Budgetary Assessment

Turnaround in the public finances helped by exceptional corporation tax receipts

2. BUDGETARY ASSESSMENT

Turnaround in the public finances helped by exceptional corporation tax receipts

The Government forecasts an underlying general government deficit of 0.6% of GNI* in 2023, when windfall corporation tax receipts are excluded.[17] This would represent a modest improvement of 0.4 percentage points relative to 2022. The headline general government balance is forecast to be a €10 billion surplus (3.5% of GNI*) in 2023, due largely to windfall corporation tax receipts.

In *SPU 2023*, the Government forecasts that the gross debt-to-GNI* ratio will fall to 65.4% by 2026. However, these debt forecasts are contingent on the Government sticking to the National Spending Rule, on continuing windfall corporation tax receipts, and on any potential transfers to the National Contingency Reserve Fund or to an alternative fund.

While the macroeconomic projections go out as far as 2030, the budgetary projections only go as far as 2026—the minimum required for an SPU. The failure to lengthen its forecast horizon for budgetary forecasts leads to sizeable medium-term challenges not being sufficiently recognised in planning. The expected costs of ageing, climate change, and other policy initiatives need to be costed and factored in properly.

There are several shortcomings to the methodology used for fiscal forecasts in *SPU 2023*. First, spending projections do not include the costs associated with Ukrainian refugees beyond this year. Second, costs associated with the auto-enrolment pension scheme have not been included, despite being incorporated into macroeconomic projections. Third, no provision has been made for payment of the Christmas bonus, which has been paid in every year since 2014. Fourth, no provision has been made for costs associated with the Defective Concrete Blocks Redress scheme beyond this year. Fifth, on the revenue side, PRSI forecasts for 2023 are unchanged relative to *Budget 2023* forecasts, despite strong evidence from data so far this year that they should have been revised upwards. Sixth, the methodology for forecasting general government components should be improved, as aspects of the current approach creates inconsistencies (see Box C).

[17] Windfall corporation tax receipts are estimated by the Department of Finance.

2.1 Outturns for 2022 and revisions

Excluding excess corporation tax, the general government deficit was €2.8 billion in 2022, €5.3 billion better than forecast in *Budget 2023*. This was largely driven by a change in the timing of costs related to the Defective Concrete Blocks Redress scheme (€2.7 billion), larger social contributions by government employee and imputed government employer contributions (€1.5 billion), and lower-than-anticipated social protection expenditure (€1.4 billion).[18]

Windfall corporation tax receipts were also larger than forecasts at Budget time (€1.8 billion). As a result, the headline General Government Budget recorded a surplus of €8 billion in 2022, more than €7 billion higher than forecast in *Budget 2023*.

The budget balance was better than forecast in *Budget 2023*

Table 2.1: 2022 Fiscal outturns and *Budget 2023* forecasts

2022, € million

	Budget 2023 Forecast	Outturn	Forecast error
Revenue	112,475	115,506	3,031
Corporation tax	21,050	22,645	1,595
of which: excess corporation tax	9,000	10,800	1,800
Social contributions	18,365	19,836	1,471
Expenditure	111,510	107,473	-4,037
Social payments	38,575	37,133	-1,442
Capital transfers	4,530	1,855	-2,675
Budget Balance	965	8,033	7,068
Budget Balance excl. excess corporation tax	-8,035	-2,767	5,268

Sources: Budget 2023, CSO and Fiscal Council workings.
Notes: At the time *Budget 2023* was prepared only one quarter of General Government data was published by the CSO, instead of the usual two quarters. However, eight months of exchequer data were available. The forecast error of €2.7 billion for capital transfers is due to a technical reclassification of the concrete blocks redress scheme. The lower than forecast social payments (€1,442 million) was partially due to the reclassification of the electricity credits (€800 million).

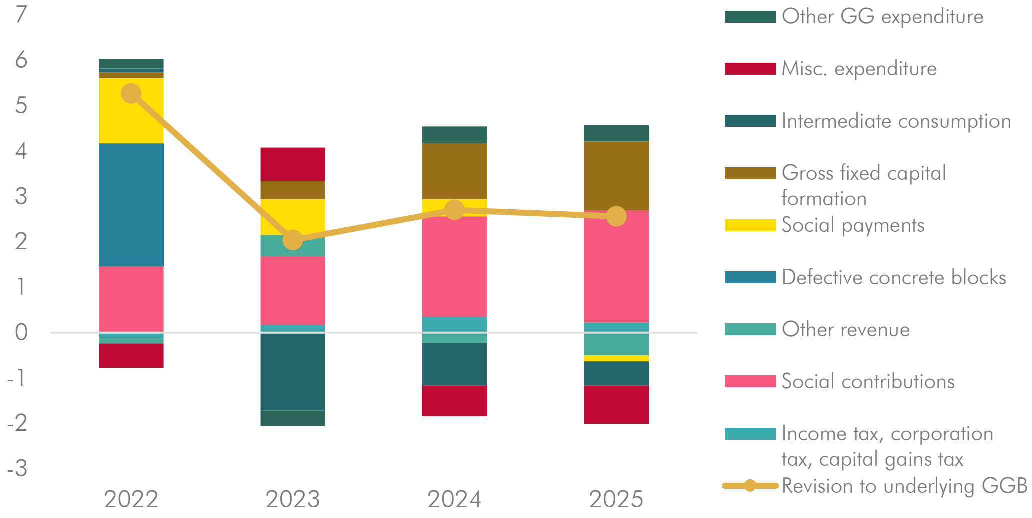
Lower social payments make a significant contribution to the forecast error for the underlying balance in 2022 and have a knock-on impact for the rest of the forecast horizon (Figure 2.1). The outturn for social payments in 2022 was €1.4 billion lower than forecast in *Budget 2023*. This was due, in part, to a reclassification of the electricity credits of €0.8 billion from social payments to current transfers.

[18] Capital transfers in 2022 were €2.7 billion lower than forecast in *Budget 2023*. This is due to a reclassification of spending on the Defective Concrete Blocks Grant Scheme, following Eurostat guidance. Previously it had been assumed that all the costs would be accrued in 2022. Now, the costs are expected to be spread over several years, with limited amounts accrued in 2022 and 2023.

Other general government expenditure, which includes current transfers, was €0.2 billion lower than forecast in *Budget 2023*. Adjusting for the reclassification, this expenditure was €1.0 billion lower than forecast, equivalent to a forecast error of 23% of the outturn.

Figure 2.1: Revisions to underlying balance driven by social contributions

€ billion, SPU 2023 forecasts vs Budget 2023 forecasts



Sources: SPU 2023, CSO, and Fiscal Council workings. Get the data.

Notes: A positive (negative) value for an expenditure item means expenditure has been revised down (up). Underlying balance refers to the general government balance excluding windfall corporation tax receipts. Income tax, Corporation Tax (CT), Capital Gains Tax (CGT) category refers to taxes on income and wealth, excluding windfall corporation tax receipts. Misc. expenditure includes compensation of employees, interest, subsidies (and TBESS), capital transfers (excluding the defective concrete blocks scheme) and resources non allocated.

General government forecasts methods need improvement

There are clear shortcomings in the forecast methodology for both general government revenue and expenditure that should be addressed. The methods for forecasting social contributions revenue is flawed, as discussed in more detail in Box C. Another approach that could potentially help improve the forecasts would be to more clearly map gross voted expenditure into the appropriate areas of general government expenditure by function (COFOG) and use this as a basis to aid the forecasting of general government expenditure.[19]

[19] Publishing data on expenditure by function (COFOG) is optional in the Stability Programme Update, but is deemed as "highly desirable" by the European Commission. Of the 27 Member States, 18 publish at least some data on a COFOG basis in their Stability Programmes. Ireland is one of nine that do not publish any data on a COFOG basis.

Box C: Forecast errors point to inconsistencies in the fiscal forecasts

This box explores the 2022 forecast error for social contributions revenue and how this relates to the forecasts of government expenditure.[20]

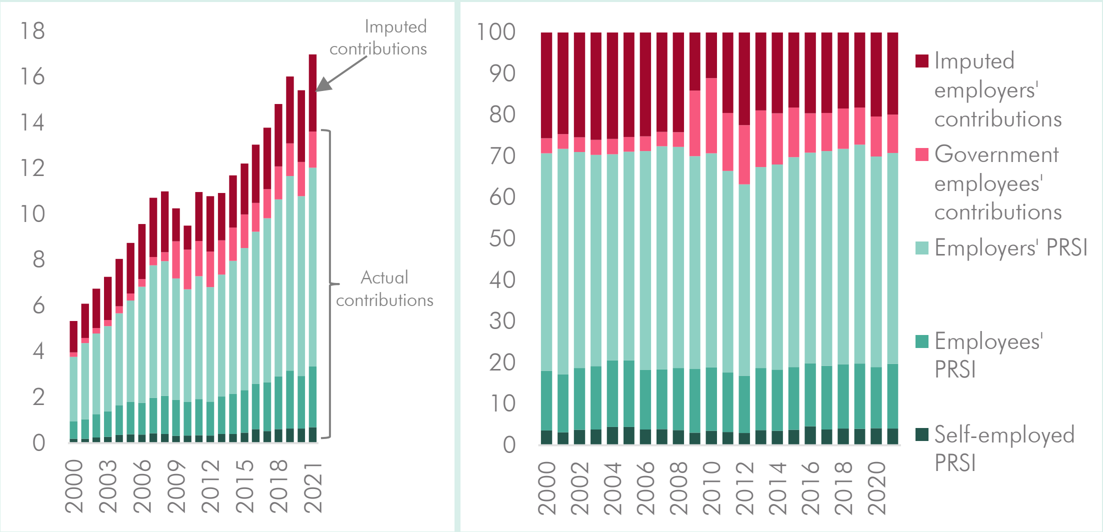
Government total social contribution revenue is made up primarily of PRSI receipts—of employees, employers and the self-employed—which amounted to just over €12 billion in 2021, and non-PRSI receipts (Figure C1.A). The non-PRSI element of social contributions includes government employees' contributions, making up 9.3% (or €1.6 billion), and imputed employers' contributions making up 19.9% (or €3.4 billion) in 2021 (Figure C1.B).[21]

While the forecast of PRSI revenue for 2022 at Budget time was relatively accurate (with a forecast error of just -€0.05 billion for PRSI), the non-PRSI revenue—the government employee contributions and imputed employer contributions—had a large forecast error of €1.5 billion (Figure C2.B). This error was equivalent to 26% of the non-PRSI social contribution outturn (or 7.7% of the total social contributions outturn).[22]

Figure C1: Revisions point to inconsistencies in fiscal forecasts

A. Social contributions continue to rise
€ billion, general government basis

B. Composition of social contributions
% of total social contributions



Sources: Eurostat, CSO, and Fiscal Council workings. Get the data.
Notes: Data in panels A and B are from the National Tax lists published by Eurostat. Panel C shows data for government compensation of employees.

[20] Previous work conducted by the Council has explored how the macroeconomic and fiscal forecasts of Government have been inconsistent with each other (see Box A of the May 2022 FAR). This box explores how the revenue and expenditure forecasts of Government are inconsistent with each other.

