



Irish Fiscal Advisory Council

Fiscal Assessment Report

April 2012



Overview

- Macroeconomic assessment
- Budgetary assessment
- Assessment of fiscal stance



**Irish Fiscal
Advisory Council**

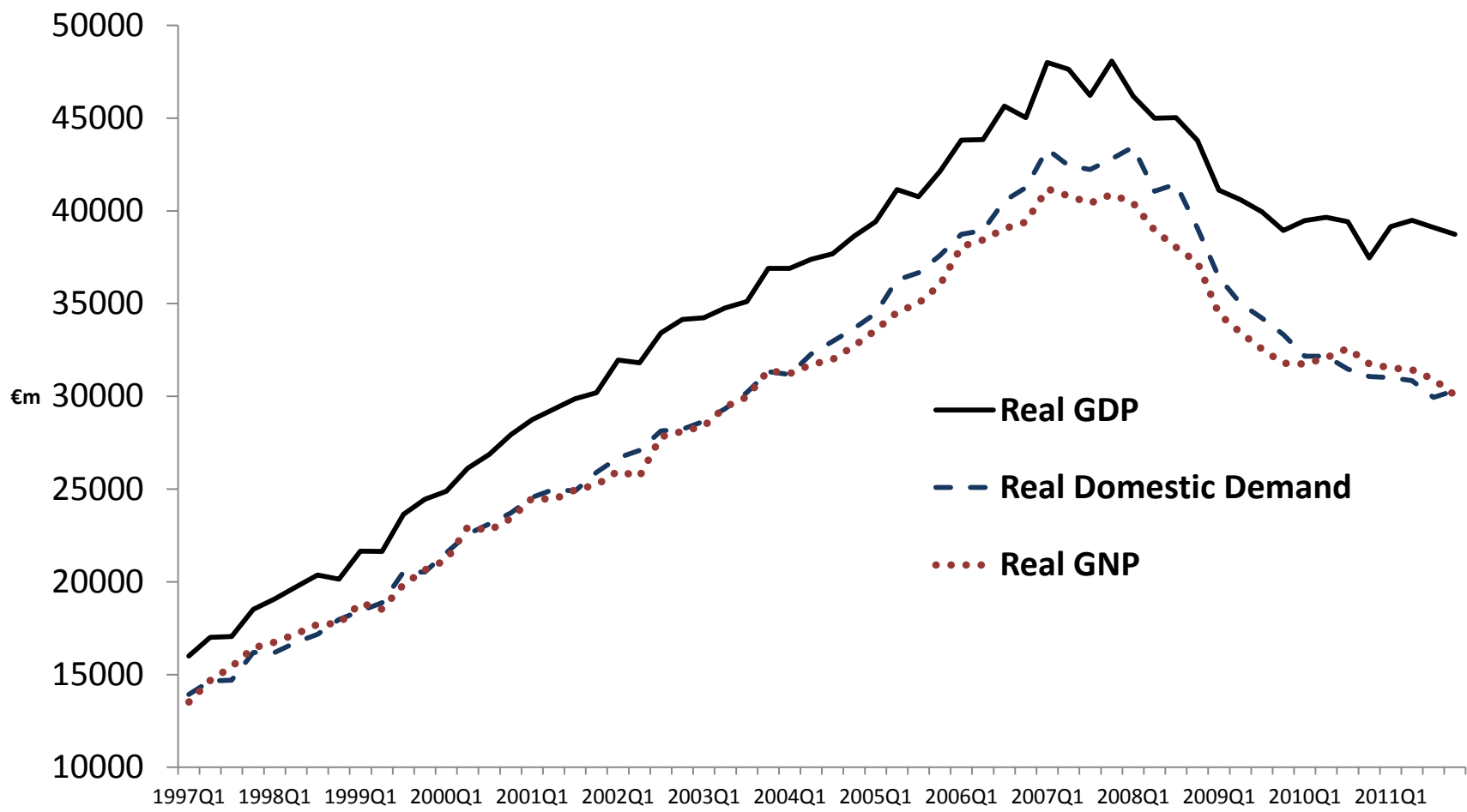
Macroeconomic Assessment

Growth prospects have weakened since *Budget 2012*

% change	Budget	CBI	ESRI	OECD	EC	IMF
	Dec-11	Jan-12	Feb-12	Nov-11	Mar-12	Mar-12
Real GDP	1.3	0.5	0.9	1.0	0.5	0.5
Real GNP	0.7	-0.7	0.1	n.a.	n.a.	n.a.
GDP Deflator	1.1	1.2	1.2	0.9	1.4	1.4
Nominal GDP (% change)	2.5	1.6	2.0	1.9	1.9	1.9

