



Comhairle Chomhairleach Bhuiséadach na hÉireann
Irish Fiscal Advisory Council

Fiscal Assessment Report

November 2013

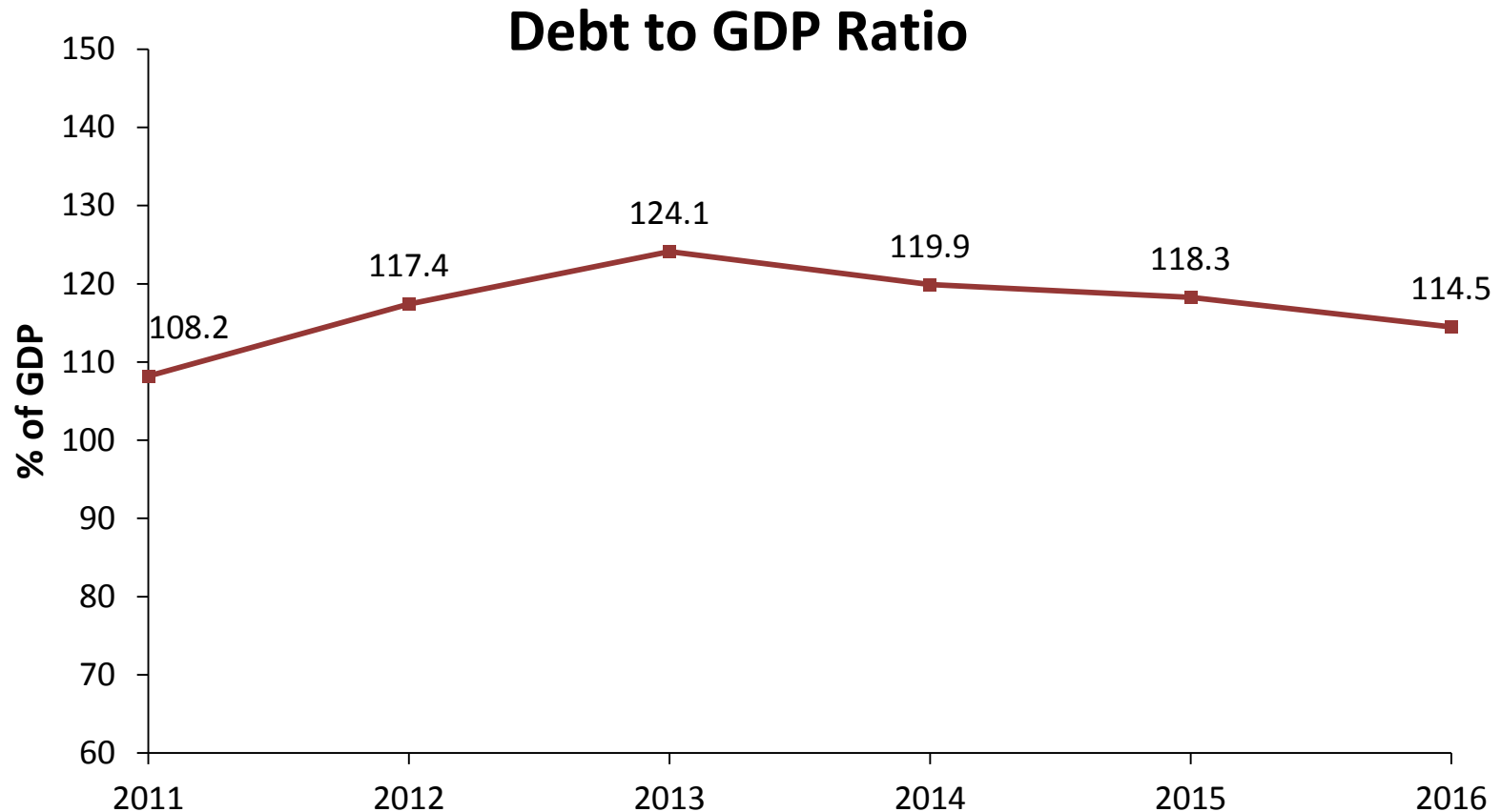


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**Significant progress in stabilising the
public finances and restoring borrowing
capacity**

