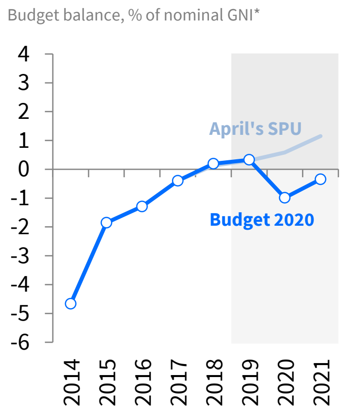
Irish Fiscal Advisory Council

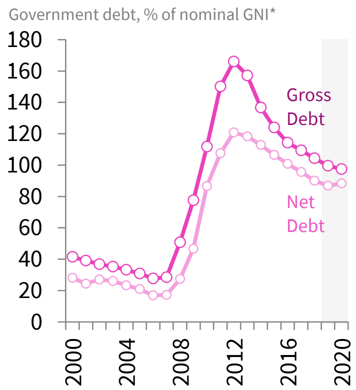
Budget 2020
a visual summary

The budget balance is forecast to weaken

The Government's budget balance is forecast to weaken in 2020 relative to April's Stability Programme Update (SPU) plans.

This primarily reflects the cost of supports in relation to a Disorderly Brexit. Additional spending measures were also announced, with these being offset by discretionary tax increases.





Debt remains elevated

Ireland's Government debt burden remains high.

As a share of modified gross national income (nominal GNI*), debt has fallen from a peak of 166 per cent to 104 per cent in 2018.

Net debt, which excludes cash and other liquid assets, has fallen more slowly and is forecast to rise in 2020 under a disorderly Brexit.

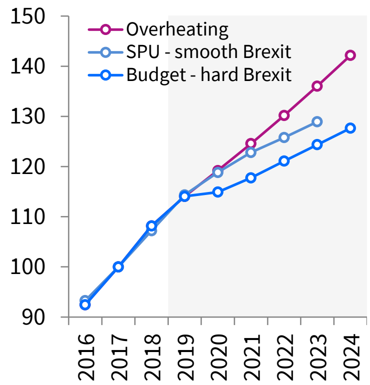
Unusual uncertainty

The growth outlook for the Irish economy is unusually uncertain.

While it has recovered from a deep crisis, the Irish economy faces potential overheating on one hand or a potential slowdown (as forecast in *Budget 2020*) on the other.

This could arise from external shocks including from a disorderly Brexit.

Real GDP in levels (2017=100)



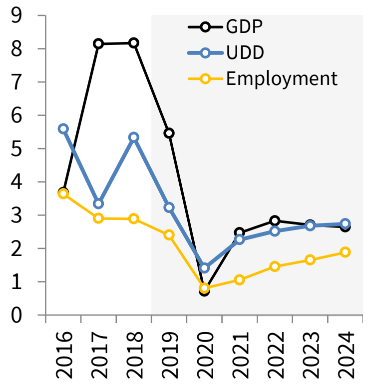
The Budget is based on an expected slowdown

The official forecasts suggest a slowdown in the Irish economy.

This is evident in growth forecasts for gross domestic product, underlying domestic demand, and employment.[1]

The outlook is based on the assumption that the UK leaves the EU in a disorderly fashion.

Year-on-year % change

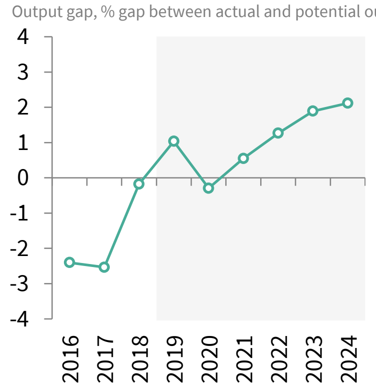


Economy close to its potential

Official forecasts suggest that the output of the Irish economy is close to its potential.[2]

That is, despite the forecast slowdown, there is little scope for activity to grow at a faster pace without resulting in overheating.

