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COMMISSION STAFF WORKING DOCUMENT

Analysis of the draft budgetary plan of IRELAND

Accompanying the document

COMMISSION OPINION

on the draft budgetary plan of IRELAND

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1. INTRODUCTION

Following its exit from the Economic Adjustment Programme in December 2013, Ireland submitted its Draft Budgetary Plan (DBP) for 2015 on 15 October 2014 in compliance with Regulation (EU) No 473/2013 of the Two-Pack. On 6 November, the Irish authorities published a Corrigendum to the Draft Budgetary Plan[1], altering the composition of certain revenue and expenditure items. While the changes also increased both total government revenues and expenditure, the overall budgetary targets were unaffected. 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 on 7 December 2010. The country is recommended to correct the excessive deficit by 2015.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission forecast. Section 3 presents recent and planned fiscal developments, as per the Draft Budgetary Plan, including an analysis of risks to their achievement taking as reference the Commission 2014 autumn forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2014-2015 against the obligations stemming from the Stability and Growth Pact, also taking into account the risks to their achievement. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations adopted by the Council on 8 July 2014. Section 6 summarises the main conclusions of the present document.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The Irish economy reached a turning point in the latter part of 2013 and has displayed significant momentum since early 2014. Real GDP was up 5.8% y-o-y in the first half of 2014, with a strong contribution from net exports, some of which likely resulting from temporary factors that will not be sustained. The latest national accounts data and high frequency indicators also indicate that domestic demand has gathered steam. Retail sales are on a firm upward trend and the purchasing managers' index in September shows significant strength across the board. Private consumption growth (year-on-year) turned positive for the first time since 2012 in the first quarter of 2014, and gross fixed capital formation grew a sharp 11.3% in the first half of 2014 (year-on-year), illustrating the pick-up in business confidence, including among SMEs. Total employment started to increase in late 2012 and has persisted in 2014, with the fall in the standardised unemployment rate continuing apace from a peak of 15.1 % in February 2012 to 11.1% in September 2014.

The macroeconomic forecast that underpins the Draft Budgetary Plan reflects this sharp acceleration in activity. On the basis of the strong carry-over effect from the first half of 2014, the Irish government forecasts real GDP growth at 4.7% in 2014, with contributions from domestic demand and net exports of 3.6 pps. and 1.3 pps., respectively. Growth in gross fixed capital formation is forecast to be particularly strong at 14.6% y-o-y.

The Draft Budgetary Plan assumes that the recovery in domestic demand will accelerate further in 2015 to underpin real GDP growth of 3.9% y-o-y. Private consumption growth is forecast to increase to 2.7% y-o-y, in part reflecting the effect of moderate tax cuts, while investment growth is expected to remain strong at 12.7% y-o-y following years of under-investment. The contribution from net exports is forecast to decrease to 0.5 pp. as temporary

[1] http://budget.gov.ie/Budgets/2015/Documents/Corrigendum_Budget_2015.pdf

factors present in 2014 are assumed to subside. Price developments are forecast to remain muted, with moderate increases in the growth of the HICP and GDP deflator in 2015 to 1.1% and 1.3%, respectively. Nominal GDP growth is therefore projected at 5.2% and 5.3% y-o-y in 2014 and 2015, respectively.

Given the unexpectedly sharp turnaround evidenced by recent data, the macroeconomic forecast underpinning the Draft Budgetary Plan differs significantly from that of the April 2014 Stability Programme, which projected real GDP growth of 2.1% (2.6% nominal) in 2014 and 2.7% (3.6% nominal) in 2015. In particular, private consumption growth is expected to be 1.1 pps. higher in 2015, while public consumption is no longer projected to generate a drag on domestic demand.

The Commission 2014 autumn forecast is somewhat more conservative than the one underpinning the Draft Budgetary Plan, even though they are broadly in line. The Commission forecasts real GDP growth to be 0.1 pp. lower in 2014 and 0.3 pp. lower in 2015. The main differences reside in a more moderate private consumption growth rate of 2% in both years, together with the absence of impetus from government consumption. The forecasts converge in their expectation of the strong growth of 2014 continuing into 2015, albeit at a somewhat lower pace as a rising contribution from domestic demand should be partly offset by a smaller contribution from net exports.

