Budget 2024

Flash Release

Irish Fiscal Advisory Council

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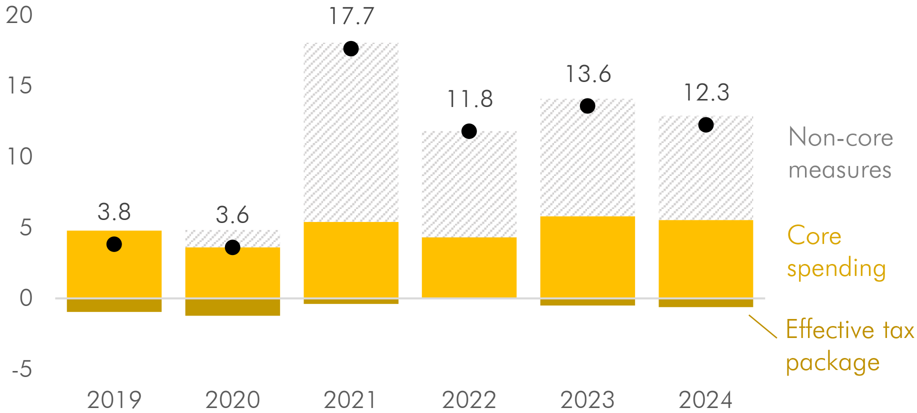
Flash Release

1) This “Flash Release” gives the Council’s first read on Budget 2024. It explores some of the key areas that the Council will assess in its next Fiscal Assessment Report, due out in December.

2) This afternoon, the Government announced a substantial Budget: about €5bn of so-called “core” measures and €7.4bn of “non-core” measures. The package is smaller than last year, but still exceptionally large.

Another large Budget package

€ billions, as announced but adjusted for effective tax increases*



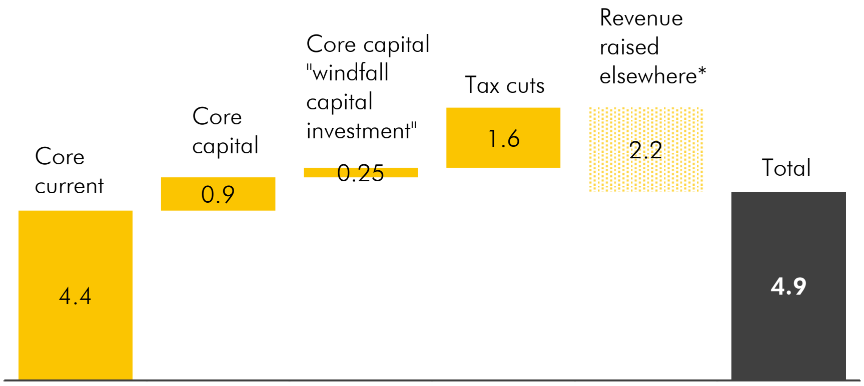
* The "effective tax package" includes the taxes that would be raised from not indexing tax bands and credits, carryover impacts from previous year's tax measures, and other tax increases such as the increase in the carbon tax. Core spending includes the increases in windfall capital investment and spending overruns in the previous year that carry forward.

3) There is an important issue about how spending is designated as either core or non-core. It clearly isn't about how temporary they are as many non-core measures look likely to persist. We stick to the Government's designation here but label "windfall capital investment" core.

4) Looking at "core net spending", there are increases of €4.4bn in core current spending, €0.9bn for core capital plus €0.25bn of core capital labelled "windfall capital investment", and a €1.6bn package of tax cuts.

