



Economic Governance post-Troika - Implications for Ireland

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Sea-change in economic governance since the onset of the crisis

- Crisis exposed serious design flaws in the monetary union
 - centralised monetary policy / decentralised fiscal policy
 - ‘free-rider’ problem / spill-over effects
 - implementation gaps
- Key policy response = retrofitting EMU with appropriate tools
- Enhanced governance = European Semester
 - (1) better co-ordination
 - (2) strict application of fiscal rules
 - (3) widening the scope of surveillance
 - (4) addressing implementation deficits
- What does this mean for economic and budgetary policy in Ireland?

(1) Better co-ordination of policies

- Co-ordination of MS budgetary and economic policies
 - synchronised timetables for fiscal and economic policies
 - MS internalise the EU impact of domestic policies
- Semester agreed in 2010, first implemented in 2011
 - Ireland exempt...until this year
 - common budgetary timeline for euro area MS is a key element (2-pack)
- Implications for IE:
 - April: Stability Programme Update (DoF) / National Reform Plan (DoT)
 - June : Council endorses tailored advice for MS (=CSRs)
 - October: Draft Budgetary Plan (DoF)

(2) Strict application of fiscal rules

- Strengthened Stability and Growth Pact
- SGP encompasses rules for the fiscal deficit, expenditure and debt
 - objective = ensure budgetary discipline in MS
 - two regulations / arms
- preventive arm (art. 121 – economic policies of common concern)
 - concept of MTO = balanced budget over the economic cycle
 - anchor = set in structural terms to allow operation of automatic stabilisers
 - MS at or on adjustment path towards MTO
 - stability programme must show how MTO is achieved / path
- corrective arm (art. 126 – avoid excessive deficits)
 - MS required to bring deficit below 3% of GDP in timely manner
 - MS required to rapidly bring debt ratio to 60% of GDP (1/20th rule)
- “Fiscal Compact” (all MS except UK and CZ)
 - to increase national ownership



Implications of fiscal rules for Ireland

Corrective arm of the Pact (2009-2015)

- need to correct the excessive deficit by 2015

Preventive arm of the Pact (2016-)

- requirements of preventive arm apply from 2016 onwards
- need to make 'rapid progress' towards our MTO
 - for Ireland we will have to achieve MTO by 2018 ('fiscal compact')
- structural primary surplus needed over medium term
 - should be sufficient to comply with debt-correction rule (1/20th rule)
- expenditure rule
 - capping expenditure (net of discretionary measures) below avg. potential growth

Institutional reforms (two-pack and EU / IMF programme)

- IFAC will have important role

(3) Widening the scope of surveillance

- **Economic imbalances also matter**
 - greater inter-dependencies between MS
 - macroeconomic imbalances procedure
 - : preventive arm (monitoring)
 - : corrective arm (EIP)
 - purpose = detect, prevent and correct macroeconomic imbalances
- **Monitoring: annual alert mechanism report (November)**
 - scoreboard of 11 key indicators
 - : internal (credit growth, debt) and external imbalances (BoP)
 - : thresholds for each variable
- **In-depth reviews (IDR)**
 - analytical base for dialogue between MS and Comm re. policies

Implications for Ireland

Indicator	Threshold %	2012 %	2008 %
Competitiveness			
% change (5 years) in Export Market Shares	-6%	-16.3%	-21.2%
% change (3 years) in Nominal ULC	+12%	-10.4%	+6.1%
% change (3 years) in REER	+/-5%	-12.2%	7.3%
External imbalances			
3 year average of Current Account balance as % of GDP	-4/+6%	2.3%	-4.8%
Net International Investment Position as % of GDP	-35%	-112%	-76%
Internal imbalances			
% y-o-y change in Deflated House Prices	+6%	-11.7%	-8.4%
Private Sector Credit Flow % of GDP (consolidated)	14%	-1.6%	19.9%
Private Sector Debt as % GDP (consolidated*)	133%	306.4%	257%
% y-o-y change in Total Financial Sector Liabilities	16.5%	-0.7%	6.5%
General Government Debt as % of GDP	60%	117.4%	44%
3 year average of Unemployment Rate	10%	14.4%	5.2%

Source: European Commission

Note: Red shading indicates indicator value in excess of threshold 'flashing'.

* On a consolidated basis excluding intra-sector liabilities such as inter-company loans

(4) Addressing implementation deficits

- **Weak implementation of SGP in first decade of EMU**
 - reform of the Pact in 2004 / 2005
 - further reform in 2011 (the '6-pack')
 - and in 2013 (the '2-pack')
- **Reinforce compliance / enforcement mechanisms**
- **Introduced financial sanctions for non-compliance**
 - 'sanctions regulation' (part of '6-pack')
 - sanctions in both preventive and corrective arms
 - : earlier stage / progressive basis
 - quasi-automatic (rQMV)
- **Financial sanctions in MIP also**
- **Enhanced credibility**



In summary.....

In-Depth Review

- March – imbalances exist and policies must be cognisant of this

Stability Programme Update

- published in mid-April
- assessed in May / June
- CSRs – fiscal and structural (NRP)

Draft Budgetary Plans

- published in mid-October
- assessed by Eurogroup in November