Observations on the 2014 Country Specific Recommendations to Ireland - European Commission / IIEA seminar on CSRs

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10 June 2014

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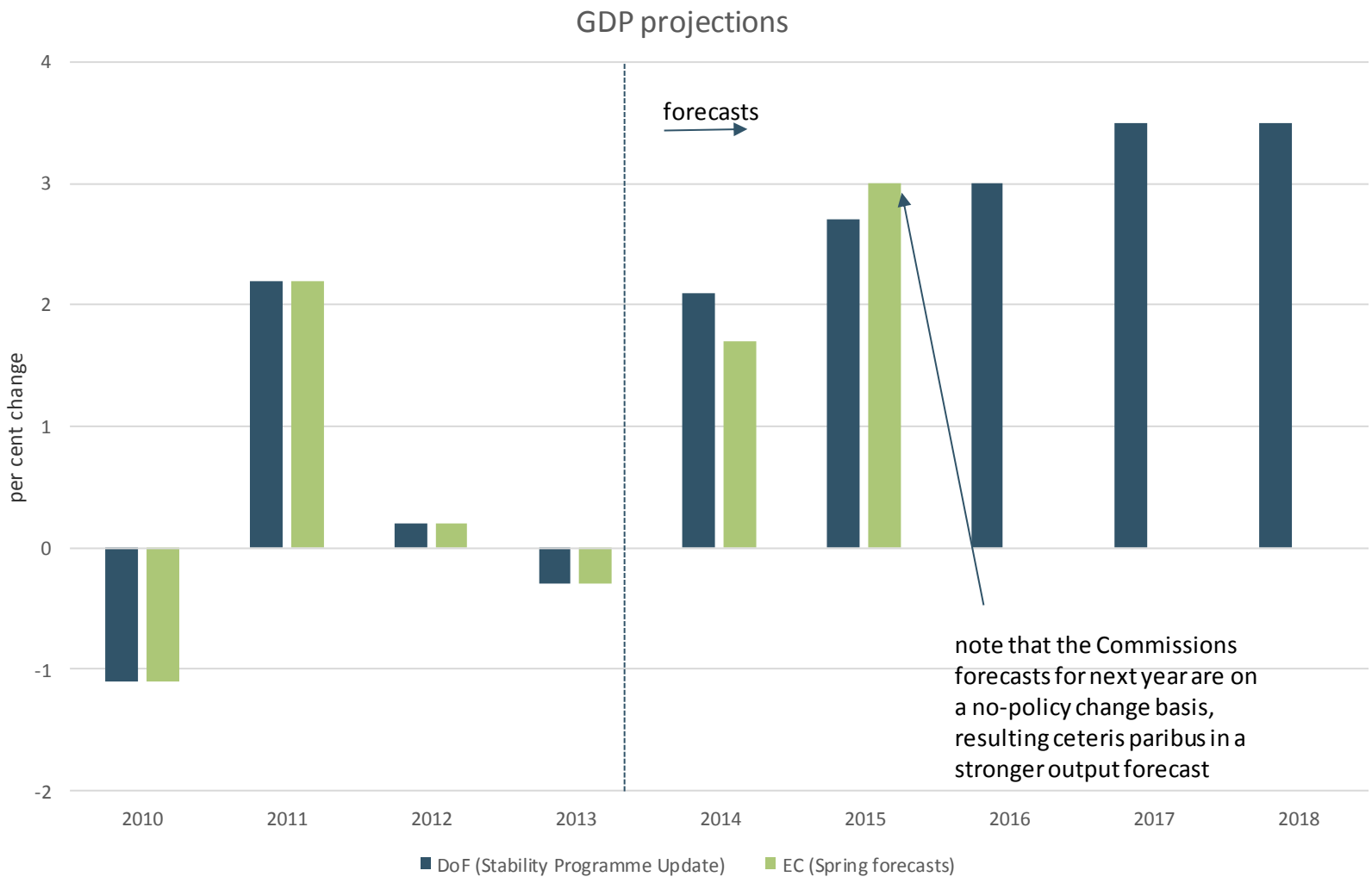
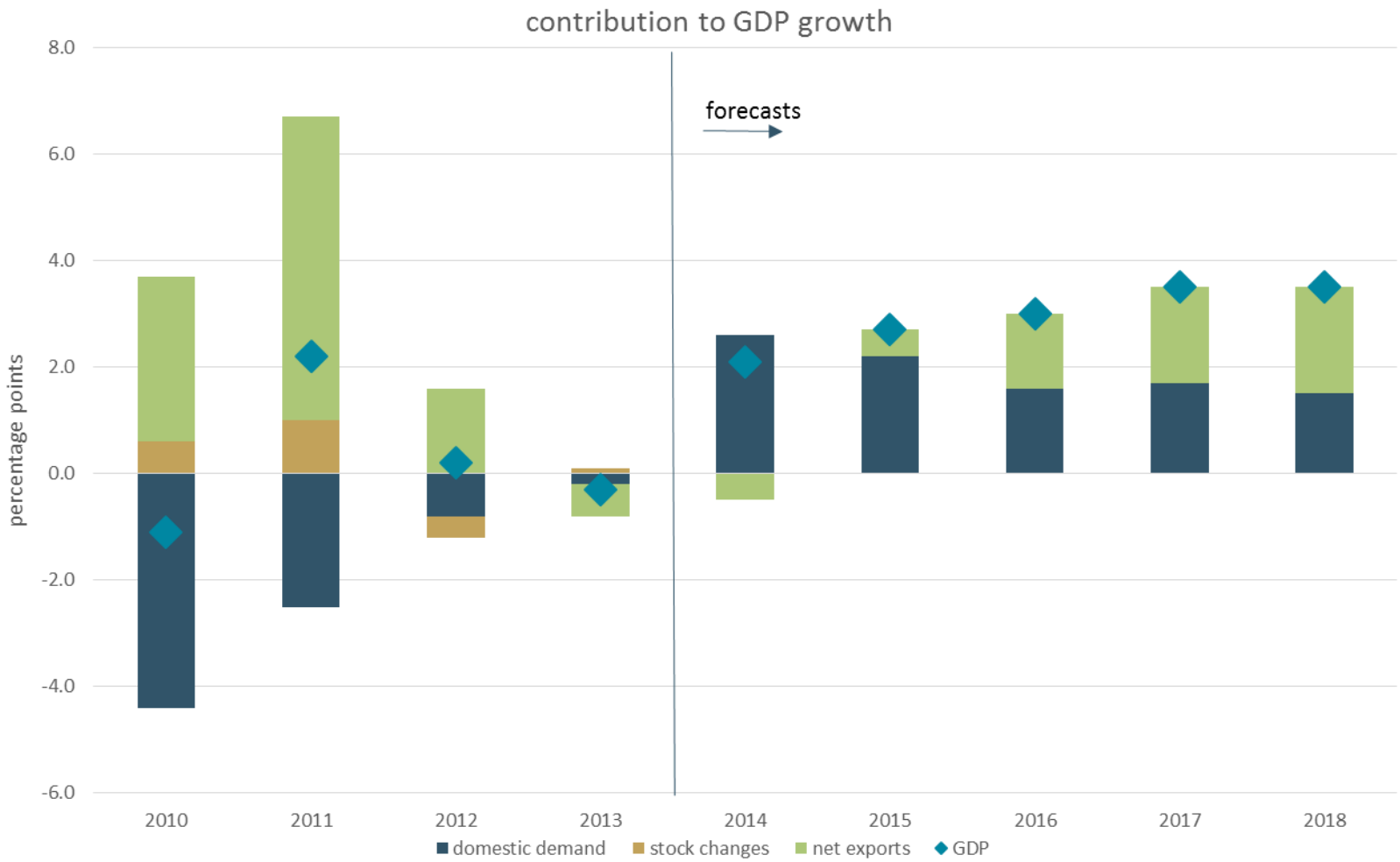
Macro-economic backdrop



