



An Roinn Caiteachais  
Phoiblí agus Athchóirithe  
Department of Public  
Expenditure and Reform

# Irish Budgetary Framework: The Whole of Year Budget Process

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# 1

# Irish Budgetary Framework

# Irish Budgetary Framework



- EU Fiscal Rules
  - *Stability and Growth Pact/Fiscal Compact*
- Fiscal Responsibility Act 2012
  - *Ireland's Domestic Budgetary rule*
- Preventative and Corrective Arms
  - *Close to balance or in surplus*
  - *Excessive Deficit – deficit (3%) and debt criteria (60%)*

# General Escape Clause



- Activated March 2020 – extended through 2023, fiscal rules requirement expected to return in 2024
- Allows temporary deviation from requirements under EU fiscal rules (similar for domestic)

# Limitations

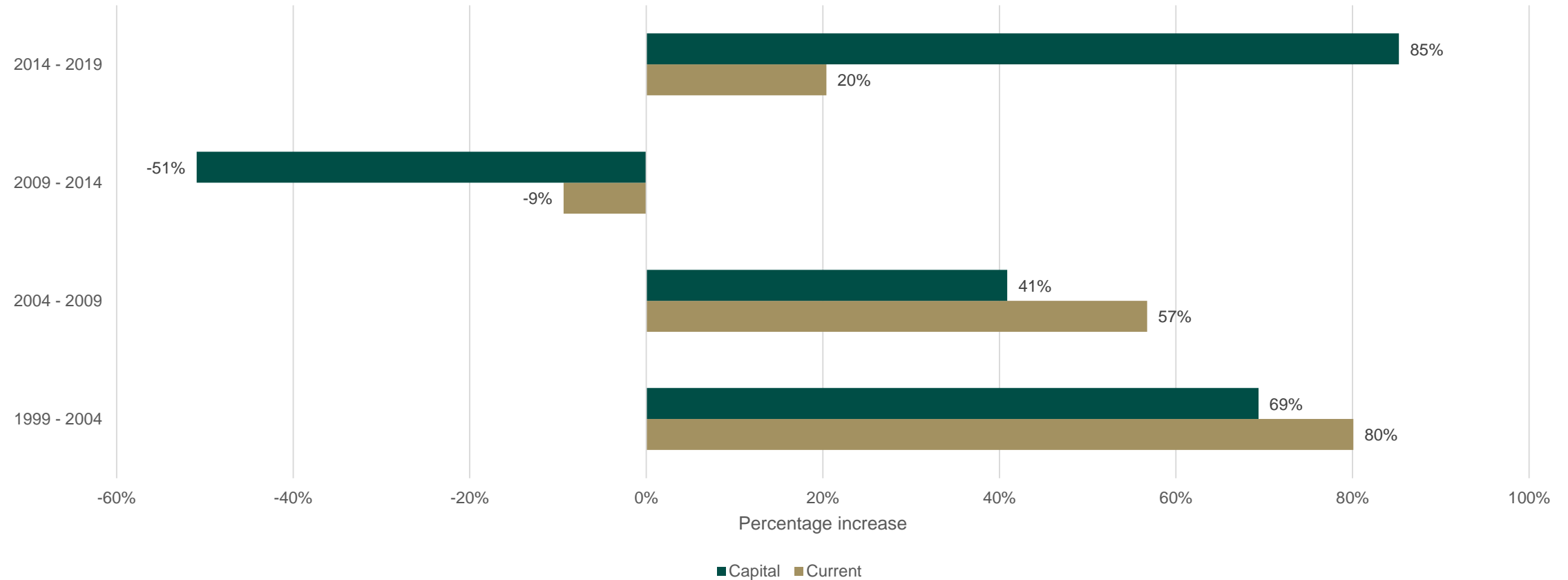


- One size fits all approach and complicated interpretations
  - *Structural Balance*
  - *Debt ratio*
  - *Expenditure rule*



