3. Assessment of Budgetary Forecasts

Key Messages

- The general government deficit (excluding one-off items) for 2018 is forecast at 0.4 per cent of GNI* – broadly unchanged relative to 2017 –, despite strong revenue growth, falling interest payments and declining unemployment.

- The primary balance (excluding one-off items) is forecast to deteriorate in 2018 (surplus of 2.1 per cent of GNI*) relative to 2017 (surplus of 2.5 per cent of GNI*). This is driven by non-interest expenditure growing at a faster pace than total revenue.

- Over 2015–2017, revenue has been much stronger than was anticipated in late 2014. Much of this increased revenue has been matched by higher-than-anticipated spending in these years. This creates the risk of procylicality to the extent that revenue gains are coming from the cycle.

- Corporation tax grew fastest of all tax headings in 2017 and reached its second highest share of Exchequer tax revenue in recent decades. The high volatility and strong concentration of corporation tax receipts in few companies pose significant risks of sharp revenue falls.

- Stamp duties are cumulatively below expectations in 2018 to end-April by 9.8 per cent, raising questions about the estimated yield from the higher rate of stamp duty introduced in *Budget 2018,* as signalled by the Council at budget time. More generally, it is important for realistic forecasts that costings and estimates of yields from tax changes are well founded and subject to independent scrutiny.

- For 2019–2021, the general government balance is forecast to improve very modestly, with a deficit of 0.2 per cent of GNI* in 2019, followed by surpluses of 0.4 per cent and 0.6 per cent in 2020 and 2021 respectively. The forecasts assume that not all of the fiscal space allowed under the rules is used in these years, which is in line with government policy but may be difficult to achieve.

3.1 Introduction

This chapter assesses recent outturns and the latest set of fiscal forecasts produced by the Department of Finance in *SPU 2018*. Section 3.2 examines the outturn of the main fiscal aggregates for 2017 and 2018 thus far. Section 3.3 assesses the projections for revenue and expenditure for 2018–2021 contained in *SPU 2018*. Section 3.4 details some recent publications on long-term fiscal sustainability. Section 3.5 provides an assessment of some fiscal risks.

The main fiscal aggregate outturns/forecasts for 2017–2021 are set out in Table 3.1. The general government balance (excluding one-off items) is expected to improve over the forecast horizon (2018–2021), turning positive in 2020, based on the Government's stated intention not to fully use available fiscal space.

Total revenues (excluding one-off items) are forecast to grow at an average annual rate of 3.9 per cent from 2018 to 2021, with total expenditure (excluding one-off items) planned to grow at a slower average annual rate of 3 per cent over the same period. Primary expenditure (excluding one-off items) – i.e., non-interest spending – is forecast to grow at an annual rate of 4.5 per cent for 2018 to 2019, before slowing to 2.5 per cent over 2020 and 2021. Despite this increase, primary expenditure is expected to gradually fall from 35.1 per cent of GNI* to 33.5 per cent of GNI*. This is due to the strong nominal GNI* forecasts over the projection horizon.

The SPU plans propose allocating €0.5 billion each year from 2019 to 2021 to a Rainy Day Fund, along with an initial allocation of €1.5 billion from the *Ireland Strategic Investment Fund (ISIF)*.[30] Although these amounts would be counted as Exchequer spending, they will remain within the general government sector and will, therefore, not be measured as general government spending.

The forecasts published in *SPU 2018* cover the period 2018–2021. Although not formally required, the Department had established a practice of publishing 5-year-ahead forecasts, which in this case would be out to 2023 (see Figure 1.10 in Chapter 1). The shortening of the horizon in the Government's most recent

[30] The government has approved drafting of a rainy day fund bill: https://www.finance.gov.ie/updates/government-approves-drafting-of-rainy-day-fund-bill/

projections from five to three years ahead is not compatible with the aim of achieving medium-term fiscal stability.[31]

Table 3.1: Summary of Fiscal Outturns and Forecasts (2018–2021)
€ billion, unless otherwise stated

	2017	2018	2019	2020	2021
General Government Balance	-1.0	-0.8	-0.4	0.9	1.4
General Government Balance (excluding one-offs) [1]	-0.8	-0.8	-0.4	0.9	2.4
Total Revenue	76.2	79.3	82.6	85.4	88.9
Total Revenue excl. one-offs [1]	76.2	79.3	82.6	85.4	88.9
Total Revenue excl. one-offs (% change) [1]	4.6	4.1	4.2	3.4	4.1
Total Expenditure	77.2	80.1	83.0	84.5	87.5
Total Expenditure excl. one-offs [1]	77.0	80.1	83.0	84.5	86.6
Total Expenditure excl. one-offs (% change) [1]	3.2	4.0	3.6	1.9	2.4
Interest Expenditure	5.8	5.4	5.2	5.1	4.9
Primary Expenditure	71.4	74.7	77.7	79.4	82.6
Primary Expenditure (% change)	4.0	4.7	4.0	2.2	3.9
Primary Expenditure excl. one-offs [1]	71.2	74.7	77.7	79.4	81.7
Primary Expenditure excl. one offs (% change) [1]	4.0	4.9	4.0	2.2	2.8
Nominal GNI* Growth (% change)	6.3	5.9	5.0	4.5	4.2

Sources: CSO; Department of Finance (*SPU 2018*); and internal IFAC calculations.
Note: [1]One-offs/temporary measures are as assessed by the Council to be applicable. These one-offs are removed from variables to get a sense of the underlying fiscal position.

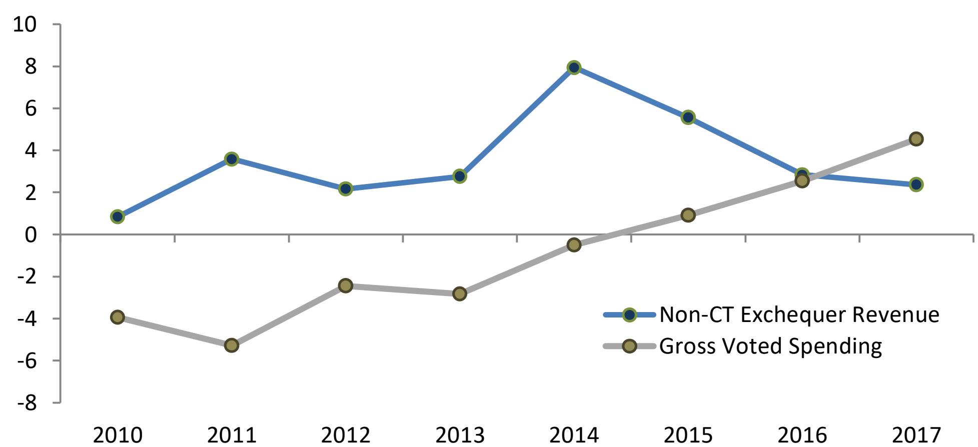
[31] In addition, several other relevant publications from the Department cover a time horizon of five years ahead or more: see annual report on public debt in Ireland (Department of Finance, 2017d), the National Development Plan (Department of Public Expenditure and Reform, 2018a) and Chapter 8 of *SPU 2018*.

3.2 Assessment of 2017 Outturns and 2018 Estimates

The **general government deficit** in 2017 was €1.0 billion, in line with forecasts in *Budget 2018*. If one-off items are excluded, the annual improvement in the balance was €1.0 billion. The improvement in the headline balance was a more modest €400 million, the difference mainly due to one-off revenues in 2016. One methodological change that affected these numbers was the reclassification of tier 3 Approved Housing Bodies (AHBs), which are now included as part of local government, and hence now impact on the general government balance.[32] This reclassification increased the general government deficit by close to €150 million (see Box F) in 2017.[33] While the balance in 2017 was in line with forecasts, higher-than-expected revenues compared with forecasts in recent budgets were matched by higher-than-planned expenditure.

Figure 3.1: Non-Corporation Tax Revenue and Gross Voted Spending

Percentage growth (year-on-year)



Sources: Department of Public Expenditure and Reform; Department of Finance; and internal IFAC calculations.
Note: Data are shown on an Exchequer basis. The 2017 outturn of Gross Voted Spending is provisional.

Figure 3.1 shows underlying revenue and expenditure growth trends. Since 2014, the rate of Exchequer revenue growth – excluding the highly-volatile corporation tax receipts – has declined substantially. This is in contrast to accelerating growth in gross voted Exchequer spending, which turned positive in 2015 and outpaced revenue growth in 2017. These trends partly underpin the very modest improvements in the deficit in the last three years, which did not seem to match a strong cyclical upswing

[32] It seems likely that tier 1 and tier 2 bodies will also be reclassified at a later date.

[33] The impact of the reclassification of Approved Housing Bodies is larger in 2018–2020, see Box F.

in the economy. Box E outlines how spending was revised up in line with upside surprises to revenue receipts.

Box E: The Evolution of the Public Finances since *Budget 2015*

This box examines how general government revenue, expenditure and the balance have evolved over the last three years (2015–2017). Table E.1 shows how outturns differed from *Budget 2015* forecasts.

Table E.1: *Budget 2015* Forecasts vs Outturns

€ billion, unless otherwise stated

	***Budget 2015* Forecasts (2015–2017)**	**2015–2017 Outturns**	**Outturn - *Budget 2015* Forecast**
Underlying Domestic Demand (% growth, cumulative)	3.7	8.2	N/A
General Government Revenue	203.2	220.4	17.2
Current taxes on income, wealth	80.3	87.7	7.4
Taxes on Production and Imports	66.2	70.4	4.2
Social Contributions	33.5	36.1	2.6
Other Revenue	23.1	26.2	3.1
General Government Expenditure	214.3	227.8	13.5
Social Payments	83.2	85.7	2.5
Compensation of Employees	56.4	59.2	2.8
Intermediate Consumption	26.7	28.6	1.9
Gross Fixed Capital Formation	8.4	15.2	6.8
Other	16.4	20.3	3.9
Primary Expenditure	191.2	209.0	17.8
Interest Expenditure	23.1	18.8	-4.3
General Government Balance	-11.1	-7.4	3.7
Primary Balance	12.0	11.4	-0.6

Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Other expenditure includes subsidies, capital transfers and other items. The majority of the higher-than-anticipated spending in this category is due to capital transfers in 2015.

