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Recommendation for a

COUNCIL OPINION

On the updated stability programme of Ireland, 2009-2014

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. GENERAL BACKGROUND

The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. The 2005 reform of the Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of the public finances in the long run.

Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], which is part of the Stability and Growth Pact, stipulates that each Member State has to submit, to the Council and the Commission, a stability or convergence programme and annual updates thereof. Member States that have already adopted the single currency submit (updated) stability programmes and Member States that have not yet adopted it submit (updated) convergence programmes.

In accordance with the Regulation, the Council delivered an opinion on the first stability programme of Ireland on 18 January 1999 on the basis of a recommendation from the Commission and after having consulted the Economic and Financial Committee. As regards updated stability and convergence programmes, the Regulation foresees that these are assessed by the Commission and examined by the Committee mentioned above and, following the same procedure as set out above, the updated programmes may be examined by the Council.

2. BACKGROUND FOR THE ASSESSMENT OF THE UPDATED PROGRAMME

The Commission has examined the most recent update of the stability programme of Ireland, submitted on 9 December 2009, and has adopted a recommendation for a Council Opinion on it.

In order to set the scene against which the budgetary strategy in the updated stability programme is assessed, the following paragraphs summarise:

(1) the Commission Communication of 26 November 2008 ("A European Economic Recovery Plan");

(2) the conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the "Exit strategy";

(3) the country's position under the corrective arm of the Stability and Growth Pact (excessive deficit procedure);

(4) the most recent assessment of the country's position under the preventive arm of the Stability and Growth Pact (summary of the Council Opinion on the previous update of the stability programme).

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[1] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text are available at: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

2.1. The Commission Communication of 26 November 2008 (“A European Economic Recovery Plan”)

In view of the unprecedented scale of the global crisis that hit financial markets and the world economy in 2008-2009, the European Commission called for a European Economic Recovery Plan (EERP)[2]. The plan proposed a co-ordinated counter-cyclical macro-economic response to the crisis in the form of an ambitious set of actions to support the economy consisting of (i) an immediate budgetary impulse amounting to € 200 bn. (1.5% of EU GDP), made up of a budgetary expansion by Member States of € 170 bn. (around 1.2% of EU GDP) and EU funding in support of immediate actions of the order of € 30 bn. (around 0.3 % of EU GDP); and (ii) a number of priority actions grounded in the Lisbon Strategy and designed to adapt our economies to long-term challenges, continuing to implement structural reforms aimed at raising potential growth. The plan called for the fiscal stimulus to be differentiated across Member States in accordance with their positions in terms of sustainability (or room for manoeuvre) of government finances and competitive positions. In particular, for Member States with significant external and internal imbalances, budgetary policy should essentially aim at correcting such imbalances. The plan was agreed by the European Council on 11 December 2008.

2.2. The conclusions of the Economic and Financial Affairs Council of 20 October 2009 on the “Exit strategy”

Following the halt of the sharp decline in economic activity and first signs of a recovery from the crisis, the stabilisation of financial markets and the improvement in confidence, the Council concluded on 20 October 2009 that, while in view of the fragility of the recovery it was not yet time to withdraw the support governments provided to the economy and the financial sector, preparing a coordinated strategy for exiting from the broad-based policies of stimulus was needed. Such a strategy should strike a balance between stabilisation and sustainability concerns, take into account the interaction between the different policy instruments, as well as the discussion at global level. Early design and communication of such a strategy would contribute to underpinning confidence in medium-term policies and anchor expectations. Beyond the withdrawal of the stimulus measures of the European Economic Recovery Plan, substantial fiscal consolidation was required in order to halt and eventually reverse the increase in debt and restore sound fiscal positions. Increasing the efficiency and effectiveness of public finances and the intensification of structural reform were desirable even in the short term as they would contribute to fostering potential output growth and debt reductions.

