EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 5 June 2019

Assessment of the 2019 Stability Programme for

Ireland

(Note prepared by DG ECFIN staff)

CONTENTS

EXECUTIVE SUMMARY

Ireland is subject to the preventive arm of the Stability and Growth Pact (SGP). Since its public debt is above the 60% of GDP reference value of the Treaty, it also needs to ensure sufficient progress towards compliance with the debt reduction benchmark.

The strong GDP growth in Ireland is estimated to moderate in 2019 and 2020 as support from the external environment weakens. Nevertheless, underlying economic activity is expected to remain robust, driven by private consumption and investment in construction. Increasing employment and wages, together with modest inflation should further support household purchasing power. Investment in construction is expected to remain strong, underpinned by various government measures. Signs of overheating could become more apparent as the labour market is approaching full employment. According to the Commission forecast, GDP growth is set to decrease from 6.7% in 2018 to 3.8% in 2019 and 3.4% in 2020. This is broadly in line with the scenario underlying the Stability Programme.

In 2018, the headline budget position reached a balance, on the back of a strong economy and performance in corporate taxes. Government expenditure increased by 6.0% compared to the previous year. A fall in the interest burden facilitated the deficit reduction. According to the Stability Programme, the general government budget balance is set to increase to 0.2% of GDP in 2019 and 0.4% in 2020, before improving further to 1.3% by 2023. In structural terms, based on the recalculated output gaps, the budget balance decreased to -1.4% of potential GDP in 2018, well below the medium-term budgetary objective (set at -0.5%). The recalculated structural deficit[1] is forecast to decline to 1.0% in 2019, before falling to 0.5% in 2020, thereby achieving the medium-term budgetary objective. Risks to the short-term fiscal outlook are tilted to the downside and mainly relate to the macroeconomic side, over-spending within the health sector and the increasing concerns about the durability of the recent performance in some revenue categories, notably corporate tax. The projected increase in ageing cost points to medium risk in long-term sustainability.

Overall, Ireland is expected to be compliant with the required adjustment path towards the medium-term budgetary objective in 2019. It is expected to meet the medium-term budgetary objective in 2020. General government debt is forecast to remain on a firm downward path beyond the requirements of the debt rule.

1. INTRODUCTION

On 29 April 2019, Ireland submitted its 2019 Stability Programme (hereafter called Stability Programme), covering the period 2019-2023. It was presented to the Parliament on 16 April 2019.

Ireland is currently subject to the preventive arm of the the SGP and should ensure sufficient progress towards its medium-term budgetary objective (MTO). As the debt ratio was 64.8% of GDP in 2018, exceeding the 60% of GDP reference value, Ireland is subject to the debt reduction benchmark.

[1] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information in the Programme according to the commonly agreed methodology.

This document complements the Country Report published on 27 February 2019[2] 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 2019 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview of the medium-term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, including based on the Commission forecast. Section 5 provides an overview of long-term sustainability risks and Section 6 of recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Provisional estimates show the real GDP grew by 6.7% in 2018, partly inflated by the activities of multinational companies (see Table 1). However, modified domestic demand, a measure of domestic activity that strips out some of the effects of multinationals, also grew strongly, by 4.5% in 2018, supported by private consumption and construction investment. Private consumption grew by 3% on the back of positive labour market developments and modest inflation. Underlying gross fixed capital formation increased by 14.6% as investment in construction remained strong. Net exports contributed 4.3 percentage points to real GDP growth, driven by strong exports of pharmaceuticals and computer services combined with a slowdown in imports of intellectual property. According to the Stability Programme, economic growth is expected to remain strong, with domestic demand the main contributor, but to moderate in 2019 and 2020, reflecting less favourable near-term prospects in key export markets.

The macroeconomic scenario underlying the Stability Programme takes into account the less benign external economic environment compared to the scenario underlying the Draft Budgetary Plan 2019. Accordingly, real GDP growth in 2019 was revised downwards by 0.3 percentage points, and is now expected to reach 3.9%.

The macroeconomic assumptions for 2019 and 2020 in the Stability Programme are broadly in line with the Commission 2019 spring forecast. The Stability Programme projects higher investment growth in 2019, with investment in aircraft maintaining its 2018 share in total investment. The Commission forecast assumes that the share of aircraft in total investment will return to its medium-term average, which is slightly lower than seen in 2018. As investment in aircraft is imported, thus with a neutral impact on GDP, the decline in aircraft investment in 2019 is reflected in weaker import growth in the Commission forecast than in the Programme. However, discounting the effects from the activities of multinationals, underlying investment and domestic activity are expected to remain robust in both the Stability Programme and the Commission forecast. As regards developments in the labour market, the two forecasts are also broadly in line, though the Commission expects a slightly lower unemployment rate for 2020.

Similarly to the Commission forecast, risks to the macroeconomic projections underlying the Stability Programme are tilted to the downside. The most important source of uncertainty in both forecasts relates to the ongoing negotiation over the terms of the UK's withdrawal from

[2] European Commission (2019), Country Report Ireland 2019 (SWD(2019) 1006 final)

the EU, but changes to the international trade and tax environment also represent a challenge. On the domestic side, signs of overheating could become more apparent with the labour market approaching full employment.

Table 1: Comparison of macroeconomic developments and forecasts

	2018		2019		2020		2021	2022	2023
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	6.7	6.7	3.8	3.9	3.4	3.3	2.4	2.5	2.6
Private consumption (% change)	3.0	3.0	2.4	2.7	2.3	2.5	2.1	2.3	2.5
Gross fixed capital formation (% change)	9.7	9.8	4.2	6.9	5.2	5.5	4.2	4.1	4.1
Exports of goods and services (% change)	8.9	8.9	4.5	5.2	4.1	4.5	3.7	3.6	3.5
Imports of goods and services (% change)	7.0	7.0	4.6	5.9	4.3	5.0	4.4	4.2	4.1
Contributions to real GDP growth:									
- Final domestic demand	3.9	3.9	2.5	3.0	2.2	2.5	2.0	2.0	2.2
- Change in inventories	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	4.3	4.3	1.3	1.0	1.1	0.8	0.4	0.5	0.5
Output gap[1]	2.8	2.8	2.2	2.4	1.7	1.7	0.5	-0.2	-0.8
Employment (% change)	3.5	2.9	2.0	2.2	1.8	2.1	1.5	1.6	1.7
Unemployment rate (%)	5.8	5.7	5.4	5.4	5.0	5.2	5.3	5.2	5.1
Labour productivity (% change)	3.0	3.6	1.7	1.7	1.5	1.2	0.9	0.9	0.9
HICP inflation (%)	0.7	0.7	1.0	0.9	1.3	1.1	1.6	2.0	2.3
GDP deflator (% change)	1.5	1.5	1.7	1.5	1.9	1.7	1.7	1.6	1.6
Comp. of employees (per head, % change)	2.9	2.5	3.2	3.0	3.6	3.2	3.3	3.5	3.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.1	9.1	1.9	8.4	1.6	8.0	7.6	7.0	6.3

Note:

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

Source :

Commission 2019 spring forecast (COM); Stability Programme (SP).