Broad core changes

€ billions, 2024

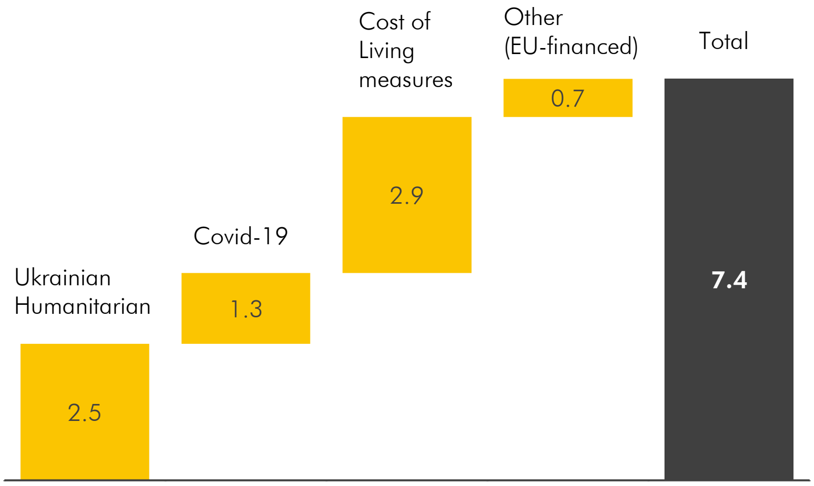


* Amounts include Budget 2024 tax and PRSI increases, as well as amounts raised if income tax was not indexed (€1.3bn), carryover impacts of measures from previous years, including the return of the reduced VAT rate to 13.5% (€0.4bn), and planned carbon tax increases (€0.2bn). Bank levy is adjusted so that only the additional revenue raised relative to 2023 is included.

5) On the non-core side, there is €2.5bn of Ukrainian supports; €1.3bn for Covid, €0.7bn of EU-financed measures, and a newly announced €2.9bn package of cost-of-living measures.

Further non-core measures

€ billions, non-core package

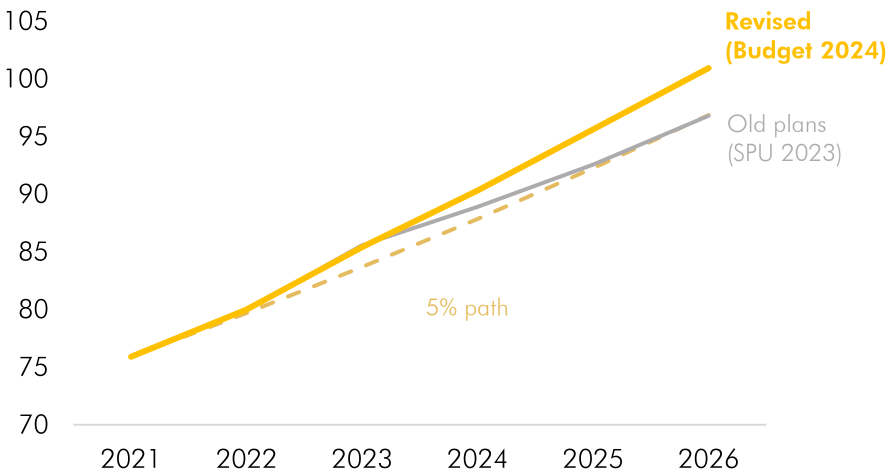


* The other EU-financed amounts comprise the Brexit Adjustment Reserve and the National Recovery and Resilience Plan.

6) On this basis, our first read is that core net spending increases by 5.7% in 2024 — higher than the National Spending Rule's 5% limit — but potentially much higher depending on how health spending is treated.

Plans go beyond the 5% path

€ billions, core net spending



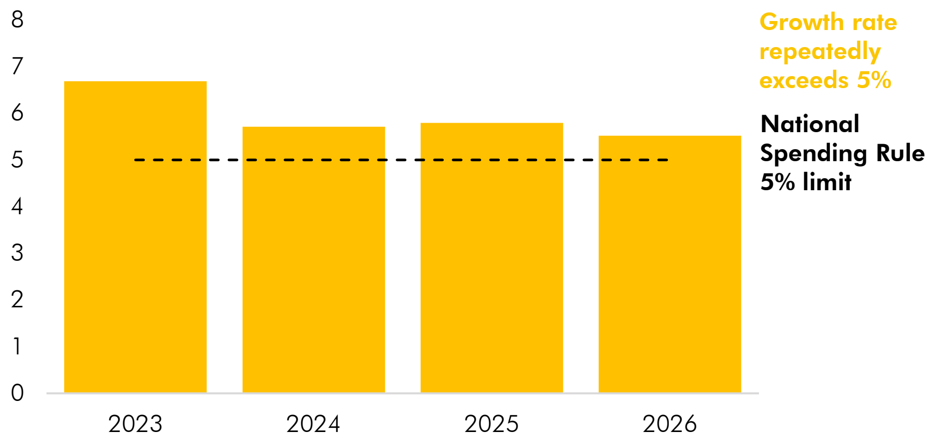
7) For 2024, €0.8bn of health spending increases were introduced — close to the costs of demographic and

price pressures. But substantial overruns in 2023 look likely and do not appear to be incorporated. This raises questions about the Health allocation and budget projections.