Looking at underlying domestic demand, it is clear that economic growth has been far stronger than forecast for 2015–2017 in *Budget 2015*. This has led to significantly higher revenue, which cumulatively over-performed by €17.2 billion. Taxes on income and wealth made the largest contribution to the upside surprise to revenue. This includes income tax and the highly volatile corporation tax. By way of example, corporation tax receipts in the preceding three-year period (2012–2014) were €13.1 billion, and these rose to €22.4 billion in 2015–2017. Much of this increase in receipts (€ 9.3 billion) was not anticipated.

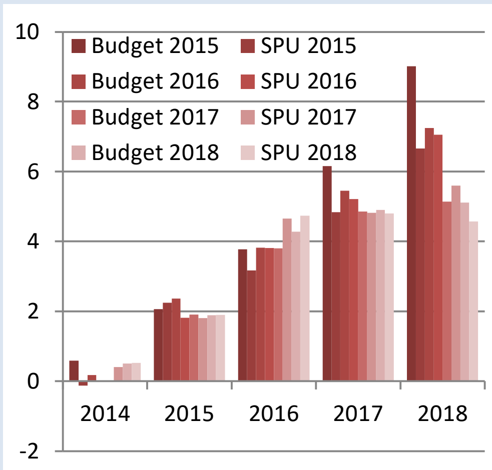
Spending has drifted upwards relative to earlier plans as revenue has surprised on the upside. A number of different expenditure items contributed to this, the largest being public investment (€6.8 billion). The only expenditure item which came in lower than anticipated was interest payments (€4.3 billion; see Figure 3.9 for a comparison of various vintages of interest expenditure forecasts). Since overall spending was higher than forecast, and interest payments were lower, primary expenditure was higher than *Budget 2015* forecasts by €17.8 billion. This means that, despite stronger-than-anticipated economic and revenue growth, the cumulative primary balance – the difference between general government revenue and primary expenditure – was actually worse than initially forecast in *Budget 2015* (€0.6 billion cumulatively).

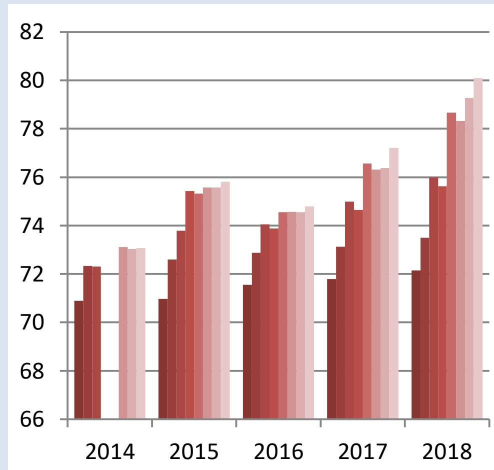
Figure E.1 shows how the primary balance has stayed fixed or declined in later vintages, reflecting how higher-than-anticipated revenues were matched by higher-than-anticipated expenditure. This stalling of improvements to the primary balance creates the risk of procyclicality to the extent that revenue gains are coming from the cycle.

Figure E.1: Vintages of Primary balance and expenditure

A: Primary Balance
€ billion

B: Expenditure
€ billion





Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Darker bars indicate older vintages; lighter bars indicate more recent vintages.

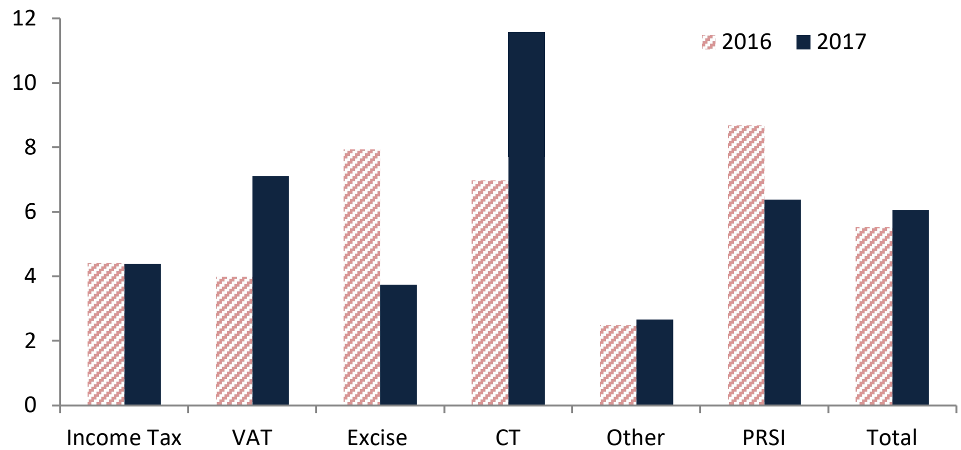
General government expenditure grew by 3.2 per cent (€2.4 billion) in 2017, with spending excluding interest payments (primary spending) growing at a faster pace of 4 per cent (€2.8 billion). Compensation of employees made the biggest contribution to growth (€1.2 billion), while interest expenditure fell by €0.4 billion. General government spending in 2017 was €822 million higher than forecast in *Budget 2018*, with several items contributing to this.[34]

For the year-to-date (end-April), expenditure looks broadly in line with monthly forecasts. Current spending is slightly higher than expected, while capital spending is somewhat lower than expected.

[34] The refunding of water charges gave rise to a one-off cost of €178 million, while the funding gap due to the abolition of water charges gives rise to a recurring cost of €114million. Compensation of employees and capital transfers were both higher than expected (by €275 million and €415 million, respectively), while interest and other expenditure were lower than projected at budget time (by €84 million and €175 million, respectively). In addition, the reclassification of Approved Housing Bodies also contributed to higher-than-expected spending (see Box F).

Turning to **general government revenue**, this amounted to €76.2 billion in 2017. This is 3.8 per cent higher than in 2016 and €0.8 billion higher than forecast in *Budget 2018*. In terms of Exchequer tax revenue, receipts of €50.7 billion were recorded in 2017, broadly in line with expectations and representing annual growth of 6 per cent.

Figure 3.2: Exchequer Tax Revenue and PRSI in 2016-2017
Percentage change (year-on-year)

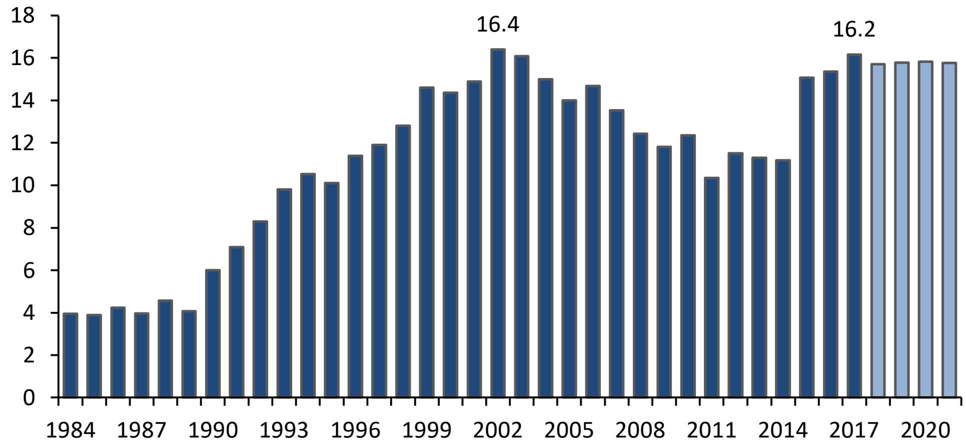


Sources: Department of Finance; and internal IFAC calculations.
Note: Other includes stamp duties, local property tax, customs, capital gains tax, capital acquisition tax and other. Total represents the growth of Exchequer tax revenue and PRSI.

The growth of **tax revenues** and **PRSI** for 2016 and 2017 is shown in Figure 3.2. Corporation tax grew by 11.6 per cent in 2017 – with receipts amounting to €8.2 billion – well over previous forecasts. Compared to *Budget 2018* forecasts, the actual growth was 3.2 percentage points (or €235 million) higher. In addition, corporation tax receipts represented 16.2 per cent of total Exchequer tax revenue in 2017. Looking at the historical series since 1984 (Figure 3.3), this share is the second highest attained over this 34-year period (the maximum share of 16.4 per cent was reached in 2002). Income tax and PRSI grew by 4.4 and 6.4 per cent respectively in 2017, reflecting the strong labour market growth. VAT receipts experienced solid growth of 7.1 per cent in 2017, with strong revenues evident across a broad range of sectors. Conversely, excise duties' growth was more moderate than in 2016 (3.7 per cent, against 7.9 per cent in 2016), which is partly attributed to the introduction of plain packaging on tobacco products.

Figure 3.3: Corporation Tax Close to the Peak of Tax Revenue Share in 2017

% of total Exchequer tax revenue



Sources: Department of Finance; and internal IFAC calculations.
Note: Dark bars show outturns for 1984–2017; light bars show *SPU 2018* forecasts for 2018–2021.