The output gaps as recalculated by the Commission based on the information in the Programme, following the commonly agreed methodology, suggest positive gaps in 2018-2021 and negative ones in 2022-2023. Since autumn 2018, the method for calculating trend total factor productivity has been adjusted.[3] This follows other methodological adjustments to mitigate distortions of the potential output estimate due to a discrepancy between wage inflation and productivity, which are largely driven by the activities of multinationals with limited impact on the domestic economy.[4] In contrast, the output gap of the Stability Programme, based on the Irish Department of Finance's preferred, alternative estimates, suggests a negative gap in 2018 and positive ones until the end of the Programme horizon.[5]

[3] In addition, a new Business and Consumer Surveys series for Ireland recently became available, covering the period until 2019, allowing the Commission to calculate a capacity utilisation indicator.

[4] A Hodrick-Prescott filter of the unemployment rate has been used instead of the non-accelerating wage rate of unemployment.

[5] Their more detailed assessment is set out in Department of Finance (2018), *Estimating Ireland's Output Gap* (https://www.gov.ie/en/publication/65c119-estimating-irelands-output-gap). In addition, the Programme

Overall, the macroeconomic scenario underlying the Stability Programme is plausible.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2018 AND 2019

The headline government position turned from a deficit of 0.3% in 2017 to balance in 2018, on the back of a strong economy. Taking into account a one-off factor,[6] the underlying balance was 0.1% of GDP, an improvement of 0.4% of GDP vis-à-vis the previous year's underlying position. Revenue was up 7.2% in 2018, driven by the strong performance in corporate taxes. Government expenditure increased by 6.0% compared to the previous year. A fall in the interest burden facilitated the deficit reduction.

The balanced position outturn in 2018 was above the target of -0.2% of GDP laid out in the 2018 Stability Programme and slightly above the -0.1% of GDP predicted in the 2019 Draft Budgetary Plan. The differences largely reflect stronger-than-expected revenue in 2018. The revenue-to-GDP and the expenditure-to-GDP ratios were higher than expected in the 2018 Stability Programme, by 0.4 and 0.1 percentage point respectively. This is mainly a result of an overshoot in corporate tax revenue, some of which is likely to have been temporary. On the expenditure side, this is mainly a result of higher social payments, including due to a statistical reclassification of two pension funds within the general government sector, and health expenditure.

For 2019, the Stability Programme projects the headline general government balance to turn into a surplus 0.2% of GDP. This is above the target of -0.1% included in the 2018 Stability Programme and the balanced position target in the 2019 Draft Budgetary Plan. These projections take into account Budget 2019 measures. The expenditure-to-GDP ratio is projected to drop to 25.4% in 2019, a reduction of 0.3 percentage points compared to the previous year, while the revenue-to-GDP ratio is projected to decline by 0.2 percentage points to 25.6% (see Table 2). In particular, the Stability Programme's target for current taxes on income and wealth in 2019 is EUR 375 million above the Budget 2019 estimates, mainly due to more up-to-date data. However, “Other” revenue is below the Budget 2019 estimates given the significant shortfall in 2018 for incidental non-market output. On the expenditure side, the Stability Programme's target for capital transfers in 2019 is EUR 285 million above Budget 2019 estimates despite the reclassification of the pension funds.[7]

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The MTO of -0.5% of GDP reflects the objectives of the Pact in 2018 and 2019, but is in principle more stringent than required by the Pact as of 2020. However, this appears to take

provides output gaps based on the commonly agreed methodology. They are more aligned with the recalculated output gaps in that they are positive in 2019-2021, albeit higher and remaining positive until 2023. Differences in the output gaps based on the commonly agreed methodology include the mechanical closure of the output gap from 2021 onwards, not used in the Commission’s recalculation.

[6] This refers to a deficit-increasing consultants’ pay settlement (0.1% of GDP).

[7] The statistical reclassification of one of the two pension funds reduces a heretofore assumed capital transfer of approximately EUR 140 million in 2019.

into account that, although the debt-to-GDP ratio is forecast to be below the Treaty reference value by 2020, a range of other metrics shows that Ireland's stock of public debt remains high by historical and international standards.[8]

Table 2: Composition of the budgetary adjustment

(% of GDP)	2018	2019		2020		2021	2022	2023	Change: 2018-2023
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**25.8**	**25.6**	**25.6**	**25.3**	**25.2**	**25.1**	**25.1**	**25.2**	**-0.6**
of which:									
- Taxes on production and imports	8.0	8.2	8.0	8.0	7.8	7.7	7.7	7.6	-0.4
- Current taxes on income, wealth, etc.	10.9	10.6	10.7	10.6	10.7	10.7	10.8	10.9	0.0
- Social contributions	4.2	4.2	4.4	4.2	4.4	4.4	4.5	4.5	0.3
- Other (residual)	2.7	2.6	2.5	2.5	2.3	2.3	2.1	2.2	-0.5
Expenditure	**25.7**	**25.6**	**25.4**	**25.0**	**24.8**	**24.4**	24.1	**23.8**	**-1.9**
of which:									
- Primary expenditure	24.1	24.2	24.0	23.8	23.6	23.3	23.0	22.6	-1.5
of which:									
Compensation of employees+Intermediate	10.4	10.7	10.7	10.6	10.4	10.1	9.8	9.5	-0.9
Compensation of employees	7.0	7.1	6.9	7.0	6.7	6.5	6.3	6.0	-1.0
Intermediate consumption	3.4	3.6	3.9	3.6	3.7	3.6	3.6	3.5	0.1
Social payments	9.4	9.0	8.9	8.7	8.6	8.3	8.0	7.7	-1.7
Subsidies	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	-0.1
Gross fixed capital formation	2.0	2.3	2.3	2.3	2.3	2.3	2.3	2.4	0.4
Other (residual)	1.8	1.7	1.6	1.7	1.7	1.8	1.0	1.0	-0.8
- Interest expenditure	1.6	1.5	1.4	1.2	1.2	1.1	1.1	1.2	-0.4
General government balance (GGB)	**0.0**	**0.0**	**0.2**	**0.3**	**0.4**	**0.7**	**1.0**	**1.3**	**1.3**
Primary balance	**1.7**	**1.4**	**1.6**	**1.5**	**1.6**	**1.8**	**2.1**	**2.5**	**0.8**
One-off and other temporary measures	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
GGB excl. one-offs	**0.1**	**0.0**	**0.2**	**0.3**	**0.4**	**0.7**	**1.0**	**1.3**	**1.2**
Output gap[1]	2.8	2.2	2.4	1.7	1.7	0.5	-0.2	-0.8	-3.6
Cyclically-adjusted balance[1]	-1.4	-1.2	-1.0	-0.5	-0.5	0.4	1.1	1.7	3.1
Structural balance[2]	**-1.4**	**-1.2**	**-1.0**	**-0.5**	**-0.5**	**0.4**	**1.1**	**1.7**	**3.1**
Structural primary balance[2]	0.3	0.3	0.4	0.7	0.7	1.5	2.2	2.9	2.6