8) Importantly, the National Spending Rule is planned to be breached every year out to 2026. With no other credible anchor, this severely undermines the path for Ireland's public finances.

They already plan repeated breaches

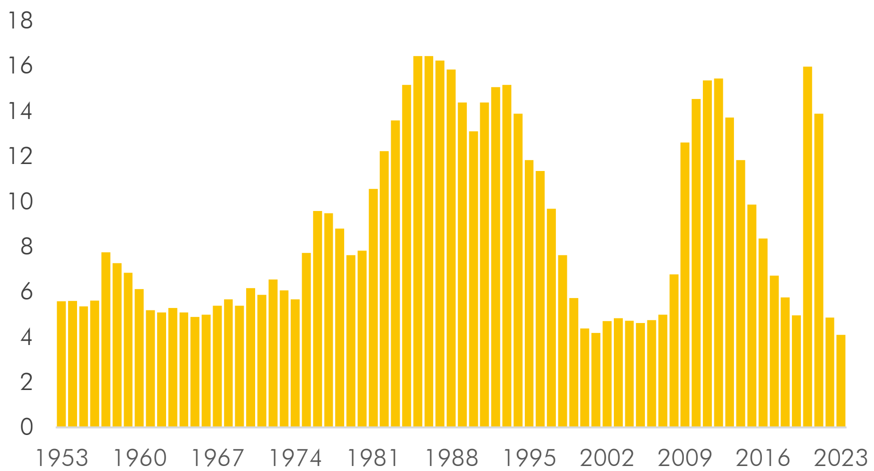
% year-on-year growth, core net spending



9) The larger Budget package comes at a time when the economy is already growing strongly and is forecast to have continued steady growth. The unemployment rate is at a once-in-a-generation low and is forecast to remain favourable.

Unemployment at historical lows

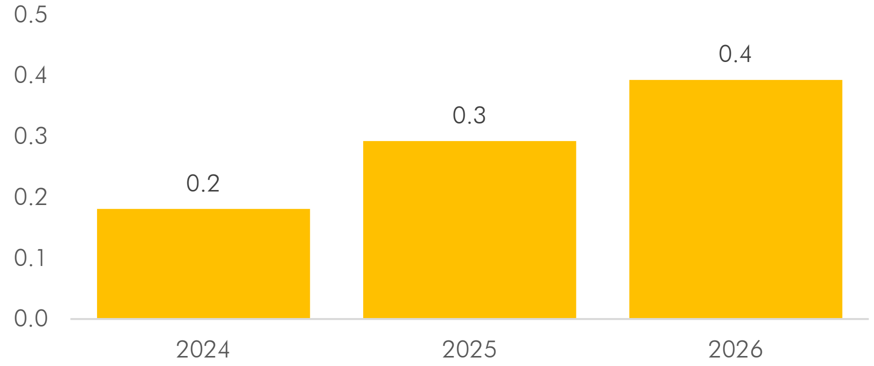
% labour force, ages 15+



10) The larger permanent budget package is likely to add to inflation, leaving it higher for longer. There are risks that the additional non-core measures will also lead to more persistent rates of high inflation.

