

UCD School of Economics/Dublin Economics Workshop

Expenditure Control and Fiscal Consolidation

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'Responding to the Crisis', January 12th. 2009.



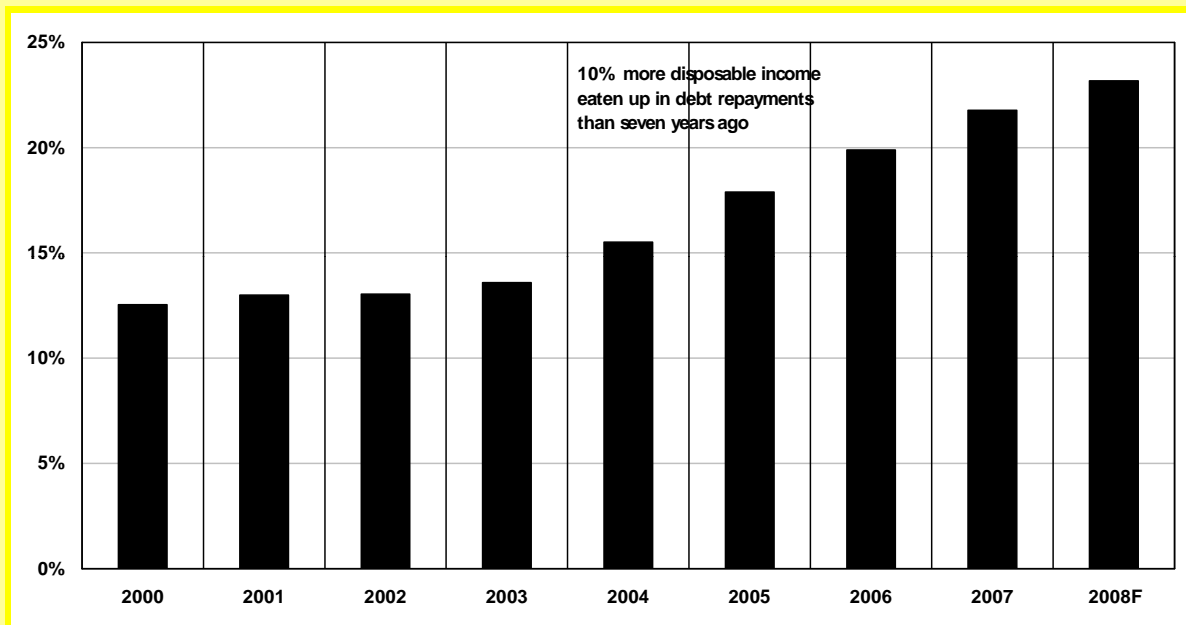
Fiscal Consolidation in Context.....

- There are four priorities in macro policy.
- Restore fiscal balance.....
- Resolve the banking crisis....
- Restore competitiveness....
- De-leverage the national balance sheet

