

## Fiscal Assessment Report, May 2022 – Rising prices and an uneven recovery

### **Government faces a delicate balancing act managing high inflation, protecting poorer households, and delivering major policies**

The Fiscal Council's latest report assesses the Government's forecasts in the *2022 Stability Programme Update (SPU)*.

The economy has continued to grow despite its challenges, but risks are high. Energy and food price increases have taken inflation to the highest rate in a generation. Further price rises and tightening financial conditions could herald a global downturn.

The Government forecasts a return to budget balance from next year with revenues boosted by high pay, high tax sectors. But, higher inflation creates significant spending pressures.

Temporary measures taken so far to address the cost of living and to support Ukrainian refugees can be met from contingencies built into the budget. However, the costs of fully adjusting welfare rates and public sector wages to higher inflation would leave no room for other permanent increases in spending without offsetting measures.

The Government will need to make choices between how to address higher inflation and how to manage other priorities. A combination of carefully-calibrated and targeted supports and wage and welfare increases could help manage the current situation. The Government cannot fully offset the cost-of-living increases for everyone. Better targeting support measures would help it stick to its plans.

Over-reliance on volatile and vulnerable corporation tax revenues should be reduced. The Government should cap its current reliance on these receipts at the current level. It could unwind its over-reliance by re-building the Rainy Day Fund or by paying down debt.

Major policy commitments need to be properly costed and factored into the Government's plans. Addressing Ireland's rapidly ageing population, delivering on climate change goals, implementing Sláintecare reforms or raising defence spending could be costly. Many of these costs are not built into the official budget forecasts.

Commenting on the report, the Chairperson of the Fiscal Council, Sebastian Barnes, noted:

*“Tax receipts have been boosted by a swift recovery and strong taxes, in part thanks to the massive support provided during the pandemic. But, the Government now faces difficult choices. Supporting poorer households, keeping a lid on further price increases, and implementing other policies will be complicated in the short run. At the same time, more clarity is needed on how the Government will deliver on its longer term goals while ensuring prudent management of the public finances.”*

