Fiscal Policy and the Case of Expansionary Fiscal Contraction in Ireland in the 1980s

Macroeconomic Analysis

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Introduction:

In this paper, we will analyze the case of Ireland in the 1980s, namely how a fiscal contraction in 1987 as a way to correct for high debt levels that had been accumulating up until then ended up producing expansionary effects on the economy as a whole that ultimately shifted the country´s economic perspective.

We will begin by providing some background on Ireland´s economy, particularly how it evolved in the second half of the 20th century leading up to the 1980s, giving an overview as to how it reached an unsustainable point in 1986, prompting a swift fiscal policy intervention in 1987. We will then explore how this turning point came to be and was processed, namely what were the major goals it set up to achieve (and ultimately was able to do so), providing some figures over the shift in many macroeconomic variables such as public deficit, current account, etc. that started in 1987 and was prolonged in the years to come.

Later, we will take a brief detour to Economic Theory, to highlight how different economic schools of thought perceive the role of government intervention in the economy and what their standpoint is on fiscal policy as a way to correct for imbalances. Particularly, we will focus on the Keynesian view on fiscal policy intervention, and how the proposed expectations were eventually subverted in the case in question.

Finally, we will further highlight why Keynesian theory failed in the case of Ireland, providing some explanations as to how a culmination of factors such as the role of expectations, debt dynamics, credibility of a government´s commitment and a favorable exchange rate played a relevant factor in conferring an expansionary aspect to an essentially contractionary public policy, effectively improving considerably the Irish economic outlook.

Background:

After World War II, in the 1950s, Ireland had a very slow economic growth as the policy stance was that of protectionism, involving a group of government policies that restricted international trade to try to protect local and domestic industries. However, these policies backfired, with Ireland exports (of which 75% were to the UK) representing only 32% of GDP. These measures highly impacted Ireland´s capacity to export and generate wealth, leading to a 2% growth per year in the 1950s, way below the average European growth post war. This led to a massive emigration, with one seventh of the population leaving the country.

During the 1960s, the Irish government shifted a bit from the protectionist stance, resulting in an average growth of 4.2% (which, although double from that of 1950s, as it was in line with the rest of European growth, was not enough to converge with Europe's standard of living – that fell from 66% of the EU-12 in 1960 to 64% in 1973).

During this time, it is also relevant to mention the 3 Irish bank strikes that occurred between 1960 and 1976 totaling about a year, affecting the banking sector. Although it could have led to a major crisis, Ireland handled it well, as Irish people started using checks as money, with trust as a foundation of success during these crises.

Entering the 1970s, in 1973, Ireland joined the European Economic Community, turning Ireland into a more liberal and open country concerning the trading aspect. This led Ireland to reduce its exports to the UK from 67% in 1970 to 54% in 1975, even though exports overall increased, as shown in graph 1, with the diversification of trading partners.

Graph 1 - Exports as % of GDP, 1970 - 1979

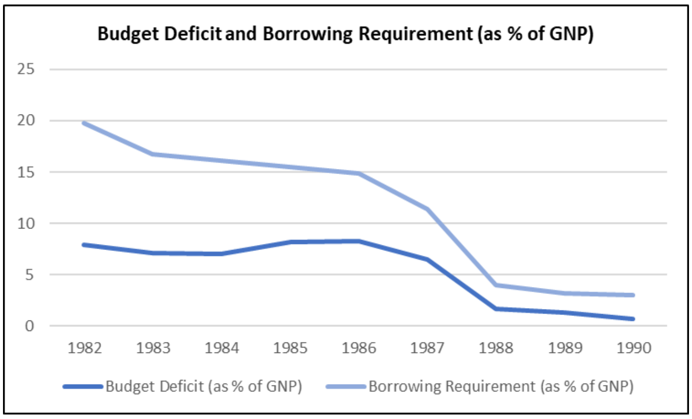
Nevertheless, this decade was not one of overall progress, as the oil crisis in 1973 negatively impacted the whole world and Ireland was no exception to it, with the government´s attempt to accumulate financial capital causing a ballooning in the current deficit in 1977. On top of that, the public sector borrowing rose from 10% to 17% of GNP, being accompanied by a taxation increase, a fact that was made even more problematic as international interest rates increased, leaving Ireland, who had been accumulating debt over the past few years, with an interest rate 15% higher than in Germany. During this time, Ireland was spending over the budget amount, with expenditures in 1981 being 7% above budget.

