

Appendix F: Summary of the Council’s Principles-Based Approach to the Budgetary Rule

Appendix Table F.1: Outline of the Council’s principles-based approach to the Budgetary Rule

Criteria	IFAC (New Approach)	IFAC (Old Approach)	European Commission Approach
Potential Output and the Output Gap	The Department's GDP-based estimates of potential output and the output gap.	The Department's CAM-based estimates of potential output and the output gap were used in all previous <i>Fiscal Assessment Reports</i> . For the <i>ex-post</i> Assessment, the European Commission's own CAM-based estimates were used.	The European Commission's own CAM-based estimates of potential output and the output gap.
Reference Rate for Expenditure Benchmark	Based on the Department's latest estimates of GDP-based potential output growth (i.e. not frozen).	Reference rate frozen by the Commission in spring of year $t-1$, for assessment of year t . The same reference rate is used for the <i>ex-post</i> assessment. For later years (e.g. years $t+2$ onwards) IFAC uses the Department's CAM-based estimates of potential output.	Based on the European Commission's CAM-based estimates of potential output, frozen in spring of year $t-1$. No reference rate is set for $t+2$ or later years.
Deflator for Expenditure Benchmark	Based on the Department's latest estimates of the demand-side GDP deflator (i.e. not frozen).	Based on the European Commission's estimates of the GDP deflator, frozen in spring of year $t-1$.	Based on the European Commission's estimates of the GDP deflator, frozen in spring of year $t-1$.
Adjustment Requirement and Convergence Margin	Based on the latest estimates of distance from the MTO in year $t-1$ (i.e. not frozen). No negative convergence margin applied.	Compliance assessed based on the most favourable of the adjustment requirements and convergence margins in the spring or autumn of year $t-1$, or spring of $t+1$ for the <i>ex-post</i> assessment (all based on the Commission's estimates of the output gap). No negative convergence margin applied.	Based on the European Commission's estimates of distance from the MTO that are frozen in either spring or autumn of year $t-1$ (whichever is more favourable). For <i>ex-post</i> assessment, requirements can be unfrozen in spring of year $t+1$ if these are more favourable in terms of compliance. Negative convergence margin allowed.
NAWRU	Assumed constant at 5.5%.	The Department's latest CAM-based estimates of the NAWRU.	The Commission's latest CAM-based estimates of the NAWRU.
Margin of Tolerance	No margin of tolerance.	No margin of tolerance.	0.25% of GDP from the MTO.
Budgetary Semi-Elasticity	0.588	0.522	0.522

Note: For a full explanation of the Council’s Principles-based Approach (PBA) to the Domestic Budgetary Rule see Box A of *Ex-post assessment of compliance with the domestic budgetary rule 2018* (IFAC, 2019a).