At end-April 2018, Exchequer tax revenue amounted to €14.7 billion cumulatively since the beginning of 2018. This represents an annual increase of 3.9 per cent (on a like-for-like basis), but is slightly below profile (by €202 million, or 1.4 per cent).[35] All the main tax heads performed below previous forecasts cumulatively, in contrast with a cumulative over-performance of PRSI by €55 million (1.6 per cent), as shown in Figure 3.4.[36]

The persistent over-performance of PRSI has been evident in the vast majority of months in 2017 and 2018 to date (excluding the month of February), while income tax has cumulatively underperformed thus far. Figure 3.5 reflects the solid growth of PRSI, which is increasingly outstripping income tax growth since mid-2016. The strength of PRSI reflects labour market improvements, whereas income tax is comparatively weaker mostly because of recent discretionary changes (including rate cuts and changes in tax bands).[37] In addition, the cost of cuts to the USC may have

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[35] In order to allow for a like-for-like comparison, local property tax and motor tax are excluded from the analysis. This adjustment relates to the fact that local property tax is no longer directed in first instance to the Exchequer accounts (since 1 January 2018) and is instead paid directly into the Local Government Fund. The opposite applies to motor tax: since 1 January 2018, it is directly paid into the Exchequer instead of the Local Government Fund.

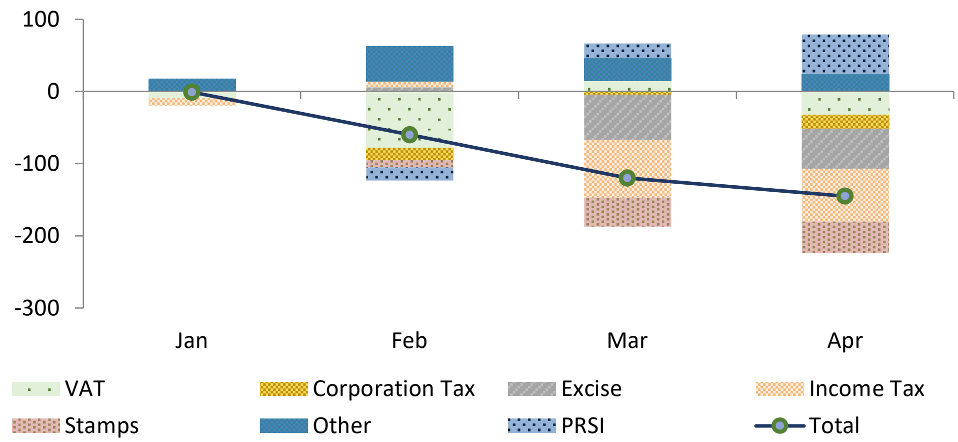
[36] The PRSI performance figure includes its corresponding excess over expenditure, as indicated in the memo items.

[37] The latest policy change in income tax took place in *Budget 2018.* Among others, an increase of €750 in the income tax standard rate band was introduced for all earners, from €33,800 to €34,550 for single individuals and from €42,800 to €43,550 for married one-earner couples. Additionally, an

been underestimated at the time, largely attributed to known errors in the specification of the associated elasticity (Box F from IFAC, 2017e).

Figure 3.4: Exchequer Tax and PRSI Cumulative Performance to End-April 2018

€ million, outturn–profile



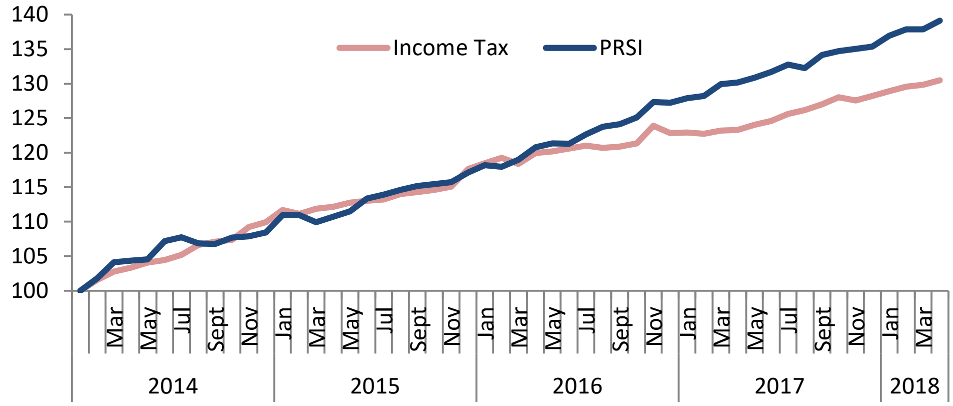
Sources: Department of Finance; and internal IFAC calculations.
Note: Other includes capital taxes, motor tax and other. PRSI includes the corresponding excess as indicated in the memo items.

Stamp duties have underperformed, with cumulative receipts 9.8 per cent lower than expected for the year-to-date (Figure 3.4). This largely relates to the forecasts arising from the higher rate of stamp duty on non-residential property introduced in *Budget 2018*, which may be overoptimistic. As signalled in Box F of the November 2017 *Fiscal Assessment Report* (IFAC, 2017e), the assumptions underpinning these forecasts were based on periods that seem to correspond to exceptionally high commercial activity levels, which is likely to be overoptimistic. More generally, it is important for realistic forecasts that costings and estimates of yields from tax changes are well founded and subject to independent scrutiny.

increase in the Home Carer Tax Credit from €1,100 to €1,200 was approved, and from €950 to €1,150 in the Earned Income Credit (Department of Finance, 2017e).

Figure 3.5: Income Tax and PRSI

Index of 12-month rolling sum, January 2014=100



Sources: Department of Finance; and internal IFAC calculations.

3.3 *SPU 2018* Forecasts (2018–2021)

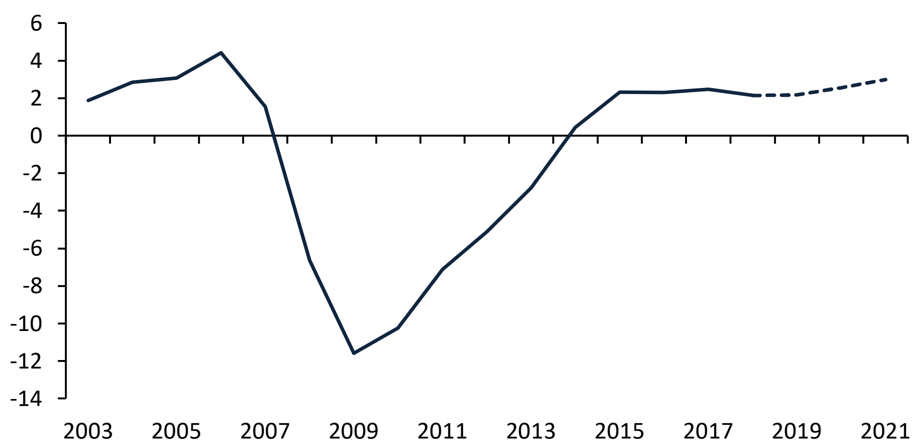
2018–2021 General Government Balance

SPU 2018 forecasts the general government balance to improve only marginally in 2018 (€229 million in headline terms, €51 million after correcting for one-off items). This is despite forecasts of falling interest payments (€461 million lower than in 2017), strong economic growth and a declining unemployment rate.[38] Given that these factors would typically be expected to lead to an improvement in the government balance, the rate of improvement is very modest.

Looking at recent outturns, it is evident that improvements in the primary balance have stalled since 2015. The forecast primary balance for 2018 implies a lower primary balance (as a percentage of GNI*) than for 2015 (Figure 3.6).

Figure 3.6: Primary Balance

Percentage of GNI*, excluding one-off items



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

The general government balance (excluding one-off items) forecasts for 2019 and 2020 are largely unchanged from *Budget 2018*, with a surplus forecast for 2020. The forecast surplus in the *SPU* (excluding one-off items) for 2021 is slightly lower than *Budget 2018* forecasts. The headline surplus is €900 million lower due to a capital transfer (while treated as a one-off item in many of the charts and tables in *SPU 2018*, the Council has not yet fully assessed if this should be classified as a one-off item).[39] It is worth noting that the forecasts in *SPU 2018*, like those in *Budget 2018*, assume less

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[38] *SPU* forecasts a fall of almost a percentage point in 2018 from 6.7 per cent to 5.8 per cent.

[39] This relates to a capital transfer to the Eircom no 2 pension fund set up in respect of former civil servants.

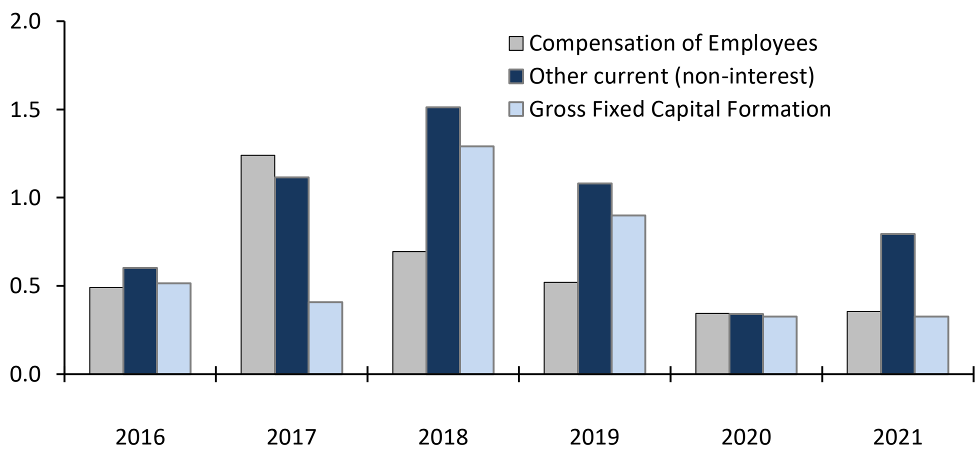
than full use of fiscal space in later years (amounting to approximately €5 billion over 2019–2021).