All this leading to the 1980s, the only solution for the government was a tax increase, cutting the primary deficit to half. However, this led to a slow growth, which, combined with the high interest rates due to the external crisis, resulted in the Irish debt continuing to rise to 116% of GDP in 1986 despite prior attempts to reduce it. As a consequence of the culmination of all these factors, Ireland only grew 1.9% per year between 1973 and 1986. Due to all this, associated with an exchequer deficit of 11.4% of GNP, an unemployment rate of 16% and a GDP standing at about 2/3 of EU-12 GDP, Ireland was in desperate need of strong economic measures that were capable of completely turning the tables and putting Ireland in a favorable economic state.

A Turning Point:

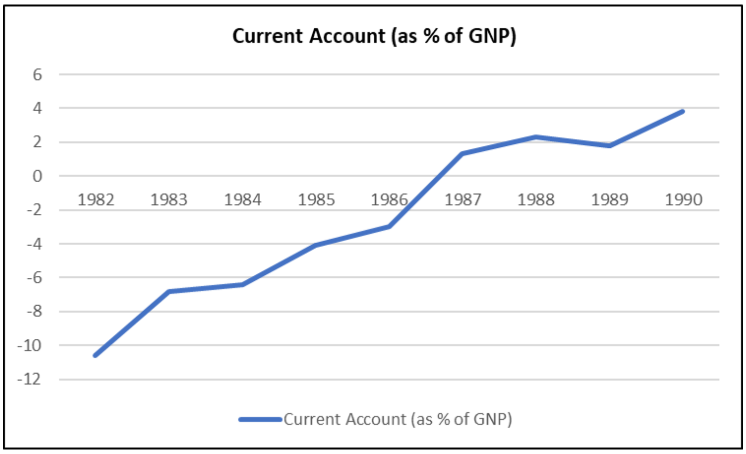
At the start of 1987, Ireland´s economy did not paint a very optimistic outlook. However, the elections that year marked a turning point in the country´s economic trajectory, being the launching platform for a remarkable recovery. With the rise to power of the Fianna Fail party, the new government took it upon its hands to turn Ireland´s economic perspective around.

Based on previously failed proposals of the Fine Gael government, the new budget focused greatly on tackling the many issues over the country´s public finances, namely the government´s high spending and borrowing levels. Bearing this objective in mind, public spending was severely tightened, with the budget deficit falling to 6.5% of GNP in 1987 (followed by a subsequent reduction to 1.7% in 1988), relative to 8.3% in the year preceding the election of the new government. In a similar fashion, borrowing requirement´s target as a percentage of GNP was also significantly reduced from 13% (=2.15 billion) in 1986 to 10.7% (=1.85 billion) in 1987. In the end, the actual outcome was even better than anticipated, with the budget deficit falling 20 million below target, as a response to increased savings on public expenditure, and the borrowing requirement ending up at 72 million below target, due to lower government spending than initially predicted (a trend which was again verified for the following two years) (graph 2).



Graph 2 - Budget Deficit and Borrowing Requirement as % of GNP, 1982 - 1990

Nevertheless, these fiscal austerity measures, while succeeding in putting Ireland´s finances in order, did not come without caveats and hardships for the population. Particularly, real wages were affected: with the implementation of the Programme for National Recovery in 1988, which indexed social welfare payments and public sector wages to inflation, wages registered a much more moderate growth relative to previous years. The manufacturing sector was especially impacted, as the increase in weekly earnings fell from 4.9% to 4.3% in the span of a year. However, this also represented a positive gain in terms of competitiveness, as wages in Ireland´s main trading partners (particularly the UK) were rising much faster. This, combined with a much more favorable exchange rate, were estimated to have accounted, at the time, for a cost competitiveness gain of 3% against the UK, having contributed to higher exports and consequently a now positive Current Account balance (graph 3) (-3% in 1986 vs 1.3% in 1987 vs 2.3% in 1988, expressed as % of GNP). (relating to the TNT model, as $\lambda = \frac{PT}{PN} = \frac{e}{w} \uparrow (\frac{w}{e} \downarrow)$ production in the tradables sector increased, leading to a positive trade balance).



