Budgetary Assessment

Spending forecasts are inadequate and opaque

2 BUDGETARY ASSESSMENT

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Numerous shortcomings with Budget 2024 projections

The basis for *Budget 2024* spending forecasts is unrealistic and the projections going forward lack credibility. The spending estimates omit large amounts of known spending this year. Overruns in health spending have been building through the year and were well known before budget day.

By ignoring the overruns in 2023, the Budget 2024 projections are also likely to underestimate health spending in 2024. Furthermore, while some unallocated spending is provided for, the costs of the new public sector pay deal are unclear and may exceed unallocated amounts, pushing spending higher again.

Transparency is lacking

In addition, transparency around the measures introduced in Budget 2024 was particularly poor. Overall, the separation of spending into core and non-core elements has become unhelpful. The definitions of core and non-core spending have become extremely blurred. A better approach would be to focus on general government spending, net of tax measures. The National Spending Rule should also focus on general government spending net of tax measures.

Spending overruns being ignored, and poor transparency around how spending is classified, signals a weakening of Ireland's fiscal framework.

Given some of the shortcomings of Budget 2024 projections, an alternative set of projections are presented. These alternative projections imply that both general government revenue and spending would be higher than Budget 2024 forecasts suggest. Alternative estimates suggest that by 2026 spending could be €8.6 billion higher than Budget projections, with revenue €3.4 billion higher. The general government balance would be €5.2 billion weaker.

Forecast horizon too short to plan for major challenges

The Government's budgetary forecasts underpinning Budget 2024 run only as far as 2026. This is too a short time-horizon for the Council to provide a comprehensive assessment of the Government's tax and spending plans over the medium term. It runs contrary to previous commitments made by the Government to plan further ahead. More generally, it demonstrates weak medium-term budgeting and further underscores the need to strengthen the fiscal framework.

A major concern is that the forecast horizon ends right before some of the major budgetary challenges facing Ireland begin to bite. The costs associated with an ageing population and the transition to a lower carbon economy will begin to build quickly as this decade closes.

2.1 Budgetary forecasts for 2023

In this section, the Council assesses the budgetary forecasts published in *Budget 2024*. Given that the fiscal forecasts in Budget 2024 are deemed to be inadequate, an alternative set of forecasts are also presented.

Overruns not baked in for 2023

Budget 2024 forecasts for 2023 look to be inadequate, with the basis for the forecasts being unrealistic. White Paper estimates of spending—which feed into budget forecasts—were derived based on aggregate within-year expenditure. These take into account developments throughout the year. Yet this approach is top-down and is not built-up based on an analysis of the likely expenditure at departmental level. By not carrying out an analysis at departmental level it is difficult for the Council to assess how realistic the forecast for 2023 is, and to assess the adequacy of the provisions for spending into 2024 given potential overruns in 2023. The approach to forecasting within-year expenditure for the White Paper, and by extension at Budget time, needs to include a granular assessment of within-year spending at departmental level. This would also aid planning for subsequent years.

Spending for 2023 looks set to be higher than *Budget 2024* forecasts imply. Spending has been revised up for 2023 to take account of the cost-of-living measures announced on Budget Day (many of which come into effect in 2023) and the Christmas Bonus. However, spending forecasts do not account sufficiently for the overruns in spending which are apparent in the Department of Health and the Department of Children. These overruns were building throughout the year and were apparent well before budget day.

The overruns in health appear—in part—to be due to increased demand arising from demographics (Section 2.44). As a result, overruns in health spending should result in higher core spending in 2023 and this higher spending would be likely to recur into 2024. Since Budget 2024, a supplementary estimate of €960 million has been approved by Government for the Department of Health. However, the HSE's overspend in 2023 is likely to be higher than this, with the HSE likely to use cash reserves and accruals to fund spending this year.

Cost-of-living spending measures announced in *Budget 2024* cost €1.7 billion in 2023. This is in addition to what *Budget 2024* describes as non-core spending of €5.2 billion. Overall, there is spending of at least €6.9 billion in addition to core spending for 2023.

On the revenue side, forecasts for taxes and PRSI for this year are largely unchanged from *SPU*, while general government revenue has been revised up (€1,460 million).

Excluding windfall corporation tax receipts, a deficit is forecast in 2023 (€2.0 billion). In headline terms a surplus of €8.8 billion is forecast (N°26).

Nº26

Budget 2024 fiscal forecasts

€ billions

	2022	2023	2024	2025	2026
General Government Revenue	116.1	124.9	129.6	136.0	141.0
Income Tax	30.7	33.0	34.3	36.4	38.4
VAT	18.6	20.4	21.8	23.2	24.4
Corporation Tax	22.6	23.6	24.5	25.8	25.6
of which excess	10.7	10.8	11.1	11.7	10.8
PRSI	14.0	15.7	16.9	18.2	19.5
Excise	5.4	5.7	6.2	6.7	7.0
Stamp Duties	1.8	1.8	1.8	1.7	1.8
Other GG Revenue	22.8	24.8	24.1	24.2	24.3
General Government Expenditure	107.6	116.1	121.3	121.8	126.3
Social payments	37.2	39.0	40.6	41.0	41.6
Compensation of employees	28.8	30.3	31.5	32.1	33.3
Intermediate consumption	17.9	19.5	19.8	18.6	19.4
Capital expenditure	10.1	11.6	12.8	14.4	15.9
Interest expenditure	3.3	3.4	3.5	3.5	3.7
Subsidies	3.3	3.2	3.1	3.2	3.3
Other	7.1	9.1	10.0	8.9	9.2
Primary expenditure	104.2	112.8	117.8	118.3	122.6
Current Primary expenditure	94.1	101.1	105.0	103.9	106.7
General Government Balance excl. windfall corporation tax	-2.2	-2.0	-2.7	2.5	3.8
General Government Balance	8.5	8.8	8.4	14.2	14.6

Sources: CSO; Budget 2024, and Fiscal Council workings.
Notes: Estimates of windfall corporation tax receipts are the Department of Finance's estimates published in Budget 2024. Estimates of revenue and expenditure one-offs are those judged by the Council.

2.2 Another large budget package

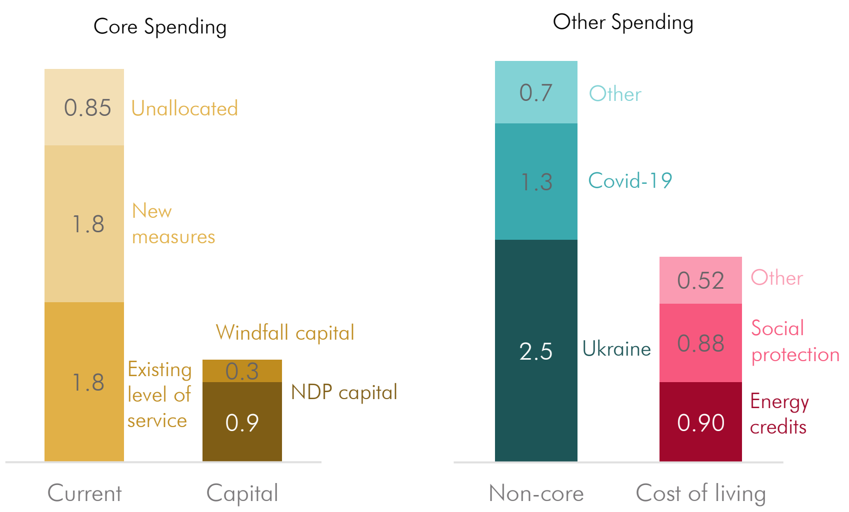
Budget 2024 included a net package of over €12 billion. This was made up of a spending package of €12.4 billion, with a net tax package of €0.1 billion spread out over 2024 and the remaining part of 2023 (N°27).

Budget 2024 included a core spending package of €5.6 billion, made up of €4.4 billion current expenditure increases and €1.1 billion capital expenditure increases (N°27).

Of the current expenditure, the Department of Public Expenditure estimates that approximately €1.8 billion is required to maintain the existing level of service, while a further €1.8 billion has been allocated for new measures.[17] A remaining €0.85 billion has been left unallocated, which is likely to fund further new measures, including any new public sector pay deal but may also be used to fund potential overruns.

Nº27 **Spending package of €12.4 billion**

€ billion



Sources: Budget 2024, and Fiscal Council workings.

Outside of core spending, there was a package of €6.8 billion spending measures announced. This consisted of €2.5 billion in support of Ukrainian humanitarian aid, €1.3 billion for Covid-19 related expenditure, €2.3 billion cost of living expenditure measures, and €0.7 billion related to expenditure funded by EU programmes.

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[17] This €1.8 billion allocated to maintain the existing level of service does not appear sufficient to fully maintain the existing levels of service—absent any significant efficiency gains. See Section 2.3 below for further details.

Box C: What does "core" and "non-core" mean?

A recent feature of Irish budgets is that parts of the overall budget package have been labelled "core" and "non-core". This box revisits the principles behind what can be considered temporary and permanent measures in this context.

When was the idea introduced?

Core spending was first introduced in 2020. This was primarily to remove Brexit-related costs from total expenditure. This spending was not expected to be structurally but was instead exceptional spending which would continue over several years.

The idea of non-core spending was then extended in the 2021 *Summer Economic Statement* to include Covid-related spending. At the same time, the National Spending Rule was introduced, with the rule itself anchored on core spending.

The concept of non-core spending has since grown to cover more items. The Government has added supports for Ukrainian refugees and cost-of-living measures to this classification. Rather than being a temporary feature, it has become a recurring part of recent budgeting.

The Department's approach to forecasting non-core expenditure is to assume a base cost of zero each year, irrespective of whether measures are likely to continue or not. This is an inadequate approach as it can give the impression of really large surpluses available that could be spent in later years, when in reality there is spending that is likely to take place but is not incorporated in the forecasts. This is part of the reason why recent figures for cumulative surpluses were revised downwards (N°46).