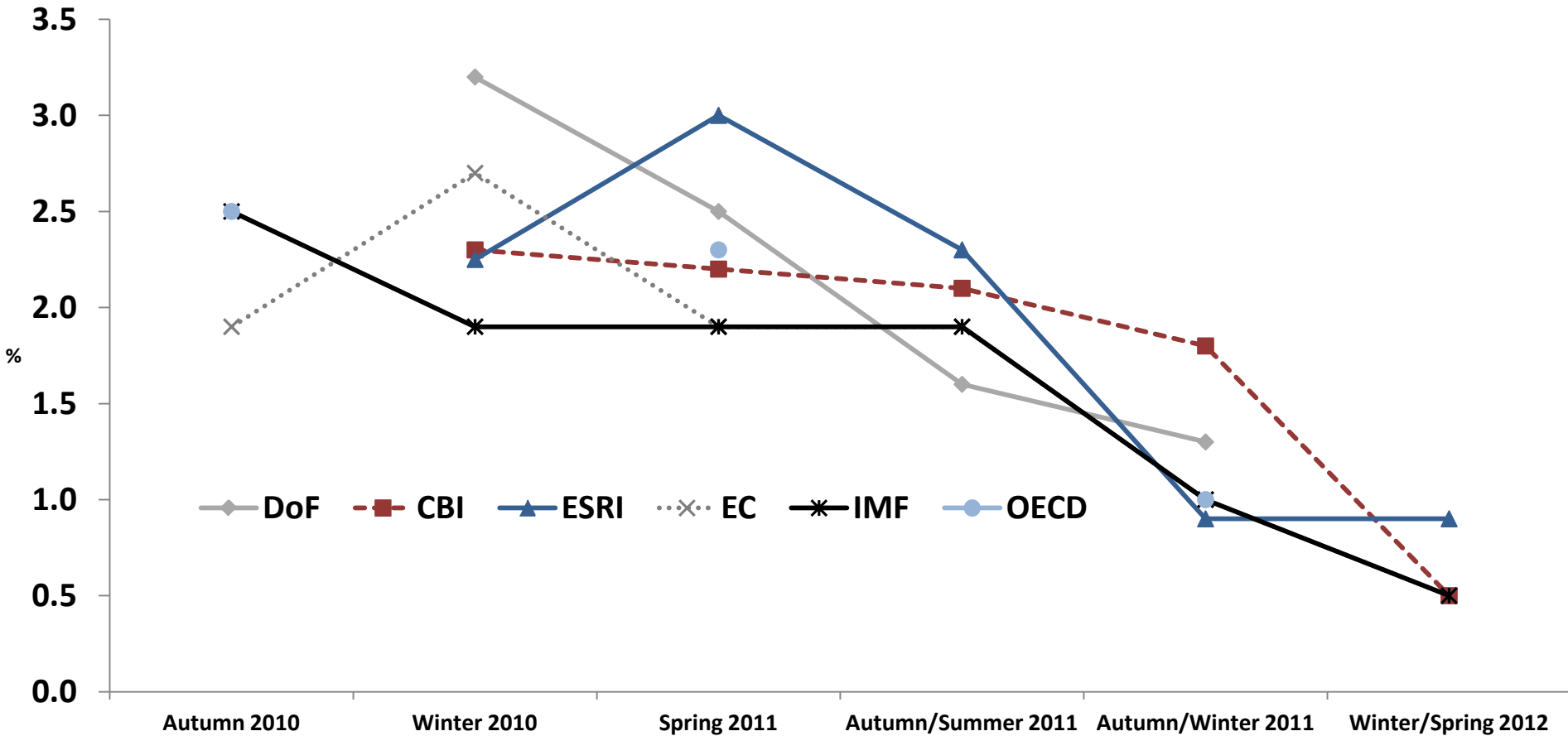


Whither the Irish Economy?





Pattern of downward revisions for 2012





Unusual uncertainty

- Initial output gap
- Speed the output gap will close
- Underlying trend growth rate of potential output



Recognising the Uncertainty

- Need for greater recognition of uncertainty in medium-term budgetary documents
 - Error bands around forecasts
 - Use of fan charts (showing how uncertainty increases with the forecast horizon)
 - Importance of sensitivity/scenario analysis
 - More discussion of downside risks



Irish Fiscal Advisory Council

Budgetary Assessment

Budgetary projections, Budget 2012

	2011	2012	2013	2014	2015
% of GDP					
General Govt. Deficit	10.1	8.6	7.5	5.0	2.9
Gross Debt	107	115	119	118	115
Primary Deficit	6.7	4.4	1.9	-0.8	-2.8
Exchequer Deficit	16.0	11.9	8.6	5.9	3.9
Structural Deficit	8.6	8.0	7.1	5.3	3.7
Memo items:					
Assumed Discretionary Fiscal Adjustment	5.3	3.8	3.5	3.1	2.0
Average Interest Rate, Percent	3.6	4.0	5.1	5.1	5.0



Budget 2012, New measures

€ billions		2012
Revenue	VAT	0.6
	Excises	0.2
	Other Taxes (including Household Charge)	0.2
	Total	1.0
Expenditure Savings	Current	1.4
	Capital	0.8
	Total	2.2
New Budget Measures	Total	3.2



VAT Projections

€ millions	2011	2012	Change
<i>Budget 2012 Estimate</i>	9,730	9,995	265
IFAC Estimate using Budget Change in Nominal Personal Consumption	9,730	10,096	366
IFAC Estimate using CBI Change in Nominal Personal Consumption	9,730	10,066	336



