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Assessment of the 2015 Stability Programme for

IRELAND

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses Ireland's April 2015 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 30 April and covers the period 2014-2020. It was approved by the government and presented to the national parliament for a debate without a vote.[1]

Ireland is currently subject to the corrective arm of the Stability and Growth Pact. The Council opened the Excessive Deficit Procedure for Ireland in April 2009. On 7 December 2010, as part of the EU-IMF financial assistance programme, the Council adopted revised recommendations to Ireland. The country is recommended to correct the excessive deficit by 2015. The year following the correction of the excessive deficit, Ireland will be subject to the preventive arm of the Pact and should ensure sufficient progress towards its MTO. As the debt ratio in 2015 is projected at 107.1% of GDP, exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Ireland is also subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability programme. Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2015 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the Stability and Growth Pact, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 summarises the main conclusions.

2. MACROECONOMIC OUTLOOK

The Irish economy rebounded strongly in 2014 after near zero growth a year earlier. The country is well positioned to benefit from favourable developments in the US and the UK, the easing of monetary policy in the euro area and the fall in energy prices. Ireland continues to attract foreign direct investment, driven by the country's resolutely favourable business environment and well educated international workforce. Unit labour costs and other indicators of external competitiveness have improved substantially. The domestic and external sectors have now rebalanced and private consumption started picking up towards the end of 2014.

The programme projects real GDP growth of 4.0% in 2015 and 3.8% in 2016, converging to 3% by 2020. The programme projects domestic demand to become the main driver of growth from 2015, compared to a roughly equivalent contribution of domestic demand and net exports a year earlier. Private consumption is forecast to post an annual growth of 2½% in 2015-2016, while investment is projected to quickly converge to about 20% of GDP, its long-

[1] Ireland also submitted public finance data as per the additional reporting requirements under Article 10 of Regulation (EU) No 473/2013.

run average. Net exports are forecast to grow by 3% in 2015, including an additional upward shift in the level of contract manufacturing[2], which would only stabilise the year after. In nominal terms, the programme projects GDP growth of 6.9% in 2015, given a high assumed impact of the weak euro on the GDP deflator.

As per its 2015 spring forecast, the Commission expects somewhat lower GDP growth in 2015-2016 (3.6% and 3.5% respectively). The difference stems chiefly from a more cautious outlook on private consumption, given the still on-going process of deleveraging by households. The Commission forecasts investment to grow by around 10% per annum, thereby contributing to a fast recovery to its long-term average. Conversely, the net exports projections are more buoyant on the back of the weak euro and lower projected imports[3]. The Commission does not anticipate at this stage another level shift in contract manufacturing. The Commission forecast for nominal GDP growth is lower than the programme's by 1 pp. on account of a smaller impact of the weak euro on the deflator. The Commission forecast for 2016 does not take into account the EUR 1.2 billion in expansionary fiscal measures announced in late April. According to the programme, these measures would boost GDP growth by about 0.2 pp. in 2016.[4]

Potential output growth recalculated by the Commission based on the information in the programme, following the commonly agreed methodology, is estimated at 3.2% in 2015 and 4.2% in 2016. This is higher than the Commission's estimate based on the 2015 spring forecast — due to higher participation rates, investment and total factor productivity in the recalculated figures. In any instance, potential GDP growth rates in excess of 3% assume strong productivity gains and/or expansions in the labour force.

Overall, the programme's macroeconomic assumptions are favourable in 2015 and plausible thereafter.

[2] Contract manufacturing refers to the production of goods abroad on behalf of a company domiciled in Ireland. Outputs from this process are recorded as Irish exports and inputs to production are recorded as Irish imports.

[3] The external assumptions in the programme are broadly in line with the Commission's assumptions for the 2015 spring forecast. The programme is however based on the assumption of slightly higher GDP growth in the US in 2015 and 2016 and slightly lower GDP growth in the euro area in 2015 than assumed/forecast by the Commission.

[4] This represents a fiscal multiplier of approximately 0.33, broadly in line with the Commission's estimates for Ireland.

Table 1: Comparison of macroeconomic developments and forecasts

	2014		2015		2016		2017	2018	2019	2020
	COM	SP	COM	SP	COM	SP	SP	SP	SP	SP
Real GDP (% change)	4.8	4.8	3.6	4.0	3.5	3.8	3.2	3.2	3.0	3.0
Private consumption (% change)	1.1	1.1	2.1	2.4	1.9	2.5	1.4	1.3	1.3	1.3
Gross fixed capital formation (% change)	11.3	11.3	9.8	15.3	9.9	12.1	8.1	4.7	3.9	4.0
Exports of goods and services (% change)	12.6	12.6	5.6	7.6	5.4	4.8	4.3	4.3	4.3	4.3
Imports of goods and services (% change)	13.2	13.2	6.0	8.7	6.1	5.4	4.2	3.7	3.8	3.9
Contributions to real GDP growth:										
- Final domestic demand	2.3	2.3	2.8	3.7	3.0	3.5	2.3	1.7	1.5	1.5
- Change in inventories	0.5	0.5	0.0	-0.3	0.0	-0.2	-0.1	0.0	0.0	0.0
- Net exports	2.2	2.2	0.8	0.6	0.5	0.5	1.0	1.5	1.5	1.4
Output gap[1]	0.1	0.1	0.9	0.8	0.8	0.4	0.2	0.1	-0.2	-0.5
Employment (% change)	1.7	1.7	1.6	2.2	1.5	2.2	1.9	1.9	1.8	1.7
Unemployment rate (%)	11.3	11.3	9.6	9.6	9.2	8.8	8.4	7.8	7.3	6.9
Labour productivity (% change)	3.0	3.0	2.0	1.7	2.0	1.5	1.2	1.2	1.2	1.2
HICP inflation (%)	0.3	0.3	0.4	0.2	1.5	1.1	1.5	1.7	1.9	1.9
GDP deflator (% change)	1.2	1.2	2.2	2.8	1.5	1.5	1.0	1.2	1.2	1.2
Comp. of employees (per head, % change)	3.8	1.4	3.2	2.3	2.8	2.9	2.6	2.6	2.7	2.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	6.3	n.a.	5.3	n.a.	4.9	n.a.	n.a.	n.a.	n.a.	n.a.

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by the Commission on the basis of the programme scenario, using the commonly agreed methodology.

Source:
Commission 2015 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2014

In 2014, the general government deficit reached 4.1% of GDP, down from 5.8% of GDP in 2013 and well below the target of 5.1% of GDP laid down in the Council recommendation under the Excessive Deficit Procedure (EDP). As total revenue grew broadly in line with GDP, the improvement of the deficit-to-GDP ratio mostly stems from moderate expenditure growth. Specifically, nominal current expenditure remained flat despite persistent overruns in health care, while capital expenditure grew more strongly. In level terms, total expenditure increased for the first time since 2010, despite markedly lower interest expenditure. The transition to the new ESA 2010 methodology improved the deficit by around 0.4% of GDP[5].

The 2014 deficit outturn is below the target of 4.8% of GDP laid out in the 2014 Stability Programme. The difference largely reflects the stronger-than-expected economic growth and the transition to the new statistical standard.