The Council agreed on the following principles of the fiscal exit strategy: (i) the strategy should be coordinated across countries in the framework of a consistent implementation of the Stability and Growth Pact; (ii) taking country-specific circumstances into account, timely withdrawal of fiscal stimulus was needed; provided that the Commission forecasts continued to indicate that the recovery was strengthening and becoming self-sustaining, fiscal consolidation in all EU Member States should start in 2011 at the latest; (iii) in view of the challenges, the pace of consolidation should be ambitious, in most countries going well beyond the benchmark of 0.5% of GDP per annum in structural terms; and (iv) important flanking policies to the fiscal exit would include strengthened national budgetary frameworks for underpinning the credibility of consolidation strategies and measures to support long-term

[2] Communication from the Commission to the European Council of 26 November 2008.

fiscal sustainability; in addition, structural reform efforts should be strengthened to enhance productivity and to support long-term investment. The Council agreed that these elements should be reflected in the stability and convergence programmes, to be transmitted by Member States to the Commission by the end of January 2010.

2.3. The excessive deficit procedure for Ireland

On 27 April 2009 the Council adopted a decision stating that Ireland had an excessive deficit in accordance with Article 104(6) of the Treaty establishing the European Community (TEC). At the same time, the Council addressed a recommendation under Article 104(7) TEC specifying that the excessive deficit had to be corrected by 2013. On 2 December 2009 the Council, following a recommendation by the Commission, considered under Article 126(7) of the Treaty on the Functioning of the European Union (TFEU) that action had been taken in accordance with the recommendations, but unexpected adverse economic events with major unfavourable consequences for government finances had occurred after the adoption of the recommendation, and issued new recommendations to correct the deficit by 2014.

In particular, Ireland was recommended to, with a view to reducing the deficit in a credible and sustainable manner by taking action in a medium-term framework, specify consolidation measures in the budget for 2010 in line with the package announced in the April 2009 supplementary budget; ensure an average annual fiscal effort of 2 % of GDP over the period 2010-2014, which should also contribute to bringing the government gross debt ratio back on a declining path towards 60 % of GDP; and specify the measures that are necessary to achieve the correction of the excessive deficit by 2014, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected. In addition, the Irish authorities should seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the 60 % of GDP reference value. Further, Ireland should strengthen the enforceable nature of its medium-term budgetary framework as well as closely monitor adherence to the budgetary targets throughout the year. Moreover, to reduce the risks to the long-term sustainability of public finances, the Irish authorities should pursue further reforms to the social security system as soon as possible. Finally, the Council established the deadline of 2 June 2010 for the Irish government to take effective action to specify consolidation measures in the budget for 2010 in line with the package announced in the April 2009 supplementary budget and to outline in some detail the consolidation strategy that will be necessary to progress towards the correction of the excessive deficit.

The Irish authorities were also recommended to report on progress made in the implementation of these recommendations in a separate chapter in the updates of the stability programmes which will be prepared between 2010 and 2014.

2.4. The assessment in the Council Opinion on the previous update

In its opinion of 10 March 2009, the Council summarised its assessment of the previous update of the stability programme, covering the period 2008-2009, as follows. The Council considers "that, following a very sharp deterioration in 2008, the general government deficit will widen further in 2009, to 9.5 % of GDP. The fiscal consolidation measures and the measures to support the economy can be regarded as welcome and adequate given the high deficit and sharply increasing debt position and are in line with the European Economic Recovery Plan. After the budgetary deterioration in 2009, the programme envisages a reduction of the deficit below the 3 % of GDP reference value by 2013, while debt would breach the 60 % of GDP reference value from 2010. This would take place against the background of a rapid recovery of economic activity after 2010. The budgetary outcomes are subject to downside risks throughout the programme period, mainly due to (i) the lack of information on the envisaged consolidation measures after 2009; and (ii) the favourable macro-economic outlook especially in the outer years of the programme. Further risks stem from the measures in place to support the financial sector. There is a need to regain competitiveness through measures enhancing productivity growth and adequate wage policies. A reduction of the headline deficit below 3 % of GDP by 2013, as envisaged in the programme, will require addressing the significant risks to the budgetary targets and standing ready to adopt additional measures if necessary. Also with a view to improving the long-term sustainability of public finances, the fiscal consolidation plans should be backed up with measures." In view of this assessment, the Council invited Ireland to: "(i) limit the widening of the deficit in 2009 and specify and rigorously implement substantial annual efforts within a broad-based fiscal consolidation programme for 2010 and beyond; (ii) in order to limit risks to the adjustment, strengthen the binding nature of the medium-term budgetary framework as well as closely monitor adherence to the budgetary targets throughout the year; (iii) in view of the significant projected increase in age-related expenditure, and also of the increase in debt, albeit from a low level, expected over the programme period, improve the long-term sustainability of public finances by implementing further pension reform measures in addition to pursuing fiscal consolidation."

