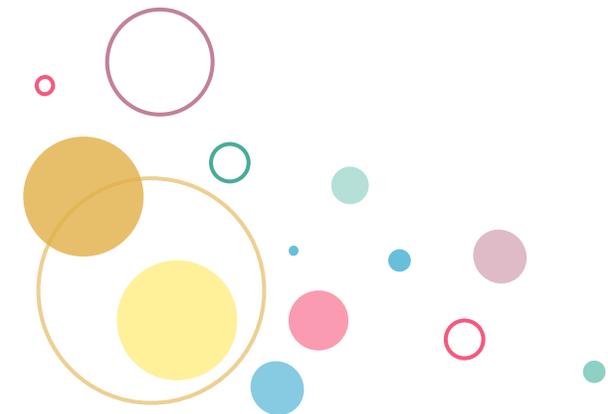


Pre-Budget 2024 Statement

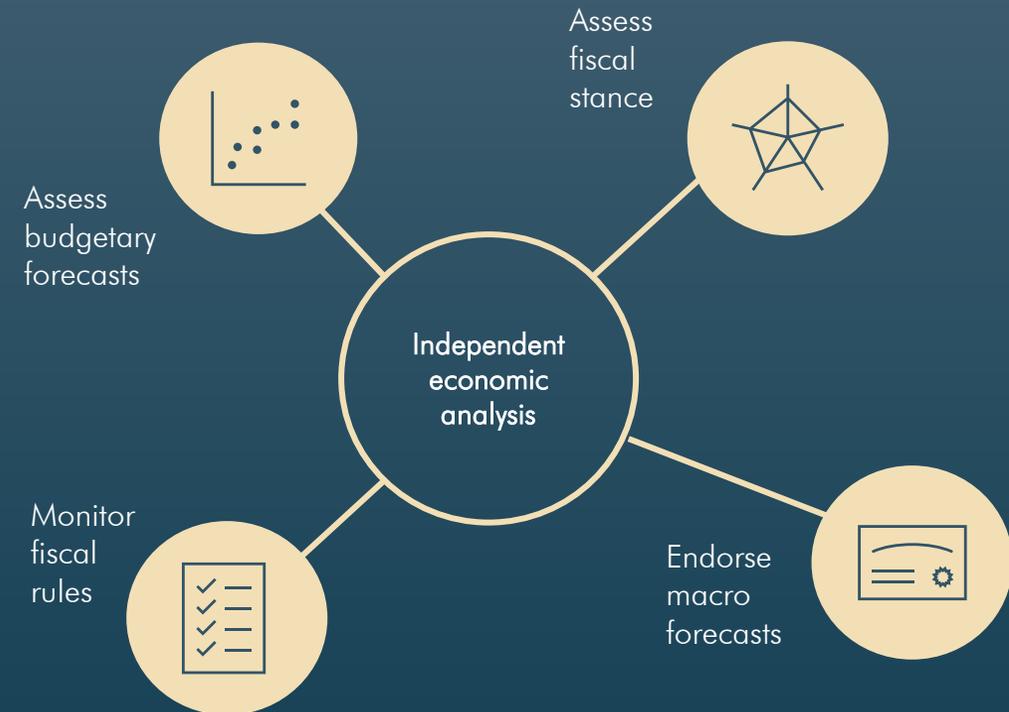
“Ireland must break with its procyclical past”

September 2023



The Fiscal Council is an official independent body mandated to assess the public finances

Our *Pre-Budget 2024 Statement* updates the Council's analysis in the June 2023 Fiscal Assessment Report ahead of the Budget



