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Assessment of the 2016 Stability Programme for

Ireland

(Note prepared by DG ECFIN staff)

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1. INTRODUCTION

This document assesses Ireland's April 2016 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 29 April and covers the period 2016-2021. On 26 February 2016, Ireland held elections for its lower House of Parliament. As the negotiations to form a new government were ongoing at the time of the submission of the Stability Programme, the document is based on a no-policy-change assumption. Forecasts beyond 2016 are based on existing legislation and no new fiscal policy measures are outlined. The incoming government is expected to provide information on the planned measures underpinning the 2016 budgetary targets and the outer years' fiscal plans in the coming weeks. The present document was approved by the government and presented to the national parliament for a debate without a vote.[1]

Ireland is currently subject to the corrective arm of the Stability and Growth Pact (SGP). The Council opened the Excessive Deficit Procedure (EDP) for Ireland in April 2009. On 7 December 2010, in the context of Ireland's economic adjustment programme, the Council adopted revised recommendations under the EDP and Ireland was on that basis recommended to correct the excessive deficit by 2015. Following the abrogation of the EDP, Ireland will be subject to the preventive arm of the SGP and should ensure sufficient progress towards its medium-term budgetary objective (MTO). As the debt ratio in 2015 is estimated at 93.8% of GDP, thereby exceeding the Treaty reference value of 60% of GDP, over the three-year period following the correction of the excessive deficit Ireland will also be subject to the transitional arrangements as regards compliance with the debt criterion, during which it should ensure sufficient progress towards compliance.

This document complements the Country Report published on 26 February 2016 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 2016 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.

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

2. MACROECONOMIC DEVELOPMENTS

The recovery of the Irish economy gained further momentum in 2015, when real GDP grew by 7.8% compared to 5.2% in the previous year. Private consumption grew by 3.5%, on the back of rising employment and wages, very low consumer price inflation and the release of pent-up demand for durable goods. Gross fixed capital formation rose by a record 28.2%, although a substantial part of this surge was due to sustained transfers of intellectual property assets by some multinational companies to their Irish affiliates. These large imports of patents helped reducing the contribution of the external sector to GDP growth, in spite of the strong annual growth in exports of nearly 14%. Higher-than-budgeted public expenditure in 2015 – by about EUR 1.5 billion (0.7% of GDP) – provided an additional stimulus to economic growth. Strong and broad-based economic growth is expected to continue in 2016 and 2017, albeit at more moderate rates of close to 5% and 4%, respectively. Supply constraints – for instance, in housing or infrastructure – could however limit potential growth in the future if left unresolved.

Table 1: Comparison of macroeconomic developments and forecasts

	2015		2016		2017		2018	2019	2020	2021
	COM	SP	COM	SP	COM	SP	SP	SP	SP	SP
Real GDP (% change)	7.8	7.8	4.9	4.9	3.7	3.9	3.9	3.3	3.1	2.9
Private consumption (% change)	3.5	3.5	2.7	3.9	2.0	2.7	2.4	2.0	1.8	1.6
Gross fixed capital formation (% change)	28.2	28.2	13.4	13.5	8.3	7.0	4.8	4.7	3.9	3.8
Exports of goods and services (% change)	13.8	13.8	6.9	8.0	6.6	5.5	5.1	4.5	4.3	4.2
Imports of goods and services (% change)	16.4	16.4	7.7	9.0	7.4	5.8	4.6	4.3	4.0	4.0
Contributions to real GDP growth:										
- Final domestic demand	7.0	7.0	4.3	4.9	3.1	3.0	2.3	2.1	1.8	1.7
- Change in inventories	0.7	0.4	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.1	0.1	0.6	0.7	0.6	0.9	1.6	1.2	1.2	1.1
Output gap[1]	1.6	1.4	1.7	1.7	0.6	0.9	0.6	0.1	-0.4	-0.9
Employment (% change)	2.6	2.6	1.7	2.6	1.4	2.3	2.3	1.7	1.6	1.4
Unemployment rate (%)	9.4	9.5	8.2	8.4	7.5	7.8	7.0	6.6	6.3	6.0
Labour productivity (% change)	5.1	5.0	3.1	2.3	2.2	1.6	1.6	1.6	1.5	1.4
HICP inflation (%)	0.0	0.0	0.3	0.4	1.3	1.7	1.9	1.9	1.9	1.9
GDP deflator (% change)	5.3	5.3	1.8	2.6	1.2	1.2	1.3	1.3	1.3	1.3
Comp. of employees (per head, % change)	0.6	2.2	2.2	2.6	2.1	2.5	2.5	2.7	2.8	2.9
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	4.5	4.4	4.7	4.5	4.8	3.9	3.8	3.2	2.7	2.4

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 2016 spring forecast (COM); Stability Programme (SP).

The macroeconomic scenario underlying the Stability Programme takes into account the surge in GDP in the last quarter of 2015. Accordingly, real GDP growth in 2016 was revised upwards by 0.7 pp. as compared to the scenario underlying the Draft Budgetary Plan of October 2015, and is now expected to accelerate to 4.9%. Domestic demand would be the main contributor to GDP growth, while the contribution of net exports would remain muted.

The output gaps as recalculated by the Commission, following the commonly agreed methodology, would remain positive until 2019. These estimates differ from the ones presented in the programme except for 2016, when they are identical. The recalculated output

gap projections suggest a slower-paced closure, whereas programme estimates, taken at face value, assume actual GDP growth to be equal to potential GDP growth as from 2020.

The macroeconomic assumptions for 2016 and 2017 in the Stability Programme are broadly in line with the Commission 2016 spring forecast. As reported in Table 1, the Commission expects private consumption to grow more moderately in 2016 and 2017, as employment growth is set to increase at lower rates and household indebtedness remains high in Ireland. On the external side, the Commission expects marginally lower growth in 2016 both in imports and exports, reflecting a cautious outlook for trading partners' demand, private consumption and wages. The Commission is also more cautious on the contribution of net exports to GDP growth, given the great uncertainty surrounding the evolution of intellectual property transfers and aircraft purchases by a small sample of companies based in Ireland. As regards developments in the labour market, the programme expects marginally higher unemployment rates in 2016 and 2017 than the Commission, while also projecting higher employment growth. This must be attributed to a more rapid expansion of the labour force in the programme, compared to the Commission forecast. Overall, the macroeconomic scenario underlying the programme is plausible.