Agencies projecting 2012 target will be met

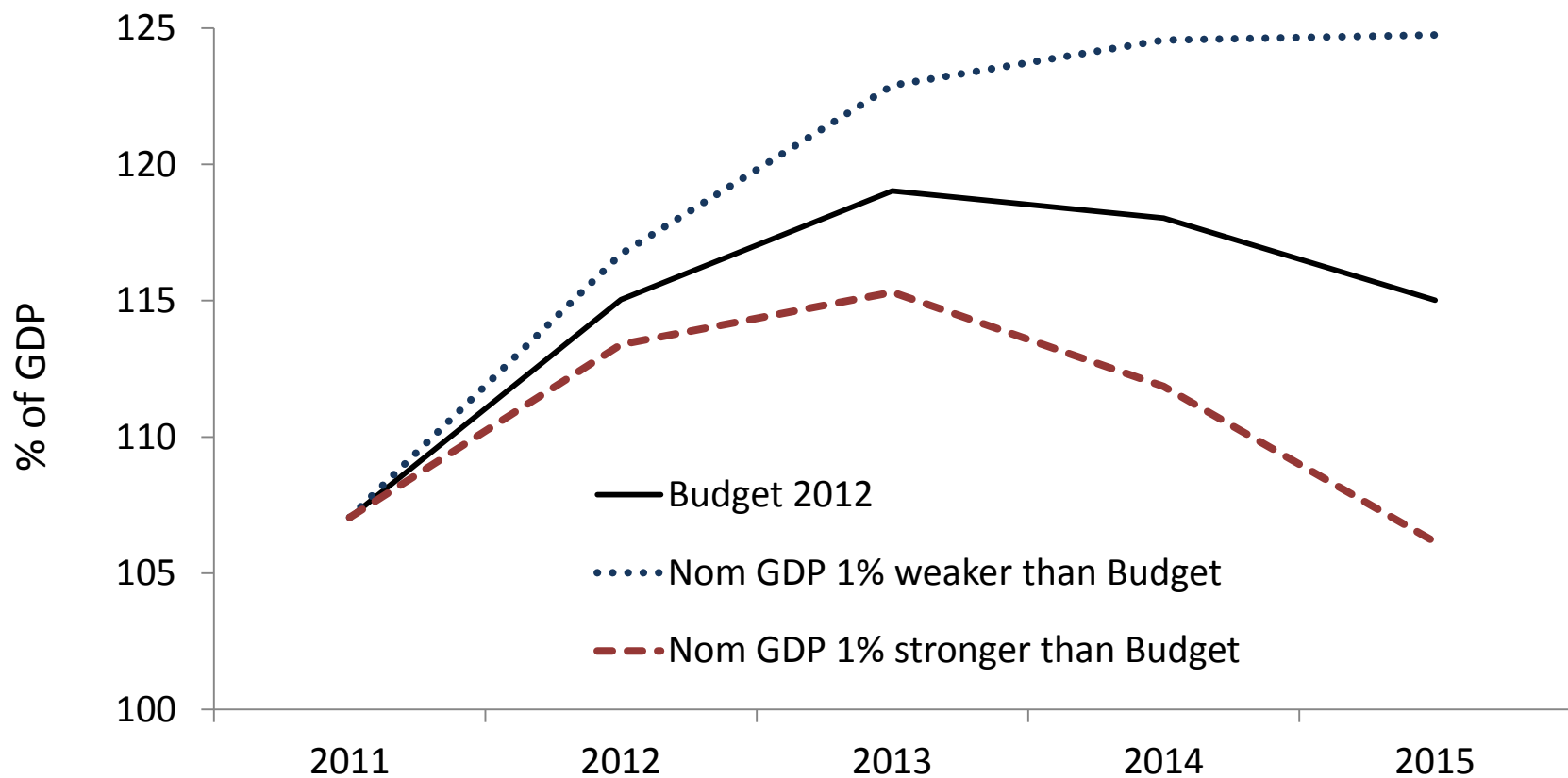
% of GDP	<i>Budget 2012</i>	IMF	EC	OECD	ESRI
	Dec-11	Mar-12	Mar-12	Nov-11	Feb-12
Overall Balance	-8.6	-8.6	-8.6	-8.7	-8.6
Revenue	34.5	34.5	35.5	35.4	n.a.
Expenditure	43.1	43.2	44.1	44.1	n.a.
Primary Balance	-4.4	-4.5	-4.4	-4.5	n.a.
Debt	115.0	113.7	113.1	112.9	115.0
Nominal GDP Growth (% change)	2.5	1.9	1.9	1.9	2.0

Simulation based on IMF growth forecast (March)

% of GDP	2011	2012	2013	2014	2015
Nominal GDP Growth (IMF Mar-12)	-0.5	1.9	3.2	4.3	4.6
Gross Debt	106.8	115.7	120.2	119.5	116.6
Primary Deficit	6.6	4.6	2.2	-0.5	-2.6
General Government Deficit	9.9	8.8	7.8	5.3	3.2
Memo Items:					
Assumed Fiscal Adjustment, € bn	-5.3	-3.8	-3.5	-3.1	-2.0
Implicit Interest Rate (%)	3.6	4.0	5.0	5.1	5.1



