions listed.

Notes:

*Annual average except for the Reuters Consensus which is an end-year figure (year-on-year % change unless otherwise stated).

FISCAL OUTLOOK 2013

Fiscal consolidation is delivering and needs to continue...

An ambitious programme of fiscal consolidation and structural reforms is being implemented to improve the fiscal position of the State. This is the backdrop that has framed fiscal policy since mid-2008 and it will continue to be the main policy driver in the coming years so that the deficit is reduced below 3% of GDP by 2015.

Post publication of the November 2012 *MTFS*, the Government decided to alter slightly the composition of the budgetary adjustment package for 2013. The expenditure adjustment has been reduced by some €300 million. This means that an extra €200 million is being secured from additional revenue measures with a further €100 million coming from increased dividends.

Table 5: Revised Consolidation Composition 2013

<i>€ billion</i>	2013	
	<u>MTFS</u> November 2012	<u>Budget 2013</u> December 2012
Total Consolidation Amount	3.5	3.5
<u>Expenditure</u>	2.25	1.94
➤ <i>Current</i>	1.70	1.44
➤ <i>Capital</i>	0.55	0.50
<u>Revenue</u>	1.25	1.43
➤ <i>New Measures</i>	1.03	1.21
➤ <i>Carry Forward</i>	0.22	0.22
<u>Increased Dividends</u>	-	0.10

Source: Department of Finance and Department of Public Expenditure and Reform
Rounding may affect totals

The current estimate of the 2013 Exchequer deficit is €15.4 billion. This estimate assumes a €3.06 billion cash payment from the Exchequer in respect of the next instalment of the IBRC Promissory Note.

Although the Budget tax revenue forecast for 2013 is €470 million below that estimated in the November 2012 *MTFS*, this is being offset by favourable movements elsewhere, including in non-tax revenue. Therefore the 7.5% of GDP deficit target is still viewed as being achievable on the basis of a €3.5 billion adjustment.

Tax revenue is forecast to grow by just under 5% next year, based on nominal GDP growth of 2.8% and the implementation of new tax revenue measures designed to raise approximately €0.9 billion gross. Table 6 sets out the estimated year-on-year growth rate in 2013 for each of the individual tax-heads, on basis of the forecast outturn for 2012.

Table 6: Exchequer Tax Revenues 2012-2013

	<u>Estimated</u> <u>Outturn</u> <u>2012</u> €m	<u>Budget</u> <u>Forecast</u> <u>2013</u> €m	<u>Forecast</u> <u>Y-on-Y</u> <u>Change</u> %
Customs	245	250	+2.0
Excise Duty*	4,615	4,920	+6.6
Capital Gains Tax (CGT)	375	420	+12.0
Capital Acquisitions Tax (CAT)	275	375	+36.4
Stamp Duty	1,415	1,180	-16.6
Income Tax	15,040	15,860	+5.4
Corporation Tax	4,010	4,135	+3.1
VAT	10,190	10,560	+3.6
Property Tax		250	n/a
Total	36,165	37,950	+4.9

Source: Department of Finance.

Figures are rounded to the nearest €5 million.

*Excise duties include carbon tax. The 2013 forecast for excise duties also includes the estimated €100 million in revenues from the increase in motor tax rates.

As regards non-tax revenue, fees from the Bank Guarantee Schemes have played an important role in improving the fiscal position in recent years but receipts are forecast to decline significantly next year, down close to 60% in cash terms on the 2012 outturn. Revenues from the surplus income of the Central Bank paid over to the Exchequer are expected to remain significant next year and to increase by some 9% on the amount paid over in 2012. The 10% dividend payment of some €300 million on the contingent capital provided to the Irish banking system in 2011 is also expected to continue benefitting the fiscal position next year.

Reductions across the board in voted expenditure...

As regards expenditure in 2013, upward revisions to live register estimates and the associated labour activation scheme costs have been identified as putting upward pressure on expenditure. This is due to the downward revision of the economic outlook but is also likely to be due to unemployment being more structural in nature than previously assessed.

