S13. Detailed fiscal rules assessment

This section provides a more detailed assessment of the Fiscal rules. Table S13.1 shows a summary assessment of compliance with the fiscal rules, using forecasts included in *SPU 2021*, along with the Council's assessment of one-off and discretionary revenue measures (see Table S13.2 for the Council's estimates of one-offs).

This assessment is based on the Council's principles-based approach to assessing the domestic Budgetary rule (see Table S13.3 for a summary of this approach).

For 2020 and 2021, due to the ongoing Covid-19 pandemic, the Council assesses that exceptional circumstances exist.[74] "Exceptional circumstances" is a provision included in the *Fiscal Responsibility Act*, 2012, that allows for a temporary deviation from the requirements set out under Ireland's Domestic Budgetary Rule.

Separately, the European Commission have activated the general escape clause which allows for deviations from the requirements under the EU fiscal rules. The general escape clause will likely remain in place into 2022.[75]

[74] The Council has not yet made a determination as to whether exceptional circumstances will continue to exist into 2022.

[75] The European Commission has outlined that the key criteria for deciding whether the general escape clause will no longer be in place is whether EU wide GDP is above end 2019 levels. Based on the latest Commission forecasts GDP is expected to be above end 2019 levels by the middle of 2022. As such, the Commission has indicated that the general escape clause will likely be in place into 2022. See here for further details: https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_885.

Table S13.1 Summary Fiscal rules assessment[1, 2, 3, 5]

% of GDP unless otherwise stated. For deviations, negative values = non-compliance

	2020	2021	2022	2023	2024	2025
Corrective Arm						
General government balance (% GNI*)[5]	-8.9	-8.7	-5.2	-2.2	-1.3	-0.3
General government balance	-5.0	-4.7	-2.8	-1.2	-0.7	-0.2
General government balance Limit	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
General government debt (% GNI*)[5]	105.6	114.9	110.2	106.9	104.4	100.1
General government debt	59.5	62.2	60.2	59.0	57.7	55.4
1/20th Debt Rule Limit	60	60	60.7	60.7	60.0	60.0
Debt Rule met?	Y	not met	Y	Y	Y	Y
Preventive Arm & Domestic Budgetary Rule						
Structural balance adjustment requirement						
MTO for the structural balance	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Structural balance	-0.7	-1.1	-1.9	-1.2	-0.9	-0.4
MTO met?	N	N	N	N	N	Y
Minimum change in structural balance required	**0.0**	**0.0**	**0.6**	**0.5**	**0.5**	**0.4**
Change in structural balance	-1.2	-0.4	-0.7	0.7	0.2	0.5
1yr deviation (€ bn)	-0.9	-2.5	-5.6	1.0	-1.2	0.3
1yr deviation (p.p.)	-0.2	-0.6	-1.3	0.2	-0.3	0.1
2yr deviation (€ bn)	0.2	-1.7	-4.0	-2.3	-0.1	-0.4
2yr deviation (p.p.)	0.1	-0.4	-1.0	-0.6	0.0	-0.1
Expenditure Benchmark						
(a) Reference rate of potential growth (% y/y)	4.7	4.5	4.5	4.6	3.8	3.5
(b) Convergence margin	0.0	0.0	2.4	2.1	2.2	1.9
(a-b) Limit for real net expenditure growth (% y/y)	4.7	4.5	2.0	2.5	1.6	1.6
GDP deflator used	-0.5	0.4	1.8	1.5	1.6	1.6
Limit for nominal net expenditure growth (% y/y)	**4.2**	**4.9**	**3.8**	**4.0**	**3.3**	**3.2**
Net expenditure growth (% y/y)	10.1	6.7	1.9	0.0	2.7	3.2
Net expenditure growth (corrected for one-offs) (% y/y)	-2.2	9.1	9.1	2.6	2.7	3.2
1yr deviation (corrected for one-offs) (€ bn)	-	-3.3	-4.6	1.3	0.6	0.1
1yr deviation (corrected for one-offs) (% GNI*)	-	-1.6	-2.1	0.6	0.2	0.0
2yr deviation (corrected for one-offs) (€ bn)	-	-	-4.0	-1.7	1.0	0.3
2yr deviation (corrected for one-offs) (% GNI*)	-	-	-1.8	-0.8	0.4	0.1
Limit for nominal net expenditure growth (€bn)	**3.4**	**4.0**	**3.3**	**3.8**	**3.2**	**3.2**
Net expenditure increase (€bn)	8.1	6.0	1.8	0.0	2.6	3.2
Net expenditure increase (corrected for one-offs) (€bn)	-1.8	7.3	8.0	2.5	2.6	3.2
Current Macroeconomic Aggregates						
Real GDP growth (% y/y)	3.4	4.5	5.0	3.5	3.2	3.1
Potential GDP growth (% y/y)	5.1	4.1	3.4	2.9	2.7	3.0
GDP output gap	-2.4	-2.1	-0.6	-0.1	0.4	0.5
GDP deflator used (% y/y)	-0.5	0.4	1.8	1.5	1.6	1.6

Sources: CSO; Department of Finance; and Fiscal Council workings.

