



**Comhairle Fhioscach Chomhairleach na hÉireann**  
**Irish Fiscal Advisory Council**

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# Fiscal Assessment Report

April 2013

# Main messages

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- September report assessed fiscal stance conducive to prudent economic and budgetary management
  - But made a case for €1.9 billion of additional fiscal adjustment
- Post *Budget 2013* developments have broadly provided the suggested margin of safety
- Council no longer making a case for additional adjustment
- However, planned adjustments of €3.1 billion in 2014 and €2 billion in 2015 should not be reduced



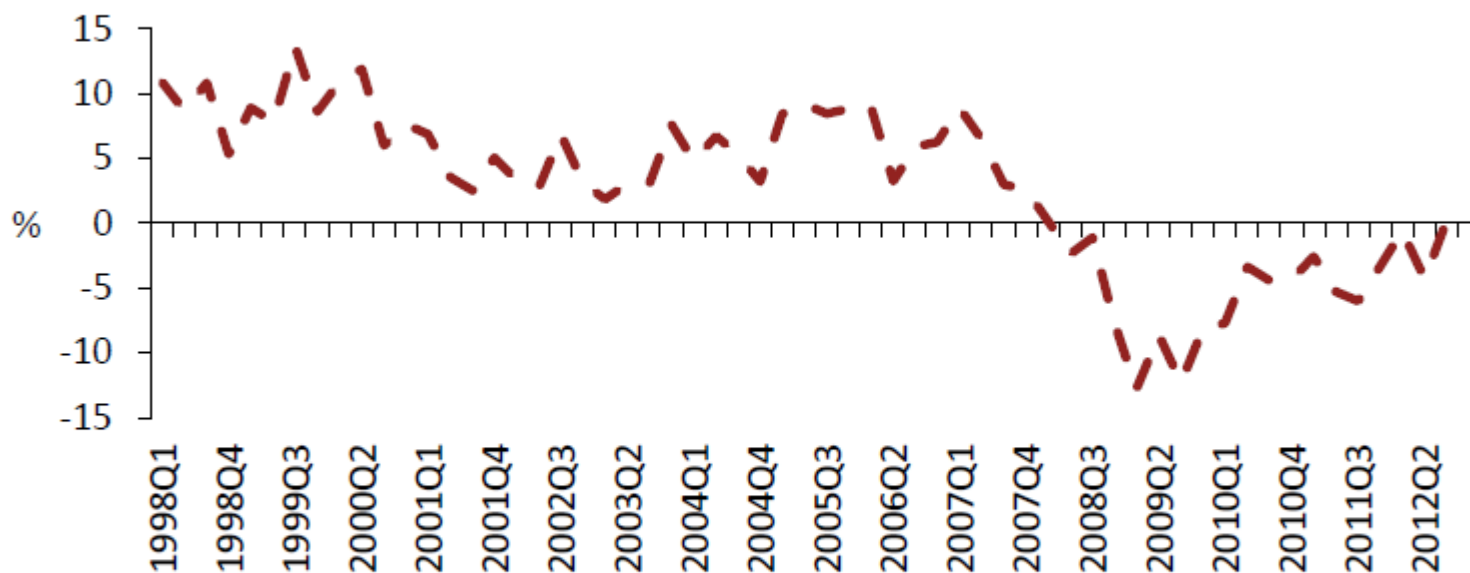
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# Assessment of macroeconomic forecasts