COUNCIL OPINION

of [22 April 2010]

on the updated stability programme of Ireland, 2009-2014

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[3], and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

(1) On [22 April 2010] the Council examined the updated stability programme of Ireland, which covers the period 2009 to 2014.

(2) After the period of very high growth of the second half of the 1990s, Ireland settled down to a more steady growth phase supported by buoyant domestic demand in 2001-2007. Ireland's competitive position weakened somewhat during this period, due to price and wage inflation together with declining productivity growth. The sharp correction in the housing market from the peak in 2006 led to a severe economic downturn, aggravated by the global financial crisis and the recession in Ireland's main trading partners. Despite five consolidation packages adopted since mid-2008, these developments have also produced a dramatic deterioration in the Irish public finances, with the general government balance moving from a surplus position in 2007 to a double-digit deficit ratio in 2009 and government debt exceeding the 60% of GDP reference value in 2009. On 27 April 2009, the Council thus decided under Article 104(6) TEC that an excessive deficit exists in Ireland and on 2 December 2009 set a deadline for its correction by 2014. A first key challenge for the years ahead relates to implementing a broad-based and credible fiscal consolidation strategy, building on the significant efforts already made. A second is to return to sustainable growth, which will involve the re- and up-skilling of the newly-unemployed and regaining competitiveness through productivity-enhancing measures and adequate wage policies, and to foster an orderly restructuring process in the financial sector. With a view to improving the long-term sustainability of public finances, reforming the pension system is another important challenge.

[3] OJ L 209, 2.8.1997, p. 1. The documents referred to in this text can be found at the following website: http://ec.europa.eu/economy_finance/sgp/index_en.htm.

(3) Although much of the observed decline in actual GDP in the context of the crisis is cyclical, growth in potential output will resume from a lower starting point. In addition, the crisis may also affect potential growth in the medium term through lower investment, constraints in credit availability, increasing structural unemployment and the return to net outward migration, if sustained. Moreover, the impact of the economic crisis will coincide with the negative effects of demographic ageing on potential output and the sustainability of public finances. Against this background it will be essential to accelerate the pace of structural reforms with the aim of supporting potential growth. In particular, for Ireland it is important to undertake reforms in the areas of human capital, competition and R&D.

(4) The macroeconomic scenario underlying the programme envisages that after declines in real GDP by 7.5% in 2009 and 1.4% in 2010, the economy will return to positive growth averaging 4% over 2011-2014. Assessed against currently available information[4], this scenario appears to be based on plausible growth assumptions in 2010 and favourable growth assumptions thereafter, especially in view of the reduction in trend growth to be expected as a consequence of the current crisis in conjunction with the ongoing balance sheet adjustments. The programme's outlook for inflation appears realistic given the projected drawn-out adjustment process in the labour market. The projected return to an external surplus would appear to be contingent on a continued recuperation of competitiveness.

(5) The programme estimates the general government deficit in 2009 at 11.7% of GDP. The significant deterioration from a deficit of 7.2% of GDP in 2008 to a large extent reflects the substantial knock-on effect that the broad-based recession has had on the public finances, including a considerable tax shortfall and a surge in unemployment-related expenditure. At the same time, the significant consolidation packages adopted in the course of 2009, with a combined net deficit-reducing effect estimated at 3¼% of GDP, have helped limit the fiscal deterioration. While the overall thrust of the budgetary strategy is deficit-reducing, Ireland also adopted a modest package of stimulus measures to support economic activity of 0.7% of GDP in line with the European Economic Recovery Programme (EERP). In line with the exit strategy advocated by the Council, and with a view to correcting the excessive deficit by 2014, substantial fiscal tightening is planned to continue over the programme period.

