

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

	<i>Budget 2015</i> Forecasts (2015–2017)	2015–2017 Outturns	Outturn - <i>Budget</i> 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

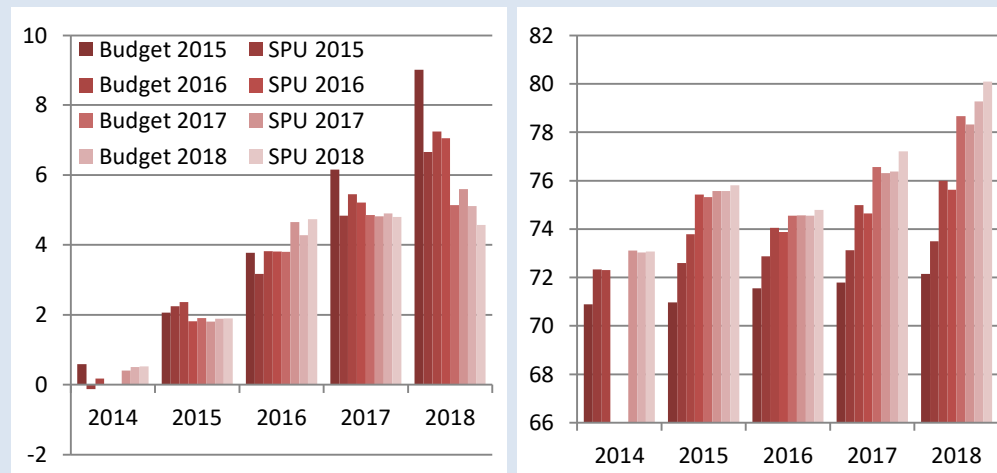
primary balance – the difference between general government revenue and primary expenditure – was actually worse than initially forecast in *Budget 2015* (€0.6 billion cumulatively).

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).