Box H: One-Off/Temporary Measures Relevant to 2016 Assessment

This Box sets out the Council's approach to identifying one-off measures and assesses those that were relevant to the fiscal rules in 2016. A key part of the assessment of compliance with the fiscal rules involves stripping out any one-off or temporary measures (collectively referred to as "one-off measures") that might impact the deficit in a given year. One-off measures are intended to capture items with a transitory impact that do not lead to a sustained change in the budgetary position.

The identification and measurement of one-offs is an important part of assessing compliance with the fiscal rules. It is subject to a large degree of discretion and there is evidence internationally of strategic use of one-offs to achieve fiscal outcomes that appear more favourable.[1] To facilitate a clear understanding of what can be classified as one-offs, and to counteract potential "fiscal gimmickry", the European Commission has developed a set of guiding principles for identifying one-offs:[2]

- **Principle I:** One-off measures are intrinsically non-recurrent.
- **Principle II:** The one-off nature of a measure cannot be decreed by law or by an autonomous government decision. It should be possible to evaluate the one-off nature of a measure unambiguously upon announcement and this should not depend on the way in which it has been announced by the policymaker (e.g. if the measure is announced as temporary or permanent).
- **Principle III:** Volatile components of revenue or expenditure should not be considered one-off. Cyclical parts of revenue or expenditure should not be considered as one-off, as this impact is already corrected for via the cyclical adjustment of the general government balance. While revenue or expenditure components may still exhibit a significant degree of volatility, one-offs are not primarily intended to smooth time series and should therefore not be used to correct for this kind of volatility.
- **Principle IV:** Deliberate policy actions that increase the deficit do not, as a rule, qualify as one-offs. In order to give policymakers the right incentive to fully recognise permanent budgetary impacts, there is a strong presumption that deliberate policy actions that increase the deficit are of a structural nature. These measures should only exceptionally be classified as one-offs, in cases where it can be unambiguously demonstrated that they have an intrinsic temporary nature.
- **Principle V:** Only measures having a significant impact on the General Government balance should be considered one-offs. As a rule, measures worth less than 0.1 per cent (rounded) of GDP should not be considered one-offs. Such measures are more likely to constitute normal volatility of public finances and their non-classification as one-offs avoids excessive complexity in monitoring government revenue and expenditure.

The Council's assessment of one-off classifications applied for 2015 and 2016 by the Department of Finance and the European Commission is informed, in part, by these guiding principles. However, neither the Department nor the Commission has provided a detailed taxonomy of the one-off items included for the year. Instead, one-off items are typically shown in net and/or aggregate terms with little or no information on their nature or justifications for their recognition as such.

Discerning how appropriate the "one-off" classifications are requires careful consideration of the

[1] A fiscal rules framework that is based on numerical maximum-allowable levels can create incentives for governments to use one-off measures strategically. Box D (IFAC, 2014b) explores the treatment of one-offs in detail, while Koen and Van den Noord (2005) demonstrate that as deficit rules become more binding, recourse to one-offs and other stratagems is more likely. Alt *et al.* (2014) offer a useful and more recent survey of the literature in this area.

[2] These guiding principles are extensively explained in Chapter II.3 of the 2015 Report on Public Finances in EMU (European Commission, 2016). The Section provides examples of frequently occurring one-offs and discusses a number of measures that have 'borderline' characteristics, but which ultimately have not been considered one-off measures.

merits of each one-off proposed. As a general rule, the Council views the one-off label as (i) something only applicable in cases where the one-off nature of the item is unambiguous (i.e., not for conventionally volatile items) and (ii) something that should apply only for reasonably large items or related items (i.e., amounting to more than 0.1 per cent of GDP). This should limit the risk of promoting poor incentives with respect to transparency and the sustainable management of the budgetary position. A further useful benchmark against which to assess tax one-offs is the historical volatility of the tax head itself.

It is important that a high degree of transparency is evident for the identification of one-offs given the scope for discretion involved. Estimates in *Budget 2017* and *SPU 2017*, however, give no detail as to the nature or justification for the four separate one-offs items forming the basis for the Department's assessment of the structural balance change between 2015 and 2016.[3] The Department has shared with the Council additional information on one-offs identified.

