



IFA BUDGET REPORT 2013

5 December 2012

1. Budget Overview

Budget 2013 sets out the expenditure reductions and taxation changes for the next 12 months, in line with the Government's *Medium-Term Fiscal Statement* and the programme of Financial Support, agreed with the EU/IMF. In total, an adjustment of €3.5b will be made, of which €1.4b is for current expenditure reductions, €0.5b capital expenditure and €1.4b in taxation increases.

The main changes in public expenditure and taxation affecting farm businesses and families are set out below.

2. Main Changes to Public Expenditure

2.1 Agriculture Budget

2.1.1 Current expenditure

Suckler Cow Welfare Scheme: The existing scheme will be replaced by a new breeding scheme, which will pay €20/cow with a ceiling of 20 cows qualifying for payment per farm.

Disadvantaged Areas: Reduction in the maximum area payable from 34 to 30ha. This reduction will not be applied to farmers in mountain grazing areas.

REPS / AEOS: Funding allocation of €200m for AEOS 1, 2 & 3 and REPS 4 – no change in payment rates, but some payments will carry forward to 2014.

Discussion Groups: Funding allocation of €5m for beef discussion groups, €3m for sheep and €1m for dairy (new entrants only).

Sheep Grassland: Funding cut of 22% from €18m to €14m.

2.1.2 Capital Expenditure

Forestry: Maintenance of forestry premium and funding for a planting programme of 7,000ha in 2013.

TAMS: Funding of €10m for dairy modernisation and €3m for sheep fencing scheme. Additional funding for the grants due for pig and poultry welfare.

Horticulture: Funding allocation of €3.25m for horticulture sector for 2013.

2.2 Other Expenditure & Social Welfare Changes

2.2.1 Social Protection

Farm Assist: income and child disregards being abolished. This will reduce payments by at least €10/week, depending on family circumstances.

Child benefit: Rate reduced by €10 per child per month.

Household benefits package: Reduced support for telephone allowance scheme and electricity allowance.

2.2.2 Health

Prescription charge: For medical card holders increase from 50c to €1.50 per item.

2.2.3 Education

Third level student contribution: Increased by €250 in 2013, 2014 and 2015. No mention of asset test for maintenance grants in budget.

3. Taxation Measures

3.1 Agricultural Taxation

VAT Refund: The flat-rate VAT refund is being reduced from 5.2% to 4.8% from 1 January 2013.

CGT Relief on Farm Consolidation: Capital gains tax relief will apply where the proceeds of sale of farm land are reinvested to restructure farms.

Extension of Stock Relief: Both the general 25% Stock Relief and the 100% Relief for young trained farmers are being extended to end 2015.

Stamp Duty Relief for Young Trained Farmers: This relief will be renewed in 2013.

Farm Partnerships: The definition of registered farm partnerships is being broadened to include non-dairy farmers for the special 50% Stock Relief rate.

3.2 General Taxation Measures

Property Tax: A tax on residential property is being introduced from 1 July 2013. The rate will be 0.18% of market value up to €1m. For very high value houses, the value over €1m will be taxed at 0.25%. It will apply for half of 2013.

CAT & CGT Rates: The rates of Capital Acquisitions Tax and Capital Gains Tax are increased from 30% to 33% from 5 December 2012.

CAT Threshold: Tax free thresholds for CAT for all groups is reduced by 10%.

PRSI: The minimum payment for self-employed is to be increased from €253 to €500/year. For employees, the €127/week income exemption limit is being removed.

Motor Taxes: Annual road tax is being restructured and increased. Also VRT on new cars is being restructured and increased. In both cases, the relationship with CO₂ emission rates continues.

Carbon Tax: No increase in carbon tax on farm diesel. It is being extended to solid fuels on a phased basis; a rate of €10/t from 1 May 2013 and €20/t from 1 May 2014.

Auto-diesel excise: Rebate on diesel for licensed road hauliers will apply from 1 July 2013.

4. Economic and Budgetary Outlook

Economic Growth (GDP:) Projected to grow by 1.5% in 2013, rising to 2.9% by 2015.

