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(Resolutions, recommendations, guidelines and opinions)

OPINIONS

COUNCIL

COUNCIL OPINION

of 27 February 2007

on the updated stability programme of Ireland, 2006-2009

(2007/C 70/01)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

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 [1], 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 27 February 2007 the Council examined the updated stability programme of Ireland, which covers the period 2006 to 2009.

(2) The macroeconomic scenario underlying the programme envisages that real GDP growth will edge lower from 5,4 % in 2006 to an average of a little above 4½ % over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions, though a sharp downturn in high levels of residential construction and property prices are important risks. The programme's projections for inflation appear realistic.

(3) For 2006 the general government balance is estimated in the programme as a surplus of 2,3 % of GDP, against a budgeted deficit of 0,6 % of GDP in the previous update; more recent cash data for central government points towards an even stronger surplus, of around 2½ % of GDP. The stronger than expected result compared with a year earlier is entirely attributable to the revenue side, reflecting in particular the continuing buoyancy of the property market boosting housing-related taxes, and to a more limited extent higher output growth having a similar effect on mainstream taxes. The estimated outturn for nominal expenditure is close to budget.

(4) Ireland's medium-term budgetary strategy is based on maintaining budgetary sustainability, anchored in respect of the Stability and Growth Pact. Surpluses are projected to be maintained throughout the programme period, moderating from an estimated headline surplus of 2,3 % of GDP in 2006 to 1,2 % in 2007 and progressively declining to 0,6 % in 2009; the primary surplus declines similarly from an estimated 3,3 % of GDP in 2006 to 1,6 % of GDP in 2009. The halving of the budgeted headline surplus in 2007 is due to a higher planned expenditure ratio, the increase representing mainly higher social transfers; in 2008 and 2009 both revenue and expenditure ratios are projected

[1] OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

to decline, but expenditure only slightly. Compared with the projections in the previous update (to 2008), the strong increase in the estimated 2006 balance, achieved through higher than expected revenues, is carried forward in terms of the revenue and headline and primary surplus ratios in the following two years, at a declining rate, with virtually no change in the profile of the projected expenditure ratio.

(5) The structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to decline from a surplus of just under 3 % of GDP in 2006 to just over 1½ % in 2009. As in the previous update of the stability programme, the medium-term objective (MTO) for the budgetary position presented in the programme is a balanced position in structural terms, which the programme plans to maintain by a large margin throughout the programme period. As the MTO is itself more demanding than the minimum benchmark (estimated at a deficit of around 1¼ % of GDP), achieving the programme's structural balance should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The MTO lies within the range indicated for euro-area and ERM II Member States in the Stability and Growth Pact and the code of conduct and is more demanding than implied by the debt ratio and average potential output growth in the long term.

(6) The risks to the budgetary projections in the programme appear broadly balanced. On the one hand, the macroeconomic situation, after a probably stronger than assumed starting position, could evolve less favourably than projected, and, associated with this, specific revenue sources, particularly those most closely linked to the housing market, could also be significantly weaker. On the other hand, other revenues taken together appear to have been projected cautiously, and in recent years expenditures have been contained within or close to planned levels.

(7) In view of this risk assessment, the budgetary stance in the programme seems sufficient to maintain the MTO throughout the programme period, as envisaged in the programme. In addition, it provides a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations throughout the same period. For 2008 and 2009 the fiscal policy stance is in line with the Stability and Growth Pact. In 2007, however, the structural balance declines strongly, carrying the risk that the fiscal policy stance implied by the programme may be pro-cyclical in this year should the economy turn out to be experiencing good times, a situation to be avoided under the Stability and Growth Pact.

(8) Government gross debt is estimated to have declined to around 25 % of GDP in 2006, well below the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline by a further three percentage points over the programme period.

(9) The long-term budgetary impact of ageing in Ireland is well above the EU average, mainly as a result of a relatively younger population and consequently a higher increase in pension expenditure as a share of GDP over the coming decades, influenced in part by the maturing of the pension system. The initial budgetary position, improved compared with 2005, contributes significantly to easing the projected long-term budgetary impact of ageing populations, but is not sufficient to fully cover the substantial increase in expenditure due to the ageing of the population. Maintaining high primary surpluses over the medium term and implementing measures aimed at curbing the significant increase in age-related expenditures would, as recognised in the programme, contribute to reducing risks to the sustainability of public finances. Overall, Ireland appears to be at medium risk with regard to the sustainability of public finances.