The gross voted current expenditure of Government Departments is now forecast at just over €51 billion in 2013, a reduction of close to 2½% on the estimated 2012 outturn but still some €13 billion more than will be collected in tax revenues next year. In light of the need to continue to reduce expenditure to bring it more in line with available resources, reductions will be implemented right across the board and in virtually all Ministerial Vote Groups.

Reductions will also be made to voted capital expenditure. Gross voted spending is estimated at just over €3.4 billion in 2013. In addition, there is provision for a capital carryover of some €107 million into 2013. All told there is provision for some 2.6% of GNP to be spent on capital projects next year, a reduced amount reflecting the fact that very significant improvements have been made to the infrastructure stock in recent years.

2013 General Government deficit consistent with target...

Under the revised Excessive Deficit Procedure (EDP) recommendation issued by the ECOFIN Council in December 2010, the State's General Government deficit must not exceed 7.5% of GDP in 2013. On the basis of the most up-to-date economic and fiscal data available, the deficit limit is viewed as being achievable on the basis of the implementation of the previously identified €3.5 billion consolidation package.

As outlined in the November 2012 *MTFS*, the main reason for the relatively small improvement in the deficit next year, from an estimated 8.2% this year to 7.5%, is that the

2013 deficit forecast includes the impact of some €1.9 billion, or 1.1% of GDP, in interest on the Promissory Notes. In light of the interest holiday secured on the Promissory Notes for 2011 and 2012, there was no impact on the deficit in those years arising from this interest, save for a very minor amount in respect of the EBS Promissory Note. However for 2013, this represents a significant additional General Government expenditure item.

IMPACT OF CONSOLIDATION ON THE FISCAL POSITION IN 2013

Implementing consolidation through the imposition of revenue increases and reductions to expenditure will have a negative effect on economic activity in the short-run. Table 7 shows that the estimated loss in tax revenue arising from the introduction of some €2.7 billion in new revenue raising and expenditure reducing policy measures is approximately €535 million – this is the so called “negative buoyancy”. This estimated loss in tax revenue is reflected in the €37,950 million post-Budget tax revenue forecast for 2013.

While acknowledging the negative economic impact that consolidation has in the short-term, it is the case that the consolidation process has been underway since mid-2008 and despite the very significant levels of adjustment implemented in both 2011 and 2012, there has been real GDP growth in each of those years.

Table 7: The Impact of Budget 2013 on the Fiscal Position in 2013

	<u>€m</u>	<u>€m</u>
<u>Total Budget Package (New Measures)¹:</u>		2,732
<u>New Tax Measures:</u>		926
Excise Duty (including VRT, Carbon Tax & Motor Tax)		287
Property Tax *		250
Income Tax (including DIRT)		215
Other (Estimated Accruals)		65
Capital Gains Tax		47
VAT (including from Excise increases)		37
Capital Acquisitions Tax		30
Corporation Tax		-5
<u>PRSI*:</u>		286
<u>New Expenditure Measures:</u>		1,520
Current		1,020
Capital		500
<i>Impact of New Consolidation Measures on Budget 2013 Tax Forecast</i>		-535
	<u>WHITE</u>	<u>BUDGET</u>
	<u>PAPER</u>	<u>2013</u>
	<u>€m</u>	<u>€m</u>
<u>Current Revenue</u>		
Tax Revenue	37,625	37,950
Non-Tax Revenue	<u>2,259</u>	<u>2,360</u>
Current Revenue	39,884	40,310
<u>Current Expenditure</u>		
Net Voted (Budget figure excludes balances)	41,513	40,200
Non-Voted	<u>9,796</u>	<u>9,720</u>
NET Current Expenditure	51,309	49,920
CURRENT BUDGET BALANCE	-11,425	-9,610
<u>Capital Receipts</u>	2,004	2,020
<u>Capital Expenditure</u>		
Net Voted	3,618	3,100
Non-Voted	<u>4,711</u>	<u>4,710</u>
NET Capital Expenditure	8,329	7,810
CAPITAL BUDGET BALANCE	-6,325	-5,790
EXCHEQUER BALANCE	-17,750	-15,400
UNDERLYING GENERAL GOVERNMENT BALANCE	-15,125	-12,645
% of GDP	-8.9	-7.5

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

Notes:

- Rounding can affect totals.