Government Deficit: Projected to be €12.6b or 7.5% of GDP in 2013, reducing to 2.9% in 2015.

Government Debt: GDP ratio: Projected to rise to 121% in 2013, falling to 117% in 2015.

Unemployment rate: Projected to be 14.6% in 2013, falling to 13.1% by 2015.

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1 Introduction - Background to Budget 2013

Ireland has been implementing the EU/ECB/IMF programme of funding agreed in late 2010, and has achieved the broad budgetary targets of the programme in 2011 and 2012. This has been achieved through the implementation of significant consolidation measures to reduce public spending and increase revenue. However, the resumption of economic growth has been at a lower level than anticipated, with a projected growth of 0.9% and 1.5% in 2012 and 2013, compared with projections of 1.3% and 2.4% 12 months ago. The strong performance of the exporting sector over the past two years, notwithstanding the weak economic position of our main trading partners, has offset the effect of the contraction in public spending, consumer spending and in the construction sector.

However, a large gap remains between government expenditure and revenue, and, with lower than expected growth, there is a requirement for further significant expenditure and tax consolidation measures in this and the next two budgets. In 2012 Ireland has a gap of €13.3b, or 8.2% of GDP, between public expenditure and tax revenue. Also, Ireland's Government debt, at 118% of GDP, is one of the highest in the euro, and the growing cost of servicing this debt is a significant constraint on recovery. In 2013, the Government will continue to seek some relief from the debt burden, both on the "promissory notes" used to meet the losses in the failed banks and the cost of recapitalisation of the surviving banks.

In recent months a significant outcome of the consolidation achieved to-date has been the reduction in interest rates on Irish Government debt, which has also been facilitated by a more effective role by the European Central Bank in managing euro interest rates generally. The Irish state and main banks have made a limited return to the financial markets recently for the first time since the autumn of 2010. This indicates that a return to the financial markets for borrowing requirements may be achievable on conclusion of the programme of funding at end 2013.

The Government strategy for the 2013 budget is in line with the EU/IMF rescue programme, and involves a further €3.5b in fiscal consolidation. €2.25b of this comes from expenditure cuts, of which €1.7b is current spending and €0.55b is capital. €1.25b is to be achieved from increased revenue, with €1.03b of this coming from new measures and the remaining €0.22b from a carry forward of existing measures.

2 Public Expenditure Changes

2.1 Agriculture Budget

2.1.1 Summary of Expenditure for Department of Agriculture (DAFM)

The 2013 allocation for the Department of Agriculture is €1.24b, which is a reduction of 5% on the 2012 allocation. When receipts from €261m (EU co-funding for Rural Development programmes and Farmer Levy contributions) are included, the net Government allocation to Agriculture in 2013 is €983m.

In addition, funding of €6m has been carried from unspent capital funding into 2013, increasing the total funding allocation to €989m.

Table 2.1: Summary of Expenditure for the Department of Agriculture (€000s)

DAFF (€000s)	2012 estimate	2013 allocation	Change from 2012 (€000s)	% change from 2012
Gross expenditure	1,312	1,244	-68	-5%
Less Receipts	370	261	-109	-29%
Net expenditure	942	983	41	4%

A detailed breakdown of the Agriculture budget has not been provided in this year's budget; however, the following is a summary of some of the main funding allocations for the budget in 2013 outside of the farm schemes.

Table 2.2 Summary of main funding allocations outside of farm schemes

Heading	Funding allocation 2013 (€m)
Pay and administration	€227
Teagasc	€112
Bord Bia	€29
Horse and Greyhound Fund	€55
Research	€19
Marine and Fisheries	€59

2.1.2 Current Expenditure changes

2.1.2.1 REPS/AEOS

There is no change in payment rates for REPS 4 or the AEOS scheme. The 2013 allocation is €200m which will pay all farmers their 75% payment by year end as well as some of the 25% final payment. The carryover of payments from 2012 to 2013 will be significantly less than last year as the full 2012 allocation of €243m is likely to be spent.

