



**Irish Fiscal
Advisory Council**

Supporting Information

Fiscal Assessment Report

December 2023

This is a companion release to the Fiscal Assessment Report. It provides additional technical information and analysis not contained in the Council's main report. Much of this analysis feeds into various parts of the Council's mandate and its assessments.

S1 Decomposing official tax forecasts

This section examines the Government's official forecasts for its main tax heads.

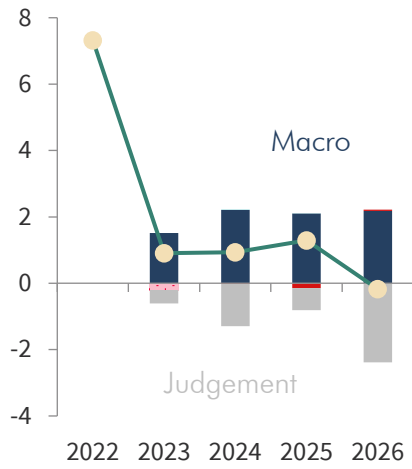
We decompose the projected yearly changes in tax receipts to better understand how the forecasts are arrived at. Annual changes in taxes are attributed to a number of components:

- 1) "macro" is the part of the forecast driven by growth in the relevant macro driver (such as wage growth, recognising the sensitivity of income tax growth to this driver)
- 2) "one-offs" — non-recurring items that effect expected receipts
- 3) "policy" changes, such as tax cuts or tax increases. For PAYE and USC, this does not include the yield from higher wages.
- 4) "warehousing" the net impact of warehousing of taxes from 2020 - 2022, with repayments from 2022-2026.
- 5) "carryover" effects — policy impacts carried over from previous years
- 6) "other" — other potential elements affecting the forecasts, including judgment applied by the Department of Finance. It is calculated as the difference between the Fiscal Council's internal forecasting exercise and the Department of Finance's own forecasts.

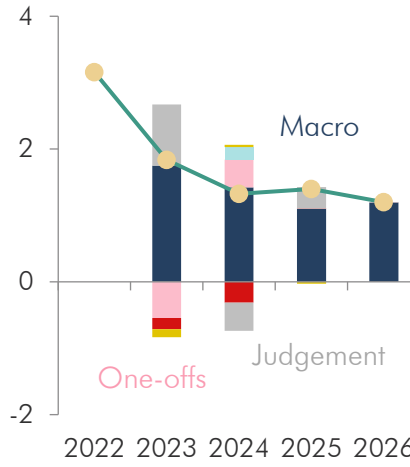
Nº1 **How the official tax forecasts are constructed**

€ billion, year to year changes

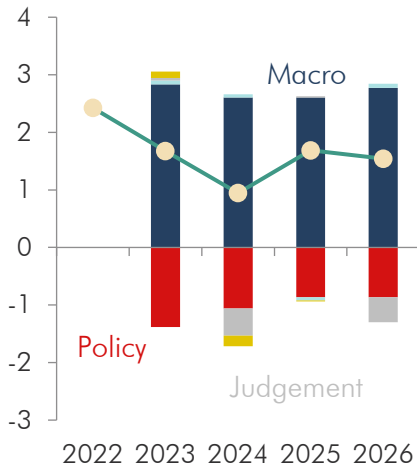
Corporation tax



Value Added Tax



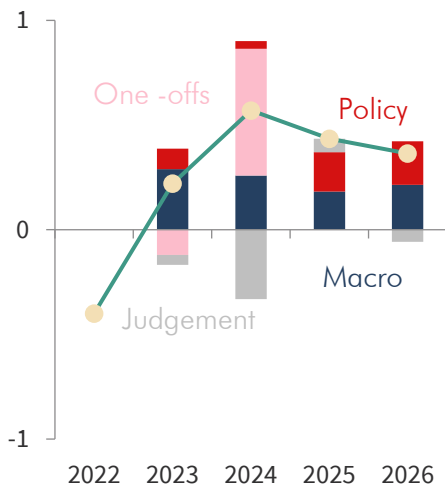
Pay-as-you-earn income tax



Universal social charge

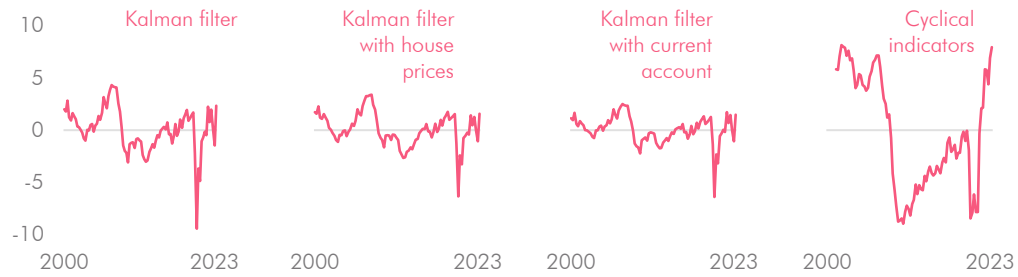


Excise duties



S2 Cyclical indicators

This section shows the output gap estimates from the Council's suite of models.



