Irish Fiscal Advisory Council

Fiscal Assessment Report

November 2013

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Annex A: Fiscal Council Benchmark Projections 24 September

As part of the endorsement process, the Council's Secretariat produced a set of benchmark projections in advance of its meetings with the Department of Finance. The benchmark projections were finalised on 24 September 2013 and are summarised in Annex Table A.1.

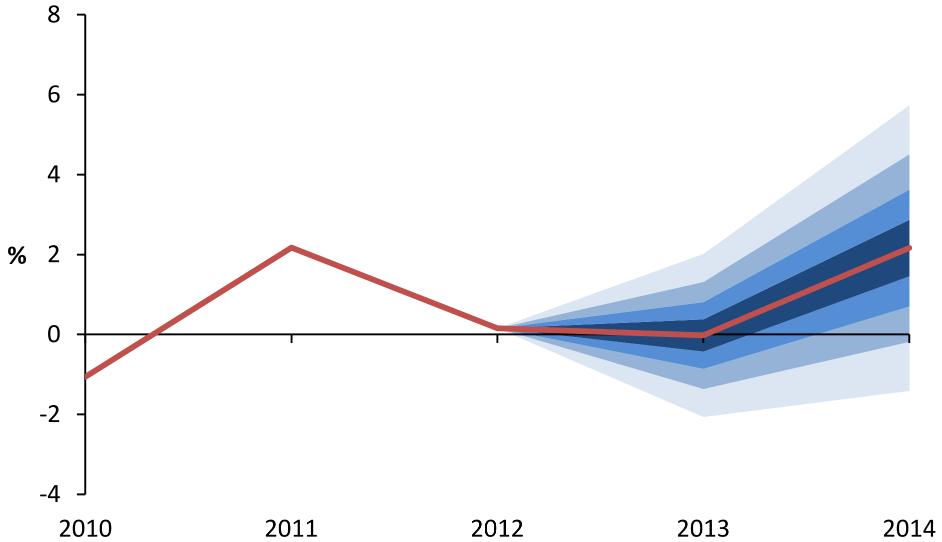
Annex Table A.1: Benchmark Projections for 2013 and 2014

% change unless otherwise stated	2013	2014
Real GDP	0.0	2.2
Consumption	-0.4	0.4
Investment	6.4	5.4
Government	-2.0	-2.0
Stock change (% of GDP)	0.1	0.0
Exports	0.6	4.3
Imports	0.9	3.4
Current Account (% GDP)	3.1	3.5
Employment	1.9	1.5
Unemployment Rate (%)	13.8	13.3
HICP	0.8	1.1
GDP Deflator	0.9	1.4
Nominal GDP (€ billions)	165.4	171.4
Nominal GDP	0.9	3.6

Note: Benchmark projections were finalised on 24 September 2013.

The Council's endorseable range is informed by, but not mechanically linked to, the uncertainty captured in fan chart analysis. For context, Annex Figure A.1 shows the benchmark projections with the standard fan chart constructed around it.

Annex Figure A.1: Real GDP Fan Chart Based on Benchmark Projections[137]



[137] Fan chart range based on historic forecast errors over the period 1990-2012. For more discussion on fan charts, see IFAC, 2012b, "Annex A Fan Charts to Represent Forecast Uncertainty", available at: http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/AnnexA4.pdf

Annex B: Macroeconomic Forecasts Endorsed by the Council

Annex Table B.1: Department of Finance *Budget 2014* Provisional Final Forecasts

% change unless otherwise stated	2013	2014
Real GDP	0.2	1.8
Consumption	-0.2	1.1
Investment	4.9	6.8
Government	-0.9	-1.9
Stock change (% of GDP)	0.4	0.3
Exports	-0.6	1.9
Imports	-0.4	1.4
Current Account (% GDP)	4.4	4.1
Employment	1.6	1.4
Unemployment Rate (%)	13.5	12.6
HICP	0.7	1.5
GDP Deflator	0.9	0.9
Nominal GDP (€ billions)	165.9	170.4
Nominal GDP	1.2	2.7

Annex C: Macroeconomic Forecast Tables

Annex Table C.1: Department of Finance Macroeconomic Forecasts for 2012 Versus the Outturn for 2012

% change unless otherwise stated	*Budget 2013*	*SPU 2013*	*Budget 2014*	Outturn
	Dec 2012	Apr 2013	Oct 2013	CSO
Real GDP	0.9	0.9	0.2	0.2
Real GNP	1.4	3.4	1.8	1.8
Consumption	-2.0	-0.9	-0.3	-0.3
Investment	-3.8	1.2	-1.0	-1.0
Government	-4.0	-3.7	-3.7	-3.7
Exports	3.0	2.9	1.6	1.6
Imports	0.0	0.3	0.0	0.0
Current Account (% GDP)	3.4	4.9	4.4	4.4
Employment	-0.7	-0.6	-0.7	-0.6
Unemployment Rate (%)	14.9	14.7	14.7	14.7
HICP	2.1	2.0	2.0	2.0
GDP Deflator	1.7	2.0	0.6	0.6
Nominal GDP (€ billions)	163.2	163.6	163.9	163.9
Nominal GDP	2.6	2.9	0.8	0.8
Nominal GNP (€ billions)	130.9	NA	132.7	132.6
Nominal GNP	3.0	NA	1.5	1.5

