Chapter 3

Assessment of Budgetary Forecasts

3. Assessment of Budgetary Forecasts

Key Messages

- For 2019, the general government surplus (excluding one-off items) is forecast to be 0.3 per cent of GNI*, a slight improvement compared to 2018. Overruns in health expenditure are likely to be masked by higher-than-anticipated corporation tax receipts.

- The *Budget 2020* fiscal forecasts are presented solely on the basis of a no-deal Brexit, with a front-loaded impact assumed to take place in 2020. For 2020, the general government balance (excluding one-off items) is forecast to deteriorate to a deficit of €2.0 billion. This is mainly driven by higher expenditure on unemployment-related benefits and sector-specific supports in an assumed no-deal Brexit. Under an orderly deal scenario, estimates suggest that this would lead to a surplus of around €1.1 billion.

- There are risks that spending could be higher in 2020, with the Christmas bonus again not budgeted for and a possible repeat of persistent health overruns. The fiscal costs associated with a no-deal Brexit could also be higher and more long-lasting than currently forecast in *Budget 2020*.

- Corporation tax as a share of tax revenue in 2018 reached record levels of 18.7 per cent and is forecast to remain elevated in the coming years. This tax head is volatile and is strongly concentrated in a small number of companies. This, together with potential changes in the international tax environment, leaves government revenue particularly exposed to shocks.

- From 2021 onwards, the expenditure forecasts in *Budget 2020* are based on technical assumptions, rather than likely future policies or the future cost of meeting existing commitments. These technical assumptions have been revised to make them somewhat more realistic, with faster forecast expenditure growth than previously assumed. Other than for corporation tax, revenue forecasts as a whole have been reasonably accurate in recent years. However, the unique nature of a shock like a hard Brexit might imply lower revenue than is currently assumed by the Department of Finance.

3.1 Introduction

This chapter assesses recent data from the Central Statistics Office, Fiscal Monitors, and the latest set of fiscal forecasts produced by the Department of Finance in *Budget 2020*. In 2019, the general government balance (excluding one-off items) is forecast to reach a surplus of €0.7 billion, an improvement of €0.6 billion relative to 2018 (Table 3.1). Both revenue and expenditure forecasts for 2019 have been revised up since *SPU 2019*. For 2020, a deficit is expected to re-emerge, mainly due to the assumed impact of a no-deal Brexit on the public finances.

Budget 2020 forecasts are made on the basis of an assumed no-deal Brexit. While a no-deal Brexit is a possible outcome, uncertainty remains and hence there are many possible outcomes. Given the scale and nature of such a shock, the fiscal forecasts would look very different if they were prepared on the basis of an orderly deal scenario (as was the case in *SPU 2019*). While macroeconomic projections were prepared for both a deal and a no-deal scenario, fiscal forecasts have been prepared only on a no-deal basis. This makes it quite difficult to interpret how the budgetary position would be expected to evolve under an orderly deal scenario. This chapter will assess the Department's forecasts produced on the basis of a no-deal Brexit, but it will also consider the impacts arising from this assumption so as to give a sense of how the public finances would evolve under a relatively more benign outcome.

Table 3.1: Summary of fiscal outturns (2018) and forecasts (2019–2024) under an assumed no-deal Brexit

€ billion, excluding one-offs, unless stated

	2018	2019	2020	2021	2022	2023	2024
General Government Balance	0.1	0.7	-2.0	-0.7	0.2	1.5	3.1
Total Revenue	82.0	86.4	88.7	92.1	95.9	100.3	105.0
… % change	7.1	5.3	2.7	3.8	4.2	4.5	4.7
Total Expenditure	82.0	85.7	90.7	92.8	95.7	98.8	101.9
… % change	6.0	4.6	5.8	2.3	3.2	3.2	3.1
Interest Expenditure	5.2	4.7	4.0	3.7	3.9	4.0	3.9
Primary Expenditure	76.7	81.0	86.7	89.1	91.9	94.7	98.0
… % change	7.4	5.6	7.0	2.8	3.1	3.1	3.4
Primary Balance	5.3	5.4	2.0	3.0	4.1	5.5	7.0
Nominal GNI* growth (% change)	7.3	2.9	0.2	3.4	3.5	3.4	3.2

Sources: CSO; Department of Finance; and Fiscal Council calculations.
Note: One-offs are removed from variables to get a sense of the underlying fiscal position. One-off items/temporary measures are as assessed by the Council to be applicable, as per Table 1.1, Chapter 1. Figures in grey indicate that the Council assesses these forecasts as largely the result of technical assumptions on expenditure, which are unlikely to reflect future developments. Rounding can impact on totals.

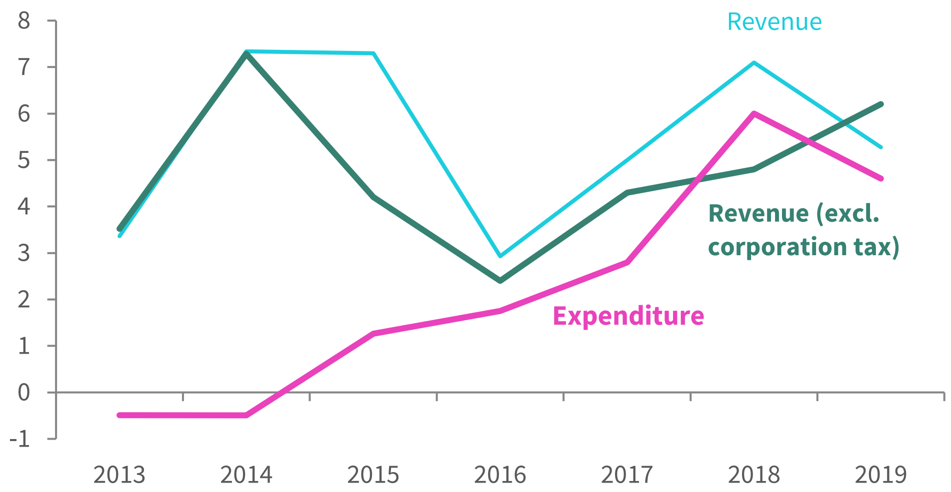
3.2 Assessment of 2019 Outturns and Estimates

Balance, 2019

Budget 2020 forecasts an underlying **general government surplus** for 2019 (excluding one-offs) of €0.7 billion, an improvement on 2018 (when an underlying surplus of €0.1 billion was recorded).[39] This improvement is aided by strong cyclical revenue growth, declining unemployment and falling interest payments (forecast to be €0.6 billion lower than in 2018). Figure 3.1 shows underlying revenue and expenditure trends. General government expenditure growth accelerated from 2013 to 2018. In 2018, it outstripped revenue growth (excluding the highly volatile corporation tax revenue) for the first time in recent years. For 2019, non-corporation tax revenue growth is estimated to be higher than expenditure growth, though risks are highlighted below.

Figure 3.1: Expenditure growth has accelerated since 2013, matching strong revenues

% growth, year on year



Sources: CSO; Department of Finance; and Fiscal Council calculations.
Note: Revenue and expenditure are in general government terms. They exclude one-offs assessed by the Council as applicable. The 2019 figures are based on *Budget 2020* forecasts.

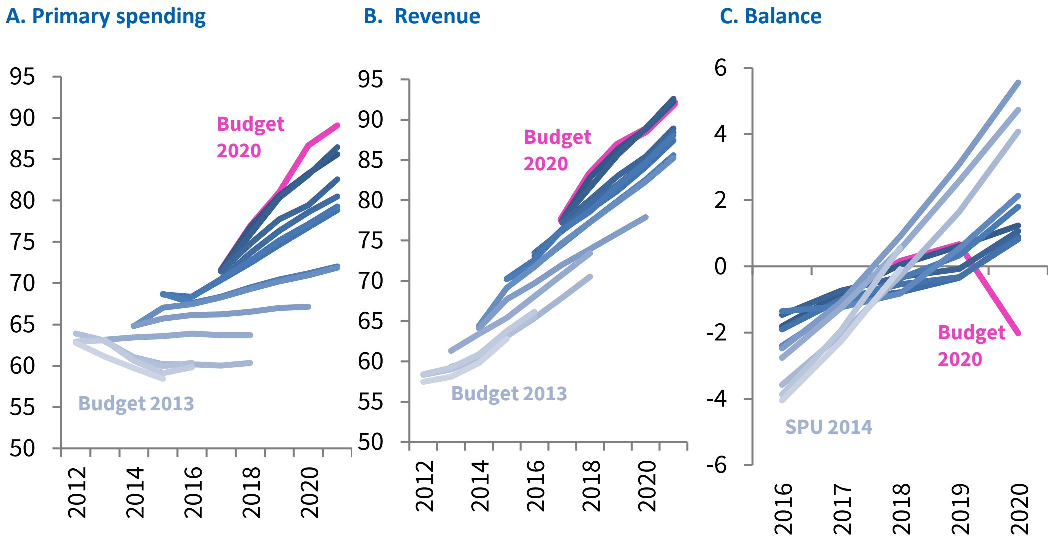
The **primary balance** (excluding one-off items) is forecast to be €5.4 billion in 2019, almost unchanged relative to 2018. Non-interest spending and revenue are both set to grow by over 5 per cent in 2019 (excluding one-off items). Figure 3.2 shows how the forecast pace of improvement in the general government balance has been

[39] The headline surplus in 2018 was €0.2 billion. This difference was caused by one-off receipts of €0.3 billion in corporation tax and €0.2 billion in expenditure in 2018.

revised down over time. This reflects how spending has been revised up by more than revenue over successive forecasts (also shown in Figure 3.2).

Figure 3.2: Vintages of general government primary spending, revenue and balance forecasts

€ billion (light blue = **older vintages**; darker blue = **more recent vintages**)



Sources: CSO; and Department of Finance.
Note: Primary expenditure excludes interest payments. Prior to *Budget 2017*, spending forecasts were made on the unrealistic assumption of fixed nominal spending for most items. Since then, forecasts have been made on a more realistic basis, and so are a more significant signal of upward spending drift. General government revenue data are adjusted to account for discretionary tax policy changes (not including the impact of non-indexation of tax bands and credits). The slope of the general government balance lines shows the expected improvement in the public finances. Older vintages generally show a more rapid improvement in the balance.

Expenditure, 2019

General government **primary expenditure** (excluding one-off items) is forecast to grow by €4.3 billion in 2019. The main items driving this growth are intermediate consumption (€2.2 billion), gross fixed capital formation (€1.6 billion) and compensation of employees (€0.8 billion). Underlying primary expenditure growth accelerated up to last year and is forecast to be 5.6 per cent in 2019, a moderation compared to 2018 (7.4 per cent).

CSO data for the first half of 2019 shows intermediate consumption to be €0.2 billion higher than the first half of 2018. This means that *Budget 2020* forecasts imply rapid growth in the second half of 2019. The supplementary estimates for the Department of Health may contribute to stronger growth in the second half of the year. Although the Fiscal Monitor does not show an overrun in the Department of Health as of end-October 2019, the HSE performance reports do show a deficit (Box K explores this). Gross fixed capital formation also shows much slower growth for the first half of the year (5.2 per cent) compared to that forecast in *Budget 2020* for the full year (25.3 per cent). This may be a downside risk to expenditure in 2019. Overspends of €0.4 billion in the areas of health, justice and education were accounted for in *Budget 2020* forecasts (almost all of which are expected to recur).

For 2018, social payments ended up €1 billion higher than was forecast in *Budget 2019*. Yet the 2019 forecast has only been revised up by €0.5 billion following the higher-than-expected outturn last year. As a result, social payments are now forecast to fall in 2019 relative to 2018, which seems highly unlikely. The only significant policy change between *Budget 2019* and *Budget 2020* has been the decision to pay the Christmas bonus in full this year (at a cost of €0.3 billion), which increases social payments in 2019. Preliminary data for the first half of this year suggests that social payments have grown by 2.1 per cent in the first half of 2019. Taking all of this into account, it would appear likely that social payments will be higher in the CSO outturn for 2019 than the *Budget 2020* forecast.

Primary spending in 2018 was €1.1 billion higher than forecast in *Budget 2019*. This was mainly driven by higher-than-expected social payments. Primary spending in 2019 is now forecast to be €0.7 billion higher than forecast in *Budget 2019*.[40] Given the scale of the upward revision to 2018 spending, one might have expected a bigger upward revision to forecasts of 2019 spending.

The upward revision to primary spending in 2019 is consistent with the pattern of revisions to spending seen at budget times and within-year in recent years. Figure 3.2 shows various vintages of forecasts of primary spending; one can see there has been a tendency for spending to drift up as the cyclical recovery takes hold.[41] Box G highlights how this spending drift has been predominantly accounted for by current primary spending, which is expected to be long-lasting, rather than capital spending.

[40] Primary spending for 2019 was revised up by €0.3 billion in *SPU 2019* compared to *Budget 2019*. *Budget 2020* forecasts were then revised up by a further €0.4 billion compared to *SPU 2019.*
[41] Forecasts for spending at the end of the forecast horizon may have been somewhat unrealistic (i.e., low) prior to *Budget 2017*, which may exaggerate the extent of upward revisions.