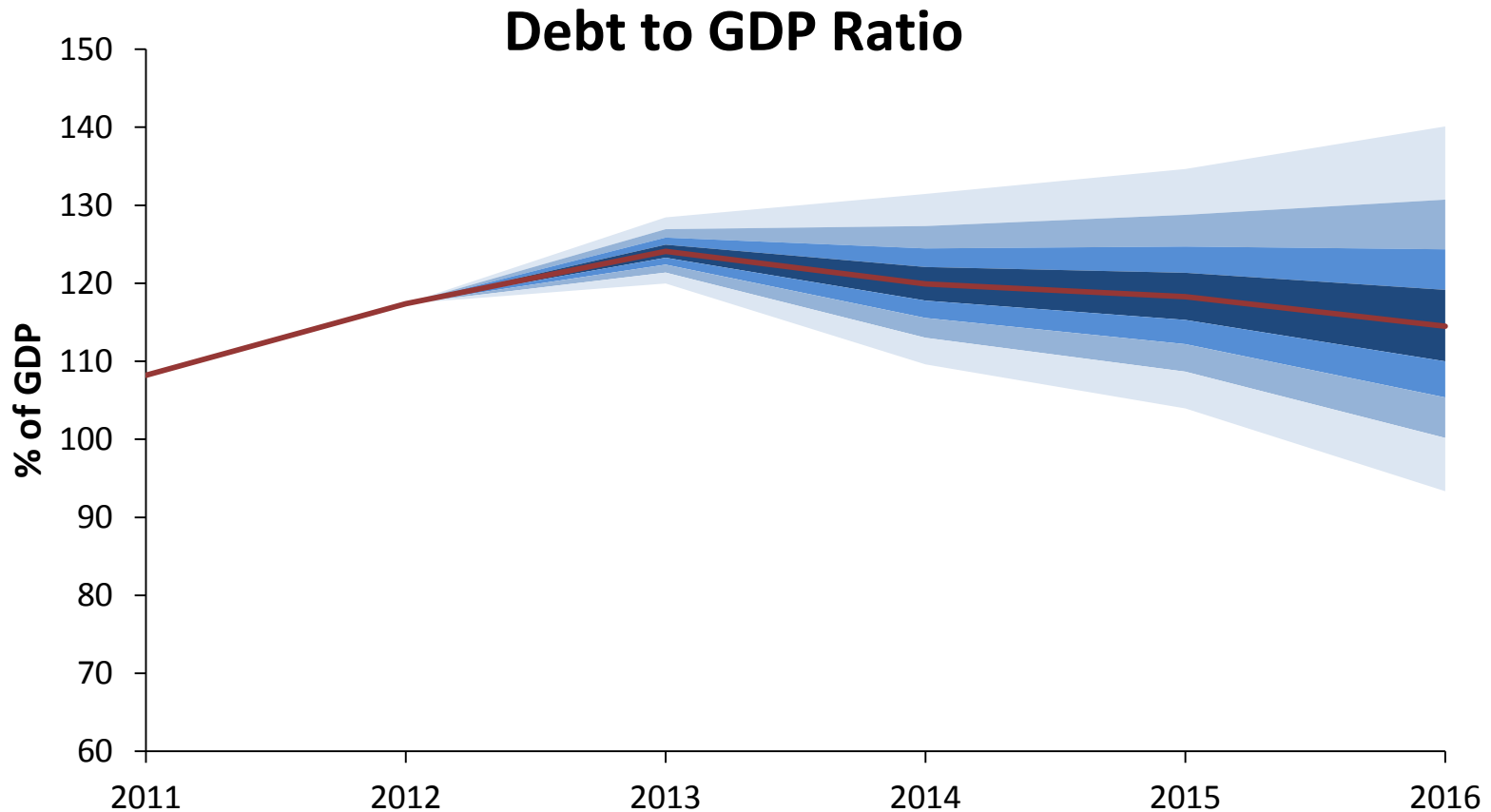


Projected debt to GDP ratio on a declining path



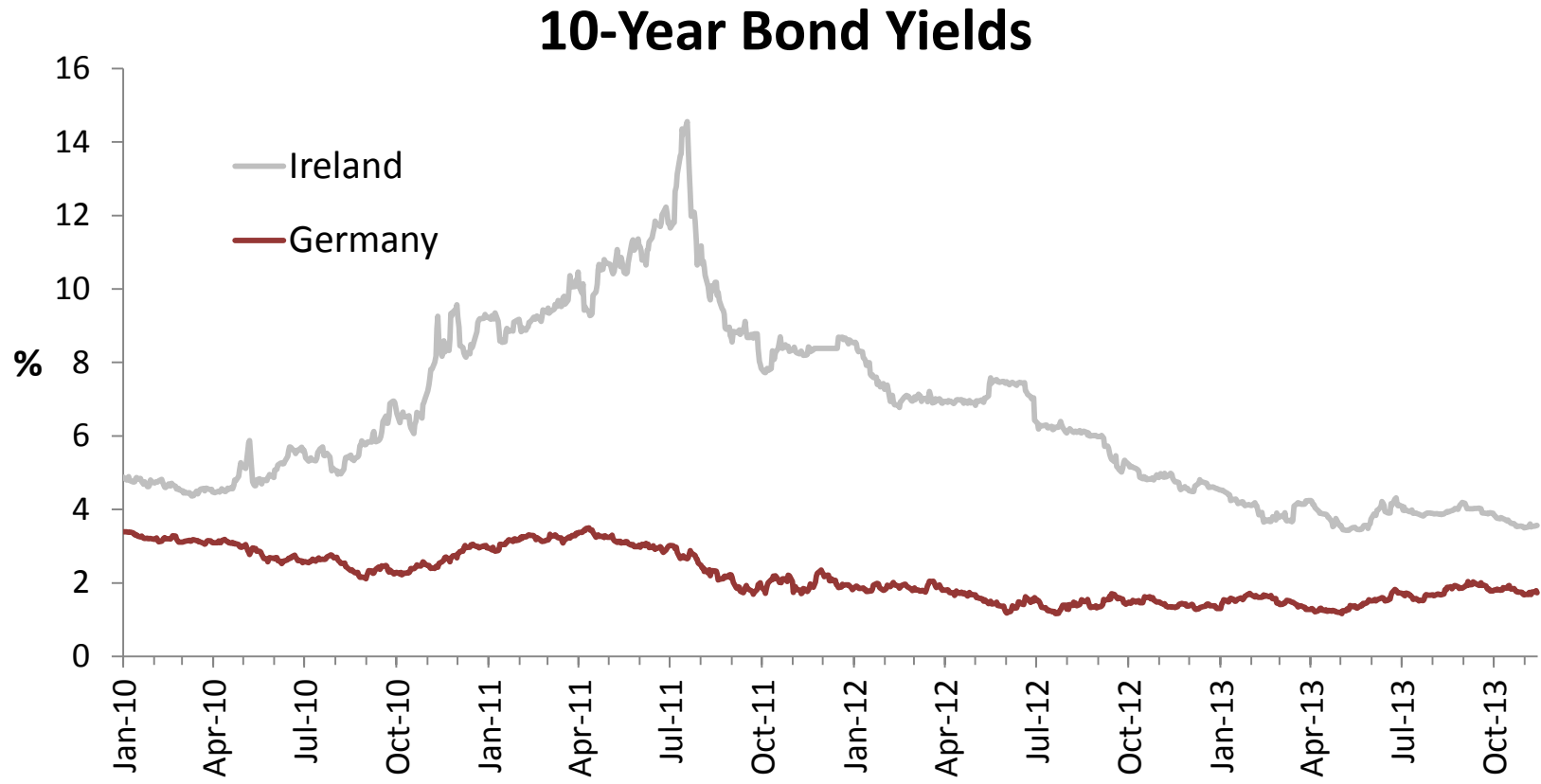


But risks to sustainability remain