[5] The government finance statistics in Ireland have been particularly affected by the transition to ESA 2010. Of note are the reclassification of financial institutions, the transfer of pension funds into the central government and the elimination of adjustment for swaps (see Box 2.1 of the Post-Programme Surveillance Report, Ireland, Autumn 2014: http://ec.europa.eu/economy_finance/publications/occasional_paper/2015/pdf/ocp210_en.pdf)

However, the 2014 deficit is higher than the 3.7% of GDP projected in the 2015 Draft Budgetary Plan. The revision is mainly due to spending overruns in the health sector, which widened in the last quarter of the 2014, and the effect of significant statistical corrections following the EDP notification in April this year. These include, inter alia, the reclassification of a State-owned company into the government sector[6] and the change to the statistical treatment of a transaction linked to the sale of the National Lottery licenses[7]. Compared to the Draft Budgetary Plan for 2015, total expenditure has increased by 0.4 pp. of GDP.

3.2. Target for 2015 and medium-term strategy

<u>The target for 2015</u>

The programme projects a general government deficit of 2.3% of GDP in 2015, down from 2.7% of GDP in the 2015 Draft Budgetary Plan and from 3.0% of GDP in last year's Stability Programme. The programme confirms the commitment of the Irish government to correct the excessive deficit in a timely and durable manner by the recommended deadline of 2015.

The improvement compared to the 2015 Draft Budgetary Plan reflects better-than-expected cash returns in the first quarter of 2015, higher non-tax revenues[8] and lower interest expenditure on the back of favourable market conditions and the earlier-than-planned repayment of the IMF facility credits. Conversely, the consolidation of Irish Water into the general government sector is estimated to increase the 2015 general government deficit by 0.3% of GDP.

The Commission 2015 spring forecast projects a government deficit for 2015 of 2.8% of GDP. The difference compared to the programme target of 2.3% of GDP is due to lower tax revenues in line with a more conservative assumption for economic growth, as well as stronger expenditure increases. The latter are motivated by the recurring expenditure overruns, compared to government plans in the past several years.

On the basis of the information in the programme, the recalculated structural deficit[9] is estimated at 2.8% of GDP in 2015, down from 4.1% of GDP in 2014 and from 3.5% of GDP in the 2015 Draft Budgetary Plan. The Commission 2015 spring forecast sees the structural deficit at 3.6% of GDP in 2015, mainly on account of the estimated higher nominal deficit,

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[6] This refers to the decision of the Irish Central Statistical Office (CSO) to consolidate the Irish Water books in the government balance sheets. According to the CSO this is a preliminary and provisional classification. The reclassification of Irish Water increased the general government deficit by 0.1% of GDP in 2013 and by 0.2% of GDP in 2014.

http://www.cso.ie/en/media/csoie/newsevents/documents/updatetoregisterofpublicbodiesinformationnotice.pdf.

[7] Among other minor revisions, the Central Statistics Office (CSO) has also reassessed the treatment of the sale of the National Lottery Licences. The transaction took place on 30th November 2014. As the licence holder was unable to sell the permit to a third party, receipts are now registered as "other taxes" and spread over the 20-year licence life. The present value of the cash received up front (EUR 402 million) in 2014 is now recorded in the 'Other accounts payable' liability without impacting on the general government balance.

[8] These include surplus income from the Central Bank of Ireland and unbudgeted dividend payments from a commercial-state body.

[9] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

but also due to a more positive output gap and larger deficit-reducing one-offs included in the Commission forecast[10].

The medium-term strategy

The 2015 Stability Programme plans to correct the excessive deficit by 2015, while the structural balance is projected to be above the medium-term budgetary objective (MTO) – a balanced budget in structural terms – by 2019 at the latest. The programme targets a gradual improvement of the headline balance from -1.7% of GDP in 2016 to -0.1% of GDP in 2018 and 0.7% of GDP in 2019. According to the authorities, at face value, this would bring the structural balance to -0.3% of GDP in 2018 and 0.8% of GDP in 2019.

The recalculated structural deficit is projected to improve by around 1% of GDP per year between 2016 and 2018, when it is estimated at 0.1% of GDP. Compared to the government's own estimates of the structural budget balance, the slightly faster adjustment especially in 2016, seems to reflect different assumptions underpinning the calculation of the output gap.[11]

In the programme, the deficit target for 2016 incorporates the effect of new measures of EUR 1.2 billion, as well as possible second-round effects on economic activity. These second-round effects are estimated at 0.15% of GDP and expected to mainly operate through higher indirect taxes. The new measures are expected to be detailed in the autumn, with Budget for 2016.

The Commission 2015 spring forecast, under the usual no-policy-change assumption, projects a headline deficit for 2016 of 2.9% of GDP while the structural deficit is estimated at 3.3%. The Commission forecast for 2016 does not include policy objectives and measures presented in the 2015 Stability Programme, which were available after the cut-off date of the spring forecast. Importantly, the 2015 Stability Programme does not provide details about the measures that underpin the deficit target. Those details will be released with the draft budget for 2016 in the autumn.

[10] They refer to special and unexpected dividends from State-owned companies which the Commission assumes to have a temporary nature.

[11] The programme reports an estimated improvement in structural budget balance of 0.3% of GDP in 2016. This contrasts with an estimate of 0.8% of GDP in the same year when recalculating the estimated improvement with data provided in the programme and using the commonly agreed methodology. The difference seems to originate from specific assumptions used by the Irish authorities. In particular, the output gap estimates reported in the programme turn significantly negative in 2020. This assumption also affects the profile of the estimated improvement of the structural balance in 2016.

The programme's targets for 2017 and beyond rely on no-policy-change projections, rather than policy objectives. This particular feature, carried over from last year, is made explicit in the programme. According to the no-policy-change projections for 2017 and thereafter, tax revenues are assumed to increase in line with nominal GDP growth (net of an indexation of income tax bands), while government primary expenditures are kept broadly constant in level terms, with the exception of a 0.15% of GDP increase in current spending each year to accommodate demographic pressures, mainly in Social Protection, Health and Education. The assumption of broadly stable expenditure in level terms contrasts with both pre-crisis trends and the government's own estimates presented in the last expenditure review, in particular as far as capital expenditure is concerned.[12]

Overall, the targeted improvement of the general government budget balance in the medium-term largely results from growing tax revenue on the back of steady economic growth and the assumed very modest increase in government expenditure.

