

21 June 2016

FISCAL SPACE AND THE SUMMER ECONOMIC STATEMENT

1. Programme for a Partnership Government and the Summer Economic Statement

- The Programme for a Partnership Government includes five specific commitments that affect the use of fiscal space.
- The Summer Economic Statement complies with all these specific commitments made in the Programme for a Partnership Government and very positively proposes an even higher allocation to capital expenditure than previously envisaged.
- The table below lists those commitments and the extent to which the Summer Economic Statement complies with those commitments.

	Programme for a Partnership Government Commitment	Summer Economic Statement Compliance
1	Meet the domestic and EU fiscal rules	Compliant Nominal Budget balanced in 2018 Structural MTO achieved in 2018
2	At least a 2:1 split between spending / tax cuts	Compliant Ratio of 2:1 maintained in each year
3	Spend at least an additional €6.75 billion in delivering public services by 2021	Compliant Current expenditure in 2021 is €6¾ billion higher than the 2016 level
4	An additional €4 billion in exchequer capital investment up to 2021	Compliant and Exceeded Making use of the favourable treatment of capital in the Stability and Growth Pact rules capital will increase by just over €5 billion*
5	Establish a rainy day fund.	Compliant €1 billion a year to go to the fund in 2019 to 2021 with commitment to bring proposals for operational rules to the Oireachtas.

2. How much is the Fiscal Space?

- Total fiscal space over the 5 years is estimated to be a cumulative €11.3 billion.
- Critically the space for 2017 has increased to €1 billion with €1.2 billion in 2018.
- From 2019 – 2021 this increases to the order of €3 billion per annum (the increase arising after the MTO has been achieved in 2018).

- Of this, €1billion annually from 2019 onward goes to the Rainy Day Fund.
- The smoothing of capital formation under the rules means that fiscal space used for capital formation permits additional expenditure.
- The net fiscal space is calculated in compliance with Ireland’s obligations under the budget and structural balance rules.
- The table below sets out both the total value of the space and its distribution.

Indicative allocation of available net fiscal space 2017 – 2021

€ billions	2017	2018	2019	2020	2021	Cumulative
Net fiscal space	1.0	1.2	3.0	3.1	3.0	11.3
Allocated to:						
Expenditure	0.67	0.79	1.38	1.46	1.44	5.74
<i>Current</i>	0.61	0.61	0.95	1.02	0.98	4.16
<i>Capital</i>	0.06	0.19	0.43	0.45	0.46	1.58
Taxation	0.33	0.39	0.59	0.62	0.61	2.54
Rainy Day Fund	0.00	0.00	1.00	1.00	1.00	3.00
<i>Smoothing effects*</i>						
Total additional capital	0.25	0.75	1.18	1.38	1.59	5.14

3. How is the Fiscal Space distributed between tax cuts / spending / rainy day fund?

- Throughout the period to 2021 the ratio of fiscal space allocated to expenditure versus tax reductions is at or above 2:1 in all years and cumulatively.
- Over the period 51% of the cumulative fiscal space goes to expenditure, 23% to taxation and 27% to the Rainy Day Fund.
- In the years 2019 to 2021 about 1/3 of the space is allocated to the Rainy Day Fund.

Fiscal Space	2017	2018	2019	2020	2021	Cumulative
Expenditure %	67%	67%	46%	47%	47%	51%
Tax %	33%	33%	20%	20%	20%	23%
Rainy Day Fund %	0%	0%	34%	32%	33%	27%
Expenditure to tax ratio	2 : 1	2 : 1	2.3 : 1	2.4 : 1	2.4 : 1	2.2 : 1