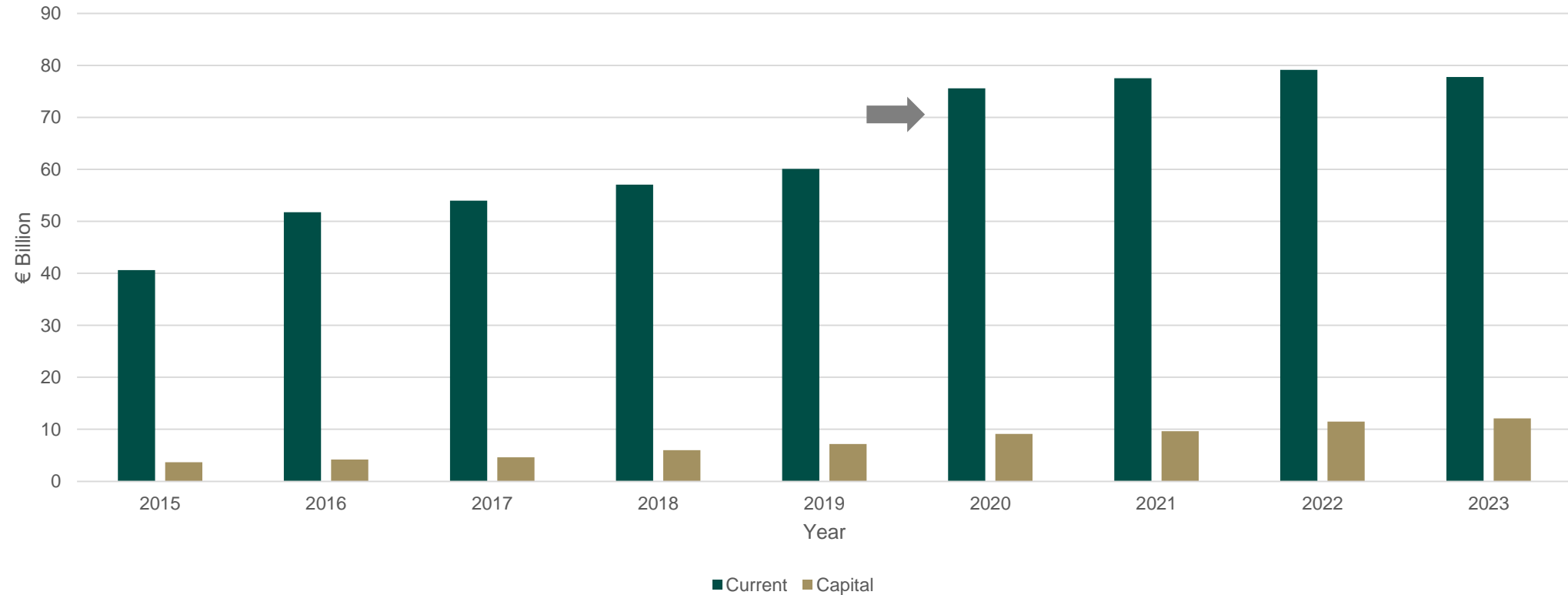
# 2 Why does it matter?