[12] http://per.gov.ie/wp-content/uploads/Comprehensive-Expenditure-Report-2015-2017.pdf

Table 2: Composition of the budgetary adjustment

(% of GDP)	2014	2015		2016		2017	2018	2019	2020	Change: 2014-2020
	COM	COM	SP	COM	SP	SP	SP	SP	SP	SP
Revenue	**34.9**	**34.4**	**34.3**	**33.9**	**33.2**	**32.6**	**32.2**	**31.9**	**31.6**	**-3.3**
of which:										
- Taxes on production and imports	11.2	11.3	11.2	11.2	11.1	10.9	10.7	10.6	10.4	-0.8
- Current taxes on income, wealth, etc.	13.6	12.9	13.1	12.8	12.9	12.7	12.8	12.8	12.8	-0.8
- Social contributions	5.9	5.8	5.7	5.7	5.4	5.4	5.3	5.3	5.3	-0.6
- Other (residual)	4.2	4.5	4.3	4.1	3.8	3.6	3.4	3.2	3.1	-1.1
Expenditure	**39.0**	**37.2**	**36.6**	**36.8**	**34.9**	**33.6**	**32.3**	**31.2**	**29.9**	**-9.1**
of which:										
- Primary expenditure	35.0	33.7	33.1	33.3	31.7	30.4	29.2	28.3	27.2	-7.8
of which:										
Compensation of employees	10.0	9.7	9.7	9.6	9.3	9.0	8.7	8.4	8.1	-1.9
Intermediate consumption	4.7	4.7	4.9	4.6	4.6	4.4	4.3	4.1	3.9	-0.6
Social payments	15.4	14.4	13.9	14.1	13.2	12.7	12.2	11.7	11.3	-4.1
Subsidies	0.9	1.0	1.0	1.1	1.0	1.0	0.9	0.9	0.9	0.0
Gross fixed capital formation	1.9	2.0	1.8	2.1	1.8	1.6	1.6	1.6	1.5	-0.4
Other (residual)	2.0	1.9	1.9	1.9	1.8	1.7	1.6	1.6	1.6	-0.9
- Interest expenditure	4.0	3.6	3.5	3.5	3.2	3.2	3.1	2.9	2.7	-1.3
General government balance (GGB)	**-4.1**	**-2.8**	**-2.3**	**-2.9**	**-1.7**	**-0.9**	**-0.1**	**0.7**	**1.7**	**5.8**
Primary balance	**-0.1**	**0.7**	**1.1**	**0.6**	**1.5**	**2.2**	**2.9**	**3.6**	**4.4**	**4.5**
One-off and other temporary	-0.1	0.3	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.1
GGB excl. one-offs	**-4.0**	**-3.1**	**-2.4**	**-2.9**	**-1.8**	**-0.9**	**-0.1**	**0.7**	**1.7**	**5.7**
Output gap[1]	0.1	0.9	0.8	0.8	0.4	0.2	0.1	-0.2	-0.5	-0.6
Cyclically-adjusted balance[1]	-4.2	-3.3	-2.7	-3.3	-1.9	-1.0	-0.1	0.8	2.0	6.2
Structural balance (SB)[2]	**-4.1**	**-3.6**	**-2.8**	**-3.3**	**-2.0**	**-1.0**	**-0.1**	**0.8**	**2.0**	**6.1**
Structural primary balance[2]	0.0	0.0	0.7	0.2	1.2	2.2	3.0	3.7	4.7	**4.7**

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by the Commission on the basis of the programme scenario, using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source :

Stability Programme (SP); Commission 2015 spring forecast (COM); Commission calculations.

Measures underpinning the programme

As indicated above, the programme provides very few details about the budgetary measures underpinning the planned fiscal targets. In 2016, the target of 1.7% of GDP takes into account a package of new measures of EUR 1.2 billion (0.6% of GDP) as well as the impact of previous budgetary measures. Apart from a general indication that the new measures for 2016 will be evenly split between tax cuts and expenditure increases, the programme does not provide further details. It refers to a National Economic Dialogue with various stakeholders to be held over the summer with a view to establishing, via a broad based consultation, how the EUR 1.2 billion are to be allocated.[13]

Owing to the no-policy-change assumption underlying the fiscal targets for 2017 and beyond, the programme does not include any new measures over that period. This contrasts with the provisions of the Stability and Growth Pact according to which Stability Programmes are expected to set out the budgetary objective for the medium term together with information about the budgetary measures to achieve these objectives.[14]

When presenting the programme to Parliament, the Minister for Finance mentioned that additional measures in 2017 and beyond would be made conditional on the available fiscal space.

Main budgetary measures

Revenue	**Expenditure**
	2016
• Income tax reduction (-0.3% of GDP) • Buoyancy from income tax package (+0.15% of GDP) • Non-indexation of the income tax system (+0.15% of GDP)	• Other expenditure measures (+0.3% of GDP)
Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.	

[13] Around and after the publication of the programme, members of the government made public statements to the effect that public sector wage increases and reductions of the Universal Social Charge (a direct tax introduced during the crisis years) would feature prominently among the measures to be included in the 2016 Budget.

[14] More specifically the Code of Conduct "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes" (2012) specifies that "*the programmes should describe the budgetary and other economic policy measures being taken, envisaged or assumed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the general government balance. Measures having significant 'one-off' effects should be explicitly identified. The further forward the year of the programme, the less detailed the information could be, but could contain quantified examples of measures that would allow reaching the programme targets.*"

http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

3.3. Debt developments

Ireland's general government debt-to-GDP ratio dropped to 109.7% in 2014 from a peak of 123.2% in 2013. The sharp decline in 2014 largely reflects the liquidation of the Irish Banking Resolution Corporation (IBRC),[15] along with improved economic growth prospect and favourable market conditions[16].

From 2015 onwards, the decline of the debt-to-GDP ratio is expected to be driven by sustained economic growth and the targeted improvement of the general government budget balance. The programme projects a government debt-to-GDP ratio of 105.0% and 100.3% in 2015 and 2016 respectively. The differences in the debt profile compared to the Commission 2015 spring forecast reflect different forecasts for the primary balance, economic growth and inflation. In 2016 the programme also envisages a noticeable debt-reducing stock-flow adjustment, mostly from equity transactions (1.3% of GDP).

[15] With the transition from ESA 95 to ESA 2010, IBRC became part of general government and retroactively raised the level of general government debt. However, the liquidation of IBRC (with IBRC liabilities being repaid through the sale of the assets and through the use of cash and other financial assets) initiated in early 2013 reversed this effect in 2014.

[16] From an accounting perspective the debt reduction is attained through a sizable stock-flow adjustment (€10.5 billion, mainly the effect of the liquidation of IBRC), nominal GDP growth (half of which due to the transition to the new accounting rules) and savings on interest expenditure. The net debt position remains de facto unchanged between 2013 and the end of 2014.

Table 3: Debt developments

(% of GDP)	Average 2009-2013	2014	2015		2016		2017	2018	2019	2020
			COM	SP	COM	SP	SP	SP	SP	SP
Gross debt ratio[1]	**101.2**	**109.7**	**107.1**	**105.0**	**103.8**	**100.3**	**97.8**	**93.6**	**89.4**	**84.7**
Change in the ratio	16.1	-13.5	-2.5	-4.7	-3.3	-4.7	-2.5	-4.2	-4.2	-4.7
Contributions[2] *:*										
1. Primary balance	**11.2**	**0.1**	**-0.7**	**-1.1**	**-0.6**	**-1.5**	**-2.2**	**-2.9**	**-3.6**	**-4.4**
2. "Snow-ball" effect	**3.5**	**-2.9**	**-2.5**	**-3.6**	**-1.7**	**-2.1**	**-0.9**	**-1.1**	**-0.8**	**-0.9**
Of which:										
Interest expenditure	3.4	4.0	3.6	3.4	3.5	3.2	3.1	3.0	2.9	2.7
Growth effect	0.2	-5.6	-3.7	-4.1	-3.5	-3.8	-3.1	-3.0	-2.7	-2.6
Inflation effect	-0.1	-1.4	-2.3	-2.9	-1.6	-1.5	-0.9	-1.1	-1.0	-1.0
3. Stock-flow adjustment	**1.4**	**-10.6**	**0.7**	**0.1**	**-1.0**	**-1.0**	**0.6**	**-0.2**	**0.3**	**0.6**
Of which:										
Cash/accruals diff.				0.3		0.2	0.6	-0.3	0.2	0.1
Acc. financial assets										
Privatisation										
Val. effect & residual										

Notes:

[1] End of period.

