

Press Release: Fiscal Assessment Report

Managing the recovery

Under embargo until early morning (01:00am) Wednesday 1st December 2021

The Government has a more credible plan. It needs to continue to deliver on it in the years ahead.

The Fiscal Council's latest report assesses the Government's forecasts in *Budget 2022*.

The economy is continuing to recover. Domestic demand returned to 2019 levels this year. The Budget forecasts the deficit will narrow sharply to 5.9 per cent of national income in 2021.

For 2022, the Government stuck to its planned €4.7 billion budgetary package. This strikes an appropriate balance between supporting the economy and keeping the public finances on a sustainable path.

The Government has taken welcome steps to develop a more credible budget strategy for the coming years. Its new "5% Spending Rule", spending forecasts based on maintaining "Existing Level of Services", and the updated capital plan are key initiatives.

The Government now needs to follow through on its strategy. The strategy could be strengthened by setting spending ceilings for each Department as legally required. The 5% Spending Rule could be linked more closely to the domestic fiscal rules, expanded to cover non-Exchequer spending and tax changes, and given legal backing.

However, it is unclear how major commitments on health and climate change fit into the Government's medium-term strategy and the over-reliance on corporation tax needs to be addressed. The costs of *Sláintécare* have not been updated since 2017 and there is no estimate of the budgetary cost of implementing the Climate Action Plan. Room for manoeuvre is tight as the plans only allow for an average of €0.5 to €1.5 billion of additional current spending each year over the medium term without raising taxes or cutting spending in other areas.

Commenting on the report, the Chairperson of the Fiscal Council, Sebastian Barnes, noted: *"The Government has set out a more credible strategy. By sticking to its plans, this would deliver both higher investment and allow the debt ratio to fall to safer levels. However, the Government now needs to clarify the costs of Sláintécare and the new Climate Action Plan and how these will be funded sustainably. The over-reliance on corporation tax needs to be addressed."*

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