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Assessment of the 2017 stability programme for

Ireland

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

On 2 May 2017, Ireland submitted its April 2017 stability programme (hereafter called stability programme), covering the period 2017-2021. The document was approved by the government and presented to the national Parliament for a debate without a vote on 11 April.

The stability programme presents macroeconomic and fiscal forecasts on an ex-post basis, i.e. incorporating the fiscal outlook as set out in the 2017 Draft Budgetary Plan. The estimated available resources for policy interventions are allocated to spending increases and tax reductions at a 2:1 ratio, as set in the government's programme.[1] However, measures beyond 2017 are not outlined in a sufficient detail. The government will further clarify its fiscal policy intentions in a Summer Economic Statement to be published in June.

Ireland is currently subject to the preventive arm of the Stability and Growth Pact (SGP) and should ensure sufficient progress towards its medium-term budgetary objective (MTO), a structural deficit of 0.5% of GDP. As the debt ratio was 78.7% of GDP in 2015 (the year in which Ireland corrected its excessive deficit), exceeding the 60%-of-GDP Treaty reference value, Ireland is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit (transitional debt rule). In this period it should ensure sufficient progress towards compliance. After the transition period, as of 2019, Ireland is expected to comply with the debt reduction benchmark.

This document complements the Country Report published on 22 February 2017 and updates it with the information included in the stability programme and in the National Reform Programme submitted by Ireland on 13 April.

Section 2 presents the macroeconomic outlook underlying the stability programme and provides an assessment based on the Commission 2017 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 the Commission forecast. Section 4 assesses compliance with the rules of the SGP, 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 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Real GDP grew strongly in 2016 by 5.2%. Private consumption increased by 3.0% due to robust wage growth, subdued consumer price inflation and improving household balance sheets. Gross fixed capital formation rose by a record 45.5%, a substantial part of this surge being due to sustained transfers of intellectual property assets by some multinational companies to their Irish affiliates. These large imports of patents let to a negative impact of net exports on GDP growth. According to the stability programme, strong and broad-based economic growth is expected to continue in 2017 and 2018, albeit at more moderate rates of

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[1] A Programme for a Partnership Government (May 2016).

http://www.merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme_for_Partnership_Government.pdf

close to 4%. External demand would be the main driver behind GDP growth in 2017, while domestic demand would contribute the most in 2018.

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020	2021
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	5.2	5.2	4.0	4.3	3.6	3.7	3.1	2.7	2.5
Private consumption (% change)	3.0	3.0	2.8	2.8	2.7	2.7	2.5	2.2	2.0
Gross fixed capital formation (% change)	45.4	45.5	6.7	-17.1	5.6	5.4	4.3	3.3	2.9
Exports of goods and services (% change)	2.4	2.4	3.9	5.0	4.3	5.1	4.2	3.9	3.8
Imports of goods and services (% change)	10.3	10.3	4.1	-2.0	4.6	5.3	4.5	4.2	4.0
Contributions to real GDP growth:									
- Final domestic demand	11.3	11.3	3.3	-3.7	2.9	2.5	2.1	1.8	1.6
- Change in inventories	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	-6.5	-6.5	0.6	8.0	0.7	1.2	1.0	0.9	0.8
Output gap[1]	1.8	1.2	1.1	1.2	0.1	0.7	0.1	-0.5	-1.1
Employment (% change)	2.7	2.9	2.6	2.7	2.1	2.4	1.9	1.5	1.4
Unemployment rate (%)	7.9	7.9	6.4	6.4	5.9	5.8	5.5	5.5	5.5
Labour productivity (% change)	2.4	2.3	1.3	1.6	1.5	1.3	1.2	1.2	1.1
HICP inflation (%)	-0.2	-0.2	0.6	0.6	1.2	1.2	1.8	1.9	1.9
GDP deflator (% change)	-1.2	-1.2	1.2	1.2	1.3	1.3	1.5	1.7	1.7
Comp. of employees (per head, % change)	2.9	3.1	3.0	3.2	2.5	3.4	3.5	3.5	3.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)[2]	2.6	4.7	4.6	10.9	4.8	10.4	9.8	9.4	9.1

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.

[2]Figures from the stability programme refer to Balance of Paymnets

Source:

Commission 2017 spring forecast (COM); stability programme (SP).

The macroeconomic scenario underlying the stability programme takes into account the better-than-expected underlying economic activity performance in the second half of 2016. Accordingly, real GDP growth in 2017 was revised upwards by 0.8 pps. as compared to the scenario underlying the Draft Budgetary Plan of October 2017, and is now expected to accelerate to 4.3%.

The macroeconomic assumptions for 2017 in the stability programme are only partially in line with the Commission 2017 spring forecast, while they are more alike for 2018. The stability programme assumes that the surge in investment in intangible assets in the last quarter of 2016 will not repeat, and therefore the level of total investment and implicitly imports (as the intellectual property assets are being imported) are expected to fall this year (Table 1). In contrast, the Commission forecast does not exclude a further increase in investment in intangible assets, though not of the same magnitude; therefore, it takes a more cautious approach and waits for 2017-Q1 data to assess the extent at which investment could be affected this year. On this background, the Commission projects positive growth in investment in 2017 as well as for net exports. Nevertheless, investment in construction is expected to be strong in both the programme and the Commission forecast, while investment in machinery and equipment (excluding aircraft) is projected to further recover. However,

abstracting from the high volatility of investment in intangible assets and aircraft, the growth of underlying domestic demand is expected to remain strong in both the programme and the Commission forecast. As regards developments in the labour market, the stability programme and the Commission forecast are broadly in line.

Similarly to the Commission forecast, risks to the macroeconomic projections underlying the stability programme are tilted to the downside. The most important sources of uncertainty relate to the future relationship between the EU and the UK, as well as potential changes to US tax and trade policies, to which Ireland is highly exposed as a small and very open economy. Conversely, investment in construction could be higher than expected given the growing unmet housing demand, which would boost employment growth and domestic demand further. At the same time, supply constraints in the housing sector can also adversely impact on competitiveness, including by hindering labour mobility.