The risks to the forecast are relatively balanced. On the upside, the construction sector could provide additional momentum if supply constraints, mainly in Dublin, are resolved fast, further weakness of the euro could benefit exports, and the drag of deleveraging might ease faster than expected if consumer confidence remains high and the savings rate eases from its recent historic highs. On the downside, lower-than-projected growth in the euro area and a still very high private sector debt are the main risk to the medium-term sustainability of the recovery.

Box 1: The macro economic forecast underpinning the budget in Ireland

The macroeconomic forecast in Ireland's Draft Budgetary Plan for 2015 was prepared by the Department of Finance. A detailed description of the economic forecast methodology is contained in section V of the Medium-Term Budgetary Framework (MTBF – July 2014)[2].

The task of assessing and endorsing the macroeconomic forecast underpinning the annual budget plans and the Stability Programmes was assigned to the *Irish Fiscal Advisory Council* (IFAC) in the Fiscal Responsibility Acts of 2012 and 2013.

The procedures underlying the endorsement process have been set out in a Memorandum of Understanding (MoU), which was agreed between the Department of Finance and IFAC. The latter is required to issue its view according to which the forecast either falls within an appropriate endorseable range (hence a letter of endorsement is issued to the Department of Finance and published subsequently by both the IFAC and the Department) or it may not be within endorseable range (triggering publication of explanations for non-endorsement by IFAC along with the Budget or Stability Programme). The IFAC also endorsed the macroeconomic forecasts underpinning the 2015 Draft Budgetary Plan (the letter of endorsement was published on 6 October). In its endorsement, the IFAC nevertheless flagged the recent changes in the size of Ireland's net exports related to contracted manufacturing (goods and services produced outside Ireland on behalf of an Irish company and sold abroad),

[2] http://www.finance.gov.ie/sites/default/files/140718%20Medium%20Term%20Budgetary%20Framework%20-%20revised.pdf

which contributed to the exceptionally strong GDP performance in the first half of 2014. According to the IFAC, these changes could make it more difficult to identify the underlying pattern of growth in the economy.

The IFAC is an independent statutory body established by the Fiscal Responsibility Act of 2012 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 4-year term that can be renewed once. In practice, board and technical staff are operational. 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.

Table 1. Comparison of macroeconomic developments and forecasts

	2013	2014			2015		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	0.2	2.1	4.7	4.6	2.7	3.9	3.6
Private consumption (% change)	-0.4	2.0	1.7	1.4	1.6	2.7	2.0
Gross fixed capital formation (% change)	-2.8	15.4	14.6	9.3	12.4	12.7	12.3
Exports of goods and services (% change)	1.1	2.1	8.3	8.0	3.2	4.8	5.3
Imports of goods and services (% change)	0.6	3.2	8.8	7.3	3.4	5.3	5.6
Contributions to real GDP growth:							
- Final domestic demand	-0.6	2.6	3.6	2.3	2.2	3.6	2.8
- Change in inventories	0.4	0.0	-0.1	0.0	0.0	-0.2	0.0
- Net exports	0.6	-0.5	1.3	2.3	0.5	0.5	0.8
Output gap[1]	-2.6	-0.6	0.2	-0.2	-0.4	1.3	0.5
Employment (% change)	2.4	2.2	1.8	2.0	2.0	2.4	2.2
Unemployment rate (%)	13.1	11.5	11.4	11.1	10.5	10.2	9.6
Labour productivity (% change)	-2.1	-0.1	2.8	2.6	0.7	1.4	1.4
HICP inflation (%)	0.5	0.5	0.5	0.4	0.9	1.1	0.9
GDP deflator (% change)	1.0	0.5	0.4	0.5	0.9	1.3	0.9
Comp. of employees (per head, % change)	2.0	1.1	1.8	-1.3	1.5	2.4	0.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.8	5.8	4.9	6.3	5.2	4.4	6.0

Note:

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

Source :

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments[3]

The Draft Budgetary Plan forecasts a general government deficit of 3.7% of GDP in 2014, down from 5.7% of GDP in 2013. The new deficit forecast is 1.1 pps. lower than projected in the 2014 Stability Programme (2014 SP) released in April (4.8% of GDP) and is well within the ceiling of 5.1% of GDP recommended under the EDP. It is worth noting that the Draft Budgetary Plan foresees a primary surplus of 0.3% of GDP, for the first time since 2007.