Annex Table C.2: Detailed Macroeconomic Forecasts for 2013

% change unless otherwise stated	*Budget 2014*	ESRI	CBI	IMF	EC	OECD
	Oct 2013	Oct 2013	Oct 2013	Oct 2013	Nov 2013	Nov 2013
Real GDP	0.2	0.5	0.5	0.6	0.3	0.1
Real GNP	1.0	2.0	0.1	0.3	NA	NA
Consumption	-0.2	0.2	-0.4	-0.3	-0.6	-1.1
Investment	4.9	0.7	1.6	2.0	2.9	-7.8
Government	-0.9	-0.7	-1.5	-0.6	-1.0	-0.9
Exports	-0.6	0.0	0.8	1.1	0.5	0.1
Imports	-0.4	-0.1	0.4	0.6	0.2	-0.3
Current Account (% GDP)	4.4	5.6	4.5	2.3	4.1	4.3
Employment	1.6	1.9	1.1	0.6	1.2	1.4
Unemployment Rate (%)	13.5	13.6	13.6	13.7	13.3	13.6
HICP	0.7	0.9	0.6	1.0	0.8	0.6
GDP Deflator	0.9	1.3	1.2	1.0	0.7	NA
Nominal GDP (€ billions)	165.9	166.9	166.7	166.6	165.6	NA
Nominal GDP	1.2	1.8	1.7	1.6	1.0	NA

Annex Table C.3: Detailed Macroeconomic Forecasts for 2014

% change unless otherwise stated	*Budget 2014*	ESRI	CBI	IMF	EC	OECD
	Oct 2013	Oct 2013	Oct 2013	Oct 2013	Nov 2013	Nov 2013
Real GDP	2.0	2.6	2.0	1.8	1.7	1.9
Real GNP	1.7	2.7	1.2	1.3	NA	NA
Consumption	1.8	1.5	0.4	0.5	0.5	0.8
Investment	6.8	4.2	6.6	4.0	4.4	5.9
Government	-1.9	-1.3	-2.8	-2.8	-2.8	-1.9
Exports	1.9	4.6	4.0	2.9	2.5	3.7
Imports	1.5	4.0	3.1	1.9	1.4	2.5
Current Account (% GDP)	4.0	6.7	5.0	3.0	4.6	3.9
Employment	1.5	1.3	1.2	0.9	1.3	0.5
Unemployment Rate (%)	12.4	13.1	13.0	13.3	12.3	13.2
HICP	1.2	1.6	0.7	1.2	0.9	0.8
GDP Deflator	0.8	1.2	1.2	1.2	0.8	NA
Nominal GDP (€ billions)	170.6	173.4	172.2	171.6	169.7	NA
Nominal GDP	2.9	3.9	3.3	3.0	2.5	NA

Annex Table C.4: Detailed Macroeconomic Forecasts for 2015

% change unless otherwise stated	*Budget 2014*	IMF	EC	OECD
	Oct 2013	Oct 2013	Nov 2013	Nov 2013
Real GDP	2.3	2.5	2.5	2.2
Real GNP	1.7	2.0	NA	NA
Consumption	1.2	1.0	1.0	0.7
Investment	5.9	5.0	5.4	5.9
Government	-1.5	-2.5	-2.5	-1.5
Exports	2.7	4.0	3.7	3.9
Imports	2.1	3.0	2.7	3.4
Current Account (% GDP)	3.8	3.1	4.9	3.4
Employment	1.3	1.7	1.3	1.4
Unemployment Rate (%)	11.8	12.8	11.7	12.3
HICP	2.0	1.4	1.2	1.0
GDP Deflator	1.4	1.4	1.1	NA
Nominal GDP (€ billions)	177.0	178.4	175.9	NA
Nominal GDP	3.7	4.0	3.6	NA

Annex Table C.5: Detailed Macroeconomic Forecasts for 2016

% change unless otherwise stated	*Budget 2014*	IMF
	Oct 2013	Oct 2013
Real GDP	2.8	2.5
Real GNP	2.1	2.1
Consumption	1.1	1.3
Investment	5.1	6.0
Government	0.2	0.3
Exports	4.2	4.1
Imports	3.5	3.9
Current Account (% GDP)	3.7	3.3
Employment	1.3	1.7
Unemployment Rate (%)	11.4	12.4
HICP	2.0	1.6
GDP Deflator	1.5	1.6
Nominal GDP (€ billions)	184.7	185.8
Nominal GDP	4.4	4.1

ANNEX D: DEPARTMENT OF FINANCE BUDGETARY FORECASTS IN 2012

In October 2013, the CSO published updated annual figures for the Government finances up to 2012. The General Government deficit in 2012 was revised up to €13.5 billion (from €12.5 billion) mainly on account of a change in the recording of sales of mobile telephone licences.[138]

In Table D.1, the revised General Government data are shown relative to recent Department of Finance forecasts. The budget deficit was revised significantly between *Budget 2013* and *SPU 2013* mainly on account of upward revisions to the main revenue headings. The Council in its previous *Fiscal Assessment Report* had signalled the fact that Government revenues in 2012 had been consistently underestimated by the Department (IFAC, 2013a).

General Government expenditure in 2012 was relatively close to Department of Finance forecasts. However, this masked divergences within categories with interest and investment expenditures overestimated with social payments underestimated.

