Fiscal Rules

Repeated breaches of the National Spending Rule

4 FISCAL RULES

Repeated breaches of the National Spending Rule

In this section, the Council assesses how Ireland is complying with its fiscal rules. It looks at whether the forecasts published in *SPU 2024* comply with Ireland's domestic rules, including the Domestic Budgetary Rule, as set out in the Fiscal Responsibility Act 2012. It also looks at the EU fiscal rules, as set out in the Stability and Growth Pact (SGP). In addition, the Council assesses compliance with the National Spending Rule. The Council considers this rule important, even though it lacks a statutory footing.

Further breaches of the National Spending Rule are planned

The National Spending Rule aims to limit core net spending growth to 5% each year, in line with the estimated trend growth rate of the Irish economy. The rule first guided spending in 2022 and seeks to anchor core expenditure growth over the medium term.

The rule is not legally binding. However, the Council considers the rule to be a vital tool to help ensure the public finances are managed sustainably. Its importance is magnified by the fact that the new EU rules are likely to prove less binding for Ireland in future, since GDP remains their main metric of reference (Casey and Cronin, 2023).

The Council assesses compliance with the rule on a net basis. That is, a rise in core net spending is offset by tax-raising measures but is added to by tax cuts.[45] This approach is in line with the Government's description of the rule (Department of Finance, *SPU 2023*, p. 30).

The Council assesses that the Government's plans breached the National Spending Rule in 2023. Core net spending increased by 8.4% in 2023, in excess of the 5% limit imposed by the rule (N°58). The original ceiling for core spending in 2023, set in *SES 2021*, was €84.1

[45] These tax measures include the expected yields arising from the non-indexation of the income tax system.

billion.[46] This ceiling was set in line with a 5% year-on-year growth rate, as per the rule. However, this original ceiling was repeatedly revised up in subsequent budgetary publications, taking spending to a level beyond what would be implied by a 5% growth path.

N°58 Government plans set to breach the 5% limit in 2024 and 2025

€ billions

	2021	2022	2023	2024	2025	2026	2027
Core net spending assessment (% year-on-year growth)							
5% limit		5.0	5.0	5.0	5.0	5.0	5.0
SPU 2024		8.0	8.4	5.1	5.1	4.7	3.3
SPU 2024 + health overrun		8.0	8.4	6.7	5.1	4.7	3.4
Cumulative assessment							
5% path	75.9	79.7	83.7	87.9	92.2	96.9	101.7
SPU 2024	75.9	80.0	86.7	91.1	95.8	100.4	103.8
SPU 2024 + health overrun	75.9	80.0	86.7	92.6	97.3	102.0	105.5
What goes into the *SPU 2024* cumulative assessment?							
Total spending		88.8	94.7	97.1	101.5	106.8	110.6
less one-offs *		8.8	7.5	5.1	4.5	4.5	4.5
Core spending		80.0	87.2	91.9	97.0	102.3	106.1
less revenue measures (net)		0.0	0.5	0.3	0.4	0.7	0.4
Core net spending		80.0	86.7	91.1	95.8	100.4	103.8
add health overrun				1.5	1.5	1.6	1.7
Core net spending + health overrun		80.0	86.7	92.6	97.3	102.0	105.5

Sources: Department of Finance and Fiscal Council workings.
Notes: *One-offs here include all expenditures related to Covid-19, Ukrainian supports, cost-of-living measures, and other expenditure, such as EU-funded spending for the Brexit Adjustment Reserve and the National Recovery and Resilience Plan, and other provisions such as the Temporary Business Energy Support Scheme (TBESS). Core net spending refers to core spending, adjusted for the impact of tax measures, and includes the expected yields arising from the non-indexation of the income tax system. Revenue-raising measures (such as tax increases) can be used to offset bigger spending increases, whereas revenue-reducing measures (such as tax cuts) would lower the scope for spending increases. Estimates of revenue-reducing and revenue-raising measures are those judged by the Fiscal Council. Health overruns are assumed to result in additional spending of €1.45 billion in 2024, relative to *SPU 2024* forecasts (see Section 2). These overruns enter the core spending base in 2025 and are assumed to grow at 5% year on year, in line with the National Spending Rule. Get the data.

