Box B: What the Government's medium-term strategy should do

In spring 2021, the Government will publish an updated Medium-term Budgetary Strategy as part of its Stability Programme Update. The Department of Finance notes in *Budget 2021* that this will set out a medium-term trajectory showing how the deficit will be eliminated. It also notes its anticipation that "economic recovery will likely do most of the heavy lifting" (Department of Finance, 2020c; p.2).

With debt set to reach high levels and substantial medium-term pressures, there is a critical need for careful planning for the medium-term. It will be important to set out how competing fiscal pressures from any adjustment needs, ageing, climate change and plans to upgrade public services will be managed.

Key features of a credible medium-term plan

The Government's medium-term plan should seek to cover the following six objectives:

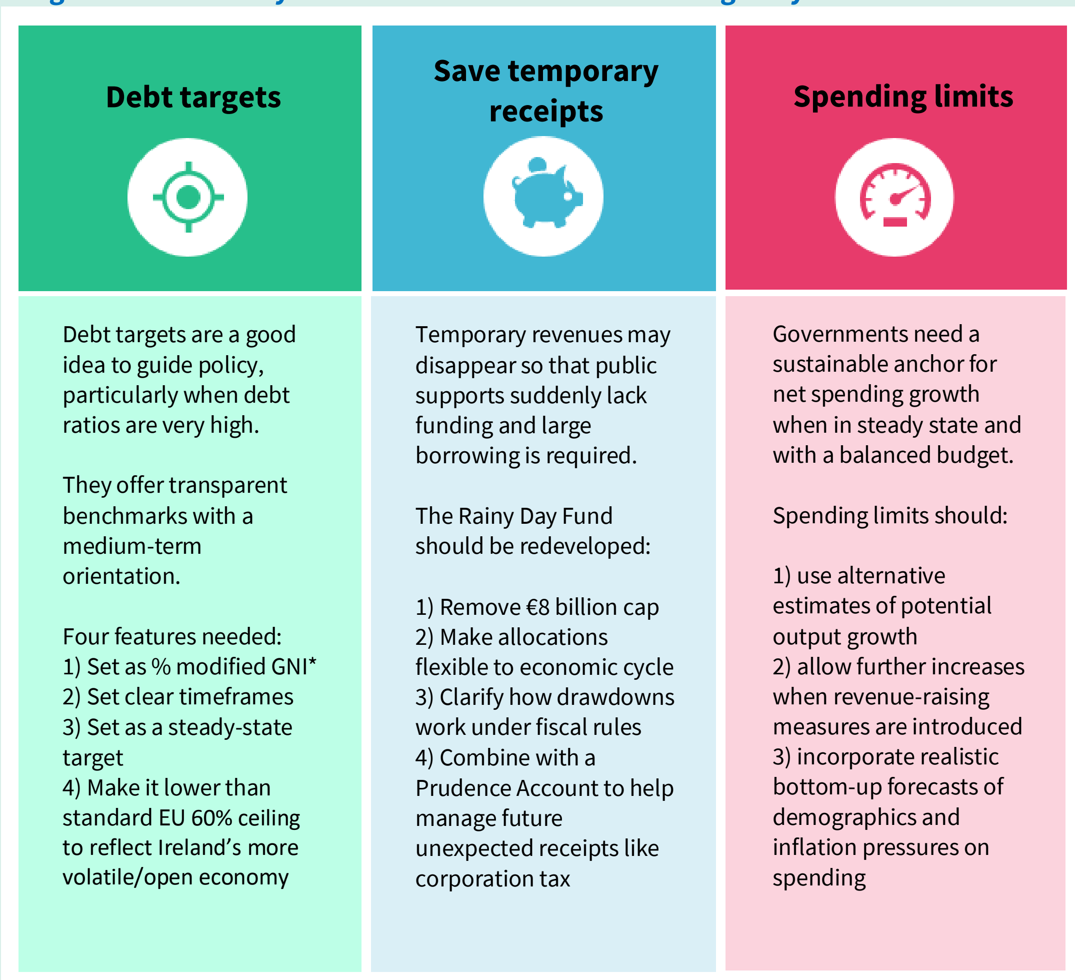
1) *Detailed, five-year-ahead, medium-term expenditure projections*. These should take into account the cost of providing existing public services in terms of wages, social welfare rates and pensions, together with any planned policy measures. The Government should also take more strides forward in terms of transparency on how non-Exchequer spending is presented. This should include detail on spending in non-commercial semi-state bodies, extra budgetary funds, and local government. The payment of the Christmas Bonus—paid to welfare recipients in each of the past seven years—should be budgeted for by default, given the high likelihood that it will be paid.
2) *Medium-term, five-year-ahead revenue projections*. These should also outline how major tax heads would be adjusted to meet government plans.
3) *Transparent costings of major changes in policy*. These costings should account for major policy changes that are expected to have ongoing impacts, such as the implementation of the programme of Sláintecare reforms in health and social care spending.
4) *Medium-term fiscal objectives and compliance with domestic and EU fiscal rules*. Budgetary documents published in 2020 provide little information on compliance with fiscal rules, given that the General Escape Clause applied (Chapter 4). Despite this, ongoing monitoring of key metrics relevant for the fiscal rules is a good practice that should be incorporated into budgetary forecasts.
5) *An indication of how plans would be modified if revenue falls short of expectations*. The outlook for the economy is exceptionally uncertain. If the recovery is weaker than expected, revenues may fail to recover as expected and expenditure on unemployment benefits may be larger. The Government should have a clear plan as to how to sustainably reduce any persistent increase in borrowing that arises in the coming years.
6) *An indication of how the Rainy Day Fund and other measures to strengthen the fiscal framework are to be used*. The Fiscal Council assesses that several key reforms to how the budgetary framework operates in Ireland are warranted so as to help ensure prudent management of the economy and public finances. These are set out in the next subsection of this box. It would help if the Government uses its medium-term strategy to develop these further.

Whether or not these six objectives are met will form a key part of the Fiscal Council's assessment of the medium-term plan that the Government sets out in spring.

Three key reforms would help to anchor Irish budgetary policy

The Fiscal Council assesses that three key reforms would help current and future governments to navigate through all the challenges that lie ahead. These reforms have been developed over several publications by the Fiscal Council, but also by the Department of Finance.[13] The reforms are set out in Figure B1. They involve (1) the establishment of clearer debt targets (introduced by the previous government, but subsequently ignored for the most part); (2) mechanisms to ensure that temporary receipts like corporation tax are saved rather than used to fund permanent spending increases; and (3) a better system of ensuring that spending growth rates are anchored effectively — one that is tailored to Ireland's highly open and volatile economy.

Figure B1: Three key reforms needed for Ireland's budgetary framework



[13] The reforms were outlined in previous work by the Council, including in Box N of the *November 2019 Fiscal Assessment Report*; Barnes and Casey, 2019; and Casey *et al*., 2018. The Department of Finance (2019) has partly considered some proposals to reinforce the budgetary framework in a "Fiscal Vulnerabilities Scoping Paper", though these should be developed further along the lines of what is suggested here.