Graph 3 - Current Account as % of GNP, 1982 - 1990

Notwithstanding, the reason the Programme for National Recovery was extremely successful was highly dependent on the "social partnership" approach that it involved, having resulted from an agreement between employers, trade unions and the government on wage levels in both the private and public sector. Indeed, as the government pushed for the need of moderate growth of wages to foster international competitiveness so as to fix public finances, in return workers were able to negotiate a wide range of economic and social policies, namely on the front of favorable tax reforms, the evolution of welfare payments and health spending and the introduction of a minimum wage. On the macroeconomic side of the equation, each party agreed that they would not generate inflationary pressures that would warrant devaluation. So, by making sure all major players in the economy had their interests taken into account, and with the implementation of a centralized wage bargaining mechanism, the government was able to install a climate of trust and assurance that would play a crucial role in achieving the desired stability of public accounts.

On the Monetary side, the main goal was to try to preserve the strength and stability of the Irish Pound, so as to avoid a potential currency crisis that would have likely doomed the economy even further. The CPI was successfully reduced to 3.2% (the lowest it had been since 1960s), with inflation on various measures remaining low well into 1990. Moreover, as the robust fiscal tightening induced markets to trust that the government was serious in its commitment to reduce debt levels, no speculative attack was launched, with this increase in confidence contributing to a 5% drop in interest rates in 1987. This fall, in conjunction with the fiscal measures adopted so far, had both an income and wealth effect on households, with a negative income effect resulting from a cut in disposable income as a response to the fiscal contraction and a wealth effect from the unexpected fall in interest rates (which while may appear damaging to consumption at first glance, was actually offset by a significant decrease in the savings ratio). On the other hand, this fall in interest rates had a very positive effect on debt servicing (as interest payments on public debt fell considerably).

Following these policy measures, a turning point was effectively established for Ireland´s economy in 1987, paving the way for a much brighter scenario in 1988. Indeed, the combination of a stronger price competitiveness - due to the favorable exchange rate - with the financial markets´ increased confidence in the government´s commitment created a fertile environment for growth, as highlighted, for example, in the exponential expansion of industrial production and subsequent export figures and resulting earnings that was verified in 1988.

At its core, the big shift from 1987 to 1988 came in the form of a shift in the target focus of growth. As a matter of fact, while in 1987 the growth strategy was mostly focused outwards and reflective of a new perspective of Ireland´s position in European integration and a globalizing economy (exchange rate benefits, increasing confidence of the financial markets on the country´s economy, etc.), once achieved the proposed external goals, the government turned inwards in 1988, focusing on fostering growth via domestic demand. This was quickly reflected in the banking sector, through an increase in liquidity that allowed private sector credit to expand from 4.7% in 1987 to 13.5% in the subsequent year. As a consequence, with this expansion of credit, private consumption and investment eventually followed, with the first increasing by more than 3% in 1988 (as the savings ratio fell) and the latter starting to grow in the second half of 1988, continuing to increase an additional 10% in 1989. Consequently, prompted by the augmented consumer spending, tax revenues increased by 8% in 1988, henceforth solidifying the fiscal consolidation initially spurred by spending cuts. Likewise, social welfare payments fell as demand for private sector employment rose in response to an increase in aggregate expenditure/demand.

All in all, the initial drop in both public consumption and public investment ended up being more than compensated for by both an increase in private demand and private investment, effectively contradicting the notion of a fiscal contraction by conferring to it an expansionary outcome.

What does Economic Theory have to say?:

Several schools of economic thought emerged along history, bearing different views on the role of government in the economy, as well as whether fiscal or monetary policy are more effective to correct imbalances.

Starting with Classical Economics, a school of thought that flourished in the late 18th and early 19th century, it advocates the freedom of the market as, claiming that, under competitive markets and flexible prices, the economy will naturally gravitate towards full employment with the price mechanism adjusting to ensure self-correction.

According to classicals, agents form rational expectations based on information available, learning from past mistakes and improving their forecasts accordingly. Therefore, in their view, there is no role for government intervention to stabilize the economy through monetary and fiscal policies as any systematic policy change will be predictable (classical laissez-faire). Indeed, as a direct consequence of long run money neutrality, with monetary shocks producing no real effects on the economy in the LR under flexible prices, by implying no change in the macroeconomic equilibrium, the classical approach deems demand management policies as irrelevant and even potentially harmful to the economy as a whole.

However, in 1929, the Great Depression came to expose some failures of the classical theory. The lengthy duration of the Great Depression undermined the classical view, with many believing the government should have intervened in regulating the economy (failure of self-correction and classical laissez-faire).

