Irish Fiscal Advisory Council

Press Briefing

Fiscal Assessment Report, November 2014

24 November 2014

IFAC: Some Background

- Mandate:
  - Assess official forecasts
  - Assess the fiscal stance
  - Assess compliance with the budgetary rule
  - Endorsement of official macroeconomic forecasts
- Five member Council and five member Secretariat
- 7th Fiscal Assessment Report

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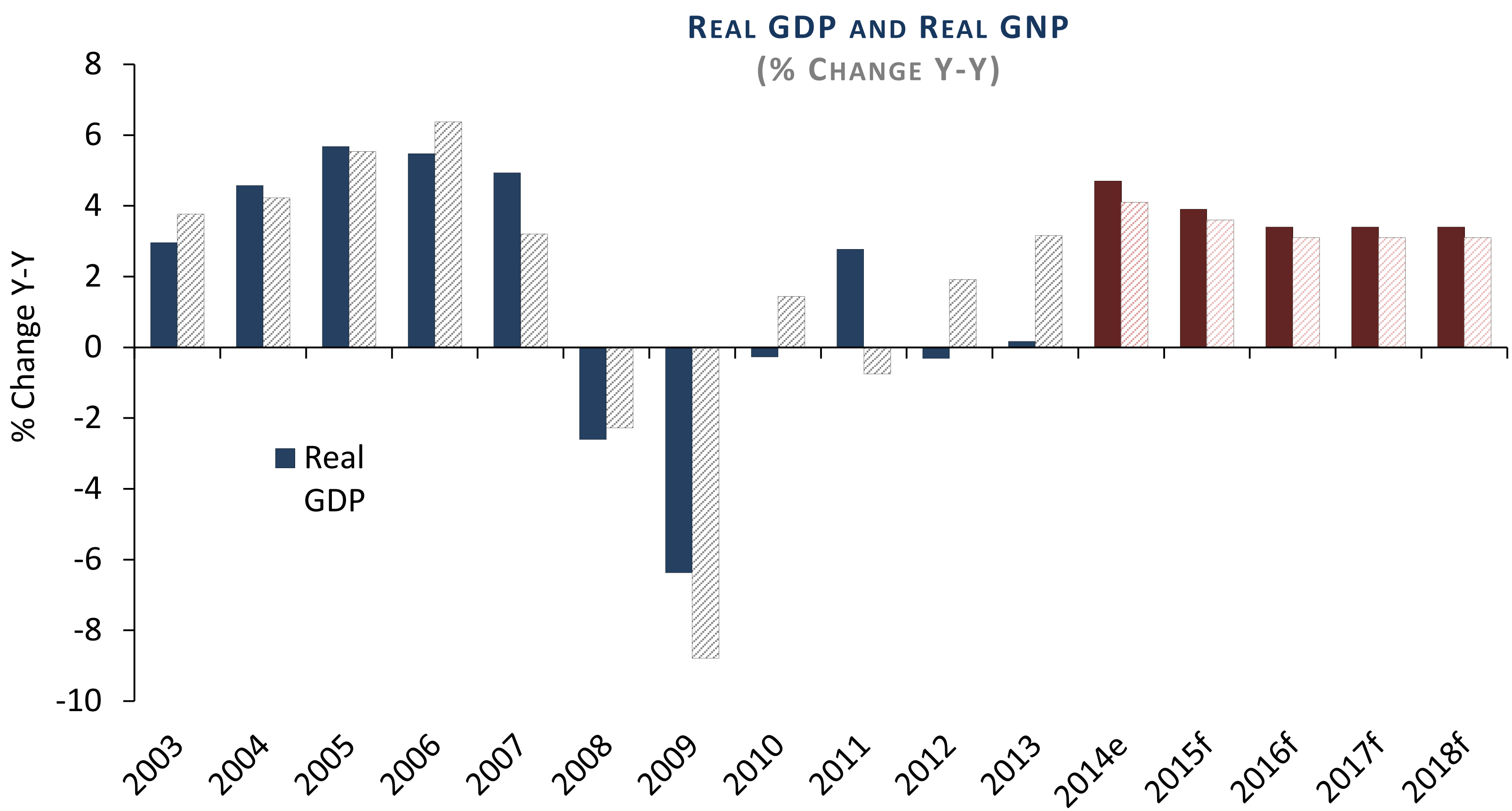
Ireland Continues to make Progress as Economic Activity is Recovering and Public Finances Improving



Sources: CSO; Department of Finance projections.

