

# Irish Fiscal Advisory Council

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Press Briefing

## Fiscal Assessment Report

25 November 2015



# IFAC: SOME BACKGROUND

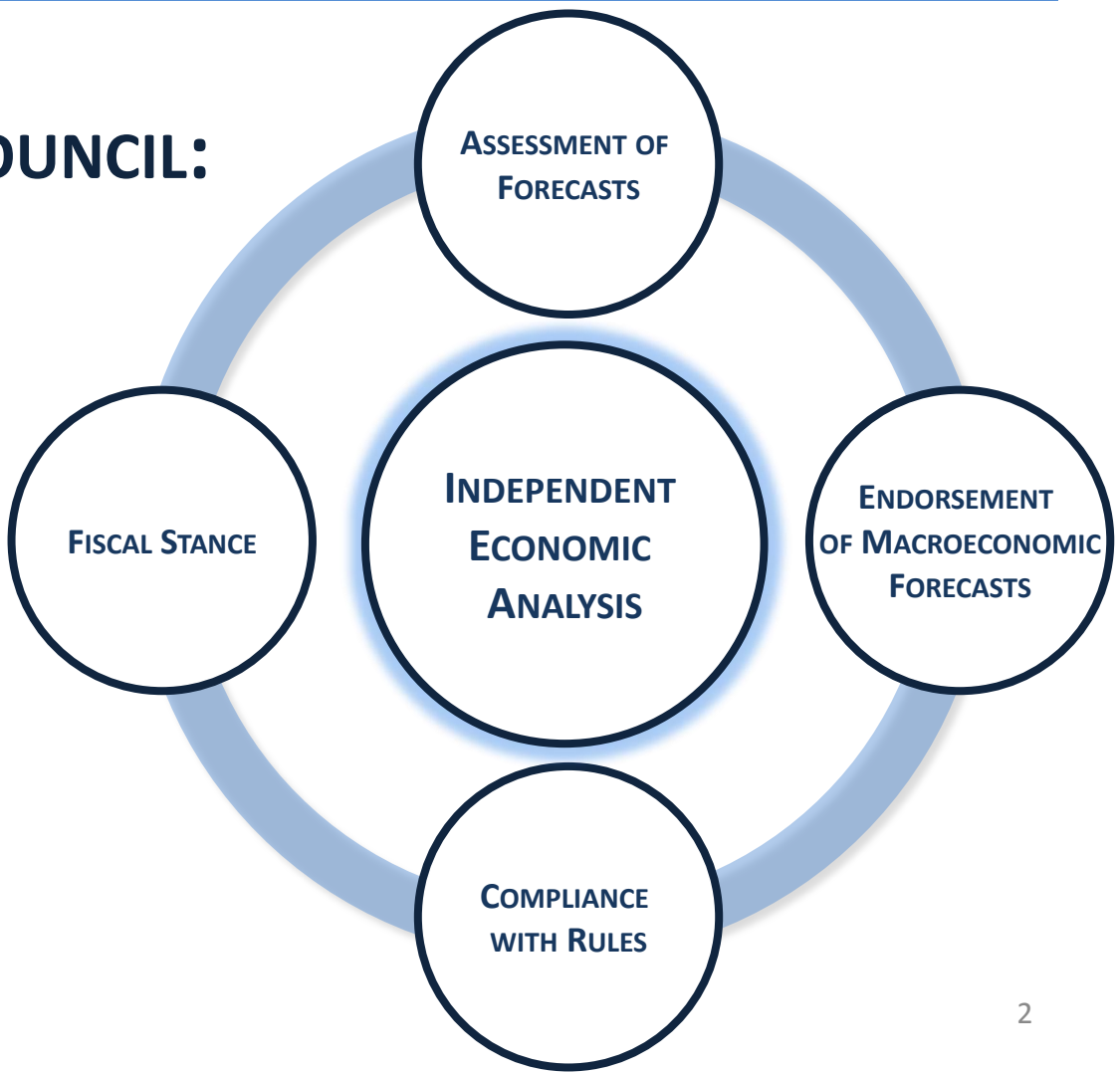
## MANDATE OF THE COUNCIL:

*9<sup>th</sup> Fiscal Assessment  
Report* 

Five-member Council



Six-member Secretariat





## KEY MESSAGES

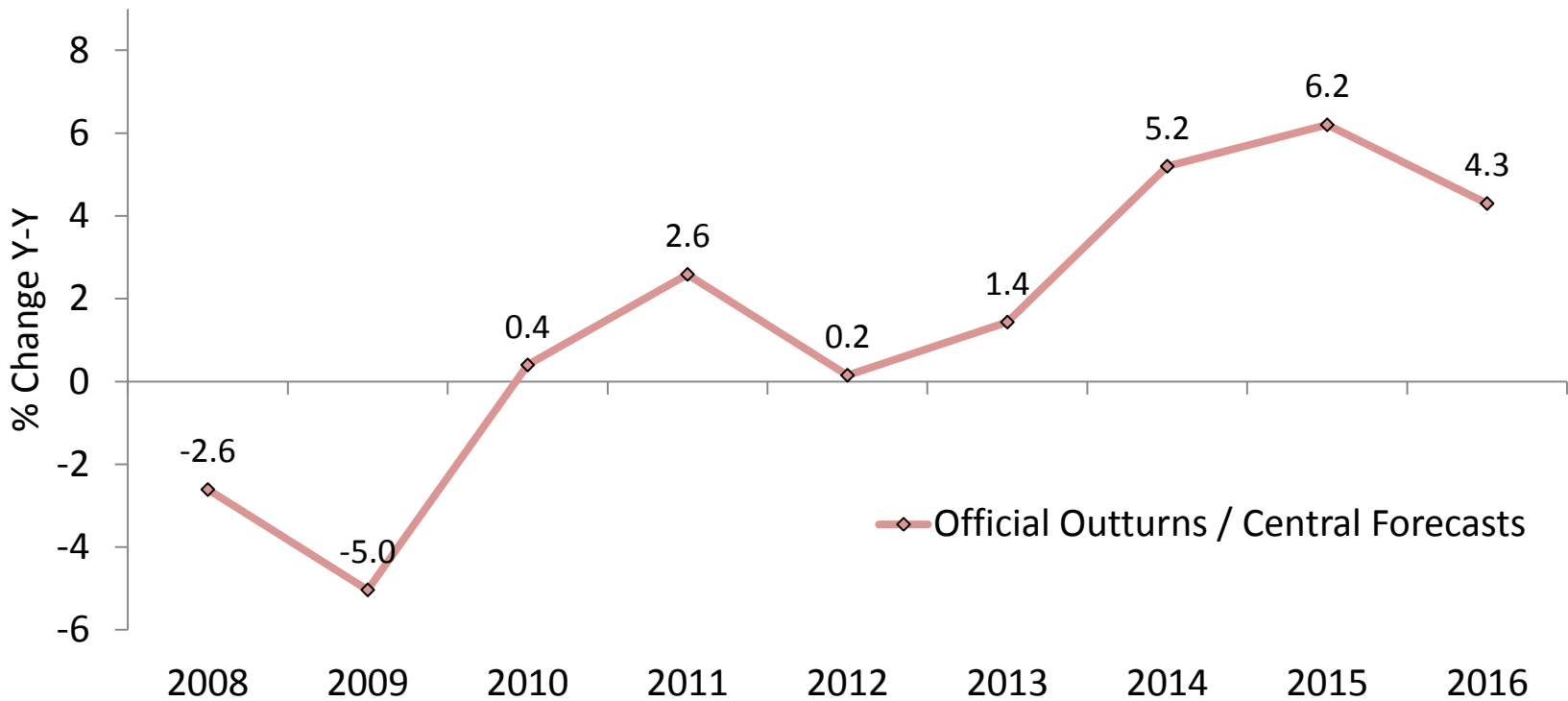
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- Strong recovery and central growth forecasts
  - But significant risks surround the forecasts
  - Importance of prudence to ensure sustainable growth
- Large supplementary spending in 2015 a deviation from a prudent fiscal stance
  - Unexpected incoming revenues used to fund large increase in spending
  - Uncertainty about the drivers of corporation tax overperformance
- Planned stance from 2016 meets fiscal rules
  - Consistent with a prudent fiscal stance
  - But significant risks given no margin for overruns with the Expenditure Benchmark
- Budget 2016 doesn't address weaknesses with the Government's medium-term fiscal plans beyond 2016 and multi-year expenditure ceilings not being implemented