In line with this criticism, the Keynesian school of thought emerged, becoming particularly widely accepted after the World War II and the post-war economic expansion (1945–1973). In Keynes' view, the mass unemployment and idle capital should not be left to market forces, believing price mechanism to not be fast enough to ensure self-correction and full employment at each moment in time as prices are sticky in the SR. Even if the economy naturally gravitates toward full employment, that adjustment process would be too slow and would subject citizens to unnecessary pain. As a result, there is role for government intervention to stabilize the economy and restore full employment. Indeed, according to Keynes, the Government can counteract economic downturns and speed up economic recovery by stimulating aggregate demand and economic growth.

Contrarily to the classical theory, Keynes believed that forecasting errors are likely to be large because agents are not necessarily rational and expectations may be driven by psychological factors ("animal spirits"). Thus, irrational swings in economic confidence may cause undesirable output fluctuations and shifts in demand even when no fundamental change is taking place.

Following the Great Depression, Keynesian policy actually combined both monetary and fiscal policies to stimulate the economies. On one hand, there was an expansionary monetary policy, reducing interest rates at which businesses and consumers can borrow, which would increase investment. On the other hand, Government deficit spending through investments in infrastructure projects would boost aggregate demand, stimulate employment and stabilize wages.

However, following the collapse of the Bretton Woods System in 1971, the oil crisis of 1973 and the resulting stagflation of the 1970s, Keynesian theory and the defense of fiscal policy based on deficit spending failed in tackling the worldwide recession. In the early 1970s, many economies faced high and rising unemployment coupled with high and rising inflation, which Keynes ideas seemed unable to solve.

The dilemma between the application of expansionary (anti-recession) and contractionary (anti-inflation) fiscal policies led to the rise of ideas such as Monetarism that focused on eliminating inflation through controlling money supply, empowering markets and minimizing state planning, suggesting monetary policy as a tool to boost economic growth. Monetarism considers that fiscal policy based on deficit spending (expansionary fiscal policy) causes inflation rather than controlling for it, effectively crowding out private investment and spending (which is preferred over public spending).

So, from here, we can observe the very diverging views of the monetarist and Keynesian theories regarding demand management policies. Even though both agree that issues such as business cycles, unemployment and deflation are caused by inadequate demand, Keynesians stress fiscal policy (demand-side) while monetarists stress monetary policy (supply-side) as economic policy responses to mitigate economic fluctuations and stabilize economic output, inflation and unemployment.

According to Keynesians, fluctuations in the aggregate demand (due to variations in the desire to spend of the private sector and not induced by government policy) is the major source of economic fluctuations. Thus, Keynesian theory focuses on government spending to control the economy, inflation and influence the demand for goods and services.

While expansionary fiscal policy (tax cut and/or increase in spending) is seen as a valid tool to combat recessions by increasing aggregate demand and stimulating economic growth, contractionary fiscal policy (increase in taxation and/or decrease in spending) is seen as a way to contract expansions by decreasing income and slowing down economic growth.

In the case of Ireland in the 1980s, the high levels of public debt (116% of GDP in 1986) led the new government to considerably reduce public spending, adopting a contractionary fiscal policy. The budget fell to 6.5% of GNP in 1987, contrasting with 8.3% in 1986. Nevertheless, contrary to what Keynes predicted, aggregate demand did not decrease, but expanded, subverting the theory.

Why the Keynesian Theory failed in the case of Ireland in the 1980s:

Keynes defended that governments should intervene directly in the economy with the aim of restoring the full employment equilibrium. As explained above, his theory claims that expansionary fiscal policies should be used in the case of a recession, to increase aggregate demand and stimulate GDP growth, while contractionary fiscal policy should be used when the economy is on an expansionary phase, more precisely when it is overheated.

In the 1980s Ireland was in a recession and, in the light of the Keynesian theory, it should have adopted an expansionary fiscal policy, but the opposite happened. There were cuts in government spending, and the contractionary policies yielded surprisingly good results, that led the country to grow after their implementation, reversing the Keynesian model.

To understand what happened in Ireland in the 1980s, we need to consider the long-term sustainability of public finances. Indeed, Keynes argued that increasing public spending (G_t) would lead to growth in aggregate demand (A_t).

$$A_t = C_t + G_t + I_t$$

However, the increased spending (G) would also contribute to the increase in government debt (the change in D_G is positive, causing the debt to increase):

$$\Delta D_G = [P(G - T) - \Delta M] + i_G * D_p^g$$

Nevertheless, the solvency of the debt depends on the population's perceptions. There is a maximum amount of debt that a government can serve, which corresponds to the sum of the maximum primary surpluses that are politically and socially acceptable, given that the market perception depends on future uncertain events. Therefore, if people doubt the sustainability of the public finances in the long run, the fiscal stimulus is likely to undermine households' confidence and create expectations of higher future taxes, to pay for the increase in public spending. Hence, households will reduce their current consumption as their expected lifetime income decreases.

