



**Irish Fiscal
Advisory Council**

ICSH Biennial Finance and Development Conference 2018

Eddie Casey | 25th October 2018

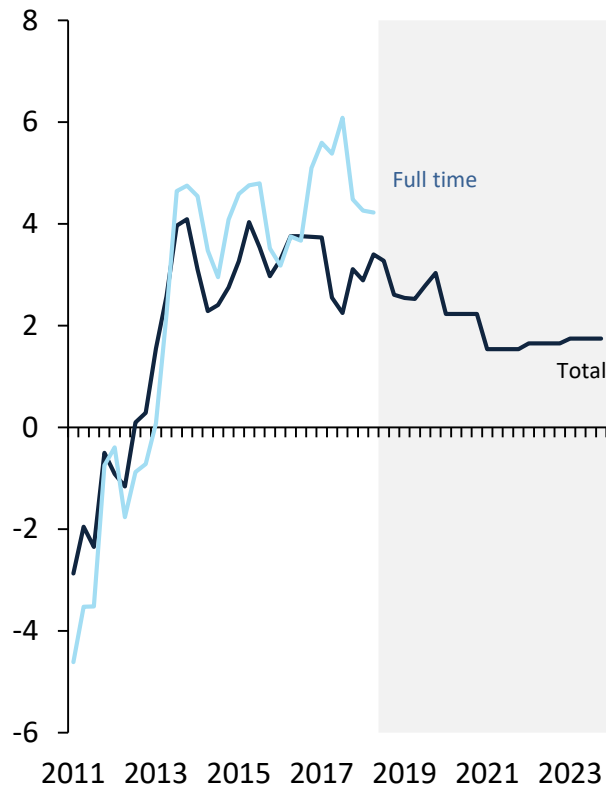
Key issues

- Macro Backdrop
- Reclassification of AHBs
- Role of government financing (“fiscal space”)

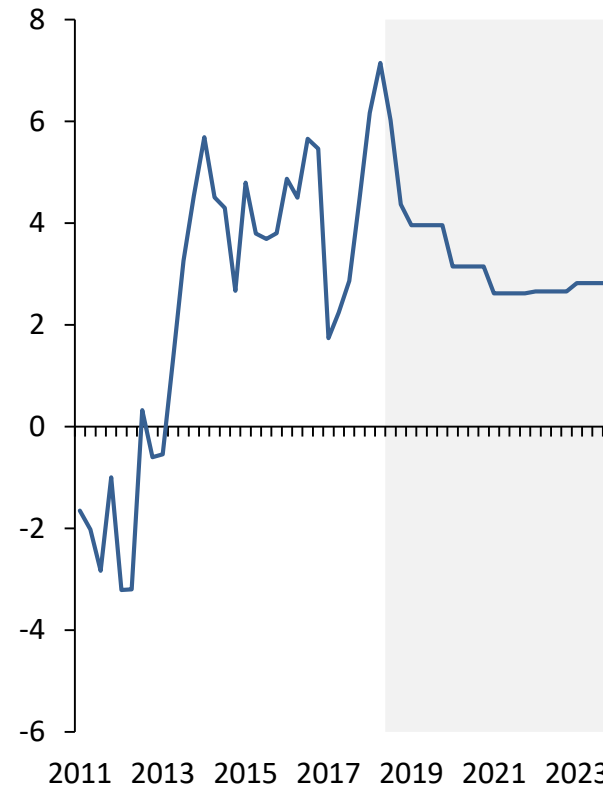
Macro Backdrop

The domestic economy is recovering rapidly

Employment
(% y/y)