# Expenditure 2004-2014....

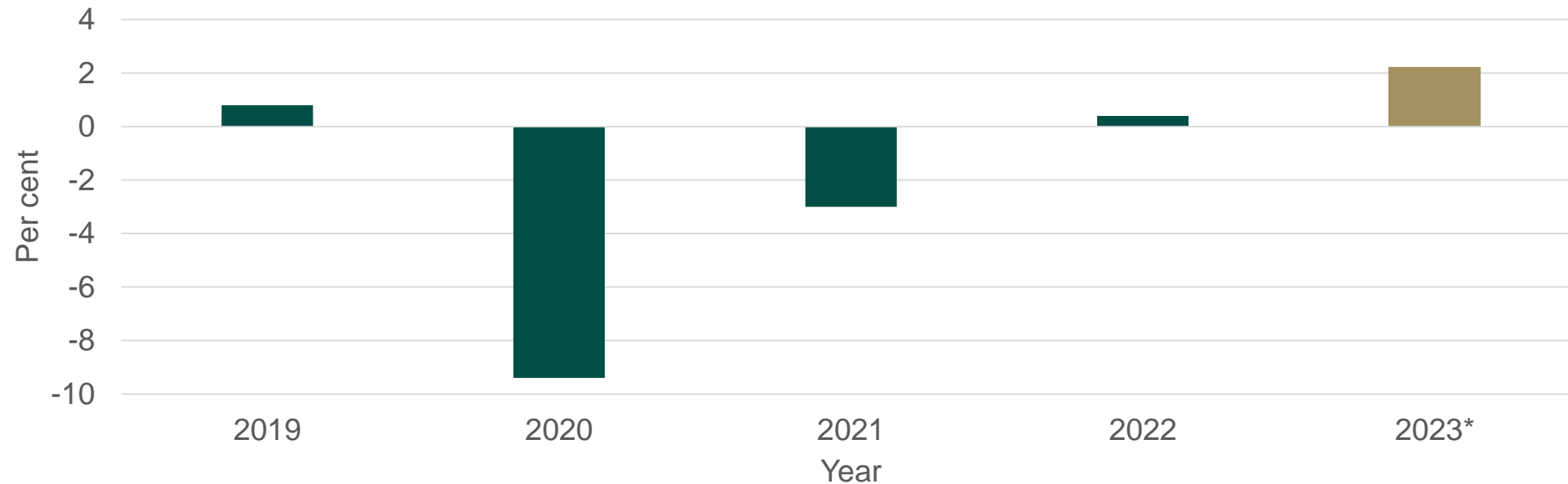




# Growth by Expenditure Type 2015 – 2023 (REV)



# General Government Balance, per cent GNI\* (2019-2023\*)



# Risks and Challenges



- Volatility of expenditure growth driven by the fiscal cycle
- Periods of expenditure increases followed by significant reductions in expenditure put at risk:
  - *Investment in public services*
  - *Investment in infrastructure*
- Significant impact of external challenges on the fiscal position
- Mitigate through the Medium Term Fiscal and Expenditure Strategy



