# Medium Term Budgetary Framework

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An Roinn Airgeadais
Department of Finance

**Department of Finance**

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Officials from the Department of Public Expenditure and Reform provided input to this document.

# Medium Term Budgetary Framework

## Section 1 – Introduction and overview

The Medium-term Budgetary Framework (MTBF) is required by Article 9(1) of the Budgetary Frameworks Directive (Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States), which was adopted as part of the "Six-Pack" in 2011. It must be transposed by the end of 2013.[1] Section 7 of SI 508 of 2013 transposing the Directive requires the Minister for Finance to fulfil the requirement set out in Article 9 of the Directive, namely that:

*Member States shall establish a credible, effective medium- term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective.*

In accordance with the Directive, this Medium Term Budgetary Framework acts as a procedural manual, providing an overview of the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government. This document is consistent with the provisions in national and European legislation, including relevant references.

This document contains information on the planning process underlying the two annual economic and fiscal policy documents, namely the Stability Programme Update and the Budget. These are the key medium-term fiscal strategy documents in which Ireland sets out its official macroeconomic and budgetary forecasts for the coming three years. It also lays out the required procedures if, despite its best efforts, Ireland becomes subject to a new Excessive Deficit Procedure, a Correction Plan under the Fiscal Responsibility Act 2012 or enhanced surveillance under the Stability and Growth Pact.

This document is complementary to the existing systems of budgetary accounting and statistical reporting, and aims to consolidate the technical details of the procedures necessary. It will be subject to regular revision and updating, as required.

## Section 2 - Background – underlying EU fiscal architecture

As a member of the European Union, Ireland is subject to the Stability and Growth Pact (the 'SGP').[2] Articles 121 and 126 of the Treaty on the Functioning of the European Union (TFEU) define the Stability and Growth Pact, and further legal implementation is given by a number of European regulations which have been amended over recent years.[3] The best known elements of the SGP are the general government debt-to GDP limit of 60%, and the annual general government deficit limit of 3% of GDP.

The SGP has two arms, a preventive arm and a corrective arm. The preventive arm aims to ensure that a country follows appropriate fiscal policies, through monitoring and surveillance. The reforms

[1] All other parts of the Six-Pack had direct application in Irish law as they are regulations.
[2] An overview of the changes to the Stability and Growth Pact is contained in section one of this paper. http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp150_en.pdf
[3] For more details, please see the *Vade Mecum on the Stability and Growth Pact*, available at http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp151_en.pdf

to the SGP in 2011 as part of the Six-Pack, have increased the level of surveillance at an earlier stage in order to identify any harmful fiscal trends which could lead to a breach of the SGP. The cornerstone of the preventive arm is the medium-term budgetary objective (MTO). This is a structural measure of the fiscal position, meaning it is cyclically adjusted and excludes one-off and temporary measures.[4] Following discussion with the Commission, Member States outline their medium-term budgetary plans to achieve or exceed their MTO in their respective Stability or Convergence Programmes, and then implement these through annual Budgets. These are monitored by the European Commission.

In the event of a country exceeding the general government[5] deficit limit of 3% of GDP or the 60% debt-to-GDP ratio, the corrective arm may come into effect. The European Commission and the Council may launch an Excessive Deficit Procedure (EDP), which contains steps to correct the budgetary excesses and return the country to sustainable fiscal policies. In addition, following the adoption of further reforms known as the "Two-Pack", a euro area country must submit an economic partnership programme. A major reform in the Six-Pack was the operationalization of the debt criterion, so that an EDP may also be launched on the basis of a debt ratio above 60% of GDP which would not diminish at a satisfactory pace.[6] Previously, an EDP could only be launched on the basis of a deficit above 3% of GDP.

Non-compliance with the SGP or elements thereof can lead to the imposition of sanctions for euro area countries, including fines and the loss of cohesion funding for non-euro area countries. Under the Six-Pack, these sanctions have been strengthened. For the first time, a range of semi-automatic financial sanctions for countries who do not comply with Council[7] recommendations on their deficit and debt targets was introduced. These sanctions commence with deposits which are returned to Member States if the situation is rectified but if not rectified, the deposits are retained and converted into sanctions. The fines can be up to 0.2% of GDP. By comparison to previous sanctions, these also take effect earlier than previously under the SGP. More details of these elements are contained later in the text.

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[4] The structural balance is the budgetary position that would prevail if the economy was operating at its full capacity. For the purposes of the SGP, a production function approach that is harmonised across Member States is used to assess the productive capacity of the economy. Deviations of actual demand from full capacity (the output gap) are an estimate of the economy's cyclical position; the cyclical budgetary component is determined from this output gap together with estimates of the sensitivity of revenue and spending to the economy's cycle.
It is important to emphasize that this one-size-fits-all methodology can – especially for small, open economies undergoing rapid changes – lead to real-time estimates of the structural balance that are sometimes counter-intuitive. In Ireland's case, this means that the results need to be interpreted with caution.

[5] As per Eurostat, the general government sector includes all institutional units whose output is intended for individual and collective consumption and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth. The general government sector is subdivided into four sub-sectors: central government, state government (where applicable), local government and social security funds (where applicable).

[6] Graph 2.2 on pg 52 in the *Vade mecum* lays this out clearly - "*The steps to follow to assess whether an EDP should be launched on the basis of the debt criterion.*"

[7] This refers to the Council of the European Union, which for economic and fiscal matters, consists of the Economic and Financial Affairs Council (ECOFIN). It is composed of the Economics and Finance Ministers of the Member States, as well as Budget Ministers when budgetary issues are discussed. It meets once a month. Unless otherwise specified, all references in the MTBF to "Council" refer to ECOFIN. References to the Irish Fiscal Advisory Council will alternatively be written as the Fiscal Council.

The Six-Pack and Two-Pack include specific requirements on medium-term fiscal planning. As mentioned above , the Directive on Budgetary Frameworks (part of the Six-pack) lays out (in chapter V) requirements on MTBFs including procedures for setting multi-annual objectives for fiscal aggregates, medium-term policy projections, and assessment of long-term impacts, while ensuring consistency between annual budgets and multi-annual figures. The Statutory Instrument transposing the Directive into Irish law (SI 508 of 2013) and the correlation table explaining how all articles of the Directive are implemented are attached in Annex 6. The Two-Pack also calls for the presentation of national medium-term fiscal plans based on independent forecasts (see footnote 14).

**Fiscal Rules applying to Ireland**

At present, Ireland is on track to correct its excessive deficit by 2015, thereby exiting the corrective arm of the Stability and Growth Pact. Thereafter, the public finances in Ireland will be subject to the preventive arm of the SGP and the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union (the "Fiscal Compact"). The budgetary and debt rules contained in the Fiscal Compact have already been given effect in Irish law through the Fiscal Responsibility Act 2012, following the passage of the Constitutional referendum to accept the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union.

To be clear, here are budgetary and debt rules from the Fiscal Compact.

*Budgetary rule*

The budgetary rule is that one of two conditions must be satisfied. These conditions are that the budgetary position of general government:

- is in balance or in surplus and this will be deemed to be the case if the medium-term budgetary objective set under the Stability and Growth Pact is achieved or,
- if it is not, that it is on the adjustment path towards our medium-term budgetary objective.[8]

*Debt rul*e

The debt rule states that debt in excess of the 60% debt to GDP ratio must be reduced by at least 1/20$^{th}$ per year on average.[9] There is a transition period for Member States, including Ireland, that were subject to an excessive deficit procedure on 8 November 2011. This transition period means that the debt rule will only apply three years after the correction of the existing excessive deficit. Our existing excessive deficit is set to be corrected in 2015 when our general government deficit is targeted to be just under 3% of GDP. This means that the 1/20$^{th}$ rule will fully apply from 2019 onwards. In the meantime, it is required that there is satisfactory progress in reducing the debt to GDP ratio and this will be assessed by the Commission and ECOFIN.

[8] In line with the Fiscal Compact, neither condition has to be met in the event of exceptional circumstances. The definition of exceptional circumstances means an unusual event outside the control of the State which has a major impact on the financial position of the general government or a period of severe economic downturn, provided that the temporary deviation of the State does not endanger fiscal sustainability in the medium term.
[9] See Graph 2.2 on pg 52 in the *Vade mecum* - "*The steps to follow to assess whether an EDP should be launched on the basis of the debt criterion.*"

*Expenditure benchmark*

Complementary to the MTO is the 'expenditure benchmark,' which helps ensure expenditure control in order to move towards, or maintain, a balanced budget in structural terms.

The expenditure benchmark applies to general government expenditure net of discretionary measures and excluding interest, payments resulting from the effects of changes in cyclical unemployment and expenditure co-financed by EU-funded programmes. It provides that the remaining general government (GG) expenditure[10] (including the local authority and other subsectors) does not grow faster in real terms than the potential growth rate of the economy when a Member State is at its MTO unless offsetting discretionary revenue measures are raised to fund the difference. When a Member State has not achieved its MTO, GG expenditure growth is constrained further to assist the Member State to get to their MTO. This is done by incorporating a "convergence margin"[11] which is calculated to ensure that the required annual adjustment towards the MTO in structural terms is achieved.[12] Member States not at their MTO may not introduce discretionary revenue reductions unless they are matched by other increases or expenditure reductions. As such, any tax buoyancy such as Ireland saw in previous years would not lead to extra expenditure.

MTOs are revised every three years, at the same time that the revised reference values underlying the expenditure benchmark are calculated. These include potential growth outturns and projections, averaged over a ten year period. Taking these into account, a subsequent reference rate for the expenditure benchmark is calculated. The convergence margin is also revised at the same time. For the period 2014 to 2016, Ireland's reference rate is 0.6% of GDP. The convergence margin is -1.4% of GDP for the same period. As Ireland is not projected to reach its MTO until 2018, the convergence margin applies and this means that the applicable reference rate for real expenditure growth for Ireland from 2014 to 2016 is -0.7% of GDP (rounding effects apply). The applicable GDP deflator for each year is then applied to give the permitted rate of increase prior to discretionary revenue increases.

The introduction of the expenditure benchmark means that there is effectively a fixed amount of funding to be allocated between the various requirements of the State. The growth of this "fixed pot" is subject to a strict formula, and additional expenditure requirements must be funded by discretionary revenue increases (primarily tax increases) or expenditure cuts elsewhere. To operationalize compliance with the expenditure benchmark in our domestic budgetary process, the

[10] As stated before, it is important to note that there is a difference between general government expenditure and what is covered by the Exchequer. As per Eurostat, the general government sector includes all institutional units whose output is intended for individual and collective consumption and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth. The general government sector is subdivided into four sub-sectors: central government, state government (where applicable), local government and social security funds (where applicable). The Exchequer makes up the vast majority of Eurostat's central government classification with the remainder being comprised of non-market public corporations and extra-budgetary funds.

[11] The methodology for calculating the convergence margin is laid out in the *Vade mecum*, page 32, in Box 1.8 *Calculating the convergence margin*

[12] Box 1.7, *The medium term reference rate of potential growth and the convergence margin* on Page 30 of the *Vade mecum* contains the latest figures for the EU Member States, as set in 2012. http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp151_en.pdf

Ministers and Secretaries (Amendment) Act 2013 put the Government Expenditure Ceiling and the previously administrative Ministerial Expenditure Ceilings on a statutory basis. The Government Expenditure Ceiling covers Voted expenditure authorized by the Dáil each year plus appropriations-in-aid and expenditure funded by the Social Insurance Fund and the National Training Fund. All of these elements are set out in the Expenditure Report and the Revised Estimates Volume each year. Annex 2 shows the transition from the level of general government expenditure that is permitted under the expenditure benchmark to the Government Expenditure Ceiling. Annex 5 contains the circular issued by the Department of Public Expenditure to govern the operation of the Ministerial Expenditure Ceilings.

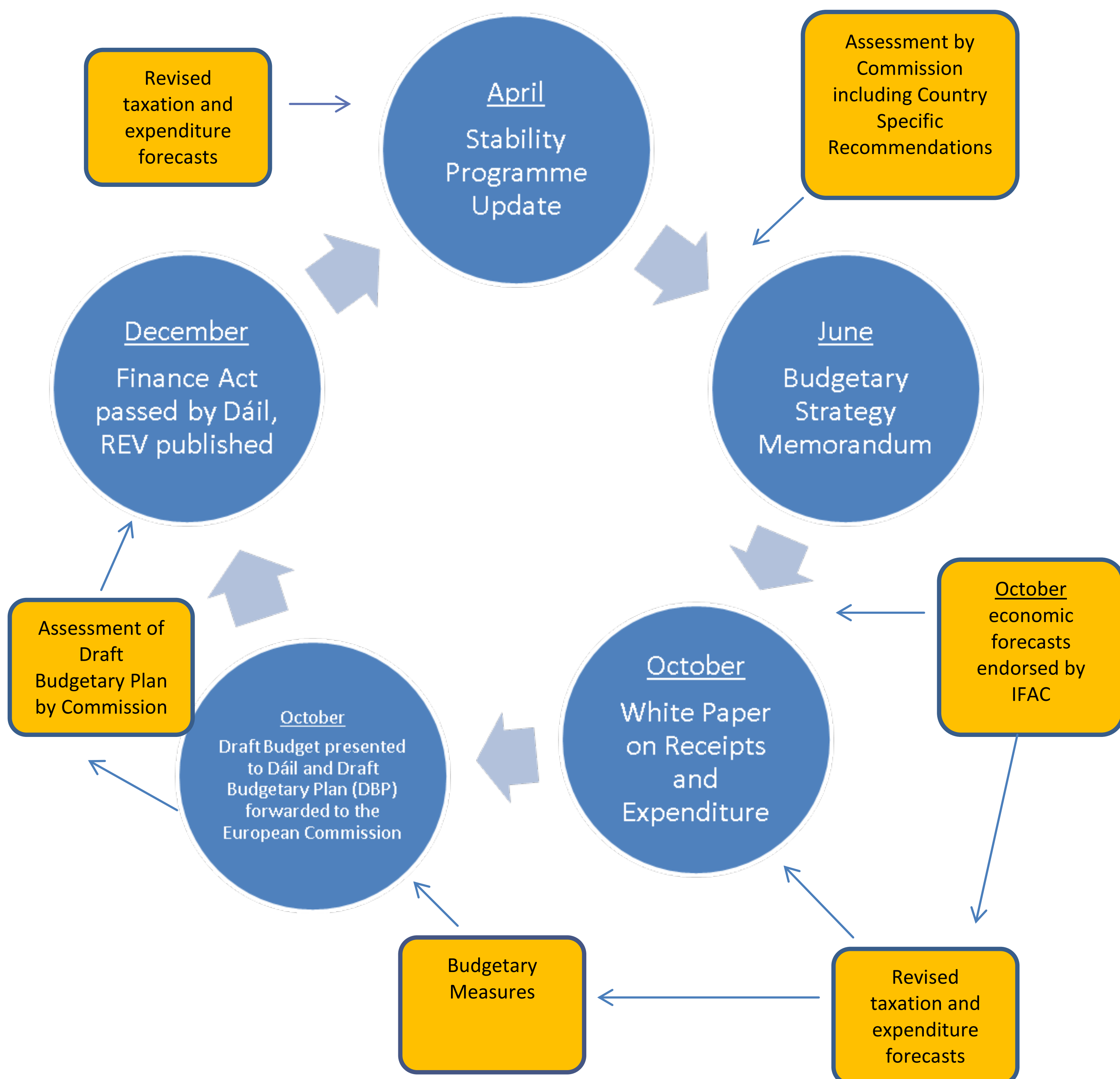
The key change is that the SGP now encompasses the level of expenditure, not just the implications expenditure has for deficits, and just because there are resources to pay for increased expenditure, does not mean that it can proceed. Therefore, public expenditure has to be planned on a general government basis. Under the previous system, expenditure policy was largely concerned with Voted expenditure funded by the Exchequer because public expenditure funded by the own resources of general government bodies, or sub-sectors, did not matter provided there were no general government deficit implications.