[46] See page 34 of the Summer Economic Statement 2021 (Department of Finance, 2021).

The final outturn for core spending in 2023 amounted to €87.2 billion. Accounting for the net impact of new tax measures, core net spending in 2023 was €86.7 billion, €1.0 billion above the latest ceiling, set in *Budget 2024* (N°58). Current spending accounted for €0.3 billion of the overspend, with the capital overspend amounting to €0.7 billion.

The Government's plans are also set to breach the National Spending Rule in 2024 and 2025. The pace of the core net spending increase is currently projected at 5.1% for 2024 and 5.1% for 2025 (N°58).

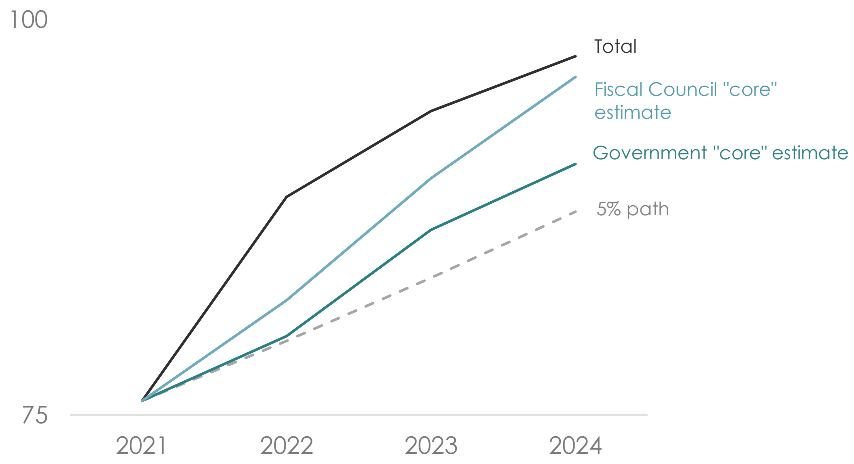
However, these spending forecasts lack credibility. They do not factor in expected overruns in health spending in 2024. Were the rest of the year to see health overruns grow at a similar rate as last year, these overruns would result in €1.45 billion of additional spending this year.[47] Adding this extra health spending, core net spending would grow by 6.7% in 2024 (N°58). What's more, the overrun in 2024 will then become part of the base for future years, taking spending to a much higher level.

Cumulatively, the breaches of the National Spending Rule are significant. The Government's estimate for core net spending is €3.0 billion above what a 5% path would imply in 2024 (N°59).

[47] The total health overrun is assumed to be €1.6 billion in 2024. This results in additional health spending of €1.45 billion in 2024 relative to *SPU 2024* forecasts, as *SPU 2024* included €0.15 billion for extra spending in health on foot of the public sector pay deal. See Section 2 for further details.

Nº59 Different estimates for net spending exceed the 5% path

€ billions, core net spending



Sources: Department of Finance and Fiscal Council workings. Get the data.
Notes: The 5% path takes the total spending allocated for 2021 and grows it by 5% each year. The Government 'core' estimate includes all core spending, adjusted for the net impact of new tax measures. Estimates of the net impact of new revenue measures are those judged by the Fiscal Council. The Fiscal Council 'core' estimate begins with the Government 'core' estimate but also factors in additional spending measures. These include the portion of Covid spending likely to be permanent, all spending related to supporting Ukrainian refugees, windfall capital investment, and health overruns. Health overruns are assumed to result in additional spending of €1.45 billion in 2024, relative to *SPU 2024* forecasts (see Section 2). These overruns enter the core spending base in 2025 and are assumed to grow at 5% year on year, in line with the National Spending Rule. Total net spending equals gross voted expenditure and spending related to expected health overruns, adjusted for the net impact of new tax measures. Get the data.

However, there are a large number of measures which the Government classifies as temporary. Adding all these would take total net spending to a far higher level. Total net spending includes all expenditure treated as 'core' by the Government, as well as all expenditures related to Covid-19, Ukrainian supports, windfall capital investment and cost-of-living measures. It also includes the additional spending arising from the expected health overruns in 2024. Total net spending is forecast to reach €97.7 billion in 2024, €9.8 billion above a sustainable 5% path from 2021 (N°60).