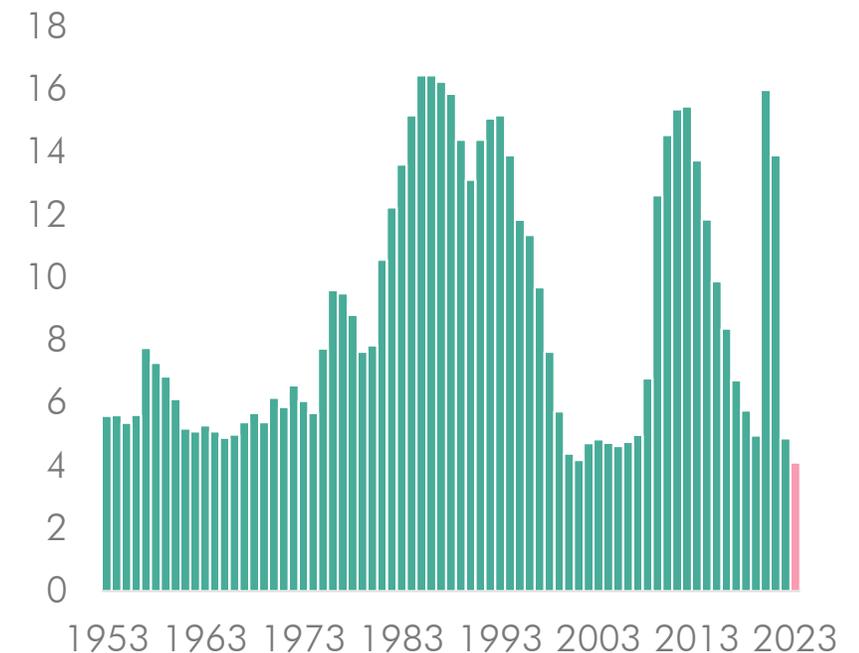
Context for Budget 2024

The Economy does not require extra stimulus

- ° Strong economy
 - Above full employment
- ° Strong fiscal position but flattered