To help ensure compliance with the expenditure benchmark and its application on a fair and transparent basis across the whole of general government, the three principles set out below will be used:

- General government sub-sectors may not increase their expenditure in a given year to an extent greater than that permitted by the general increase permitted by the expenditure benchmark excluding the effect of discretionary revenue measures;
- Additional expenditure to be funded from the introduction of discretionary revenue increases should, in principle, stay with the relevant sub-sectors/entities; and
- Where a general government body under the aegis of a particular Department has own-resource income which it intends to use for expenditure, and the total expenditure of that body goes beyond the general increase permitted in the first principle above as a result, then the relevant Ministerial Expenditure Ceiling may be adjusted downwards by Government on a proposal from the Minister for Public Expenditure and Reform, if compensatory changes within the relevant Ministerial Expenditure Ceilings are insufficient and a reduction is necessary to ensure compliance with the Government Expenditure Ceiling.

The SGP and Fiscal Compact obligations set out above must be complied with in every one of the processes and outputs of our fiscal planning process, and in the implementation of the annual budget. In the event of a breach of these rules, the potential consequences are set out in Annex 3.

## Section 3 - The main Irish fiscal outputs




Under the budgetary framework, there are two major economic and fiscal policy documents annually – the Stability Programme Update (SPU) in mid to late April and the Budget, on or before October 15th. Both the SPU and the Budget present medium-term macroeconomic and fiscal projections, and are part of a whole-year budgetary cycle and reflect the political priorities of the Government and the recommendations made in general or to Ireland under the European Semester.

The cycle begins with the SPU in April, which forms a basis for the Budget Strategy Memorandum in June. The Budget Strategy Memorandum is discussed by Government, and the resulting strategy decisions feed into the actions taken in the Budget. Following the publication of the Budget in

October, legislation to implement the revenue and expenditure measures is passed, and completed before the end of the year.

Stability Programme Update (SPU)[13][14]

The SPU sets out the budgetary strategy of the Government and updated forecasts of the Department of Finance, for the medium-term.[15] It provides forecasts for the current year and the subsequent three years, and includes an update on the quality of public finances and sustainability of the public finances. Until the MTO is achieved, an adjustment path for each year must be published, laying out the path to achievement of the MTO. The macroeconomic forecasts underlying the SPU must be independently endorsed.[16] The SPU is prepared in accordance with the Code of Conduct[17] published by Council.

To assess the long-term sustainability of public finances, Ireland takes part in the work of the Ageing Working Group. Given the importance of this issue, the Economic Policy Committee in conjunction with the European Commission undertakes an assessment of the situation in all Member States every three years. It provides a useful tool in demonstrating the scale and timing of age-related fiscal challenges and facilitating the development of policies to mitigate the effects, which are taken into account when preparing medium-term policy decisions.[18] In line with the Code of Conduct, the long-term spending projections in the chapter on long-term sustainability of public finances are updated with policy changes.

Following Government agreement, the SPU is made public and submitted to the Commission ideally on April 15th, but in any case not later than April 30th. Prior to submission to the Commission, the Minister for Finance sends the SPU to the Joint Oireachtas Committee on Finance and Public Expenditure and Reform.

Following the publication of the SPU, it is assessed by both the European Commission and the Irish Fiscal Advisory Council. The European Commission conduct two assessments – a country-specific assessment, with country-specific recommendations for Member States not in economic adjustment programmes and an overall assessment of the prospects of the euro area as a whole, with supporting Council recommendations. The European Commission's assessment of each country

[13] Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies lays out the requirements for a stability programme. Article 3 sets out the requirement, Article 4 the deadline.
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1997R1466:20111213:EN:PDF

[14] Article 4(1) of Regulation (EU) 473/2013 requires that euro area member states publish their national medium-term fiscal plans in April, preferably by 15th April, but in any case by 30th April. Member States can choose – either this can be prepared alongside the Stability or Convergence Programme, or the national medium-term fiscal plan and stability programme may be the same document. Ireland intends its SPU to serve as its medium-term fiscal plan.

[15] Further detail of the methodology underlying forecasting is laid out in Section 6.

[16] See Section 5.

[17] The Code of Conduct for the SPU, namely "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes", September 2012, lays out the requirements for the SPU.
http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

[18] 2012 Ageing Report, Economic and Budgetary Projections for the EU-27 Member States (2010-2060),
http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-2_en.pdf

monitors the three-year outlook of their forecasts, including their debt and deficit, and also their structural position with regard to their MTO and the expenditure benchmark. In the event that a significant deviation occurs[19], this can lead to a warning or trigger subsequent procedures.[20]

The Irish Fiscal Advisory Council also assesses the SPU, and publishes, in accordance with the Fiscal Responsibility Act 2012[21]:

- an assessment of the official forecasts;
- an assessment of whether the fiscal stance for the year or years concerned is, in the opinion of the Fiscal Council, conducive to prudent economic and budgetary management, including by reference to the Stability and Growth Pact; and
- an assessment of whether the budgetary rule is being complied with.

The IFAC assessment also covers whether any deviation from the adjustment path or from the MTO constitutes a significant deviation. If IFAC considers it does, it assesses whether:
- the Government has brought forward a correction plan as required under the Fiscal Responsibility Act 2012;
- the correction plan is working to correct the deviation; and
- if exceptional circumstances exist or have ceased to exist.

In relation to the latter three points, Government is required to explain to the Dáil if it does not accept the IFAC assessment.

Budget and Draft Budgetary Plan

Annually, on or before 15th October,[22] the Minister for Finance and Minister for Public Expenditure and Reform shall present their annual Budget Statement and Expenditure Report to the Dáil, setting out the Government's taxation policy, expenditure decisions and budgetary targets for the upcoming year, which must be in compliance with the SGP and the fiscal rules set out in section 7 of the MTBF. As per Ireland's usual practice[23], the Budget also sets out the updated economic and fiscal projections for the subsequent three years. The Expenditure Report includes the individual Estimates for each Department for the coming year in accordance with the Government Expenditure Ceiling, which is set by Government following a proposal of the Minister of Finance.[24] It also sets out the Ministerial Expenditure Ceilings for the next three years. Both the Government Expenditure Ceilings and Ministerial Expenditure Ceilings are calculated to ensure compliance with the SGP's expenditure benchmark.

[19] Article 6(3) of Council Regulation (EC) 1466/97 defines a significant deviation as 0.5% of GDP in a single year or 0.25% of GDP in two consecutive years.
[20] See Annex 3.
[21] http://www.irishstatutebook.ie/2012/en/act/pub/0039/index.html
[22] This is a requirement under Regulation (EU) 473/2013, Article 4(2)
[23] Ireland introduced multi-annual budgeting in the late 1990s.
[24] Under the Ministers and Secretaries (Amendment) Act 2013, each year the Government shall, upon a proposal of the Minister for Finance approve an upper limit on the amount of Government expenditure for each of the 3 financial years immediately following the current financial year.
http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf

Following the passage of Regulation (EU) 473/2013, a draft budgetary plan containing an agreed harmonised set of information will be included in the budgetary material. All euro area Member States, unless they are in a macroeconomic adjustment programme[25], are required to submit this draft budgetary plan for the forthcoming year to the Commission and the Eurogroup, and the format is set out in a Code of Conduct[26].

The budgetary material also contains a number of supplementary tables, which present general government data. Some of these tables outline summary data showing outturn data for the past year and forecast data for the current and upcoming three years. One table shows a comparison of current year revenue and expenditure figures, showing any differences between the SPU and Budget. As referenced before, general government data are different to Exchequer data. Each Budget and SPU includes a table which provides a "walk," showing the transition between the Exchequer balance and the general government balance. This gives an overview of the balance of receipts and expenditure for other elements of expenditure, such as extra budgetary funds, e.g. the Local Government Fund, and also the impact of investments, such as those made in the banking system.

Following the publication of the Budget and the submission of the draft budgetary plan, monitoring assessments are completed by both the European Commission and the Irish Fiscal Advisory Council. The European Commission conduct two assessments – a country-specific opinion on each Member State's draft budgetary plan and an overall assessment of the budgetary situation and prospects of the euro area as a whole. The European Commission's opinion focuses on the forthcoming year, and is based on the requirements of the Stability and Growth Plan – in particular the country-specific recommendations and the need to comply with the MTO requirements. For countries under an Excessive Deficit Procedure, progress towards meeting the obligations stemming from the recommendations issued will be a central aspect of the assessment.

The Commission's opinion will be submitted before the end of the year. However, if the Commission identifies particularly serious non-compliance with the European budgetary policy obligations, it can ask for a new draft budgetary plan to be submitted within two weeks of the submission of the original draft budgetary plan.

The Irish Fiscal Advisory Council also assesses the Budget, and publishes, in accordance with the Fiscal Responsibility Act 2012[27];

- an assessment of the official forecasts;
- an assessment of whether the fiscal stance for the year or years concerned is, in the opinion of the Fiscal Council, conducive to prudent economic and budgetary management, including by reference to the Stability and Growth Pact; and
- an assessment of whether the budgetary rule is being complied with.

[25] Under Article 13 of Regulation (EU) 473/2013, Member States subject to a macroeconomic adjustment programme are not required to prepare a draft budgetary plan.

[26] "*Specifications on the implementation of the Two Pack and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports.*" http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/130701_-_two_pack_coc_final_endorsed.pdf

[27] http://www.irishstatutebook.ie/2012/en/act/pub/0039/index.html

The IFAC assessment also covers whether any deviation from the adjustment path or from the MTO constitutes a significant deviation. If IFAC considers it does, it assesses whether:

- the Government has brought forward a correction plan as required under the Fiscal Responsibility Act 2012;
- the correction plan is working to correct the deviation; and
- if exceptional circumstances exist or have ceased to exist.

In relation to the latter three points, Government is required to explain to the Dáil if it does not accept the IFAC assessment.

**Section 4 – Overview of the annual budgetary process**

In April, the Stability Programme Update is published setting out fiscal policy together with the economic and budgetary performance and outlook for the Irish economy over the medium term. It provides the first formal opportunity for updates to the economic and fiscal forecasts (see Section 5) since the last Budget, and sets out the medium-term fiscal strategy in line with the adjustment path to our MTO or maintaining the MTO, as appropriate. Guidelines for the format and content of the SPU are provided in the Code of Conduct.[28]

Updated macroeconomic forecasts for the current and following three years are submitted to the Irish Fiscal Advisory Council for endorsement. These forecasts are subsequently used in preparing the budgetary forecasts for the SPU as well as being key determinants of the level of fiscal adjustment required.

In June, the Minister for Finance and the Minister for Public Expenditure and Reform prepare a Budgetary Strategy Memorandum (BSM) for the Government, updating the Department of Finance's and the Department of Public Expenditure and Reform's assessment of the budgetary and economic outlook into the medium term and risks to achieving the planned fiscal targets which are calculated to ensure consistency with the adjustment path to our MTO, or maintaining our MTO, as appropriate. The starting point for this exercise is the official forecasts and fiscal strategy published in the SPU, which are updated to reflect more up-to-date information, including economic and fiscal outturns. In this context, the Department of Finance and Department of Public Expenditure and Reform review the current year and prepare projections of revenues and of expenditure for each of the three subsequent years, with a particular focus on the upcoming year. The Government may update targets for the main budgetary aggregates and the overall budget strategy already presented in the Stability Programme taking into account the policy recommendations under the European Semester, in compliance with the SGP and the fiscal rules set out in section 7 of the MTBF. Macroeconomic and budgetary forecasts are monitored and revised constantly for the purposes of fiscal planning.

In September, the Department of Public Expenditure and Reform holds detailed discussions with Departments on their proposed expenditure allocations for the following three years, with particular

[28] http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

regard to the upcoming year and taking account of the expenditure ceilings. The expenditure ceilings may only be modified in line with the circular in Annex 5 and only then, if such modification is fully consistent with the State's compliance with the SGP expenditure benchmark and the budgetary rule. The Minister for Public Expenditure and Reform may hold bilateral discussions with Ministerial colleagues.

Also in September, the Tax Strategy Group (TSG) meets to complete its process. The Tax Strategy Group is an interdepartmental committee chaired by the Department of Finance, with membership comprising senior officials and advisors from the Departments of Finance, Taoiseach, Enterprise, Jobs and Innovation, Social and Family Affairs and the Revenue Commissioners. Papers on various options for the Budget and for the medium and longer term are prepared for the Tax Strategy Group. It sets out the existing regime and develops proposals for measures in the areas of taxation, PRSI and levies, for the Budget and Finance Bill in the context of the medium-term framework and longer term strategy set out in the Government's programme and the potential impact on public finances over the short and medium-term. It also examines the strategic approach for a general social welfare package and assesses the interaction of certain tax proposals with social welfare proposals, in particular with regard to the impact of this interaction on the labour market and income distribution. As part of the process of developing tax policy, a number of principles are held. For example, all tax expenditures are intended to be time limited. More detailed *ex-ante* evaluation is conducted on tax expenditures with higher costs. A regular programme of tax relief reviews in conducted, using public consultation as appropriate and publishing the results.

In late September, an update of expected outturn for the current year taking account of Q3 tax receipts allows a preliminary estimate of general government balance to be submitted to Eurostat as part of the Maastricht returns. This is subject to revision as the returns are not published by Eurostat until after Budget day.

Updated macroeconomic forecasts for the current and following three years are submitted to the Irish Fiscal Advisory Council for endorsement. These forecasts are subsequently used in preparing the budgetary forecasts for the Budget as well as being key determinants of the level of fiscal adjustment required.

Taking account of discussions with Departments, the TSG process, pre-budget submissions from various organisations and both European and Irish policy priorities, the Minister for Finance and Minister for Public Expenditure and Reform formulate policy proposals for the coming period on the basis of the latest economic and fiscal forecasts.[29]

Tax policy measures are developed by the Department of Finance, and expenditure policy measures by the Department of Public Expenditure and Reform. The Ministers bring these proposals to Government for approval, including a memorandum outlining the economic and fiscal outlook and detailing the proposed measures to achieve fiscal targets that have been set in accordance with the fiscal rules in order to ensure compliance by the State with its obligations under the SGP and the Fiscal Compact. This includes revised tax forecasts taking account of any changes to the expected

[29] The endorsement process by IFAC of the macroeconomic forecasts underlying the Budget is explained elsewhere in this document.

current year outturn and the impact of planned budgetary measures. Government agrees the detailed Budget day revenue and expenditure package and consequential projections for the public finances for the following years.

It should be noted that the Cabinet Handbook specifies that policy decisions being submitted to Government must set out the impact of the proposals in a number of areas including gender equality, persons experiencing or at risk of poverty or social exclusion, people with disabilities and rural communities. Accordingly, prior to the consideration of funding policy measures in the budgetary process, these key impacts have been considered. Furthermore, the State and its bodies take the provisions of equality legislation into account in the development and delivery of policies and services. A distributional analysis of proposed budget measures is performed based on various income levels for the different categories of income earners. These categories include single individuals, married one-earner couples with no children and married one-earner couples with children and tables for each of these are included in the Budget documentation. A separate distributional analysis which models the impacts on disposable income by income decile using SWITCH, the ESRI Tax-Benefit model, is also undertaken in evaluating various budgetary options. Illustrative examples are subsequently included in budgetary documentation.