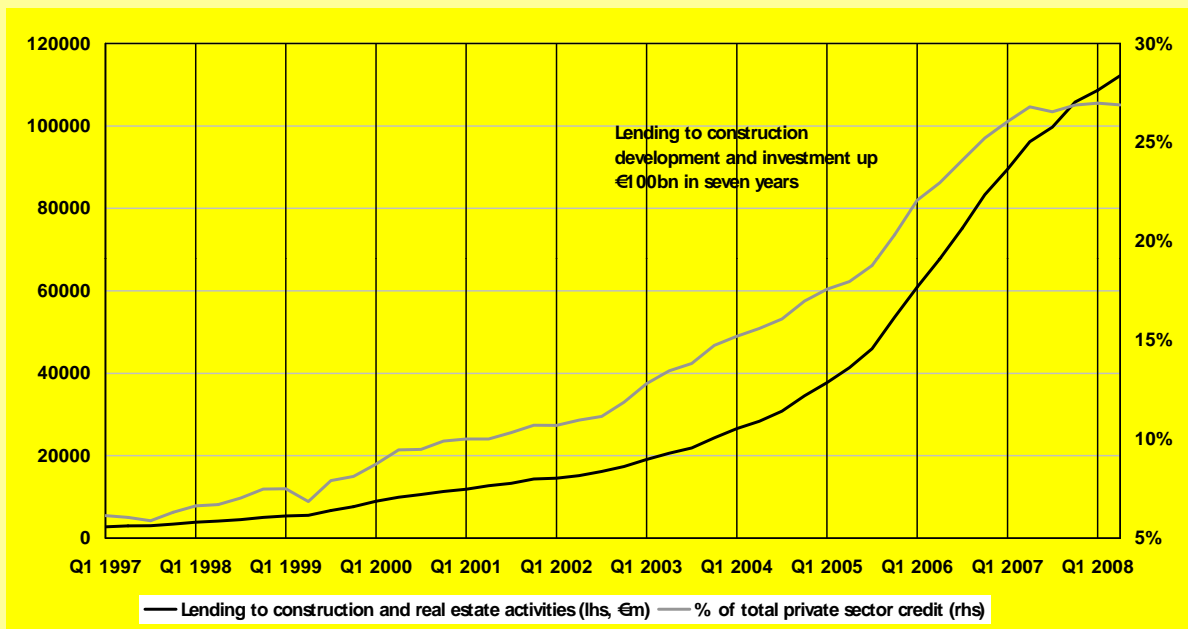
Managing the Balance Sheet

- The private sector now owes c. €400 bn to the banking system, one of the highest ratios to GNP in the world.
- De-leveraging seems to have commenced
- It requires not just an increase in saving but asset disposal to reduce debt
- The State is also funding a book of assets, principally the NPRF equity portfolio and State commercial company shares.

Personal Sector Debt Repayments to Income



Bank Lending to Property



State Balance Sheet.....

- As well as focussing on the GGB and net debt, policy needs to consider measures to de-leverage the State balance sheet
- There is also a debt-selection issue
- For the private sector, it is worth considering whether there are policy actions which would help accelerate the de-leveraging process

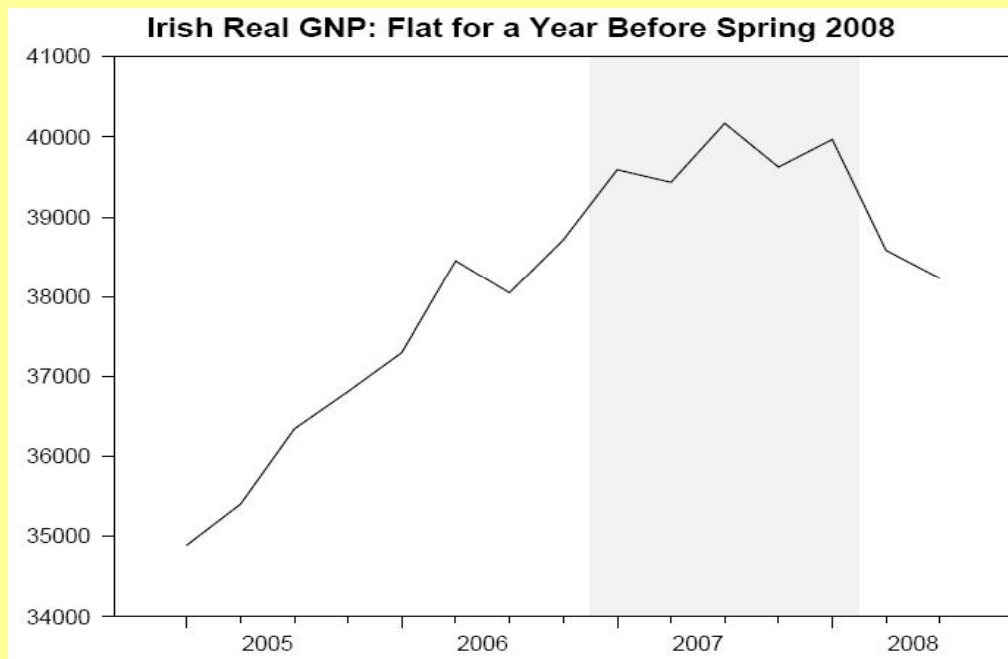
The Tiger Checked out 2002

(Assuming zero growth for all aggregates in 2008)

