

### BOX A: THE EVOLUTION OF THE BUDGETARY PROCESS

A number of innovations to the budgetary process have been introduced in Ireland in recent years. The reforms are designed to enhance Oireachtas engagement with the budgetary process and aim to address some of the shortcomings identified in the OECD *“Review of Budgetary Oversight by Parliament in Ireland”* published in 2015. In addition to the budget (published in October) and Stability Programme Update (published in April), the Government has published a *Spring/Summer Economic Statement* since 2015. In 2016, reflecting the fact that negotiations on the formation of Government were on-going at the time of the *SPU* publication in April, the *Summer Economic Statement* was published in June 2016 rather than at the same time as the *SPU*. The *SES* provides the macroeconomic and fiscal context for the discussions at the National Economic Dialogue held in June.

The *Summer Economic Statement 2016* saw a change to the way key budgetary data are presented compared to previous publications. *SES 2016* contained forecasts for key fiscal aggregates (revenue, expenditure, the deficit and the debt) on both an *ex ante* and *ex post* basis:

- The *ex ante* forecasts mirrored the purely technical projections contained in previous budgets and *SPUs*. For example, the medium-term expenditure projections made provision for pure demographic pressures and the impact of the Lansdowne Road Agreement until 2018. The use of the available fiscal space under the domestic and EU fiscal rules for tax reductions and expenditure increases was not factored into the *ex ante* forecasts.
- The *ex post* medium-term forecasts for overall tax revenue and expenditure and other main fiscal aggregates include the allocation of fiscal space for revenue and expenditure measures over the medium term.

The *ex post* forecasts are more realistic than the technical *ex ante* projections published previously as they show the path of the public finances over the medium term consistent with the Government’s stated policy to use the estimated fiscal space for tax cuts and spending increases. *Budget 2017* also published forecasts on an *ex post* basis. This is an improvement on past practice as the forecasts take into account more of the known information about the Government’s likely future fiscal stance, in contrast to the purely technical projections published previously.

The first *Mid-Year Expenditure Report (MYER)* was published in July 2016. This report contained details on expenditure trends to end-June 2016 across spending programmes and a revised end-year outturn. The revised end-year outturn for 2016 in the *MYER* included the additional €540 million expenditure for the Department of Health and Department of Justice that was previously included in the estimate for 2016 presented to the Dáil in June.

Another new development in the budgetary process in 2016 was the hearings held by the Oireachtas Budgetary Oversight Committee. Although the work of the Committee was truncated for *Budget 2017*, the Committee took evidence from a number of witnesses including the Minister for Finance and Minister for Public Expenditure and Reform, Central Bank, ESRI, IFAC and others. The Committee published a report in advance of the Budget outlining some of the common themes that emerged during the hearings.

If used effectively to provide relevant information for fiscal planning, including detailed medium-term fiscal projections, the new additions to the annual budget cycle such as the *Summer Economic Statement* and *Mid-Year Expenditure Report* have the potential to enhance the budgetary process and increase transparency. As the new budgetary process becomes embedded, however, it will be important to ensure that the *SES* and *MYER* are not viewed as opportunities to make incremental within-year adjustments to the Government’s spending

plans as announced in the previous October's budget. If this scenario materialised, it could undermine the budgetary process and further weaken the system of expenditure ceilings.

One practical step which would facilitate consistency between the Government's fiscal plans would be to align the timing of the *SPU* with the *SES* as was the case with the first *SES* published in 2015. This would avoid the scenario where one medium-term fiscal and macroeconomic plan announced in April (the *SPU*) is superseded by a new plan published two months later in June (the *SES*).