Ultimately, the truth probably lies somewhere in between, yet always above a 5% growth path. The Fiscal Council's own assessment of core net spending begins with the Government's estimate for core expenditure. It then adds on all spending related to supporting Ukrainian refugees and the share of Covid-related spending likely to continue indefinitely.[48] It also includes windfall capital investment and the additional spending arising from the expected overruns in health

[48] *Budget 2024* allocated €1.3 billion for non-core Covid-related expenditure in 2024. The Fiscal Council 'core' estimate regards this as permanent. Moreover, the Council estimate also treats €1.3 billion of the Covid-related spending in 2022 and 2023 as core too, given it has transpired to be long-lasting.

spending in 2024 (N°60). This Council estimate for net spending is €8.5 billion (9.7%) above what a 5% path would imply in 2024.

N°60 Walk to total net spending

€ billions

	2022	2023	2024
Government 'core' estimate	**80.0**	**86.7**	**90.9**
add potentially permanent Covid spending *	1.3	1.3	1.3
add Ukrainian supports	1.0	2.0	2.5
add windfall capital investment			0.3
add expected overruns in health**			1.5
Fiscal Council 'core' estimate	**82.3**	**90.0**	**96.4**
add temporary Covid spending	3.2	0.2	
add other ***	3.3	4.0	1.3
Total net spending	**88.8**	**94.2**	**97.7**

Sources: Department of Finance and Fiscal Council workings.
Notes: *Some amount of Covid-19 related expenditure is likely to become permanent or 'core' spending. *Budget 2024* allocated €1.3 billion for Covid-related expenditure for 2024. The Fiscal Council 'core' estimate considers this to be permanent spending and, therefore, treats it as 'core' in 2024. The Council's estimate also retrospectively treats €1.3 billion of the Covid-related spending in 2022 and 2023 as 'core', since it has transpired to be long-lasting. **Overruns in health spending are assumed to result in additional spending of €1.45 billion in 2024 (See Section 2). ***'Other' here includes all expenditures related to the cost-of-living measures, as well as EU-funded spending for the Brexit Adjustment Reserve and the National Recovery and Resilience Plan, and other provisions such as the Temporary Business Energy Support Scheme (TBESS). Get the data.

The way the *SPU 2024* document is set out continues a pattern in which the Department's forecasts lack transparency. Once again, there is no assessment of core spending provided in the report that adjusts for tax measures. In other words, the Department does not present whether its own tax and spending plans comply with the National Spending Rule. The Council will continue to assess compliance with the rule. However, the Department should present its own assessment of core net spending in SPU and budget documentation to make it easier for the public to understand whether its core net spending forecasts comply with the rule. In addition, the Department makes no reference to the original ceilings for core spending first set out in *SES 2021*. This is also bad for transparency.

Net spending drifts beyond a sustainable path

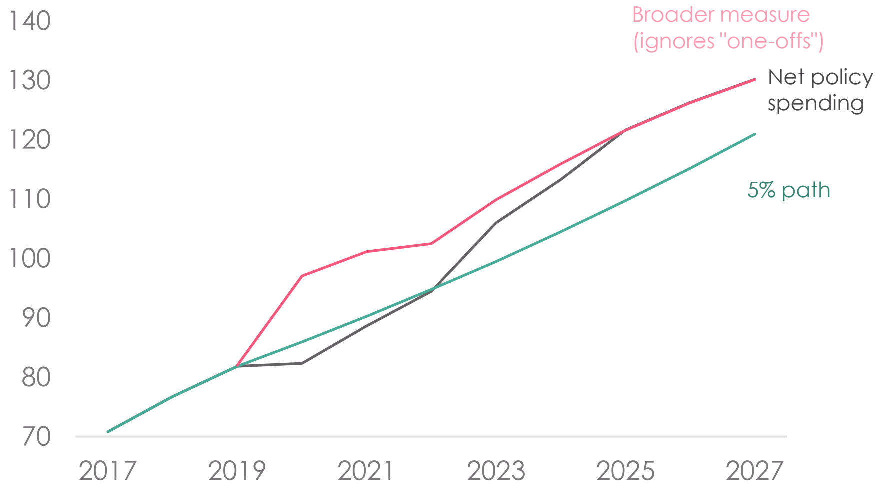
Another useful measure to assess fiscal policy with is 'net policy spending'. This measure bears some similarities to the 'core net spending' measure underpinning the National Spending Rule, but there are a couple of key differences. First, it is defined on a general government basis. This means it captures all government spending, including the one-fifth of spending which occurs outside the Exchequer. Second, it excludes the estimated savings or costs associated with cyclically low or high unemployment rates. Like the National Spending Rule, it takes account of new tax measures. That is, tax-raising measures can be used to offset spending increases, while tax cuts add to spending increases.

