Budget 2024

Economic & Fiscal Outlook

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Budget 2024

Economic and Fiscal Outlook

(Incorporating the Department of Finance's Autumn Forecasts)

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FOILSEACHÁIN RIALTAIS,
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Procedural, technical and other relevant issues

1. Endorsement

The macroeconomic forecasts were endorsed by the *Irish Fiscal Advisory Council (*the Council*)* on 28th September 2023 (**annex 1**), a requirement under European Union law (set out in the so-called 'two-pack').

To operationalise this legal requirement, staff in the Economics Division of the Department provided an initial set of projections to the Council on 15th September. Following an iterative process, a formal presentation was made by Departmental staff to the Council on 26th September.

The presentation provided to the Council is available at:
https://www.gov.ie/en/publication/dea0c-budget-2023-irish-fiscal-advisory-council-documents/

A Memorandum of Understanding between the two institutions governs the process, and is available at:
https://www.gov.ie/en/publication/ff7f9-memorandum-of-understanding-between-the-irish-fiscal-advisory-council-and-the-department-of-finance-relating-to-the-endorsement-function-of-the-council-under-the-fiscal-responsibility-acts-2012-and-2013-march-2021/

2. draft budgetary plan

A summary of the main tables set out in this document – known as the *Draft Budgetary Plan* – will be transmitted to the European Commission and Council by the 15th October, in line with Ireland's legal obligations as a euro area Member State.

3. date stamp

The macroeconomic analysis and forecasts contained in this document are based on economic and fiscal data available to mid-September 2023.

For comparison purposes, the main macro-economic variables from each set of forecasts that has been subject to the endorsement process (which began in 2013) is available at:
https://www.gov.ie/en/publication/d1bc6-database-of-past-forecasts

4. availability of chart data

In line with the Government's *Open Data Initiative,* the data underpinning charts in this document are available at:
https://www.gov.ie/en/publication/e3a91-budget-2023-chartpack/

5. rounding

Rounding can affect totals in all tables in this document.

6. boxes

The document contains several boxes. These are short, self-contained pieces of analysis, the objective of which is to delve a little deeper into some topical economic and fiscal issues.

7. corrections policy

The data and analysis set out in this document are compiled by Department of Finance staff; every effort is made to ensure accuracy and completeness.

If errors are discovered, subsequent corrections and revisions are incorporated into the digital version available on the Department's website. Any substantive change is detailed in the online version.

8. presentation before parliament

The document was laid before (formally presented to) the Oireachtas on 10th October 2023.

Chapter 1
Overview and General Policy Strategy

1.1 Policy strategy

The Irish economy has successfully absorbed large back-to-back shocks – mostly external in origin – in recent years. As these have faded, economic activity has rebounded strongly, yielding positive returns in the labour market, where the number in employment has expanded to record highs.

The speed of the post-pandemic recovery, tempered only in part by the energy price shock, means that the pace of economic expansion is increasingly supply-constrained; in other words, by shortages of workers and capital. Unemployment, for instance, is now around 4 per cent, while the more general mismatch between demand and supply has triggered higher rates of 'core' inflation, which has proven to be somewhat persistent.

Budget 2024 is, therefore, prepared against a macroeconomic backdrop of full-employment and increasingly binding capacity constraints. More recent data, however, suggest that the economy may have passed the peak of the cycle: with the evolution of demand better aligned with supply, inflation is set to continue moderating.

In calibrating its budgetary policy, Government is conscious of the wider macroeconomic policy mix and, in particular, the need for consistency with monetary policy objectives. In common with other countries, Ireland has faced a series of over-lapping inflationary shocks in the last few years, with mismatches between demand and supply triggering higher rates of 'core' inflation. Several factors have been at work: shifting patterns of demand during the pandemic, shocks to the supply of commodities, pandemic-related disruption to supply chains and shortages of labour supply. With core inflation proving somewhat persistent ('sticky'), monetary policy has been responding in advanced economies, aiming to engineer a better balance between demand and supply.

In the euro area, policy rates have increased by 450 basis points since their low-point in the summer of last year. Monetary policy acts in a 'slow-burner' manner: it works its way through to 'real' economic activity with a lag, and these cumulative pipeline effects of policy tightening are set to dampen demand in Ireland in the near-term. Indeed, incoming data suggest that this cumulative tightening may already be weighing on euro area activity; GDP in the euro area, for instance, has lost momentum in recent quarters on foot of tighter, and more costly credit conditions.

As well as macroeconomic stability, other important policy objectives are at the core of the Government's budgetary approach. While undoubtedly costly, the provision of humanitarian assistance to Ukrainian (and other) migrants is a key objective of Government. In addition, the series of extreme weather events all over the world demonstrates that de-carbonising global economic activity is essential. This underpins the importance of continuing to increase the cost of fossil fuels and of ramping-up investment – public and private – in carbon-neutral infrastructure and technologies.

From a macroeconomic perspective, there are four key, inter-related strands to the Government's fiscal strategy. First is the need to provide additional public goods and services in a manner that does not excessively add to inflation. To do this, and as set out in the *Summer Economic Statement 2023*,[1] Government is temporarily adjusting its medium-term spending rule: (net) core public spending will

[1] Available at:
https://www.gov.ie/en/publication/cfde8-summer-economic-statement-2023/

increase by 6.1 per cent next year rather than the 5 per cent originally set out. This revised policy takes account of the higher-than-assumed rate of inflation for next year (at 2.9 per cent) than the 2 per cent projection that underpinned the rule. Beyond next year, and taking into account the assumption that annual inflation will be more in line with 'price stability', the growth rate of (net) core public spending will revert to the original 5 per cent anchor.

The second strand involves an increase in capital expenditure, as set out in the *National Development Plan 2021-2030* and supplemented by 'windfall' capital expenditure in the coming years. The purpose of this is two-fold: the need to address some of the supply-side constraints that are weighing on activity and, additionally, the need to mobilise additional funding in order to finance higher levels of investment in 'green' infrastructure and technologies.

The third strand to the Government's fiscal strategy involves the establishment of the Future Ireland Fund next year. The objective is to part pre-fund the fiscal pipeline costs – population ageing, the digital and climate transitions – that are set to magnify in the years ahead. An Infrastructure, Climate and Nature Fund will also be created; the objective is to ensure that Governments of the future can continue to finance capital spending even during an economic downturn. It will also have a climate and nature component, the aim of which is to help the achievement of carbon budgets though capital projects where it is clear such carbon budgets are not being reached. The Draft Scheme of the Bill will be published shortly after Budget Day.

The final strand relates to the need to avoid building up permanent fiscal commitments on the basis of transitory corporation tax revenues. The revenue-at-risk is estimated at around €11 billion (4 per cent of GNI*); in reality, the impact could be even larger, given that income and corporate taxes have become so inter-twined. In order to avoid contaminating the permanent spending base, the €6.4 billion (6.1 per cent) budgetary package is being complemented by €4¾ billion in non-recurring measures.

All told, therefore, Government is providing for a budgetary package amounting to €14 billion in *Budget 2024*. The key objective is to support continued improvements in domestic living standards while, at the same time, laying the foundations for sustainable growth – economically, fiscally, environmentally and socially – into the future.

Finally, it is crucial to highlight global changes in the way in which the profits of large multinationals are taxed, which is being overseen by the OECD. While inherently complex, the overall approach involves two pillars: the first relates to the allocation of corporate taxing rights across jurisdictions while the second relates to a global minimum effective corporate tax rate. Discussions remain on-going at the OECD on a number of key elements of Pillar One; once agreed, this would involve a portion of taxable profits from Irish-based multinationals being reassigned to other jurisdictions and, accordingly, a loss of tax revenue. In relation to the second pillar, the EU *Minimum Tax Directive* was agreed in December last year and will give effect to Pillar Two of the agreement across all of the EU, including Ireland. Legislation will be brought forward to transpose the Directive in *Finance Bill 2023* ahead of the transposition deadline of 31st December 2023. This means that a minimum effective corporate tax rate of 15 per cent will apply to the profits of 'large' enterprises – those whose annual turnover exceeds €750 million – from next year, though it will be 2026 before there is any impact on government receipts.[2]
To conclude, the experience of the last few years – the UK's exit from the European Union, a global pandemic and a major war in Europe – highlights the major changes that are underway internationally

[2] Pillar One, once finalised, is now projected to enter into force in 2025 at the earliest as a critical mass of jurisdictions must ratify the Multilateral Convention and other preparatory work must be undertaken during 2024. On this basis, it is likely that Pillar One will also not impact on government revenue until 2026.

and the impact geopolitics can have on economic outcomes. Amid heightened trade-tensions and the perceived need to de-risk supply-chains, evidence of a fragmenting global economy is mounting. The next phase of digitalisation – the roll-out of generative Artificial Intelligence – is proceeding apace, and these technologies have the potential to transform the labour market. Against a background of an ageing population and slowing economic growth, navigating these fundamental changes will be a major challenge in the years ahead.

1.2 Short-term economic and budgetary outlook

The Department's spring forecasts, published in April, envisaged reasonably solid growth in Modified Domestic Demand (MDD) this year and next, against a background of moderating energy and consumer price inflation. Fast-forward six months where incoming data broadly confirm the earlier assessment, albeit with some important nuances.

On the external front, data confirm that demand in the euro area has, not unexpectedly, flat-lined as the year has progressed; the same is largely true for the UK, although this represents a positive surprise relative to earlier expectations (economic activity had previously been expected to decline in the UK). Economic activity in the US has been solid, mainly reflecting the strength of consumer spending financed, in part, by running down the stock of 'excess' savings accumulated during the pandemic.

Inflation in all regions has now passed a turning point, reflecting the easing of global energy prices from the exceptional highs recorded in the aftermath of the Russian invasion of Ukraine, as well as the normalisation of supply chains. That said, oil prices have increased in recent months due to supply-side disruptions.

Measures of 'core' or underlying inflation, however, have proven somewhat 'sticky'; to prevent inflation becoming entrenched, monetary policy has been tightened aggressively in the euro area (+450 bps relative to its low-point), UK (+515 bps) and US (+525 bps).[3] Ancillary monetary policy instruments, such as the size of central bank balance sheets, are also consistent with a tightening of the monetary stance.

From a financial stability perspective, adjustment to this higher interest rate environment has not been pain-free, with isolated bouts of turbulence in some jurisdictions during the spring; however, the rapid policy response helped contain the fall-out to specific (US and Swiss) financial institutions and prevent contagion.

For next year, external demand is set to remain subdued, with the more restrictive macroeconomic policy stance a powerful headwind for the euro area, UK and US economies. As the world's second largest, the trajectory for the Chinese economy will have a major bearing on global activity, and there remains considerable uncertainty as to the wider fall-out from the ongoing correction in the property sector. Moreover, it is also clear that the geopolitical landscape is evolving, with at least some de-coupling of western economies from China now underway: several multinational firms and some governments are de-risking their exposure to the Chinese economy, *inter alia* by diversifying supply chains, in order to limit the impact of any shock originating in that country, be it economic, geopolitical or other.[4] A fragmentation of the global economy along geopolitical lines is an important channel through which Irish living standards could be held-back in the years ahead.

[3] Change from low-point relative to the data cut-off point for inclusion in this document.
[4] This de-risking is especially noteworthy in sectors where the substitutability of key inputs – such as semiconductors – is effectively zero in the short-term.

Table 1: Summary – main economic and fiscal variables					
	2022	2023	2024	2025	2026
Economic activity			***per cent change***		
Real GDP	9.4	2.0	4.5	4.5	4.4
Real GNP	3.9	1.0	4.0	4.0	3.9
Modified domestic demand	9.5	2.2	2.2	2.5	3.0
Real GNI*	6.7	2.0	2.0	2.1	2.2
Prices			***per cent change***		
HICP	8.1	5.3	2.9	2.4	1.9
Core HICP^	5.0	5.1	3.4	2.5	2.3
CPI	7.8	6.3	2.9	2.1	2.0
GDP deflator	6.6	4.1	2.4	2.0	1.9
External trade			***per cent GNI****		
Modified current account	7.0	7.5	7.5	7.0	6.2
Labour market			***per cent change (unless stated)***		
Total Employment ('000)	2,547	2,635	2,670	2,705	2,744
Employment	6.6	3.4	1.3	1.3	1.4
Unemployment (per cent)	4.5	4.1	4.2	4.3	4.4
Public finances			***per cent GNI* (unless stated)***		
General government balance (€ million)	8,505	8,790	8,360	14,245	14,615
General government balance	3.1	3.0	2.7	4.4	4.4
General government balance, exc. windfall CT~	-0.8	-0.7	-0.9	0.8	1.1
Structural budget balance^^	1.6	1.5	0.8	0.7	1.1
General government debt (€ billion)	224.8	222.7	222.2	219.4	217.1
Net debt position (year-end, € billion)^^^	188.1	184.3	194.5	192.9	192.2
Debt ratio	82.3	76.1	72.3	68.4	64.8
Net debt ratio	68.9	63.0	63.3	60.1	57.4

Notes:
Figures for 2025 and 2026 do not provide for any expenditure to cover the cost of providing humanitarian assistance.
^ core inflation is the headline figure excluding unprocessed food and energy.
^^ per cent of GDP; estimates of the structural balance subject to more uncertainty than normal. Estimates of the structural balance exclude estimates of windfall corporation tax receipts.
^^^ net debt from 2022 onwards estimated by mechanical extrapolation of financial assets.
~ the general government balance excluding the Department's estimate of windfall corporate tax receipts.
Source: CSO for 2022; Department of Finance for 2023-2026.

From a domestic stand-point, the Department's baseline scenario involves a further moderation in the rate of consumer price inflation in the final quarter of this year and into next. An annual average rate of 5.3 per cent is projected for this year, with an average rate of 2.9 per cent assumed for next year.

As inflation loses its grip, the real disposable income of households is set to recover which, in turn, should support consumer spending. One important sting-in-the-tail is the impact of monetary policy tightening, which will continue to weigh on disposable income of households and to dampen investment spending by firms, especially small- and medium-sized firms.

Against this backdrop, MDD is projected to increase by 2.2 per cent this year (**table 1**), a 0.1 pp upward revision relative to the Departments spring forecasts. For next year, MDD growth of 2.2 per cent is currently anticipated, a downward revision of 0.4 percentage points relative to the spring forecasts. The Department's macroeconomic forecasts that underpin *Budget 2024* have been endorsed by the *Irish Fiscal Advisory Council* (**annex 1**) in line with Ireland's obligations as a euro area Member State.

The resilience of the labour market has been a notable feature of the post-pandemic economy, in Ireland and elsewhere. The level of employment was 2.64 million at end-June, around 12 per cent above its level immediately before the pandemic. On the supply-side of the market, participation rates are notably higher than would have been suggested by the pre-pandemic trend, while inward migration continues to be an important source of additional supply. Employment is set to expand further over the course of next year, though at a slower rate than this year.

Quarterly profiles for the Department's near-term (i.e. the second half of this year and for next year) MDD, employment and inflation forecasts are set out below (**table 2**). The evolution of the full-year macroeconomic and fiscal forecast, for both this year and next, relative to the previous vintage, is also set out (**table 3**).

Table 2: Key macroeconomic variables – quarter-on-quarter, per cent change (unless stated)

	2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Consumer spending	0.0	0.9	0.7	1.2	1.1	0.5	0.3	0.3
Modified domestic demand	-0.2	1.0	1.2	1.2	0.2	0.2	0.1	0.1
Inflation rate (annual per cent)	7.5	5.5	4.9	3.3	3.6	2.8	2.6	2.5
Unemployment rate (per cent)	4.2	4.2	4.1	4.1	4.2	4.2	4.2	4.3

Notes: data-points for q1/2023 and q2/2023 are outturns; seasonally adjusted data (except for inflation rate).
Inflation refers to the HICP.
Source: CSO for outturn data, Department of Finance forecasts.

Turning to the budgetary situation, a general government surplus of €8.8 billion is projected for this year, the equivalent of 3.0 per cent of GNI*. Excluding the impact of windfall corporate tax receipts – estimated at €10.8 billion this year – the underlying fiscal position (GGB*) is somewhat less benign: an underlying deficit of €2.0 billion is projected for this year.

On the spending side, *Budget 2024* provides for an expenditure ceiling of €96.6 billion for next year, providing for an increase in voted expenditure of 3.4 per cent. With tax revenue growth projected at 4.8 per cent, this would equate to a surplus of 2.7 per cent of GNI* for next year. Excluding estimates of 'windfall' corporate tax, this would be consistent with an underlying deficit of €2.7 billion (0.9 per cent of GNI*).

Budgetary surpluses are assumed for later years; however, these do not include any provision for humanitarian assistance associated with migration triggered by the war in Ukraine. In addition, no provision is made for any reversal of corporation tax receipts, which is a major downside risk to the fiscal forecasts.

Public indebtedness this year is projected at €222.7 billion, the equivalent of 76.1 per cent of GNI*. For next year, public indebtedness is projected at €222.2 billion, 72.3 per cent of GNI*.

Table 3: Revision to forecast: autumn vs spring forecast for key macro-fiscal variables

	2023 forecast		Δ pp	2024 forecast		Δ pp
	Autumn 2023	Spring 2023		Autumn 2023	Spring 2023	
Economic activity						
Real GDP	2.0	5.6	-3.6	4.5	4.1	0.4
Real GNP	1.0	5.1	-4.1	4.0	3.6	0.4
MDD	2.2	2.1	0.1	2.2	2.5	-0.4
Consumer spending	3.3	3.9	-0.6	3.2	3.8	-0.6
Prices						
HICP	5.3	4.9	0.4	2.9	2.5	0.4
Core HICP	5.1	4.4	0.7	3.4	3.2	0.2
GDP deflator	4.1	4.0	0.1	2.4	2.3	0.1
Labour market						
Employment (per cent)	3.4	1.6	1.9	1.3	1.4	-0.1
Unemployment rate (per cent)	4.1	4.4	-0.3	4.2	4.5	-0.2
Public finances	€ bn		Δ € bn	€ bn		Δ € bn
Tax revenue	88.3	88.9	-0.6	92.6	94.4	-1.8
Exchequer balance	2.2	4.5	-2.3	1.8	12.9	-11.1
General government balance	8.8	10.0	-1.2	8.4	16.2	-7.8
General government debt	222.7	223.5	-0.8	222.2	224.4	-2.2

Source: Department of Finance.

Chapter 2
Economic Outlook

2.1 Summary

As expected, energy prices have eased from last year's exceptionally high levels, and this is reflected in a moderation in the rate of inflation over the course of this year. That said, headline inflation remains well in excess of rates consistent with price stability, weighing on real incomes, while measures of underlying inflation suggest some 'stickiness'. This inflation persistence is common to other advanced economies and a key factor behind the forceful monetary policy response over the past year-or-so. In the euro area, policy rates are up 4½ percentage points since mid-2022 and are now at their highest rate since the inception of monetary union.

As the overall stance of macroeconomic policy adjusts – the tightening of monetary policy alongside a gradual withdrawal of fiscal support – global growth has slowed. Ireland cannot be immune from these trends, with trade a key transmission channel to the domestic economy: lower external demand is weighing on exports, with the impact amplified by a number of adjustments taking place in some multinational-dominated sectors.