How the Council assesses core and non-core spending

The Council prefers to stick to two guiding principles when assessing whether something is permanent or a one-off, which is one possible categorisation into non-core or temporary measures:

Principle 1: One-offs do not recur

A simple guiding principle as to whether something is a one-off or permanent budgetary measure is that one-off measures are not repeated. As a general rule of thumb, something present for more than two years is clearly not a one-off item.

Principle 2: Permanent unless proven otherwise

If a policy measure increases the deficit, it should be assumed to be permanent. This presumption gives policymakers the right incentive to fully recognise the permanent impacts of their budgetary decisions. It also emphasises that one-off measures are an exceptional part of budgeting and should only be recognised in cases where it is unambiguous that they are temporary in nature.

This assessment should be independent of how the measure is announced. This means it does not matter whether a policymaker describes the measure as temporary or permanent. What matters is whether it is inherently temporary or permanent in nature. Another consideration here is that, while they may include specific end dates initially, many budgetary measures can end up being extended indefinitely.

Other useful guidelines

There are a few other useful guidelines to consider.

First, it is not worth considering small measures worth less than 0.1% GNI*. These are more likely to constitute normal volatility of the public finances and ignoring these small measures generally avoids excessive complexity in monitoring.

Second, volatile parts of spending or revenue should not be considered one-off in nature. This is relevant where some volatility is part of the normal course of developments in the public finances.

Third, cyclical parts of spending or revenue should not be considered once-off. Their impact should be corrected for through adjustments for the cycle. In this sense, one-offs should not be used as a means of smoothing out time series.

Is capital spending one-off?

In general, the Council does not consider capital spending to be a one-off item. Even capital spending attracts ongoing commitments. For example, hospitals and schools require staffing and maintenance. As well as that, many areas of capital spending, such as on housing, are likely to be continuous rather than one-off if they are to keep pace with population growth. Even if some capital projects are completed, annual spending on public investment is likely to continue as other projects take their place. For these reasons, the Council tends to presume that capital spending is part of permanent spending unless there are clear reasons to suggest otherwise.

2024 spending

Looking at Figure N°27, we can see that €2.5 billion of spending has been allocated for humanitarian assistance for Ukrainian refugees and €1.3 billion for Covid. Both of these spending items are assessed as part of core spending by the Council. As a result, reclassifying these spending items would increase core spending by €3.8 billion in 2024.

Transparency is lacking

The fiscal numbers provided in budgetary documents have become increasingly complex in recent years. It has become more difficult to analyse expenditure outturns and projections, given the various categories of spending being used. Before 2020, total expenditure would be the focus, with an indication that some expenditure items may be one-off.

In Budget 2024, a variety of expenditure headings were used, including core, non-core, windfall capital investment and one-off (cost of living measures). Even where information is provided, some of the classifications seem unusual (see Box D on fiscal gimmickry). This added complexity makes the budgetary forecasts and outturns more difficult to analyse and less transparent.

In addition, the focus of much of the budgetary documentation is on Exchequer spending.[18] This means that almost 20% of government spending is omitted. The focus should be on general government spending and revenue, as these are the most comprehensive measures. With the Rule focusing mainly on Exchequer spending, general government spending could be growing faster than the pace set out in the National Spending Rule.[19]

Alarmingly, *Budget 2024* continues a pattern in which no assessment of core spending is provided that adjusts for tax measures. This is key to assessing compliance with the National Spending Rule, which is a net spending rule—spending net of tax changes. In addition, the Department makes no reference to the original ceilings first set out in *Budget 2022*. This too is bad for transparency.

[18] This includes spending by the Social Insurance Fund and the National Training Fund.

[19] For example, if Exchequer spending was growing by 5% and non-Exchequer spending was growing by 10%, that would mean general government spending growing by about 6%.

Some of the shortcomings of the National Spending Rule have been highlighted previously by the Council (2021). These include the Rule focusing on "core" spending rather than general government spending. The Council also called for the National Spending Rule to be put on a statutory footing.

Overall, the separation of spending into core and non-core elements has become unhelpful. Measures that appear to be permanent are being counted as non-core and the definitions have become extremely blurred (Box D). A better approach would be to focus on general government spending, net of tax measures. The National Spending Rule should also focus on general government spending net of tax measures.

There may be times where unusual circumstances would warrant spending above what the Rule would allow. Occasional deviations from the Rule may be justifiable on these grounds. It should be up to the government of the day to explain why this is the case. Even in these instances, the focus should remain on overall net general government spending, rather than various dubious definitions of what is included in core spending.

On the revenue side, the Tax Policy Changes document, which outlines all the revenue policy changes has in the past incorporated the impacts of PRSI changes on revenue.[20] However, on this occasion, the announced increase in PRSI rates is completely absent from the document and the only reference to this change is in Minister Donohoe's speech.

Box D: Fiscal gimmickry strikes back

Fiscal gimmicks are the use of creative accounting techniques to make a government's fiscal numbers adhere to fiscal rules or look more favourable than they are. As fiscal rules become more binding, the use of fiscal gimmicks tends to increase (Alt *et al.*, 2014; Koen and van den Noord, 2005; von Hagen and Wolff, 2006). The use of creative accounting techniques also tends to increase before elections (Reischmann, 2016).

Ireland is no exception, and with the introduction of a National Spending rule, we have seen a rise in fiscal gimmicks used by the Government. This box looks at some key examples in *Budget 2024* but this is by no means an exhaustive list.

Windfall capital investment

The 2023 *Summer Economic Statement* included for the first time a line item for spending labelled "Windfall capital investment". This is additional capital spending that is to occur contingent on windfall corporation tax receipts remaining at elevated levels.

This spending was not classified as core or non-core expenditure. As a result, it was not included in the Government's calculations for the National Spending Rule. This was despite this spending being a permanent—and increasing—feature for the entirety of the Government's forecast horizon.

[20] See https://www.gov.ie/en/publication/de3d4-budget-2024-taxation-measures/.

By treating this capital spending in that manner, the Government presented figures that suggested a smaller breach of the National Spending Rule than would otherwise be the case.

Despite the windfall capital investment being earmarked for "projects that are ready for development" (Department of Finance, 2023a), this funding was not allocated to any specific department on budget day.

Non-core spending

The concept of non-core spending was introduced in response to the Covid-19 pandemic and Brexit to separate out "crisis management measures to address the challenges posed by Covid-19 and Brexit, while preserving and maintaining existing levels of service within core expenditure programmes" (Pre-Budget Expenditure Update 2020). Since then, the scope of non-core measures has been broadened to include spending on Ukrainian refugees and, at times, cost of living measures.[21] The Government sets its National Spending Rule on the basis of core spending. As a result, all measures that are classified as non-core are excluded, whether they are likely to recur or not.

While there may be a case for some measures to be treated in this fashion for a period of time, there is no case for doing this indefinitely and there is a risk that this classification is abused to make the Government's fiscal numbers look more favourable.

Non-core spending – Covid 19 spending

The Expenditure Report states that "[Non-core Covid-19 spending] has been increased by €0.5 billion for Budget 2024 to fund the post pandemic **escalation of health sector costs, including increased activity and demand across acute hospitals**". These areas of spending mentioned are permanent and not likely to recede in value. In other words, health spending is structurally higher. The Government included this spending as part of non-core, and therefore falling out of what they consider part of the National Spending Rule.

For 2024, €150 million non-core Covid-19 spending is allocated to the Department of Transport. This is to fund the continuation of the 20% public transport fare reduction, the Young Adult Card reduction and the 90-minute fare into 2024. It is unclear how the continuation of these measures is related to the Covid-19 pandemic and not related to other strategic government objectives.

Once again, classifying this spending in this manner, limits the amount by which the Government breaches the National Spending Rule, and shows the Government plans in a more favourable light.

Non-core spending – Ukrainian refugee spending

Outside of spending directly related to Ukrainian refugees, but incorporated under the heading for Ukrainian spending, some €180 million is allocated to meet spending on the International Protection Accommodation Service. This is spending to meet the needs of additional non-Ukrainian refugees who are classified outside of the EU Temporary Protection Directive. It is unclear why this additional spending on non-Ukrainian refugees should be included as Ukrainian refugee spending and classified as non-core, given that the majority of these refugees are seeking protection for reasons unrelated to the war in Ukraine.[22] While the increase occurred over the same time period as the war in Ukraine, the increase appears structural and should be treated in the same fashion as other structural expenditures.

[21] Cost-of-living spending has fallen under non-core allocations at certain times, while at other times it is classified separately to core, and non-core spending.

[22] Since January 2022, the number of non-Ukrainian refugees seeking protection in Ireland has increased almost three-fold. The nationalities that have seen the largest increases are Georgian, Algerian, Nigerian, Somalian, Afghan, and Zimbabwean, in that order.

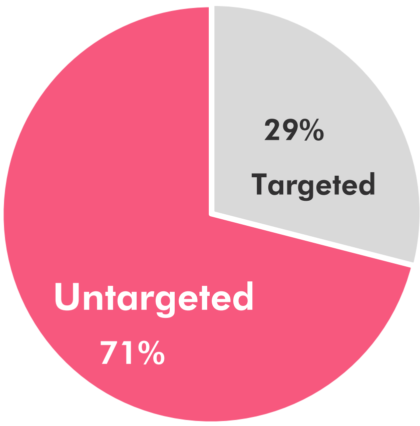
2.3 Cost-of-living measures are largely untargeted

Overall, €2.9 billion of cost-of-living measures were announced in *Budget 2024*. When one considers all taxation and spending measures, only 29% of the cost is on targeted measures (Nº28). Unsurprisingly, universal measures such as the electricity credits and child benefit double payments are more costly than more targeted measures which have a lower number of recipients.