# Tentative signs of stabilisation in domestic demand

FIGURE 1.2: GROWTH RATE OF FINAL DOMESTIC DEMAND, PERCENTAGE CHANGE FROM SAME QUARTER IN PREVIOUS YEAR

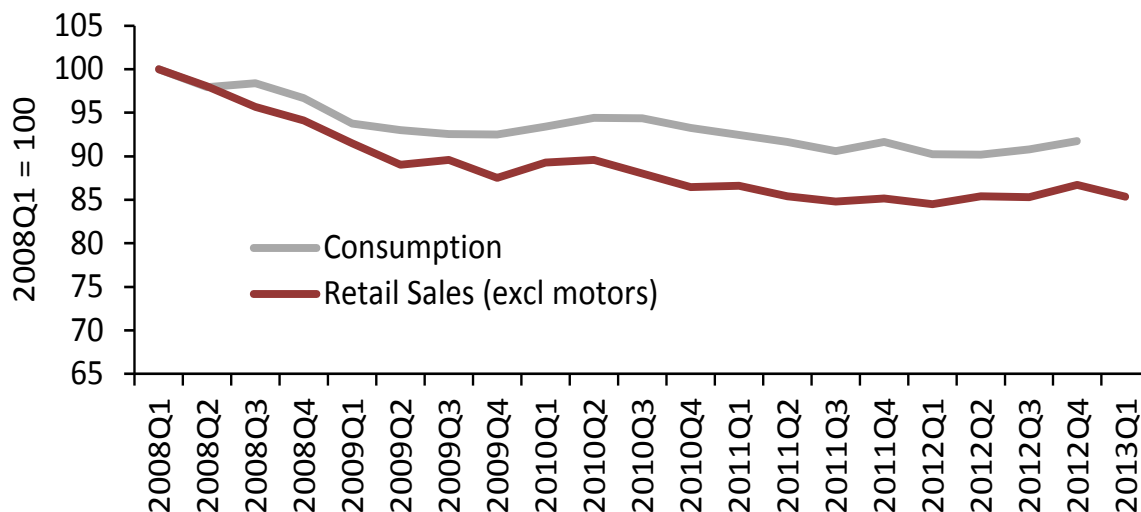


Source: CSO, QNA.

Note: Constant Prices, Non-Seasonally Adjusted.

# But recent signs of renewed weakness in retail sales

FIGURE 1.4: INDICES OF REAL PRIVATE CONSUMPTION AND VOLUME OF RETAIL SALES

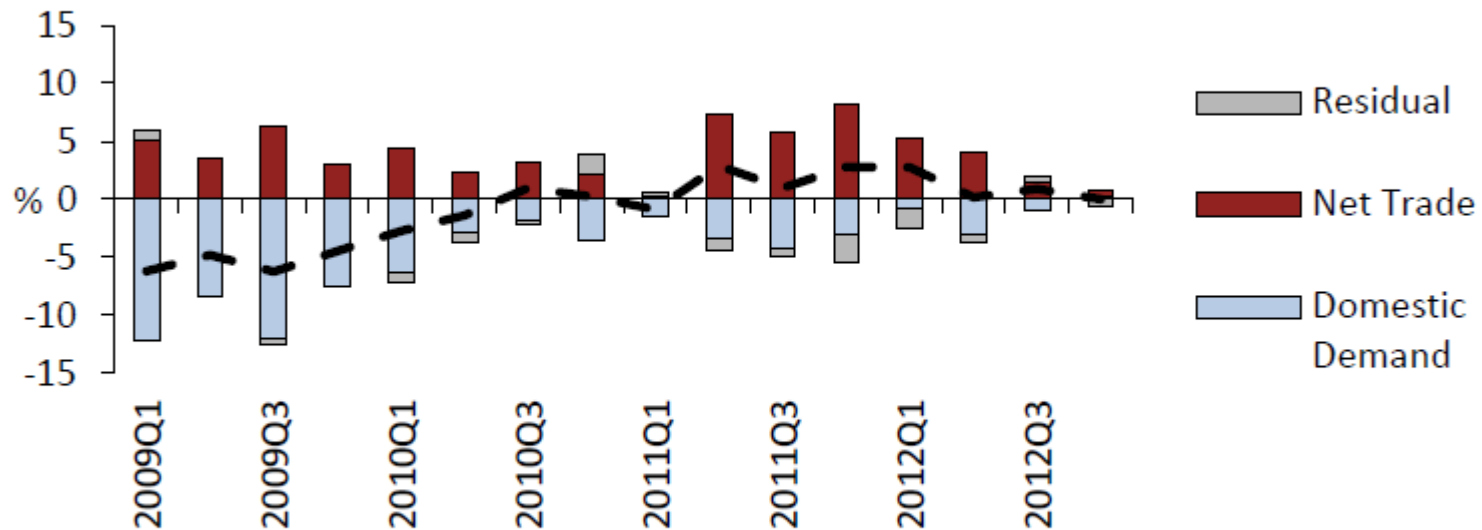


Source: CSO.

Note: Volume of Monthly Retail Sales (Excluding Motor Vehicles) data is the seasonally adjusted quarterly average. The quarterly average for 2013Q1 is based on January and February data only. Personal Expenditures on Consumer Goods and Services is in constant prices and is seasonally adjusted.

