Appendix G: Assessment of the Budgetary Rule under the EU Methodology[89]

This appendix examines the consistency of the forecasts in *Budget 2020* with the preventive arm of the SGP. In particular, it examines compliance in relation to the Medium-term Budgetary Objective (MTO) and the Expenditure Benchmark.

The assessment in this appendix is based on the Council's interpretation of the *Vade Mecum* using the Department's CAM-based estimates of potential output and the output gap and considering the same one-off items as outlined in Chapter 4. As the assessment in this appendix is based on, among others, different estimates of potential output and the output gap, the assessment in this appendix may at times give contradictory signals about compliance with the Budgetary Rule when compared to the assessment in Chapter 4. It is the assessment that is presented in Chapter 4—not the assessment in this appendix—that represents the Council's view on compliance with the Budgetary Rule. Table G.1 provides a summary of the assessment of the compliance with the fiscal rules.[90]

[89] See Appendix F for a comparison of the EU methodology with the Council's principles-based approach.

[90] This assessment is in line with Column 3 (Fiscal Council Old Approach) of Appendix F, Table F.1.

Appendix Table G.1: Assessment of fiscal rules under the EU methodology[1, 2, 3, 4]

Per Cent of GDP, unless stated. For deviations, negative values = non-compliance

	2018	2019	2020	2021	2022	2023	2024
Corrective Arm							
General Government Balance Excl. One-Offs	0.0	0.2	-0.4	-0.2	0.1	0.4	0.7
General Government Debt	63.6	59.3	56.5	56.4	54.4	53.8	53.0
1/20th Debt Rule Limit	71.4	67.4	60.0	60.0	60.0	60.0	60.0
Debt Rule met? (Y/N)	Y	Y	Y	Y	Y	Y	Y
Preventive Arm & EU Budgetary Rule							
Structural Balance Adjustment Requirement							
MTO for the Structural Balance	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
CAM Structural Balance	-1.2	-1.3	-0.6	-0.3	0.0	0.3	0.7
MTO met? (Y/N)	N	N	N	Y	Y	Y	Y
Minimum Change in Structural Balance Required	**0.4**	**–**	**0.3**	**0.1**	**0.0**	**0.0**	**0.0**
Change in CAM Structural Balance	-0.2	-0.1	0.7	0.3	0.3	0.4	0.4
1yr Deviation (€bn)	-1.8	-0.3	1.3	0.6	1.1	1.5	1.7
1yr Deviation (p.p.)	-0.6	-0.1	0.4	0.2	0.3	0.4	0.4
2yr Deviation (€bn)	–	-1.1	0.5	1.0	0.9	1.3	1.6
2yr Deviation (p.p.)	–	-0.3	0.1	0.3	0.2	0.3	0.4
Expenditure Benchmark							
(a) Reference Rate of Potential Growth (% y/y)	3.4	4.5	4.7	4.3	4.2	3.9	3.3
(b) Convergence Margin	1.7	0.0	1.2	0.4	0.0	0.0	0.0
(a-b) Limit for Real Net Expenditure Growth (% y/y)	1.8	4.5	3.5	4.0	4.2	3.9	3.3
GDP Deflator used (% y/y)	1.3	1.3	1.9	1.4	1.4	1.4	1.4
Limit for Nominal Net Expenditure Growth (% y/y)	**3.1**	**5.9**	**5.4**	**5.5**	**5.6**	**5.3**	**4.7**
Net Expenditure Growth (% y/y)	5.3	3.0	5.2	3.7	3.9	3.1	3.4
Net Expenditure Growth (Corrected for one-offs) (% y/y)	5.2	3.2	4.4	4.5	3.9	3.1	3.4
1yr Deviation (Corrected for one-offs) (€bn)	-1.5	2.0	0.8	0.8	1.5	2.0	1.2
1yr Deviation (Corrected for one-offs) (% GDP)	-0.5	0.6	0.2	0.2	0.4	0.5	0.3
2yr Deviation (Corrected for one-offs) (€bn)	-0.6	0.2	1.4	0.8	1.2	1.8	1.6
2yr Deviation (Corrected for one-offs) (% GDP)	-0.2	0.1	0.4	0.2	0.3	0.5	0.4
Limit for Nominal Net Expenditure Growth (€bn)	**2.2**	**4.5**	**4.3**	**4.6**	**4.9**	**4.8**	**4.4**
Net Expenditure Increase (€bn)	3.8	2.2	4.1	3.1	3.4	2.8	3.2
Net Expenditure Increase (Corrected for one-offs) (€bn)	3.7	2.5	3.4	3.7	3.4	2.8	3.2
Current Macroeconomic Aggregates							
Real GDP Growth (% y/y)	8.2	5.5	0.7	2.5	2.8	2.7	2.6
CAM Potential GDP Growth (% y/y)	7.3	4.9	3.2	2.6	2.3	2.4	2.5
CAM Output Gap	2.3	2.8	0.4	0.2	0.2	0.1	0.0
GDP Deflator Used (% y/y)	1.3	1.3	1.9	1.4	1.4	1.4	1.4

Sources: CSO; Department of Finance; and internal Fiscal Council calculations.