(6) At 11.6% of GDP, the deficit ratio in 2010 is targeted to stabilise as compared to 2009, based on a significant savings package amounting to 2.5% of GDP, broadly in line with the Council Recommendation under Article 126(7) of 2 December 2009. Given the steep rise in the interest burden, the primary balance is targeted to improve by ¾pp. of GDP. Nearly all of the adjustment effort is on the expenditure side, including public sector wage cuts, social welfare savings, other current savings and a reduction in public investment, each contributing in broadly equal measure to the overall package. On the revenue side, the effect of a new carbon tax is broadly offset by a reduction in the standard VAT rate and in excise duties on alcohol. Despite these consolidation measures, the primary expenditure-to-GDP ratio would rise marginally reflecting higher unemployment-related spending. The revenue-to-GDP ratio is expected to increase by 1 pp. on the back of rising ratios of social contributions and

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[4] The assessment notably takes into account the Commission services' autumn 2009 forecast, but also other information that has become available since then.

other revenue to GDP[5], which should more than offset a further drop in the tax-to-GDP ratio. The planned fiscal stance appears to be neutral in 2010, as the structural deficit, i.e. the cyclically-adjusted deficit net of one-off and other temporary measures, calculated according to the commonly agreed methodology is estimated to stay broadly unchanged as compared to 2009. However, it is important to note that, without the savings package of 2.5% of GDP, a significant further worsening of the fiscal position would have taken place in 2010. The ongoing underlying deterioration of the fiscal position on a no-policy change basis explains the discrepancy between a bottom-up (the savings package in the budget for 2010 amounts to 2.5% of GDP) and a top-down approach (unchanged structural deficit) to estimating the adjustment effort.

(7) The main aim of the programme's medium-term budgetary strategy is to pursue further consolidation efforts so as to reduce the deficit below 3% of GDP by the end of the programme period (2014). The nominal deficit would improve by 1¾ pps. of GDP in 2011, 2¾ pps. in 2012, 2¼ pps. in 2013 and 2 pps. in 2014, when the primary balance should turn into surplus again. This strategy taken at face value is in line with the Council Recommendation under Article 126(7) of 2 December 2009. To reach the targets, the government envisages further, quantified consolidation efforts on the current side of the budget in conjunction with a freeze of the level of capital expenditure (after the reduction in 2011). However, these efforts are not underpinned by broad measures and their envisaged size appears to be indicative. The indicative projections of the programme suggest a mainly expenditure-based consolidation, as the expenditure ratio would be reduced by nearly 7 percentage points of GDP over the period 2010-2014, especially in the areas of government consumption and social payments, whereas the revenue ratio would rise by close to 2 percentage points. The structural balance is projected to improve by 1 pp. of GDP in 2011 and 1¾ pps. annually in the period 2012-2014, pointing to a back-loaded effort. As communicated by the authorities, the medium-term objective (MTO) for the budgetary position of Ireland is a structural deficit of 0.5% of GDP, which the programme does not envisage to achieve within the programme period. In view of the new methodology and given the most recent projections and debt level, the MTO reflects the objectives of the Pact[6].

(8) The budgetary outcomes could be worse than targeted in 2010 and considerably worse than targeted thereafter. First, the significant consolidation efforts planned from 2011 onwards are not underpinned by measures so that also the planned contribution of revenue versus expenditure measures to these efforts is not clear. This risk is compounded by the fact that even the targeted size of the consolidation packages for the different years appears to be indicative, notwithstanding the fact that for 2010 a savings package of the previously announced size was implemented. Second, an

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5 The increase in the social contributions reflects a positive carry-over effect of the measures introduced in the April 2009 supplementary budget. The category "other revenue" will increase due to the higher surplus of the Central Bank paid to the government in 2010 as compared to 2009, increased receipts from the bank guarantee schemes, as well as due to a one-off transfer of pension fund assets to the general government of 0.6% of GDP in 2010 after a similar operation in 2009 yielding 0.4% of GDP.

