

Press Release: Fiscal Assessment Report

Looking beyond Covid-19

Under embargo until early morning (01:00am) Wednesday 26th May 2020

Stronger recovery likely, but Government needs a plan

The Fiscal Council's latest report assesses the Government's medium-term forecasts in its *Stability Programme Update 2021*.

The economy is likely to bounce back quickly as restrictions ease and as vaccines are rolled out. The Government's relatively cautious projections assume deep scarring on the post-pandemic economy, yet the Council sees more upside potential to growth.

The government deficit should narrow as the economy recovers and temporary measures are phased out. Support measures for the economy should continue in an appropriate form as long as needed

However, the Government needs to set out a credible medium-term strategy. The official budgetary forecasts are poorly founded, major policy commitments are not built in, and the promised medium-term strategy has not been delivered by the Government.

Adjusting the projected budget balance in 2025 from the SPU for the full cost of providing existing policies, to align it with the Capital Plan, more coherent income tax assumptions and corporation tax risks, the budget balance would be around 1.2% of GNI* compared to 0.3% in the SPU.

Ireland will need to bring the debt ratio to safer levels from 2023. To achieve this, some modest or no adjustment to existing policies may be needed. However, the €5.4 billion of unfunded permanent increases in spending introduced in *Budget 2021* have largely committed the benefits of future growth. This leaves no room for new policy measures unless taxes are increased or spending is adjusted elsewhere.

Commenting on the report, the Chairperson of the Fiscal Council, Sebastian Barnes, noted: *"The absence of well-founded medium-term plans and fiscal targets leaves the public finances unanchored. Ireland needs a plan to meet the challenges in the coming years from international tax changes, climate change and ageing, while implementing major policies like Sláintecare."*

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