Following Government approval, the White Paper on Receipts and Expenditure containing Estimates of the Receipts and Estimates of the Expenditure of the State for the financial year is published on the weekend before the annual Budget.[30] This material is prepared on a no-policy change basis, prior to the impact of the forthcoming Budget measures, as per Article 28.4.4 of the Constitution. It shows the forecast outturn for the current financial year and, in relation to the upcoming financial year, estimated receipts from taxation at pre-budget rates, estimated Exchequer expenditure on a pre-budget basis (both voted and non-voted) and the estimated Exchequer borrowing requirement. The White Paper Estimates are in a highly aggregated form.

The Ministers for Finance and Public Expenditure & Reform then present the Budget and the Expenditure Report to the Dáil on or before 15th October. Taxation measures due to take immediate effect are voted on by the Dáil on Budget day. The remainder are included in the Finance Bill which, following the normal legislative process, must be enacted before the end of the calendar year.

As noted above, three year Expenditure Ceilings are published each year as part of the October Budget-day documentation. The inclusion of Ministerial Expenditure Ceilings was one element of a suite of reforms to the budgetary architecture announced in the *Comprehensive Expenditure Report 2012-14*. In addition to the Ministerial Expenditure Ceilings, a number of other reforms were also introduced and together these establish a framework for effective and efficient multi-annual expenditure management to support better decision making and value for money.

The three year expenditure Estimates are informed by a Comprehensive Review of Expenditure (CRE). In OECD countries, expenditure reviews are used to examine all areas of public expenditure in order to give governments improved information to inform decisions on the level of aggregate

[30] Article 28.4.4 of the Irish Constitution requires the submission of Estimates of the Receipts and Estimates of the Expenditure of the State to the Dáil annually. This is implemented through the publication of the White Paper. Article 17(1) states that as soon as possible after the presentation to Dáil Éireann of these Estimates, Dáil Éireann shall consider such Estimates. http://www.irishstatutebook.ie/en/constitution/index.html#part5

expenditure and the relative priority of expenditure programmes. In the Comprehensive Expenditure Report 2012-2014, the Irish Government announced that there would be a comprehensive review of spending approximately every 3 years so that the multi-year Ministerial Expenditure Ceilings can be re-set to reflect developing Government priorities. Two such large-scale reviews of current expenditure have been undertaken in recent years and the recommendations from these have informed subsequent Budgets. A number of reviews of capital expenditure have also been undertaken, the most recent of which was carried out in parallel with the 2011 Comprehensive Review of Expenditure. The next Comprehensive Review of Expenditure will begin in 2014 and again this will be an examination of current expenditure across the full spectrum of government programmes. This Comprehensive Review of Expenditure will build on the experience of conducting the previous spending reviews. It will inform Government decisions on future budgetary matters and allow for the Government to review and recalibrate Ministerial Expenditure Ceilings in light of changing priorities and evaluations of expenditure. In parallel with this process, there will also be a review of the medium term capital investment programme.

To be fully optimised, spending reviews require relevant, timely and high-quality evaluations of expenditure programmes. The absence of such evaluations can mean that spending reviews have to rely upon quite informal expenditure analysis. There is also a growing acceptance in OECD countries that the evaluation groundwork should be undertaken over the longer period outside the formal spending review process. The tight timetables of spending reviews mean that it is often very difficult to deliver high quality evaluations. It is important to have in place methods for examining expenditure both before and after the allocation of public resources. In Ireland, while appropriate methods have been developed and long used for capital expenditure, evaluations of current expenditure have tended to focus more on how well or otherwise these resources have been utilised rather than on *ex-ante* analysis of new spending proposals. Under the new Public Spending Code[31] current expenditure proposals are now required to set out relevant evidence and develop business cases. Proper completion of analysis at the appraisal stage of expenditure will ensure that there is a clear focus on the intended benefits of a proposed programme. It should also facilitate the integration of appropriate data collection procedures to support cost effective evaluation activities at later stages.

Performance information is the evidence that informs relevant, timely and high-quality evaluations of effectiveness and efficiency. This type of information does not by itself provide clear and conclusive decisions but can serve to better inform expenditure prioritisation and resource allocation decisions. In Ireland, the performance budgeting initiative has involved a significant reformulation of the Estimates documentation as well as the development of the Ireland Stat[32]***[3]*** website. The aim of the performance budgeting initiative is to strengthen the focus on what is being delivered with public resources and to build this information into the policy-making process. The development of the Ireland Stat website will support the more efficient delivery of evaluation work as it locates, on a single platform, key information that can otherwise only be sourced from a diverse range of publications.

[31] http://vfm.per.gov.ie/
[32] http://www.irelandstat.gov.ie/

The implementing legislation underlying the Budget measures must be adopted or fixed upon by the end of the year, such as the Finance Bill, the Social Welfare and the Revised Estimates Volume.

In February, monthly profiles of expected tax receipts and Exchequer issues for the coming year are published.

No policy change

No-policy change calculations are presented in the White Paper, and also as part of the material in the Draft Budgetary Plan. The "no-policy change" scenario is computed without the discretionary measures decided in the context of the budgetary process for the forthcoming year. Forthcoming consolidation measures are thus not included in the no-policy change scenario for a given year

Similarly, the no-policy change assumption used by the Commission implies that only measures that have been clearly specified and committed to by Governments are taken into account.[33]

## Section 5: Forecasting methodology

An overview of the process underlying the forecasting methodologies of both revenue and expenditure are set out below. In addition, information on the methodology underlying the official economic forecasts is included. Annex 1 provides more detail on the tax-forecasting methodology.

Revenue

Sources of revenue include taxes, non-tax revenues and capital resources. In general government terms, appropriations-in-aid (A-in-A's), which can be both current and capital, are classified as revenue. In Ireland's domestic budgetary system, A-in-A's are taken into account on the expenditure side because they are retained within the relevant Votes to offset expenditure.[34][35]

*Tax forecasting*

Tax forecasts are formally published two times a year - in April for the Stability Programme Update and in October to underpin the annual Budget. The Central Budget Office (CBO) of the Department of Finance forecasts taxes on a disaggregated individual tax head basis in accordance with the recommendations of the Tax Forecasting Methodology Review Group. The CBO is responsible for

[33] Box 1.6, The 'no policy change' assumption used in the Commission forecasts, *Vade mecum* http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp151_en.pdf
[34] Appropriations-in-Aid are receipts which, with the agreement of the Dáil, may be retained by a Department or Office to offset expenditure instead of being paid into the Exchequer Account of the Central Fund. Examples of these include the National Training Fund, PRSI, hospital charges, broadcasting licence fees, receipts from European funds and the public sector pension levy. A full breakdown of the Appropriations-in-Aid can be found in the annual Revised Estimates for Public Services published by the Department of Public Expenditure and Reform, known as the REV.
[35] Appendix 2 of the Public Financial Procedures shows a diagram of Central Fund receipts and issues. http://govacc.per.gov.ie/files/2011/06/08-12-08-FINAL-PFPs.pdf The terms Exchequer and Central Fund are treated as synonymous and interchangeable. The usage in legislation has generally provided for receipts to be 'paid into the Exchequer', whereas payments are usually required to be 'charged on' or 'paid out of' the Central Fund.

fiscal forecasting, fiscal policy and the production of the annual Budget. Tax forecasts are also revised to inform Government deliberations during the annual budgetary process starting with the Budgetary Strategy Memorandum in June.

The methodology is similar for the vast majority of tax heads and is based on the base year expected outturn being grown by an appropriate multiplier. The base year estimate must be adjusted to allow for the effect of any non-recurring positive or negative items. The Department's Economics Unit provide forecasts for various macro-economic variables used in deriving the appropriate multiplier applied in forecasting each tax head. The Revenue Commissioners also provide some relevant elasticity co-efficients for use in the forecast. These are based on long term analysis of tax receipts.

Forecasts are continuously monitored against profile and performance is published on a monthly basis in the Exchequer Returns. Further detail on tax forecasting methodologies is contained in Annex 1.

*Non-tax revenues*

CBO provides an estimate of the non-tax revenue receipts expected over the forecast horizon. In recent years, the chief sources of these receipts are Central Bank surplus income, dividends from state owned entities, bank guarantee fees and National Lottery income. A template setting out the monthly profile for t+1 and t+2 and the annual profile for t+3 is sent to the relevant sections in the Department of Finance and the Department of Public Expenditure & Reform requesting that they include the expected yield for their respective areas of responsibility. The formal request is made three times a year to coincide with the budgetary timetable. However, data providers are requested to inform CBO of any material changes which may occur as soon as they become apparent.

Once data is received it is checked for material variations from previous iterations and is collated to produce an estimate of expected non-tax revenue.

*Capital Resources*

This category comprises EU capital receipts, loan repayments, the sinking fund, proceeds from the sale of state assets and other minor capital receipts. The data gathering process is similar to that used for non-tax revenue.

*Other central government bodies and local government*

The extra budgetary funds including the NPRF, non-commercial state bodies that belong in central government, and local government are surveyed for forecast data twice yearly as part of the EDP, and the Stability Programme and Budgetary processes.[36]

The survey templates give details of receipts and expenditures of these bodies. Flows between government sectors are consolidated out so that further non-Exchequer revenue can be identified.

[36] The CSO compile a "Register of Public Sector Bodies," which gives an overview of which bodies fall into each category. This register is updated regularly, and a recent example can be found at the following link - http://www.cso.ie/en/media/csoie/surveysandmethodologies/documents/pdfdocs/RegPublicSectorBodies.pdf

Expenditure

Estimates of Voted expenditure (Gross and Net, including A-in-As), both current and capital, are provided to the CBO by the Department of Public Expenditure and Reform for inclusion in budgetary publications. However, the CBO gather data on all other non-voted expenditure.

Voted expenditure, which forms the larger part of Government expenditure, is for the ordinary services of Government Departments. On foot of the Government's proposals, the Dáil authorises the moneys for the services each year. All money has to be accounted for to Dáil Éireann. For Voted expenditure, following on from the expenditure benchmark, the Government must set the Government Expenditure Ceiling for the next three years following a proposal of the Minister for Finance. The Government then decides upon the share of the overall expenditure ceiling across Government Departments. These Ministerial Expenditure Ceilings will also be set for three years. Further information on these matters in set out in Annex 5 of the MTBF.

As outlined above, A-in-A's are retained within Votes to offset expenditure. The Dáil authorises expenditure net of A-in-A's. However, A-in-A's, including contributions to the Social Insurance Fund and the National Training Fund, are taken into account in setting the Government and Ministerial Expenditure Ceilings.

The top-down approach to setting Departmental spending ceilings ensures the allocations decided in the budgetary process are consistent with the aggregate fiscal objectives, most importantly the expenditure benchmark. The multi-annual approach provides clarity about the resources Departments will have available over a number of years and reinforces fiscal discipline, as decision makers and the public are aware of the budgetary parameters. Such an approach should also facilitate a more strategic approach to resource allocation by emphasising prioritisation of key services over reaction to day-to-day pressures.

Non-voted expenditure is paid out of the Central Fund under specific legislation, without annual reference to the Dáil. A large majority of non-voted current expenditure relates to servicing of the National Debt. There is close liaison between the Department of Finance[37] and the National Treasury Management Agency, which regularly updates the critical estimates of debt service costs. The other major source of this category of expenditure relates to the expected EU Budget contribution, estimates of which are provided on request by the EU Budget section within the Department of Finance. The debt service estimates take account of the outstanding stock of debt, plans for new issuance as well as other factors such as market developments. The data gathering process is similar to that used for non-tax revenue.

[37] The key departmental areas dealing with the NTMA on these calculations are the CBO and the Financing the State unit, which liaises with the NTMA on most matters, including calculations of debt service estimates.

As stated earlier, the extra budgetary funds, non-commercial state bodies that belong in central government, and local government are surveyed for forecast data twice yearly as part of the EDP, and the Stability Programme and Budgetary processes.[38]

The survey templates give details of receipts and expenditures of these bodies. Flows between government sectors are consolidated out so that further non-Exchequer revenue and own resource expenditure can be identified.

Economic forecasting methodology

The short-term forecasting approach is based on a suite of models overlaid with macro forecasters' expert judgement as necessary. In the case of short-term forecasting, the Department of Finance begins by examining the national accounts expenditure breakdown of consumption, investment, government spending on goods and services and exports (minus imports). Exports are the first component to be considered. Values for key exogenous variables such as oil prices, exchange and interest rates are taken from various external sources. Most variables are forecast in real terms, with (forecast) deflators applied to arrive at nominal values.

Relatively simple models are used for most outputs, with supplementary judgements applied.

For medium term supply side forecasts, the Department of Finance uses the harmonised methodology endorsed by the European Commission to generate potential output trajectories together with resulting output gap estimates. In line with the European Commission approach, these forecasts form the centre point of forecasts of the structural budget balance.[39]

Additional simulations are run using the ESRI's *HERMES*[40] model for medium term forecasting. This is a large-scale supply-side structural model, the latest vintage of which (HERMES-13) contains 180 behavioural equations estimated using annual data[41]. The model has been designed with an emphasis on capturing the key role of trade and competitiveness in the economy. World demand is a key driver, as are Irish relative costs. *HERMES-13* also includes a detailed satellite demographic, energy and housing sector model. The current version of *HERMES-13* includes a consumption function based on permanent income to reflect the impact of household wealth on consumption making it more amenable to modelling the deleveraging process currently underway. Work on updating the model is underway between the ESRI and the Central Bank. Sensitivity analyses using *HERMES* are reported upon in official publications such as the annual Budgets and SPUs, and used to inform risk analysis and analysis of the impact of fiscal policy.

[38] As noted before, the CSO "Register of Public Sector Bodies" is of relevance here - http://www.cso.ie/en/media/csoie/surveysandmethodologies/documents/pdfdocs/RegPublicSectorBodies.pdf

[39] For further details on the production function methodology used to estimate potential output and the output gap see http://ec.europa.eu/economy_finance/publications/economic_paper/2010/ecp420_en.htm. For details on calculation of the structural balance see http://ec.europa.eu/economy_finance/publications/economic_paper/2013/ecp478_en.htm

[40] For a detailed description of the HERMES model see http://www.esri.ie/UserFiles/publications/WP460/WP460.pdf

[41] Further details on equations and list of variables can be found at http://www.esri.ie/research/research_areas/macroeconomics/the-hermes-model/

Other central government bodies and local government

The survey of extra-budgetary funds, non-commercial state and local government outlined above give details of own resource expenditures of government bodies.

Process underlying the Endorsement of Macroeconomic Forecasts

Following the passage of Regulation (EU) 473/2013[42] which came into force on 30 May of this year, both the Budget and Stability Programme Update must be based on economic forecasts which are either produced or endorsed by independent bodies at national level. In Ireland the endorsement route has been selected, and the Irish Fiscal Advisory Council (IFAC) has been assigned the task of endorsement in the Fiscal Responsibility Act 2012 and 2013.[43]

The procedures underlying the endorsement process have been set out in a Memorandum of Understanding, which was agreed between the Department of Finance and the Irish Fiscal Advisory Council, and was made public.[44] Under the agreed methodology, provisional forecasts are prepared by the Department of Finance and shared with the Fiscal Council. The Fiscal Council then query and discuss the forecasts with the Department, and raise any significant reservations they might have. Forecasts may be revised to address those concerns.

If the Fiscal Council agrees that the forecasts fall within an appropriate endorsable range, a letter of endorsement is issued to the Department of Finance and published subsequently by both the Fiscal Council and the Department.

In the event that the Fiscal Council are unable to endorse the forecasts, the Budget or Stability Programme shall still be published, with supporting explanations for the non-endorsement.[45] The Fiscal Council's decision shall also be made public alongside this.