The output gaps as recalculated by the Commission based on the information in the programme, following the commonly agreed methodology, would remain positive until 2019.

Overall, the macroeconomic scenario underlying the programme is plausible.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

In 2016, the general government deficit fell to 0.6% of GDP. Taking into account one-off factors[2], the underlying deficit was 0.7% of GDP, an improvement of 0.4 pps. vis-à-vis the previous year's underlying position.[3] The improvement reflects the sustained pace of Ireland's economic growth. Compared to 2015, tax revenue, including social security contributions, increased by 4.9%, driven by the strong performance of corporate tax and excise duty. These gains were partly off-set by a reduction in non-tax revenue.[4] Government expenditure, excluding one-offs, has also increased compared to the previous year. There were increases in public wages (2.8%), intermediate consumption (5.3%) and public investment (12.7%). However, current primary expenditure’s share in GDP fell by 0.4 pps. to 22.9%. Savings on interest debt, due to relatively low interest rates, contributed to deficit reduction.

The underlying deficit outturn (net of one-offs) of 0.7% of GDP in 2016 was below the target of 1.1% of GDP laid out in the 2016 stability programme. The difference reflects several factors: (i) the mechanical effect of the exceptional uplift of 2015 GDP on the deficit-to-GDP ratio[5]; (ii) the stronger-than-expected economic growth in 2016, including the buoyant tax intake; and (iii) the additional expenditure adopted in June 2016, mainly to address emerging extra spending in the health sector.

[2] These refer to the deficit-reducing European Financial Stability Facility (EFSF) pre-paid margin repayment (0.2 % of GDP) and the retrospective deficit-increasing adjustment to the EU budget contributions (around 0.07 % of GDP).

[3] In 2015, headline deficit was distorted by another significant deficit-increasing one-off transaction related to the restructuring of a state-owned bank's capital base (0.8% of GDP).

[4] The fall is primarily due to the gradual decline in bank guarantee fees, interest and Central Bank income directly attributable to financial crisis measures, as well as lower dividends from state-owned companies.

[5] This was known only in June 2016, after the publication of the 2016 stability programme.

The underlying deficit was also slightly lower than the 0.9% of GDP projected in the 2017 Draft Budgetary Plan. While the improvement is partly due to stronger-than-anticipated GDP growth and positive VAT receipts related to end-of-year sales, the overall drivers are difficult to ascertain given the significant changes in the composition of both expenditure and revenue data following the April Excessive Deficit Procedure notification.

In 2017, the stability programme projects the headline general government deficit to fall to 0.4% of GDP, broadly in line with the targets laid out both in the 2016 stability programme and the 2017 Draft Budgetary Plan. These projections take into account the expansionary measures introduced with Budget 2017 worth EUR 1.3 billion (around 0.5% of GDP). The expenditure-to-GDP ratio is projected to drop to 27.2% in 2017, a reduction by some 0.8 pps. compared to the previous year,[6] while the revenue-to-GDP ratio is projected to decline by some 0.7 pps. to 26.8%. The stability programme's target for government fixed capital formation in 2017 is EUR 260 million (0.1% of GDP) above Budget 2017 estimates, mainly due to data revisions. Consequently, the investment-to-GDP ratio is projected to rise to 1.9%, 0.1 pps. up on the previous year.

The Commission 2017 spring forecast projects a general government deficit for 2017 of 0.5% of GDP, broadly in line with latest government plans. However, the Commission forecast projects slightly higher revenues, due to a less pronounced fall of non-tax revenue, as well as stronger expenditure increases. The latter are motivated by the recurring expenditure overruns in the past several years and growing pressure for increases in public sector wages.

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The 2017 stability programme projects a steady decline of the headline deficit until reaching a surplus of 0.1% of GDP in 2019. The structural deficit is estimated to reach 0.5% of GDP in 2018, consistent with the achievement of Ireland's medium term objective. The stability programme projects the total government expenditure's share in GDP to decline from 27.2% in 2017, to 26.6% in 2018 and to drop further to 25.1% by the end of the programme's horizon. At the same time, the revenue-to-GDP ratio is projected to decline more gradually, from 26.8% in 2017 to 26.1% in 2021. Therefore, the bulk of the adjustment is expected on the expenditure side, of which a quarter is due to the projected reduction in interest expenditure.

On the basis of the information in the programme, the recalculated structural deficit[7] is estimated at 1.1% of GDP in 2017, down from 1.7% of GDP in 2016 and broadly in line with estimates in the 2017 Draft Budgetary Plan. The recalculated structural deficit is projected to reach 0.3% of GDP in 2018 – thereby achieving Ireland's MTO –, and to fall further over the forecast horizon.

The Commission 2017 spring forecast, under the usual no-policy-change assumption, projects a headline deficit 0.3% of GDP for 2018, 0.2 pps. above the government's projections. By extrapolating trends and relationships consistently with past policy orientations and taking into account carry-overs of previously adopted measures, the Commission forecast points to slightly higher current expenditure in 2018, compared to the stability programme. The

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[6] Savings on the government debt servicing costs, as percentage of GDP, contribute one quarter of the decline.

