Irish Fiscal Advisory Council

Fiscal Assessment Report

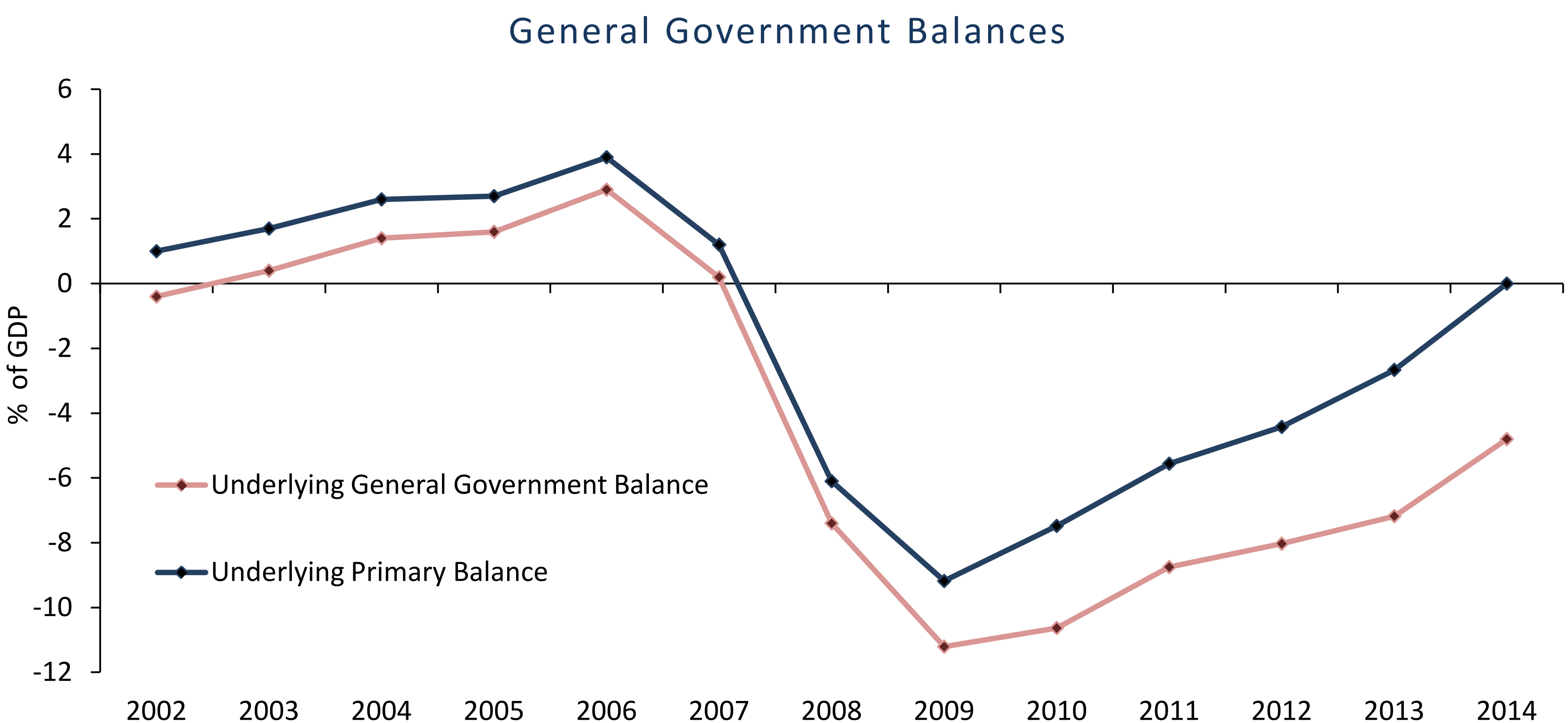
June 2014

Irish Fiscal Advisory Council

IFAC Mandate

- Assess official forecasts
- Assess the fiscal stance
- Assess compliance with the national Budgetary Rule
- Endorsement of official macroeconomic forecasts