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

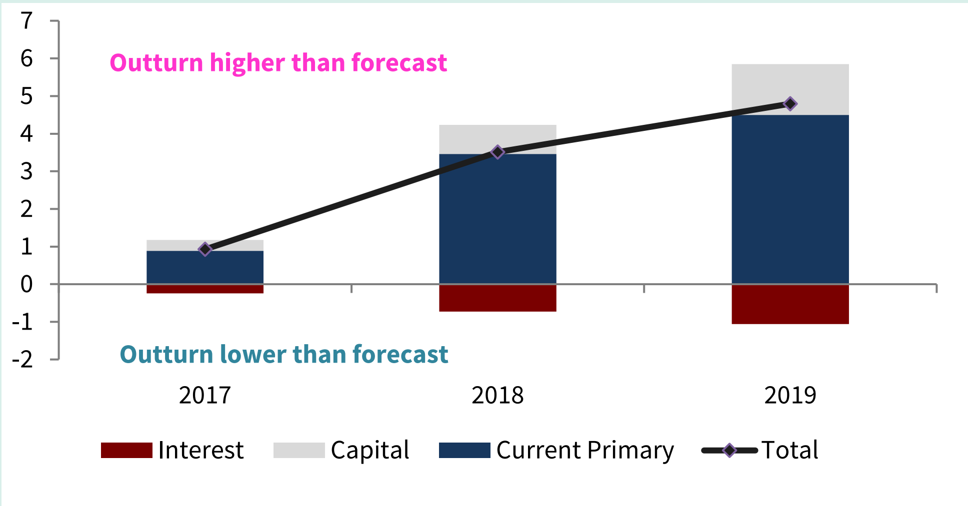
Previous Fiscal Assessment Reports have highlighted that expenditure has increased relative to plans in recent years (Fiscal Council, 2019c, 2018e and 2018c). This box examines the specific components of expenditure which have contributed to this higher-than-planned expenditure.

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.

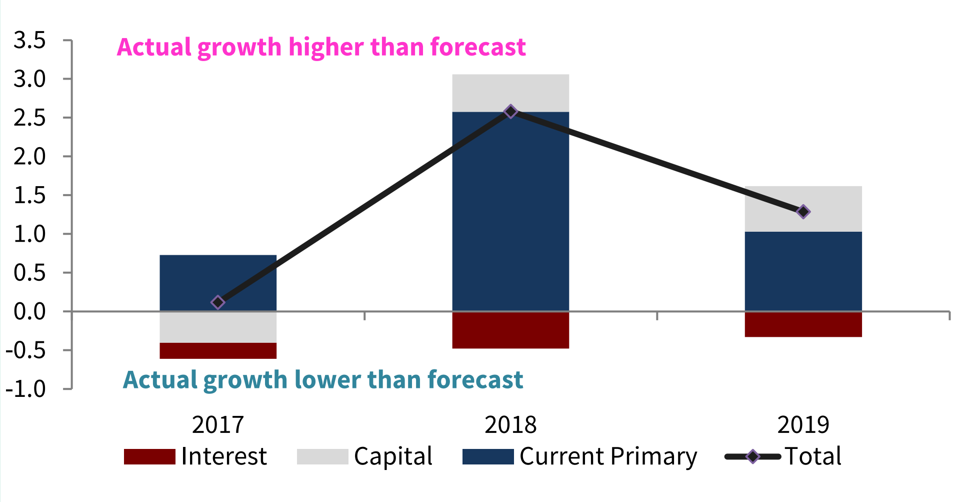
There is a possibility that spending outturns may be higher than forecast due to factors other than policy decisions. For example, statistical reclassifications or revisions to previous data can be a source of such changes. With this in mind, Figure G.2 compares the amount each of these expenditure items 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.

Strong **tax** growth is expected in *Budget 2020* for 2019: +5.6 per cent over the year (excluding one-offs).[44,45] Income tax is estimated to grow by 7.9 per cent, VAT by 6.4 per cent, and excise duties by 8.0 per cent. An exception is corporation tax, which *Budget 2020* expects to fall in 2019, given its high base in 2018 (partially due to a one-off payment).

For the year to end-October, **PRSI** and corporation tax are the main drivers of the revenue overperformance (Figure 3.3). PRSI is €267 million above profile to end-October. Forecast growth of PRSI has almost doubled since *SPU 2019* (from 5.7 to 10.8 per cent) given the ongoing strong performance of PRSI for the year.[46]

Corporation tax revenue is €660 million (or 10.6 per cent) higher than forecast to end-October, and €148 million (or 2.2 per cent) higher than last year, which was already a substantially large outturn. However, the annual growth in corporation tax receipts to end-October declined compared to end-September. This is largely because the October 2018 receipts were €773 million (or 96 per cent) higher than forecast for that month alone (as a result of higher-than-expected payments from large companies and the adoption of new accounting standards by some companies).

Corporation tax has accounted for an increasing share of total Exchequer tax revenue, especially since 2015 (Figure 3.4). In 2018, it reached a record share of 18.7 per cent of total Exchequer tax revenue, and this is expected to remain high as per *Budget 2020* projections for 2019 and the outer years (averaging 17.1 per cent, Figure 3.4). *Budget 2020* provides a review of fiscal vulnerabilities (Department of Finance, 2019c), which questions the sustainability of the “level shift” of corporation tax receipts seen since 2015. It highlights that the concentration of these receipts within a small number of companies entails additional exposure for the public finances.

---

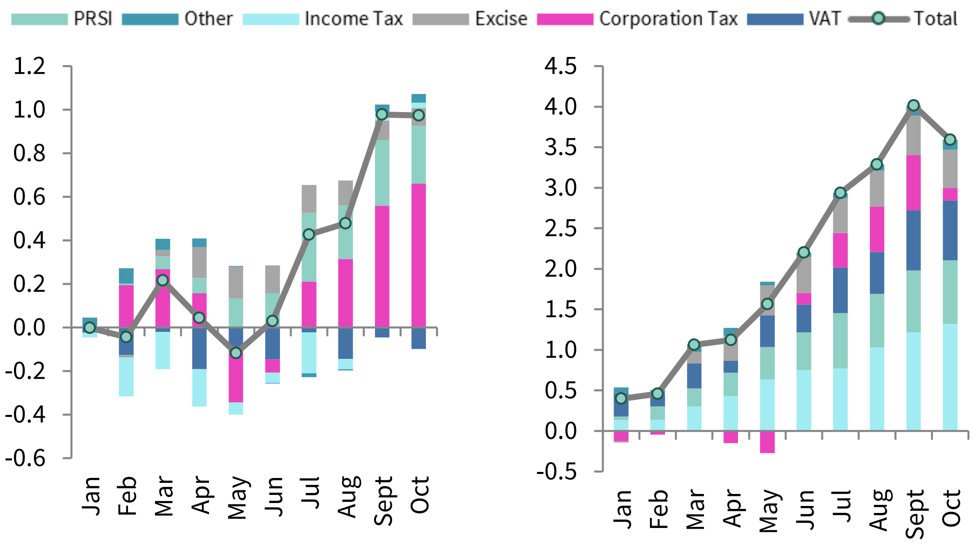
[44] Compared to *SPU 2019*, the total Exchequer tax estimate for 2019 is slightly higher (+€180 million). This is due to upward revisions of corporation tax revenues (+€300 million), which are expected to more than offset downward revisions of excise duties (–€85 million) and stamp duties (–€65 million).

[45] This excludes the customs payments on behalf of the EU assumed under a no-deal Brexit in 2019.

[46] The PRSI forecast for 2019 is €11.6 billion in *Budget 2020*, compared to €11.1 billion in *SPU 2019*.

Figure 3.3: Tax revenue and PRSI are outperforming to end-October 2019

€ billion (cumulative)

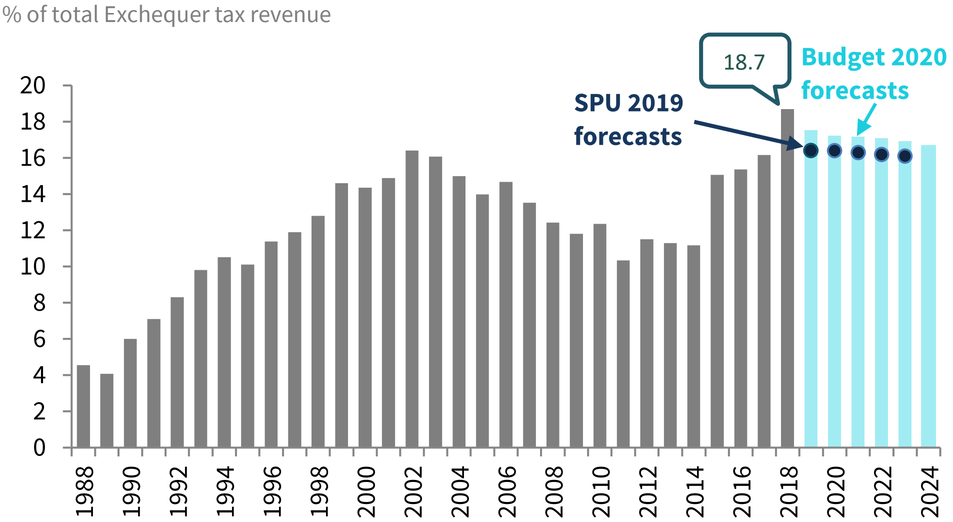


Sources: Department of Finance; and Fiscal Council calculations.

Note: Data as per the monthly Fiscal Monitor. Other = capital taxes + motor tax + other unallocated tax receipts. PRSI includes the excess over expenditure as indicated in the memo items.

Figure 3.4: Corporation tax (% tax revenue) is projected to remain high

% of total Exchequer tax revenue



Sources: Department of Finance; and Fiscal Council calculations.

3.3 Forecasts for 2020 in *Budget 2020*

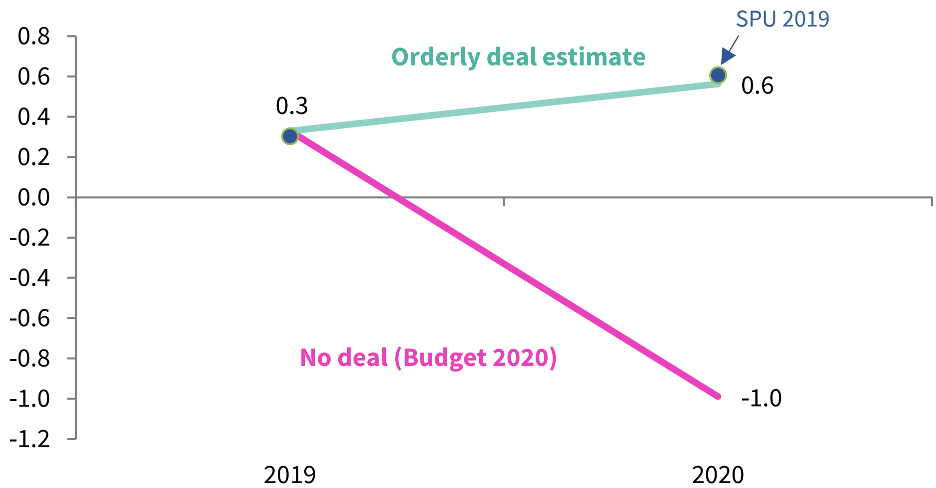
Budget balance, 2020

Budget 2020 forecasts the **general government balance** to deteriorate in 2020 by €2.7 billion under a no-deal Brexit scenario. This would move the general government balance from a position of surplus (€0.7 billion) to deficit (€2.0 billion).

The fiscal forecasts in *Budget 2020* are provided only based on an assumed no-deal Brexit. The *Summer Economic Statement* (*SES*) (Department of Finance, 2019c) provided estimates of the impact of a no-deal Brexit relative to an orderly deal scenario. Using this, one can get an estimate of what budget balance might have been forecast under an orderly Brexit scenario. The impacts for 2020 ranged from 1.6 to 3.1 per cent of GNI*. Comparing the *Budget 2020* forecasts of the balance in 2020 compared to forecasts in *SPU 2019* and the *SES*, it would appear that lower end of Brexit impacts was used. Applying these impacts to the forecasts presented in *Budget 2020* would suggest a general government surplus of 0.6 per cent of GNI* (Figure 3.5) in 2020 in the event of an orderly deal. This is in line with *SPU 2019* forecasts and the Department's latest estimate of a surplus of 0.5 per cent of GDP in 2020 under an orderly Brexit scenario.[47]

Figure 3.5: General government balance under different Brexit assumptions

% of GNI*



Sources: Department of Finance; and Fiscal Council calculations.
Note: Orderly deal estimates are calculated using the lower estimate of impacts given in the SES. This estimated impact of a no-deal Brexit is then applied to the *Budget 2020* forecasts to show what these forecasts would have looked like had an orderly deal Brexit been assumed.

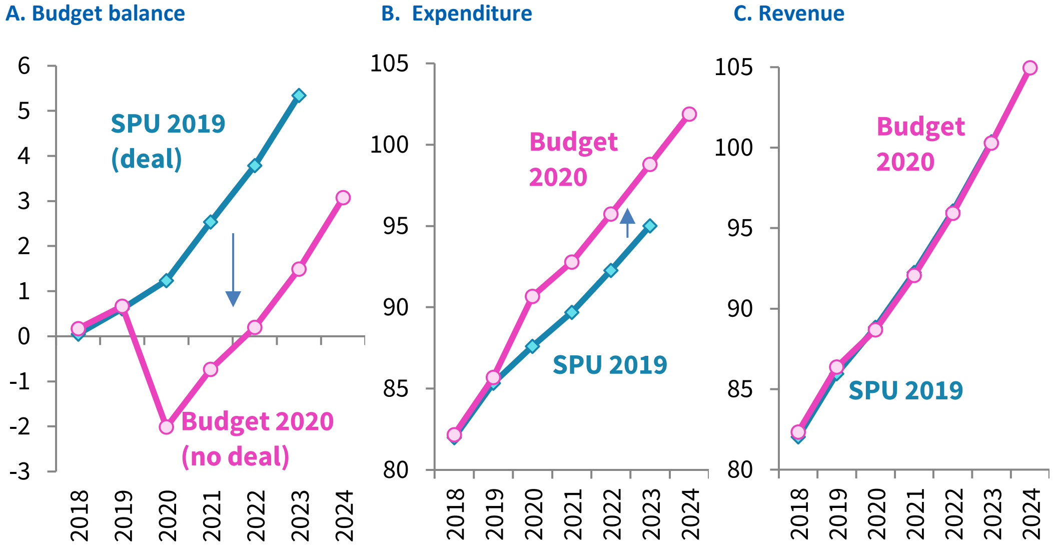
[47] The Minister noted this estimate in the Budget Oversight Committee (12 November 2019).