Turning to domestic demand, incoming data are sending mixed signals. On the one hand, the domestic economy has proven to be remarkably solid, evidenced by an unemployment rate that has stabilised at just over 4 per cent this year. On the other hand, the data show that the level of Modified Domestic Demand (MDD) is largely unchanged since the second quarter of last year, while higher-frequency data (e.g. retail sales, consumer sentiment, payroll data) suggest a softening in activity more recently.

MDD growth of 2.2 per cent is projected for this year, a marginal increase (+0.1 pp) from that set out in the Department's spring forecasts. For next year, MDD growth of 2.2 per cent is also assumed; the 0.4 pp decrease in the projection (relative to the spring forecasts) for next year largely reflects the headwinds associated with tighter monetary policy working its way through the economy. More modest growth should help to rebalance demand and supply and result in a further easing of inflationary pressures; for next year, the annual inflation rate is projected at 2.9 per cent, from 5.3 per cent this year.

Risks to the near-term outlook are two-sided though tilted to the downside. While some of the most extreme risks of recent years have abated, the impacts from monetary policy tightening and from the generally weaker global economy could prove to be more severe than assumed. More persistent inflation in the euro area could trigger an even more aggressive policy response. Sector- and product-specific developments this year highlight the concentration of economic activity in Ireland and the risk this poses. A more detailed discussion of risks, including a quantitative assessment of a higher interest rate scenario, is set out later in this document.

2.2 Macroeconomic developments in 2023

After peaking in the third quarter of last year, the level of exports has subsequently eased back and, at mid-year, was 7 per cent below its peak (**figure 3A**). This is mainly a reflection of sector-specific – and perhaps firm- or product-specific – factors. Weakness is most evident in pharmaceutical exports (which accounts for around two-thirds of goods exports), which appears to be a function of the decline in demand for pandemic-related pharma products (**box 1**). Sub-sectors such as semi-conductors have also posted lower foreign sales, as have exports related to 'contract manufacturing'. On the other hand, services exports continue to record solid growth with, for instance, tentative signs that volatility evident in the ICT sector at the end of last year may have receded.

Box 1: Developments in pharmaceutical exports

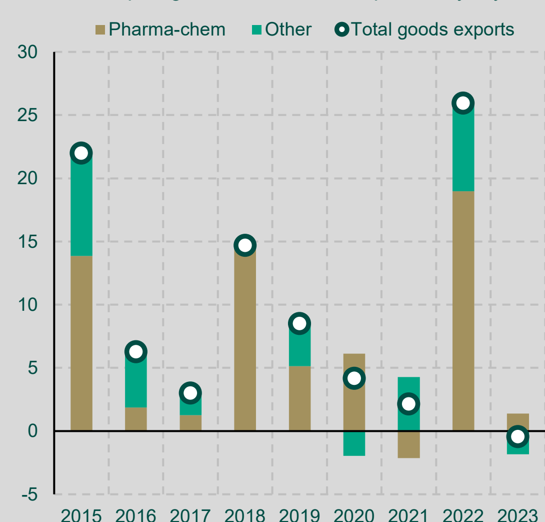
Exports of goods increased by more than a quarter last year, largely on foot of foreign sales of pharmaceutical and chemical (pharma-chem)**^** products (**figure 1A**). The strength of pharma-chem exports has partly reversed this year, weighing on overall exports; developments over both years highlight the exposure of the Irish economy to sector-specific (or even firm- or product-specific) factors.

Exports from the pharma-chem sector expanded by nearly one-third last year. While this was reasonably broad-based, the strongest growth was recorded in the *organic chemicals* and *medicinal and pharmaceutical products* sub-categories; these two sub-categories accounted for almost 90 per cent of the growth recorded in 2022.

In the *medicinal and pharmaceutical products* sub-category, more detailed data reveal that exports of *immunological products* was a key driver. Data from Eurostat (**figure 1B**) suggest that the majority of exports relating to *immunological products,* and a portion of *medicaments n.e.s***^^** and *organic chemicals,* are classified as 'Covid-related' exports.**^^^**

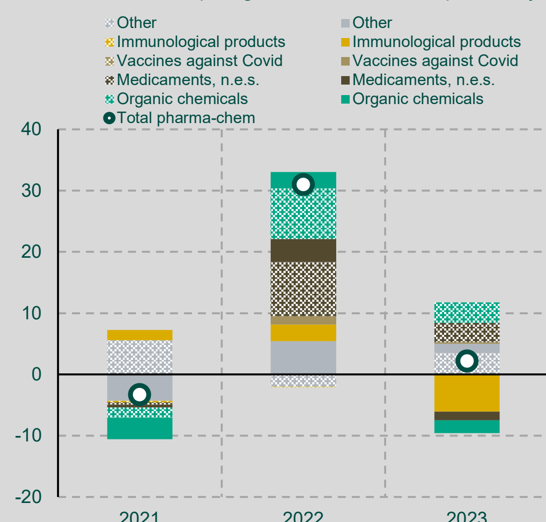
Figure 1: Export developments

A: Goods export growth contributions, per cent y-o-y



Note: 2023 = M1-M7 y/y
In some cases, these data may differ somewhat from the CSO data due to different data collection methodologies
Source: Eurostat.

B: Pharma-chem export growth contributions, per cent y-o-y



Note: 2023 = M1-M7 y/y
Bold bars indicate the 'Covid-related' components of each category; shaded bars indicate the 'non-Covid' components.
Source: Eurostat.

So far this year, a fall in exports of *medicinal and pharmaceutical products* alongside a softening in *organic chemicals* has led to a relatively flat profile for pharma-chem exports. Specifically, exports of *immunological products* – which fell by 23 per cent year-on-year in the first seven months of 2023 – explains the bulk of the softening in pharma-chem exports this year.

To put it another way, the ending of the pandemic – in May of this year, the World Health Organisation formally declared that it no longer considers Covid-19 to be a 'global health emergency' – has coincided with a decline in demand for Covid-related pharmaceutical products. The surge in demand for these exports boosted GDP during the pandemic and, presumably, contributed to the jump in corporate tax; post-pandemic, demand for immunological products is falling and these exports are normalising, again with (presumably) a read-across to corporate tax receipts.

In summary, therefore, these developments likely point towards a post-Covid normalisation in pharma-chem exports rather than more permanent, or structural, changes within the sector. Furthermore, significant capital investment in the pharma-chem sector in recent years should support export growth in the sector into next year and over the medium term.

^ The 'pharma-chem' sector refers to SITC category 5 (chemicals and related products, n.e.s.).
^^ n.e.s. is not elsewhere specified
^^^ 'Covid-related' products are based on the EU's list of products to be imported free of import duty and VAT, as well as the Joint WCO/WHO classification reference for Covid-19 medical supplies. These products were not necessarily newly created for Covid and may not necessarily be used exclusively for Covid purposes, so this data should be interpreted with caution.

Box 2: Household savings - patterns and revisions

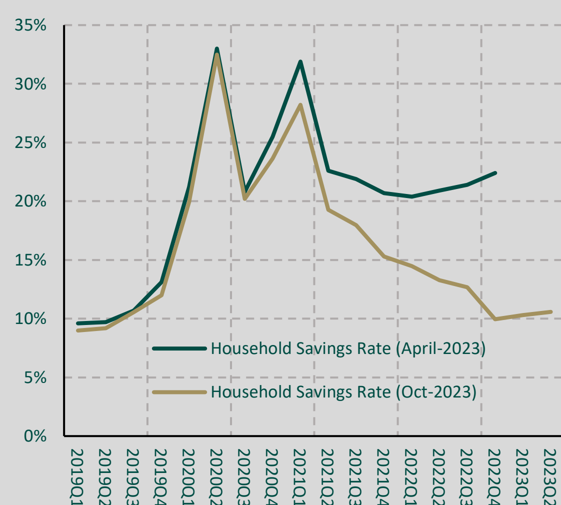
The onset of the global pandemic in 2020 led to an immediate shift in consumer spending and savings patterns. While the pandemic brought parts of the domestic economy to an effective standstill, the combination of Government supports alongside the widespread adoption of working-from-home helped to safeguard household incomes from the downturn in economic activity. At the same time, the public health restrictions, particularly on contact-intensive services, led to a sudden fall-off in consumer spending. The net effect of stable incomes and reduced consumption was an accumulation of 'forced' savings throughout the pandemic (**figure 2A**) – though clearly the distribution of these 'excess' savings was not uniform across the population.

Despite exiting the pandemic in early-2022, initial estimates suggested that the accumulation of excess savings continued throughout last year, with households continuing to save over 20 per cent of their disposable income, double the pre-pandemic rate**^**. This was puzzling, with economists struggling to explain continued elevated savings, especially in a situation in which VAT receipts were particularly strong.

However, subsequent revisions (**figure 2B**), published in the annual national accounts, have solved this puzzle. The revised data show that consumer spending was considerably higher than suggested initially, with real consumer spending growing by 9.4 per cent in 2022**^^**. At the same time, household disposable income was lower than original estimates. Accordingly, the annual accounts incorporated a large downward revision in the household savings rate which has now returned to a more normal (and plausible) range.

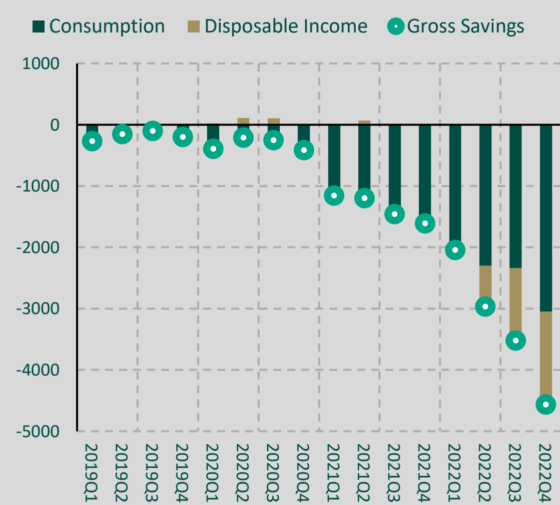
Figure 2: Household savings rate

A: Household savings rate vintages, seasonally adjusted



Source: CSO

B: Revisions to gross household savings



Source: CSO

Despite this normalisation in consumer spending and savings patterns, households continue to hold substantial savings accumulated throughout the pandemic – to put it another way, while the ***flow*** of savings has normalised, household (at least in aggregate terms) have not yet dipped into their ***stock*** of forced savings. Indeed, Central Bank data suggests continued annual growth in household deposit over the last number of quarters, with no signs of substantial drawdowns as of yet

In some countries (such as the US for example), evidence shows that savings accumulated during the pandemic are being used to offset the negative effects from the cost of living pressures – in other words, in the face of a real income shock, households have smoothed their spending by running down their stock of savings**^^^**.

This is not an academic issue: the build-up of savings has improved the financial footing of households and may make them more resilient to economic shocks into the future. It also enables households to smooth income or expenditure shocks. These saving may also support strong consumption growth or investment in housing in the years ahead.

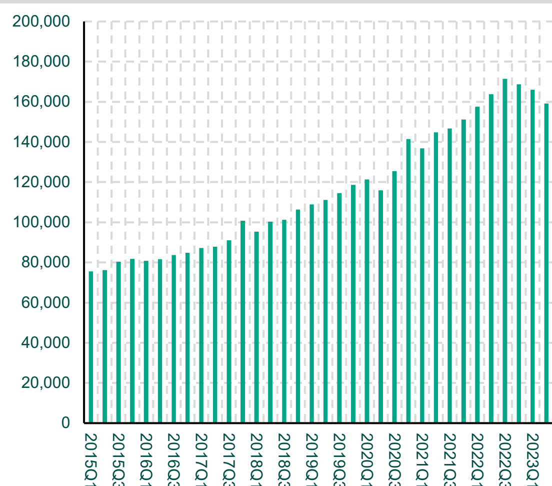
^ CSO, Non-financial Institutional sector accounts, quarter 4 2022.
^^ CSO Annual National Accounts 2022
^^^ According to the IMF, excess savings in the US from the pandemic are largely depleted. See: https://www.imf.org/en/Blogs/Articles/2023/07/25/global-economy-on-track-but-not-yet-out-of-the-woods

Against the backdrop of slowing external demand, overall exports are assumed to remain at relatively modest levels in the second half of this year, so that growth of just over 2 per cent is projected for the full-year. This compares with an average growth rate of around 12½ per cent over the past half-decade.

Modified Domestic Demand (MDD) increased moderately in the first half of the year, although the (seasonally adjusted) level of activity in the second quarter was unchanged compared with that a year earlier (**figure 3B**).

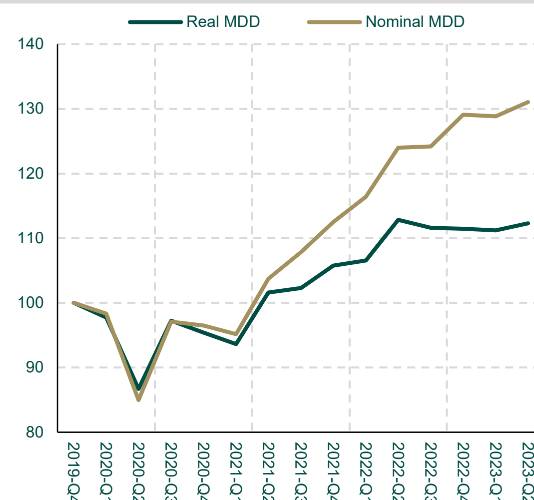
Figure 3: Recent developments

A: Exports of goods and services, in constant € mn, s.a



Source: CSO.

B: MDD – real and nominal (q4 2019 = 100)

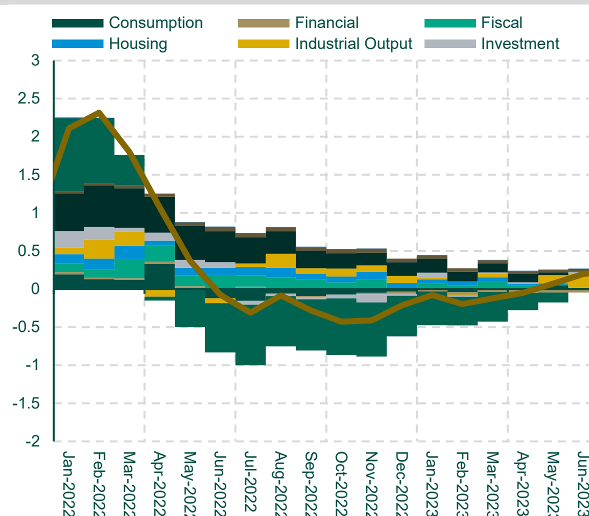


Source: CSO.

After a flat first quarter, consumer spending increased by nearly 1 per cent in the second quarter, meaning that the level of real spending was 10 per cent above its pre-pandemic peak (**figure 7A**). In nominal (or money) terms, consumer spending was around 30 per cent above its pre-pandemic peak; the differing growth path between real and nominal spending reflects the sharp increase in consumer price levels over the past two years.

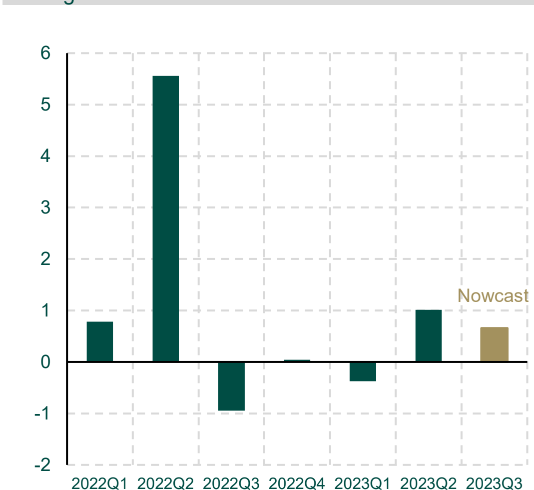
Figure 4: Underlying indicators and Nowcast

A: Underlying economic activity indicator 2022-2023



Source: Department of Finance.

B: Q3 MDD Nowcast – quarter-on-quarter per cent change



Source: Department of Finance.

Higher frequency data suggest that consumer demand may have eased in the third quarter, with retail sales and consumer sentiment both weakening over the summer. Headwinds associated with higher debt-servicing costs for households may be weighing on discretionary expenditure, and this will likely intensify in the months ahead. Operating in the other direction, transfers from the government sector to the household sector – as part of *Budget 2024* – will provide some support to consumer spending in the fourth quarter (**figure 4B**). All of these developments point to consumer spending increasing by around 3.3 per cent this year.

The necessity for pandemic-related expenditure resulted in strong public consumption growth in recent years. As pandemic-related expenditure is withdrawn, public consumption growth is expected to moderate. On the other hand, the provision of *inter alia* humanitarian assistance will underpin further expansion in the volume of public consumption this year, which is expected to grow by 1.7 per cent.

Table 4: Macroeconomic prospects

	2022	2023	2024	2025	2026
Economic activity			***per cent change***		
Real GDP	9.4	2.0	4.5	4.5	4.4
Nominal GDP	16.6	6.2	7.0	6.5	6.4
Real GNI*	6.7	2.0	2.0	2.1	2.2
Real MDD	9.5	2.2	2.2	2.5	3.0
Components of GDP			***per cent change***		
Personal consumption	9.4	3.3	3.2	2.3	2.8
Government consumption	3.5	1.7	1.4	0.1	1.0
Modified investment	15.9	-0.2	0.1	5.0	5.3
Stock changes^	0.9	0.0	0.0	0.0	0.0
Exports	13.9	2.1	5.3	4.8	4.6
Modified imports	18.9	2.1	4.1	3.5	3.7
Contributions to GDP growth			***percentage points***		
Modified domestic demand	4.4	0.9	0.9	1.0	1.3
Modified net exports	3.3	1.1	3.7	3.5	3.1
Stock changes	1.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.7	0.0	0.0	0.0	0.0
Nominal amounts			***€ millions***		
GDP (nearest €25m)	506,275	537,425	574,975	612,575	651,850
GNI* (nearest €25m)^^	273,125	292,800	307,200	320,775	334,975

Notes:
^ contribution to GDP growth.
^^ based on GNI less depreciation of R&D-related service imports and trade in IP, depreciation of aircraft for leasing, and net factor income of re-domiciled PLCs
Modified investment is a measure of investment that excludes investment in aircraft for leasing and investment in R&D from abroad, likewise for modified imports.
Source: 2022 = CSO; 2023-2026 = Department of Finance.

Over the last number of quarters, investment spending has been driven by a small number of multinational companies (MNE's) expanding their manufacturing facilities and data centres in Ireland. The scale of these projects has resulted in record high levels of investment in the machinery and

equipment category. Given the outsized nature of this investment, it is unlikely to be repeated going forward.

The strong momentum from building and construction activity last year, has continued into this year with over 14,000 new houses brought to completion in the first half of the year. Given the resilient pipeline of construction starts, housing completions are expected to broadly match last year's level. Juxtaposing these positive developments, commercial real estate activity is expected to remain subdued as the rising cost of capital acts as a headwind for investment, whilst the widespread adoption of work-from-home practices has lowered the demand for additional office space.

