Irish Fiscal Advisory Council

Supporting Information

Fiscal Assessment Report

June 2024

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.

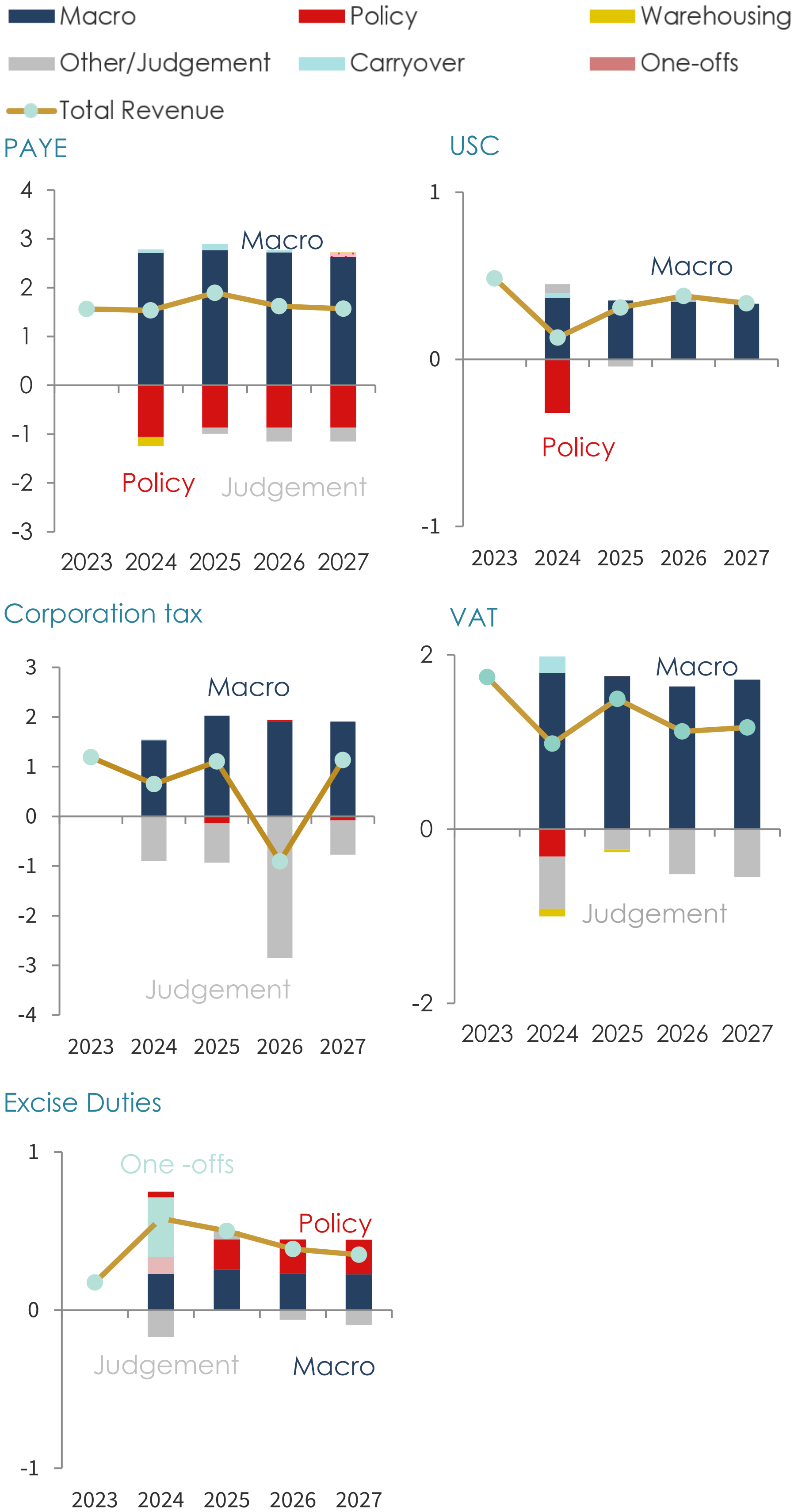
4) "warehousing" the net impact of warehousing of taxes from 2020 - 2022, with repayments from 2022-2027.

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.

N°1 Tax forecasts decomposed

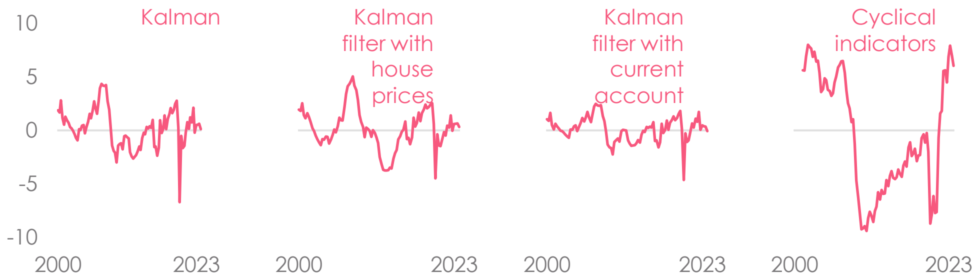
€ billion, year-on-year change



Sources: Department of Finance; and Fiscal Council workings.

