



Key Messages from the Preliminary PBO Review of Budget 2021

Summary of PBO Publication 59 of 2020

Set out below are the key messages from the PBO's Preliminary Review of Budget 2021:

- The macroeconomic forecasts underpinning Budget 2021 incorporate the impact of two main shocks to the Irish economy: COVID-19 and Brexit. GDP is expected to fall by 2.4% in 2020, a large improvement from what was expected in the Stability Programme Update (-10.5%). This reflects the contribution of economic sectors dominated by multinationals' activities (which is also reflected in the trade numbers).
- The General Government Balance is expected to be €21.6 billion in 2020 (6.2% of GDP) and €20.5 billion in 2021 (5.7% of GDP).
- The General Government Debt is expected to reach €239 billion or 114.7% of GNI* (66.6% of GDP) by end 2021.
- There are no forecasts, economic or fiscal for 2022 or beyond. This makes medium term analysis difficult. The Government has committed to medium-term forecasts to be published in April in the Stability Programme Update (SPU). Given the large uncertainty and the potential re-classifications of fiscal measures, Budget 2021 does not include estimates of the structural balance for 2020 and 2021.
- Following the sustained outperformance of the main tax heads throughout 2020, tax revenue is expected to be 14.4% higher for 2020 (at €56.7bn) and 11.4% higher for 2021 (at €60.4bn) than originally expected (as set out in the SPU in April).
- Overall, tax policy changes included in Budget 2021 are projected to result in a net revenue loss of approximately €231m (in a full year).
- The Exchequer Balance has been flattered throughout 2020 by better-than-expected tax receipts, a payment (of €2 billion) from NAMA and a transfer from the Rainy-day Fund (of €1.5 billion). While the criteria for drawing-down from the Rainy-day Fund has been met, the PBO notes that there is no formal mechanism for re-capitalising this Fund. To that end, consideration should be given to how, and when, the Rainy-day Fund might be replenished over time.
- To assist in the scrutiny of tax policy-changes and associated costings, the PBO would welcome the provision of additional information, including multi-annual costings where appropriate, sensitivity or scenario analyses to capture uncertainty, and a methodological note detailing the approach taken to a costing.
- The Budget 2021 Expenditure Report, published today, sets out spending for 2020 of €87.1 billion. Spending this year may therefore increase by a further €2.5 billion compared to what was allocated pre-Budget.



- The Expenditure Report sets out that the gross voted spending next year will total €87.8 billion, including COVID-19 spending (€6.4 billion of which has been allocated), an unallocated Covid Contingency Reserve (€2.1 billion) and a Recovery Fund (€3.4 billion). This is therefore an increase of €0.7 billion on the funds available for spending on public services in 2021 (+0.9%) compared to what Government now expects (pending Dáil scrutiny and approval) to be spent in 2020.
- It is unclear how the process to use the unallocated funds will work; whether they will be capital or current spending; and how the Oireachtas will provide oversight. The PBO suggests that when the Government announces initiatives in 2021 which will be financed by these funds, it should set out clearly which expenditure line is getting additional funds and how much of the overall unallocated amount remains.
- The changes in allocations between 2020 and 2021 are not easily identifiable as they are complicated by Estimates yet to come before the Dáil, funding not yet allocated between Departments and COVID-19 / Brexit-specific spending.
- Government Departments are entering into long-term commitments now, by increasing public sector staffing levels in order to improve services during the pandemic.