[7] 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.

estimated structural deficit is expected to narrow down to around 1% and 0.3% of GDP in 2017 and 2018 respectively, broadly in line with the recalculated programme estimates.[8]

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	2021	Change: 2016-2021
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**27.5**	**26.9**	**26.8**	**26.6**	**26.5**	**26.2**	**26.2**	**26.1**	**-1.4**
of which:									
- Taxes on production and imports	8.9	8.9	8.8	8.9	8.7	8.7	8.7	8.6	-0.3
- Current taxes on income, wealth, etc.	10.9	11.0	11.0	11.0	11.0	11.1	11.1	10.9	0.0
- Social contributions	4.6	4.5	4.5	4.4	4.4	4.3	4.3	4.2	-0.4
- Other (residual)	3.1	2.6	2.5	2.3	2.4	2.1	2.1	2.4	-0.7
Expenditure	**28.0**	**27.4**	**27.2**	**26.8**	**26.6**	**26.1**	**25.6**	**25.1**	**-2.9**
of which:									
- Primary expenditure	25.7	25.2	25.1	24.8	24.6	24.2	23.9	23.5	-2.2
of which:									
Compensation of employees	7.3	7.3	7.2	7.2	7.1	6.9	6.8	6.6	-0.7
Intermediate consumption	3.6	3.6	3.6	3.6	3.3	3.1	3.0	2.9	-0.7
Social payments	10.7	10.3	10.3	9.9	9.8	9.4	9.1	8.8	-1.9
Subsidies	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	-0.1
Gross fixed capital formation	1.8	1.9	1.9	2.0	2.0	2.2	2.2	2.2	0.4
Other (residual)	1.6	1.5	1.5	1.5	1.6	1.5	1.5	1.5	-0.5
- Interest expenditure	2.3	2.2	2.1	2.0	2.0	1.9	1.7	1.6	-0.7
General government balance (GGB)	**-0.6**	**-0.5**	**-0.4**	**-0.3**	**-0.1**	**0.1**	**0.6**	**1.0**	**1.6**
Primary balance	**1.7**	**1.6**	**1.7**	**1.8**	**1.9**	**2.0**	**2.3**	**2.6**	**0.9**
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	**-0.7**	**-0.5**	**-0.4**	**-0.3**	**-0.1**	**0.1**	**0.6**	**1.0**	**1.7**
Output gap[1]	1.8	1.1	1.2	0.1	0.7	0.1	-0.5	-1.1	-3.0
Cyclically-adjusted balance[1]	-1.5	-1.1	-1.1	-0.3	-0.5	0.1	0.8	1.6	3.1
Structural balance[2]	**-1.7**	**-1.1**	**-1.1**	**-0.3**	**-0.5**	**0.1**	**0.8**	**1.6**	**3.3**
Structural primary balance[2]	0.6	1.1	1.0	1.7	1.5	2.0	2.5	3.2	**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 2017 spring forecasts (COM); Commission calculations.

3.3. MEASURES UNDERPINNING THE PROGRAMME

As indicated above, in 2017, the headline deficit target of 0.4% of GDP projected in the stability programme takes into account a package of measures of EUR 1.3 billion (around 0.5% of GDP) already included in the 2017 Draft Budgetary Plan, are allocated to spending increases and income tax cuts on a 3:1 ratio. Beyond 2017, the stability programme assumes

[8] Minor differences compared with the recalculated programme estimates are mostly due to the revision of population projections following new census data which have been incorporated in the Commission forecast and produce a faster-paced closure of the output gap.

full use of the available fiscal space, as estimated by the Irish government in the 2017 Draft Budgetary Plan.[9] The so-claimed available resources for policy interventions are allocated to spending increases and tax reductions on a 2:1 ratio, as set out in the government's programme.[10]

However, these allocations are only indicative and no further details on the possible new measures beyond 2017 are provided in the stability programme. The government will further clarify its budgetary strategy in a Summer Economic Statement to be published later in June. The measures that have already been adopted have also been accounted for in the Commission 2017 spring forecast. Yields of the fiscal policy measures that have already been specified seem plausible.

Main budgetary measures

Revenue	**Expenditure**
2016	
• Reduction of Personal Income Tax rates (-0.4% of GDP)	• Increase in compensation of civil servants (0.1% of GDP) • Increase in social payments (0.1% of GDP)
2017	
• Reduction of Personal Income Tax (-0.2% of GDP) • Other tax measures (excluding Personal Income Tax) (+0.1% of GDP)	• Increase in compensation of civil servants (0.1% of GDP) • Increase in social payments (0.2% of GDP) • Increase in gross fixed capital formation (0.1% of GDP)
2018	
• Reduction of income tax plus carry-over from previously adopted measures (-0.1% of GDP)	• Increase in current expenditure plus carry-over from previously adopted measures (0.2% of GDP) • Increase in capital expenditure (0.1% of GDP)
Note: Budgetary impact as reported in the stability programme. A positive sign implies that revenue / expenditure increases as a consequence of this measure. Measures for 2018 are only indicative and, at this stage, not sufficiently detailed.	

[9] Projections also account for carryovers from previously adopted measures and pre-committed expenditure increases to deal with emerging demographic pressures.

[10] More details on the indicative allocation of the available fiscal space over 2017-2021 can be found a Department of Finance's note, following the presentation of the 2016 Summer Economic Statement: http://www.budget.gov.ie/Budgets/2017/Documents/SES/Fiscal%20space%20and%20the%20Summer%20Economic%20Statement.pdf

3.4. DEBT DEVELOPMENTS

Ireland's general government debt-to-GDP ratio has been steadly falling since its peak at just below 120% in 2012. This has been the result of strong nominal GDP growth and declining headline deficits, including also the mechanical effect of the exceptionally large surge in 2015 GDP. In 2016, the debt-ratio dropped by 3.3 pps. to 75.4%. High nominal GDP growth, a decrease in the headline deficit and asset operations, including the cancellation of EUR 1 billion of floating rate bonds, contibuted to the drop. The stability programme projects a government debt-to-GDP ratio of 72.9% and 71.2% repectively in 2017 and 2018.

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020	2021
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**106.5**	**75.4**	**73.5**	**72.9**	**72.7**	**71.2**	**69.5**	**65.2**	**62.9**
Change in the ratio	-1.5	-3.3	-1.9	-2.5	-0.9	-1.7	-1.7	-4.3	-2.3
Contributions[2] :									
1. Primary balance	**2.7**	**-1.7**	**-1.6**	**-1.7**	**-1.8**	**-1.9**	**-2.0**	**-2.3**	**-2.6**
2. "Snow-ball" effect	**-4.4**	**-0.7**	**-1.6**	**-1.8**	**-1.4**	**-1.5**	**-1.2**	**-1.2**	**-1.0**
Of which:									
Interest expenditure	3.7	2.3	2.2	2.1	2.0	2.0	1.9	1.7	1.6
Growth effect	-6.1	-3.9	-2.8	-3.1	-2.6	-2.6	-2.1	-1.8	-1.5
Inflation effect	-2.0	0.9	-0.9	-0.8	-0.9	-0.9	-1.0	-1.1	-1.0
3. Stock-flow adjustment	**0.3**	**-0.9**	**1.3**	**1.0**	**2.3**	**1.7**	**1.5**	**-0.8**	**1.3**
Of which:									
Cash/accruals diff.				0.3		0.3	0.2	0.3	0.1
Acc. financial assets				-0.4		-0.2	-0.3	-0.2	-0.2
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 2017 spring forecast (COM); stability programme (SP), Comission calculations.