[3] On 6 November, the Irish authorities informed the Commission about a Corrigendum on the Draft Budgetary Plan submitted earlier. The Corrigendum was also published on the website of the Department of Finance. The amendments introduced with the Corrigendum are related to a different allocation of budget components, and an increase in total revenues and expenditure, yet do not affect the overall fiscal balance. However, the changes are not negligible. Total revenues are estimated to be nearly 0.3% of GDP higher in 2015, with the correction widening in 2016 (more than 0.3% of GDP) and 2017 (more than 0.4% of GDP), mainly due to larger receipts from "Social contribution" and "Other revenues". The equivalent changes on the expenditure side foresee an increase in the allocation to "Intermediate consumption" and "Compensation of employees".

The improved budgetary outlook for 2014, compared to the 2014 SP targets, reflects a combination of factors, notably a stronger-than-expected economic recovery, some windfall revenues beyond the growth surprise due to higher tax elasticities and the transition to the ESA 2010 accounting methodology.

The Draft Budgetary Plan estimates total tax revenues for the full year to be close to €46 billion, an increase of nearly €2.1 billion relative to the 2014 SP forecast. Revenues across the main tax headings have been consistently ahead of profile over the first nine months of 2014.

Taxes on production (mainly VAT and excise duties) are expected to increase by 6.4% compared to 2013 reflecting improved consumer confidence and higher than previously expected domestic demand (this is particular evident for the Vehicle Registration Tax and receipts relating to fuel). Revenue from the personal income tax, with a growth of 8.8% y-o-y in the first nine months of 2014, have been even more buoyant than suggested by the improved macro-economic environment. Temporary effects (around 0.25% of GDP) from non-tax revenues, such as increased dividends and higher Central Bank income, also contributed to the better-than-previously-assumed deficit outlook for 2014.

Turning to the expenditure side, the Draft Budgetary Plan assumes that, in overall terms, government expenditures will finish the year slightly (approximately 2.8%) above the 2014 SP forecast. Interest expenditure for 2014 is expected to be around €490 million lower than estimated in the 2014 SP, largely due to the more favourable market conditions as well as the impact of general government debt management activities.

Finally, the notable increase in nominal GDP compared to the 2014 SP (half of which related to statistical revisions), improved the general government deficit-to-GDP ratio by about 0.3% of GDP, while the statistical treatment of swaps and pension funds under ESA 2010 reduced the nominal deficit by other 0.2% of GDP.

The government's budgetary projections for 2014 are broadly in line with the Commission 2014 autumn forecast. The latter assumes slightly higher revenues, mainly related to social security contributions that are expected to offset ongoing slippages in the health care sector.

The improved position for 2014 is also expected to carry over into 2015 and beyond. The Draft Budgetary Plan forecasts the 2015 general government deficit at 2.7% of GDP, i.e. lower than the 2014 SP target of 3.0% of GDP and below the headline target for 2015 of 2.9% of GDP.

On the back of the stronger-than-previously-expected economic recovery, the Draft Budgetary Plan assumes that a timely correction of the excessive deficit will be achieved without further consolidation measures beyong those already decided in the past, whereas the 2014 SP still targeted discretionary measures worth €2.0 billion (1.0% of GDP). On the contrary, while targeting a more ambitious headline deficit, the Draft Budgetary Plan includes expansionary measures of around €1 billion (0.5% of GDP) consisting of tax cuts and expenditure increases. As a result, the projected deficit reduction in 2015 mainly results from keeping overall expenditure levels broadly unchanged compared to 2014 and the projected economic recovery.

On the revenue side, for 2015 the Draft Budgetary Plan projects total tax revenues of €47.4 billion, up from the 2014 SP forecast of €46.0 billion (i.e. +2.9%). The Draft Budgtary Plan estimates income tax revenues to grow by 1.0% (y-o-y) and a more bouyant increase is foreseen for taxes on production and imports (+5.9% y-o-y) on foot of the projected revival of household income and personal consumption. Non-tax revenues calculated as the difference between total revenue and the tax burden are forecast to be close to €6.8 billion in 2015, on

