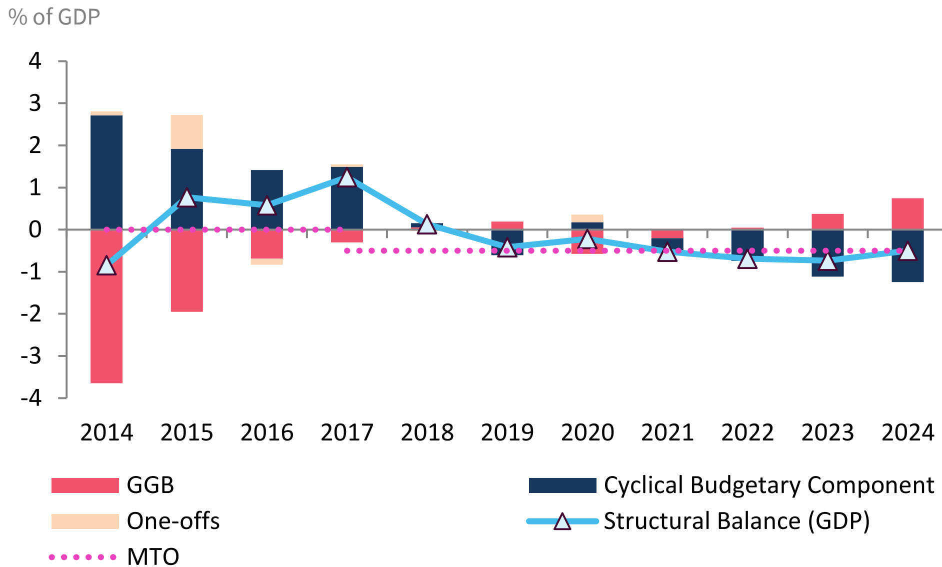
Figure 4.3: Structural balance decomposition

% of GDP



Sources: CSO; Department of Finance; and internal Fiscal Council calculations.
Note: GGB is the General Government Balance. The cyclical Budgetary Component is estimated as: -0.588 × output gap, where the output gap is the Department of Finance's GDP-based output gap.

Box M: Using GNI* to assess compliance with the Expenditure Benchmark

The Council has recently begun assessing Ireland's Domestic Budgetary Rule using its principles-based approach.[77] This new approach makes the assessment simpler and more appropriate for Ireland, including by measuring potential output using the Department of Finance's alternative method rather than the EU's Commonly Agreed Methodology (CAM). This Box outlines a further innovation to the Council's principles-based approach, and that is to assess the severity of deviations from the Expenditure Benchmark using Modified Gross National Income (GNI*) instead of using GDP.[78]

Under the EU fiscal rules, what constitutes a significant deviation from the Expenditure Benchmark is assessed on the basis of GDP. The Vade Mecum on the Stability & Growth Pact states that a "*significant deviation on each indicator* [Structural Balance and Expenditure Benchmark] *will look at whether the difference between the two is forecast/planned to be equal to or more than 0.5% of GDP for the year under consideration, or will result in an average deviation of 0.25% of GDP over two years.*"[79]

While GDP is an appropriate estimate of the size of the domestic economy in most EU countries, due to well-documented issues relating to the multinational sector, GDP is not an appropriate measure of the size of Ireland's domestic economy.[80] Figure M.1 shows the ratio of

[77] See Appendix F for a summary of the Council's "principles-based approach". For a more detailed outline of the Council's "principles-based approach" to the Domestic Budgetary Rule, and the Council's reasoning for taking this approach, see Box A of Ex-Post Assessment of Compliance with the Domestic Budgetary Rule 2018 (Fiscal Council, 2019a).

[78] GNI* is an indicator produced by the CSO designed to "exclude globalisation effects that are disproportionally impacting the measurement of the size of the Irish economy". It excludes from gross national income, factor income from redomiciled companies, depreciation on aircraft leasing and depreciation on R&D service imports and trade in IP. More information available here: https://www.cso.ie/en/releasesandpublications/ep/p-nie/nie2017/mgni/.