- The current and capital expenditure savings are consistent with the aggregate figures as per the Expenditure Report 2013.

* While PRSI measures are part of the revenue raising consolidation package being announced in Budget 2013, the revenues generated are captured in the estimates of Appropriations-in-Aid (A-in-As) set out in table 9. They do not form part of the €37,950 million post-Budget 2013 tax revenue forecast.

¹ A further €0.22 billion in revenues arising from measures introduced previously (the "carry-over") are estimated to benefit 2013. In addition, expenditure measures introduced previously will contribute a further €0.42 billion to consolidation. €0.1 billion of the budgetary adjustment comes from increased dividends. Adding all of these to the €2.73 billion in new policy measures outlined in table 7 gives a total consolidation of €3.5 billion in 2013.

General Government debt forecast to peak in 2013...

Chapter 4 of the November 2012 *MTFS* sets out a significant amount of detail regarding General Government debt developments, including the methodology for producing debt forecasts as well as the proportion of debt that it is estimated results directly from State support for the banking sector.

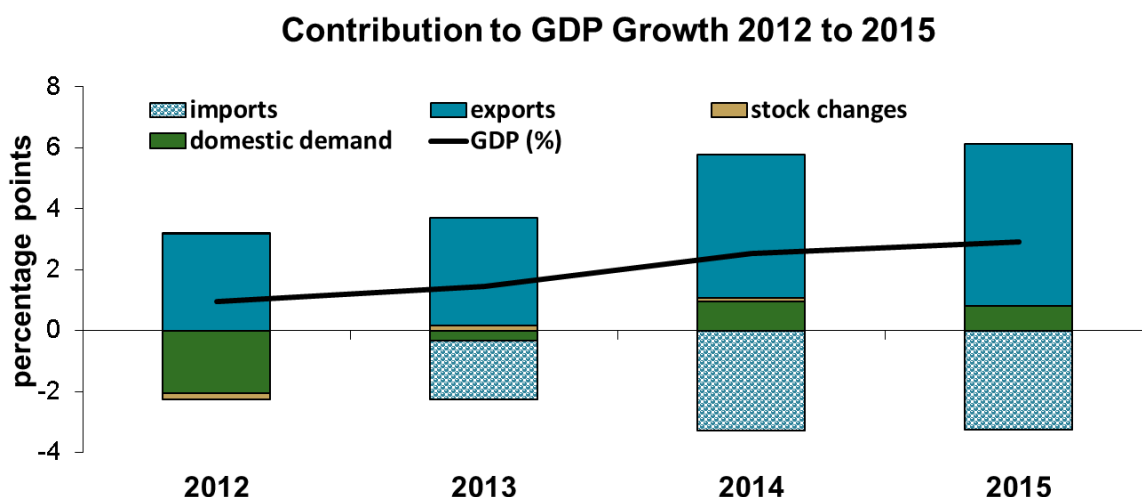
General Government debt is projected to end-2012 at €192 billion or 118% of GDP, an estimate that is consistent with that set out in the recent *MTFS*. This ratio is forecast to increase further next year, peaking at just over 120% of GDP. Again this is consistent with the *MTFS*. Table 10 in the *Additional Fiscal Statistics and Tables* section sets out more detail in relation to the debt forecasts.

ECONOMIC OUTLOOK 2014-2015

The pace of growth should accelerate over the medium term...

The working assumption of most international forecasting agencies is that the global economy will improve during the second half of 2013, with the pace of growth accelerating in 2014. On this basis, a strengthening of Irish export growth is expected over the medium term.

Figure 2: Contribution to GDP Growth 2012-2015



Source: Department of Finance.

The improvement in exports should also translate into higher investment, with beneficial effects in the labour market and, eventually, on personal consumer spending. As a result, domestic demand is projected to begin increasing once again in 2014, although the pace of growth will likely be moderate given the scale of the imbalances that will still need to be worked through. Given the projected composition of activity over the medium term, a healthy balance of payments surplus is assumed for the foreseeable future. A comparison of the Department's medium term forecasts with those institutions that publish medium term forecasts is presented in Table 8.