account of a surplus of the Central Bank (linked to capital gains from the sale of floating rate notes) and to dividends including special dividends relating to the future sale of assets in commercial semi-state owned companies. Among the factors slowing down the growth rate of tax revenues – beyond the planned income tax cuts – the phasing out of the original pension levy from 1 January 2015 (0.3% of GDP) and the excise deferral on mineral oils (0.1% of GDP) are worth mentioning.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2013	2014			2015			Change: 2013-2015
	COM	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**34.8**	**36.2**	***34.8***	**35.0**	**36.3**	***33.9***	**33.9**	**-0.9**
of which:								
- Taxes on production and imports	10.9	11.6	*11.0*	11.0	11.8	*11.1*	11.0	0.2
- Current taxes on income, wealth, etc.	13.3	13.9	*13.7*	13.5	14.2	*13.1*	12.7	-0.2
- Capital taxes	0.2	0.6	*0.3*	0.3	0.3	*0.3*	0.3	0.1
- Social contributions	5.9	6.0	*5.8*	5.9	5.9	*5.6*	5.8	-0.3
- Other (residual)	4.6	4.1	*4.0*	4.3	4.1	*3.8*	4.0	-0.8
Expenditure	**40.5**	**41.0**	**38.6**	**38.7**	**39.3**	**36.7**	**36.8**	**-3.8**
of which:								
- Primary expenditure	36.1	36.3	34.5	34.6	34.5	32.9	33.0	-3.2
of which:								
Compensation of employees	10.7	10.9	10.2	10.2	10.3	9.5	9.6	-1.2
Intermediate consumption	4.7	4.9	5.0	5.0	4.7	4.5	4.6	-0.2
Social payments	16.4	16.6	15.3	15.4	15.5	14.4	14.6	-2.0
Subsidies	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.0
Gross fixed capital formation	1.7	1.6	1.5	1.5	1.5	1.4	1.3	-0.3
Other (residual)	1.8	1.5	1.7	1.7	1.6	2.2	1.9	0.4
- Interest expenditure	4.4	4.7	4.1	4.1	4.8	3.8	3.8	-0.6
General government balance (GGB)	**-5.7**	**-4.8**	**-3.7**	**-3.7**	**-3.0**	**-2.7**	**-2.9**	**3.0**
Primary balance	**-1.3**	**-0.1**	**0.3**	**0.4**	**1.8**	**1.1**	**0.9**	**2.4**
One-off and other temporary	0.4	0.2	0.7	0.2	-0.1	0.1	0.1	-0.3
GGB excl. one-offs	**-6.1**	**-5.0**	**-4.4**	**-3.9**	**-2.9**	**-2.8**	**-3.1**	**3.3**
Output gap[1]	-2.6	-0.6	0.2	-0.2	-0.4	1.3	0.5	3.8
Cyclically-adjusted balance[1]	-4.4	-4.5	-3.8	-3.5	-2.8	-3.4	-3.2	1.0
Structural balance (SB)[2]	**-4.8**	**-4.7**	**-4.5**	**-3.8**	**-2.7**	**-3.5**	**-3.3**	**1.3**
Structural primary balance[2]	-0.4	0.0	-0.4	0.3	2.1	0.3	0.5	0.7

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 2014 (SP); Draft Budgetary Plan 2015 (DBP) and Corrigendum (6 November); Commission 2014 autumn forecast (COM); Commission calculations.

On the expenditure side, the targets in nominal terms for 2015 presented in the Draft Budgetary Plan reflect, in part, the upward revision provided in the Corrigendum, with the

total expenditure up to 3.4% compared to the level estimated in the 2014 SP. The Draft Budgetary Plan projects expenditure increases in specific areas notably in social protection, health, education, as well as justice and housing. Interest expenditure is projected to be more than €1.0 billion lower than in the 2014 SP, reflecting both favourable market conditions and projected savings from the early repayment of a significant part of IMF credit.

The Commission 2014 autumn forecast projects a government deficit in 2015 of 2.9% of GDP, higher than the Draft Budgetary Plan, on account of lower direct tax revenues associated with a more conservative forecast of wage growth.

Using data from the Draft Budgetary Plan, the structural balance[4] is estimated at -4.5% in 2014 (down from -4.8% of GDP in 2013), sligthly lower than in the 2014 SP (-4.7% of GDP). Although the headline deficit improved by 1.1% of GDP, the effect on the structural budget balance is reduced by the combination of larger-than-expected one-off and temporary measures (0.7% instead of 0.2% of GDP) and the rapid closure of the output gap on the revised estimates (-0.6% to +0.2% of GDP). In 2015, the recalculated structural budget balance is estimated at -3.5% of GDP, broadly in line with the Commission 2014 autumn forecast of -3.3% of GDP.