Note that the modified current account is used and adjusted to exclude windfall corporation tax receipts.

S3 Fiscal risks

This section outlines the major risks envisaged for the Government’s official budgetary forecasts. The risks shown are primarily those noted in Budget 2024, but with some additional risks identified by the Council.

Nº2 Fiscal Risks Matrix

Likelihoods and impacts are as assessed by the Council

| Likelihood | Impact | |
|------------|--------|--|
| High | High | Humanitarian assistance. Budget 2024 does not provide for expenditure beyond 2024. Spending in this area is expecting to be around €2.5 billion in 2023 and 2024. The Council assesses this risk to be of high likelihood and high impact. |
| High | High | Health overruns. An overrun of over €1 billion is likely this year. This has not been factored into official forecasts. In addition, the increase in health spending forecast for next year is short of what would be required to maintain existing service levels. In the longer term, Sláintecare reforms could also add significant costs. This risk is added by the Council. |
| High | Medium | Corporation tax: policy change. Adverse impacts of a changing international environment could be substantial. However, <i>Budget 2024</i> forecasts already incorporate a significant impact (€2 billion) in 2026. <i>Budget 2024</i> forecasts do not incorporate any additional revenue from introducing a higher rate of corporation tax (15%) on firms with a global turnover in excess of €750 million. As a result, a medium impact may be more appropriate over the forecast horizon considered. |
| High | Medium | Climate change and renewable energy targets. Casey and Carroll (2023) outline the implications of transitioning to a low carbon economy for the public finances. Both lower revenue and higher spending would be implied by this transition. These costs are increase significantly after 2026. As a result, the Council assesses this risk to be medium impact over the <i>Budget 2024</i> forecast horizon (2023-2026). |
| High | Medium | Population ageing. There is a risk that the costs of ageing could be larger than allowed for under <i>Budget 2024</i> forecasts. Stand-Still costs in the coming years are significant, due to population ageing as well as inflation. |
| High | Low | Other spending pressures/overruns. Some obvious spending pressures have not been budgeted for. For example, the Christmas Bonus has not been budgeted for 2024 or beyond, despite having been paid in every year since 2014. This risk is added by the Council. |
| Low | High | Corporation tax: concentration risk: As has been previously documented, corporation tax revenue is concentrated amongst a small number of payers. Firm specific factors (or factors that impact on a number of these firms) could have a significant impact on corporation tax receipts. |
| Medium | Medium | Cost overruns in capital projects. Large capital projects in Ireland have a history of significant cost overruns. Given that capacity constraints are already a factor in the construction sector, there is a risk that capital projects exceed their projected cost. This risk is added by the Council. |
| Medium | Medium | Litigation or one-off measures. Any unexpected litigation against the state could lead to additional expenditure. Redress schemes, while inherently one-off in nature could have significant costs (waiting on further information from DoF/DPER). More frequent extreme weather events could also result in spending on relief schemes. |
| Medium | Low | Borrowing costs. Borrowing conditions have been favourable in recent times. These have since changed and will impact on Irish borrowing costs, particularly given the high debt levels. However, given the low gross financing needs in the coming years, the Council assesses this risk to be low impact within the forecast horizon covered by Budget 2024. |

Sources: Department of Finance (*Budget 2024*); and Fiscal Council assessments.

S4 Fiscal outturns and projections

This section sets out key budget figures on spending, taxes and the budget balance based on recent outturns and Budget 2024 forecasts.