Table 8: Comparison of Macroeconomic Forecasts for Ireland for 2014-2015

		Annual Average % Change			
		GDP	GNP	HICP	Employment
Department of Finance	December 2012	2.7	1.9	1.9	1.1
Reuters Consensus	November 2012	2.6	2.3	n.a.	n.a.
IMF*	August 2012	2.7	2.1	1.5	1.7

Source: Institutions listed.

*IMF – Seventh review of the extended arrangement

Risks to the outlook...

The MTFS set out quantitatively and qualitatively a number of risks to the macroeconomic outlook, and these remain valid. Externally, the key identifiable downside risks relate to any possible intensification of the euro area crisis or difficulties in the US related to the “fiscal cliff”. In addition, movements in commodity prices or exchange rates could also impact, although it is clear that there is upside potential as well as downside from these developments.

On the domestic front, any further acceleration in the pace of household deleveraging presents a downside risk to the baseline consumption forecast. The risk of product-specific developments reducing output and exports in the chemical and pharmaceutical sector was flagged as a downside risk in the MTFS. In this context, the data in the intervening period relating to industrial production and exports show a sharp drop, although it is too early to judge whether this is reflective of the inherent volatility in the sector or part of a new trend. Developments in this area will remain under close observation.

On the domestic side, medium-term upside potential stems from the possibility of a return to more normal levels of private investment, and the growing balance of payments surplus suggests that there may be scope for firms and households to increase activity when confidence improves.

FISCAL OUTLOOK 2014-2015

Outlook for 2014-2015 consistent with MTFS...

The fiscal outlook over the period 2014-15 is largely unchanged from that set out in the November 2012 *MTFS*. Consistent with nominal GDP growth strengthening to average 4% per annum over the period and the implementation of further, though declining amounts of revenue consolidation, growth in tax revenues is expected to accelerate, averaging just under 6¾% per annum over that 2 year period.

Notwithstanding this acceleration, tax revenues, even by 2015, are still expected to be close to 9% below their 2007 peak. This peak was flattered by unsustainable property and construction based tax revenues which collapsed post-2007.

Tax revenues are now estimated at €36.2 billion this year, some 24% below their 2007 peak. In contrast, the gross voted current expenditure of Government Departments will have grown by just under 8% in that period, despite the very significant amount of consolidation implemented. This increase largely reflects the impact of the very significant rise in unemployment seen over the period. In addition non-voted expenditure – primarily that element related to debt servicing – has also shot up since 2007, reflecting the rapid rise in the State’s debt level.

Importantly however the figures in the previous paragraph also indicate that the gap between revenue and expenditure is closing. In 2009 for example, tax revenues were some 30% below their 2007 peak whereas gross voted current spending that year was nearly 15% higher than it was in 2007. So it is clear that progress is being made in restoring order to the public finances. It is clear also however that the gap between revenue and expenditure remains large and must be closed further.

As was documented in the November 2012 *MTFS*, the tax system is being restructured so that it is based on more substantive, and therefore less cyclical, sources of tax revenue. The introduction of a property tax in 2013 is the next step in that process.

In terms of revenue consolidation post-2013, changes will be made to the maximum allowable pension fund at retirement for tax purposes (what is known as the *Standard*

Fund Threshold) in 2014. Combined with a significant carry-over into 2014 from measures introduced in 2013 including the property tax, the yield from new revenue raising measures to be identified in *Budget 2014* will be approximately half that being announced in *Budget 2013*.

The fiscal projections in Table 9 show the steady improvement in the General Government deficit over the coming years. Annual deficit limits, as set by the ECOFIN Council in December 2010 are expected to be achieved and the deficit is currently projected to be below 3% of GDP by 2015.