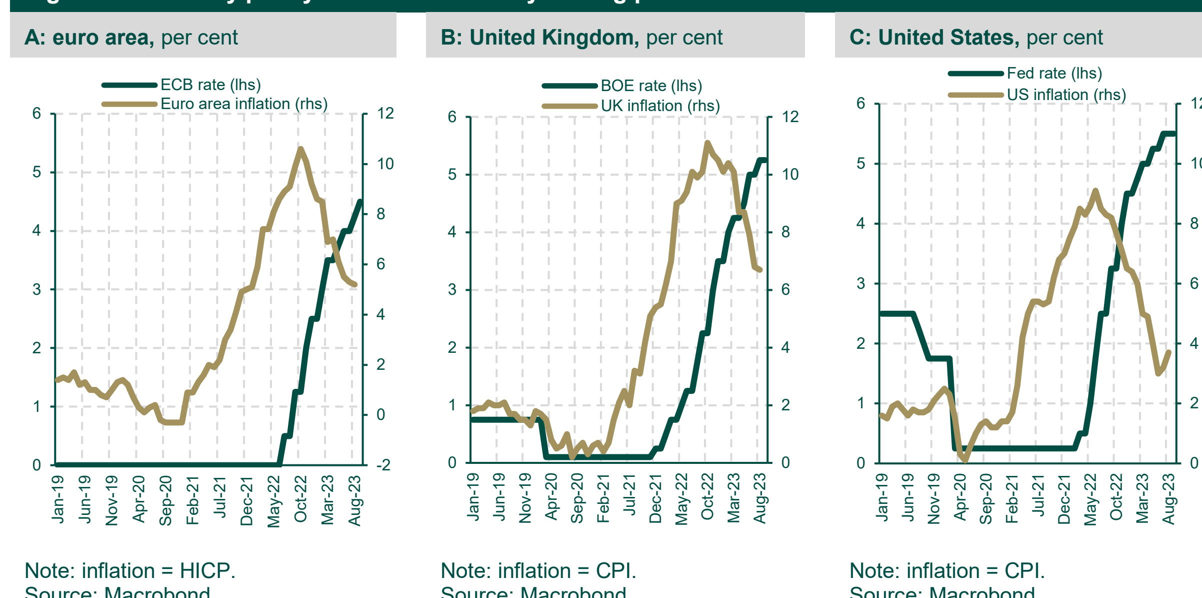
Putting all of this together, MDD is projected to increase by 2.2 per cent this year. This forecast is calibrated on the assumption that the economy has passed the peak of the business cycle – while activity will continue expanding, the gap between aggregate demand and supply should narrow. Indeed this is reflected in the Department's third quarter 'now-cast', which indicates an easing in the pace of underlying growth (**figure 4A**).[5] The annual growth rate incorporates a very small upward revision relative to the Department's spring forecasts of 0.1 percentage points, with the additional fiscal injection offsetting (in aggregate terms) the drag on activity from monetary policy.

2.3 Macroeconomic projections for 2024

2.3.1 External assumptions

On foot of the decline in global energy prices, the inflationary tide appears to have turned in Ireland's main export markets. After peaking during the spring in most regions, the headline rate is now on a downward trajectory. Underlying inflationary pressures, however, have been more persistent, reflective of post-pandemic mis-matches between demand and supply. This is evident from indicators such as 'core' inflation, where the downward trajectory has been much less pronounced than for headline rates.

Figure 5: Monetary policy and inflation in key trading partners



To better align demand with productive capacity, the highly accommodative monetary policy that has characterised advanced economies since the global financial crisis, and especially during the

[5] See Daly and Rehill (2020) "Where are we now? Examining Irish Economic Developments in Real-Time" https://www.gov.ie/en/publication/e6b3a7-where-are-we-now-examining-irish-economic-developments-in-realtime/

pandemic, has been rapidly reversed over the past year (**figure 5**). The standard channels through which the withdrawal of monetary stimulus impacts on real economic activity involve slowing the extension of new credit to firms and households and increasing debt service costs for existing borrowers.

While this transmission typically occurs with a lag – *inter alia* due to 'hedging' of interest rate exposures – there are now clear signs of pass-through to the real economy in most regions. In the euro area, for instance, growth in new lending to businesses is now at its lowest rate since the beginning of monetary union. Moreover, additional real economy impacts are also in the pipeline, given increases in policy rates over the spring and summer.

The macroeconomic data-flow in key export markets paint a somewhat mixed picture. The data show that demand effectively flat-lined in the euro area in the first half of the year (**box 3**), with higher-frequency data suggesting a further weakening over the summer. The consensus earlier in the year was that economic activity in the UK would fall both this year and next; the data, however, have surprised on the upside, with activity moving sideways so far this year.

In the US, the strength of consumer spending – financed by running down 'excess' savings accumulated during the pandemic – has supported economic activity, although more recently, interest-sensitive components of expenditure such as residential construction have lost momentum. Moreover, evidence suggests that these 'excess savings' have been nearly exhausted at this stage. Prospects for the Chinese economy – the world's second largest – are less benign than previously assumed (**box 4**).

The OECD is now forecasting global growth of 3 per cent for this year, easing to 2.7 per cent next year; to put this in perspective, the average growth rate this year and next is around 1 percentage point below the two decades prior to the pandemic. Global growth is being driven largely by emerging markets, with growth in advanced economies particularly muted.

Table 5: External assumptions, per cent change (unless stated)

	2022	2023	2024	2025	2026
External GDP growth					
United States	2.1	2.2	1.3	-	-
Euro area	3.4	0.6	1.1	-	-
United Kingdom	4.1	0.3	0.8	-	-
Technical assumptions					
Euro-sterling exchange rate (€1=)	0.85	0.87	0.86	0.86	0.86
Euro-dollar exchange rate (€1=)	1.05	1.09	1.09	1.09	1.09
Brent crude ($ per barrel)	98.6	82.4	82.2	78.0	74.7
Natural gas prices (stg£ per therm)	2.7	1.1	1.4	1.2	1.0

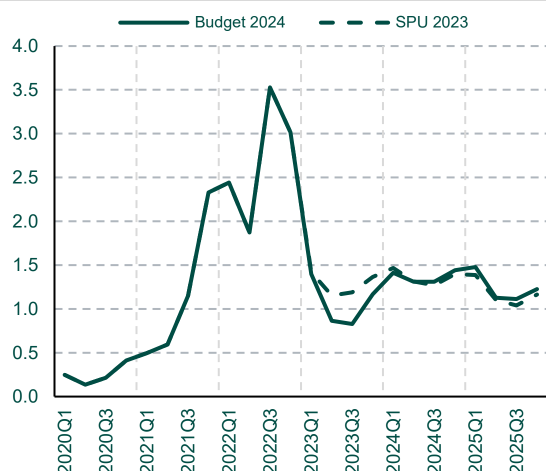
Notes:
Oil and gas prices (futures) are calculated on the basis of futures markets as of mid-September 2023.
Exchange rate outturns as of mid-September 2023 and unchanged thereafter.
Source: External growth forecasts are sourced from the OECD *Interim Economic Outlook*, September 2023 update.

Near-term forecasts for demand in Ireland's main export markets are set out above (**table 5**). GDP in the euro area is set to expand by 0.6 per cent this year, followed by 1.1 per cent next year. For the US, the equivalent figures are 2.2 and 1.3 per cent, respectively, for this year and next. The UK is set to underperform this year, with GDP growth of just 0.3 per cent, with a modest acceleration to 0.8 per cent

in prospect for next year. In all cases, consumer price inflation is set to moderate, though it will likely be further out the forecast horizon – probably 2025 – before inflation returns to rates consistent with central bank targets.

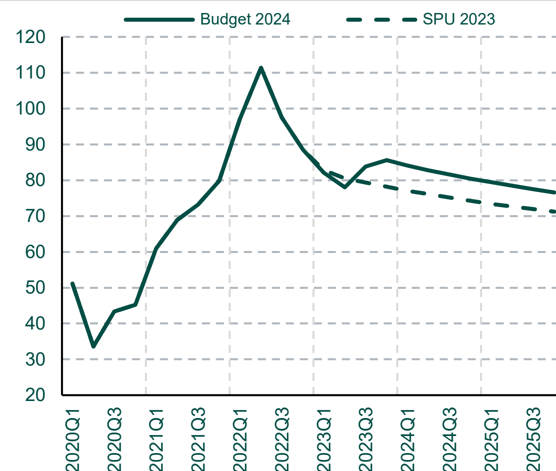
Figure 6: Changes in key external variables relative to spring forecasts

A: Gas prices, stg£ per therm



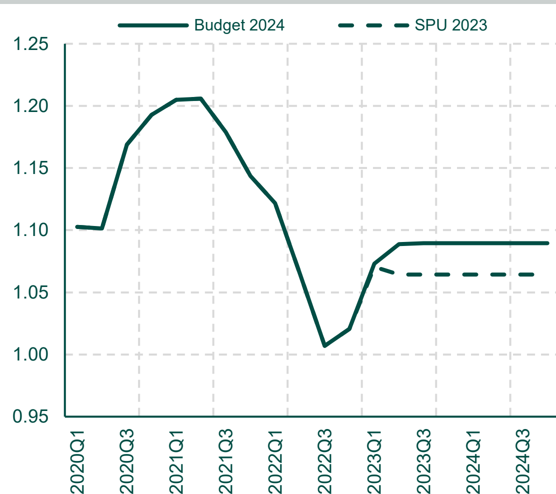
Note: held constant at rates prevailing at mid-September.
Source: Department of Finance

B: Oil prices, $ per barrel



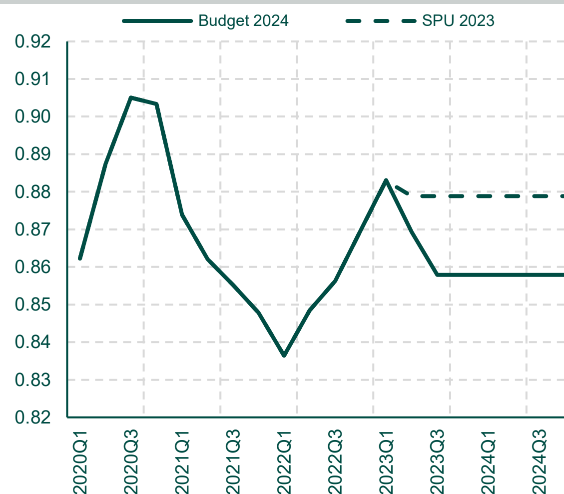
Note: held constant at rates prevailing at mid-September.
Source: Department of Finance

C: Euro-dollar bilateral exchange rate, €1 = $X



Source: Macrobond.

D: Euro-sterling bilateral exchange rate, €1 = stg£X



Source: Macrobond.

UK gas futures currently stand at stg£1.30 per therm on average over the winter (final quarter of this year, first quarter of next year) and stg£1.40 per therm on average for next year (**figure 6A**). While gas prices remain above their long-run average, prices have now receded significantly from last year's peak of around stg£3.50 per therm.

The wholesale price of oil picked-up over the summer *inter alia* due to 'OPEC+' reductions in supply. As usual, the Department's forecasts set out in this document are conditioned upon the pathway for energy prices currently signalled by the futures curve in mid-September.[6] This would imply oil prices averaging $82 (€76) per barrel this year, and remaining around that level next year (**figure 6B**).

[6] The price market participants are willing to pay for energy to be delivered at some point in the future.

Holding key bilateral exchange rates at their mid-September levels – the cut-off date for calibrating the forecasts in this document – implies a euro-dollar rate of €1 = $1.09 for next year (a 3 per cent euro appreciation – **figure 6C**). The same approach implies a euro-sterling bilateral rate of €1 = stg£0.87 for next year (a 2 per cent euro depreciation – **figure 6D**).

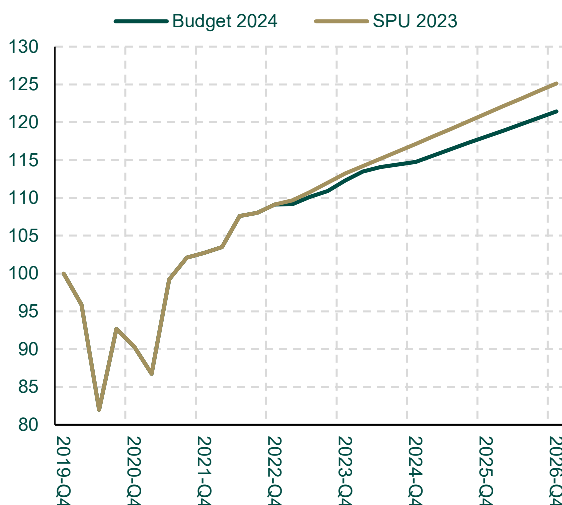
Weaker external demand is assumed to hold back foreign sales of goods and services from Ireland. In addition, the phasing-in of import controls under the *Border Target Operating Model* – applying predominantly to animal and plant-based products exported from Ireland into Great Britain from 31st January of next year – will also weigh on export sales. Working in the other direction, the completion of large-scale investment projects in parts of the multinational sector – including the pharma, med-tech and IT hardware sectors – is likely to bear fruit over the course of next year (and subsequent years). In addition, the drag from the reversal in demand for pandemic-related pharmaceuticals this year is assumed to wane. All of these factors – both headwinds and tailwinds – point to export growth of around 5.3 per cent for next year.

2.3.2 Domestic prospects

The tightening of monetary policy over the past year or so will be an important headwind for the domestic economy next year, with higher financing costs acting as a break on both current and capital spending. Alongside continued weakness in Ireland's main export markets, therefore, near-term domestic economic prospects are slightly less favourable than in the spring.

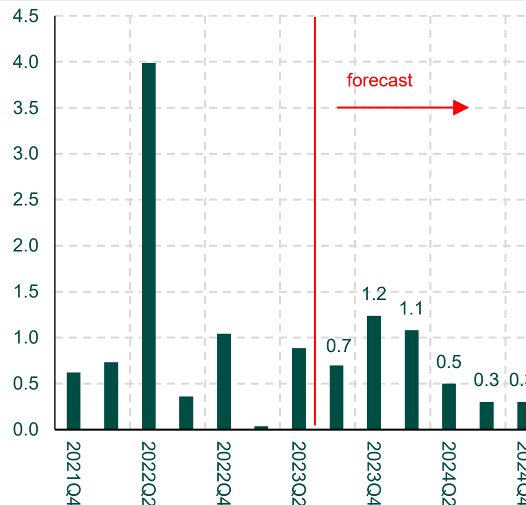
Figure 7: Quarterly profile for household spending

A: Quarterly profile for consumption, 2019q4 = 100



Note: Level immediately pre-pandemic set=100. Given the revisions to consumption, SPU 2023 quarterly growth rates have been applied to the revised outturns.
Source: Department of Finance

B: quarterly consumption growth rate, quarter-on-quarter



Source: Department of Finance

Box 3: Economic developments in the euro area

Wider euro area economic conditions impact on the Irish economy through a number of channels, the most important being the shared monetary policy channel. It is important, therefore, that the evolution of the euro area economy is monitored and understood.

Economic activity in the euro area has effectively stagnated in the first half of this year, and higher frequency data point to continued softness over the summer. The European Commission, in its most recent forecasts, revised its projections for euro area GDP growth downwards to 0.8 per cent in 2023 (**figure 8A**).

Several factors are weighing on activity in the euro area. First, the impact of high inflation is continuing to work through the economy, via demand and supply channels. Second, and related to the first, the macroeconomic policy mix has pivoted towards a more restrictive stance with a significant tightening of monetary policy over the past year and the gradual phasing out of fiscal supports related to the energy price shock. Third, the external environment has become more challenging, with weaker growth prospects in several key trading partners.

Notwithstanding the softening of activity, the euro area labour market has proven remarkably resilient. As of July, the unemployment rate across the region was 6.4 per cent, a record low. Moreover, activity rates – both in terms of employment and participation - are either at, or close to, all-time highs. One exception relates to average hours of work, which still remain below pre-pandemic levels. The combination of high employment at lower average hours may point to some element of labour hoarding by employers in response to the difficulties in re-hiring skilled staff following the pandemic lockdowns.

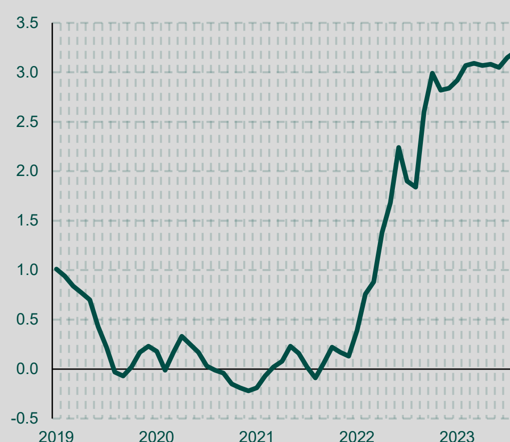
On the inflation front, the latest data confirm the downward trajectory in headline inflation across the euro area, with the inflation rate estimated (i.e. 'flash' estimate) at 4.3 per cent in September – this is more than half its rate of little over a year ago. This trend is expected to persist, with all of the major institutions anticipating a further moderation in inflation over the next few years. However, the dynamics of 'core' inflation have been somewhat less favourable, with an estimated rate of 5.5 per cent in September.^ Persistence in this series suggests that the original supply shock has morphed into a demand shock.

Figure 8: Key macro developments in the euro area economy

A: forecasts vintages for growth and inflation for 2023

Source: European Commission.

B: euro area sovereign borrowing costs (long-term yields)



Source: Eurostat.

To rebalance demand and supply, policy rates were increased by a further 25 basis points (bps) in September, bringing the cumulative increase to 450 bps since July 2022. Ancillary instruments are also being used to tighten the stance of monetary policy – such as the scaling bank of the *eurosystem's* balance sheet. Partly as a result, there has been a marked increase in sovereign borrowing costs in the euro area with an 8-fold rise in just over 2-years (**figure 8B**). Banks in the euro area banks are also repaying borrowings under the ECB's targeted longer-term refinancing operations.

On the budgetary side, headline fiscal ratios are expected to improve further this year with the general government deficit averaging 3.2 per cent of GDP in the euro area, with a further decline in prospect for next year. However, the debt ratio across the euro area is expected to average c.90 per cent of GDP this year and next, with much heterogeneity across the Member States (6 countries had debt-income ratios in excess of 100 per cent last year).

Last April, the European Commission tabled legislative proposals on reforms to the economic governance framework with the hope for an agreement by end-year. The outcome of these discussions will have a significant bearing on euro area budgetary policy in the years ahead.

^ core inflation here is defined as excluding unprocessed food and energy in line with the European Commission approach.

Box 4: Rebalancing of the Chinese economy – an overview

Following the ending of the 'zero-Covid' policy late last year, the post-pandemic rebound in the Chinese economy has been much more subdued then initially assumed. Given extensive macro-imbalances, there is now mounting concern that this loss of economic momentum portends a more significant structural adjustment that could weigh on activity for some time.