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. Macro-fiscal risks

This section outlines the major risks envisaged for the Government's official economic and budgetary forecasts. The risks shown are primarily those noted in *SPU 2024*, but with additional risks identified by the Council.

Nº2 Macroeconomic risks matrix

Likelihoods and impacts are as assessed by the Council

Likelihood	Impact	
High	High	**Inappropriate Fiscal policy.** A fiscal policy which is too expansionary would be bad for the Irish economy. The Irish economy is already operating at or above capacity. Adding to demand via budgetary policy would add to price pressures and increase the risk of the economy overheating. This risk is added by the Council.
Medium	High	**Further energy shocks**: Further supply shocks would impact on energy costs in Ireland, given the high import content of energy in Ireland.
High	Medium	**Inappropriate monetary policy**: With monetary policy likely to become looser in the coming years, this could add to overheating dangers in Ireland. The Council assesses this risk to be high likelihood and medium impact.
High	High	**Loss of competitiveness**: Infrastructural deficits could damage competitiveness, particularly deficits in the housing stock. In addition, were real wages to outpace productivity growth, that would mean a loss in competitiveness. The Council assess a high likelihood to this risk.
Low	High	**Sector-specific shock**: Given how important a small number of firms are to Irish output and tax receipts, shocks to particular sectors or firms could have an outsized impact for Ireland.
Medium	Medium	**Weak external demand.** Given the open nature of the Irish economy, weaker external demand could lead to weaker growth in Ireland.
Medium	Medium	**Escalation of geopolitical tensions**: Supply chain disruptions could have a significant impact on activity in Ireland.
Medium	Medium	**Multinational firms**. Value added by multinationals could be higher than assumed in *SPU 2024*. The Council assesses this risk to be medium likelihood and impact.
Medium	Medium	**Higher migration.** Higher migration would imply stronger labour supply. This could add to employment and reduce some of the pressure in a tight labour market.
Medium	Medium	**Higher housing supply.** Stronger housing output would help address the existing shortfall, which may already be a drag on economic activity.
Medium	Medium	**Faster than expected fall in inflation.** A faster fall in inflation would help facilitate stronger real consumption growth.
Low	Medium	**Digitalisation / Artificial Intelligence**: AI could have a significant impact, but it is uncertain if the overall impact will be positive or negative for Ireland. The Council assesses this risk to be low probability over the *SPU 2024* forecast horizon.
Low	Low	**Disorderly adjustment in China**: The overhang of imbalances in the Chinese economy could result in spillovers and lower demand.
Low	Low	**Normalisation of savings ratio.** Were the savings rate to fall more rapidly than assumed in *SPU 2024*, this would imply higher consumption or investment by households. Given the savings rate has already fallen significantly, the Council assesses this risk to be low likelihood and low impact.

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

Nº3 Fiscal risks matrix

Likelihoods and impacts are as assessed by the Council

Likelihood	Impact	
High	High	**Humanitarian assistance measures:** Refugee flows have become quite large in recent years. There is a risk that with continued large flows there could be a significant increase in public expenditure to provide the necessary assistance to these refugees.
High	High	**Health spending overruns.** Health spending is likely to be well above budgeted levels this year. This is likely to carry into later years. This risk is added by the Council.
High	Medium	**Corporation tax: policy change.** SPU 2024 incorporates a €2 billion negative impact of BEPS reforms. However, BEPS pillar I, which would reduce Irish corporation tax revenue seems unlikely to come into force over the *SPU 2024* forecast horizon. By contrast BEPS pillar II reforms would increase corporation tax receipts in Ireland. The Council assesses that this risk is an upside risk, unlike *SPU 2024*.
High	Medium	**Climate change and renewable energy targets.** *SPU 2024* forecasts do not incorporate the likely fiscal implications of climate change**.**
High	Medium	**Ageing population:** There is a risk that the costs of ageing could be larger than allowed for under SPU 2024 forecasts. Stand-Still costs in the coming years are significant, due to population ageing as well as inflation.
High	Medium	**Cost overruns in capital projects.** As section 2.4 outlines, there have already been significant delays in the number of capital projects completed. Further overruns could absorb more resources leading to more delays in completing necessary infrastructure projects. This risk is added by the Council.
Medium	Low	**Borrowing costs**. While borrowing costs have increased in recent years, Ireland has relatively small amount of refinancing needs over the coming years. Increases in debt servicing costs are likely to increase slowly. As a result, the Council assesses this risk to be low impact over the *SPU 2024* forecast horizon.
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. On the upside, fines from the Data Protection Commission could result in windfall revenues.
Low	High	**Corporation tax: concentration risk.** Given approximately 43% of corporation tax receipts come from just 3 corporate groups in 2022, firm or sector specific shocks could have a significant impact on receipts in Ireland.