While the overall balance may be largely unchanged, both revenue and expenditure have been revised up from previous estimates.[40] Looking at recent outturns and forecasts, the primary balance is pretty stable from 2015 to 2021 (Figure 3.6). Given the strong economic growth and falling unemployment over the period, the lack of improvement is surprising and could potentially leave the public finances exposed to shocks.

2018 Expenditure

Primary expenditure (excluding one-off items) is forecast to grow by almost 5 per cent in 2018. Capital expenditure is set to increase by almost €1.3 billion or 23 per cent (see Figure 3.7).[41] Smaller – but still significant – increases can be found in compensation of employees (€695 million), intermediate consumption (€885 million) and other spending (€630 million).

Figure 3.7: Contributions to Primary Expenditure Growth
€ billion, excluding one-off items



Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Other current spending in 2021 excludes the impact of a one-off capital transfer.

Compared to *Budget 2018*, estimates for expenditure in 2018 have been revised up significantly (€815 million). This comes despite a downward revision of interest payments (€295 million) and social payments (€85 million). All other items of general

[40] This reflects the higher-than-anticipated outturns for both revenue and expenditure for 2017.

[41] The reclassification of Approved Housing Bodies (AHBs) increases the level of general government gross fixed capital formation. Investment by these bodies is set to increase by close to €400m in 2018 as part of *Rebuilding Ireland*.

government expenditure have been revised up, with gross fixed capital formation (€600 million), compensation of employees (€150 million), subsidies (€150 million) and other (€100 million) being the most significant. Table A3 of *SPU 2018* gives some detail on the cause of these revisions for 2018 and indicates that all were due to new data (mainly 2017 outturns), apart from gross fixed capital formation, which is mainly attributed to the reclassification of Approved Housing Bodies.

Box F: Approved Housing Bodies

This box examines the reclassification of Approved Housing Bodies (AHBs). AHBs are non-profit entities which provide affordable rented housing. There are three tiers to such bodies (according to their size). Last year, the CSO conducted a review of the classification of tier-3 AHBs. In December 2017, the CSO published its decision.[42] It concluded that the tier-3 bodies be classified as part of the local government sector and, hence, part of the general government sector.

This classification change has been incorporated into general government data (back to 2014) by the CSO and is also reflected in the fiscal forecasts in *SPU 2018*. Revenue and expenditure of the fifteen tier-3 AHBs are now treated as part of general government revenue or expenditure. The consolidated impact of AHBs and local authorities on the deficit was €150 million in 2017. This impact is forecast to increase to €470 million in 2018, before falling slightly out to 2020 (€330 million). In 2021, however, it is forecast to have no further impact on the deficit. The reclassification of tier-3 AHBs increases the general government debt, with an impact of around €100 million. This impact is relatively small, as much of the debt of AHBs had already been included in general government statistics as it was obtained via the Housing Finance Agency, which is included in the general government sector.

The main impact of this reclassification can be seen in outturns and forecasts of general government gross fixed capital formation. Table A3 of the *SPU* highlights the changes in forecasts since *Budget 2018*. For 2018, the €600 million upward revision to general government gross fixed capital formation is mainly attributed to the reclassification of AHBs. Investment by AHBs is forecast to increase significantly in 2018 as part of *Rebuilding Ireland,* giving rise to the increasing deficit impact in 2018.

On the revenue side, the reclassification of AHBs has increased other revenue recorded in the general government sector, specifically "sales of goods and services". This is, however, relatively modest, as it comes mostly from local authorities, hence contributing only between €85 million and €95 million.

2019–2021 Expenditure

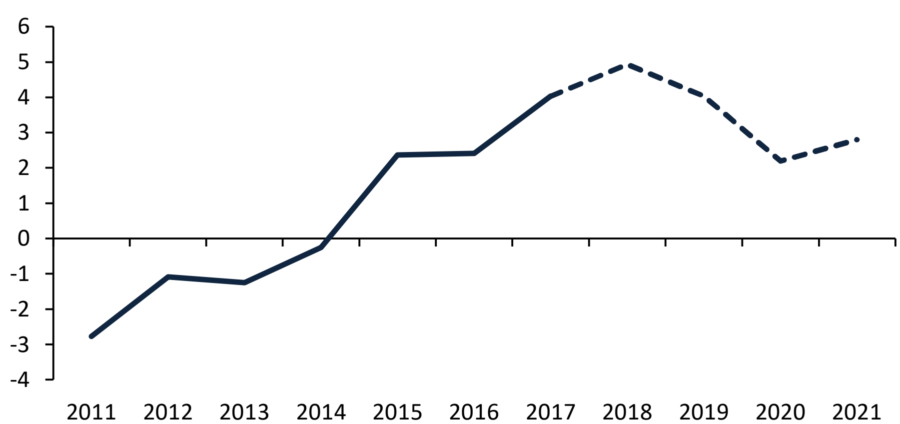
On the expenditure side, the publication of the National Development Plan (Department of Public Expenditure and Reform, 2018a) and the reclassification of Approved Housing Bodies have resulted in increased gross fixed capital formation forecasts compared to *Budget 2018*, with increases of between €295 million and €430 million per year (2019–2021). Forecasts from the National Development Plan show public capital investment at 3.8 per cent of GNI* in 2021, reaching the government's

[42] http://www.cso.ie/en/media/csoie/methods/nationalaccounts/AHB_Letter_to_ESTAT.pdf

targeted level of 4 per cent in 2024 and averaging at that level from 2022 to 2027. Box G discusses the National Development Plan and the pattern of revisions to capital expenditure.

Looking at primary expenditure growth (excluding one-off items), this has been accelerating recently, moving from negative growth in 2014 to 4 per cent positive growth in 2017 with a further increase to 4.9 per cent growth forecast for 2018 (Figure 3.8). This strong growth is forecast to moderate somewhat in 2019 to 4 per cent. As currently set out, significantly slower expenditure growth is envisaged for 2020 and 2021 (2.2 and 2.8 per cent, respectively). Gross fixed capital formation is partially responsible for this slowdown in growth, with growth forecast to moderate from 18.4 per cent (2018–2019) to 4.1 per cent (2020–2021). The other main factor in the dip in primary spending growth in 2020 and 2021 is the forecasts for compensation of employees, which is expected to grow by 1.6 per cent in 2020 and 2021. Given the likely increases in staff numbers and rate of wage growth in the economy, this seems like a modest growth rate. The difficulty in achieving such a slowdown in a growing economy poses an upside risk to spending forecasts for 2020 and 2021.

Figure 3.8: Growth in Primary Expenditure (Excluding One-off Items)
% change (year-on-year)



Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Primary expenditure equals total expenditure less interest repayments on government debt and one-offs. One-offs are those identified by the Council as applicable.

Intermediate consumption spending is forecast to fall in 2020 and 2021. This forecast, given expected inflation (HICP) of 1.4 and 2.6 per cent respectively, seems quite unrealistic. There are unallocated resources for expenditure of €1.21 billion and €1.96 billion in these years, so some may be allocated to intermediate consumption. In a similar way, other expenditure is forecast to be relatively flat over 2020–2021 (see Table 3.2).

In a separate publication (IFAC, 2018b), IFAC presented the Stand-Still scenario, which estimates the cost of maintaining today's level of public services and benefits (in real terms) over the medium term. The findings suggest that the level of non-interest spending and the fiscal space budgeted for under *SPU 2018* plans accommodate the Stand-Still estimates over the period 2019–2021. Allowing for both demographic and price pressures yields a similar estimate of non-interest spending to the budget plans up to 2021, in the absence of policy changes, or changes to macro drivers. Comparing the fiscal space allocated to current expenditure (including pre-committed amounts) implicit in *SPU 2018* and the IFAC "Stand-Still" scenario implies that allocated spending would be sufficient to maintain existing levels of service and public investment plans. However, this would leave little room for other improvements in public services, discretionary tax cuts or additional welfare increases. In a growing economy, this is likely to be challenging.

Table 3.2: General Government Expenditure Forecasts (2018–2021)
Percentage change year-on-year, unless otherwise stated

	2018	2019	2020	2021
General Government Expenditure	3.7	3.6	1.9	3.5
Compensation of Employees	3.4	2.4	1.6	1.6
Intermediate consumption	9.0	1.9	-0.1	-0.7
Social transfers	0.3	1.1	1.7	1.5
Interest Expenditure	-7.9	-2.3	-2.9	-3.5
Subsidies	-2.2	3.6	0.5	0.8
Gross fixed capital formation	23.5	13.3	4.2	4.1
Capital transfers	-15.1	22.0	-9.2	89.2
Other	20.5	5.5	-0.1	0.4
Primary Expenditure	4.7	4.0	2.2	3.9
Primary Expenditure, % of GNI*	35.1	34.8	34.0	33.9
Resources to Be Allocated, € billion	0.0	0.5	1.2	2.0

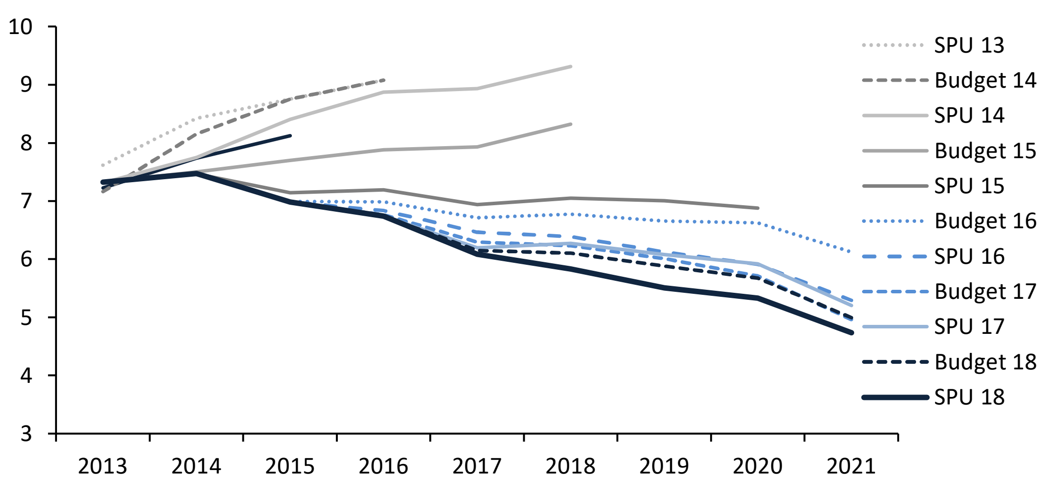
Sources: CSO; Department of Finance; and internal IFAC calculations.