As the world's second largest economy – with extensive cross-border trade (including in commodities), investment and financial links – China is a key fault-line for the global economy, and the effects of any significant rebalancing could potentially ripple through the global economy. OECD analysis, for instance, shows that a 3 per cent fall in Chinese domestic demand (vs baseline) would reduce global growth by 0.6 percentage points.**^**

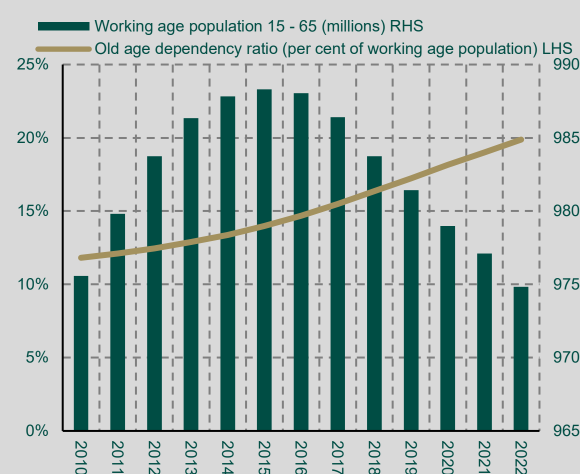
The root cause of macroeconomic imbalances in China is sometimes traced to China's national savings rate. For any economy, the national savings rate is a key variable: it is the amount of disposable income (of households, government and corporates) that remains once current consumption (public and private) has been financed. In the national accounting framework, it is the total amount available to finance domestic investment; any excess of savings over domestic investment is channelled abroad by running a balance of payments surplus and *vice versa*.

Data from the *World Bank* show that the national savings rate in China has been of the order 40-50 per cent for a number of decades;**^^** no other high- or middle-income country saves at this rate. Much of these savings originate in the household sector and appear to be largely for precautionary reasons: *inter alia* the absence of a social safety net and high levels of job insecurity. Demographic changes (**figure 9A**) as well as high levels of income inequality also contribute to high levels of household savings.

High levels of Chinese domestic savings were intermediated through the financial system (including through the 'shadow banking' system) to finance high levels of domestic capital formation: the rates of return were sufficiently high for many decades (given the initial, under-developed capital stock). After several decades of rapid, 'catch-up' growth, however, domestic savings in recent years have been absorbed by investment projects subject to decreasing returns.

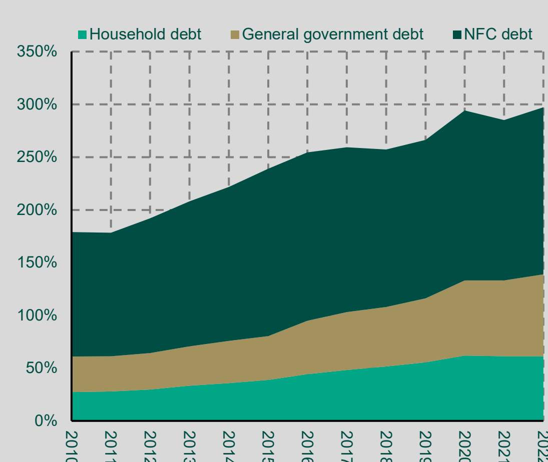
Figure 9: Key structural trends in the Chinese economy

A: Demographic trends in in China



Source: World Bank, 2023

B: Evolution of debt in China



Source: Bank for International Settlements, 2023

In other words, the continued expansion of the Chinese economy over the past decade or so was increasingly reliant on capital spending (investment) rather than current spending (consumption), with a deterioration in investment quality with ever-more concentration in unproductive investment such as real estate and property.

Investment in assets characterised by low rates of return and financed by debt accumulation ultimately leads to a rise in the debt-income ratio (**figure 9B**) and, over the past year or so, evidence of debt stress has emerged – notably in the property-development sector and the local government sector.

The rebalancing of the economy will require a downsizing of the construction sector – a major drag on activity. In order to keep aggregate demand at levels consistent with aggregate supply (in other words to avoid an increase in unemployed workers and capital), it will be – by definition – necessary to either boost consumption (i.e. to lower savings) or to substitute foreign demand for domestic demand (by increasing its external surplus even further).

^ OECD interim economic outlook, September 2023, available at: https://www.oecd-ilibrary.org/sites/
^^ See slide 7 in: "The economic and budgetary situation – a stock-take", ESRI Budget Perspectives Conference, 15th June 2023 https://www.gov.ie/pdf/?file=https://assets.gov.ie/

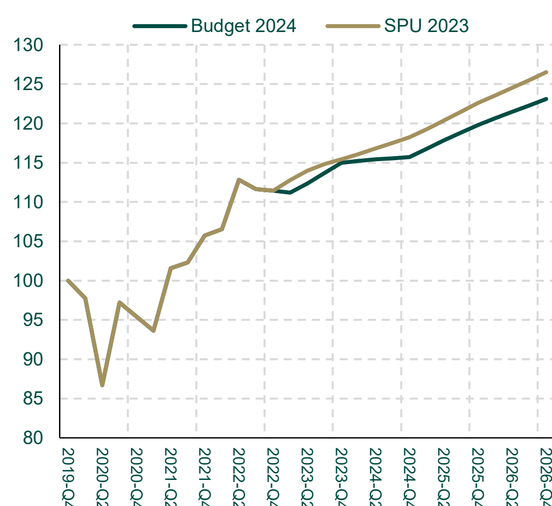
Headline inflation is set to decelerate further, with real (i.e. inflation-adjusted) wages returning to positive territory over the course of next year. Net fiscal transfers from the government sector – as part of *Budget 2024* – will also support household incomes. While households have not yet dipped into their 'excess deposits' (i.e. 'forced' savings accumulated during the pandemic), their saving as a share of disposable income has re-normalised at around 10 per cent (**box 2**); the projection for consumer spending next year is anchored to savings remaining at around this rate.

As with the final quarter of 2023 a temporary boost to consumer spending is expected in the first quarter of 2024, reflecting the timing of Government supports. Thereafter, the pace of growth is projected to moderate as the lagged effects of monetary policy take hold (**figure 10**): as more-and-more households roll-off low fixed rate mortgages and re-finance at higher rates, the interest burden will squeeze household incomes and weigh on discretionary spending. Against this general profile, real consumer spending growth of 3.2 per cent is projected for next year.

A number of factors are assumed to underpin increased public consumption next year. For instance, additional purchases of current goods and services will be required as the Government expands its service provision in key areas. In addition, additional purchases of goods and services will be needed in order to continue providing humanitarian aid to Ukrainian and other migrants.

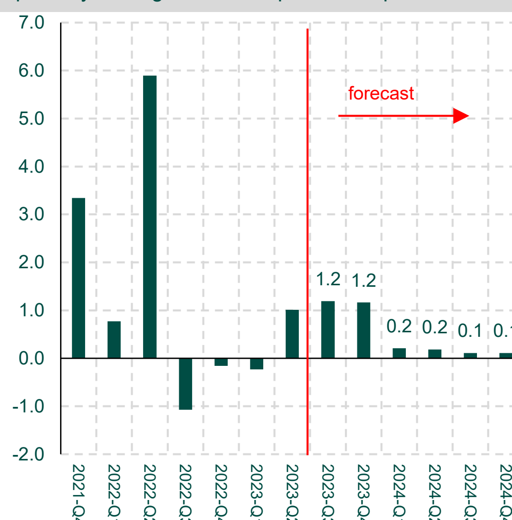
Figure 10: Quarterly profile for modified domestic demand

A: Quarterly profile for MDD, 2019q4 = 100



Note: Level immediately pre-pandemic set=100. Given the revisions to MDD, SPU 2023 quarterly growth rates have been applied to the revised outturns.
Source: Department of Finance

B: quarterly MDD growth rate, quarter-on-quarter



Source: Department of Finance

Financing conditions and the level of certainty are key drivers of investment spending: higher interest rates and heightened uncertainty tend to hold back business capital outlays by reducing the (risk-adjusted) rate of return on projects. Amid monetary policy tightening and a deterioration in the outlook for the global economy, therefore, the near-term outlook for 'core' machinery and equipment spending in the domestic economy is weak. In addition, a 'base effect' arises from the completion of exceptionally large investments in plant and machinery this year.

In terms of building and construction investment, research indicates that higher financing costs will likely weigh on both supply and demand in the housing market,[7] with institutional investors particularly sensitive to higher interest rates.[8] On the other hand, the Government's *National Development Plan 2021-2030* will support activity elsewhere in the construction sector. In overall terms, modified investment is projected to be effectively flat next year.

Against this backdrop, MDD growth of 2.2 per cent is projected for next year, a 0.4 percentage point downward revision relative to the Department's spring projections (**figure 10**).

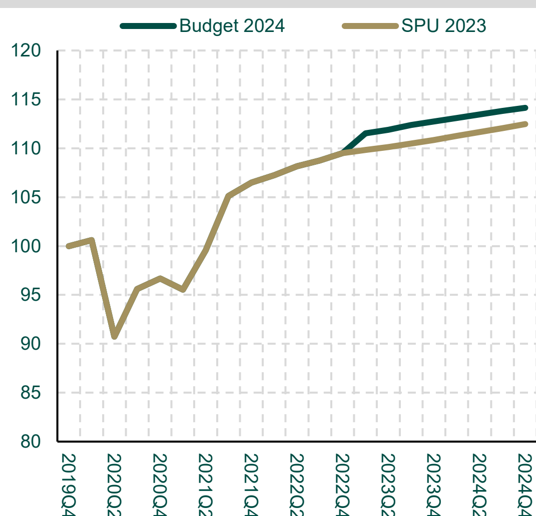
Modified import growth of 4.1 per cent is projected for next year, in line with the forecast growth in modified final demand. In conjunction with the assumed growth rate of exports, this would result in GDP growth of 4.5 per cent next year. GNI* growth is expected to increase by just under 2 per cent, reflecting the path for MDD and a slightly positive contribution from net (domestic) trade driven by a reduction in imports of machinery and equipment, as well as a positive contribution from the multinational sector via corporate taxes.

2.4 Labour market developments

Very strong employment growth was recorded in the first quarter of this year; while the growth rate moderated in the second quarter, there were 2.64 million in work by mid-year, the highest level ever. As a result, almost three-quarters of the working age population were in employment – an employment rate that surpasses previous peaks by a wide margin. Employment growth has been broad-based, with most sectors in expansive territory; exceptions being agriculture where employment has generally declined in recent years and the much-larger industrial sector where the level of employment in the second quarter was just over one per cent below the equivalent level in the same quarter last year.
Almost all of the additional employment arose from increases in labour supply. Net inward migration and increased participation – particularly female participation – were the key drivers of this increase in labour supply.

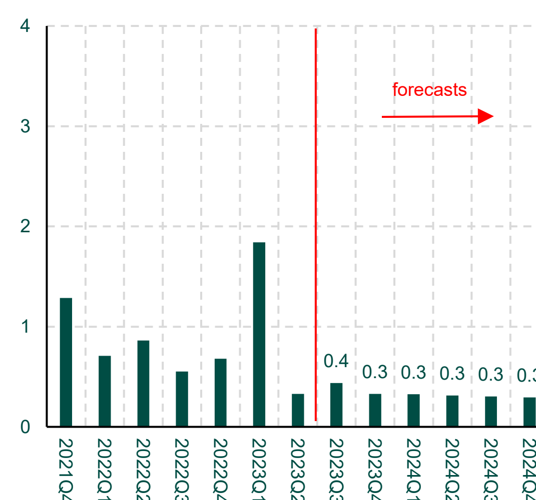
Figure 11: Labour market developments

A: Quarterly employment projections, 2019q4=100



Source: CSO, Department of Finance.

B: Quarterly employment growth, per cent



Source: CSO, Department of Finance.

[7] See Egan et al (2023), Interest Rate Snapback and the Impacts on the Irish Economy, ESRI Working Paper No. 757.
[8] See Erskine and McGuinness (2023), "Assessing the implications of rising interest rates on the Irish housing sector" https://www.gov.ie/en/publication/2c8b4-economic-insights-spring-2023/

Higher frequency data tentatively suggest some modest softening in labour demand since the summer, though further employment expansion is assumed over the remainder of this year and into next. Full-year growth rates of 3.4 and 1.3 per cent are projected; to put it another way, over 120,000 jobs are assumed to be generated in the two-year period to end-2024 (**figure 11**).

Table 6: Labour market developments, per cent change (unless stated)

	2022	2023	2024	2025	2026
Employment	6.6	3.4	1.3	1.3	1.4
Unemployment rate (per cent)	4.5	4.1	4.2	4.3	4.4
Labour productivity^	2.6	-1.4	3.1	3.1	2.9
Compensation of employees*	9.5	9.3	6.3	6.1	6.0
Wages per head	2.5	4.4	4.6	4.5	4.3

^GDP per person employed
*Non-agricultural sector.
Source: 2022 = CSO: 2023-2026 = Department of Finance.

Nominal wages per head growth averaged 3.6 per cent in the first half of the year, a figure that was below the increase in consumer prices during that period. This decline in real wages is a common feature across most advanced economies – one possible reason is that fiscal transfers have supplemented household incomes, thereby keeping a lid on wage demands.

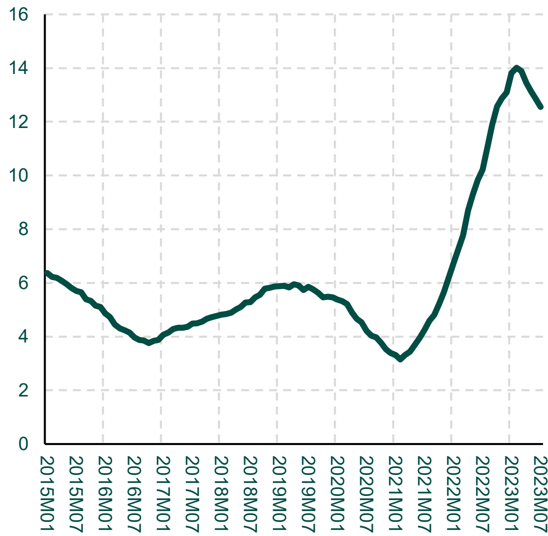
Taking into account wider labour market dynamics, nominal pay per head growth of 4.4 and 4.6 per cent is projected for this year and next. With inflation moderating, the purchasing power of wages is set to be gradually restored.

2.5 Price developments

The weight of evidence suggests that consumer price inflation has now peaked and is set to moderate further in the months ahead. The war-induced energy price shock has now been reversed; as lower wholesale prices pass-through – albeit with lags (arising from the hedging strategies of energy suppliers) – to retail prices, headline inflation is set to ease further. As demand cools and supply catches up, core inflationary pressures are set to moderate (**figure 12**).

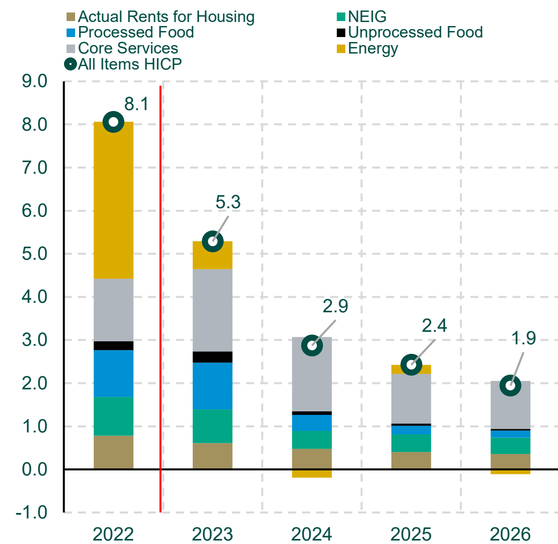
Figure 12: Inflation developments and drivers

A: Ireland's energy import bill, € billion



Note: figures are annualised (12-month rolling sum).
Source: Department of Finance.

B: Inflation projection by component



Source: Department of Finance.

Lower inflation will, in turn, support real income growth into next year. As the loss in purchasing power is reversed, consumer spending is set to strengthen, supported by the measures introduced by the Government as part of *Budget 2024*.

Table 7: Price developments, per cent change

	2022	2023	2024	2025	2026
GDP deflator	6.6	4.1	2.4	2.0	1.9
Personal consumption deflator^	6.5	5.9	3.5	2.7	2.3
Harmonised index of consumer prices	8.1	5.3	2.9	2.4	1.9
Core HICP inflation^^	5.0	5.1	3.4	2.5	2.3
Export price deflator	5.0	1.8	1.3	1.2	1.3
Import price deflator	4.4	0.8	1.1	1.2	1.2
Terms-of-Trade	0.5	0.8	0.1	0.0	0.0

Notes:
^ Both the personal consumption deflator and the HICP measure the change in the average price of a fixed basket of goods and services. However, the two measures differ in terms of the goods and services covered and the weights assigned to each item.
^^ core inflation is HICP inflation excluding the most volatile components, namely energy and unprocessed food.
Source: 2022 = CSO; 2023-2026 = Department of Finance.

2.6 Balance of payments and flow-of-funds

The current account of the balance of payments falls into the set of macro-variables in Ireland whose signalling properties are weakened by globalisation-related distortions. The modified current account balance (CA*) provides clearer economic signals but is only available on an annual basis. Against this backdrop, the savings-investment gap of the domestic sectors – the household and government sectors – is a useful proxy for understanding short-term dynamics.

The projections outlined earlier imply that the household sector (in aggregate terms) will continue to accumulate net financial assets both this year and next; in other words, after financing the purchase of

current goods and services as well as the acquisition of housing assets, the household sector will once again record a net financial surplus. These flows will have positive implications for the balance sheet: last year, the household sector's stock of financial assets exceeded the stock of liabilities and, given the net financial surplus in prospect for this year and next, the net financial wealth of the household sector is set to expand further.

The general government sector is also projected to be a net lender this year and next. This reflects, in no small part, the strength of corporate tax receipts, the impact of which is to boost general government income. While government purchases of current goods and services (public consumption) and capital goods and services (public investment) are set to increase, government savings are set to exceed investment once again. Net financial claims on the general government sector are, therefore, set to reduce in the near-term.

The underlying current account of the balance of payments – as proxied by the savings-investment balance of the household and general government sectors – is set to remain in positive territory in the coming quarters.

Table 8: Savings, investment and the balance of payments, per cent of GDP (unless stated)

	2022	2023	2024	2025	2026
Gross savings	34.7	34.4	34.7	35.4	35.8
Modified gross savings (per cent GNI*)	31.1	31.2	30.6	30.6	30.5
of which:					
- households	6.4	6.2	5.6	5.0	4.9
Investment^	24.2	22.7	22.4	22.4	22.6
Modified investment (per cent GNI*)	24.4	23.6	23.1	23.6	24.3
of which:					
- households	3.2	3.2	3.3	3.5	3.7
Current account	10.5	11.7	12.4	13.0	13.2
of which:					
- trade balance	39.9	40.8	41.5	42.1	42.5
- income balance	29.1	29.1	29.1	29.2	29.3
Modified current account (per cent GNI*)	7.0	7.5	7.5	7.0	6.2

Notes:
^ More specifically, gross capital formation which is the sum of gross domestic fixed capital formation, changes in stocks and the statistical discrepancy.
Source: 2021 = CSO; 2022-25 = Department of Finance.