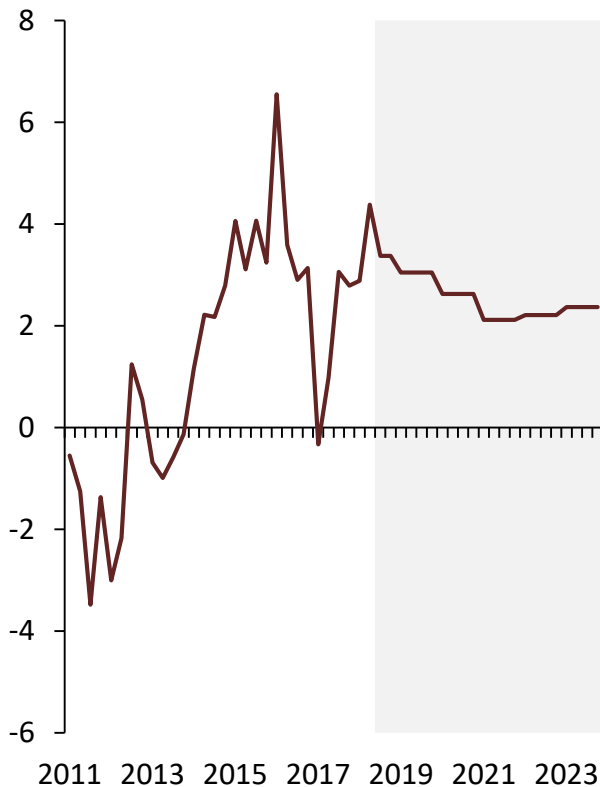
Underlying Domestic Demand
(% y/y)



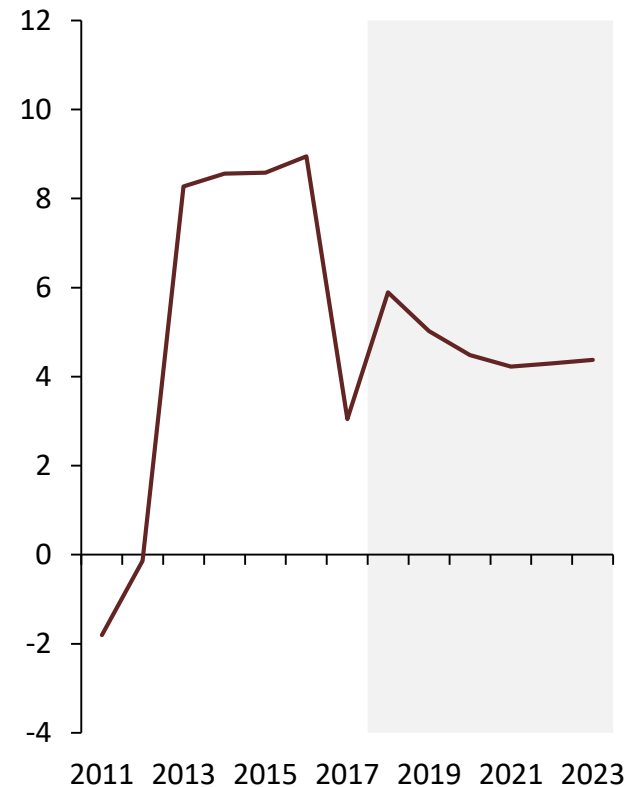
Sources: CSO; Budget 2019 forecasts; and internal IFAC calculations.

The domestic economy is recovering rapidly

Personal Consumption
(% y/y)



