



IFA Report on the 2009 Supplementary Budget

SUMMARY OF KEY MEASURES IN SUPPLEMENTARY BUDGET

Key Changes to Department of Agriculture Budget

- **REPS** - The budget for REPS has been reduced by €25m from €355m to €330m. Payment rates under REPS 4 are being reduced by 17%. The level of REPS 3 payments to farmers will be reviewed based on the number that apply for the REPS 4 Scheme.
- **Fallen Animal Scheme** - the Fallen Animal Scheme was abolished, involving a DAFF saving of €14 million.
- **Forestry** - The Forestry premium is to be cut by 8%, or up to €7.5 million. This will apply to existing and new applicants premium.
- **Pork Dioxin Crisis** - A special allocation of €165 million is provided in 2009 to meet the cost of the Pigmear crisis of December 2008.
- **Farm Waste Management Scheme** - A further €95 million was allocated by the DAFF to the Farm Waste Management Scheme, bringing the total to €220 million for 2009.
- **Suckler Cow Welfare Scheme** - the payment rate for the Suckler Cow Welfare Scheme in 2009 but paid in 2010 will be €40/head.

Key Taxation and Social Welfare Changes

- The **Income Levy** is to be doubled for the remainder of the year, with a rate of 2% for incomes above €15,028, 4% on income above €75,036 and 6% above €174,980;
- The **Health Levy** rates double to 4% (income above €26,000) and 5% (income above €75,036);
- The rate of **Capital Gains Tax** and **Capital Acquisitions Tax** increase from 22% to 25% with CAT thresholds reduced by 20%;
- The monthly payment of the **Early Childcare Supplement** is to be halved from May and abolished at the end of the year; and
- **Jobseekers Allowance** for under-20s is to be halved to €100/week.

Economic Outlook

- Reduction of **Public Expenditure** of €1.4 billion, with a **Taxation** increase of €1.8 billion for remainder of 2009;
- This is projected to result in a **Government Deficit** in 2009 of €18.4 billion, or 10.75% of GDP;
- The Government **Debt: GDP ratio** will increase to 59%;
- **Unemployment** is projected to continue to increase and average 12.5% for 2009; and
- **Inflation** is projected to fall by 3.9%.

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1 Introduction - Background to Supplementary Budget 2009

On 3rd March, the Government, taking account of the shortfall in tax revenues in the first two months of the year and a projected expenditure overshoot, fuelled by increasing unemployment-related payments, announced its decision to present a supplementary budget for 2009 on April 7th.

The supplementary budget involves a combination of further taxation and expenditure adjustments to address this year's projected shortfall. This is in addition to the €2 billion reduction in public expenditure announced in early February, which included the introduction of the public service pension levy.

The first quarter of the 2009 has seen a weakening of economic activity in all sectors. The unemployment rate rose to 11% in March with over 370,000 on the live register, while a severe drop in consumer demand has led to falling prices, or deflation.

By the end of March, tax revenue was down €2.6 billion on the first 3 months of 2008, while expenditure was €680 million above the 2008 figure. These trends indicated that the budget deficit in 2009 would be as high as €23 billion unless further corrective action was taken.

As a member of the Euro, the Irish Government is required to keep its public finances in order and has agreed to bring its Budget Deficit back into line with the terms of the Stability and Growth Pact within 5 years, with a projected deficit of less than 3% by 2013.

Finally, the Government has been facing higher costs in raising borrowed funds on the international markets. In order to ensure that it can raise sufficient funds, at a competitive price over the coming year, it must restore its credibility to control the deteriorating economic situation. The measures introduced in the Supplementary Budget are part of a series of steps to correct the Public Finances over a number of years.

This report is divided into the following sections:

- Section 2 outlines the changes in government expenditure in relation to Agriculture for the remainder of 2009;
- Section 3 identifies the main Taxation and Social Welfare measures that have been introduced in the Supplementary Budget 2009; and
- Section 4 provides a summary of the Public Finances and National Economy.

2 Expenditure on Agriculture – Revised Estimates For 2009

2.1 Department of Agriculture, Fisheries and Food (DAFF)

The following is a summary of the gross expenditure by the Department of Agriculture, Fisheries and Food (DAFF), the receipts to the Department (mainly from the EU), and the net expenditure for 2008 and 2009. (The estimates do not include expenditure fully funded by the EU, such as the Single Payment, but gross expenditure includes measures part-funded by the EU, and the EU funding element is deducted under “receipts”).