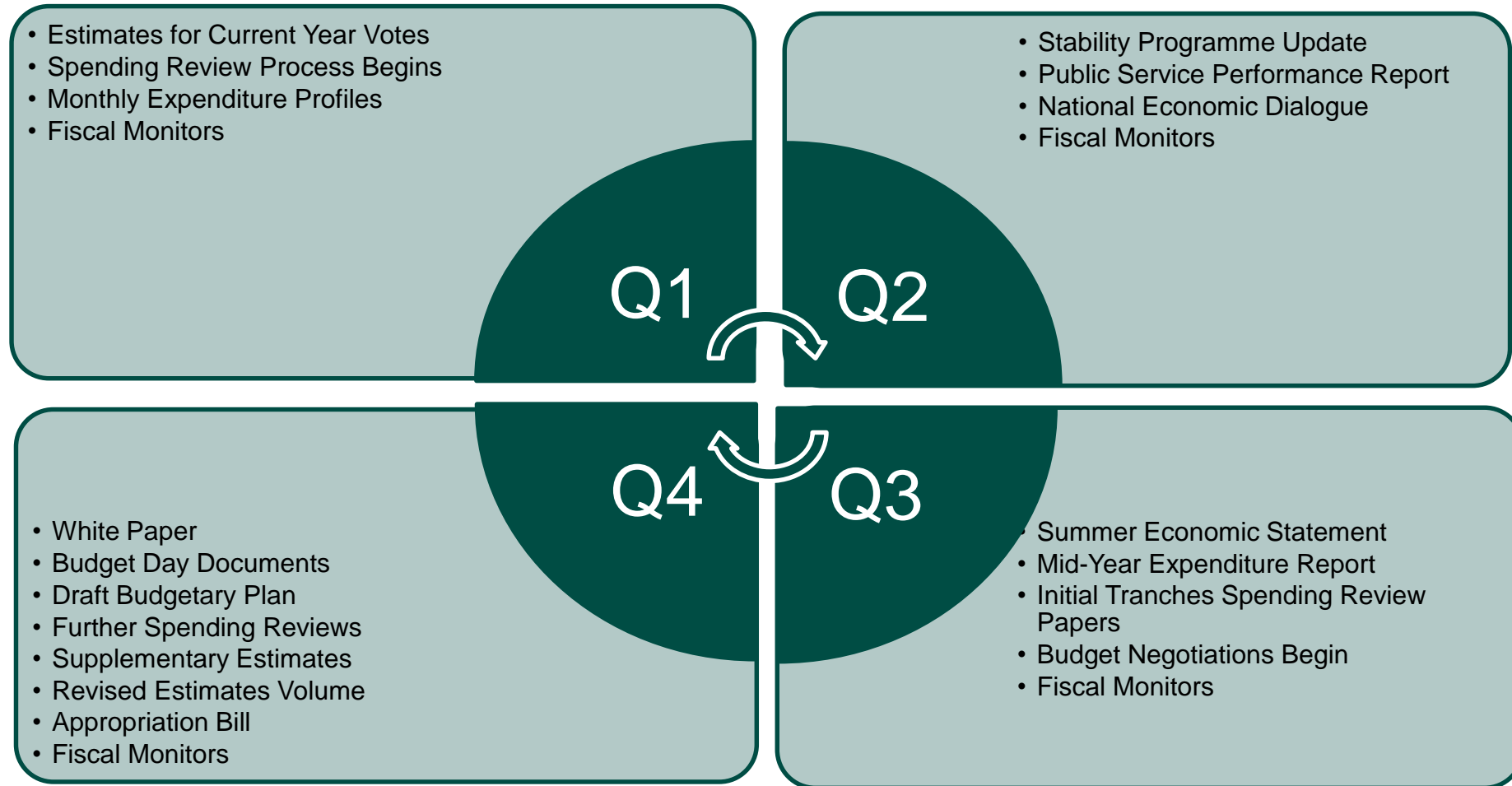
# 3 Strengthening the Fiscal Framework

# Strengthening the Fiscal Framework



- Improved Process
  - *Whole of Year Budget Process*
- Enhanced and Responsive Strategy
  - *Medium Term Expenditure Framework*
- Improved Analysis and Enhanced Debate
  - *Spending Reviews*
  - *Irish Fiscal Advisory Council (Fiscal Council)*
  - *Irish Government Economic and Evaluation Service (IGEES)*
  - *Parliamentary Budget Office (PBO)*
  - *Performance and Equality Budgeting (covered in afternoon session)*

# Whole of Year Budget Process





# 4

# Medium Term Expenditure Framework

# Medium Term Expenditure Framework



- Summer Economic Statement 2021 set out the framework
- Sustainable expenditure policy requires:
  - *Setting the core expenditure growth rate at sustainable levels; and*
  - *Providing ongoing improvements in public services.*