Similarly to the Commission 2016 spring forecast, risks to the macroeconomic projections underlying the Stability Programme are tilted to the downside. This is mainly due to external factors, to which Ireland is particularly exposed as a small and very open economy, such as a deceleration in demand from trading partners. Conversely, investment in construction could be higher than expected in order to meet the growing unmet housing demand, which would boost employment growth and domestic demand further.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. Deficit developments in 2015

In 2015, the general government deficit reached 2.3% of GDP, down from 3.8% of GDP in 2014 and below the target of 2.9% of GDP laid down in the Council recommendation under the EDP. Net of a one-off transaction related to the restructuring of a state-owned bank's capital base,[2] the deficit amounted to 1.3% of GDP in 2015. Compared to 2014, the deficit improvement mainly reflects the exceptionally strong rebound of the Irish economy. In 2015, tax revenues increased by 9.3%, fuelled by an exceptional surge in corporate tax receipts, which were up by 50% compared to the previous year. Despite spending increases in public wages (+3.9%) and intermediate consumption (+6.1%), current primary expenditure's share in GDP fell by 3 pps. to 28.7%.[3] The gross fixed capital expenditure ratio decreased to 1.8% of GDP from 2.1% the year before, reaching a new historical low. Due to low market interest

[2] In 2015, under the planned restructuring of Allied Irish Banks' (AIB) capital base, part of the government's preference shares (EUR 2.1, billion1.0% of GDP) were converted into ordinary stock, in preparation of their planned sale. The conversion of the preference shares to ordinary shares has been determined to be a capital transfer (government expenditure) rather than a reinvestment of capital. This was determined by Eurostat during the April 2016 EDP notification process based on AIB losses incurred since the 2012 capital injection, as well as on the uncertainty of a return on the investment when compared to the guaranteed return on the previously-held preference shares.

[3] Pressures in health spending resulted in a supplementary budget in October 2015 that allocated an additional EUR 600 million (0.3% of GDP) to the health department, an increase of 5% above the original budgetary plan.

rates and the early repayment of IMF loans, interest expenditure was about 10% lower than in 2014.

At 1.3% of GDP in 2015, the underlying deficit outturn (net of one-offs) was below the target of 2.3% of GDP laid out in the 2015 Stability Programme. The difference largely reflects the stronger-than-expected economic growth, including the extraordinary tax intakes.

The underlying deficit was also lower than the 2.1% of GDP projected in the 2016 Draft Budgetary Plan. The improvement stems from several reasons: (i) nominal GDP growth was higher than expected; (ii) about one fifth of the extra-budget approved in October 2015 was not ultimately spent; (iii) the occurrence of a technical surplus at local-government level, whose recurrence is unlikely.

Based on the Commission 2016 spring forecast, the structural balance is estimated to have improved by 0.5% of GDP, from -2.7% of GDP in 2014 to 2.2% of GDP in 2015.

3.2. Medium-term strategy and targets

The 2016 Stability Programme, prepared under a no-policy-change assumption, projects a steady decline of the headline deficit until reaching a surplus of 0.4% of GDP in 2018. The programme defines Ireland's new MTO as a structural deficit of 0.5% of GDP, which reflects the objectives of the SGP and is projected to be met by 2018 at the latest.

The programme projects a headline budget deficit of 1.1% of GDP in 2016, down from 1.2% of GDP in the 2016 Draft Budgetary Plan and from 2.3% of GDP in last year's Stability Programme. The slight deficit improvement compared to the 2016 Draft Budgetary Plan mainly reflects the better starting position for 2016 as well as the unexpected increase in the surplus of the Central Bank.[4] Deficit-increasing adjustments on the expenditure side are expected to be partly offset by additional savings in interest expenditure. The expenditure-to-GDP ratio is projected to drop to 32% in 2016, a reduction by some 3 pps. compared to the previous year,[5] while the revenue-to-GDP ratio is projected to decline by some 2 pps. to 30.9%. The Stability Programme's target for government investment in 2016 is EUR 220 million (0.1% of GDP) below 2016 Budget estimates, and the investment-to-GDP ratio is projected to reach a historical low in 2017 at 1.6% of GDP.

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[4] The Central Bank’s balance sheet continues to reflect the broad range of measures the Bank has taken in recent years in response to the financial and sovereign debt crises. The sizeable Central Bank surplus transferred to the central government in 2016 (EUR 1.8 billion, 0.8% of GDP) reflects both the realised capital gains on the sale of assets (the residual sales of the 5.4% Irish 2025 Government Bond, the 2038 Floating Rate Note and partial sales of the 2041 Floating Rate Note) for an amount of around EUR 1.07 billion (0.5% of GDP), and the interest income on the Floating rate note (EUR 0.66 billion, 0.3% of GDP). This portfolio of securities was acquired following the Irish Bank Resolution Corporation (IBRC) liquidation in February 2013.

[5] Around 1 pp. of the fall of the expenditure-to-GDP is due to a capital one-off transaction in 2015, while savings on the government debt servicing costs, as percentage of GDP, contribute by 0.4 pp. to the decline

