under plausible scenarios. Given the high debt burden, strong cyclical growth, risks to the economic outlook, and surging corporation tax receipts, there is no case for additional stimulus at this stage. The budget should be kept in balance in structural terms to ensure that debt ratios are on a steady downward path.[16]

Two annual €500 million contributions that were planned for the Rainy Day Fund in both 2019 and 2020 have been cancelled. This means that the Rainy Day Fund—first proposed as part of the Government's programme in May 2016—will not have any *annual* contributions made to it until 2021 at the earliest: five years after it was first proposed. This ignores the planned €1.5 billion transfer of cash assets from the Irish Strategic Investment Fund to the Rainy Day Fund, which has no impact on the State's net asset position. Suspending the transfers to the Rainy Day Fund may have made sense in a disorderly Brexit, hence reducing refinancing requirements, though the need for this is not clear in an orderly scenario. Box B reviews the history of the Rainy Day Fund in the context of the cancelled transfers.

Box B: Contributions to the Rainy Day Fund suspended before they start

This box reviews the operation of Ireland's Rainy Day Fund in light of the suspension of the first annual allocations to the Fund, which were planned for 2019 and 2020.

A brief history of Ireland's Rainy Day Fund

The Rainy Day Fund was first proposed as part of the Government's programme in May 2016.[17] Few details were given at that time, but the proposal came under the objective of securing "sound public finances and a stable and broad tax base".

At the time, the Council welcomed the initiative as a useful way to improve Ireland's budgetary framework.[18] The view was that—provided it was designed and managed appropriately—such a fund would have three advantages:

1) It could provide a way for the Government to sustain budget surpluses in good times, withstanding political pressures to loosen budgetary policy when tax revenue is growing strongly. In this way, the Fund could act as a counterweight to the problem of "deficit bias": that is, the tendency for governments to run deficits and allow debt levels to rise over time.
2) While allocating some resources to the fund in good times would imply a tighter fiscal stance than would otherwise be the case, the Fund could help to protect the

[16] This is a minimum objective in the context of the fiscal rules. One reason in favour of this approach is that output gaps tend to be revised up, particularly for cyclical upswings.

[17] See the Programme for a Partnership Government available at: https://www.merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme_for_Partnership_Government.pdf

[18] See Box B, *June 2016 Fiscal Assessment Report.*

Government against a need for forced austerity in the event of a loss of market confidence and inability to borrow at low interest rates in future.

3) The Rainy Day Fund would also provide the Government with access to useful financial assets in the event of a crisis.

As part of *Budget 2017*, the Minister for Finance announced plans to set aside €1 billion every year in a Rainy Day Fund starting in 2019. This reflected the "need to build up a safety buffer".

The Council saw the proposed Rainy Day Fund as a potentially useful tool for reacting to changing economic conditions. In particular, it noted that fiscal policy would have to play an important role in "leaning against the wind" in coming years should the domestic economy begin to overheat.[19] The Rainy Day Fund was one option that could help to achieve this.

In 2017, plans for the Rainy Day Fund were scaled back. The planned contributions to the Fund were halved from €1 billion per year to just €0.5 billion per year. In October, a consultation paper on how the Fund would operate was released by the Department of Finance (2017).[20] While it outlined some aspects of how the Fund would work, the Council noted that three key issues still had to be addressed: (1) how the fund was intended to help limit procyclical fiscal policies from arising; (2) how the fund would interact with the EU fiscal rules; and (3) how governance procedures were to be designed.

In particular, the Council noted that the fund envisaged by the Department did not appear to function as a countercyclical tool for fiscal policy (it would not act in a manner that would lessen past tendencies to ramp up spending and cut taxes during a cyclical upswing). Instead, the proposed design was one that involved pre-determined limits (€0.5 billion each year) on how much would be allocated to the fund (in other words, not dependent on how the cycle actually evolved); total allocations would be capped over the life of the fund (at €8 billion); and the Fund would address only "specific events or shocks rather than the impact of the cycle". These features ran contrary to the original purpose of the Fund and suggested that it would contribute little to improving fiscal policy.

