

Appendix D: The Council’s Principles-Based Approach to the Budgetary Rule

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

Criteria	Fiscal Council Approach	European Commission Approach
Potential Output and the Output Gap	The Department's GDP-based estimates of potential output and the output gap.	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).	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 $t-1$.
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.	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 ex-post 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 Commission's latest CAM-based estimates of the NAWRU.
Margin of Tolerance	No margin of tolerance.	0.25% of GDP from the MTO.
Significant Deviation from the Expenditure Benchmark	0.5% and 0.25% of GNI* for 1-year and 2-year assessment respectively.	0.5% and 0.25% of GDP for 1-year and 2-year assessment respectively.
Budgetary Semi-Elasticity	0.588	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 (Fiscal Council, 2019a) and Box M of the November 2019 Fiscal Assessment Report.