Corporate savings and investment trends are heavily influenced by the multinational sector. Corporate savings in Ireland are set to increase once again this year, albeit at a slower pace than in recent years as lower pharmaceutical exports weigh on profitability this year. As outlined earlier, this is projected to unwind next year, which would underpin a further expansion of corporate savings. Corporate investment in recent years has been heavily influenced by the on-shoring of intangible assets, although there is some evidence of lower levels of on-shoring over the past year-or-so. Assuming no further major purchases of intangible assets from abroad, the corporate sector would continue to be a large net lender.

As a result, Irish residents (including corporates resident in Ireland) would be accumulating net financial assets from the rest of the world sector; from a balance sheet perspective, this would mean that Irish residents would be reducing their stock of net financial liabilities to non-residents.[9]

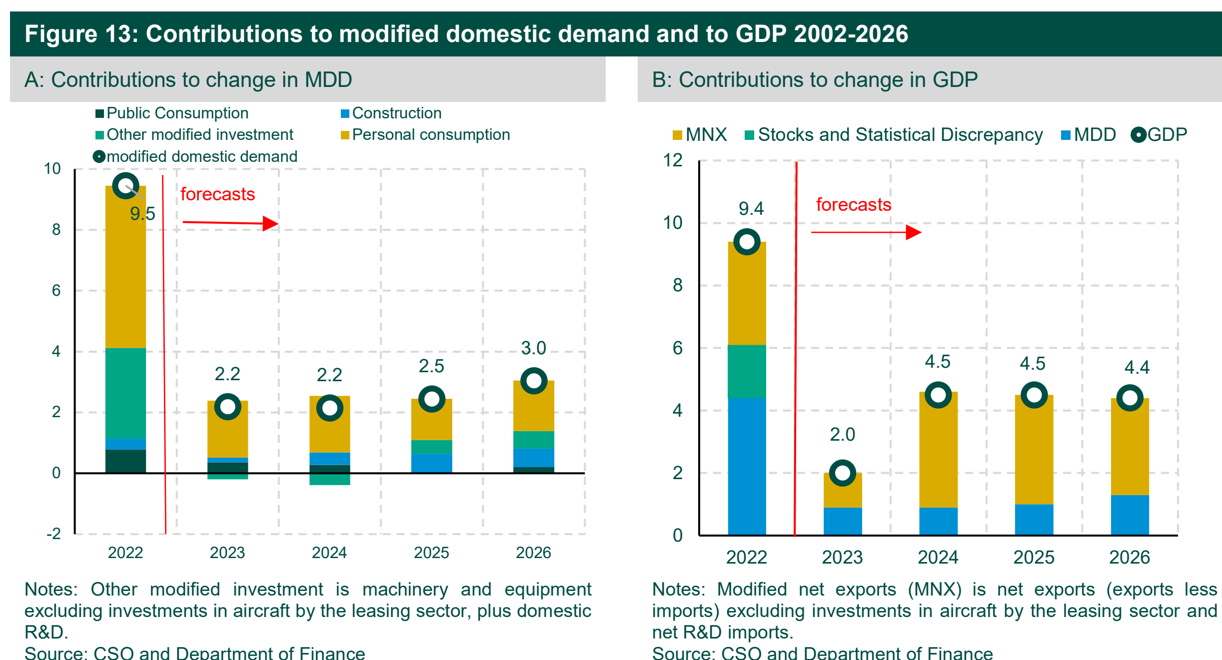
2.7 Medium-term economic prospects

The Department set out forecasts covering the 2023-2030 horizon in its spring forecasts. Technical work undertaken by the Department confirms that the potential growth rate of the Irish economy is slowing:[10] annual average potential GNI* growth will be an estimated 2.1 per cent in 2026-2030, compared with an estimated 2.6 per cent in 2016-2020 and 5.3 per cent in 2021-2025. These projections are reflected in demand-side projections set out below (**table 9**).

In the short-term, the Department estimates that there is a positive 'output gap' (aggregate demand exceeds aggregate supply) indicating capacity constraints in the economy. This gap is projected to close over time, though there is always uncertainty over exact estimates of the output gap (**box 5**).

The Department's medium-term projections are reproduced below (**table 9**), with updates largely confined to the earlier part of the forecast horizon. Beyond next year, MDD is set to growth by 2.5 and 3.0 per cent in 2025 and 2026, respectively (**figure 13A**). GDP is set to expand at average rate of 4.5 per cent over 2024-2026 (**figure 13B**).

Figure 13: Contributions to modified domestic demand and to GDP 2002-2026



Notes: Other modified investment is machinery and equipment excluding investments in aircraft by the leasing sector, plus domestic R&D.
Source: CSO and Department of Finance

Notes: Modified net exports (MNX) is net exports (exports less imports) excluding investments in aircraft by the leasing sector and net R&D imports.
Source: CSO and Department of Finance

[9] Assuming no large valuation or other effects.

[10] Hogan, S., Rehill, L., & Sanjani, MT. (forthcoming). Horizon Scanning – calibrating medium to long-term economic projections. Department of Finance.

Table 9: Medium term forecasts – key macro variables							
	2024	2025	2026	2027	2028	2029	2030
Modified investment	0.1	5.0	5.3	5.1	5.0	4.3	4.2
GNI*	2.0	2.1	2.2	2.2	2.1	2.1	2.1
Labour force	1.5	1.4	1.5	1.1	0.7	0.7	0.6
Employment	1.3	1.3	1.4	1.0	0.7	0.6	0.6
Unemployment rate	4.2	4.3	4.4	4.5	4.6	4.7	4.7
Inflation (HICP)	2.9	2.4	1.9	1.9	2.0	2.0	2.0
GNI*, nearest € bn	307.2	320.8	335.0	350.0	365.8	382.2	399.3

Source: Department of Finance calculations

Box 5: Supply-side estimates

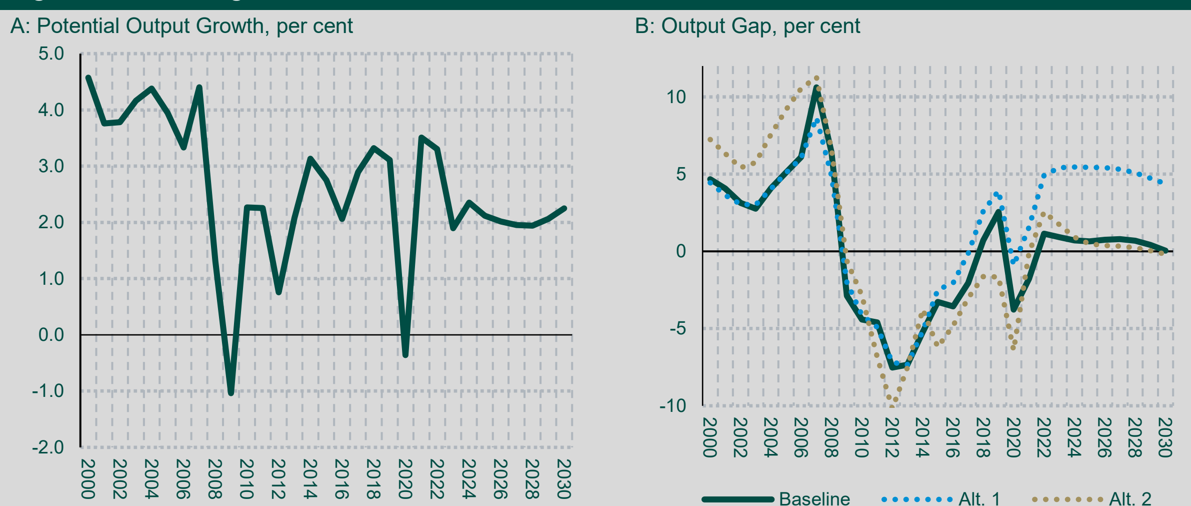
In the long-run, the amount of goods and services that can be produced by a country depends on the productive capacity of the economy, the latter determined by factors such as the size of the labour force, the stock of fixed capital and how efficiently these resources are used. This measure of capacity is referred to as an economy's potential output.

In reality, actual output in a given year is rarely the same as its potential output due to fluctuations in business activity. The difference between actual and potential output is referred to as the output gap, and is considered a measure of the business cycle. A positive output gap indicates that the economy is temporarily operating beyond capacity, often resulting in an increase in inflation, while a negative output gap indicates an economic downturn and is usually associated with high unemployment. In theory, calibrating the policy mix in order to minimise the output gap, and so avoiding both excessive unemployment and inflation, is one of the most efficient ways that policy can contribute to boosting living standards in a sustainable manner.

In reality, estimating the output gap in real-time is notoriously difficult. For instance, there are a range of indicators of a positive (or negative output gap) such as a very low unemployment rate, high credit growth, a current account deficit, or the inflation rate. More formally, mathematical models can be used to directly estimate potential output and, hence, the output gap.

The Department has a range of estimation methods,^ focusing primarily on the domestic sector – so as to avoid MNC-related distortions - and incorporating data on indicators related to the business cycle such as the unemployment rate, inflation and credit growth. The baseline series below (**figure 14A**) represents the mid-point of the range of methods, which indicates potential output growth for the domestic Irish economy of on average just over 2 per cent a year, with a small though consistently positive output gap indicating some element of over-heating. This positive output gap is driven mainly by labour market conditions, with unemployment at near record low levels.

Figure 14: Modelling results



Source: Department of Finance workings.

As a sensitivity check, the Department also calibrates these models with alternative data sources, and the output gap associated with alternatives are presented above (**figure 14B**). In the first such case (Alt.1), potential output is re-estimated using the CSO Covid-19 adjusted unemployment rates for the pandemic period.^^ This approach suggests that the output gap is at the highest level seen in the Irish economy since 2008.

A second approach (Alt. 2) uses GNI* instead of 'Domestic-GVA' as a measure of economic output. While GNI* has recovered much faster than domestic GVA since the pandemic this method results a very similar pattern to the baseline model with a positive output gap in the short-to-medium term.

While there is no one-size fits all method for estimating the output gap, the range of methods above illustrate that there is some element of over-heating which is likely to persist into the medium term, with clear and obvious implications for policy.

^ Murphy, G., Nacheva, M., & Daly, L. (2018). Estimating Ireland's output gap; an analysis using selected statistical filters. Department of Finance
^^ The Covid-19 Adjusted Unemployment Rate series treats all persons in receipt of the Pandemic Unemployment Payment as unemployed.

Chapter 3
Exchequer Developments and Outlook

3.1 Summary

The Exchequer is set to record a surplus of €2.2 billion this year. The headline position continues to be flattered by exceptionally high levels of corporate tax receipts, around half of which are assessed as being windfall in nature. While overall tax receipts will be larger than last year, the projected yield will be slightly shy of the projection set out in the spring. In particular, corporate tax receipts will likely undershoot earlier expectations, partly offset by slightly stronger-than-expected income tax receipts. For next year, an Exchequer surplus of €1.8 billion is projected.

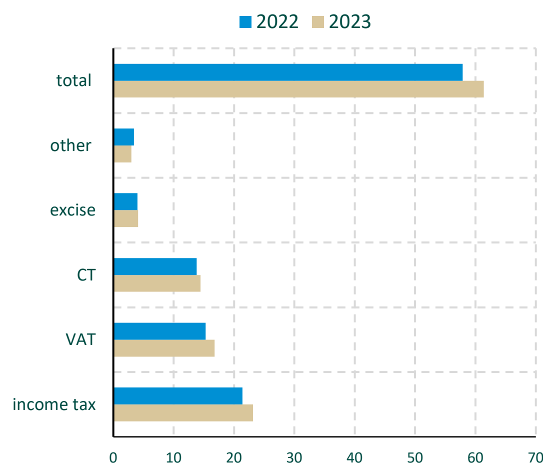
3.2 Exchequer developments in 2023

3.2.1 Tax revenue

Tax receipts to end-September were €61.4 billion, €3.5 billion (6.1 per cent) ahead of the same period last year (**figure 15A**), though a little behind expectations. The strength of the labour market, especially employment growth, is confirmed by income tax receipts, which were up by €1.8 billion (8.2 per cent) year-on-year in the first three quarters of the year. The increase in (nominal) consumer spending is evident from VAT receipts, which are up €1.5 billion (9.7 per cent).

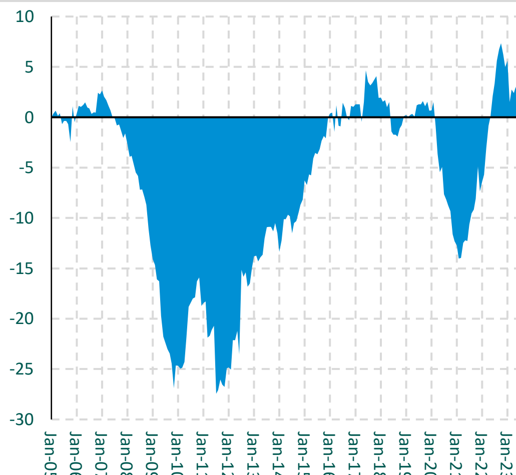
Figure 15: Exchequer developments

A: Cumulative tax receipts, to end-September, € bn



Source: Department of Finance

B: Exchequer deficit, rolling 12-month sum, € billions



Source: Department of Finance

For other tax headings, the picture is somewhat more subdued. While still rising, the growth of corporate tax receipts is much lower than in more recent years, as the weaker export performance (export sales are the main driver of corporate profitability in Ireland) in parts of the multinational sector is weighing on profits. In the year to end-September, the corporate tax-take is up €0.6 billion (4.4 per cent) on the same period last year, though the growth rate has slowed as the year has progressed. The performance of excise receipts is mainly the result of Government policy, with reductions in rates of excise duty on petrol and diesel, designed to alleviate the burden on households of rising wholesale energy prices. Finally, receipts from some of the (relatively) smaller tax headings are down on an annual basis in the year to date.

Based on the economic assumptions set out earlier, and taking into account the impact of discretionary tax changes set out in *Budget 2024* (most notably the postponement of the planned increase in excise duties on petrol and diesel from the beginning of November this year until end-April next year), the tax yield for this year is projected at €88.3 billion, broadly in line with forecasts set out by the Department in the spring.

In terms of direct tax receipts, income tax receipts are forecast at €33.0 billion, €2.2 billion (7 per cent) higher than last year. Corporate tax receipts amounting to €23.6 billion are assumed, a €0.9 billion (4 per cent) increase relative to last year. For indirect taxes, VAT receipts are estimated at €20.4 billion, €1.8 billion (10 per cent) ahead of last year, with excise duties projected at €5.7 billion, an increase of €0.2 billion (4 per cent).

3.2.2 Other revenue

Non-tax revenue this year is projected at €2.1 billion. Capital resources – which include EU funding under the *Brexit Adjustment Reserve* and the *European Regional Development Fund* – are estimated at €1.9 billion.

3.2.3 Expenditure developments

Total voted expenditure is projected at €93.1 billion for this year. Core spending accounts for €85.9 billion of this. The remaining balance is made up of €5.2 billion for non-core measures including Ukraine and Covid-19 responses as well as €1.7 billion this year in once-off cost of living measures.

3.2.4 Summary

An Exchequer deficit of €1.8 billion (12-month, rolling sum) was recorded in September (**figure 15B**); while this is lower than last year, it reflects the transfer of €4 billion to the *National Reserve Fund* in the first quarter of the year. For the year as a whole, an Exchequer surplus of €2.2 billion is in prospect.

3.3 Exchequer outlook for 2024

3.3.1 Tax forecasts

Taking account of the macroeconomic projections – the tax 'base' – as well as the €1.1 billion tax policy measures announced as part of *Budget 2024*, overall tax revenue is projected at €92.6 billion next year, an annual increase of 4.8 per cent.

The direct taxation yield is projected to increase at a more subdued rate next year. Income tax is expected to grow by €1.3 billion (4.1 per cent), broadly in line with the projected growth rate of the wage bill (**figure 16A**). Corporate tax revenue is expected to grow by €0.9 billion (4.0 per cent), reflecting the assumed increase in profitability. As previously documented, this revenue stream is highly concentrated among a small number of large companies and is, accordingly, extremely volatile.

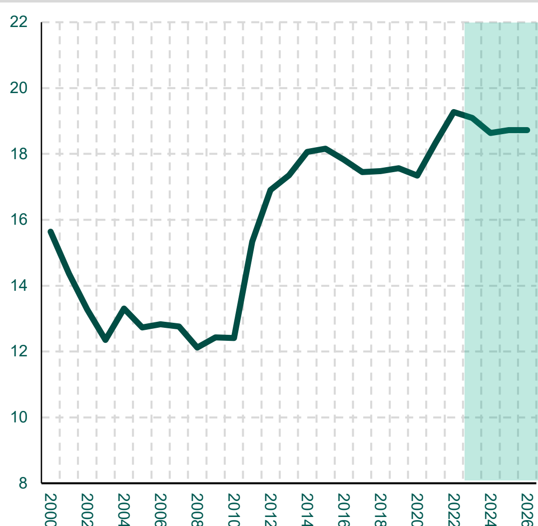
Table 10: Budgetary projections 2022-2026, € million					
	2022	2023	2024	2025	2026
CURRENT BUDGET					
Expenditure					
Gross voted current expenditure	77,840	81,495	83,395	82,560	86,495
Non-voted current expenditure*	7,765	7,795	8,280	8,545	8,420
Gross current expenditure	**85,605**	**89,290**	**91,675**	**91,105**	**94,915**
less expenditure receipts and balances	15,865	16,300	16,560	16,075	16,370
Net current expenditure	**69,740**	**72,990**	**75,115**	**75,030**	**78,545**
Receipts					
Tax revenue	83,130	88,305	92,575	97,825	101,480
: income tax	30,730	32,955	34,300	36,350	38,440
: VAT	18,600	20,435	21,760	23,160	24,360
: corporation tax	22,645	23,555	24,490	25,785	25,610
: excise duties	5,440	5,660	6,230	6,665	7,030
: stamp duties	1,825	1,770	1,755	1,715	1,775
: motor tax	905	910	870	820	765
: customs	635	590	605	630	660
: capital gains tax	1,745	1,805	1,905	2,005	2,105
: capital acquisitions tax	605	625	660	695	735
Non-tax revenue	2,440	2,055	1,105	1,450	1,160
Net current revenue	**85,570**	**90,360**	**93,680**	**99,275**	**102,640**
CURRENT BUDGET BALANCE	**15,830**	**17,370**	**18,565**	**24,245**	**24,095**
CAPITAL BUDGET					
Expenditure					
Gross voted capital expenditure	10,930	11,885	13,185	14,350	15,490
Non-voted capital expenditure*	5,185	5,250	5,550	7,645	7,945
of which:					
-Transfer to the *Future Ireland Fund* **			4,300	4,600	4,900
-Transfer to the *ICNF* ***				2,000	2,000
Gross capital expenditure	**16,115**	**17,135**	**18,735**	**21,995**	**23,435**
Less capital receipts	65	45	40	45	45
Net capital expenditure	**16,050**	**17,090**	**18,695**	**21,950**	**23,390**
Capital resources	**5,205**	**1,910**	**1,935**	**1,760**	**1,575**
CAPITAL BUDGET BALANCE	**-10,845**	**-15,180**	**-16,760**	**-20,190**	**-21,815**
Exchequer Balance	**4,985**	**2,190**	**1,805**	**4,055**	**2,280**
Government Expenditure Ceiling		**93,380**	**96,580**	**96,910**	**101,985**

Notes:
Figures are rounded to the nearest €5 million and this rounding may affect totals.
Fiscal numbers are presented on an *ex-post* basis.
* Central Fund.
** Legislation in respect of both long-term funds is being drafted; assumed transfers are purely technical assumptions.
*** *Infrastructure, Climate and Nature Fund.*
Source: Department of Finance

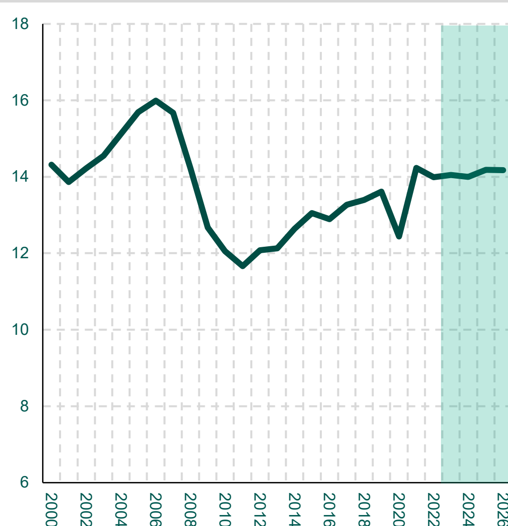
In relation to indirect taxes, VAT receipts are projected to increase by €1.3 billion (6.5 per cent), taking into account the projection for (nominal) consumer spending (**figure 16B**). The equivalent growth (**figure 16C**) for excise duty receipts is €0.6 billion (10.1 per cent). Other taxes – which in total account for 6.3 per cent of the total yield – are projected at €5.8 billion. As a result of these developments, overall tax as a share of GNI* amounts to around 30 per cent next year (**figure 16D**).