The untargeted nature of these supports continues a pattern. Cost-of-living measures have been used since early 2022. In each case, the package of measures has been largely untargeted.[23]

Nº28 **Cost-of-living measures are highly untargeted**

% of total cost-of-living measures



Sources: Budget 2024; and Fiscal Council workings.
Notes: All tax and spending cost of living measures introduced in Budget 2024 are considered. Subjective judgements are made as to whether each measure is targeted or not. When in doubt, measures are classified as targeted.

The Exchequer cost of the measures is spread over two years (Nº29). In some cases, the benefits to citizens may occur in 2024, but the cost to the Exchequer occurs in 2023. For example, two of the three energy credits will be received by households in 2024, but the Exchequer cost of all three occurs in 2023.

[23] The package of measures introduced in *Budget 2023* was the most targeted, accounting for 33%.

Nº29

Budget 2024 cost of living measures

€ millions

	2023	2024	Total	Targeted	Untargeted
Expenditure measures					
Energy credits	900		900		✓
Double social welfare payments		342	342	✓	
Child benefit	179		179		✓
Fuel allowance	123		123	✓	
Living alone allowance	47		47	✓	
Carers, blind pension	138		138	✓	
Qualified children payment	37		37	✓	
Working family payment	18		18	✓	
Education measures	250		250		✓
Foster care	2		2	✓	
Extended youth travel card	20		20	✓	
Business supports		250	250		✓
Total	1,714	592	2,306	727 (32%)	1,579 (68%)
Taxation measures					
Mineral oil tax	49	122	171		✓
VAT on electricity and gas		315	315		✓
Mortgage interest relief		125	125	✓	
Total	49	562	611	125 (20%)	486 (80%)
Total tax and expenditure measures	1,763	1,154	2917	852 (29%)	2,065 (71%)

Sources: Budget 2024, and Fiscal Council workings.
Notes: Judgements are made as to whether each measure is targeted or not. When in doubt, measures are classified as targeted. There is limited detail available on the nature of the business supports. Previous business support schemes such as the Temporary Business Energy Support Scheme (TBESS) had limited take up, hence had a much lower cost than anticipated. All three energy credits are listed in 2023 as the Exchequer pays the cost of all three in 2023. Similarly, the extended youth travel card cost is recorded in 2023. On a general government basis, the cost of the extended youth travel card and two of the three energy credits (€600 million) will be part of 2024 expenditure.

2.4 The costs of maintaining existing services

The costs of standing still over the medium-term

To gauge the cost of current policy decisions into the future, the Council estimates the costs of maintaining the existing level of services, or "Stand-Still" costs. These Stand-Still estimates factor in the expected costs of demographic changes, the costs of maintaining welfare rates and public sector pay relative to forecast wage growth, and the cost of other inflationary pressures. This approach assumes that there are no efficiency gains in the provision of public services. To assess the potential medium-term Stand-Still costs, the Covid-19 and Ukrainian spending are included in the baseline costs for 2024.

This section takes the policies for 2024 as given. Yet there are some caveats mentioned below around insufficient provision for maintaining existing services into 2024 which mean the level of spending may be higher still.

Nº30 **Stand-Still costs will be substantial over the medium term**

€ billion, gross voted expenditure

	2024	2025	2026	2027	2028	2029	2030
Official allocations	82.8	82.3	86.3	n.a.	n.a.	n.a.	n.a.
Fiscal Council Stand-Still estimates							
Stand-Still costs	82.8	87.9	92.9	97.4	102.1	106.5	111.1
Stand-Still pressures		5.1	5.1	4.5	4.7	4.4	4.6
of which:							
Demographics		1.7	1.7	1.6	1.9	1.7	1.7
Prices		3.3	3.4	2.8	2.9	2.7	2.9
by area:							
Health		1.6	1.6	1.6	1.6	1.6	1.7
Pensions		1.5	1.5	1.5	1.7	1.5	1.6
Social welfare		0.5	0.5	0.5	0.5	0.4	0.4
Education		0.5	0.4	0.3	0.4	0.3	0.3
Other		0.9	0.9	0.6	0.6	0.6	0.6

Sources: Fiscal Council workings.

Notes: Covid-19 and Ukrainian refugee spending is incorporated in the base for Stand-Still estimates. Official allocations include Covid-19 and Ukrainian refugee spending for 2024. The official allocations have no provision for Ukrainian refugee spending or Covid-19 for 2025 and 2026. National Recovery and Resilience Plan and Brexit Adjustment Reserve funded expenditure are excluded. Pensions includes the state pension contributory, public sector pension, widow(er)s' and surviving civil partners' pension contributory, and state pension non-contributory. Social welfare includes the Social Insurance Fund and excludes pensions. Education includes the National Training Fund and Higher Education. Get the data.

For 2025-2026, the increase in Stand-Still costs average €5.1 billion per year, with the demographic's component accounting for €1.7 billion of this (N°30). Looking further ahead, as price pressures are expected to recede, the increase in

Stand-Still costs fall to an annual average of €4.6 billion between 2027 and 2030.

However, these estimates show the costs of maintaining existing policies. There are additional spending pressures, such as meeting Ireland's climate targets, which are not adequately factored into current policies. Casey and Carroll (2023) estimate the impact of transitioning to a low carbon economy on government revenue and expenditure. Between 2027 and 2030, revenues could decline by about 0.9% of GNI* and spending could rise by 0.8%.

Funding is insufficient to maintain services in 2024

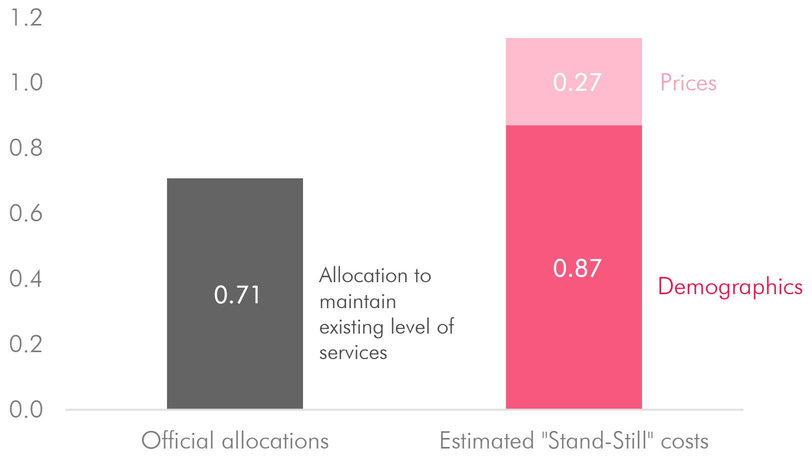
Estimates from the Council's Stand-Still approach suggest that certain provisions by the Department of Public Expenditure to maintain the existing level of services into 2024 may be too low given expenditure and service levels in 2023.

In *Budget 2024* the Department of Health was allocated €0.7 billion in 2024 to maintain the existing level of service relative to a 2023 figure that does not incorporate any overruns. Up until end-November, current spending in the Department of Health is €1,079 million (5.9%) higher than forecast.

Figure (N°31) also shows the Council's Stand-Still estimates for Health in 2024, excluding any impact of 2023 overruns, and any impact of a potential public sector pay deal. The impact of demographics on the health budget means that €0.8 billion would be required, while increasing prices would add an additional €0.3 billion to standstill costs.

N°31 **Health allocation insufficient to cover 2024 "Stand-Still" costs**

€ billion, 2024 health expenditure



Sources: Department of Finance; and Fiscal Council workings.
Notes: The Fiscal Council Stand-Still figure does not incorporate the impact of any overrun in the Health vote for 2023 and its knock on impact into 2024. It also does not include the potential costs of any new public sector pay deal. Were public sector pay per head to rise in line with economy-wide forecasts for 2024, this would add an additional €0.33 billion to Stand-Still costs for 2024. Get the data.

Clearly, the €0.7 billion allocated to maintain the existing level of service falls short of the Council's estimated €1.1 billion. However, inexplicably, the allocated amount of non-core Covid-19 related health expenditure in 2024 is set to increase by €0.3 billion relative to 2023.[24] As outlined in Box D, this may be a case of incorporating what should be core permanent health expenditure in non-core to present a flattering picture of the public finances. Were this funding used to maintain the existing levels of service, there would still be a shortfall of €0.1 billion relative to "Stand-Still" costs.

Were a public sector pay deal agreed that would see the average pay per head rise by 5%, this would see an additional €0.3 billion added to the cost of standing still.[25] There remains an unallocated €0.85 billion of core gross voted current expenditure, potentially available to meet the costs of a public sector pay deal. Spending on pay in Health accounts for 38% of total Exchequer pay, meaning on a proportional basis, €0.3 billion of the unallocated €0.85 billion could be available for Health to meet the costs of a public sector pay deal.

The analysis above does not factor in any potential overrun in the Department of Health in 2023. The overruns in 2023 are likely to lead to a higher baseline level of expenditure in 2024. Given this higher level, the "Stand-Still" costs will be higher still than those shown in N°31.

Looking further ahead, the costs of maintaining existing levels of service in health will rise substantially over the coming decade as more of the population moves into older age groups and as people live longer (Box E).

[24] This is inexplicable given the impact of the Covid-19 pandemic was receding over the course of 2022 and 2023 and is expected to recede further in 2024. Despite this, *Budget 2024* sees Covid-19-related health expenditure increases in 2024 relative to 2023.

[25] The Department forecast that economy-wide average pay per head is to grow by 5% in 2024.

Box E: Are health pressures predictable?

Outside of emergency situations, the increase in demand for health services is largely predictable based on changing demographics. This box looks at the increase in demand for health services from key demographics relative to the increase in population in those key demographics.