Over the course of 2012, the forecast for the level of the General Government debt was revised upwards by just under €6 billion reflecting borrowing by the NTMA in the bond markets and subsequent accumulation of liquid assets. Headline deficit and debt ratios were helped by an upward revision to nominal GDP.

[138] Initially (in April 2013), the CSO had recorded sales of mobile phone licences in 2012. Following clarification from Eurostat, sales of €723 million were moved from 2012 into 2013. See *CSO 2013, Government Finance Statistics*, October.

Annex Table D.1: Department of Finance General Government Projections For 2012

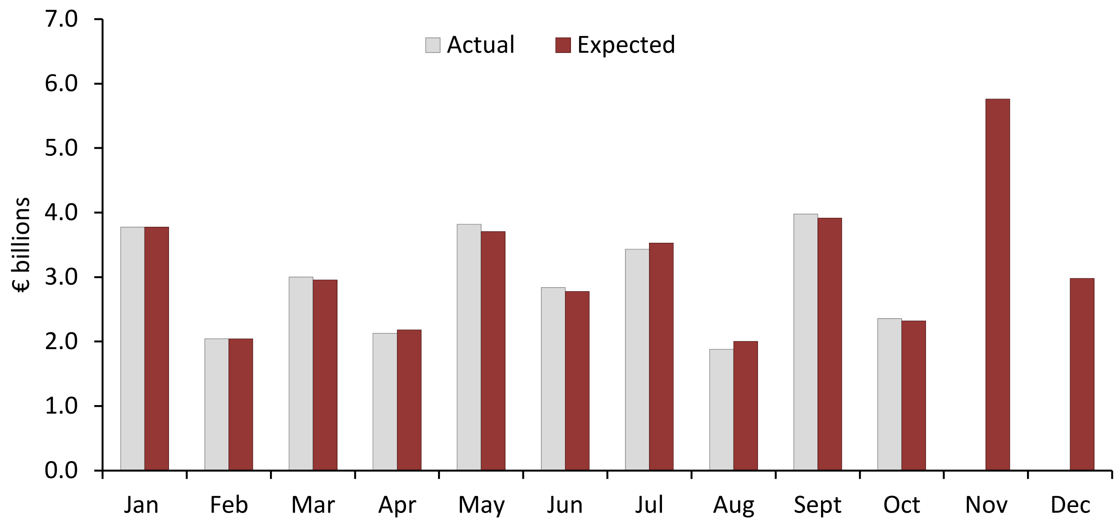
€ Billions	*SPU 2012*	*Budget 2013*	*SPU 2013*	*CSO Outturn*
	Apr 2012	Dec 2012	Apr 2013	Oct 2013
General Government Deficit	**13.1**	**13.3**	**12.5**	**13.5**
General Government Deficit, % of GDP [139]	**8.3**	**8.2**	**7.6**	**8.2**
Revenue	56.9	55.7	56.6	56.5
Taxes	38.9	39.3	39.7	39.5
Social Contributions	9.9	9.3	9.5	9.7
Other	8.1	7.1	7.4	7.3
Expenditure	70.1	69.1	69.1	69.8
Government Services	26.5	27.6	27.3	27.2
Social Payments	27.5	27.0	28.7	29.0
Interest	6.5	6.3	6.1	5.9
Investment	4.0	3.6	3.3	3.1
Other	5.6	4.5	3.6	4.7
General Government Debt	186.7	191.9	192.5	192.5
General Government Debt, % of GDP	117.5	117.6	117.6	117.4
Nominal GDP	158.9	163.2	163.6	163.9

Sources: SPU 2012, Budget 2013, SPU 2013 and CSO.

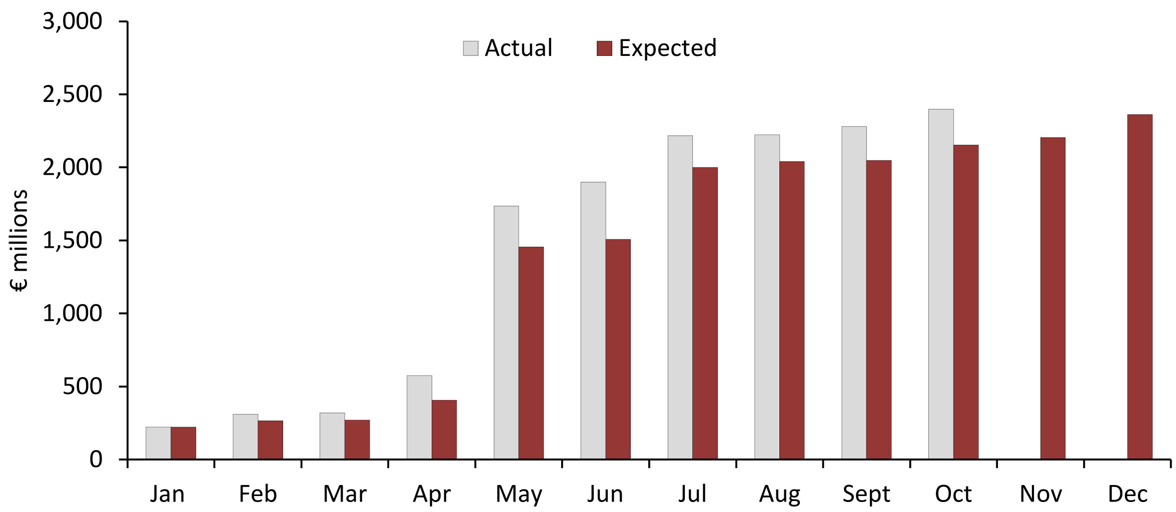
[139] The Excessive Deficit Procedure (EDP) General Government deficit ceiling for Ireland in 2012 was 8.6 per cent of GDP.