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by 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 2019 spring forecasts (COM); Commission calculations.

The Stability Programme projects an improvement in the headline balance, with strong adjustments envisaged in 2021-2023. It expects the headline balance to reach a surplus of 0.4% of GDP in 2020 and 1.3% of GDP by the end of the Programme's horizon. The structural balance based on alternative output gap estimates is forecast to reach 0.1% of GDP in 2019 and stay above the MTO throughout the Programme period, because of a smaller

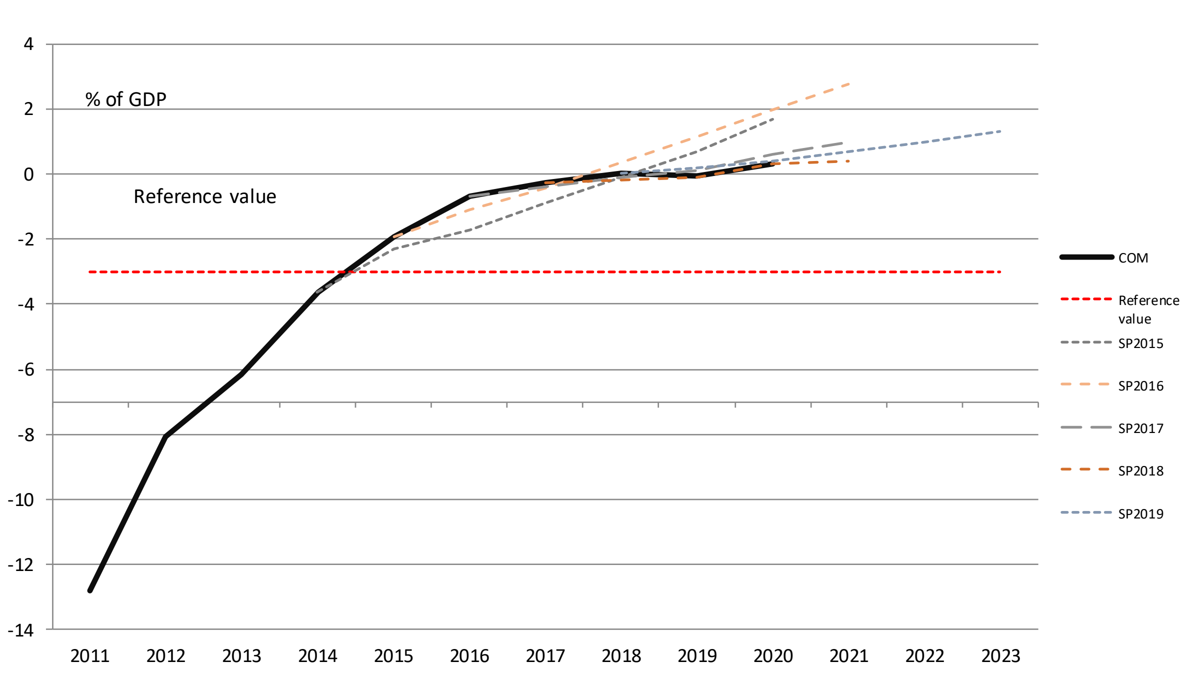
[8] A more detailed assessment of debt dynamics is set out in Department of Finance (2018), *Annual Report on Public Debt in Ireland* (https://www.gov.ie/en/publication/574c78-annual-report-on-public-debt-in-ireland).

positive output gap than recalculated according to the commonly agreed methodology based on the information in the Programme. On the basis of the information in the Programme, the recalculated structural deficit is estimated at 1.0% of GDP in 2019, down from 1.4% of GDP in 2018. The Commission 2019 spring forecast expects a structural deficit of 1.2% of GDP in 2019. The difference with the Programme target stems from the difference in the headline balance and the output gap. The recalculated structural deficit is projected to reach 0.5% of GDP in 2020 - thereby achieving Ireland's MTO - and to turn into surplus over the forecast horizon. This is in line with the Commission forecast.

The Stability Programme projects total government expenditure's share in GDP to decline to 24.8% in 2020 and to drop further to 23.8% by the end of the Programme's horizon. At the same time, the revenue-to-GDP ratio is projected to decline, more gradually, to 25.2% in 2020 and remain broadly steady until 2023. Therefore, the bulk of the adjustment is expected on the expenditure side.

Planned improvements in the headline balance of 0.2% and 0.3% of GDP in 2020 and 2021, respectively, compare to planned improvements of 0.4% and 0.1% of GDP in the 2018 Stability Programme (see Figure 1). In particular, intermediate consumption is now expected to be higher, partly due to increases in current expenditure announced in Draft Budgetary Plan 2019.