Significant progress in resolving Ireland's fiscal crisis



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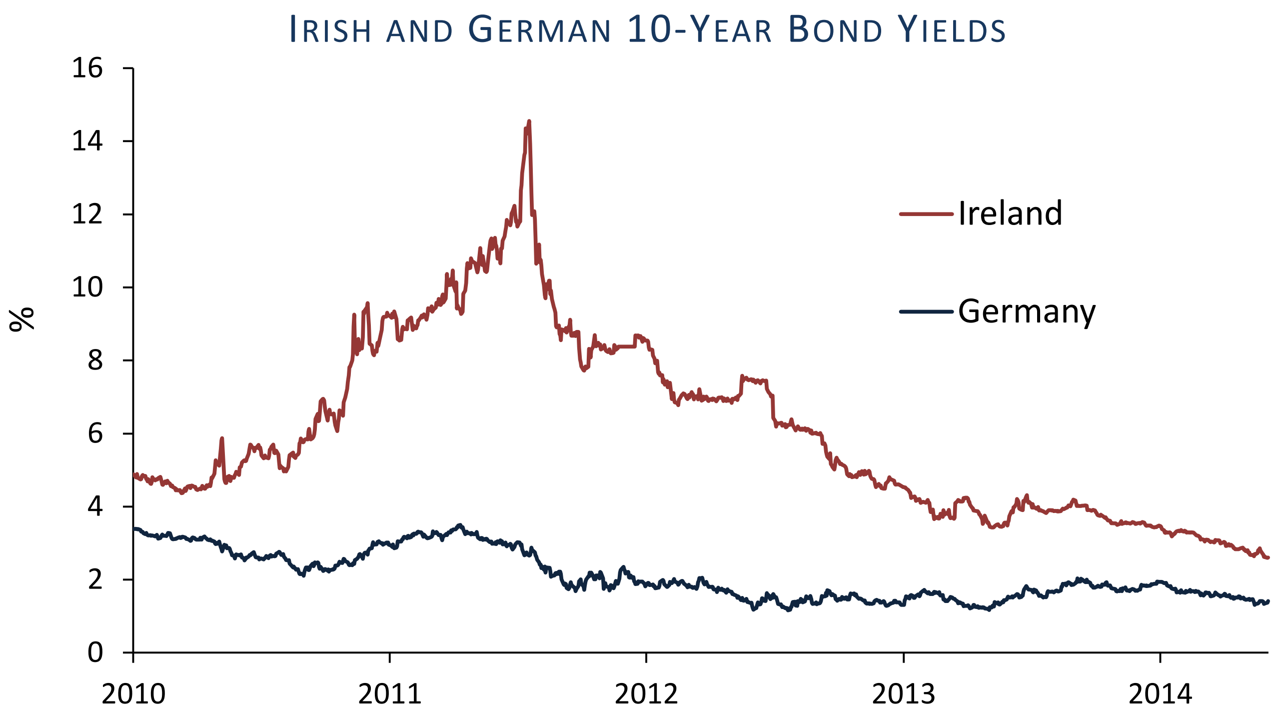
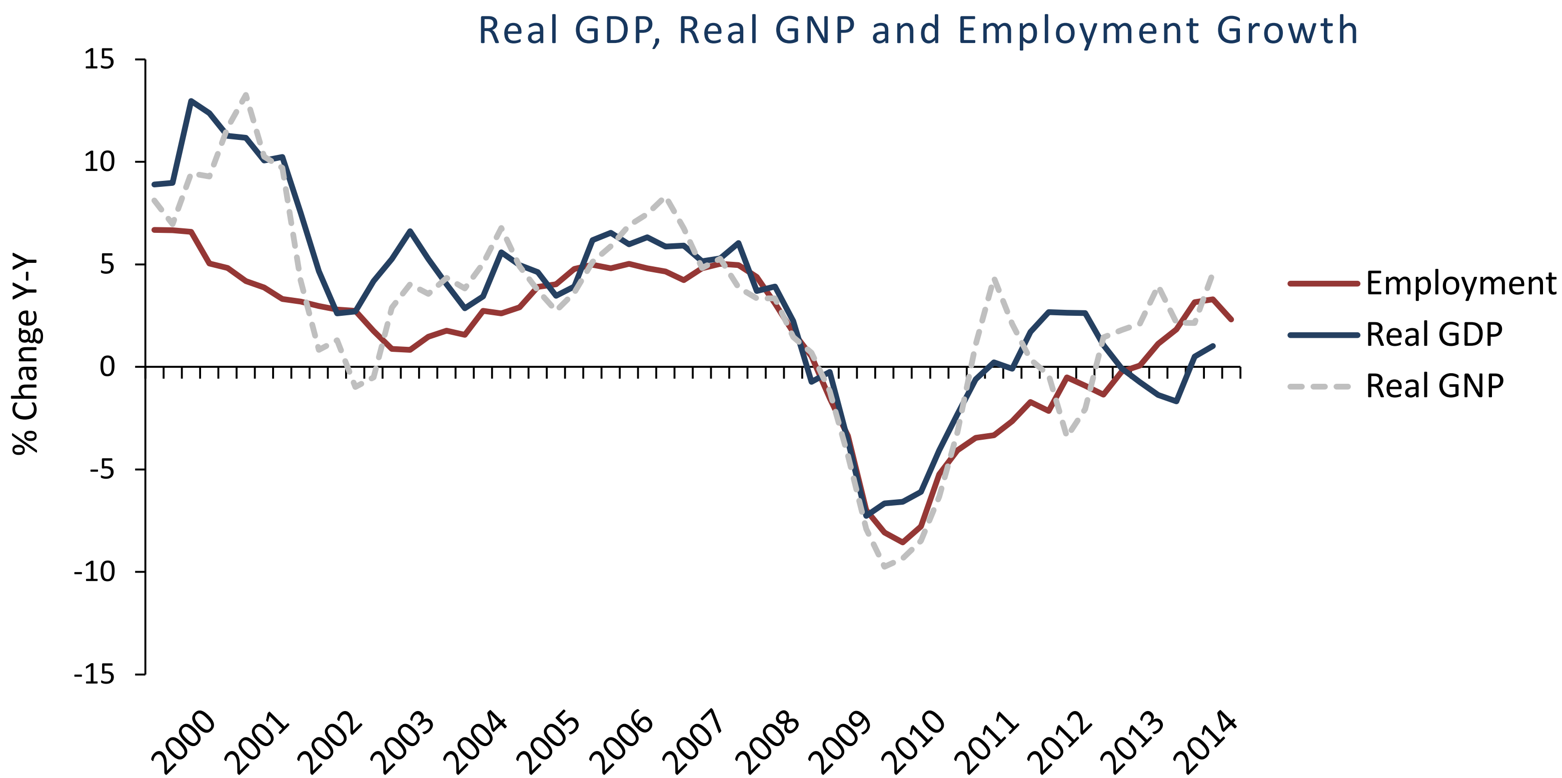
Creditworthiness has been repaired