Notes: [1] All figures are presented on a general government basis. Assessments examine the *SPU 2021* revenue and expenditure plans, using the Council's principles-based approach to the Domestic Budgetary Rule and considering the Council's views on one-off/temporary measures (see Table S13.2 for these). Potential output and output gap estimates are taken from *SPU 2021*. For more information on the Council's principles-based approach see Table S13.3 of this report and Box A of the Fiscal Council's Ex-post Assessment of Compliance with the Domestic Budgetary Rule 2018 (Fiscal Council, 2019a). The MTO is not currently set for 2023-2025, but is assumed constant at -0.5 per cent of GDP.

[2] The 1/20th Debt Rule requires that the debt-to-GDP ratio should make annual progress toward the reference value of 60 per cent of GDP. Once the debt-to-GDP ratio falls below 60 per cent, the requirement is to maintain a ratio below 60 per cent.

[3] Figures in red indicate a significant deviation from the limit. Figures in amber indicate some deviation from the limit.

[4] Exceptional circumstances exist for 2020–2021. Therefore, deviations from the requirements for these years are allowed.

[5] The general government balance and general government debt are shown here as a per cent of GNI* for reference purposes only. Legal compliance with the corrective arm of the SGP is assessed based on GDP ratios.

Table S13.2: One-offs

€ millions

	2019	2020	2021	2022	2023	2024	2025
Revenue	0	-650	-250	0	0	0	0
Expenditure	0	9,916	8,660	2,500	0	0	0
Net one-offs	0	10,566	8,910	2,500	0	0	0

Sources: CSO; Department of Finance; and Fiscal Council workings.

Note: The revenue one-off figure for 2021 differs to the Department's figures shown in Table 11 of SPU 2021. The Council do not consider the reduction in the rate of VAT for the hospitality sector a one-off, but instead treat it as a discretionary revenue raising measure.

For 2020, Ireland's deficit-to-GDP ratio was 5 per cent, above the 3 per cent reference value in the *Stability and Growth Pact*.[76] The medium-term budgetary objective (MTO) of a structural balance of no less than -0.5 per cent of GDP was not met. Ireland's structural balance was -0.7 per cent of GDP in 2020, which represents a deterioration by 1.2 percentage points since 2019. As a result, the Council assessed that the domestic budgetary rule was not complied with for 2020. However, the Council has assessed that the non-compliance with the budgetary rule was only due to exceptional circumstances caused by the Covid-19 pandemic. The Council assesses that the failure to comply with the budgetary rule in 2020, does not endanger medium-term fiscal sustainability.

In 2020, the debt-to-GDP ratio was 59.5 per cent, an increase of 2.2 percentage points since 2019. However, this is still below the 60 per cent of GDP reference value in the SGP.

For 2021, it is expected that the budgetary rule will not be complied with. However, this is as a result of the Covid-19 pandemic and as such, the Council assesses that this non-compliance is due to exceptional circumstances. The deficit-to-GDP ratio is forecast to be 4.7 per cent of GDP in 2021, above the 3 per cent reference value in the SGP. Were one-offs excluded, Ireland's deficit-to-GDP ratio would be 2.4 per cent. The structural balance is forecast to be 1.1 per cent of GDP in 2021, a deterioration of 0.4 percentage points.

Net expenditure (corrected for one-offs) is forecast to grow by 9.1 per cent in 2021, above the Expenditure Benchmark limit of 4.9 per cent. This

[76] As the deficit-to-GDP ratio was forecast to exceed the 3 per cent reference value in the SGP, last may the European Commission prepared an Article 126(3) report. The report found Ireland to be non-compliant with the deficit criterion of the SGP. This would typically result in an *Excessive Deficit procedure (EDP)* being opened for Ireland. However, as yet the European Commission have not opened an EDP. For the Article 126(3) report for Ireland see: https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/126-03_commission/com-2020-541-ie_en.pdf.

represents a significant deviation from what is allowed under the Expenditure Benchmark, with net expenditure growing by €3.3 billion more than the limit.

In 2021, the debt-to-GDP ratio is forecast to breach the 60 per cent reference value in the SGP. The debt ratio is forecast to be 62.2 per cent of GDP.

In 2022, net expenditure (corrected for one-offs) is forecast to grow by 8.8 per cent, above the Expenditure Benchmark limit of 3.8 per cent. This is some €4.6 billion above the limit. As a result, the structural deficit is set to deteriorate by 0.7 percentage points, to 1.9 per cent of GDP. This is above the Medium-term Budgetary Objective (MTO) of a structural deficit of no greater than 0.5 per cent of GDP.

The structural deficit is forecast to improve in 2023, reaching to 1.2 per cent of GDP. This improvement of 0.7 percentage points would be a larger improvement than would be required under the rules (an improvement of 0.5 percentage points). Net expenditure is forecast to grow by 2.5 per cent in 2023, below the Expenditure Benchmark limit of 4.0 per cent. In 2023, the debt-ratio is forecast to be 59 per cent of GDP, below the 60 per cent reference value in the SGP.

In 2024, the structural deficit is forecast to improve by 0.2 percentage points, below what would be required under the rules (0.5 percentage points). However, the structural deficit is forecast to be 0.4 per cent of GDP in 2025, above the (current) MTO.[77] Net expenditure is forecast to grow by 2.7 per cent in 2024, below the Expenditure Benchmark limit. In 2025, net expenditure is forecast to grow by 3.2 per cent, at the Expenditure Benchmark limit.

[77] The MTO has not yet been set for 2023-2025. As a result, it is assumed constant at a structural deficit of no greater than 0.5 per cent of GDP.

Table S13.3: 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 (Fiscal Council, 2019e).