6 The country-specific MTOs should take into account three components: i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure.

important downside risk is related to the economic outlook, which appears to be favourable in the outer years of the programme. Furthermore, also in view of the size of the planned consolidation, there is a risk of expenditure overruns in 2010 and also beyond, to the extent that the still to be spelled out strategy should rely on expenditure restraint. At the same time, it is noted that significant consolidation efforts have already been implemented since mid-2008. Specific additional risks relate to the government's bank guarantees to support the financial sector, which, if called, would lead to increases in deficit and debt. However, some of the cost of government support to the financial sector could also be recouped in the future.

(9) The government gross debt ratio was above the Treaty reference value in 2009 and is projected to be on an increasing trend until 2012. Specifically, according to the programme the debt-to-GDP ratio soared to nearly 66% of GDP in 2009 from 44% of GDP in 2008. The primary deficit was the main driver of this increase (+10 pps.). However, a positive snowball effect (rising interest expenditure and negative nominal GDP growth) and adverse stock-flow adjustment (mainly related to the financing of capital injections into the financial sector) also made sizeable contributions. The programme projects a further steep increase in the debt ratio to a peak of nearly 84% of GDP in 2012, followed by a gradual decline to below 81% of GDP by the end of the programme period (2014) on the back of the improving primary balance, the anticipated return to strong nominal GDP growth and the unwinding of the cash balances currently held for precautionary purposes against the uncertainty in financial markets. In view of the likely need for significant further capital injections into banks and of the negative risks to the budgetary targets, the evolution of the debt ratio is likely to be less favourable than projected in the programme.

(10) The long-term budgetary impact of ageing is clearly higher than the EU average, mainly as a result of a relatively high projected increase in pension expenditure over the coming decades. The budgetary position in 2009 as estimated in the programme compounds the budgetary impact of population ageing on the sustainability gap. It is noted that assets have been accumulated in the National Pension Reserve Fund in order to pre-fund part of future pension expenditure. Reducing the high primary deficit over the medium term, as already foreseen in the programme, and implementing structural reform measures including to curb the substantial increase in age-related expenditure would contribute to reducing the risks to the sustainability of public finances which were assessed in the Commission 2009 Sustainability Report[7] as high. According to the programme, a reform of the public sector pension system for new entrants to the service is to be introduced in 2010. Pension payments would thereafter be based on career average earnings rather than final salary, while the retirement age would be increased by one year to 66. It will be important to implement more broad-based reforms to address the projected increase in ageing-related expenditure. On 3 March 2010, the authorities published the "National Pensions Framework" setting out their intentions for pension reform, including a gradual increase in the age at which

[7] In the Council conclusions from 10 November 2009 on sustainability of public finances "the Council calls on Member States to focus attention to sustainability-oriented strategies in their upcoming stability and convergence programmes" and further "invites the Commission, together with the Economic Policy Committee and the Economic and Financial Committee, to further develop methodologies for assessing the long-term sustainability of public finances in time for the next Sustainability report", which is foreseen in 2012.

people qualify for the State pension, from 65 years currently to 68 in 2028[8]. Medium-term debt projections that assume GDP growth rates to only gradually recover to the values projected before the crisis and tax ratios to return to pre-crisis levels show that the budgetary strategy envisaged in the programme, taken at face value, would stabilise the debt-to-GDP ratio by 2020.