# Net export growth has weakened

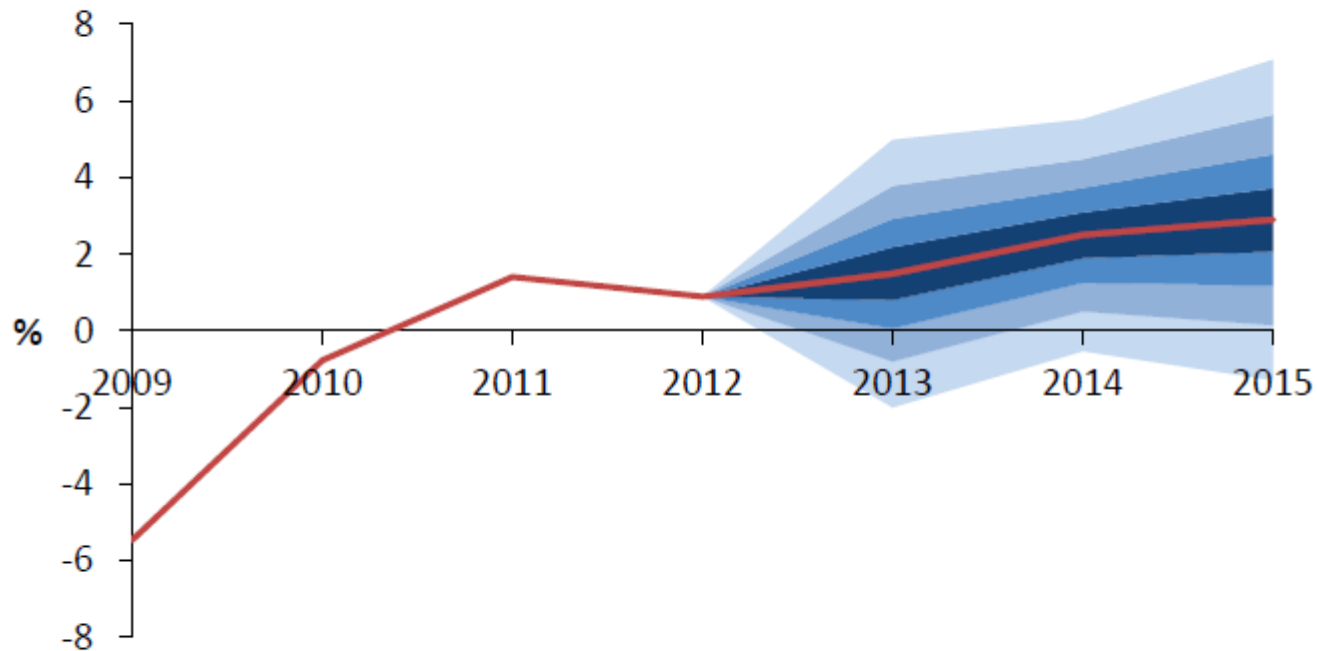
FIGURE 1.6: CONTRIBUTIONS TO REAL GDP GROWTH



*Note: The contributions are weighted by their share of GDP in the corresponding period of the preceding year.*

# Significant uncertainty surrounds growth forecasts

FIGURE 1.7: FAN CHART FOR REAL GDP GROWTH



Source: Budget 2013, QNA and IFAC calculations.



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# Assessment of budgetary forecasts