Restoration of borrowing capacity

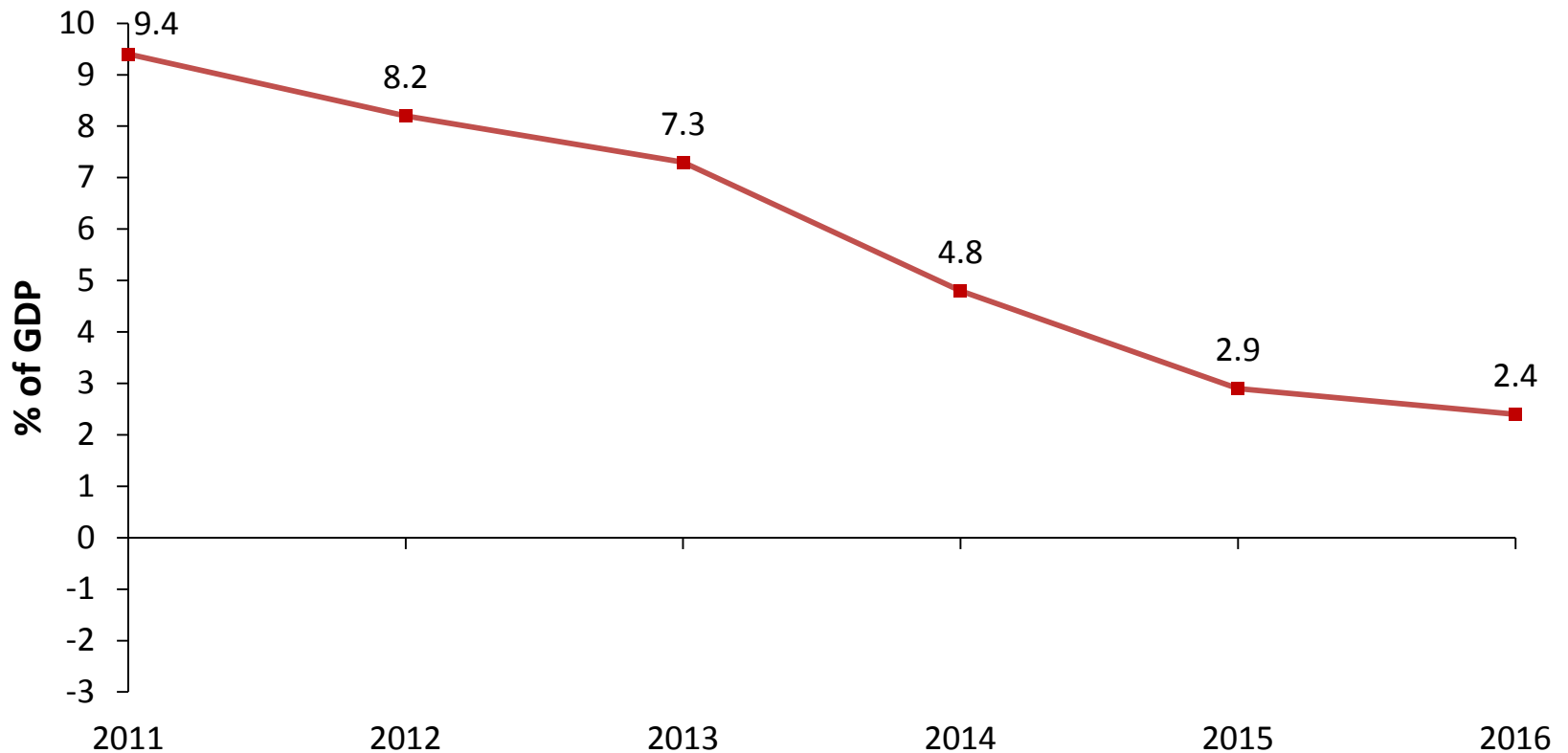


Source: Datastream



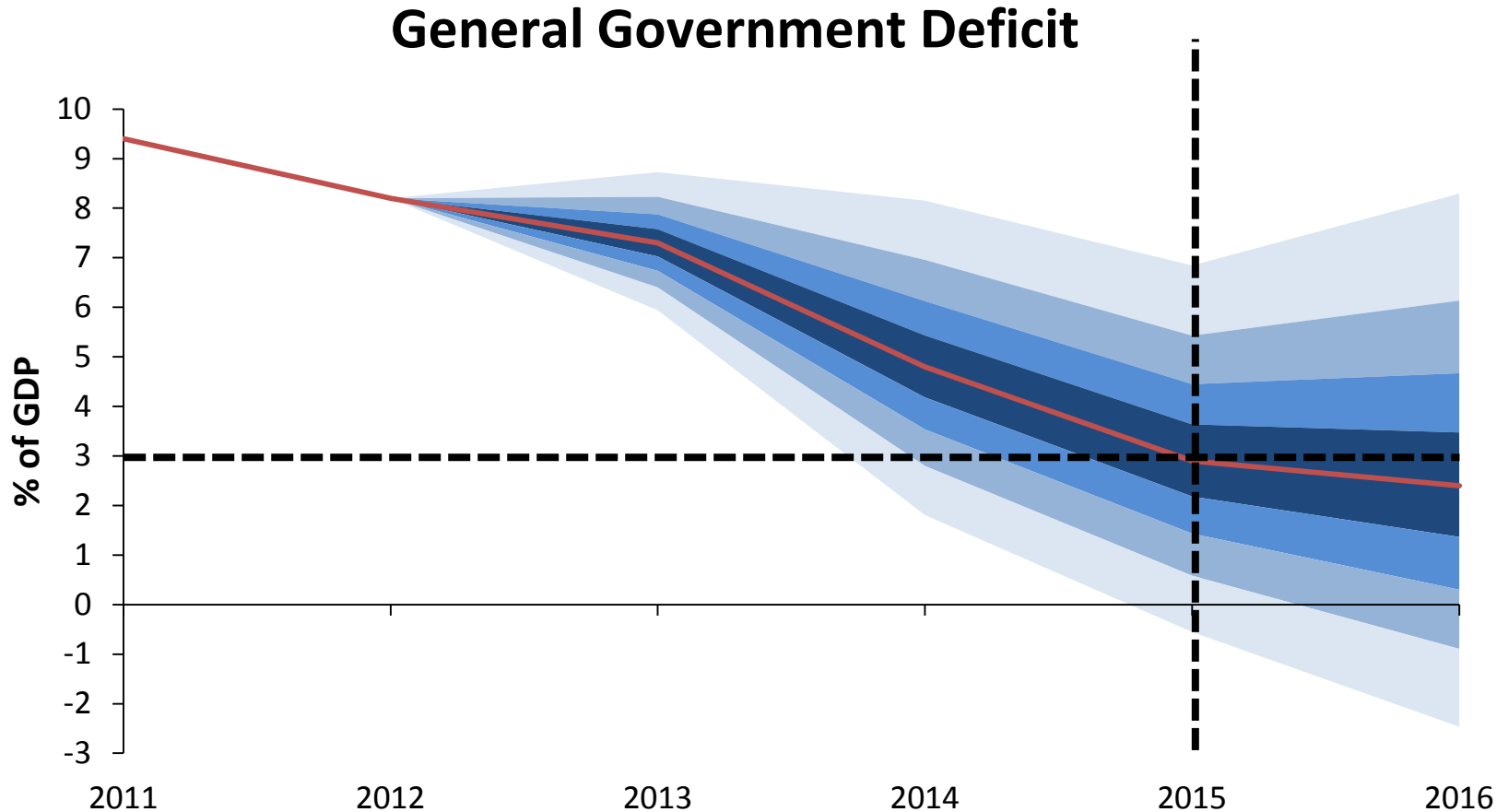
Deficit is falling

General Government Deficit





But no margin of safety for 2015 EDP target





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New IFAC endorsement function for macroeconomic forecasts