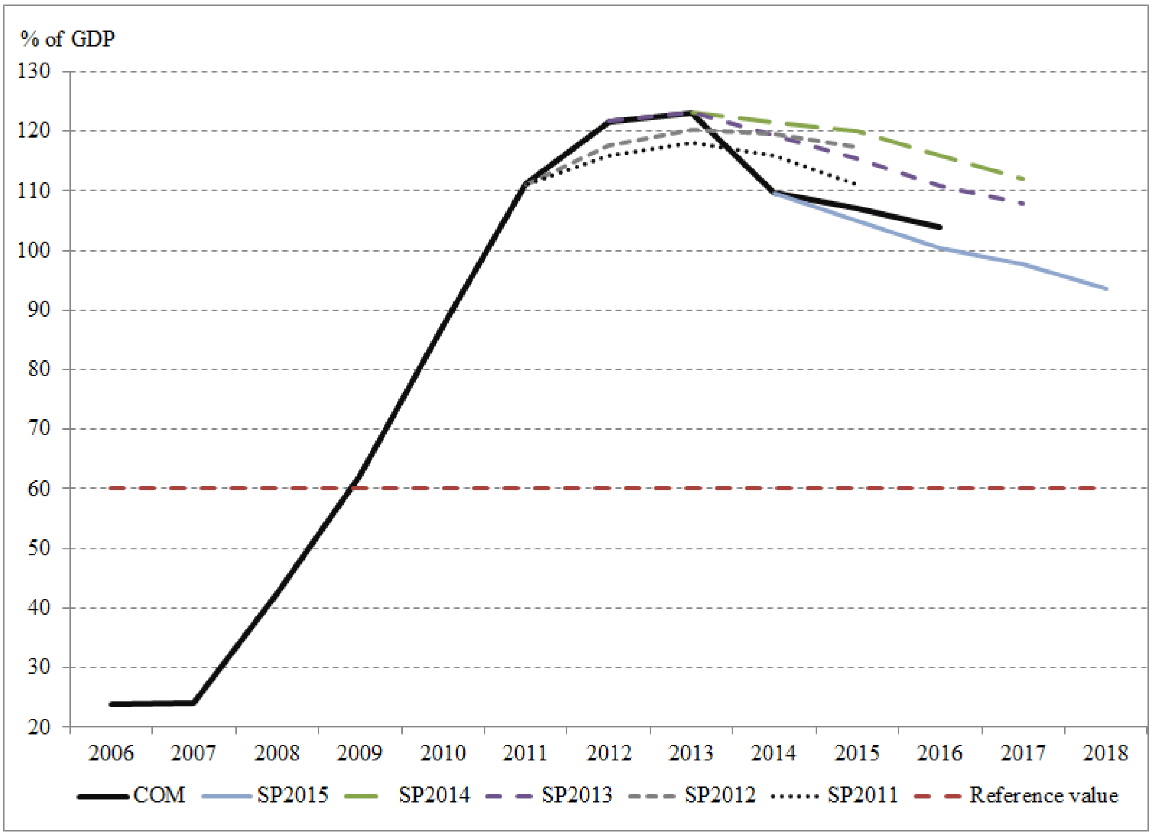
[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2015 spring forecast (COM); Stability Programme (SP); Comission calculations.

Following the necessary degree of prudence, the programme's debt projections do not include potential sales of equity stakes in State-owned enterprises which were announced early this year. The downward revision of the debt path, in particular when compared to the last two Stability Programmes, is due to the improvement of growth and fiscal projections and to the statistical revisions linked to the transition to ESA 2010.

Figure 1: Government debt projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast (COM); Stability Programmes (SP).

3.4. Risk assessment

Risks associated with fiscal projections mainly relate to the sustainability of the favourable economic outlook and to persisting spending pressures linked to demographics and the public service payroll. The upcoming elections also imply a certain degree of uncertainty in relation to the implementation of Budget 2015 and the formulation of Budget 2016.

The programme's deficit forecasts for 2015 and 2016 strongly rely on strict expenditure control[17] and, in particular, on compliance with the domestic expenditure ceilings set out in Ireland's multi-annual expenditure plan[18]. However, the track record of meeting expenditure plans and of adhering to the national medium-term expenditure ceilings has been mixed[19].

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[17] Compare to the 2014, the revenue-to-GDP ratio is projected to slightly decrease (-0.6 pp). Therefore, the bulk of the adjustment is expected in the expenditure to GDP ratio (-2.4 pps), with measurable reductions in social transfers (-1.5 pps), interest expenditure (-0.5 pp) and compensation of employees (-0.3 pp). For 2016, despite the plan for EUR 1.2 billion (0.6% of GDP) of tax cuts and expenditure increases, the programme projects a further decline of the general government deficit to 1.7% of GDP. Again, all the adjustment is expected in the expenditure to GDP ratio (-1.7 pps).

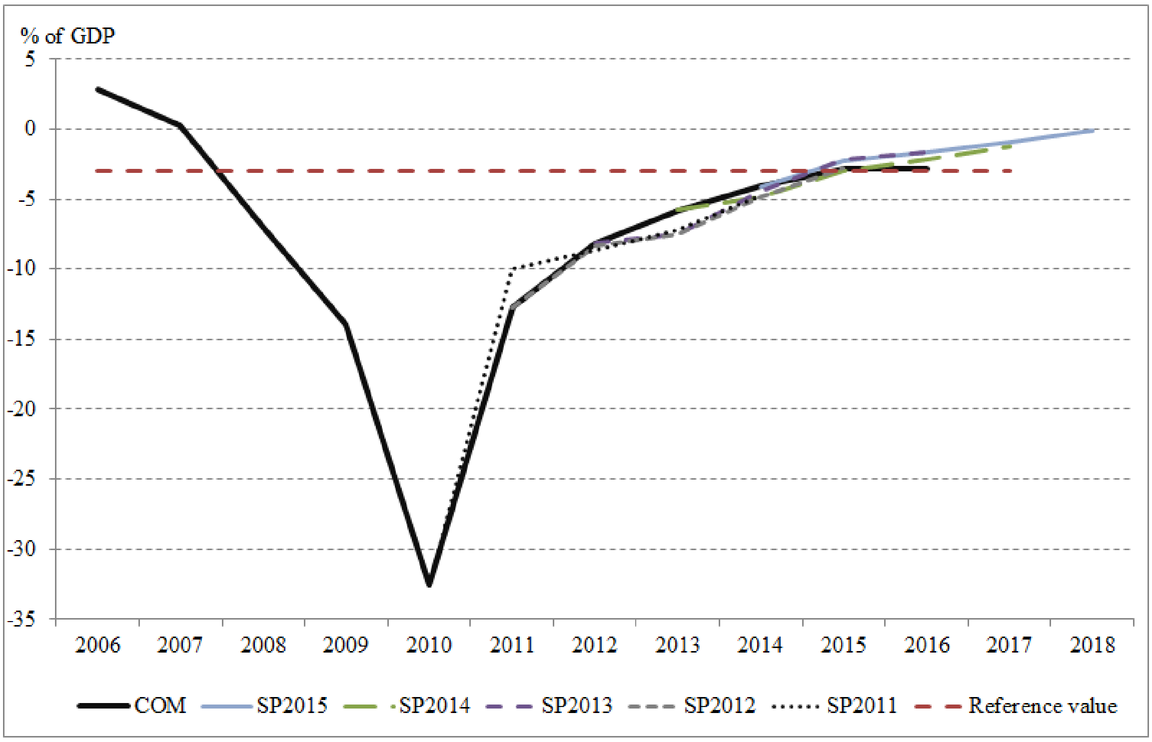
[18] For the incomings years the specific expenditure allocations to government departments are set out in the "2015-2017 Comprehensive Expenditure Report" (http://per.gov.ie/wp-content/uploads/Comprehensive-Expenditure-Report-2015-2017.pdf). The specific ceilings have been subsequently revised ("2015 Revised