Protecting Ireland’s credibility is vital to ensuring debt sustainability



Tentative signs of recovery



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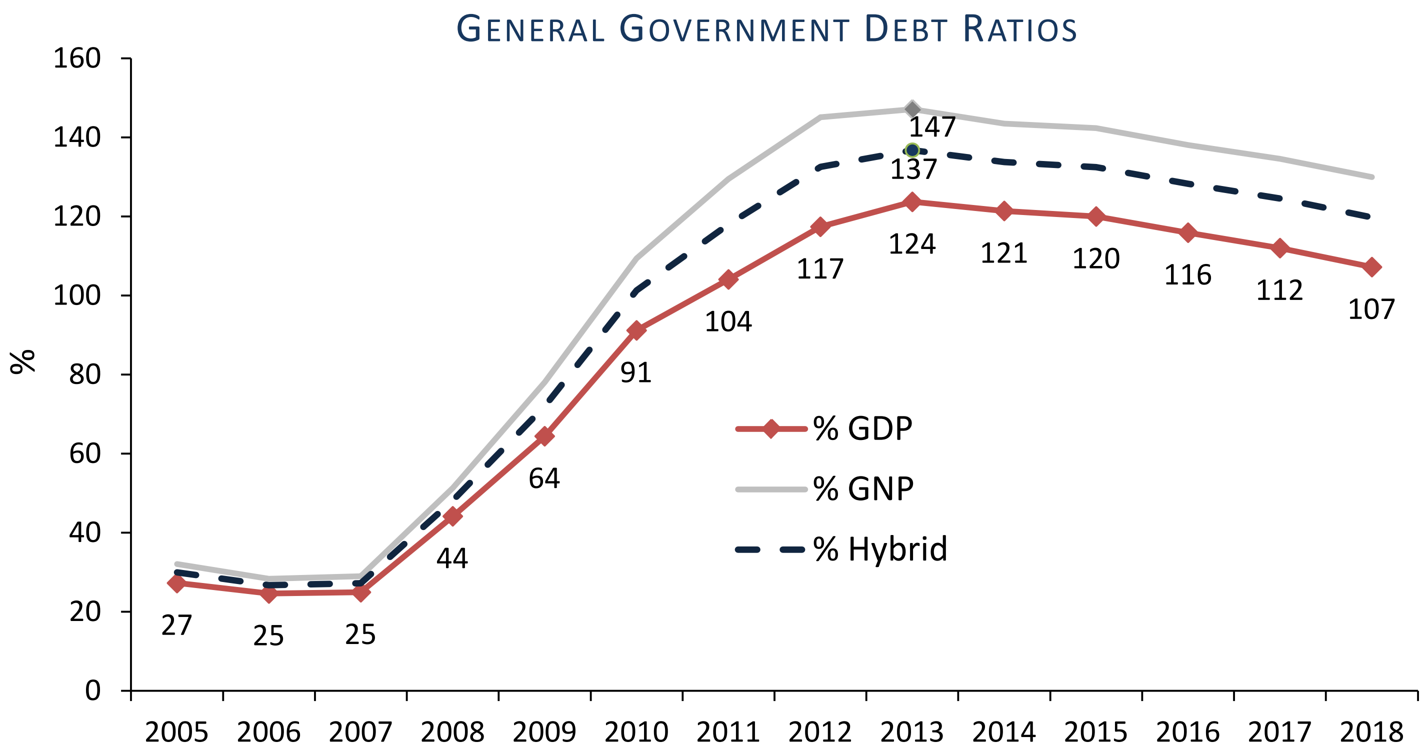
But significant challenges still remain

Debt-to-fiscal capacity ratios extremely high



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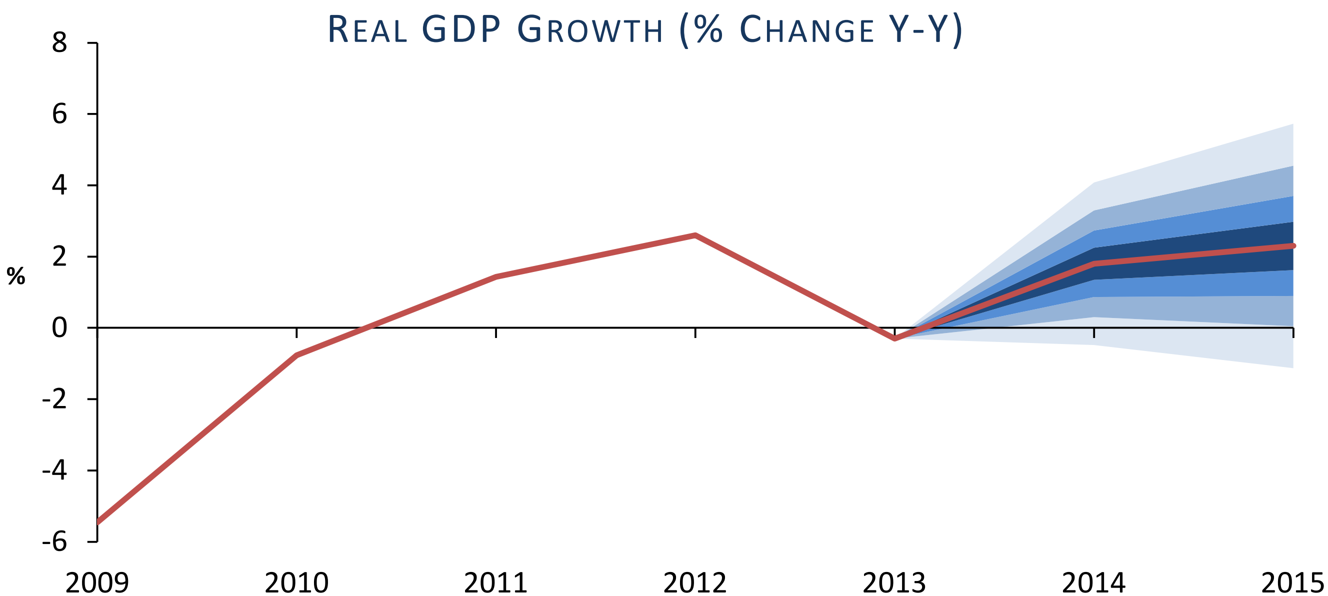
Risks surround growth prospects