(11) Ireland's medium-term budgetary framework has some weaknesses. In particular, budgetary targets for the years beyond that covered by the budget, especially expenditure envelopes, can be changed in subsequent budgets. As experience has shown, this makes it more difficult for policymakers to maintain a prudent fiscal policy course in the presence of (persistent) windfall revenues, while possibly limiting their ability to implement a medium-term consolidation strategy in difficult times. The programme acknowledges the importance of a robust budgetary framework and highlights the recent introduction of quantified targets for consolidation packages for years beyond the budget year in the supplementary budget adopted in April 2009. However, as mentioned above, the quantified targets set for the outer years in the stability programme seem to be of an indicative nature. Without providing further details, the programme indicates that further reforms are under consideration, such as the introduction of binding multi-annual envelopes for current expenditure and a fiscal rule stipulating the use of future windfall profits for deficit reduction purposes. Regarding the more short-term budgetary framework, while the authorities publish monthly statements on central government revenue and expenditure developments, a formal mechanism for reviewing budgetary plans at higher than annual frequency so as to limit the risk of deviating from the targets does not appear to be in place.

(12) The sharp decline in revenue recorded in the context of the housing market correction and the wider recession has revealed some vulnerabilities of the Irish tax system, such as a narrow tax base and a high reliance on taxing transactions in assets. The need to broaden the tax base in the context of a comprehensive medium-term strategy was a key message from the report published in September 2009 by the Commission on Taxation set up by the government. This report, together with the recommendations for the improvement of public expenditure programmes from the report published in July 2009 by the 'Special Review Group on Public Service Expenditure and Numbers', will according to the programme inform the government's further budgetary strategy. A limited number of recommendations have already been taken into account in the budget for 2010, including the introduction of a carbon tax. The above-mentioned reforms relating to the public sector pension system together with the further pension reforms under consideration according to the programme would further improve the quality of Ireland's public finances.

(13) Overall, in 2010 the budgetary strategy set out in the programme is broadly consistent with the Council recommendation under Article 126(7). However, from 2011 on, taking into account the risks to the deficit targets, the budgetary strategy may not be consistent with the Council recommendation. In particular, the deficit targets for 2011-2014 need to be backed up by concrete measures and the plans for the entire period need to be strengthened to address the risks from less favourable GDP growth and slippages on the expenditure side. The marked cyclical contribution to the

[8] These reform plans are not included in the estimated impact of ageing on the public finances reported at the beginning of the paragraph.

consolidation in the outer years foreseen in the programme, consistent with its favourable macroeconomic scenario, implies that the average annual structural effort needed according to the programme to correct the excessive deficit by 2014 falls short of the 2 pps. of GDP recommended by the Council. This reinforces the conclusion that the authorities should stand ready to take additional measures beyond the planned consolidation packages in case growth turned out to be lower than projected in the programme. Unless these risks are adequately addressed and the consolidation plans fully implemented, the budgetary strategy may not be sufficient to bring the government debt ratio back on a declining path by the end of the programme period. A rigorous implementation of the programme's consolidation strategy would also be appropriate given the high risks to the long-term sustainability of the public finances, driven by the expected change in age-related expenditure in the medium term as well as the rapid projected increase in debt, and the likely need for further support to the financial sector.

(14) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme has some gaps in the required and optional data[9]. In its recommendations under Article 126(7) of 2 December 2009 with a view to bringing the excessive deficit situation to an end, the Council also invited Ireland to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. Ireland partly complied with this recommendation. In particular, the revenue and expenditure projections in the outer years are of an indicative nature and the consolidation efforts in these years are not underpinned by broad measures.

