Irish Fiscal Advisory Council

Press Release: Fiscal Assessment Report

A Budget in the time of inflation

Under embargo until **Wednesday 23 November 2022**

Fiscal Council says Government needs to start planning ahead

The Fiscal Council's latest report assesses the Government's Budget 2023.

Ireland's economic growth has slowed considerably, stunted by the surge in energy and food prices. While the jobs market remains exceptionally tight, recent data show signs of a softening, including in digital sectors. Even though the risk of gas shortages this winter has abated, Ireland's trading partners could be on the verge of a recession. The outlook is for a slight rise in unemployment, but uncertainty is high.

Against this backdrop, the Government struck an appropriate balance with Budget 2023. It used a mix of permanent budgetary measures focused on social welfare and pay together with a large package of temporary supports to help address the rise in the cost of living, avoiding adding excessively to inflation. The temporary deviation from the 5% Spending Rule for next year is relatively limited, with core spending rising by 6.8%. This does not compensate for inflation in full, but the gap for lower income households is more than made up for by substantial temporary supports.

However, the Government now needs to start planning further ahead. Official forecasts currently only go three years out. But sizeable budgetary challenges loom and are not being recognised sufficiently in the Government's plans.

Climate transition is likely to have a significant budgetary cost, the Government's decision to maintain the pension age at 66 will lead to materially higher taxes unless spending is cut elsewhere, and the public finances are relying on unpredictable excess corporation tax receipts from the multinational sector estimated at €9 billion this year. These expected pressures need to be costed and factored in properly.

There is now a good window for Ireland to reduce its debt burden to safer levels, while the exposure to changes in interest rates or growth is relatively manageable. However, this window is likely to be short-lived.

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

“While the Government is navigating a steady path through the energy crisis, Ireland’s big longer-term challenges, from ageing to climate, to the over-reliance on corporation tax are becoming ever more urgent. To help tackle these areas, the Government needs to start planning ahead by forecasting at least 5 years ahead, making credible plans to address ageing and climate change, and reinforcing the budgetary framework around its 5% Spending Rule. Using the new National Reserve Fund to limit exposure to unpredictable corporate tax receipts is welcome, but the Government should consider making it into a new National Pension Reserve Fund. This option could reduce its reliance on excess corporation tax receipts and save for future pensions costs.”

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