

Information Note on Fiscal Space 2017 – 2021

1 February 2016

Definition

- Fiscal space is defined as the projected amount of resources available to the Government for additional expenditure and/or tax reductions, while ensuring compliance with the fiscal rules, specifically the so-called Expenditure Benchmark. Policy decisions on how to allocate these resources are, of course, a matter for the next Government.

Calculation

- The estimated fiscal space covering the period 2017-2021 is set out in Table A8 of the budgetary documentation, based on the Expenditure Benchmark. On this basis, gross fiscal space (including the technical assumption of indexing the income tax system) is estimated at €10.9 billion over the period 2017-2021.
- When allowance is made for expenditure related to demographics, the public capital programme and pay increases under the Lansdowne Road Agreement, the remaining net fiscal space amounts to €8.6 billion over the 2017-2021 period.

Additional factors

- If the tax system was not indexed, this would open up an additional c.€2.0 billion of fiscal space over the period 2017-2021.
- Changes at EU level regarding the definition of a balanced budget mean that Ireland could achieve this earlier than envisaged in the Budget (i.e. possibly achieving a balanced budget in structural terms in 2018 rather than in 2019 as set out in Budget 2016). The Commission is currently updating the minimum medium term objective in line with the three-year cycle (set out in the Stability and Growth Pact). Given the decline in the Irish debt ratio, and other factors, it is likely that the minimum MTO proposed by the Commission for Ireland might be slightly less stringent than was previously the case.
- Officials in the Department of Finance have estimated that a structural deficit of -0.5 per cent of GDP (rather than the current 0.0 per cent of GDP) is more likely, but this is subject to the outcome of the technical discussions.
- Officials in the Department of Finance have estimated that this would allow an additional c.€1½ billion of fiscal space.

Department of Finance figures

- The Department of Finance reports the figures for fiscal space in nominal terms – there is no automatic indexation of public expenditure to inflation over the period 2017-2021, as there has been no Government decision to this effect.
- The difference between the Department’s figures and those of the IFAC reflects the fact that their estimates assume that various forms of social benefits (unemployment benefits, old age pension, child benefit payments, etc.) are indexed to the rate of inflation. Their numbers are also based on the assumption of public sector pay increases beyond 2018. Any such increases in expenditure are a matter for the Government of the day and require a policy decision as part of the annual budgetary cycle. To include these measures in the fiscal space by the Department of Finance would be an assumption on future policy decisions, which are a matter for the next Government.

	2017	2018	2019	2020	2021	<i>Total~</i>
<i>Gross Fiscal Space</i>	1.3	1.5	1.6	3.2	3.3	10.9
<i>Discretionary Revenue Measures*</i>	0.1	0.5	0.4	0.4	0.4	1.8
<i>Adjusted Fiscal Space</i>	1.4	2.0	2.0	3.6	3.7	12.7
<i>Walk from Gross to Net Fiscal Space#</i>	0.9	0.9	0.8	0.9	0.8	4.3
<i>Net Fiscal Space</i>	0.5	1.1	1.3	2.8	2.9	8.6

** Subject to Government Policy Decisions, mainly the non-indexation of tax bands, less the impact of certain carry-over measures from Budget 2016. (The non-indexation component alone would add approx €2bn to gross fiscal space over the period 2017 to 2021).*

Takes account of anticipated expenditure, including those in relation to demographics, public capital plan & Lansdowne Rd Agreement.

~ Note rounding may affect totals