Table 2.1: Summary of Expenditure by Department of Agriculture

DAFF (€m)	2008 outturn	2009 estimate	2009 revised estimate	% change from 08 outturn
Gross expenditure	2,102	1,803	1,985*	-5.6%
Receipts	408	363	386	-5.4%
Net expenditure	1,693	1,440	1,599	-5.6%

(* Including €165 million for Pigmear Crisis measures)

Relative to the 2008 forecast outturn, gross expenditure by the DAFF for 2009 is down by 5.6%. Net expenditure by the DAFF, i.e. the cost to the National Exchequer, is also down by 5.6%; however, excluding the special pigmeat expenditure the reduction would be 13.4%.

The table below provides the detailed breakdown of the DAFF budget for 2009.

Table 2.2: Main items of Expenditure by Department of Agriculture (€m)

Gross Expenditure	2008 provisional outturn	2009 estimate	2009 revised estimate	% change from 08 outturn
Pay and administration	303.3	307.8	301.6	-1%
Research and training	36.8	37	34.3	-7%
Food safety, animal health and welfare	219.1	181.5	335.1	53%
<i>o/w TB & Brucellosis</i>	<i>61.6</i>	<i>56.9</i>	<i>57.8</i>	<i>-6%</i>
<i>o/w BSE</i>	<i>10.7</i>	<i>11</i>	<i>9.8</i>	<i>-8%</i>
<i>o/w Fallen Animal Scheme</i>	<i>26.7</i>	<i>16.6</i>	<i>16.6</i>	<i>-38%</i>
<i>o/w Suckler herd welfare/quality</i>	<i>32.9</i>	<i>44</i>	<i>34</i>	<i>3%</i>
<i>o/w Pork Dioxin</i>	<i>0</i>	<i>165</i>	<i>165</i>	<i>N/A</i>
Market supports	13.9	27	21	51%
Disadvantaged Areas	255.8	220.4	220	-14%
REPS	312.5	355	330	6%
Land mobility	55.1	56.7	54.4	-1%
<i>o/w Early retirement</i>	<i>45.6</i>	<i>46.7</i>	<i>44.9</i>	<i>-2%</i>
<i>o/w Installation</i>	<i>9.4</i>	<i>10</i>	<i>9.5</i>	<i>1%</i>
Development of Agriculture & Food	475.1	196	287	-40%
<i>o/w Farm Waste Management</i>	<i>414</i>	<i>125</i>	<i>220</i>	<i>-47%</i>
<i>o/w Farm Improvement Scheme</i>	<i>12.9</i>	<i>15</i>	<i>15</i>	<i>15%</i>
Forestry and Bioenergy	125.5	127.7	119.6	-5%
Teagasc	127.4	122	119.9	-6%
Bord Bia	26.9	25.3	28.2	5%
Fisheries	93.1	88	81	-13%
Other Services + Food Aid	31.3	28.9	27.6	-12%

2.2 Main Changes in Expenditure or Policy by DAFF

In the original 2009 Budget (October 2008), a number of cuts to farm schemes were introduced. These are outlined below. Further changes have been highlighted.

2.2.1 Food Safety, Animal Health and Welfare

Suckler Cow Welfare Scheme

The funding for the Suckler Cow Welfare Scheme is to be restricted to €250m or €50m p.a. as per the Partnership deal. Based on Department of Agriculture application estimates of 960,000 cows, the full annual costs would amount to €77m p.a., leaving a funding shortfall of €135m or 35%.

The Department has confirmed that they will pay the full €80 per cow in 2008/09. In the subsequent 4 years payment could be as low as €40 per cow depending on the final level of participation. In addition, because of the inadequate funding provision, payment may be delayed by up to 12 months.

Supplementary Budget Changes

Suckler Cow Welfare Scheme

The payment rate for the Suckler Cow Welfare Scheme in 2009 but paid in 2010 will be €40/head.

Pork Dioxin Crisis

A special allocation of €165 million is provided in 2009 to meet the cost of the Pigmear crisis of December 2008.

Fallen Animal Scheme

In the Supplementary Budget, the DAFF contribution to the Fallen Animal Scheme was abolished. IFA is currently in consultation with the DAFF on the changed arrangements.

2.2.2 REPS

The Budget for REPS was increased by 7% bringing the allocation to €355m in 2009.

Supplementary Budget Changes

In the Supplementary budget, the budget for REPS has been reduced by €25m from €355m to €330m. Payment rates under REPS 4 are being reduced by 17%. The reduced payment rate will apply to 2nd and subsequent year payments for 12,000 farmers who applied for REPS 4 before 15th May 2008. Farmers who apply for REPS 4 before the 15th May 2009 will be paid the reduced rate in October/ December 2009. The level of REPS 3 payments to farmers will be reviewed based on the number that apply for the REPS 4 Scheme.