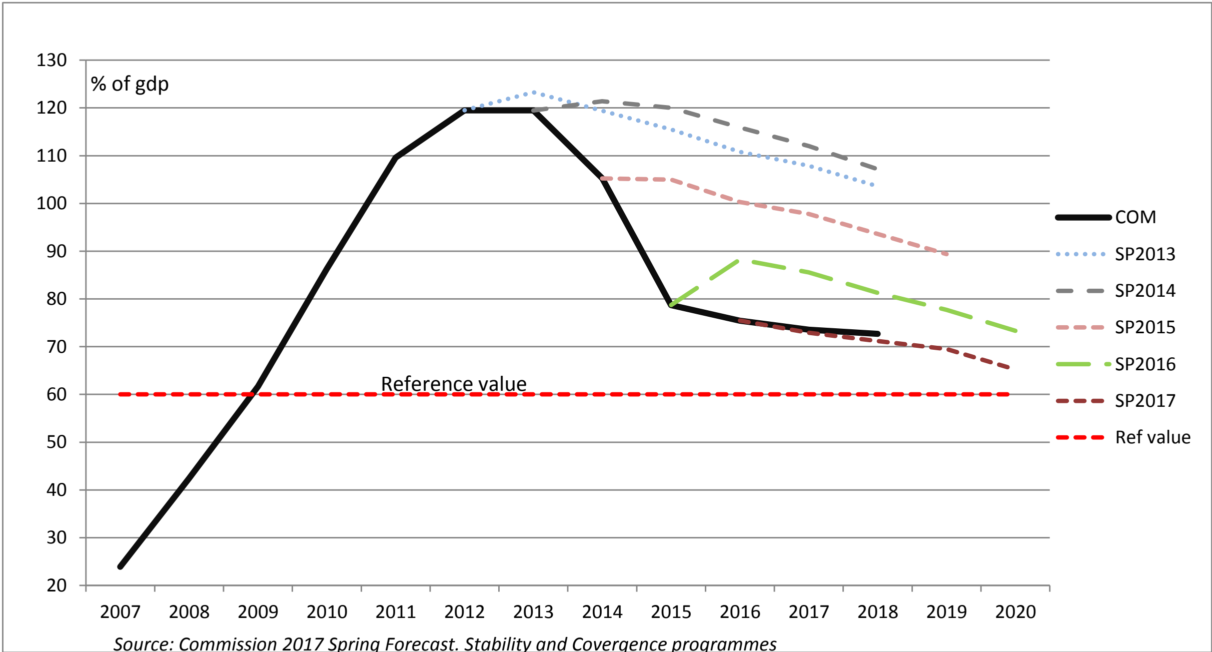
However, the stock of public debt remains very high and is planned to increase by nearly EUR 13.5 billion over the period 2016-2019.[11] Moreover, the disproportionate impact of globalisation on Ireland's macroeconomic indicators means that public debt sustainability needs to be assessed against complementary indicators such as interest-to-revenue and gross debt-to-revenue. Such indicators have become part of the standard tool-kit for debt development analysis in Ireland. The government's announcement of a revised lower debt-to-GDP target of 45%, to be achieved by the mid-to late 2020s, partly responds to concerns about the inherent volatility of the Irish economy.

[11] In particular, changes in liquid assets reflect the increase in the funding requirement, owing primarily to large bond redemptions, in 2019-2020 especially.

The programme's projections are broadly in line with the Commission 2017 spring forecast. According to the Commission forecast, the general government debt-to-GDP ratio is projected to continue declining to 73.5 % and 72.7 % in 2017 and 2018 respectively, contingent on moderate – yet robust – GDP growth and the realisation of primary surpluses above 1.5% of GDP in each year.

Prudently, the programme's debt projections do not include potential sales of equity shares in state-owned enterprises (SOEs). Downward revisions of the debt path, in particular when compared to the last two stability programmes, are mainly due to the more favourable economic growth, including the large surge in 2015 GDP, and fiscal projections in the most recent programme, coupled with the sales of state assets (Figure 1).

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



3.5. RISK ASSESSMENT

Despite the recent strong performance of the Irish economy, the Commission 2017 spring forecast considers the risks to the macroeconomic outlook to be tilted to the downside, mainly due to external factors, to which Ireland is particularly exposed as a small and very open economy (see section 2).

Similarly, risks to the baseline fiscal forecast are also on the downside, mainly reflecting heightened external risks but also increasing concerns about the durability of the recent over-performance in some revenue categories. In particular, the growing share of Corporate Income Tax in total revenue (now at 15.2%) poses a potential risk to Ireland's public finances as the respective tax base is heavily influenced by relocation decisions by a small number of large multinational enterprises. In this context, it has to be noted that the stability programme's headline deficit forecasts for 2017 and beyond rely on still strong revenue growth rates – a 3.7% average annual growth over 2017-2021[12] – and resolute expenditure

[12] Income tax revenue, in particular, are projected to increase by 5.9%, 5.4% and 5.0% in 2017, 2018 and 2019, respectively.

discipline, with current primary expenditure growing at an average annual rate of 2.5% over the same period. In the medium term, maintaining such trends is likely to be challenging taking into account the increasingly unpredictable external environment, the need to restore adequate public investment in anticipation of emergent capacity constraints, while also resisting calls for a "recovery dividend". 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.