## Section 6: Fiscal Performance Monitoring

In order to monitor the outturn against forecasts in the Budget and SPU, regular updates are published to provide closer assessment of fiscal performance. Some of this data are monthly, other data are quarterly or every six months. These data enable the Department of Finance and Department of Public Expenditure and Reform to:

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[42] Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:140:0011:0023:EN:PDF

[43] This legislative change was passed as part of the Ministers and Secretaries (Amendment) Act 2013
http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf

[44] *"Memorandum of Understanding between the Irish Fiscal Advisory Council and the Department of Finance relating to the "Endorsement Function" of the Council under the Fiscal Responsibility Act as amended, 2013"*
http://www.finance.gov.ie/documents/publications/mou/mouaug2013fiscalcouncil.pdf

[45] Page 42, *"Specifications on the implementation of the Two Pack and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports."*
http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/130701_-_two_pack_coc_final_endorsed.pdf

- monitor both positive and negative trends as they arise;
- brief Government and inform the public; and
- develop proposals to address issues, if needed.

Exchequer Returns – Monthly profiles of projected revenue and expenditure, as per Budget, are published early in the new year to facilitate transparent monitoring of fiscal performance. The Exchequer Returns provides monthly outturns for all elements of Central Government: tax revenue, non-tax revenue and expenditure issues; and these are assessed against the Budget profile. The Exchequer Returns are published within two working days of month end.

A separate report is also provided that shows expenditure issues on a gross basis and shows appropriations-in-aid (including social contributions) as part of revenue along with tax revenues and non-tax revenues. This "alternative presentation" format has benefitted from the input of the Troika and has enhanced the accessibility of the monthly Exchequer Returns publication.

Press conferences are held for the quarterly returns.

Maastricht or Excessive Deficit Procedure Returns – These are submitted by the Central Statistics Office under Council Regulation (EC) No. 479/2009 by the end of March and September each year in respect of the previous four years. Member States are also required to provide a forecast outturn for the current year – this is provided by the Department of Finance.

Budgetary Frameworks Directive – The Directive, which is one of the Six-Pack, requires reporting as follows:

- Cash based fiscal data:
    - Monthly for central government…and social security sub-sectors, before the end of the following month, and
    - Quarterly for the local government sub-sector, before the end of the following quarter.

These data will be collected and published by the Department of Finance, commencing end-February 2014, in respect of January for the monthly data and commencing end-June 2014, in respect of the first quarter for the quarterly data.

The Directive also requires annual publication of tables containing contingent liabilities with potentially large impacts on public budgets including;

(a) government guarantees (for each of the last four years if possible) - annual publication commencing end-October 2014,
(b) non-performing loans for the previous year (and for each of the last four years if possible) - annual publication commencing end-October 2014
(c) off-balance sheet public-private partnerships for the previous year (and for each of the last four years if possible) - annual publication commencing end-October 2014,
(d) liabilities of public corporations for the previous year– annual publication commencing end-December 2014,

(e) participation of government in the capital of corporations in respect of economically significant amounts in the previous year (both private and public) – annual publication commencing end-December 2014.

Most of these data will be collected by the CSO, as it already does so under EU regulations, and supplied to the Department of Finance, which will take responsibility for the publication of the indicators specified in the Directive on a single dedicated webpage.

Post-programme Surveillance – Article 14 of Regulation (EU) No 472/2013 states that a Member State shall be under post-programme surveillance as long as a minimum of 75% of the financial assistance received from one or several other Member States, the EFSM, the ESM or the EFSF has not been repaid. As Ireland is exiting a programme under which it received financial assistance from all of the bodies specified bar the ESM, it will be subject to the surveillance in question.

Art. 14(2) specifies that that the Commission can request the Member State to provide the information required under Article 3(3) and under Article 10(3) of Regulation (EU) No 472/2013. The former concerns information on the financial sector and in relation to macroeconomic imbalances. The latter, Article 10(3) of Regulation 472/2013, primarily concerns budgetary execution and the impact of measures taken. In accordance with the Regulation, the Commission has adopted Commission Delegated Regulation (EU) No 877/2013[46] specifying the common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

Ireland will be required to report to the Commission every six months once it exits the programme. Ireland would have had to do this reporting as a euro Member State in excessive deficit anyway but the post-programme surveillance requirement significantly extends the period.

Reporting can be stepped up to every three months if the Commission decides that enhanced surveillance is warranted in accordance with Article 2 of 472/2013. The required grounds are:

- that the Member State is experiencing or threatened with serious difficulties with respect to its financial stability which are likely to have adverse spill-over effects on other Member States; or
- the Member State is in receipt of financial assistance on a precautionary basis (other than a credit line which is not conditional on the adoption of new policy measures provided it is not drawn).

## Section 7 – Fiscal rules governing Ireland's fiscal planning and implementation

An overview of the fiscal rules with which Ireland must comply are laid out in this section. The fiscal rules are designed to ensure Ireland's compliance with its obligations under the SGP and the Fiscal Compact.[47]

[46] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:244:0023:0031:EN:PDF
[47] It is important to note that these are fiscal rules with which Ireland must comply, whether they arise as a result of EU legislation which has been given effect through Irish legislation or EU legislation with direct effect.

1. The budgetary rule – specified under the Fiscal Compact and implemented by the Fiscal Responsibility Act 2012. One of two conditions must be satisfied[48]. These conditions are that the budgetary position of general government:

- is in balance or in surplus and this will be deemed to be the case if the MTO set under the Stability and Growth Pact is achieved or,
- if it is not, that it is on the adjustment path towards our MTO.

The budgetary rule, under Section 3 of the Fiscal Responsibility Act 2012, implements Article 3 of the Fiscal Compact. It is independently monitored as discussed above, by both the Irish Fiscal Advisory Council and the European Commission (see Section 3 of the MTBF.) The escape clause for this rule is defined in Irish legislation as per exceptional circumstances under the SGP and Fiscal Compact, (see footnote 48). The consequences for having a significant deviation from this rule are laid out in Annex 3 of the MTBF.[49]

2. The debt rule – specified in the SGP and the Fiscal Compact and implemented in Section 4 of the Fiscal Responsibility Act 2012. This rule states that debt in excess of the 60% debt to GDP ratio must be reduced by at least 1/20th per year based on changes over the last three years.

The debt rule is monitored by the European Commission, and the consequences for breaching it are laid out in Annex 3 of the MTBF, under the details in relation to an Excessive Deficit Procedure.

3. The expenditure benchmark helps ensure control of the general government expenditure net of discretionary measures and excluding interest and the effects of cyclical unemployment growth in order to move towards a balanced budget in structural terms. Further details are given in section 2 of this MTBF and in Annexes 2 and 4. It should be noted that, for Member States at or below their MTO, general government expenditure may only reach the level permitted under the benchmark if that is compatible with achievement of the budgetary rule.

The expenditure benchmark is monitored by the European Commission, as detailed in Section 2. The consequences of failing to comply with the expenditure benchmark which constitute a significant deviation, as mentioned in Section 3, are laid out in the SGP and the *Vade mecum*.

4. Government Expenditure Ceilings and Ministerial Expenditure Ceilings – introduced under the Ministers and Secretaries (Amendment) Act 2013[50] to operationalise the expenditure benchmark in the domestic budgetary process.

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Certain rules were introduced in order to assist in compliance with the overall SGP rules. This list of rules should not be confused with the definition of "national numerical fiscal rules" under the Directive on budgetary frameworks – not every rule listed here conforms to that definition.

[48] In line with the Fiscal Compact, neither condition has to be met in the event of exceptional circumstances. The definition of exceptional circumstances means an unusual event outside the control of the State which has a major impact on the financial position of the general government or a period of severe economic downturn, provided that the temporary deviation of the State does not endanger fiscal sustainability in the medium term.

[49] A significant deviation, as per Article 6(3) of Council Regulation (EC) 1466/97, is defined as 0.5% of GDP in a single year or 0.25% of GDP in two consecutive years.

[50] http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf

As set out in Annex 2, the expenditure benchmark under the SGP is set in general government terms whereas Exchequer expenditure is a cash-based system. Annex 2 sets out the process whereby the cash-based Government Expenditure Ceiling is calculated so that it is fully consistent with the level of general government expenditure permitted under the expenditure benchmark. Under this Act, each financial year the Government makes a decision on the Government Expenditure Ceiling for each of the 3 financial years following the current one, upon a proposal from the Minister of Finance. This is then apportioned into Ministerial Expenditure Ceilings by Government upon a proposal from the Minister of Public Expenditure and Reform. Rules governing the Ministerial Expenditure Ceilings are set out in a circular by the Department of Public Expenditure and Reform.[51]

The aggregate of the Estimates for Public Services for a financial year, and the estimates of the amount of expenditure in that financial year to be met out of money paid out of the Social Insurance Fund and the National Training Fund, are not to exceed the Government Expenditure Ceiling for that financial year.[52]

The circular in Annex 5 lays out procedures for dealing with deficits and surpluses of Minister Expenditure Ceilings.

5. Protocol on Local Government balances

Section 10A (1) of the 1994 Local Government Act states that "If at any time an estimate of expenses for a local financial year has been adopted by a local authority and it appears to the Minister that it is insufficient to defray the expenses to be incurred by the authority in that financial year……… the Minister may……. require the local authority….. to amend ….the estimate…." This allows the Minister of Environment, Community and Local Government to make provision for balanced local authority budgets.[53] Section 102(3) of the 2001 Local Government Act states that the annual budget will be in a format specified by the Minster of Environment, Community and Local Government by way of regulations[54].

SI 508/2002, PART II specifies that the format of the local authority budget will be as specified in Appendix G of the local authority code of practice.[55] Appendix G of the Accounting Code of Practice issued by the Department of Environment, Community and Local Government (D/ECLG) to local authorities sets out a budget format which requires a balanced budget.

In December 2012, a revised protocol for controlling and monitoring local authorities' contribution to the General Government Balance was agreed between D/ECLG and D/PER, to ensure that balance is achieved. This includes mechanisms to control the GGB including revenue account, capital account, loan sanction and borrowing controls. Reporting mechanisms have been aligned to ensure that GGB reports are prepared on an accruals basis. This allows D/ECLG to work closely with the CSO who are preparing a revised input document which will be used for both the forecasting and reporting of GGB on a quarterly basis. The intention is to provide specific information to the CSO on

[51] http://circulars.gov.ie/pdf/circular/per/2013/15.pdf and included in Annex 5.
[52] As per Section 17(9), in the Ministers and Secretaries (Amendment) Act 2011, as amended by the Ministers and Secretaries (Amendment) Act 2013. http://www.irishstatutebook.ie/pdf/2013/en.act.2013.0029.pdf
[53] http://www.irishstatutebook.ie/1994/en/act/pub/0008/sec0044.html#sec44
[54] http://www.irishstatutebook.ie/2001/en/act/pub/0037/sec0102.html#sec102
[55] http://www.irishstatutebook.ie/2002/en/si/0508.html#article7

key incomes and expenditures which will facilitate enhanced monitoring and forecasting of relevant local government impacts on the national GGB. The protocol is attached in Annex 4.

The Minister for Environment, Community and Local Government monitors this fiscal rule. Where there is excess expenditure that has a consequential impact on the expenditure benchmark, there could be implications for the relevant Ministerial Expenditure Ceiling, as discussed above.

6. National Pensions Reserve Fund (NPRF) contribution

The National Pensions Reserve Fund was established in April 2001 to meet as much as possible of the costs of Ireland's social welfare and public service pensions from 2025 onwards, when these costs are projected to increase due to the ageing of the population. The Fund is controlled and managed by the National Pensions Reserve Fund Commission.

Section 18 of the National Pensions Reserve Fund Act, 2000 requires the payment of a contribution equivalent to 1% of GNP from the Exchequer to the National Pensions Reserve Fund each year.[56] However, the National Pensions Reserve Fund Act 2000 (Suspension of Exchequer Contribution) Order 2012 suspended the annual Exchequer contribution to the NPRF in 2012 and 2013. [57] Government has agreed to establish the Ireland Strategic Investment Fund (ISIF) which will absorb the NPRF's assets. It is intended that the Section 18 of National Pensions Reserve Fund Act, 2000 will be repealed in early 2014 when the legislation to establish the ISIF is enacted.

The NPRF is classified within general government. The balance of receipts and expenditures on investments of the NPRF is included in the computation of the general government balance. The NPRF is surveyed as part of the survey of general government bodies outlined earlier in the text.

A legal instrument, namely an Order, is necessary to permit this payment not to be made.

7. Capital envelopes – multi-annual (5 year)

Capital Envelopes are taken into account under the Government Expenditure Ceiling. Rolling 5-year multi-annual capital envelopes set out capital investment (Exchequer and PPP funded) by Ministerial Group for each year in the 5 year period. The envelopes reflect investment priorities over the medium term and include a provision to allow the carry over of 10% of Exchequer capital savings from one year to the next. These envelopes are fully consistent with its three year expenditure ceilings in No. 4 above, and included in the obligations thereof.

[56] http://www.irishstatutebook.ie/2000/en/act/pub/0033/sec0018.html#sec18
[57] http://www.irishstatutebook.ie/2012/en/si/0584.html

**Annex 1**

**Tax forecasting methodology**

The Department of Finance, working closely with the Revenue Commissioners, forecasts taxation yields on a dis-aggregated basis by tax head.

*Income tax*

PAYE is the largest component of income tax. It is forecast using projected growth in non-agricultural earnings together with an earnings elasticity factor and forecast growth in non-agricultural employment together with an employment elasticity factor. The elasticity factors are produced by Revenue's taxpayer's model and take account of the fact that new and existing employees are likely to pay tax at different marginal tax rates. Universal Social Charge (USC) is forecast using the same metrics but with an adjustment to the wage elasticity co-efficient to allow for the wider tax base for this tax head.

The forecast for non-PAYE income tax has been problematic in recent years due to a lack of an appropriate macroeconomic driver to use for forecasting purposes. Consequently, Revenue Commissioners provide a forecast to the Department using an economic growth macro based on historical trends observable in tax yields. Non PAYE USC is forecast using a similar methodology.

Deposit Interest Retention Tax is forecast using the Consumer Price Index as, over the long run, it tends to move in line with interest rates. It also takes account of interest rate futures.

*Corporation Tax*

Traditionally, Corporation Tax has been forecast using the projected increase in nominal GDP and an elasticity factor which has tended to be 1.0 in recent years. However, in line with recommendations from the Tax Forecasting Methodology Group Review, the Department also estimates Corporation Tax revenues driven by a Gross Operating Surplus (GOS) macro.

*Value Added Tax*

VAT is forecast using a multiplier derived from growth in personal consumption expenditure adjusted by an appropriate deflator.

*Excise & VRT*

These tax heads use a combination of two methods. In the case of excise duties, the base year outturn is multiplied by volume increase in Personal Consumption Expenditure (excluding cars). VRT is forecast separately using a derived cars macro (car volume increase * car price increase). Separately, Revenue produce an individual forecast for each sub-component using consumption trends methods.

*Stamp Duties*

Property related aspect is grown off a housing macro while the yield from share transactions is based on forecast GNP growth.

*Capital Gains Tax & Capital Acquisitions Tax*

In the absence of a more suitable driver, these tax heads are grown in line with forecast GNP growth.

## Annex 2

**Translation of Expenditure Benchmark into Government Expenditure Ceiling**

The expenditure benchmark[58] has direct effect under Irish law and as such does not require to be transposed into primary or secondary legislation. However, the Ministers and Secretaries (Amendment) Act 2013 provides for Government and Ministerial expenditure ceilings, which will greatly assist with implementing the expenditure benchmark in our budgetary system.