## REAL GDP GROWTH 6.2% IN 2015; 4.3% IN 2016

REAL GDP: *BUDGET 2016* PROJECTIONS (TO 2016)



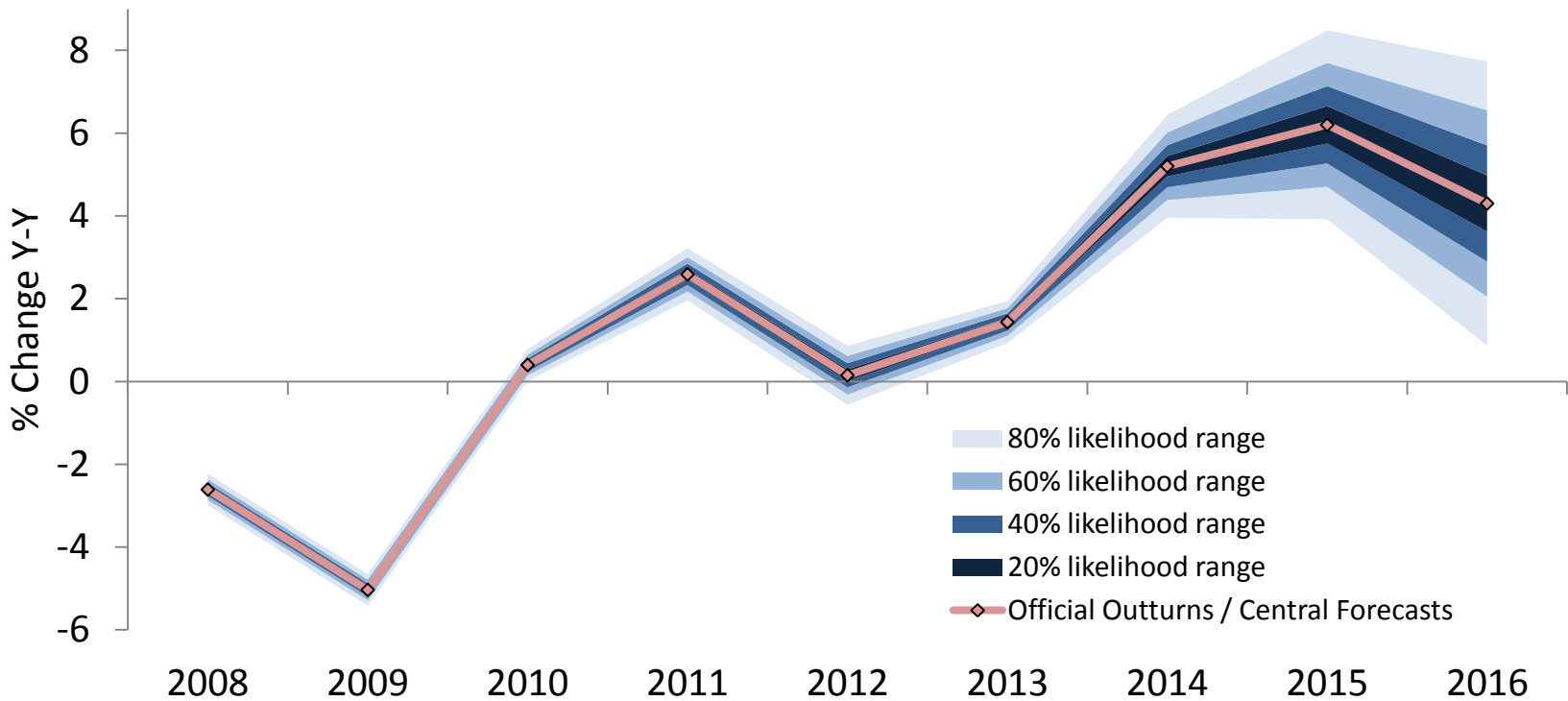
Sources: CSO; Department of Finance; internal IFAC calculations.

Note: Distributions or 'fans' around historical growth estimates are based on previous revisions to real GDP data. Both forecast errors and revisions are based on 1999-05 sample.



## BUT SIGNIFICANT RISKS AROUND CENTRAL FORECASTS

REAL GDP FAN CHART BASED ON *BUDGET 2016* PROJECTIONS (TO 2016)

