

### Box C: Forecast errors point to inconsistencies in the fiscal forecasts

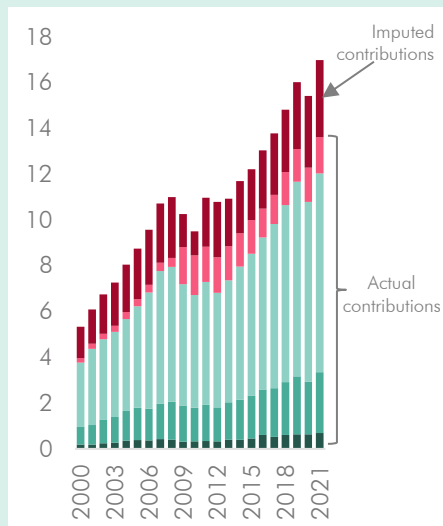
This box explores the 2022 forecast error for social contributions revenue and how this relates to the forecasts of government expenditure.<sup>20</sup>

Government total social contribution revenue is made up primarily of PRSI receipts—of employees, employers and the self-employed—which amounted to just over €12 billion in 2021, and non-PRSI receipts (Figure C1.A). The non-PRSI element of social contributions includes government employees’ contributions, making up 9.3% (or €1.6 billion), and imputed employers’ contributions making up 19.9% (or €3.4 billion) in 2021 (Figure C1.B).<sup>21</sup>

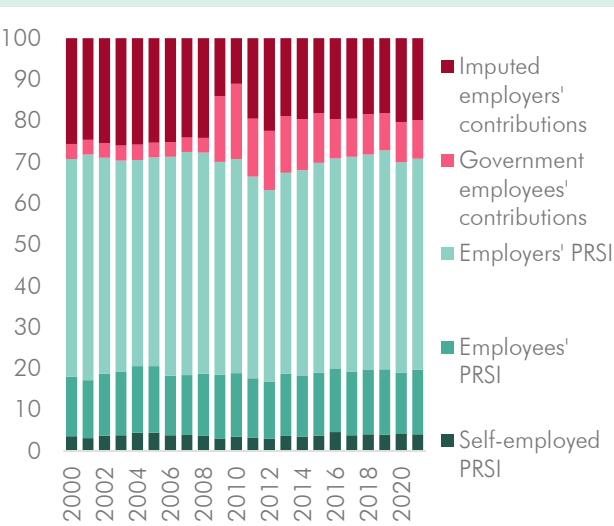
While the forecast of PRSI revenue for 2022 at Budget time was relatively accurate (with a forecast error of just -€0.05 billion for PRSI), the non-PRSI revenue—the government employee contributions and imputed employer contributions—had a large forecast error of €1.5 billion (Figure C2.B). This error was equivalent to 26% of the non-PRSI social contribution outturn (or 7.7% of the total social contributions outturn).<sup>22</sup>

### Figure C1: Revisions point to inconsistencies in fiscal forecasts

A. Social contributions continue to rise  
€ billion, general government basis



B. Composition of social contributions  
% of total social contributions



Sources: Eurostat, CSO, and Fiscal Council workings. [Get the data.](#)

Notes: Data in panels A and B are from the National Tax lists published by Eurostat. Panel C shows data for government compensation of employees.

<sup>20</sup> Previous work conducted by the Council has explored how the macroeconomic and fiscal forecasts of Government have been inconsistent with each other (see [Box A](#) of the May 2022 FAR). This box explores how the revenue and expenditure forecasts of Government are inconsistent with each other.

<sup>21</sup> Imputed employers’ contributions arise when the benefit that an employee receives (or is expected to receive) is larger than the actual contributions made by the employee and the employer. The imputed contributions are the estimated gap between the employee’s estimated benefit and the actual contributions made. The cost of this imputed benefit is attributed to the employer, as it is the employer that bears the risk in providing this additional benefit, over and above the actual contributions made. In the government accounts, the imputed employers’ contributions should “net out” with an equal amount included on both the revenue and expenditure side. The cost of the imputed contribution is treated as government expenditure on compensation of employees. This expenditure is matched by an equal value of social contributions from households, which the Government receives on the revenue side.

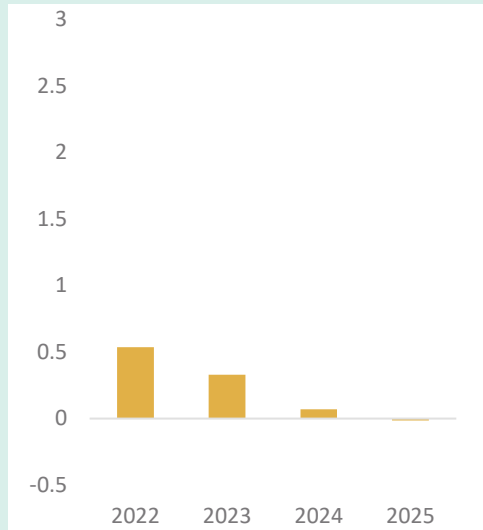
<sup>22</sup> The scale of this forecast error cannot realistically be attributed to base effects. At the time *Budget 2023* forecasts were compiled the *Government Finance Statistics (GFS) Q1 2022* release was available. The figures contained in that release for social contributions for 2021 broadly match those in the most recent *GFS* release for 2021 (revision of less than €0.1 billion). Typically, there would be two quarters of in-year *GFS* data available at Budget time. However, as *Budget 2023* was brought forward by two weeks, figures were only available for the first quarter of 2022. The figures for Q1 2022 have been revised up by only €0.15 billion in the most recent *GFS* release, relative to those available at budget time. This revision is not of a scale to explain the €1.5 billion forecast error for social contributions for the full year.