2.2.3 Disadvantaged Area Payments

A reduction of €36m in Disadvantaged Area payments will have a significant impact on hill areas and full-time drystock farmers. The allocation to the scheme in 2009 is €220m, which represents a 14% reduction.

To implement the reduction the maximum number of hectares eligible for payment decreases from 45 ha to 34 ha. This represents a maximum cut in Mountain and Severely Handicapped areas of €1,055 and €905 in less Severely Handicapped Areas. There is no cut for farmers who have less than 34 ha.

IFA estimated that the average loss is €972 for around 37,000 farmers. The maximum payment in 2009 in mountain areas is €3,401, severely handicapped is €3,264 and €2,797 in less Severely Handicapped Areas.

2.2.4 Land Mobility

The Early Retirement and Installation Aid Scheme were suspended for applications from close of business on 14th October. The allocation to both schemes for ongoing expenditure in 2009 was reduced to €54.4m.

2.2.5 Forestry

€127m was allocated to Forestry, which is a 6% increase. The Department indicated that 6,000 ha would be planted in 2009, which is in line with the plantations in 2008.

Supplementary Budget Changes

The Forestry premium is to be cut by up to €8 million from the October budget allocation. This will apply to existing and new applicants' premium. Currently, there are 14,000 farmers obtaining the Forest Premium.

2.2.6 Development of Agriculture & Food

A total of €196m was allocated to investment in the Agriculture Sector. Of this €125m was allocated to the Farm Waste Management Scheme. This is totally inadequate to meet the carryover cost of the FWM to an estimated 17,000 farmers of around €425m in grant aid. In 2008, €415m was paid out under this scheme.

€15m is allocated to the FIS which is the equivalent amount allocated in 2008. 5,000 farmers who applied between the 22nd and the 31st October are still not being approved to join the scheme. FIS grants are being paid out fully, when approved.

Supplementary Budget Changes

In 2009, a further €95 million was allocated by the DAFF to the Farm Waste Management Scheme, bringing the total to €220 million this year. This is sufficient to pay the 40% first tranche of the grant owed to 17,400 farmers.

3 Taxation and Social Welfare Measures

The Minister stated that a structural weakness of the Irish taxation system is the narrow base. He has announced that there will be a major reform of the taxation system implemented in Budget 2010. This will take into account the recommendations of the Report on the Commission on Taxation, due for publication in July. The Minister said that he would broaden the tax base, remove unjustified relief and ensure that capital is taxed in a fair manner, and retain the 12.5% corporation tax rate.

3.1 Income Tax/Income Levy

There were no changes to personal income taxation in the Supplementary Budget. In lieu of an income tax increase, which would be administratively difficult in mid-year, the Income Levy is to be doubled for the remainder of the year, and the entry points will be reduced.

The new rates will be 2%, 4% and 6%. The new entry points will be €15,028, €75,036 and €174,980 per annum (equivalent to €289, €1,443 and €3,365/week respectively).

The Health Levy rates will also double to 4% and 5%. The entry point for the lower rate remains at €26,000 per annum, while the entry point for the higher rate will be reduced to €1,443/week or €75,036/annum.

All these rates will apply from 1st May.

3.2 Tax Reliefs and Shelters

Mortgage Interest relief for Principal Private Residences: From 1st May this will be available only for the first seven tax years of the mortgage.

Mortgage Interest: Tax relief for investors on mortgage interest and loans for residential rental property is to be reduced to 75% of interest immediately.

20% Rate on Trading Profits from Residential Development Land: This is to be abolished and the treatment of trading losses is to be restricted. The profits will be liable to income tax or the 25% rate of corporation tax.

Accelerated Capital Allowances for Hospital and other Health Sector Construction etc: To be abolished.

3.3 Excises

Excise on cigarettes will go up by 25 cent per package of 20, and auto-diesel by 5 cent/litre, from 8th March 2009.

3.4 Capital Taxes and Savings

The rate of Capital Gains Tax and Capital Acquisitions Tax are being increased from 22% to 25% immediately.

Also, the Minister stated that in light of declining asset values, CAT thresholds are being reduced by 20%. Thus the thresholds for Group A (parent to child) decline from €542,544 to €434,000, Group B (related persons) from €54,254 to €43,400, and Group C (non-related persons) from €27,127 to €21,700. These thresholds apply to gifts or inheritances taken from midnight on 7th April 2009.

