Although overall government revenues came in ahead of profile and expenditure was broadly on track, a weaker than expected level of nominal GDP meant that the General Government deficit to GDP ratio at 7.2 per cent was only marginally lower than the *Budget 2014* forecast.

There were also a number of one-off factors that added 0.4 per cent of GDP to the deficit in 2013. This mainly reflected exceptional payments associated with the liquidation of Irish Bank Resolution Corporation (IBRC) (0.7 per cent of GDP), although this was partly offset by mobile licence fees (see Chapter 4, Box C for more details).

The General Government debt to GDP ratio ended the year slightly above forecast due in part to revisions to nominal GDP. The actual level of debt was less than had been foreseen earlier in the year reflecting a lower level of borrowing in the latter part of 2013. The most noteworthy debt development in 2013 was the change in the composition of debt as the promissory notes were replaced by long-term government bonds.[68]

Box B: A Closer Look at General Government Deficit Forecast Errors[69]

The Council has a mandate to assess the accuracy of budgetary forecasts. In this Box, we take a look back at the accuracy of forecasts for the General Government deficit from 2011 to 2013 from successive Budgets. We examine the one year ahead forecasting error – the difference between the outturn for the deficit in 2013 relative to the forecast in *Budget 2013* (we do the same for *Budget 2011* and *Budget 2012*).

Decomposition of General Government Deficit Forecasts

In the Tables below, we compare Department of Finance estimates for key General Government aggregates (including nominal GDP) with actual outturns. For example, in *Budget 2013*, the Department of Finance estimate for General Government Revenue in 2012 was €55.7 billion. The outturn was €56.6 billion. All else equal, the starting point is therefore better than was envisaged in *Budget 2013*. We apportion the forecast error in the deficit into an error due to these data revisions and a residual error. Negative numbers indicate a lower than forecast deficit.[70]

[68] The promissory note transaction resulted in a switch of €25 billion from promissory note debt to government bonds. As of end-2013, 55 per cent of General Government debt was in the form of government bonds (€111 billion), with EU/IMF programme assistance loans accounting for a third (€67 billion) according to *SPU 2014*. The Government's holding of liquid assets (which leads to a corresponding increase in gross debt) amounted to €24 billion (of which €18.5 billion was in the form of Exchequer cash and deposits) at end-2013.

[69] The calculations behind these tables can be downloaded from www.fiscalcouncil.ie.

[70] Exceptional payments to the financial sector are excluded from the analysis.

The Tables highlight that the lower than expected deficit outturns in recent Budgets to a large extent reflected a favourable (tax and non-tax) revenue performance and lower than expected interest payments.[71] This helped to compensate for expenditure pressures in 2012 and 2013.

Table B1: Decomposition Forecast Error in 2013

Contributions, % of GDP	Due to 2012 Revision	Due to Residual Error	Combined
Nominal GDP	0.0	+0.2	+0.2
Revenue	-0.6	-0.2	-0.8
Primary Expenditure	+0.7	+0.4	+1.1
Interest	-0.2	-0.7	-1.0
Total Forecast Error	**-0.1**	**-0.3**	**-0.4**

Table B2: Decomposition Forecast Error in 2012

Contributions, % of GDP	Due to 2011 Revision	Due to Residual Error	Combined
Nominal GDP	-0.4	+0.1	-0.2
Revenue	-0.7	-0.3	-1.0
Primary Expenditure	0.0	+1.3	+1.2
Interest	0.0	-0.5	-0.5
Total Forecast Error	**-1.1**	**+0.6**	**-0.4**

Table B3: Decomposition Forecast Error in 2011

Contributions, % of GDP	Due to 2010 Revision	Due to Residual Error	Combined
Nominal GDP	0.0	0.0	-0.1
Revenue	+0.4	+0.6	+1.1
Primary Expenditure	-1.5	-0.1	-1.6
Interest	+0.2	-0.2	-0.1
Total Forecast Error	**-0.9**	**+0.3**	**-0.6**

Examples of Errors in Specific Forecast Components

To get a sense of the magnitude of some of the revisions to General Government aggregates, in Figure B we plot successive forecasts for three specific cases:
- interest expenditure
- investment spending and
- other revenues (General Government revenue less taxes and social contributions).