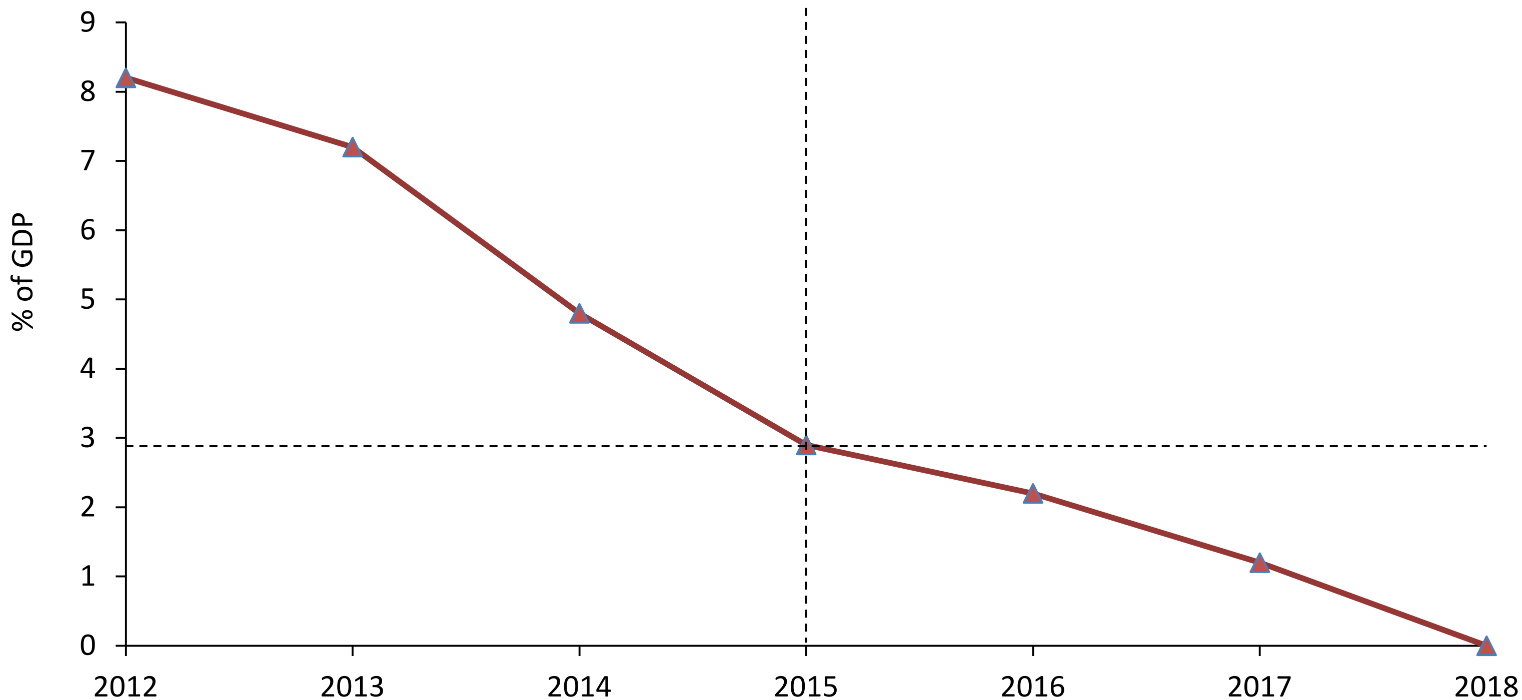
Central forecast subject to downside risks:

i. Weakened private sector balance sheets
ii. Fragility of external growth
iii. Credit institutions capacity to support recovery
iv. Low inflation/deflation in Euro Area

No room to spare for 3% deficit ceiling in 2015

Department of Finance forecasts with €2bn adjustment show Ireland just meeting the 3% deficit ceiling

SPU 2014 Forecasts for Deficit



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Planned €2bn adjustment should be implemented

Three main reasons:

(i) to reduce risks surrounding debt sustainability by putting the debt-to-GDP ratio on a firm downward path;

(ii) to help to ensure that Ireland successfully exits the Excessive Deficit Procedure in 2015;

(iii) to protect hard-won gains in borrowing capacity

Ireland's fiscal framework has been strengthened

- This is an important positive legacy of the economic crisis and the Government has made a strong commitment to respect this new framework.

- Adhering to the complementary national and European elements of the new fiscal framework should:
  - help to smooth future boom-bust cycles;
  - guide Government debt to safer levels; and
  - underpin borrowing capacity during the period when debt will remain unavoidably high.

The 2018 MTO deadline is ambitious

- The medium-term objective – a balanced budget in structural terms by 2018 – appears to exceed the minimum requirements under the rules
- A clear rationale should be provided for this deadline
- There is a case for a less ambitious medium-term fiscal stance that more closely follows the minimum requirements

