Irish Fiscal Advisory Council

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Since it was first established in 2011, the Irish Fiscal Advisory Council's main publication has been its twice yearly Fiscal Assessment Report. This report assesses Budget 2019 and recent budgetary plans through all elements of the Council's mandate, which is to assess the Government's overall budgetary stance; its forecasts; and its compliance with the fiscal rules. It finds:

The pick-up in growth since about five years ago has been driven by a cyclical recovery. The economy now looks to be close to its potential, and the short-term outlook remains strong. Yet a slowdown in coming years is inevitable and there are numerous risks. Significant overheating pressures could build up if a faster-than-expected, though welcome, pick-up in housing construction materialises. On the other hand, Brexit may prove to be more costly than assumed, while the concentration of Ireland's exporting sector, the global rise in protectionism, and possible future changes in the international tax environment also pose risks.

Underlying improvements in the budget balance have stalled since 2015, despite the favourable environment. Non-interest spending has been increased at essentially the same pace as government revenues since 2015. However, much of the recent improvement in revenues may be cyclical or temporary. This suggests that the underlying budgetary position has deteriorated. This is a worrying pattern. It means that opportunities to strengthen the budget balance during the upswing in the cycle are being missed.

A prudent fiscal policy would see net policy spending rise in line with sustainable revenues. But the Budget 2019 plans show a government spending increase (net of tax measures) of €4.5 billion in 2019 compared to what was planned for 2018. The Council assesses that this is not conducive to prudent economic and budgetary management. The budgetary increase for 2019 is substantial. It goes beyond the limit of €3½ billion for spending increases or tax cuts for 2019 that the Council had assessed as appropriate prior to the budget on the basis of sustainable growth rates. The larger increase mainly reflects the fact that the budget plans for 2019 are built on the imprudent increase in spending in 2018. The overall increases also go beyond the Government's own plans set out prior to the budget. With the now-higher base for 2018, the underlying increase in total expenditure (net of tax measures) from 2018 to 2019 is currently €1.4 billion beyond plans set out in *SPU 2018*. The Department of Finance's own estimates set out in the budget suggested that Government plans would breach the fiscal rules for 2018 and 2019.

Repeated failures to prevent unbudgeted spending increases within the year have left the public finances more exposed to adverse shocks. These failures also mean that the budget balance remains in deficit rather than in surplus. Failures to prevent unplanned spending increases have meant long-lasting increases in spending that are difficult to reverse. These increases represent a repeat of the policy mistakes of the past. Instead, pressures in the health sector and elsewhere should be funded through sustainable tax revenues or decreases in spending categories elsewhere.

The Council estimates that a general government surplus would have been achieved much earlier had the unplanned, within-year spending drift not occurred in each of the years 2015–2017.