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COVER NOTE

From: Joe Cullen, Financial Counsellor, Permanent Representation of Ireland to the EU

date of receipt: 15 October 2014

To: Mr Carsten PILLATH, Director General, Council of the European Union

Subject: Ireland:
Draft Budgetary Plan of Ireland for 2015, as laid down in Article 6(1) of Reg. (EU) 473/2013 on Common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area

Delegations will find attached Ireland's Draft Budgetary Plan for 2015.

This document is aimed for discussion in the **Eurogroup**.



Mr Carsten Pillath
Director-General
Economic Affairs and Competitiveness
General Secretariat of the Council of the European Union
Rue de la Loi 175
1048 Brussels

15 October 2014

Dear Mr Pillath,

In accordance with Regulation (EU) 473/2013 of the European Parliament and of the Council, please find enclosed a copy of Ireland's Draft Budgetary Plan for 2015.

Yours sincerely,

Joe Cullen
Financial Counsellor

SECRETARIAT GÉNÉRAL DU CONSEIL DE L'UNION EUROPÉENNE	
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IRELAND'S DRAFT BUDGETARY PLAN

October 2014



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IRELAND | Draft Budgetary Plan October 2014

Introduction

Regulation (EU) 473/2013 of the European Parliament and of the Council (part of the so-called 'two-pack') introduces a common budgetary timeline for euro area Member States. Specifically, the regulation requires the submission of Draft Budgetary Plans for the forthcoming year to the European Commission and to the *Eurogroup* by the 15th October each year.

The document herein is being submitted to the European Commission and *Eurogroup* in accordance with the regulation. This is the first time Ireland has submitted a Draft Budgetary Plan, having exited the joint EU/IMF programme last December (Member States subject to a programme are exempt from the process).

This Draft Budgetary Plan will also be laid before the Houses of the Oireachtas. It is based on the 2015 Budget presented to Dáil Éireann on 14th October.

The format and content of the document are in line with the requirements of the Code of Conduct, which *inter alia* requires macroeconomic and budgetary forecasts for the current and forthcoming years (in this case 2014 and 2015). The no-policy change macroeconomic forecasts for this year and next have been endorsed by the Irish Fiscal Advisory Council, as required under article 4(4) of the regulation.

The analysis and forecasts contained in this document are based on data to early October. All data presented herein is on an ESA 2010 statistical basis.

Summary

Economic governance in the EU has been enhanced in response to the crisis. Among the improvements has been the introduction of a coordinated surveillance exercise each Autumn for euro area Member States. Specifically, euro area Member States not subject to a financial assistance programme must submit Draft Budgetary Plans to the European Commission and to the *Eurogroup*. The rationale is essentially twofold: firstly, to ensure that the recommendations of the Commission and the *Eurogroup* are taken into account in the budgetary process of the Member States and secondly, to facilitate better policy coordination in the euro area.

In terms of process, the Commission will issue an opinion on each Member State's Draft Budgetary Plan and this will be discussed by the *Eurogroup*. According to article 7(5) of regulation 473/2013, the *Eurogroup* will also discuss the budgetary situation in the euro area as a whole.

Economic recovery in Ireland has gained momentum in recent months and evidence is mounting that domestic demand has passed a turning point. Following an estimated increase of 4.7 per cent this year, GDP is projected to expand by 3.9 per cent next year.

The improved economic performance is also evident in the public finances. A general government deficit of 3.7 per cent is expected this year. A deficit of 2.7 per cent is projected for next year, thereby bringing the deficit below the 3 per cent of GDP threshold, as set out in the Council recommendation to Ireland in December 2010. Importantly, the public debt-to-GDP ratio is now on a firm downward trajectory.

Section 1

Economic Developments and Outlook

Incoming data show a strong rebound in economic activity in Ireland. Initially led by the exporting sectors, recovery is now broadening with the domestic components of demand making a positive contribution. For 2014, GDP is projected to increase by 4.7 per cent, which would be the strongest pace of expansion since the crisis began.

The short-term outlook is reasonably positive. Continued trading partner growth (especially in the UK and US, less so in the euro area) should underpin a further expansion of exports next year; the improvement in competitiveness that has been evident should also help. Double-digit investment growth is expected as firms rebuild productive capacity after a prolonged period of underinvestment and as construction activity rises also. Improved disposable income should support an increase in household spending. Against this general background, GDP is projected to increase by 3.9 per cent next year.

The labour market continues to benefit from economic recovery. The level of employment is nearly 4 per cent higher than at its low-point in early 2012, and additional employment gains are anticipated over the second half of this year and into next year. While still too high, the rate of unemployment has been on a consistent downward trajectory for the past two and a half years, and it is anticipated that this trend will continue next year.

The rate of inflation remains relatively low, supporting disposable incomes and competitiveness. A modest pick-up to around 1 per cent is expected next year.

Table 1: Basic assumptions

<i>% change (unless stated)</i>	2013	2014	2015
External GDP Growth			
Euro Area	-0.4	0.8	1.1
United States	2.2	2.1	3.1
United Kingdom	1.8	3.1	2.8
World excluding EU	3.6	3.9	4.2
World imports excluding EU	3.1	4.8	6.0
Technical Assumptions			
Euro-Sterling Exchange Rate	0.85	0.81	0.79
Euro-Dollar Exchange Rate	1.33	1.34	1.29
Brent Crude (US \$ per barrel)	109	106	103
Nominal effective exchange rate (NEER, 1999Q1=100)	107.43	108.19	106.04

Source: OECD Interim Economic Assessment September 2014 and European Commission Spring 2014 forecasts.

Exchange rates and oil prices (futures) calculated on the basis of a ten-day average to mid-Sept; unchanged thereafter. NEER is held constant at its level in September.