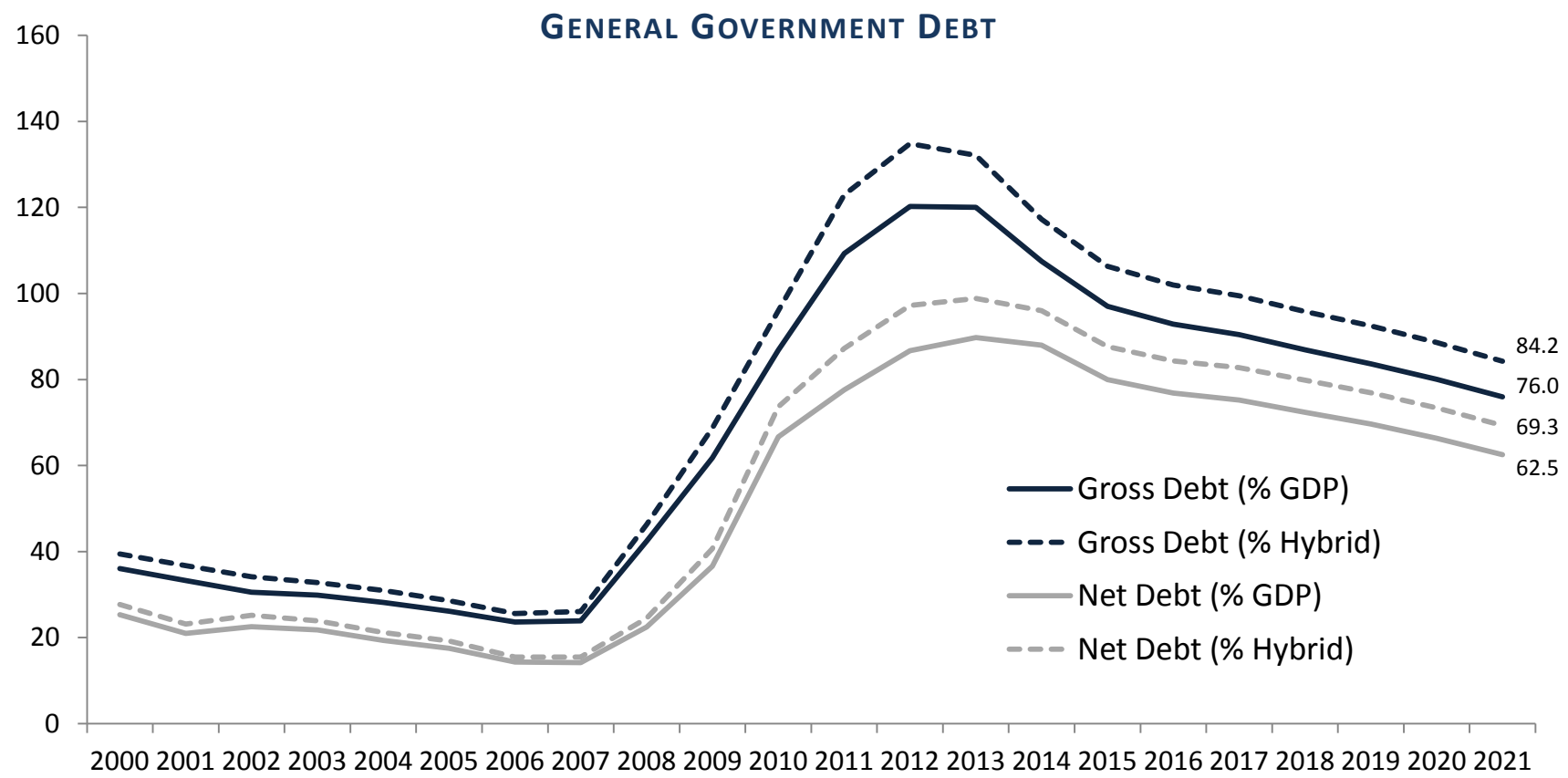


Sources: CSO; Department of Finance; internal IFAC calculations.

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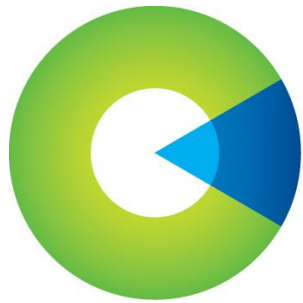


## CRISIS LEGACY OF HIGH DEBT AND ASSOCIATED RISKS



Sources: Department of Finance; internal IFAC calculations.

Note: Changes in EDP debt instrument assets for forecast years are assumed to be in line with Budget 2016 projected changes in cash balances.



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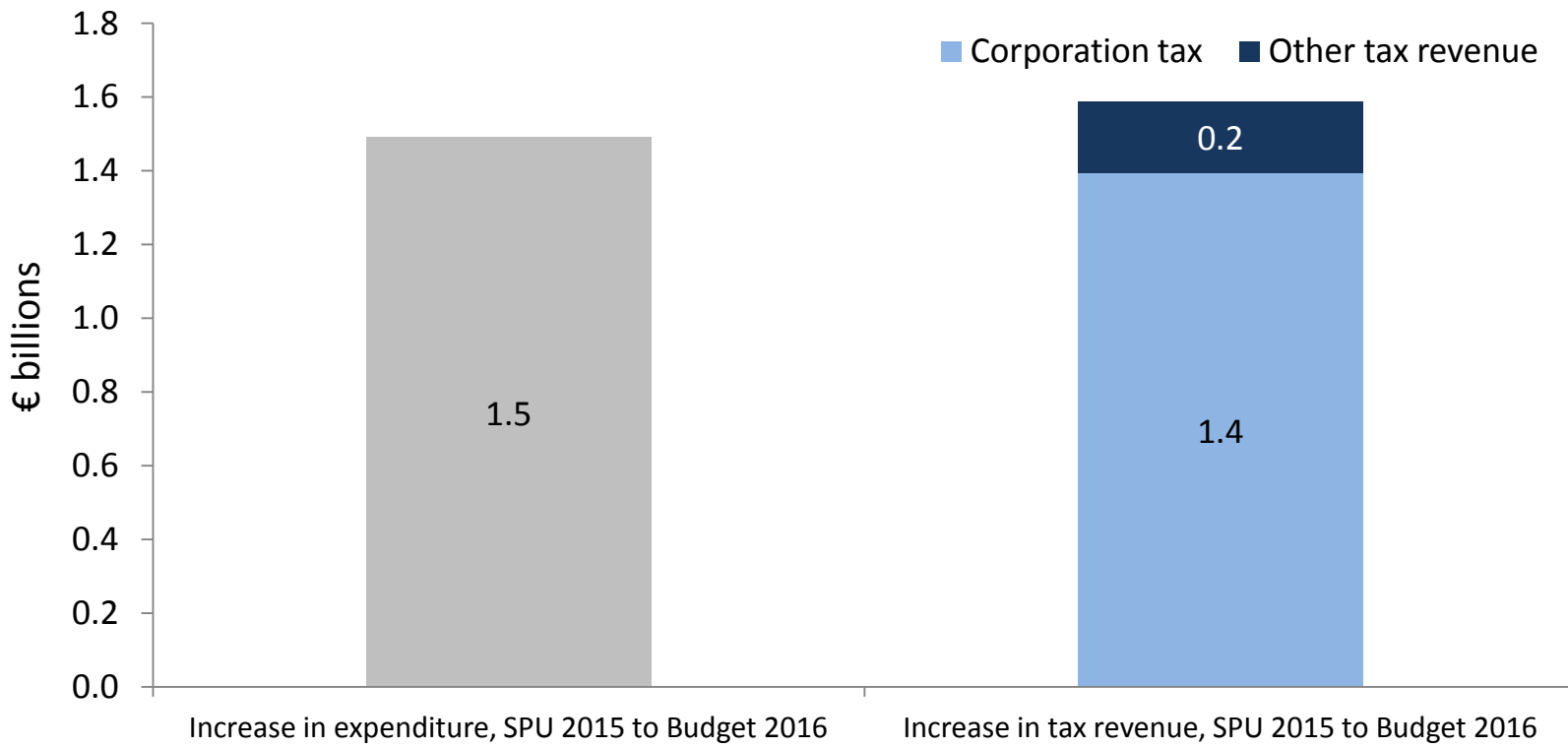
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**LARGE INCREASE IN SPENDING IN 2015 THROUGH  
THE SUPPLEMENTARY ESTIMATES PROCESS WAS A  
DEVIATION FROM PRUDENT POLICY**



## USE OF UNEXPECTED INCOMING REVENUES TO FUND A LARGE INCREASE IN SPENDING IN 2015

### REVISIONS TO EXCHEQUER EXPENDITURE AND TAXES FOR 2015



Source: Department of Finance and internal IFAC calculations.

