**Box G: Current primary spending is the main driver of spending drift in recent years**

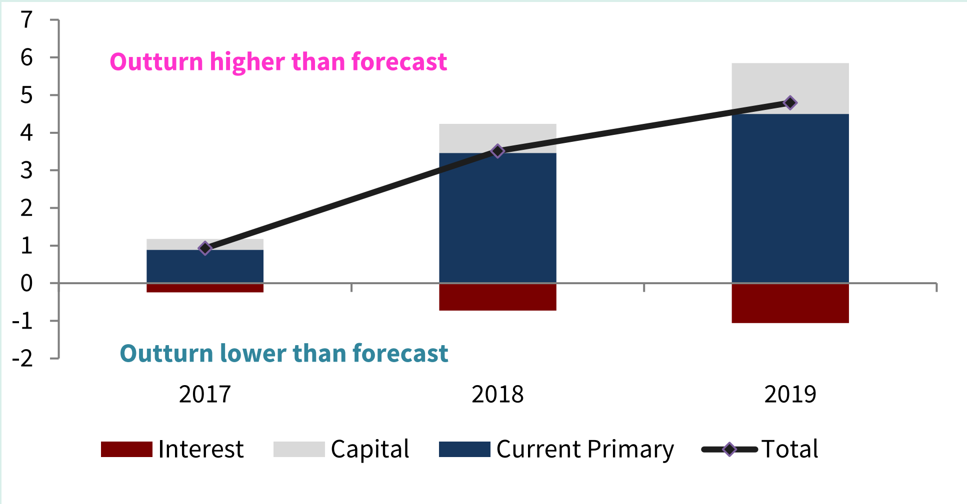
Previous Fiscal Assessment Reports have highlighted that expenditure has increased relative to plans in recent years (Fiscal Council, 2019c, 2018e and 2018c). This box examines the specific components of expenditure which have contributed to this higher-than-planned expenditure.

Three categories of expenditure are considered: (1) current primary spending (current expenditure minus interest); (2) interest expenditure; and (3) capital expenditure. Figure G.1 shows how the level of expenditure has been revised from plans in *Budget 2017* to the latest outturns from CSO data (2017 and 2018) and *Budget 2020* forecasts (2019).[42] This shows that current primary spending and capital spending have been higher in each of these years compared to *Budget 2017* plans. In addition, interest expenditure has been lower than forecast for each year.

By 2019, *Budget 2020* forecasts of general government spending are €4.8 billion higher than forecast in *Budget 2017*. Of this, €4.5 billion is due to higher current primary spending and €1.4 billion is due to higher capital spending, while interest spending is €1.1 billion lower than anticipated. If capital spending had not been revised up from previous plans, expenditure would still be much higher than planned. This is because current primary expenditure has been the main driver of this higher-than-planned expenditure.

**Figure G.1: Spending overruns compared with *Budget 2017* plans have been largely driven by current primary spending**

€ billion




Sources: *Budget 2017*; CSO; *Budget 2020*; and Fiscal Council calculations.

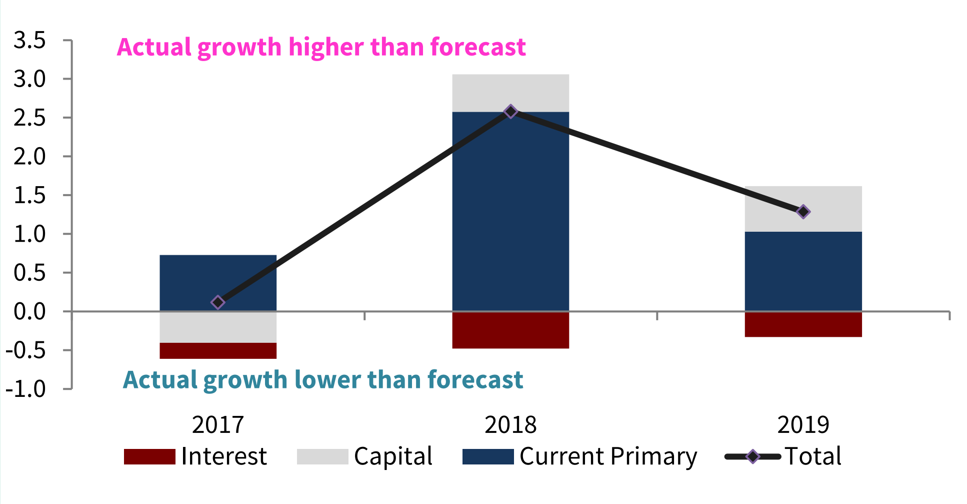
There is a possibility that spending outturns may be higher than forecast due to factors other than policy decisions. For example, statistical reclassifications or revisions to previous data can be a source of such changes. With this in mind, Figure G.2 compares the amount each of these expenditure items was expected to change by in each year, compared to the outturn/latest forecasts. For example, total general government expenditure in 2018 was expected to increase by €2.1 billion in *Budget 2017*, whereas the latest outturn suggests an

[42] *Budget 2017* is used as a comparison as these expenditure forecasts were more realistic than previous vintages. *Budget 2017* forecasts took account of the planned use of available fiscal space over the medium term, as opposed to the previous assumption of flat nominal amount of expenditure in the later years.

increase of €4.7 billion.[43] The €2.6 billion gap is shown in Figure G.2. Of this gap, faster-than-anticipated growth in current primary spending accounted for €2.6 billion. The faster-than-expected growth in capital spending (€0.5 billion) was offset by interest costs falling faster than anticipated.

**Figure G.2: Annual spending growth since 2017 has been higher than forecast, largely driven by current primary spending**

€ billion, year-on-year growth




Sources: *Budget 2017*; CSO; *Budget 2020*; and Fiscal Council calculations.

Looking at either the levels of planned spending or the year-to-year growth, the same pattern emerges. Expenditure has been higher and has grown faster than earlier plans anticipated. This has been driven mainly by current primary expenditure. Capital expenditure has contributed also, but to a far lesser extent. Interest spending has been lower and has fallen faster than anticipated.

### Revenue, 2019

For 2019, **general government revenue** is forecast to be €4.3 billion (or 5.3 per cent) higher than in 2018, excluding one-offs. This is €410 million better than expected in April's SPU forecasts, despite the *Budget 2020* incorporating the impact of a disorderly exit of the UK from the EU from 31 October 2019. The upward revision is driven by (1) increases in current taxes on income and wealth (+€320 million)—mainly arising from higher-than-expected corporation tax revenue—and (2) increased projections on social contributions (+€240 million).

[43] *Budget 2017* forecast an increase of €2.1 billion. This was increased to €2.9 billion in *Budget 2018*, further revised up to €3.9 billion in *Budget 2019* and revised again in *SPU 2019* (€4.6 billion). The latest data (reflected in *Budget 2020*) shows an increase of €4.7 billion.