Table 2(a): Macroeconomic prospects

	2013*	2013	2014	2015
	€m	percent change		
1. Real GDP	173,050	0.2	4.7	3.9
1.1 due to the estimated impact of budgetary measures		-	-	0.3
2. Potential GDP	179,300	1.2	2.1	2.7
Contributions (percentage points):				
<i>labour</i>		0.4	0.7	1.1
<i>capital</i>		0.2	0.5	0.7
<i>tfp</i>		0.6	0.9	1.0
3. Nominal GDP	174,800	1.2	5.2	5.3
Components of Real GDP				
4. Private final consumption expenditure	83,350	-0.8	1.7	2.7
5. Government final consumption expenditure	25,950	1.4	4.8	2.3
6. Gross fixed capital formation	26,550	-2.4	14.6	12.7
7. Stock changes (% of GDP)	850	0.5	0.4	0.2
8. Exports	184,050	1.1	8.3	4.8
9. Imports	147,700	0.6	8.8	5.3
Contributions to real GDP growth				
		annual pp contribution		
10. Domestic demand		-0.6	3.6	3.6
11. Stock changes		0.3	-0.1	-0.2
12. External balance of goods and services		0.6	1.3	0.5

Source: 2013 CSO; 2014-2015 Department of Finance forecasts.

Rounding may affect totals.

*rounded to nearest €25m. GDP figures are presented in constant prices, for components of GDP figures are presented in current prices.

Table 2(b): Price developments

% change	2013	2014	2015
GDP deflator	1.0	0.4	1.3
Private consumption deflator	1.9	1.0	1.2
Harmonised index of consumer prices (HICP)	0.5	0.5	1.1
Investment deflator	1.0	1.5	1.2
Export price deflator	-0.3	0.3	1.3
Import price deflator	-0.2	0.4	1.3

Source: 2013 CSO; 2014-2015 Department of Finance forecasts.

Table 2(c): Labour market developments

	2013 level (‘000)	2013	2014	2015
			<i>% change</i>	
Employment	1,881	2.4	1.8	2.4
Unemployment rate (% of labour force)	282.6	13.1	11.4	10.2
Labour productivity (persons)*		-2.1	2.8	1.4
Compensation of employees (€bn)	71.9	3.4	3.7	4.9
Compensation per employee (€000)	46.9	2.4	1.8	2.4

Source: 2013 CSO; 2014-2015 Department of Finance forecasts.

*GDP per person employed. Compensation data refer to employment in the non-agricultural sector.

Table 2(d): Sectoral balances

% GDP	2013	2014	2015
1. Net lending/net borrowing vis-à-vis the rest of the world (% of GDP)	4.4	4.9	4.4
<i>of which:</i>			
-Balance on goods and services	20.8	21.7	21.4
-Balance of primary incomes and transfers	-16.4	-16.8	-17.0
-Capital account	0.0	0.0	0.0
2. Net lending/net borrowing of the private sector	10.1	8.6	7.1
3. Net lending/net borrowing of general government	-5.7	-3.7	-2.7
4. Statistical discrepancy	1.0	1.0	0.9

Source: 2013 CSO; 2014-2015 Department of Finance forecasts

Section 2

Budgetary Developments and Outlook

Tax revenue in 2014 has performed better than anticipated while, in aggregate terms, expenditure has been broadly in line with original expectations. There have also been statistical revisions arising from the introduction of ESA 2010 which have positively impacted the calculation of the deficit. A general government deficit of 3.7 per cent of GDP is now forecast for 2014. Excluding interest payments on the national debt, a primary surplus of 0.3 per cent of GDP is projected, which represents a debt reducing primary surplus. This is an important step in underpinning long term debt sustainability.

General government revenue is expected to grow from €63,840 million to €65,155 million in 2015, while general government expenditure is forecast to fall from €70,725 million to €70,465 million. Taking account of discretionary measures, a deficit of 2.7 per cent of GDP is projected for next year, which is comfortably inside the EDP target of 2.9 per cent of GDP.

The very difficult economic situation in Ireland has been associated with a large increase in public debt. However, the gross general government debt to GDP ratio has now peaked and is on a firm downward trajectory. The estimated outturn for this year is a debt ratio of 111 per cent of GDP, declining to a projected 109 per cent of GDP next year. Net public indebtedness – which excludes accumulated cash and other assets – is, of course, much lower than the gross figure at just below 91 per cent of GDP this year.

In terms of the structural deficit, the usual caveats apply to measures of this budgetary aggregate in Ireland.

Table 3(a): General government budgetary targets broken down by subsector

% of GDP	ESA Code	2013	2014	2015
1. General government	S.13	-5.7	-3.7	-2.7
p.m.: Underlying balance		-5.7	-3.7	-2.7
2. Central government	S.1311	-5.7	-3.7	-2.7
4. Local government	S.1313	0.0	0.0	0.0
5. Social security funds	S.1314	0.0	0.0	0.0
6. Interest expenditure	D.41	4.4	4.1	3.8
7. Primary balance		-1.3	0.3	1.1
8. One-off and other temporary measures		0.0	0.7	0.1
9. Real GDP growth		0.2	4.7	3.9
10. Potential GDP growth		1.2	2.1	2.7
11. Output gap (% of potential GDP)		-2.6	-0.1	1.0
12. Cyclical budgetary component (% of potential GDP)		-1.3	-0.1	0.5
13. Cyclically-adjusted balance		-4.4	-3.7	-3.3
14. Cyclically-adjusted primary balance	TR	0.0	0.4	0.5
15. Structural balance		-4.4	-4.4	-3.4

Source: 2013 CSO; 2014-2015 Department of Finance forecasts.

Box 1: The Excessive Deficit Procedure in Ireland

In April 2009, the Council adopted a decision under art. 126(6) of the Treaty that, for the first time, an excessive deficit existed in Ireland and adopted recommendations under art. 126(7) that Ireland correct its excessive deficit by 2013. In December 2010, as part of the joint EU - IMF programme of financial assistance, the Council adopted revised recommendations to Ireland and extended the deadline to 2015 for correction of the excessive deficit.

The December 2010 recommendations included annual ceilings for the headline deficit in order to ensure correction of the excessive deficit in a timely manner. The headline balance has been inside the ceiling each year since the recommendations were adopted by the Council. The Budget for next year is based on the assumption of a general government deficit of 2.7 per cent of GDP, consistent with the correction of the excessive deficit in the time horizon set by the Council.