**Expenditure benchmark**

The expenditure benchmark is a new tool which aims to strengthen the economic and budgetary coordination for the EU. In essence the rule restricts government expenditure to given reference rates depending on whether the Member State is at their MTO. The role of the expenditure benchmark was introduced as part of the Six-Pack.

For the calculation of the expenditure growth, a modified expenditure aggregate is calculated which excludes interest; EU programmes fully matched by EU funds; cyclical unemployment benefit expenditure; and makes an adjustment to smooth capital formation over 4 years. The rule allows for further expenditures above the benchmark, as long as these expenditures are matched by discretionary revenue measures.

The modified expenditure of a given year, less expenditures matched by discretionary revenue measures, must not exceed the modified expenditure of the previous year adjusted for the effects of economic growth, and by the allowable benchmark rate.

The benchmark rate is country-specific and depends on whether the country is at MTO or not. In the case where the country is at MTO, expenditure grows in line with medium-term potential growth. Where the country is at not at MTO, expenditure should grow at a rate below medium-term potential growth and this is enforced by reducing the benchmark rate by a convergence margin.

**How Ireland complies with the expenditure benchmark**

**Step 1 The Corrected Expenditure**

In setting out its multi-annual budget, Ireland must ensure compliance with the expenditure benchmark. The general government expenditure aggregate is computed for the previous year t-1 as part of the stability and convergence programmes process.

The expenditure aggregate is modified as follows: interest expenditure; government expenditure on EU programmes fully matched by EU funds revenue; and cyclical unemployment benefit expenditure are all excluded. An adjustment is made to smooth the expenditure on capital formation over the last four years. The modified expenditure thus computed is called the corrected expenditure aggregate, $E$.

A further modified expenditure aggregate is the corrected expenditure aggregate net of discretionary revenue measures (DRM) and revenue measures mandated by law (RML), $F$.

[58] Article 5(1) of Regulation 1466/97 references the expenditure benchmark requirement. http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:1997R1466:20111213:EN:PDF

**Table A Indicative data used in the calculation of the expenditure benchmark**

| line | code | description | *t-1* | *t* |
|---|---|---|---|---|
| 1 | G | General government expenditure | 1,100 | 1,110 |
| 2 | Int | Interest expenditure | 95 | 120 |
| 3 | EU | Government expenditure on EU programmes fully matched by EU funds revenue | 5 | 5 |
| 8* | I | adjustment for capital formation | -25 | -15 |
| 9 | Uc | Cyclical unemployment expenditure | 10 | 5 |
| 12 | DRM | Total discretionary revenue measures | 25 | 25 |
| 13 | RML | Revenue measures mandated by law | 0 | 0 |
| 14 | E | Corrected expenditure aggregate $= G - Int - EU - I - Uc$ | 1,015 | 995 |
| 15 | F | Corrected expenditure aggregate net of DRM and RML $= E - DRM - RML$ | 990 | 970 |

*Footnote: The numbers used in these tables are purely illustrative.*

Table A details how the two expenditure aggregates *E* and *F* are found using data from the stability and convergence programmes and draft budgetary plan. The line numbers are consistent with the line numbers in the *Vade mecum on the Stability and Growth Pact* and line 8* is a combination of lines 4 to 8 in the *Vade mecum*. Compliance with the expenditure benchmark is measured with respect to the ratio of $F_t$ for the current year, and $E_{t-1}$ for the previous year, adjusted for GDP growth.

**Step 2 Computation of the expenditure benchmark**

The following table shows how the allowable expenditure of government under the benchmark rule is computed. The reference growth rate, *b*, is a country-specific benchmark provided by the Commission and depends on whether or not Ireland is at MTO. The GDP deflator, *g*, is agreed between each Member State and the Commission.

Given the corrected expenditure aggregate, $E_{t-1}$, for the previous year, a maximum corrected expenditure aggregate net of DRM and RML, for the current year is found using the formula

$$F_M = E_{t-1} * (1 + \frac{b}{100} + \frac{g}{100})$$

where $F_M$ denotes the maximum value that *F* can take to comply with the benchmark.

By adding back discretionary revenue measures and revenue measures mandated by law[59] and then adding interest expenditure; government expenditure on EU programmes fully matched by EU funds revenue; cyclical unemployment benefit expenditure; and by reversing the capital formation adjustment; the maximum general government expenditure $G_M$ is computed.

[59] Some Member States have revenue sources linked by law to certain expenditure items. When expenditure under these items increase, revenues automatically increase to fund the higher expenditure. This is not relevant in Ireland's case.

**Table B Computing the maximum government expenditure**

| line | code | description | *t* |
|---|---|---|---|
| 14 | $E_{t-1}$ | Corrected previous year's expenditure aggregate (nominal) | 1,015 |
| 21 | b | reference growth rate (benchmark) | -0.84 |
| 17 | g | GDP deflator | 0.94 |
| 15 | $F_M$ | Maximum corrected expenditure net of RML [$=E_{t-1}*(1+g/100+b/100)$] | 1,016 |
| 2 | Int | Interest expenditure | 120 |
| 3 | EU | Government expenditure on EU programmes fully matched by EU funds revenue | 5 |
| 8* | I | adjustment for capital formation | -25 |
| 9 | Uc | Cyclical unemployment expenditure | 10 |
| 10,11 | DRM | Total discretionary revenue measures | 25 |
| 12 | RML | Revenue measures mandated by law | 0 |
| 1 | $G_M$ | Maximum general government expenditure [$=F_m$ + (int+EU+I+Uc+DRM+RML)) | 1,151 |

The value $G_M$ therefore represents the maximum general government expenditure allowable in the current year t to ensure compliance with the benchmark.

**Step 3 Ensuring compliance with the expenditure benchmark in Exchequer spending**

The expenditure benchmark rule therefore gives an upper bound on general government expenditures. However, Ireland's Exchequer budgeting is on a cash-based system. To arrive at the general government balance, a series of adjustments are made: the impact of financial transactions is removed; a modification to account for accruals is applied; an adjustment to incorporate the impact of transactions of other general government bodies and local government is made. There are also further adjustments to bring the accounts in line with international accounting conventions (ESA adjustments).

Starting with the maximum general government expenditure $G_M$ from step 2, the maximum potential level of Exchequer spending can be derived using table C. This process reverses the usual sequence of steps outlined in the previous paragraph which walks from the Exchequer borrowing requirement to general government balance.

**Table C  Explanation of differences between general government and Exchequer spending**

| line | code | description | *t* |
|---|---|---|---|
| 1 | $G_M$ | Maximum general government expenditure | 1,151 |
| | | *adjustments* | |
| | a1 | financial transactions | -35 |
| | a2 | interest adjustments | 10 |
| | a3 | accrual & other adjustments | -5 |
| | a4 | ESA adjustments for imputed pay etc | 5 |
| | a5 | own-resource spending of government bodies | 30 |
| | a6 | own-resource spending of local government | 50 |
| | $H_M$ | Maximum Exchequer spending [ = $G_M$ -(a1+. . .+a6)] | 1,096 |
| | $NV_M$ | Non-voted expenditure from central fund | 195 |
| | $V_M$ | Voted expenditure from central fund  [= HM –NV] | 901 |

Table C shows how to arrive at $H_M$ the maximum Exchequer spending for year *t* through a series of adjustments.  To estimate the ceiling of voted expenditure $V_M$ , all non-voted spending from the central fund is excluded.

However, to help operationalize compliance with the expenditure benchmark and ensure consistency between the amount spent directly under the control of the Government and compliance with the expenditure benchmark, the Ministers and Secretaries (Amendment) Act 2013 made provision for a Government Expenditure Ceiling.  It encompasses gross Voted expenditure, Appropriations-in-Aid and expenditure funded by the Social Insurance Fund and the National Training Fund and it corresponds with $V_M$ in Table C.

It should be noted that $G_m$ in Table C represents a theoretical maximum pending confirmation that it is compatible with compliance with the budgetary rule.  If it is not, then adjustments have to be made to the other aggregates in Table C to reduce it accordingly.  As a1 to a4 and $NV_m$ are either fixed or beyond the control of the Government, the alterations have to occur in a5, a6 and $V_m$.  To assist with ensuring that the Government Expenditure Ceiling is compliant with the budgetary rule and to aid the fair and transparent splitting of the Government Expenditure Ceiling into Ministerial Expenditure Ceilings (also put on a statutory basis by the Minister and Secretaries (Amendment) Act 2013, the three principles below will be used:

- General government sub-sectors may not increase their expenditure in a given year to an extent greater than that permitted by the general increase permitted by the expenditure benchmark excluding the effect of discretionary revenue measures.
- Additional expenditure to be funded from the introduction of discretionary revenue increases should, in principle, stay with the relevant sub-sectors/entities; and
- Where a general government body under the aegis of a particular Department has own-resource income which it intends to use for expenditure, and the total expenditure of that body goes beyond the general increase permitted in the first principle above as a result,

then the relevant Ministerial expenditure ceiling may be adjusted downwards by Government on a proposal from the Minister for Public Expenditure and Reform, if compensatory changes within the relevant Ministerial ceilings are insufficient and a reduction is necessary to ensure compliance with the Government Expenditure Ceiling.

**Annex 3**

**Emergency Procedures – Corresponding actions to be taken**

The key purpose of all the reforms made to the architecture of fiscal governance is to ensure that Ireland reaches and maintains sustainable public finances. This is an objective to which Ireland fully subscribes. However, in the unlikely event that Ireland is not able to comply with the requirements of the SGP or the Fiscal Compact in the future, the following may apply.

1. Correction Plan under Budgetary Rule

A correction plan, as required under the Fiscal Compact and the Fiscal Responsibility Act 2012, is triggered if the Government considers there is a failure to comply with the budgetary rule or the European Commission addresses a warning under Article 6(2) of Regulation 1466/97[60], following a significant deviation from the adjustment path towards the MTO, as defined in Article 6(3).

Under Section 6 of the Fiscal Responsibility Act 2012, this correction plan must be prepared and laid before Dáil Éireann within 2 months specifying the actions to be taken to secure compliance with the budgetary rule. This will set out the size and nature of planned revenue and expenditure measures to be taken, how these related to different subsectors of general government and the period over which compliance is to be achieved, with annual targets if necessary. This plan must be consistent with Council[61] recommendations, if any.

If the Council considers that effective action has not been taken within the relevant deadline, this may trigger sanctions including an interest bearing deposit of 0.2% of GDP under Article 4 of Regulation 1173/2011. If effective action is subsequently taken, the deposit including interest will be returned. If an Excessive Deficit Procedure is opened, this can be turned into a non-interest bearing deposit.[62]

Implementation of a correction plan may be suspended in the event of exceptional circumstances. When the exceptional circumstances pass, the Government is required to present a new correction plan, if the significant deviation still exists.

IFAC is required to assess whether:

- the Government should bring forward a correction plan;
- implementation of the correction plan is proceeding correctly; and

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[60] Regulation 1466/97, amended by Regulation 1055/2005 and Regulation 1175/2011
Regulation 1466/97 - http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997R1466:EN:HTML
Regulation 1055/2005 - http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:174:0001:0004:EN:PDF
Regulation 1175/2011 - http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0012:0024:EN:PDF

[61] Please note - this refers to the Council of the European Union, which for economic and fiscal matters is represented by ECOFIN. The Council reference does not relate to the Irish Fiscal Advisory Council or the European Council.

[62] The process underlying these Council decisions is set out in the *Vade mecum*, namely Section 1.4 "*The Introduction of Sanctions for the Euro Area Member States*" and in Graph 1.3 on page 41 showing *"Actions in the case of significant deviation from the adjustment path to the MTO"*

- if exceptional circumstances exist or have ceased to exist.

2. Excessive Deficit Procedure

The decision to consider opening an Excessive Deficit Procedure is triggered by a Member State having breached the deficit limit or having violated the debt rule by having a government debt level above 60% of GDP, which is not diminishing at a satisfactory pace. This means that the gap between a country's debt ratio and the 60% of GDP reference needs to be reduced by 1/20th annually (on average over three years).[63]

The European Commission shall prepare a report if a Member State does not fulfil the requirements under one or both of these criteria, following EDP returns at end-March or end-September. The European Commission may also prepare a report if, notwithstanding the fulfilment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State. In determining whether a numerical breach should lead to the opening of an EDP, relevant factors including the medium-term economic and budgetary position of the Member State and whether the government deficit exceeds government investment expenditure are taken into account.[64] The Commission will also consider whether exceptional events outside the control of the Member State have occurred and if the excess is close to the reference value and temporary. This is then considered by Council, who decides if a Member State is in excessive deficit.

Countries placed in EDP are given a deadline of six months (or three months for a serious breach) to comply with recommendations to outline a concrete path for correcting its excessive deficit within a set timeframe. Euro area Member States that have already been sanctioned under the preventive arm or whose breach of the threshold values is especially serious, may also face a stricter sanction in the form of a non-interest-bearing deposit of 0.2% of GDP[65].

Once the deadline has passed, the Commission and the Council assess the action the Member State has taken, with a view to either putting the procedure on hold or stepping it up if the Member State has not done enough.

A Member State which has taken effective action to address its excessive deficit, but where the impact on the public finances has been affected by exceptional events outside its control, may see an extension of its deadline for correction and a revision of the recommendations to reflect the change in circumstances.

Under Regulation 473/2013, the establishment of an excessive deficit requires the preparation of an economic partnership programme.[66] Economic Partnership Programmes include a detailed

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[63] The process underlying a Council decision is set out in the *Vade mecum* and in the following image: http://ec.europa.eu/economy_finance/economic_governance/images/corrective_arm.jpg

[64] Clarification on one of these "relevant factors", for example, is laid out in a letter from Vice President Rehn, on 9th October 2013. This clarified the treatment of capital injections requiring recourse to public backstops and their treatment in terms of government accounts and their input on Excessive Deficit Procedures. http://ec.europa.eu/commission_2010-2014/rehn/documents/finmins_public091013_en.pdf

[65] Article 4 of Regulation (EU) No. 1177/2011.

[66] Article 9(1), Regulation (EU) 473/2013.

description of the structural reforms which must be put in place and implemented to ensure an effective and durable correction of the excessive deficit.[67]

3. Financial assistance from EFSF, EFSM, ESM or IMF

Under Regulation (EU) 472/2013, in the event of a request of financial assistance from the ESM[68], the EFSF,[69] the EFSM[70] or the IMF[71], a macro-economic adjustment programme will apply. This will build on and substitute for an economic partnership programme under Regulation (EU) 473/2013 and also suspends implementation of Regulation (EU) No. 1176/2011 on macro-economic imbalances. To avoid duplication of reporting and assessment requirements, the specific monitoring for an Member State under a macro-economic adjustment programme replaces the EDP monitoring required under Regulation 1467/97. There are no deposits or fines for non-compliance with a macro-economic adjustment programme, however successful completion of the programme is necessary to receive the relevant disbursements. However, excessive deficit procedures and the associated sanctions continue in parallel with a macro-economic adjustment programme but there is flexibility for Council to reduce or cancel such sanctions on the basis of a Commission recommendation.

The form of financial assistance provided affects the level of conditionality required in the macroeconomic assistance programme.

[67] Specifications for Economic Partnership Programmes are contained in "*Specifications on the implementation of the Two Pack and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports*."
http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/130701_-_two_pack_coc_final_endorsed.pdf

[68] Information on the process underpinning a request for assistance from the European Stability Mechanism (ESM) is available at http://www.esm.europa.eu/about/legal-documents/index.htm. The ESM is the permanent crisis resolution mechanism for the countries of the euro area. The decision leading to the creation of the ESM was taken by the European Council in December 2010. The euro area Member States signed an intergovernmental treaty establishing the ESM on 2 February 2012. The ESM was inaugurated on 8 October 2012.