by corporation tax receipts
 - Overruns in spending actually make recent news more neutral / even negative

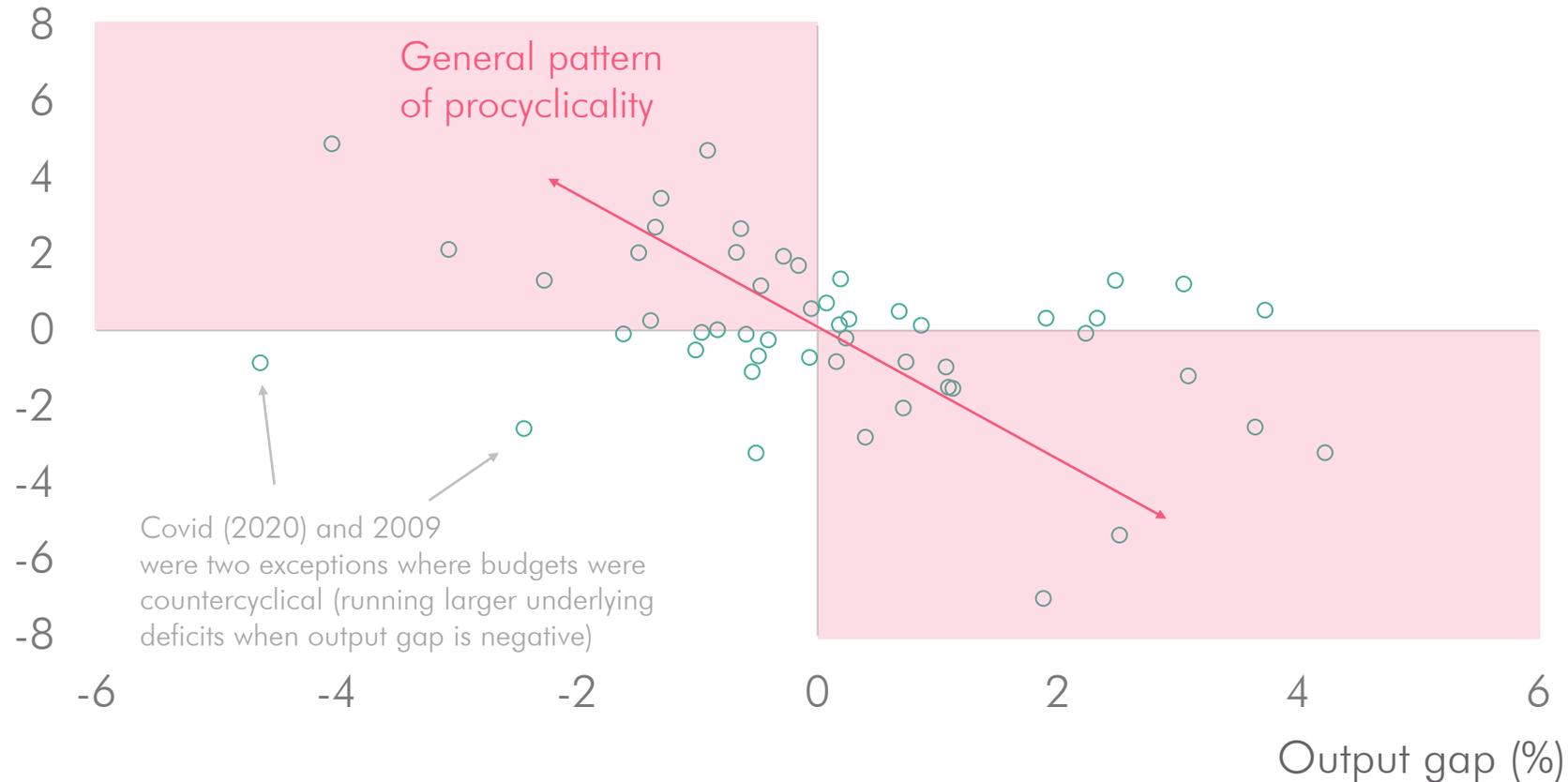
Unemployment rates remain at record lows