Endorsement process

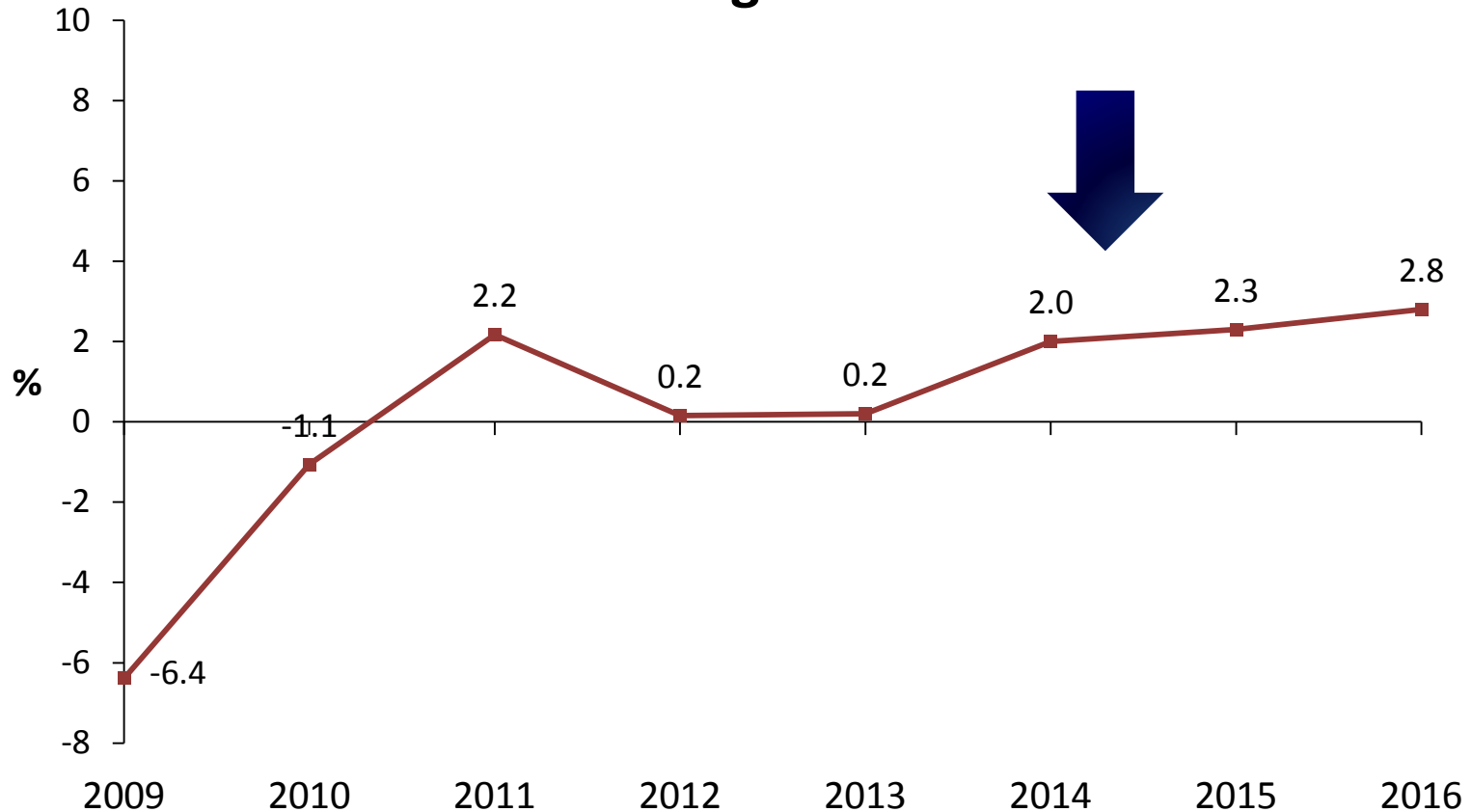
- Identification of “endorseable range”
 - Anchored by “benchmark projections”
 - Ranges informed by fan-chart analysis
- Development of “benchmark projections”
 - Extensive range of forecasting tools
 - Augmented by judgement where appropriate

Date	
23-24 September	Benchmark projections were finalised in advance of receiving forecasts for <i>Budget 2014</i> from the Department of Finance.
24 September	The Council received the preliminary set of “provisional final” forecasts from the Department in line with requirements under the MOU.
25 September	These forecasts were presented by Department of Finance staff to the Council’s Secretariat explaining the underlying reasoning and answering clarifying questions. Two Council members also participated in the meeting.
29 September	The Council met to discuss the Department of Finance forecasts.
30 September	Department of Finance staff met with the full Council and Secretariat to present and answer substantive questions on the “provisional final” forecasts. These forecasts were unchanged from those provided to the Council the previous week. The Council raised questions on a number of issues.
	Following the meeting, the Department provided further clarification on their forecast for consumption. The Council subsequently decided that a “significant reservation” (as per the MOU, section 5) remained over the consumption forecast.
1 October	As specified in the MOU, the Council Chair communicated its “significant reservation” to Department staff.
1-3 October	The Department provided further clarification on its consumption forecast and committed to including information on the potential for upward revisions to Quarterly National Accounts personal consumption data for the first half of 2013 in the Budget documentation.
4 October	The Chair of the Council issued a letter to the Department of Finance endorsing the set of macroeconomic forecasts for 2013 and 2014 in <i>Budget 2014</i>. This letter was published on 9 October.