Figure 16: Tax revenue relative to their bases

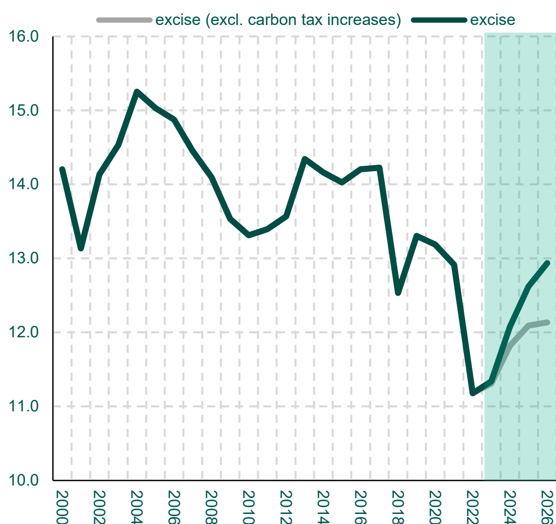
A: income tax as share of national wage bill, per cent



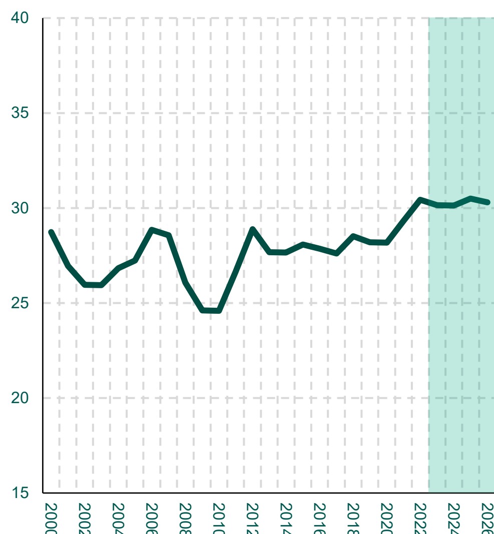
B: VAT as share of consumer spending, per cent



C: excise duties as share of (real) goods spending, per cent



D: total tax as share of GNI*, per cent



Source: Department of Finance calculations.

Source: Department of Finance calculations.

Relative to the spring forecasts, the projection for overall tax revenue is €1.8 billion lower. The projection for income tax in 2024 is €0.6 billion lower in the current vintage, mainly due to the impact of policy decisions which reduce the yield next year (changes in the Universal Social Charge, the increase in personal tax credits and the higher standard rate cut-off point) although this is partly offset by the slight over-performance this year (the estimated outturn for the base year is higher). The projection for corporate tax next year is €0.6 billion lower than in the previous vintage, mainly reflecting the shortfall this year.

In terms of indirect taxes, VAT receipts for next year are €0.6 billion lower than assumed in the spring, with excise receipts €0.1 billion lower due to the extension of a lower rate of excise on motor fuels until April next year.

3.3.2 Other revenue

Non-tax revenue will continue to benefit from dividend payments to the Exchequer next year and from the distribution of the *National Asset Management Agency*[11] surplus, with approximately €0.2 billion and €0.1 billion respectively currently expected to be paid to the Exchequer in 2024. On the capital side, whilst the Exchequer is no longer expected to benefit from the proceeds of bank share sales next year, payments of approximately €0.3 billion each from the IBRC as well as funding under the Recovery and Resolution Facility are expected to offset this.

Figure 17: Budget 2024 – total package

Composition of Budgetary Package – Temporary and Permanent Measures

Sources: Department of Finance; Department of Public Expenditure, NDP Delivery and Reform

3.3.3 Expenditure

Budget 2024 provides for total voted expenditure of €96.6 billion next year (**table 11**). Core expenditure of €91.2 billion is provided for, an increase of €5.3 billion (6.1 per cent) on last year and broadly consistent with the parameters set out in the *Summer Economic Statement 2023*.

The Government is also providing for €5.35 billion by way of 'non-core' spending. This is composed of temporary funding of €4.5 billion for the provision of *inter alia* humanitarian assistance to refugees from Ukraine, €250 million in windfall capital and approximately €600 million in Cost of Living measures in Q1.

[11] As a purely financial transaction, this transfer does not benefit the general government balance.

Table 11: Expenditure breakdown, € millions	2022	2023	2024	2025	2026
Voted expenditure	88,826	93,142	96,578	96,909	101,986
Core expenditure	80,002	85,946	91,223	95,748	100,536
core – year-on-year increase		5,944	5,277	4,559	4,787
core – year-on-year increase, per cent		7.4	6.1	5.0	5.0
Other expenditure					
: non-core		5,154	4,513	411	200
: windfall capital		-	250	750	1,250
: one-off		1,713	592	-	-

Source: Department of Public Expenditure and Reform.

3.3.4 Summary

Putting all of this together, an Exchequer surplus of €1.8 billion is in prospect for next year. The projected surplus takes into account the assumed transfer of €4.3 billion to the *Future Ireland Fund* next year.

3.4 Medium-term outlook for the Exchequer

This document sets out updated fiscal projections for the medium-term. Based on the economic outlook outlined earlier, tax revenue is projected to increase by an average of 4.7 per cent per annum over the medium-term. Voted spending for 2025 is anchored to the Government's spending rule, which grounds (net) spending to the trend growth rate of the economy which is estimated at 5 per cent per annum. A technical assumption of 5 per cent (net) spending growth is applied for 2026; actual spending decisions covering the period for 2026 and beyond will be a matter for the next Government.

The budgetary projections are far-from assured. Aside from the normal uncertainty surrounding the economic outlook, there are two additional sources of fiscal uncertainty. The first relates to corporate tax where work continues on the finalisation of the OECD *Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*. Material uncertainty remains in relation to the potential revenue implications of the agreement as work has not yet been finalised at the OECD on certain important aspects of Pillar one. The medium-term fiscal projections assume a loss in corporate tax revenues as a result of the OECD agreement of €2 billion in 2026.

The second relates to the spending side of the equation where the projections are silent on the issue of humanitarian aid to Ukrainian (and other) migrants. This stems from the inherent uncertainty regarding such expenditure – the duration of the war is unknowable while, over time, it is also possible that more of the migrants could transition from State-support to, for instance, active participation in the labour market.

Table 12: Changes in Exchequer balance since spring forecast				
	2023	2024	2025	2026
EBR: current (autumn) forecast	2,190	1,805	4,055	2,280
EBR: previous (spring) forecast	4,535	12,925	13,160	14,985
Difference (1 = 2 - 3)	-2,345	-11,120	-9,105	-12,705
Change in revenue (2 = 2a + 2b)	-815	-1,935	-765	-3,425
: ∆_tax revenue (2a)	-580	-1,840	-1,170	-3,540
: ∆_other revenue (2b)	-235	-95	405	115
Change in expenditure (3 = 3a + 3b)	1,530	9,185	8,340	9,280
: ∆_current (3a)	2,175	4,465	935	1,215
: ∆_capital (3b)	-645	4,720	7,405	8,065

Source: Department of Finance

Chapter 4
General Government Developments and Outlook

4.1 Summary

A general government balance of just under €8.8 billion (3.0 per cent of GNI*) is anticipated for this year. Excluding the impact of estimated windfall corporate tax receipts, a general government deficit of €2 billion (0.7 per cent of GNI*) is in prospect for this year.

Taking account of the economic situation, as well as the policy measures set out in *Budget 2024*, a general government surplus amounting to €8.4 billion (2.7 per cent of GNI*) is projected for next year. If windfall corporate tax receipts are excluded, the projected deficit is €2.7 billion (0.9 per cent of GNI*).

4.2 General government balance: developments in 2023

General government revenue is estimated at €124.9 billion this year, the equivalent of 42.7 per cent of GNI*. In compositional terms, taxes on income and wealth – essentially income tax and corporate tax – are estimated at €60.1 billion, an increase of 7 per cent relative to last year. Taxes on production and imports, which are mainly indirect taxes such as VAT, excise and customs duties, are estimated at around €32.9 billion, an annual increase of 3.9 per cent. Social security receipts are projected at €21.7 billion, an annual increase of 8.1 per cent, reflecting the strength of employment growth.

On the other side of the equation, general government expenditure is estimated at almost €116.1 billion (39.7 per cent of GNI*). Primary expenditure – total expenditure excluding debt interest payments – is estimated at €112.8 billion, with interest expenditure estimated at €3.4 billion this year. The interest bill has benefited in recent years from the decline in borrowing costs, as central banks across most advanced economies (including in the euro area) increased their footprint in sovereign debt markets. This process is now reversing and, as a result, borrowing costs are now on a rising trajectory. At end-September, the yield on 10-year Irish government paper was 3¼ per cent, its highest since Q1 in 2014.

As a result of these developments, the general government surplus for this year is estimated at just under €8.8 billion (3.0 per cent of GNI*).

Windfall corporate tax receipts are estimated at €10.8 billion; this means that an underlying deficit is in prospect for this year.

4.3 General government balance: outlook for 2024

For next year, taxes on income and wealth are projected at €62.6 billion, an increase of 4.2 per cent. Income taxes should benefit from continued employment and earnings growth while the assumed rebound in exports – and hence profitability – should support an expansion of corporate tax receipts, albeit at a more modest pace than in 2020-2022.

Taxes on production and imports – a category which is dominated by VAT and excise duties – are projected at €34.8 billion, an increase of 5.7 per cent. Other general government revenue, including social security receipts, is projected at just under €32.3 billion. As a result, total general government revenue is projected at €129.6 billion next year, consistent with a revenue-GNI* ratio of 42.2 per cent.

Table 13: Exchequer balance to GGB 2022-2026, € million (unless stated)					
	2022	**2023**	**2024**	**2025**	**2026**
Exchequer balance	4,985	2,190	1,805	4,055	2,280
Walk^	3,520	6,600	6,555	10,180	12,335
General government balance	**8,505**	**8,790**	**8,360**	**14,245**	**14,615**
of which:					
General government revenue	**116,080**	**124,900**	**129,630**	**136,015**	**140,955**
Taxes on production and imports	31,670	32,905	34,765	36,575	38,175
Current taxes on income, wealth	56,710	60,070	62,580	65,910	67,900
Capital taxes	615	625	660	695	735
Social contributions	20,100	21,735	23,350	25,505	27,010
Property Income	675	1,810	1,040	1,100	995
Other	6,310	7,760	7,245	6,230	6,140
General government expenditure	**107,575**	**116,115**	**121,280**	**121,770**	**126,340**
Compensation of employees	28,750	30,315	31,530	32,145	33,285
Intermediate consumption	17,895	19,460	19,750	18,645	19,365
Social payments	37,175	39,030	40,605	41,005	41,560
Interest expenditure	3,335	3,360	3,465	3,520	3,715
Subsidies	3,250	3,205	3,120	3,160	3,310
Gross fixed capital formation	10,120	11,610	12,825	14,385	15,915
Capital transfers	1,935	3,360	3,600	3,120	3,190
Other	5,115	5,775	6,380	5,795	5,995
			*per cent of GNI**		
GGB per cent GNI*	3.1	3.0	2.7	4.4	4.4
Total revenue, per cent GNI*	42.5	42.7	42.2	42.4	42.1
Total expenditure, per cent GNI*	39.4	39.7	39.5	38.0	37.7
memo items			*€ billions*		
Estimated windfall corporation tax^^	10,700	10,800	11,100	11,700	10,800
Underlying GGB~	-2,195	-2,010	-2,740	2,535	3,815

Notes:
Figures for 2025 and 2026 do not provide for any expenditure to cover the cost of providing humanitarian assistance.
^ the ‘walk’ from the exchequer balance to the general government balance is set out in the appendix.
^^ Figures are rounded to the nearest €100 million.
~ Underlying general government balance is the fiscal position excluding estimated windfall corporation tax receipts.
Source: Department of Finance, Department of Public Expenditure and Reform, CSO.

On the expenditure side, the largest components relate to the public sector pay-bill (compensation of employees) and current transfers from the general government sector (social payments). The former is projected at €31.5 billion for next year, while the latter is projected at €40.6 billion. Government investment is projected at €12.8 billion, the equivalent of 4.2 per cent of GNI*. This takes into account the funding for capital projects as part of the *National Development Plan 2021-2030* and the Next Generation EU’s *Recovery and Resilience Facility*. Other expenditure is projected at €36.3 billion so that, in aggregate terms, general government spending is projected at €121.3 billion. This would be consistent with an expenditure-GNI* ratio of 39.5 per cent

Accordingly, a general government surplus of €8.4 billion (2.7 per cent of GNI*) is currently in prospect for 2024. Excluding the impact of windfall corporate tax receipts, the underlying deficit is €2.7 billion (0.9 per cent of GNI*).

4.4 Medium-term outlook for the general government sector

Medium-term income and expenditure projections for the general government sector are set out above (**table 13**), conditioned on the economic forecasts set out earlier and consistent with the assumed evolution of central government receipts and expenditure. General government revenue is projected to continue to increase over the medium-term, while general government expenditure moves in line with the Government's expenditure rule. On this basis, general government surpluses of 4.4 per cent of GNI* are assumed for both 2025 and 2026. These projections do not include any provision for humanitarian assistance to Ukrainian migrants.

Table 14: Changes in general government balance since autumn forecast

	2022	2023	2024	2025	2026
GGB: current (autumn) forecast	8,505	8,790	8,360	14,245	14,615
GGB: previous (spring) forecast	8,035	10,010	16,215	18,115	20,840
Difference (1 = 2 - 3)	**470**	**-1,220**	**-7,855**	**-3,880**	**-6,225**
Change in GG revenue (2 = 2a + 2b)	**580**	**1,465**	**470**	**1,055**	**-1,170**
: Δ_tax revenue (2a)	85	-1,025	-2,080	-1,470	-3,840
: Δ_other revenue (2b)	495	2,490	2,550	2,525	2,670
Change in GG expenditure (3 = 3a + 3b)	**95**	**2,680**	**8,320**	**4,935**	**5,050**
: Δ_capital^ (3a)	220	1,665	2,020	1,950	2,520
: Δ_other (3b)	-125	1,015	6,300	2,985	2,530

Notes:
^includes gross fixed capital formation and capital transfers.
Source: Department of Finance, CSO.

Revisions to these, relative to the medium-term projections set out in the spring, are detailed above (**table 14**) for the fiscal position up to the mid-part of this decade.

4.5 Structural budget balance

The fiscal balance, adjusted for the impact of the economic cycle and for temporary factors, is known as the structural (or cyclically-adjusted) budget balance.

Estimates are presented below (**table 15**), which treat windfall corporate tax receipts as one-offs. On this basis, a structural surplus of 1.5 per cent is anticipated this year. The structural surplus is projected to reduce next year due to developments in the headline fiscal position and treatment of one-off measures.[12] From there, the structural position is expected to improve in 2025 and 2026, with a surplus of 1.1 per cent projected for 2026.

[12] In addition to the change in the headline fiscal positon, the moderation in the structural surplus in 2024 is also driven by a reduction in one-off expenditure measures in that year. One-off expenditure and revenue measures are excluded from the calculation of the structural balance.

Table 15: Structural budget balance, per cent of GNI* (unless stated)					
	2022	**2023**	**2024**	**2025**	**2026**
Headline fiscal developments					
General government balance	3.1	3.0	2.7	4.4	4.4
One-off / temporary measures	0.9	1.1	1.6	3.4	2.9
Interest expenditure	1.2	1.1	1.1	1.1	1.1
General government primary balance	4.3	4.1	3.8	5.5	5.5
Economic cycle					
GNI* growth rate	6.7	2.0	2.0	2.1	2.2
Potential growth rate	3.3	1.9	2.4	2.1	2.0
Output gap	1.1	0.9	0.7	0.7	0.7
Structural fiscal developments					
Cyclical budgetary component	0.6	0.5	0.4	0.3	0.4
Cyclically adjusted balance	2.5	2.5	2.4	4.1	4.0
Structural budget balance	1.6	1.5	0.8	0.7	1.1
Structural primary balance	2.9	2.6	1.9	1.8	2.2

Notes:
estimates of the output gap are based on the Department’s preferred methodology for calculating potential output using domestic gross value added (GVA).
Source: Department of Finance.

Chapter 5
General Government Debt

5.1 Summary

Public indebtedness is projected at €222.7 billion (76.1 per cent of GNI*) at the end of this year. The baseline projection involves a modest reduction in the amount of outstanding debt by the end of the forecast horizon; however, reasonably solid economic prospects over the medium-term mean that the debt-national income ratio should continue to fall.

The shift in the stance of monetary policy means that sovereign borrowing costs have been on a rising trajectory over the past year. This shift will have important implications: the re-financing of maturing debt in the second half of this decade will likely trigger higher debt servicing costs (as some debt issued in recent years carried a zero coupon).

5.2 Debt developments and outlook

With a headline general government surplus of €8.8 billion (3.0 per cent of GNI*) in prospect, public debt is set to fall further this year, to €222.7 billion. This would leave the debt-GNI* ratio at 76.1 per cent this year, a decline of 6.2 percentage points relative to last year.