SPU 2018 forecasts indicate that contributions of €500 million are to be made to a Rainy Day Fund in 2019–2021. While counted as Exchequer spending, these payments are not counted as general government spending. A recent working paper developed at IFAC (Casey *et al.*, 2018), proposes how a countercyclical Rainy Day Fund could operate with modest changes to the current EU fiscal rules framework. Current proposals for the Rainy Day Fund indicate that it is not designed to operate as a countercyclical tool, given that contributions to the fund are expected to be flat over 2019–2021.

Interest Expenditure

Interest costs on government debt have declined in recent years and this is projected to continue over the forecast period (2018–2021). Figure 3.9 shows the improvement in forecast and actual interest costs due to: (i) low global interest rates; (ii) agreed reductions in interest rates on official borrowing; (iii) expansionary monetary policy by the ECB, including the Public Sector Purchase Programme; and (iv) the early repayment of IMF loans and other debt restructuring. *SPU 2018* has once again seen a fall in expected interest payments over the forecast period (2018–2021). *Budget 2015* forecasts suggested interest expenditure of close to €10 billion and corporation tax receipts of close to €5 billion in 2018. The latest forecasts suggest interest expenditure will be over €5 billion and corporation tax receipts of close to €10 billion in 2018.

Figure 3.9: Revisions to General Government Interest Expenditure
€ billion



Sources: Department of Finance.

2018–2021 Revenue

Total **general government revenue** for 2018–2021 is forecast to grow at 3.9 per cent on average, broadly unchanged from *Budget 2018*.[43] It is expected to be equivalent to slightly more than one-third of nominal GNI* over the whole forecast period (Table 3.3).[44] The main drivers of the increased general government revenue over the projection horizon are the taxes on production and imports, and the current taxes on income and wealth (expected to represent an average of 11.8 and 15.6 per cent of GNI* per annum, respectively).

Table 3.3: General Government Revenue Forecasts (2018–2021)
€ billion, unless otherwise stated

	2018	2019	2020	2021
General Government Revenue				
% GNI*	37.2	36.9	36.6	36.5
% GDP	25.4	25.1	24.8	24.7
% GNP	31.0	30.8	30.5	30.4
General Government Revenue	**79.3**	**82.6**	**85.4**	**88.9**
Taxes on Production and Imports	25.1	26.4	27.5	28.7
Current Taxes on Income, Wealth	33.3	34.7	36.4	38.2
Capital Taxes	0.5	0.5	0.5	0.5
Social Contributions	13.2	13.7	14.3	14.9
Property Income	1.4	1.3	1.0	0.7
Other	5.9	6.0	5.8	6.0

Sources: Department of Finance; and internal IFAC calculations.

Exchequer tax revenue for 2018 is forecast at €54.2 billion, exactly the same as in *Budget 2018* (on a like-for-like basis) and with marginal revisions in individual tax

[43] The upward revision of the forecasts in levels in *SPU 2018* is partly offset by a higher-than-expected outturn in 2017, hence keeping growth for 2018 broadly the same as at budget time. In terms of the total revenue components, taxes on production and imports forecasts have been substantially revised down by a similar amount as the upward revision on current taxes on income and wealth. This is merely a relocation that arises from the revision of the ESA coding due to the Local Government Fund reform and the motor tax receipts coming directly to the Exchequer accounts.

[44] These forecasts are lower than at *Budget 2018* time (by 2.5 percentage points, on average) given a substantive upward revision in the nominal GNI* forecasts at *SPU 2018.* Nominal GNI*forecasts at *SPU 2018* for the period 2018–2021 are, on average, 7.8 percentage points higher (€16.6 million) than *Budget 2018* forecasts. This is related to the fact that Net Factor Income from abroad turned out very differently to what was expected at budget time for 2017. GNP growth for 2017 was projected to be zero based on information available at budget time, and GNI* growth is forecast as equal to GNP growth. Given that GNP turned out to grow in line with GDP in 2017, GNI* was hence also higher. In addition, the increasing changes over the forecast years would reflect upward revision to GDP (and indirectly, GNP and GNI*) forecasts for those years since the budget.

heads. Appendix Figure AD1 shows the differences between the *SPU 2018* forecasts relative to *Budget 2018*. Our analysis of the 2018 revisions in *SPU 2018* starts by: (i) updating the 2018 "macro" economic outlook relevant for each tax head for 2018 (e.g., Gross Operating Surplus for corporation tax); (ii) using the correct outturn or "starting point" of each tax source for 2017 (which affects 2018 forecasts); and (iii) taking into account "other" adjustments (measured as any remaining revisions for 2018).[45] The "starting point" played a positive role on corporation tax forecasts given that the 2017 outturn was higher than expected. An upward revision to forecasts of Gross Operating Surplus also contributed to increasing the corporation tax forecast, although this was offset by "other" adjustments – including divergences in the internal IFAC forecast and that provided by the Department of Finance –, yielding no total change in the 2018 corporation tax forecast (with respect to that in *Budget 2018*). Conversely, lower-than-expected VAT receipts were largely offset by stronger macroeconomic forecasts than at budget time, which also played an important role in excise duty revenue (as opposed to PAYE, the only source where the macro driver was revised down since *Budget 2018*).[46]

For 2019–2021, a slight upward revision on the aggregate Exchequer tax revenue figure has taken place (€70 million in 2019; €175 million in 2020; and €265 million in 2021). This is largely the result of modest increases in the forecasts of corporation tax receipts and – to a lesser extent – VAT forecasts, which are only partly offset by small downward revisions of income tax.

Table 3.4 details the **Exchequer tax revenue** and **PRSI** forecasts for 2018–2021. Relatedly, Figure 3.10 shows that the average tax revenue growth is projected to remain broadly constant at around 5.8 per cent in 2018 (on a like-for-like basis) and an average of 5.0 per cent per annum over the medium term.

[45] The macro drivers for 2018 used in this exercise are based on the recent *SPU 2018* forecasts, as opposed to those projected at budget time. However, the Department of Finance's tax forecasts for 2018 use the macro drivers that were forecast in *Budget 2018.* The exercise is therefore based on the most up-to-date macroeconomic information for each tax source.

[46] The negative contribution of the macro driver for the PAYE component of income tax is attributed to a downward revision of the projected change in non-agricultural earnings and employment for 2018.

Table 3.4: Exchequer Tax Revenue and PRSI Forecasts (2018–2021)
€ billion

	2018	2019	2020	2021
Tax Revenue	**54.2**	**57.0**	**59.7**	**62.7**
Income Tax	21.4	22.4	23.7	24.9
VAT	14.1	15.0	15.8	16.7
Corporation Tax	8.5	9.0	9.4	9.9
Excise Duties	5.8	6.0	6.2	6.3
Other	4.3	4.5	4.6	4.9
PRSI Receipts	**10.3**	**10.9**	**11.4**	**12.0**

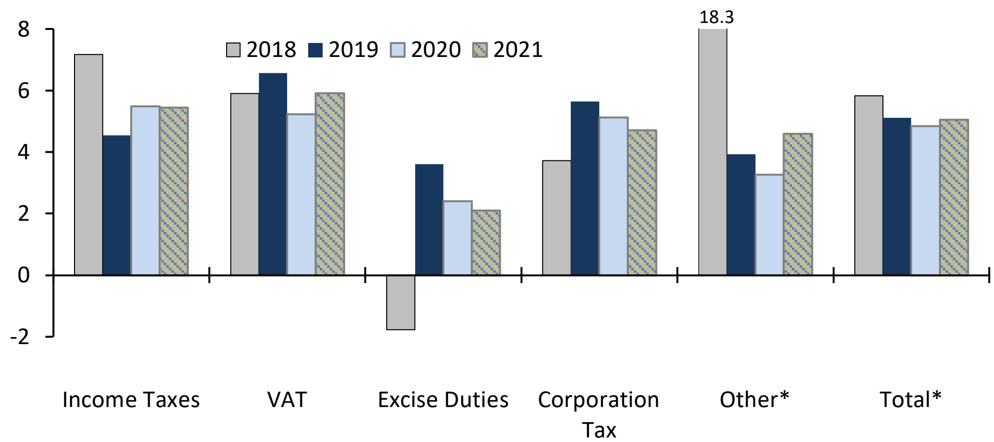
Sources: Department of Finance; and internal IFAC calculations.
Note: Other includes stamp duties, motor tax, customs, capital gains tax and capital acquisition tax.