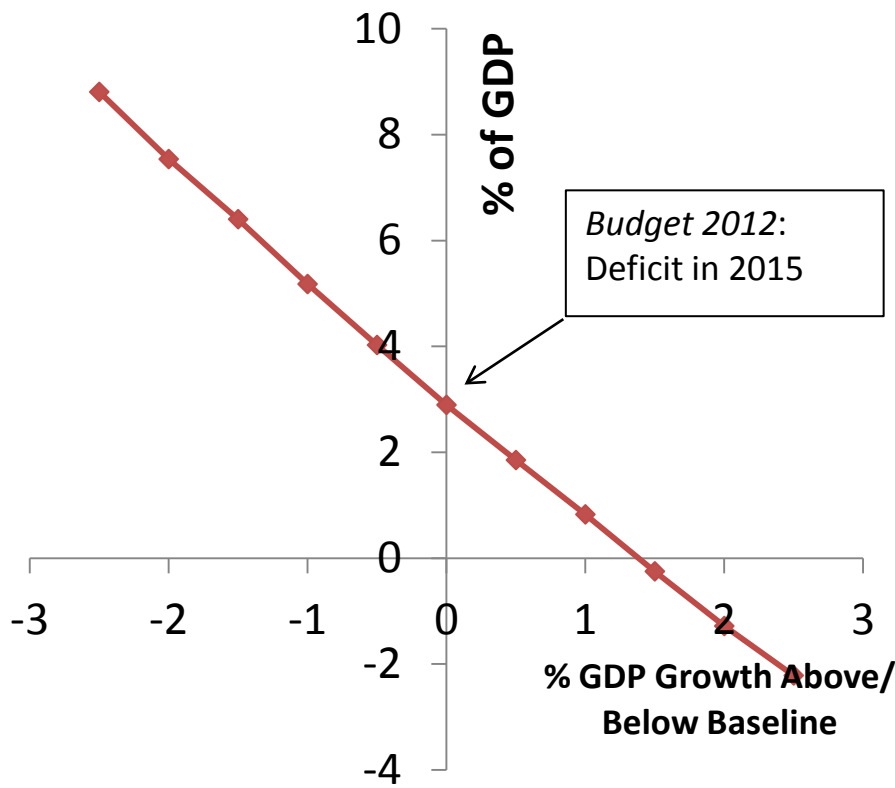
Alternative growth scenarios



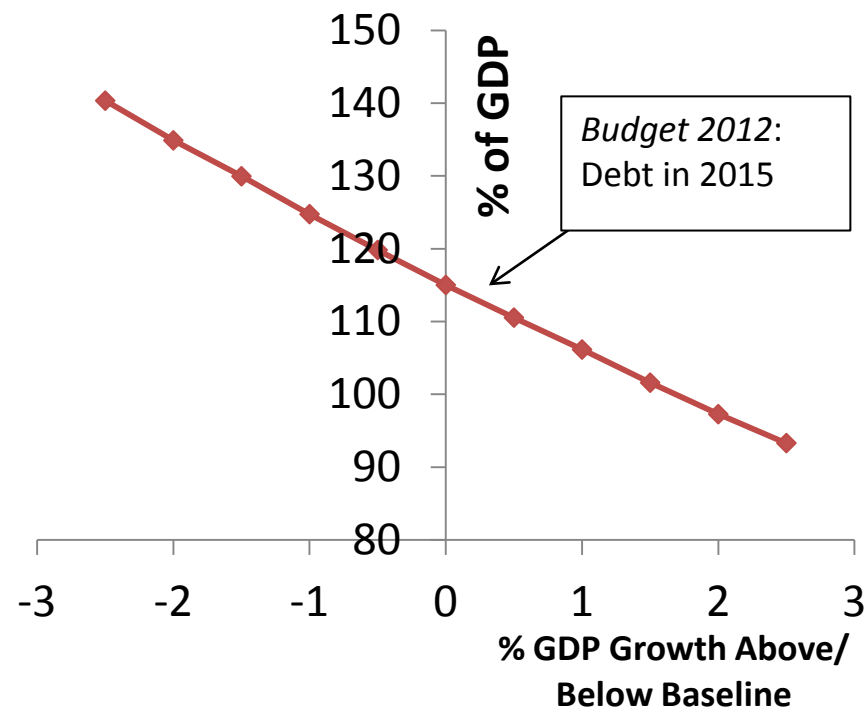
Source: Council simulations.