[69] As of 1 July 2013, following the inauguration of the ESM, the European Financial Stability Facility (EFSF) will no longer engage in new financing programmes or enter into new loan facility agreements. The EFSF will continue with the ongoing programmes for Greece, Portugal and Ireland.

[70] The European Financial Stabilisation Mechanism (EFSM) provides financial assistance to EU Member States in financial difficulties.
http://ec.europa.eu/economy_finance/eu_borrower/efsm/

[71] Information on the process underpinning a request for assistance from the IMF is available at http://www.imf.org/external/np/exr/facts/howlend.htm

## Annex 4

## Protocol for the control and monitoring of local authorities contribution to the General Government Balance – D/EHLG circular

### Background

1. The DECLG GGB control framework was reviewed in 2011 under the terms of the EU/IMF Memorandum of Understanding on Specific Economic Policy Conditionality and was accepted by the Troika as the appropriate mechanism by which to control the local government contribution to the government balance.

2. The DECLG and DPER, in the context of achieving balance in 2013, have considered enhancements to the mechanisms currently in place to ensure the local government sector is managed in balance over the medium term.

### Measures to control the GGB

3. The contribution of local authorities to the GGB is managed by the DECLG through a number of mechanisms including revenue account, capital account, loan sanction and borrowing controls.

4. In 2009 DECLG issued Circular Fin 03/2009 "*Control and Monitoring of Local Authorities Contribution to the General Government Balance*" to local authorities, re-emphasising the importance of controlling the local government sector's GGB contribution and putting in place a range of specific measures to ensure that annual outturn remained within the €200m deficit limit approved by Government. The requirements of Fin 03/2009 have remained in place for subsequent years.

5. DECLG, in the context of achieving balance in 2013, will restate these control requirements with an enhanced objective of ensuring tight monitoring and compliance at a local authority level.

*Revenue account controls*

6. The Local Government Act 2001 requires local authorities to prepare their annual revenue budget in a statutory format. This format requires that budgeted expenditure must equal budgeted income. Local authorities are expected to stay within their adopted budget. If expenditure is higher than budgeted levels it must be compensated for by either a reduction in another expenditure area or increased income.

7. Circular Fin 03/2009 set out the balanced revenue budget requirement, instructing local authorities to maintain strict control on their revenue budgets and take appropriate corrective actions, where necessary. These requirements will be restated.

*Capital account controls*

8. The Local Government Act 2001 requires local authorities to prepare and submit to the elected council a report indicating the programme of capital projects proposed by the local authority in the forthcoming and following two financial years, having regard to the availability of resources. Local authorities are required to prepare a comprehensive capital budget to monitor the budget on an ongoing basis and to take corrective action where required to ensure that a balanced budget is maintained. Capital account expenditure should not exceed capital income within the reporting year to ensure that deficits do not give rise to increasing liabilities or a reduction in cash.

9. Where local authorities spend existing balances on hand and such expenditure is not matched by annual income, this has a negative impact on GGB outturn. Circular Fin 03/2009 specified that, similar to the revenue account activity, capital expenditure should not exceed capital income within the reporting year.

10. In recent years, sanction has been provided to a limited number of local authorities to expend surplus capital balances and own resources for investment in fixed assets, particularly economic infrastructure. This will continue to be facilitated within the limits available (see section 14 below).

*Control of non-mortgage borrowing*

11. Where the annual expenditure is limited by total annual income for both Revenue and Capital Accounts, the year-on-year deterioration should be limited to any net increase in non-mortgage borrowing.

12. The Local Government Act 2001 requires borrowings by a local authority to be sanctioned by the appropriate Minister. Borrowings include non-mortgage and mortgage loans, inter local authority loans, bridging finance as well as overdraft facilities.

13. Following Circular Fin03/2009, the allocation of non-mortgage loan sanction capacity for all local authority capital projects is set annually by DECLG. The current allocation framework takes account of net loan repayments, current year loan financing requirements and planned expenditure of local authority own resources.

14. Future loan sanction allocations will be required to be reduced and, as in section 10 above, the spending of built-up resources will only continue to be facilitated within the reduced parameters. In managing this, the DECLG will seek to ensure that there is sufficient capacity to cover potential imbalances in annual local authority financial positions.

*Overdrafts*

15. Local authorities should ensure that recourse to overdraft is kept to the minimum possible. The requirements of Circular Fin 03/2009 will be restated and local authorities

will be instructed to ensure that that in order to have a neutral impact on the GGB, the net bank position at end 2012 should be similar to the net position end 2013.

**Reporting**

16. DECLG has aligned all quarterly reporting to ensure that GGB reports are prepared on an accruals basis, and are consistent with the quarterly reports on income and expenditure provided to the Troika.

**Technical forecast**

17. DECLG provides input to the national GGB medium-term forecast in April each year. DECLG is working closely with the CSO who are preparing a revised input document which will be used for both the forecasting and reporting of GGB on a quarterly basis. The intention is to provide specific information to the CSO on key incomes and expenditures which will facilitate enhanced monitoring and forecasting of relevant local government impacts on the national GGB. A draft of the proposed report is expected to be available in early 2013.

18. The capital budget envisaged in the EU "two-pack" proposals in addition to the earlier availability of budget data will further enhance the timeliness and reliability of forecast data.

December 2012

**Annex 5**

**Medium-Term Expenditure Framework: Application to Current Expenditure – D/PER circular**

DPE053/001/2013

30 September 2013

**Circular 15/13:**

**Medium-Term Expenditure Framework:
Application to Current Expenditure**

1. The purpose of this Circular is to set out for Departments/Offices the rules and procedures in relation to three year ceilings for Exchequer voted current expenditure. The Circular explains the broader expenditure control context in which these ceilings fit and sets out the arrangements for planning and managing current[72] expenditure within the new fiscal structures put in place at a European level through the reforms to the Stability and Growth Pact (SGP), and at a domestic level through the *Fiscal Responsibility Act 2012* (FRA 2012) and the *Ministers and Secretaries (Amendment) Act 2013* (MSAA 2013).

2. The detailed rules and arrangements for the management of Government Expenditure Ceilings and Ministerial Expenditure Ceilings[73] are set out in sections I to VI (paragraphs 3 to 19) of this Circular, and a brief overview of Ireland's obligations under the reformed SGP and the new domestic fiscal framework are set out for information in section VII (paragraphs 20 to 25).

*I. Three-year Government Expenditure Ceilings and Ministerial Expenditure Ceilings*

3. The *Comprehensive Expenditure Report 2012-2014* (CER) of 5 December 2011 introduced a new model of multi-annual budgeting called a Medium Term Expenditure Framework (MTEF). The MTEF model is centred upon the principles of *transparency and openness* in regard to the setting and review of Departmental spending priorities, and upon the necessity for *clear medium-term planning* so that available resources are deployed, managed, and re-allocated (as appropriate) to best effect. A major feature of the MTEF is the move from the previous system of annual budgeting to a system of preparing three year parameters for current expenditure for Government Departments and Offices. The new arrangements were initiated on an administrative basis and now, following recent enactment of the MSAA 2013, have a statutory basis with statutory provision for Government Expenditure Ceilings and Ministerial Expenditure Ceilings being made in section 1 of the MSAA 2013. In keeping with the administrative arrangements that were published in the

[72] The existing arrangements with regard to capital envelopes as set out in Circular 06/2013 will continue to apply within the context of the overall MTEF.
[73] Definitions of Government and Ministerial Expenditure Ceilings are set out in the Glossary of Terms.

CER, section 1 of this Act provides for fixed spending ceilings for each Ministerial Vote Group for a rolling three year period.

4. The Government Expenditure Ceilings and Ministerial Expenditure Ceilings will be decided by Government and set on a nominal gross expenditure basis. These expenditure ceilings will operate as upper limits on expenditure for each year within the three-year period. The MSAA 2013 provides that the Estimates for Public Services for a financial year, together with estimated expenditure from the Social Insurance Fund and the National Training Fund for the same financial year, shall not exceed the relevant Government Expenditure Ceiling for each financial year of the three year period. It will be a matter for Ministers and Heads of Departments/Offices to devise plans and policies to ensure adherence to the Ministerial Expenditure Ceilings. In this regard, the *Public Spending Code* (http://publicspendingcode.per.gov.ie), including the provisions for expenditure appraisal, management and review, will be of use to Departments/Offices in ensuring that the limited resources available to them are allocated and utilised to best effect.

5 Following Government Decision, these ceilings will be published in the Expenditure Report issued by the Department of Public Expenditure & Reform in October of each year and will be reported upon in the Stability Programme Update published by the Department of Finance in April of each year. Any changes to existing ceilings will be reconciled fully (see paragraph 11).

*II. Rolling Nature of the Ministerial Expenditure Ceilings*

6. In the context of the Budget and Estimates each year, the three-year frame of reference of the MTEF will be extended to include a new, outer (i.e. third) year. For that new year, the Government will agree its aggregate fiscal position in accordance with the fiscal rules provided for in the FRA 2012, and in this context the Government will agree a Government Expenditure Ceiling for each year.

7. Once the Government Expenditure Ceiling is determined for that new incoming year, the Department of Public Expenditure & Reform will make proposals for the indicative technical allocation of this aggregate ceiling into Ministerial Expenditure Ceilings for that year. (The previously-set Ministerial Expenditure Ceilings for the earlier two years in the frame of reference will not be adjusted in this context, except on the basis provided for under section III below.) These proposed allocations will form the technical basis for subsequent discussions to enable the Minister for Public Expenditure and Reform to bring forward proposals to Government in relation to revised Ministerial Expenditure Ceilings.

*III. Fixed Nature of the Ministerial Expenditure Ceilings*

8. The Ministerial Expenditure Ceilings will be binding over the three year period and the annual Estimates of Expenditure for each year will be set in accordance with those Ceilings as decided by Government.

9. The Government may decide to vary the Government Expenditure Ceiling in the following limited circumstances and subject to compliance with the overall fiscal rules (set out in Section VII):-

(i) If specified *exceptional circumstances (as defined in FRA 2012)* (e.g. severe macroeconomic shocks etc.) occur that may necessitate breaching the ceiling;
(ii) If compensatory discretionary measures are introduced, e.g. through changes to tax policy resulting in increased revenues in a year. This would allow for the Government Expenditure Ceiling to be increased without affecting General Government Balance targets;
(iii) Section IV details the special arrangements to be made for cyclical expenditure and certain other expenditure categories.

10. The Government may decide to vary the Ministerial Expenditure Ceilings in the following limited circumstances:-

(i) Following on from a decision by Government to vary the Government Expenditure Ceiling for any year, the Ministerial Expenditure Ceilings may be varied and re-allocated, on the basis of proposals brought to Government by the Minister for Public Expenditure & Reform.
(ii) If the Government has conducted a Comprehensive Review of Expenditure as outlined in section VI of this Circular, the Minister for Public Expenditure & Reform may bring forward proposals for new Ministerial Expenditure Ceilings, replacing some or all of the previously-set Ceilings, to take account of the results of that Review.
(iii) If the Government considers that there are good and pressing reasons of public policy for allowing reallocation of resources among Ministerial Expenditure Ceilings, whether to take account of the views of Oireachtas Committees, the views of the EU institutions, the transfer of functions between Departments, or for any other reason, then the Minister for Public Expenditure & Reform may bring forward proposals to Government for new Ministerial Expenditure Ceilings, replacing some or all of the previously-set Ceilings. In any such circumstance, the Minister for Public Expenditure & Reform will make arrangements to explain to the Oireachtas the reasons for such a varying of the Ministerial Expenditure Ceilings.
(iv) If an adjustment of one or more individual Ministerial Expenditure Ceilings becomes necessary arising from a failure of one or more Departments/Offices to comply with their Ceilings for the current year, the adjustments will be made by the Government on foot of a proposal from the Minister for Public Expenditure & Reform. In any such circumstance, the relevant Minister will be required to seek a Supplementary Estimate under the provisions currently set out under the *Public Financial Procedures*.
(v) Section IV of this Circular details the special arrangements to be made for cyclical expenditure and certain other expenditure categories.
(vi) If a Department has carried over funds from one year to the next as detailed in Section V of this Circular.

11. The multi-annual Government Expenditure Ceiling and Ministerial Expenditure Ceilings will be notified to Dáil Éireann as set out in Section 1 of MSAA 2013 and will be re-stated publicly on an annual basis. This restatement will involve a reconciliation with the last published ceilings for the same period, accompanied by explanations of all significant deviations. The reconciliations will be conducted under a number of categories, such as

technical adjustments and discretionary policy changes, rather than on an item-by-item basis (except where specification may be required as indicated below).

*IV. Special Arrangements for certain expenditure categories*

12. Special arrangements will apply to expenditure categories which are internationally recognised as being very closely related to the economic cycle and which consequently are less amenable to the normal forms of multi-annual planning and control. The main category of expenditure subject to special arrangements is unemployment-related payments, such as Jobseekers Allowance and Jobseekers Benefit.

13. If the final outturn for the year is less than the allocated amount on these cyclically-sensitive payments, the difference will automatically accrue to the benefit of the Exchequer, rather than be transferred across to fund the expansion of other (non-cyclically-sensitive) services. Effectively these cyclically-sensitive areas are ring-fenced. However, these areas are not excluded from the scope of expenditure reductions or expansions that may be considered by the Government from time to time. The principal difference is that the cyclically-sensitive allocations must be re-visited each year in light of updated economic forecasts, whereas the non-cyclical expenditure elements that form the core of the Ministerial Expenditure Ceilings would not normally be re-visited or adjusted over the 3-year timeframe.

14. A further expenditure category that is subject to these special arrangements is European co-funded payments. Expenditure in this category will be re-visited each year in light of EU budgetary developments.

*V. Carryover of Current Spending, Recoupment of Overruns and Departmental Continuity Reserves*

15. As a general principle, Departments will be allowed to carry over savings against the original estimates from one year to increase the current expenditure ceilings for the next year only. Such carryover will be subject to the approval of the Minister for Public Expenditure & Reform and must comply with the overall fiscal rules. In particular, it should be noted that if the level of savings proposed for carryover into the following year, across all Departments/Offices, poses a risk to the overall Government Expenditure Ceiling and/or the Government targets for the public finances, then the carryover may have to be capped. The purpose of the carryover facility is to offer Departments/Offices, who succeed in managing within their expenditure ceiling in any given year, the possibility of carrying over some proportion of that current expenditure saving to augment their previously-set expenditure ceiling for the following year. In addition to the overall cap that may be applied by the Minister for Public Expenditure and Reform the following safeguards also apply:-

i. A Department may be authorised to carry over up to:

*a)* 100% of its savings up to 2% of the gross current allocation;
*b)* 2/3 of its savings between 2% to 6% of the gross current allocation (with the remainder accruing to the Exchequer); and

c) Savings above this level will be examined on a case by case basis by the Department of Public Expenditure & Reform and will in any event be subject to an overall cap to balance the need to ensure that the Exchequer realises a benefit from savings that arise with the principle that prudent and proactive stewardship of public funds should be incentivised.

ii. The carried-over funds can be spent on any once-off projects or structural measures approved by the relevant Minister (and subject to sanction from the Department of Public Expenditure & Reform in the normal way), but may not be used to create an ongoing liability to the Exchequer. This applies to both pay and non-pay savings, but any proposals for carryover of pay savings should be consistent with pay expenditure limits and must be approved by the Department of Public Expenditure & Reform.

16. In order to facilitate the inclusion of the total proposed amount of the carryover by Vote in the Budget Estimates, each Department/Office is required to provide the Department of Public Expenditure and Reform with its indicative statement of proposed current carryover amounts by Vote along with a business case in support of its proposal in a timely manner in the context of the Estimates. Precise deadlines will be advised as part of the normal Budget preparations each year.