2.1.2.2 Disadvantaged Areas

The allocation for the Disadvantaged Areas in 2013 is increased from €190m to €195m. However, due to the fact that the savings in 2012 were not achieved, further changes to the 2013 scheme will apply. This involves a cut in the maximum area for payment from 34ha to 30ha. This will apply in more severely handicapped and less severely handicapped areas. 24,000 farmers in Mountain Grazing areas are unaffected.

The maximum payment in MSH areas reduces from €3,263 to €2,880 and in LSH areas from €2,799 to €2,468. In addition, farmers in mountain grazing areas who have no sheep will not qualify for the mountain top-up of €109.70/ha on the first 10ha but instead will qualify for the basic MSH payment of €95.99/ha.

2.1.2.3 Suckler Cow Welfare Scheme

The Suckler Cow Scheme has not been renewed and will be replaced by a more limited measure - the Beef Data Programme. The cost of this new measure will be €10m and will be funded from unused SFP funds. It will be paid at a rate of €20/cow up to a maximum of 20 cows and a total maximum payment of €400. For a 40 suckler farmer the payment will decrease from €1,600 under the existing suckler scheme to €400 under the new scheme.

2.1.2.4 Discussion Groups

Sheep: €3m has been allocated to a new Sheep Technology Adoption Programme with a maximum payment of €1,000.

Beef: €5m has been allocated to Beef Technology Adoption Programme for 2013.

Dairy: The general Dairy Discussion Grant support has come to an end but €1m is being provided to allow new entrants to participate.

2.1.2.5 Sheep Grassland Scheme

The overall allocation to the Sheep Grassland Scheme is being cut from €18m to €14m, i.e. a cut of 22% across all rates.

2.1.3 Capital Expenditure

2.1.3.1 Forestry

Forestry: The forestry programme received a funding allocation of €116m. This will support an afforestation programme of approximately 7,000 hectares and premiums rates will be maintained at current rates. This level of funding will also maintain funding for the Forest Road Scheme, and the tending and thinning of the broadleaves element of the Woodland Improvement Scheme.

2.1.3.2 Farm Investment Grants – TAMS

The allocation across all the TAMS schemes is maintained for 2013. This will be sufficient to meet the demands of the Dairy Equipment, Sheep Handling & Fencing, Pig & Poultry Welfare and Water Harvesting Schemes.

2.1.3.3 Horticulture

Capital funding of €3.25m has been allocated for horticulture in 2013.

2.2 Other Expenditure and Social Welfare Changes relevant to Farm Families

2.2.1 Social Protection

2.2.1.1 Farm Assist

The income and child disregards in the means test for Farm Assist have been abolished. This will significantly impact on current recipients of Farm Assist (over 11,000), as well as new applicants.

As an example, a married farmer with 2 dependent children on a farm income of €300/week will see the payment of Farm Assist reduce from €121.55/week to €72.40/week. This is a reduction of €49.15/week or €2,555/annum. Over the last two budgets the payment of Farm Assist in this example has reduced by €96.83/week (the disregard was halved in Budget 2012).

2.2.1.2 Rural Social Scheme

There is no increase in the number of places on the Rural Social Scheme which has been set at 2,600 for 2013.

2.2.1.3 Unemployment Payments and State Pensions

The State Pension rates (contributory and non-contributory) and Jobseekers Allowance remain unchanged.

Table 2.4: Main Social Welfare Payments €/week

Scheme	Rate	2012 and 2013
Pension – Contributory	Single (Under 80)	230.30
	With Qualified Adult (under 66)	383.80
	With Qualified Adult (over 66)	436.60
Pension – Non-Contributory	Single	219.00
	With Qualified Adult	363.70
Jobseeker’s Allowance (adult over 25 years of age)¹	Single	188.00
	With Qualified Adult	312.80
Farm Assist	Single	188.00
	With Qualified Adult	312.80

2.2.1.4 Child Benefit

The Child Benefit monthly rate has been reduced to €130 per child in respect of the first, second and third child. The rate for the fourth and each subsequent child has been reduced to €140 per month and will be further reduced to €130 per month in January 2014.