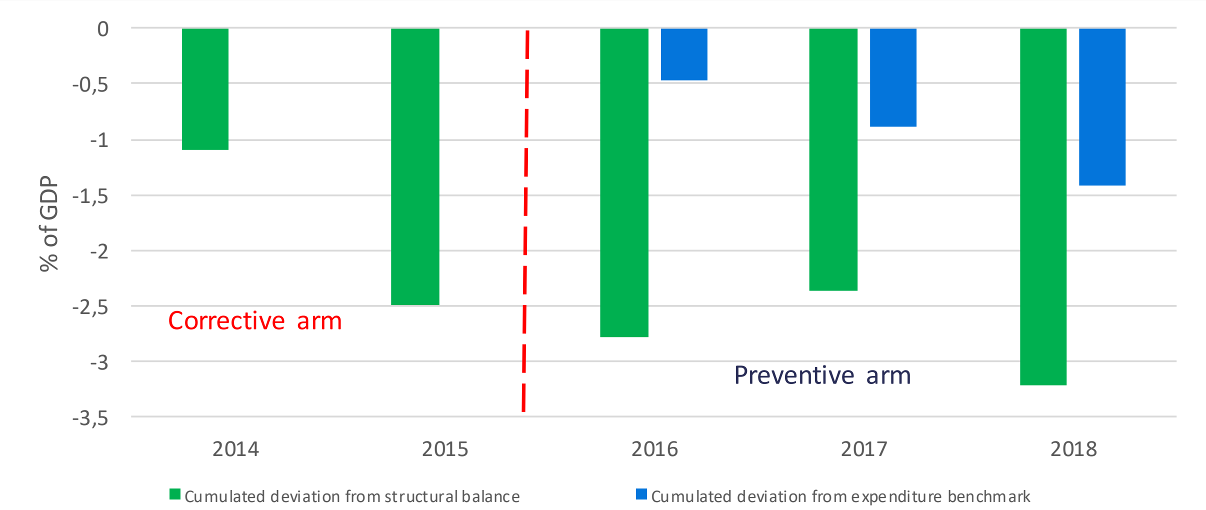
Figure 1: Government balance projections in successive Programmes (% of GDP)



Source: Commission 2019 Spring Forecast. Stability and convergence programmes

As shown in Figure 2, Ireland has large cumulated deviations from the requirements of the preventive arm. Ireland's structural adjustment fell short of the targets laid down in the 2010 revised Excessive Deficit Procedure recommendation by 1.1% of GDP in 2014 and by 1.4% of GDP in 2015, leading to a cumulative deviation of around 2.5% of GDP. Since the correction of the excessive deficit in 2015, Ireland has been subject to the preventive arm of the SGP and has been recommended to ensure an annual structural adjustment of 0.6% of GDP towards the MTO in 2016-2018. In 2016, Ireland's structural adjustment fell short of the requirement by 0.3% of GDP. In 2017, Ireland achieved its MTO. Hence, the improvement of the structural balance by 0.7% of GDP exceeded the requirement received at the time by around 0.4% of GDP thereby reducing the cumulative deviation to almost 2.4% of GDP. The outturn for 2018 fell short of the recommended adjustment by around 0.9% of GDP and increased the cumulative deviation since 2014 to around 3.2% of GDP. Overall, over the five years, the improvement of the structural balance above the target in 2017 has not offset the negative deviations recorded in the other years. The expenditure benchmark pointed to a cumulative deviation of 0.9% of GDP in 2017. The expenditure growth rate in 2018 points to a further deviation by 0.5%. However, this does not capture the additional revenue linked to the continued non-indexation of income tax bands, which is considered to be of a permanent nature.

Figure 2: Cumulative deviations of the preceding five years from the upper limit for net growth of government expenditure and from structural effort requirements (% of GDP)



Source : COM SCP assessments and spring 2019 forecast

3.3. MEASURES UNDERPINNING THE PROGRAMME

As indicated above, for 2019, the headline balance of 0.2% of GDP projected in the Stability Programme takes into account a package of measures already included in the 2019 Draft Budgetary Plan. The main measures included a revenue-raising increase in the rate of value added tax on tourism activities of almost 0.2% of GDP in a full year and current expenditure increases directed towards the area of health of around 0.2% of GDP.[9]

Specifically in relation to 2019, the Stability Programme describes pre-committed expenditure increases of around EUR 1.2 billion for demographics-related costs, public sector pay and carry-over costs associated with measures introduced in 2019. The Stability Programme suggests that there are EUR 7.9 billion in expenditure resources not yet allocated in 2020-2023.

No further detail on the possible new measures beyond 2019 is provided in the Stability Programme. Overall, the Stability Programme does not provide a description of the main budgetary measures and an assessment of their quantitative effects on the general government

[9] Expenditure measures in the health area mainly related to a commitment to improve the access to health services, through investment across hospital services and the National Treatment Purchase Fund.

balance. This is inconsistent with the guidelines laid down in the Code of Conduct of the SGP.

The government may further clarify its budgetary strategy in the Summer Economic Statement, which sets out the broad parameters for the fiscal outlook and constraints over the medium term. The measures that have already been set out are accounted for in the Commission 2019 spring forecast. The continued non-indexation of income tax bands, which is considered to be of a permanent nature, is not included. Yields of the measures that have already been specified seem plausible. However, some of the recent revenue raising measures (notably increased stamp duty on non-residential property transactions in 2018) are biased towards highly volatile, pro-cyclical and uncertain tax bases. Some timing differences exist as the Draft Budgetary Plan 2019 reported the effect of the measures on a cash basis, while the Commission forecasts consider them on an accrual basis.

3.4. DEBT DEVELOPMENTS

Ireland's general government debt-to-GDP ratio has been steadily falling since its peak of just below 120% in 2012. This has been the result of declining headline deficits and strong nominal GDP growth, including the mechanical effect of the exceptionally large surge in 2015 GDP. In 2018, the debt ratio dropped by 3.7 percentage points to 64.8% (see Table 3) on the back of high nominal GDP growth and a decrease in the headline deficit. The Stability Programme projects a government debt-to-GDP ratio of 61.1% and 55.8%, respectively, in 2019 and 2020.

Table 3: Debt developments

(% of GDP)	Average 2013-2017	2018	2019		2020		2021	2022	2023
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**88.5**	**64.8**	**61.3**	**61.1**	**55.9**	**55.8**	**55.4**	**53.2**	**51.6**
Change in the ratio	-10.3	-3.7	-3.4	-3.7	-5.4	-5.3	-0.4	-2.2	-1.6
Contributions[2]:									
1. Primary balance	**-0.5**	**-1.7**	**-1.4**	**-1.6**	**-1.5**	**-1.6**	**-1.8**	**-2.1**	**-2.5**
2. "Snow-ball" effect	**-6.2**	**-3.5**	**-1.9**	**-1.9**	**-1.8**	**-1.7**	**-1.1**	**-1.1**	**-1.0**
Of which:									
Interest expenditure	3.0	1.6	1.5	1.4	1.2	1.4	1.1	1.1	1.2
Growth effect	-7.9	-4.2	-2.3	-2.4	-2.0	-1.9	-1.3	-1.3	-1.3
Inflation effect	-1.3	-1.0	-1.0	-0.9	-1.1	-1.0	-0.9	-0.8	-0.8
3. Stock-flow adjustment	**-3.3**	**1.5**	**-0.1**	**-0.1**	**-2.0**	**-1.9**	**2.5**	**1.0**	**1.9**
Of which:									
Cash/accruals diff.				0.2		0.2	0.1	0.1	0.1
Acc. financial assets				-0.2		-0.8	-0.5	-0.1	-0.1
Privatisation				0.0		0.0	0.0	0.0	0.0
Val. effect & residual				0.0		0.0	0.0	0.0	0.0