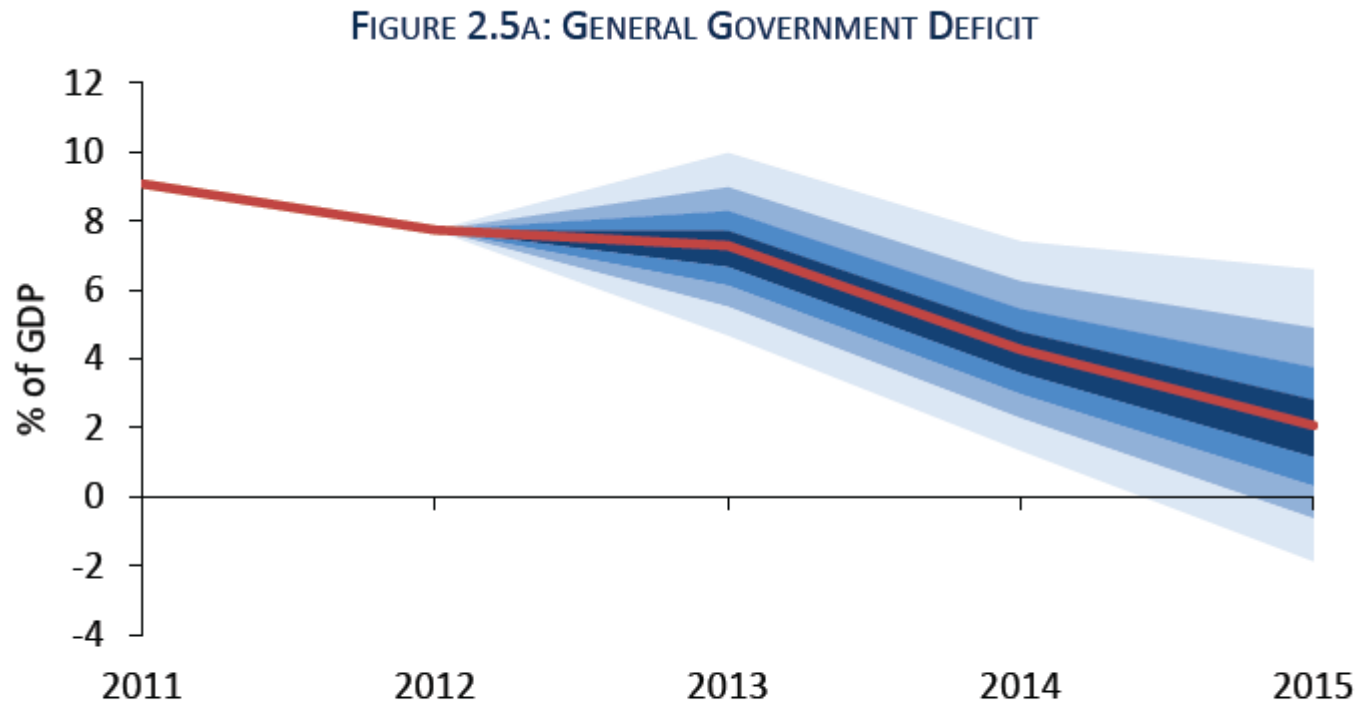


# Improved budgetary outlook

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- General Government deficit target of 8.6 percent comfortably met in 2012
  - Estimated 7.7 percent of GDP
- *Post-Budget 2013* developments have improved the outlook:
  - Higher than estimated nominal GDP for 2012
  - Better than anticipated Exchequer outturn for 2012
  - PN transaction has lowered the GG deficit by approximately 0.6 percent of GDP in 2014 and 2015
- Technical adjustments made by IFAC imply a revised projected deficit of 2.1 percent of GDP in 2015

# But significant uncertainty remains



Source: Budget 2013 and IFAC calculations.

# Implementation risks – especially around Health

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- Pattern of missing targets in Health
- €781 million in savings planned for 2013
- Strengthened framework
  - Legislation for three-year rolling expenditure ceilings
  - Monthly monitoring by cabinet sub committee
  - Croke Park extension agreement would help underpin projected payroll savings



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# **Assessment of compliance with fiscal rules**

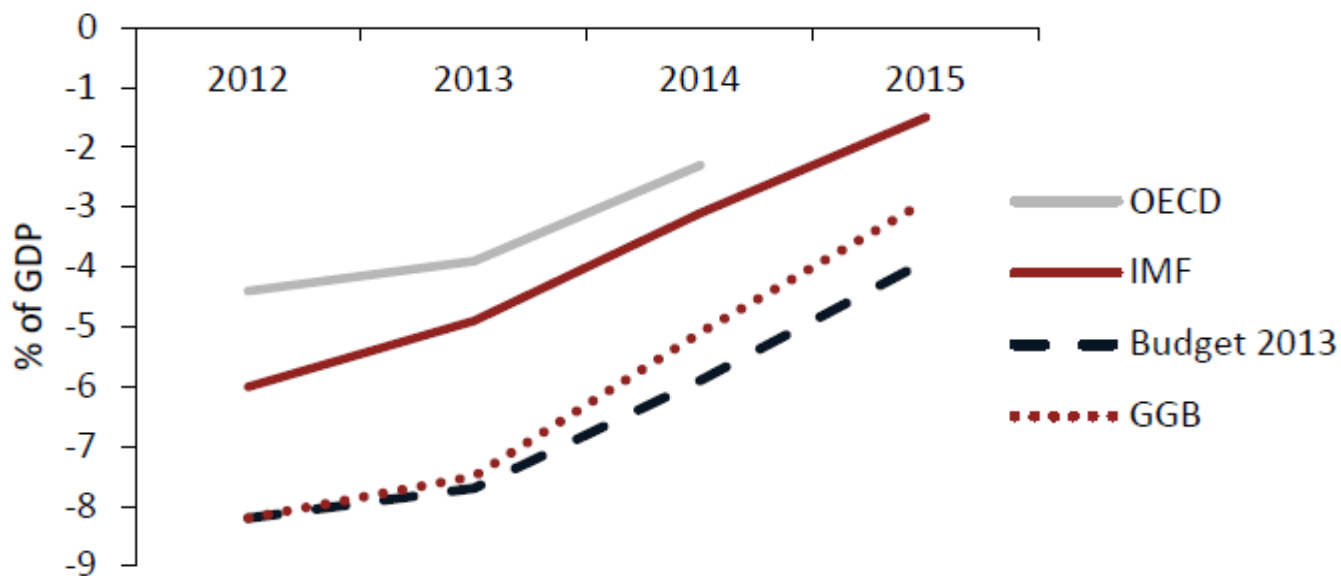
# Assessment of compliance with fiscal rules