Since the SPU and SES, the proposed withdrawal agreement of the UK from the EU has changed somewhat. The latest proposals could see a less comprehensive free trade agreement negotiated after a transition period. This could result in a more negative impact on the Irish economy (and public finances), particularly in 2021 (if the new arrangement is agreed within that timeframe). There have been no published estimates of how these impacts, on Ireland, would compare to other proposed arrangements.

Compared to *SPU 2019*, the deterioration in the general government balance mostly comes from higher spending (Figure 3.6), with reductions in the revenue forecasts being comparatively very small. This is largely due to the fact that positive revenue-raising measures in *Budget 2020* are expected to offset some of the negative revenue impact of the no-deal Brexit scenario.

Figure 3.6: The balance is projected to be worse than in *SPU 2019*, driven by higher spending, while revenue is expected to remain broadly unchanged

€ billion (general government basis)



Sources: Department of Finance; and Fiscal Council calculations.
Note: Revenue has remained broadly unchanged since *SPU 2019*, but this is largely due to the fact that the revenue-raising measures introduced in *Budget 2020* are expected by the Department to offset some of the negative revenue impact of the no-deal Brexit scenario.

Box H: The impact of Brexit on the public finances assumed in *Budget 2020*

This box examines the impact Brexit is forecast to have on the public finances. Forecasts in *Budget 2020* were made based on a central scenario of a no-deal Brexit. A disorderly no-deal Brexit is forecast to have a significant impact on the economy, with growth in 2020 of 0.7 or 0.8 per cent (GDP or modified domestic demand) as opposed to 3.1 or 3.0 per cent in the case of an orderly deal scenario (which was the assumption in *SPU 2019*).

A typical negative shock to the economy has obvious implications for the public finances. On the expenditure side, unemployment benefits would be higher than otherwise would be the case, leading to increased expenditure. On the revenue side, weaker income and employment growth would impact on income tax revenue. Lower consumption (due to both income and confidence/uncertainty effects) would impact on VAT receipts. Corporation tax receipts could also be impacted if firms became less profitable as a result.

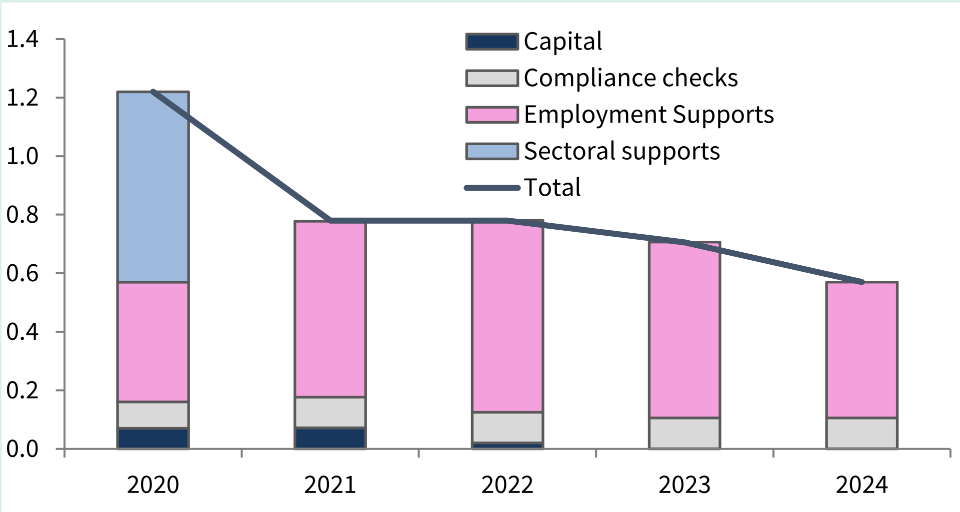
A hard Brexit is not a typical adverse economic shock, however. Additional fiscal costs over and above those arising from a standard economic shock may be expected. Compliance checks at the border and at ports would likely add to government expenditure (as well as adversely impacting trade).

Budget 2020 assumes a number of direct and indirect expenditure costs from a disorderly Brexit. This includes temporary sectoral support measures, employment supports and other measures. Additional expenditure of €1.2 billion in 2020 has been set aside for the event of a no-deal Brexit. If a no-deal Brexit does not occur then these funds are not to be spent elsewhere and hence have not been included in estimates for various departments or expenditure headings.

Of the €1.2 billion in funding for 2020, €650 million is for supporting sectors most adversely impacted by Brexit, such as Agriculture, Enterprise and Tourism. €410 million is allocated for employment supports (Figure H.1). The vast majority of this (€365 million) relates to social protection spending on items such as unemployment-related benefits. The remaining €45 million is for labour market activation supports. Capital costs of €70 million are expected to be incurred, with a further €90 million of current spending on compliance checks.

Figure H.1: No-deal Brexit-related expenditure

€ billion



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

Given the unique nature of this shock, it is not straightforward to assess these estimates of increased expenditure. The most straightforward perhaps are those relating to social protection payments associated with increased unemployment. Taking the *Budget 2020* forecasts of numbers unemployed in 2020, compared to *SPU 2019* forecasts, this implies approximately 17 thousand extra people would be unemployed. Dividing the €365 million of additional expenditure over the 17 thousand extra unemployed suggests an average cost per unemployed person of approximately €21,000. This is in line with estimates used for compliance with the fiscal rules. In addition, Carroll (2019) estimates the elasticity of unemployment-related expenditure with respect to the output gap. Applying this elasticity to the shock would also lead to estimates close to the €365 million provided for in *Budget 2020*.

The level of additional spending related to a no-deal Brexit falls to €0.8 billion in 2021 before eventually falling to €0.6 billion in 2024. The sector supports are assumed to be paid only in 2020, with no provision for them thereafter. It would appear unlikely that all supports for adversely affected sectors would be completely discontinued in 2021. There are risks that the underlying economic problems are longer-lived or that there will be political pressures to extend the supports. There is a significant upside risk that expenditure in this area could be higher and longer-lasting than assumed if a no-deal Brexit were to occur.

Unemployment-related supports are longer lasting, increasing somewhat in 2021 before levelling off and eventually falling in 2024. Expenditure related to compliance checks is assumed to be permanent, particularly the staffing costs (after the initial capital outlay on infrastructure).

The extent to which Brexit is a supply shock is important for some of the fiscal implications. For example, if this supply shock results in the natural rate of unemployment increasing, then this would have a long-lasting impact on expenditure. If the number of people unemployed is permanently increased, then all else being equal, the level of unemployment-related expenditure would be higher.

Similarly, a supply shock would lead to permanently lower income. This would naturally impact on income tax receipts, with second-order impacts on VAT receipts due to lower consumption. As noted in Chapter 1, it appears that in using the COSMO model, the Department of Finance is treating this shock as a supply shock.

In terms of risks to the forecast impact of Brexit on the public finances, there are a number of factors to consider. Firstly, the macroeconomic impact of Brexit could be very different to *Budget 2020* projections (see Chapter 2). Given the difficulty in modelling such a shock and the lack of similar events/case studies to compare to, errors/uncertainty over the impact are unusually large (keeping in mind Ireland is a volatile and difficult-to-forecast economy in "normal" times).

Second, a further difficulty related to quantifying the fiscal impacts is how the macroeconomic shock maps to revenue and expenditure. While an empirically estimated elasticity may often be a good guide for the relationship between government revenue headings and the macroeconomy, a large supply shock such as Brexit could cause a change in the relationship between these variables.

One obvious example of this is customs duties. Due to the assumed no-deal Brexit, significantly more customs tariffs are expected to be collected in 2020 (only 20 per cent of these revenues are kept by the collecting country). This is not due to stronger economic growth or stronger trade, but rather reflects the assumed status of imports from the UK having tariffs charged on them.

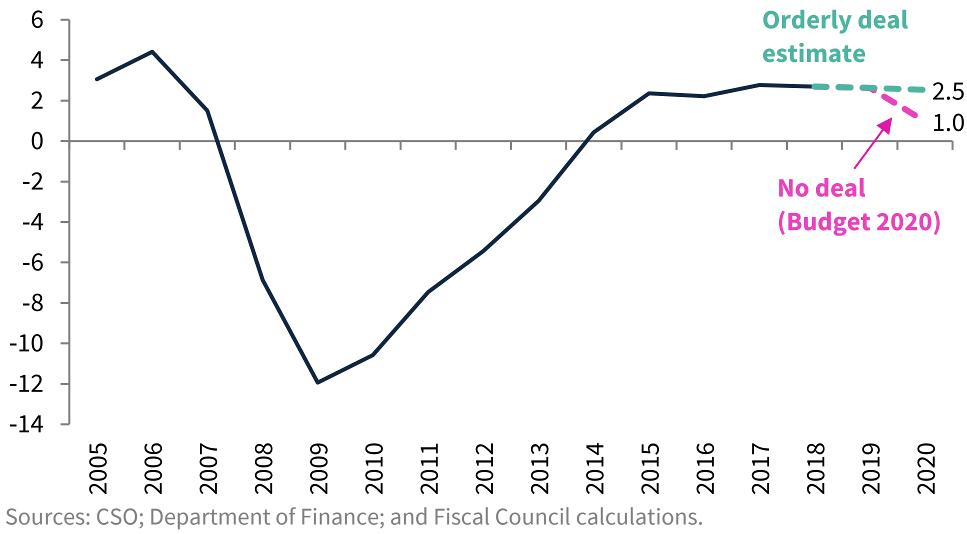
Combined income tax/USC has been revised down by €0.3 billion for 2020 compared to *SPU 2019* forecasts, a downward revision of just over 1 per cent. If one adjusts for smaller revenue-reducing policy changes in *Budget 2020* compared to assumptions in *SPU 2019,* this increases the downward revision to 2.7 per cent. This would be more in line with what one might expect given the scale of the shock to domestic activity and the resulting impact on household income.[48]

Given the macroeconomic scenario assumed, many of the effects forecast in *Budget 2020* seem broadly appropriate. However, the assumption that sector supports of €650 million would be paid in 2020, and then discontinued completely in 2021 may be unrealistic. This would appear to be a significant upside risk to expenditure forecasts in 2021 were a no-deal Brexit to occur. In addition, should the current proposed withdrawal agreement be passed, this could be followed by a free trade agreement which is much less comprehensive than current EU membership. In that scenario, sector supports may be sought in 2021. More generally, there are huge uncertainties surrounding the extent of the damage that could materialise from a no-deal Brexit.

With interest costs set to fall by a further €0.7 billion, the underlying primary balance is forecast to deteriorate in 2020 by €3.4 billion, relative to 2019 (in a no-deal Brexit scenario).[49] Under an orderly deal assumption, the primary balance could be expected to remain unchanged in 2020. Figure 3.7 shows the underlying primary balance over time. Improvements in the primary balance stalled in 2016 and have been largely unchanged since then. This is despite strong economic growth, falling unemployment and surprise corporation tax receipts.

Figure 3.7: Improvements in the primary balance have stopped since 2016

% GNI*, excluding one-off items



Sources: CSO; Department of Finance; and Fiscal Council calculations.
Note: The orderly deal line is calculated by applying the lower estimate of impacts from the SES to the *Budget 2020* forecasts.

---

[48] The *Budget 2020* forecast for income tax revenue in 2019 is unchanged from *SPU 2019*, so the revisions are not impacted by a change to the previous year's base.
[49] To estimate what this would look like in an orderly Brexit, one can apply the estimates from the *SES* on the impact on the general government balance (this assumes that the choice of Brexit scenario does not have a significant immediate impact on interest expenditure).

Expenditure, 2020

In 2020, general government expenditure is forecast to increase by €5.0 billion. With interest costs set to fall by €0.7 billion, primary spending is set to increase by €5.7 billion (7.0 per cent). As outlined in Box H, expenditure specifically related to a no-deal Brexit in 2020 amounts to €1.2 billion. As a result, underlying primary expenditure would be forecast to grow by €4.4 billion (5.5 per cent, Figure 3.8) in an orderly deal scenario. While this would be considered very strong expenditure growth, it is lower than the growth recorded in 2018 (7.4 per cent) and forecast for 2019 (5.6 per cent). This is to be partially funded by revenue-raising measures.

Budget 2020 forecasts suggest most expenditure headings will see substantial increases in 2020 (irrespective of the Brexit scenario assumed). Intermediate consumption (+€1.0 billion) and compensation of employees (+€0.7 billion) are forecast to contribute to expenditure growth in 2020. Even after excluding the Brexit contingency funds allocated to unemployment-related expenditure and labour market activation supports, social payments are forecast to increase by €1.0 billion in 2020.

Gross fixed capital formation is forecast to grow by €0.9 billion in 2020, much of which is believed to be due to increased activity of Approved Housing Bodies (Box L).[50] Expenditure by these bodies is not included in Exchequer spending but is part of general government spending. Capital transfers are forecast to increase by €0.6 billion in 2020, due to an increase in capital grants and the inclusion of transfers by the new Land Development Agency.

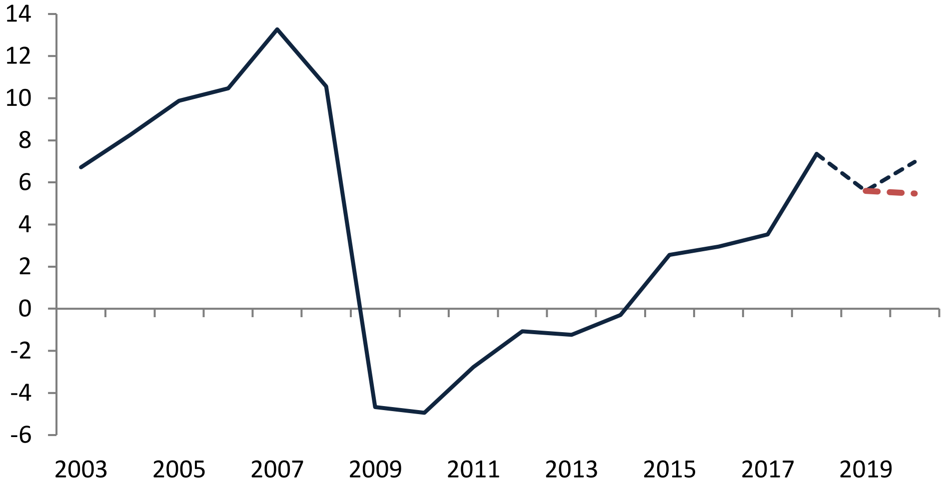
Budget 2020 forecasts of general government spending in 2020 are €3.1 billion higher than in *SPU 2019*. If one excludes the €1.2 billion of Brexit-related contingency, this falls to €1.9 billion. Intermediate consumption (€1.1 billion), gross fixed capital formation (€0.8 billion) and social payments (€0.6 billion) have seen the largest upward revisions. The upward revision to intermediate consumption may be partially related to the overrun in health in 2019, leading to a higher base. The upward revision to capital expenditure appears to be due to the assumed increase in activity by Approved Housing Bodies. The upward revision to social payments may be related to the base of expenditure being higher in 2018 (even though this

[50] Expenditure by these bodies is not included in Exchequer spending but is a part of general government.

has not been incorporated into 2019 forecasts, as described earlier). Some partially-offsetting revenue-raising measures were introduced as part of *Budget 2020*.

Figure 3.8: Primary expenditure growth

Percentage change (year-on-year), excluding one-off items



Sources: CSO; Department of Finance; and Fiscal Council calculations.
Note: Primary expenditure equals total expenditure less interest repayments on government debt and one-offs. One-offs are those defined by the Council as applicable. Dashed line indicates forecasts from *Budget 2020*. The red dashed line indicates underlying primary spending growth excluding no-deal Brexit-related spending (€1.2 billion).

The most likely reason for expenditure to be lower than currently forecast in 2020 is that a no-deal Brexit does not occur, and hence the €1.2 billion of additional spending does not take place. There are also significant upside risks to forecasts of primary expenditure in 2020. Health spending has exceeded expenditure forecasts for the past number of years, with overruns averaging €500 million per annum. While significant increased funding has been provided for in the latest set of forecasts, previous experience suggests health overruns are likely (Box I).[51] Further public sector pay increases in 2020 outside of the current agreement, which ends in 2020, are also an upside risk to expenditure forecasts. Given the uncertainty surrounding its impact, Brexit-related expenditure could also be higher than currently budgeted for in 2020 were a no-deal outcome to occur.[52]

[51] The latest gross current expenditure ceiling for the health group in 2020 is €701 million higher than the 2019 figure, which itself was €335 million higher than originally forecast.

[52] In 2020 there is a timing-related cash cost of €169 million. This arises as there are 53 Social Welfare payment dates and 27 pay periods for fortnightly paid Public Service workers within the calendar year. This is broken into: €95 million for the Department of Employment Affairs and Social Protection, €57 million for the Department of Education and Skills and €17 million for the Department of Justice and Equality. As there are 53 Fridays in 2021, there is a cost of €125 million from an additional weekly payment of the state pension. After 2021, these costs do not arise in the forecasts.

The Christmas bonus has, again, not been budgeted for in 2020, despite this payment having been made to increasing degrees over the past six years and in full for 2018 and 2019. Throughout this period, the payment has not been budgeted for, with a decision on the scale of the payment being made late in the year. This year, the bonus is to be paid for a full week, with a cost of €279 million. In the interest of good budgetary planning and to avoid a pattern of spending decisions based on cyclical developments (as occurred in the past), budget estimates should account for the payment of the bonus unless the Government genuinely intends not to pay it.

Budget 2020 plans no allocation in 2019 and 2020 to the National Surplus Reserve Fund (also known as the Rainy Day Fund) from the Central Fund (Box B). Contributions of €500 million per year are now planned to start from 2021. Although annual contributions would count as Exchequer spending (non-voted capital expenditure), they would not impact the general government spending or the balance, because these are transfers that remain within the general government sector. A transfer of €1.5 billion from the Ireland Strategic Investment Fund is to be made this year. Box B reviews the operation of the Rainy Day Fund and how planned contributions have evolved over time.

Box I: Health overruns in recent years: magnitude and main drivers

This box examines health overruns in recent years in terms of their magnitude relative to the allowed yearly increases and the main drivers of such overruns.

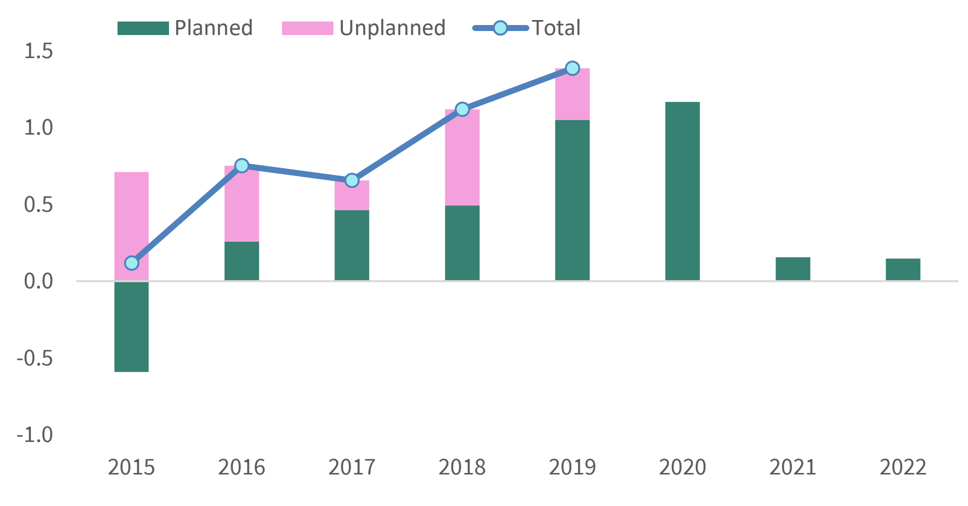
Unplanned health overruns have been large despite planned growth

Over the last few years, health overruns have been substantial. In the period 2014–2018, these have amounted to an average of €500 million per annum. This can have important implications for the public finances, especially when these expenditure overruns are covered by potentially transient revenue sources.

One way to look at the incidence of the overruns is to analyse their impact relative to the spending growth initially budgeted for. For example, the planned increase in health spending in 2017 and 2018 was, in both cases, close to €500 million (Figure I.1). But the magnitude of the overruns differed significantly: around €200 million in 2017, and €625 million in 2018. For 2019, the Government had budgeted for high year-on-year growth in health spending, amounting to €1.1 billion. This is lower than the actual growth in 2018, but it represents the largest planned increase since 2015. Despite this, an overrun for the year is expected. In particular, the Expenditure Report (Department of Finance, 2019d) included a supplementary estimate of €335 million for the Department of Health. For 2020, the planned increase is the largest since 2015, but it is still lower than the expected increase for 2019. After 2020, the planned increases are low and risk a repeat of significant overruns.

Figure I.1: Health overruns since 2016 have been large despite planned growth

€ billion: **planned** growth (forecast$_t$ – outturn$_{t-1}$) + **unplanned** growth (outturn$_t$ – forecast$_t$) = actual **total** growth (outturn$_t$ – outturn$_{t-1}$)



Sources: Department of Finance (Analytical Exchequer Statements and Fiscal Monitors); and Fiscal Council calculations.
Note: Data shown in Exchequer gross voted current spending terms. The 2019 overrun is an estimate based on the supplementary estimate of the Expenditure Report 2020 (Department of Finance, 2019d). The forecasts for 2020–2022 are based on the Expenditure Report 2020. The 2015 growth takes into account the transfer from the HSE to Tusla (the Children and Family Agency) that took place in 2014.

HSE overruns are largely driven by hospital spending

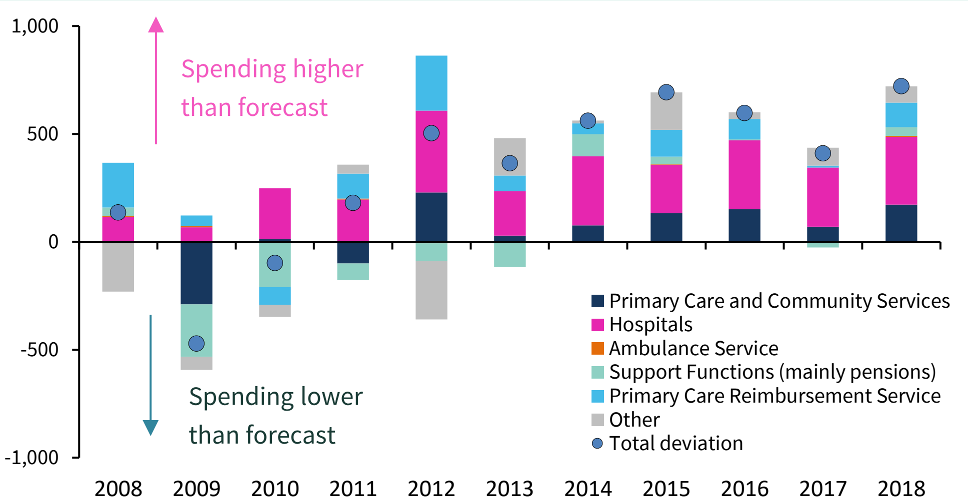
The most persistent driver of overspends in the HSE sector relates to hospital overspending, followed by overspends in Primary Care and Community Services and in the Primary Care Reimbursement Service (PCRS) (Figure I.2).[53]

[53] The PCRS is responsible for making payments to healthcare professionals (e.g., GPs, dentists or pharmacists) for the free or reduced costs of the services provided to the public.

In every year between 2008 and 2018 hospital spending has exceeded initially budgeted spending, averaging over €240 million per annum. However, most of these overruns should be analysed in a context were the planned annual increases were either negative (2009–2016) or almost zero (2017–2018), which may not be realistic (Figure I.3). As outlined in Howlin (2015), a failure to stay within initially forecast hospital spending arises from an underestimation of: (1) the demand for hospital services; (2) the efficiency of service delivery; (3) the impact of cost containment measures; and (4) the combination of these three factors. An important feature of hospital spending is that around 70 per cent of total expenditure relates to pay. This includes wage payments to hospital staff, which has recently exceeded initially planned budgets, especially due to the unplanned hiring of new staff by the end of the year.

Figure I.2: Overruns in the HSE have been largely driven by hospital spending

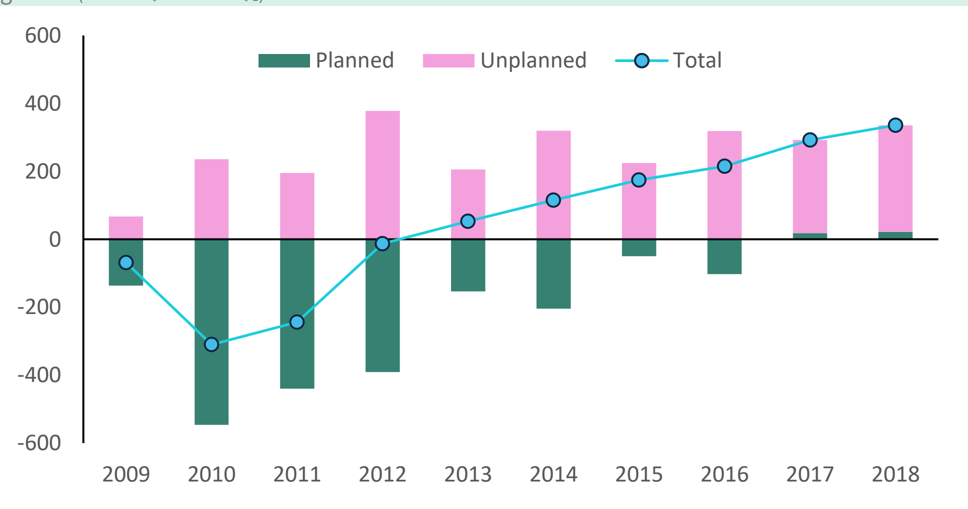
€ million (outturn minus forecast)



Sources: HSE Monthly Performance Reports; Howlin (2015); and internal Fiscal Council calculations.
Note: Forecasts taken from the end-January Performance Reports; outturns taken from end-December. In 2012, the performance of "primary care and community services" and "other" is impacted by a re-allocation between primary care for older people and the "Fair Deal" (within the "other" category) (see Howlin, 2015).

Figure I.3: Hospital spending increases have been achieved through overruns rather than planned spending

€ million: **planned** growth (forecast$_t$ – outturn$_{t-1}$) + **unplanned** growth (outturn$_t$ – forecast$_t$) = actual **total** growth (outturn$_t$ – outturn$_{t-1}$)



Sources: HSE Monthly Performance Reports; Howlin (2015); and internal Fiscal Council calculations.