Sources: Department of Finance (*SPU 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 *SPU 2024* forecasts.

N°4 SPU 2024 fiscal forecasts

€ billions

	2023	2024	2025	2026	2027
General Government Revenue	123.7	130.2	137.3	141.9	148.7
Income tax	32.9	34.8	36.9	39.0	41.0
VAT	20.3	21.3	22.8	23.9	25.1
Corporation tax	23.8	24.5	25.6	24.7	25.8
of which excess	11.2	11.2	11.5	9.9	10.3
PRSI	15.5	16.8	18.1	19.5	21.0
Excise	5.6	6.2	6.7	7.1	7.4
Stamp duties	1.8	1.7	1.7	1.8	1.9
Other general government revenue	12.5	13.7	13.9	15.9	16.1
General Government Expenditure	115.4	121.6	127.5	133.1	137.9
Social payments	39.8	42.0	44.2	45.8	47.6
Compensation of employees	31.1	33.0	34.6	36.3	38.1
Intermediate consumption	19.0	19.2	19.4	19.7	20.0
Capital expenditure	11.8	13.2	15.0	16.6	17.0
Interest expenditure	3.5	3.4	3.3	3.5	4.0
Subsidies	2.5	2.6	2.6	2.6	2.6
Capital transfers	2.2	2.5	2.5	2.5	2.4
Other	5.5	5.8	5.9	6.1	6.4
Primary expenditure	111.9	118.2	124.2	129.6	133.9
Current primary expenditure	100.1	105.1	109.3	113.1	117.0
General Government Balance excl. windfall corporation tax	-2.9	-2.6	-1.8	-1.2	0.4
General Government Balance	8.3	8.6	9.7	8.7	10.7

Sources: CSO; Department of Finance, and Fiscal Council workings.
Notes: Estimates of windfall corporation tax receipts are the Department of Finance's estimates published in *SPU 2024*. Other general government revenue includes accrual adjustments.

S5. 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 21st March before receiving the Department of Finance's preliminary forecasts.

Nº5 Council's benchmark projections

% change in volumes unless otherwise stated

	2022	2023	2024	2025	2026	2027	2028	2029	2030
Demand									
GNI*[a]	5.5	3.2	4.4	3.6	3.4	2.7	2.6	2.3	2.1
...of which (p.p. contributions)									
Modified domestic demand[b] (p.p.)	8.3	0.5	1.6	1.9	2.9	2.7	2.6	2.4	2.2
CA* (p.p.)	-6.1	-1.6	2.8	1.7	0.5	0.0	0.0	-0.1	-0.1
Other, incl. stocks (p.p.)	3.3	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Modified domestic demand[a]	9.6	0.5	1.8	2.2	3.4	3.2	3.1	2.8	2.6
Consumption	9.6	3.2	2.7	3.1	2.9	2.6	2.5	2.4	2.3
Government	3.5	1.5	2.3	1.5	1.8	1.7	2.0	2.0	2.0
Modified investment[a]	15.9	-7.1	-1.2	0.7	7.0	6.4	6.0	4.6	3.7
CA*	-64.0	-49.9	175.3	40.9	8.2	-0.3	0.0	-2.5	-2.0
Supply									
Potential output	1.1	2.1	7.5	3.8	3.0	2.8	2.6	2.3	2.1
Output gap (% potential output)	2.5	3.7	0.5	0.4	0.8	0.8	0.8	0.8	0.7
Labour Market									
Labour force	2.1	3.1	2.1	1.6	1.2	1.1	0.9	0.9	0.8
Employment	12.8	3.7	2.1	1.6	1.2	1.0	1.0	0.8	0.8
Unemployment rate (% labour force)	4.8	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Prices									
HICP	8.1	5.2	2.0	1.7	2.1	1.9	1.9	1.9	1.9
HICP ex energy and food	5.0	5.2	3.3	2.7	2.4	2.1	2.1	2.0	2.0
Personal consumption deflator	6.1	6.9	2.8	2.6	2.8	2.6	2.5	2.5	2.5
GNI* deflator	11.1	1.5	2.3	2.0	2.4	2.4	2.3	2.3	2.3
Other									
Nominal GNI*	17.2	4.7	6.8	5.7	5.8	5.2	5.0	4.6	4.5
Nominal GNI* (€ billion)	273.2	286.1	305.7	323.0	341.7	359.3	377.5	395.0	412.6
Modified current account (% GNI*)	7.2	3.4	5.2	6.3	6.3	6.1	5.8	5.5	5.3
Savings ratio	12.4	11.1	11.0	10.3	9.6	9.4	9.1	8.5	8.4

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.