% of labour force, ages 15–74, adjusted for Covid-19 period



Procyclical Fiscal Policy in Ireland

Change in structural primary balance (p.p. of GNI*)

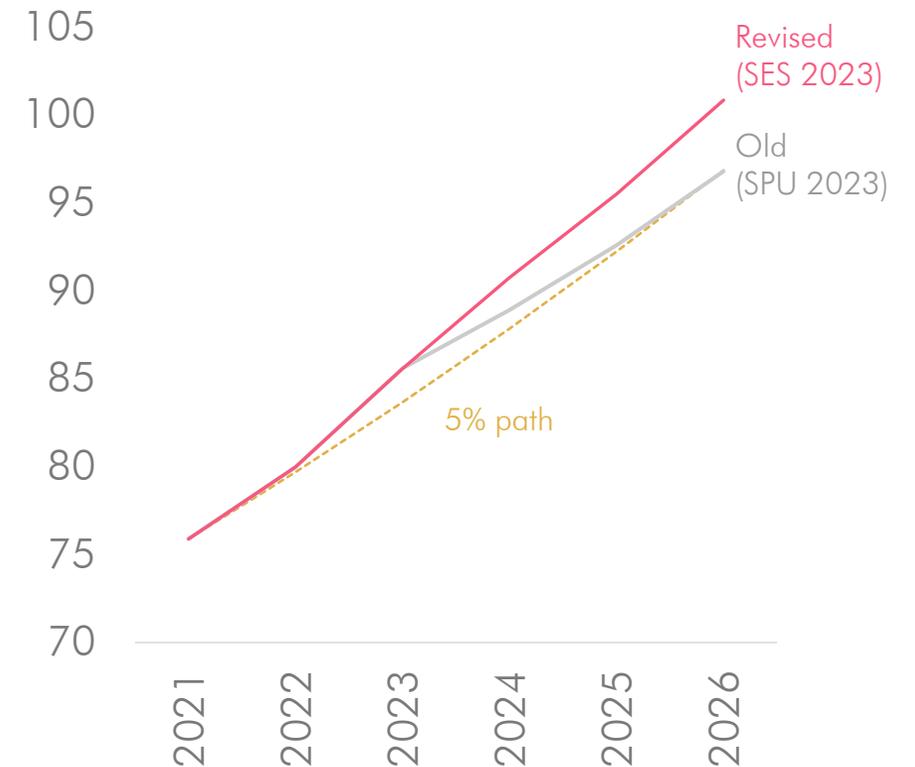


Breaches of the National Spending Rule

- ° The Government now plans to repeatedly breach the National Spending Rule every year out to 2026.
- ° Core net spending is expected to be €4 billion higher by 2026 compared to previous plans.
- ° These breaches are serious:
 - Continue procyclical fiscal policy.
 - Undermine credibility of the fiscal framework and especially the National Spending Rule