Table 2: Composition of the budgetary adjustment

(% of GDP)	2015	2016		2017		2018	2019	2020	2021	Change: 2015-2021
	COM	COM	SP	COM	SP	SP	SP	SP	SP	SP
Revenue	**32.8**	**31.3**	**30.9**	**30.8**	**30.3**	**29.9**	**29.7**	**29.5**	**29.4**	**-3.5**
of which:										
- Taxes on production and imports	10.5	10.3	10.3	10.3	10.3	10.2	10.1	10.0	10.0	-0.5
- Current taxes on income, wealth, etc.	13.0	12.4	12.2	12.3	12.1	12.1	12.1	12.1	12.0	-1.0
- Social contributions	5.3	5.1	5.1	5.0	5.0	4.9	4.9	4.8	4.8	-0.6
- Other (residual)	4.1	3.6	3.3	3.3	2.9	2.7	2.7	2.6	2.7	-1.4
Expenditure	**35.1**	**32.4**	**32.0**	**31.5**	**30.7**	**29.6**	**28.6**	**27.5**	**26.6**	**-8.6**
of which:										
- Primary expenditure	32.0	29.6	29.3	28.7	28.1	27.2	26.3	25.5	24.7	-7.3
of which:										
Compensation of employees	9.1	8.7	8.7	8.6	8.5	8.2	7.9	7.6	7.4	-1.7
Intermediate consumption	4.3	4.2	4.2	4.2	4.0	3.9	3.7	3.6	3.5	-0.7
Social payments	13.0	12.2	12.0	11.7	11.4	10.9	10.5	10.1	9.8	-3.3
Subsidies	0.9	0.9	0.7	0.9	0.7	0.7	0.6	0.6	0.6	-0.3
Gross fixed capital formation	1.8	1.8	1.7	1.8	1.6	1.7	1.8	1.8	1.9	0.1
Other (residual)	2.8	1.7	1.9	1.6	1.9	1.8	1.7	1.7	1.7	-1.8
- Interest expenditure	3.1	2.8	2.7	2.7	2.6	2.4	2.2	2.1	1.9	-1.3
General government balance (GGB)	**-2.3**	**-1.1**	**-1.1**	**-0.6**	**-0.4**	**0.4**	**1.2**	**2.0**	**2.8**	**5.1**
Primary balance	**0.8**	**1.7**	**1.6**	**2.1**	**2.1**	**2.8**	**3.4**	**4.1**	**4.7**	**3.8**
One-off and other temporary	-1.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
GGB excl. one-offs	**-1.3**	**-1.0**	**-1.1**	**-0.6**	**-0.5**	**0.3**	**1.2**	**2.0**	**2.8**	**4.1**
Output gap[1]	1.6	1.7	1.7	0.6	0.9	0.6	0.1	-0.4	-0.9	-2.6
Cyclically-adjusted balance[1]	-3.2	-2.0	-2.0	-1.0	-0.9	0.1	1.1	2.2	3.3	6.4
Structural balance[2]	**-2.2**	**-2.0**	**-2.0**	**-1.0**	**-0.9**	**0.0**	**1.1**	**2.2**	**3.3**	**5.5**
Structural primary balance[2]	1.0	0.9	0.7	1.8	1.6	2.4	3.3	4.3	5.1	**4.2**

Notes:

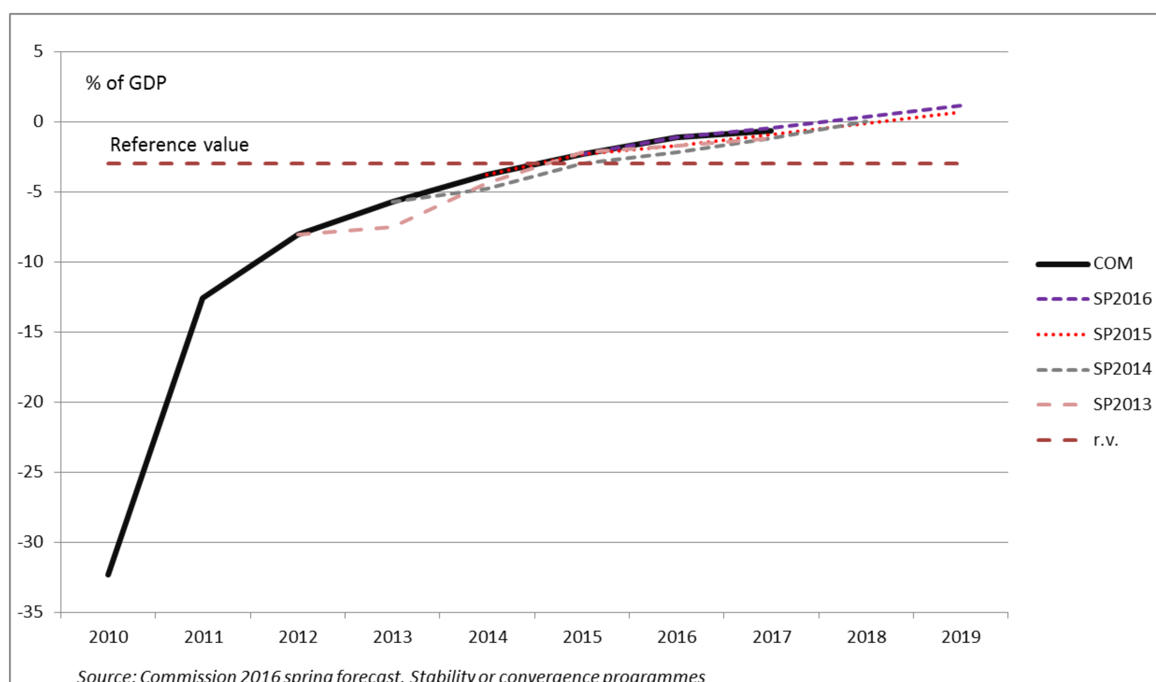
[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

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

Source:

Stability Programme (SP); Commission 2016 spring forecasts (COM); Commission calculations.

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



The recalculated structural deficit[6], following the commonly agreed methodology, is estimated at 2.0% of GDP in 2016, down from 2.1% of GDP in 2015 and broadly in line with estimates in the 2016 Draft Budgetary Plan. The recalculated structural deficit is projected to improve by around 1.0% of GDP per year between 2016 and 2018, when a structural balance is planned.[7]

The Commission 2016 spring forecast projects a deficit for 2016 of 1.1% of GDP in line with government expectations. However, the Commission forecast projects slightly higher revenues, due to a less pronounced fall of non-tax revenues, as well as stronger expenditure increases. The latter are motivated by the recurring expenditure overruns in the past several years, compared to government plans.

According to the Commission 2016 spring forecast, the structural deficit will reach 2.2% of GDP in 2016, in line with the recalculated programme estimates. The Commission, under the usual no-policy-change assumption, projects a headline deficit of 0.6% of GDP for 2017, while the structural deficit is estimated at 1.0%, partly reflecting the estimating budgetary impact stemming from fiscal policy measures that have been credibly announced and already specified in sufficient detail by the authorities.

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

[7] The Stability Programme, at face value, reports a higher structural deficit in 2015 (2.4% of GDP). This is mainly due to a different assessment of one-off transactions.

3.3. Measures underpinning the programme

As indicated above, the Stability Programme does not contain assumptions on possible new measures to be taken by the new government. In 2016, the headline deficit target of 1.1% of GDP takes into account a package of measures of EUR 1.5 billion (0.7% of GDP) already included in the 2016 Draft Budgetary Plan, consisting of both tax cuts and spending increases. Consistent with the no-policy-change assumption underlying the fiscal targets for 2017 and beyond, the programme does not include any new measures over that period.

