Irish Fiscal Advisory Council

Fiscal Assessment Report

April 2013

Report 13/01

SUMMARY ASSESSMENT

In the September 2012 *Fiscal Assessment Report*, the Council suggested €1.9 billion in additional adjustments compared to Government plans over the period 2014-2015. While assessing the overall fiscal stance as "conducive to prudent economic and budgetary management", recognising the uncertainties surrounding economic growth, the report argued for the additional measures to provide a margin of safety to bring the General Government deficit below 3 percent of GDP by 2015 and to ensure the stabilisation of the debt to GDP ratio.

Post-*Budget 2013* developments have improved the budgetary outlook. Based on the better than expected Exchequer outturn and higher than forecast level of nominal GDP in 2012, it now appears likely that the 2012 General Government deficit will be significantly below 8 percent of GDP, which compares with a Budget-day estimate of 8.2 percent of GDP. This should have some beneficial carryover effects for future years. In addition, the promissory note transaction has reduced the projected 2015 deficit by 0.6 percent of GDP.

Based on technical adjustments made by the Council to *Budget 2013* projections to reflect the recent developments, the General Government deficit to GDP ratio in 2015 now appears likely to be closer to 2 percent of GDP (compared to the official forecast of 2.9 percent). This also assumes the full implementation of the Government's planned €5.1 billion in consolidation measures in 2014-2015. The impact of the developments is estimated to be equivalent to €1.6 billion of additional adjustments over the period 2014-2015.

The suggested margin of safety has therefore been broadly achieved under the Government's current plans and so a case for the €1.9 billion in additional adjustments is not being made in this assessment. Overall, the fiscal stance remains conducive to prudent economic and budgetary management. However, the Council's assessment is that the planned adjustments of €3.1 billion in 2014 and €2.0 billion in 2015 should not be reduced.

Budget 2013 projections imply compliance with the national Budgetary Rule in 2013, 2014 and 2015. The structural budget balance plays a key part in the domestic and EU fiscal rules. However, this poses serious measurement challenges. These need to be addressed both at EU level and by the development of a more comprehensive domestic analysis.

There are significant uncertainties surrounding these budgetary projections. While there are tentative signs of a stabilisation in domestic demand, the weakening of growth in major trading partners is curbing growth in net exports.

Expenditure pressures in Health and Social Protection in 2012, in part driven by service demand, have also raised concerns about the implementation of planned adjustment measures. However, improved monitoring in Health and a successful implementation of the Croke Park Extension Agreement should help underpin expenditure savings.

A robust return to State creditworthiness – which has continued to show the improvement highlighted in the September 2012 *Fiscal Assessment Report* – would be further reinforced by post-programme precautionary funding arrangements and extensions to the maturities on EFSF/EFSM loans.