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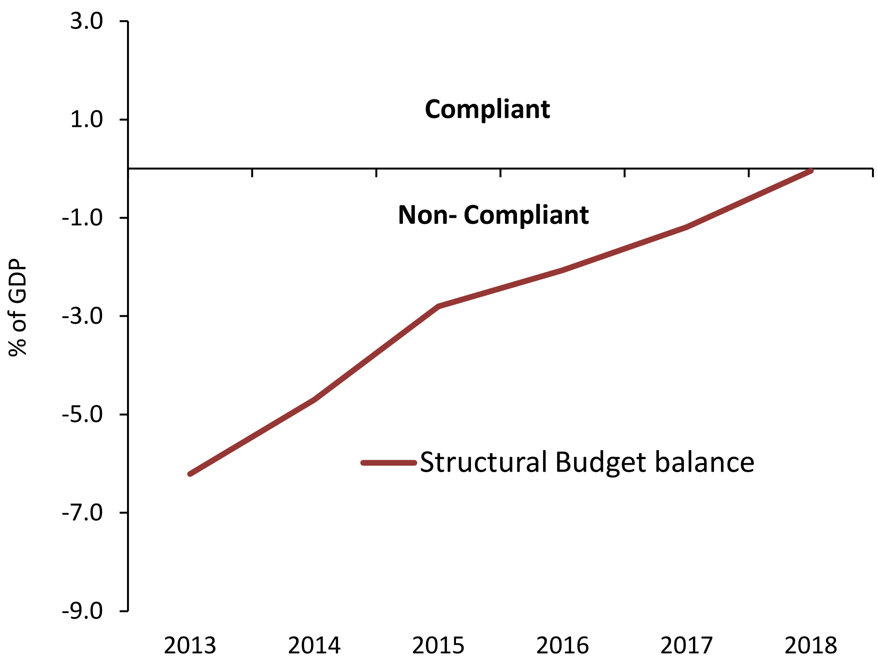
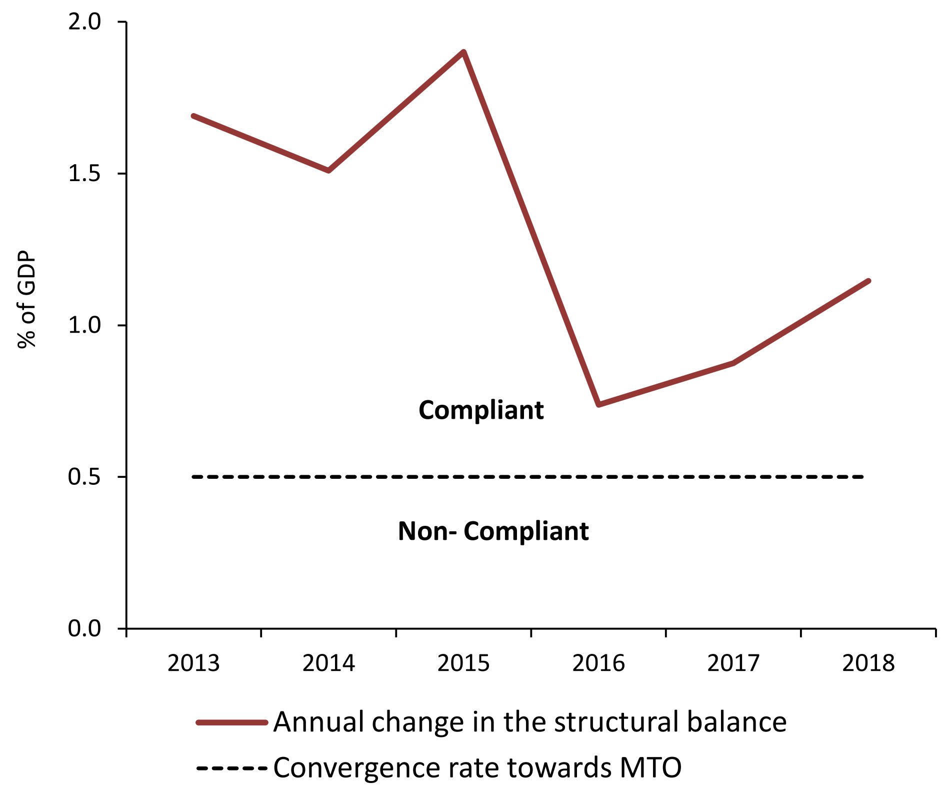
Compliance with the national Budgetary Rule

