



**Irish Fiscal
Advisory Council**

Post-Troika: What's Next for Ireland

The Future of Ireland's Economic Governance

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March 28th, 2014

Conference organised by the European Commission Representation in Ireland in conjunction with the Dublin Chamber of Commerce, Aviva Stadium Conference Centre



Overview

- Achievements in crisis resolution
- Fiscal governance, crisis resolution, and crisis prevention

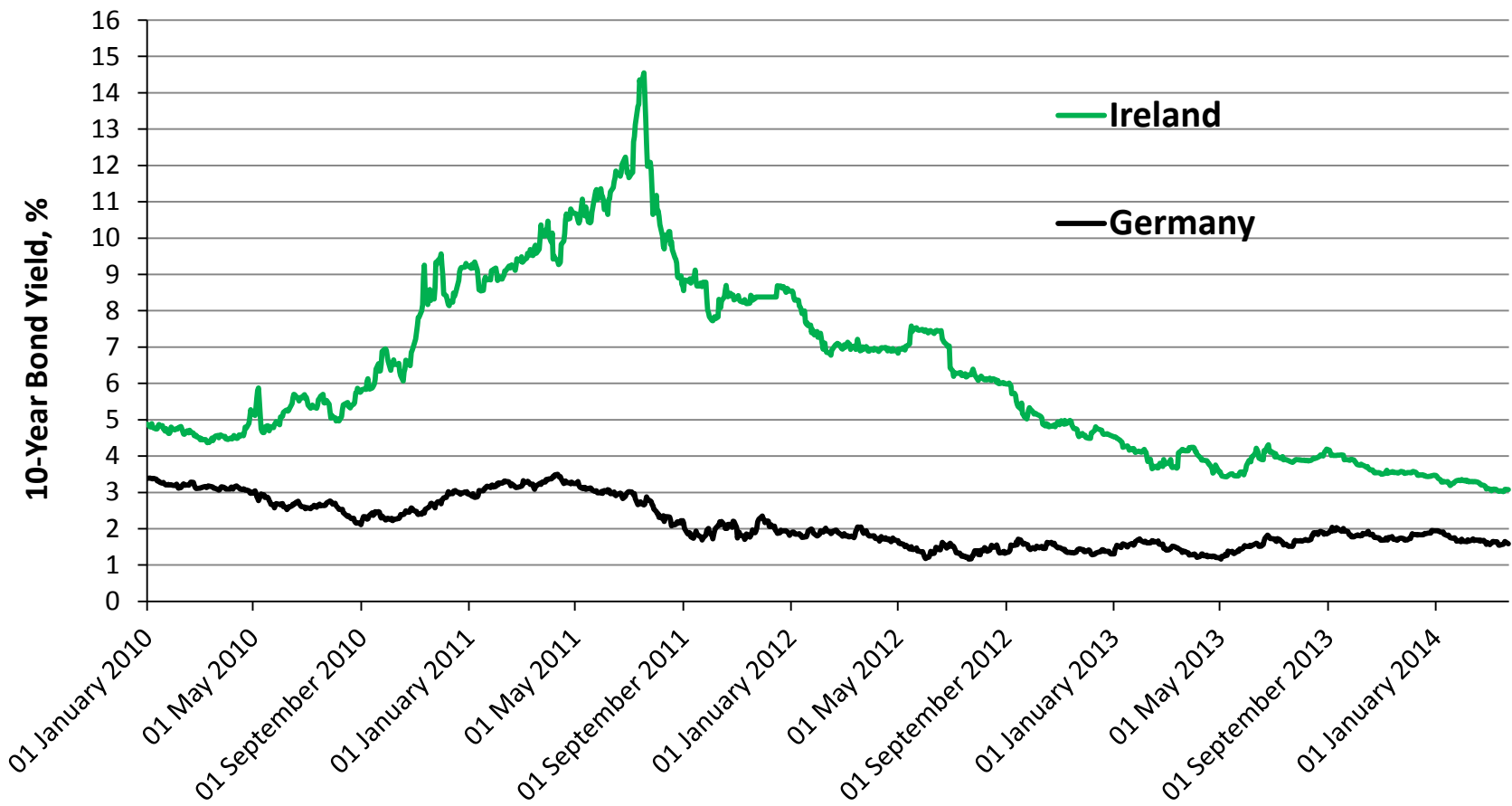


Crisis resolution

- Property bubble bursts → Adverse feedback loops → Lost creditworthiness
- Crisis resolution strategy:
 - Adjustment with (conditional) assistance
 - Avoid default
- Necessary conditions for strategy to work
 - Economic and political feasibility of adjustment
 - Reasonable underlying growth potential
 - Adequate lender-of-last-resort support