Table 3(b): General government debt developments

% of GDP	2013	2014	2015
1. Gross debt	123.3	110.5	108.5
2. Change in gross debt	11.9	-12.8	-2.0
Contributions to change in gross debt ratio			
3. Primary balance	-1.4	0.3	1.1
4. Interest expenditure	D.41 -4.4	-4.1	-3.8
5. Stock-flow adjustment	7.4	-10.5	0.8
Composition of stock-flow adjustment			
- Change in cash	-0.1	-4.1	-0.2
- Differences between cash and accruals ^b	0.0	0.0	-0.1
- Net accumulation of financial assets ^c	-0.2	0.1	-0.1
<i>of which:</i>			
- Privatisation proceeds	0.7	0.0	0.0
- Valuation effects and other ^d	0.0	0.0	0.0
Other relevant variables			
Liquid financial assets	19.6	14.8	13.8
Net financial debt	103.7	95.8	94.7

Source: Department of Finance

Notes:

(a) As defined in Regulation (EC) No 479/2009.

(b) The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(c) Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(d) Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

(e) Proxied by interest expenditure divided by the debt level of the previous year.

(f) Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), A.F511, A.F52 (only if quoted in stock exchange).

Table 3(c): Contingent liabilities

<i>% of GDP</i>	2013	2014
Public guarantees	66.9	32.1
<i>of which linked to the financial sector</i>		
Eligible Liabilities Guarantee	42.1	11.5
Exceptional Liquidity Assistance	9.3	-
National Asset Management Agency	14.7	19.8
other	0.8	0.8

Source: Department of Finance

Table 4: Expenditure and revenue projections on a no-policy change basis

<i>% of GDP</i>	ESA Code	2014	2015
1. Total revenue at unchanged policies	TR	34.7	33.8
<i>of which:</i>			
1.1. Taxes on production and imports	D.2	11.0	11.0
1.2. Current taxes on income, wealth, etc	D.5	13.7	13.4
1.3. Capital taxes	D.91	0.3	0.2
1.4. Social contributions	D.61	5.7	5.5
1.5. Property income	D.4	1.6	1.2
1.6. Other		2.5	2.5
p.m.: Tax burden		30.9	30.5
2. Total expenditure at unchanged policies	TE ³	38.5	36.3
<i>of which:</i>			
2.1. Compensation of employees	D.1	10.2	9.6
2.2. Intermediate consumption	P.2	4.8	4.3
2.3. Social payments	D.62	15.4	14.4
of which unemployment benefits		2.0	1.7
2.4. Interest expenditure	D.41	4.1	3.8
2.5. Subsidies	D.3	0.9	0.9
2.6. Gross fixed capital formation	P.51g	1.6	1.4
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other		1.2	1.4

Source: Department of Finance forecasts.

Table 5(a): Expenditure and revenue targets, broken down by main components

% of GDP	ESA Code	2014	2015
1. Total revenue target	TR	34.7	33.7
of which:			
1.1. Taxes on production and imports	D.2	11.0	11.1
1.2. Current taxes on income, wealth, etc.	D.5	13.7	13.1
1.3. Capital taxes	D.91	0.3	0.3
1.4. Social contributions	D.61	5.7	5.5
1.5. Property income	D.4	1.6	1.3
1.6. Other		2.5	2.4
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		30.9	30.2
2. Total expenditure target	TE ³	38.5	36.4
of which:			
2.1. Compensation of employees	D.1	10.2	9.5
2.2. Intermediate consumption	P.2	4.8	4.5
2.3. Social payments	D.62, D.632	15.4	14.5
of which: unemployment benefits		2.0	1.7
2.4. Interest expenditure	D.41	4.1	3.8
2.5. Subsidies	D.3	0.9	0.9
2.6. Gross fixed capital formation	P.51g	1.6	1.4
2.7. Capital transfers	D.9	0.5	0.5
2.8. Other		1.2	1.4

Source: Department of Finance forecasts

Table 5(b): Amounts to be excluded from the expenditure benchmark

	2013	2013	2014	2015
	€bn		% of GDP	
1. Expenditure on EU programmes fully matched by EU funds revenue	0.3	0.2	0.2	0.2
2. Cyclical unemployment benefit expenditure*	0.2	0.1	0.0	-0.1
3. Effect of discretionary revenue measures**	1.3	0.8	0.7	-0.4
4. Revenue increases mandated by law	n.a.	n.a.	n.a.	n.a.

*The cyclical component of unemployment benefit expenditure is derived by applying a projected cost per person employed to an estimate of the unemployment gap (i.e. difference between the actual and structural unemployment rates). The latter is the estimated NAWRU consistent with the harmonised EU methodology.

**This captures the multi-annual impact of all discretionary revenue measures enacted in all budget announcements to date (not just those in excess of 0.05% GDP)

Table 5(c) Discretionary measures taken by General Government*

Measures	Detailed description	Target ESA Code	Accounting principle	Adoption Status	Budgetary Impact (% GDP)		
					2014	2015	2016
Revenue Measures							
Personal income tax	Increase in standard rate income tax bands by €1,000 for single individuals/married one-earners and €2,000 for married two earners	D.51	Cash	Legislation pending		-0.1%	-0.0%
	Reduction in higher rate of income tax by 1pp from 41% to 40%		Cash	Legislation pending		-0.1%	-0.0%
	Changes to Universal Social Charge		Cash	Legislation pending		-0.1%	-0.0%
VAT change	VAT - 2015 place of supply changes	D.2r	Cash	Legislation pending		0.1%	0.0%
Corporation tax	R&D tax credit, CT relief	D.5r	Cash	Legislation pending		-0.1%	0.0%
Other positive measures	Increase in excise on tobacco	D.2r	Cash	Legislation pending		0.0%	0.0%
Other negative measures	VRT, CGT, DIRT, CAT	D.2r, D.5r	Cash	Legislation pending		0.0%	0.0%
Special dividends	Arising from sale of state assets		Cash	Complete		0.1%	-0.1%
Expenditure Measures							
Social protection	Measures to aid return to work and assist families	D.62, D.632	Cash	Legislation pending		-0.1%	0.0%
Capital expenditure	Social housing provision		Cash	Legislation pending		-0.1%	0.0%
Service Expansion	Recruitment of additional staff in Justice and Education.	D.1.U	Cash	Legislation pending		-0.1%	0.0%
Other expenditure measures	Additional resources across multiple sectors		Cash	Legislation pending		0.0%	0.0%
Total Measures						-0.4%	-0.2%

*In line with the code of conduct, the table reports measures in excess of 0.05 per cent of GDP. Taxation measures above will be legislated for in the Finance Act 2014, the Social Protection measures, where required, will be legislated for in the Social Welfare Act 2014 and the expenditures measures will be legislated for in the Revised Estimates Volume. All measures listed relate to Central Government.