Table 16: General government debt developments, per cent of GNI* (unless stated)

	2022	2023	2024	2025	2026
Gross debt (€ billions)	224.8	222.7	222.2	219.4	217.1
Gross debt ratio	82.3	76.1	72.3	68.4	64.8
Change in gross debt ratio(=1+2+3)	-18.7	-6.2	-3.8	-3.9	-3.6
Contributions to change in debt ratio^:					
General Government deficit (1=1a+1b)	-3.1	-3.0	-2.7	-4.4	-4.4
: interest expenditure (1a)	1.2	1.1	1.1	1.1	1.1
: primary deficit (1b)	-4.3	-4.1	-3.8	-5.5	-5.5
SFA (2=2a+2b+2c+2d+2e+2f+2g)	-1.0	2.3	2.5	3.6	3.7
: change in liquid assets (2a)	-1.0	1.2	-2.9	0.0	-0.2
: interest adjustments (2b)	0.1	0.1	0.1	0.2	0.0
: equity transactions (2c)	-1.0	-0.3	-0.1	0.0	0.0
: accrual adjustments (2d)	0.5	0.3	-0.1	0.0	0.0
: impact of ISIF (2e)	0.0	0.1	0.1	0.1	0.1
: collateral held (2f)	0.0	0.0	0.0	0.0	0.0
: other (2g)	0.4	0.8	5.5	3.3	3.7
Nominal GNI* contribution (3)	-14.5	-5.5	-3.6	-3.1	-2.9
Memorandum items:					
: average interest rate	1.4	1.5	1.6	1.6	1.7

Notes:
^ A positive sign indicates that a component is increasing the debt ratio and *vice versa.*
SFA = stock-flow adjustment.
Source: CSO, Department of Finance and NTMA.

This downward trajectory in the debt-income is set to continue next year, with debt projected at €222.2 billion (72.3 per cent of GNI*). Further declines in public indebtedness are envisaged over the medium-term but, crucially, is contingent upon continued robust economic growth, sound budgetary management and the absence of any significant shock to corporate tax revenue (or, indeed, other

revenue streams). As previously highlighted, the corporate tax revenue stream is highly concentrated, and any sharp reversal would have negative implications for the debt-income trajectory.

However, the exceptional monetary policy support is now gradually being withdrawn. This means that the marginal cost of debt has been rising.

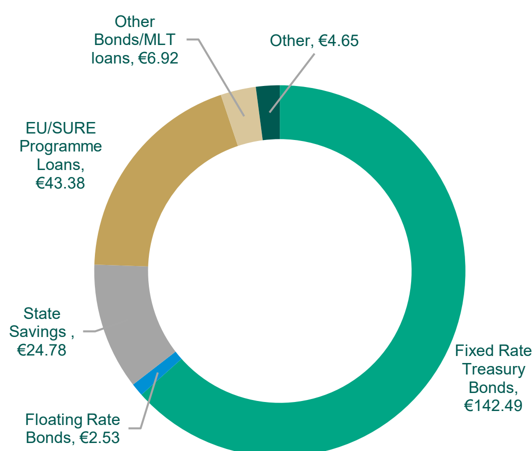
5.3 Structural aspects of Irish public debt[13]

5.3.1 Composition of debt

The composition of public debt is an important structural dimension that must be considered in any assessment. At end-2022, total outstanding liabilities of General Government amounted to €224.8 billion (**figure 18A**). Almost two-thirds of these were fixed-rate treasury bonds. Obligations to the official sector – the *European Financial Stabilisation Mechanism* (EFSM) and *European Financial Stability Facility* (EFSF) – were the next most important, accounting for just under a fifth of liabilities.

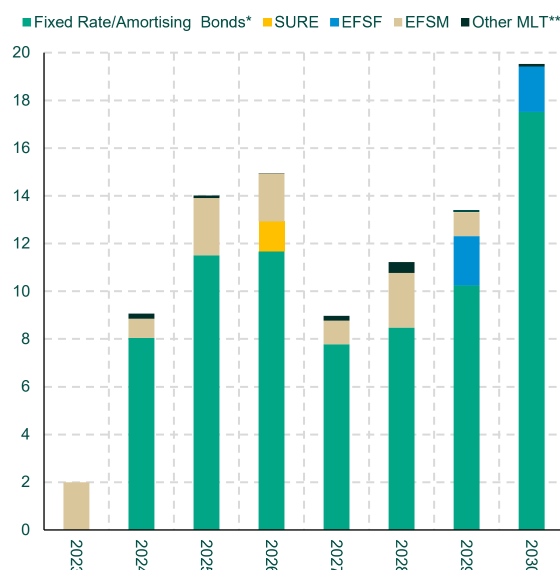
Figure 18: Structural aspects of Irish general government debt

A: composition of debt at end-2022, € billion



Note:
The "other" category Includes consolidation adjustments in respect of debt, including Government bonds and short-term paper, held by General Government entities.
Source: CSO, NTMA.

B: maturity profile 2023-2030, € billions^



Note:
^ As at end-September 2023.
* Includes NTMA repo activity.
** Excludes other MLT loans of €5m.
Source: NTMA.

5.3.2 Funding and maturity profile

In December of the last year, the NTMA set a funding range of €7-11 billion for 2023. By end-September, just over €7 billion of Government bonds had been issued, with a weighted average yield of just below 3.2 per cent, and a weighted average maturity of more than 18 years. Issuance included a new 20-year green bond; €3.5 billion was issued by way of a syndicated transaction in January at a yield of 3.1 per cent. The NTMA also purchased from the Central Bank of Ireland, and subsequently cancelled, the final quantum of the Floating Rate Notes (FRNs) issued in 2013 (**box 6**) this year.

On the redemptions front, there was a €7 billion bond maturity in March. There is also a €2 billion EFSM maturity later this year. For next year, there is one bond maturing in March – the 3.4 per cent 2024

[13] More detail on the structural aspects of Irish public debt is set out in the Annual Report on Public Debt 2022, op cit.

bond – which has an outstanding balance of €8 billion (**figure 18B**). There is also a further EFSM maturity of €0.8 billion.

Cash/liquid asset balances were over €23 billion at the start of the year. These are expected to be at a broadly similar level at year-end 2023.

5.3.3 Net debt

General government debt, as defined under the Excessive Deficit Procedure (EDP) regulation, is a gross measure of government liabilities. It is also important to take into account financial assets of the general government sector. In Ireland, EDP-defined financial assets include liquid assets held by the Exchequer, *Ireland Strategic Investment Fund* cash and non-equity investments and other cash and liquid assets held by the general government sector.

Table 17: Gross and net general government debt, per cent of GNI* at end-year

	2022	2023	2024	2025	2026
General government debt (gross)	82.3	76.1	72.3	68.4	64.8
EDP debt instrument assets	13.4	13.1	9.0	8.3	7.4
Net debt position	68.9	63.0	63.3	60.1	57.4
National net debt measure^	68.9	60.9	60.0	54.9	50.3

Notes:
^ This is a broader measure than EDP debt instrument assets that includes fund assets – Future Ireland Fund and Infrastructure, Climate and Nature Fund – that can consist of equity investments.
Source: CSO, Department of Finance and NTMA.

On this basis, net debt is gross government liabilities excluding these liquid financial assets of government (**table 17**). At end-2023, net public indebtedness is projected at 63.0 per cent of GNI*, and at 63.3 per cent of GNI* for next year.

5.3.4 Credit rating

Ireland's long-term credit rating is now firmly in the "AA" category with all the main rating agencies (**table 18**).

Table 18: Irish sovereign credit rating

	Long-term rating	Short-term rating	Outlook
Standard & Poor's	AA	A-1+	Stable
Moody's	Aa3	P-1	Stable
Fitch Ratings	AA-	F1+	Positive

Notes:
As at end-September 2023.
Source: NTMA

Box 6: The end of the promissory and floating rate notes

In early-September, the National Treasury Management Agency (NTMA) purchased from the Central Bank of Ireland (CBI), and subsequently cancelled, the remaining c. €500 million Floating Rate Note (FRN) due to mature in June 2053. This transaction marked an important milestone: it means that just over a decade after the FRNs were first issued as part of the process of liquidating the Irish Bank Resolution Corporation (IBRC), they have all been purchased and cancelled.

Background

Over the course of 2010, it became increasingly difficult for Ireland to access debt capital markets in order to provide the funding necessary to fund the fiscal deficit and recapitalise the banks. The Government provided Anglo Irish Bank with €25 billion by way of 'promissory notes' – a financial instrument which was essentially a Government-guaranteed loan.

Upside: Anglo could access liquidity ('emergency liquidity assistance'^) from the *eurosystem* (mainly the CBI) using the newly-acquired assets on its balance sheet as collateral.

Downside: the terms of the promissory note involved repayment over 10 years at an interest rate of 8 per cent per annum. This would have required a payment from the Exchequer of €3.1 billion per annum (interest plus principal) and necessitate additional fiscal adjustment in order to put the public finances on a sustainable path.

In mid-2011, Anglo Irish Bank was liquidated and the assets folded into a new entity, Irish Bank Resolution Corporation (IBRC). The remaining assets of Irish Nationwide Building Society (INBS) were subsequently folded into IBRC.

Restructuring of the promissory notes

In February 2013, the Government restructured the promissory notes. IBRC was placed into a "special liquidation" under bespoke legislation and the promissory notes now owned by the CBI were exchanged for 8 long-dated Irish sovereign FRNs (maturities of 25-40 years: the first bond was due to mature in 2038, with the final bond maturing in 2053).

Table 19: Floating rate notes

	Value issued, € bn	Year of final settlement
FRN 2038	2	2015
FRN 2041	2	2016
FRN 2043	2	2017
FRN 2045	3	2017
FRN 2047	3	2018
FRN 2049	3	2019
FRN 2051	5	2022
FRN 2053	5	2023
Total	**25**	**2023**

Note:
Rounding can affect totals.
Source: NTMA

The benefits of the debt-swap were clear. The FRNs carried an average interest rate (at the time) of c. 3 per cent^^; with lower cost financing and the debt repayable over a much longer timeframe, the upshot was a significant net present value gain. In addition, cash-flow requirements improved enormously: the Government did not need to generate c. €3.1 billion per annum to finance interest and principal repayments, thus lowering the quantum of budgetary consolidation.

Over recent years CBI accelerated the disposal of these bonds (while taking into account financial stability considerations). Disposals began in 2014, with the NTMA on the other side of the transaction – purchasing, and subsequently cancelling, these FRNs with less expensive debt raised on global capital markets.

^ ELA is a form of liquidity assistance provided by the domestic central bank against collateral that does not quality for standard Eurosystem monetary operations.
^^ 6-month Euribor + interest margin averaging c. 2.6 per cent; 6-month Euribor at the time of the debt swap was c. 0.4 per cent.

Chapter 6
Risk and Sensitivity Analysis

6.1 Summary

The near-term domestic and international economic outlook is uncertain. Risks to economic activity are two-sided but judged to be tilted to the downside; risks to the central inflation projection are also two-sided and assessed to be broadly balanced around the baseline. Key economic risks relate to the world economy, including the impact of monetary policy tightening and trade tensions.

Due to the uncertainty around the path for inflation and, in turn, the trajectory for policy interest rates, a quantitative assessment of a higher-than-expected interest rate environment is set out. The universe of economic and fiscal risk is set out in the risk matrix.

Beyond these near-term risks, the economy is facing into a period of structural change characterised by simultaneous economic challenges in the form of decarbonisation, demographic change, digitalisation (see **box 7**) and de-globalisation – collectively the '4 Ds'[14]. The medium term outlook may evolve differently to that described in Chapter 2 depending on the evolution of these known, and other unknown, changes.

6.2 Scenario analysis

The Department's baseline projections set out in this document are based on the assumption – as embedded in the money market forward curve – that, in the current monetary policy tightening cycle, the terminal (or peak) rate has been reached in the euro area. Market participants envisage this rate being maintained well into 2024 before monetary policy is gradually eased.

That said, inflation has surprised on the upside across many advanced economies with, in particular, persistence in 'core' measures of inflation. Against this backdrop, the signalling properties of the forward curve may be more limited than in 'normal' times; in other words, more persistent inflation could result in further increases in policy rates, with knock-on effects through the domestic and international economy.

In order to better understand the economic impact of such an outcome, a purely hypothetical scenario is modelled. This adverse scenario involves further increases of policy rates by 25 basis points for each of the next four quarters. The terminal rate is,[15] accordingly, 5.5 per cent (rather than 4.5 per cent as currently envisaged), and is held unchanged until midway through 2025; thereafter, a gradual relaxation of monetary policy is assumed. While the probability of such an adverse outcome is not necessarily high, it is useful to model the economic impact for macroeconomic planning, while also stress-testing the baseline forecasts.

A general-equilibrium modelling approach is required in order to examine the wide-ranging effects of such a scenario. To this end, the COSMO model of the Irish economy is used by the Department to estimate the direct effect on Ireland's domestic economy.[16] Separately, the NiGEM global

[14] Department of Finance, Summer Economic Statement 2023, Annex 1; "The Irish economy in 2030 – enabling a sustainable future for all." Available at: https://assets.gov.ie/262563/be1e0616-663e-43e1-98fe-065ff0e49ce9.pdf
[15] The terminal rate refers to the ECB main refinancing rate, currently at 4.5 per cent.
[16] Bergin, A., Conroy, N., Rodriguez, A.G., Holland, D., McInerney, N., Morgenroth, E.L. and Smith, D., 2017. COSMO: A new Core Structural Model for Ireland (No. 553). ESRI Working Paper.

macroeconomic model is used to examine the effect of such a shock on the global economy, the outputs of which are then fed through the COSMO model to pick up the second-round impact on the Irish economy, via the trade channel.[17,18]

Higher policy rates impact on the domestic economy through three main channels. First, the rate increase is passed-on to households through an increase in the residential mortgage rate, with knock-on effects for house prices via lower demand for housing, as well as the demand for mortgages. Lower demand for housing reduces output, wages and employment in the construction sector. Second, the higher rate is also passed-on to consumers via an increase in the interest rate on consumer loans and deposits. The overall outcome is to reduce discretionary spending and to increase saving. Finally, an increase in the interest rate paid on loans held by the corporate sector (including SMEs) raises the cost of capital and, accordingly, dampens the level of business investment.

The results of the model simulations are set out below (**table 20**). In overall terms, the higher interest rate scenario results in a decline in the level of domestic demand (MDD) of close to 1 per cent, relative to the baseline scenario, over the medium-term. This decline arises, in part, from a decline in consumer spending and investment from domestic firms.[19] This reduction in domestic demand in the Irish economy triggers lower demand for labour and, as a result, drives down total employment, which is almost ½ per cent below the baseline scenario by 2027.

Table 20: Results of scenario analysis, percentage deviation baseline forecasts

	2023	2024	2025	2026	2027
MDD	-0.04	-0.23	-0.57	-0.79	-0.85
Investment	-0.11	-0.62	-2.07	-2.93	-3.17
Consumption	-0.08	-0.28	-0.58	-0.78	-0.82
Employment	-0.02	-0.10	-0.24	-0.36	-0.41

Notes: Figures are expressed in percentage deviation from baseline.
Investment figures are from domestic firms, excluding the construction sector.
Source: Department of Finance and ESRI.

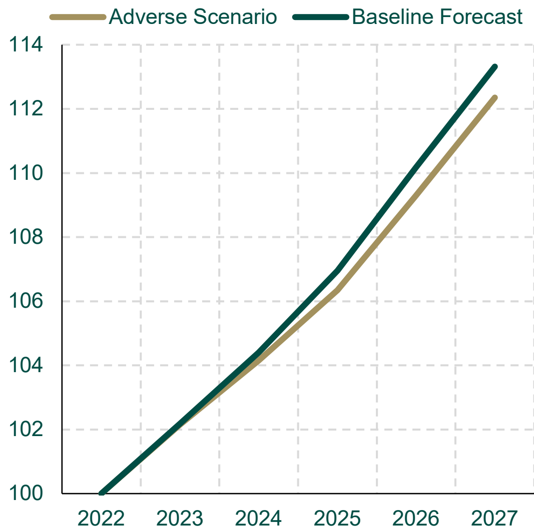
These model results can be overlaid on the Department's baseline macroeconomic forecasts outlined earlier in order to stress-test the forecasts under this adverse hypothetical scenario. The results of this exercise are presented below (**figure 19**). As shown, the level of MDD is lower under the adverse interest rate scenario relative to the baseline scenario, and by 2027 is 0.85 per cent lower than baseline. Similarly, a tighter monetary policy is also associated with lower employment throughout the forecast period.

Overall, the impacts of such a severe scenario on the Irish economy are significant, but there remains considerable uncertainty surrounding economic developments in such a scenario and high interest rates may produce significant non-linear effects that are not accounted for in the model. Indeed, a modelling exercise such as the one undertaken here is unable to take into account the full range of responses that public or private sector actors may take under such extreme conditions.

[17] Results from the NiGEM model were provided upon request by the ESRI.
[18] A similar exercise was carried out for Egan et al (2023), Interest Rate Snapback and the Impacts on the Irish Economy, ESRI Working Paper No. 757.
[19] These results are broadly similar to Egan et al. (2023).

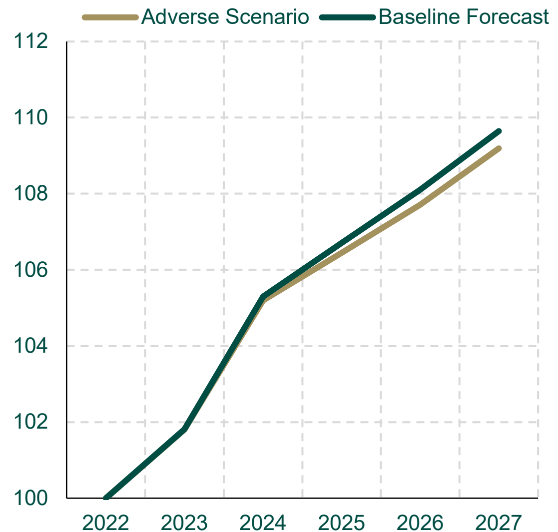
Figure 19: Higher interest rate scenario

A: Modified Domestic Demand, 2022=100



Source: Department of Finance, ESRI

B: Total Employment, 2022=100



Source: Department of Finance, ESRI

6.3 Risk matrix

The Department's assessment of the main short- and medium-term macroeconomic (**table 21**) and fiscal (**table 22**) risks is set out below.

Box 7: Artificial Intelligence

There is mounting evidence to support the view that generative Artificial Intelligence (AI) systems may be ushering in a new technological wave (**figure 20A**). If so, this could have major economic implications, with several channels through which economic activity could be transformed.

While there is no single, universally-accepted definition, AI can be thought of as a process whereby machines internalise data, process the data and, finally, make informed decisions (i.e. produce output) based on these data. Advances in computer processing power mean that AI-generated output in some areas is now almost indistinguishable from output generated by humans.

These powerful systems are revolutionising the production of knowledge, boosting the capacity of machines to generate original content, including creative content (e.g. artworks) and to perform complex tasks (e.g. medical diagnostics).

These developments, allied with the falling cost of producing and adopting these technologies, suggest – at least in principle – that this could be a game-changer for the workplace, with both potential positive and negative effects.