Ireland's still high level of public debt makes government debt projections very sensitive to variations in economic growth and to the expected size of budgetary adjustment. On the one hand, save for any potential future changes to market conditions, interest rate risk for the Irish sovereign is low, due to the favourable maturity profile of Ireland's government debt.[13] Over the longer term, some risks arise from the potential under-achievement of legally-binding climate change targets which would require Ireland to purchase additional CO_2 emission allowances, the cost of which cannot be assessed at present. On the other hand, the potential sales of shares the government still retains in the three major domestic banks would reduce public debt.

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

Box 1. Council recommendations addressed to IRELAND

On 28 June 2016, the Council 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: (i) achieve an annual fiscal adjustment of 0.6 % of GDP towards the medium-term budgetary objective in 2016 and in 2017; (ii) use windfall gains from strong economic and financial conditions, as well as from asset sales, to accelerate debt reduction; (iii) reduce vulnerability to economic fluctuations and shocks, inter alia by broadening the tax base; (iv) enhance the quality of expenditure, particularly by increasing cost-effectiveness of healthcare and by prioritising government capital expenditure in R&D and in public infrastructure, in particular transport, water services and housing.

4.1. Compliance with the debt criterion

Having corrected its excessive deficit in 2015, Ireland is in the transition period as regards the debt criterion for the following three years. [14] The estimated change in the structural balance in 2016 has been higher than the required Minimum Linear Structural Adjustment (MLSA). In 2017 and 2018, the programme's projections point to a similar result, with margins above the required adjustment of 1% and 3% of GDP, respectively. According to the Commission 2017 spring forecast, the change in the structural balance is expected to exceed the required MLSA in both 2017 (projected change of 0.6% of GDP vs. required change of -0.5% of GDP) and 2018 (projected change of 0.8% of GDP vs. required change of -1.5% of GDP). Therefore, Ireland is expected to make sufficient progress towards compliance with the debt criterion in both 2017 and 2018.

[13] At about 12 years, the average maturity of public debt in Ireland is one of the longest in the EU.

[14] This implies that during 2016-2018 Ireland is required to make sufficient progress towards compliance with the debt criterion – as defined by the minimum linear structural adjustment (MLSA) – and comply with the debt benchmark at the end of the transition period.

Table 4: Compliance with the debt criterion*

	2016	2017		2018	
		SP	COM	SP	COM
Gross debt ratio	**75**	**72.9**	**73.5**	**71.2**	**72.7**
Gap to the debt benchmark [1,2]					
Structural adjustment [3]	0.3	0.3	0.6	0.6	0.8
To be compared to:					
Required adjustment [4]	-0.2	-0.7	-0.5	-2.4	-1.5

Notes:

[1] Not relevant for Member Sates that were subject to an Excessive Deficit Procedure (EDP) 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 2017 spring forecast (COM); stability programme (SP), Comission calculations.

4.2. Compliance with the required adjustment path towards the MTO as of 2016

In 2016, the structural balance is estimated to have improved by 0.3% of GDP, below the recommended structural adjustment of 0.6% of GDP. The growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to have exceeded the applicable expenditure benchmark, leading to a negative impact of nearly 0.5% of GDP on the underlying fiscal position. This calls for an overall assessment. The reading of the fiscal effort based on the structural balance pillar is positively impacted by decreasing interest expenditure, which is excluded from the expenditure benchmark pillar. In the case of Ireland, due to the very open nature of its economy, the estimates of potential growth and output gaps are subject to considerable volatility due to frequent and sizeable data revisions of national accounts and factors impacting on the supply side of the economy. In particular, the large level-shift revision to GDP in 2015 has increased the instability of such estimates. Therefore, in the case of Ireland, the expenditure benchmark pillar is considered to reflect more appropriately the underlying fiscal effort. However, the fiscal effort as assessed based on the expenditure benchmark pillar 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. Taking this into consideration, the expenditure benchmark pillar would point to a deviation below

0.4% of GDP. Therefore, the overall assessment points to some deviation from the recommended adjustment path towards the MTO in 2016.[15]

In 2017, according to the stability programme, the annual change in the (recalculated) structural balance of 0.3% of GDP does not ensure sufficient progress towards the MTO. By the same token, the growth rate of government expenditure, net of discretionary revenue measures and one-offs, is above the applicable expenditure benchmark, leading to a negative impact of nearly 0.3% of GDP on the underlying fiscal position. In turn, over 2016 and 2017 taken together, based on the average of the annual deviations of each pillar in those years, the structural balance pillar points to a risk of some deviation (-0.2% of GDP), while the expenditure benchmark pillar suggests that Ireland is at risk of a significant deviation from the requirements (-0.4% of GDP). This calls for an overall assessment. As indicated above, the expenditure benchmark pillar is considered to reflect more appropriately Ireland's underlying fiscal effort. Therefore, the assessment based on the information provided in the stability programme points to a risk of a significant deviation from the recommended adjustment path towards the MTO over 2016 and 2017 taken together.

Based on the Commission 2017 spring forecast, the projected improvement in the structural balance of 0.6% of GDP in 2017 is in line with the recommended fiscal effort. However, as in 2016, the growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, leading to a negative impact of close to 0.5% of GDP on the underlying fiscal position. In turn, over 2016 and 2017 taken together, based on the average of the annual deviations of each pillar in those years, the structural balance pillar points to a risk of some deviation (-0.1% of GDP), while the expenditure benchmark pillar suggests that Ireland is at risk of a significant deviation from the requirements (-0.5% of GDP). This calls for an overall assessment. Based on the above-mentioned reasoning, the expenditure benchmark pillar is considered to reflect more appropriately Ireland's underlying fiscal effort. However, even considering the above-mentioned additional revenue from the continued non-indexation of income tax bands, the average deviation based on the expenditure benchmark pillar over 2016 and 2017 taken together would still be slightly above the applicable significant deviation threshold of 0.25%. Therefore, the overall assessment points to a risk of a significant deviation from the recommended adjustment path towards the MTO over 2016 and 2017 taken together.[16]

In 2018, according to the stability programme both the annual change in the (recalculated) structural balance and the growth rate of government expenditure, net of discretionary revenue measures and one-offs, expect Ireland to comply with the recommended adjustment path toward the MTO. However, according to the Commission 2017 spring forecast, on a no-policy-change basis, the growth of government expenditure[17], net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, leading to a

[15] The aggregate government expenditure used in the assessment of compliance with the expenditure benchmark considers the government expenditure matched by EU-fund revenue as provided by the Department of Public Expenditure and Reform. However, at present, they are not fully consistent with the aggregate revenue data ("Other current revenue") shown in the official Central Statistic Office's release. This issue has to be clarified before the next assessment.