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:

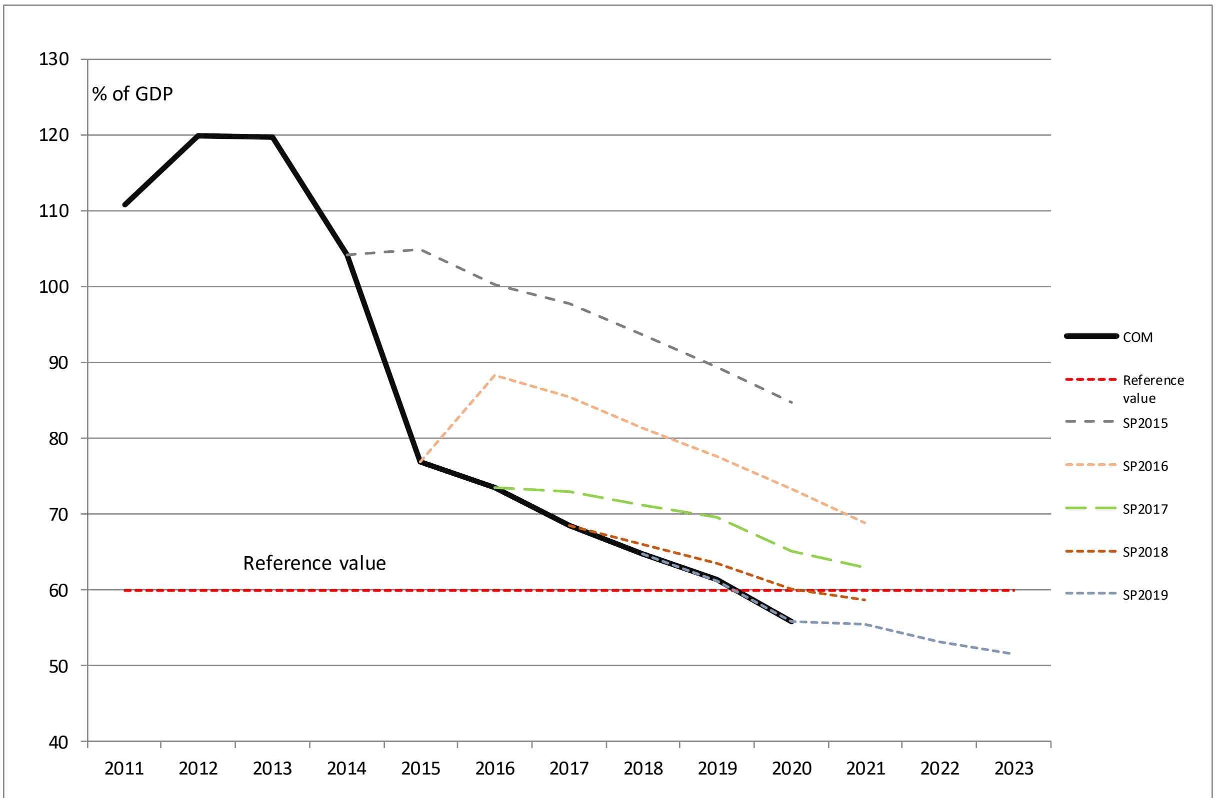
Commission 2019 spring forecast (COM); Stability Programme (SP), Comission calculations.

However, the stock of public debt remains high and is planned to decrease by only EUR 0.2 billion (or 0.1%) over the period 2018-2023. Adjusting for the impact of multinational companies, complementary indicators show that Ireland's stock of public debt remains high by historical and international standards. According to the Stability Programme, debt-to-modified GNI[10] ratio, for example, was estimated at around 107% in 2018.

According to the Commission 2019 spring forecast, the general government debt-to-GDP ratio is projected to further decline to 61.3% and 55.9% in 2019 and 2020, respectively, due to expected continued stable medium-term economic growth and primary surpluses.

Prudently, the Programme's debt projections do not include potential receipts from the resolution of the financial crisis. Downward revisions of the debt path compared to the earlier Stability Programmes were mainly due to the more favourable outturns for economic growth (see Figure 3).

Figure 3: Government debt projections in successive Programmes (% of GDP)



Source: Commission 2019 Spring Forecast. Stability and Covergence programmes

3.5. RISK ASSESSMENT

The Commission 2019 spring forecast considers the risks to the macroeconomic outlook to be tilted to the downside, due to both external and domestic factors (see section 2). Similarly, risks to the baseline fiscal forecast are also tilted to the downside, mainly reflecting over-

[10] Modified Gross National Income (also known as GNI*), calculated by the Irish statistical authorities, more accurately reflects the income standards of Irish residents than GDP. It differs from actual GNI in that it excludes, *inter alia*, the depreciation of foreign-owned, but Irish-resident, capital assets (notably intellectual property and assets associated with aircraft leasing) and the undistributed profits of firms that have re-domiciled to Ireland.

spending within the health sector and increasing concerns about the durability of the recent performance of some revenue categories. In particular, the growing share of corporate income tax in total exchequer revenue (now at 15.2%) poses a potential risk to public finances, as the respective tax base is heavily influenced by relocation decisions of a small number of large multinational enterprises. In this context, it should be noted that the Stability Programme's headline deficit forecasts for 2019 and beyond rely on the continuation of strong growth rates in current taxes on income and wealth – a 5.2% average annual growth over 2019-2023. Moreover, some recent public pay discussions underline the risk to the compensation of employees forecasts. Considerable unforeseen spending (current and capital) may also be needed to address changes in the structure of the population. Further risks arise from the potential under-achievement of legally binding climate and renewable energy targets, which would imply a financial cost that cannot be quantified at present.

The Commission 2019 spring forecast, under the usual no-policy-change assumption, projects a balanced headline position for 2019, 0.2% of GDP below the government's projections. By extrapolating trends and relationships consistent with past policy orientations, less conservative assumptions on compensation of employees and taking into account carry-overs of previously adopted measures, the Commission forecast points to higher expenditure in 2019-2020 than the Stability Programme. At the same time, it is important to note that the deficit forecasts in previous Stability Programmes have proven to be more conservative than the actual deficit outturns, although mainly due to higher-than-expected economic growth and corporate tax receipts.