Core net spending

€ billion



Advice ahead of Budget 2024

The Government should stick to its National Spending Rule

- This would ensure more credible and sustainable fiscal plans
- Extra spending could be achieved with offsetting tax increases or spending adjustments elsewhere
 - There is a need for tough choices
- The Government should plan comprehensive reviews of existing programmes

Little to no justification for further temporary “non-core” measures

- Energy prices are falling and temporary measures risk adding to price pressures.
- Additional unfunded measures would represent a further shift toward a more procyclical fiscal policy.

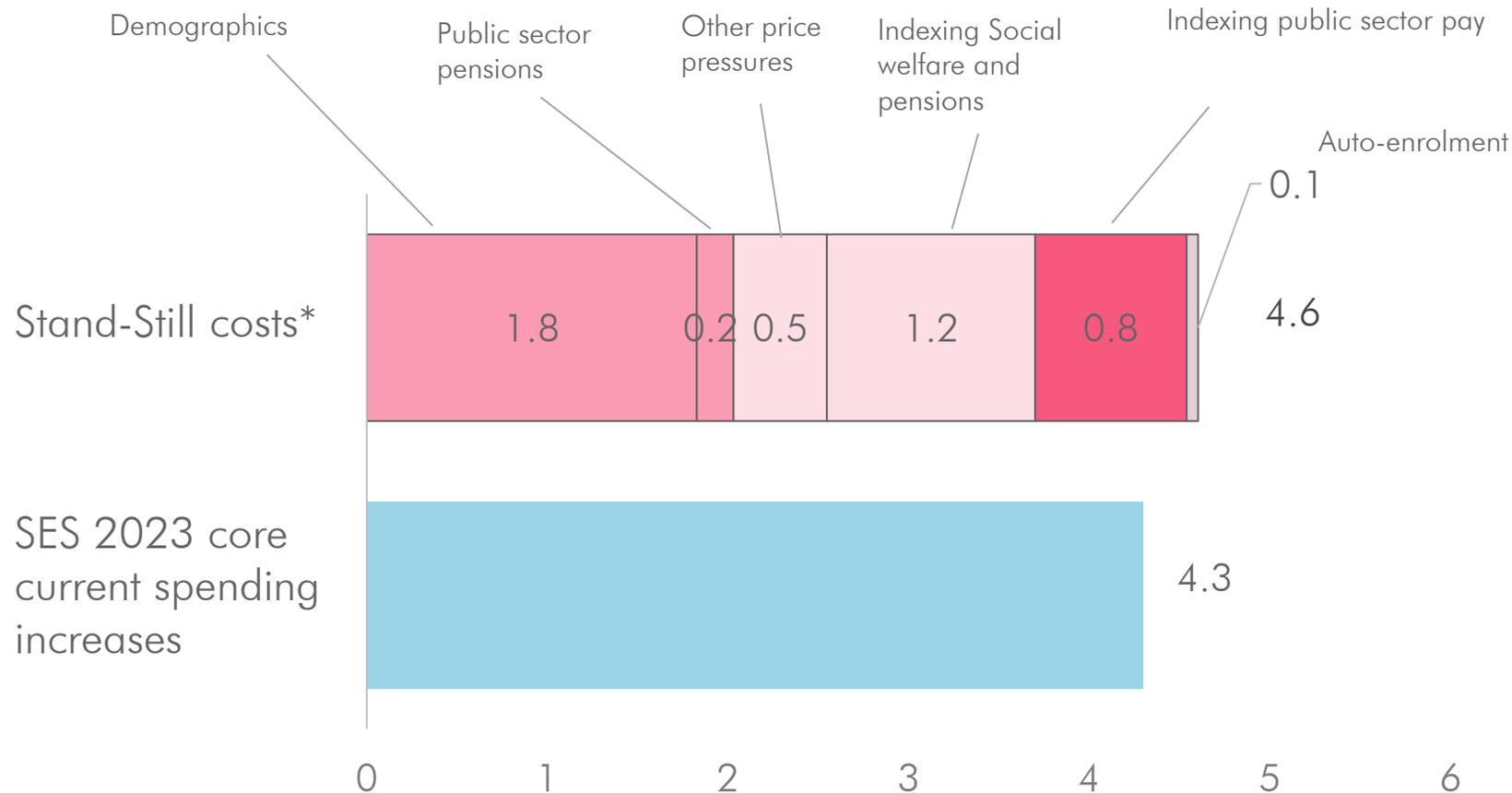
The Government needs to improve its long-term planning