The Government's projections, set out in *SPU 2024*, see net policy spending drifting above what can be considered a sustainable path (N°61). The sustainable path here takes spending in 2019 (before the pandemic) as its starting point. This is a time when the economy was broadly in balance — the output gap was close to zero and unemployment was close to its long-run average. From there, actual and planned net policy spending is assessed relative to a sustainable path where it grows by 5% per year — broadly in line with potential output and normal rates of price inflation.

The difference between this "sustainable path" and the projected outturn for 2024 is €8.8 billion (+8.4%). This means that the impact of cumulative decisions to cut taxes and raise spending over and above what might be deemed sustainable equate to 2.9% of GNI* as of 2024. This gap widens further in 2025 (out to €11.9 billion), before being projected to fall back somewhat in 2026 and 2027.

N°61 Net policy spending has drifted above a sustainable path

€ billion, net policy spending



Sources: CSO, Department of Finance, and Fiscal Council workings.
Notes: Net policy spending is overall general government spending, excluding temporary factors like one-offs, and cyclical spending on unemployment benefits. As a net measure, it recognises the role of tax changes; that is, a rise in net policy spending is offset by tax-raising measures but is added to by tax cuts. Estimated proceeds from not indexing the tax system are also included. The "broader measure" line differs from net policy spending in that it includes all non-interest spending. It does not exclude one-off spending or cyclical unemployment spending. Windfall capital investment is included in net policy spending. As a result, windfall capital investment falling to zero in 2027 (as per *SPU 2024*) contributes reduces net policy spending in 2027. Get the data.

The Council's assessment of Net Policy Spending takes into account some non-core spending items — things that the Government labels as temporary. However, all spending from 2025 and beyond is considered to be core in this assessment. If one were to cut through all the temporary classifications included in *SPU 2024*, the path for net spending would look much further beyond a sustainable path in 2024. In this case, spending would be estimated to be €11.5 billion higher than the level suggested by a sustainable path.

The Council's assessment of Net Policy Spending takes *SPU 2024* forecasts of expenditure as given. However, as outlined in Section 2, health spending is likely to be significantly higher than *SPU 2024* projections for 2024 and beyond. In addition, Section 2 highlights how windfall capital investment is forecasts in *SPU 2024* to fall from €1.25 billion in 2026 to zero in 2027. These two issues suggest the path for net spending could be even further above a 5% path.

Ireland’s medium-term expenditure framework lacks credibility

Ireland’s Medium-term Expenditure Framework was established in 2013 as part of an extensive package of budgetary reform measures. Its purpose is to encourage governments to plan further ahead than they had previously tended to do. Rather than concentrate solely on the next year, the framework seeks to adopt a more forward-looking approach, with a strong emphasis on realistic medium-term planning.

The framework legally requires the Government to set ceilings for how much each department will spend annually over the next three years. However, for the fourth year running, the Government has failed to publish these spending ceilings on Budget Day. Instead, these were once again released in December. The repeated failure to fix these expenditure ceilings as part of the budgetary process implies that they are set not with a view to imposing credible spending controls, but as a separate box-ticking exercise to meet legal requirements.

Furthermore, the medium-term estimates produced by the Department of Public Expenditure, NDP Delivery and Reform for individual department ceilings have tended to be highly unrealistic in recent years. In many areas, including health, they ignore demographic, price and wage pressures. They essentially assume constant levels of current spending in nominal terms. The Department instead leaves large unallocated amounts that are then allocated where needed at a later stage. This approach to applying the ceilings undermines their credibility. It results in departmental forecasts that are highly unrealistic. It is also a backward step in terms of transparency and the overall functioning of the fiscal framework.

