

Press Release:

FISCAL ASSESSMENT REPORT

Sustaining the Economy through Covid-19

Under embargo until early morning (1:00am) Tuesday 1st December 2020.

Council welcomes large-scale stimulus, but Government needs a credible medium-term strategy

The Fiscal Council's latest report assesses the Government's *Budget 2021* plans. Covid-19 is having a major impact, but the outlook has improved. A deficit of over €20 billion, around 10 per cent of GNI*, is expected this year and next.

The large temporary supports and stimulus of up to €12 billion are welcome and the €2.1bn contingency and €3.4bn recovery fund for 2021 are helpful. These policies will help to support the economy and limit lasting damage from the crisis. Government debt will rise further to high levels, but low interest rates create a favourable environment for debt sustainability.

However, *Budget 2021* includes permanent increases in spending of €5.4bn, possibly up to €8.5 billion. The Council assesses that introducing these permanent commitments - without identifying how they will be funded sustainably - is not prudent.

Commenting on the report, the Chairperson of the Fiscal Council, Sebastian Barnes, noted: "*Budget 2021 is right to continue massively supporting and stimulating the economy at a time when Covid-19 and Brexit will weigh on the Irish economy. However, introducing large permanent spending commitments without a plan to fund them sustainably creates fiscal risks. The Government should use its medium-term strategy in April 2021 to set out credible plans for how it intends to manage the pressures on the budget after the economy has recovered.*"

There are significant fiscal pressures in future years from fiscal adjustment, ageing, reducing overreliance on corporation tax and climate change. Strengthening the fiscal framework would help.

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