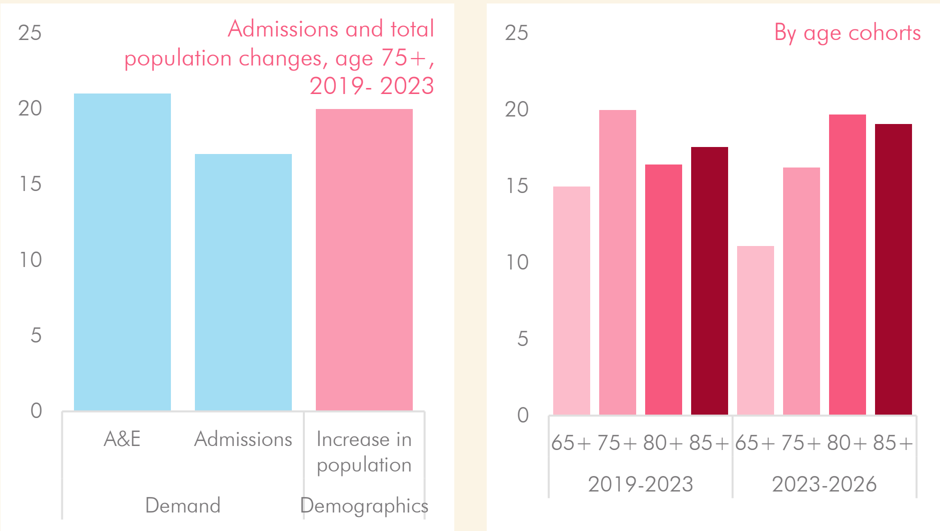
Both the Secretary General of the Department of Health and the CEO of the HSE have argued that the HSE has been facing "unprecedented demand". While some of the recent demand may be related to pent-up demand arising from lower-than-normal demand for non-Covid activities during the pandemic years, much of the demand has been predictable.[26]

As an illustration of this "unprecedented demand", the Secretary General outlined that "emergency department attendances by those aged over 75 are up 21% in the last four years, while admissions from emergency departments of patients over 75 are up by over 15%". The Secretary General went on to say that "The demographic figures are surprising in terms of the impact of the number of people over 75 and the number over 80. The amount of healthcare they are consuming is a surprise in Ireland and across the developed world."

The demand for services from those aged over 75 typically follows changes in the population of those over the age of 75. Over the last four years (2019-2023), the population aged over 75 grew by 20% (N°32). As a result, the increase in demand for services by those aged over 75 that the HSE is currently experiencing is in line with the increase in the population over the age of 75.

N°32 **Increase in demand has been largely predictable**

% change in population



Sources: Fiscal Council workings.
Notes: Figures for 2023-2026 show projections based on the Fiscal Council's demographics model. Get the data.

The increase in demand over the last four years has been predictable based on demographics. Likewise, the increase in demand expected over the next four years is also predictable. Figure N°32.B shows demographic projections using the Council's demographics model. The population over the age of 75 will grow by approximately 16% between April 2023 and April 2026, while the population over the age of 80 will grow by approximately 20%.

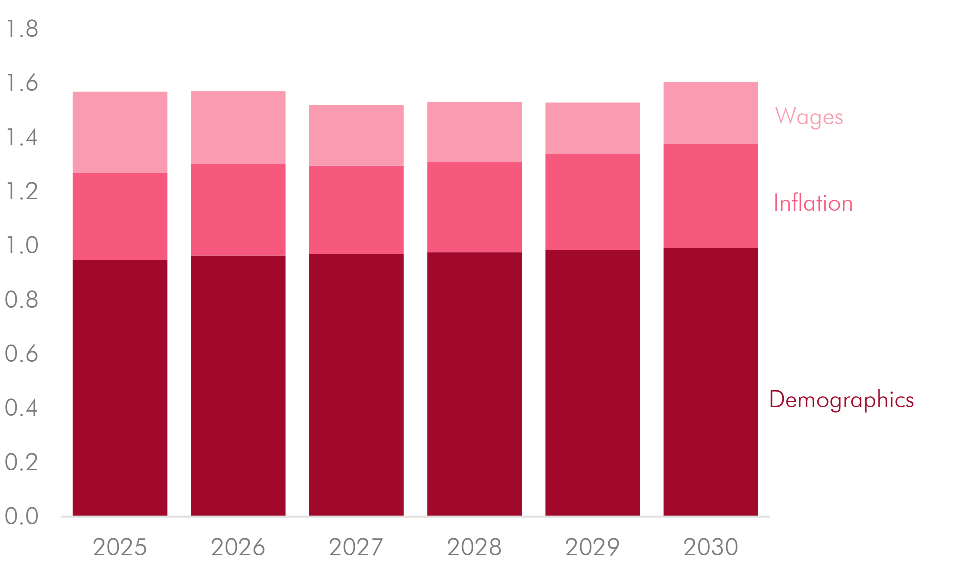
Looking even further ahead, by 2030, the number of people over the age of 75 will increase by 66% relative to 2019. This will see a corresponding increase in demand for health services from these demographics. Based on existing service levels, over the period 2025-

[26] See testimony before the Joint Committee on Health, debate – Wednesday, 27 Sep 2023: https://www.oireachtas.ie/en/debates/debate/joint_committee_on_health/2023-09-27/2/.

2030, demographic costs will add approximately €1 billion per annum to health spending (N°33).

Nº33 **Health stand-still costs set to average €1.6 billion per annum**

€ billion



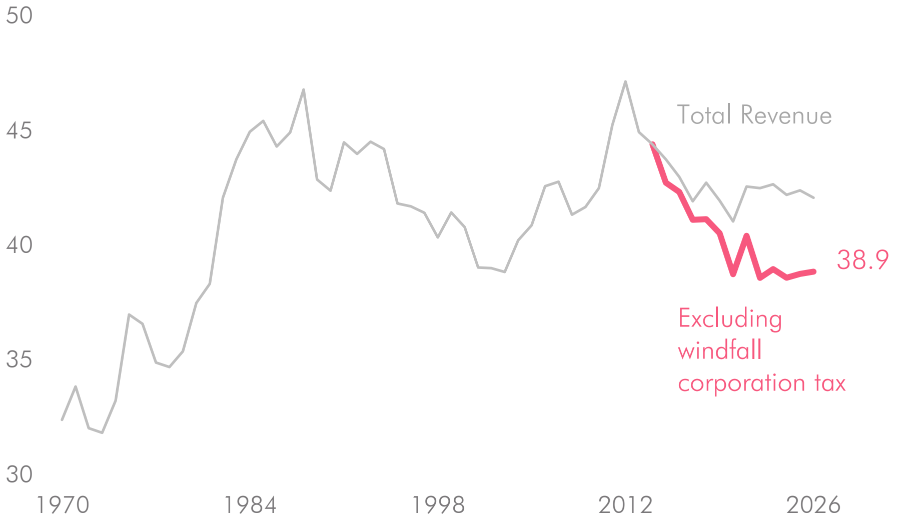
Sources: Fiscal Council workings.

2.5 Tax revenue projections

Budget 2024 projections imply that general government revenue (excluding windfall corporation tax) is forecast to remain at a historically low level as a share of national income (N°34).

Nº34 **Revenue to remain low as a share of national income**

General government revenue as a share of GNI*



Sources: CSO; Budget 2024, and Fiscal Council workings.
Notes: Fiscal Council estimates of windfall corporation tax are used for 2015-2021. Budget 2024 estimates are used for 2022-2026. Prior to 1995, current and capital receipts (excluding borrowing) are used to extend the general government series back (from the historical *Annual National Accounts*, 1970-1995).

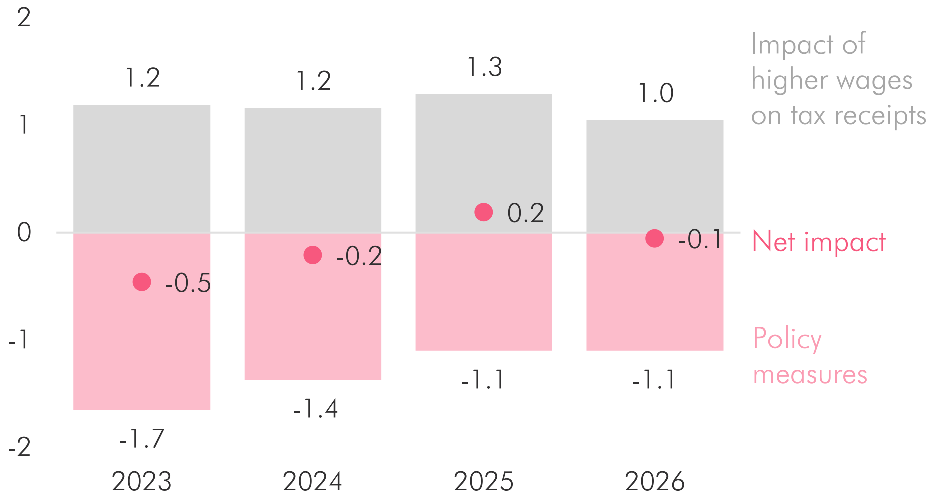
Income tax cuts exceed indexation costs

Income tax cuts in 2023 and 2024 appear to exceed what would be required for full indexation of the tax system. For 2025 and 2026, budget projections assume an income tax package of €1.1 billion. This is close to the cost of fully indexing the income tax system (N°35).

Indexing the income tax system is often considered as a neutral policy. However, not fully indexing the income tax system is a potential avenue to raise revenue in an economy operating at capacity in order to stem overheating risks.

Nº35 **Income tax cuts more than offset inflation**

€ billions



Sources: Budget 2024, Revenue ready reckoner and Fiscal Council calculations.