- Government’s fiscal plans only go to 2026
- Climate costs mount from 2026
- Ageing pressures growing especially from 2030

Need for tough choices

Current spending

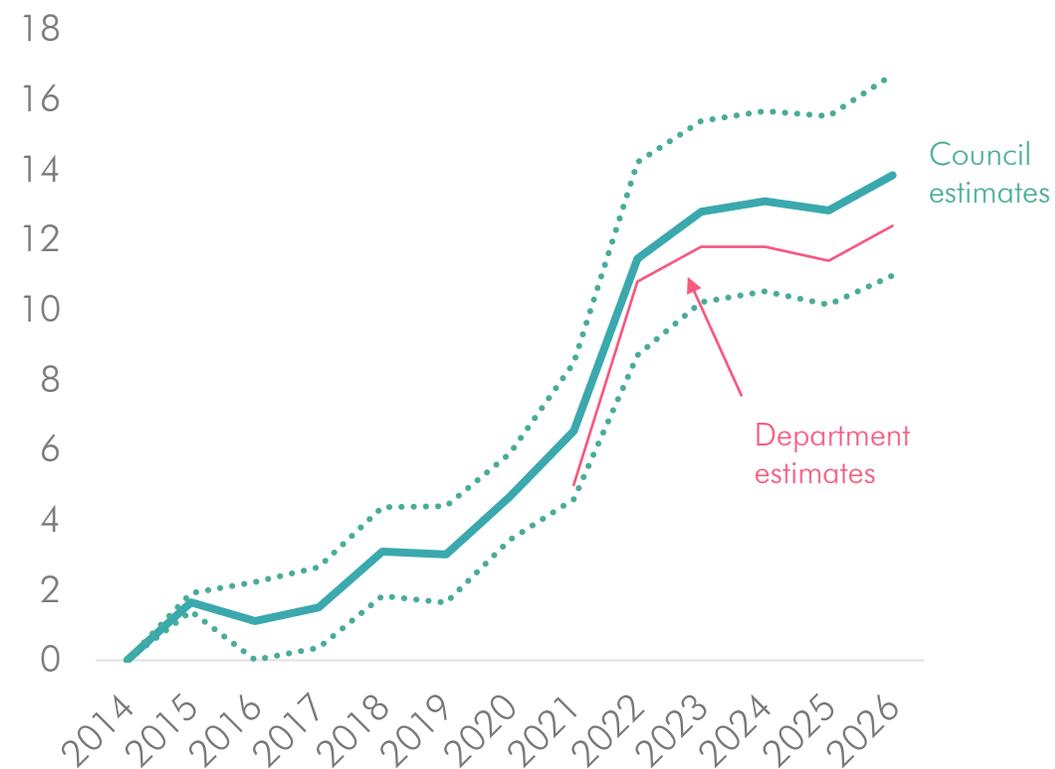
€ billions



Case for prudence on corporation tax

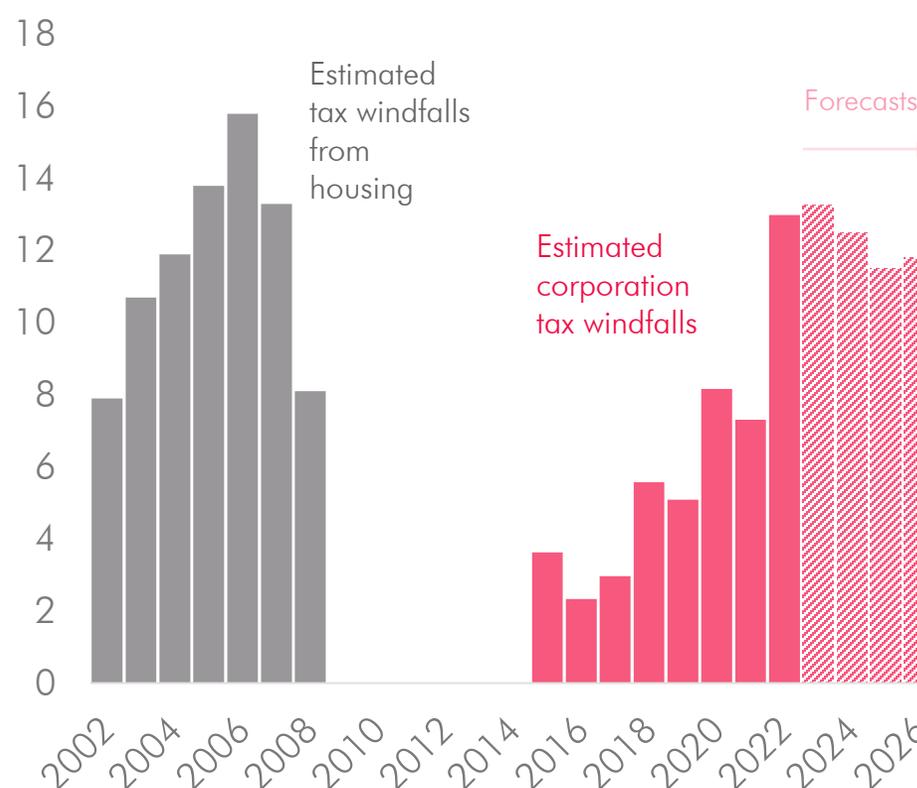
Estimated excess corporation tax receipts collected annually

