



# Irish Fiscal Advisory Council

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## Ireland's Fiscal Adjustment: Achievements and Challenges

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Institute of Public Administration National Conference:  
Economic Recovery and Public Sector Reform



# Overview

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- Crisis
- Achievements
- Remaining challenges

Run on Wholesale Deposits



**Banks**

Self Fulfilling Loss of Confidence as Risk Premium Rises



**Public Finances**

Bank Bailout Costs



Lost Credibility of ELG

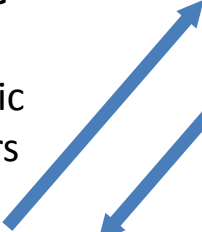
Credit Availability



Asset Values



Automatic Stabilisers



Austerity

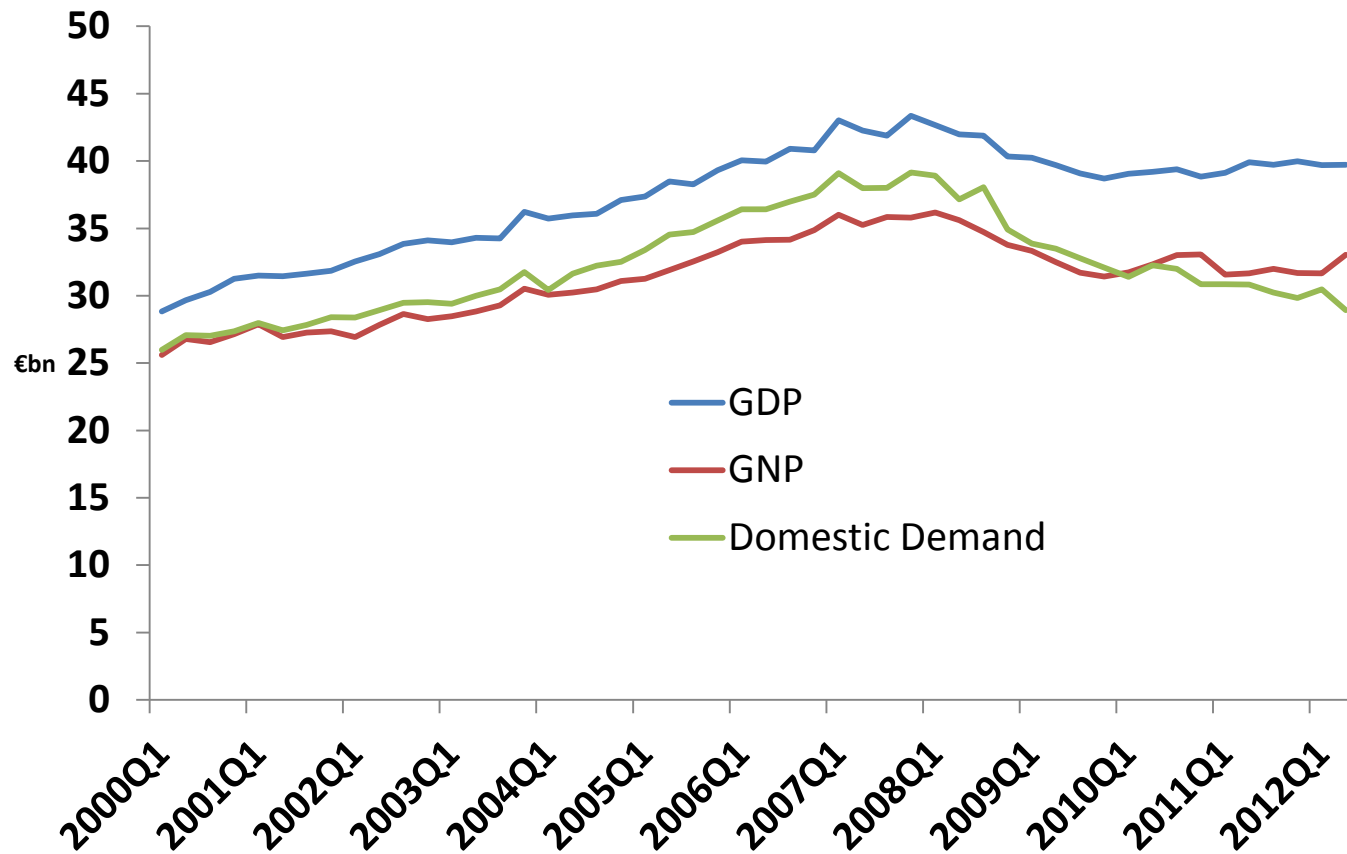


**Growth**

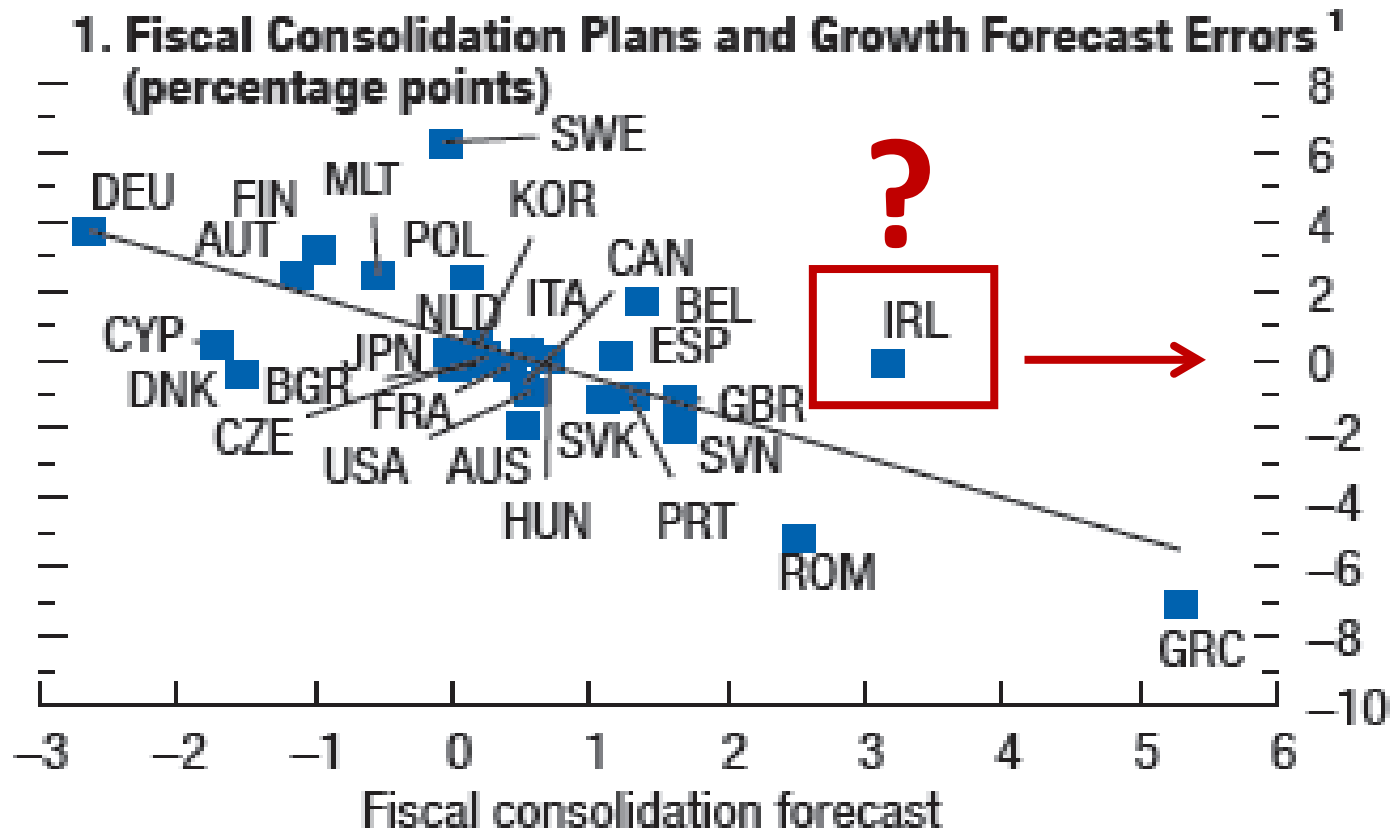


Confidence Effects

# Stabilisation of output

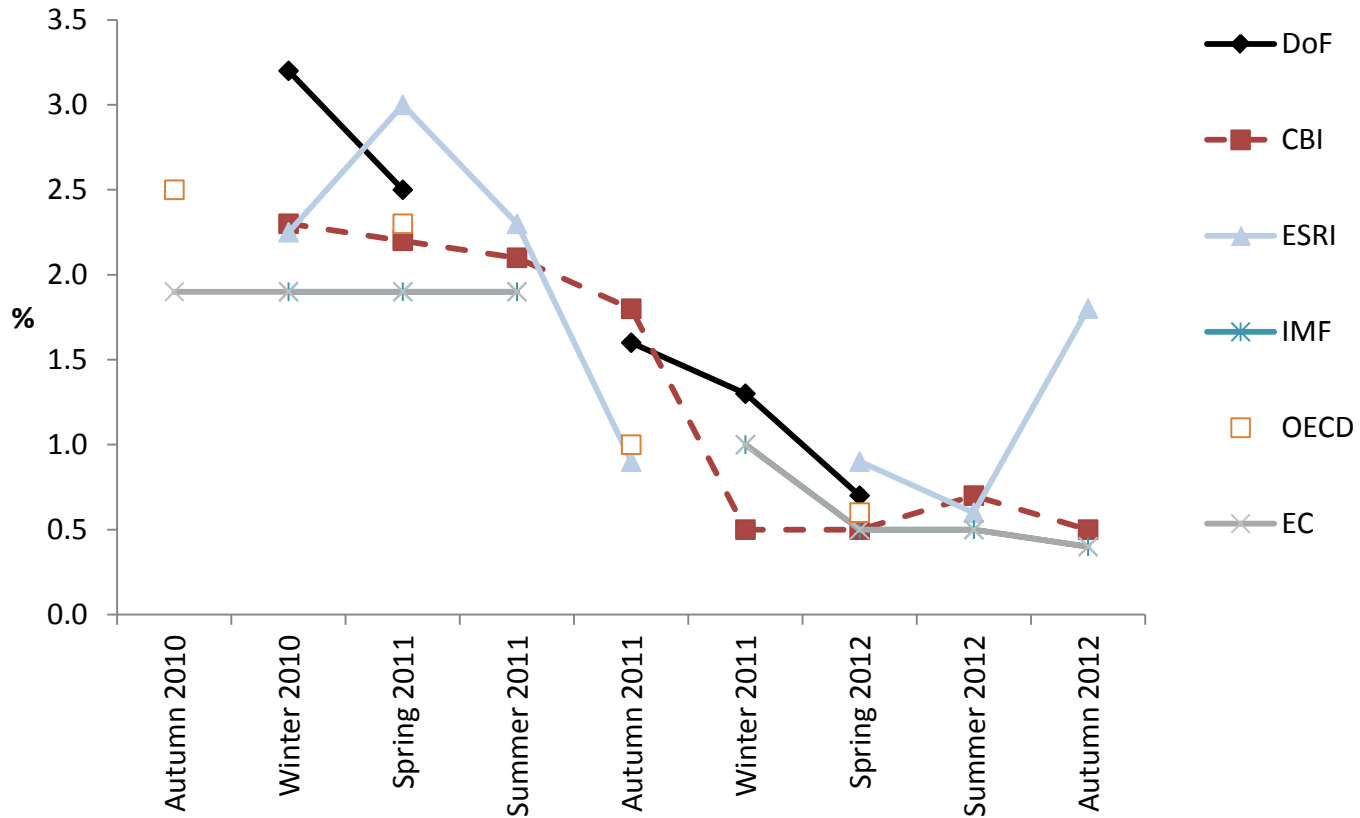


# IMF's new multiplier analysis has raised questions about the broader impact of austerity . . .

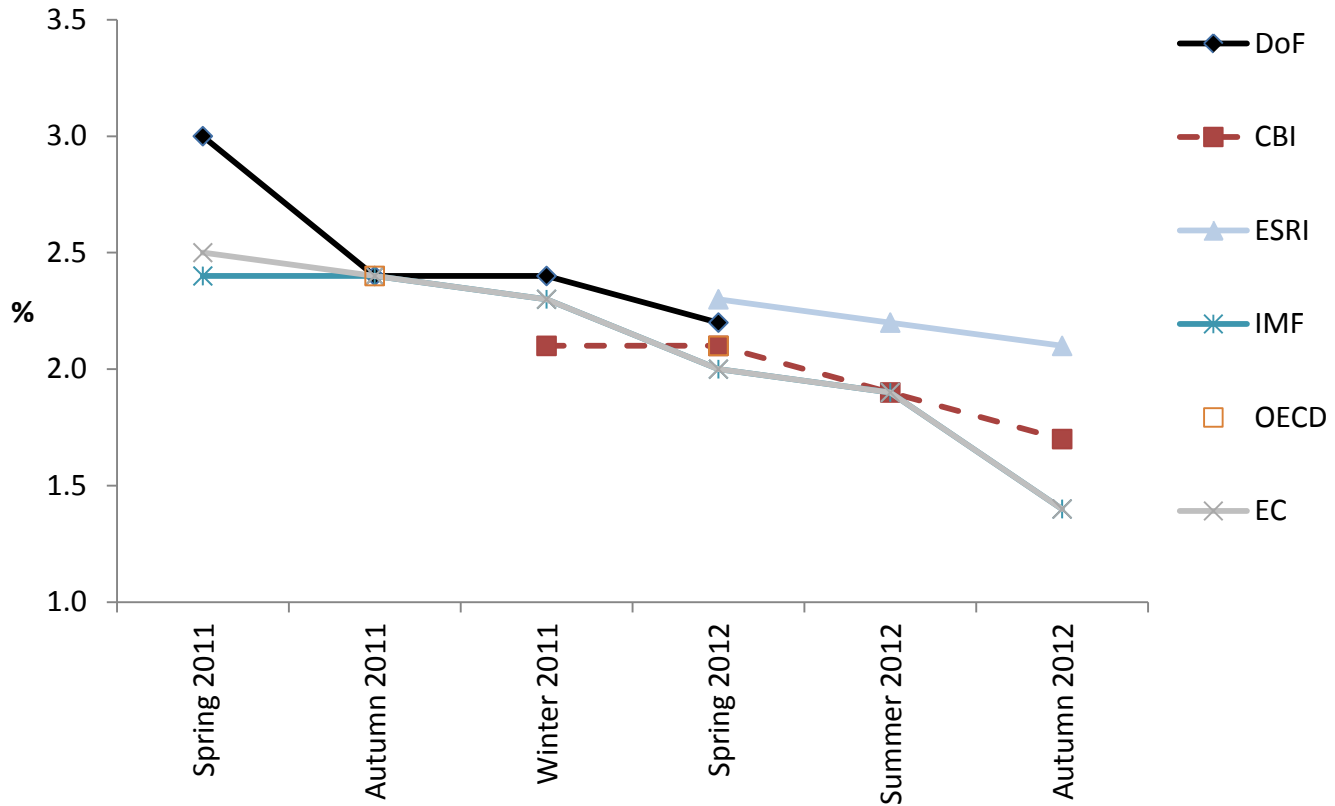


... But more general pattern of downward revisions