[16] Differences in the deviation from the expenditure benchmark pillar between the stability programme and the Commission forecast are mostly due to the different appraisal of the discretionary revenue measures and, in particular, by the fact that the stability programme includes, among them, the non-indexation of income tax-bands.

[17] See Box 2 for more details on the calculation of the applicable expenditure benchmark beyond 2017.

negative impact of 0.1% of GDP on the underlying fiscal position. In turn, over 2017 and 2018 taken together, while the structural balance pillar is expected to be in line with the required fiscal effort, the expenditure benchmark pillar suggests that Ireland is at risk of a significant deviation from the requirements (-0.3% of GDP). Based on the above-mentioned reasoning, and considering the additional revenue from the continued non-indexation of income tax bands, the overall assessment points to a risk of some deviation from the required adjustment path over 2017 and 2018 taken together.

These assessments are based on the matrix of preventive arm requirements agreed with the Council, which takes into account (i) the cyclical position of the economy, as assessed on the basis of output gap estimates using the commonly agreed methodology as well as the projected real GDP growth rate, and (ii) debt sustainability considerations. Given the current cyclical conditions and the uncertainty surrounding them, it is important that the fiscal stance strikes the right balance between both safeguarding the ongoing recovery and ensuring the sustainability of Ireland's public finances. The Commission noted that, in carrying out its future assessments, it stands ready to use its margin of appreciation in cases where the impact of large fiscal adjustment on growth and employment is particularly significant. In that context, it will make use of any updated information regarding the projected position in the economic cycle of each Member State and work closely with the Council to that effect.

Box 2: Ireland's expenditure benchmark beyond 2017

The unprecedented level shift in Irish GDP in 2015 could have profound implications for national fiscal policy and EU economic surveillance indicators.[18] The technical adjustments to the commonly-agreed methodology for estimating potential GDP largely neutralised the impact on the estimated "real time" output gap. However, in the medium term, the distortionary effect on the expenditure benchmark pillar could undermine the power of this indicator as an anchor against pro-cyclical fiscal policy in Ireland.

The assessment of compliance based on the expenditure benchmark pillar in 2016 and 2017 is sheltered from the 2015 GDP surge, as the medium-term reference rate (MTRR) of potential GDP growth (the *t-5* to *t+4* average of potential GDP growth rates) used in the computation of the applicable expenditure benchmark had already been frozen before the GDP surge became apparent in the national accounts data. After 2017, however, the 2015 GDP surge would mechanically inflate the applicable expenditure benchmark rate, as the large increase in the estimate of potential GDP (+24.6%) in 2015 – arising from the GDP upsurge (+26.3%) – would significantly increase the MTRR.

Based on the Commission 2017 spring forecast, the MTRR for 2018 would be 5.3% in real terms, which would be around 2 pps. higher than the reference rate in 2017. This would imply an applicable expenditure benchmark (net of the convergence margin) of around 3.0% in real terms (4.3% in nominal terms). As the MTRR will be updated annually[19], the peak in the 2015

[18] The Commission Staff Working Document accompanying the Commission opinion on the 2017 Draft Budgetary Plan of Ireland (Box 2) has already provided a preliminary assessment of those fiscal implications.

[19] In practice, each spring of year *t*, when setting the required adjustment towards the MTO for the year to come *t+1*, an updated medium-term reference rate is computed as the 10-year average potential GDP growth in the period [*t-5*, *t+4*].

potential GDP growth rate would continue to inflate the MTRR up to and including the 2021 budgetary year, after which the rate is expected to return to a more sustainable level. The increased MTRR would artificially expand the permissible resources available to the government for future net expenditure increases – the so-called fiscal space –, well beyond any realistic increase in government revenue. Ultimately, an unwarranted relaxation of the expenditure benchmark pillar could undermine the role of this indicator as an anchor for prudent fiscal policy in Ireland.

In order to address this distortion, and given the increasing relevance of the expenditure benchmark pillar as a guide for fiscal policy, a technical adjustment was introduced to the MTRR, in line with the approach followed by the Irish authorities in the 2017 Budget[20] and advocated by the Irish Fiscal Advisory Council. The alternative MTRR has been calculated by taking the average of potential growth rates in 2014 and 2016, which results in an interpolated value of 4.2% for the 2015 potential GDP growth. For 2018, this implies an applicable expenditure benchmark (net of the convergence margin) of around 1.2% in real terms – or 2.4% in nominal terms –, 1.8 pps. lower than the unadjusted expenditure benchmark of 3.0%. Aligning estimates of medium-term potential GDP growth with underlying developments in the Irish economy should contribute to sounder fiscal policy.

[20] http://www.budget.gov.ie/Budgets/2017/Documents/Economic%20and%20Fiscal%20Outlook%202017.pdf

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	0.0	-0.5		-0.5	
Structural balance[2] (COM)	-1.7	-1.1		-0.3	
Structural balance based on freezing (COM)	-1.7	-1.1		-	
Position vis-a -vis the MTO[3]	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.6	0.6		0.6	
Required adjustment corrected[5]	0.6	0.6		0.6	
Change in structural balance[6]	0.3	0.3	0.6	0.6	0.8
One-year deviation from the required adjustment [7]	-0.3	-0.3	0.0	0.0	0.2
Two-year average deviation from the required adjustment [7]	in EDP	-0.2	-0.1	-0.2	0.1
Expenditure benchmark pillar					
Applicable reference rate[8]	0.1	1.2		4.3	
One-year deviation adjusted for one-offs[9]	-0.5	-0.2	-0.5	0.1	-0.1
Two-year deviation adjusted for one-offs[9]	in EDP	-0.4	-0.5	-0.1	-0.3
PER MEMORIAM: One-year deviation [10]	0.5	-0.4	-0.6	0.1	-0.1
PER MEMORIAM: Two-year average deviation [10]	in EDP	0.1	-0.1	-0.1	-0.3
Conclusion					
Conclusion over one year	Overall assessment	Overall assessment	Overall assessment	Compliance	Overall assessment
Conclusion over two years	in EDP	Overall assessment	Overall assessment	Overall assessment	Overall assessment

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] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

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

[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 adjusting towards its MTO, including in year t.

[9] 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 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 2017 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

Ireland does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on Commission forecasts and a no-policy-change scenario beyond forecasts, the general government gross debt, at 75.4% of GDP in 2016, is expected to decrease to 59.1% in 2027, just below the Treaty reference value of 60% of GDP. The full implementation of the stability programme would put debt on a more firmly decreasing path, reaching 44.3% of GDP in 2027, comfortably below the 60% of GDP reference value.

The medium-term fiscal sustainability risk indicator S1 is at -0.1 pps. of GDP, despite the projected ageing costs, thanks to a favourable initial budgetary position and thus highlighting low fiscal risks. However, the analysis indicates medium risks from a debt sustainability analysis perspective due to the still relatively high stock of debt and the sensitivity to possible macroeconomic shocks. The full implementation of the stability programme would put the sustainability risk indicator S1 at -3.2 pps. of GDP, leading to lower medium-term risk. Overall, risks to fiscal sustainability over the medium-term are, therefore, medium and fully implementing the fiscal plans in the stability programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 0.1 pps. of GDP. In the long term, Ireland therefore appears to face low fiscal sustainability risks, with the favourable initial budgetary position (1.5 pps of GDP) offsetting most of the projected ageing costs contributing with 1.6 pps. of GDP. Full implementation of the programme would lower the S2 indicator to -2.0 pps. of GDP, further reducing long-term risks.

Table 6: Sustainability indicators

Time horizon			**no-policy-change Scenario**		**Stability Programme Scenario**	
Short Term			**LOW risk**			
S0 indicator [1]			0,3			
	Fiscal subindex		0,2	LOW risk		
	Financial & competitiveness subindex		0,3	LOW risk		
Medium Term			**MEDIUM risk**			
DSA [2]			MEDIUM risk			
S1 indicator [3]			-0,1	LOW risk	-3,2	LOW risk
of which						
	Initial Budgetary Position		-2,2		-4,3	
	Debt Requirement		1,0		0,3	
	Cost of Ageing		1,1		0,7	
	of which					
		Pensions	1,0		0,7	
		Health-care	0,4		0,3	
		Long-term care	0,1		0,1	
		Other	-0,3		-0,4	
Long Term			**LOW risk**		**LOW risk**	
S2 indicator [4]			0,1		-2,0	
of which						
	Initial Budgetary Position		-1,5		-3,0	
	Cost of Ageing		1,6		1,0	
	of which					
		Pensions	0,8		0,4	
		Health-care	1,0		0,8	
		Long-term care	0,7		0,7	
		Other	-0,9		-0,9	

Source: Commission services; 2017 stability programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. 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.

[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 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for no-policy-change 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 2015 and Debt Sustainability Monitor 2016.

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 always achieved or over-achieved the headline balance targets set in accordance with the national balanced-budget rule.[21]

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 of 2012 and 2013.[22] The IFAC endorsed the set of macroeconomic forecasts underpinning the 2017 stability programme as lying within the range of appropriate projections. The letter of endorsement was signed on 4 April.[23]

The 2017 stability programme confirms Ireland's commitment to a fiscal adjustment strategy towards achieving a continued reduction in the structural budget deficit. However, in 2016 both the estimated structural balance improvement and the growth rate of government expenditure, net of discretionary revenue measures and one-offs, deviated from the required fiscal adjustment, while compliance with the transitional debt rule is ensured over 2016-2018. In its Fiscal Assessment Report of November 2016, the IFAC voiced serious concerns regarding this lack of compliance. An update of this Fiscal Assessment Report will be published before the summer.

The 2016 stability programme reported several initiatives to improve the quality of public finances with the aim of strengthening the link between expenditure allocations and the public services they deliver.[24] These initiatives are being reviewed by the government and augmented where necessary. This includes the publication of a Performance Report in spring 2017 which is expected to provide quantitative information about public services delivered in 2016.[25] As highlighted in the 2017 Country Report, an appropriately designed review of

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[21] 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 its capacity as 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.

[22] The IFAC is an independent statutory body established by the Fiscal Responsibility Act 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.

[23] http://www.fiscalcouncil.ie/wp-content/uploads/2017/04/IFAC-Endorsement-Letter-04-04-2017-accessible.pdf

[24] These referred to the publication of the revised Public Spending Code, the enhancement of the role of the Irish Government Economic and Evaluation Services (IGEES), the implementation of the Performance Budgeting initiative. However, no specific targets have been provided.

[25] The recent reforms introduced in the budgetary process, such as the Summer Economic Statement and the Mid-Year Expenditure Report, incorporates new procedures aimed at strengthening the dialogue on expenditure targets, increasing stakeholder engagement and easing the pivotal role of government in the preparation of budgetary proposals, consistent with the maintenance of public finance sustainability. For a

expenditure could support both fiscal responsibility and growth-enhancing structural changes in public expenditure by guiding a better targeting of expenditures, in particular with a view to prioritising investment. An effective spending review could also halt the repeated discretionary changes to expenditure ceilings which have characterised Ireland's recent budgetary implementation.[26]

7. CONCLUSIONS

In 2016, Ireland achieved an improvement of 0.3% of GDP in the structural balance, below the recommended structural adjustment of 0.6% of GDP. The growth of government expenditure, net of discretionary revenue measures and one-offs, exceeded the applicable expenditure benchmark, leading to a negative impact of nearly 0.5% of GDP on the underlying fiscal position. Following an overall assessment, the Commission forecast points to some deviation from the recommended adjustment path towards the MTO.