The measures that have already been adopted have also been accounted for in the Commission 2016 spring forecast. Ireland's programme does not rely on one–off measures and the yields of the fiscal policy measures that have already been specified seem plausible.

Main budgetary measures

Revenue	**Expenditure**
2016	
• Reduction of personal income tax (-0.4% of GDP)	• Increase in compensation of civil servants (0.1% of GDP) • Increase in social transfers to households (0.1% of GDP)
2017	
• Reduction of personal income tax (-0.1% of GDP) • Other reduction in tax (excluding PIT) (-0.1% of GDP)	• Increase in compensation of civil servants (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.	

3.4. Debt developments

The general government gross debt-to-GDP ratio is projected to continue falling over the forecast horizon. In 2015, it dropped by 13.8 pps. of GDP to 93.8%, largely due to the surge in nominal GDP and the sales of state assets.[8] From 2016 onwards, the decline of the debt-to-GDP ratio is expected to be driven by sustained economic growth and the targeted improvement of the general government budget balance.[9] The Stability Programme projects a government debt-to-GDP ratio of 88.2% and 85.5% repectively in 2016 and 2017. The programme's projections are broadly in line with the Commission 2016 spring forecast, whereas divergences in 2016 mostly relate to different inflation estimates. With the necessary

[8] These include the cancellation of EUR 2.0 billion (1.0% of GDP) of the floating rate notes purchased from the Central Bank of Ireland, about EUR 0.5 billion (0.3% of GDP) from the sale of contingent capital notes and equity in Permanent TSB, and the transfer of EUR 1.6 billion (0.9% of GDP) from the Ireland Strategic Investment Fund from the redemption of Bank of Ireland's preference shares.

[9] In 2016, the expected receipts from the redemption of the AIB contingent convertible capital notes of EUR 1.6 billion (0.8% of GDP) will also contribute to the decline in gross debt.

degree of prudence, the programme's debt projections do not include potential sales of equity shares in state-owned enterprises (SOEs).

The downward revision of the debt path, in particular when compared to the last two Stability Programmes, is mainly due to the more favourable economic growth and fiscal projections in the most recent programme, coupled with the sales of state assets (Figure 2).

Table 3: Debt developments

(% of GDP)	Average 2010-2014	2015	2016		2017		2018	2019	2020	2021
			COM	SP	COM	SP	SP	SP	SP	SP
Gross debt ratio[1]	**108.7**	**93.8**	**89.1**	**88.2**	**86.6**	**85.5**	**81.3**	**77.7**	**73.3**	**68.9**
Change in the ratio	9.2	-13.8	-4.7	-5.5	-2.5	-2.7	-4.3	-3.6	-4.4	-4.5
Contributions[2] *:*										
1. Primary balance	**8.7**	**-0.8**	**-1.7**	**-1.6**	**-2.1**	**-2.1**	**-2.8**	**-3.4**	**-4.1**	**-4.7**
2. "Snow-ball" effect	**1.3**	**-9.3**	**-3.1**	**-3.8**	**-1.4**	**-1.7**	**-1.9**	**-1.3**	**-1.2**	**-1.1**
Of which:										
Interest expenditure	3.7	3.1	2.8	2.7	2.7	2.6	2.4	2.2	2.1	1.9
Growth effect	-2.0	-7.4	-4.3	-4.3	-3.1	-3.3	-3.2	-2.6	-2.3	-2.0
Inflation effect	-0.4	-5.0	-1.6	-2.2	-1.0	-1.0	-1.1	-1.0	-1.0	-0.9
3. Stock-flow adjustment	**-0.8**	**-3.2**	**0.2**	**0.0**	**1.1**	**1.2**	**0.4**	**1.2**	**0.9**	**1.3**
Of which:										
Cash/accruals diff.				0.5		0.7	-0.1	0.2	0.2	0.1
Acc. financial assets				-1.1		-0.3	-0.3	-0.3	-0.3	-0.3
Privatisation				0.0		0.0	0.0	0.0	0.0	0.0
Val. effect & residual				0.0		0.0	0.0	0.0	0.0	0.0

Notes:

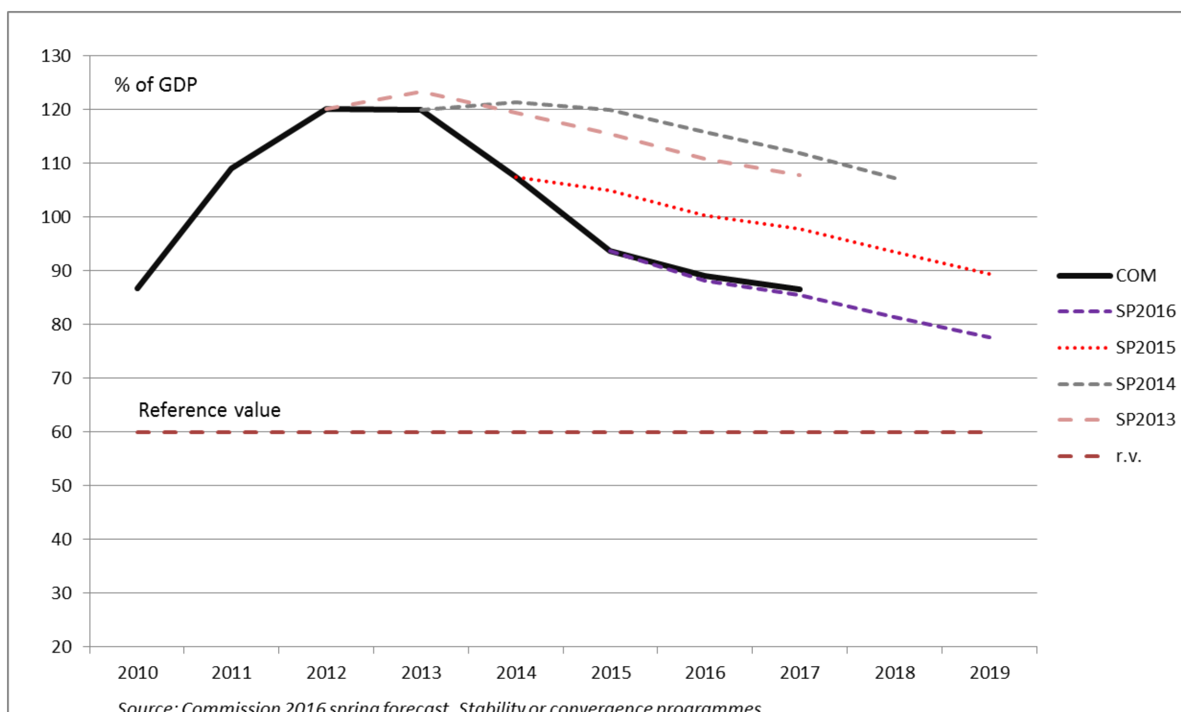
[1] End of period.