## 2012 Growth Forecasts



# 2013 Growth Forecasts





## **Programme targets being met**

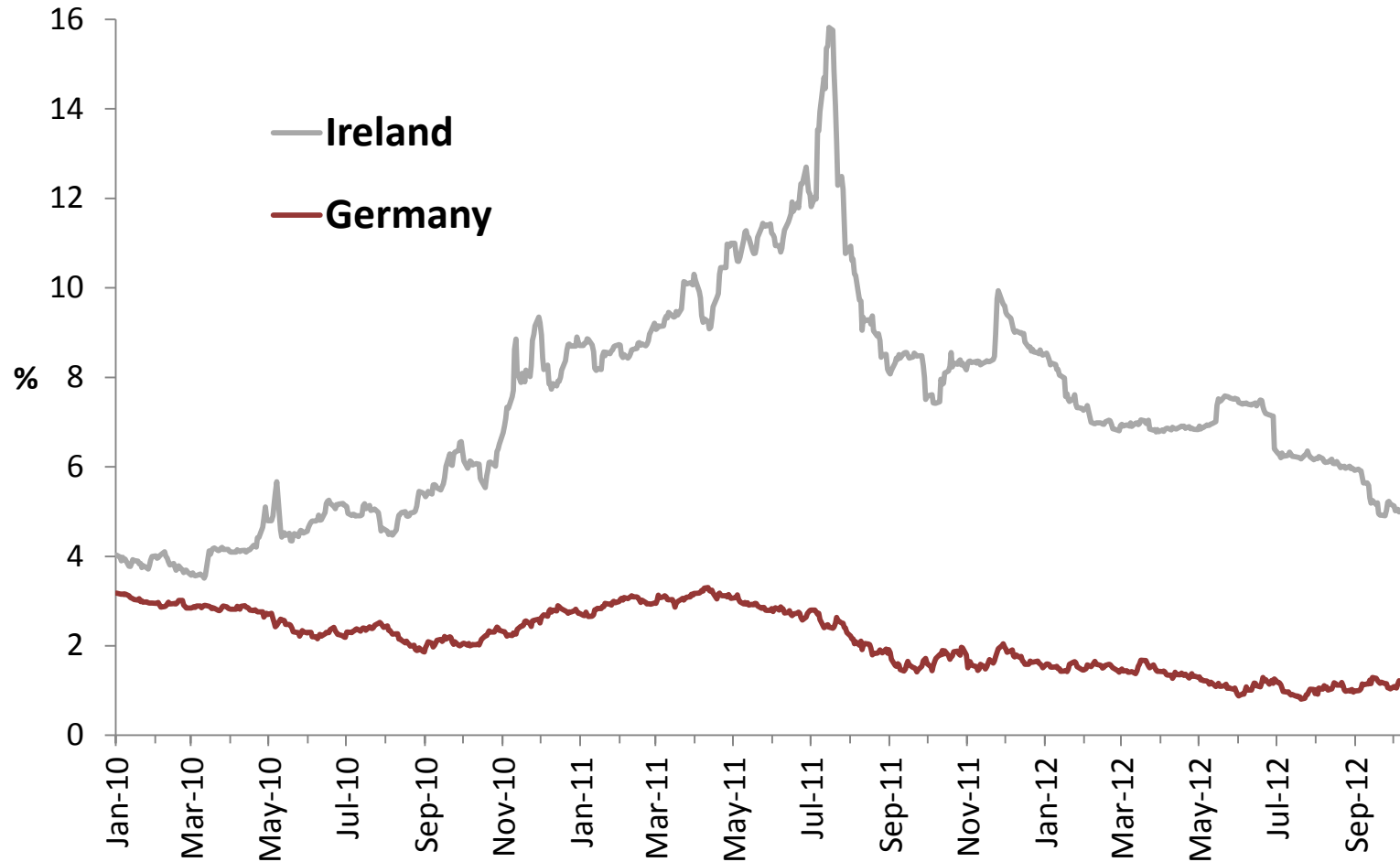
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- General Government deficit target for 2012 = 8.6 percent of GDP
  - Current projection = 8.3 percent of GDP
- General Government deficit target for 2013 = 7.5 percent of GDP
  - Some concerns given recent downward revisions to growth
    - DoF = 2.2 percent (Stability Programme Update, April)
    - IMF = 1.4 percent (World Economic Outlook, October)



