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# COMMISSION OPINION

**of 20.11.2019**

**on the Draft Budgetary Plan of Ireland**

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING IRELAND

3. On 15 October 2019, Ireland submitted the Draft Budgetary Plan for 2020. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Ireland is subject to the preventive arm of the Stability and Growth Pact. On 9 July 2019, the Council recommended Ireland to achieve the medium-term budgetary objective of -0.5% of GDP in 2020.[1]

5. According to the Commission 2019 autumn forecast, the Irish economy is expected to grow by 5.6% in 2019 and 3.5% in 2020. The Draft Budgetary Plan projects GDP to grow by 5.5% in 2019 and 0.7% in 2020. The Commission forecast is significantly more positive for 2020 due to different scenarios underlying the two projections concerning the future relationship between the UK and the EU. The Commission forecast assumes an unchanged trade relationship between the UK and the EU whereas the Draft Budgetary Plan is based on the assumption that the UK leaves the EU without a deal (at the end of October 2019), with a negative impact on economic growth and the fiscal position in 2020. Overall, the macroeconomic scenario underlying the Draft Budgetary Plan is plausible for 2019 and cautious for 2020. However, this is due to the assumption that the UK leaves the EU without a deal. Ireland complies with the requirement of Regulation (EU) No 473/2013 that the draft budget is based on independently endorsed macroeconomic forecasts.

6. The Draft Budgetary Plan projects a general government surplus of 0.2% of GDP in 2019, in line with the Commission 2019 autumn forecast. For 2020, the Draft Budgetary Plan projects a deficit of 0.6% of GDP, well below the surplus of 0.3% of GDP in the Commission forecast. The Draft Budgetary Plan estimates the structural balance[2] at -1.3% of GDP in 2019 and -1.0% of GDP in 2020. The projections are more positive in the Commission 2019 autumn forecast, with the structural balance

[1] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Ireland and delivering a Council opinion on the 2019 Stability Programme of Ireland, OJ C 301, 5.9.2019, p. 35.

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

estimated at -0.8% of GDP in 2019 and -0.3% of GDP in 2020. The difference for 2019 is mainly due to a larger output gap estimate based on information in the Draft Budgetary Plan leading to a lower structural balance compared to the Commission forecast estimates. For 2020, the significant gap between the Draft Budgetary Plan and the Commission forecast estimates is due to different macroeconomic scenarios underpinning the two projections concerning the future relationship between the UK and the EU, as explained above.

7. In 2020, the fiscal stance is expected to be contractionary, based on the structural budget balance estimates, according to both the Draft Budgetary Plan and the Commission 2019 autumn forecast. The Draft Budgetary Plan projects a decline in the general government balance in 2020 due to weaker revenue and higher expenditure associated with the adverse macroeconomic scenario underlying the projections. Overall, the Draft Budgetary Plan focuses on spending increases rather than tax reductions. The latter includes increases to certain tax credits, which in turn further reduce the tax burden on labour. New spending initiatives amount to more than 0.6% of GDP, including a contingency provision of 0.35% of GDP to cover for temporary and targeted expenditures that will be defined and implemented only if the UK leaves the EU without a deal. The new spending will be partly financed by several revenue raising measures, including a carbon tax increase, amendments to the electricity and vehicle registration taxes and an increase in stamp duty. These are expected to reduce the net impact of the budgeted measures to around -0.4% of GDP. The Commission 2019 autumn forecast estimates a lower overall net impact of the new measures, at around -0.2% of GDP, mostly because it does not include the contingency expenditure due to the different, and more benign, underlying macroeconomic scenario.

   The fiscal-structural part of the country-specific recommendations issued by the Council on 9 July 2019[3] calls on Ireland to limit the scope and number of tax expenditures, and broaden the tax base; continue to address features of the tax system that may facilitate aggressive tax planning, and focus in particular on outbound payments; and address the expected increase in age related expenditure by making the healthcare system more cost effective and by fully implementing pension reform plans. With respect to these recommendations, the Draft Budgetary Plan announced Anti Hybrid Rules, as part of Ireland's commitment to implement the EU Anti-Tax Avoidance Directive[4], with the purpose of preventing connected corporate taxpayers, under separate jurisdictions, from exploiting differences in their tax treatment (hybrid mismatches) to generate tax advantages. It reports no new measures concerning the broadening of the tax base and limiting the scope of tax expenditures, the effectiveness of the healthcare system or the sustainability of the pension system.

   Public investment is projected to increase in line with the allocation set out in the National Development Plan.

8. In 2019, for Ireland to comply with the requirements of the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 7.0%, corresponding to a maximum deterioration of the structural balance by 0.3% of GDP. Following an overall

[3] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Ireland and delivering a Council opinion on the 2019 Stability Programme of Ireland, OJ C 301, 5.9.2019, p. 35.

[4] Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, OJ L 193, 19.7.2016, p.1.

assessment of the Draft Budgetary Plan, the expenditure benchmark points to compliance in 2019. Similar conclusions can be drawn based on the Commission 2019 autumn forecast.

In 2020, based on the Commission 2019 autumn forecast, Ireland is expected to meet its medium term objective in 2020. Thus, the assessment points to compliance.

9. The Draft Budgetary Plan and the Commission forecast consistently indicate that in 2019 general government debt will decline below the 60% of GDP reference value of the Treaty (respectively to 59.3% and 59.0% in 2019 and 56.5% and 53.9% in 2020). However, the Irish GDP is inflated by the activities of multinational companies and the level of public debt remains high based on alternative metrics.

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Ireland is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2020 budget and to use any windfall gains to further reduce the general government debt ratio.

The Commission is also of the opinion that Ireland has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country specific recommendations will be made in the 2020 Country Report and assessed in the context of the country specific recommendations to be proposed by the Commission in spring 2020.

Done at Brussels, 20.11.2019

*For the Commission*
*Pierre MOSCOVICI*
*Member of the Commission*