Notes: A net impact below zero indicates assumed policy changes are greater than the assumed yield from not indexing income tax bands and credits. As a result, income tax revenue would be lower than if full indexation of the income tax system were assumed. Budget 2024 estimates of the cost of indexation for the years 2023-2025 are used. For 2026, the Revenue Commissioners' post-Budget 2024 "ready reckoner" is used. This is combined with Budget 2024 forecasts of hourly wage growth.

Here we assess the official main revenue forecasts contained in Budget 2024. For the major Exchequer tax headings, the forecasts can be broken into various factors. These include growth of the macroeconomic driver, policy changes and other factors such as judgement or one-offs. Supporting information Section S.1 shows this in more detail.

For income tax and excise duties, significant negative judgement has been incorporated into *Budget 2024* forecasts. Significant negative judgement has also been applied to corporation tax (in addition to the negative assumed impact of Base Erosion and Profit Shifting (BEPS) reforms in 2026).

The negative judgement applied to income tax is to "keep the effective tax rate broadly stable". However, N°36 shows that Budget 2024 projections imply a slight fall for income tax as a share of compensation of employees. Income tax would be €1 billion higher than forecast for 2026 if it remained at its 2023 share of compensation of employees.

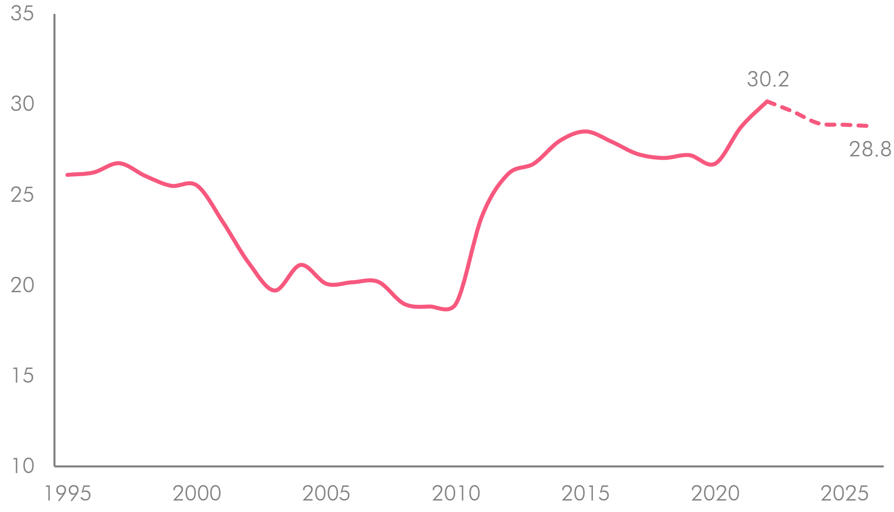
Negative judgement of €350 million is applied to excise for 2024, with this effect carrying into later years, to reflect "weaker trends in recent months".

General government social contributions are mainly made up of PRSI contributions. However, other social contributions are still a significant amount of revenue (€5.8 billion in 2022). Budget 2024 forecasts of other social contributions look conservative for 2023, with this effect carrying into following years.

Given many of the judgements made seem conservative, an alternative set of revenue forecasts are presented in Section 2.6.

Nº36 **Effective income tax rate forecast to fall**

Income tax as a percentage of compensation of employees



Sources: CSO; Budget 2024, and Fiscal Council workings.

2.6 Alternative projections of the public finances

Given that several parts of Budget 2024 fiscal projections are substandard, this section presents an alternative set of projections of the public finances. The lack of quarterly general government revenue and spending outturns and profiles makes this a difficult task.[27] Nonetheless, the exercise highlights that both revenue and expenditure are likely to be underestimated out to 2026.

Revenue could be stronger than Budget 2024 forecasts

Table N°37 shows a possible alternative projection of general government revenue out to 2026. This is done by examining both Exchequer revenue and non-Exchequer revenue which forms general government revenue. The areas where the alternative projection differs from Budget 2024 forecasts are shown in N°37.

Income tax is higher in the alternative scenario so that it remains at its 2023 share of compensation of employees thereafter. Other taxes on income and wealth are also revised up for 2025 and 2026 so that their growth is more in line with GNI*.

Excise receipts are also higher than Budget 2024 forecasts from 2024 onward. This reverses the negative judgement applied in Budget 2024 forecasts. Tax revenue of local government is also revised up slightly.

For social contributions, non-PRSI receipts are revised up for 2023 and 2024. This is done so that non-PRSI social contributions grow in line with GNI*.[28]

Corporation tax forecasts are not adjusted from the Budget 2024 levels. This is because any increase or decrease in receipts relative to *Budget 2024* forecasts is likely to be due to changes in "excess" corporation tax receipts. As a result, this would not impact on the general government balance excluding excess corporation tax, which is the most important measure to focus on.

Finally, "other general government revenue" is revised up for 2025 and 2026. This is done so that this category settles at its 2022 share of national income, which is a historical low. Budget 2024 projects a further fall.

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[27] While the quarterly Government Finance Statistics produced by the CSO are helpful, they come with a significant lag and only cover historical outturns. Quarterly profiles of general government revenue and spending should be produced as part of budgetary documentation.
[28] Non-PRSI social contributions are made up of government employees' contributions and employers' imputed contributions (see Fiscal Council, 2023A). Forecasts for 2025 and 2026 are not revised, as Budget 2024 forecasts look to be at an appropriate level.

Overall, the alternative scenario shows stronger revenue out to 2026. By 2026, general government revenue is €3.4 billion higher than Budget 2024 projections.

This alternative forecast also implies revenue to be a larger share of GNI*. The increase is mainly seen in 2025. This is mostly driven by income tax and social contributions. These revenue headings rise as a share of national income because the labour share of income is forecast to increase in 2025 (see Fiscal Council, 2023c).

Nº37 **Alternative general government revenue forecasts**

€ billions

	2023	2024	2025	2026
Alternative general government revenue	125.4	131.1	138.7	144.3
Budget 2024 general government revenue	124.9	129.6	136.0	141.0
Differences:				
Current taxes on income, wealth		0.6	1.1	1.3
Of which: income tax		0.6	0.9	1.0
Of which: other			0.2	0.3
Social contributions (non-PRSI)	0.5	0.4	0.0	0.0
Taxes on production and imports	0.1	0.4	0.4	0.5
Of which: excise		0.4	0.4	0.4
Of which: local government taxes	0.1	0.1	0.1	0.1
Other general govt revenue			1.1	1.6
Total differences	0.5	1.4	2.7	3.4
Alternative Revenue (% GNI*)	42.8	42.7	43.2	43.1
Budget 2024 Revenue (% GNI*)	42.7	42.2	42.4	42.1

Sources: Budget 2024, and Fiscal Council workings.
Notes: Revenue headings which are not different from Budget 2024 projections are not shown. These include corporation tax, VAT and PRSI.

Spending is likely to be stronger than Budget 2024 forecasts

As shown in Section 2.4, Budget 2024 spending projections for 2025 and 2026 are short of what is required to maintain existing service levels and the real value of social protection payments. The Stand-Still exercise takes Budget 2024 levels of spending for 2024 as given and grows spending forward using that as a base. As a result, this assumes that spending on humanitarian assistance for refugees and spending labelled as Covid-related will continue over the medium term.

However, spending is likely to be higher than Budget 2024 projections for 2023 and 2024. As a result, the level of spending in 2025 and 2026 needs to be adjusted upwards by more than just the additional stand still costs.

As highlighted earlier, health spending is going to be higher than *Budget 2024* forecasts for this year, with costs likely to recur next year. For this alternative projection, we assume a €1.4 billion overrun in health spending this year.[29] In addition, as shown in Section 2.4 (N°31), the costs of standing still in health next year would be at least €0.1 billion higher than has been allocated. As a result, the upward revision to spending on health grows to €1.5 billion in 2024.

The Christmas Bonus has not been budgeted for beyond this year. The cost this year was €330 million. This cost assumed for future is grown in line with inflation. Costs associated with the Government's planned autoenrollment pension scheme have also not been incorporated into spending projections. These are also included in the alternative spending projections.

General government gross fixed capital formation will increase sharply when the National Children's Hospital is completed. This has not been recognised in Budget 2024 forecasts. The latest data suggestions a completion in the fourth quarter of 2024 with a cost of around €2.3 billion. As a result, in the alternative forecasts an additional investment of €2 billion is added in 2024.[30]

In the alternative forecasts, spending remains relatively flat as a share of national. This is in contrast to *Budget 2024* projections, which show spending falling as a share of national income throughout the forecast horizon.

N°38

Alternative general government spending forecasts

€ billions

	2023	2024	2025	2026
Alternative general government expenditure	117.5	123.2	129.3	134.9
Budget 2024 general government expenditure	116.1	121.3	121.8	126.3
Differences:				
Health	1.4	1.5	1.5	1.5
Christmas Bonus		0.3	0.4	0.4
Autoenrollment pension scheme		0.1	0.1	0.1
Additional standstill costs			5.5	6.6
Investment		2.0		
Total differences	1.4	3.9	7.5	8.6
Alternative spending (% GNI*)	40.1	40.7	40.3	40.3
Budget 2024 spending (% GNI*)	39.7	39.5	38.0	37.7

Sources: Budget 2024, and Fiscal Council workings.
Notes: Spending headings which are not different from Budget 2024 projections are not shown. Additional standstill costs refer to the additional spending required to maintain existing service levels, above the spending forecast in Budget 2024.

[29] A supplementary estimate of €960 million has been approved for the Department of Health. However, the HSE is likely to require additional funds this year. This is likely to occur via the HSE using cash reserves and accruals. This would still imply additional general government spending in 2023 over and above the €960 million extra Exchequer funding.
[30] *Budget 2024* forecasts incorporate the cash costs of the project, hence only €2 billion of the €2.3 billion is added to Budget forecasts in the alternative scenario.