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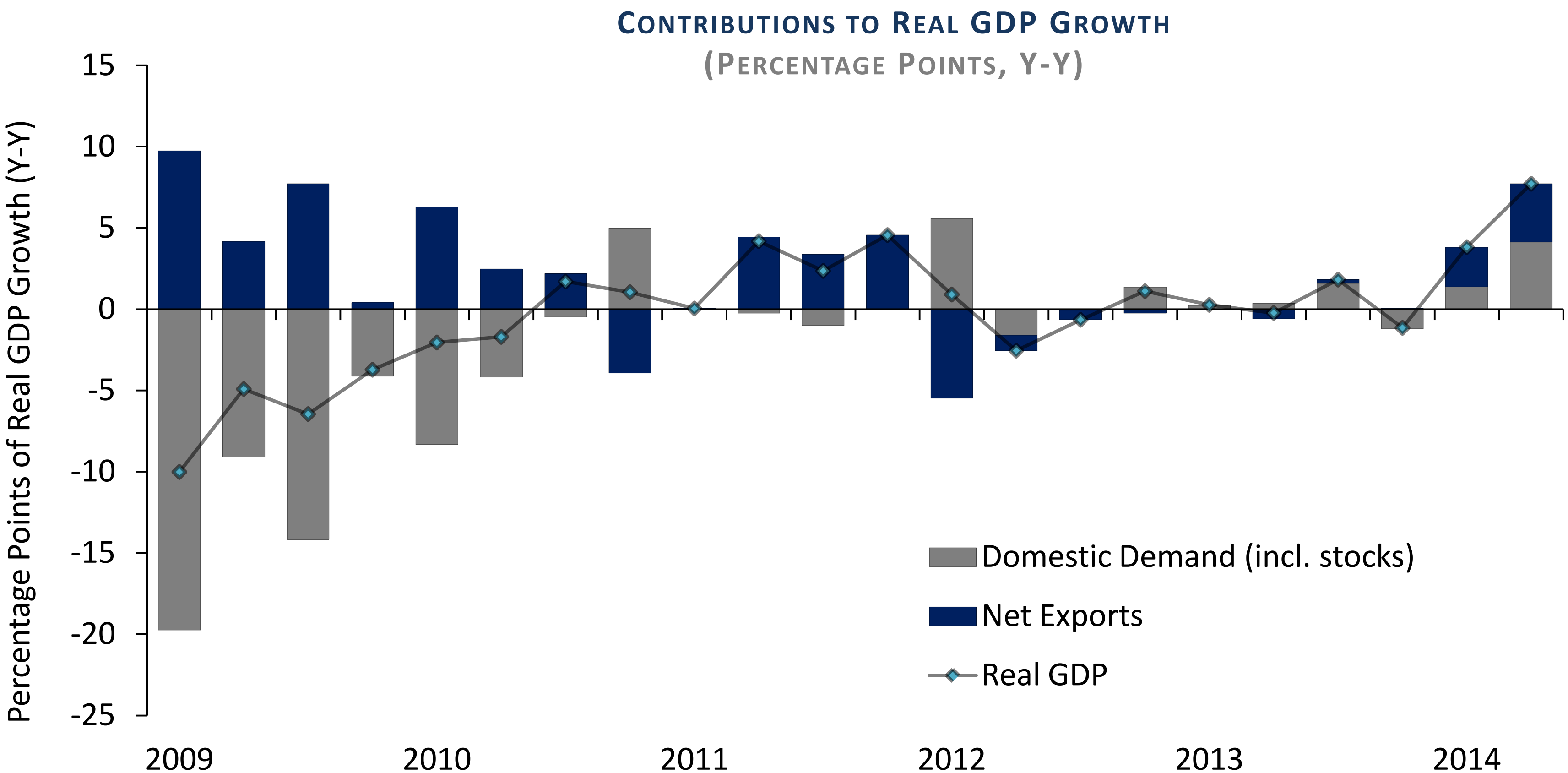
Recovery is Gradually Broadening



Source: CSO; internal calculations.

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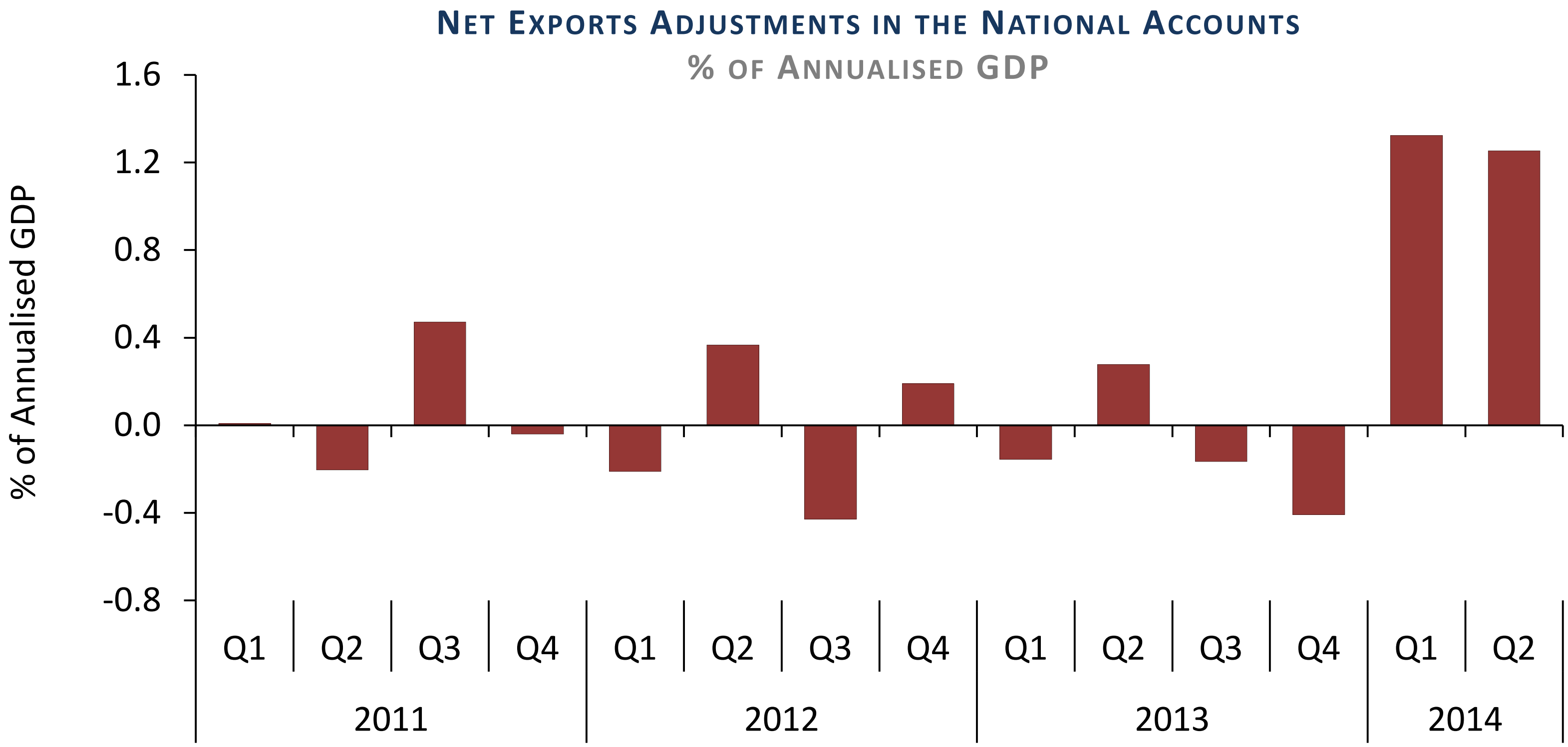
H1 GDP Growth Boosted by Contract Manufacturing



Sources: CSO; Department of Finance; internal calculations.