(10) The stability programme does not contain a qualitative assessment of the overall impact of the October 2006 implementation report of the national reform programme within the medium-term fiscal strategy. In addition, it provides no systematic information on the direct budgetary costs or savings of the main reforms envisaged in the national reform programme and its budgetary projections do not explicitly take into account the public finance implications of the actions outlined in the national reform programme. The measures in the area of public finances envisaged in the stability programme nevertheless seem consistent with those foreseen in the national reform programme. In particular, both programmes envisage ongoing implementation of ambitious plans to upgrade infrastructure, notably in the context of the National Development Plan published in January 2007, while the stability programme complements the actions envisaged in the national reform programme with detailed description of measures to improve the institutional features of the public finances, notably measures to increase the efficiency of tax collection and achieve greater value for money in expenditure management.

(11) The budgetary strategy in the programme is broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008.

(12) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and most optional data ([1]).

The Council considers that the medium-term budgetary position is sound and, the budgetary strategy provides a good example of fiscal policies conducted in compliance with the Stability and Growth Pact. Nonetheless, it would be prudent to maintain room for manoeuvre against any reversal of the current growth pattern which has been led by strong housing sector developments.

In view of the above assessment, in particular the projected increase in age-related expenditure, the Council invites Ireland to continue to implement measures to improve the long-term sustainability of its public finances and to avoid pro-cyclical policies in the years ahead.

Comparison of key macroeconomic and budgetary projections

		2005	2006	2007	2008	2009
Real GDP (% change)	**SP Dec 2006**	**5,5**	**5,4**	**5,3**	**4,6**	**4,1**
	COM Nov 2006	5,5	5,3	5,3	4,3	n.a.
	SP Dec 2005	*4,6*	*4,8*	*5,0*	*4,8*	*n.a.*
HICP inflation (%)	**SP Dec 2006**	**2,2**	**2,7**	**2,6**	**2,0**	**1,7**
	COM Nov 2006	2,2	2,9	2,7	2,2	n.a.
	SP Dec 2005	*2,2*	*2,0*	*2,0*	*1,8*	*n.a.*
Output gap (% of potential GDP)	**SP Dec 2006** ([1])	**– 0,4**	**– 1,2**	**– 1,6**	**– 2,2**	**– 2,5**
	COM Nov 2006 ([5])	– 0,5	– 1,4	– 1,9	– 2,7	n.a.
	SP Dec 2005 ([1])	*– 1,3*	*– 1,9*	*– 2,2*	*– 2,1*	*n.a.*
General government balance (% of GDP)	**SP Dec 2006**	**1,1**	**2,3**	**1,2**	**0,9**	**0,6**
	COM Nov 2006	1,1	1,2	0,9	0,4	n.a.
	SP Dec 2005	*0,3*	*– 0,6*	*– 0,8*	*– 0,8*	*n.a.*
Primary balance (% of GDP)	**SP Dec 2006**	**2,1**	**3,3**	**2,3**	**1,8**	**1,6**
	COM Nov 2006	2,1	2,2	1,9	1,4	n.a.
	SP Dec 2005	*1,5*	*0,6*	*0,4*	*0,5*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**SP Dec 2006** ([1])	**1,3**	**2,8**	**1,8**	**1,8**	**1,6**
	COM Nov 2006	1,3	1,7	1,6	1,5	n.a.
	SP Dec 2005 ([1])	*0,8*	*0,2*	*0,1*	*0,1*	*n.a.*

([1]) In particular, data are not provided for deflators for private consumption, public consumption and investment, net lending/borrowing of the private sector, government expenditure by function and decomposition of the general government debt stock-flow adjustment.

		2005	2006	2007	2008	2009
Structural balance (2) (% of GDP)	**SP Dec 2006** (3)	**1,6**	**2,7**	**1,8**	**1,8**	**1,6**
	COM Nov 2006 (4)	1,6	1,7	1,6	1,5	n.a.
	SP Dec 2005	*0,8*	*0,2*	*0,1*	*0,1*	*n.a.*
Government gross debt (% of GDP)	**SP Dec 2006**	**27,4**	**25,1**	**23,0**	**22,4**	**21,9**
	COM Nov 2006	27,4	25,8	24,4	23,6	n.a.
	SP Dec 2005	*28,0*	*28,0*	*28,2*	*28,3*	*n.a.*

Notes:

(1) Commission services calculations on the basis of the information in the programme.

(2) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

(3) One-off and other temporary measures of - 0,3 % of GDP in 2005 (assumed: cf note 4) and 0,1 % of GDP in 2006 (indicated in the programme); no information is given in the programme for 2007-09.

(4) One-off and other temporary measures taken from the Commission services' autumn 2006 forecast (- 0,3 % of GDP in 2005, i.e. surplus-reducing).

(5) Based on estimated potential growth of 6,1 %, 6,3 %, 5,8 % and 5,2 % respectively in the period 2005-2008.

Source:

Stability programme (SP); Commission services' autumn 2006 economic forecasts (COM); Commission services' calculations