[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 2016 spring forecast (COM); Stability Programme (SP), Comission calculations.

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



3.5. Risk assessment

The Commission 2016 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. In this regard, a sharper deceleration in demand from trading partners would reduce the contribution of the external sector to GDP growth and job creation. While the direct exposure of the Irish economy to emerging markets is limited, the country would suffer from a possible contagion to advanced economies. Conversely, domestic risks are tilted to the upside. In particular, investment in construction could turn out higher than expected – given growing unmet demand for housing – boosting job creation and domestic demand further and, thereby, possibly leading to higher tax revenues.

The baseline fiscal forecast is also exposed to factors that go beyond shocks originating from the economic or external outlook. Taking into account that the 2016 Stability Programme was designed on the basis of a no-policy-change assumption, the fiscal forecast is surrounded by uncertainty regarding the composition, scale and timing of any fiscal measures that may be undertaken by the new coalition government. The programme's deficit forecasts for 2016 and beyond strongly rely on a strict expenditure control.[10] However, the new government could embrace further tax cuts or expenditure increases, including in healthcare, or reverse structural reforms with fiscal impact in areas such as water or public wages.

[10] The Stability Programme projects the total government's share in GDP to decline from 32% in 2016 to 30.7% in 2017 and to drop further to 26.6% by the end of the programme's period. At the same time the revenue-to-GDP ratio is projected to remain near 30%. Therefore, the bulk of the adjustment is expected in the expenditure-to-GDP ratio, with measurable reductions in social transfers (3.2 pps), compensation of employees (1.7 pps) and interest expenditure (1.2 pps).

In addition, the track record of meeting expenditure plans has been mixed in Ireland.[11] In the year to date, current expenditure overruns in healthcare and social protection were so far mitigated by under-spending in other departments. However, the Stability Programme indicates that "*it is likely that over the course of the year spending pressures amounting to c. ¼ per cent of GDP could materialise*". A court ruling on hospital consultants' pay could weaken the fiscal adjustment during the next year or the following.[12] Both the programme and the Commission forecasts incorporate prudent assumptions. However, the projections for the highly volatile corporate tax revenues need to be taken with special caution, following the very steep increase observed in 2015. 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 turnouts (Figure 1), although mainly due to the better-than-expected economic rebound.

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. According to the Commission's debt sustainability analysis, a permanent negative shock to nominal GDP growth of 0.5 pp. would increase the public debt-to-GDP ratio by about 4.2 pps. to 78.9% by 2026, under the no-policy-change assumption. On the other hand, save for any potential future changes to market conditions, interest rate risk for the Irish sovereign is low, due to prudent debt management and low future refinancing needs.[13] Ireland's government debt is largely long-term and its long maturity profile[14] reduces risks from interest rate and market access shocks and eases debt financing.

[11] The latest Country Report for Ireland points to recurrent upward revisions in annual budget allocations.

[12] Further additional costs for the government could arise from missing the greenhouse gas emission reduction targets under the 2009 EU Effort Sharing Decision. Based on existing policy measures, Ireland is expected to miss its national emission reduction targets by 10%. Failure to comply with the reduction targets may result in additional government expenditure of hundreds of millions for the purchase of carbon credits until targets are achieved. Similarly, further spending may arise in the context of the new EU climate and energy framework for the period 2020-2030.

[13] The average effective interest rate on government debt was estimated to be around 3.3% in 2015, 0.2 pp. lower than in the previous year. This reflects the combination of currently favourable market conditions and sensible debt management operations.

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

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

Box 1. Council recommendations addressed to Ireland

On 27 April 2009, following a recommendation from the Commission, the Council decided, in accordance with Article 104(6) of the Treaty, that an excessive deficit existed in Ireland[15] and recommended the country to correct its excessive deficit by 2013. On 7 December 2010, considering that unexpected adverse economic events with major unfavourable consequences for government finances had occurred in Ireland, the Council, following a recommendation from the Commission, adopted revised recommendations and extended the deadline for correcting the excessive deficit to 2015.[16] The December 2010 recommendations required Ireland to meet pre-determined annual deficit targets over the period 2011-2015. In order to achieve these nominal targets, the Council recommended an improvement in the structural balance of at least 9½% of GDP over 2011-2015 and to seize opportunities, including from better economic conditions, to accelerate the debt reduction. The Council also recommended various institutional reforms in order to limit risks to the fiscal adjustment.

On 14 July 2015, the Council also addressed recommendations to Ireland in the context of the European Semester. In particular, in the area of public finances the Council recommended to Ireland to ensure a durable correction of the excessive deficit in 2015 and to achieve a fiscal adjustment of 0.6% of GDP towards the MTO in 2016. Ireland is also expected to: (i) use windfall gains from better-than-expected economic and financial conditions to accelerate the deficit and debt reduction; (ii) limit the existing discretionary powers to change expenditure ceilings beyond specific and predefined contingencies; (iii) broaden the tax base and review tax expenditures, including on value-added taxes.

4.1. Compliance with EDP recommendations in 2015

Ireland has reached a headline deficit of 2.3% of GDP in 2015 – i.e. the deadline for the correction of the excessive deficit –, which is below the deficit reference value of the Treaty and the recommended deficit target of 2.9% of GDP for that year. The correction of the excessive deficit is projected to be durable. The Stability Programme targets a deficit of 1.1% of GDP in 2016, in line with Commission's projections. For 2017, under the no-policy-change assumption, the general government deficit in the programme is expected to decline further, consistent with the Commission's forecast.