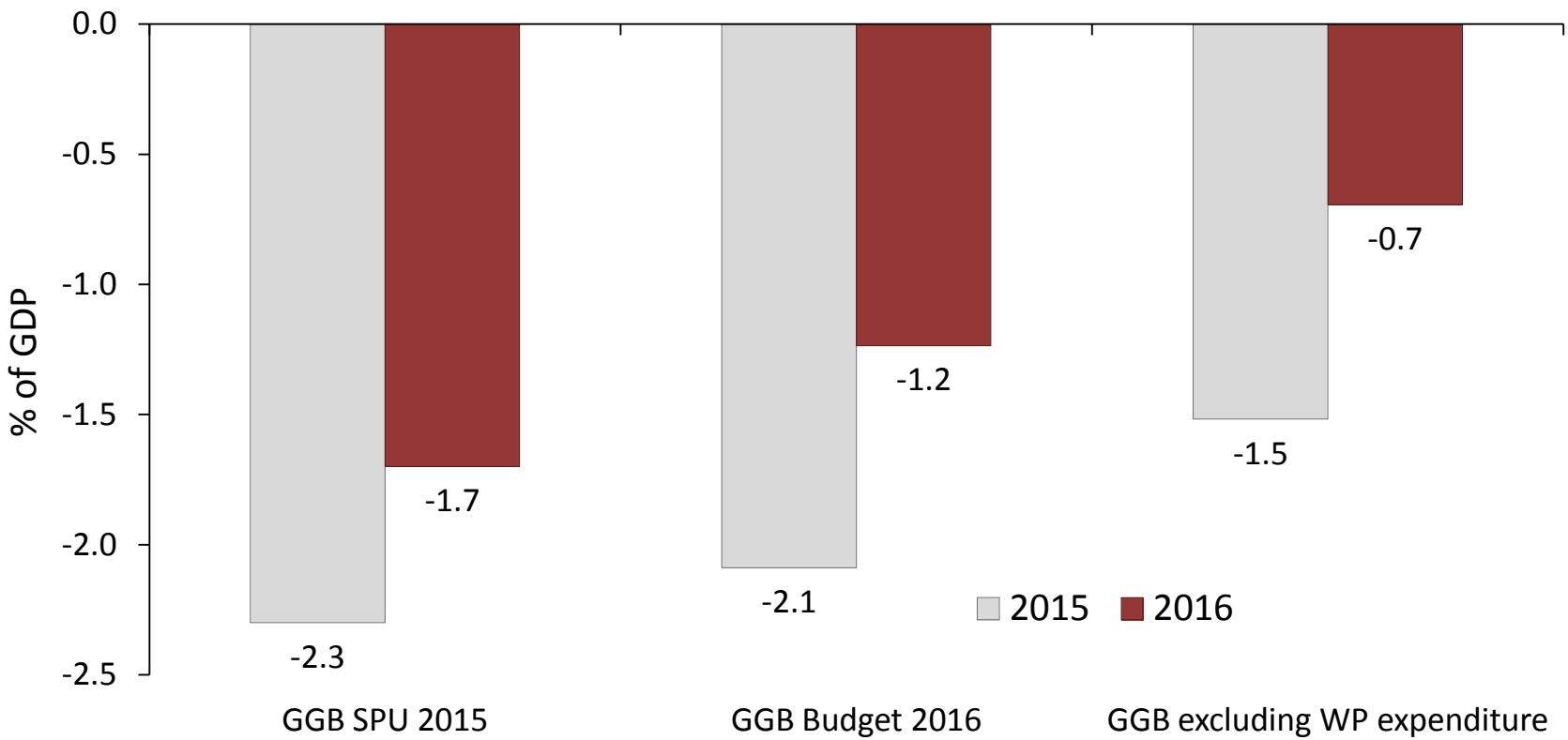
Note: The increase in expenditure between SPU 2015 and Budget 2016 (grey column) refers to total gross voted current and capital expenditure. Tax revenue (right hand column) is the sum of Exchequer tax revenue plus PRSI.





## OPPORTUNITY FOREGONE TO LOCK IN LOWER DEFICITS, DEFICIT 0.5PP LARGER

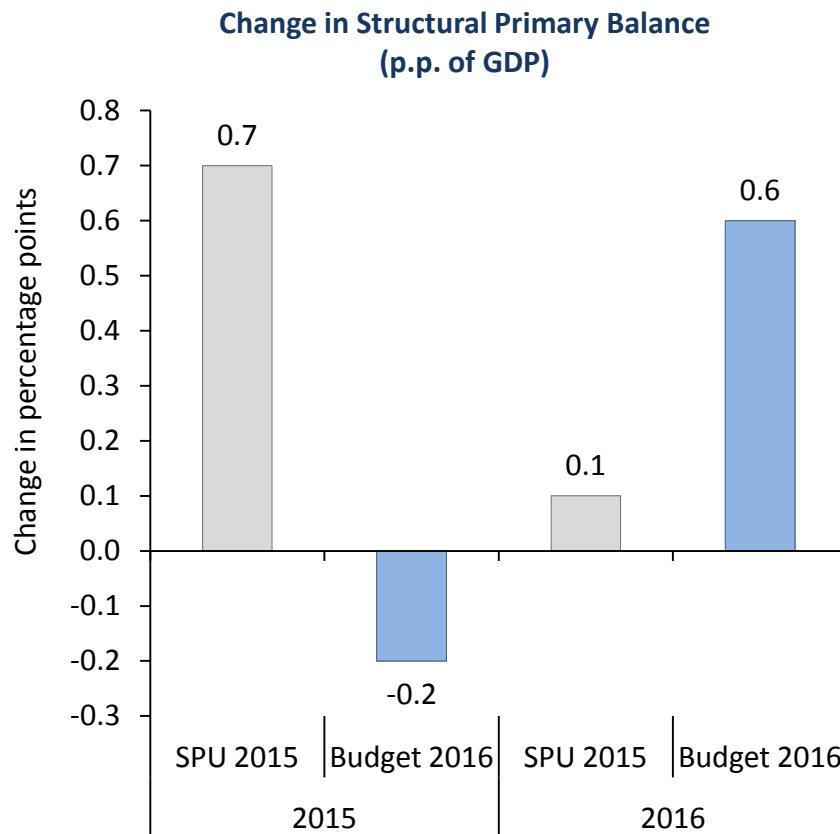
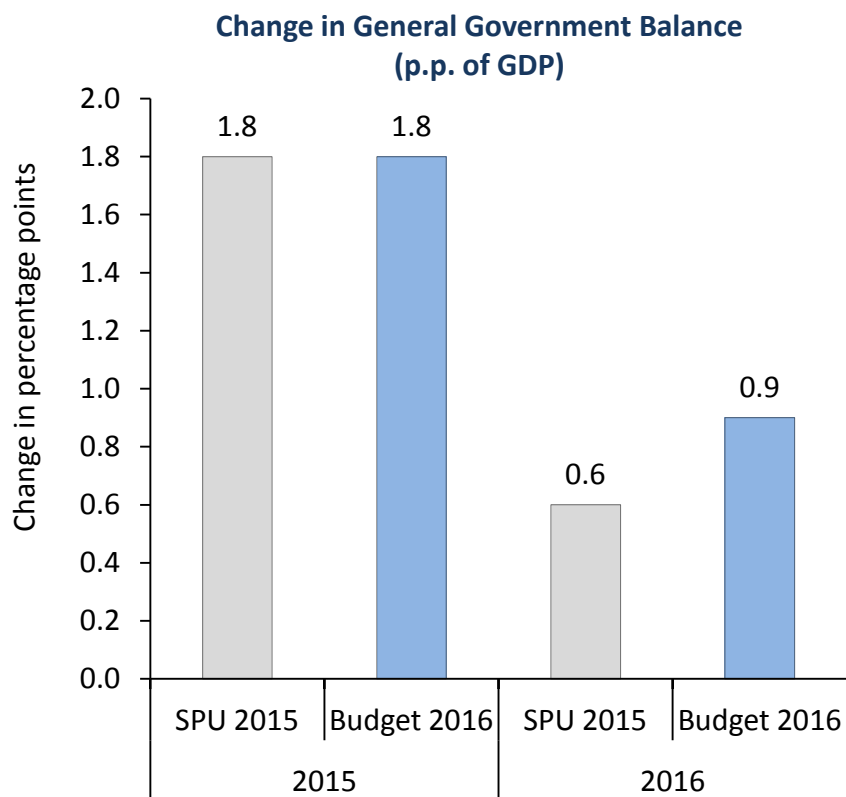
PROJECTIONS FOR THE GENERAL GOVERNMENT BALANCE (GGB) IN 2015 AND 2016