Note: The above discretionary measures reflect policy changes made in Budget 2015 and drive the difference between the no-policy change general government balance and the Budget estimates. The sum total does not equal those reported in Table 5b as discretionary measures legislated for in previous years, for example, the pension levy, are reflected in both the no-policy change and Budget forecasts.

Section 3

Comparison with April 2014 Stability Programme

Table 6 below compares the projection for the general government balance in the Draft Budgetary Plan with that at the time of the April 2014 Update of Ireland's Stability Programme.

The fiscal performance and outlook is better than envisaged when the Stability Programme was submitted to the European Commission in April. The incorporation of ESA 2010 has raised the level of GDP with a favourable impact on the deficit ratio for each year. In addition, the economic position has improved with GDP now projected to increase by 4.7 per cent this year and 3.9 per cent next year (relative to projections of 2.1 and 2.7 per cent for this year and next respectively last April). In particular domestic demand – which is relatively more tax-rich than export-driven growth – is now performing reasonably well.

Table 6: Divergence from the April Stability Programme

% GDP	ESA Code	2013	2014	2015
GGB – April Stability Programme		-7.2	-4.8	-2.9
GGB – Draft Budgetary Plan		-5.7	-3.7	-2.7
Difference (pp)		+1.5	+1.1	+0.2

Section 4

Distributional impact of the main budgetary measures

Article 6(3) of Regulation 473/2013 requires Member States, where possible, to provide information (either qualitative or quantitative) on the distributional effects of budgetary measures. Material on the Effect of Budget 2015 Measures on Different Categories of income earners is presented in the Budget and some of it is reflected in this section.

The full document is available at:

<http://budget.gov.ie/Budgets/2015/Documents/Annex%20A%20Final.pdf>

Impact of Budget 2015 Income Tax and USC changes for Different Categories of Married/Civil Partners and Single Income Earners

The table below shows the impact on net income of changes in Income Tax and Universal Social Charge for various categories of income earners. Family Income Supplement payments are included in the calculations, where relevant. This includes Child Benefit where relevant. The calculations are based on specimen incomes with the basic tax credits including the home carer tax credit, where relevant. The examples do not take account of additional tax reliefs such as Mortgage Interest Relief. Variations can arise due to rounding.

	Single person, no children, private sector employee taxed under PAYE Full rate PRSI contributor	Married couple, one income, no children, private sector employee taxed under PAYE Full rate PRSI contributor	Married couple, one income, two children, private sector employee taxed under PAYE Full rate PRSI contributor Including Family Income Supplement	Single person, no children, taxed under Schedule D	Married couple, one income, no children, taxed under Schedule D	Married couple, one income, two children, taxed under Schedule D
Gross Income	Change as % of Net Income					
€	%	%	%	%	%	%
12,000	2.4%	2.4%	0.9%	2.7%	2.5%	2.8%
15,000	0.8%	0.8%	0.7%	0.9%	0.8%	1.4%
17,542	1.0%	1.0%	0.7%	1.2%	1.1%	1.5%
25,000	0.8%	0.8%	0.8%	0.9%	0.8%	1.2%
35,000	1.4%	0.6%	0.8%	1.5%	0.6%	0.9%
45,000	1.5%	1.1%	1.3%	1.6%	1.2%	1.4%
55,000	1.6%	1.2%	1.4%	1.7%	1.3%	1.5%
70,000	1.7%	1.4%	1.5%	1.7%	1.4%	1.5%
75,000	1.6%	1.3%	1.4%	1.7%	1.3%	1.5%
100,000	1.3%	1.1%	1.2%	1.3%	1.1%	1.2%
125,000	1.1%	0.9%	1.0%	1.1%	0.9%	1.0%
150,000	0.9%	0.8%	0.9%	0.9%	0.8%	0.9%
175,000	0.8%	0.7%	0.8%	0.8%	0.7%	0.8%

Section 5

DBP measures and the CSRs/Union's Strategy for growth and jobs

Ireland fully participated in the European Semester for the first time earlier this year, and in June received Country Specific Recommendations (CSRs) endorsed by the European Council. The CSRs for Ireland are available at:

http://www.finance.gov.ie/sites/default/files/csr2014_ireland_en.pdf

Table 7(a) summarises measures, taken in the context of Budget 2015, the Expenditure Report 2015 or through other processes, address the CSRs.

Europe 2020 was adopted by the European Council in June 2010 and, in a nutshell, is the growth strategy for the Union over the period to the end of this decade. The strategy is aimed at promoting smart, sustainable and inclusive growth in the EU. Five headline targets for 2020 have been set at the level of the EU as a whole, covering employment, research and development, climate change, education and poverty. All EU Member states have committed to achieving Europe 2020 targets and have translated them into national targets.

Table 7(b) shows the Irish national targets and the most important policy measures that are being taken in order to achieve the targets set within the framework of the European Union's Strategy for Growth and Jobs.