Overall, it appears that Ireland has durably corrected its excessive deficit by the recommended deadline. On this basis, on 18 May 2016, the Commission has issued a Recommendation for a Council Decision in accordance with Article 126(12) of the Treaty abrogating the Decision of 27 April 2009 on the existence of an excessive deficit in Ireland.

4.2. Compliance with the debt criterion

Following the abrogation of the EDP, as of 2016, Ireland would be subject to the preventive arm of the SGP and, as the debt ratio exceeds 60% of GDP, it should ensure sufficient progress towards compliance with the debt criterion during a three-year (2016-2018)

[15] Council Decision 2009/416/EC of 27 April 2009 on the existence of an excessive deficit in Ireland.

[16] Council Recommendation of 7 December 2010 with a view to bringing to an end the situation of an excessive deficit in Ireland. At the same time, following the request by the Irish authorities for financial assistance from the European Union, the Member States whose currency is the euro and the International Monetary Fund (IMF), the Council addressed a decision to Ireland on granting financial assistance and on specific measures to restore financial stability and sustainable growth.

transition period. Over this period, the structural balance is expected to adjust in a way that ensures that the debt reduction benchmark is met at the end of the transition period.

Table 4: Compliance with the debt criterion

	2015	2016		2017	
		SP	COM	SP	COM
Gross debt ratio	**94**	**88.2**	**89.1**	**85.5**	**86.6**
Gap to the debt benchmark [1,2]					
Structural adjustment [3]	0.5	0.1	0.2	1.1	1.0
To be compared to:					
Required adjustment [4]		-0.5	-0.5	-0.8	-1.0

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 2016 spring forecast (COM); Stability Programme (SP), Comission calculations.

According to the programme's estimates, the recalculated structural effort for 2016 is higher than the required Minimum Linear Structural Adjustment (MLSA) of -0.5% of GDP. The same applies according to the Commission 2016 spring forecast, on which basis the MLSA is also estimated at -0.5 of GDP in 2016. In 2017, programme's projections point to a similar result, with a margin above the required adjustment of 1.9% of GDP. Similarly, on the basis of the Commission 2016 spring forecast, the margin above the required adjustment is estimated at 2.0% of GDP. Therefore, Ireland is expected to make sufficient progress towards compliance with the debt criterion.

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

Following the abrogation of the EDP, Ireland will be subject to the requirements of the preventive arm of the SGP. The recommendation for Ireland, which is not yet at its MTO, can be considered to be in "normal times"[17] (i.e. with an output gap between -1.5% and 1.5% of GDP) and has a general government debt ratio above 60% of GDP, is to deliver a structural adjustment of 0.6% of GDP per year so as to make sufficient progress towards the MTO.

According to the Stability Programme, the annual change in the (recalculated) structural balance of 0.1% of GDP in 2016 does not ensure a sufficient progress towards the MTO. On the other hand, the growth rate of government expenditure, net of discretionary revenue measures, is below the applicable expenditure benchmark rate.

Based on the Commission 2016 spring forecast, the projected improvement in the structural balance of 0.2% of GDP in 2016 would lead to some deviation from the required structural adjustment of 0.6% of GDP towards the MTO. Conversely, the growth rate of government expenditure, net of discretionary revenue measures, is expected to be below expenditure benchmark in 2016, leading to a positive gap of 0.5% of GDP. The difference between the two indicators is mainly due to a one-off transaction in 2015 related to the statistical treatment of a restructuring operation in a state-owned bank's capital base[18], which increased aggregate expenditure in the base year (2015) and therefore leads to a positive effect on compliance with the expenditure benchmark. If this one-off measure were filtered out of the calculations, also the expenditure benchmark would point to some deviation in 2016. Besides, the annual potential GDP growth rate used in the computation of the structural balance is higher than the medium-term rate used in the calculation of the expenditure benchmark. In the case of Ireland, the medium-term reference rate used for the computation of the expenditure benchmark is deemed to be a more stable and prudent estimate of the country's medium-term growth potential.[19] Therefore, the overall assessment points to a risk of some deviation from the recommended adjustment path towards the MTO in 2016.

In 2017, based on the Stability Programme, the annual change in the (recalculated) structural balance of 1.1% of GDP is well above the recommended structural adjustment and the growth rate of expenditure would meet the expenditure benchmark (leading to a positive gap of 0.3% of GDP). Over two years (2016-2017), the analysis points to the same conclusion, since both the structural balance and the expenditure benchmark pillars are expected to be in line with the recommended adjustment.

According to the Commission 2016 spring forecast and based on a no-policy-change assumption, the structural balance is projected to improve by 1% of GDP in 2017, more than the recommended structural adjustment of 0.6% of GDP towards the MTO, while the expenditure benchmark is expected to be met with a small margin.[20] Over two year (2016-

[17] Commission Communication on "*Making the best use of the flexibility within the existing rules of the Stability and Growth Pact" of 13 January 2015, and the "Commonly agreed position on Flexibility in the Stability and Growth Pact*", as endorsed by the Council on 12 February 2016..

[18] See footnote (2).

[19] Owing to the very open nature of the Irish economy, the estimates of annual potential growth are subject to considerable, often pro-cyclical variations due to frequent and sizeable data revisions of Irish national accounts and factors impacting on the supply side of the economy, notably migration, the real effective exchange rate or energy prices.

[20] However, over two years (2016-2017), the expenditure benchmark pillar, if corrected for the aforementioned one-off transaction in 2015, would point to some deviation (average gap of -0.2% of GDP).

2017), no deviation from the requirement is projected on the basis of the structural balance pillar, while the expenditure benchmark is expected to be fulfilled with a small margin.

