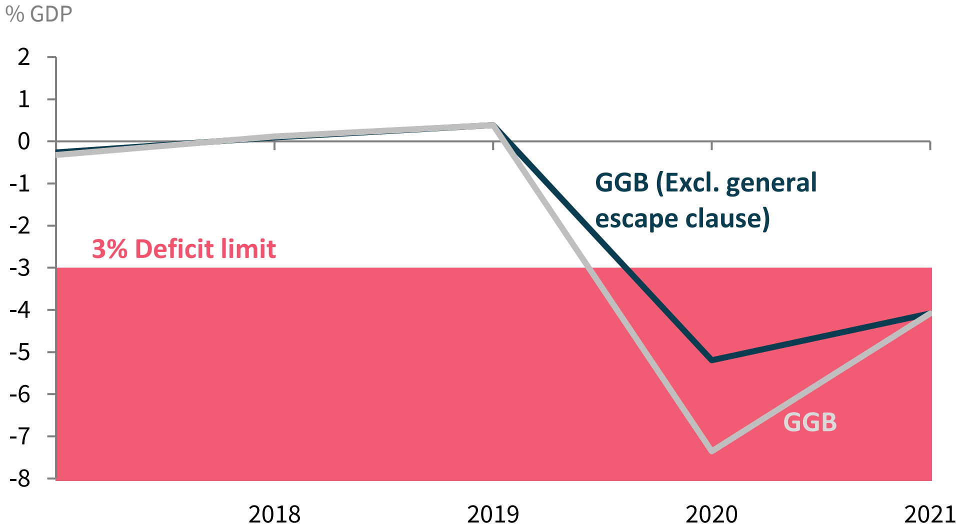
government balance gives a deficit of 5.2 per cent of GDP. The European Commission currently has a much more benign forecast for the general government balance, with the deficit forecast to be 5.6 per cent of GDP. Were the €6.5 billion excluded, the general government deficit would be 3.4 per cent under the Commission's forecast. The debt-to-GDP ratio for 2020 is forecast to be 69.1 per cent of GDP, which is above the 60 per cent of GDP limit in the SGP (Figure 4.1).[60]

Figure 4.2: The general government balance is forecast to exceed the 3 per cent deficit limit



Sources: CSO; Department of Finance; and Fiscal Council workings.
Note: The headline general government balance is shown in grey. Approximately €6.5 billion is included under the general escape clause for 2020 and this is incorporated into the General Government balance excluding general escape clause series shown in navy.

Box K: Exceptional Circumstances and the General Escape Clause

Ireland is subject to domestic fiscal rules, as set out in the Fiscal Responsibility Act 2012 (FRA), and the EU fiscal rules. Both sets of rules envision scenarios in which the Government needs to use fiscal resources to respond to circumstances beyond its control or alternatively, respond to a severe economic downturn.

Exceptional Circumstances under Ireland's Domestic Budgetary Rule

Ireland's Domestic Budgetary Rule allows for deviation from the budgetary rule if exceptional circumstances exist. As specified in the FRA, the Council's mandate includes assessing whether exceptional circumstances exist or have ceased to exist. Exceptional circumstances are defined in the FRA as:

[60] Once below the 60 per cent debt-to-GDP limit, breaching this limit also automatically triggers an Article 126(3) report from the European Commission, unless the debt ratio falls below the 60 per cent limit over the Commission's forecast horizon. Unlike the deficit limit, a breach of the Debt Rule can only be confirmed on the basis of outturn data and not on forecasts. As such, an Article 126(3) report is not required to be issued on the debt criterion at this time.

"(a) a period during which an unusual event outside the control of the State has a major impact on the financial position of the general government, or

(b) a period of severe economic downturn,

within the meaning of the Stability and Growth Pact".

Under the SGP, a severe economic downturn is defined as a negative real GDP growth or a period of low real GDP growth relative to potential.[61] While only one criterion is necessary for exceptional circumstances to exist, clearly the Covid-19 pandemic and its impact on both the public finances and the economy mean that both criteria are satisfied in 2020. As a result, **the Council deems that exceptional circumstances exist for 2020.**

Based on current forecasts, criterion (b), outlined above, would not be satisfied for 2021. However, depending on the future path of the Covid-19 pandemic, it may transpire that criterion (a) will be met in 2021 (or, for a potentially longer period in a worst-case scenario).[62] In this case, exceptional circumstances will continue to exist in 2021 and deviations from the budgetary requirements for 2021 will be allowed.

The General Escape Clause in the EU Fiscal Rules

On 13th March, the European Commission activated the general escape clause in the SGP. This clause allows for temporary deviation from the budgetary requirements for all Member States in a situation of generalised crisis caused by a severe economic downturn in either the euro area or the EU. The application of the general escape clause does not suspend the procedures of the SGP, but instead allows for temporary deviation from its requirements for as long as the general escape clause is active.

The European Commission has said the general escape clause will remain in place for as long as necessary for Member States to contain the Covid-19 outbreak and mitigate its negative socio-economic effects.[63] This leaves open the option to extend the application of the general escape clause beyond 2020.

Exiting the General Escape Clause and the Cessation of Exceptional Circumstances

Once the general escape clause no longer applies and exceptional circumstances cease to exist, under the EU fiscal rules, Ireland must adopt a corrective plan.[64] This plan will have a minimum pace of structural adjustment (usually 0.5 per cent of GDP) and will be binding over the budgets covered by the correction period.

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[61] This definition is potentially problematic for Ireland. 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 and is currently an inflated estimate of the productive capacity of the domestic economy. This feature of Ireland's GDP figures may at times flatter Ireland's compliance with the fiscal rules as ratios are often specified as a per cent of GDP (i.e. deficit-to-GDP and debt-to-GDP; the inflated GDP figures lead to a larger denominator and therefore a smaller ratio than might otherwise be the case). However, it also causes Ireland's GDP growth rates to be distorted. This may lead to a disparity between GDP growth and the underlying growth of the domestic economy. A scenario may arise in which the underlying growth of the domestic economy is negative, but GDP growth is positive, in which case, while the underlying growth rate of the domestic economy may warrant the classification as a period of severe economic downturn. However, this would not be classified as such under the SGP, solely on the basis of the distortion in Ireland's GDP figures. In this instance exceptional circumstances cannot be deemed to exist under the definition used ins criterion (b).

[62] Criterion (b) may also be met in 2021 in a more severe scenario.

[63] For further details, see: https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_500.

[64] For further details, see *Common Principles on National Fiscal Correction Mechanisms* https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52012DC0342.