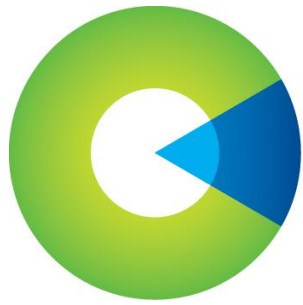
Source: Department of Finance and internal IFAC calculations.



## DETERIORATION IN STRUCTURAL PRIMARY DEFICIT



Source: Department of Finance based on Commonly Agreed Methodology



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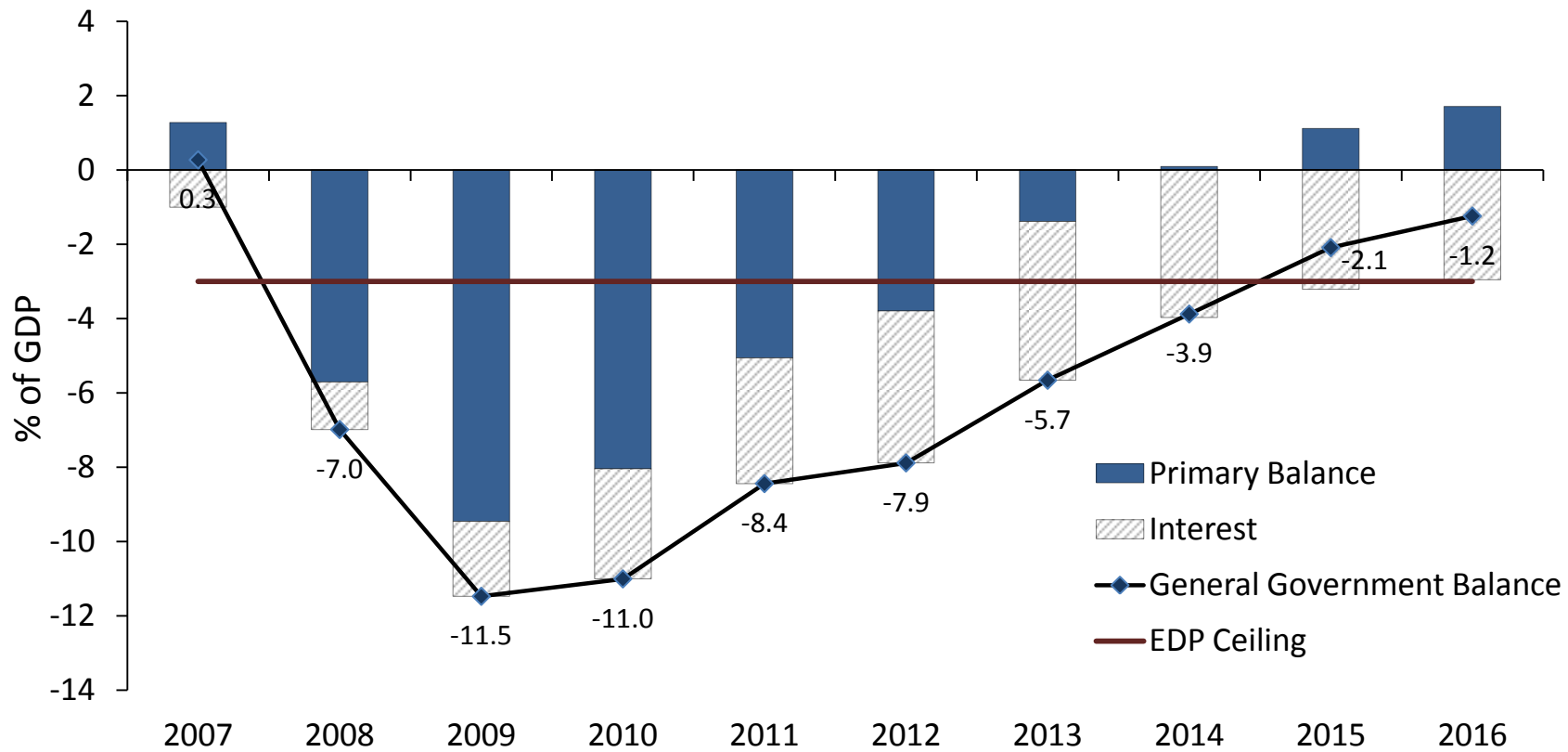
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**BUDGET 2016 PROJECTIONS ARE CONSISTENT WITH  
RULE COMPLIANCE, BUT NO ROOM FOR OVERRUNS  
ON EXPENDITURE**



# IRELAND EXPECTED TO EXIT THE EDP IN 2015

**GENERAL GOVERNMENT BALANCE (% GDP)**

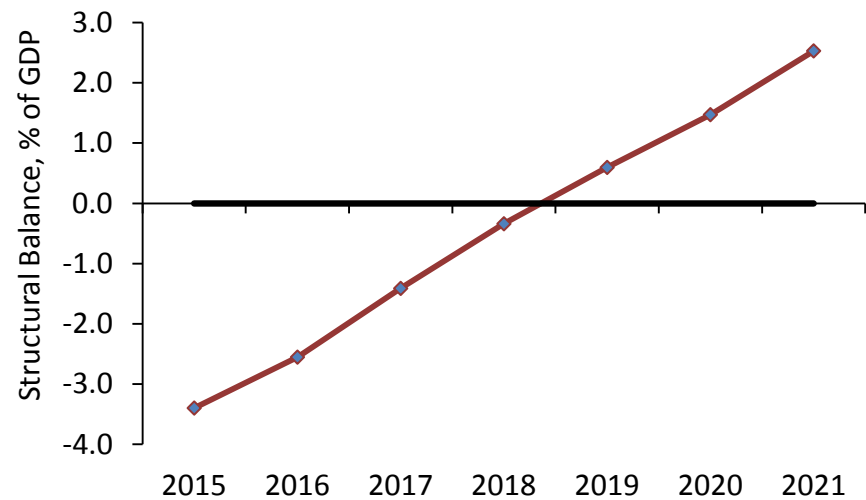


Source: CSO; Budget 2016.