Overall, strong expected income tax and PRSI receipts are supported by the solid employment forecasts. Importantly, PRSI receipts are forecast to be equivalent to almost half of income tax revenues over the whole projection horizon. This shows the importance of this revenue source, which is not often recognised in revenue analyses. Corporation tax receipts are forecast to account for 15.7 per cent of total Exchequer revenues in 2018, and 15.8 per cent over the period 2019–2021, below the 16.2 per cent reached in 2017 (see Figure 3.3 in Section 3.2). Although corporation tax is forecast to follow solid growth, the strong concentration of this revenue source across very few companies (in 2017, nearly 40 per cent of the total corporation tax payments were made only by the top-ten companies) poses a serious risk to the Exchequer accounts (see Table 3.5 on the fiscal risks).[47] Reflective of strong consumption prospects – nominal personal consumption is forecast to increase, on average, by 4.3 per cent per annum over the forecast horizon – VAT is projected to increase at an annual average rate of 5.9 per cent over 2018–2021.

[47] In 2017, foreign-owned multinational companies accounted for 80 per cent of corporation tax receipts, whereas this share was 4 per cent for Irish-owned multinationals. Net receipts were paid by over 50,000 companies, representing an increase of nearly 14 per cent with respect to 2016. Manufacturing was the sector with the highest contribution to corporation tax receipts, accounting for 27 per cent of total corporation tax revenue (McCarthy and McGuinness, 2018).

Figure 3.10: Exchequer Tax Revenue Forecasts (2018–2021)

Percentage change (year-on-year)



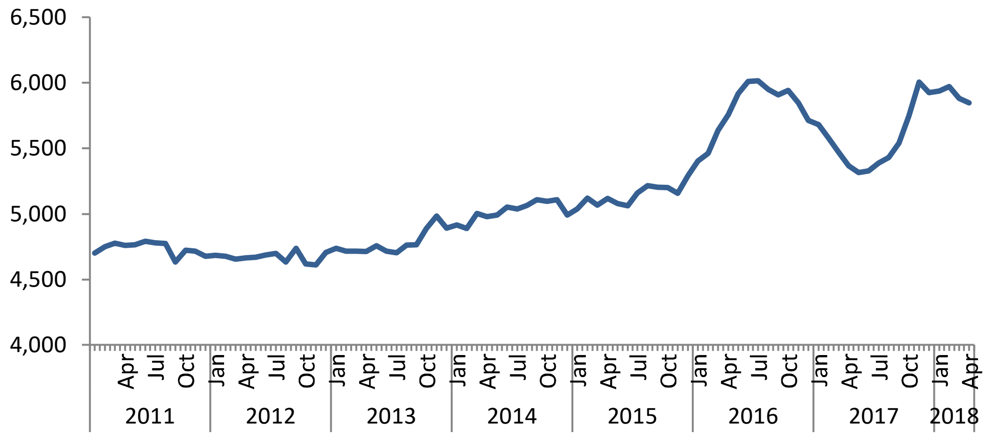
Sources: Department of Finance; and internal IFAC calculations.
Note: Other is the sum of stamp duties, motor tax, customs, capital gains tax and capital acquisition tax. For 2018, Other and the Total tax revenue growth forecasts discount for the effects of the local property tax and motor tax in order to allow for comparison between 2017 and 2018. The growth of Other in 2018 is 18.3 per cent, which is not shown for scale purposes, and largely relates to the increase in stamp duties on commercial real estate transactions.

Relatedly, Appendix Figure D.2 identifies the factors that contribute to the year-on-year changes in revenue forecasts produced by the Department of Finance for 2018–2021. The positive increases in corporation tax and VAT are both supported mainly by favourable macroeconomic prospects (see Appendix D for a detailed description of how these are calculated). Other factors, including judgement applied by the Department of Finance, also lead to robust VAT growth over the projection horizon. The PAYE and USC components of income tax are negatively affected by policy-induced measures. For PAYE, these are more than offset by strong macroeconomic effects, and partly offset for USC, which is forecast to follow negative growth over the medium term (2019–2021).

Excise duties are forecast to follow a substantially slower growth than the other three main tax heads. Furthermore, their growth is projected to be negative in 2018, largely driven by the continuing drag from tobacco receipts – after the introduction of the domestic plain packaging on tobacco products, which came into effect on 30 September 2017. As depicted in Appendix Figure D.2, this one-off factor has negatively pulled down the 2018 excise duties forecast, together with other factors such as downward judgement applied by the Department of Finance. Figure 3.11 shows an increasing growth in excise duty revenues since mid-2017, which is again declining since January 2018. This largely relates to timing issues around plain packaging requirement of tobacco products – receipts that might have been expected to be collected in 2018 actually occurred in 2017.[48] Given that this downward trend is not expected to recover in 2018, lower receipts are estimated for the year. The effects of plain packaging are, however, assumed by the Department of Finance to be temporary. In fact, the growth of excise duties for 2019–2021 is projected to average 3 per cent per annum.

Figure 3.11: Excise Duty Revenues (2011 to end-April 2018)

€ million, 12-month-rolling sum



Sources: Department of Finance; and internal IFAC calculations.

Non-tax revenue is expected to gradually decline over the forecast horizon (Figure 3.12). For 2018, non-tax revenue has increasingly been revised up since *Budget 2017*, as shown in Figure 3.12 (panel A). The upward revision at *SPU 2018* (€0.4 billion higher than in *Budget 2018*) is largely due to the higher-than-expected dividend payments to the Exchequer from the Central Bank of Ireland. For 2019, non-tax revenue forecasts have also tended to be revised up (excluding *Budget 2017*). Conversely, in 2020 and 2021, the *SPU 2018* forecasts for non-tax revenue are the lowest projected since 2016. For the period 2019–2021, non-tax revenue projections are made on the assumption the Central Bank will continue to make payments to the Exchequer over the medium term, albeit these are projected to decline over time.[49]

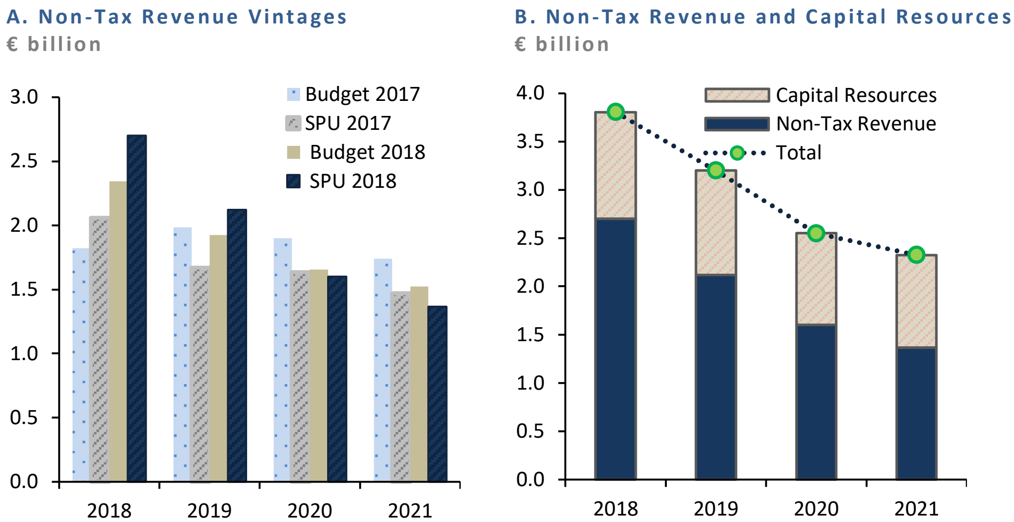
Capital resources remained broadly unchanged from *Budget 2018* (an upward revision of 2.7 per cent in 2018 is followed by a downward revision of 2.5 per cent on

[48] The graph also suggests that a spike in excise duty in 2016 was driven by the expectation that the plain packaging requirement would take place in that period (ultimately the move to plain packaging did not occur as originally anticipated).

[49] This refers to the Central Bank's disposal of floating rate notes, which were issued in order to replace the promissory notes originally issued to recapitalise Anglo Irish Bank and Irish Nationwide Building Society (Department of Finance, 2018).

average for 2019–2021). For 2018, changes to scheduled receipts from IBRC are expected to benefit the Exchequer by €0.2 billion.[50] For the medium term, forecasts on capital resources do not include assumptions on the resolution of the financial crisis, as discussed in the fiscal risks matrix (Table 3.5). The *SPU 2018* forecasts on capital resources are displayed in panel B of Figure 3.12.

Figure 3.12: Non-Tax Revenue and Capital Resources



Sources: Department of Finance; and internal IFAC calculations.

Box G: Capital Expenditure and the National Development Plan

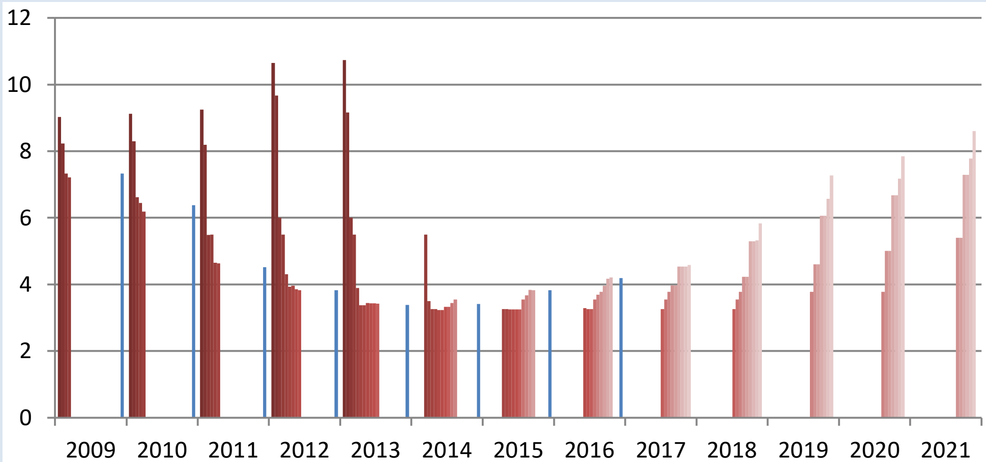
In light of the recently published National Development Plan, this box examines how previous and current plans for capital spending have evolved over time. Figure G.1 shows the evolution of planned gross voted capital expenditure along with the outturns.