Taking into account past experience, the Commission 2015 spring forecast assumes stronger expenditure growth, which, combined with more cautious economic growth projections, yields a deficit projection of 2.8% of GDP in 2015 and – under the usual no-policy-change assumption – of 2.9% of GDP in 2016.

On the upside, if cash returns of the exchequer continue, as per the first quarter, in line with a rebalancing of the economic growth composition toward domestic demand, income and consumption tax revenues could end up exceeding both the authorities and the Commission's estimates for 2015.

After 2016, the programme's projections revert to a no-policy change assumption with a very flat expenditure profile. The assumed profile seems to contrast with the underlying expenditure pressures related to the renegotiations of public sector pay and demographic change, and the programme does not provide indications on how the assumed expenditure profile will be reconciled with the underlying expenditure pressures.

Figure 2: Government balance projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast (COM); Stability Programmes (SP).

The programme projects gross general government debt to continue to decrease from 109.7% of GDP in 2014 to 84.7% of GDP in 2020 on account of an average economic growth of more than 3% per year and sizeable primary surpluses of around 2.6% of GDP on average over the

Estimates for Public Services") and adopted by the parliament at the end of December 2014 (http://per.gov.ie/wp-content/uploads/Master-Copyv1.pdf).

[19] For instance, in its latest Country Report for Ireland the Commission points to recurrent upward revisions in annual budget decisions and to how such revisions affect the implementation of the expenditure plans.

programme's horizon. Because of the still high level of government debt, projections remain very sensitive to variations in economic growth and to the expected size of the budgetary adjustment. According to the Commission's debt sustainability analysis a permanent negative shock to nominal GDP growth of 0.5 pp. would increase the public debt-to-GDP ratio by about 7 pps. by 2025 under the no-policy-change assumption.

On the other side, barring abrupt changes in market conditions, interest rate risks are low due to prudent debt management and low future refinancing needs. The average effective interest rate on government debt is estimated to be around 3.3% (0.2 pp lower than at end of 2014) Compared to that of other EU Member States, this low rate inter alia reflects the high share of official debt. The maturity profile and the interest burden are expected to improve further with the earlier-than-expected repayment of the IMF loans[20].

[20] Compare to the end of 2014, the average debt maturity has extended by 9 months, from around 12 years.

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Box 1. Council recommendations addressed to Ireland

- On 27 April 2009, the Council adopted a decision under article 126(6) of the Treaty that, for the first time, an excessive deficit existed in Ireland, and recommended Ireland under Article 126(7) of the Treaty to correct its excessive deficit by 2013. A number of additional steps in the procedure were undertaken between April 2009 and July 2010 (for more detail see Ireland's 2012 Stability Programme). On 7 December 2010, as part of the EU-IMF financial assistance programme, the Council adopted revised recommendations to Ireland and extended the deadline for correcting the excessive deficit to 2015. The December 2010 recommendations were essentially three-fold. The first requirement was for Ireland to implement budgetary measures to ensure that the annual fiscal deficit (excluding direct support for the banking sector under the programme) was at or below pre-determined annual ceilings over the 2011-15 period. Secondly, in order to achieve these nominal targets, the Council recommended an improvement in the structural budget balance of at least 9½ per cent of GDP over 2011-2015 and to seize opportunities, including from better economic conditions, to accelerate reducing the gross debt ratio towards the 60 %- of-GDP reference value. Finally, the Council recommended various institutional reforms in order to limit risks to the budgetary adjustment. The Council requested the Irish authorities to report on the implementation of these recommendations in of its annual Stability Programme between 2011 and 2015.

- On 8 July 2014, the Council also addressed recommendations to Ireland in the context of the European Semester. In particular, in the area of public finances the Council recommended to Ireland to fully implement the 2014 budget and ensure the correction of the excessive deficit in a sustainable manner by 2015 through underpinning the budgetary strategy with additional structural measures while achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. After the correction of the excessive deficit, Ireland is asked to pursue a structural adjustment towards the medium-term objective of at least 0.5 % of GDP each year, more in good economic conditions or, if needed, to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Ireland is also expected to (i) enhance the credibility of the fiscal adjustment strategy, effectively implement multi-annual budgetary planning and define broad budgetary measures underlying the medium-term fiscal targets; (ii) ensure the binding nature of the government expenditure ceiling including by limiting the statutory scope for discretionary changes; (iii) support fiscal consolidation, consideration should be given to raising revenues through broadening the tax base; and (iv) enhance the growth and environmental friendliness of the tax system.

4.1. Compliance with the EDP recommendations

Ireland has so far consistently achieved or over-achieved its nominal deficit targets. In 2014, the deficit reached 4.1% of GDP, well below the 5.1% of GDP target required by the EDP recommendations.

Table 4: Compliance with the requirements of the corrective arm

(% of GDP)	2014	2015	
	COM	SP	COM
Headline balance			
Headline budget balance	-4.1	-2.3	-2.8
EDP requirement on the budget balance	-5.1	-2.9	
Fiscal effort - change in the structural balance			
Change in the structural balance[1]	0.8	1.2	0.5
Average change[2]	1.2	1.2	1.1
Average required change from the EDP recommendation	1.9	1.9	
Fiscal effort - adjusted change in the structural balance			
Adjusted average change in the structural balance[3]	1.0	-	0.8
of which: *correction due to change in potential GDP estimation (α)*	-0.7	-	-0.7
correction due to revenue windfalls/shortfalls (β)	-0.5	-	-0.4
Average Required change from the EDP recommendation	1.9	1.9	
Fiscal effort - calculated on the basis of measures (bottom-up approach)			
Fiscal effort (bottom-up)	n.a.		
Cumulative fiscal effort (bottom-up)			
Requirement from the EDP recommendation			
Cumulative requirement from the EDP recommendation			

Notes

[1]Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on the Stability Programme are recalculated by the Commission on the basis of the programme scenario, using the commonly agreed methodology. Change compared to t-1.

[2] Average change in the structural balance since the latest EDP recommendation.

