

Forthcoming revisions to Medium Term Budgetary Objective

Ireland is subject to the requirements of the preventive arm (regulation 1466/97) of the Stability and Growth Pact from this year. The over-arching requirement of the preventive arm is for a Member State to be at, or on the adjustment path, towards its medium term (budgetary) objective (MTO).

MTOs are country-specific, are set in structural terms, and take into account the need to ensure long-term sustainability of the public finances. Ireland's current MTO is for a balanced budget in structural terms.

Regulation 1466/97 provides (article 2a) for an update of the country-specific MTOs every three years. In terms of process, the European Commission is tasked with producing minimum MTOs for each Member State, and Member States then set their country-specific MTOs (respecting the Commission 'minimum'). The regulation further provides (article 3.2(a)) that Member States outline their MTOs in the annual Stability Programme Updates that are submitted to the Commission each April.

The Commission is currently updating the minimum MTOs in line with the three-year cycle. These numbers will be discussed at a technical level with the Member States at the end of January and, subsequently, with the Economic and Financial Committee in early February. Given the decline in the Irish debt ratio, and other factors, it is likely that the minimum MTO proposed by the Commission for Ireland might be slightly less stringent than was previously the case; officials in the Department of Finance have estimated that a structural deficit of -0.5 per cent of GDP (rather than the current 0.0 per cent of GDP) is more likely, but this is subject to the outcome of the technical discussions.

It will be for the next Government to set out the new MTO (which will cover the 2017-2019 budgetary cycles) in the Stability Programme. While there are many moving parts, a decision to adopt a less stringent MTO would add an estimated €1 – 1½ billion to the indicative fiscal space over the period 2017-2021 set out in tables A8 and A9 in the annex to the budgetary documentation. In terms of timeframe, any increase in fiscal space arising from a less stringent MTO would occur in the year following achievement of the MTO.