Annex E: Exchequer Data in 2013

Annex Figure E.1: Monthly Tax Revenue Profile in 2013: Expected Vs Actual



Annex Figure E.2: Exchequer Non-Tax Revenue



ANNEX F: DEPARTMENT OF FINANCE BUDGETARY OUTLOOK TO 2016

ANNEX TABLE F.1: DEPARTMENT OF FINANCE GENERAL GOVERNMENT PROJECTIONS FOR 2014

€ Billions	*Budget 2013* Dec 2012	*SPU 2013* Apr 2013	*Budget 2014* Oct 2013
General Government Deficit	**8.9**	**7.5**	**8.2**
General Government Deficit, % of GDP	**-5.1**	**-4.3**	**-4.8**
Structural Deficit, % of GDP	**5.9**	**4.6**	**3.6**
Primary Deficit, % of GDP	**-0.6**	**-0.5**	**0.0**
Revenue	**60.3**	**61.4**	**60.9**
Tax	44.0	44.8	43.8
Indirect Taxes	19.3	19.9	19.2
Direct Taxes	23.9	24.1	23.6
Capital Taxes	0.8	0.8	1.0
Social Contributions	10.1	10.1	10.3
Other	6.3	6.5	6.8
Expenditure	**69.4**	**69.1**	**69.1**
Government Services	26.5	26.2	26.6
Compensation of Employees	18.2	17.8	18.4
Intermediate Consumption	8.3	8.4	8.1
Social Transfers	25.7	27.8	27.9
Interest	9.7	8.5	8.2
Subsidies	0.5	0.4	1.3
Capital Transfers			1.1
Investment	2.6	3.1	2.6
Other	4.4	3.1	1.4
Primary Expenditure	59.7	60.6	60.9
General Government Debt	**209.2**	**208.2**	**204.7**
General Government Debt, % of GDP	**120.2**	**119.5**	**120.0**
Nominal GDP	**174.1**	**174.3**	**170.6**
Nominal GDP Growth, %	**3.8**	**3.8**	**2.8**
Average Interest Rate	**4.8**	**4.1**	**4.0**

ANNEX TABLE F.2: DEPARTMENT OF FINANCE GENERAL GOVERNMENT PROJECTIONS FOR 2015

€ Billions	*Budget 2013* Dec 2012	*SPU 2013* Apr 2013	*Budget 2014* Oct 2013
General Government Deficit	**-5.4**	**-4.0**	**-5.3**
General Government Deficit, % of GDP	**-3.0**	**-2.2**	**-3.0**
Revenue	**63.1**	**64.0**	**63.3**
Tax	46.6	47.1	46.0
Indirect Taxes	19.9	20.8	20.3
Direct Taxes	25.8	25.9	25.2
Capital Taxes	0.9	0.4	0.5
Social Contributions	10.3	10.2	10.6
Other	6.2	6.7	6.8
Expenditure	**68.4**	**68.0**	**68.7**
Government Services	25.7	25.1	26.4
Compensation of Employees	17.8	16.8	18.1
Intermediate Consumption	7.8	8.3	8.4
Social Transfers	25.5	27.5	26.6
Interest	10.0	8.9	8.8
Subsidies	0.4	0.4	1.3
Capital Transfers			1.1
Investment	2.6	3.1	2.6
Other	4.3	3.0	1.9
Primary Expenditure	58.4	59.1	59.9
General Government Debt	**211.9**	**209.7**	**209.7**
General Government Debt, % of GDP	**116.8**	**115.5**	**118.5**
Nominal GDP	**181.4**	**181.6**	**177.0**
Nominal GDP Growth, %	**4.2**	**4.2**	**3.7**
Average Interest Rate	**4.8**	**4.3**	**4.3**

ANNEX TABLE F.3: DEPARTMENT OF FINANCE GENERAL GOVERNMENT PROJECTIONS FOR 2016

€ Billions	*SPU 2013* Apr 2013	*Budget 2014* Oct 2013
General Government Deficit	**-3.2**	**-4.4**
General Government Deficit, % of GDP	**-1.7**	**-2.4**
Revenue	**65.8**	**65.2**
Tax	48.7	47.8
Indirect Taxes	21.2	20.9
Direct Taxes	27.0	26.4
Capital Taxes	0.4	0.4
Social Contributions	10.4	10.8
Other	6.7	6.6
Expenditure	**69.0**	**69.6**
Government Services	25.5	26.6
Compensation of Employees	16.9	18.1
Intermediate Consumption	8.6	8.6
Social Transfers	27.6	26.8
Interest	9.2	9.2
Subsidies	0.4	1.3
Capital Transfers		1.1
Investment	3.3	2.6
Other	3.1	2.0
Primary Expenditure	59.8	60.4
General Government Debt	**209.5**	**211.6**
General Government Debt, % of GDP	**110.8**	**114.6**
Nominal GDP	**189.1**	**184.7**
Nominal GDP Growth, %	**4.2**	**4.4**
Average Interest Rate	**4.4**	**4.4**

Annex G: Fiscal Transparency

The degree of fiscal transparency in Ireland is of central importance to IFAC's statutory roles of assessing official forecasts and the appropriateness of the fiscal stance. This annex provides details on important recent developments in this regard: the first section summarises the main findings from a pilot fiscal transparency assessment carried out by the IMF as part of the revision of its Fiscal Transparency Code while the second section documents recent key improvements in Ireland's fiscal reporting that address some of the concerns raised in the IMF report.