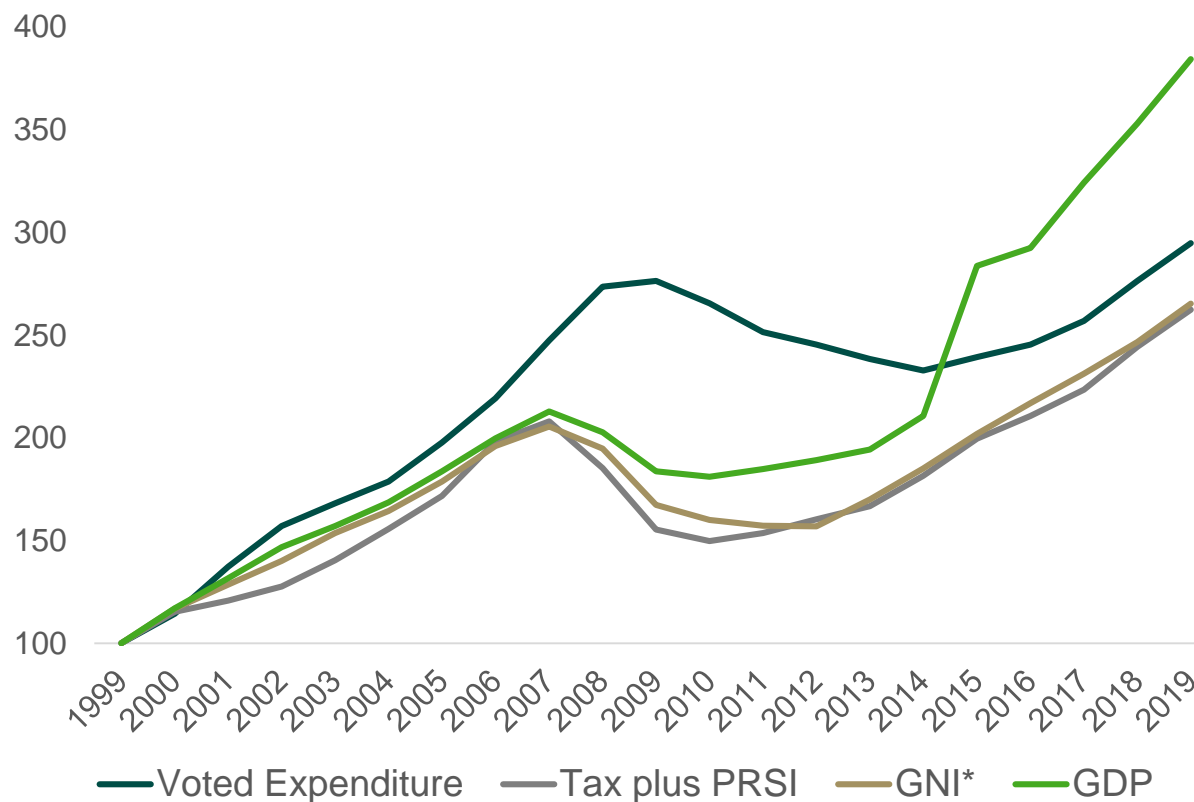


# 5% Growth Rate, Medium Term Expenditure Strategy



- Link core expenditure growth to trend growth rate of the economy.
- Annual growth rate of core expenditure of approximately **5 per cent**,
  - *3% long term real*
  - *an estimated 2% inflation.*

Expenditure v Revenue and Economic Growth 1999-2019



# ELS Provision 3% of Core Current Expenditure



- Consider a range of factors:
  - *Actual demand & potential changes*
  - *Specific price pressures*
  - *Any capacity constraints which may exist*
- Financial Management & Evaluation Key



# Medium Term – Expenditure Considerations



- Medium Term Expenditure Strategy seeks to ensure levels of spending are affordable over the medium term.
- Consider prioritisation and trade offs within the overall fiscal framework.
- Covid expenditure has driven increase in public debt.
- External and domestic risks could place demands on expenditure:
  - *Public health restrictions;*
  - *Supply chain disruption;*
  - *Energy shocks;*
  - *Ukraine Humanitarian Provision.*



# 5 Expenditure Strategy 2023

# Context



- Three successive external shocks
- Economy rebounded strongly in 2022, but an elevated inflationary environment
- Had introduced €3 billion of supports since Budget 2022 on the Cost of Living – continued priority
- Strong Fiscal Position: Flexible approach that supports fiscal sustainability