Bringing together the alternative forecasts of revenue and expenditure, this leads to an alternative forecast for the general government balance. In the alternative forecasts, the general government balance is weaker throughout the forecast horizon. When excess corporation tax receipts are excluded, a deficit is forecast out to 2026 (Table N°39). This contrasts to *Budget 2024* projections, which show an underlying surplus in 2025 and 2026.

Nº39 **Alternative general government balance forecasts**

€ billions

	2023	2024	2025	2026
General government balance (excluding excess corporation tax)				
Budget 2024	-2.0	-2.7	2.5	3.8
Alternative forecast	-2.9	-5.2	-2.3	-1.4
Budget 2024 (% GNI*)	-0.7	-0.9	0.8	1.1
Alternative forecast (% GNI*)	-1.0	-1.7	-0.7	-0.4
General government balance				
Budget 2024	8.8	8.4	14.2	14.6
Alternative forecast	7.9	5.9	9.4	9.4
Budget 2024 (% GNI*)	3.0	2.7	4.4	4.4
Alternative forecast (% GNI*)	2.7	1.9	2.9	2.8

Sources: Budget 2024, and Fiscal Council workings.

2.7 Corporation tax

Corporation tax receipts for 2023 look likely to meet the forecast in *Budget 2024*.[31] This is despite reduced payments from the pharmaceutical sector, where some companies are experiencing lower profits—primarily driven by lower sales of Covid-19 vaccines and anti-viral therapies.

Corporation tax receipts are still at elevated levels (N°40). Firms in the pharmaceutical sector firms are still generating significant profits and are expected to develop new revenue streams in future.

N°40 **Corporation tax receipts are still at elevated levels**

€ billion, 12-month rolling sum

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

The Council has repeatedly advised against making permanent spending commitments based on excess corporation tax receipts. Any fall in excess corporation tax receipts should not be a cause for alarm. A well-planned budget should not be impacted by changes (up or down) in excess corporation tax. If a fall in excess corporation tax receipts causes fiscal plans to change, that reflects a lack of appropriate planning and budgeting. Sticking to the National Spending Rule would help insulate the Government from risks around corporation tax receipts.

Budget 2024 forecasts of corporation tax assume a €2 billion negative impact of the OECD's Base Erosion and Profit Shifting (BEPS) Pillar I and Pillar II reforms. This impact is now anticipated in 2026.[32] This €2 billion estimate is unchanged since January 2020. Since then, corporation tax receipts have grown significantly.

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[31] Receipts for October, which were only known after the Budget was published, were €1 billion lower than for October 2022. This was offset by November receipts, which were €1.3 billion higher than November 2022.

[32] *SPU 2023* had assumed a €2 billion impact in 2025.

€2 billion was 18.4% of 2019 corporation tax receipts but is 8.5% of the forecast 2023 receipts.

In addition, there is likely to be some additional revenue from the new 15% minimum effective tax rate for large firms. This is likely to be fully implemented before the Pillar I reforms. Box F explores the potential impact of the new 15% minimum effective tax rate. *Budget 2024* does not incorporate any assumed yield from this policy change.

Box F: What is happening to Ireland's corporation taxes?

Ireland's corporation tax receipts remain at historically high levels. In November, they increased by 27% year on year, reversing some of the weakness in previous months.

Corporation tax revenues had shown year-on-year declines in August, September, and October. There are a number of reasons why receipts might have fallen during these months. Part of this relates to timing issues and how corporate groups organise payments within their calendar year. There is also some evidence that profits in the pharmaceutical sector are moderating as vaccine demand declines. We will explore these issues in a forthcoming Analytical Note (Cronin, 2023b). Yet there are also several reasons why corporation tax receipts may rise further over the medium term.

Regardless of recent or forthcoming developments, Ireland's corporation tax receipts remain incredibly concentrated and inherently very risky. The Government is right to treat much of these receipts as windfall in nature. The National Spending Rule and the Future Ireland Fund can help guard against the risks of using risky receipts to fund permanent budgetary measures. Sticking to the National Spending Rule would help ensure that month-to-month developments in corporation tax receipts, which are largely outside of Ireland's control, do not jeopardise the sustainability of the public finances.

Profits in some firms in key sectors remain elevated

Ireland's corporation tax revenues are dominated by highly profitable ICT and pharmaceutical firms. Global revenues and profits of the leading ICT firms remain far in excess of their 2019 levels, although the exceptional rates of growth they experienced during the pandemic have moderated. In addition, while some pharmaceutical companies have seen revenues take a significant hit from falling Covid-related demand, the growth outlook for non-Covid products remains strong. Moreover, the pharmaceutical sector could yet benefit from the technological advances made in response to the pandemic.

The exhaustion of capital allowances could boost receipts in future

Another potential upside to short-term corporation tax receipts could come from the unwinding of large capital allowances by key multinational firms, provided that their company structures and profits do not change significantly. Of course, were these corporate structures to be altered, the risks could be in the opposite direction.

The move to a 15% minimum effective corporation tax rate could raise receipts

Ireland's rate of corporation tax for large corporate groups is set to increase. The Government has introduced draft legislation which seeks to implement the OECD's Pillar II reforms as adopted in the EU's Minimum Tax Directive. The reforms will see a minimum effective corporation tax rate of 15% applied to those corporate groups whose annual global revenues have exceeded €750 million in at least two of the previous four years.

The new rules represent a major change to Ireland's corporation tax regime. In effect, large corporate groups will continue to pay corporation tax at the same tax rates as at present, before then making a top-up payment to bring them up to the 15% effective rate.[33] The reforms will come into force for accounting periods beginning on or after 31 December

[33] There are two rates of corporation tax in Ireland: 12.5% for trading income and 25% for non-trading income (such as rental income) and income from an excepted trade.

2023. The first top-up tax return must be filed no later than 18 months after the end of the first accounting period.[34] In other words, the first filing deadline will be 30 June 2026. Therefore, the public finances will only begin to benefit from the additional top-up tax revenues from 2026.

The Department of Finance has yet to publish estimates of the expected yield arising from the new 15% rate. We use publicly available data to estimate the additional yield that would have arisen in 2021 had the top-up tax come into effect that year (N°41).[35] Over 1,600 large corporate groups are likely to affected, mostly foreign-owned multinationals (Department of Finance, 2023b).

N°41

The top-up tax could increase receipts by some €2 billion

€ billion

	2021
Taxable income	135.6
less adjustment to taxable income	-19.1
Net qualifying income	116.4
less carve-out for eligible payroll costs*	-4.0
less carve-out for eligible tangible assets*	-17.6
Excess profit	94.9
multiply by top-up tax rate (%)	× 2.4%
Top-up tax revenue	2.2
Actual corporation tax revenues in 2021	15.3
Top-up tax revenue as a share of total corporation tax revenues (%)	14.7

Sources: McCarthy (2023), CSO, Department of Finance, Fiscal Council workings. Get the data.
*Note: A substance-based income exclusion provides that a percentage of both the eligible payroll costs and the carrying value of eligible tangible assets are excluded from the top-up tax. The percentage of payroll costs to be excluded starts at 10%. The percentage of the carrying value of tangible assets to be excluded starts at 8%. These are the rates applied in the table above. However, both percentages gradually decline each year over a transition period of ten years, such that both rates are 5% in 2033.

Our central estimate is that the top-up tax would have yielded an additional €2.2 billion in corporation tax revenue in 2021 (N°41). This equates to a 14.7% increase in the corporation tax take that year. Based on several other scenarios, we consider this estimate might plausibly vary between a range of €1 billion and €3½ billion.

The estimates we produce here require a number of careful assessments to arrive at net qualifying income so as to determine the relevant tax base on which the new effective tax rate will apply. For 2021, the top-up tax rate we estimate is 3% based on the difference between the actual effective tax rate and the minimum 15% effective rate. We also estimate "substance-based income exclusions" that allow deductions for 10% of eligible payroll costs and 8% of the carrying value of eligible tangible assets based on CSO and Revenue data. The forthcoming Analytical Note provides full details on how these are derived (Cronin, 2023b)

Corporation tax receipts are now even more concentrated

Ireland's corporation tax revenues are very highly concentrated among a small number of large, foreign-owned multinationals. What's more, it appears that this level of concentration is increasing. We estimate that just three corporate groups accounted for 43% of all corporation tax receipts in 2022 (N°42). These same

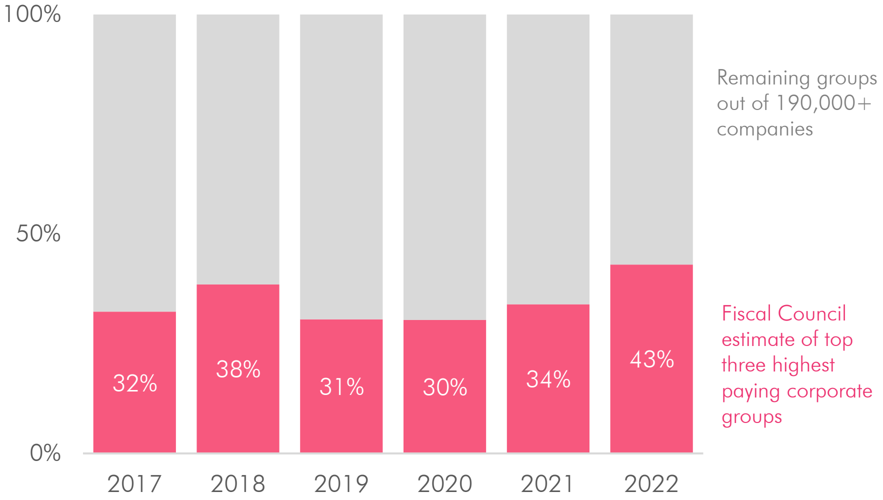
[34] After the first year, the top-up tax return must be filed no later than 15 months after the end of the relevant accounting period.