Compliance with fiscal rules is mixed when assessed using the Council’s principles-based approach

The Council assesses whether the forecasts included in *SPU 2024* comply with Ireland’s Domestic Budgetary Rule, as set out in the Fiscal Responsibility Act 2012, and the EU fiscal rules, as set out in the Stability and Growth Pact (SGP).

At the onset of Covid-19, in 2020, so-called ‘exceptional circumstances’ and general escape clauses were activated. These applied to both the domestic and EU fiscal rules. They meant that Ireland could temporarily depart from the requirements under both sets of rules. These clauses remained in effect until the end of 2023.[49] However, neither clause applies from the beginning of this year.[50]

The Council has a mandate to monitor and assess compliance with the Domestic Budgetary Rule on at least an annual basis. Legal compliance with the fiscal rules continues to be assessed against GDP. However, GDP-based measures do not give an accurate picture of Ireland's fiscal position. The activities of a few large foreign-owned multinationals inflate the value of GDP and, thus, make debt ratios look smaller than they otherwise would be. This is a severe limitation of the Domestic Budgetary Rule.

Ireland's Domestic Budgetary Rule requires that the general government budgetary position be in balance or in surplus, or on an appropriate path to meet this condition. In practice, the Budgetary Rule is deemed to be achieved if the structural balance — a measure of the budget balance that strips out temporary and cyclical effects — meets a specified target, or is on an appropriate path towards it. This target is the so-called medium-term objective (MTO).

Compliance is assessed using the Council's principles-based approach to the Domestic Budgetary Rule. This approach addresses a number of shortcomings with the methodology used by the European Commission. For instance, it uses more appropriate measures of potential output for Ireland and more recent forecasts to estimate the structural balance. Thus, it provides a more appropriate assessment of Ireland's budgetary position.[51] The Council has previously assessed that Ireland has broadly complied with the Domestic Budgetary Rule when assessed on this basis (N°62).

---

[49] For an overview of these, see Box K from the *May 2020 Fiscal Assessment Report*.

[50] In the *December 2023 Fiscal Assessment Report* (Fiscal Council, 2023b), the Council stated that 'exceptional circumstances' would no longer apply as of 2024. Furthermore, the European Commission (2023a) announced that the general escape clause would be deactivated at the end of 2023. It noted that the European economy had recovered beyond its pre-pandemic level and had navigated the acute phase of the energy price shock caused by Russia's invasion of Ukraine. However, the Commission did note that uncertainty remained high.

[51] For further information on the Council's principles-based approach, see Table 7 in the Supporting Information.

N°62 Exceptional circumstances in place from 2020 to 2023

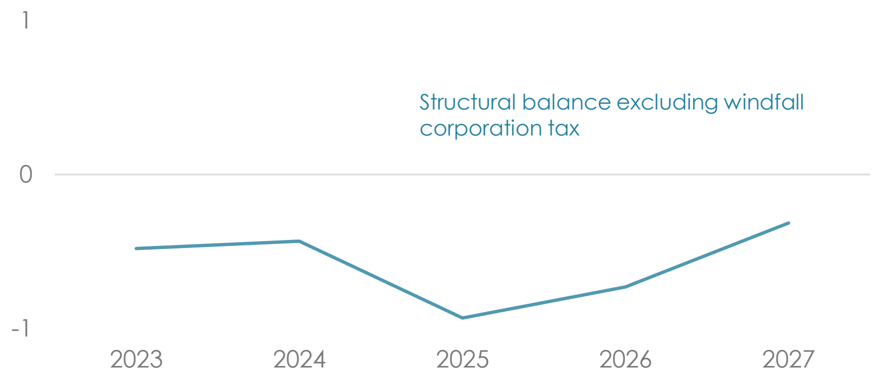
	2017	2018	2019	2020-2023
Expenditure Benchmark	Breach	Significant breach	Compliant	Exceptional circumstances
Structural Balance Rule	Compliant	Compliant	Compliant	
Overall Assessment	Compliant	Compliant	Compliant	

Source: Fiscal Council workings.
Notes: The structural balance rule requires that the structural balance be above the medium-term budgetary objective (MTO) (set at minus 0.5% of GDP for 2016-2019) or moving towards this at an adequate pace. The Expenditure Benchmark requires that the net government expenditure be below the average medium-term potential growth rate of the economy. A 'significant breach' is a breach greater than 0.5% of GNI* for the Expenditure Benchmark, or 0.5% of GDP for the structural balance rule. A 'breach' means that the limit for the corresponding rule was exceeded, but by less than 0.5% of GNI* or 0.5% of GDP. From 2024, the Expenditure Benchmark is to be replaced by a maximum growth rate of nationally financed net primary expenditure.