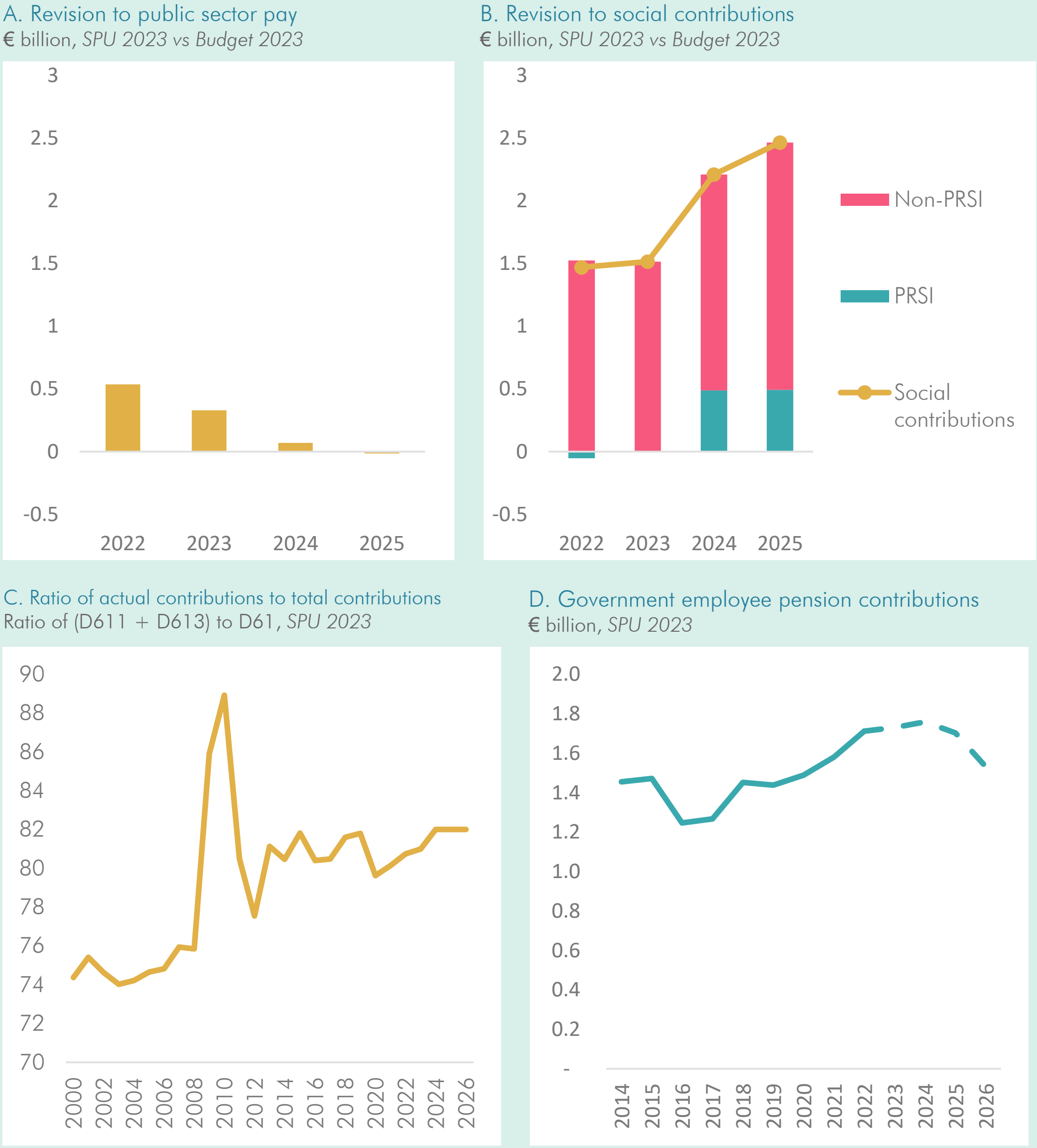
[21] Imputed employers' contributions arise when the benefit that an employee receives (or is expected to receive) is larger than the actual contributions made by the employee and the employer. The imputed contributions are the estimated gap between the employee's estimated benefit and the actual contributions made. The cost of this imputed benefit is attributed to the employer, as it is the employer that bears the risk in providing this additional benefit, over and above the actual contributions made. In the government accounts, the imputed employers' contributions should "net out" with an equal amount included on both the revenue and expenditure side. The cost of the imputed contribution is treated as government expenditure on compensation of employees. This expenditure is matched by an equal value of social contributions from households, which the Government receives on the revenue side.

[22] The scale of this forecast error cannot realistically be attributed to base effects. At the time *Budget 2023* forecasts were compiled the *Government Finance Statistics* (*GFS*) Q1 2022 release was available. The figures contained in that release for social contributions for 2021 broadly match those in the most recent *GFS* release for 2021 (revision of less than €0.1 billion). Typically, there would be two quarters of in-year *GFS* data available at Budget time. However, as *Budget 2023* was brought forward by two weeks, figures were only available for the first quarter of 2022. The figures for Q1 2022 have been revised up by only €0.15 billion in the most recent *GFS* release, relative to those available at budget time. This revision is not of a scale to explain the €1.5 billion forecast error for social contributions for the full year.

Both the government employee contributions and the imputed employer contributions make up a part of government expenditure on compensation of employees. As a result, any forecast error in government employee contributions and imputed employer contributions should also lead to a forecast error in government compensation of employee expenditure.

However, the forecast error for government compensation of employees was €0.5 billion, a third of the forecast error of non-PRSI social contributions (Figure C2.A). These forecast errors point to inconsistencies in the Government's fiscal forecasts.

Figure C2: Revisions point to inconsistencies in fiscal forecasts



A. Revision to public sector pay
€ billion, *SPU 2023 vs Budget 2023*

B. Revision to social contributions
€ billion, *SPU 2023 vs Budget 2023*

C. Ratio of actual contributions to total contributions
Ratio of (D611 + D613) to D61, *SPU 2023*

D. Government employee pension contributions
€ billion, *SPU 2023*

Sources: CSO, Department of Finance and Fiscal Council workings. Get the data.
Notes: In panel B, estimates of PRSI receipts are based on cash receipts. Non-PRSI receipts cover accruals, imputed employer contributions, and government employee contributions. Panel D shows the implied forecast of government employees' pension contributions. This is arrived at by assuming that general government PRSI receipts grow in line with cash PRSI receipts over the forecast horizon.

The Department's current methodological approach to forecasting social contributions assumes that over the forecasting horizon, the ratio of actual social contributions (PRSI and Government employee pension contributions) to total social contributions (actual contributions plus imputed employer contributions) remains broadly consistent with the recent historical data. Figure C2.C shows the ratio of actual social contributions to total social contributions since 2000.

Using this methodological approach can lead to implausible forecasts. Figure C2.D shows the implied forecasts for government employee's pension contributions based on this approach. The value of government employee's pension contributions is forecast to be lower in 2026 than it was in 2021. This is implausible given public sector pay growth and an increase in the numbers working in the public sector expected over this period.

From a methodological perspective, there is limited justification to assume that the ratio of actual social contributions to total social contributions would remain relatively constant. PRSI received by Government (which makes up most of actual social contributions) is based on economy-wide wages and salaries, whereas the non-PRSI component relates solely to government decisions on public sector pay, pensions and pension contributions. In addition, PRSI receipts are highly cyclical in contrast to public sector pay which would tend to fluctuate less. Any policy changes to PRSI rates would also alter this relationship. A more appropriate methodology would relate the non-PRSI social contributions forecasts to the government expenditure forecasts of compensation of employees, to ensure that these are fully consistent.[23]

[23] There should be an equal amount of imputed employer contributions included on the expenditure side of the government accounts as there is on the revenue side of the accounts. This would not be the case under the Department's current forecasting approach—with separate forecasting approaches used on the revenue and expenditure side for this component—implying a violation of national accounting identities in the Department's forecasts. This is evident in the revisions to the forecasts in Figures C2.A and C2.B.

2.2 Expenditure and revenue forecasts for 2023

The budget balance, excluding windfall corporation tax, for 2023 has been revised up since *Budget 2023*.[24] This is driven mainly by higher social contributions combined with lower spending on social payments and capital expenditure. Somewhat offsetting these forces is higher forecast spending on intermediate consumption.[25]

Revenue could overperform forecasts for 2023

Tax revenue has continued its strong momentum into 2023 and the Department now expects growth of 7% year on year (Table 2.2). At the end of May, income tax was up 9.4% relative to 2022 and is now 21% above its pre-pandemic trend (Figure 2.2A). On an underlying basis, VAT revenue has also been performing strongly and is up by 9% year to date.[26]

While the forecasts for PRSI and tax revenue for 2023 have been revised up by €1.9 billion to €104 billion since *Budget 2023* (Table 2.2), there is reason to believe that these forecasts are still too low, notably for PRSI and corporation tax receipts.

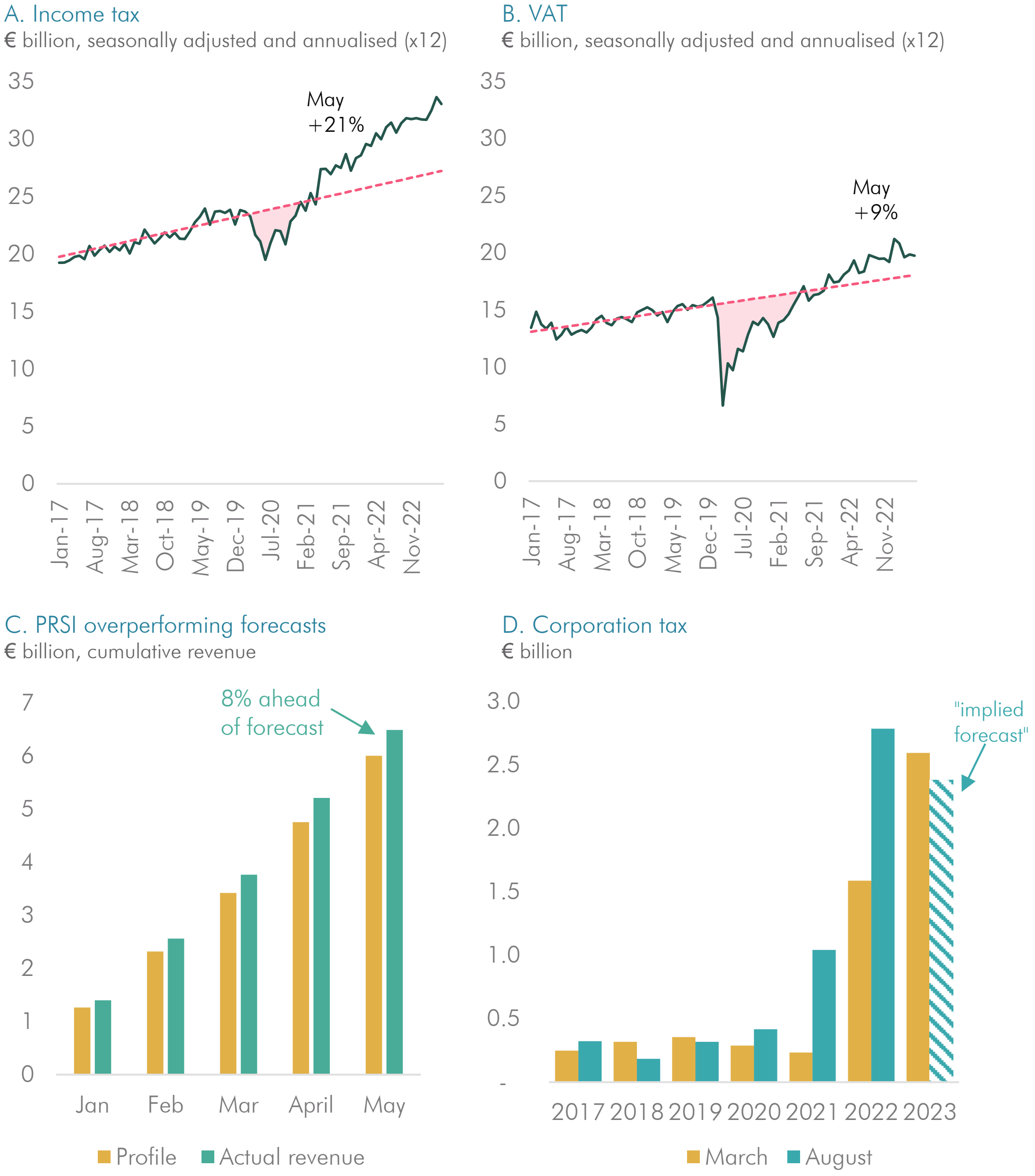
The SPU forecast of PRSI receipts for 2023 is unchanged relative to *Budget 2023* forecasts. For the full year, PRSI receipts are forecast to be 16.5% higher than 2022. However, PRSI receipts have been growing strongly with end-May receipts up 18.2% year-on-year. On average, monthly PRSI receipts have been 8% ahead of forecast so far this year (Figure 2.2C). Were PRSI receipts to be just 5% ahead of forecast for the remaining months of the year, PRSI revenue could be almost €1 billion higher than currently forecast. The PRSI forecasts for 2023 should have been revised upwards considering the strong performance to date that was evident by the time the SPU forecasts were compiled.