3 Average change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and changes in potential growth compared to the scenario underpinning the EDP recommendations.

[4]The estimated budgetary impact of the additional fiscal effort delivered on the basis of the discretionary revenue measures and the expenditure developments under the control of the government between the baseline scenario underpinning the EDP recommendation and the current forecast.

Source :

Stability Programme (SP); Commission 2015 spring forecast (COM); Commission calculations.

The 2015 Stability Programme confirms the government's commitment to correct the excessive deficit by 2015, in line with the deadline set by the Council. The programme's headline deficit is expected to improve to 2.3% of GDP in 2015 and to turn into a surplus at the end of the programme's horizon.

Based on the Commission 2015 spring forecast, a timely correction of the excessive deficit by 2015 is also foreseen although by a smaller margin on account of stronger expenditure growth and more cautious assumptions for economic growth.

Concerning the required improvement of the structural balance, on the basis of the Commission 2015 spring forecast, both the unadjusted and the adjusted average annual changes in the structural balance over 2011-2014 fall short of the recommended effort (by 0.7% and 0.9% of GDP respectively). Over the period 2011-2015, this shortfall increases to 0.8% and 1.1% of GDP respectively. However, the fiscal effort estimated on the basis of the permanent consolidation measures taken under the programme and thereafter indicates a cumulated fiscal effort of around 9% of GDP over 2011-2014. If the assessment of the individual permanent consolidation measures taken since 2011 is extended to 2015, their cumulated yield amounts to around 9½% of GDP, which is also the cumulative fiscal effort recommended by the Council.

Overall, on the basis of the Commission's spring forecast and 2015 Stability Programme, Ireland is projected to correct the excessive deficit by the deadline as recommended.

4.2. Compliance with the debt criterion

The 2015 Stability Programme projects the government debt-to-GDP ratio to decline in 2015 to 105.0%, from 109.7% in 2014, and to gradually decrease further to 89.4% in 2019.

Table 5: Compliance with the debt criterion

	2016		**2017**	**2018**
	SP	**COM**	**SP**	**SP**
Gap to the debt benchmark [1,2]	n.r.	n.r.	n.r.	n.r.
Structural adjustment [3]	0.8	0.3	1.0	0.8
To be compared to:				
Required adjustment [4]	0.1	0.1	-0.5	-2.9

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :
Commission 2015 spring forecast (COM); Stability Programme (SP); Comission calculations.

Assuming a timely correction of the excessive deficit by 2015, Ireland would benefit from a three-year transition period as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance with the debt criteria[21]. Over this period (2016-2018), the structural balance is expected to adjust in order to ensure that the debt reduction rule is met at the end of the transition period.

According to the programme's estimates, the recalculated structural effort for 2016 is higher than the required Minimum Linear Structural Adjustment (MLSA). The same applies on the basis of the Commission's spring forecast. For 2017 and 2018, programme's projections point to a similar result. Therefore, Ireland makes sufficient progress towards compliance with the debt criterion in 2016-2018.

4.3. Compliance with the required adjustment path towards the MTO

Assuming a timely correction of the excessive deficit by 2015, Ireland would be subject to the preventive arm of the Stability and Growth Pact as of 2016.

On the basis of the information in the 2015 Stability Programme, the improvement of the structural balance in 2016, recalculated according to the commonly agreed methodology, is estimated at 0.8% of GDP, 0.2 pp. higher than the structural effort required by the preventive arm of the Pact (0.6% of GDP). By the same token, the growth rate of government expenditure, net of discretionary revenue measures, as planned in the Stability Programme, is expected to be in line with the requirements of the expenditure benchmark pillar.

Conversely, on the basis of the Commission 2015 spring forecast under the usual no-policy-change assumption, the projected 0.3% of GDP improvement in the structural balance for 2016 would lead to some deviation from the required 0.6% of GDP adjustment towards the MTO. In addition, the growth rate of government expenditure, net of discretionary revenue measures, is expected to lead in 2016 to a deviation of 0.9% of GDP from the expenditure benchmark.

The difference between the two indicators is largely driven by the fact that the annual potential GDP growth rate used in the computation of the structural balance is higher than the recently updated medium-term rate used in the calculation of the expenditure benchmark.

Therefore, although on the basis of the information in the 2015 Stability Programme, recalculated according to the commonly agreed methodology, progress towards the MTO is line with the requirements of the preventive arm of the Pact, the Commission forecast, under the usual no-policy-change assumption points to a risk of significant deviation from the adjustment path towards the MTO. Hence, meeting the required structural targets hinges on the Irish government specifying and implementing the measures necessary to achieve the budgetary target.

[21] Members States in EDP/transition period should respect simultaneously the two conditions below:

(i) First, the annual structural adjustment, ensuring compliance with the debt benchmark at the end of the transition period, should not deviate by more than ¼ % of GDP from the required linear structural adjustment;

(ii) Second, at any time during the transition period, the remaining annual structural adjustment should not exceed ¾ % of GDP.

Table 6: Compliance with the requirements under the preventive arm

(% of GDP)	2016	
Initial position[1]		
Medium-term objective (MTO)	0.0	
Structural balance[2] (COM)	-3.3	
Structural balance based on freezing (COM)	-	
Position vis-a -vis the MTO[3]	Not at MTO	
(% of GDP)	**2016**	
	SP	**COM**
Structural balance pillar		
Required adjustment[4]	0.6	
Required adjustment corrected[5]	0.6	
Change in structural balance[6]	0.8	0.3
One-year deviation from the required adjustment [7]	0.2	-0.3
Two-year average deviation from the required adjustment [7]	In EDP	
Expenditure benchmark pillar		
Applicable reference rate[8]	0.1	
One-year deviation [9]	0.1	-0.9
Two-year average deviation [9]	In EDP	
Conclusion		
Conclusion over one year	Compliance	Overall assessment
Conclusion over two years	In EDP	

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 28.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1.

[7] The difference of the change in the structural balance and the required adjustment corrected.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is not at its MTO.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

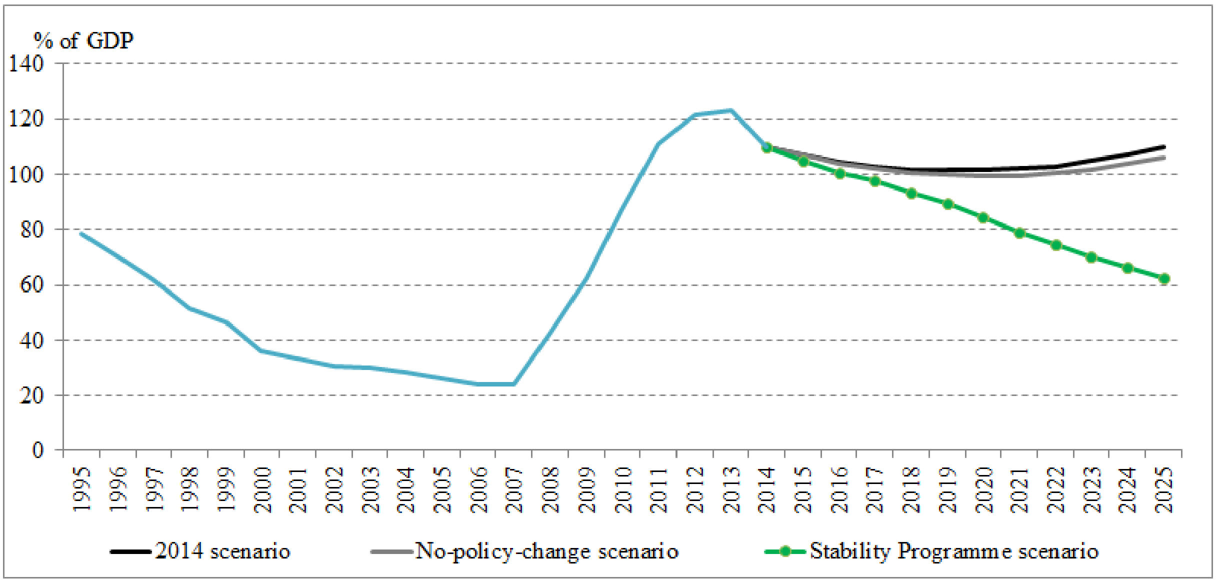
Stability Programme (SP); Commission 2015 spring forecasts (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