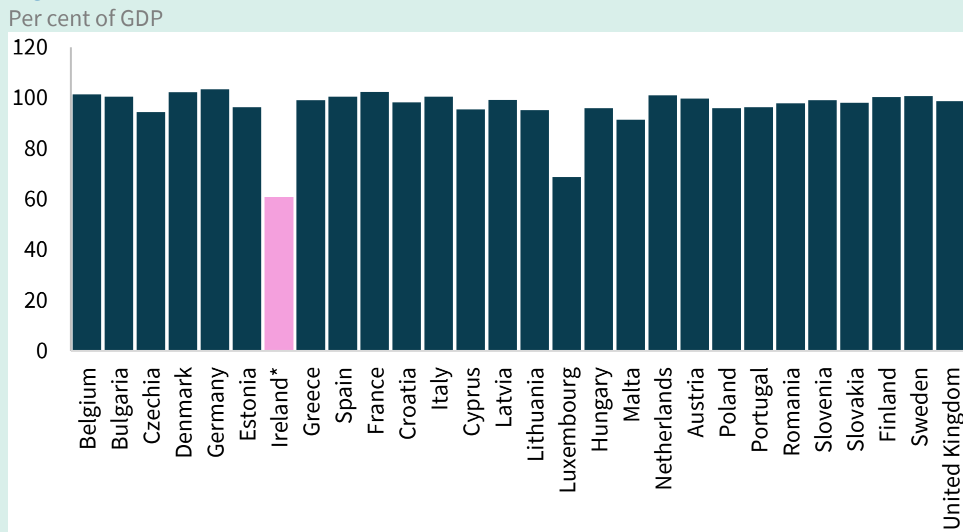
[79] https://ec.europa.eu/info/publications/vade-mecum-stability-and-growth-pact-2019-edition_en

[80] See, for instance, Box D of the June 2017 Fiscal Assessment Report (Fiscal Council, 2017c).

GNI (GNI* for Ireland) to GDP for EU countries in 2018. For most EU countries, the ratio is close to 100 per cent of GDP, whereas for Ireland, the ratio of GNI* to GDP was 61 per cent in 2018.

Figure M.1: Ratio of GNI (GNI* for Ireland) to GDP in 2018 for EU countries

Per cent of GDP

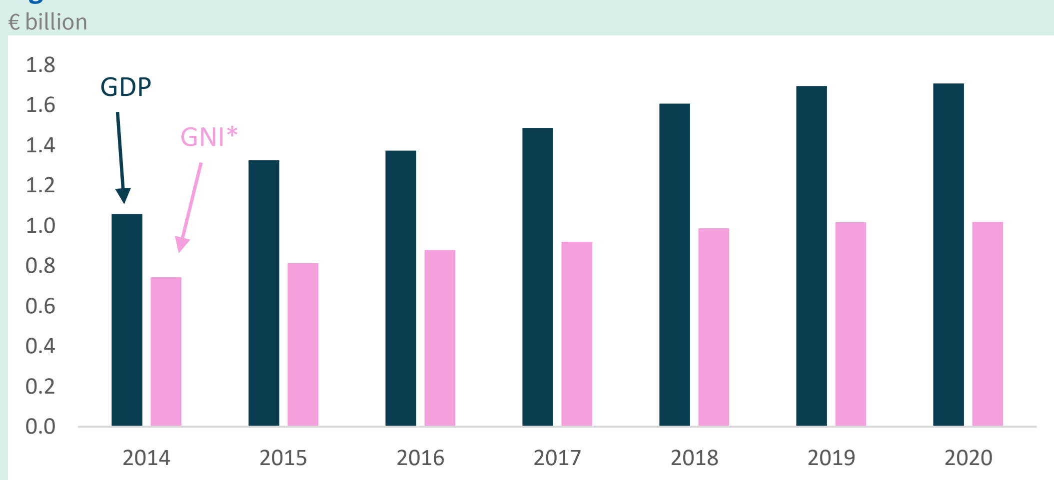


Sources: Eurostat for GDP; AMECO for GNI; CSO for GNI*; and internal Fiscal Council calculations.

As the disparity between national income and GDP for Ireland is so large, assessing what is a significant deviation from the Expenditure Benchmark on the basis of GDP would not be appropriate for Ireland. A more appropriate figure from which to assess a deviation from the Expenditure Benchmark is GNI*. Figure M.2 shows the amount of spending—measured as 0.5 per cent of GDP or GNI* for each year—in excess of the Expenditure Benchmark that would have to occur in order to be considered a significant deviation. The disparity between the amounts beyond which a significant deviation occurs has increased in recent years – particularly since the level shift in GDP in 2015. For 2020, if assessed against GDP, spending of €1.7 billion over the Expenditure Benchmark would have to occur before a deviation would be considered significant, whereas, if assessed against GNI*, the corresponding figure would be €1 billion.

Figure M.2: Spending in excess of the Expenditure Benchmark that would result in a significant deviation

€ billion



Sources: CSO; and internal Fiscal Council calculations.
As GNI* is a more appropriate indicator to measure Ireland's underlying macroeconomy and its fiscal capacity, the Council has decided to assess deviations from the Expenditure Benchmark on the basis of GNI* instead of GDP.