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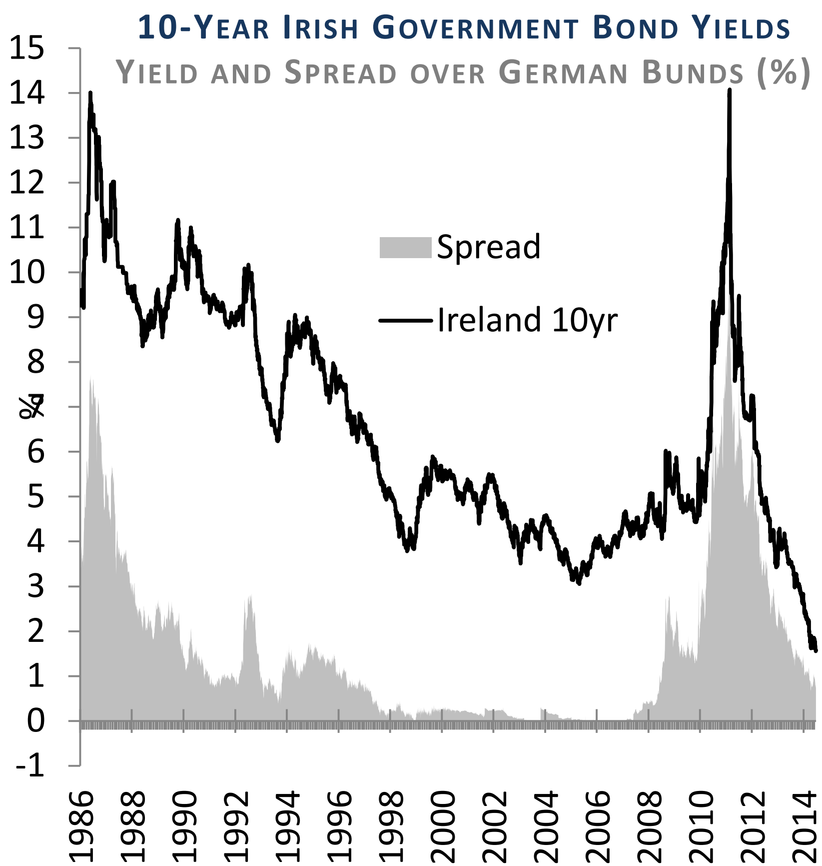
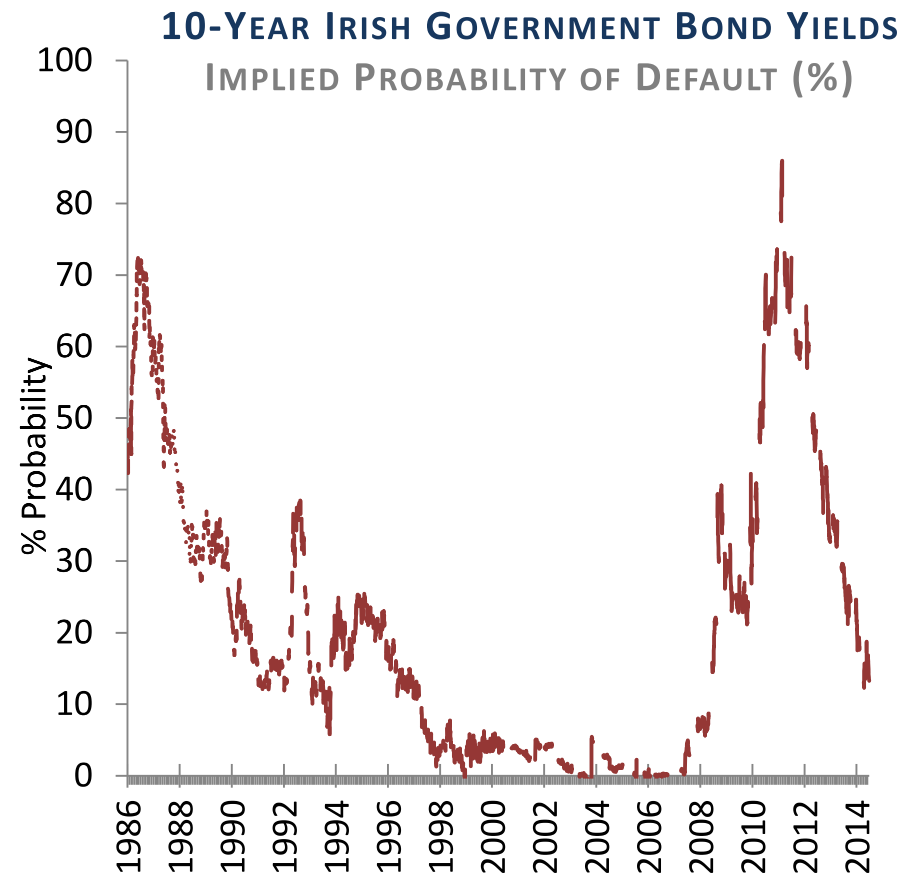
Policy Vigilance has Contributed to Restoring Market Creditworthiness





Sources: Bloomberg; Thomson Reuters; internal calculations.