Windfall corporation tax revenues continue to flatter Ireland's budgetary position. The windfalls are estimated to be some €11.2 billion in 2024, contributing greatly to the projected headline surplus of €8.5 billion. When these windfall receipts are removed and when other temporary factors are considered, the structural balance is projected to be in deficit each year from 2023 to 2027. The chart below shows the structural balance with these windfalls excluded as a share of GNI*, a more appropriate measure for the Irish economy (N°63).

N°63 Structural balance in deficit when windfalls are excluded

% GNI*



Sources: Department of Finance and Fiscal Council workings.
Note: The structural balance is measured on a top-down basis using the Council's estimates of one-off items together with the Department of Finance's alternative estimates for the output gap, its GNI* forecasts, and its estimates of windfall corporation tax receipts. Get the data.

Supporting Information Section S.6 provides a full overview of compliance of the *SPU 2024* forecasts with the fiscal rules based on the Council's principles-based approach. In addition, the Council's assessment removes windfall corporation tax receipts when estimating the structural balance.

The official forecasts suggest that Ireland will comply with the structural balance requirement, the MTO, in 2024. Using the principles-based approach, the Council forecasts the structural balance to be –0.4% of GDP in 2024. This is marginally above the MTO of –0.5% of GDP. Therefore, current forecasts imply that Ireland will adhere to the Domestic Budgetary Rule in 2024.

Given Ireland is forecast to meet its structural balance target in 2024, the adjustment path condition does not apply. However, should the MTO not be achieved in 2024, the Domestic Budgetary Rule would likely be breached. Nationally financed net primary expenditure is projected to grow by 6.5% in 2024.[52] This is far in excess of the maximum growth rate set for the year of 5.3%.

In 2025, the official forecasts indicate a breach of the Domestic Budgetary Rule. The Council estimates the structural balance to be –0.6% of GDP in 2025, marginally below the MTO of –0.5% of GDP. This means the next step is to assess net primary expenditure growth. Nationally financed net primary expenditure is forecast to grow by 7.5% in 2025. This exceeds the net spending growth limit of 5.2%. This indicates that the Government is likely to breach both strands of the Domestic Budgetary Rule.

Overall, these assessments further highlight the very fast pace of net spending growth. Net spending is set to grow at an unsustainable rate in 2024 and 2025. This is reflected in net spending growing at a much faster pace than would be consistent with the Domestic Budgetary Rule.

The official forecasts are projected to comply with the Domestic Budgetary Rule in 2026 and 2027. The structural balance is forecast to achieve the MTO in each year.

However, the European Commission makes its own assessment of compliance with the EU fiscal rules. Its assessment is the legal basis for

[52] Nationally financed net primary expenditure is defined as general government expenditure excluding interest, one-offs, EU-funded spending, national spending on programmes co-funded by the EU, and temporary spending on unemployment related to the cycle. It adjusts for the net impact of tax measures; tax-raising measures would allow for larger spending increases, whereas tax cuts would reduce the scope for spending increases. Unlike the Expenditure Benchmark it replaces, it does not smooth out investment costs over a four-year period.

compliance with these rules. It finds that Ireland's structural balance complied with the MTO in 2023 and is set to comply again in 2024 (European Commission, 2024). As a result, it recommends no fiscal adjustment as being required for 2024. The Commission forecasts nationally financed net primary expenditure to grow by 6.3% in 2024 (European Commission, 2023b). However, since Ireland's structural balance achieved the MTO last year, it does not assess this spending relative to a recommended maximum growth rate.