Table 9: Fiscal Forecasts 2012-2015

€ million	2012	2013	2014	2015
CURRENT BUDGET				
Expenditure				
Gross Voted Current	52,315	51,070	49,230	47,780
Non-Voted Current	8,115	9,720	10,265	10,740
Gross Current	60,430	60,790	59,500	58,520
less Receipts and Balances (including PRSI)	10,625	10,870	11,050	11,295
Net Current	49,805	49,920	48,445	47,225
Receipts				
Tax Revenue	36,165	37,950	40,705	43,175
Non-Tax Revenue	2,770	2,360	1,785	1,730
Current Revenue	38,935	40,310	42,490	44,905
CURRENT BUDGET BALANCE	-10,870	-9,610	-5,955	-2,320
CAPITAL BUDGET				
Expenditure				
Gross Voted Capital	3,855	3,435	3,230	3,250
Non-Voted Capital	3,300	4,710	4,250	3,915
Gross Capital	7,155	8,145	7,480	7,165
less Receipts	335	335	310	310
Net Capital	6,820	7,810	7,170	6,855
Capital Resources	1,960	2,020	1,580	1,615
CAPITAL BUDGET BALANCE	-4,860	-5,790	-5,590	-5,245
EXCHEQUER BALANCE	-15,730	-15,400	-11,545	-7,565
EXCHEQUER PRIMARY BALANCE	-10,045	-8,175	-3,805	555
UNDERLYING GENERAL GOVERNMENT BALANCE	-13,305	-12,645	-8,905	-5,325
% of GDP	-8.2	-7.5	-5.1	-2.9
UNDERLYING GENERAL GOVERNMENT PRIMARY BALANCE	-7,010	-3,390	745	4,680
% of GDP	-4.3	-2.0	0.4	2.6
Nominal GDP (rounded to nearest €25m)	163,150	167,725	174,100	181,400

Source: Department of Finance, Department of Public Expenditure & Reform & NTMA

Notes:

- Figures rounded to nearest €5 million except for GDP.

- Rounding can affect totals.

- The technical fiscal forecasts for the years 2014-2015 have been prepared largely on the basis of the consolidation as set out in the 2012 MTFs, but also reflect measures announced in Budget 2013 such as the changes to the Standard Fund Threshold. The precise nature of the consolidation measures to be introduced in future years will be decided at a later stage.

- The Credit Institutions Stabilisation Act (CISA) in December 2010 gave the Minister for Finance the power to reduce or suspend the annual 1% of GNP contribution to the NPRF in the years 2012/2013. The non-voted capital expenditure projections in table 9 do not include any 1% of GNP Exchequer contribution to the NPRF in any year.

- The net voted capital expenditure outturn figure of €3,520 million for 2012 includes capital carryover of €107 million, which is additional to the level presented in the White Paper of Receipts and Expenditure. There have also been some other minor amendments to 2012 figures since the publication of the White Paper, on foot of later information which has since become available.

- The underlying GGB reflects potential GGB worsening expenditure for credit union resolution and/or restructuring, such as from the Credit Institutions Resolution Fund (CIRF). For the purposes of assessing adherence to EDP GGB targets, it is assumed that this expenditure is treated in the same manner as GGB worsening banking related expenditure and is therefore excluded – for further detail see tables 12 and 13 in the Additional Fiscal and Statistics Tables section.

- For an explanation of the “walk” from Exchequer Balance to General Government Balance, see table 13 in the Further Fiscal Statistics and Tables section.

ADDITIONAL FISCAL STATISTICS AND TABLES

Table 10: Projected Gross General Government Debt 2011-2015

<i>€ billion</i>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Opening General Government Debt	144.2	169.2	191.9	203.5	209.2
EBR	24.9	18.8	15.4	11.5	7.6
Promissory Note Repayment of Principal**	-2.5	-3.1	-2.6	-1.2	-1.3
Change in Cash Balances & Related Assets	1.9	5.9	-1.4	-4.4	-3.3
Net Lending of Local Government & NCSSBs	-0.1	0.3	-0.1	-0.3	-0.3
EFSF Pre-Paid Margin	0.5	0.0	0.0	0.0	0.0
Other***	0.3	0.8	0.2	0.1	0.0
Closing General Government Debt	169.2	191.9	203.5	209.2	211.9
GDP	159.0	163.2	167.7	174.1	181.4
General Government Debt-to-GDP Ratio	106	118	121	120	117

Source: Department of Finance, CSO & NTMA

Notes:

- Rounding may affect totals

*The 2012 IBRC Promissory Note payment was settled with a Government bond and as such is not reflected as part of the Exchequer deficit (or EBR) in the end-November 2012 Exchequer Returns. For simplicity however it is counted as part of the 2012 EBR in table 10.