The IMF's Fiscal Transparency Assessment for Ireland

In July 2013, the IMF published the outcome of a pilot *Fiscal Transparency Assessment for Ireland*. The objective of the assessment was to "...evaluate Ireland's fiscal reporting, forecasting and budgeting, and fiscal risks analysis and management practices against the standards set by the IMF's newly revised Fiscal Transparency Code." Following substantial improvements in recent decades, Ireland scores well on fiscal reporting and forecasting but is weaker in terms of fiscal risk disclosure. Key findings of the report are summarised below along with some of its recommendations.

Fiscal Reporting

- Fiscal reporting in Ireland is relatively frequent, reliable and comprehensive, independently produced and subject to external audit.
- Although there is a high degree of disclosure, Ireland's fiscal reporting suffers from fragmentation. Issues include differences between in-year and annual fiscal reports in terms of institutional coverage, accounting basis (cash versus accrual) and classification standards (only annual reports are ESA-95 based).
- Coverage of institutions and public sector assets and liabilities is found overall to be good, although public corporations are not included in the Finance Accounts and fiscal statistics and fiscal reports include relatively little consolidated balance sheet information.
- Key recommendations focus on expanding the coverage of fiscal reports, both in terms of the institutions included and the assets and liabilities recognised, and increasing the use of accrual accounting and modern classification standards.

FISCAL FORECASTING AND BUDGETING

- Fiscal forecasting and budgeting practices are found to either be good or advanced in most areas. Budget documentation sets out clearly the impact of new policies and contains detailed distributional analysis.
- There is a lack of comprehensiveness in the annual budget documentation that focuses on Exchequer cash revenues and expenditures, however, resulting in activities of entities such as the National Pension Reserve Fund (NPRF) not being included in the budget estimates laid before Parliament.
- While the budget documentation provides a reconciliation between the Exchequer Balance and the General Government Balance, no such information is provided on the relationship between Exchequer and General Government revenue and expenditure aggregates. This is particularly relevant in terms of compliance with the medium-term expenditure rule introduced in the *Fiscal Responsibility Act*s 2012 and 2013.
- The macroeconomic forecasts behind the fiscal forecasts are presented clearly in the Budget documentation, and while macro forecast errors have tended to be large, they are relatively unbiased.
- Expenditure discipline appears to have benefited from the introduction of a medium-term expenditure framework following the crisis.
- While there is some reconciliation on the expenditure side between the fiscal forecasts provided at different points in time, no such breakdown is provided on the revenue side or for the overall balance.
- Comprehensive long-term fiscal projections are not published and analysis of long-term fiscal stability is lacking. This is particularly worrying given Ireland's demographic profile and relatively high Government debt levels.
- Key recommendations highlight the need for regularly published long-term fiscal projections and detailed reconciliation of changes to fiscal forecasts.

Fiscal Risk Analysis and Management

- Fiscal risk analysis and management meets only the basic standards of the Fiscal Transparency Code for most principles.
- The importance of fiscal risk analysis and management in Ireland is underscored by relatively large fiscal risks and lack of room to accommodate shocks given the high level of Government debt.
- The value of the information published on fiscal risks is diluted by the fact that it is fragmented – published in many separate documents across many agencies. Moreover, much of the information is reported by agencies other than the Departments responsible for fiscal management (Department of Finance and the Department of Public Expenditure and Reform).
- Analysis of macroeconomic risks is reported to meet advanced practice when the analysis published in reports by Department of Finance and IFAC is considered jointly. The analysis of specific risks, such as those relating to contingent liabilities, the values of the Government's assets and liabilities and particular factors such as the impact of the "patent cliff" on tax revenues, meets only the basic standard.
- Small amounts for contingencies are included in Ireland's Budget but there are no published criteria for their use.
- The NTMA publishes information on the risks associated with Government liabilities, a strategy for managing the financial assets of the NPRF and the currency composition and maturity profile of the national debt. However, there is no report that publishes consolidated information on the assets and liabilities managed by the NTMA, risk analysis of that portfolio and a strategy for their management.
- The main recommendations relating to fiscal risk analysis and management are the publication of an annual comprehensive statement on fiscal risks as part of budget documentation and an annual report on the Government's strategy for managing its portfolio of assets and liabilities.

The report concludes that Ireland is "...approaching international best practice in fiscal reporting and meets the basic requirements for fiscal risk disclosure under the IMF's Fiscal Transparency Code". The Government's ambitious plans to make further improvements are acknowledged and it is noted that, given the existing high degree of fiscal disclosure, much progress can be made at relatively low cost by consolidating and publishing existing information into a comprehensive set of public sector financial statements.