# Significant improvement in creditworthiness

## 8-year bond yields



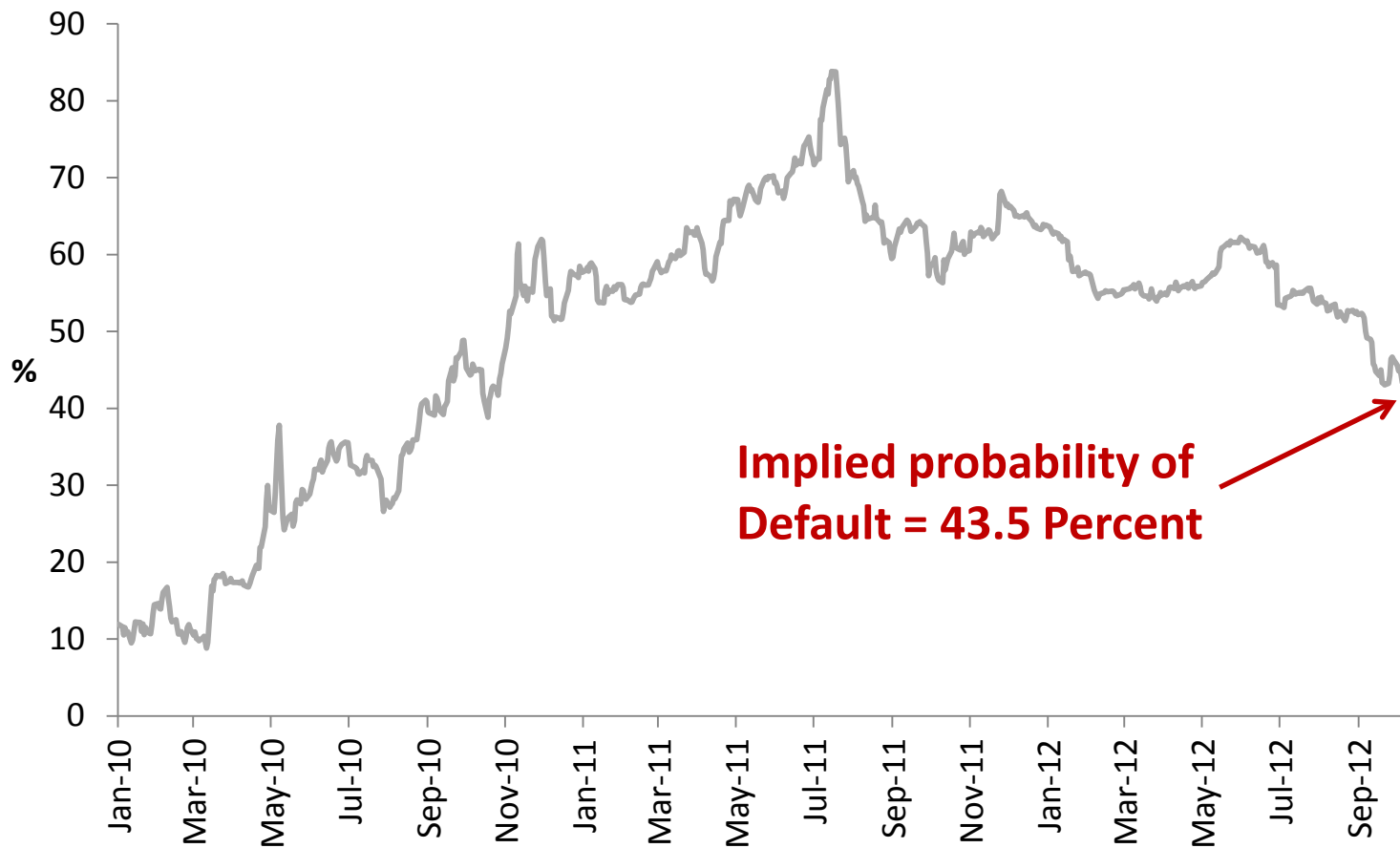
# Implied default probability has fallen . . .