[24] The underlying budget balance excludes excess corporation tax receipts.

[25] Intermediate consumption is the consumption of goods and services that are used up in the production of other final goods or services. For instance, electricity may be used up to heat or light classrooms in the provision of education services in schools. In this instance, electricity is the intermediate good, while education is the final service provided.

[26] In headline terms, VAT revenue is up 11.7% year on year. The figure above is adjusted for a technical issue that inflated January receipts by €0.2 billion.

Figure 2.2: Tax revenue has been growing strongly


A. Income tax

€ billion, seasonally adjusted and annualised (x12)

B. VAT

€ billion, seasonally adjusted and annualised (x12)

C. PRSI overperforming forecasts

€ billion, cumulative revenue

D. Corporation tax

€ billion

Sources: Department of Finance and Fiscal Council workings. Get the data.
Notes: The pre-pandemic trend is calculated as a linear trend from January 2015 to December 2019. % difference refers to the gap between the current annualised seasonally adjusted level and its pre-pandemic trend. The implied forecast of August 2023 corporation tax receipts in panel D is arrived at by applying the Q3 year-on-year growth rate to the August 2022 corporation tax receipts.

Large companies pay preliminary corporation tax in month 6 of their financial year and in month 11 of their financial year, with the final corporation tax payment paid 9 months after their financial year-end. As a result, there is a link between corporation tax receipts received in certain months. Figure 2.2D shows the corporation tax receipts in March and August (months 6 and months 11 for companies with September year-end). Despite corporation tax receipts in March

2023 being up by 63% year on year, the implied forecast for August receipts—which should be linked—shows a year-on-year fall of 8.2%.[27]

The Department has stated that it believes much of the March over-performance relative to last year relates to an earlier than expected payment of receipts. However, the Department indicated the same last year, when March 2022 receipts had grown substantially on the previous year. Subsequently, the August 2022 receipts substantially overperformed forecasts.

In addition, publicly available information on the exhaustion of capital allowances available to certain companies with September year-end, taken together with the substantial increase in March receipts would suggest a large increase could be in store for receipts due to be paid in August.

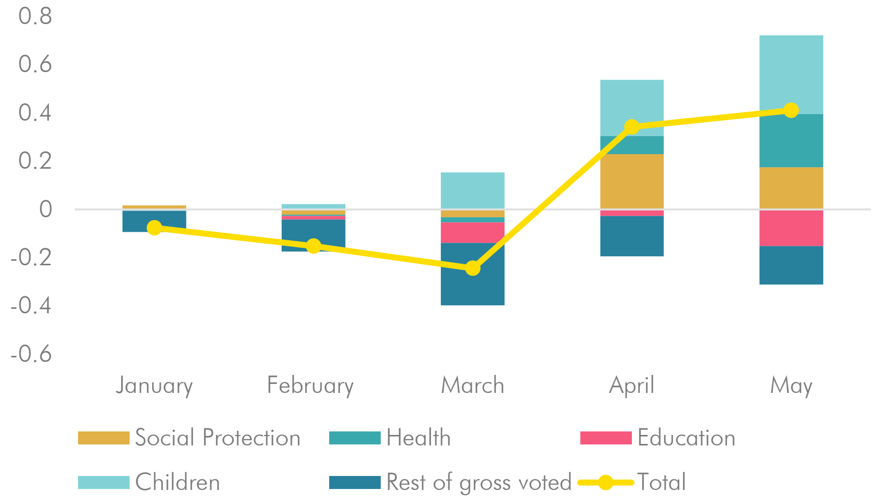
While an overperformance of corporation tax receipts for Q3 appears likely, this could be partially offset by lower than forecasts receipts for other quarters, with receipts in May down year on year.

On the spending side, at the end of May, current spending is €0.4 billion (1.3%) ahead of profile (Figure 2.3). The Department of Social protection is ahead of profile by €0.2 billion, while the Department of Children, Equality, Disability, Integration and Youth is ahead of profile by €0.3 billion. Relative to the Department of Children's expected expenditure, this is the equivalent of 24% over profile. This is related to additional costs associated with Ukrainian refugees, and this overspend relative to profile may yet be covered by the €0.4 billion of unallocated spending for Ukrainian refugees (see below).

[27] The Department of Finance is no longer publishing monthly profiles for tax receipts. It is instead publishing quarterly profiles. The figure for August 2023 is implied from the year-on-year growth rate of the Q3 2023 profile for corporation tax.

Figure 2.3: Current spending this year ahead of forecasts

€ billion, cumulative gross voted current expenditure relative to profile



Sources: Department of Finance and Fiscal Council workings. Get the data.
Note: Education includes both the education vote and the higher education vote.

There could be an overspend in the health area this year. Current health spending is €0.2 billion ahead of profile and certain budgetary allocations appear too low and the. For instance, the health vote has a 6% reduction in pension-related expenditure despite a 2% expected increase in pensioners.

Furthermore, if there were to be any new public sector pay deal affecting 2023, this would likely see overspends in several departments. The current public sector pay deal is due to run until the end of 2023, with an increase in public sector pay rates of 1.5% on 1 October.

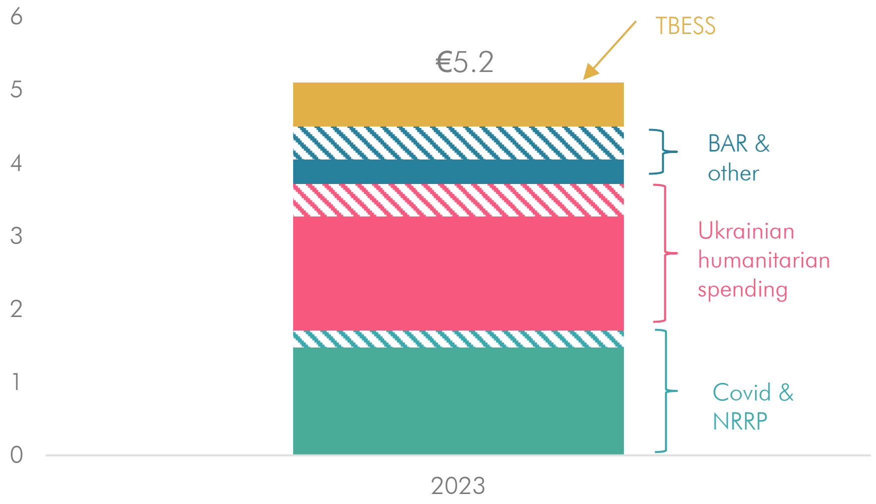
SPU 2023 included one-offs/temporary measures amounting to €5.2 billion for 2023 (Figure 2.4). Of this, €1.1 billion has not yet been allocated, but has been earmarked for Covid (€0.2 billion), Ukrainian refugees (€0.4 billion), and the Brexit adjustment fund (€0.4 billion). The only cost-of-living measure included in the one-offs/temporary measures for 2023 is the temporary business energy support scheme (TBESS), costing €650 million. It seems unlikely that all €650 million will be spent on the TBESS, as only €81 million of claims had been approved by 27 April.

In February 2023, a further cost-of-living package was introduced, with €0.8 billion in tax cuts and €0.4 billion in expenditure measures announced. At the time of introduction of the spring measures, it was unclear what the exact cost of individual supports might be. It was also unclear how they would be funded: whether these supports would be met by existing contingencies or require new funding. As a matter of principle, the Government should provide more detail on measures introduced outside the usual budget process.

Since then, the Government has indicated that these temporary expenditure measures are expected to be covered under the Government Expenditure Ceiling and will not lead to additional expenditure over and above what was already laid out in *Budget 2023*. The Department also expected that revenue buoyancy will somewhat offset the cost of the tax cuts.

Figure 2.4: Approximately €1.1 billion of non-core spending remains unallocated

€ billion, shaded regions refer to unallocated amounts



Sources: SPU 2023, CSO and Fiscal Council workings. Get the data.
Notes: Shaded regions refer to €1.1 billion of non-core spending which has been earmarked for certain areas but remains unallocated within those areas. TBESS refers to the temporary business energy support scheme. BAR is the Brexit adjustment reserve and NRRP is the EU's Recovery and Resilience Fund.