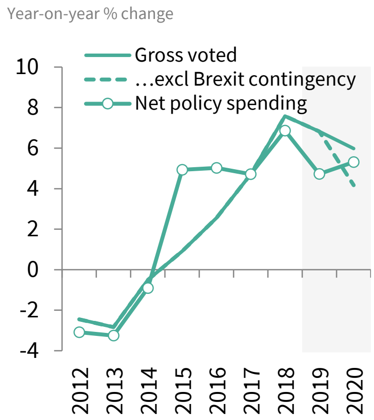
Cyclical position:
Output gap, % gap between actual and potential output

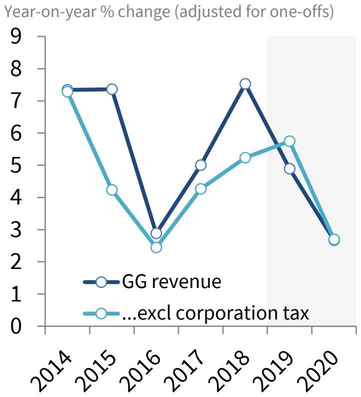


Spending growth to continue

Government spending has been growing since 2015, accelerating considerably since then.

Budget 2020 shows that the fast pace of growth is set to continue. Yet this would be at a less rapid rate were a soft Brexit to materialise, in which case a contingency for a no-deal Brexit is not planned to be utilised.





Unexpected revenues

Accelerated spending has coincided with the Government receiving unexpected corporation taxes.

Annual corporation tax receipts were €5.4 billion higher than expected in 2018, compared to *Budget 2015* forecasts.

Excluding corporation tax, general government revenues are estimated to have grown by 5.7 per cent in 2019.

Budget plans and delivery

Repeated slippages in spending plans are evident from an upward pattern to revisions to **net policy spending** growth (spending adjusted for interest, cyclical unemployment expenditure, and tax measures).

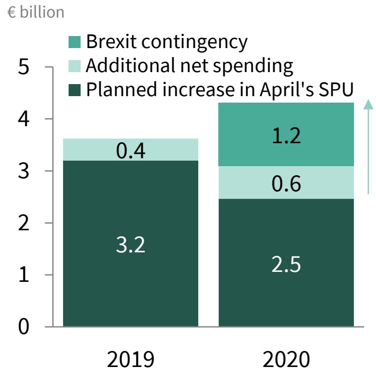
For example, net policy spending growth in 2018 as set out in *SPU 2017* was 3.4 per cent, then 3.8 per cent in Budget 2018 (published October 2017), while the outturn was 6.9 per cent. This pattern was evident in both 2017 and 2018 and looks to have continued into 2019.

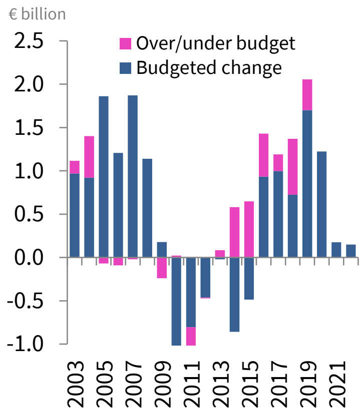
Different vintages of net policy spending growth estimates, year-on-year % change

Source	Date of Publication	2017	2018	Average	2019	2020
SPU	**April** (prior year)	1.6	3.4	**2.5**	4.3	3.1
Budget	**October** (prior year)	3.8	3.8	**3.8**	5.0	5.3
SPU	**April**	4.1	4.5	**4.3**	4.2	
Budget	**October**	4.0	5.4	**4.7**	4.7	
Outturn (CSO)	**Latest**	4.7	6.9	**5.8**		

Net policy spending increased further

Spending in 2019 is now €0.4 billion higher than previously planned. For 2020, the Budget shows an increase in spending €1.8 billion above that set out in April's *Stability Programme Update*. Of this, €1.2 billion is a contingency for a disorderly Brexit.





Health overruns continue despite planned increases

Budget 2019 allocated €17 billion to gross voted health spending for 2019. This was an expected (budgeted) increase of €1.7 billion on the projected 2018 base.