2.2.1.5 Household package

The following changes have been made to the Household Benefits Package:

- The value of the Telephone Allowance has been reduced to €9.50 per month; the allowance will show as a credit on the customer's bill or will be paid as a cash allowance.
- The Electricity/Gas Allowance will be set at a single rate based on the average market rate across all suppliers currently available (for an unchanged 150 units per month). The new rate of €35 per month will show as a cash credit for those who receive a bill or be paid as a cash allowance.

2.2.1.6 Carers Respite Grant

The Respite Care Grant to Carers has been reduced to €1,375.

2.2.2 Health

The Department of Health budget allocation is €14,024m. Changes to the health budget include:

- The Medical Card Prescription charge has been increased from 50c to €1.50.
- The monthly threshold for the Drugs Payments Scheme is being increased from €132 per month to €144 per month with effect from 1st January 2013.
- The income level has been reduced for persons over the age of 70 for medical card entitlement. The new income threshold is €600 per week for a single person and €1,200 for a couple. Those that are now exempt will be entitled to a GP only card.
- Funding of €35m was retained for the development to Mental Health Services in line with the blueprint set out in “Vision for Change”.

2.2.3 Education

- The student contribution at third level will rise by €250 to €2,500 in 2013 and will increase by €250 in 2014 and 2015, to a maximum of €3,000.
- There has been a 3% reduction in the income threshold for entitlement to student grants.
- No details were announced on proposed changes to the means test for third level grant.

¹ Note: Lower payment rates apply for adults aged 18-24

3 Taxation Measures

The Government's *Medium-Term Fiscal Statement 2013 – 2015* sets out a commitment to an increased tax yield of €1,250m in 2013; €1,030m in new measures and €220m in carry forward from 2012. The following are the main taxation changes announced in the 2013 budget.

3.1 Agricultural Taxation

3.1.1 CGT Relief for Farm Consolidation

Relief from Capital Gains Tax on disposals occurring for farm consolidation is being introduced. The sale and purchase of the farm land must occur within 24 months of each other and the initial sale or purchase transaction must occur within the period commencing 1 January 2013 and ending on 31 December 2015. The relief will also apply to farm land swaps, subject to certification by Teagasc for all transactions seeking relief. The commencement of the relief is subject to receipt of EU State Aid approval.

3.1.2 Capital Acquisitions Tax and Capital Gains Tax Rates

The current rate of 30% of CAT is being increased to 33%. This increase applies in respect of gifts or inheritances received after 5 December 2012.

The current group tax free thresholds for CAT are being reduced by 10%. This reduction applies in respect of gifts or inheritance taken after 5 December 2012.

The rate of CGT is also being increased from 30% to 33%. This applies to disposals made after 5 December 2012.

3.1.3 Stamp Duty Relief for Young Trained Farmers

While not mentioned in the Budget on 5 December, it has since been clarified by the Minister for Agriculture that Stamp Duty Relief for Young Trained Farmers will be renewed in 2013, details of which will be contained in the Finance Bill.

3.1.4 Stock Relief

The 25% Stock Relief for all farmers and the 100% relief for Young Trained Farmers is being extended for a further three years to end 2015.

As regards registered farm partnerships, the definition is to be extended to include other registered partnerships such as beef production partnerships for the purposes of the 50% rate of stock relief. This is subject to EU State Aid clearance.

3.1.5 Flat-Rate VAT Refund

The flat-rate VAT refund is to be reduced from 5.2% to 4.8% from 1 January 2013. This is reviewed annually, based on the most recent three year figures for farm sales and purchases at national level.

3.1.6 Measures to support the SME Sector

Some of the measures included are relevant to farmers and agri-business firms, such as the increase in the VAT cash receipts basis threshold from €1m to €1.25m, effective from 1 May 2013. Also included is the joint initiative by Revenue and the Department of Finance on the Taxation of Micro Enterprises – Reduction in Compliance Costs. The Minister for Finance also published a public consultation paper on a micro business tax on Budget day.

In addition, measures to strengthen the Credit Review Office will be introduced, including extending the team of available reviewers for the CRO and publication by the CRO of specific guidance for SMEs on accessing credit from banks.