Simulations of alternative growth assumptions



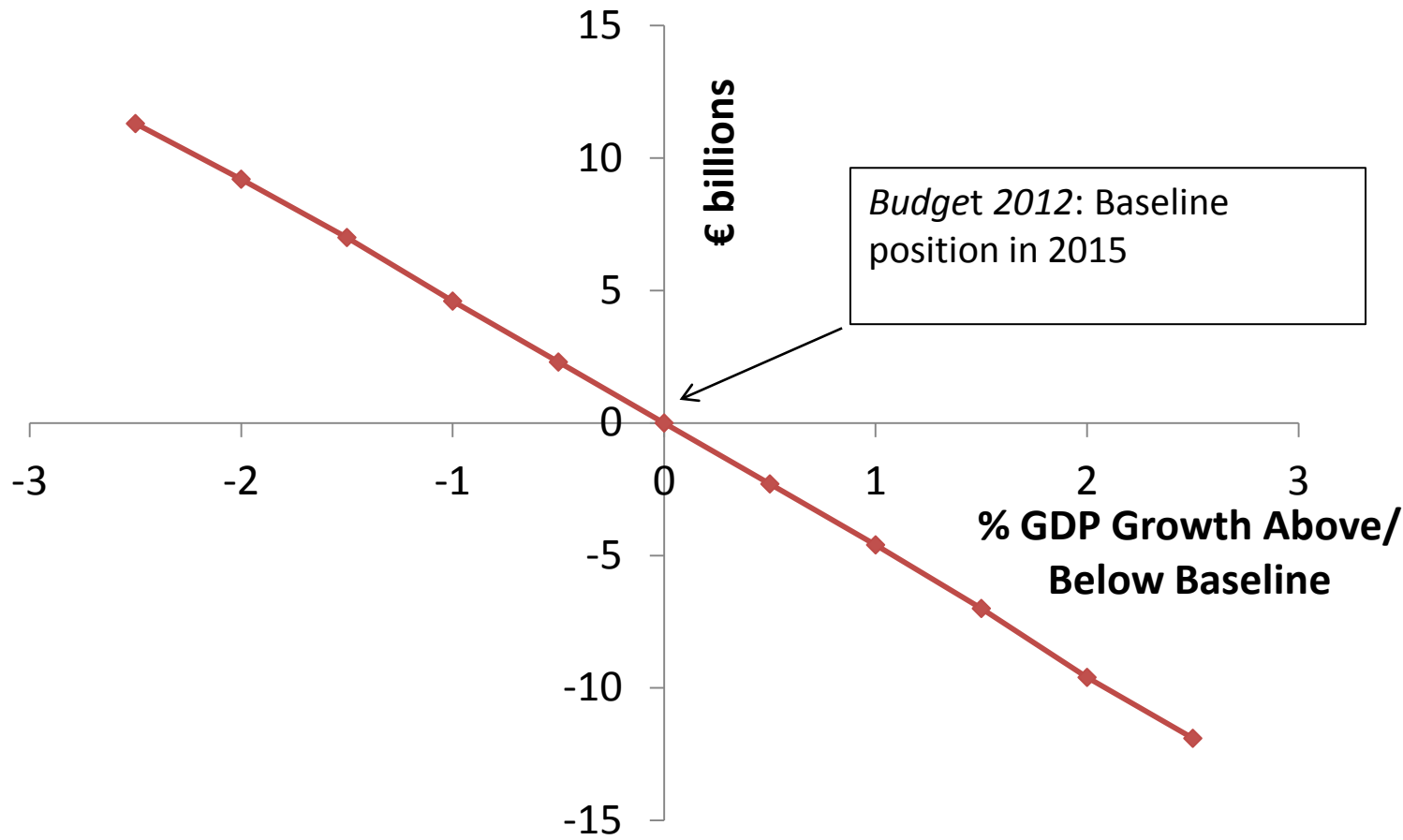
Deficit, % of GDP



Debt to GDP Ratio (%)