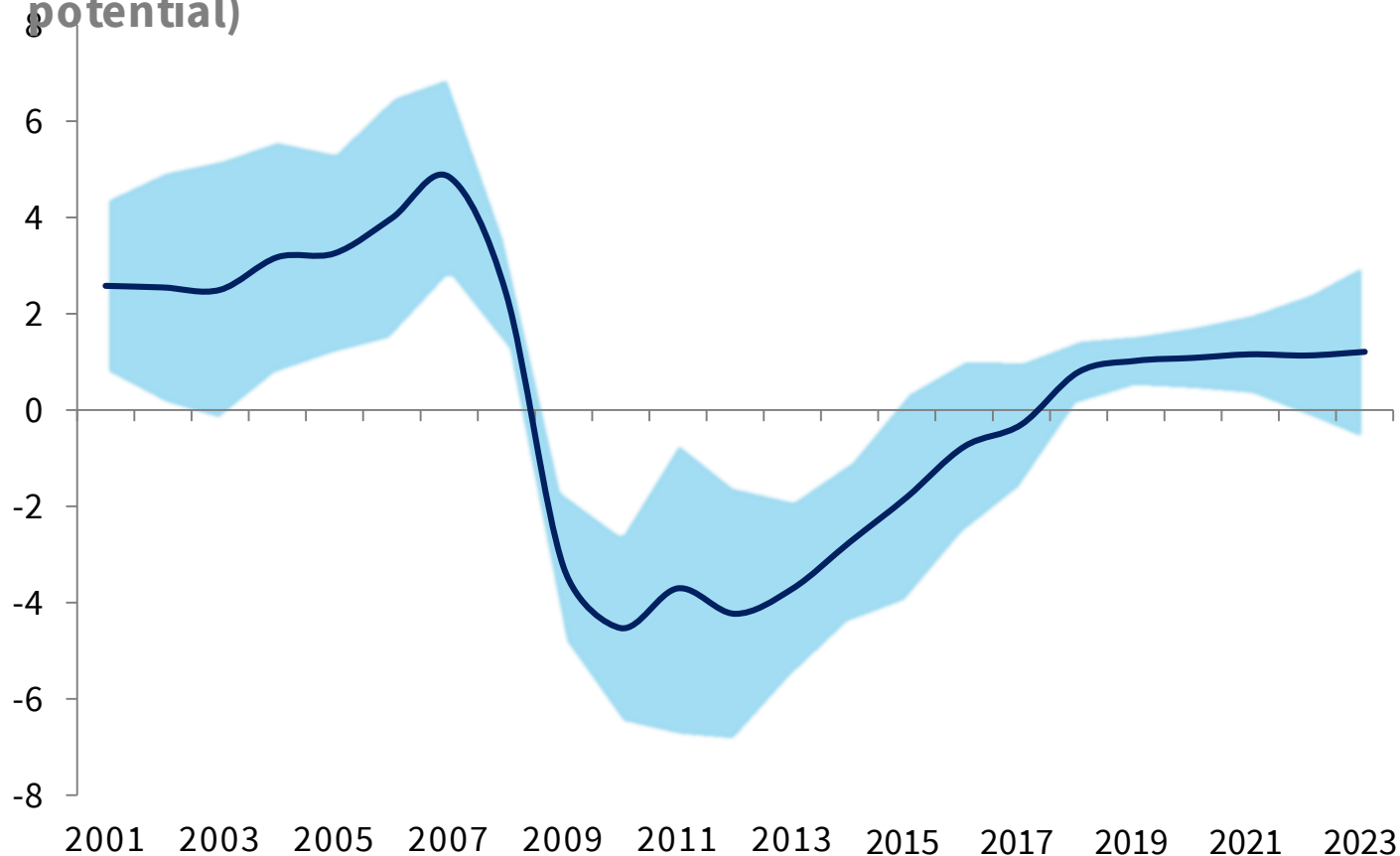
Nominal GNI* [Different Scale]
(% y/y)



Sources: CSO; Budget 2019 forecasts; and internal IFAC calculations.