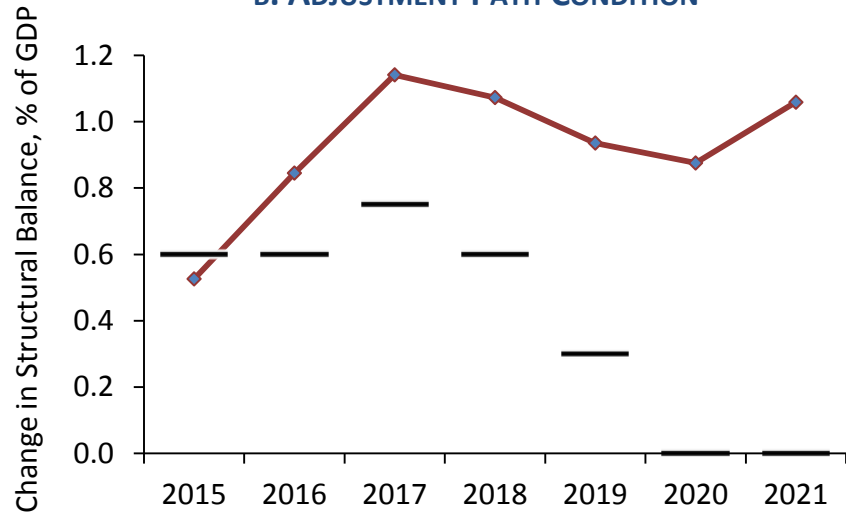
## PROJECTED STANCE FROM 2016 MEETS REQUIREMENTS OF RULES

### A. BUDGET CONDITION



—◆— Structural budget balance      — MTO

### B. ADJUSTMENT PATH CONDITION



—◆— Annual change in the structural budget balance  
 — Minimum required change in the structural balance

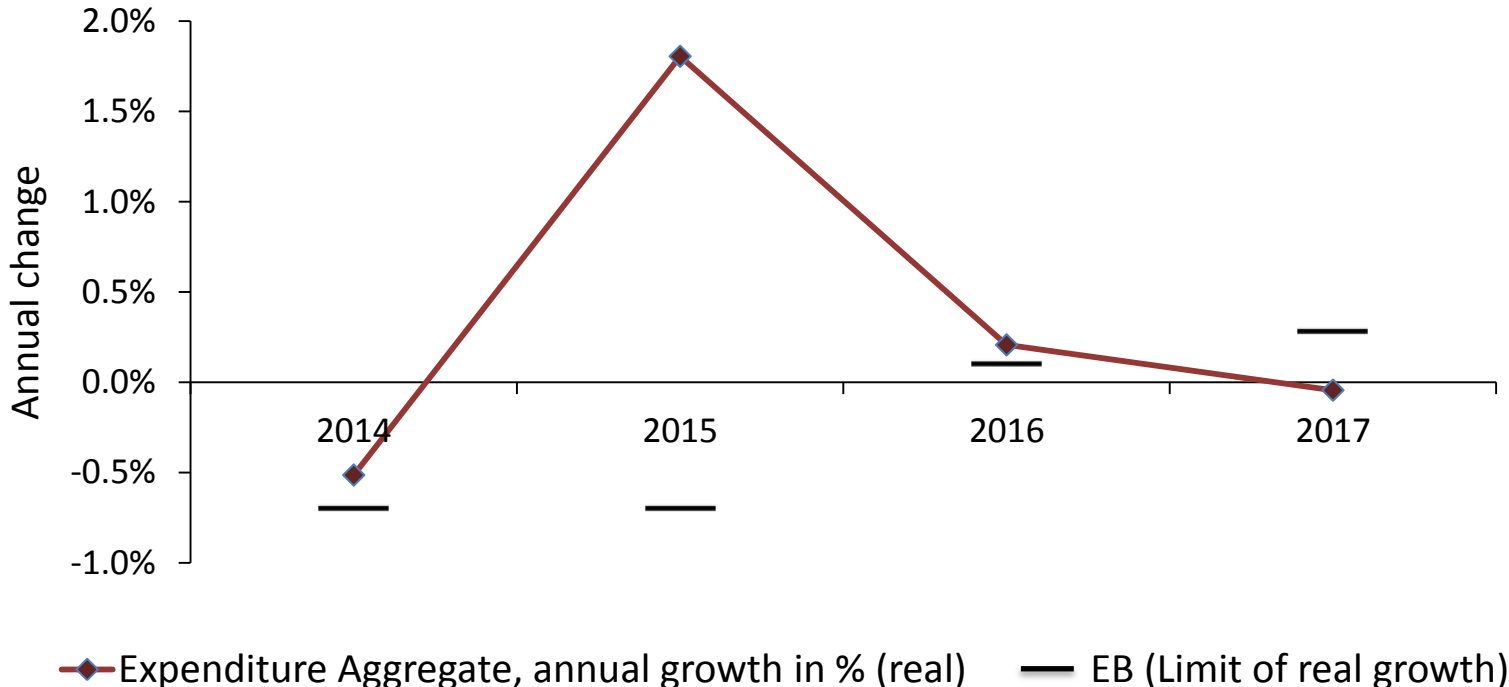
Note: The current Medium Term Budgetary Objective (MTO) for Ireland is a structural balance.  
 Source: Budget 2016, Department of Finance.

Note: The current Medium-Term Budgetary Objective for Ireland is a structural balance. This is planned to be achieved in 2019 and consequently the Adjustment Path Condition does not apply from that year. The required changes above are calculated based on the structural balance from the previous year. If the minimum adjustment was undertaken for the whole period the MTO would be achieved in 2020, a year later than planned in Budget 2016.  
 Source: Budget 2016, Department of Finance.



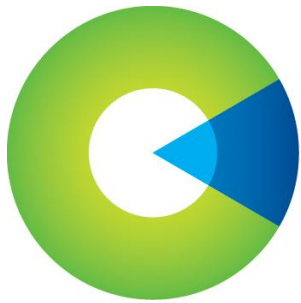
# BUT RISKS SURROUND EXPENDITURE BENCHMARK IN 2016

COMPLIANCE WITH THE EU EXPENDITURE BENCHMARK (EB)



Source: Budget 2016 and EC Spring Economic Forecasts.

Note: EB is complied with where the adjusted expenditure aggregate grows at a rate less than the indicated benchmark rate. This real growth rate has been adjusted to reflect the scale of discretionary revenue measures.