[35] 2021 is the most recent year for which data on taxable income and average effective tax rates is available.

three groups accounted for around one-third of all corporation tax revenues between 2017 and 2021 (Cronin, 2023a).

Nº42 **Corporation tax receipts becoming more concentrated**

% total corporation tax receipts



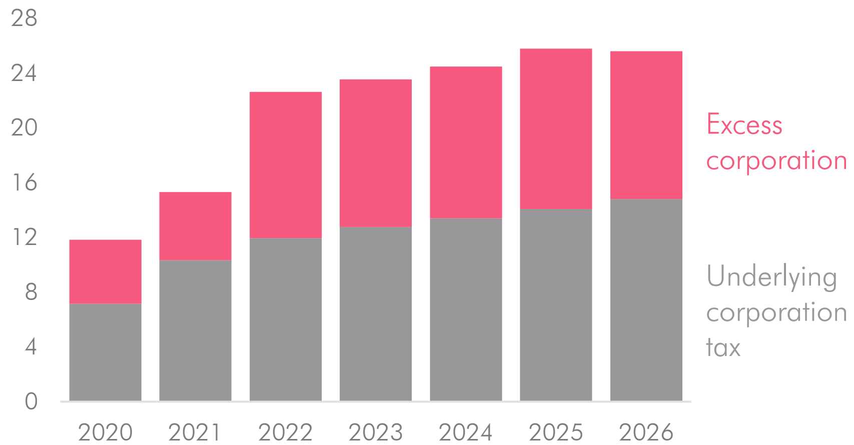
Sources: Company financial statements, Cronin (2023a), and Fiscal Council workings.
Notes: See Cronin (2023a) for further detail on the approaches used to estimate each group's corporation tax payments. Given the difficulties in identifying Ireland's leading corporation taxpayers and the challenges associated with accurately estimating the corporation tax paid by each group, we anonymise the identities of the groups.

One can split forecasts of corporation tax into forecasts of "windfall" corporation tax receipts and underlying corporation tax receipts. For underlying receipts, Budget 2024 forecasts show them growing in line with GNI*.

By contrast, "windfall" corporation tax is forecast to remain largely flat over the coming years, with the assumed negative impact of BEPS international tax reforms reducing forecast receipts for 2026.

Nº43 **Excess corporation tax receipts projected to remain at €11 billion**

€ billions



Sources: Budget 2024, and Fiscal Council workings.
Notes: Estimates of excess corporation tax for 2020 -2022 are Fiscal Council estimates. Estimates for 2023-2026 are taken from Budget 2024.

2.8 Capital spending

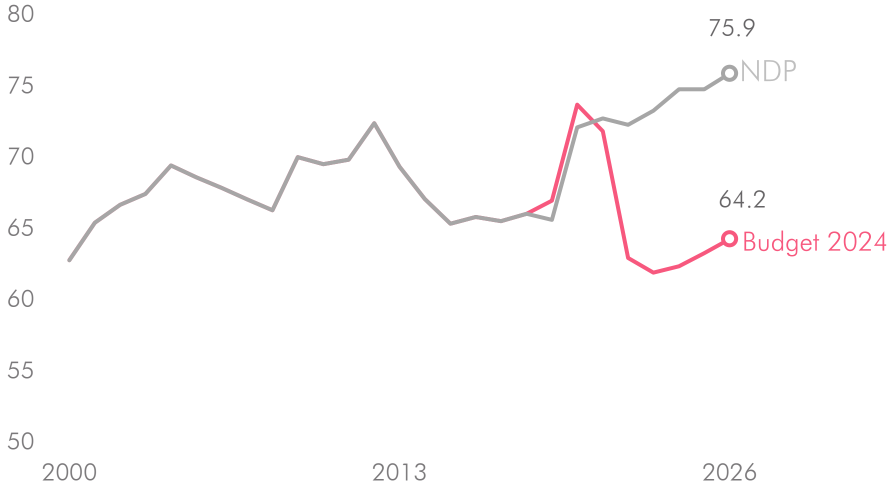
Recent strong growth in nominal GNI* has not been matched by the public capital investment. As a result, the public capital stock has fallen as a share of national income (Figure N°44). Using the latest outturns, we can see that there was a large fall in the public capital stock as a share of national income in 2022. While the nominal public capital stock did grow in 2022 (2%), this was well below the growth of nominal GNI* (17%).

Budget 2024 projections suggest a slight increase in the public capital stock as a share of national income but staying well below levels seen in recent years. If one looks back to when the National Development Plan (NDP) was announced, the public capital stock was projected to reach a much higher share of national income (Conroy, Casey and Jordan-Doak, 2021).

In nominal terms, the latest estimates and forecasts of the capital stock are slightly higher than that projected in Conroy, Casey and Jordan-Doak (2021). It is the higher nominal level of national income that has since led to a big downward shift as a share of national income.

N°44 **Inflation has eroded the estimated increase in public capital**

Government non-financial assets, % GNI*



Sources: Budget 2024, NDP and Conroy, Casey and Jordan-Doak (2021).
Notes: For the Budget 2024 line, the latest outturns for Government Non-financial assets and GNI* are used. Thereafter Budget 2024 forecasts of general government fixed capital formation are used. The depreciation rate assumed is the average over the years 2000-2022 (3.3%). Similarly, Other changes in non-financial assets are assumed to be their historical share of the capital stock (2.3%). The NDP line shows how the capital stock was expected to evolve after the NDP was announced. This line corresponds to the analysis conducted by Conroy, Casey and Jordan-Doak (2021).

Government investment is forecast to rise over the coming years. Over 2024 to 2026, government investment is forecast to increase by over €1 billion per annum. About €0.5 billion of annual spending increases would be required to maintain its share of national income (N°45).

If spending increases of €1 billion per year were achieved, it would lead to government investment increasing as a share of national income. By 2026, investment is forecast to reach 4.3% of GNI*.

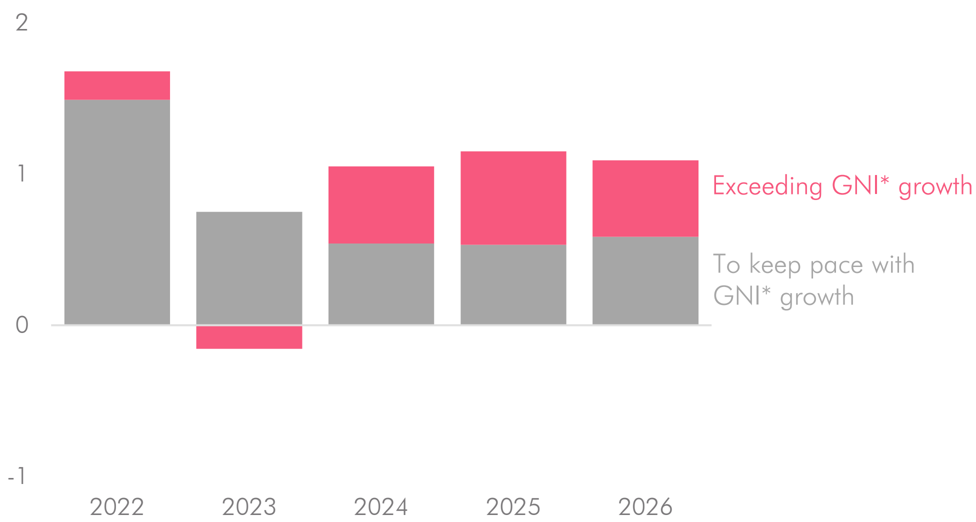
Government investment has struggled to reach targets

If capacity constraints were to persist, it may continue to be challenging to increase investment at the pace planned. Gross voted capital expenditure has been revised down by €600 million for this year relative to *SPU 2023*.

Gross voted capital spending the Department of Housing is **€385** million (15.2%) lower than expected for the year to end November.[36] This is a continuation of a pattern of underspends in housing capital expenditure in recent years (Fiscal Council, 2023a).

Nº45 **Capital spending is outpacing national income growth**

€ billions increases



Sources: *Budget 2024*.
Notes: CSO outturns and *Budget 2024* forecasts of general government gross domestic fixed capital formation are used. Grey bars show the amount of capital spending growth that would be required in that year to maintain the same share of national income. Additional spending growth shows any growth in capital spending above that amount, which would lead to an increasing share of national income. In 2023, capital spending fell as a share of national income, hence the "exceeding GNI* growth bar is negative.

[36] Almost all the unspent funding carried over into 2023 has now been spent in the Department of Housing, Local Government and Heritage.

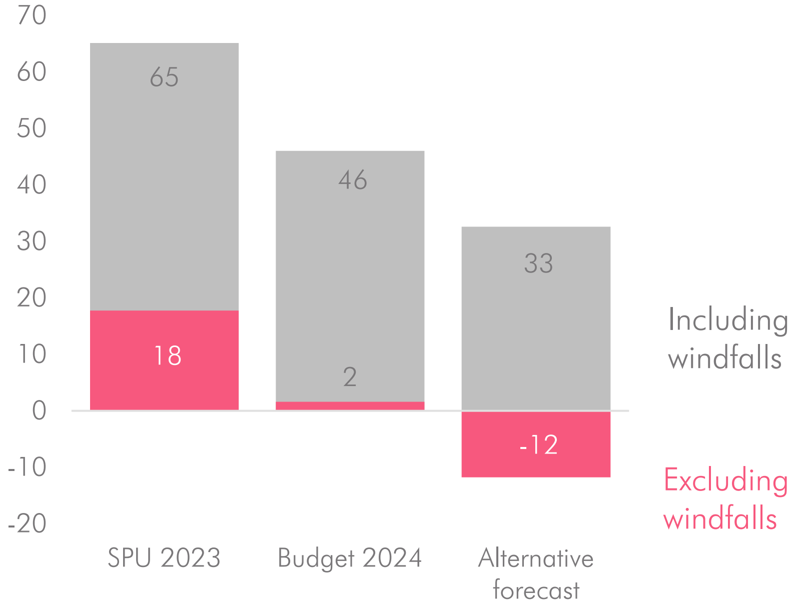
2.9 Medium-term forecasts are absent

The fiscal forecasts in Budget 2024 only go as far as 2026. This means that many of the major fiscal challenges Ireland faces are not captured by this forecast horizon.