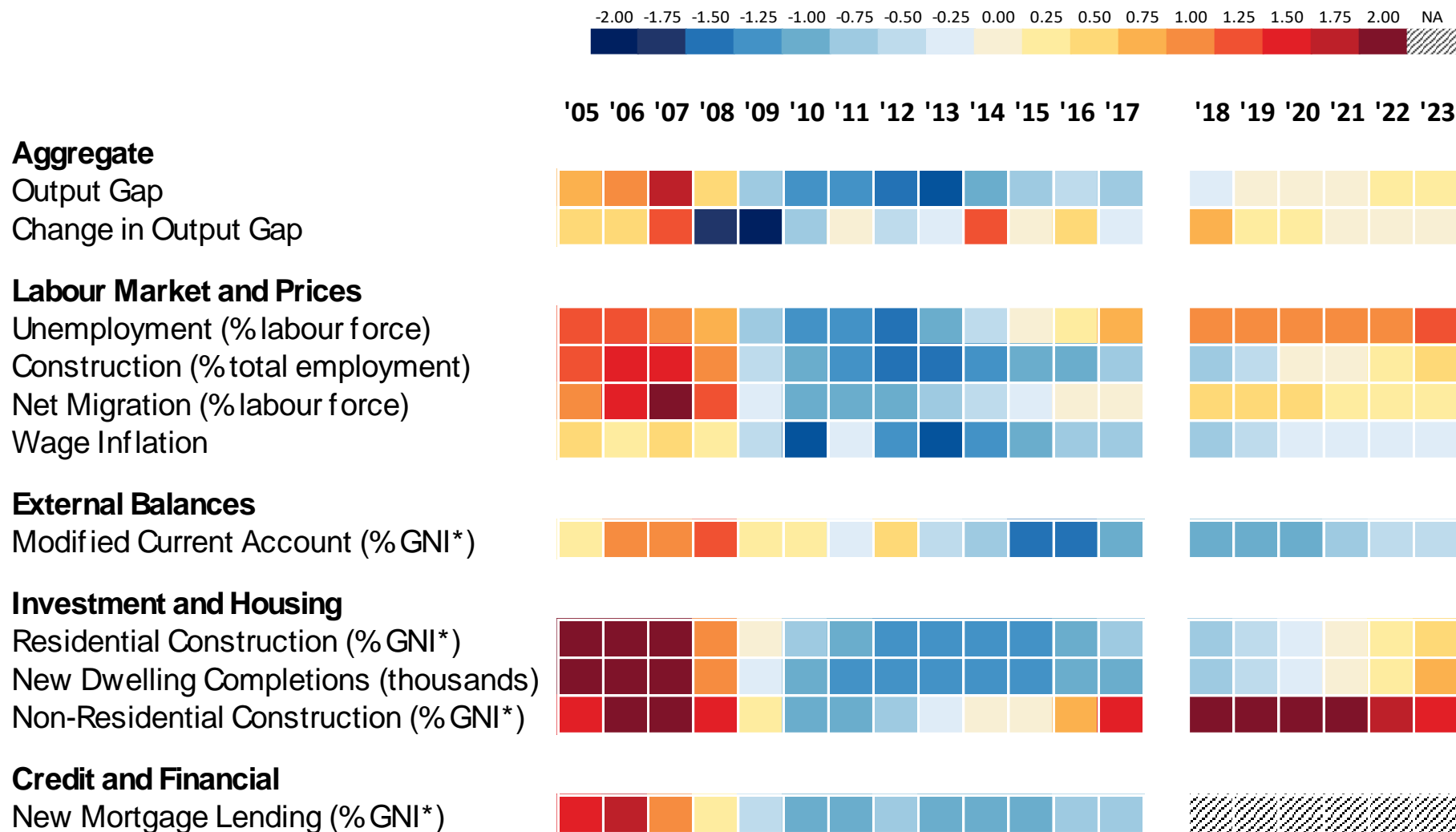
Signs of overheating are emerging

Output Gap (gap between actual and potential output as % of potential)



Sources: CSO; Budget 2019 forecasts; and internal IFAC calculations.