Improvements in Fiscal Reporting in 2013

In parallel with the preparation of the IMF report, a number of important developments in fiscal reporting have taken place in Ireland over the past twelve months. These developments go some way in addressing concerns raised by the IMF report as well as in previous *Fiscal Assessment Reports* by the Council.

Traditionally, the monthly Exchequer statement published by the Department of Finance was the main source of regular information on the public finances. This data relates to receipts and expenditures of central Government, with data recorded on a cash (as opposed to accruals) basis. The Exchequer statements showed net spending by Government Departments (gross spending less appropriations-in-aid (A-in-As)).

In October 2012, the Departments of Finance and Public Expenditure and Reform began publishing the Analytical Exchequer Statement (AES) in conjunction with the normal monthly release. The AES shows expenditure (and revenue) on a gross basis as well as expenditure by the Social Insurance Fund (SIF) and National Training Fund (NTF). It also shows the monthly outturn for A-in-As.

The AES groups (current and capital) revenue and expenditure items, in determining the monthly Exchequer balance. Finally, the AES presents a more detailed breakdown of non-tax revenue items (actual and expected revenues). The Council had previously called for more information to be provided on the sources of non-tax revenues (IFAC, 2012b). The main advantage of the AES is that it provides a clearer picture of the gross Exchequer spending and revenues.

From 2014, under the requirements of the EU “Six Pack”, the Department of Finance plans to publish monthly cash based General Government data.

In April 2013, the CSO published two new statistical releases relating to annual and quarterly Government Finance Statistics. These show the main components of the General Government deficit and debt from 1990 to 2012 (annual) and from 1999 to 2012 (quarterly). They also presented for the first time the official calculation of both net General Government debt and the total net worth of Government. As a result, detailed information on Government financial assets, liabilities as well as non-financial assets was provided. This included data on the value of public-private-partnership contracts and Government guarantees. (For details see Barnes and Smyth 2013).

The quarterly release makes it easier to monitor developments in the key General Government aggregates throughout the course of the year. Prior to these publications, there were just two official releases (EDP Maastricht returns in October and April).

ANNEX H: THE MEDIUM-TERM EXPENDITURE FRAMEWORK

The introduction of a Medium-Term Expenditure Framework (MTEF) (see also Box F) for Departmental expenditure goes some way to addressing previous weaknesses in the multi-annual budgetary planning process in Ireland.[140] The MTEF has been further strengthened this year with:

(i) The enactment of the Ministers and Secretaries (Amendment) Act 2013. This Act sets out the coverage of the three year aggregate ceilings and provides that both the aggregate ceiling and Ministerial ceilings must be set and revised by Government decision; and

(ii) The publication of a more detailed administrative Circular on the rules and procedures applying to the ceilings. The administrative Circular provides for the circumstances in which both the aggregate and Ministerial three-year ceilings may be revised ("escape clauses") and for a reconciliation with previous ceilings where this occurs; the carryover of savings between years; the sanction mechanisms applying where Departments exceed ceilings; and for periodic comprehensive reviews of expenditure. The Circular also links the setting of ceilings with the expenditure benchmark requirements at a European level. The expenditure benchmark is discussed in Box I.[141]

These arrangements also explicitly link the setting of ceilings to the overall EU fiscal structures. As part of the wider EU fiscal reforms, the so-called "Six Pack" introduced a complementary measure to the core Budgetary Rule measure known as the expenditure benchmark (EB). The role of the EB within the wider reforms of the Stability and Growth Pact is discussed in more detail in Box I, however, in the Irish context it is also specified as the mechanism through which an upper limit on General Government expenditure is determined. In effect the EB has been adopted as an expenditure growth rule for Ireland. The aggregate Government Expenditure ceiling (GEC) and the individual Ministerial ceilings then both operate as mechanisms to control Exchequer expenditure with this upper limit. Both the GEC and individual Ministerial ceilings are set on a nominal, three

[140] Volume I of the *Report of the Special Group on Public Service Numbers and Expenditure Programmes* (2009) compared the three-year expenditure projections that were published each year in the annual Budget volumes for 2000 to 2006 against the actual outturns for expenditure in each of those years and determined that while the first-year outturns typically came within 1 per cent of the projection, the second-year outturns came in ahead of projection by 6 per cent on average, while the third-year outturn overran by around 12 per cent on average.

[141] http://circulars.gov.ie/pdf/circular/per/2013/15.pdf

year rolling basis. The more detailed arrangements for the operation of the MTEF are discussed below.

COVERAGE

The definition of 'Government expenditure' as set out in the *Ministers and Secretaries (Amendment) Act 2013* is equivalent to the gross voted total expenditure aggregate shown in the Budget and Estimates documentation. The GEC covers current and capital expenditure by Departments funded by the Exchequer and through appropriations-in-aid and the expenditure of the Social Insurance Fund and the National Training Fund. Consequently, the GEC does not include (i) debt interest costs or other non-voted expenditure financed directly from the Central Fund or (ii) non-Central Government expenditure including the Local Government sector. In addition, while cyclically related payments, specifically unemployment related costs, and EU co-funded expenditure are included within the ceilings, the Circular specifies that these items be treated differently.[142]

In its most recent assessment, the European Commission point to the inconsistency between the coverage of the GEC and the expenditure benchmark, which applies to the general Government sector but explicitly excludes interest expenditure, non-discretionary changes in unemployment benefit expenditure and discretionary expenditure increases fully offset by discretionary revenue increasing measures.[143]

The Local Government, while included in the EB ceiling on General Government expenditure, is not included within the GEC. Instead, the Circular refers to a protocol to control and monitor the local authorities contribution to the General Government Balance. However, a deficit-based arrangement allows scope for the Local Government Sector to increase expenditure on the basis of buoyant, non-discretionary, receipts and consequently cause either a breach of the EB or require a change to the GEC, all other things being equal. To avoid this, clear restrictions should be put in place around Local Government expenditure, explicitly expanding the protocol to include expenditure restrictions.