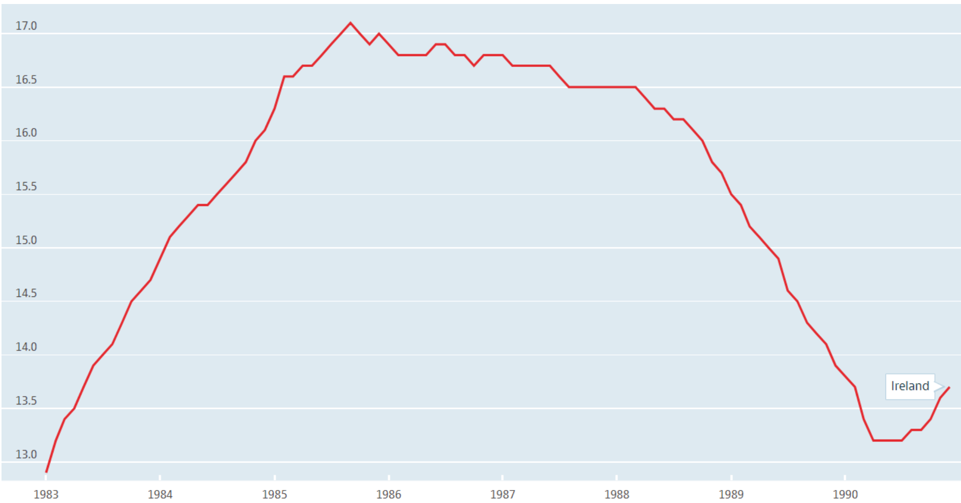
From this, we conclude that the standard Keynesian theory does not hold for countries that have very large budget deficits and high debt ratios, which was the case of Ireland in 1987, before the adoption of the new budget. This case clearly demonstrates the importance of accounting for the role of expectations. In Ireland, when the 1987 budget was approved, the new government made, in the eyes of the population, a credible commitment to reduce the budget deficit, by tackling the high government spending and excessive borrowing. In these cases, if financial market players believe that the fiscal policies adopted are credible and that there is a commitment to price stability and financial reliability, the risk premium on long term interest rates will decline. The decrease in interest rates will have expansionary effects on demand and supply, since consumption and investment will be stimulated, giving rise to a wealth effect.

Furthermore, the higher taxes that are implemented when tackling the budget deficit generate an expectation that future tax liabilities will be lower than previously assumed. The increase in households expected future wealth boosts even more the consumer spending. In this case, investment can rise because of the expectation of a livelier private sector in the future and by anticipating lower interest rates. Producers will answer positively to the increase on domestic demand, resulting in a rise in aggregate demand, employment and output. In Ireland, there was an increase in GDP growth between 1986 and 1988 (table 1). The decrease in unemployment rate can be seen in graph 4. In fact, in this case there were clearly two effects at play: one on the demand side, and another on the supply side.

	GDP at Current Market Prices (£m)	Change in GDP at Constant (1985) Prices		
		Expenditure Basis	Output Basis	Average
1983	14,779.2	-0.2	0.5	0.1
1984	16,406.6	4.4	3.1	3.7
1985	17,690.9	2.5	1.2	1.8
1986	18,736.8	-0.4	0.1	-0.1
1987	20,041.3	4.4	4.6	4.2
1988	21.482.0	3.9	5.5	4.7
1989	23,919.0	5.9	5.3	5.6

Source: Adapted from EIU, *Ireland Economic Review* 1991, p. 35.

Table 1 - Change in GDP, 1983 - 1989



Graph 4 - Unemployment rate, total, % of labour force, 1983-1990 (OECD)

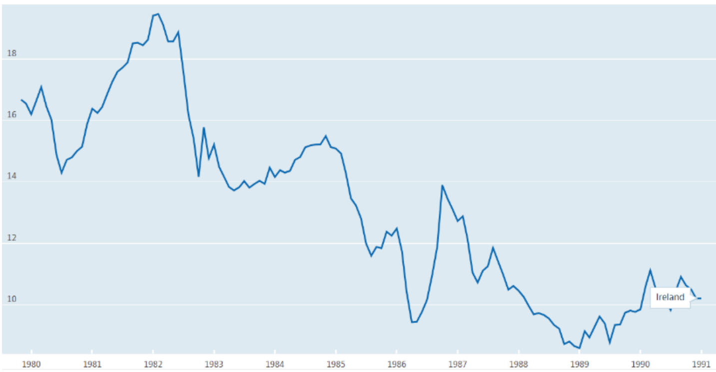
This illustrates how important it is to consider market sentiments, as well as the government and central bank's credibility. This is exactly what the 1987 budget portrayed, since the new government defined clearly that the public finance targets should be consistent with the good management of the economy and that borrowing and public debt should be considerably reduced. As a consequence, markets believed that the government did not intend to release an expansionary inflationary episode in the future, leading to increased confidence and a drop in interest rates (table 2 and graph 5), as well as in consumer price inflation (table 3).

