Press Release: Fiscal Assessment Report, June 2019

Under embargo until early morning (01:00am) Tuesday 11th June 2019.

Council assesses that Government should stick to its budgetary plans

The Fiscal Council's latest report assesses "Ireland's national medium-term fiscal plan" as set out in *Stability Programme Update (SPU) 2019*. It finds:

The Council assesses that the Government should be cautious and stick to its existing plans as set out in *SPU 2019*. This reflects the risks associated with a hard Brexit, the reliance on corporation tax, possibilities of overheating, and the rapid rise in spending between 2017 and 2019. For 2019, this means that no additional within-year increases should be introduced without offsetting measures. For 2020, this would entail some €2.8 billion of budgetary measures: amounts already earmarked for increases in public investment, public sector pay, demographic pressures, and assumed tax cuts. Public investment alone is planned to more than double from its level six years ago to €8 billion in 2020. Given previous announcements, this would allow for minimal new tax and spending measures on budget day. If additional discretionary measures are to be taken beyond current plans, then the Government should introduce revenue-raising measures to preserve overall sustainability or scale back planned spending increases and tax cuts elsewhere.

Continued strong growth means that the Irish economy has recovered from a deep crisis and is now operating near capacity. Yet the current outlook is unusually uncertain. The Government's forecasts assume the UK makes an orderly and agreed exit from the EU at the end of 2020. However, this outlook is balanced between potential overheating on one side and an exceptional adverse shock in the form of a harder-than-assumed Brexit on the other.

Efforts to turn around a large budget deficit were successful, but little progress has been made since 2015 and Ireland's net debt ratio remains the fifth highest in the OECD. Progress in terms of improving the underlying budget balance since 2015 has been limited, with factors that could prove temporary, such as the upswing in the economy and surge in corporation tax, causing much of the headline improvement.

With the public finances still in a relatively vulnerable position, the Government has allowed a pattern of spending drift in recent years. Government policy spending growth has risen from 4.5 per cent in 2015 to 6.7 per cent in 2018. Spending increases within the year—over and above what was originally budgeted for—have contributed to a fast pace of expansion.

This report shows that some €3 billion to €6 billion of the €10.4 billion corporate tax receipts received in Ireland in 2018 could be considered above conventional levels. Corporation tax receipts in Ireland are now a long way from what would be projected based on the economy's underlying performance and based on historical/international norms. This report shows how unexpected corporation tax receipts could be saved by setting these aside through allocations to a "Prudence Account".

A Disorderly Brexit poses profound risks to the public finances. This report shows that, if it materialises, the shock to the economy, revenues, and cyclical spending from a disorderly Brexit could mean debt ratios beginning to rise again. The trade-offs could be severe and the Government might need to cut spending or raise taxes to prevent debt ratios from rising indefinitely.

The Government's medium-term plans are still not credible and the Government needs to develop a credible strategy. The Government's projections show surpluses increasing in every year. However, the spending forecasts underpinning these projections are not credible. They imply an implausible slowdown in spending growth based on technical assumptions, which do not reflect either likely future policies or the future cost of meeting existing commitments. This report considers how a better approach to budgetary planning could be built around four elements: (1) a better-specified debt target; (2) a clear statement of the sustainable growth rate that

net policy spending can grow at; (3) multi-year departmental expenditure ceilings based on this growth rate, with more realistic forecasts for spending; and (4) a gradual move by the Government toward weaning itself off the reliance on corporation tax receipts that has built up in recent years.

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