[142] The Circular specifies that these payments be re-visited each year and where the final outturn for the year is less than the allocated amount on these payments, the difference will automatically accrue to the benefit of the Exchequer, rather than be transferred across to fund the expansion of other services.

[143] http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp162_en.pdf

REVISION OF CEILINGS/“ESCAPE CLAUSES”

Three circumstances, or “escape clauses”, are specified under which the aggregate GEC can be revised:

(i) under exceptional circumstances as defined under the *Fiscal Responsibility Act* 2012 and 2013;[144]

(ii) through the introduction of compensatory revenue measures; and

(iii) special arrangements for cyclically related unemployment spending and certain expenditure funded through EU receipts.

There are six circumstances identified whereby the apportionment of funding to Departments can be revised, including:

(i) an increase in the GEC;

(ii) policy change arising from the outcome of a Comprehensive Review of Expenditure;

(iii) for “good and pressing reasons of public policy” or a change in the division of functions between Departments;

(iv) as a result of a potential breach in ceilings requiring a Supplementary Estimate;

(v) arising from the arrangements in place for unforeseen variations in cyclical and EU co-funded expenditure; or

(vi) arising from the application of carryover savings or as the result of sanctions.

While the number of instances in which the GEC can be altered is now relatively limited, the capacity of Government to adhere, and be seen to adhere, to these restrictions has not been established. Where the GEC is revised, the specific provision under which it is being adjusted must be specified in the accompanying documentation.

CONTROL MECHANISMS

The control mechanisms for Departments are broken into three escalating levels of sanction, with the application of each automatically requiring a proposal to Government for decision by the Minister for Public Expenditure and Reform as part of the normal monthly reporting process to Government. The initial level is triggered where a Department’s gross expenditure is above the

[144] In this context exceptional circumstances are (i) a period during which an unusual event outside the control of the State has a major impact on the financial position of the General Government, or (ii) a period of severe economic downturn.

published monthly profile for two consecutive months or can be triggered by the Department of Public Expenditure and Reform if felt necessary. The imposition of these sanction arrangements is semi-automatic as they escalate a decision to Ministerial/Governmental level but require decisions by Government to implement the sanctions at each stage. The transparent linking of sanctions to the public profiles is important as any failure to implement the controls will be evident. The sanctions range from more intense reporting and monitoring arrangements, to a formal external expenditure review with a requirement to implement recommendations, to the repayment of excess expenditure from future ceiling(s).

Carryover of Current Savings

Similar to the mechanism in place under the capital expenditure envelopes, the MTEF permits the carryover of current expenditure savings from one year into the next under varying arrangements depending on the level of savings as a proportion of the ceiling. It is specified explicitly that any savings carried over must be in compliance with the GEC and overall fiscal rules and may not be used to create an ongoing liability to the Exchequer.[145]

Reconciliation of Ceilings

The Circular commits that any changes to ceilings will be reconciled fully. Reconciliation tables were included in the recent *Expenditure Report 2014* for the GEC and Ministerial expenditure ceilings.

Periodic Reviews of Expenditure

Approximately every three years a comprehensive review of expenditure will be conducted. This allows for re-prioritisation between Ministerial ceilings while respecting the overall GEC. It also guards against a return to a 'bottom-up' incremental approach and should lead to an increased focus on evaluation of existing programmes and schemes.

Departmental Continuity Reserves

Continuity reserves are referenced in the Circular but have not yet been formally introduced. These reserves should provide Departments with individualised buffers within their Ministerial ceiling to allow modest budget deviations to be managed in a routine manner without requiring the imposition of sanctions. The causes and consequences of larger deviations should be assessed and a direct policy response considered if necessary. The introduction and operation of these reserves

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[145] A limitation on the carryover of savings is that the increase in the following year's Ministerial ceilings arising from carried over savings cannot cause a breach of the GEC. Accordingly, provision would have to be made when setting Ministerial ceilings to allow 'space' between the GEC and the aggregate of the Ministerial ceilings.