Exhibit 7 Interest Rates (%): End Period

	One Month Interbank Rate
1982	16.1
1983	12.2
1984	15.0
1985	10.4
1986	13.7
1987	8.2
1988	7.9
1989	12.4
1990 Q1	11.9
Q2	10.6
Q3	10.7
Q4	11.1
1991 Q1	10.9
Q2	10.2

Source: Adapted from EIU, *Ireland Economic Review* 1991, p. 54..

Table 2 - Interest Rates (%), 1982 - 1991



Graph 5 - Long-term Interest Rates (%), 1980 - 1991

Exhibit 5 Consumer Price Inflation (%)

	Ireland	US	UK	Germany
1981	20.3	10.4	11.4	6.3
1982	17.2	6.2	8.1	5.3
1983	10.4	3.2	4.8	3.3
1984	8.6	4.4	4.1	2.4
1985	5.5	3.5	4.7	2.1
1986	3.8	1.9	2.9	-0.2
1987	3.1	3.6	3.1	0.3
1988	2.1	4.1	3.9	1.2
1989	4.1	4.8	5.2	2.8
1990	3.3	5.4	7.0	2.7

Source: Adapted from EIU Country Data, October 8, 2004..

Table 3 - Consumer Price Inflation (%), 1981 - 1990

There was a shift in the slope of the change of debt equation, since Ireland registered a higher GDP growth and a lower interest rate, meaning that the slope turned smaller. The intercept also changed, due to the decrease (improvement) in the adjusted primary deficit. These effects, which are a consequence of the expectations generated by the adoption of the policies, contributed to a reduction of the Irish public debt. This illustrates the snowball effect which was initiated by the implementation of the contractionary measures to lower the budget deficit.

$$\Delta d = \overset{\Downarrow}{-s'} + \left[\overset{\Downarrow}{r_G} - g\right] d \longrightarrow$$

Both the decrease in the adjusted primary deficit ($-s'$ ⬇) as well as the fall in interest rates (r_G ⬇) contributed positively to achieving lower values of public debt

Besides the policies adopted on the fiscal side, there was also a devaluation of the Irish currency, which increased price competitiveness. This, allied with the increased confidence, contributed to a positive Current Account and to growth, as explained above, offsetting the traditional Keynesian effects. The exchanged rate depreciation performed in Ireland can be seen in table 4.

Exhibit 4 Exchange Rates: Units per Irish Pound (Period Averages)

	U.S. Dollar	Sterling	DM	ECU	Effective Index
1980	2.06	0.89	3.73	1.48	74.0
1981	1.62	0.80	3.64	1.45	67.8
1982	1.42	0.81	3.45	1.45	67.4
1983	1.25	0.82	3.18	1.40	65.1
1984	1.09	0.81	3.08	1.38	62.3
1985	1.07	0.82	3.11	1.40	62.4
1986	1.34	0.91	2.91	1.37	66.7
1987	1.49	0.91	2.67	1.29	66.2
1988	1.52	0.86	2.67	1.29	65.1
1989	1.42	0.87	2.67	1.29	64.4
1990	1.66	0.93	2.67	1.30	68.3

Source: Adapted from EIU, *Ireland Economic Review* 1991, p. 56.

Table 4 - Exchange Rate: Units per Irish Pound, 1980 – 1990

The reversed effect of the Keynesian theory can be understood under the light of the German view (Barry et al. (2003)). This defends that a credible, permanent program of government spending or tax reductions can stimulate a large increase in private demand, taking into consideration the expectations of permanently lower tax liabilities. According to this theory, private spending can increase enough to offset the direct effects of a fiscal contraction, rendering the main impact of the deficit reduction to be positive rather than negative. Barry et al. (2003) creates a dynamic general equilibrium model to explain the negative government spending multipliers, meaning that government spending has a negative impact on consumption, employment and real GDP.