Table 2.2: *SPU 2023* summary fiscal forecasts

€ billions

	2022	2023	2024	2025	2026
General government					
Revenue	115.5	123.4	129.2	135.0	142.1
Expenditure	107.5	113.4	113.0	116.8	121.3
Balance	8.0	10.0	16.2	18.1	20.8
Revenue one-offs	-0.7	-0.8	0.0	0.0	0.0
Expenditure one-offs	7.6	5.2	0.5	0.3	0.0
Windfall corporation tax	10.8	11.8	11.8	11.4	12.4
Expenditure excl. one-offs	99.9	108.3	112.5	116.6	121.3
Revenue excl. one-offs and windfall corporation tax	105.4	111.6	117.4	123.6	129.7
Balance excl. one-offs and windfall corporation tax	5.5	3.4	4.9	7.0	8.4
Exchequer and social Insurance Fund					
Gross voted "core" expenditure	80.0	85.9	90.2	94.7	99.5
Gross voted "core" current expenditure	69.6	74.3	77.6	81.3	85.3
Gross voted "core" capital expenditure	10.5	11.7	12.6	13.4	14.2
Tax and PRSI revenue	97.2	104.0	111.0	116.6	123.7
Tax revenue	83.1	88.9	94.4	99.0	105.0
PRSI	14.0	15.1	16.6	17.6	18.7

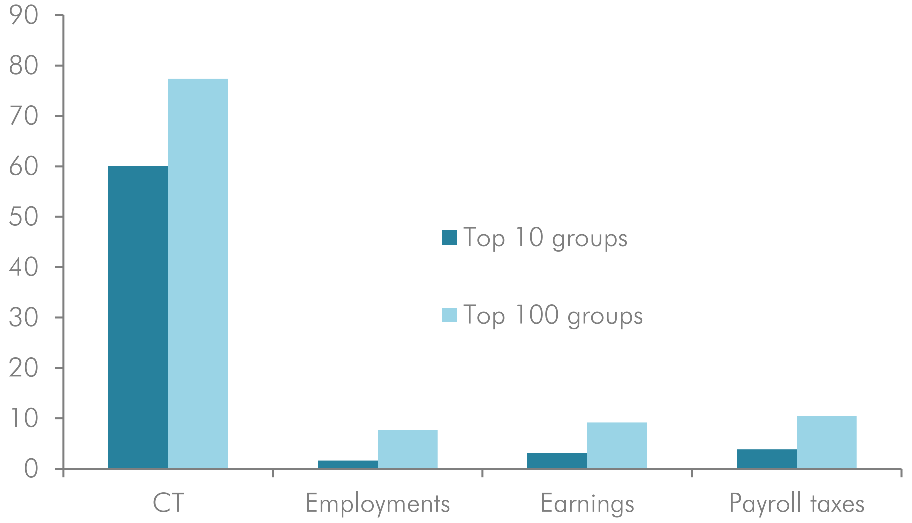
Sources: CSO; *SPU 2023*, and Fiscal Council workings.
Notes: Estimates of windfall corporation tax receipts are the Department of Finance's estimates published in *SPU 2023*. Estimates of revenue and expenditure one-offs are those judged by the Council.

2.3 Corporation tax

Corporation tax is concentrated among a small number of corporate groups, which are also significant contributors to other revenues. Figure 2.5 shows the contribution made by these groups to other aspects of the Irish economy outside corporation tax alone. In 2022, the top 100 groups account for almost 80% of corporation tax paid, but also account for around 10% of employment, earnings and payroll taxes. Recently published work (Cronin, 2023) estimates that just three corporate groups accounted for around a third of all corporation tax revenues from 2017 to 2021, with ICT and pharma-chem being the top sectors.

Figure 2.5: Top payers of corporation tax have proportionally smaller real economy impacts

% of total for the largest payers of corporation tax in 2022



Sources: Revenue Commissioners, CSO, and Fiscal Council workings. Get the data.
Notes: CT = corporation tax. Figures refer to the percentage of each of the categories accounted for by the top 10 or top 100 payers of corporation tax in Ireland (corporate groups). The share of employments shown here is a slight overestimate. The numerator is the number of employments accounted for by the top 10 or 100 groups. The denominator is the number of people employed (from the CSO Labour Force Survey). Employments will exceed the total numbers employed, due to people working in multiple jobs or changing jobs within a year. Payroll taxes refers to income tax, USC, and PRSI combined.

Corporation tax receipts are forecast to remain roughly unchanged as a share of national income in the coming years. As a result, excess corporation tax receipts are forecast to remain elevated out to 2026. Figure 2.6 shows that excess receipts are forecast to be between 3.5% and 4.2% of national income. The Department assumes that the negative impact of the OECD's Base Erosion and Profit Shifting (BEPS) pillar I and pillar II reforms do not take effect until 2025. SPU forecasts incorporate a €2 billion negative impact from 2025 onwards.

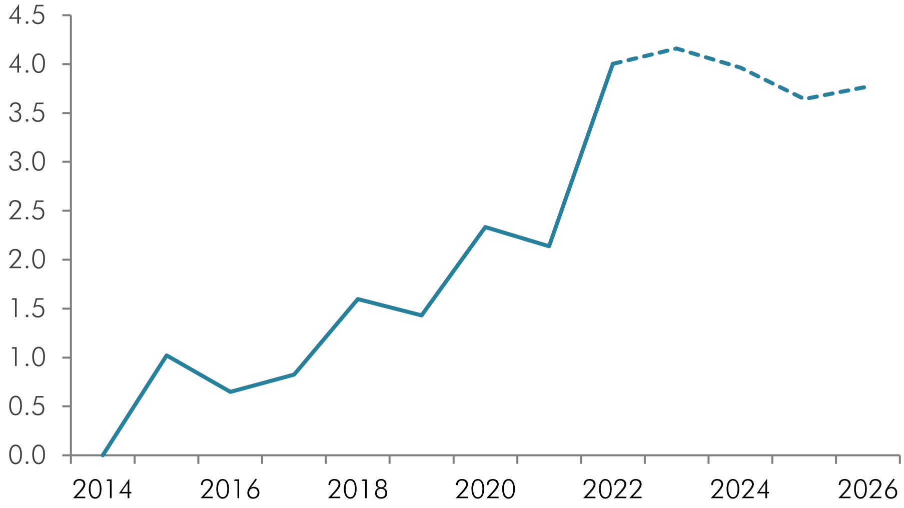
This estimate of the impact of the BEPS reforms has remained unchanged since January 2020. In the meantime, corporation tax receipts have grown substantially. As a result, the €2 billion impact is a much smaller share of corporation tax receipts than was the case when it was originally estimated. €2 billion was 18.4% of 2019 receipts but is 8.8% of 2022 receipts.

The Department has assumed that €1.2 billion of 2022 receipts are one-off. As a result, these receipts are not assumed to recur in 2023. This reduces *SPU 2023* forecasts of corporation tax in 2023 and beyond. However, given the strength of receipts so far this year, it seems likely that receipts in 2023 could surpass *SPU 2023* projections. Supplementary information section S5 shows a decomposition of these forecasts.

Section 3.3 discusses the importance of these receipts when considering an appropriate fiscal stance for Ireland. The medium-term outlook for these risks is highly uncertain. Box D explains how the public finances have benefitted from excess corporation tax receipts.

Figure 2.6: Excess corporation tax is forecast to remain high

% GNI*



Sources: *SPU 2023*, CSO, and Fiscal Council workings. *SPU 2023* figures are used for 2021-2026. Notes: For 2014-2020, Fiscal Council estimates are used (see Box D). Get the data.

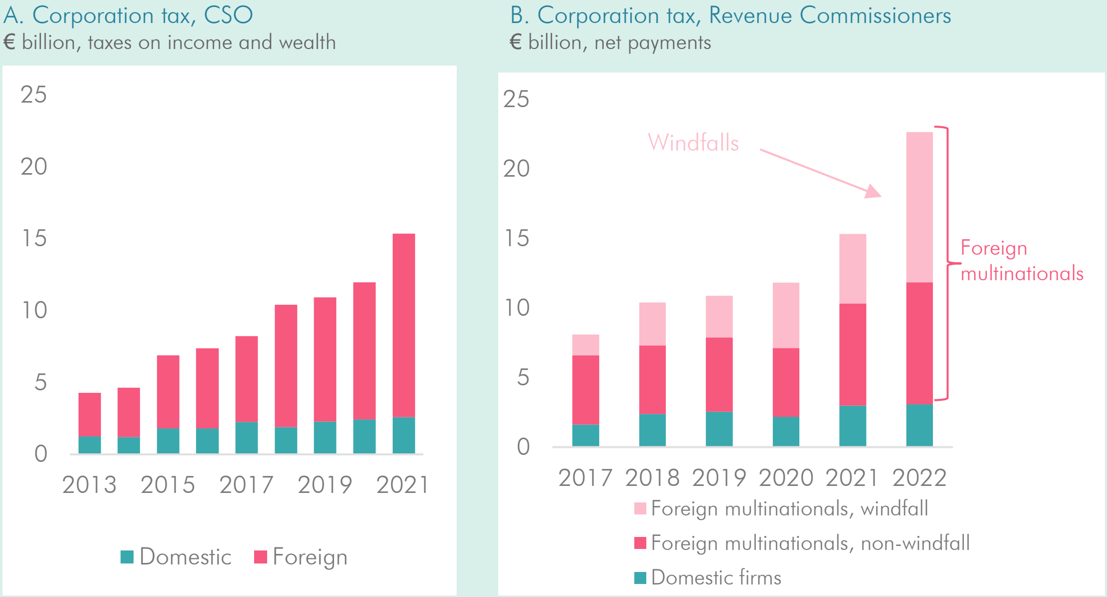
Box D: Windfall corporation tax receipts flattering the public finances

The public finances are benefiting significantly from windfall corporation tax receipts, receipts in excess of what can be explained by domestic economic activity.

Much of Ireland's corporation tax receipts come from foreign-owned multinationals. Figure D1 shows data from two different sources on the proportion of corporation taxes paid by foreign-owned multinationals. Panel A shows data from the CSO's Institutional Sector Accounts, while panel B shows the data from the Revenue Commissioners.[28] Both data sources show a substantial rise in corporation tax payments in recent years, much of this being driven by foreign-owned multinationals.

Much of the growth in receipts of these foreign-owned multinationals is in excess of what can be explained by growth in the domestic economic activity (Figure D1.B). While these windfall receipts are substantial, the economy and the public finances has benefited greatly from non-windfall receipts from foreign multinationals. The non-windfall receipts from foreign multinationals amounted to €8.8 billion in 2022. This is more than double the total corporation tax take in 2013.

Figure D1: Foreign multinationals pay a disproportionate share of corporation tax



A. Corporation tax, CSO

€ billion, taxes on income and wealth

B. Corporation tax, Revenue Commissioners

€ billion, net payments

Sources: CSO; Revenue Commissioners and Fiscal Council workings. Get the data.

Notes: Panel A shows taxes on Income and wealth of foreign and domestic firms taken from the institutional sectoral accounts. Taxes on income and wealth includes capital gains taxes and corporation taxes paid by firms. However, most of taxes on income and wealth paid by firms is corporation tax. Panel B shows the share of net corporation taxes paid by foreign owned multinationals, taken from the Revenue Commissioners' data. Windfall corporation tax receipts are estimated by the Department of Finance for 2021 and 2022. For 2017-2020 the Council's estimates are used.

The growth in the windfall receipts has flattered the headline indicators of the public finances. These receipts are highly concentrated coming from just a handful of firms (Figure 2.5). As a result, these receipts could be subject to sharp reversals, which could occur from changes to the international tax environment.