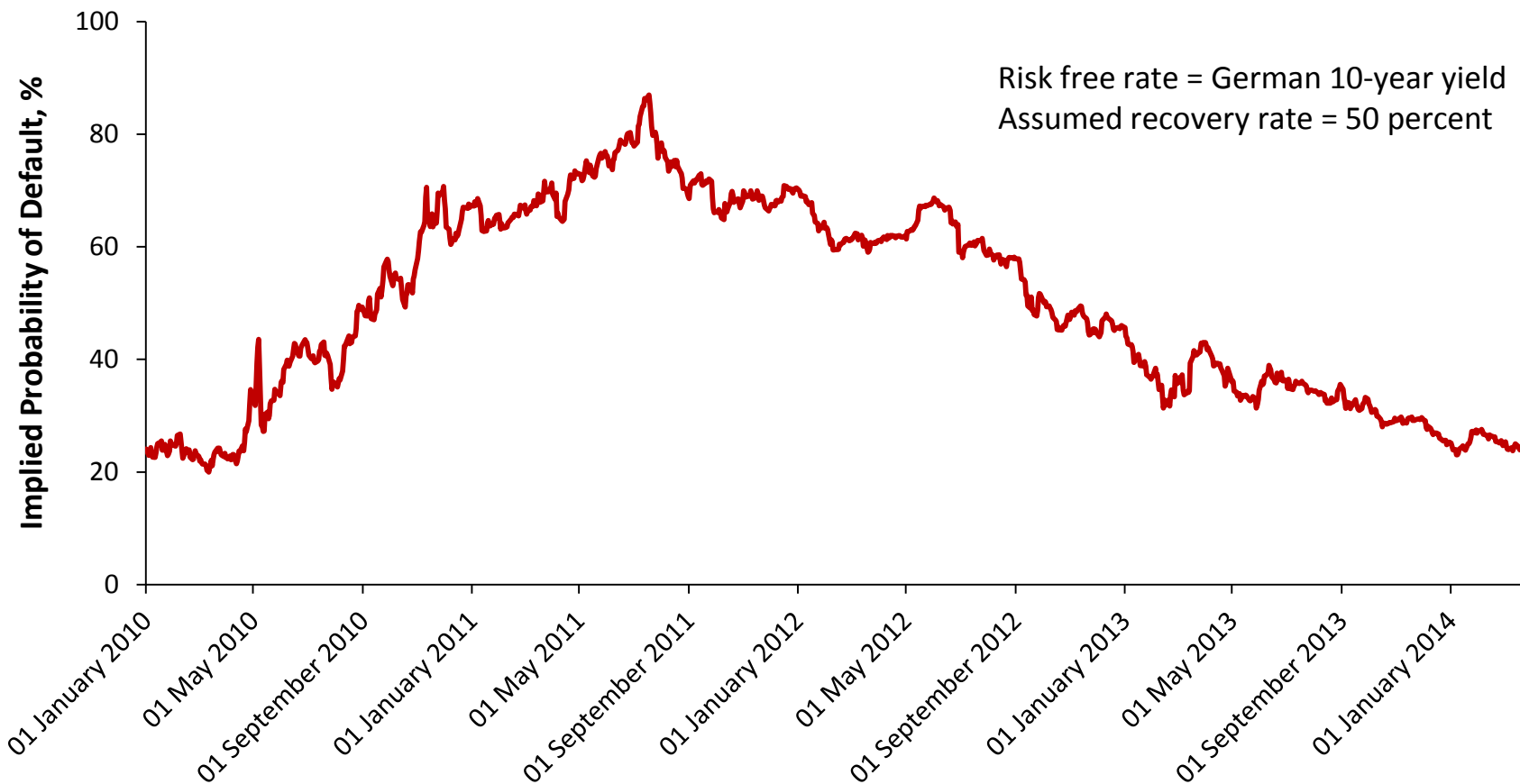
Achievements in crisis resolution



Source: Datastream



Implied probability of default (10-year horizon)





Significant risks remain

- Growth risks
 - Domestic: Uncertain dynamics of balance sheet recession
 - International: Trading partner growth
- Banking-related risks
- External risks
 - Contagion
 - European policy



Economic governance for crisis prevention





Value of a strong fiscal framework

- Standard argument for the European framework:
 - Necessary for effective functioning of monetary union
- But a weak reed for public support
- National value of a strong fiscal framework
 - Avoid boom-bust cycles
 - Put debt on path to safer level
 - Credibility → Sustained creditworthiness given high debt levels



Complementary European and national frameworks

Effectiveness
of **European**
Fiscal
Framework



Effectiveness
of **National**
Fiscal
Framework



European framework

- Reinforced *Stability and Growth Pact*
 - Preventive arm
 - Structural balance
 - Expenditure benchmark
 - Corrective arm
 - 3-percent deficit rule
 - 1/20th debt rule
- Unnecessarily complex?
- But generally takes us in the direction we need to go



National framework

- Usefully summarised in the Medium-Term Budgetary Framework document
- Key elements
 - Budgetary Rule [Fiscal Responsibility Act]
 - Medium-Term Expenditure Ceilings [Ministers and Secretaries (Amendment) Act 2013]
- Role of IFAC
 - Assess compliance with Budgetary Rule
 - Endorsement of macroeconomic forecasts underlying budgets and medium-term plans
 - Assessment of macro/fiscal projections and fiscal stance



Fiscal policy stance

- Stay on track to exit the EDP on schedule
 - 2.9 percent deficit target for 2015
 - No safety margin allowed for in Budget 2014
 - Based on €2 billion of adjustments in Budget 2015
 - Mixed recent economic data
- Follow the rules of the preventive arm of the SGP post-2015
 - Most difficult phase of adjustment should be over
 - But still challenging given underlying spending pressures
 - Should put debt on a firm downward path
 - Should allow some flexibility in the face of economic shocks