Comhairle Fhioscach Chomhairleach na hÉireann
Irish Fiscal Advisory Council
www.fiscalcouncil.ie | admin@fiscalcouncil.ie | (+353 1) 8632005

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Press Release

Fiscal Assessment Report, October 2011

Budget 2012 is imminent. This first Fiscal Assessment Report provides an assessment of the Government's fiscal stance and projections as set out in the Stability Programme Update (SPU) last April, taking into account significant recent developments.

The Irish Fiscal Advisory Council was established in June 2011. The Council's mandate includes providing an assessment of the appropriateness of the fiscal stance set out by the Government and its economic and budgetary projections.

Main Findings of Report

Macroeconomic and Budgetary Assessment

- The macroeconomic and budgetary projections in the SPU were broadly appropriate at the time they were published last April. There have, however, been a series of significant developments since then that impact on Ireland's medium-term budgetary outlook.
- Most of the main forecast agencies have recently revised down their projected growth rates for Ireland, in part reflecting increasing uncertainties about the global environment. This has clear downside risks.
- On the upside, the changes agreed by European leaders in July 2011 should result in interest savings of approximately €1 billion per year from 2012 to 2014. Furthermore, the funding requirement to the State as a result of banking recapitalisation is now likely to be approximately €3.5 billion lower than was envisaged last March.
- The Council estimates that an additional €400 million in discretionary adjustments would be required to meet the 8.6 per cent General Government deficit target for 2012. Nevertheless, the total discretionary adjustments planned in the SPU for the period 2012–2015 should still be sufficient to bring the General Government deficit below 3 per cent of GDP by 2015.

Assessment of Fiscal Stance

- The Government faces an unenviable balancing act in deciding the appropriate fiscal stance for 2012–2015: the domestic economy remains weak, while the debt and funding situation for Ireland will remain fragile for some time to come.
- Weighing up the different elements involved, retaining the current SPU targets as a percentage of GDP is viewed as within the range of appropriate courses of action.
- Relaxing the budgetary targets agreed in the programme with EU/IMF is not a viable option, given the need to safeguard hard won gains and the creditworthiness constraints imposed by both the market and official creditors.
- The Council's main conclusion is that there is a strong case for a strengthening of the fiscal consolidation effort beyond that targeted in the SPU. The Council believes that a General Government deficit target of the order of 1 per cent of GDP for 2015 would be appropriate. The Government's current target in the SPU is a deficit of 2.8 per cent.

Other Findings of Report

- In the case of 2012, the Council suggests only a relatively modest reduction in the targeted General Government deficit, from 8.6 to 8.4 per cent of GDP. This would imply, taking into account the range of economic developments since April, increasing the required adjustment measures from the SPU plan from €3.6 billion to €4.4 billion in 2012.

- For 2012-2015, the Council estimates that additional adjustment measures of approximately €4 billion will be needed to meet the 1 per cent General Government deficit target put forward by the Council.

- This suggestion is not made lightly, given the painful adjustment measures taken since 2008. However, on balance the Council believes that a more rapid restoration of sound public finances, as well as being highly desirable in its own right, will have important favourable effects on the country's creditworthiness. It would also provide a degree of insurance that the existing programme targets will be met. The longer term implications for the economic and financial health of the country should not be underestimated.

- It is important for policymakers not to reduce their options in order to achieve the necessary consolidation by selectively putting certain measures – e.g., tax rates, social welfare rates, and public sector pay rates – out of bounds.

Media Briefing

Members of the Media are invited to attend a Media Briefing to be held on Wednesday 12 October, at 10.30 a.m. in the ESRI, Whitaker Square, Sir John Rogerson's Quay, Dublin 2.

Notes to Editors:

1. Fiscal Assessment Report, October 2011 is embargoed until 11.00am Wednesday 12th October. The report will be available to download from www.fiscalcouncil.ie from 11.00am Wednesday 12th October.

2. The report will be laid before the Oireachtas.

3. Council members and authors of the publication: Prof. John McHale (Chair, and Head of Economics NUI Galway), Mr Sebastian Barnes (OECD), Prof. Alan Barrett (TCD, on secondment from ESRI), Dr. Donal Donovan (adjunct professor University of Limerick and formerly IMF staff), Dr. Róisín O'Sullivan (Associate Professor, Smith College, Massachusetts).

Ends

Irish Fiscal Advisory Council, Whitaker Square, Sir John Rogerson's Quay, Dublin 2.