The overall conclusion is that Ireland responded swiftly and with determination to counter the widening of the government deficit. In spite of this, and due to the severe recession, the general government deficit widened further in 2009 but is planned in the programme to stabilise in 2010, at 11.6% of GDP. From 2011 onwards, the programme envisages a back-loaded reduction of the deficit to below the 3% of GDP reference value by 2014, the deadline for the correction of the excessive deficit set by the Council. Debt would peak at around 84% of GDP in 2012 and then decline mildly. The budgetary outcomes could be worse than targeted throughout the programme period, mainly due to (i) the fact that the consolidation efforts planned after 2010 are not underpinned by broad measures and are of an indicative nature only; (ii) the programme's favourable macroeconomic outlook after 2010; and (iii) the risk of expenditure overruns in 2010 and also beyond, to the extent that the still to be spelled out strategy should rely on expenditure restraint. This, together with the likely need for further support measures for the financial sector, implies that also the debt ratio could turn out higher than planned in the programme. While the significant size of the savings package for 2010 is broadly in line with the Council recommendation issued on 2 December 2009, it will be important to address the above-mentioned risks, by spelling out the measures underlying the consolidation strategy and adopting additional consolidation measures if growth turns out weaker than projected in the programme or if the risk of expenditure slippages materialises. Building on the significant efforts already made, implementing a credible fiscal consolidation strategy, which should be facilitated by a stronger budgetary framework, should foster a return to sustainable economic growth. To help achieve this, there is also a need to regain

[9] In particular, the data on nominal effective exchange rate; EU GDP growth, and growth of relevant foreign markets are not provided. More significantly, the revenue and expenditure projections in the programme are of a technical nature rather than being targets.

competitiveness through measures enhancing productivity growth and adequate wage policies, and to support the re- and up-skilling of the newly-unemployed to prevent them from turning into long-term unemployed. With a view to improving the long-term sustainability of public finances, further reforms to the pension system will be important in addition to the fiscal consolidation efforts. These reforms could usefully build on the March 2010 National Pensions Framework.

In view of the above assessment and also in the light of the recommendation under Article 126(7) TFEU of 2 December 2009, Ireland is invited to:

(i) rigorously implement the budget for 2010 and back up the envisaged consolidation packages for the following years with concrete measures within a broad-based consolidation strategy, while standing ready to adopt further consolidation measures in case risks related to the fact that the macroeconomic scenario of the programme is more favourable than the scenario underpinning the Article 126(7) Recommendation materialise; seize any further opportunities to accelerate the reduction of the gross debt ratio towards the 60% of GDP reference value;

(ii) in view of the significant projected increase in age-related expenditure, and also of the further increase in debt expected over the programme period, improve the long-term sustainability of public finances by implementing further pension reform measures;

(iii) to limit risks to the adjustment, strengthen the enforceable nature of its medium-term budgetary framework, as well as closely monitor adherence to the budgetary targets throughout the year.

Ireland is also invited to improve compliance with the data requirements of the code of conduct in view of the indicative nature of revenue and expenditure projections in the outer years and to provide more information on the broad measures underpinning the envisaged consolidation in these years in the EDP chapters of the forthcoming stability programme updates.

Comparison of key macroeconomic and budgetary projections[1,2]

		2008	2009	2010	2011	2012	2013	2014
Real GDP (% change)	**SP Dec 2009**	**n.a.**	**-7.5**	**-1.3**	**3.3**	**4.5**	**4.3**	**4.0**
	COM Nov 2009	-3.0	-7.5	-1.4	2.6	n.a.	n.a.	n.a.
	SP Oct 2008	*-1.4*	*-4.0*	*-0.9*	*2.3*	*3.4*	*3.0*	*n.a.*
HICP inflation (%)	**SP Dec 2009**	**n.a.**	**-1.7**	**-1.2**	**1.0**	**1.7**	**1.8**	**1.8**
	COM Nov 2009	3.1	-1.5	-0.6	1.0	n.a.	n.a.	n.a.
	SP Oct 2008	*3.1*	*0.5*	*1.5*	*1.8*	*1.8*	*1.8*	*n.a.*
Output gap[3] (% of potential GDP)	**SP Dec 2009**	**0.0**	**-7.0**	**-7.6**	**-4.6**	**-2.2**	**-0.6**	**0.1**
	COM Nov 2009[4]	-0.1	-7.2	-7.8	-5.4	n.a.	n.a.	n.a.
	SP Oct 2008	*0.5*	*-3.5*	*-4.1*	*-3.4*	*-1.6*	*-0.5*	*n.a.*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Dec 2009**	**n.a.**	**-2.0**	**0.6**	**1.2**	**1.6**	**1.6**	**1.3**
	COM Nov 2009	-5.1	-3.1	-1.8	-1.4	n.a.	n.a.	n.a.
	SP Oct 2008	*-6.3*	*-4.2*	*-3.5*	*-3.4*	*-3.0*	*-2.8*	*n.a.*
General government revenue (% of GDP)	**SP Dec 2009**	**34.8**	**34.2**	**35.2**	**35.5**	**36.3**	**36.7**	**37.1**
	COM Nov 2009	34.9	34.4	34.4	33.8	n.a.	n.a.	n.a.
	SP Oct 2008	*33.6*	*33.7*	*34.4*	*34.6*	*33.9*	*34.4*	*n.a.*
General government expenditure	**SP Dec 2009**	**42.0**	**45.9**	**46.8**	**45.5**	**43.5**	**41.5**	**40.0**
	COM Nov 2009	42.0	46.9	49.1	48.4	n.a.	n.a.	n.a.