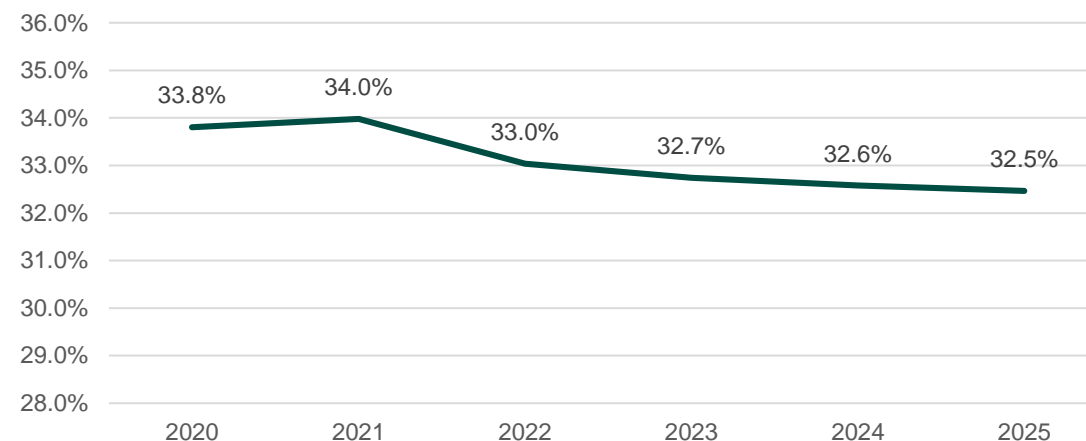


# Context: Spending falls as % of Economy

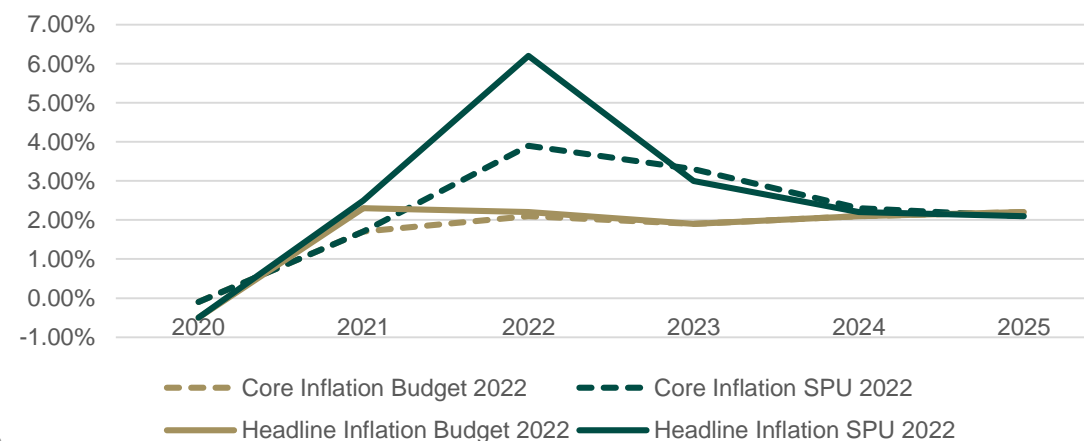


- In setting spending framework at 5%, this included 3% real growth and an inflation expectation of 2%.
- With higher than expected inflation it becomes more difficult to keep to the spending level specified in nominal terms without real falls in the levels of services provided.
- For the MTES to be sustainable it requires both:
  - *Setting the core expenditure growth rate at sustainable levels, and*
  - *Providing ongoing improvements in services*

Core Voted Expenditure as % of GNI\* (SPU 2022)



Headline vs Core Inflation Budget 2022 vs SPU 2022

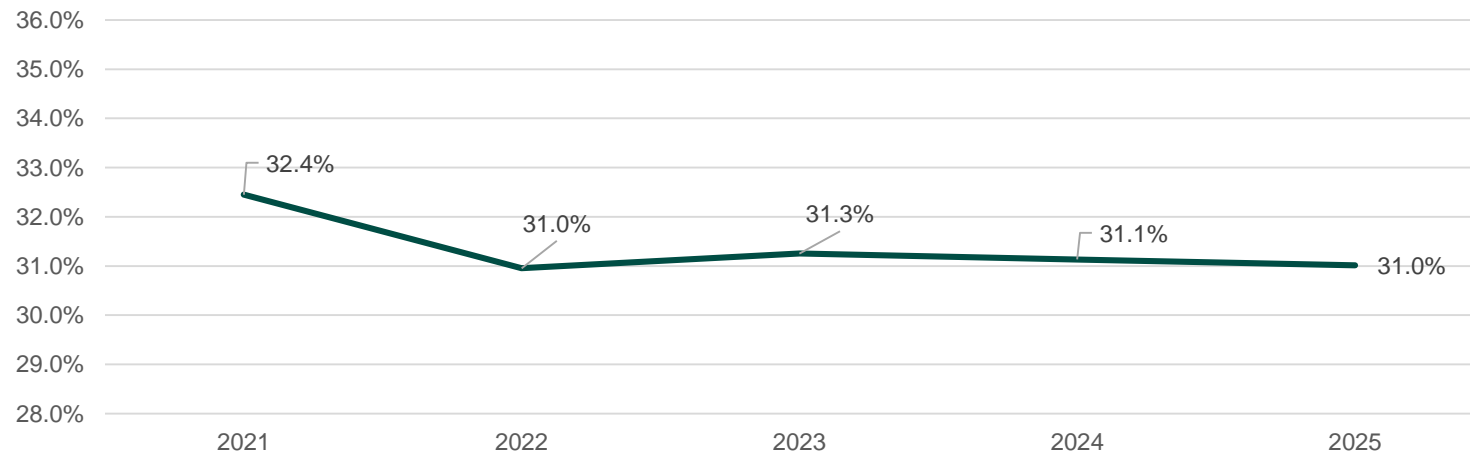


# Adjustment to the Medium Term Expenditure Strategy



- Balancing
  - *Increase required to deliver on priority areas, including extension of pay agreement,*
  - *Avoiding adding further inflationary pressures and unsustainable permanent increases in expenditure.*
- Temporary Adjustment to the Medium Term Expenditure Strategy – Two Pronged Approach
  - *Core Expenditure Package of €5.8 billion*
  - *Non-Core €4.5 billion plus Winter Cost of Living Package*

## Core Expenditure as % of GNI\* (Budget 2023)



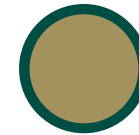
# Core Expenditure



Capital  
NDP



ELS  
3 per cent



New Measures  
Including Pay  
agreement  
extension

- Analytical inputs
  - *Consideration of Government priority issues and Votes fiscal position*
  - *Analysis by Departments and Votes on ELS and new measures*
  - *Engagement with D/Finance on fiscal position and macro impacts*
  - *Analysis by DPER on pay agreement*