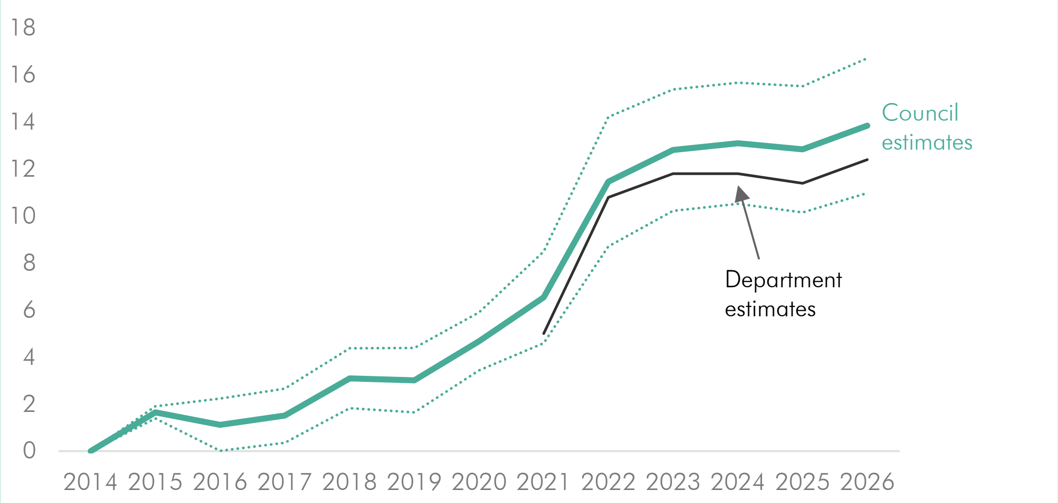
As a result, the Department has estimated the proportion of these receipts that may be deemed windfalls—those in excess of what can be explained by domestic economic activity. The Department uses a range of approaches to estimate these windfalls, as does the Council. The Council's models suggest that the windfalls could be potentially larger than the Department's estimates (Figure D2) and there are

[28] The CSO's institutional sectoral accounts data are derived using data from the Revenue Commissioners. However, the CSO's data is based on accrual accounting methods whereas the Revenue Commissioners' data are based on cash payments. There are also differences in the definitions for foreign and domestic owned firms. In addition, the CSO's data on taxes on income and wealth includes capital gains taxes and corporation taxes paid by firms. However, most of taxes on income and wealth paid by firms is corporation tax.

risks around these windfall estimates with the upper bound on windfall receipts substantially above the Department's estimate.[29]

Figure D.2: Windfall receipts could potentially be higher than the Department is estimating

€ billion



Sources: Department of Finance and Fiscal Council workings. Get the data.

Notes: See Fiscal Council (2020) for an overview of the models used to estimate windfall corporation tax receipts.

[29] Some of the approaches used by the Department to estimate the windfall receipts would tend to bias downwards the estimated windfall receipts. For instance, one approach the Department uses to estimate the windfall amount is to see how much higher the share of corporation tax revenue in total tax revenue is from its long-run average share, or "norm". However, the Department estimates this long-run share over a period in which we have been receiving these windfall receipts. It is widely accepted that these windfall receipts began around 2015. By including a post-2015 period in its estimation of the long-run share, the Department is including windfall receipts in its long-run "norm". This therefore biases up the long-run share and biases down the amount that could be considered windfall under this approach.

2.4 Tax revenue forecasts

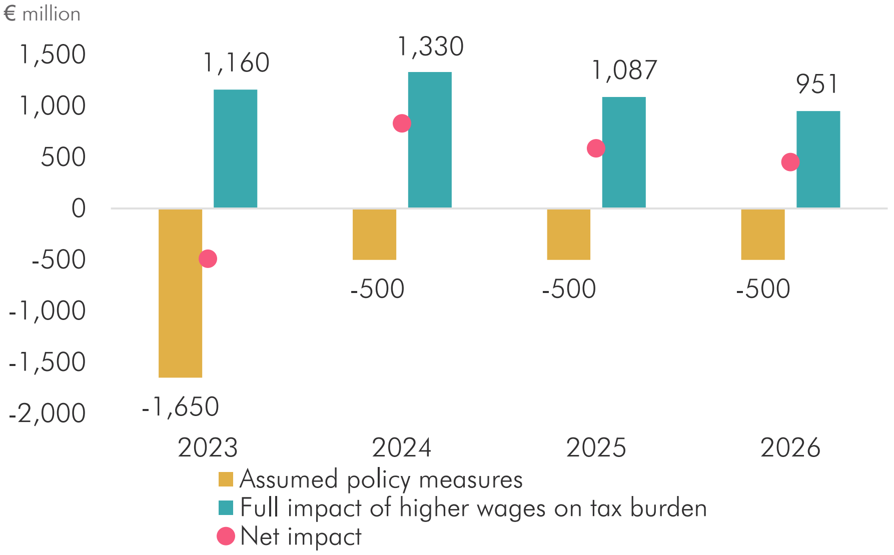
To assess revenue projections and understand the underlying dynamics, tax forecasts can be decomposed into several factors. Supporting information Section S5 shows a breakdown of the various factors contributing to *SPU 2023* forecasts of tax receipts. These factors include growth in macroeconomic drivers, policy changes, one-off effects, and judgement applied to the forecasts.

By looking at this breakdown, one can better assess if revenue projections are reasonable. For example, if strong revenue increases were based on judgement rather than policy changes or growth in the macroeconomic drivers, that might be a cause to question such a forecast. As has been documented previously, forecasting government revenue in Ireland is difficult, with large absolute errors relative to other countries (Hannon et al, 2015; Tax Forecasting Methodology Review Group, 2019).

Figure 2.7 shows that income tax changes assumed as part of *SPU 2023* are consistent with partial indexation of the tax system from 2024. Tax reductions of €500 million per year are assumed. However, this is lower than what would be required to index tax bands and credits to wage growth and, all else equal, this would lead to an increase in the effective tax rate and higher tax revenue.

Assumed tax cuts are consistent with partial indexation

Figure 2.7: Assumed tax cuts are consistent with partial indexation

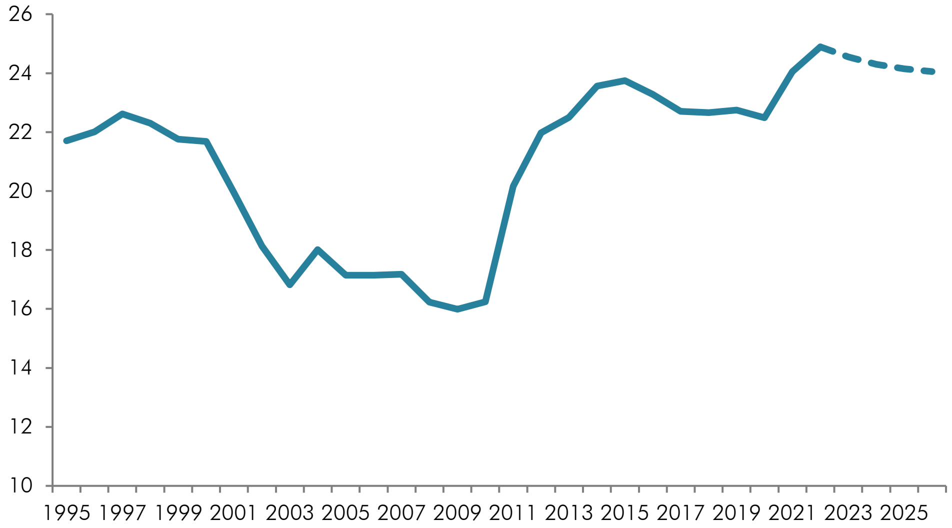


Sources: *SPU 2023*, CSO, and Fiscal Council workings. Get the data.
Notes: A net impact less than zero indicates that assumed policy changes are greater than the assumed yield from not indexing income tax bands and credits. As a result, income tax revenue would be lower than if full indexation of the income tax system were assumed. The cost of indexation for 2023–2024 is given by Department of Finance estimates. The 2025 and 2026 estimates are derived by combining the Revenue Commissioners' post-*Budget 2023* "ready reckoner" with the Department of Finance's forecasts of hourly earnings growth.

However, the Department has also applied negative judgement to its forecasts of income tax of approximately €1 billion per year over 2024-2026 (see supplementary information section S5). This implies the income tax share of the wage bill relatively flat, rather than rising as it would be without applying this judgement (Figure 2.8). This negative judgement exceeds the additional tax changes over what has been assumed for *SPU 2023* which would be required to fully index the income tax system.

Figure 2.8: Income tax to fall slightly from a historically high share

Exchequer income tax as a percentage of compensation of employees



Sources: *SPU 2023*, CSO, and Fiscal Council workings. Get the data.

Excise is another revenue source that is impacted by assumed policy changes. Excise receipts are boosted by the planned increases in the carbon tax over the forecast horizon (averaging €140 million over 2024-2026).

As noted in Section 2.2, PRSI receipts could be stronger than SPU forecasts for 2023. A higher base for 2023 would also lead to higher receipts in the following years.

The Council requested information on the methodology used to forecast PRSI receipts.[30] No further information was provided, so it is impossible to assess how *SPU 2023* projections for PRSI were arrived at. Given PRSI makes up 12% of general government revenue, this makes it difficult for the Council to fulfil its mandate to assess the fiscal forecasts in *SPU 2023*.

[30] The Department of Social Protection forecast PRSI receipts, not the Department of Finance.

2.5 Government spending and Stand-Still costs

As outlined earlier, *SPU 2023* budgetary projections only go as far as 2026—the minimum required for an SPU. Due to this short forecast horizon, sizeable medium-term challenges are not being sufficiently recognised in planning. The expected costs of ageing, climate change, and other policy initiatives need to be costed and factored in properly.

Three likely costs have not been included in *SPU 2023* spending forecasts:

Three likely costs have not been included in *SPU 2023* expenditure forecasts

First, spending related to Ukrainian refugees has not been provided for after 2023 in SPU projections. The Department outlined that this is because *SPU 2023* is compiled on a no-policy-change basis. This seems implausible. It implies that current government policy is that there will be no government spending on supporting Ukrainian refugees in 2024. This is despite the Government's macroeconomic forecasts assuming that there will continue to be more Ukrainian refugees arriving in 2024, and no major outflows of people thereafter.

For additional context, the *Stability Programme Update* published in April 2022, which was also compiled on a no-policy-change basis, incorporated a contingency for spending on Ukrainian refugees for the following year, 2023. *Budget 2023* then allocated €2 billion of spending for 2023. While the exact quantity of spending in this area for 2024 is uncertain, it is likely to be significant again. Despite this, *SPU 2023* expenditure forecasts include no explicit provision for it.

Second, government contributions to the planned auto-enrolment pension scheme have not been incorporated into spending forecasts. This is despite the scheme having been incorporated into the macroeconomic projections underpinning *SPU 2023*. As outlined in Box B, this is likely to imply costs of over €125 million per year in the years 2024-2026. This reflects the estimated cost of government contributions to the scheme, which are set at one-third of employee contributions.

Third, payment of the Christmas bonus has not been budgeted for in any part of the forecast horizon. This is despite its payment to some extent, in every year since 2014. There has been repeated failure to budget for this in advance of the Budget Day announcements, after which the Government then systematically provides these payments for the approaching Christmas period.

Given these issues, the methodology employed to forecast government expenditure in *SPU 2023* is substandard. Taking the three items listed above, these could imply additional expenditure of approximately €2.6 billion in 2024 (€2.1 billion for Ukrainian refugees, €125m for state contributions to the auto enrolment pension scheme, and €350 million for the Christmas bonus).

The *Stability Programme Update 2021* introduced the concept of "core" and "non-core" government spending. Non-core spending, initially related to the Covid-19 pandemic, was assumed to be temporary. Amounts for the Brexit adjustment reserve, and the National Recovery and Resilience Plan were also counted as non-core spending as these were funded by the EU and were temporary.