Budget package will add to inflation

Percentage point increases in annual inflation rate

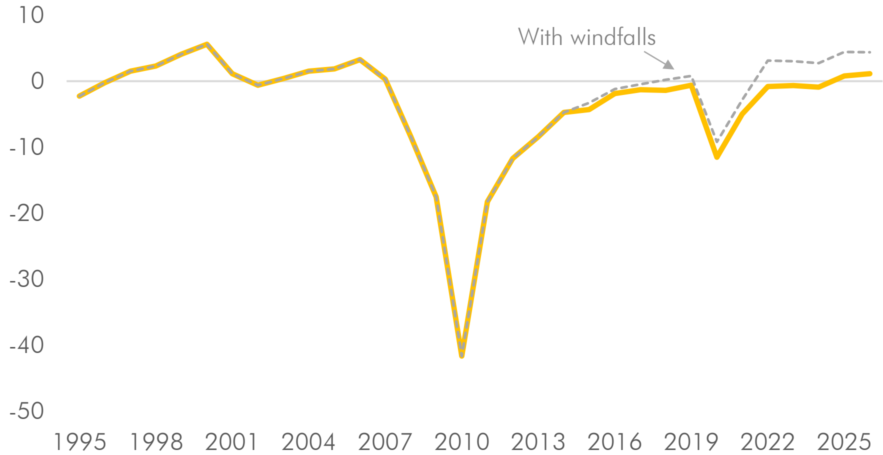


Estimated using the Council's Maq model based on the difference between permanent tax and spending measures in Budget 2024 versus the April Stability Programme Update.

11) The Government projects that it would again be in deficit in 2024 were it not for windfall corporation tax receipts, the 17th such year in a row.

Long period in deficit without windfalls

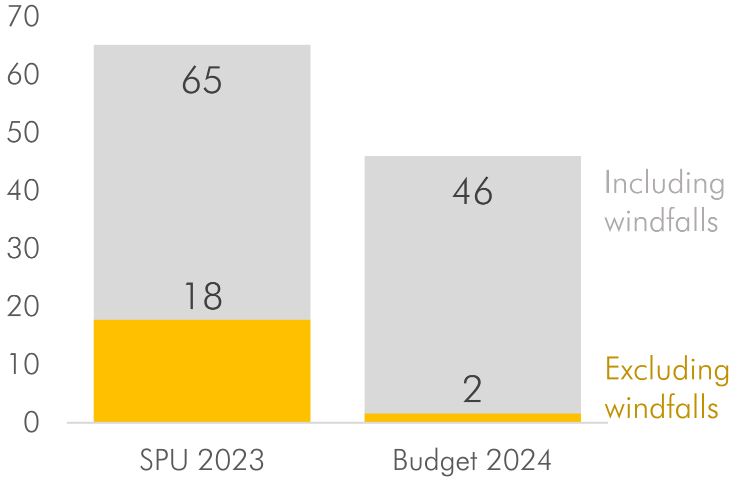
% GNI*, budget balance, general government basis



12) The €65bn of cumulative surpluses projected for 2023-2026 last spring have now been revised down to €46bn and would fall to €2bn without windfall corporation tax receipts. Health overruns and unbudgeted Ukrainian supports beyond 2024 could mean cumulative underlying deficits.

Predicted surpluses rely heavily on windfalls

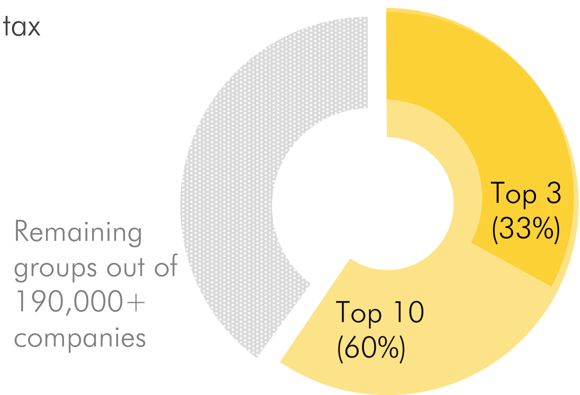
€bn cumulative surpluses 2023-2026



13) The amounts of windfall corporation tax being collected are exceptional. They have more than doubled in 3 years and are incredibly concentrated: three corporates account for one-third of all corporation tax; and ten corporates 60%.

