Box E: Assessment of Compliance with the Budgetary Rule

Next year will be the first year in which the Council will make an *ex post* assessment of compliance with the Budgetary Rule. The assessment will be made with reference to the annual outturns and requirements for 2016. This Box outlines the procedural aspects of the assessment of compliance as specified under the *Fiscal Responsibility Act (FRA)*.

The *FRA* requires the Council to monitor and provide an assessment of compliance with obligations under the Budgetary Rule. This assessment specifically refers to:

i. whether failure to comply with the Budgetary Rule constitutes a significant deviation;
ii. whether the Government's own plans to secure compliance with the Budgetary Rule, as required under the Correction Mechanism, are being achieved, and
iii. whether, in the Council's opinion, exceptional circumstances exist or have ceased to exist. [1]

Budgetary Rule: The Budgetary Rule consists of two elements: the "Budget Condition" and the adjustment path condition. The "Budget Condition" is a requirement that the budgetary position of the General Government is in balance or in surplus. [2] The adjustment path condition applies when the MTO is not being met, and requires that the structural balance is converging towards this in accordance with the 1997 Surveillance and Coordination Regulation. Failure to meet the requirement is only permitted as a result of exceptional

[1] *FRA* Section 8(2) specifies the Council's role as to "monitor, and at least once in each year provide an assessment of, whether any obligation under section 2(1)(a) or 6(1), or to do things specified in a plan under section 6(1), is being complied with". Section 2(1)(a) relates to the Budgetary Rule and notes: "the Government shall endeavour to secure that—(*a*) the requirement imposed by *section 3* (the budgetary rule)…are complied with". Section 6(1) covers the "Correction Mechanism", that sets plans to secure compliance with the Budgetary Rule when not met: "if the Commission addresses a warning to the State under Article 6(2) of the 1997 surveillance and coordination Regulation or if the Government consider that there is a failure to comply with the budgetary rule which constitutes a significant deviation for the purposes of Article 6(3) of that Regulation, the Government shall, within 2 months, prepare and lay before Dáil Éireann a plan specifying what is required to be done for securing compliance with the budgetary rule".

[2] Based on legal clarifications, the Council is of the view that the budgetary position in this context refers to the structural balance. The *FRA* specifies that a failure to meet the requirement is only permitted as a result of exceptional circumstances and if it does not endanger medium-term fiscal sustainability. The Budget Condition is also deemed to be respected if the structural balance is at the Medium-Term Objective (MTO) as set under the Preventive Arm.

circumstances and the non-endangerment of medium-term fiscal sustainability.[3]

Correction Mechanism: The *FRA* lays out specific requirements to initiate a "correction mechanism" when the Government assesses that there is a failure to comply with the Budgetary Rule (which constitutes a "significant deviation") or when the European Commission issues a warning to the State under the 1997 Surveillance and Coordination Regulation relating to such a deviation. In such circumstances, the *FRA* requires that the Government lay before the Dáil, within two months, a plan specifying what is required to secure compliance with the Budgetary Rule. This should:

a) specify the period over which compliance with the Budgetary Rule is to be achieved,
b) if that period is longer than a year, specify annual targets to be met in moving towards such compliance,
c) specify the size and nature of the revenue and expenditure measures that are to be taken to secure such compliance, and
d) outline how any revenue and expenditure measures that are to be taken will relate to different subsectors of the General Government.

The plan must also be consistent with (i) the *SGP* rules, (ii) recommendations made to the State under the *SGP* in relation to the period over which compliance with the Budgetary Rule is to be achieved, and the size of measures to be taken to secure such compliance, and (iii) the current stability programme.

Subsequent to the Council making its assessment, the *FRA* also notes that IFAC will share this with the Minister, and then publish it within ten days. If the Government does not accept the Council's assessment in relation to compliance with the Budgetary Rule, the Minister is required to prepare and lay before Dáil Éireann a statement of the Government's reasons for not accepting it within two months of being given a copy of the assessment.[4] If the Government accepts an assessment of non-compliance amounting to a significant deviation, the Correction Mechanism applies. These provisions are consistent with what is referred to as the "comply or explain" principle.

[3] As the *FRA* effectively translates *SGP* Preventive Arm requirements into domestic legislation following the Fiscal Stability Treaty, approved by referendum in 2012, the MTO, exceptional circumstances and significant deviations are interpreted as consistent with the former. The Council has clarified two elements in relation to how the Budgetary Rule is to be assessed: First, Budgetary Rule requirements, though legally applicable since December 2012, are legally satisfied by meeting EDP requirements to 2015. From 2016 on, the "Budget Condition" and the adjustment path condition operate in full. Second, assessment of compliance with the Budgetary Rule incorporates a dual assessment of requirements for both the structural balance and the Expenditure Benchmark. Regulation (EU) No. 1175/2011, 16 November 2011 and the *Vade Mecum* 2016 specify that significant deviations refer to deviations in structural balance adjustments toward MTO or deviations in expenditure developments net of discretionary revenue measures impacting on the government balance, where the deviation is at least 0.5 per cent of GDP in a single year or at least 0.25 per cent on average per year in two consecutive years.

[4] *FRA* Section 8(5) and 8(6) note: "(5) The Fiscal Council shall, as soon as practicable after completing an assessment under this section, give a copy of the assessment to the Minister and publish the assessment within the period of 10 days beginning on the day on which the copy is so given. (6) If the Government do not accept an assessment of the Fiscal Council in relation to any of the matters referred to in subsection (3), the Minister shall, within 2 months of being given a copy of the assessment under subsection (5), prepare and lay before Dáil Éireann a statement of the Government's reasons for not accepting it".