Cumulative additional required adjustments



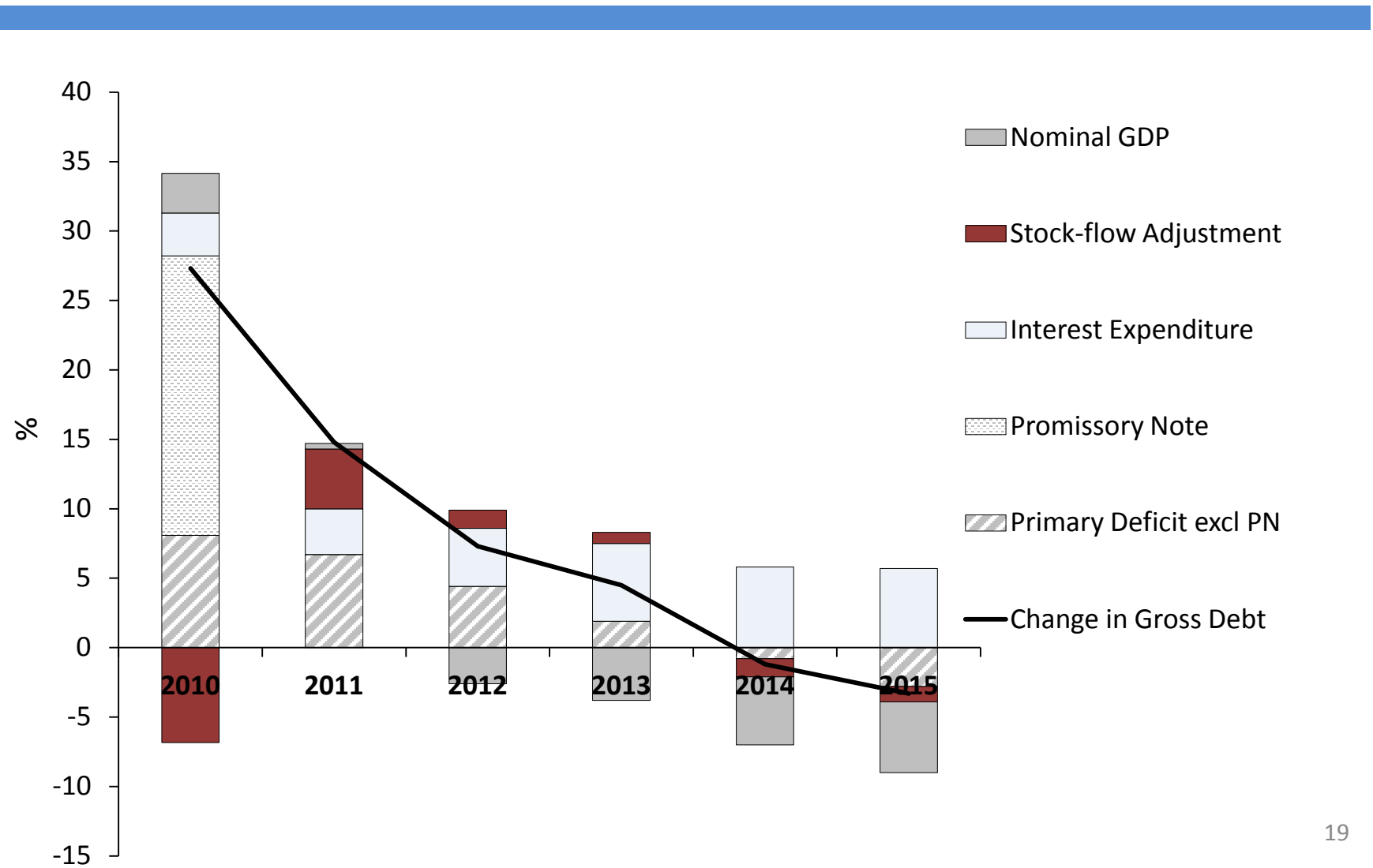


Evolution of gross Government debt

% of GDP	2011	2012	2013	2014	2015
Gross Debt	107	115	119	118	115
Change in Debt	14.8	7.3	4.5	-1.2	-3.3
Contributions to Change in Gross Debt Ratio					
General Government Def.	10.1	8.6	7.5	5.0	2.9
Stock-flow Adjustment	4.3	1.3	0.8	-1.3	-1.1
Nominal GDP	0.4	-2.6	-3.8	-4.9	-5.1
Composition of Stock-Flow Adjustment					
Change in Exchequer Dep.	-0.9	-0.4	1.1	-1.7	-1.5
Interest Adjustments	-0.3	0.0	-0.8	0.1	0.0
Net Banking Recap.	4.2	0.8	0.0	0.0	0.0
Accrual Adjustments	0.3	0.2	0.1	0.1	0.1
Impact of NPRF	0.3	0.2	0.2	0.2	0.2
Other	0.8	0.5	0.2	0.1	0.2