After the onset of the Russian war on Ukraine, the definition of non-core spending expanded to incorporate spending related to supporting Ukrainian refugees and temporary cost of living measures.

The distinction between core and non-core expenditure is becoming somewhat blurred

Some amount of Covid-19 related expenditure is likely to be necessary indefinitely. In addition, the war in Ukraine could continue for a protracted period and some refugees may settle in Ireland. As a result, the distinction between non-core and core spending is becoming somewhat blurred. Given that a substantial proportion of non-core expenditure is likely to continue indefinitely, this should be factored into the core expenditure base over time as it becomes more certain and to avoid unduly distorting core spending that is used for the National Spending Rule.

Core government spending is expected to grow in line with the National Spending Rule, currently set at 5% over 2024-2026. In addition, non-core expenditure growth is forecast to average €0.4 billion annually over this period.

To evaluate the disparity between realistic spending plans and current plans, Figure 2.9 shows "Stand-Still" estimates, which incorporate the cost of maintaining existing services, including support for Ukrainian refugees, state contributions to the auto-enrolment pension scheme and payment of the Christmas bonus.[31] The "Stand-Still" assumes that demographic changes are accounted for, welfare rates and public sector pay grow in line with the Department's forecasts for wage growth, while other costs grow in line with inflation forecasts.[32]

Expenditure forecasts in *SPU 2023* are below levels required to Stand Still

The estimated "Stand-Still" costs in 2024 are €5.6 billion (including €0.9 billion in capital spending). This is €1.3 billion more than the increase in core expenditure expected in *SPU 2023* and that is available under the National

[31] This assumes that all Ukrainian humanitarian spending becomes "core" spending. For the "Stand-Still" analysis, costs related to Ukrainian humanitarian spending are assumed to increase in line with inflation.

[32] Whether welfare rates and public sector pay grow in line with wage increases is ultimately a policy decision. This also assumes no efficiency gains in government current expenditure.

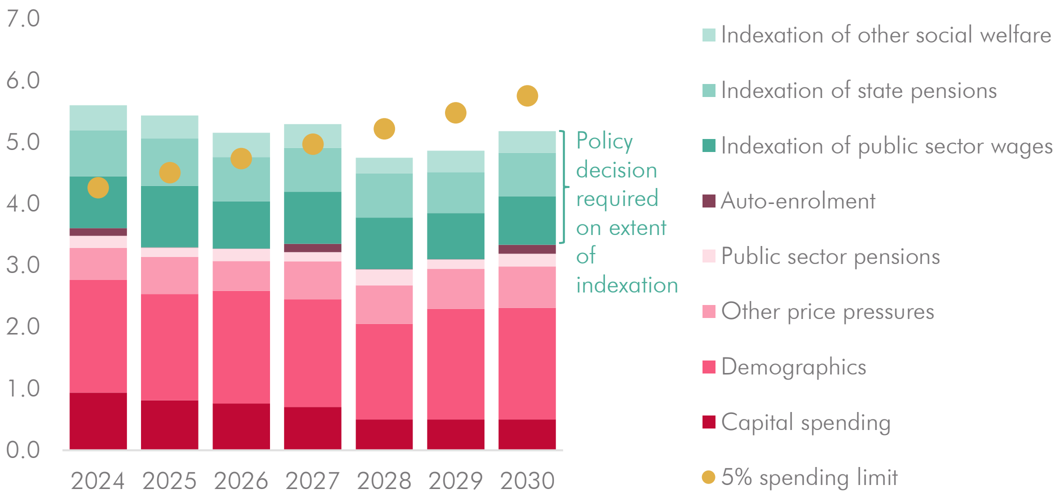
Spending rule.[33] Of the €5.6 billion, €2.5 billion relates to the indexation of public sector pay and welfare rates to forecast wage growth. Were public sector pay and welfare rates to grow at a slower rate than economy-wide wage growth as has been the case in a number of years, Stand-Still costs would be lower.

Over 2025-2026, the cost of standing still is approximately €0.6 billion per annum more than the increase of core expenditure allowed at present under the Government's National Spending Rule (Figure 2.9).

As the Government's National Spending Rule is set in net terms (net of tax changes), tax increases could provide room for further spending increases beyond those outlined in *SPU 2023*.[34] In addition, the Government could decide to grow public sector wages or social welfare payments at a slower rate than economy-wide wage growth or slow spending growth in other areas.[35]

Figure 2.9: Spending plans may not be enough to cover Stand-Still costs

Annual change in € billion (gross voted spending)



Source: Fiscal Council workings. Get the data.
Notes: The stand-still assumes that public sector pay rates and social welfare rates grow in line with forecasts of economy-wide wage growth, while other prices grow in line with inflation forecasts. Capital spending is as outlined in the NDP for 2027-2030. Figures for the 5% spending limit show the existing ceilings. Including Ukrainian humanitarian aid in the base for core spending would increase the existing ceilings by circa €0.1 billion for each year.

[33] The inclusion of Ukrainian humanitarian aid in the base for core spending adds approximately €0.1 billion to standstill costs in 2024. Including this in the base for core spending would also change the ceilings for core spending going forward. Excluding Ukrainian humanitarian costs, stands-still costs would be €1.2 billion more than the increase in core current expenditure expected in *SPU 2023*.

[34] Conversely, further tax cuts would reduce the amount of space available for spending increases under the National Spending Rule.

[35] There is no rule of indexing public sector wages or social benefits to inflation or wages. Decisions on such changes are made year-to-year and can exceed or fall short of inflation or private sector wage changes.

2.6 Capital spending plans

Capital spending (gross fixed capital formation, or GFCF) forecasts were revised down in *SPU 2023* relative to *Budget 2023* (Figure 2.10A). The downward revision in general government terms contrasts with forecasts of gross voted capital spending, which remains unchanged from budget day. This suggests that it is non-voted capital expenditure that has been revised down, particularly around local government or Approved Housing Authorities.

Capital spending has been revised downwards

The Department has indicated that this downward revision is in part due to a reclassification of government spending from capital spending into intermediate consumption and capital transfers.[36] In addition, there been a downward revision of general government bodies (which sit outside the Exchequer) forecasts for capital expenditure.[37] For 2024, gross fixed capital formation was revised down by €1.2 billion.

More generally, in recent years, capital expenditure has fallen short of forecast levels (particularly in housing). Figure 2.10A below shows capital spending plans as a share of national income. Nominal national income has been revised up due mainly to higher inflation. *Budget 2022* forecast capital spending to reach almost 5.5% of national income by 2025. *SPU 2023* forecasts capital spending to be 4.2% of national income in 2025.

Since *Budget 2022*, nominal government capital spending has been revised down, while inflation has increased. Both factors mean that a lower level of real output is now expected. By 2025, the gap between the real level of investment foreseen in *SPU 2023* and *Budget 2022* is almost 24%.

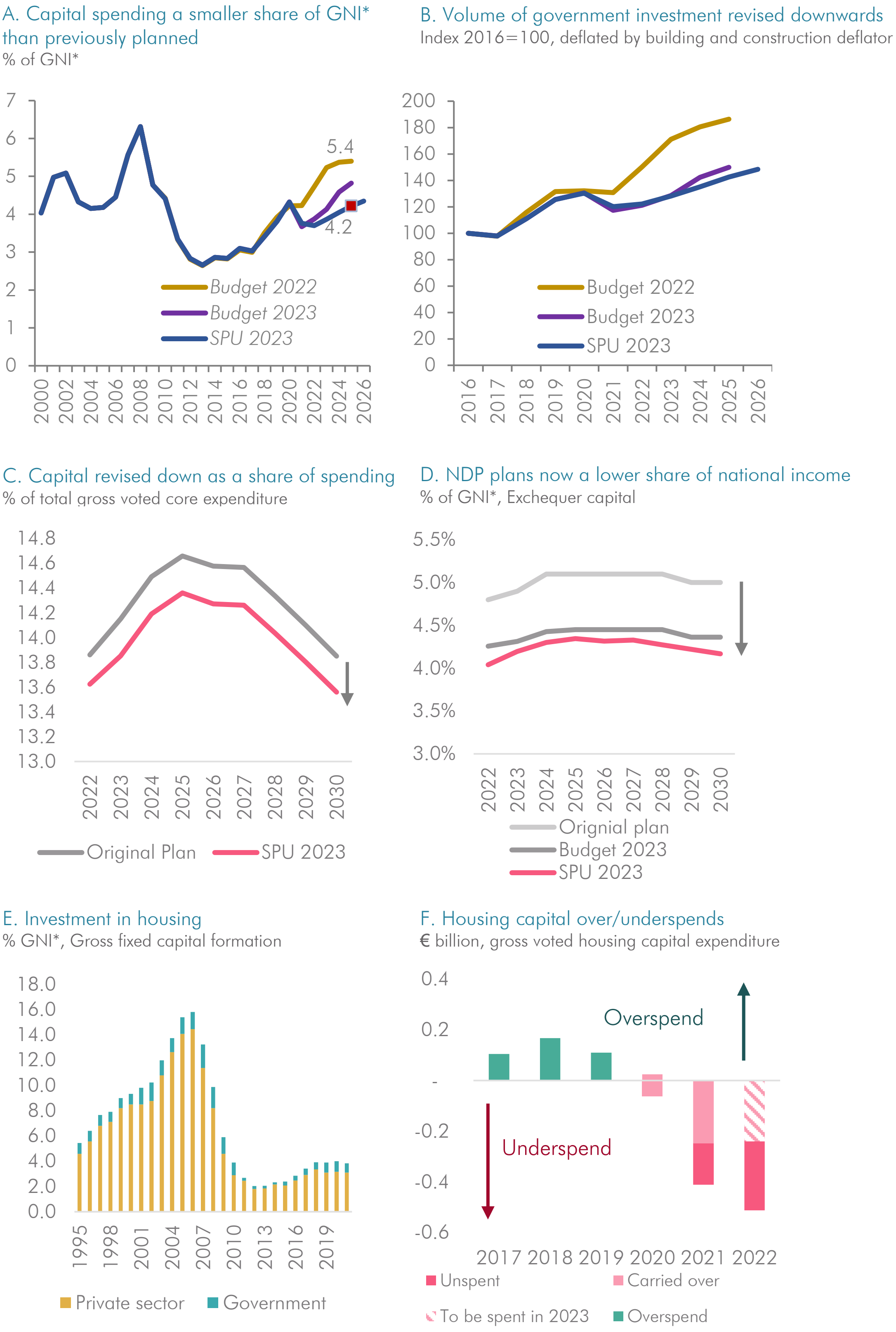
Capital spending now makes up a lower share of total spending than originally planned, as gross voted (core) current spending has been increased in response to higher inflation, and little to no upward response of capital spending to inflation (Figure 2.10C).

As a result, the *National Development Plan* (NDP) will now account for a lower share of national income than originally planned (Figure 2.10D).

It could be the case that capital spending is revised down in the short term, with higher levels of investment coming later. However, with the short forecast horizon (three years ahead) in *SPU 2023*, this is unclear. To return to the same share of national income as originally planned, exchequer capital spending would have to be on average €2.7 billion higher per year over 2024 to 2030.

[36] The Department was unable to provide estimates of how large these revisions were.
[37] Intermediate consumption refers to goods and services consumed by general government units in their productive activities.