In *SPU 2023*, headline surpluses were shown out to 2026. For the years 2023-2026, these cumulative headline surpluses were €65 billion. If one excluded windfall corporation tax receipts, these surpluses fell to €18 billion. As noted in Fiscal Council (2023a), several spending items were excluded from *SPU 2023* projections.

Nº46 **Predicted surpluses rely heavily on windfalls**

€ billion cumulative surpluses, 2023-2026



Sources: SPU 2023, Budget 2024 and fiscal council workings
Notes: Budget 2024 estimates of windfall corporation tax receipts are used.

Budget 2024 forecasts now show smaller surpluses over this period. This is due to expenditure being revised up for every year over 2023 to 2026. Headline cumulative surpluses for 2023 to 2026 are now projected to be €46 billion. When windfall corporation tax receipts are excluded, this falls to €2 billion.

However, spending and revenue are likely to be higher than Budget 2024 forecasts. Section 2.6 shows alternative forecasts of the public finances. The alternative forecasts suggest cumulative deficits (excluding excess corporation tax) of €12 billion over this period.

Debt trajectory to continue downward

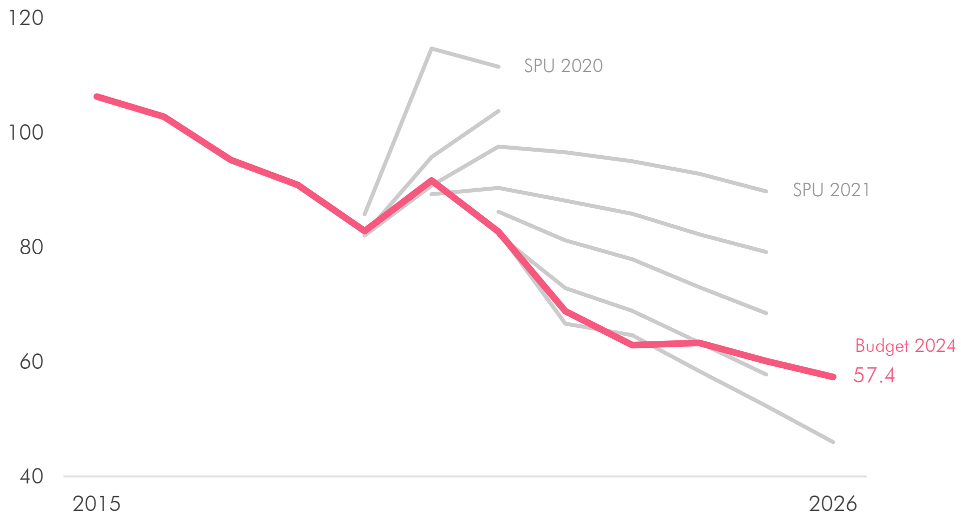
Since 2015, Ireland's net debt-to-GNI* ratio has seen a remarkable fall. By the end of 2023, the debt ratio is forecast to be 63% of GNI*, a fall of more than 43 percentage points since 2015 (N°47).

The net debt ratio is expected to fall by a further 6 percentage points by 2026, reaching 57% of GNI*. This latest forecast was revised up slightly since *SPU 2023* as some cash assets are now being transferred to two new investment funds (see Boxes H and I).

N°47

Debt continues its downward trajectory

% of GNI*, net debt



Sources: CSO and Department of Finance.

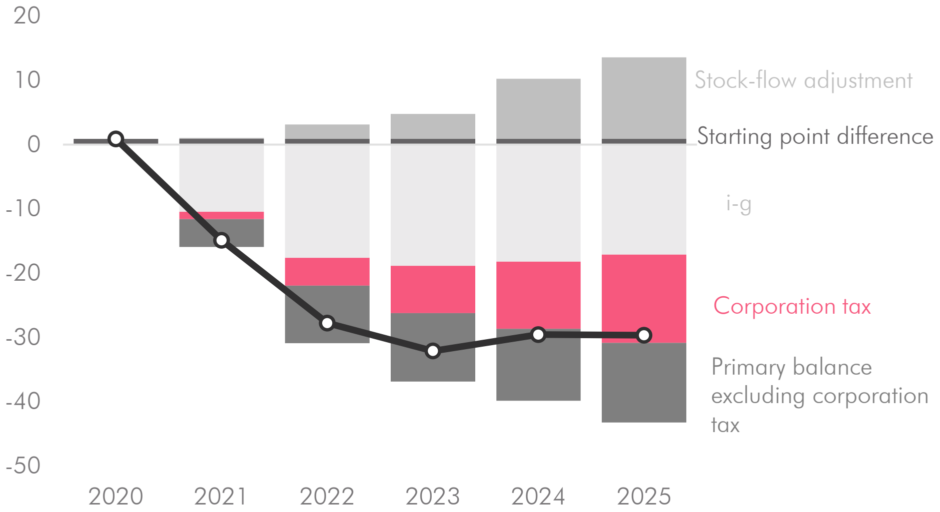
The net debt ratio by 2025 is now forecast to be 30 percentage points lower than was forecast in *SPU 2021* (N°48). Higher than forecast nominal growth relative to interest rates accounts for 17 percentage points of this downward revision. Given the relatively unchanged forecasts for interest rates (N°49), this can largely be attributed to higher nominal growth.

Stronger corporation tax receipts account for almost 14 percentage points of the downward revision, while a better primary balance excluding corporation tax contributes a further 12 percentage points reduction. This was offset by a positive increase from the stock-flow adjustment of 13 percentage points by 2025.

Nº48

Higher growth and corporation tax receipts help lower debt

Percentage point difference in net debt ratio, *Budget 2024 – SPU 2021*



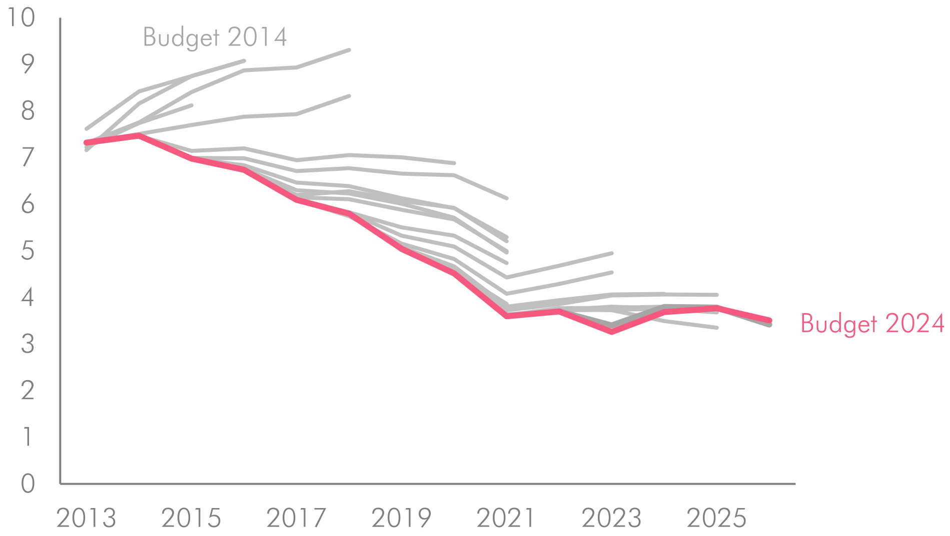
Sources: Department of Finance; and Fiscal Council workings.
Notes: Figures show the contributions to the lower net-debt ratio forecasts between *Budget 2024* and *SPU 2021*. The stock-flow adjustment is net of changes in liquid assets. i-g is the nominal interest rate growth differential. Get the data.

While interest rates have risen in recent months, the Exchequer interest rate bill is expected to remain low in the coming years (N°49). Exchequer interest is expected to average €3.7 billion per year over the period 2024-2026, half of what was paid in 2014.

Nº49

Interest payments are expected to remain low

€ billion, Exchequer interest



Sources: Department of Finance. Get the data.

2.10 Fiscal risks

Section 2.6 shows alternative forecasts of the public finances. These forecasts show that both spending and revenue are likely to be higher than Budget 2024 projections. This points to obvious risks to the Budget 2024 fiscal forecasts.

There are risks of further expenditure on redress schemes. A redress scheme for owners of apartment s built between 1991 and 2013 with defective concrete blocks seems possible. Early estimates of the potential costs suggest over €2 billion could be spent on this scheme.

With the increased frequency of extreme weather events, significant spending on emergency relief schemes could become more frequent and costly.

A risk to *Budget 2024* fiscal forecasts is that further policy changes could result in additional spending. For example, cost-of-living support measures could be extended despite inflationary pressures receding.

Given the short forecast horizon in Budget 2024, many of the medium-term challenges to the public finances do not arise within that forecast horizon. These include ageing costs and the costs of transitioning to a low carbon economy. As a result, Budget 2024 forecasts do not incorporate these costs.

On the revenue side, there are potential upside risks. The increased rate (15%) of corporation tax on large multinationals could yield significant revenue. No yield from this rate change has been incorporated into *Budget 2024* forecasts.

There could be further one-off revenue windfalls. While there has been a recent update on the Apple tax case, a final decision and possible settlement could still be some time away. In addition, there may be one-off windfalls relating to ongoing data protection enforcement action by the Data Protection Commission. Several substantial fines have been announced, but are being challenged in the courts.