Nº3 Budget 2024 fiscal forecasts

€ billions

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|-------|-------|-------|-------|-------|
| General Government Revenue | 116.1 | 124.9 | 129.6 | 136.0 | 141.0 |
| Income Tax | 30.7 | 33.0 | 34.3 | 36.4 | 38.4 |
| VAT | 18.6 | 20.4 | 21.8 | 23.2 | 24.4 |
| Corporation Tax | 22.6 | 23.6 | 24.5 | 25.8 | 25.6 |
| of which excess | 10.7 | 10.8 | 11.1 | 11.7 | 10.8 |
| PRSI | 14.0 | 15.7 | 16.9 | 18.2 | 19.5 |
| Excise | 5.4 | 5.7 | 6.2 | 6.7 | 7.0 |
| Stamp Duties | 1.8 | 1.8 | 1.8 | 1.7 | 1.8 |
| Other GG Revenue | 22.8 | 24.8 | 24.1 | 24.2 | 24.3 |
| General Government Expenditure | 107.6 | 116.1 | 121.3 | 121.8 | 126.3 |
| Social payments | 37.2 | 39.0 | 40.6 | 41.0 | 41.6 |
| Compensation of employees | 28.8 | 30.3 | 31.5 | 32.1 | 33.3 |
| Intermediate consumption | 17.9 | 19.5 | 19.8 | 18.6 | 19.4 |
| Capital expenditure | 10.1 | 11.6 | 12.8 | 14.4 | 15.9 |
| Interest expenditure | 3.3 | 3.4 | 3.5 | 3.5 | 3.7 |
| Subsidies | 3.3 | 3.2 | 3.1 | 3.2 | 3.3 |
| Other | 7.1 | 9.1 | 10.0 | 8.9 | 9.2 |
| Primary expenditure | 104.2 | 112.8 | 117.8 | 118.3 | 122.6 |
| Current Primary expenditure | 94.1 | 101.1 | 105.0 | 103.9 | 106.7 |
| General Government Balance excluding windfall CT | -2.2 | -2.0 | -2.7 | 2.5 | 3.8 |
| General Government Balance | 8.5 | 8.8 | 8.4 | 14.2 | 14.6 |

Sources: CSO; Budget 2024, and Fiscal Council workings.

Notes: Estimates of windfall corporation tax receipts are the Department of Finance's estimates published in Budget 2024. Estimates of revenue and expenditure one-offs are those judged by the Council.

S5 Fiscal rules

N^o4 Summary fiscal rules assessment^{1, 2, 3, 4, 5, 6}

% of GDP unless otherwise stated. For deviations, negative values = non-compliance

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|-------------|-------------|-------------|-------------|-------------|
| Corrective Arm | | | | | |
| General government balance (% GNI*) ⁴ | 2.9 | 3.0 | 2.7 | 4.4 | 4.4 |
| General government balance | 1.6 | 1.6 | 1.5 | 2.3 | 2.2 |
| General government balance Limit | -3.0 | -3.0 | -3.0 | -3.0 | -3.0 |
| General government debt (% GNI*) ⁴ | 82.3 | 76.1 | 72.3 | 68.4 | 64.8 |
| General government debt | 44.4 | 41.4 | 38.6 | 35.8 | 33.3 |
| 1/20th Debt Rule Limit | 60.0 | 60.0 | 60.0 | 60.0 | 60.0 |
| Debt Rule met? | Y | Y | Y | Y | Y |
| Preventive Arm & Domestic Budgetary Rule | | | | | |
| Structural balance adjustment requirement | | | | | |
| MTO for the structural balance | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Structural balance | 0.5 | 0.5 | 0.2 | 0.1 | 0.2 |
| MTO met? | Y | Y | Y | Y | Y |
| Minimum change in structural balance required | | | | | |
| Change in structural balance | 0.3 | 0.1 | -0.3 | -0.1 | 0.1 |
| 1 yr deviation (€ bn) | 4.9 | 5.6 | 4.0 | 3.7 | 4.8 |
| 1 yr deviation (p.p.) | 1.0 | 1.0 | 0.7 | 0.6 | 0.7 |
| 2 yr deviation (€ bn) | 4.0 | 5.2 | 4.8 | 3.9 | 4.3 |
| 2 yr deviation (p.p.) | 0.8 | 1.0 | 0.9 | 0.7 | 0.7 |
| Spending guidance | | | | | |
| (a) Reference rate of potential growth (% y/y) | 2.4 | 2.4 | 2.3 | 2.2 | 2.1 |
| (b) Convergence margin | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (a-b) Limit for real net primary expenditure growth (% y/y) | 2.4 | 2.4 | 2.3 | 2.2 | 2.1 |
| GDP deflator used | 6.6 | 4.1 | 2.4 | 2.0 | 1.9 |
| Limit for nominal net primary expenditure growth (% y/y) | | | | | |
| Net primary expenditure growth (% y/y) | 8.0 | 7.5 | 4.5 | 0.1 | 3.2 |
| Net primary expenditure growth (corrected for one-offs) (% y/y) | 10.7 | 8.5 | 5.8 | 4.9 | 3.4 |
| 1 yr deviation (corrected for one-offs) (€ bn) | -1.3 | -1.9 | -1.1 | -0.8 | 0.8 |
| 1 yr deviation (corrected for one-offs) (% GNI*) | -0.5 | -0.6 | -0.4 | -0.2 | 0.2 |
| 2 yr deviation (corrected for one-offs) (€ bn) | -1.8 | -1.6 | 0.7 | -1.0 | 0.0 |
| 2 yr deviation (corrected for one-offs) (%GNI*) | -0.7 | -0.6 | 0.2 | -0.3 | 0.0 |
| Limit for nominal net primary expenditure growth (€bn) | | | | | |
| Net primary expenditure increase (€bn) | 7.6 | 7.7 | 5.0 | 0.1 | 3.8 |
| Net primary expenditure increase (corrected for one-offs) (€bn) | 9.2 | 8.1 | 6.2 | 5.5 | 4.0 |
| Current Macroeconomic Aggregates | | | | | |
| Real GDP growth (% y/y) | 9.4 | 2.0 | 4.5 | 4.5 | 4.4 |
| Potential GDP growth (% y/y) | 3.3 | 1.9 | 2.4 | 2.1 | 2.0 |
| Output gap | 1.1 | 0.9 | 0.7 | 0.7 | 0.7 |
| GDP deflator used (% y/y) | 6.6 | 4.1 | 2.4 | 2.0 | 1.9 |