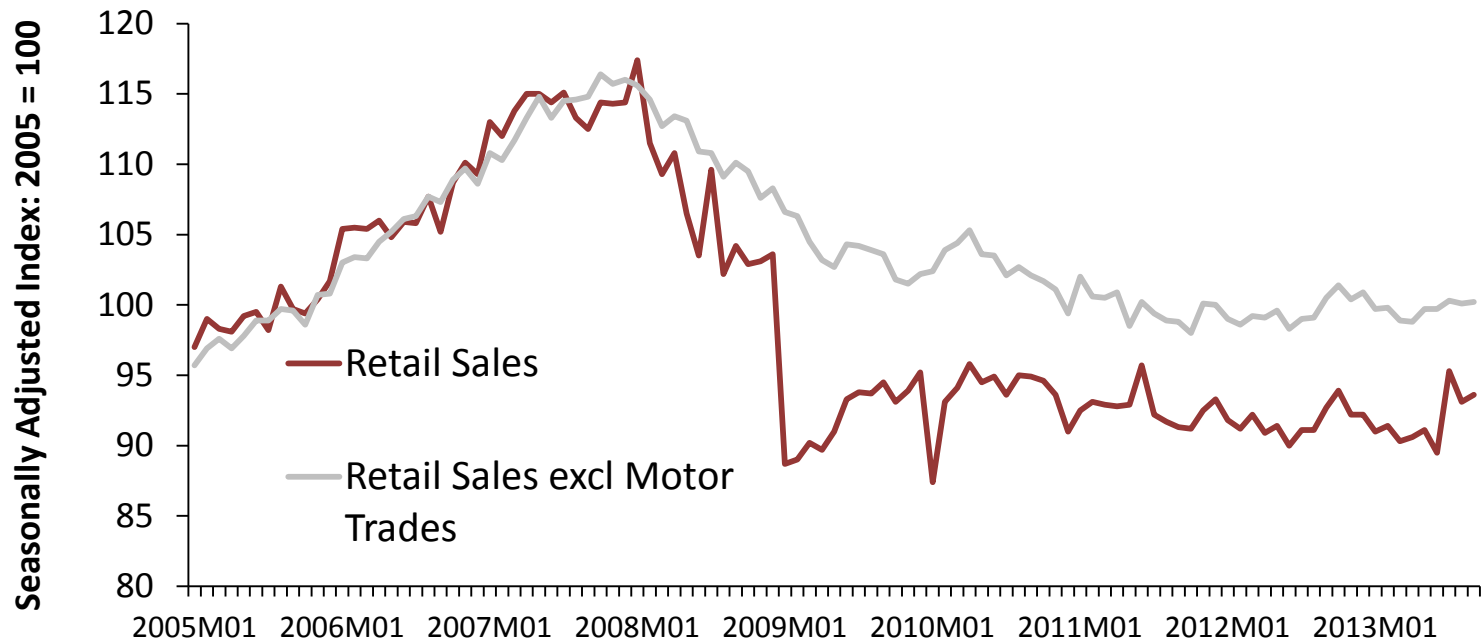
2 percent growth forecast for 2014

Real GDP growth rate



Signs of improved growth in second half of 2013

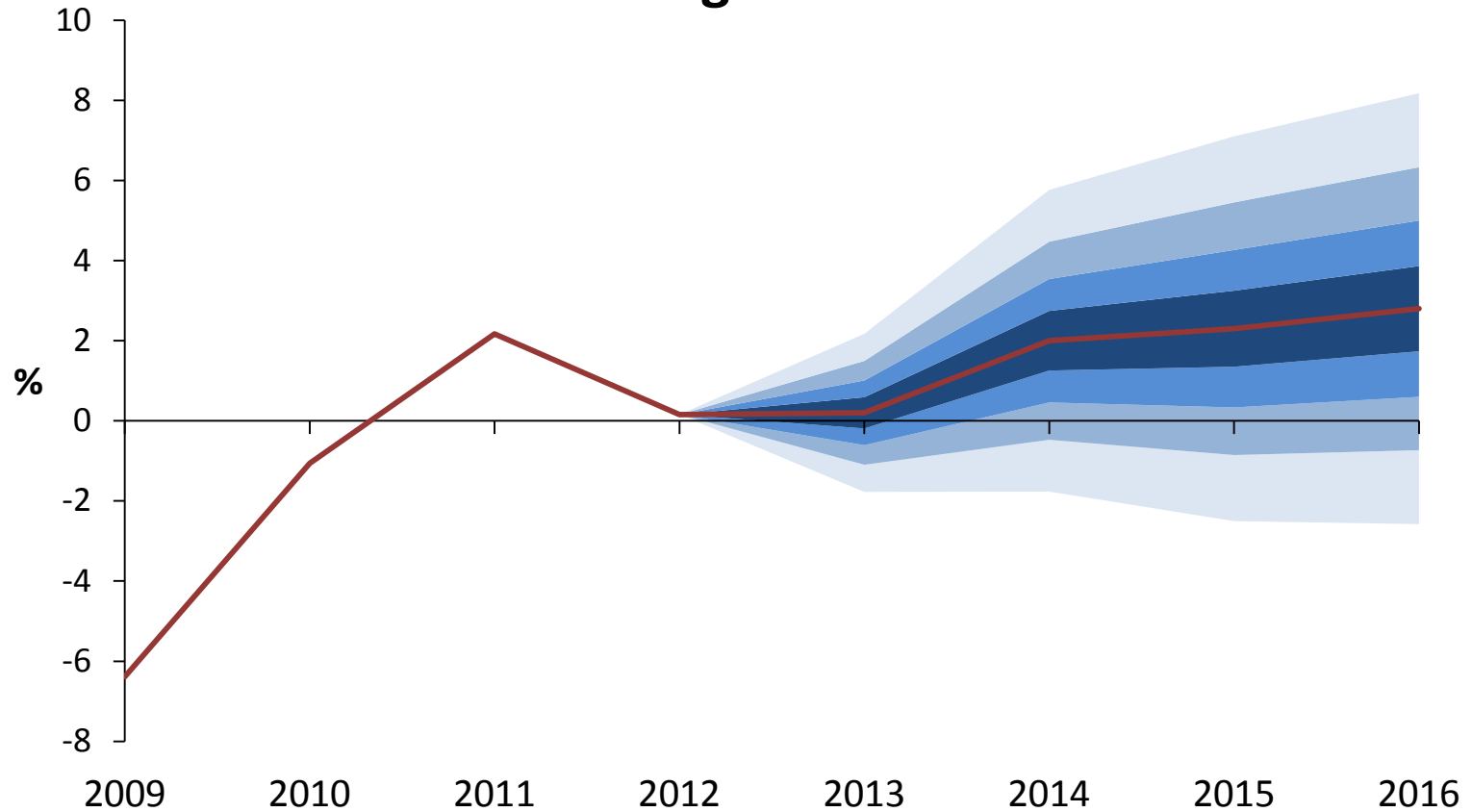
Example . . . Retail Sales





But significant uncertainty

Real GDP growth rate

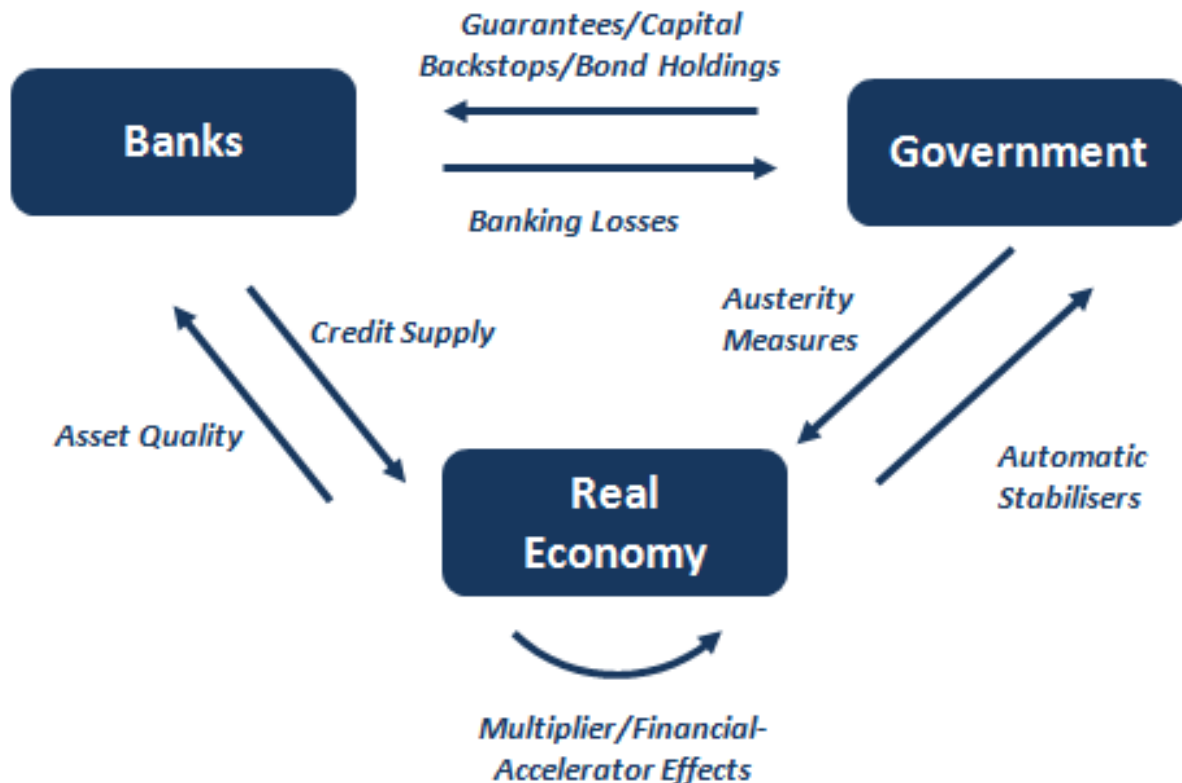




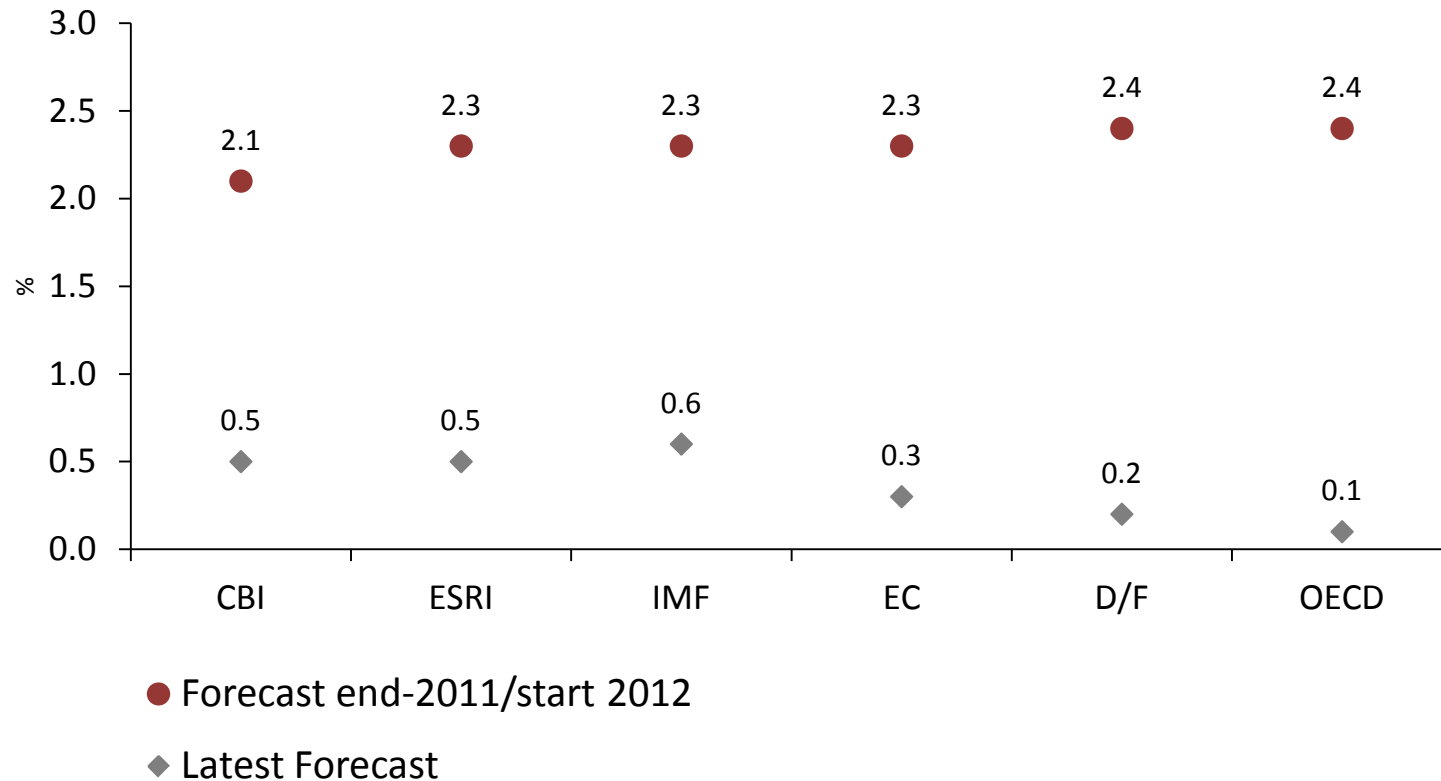
Risks assessed to be tilted to downside

Post-crisis Balance-Sheet Recession

FIGURE D1: ADVERSE FEEDBACK LOOPS



Pattern of downward growth revisions continued into 2013





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**Budgetary projections in *Budget 2014*
assessed to be appropriate**



Budgetary projections

- Deficit projected to be 7.3 percent of GDP in 2013 and 4.8 percent of GDP in 2014
 - But no margin of safety with respect to EDP deficit ceiling in 2015