17. In order to ensure compliance with Ministerial Expenditure Ceilings the following control measures will apply:

(i) Where a Department is found to be in excess of its profiled expenditure for two months **and/<u>or</u>** where the Department of Public Expenditure and Reform has identified a substantive risk to the end-year expenditure outturn, the Minister for Public Expenditure and Reform will report on this to Government as part of the routine monthly Expenditure Management Report. Unless the Minister for Public Expenditure and Reform is satisfied that the overspend is due to timing and not deemed to be a substantive risk to the end-year expenditure position, the Minster for Public Expenditure and Reform will seek a decision by Government requiring the Department to provide monthly reports to Government detailing how the expenditure overrun occurred; steps being taken to address the issue; and an overall update on the expenditure position.

(ii) If after two months of reporting to Government the expenditure overrun has not been corrected the Minister for Public Expenditure and Reform will seek a decision by Government to authorise a formal review led by the Department of Public Expenditure and Reform to identify areas where savings and efficiencies can be made to ensure adherence to the end-year expenditure ceiling. The outcome of this review is to be reported to Government, within a month of the Government Decision authorising the review, and will provide recommendations to Government which, following Government agreement, the Department will be required to implement to address the overrun. Any incremental costs arising from the

production of this report will accrue to the Department whose expenditure is under review.

(iii) Finally, if the Department fails to implement the Government Decision and breaches the expenditure ceiling, on foot of a proposal from the Minister for Public Expenditure and Reform, the Government may require that the Department “repay” the overrun in the next year. In such circumstances, the Department will be subject to an offsetting adjustment in the Ministerial Expenditure Ceiling for the following year and will be required to devise policy measures to live within the reduced allocations. In circumstances where the Department cannot absorb the full required adjustment in the following year’s expenditure ceiling, the Government can decide that it may be necessary either to spread the adjustment over two or more years or, in circumstances where the overall Government Expenditure Ceiling and/or the Government targets for the public finances do not allow such an approach, to allocate the balance of reductions across other Departments so that the overall expenditure path remains on target. This will require re-prioritisation of resources within each Ministerial envelope.

18. The introduction of Departmental Continuity Reserves is under consideration and may be introduced at a later date. The continuity reserves would provide Departments with a buffer to protect against fluctuations around their spending limits.

*VI. Periodic Review of Priorities: the Comprehensive Review of Expenditure*

19. A Comprehensive Review of Expenditure (CRE) exercise will be conducted approximately every 3 years subject to the agreement of the Government. This exercise will allow the multi-year Ministerial Expenditure Ceilings to be re-considered and re-set to reflect developing Government priorities. The CRE will make use of the developing corpus of VFM & Policy Reviews and Focused Policy Assessments conducted in line with the Public Spending Code, as well as targeted cross-governmental analyses to ensure that the entire base of expenditure is evaluated against the priorities of Government.

*VII. Fiscal Parameters*

20. The MTEF and the Ministerial Expenditure ceilings operate within the broader expenditure control context arising from the reforms of the SGP.

21. FRA 2012 imposes a duty on the Government to ensure compliance with the budgetary rule and the debt rule, which are provided for in the FRA 2012. The budgetary rule requires that the budgetary position of general government must be either:

- In balance or in surplus and that this will be satisfied if the annual structural balance is at the medium-term budgetary objective (MTO); or

- If it is not at the MTO target, it is on the adjustment path towards adhering to the MTO as set in accordance with the SGP.

In the event of exceptional circumstances as defined under the SGP this rule may not apply.

22. If there is a failure to comply with the budgetary rule and there is a significant deviation from the MTO or the adjustment path, then the Government will be required to implement the correction mechanism and introduce a plan to restore compliance.

23. Furthermore reforms to the SGP introduced a complementary expenditure measure known as the Expenditure Benchmark that aims to link the changes in expenditure with growth in the economy. Through application of the Expenditure Benchmark, which takes into account decisions in relation to discretionary revenue measures, a multi-annual upper limit on General Government expenditure is determined.[74]

24. Once the limit on General Government expenditure has been determined the Government Expenditure Ceiling, as defined in the MSAA 2013, can be derived as outlined below:

i. The expenditure from own resources of the Local Government Sector and Central Government Bodies (including Extra Budgetary Funds) outside the Exchequer must be calculated. In line with the agreed Protocol for the control and monitoring of local authorities contribution to the General Government Balance, the Local Government Sector will finalise their key budgetary parameters (current and capital receipts and expenditure) in order to facilitate the change in the budgetary timetable under the "two-pack" reforms.

ii. All other non-voted Government expenditure must also be removed in order to establish an overall upper limit on the aggregate cash-based Government Expenditure Ceiling referenced in the MSAA 2013.

25. Essentially, the Government Expenditure Ceiling is equivalent to total gross voted expenditure. The MSAA 2013 provides that, upon a proposal of the Minister for Public Expenditure & Reform, the overall Government Expenditure Ceiling shall be apportioned into individual Ministerial expenditure ceilings for both current and capital expenditure for the next three financial years.

26. **Dissemination and Implementation**

You are requested to bring this Circular to the attention of all staff in your Department/Office involved in planning and controlling public expenditure and also to relevant public bodies under the aegis of your Department/Office. Any queries in relation to this Circular should be addressed to John Kinnane email: john.kinnane@per.gov.ie in Central Section, Department of Public Expenditure and Reform.

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[74] For more details on the translation of the MTO to the expenditure benchmark, please see the *Vade Mecum on the Stability and Growth Pact*, available at http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/op151_en.htm

27. The Department of Public Expenditure and Reform will keep the operation of the Circular under review to ensure that its implementation contributes effectively towards continuing fiscal structural reform.

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Deirdre Hanlon
Assistant Secretary
30 September 2013

## Glossary of Terms

***Expenditure Benchmark***

The ‘expenditure benchmark’ has been introduced as part of the suite of EU fiscal reforms (in EU Regulation number 1466/97, which forms part of the so-called “six-pack”) designed to enhance European fiscal surveillance and complement analysis of the structural balance. This benchmark is related to the medium-term budgetary objective (MTO) and limits the growth of overall General Government expenditure, which includes the expenditure of Local Authorities. It is linked to the potential real growth rate of the economy and is used to calculate the overall limit on the growth of General Government expenditure, unless financed through additional discretionary tax/revenue increases. Debt interest expenditure and certain other expenditure related to the economic cycle are excluded from the base in this assessment as the aim is to focus on policy choices which have an effect on the structural balance. The reference rate for the ‘expenditure benchmark’ is fixed for three years in line with the current practice for MTO’s.

***Medium-Term Budgetary Objective (MTO)***

The MTO is a key element of Stability and Growth Pact and represents a structural budgetary position that safeguards against the risk of breaching the 3% of GDP threshold and ensures the long-term sustainability of public finances and a core element of the Stability & Growth Pact and Fiscal Compact. It is set by Member States subject to a minimum set by the EU Commission. The MTO is updated every three years, taking account of any economic or budgetary policy changes that may occur. It can also be updated more often, if new structural reforms with major impacts on the sustainability of the public finances are implemented.

***Exceptional Circumstances***

FRA 2012 provides that exceptional circumstances mean: a period during which an event outside the control of the State has a major impact on the financial position of the general government, or a period of severe economic downturn, within the meaning of the Stability and Growth Pact.

***Government Expenditure Ceiling***

As set out in Section 1 MSAA 2013 Government Expenditure means the sum of money which is met out of:

- money supplied out of supply grants and appropriations-in-aid in respect of supply services,
- money paid out of the Social Insurance Fund, and
- money paid out of the National Training Fund.

The MSAA 2013 provides that each year the Government shall make a decision approving an upper limit on Government Expenditure for the following three year period.

***Ministerial Expenditure Ceiling***

Subject to the Government Expenditure Ceiling, and following a proposal from the Minster for Public Expenditure and Reform, the Government shall make a decision approving the amount of Government expenditure to be apportioned to the area of responsibility of each

Minister. These amounts shall constitute the Ministerial Expenditure Ceilings for each of the three financial years concerned.

**Anne x 6**

**STATUTORY INSTRUMENTS.**
**S.I. No. 508 of 2013**

**European Union (Requirements for Budgetary Frameworks of Member States) Regulations 2013**

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I, MICHAEL NOONAN, Minister for Finance, in exercise of the powers conferred on me by section 3 of the European Communities Act 1972 (No. 27 of 1972) and for the purpose of giving effect to Council Directive 2011/85/EU of 8 November 2011[75], hereby make the following regulations:

**Citation**
1. These Regulations may be cited as the European Union (Requirements for Budgetary Frameworks of Member States) Regulations 2013.

**Interpretation**
2. (1) In these Regulations -
"2012 Treaty" means the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union done at Brussels on 2 March 2012;
"Act of 2012" means Fiscal Responsibility Act 2012 (No. 39 of 2012);
"Budget", in relation to a year, has the meaning assigned to it in section 1 of the Act of 2012;
"budgetary framework" has the meaning assigned to it in Article 2 of the Directive;
"deficit" shall be construed in accordance with Article 2 of the Directive;
"Directive" means Council Directive 2011/85/EU of 8 November 2011 on the requirements for budgetary frameworks of the Member States[1];
"general government", in relation to the State, has the meaning assigned to it in section 1 of the Act of 2012;
"general government bodies" means bodies designated by the Central Statistics Office pursuant to Council Regulation (EC) No 479/2009 of 25 May 2009[76], as amended by Council Regulation (EU) No 679 of 2010 of 26 July 2010[77] and as amended from time to time;
"medium-term budgetary framework" shall be construed in accordance with Regulation 7;
"Minister" means Minister for Finance;
"publish" means published on the website of the Department of Finance on the internet;
"quarter" means a period of 3 consecutive months ending on 31 March, 30 June, 30 September or 31 December in any year;
"subsector", in relation to general government, shall be construed in accordance with section 1 of the Act of 2012;
"Stability and Growth Pact" has the meaning assigned to it in section 1 of the Act of 2012;
"official forecasts" has the meaning assigned to it in section 1 of the Act of 2012;
"stability programme" has the meaning assigned to it in section 1 of the Act of 2012;
"tax expenditures" means a transfer of public resources that is achieved by -

(a) reducing tax obligations with respect to a benchmark tax rather than by direct expenditure, or

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[75] OJ No. L 306, 23.11.2011, p. 41
[76] OJ No. L 145, 10.06.2009, p. 1
[77] OJ No. L 198, 30.07.2010, p. 1

(b) provisions of tax legislation that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to the tax base.

(2) A word or expression which is used in these Regulations and which is also used in the Directive has, unless the context otherwise requires, the same meaning in these Regulations as it has in the Directive.

**Publication of official forecasts**

3. The Department of Finance is responsible for producing the official forecasts referred to in Article 4 of the Directive.

**Monthly and quarterly data**

4. (1) The Minister, having consulted with the Minister for Public Expenditure and Reform, shall publish the following:

(a) estimates of cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) for all parts of central government and the Social Insurance Fund;

(b) estimates of cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) for the local government subsector.

(2) The estimates referred to in subparagraph (a) of paragraph (1) shall be published -

(a) monthly, not later than the end of the month following the month to which the data relates, and

(b) from 1 January 2014, that is to say the data in respect of January 2014 shall be published not later than 28 February 2014.

(3) The estimates referred to in subparagraph (b) of paragraph (1) shall be published -

(a) quarterly, not later than the end of the quarter following the quarter to which the data relates, and

(b) from 1 January 2014, that is to say the data in respect of January to March 2014 shall be published not later than 30 June 2014.

**Reconciliation table**

5. (1) The Minister, having consulted with the Minister for Public Expenditure and Reform, shall publish a detailed reconciliation table showing the methodology of transition between cash-based data and data based on the ESA 95 standard.

(2) The table referred to in paragraph (1) -

(a) shall be published not later than 31 December 2013, and

(b) shall be updated whenever the methodology -

(i) referred to in paragraph (1), or

(ii) employed in the preparation of the estimates referred to in Regulation 4,

is revised.

(3) In this Regulation, "ESA95" means the system of national and regional accounts in the European Union as provided under Council Regulation (EC) No. 2223/96 of 25 June 1996[78];

**Evaluation of official forecasts**

6. (1) The Minister, having consulted with the Minister of Public Expenditure and Reform, shall commission an independent evaluation of the official forecasts in respect of the 3 year period commencing on 1 January 2014 and in respect of each successive 3 year period thereafter.

[78] OJ No. L 310, 30.11.1996, p. 1

(2) An evaluation shall be unbiased, comprehensive and based on objective criteria, including ex-post evaluation.

(3) The result of an evaluation -

(a) shall be presented to the Minister, and published by the Department of Finance not later than one month after being presented to the Minister, and

(b) shall be taken into account by the Department of Finance in the preparation of future official forecasts.

(4) Where the evaluation identifies a significant bias affecting macroeconomic forecasts over a period of at least 4 consecutive years, the Minister shall -

(a) take the required actions to correct the bias, and

(b) publish a report on the steps taken to correct the bias.

(5) In this Regulation, "evaluation" means an evaluation commissioned in accordance with paragraph (1).

**Medium-term budgetary framework**

7. (1) The Minister, in consultation with the Minister for Public Expenditure and Reform, shall prepare and publish a document containing all elements of the medium-term budgetary framework and update it regularly.

(2) The medium-term budgetary framework referred to in paragraph (1) shall include -

(a) all the national budgetary procedures to provide for a fiscal planning horizon over a period including the then current fiscal year and, at least, the 3 following years, and

(b) procedures for establishing the following:

(i) comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other summary fiscal indicator such as expenditure;

(ii) projections of each major expenditure and revenue item of the general government with more specifications on the central government and social security level, for the budget year and beyond, based on unchanged policies;

(iii) a description of medium-term policies envisaged with an impact on general government finances, broken down by major revenue and expenditure item, showing how the adjustment towards the medium-term budgetary objectives is achieved compared to projections under unchanged policies;

(iv) an assessment as to how, in the light of their direct long-term impact on general government finances, the policies included in the medium-term budgetary framework are likely to affect the long-term sustainability of the public finances.

(3) The planning horizon referred to in paragraph (2)(a) shall include the setting of policy priorities of the medium-term term budgetary objectives, consistent with the Stability and Growth Pact and the Act of 2012.

(4) The Minister and the Minister for Public Expenditure and Reform shall ensure that the annual Budget shall be consistent with the fiscal planning outcome of the medium-term budgetary framework.

**General government bodies**

8. Within the annual Budget and stability programme, the Minister and the Minister for Public Expenditure and Reform, in consultation with the Central Statistics Office, shall present the

combined impact on general government balances and debts of all general government bodies and non-voted funds at sub-sector level.

**Publication of impact of tax expenditures on revenues**

9. The Minister, having consulted with the Revenue Commissioners, shall publish detailed information on the impact of tax expenditures on revenues annually.

**Annual data**

10. The Minister, having consulted with the Minister for Public Expenditure and Reform, shall in respect of each year publish the following:

(a) not later than 31 October 2014 and each anniversary of that date, data on contingent liabilities with potentially large impacts on public budgets, including, without limitation, government guarantees, non-performing loans and public-private partnerships;

(b) not later than 31 December 2014 and each anniversary of that date, data on liabilities of public corporations and government participation in the capital of corporations.

**Requirements for other bodies**

11. For the purposes of ensuring that the duties of the Minister and the Minister for Public Expenditure and Reform under these Regulations are met, all general government bodies, where requested by the Minister, shall supply the relevant data to both those Ministers, or such other bodies designated by the Minister for those purposes, for the collection of the data in accordance with deadlines set by the Minister.