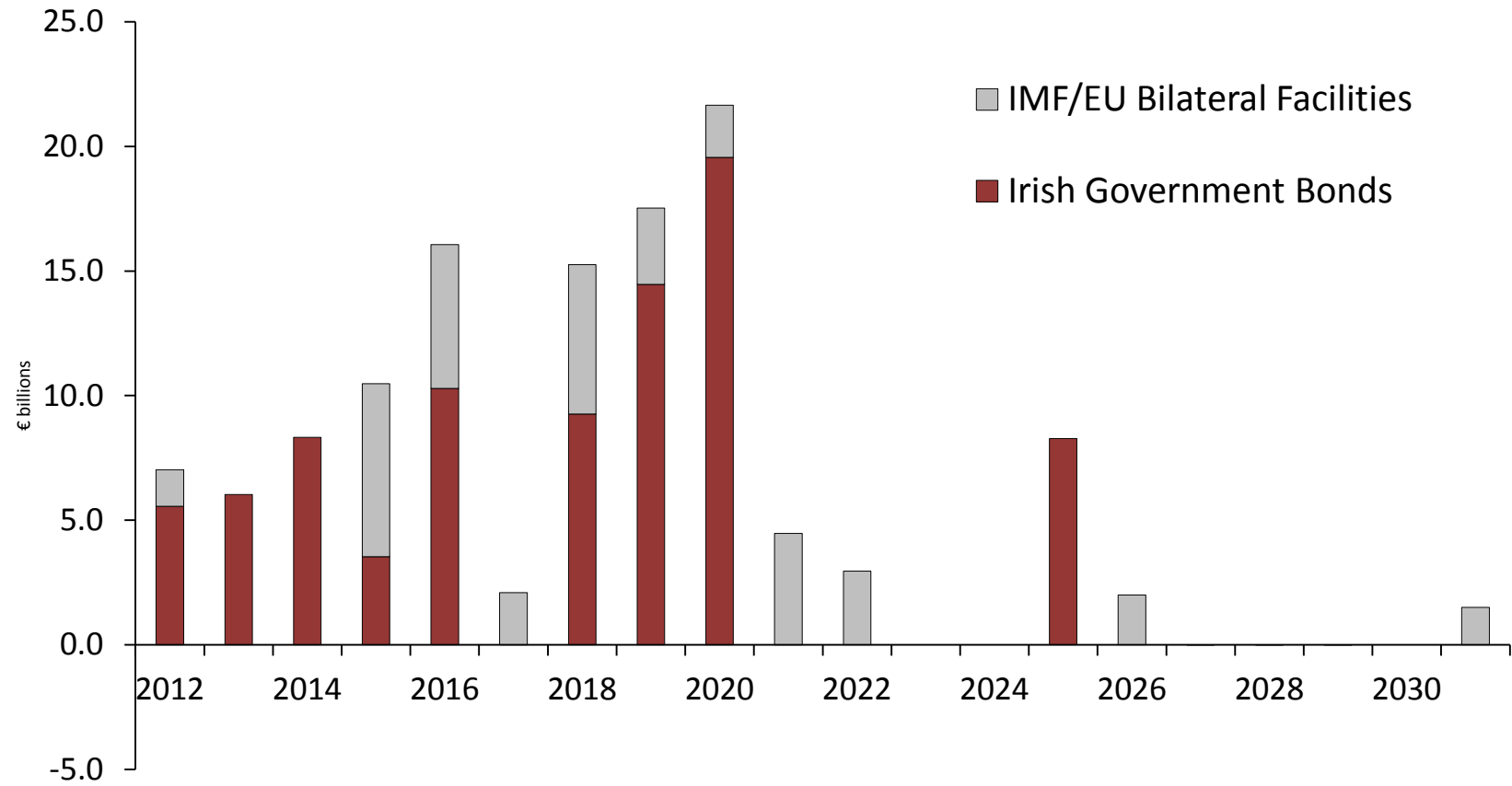


Contributions to debt to GDP ratio





Funding requirements





Promissory note repayment schedule

€ billions	Total Payments Due	Of which: Capital	Of which: Interest		Total Payments Due	Of which: Capital	Of which: Interest
2011	3.1	2.5	0.6	2022	3.1	2.2	0.9
2012	3.1	3.1	0.0	2023	3.1	2.3	0.8
2013	3.1	2.6	0.5	2024	2.1	1.5	0.6
2014	3.1	1.2	1.8	2025	0.9	0.5	0.5
2015	3.1	1.3	1.8	2026	0.9	0.5	0.4
2016	3.1	1.4	1.7	2027	0.9	0.6	0.3
2017	3.1	1.5	1.6	2028	0.9	0.7	0.3
2018	3.1	1.6	1.4	2029	0.9	0.7	0.2
2019	3.1	1.7	1.3	2030	0.9	0.8	0.1
2020	3.1	1.9	1.2	2031	0.1	0.1	0.0
2021	3.1	2.0	1.1	Total	47.4	30.6	16.8



**Irish Fiscal
Advisory Council**

Assessment of Fiscal Stance



Basic framework

- Trade off
 - Supporting domestic demand versus debt sustainability/creditworthiness
- Key considerations
 - Funding vulnerabilities
 - Fragility of debt sustainability
 - Longer-term implications of high debt
 - Weak demand conditions



October Assessment

- Medium-term General Government deficit targets within range of appropriate policies
- IFAC case for more ambitious consolidation
 - To reach 1 percent by 2015



Fiscal Stance: SPU

General Government Balance, % of GDP	2012	2013	2014	2015
<i>SPU (April 2011)</i>	-8.6	-7.2	-4.7	-2.8
Assumed Consolidation, € billions				
<i>SPU (April 2011)</i>	3.6	3.1	3.1	2.0



IFAC Assessment: October 2011

General Government Balance, % of GDP	2012	2013	2014	2015
<i>SPU</i> (April 2011)	-8.6	-7.2	-4.7	-2.8
IFAC October 2011 Alternative Adjustment Path	-8.4	-6.4	-3.6	-1.0
Assumed Consolidation, € billions				
<i>SPU</i> (April 2011)	3.6	3.1	3.1	2.0
IFAC October 2011 Alternative Adjustment Path	4.4	3.9	3.8	3.7