Giavazzi and Pagano (1990) have also explored why the idea that fiscal consolidation will probably contract real aggregate demand is misleading. Again, they attribute this error to the role of expectations of future policy, which is often neglected. They argue that if households interpret the fiscal consolidation as a signal that the share of government spending on aggregate demand will be permanently reduced, the private sector will perceive its permanent income as being higher and will raise current and planned consumption. In this paper, the authors support this theory by analyzing the cases of Denmark and that of Ireland in the 1980s.

Conclusion:

The analysis of the fiscal contraction that took place in Ireland in the 1980s sheds a new light on economic theory.

When the Fionna Fail party won the elections and formed a new government, Ireland's economy was facing a difficult situation, with very high debt to GDP ratios, due to the high levels of public spending and borrowing levels. Hence, the new government had to adopt contractionary fiscal policies, by tightening public expenditures, running the risk of facing a recession in the future, as Keynes' theory predicted. Nevertheless, the contrary happened and the credible commitment to reduce the public debt led to expansionary effects in the economy. The increased confidence in the government and in the future contributed to a rise in consumption and in investment, that offset the decrease in government consumption. Hence, the final impact on aggregate demand was positive.

The fiscal policies adopted were complemented with an exchange rate depreciation, which boosted Ireland's competitiveness.

The case of Ireland can only be understood if we take expectations and government debt dynamics into consideration. The Keynesian theory only works if the country believes the current level of public debt is sustainable. If not, the government debt becomes insolvent. In Ireland, the government understood this, and due its credibility, not only did the budget increase, as did other main economic variables, such as GDP growth.

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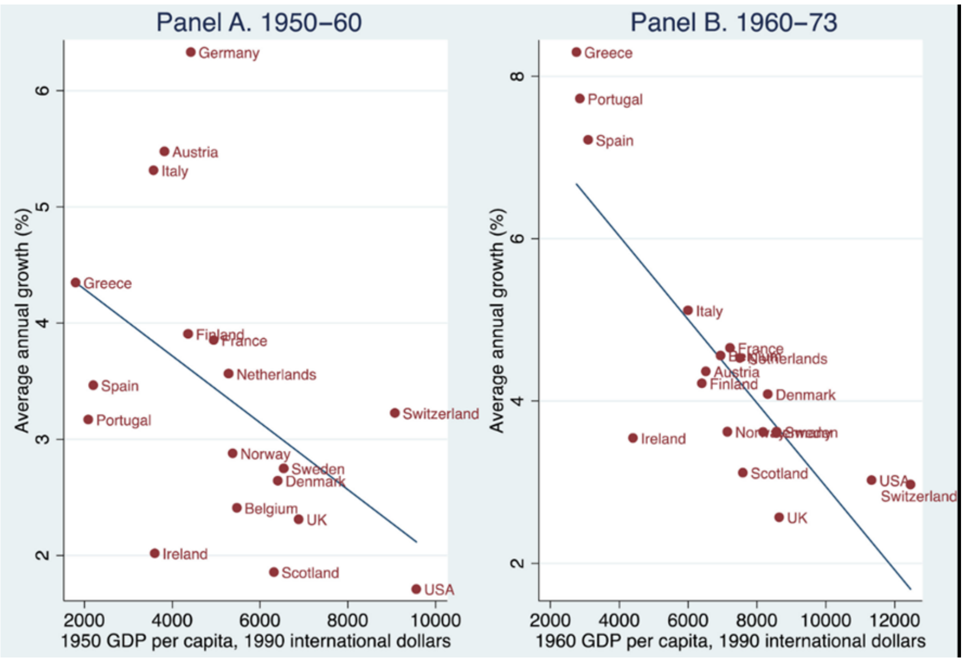
Appendix:



Appendix 1 – Initial income and subsequent growth, 1950–60 and 1960–73. (S. Broadberry and A. Klein)

Ireland Exports - Historical Data

Year	Billions of US $	% of GDP
1979	$8.15B	44.51%
1978	$6.55B	44.70%
1977	$4.97B	44.22%
1976	$3.91B	41.41%
1975	$3.62B	38.22%
1974	$3.01B	38.11%
1973	$2.55B	34.02%
1972	$1.95B	30.94%
1971	$1.65B	32.32%
1970	$1.45B	33.09%

Appendix 2 – Ireland Exports – Historical Data (1970-1979). (Macrotrends)