The DIRT rate on ordinary deposit accounts is being increased to 25%, and to 28% on certain other savings products.

The existing 2% levy on non-life insurance premiums is being increased to 3%, and a new levy of 1% will apply on life assurance policies.

3.5 Social Welfare Changes

Jobseekers Allowance: The rate to recipients under age 20 will be halved to €100/week.

Child Benefit: No change in 2009 but the Minister announced that it will be means tested or taxed in the Budget for next year.

Early Childcare Supplement: The monthly payment will be halved to €41.50 per child from the 1st of May 2009 and abolished at the end of the year. It will be replaced on the 1st of January 2010 with a pre-school Early Childhood and Education Scheme.

4 The Public Finances and National Economy

4.1 Budget Balance (Budget surplus or deficit)

One of the main challenges faced by the Government in framing the Supplementary Budget was to get control over the Public Finances; in other words to achieve a sustainable balance between the expected revenues that will be generated through taxation and the expenditure requirements of the economy. In 2009, a huge fall in expected Tax Revenues, coupled with increasing Public Expenditure, would have resulted in a budget deficit of approximately €23 billion, or 12.75%.

In the Supplementary Budget, the Government announced details of a multi-annual consolidation plan, agreed with the EU, which will involve both increases in taxation and decreases in public expenditure. Ireland has committed to restoring order to its Public Finances by 2013, with a projected budget deficit in that year of 3%. The 2009 adjustments were mainly increases in taxation, with smaller reductions in both current and capital expenditure. However, for 2010 and 2011, it is proposed that there will be greater reductions in expenditure than increases in taxation.

A summary of projected Expenditure, Revenue and Government Balance for the next five years is outlined in Table 5.1 below.

Table 4.1: Budgetary Projections 2009-2013

	2009	2010	2011	2012	2013
Current Budget	€m	€m	€m	€m	€m
Current Expenditure* ¹	46,365	50,737	51,884	53,333	54,546
Current Revenue-Taxes	34,400	35,375	38,971	41,354	43,735
Current Revenue -other	852	765	722	722	723
Additional Annual Adjustment	0	0	0	4,000	7,000
Current Budget Balance	-11,113	-14,597	-12,191	-7,257	-3,088
Capital Budget					
Capital Expenditure* ²	10,735	6,972	7,286	7,891	7,979
Capital Revenue	1,499	1,665	1,716	1,706	1,710
Capital Budget Balance	-9,236	-5,307	-5,570	-6,185	-6,269
Exchequer Balance (Unadjusted)	-20,349	-19,904	-17,761	-13,442	-9,357
Technical Adjustment	1,936	1,816	2,802	3,065	3,428
General Government Balance	-18,413	-18,088	-14,959	-10,377	-5,929
% of GDP	-10.75%	-10.75%	-8.50%	-5.50%	-3.00%

(*¹ Includes Service of the National Debt, *² Includes payment to the National Pension Reserve Fund)

4.1.1 *Public Expenditure*

The changes introduced in the supplementary budget are expected to result in overall savings of €866 million in Gross Current expenditure in 2009, and €576 million in Gross Capital Expenditure.

Therefore, total expenditure (current and capital) in 2009 is projected to be €56.7 billion, rising to €57.7 billion in 2010

4.1.2 *Tax Revenue*

Overall, the changes in the tax system introduced for 2009 are expected to yield €1.8 billion, of which €1.3 billion is for the increases in the Income Levy, Health Levy and PRSI ceiling.

Therefore, Tax Revenue for 2009 is projected to be €34.4 billion, rising to €35.3 billion in 2010 and to €43.7 billion by 2013.

4.1.3 *Budget Deficit*

The predicted effect of the increased taxes and reduced public expenditure is a General Government Deficit in 2009 of €18.4 billion, or 10.75% of GDP. By 2011, this will start to fall, to 8.5% of GDP, reducing to 3% by 2013. This is the agreed limit on the budget deficit under the terms of the EU Stability and Growth Pact.

4.2 General Government Debt

The key measure of government debt is the General Government Debt: GDP ratio. Under the terms of the Stability and Growth Pact, the Debt: GDP ratio is not meant to exceed 60%. The general government debt: GDP ratio stood at 25% in 2007. The ratio rose to 43% in 2008, and is forecast to rise to 59% of GDP in 2009, and to 77% by 2013. While Ireland has had one of the lowest debt: GDP ratios in the EU (with average EU25 figure at 60%), the budget data shows that Ireland's debt level is rapidly increasing.