Table 7(a): CSR Recommendations

CSR No.	List of measures	Description of direct relevance
1	Correct excessive deficit by 2015	Successful implementation of Budget 2014 continues to deliver a reduction in the deficit consistent with EDP requirements. Estimates in the Budget demonstrate an underlying general government deficit of 2.7% in 2015.
	Structural adjustment and multi-annual budgetary planning	Continued reduction in the structural deficit once excessive deficit is corrected. Profiled structural adjustment for 2016 – 2018 exceeds the minimum correction path prescribed by the Council of the EU.
	Government Expenditure Ceiling	Binding Multi Annual Expenditure Ceilings are in place as per the Minister and Secretaries (Amendment) Act 2011
2	Advance Reforms initiated under Future Health strategic framework	Phase 1 of Money Follows the Patient (MFTP) funding model commenced on schedule in January 2014 in the 38 largest hospitals in the country. Significant work underway which will facilitate 70% of hospital budgets being funded on a MFTP basis from 2015.
	Increase use of generic medicines	The Health Service Executive (HSE) Medicines Management Programme is focussed on changing prescribing behaviour in primary and secondary care. Generic penetration is increasing steadily in Ireland as generic substitution and reference pricing is rolled out. Generic market proportion has increased in volume terms to approximately 65% in Q2 2014.
	Reform financial management system of national health authority	Phase 2 of the Financial Reform Programme commenced in January 2014. Detailed Business Case for a new operating model has been submitted to the Department of Health and is currently under consideration.
	Roll out individual health identifiers	The legislation governing the use of health Identifiers was enacted in July 2014. The HSE has been assigned responsibility for developing a secure and safe patient identity service in line with commitments.
3	Labour Market Activation Policies	Pathways to Work 2015, launched on 7 October, contains further measures in this area with a particular focus on the long-term and young unemployed and on enhanced engagement with employers.
	Youth Guarantee - Momentum	Pathways to Work 2015 sets out plans for continuing implementation of the "Guarantee", targeted particularly at those out of work for more than a year and disadvantaged youth. Measures include enhanced incentives for employers; a developmental internship for disadvantaged youth; dedicated training places; and additional supports for young entrepreneurs.
	Intreo supports	44 Intreo ["one stop shop"] centres are in place and the completion of the roll-out of the remaining 17 centres is being actively progressed.

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	FET Reforms	SOLAS, the new Further Education and Training (FET) Authority, has recently published its three year corporate strategy and a five year strategy for the development and delivery of an integrated further education and training sector. Long-term unemployed persons on the Live Register have been assigned priority status for FET provision in 2014. The first annual FET Services plan was published by SOLAS in May.
	Apprenticeship Review	An Apprenticeship Implementation Plan was published in June 2014. A new Apprenticeship Council is in the process of being established.
4	Tackle low work intensity	Measures listed under CSR 3 are relevant. Steps to remove obstacles to greater participation in labour force include the introduction of the Working Family Dividend and a new housing assistance payment to support transition from welfare to work. Research on structural issues underway, with results due in first quarter 2015.
	Facilitate female labour market participation	Implementation of the reform of the One-Parent Family Payment (OPF) is ongoing. After school childcare scheme introduced for former recipients of the OPF.
	Address poverty risk of children	Child-specific poverty target in the National Policy Framework for Children and Young People 2014-2020. The Government will host a seminar with the European Commission on investing in children to tackle child poverty in November 2014. There are a number of targeted childcare schemes through which Government supports low income parents to participate in the labour market or in training and education. Some 34,000 children participate in these schemes which are operated in consultation with the Department of Social Protection.
5	Availability of bank and non-bank financing	The Strategic Banking Corporation of Ireland was established on 12 September 2014 with the core purpose of enhancing the supply of credit to SMEs. The first loans to SMEs will be available by the end of 2014. Action Plan for Jobs 2014 includes provisions on SME access to finance.
	Monitoring system for SME lending	Monthly reporting system in place.
	SME funds co-funded by the National Pensions Reserve Fund	The SME Credit Fund has completed six loan transactions totalling approximately €120 million. The NPRF SME Equity Fund is active in the market sourcing transactions and the NPRF has advised that there is a strong Pipeline under development. The Turnaround Fund will not be renewed when it expires at the end of December 2014.
	Microfinance Ireland and Credit Guarantee	The operation of the Microenterprise Loan Fund Scheme is being reviewed with a view to increasing the take-up and impact of the Scheme.

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		The Credit Guarantee Scheme has been reviewed and the Credit Guarantee (Amendment) Bill 2014 is being drafted. This will lead to an enhanced Credit Guarantee Scheme which will increase the take-up and impact of the Scheme.
	Promote the use of these and other non-bank schemes by SMEs	The Supporting SMEs Online Tool, a cross-government initiative, was launched in May 2014.
	Enhance the Credit Review Office's visibility	The Supporting SMEs online tool highlights the role of the CRO to all users.
6	Measures to Address mortgage arrears	Ongoing monitoring of banks' performance against mortgage arrears re-structuring targets. Expectations for end 2014 set by CBI in June 2014. The CBI has conducted audits to examine the banks' processes of proposing and concluding sustainable solutions in accordance with CBI sustainability guidelines. Two reviews were completed by CBI to date and a further review of Q2 MART return scheduled for Q4 2014.
	Publish regular data on banks' SME loan portfolios in arrears to enhance transparency	CBI has confirmed that the banks have reported that they have met their required targets to date.
	Develop a strategy to address distressed commercial real-estate exposures	The National Management Agency (NAMA) is on track to fulfil its commercial objectives ahead of schedule. By end 2014, it will have redeemed 50% of its senior debt and has committed to redeem a minimum of 80% of its senior debt by end 2016, two years earlier than planned.
	Establish a central credit registry	The Credit Reporting Act, 2013 was commenced in Jan 2014. The Act provides that the CBI is responsible for the establishment and operation of the Central Credit Registry.
7	Enact the Legal Services Regulation Bill by end 2014, operationalise Legal Services Regulatory Authority	The intention is to complete the passage of the Bill so that the new Legal Services Regulatory Authority can come into operation early in 2015.