(% of GDP)	*SP Oct 2008*	*39.9*	*43.3*	*43.4*	*41.0*	*38.7*	*37.0*	*n.a.*
General government balance (% of GDP)	**SP Dec 2009**	**-7.2**	**-11.7**	**-11.6**	**-10.0**	**-7.2**	**-4.9**	**-2.9**
	COM Nov 2009	-7.2	-12.5	-14.7	-14.7	n.a.	n.a.	n.a.
	SP Oct 2008	*-6.3*	*-9.5*	*-9.0*	*-6.4*	*-4.8*	*-2.6*	*n.a.*
Primary balance (% of GDP)	**SP Dec 2009**	**-6.1**	**-9.6**	**-8.8**	**-6.6**	**-3.4**	**-1**	**1**
	COM Nov 2009	-6.1	-10.2	-11.3	-10.6	n.a.	n.a.	n.a.
	SP Oct 2008	*-5.2*	*-7.3*	*-6.4*	*-3.5*	*-1.7*	*0.7*	*n.a.*
Cyclically-adjusted balance[3] (% of GDP)	**SP Dec 2009**	**-7.2**	**-8.9**	**-8.6**	**-8.2**	**-6.3**	**-4.7**	**-2.9**
	COM Nov 2009	-7.1	-9.6	-11.5	-12.5	n.a.	n.a.	n.a.
	SP Oct 2008	*-6.5*	*-8.1*	*-7.4*	*-5.0*	*-4.1*	*-2.4*	*n.a.*
Structural balance[5] (% of GDP)	**SP Dec 2009**	**-6.4**	**-9.3**	**-9.2**	**-8.2**	**-6.3**	**-4.7**	**-2.9**
	COM Nov 2009	-7.1	-10.1	-11.5	-12.5	n.a.	n.a.	n.a.
	SP Oct 2008	*-6.2*	*-8.1*	*-7.4*	*-5.0*	*-4.1*	*-2.4*	*n.a.*
Government gross debt (% of GDP)	**SP Dec 2009**	**n.a.**	**64.5**	**77.9**	**82.9**	**83.9**	**83.3**	**80.8**
	COM Nov 2009	44.1	65.8	82.9	96.2	n.a.	n.a.	n.a.
	SP Oct 2008	*40.6*	*52.7*	*62.3*	*65.7*	*66.2*	*64.5*	*n.a.*

Notes:

[1]The Commission services' autumn 2009 forecast was prepared on a pre-budget basis.

[2]The figures reported as having been taken from the October 2008 stability programme actually refer to its January 2009 addendum.
[3]Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.
[4]Based on estimated potential growth of 1.8%, -0.5%, -0.7% and 0.0% respectively in the period 2008-2011.
[5]Cyclically-adjusted balance excluding one-off and other temporary measures. One-off and other temporary measures are 0.4% of GDP in 2009 and 0.6% in 2010 (both deficit-reducing) according to the most recent programme and 0.5% of GDP in 2009 (deficit-reducing) according to the Commission services' autumn 2009 forecast.

Source:
Stability programme (SP); Commission services' autumn 2009 forecasts (COM); Commission services' calculations.