The Council further developed its views on how the Rainy Day Fund could address shortcomings in Ireland's budgetary framework in subsequent reports and research (Barnes and Casey, 2019; Fiscal Council, 2018; Casey *et al.,* 2018).

In June 2019, the "National Surplus (Reserve Fund for Exceptional Contingencies) Bill 2018" passed into legislation, establishing the Rainy Day Fund. Its establishment provided for assets up to the value of €2 billion to be transferred to it from the Ireland Strategic Investment Fund—a State fund that operates on a commercial basis to support economic activity and employment in Ireland—but the Government's intention was always to transfer €1.5 billion. The Bill also provided that the Minister for Finance would transfer €500 million to the Rainy Day Fund each year from 2019 to 2023. The first payments into the fund were to take place later in 2019.

With a disorderly Brexit forming the backdrop to *Budget 2020*, the first transfer to the Rainy Day Fund of €500 million was suspended. The Minister noted in his *Budget 2020* speech:

> *"My original intention was to transfer €500 million to the Rainy Day Fund from the Exchequer this year, with an additional €1.5 billion being transferred from the Ireland Strategic Investment Fund. While I am committing that this €1.5 billion will be transferred to the Rainy Day Fund, given that a No Deal Brexit is more likely, I have decided not to transfer the additional €500 million from the Exchequer this year. This is the appropriate response to the more challenging economic environment we may*

[19] *June 2017 Fiscal Assessment Report*.

[20] Department of Finance, (2017d).

be facing. It will ensure that we have in place the right supports so that our economy is protected from the impacts of Brexit and it ensures that Government can continue to protect our public services in the years ahead."

What now?

The decision to suspend the first transfer means that the Rainy Day Fund has not been allocated any resources as yet. A transfer of €1.5 billion of cash assets from one arm of the State (the Irish Strategic Investment Fund) to another (the Rainy Day Fund) is, however, expected to take place later this year. This will have no impact on the State's net asset position. It is possible, however, that the funds might be used for different purposes. If they were to have stayed in the Irish Strategic Investment Fund, for instance, these resources may have eventually been used to support economic activity and employment in Ireland on a commercial basis. In the Rainy Day Fund, their ultimate use is unclear, given how the Fund interacts with the fiscal rules.

At this point, the limitations of the Fund noted by the Council are still valid. The Fund will not operate in a countercyclical manner. Its stated purpose is only to deal with specific events or shocks. The €8 billion cap and the pre-determined transfer amounts undermine any countercyclical objective. And its scope to be used in a downturn remains unclear (due to the question over its interaction with the EU fiscal rules not being adequately resolved). These are the key areas to be developed if the Fund is to fulfil its potential as a tool for improving budgetary outcomes in Ireland.

Fiscal Stance in 2021–2024

To ensure that the public finances follow a sustainable path in coming years and that debt ratios are steadily reduced from high levels, the Government needs to develop better strategies for managing the public finances.

Currently, the Government's medium-term plans show real net policy spending growth of between 1 and 1½ per cent over 2021–2024 — below most estimates of potential output for the Irish economy. While such a growth rate would be well within what the government is likely to be able to fund sustainably, there are questions over the plausibility of medium-term forecasts. Chapter 3 notes that the Department of Finance has moved towards more plausible estimates of medium-term spending growth for current spending, yet these are still based on arbitrary technical assumptions rather than bottom-up assessments of price and service pressures. Chapter 4 highlights how medium-term spending ceilings have been repeatedly revised up as the economy fares better than expected.

The objective for the medium-term should be to set a course for a prudent fiscal policy that ensures net policy spending rises in line with sustainable revenues. That means using the Rainy Day Fund to help build resources in good times so that forced