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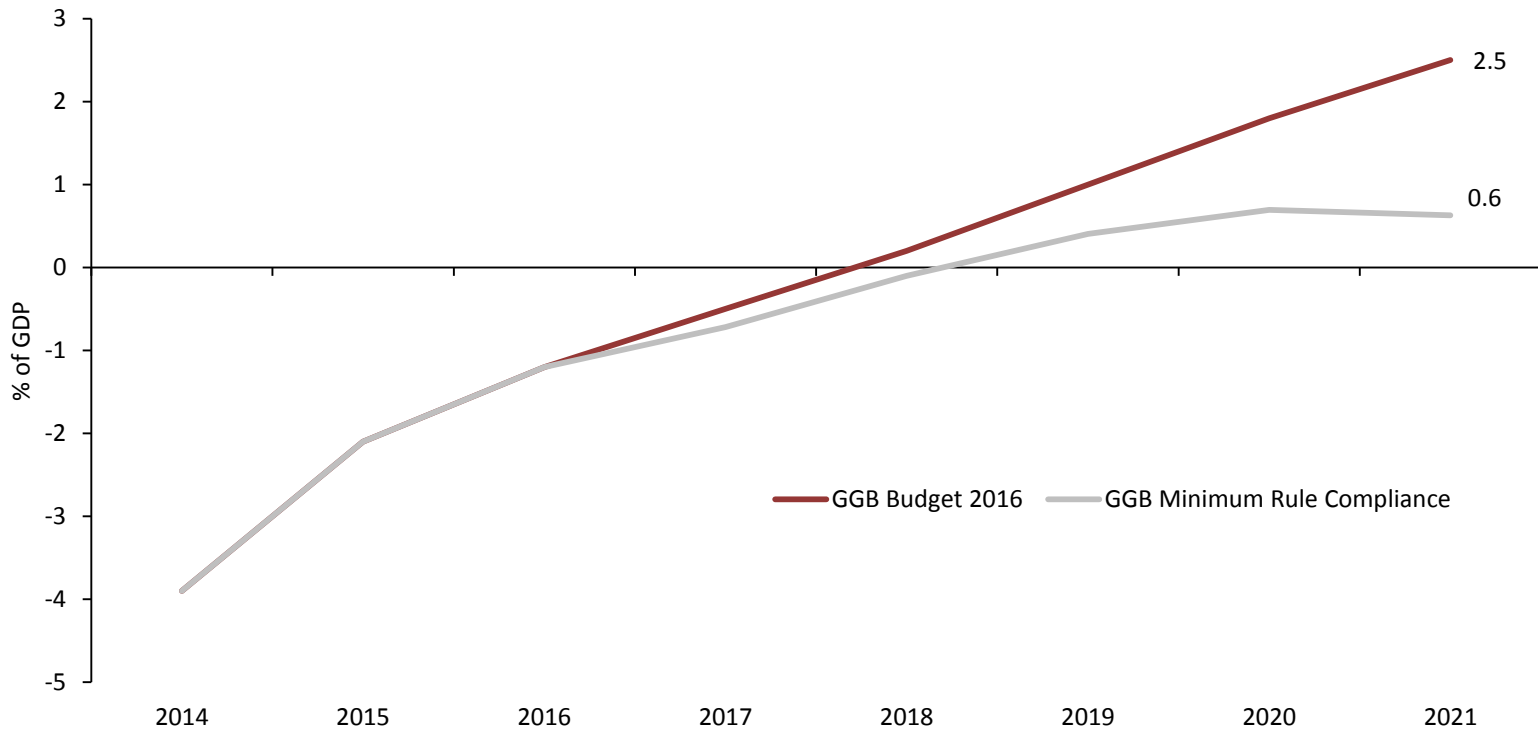
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**BUDGET 2016 DID NOT PROVIDE WELL-SPECIFIED  
MEDIUM-TERM PLANS, AND MULTI-YEAR  
EXPENDITURE CEILINGS NOT BEING IMPLEMENTED**



# PROJECTIONS ASSUME OVER-COMPLIANCE WITH RULES

## DEFICIT SCENARIO WHERE ALL FISCAL SPACE IS USED



Source: Budget 2016 and internal IFAC calculations.

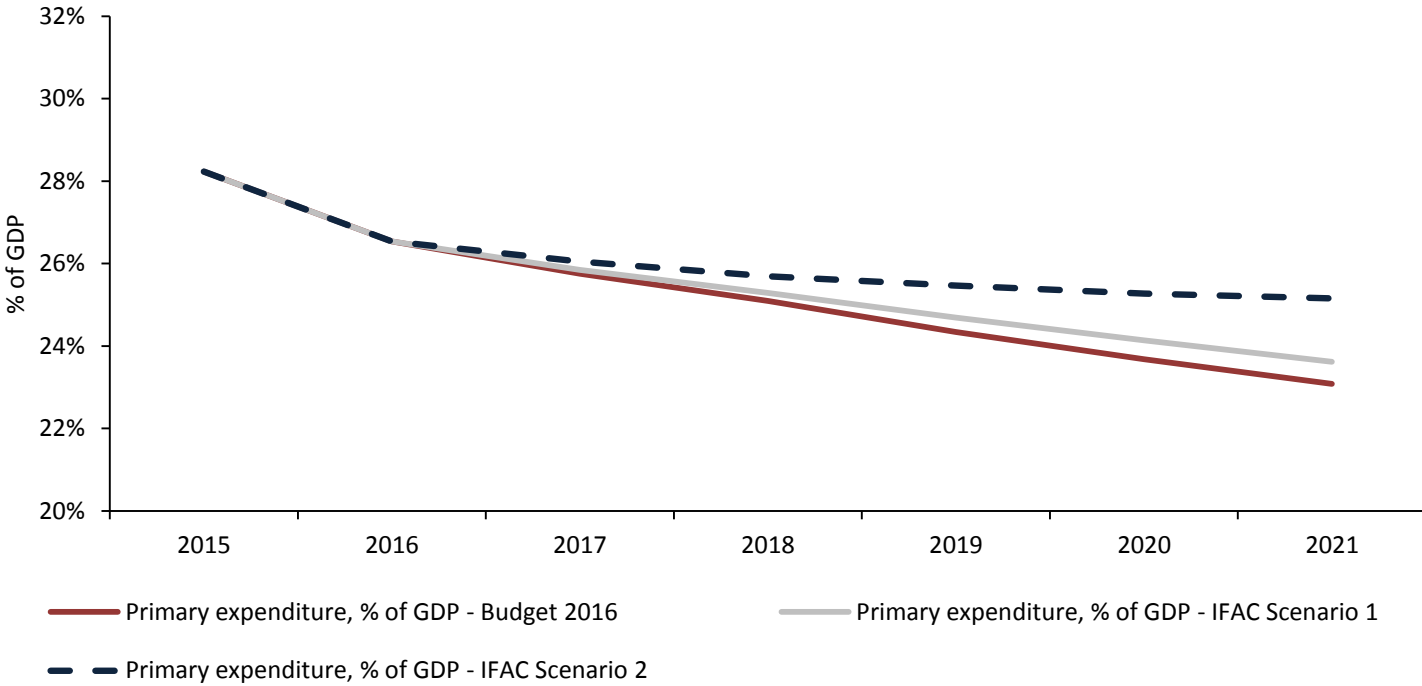
Note: "GGB Budget" is the General Government Deficit in Budget 2016. "Minimum Rule Compliance" shows the adjusted deficit assuming the fiscal space under the EB as identified in Budget 2016 is used.