Table 7 (b): Targets set by the European Union's Strategy for growth and jobs

TARGET 1: EMPLOYMENT	
Headline Target: 69 - 71 % of the population aged 20-64 to be employed	
Labour Market Activation and Youth Guarantee	
<ul style="list-style-type: none"> Increased engagement with, and training of, the long-term unemployed as part of the labour market activation reforms included in <i>Pathways to Work</i> Implementation of <i>Pathways to Work 2015</i> Youth Guarantee Implementation Plan, including increased places under momentum Total of 6,000 places on the JobsPlus scheme Roll-out of remaining 17 Intreo offices in 2015 Increased places under Momentum for the Youth Guarantee Roll-out of JobPath Initiative Public benchmarking of Intreo centres for the first time to ensure delivery of targets to help jobseekers return to work. Develop a comprehensive approach to evaluation of PTW initiatives, with tender to issue in Q1 2015 	<p>Pathways to Work and the Youth Guarantee are implemented through more intensive engagement with jobseekers, such as individual and group engagement sessions for all jobseekers, and the provision of employment supports through the Intreo service.</p> <p>44 Intreo "one stop shop" centres are already in place and the completion of the roll-out of the remaining 17 centres will be completed in 2015.</p> <p>The implementation of the Youth Guarantee will ensure the targeted intervention and the ring-fencing of around 2,000 places for young people as part of the next iteration of the Momentum Programme and will be a valuable input to this process.</p> <p>The Momentum Programme supports the provision of free education and training projects to allow long-term jobseekers and young people to gain skills, and to access work opportunities in growing sectors.</p> <p>JobsPlus incentivises employers to employ the long-term unemployed.</p> <p>The JobPath initiative will target 115,000 long-term unemployed through improving job-seeking skills and will engage with employers to set up employment opportunities, based on a contracted services model, with first referrals to JobPath providers in Q2 2015.</p>
Further Education and Training	
<ul style="list-style-type: none"> Implementation of reforms to the Further Education & Training (FET) Sector Provide at least 57,000 education and training places for long-term unemployed during 2014 and 2015. 	<p>Under <i>Pathways to Work</i> a range of FET and Higher Education Programmes will be made available to meet the needs of the long-term unemployed.</p> <p>Long-term unemployed persons on the Live Register have been assigned priority status for FET provision in 2014. The first annual FET Services plan was published by SOLAS in May 2014 and shows how each of the Education and Training Boards (ETBs) will make provision for well over 200,000 learners. This annual</p>

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<ul style="list-style-type: none"> • Development and Implementation of the Service Level Agreement with SOLAS • Ongoing implementation and development of the FET Strategy • Establishment of a Strategic Implementation Advisory Committee for the FET Strategy • Maintenance of Further Education & Training provision for c. 270,000 places for learners in 2014 	<p>service planning process takes into account the demographic, economic and employment picture in each ETB area and involves consultation with employers and local Intreo offices.</p> <p>A five year strategy for the FET Sector was published in May and provides a road-map for the ongoing development of the FET sector over the next five years.</p> <p>SOLAS have now circulated a detailed implementation plan for the Strategy to stakeholders, with detailed timelines for delivery of the various actions in the Strategy and identifies lead responsibility for each action.</p> <p>A Strategic Implementation Advisory Committee for the Strategy is being established and the first meeting will take place in October 2014</p>
<p>Apprenticeships</p> <ul style="list-style-type: none"> • Implementation of the recommendations of the Apprenticeship Review • Establishment of a new enterprise-led Apprenticeship Council • Evaluation and submission to the Minister for Education & Skills of industry proposals for new apprenticeships • Continued review of current apprenticeships (Electrical, Plumbing, Carpentry and Joinery, Metal Fabrication and Heavy Vehicle Mechanics) 	<p>A Review of Ireland's Apprenticeship System was undertaken and published in 2014.</p> <p>The report of the Independent Review Group made a number of recommendations regarding a new structure for Apprenticeship, which is envisaged as being relevant to a much wider group of enterprise sectors. Following on from the Review an Apprenticeship Implementation Plan was published on the 30th June 2014. As part of this plan a new Apprenticeship Council is in the process of being established which will be enterprise led and have representatives from business, trade unions, further and higher education bodies.</p> <p>The first job of work of the new Apprenticeship Council will be a call for proposals from industry for new apprenticeships for evaluation. Alongside this work, the curricula for current apprenticeships will continue to be reviewed under existing structures.</p>
<p>Labour Market Skills</p> <ul style="list-style-type: none"> • Review of the National Skills Strategy • Skills-to-Work Campaign • Further Investment in Springboard • Introduction of new competitive funding streams in Higher Education 	<p>The current National Skills Strategy outlines targets for skills attainment for Ireland through to 2020. A review of this strategy will commence before end-2014.</p> <p>This work will have regard to the overall skills determination architecture including the Expert Group on Future Skills Needs as well as Higher Education Strategy, the FET Strategy and the connections between these sectors.</p>

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	<p>Two new competitive funding streams have been introduced at Higher Education Level that: address the specific skills needs of industry; support jobseekers into employment; and, help increase the skills profile of the labour force.</p> <p>The Springboard programme strategically targets funding of free part-time higher education courses for unemployed people in areas of identified skills needs, such as ICT, Manufacturing and International Financial Services. More than 15,000 places have been provided under the three rounds of the programme to date. A new call for proposals is expected to provide for an additional 5,000 places in 2014.</p> <p>Skills-to Work is directed towards informing job-seekers of the training and upskilling programmes that are available to help them become more job-ready – whether the best fit for them is with Momentum or with other opportunities like Springboard, JobPlus, JobBridge or Skillnets.</p>
<p>Action Plan for Jobs</p> <ul style="list-style-type: none"> • Publication of Action Plan for Jobs 2015 	<p>The Action Plan for Jobs 2014 contains 385 time-bound actions in seven areas - Disruptive Reforms, Competitiveness, Pathways to Work, Access to Finance, Growing Irish Enterprise, Developing and Deepening the Impact of FDI, and Sectoral Opportunities. Work on the 2015 plan is well advanced, and will incorporate a more detailed performance evaluation framework arising from the OECD review.</p>

TARGET 2: Research and Development (R&D)

Headline Target: Approximately 2% of GDP (2.5 % of GNP) to be invested in R&D

<ul style="list-style-type: none"> • Publication and implementation of a Strategy for Science, Technology & Innovation 	<p>A Strategy on STI will be published in early 2015, which will address how Ireland will meet the 2020 target.</p>
<ul style="list-style-type: none"> • Science Foundation Ireland-funded research centres to support 20 or so research centres. 	<p>Ireland has significantly increased its investment in R&D over the past decade while also introducing a range of measures to improve commercialisation of research and build strong linkages between the higher education sector and enterprise.</p>
<ul style="list-style-type: none"> • SFI will also maintain supports to 2,800 researchers who are engaged in around 900 collaborations with industry. 	<p>GERD (Gross Expenditure on R&D) increased from €1,637m in 2003 to €2,826m in 2012 (+73%). Within this, HERD (Higher Education R&D) increased from €378m in 2002 to €708m in 2010 (+87%) although 2010 witnessed a contraction from a peak of €750m in 2008.</p>
<ul style="list-style-type: none"> • Enterprise Ireland and IDA Ireland will invest in a range of RD&I supports to companies, including 	<p>A range of measures have been introduced, including improvements in fiscal measures, to support research and development (modifications to the R&D Tax Credit were announced in October 2013,</p>

