PRE-BUDGET 2015 STATEMENT

IRISH FISCAL ADVISORY COUNCIL

GOVERNMENT ADVISED TO MAINTAIN A PRUDENT BUDGETARY STANCE FOR 2015

The Irish Fiscal Advisory Council today (Monday 22/09/2014) publishes a Pre-Budget Statement. The main findings include:

- In the past, Ireland's fiscal policy has shown an unfortunate tendency to contribute to boom and bust economic cycles that have harmed the economy and have had very negative social consequences. We are now entering a crucial period for breaking this pattern. Fiscal policy must remain focussed on the goal of repairing the public finances even in the face of short-term improvements in key indicators. This is required in order to underpin a return to sustainable medium-term economic growth.
- Government expenditure is likely to exceed revenue by around €7 billion in 2014. The overall level of debt is now five times higher than at the outset of the crisis and is 1.2 times the size of the economy. This highlights the continued vulnerability of the overall fiscal position.
- Going into *Budget 2015*, the latest data suggest that macroeconomic and fiscal developments in 2014 have been significantly better than expected. This means that uncertainty regarding the likelihood that Ireland will meet its short-run Excessive Deficit Procedure (EDP) targets for 2014 and 2015 has been substantially reduced. This is a welcome achievement and means that a full Budget adjustment of €2 billion would most likely comfortably secure compliance with the 3 per cent ceiling in 2015.
- Compliance with the official targets does not mean that the overriding task of repairing the public finances has been accomplished. The 3 per cent ceiling should be regarded as the maximum tolerable deficit level, not a prudent level.
- The Fiscal Council remains of the view that the most appropriate course of action is to implement the final instalment of the fiscal consolidation plan, and then to follow the less demanding requirements of the Budgetary Rule in later years. A premature easing in fiscal adjustment now would increase the risk of additional consolidation being necessary in future.
- In the medium-term, the Government will face considerable challenges in maintaining tight expenditure control under current plans due to demographic and other demand and cost pressures. This argues against any premature erosion of the government's revenue raising capacity in the forthcoming Budget.
- In order to reduce the debt-to-GDP ratio, Ireland will likely need to run a primary surplus well above the level expected to be reached in 2015. Maintaining the fiscal discipline required to achieve large primary budget surpluses will become politically harder following a long period of fiscal consolidation and as crisis memories fade.
- *Budget 2015* will be the first since Ireland exited the EU/IMF Programme. By adopting a prudent budgetary stance, the Government can send a strong signal reinforcing its stated resolve to rectify the remaining weaknesses in the public finances.

The full text of the Irish Fiscal Advisory Council's Statement can be found at www.fiscalcouncil.ie

NOTES TO EDITORS:

1. The Council is chaired by Professor John McHale, NUI, Galway. The other council members are Mr Sebastian Barnes, Professor Alan Barrett, Dr Donal Donovan and Dr Róisín O'Sullivan.
2. The Statement was written by the Council and Secretariat of the Irish Fiscal Advisory Council