**Interest due on the Promissory Notes is accounted for as part of General Government debt each year.

***Includes the effect of issuance and cancellation of debt above or below par.

Table 11: Projected General Government Interest Expenditure 2012-2015

<i>€ million</i>	2012	2013	2014	2015
National Debt Cash Interest	5,685	7,225	7,740	8,120
<i>% tax revenue</i>	15.7	19.0	19.0	18.8
<i>% of GDP</i>	3.5	4.3	4.4	4.5
National Debt Interest Accruals	465	100	30	90
Consolidation and Grossing Adjustments	35	-65	0	10
Accrued Promissory Note Interest	15	1,890	1,780	1,685
Other	95	100	100	100
Total Interest on ESA95 basis	6,295	9,255	9,650	10,005
<i>% total General Government revenue</i>	11.3	16.1	16.0	15.9
<i>% of GDP</i>	3.9	5.5	5.5	5.5

Source: Department of Finance & NTMA

Notes:

- Rounding may affect totals
- Figures rounded to nearest €5 million

Table 12: General Government Receipts and Expenditures

Description	ESA code	2011	2012	2013	2014	2015
<i>Revenue</i>						
<i>€ millions</i>						
1a. Taxes on production and imports	D.2	17,680	18,020	18,440	19,260	19,910
1b. Current taxes on income, wealth	D.5	19,240	20,510	21,860	23,900	25,810
1c. Capital taxes	D.91	710	750	850	840	860
2. Social contributions	D.61	10,250	9,320	9,730	10,070	10,270
3. Property Income	D.4	2,000	2,360	2,640	2,400	2,440
4. Other		5,540	4,720	4,100	3,870	3,760
Total revenue	TR	55,410	55,680	57,620	60,340	63,050
<i>Expenditure</i>						
5a. Compensation of employees	D.1	19,110	18,880	18,690	18,240	17,820
5b. Intermediate consumption	P.2	8,890	8,760	8,510	8,250	7,830
6. Social payments	D.6	27,620	26,990	26,210	25,730	25,470
7. Interest expenditure	D.41	5,330	6,295	9,255	9,650	10,005
8. Subsidies	D.3	640	480	470	450	430
9. Gross fixed capital formation	P.51	4,030	3,630	3,070	2,620	2,570
10. Other		11,050	4,050	4,170	4,410	4,310
Total expenditure	TE	76,670	69,080	70,370	69,350	68,430
General government balance (GGB)	B.9=TR-TE	-21,256	-13,405	-12,745	-9,005	-5,375
Financial sector measures affecting GGB		+6,824	+100	+100	+100	+50
Underlying GGB		-14,432	-13,305	-12,645	-8,905	-5,325
Underlying GGB as % of GDP		-9.1%	-8.2%	-7.5%	-5.1%	-2.9%

Source: Department of Finance & CSO

Notes:

- Rounding may affect totals.

- Table 12 sets out the General Government Balance (GGB) for the years 2011 to 2015 in terms of selected components of general government receipts and expenditures. Ireland's headline GGB in 2011 was -13.4 per cent of GDP (see item 1). A significant amount of this deficit (4.3 percentage points of GDP, see item 11) arises from capital injections into financial institutions that took place in July last year. Ireland's underlying deficit (which excludes banking recapitalisation) fell by 1.6 percentage points to 9.1% of GDP in 2011, well below the Programme limit of 10.6%.

- Item 1a: Taxes on production and imports include VAT, customs, excise and stamp duty, local authority rates and the non-household part of motor tax.

- Item 1b: Current taxes on income and wealth comprise income tax, capital gains tax and corporation tax, the household part of motor tax and of television licences and the household charge.

Item 1c: Capital taxes comprise capital acquisitions tax and the pension funds levy.

Item 2: Social contributions consist mainly of contributions to the Social Insurance Fund. Imputed social contributions are also included.

Item 3: Property income is made up of investment or dividend income.

Item 4: 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 5a: 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 5b: Intermediate consumption is current spending on goods and services by government units.