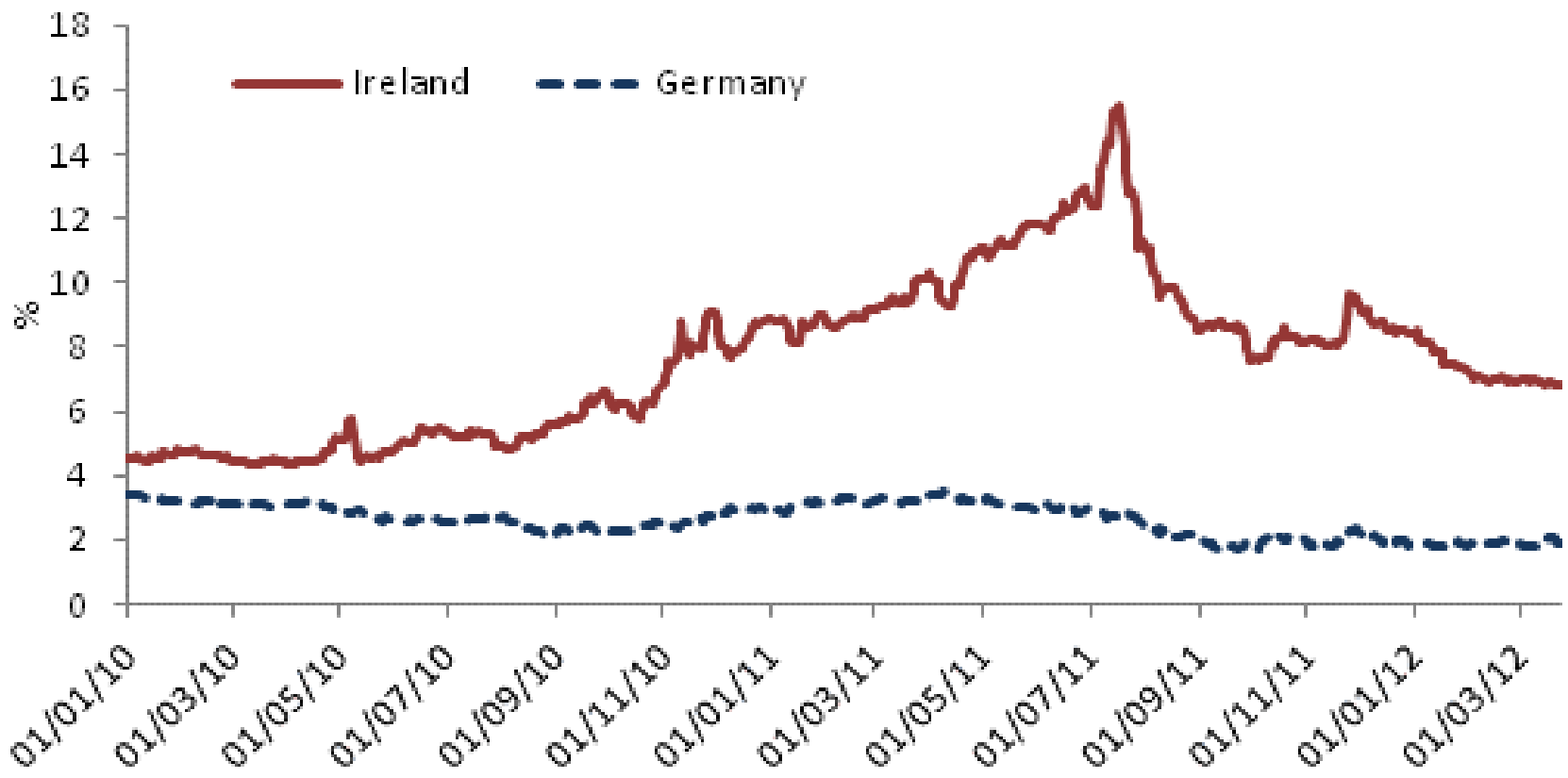


Post-October Developments

- Weaker projected growth
 - Worsens the dilemma
 - Concern over “chasing your tail” effect
- Government retained 8.6 percent deficit target for 2012
- Some improvement in market creditworthiness



Recent developments in sovereign bond yields





Fiscal Stance: Budget 2012

General Government Balance, % of GDP	2012	2013	2014	2015
<i>SPU (April 2011)</i>	-8.6	-7.2	-4.7	-2.8
IFAC October 2011 Alternative Adjustment Path	-8.4	-6.4	-3.6	-1.0
<i>Budget 2012 (December 2011)</i>	-8.6	-7.5	-5.0	-2.9
Assumed Consolidation, € billions				
<i>SPU (April 2011)</i>	3.6	3.1	3.1	2.0
IFAC October 2011 Alternative Adjustment Path	4.4	3.9	3.8	3.7
<i>Budget 2012</i>	3.8	3.5	3.1	2.0



IFAC Assessment: April 2012

General Government Balance, % of GDP	2012	2013	2014	2015
<i>SPU</i> (April 2011)	-8.6	-7.2	-4.7	-2.8
IFAC October 2011 Alternative Adjustment Path	-8.4	-6.4	-3.6	-1.0
<i>Budget 2012</i> (December 2011)	-8.6	-7.5	-5.0	-2.9
IFAC April 2012 Alternative Adjustment Path	-8.6	-7.4	-4.6	-1.7
Assumed Consolidation, € billions				
<i>SPU</i> (April 2011)	3.6	3.1	3.1	2.0
IFAC October 2011 Alternative Adjustment Path	4.4	3.9	3.8	3.7
<i>Budget 2012</i>	3.8	3.5	3.1	2.0
IFAC April 2012 Alternative Adjustment Path	4.2*	3.9	3.8	3.7

Rationales for Revised Assessment

- Government's medium-term fiscal stance still within the range of appropriate policies
- Case for more ambitious adjustment remains strong
- But reaching 1 percent by 2015 now looks overly ambitious
 - Weaker growth
 - Creditworthiness less fragile
 - Smaller actual adjustment for 2012
- Case for retaining IFAC consolidation targets for 2013-2015
 - €2.8 Billion in additional adjustments relative to *Budget 2012*

Retaining flexibility while retaining credibility

- Uncertainty → Inevitability of growth surprises
- Value of more growth-contingent fiscal plans
 - Targets for cyclically adjusted deficit
 - Targets for discretionary adjustments
- Importance of the nature of the growth shock



Summing up

- Weakening of growth prospects
 - Significant uncertainty
- Meeting 8.6 percent target for 2012 will be challenging
- Dilemma in choosing fiscal stance
 - Retain more ambitious targets for discretionary adjustments for 2013-2015
 - But some accommodation in actual deficit to GDP ratio (subject to programme constraints)
- Advantages of retaining flexibility while preserving credibility