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Innovation Vouchers, Technology Centres, and the scaling up of the Health Innovation Hub	<p>following a review of the scheme), supports for higher education-industry linkages and supports for in-company R&D and start-up companies.</p> <p>The research intensity rate for 2012 for Ireland has been confirmed at 2.13% of GNP (1.72% of GDP) and at this point Ireland is on track to achieve its Research and Development by 2020.</p> <p>In Budget 2015, a change was made to the R&D Tax Credit. The 25% tax credit applies to the amount of qualifying R&D expenditure incurred by a company in a given year that is in excess of the amount spent in 2003. This 2003 base year restriction is now being removed from 1 January 2015.</p>
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TARGET 3: Climate Change and Energy

3(a) Greenhouse Gas (GHG) Emissions

Headline Target: 20% reduction in Carbon Emissions relative to 2005

<ul style="list-style-type: none"> Continued implementation of the policies and measures published in Ireland's Sixth National Communication to the United Nations Framework on Climate Change 	<p>Ireland must limit growth of emissions to 20% below 2005 levels by 2020 with targets also in place for each of the years for the period 2013-2019. The average incidence of these targets over these 8 years is a 12% reduction in emissions relative to 2005.</p> <p>The measures outlined in the Communication to the UN are specifically designed to assist Ireland in reaching its climate change targets and are directed towards sectors such as vehicle and building energy efficiency.</p> <p>A -20% mitigation target for 2020 (which was the joint highest with Denmark and Luxembourg) is hugely challenging having regard to Ireland's greenhouse gas emissions profile and Ireland's investment capacity. Based on the current trajectory, Ireland is likely to have a shortfall against target in the latter half of the period.</p>
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3(b) Renewable Energy

Headline Target: 16 % of total energy consumption from renewable sources

<ul style="list-style-type: none"> Publication of the Bioenergy Plan and the implementation of the policy actions which it outlines 	<p>Ireland is committed to meeting 40% of electricity demand, 12% of heat and 10% of transport (mandatory for all Member States) from renewables. At the end of 2013, 7.7% of Ireland's energy came from renewable sources: electricity 20.7%; heat 5.6%; transport 2.8% (or 4.9% when allowing for double</p>
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certification). Achieving the level of renewable energy in heating and transport remains challenging. The deployment of sustainable biofuels will be the main mechanism to help achieve the transport target. The Bioenergy Plan published this year identifies key policy actions for the use of bio-energy resources which should assist Ireland in closing the gap to target on renewable heat.

3(c) Energy Efficiency

Headline Target: to move towards 20% increase in Energy Efficiency

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| <ul style="list-style-type: none"> • Implementation of the measures outlined in the National Energy Efficiency Action Plan (2014) • Further roll-out of the Energy Efficiency Fund • Implementation of the National Energy Services Framework | <p>Ireland published its third National Energy Efficiency Action Plan earlier in 2014, which encompasses measures to help achieve the commitment to a 20% reduction in primary energy relative to 2005. Modelling work shows that Ireland achieved 12,337GWh of energy saving at end-2012, which represents 39% of the national target.</p> <p>Recent policy measures such as the Energy Efficiency Fund, open to both commercial and public sector projects where appropriate, and the National Energy Services Framework will be expected to deliver savings in future years.</p> <p>While the energy saving projections for 2020 remain positive, challenges remain – most notably the economic climate and the ability of the Better Energy Programmes to attract domestic consumers and businesses to invest in energy saving measures.</p> |
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TARGET 4: Education

4(a) Early Leaving from Education and Training

Headline Target: Reduce percentage of 18-24 year olds with secondary education and not in further education to 8%

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| <ul style="list-style-type: none"> • Progress towards achievement of 8% target | <p>Ireland's current share of early school leavers (i.e. 18-24 year olds with at most lower secondary education and not in further education and training) fell from 11.4% in 2010 and 10.6% in 2011 to 9.7% in 2012/13 representing positive progress towards achievement of our 8% target.</p> |
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DEIS focuses on addressing the educational needs of children and young people from disadvantaged communities, from pre-school through second-level education. 852 primary and second-level schools are participating in DEIS. All of these schools are eligible for a range of additional supports to assist them in

<ul style="list-style-type: none"> Continued Implementation of the National Action Plan, "Delivering Equality of Opportunity in Schools" (DEIS) 	<p>working to improve attendance, retention and educational outcomes for their students. . Research undertaken to date provides clear evidence that the DEIS programme is having a positive effect on tackling disadvantage.</p>
<ul style="list-style-type: none"> Continued implementation of the Literacy and Numeracy Strategy 	<p>The Strategy was launched in July 2011. It responds to areas of weakness identified in national studies and sets ambitious targets for improvement - covering early childhood, primary and secondary education. All primary and post-primary schools are participating in the implementation of the strategy, and all are required to set targets for the improvement of literacy and numeracy skills.</p> <p>Major changes have been made to initial teacher education programmes, and literacy and numeracy units are now in place in the National Teacher Induction Programme.</p> <p>School self-evaluation has been rolled out and new requirements have been introduced on standardised testing, including the return of aggregate data to the Department of Education and Skills.</p>
<ul style="list-style-type: none"> Continued implementation of the Framework for Junior Cycle Reform 	<p>The new Junior Cycle will place the needs of students at the core of teaching and will improve the quality of their learning experiences and outcomes. It will also contribute to tackling the problem of early school leaving.</p> <p>The new approach seeks to ensure that all students will achieve their full potential and will be properly challenged in their learning, thereby raising educational standards. To achieve this, assessment must become a key part of teaching and learning across the three years of junior cycle, and provide high quality feedback to students and parents.</p> <p>The terminal Junior Certificate Examinations will be replaced with a school-based model of assessment with an emphasis on the quality of students' learning experience. All subjects will be recast, beginning with English, which is to be introduced to students entering post-primary education in 2014.</p> <p>Following discussions with education stakeholders, the pace of implementation been changed to allow more time to enhance teachers' competence and confidence in the new methodologies required. Full details are available at www.juniorcycle.ie.</p>

