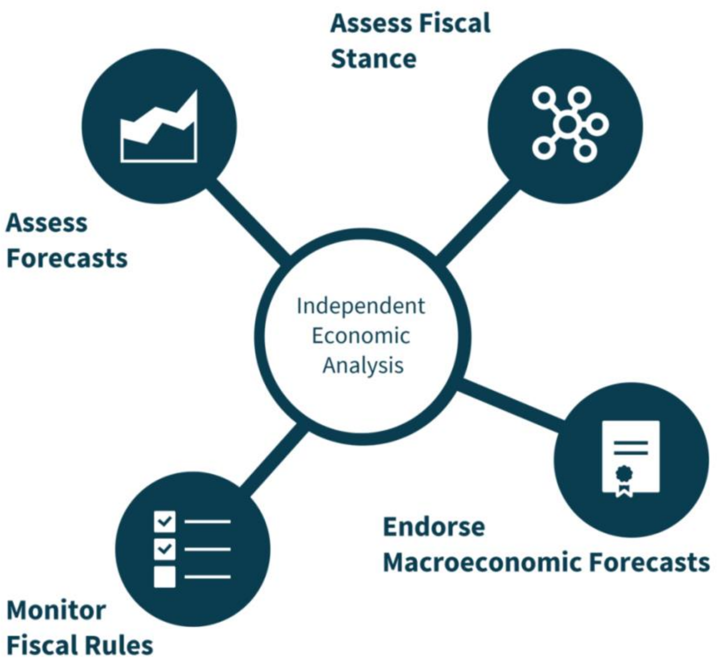
Meeting between the Committee on Budgetary Oversight and the Irish Fiscal Advisory Council

Opening Statement by Mr Seamus Coffey, Chair of the Irish Fiscal Advisory Council, Wednesday 11th September 2019

The Council would like to thank the Chair and members of the Committee for inviting us to meet with them to publicly discuss our *Pre-Budget 2020 Statement*, which has just been published today. Joining me are Mr Michael Tutty and Dr Martina Lawless (both Council members), and Dr Eddie Casey (Chief Economist and Head of the Secretariat). Members of the Council's Secretariat are also present: Mr Kevin Timoney, Ms Ainhoa Osés Arranz, and Mr Killian Carroll. We continue to value these engagements.

It is important to note that the Council's mandate does not cover commenting on the choice of individual tax measures or spending items/priorities, but rather to comment on the overall fiscal stance.

The Council's Mandate:



Our report's assessment is based on:

- First, an economic analysis, which assesses the appropriateness of the fiscal stance in terms of the principles of sound economic and budgetary management; and

- Second, an assessment of whether the Government's fiscal plans are in line with the requirements of the budgetary framework.

Starting with the macroeconomic context, the Council assesses that the domestic economy continues to perform strongly and even risks overheating. Yet the international economic outlook has deteriorated in recent months. While the situation is volatile and evolving, risks of a hard Brexit are high.

Ireland's net debt ratio is the sixth highest in the OECD at close to 90 per cent of national income. And the pace of government spending increases has been fast in recent years, accelerating from 4.9 per cent in 2015 to 6.7 per cent in 2018. This partly reflects large in-year spending increases over and above what had been budgeted for, including in Health.

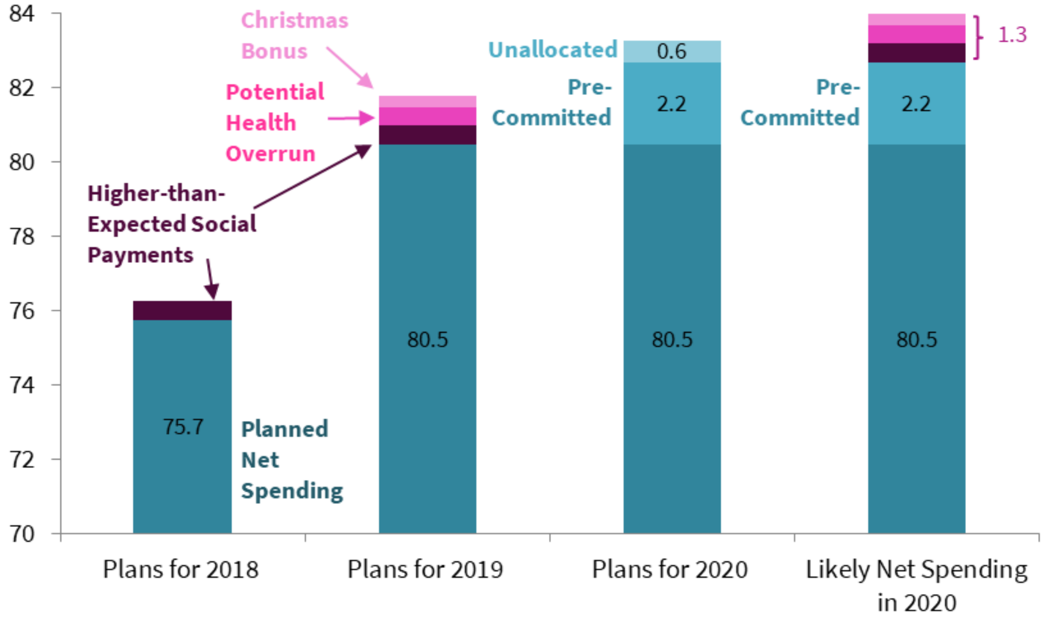
In recent years, Government revenues have been boosted by unexplained corporation tax and a strong bounce back in the economy. These gains are likely to prove temporary. Corporation tax receipts accounted for a record 18.7 per cent of taxes in 2018 and carry a lot of risks. Recognising these temporary gains, the underlying budget balance would appear to have deteriorated since 2015.

Further spending slippages are likely to happen again in 2019. Another Health overrun, the payment of the Christmas bonus, and underestimated social payments could mean spending €1.3 billion higher than previously budgeted this year.

These potential slippages are set out in Figure 15 of our report:

Slippages may exceed planned spending increases

€ billions, general government net policy spending levels



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

The Council is of the view that repeating the pattern of slippages would be inappropriate. It could add to further overheating pressures and reduce scope for budgetary policy to support the economy in future.

The Government must deliver on its spending plans for 2019. If spending overruns occur, the Government should find offsetting savings in other areas. It should not rely on further surges in corporation tax receipts, which could prove unsustainable, to fund slippages.

For 2020, the Government should stick to its plans for a €2.8 billion budgetary expansion compared to the planned 2019 level. This would mean a budget day package of €0.6 billion, given that €2.2 billion is already pre-committed.

The €2.8 billion expansion would be slightly below the sustainable growth rate of the economy. It would also reflect risks of a disorderly Brexit, the reliance on corporation tax, possibilities of overheating, and the rapid rise in spending between 2017 and 2019. There is a case for more caution given the risks of Brexit and the worsening global outlook. If spending overshoots in 2019, the government should scale back its pre-commitments for 2020.

Brexit could mean severe budgetary costs. A large budget deficit could emerge due to falling taxes and rising unemployment-related costs. This is even before potential customs infrastructure and supports to hard-hit sectors are considered. The Government might need to cut spending or raise taxes to prevent debt ratios from rising. Measures to deal with the costs of a hard Brexit should, however, be accommodated as far as possible.

The Council has repeatedly criticised the Government's medium-term plans for not being credible. The Minister has noted that some of the concerns raised by the Council are being explored. The Government should follow through on indications that it will develop a more credible medium-term plan in time for Budget 2020.