Government debt ratio projections are sensitive to variations in economic growth and to the expected size of the budgetary adjustment. The potential sale of government shares in the three major domestic banks would reduce public debt. The Programme's projections are broadly in line with the Commission 2019 spring forecast.

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

Box 1: Council recommendations addressed to Ireland

On 13 July 2018, the Council addressed recommendations[11] to Ireland in the context of the European Semester. In particular, in the area of public finances the Council recommended to Ireland (i) to achieve the medium-term budgetary objective in 2019 and (ii) to use windfall gains to accelerate the reduction of the general government debt ratio. However, in view of the Commission 2018 autumn forecast, Ireland would have been above its MTO in 2018 and, in line with the arrangements in place for updating the fiscal requirements contained in the country-specific recommendations[12], the nominal growth rate of net primary government expenditure should not exceed 7.0%, corresponding to an allowed deterioration in the structural balance by 0.3% of GDP.

4.1. Compliance with the debt criterion

Having corrected its excessive deficit in 2015, Ireland was in the transition period as regards the debt criterion for the three years following the correction. The estimated change in the structural balance in 2018 was higher than the required Minimum Linear Structural Adjustment.

In 2019, Ireland should comply with the debt reduction benchmark. Based on the Stability Programme, Ireland is expected to meet the debt reduction benchmark in 2019, as its debt-to-GDP ratio is expected to be 4.5% of GDP below it. The Commission 2019 spring forecast confirms compliance with the debt benchmark in this year.

In 2020, Ireland would no longer be subject to the debt reduction benchmark, as the debt ratio is projected to fall below the Treaty reference value. This is in line with the Commission 2019 spring forecast.

[11] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Ireland and delivering a Council Opinion on the 2018 Stability Programme of Ireland (OJ C 320, 10.9.2018, p. 27–32).

[12] Those arrangements, known as the 'unfreezing' principle, are referred to in the Opinion of the Economic and Financial Committee of the Council on "Improving the predictability and transparency of the SGP: A stronger focus on the expenditure benchmark in the preventive arm", of 29 November 2016, and have been specified further in subsequent discussions with the Member States.

Table 4. Compliance with the debt criterion

	2018	2019		2020		2021
		SP	**COM**	**SP**	**COM**	**SP**
Gross debt ratio	**65**	**61.1**	**61.3**	**55.8**	**55.9**	**55.4**
Gap to the debt benchmark [1,2]		-4.5	-7.2			
Structural adjustment [3]	-0.4					
To be compared to:						
Required adjustment [4]	-7.2					

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 (S/CP) budgetary projections for the previous years are achieved.

Source :
Commission 2019 spring forecast (COM); Stability Programme (SP), Comission calculations.

4.2. Compliance with the MTO or the required adjustment path towards the MTO

The growth of nominal primary government expenditure, net of discretionary revenue measures and one-offs, exceeded the applicable expenditure benchmark of 3.1% in 2018. This led to a deviation of 0.5% of GDP in the underlying fiscal position, thus pointing to significant devation in 2018 from the recommended adjustment path towards the MTO in 2018, based on the outturn data and the Commission 2019 spring forecast.[13] The structural balance deteriorated by more than 0.4% of GDP in 2018, thus pointing to significant devation of 0.9% of GDP from the recommended structural adjustment. This calls for an overall assessment. Given the very open nature of the Irish economy and the volatility of potential GDP estimates, the expenditure benchmark provides a more appropriate yardstick for fiscal policy. However, it does not capture the additional revenue linked to the continued non-indexation of income tax bands. Taking this, into account, the expenditure benchmark was below the applicable significant deviation threshold. Hence, the overall assessment points to some deviation in 2018.

In 2019, according to the information provided in the Stability Programme, the expenditure benchmark points to compliance with the requirement of a nominal rate of growth of net primary government expenditure that does not exceed 7.0%. Similarly, the expenditure benchmark points to compliance in 2018 and 2019 taken together. The recalculated change in

[13] There is no need to consider the deviation over 2017 and 2018 together as Ireland was assessed to be at its MTO in 2017 and, therefore, compliant. This assessment was frozen in spring 2018.

the structural balance of 0.5% points to compliance, based on the adjustment requirement for 2019 set in 2018, which remains fixed for the in-year assessment. This is also the case when looking at 2018 and 2019 taken together. Therefore, the Stability Programme plans compliance with the recommended structural adjustment towards the MTO in 2019.

Based on the Commission 2019 spring forecast, the expenditure benchmark also points to compliance in both 2019 and in 2018 and 2019 taken together. However, the structural balance points to compliance in 2019, but there is a risk of some deviation in 2018 and 2019 taken together based on the adjustment requirement for 2019 set in 2018, which remains fixed for the in-year assessment. Again, this calls for an overall assessment. As above, the expenditure benchmark pillar is considered to reflect more appropriately Ireland's underlying fiscal effort. Thus, the overall assessment points to compliance in 2019.

Based on both the Stability Programme and the Commission 2019 spring forecast, Ireland is expected to meet its MTO in 2020. Hence, the current assessment points to compliance in 2020.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2018	2019		2020	
Background budgetary indicators[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-1.4	-1.2		-0.5	
Setting the required adjustment to the MTO					
Structural balance based on freezing (COM)	-0.2	-1.2		-	
Position vis-a -vis the MTO[3]	Not at MTO	At or above the MTO		Not at MTO	
Required adjustment[4]	0.4	0.0		0.7	
Required adjustment corrected[5]	0.4	-0.3		0.7	
Corresponding expenditure benchmark[6]	3.1	7.0		3.7	
Compliance with the required adjustment to the MTO					
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Change in structural balance[7]	-0.4	0.5	0.2	0.5	0.7
One-year deviation from the required adjustment[8]	-0.9	0.8	0.4	-0.1	0.0
Two-year average deviation from the required adjustment[8]	-0.2	0.0	-0.2	0.3	0.2
Expenditure benchmark pillar					
Net public expenditure annual growth corrected for one-offs[9]	5.5	3.0	4.9	3.1	4.0
One-year deviation adjusted for one-offs[10]	-0.5	0.9	0.5	0.1	-0.1
Two-year deviation adjusted for one-offs[10]	-0.5	0.2	0.0	0.5	0.2
Finding of the overall assessment	**Some deviation**	Compliance	Compliance	Compliance	Compliance

Legend

'*Compliance*' - the recommended structural adjustment or a higher adjustment is being observed.

'*Some deviation*' - a deviation from the recommended structural adjustment is being observed, but it is below the threshold for a significant deviation.