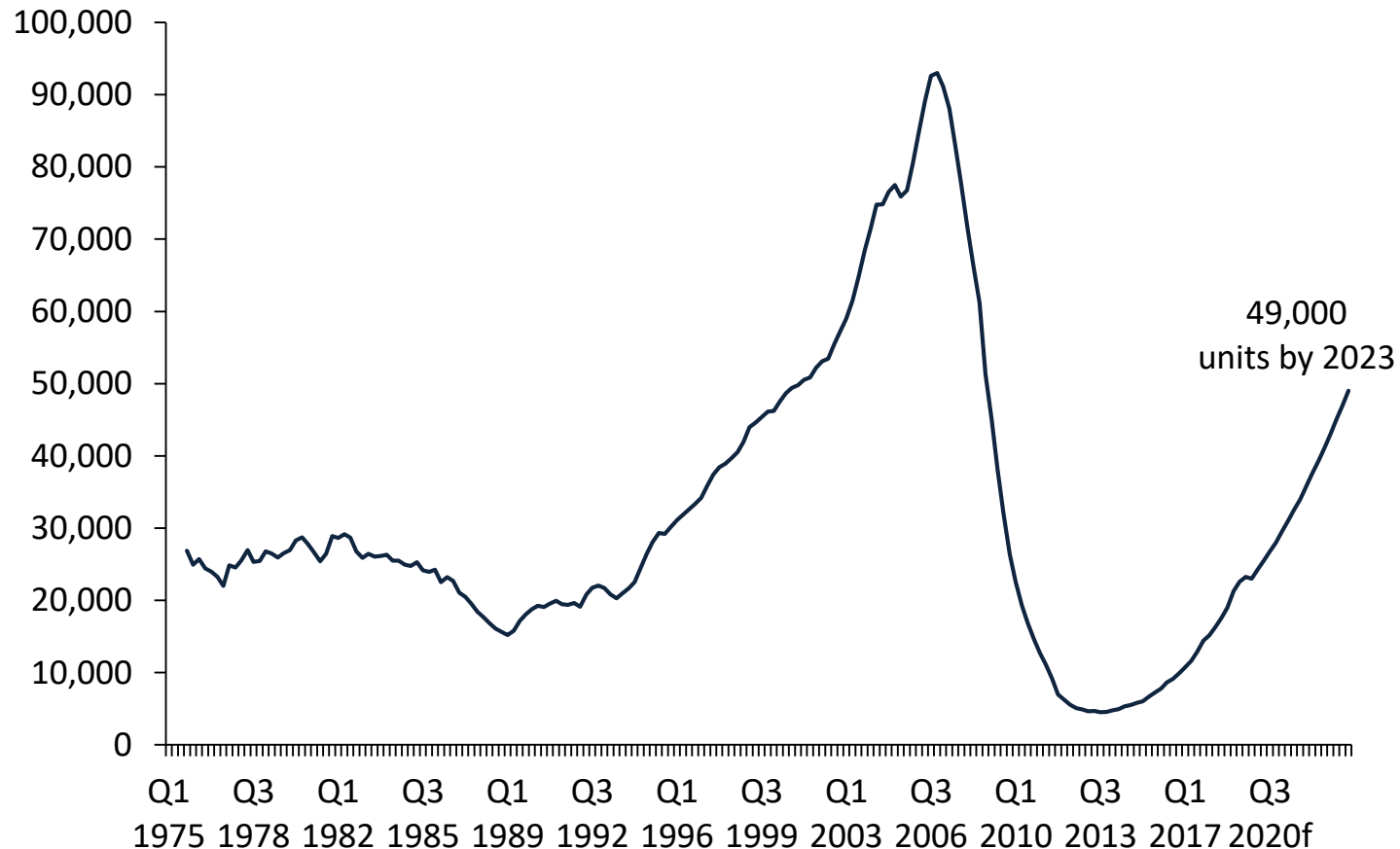
Signs of overheating are emerging



Sources: CSO; Central Bank of Ireland; Budget 2019 forecasts; Department of Environment, Heritage and Local Government; ESRI/PTS; European Commission (AMECO and CIRCABC); Residential Tenancies Board; and internal IFAC calculations.

New dwellings are expected to grow rapidly

Number of units new dwellings



Sources: Department of Housing; CSO; and Budget 2019 forecasts.

Construction sector wages per head rising

(% change y/y, per employee, 2yr moving avg)



Sources: CSO; and internal IFAC calculations.