Figure 2.10: Capital spending revisions and underspends



A. Capital spending a smaller share of GNI* than previously planned
% of GNI*

B. Volume of government investment revised downwards
Index 2016=100, deflated by building and construction deflator

C. Capital revised down as a share of spending
% of total gross voted core expenditure

D. NDP plans now a lower share of national income
% of GNI*, Exchequer capital

E. Investment in housing
% GNI*, Gross fixed capital formation

F. Housing capital over/underspends
€ billion, gross voted housing capital expenditure

7
6
5
4
3
2
1
0
5.4
4.2
Budget 2022
Budget 2023
SPU 2023
2000
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
2026
200
180
160
140
120
100
80
60
40
20
0
Budget 2022
Budget 2023
SPU 2023
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
14.8
14.6
14.4
14.2
14.0
13.8
13.6
13.4
13.2
13.0
2022
2023
2024
2025
2026
2027
2028
2029
2030
Original Plan
SPU 2023
5.5%
5.0%
4.5%
4.0%
3.5%
3.0%
2022
2023
2024
2025
2026
2027
2028
2029
2030
Orignial plan
Budget 2023
SPU 2023
18.0
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
1995
1998
2001
2004
2007
2010
2013
2016
2019
Private sector
Government
0.4
0.2
-
-0.2
-0.4
-0.6
Overspend
Underspend
2017 2018 2019 2020 2021 2022
Unspent
Carried over
To be spent in 2023
Overspend

Sources: Department of Public Expenditure and Reform; Eurostat; CSO; and Fiscal Council workings.
Notes: Panel B shows the government gross fixed capital formation spending deflated by the building and construction deflator from the national accounts. Government investment in panel E refers to government gross fixed capital formation (P51G) and Investment grants (D92) for housing (COFOG codes GF0601 & GF1006). Panel F shows data relative to original allocation. Get the data.

This sort of smoothing (even if not entirely planned) could prove beneficial, as the economy does not require further stimulus at present and capacity constraints do appear to be binding in certain areas. However, some forms of capital spending could help alleviate some capacity constraints currently being experienced by the Irish economy.

Housing has been a key part of capital underspends in recent years. Relative to the original allocation in the Revisited Estimates, there has been a cumulative within year underspend of €1 billion in housing capital expenditure over the last three years (2.11F). However, of the underspend in 2020, €0.1 billion was carried over into 2021 and subsequently spent.[38] Similarly, a further €0.25 billion of the underspend in 2021 has been carried over into 2022 and spent. A further €0.25 billion of the underspend in 2022 has been carried over into 2023 and will likely be spent this year. This means that the true unspent amounts in the housing capital programme in the last three years is in the region of €0.4 billion.

As discussed in Section 2.1, a large capital transfer related to the Defective Concrete Blocks Redress scheme (€2.7 billion) is now to be accounted for over several years. Previously all of this expenditure was expected to be accounted for in 2022.

Beyond this year (where €40 million of expenditure is expected), expenditure on the Defective Concrete Blocks Grant Scheme has not been incorporated into SPU forecasts. While the timing of payments may be uncertain (and may extend beyond the fiscal forecast horizon of *SPU 2023*), the total cost of this scheme across multiple years is expected to be around €2.7 billion.

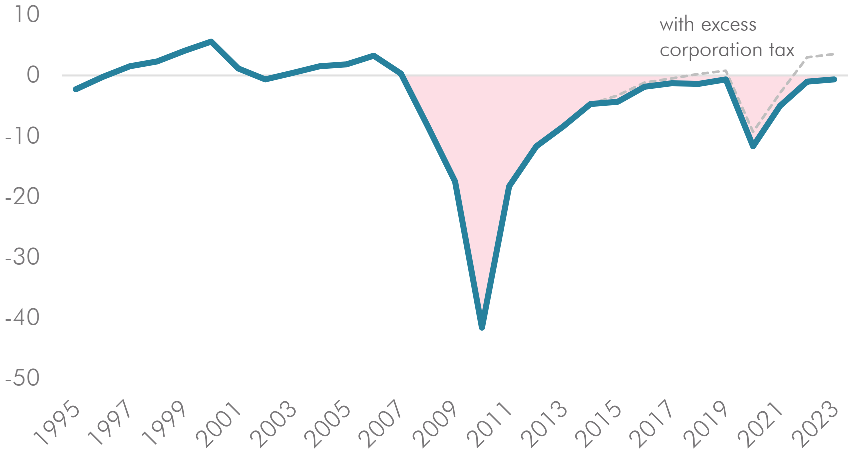
[38] Given the way this spending is accounted for in the exchequer accounts, it does not show up in the following year's capital expenditure. Instead, it comes out of the exchequer in the year in which the underspend occurs.

2.7 How the public finances are forecast to evolve

When excluding excess corporation tax, the general government balance is forecast to remain in deficit in 2023. This would be the sixteenth consecutive year in which this has occurred (Figure 2.11).

Figure 2.11: Government balance excluding excess corporation tax forecast to remain in deficit this year

General government balance excluding excess CT receipts, % GNI*

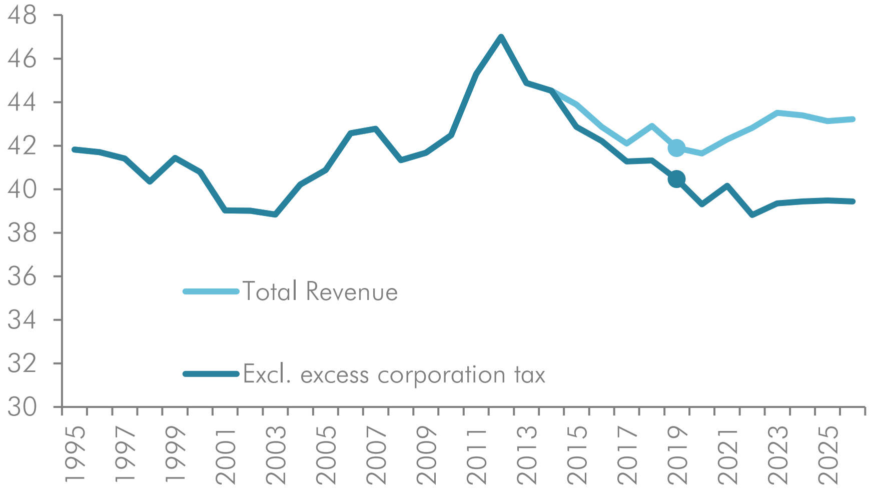


Sources: SPU 2023, CSO, and Fiscal Council workings. Get the data.
Notes: For excess corporation tax, SPU 2023 figures are used for 2021-2026. For 2014-2020, Fiscal Council estimates are used (see Box D).

To give a perspective on the underlying dynamics of the public finances over the coming years, Table 2.3 compares the *SPU 2023* forecast of the level of several fiscal variables in 2026 to the last outturns before the pandemic (2019) as a way aof "looking through" the impact of the pandemic.

Figure 2.12: Headline revenue diverges from underlying revenue as a share of national income

% GNI*, general government revenue



Sources: CSO, Department of Finance, and Fiscal Council workings. Get the data.
Notes: Dots show 2019 levels. For excess corporation tax, *SPU 2023* figures are used for 2021-2026. For 2014-2020, Fiscal Council estimates are used (see Box D).

Underlying general government revenue is forecast to remain broadly flat as a share of national income. Figure 2.12 illustrates the role of excess corporation tax receipts. Headline general government revenue increases as a share of national income, while there is a slight fall in the underlying measure (relative to 2019).

On the spending side, current primary spending is forecast to fall as a share of national income. While current primary spending is forecast to grow by almost 5% on average over the period, nominal GNI* growth averages 6.6%. Capital spending is forecast to grow as share of national income relative to 2019. However, this increase is more modest than previous plans would have implied (Section 2.6). Interest spending is forecast to fall in nominal terms (and hence even more as a share of national income). This is due to the average interest rate on outstanding government debt falling over the period. A substantial fall occurred between 2019 and 2021.[39]

Table 2.3: Comparing 2019 and 2026

Difference 2026 – 2019

	p.p change in GNI*	€ billion change	% Change	Annualised growth rate
GG revenue	1.3	53.8	61.0	7.0
GG revenue (excl. excess corporation tax)	-1.0	44.5	52.2	6.2
Tax revenue	3.8	45.7	77.1	8.5
PRSI	0.3	7.3	63.4	7.3
Non-tax, non-PRSI revenue	-2.7	0.9	5.1	0.7
Income tax	1.0	16.3	71.0	8.0
Corporation tax	3.1	16.3	149.7	14.0
:of which “excess”	0.5	9.4	310.8	22.4
VAT	-0.9	10.2	67.7	7.7
Other tax revenue	-0.9	2.9	27.8	3.6
GG spending	-4.2	34.7	40.2	4.9
Gross fixed capital formation	0.5	6.3	78.1	8.6
Interest	-1.2	-1.2	-26.9	-4.4
Current primary spending	-3.6	29.7	40.2	4.9
GG balance	5.5	19.1		
GG balance (excl. excess corporation tax)	3.2	9.7		
Level of GNI*		118.2	56.1	6.6

Sources: CSO and *SPU 2023*.

Notes: Changes are in the format 2026 level minus 2019 level. As a result, positive values indicate a variable increasing over the period or taking up a larger share of GNI* than was the case in 2019. The annualised growth rate shows the rate of growth for every year from 2019 that would yield the 2026 level forecast in *SPU 2023*. GG = general government. For excess corporation tax *SPU 2023* figures are used for 2021-2026. For 2014-2020, Fiscal Council estimates are used (see Box D).

Even after adjusting for excess corporation tax receipts, the government balance is forecast to improve from 2019 to 2026. A €9.7 billion improvement is forecast (3.2% of GNI*).

[39] Using general government interest expenditure divided by gross general government debt, the average interest rate fell from 2.3% in 2019 to 1.4% in 2021. It is projected to rise to 1.6% in 2026.

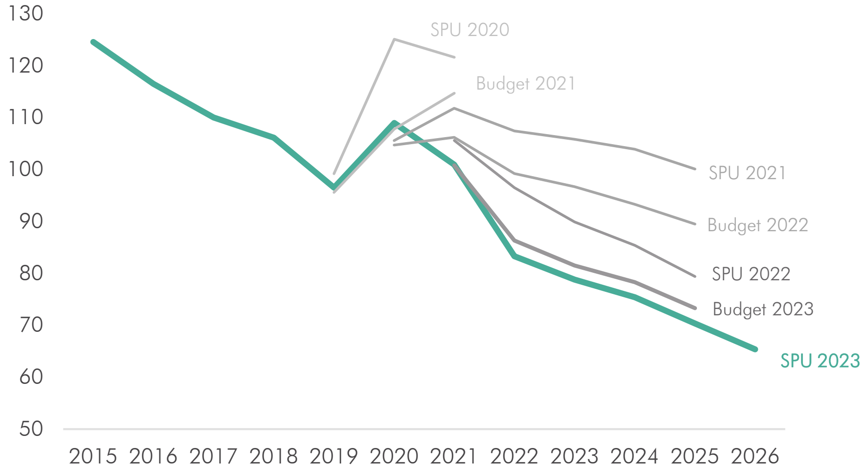
2.8 Debt trajectory

The gross debt to GNI* ratio is forecast to fall by 18 percentage points from end-2022 to end-2026. This is a further downward revision in the gross debt ratio forecasts previously made by the Department (Figure 2.13).

