Box I: The Council's Assessment of the Preventive Arm

This box briefly discusses three technical aspects of the Council's assessment of compliance with the fiscal rules. These are (i) *ex-post* assessments of compliance, (ii) one-off items, and (iii) discretionary revenue measures (DRMs). The treatment of these items and differences compared to the corresponding treatment of the Department of Finance and the European Commission are summarised in Table I1 below.

Table I1: Treatment of *Ex-Post* Assessments, One-Off Items and DRMs

	IFAC	European Commission	Department of Finance
Ex-Post Assessments of Compliance – currently 2016	Frozen based on the IFAC *ex-post* assessment[93], with one-off items not excluded from the Expenditure Benchmark	Frozen based on Commission (*Spring 2017*) forecasts	The Department use latest estimates as opposed to freezing past deviations for the Expenditure Benchmark
One-off items	Assessed by IFAC and excluded from the Expenditure Benchmark for items identified since Dec 2016	Assessed by the Commission and systematically excluded from the Expenditure Benchmark (for all years)	Assessed by the Department, excluded from the Expenditure Benchmark for items identified since Dec 2016
Discretionary Revenue Measures	IFAC Assessment of Department *(Budget 2018)* estimates	Commission (*Autumn 2017*) estimates	Department *(Budget 2018)* estimates

Sources: IFAC, European Commission and Department of Finance.

(i) *Ex-Post* Assessment of Compliance

The Council's approach to *ex-post* assessments of compliance follows that used by the Commission in freezing the assessed level of compliance made in spring for the previous year. As a result, revisions to historical data for 2015 and 2016 that would affect any estimated breaches for 2016 will not be reflected in assessments of 2017 and 2018 compliance. The Department's estimates are slightly different in that they use updated estimates of the 2016 deviation for the Expenditure Benchmark rule in 2016 (*SES 2017* included €0.8 billion of over-compliance compared with €0.9 billion according to *Budget 2018*).

While the required adjustment in the structural balance may unfreeze in certain circumstances, in general the freezing of historical figures adds a degree of stability to the process of meeting fiscal targets.[94] A key advantage of the approach is that deviations that have been assessed as having occurred cannot be revised away by statistical vagaries or reclassifications. Given the variability inherent to estimates of the Irish economy, achieving fiscal targets due to a "moved-goalposts" effect should not necessarily be deemed adherence to the rules; equally, failing to achieve fiscal targets on a similar basis should not result in penalties.

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[93] The Council's ex-post assessment for 2016 is presented in *Ex-Post Assessment of Compliance with the Domestic Budgetary Rule for 2016* (IFAC, 2017a), based on the CSO's *Government Finance Statistics* outturns published in April 2017, Department forecasts published in SPU 2017 and using the Commission's *Spring 2017* estimate of the output gap. Council figures are similar to those in the Commission's *Spring 2017* publication. An exception is for assessment of the Expenditure Benchmark (with one-off items not excluded) owing to differences in the Commission's estimate of 2016 DRMs, which was €0.4 billion higher than the Department's estimate of -€0.8 billion; i.e., the Department's estimate of the negative impact of discretionary tax-reducing measures was double the size of the Commission's estimate. For further discussion on the quality of estimates for DRMs, see Box F.

[94] The most recent update to the Commission's *Vade Mecum* (European Commission, 2017a) describes two criteria for unfreezing, including "very bad or exceptionally bad economic times, measured as an output gap below -3 [per cent] of potential output", and revisions to a structural balance wherein a Member State's "delivery on its original [structural-balance adjustment] requirement would imply an over-achievement of its MTO".

(ii) One-off items

The Council assesses one-off items submitted for consideration by the Department in accordance with five Commission criteria outlined in Box H of the June 2017 *FAR*, and determines which of the items are applicable. This is an important process in that it affects compliance with the fiscal rules, and provides improved understanding of the underlying fiscal position. The Council's treatment of one-off items for assessment of the Expenditure Benchmark is effectively the same as that of the Department, wherein such items are excluded for 2017 onwards. This treatment differs from that of the Commission, reflecting the most recent update to the *Vade Mecum* (European Commission, 2017a) in systematically excluding one-off items for all years.

(iii) Discretionary Revenue Measures

In assessing compliance with the Expenditure Benchmark, the Council makes an assessment of the DRMs based on the information contained in the *Budget*; in practice, DRM estimates applied by the Council have been very similar indeed and often identical to those contained in the *Budget*. Meanwhile, the Commission uses its own estimates of DRMs and applies a different treatment to certain DRM components, in particular regarding the non-indexation of income-tax bands and carryover of previous years' measures.[95] The Commission's estimates have occasionally differed from those of the Department. In particular, the Department's estimates of total DRMs in *Budget 2018* were -€0.8 billion for 2016, €0.0 billion for 2017 and +€1.0 billion for 2018; the corresponding Commission figures were -€0.4 billion, -€1.0 billion and +€0.2 billion, respectively.

4.3 In-Year Assessment for 2017

Analysis based on the latest data implies a breach in the Expenditure Benchmark for 2017. A new presentation for assessing compliance with the Expenditure Benchmark is then examined, in which one-off expenditure and revenue items are excluded from calculations of the real expenditure growth rate. This approach is applied to one-off items identified after December 2016. Although the Expenditure Benchmark continues to register a breach for 2017, the technically compliant outcome in 2016 described in the previous section means there is no deviation for the two-year average of 2016–2017. However, the breach in 2017 risks becoming a significant deviation when applying the Commission's discretionary revenue measures (DRMs) estimates.

4.3.1 MTO and the Structural Balance Adjustment Requirements

The CAM-based structural balance is expected to narrow to a deficit of 1.1 per cent of GDP in 2017, an improvement of 0.6 of a percentage point (as shown in the two panels of Figure 4.2). This would show full compliance with the adjustment path condition for the structural balance. The majority of this improvement is due to an increase of 0.5 of a percentage point of GDP in the general

[95] Correspondence with the Commission indicates that non-indexation of income-tax bands would be taken into account in the event of an overall assessment.