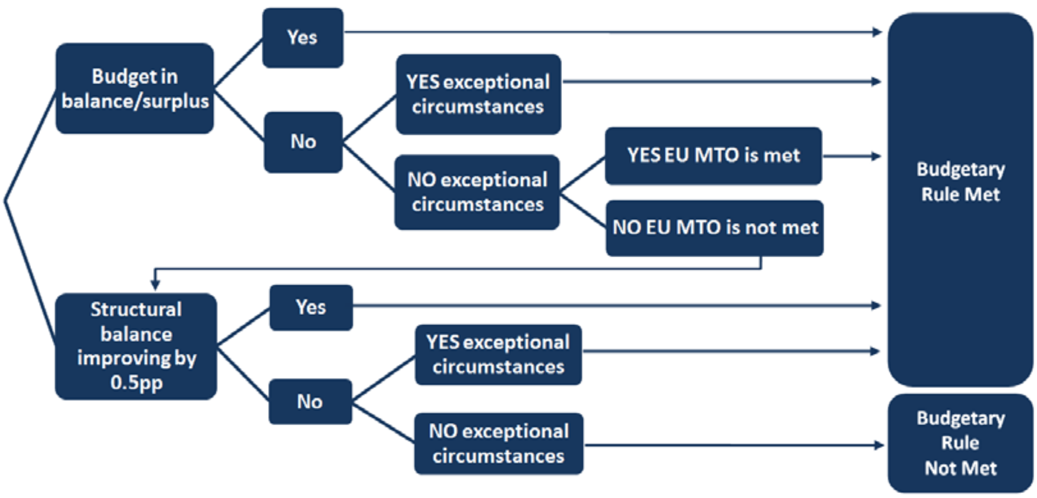
should be considered carefully, particular the impact on the incentive structure under the existing sanction/carryover mechanisms. Another important consideration is whether an aggregate reserve or individual Departmental reserves are more appropriate. While an aggregate reserve would allow flexibility for Government to address exceptional circumstances as they arise, it could lead to 'gaming' on the part of Departments to obtain additional funding.

ANNEX I: FISCAL RESPONSIBILITY ACT AND EU FISCAL RULES

The *Fiscal Responsibility Act* (FRA) and EU fiscal rules are complex, both individually and taken together, as set out in previous *Fiscal Assessment Reports*. There are three basic requirements:

- The FRA Budgetary Rule sets a norm of a headline budget balance or surplus for the General Government, while the EU SGP requires a deficit of less than 3 per cent of GDP.
- The FRA Budgetary Rule and EU SGP require the structural budget balance to meet an EU-agreed country-specific Medium Term Budgetary Objective (MTO), which is currently for a balanced budget in structural terms. If this condition is not met, a 0.5 percentage point improvement in the structural budget balance is required under the Budgetary Rule (Adjustment Path Condition) and EU rules.[146]
- The FRA Debt Rule and EU SGP require that a General Government debt-to-GDP ratio in excess of 60 per cent of GDP should be reduced according to a formula that requires approximately a 1/20th reduction of the excess over 60 per cent per year.

The conditions for meeting the FRA Budgetary Rule can be represented using a flow diagram:[147]



[146] It is important to note that the FRA Budgetary Rule and MTO are not identical to the extent that the FRA Budgetary Rule could be met by a headline budget balance, even if there were a structural deficit larger than the MTO. This could arise, for example, with an output gap greater than two percentage points.

[147] There is more than one way of presenting the rules in terms of a flow diagram. This broadly follows the order in which the conditions are specified in the text of the *FRA 2012*.

Annex J: Illustrative Scenarios in *SPU 2013*

Annex Table J.1: *SPU 2013* Illustrative Scenario 2016-2019

Budgetary Plans	2016	2017	2018	2019
1. General Government Balance	-1.7	-1.2	-0.3	0.8
2. Structural Balance	-2.4	-1.7	-0.4	1.0
3. Cyclical Budgetary Component	0.8	0.5	0.1	-0.2
4. One-offs and Other Temporary Measures	0.0	0.0	0.0	0.0
5. General Government Balance	-1.7	-1.2	-0.3	0.8
6. Total Revenues	34.8	34.5	34.2	33.9
6.a. Total Revenues at Unchanged Policy from 2012	n.a	n.a	n.a	n.a
7. Total Expenditure	36.5	35.8	34.5	33.1
Amounts To Be Excluded from the Expenditure Benchmark				
7.a. Interest Expenditure	4.8	4.8	4.8	4.7
7.b. Expenditure on EU Programmes Fully Matched by EU Funds Revenue	0.2	0.2	0.2	0.2
7.c. Cyclical Unemployment Benefit Expenditure***	-0.4	-0.5	-0.5	-0.4
7.d. Effect of Discretionary Revenue Measures	n.a	n.a	n.a	n.a
7.e. Revenue Increases Mandated By Law	0.0	0.0	0.0	0.0
8. Tax Burden*	31.5	31.3	31.2	30.9
9. Gross Debt**	110.8	107.9	103.6	97.9

Source: Irish Stability Programme April 2013 Update.

Annex Table J.2: *SPU* 2013 Illustrative Scenario: Macroeconomic Assumptions, 2016-2019

	2016	2017	2018	2019
1. Real GDP Growth	2.7	2.3	3.0	3.5
2. Nominal GDP Growth	4.2	3.8	4.3	4.8
3. GDP Deflator Growth	1.4	1.5	1.3	1.3
Potential GDP Growth	2.6	2.9	3.7	4.1
Output Gap	1.6	1.0	0.3	-0.3
Employment Persons (000s)	1.4	1.5	1.5	1.5
Hours Worked	0.6	0.6	0.6	0.6
Unemployment Rate	12.3	11.5	11.0	11.0
Gross Fixed Capital Formation	4.5	7.0	8.0	10.0
Compensation Per Employee	3.3	3.2	3.7	3.7

Source: Department of Finance Calculations, *Irish Stability Programme April 2013 Update.*
Note: Figures may not sum due to rounding.