3.2. Debt developments

Ireland's general government debt-to-GDP ratio is expected to have peaked at 123.3% of GDP in 2013. Following the statistical revision under the new ESA 2010 accounting rules adopted in September 2014, the debt-to-GDP ratio has been revised upward mainly due to the reclassification of the Irish Banking Resolution Corporation (IBRC) as part of general government. Also, Ireland's nominal GDP has increased significantly in the transition to the new accounting standards, thereby reducing the debt-to-GDP ratio.

The Draft Budgetary Plan estimates gross public debt to fall to around 110.5% of GDP in 2014 and to 108.5% of GDP in 2015. The sharp decline in 2014 (an improvement of €12.4 billion compared to end 2013) again mainly reflects the reclassification of the IBRC. The liquidation of the IBRC which was initiated in early 2013 (with IBRC liabilities being repaid through the sale of the assets by the special liquidator and through the use of cash and other financial assets), is projected to reverse the effect on gross government debt.

From an accounting perspective the debt reduction is attained through a sizable stock-flow adjustment (€10.5 billion, mainly the effect of the liquidation of IBRC), nominal GDP growth (half of which due to the transition to the new accounting rules) and savings on interest expenditure. The net debt position remains *de facto* unchanged between 2013 and the end of 2014. From 2015 onward, the decreasing debt-to-GDP ratio is expected to be driven by sustained economic growth and an improving government budget balance. The Draft Budgetary Plan projects an underlying general government primary surplus of 0.3% of GDP in 2014, which is expected increase to 1.1% and 1.9% of GDP in 2015 and 2016 respectively.

[4] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Draft Budgetary Plan, using the commonly agreed methodology.

Table 3. Debt developments

(% of GDP)	2013	2014			2015		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**123.3**	**121.4**	**110.5**	**110.5**	**120.0**	**108.5**	**109.4**
Change in the ratio	1.6	-1.9	-12.8	-12.8	-1.4	-2.0	-1.2
Contributions[2]:							
1. Primary balance	**1.3**	**0.1**	**-0.3**	**-0.4**	**-1.8**	**-1.1**	**-0.9**
2. "Snow-ball" effect	**3.0**	**1.6**	**-2.1**	**-1.9**	**0.6**	**-1.7**	**-1.0**
Of which:							
Interest expenditure	4.4	4.7	4.0	4.1	4.8	3.8	3.8
Growth effect	-0.2	-2.5	-5.5	-5.4	-3.2	-4.1	-3.8
Inflation effect	-1.2	-0.6	-0.6	-0.6	-1.0	-1.4	-1.0
3. Stock-flow adjustment	**-2.7**	**-3.6**	**-10.4**	**-10.5**	**-0.2**	**0.9**	**0.8**
Of which:							
Cash/accruals difference		0.2	0.00		0.4	0.10	
Net accumulation of financial		-4.2	0.10		-0.6	-0.10	
of which privatisation proceeds		n.a.	0.00		n.a	0.00	
Valuation effect & residual		n.a.	0.00		n.a.	0.00	

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

Source:

Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.

3.3. Measures underpinning the draft budgetary plan

On the back of the improved budgetary position for 2014 and the positive outlook for 2015, the Irish authorities have considered that no additional consolidation measures were needed to ensure a timely correction of the excessive deficit by 2015. The 2015 Draft Budgetary Plan includes some expansionary measures worth around 0.5% of GDP consisting of several tax cuts and expenditure increases.

