

Budget Analysis from the NERI

NERI (Nevin Economic Research Institute)

Dublin & Belfast

Tom.mcdonnell@nerinstitute.net



Research for new economic policies

Macro Context

- Improving growth and employment prospects (along with methodological changes) altered the budgetary arithmetic
- Neutral budget would have generated a projected deficit of 2.4%
- Decision was to aim for a deficit of 2.7% of GDP
 - 3% was a minimum target
 - The outturn deficit in 2015 is projected to fall between €5.0 and €5.5 billion
- Debt to GDP ratio is still extremely high and the debt to GNP ratio is only outstripped by Greece
 - Public finances remain fragile
 - Fiscal loosening of €1.05 billion (excluding water charges) -
- Emphasis on tax cuts was unfortunate and unwise.
 - Academic research shows that it is economically much more effective to increase public investment than to cut taxes
 - €210 million increase is wholly insufficient and public investment levels remain inadequate
 - Ireland's low tax and low spend model is not only being maintained but reinforced

Macro Forecasts

Table 1: Key Macroeconomic Forecasts 2013-2018¹

	2013	2014	2015	2016	2017	2018
<i>per cent change, unless otherwise stated</i>						
Real GDP	0.2	4.7	3.9	3.4	3.4	3.4
Inflation (HICP)	0.5	0.5	1.1	1.4	1.4	1.4
Employment	2.4	1.8	2.4	1.9	1.9	1.9
Unemployment (% of labour force)	13.1	11.4	10.2	9.4	8.9	8.1
Nominal GDP (rounded to nearest €25m)	174,800	183,800	193,475	203,400	213,925	224,950

Source: 2013 CSO; 2014-2018 Department of Finance forecasts.

Macro Forecasts

Table 3: Macroeconomic prospects and external balance, 2013 – 2018

	2013	2013	2014	2015	2016	2017	2018
	€m	<i>year-on-year percentage change</i>					
Real GNP	145,929*	3.3	4.1	3.6	3.1	3.1	3.1
Real GDP	173,054*	0.2	4.7	3.9	3.4	3.4	3.4
Nominal GNP	147,506	4.4	4.6	5.0	4.8	4.8	4.8
Nominal GDP	174,792	1.2	5.2	5.3	5.1	5.2	5.2
	<i>current</i>						
Components of GDP	2012 prices	<i>year-on-year percentage change unless otherwise stated</i>					
Personal consumption	83,334	-0.8	1.7	2.7	1.4	1.3	1.3
Government consumption	25,956	1.4	4.8	2.3	0.0	0.0	0.0
Investment	26,541	-2.4	14.6	12.7	7.6	7.5	5.1
Changes in inventories and net acquisition of valuables (% of GDP)	837	0.5	0.4	0.2	0.2	0.2	0.2
Exports	184,056	1.1	8.3	4.8	4.3	4.3	4.7
Imports	147,694	0.6	8.8	5.3	3.6	3.6	3.6

Employment

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Unemployment

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Government Revenue and Government Spending (per cent of GDP)

	2013	2014	2015	2016	2017	2018
Revenue	34.8	34.7	33.7	32.9	32.3	32.1
Public Spending	40.5	38.5	36.4	34.8	33.2	31.9
General Government Balance	-5.7	-3.7	-2.7	-1.8	-0.9	0.3
Gross Debt	123.3	110.5	108.5	104.0	100.5	95.4
Primary Spending (i.e. non-interest)	36.1	34.4	32.6	31.0	29.4	28.0
Gross Fixed Capital Formation (Public Investment)	1.8	1.6	1.4	1.3	1.3	1.2

Tax and Charges in 2015

(selected)

- Main elements are:
 - Cuts in Income Tax for Middle and Higher Earners (€292m in 2015 and €405m full year)
 - Changes are highly regressive
 - Higher rate reduced by 1% and standard rate threshold increased by €1,000
 - Reduction in the USC for most earners (€186m in 2015 and €237 full year)
 - Gains for most groups (particularly those on under €12,000)
 - New 8% rate means the marginal rate stays at 52% for those on over €70,000
 - Water Charges
 - Consumption based charges are regressive
 - Affordability Issues – water charges tax relief (€40m) will only benefit those earning enough to have an income tax liability
 - Over €80 million in new tax breaks for corporations
 - Double Irish will stay in place for six more years for existing users and Irish patent box to be introduced ('knowledge box')
 - Increased excise on cigarettes and extension of betting duty (€78m)
 - Tax benefits for farming (€25m)