Ireland recorded a general government surplus of 1.7% of GDP in 2023, above the 3% of GDP budget deficit limit set out in the SGP. In headline terms, the Government projects further surpluses each year until 2027. In addition, Ireland's debt-to-GDP ratio stood at 43.7% at the end of 2023. This outturn was well within the 60% limit of the SGP. The debt-to-GDP ratio is forecast to fall further in each of the next four years. However, the Council advocates using GNI* as a more appropriate benchmark for assessing Ireland's fiscal position. Ireland's debt-to-GNI* ratio stood at 76% at the end of 2023. It is expected to fall to 66% by the end of 2027.

Overall, Ireland is on track to comply with the legislated domestic and EU fiscal rules in 2024. However, the EU's fiscal framework is set to change from the end of the year (Box F). Given that the new rules will still be assessed on a GDP basis, with limited recognition of the role played by excess corporation tax receipts, Ireland will likely face little scrutiny under the new rules.

Reforms to the EU fiscal rules come into effect this year

In April, a number of revisions to the EU's fiscal rules came into force (Box F). The main objective of the reform is to ensure sound and sustainable public finances, while promoting sustainable and inclusive growth in all member states through reforms and investment (Council of the EU, 2024).

A multi-year public net expenditure path will form the operational part of the new rules. The Government will publish a five-year medium-term plan in the autumn, setting out binding net expenditure limits which begin from 2025. These annual ceilings will apply to all government spending, rather than just core spending. The plan must be endorsed by the Council of the European Union and compliance will be assessed annually by the European Commission.

Ireland appears set to face little scrutiny under the new rules. In particular, the new rules continue to be underpinned by GDP-based measures, where distortions help to achieve compliance. A more appropriate assessment on a GNI* basis and reflecting excess corporation tax would signal greater risks (Casey and Cronin, 2023). The Fiscal Council assesses that the National Spending Rule should be further developed as a ‘first line of defence’ to ensure sound management of the economy and public finances at home.

Box F: Substantial EU fiscal rule reforms come into force

In April, the Council of the European Union adopted significant reforms to the EU fiscal rules[53]. This followed extensive discussions among Member States around how best to enhance budgetary discipline and encourage greater compliance with the rules. The Fiscal Council previously published a detailed examination of what these reforms will mean for Ireland.[54] However, now that the revised rules have been finalised, we revisit their implications for Ireland.

Overview of the rules

The key objective of the new rules is to put a Member State's debt ratio on a plausibly downward path or to keep it at low levels. To achieve this, a multi-year net spending rule will form the operational part of the rules. All Member States must submit a 'medium-term fiscal-structural plan' by 20 September this year.[55] The plan will cover a four or five-year period,[56] although it can be extended by up to three years if the Member State commits to certain reforms and investments.[57]

The plan will set a maximum growth rate of nationally financed net primary spending each year.[58] This net spending limit will be binding once approved by the Council of the EU. The agreed net expenditure path will then remain unchanged for the duration of the five-year plan unless a new government assumes office (in which case the plan can, but does not have to be revised).

Every spring, countries are then required to submit Annual Progress Reports. The European Commission will use these to assess compliance with the maximum growth rate in net primary spending.[59] In doing so, the Commission will also set up a 'control account' — a way to keep track of the cumulative upward and downward deviations of actual net spending from the agreed path.

In the new framework, countries with debt ratios above 60% of GDP or deficits greater than 3% of GDP will come under much sharper focus. For these countries, the Commission will put forward a reference adjustment path for net spending that would ensure debt is put on a plausibly downward course, and the deficit is brought or kept below 3% of GDP over the medium term.[60] The Commission will issue this reference path by mid-June. These countries must then consider this reference path when designing their medium-term plans. These plans would be designed so as to cap net spending increases at a slower

