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Meeting with the
Select Committee on Budgetary Oversight (Parliament of Ireland)

Dublin, 6 December 2016

Speaking Note

Thank you very much. It is an honour to have been invited to appear before this committee.

I have learned that the recent reform of the budgetary process in Ireland gives the Parliament a more prominent role in the formation and scrutiny of budgetary proposals. I believe that this is an important development which could enhance transparency and ownership of the fiscal framework.

Autumn Package

This is also an interesting moment to be here. Three weeks ago the Commission presented the **Autumn Package,** the EU's economic and social priorities for the year ahead. The package starts the 2017 cycle of economic governance, the so-called European Semester, and builds on the Commission 2016 autumn forecast. It also assesses the euro area Member States' Draft Budgetary Plans for 2017.

In the **2017 Annual Growth Survey (AGS),** the Commission calls on the Member States to redouble their efforts along the virtuous triangle of economic policy: re-launching investment, pursuing structural reforms and ensuring responsible fiscal policies. Emphasis is placed on social fairness as a way to stimulate more inclusive growth, as well as on the need to strengthen competitiveness, innovation and productivity.

Europe is experiencing a fragile but relatively resilient and job-intensive recovery. Its GDP is now higher than before the crisis. Unemployment is decreasing and investment is growing again. However, there is no room for complacency. Some of the tailwinds that have supported the recovery so far are fading. The legacies of the crisis, notably the social impact, high levels of public and private debt, and the share of non-performing loans, are still far-reaching.

The policy guidance in the Annual Growth Survey is accompanied by a **Communication on the euro area's fiscal stance**. Against the background of a resilient but subdued economic recovery, the Commission is calling for a moderately expansionary fiscal stance for the euro area. Based on estimates from the Commission services, a fiscal expansion of up to 0.5% of GDP at the level of the euro area as a whole is desirable for 2017 in the present circumstances.

This is more expansionary than the intentions of the Member States, as expressed in the draft budgets, and what the latest Commission forecast points to. This is also more than what a full delivery of the fiscal requirements contained in the Country-Specific Recommendations adopted by the Council in July 2016 would imply on aggregate, without taking account of the flexibility which exists within the rules.

Let me clarify what the Commission means by “a positive fiscal stance”: It refers both to the supportive, i.e. expansionary, direction that fiscal policy should take overall, and to the quality of the composition of the adjustment, in terms of repartition of efforts across countries and of the types of expenditure and/or tax cuts behind it.

The findings of this Communication are reflected in the fiscal aspects of the **Recommendations on the economic policy of the euro area** that are also part of the autumn package.

The **Alert Mechanism Report (AMR)** is also an integral tool of the European Semester, which aims to prevent or address imbalances that hinder the smooth functioning of Member States' economies, of the euro area or of the EU as a whole, and to prompt the right policy responses (so-called Macroeconomic Imbalances Procedure).

Based on the analysis in the AMR, the Commission has concluded that in this European Semester cycle 13 countries will be covered by an **In-Depth Review** because imbalances were identified in the analysis emerging from this reading of the scoreboard.

In the previous European Semester cycle, **imbalances** were identified in relation to the financial sector, private and public sector debt, and high external liabilities. The current Alert Mechanism Report highlights similar issues. Therefore, it would be useful to examine further the persistence of imbalances or their unwinding. At the same time, the reading of the scoreboard has been somewhat complicated by the activities of some multinationals with limited implications for the domestic economy. The

Commission will present the conclusions of the in-depth reviews as part of its annual Country Reports in early 2017.

Autumn Forecast

The main findings of the **Commission 2016 autumn forecast** are**:**

- Irish GDP growth surged in 2015, driven by the operations of some multinationals, with little impact on the domestic economy. But underlying economic activity also grew strongly, by 4 to 5 %.
- Domestic demand is projected to expand at robust rates, although risks have heightened, also due to the UK referendum.
- Employment growth and the continued recovery of wages are forecast to support private consumption over the forecast horizon. The unemployment rate is expected to fall to 7.6 % in 2018, thanks to continued job creation and despite sizeable population growth.
- The contribution of net exports to GDP growth is forecast to be negative in 2016 but to recover thereafter, in line with global trade.
- The structural deficit is expected to remain broadly stable in 2016, and to improve gradually by 2018.
- The debt-to-GDP ratio is projected to decline to 71.9 % in 2018, contingent on robust GDP growth and primary budget surpluses of more than 1½ % of GDP per year in 2016 and 2017.

Draft Budgetary Plan 2017

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Ireland, which is currently under the preventive arm and subject to the transitional debt rule, is **broadly compliant** with the provisions of the SGP.

At the same time, the government's decision to use a large part of volatile, and therefore still uncertain, corporate tax intakes to allocate additional expenditure in 2016 is not in line with Council recommendations in the context of the European Semester which ask Ireland to use windfall gains from better-than-expected economic and financial conditions to accelerate the deficit and debt reduction.

In line with the Commission Communication 'Towards a positive fiscal stance for the euro area', the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2017 budget will be compliant with the SGP.