Risk-neutral investors; 50 percent recovery rate; German rate = risk-free rate



# ... But still remains significant

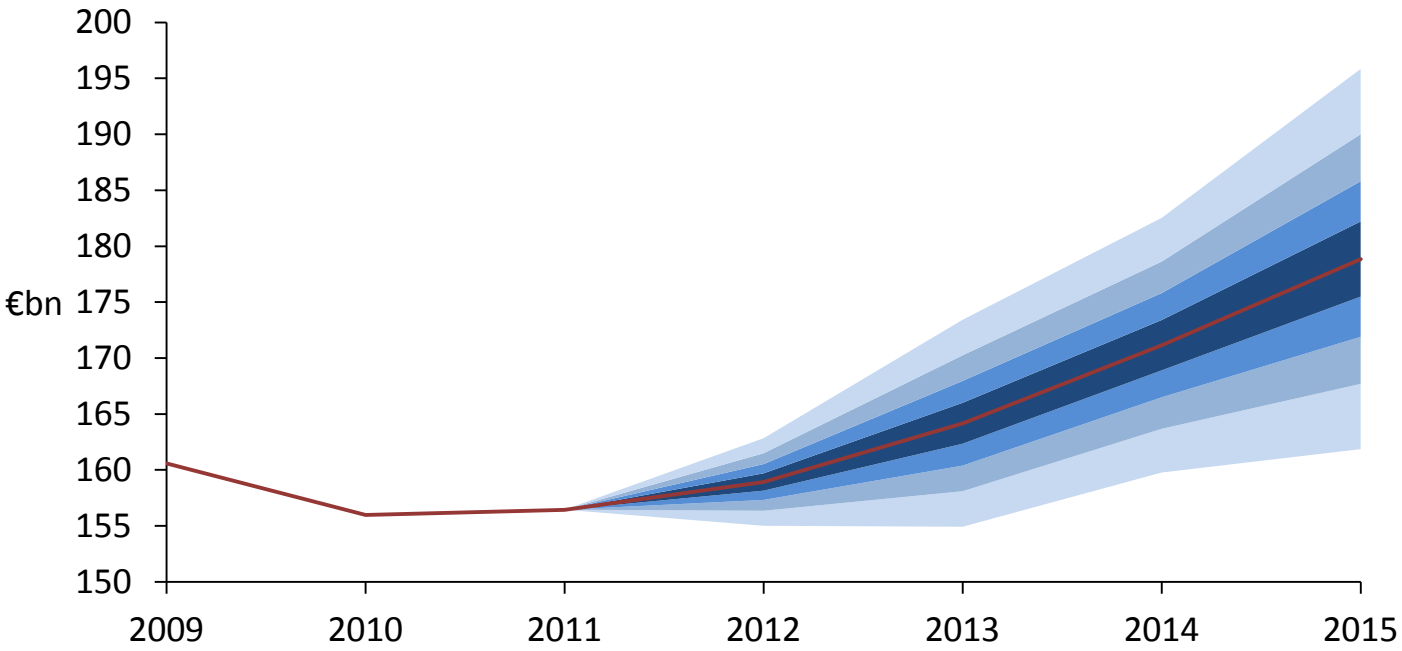
Risk-neutral investors; 50 percent recovery rate; German rate = risk-free rate