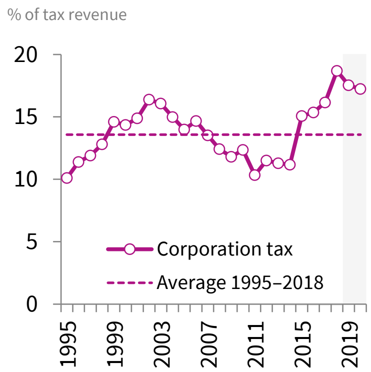
Budget 2020 indicates an expected overrun of €0.4 billion in 2019 so that gross voted health spending is expected to increase by €2.1 billion. This unplanned increase repeats the pattern of overruns in recent years.

For 2020, health spending is currently projected to rise by €1.2 billion.

Corporation tax concentration risk

Tax revenues are significantly reliant on corporation tax receipts, which have increased to a record of 18.7 per cent of tax revenue. The average since 2000 is 13.6 per cent.

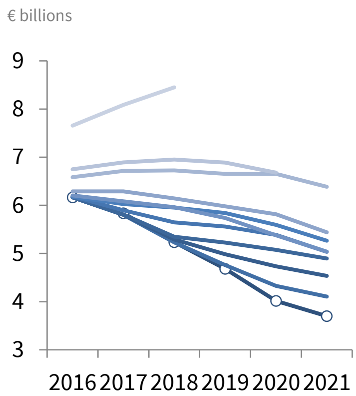
Budget 2020 forecasts suggest this reliance will remain, with corporation tax revenues growing each year until 2024.

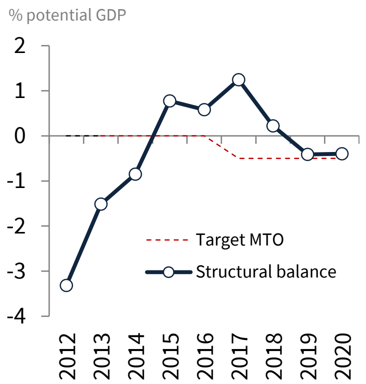


Interest savings continue

Interest costs related to Government debt have repeatedly turned out lower than expected. This has been a gain in terms of improving the overall budget deficit in recent years.

In terms of interest costs for 2020, *Budget 2020* forecasts that these will be €4 billion. By comparison, earlier estimates for 2020 were for a cost of €6.7 billion.





Worsening underlying budget balance

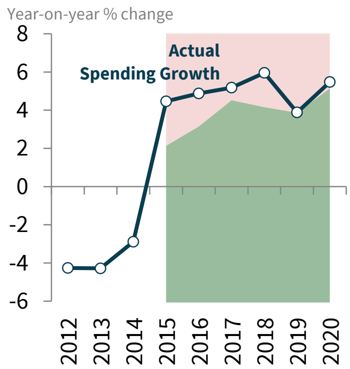
The Government's forecasts show it is close to breaching the target MTO[3] of a 0.5 per cent structural deficit—that is, the deficit adjusted for one-off items and the economic cycle— in 2019 based on the Council's "principles-based approach".

The structural balance position deteriorated in recent years as spending has risen quickly. A weaker underlying position could also be masked by surges in corporation tax.

Spending growth above limit

Government net spending—adjusted for spending on interest, cyclical unemployment benefits, smoothed investment, co-financed EU projects, one-off items, and tax measures—grew faster than the limit in every year from 2015 to 2018, based on the Council's principles-based approach.

For 2019 and 2020, it is also close to a breach.



Notes:

This release shows preliminary analysis of Budget 2020, which will be explored further as part of the Council's next Fiscal Assessment Report (due out in November 2019).

[1] UDD stands for underlying domestic demand, which is the sum of personal consumption of goods and services, net government consumption of goods and services, and underlying investment (which excludes aircraft and intangibles due to their high import content).

[2] The output gap shown is the Department of Finance's preferred measure of the cyclical position of the economy.

[3] Medium-term objective for the structural balance.