



Press Release: Fiscal Assessment Report, November 2017

Embargo: 12:01am Wednesday 29th November 2017

The Irish Fiscal Advisory Council publishes its 13th *Fiscal Assessment Report* today (Wednesday 29th November 2017). The main findings are:

The Council assesses the Government's stance as set out for next year in *Budget 2018* to be conducive to prudent economic and budgetary management. The

Government increased expenditure at a faster pace than the initial limit permitted under the domestic and EU fiscal rules by introducing revenue-raising measures to fund these initiatives. In doing so, it followed through on plans set out by the Department of Finance in summer to stay within the available gross fiscal space for 2018 of around €1.7 billion. Prior to the Budget, the Council had recommended that the Government adhere to these plans. Looking ahead, the Budget plans allow for a gradual pace of debt reduction; moderate increases in current expenditure; and a ramping up of public investment to rates that are among the highest in the EU, while also complying with the requirements of the fiscal rules.

However, there is a risk that the economy may experience overheating in coming years. This could happen if a rapid – albeit necessary – response from the construction sector to persistent supply shortfalls were to arise, which is not offset by countercyclical measures elsewhere. Any temporary revenue inflows should be used to reduce debt at a faster pace or to build up buffers against future shocks.

The Government should set out a credible plan for the medium term so that a procyclical pattern of budgetary increases does not occur as has often been the case. Solutions include:

- (i) making a firmer commitment to the spending rule (Expenditure Benchmark) as an anchor for fiscal policy even when the Medium Term Objective is met;
- (ii) strengthening the proposed design of the Rainy Day Fund so that it achieves the necessary countercyclical effects and is adequate in size;
- (iii) developing the Department's toolkit for assessing the cyclical position of the economy; and
- (iv) adhering to a target for public investment spending over the medium term.