

**BOX B: A CLOSER LOOK AT GENERAL GOVERNMENT DEFICIT FORECAST ERRORS<sup>1</sup>**

The Council has a mandate to assess the accuracy of budgetary forecasts. In this Box, we take a look back at the accuracy of forecasts for the General Government deficit from 2011 to 2013 from successive Budgets. We examine the one year ahead forecasting error – the difference between the outturn for the deficit in 2013 relative to the forecast in *Budget 2013* (we do the same for *Budget 2011* and *Budget 2012*).

**DECOMPOSITION OF GENERAL GOVERNMENT DEFICIT FORECASTS**

In the Tables below, we compare Department of Finance estimates for key General Government aggregates (including nominal GDP) with actual outturns. For example, in *Budget 2013*, the Department of Finance estimate for General Government Revenue in 2012 was €55.7 billion. The outturn was €56.6 billion. All else equal, the starting point is therefore better than was envisaged in *Budget 2013*. We apportion the forecast error in the deficit into an error due to these data revisions and a residual error. Negative numbers indicate a lower than forecast deficit.<sup>2</sup>

The Tables highlight that the lower than expected deficit outturns in recent Budgets to a large extent reflected a favourable (tax and non-tax) revenue performance and lower than expected interest payments.<sup>3</sup> This helped to compensate for expenditure pressures in 2012 and 2013.

TABLE B1: DECOMPOSITION FORECAST ERROR IN 2013

Contributions, % of GDP	Due to 2012 Revision	Due to Residual Error	Combined
Nominal GDP	0.0	+0.2	+0.2
Revenue	-0.6	-0.2	-0.8
Primary Expenditure	+0.7	+0.4	+1.1
Interest	-0.2	-0.7	-1.0
<b>Total Forecast Error</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.4</b>

TABLE B2: DECOMPOSITION FORECAST ERROR IN 2012

Contributions, % of GDP	Due to 2011 Revision	Due to Residual Error	Combined
Nominal GDP	-0.4	+0.1	-0.2
Revenue	-0.7	-0.3	-1.0
Primary Expenditure	0.0	+1.3	+1.2
Interest	0.0	-0.5	-0.5
<b>Total Forecast Error</b>	<b>-1.1</b>	<b>+0.6</b>	<b>-0.4</b>

TABLE B3: DECOMPOSITION FORECAST ERROR IN 2011

Contributions, % of GDP	Due to 2010 Revision	Due to Residual Error	Combined
Nominal GDP	0.0	0.0	-0.1
Revenue	+0.4	+0.6	+1.1
Primary Expenditure	-1.5	-0.1	-1.6
Interest	+0.2	-0.2	-0.1
<b>Total Forecast Error</b>	<b>-0.9</b>	<b>+0.3</b>	<b>-0.6</b>

<sup>1</sup> The calculations behind these tables can be downloaded from [www.fiscalcouncil.ie](http://www.fiscalcouncil.ie).

<sup>2</sup> Exceptional payments to the financial sector are excluded from the analysis.

<sup>3</sup> Some of the factors causing revisions to interest expenditures were discussed in previous *Fiscal Assessment Reports* (IFAC, 2013b) – these relate to the extension of maturities on official loans, lower interest rates, borrowing activity by the National Treasury Management Agency and the promissory note transaction.