Debt forecasts have been repeatedly revised down

Figure 2.13: Debt forecasts repeatedly revised down

Gross debt, % of GNI*



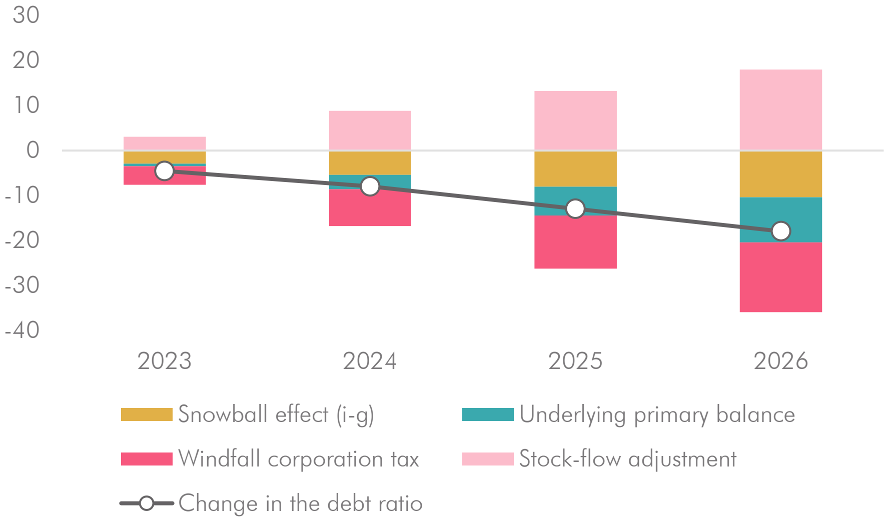
Sources: CSO, Department of Finance, and Fiscal Council workings. Get the data.

Windfall Corporation tax receipts have played a substantial role in recent declines in the debt ratio and are expected to continue to do so. Having contributed just over 6 percentage points of the cumulative decline in the debt ratio between end-2020 and end-2022, windfall receipts are expected to contribute another 16 percentage points by 2026 (Figure 2.14).

However, the "stock-flow adjustment" — changes in debt not captured by interest, growth or the budget balance — is forecast to act in the opposite direction. On average, it is projected to increase the debt ratio by 4.5 percentage points of GNI* each year over 2023 to 2026. These large contributions mainly reflect two things: first, the expectation that the Exchequer will increase the size of the cash balances it holds; and second, that the Social Insurance Fund will accrue larger surpluses and thus hold larger reserves. This is based on the forecasts showing large budget surpluses and low unemployment rates — hence implying high PRSI receipts into the Social Insurance Fund but low benefit payments out of it. Other government bodies, outside of the Exchequer, accruing more liquid assets is also playing a role.

Figure 2.14: Windfall corporation tax is a significant component of the forecast reduction in debt ratio

% of GNI*, cumulative change



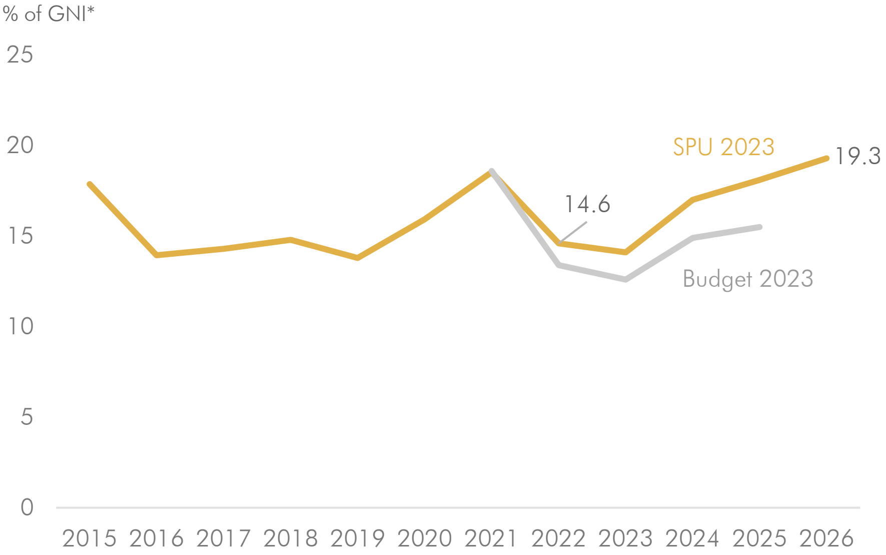
Sources: CSO, Department of Finance, and Fiscal Council workings. Get the data.
Notes: The snowball effect refers to the impact of the interest rate versus economic growth (i-g) differential.

Given this rise in cash balances, the net debt ratio is expected to fall by 22.7 percentage points between 2022 and 2026, more than gross debt, which is expected to fall by 18 percentage points. However, the potential introduction of a national savings fund will impact on the forecasts for net debt (defined as gross debt net of liquid assets) as the government would potentially invest in longer term assets rather than paying down debt or building up cash reserves. For the time being, much of the surplus the Government expects to run is being forecast as an increase in cash balances. However, if funds were to be transferred to a new national savings fund, and these funds invested, they may no longer be counted as liquid assets, and as a result the net debt ratio would be higher.

Figure 2.15 below shows the forecast rise in liquid assets, excessive deficit procedure (EDP) debt instrument assets, from 14.6% of GNI* at the end of 2022, to 19.3% of GNI* by the end of 2026. Exchequer deposits in SPU 2023 are now expected to be €10.8 billion higher by the end of 2025, relative to what *Budget 2023* had forecast.

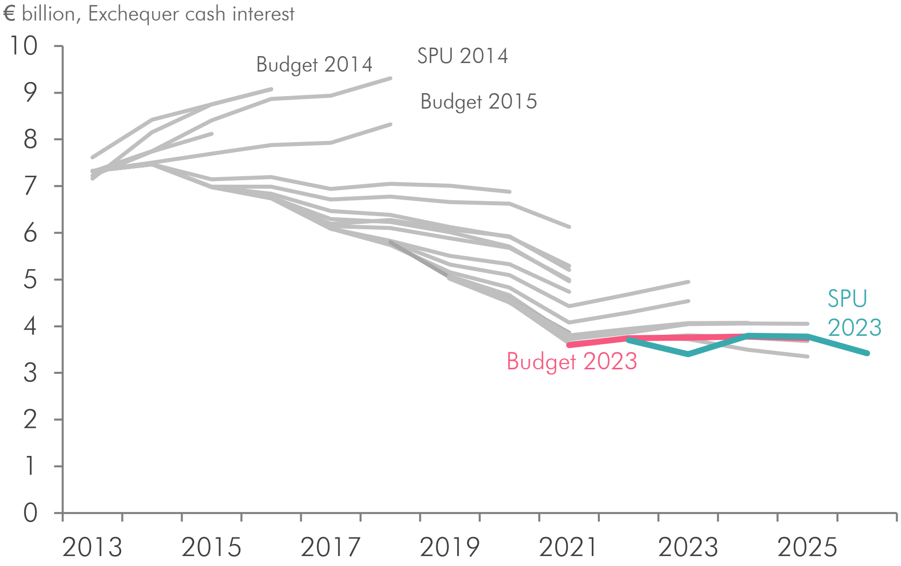
The forecast for cash interest payments is broadly the same over the medium term, with the rise in interest rates being offset by a downward revision to the debt ratio and the debt level since *Budget 2023* forecasts (Figure 2.16). This marks a significant change from recent years where falling rates led to consistent downward revision in expected interest costs.

Figure 2.15: Liquid assets forecast to rise but may be impacted by introduction of a new savings fund



Sources: CSO, Department of Finance and Fiscal Council workings. Get the data.
Notes: Figure shows EDP debt instrument assets, which includes cash assets and other highly liquid assets.

Figure 2.16: Cash interest payments revised downwards for 2023



Sources: Department of Finance, and Fiscal Council workings. Get the data.

2.9 Fiscal risks

Several factors could influence corporation tax receipts in the coming years. These include the implementation of the OECD BEPS initiatives and the exhaustion of large capital allowances by key multinational corporations. Given that 10 corporate groups account for more than half of corporation tax receipts, the level of profitability in these firms is a key factor in Irish corporation tax receipts. The introduction of the 15% rate could potentially increase revenue significantly.

There are upside risks to the revenue forecasts. These include one-off revenue windfalls; for instance, from fines issued by the Data Protection Commission, or, less likely, from the Apple tax case.[40] After publication of the *SPU 2023*, Data Protection Commission issued a fine of €1.2 billion to a social media company for violating privacy rules. However, this fine is likely to be appealed.

Several likely areas of expenditure have not been included in *SPU 2023* projections. First, the costs associated with government contributions to the auto-enrolment pension scheme have not been included for 2024-2026. Second, payment of the Christmas bonus has not been budget for. Third, there is no provision for spending on supporting Ukrainian refugees after 2023. Fourth, significant expenditure in relation to a redress scheme for defective concrete blocks has not been budgeted for beyond 2023.

More generally, similar once-off expenditure may arise in the coming years; for instance, from the remedial costs of fixing defects in apartments and duplexes built between 1991 and 2013, or from other redress schemes.

Another key risk to the public finances is political pressure to increase spending or cut taxes in response to forecast headline surpluses. Large headline surpluses may be required given (1) the continued impact of large windfall corporation tax receipts; (2) the longer-term fiscal challenges from ageing and climate change; and (3) the current cyclical position of the Irish economy.

The Council's Stand-Still scenario outlines the significant cost of demographics and price pressures in the years ahead. If the Government chooses to fully index public sector wages and social welfare payments, this will imply significant expenditure growth, more than forecast in *SPU 2023*. If the Government wishes to fully accommodate these spending pressures while adhering to the National Spending Rule, revenue-raising measures would be required.

[40] In 2016, the European Commission ruled that Ireland had illegally provided state aid of up to €13 billion plus interest to Apple. Its ruling was annulled by the General Court in July 2020. The European Commission has since appealed to the European Court of Justice. This process is likely to be concluded in 2023. In the meantime, the €13 billion plus interest will remain in an escrow fund.

Long-term risks to the public finances remain unaddressed in the projections for the public finances. The population is ageing, which will result in increased spending pressures on health and pensions.

On climate spending, detail on the economic and budgetary impact remains lacking. While the infrastructure investments necessary to mitigate climate change appear to have been included in the NDP (particularly energy investments), other spending needs have not been addressed. These include current spending for incentives that encourage changes in consumer and business behaviour and home energy efficiency. In addition to direct fiscal costs, compensation may be needed for people and activities that are more immediately affected by the climate transition.

Large capital projects could see cost overruns. Even in normal times, overruns on large projects are not uncommon. Given the capacity constraints in the Irish economy (particularly construction), these could lead to costs of capital projects exceeding initial estimates.

Regarding healthcare, the fiscal implications of Sláintecare remain unclear. Casey and Carroll (2021) outline several areas in which information on health spending and planning is lacking. There is no more additional information on the remaining costs of implementing this reform. However, it remains unclear how much (if any) of the increased spending on health in recent years has been used to address these reforms.