The analysis in this section includes the new long-term budgetary projections of age-related expenditure (pension, health care, long-term care, education and unemployment benefits) from the 2015 Ageing Report[22] published on 12 May. It therefore updates the assessment made in the Country Reports[23] published on 26 February. General government gross debt stood at 109.7% of GDP in 2014. However, the full implementation of the programme would put debt on a clearly decreasing path, reaching 62.5% in 2025, close to the 60% of GDP reference value (see Figure 3).

At 5.1 % of GDP, the medium-term sustainability gap as measured by the S1 indicator shows high risks. The large gap compared to the EU average, is primarily related to the high level of government debt and, to a lesser extent, to the projected ageing costs until 2030. In the long-term, the sustainability gap as measured by the S2 indicator is at 2.5% of GDP[24]. Therefore, over the very long run Ireland appears to face medium fiscal sustainability risks, primarily related to the projected costs of ageing, in particular due to pensions and health component[25].

Figure 3: Gross debt projections (% of GDP)



Source: Commission calculations.

[22] See http://ec.europa.eu/economy_finance/publications/european_economy/2015/ee3_en.htm

[23] See http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

[24] The long-term sustainability gap shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path. It takes full account of the revised population projections that were agreed by the competent Council committees in April.

[25] Both the indicators have improved compare previous projections. This reflects not only the impact of pension reforms (particularly evident in relation to pension expenditure projections), but also the improvement of the economic and fiscal outlook and more favourable demographic long-term projections.

The medium and long-term sustainability of public finances has benefitted from a number of reform measures implemented in recent years, primarily in the public pension system. The Single Public Service Pension Scheme (Single Scheme) for all new entrants took effect from 1 January 2013. Under the new scheme, pension benefits will gradually be based on career average earnings rather than final salary. The qualifying age for State pensions increased to 66 in 2014, and will rise to 67 in 2021 and then to 68 in 2028. In addition, post-retirement pension increases will be linked to consumer prices rather than wage movements of existing civil servants[26].

[26] Separately, the criteria to qualify for a contributory pension have been amended to increase the minimum number of years of required contributions from five to ten years in April 2012. Department of Public Expenditure and Reform estimates suggest that annual savings from the introduction of this scheme would amount to EUR 1.8 billion, with over a half due to changes to indexation, almost a third due to the impact of career averaging, and the remainder from the increase in pension age. This will significantly reduce longer-term pension costs once this cohort begins to retire.

Table 7: Sustainability indicators

	Ireland			European Union		
	2014 scenario	**No-policy-change scenario**	**Stability Programme scenario**	**2014 scenario**	**No-policy-change scenario**	**Stability/ Convergence Programme scenario**
S2*	2.8	2.5	-2.9	1.4	1.7	0.4
of which:						
Initial budgetary position (IBP)	0.5	0.3	-3.8	0.4	0.5	-0.7
Long-term cost of ageing (CoA)	2.3	2.2	0.9	1.0	1.1	1.1
of which:						
pensions	1.2	1.1	0.2	0.0	0.1	0.1
healthcare	1.1	1.0	0.9	0.8	0.7	0.6
long-term care	0.7	0.7	0.8	0.7	0.7	0.6
others	-0.7	-0.7	-0.9	-0.4	-0.3	-0.2
S1**	5.2	5.1	-2.0	1.4	1.8	0.5
of which:						
Initial budgetary position (IBP)	0.5	0.4	-5.2	-0.4	-0.3	-1.6
Debt requirement (DR)	3.1	3.1	2.5	1.7	1.9	1.8
Long-term cost of ageing (CoA)	1.5	1.6	0.7	0.1	0.3	0.4
S0 (risk for fiscal stress)***	0.30	:		:		
Fiscal subindex	0.36	:		:		
Financial-competitiveness subindex	0.28	:		:		
Debt as % of GDP (2014)	109.7			88.6		
Age-related expenditure as % of GDP (2014)	21.6			25.6		

Source: Commission, 2015 Stability Programme

Note: the '2014' scenario depicts the sustainability gap under the assumption that the structural primary balance position remains at the 2014 position according to the Commission 2015 spring forecast; the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commission 2015 spring forecast until 2016. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the foercast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2016) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

*** The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.

Nevertheless, as suggested by the long-term sustainability indicators, it is appropriate for Ireland to continue to implement measures that reduce risks to fiscal sustainability in the medium term and size any opportunities to reduce government debt. Further containing age-related expenditure growth appears necessary to contribute to the sustainability of public finances in the medium/long term.

6. Fiscal framework and quality of public finances[27]

6.1. Fiscal framework

Pursuant to Art. 4.1 of the Regulation (EU) No 472/2013 (part of the "Two-Pack"). Ireland considers the Stability Programme to be its national medium-term fiscal plan.

The task of assessing the macroeconomic forecast underpinning the annual budget plans and the Stability Programme is assigned to the Irish Fiscal Advisory Council (IFAC) in the Fiscal Responsibility Act. The IFAC endorsed the set of macroeconomic forecasts underpinning the 2015 Stability Programme as lying within the range of appropriate projections. The letter of endorsement was published on 28 April. In its endorsement, the IFAC nevertheless flagged that the medium-term forecasts are subject to a greater degree of uncertainty than forecasts for the current and following year.

Although the fiscal framework has been strengthened significantly in the past several years, in particular with the adoption of the Fiscal Responsibility Act in 2012, some weaknesses remain. These led the European Council to recommend in June 2014 that Ireland better define broad budgetary measures underlying the medium-term fiscal targets and ensure the binding nature of its expenditure ceiling including by limiting the statutory scope for discretionary changes. No initiatives were taken by Ireland in this regard and no improvements are envisaged in the 2015 Stability Programme. Moreover, as indicated above, the programme does not provide information about the broad budgetary measures underlying the medium term fiscal plan, in particular after 2016.

Finally, in its capacity of Ireland's national medium-term fiscal plan, the programme does not include specific indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. These indications are not provided in the Irish National Reform Programme either.

6.2. Quality of public finances

Under the heading ‘Quality of public finances’ the programme refers to some innovations including in particular the Spring Economic Statement and the National Economic Dialogue. Leaving aside the merits of such innovations, they rather pertain to the fiscal framework in the wider sense. Quality of public finances covers issues concerning the effectiveness and/or efficiency of public spending and revenues.