Rotation of demand underway: policy implementation vital to unlock domestic demand



Key challenge = safeguarding recovery (as set out in MTES)

- Ensuring fiscal sustainability
  - compliance with fiscal rules
  - putting the debt ratio on downward path

- Financial sector reform
  - addressing high levels of private indebtedness
    : including resolution of NPLs
  - ensuring access to credit
    : especially for SMEs

- Boosting the potential growth rate of the economy
  - product market reforms (especially the sheltered sectors)
  - factor market reforms

Country Specific Recommendations

- Fiscal recommendations
  - correct excessive deficit and converge towards MTO
  - reforms to budgetary architecture
  - microeconomic aspects
- Financial sector recommendations
  - accelerate the pace of debt resolution
  - improve access to credit for SMEs
- Supply-side recommendations
  - foster greater competition in product markets, esp. legal services
  - improve functioning of labour market (ALMPs, participation)

Macro-fiscal recommendations

Corrective arm of SGP (2009-2015)

- Correct the excessive deficit by 2015
  - in line with Council recommendations of December 2010
  - appropriate timeframe given growth / consolidation trade-off
  - SPU confirms a timely correction

Preventive arm of SGP (2016-)

- Pursue adjustment towards MTO
  - balanced budget rule
    - : set in structural terms to avoid pro-cyclicality
    - : strong theoretical underpinnings
  - serious measurement / methodological issues
    - : uncertainty re. real-time estimates of economic cycle
    - : work ongoing to refine methodology

Conclusions

- First formal participation in European Semester
- Given macro challenges, most (not all) CSRs broadly reasonable
  - legacy of the EU / IMF programme
  - appropriate level of specificity
- Main areas of disagreement:
  - our expenditure ceilings are already binding
  - dispute need to specify *ex ante* specific consolidation instruments
  - theory vs. practice re. operationalising the balanced budget rule
- Next steps
  - discussion at various committees and Council formations
  - sign-off by European Council at end-June
  - Draft Budgetary Plan to be submitted to Commission in mid-October
  - process begins again next November!