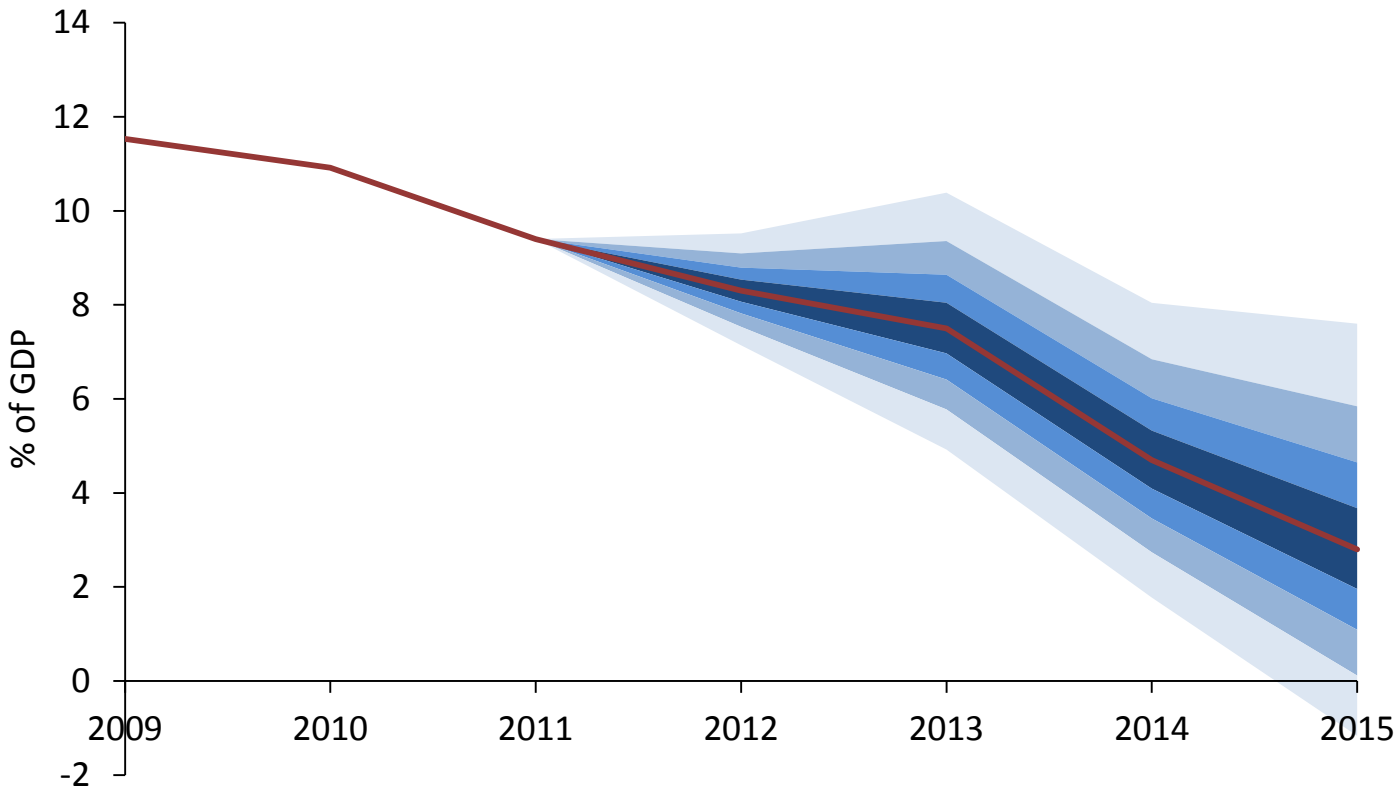


# Uncertainty surrounding growth prospects

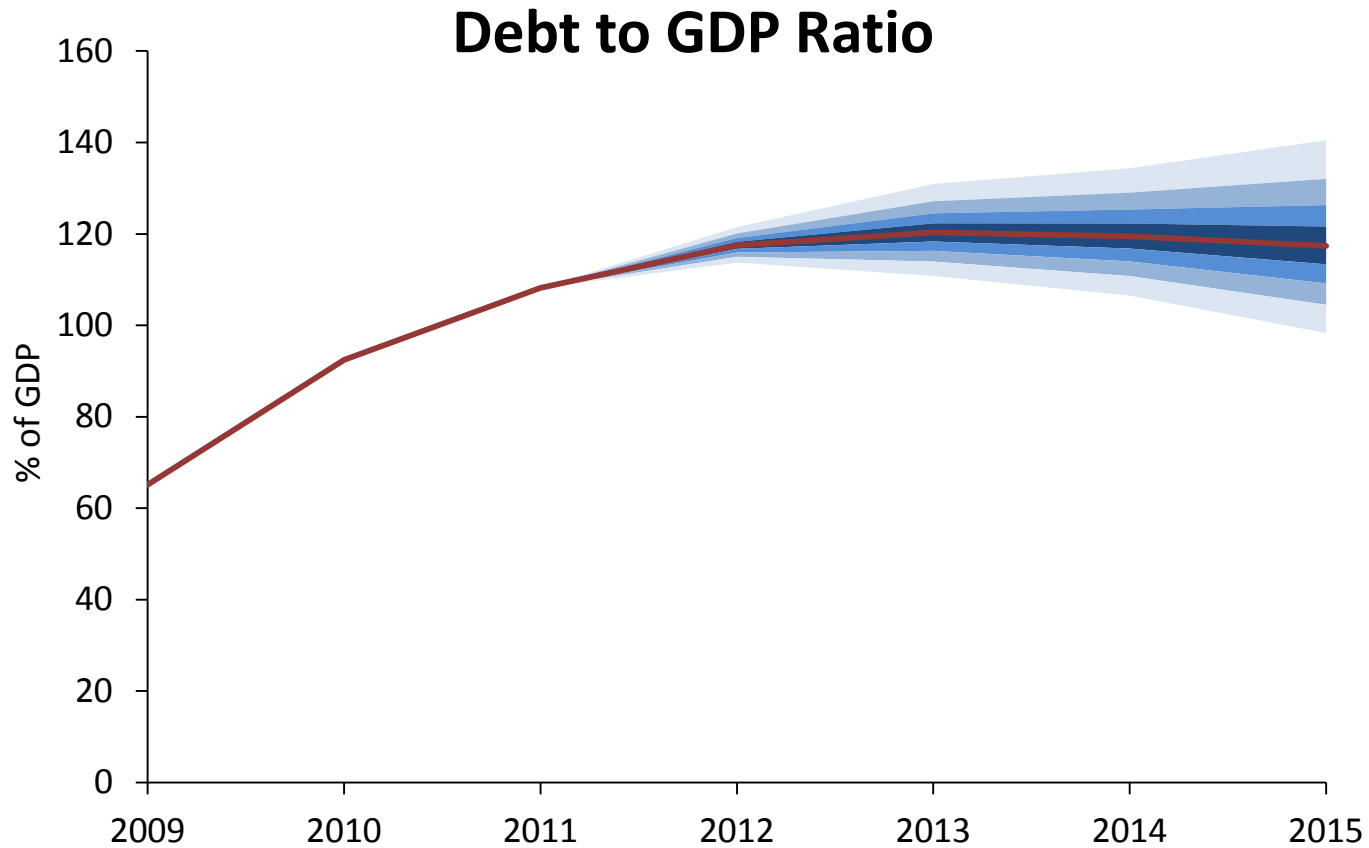
## Nominal GDP



# Growth uncertainty → uncertainty around deficit projections . . .



# ... And so debt sustainability remains fragile



# Restoring creditworthiness – national policies

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- Important to stay the course on fiscal adjustment
  - Value of planning for additional adjustments in 2014/2015
  - Taking options “off the table” increases the challenge
- Importance of a strong commitment not to default



## **Restoring creditworthiness – international policies**

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- Reliability of official support
  - Preferably growth contingent
- Value of relief on banking-related debt
- Value of the ECB's new OMT programme
- Importance of growth-supporting policies in the Euro Zone





# **Irish Fiscal Advisory Council**

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**Compliance with fiscal rules:  
A preliminary examination**



# Fiscal rules

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- Fiscal rules already in place under the revised Stability and Growth Pact (SGP)
- The FRB will implement fiscal rules agreed to under the “Fiscal Compact”
  - Budgetary (or Structural Balance) Rule
  - Debt (or 1/20<sup>th</sup>) Rule
- Mandated role for IFAC in monitoring compliance with the Budgetary Rule as well as assessment of the fiscal stance with reference to the requirements of the SGP