## MEDIUM-TERM EXPENDITURE SCENARIOS

COMPARISON OF PRIMARY EXPENDITURE UNDER ALTERNATIVE SCENARIOS

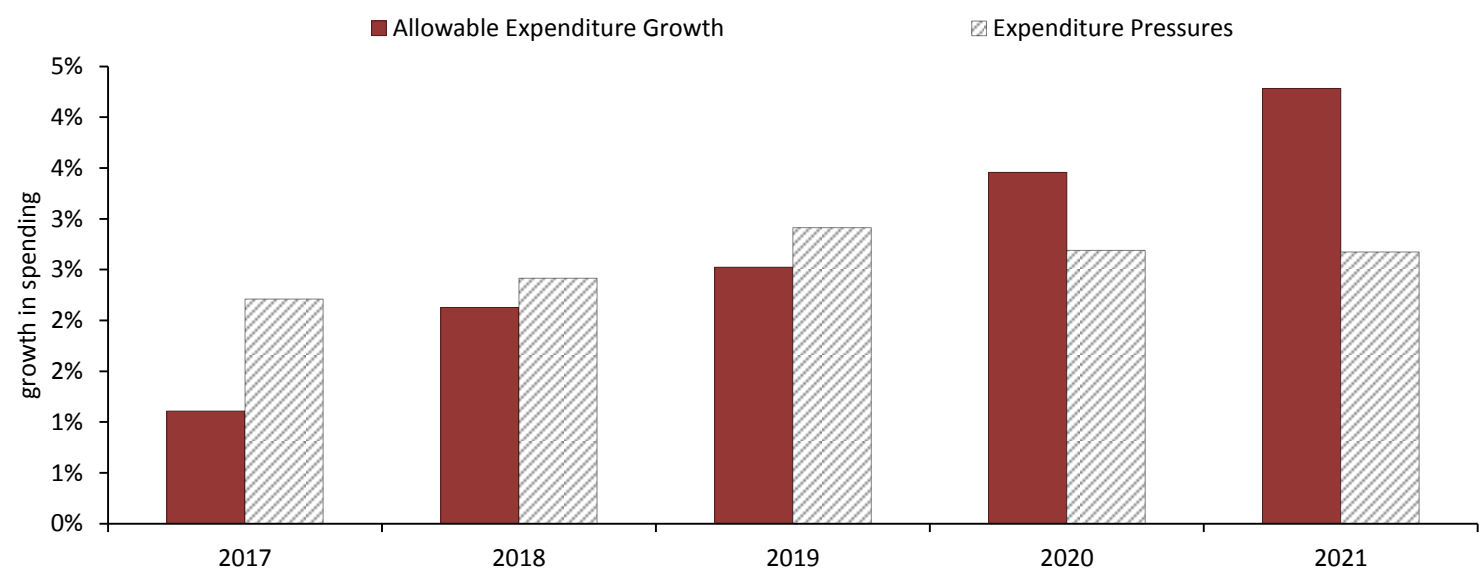


Note: Scenario 1 allows for demographic change with no indexation. Scenario 2 allows for demographic change plus indexation.  
Source: Internal IFAC calculations.



## FUTURE EXPENDITURE NEEDS COULD ABSORB SPACE AFTER 2016

### ESTIMATED EXPENDITURE PRESSURES COMPARED WITH ALLOWABLE EXPENDITURE GROWTH



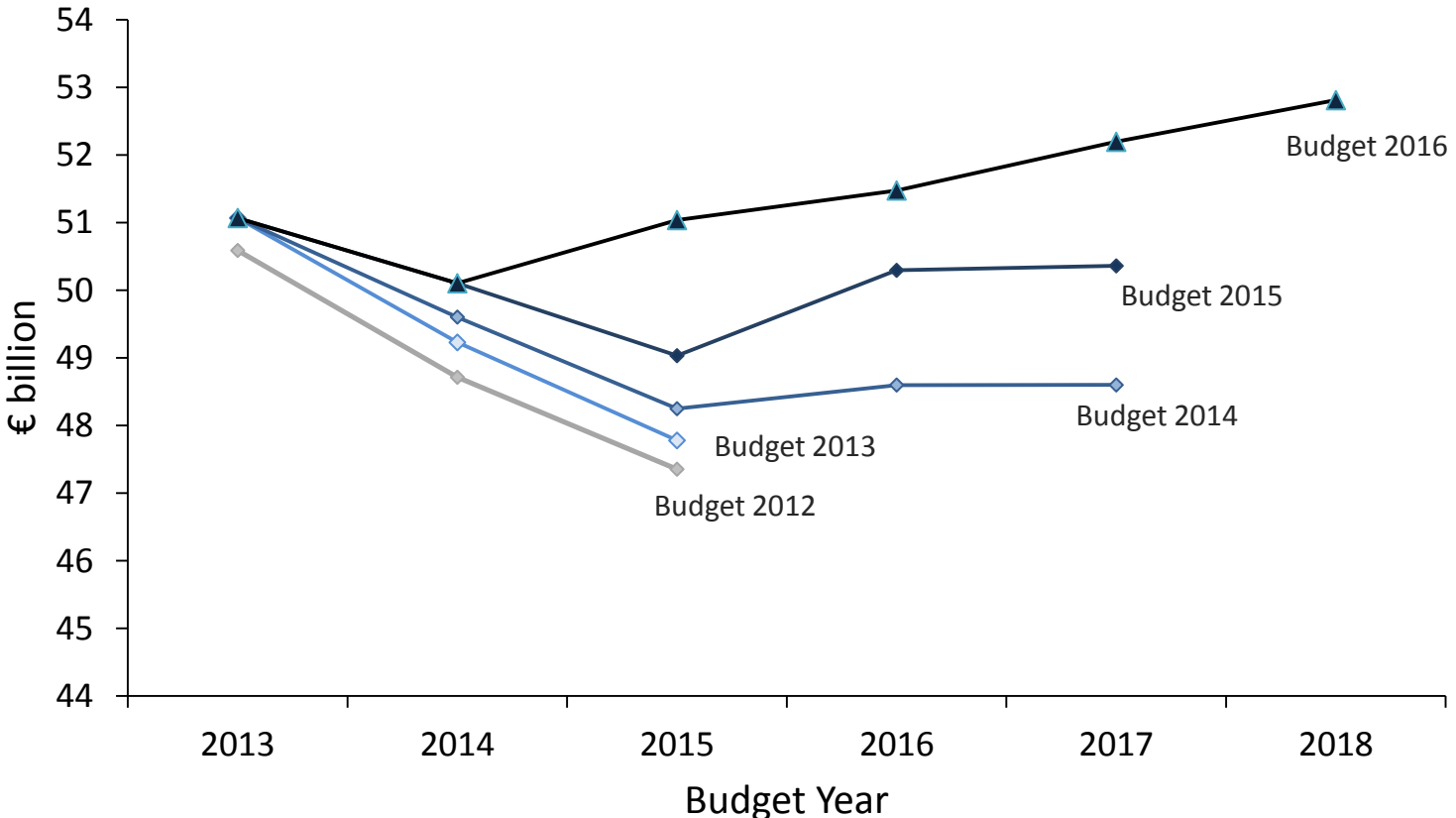
Source: Internal IFAC calculations.

Note: Expenditure pressures are estimated under the assumptions outline in Box E. Allowable expenditure refers to expenditure growth that would be compliant with the Expenditure Benchmark.



## CONTINUOUS REVISION TO MULTI-YEAR EXPENDITURE CEILINGS

### CHANGES TO CURRENT EXPENDITURE CEILINGS



Source: Department of Finance.

## REVIEW OF KEY MESSAGES

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- Strong recovery and central growth forecasts
  - But significant risks surround the forecasts
  - Importance of prudence to ensure sustainable growth
- Large supplementary spending in 2015 a deviation from a prudent fiscal stance
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