3.2 General Taxation Measures

3.2.1 Income Tax

3.2.1.1 Income Tax Rates, Bands and Personal Tax Credits

Income tax rates, bands and personal tax credits remain unchanged. Maternity benefit is to be taxable from 1 July 2013.

3.2.1.2 Pension Contributions

Tax relief on pension contributions will be confined to a level which would deliver a pension income of up to €60,000/year; this will apply from 1 January 2014. Tax relief will continue at the marginal tax rate. The Pensions Levy will not be renewed after 2014.

3.2.1.3 AVCs

Persons with AVCs will be able to withdraw up to 30 per cent of their value. Any amounts withdrawn will be subject to tax at the individual's marginal rate. The option will be available for a 3 year period from the passing of Finance Bill 2013.

3.2.2 PRSI

3.2.2.1 PRSI for self-employed

The standard rate of PRSI for self-employed workers (Class S) remains at 4% of reckonable income. However, the minimum annual contribution has increased from €253 to €500.

3.2.2.2 PRSI for employees

For employees, the standard rate of PRSI remains at 4%. However, the PRSI free allowance of €127/week has been removed, resulting in an annual increase in PRSI of €260/year.

In addition, PRSI will now be charged on unearned income, such as rent, share and dividend income (this already applied to self-employed).

3.2.3 Universal Social Charge

The Universal Social Charge is increased from 4% to the standard rate of 7% for those aged 70 and over who have income of more than €60,000 per year.

3.2.4 Property Tax

A value-based property tax on residential property will apply from 1 July 2013. This will be at a rate of 0.18% of the market value of the house up to €1m. A rate of 0.25% will apply to any excess over €1m. As the tax is only commencing in July, the tax in 2013 will be half the rate of the annual tax.

The Property Tax will be collected by Revenue and, among other payment options, individuals can elect to have the tax deducted at source, including from pay and pension, Social Welfare payments and other payments such as the Single Farm Payment. Where a liable person fails to submit a return, the Revenue Commissioners may instruct the employer, pension provider or Government Department to deduct the payment.

Table 3.1 Example of property tax (annual rate)

House value band	Estimated property tax
€0-€100,000	€90
€100,000-€150,000	€225
150,000 - €200,000	€315
€200,000 - €250,000	€405
€250,000 - €300,000	€495
€300,000 - €350,000	€585
€350,000 - €400,000	€675

The 0.18% rate is fixed for the lifetime of the Government but a “local decision factor” allowing local authorities to vary the rate by up to +/- 15% will apply from 2015.

The Household Charge will cease with effect from 1 January 2013. The Non-Principal Residence (NPPR) Charge will cease from effect from 1 January 2014. However, unpaid arrears together with any interest and penalties that have accrued will remain a charge on the property to which they relate.

3.2.5 Motor Taxation

Annual motor tax is being restructured and generally increased to yield an extra €100m/year. The changes to motor tax are set out in table 3.2 below.

Table 3.2 Motor tax

Motor tax band	Existing rate €	New rate (from 1/01/2013) €
A.1: 1 - 80g	160	170
A.2: 80 - 100g	160	180
A.3: 100 -110g	160	190
A.4: 110 – 120g	160	200
B.1: 120 – 130g	225	270
B.2: 130 – 140g	225	280
C: 140 – 155g	330	390
D: 155 – 170g	481	570
E: 170 – 190g	677	750
F: 190 – 225g	1,129	1,200
G: >225g	2,258	2,350

VRT on new cars is being restructured and increased. The link with CO₂ levels continues. This is projected to yield an extra €50m/year.

3.2.6 Excise

Alcohol: Excise duty on all products is increased from 5 December 2012, e.g. 10c/pint beer.

Tobacco Products: Excise duty is increased by 10c/pack of 20, with pro-rata increases for other products.

3.2.7 Carbon Tax

The carbon tax on agricultural diesel, auto diesel and petrol is not increased.

The carbon tax will be extended to solid fuels on a phased basis. A rate of €10 per tonne will be applied with effect from 1 May 2013 and at a rate of €20 per tonne from 1 May 2014.