<ul style="list-style-type: none"> • Reform of Further Education & Training 	<p>The establishment of SOLAS, the new Further Education and Training Authority, and the Education and Training Boards in 2013 will ensure that Ireland has a Further Education and Training sector that, amongst other targets, aims to address the needs of early school leavers.</p>
<ul style="list-style-type: none"> • Implementation of the Apprenticeship Review 	<p>See Target 1.</p>
<ul style="list-style-type: none"> • Community Training Centres 	<p>The Community Training Centres, now operating under the aegis of the ETBs, provide training and related services in a professional, supportive and inclusive manner for early school leavers as part of the joint Youthreach initiative (see next measure) with the Department of Education and Skills.</p>
<ul style="list-style-type: none"> • Youthreach 	<p>The Youthreach programme provides two years integrated education, training and work experience for unemployed early school leavers who lack any qualifications or vocational training, and who are between 15 and 20 years of age.</p>
<ul style="list-style-type: none"> • Continued integration of educational welfare service in line with the establishment of the Child and Family Agency 	<p>The Educational Welfare Services have developed a new Integrated Model of Service Delivery, involving the Educational Welfare Service, the Home School Community Liaison Scheme, the School Completion Programme and schools themselves, which is aimed at improving service delivery to schools, children and their families.</p>
<ul style="list-style-type: none"> • Implementation of the "Supporting a Better Transition from Second Level to Higher Education: Key Directions and Next Steps" 	<p>This initiative will, among other things, contribute to achieving improvements in retention and completion rates both at second level and in higher education. It is envisaged that an implementation plan, including the scope and timeframe for implementation of the three commitments and other further work, will be available by end-2014.</p>

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4 (b) Tertiary Education

Headline Target: At least 60% of 30-34-year-olds should complete third level education

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| <ul style="list-style-type: none">Continued investment in Third-Level Education to meet increased student numbers | <p>Ireland is aiming to have 60% of the 30-34 year old population with a tertiary level qualification by 2020 (overall EU target is 40%). The latest Eurostat data shows that Ireland's current tertiary attainment rate for 30-34 year olds was 52.6% in 2013, up from 51.1% in 2012. Since 2009, Ireland has the highest rate for this indicator of all EU28 countries. This is confirmed in the recent OECD publication Education at a Glance which placed Ireland 3rd in the OECD.</p> <p>These high attainment rates are due to the high participation rates for school leavers - rates that have been growing steadily over the last decade, and the growing participation of adults in higher education. Enrolments are projected to continue over the next decade as the number of school leavers continue to grow and the policies set out in the National Strategy aimed at widening access, developing more flexible provision and enhancing lifelong learning opportunities are progressively rolled out. The development of a new National Access Plan for Higher Education, due to finalised in early 2015, will be an important element of this.</p> <p>A range of actions are being implemented aimed at widening access, developing more flexible provision and enhancing lifelong learning opportunities which are specifically seeking to increase tertiary attainment rates.</p> |
| <ul style="list-style-type: none">Development of a new National Access Plan for Higher Education | <p>The development of a new National Access Plan for Higher Education, due to finalised in early 2015, will identify new targets for widening access and will contain specific supports to deliver on this. The Department of Education and Skills has also introduced two new competitive funding streams that are delivering extra higher education places in specific skills needs of industry. These schemes are targeted at jobseekers and are also supporting the aim to increase higher education attainment rates.</p> |
| <ul style="list-style-type: none">Transition Agenda | <p>Measures to enhance the transition from school to higher education and to provide a better first year experience are being considered. It is envisaged that an implementation plan, including the scope and timeframe for implementation, will be available by the end of 2014.</p> |

TARGET 5: Reduction of Population at Risk of Poverty

Headline Target: To reduce the number experiencing consistent poverty to 4% by 2016 (interim target) and to 2% or less by 2020, from the 2010 baseline rate of 6.3%.

- Maintenance of social welfare rates across all social transfers
 - Research on underlying structural issues in relation to very low work intensity to be completed in 2015
 - Reform of the one parent family payment – by July 2015 the maximum age limit for the youngest eligible child will be 7 years of age. Lone parents formerly eligible for the scheme will have access to the Intreo activation service.
 - Targeted scheme of after-school childcare introduced for former recipients of one parent family payment.
 - National Policy Framework for Children and Young People 2014-2020 has set a child specific poverty target.
 - Area-based childhood programme launched to break intergenerational cycle of poverty in disadvantaged areas – focus on prevention and early intervention measures.
 - Housing Assistance Payment, new form of social housing support which will facilitate transition from welfare to work, is currently being rolled out across a number of local authorities and will be introduced on a national basis in 2015.
- There has been significant increase in those experiencing consistent poverty. This is a direct consequence of the social and economic impact of the economic crisis experienced in Ireland.
- These measures outline the Government's response in addressing this matter.

Annex

Table A: Methodological aspects

Estimation Technique	Step of the Budgetary Process	Relevant features of the model	Assumptions
Demand side forecasting	In advance of endorsed and final budgetary forecasts	Iterative-analytic approach: several partial models based on various national account outputs	Technical assumptions on trading partner growth, exchange rates and commodity prices are assumed
Supply side forecasting	In advance of endorsed and final budgetary forecasts	Potential GDP is modelled as per the harmonised methodology endorsed by the EPC	Supply side models all modelled endogenously to 2018. No closure or extension rules applied. Based on own population projections
Tax forecast	In advance of final budgetary forecasts	Iterative-analytic approach: partial models based on relationship of tax trends to macro variables	The short-term impact of the impact of tax policy change is included

Table B: Additional data¹

	2015	2016	2017	2018
1. real GDP	3.9	3.4	3.4	3.4
2. GDP deflator	1.3	1.7	1.7	1.7
3. potential GDP	2.7	3.4	3.8	3.9
4. output gap	1.0	1.0	0.7	0.1
5. general government balance	-2.7	-1.9	-0.9	0.3
6. one-off and temporary factors	0.1	0.1	0.0	0.0
7. cyclical budgetary component	0.5	0.5	0.3	0.1
8. structural budget balance	-3.4	-2.5	-1.2	0.2
9. gross public debt	108.5	104.0	100.5	95.4
10. stock-flow adjustment (% of GDP)	0.8	-1.1	0.7	0.1

Source: Department of Finance

¹ Data for a number of variables are included here in order to facilitate calculation by the European Commission of the forward-looking component of the debt correction rule.