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- *Fiscal Responsibility Act* came into force on December 31, 2012
  - National *Budgetary* and *Debt* Rules
  - IFAC monitors compliance with *Budgetary Rule*
  - Placed IFAC on a statutory basis
- *Budget 2013* projections imply compliance with rules
- Significant measurement challenges surrounding the rules (structural budget balance)

# Differences in measurement of structural balance

FIGURE 3.3: ALTERNATIVE ESTIMATES AND PROJECTIONS OF THE STRUCTURAL BALANCE



Note: The OECD does not provide a forecast beyond 2014.



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# Assessment of the fiscal stance

# September Assessment Report

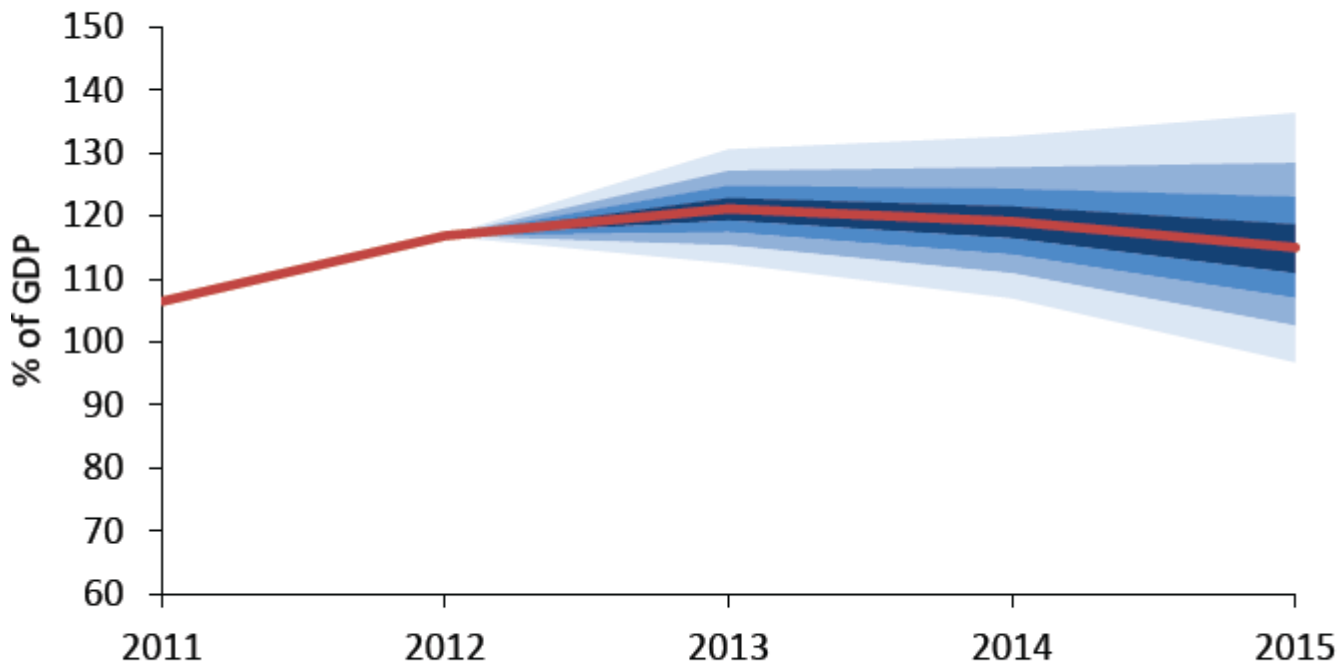
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- Fiscal stance “conducive to prudent economic and budgetary management”
- But case made for an €1.9 billion of adjustments in 2014-2015
  - Provide a margin of safety for meeting targets in an uncertain growth environment