Among the revenue measures, of particular relevance is an personal income tax relief through the increase in the standard rate income band (from €32,800 to €33,800 for single individuals and from €41,800 to €42,800 for married one earner couples), the reduction in the higher rate of income tax from 41% to 40% and a reduction the Universal Social Charge (USC), in particular on low income earners. According to the Draft Budgetary Plan, the new tax measures will reduce tax revenues by €420 million compared to the no-policy-change scenario set out in the 2015 White Paper on Receipts and Expenditures. Other minor initiatives on the revenue side target specific sectors, such as agriculture, tourism and SMEs. On the expenditure side, the new measures in the Draft Budgetary Plan concern social protection, housing, health and education. The range of new measure on social protection account for €196 million, while the recruitment of additional staff in education and justice is expected to raise expenditure by around €150 million in 2015. The measure on social housing

(€210 million in capital expenditure for 2015) is the inception of a more ambitious multiannual investment plan that aims at responding to the shortage in housing units, mainly in Dublin.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2014	**2015**	**2016**
Taxes on production and imports	0.0	0.1	0.0
Current taxes on income, wealth,	0.0	-0.3	0.0
Capital taxes	n.a.	n.a.	n.a.
Social contributions	n.a.	n.a.	n.a.
Property Income	0.0	0.1	-0.1
Other	0.0	-0.1	0.0
Total	0.0	-0.2	-0.1

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.
Source: *Draft Budgetary Plan 2015*

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2014	**2015**	**2016**
Compensation of employees	0.0	0.1	0.0
Intermediate consumption	n.a.	n.a.	n.a.
Social payments	0.0	0.1	0.0
Interest Expenditure	n.a.	n.a.	n.a.
Subsidies	n.a.	n.a.	n.a.
Gross fixed capital formation	n.a.	n.a.	n.a.
Capital transfers	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.
Total	0.0	0.2	0.0

Note:
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.
Source: *Draft Budgetary Plan 2015*

Besides the intention to fully implement the 2014 budget and the commitment to deliver a reduction in the deficit consistent with the EDP requirement, the Draft Budgetary Plan for 2015 also announces changes to the corporate tax regime. Starting in 2015, the Iirsh government intends to put an end to the so called "double Irish" scheme treating all

companies registered in Ireland as resident for tax purposes regardless of ownership structure. For existing companies the 'double Irish' will be phased out by end-2020. No other measures have been taken to broaden the tax base, and limited progress has been made in enhancing the growth and environmental friendliness of the system, except for a few measures such as extending the accelerated capital allowances scheme for energy efficient equipment for another three years.

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

Progress has been made in implementing the EDP recommendation addressed to Ireland in December 2010. In relation to the headline deficit, the outturn in 2011-2013 was well within the ceilings laid down in the Council recommendation.

For 2014, both the Draft Budgetary Plan and the Commission 2014 autumn forecast project the general government deficit to decrease to 3.7% of GDP, again well within the EDP deficit ceiling of 5.1% of GDP.

For 2015, the Draft Budgetary Plan targets a headline deficit of 2.7% of GDP, slightly lower than the 2.9% of GDP projected by the Commission and below the headline target of 2.9% of GDP.

On the basis of the Commission 2014 autumn forecast, the structural budget balance is estimated to improve by 1.0% of GDP in 2014 and by 0.4% of GDP in 2015. The average annual improvement of the structural budget balance over the period 2011-2014, as calculated by the Commission on its own forecast and taking into account revisions of potential output growth and revenue windfalls/shortfalls, is estimated at 1.1% (the same average annual improvement when taking into account 2015 projections), below the recommended average annual effort of 1.9% of GDP. An assessment of the individual, permanent consolidation measures taken under the programme and thereafter shows adherence to the amount of measures that were originally projected to be necessary to reach the annual fiscal targets over the period 2011-2014.

Box 2. Council recommendations addressed to Ireland

On 27 April 2009, the Council adopted a decision under article 126(6) of the Treaty that, for the first time, an excessive deficit existed in Ireland, and recommended Ireland under Article 126(7) of the Treaty to correct its excessive deficit by 2013. A number of additional steps in the procedure were undertaken between April 2009 and July 2010 (for more detail see Ireland's 2012 Stability Programme).

On 7 December 2010, as part of the EU-IMF financial assistance programme, the Council adopted revised recommendations to Ireland and extended the deadline for correcting the excessive deficit to 2015.

The December 2010 recommendations were essentially three-fold. The first requirement was for Ireland to implement budgetary measures to ensure that the annual fiscal deficit (excluding direct support for the banking sector under the programme) was at or below pre-determined annual ceilings over the 2011-15 period. Secondly, in order to achieve these nominal targets, the Council recommended an improvement in the structural budget balance of at least 9½ per cent of GDP over 2011-2015 and to seize opportunities, including from better economic conditions, to accelerate reducing the gross debt ratio towards the 60 %- of-GDP reference value. Finally, the Council recommended various institutional reforms in order to limit risks to the budgetary adjustment.