Failures in health management have been repeatedly highlighted by a number of institutions, including the European Commission (2019b), which notes that “budget management is weak across all levels of the health system” and that “[…] comprehensive planning and funding models are either non-existent, poorly functioning or unconnected locally and regionally”.

The persistent health overruns that have taken place over the last few years have been the result of weak planning and weak spending controls, which has led to a “soft budget constraint” problem. That is, the budget allocations are not seen as credible by the health managers, which can lead to unplanned increases in spending. If these overruns are long-lasting (for example, the unexpected recruitment of permanent stuff), but are funded with temporary revenues (for example, temporary corporation tax windfalls), the sustainability of the public finances can be put at risk (Box D, Fiscal Council 2019e).

Revenue, 2020

The Government’s revenue forecasts reflect the impact of a no-deal Brexit, with the sharpest slowdown in revenue growth taking place in 2020. **General government revenue** is projected to moderate its growth to €2.3 billion (or 2.7 per cent) in 2020 (Table 3.2), which compares to an expected growth of €4.3 billion (or 5.3 per cent) in 2019. The revenue growth for 2020 in *Budget 2020* is lower than in an orderly Brexit scenario in *SPU 2019*, which projected this to be 3.4 per cent. The moderation in 2020 projected in *Budget 2020* is driven by assumed slowdowns in (1) taxes on production and imports (mostly VAT, excise and stamp duties); (2) current taxes on income and wealth (largely income tax); and (3) social contributions (predominantly PRSI).[54]

In terms of **Exchequer revenue**, the underlying projections for 2020 (and outer years) are only moderately lower than at SPU time. This is driven by lower tax revenue projections. This is despite the move from an orderly Brexit scenario in *SPU 2019* to a disorderly Brexit in *Budget 2020*. On a headline basis, the Exchequer revenue projections are higher than in April’s SPU, but this is largely driven by the assumption that a no-deal Brexit will imply that goods traded with the UK will be subject to customs duty payments, which has an insignificant impact on the Exchequer balance. In particular, 80 per cent of these would be collected on behalf

[54] Appropriations-in-Aid have been revised up by roughly €500 million for 2020–2023 since *SPU 2019.* This is based primarily on increased projections of the SIF, with PRSI projections being higher than in *SPU 2019* for all the period 2020–2023.

of the EU, while the remaining 20 per cent would be retained in the Irish Exchequer accounts.[55]

Table 3.2: General government and Exchequer revenue forecasts under an assumed no-deal Brexit

€ billion, excluding one-offs

	2018	2019	2020	2021	2022	2023	2024
General Gov. Revenue	82.0	86.4	88.7	92.1	95.9	100.3	105.0
Taxes production and imports	25.5	26.6	27.2	28.1	28.8	29.7	30.8
Current taxes on income, wealth	34.3	36.2	37.5	39.1	41.0	43.1	45.4
Capital taxes	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Social contributions	13.5	15.1	15.6	16.4	17.2	18.2	19.3
Property income	1.3	1.7	1.3	1.2	1.2	1.3	1.3
Other	7.0	6.2	6.6	6.8	7.1	7.4	7.7
Exchequer Tax and PRSI	65.8	69.9	72.2	75.3	78.6	82.4	86.7
Exchequer Tax Revenue *	55.3	58.3	60.1	62.6	65.3	68.3	71.7
PRSI	10.5	11.6	12.1	12.7	13.4	14.1	15.0

Sources: Department of Finance; and internal Fiscal Council calculations.

Note: *From 2019 onwards, the customs forecasts included in Exchequer tax revenue exclude the contribution to the EU budget due to the baseline assumption of a no-deal Brexit (as this is almost neutral in terms of the Exchequer balance, and it is not reflected in the general government accounts). For PRSI, the gross figures including the excess over expenditure are shown. For 2020–2024, PRSI refers to the total Social Insurance Fund figures, which in recent years have been around €100 million to €200 million greater than gross PRSI including excess expenditure. Rounding can impact on totals.

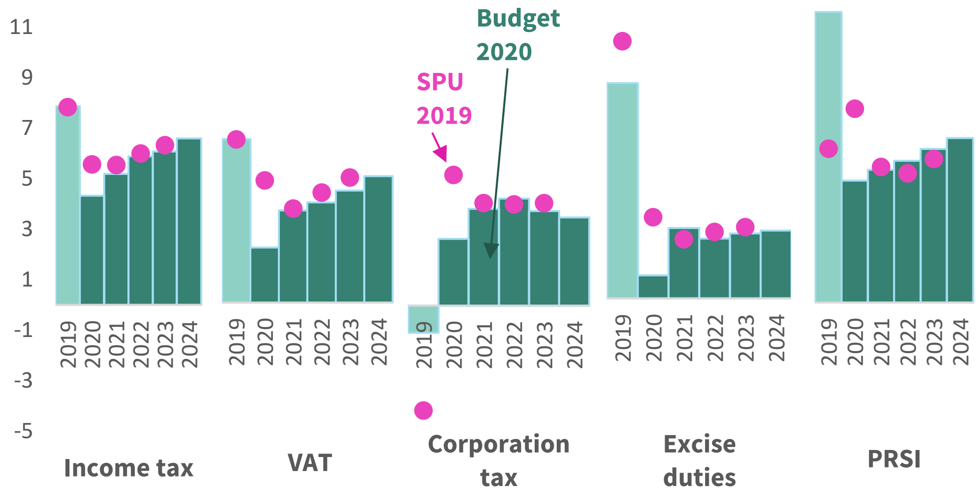
Focusing on **Exchequer tax revenue**, *Budget 2020* forecasts a slowdown in growth to 3.1 per cent in 2020, compared to 5.6 per cent estimated for 2019 (Table 3.2).[56] The front-loaded impact of a hard Brexit assumed by the Department in 2020 for the main tax heads (and PRSI) is reflected in Appendix E, and Figures 3.9 and 3.10.

[55] While this inflates Exchequer revenue—which jumps by €1 billion in 2020, and above that in 2020–2024—it is also translated into higher non-voted expenditure, making the net impact on the Exchequer balance relatively small, as noted in *Budget 2020* (Box 7). The custom duties arising from this assumption do not impact the general government accounts. More broadly, the EU contributions (including customs) are expected to increase substantially as a result of the UK existing the EU and the growth of GNI in the next few years. The Taoiseach noted that Ireland's contributions will increase by about 45 per cent between 2021 and 2027. The full explanation is available at: https://www.oireachtas.ie/en/debates/debate/dail/2019-10-23/23/#spk_301

[56] This excludes the expected customs received and subsequently paid to the EU as a result of an assumption of a hard Brexit (as customs tariffs would apply to goods imported from the UK).

Figure 3.9: The hard Brexit impacts on tax and PRSI growth are mostly reflected in 2020

% change (year-on-year)



Sources: Department of Finance; and Fiscal Council calculations.

Growth in the main tax heads is projected to slow to 2.5 per cent in 2020. This is driven by (1) weaker macroeconomic forecasts, which incorporate the impacts of a no-deal Brexit, and (2) further negative judgement related to Brexit (other than that included in the macro drivers) in most of the cases (i.e., excluding corporation tax forecasts):

- For income tax, the slowdown in 2020 is almost fully driven by downward judgement related to Brexit (–€240 million), and weaker growth in the macroeconomic drivers (namely, earnings and employment growth) than in 2019. However, the implied year-on-year growth for income tax in 2020 is projected at 4.3 per cent, which might seem strong given the assumed slowdown in employment growth projected by the Department and the potential magnitude of a shock like a disorderly Brexit. As noted in Box H, there is considerable uncertainty over the fiscal impact a no-deal Brexit would have.

- Similarly, the assumed slowdown in VAT growth for 2020 is the result of negative Brexit-related judgement (–€240 million) and a slowdown in personal consumption growth to 1.4 per cent in 2020 (in contrast to an estimated 3.1 per cent in 2019). The implied year-on-year growth in *SPU 2019* was 4.8 per cent for 2020, in sharp contrast with the *Budget 2020* implied growth of 2.1 per cent.

- Corporation tax is forecast to grow by 2.5 per cent in 2020, in contrast to the negative growth estimated for 2019. This is because the negative judgement which was applied to the 2019 forecast is no longer assumed to impact 2020. Compared to *SPU 2019,* corporation tax forecasts have somewhat increased for 2020 and later years in absolute terms (with an upward revision of €60 million per annum, on average), despite the move to a no-deal Brexit scenario in *Budget 2020*.[57] Focusing on the corporation tax growth for 2020, the low growth forecast by the Department is almost entirely driven by moderations in Gross Operating Surplus (forecast at 1.6 per cent for 2020, as opposed to the estimate of 6.1 per cent in 2019). However, if the 2019 receipts prove higher than currently forecast, this will mean that the *Budget 2020* forecasts for 2020 are made on the basis of a low starting point (2019). This might lead to underestimations of the yield for 2020, though this might be balanced with uncertainties arising from Brexit and the international tax environment, as well as the intrinsically uncertain nature of corporation tax receipts, especially in the past few years.

- Excise duties for 2020 are forecast to substantially moderate their growth compared to 2019 given a decline in the macro drivers and, more notably, negative Brexit judgement of €200 million. Of this, €150 million relates to a negative adjustment in vehicle registration tax to reflect the estimated impact of Brexit on second hand car imports from the UK; and the remaining €50 million reflects the assumed impact of a disorderly Brexit, including the introduction of duty-free shopping. This is partly offset by the increase in excise duties on tobacco products introduced in *Budget 2020*. Box J examines the methodology underpinning the expected yield from this measure, as well as some other measures introduced in *Budget 2020.*

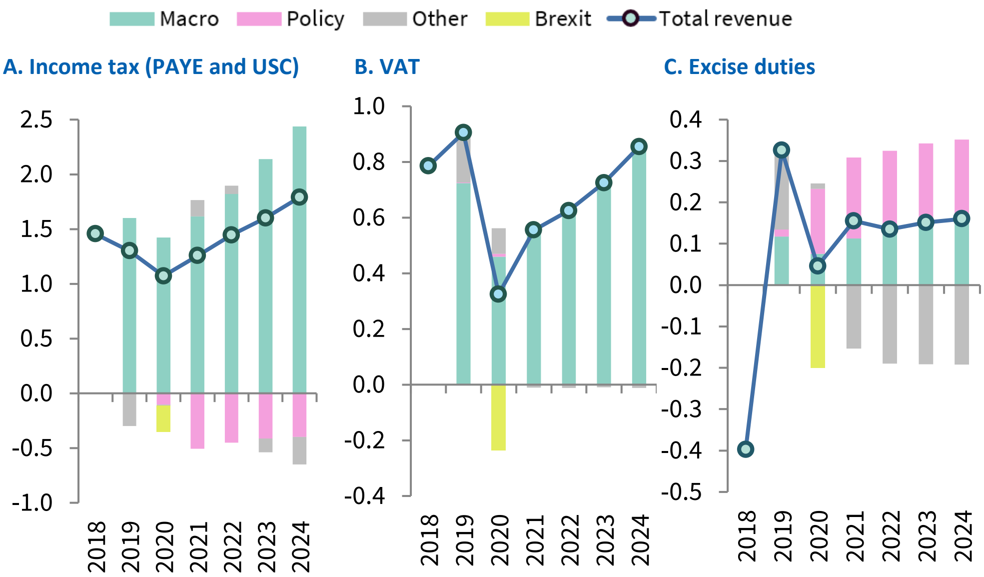
Stamp duty receipts are projected to grow by just €35 million in 2020 relative to 2019. This is despite a policy change to increase the rate of stamp duty on non-residential property, which the Department projects to yield €141 million in 2020. The gap that explains this difference relates to lower receipts from share-trading activity, which the Revenue Commissioners already note to be a driver of the stamp duty's underperformance for the year to date. The *Budget 2020* forecasts

[57] Although Figure 3.12 shows that the assumed corporation tax growth for 2020 is lower in *Budget 2020* than in *SPU 2019*, this is entirely driven by the upward revision in the 2019 base estimated in *Budget 2020*. In absolute terms, the 2020 forecast is higher in *Budget 2020* than in *SPU 2019*.

assume a continuation of this trend, particularly in the context of an assumed no-deal Brexit, where a fall-off in share-trading activity with the UK is expected to negatively impact stamp duty revenue in 2020.[58]

Figure 3.10: Slowdowns in tax growth in 2020 caused by lower macro drivers and further Brexit judgement

€ billion change year-on-year



Sources: Department of Finance; and internal Fiscal Council calculations.
Note: "Other" reflects other factors/judgement applied by the Department of Finance and carryover impacts from previous policy measures. See Appendix E for more detail.

Box J: Assessing the discretionary revenue measures introduced in *Budget 2020*

This box examines the three largest revenue-raising measures contained in *Budget 2020*. The box updates some of the analysis undertaken in Box F of the *November 2017 Fiscal Assessment Report* (Fiscal Council, 2017e).

(1) Stamp duties on non-residential construction

The largest revenue-raising measure contained in the Budget relates to a further increase in stamp duties on non-residential construction from 6 per cent to 7.5 per cent. This measure is expected by the Department to yield €141 million in 2020.

In *Budget 2018,* the rate of stamp duty on non-residential property increased from 2 to 6 per cent. This was estimated to yield an extra €374 million in 2018, which proved overly optimistic: the actual yield might be close to €289 million. The assumptions underpinning the projected yield were based solely on activity levels evident in 2016 and early-2017. This shortfall from forecasts suggests that the elasticity of changes in stamp duty to commercial activity might have been overestimated in *Budget 2018.* In *Budget 2020,* the Revenue Commissioners state that the expected yield for 2020 is calculated on the basis of the full-year receipts in 2018, as well as the expected yield in 2019. But Table J.1 shows that, in essence, the assumptions

[58] For 2022, the negative growth in stamp duties projected by the Department is the result of the cessation of the bank levy, which accounts for approximately for €150 million in annual revenue.

underpinning this yield for 2020 are the same as at the time of *Budget 2018.* In particular, *Budget 2018* implied that each additional percentage point increase in stamps would bring in an extra €93.5 million for 2018. *Budget 2020* implies the exact same assumption.