Exhibit 2 Public Sector Borrowing Requirement

	1982	1983	1984	1985	1986	1987	1988[1]	1989	1990	1991[2]
Current Budget	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
1. Expenditure	**5,896**	**6,671**	**6,991**	**7,615**	**8,105**	**8,331**	**8,007**	**8,019**	**8,421**	**9,019**
—Central Fund Services	1,400	1,658	1,928	2,214	2,253	2,403	2,431	2,453	2,604	2,797
—Supply Services	4,496	5,013	5,063	5,401	5,852	5,928	5,576	5,566	5,817	6,222
2. Revenue	**4,908**	**5,711**	**5,952**	**6,331**	**6,710**	**7,151**	**7,690**	**7,756**	**8,269**	**8,775**
—Tax	4,053	4,681	5,304	5,581	6,096	6,493	7,322	7,443	7,903	8,358
—Non-Tax	855	1,030	648	750	614	658	368	313	366	417
3. Current Budget Deficit	**988**	**960**	**1,039**	**1,284**	**1,395**	**1,180**	**317**	**263**	**152**	**244**
as % pf GNP	*7.9*	*7.1*	*7.0*	*8.2*	*8.3*	*6.5*	*1.7*	*1.3*	*0.7*	*1.0*
Capital Budget										
4. Expenditure	2,000	1,872	1,916	1,761	1,744	1,619	1,362	1,433	1,684	1,869
5. Resources	1,043	1,076	1,130	1,030	994	1,013	1,060	1,217	1,374	1,653
6. Exchequer Borrowing Requirement for Capital purposes	957	796	786	731	750	606	302	216	310	216
as % of GNP	*7.7*	*5.9*	*5.3*	*4.6*	*4.5*	*3.4*	*1.6*	*1.0*	*1.4*	*0.9*
7. Exchequer Borrowing Requirement	1,945	1,756	1,825	2,015	2,145	1,786	619	479	462	460
as % of GNP	*15.6*	*12.9*	*12.4*	*12.8*	*12.8*	*9.9*	*3.3*	*2.3*	*2.0*	*1.9*
8. Public Sector Borrowing Requirement	2,466	2,277	2,375	2,444	2,506	2,056	751	667	681	803
as % of GNP	*19.8*	*16.7*	*16.1*	*15.5*	*14.9*	*11.4*	*4.0*	*3.2*	*3.0*	*3.4*

Source: Adapted from EIU, *Ireland Economic Review* 1991 p. 41.

Notes: [1] Inclusive of once-off tax amnesty receipts.

[2] The nominal figures are the 1991 Budget targets. The percentages shown are based on the most recent GNP estimate.

Appendix 3 – Public Sector Borrowing Requirement

Exhibit 9 Balance of International Payments

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Current Account:									
Merchandise Trade[1]	-1,120.4	-521.5	-196.6	136.6	435	1,310	2,025	2,244	1,814
Services:	139.2	109.0	151.5	205.2	56	7	-58	59	264
—Tourism[2]	128.9	157.3	213.0	283.3	138	175	212	285	430
—Other Services	-10.3	-48.3	-61.5	-78.1	-82	-168	-270	-227	-166
Net Factor Income	-927.7	-1,183.9	-1,638.8	-1,965.7	-1,957	-1,957	-2,542	-3,039	-2,728
International Transfers	593.2	671.2	738.5	973.8	957	879	1,011	1,108	1,567
Balance on Current Account	**-1,315.7**	**-925.2**	**-945.4**	**-650.1**	**-509**	**239**	**437**	**371**	**864**
as % of GNP	-10.6	-6.8	-6.4	-4.1	-3.0	1.3	2.3	1.8	3.8
Capital Account:									
Private Capital	285.3	87.2	-137.6	-108.0	-407	-723	-826	-1,870	-1,814
Official Capital	1,220.7	712.7	854.3	1,028.9	1,198	1,231	523	964	59
Banking Transactions	132.3	605.6	368.2	285.7	554	-79	365	-186	727
Official External Reserves	-90.7	-227.1	32.7	-195.7	72	-606	-352	640	-513
Balance on Capital Account	**1,547.5**	**1,178.4**	**1,117.6**	**1,010.9**	**1,418**	**-176**	**-290**	**-453**	**-1,541**
Net Residual	231.8	-253.2	-172.2	-360.8	-908	-63	-147	82	678

Source: Adapted from EIU, *Ireland Economic Review 1991*, p. 53.

Notes: [1] Adjusted for balance of payments purposes.

[2] Including passenger fare receipts.

Appendix 4 – Balance of International Payments