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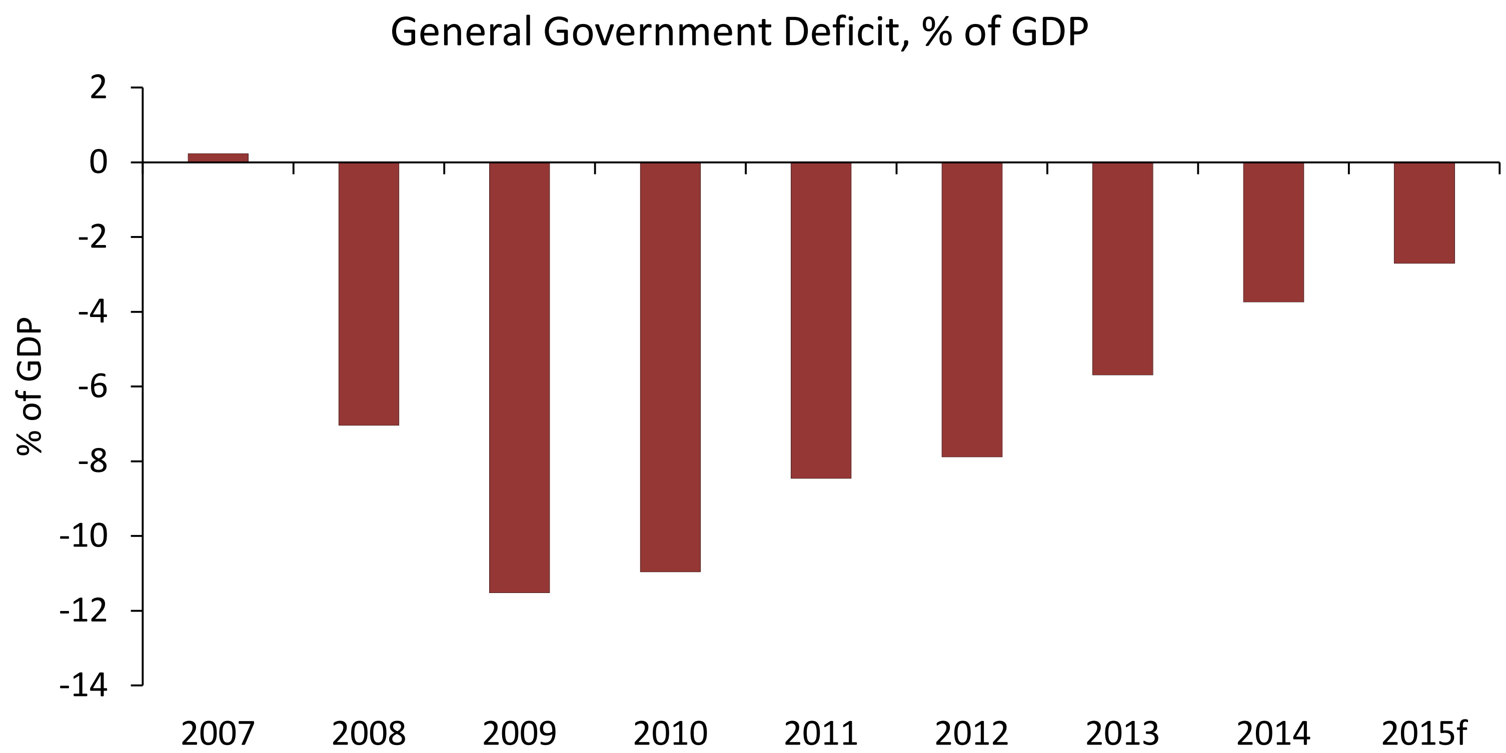
Deficit Continues to Fall



Source: CSO and Department of Finance

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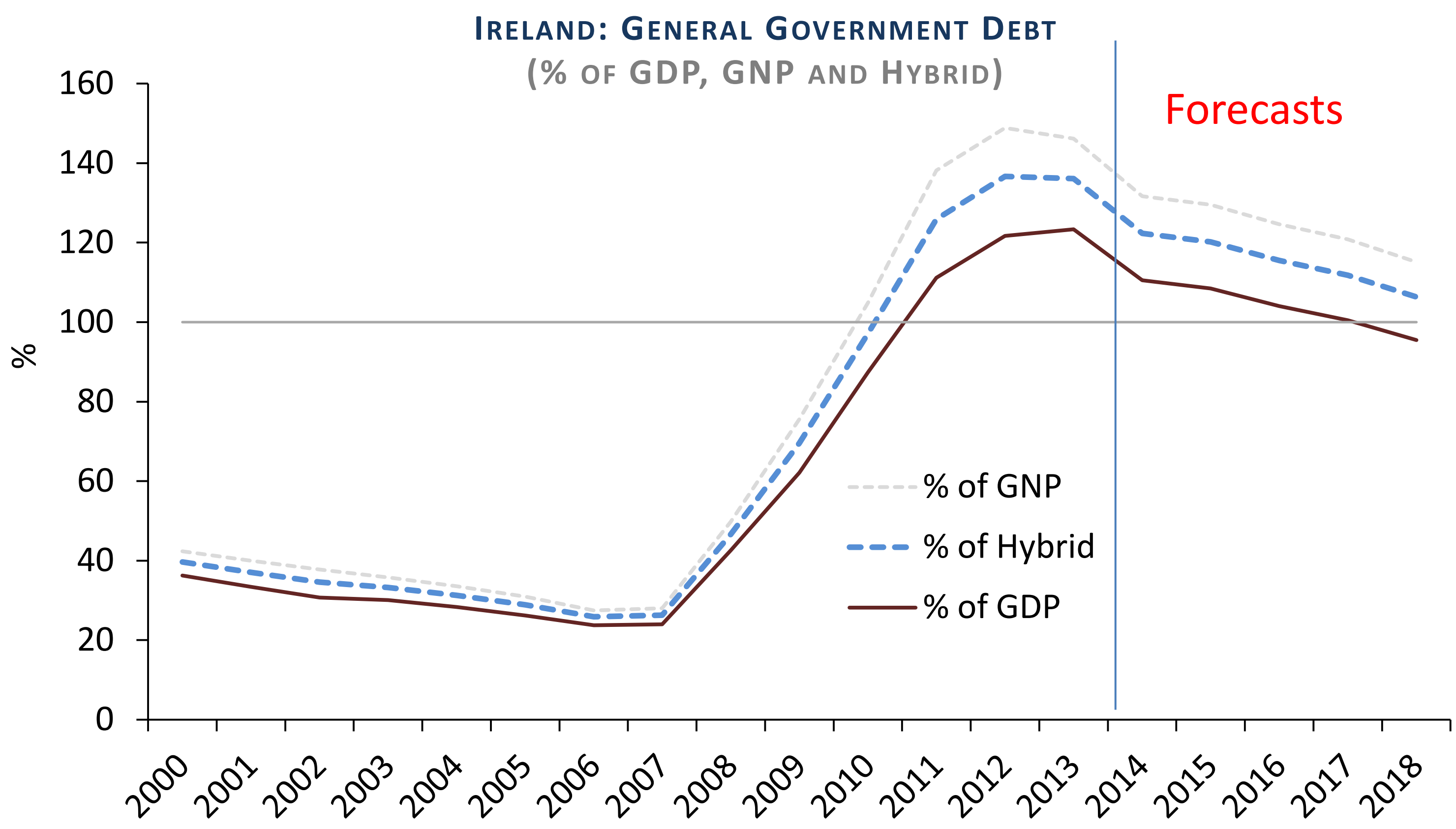
Crisis Leaves Legacy of High Debt Levels



Sources: Department of Finance; internal calculations.

