Summary Assessment

The Government will likely accomplish the important milestone of reducing the deficit to below the 3 per cent ceiling in 2015.

Strong progress has been made since 2008 in rectifying the public finances. The fruits of that effort are now becoming apparent with the deficit likely to fall below the 3 per cent Excessive Deficit Procedure (EDP) ceiling in 2015 and the debt to GDP ratio beginning to fall, albeit from a very high level. At the same time, economic recovery appears to be taking hold and risks to the Government's balance sheet have subsided considerably as the outlook for both NAMA and the banking sector has improved.

The Budget projects a deficit of 2.7 per cent of GDP in 2015 in line with requirements for exiting the Excessive Deficit Procedure.

As set out in the June *Fiscal Assessment Report*, the Council considers a fiscal stance that secures the scheduled exit from the EDP as being "conducive to prudent economic and budgetary management" within the terms of the *Fiscal Responsibility Act* (2012).

Nevertheless, Budget 2015 reflects a missed opportunity to move the public finances more decisively into a zone of safety by following through on previous plans.

In the short run, the stance in *Budget 2015* means that the deficit is projected to be more than one percentage point higher in 2015 than could have been achieved if previous plans had been implemented. An opportunity to create a larger buffer to guard against adverse near- and medium-term growth shocks has thus been missed. All else equal, the larger deficits result in the debt level being roughly €10 billion higher in 2018 than if previous plans had been adopted.

The new budgetary framework provides a potential bulwark against the repeat of past fiscal policy mistakes.

A positive legacy of the crisis has been the institutionalisation of a new budgetary framework comprising national and European elements. If operated effectively, the framework can guard against pro-cyclicality in fiscal policy making which has contributed to damaging boom-bust cycles in the past.

A serious weakness of Budget 2015 is the absence of a well-specified medium-term plan for the public finances.

Given the scale of the changes since the *Stability Programme Update 2014 (SPU 2014),* it was important for *Budget 2015* to provide an updated medium-term plan. Credible medium-term plans for the public finances are crucial to avoiding pro-cyclical fiscal policy and protecting fiscal sustainability. *Budget 2015* did not include a well-specified plan for the public finances. Published tax revenue projections assume no change in policy in the medium term, despite Budget commitments to cut taxes in the coming years. Moreover, the Budget spending profiles assume that spending will remain unchanged after 2015, despite higher figures for expenditure being set out in the *Comprehensive Review of Expenditure 2015-2017 (CER 2015-2017)*. The *CER 2015-2017* also states that Departments are expected to stay broadly within the new ceilings, notwithstanding the scope for additional resources in 2016 and 2017.

Spending plans have been revised upwards each year since 2012, with Budget 2015 raising the expenditure ceilings for 2015 to 2017.

The almost continuous raising of the government's expenditure ceilings undermines the purpose of multi-annual expenditure planning, which is designed to protect against the type of pro-cyclical trend in government spending observed in the run up to the crisis. The *CER 2015-2017* does not adequately address how well-known expenditure pressures will be accommodated in the coming years. This a particular problem for departments such as Health and Education, reporting large demand pressures over 2015 to 2017, and given the current very low level of capital spending.

The recovery in the economy has gained momentum in 2014, although headline GDP growth may be flattered by contract manufacturing.

The underlying growth trajectory for the near-term appears strong. Exports have performed well in 2014 while domestic demand is recovering. Future developments in contract manufacturing are especially difficult to forecast and this compounds the usual uncertainties surrounding growth prospects. Taking into account these uncertainties, the Council assessed the *Budget 2015* macroeconomic forecasts for 2015 as within an endorsable range.

Budget projections imply compliance with the relevant fiscal rules in 2015 but following EDP exit, there is limited room for manoeuvre in 2016.

Under the Budget projections, the Budgetary Rule and the expenditure benchmark will be complied with in 2016 but with only a very small safety margin. Any significant expenditure increases or discretionary revenue reductions would likely lead to a breach of the Budgetary Rule and EU Expenditure Benchmark, leading to possible EU sanction procedures.