**Publication of indicators**

12. The Minister shall publish all reports required to be published under the Directive on a single dedicated page.

**Annex 6(b)**

# Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

Correlation / Transposition Table

| *Article 1*<br>This Directive lays down detailed rules concerning the characteristics of the budgetary frameworks of the Member States. Those rules are necessary to ensure Member States' compliance with obligations under the TFEU with regard to avoiding excessive government deficits. | No transposition needed |
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| *Article 2*<br>For the purposes of this Directive, the definitions of 'government', 'deficit' and 'investment' set out in Article 2 of the Protocol (No 12) on the excessive deficit procedure annexed to the TEU and to the TFEU shall apply. The definition of sub-sectors of general government set out in point 2.70 of Annex A to Regulation (EC) No 2223/96 shall also apply.<br>In addition, the following definition shall apply:<br>'budgetary framework' means the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government, in particular:<br>(a) systems of budgetary accounting and statistical reporting;<br>(b) rules and procedures governing the preparation of forecasts for budgetary planning;<br>(c) country-specific numerical fiscal rules, which contribute to the consistency of Member States' conduct of fiscal policy with their respective obligations under the TFEU, expressed in terms of a summary indicator of budgetary performance, such as the government budget deficit, borrowing, debt, or a major component thereof;<br>(d) budgetary procedures comprising procedural rules to underpin the budget process at all stages;<br>(e) medium-term budgetary frameworks as a specific set of national budgetary procedures that extend the horizon for fiscal policy-making beyond the annual budgetary calendar, including the setting of policy priorities and of medium- term budgetary objectives;<br>(f) arrangements for independent monitoring and analysis, to enhance the transparency of | Transposed in Regulation 2 (1) |

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| elements of the budget process;<br>(g) mechanisms and rules that regulate fiscal relationships between public authorities across sub-sectors of general government. | |
| *Article 3*<br>1. As concerns national systems of public accounting, Member States shall have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard. Those public accounting systems shall be subject to internal control and independent audits. | No transposition needed.<br>Council Regulation (EC) No 2223/96 has direct effect (with regard to the ESA 95 standard).<br><br>Exchequer and Audit Department Act 1866 as amended by the Comptroller and Auditor General Act 1923, Comptroller and Auditor General (Amendment) Act 1993 and the Comptroller and Auditor General and Committees of the Houses of the Oireachtas (Special Provisions) Act 1998 provides the basis for the relevant systems of accounting, and is subject to administrative procedures for internal control. Independent auditing is provided through the Comptroller and Auditor General/Public Accounts Committee. The Comptroller and Auditor General is a Constitutional Officer under Article 33 of the Constitution.<br><br>An example of legislation requiring an individual body to be audited by the C&AG and appear before the Public Accounts Committee can be seen in the Schedule of the Fiscal Responsibility Act 2012.<br><br>(Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community) |
| *Article 3*<br>2. Member States shall ensure timely and regular public availability of fiscal data for all sub-sectors of general government as defined by Regulation (EC) No 2223/96. In particular Member States shall publish:<br>(a) cash-based fiscal data (or the equivalent figure from public accounting if cash-based data are not available) at the following frequencies:<br>— monthly for central government, state government and social security sub-sectors, before the end of the following month, and<br>— quarterly, for the local government sub-sector, before the end of the following quarter;<br>(b) a detailed reconciliation table showing the methodology of transition between cash-based data (or the equivalent figures from public accounting if cash-based data are not available) and data based on the ESA 95 standard. | Transposed in Regulation 4-5 (informed by European Commission Working Group paper) |
| *Article 4*<br>1. Member States shall ensure that fiscal | No need to transpose – Regulation 1466/97 as amended by Regulation 1175/2011 (inserted by Article 1(6)(c) of |

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| planning is based on realistic macroeconomic and budgetary forecasts using the most up-to-date information. Budgetary planning shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated forecasts of the Commission and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission's forecast shall be described with reasoning, in particular if the level or growth of variables in external assumptions departs significantly from the values contained in the Commission's forecasts. | Regulation 1175/2011) states that "The stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario. The macroeconomic and budgetary forecasts shall be compared with the most updated Commission forecasts and, if appropriate, those of other independent bodies. Significant differences between the chosen macrofiscal scenario and the Commission's forecast shall be described with reasoning, in particular if the level or growth of external assumptions departs significantly from the values retained in the Commission's forecasts." The associated Code of Conduct clarifies that "Stability and Convergence programmes should be based on realistic and cautious macroeconomic forecasts." This has direct effect. The stability programme is one of the key outputs of the MTBF, with multi-annual focus.<br>In addition, Regulation 473/2013 introduces independent production or endorsement of the macroeconomic forecasts that the Budget or Stability Programme is based upon.<br><br>(Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<br>Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area) |
| *Article 4*<br>2. The Commission shall make public the methodologies, assumptions and relevant parameters that underpin its macroeconomic and budgetary forecasts. | No transposition required |
| *Article 4*<br>3. In order to support Member States in preparing their budgetary forecasts, the Commission shall provide forecasts for the expenditure of the Union based on the level of expenditure programmed within the multiannual financial framework. | No transposition required |
| *Article 4*<br>4. Within the framework of a sensitivity analysis, the macroeconomic and budgetary forecasts shall examine paths of main fiscal variables under different assumptions as to growth and interest rates. The range of alternative assumptions used in macroeconomic and budgetary forecasts shall be guided by the performance of past forecasts and shall endeavour to take into account relevant risk scenarios. | Regulation 1466/97, Article 3 (2)(d) requires that the SPU contains "an analysis of how changes in the main economic assumptions would affect the budgetary and debt position" and has direct effect.<br><br>(Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies) |
| *Article 4*<br>5. Member States shall specify which institution is responsible for producing | First line transposed in Regulation 3. |

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| macroeconomic and budgetary forecasts and shall make public the official macroeconomic and budgetary forecasts prepared for fiscal planning, including the methodologies, assumptions and relevant parameters underpinning those forecasts. At least annually, the Member States and the Commission shall engage in a technical dialogue concerning the assumptions underpinning the preparation of macroeconomic and budgetary forecasts. | As part of the Budget process, amended by Regulation (EU) No 473/2013, Articles 6(3)(g) (which has direct effect), Member States must ensure the following information is published: "an annex containing the methodology, economic models and assumptions, and any other relevant parameters underpinning the budgetary forecasts and the estimated impact of aggregated budgetary measures on economic growth."<br><br>(Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area) |
| *Article 4*<br>6. The macroeconomic and budgetary forecasts for fiscal planning shall be subject to regular, unbiased and comprehensive evaluation based on objective criteria, including *ex post* evaluation. The result of that evaluation shall be made public and taken into account appropriately in future macroeconomic and budgetary forecasts. If the evaluation detects a significant bias affecting macroeconomic forecasts over a period of at least 4 consecutive years, the Member State concerned shall take the necessary action and make it public. | Transposed in Regulation 6 |
| *Article 4*<br>7. Member States' quarterly debt and deficit levels shall be published by the Commission (Eurostat) every 3 months. | No transposition required. |
| *Article 5*<br>Each Member State shall have in place numerical fiscal rules which are specific to it and which effectively promote compliance with its obligations deriving from the TFEU in the area of budgetary policy over a multiannual horizon for the general government as a whole. Such rules shall promote in particular:<br>(a) compliance with the reference values on deficit and debt set in accordance with the TFEU;<br>(b) the adoption of a multiannual fiscal planning horizon, including adherence to the Member State's medium-term budgetary objective. | Does not require transposition.<br>The Fiscal Responsibility Act 2012 contains the appropriate numerical fiscal rules for the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.<br><br>The Ministers and Secretaries (Amendment) Act 2013, in conjunction with the subsequent circular, contains the appropriate numerical fiscal rules to operationalise the expenditure benchmark which is part of the "Six-Pack".<br><br>The remaining European Regulations underpinning the Stability and Growth Pact have direct effect.<br><br>(Relevant Regulations:<br><br>- Council Regulation (EC) No. 1467/97 of 7 July 1997 as amended by Council Regulation (EC) No. 1056/2005 of 27 June 2005 and Council Regulation (EU) No. 1177/2011 of 8 November 2011 on speeding up and clarifying the implementation of the excessive deficit procedure<br>- Council Regulation (EC) No. 1466/97 of 7 July 1997 as amended by Council Regulation (EC) No. 1055/2005 of 27 |

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| | June 2005 and Regulation (EU) No. 1175/2011 of 16 November 2011 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies) |
| *Article 6*<br>1. Without prejudice to the provisions of the TFEU concerning the budgetary surveillance framework of the Union, country-specific numerical fiscal rules shall contain specifications as to the following elements:<br>(a) the target definition and scope of the rules;<br>(b) the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States;<br>(c) the consequences in the event of non-compliance. | Does not require transposition – see above comment on Article 5.<br>Fiscal Responsibility Act 2012 includes details of mandated monitoring of compliance with the budgetary rule by the Fiscal Council, the consequences of failure to comply, and detailed description of the rules.<br>The Ministers and Secretaries (Amendment) Act 2013 coupled with the subsequent circular provides all the relevant information with regard to operationalising the expenditure benchmark. This is explained further in the MTBF. |
| Article 6<br>2. If numerical fiscal rules contain escape clauses, such clauses shall set out a limited number of specific circumstances consistent with the Member States' obligations deriving from the TFEU in the area of budgetary policy, and stringent procedures in which temporary non-compliance with the rule is permitted. | Does not require transposition – the relevant legislation (the Fiscal Responsibility Act 2012 and the Ministers and Secretaries (Amendment) Act 2013) contain such limitations. |
| *Article 7*<br>The annual budget legislation of the Member States shall reflect their country-specific numerical fiscal rules in force. | Requirement set as part of the MTBF, does not require transposition – the relevant legislation as above have legislative effect |
| *Article 8*<br>Articles 5 to 7 shall not apply to the United Kingdom. | No transposition required |
| *Article 9*<br>1. Member States shall establish a credible, effective medium- term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years, to ensure that national fiscal planning follows a multiannual fiscal planning perspective. | Transposed in Regulation 7(1)-(3) |
| *Article 9*<br>2. Medium-term budgetary frameworks shall include procedures for establishing the following items:<br>(a) comprehensive and transparent multiannual budgetary objectives in terms of the general government deficit, debt and any other summary fiscal indicator such as expenditure, ensuring that these are consistent with any numerical fiscal rules as provided for in Chapter IV in force;<br>(b) projections of each major expenditure and revenue item of the general government with more specifications on the central | Transposed in Regulation 7(2) |

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| government and social security level, for the budget year and beyond, based on unchanged policies;<br>(c) a description of medium-term policies envisaged with an impact on general government finances, broken down by major revenue and expenditure item, showing how the adjustment towards the medium-term budgetary objectives is achieved compared to projections under unchanged policies;<br>(d) an assessment as to how in the light of their direct long- term impact on general government finances, the policies envisaged are likely to affect the long-term sustainability of the public finances. | |
| *Article 9*<br>3. Projections adopted within medium-term budgetary frameworks shall be based on realistic macroeconomic and budgetary forecasts in accordance with Chapter III. | No need to transpose – Regulation 1466/97 as amended by Regulation 1175/2011 (inserted by Article 1(6)(c) of Regulation 1175/2011) states that "The stability programme shall be based on the most likely macrofiscal scenario or on a more prudent scenario." The associated Code of Conduct clarifies that "Stability and Convergence programmes should be based on realistic and cautious macroeconomic forecasts." This has direct effect.<br><br>(Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies) |
| *Article 10*<br>Annual budget legislation shall be consistent with the provisions of the medium-term budgetary framework. Specifically, revenue and expenditure projections and priorities resulting from the medium-term budgetary framework as set out in Article 9(2) shall constitute the basis for the preparation of the annual budget. Any departure from those provisions shall be duly explained. | Transposed – in Regulation 7(4) |
| *Article 11*<br>No provision of this Directive shall prevent a Member State's new government from updating its medium-term budgetary framework to reflect its new policy priorities. In this case, the new government shall indicate the differences from the previous medium-term budgetary framework. | No need to transpose – Regulations as drafted do not limit Government ability to update the MTBF. |
| *Article 12*<br>Member States shall ensure that any measures taken to comply with Chapters II, III and IV are consistent across, and comprehensive in coverage of, all sub-sectors of general government. This shall, in particular, require the consistency of accounting rules and procedures, and the integrity of their underlying data collection and processing | Does not require transposition – see comment on Article 3 (1) of this Directive |

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| *Article 13*<br>1. Member States shall establish appropriate mechanisms of coordination across sub-sectors of general government to provide for comprehensive and consistent coverage of all sub- sectors of general government in fiscal planning, country- specific numerical fiscal rules, and in the preparation of budgetary forecasts and setting-up of multiannual planning as laid down, in particular, in the multiannual budgetary framework. | Does not require transposition. Such procedures are in place, for example through the work of the Central Statistics Office or between the Department of Public Expenditure and Reform and relevant sub-sectors. |
| Article 13<br>2. In order to promote fiscal accountability, the budgetary responsibilities of public authorities in the various sub-sectors of general government shall be clearly laid down. | Does not require transposition - the Local Government Act, Social Welfare Acts and Institutes of Technology Act 2006 lay down the budgetary responsibilities of the relevant sub-sectoral components. |
| *Article 14*<br>1. Within the framework of the annual budgetary processes, Member States shall identify and present all general government bodies and funds which do not form part of the regular budgets at sub-sector level, together with other relevant information. The combined impact on general government balances and debts of those general government bodies and funds shall be presented in the framework of the annual budgetary processes and the medium-term budgetary plans. | Second sentence transposed in Regulation 8<br>Council Regulation (EC) No. 479/2009 as amended by Council Regulation (EU) No. 679/2010 has direct effect for the information gathered<br>(Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, amended by Council Regulation (EU) No 679/2010 of 26 July 2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure.) |
| Article 14<br>2. Member States shall publish detailed information on the impact of tax expenditures on revenues. | Transposed in Regulation 9 (informed by European Commission Working Group paper) |
| Article 14<br>3. For all sub-sectors of general government, Member States shall publish relevant information on contingent liabilities with potentially large impacts on public budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof. Member States shall also publish information on the participation of general government in the capital of private and public corporations in respect of economically significant amounts. | Transposed – in Regulation 10 (informed by European Commission Working Group paper) |
| *Article 15*<br>1. Member States shall bring into force the provisions necessary to comply with this Directive by 31 December 2013. They shall forthwith communicate to the Commission the text of those provisions. The Council | No transposition needed - information request.<br>Correlation table produced and published. |

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| encourages the Member States to draw up, for themselves and in the interests of the Union, their own correlation tables which will, as far as possible, illustrate the correlation between this Directive and the transposition measures, and to make them public.<br>2. When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.<br>3. The Commission shall prepare an interim progress report on the implementation of the main provisions of this Directive on the basis of relevant information from Member States, which shall be submitted to the European Parliament and to the Council by 14 December 2012.<br>4. Member States shall communicate to the Commission the text of the main provisions which they adopt in the field covered by this Directive. | |
| *Article 16*<br>1. By 14 December 2018 the Commission shall publish a review of the suitability of this Directive.<br>2. The review shall assess, inter alia, the suitability of:<br>(a) the statistical requirements for all sub-sectors of government;<br>(b) the design and effectiveness of numerical fiscal rules in the Member States;<br>(c) the general level of transparency of public finances in the Member States.<br>3. By 31 December 2012, the Commission shall assess the suitability of the International Public Sector Accounting Standards for the Member States. | No transposition needed |
| *Article 17*<br>This Directive shall enter into force on the 20th day following its publication in the *Official Journal of the European Union*. | No transposition needed |
| *Article 18*<br>This Directive is addressed to the Member States. | No transposition needed |