Budgetary Condition

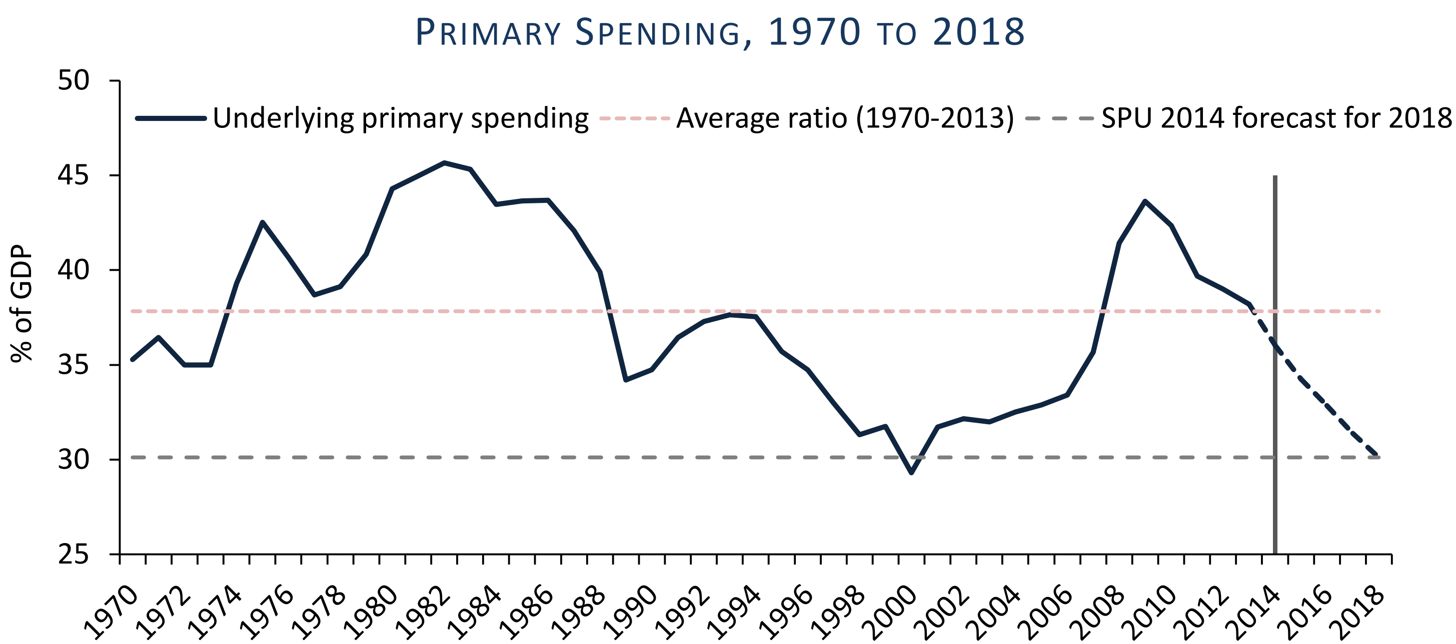


Adjustment Path Condition



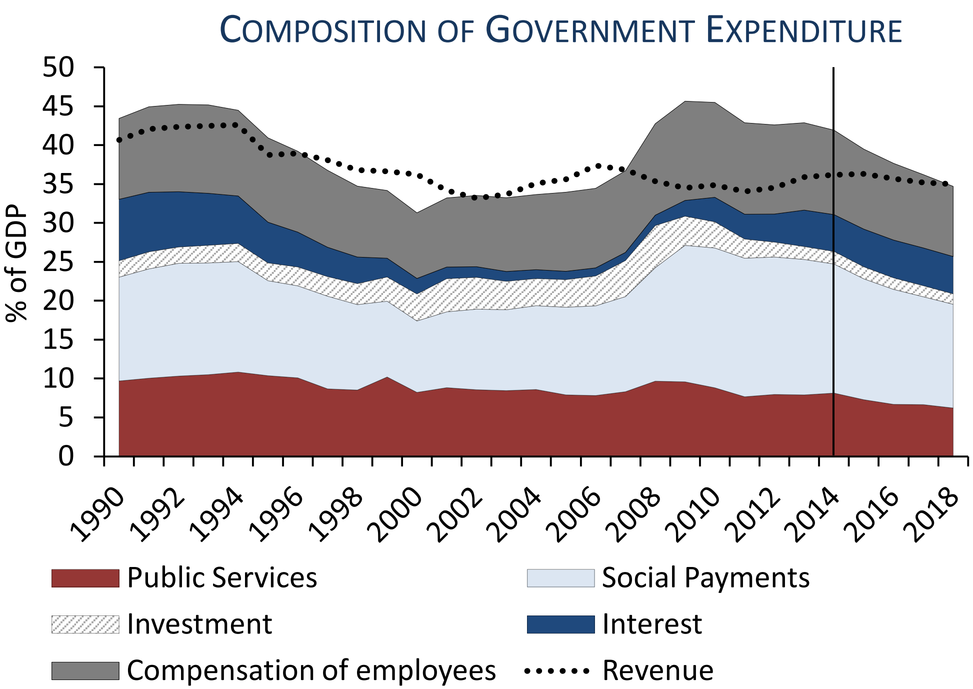
Sustained falls in non-interest spending implied

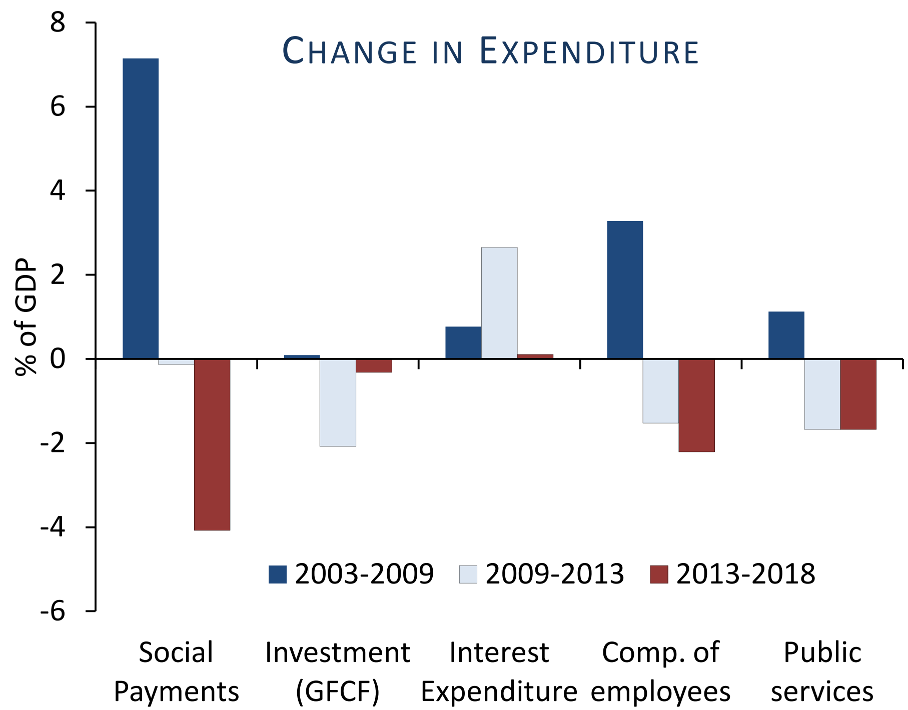
Medium-term fiscal adjustment plans imply expenditure falling to very low levels by historical standards



While demand pressures and rigidities exist

Prolonged tight spending plans will be difficult to achieve





Comprehensive Review of Expenditure needs to be used to identify detailed expenditure plans

