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(Acts whose publication is not obligatory)

COUNCIL

COUNCIL RECOMMENDATION

of 12 February 2001

with a view to ending the inconsistency with the broad guidelines of the economic policies in Ireland

(2001/191/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 99(4) thereof,

Having regard to the recommendation of the Commission,

Whereas:

(1) On 19 June 2000, the Council recommended the Irish authorities, in its recommendation on the broad guidelines of the economic policies of the Member States and the Community [1], to be ready, already in 2000, to use budgetary policy to ensure economic stability given the extent of overheating in the economy and to gear the budget for 2001 to this objective.

(2) On 6 December 2000 Ireland submitted the 2000 update of the Stability Programme which contains objectives in the budgetary area for the period up to 2003 and which should be read in conjunction with the budget for 2001 released on the same day.

(3) The Council, in its opinion of 12 February 2001 on the 2000 update of the Irish Stability Programme in accordance with Article 5(3) of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [2], considers that Irish budgetary plans for 2001 are not consistent with the broad guidelines of the economic policies as regards budgetary policy.

(4) Proper functioning of the coordination of economic policies in the euro area requires a timely use of instruments available under Article 99(4).

(5) The European Council of Helsinki on 10 and 11 December 1999 emphasised that existing processes and arrangements for economic policy coordination by the Council should be effectively applied and that policy implementation should be closely monitored.

In recognition of the following:

(a) The Irish economy has shown a bright performance and continued to grow very rapidly in 2000, with real GDP growth just over 10 % expected for 2000. As a result, the budgetary projections in the 1999 update of the Stability Programme have been exceeded by a large margin. The debt ratio is projected to decline to 24 % of GDP by 2003. With a positive output gap, inflationary pressures in Ireland intensified in the course of 2000. HICP inflation was 5,3 % on average in 2000. While the rapid rise in the rate of inflation in the course of 2000 is partly due to external and temporary factors which are expected gradually to fall out of the consumer price index, there has also been an increased contribution from domestically-generated inflation, which remains a cause of concern.

[1] OJ L 210, 21.8.2000, p. 1.
[2] OJ L 209, 2.8.1997, p. 1.

(b) On 6 December 2000, the Irish budget for 2001 was presented. The main measures are: a direct tax package (consisting of cuts in tax rates and increases in allowances) with a full-year cost of around 1,5 % of GDP; indirect tax cuts with a full-year cost of 0,4 % of GDP; an 18 % increase in voted current spending over the projected 2000 out-turn (about 40 % of which is for pay expenditure) and a 29 % increase in voted capital expenditure. The 2000 update of Ireland's Stability Programme projects a reduction of the general government surplus in 2001 of 0,4 % of GDP from 4,7 % of GDP, implying a deterioration in the underlying budgetary position.

(c) The budget for 2001 will give a further substantial boost to demand in Ireland and its possible supply effects are likely to be small in the short term. It will therefore aggravate overheating and inflationary pressures and widen the positive output gap, which, according to the 2000 update, will peak at 5,4 % of trend GDP in 2001.

(d) The strategy of inducing labour force increases through an alleviation of the direct tax burden, which was recommended in the 2000 BEPG with respect to labour market, may have become less effective than in the past because it took place in the context of an expansionary budgetary policy, and the tightness of the labour market could well hamper further attempts at encouraging wage moderation with direct tax cuts. Further, while indirect tax cuts have a once-and-for-all effect on the price level, they probably have no lasting effects on the rate of inflation but clearly further stimulate demand. Given the current stance of the single monetary policy set for the euro area, the planned contribution of fiscal policy to the macroeconomic policy mix is inappropriate.

(e) The Irish budget for 2001 is expansionary and pro-cyclical and therefore inconsistent with the Council's 2000 broad guidelines of the economic policies, which state that the Irish authorities should ‘be ready, already in 2000, to use budgetary policy to ensure economic stability given the extent of overheating in the economy; gear the budget for 2001 to this objective’. The Commission estimates that restrictive measures equivalent to at least 0,5 % of GDP would offset the expansionary nature of the budgetary plans for 2001,

HEREBY RECOMMENDS:

1. To remove the inconsistency with the broad guidelines of the economic policies, engendered by the budget plans for 2001, the Irish Government should take countervailing budgetary measures during the current fiscal year. Under the macroeconomic assumptions of the 2000 update in the Stability Programme, this should ensure that no reduction in the underlying budgetary surplus from 2000 takes place.

2. The Commission is invited to report during 2001 on economic and budgetary developments in Ireland. The Council will closely monitor these developments and in particular assess consistency with the broad guidelines of the economic policies.

This recommendation is addressed to Ireland.

Done at Brussels, 12 February 2001.

For the Council

The President

B. RINGHOLM