In the stability programme, Ireland plans improvements in the structural balance of 0.3% and 0.6% of GDP in 2017 and 2018, respectively. This is expected to be conducive to the MTO being reached in 2018. These plans imply a deviation of 0.3% of GDP from the required adjustment towards the MTO in 2017. Moreover, the growth of government expenditure, net of discretionary revenue measures and one-offs, is planned to exceed the expenditure benchmark in 2017. The assessment based on the information provided in the stability programme points to a risk of a significant deviation from the recommended adjustment path towards the MTO over 2016 and 2017 taken together. Based on the Commission forecast, the projected improvement in the structural balance of 0.6% of GDP in 2017 is in line with the recommended fiscal effort. However, the growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, leading to a negative impact of nearly 0.5% of GDP. The overall assessment based on the Commission forecast points to a risk of a significant deviation over 2016 and 2017 taken together,

In 2018, based on the information provided in the stability programme, Ireland is expected to comply with the recommended adjustment path toward the MTO. However, according to the Commission forecast, under unchanged policy, the growth of government expenditure, net of discretionary revenue measures and one-offs, is expected to exceed the expenditure benchmark, while the structural balance is expected to be in line with the required fiscal effort. The overall assessments based on the Commission forecast point to a risk of some deviation over 2017 and 2018 taken together.

At the same time, compliance with the transitional debt rule is ensured between over 2016-2018.

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summary of the evolution of the budgetary process see the Irish Fiscal Advisory Council's Fiscal Assessment Report (November 2016), Box A.

[26] Acknowledging the need to depart from a short term, year to year, budgeting and in light of the competing expenditure priorities, the government announced a spending review in 2017 to assess the effectiveness of expenditure programmes. The review will initially examine only a part of departmental expenditure, with the remainder to be covered in the following years.

8. ANNEX

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	7.2	3.6	-0.5	8.5	26.3	5.2	4.0	3.6
Output gap [1]	1.9	2.2	-3.3	0.4	1.6	1.8	1.1	0.1
HICP (annual % change)	4.1	2.6	0.1	0.3	0.0	-0.2	0.6	1.2
Domestic demand (annual % change) [2]	6.6	4.2	-2.5	7.7	9.9	17.1	4.3	3.7
Unemployment rate (% of labour force) [3]	4.6	4.9	13.7	11.3	9.4	7.9	6.4	5.9
Gross fixed capital formation (% of GDP)	24.1	28.2	18.7	20.5	21.2	29.3	30.1	30.7
Gross national saving (% of GDP)	24.0	23.6	17.2	24.6	31.8	34.6	35.3	36.1
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**1.7**	**-0.2**	**-14.5**	**-3.7**	**-2.0**	**-0.6**	**-0.5**	**-0.3**
Gross debt	**35.3**	**28.8**	**99.3**	**105.3**	**78.7**	**75.4**	**73.5**	**72.7**
Net financial assets	**-15.1**	**-5.4**	**-59.0**	**-80.3**	**-59.4**	**n.a**	**n.a**	**n.a**
Total revenue	34.3	35.4	33.6	34.1	27.6	27.5	26.9	26.6
Total expenditure	32.7	35.6	48.0	37.8	29.5	28.0	27.4	26.8
of which: Interest	1.7	1.1	3.3	3.9	2.7	2.3	2.2	2.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**3.4**	**2.4**	**10.4**	**1.9**	**10.1**	**4.7**	**5.2**	**6.0**
Net financial assets; non-financial corporations	**-87.2**	**-98.0**	**-142.3**	**-151.8**	**-207.2**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-10.3**	**-4.3**	**5.1**	**-21.5**	**-20.4**	**n.a**	**n.a**	**n.a**
Gross capital formation	11.9	12.5	12.4	16.4	17.0	24.8	24.8	24.6
Gross operating surplus	35.6	33.5	36.4	39.3	50.3	49.4	49.7	50.2
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.2**	**-7.9**	**2.5**	**1.9**	**1.3**	**0.8**	**0.0**	**-0.7**
Net financial assets	**88.8**	**63.5**	**69.2**	**91.7**	**79.3**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	32.0	33.2	34.8	32.6	25.9	26.6	26.9	26.9
Net property income	2.4	1.2	0.9	1.8	1.4	1.4	1.2	1.3
Current transfers received	12.8	13.9	18.4	16.1	12.3	11.8	11.4	11.0
Gross saving	2.8	4.1	6.1	5.2	4.1	4.0	3.9	3.8
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**1.0**	**-4.2**	**-1.6**	**-1.8**	**9.7**	**2.6**	**4.6**	**4.8**
Net financial assets	**20.4**	**44.2**	**127.2**	**161.8**	**207.7**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	15.0	10.0	16.9	17.9	31.7	23.2	23.0	23.0
Net primary income from the rest of the world	-14.0	-13.3	-16.9	-14.8	-20.3	-17.5	-17.2	-17.0
Net capital transactions	0.6	0.1	0.0	-3.5	-0.5	-2.1	-0.2	-0.2
Tradable sector	49.2	42.3	47.5	47.8	56.5	56.1	n.a	n.a
Non tradable sector	39.4	45.8	43.7	44.1	36.1	36.1	n.a	n.a
of which: Building and construction sector	6.4	7.9	2.0	2.8	2.4	2.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	89.3	108.9	101.7	94.5	73.3	74.0	73.7	73.1
Terms of trade goods and services (index, 2000=100)	106.9	103.3	102.1	101.0	103.6	102.9	102.9	102.9
Market performance of exports (index, 2000=100)	87.2	89.7	100.5	110.9	142.0	141.3	141.6	142.1

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 2017 spring forecast