S9. Detailed fiscal rules assessment

This section provides a more detailed assessment of the Fiscal rules. Table S9.1 shows a summary assessment of compliance with the fiscal rules, using forecasts included in *Budget 2022*, along with the Council's assessment of one-off and discretionary revenue measures (see Table S9.2 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 S9.3 for a summary of this approach).

For 2020 and 2021, the Council has assessed that "exceptional circumstances" exist, due to the ongoing Covid-19 pandemic.[45] The exceptional circumstances clause is a provision in the Fiscal Responsibility Act, 2012, which allows for a temporary deviation from the normal requirements 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 remain in place into 2022.

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

Table S9.1 Summary Fiscal rules assessment[1, 2, 3, 4]

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

	2020	2021	2022	2023	2024	2025
Corrective Arm						
General government balance (% GNI*)[5]	-8.8	-5.9	-3.4	-0.4	-0.1	0.3
General government balance	-4.9	-3.1	-1.8	-0.2	-0.1	0.2
General government balance Limit	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
General government debt (% GNI*)[5]	104.7	106.2	99.2	96.7	93.3	89.5
General government debt	58.4	55.2	51.9	50.5	48.6	46.6
1/20th Debt Rule Limit	**60.0**	**60.0**	**60.0**	**60.0**	**60.0**	**60.0**
Debt Rule met?	Y	Y	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	-1.1	-0.4	-0.2	-0.1	0.0	0.2
MTO met?	N	Y	Y	Y	Y	Y
Minimum change in structural balance required	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Change in structural balance	-0.5	0.6	0.2	0.13	0.14	0.2
1yr deviation (€ bn)	-2.2	0.2	1.2	2.0	2.8	4.0
1yr deviation (p.p.)	-0.6	0.1	0.3	0.4	0.5	0.7
2yr deviation (€ bn)	-1.3	-1.0	0.7	1.6	2.4	3.4
2yr deviation (p.p.)	-0.4	-0.3	0.2	0.3	0.5	0.6
Expenditure Benchmark						
(a) Reference rate of potential growth (% y/y)	6.1	5.9	5.9	6.2	5.9	5.5
(b) Convergence margin	0.0	0.0	0.0	0.0	0.0	0.0
(a-b) Limit for real net expenditure growth (% y/y)	6.1	5.9	5.9	6.2	5.9	5.5
GDP deflator used	-1.2	-0.6	2.2	1.7	1.7	1.7
Limit for nominal net expenditure growth (% y/y)	**4.8**	**5.3**	**8.2**	**8.0**	**7.7**	**7.3**
Net expenditure growth (% y/y)	10.0	6.7	2.9	-2.4	4.9	4.0
Net expenditure growth (corrected for one-offs) (% y/y)	-2.3	7.1	7.7	4.4	4.9	4.0
1yr deviation (corrected for one-offs) (€ bn)	5.6	-1.4	0.4	3.3	2.7	3.3
1yr deviation (corrected for one-offs) (% GNI*)	2.7	-0.6	0.2	1.3	1.0	1.2
2yr deviation (corrected for one-offs) (€ bn)	5.0	2.1	-0.5	1.9	3.0	3.0
2yr deviation (corrected for one-offs) (% GNI*)	2.3	1.0	-0.2	0.7	1.1	1.1
Limit for nominal net expenditure growth (€bn)	**3.8**	**4.2**	**6.9**	**7.3**	**7.4**	**7.3**
Net expenditure increase (€bn)	7.9	5.9	2.8	-2.3	4.7	4.0
Net expenditure increase (corrected for one-offs) (€bn)	-1.8	5.6	6.5	4.0	4.7	4.0
Current Macroeconomic Aggregates						
Real GDP growth (% y/y)	5.9	15.6	5.0	4.1	3.7	3.6
Potential GDP growth (% y/y)	9.3	14.3	4.6	3.8	3.7	3.6
Output gap	-2.2	-0.7	-0.4	-0.2	-0.2	-0.1
GDP deflator used (% y/y)	-1.2	-0.6	2.2	1.7	1.7	1.7

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

Notes: [1] All figures are presented on a general government basis. Assessments examine the *Budget 2022* 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 S9.2 for these) and on Discretionary Revenue Measures. Potential output and output gap estimates are taken from Budget 2022. For more information on the Council's principles-based approach see Table S9.3 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.

The fiscal rules will not be met in 2021, as the general government deficit is forecast to be 3.1 per cent of GDP, above the 3 per cent reference value in the SGP. However, this is solely as a result of the ongoing exceptional circumstances related to the Covid-19 pandemic. The debt-to-GDP ratio is forecast to fall to 55.2 per cent, below the 60 per cent reference value in the SGP.

Table S9.2: One-offs

€ millions

	2019	2020	2021	2022	2023	2024	2025
Revenue	0	-515	310	0	0	0	0
Expenditure	0	9,700	10,026	6,300	0	0	0
Net one-offs	0	10,215	9,716	6,300	0	0	0

Sources: CSO; Department of Finance; and Fiscal Council workings.
Note: The Council at this time 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.

In 2022, based on current forecasts, the domestic budgetary rule will be complied with. The deficit-to-GDP ratio is forecast to fall to 1.8 per cent of GDP, below the 3 per cent of GDP reference value in the SGP. The structural deficit of 0.2 per cent of GDP is forecast to be below the Medium-term Budgetary Objective (MTO) of a structural deficit of no more than 0.5 per cent of GDP. Net expenditure (excluding one-offs) is forecast to grow by 7.2 per cent, below the Expenditure Benchmark limit of 8.2 per cent.[46]

Over the medium-term, the structural balance is forecast to remain at the MTO. Net expenditure (excluding one-offs) is forecast to grow by on average 4.4 per cent over 2023-2025, below the Expenditure Benchmark limit. The debt-to-GDP ratio is forecast to fall to 46.6 per cent by 2025, well below the 60 per cent of GDP reference value in the SGP.

[46] The high reference rates under the expenditure benchmark are a mechanical function of the high potential output growth rates from the Department's GVA-based estimates of the output gap. The Council does not consider these growth rates as a plausible indication of sustainable underlying growth rates. See Section 1 for further details on this issue.

Table S9.3: 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 GVA-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 GVA-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 GVA 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	0.52	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). As of Budget 2022, the Department's preferred measure of the output gap is based on their GVA based models. As a result, the Council's Principles-based Approach is now based on this preferred measure of the output gap.