In addition, the adjustment path where the structural balance does not meet the MTO and FRB Budgetary Rule requires:

> ...steps to achieve it over the cycle... [and]... adjustment effort should be higher in good times; it could be more limited in bad times. .... [countries] should pursue an annual adjustment in cyclically adjusted terms, net of one-off and other temporary measures, of 0.5 of a percentage point of GDP as a benchmark (European Commission, 2012c p. 5).[54]

If the EC or the Government believes that there is failure to abide by the Budgetary Rule, the FRB provides for a Correction Mechanism, which the Council would be required to assess. The rules are explained in more detail in Box D.

Box D: Fiscal Rules set out in the Fiscal Responsibility Bill

The FRB states that the Government would "endeavour to secure" compliance with two fiscal rules: the Budgetary Rule and the Debt Rule.

The Budgetary Rule sets out that for each year:

- The "budget condition" is met. This is satisfied if the General Government budget is in balance or surplus or, if not, failure to be so is "...only as a result of exceptional circumstances and the failure to meet it does not endanger fiscal sustainability in the medium-term". This is deemed to be respected if the Medium-Term Budgetary Objective (MTO), specified in terms of the structural balance, is met. It is currently set at a structural deficit of up to 0.5 per cent of GDP, which is the lower limit allowed by the SGP (except where the public finances are in very good health).

- The "adjustment path" condition is met. This is satisfied if the annual structural balance of the General Government is converging towards the MTO in line with the timeframe set in accordance with the 1997 EU Regulation on Surveillance and

[54] Part 2 3._(4)(b) of the FRB allows this requirement not to be met in "exceptional circumstances" and if the "failure to meet it does not endanger fiscal sustainability in the medium-term".

Coordination.[55] If this convergence is not achieved, the adjustment path condition is still met if this failure is "...only as a result of exceptional circumstances and the failure to meet it does not endanger fiscal sustainability in the medium-term".

The annual structural balance of the General Government is defined as the balance cyclically adjusted, i.e., adjusted to take account of effects estimated to be due to the operation of the economic cycle, and net of one-off and temporary measures, expressed as a percentage of GDP at market prices.

Related to the Budgetary Rule is a **Correction Mechanism**, which is a requirement of the Fiscal Compact and the accompanying Common Principles (European Commission, 2012a). If the EC addresses a warning to Ireland about a significant observed deviation from the adjustment path towards the MTO or if the Government considers that there is a significant deviation from the Budgetary Rule:

- the Government shall, within two months, prepare and lay before Dáil Éireann a plan specifying: (1) the period over which compliance with the Budgetary Rule is to be achieved (if that period is longer than a year, it will specify annual targets to be met in moving towards compliance), (2) the size and nature of the revenue and expenditure measures that are to be taken to secure compliance, and (3) how any revenue and expenditure measures relate to different subsectors of the General Government.

- The plan shall be consistent with the rules of the SGP and recommendations made in the context of the SPU.

- If the Government considers that exceptional circumstances have arisen during the period specified in the plan, these requirements would no longer be binding but would come back into operation when the Government considers that the exceptional circumstances have ceased to exist.

[55] Council Regulation (EC) No 1466/97. Available from: http://eur-lex.europa.eu/LexUriServ/site/en/consleg/1997/R/01997R1466-20050727-en.pdf

If the Government considers that a failure to comply with the Budgetary Rule is likely to occur, the Government may, within two months, prepare and lay a statement before Dáil Éireann outlining the steps the Government intends to take to avoid such a failure.

Under the proposed mandate, the Fiscal Council would assess: (a) whether exceptional circumstances exist or have ceased to exist; (b) whether there is a failure to comply with the Budgetary Rule that constitutes a significant deviation according to SGP rules; and (c) whether progress towards securing compliance with the Budgetary Rule is being made in accordance with the Government's plan under the correction mechanism.

The FRB contains a "comply or explain" provision:

> If the Government do not accept an assessment of the Fiscal Council in relation to any of the[se] matters ..., the Minister shall, within two months of being given a copy of the assessment ...., prepare and lay before Dáil Éireann a statement of the Government's reasons for not accepting it.

The **Debt Rule** states that, when the General Government debt-to-GDP ratio exceeds 60 per cent, the ratio should be reduced in accordance with the 1997 Excessive Deficit Regulation.[56] This amounts to around 1/20th of the percentage point gap per year, relative to a formula for the benchmark that is applied on a forward and backward looking basis. The EU requirement does not bind for the first three years after the current Excessive Deficit Procedure is closed.

5.3 Future Implications of the Fiscal Rules

Over the horizon covered by *SPU 2012* until 2015, the FRB and EU rules would be complied with in the sense that it is currently agreed that Ireland will be under an Excessive Deficit Procedure until 2015, by which time the General Government deficit would be below the 3 per cent of GDP ceiling under the SGP. The EU and FRB debt rules would not apply for a further three years, well beyond the *SPU* horizon.

[56] See Council Regulation (EC) No 1467/97. Available from: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997R1467:EN:NOT