Plans for future capital expenditure appear to be linked to the economic cycle. In the 2009 – 2014 period, previously ambitious plans for investment were curtailed after the crisis took hold. For future years, one can see that planned capital expenditure has been revised up significantly over successive budgets. This has happened as Ireland has experienced strong growth as part of a cyclical upturn.

The National Development Plan notes that public investment as a share of GDP both in Ireland and in the EU averaged at around 3 per cent for the period 1995-2015. The National Development Plan indicates that public capital investment is to reach 4 per cent of GNI* in 2024 (the Government's targeted level) and average at that level over the period 2022 – 2027. If taking GNI* as an appropriate measure of national income for Ireland, then public capital investment in Ireland would be well above the EU average.

[50] Given that the majority of these are financial transactions, this will not impact the general government revenue.

Figure G.1: Vintages of planned capital spending
€ billion, gross voted capital expenditure

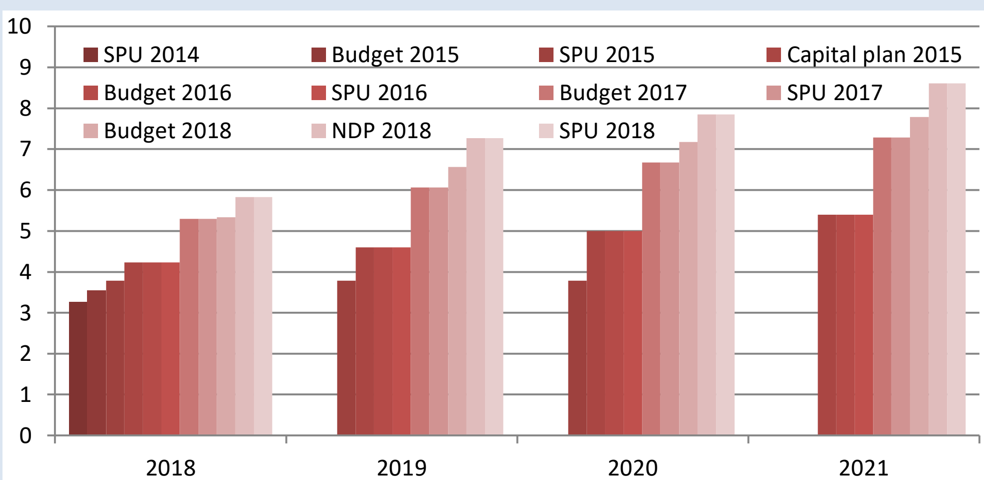


Sources Department of Finance; and internal IFAC calculations.
Note: Outturns in blue, darker red bars indicate older vintages; lighter red bars indicate more recent vintages. The oldest vintage used is the 2007 Capital plan, while the most recent vintage is SPU 2018. All SPUs, budgets and capital plans in the intervening period are included.

As noted in the last *Fiscal Assessment Report* (Box G, IFAC 2017d), committing to a specified level of investment (as a percentage of an indicator such as GNI*) could prove useful in setting fiscal policy. If adhered to over the cycle, it could help prevent cuts to public investment in downturns and excessive growth in cyclical upswings.

However, looking at plans as they stand, public investment is set to increase by a third between 2018 and 2021. Given that growth is already forecast to be strong over this period, this increase in capital expenditure will need to be carefully managed as part of the overall fiscal stance to ensure it does not contribute to potential overheating.[51]

Figure G.2: Vintages of planned capital expenditure (2018–2021)
€ billion, gross voted capital expenditure



Sources: Department of Finance; and internal IFAC calculations.
Note: Darker red bars indicate older vintages; lighter red bars indicate more recent vintages.

[51] The midpoint of alternative GDP estimates of the output gap in *SPU 2018* shows a positive output gap from 2019 to 2021.

Figure G.2 illustrates the upward revisions to gross voted capital spending plans (2018 - 2021) in recent years. Over the period 2019–2021, planned gross voted capital expenditure (in the National Development Plan and *SPU 2018*) is 58 per cent higher than was the case in the previous capital plan (Department of Public Expenditure and Reform, 2015). While these revisions have been taking place, there has been continuing strong growth and declining unemployment as a cyclical recovery took hold.

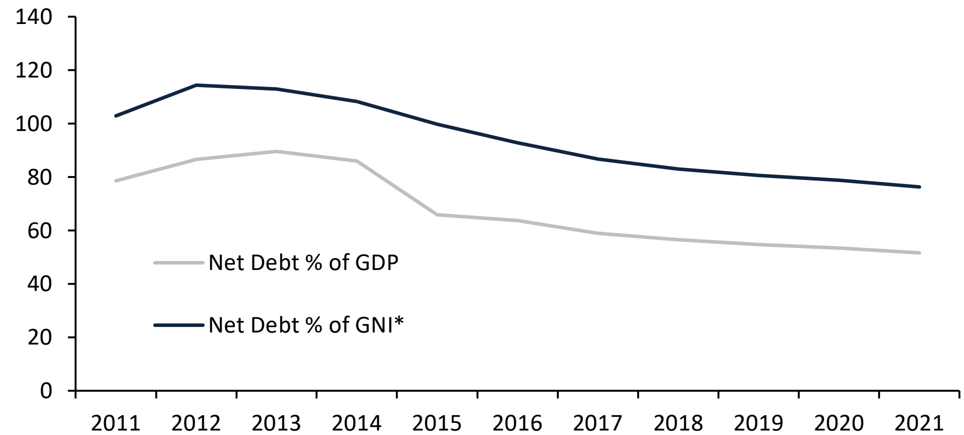
General Government Debt

Figure 3.13 shows the evolution of debt as forecast in *SPU 2018*. The debt-to-GDP ratio has fallen substantially since 2012. Two factors have played a significant role. The first is related to the high level of measured GDP growth in 2015. The second involves the liquidation of the IBRC, which led to lower liabilities being measured on the Government's balance sheet (in 2011, this had led to an increase in government liabilities of €20.9 billion; stripping out these liabilities, gross debt to GDP would have been 4 per cent lower annually). While the *Stability and Growth Pact* reference value of 60 per cent is set in terms of debt-to-GDP, it is worth remembering that for Ireland this 60 per cent of GDP reference value would be equivalent to 87 per cent of GNI* (using 2016 nominal outturns for both variables), which would rarely be considered a "safe" level of debt. Using GNI* or revenue as a denominator, government debt remains high relative to other OECD countries (see Figure 1.5 in Chapter 1).

Given some of these distortions and the relatively high cash balances run by the NTMA, net debt to GNI* is a more informative measure. Using this metric, the decline in debt levels is more gradual since 2012 and debt is expected to fall to 83 per cent in 2018 before falling to 76.3 per cent in 2021 (Figure 3.13).

Figure 3.13: General Government Debt

Percentage of GDP/GNI*



Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Data for the period 2018–2021 are projections as per *SPU 2018.*

3.4 Long-Term Forecasts

While Ireland's current demographic situation is relatively favourable – mainly characterised by low old-age dependency ratios, high fertility rates and a positive migration profile –, the long-term projections offer a deteriorating picture.[52] In particular, the recent population projections released by Eurostat and included in the *2018 Ageing Report* (European Commission, 2018d) estimate that the population aged over 65 in Ireland will double as a share of total population in the long run (from 13.4 per cent in 2016 to 25.6 per cent in 2050). Conversely, working-age population is expected to decline (from 64.4 per cent of total population in 2016, to 56 per cent in 2050).

These forecasts, if they materialise, will exert strong budgetary pressures given their impact on age-related expenditure, chiefly pensions, health and social protection. As a share of GNI*, pension expenditure is forecast to rise from 7.3 per cent in 2016 to 9.6 per cent in 2070, as outlined in *SPU 2018*. This increase is also reflected in the old-age dependency ratio, which is forecast to grow from 20.9 in 2016 to 45.7 in 2050 (European Commission, 2018d).

An actuarial review of the Social Insurance Fund for 2015 (KPMG, 2017) provides an overview on the medium- and long-term evolution of the Fund. The Fund, whose resources are mostly devoted to pension expenditure, is estimated to turn from

[52] The old-age dependency ratio is the result of dividing the old-age population (aged 65 and above, in this case) by the working-age population (aged between 15 and 64, in this case).

surplus to deficit in 2020, and is expected to deteriorate as of 2021, largely due to demographic pressures. In addition, the excess of expenditure over income of the Fund is expected to increase significantly over the medium to long term.

In a recent publication, the Department of Public Expenditure and Reform (2017d) estimates the total cost of all future retirement benefits to be paid to serving and former public servants in respect of service to date. In particular, the value of the State's Accrued-to-Date Liability (ADL) of public service retirement benefits for employees, pensioners and former members is estimated at €114.5 billion as at (31 December 2015).[53] In addition, the latest CSO publication on Irish Pension Liabilities (CSO, 2018) shows that the total ADL liabilities of all pension schemes in 2015 amounted to €436.3 billion (or 252 per cent of GNI*).[54,55] This amount is, however, expected to increase as population ages in Ireland, in contrast with other EU countries with a more mature population (which should experience a more gradual growth in their liabilities).