The Council requested the Irish authorities to report on the implementation of these recommendations in of its annual Stability Programme between 2011 and 2015.

On 8 July 2014, 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 fully implement the 2014 budget and ensure the correction of the excessive deficit in a sustainable manner by 2015 through underpinning the budgetary strategy with additional structural measures while achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. After the correction of the excessive deficit, Ireland is asked to pursue a structural adjustment towards the medium-term objective of at least 0.5 % of GDP each year, more in good economic conditions or, if needed, to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Ireland is also expected to (i) enhance the credibility of the fiscal adjustment strategy, effectively implement multi-annual budgetary planning and define broad budgetary measures underlying the medium-term fiscal targets; (ii) ensure the binding nature of the government expenditure ceiling including by limiting the statutory scope for discretionary changes; (iii) support fiscal consolidation, consideration should be given to raising revenues through broadening the tax base; and (iv) enhance the growth and environmental friendliness of the tax system.

In turn, it is worth recalling that the 2010 EDP recommendation asked Ireland "*to seize opportunities, including from better economic conditions, to accelerate reducing the gross debt ratio towards the 60 % of GDP reference value.*" Hence, although current forecasts are consistent with a timely correction of the excessive deficit, more ambitious deficit targets for 2015 and 2016 would have helped to firmly bring public finances on a downward path.

Significant improvements have been made to the budgetary architecture, including the establishment, on a statutory basis, of the Irish Fiscal Advisory Council (IFAC) and the introduction of a Medium-Term Budgetary Framework

Based on an overall assessment of the Draft Budgetary Plan, Ireland is expected to achieve a timely correction of the excessive deficit. On the basis of this assessment, it also appears that Ireland is expected to comply with the recommendation addressed to it by the Council on 8 July 2014 in the context of the European Semester.

Table 5. Compliance with the EDP recommendation

(% of GDP)	2013	2014		2015	
	COM	DBP	COM	DBP	COM
Headline balance					
Headline budget balance	-5.7	-3.7	-3.7	-2.7	-2.9
EDP requirement on the budget balance	-7.5	-5.1		-2.9	
Fiscal effort - change in the structural balance					
Change in the structural balance[1]	2.3	0.3	1.0	1.0	0.4
Average change[2]	1.3	1.1	1.3	1.1	1.1
Average required change from the EDP recommendation	1.9	1.9		1.9	
Fiscal effort - adjusted change in the structural balance					
Adjusted average change in the structural balance[3]	1.2	-	1.1	-	1.1
of which: *correction due to change in potential GDP estimation (α)*	-0.6	-	-0.6	-	-0.6
correction due to revenue windfalls/shortfalls (β)	-0.4	-	-0.4	-	-0.6
Required average change from the EDP recommendation	1.9	1.9		1.9	
Fiscal effort - calculated on the basis of measures (bottom-up approach)					
Fiscal effort (bottom-up)	n.a.				
Cumulative fiscal effort (bottom-up)					
Requirement from the EDP recommendation					
Cumulative requirement from the EDP recommendation					

Notes

[1]Structural balance = cyclically-adjusted government balance excluding one-off measures. Structural balance based on DBP are recalculated by Commission on the basis of the Draft Budgetary Plan scenario using the commonly agreed methodology. Change compared to t-1.

[2]Average change in the structural balance since 2011.

[3]Average change in the structural balance corrected for unanticipated revenue windfalls/shortfalls and revisions in potential growth since 2011.

Source :

Draft Budgetary Plan 2015 (DBP), Commission 2014 autumn forecast (COM), Commission calculations

5. IMPLEMENTATION OF FISCAL-STRUCTURAL REFORMS

The 2015 Draft Budgetary Plan (specifically in Table 7a) contains a summary of the main Country Specific Recommendations (CSR) the Council addressed to Ireland in the context of the European Semester on 8 July 2014 and (in Table 7b) actions to meet the targets set by the European Union's Strategy for Growth and Jobs. Table 7a offers a very short description of the on-going efforts to implement structural reforms, listing initiatives and legislative proposals which have been adopted or are planned to address the 2014 CSRs.