€ billion



Windfalls then and now

% total Exchequer taxes



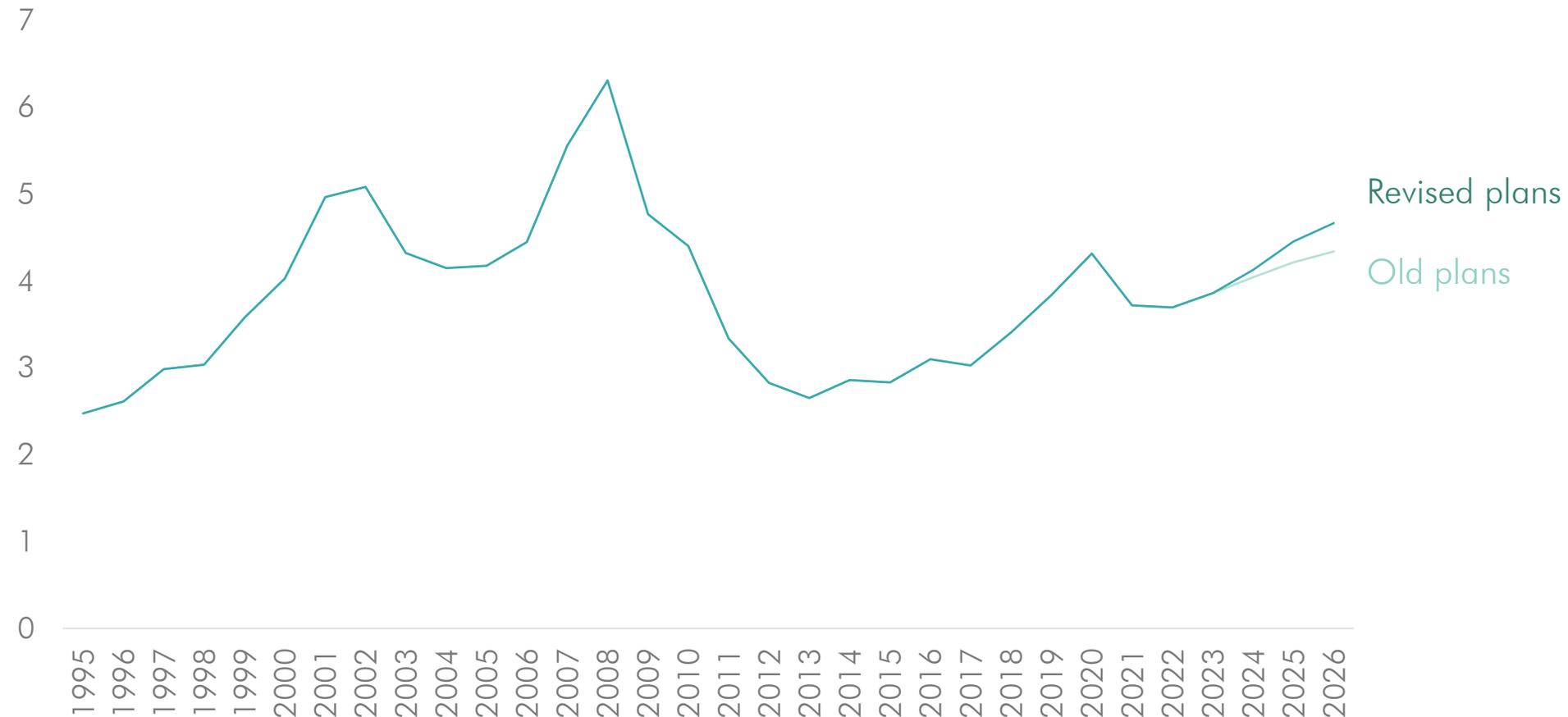
The Savings Vehicle Proposal

- ° Council welcomes proposals for a new Savings Vehicle
 - temptations to increase net spend immediately should be resisted
- ° There is a good case for additional public investment
 - National Development Plan provides a framework to plan longer term capital needs
 - Existing plans imply a significant ramp up to over €15 billion in 2026 – nearly double 2019 levels
- ° The rationale for an investment fund is weak
 - There are existing ways to achieve that within the (net) National Spending Rule
 - Ramping up capital spending in the short-term risks low value for money.