# **Illustrative extended scenario**

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## **2012-2015**

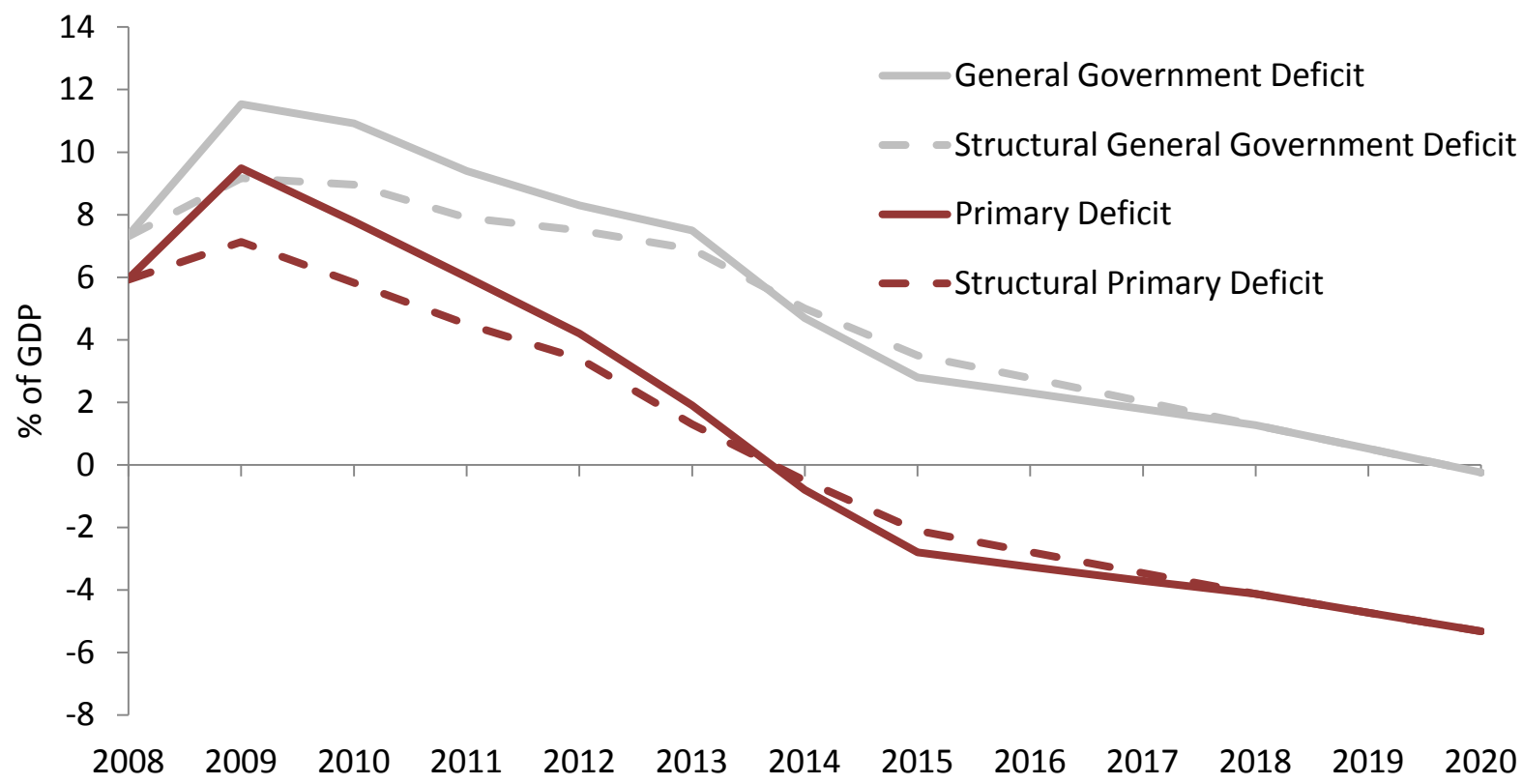
- All assumptions as in SPU 2012

## **2016-2020**

- Nominal potential GDP growth = 4 percent
- Output gap closes by 2018
- Roughly flat real expenditure
- Average interest rate on outstanding debt = 4.9 percent