Concerning the fiscal recommendations, and notwithstanding the goal to correct the excessive deficit by 2015 (estimates in the Budget demonstrate an underlying general government deficit of 2.7% in 2015), the Draft Budgetary Plan confirms that Ireland is on its way to enhance the credibility of the fiscal adjustment strategy, by implementing a multi-annual budgetary planning which is expected to set Ireland on a path of a continued reduction in the structural deficit. The estimated structural adjustment for 2016-2018 exceeds the minimum correction path required by the preventive arm of the Stability and Growth Pact. By contrast,

no changes have been made regarding the need to ensure the binding nature of the government expenditure ceiling including by limiting the statutory scope for discretionary changes. While not specifically listed in the Tables mentioned above, the decision to put an end to the "double Irish" tax scheme, starting in 2015 for new companies and following a transition period until end-2020 for established corporations, is likely to contribute to broadening the tax base. No other measures have been taken in this area, and limited progress has been made to enhance the growth and environmental friendliness of the system, except for a few measures such as extending the accelerated capital allowances scheme for energy efficient equipment for another three years.

Concerning other Country Specific Recommendations (CSRs), some progress has been achieved in implementing reforms in healthcare, active labour market policies, further education and training, addressing the financing needs of SMEs and in monitoring banks' performance against the mortgage arrears resolution targets. In turn, only limited progress has been achieved in implementing the recommended reforms to the legal services sector, in tackling low work intensity of households, addressing the poverty risk of children and facilitating female labour market participation.

Box 3. Addressing the tax wedge

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed its commitment to effectively reduce the tax burden on labour. It will take stock of Member States' plans for reductions of the tax burden when discussing the draft budgetary plans.

The tax wedge in Ireland is well below the EU average. The tax wedge for a single person without children earning 50% of the average wage was 10.4% compared to an EU average of 34% in 2013, for 67% of the average wage it was 21% (EU average: 37.7%) and for the average wage it was 26.6% (EU average: 41.1%).

Reforms in the draft budgetary plan and first assessment

Ireland's Draft Budgetary Plan contains measures for a moderate reduction on personal income taxes through a series of actions: (i) an increase in the standard rate band of income tax by €1,000 from €32,800 to €33,800 for single individuals and from €41,800 to €42,800 for married one earner couples: (ii) a reduction in the higher rate of income tax from 41% to 40%; (iii) a downward revision of the Universal Social Charge (USC) targeting, in particular, lowest income earners.

The changes to the Income Tax and Universal Social Charge set out in the Bill are designed to support employment and job creation and to further improve the progressiveness of the Irish income tax and USC system. The Draft Budgetary Plan includes materials and tables showing the impact of those measures on several categories of income earners. According to the estimates provided by the Irish Department of Finance, the planned measures will benefit every individual and family paying income tax and USC. 80.000 low income workers will be exempted from the USC and 742.00 middle income workers will benefit from the reduction of the 52% marginal tax rate by the increase of the band by €1.000 and reducing the higher rate of income tax to 40%. The measures would contribute, although in a limited extent, to further decrease the tax wedge for all income categories, particularly low wage earners.

6. OVERALL CONCLUSION

Based on the Commission 2014 autumn forecast, the headline budgetary deficit is expected to decrease to 3.7% of GDP in 2014 and to further drop to 2.9% of GDP in 2015, in compliance with the headline target of the EDP recommendation.

The structural budget balance is estimated to improve by 1.0% of GDP in 2014 and by 0.4% of GDP in 2015. The average annual improvement of the structural budget balance over the period 2011-2014, taking into account revisions of potential output growth and revenue windfalls/shortfalls, as calculated by the Commission on its own forecast, is estimated at 1.1% of GDP (no changes are envisaged when taking into account 2015 projections (1.1% of GDP), below the annual average effort recommended by the Council in December 2010 of 1.9% of GDP. An assessment of the individual permanent consolidation measures taken under the programme and thereafter indicates a cumulated fiscal effort of more than 10% of GDP. While this is in line with the volume of fiscal measures recommended by the Council in December 2010, overall margins are fairly narrow. Also, taking into account that (i) the 2010 Council recommendation asked Ireland "to seize opportunities, including from better economic conditions, to accelerate reducing the gross debt ratio towards the 60 % of GDP reference value"; and (ii) the stronger-than-expected economic recovery in 2014 and 2015, more ambitious deficit targets for 2015 and 2016 would help to firmly put public finances on a sustainable path.