Note: [1] All figures presented on a General Government basis. Assessments examine *Budget 2020* revenue and expenditure plans using the Department of Finance's latest CAM estimates of potential output and considering the Council's views on one-off/temporary measures. A one-off windfall of €0.3bn in corporation tax revenue for 2018 is included in the Council's assessment of the structural balance as well as a new expenditure one-off of €0.2 billion, in 2018, due to a settlement in relation to pay arrears for medical consultants. For 2020, Brexit sectoral supports of €0.65 billion are considered temporary measures by the Council and are therefore excluded from the assessment. The treatment here differs to that applied in the appendix of "Assessment of Compliance with the Domestic Budgetary Rule in 2019" (Fiscal Council, 2019a), which used the Commission's Spring 2019 output gap estimates for the structural balance as these are the legal basis of ex-post assessments of compliance. The outlier for "CAM Potential GDP Growth" for 2015 is replaced by the average of the 2014 and 2016 rates in the expenditure benchmark, as discussed in the June 2017 FAR (Fiscal Council, 2017c).[2] The adjustment requirement for 2018 was reset to 0.4 per cent of GDP, based on the Commission's Spring 2019 estimates of the output gap. The Council assesses compliance with the Expenditure Benchmark without the use of a negative convergence margin. The adjustment requirement for 2019 is frozen by the European Commission at zero meaning the Commission will apply a negative convergence margin for 2019.The Expenditure Benchmark limits here therefore differ to those in the European Commission's opinion on Ireland's Draft Budgetary Plans. The adjustment requirement and convergence margin for 2020 were set on the basis of the Commission's Autumn 2019 forecasts. [3] The 1/20th Debt Rule requires that the debt-to-GDP ratio make annual progress towards the reference value of 60 per cent of GDP. A transition period applies until end-2018. [4] Figures in red indicate a significant deviation from the limit. Figures in amber indicate some deviation.

G.1 In-year Assessment for 2019

MTO and Structural Balance Adjustment Requirements

Based on the Department's CAM-based output gap, the MTO of a structural balance of -0.5 per cent of GDP will not be achieved in 2019. The structural balance is currently forecast to be -1.3 per cent of GDP in 2019 (Appendix Table G.1). This is a 0.2 percentage point decrease in the structural balance forecast in *SPU 2019*. This is as a result of an upward revision in the CAM output gap for 2019, as the forecast for the general government balance is largely unchanged since *SPU 2019*.

The adjustment requirement for 2019 was set in autumn 2018 based on the European Commission's Autumn 2018 forecasts, which – at the time – forecast that the MTO would be achieved for 2018.[91] This means that there will be no adjustment requirement for 2019, despite the MTO no longer being shown to be achieved for 2018.

Expenditure Benchmark

The limit set under the Expenditure Benchmark for 2019 was a growth rate for net expenditure of no more than 5.9 per cent.[92] Based on *Budget 2020* forecasts, net expenditure is currently forecast to grow by 3.4 per cent, below the limit set by the Expenditure Benchmark. The Expenditure Benchmark was breached in 2018, which resulted in a larger base for 2019. This larger base results in a lower growth rate for 2019 than would otherwise be the case.

As the MTO is forecast not to be achieved for 2019, the Expenditure Benchmark will be assessed by the Commission as part of an overall assessment of compliance with the fiscal rules.

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[91]Adjustment requirements for year *t* are set in spring of year *t-1*. These requirements can only be reset in autumn of year *t-1* or spring of year *t+1*, provided that these vintages imply a more favourable adjustment requirement in terms of compliance. The Commission's Autumn 2018 forecasts showed a structural balance of -0.2 per cent of GDP for 2018. As this vintage showed the structural balance was at the MTO for 2018, there is no adjustment requirement for 2018.

[92] The European Commission have set the Expenditure Benchmark limit for 2019 at 7 per cent. The difference between the Council's limit and the European Commission's limit was as a result of the European Commission applying a negative convergence margin for 2019, as the MTO was forecast to be overachieved in 2018 at the time the Expenditure Benchmark limit was set. The Council does not deem it prudent budgetary management to apply a negative convergence margin and as such, assesses the Expenditure Benchmark limit without it.

G.2 Ex-Ante Assessment of 2020

MTO and Structural Balance Requirements

Based on the Department's CAM-based estimates of the structural balance, the MTO of a structural balance of no less than -0.5 per cent of GDP, will not be achieved for 2020. The structural balance is currently forecast to be -0.6 per cent of GDP.

As the MTO is forecast not to be met in 2019, there will be an adjustment requirement for 2020. The adjustment requirement for 2020 is 0.3 per cent and was set based on the European Commission's Spring 2019 forecasts. Based on current Department of Finance forecasts, this adjustment requirement will be met. However, fiscal risks such as health overruns and the payment of the Christmas bonus may jeopardise compliance further (see chapter 3).

Expenditure Benchmark

As there is an adjustment requirement for 2020, a convergence margin also applies. The convergence margin reduces the Expenditure Benchmark limit by 1.2 percentage points, to 5.4 per cent. Net expenditure is currently forecast to grow by 4.4 per cent, below the Expenditure Benchmark limit.

G.3 Ex-Ante Assessment of 2021–2024

MTO and Structural Balance Requirements

The MTO is set for 2021–2022 as a structural balance of no less than -0.5 per cent of GDP. Assuming that the MTO will be kept constant for 2023 and 2024, the MTO is currently forecast to be achieved for 2021–2024. However, structural balance estimates for 2022–2024 are based on CAM-based output gap estimates that involve mechanical closure of the output gap over this horizon, and are not realistic.

Expenditure Benchmark

For 2021–2024, net expenditure is forecast to grow below the Expenditure Benchmark limit, but these forecasts for expenditure are largely based on technical assumptions that may be unrealistic.