The Spring Economic Statement has been released alongside with the Stability Programme. It set out the broad parameters for macroeconomic growth and the fiscal outlook and constrains over the medium-term. According to the Irish government, it will facilitate on open discussion about fiscal options and priorities well in advance of the Budget late in October.

The government will also launch a new National Economic Dialogue to be held in July in order to facilitate a transparent and inclusive debate on the forthcoming Budget with key stakeholders. According to the authorities, the dialogue will focus on resource allocations and

[27] This section complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability Programme.

spending priorities within the parameters apply to the exercise of fiscal policy, including the overall EU semester and the Country-specific recommendations (CSRs).

As a further potential reform to the budgetary process, the Government plans to examine the possibility of establishing an Independent Budget Office. While the proposal has not been detailed, the main objective of such an independent Budget Office would seem to be to provide an assessment of policy proposals from political parties and groups. However, this new body, according to the government, would eventually be in place only after the next election.

As previously indicated, the Medium-Term Expenditure Framework was one of the key budgetary reforms introduced in recent years. Multiannual expenditure ceilings are published in the *Comprehensive Expenditure Report*. Periodic reviews of public expenditure are an essential part of the medium-term budgetary process. This process allows for a review of all voted public expenditure with focus on efficient resource allocation and public service needs. The second Comprehensive Review of Expenditure was completed in October 2014. The next review is expected for the second part of this year. A new capital investment review would also be released in the coming months.

7. CONCLUSIONS

In 2014, Ireland achieved a headline deficit of 4.1% of GDP, well below the target under the Excessive Deficit Procedure (EDP) of 5.1% of GDP. Both the unadjusted and the adjusted average annual changes in the structural balance over 2011-2014 fall short of the recommended level, while the fiscal effort estimated on the basis of the permanent consolidation measures taken under the programme and thereafter indicates a cumulated fiscal effort of around 9% of GDP over the same period.

Ireland plans to correct its excessive deficit by the 2015 deadline set by the Council. Based on the Commission 2015 spring forecast, a timely correction of the excessive deficit by 2015 is expected. Whereas the fiscal effort in 2011-2015 is estimated to be below what is recommended based on the estimated unadjusted and adjusted change in the structural balance, the cumulated yield of the individual permanent consolidation measures taken over 2011-2015 amounts to around 9½% of GDP, which is also the cumulative fiscal effort recommended by the Council.

After the correction of the excessive deficit, Ireland plans to ensure an improvement of the structural balance in order to reach the medium-term objective – a balanced budget in structural terms – by 2018-2019.

Assuming a timely correction of the excessive deficit by 2015, Ireland would be subject to the preventive arm of the Stability and Growth Pact from 2016 onwards. Based on data presented in the programme, recalculated according to the commonly agreed methodology, progress towards the MTO is in line with the requirements of the preventive arm of the Pact. However, under the usual no-policy-change assumption, the Commission 2015 spring forecast, points to a risk of a significant deviation from the required adjustment path. Hence, achieving the required structural targets hinges on the Irish government specifying and implementing the measures necessary to achieve the budgetary target.

ANNEX

Table I. Macroeconomic indicators

	1997-2001	2002-2006	2007-2011	2012	2013	2014	2015	2016
Core indicators								
GDP growth rate	8.9	4.9	-0.3	-0.3	0.2	4.8	3.6	3.5
Output gap [1]	2.5	1.0	-0.9	-1.8	-2.5	0.1	0.9	0.8
HICP (annual % change)	3.0	3.2	0.8	1.9	0.5	0.3	0.4	1.5
Domestic demand (annual % change) [2]	8.3	5.7	-2.7	-0.6	-0.3	3.6	3.6	3.9
Unemployment rate (% of labour force) [3]	6.2	4.5	10.3	14.7	13.1	11.3	9.6	9.2
Gross fixed capital formation (% of GDP)	23.2	26.5	20.4	15.6	15.2	16.4	17.5	18.8
Gross national saving (% of GDP)	24.3	24.9	18.1	18.3	21.0	24.8	25.1	25.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**2.3**	**1.2**	**-13.2**	**-8.1**	**-5.8**	**-4.1**	**-2.8**	**-2.9**
Gross debt	**46.0**	**27.8**	**65.5**	**121.7**	**123.2**	**109.7**	**107.1**	**103.8**
Net financial assets	**-24.1**	**-8.1**	**-29.2**	**-79.1**	**n.a**	**n.a**	**n.a**	**n.a**
Total revenue	36.1	34.6	34.4	34.2	34.9	34.9	34.4	33.9
Total expenditure	33.8	33.5	47.6	42.3	40.7	39.0	37.2	36.8
of which: Interest	2.6	1.1	2.1	4.1	4.4	4.0	3.6	3.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**2.8**	**3.7**	**11.2**	**7.7**	**8.5**	**1.7**	**1.5**	**2.2**
Net financial assets; non-financial corporations	**-97.9**	**-83.9**	**-104.9**	**-133.8**	**n.a**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**20.5**	**17.9**	**-7.1**	**14.8**	**n.a**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.4	11.7	9.9	10.9	10.9	11.9	12.3	13.0
Gross operating surplus	34.8	35.8	33.7	38.4	36.9	31.4	31.3	32.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-5.6**	**-7.7**	**0.2**	**3.9**	**3.7**	**3.4**	**2.2**	**1.3**
Net financial assets	**99.0**	**78.3**	**57.5**	**81.0**	**n.a**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	36.2	35.3	39.2	37.6	38.3	38.0	37.4	37.0
Net property income	2.7	1.9	0.7	1.7	1.4	1.2	0.1	-0.7
Current transfers received	12.9	13.4	17.6	19.0	18.5	17.0	15.9	15.5
Gross saving	3.0	3.9	6.7	6.7	6.5	6.9	6.3	5.9
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**1.4**	**-1.1**	**-2.5**	**1.6**	**4.4**	**6.3**	**5.3**	**4.9**
Net financial assets	**14.8**	**20.0**	**82.8**	**116.1**	**n.a**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	12.8	13.4	14.0	20.5	20.8	21.4	22.0	21.6
Net primary income from the rest of the world	-12.0	-13.8	-15.1	-17.4	-14.9	-14.0	-15.2	-15.3
Net capital transactions	0.9	0.3	0.1	0.0	0.1	0.1	-0.4	-0.5
Tradable sector	50.7	44.9	45.4	48.8	47.5	47.3	n.a	n.a
Non tradable sector	38.5	43.5	45.2	43.4	44.4	44.3	n.a	n.a
of which: Building and construction sector	6.0	7.7	3.9	1.6	1.6	1.6	n.a	n.a
Real effective exchange rate (index, 2000=100)	83.1	95.2	106.8	91.6	97.3	97.1	90.6	90.0
Terms of trade goods and services (index, 2000=100)	105.6	105.4	100.2	97.6	97.6	97.3	97.6	97.6
Market performance of exports (index, 2000=100)	83.1	96.1	99.6	104.4	103.4	112.9	114.9	115.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

AMECO data, Commission 2015 spring forecast.