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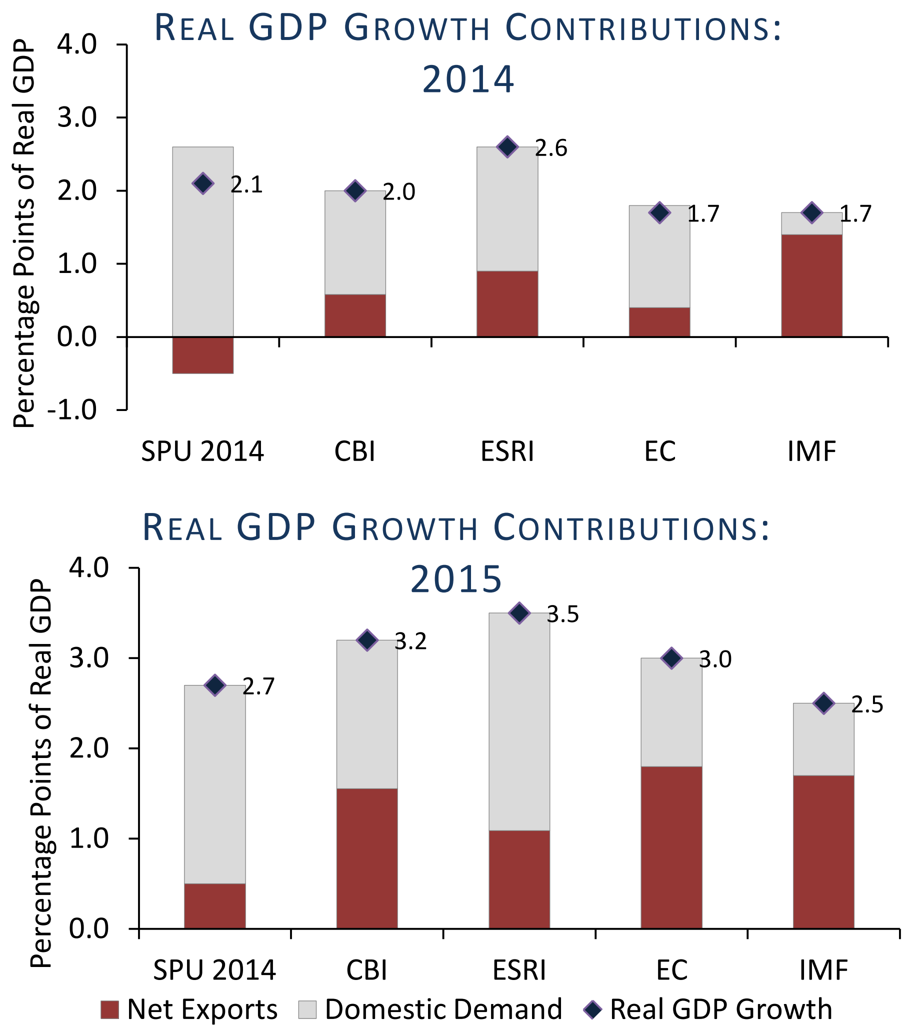
The Council endorsed the macroeconomic forecasts

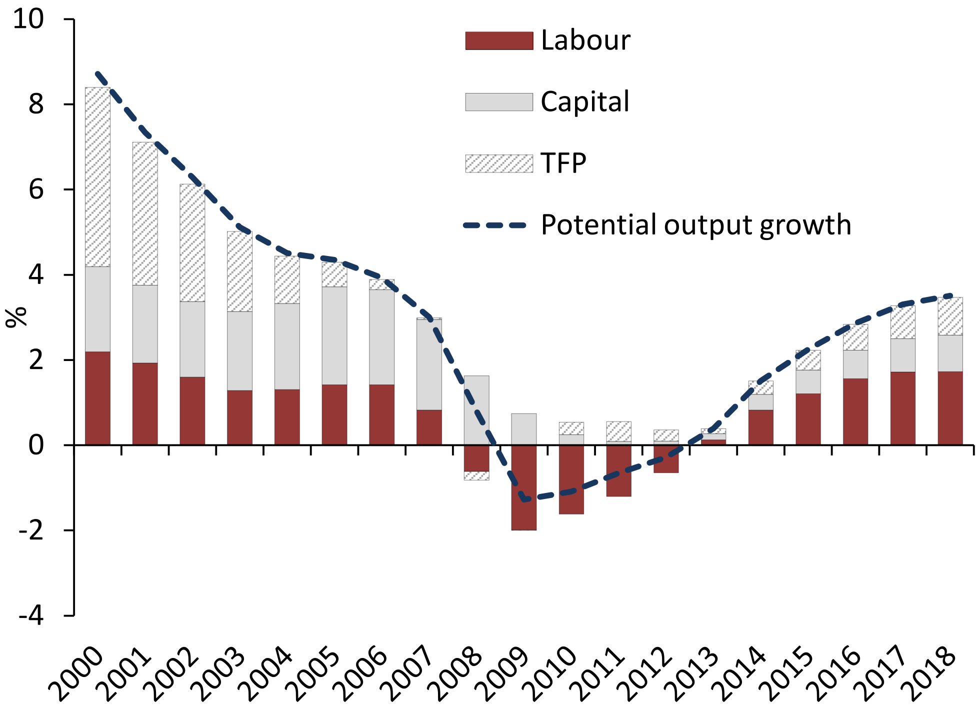
- The *SPU 2014* forecasts are within an endorseable range
- This is the first time the Council has endorsed medium-term projections as well as short-term
- Some considerations:
  - Demand-led composition of short-term growth to 2015
  - Subdued productivity growth; strong labour inputs underpinning medium-term growth rates of 3½ per cent
  - Shift to net-exports-driven growth by 2017