'*Significant deviation*' - a deviation which has reached or breached the threshold for a significant deviation (i.e. 0.5% of GDP over one year, 0.25% of GDP over two years on average).

Irrelevant for the Significant Deviation Procedure' - a Significant Deviation Procedure would not be opened only on the basis of the two-year deviation if the Member State has reached its MTO (at the time of the freezing or on the basis of the last storage) in one of the two years.

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 (p.p.) 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 38.).

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

[6] 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 adjusting towards its MTO, including in year t.

[7] Change in the structural balance compared to year t-1. Ex post assessment (for 2018) is carried out on the basis of Commission 2019 spring forecast.

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

[9] Net public expenditure annual growth (in %) corrected for discretionary revenue measures, revenue measures mandated by law and one-offs (nominal)

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs 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.

[10] 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

Rounding may affect totals

Source :
Stability Programme (SP); Commission 2019 spring forecast (COM); Commission calculations.

5. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

Ireland does not appear to face fiscal sustainability risks in the short run.[14]

Based on Commission 2019 spring forecasts and a no-fiscal-policy-change scenario beyond the forecast horizon, government debt, projected at 61.3% of GDP in 2019, is expected to decrease to 49.9% in 2029, thus falling below the 60% of GDP Treaty threshold. Over this horizon, government debt is projected to decline to 48.2% of GDP by 2026 and slightly increase thereafter. Sensitivity analysis shows similar risks.[15] Overall, this highlights low risks for the country from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a more clearly decreasing path, reaching 34.5% of GDP in 2029.

The medium-term fiscal sustainability risk indicator S1[16] is at -0.5 percentage points of GDP, as the favourable initial budgetary position, contributing -1.3 percentage points of GDP, compensates for the projected increase in ageing costs. This indicator thus signals low risks in the medium term. The full implementation of the Stability Programme would put the sustainability risk indicator S1 at -4.1 percentage points of GDP. Based on the debt sustainability analysis and the S1 indicator, overall medium-term fiscal sustainability risks are, therefore, low. Fully implementing the fiscal plans in the Stability Programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2[17] is at 3.5 percentage points of GDP. In the long term, Ireland therefore appears to face medium fiscal sustainability risks, due to the projected increase in ageing costs, contributing by 3.8 percentage points of GDP. Full implementation of the Programme would put the S2 indicator at 0.9 percentage points of GDP leading to a lower long-term risk.[18] The debt sustainability analysis discussed above points to low risks so that, overall, long-term fiscal sustainability risks are assessed as medium for Ireland. A Roadmap for Pension Reform 2018-2023, published in 2018, aims to address the long-term sustainability of the state pension system.[19]

[14] This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 6 for a definition of the indicator.

[15] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Fiscal Sustainability Report 2018 for more details).

[16] See the note to Table 6 for a definition of the indicator.

[17] Idem.

[18] The projected costs of ageing that are used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the projections of the 2018 Ageing Report.

[19] A more detailed assessment is set out in the Commission 2019 Country Report.

Table 6: Debt sustainability analysis and sustainability indicators

Time horizon			Commission Scenario		Stability Programme Scenario	
Short-term			**LOW risk**			
S0 indicator [1]			0.2			
Fiscal subindex			0.0	LOW risk		
Financial & competitiveness subindex			0.3	LOW risk		
Medium-term			**LOW risk**			
DSA [2]			LOW risk			
S1 indicator [3]			-0.5	LOW risk	-4.1	LOW risk
of which	Initial Budgetary Position		-1.3		-4.2	
	Debt Requirement		-0.3		-0.8	
	Cost of Ageing		1.1		0.9	
	of which	Pensions	0.5		0.4	
		Health care	0.2		0.2	
		Long-term care	0.2		0.2	
		Other	0.2		0.1	
Long-term			**MEDIUM risk**			
DSA [2]			LOW risk			
S2 indicator [4]			3.5	MEDIUM risk	0.9	LOW risk
of which	Initial Budgetary Position		-0.3		-2.6	
	Cost of Ageing		3.8		3.4	
	of which	Pensions	1.5		1.3	
		Health care	0.8		0.7	
		Long-term care	1.6		1.5	
		Other	0.0		-0.1	

Source: Commission services; 2019 Stability Programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2019 forecast until 2020. The 'stability/convergence 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 2018 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections*.

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2033. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2021 for Commission scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2018.

6. FISCAL FRAMEWORK

The national numerical fiscal rules, meant to guide the Irish budget planning and execution, are embedded in the Fiscal Responsibility Act (FRA) adopted in 2012. The balanced-budget rule and the debt rule, accompanied by adjustment paths, refer back to the EU fiscal rules in the SGP (see art. 2 of the FRA). In recent years, Ireland has typically achieved or over-achieved its fiscal targets set in accordance with the national rules.

The 2019 Stability Programme confirms Ireland's commitment to a fiscal adjustment strategy towards achieving a reduction in the structural budget deficit. However, in its Fiscal Assessment Report of November 2018, the Irish Fiscal Advisory Council (IFAC) voiced concerns that the medium-term budgetary plans were not credible, and previous medium-term commitments had effectively been dropped.[20] An update of this Fiscal Assessment Report, after the Stability Programme 2019, is expected to be published before the summer.

The 2019 Stability Programme reports several initiatives in recent years to improve the quality of public finances, with specific emphasis on expenditure.[21] This includes adopting a new approach to spending reviews. For the one in 2018, a key aim included further encouraging greater input of policy departments. As highlighted in the Commission 2019 Country Report, it remains to be seen how the budget preparations will actually benefit from the spending review process. Furthemore, in the 2019 budget, the government committed to joining the Paris Collaborative on Green Budgeting, launched by the Organisation for Economic Cooperation and Development in 2017. Another example of recent initiatives is the introduction of equality and gender budgeting, which aims to bring greater awareness to the impacts of budgetary decisions and greater transparency to the areas which need attention.

Pursuant to Article 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. In this capacity, 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. However, a new funding model for exchequer-funded public investment has been put in place, aiming to ensure that resources are allocated to projects and programmes that support the achievement of the objectives set out in the National Planning Framework.

The task of assessing the macroeconomic forecast underpinning the annual budget plans and the Stability Programme is assigned to IFAC, according to the FRA. IFAC endorsed the set of macroeconomic forecasts underpinning the 2019 Stability Programme as being within the range of appropriate projections. The letter of endorsement was signed on 5 April 2019.[22]

---

[20] The IFAC is an independent statutory body established by the FRA with a mandate to independently provide an assessment of, and to comment publicly on, whether the government is meeting its own stated budgetary targets and objectives (in particular through assessments of annual budgets and the Stability Programmes). Its five board members are appointed based on competence and experience for a four-year term that can be renewed once. The IFAC is granted "all such powers as are necessary for, or incidental to, the performance of its functions", which would include access to data and freedom of communication, which has been exercised in practice since its establishment.