Sources: CSO; Department of Finance; and Fiscal Council workings.

Notes: ¹ All figures are presented on a general government basis. Assessments examine the *Budget 2024* revenue and expenditure plans, using the Council's principles-based approach to the Domestic Budgetary Rule and considering the Council's views on one-off/temporary measures and on Discretionary Revenue Measures. Potential output and output gap estimates are taken from *Budget 2024*. For more information on the Council's principles-based approach see N^o5 and [Box A](#) of the Fiscal Council's Ex-post Assessment of Compliance with the Domestic Budgetary Rule 2018 (Fiscal Council, 2019a). The MTO is assumed constant at -0.5% of GDP for each year. ² The 1/20th Debt Rule requires that the debt-to-GDP ratio should make annual progress toward the reference value of 60% of GDP. Once the debt-to-GDP ratio falls below 60%, the requirement is to maintain a ratio below 60%.³ Exceptional circumstances exist for 2022–2023. Therefore, deviations from the requirements for these years are allowed. ⁴ The general government balance and general government debt are shown here as a % of GNI* for reference purposes only. Legal compliance with the corrective arm of the SGP is assessed based on GDP ratios. ⁵ Figures in red indicate a significant deviation from the limit. Figures in amber indicate some deviation from the limit. ⁶ From 2024, the Expenditure Benchmark is replaced by the maximum growth rate in nationally financed net primary expenditure.

The Council's principles-based approach to the Budgetary Rule

| Criteria | Fiscal Council Approach | European Commission Approach |
|--|--|---|
| Potential Output and the Output Gap | The Department's GVA-based estimates of potential output and the output gap. | The European Commission's own CAM-based estimates of potential output and the output gap. |
| Reference Rate for Expenditure Benchmark | Based on the Department's latest estimates of GVA-based potential output growth (i.e. not frozen). | Based on the European Commission's CAM-based estimates of potential output, frozen in spring of year $t-1$. No reference rate is set for $t+2$ or later years. |
| Deflator for Expenditure Benchmark | Based on the Department's latest estimates of the demand-side GVA deflator (i.e. not frozen). | Based on the European Commission's estimates of the GDP deflator, frozen in spring of year $t-1$. |
| Adjustment Requirement and Convergence Margin | Based on the latest estimates of distance from the MTO in year $t-1$ (i.e. not frozen). No negative convergence margin applied. | Based on the European Commission's estimates of distance from the MTO that are frozen in either spring or autumn of year $t-1$ (whichever is more favourable). For ex-post assessment, requirements can be unfrozen in spring of year $t+1$ if these are more favourable in terms of compliance. Negative convergence margin allowed. |
| NAWRU | Assumed constant at 5.5%. | The Commission's latest CAM-based estimates of the NAWRU. |
| Margin of Tolerance | No margin of tolerance. | 0.25% of GDP from the MTO. |
| Significant Deviation from the Expenditure Benchmark | 0.5% and 0.25% of GNI* for 1-year and 2-year assessment respectively. | 0.5% and 0.25% of GDP for 1-year and 2-year assessment respectively. |
| Budgetary Semi-Elasticity | 0.52 | 0.522 |

Note: For a full explanation of the Council's Principles-based Approach (PBA) to the Domestic Budgetary Rule see [Box A](#) of Ex-post assessment of compliance with the Domestic Budgetary Rule 2018 (Fiscal Council, 2019a) and [Box M](#) of the November 2019 Fiscal Assessment Report (Fiscal Council, 2019b). As of *Budget 2022*, the Department's preferred measure of the output gap is based on their GVA based models. As a result, the Council's Principles-based Approach is now based on this preferred measure of the output gap. From 2024, the Expenditure Benchmark will be replaced by a maximum growth rate of nationally financed net primary expenditure (see Box J of the Fiscal Assessment Report).