In addition, as shown in Figure J.1, the reference period considered for the Revenue Commissioners' forecasts might correspond to an exceptional period of activity. In recent years, commercial property turnover has been substantially higher than at the pre-crisis peak. This poses concerns in terms of the sustainability of the revenue arising from this measure.

Table J.1: The forecast yield of the increased stamp duty is made on the same basis as in *Budget 2018*, which proved over-optimistic

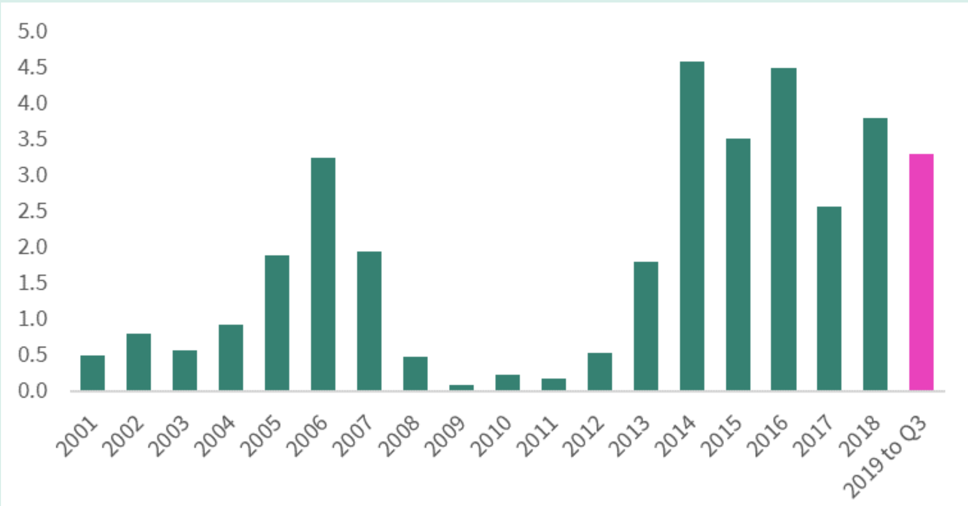
€ millions unless stated

	$\Delta Rate$ (pp)	Forecast yield	For a 1pp increase, the implied forecast yield is …
Budget 2018 (2% to 6%)	4.0	+374	+93.5
Budget 2020 (6% to 7.5%)	1.5	+141	+93.5

Sources: Department of Finance; and Fiscal Council calculations.
Note: The last column is calculated as column 2 divided by column 1.

Figure J.1: Irish commercial property investment turnover

€ billion



Sources: CBRE Research.

(2) Excise duties on tobacco products

The tax on tobacco products has been increased by €0.50 (including VAT) on every pack of 20 cigarettes, with pro-rata increases on other tobacco products. The Department of Finance forecasts this measure to bring in a yield of €57.1 million for 2020. This is equivalent to the yield estimated at the time of *Budget 2019* for the same measure.

Prior to the *Budget 2020* publication, the Revenue Commissioners (2019b) published the Ready Reckoner report, which included the expected yield arising from an increase in the tobacco products tax. For an increase of €0.50 per pack of 20, the Revenue Commissioners estimated a yield that ranges from –€42million to +€57 million. The analysis notes that the upper limit of these estimates is likely to be most accurate.

Previous analysis made by the Revenue Commissioners (2011) in "Modelling the Market for Cigarettes in Ireland" finds that an increase in the price of cigarettes triggers a reduction in cigarette consumption. It shows that a Laffer-type of curve is likely to exist in Ireland, which suggests that beyond a certain level of taxation, tax revenue will start to fall. Although the proposed Laffer curve does not prove significant, it could serve as a guideline for illustrative purposes. The peak of the curve is found at a tax rate of below 79 per cent. With the current tax rate being nearly 80 per cent, this analysis would imply that the revenue collected from this measure might be negative.

For *Budget 2020,* the limited amount of data makes it difficult to understand the drivers of this yield proposed by the Revenue Commissioners. For example, it would be helpful to know whether the methodology takes on board behavioural changes that can have important implications for the revenue collected from this measure. For example, as a result of the increased tax, people might choose to reduce their tobacco consumption; or they might switch to alternative modes of tobacco products that are less heavily taxed (e.g., vaping); or they might resort to other markets where the tobacco products are either taxed at a lower rate (including duty-free purchases) or not declared (i.e., the black market). The 2011 report by the Revenue Commissioners echoed the importance of such behavioural changes. It noted that the reduced consumption of tobacco arising from an increase in prices was largely explained by smokers switching to substitute cigarettes, such as cigarettes not taxed in Ireland.

(3) Compliance measures

Budget 2020 includes a compliance measure that is projected to yield a revenue of €80 million in 2020. This refers to an increase in the Dividend Withholding Tax (from 20 per cent to 25 per cent), which applies to dividend payments and other profit distributions made by Irish resident companies.[59] As this measure relates to an increase of a tax rate, there are doubts as to whether this should be categorised as a “compliance” measure. The Department of Finance has stated that the estimated yield is based on assumptions from payments in 2018 and 2019 to date on the basis of “prudency”. Again, it would be helpful to have details about the specific methodology underpinning the yield, which is currently unclear.

[59] When the Dividend Withholding Tax was introduced in 1999, the USC did not exist and this tax had not been updated to take account of the introduction of the USC. The new rate at 25 per cent is close to the combination of the standard 20 per cent rate of income tax and the most common rate of USC of 4.5 per cent.

3.4 Medium-term forecasts (2021–2024) in *Budget 2020*

Budget balance, 2021–2024

In the later years of the projections (2021–2024), the general government balance and the primary balance are both projected to improve significantly. The improvement in 2021 is partially due to Brexit-related expenditure falling (from €1.2 billion to €0.8 billion), which may be unrealistic (Box H). Revenue growth is forecast to pick up after the slowdown in 2020 (reflecting a pickup in economic growth after a no-deal Brexit having a big impact on 2020 growth). In a deal scenario, it may be the case that growth is stronger than a no-deal case in 2020, but lower in 2021. The extent of the reduction in growth in 2021 would be contingent on the nature of the free trade agreement to be negotiated (which could be significantly less comprehensive than current EU membership). It is also worth noting that the currently proposed withdrawal agreement is likely to be more damaging to economic growth than what was assumed previously (in *SPU 2019*, for example).

The expenditure figures from 2021–2024 rely on technical assumptions, as has previously been the case, albeit that the revised assumptions may prove somewhat more realistic (as described below). Revenue forecasts for the same years are based on continuing existing policies in a way that is likely to broadly reflect reality. Based on these assumptions, the general government balance is projected to move into surplus in 2022, with larger surpluses thereafter. If an orderly deal were to be assumed, the general government balance would be forecast to feature increasing surpluses over the forecast period, in line with what was shown in *SPU 2019*.

Macroeconomic and fiscal forecasts in *Budget 2020* went out to year T+5 (in this case 2024), a move that was committed to in *SPU 2019* and which the Council welcomes. The Council assesses that a horizon of at least five years ahead is appropriate to support a medium-term orientation for fiscal policy, and to ensure ongoing emphasis on identifying risks or potential economic imbalances in real time.

Expenditure, 2021–2024

For 2021, gross voted current spending is forecast to grow by 3.0 per cent. For the years 2022–2024, expenditure forecasts in *Budget 2020* are based on technical assumptions that do not reflect either current government policy or likely future policies. Gross voted current expenditure is assumed to grow by 3.25 per cent per annum for 2022–2024. This approach is a change from *Budget 2019* and *SPU 2019,* where the Department assumed that gross voted current expenditure would grow by 2.5 per cent.[60] For context, this measure has grown by 3.9 per cent annually, on average, over 2016–2018, so the new forecasts are closer to historical experience and may be more realistic.

While the approach in *Budget 2020* of assuming a higher growth rate in the later years may be more likely to match the eventual outturn, forecasts based on a medium-term policy path or the costs of sustaining existing policies would be more informative.

Gross voted capital forecasts are in line with the National Development Plan, with growth averaging over 6.1 per cent over 2021–2024. These forecasts also incorporate commitments relating to the National Children's Hospital and the National Broadband Plan. As noted in Fiscal Council (2019c, Box F), large capital investment projects in Ireland (and internationally) tend to overrun initially-set budgets.

As outlined earlier, *Budget 2020* forecasts assume that Brexit contingency spending is forecast to fall after 2020. It may be unrealistic assume that sectoral supports would be completely discontinued after 2020.

Figure 3.11 shows various forecast vintages of gross voted current expenditure. In recent rounds, there has been a pattern of forecasting a slowdown in expenditure growth, generally down towards some assumed medium-term growth rate. This significant slowdown to such a rate is yet to occur.[61]

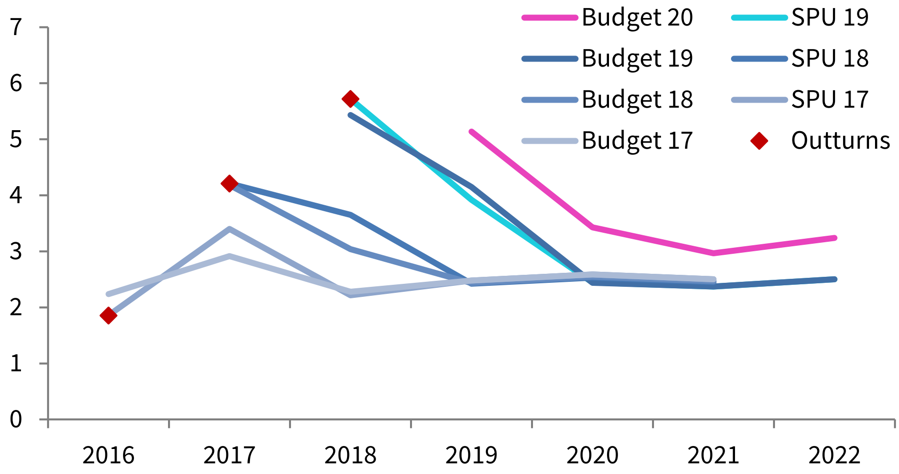
---

[60] On a general government basis, this is mainly reflected by higher intermediate consumption in these later years.

[61] Gross voted current spending grew by 4.2 per cent in 2017 and 5.7 per cent in 2018 and is forecast to grow by 5.1 per cent in 2019.

Figure 3.11: Vintages of gross voted current expenditure forecasts

Percentage change



Sources: Department of Finance; and Fiscal Council calculations.

Table 3.3: General government expenditure forecasts under an assumed no-deal Brexit

% change year-on-year, unless otherwise stated

	2019	2020	2021	2022	2023	2024
General Gov. Expenditure	4.3	5.8	2.3	3.2	3.2	3.1
Compensation of Employees	3.7	3.0	1.7	0.2	-0.4	-0.1
Intermediate Consumption	20.3	7.5	2.1	10.0	10.4	11.3
Social transfers	-0.2	3.3	1.2	0.6	0.2	0.4
Interest Expenditure	-10.6	-14.2	-7.8	4.6	4.5	-2.7
Subsidies	-15.5	-8.6	-0.7	0.3	1.7	2.7
Gross Fixed Capital Formation	25.3	11.1	2.8	3.5	6.8	6.7
Capital transfers	3.8	33.3	18.4	11.4	13.1	9.5
Other	-7.1	12.0	0.5	0.9	3.4	3.4
Resources to be allocated, € billion (included in total expenditure above)	0.0	1.2	1.9	2.3	2.3	2.2
Of which: Brexit Contingency	0.0	1.2	0.8	0.8	0.7	0.6
Of which: Other unallocated	0.0	0.0	1.1	1.5	1.6	1.6
Primary Expenditure	5.3	7.0	2.8	3.1	3.1	3.4
Primary Expenditure (% GNI*)	39.9	42.5	42.3	42.1	42.0	42.1

Sources: CSO; Department of Finance; and Fiscal Council calculations.
Note: Figures in grey indicate that the Council assesses these forecasts as largely the result of technical assumptions on expenditure, which may be unrealistic. Resources to be allocated represents expenditure which is yet to be allocated to a specific item, with a decision as to where this is to be allocated to be made closer to the time. It is not included in "other" expenditure listed above. Primary expenditure is calculated as total expenditure minus interest payments. As a result, it includes resources to be allocated (some of which are Brexit contingency funds).

The technical nature of the medium-term spending projections implies that many expenditure items show limited growth (Table 3.3). Compensation of employees is forecast to remain relatively flat after the expiration of the current public sector pay agreement (2020). Given the likely increases in staff numbers and wage growth in the economy, it would seem highly unlikely that compensation of employees would stay nominally constant from 2021 to 2024. Fiscal Council "Stand-Still" estimates would indicate that if public sector pay rates were to increase in line with agreed pay deals and in line with private-sector wages thereafter, this would imply additional cost pressures of approximately €850 million per year.[62, 63]

The Department has left a significant amount of unallocated expenditure, spending which is not identified to specific purposes, in the forecasts (even apart from the no-deal Brexit contingency expenditure). A better practice would be to give an indication of where these resources would be employed, even if this might be adjusted by subsequent policy decisions.

Two alternative illustrative scenarios for general government spending and the resulting balance assuming the same tax policies as the Budget are presented in Table 3.4.[64] The two scenarios both show similar results, with higher spending resulting in a lower general government balance than forecast in *Budget 2020*.