There has been a pattern of downward revisions to forecasts for interest and investment spending with other revenues underestimated. These patterns have previously been noted by

[71] Some of the factors causing revisions to interest expenditures were discussed in previous *Fiscal Assessment Reports* (IFAC, 2013b) – these relate to the extension of maturities on official loans, lower interest rates, borrowing activity by the National Treasury Management Agency and the promissory note transaction.

the Council (IFAC, 2013a).

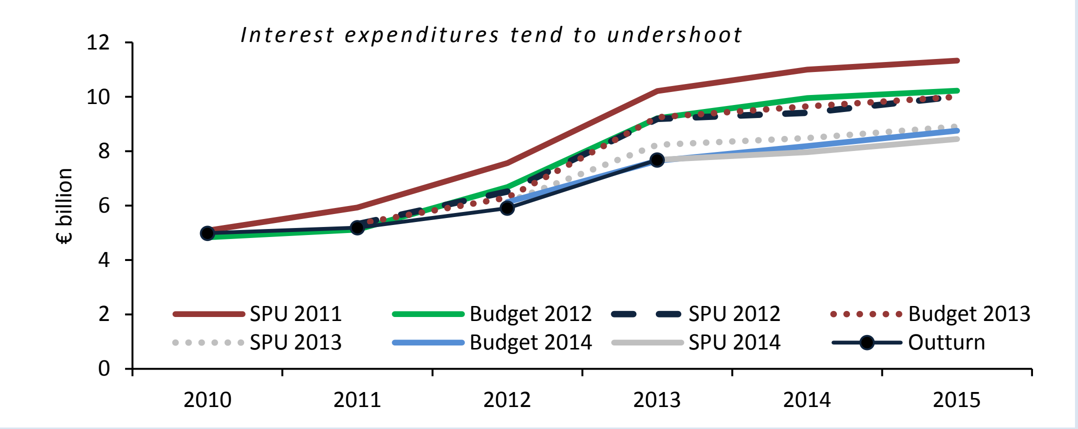
Forecasts for interest spending are provided to the Department of Finance by the NTMA. The Council acknowledges that the task of forecasting interest payments has been more difficult of late due to the substantial changes that have occurred in Ireland's debt profile. For example, the decision to replace the promissory note with long-term government bonds generated interest savings from 2013 as did the extension of maturities on official loans. These developments could not have been foreseen in the budgetary projections.

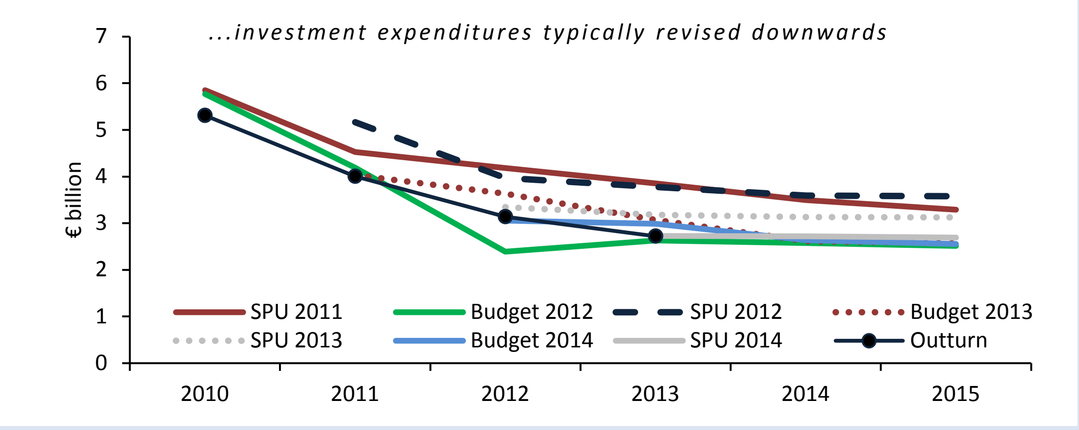
General Government investment spending has tended to be periodically revised downwards. This has also been evident from Exchequer data in recent years, with voted capital expenditure (including the capital carryover) coming in below profile.