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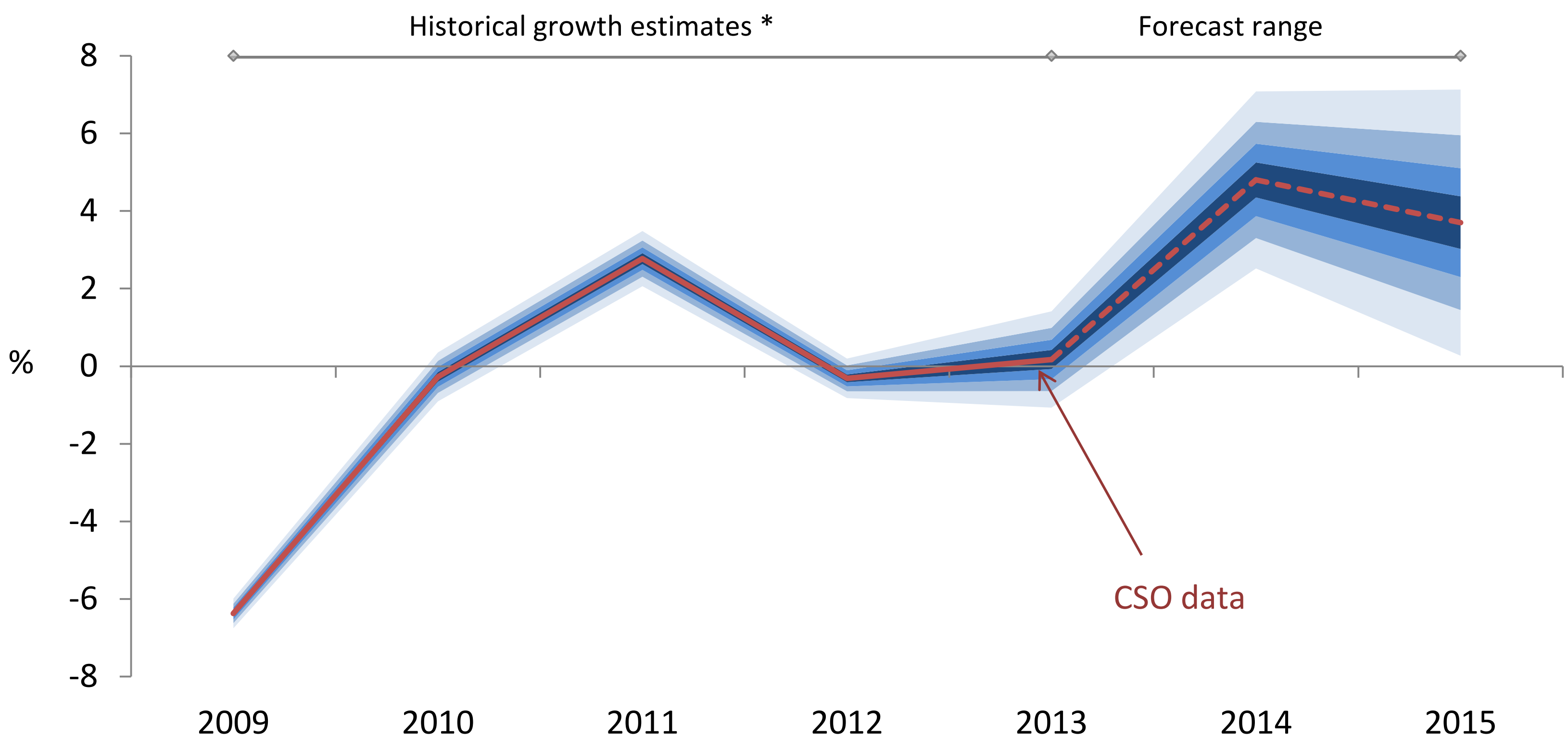
Uncertainty Around Growth Prospects

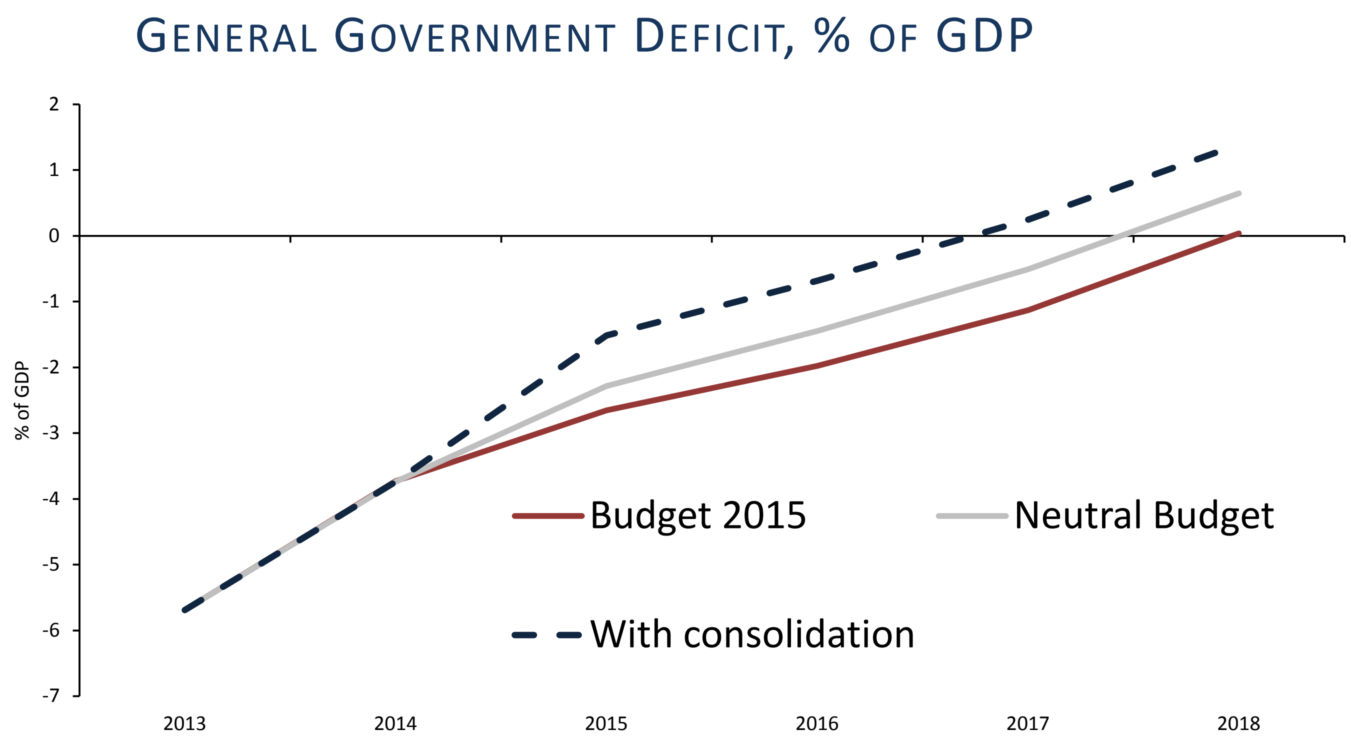
Real GDP Fan Chart Based on Budget 2015 projections (to 2015)