2015 Change, Married couple, one income, PAYE

(water charges based on two-adult household @ €278 - and 20% water credit)

Gross Income (€)	Change Per Year (not including water charges)	Change as % Net Income (not including water charges)	Change Per Year (including water charges and water tax relief)
12,000	279	2.4%	1
15,000	115	0.8%	-163
17,542	173	1.0%	-105
25,000	174	0.8%	-54
35,000	174	0.6%	-48
45,000	406	1.1%	184
55,000	506	1.2%	284
70,000	656	1.4%	434
75,000	657	1.3%	435
100,000	657	1.1%	435
125,000	657	0.9%	435
150,000	657	0.8%	435

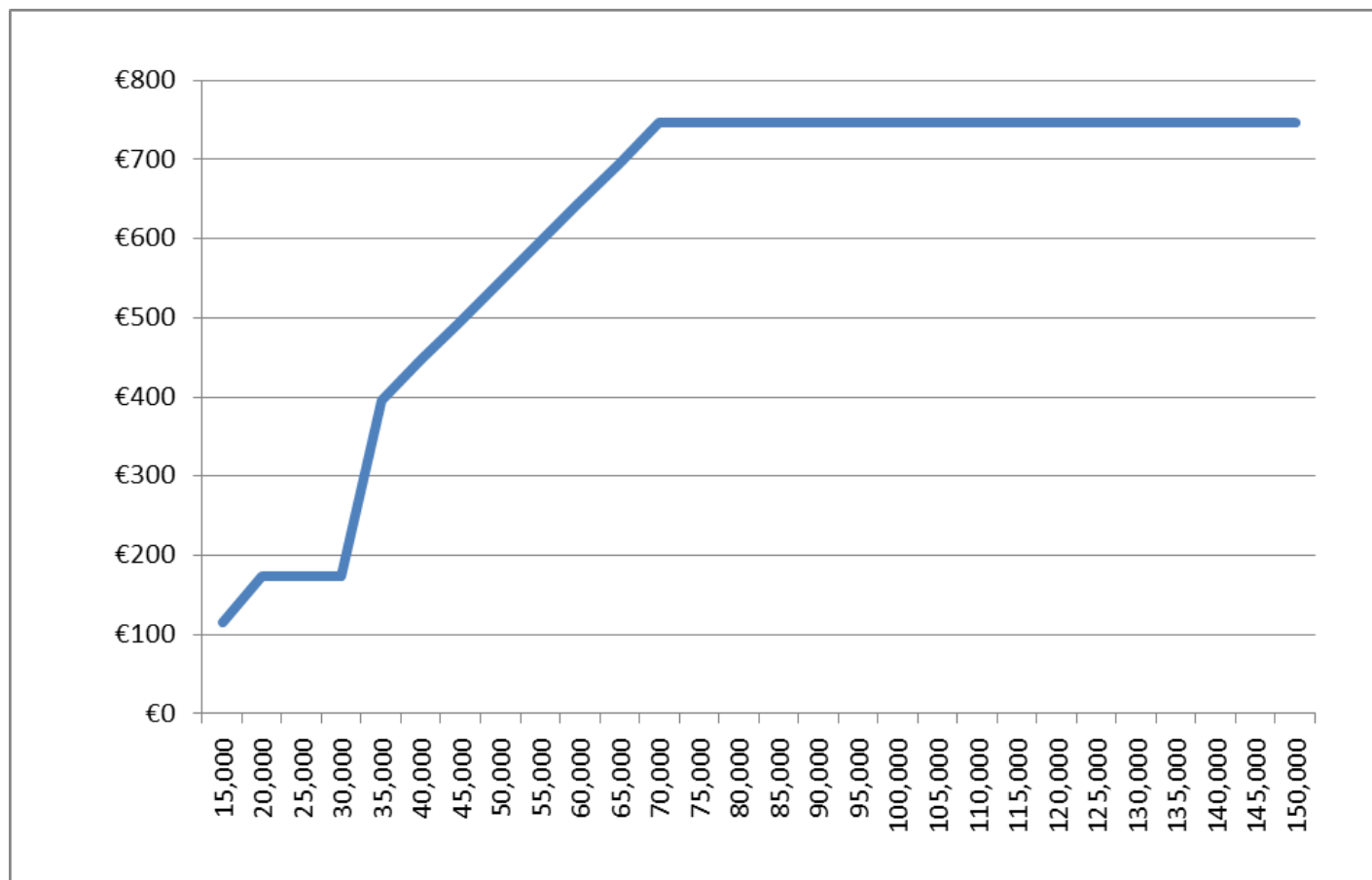
2015 Change, Single person, one income, PAYE