Following an overall assessment, based on the Stability Programme and the Commission forecast, the adjustment path towards the MTO points to some deviation from the requirements of the preventive arm of the SGP in 2016, while no deviation is projected in 2017. Overall, meeting the recommended structural targets hinges on Ireland specifying and implementing the measures necessary to achieve its budgetary targets, in particular in 2016.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2016		2017	
Initial position[1]				
Medium-term objective (MTO)	0.0		-0.5	
Structural balance[2] (COM)	-2.0		-1.0	
Structural balance based on freezing (COM)	-2.0		-	
Position vis-a -vis the MTO[3]	Not at MTO		Not at MTO	
(% of GDP)	**2016**		**2017**	
	SP	**COM**	**SP**	**COM**
Structural balance pillar				
Required adjustment[4]	0.6		0.6	
Required adjustment corrected[5]	0.6		0.6	
Change in structural balance[6]	0.1	0.2	1.1	1.0
One-year deviation from the required adjustment [7]	-0.5	-0.4	0.5	0.4
Two-year average deviation from the required adjustment [7]	in EDP		0.0	0.0
Expenditure benchmark pillar				
Applicable reference rate[8]	0.1		1.2	
One-year deviation [9]	0.7	0.5	0.3	0.1
Two-year average deviation [9]	in EDP		0.5	0.3
Conclusion				
Conclusion over one year	Overall assessment	Overall assessment	Compliance	Compliance
Conclusion over two years	in EDP		Compliance	Compliance

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 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 2016 spring forecast (COM); Commission calculations.

5. FISCAL SUSTAINABILITY

Ireland does not appear to face fiscal sustainability risks in the short run. Nonetheless, there are some indications that the macro-financial and competitiveness side of the economy poses potential challenges.[21]

Based on Commission forecasts and a no-policy-change scenario beyond forecasts, general government gross debt, at 93.8% of GDP in 2015, is expected to decrease to 74.7% in 2026, still above the Treaty reference value of 60% of GDP. The full implementation of the Stability Programme would nonetheless put debt on a firmly decreasing path, reaching the 43.6% of GDP reference value in 2026.[22]

The medium-term fiscal sustainability risk indicator S1 is at 1.5% of GDP, primarily related to the still high level of government debt and the projected ageing costs (contributing with 2 pps. and 1.3 pps. of GDP respectively), thus highlighting medium fiscal risks. However, risks appear to be high from a debt sustainability analysis perspective due to the still relatively high stock of debt and to the sensitivity to possible macroeconomic shocks. The full implementation of the stability programme would put the sustainability risk indicator S1 at -5.1% of GDP, leading to lower medium-term risk. Overall, risks to fiscal sustainability over the medium term remain, therefore, high. Fully implementing the fiscal plans in the Stability Programme would decrease considerably 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 0.5% of GDP. In the long term, Ireland therefore appears to face low fiscal sustainability risks, with the favourable initial budgetary position offsetting most of the projected ageing costs contributing with 1.9% of GDP. Full implementation of the programme would lower the S2 indicator to -4.5% of GDP, further reducing long-term risks.

[21] This conclusion is based on the short-term fiscal sustainability risk indicator S0, which incorporates 14 fiscal and 14 financial-competitiveness variables. The fiscal and financial-competitiveness sub-indexes (reported in table 5) are based on the two sub-groups of variables respectively. For sustainability risks arising from the individual variables, by country, see the Commission's Fiscal Sustainability Report 2015 (page 67).

[22] It has to be noted that the Stability Programme is built under a no-policy-change assumption according to which tax revenues are assumed to increase in line with nominal GDP growth, while government primary expenditures are kept broadly constant in level terms. The assumption of broadly stable expenditure in level terms contrasts with both pre-crisis trends and the government’s own estimates presented in the last expenditure review.

Table 6: Sustainability indicators

Time horizon				No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term				**LOW risk**			
S0 indicator [1]				0.4			
	Fiscal subindex (2015)			0.3	LOW risk		
	Financial & competitiveness subindex (2015)			0.5	HIGH risk		
Medium Term				**HIGH risk**			
DSA [2]				HIGH risk			
S1 indicator [3]				1.5	MEDIUM risk	-5.1	LOW risk
of which							
	IBP			-1.8		-6.8	
	Debt Requirement			2.0		1.0	
	CoA			1.3		0.7	
Long Term				**LOW risk**		**LOW risk**	
S2 indicator [4]				0.5		-4.5	
of which							
	IBP			-1.3		-5.3	
	CoA			1.9		0.8	
	of which						
		Pensions		1.0		0.1	
		HC		1.0		0.8	
		LTC		0.7		0.7	
		Other		-0.8		-0.9	

Source: Commission services; 2016 stability/convergence 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 2016 forecast until 2017. 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 2015 Ageing Report.

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

[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. See Fiscal Sustainability Report 2015.

[3] The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2017) is required (indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

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

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 Stability and Growth Pact (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.

The 2016 Stability Programme confirms Ireland's commitment to a fiscal adjustment strategy towards achieving a continued reduction in the structural budget deficit. However, the estimated structural balance improvement in 2016 deviates from the required fiscal adjustment of 0.6% of GDP, while compliance with the transitional debt rule is ensured in 2016 and 2017. In its Fiscal Assessment Report of June 2015, the IFAC considered that the balanced-budget rule would be met in 2015 but it voiced serious concerns regarding compliance with the rule in 2016 due to "*an insufficient fall in the structural deficit*" displayed in the 2015 Stability Programme. An update of this Fiscal Assessment Report reviewing the 2016 Stability Programme will be published by the Irish Fiscal Advisory Council (IFAC) before the summer.

Based on the information provided in the stability programme, the past fiscal performance in Ireland appears to comply with the requirements of the applicable national numerical fiscal rules, and the planned and forecast fiscal performance appears to comply only partially.

Although the fiscal framework has been strengthened significantly in the past several years, in particular with the adoption of the Fiscal Responsibility Act in 2012, some weaknesses remain, in particular as regards the recurrent breaching of expenditure ceilings. These led the European Council to recommend to Ireland both in 2014 and 2015 to ensure the binding nature of its expenditure ceiling including by limiting the statutory scope for discretionary changes. However, no initiatives were taken in this respect by Ireland in the recent years and no improvements are envisaged in the 2016 Stability Programme.[23] Moreover, as indicated above, the programme does not provide information about the broad budgetary measures underlying the medium term fiscal plan, in particular after 2017.

As highlighted in the 2016 Country Report, multiannual expenditure ceilings aim to safeguard against pro-cyclical fiscal policies and facilitate medium-term planning of budgetary priorities. However, expenditure outturns have been higher than planned under multiannual ceilings every year since the first Comprehensive Expenditure Report (CER) from December 2011.

Pursuant to Art. 4(1) of the Regulation (EU) No 472/2013 (part of the 'Two-Pack'), Ireland considers the Stability Programme to be its national medium-term fiscal plan. In its capacity of Ireland's national medium-term fiscal plan, the programme does not include specific indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact. These indications are not provided in the Irish National Reform Programme either.