S6. Fiscal rules

N°6

Summary fiscal rules assessment[1, 2, 3, 4, 5]

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

	2023	2024	2025	2026	2027
Corrective Arm					
General government balance (% GNI*)[3]	2.9	2.8	3.0	2.6	3.0
General government balance	1.7	1.6	1.7	1.5	1.7
General government balance Limit	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
General government debt (% GNI*)[3]	75.9	72.1	69.7	67.4	66.0
General government debt	43.7	41.5	39.5	37.8	36.7
Debt-to-GDP ratio Limit	**60.0**	**60.0**	**60.0**	**60.0**	**60.0**
Debt-to-GDP ratio < 60%	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	-0.6	-0.4	-0.6	-0.5	-0.3
MTO met?	N	Y	N	Y	Y
Minimum change in structural balance required	**0.0**	**0.1**	**0.0**	**0.1**	**0.0**
Change in structural balance	-0.2	0.2	-0.2	0.1	0.2
1yr deviation (€ bn)	-0.4	0.4	-0.8	0.0	1.2
1yr deviation (p.p.)	-0.1	0.1	-0.1	0.0	0.2
2yr deviation (€ bn)	0.1	0.0	-0.2	-0.4	0.6
2yr deviation (p.p.)	0.0	0.0	0.0	-0.1	0.1
Spending guidance					
(a) Reference rate of potential growth (% y/y)	3.0	2.9	2.8	2.8	3.0
(b) Convergence margin	0.0	0.4	0.0	0.6	0.0
(a-b) Limit for real net primary expenditure growth (% y/y)	3.0	2.5	2.8	2.1	3.0
GDP deflator used	3.0	2.7	2.3	2.2	2.1
Limit for nominal net primary expenditure growth (% y/y)	**6.1**	**5.3**	**5.2**	**4.4**	**5.1**
Net primary expenditure growth (% y/y)	7.7	4.9	4.8	3.8	3.1
Net primary exp. growth (corrected for one-offs) (% y/y)	11.3	6.5	7.5	3.8	3.1
1yr deviation (corrected for one-offs) (€ bn)	5.0	-1.2	-2.6	0.7	2.6
1yr deviation (corrected for one-offs) (%GNI*)	1.7	-0.4	-0.8	0.2	0.7
2yr deviation (corrected for one-offs) (€ bn)	2.6	1.9	-1.9	-0.9	1.6
2yr deviation (corrected for one-offs) (%GNI*)	0.9	0.7	-0.6	-0.3	0.5
Limit for nominal net primary expenditure growth (€bn)	**5.8**	**5.7**	**6.0**	**5.4**	**6.6**
Net primary expenditure growth (€bn)	8.0	5.5	5.6	4.7	4.0
Net primary expenditure growth (corrected for one-offs) (€bn)	10.8	7.0	8.6	4.7	4.0
Current Macroeconomic Aggregates					
Real GDP growth (% y/y)	-3.2	2.6	3.9	3.5	3.6
Potential GDP growth (% y/y)	2.3	2.7	2.3	2.2	2.2
Output gap	2.2	1.3	0.6	0.6	0.7
GDP deflator used (% y/y)	3.0	2.7	2.3	2.2	2.1

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

Notes: [1] All figures are presented on a general government basis. Assessments examine the *SPU 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 *SPU 2024*. For more information on the Council's principles-based approach see N°7 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] Exceptional circumstances existed for 2023. Therefore, deviations from the requirements during this year are allowed. [3] 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 Stability and Growth Pact is assessed based on GDP ratios. [4] Figures in red indicate a significant deviation from the limit. Figures in amber indicate some deviation from the limit. [5] From 2024, the Expenditure Benchmark is replaced by the maximum growth rate in nationally financed net primary expenditure.

S7. Council's principles-based approach

N°7 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 maximum growth rate in nationally financed net primary expenditure	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 maximum growth rate in nationally financed net primary expenditure	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 4.75%.	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
Windfall corporation tax receipts	Windfall corporation tax receipts are excluded. *SPU 2024* figures are used for 2022-2027. Fiscal Council estimates are used for 2015-2021.	No adjustment is made for windfall corporation tax receipts.

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 G of the Fiscal Assessment Report). As of *SPU 2024*, the principles-based approach excludes windfall corporation tax receipts when assessing compliance with the Structural Balance Rule.