(water charges based on one-adult household @ €176 - and
20% water credit)

Gross Income (€)	Change Per Year (not including water charges)	Change as % Net Income (not including water charges)	Change Per Year (including water charges and water tax relief)
12,000	279	2.4%	103
15,000	115	0.8%	-61
17,542	173	1.0%	32
25,000	174	0.8%	33
35,000	396	1.4%	255
45,000	496	1.5%	355
55,000	596	1.6%	455
70,000	746	1.7%	605
75,000	747	1.6%	606
100,000	747	1.3%	606
125,000	747	1.1%	606
150,000	747	0.9%	606

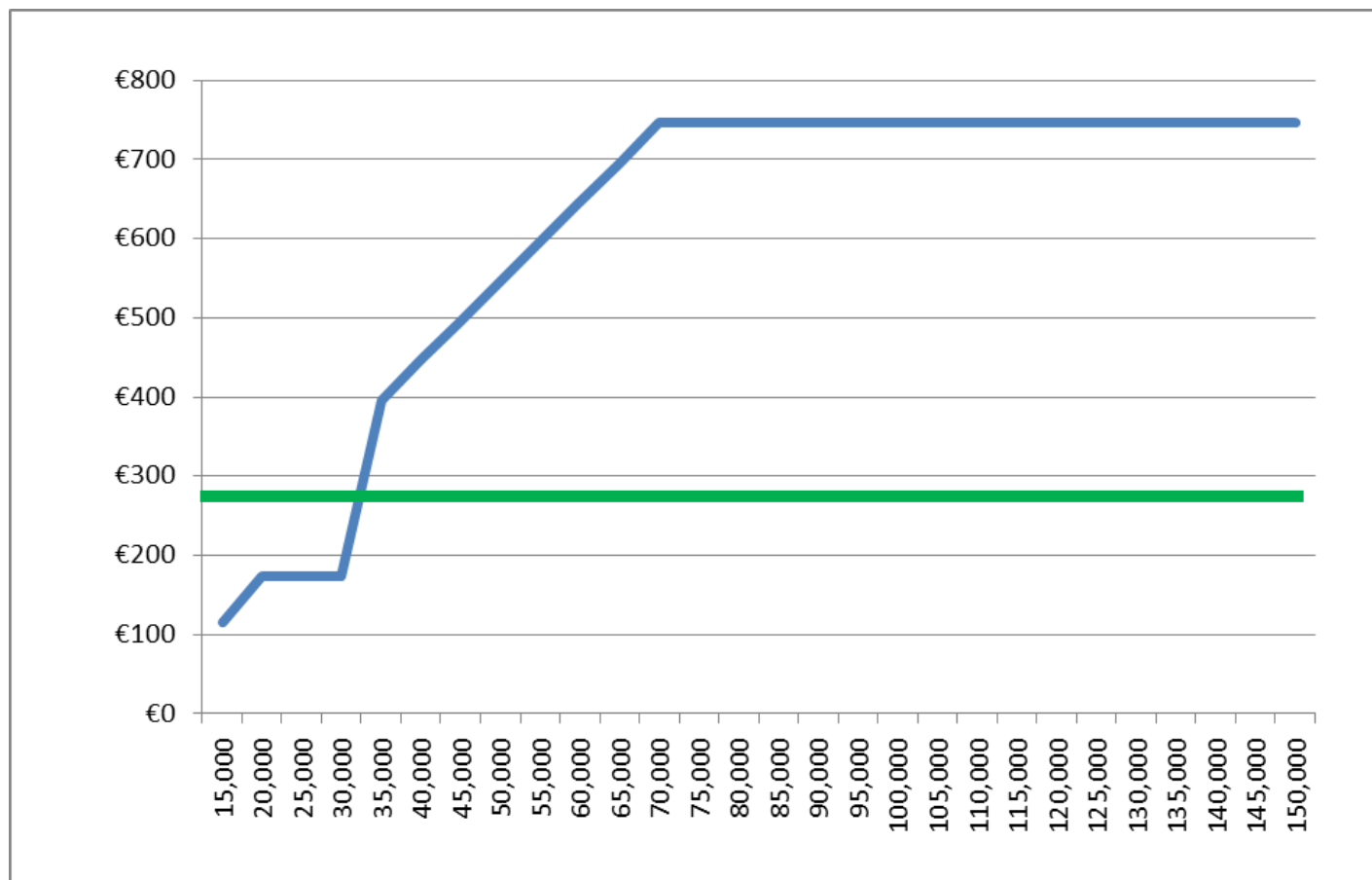
Winners and Losers

Single Adult, gains per annum



Winners and Losers

Single Adult, gains per annum + water charges



Capital Spending

- Modest overall increase in capital expenditure announced - from €3.339bn to €3.549 billion
 - €210 million increase (slightly over 0.1% of GDP)
- Still very low by EU standards as per cent of GDP (in the bottom quartile of EU countries) and far below the optimal level of close to 3% of GDP
- An opportunity lost given the historically low cost of borrowing (1.6%)
 - Increasing capital spending would have been the best way to inculcate growth (IMF)
 - Rate of return to the economy would be well in excess of the cost of borrowing
 - Multiple academic studies have shown that tax based expansions are less effective
- Gross Fixed Capital Formation (public investment) is scheduled to fall from 1.8% of GDP in 2013 to 1.2% of GDP in 2018 – 2nd lowest in the EU
 - It may be that the Government is planning to increase public investment but to do so 'off-books' e.g. through the Ireland Strategic Investment Fund
 - Remains to be seen