[23] The Stability Programme reports few initiatives, i.e. the publication of the revised Public Spending Code, the addition of staff resources in the Irish Government Economic and Evaluation Services (IGEES), the implementation of the Performance Budgeting initiative, with the aim of strengthening the link between expenditure allocations for department and the public services they deliver. However, no specific achievements or targets have been indicated.

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.[24] The IFAC endorsed the set of macroeconomic forecasts underpinning the 2016 Stability Programme as lying within the range of appropriate projections. The letter of endorsement was signed on 20 April.[25]

7. CONCLUSIONS

In 2015, Ireland achieved a headline deficit of 2.3% of GDP, below the Treaty reference value of 3% of GDP the deficit target of 2.9% of GDP recommended by the Council. Both the Stability Programme and the Commission forecast expect the general government deficit to decrease further to 1.1% of GDP in 2016 and, under the no-policy-change assumption, to respectively 0.4% and 0.6% of GDP in 2017. On this basis, Ireland appears to have achieved a timely and durable correction of its excessive deficit.

After the correction of the excessive deficit, Ireland plans to ensure an improvement of the structural balance in order to reach the MTO – a structural deficit of 0.5% of GDP – by 2018 at the latest.

The (recalculated) structural balance is expected to improve by 0.1% of GDP in 2016 and 1.0% in 2017. According to the Commission 2016 spring forecast, the structural balance is projected to improve by 0.2% of GDP in 2016. This implies a deviation of 0.4% of GDP from the recommended adjustment path of 0.6% of GDP towards the MTO in 2016. Moreover, although the growth rate of government expenditure, net of discretionary revenue measures, is expected to be below the reference rate in 2016, an overall assessment would suggest some deviation if one-off measures were filtered out from the calculations. In this context, there appears to be a risk of some deviation from the required adjustment path towards the MTO in 2016, while Ireland is projected to be in line with the requirement in 2017.

The planned structural adjustment is in line with the required MLSA in 2016 and 2017 under the transitional debt rule. The same conclusion is reached based on the Commission forecast.

[24] 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.

[25] http://www.fiscalcouncil.ie/wp-content/uploads/2015/03/Endorsement-Letter-April-2016.pdf

8. ANNEX

Table I. Macroeconomic indicators

	1998-2002	2003-2007	2008-2012	2013	2014	2015	2016	2017
Core indicators								
GDP growth rate	8.3	5.3	-0.9	1.4	5.2	7.8	4.9	3.7
Output gap [1]	2.5	2.1	-2.5	-3.9	-1.9	1.6	1.7	0.6
HICP (annual % change)	3.7	2.8	0.6	0.5	0.3	0.0	0.3	1.3
Domestic demand (annual % change) [2]	7.5	6.0	-3.1	-1.1	5.7	9.3	5.4	3.9
Unemployment rate (% of labour force) [3]	5.2	4.5	12.3	13.1	11.3	9.4	8.2	7.5
Gross fixed capital formation (% of GDP)	23.6	28.3	20.0	17.6	19.3	22.0	23.8	25.0
Gross national saving (% of GDP)	24.1	25.1	17.0	21.5	23.8	27.5	29.4	30.6
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**2.0**	**1.3**	**-14.7**	**-5.7**	**-3.8**	**-2.3**	**-1.1**	**-0.6**
Gross debt	**39.6**	**26.3**	**84.0**	**120.0**	**107.5**	**93.8**	**89.1**	**86.6**
Net financial assets	**-21.1**	**-5.0**	**-45.3**	**-81.9**	**-81.6**	**n.a**	**n.a**	**n.a**
Total revenue	35.0	35.1	33.7	34.0	34.8	32.8	31.3	30.8
Total expenditure	33.0	33.8	48.4	39.7	38.6	35.1	32.4	31.5
of which: Interest	2.1	1.1	2.7	4.3	4.0	3.1	2.8	2.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**3.1**	**3.0**	**11.1**	**9.5**	**8.2**	**4.9**	**5.2**	**5.6**
Net financial assets; non-financial corporations	**-92.9**	**-92.5**	**-130.5**	**-146.6**	**-146.1**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-6.0**	**-5.4**	**-2.0**	**23.4**	**28.6**	**n.a**	**n.a**	**n.a**
Gross capital formation	11.9	12.8	11.6	13.2	15.0	17.8	19.5	20.3
Gross operating surplus	35.3	34.8	35.4	39.5	38.7	41.6	42.0	42.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**-5.9**	**-8.8**	**0.7**	**-0.1**	**-0.9**	**1.0**	**0.3**	**-0.5**
Net financial assets	**91.3**	**72.9**	**60.5**	**81.1**	**94.9**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	35.6	35.7	38.1	35.0	34.2	31.2	30.4	30.0
Net property income	2.5	1.6	0.9	1.2	1.5	1.9	0.7	0.2
Current transfers received	12.8	13.2	18.2	17.7	16.5	14.6	13.8	13.2
Gross saving	2.7	3.4	5.4	2.9	2.3	4.3	3.9	3.6
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**1.1**	**-2.6**	**-2.6**	**3.2**	**3.7**	**4.5**	**4.7**	**4.8**
Net financial assets	**19.6**	**30.0**	**117.3**	**124.0**	**104.4**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	14.1	11.3	14.7	19.3	18.3	20.9	20.8	20.4
Net primary income from the rest of the world	-13.2	-13.1	-15.8	-14.6	-13.3	-15.1	-15.0	-14.8
Net capital transactions	0.8	0.2	0.1	0.1	0.1	0.0	0.1	0.1
Tradable sector	50.4	43.2	46.3	48.0	47.0	48.3	n.a	n.a
Non tradable sector	38.7	44.8	44.4	43.4	43.7	42.7	n.a	n.a
of which: Building and construction sector	6.2	8.1	2.7	2.5	2.7	2.5	n.a	n.a
Real effective exchange rate (index, 2000=100)	89.0	105.7	104.2	92.6	90.3	80.6	80.2	78.8
Terms of trade goods and services (index, 2000=100)	106.2	104.3	99.4	97.8	97.7	101.2	101.5	101.3
Market performance of exports (index, 2000=100)	81.9	90.0	98.6	98.9	107.3	116.4	119.8	122.3

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 2016 spring forecast