4 Economic and Budgetary Outlook

4.1 The National Economy

The outlook for the national economy is moderately positive for the period 2013-2015. The economy (measured by GDP) recovered slightly in 2012, with a projected growth of 0.9%.

While it is expected that there will be some economic growth in the next three years, this will be at a low rate of 1.5% in 2013, rising to almost 3% in 2015. The projected low growth rates are influenced by the downturn in the euro economy, combined with very low growth levels in the UK economy. This will impact negatively on exports, while the continued decline in real disposable incomes will impact negatively on domestic consumption. Unemployment is expected to remain above 14% until 2015.

Table 4.1: Economic Outlook (% Volume Changes)

	2012	2013	2014	2015
Gross Domestic Product (GDP):	0.9	1.5	2.5	2.9
Gross National Product (GNP):	1.4	0.9	1.7	2.1
Expenditure on GNP:				
Personal consumption:	-2.0	-0.5	1.0	1.2
Public consumption:	-4.0	-2.7	-2.3	-1.5
Fixed investment:	-3.8	3.2	8.3	4.4
Exports:	3.0	3.3	4.3	4.8
Imports:	0.0	2.3	3.9	3.8
Inflation (HICP)	2.1	1.7	1.8	2.0
Employment growth (%)	-0.7	0.2	0.9	1.3
Unemployment rate (%)	14.9	14.6	14.1	13.1

4.2 Public Finances

4.2.1 Budget balance

In its Memorandum of Understanding with the EU/IMF/ECB, Ireland has committed to restoring balance to its Public Finances by 2015, with a projected budget deficit in that year of 2.9%.

There has been an adjustment of €3.5b in the public finances in the 2013 Budget, of which €1.4b is for current expenditure reductions, €0.5b capital expenditure and €1.4b in taxation increases.

Total public expenditure (current and capital) in 2013 will be almost €58b, while Government revenue will be €42b. The predicted effect of increased taxes and reduced public expenditure is a General Government Deficit in 2013 of €12.6b or 7.5% of GDP, down from 8.2% in 2012.

A summary of projected expenditure, revenues and government balance for 2012-2015 is outlined in Table 4.2.

Table 4.2: Budgetary Projections 2012-2015 (€m)

Heading	2012	2013	2014	2015
Expenditure				
Gross Current – Voted	52,315	51,070	49,230	47,780
Gross Current – Non-voted	8,115	9,720	10,265	10,740
less Expenditure Receipts & Balances	10625	10870	11050	11295
Total Net Current Expenditure	49,805	49,920	48,445	47,225
Total Net Capital Expenditure	6,820	7,810	7,170	6,855
Total Expenditure	56,625	57,730	55,615	54,080
Revenue				
Tax Revenue	36165	37950	40705	43175
Non-Tax Revenue	2770	2360	1785	1730
Capital Resources	1960	2020	1580	1615
Total Revenue	40,895	42,330	44,070	46,520
Exchequer Balance	-15,730	-15,400	-11,545	-7,565
Technical Adjustment ²	2,425	2,755	2,640	2,240
General Government Balance	-13,305	- 12,645	- 8,905	-5,325
As a % of GDP	-8.2	-7.5	-5.1	-2.9

4.2.2 Costs of Servicing the National Debt

The growth of Ireland's national debt is impacting negatively on the overall budget balance, as a result of the large increase in the annual interest payment required to service the national debt. This has resulted in a much slower movement to budgetary balance, despite the large adjustments to voted expenditure and taxation that have been undertaken over the past six budgets. Overall, in 2013, interest payments on the national debt will cost €9.4b.

In 2007 just less than 3% of all Government revenues were required to meet the State's debt interest expenditure obligations. In 2012, the equivalent figures will be over 11%, or almost two-thirds of all the revenue the State will collect in VAT. The interest/revenue ratio is forecast to rise further in 2013, before stabilising at around 16% in 2014 and 2015. This is outlined in table 4.3.