Sources: CSO; Department of Finance; internal calculations.

* Distributions or 'fans' around historical growth estimates are based on previous revisions to real GDP data. Both forecast errors and revisions are based on 1999-05 sample.

Macro and Fiscal Improvements Presented Opportunity to Move Public Finances Decisively into Safer Territory



Source: Internal calculations.

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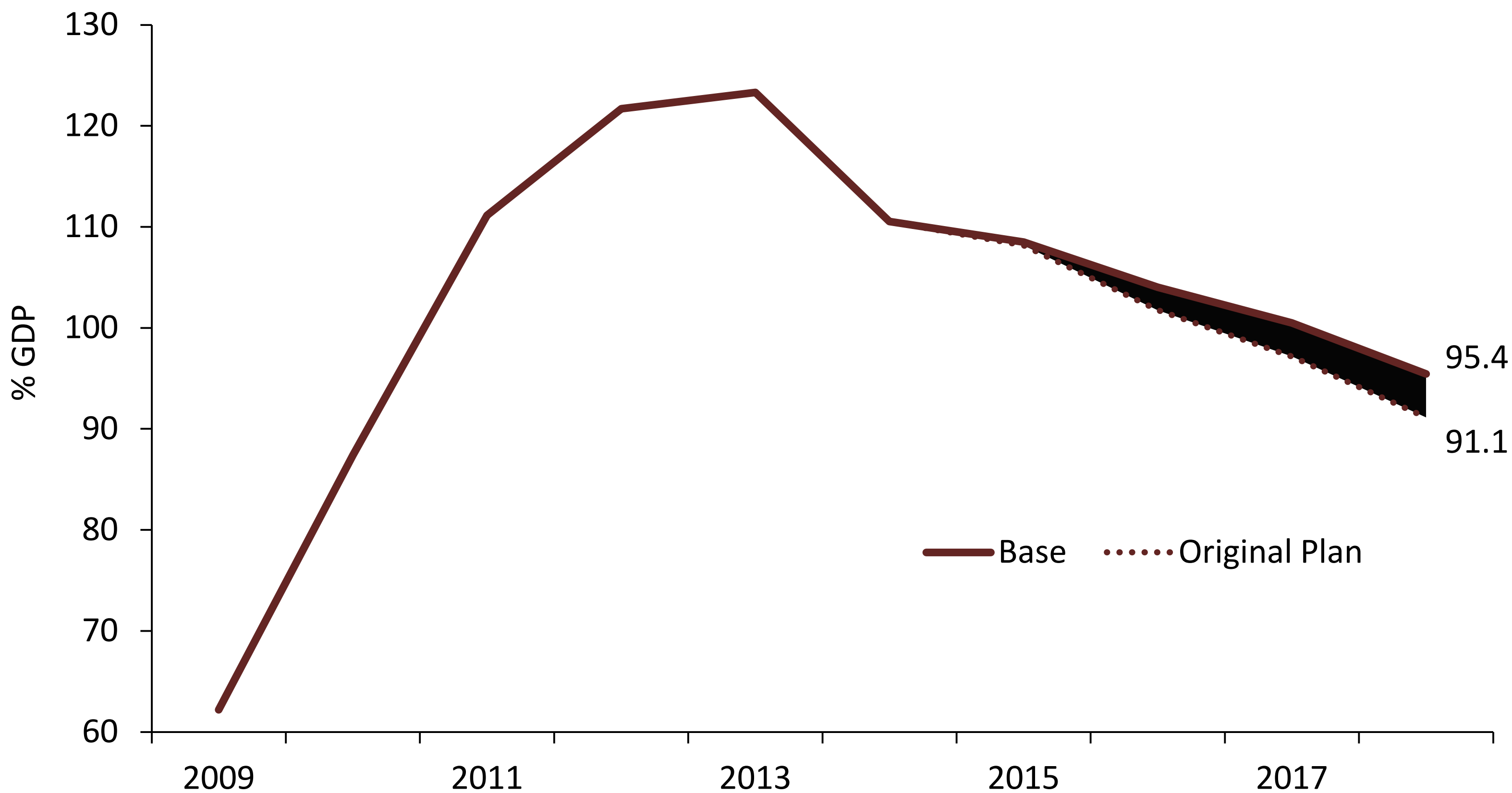
General Government Debt (% of GDP)



Source: Department of Finance; internal calculations.