[53] See press release here.
[54] Box F of the June 2023 Fiscal Assessment Report explored these proposals in greater detail.
[55] This deadline may be extended if agreed with the European Commission.
[56] The number of years covered by the medium-term fiscal structural plan should be the same as the length of the national legislature; in Ireland's case this would be five years.
[57] The criteria include whether the reform and investment commitments are: 1) growth-enhancing; 2) support fiscal sustainability; 3) in line with common EU priorities, such as the European Green Deal; 4) address relevant country-specific recommendations issued by the Commission; and 5) keep public investment at or above previous medium-term levels of investment.
[58] Nationally financed net primary expenditure is defined as general government expenditure excluding interest, one-offs, EU-funded spending, national spending on programmes co-funded by the EU, and temporary spending on unemployment related to the cycle. It adjusts for the net impact of tax measures; tax-raising measures would allow for larger spending increases, whereas tax cuts would reduce the scope for spending increases. Unlike the Expenditure Benchmark it replaces under the current guidance, it does not smooth out investment costs over a four-year period.
[59] These will replace Stability Programme Updates and National Reform Plans.
[60] The reference path would also have to be consistent with the 'debt sustainability safeguard' and the 'deficit resilience safeguard'. The 'debt sustainability safeguard' requires debt to decline on average by at least 1 pp. of GDP per year as long as debt exceeds 90% of GDP, and by at least 0.5 pp. of GDP per year as long as debt stands between 60% and 90% of GDP. The 'deficit resilience safeguard' requires an annual adjustment of at least 0.4 pp of GDP (0.25 pp. in case of extension) in structural primary terms until the structural balance is above or equal to –1.5% of GDP.

rate than would otherwise be considered sustainable, with a view to steadily reducing debt ratios over time.[61]

However, those countries with debt ratios below 60% of GDP and a deficit below 3% of GDP will be subject to less scrutiny under the new rules. These countries, such as Ireland, will not be issued with a reference adjustment path. They will, in effect, fall outside the focus of the new rules. They may request 'technical information' from the Commission on the structural primary balance necessary to keep the deficit below 3% of GDP and the debt ratio below 60% of GDP during the period covered by the plan and the subsequent 10 years afterwards, assuming no policy changes.[62] However, these countries are not under any obligation to request this information.

Ireland will continue to face little scrutiny under the EU fiscal rules

Ireland is unlikely to come under much scrutiny under the new EU fiscal rules. GDP continues to form the basis of the Commission's debt ratio assessments despite it being an inappropriate measure of the Irish economy. This is because Ireland's GDP levels are artificially inflated by distortions linked to the activities of a relatively small number of foreign-owned multinational enterprises. Ireland's debt ratio is currently below 60% of GDP and is projected to stay below this level. In addition, substantial injections of windfall corporation tax receipts continue to flatter Ireland's budget balance and, thus, its debt path, even though there are serious concerns about the reliability of these revenues.

It is not clear what action, if any, the European Commission might take if a country like Ireland breaches annual limits. If Ireland were to exceed the binding annual limits on the growth in nationally financed net primary expenditure, it may not face any sanctions so long as the debt ratio remains below 60% of GDP and the deficit below 3% of GDP.

What this means for domestic legislation?

The new EU fiscal rules may require an updating of Ireland's Fiscal Responsibility Act (2012), which transcribes the fiscal rules for Ireland. The Act has an emphasis on structural balance targets and a debt rule. It does not explicitly mention a spending rule. However, the new EU rules abolish the '1/20th Debt Rule' and move away from a structural balance target to a target for net primary spending.[63]

Therefore, the new rules present an opportunity for the Government to put its own National Spending Rule on a statutory footing. In addition, the National Spending Rule could be amended such that it captures general government spending, is linked to debt targets, and protects public investment with a minimum steady state target set as a percentage of GNI*. These changes could ensure that the National Spending Rule becomes a cornerstone of fiscal policy — one better tailored to Ireland's domestic conditions and not subject to the distortions that come from more one-size-fits-all approaches that depend on GDP and harmonised estimates of potential output.

---

[61] In this instance, sustainable means in line with usual — or "potential" — economic growth, and, by extension, revenue growth.

[62] This 'technical information' would also ensure the so-called 'deficit resilience safeguard' is fulfilled. In other words, the structural primary balance would be consistent with a structural budget deficit at or below 1.5% of GDP, even after the headline budget deficit is below 3% of GDP.

[63] If the debt-to-GDP ratio was above 60% of GDP, the '1/20th Debt Rule' required that the ratio fell by, on average, one-twentieth of the excess between the actual debt-to-GDP ratio and 60% of GDP. However, this rule has been abandoned under the new EU fiscal rules.