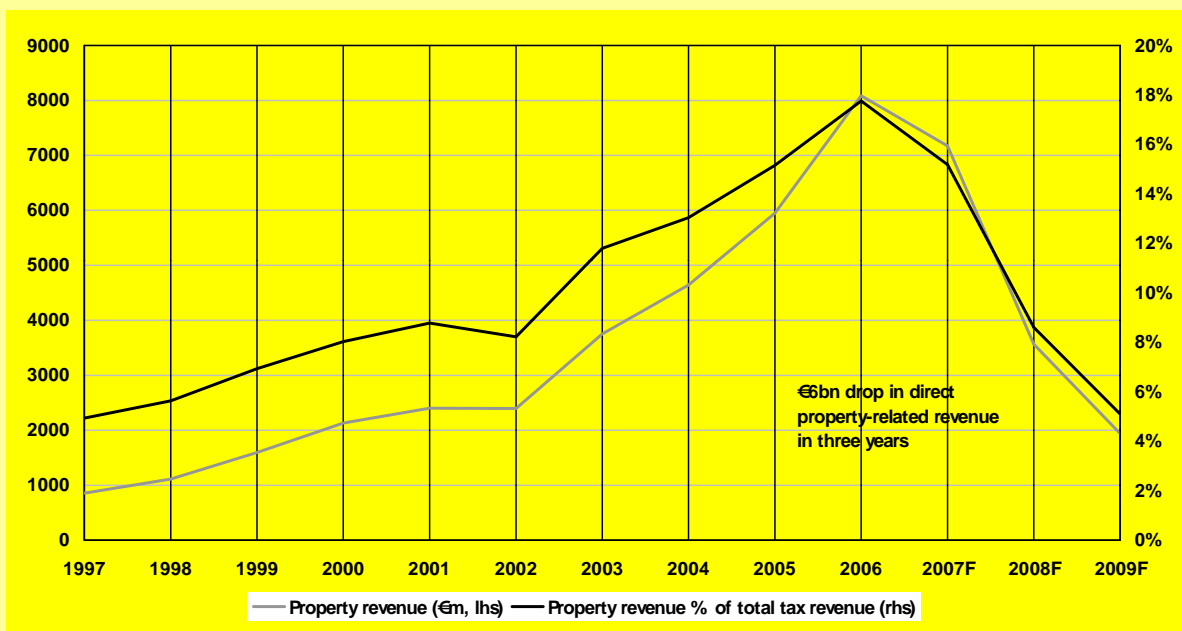
	1995 to 2002	2002 to 2008
• Real GDP	8.6	5.5
• Real GNP	7.2	5.3
• Real GNDI	7.0	3.7

(Adjusted for terms-of-trade)

Quarterly Numbers signalled downturn in '07...



Property-Related Taxes led the Collapse....



The Fiscal Deterioration.....

- GGB Deficit c. 10% in 2009 without policy changes
- And likely to be 10 to 12% for some years thereafter on the same basis.
- GGB Gross debt 41% of GDP at end 2008, heading for c. 50% at end 2009.
- Without policy change, and even without bank bail-out costs, annual borrowing at 10% + brings 100% debt into view fairly quickly, the lesson of the 1980s.

Raise Taxes or Cut Spending?