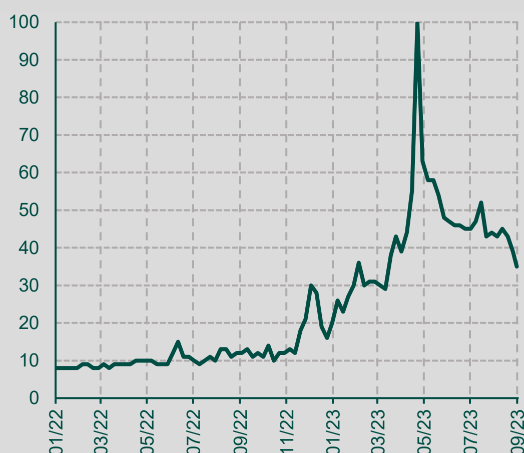
A fundamental difference between AI and previous technological waves is the potential for AI to automate non-routine tasks: in the labour market, previous waves involved 'machines replacing hands' but, with AI, there is the possibility of 'machines replacing heads'. Using rapidly-evolving algorithms and the increasing availability of 'big data', AI is making in-roads in its ability to solve complex problems in areas where, until recently, considerable human capital (accumulated skills and experience) was required.

From an economic perspective, therefore, its adoption and deployment could lead to a rapid acceleration in task automation – including of non-routine tasks – that could lower production costs. To put it in economic terms, AI is a form of physical capital (albeit intangible in some cases) and its roll-out involves boosting the amount of physical capital per worker – so-called 'capital deepening' – which raises labour productivity.

The key question is whether the adoption of these labour-saving technologies results in job losses or job gains. Historical experience – including evidence from previous technological waves and the industrial revolutions – suggests that job displacement arising from automation has been offset by the creation of new jobs. Perhaps the most obvious historical example being the mechanisation of agriculture (boosting productivity and incomes of those who remained) which freed-up labour to move into manufacturing.

Figure 20: Developments in AI

A: AI web searches in Ireland, per cent relative to peak



Source: Google Trends.

B: AI skills penetration compared to OECD average

Source: OECD, Self-reported AI skills by LinkedIn members from 2015-2022.

That said, the potential benefits from AI cannot be taken for granted. The labour market could face significant disruption, highlighting the role of active labour market policies in addressing any skills mis-match and facilitating the transition to the ever-more digitised economy (**figure 20B**).

In addition, there will be an important regulatory role: ensuring that larger firms with first mover advantage do not monopolise the market.

Finally, and more strategically, there will be the geopolitical dimension, with the possibility that these technologies become the next fault-line in an increasingly multipolar world.

Table 21: Risk assessment matrix – economic

Risk	Likelihood	Origin	Impact and main transmission channel
Downside			
Weaker external demand	**Medium**	**External**	**Medium / High** – while the forecasts are calibrated on a weak global backdrop, the outturn could be even worse given structural economic difficulties in several large countries.
Escalation of geopolitical tensions	**Medium**	**External**	**Medium** – geopolitical tensions (e.g. Ukraine, Middle-East, Taiwan – over 90 per cent of the world's semi-conductors are produced in Taiwan) could spill-over to the global economy *inter alia* through supply-shocks (e.g. energy, commodities).
Further energy shocks^	**Medium**	**External**	**High -** other than the Corrib Field, Ireland remains Ireland is reliant on imports of gas and other fossils fuels for electricity supply. Any shocks to world markets would have a rapid pass-through to Ireland.
Additional monetary policy tightening	**Medium**	**External**	**High** – inflation could prove more entrenched in advanced economies, necessitating a more aggressive response of monetary policy; spillovers to global financial stability could potentially arise in 'higher-for-longer' environment.
Brexit – disruption in UK-Irish trade	**Low**	**External**	**Low / Medium** – the full introduction of customs checks by the UK as part of the Border Target Operating Model will have a negative impact on Irish (indigenous) exports, though a risk remains that the ultimate impact could be worse than anticipated
Rise in corporate insolvencies	**Low**	**Domestic**	**Medium** – further energy shocks, general price shocks, and tighter financing conditions in the SME sector could cause corporate insolvency rates to spike further, with possible financial market spill-overs through the credit default channel.
Disorderly adjustment in China	**Low**	**External**	**Medium** – the correction of imbalances in the Chinese economy (excess corporate leverage, excess property investment, insufficient household consumption) that have built up in recent years could trigger economic difficulties elsewhere.^^
Loss of competitiveness	**Medium**	**Domestic**	**High** – the Irish economy is currently operating at (or possibly beyond) capacity, and supply-side bottlenecks (e.g. housing and labour markets) could further weigh on Irelands attractiveness as a location for business activity.
Wage-price dynamics	**Medium**	**Domestic**	**High** – entrenched domestically determined inflation or a wage-price spiral would damage cost competitiveness and hamper the economy's ability to compete in the global marketplace.
Sector-specific shock	**Medium**	**External**	**Medium / High** – shocks to systemically important large firms or sectors in Ireland would have a negative impact on output and incomes.
Upside			
MNCs	**High**	**External**	**Medium** – stronger value-added from MNCs (ICT, pharma, etc.) would boost investment, wages, corporate sector output, and GDP.
Unwinding of 'excess' savings	**Medium**	**Domestic**	**High** – greater than assumed use of 'excess' savings built up during the pandemic by households would boost spending or investment and increase domestic demand.

^ While European storage levels are currently high, global gas supply remains very tight with prices elevated above historic norms and highly volatile as a result.
^^ See Economic Insights – Winter 2022, Department of Finance (December 2022) available at: https://www.gov.ie/en/publication/2e14a-economic-insights-winter-2022/
Source: Department of Finance.

Table 22: Risk assessment matrix – fiscal

Risk	Likelihood	Impact and main transmission channel
Domestic		
Humanitarian assistance measures	**Medium**	**Medium** – war Ukraine has triggered large migrant flows; Ireland's international and humanitarian obligations have necessitated a significant increase in public expenditure, which could potentially be larger.
Ageing population	**Medium**	**Medium** – unfunded reversals to the retirement age will adversely affect the public finances.
Corporation tax: policy change	**High**	**High** – revenue from this source is expected to be affected as international tax policy changes take effect; the actual cost could be higher than the €2 billion by 2026 currently assumed.
Corporation tax: concentration risk	**Low**	**High** – over 50 per cent of corporation tax revenue arises from the 10 largest payers; a shock to this revenue stream would have severe implications for the public finances.
External		
Borrowing costs	**Medium**	**Medium** – global sovereign borrowing costs have risen, including in Ireland; further increases are possible (with the potential for feedback effects to the real economy in some parts of the euro area).
Climate change and renewable energy targets	**High**	**High** – climate policy and the corresponding actions needed to reduce emissions by 50 per cent by 2030 and transition to net-zero by 2050 will have macroeconomic and fiscal implications.
Litigation or one-off measures	**Medium**	**Medium** – an adverse or unexpected outcome of litigation against the State or other one-off fiscal costs which resulted in additional expenditure could pose a risk to the achievement of budgetary targets.

Source: Department of Finance.

Annexes

Annex 1
Interaction with fiscal council

Irish Fiscal Advisory Council,
Whitaker Square (ESRI Building),
Sir John Rogerson's Quay,
Dublin D02 K138,
Ireland.

28 September 2023

Dear Secretary General Hogan,

The Council has a statutory obligation to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance on which Budget 2024 will be based.[1]

The Council's endorsement approach has three elements:

1) comparing the Department's macroeconomic forecasts with the Council's Benchmark projections and with forecasts from other bodies;
2) considering the methodologies used to produce the forecasts; and
3) reviewing the Department's past forecast errors for evidence of systematic bias.

The Council discussed the Department's forecasts at its endorsement meeting on 26th September 2023.

The Irish Fiscal Advisory Council endorses as within the range of appropriate forecasts the set of macroeconomic projections prepared by the Department of Finance for *Budget 2024* covering the years 2023 to 2030.

The Council is satisfied that the forecasts are within an endorsable range taking into account the methodologies used and the plausibility of the judgements made. While this endorsement comes at a time of risks to the economy from external developments, there are also ongoing risks related to capacity constraints domestically. These include the challenges posed by an exceptionally tight labour market.

The Council welcomes the Department's engagement and transparency during the endorsement, as well as its continued efforts to advance the methods underpinning its macroeconomic forecasts.

The Council will discuss the endorsement process and assess the macroeconomic projections in its forthcoming Fiscal Assessment Report, due in December 2023.

Yours sincerely,

Professor Michael McMahon
Acting Chairperson
Irish Fiscal Advisory Council

[1] The Fiscal Responsibility Act 2012, as amended by the Ministers and Secretaries (Amendment) Act 2013, states that: "The Fiscal Council shall— (a) endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

Annex 2
Comparison of forecasts

Table A1: Comparison of 2023 forecasts with other public sector institutions					
	GDP	employment	inflation	gg balance	gg debt
Department of Finance	2.0	3.4	4.9	1.6	41.4
Central Bank of Ireland	2.9	3.6	5.4	1.7	42.2
ESRI	-1.6	2.9	5.6	1.5	39.9
IMF	2.0		5.0	1.3	39.8
European Commission	5.5		6.0	0.8	41.2

Notes:
Economic variables in per cent change; fiscal variables as a per cent of GDP.
Source: latest forecasts from the institutions cited.

Table A2: Comparison of 2024 forecasts with other public sector institutions					
	GDP	employment	inflation	gg balance	gg debt
Department of Finance	4.5	1.3	2.5	1.5	38.6
Central Bank of Ireland	2.5	1.7	3.2	1.9	41.8
ESRI	3.5	1.6	2.8	2.3	35.9
IMF	3.3		3.2	1.2	36.0
European Commission	5.0		2.4	1.2	39.3

Notes:
Economic variables in per cent change; fiscal variables as a per cent of GDP.
Source: latest forecasts from the institutions cited.

Annex 3
Additional fiscal data

Table A3: Difference between exchequer balance and general government balance, € millions

	2022	2023	2024	2025	2026
Exchequer balance	4,985	2,190	1,805	4,055	2,280
Exclude equity and loan transactions	-2,770	-735	-245	-85	-70
Adjust for interest accrual	270	350	235	535	50
Adjust for tax accruals	535	175	340	345	365
Adjust for other accruals	900	815	-675	-430	-285
Net lending of NCSSBs^	90	-1,055	-1,070	-1,530	-1,605
Impact of ISIF	70	355	355	355	360
Net lending of Social Insurance Fund	2,340	3,450	4,515	5,580	6,635
Net lending of other EBFs^	640	275	345	510	660
Net lending of Local Government	-555	-1,030	-1,545	-1,700	-675
National Reserve Fund/ FIF/ ICNF^^	2,000	4,000	4,300	6,600	6,900
General government balance (GGB)	8,505	8,790	8,360	14,245	14,615
GGB, per cent of GNI*	3.1	3.0	2.7	4.4	4.4
Nominal GNI*	273,125	292,800	307,200	320,775	334,975

Notes:
Figures for 2025 and 2026 do not provide for any expenditure to cover the cost of providing humanitarian assistance.
In the case of 'net lending', a positive sign indicates a sector is a net lender, a negative sign a net borrower.
GNI* rounded to nearest €25 million.
^ NCSSB = non-commercial semi-state bodies, EBF = extra budgetary fund.
^^ FIF= Future Ireland Fund, ICNF = Infrastructure, Nature and Climate Fund.
Source: Department of Finance, CSO, NTMA

Table A4: General government balance, per cent of GNI*					
	2022	2023	2024	2025	2026
Net lending by sub-sector					
General government balance	3.1	3.0	2.7	4.4	4.4
: Central government	3.3	3.4	3.2	5.0	4.6
: Local government	-0.2	-0.4	-0.5	-0.5	-0.2
General government					
Total Revenue	42.5	42.7	42.2	42.4	42.1
Total Expenditure	39.4	39.7	39.5	38.0	37.7
Net lending/borrowing	3.1	3.0	2.7	4.4	4.4
Interest expenditure	1.2	1.1	1.1	1.1	1.1
Primary balance	4.3	4.1	3.8	5.5	5.5
One-off / other temporary measures	0.9	1.1	1.6	3.4	2.9
Revenue					
Total taxes	32.6	32.0	31.9	32.2	31.9
: Taxes on production and imports	*11.6*	11.2	11.3	11.4	11.4
: Current taxes on income, wealth etc.	20.8	20.5	20.4	20.5	20.3
: Capital taxes	*0.2*	0.2	0.2	0.2	0.2
Social contributions	7.4	7.4	7.6	8.0	8.1
Property Income	*0.2*	0.6	0.3	0.3	0.3
Other	2.3	2.6	2.4	1.9	1.8
Total revenue	42.5	42.7	42.2	42.4	42.1
p.m.: Tax burden	40.3	39.8	39.9	40.5	40.4
Expenditure					
Compensation of employees	10.5	10.4	10.3	10.0	9.9
Intermediate consumption	6.6	6.6	6.4	5.8	5.8
Social payments	13.6	13.3	13.2	12.8	12.4
: Social transfers in kind via mkt producers	*3.2*	3.1	3.0	3.0	2.9
: Social transfers other than in kind	*10.4*	10.3	10.2	9.8	9.5
Subsidies	1.2	1.1	1.0	1.0	1.0
Interest expenditure	1.2	1.1	1.1	1.1	1.1
Gross fixed capital formation	3.7	4.0	4.2	4.5	4.8
Capital Transfers	0.7	1.1	1.2	1.0	1.0
Other	1.9	2.0	2.1	1.8	1.8
Resources to be allocated	0.0	0.0	0.0	0.0	0.0
Total expenditure	39.4	39.7	39.5	38.0	37.7
p.m. : Government consumption	20.8	20.1	19.8	19.3	19.2
GNI* at current market prices	273,125	292,800	307,200	320,775	334,975

Source: Department of Finance, CSO and NTMA.
Figures for 2025 and 2026 do not provide for any expenditure to cover the cost of providing humanitarian assistance.

Table A5: General interest expenditure, € millions					
	2022	2023	2024	2025	2026
National Debt cash interest	3,700	3,260	3,685	3,770	3,505
per cent tax revenue	4.5	3.7	4.0	3.9	3.5
per cent of GNI*	1.4	1.1	1.2	1.2	1.0
National Debt cash interest accruals	-185	-350	-235	-535	-50
Consolidation and grossing adjustments	-265	360	-125	15	50
Accrued promissory note interest	-	-	-	-	-
Other	85	90	140	270	205
Total Interest on ESA2010 basis	3,335	3,360	3,465	3,520	3,710
per cent of total gg revenue	2.9	2.7	2.7	2.6	2.6
per cent of GNI*	1.2	1.1	1.1	1.1	1.1

Source: Department of Finance, CSO and NTMA.

Table A6: Projected movement in general government debt, € billions					
	2022	2023	2024	2025	2026
GG Debt: Opening Position	236.1	224.8	222.7	222.2	219.4
In-Year Flows:					
Exchequer borrowing requirement	-5.0	-2.2	-1.8	-4.1	-2.3
Change in Exchequer deposits	-2.8	3.4	-9.0	0.0	-0.7
Net lending of NCSSBs	-0.4	0.9	1.1	1.5	1.8
Net lending of local government	0.2	1.0	1.5	1.7	0.7
Other flows	-3.2	-5.2	7.6	-1.9	-1.9
GG Debt: Closing Position	224.8	222.7	222.2	219.4	217.1

Notes:
NCSSBs = Non-commercial semi-state bodies
Source: Department of Finance, CSO and NTMA.

Annex 4
Summary: Macroeconomic and fiscal aggregates

Table A7: Summary – macroeconomic aggregates					
	2022	**2023**	**2024**	**2025**	**2026**
Economic activity			***year-on-year per cent change (unless stated)***		
Real GNP	3.9	1.0	4.0	4.0	3.9
Real GDP	9.4	2.0	4.5	4.5	4.4
Nominal GDP (nearest €25m)	506,275	537,425	574,975	612,575	651,850
Nominal GNP (nearest €25m)	362,875	385,150	411,825	438,275	465,500
Nominal GNI* (nearest €25m)	273,125	292,800	307,200	320,775	334,975
Components of GDP			***year-on-year per cent change***		
Personal consumption	9.4	3.3	3.2	2.3	2.8
Government consumption	3.5	1.7	1.4	0.1	1.0
Investment	5.1	-3.4	3.6	5.4	5.6
Modified investment	15.9	-0.2	0.1	5.0	5.3
Modified domestic demand	9.5	2.2	2.2	2.5	3.0
Exports	13.9	2.1	5.3	4.8	4.6
Contributions to real GDP growth			***percentage points***		
modified domestic demand	4.4	0.9	0.9	1.0	1.3
modified net exports	3.3	1.1	3.7	3.5	3.1
stock changes	1.0	0.0	0.0	0.0	0.0
statistical discrepancy	0.7	0.0	0.0	0.0	0.0
Price developments			***year-on-year per cent change***		
HICP	8.1	5.3	2.9	2.4	1.9
GDP deflator	6.6	4.1	2.4	2.0	1.9
Personal Consumption Deflator	6.5	5.9	3.5	2.7	2.3
Labour market			***year-on-year per cent change (unless stated)***		
Employment	6.6	3.4	1.3	1.3	1.4
Unemployment (per cent of labour force)	4.5	4.1	4.2	4.3	4.4
Labour productivity	2.6	-1.4	3.1	3.1	2.9
Compensation of Employees^	9.5	9.3	6.3	6.1	6.0
Wages per head^^	2.5	4.4	4.6	4.5	4.3
External			***per cent of GDP***		
Trade balance	39.3	40.8	41.5	42.1	42.5
Modified current account (per cent GNI*)	7.0	7.5	7.5	7.0	6.2
Cyclical Developments			***per cent of potential GDP***		
Domestic Output	1.6	1.4	1.1	1.2	1.3

Notes:
^ non-agricultural sector
^^ non-agricultural sector
Source: 2022 = CSO; 2023-2026 = Department of Finance.

Table A8: Summary – Fiscal aggregates					
	2022	2023	2024	2025	2026
Exchequer			***€ millions***		
Exchequer Balance	4,985	2,190	1,805	4,055	2,280
Tax Revenue	83,130	88,305	92,575	97,825	101,480
General Government			***€ millions***		
Total Revenue	116,080	124,900	129,630	136,015	140,955
Total Expenditure	107,575	116,115	121,280	121,770	126,340
General government balance	8,505	8,790	8,360	14,245	14,615
General Government			***per cent GNI****		
Total Revenue	42.5	42.7	42.2	42.4	42.1
Total Expenditure	39.4	39.7	39.5	38.0	37.7
General government balance	3.1	3.0	2.7	4.4	4.4
Interest expenditure	1.2	1.1	1.1	1.1	1.1
Primary balance	4.3	4.1	3.8	5.5	5.5
Gross fixed capital formation	3.7	4.0	4.2	4.5	4.8
Gross debt	82.3	76.1	72.3	68.4	64.8
Net debt	68.9	63.0	63.3	60.1	57.4

Source: Department of Finance, Department of Public Expenditure, NDP Delivery and Reform, CSO and NTMA.

Rialtas na hÉireann
Government of Ireland

Tithe an Rialtais, Sráid Mhuirfean Uacht,
Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street,
Dublin 2, D02 R583, Ireland

T: +353 1 676 7571 | @IRLDeptFinance
www.gov.ie/finance