Reclassification

Reclassification Decision

- CSO review in 2017 focused on largest of Approved Housing Bodies (AHBs) – so-called “Tier 3”.
- Concluded sufficient evidence on funding to indicate control by government.
- Accordingly, 15 AHBs should be classified as part of the local government sector, i.e., in general government.

Reclassification Implications

- Implications:
 - any private borrowing by AHBs increases general government debt;
 - funding provided to AHBs by Departments or local authorities is included in general government (*this was already included*)
 - AHB revenue and expenditure is treated as general government revenue and expenditure (*this part is new*)

Reclassification Impact

- Department of Finance estimate that the reclassification means:
 - higher general government debt +c.€100 million (0.03% GDP) for end-2017; and
 - larger general government deficit +€470 million (0.15% GDP) for 2018.

Role of government financing ("fiscal space")

As part of General Government...

- Total spending is subject to Domestic & EU fiscal rules.
- Two key rules when deficit is not $> 3\%$ GDP:
 - Structural Deficit ($\geq -0.5\%$ GDP)*
 - Expenditure Benchmark (\leq potential growth + inflation)**

* This “MTO” target is reset every three years

** Less than this when not meeting the structural deficit target

Rules as they stand

Table 1: summary – main economic and fiscal variables, per cent change (unless stated)

| | 2017 | 2018 | 2019 |
|--|-------|-------|-------|
| <i>Economic Activity</i> | | | |
| Real GDP | 7.2 | 7.5 | 4.2 |
| Real GNP | 4.4 | 5.9 | 3.9 |
| <i>Prices</i> | | | |
| HICP | 0.3 | 0.7 | 1.5 |
| Core HICP [^] | 0.0 | 0.4 | 1.4 |
| GDP deflator | 0.4 | 1.8 | 1.9 |
| <i>Balance of Payments</i> | | | |
| Trade balance (per cent of GDP) | 30.4 | 34.8 | 34.6 |
| Current account (per cent of GDP) | 8.5 | 12.0 | 11.7 |
| <i>Labour Market</i> | | | |
| Total Employment ('000) | 2,194 | 2,259 | 2,321 |
| Employment | 2.9 | 3.0 | 2.8 |
| Unemployment (per cent) | 6.7 | 5.8 | 5.2 |
| <i>Public Finances (per cent of GDP)</i> | | | |
| General government balance | -0.2 | -0.1 | 0.0 |
| Structural balance ^{^^} | 0.4 | -1.0 | -0.7 |
| Debt ratio (year-end) | 68.4 | 64.0 | 61.4 |
| Net debt position (year-end)* | 59.7 | 55.2 | |

[^] core inflation excludes energy and unprocessed food from the index.

^{^^} on a 'harmonised' basis.

* net debt figures for 2017 and 2018 only.

Source: CSO and Department of Finance.

Rules as they stand

Table 13: comparison of expenditure benchmark compliance, per cent of GDP

| | 2018 | | 2019 | |
|-----------------------------------|------|--------|------|--------|
| | SES | Budget | SES | Budget |
| One year assessment (year t) | -0.1 | -0.4 | 0.4 | 0.2 |
| Two year average (year t-1 and t) | -0.3 | -0.4 | 0.2 | -0.1 |

Note: a negative indicates a breach of the expenditure benchmark. The threshold for a significant deviation is at least 0.5 per cent of GDP in a single year or cumulatively in two consecutive years.

Source: Department of Finance

Some features of fiscal space

- 4-year averaging applied to capital spending:
 - Budget 2016: "For the purposes of the Expenditure Benchmark Capital Formation is smoothed over a 4 year average, as a result only a quarter of the increases in the Public Capital plan have an impact on fiscal space."
 - But note that this catches up (i.e., $\frac{1}{4}$ is again reflected in year 2, in year 3, and year 4)
- Investment Clause*
- Structural Reform Clause*

* For more detail, see: https://www.fiscalcouncil.ie/wp-content/uploads/2011/12/Investment-and-the-Fiscal-Rules-08.02.17_t.pdf

Thank you