# Responsive Approach to External Factors



- Winter Cost of Living Package
- Wind down of Covid expenditure across Votes
- Brexit Adjustment Reserve and National Recovery and Resilience Plan expenditure
- Ukraine Expenditure – central contingency

# Expenditure Strategy 2023 – Case for Adjustment



- Elevated inflation level has significant implications for the fiscal and expenditure strategy.
- Responsive to altered economic landscape.
- Real value of public services – adjustment required.

# Risks and Challenges



- Maintaining Medium Term Expenditure Strategy and two pronged approach to Expenditure Policy
- Preventing non-core expenditure getting ‘baked in’



# 6

## Improved Analysis: Spending Reviews

# What is a Spending Review?



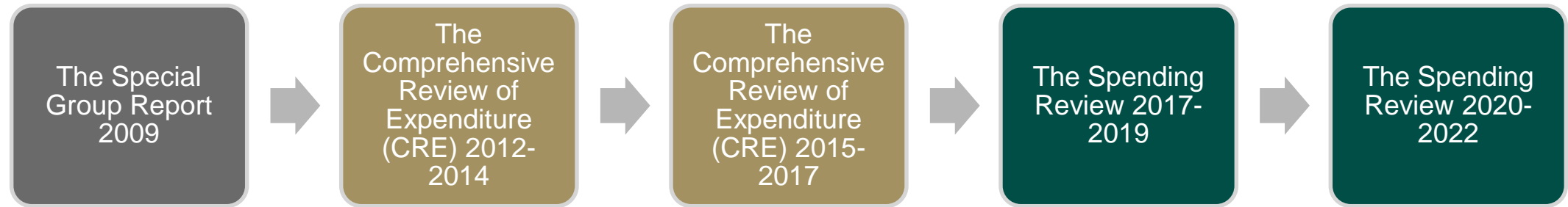
## International Context:

- Since Global Financial Crisis (GFC), dramatic increase in use across OECD.
- 2 main purposes, to improve
  - *Control over level of aggregate expenditure*
  - *Expenditure prioritisation*

## Irish Context:

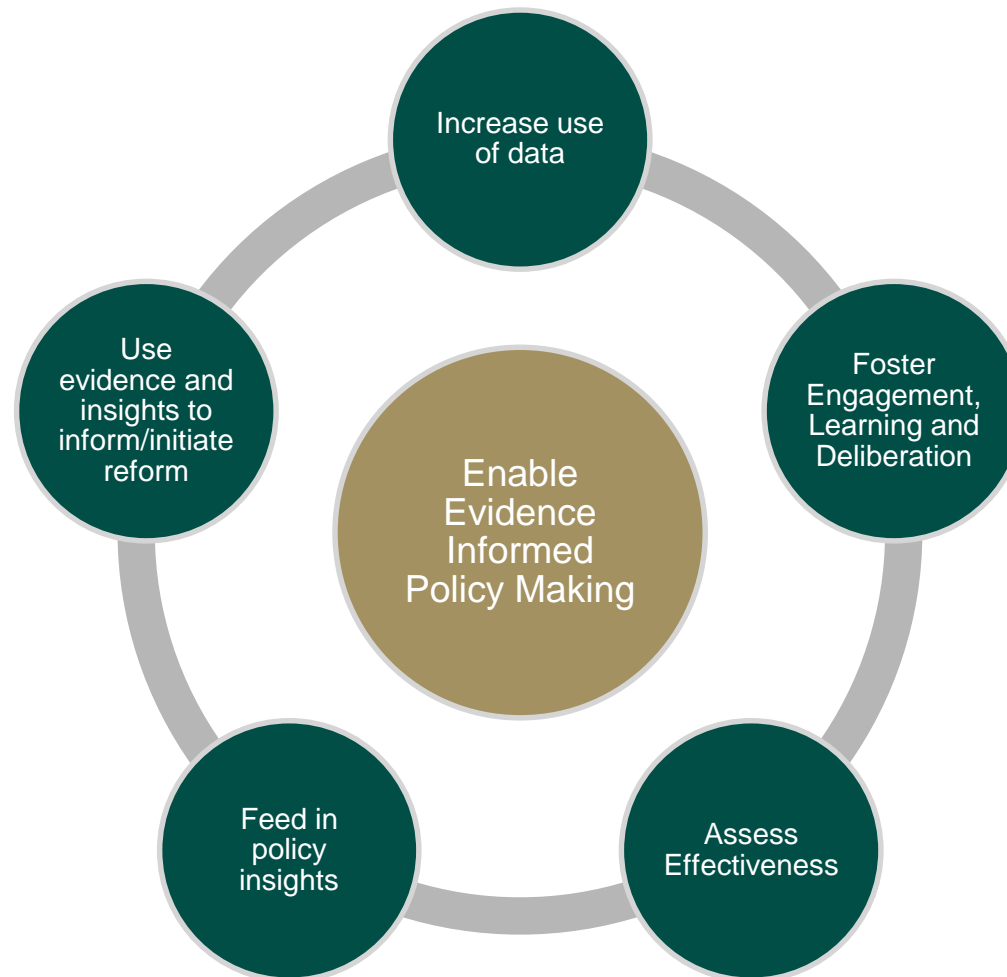
- Improve how public expenditure is allocated
  - *Support evidence informed policy making*