---

[62] The Fiscal Council "Stand-Still" scenario estimates the cost of maintaining today's level of services and social benefits (in real terms) over the medium run.
[63] In addition, estimates from the spending review (Walker and Ryan, 2019) suggest that absent policy changes, the public sector pay bill could increase by 8 per cent per annum out to 2022. This is calculated by taking the difference between the 2018 outturns and the projected 2022 level.
[64] In both cases, general government revenue is adjusted to account for the increased levels of expenditure (relative to *Budget 2020* forecasts). This is done using the Council's Fiscal Feedbacks Model.

Table 3.4: Alternative scenarios for general government expenditure, revenue and balance

€ billion

	2019	2020	2021	2022	2023	2024
Expenditure						
Budget 2020	85.7	90.7	92.8	95.7	98.8	101.9
Alternative: grow in line with GNI*	85.7	90.7	93.3	96.6	99.8	102.8
Alternative: Stand Still	85.7	90.7	92.9	96.4	N/A	N/A
Revenue						
Budget 2020	86.4	88.7	92.1	95.9	100.3	105.0
Alternative: grow in line with GNI*	86.4	88.7	92.2	96.1	100.5	105.2
Alternative: Stand Still	86.4	88.7	92.1	96.1	N/A	N/A
Balance						
Budget 2020	0.7	-2.0	-0.7	0.2	1.5	3.1
Alternative: grow in line with GNI*	0.7	-2.0	-1.1	-0.4	0.7	2.4
Alternative: Stand Still	0.7	-2.0	-0.8	-0.3	N/A	N/A

Sources: CSO; *Budget 2020*; and Fiscal Council calculations.
Notes: Two scenarios are considered in this exercise. The "Alternative: grow in line with GNI*" scenario shows general government expenditure which would arise from growing spending (apart from the Brexit contingency funds) in line with nominal GNI*, using GNI* forecasts from *Budget 2020*. The "Alternative: Stand Still" scenario shows the general government expenditure which would arise when adding in the additional Fiscal Council Stand-Still costs for demographics and price pressures over the pre-commitments for these items, carryover costs and unallocated resources in *Budget 2020* forecasts. Figures in grey indicate that the Council assesses these forecasts as largely the result of technical assumptions on expenditure, which may be unrealistic.

The first alternative scenario shows how general government expenditure would evolve were it to grow in line with GNI*.[65] For this scenario, the no-deal Brexit contingency funds are left as forecast in *Budget 2020*, with the remainder of expenditure assumed to grow in line with GNI*. *Budget 2020* forecasts of nominal GNI* are used for 2021–2024, with growth averaging 3.4 per cent. This first alternative scenario shows higher levels of expenditure in the years 2021–2024. This is because non-Brexit spending is forecast (in *Budget 2020*) to grow slower than nominal GNI* over the period 2021–2024. In this illustrative alternative scenario, a deficit remains until 2022 before improving to a surplus thereafter. The surpluses in the later years are also smaller than those presented in *Budget 2020*.

[65] Although 2020 expenditure is a forecast rather than an outturn, it is used as the starting point here. This is because most of the policy decisions for expenditure in 2020 have already been made. In addition, starting from 2020 ensures consistency with the Stand-Still approach, which is also used as an alternative scenario for expenditure in Table 3.4.

As a second illustrative scenario, we use the Fiscal Council Stand-Still scenario to arrive at alternative spending projections.[66] As Department of Public Expenditure and Reform estimates of the expenditure related to demographic costs have only been provided out to 2022, the Stand-Still analysis can only be conducted for 2021 and 2022. The results for this scenario are similar to those obtained in the GNI* scenario for these two years, with higher spending meaning a deficit in 2022.

As highlighted above, public sector pay increases are not factored in beyond 2021. The unallocated resources in *Budget 2020* (excluding the no-deal Brexit contingency funds) are not enough to cover the Fiscal Council estimates of pay and non-pay price pressures in 2021 and 2022.

Revenue, 2021–2024

For the medium term (2021–2024), the growth of general government revenue is projected to average 4.3 per cent per annum, similar to the medium-term forecasts projected in *SPU 2019,* when the baseline scenario was more benign. Overall, the main components of the revenue forecasts have not been revised significantly since April's forecasts. This means that the shock in revenue growth assumed by the Department is rather front-loaded, with the most significant slowdown in growth forecast to take place in 2020.

The growth of the main tax revenue sources is projected to recover after the assumed shock in 2020. Although the Department does not provide a detailed counterfactual of an orderly/disorderly Brexit by tax head—and, more broadly, on the budgetary front—the forecasted medium-term revenue growth rates are also similar to those in *SPU 2019* (Figure 3.9). This reflects that the nature of Brexit is assumed to have relatively little impact at these longer horizons, reflecting the profile of impacts on activity and incomes. Income tax and VAT are both projected to grow substantially: by 2024, they are expected to reach an annual growth of 6.6

---

[66] This is calculated as the difference between Fiscal Council Stand-Still estimates of the costs associated with demographic change and price pressures (pay and non-pay) and the pre-committed amounts and unallocated resources (not including the no-deal Brexit contingency funds) in *Budget 2020* expenditure forecasts. This difference is then added to the *Budget 2020* projections for general government expenditure. The budget pre-commitments used for this exercise include allocations for demographics, public sector pay and carryover costs.

and 4.9 per cent, respectively. Corporation tax growth is projected to stabilise to an average of around 3.6 per cent over the medium term (2021–2024).

Given the unique nature of a shock like a disorderly Brexit, the assumed macro drivers of the revenue forecasts might be lower than currently assumed in *Budget 2020* over the medium term. Separately, there is an upside risk that corporation tax might yield higher-than-forecast outturns, as has been the case over the past few years. However, there is a significant downside risk that part of the corporation tax receipts might prove temporary in nature, which poses concerns about its sustainability, as also noted by the Department of Finance (2019d).

Box K: The way health spending is reported can lead to different conclusions about its performance

This box examines the differences in how health spending performance is reported.

Accounting differences. Two main publications show the monthly performance of health spending, but these differ in content and in the accounting standards they adopt. The HSE Performance Reports show expenditure based on accrual accounting: spending is recorded at the time at which it occurs, regardless of when the related cash payments take place. In contrast, the Central Government's Fiscal Monitor covers cash inflows and outflows. It comprises the total (current and capital) health vote including the HSE.[67]

Figure K.1 shows the difference between the monthly outturns and forecasts (the "overruns" or "underruns") by publication. This is shown on a net basis, looking at current spending only, to ensure comparability. For 2017 and 2018, the HSE Performance Reports showed higher overruns than the Fiscal Monitor publications for most of the year, before the Fiscal Monitor "catches up" by the end of the year. Yet a substantial gap in performance remains. One would expect that the divergence is therefore due to accruals and/or coverage differences.

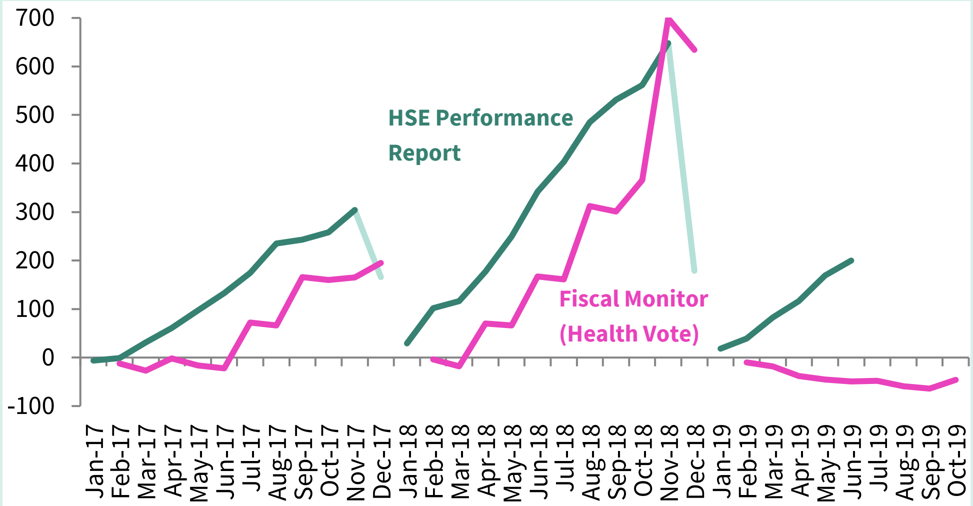
Is this year different? While the latest HSE figure of June 2019 shows an overrun of expenditure of around €200 million, the Fiscal Monitor reports underruns in every month, cumulating to almost €100 million as of end-October 2019.

The underrun shown in the Fiscal Monitor is attributed by the Department of Health to the financial improvement of the HSE, which has not required any cash in addition to the original allocation. In contrast, the overrun shown in the HSE Performance Report might be partly explained by an unusual transaction related to the settlement of pay arrears with medical consultants in 2018. The CSO dated €213 million of the settlement to central government expenditure in Q2 2018, the time of the court settlement (CSO, 2019). However, some payments are due in 2019 as well as 2020. Any impact on overruns is uncertain, as it is unclear how much of the total has been accrued and paid at different stages of the year so far.

[67] The HSE Performance Report is net of HSE income and covers only current spending. The Fiscal Monitor reports net expenditure (net of appropriations-in-aid).

Figure K.1: Health overruns/underruns differ by report

€ million (outturn minus profile), net current expenditure



Sources: Fiscal Monitors 2017–2019; HSE Performance Reports (Finance section) 2017–2019.

Note: January Fiscal Monitors do not include a comparison of Vote outturns to profiles. In December 2017/2018, the overrun reported in the HSE Performance Report fell. This is likely due to revisions in the monthly forecasts throughout the year but particularly at year's end. In contrast, the Fiscal Monitor profiles are not revised within the year.

Box L: What are Approved Housing Bodies?

Approved Housing Bodies are non-profit entities that provide affordable rented housing. We explored these in more detail in Box F of the *June 2018 Fiscal Assessment Report*, but this box gives a quick recap of some of the key elements.

In 2017, the CSO conducted a review of the classification of the largest Approved Housing Bodies in Ireland. It concluded that these bodies should be classified as part of the local government sector and, hence, part of the wider general government sector. This means that spending and revenues associated with the bodies were to be recognised as part of government activity. The rationale for why bodies become recognised as part of general government follows three key principles related to (1) the extent of government or local authority control, (2) the degree of autonomy in decision making and other aspects of institutional independence from government, and (3) the degree to which its services or goods are "non-market" — that is to say the extent to which prices charged for these are "economically significant" according to set criteria (CSO, 2018c).

The classification of Approved Housing Bodies into general government added about €0.6 billion to government investment spending in 2018. On the revenue side, "sales of goods and services" saw relatively more modest increases of just under €0.1 billion. The reclassification of these bodies into general government had a relatively small impact on general government debt (increasing it by around €0.1 billion). This reflected the fact that much of the Approved Housing Bodies' debt had already been included in general government statistics as it was obtained via the Housing Finance Agency, which is already included in the general government sector.

Investment spending by Approved Housing Bodies had been expected to rise as part of *Rebuilding Ireland*, the Government's housing plan, as the bodies acquired or developed newly built housing. Approved Housing Bodies are expected to "deliver approximately one third of the targets for the remaining years of *Rebuilding Ireland*".[68] There is limited data on the previous levels of aggregate activity of these bodies, and hence it is difficult to assess if they are likely to increase activity as rapidly as is reflected in *Budget 2020* forecasts.

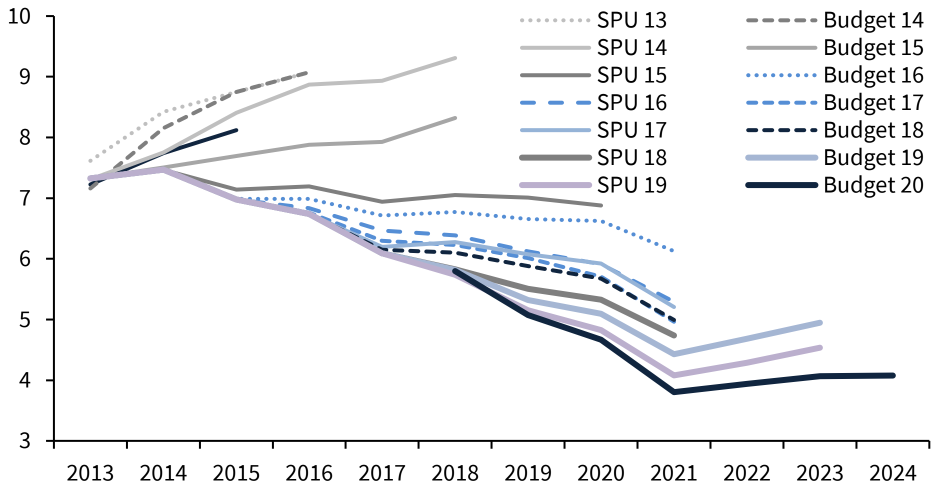
Interest expenditure

Interest costs on government debt have declined in recent years, and this is forecast to continue until 2021. Figure 3.12 shows the reduction in forecast and actual interest costs due to: (1) low global interest rates; (2) agreed reductions in interest rates on official borrowing; (3) expansionary monetary policy by the ECB, including the Public Sector Purchase Programme; and (4) the early repayment of IMF loans and other debt restructuring. Figure 3.12 also shows that interest costs have been consistently lower than forecast for a number of years.

Budget 2020 has seen a further downward revision to expected interest payments over 2019–2023. Interest costs are forecast to rise somewhat after 2021, due to a forecasted rising average interest rate and a rising level of debt (in nominal terms). The average interest rate is forecast to rise because the bonds due to be refinanced in 2022 have very low rates; hence they are expected to be refinanced at higher rates.[69]

Figure 3.12: Revisions to national debt cash interest payments

€ billion



Sources: Department of Finance.