- Tendency to overestimate interest expenditures and underestimate non-tax revenues
- Concerns about “soft-budget constraint” in health
 - Recent pattern of overruns
- Various risks are examined
 - Growth
 - Expenditure overruns (especially surrounding health)
 - Contingent liabilities (notably surrounding banking)
 - Interest rates



Unnecessary confusion on the size the consolidation

€ Billions	New Measures	Carry Forward	Total
A. Departmental Expenditure	1.5	0.1	1.6
<i>Of which:</i>			
<i>Current</i>	<i>1.4</i>	<i>0.1</i>	<i>1.5</i>
<i>Capital</i>	<i>0.1</i>	<i>-</i>	<i>0.1</i>
B. Tax	0.4	0.5	0.9
C. (= A+B) Consolidation in Budget 2014	1.9	0.6	2.5
D. Additional Resources and Savings			0.6
<i>Of which:</i>			
<i>Reduction in cost estimate for the Live Register</i>			<i>0.15</i>
<i>Reduction in estimate for NTMA Debt service costs</i>			<i>0.2</i>
<i>Increase in estimate for Central Bank surplus income</i>			<i>0.1</i>
<i>State asset related adjustments</i>			<i>0.15</i>
E. (=C+D) Consolidation and Additional Resources and Savings			3.1



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**On track to comply with national and
European fiscal rules**



Compliance with Budgetary Rule

	2013	2014	2015	2016
Main Aggregates, % of GDP				
Structural Deficit	5.3	3.6	1.6	1.1
<i>Improvement in Structural Balance</i>	1.6	1.7	2.0	0.5



Reinforcing progress

- Continue with progress on deficit and debt reduction, with credibility underpinned by compliance with fiscal rules
- New medium term-economic plan provides an opportunity to lay out next phase of fiscal strategy
- Self-protection against loss of market access
 - Value of good debt-maturity management
 - Value of cash reserves
 - A precautionary credit line would have provided a valuable further layer of protection