S6 Council's Benchmark projections

Below is a summary of the Council's Benchmark projections, which were an input to its endorsement exercise. The Council finalised these projections on Thursday 14th September before receiving the Department of Finance's preliminary forecasts.

N^o6 Council's Benchmark projections

% change in volumes unless otherwise stated

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Demand | | | | | | | | | |
| GNI* ^a | 5.3 | 4.7 | 2.5 | 1.8 | 2.0 | 2.3 | 2.2 | 2.3 | 2.1 |
| ...of which (p.p. contributions) | | | | | | | | | |
| Modified domestic demand ^b (p.p.) | 8.2 | 1.8 | 0.8 | 1.8 | 2.6 | 2.7 | 2.4 | 2.3 | 2.0 |
| CA* (p.p.) | -6.2 | -0.7 | 2.5 | 0.0 | -0.6 | -0.4 | -0.3 | 0.0 | 0.1 |
| Other, incl. stocks (p.p.) | 3.2 | 3.6 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Modified domestic demand ^a | 9.6 | 2.0 | 0.9 | 2.1 | 3.0 | 3.1 | 2.8 | 2.6 | 2.2 |
| Consumption | 9.6 | 2.8 | 2.4 | 2.5 | 2.4 | 2.3 | 2.2 | 2.3 | 2.1 |
| Government | 3.5 | 1.7 | 1.4 | 0.1 | 1.0 | 2.4 | 2.4 | 2.4 | 2.4 |
| Modified investment ^a | 15.9 | 0.3 | -3.7 | 3.2 | 6.5 | 5.9 | 4.5 | 3.4 | 2.3 |
| CA* | -61.2 | -20.0 | 87.1 | -0.6 | -12.2 | -8.9 | -7.1 | 0.5 | 2.8 |
| Supply | | | | | | | | | |
| Potential output | 4.7 | 4.0 | 5.0 | 2.8 | 2.5 | 2.4 | 2.2 | 2.2 | 2.0 |
| Output gap (% potential output) | 2.9 | 3.4 | 1.1 | 0.6 | 0.4 | 0.3 | 0.3 | 0.4 | 0.3 |
| Labour Market | | | | | | | | | |
| Labour force | 1.9 | 3.0 | 1.9 | 1.5 | 1.2 | 1.1 | 0.9 | 0.8 | 0.6 |
| Employment | 12.5 | 3.7 | 1.8 | 1.4 | 1.2 | 1.1 | 0.8 | 0.6 | 0.6 |
| Unemployment rate (% labour force) | 4.8 | 4.2 | 4.4 | 4.5 | 4.5 | 4.5 | 4.6 | 4.7 | 4.7 |
| Prices | | | | | | | | | |
| HICP | 8.0 | 5.8 | 3.3 | 2.5 | 2.1 | 1.9 | 1.7 | 2.0 | 2.0 |
| Personal consumption deflator | 6.1 | 6.0 | 4.1 | 3.2 | 2.9 | 2.6 | 2.5 | 2.3 | 2.3 |
| GNI* deflator | 10.8 | 5.2 | 3.7 | 2.4 | 2.3 | 2.3 | 2.2 | 2.0 | 2.0 |
| Other | | | | | | | | | |
| Nominal GNI* | 16.7 | 10.2 | 6.2 | 4.2 | 4.4 | 4.6 | 4.4 | 4.4 | 4.1 |
| Nominal GNI* (€ billion) | 272.2 | 299.9 | 318.7 | 332.2 | 346.7 | 362.8 | 378.7 | 395.2 | 411.3 |
| CA* (% GNI*) | 6.9 | 8.8 | 10.7 | 10.3 | 9.4 | 8.7 | 8.2 | 7.9 | 7.7 |
| Savings ratio | 12.4 | 10.7 | 9.9 | 9.2 | 8.5 | 8.3 | 8.3 | 8.2 | 8.5 |

^a Modified (final) domestic demand and modified investment exclude aircraft for leasing and research and development service imports and trade in intellectual property.

^b Modified contributions to real GNI* growth rates in percentage points.