Cap Ex

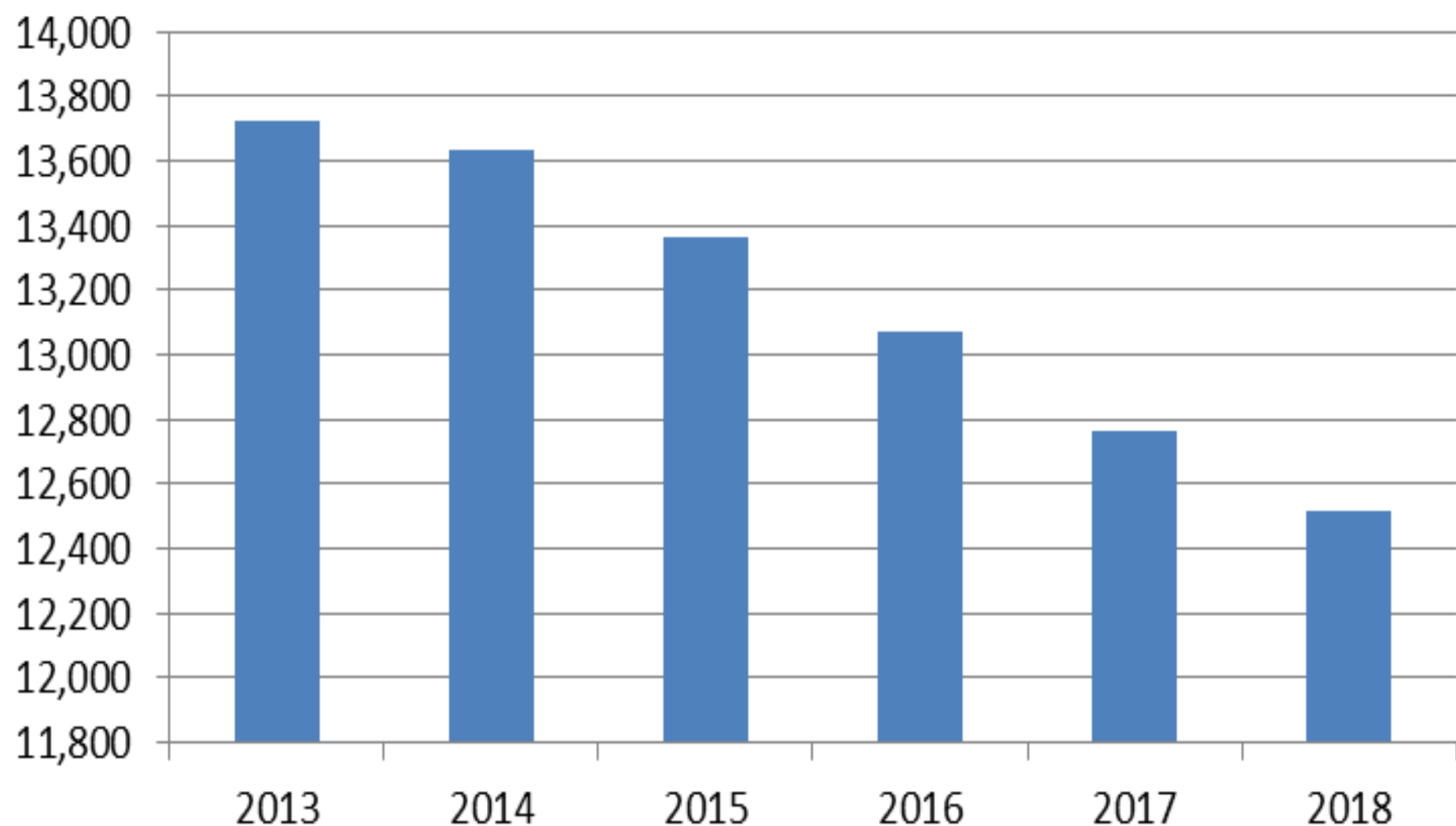
(Winners and Losers)

- Environment, Community and Local Government
 - + €217 million
- Justice & Equality
 - + €43 million
- Public Expenditure and Reform
 - + €14 million
- Transport, Tourism and Sport
 - - €29 million
- Communications, Energy & Natural Resources
 - - €21 million
- Education & Skills
 - - €16 million

Current Spending

- Nominal current spending is increased by €428 million in 2015
 - Health is up €305 million
 - Environment, Community and Local Government is up €122 million
 - Transfers from Social Protection (housing related); Irish Water
 - Education and Skills is up €60 million
- Real current spending per capita will fall year-on-year between 2013 and 2018
 - Context of falling unemployment (but aging demographics)
- Basic rates (e.g. state pension, carer's benefit, jobseeker's benefit) continue to decline in real terms as nominal levels are unchanged and inflation is in positive territory
- Rather than cutting taxes for higher earners it would have been better to begin reversing some of the more damaging cuts (e.g. mental health services, 18 to 24 jobseeker's allowance)

Real spending per capita (exc debt service)



Still Driving that Getaway Car?

- Double Irish remains for six more years for current beneficiaries but closed to new entries on the 1st of January 2015
- Patent Box (or 'Knowledge Development Box') to be introduced
 - Patent Box is being investigated by the Commission
- New Corporate tax breaks - €80+ million
- Reputational implications will become clearer over the months to come
 - Double Irish change is being reported positively abroad
 - Implications for double non-taxation
- OECD BEPS process will overtake developments in Ireland

Conclusion

- Public finances
 - Risky strategy
 - Debt dynamics remain fragile
- Economic assessment
 - Would have been smarter to use resources on public investment (consensus opinion in the academic community)
 - Missed opportunity
- Equity
 - 2015 menu of taxes and charges (water, USC, income tax) are regressive
- What type of economic and social model are we building?