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COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Ireland

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GENERAL CONSIDERATIONS

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

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

CONSIDERATIONS CONCERNING IRELAND

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 15 October 2018 by Ireland, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Ireland is subject to the preventive arm of the SGP. On 13 July 2018, the Council recommended Ireland to achieve the medium-term budgetary objective (MTO) of -0.5% of GDP in 2019.[1] As its public debt amounted to 76.8% of GDP in 2015, the year in which the excessive deficit was corrected, Ireland also needs to make sufficient progress towards compliance with the debt reduction benchmark in 2018 and ensure compliance with the debt reduction benchmark as of 2019.

5. According to the Commission 2018 autumn forecast, the Irish economy is expected to grow by 7.8% in 2018 and 4.5% in 2019. The macroeconomic projections in the Draft Budgetary Plan are broadly in line with the Commission forecast, which estimates slightly more positive GDP growth rates over the forecast horizon. The differences are mostly linked to the expectations regarding business services imports, particularly imports of intangibles, and their subsequent impact on GDP growth rates. Overall, the macroeconomic scenario underlying the Draft Budgetary Plan is plausible. Ireland complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

6. The Draft Budgetary Plan projects a general government deficit of 0.1% of GDP in 2018, in line with the Commission 2018 autumn forecast. For 2019, the Draft Budgetary Plan targets eliminating the general government deficit, slightly better than the 0.1% of GDP deficit projected in the Commission 2018 autumn forecast. The structural deficit[2] is estimated at 0.4% of GDP in 2018 and 0.6% in 2019. The deterioration of the structural balance is broadly comparable to that in the Commission 2018 autumn forecast.

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

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

7. The decline in the general government deficit projected by the Draft Budgetary Plan for 2019 is driven by a slightly stronger decline in expenditure than in revenues as a percentage of GDP. While the tax wedge on labour in Ireland is among the lowest in the Union, the Draft Budgetary Plan includes some tax reductions, including to personal income taxes of around 0.1% of GDP, mainly through an income tax band change, cuts in the Universal Social Charge, and increases in certain tax credits. It includes new spending initiatives of around 0.4% of GDP. They will be partly financed by several revenue-raising measures, including an increase in the reduced rate of value-added tax on tourism activities. With increases to employer contributions to the National Training Fund, tobacco excise duties and betting duty, it is expected to reduce the overall net impact of the budgeted measures to around -0.3% of GDP. With respect to the fiscal-structural elements of the Recommendation of 13 July 2018 addressed by the Council to Ireland[3] (i.e. to limit the scope and the number of tax expenditures, and broaden the tax base and to address the expected increase in age-related expenditure by increasing the cost-effectiveness of the healthcare system and by pursuing the envisaged pension reforms), the Draft Budgetary Plan reported the publication of the *Sláintecare* Implementation Strategy. The latter sets out the actions to be taken in the first three years of the healthcare reform programme. However, much of the better-than-expected revenue for 2018 is being used to fund within year current expenditure increases in healthcare, which raises concerns both about the long-term fiscal sustainability and the pace of adoption of the Strategy. As regards tax expenditure and the tax base, the Draft Budgetary Plan includes the increase in the reduced rate of value-added-tax on tourism activities, limiting the scope of this tax expenditure. However, some other reported tax measures do not contribute to limiting the scope of tax expenditures and expanding the tax base. The Draft Budgetary Plan reports no new measures concerning the sustainability of the pension system and the use of windfall gains to accelerate the reduction of the general government debt ratio.

8. In 2018, Ireland is projected to respect its medium-term budgetary objective. Thus, the current assessment points to compliance. At the same time, Ireland received an adjustment requirement for 2018, that the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 2.4%, corresponding to an annual structural adjustment of 0.6% of GDP. The expenditure benchmark would currently point to a risk of a significant deviation from the requirements over 2017 and 2018 taken together based on both the Draft Budgetary Plan and the Commission 2018 autumn forecast. If compliance with the medium-term budgetary objective can no longer be established at the time of the ex-post assessment, an overall assessment of compliance will need to take into account a possible deviation from those requirements.

   In 2019, Ireland is projected to remain at its medium-term budgetary objective. Thus, the assessment points to compliance. It is confirmed by an overall assessment based on the Draft Budgetary Plan.

9. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements to make sufficient progress towards compliance with the debt reduction benchmark. Based on the Commission autumn 2018 forecast, Ireland is projected to make sufficient progress towards compliance

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

with the debt reduction benchmark in 2018 and to comply with the debt reduction benchmark in 2019.

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Ireland is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2019 budget.

The Commission is also of the opinion that Ireland has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and invites the authorities to make further progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission