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Recommendation for a

COUNCIL DECISION

abrogating Decision 2009/416/EC on the existence of an excessive deficit in Ireland

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) On 27 April 2009, following a recommendation from the Commission, the Council decided, by Decision 2009/416/EC[1] in accordance with Article 104(6) of the Treaty establishing the European Community, that an excessive deficit existed in Ireland. The Council noted that the general government deficit reached 6.3% of GDP in 2008, thus above the 3 % of GDP Treaty reference value and it was estimated to widen to 11% of GDP in 2009. The general government gross debt was projected to breach the 60 % of GDP Treaty reference value in 2009.

(2) On the same date, in accordance with Article 104(7) of the Treaty and Article 3(4) of Council Regulation (EC) No 1467/97, the Council, based on a recommendation from the Commission, issued a recommendation to Ireland to correct the excessive deficit by 2013 at the latest. That Council recommendation was made public.

(3) On 2 December 2009, the Council concluded that the Irish authorities had taken effective action in compliance with the Council recommendations of 27 April 2009, but that unexpected adverse economic events with major unfavourable consequences for government finances could be considered to have occurred in Ireland after the adoption of the original recommendation. Therefore, the Council, following a recommendation from the Commission, considered that the conditions envisaged in Article 3(5) of Regulation (EC) No 1467/97 were fulfilled and issued a new Recommendation to Ireland under Article 126(7) of the Treaty with a view to bringing the excessive deficit situation to an end by 2014[2].

(4) On 7 December 2010, the Council considered that unexpected adverse economic events with major unfavourable consequences for government finances, notably with reference to the substantial banking sector support measures that had to be implemented, had occurred in Ireland. Therefore, the Council following a recommendation from the Commission, issues a new Recommendation to Ireland under Article 126(7) of the Treaty, setting a 2015 deadline for the correction of the excessive deficit[3]. At the same time, following the request by the Irish authorities for

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

[2] Council Recommendation of 2 December 2009 with a view to bringing to an end the situation of an excessive deficit in Ireland.

[3] Council Recommendation of 7 December 2010 with a view to bringing to an end the situation of an excessive deficit in Ireland.

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[4]. The Memorandum of Understanding on Specific Economic Policy Conditionality (the "Memorandum of Understanding") between the Commission and the Irish authorities was signed on 16 December 2010.

(5) On 24 August 2011, the Commission concluded that Ireland had taken effective action towards correcting the excessive deficit by 2015 as recommended by the Council on 7 December 2010[5].

(6) In line with Article 10(2), letter (a), of Regulation (EU) No 472/2013, Ireland was exempted from a separate reporting under the excessive deficit procedure and reported in the framework of its financial assistance programme.

(7) In December 2013, Ireland successfully completed the EU-IMF financial assistance programme, with the vast majority of policy conditions under the programme met and investor confidence in the sovereign and the banking sector restored.

(8) In accordance with Article 4 of the Protocol on the excessive deficit procedure annexed to the Treaties, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 3 of Council Regulation (EC) No 479/2009[6].

(9) The Council should take a decision to abrogate a decision on the existence of an excessive deficit on the basis of notified data. Moreover, a decision on the existence of an excessive deficit should be abrogated only if (i) the Commission forecasts indicate that the deficit will not exceed the 3% of GDP threshold over the forecast horizon[7].

(10) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009, following the April 2016 notification by Ireland, the 2016 Stability Programme and the Commission 2016 spring forecast, the following conclusions are justified:

– Since 2009, when the deficit peaked at around 11.5% of GDP (excluding deficit-increasing one-off measures related to financial sector support), the general government balance has steadily improved, with the deficit declining to 3.8% of GDP in 2014 and to 2.3% of GDP in 2015 (1.3% of GDP if a one-off transaction is excluded[8]). Overall, the deficit reduction was mainly driven by expenditure restraint, with the weight of current primary expenditure as a share

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4 Council Implementing Decision of 7 December 2010 on granting Union financial assistance to Ireland.

5 Communication from the Commission to the Council on the assessment of the action taken by Ireland in response to the Council Recommendation of 7 December 2010 with a view to bringing an end to the situation of excessive government deficit - COM(2011) 509 final, 24.8.2011.

6 Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1).

7 In line with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes" of 3 September 2012. See: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

8 In 2015, under the planned restructuring of the Allied Irish Bank (AIB)'s capital base, part of the government's preference shares were converted into ordinary shares. This conversion was done in preparation for the envisaged sale of those shares, as part of the plans of the Irish government to return the bank to private ownership. Under applicable accounting rules, this conversion increased Ireland's general government expenditure (and, consequently, its general government deficit) in 2015.

of GDP declining by 8.5% between 2010 and 2015. This was supported by an increase in the revenue-to-GDP ratio of ½% during the same period.

– The 2016 stability programme, submitted by Ireland on 29 April 2016, plans a decline in the general government deficit to 1.1% of GDP in 2016 and, based on a no-policy-change assumption, to 0.4% of GDP in 2017[9]. The Commission 2016 spring forecast projects a deficit of 1.1% of GDP in 2016 and, based on a no-policy change assumption, of 0.6% of GDP in 2017. Thus, the deficit is set to remain below the Treaty reference value of 3% of GDP over the forecast horizon.

– The Commission estimates the structural balance, which is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, to have improved by 6.7% of GDP over the period 2011-2015.

– Ireland's general government gross debt-to-GDP ratio has steadily fallen, having peaked at 120% in 2013, and is projected to be on a downward path over the forecast horizon. In particular, gross government debt fell to 93.8% of GDP in 2015 from 107.5% of GDP in 2014, due to the surge in nominal GDP and the sale of state assets, and is projected to decline further to 89.1% of GDP in 2016. The gross government debt ratio is forecast to continue decreasing to 86.6% of GDP in 2017, also due to favourable cyclical conditions, historically-low interest rates and primary budget surpluses.

(11) As from 2016, which is the year following the correction of the excessive deficit, Ireland is subject to the preventive arm of the Stability and Growth Pact and should progress towards its medium-term budgetary objective at an appropriate pace, including respecting the expenditure benchmark, and comply with the debt criterion in accordance with Article 2(1a) of Regulation (EC) No 1467/97. In this context, there appears to be a risk of some deviation from the required adjustment path towards the medium-term budgetary objective in 2016, while Ireland is projected to be compliant in 2017. Ireland is projected to be compliant with the transitional debt rule in both years. Overall, further measures will be needed in 2016.

(12) In accordance with Article 126(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(13) In the view of the Council, the excessive deficit in Ireland has been corrected and Decision 2009/416/EC should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Ireland has been corrected.

Article 2

Decision 2009/416/EC is hereby abrogated.

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9 As government formation talks following the February general election were ongoing at end-April, the 2016 Stability Programme submitted by Ireland was prepared on a no-policy-change basis.

Article 3

This Decision is addressed to Ireland.

Done at Brussels,

For the Council
The President