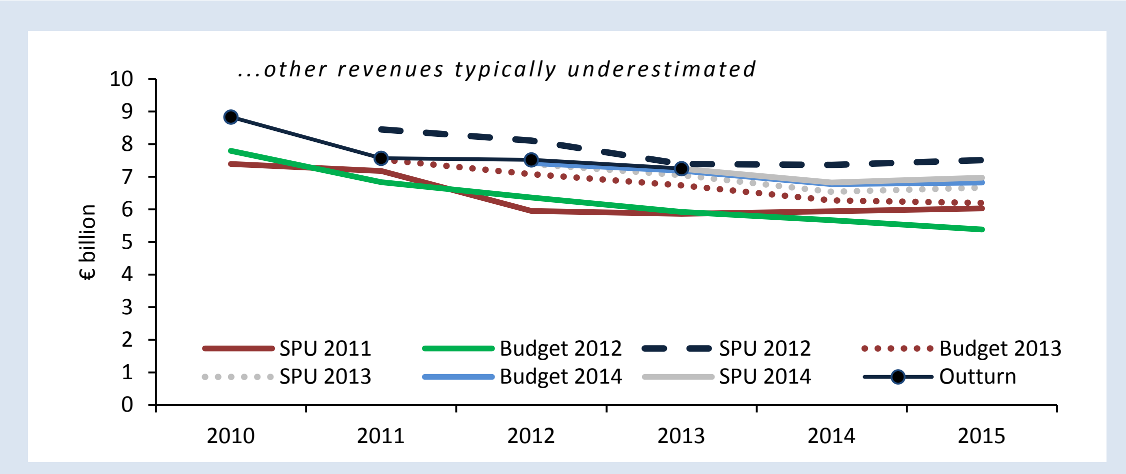
In relation to "other revenues", the Department of Finance has noted that much of the error relates to fees associated with the Eligible Liabilities Guarantee Scheme (ELG) and Central Bank Surplus Income. The latter category is forecast by the Central Bank. Other differences arise from the timing (and recording) of the sale of national lottery and Universal Mobile Telecommunications System (UMTS) licences.

It would be beneficial if the Department of Finance provided more information on the underlying assumptions behind forecasts of these aggregates in future publications.

FIGURE B: GENERAL GOVERNMENT AGGREGATES: FORECAST VINTAGES, *SPU 2011 – SPU 2014*







3.3 An Assessment of SPU 2014 Forecasts

3.3.1 Overview of Budgetary Outlook to 2018

Short-Term Forecasts, 2014 to 2015

The budgetary outlook from *SPU 2014* is summarised in Table 3.2. The General Government deficit is projected to improve to 4.8 per cent of GDP in 2014.[72] This improvement reflects a forecast €2 billion increase in revenues partly arising from tax measures introduced in *Budget 2014* as well as carryover effects from past tax changes and the impact of growth.[73] The 2014 deficit is also lowered by one-off factors (notably national lottery licence sales) amounting to approximately 0.2 per cent of GDP.

Expenditure savings of €1.6 billion as a result of *Budget 2014* measures underlie the expenditure forecast. As outlined in the previous assessment report (IFAC, 2013b), the bulk of this adjustment is apportioned to the two largest spending departments – Social Protection and Health. The outlook for interest expenditures has improved relative to *Budget 2014* reflecting lower interest payments in the early part of the year.

The latest Exchequer developments are summarised in Figure 3.1. By end-May, the Exchequer deficit at €3.5 billion was €1.2 billion lower than the profile for the year. Exchequer taxes at €15.6 billion were up 5.6 per cent year-on-year and were 2.9 per cent (€446 million) ahead of Department of Finance expectations. All tax heads with the exception of capital gains tax were ahead of target. In particular, income taxes were up 7.8 per cent year-on-year and were 1.8 per cent ahead of profile. This robust performance reflects the upturn in employment and the effect of past tax changes.

[72] This forecast is largely unchanged from the outlook in *Budget 2014*.

[73] One of the main tax measures in *Budget 2014* involved changes to Deposit Interest Retention Tax (DIRT). This is expected to generate additional receipts of €105 million in 2014, while the capping of tax relief of medical insurance is expected to generate €94 million in 2014 – see Analytical Note 4 for more details).