[21] These refer to implementation of performance and equality budgeting, the publication of new reports and the Public Spending Code, and the continued expansion of Irish Government Economic and Evaluation Service.

[22] https://www.fiscalcouncil.ie/wp-content/uploads/2019/04/Endorsement-Letter-April-2019.pdf

7. SUMMARY

In 2018, Ireland did not achieve its MTO, the structural balance deteriorating by 0.4% of GDP to -1.4%. The growth rate of government expenditure, net of discretionary revenue measures, exceeded the applicable expenditure benchmark rate by 0.5% of GDP. However, this does not capture the additional revenue linked to the continued non-indexation of income tax bands, which is considered to be of a permanent nature. The structural balance pillar points to a significant deviation of 0.9% of GDP from the requirement. Given the very open nature of the Irish economy and the volatility of potential GDP estimates, the expenditure benchmark provides a more appropriate yardstick for fiscal policy. Following an overall assessment, this points to some deviation from the recommended adjustment path towards the MTO.

In 2019, Ireland's Stability Programme plans a growth rate of government expenditure, net of discretionary revenue measures, in line with the applicable expenditure benchmarks rates both in 2019 and 2018 and 2019 taken together. The structural balance indicator also shows compliance, based on the adjustment requirement for 2019 set in 2018, which remains fixed for the in-year assessment. Similarly, the Commission 2019 spring forecast points to compliance following an overall assessment.

In 2020, the MTO is projected to be met. This is confirmed by the Commission 2019 spring forecast. Hence, the current assessment points to compliance in 2020.

Compliance with the transitional debt rule is ensured in 2018, as well as with the debt reduction benchmark in 2019. In 2020, the debt ratio is projected to fall under the 60% of GDP reference value of the Treaty. This is confirmed by the Commission 2019 spring forecast.

8. ANNEXES

Table I. Macroeconomic indicators

	2001-2005	2006-2010	2011-2015	2016	2017	2018	2019	2020
Core indicators								
GDP growth rate	5.3	0.6	7.8	5.0	7.2	6.7	3.8	3.4
Output gap [1]	1.2	-1.7	0.1	2.4	1.2	2.8	2.2	1.7
HICP (annual % change)	3.4	1.1	0.8	-0.2	0.3	0.7	1.0	1.3
Domestic demand (annual % change) [2]	5.9	-1.0	4.6	22.6	-13.3	4.8	3.6	3.3
Unemployment rate (% of labour force) [3]	4.6	8.8	13.3	8.4	6.7	5.8	5.4	5.0
Gross fixed capital formation (% of GDP)	25.9	24.6	20.0	35.7	23.5	24.9	25.3	25.9
Gross national saving (% of GDP)	24.3	19.3	21.3	34.7	34.1	35.1	34.7	34.6
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**0.7**	**-10.0**	**-6.5**	**-0.7**	**-0.3**	**0.0**	**0.0**	**0.3**
Gross debt	**29.6**	**47.5**	**106.3**	**73.5**	**68.5**	**64.8**	**61.3**	**55.9**
Net financial assets	**-10.4**	**-18.0**	**-72.6**	**-56.2**	**-50.9**	**n.a**	**n.a**	**n.a**
Total revenue	33.8	34.8	32.5	26.9	26.0	25.8	25.6	25.3
Total expenditure	33.1	44.8	39.1	27.6	26.3	25.7	25.6	25.0
of which: Interest	1.2	1.6	3.7	2.3	2.0	1.6	1.5	1.2
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**3.1**	**7.4**	**4.1**	**-4.8**	**-1.0**	**1.4**	**1.1**	**0.8**
Net financial assets; non-financial corporations	**-89.2**	**-112.0**	**-164.1**	**-207.0**	**-176.9**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-11.0**	**-3.0**	**4.3**	**15.0**	**1.9**	**n.a**	**n.a**	**n.a**
Gross capital formation	11.8	11.8	16.4	34.2	20.8	20.8	20.5	20.8
Gross operating surplus	35.7	33.0	42.1	52.8	54.0	54.4	53.3	53.6
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-7.0**	**-3.3**	**2.2**	**1.1**	**2.0**	**1.8**	**1.4**	**1.0**
Net financial assets	**84.6**	**56.7**	**78.1**	**77.8**	**76.9**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	31.9	34.8	31.4	25.6	25.0	24.8	25.0	25.0
Net property income	2.0	1.0	2.1	1.5	1.8	1.6	1.4	1.2
Current transfers received	13.0	16.2	16.4	11.3	10.8	10.0	9.7	9.4
Gross saving	3.6	5.3	4.3	3.0	3.9	4.1	4.1	4.0
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.2**	**-4.7**	**-0.4**	**-5.7**	**-1.1**	**2.1**	**1.9**	**1.6**
Net financial assets	**25.9**	**76.4**	**154.4**	**170.5**	**149.1**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	14.6	11.0	20.4	15.5	30.4	31.2	31.0	30.9
Net primary income from the rest of the world	-14.3	-14.4	-18.5	-18.3	-20.4	-20.5	-21.0	-21.6
Net capital transactions	0.4	0.1	-0.8	-1.6	-9.6	-7.0	-6.6	-6.3
Tradable sector	46.4	43.3	49.8	55.3	56.2	55.9	n.a	n.a
Non tradable sector	41.8	45.8	41.8	38.1	37.7	37.9	n.a	n.a
of which: Building and construction sector	7.2	5.4	1.8	2.3	2.4	2.5	n.a	n.a
Real effective exchange rate (index, 2000=100)	93.8	109.6	86.3	69.0	67.2	67.4	65.7	65.7
Terms of trade goods and services (index, 2000=100)	106.5	103.1	100.5	102.0	100.1	99.2	99.1	99.1
Market performance of exports (index, 2000=100)	91.9	94.7	108.4	143.1	148.0	156.8	159.3	160.9

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2010 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 2019 spring forecast

Mandatory variables not included in the Stability Programme

The Stability Programme does not provide certain mandatory variables on unemployment benefits, long-term substainability of public finances and basic assumptions. However, the missing variables do not impede the Commission's ability to assess the Stability Programme on the basis of the Programme's assumptions. The variables on unemployment benefits and basic assumptions were not provided in the Draft Budgetary Plan 2019 either.