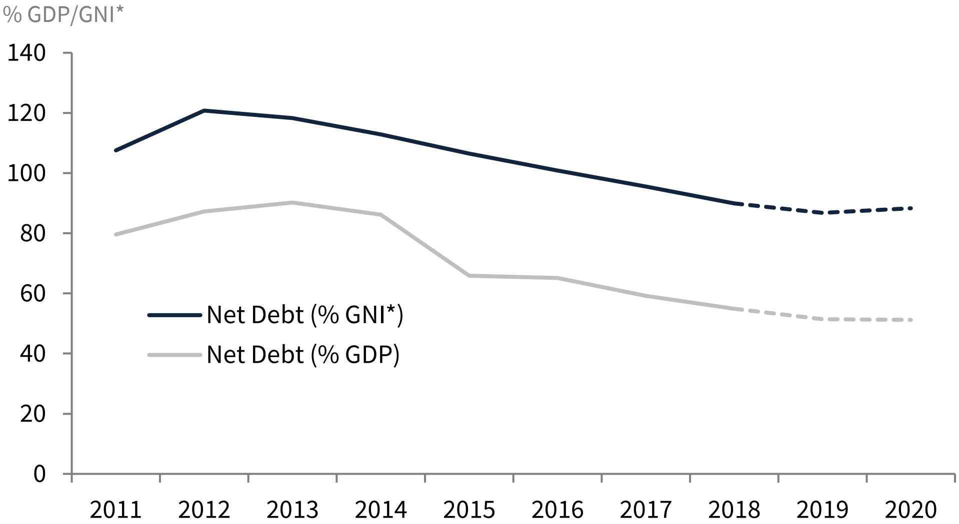
[68] Response from the Minister of State at the Department of Housing, Planning and Local Government. The full debate is available here: https://www.oireachtas.ie/en/debates/question/2019-02-20/25/

[69] Given that forecasts of interest costs have fallen since SPU, it appears a no-deal Brexit is not assumed to have a significant impact on Irish interest costs or the risk premium.

General government debt

The gross debt-to-GDP ratio has fallen substantially since 2012. Two factors have played a significant role. The first is related to the high level of measured GDP growth in 2015. The second involves the liquidation of the IBRC, which led to lower liabilities being measured on the Government's balance sheet (in 2011, this had led to an increase in government liabilities of €20.9 billion; stripping out these liabilities, gross debt to GDP would have been 4 per cent lower). While the *Stability and Growth Pact* reference value of 60 per cent is set in terms of debt-to-GDP, it is worth remembering that for Ireland this 60 per cent of GDP reference value would be equivalent to 98.5 per cent of GNI* (using 2018 nominal outturns for both variables).[70] Using GNI* or revenue as a denominator, government debt remains high relative to other OECD countries (see Figure 1.9 in Chapter 1). Given some of these distortions and the relatively high cash balances run by the NTMA, net debt to GNI* is a more informative measure. Using this metric, the decline in debt levels is more gradual since 2012, and net debt is expected to fall to 86.8 per cent in 2019 (Figure 3.13). The projections imply a steady reduction in the debt/GNI* ratio in the later years, although this is based on technical assumptions for spending. The decline in the debt ratio would be shallower if higher expenditure were forecast in the later years (Table 3.4 shows two alternative scenarios).

Figure 3.13: General government debt



Sources: CSO; Department of Finance; and Fiscal Council calculations.
Note: Data for the period 2019–2020 are projections as per *Budget 2020*.

[70] Gross general government debt is forecast to fall below 60 per cent of GDP in 2019.

Budget 2020 highlights the need for a more comprehensive picture of public sector net wealth. Public sector balance sheets are a good way of getting such an overview. The Department of Finance is said to be working with the CSO to develop a public sector balance sheet for Ireland. The Council welcomes this development and looks forward to seeing a time series of published estimates.

3.5 Risks

While *Budget 2020* forecasts incorporate what previously would have been a downside risk (no-deal Brexit), substantial risks to the public finances remain. As has been well documented, for any given Brexit scenario there is huge uncertainty around how that would translate into macroeconomic and fiscal impacts for Ireland. So while *Budget 2020* forecasts have incorporated an adverse Brexit scenario, there is a chance that modelling work may have underestimated the impacts of such a scenario on the Irish economy. Naturally, there is now an upside risk to macroeconomic and fiscal projections if a softer Brexit occurs or if there is a further extension to UK membership of the EU.

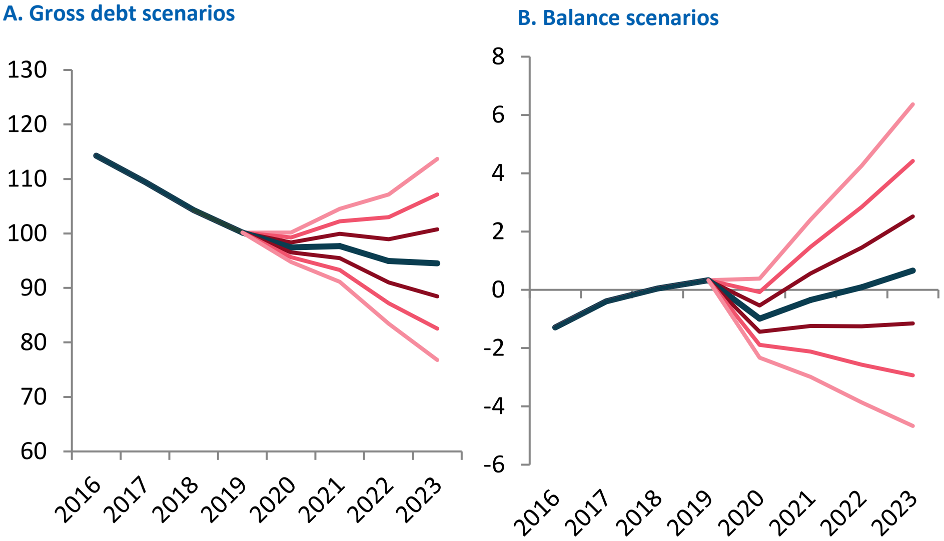
Other aspects of the external environment pose risks to the forecasts. In particular, possible changes to the international corporation tax environment could pose significant fiscal risks.

The reliance on potentially transient sources of revenue to fund permanent expenditure increases is a significant fiscal risk. Corporation tax rose to a record share of tax revenue in the last decades and particularly last year (Figure 3.4). These unexpected corporation tax receipts were partially used to fund permanent increases in expenditure over the last number of years.[71]

[71] Almost all of the €0.4 billion overruns this year from the Departments of Health, Education and Skills and Justice and Equality are believed to be recurring.

Figure 3.14: Debt and budget balance paths under different growth scenarios

%GNI*, general government basis



Sources: CSO; Department of Finance; and Fiscal Council calculations.
Note: Central line depicts the central forecasts from the Department of Finance (based on a no-deal Brexit). The outer lines depict how far the budget balance as a percentage of GNI* would be pushed away from the central forecasts under different shocks to real GDP growth in each year. The outer lines, as one moves further away from the central forecast, are for positive/negative growth shocks of 0.5, 1.0 and 1.5 percentage points, respectively. Positive shocks raise the balance; negative shocks reduce it.

Figure 3.14 shows how shocks to growth would impact on the general government balance and general government debt. A shock to GDP growth of 1.5 percentage points relative to *Budget 2020* forecasts each year from 2020 to 2023 would result in the general government balance being 5.3 percentage points of GNI* lower by 2023. All else being equal, this means that the public finances would show increasing deficits over the period 2020 - 2023 as compared to a surplus of 0.7 per cent of GNI* in 2023. In the same scenario, the currently high gross government debt-to-GNI* ratio would rise by over 13 percentage points, in the absence of corrective policy action. A shock of this magnitude would not be exceptional given the historical volatility of Irish national income growth, for which a typical current-year forecast error is close to 2 percentage points.

Table 3.5: Assessing the *Budget 2020* Fiscal Risk Matrix

Likelihood (**L**) and Impact (**M**) are from *Budget 2020*, unless stated (**red=high**; **pink=medium**; **grey=low**)

L	M	
		Health overruns (Fiscal Council risk): Health spending overruns average €0.5 billion yearly (2014–2018). Unrealistic forecasts and weak ceilings reinforce these risks.
		Climate change and renewable energy targets: Ireland's 2020 emissions targets are unlikely to be met, implying costs of €148 million–€455 million per year (Deane, 2017). Missing later (2030) targets could cost €2.7–€5.5 billion (Curtin, 2016).
		Corporation tax concentration risks: Corporation tax doubled from 2014 to 2018 and hit a record 18.7 per cent of total tax in 2018. It is volatile, concentrated in few companies, and is vulnerable to global tax changes, meaning it could fall rapidly. The OECD's Base Erosion and Profit Shifting (BEPS) proposals would include firms paying taxes wherever they have significant consumer-facing activities and generate profits. The timeline on the BEPS implementation, approved by the G20, will depend on how discussions proceed, and could span a decade.
		Overruns on large projects (Fiscal Council risk): Large capital projects have experienced a number of overruns (the National Broadband Plan's current expected overrun is €2.5 billion and the National Children's Hospital's is about €1 billion). These unplanned costs need to be funded through revenue increases, savings elsewhere or more borrowing.
		Public sector pay (Fiscal Council risk): The current public sector pay agreement is set to expire in 2020. Forecasts in *Budget 2020* do not allocate significant increases in Compensation of Employees after 2020. Even if some of the "Resources to Be Allocated" were used on this item, the forecast growth would still be implausibly low, which poses a risk to the public finances.
		Budgetary pressures: This refers to the risk of public expectations exceeding budgetary policy. Budgetary pressures may also arise due to demographics, eligibility factors and other demand side pressures. In-year spending increases would also exacerbate the problem. The political cycle may also increase near-term budgetary pressures. Given the pattern of overruns in the Department of Health and the payment of the Christmas bonus not having been budgeted for in 2019, ***the Council assesses a high likelihood to be more appropriate***.
		Reliance on potentially transient improvements to the public finances (Fiscal Council risk): The use of temporary revenues could reduce the stability of tax revenues. This is particularly risky if they are used to fund long-term spending. For example, in 2018, higher-than-expected corporation tax revenue and interest savings—both of which might prove temporary—largely funded health overruns. And this is likely to be repeated in 2019.
		Sharper-than-expected growth in tax-rich sectors (Fiscal Council risk): Pent-up demand in the housing sector is forecast to lead to strong growth in the construction sector. Given the tax-rich nature of housing output, due to its labour intensity and the capacity for tax collection on new homes and housing transactions, rapid growth could imply a substantial increase in revenue.
		EU Budget contributions: There is continuing uncertainty surrounding the impact Brexit will have on the contributions to the EU Budget. In addition, statistical reclassifications impacting on measured Gross National Income in Ireland could impact on EU Budget contributions. Taking these considerations into account, ***the Council assesses a high likelihood to be more appropriate***.
		Changes to tax "drivers": Tax forecasts are dependent upon macroeconomic projections and other components. For example, corporation tax forecasts are driven by forecasts around the Gross Operating Surplus (GOS), and the elasticity associated with this. The GOS forecasts are subject to a high degree of uncertainty, namely that related to international trading conditions and currency markets. Hence, changes in the composition of those macroeconomic components can have important impacts on the tax forecasts.
		Forecasts of yields from tax measures (Fiscal Council risk): Although there is a risk of underestimation of the impacts of tax cuts, there is also a risk that estimated yields accruing from revenue-raising measures may be overly optimistic. This is particularly acute when transaction-based taxes are concerned (Box J).
		Statistical classifications: Ireland's compliance with the EU fiscal rules is measured under the ESA 2010 statistical framework. When statistical revisions or reclassifications of different items take place, this might pose fiscal risks.
		Unexpected one-off revenues (Fiscal Council risk): This risk refers to large, unexpected one-off government revenues being received. A recent example relates to Apple, which was ordered to pay €13 billion (plus €1.3 billion interest) to an escrow account related to unpaid taxes in Ireland.

L	M	
		This is equivalent to 7.9 per cent of GNI* in 2017. Given that this one-off receipt is not budgeted for, it represents a positive fiscal risk.
		Receipts from resolution of financial sector crisis: The budgetary projections in *Budget 2020* do not include any assumed proceeds relating to disposals of the State's shareholding in a number of financial institutions. This provides an upside risk to the fiscal forecasts.
		Dividend payments: *Budget 2020* identifies risks in relation to lower-than expected payments of dividends from the State's shareholding in banks and commercial semi-state companies. Such dividends are a function of business performance and outlook, over which the State has little control. If some of these assets are sold, then associated revenue streams would fall.
		Bond market conditions: The long maturities and relatively fixed nature of debt (with 94 per cent of gross national debt being at fixed interest rates in June 2017) should insulate the public finances from a typical shock to interest rates on sovereign borrowings. More severe events in Italian or euro area bond markets could be more impactful, however. At high debt levels, external shocks such as a hard Brexit could lead to self-reinforcing fears in bond markets.
		Contingent liabilities: These continued to fall in 2018, with the final Eligible Liabilities Guarantees expiring and the National Asset Management Agency redeeming the final €500 million of senior debt in 2017. Given their reduced level, ***the Council assesses a low impact to be more appropriate***.
		Litigation risk: This refers to an adverse or unexpected outcome of litigation against the State, leading to increased expenditure. Bova *et al.* (2016) estimate that the contingent liability realisations could have an average fiscal cost of 6.1 per cent of GDP. Taking this into account, ***the Council assesses a medium impact to be more appropriate***.

Sources: Department of Finance; and Fiscal Council assessment.