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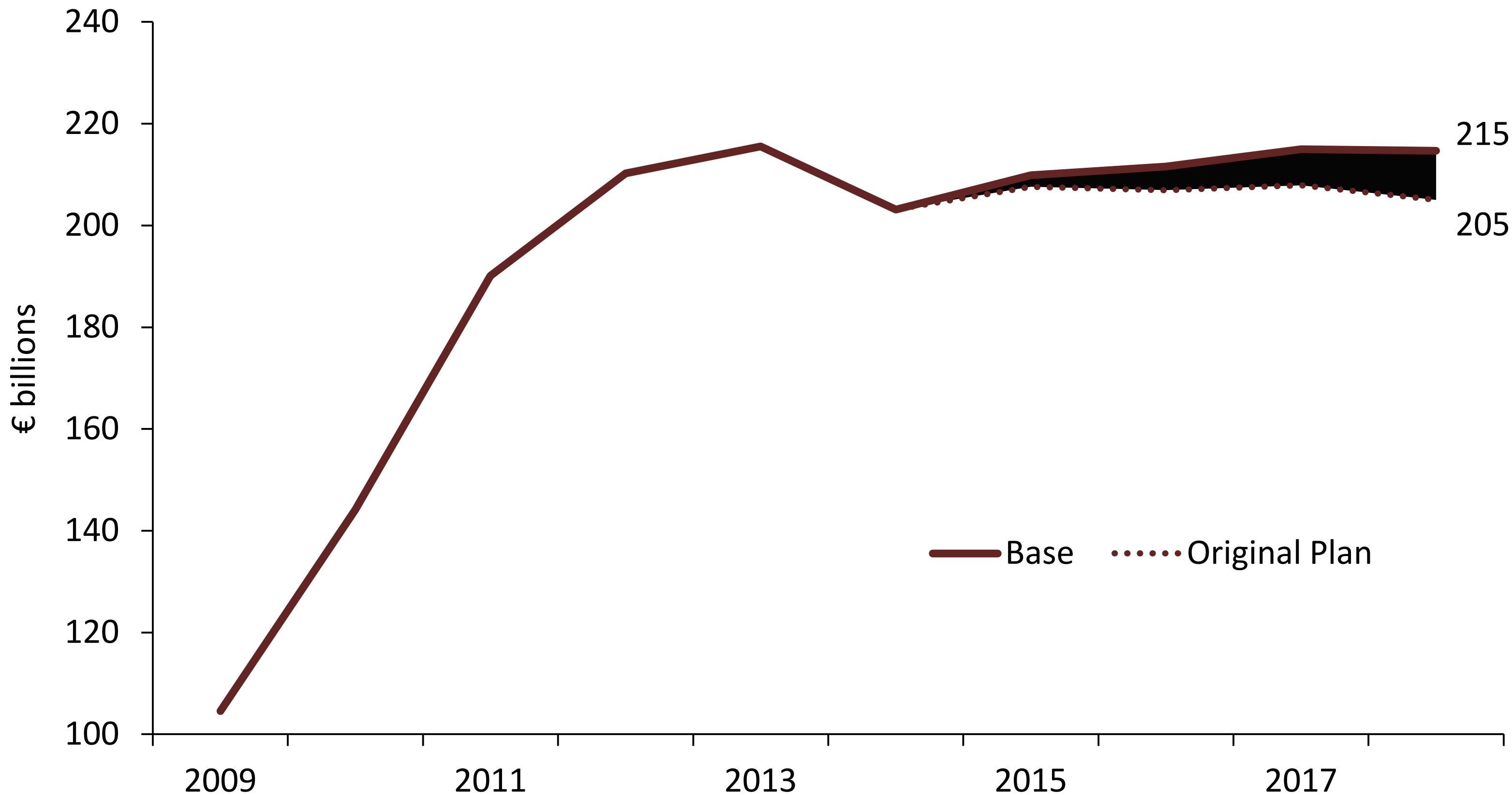
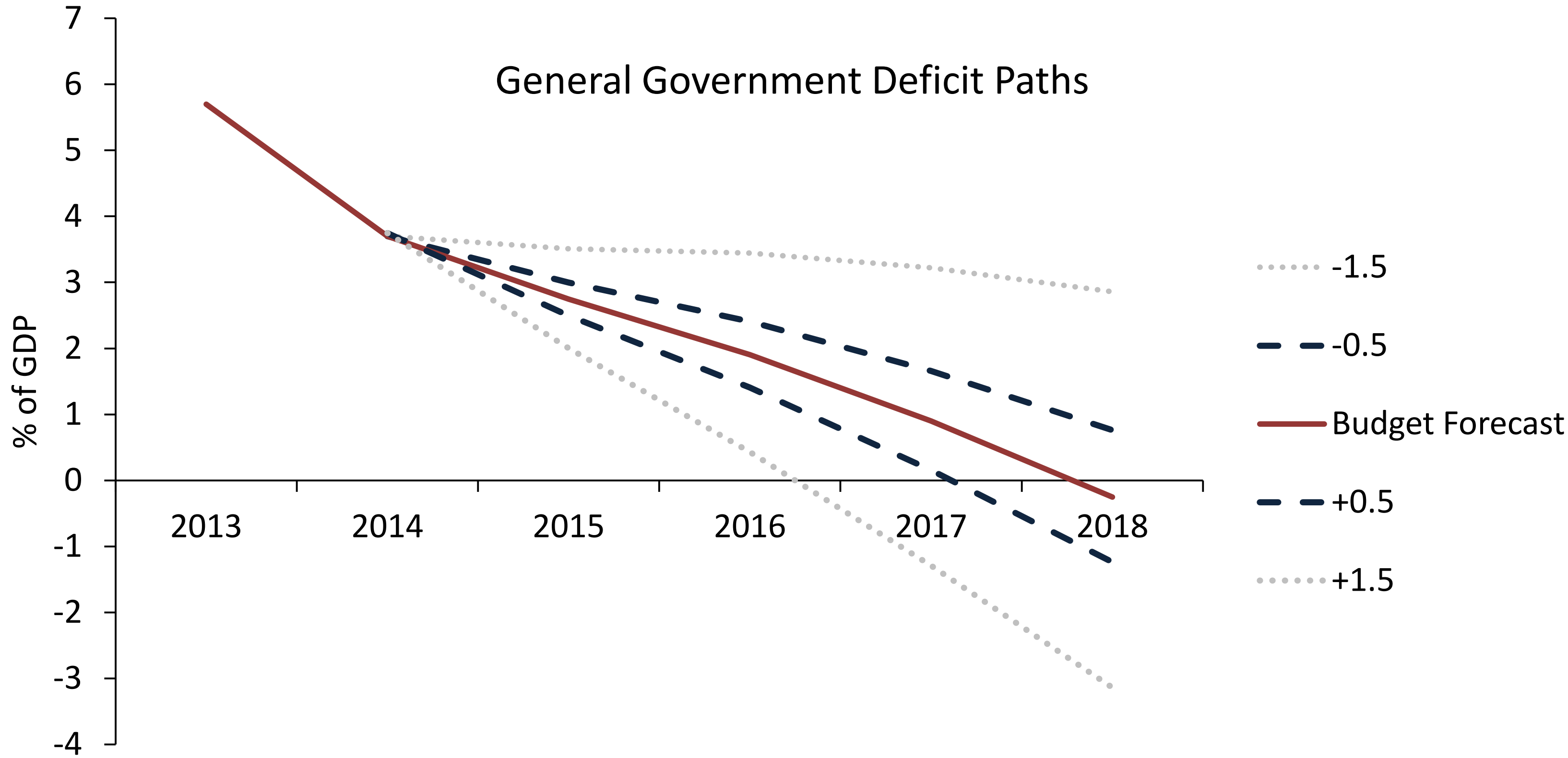
General Government Debt

(€ billions)



Source: Department of Finance; internal calculations.