# Debt sustainability remains fragile

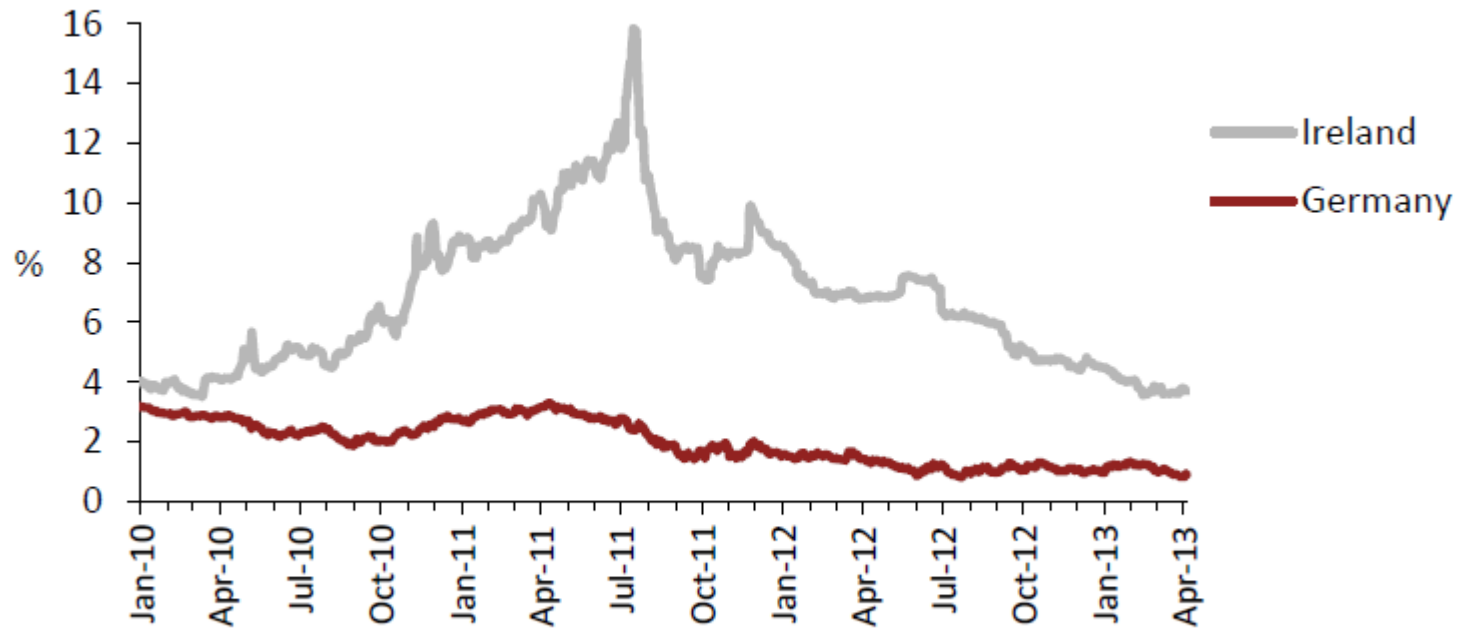
FIGURE 4.1: EVOLUTION OF THE DEBT TO GDP RATIO



Source: Budget 2013 and IFAC calculations.

# Further improvement in creditworthiness

FIGURE 4.2A: 8-YEAR BOND YIELD



Source: DataStream.

# Margin of safety broadly achieved

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- Post *Budget 2013* developments have provided the suggested margin of safety
  - Approximately equivalent to €1.6 billion in additional adjustments
- Assess the planned stance as continuing to be conducive to “prudent economic and budgetary management”
- Council is no longer making a case for additional adjustment over and above current Government plans
- However, the Government should not reduce planned adjustments of €3.1 billion in 2014 and €2 billion in 2015

# Complementary actions to support creditworthiness

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- Post-programme precautionary funding/bond market support
- More supportive terms on official debts
  - Promissory notes transaction
  - Extension of maturities on EFSF/EFSM loans
  - ESM purchases of State-owned equity stakes in banks