Table 5.2: General Government Debt (% of GDP)

Year	2009	2010	2011	2012	2013
Debt: GDP ratio (%)	59	73	78	79	77

4.3 The National Economy / Ireland's Stability Programme

A feature of the Supplementary Budget was the publication of the multi-annual consolidation plan outlined in Section 4.1. In addition to providing information on the public finances, details were provided on the economic projections for Ireland over the next 5 years. As the following table shows, the economy is expected to contract in 2009 by approximately 7.7%, and by a further 2.9% in 2010. Growth is assumed to resume in 2011, with a projected growth rate of 2.7% and growth rates of about 4% annually thereafter.

The huge decline in fixed investment of about 27% reflects the collapse in construction activity, particularly in the housing sector. The contraction in personal consumption growth of about 8% reflects the rapidly increasing unemployment figures. Exports are projected to fall by 6%, reflecting the general downturn in economic activity in Ireland's main trading partners and specifically the fall in exports to the UK, due to the depreciation of sterling.

The reduction in the inflation rate, to 3.9%, as measured by the CPI reflects a number of factors including the significant reduction in interest rates by the ECB since

September (from 4.25%-1.25%), the fall in energy prices, the fall in consumer demand, particularly for clothing and footwear.

For this year as a whole, total employment is projected to fall by 7.8%, which is an unprecedented rate of decline. Already by March of this year, unemployment had reached over 370,000, or 11%. The labour force should also decline due to emigration and lower participation rates. As a result, the unemployment rate is expected to average about 12.5% for the year as a whole, with a subsequent increase to over 15% in 2010 and 2011.

Table 5.3: Economic Outlook (Percentage Volume Changes)

<i>Economic Outlook (% volume changes)</i>					
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
<i>Gross Domestic Product (GDP):</i>	-7.70%	-2.90%	2.70%	4.20%	4.00%
<i>Gross National Product (GNP):</i>	-8%	-2.80%	2.50%	4.00%	3.80%
<i>Expenditure on GNP:</i>					
Personal consumption:	-7.80%	-3.70%	1.10%	2.40%	2.60%
Public consumption:	0%	0%	0%	0%	0%
Fixed investment:	-27%	-16%	7%	10%	10%
Exports:	-6%	-3%	3%	4%	4%
Imports:	-10%	-6%	2%	3%	3%
Inflation (CPI)	-3.90%	0.30%	2.00%	2.00%	2.00%
Employment growth (%)	-7.80%	-4.60%	0.50%	2.20%	2.40%
Unemployment rate (%)	12.60%	15.50%	15%	13.50%	11.80%

4.4 Other Government Decisions

In addition to making significant adjustments to the Public Finances, the Budget introduced a number of measures, which are designed to restore Ireland's competitiveness and international reputation. A major announcement was the proposal to stabilise the banking system. In addition, a number of smaller measures have been introduced to support employment and enterprise.

4.4.1 Banking Reform – National Asset Management Agency

The Government, in an attempt to stabilise the banking system and ensure the supply of credit to the real economy, has decided to establish a National Asset Management Agency. Under the Government proposal, bad assets, mainly land and development loans will be transferred from the banks to the new agency. Once banks have only good loans remaining on their balance sheets, they should be better able to provide a sustained flow of credit on a commercial basis to individuals, households and businesses in the real economy.

The Agency will purchase the assets from the banks through the issue to the banks of Government bonds. The potential maximum value of loans that will be transferred to the Agency is estimated to be in the region of €80 to €90 billion, although the amount paid by the Agency will be significantly less than this to reflect the loss in value of the properties. The purchase of the assets through government bonds will result in a significant increase in gross national debt. The Agency will then attempt to sell the assets or get full repayment for them from the borrower over a period of time. The

income that the Agency generates from these activities will be used to offset the government debt that has been generated from buying the assets in the first place.

4.4.2 Protecting Jobs

The Government has committed to protecting jobs through redirecting of the NDP to support employment and enterprise. A number of measures were announced in this area, including:

- Setting up an Enterprise Stabilisation Fund worth €100 million over two years. This fund will provide direct financial support to eligible internationally trading enterprises;
- Employment, Education and Training Activation Measures for graduates, unemployed apprentices, and other unemployed; and
- Commitment to reaching R&D targets.

Very little detail was given on the operation of the Enterprise Stabilisation Fund, which will be managed by Enterprise Ireland. No explicit commitment was given to a State-Supported Export Credit Insurance fund, as proposed by the IFA early in 2009.

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8th April 2009