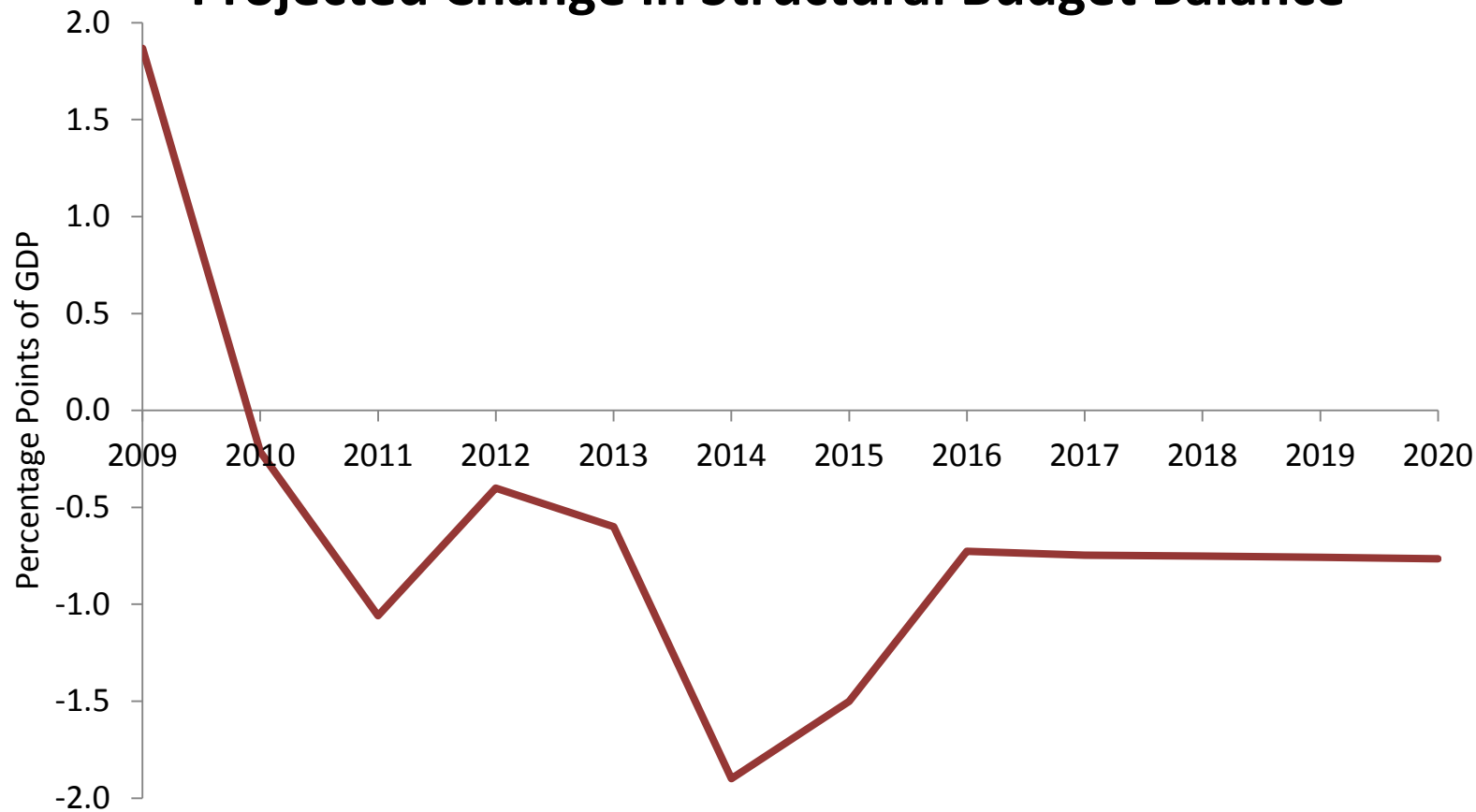
# Projected evolution of key deficit measures





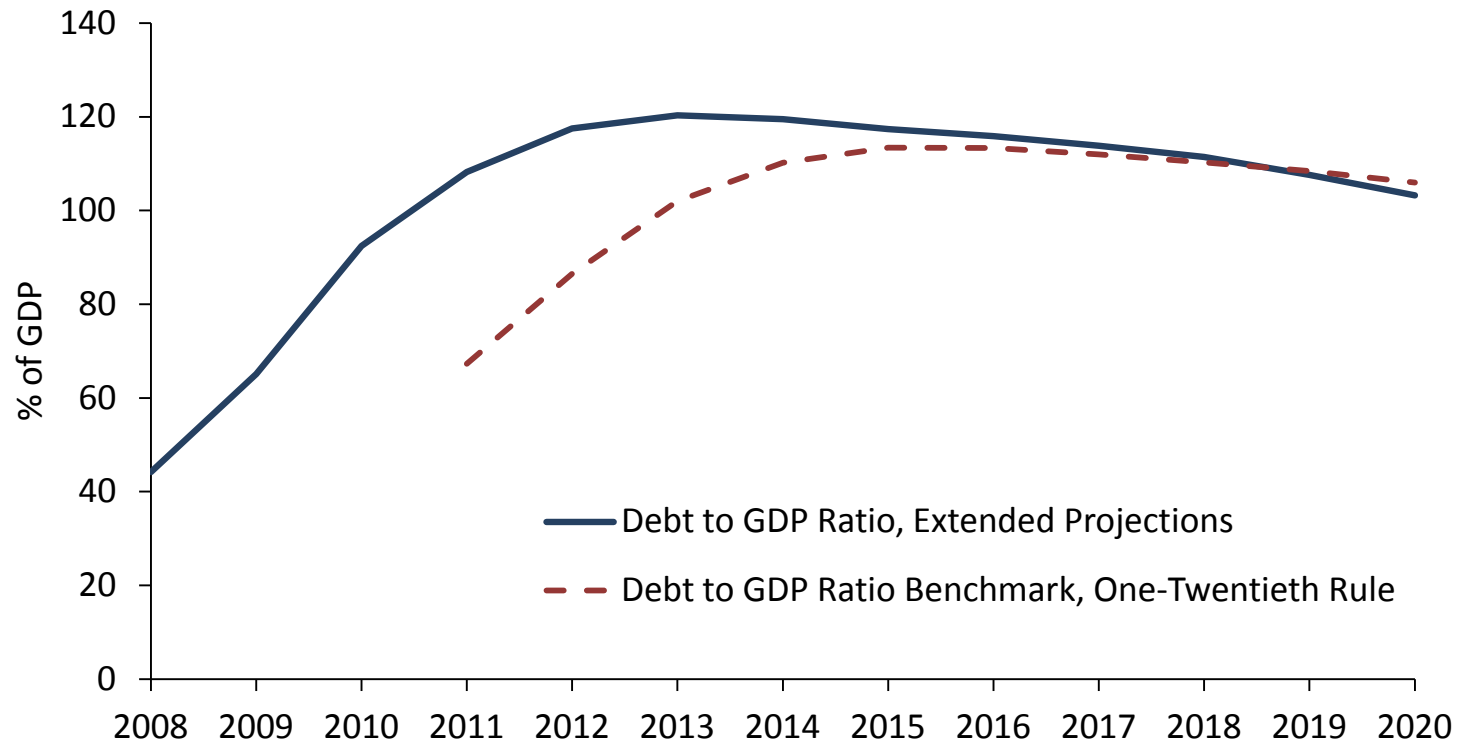
# Compliance with “Budgetary Rule”

## Projected Change in Structural Budget Balance





# Post-2018 compliance with “Debt Rule”





# Summing up

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- Real achievements in resolving the crisis
  - Confidence in capacity to stem the adverse feedback loops is slowly being restored
- But significant vulnerabilities remain