- Expand the rule's coverage to a general government basis. This wider measure of government activity is a more relevant basis for assessing fiscal policy. The current focus on the Exchequer ignores about one-fifth of spending.
- Allow for cyclical savings and costs related to unemployment supports. Unemployment supports are a key area of expenditure that vary with the economic cycle. In good times, they can make the public finances look stronger than they would otherwise be, while in bad times they can make the public finances look weaker. This can be adjusted for by considering the welfare expenditure that would be associated with more normal rates of unemployment of, say, 5% for example.
- Put the National Spending Rule in legislation. International evidence suggests that there tends to be higher compliance with expenditure rules when these are enshrined in law (Cordes, Kinda, and Muthoora, 2015).

Box E: What rate should the National Spending Rule be set at?

The National Spending Rule has been in place since 2021. It is a net spending rule: it applies to core spending net of tax policy changes.[44]

The idea is to have the growth rate of spending (net of tax policy changes) linked to the sustainable growth rate of the economy. The National Spending rule was set at a growth rate of 5%. The rationale for this was that the medium-term real growth rate of the economy was 3%, with inflation expected to be 2%.

In periods where inflation is high, the National Spending Rule should be more difficult to comply with. This is not a problem with but a feature of the National Spending Rule. The idea is to avoid procyclicality — doing too much in an already tight economy, hence adding to price pressures. By contrast, the rule is more generous in times when price pressures are low. That is, it still allows growth consistent with an implicit 2% inflation assumption when price pressures are lower than that.

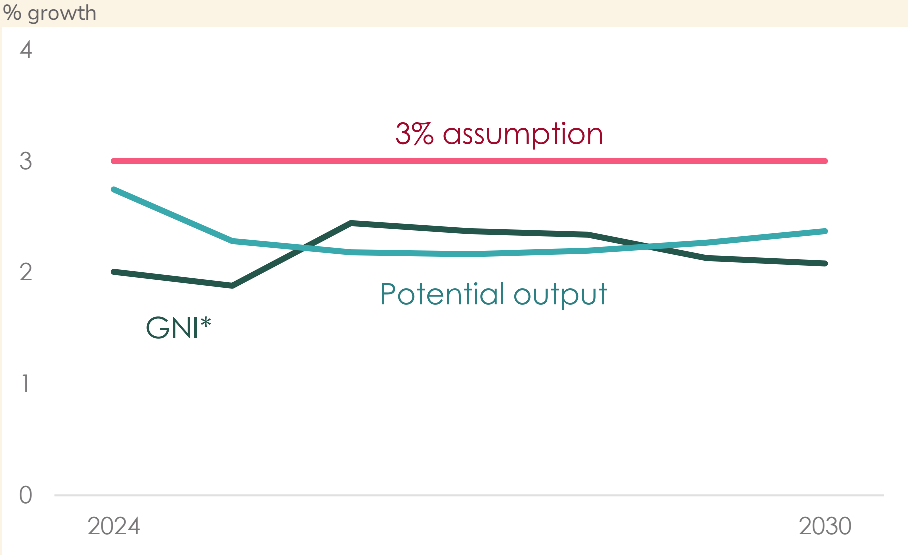
The Council has previously suggested that, as part of the National Spending Rule, there should be periodic reviews of the sustainable growth rate of the economy. Since the Irish economy may be heading for a more mature growth phase (see Section 1), now might be an appropriate time to review the sustainable growth rate of the economy.

After strong growth in recent years, *SPU 2024* forecasts a moderation in growth. Real growth in GNI* is forecast to average 2.2% over 2024-2030. In every year of the forecast, real GNI* growth is forecast to be below 2.5% (N°56).

In addition, the Department's models of potential output growth also point to lower potential output growth. The midpoint of the Department's estimates are also shown (N°56) and are always below 3% growth.

[44] When the National Spending Rule was first introduced in 2021, core spending excluded Brexit-related costs and Covid-related expenditure. The rationale given was that temporary spending of this nature should be excluded from spending considered for the National Spending Rule. While there is merit to excluding some spending that may be temporary in nature, the Council believes that this approach has been applied too liberally in recent years.

N°56 Economic growth is projected to slow



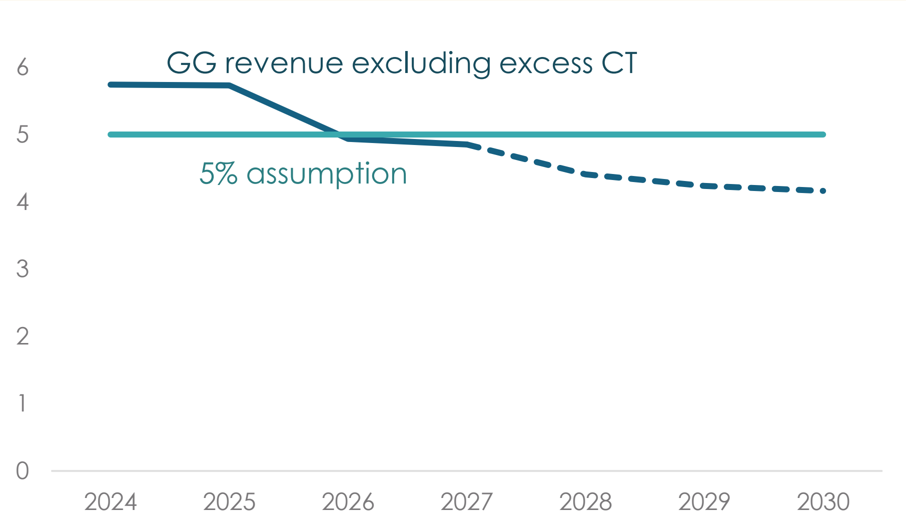
Sources: *SPU 2024*; and Fiscal Council workings. Get the data.

Another way to examine the appropriate growth rate for spending is to examine government revenue growth. The most comprehensive measure of government revenue is general government revenue. Given that they should not be used for permanent spending commitments, windfall corporation tax receipts are excluded from the analysis.

Using *SPU 2024* forecasts, we can see that nominal general government revenue (excluding windfall corporation tax) is forecast to grow at or above 5% out to 2027. Using macroeconomic projections in *SPU 2030*, we can extend the fiscal forecasts out to 2030. When this is done using standard elasticities and assumptions, it appears that revenue growth is likely to fall below 5% in later years. If one takes the period 2024-2030, the average growth for general government revenue is almost 5% (N°57). This may be more supportive of maintaining the spending rule at 5%.

N°57 Revenue growth forecast to moderate

% growth



Sources: *SPU 2024,* and Fiscal Council workings.
Notes: GG stands for general government. Dashed line shows Fiscal Council estimates to extend *SPU 2024* projections out to 2030. Specific revenue headings are extended to 2030 by using macroeconomic projections from SPU 2030 and using standard elasticities. Get the data.

Overall, it would appear that a growth rate of 5% may still be appropriate for the National Spending Rule. Adhering to the National Spending Rule at this rate is much more important, however. Doing so will ensure that net spending stays on a sustainable path. This does not mean that spending could not rise by more than 5%. This can be done while complying with the National Spending Rule, but it would require revenue-raising measures being introduced. This would leave the public finances well placed before large costs from an ageing population and climate change arise.