Composition of growth

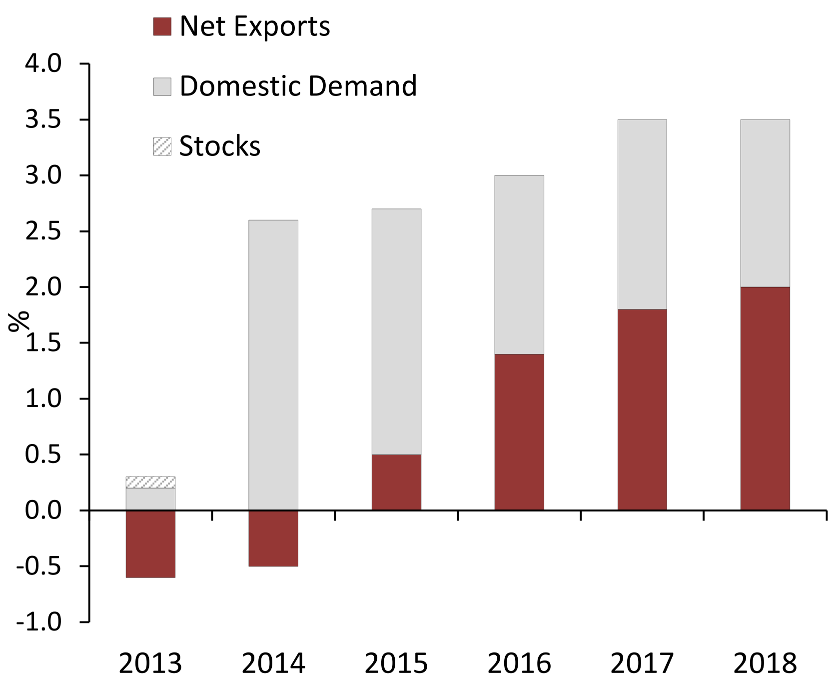


Key medium-term issues

Decomposition of Potential Output

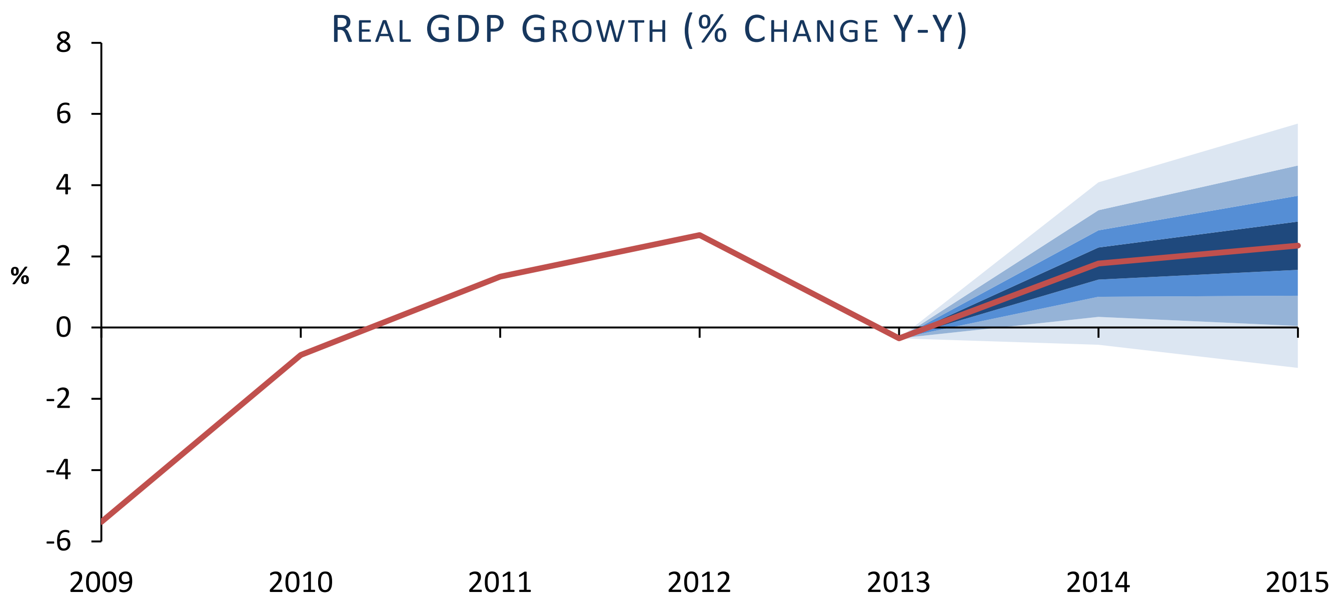


Domestic Demand and Net Exports Forecasts to 2018

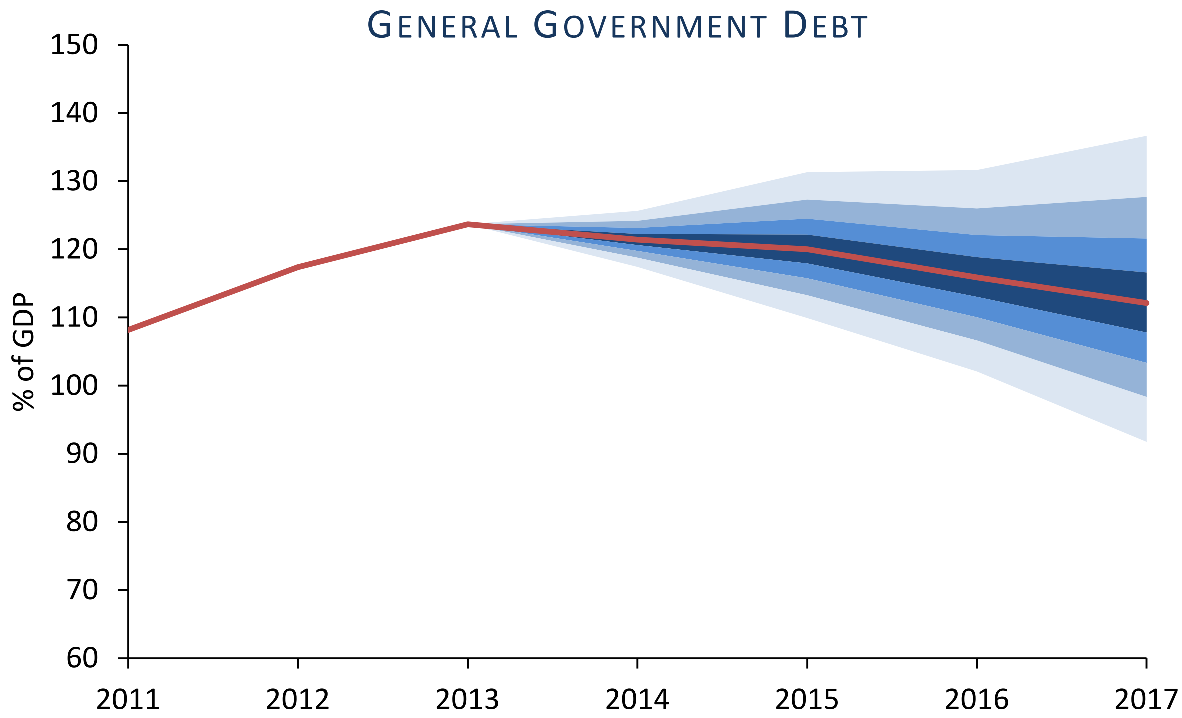


Annex

Risks surround growth prospects



Planned €2bn adjustment should be implemented



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