In view of the demographic prospects and their underlying impact on expenditure, a number of reforms on pensions and long-term care in Ireland aim at mitigating the effects of an ageing population, as outlined in *SPU 2018*. Recognising these efforts, fiscal risks remain in Ireland. The latest *Country-Specific Recommendations* report for Ireland (European Commission, 2018c) outlined the long-term risks of a rapidly-ageing population in the country. Recommendations to tackle this include: (i) a timely implementation of the published roadmap for pension reform; and (ii) an efficient planning of the healthcare system, which is deemed "costly" and "facing many challenges". In this context, long-term projections are paramount in supporting public policy planning to drive the public finances towards a sustainable path.

[53] This €114.5billion refers to the present value of all expected future superannuation payments to current and previous staff and their spouses in respect of service to date, plus the liability for all future payments to current pensioners and their spouses (Department of Public Expenditure and Reform, 2017d).

[54] In comparison to other EU countries, this is still very low, reflective of Ireland's relatively young population.

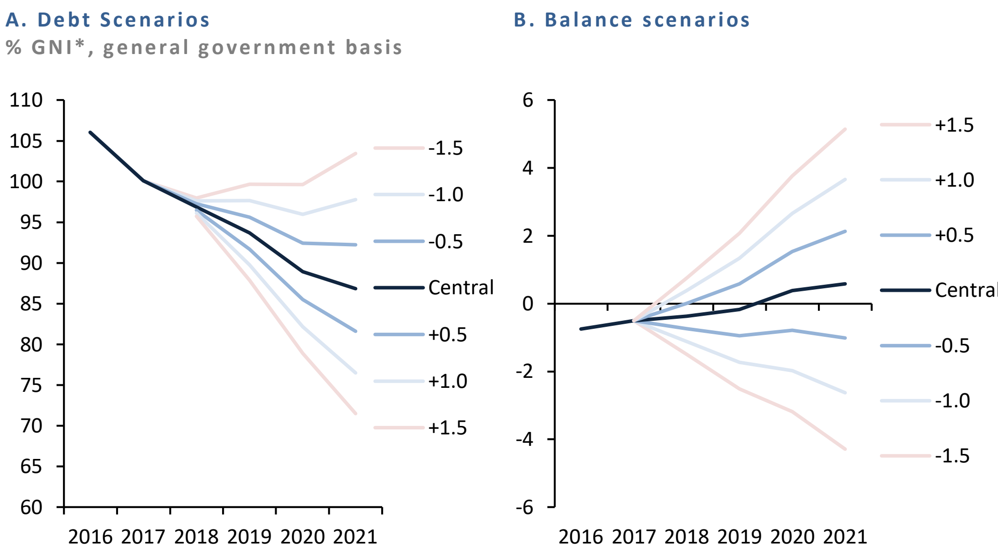
[55] From this total, only €90.8 billion is in private funded schemes. Unfunded liabilities in public pay-as-you-go schemes amounted to €345.5 billion.

3.5 Risks

While *SPU 2018* forecasts continuing improvements in the macroeconomic and fiscal outlook, substantial risks to the public finances remain. One of the most prominent risks continues to be uncertainty in relation to the external environment, in particular Brexit and possible changes to international economic and fiscal policy. Uncertainty with regard to US corporation tax changes means there is a downside risk in relation to Ireland's corporation tax receipts from US multinational corporations currently located in Ireland.

Another risk relates to discretionary revenue measures. In particular, failure to recognise the transient nature of certain sources of revenue could, if repeated, reduce the stability of tax revenues. The stamp duty increase on non-residential property introduced in *Budget 2018* is projected to bring in a yield that should be recognised as potentially transient. If revenues arising from this measure are used to fund long-term expenditure, the stability of tax revenues might be disrupted. In addition to the potentially transient nature of this revenue source, it has raised less than expected revenue to end April.

Figure 3.14: Debt and Budget Balance Paths under Different Growth Scenarios



Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Data obtained using the Fiscal Feedbacks Model: the lines depict how far the budget balance or debt-to-GNI* ratio would be pushed away from the *SPU 2018* scenario under different shocks to growth in each year.

Figure 3.14 shows how shocks to growth would impact on the general government balance and general government debt. A shock to GNI* growth of 1.5 percentage points relative to *SPU 2018* forecasts each year from 2018 to 2021 would result in the general government balance being almost 5 percentage points of GNI* lower by 2021. All else being equal, this means that the public finances would remain in deficit out to 2021 as compared to a central scenario of a surplus of 0.6 per cent of GNI*. In the same scenario, the currently high gross government debt-to-GNI* ratio would rise above current levels, in the absence of corrective policy action. A shock of this magnitude would not be exceptional given the historic volatility of Irish national income growth, for which a typical current year forecast error is close to 2 percentage points.

Table 3.5: Assessing the *SPU 2018* Fiscal Risk Matrix

Risk	Likelihood	Impact	IFAC Assessment
EU Climate Change and Renewable Energy Targets	H	H	Ireland seems unlikely to meet its 2020 emissions targets without purchasing more allowances, which could cost between €148 million and €455 million (Deane, 2017). Costs associated with missing later targets (2030) could be substantially higher (Curtin, 2016 estimates €2.7 to €5.5 billion). For the forecast horizon, a low impact may be more appropriate.
Budgetary Pressures	M	H	This pressure refers to the risk of public expectations exceeding budgetary policy. Budgetary pressures may also arise due to demographics, eligibility factors and other demand side pressures. In-year spending increases would also exacerbate the problem. The political cycle may also increase near-term budgetary pressures.
Corporation Tax Concentration Risks	H	M	Corporation tax receipts play an increasingly important source of tax revenue in Ireland. However, these are very volatile in nature and are highly concentrated. The top ten companies are responsible for nearly 40 per cent of the total corporation tax receipts, which makes this tax head exposed to idiosyncratic shocks. Corporation tax in 2017 recorded the second-highest share of tax revenues in the last 34 years, and the *SPU 2018* projections point to this share remaining high. In this context, sudden moves or financial under-performance of the top-ten companies could pose serious risks to this source of revenue. Adding to this, uncertainty about the effects of the US corporation tax reform and the path of EU and UK fiscal policy may suggest that this risk could have a relatively higher impact.
Sharper-than-Expected Activity Growth in Tax-Rich Sectors (IFAC Risk)	M	M	Pent-up demand in the housing sector could lead to strong growth in the construction sector. Given the tax-rich nature of housing output, rapid growth could imply a substantial increase in revenues arising from this source.
Reliance on Transient Revenues (IFAC Risk)	M	M	Failure to recognise the transient nature of certain sources of revenue could, if repeated, reduce the stability of tax revenues. This is particularly risky if transient revenue resources are used to fund long-term expenditure. For example, the increase of a transactions-based tax like stamp duties on non-residential property in *Budget 2018* was forecast to yield €376 million in 2018. Although it is still early to determine, this revenue source has cumulatively underperformed to end-April by 9.8 per cent (€44 million). It is therefore desirable to track the evolution of this tax source to quantify the accuracy of the forecasts around this policy-induced change in taxation.
EU Budget Contributions	M	M	If national income were to grow faster than expected then this would lead to a larger EU Budget contribution. *SPU 2018* has already revised up

Risk	Likelihood	Impact	IFAC Assessment
			expected EU contributions due to the stronger forecasts of economic growth. In addition, there is continuing uncertainty surrounding the impact Brexit will have on EU Budget contributions of the remaining members.
Changes to Tax "Drivers"	M	M	Tax forecasts are dependent upon macroeconomic projections and other components. For example, corporation tax forecasts are driven by forecasts around the Gross Operating Surplus (GOS), and the elasticity associated with this. The GOS forecasts are subject to a high degree of uncertainty, namely that related to international trading conditions and currency markets. Hence, changes in the composition of those macroeconomic components can have important impacts on the tax forecasts. This was the case for the PAYE-related USC receipts, whose elasticity was found to be almost half of what had been estimated (2.15 versus an updated estimate of 1.2). The updated elasticity implied revenues were estimated to be €85 million lower than initially forecast for 2017.
Litigation Risk	M	M	This risk refers to an adverse or unexpected outcome of litigation against the State, leading to increased expenditure. This could have a significant impact on expenditure and budgetary projections.
Dividend Payments	L	M	*SPU 2018* identifies risks in relation to lower-than-expected payments of dividends from the State's shareholding in banks and commercial semi-state companies. Such dividends are a function of business performance and outlook, over which the State has little control. If some of these assets are sold, then associated revenue streams would fall.
Receipts from Resolution of Financial Sector Crisis	L	M	For the purposes of prudence, budgetary projections do not include any assumed proceeds in relation to the State's disposal of shareholdings in a number of financial institutions, nor from the termination of NAMA or windup of the Credit Union Restructuring Board. This is due to the difficulty in projecting market conditions, the timing of disposals and any realised surplus funds.
Contingent Liabilities	L	M	Contingent liabilities continued to fall in 2017, and now stand at 0.5 per cent of GDP or 0.7 per cent of GNI*. Given the reduced level of contingent liabilities, the Council assesses a low impact to be more appropriate.
Bond Market Conditions	L	M	The long maturities and relatively fixed nature of debt should insulate the public finances from a typical shock to interest rates on sovereign borrowings. At high debt levels, external shocks such as a harder-than-expected Brexit could lead to self-reinforcing fears in bond markets.

Sources: Department of Finance; and internal IFAC assessment.
Note: Likelihood and impacts from *SPU 2018:* H = High; M = Medium; L = Low.