Deficit Sensitive to Growth Shocks



Source: Department of Finance and internal calculations.
Note: The figure shows alternative projections of the deficit ratio based on GDP growth forecasts that deviate from Budget projections by 0.5 and 1.5 percentage points in either direction.

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Importance of Ireland’s New Budgetary Framework

- Following exit from EU/IMF Programme, Ireland’s strengthened Budgetary Framework should now be centre stage.
- Adhering to the complementary national and European elements of the new 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.
- Provision of well-specified medium-term budgetary plans a key part of the framework

Public Finances Beyond 2015

- Major weakness of *Budget 2015* was the absence of a well-specified medium-term plan for the public finances.
- Multi-year budgetary management at the heart of Ireland's new Budgetary framework:
  - In the past, budget focussed excessively on one-year ahead and day-to-day pressures, leading to pro-cyclicality and frequent expenditure overruns.
  - Medium-term plans provide clarity about the resources available to Departments, reinforce fiscal discipline and anchor decision-making.
- Credible medium-term plans are crucial to avoiding past mistakes related to pro-cyclical fiscal policy.

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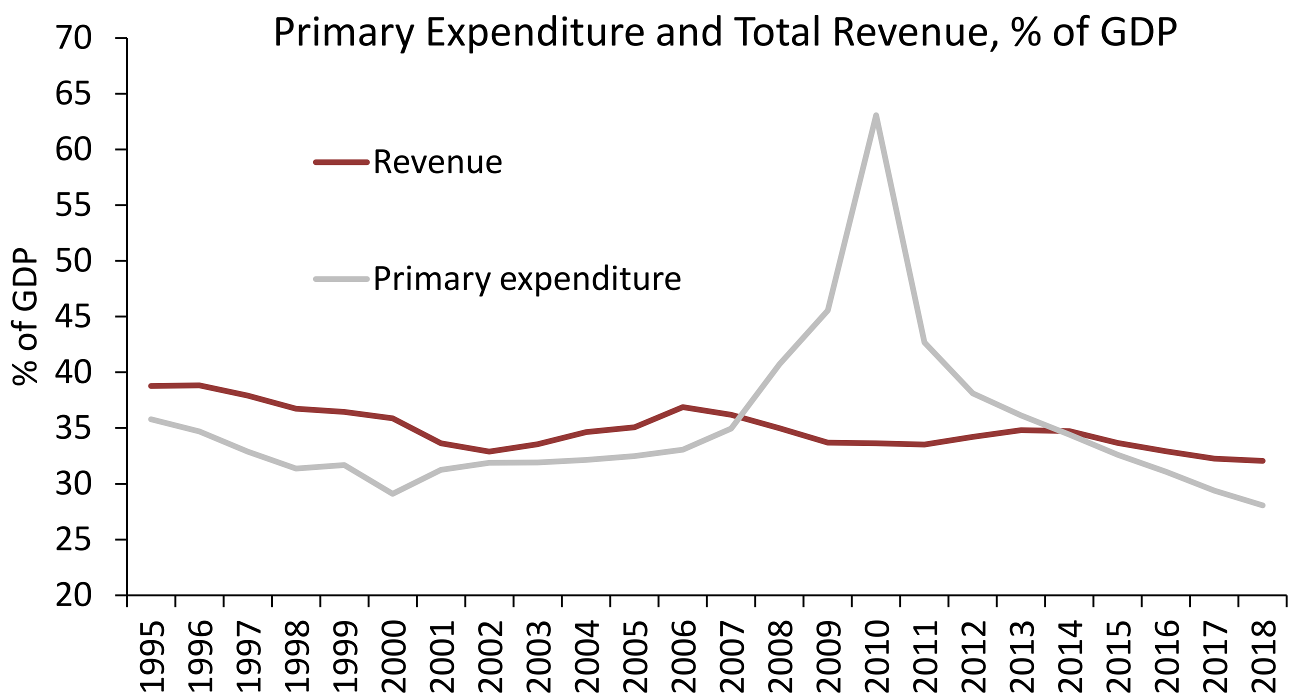
Medium-Term Profiles in *Budget 2015*

- Spending profiles in Budget not based on *CER 2015-2017.* Spending assumed flat after 2015.
- Tax profiles assume no reduction in income tax despite Budget commitments.
- This makes assessment of Government's projections for the deficit and debt in 2016 and beyond very difficult.
- Expenditure ceilings raised again. Repeated raising of ceilings undermines purpose of multi-annual expenditure management.
- *CER 2015-2017* does not adequately address how well-known expenditure pressures will be accommodated (e.g. in Health and Education).

Budget 2015 Medium-Term Projections

Budget 2015 assumes stringent medium-term path for primary spending, as in *SPU 2014*



Source: Department of Finance , Central Statistics Office (CSO), internal calculations.
Notes: Data are on a general government ESA 2010 basis.

Summary

- Budget 2015 will likely succeed in meeting short-run goal of reducing deficit below 3 per cent EDP limit.
- Opportunity to move public finances decisively into zone of safety and to create a larger buffer against adverse shocks has been missed.
- *Budget 2015* lacked a well-specified medium-term plan for the public finances, raising uncertainty over the public finances beyond 2015.
- *CER 2015-2017* does not adequately address how well-known expenditure pressures will be met in the coming years.
- If operated effectively, Ireland's new budgetary framework can guard against pro-cyclicality in fiscal policy making which has contributed to damaging boom-bust cycles.