Both the government employee contributions and the imputed employer contributions make up a part of government expenditure on compensation of employees. As a result, any forecast error in government employee contributions and imputed employer contributions should also lead to a forecast error in government compensation of employee expenditure.

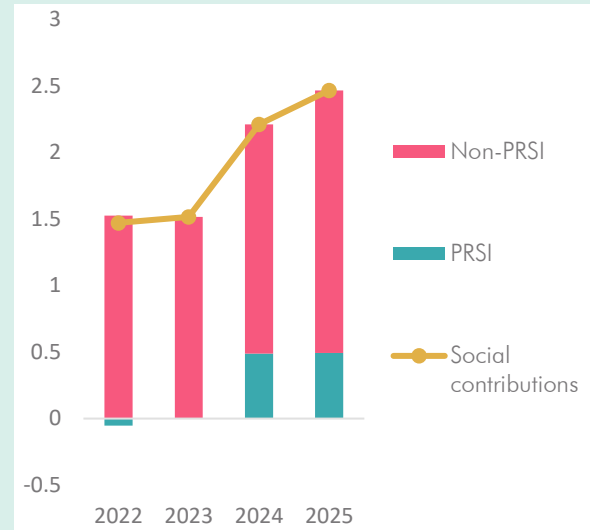
However, the forecast error for government compensation of employees was €0.5 billion, a third of the forecast error of non-PRSI social contributions (Figure C2.A). These forecast errors point to inconsistencies in the Government’s fiscal forecasts.

**Figure C2: Revisions point to inconsistencies in fiscal forecasts**

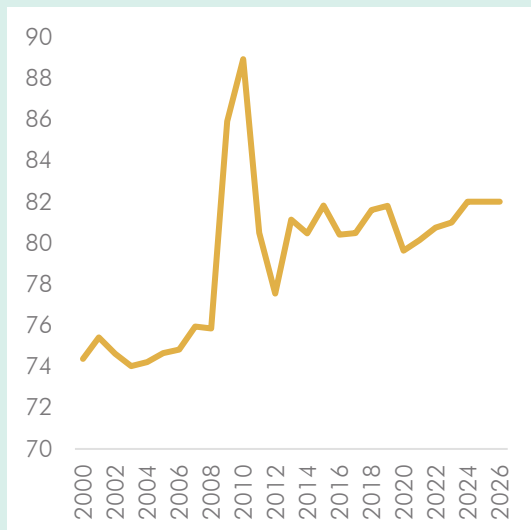
**A. Revision to public sector pay**  
€ billion, SPU 2023 vs Budget 2023



**B. Revision to social contributions**  
€ billion, SPU 2023 vs Budget 2023



**C. Ratio of actual contributions to total contributions**  
Ratio of (D611 + D613) to D61, SPU 2023



**D. Government employee pension contributions**  
€ billion, SPU 2023



Sources: CSO, Department of Finance and Fiscal Council workings. [Get the data.](#)

Notes: In panel B, estimates of PRSI receipts are based on cash receipts. Non-PRSI receipts cover accruals, imputed employer contributions, and government employee contributions. Panel D shows the implied forecast of government employees’ pension contributions. This is arrived at by assuming that general government PRSI receipts grow in line with cash PRSI receipts over the forecast horizon.

The Department’s current methodological approach to forecasting social contributions assumes that over the forecasting horizon, the ratio of actual social contributions (PRSI and Government employee pension contributions) to total social contributions (actual contributions plus imputed employer contributions)

remains broadly consistent with the recent historical data. Figure C2.C shows the ratio of actual social contributions to total social contributions since 2000.

Using this methodological approach can lead to implausible forecasts. Figure C2.D shows the implied forecasts for government employee's pension contributions based on this approach. The value of government employee's pension contributions is forecast to be lower in 2026 than it was in 2021. This is implausible given public sector pay growth and an increase in the numbers working in the public sector expected over this period.

From a methodological perspective, there is limited justification to assume that the ratio of actual social contributions to total social contributions would remain relatively constant. PRSI received by Government (which makes up most of actual social contributions) is based on economy-wide wages and salaries, whereas the non-PRSI component relates solely to government decisions on public sector pay, pensions and pension contributions. In addition, PRSI receipts are highly cyclical in contrast to public sector pay which would tend to fluctuate less. Any policy changes to PRSI rates would also alter this relationship. A more appropriate methodology would relate the non-PRSI social contributions forecasts to the government expenditure forecasts of compensation of employees, to ensure that these are fully consistent.<sup>23</sup>

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<sup>23</sup> There should be an equal amount of imputed employer contributions included on the expenditure side of the government accounts as there is on the revenue side of the accounts. This would not be the case under the Department's current forecasting approach—with separate forecasting approaches used on the revenue and expenditure side for this component—implying a violation of national accounting identities in the Department's forecasts. This is evident in the revisions to the forecasts in Figures C2.A and C2.B.