Table 4.3: Projected General Government Interest Expenditure 2012-2015

€ billions	2012	2013	2014	2015
Total Debt Interest	6.3	9.3	9.7	10.1
<i>o/w Accrued Promissory note interest</i>	.02	1.9	1.8	1.7
Interest as a % of Government revenue	11.3	16.1	16.0	15.9
Interest as a % of GDP	3.9	5.5	5.5	5.5

² Adjustments to conform with EU budgeting rules

4.2.3 Debt analysis and sustainability

The level (stock) of Government Debt has increased hugely over the past 5 years, from €45b in 2007 to €169b in 2012. With budget deficits projected over the coming three years, it will continue to increase.

The debt:GDP ratio is used as one measure of the sustainability of the public finances. Under the terms of the Stability and Growth Pact (and enhanced through the Fiscal Treaty ratification in 2012), a euro member state with a debt:GDP ratio above 60% must move towards the 60% debt:GDP level over a 20 year period³. In addition, with relatively low projected GDP growth in 2013, the ratio of Government Debt to GDP continues to rise. The debt:GDP ratio rose to 118% of GDP in 2012 and is projected to peak at 121% in 2013. The aim of the Government is to achieve a primary budget surplus in 2014 (that is a positive balance between expenditure and revenue, excluding debt servicing costs), leading to a reduction in the debt:GDP ratio from that point.

Table 4.4: Government Debt

Year	2012	2013	2014	2015
Government Debt €b	169	192	204	209
Government Debt as a % of GDP	118%	121%	120%	117%

4.2.4 Further Fiscal Consolidation required

The €3.5b fiscal consolidation in 2013 comes on top of similar adjustments of €6b in 2011 and €3.4b in 2012. The EU/IMF programme requires further adjustments of €5.1b in Budgets 2014 and 2015. Of this amount, €3.3b of the adjustment will be achieved through expenditure reductions, with €1.8b in taxation increases. The financial support under the programme ends in 2013 and it is projected that the Irish state should be in a position to return to the financial markets for funding after next year.

Table 4.5: Estimate of Consolidation required to achieve exchequer targets (€b)

Year	2013	2014	2015
Expenditure	1.94	2.0	1.3
<i>O/w current Expenditure</i>	1.44	1.9	1.3
<i>O/w capital expenditure</i>	0.5	0.1	0.0
Taxation Measures	1.43	1.1	0.7
<i>O/w New Measures</i>	1.21	0.9	0.6
<i>O/w Carry Forward of existing measures</i>	0.22	0.2	0.1
Increased Dividends	0.1		
Total Consolidation Amount	3.5	3.1	2.0

4.2.5 Analysis of Future Outlook

As a small open economy, Ireland's recovery will continue to be heavily dependent on export growth and government actions must not undermine the competitiveness and growth potential of the exporting sectors. Growth in our main trading partners will be critical component of Ireland's economic recovery. The recent indicators of moderate growth in the US are to be welcomed, while the UK economy has returned to growth, albeit at a very low level. It is important that measures to encourage growth are prioritised in the Euro economy.

³ For Ireland, this requirement commences in 2018, three years after exit from the current Excessive Deficit Procedure

This includes improving the functioning of the banking system through some level of banking union, and agreement on the EU budget from 2014-2020 including a strongly funded CAP budget and measures to improve competitiveness and infrastructure and to increase research.

At a domestic level, it is critical that, during 2013, the Government revises the policy of ring-fencing certain major expenditure items. The exclusion of elements of the expenditure envelope from consideration in the budgetary process is inequitable, and is resulting in much greater and more damaging cuts being imposed on remaining expenditure items, including programmes and services. This is not a sustainable strategy, and a more equitable balance of expenditure adjustment must be achieved.

Finally, agreement with Ireland's euro partners on measures to improve Ireland's debt position remains a priority. This requires agreement with the ECB on a more sustainable annual repayment rate for the promissory notes issued by the Irish Government to meet the debts of the IBRC. For the remaining functioning banks, which were recapitalised by the Government, it remains uncertain what will be the scope of any agreement that may be reached to reduce Ireland's overall debt levels. It is likely that a deal, if agreed, would involve funding from the new bank rescue fund, the ESM, in return for a shareholding in the Irish banks.