Public investment plans

Public investment

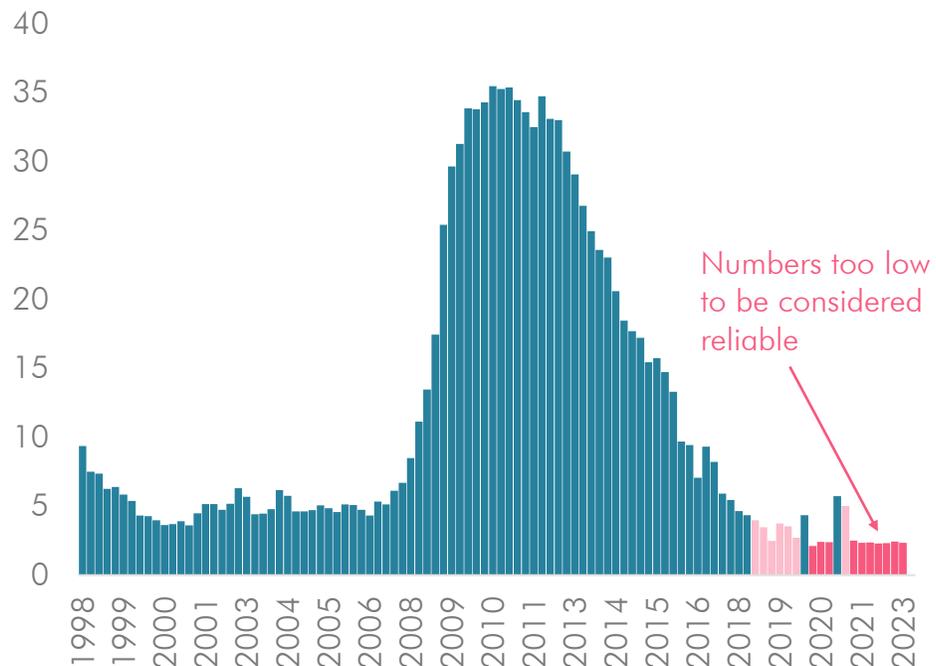
% GNI*, general government basis



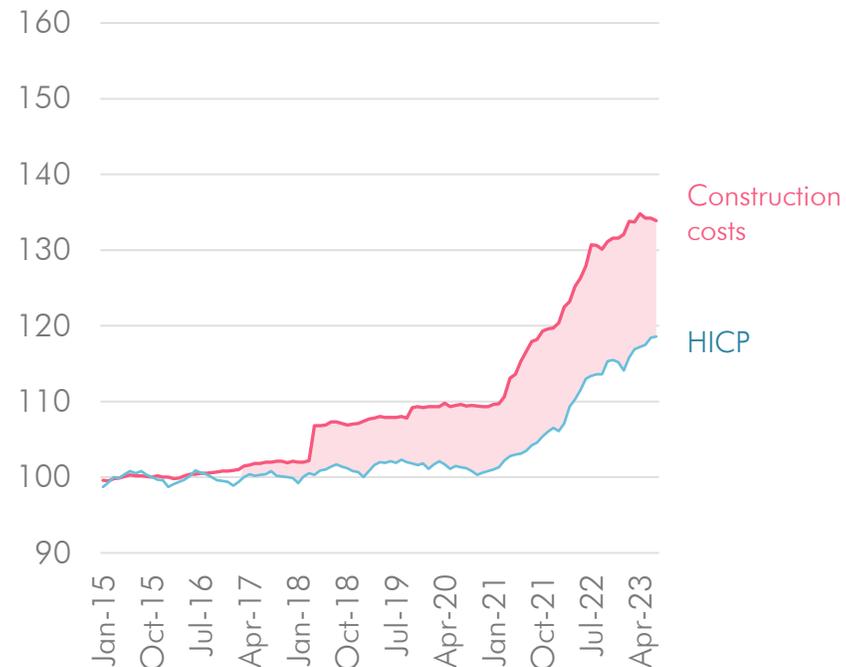
Infrastructure investment: value for money challenges

Capacity constraints are biting in construction

A. Worker shortages in construction
% implied unemployment rate (construction)



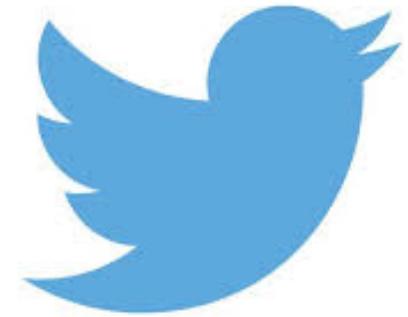
B. Construction cost pressures
Price index: 2015 = 100



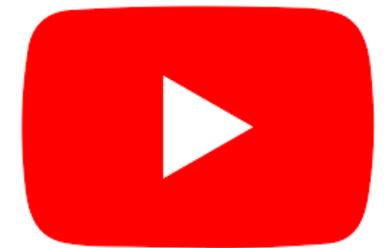
Government should reinforce its National Spending Rule

- To ensure the public finances are managed sustainably, the National Spending Rule needs to be reinforced and adhered to.
- It is now the “first line of defence”.
 - EU rules don’t apply
 - Reform likely to weaken their usefulness in Ireland because of GDP
- How inflation works in the rule is a feature, not a bug
 - Implies tougher choices when the economy is above full employment

Thank you



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