# Irish Spending Reviews- History



- Aligns with European-wide adoption following GFC
- Initial Spending Reviews focused on cuts, more recently promote spending efficiency and effectiveness in the context of the Medium Term Expenditure Strategy

# Purpose and Objective of Spending Review 2020-2022



# Spending Review 2020- 2022: Overview



- 3 year round
  - *25 paper in 2020*
  - *37 papers in 2021*
  - *18+ papers in 2022*
- Range of topics: health, education, justice, enterprise supports, civil and public service staffing, pay and pensions, foreign affairs, children, climate change, agriculture, defence, transport, housing and state property.
- Wide range of Departments and Agencies involved.





# 7 Enhanced Policy Debate

# Irish Government Economic and Evaluation Service



- Established 2012
- Initially centralised in DPER, IGEES units now in all policy Departments:
  - *producing and reviewing business cases*
  - *undertaking policy analysis*
  - *Spending Review papers and other evaluations*
- Feed evidence into the Whole of Year Budgetary

# Irish Fiscal Advisory Council



An independent statutory body with a mandate to:

- Assess and endorse the Government's official economic forecasts
- Assess budgetary forecasts
- Assess the Government's fiscal stance
- Monitor fiscal rules

## Fiscal Assessment Report

November 2022

**A Budget in the time of inflation**

 Irish Fiscal Advisory Council



# Parliamentary Budget Office



- The Parliamentary Budget Office (PBO) provides independent and impartial information, analysis and advice to the Houses of the Oireachtas.
- Ex-ante scrutiny of budgetary matters
- Reviews Budgetary documents



**Budget 2023 Publications**

Budget 2023 may be described as a 'cost-of-living' budget, with many measures potentially being implemented on a 'once-off' basis.

Read some in-depth commentary on the possible effect of measures in advance of Budget 2023 or use our ready reckoner for a quick overview.

-  Pre-Budget 2023, Parliamentary Budget Office Commentary
-  PBO Pre-Budget 2023 Ready Reckoner
-  Preliminary Review of Budget 2023
-  Post-Budget 2023 Debt Infographic



**Budget 2023 Analysis**

Check out our visualisations to see the potential effects in Budget 2023 of tax and welfare changes, the costs of providing extra public servants, the distributional effect of the forthcoming budget and the progressivity of targeted versus universal measures.

-  PBO Pre-Budget 2023 Tax and Welfare Exchequer Budget Tool
-  Annual Cost of Extra Public Servants Calculator
-  Real Distributional Impact - Selected Potential Budget 2023 Tax and Welfare Measures
-  Progressivity of Targeted Versus Universal Measures
-  Post-Budget Debt Infographic

# Summary



- Irelands Budgetary Framework is framed in the context of the EU and Domestic Fiscal Rules
  - *But this has limitations – complicated and one size fits all, should fiscal policy be responsive to its context?*
- A wide variety of reforms are in place to strengthen this framework including:
  - *The whole of year budgetary approach*
  - *The Medium Term Expenditure Framework*
  - *The Spending Review*
  - *Enhanced Policy Debate through IGEES and other actors*
  - *Performance and Equality Budgeting (afternoon session)*