Table H.1: One-Off/Temporary Measures Relevant for 2016 Assessment
€ millions

One-Off item	Rationale for Inclusion as One-Off	Department of Finance		European Commission		IFAC	
		2015	2016	2015	2016	2015	2016
AIB Transaction*	Treatment of conversion of state-owned AIB preference shares into ordinary shares as a capital transfer implies a temporary boost to expenditure. Expenditure treatment is due to increased risk linked to potential returns.	2,110		2,110		2,110	
EFSF Pre-Paid Margin	A prepaid margin on the borrowings from the European Financial Stability Facility was repaid to the Exchequer.		-550		-550		-550
Other		-610	-230				
EU Budget Contribution*	Step-change in contribution to EU Budget prompted by GNI revisions		170*		170*		170*
Total Impact of Exclusion of One-Offs on General Government Balance (GGB)		1,500	-610	2,110	-380	2,110	-380
…as a % GDP		0.6	-0.2	0.8	-0.1	0.8	-0.1
Implied Change in Underlying GGB (excluding one-offs/temp measures above)			0.6		0.4		0.4
Implied Change in Structural Balance			**0.5**		**0.3**		**0.3**

Sources: CSO; Department of Finance; and internal IFAC calculations.
Note: Figures are rounded to nearest €10 million. A positive figure means that the one-off item decreases the GGB in that year, so the GGB, excluding one-offs, is higher than the CSO's published GGB.
* Amount is less than 0.1% GDP.

Table H.1 lists the items that were included as one-offs by the Department and the Commission for the purposes of assessing the required +0.6 percentage point change in the structural balance between 2015 and 2016. These also form part of the *ex-post* assessment of compliance with the domestic Budgetary Rule in 2016. There are significant differences between the Department's and Council's assessments of one-offs, which net over €0.6 billion in 2015 and €0.2

[3] Moreover, while data on the aggregate impact of one-offs are made available by the Commission, detailed information on the classification of one-off operations for Member States subject to the Stability and Growth Pact is not systematically provided. As such, it is not possible to evaluate whether or not inconsistencies in classification exist over time and across countries (Marinheiro, 2015).

billion in 2016.

Assessing the one-offs proposed by the Department, the Council judges the AIB Transaction, EFSF pre-paid Margin and EU Budget Contribution to meet the necessary criteria as discussed in this Box. The AIB Transaction involved conversion of state-owned preference shares and is considered an artificial boost to expenditure in 2015. The EFSF pre-paid margin involved a one-off receipt as a result of an unusual funding structure pertaining to an EFSF loan drawn down in February 2011 and maturing in July 2016, therefore representing a non-recurring boost to 2016 revenue.[4] The EU Budget Contribution item refers to one-off expenditure in 2016 resulting from the CSO's *National Income and Expenditure 2015*. While the level shift in 2015 GNI is not necessarily temporary, the additional expenditure allocated to 2016 relating to the 2015 increase is one-off in nature due to effective double counting of this amount.

Overall, the Council's assessment is that a narrower list of one-offs than used by the Department is warranted. In particular, the items comprising the "other" aggregate are judged to correspond better with normal volatility of their respective General Government categories, and in any case the individual components do not exceed 0.1 per cent of GDP. Using the Council's one-offs, the change in the structural balance for 2016 is +0.3 percentage points of GDP, which falls short of the +0.6 percentage point adjustment requirement. As with the Department's estimated change in structural balance of +0.5 percentage points, the breaches are not large enough to trigger potential sanctions.

[4] The original EFSF loan amounted to €4.2 billion, of which a €3.6 billion drawdown was received and the balance retained by the issuers as a credit-enhancing provision, given Ireland's sub-Investment Grade sovereign credit rating at the beginning of the EU/IMF Programme of Assistance. Following the removal of European loan margins for Programme countries agreed during 2011, and later the extension of European-loan maturities agreed in 2013, the margin retained on the first EFSF loan was scheduled for return to Ireland in July 2016.