Item 6: 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 7: Interest expenditure by general government is calculated on an accruals basis. In Ireland's case this includes interest payable on the promissory note paid to financial institutions in 2010. (There is an interest holiday where no general government interest is due on the promissory notes in 2011 and 2012.)

Item 9: Gross fixed capital formation is acquisitions less disposals by government on capital formation such as construction and machinery.

Item 10: In 2011 other expenditure includes €6.8 billion deficit increasing capital transfer into Irish banks. This item also includes transfer payments to non-government bodies such as higher education and capital grants. It further includes acquisitions less disposals of non-produced assets such as royalties and mobile phone licences.

- Financial sector measures affecting GGB: This reflects potential GGB worsening expenditure for credit union resolution and/or restructuring, such as from the Credit Institutions Resolution Fund (CIRF). For the purposes of assessing adherence to EDP GGB targets, it is assumed that this expenditure is treated in the same manner as GGB worsening banking related expenditure and is therefore excluded.

Table 13: Movement (“Walk”) from Exchequer Balance to General Government Balance

€ millions	2012	2013	2014	2015
(a) Exchequer balance	-15,730	-15,400	-11,545	-7,565
(b) Non-cash payment in 2012 of IBRC promissory note	-3,060	0	0	0
(c) Exclude equity and loan transactions	2,305	825	365	10
(d) Exclude repayment of promissory notes issued to financial institutions	3,085	3,085	3,085	3,085
(e) Include prom note interest accrual	-15	-1,890	-1,780	-1,685
(f) Adjust for national debt interest accrual	-465	-100	-30	-90
(g) Adjust for tax accruals	-105	170	265	250
(h) Adjust for other accruals	115	35	-20	-55
(i) Impact of NPRF	555	595	600	595
(j) Transactions between government bodies	25	-255	-185	-150
(k) Net borrowing/lending of non-commercial State sponsored bodies	10	190	235	225
(l) Net Surplus of the Social Insurance Fund	0	0	0	0
(m) Net (Borrowing)/Surplus of Local Government	-125	0	0	0
(n) GGB (= a to m)	-13,405	-12,745	-9,005	-5,375
(o) Financial Sector Measures affecting GGB	100	100	100	50
(p) Underlying GGB	-13,305	-12,645	-8,905	-5,325
(q) Underlying GGB as % of GDP	-8.2	-7.5	-5.1	-2.9
(r) Nominal GDP (rounded to nearest €25m)	163,150	167,725	174,100	181,400

Source: Department of Finance

Notes:

- Rounding may affect totals

- Table 21a of the CSO National Income and Expenditure (September 2012) publication shows the movement from the Exchequer Balance to the General Government Balance (GGB) for the period 2006-2011.

- The GGB measures the fiscal performance of all arms of Government, i.e. Central Government, Local Authorities, Vocational Education Committees 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.

- The GGB does not reflect the position of commercial State sponsored bodies as these agencies are classified as being outside the general government sector. The GGB is calculated in accordance with ESA95, 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. In 2012 the annual promissory note payment to IBRC was made with a Government bond.

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

d. This item reflects the amounts committed in Promissory Notes to IBRC and EBS in 2010. These amounts are paid in equal instalments of 10% of the principal sum. The full GGB effect of the Promissory Notes principal sum was shown in 2010, and as the Exchequer pays this money to the financial institutions, the effect of this is removed from the GGB in subsequent years.

e. This refers to the accrued interest payable on Promissory Notes issued to financial institutions and a Eurostat ruling that there would be no interest payable on these Promissory Notes for the years 2011 and 2012, except for a minor amount in respect of the Educational Building Society (EBS) Promissory Note.

f. This adjustment reflects the accruals of National Debt interest.

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

i. 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 GGB.

j. Transfers between units within the General Government sector do not affect the GGB.

k, l & m. These adjustments add the net lending/borrowing of other government bodies and local government to arrive at a full concept of general government.

o. This reflects potential GGB worsening expenditure for credit union resolution and/or restructuring, such as from the Credit Institutions Resolution Fund (CIRF). For the purposes of assessing adherence to EDP GGB targets, it is assumed that this expenditure is treated in the same manner as GGB worsening banking related expenditure and is therefore excluded.