Corporation tax concentration

% total corporation tax

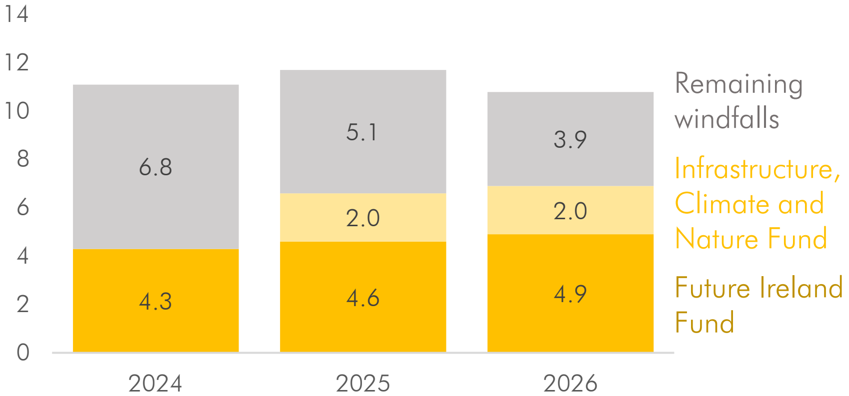


14) A major announcement the Council welcomes is the creation of a new sovereign wealth fund using some of Ireland's windfall corporation taxes. If used correctly, this could help address future ageing pressures, lessening the need to increase taxes on future taxpayers.

15) Contributions to this sovereign wealth fund are set at 0.8% GDP, saving about 41% of annual windfalls out to 2026. A further €2bn (18% of windfalls) looks set to be set aside annually in a smaller Infrastructure, Climate, and Nature Fund. The Council favoured more being set aside.

Some of the windfalls to be saved

€ billions



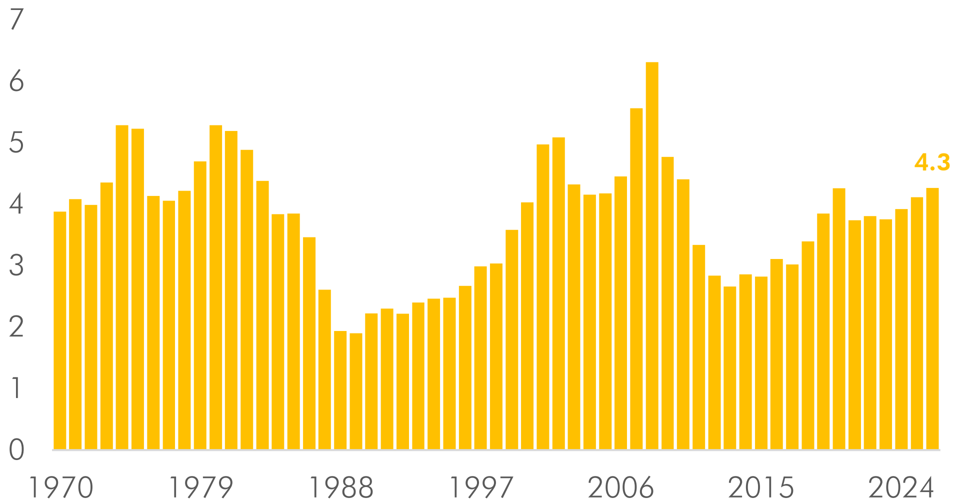
In 2024, €4bn is transferred into the Future Ireland Fund from the National Reserve Fund being dissolved, with the other €2bn going to the Infrastructure, Climate and Nature Fund.

16) A new public sector pay deal is still being negotiated. This is a potentially substantial measure; it is unclear the extent to which this is already incorporated in Budget 2024 estimates or will add to them.

17) The Government is expanding capital spending. This could address infrastructure needs. But with capacity constraints, it may prove difficult to deliver on ambitions and achieve value for money. This is especially true with tax and spending measures adding further stimulus.

Government capital spending to rise

% GNI*



18) Pre-budget, we said the Government should adjust its plans to stick to the National Spending Rule and there was little justification for further temporary measures,

given falling prices, the strong economy, and the risks of fuelling more inflation.

19) Instead, the Government has gone further and it is unclear exactly how far. This is a serious cause for concern. 1) It repeats past mistakes of procyclical fiscal policy; 2) undermines the National Spending Rule; and 3) makes Government plans less credible.

20) Again, this assessment is preliminary. The Council will give its full assessment of Budget 2024 in its Fiscal Assessment Report. By then, typically more information will be available, which will allow a more complete analysis of the fiscal stance.