- Real Total Exchequer spending rose c. 6.5% in 2008
- Without policy change, will rise c. 6.3% in 2009.
- Significant tax increases have already been imposed
- Ireland will enjoy the fiscal stimulus packages of our trading partners

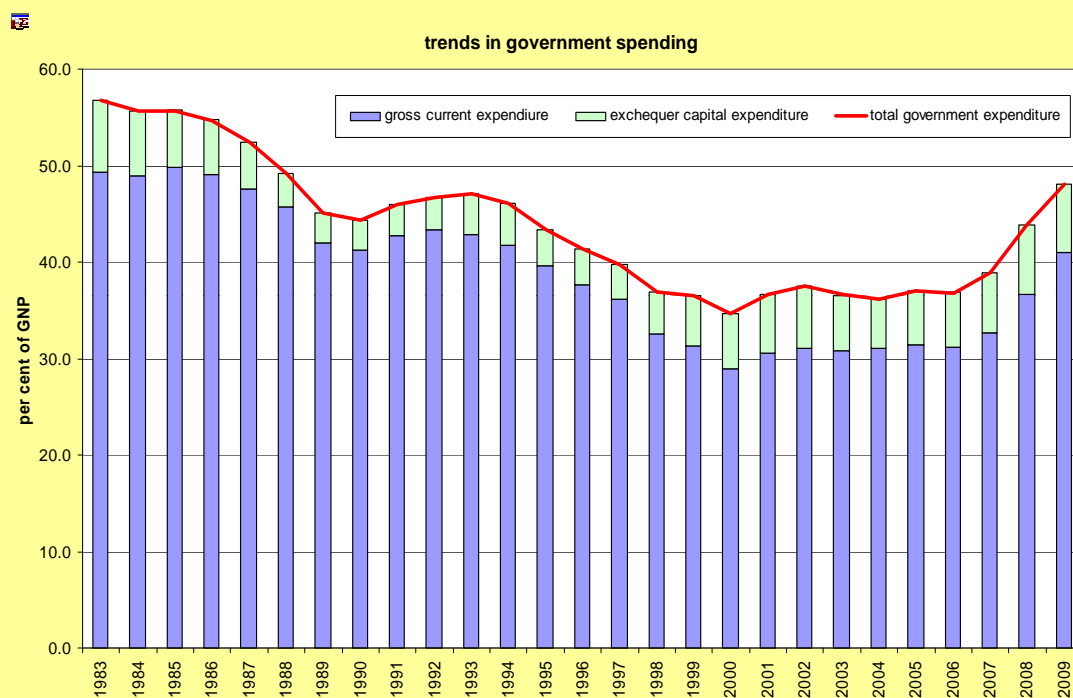
Comparisons with 1987...

- Far less low-hanging fruit back then
- Exchequer spending had been tightly controlled in early and mid-1980s
- Real cuts in 1987 to 1989 were small and mainly capital; current spending never fell in nominal terms.

Year	% Chg Current	% Chg TES	CPI
1987	4.1	2.7	3.1
1988	1.0	-1.3	2.1
1989	0.8	0.5	4.1
1990	6.6	7.0	3.3

Total Exchequer Spend as % GNP

GNP 2008/9 = ESRI estimates, spend 2009 = Budget



Real Growth, Total Exchequer Spending

Year	Spend % Chg	CPI %	% Real Growth*
2000	10.4	5.6	4.8
2001	16.1	4.9	11.2
2002	11.0	4.6	6.4
2003	7.7	3.6	4.1
2004	6.2	2.1	4.1
2005	11.1	2.5	8.6
2006	10.6	3.9	6.7
2007	11.9	4.9	7.0
2008e	10.7	4.2	6.5
2009f	4.3	-2.0	6.3

* Deflator = CPI; CPI 2008/9 = ESRI; Spend 2009 = Budget

Debt Selection and Balance-Sheet Management

- Ireland has never issued index-linked gilts. There may be sense in doing so over the next few years.
- Asset disposals do not help the GGB deficit, but they help de-leverage. Candidates include financial assets, commercial semi-States and real property.