

Fiscal Assessment Report

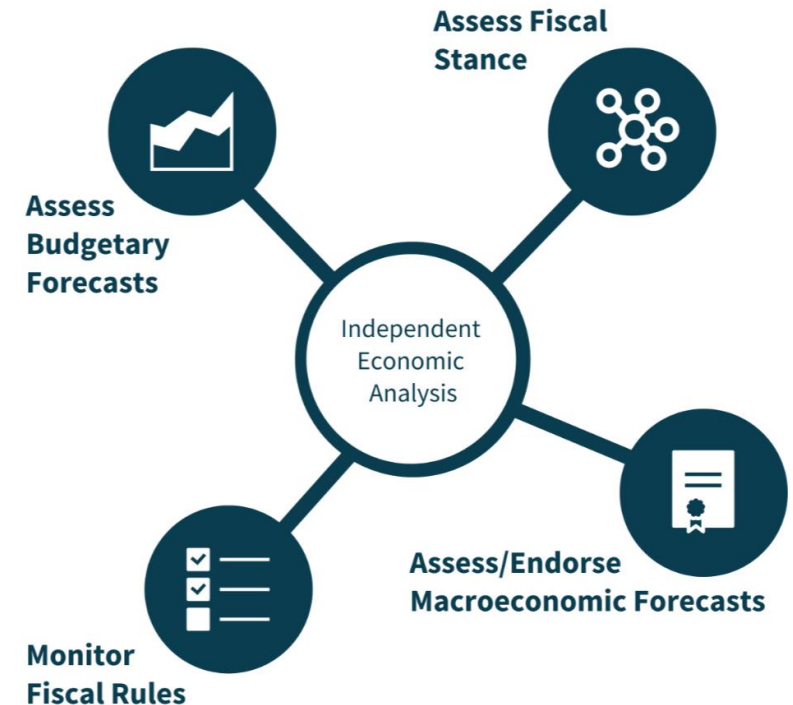
December 2023

**The Government needs a
serious fiscal framework**

Background

The Fiscal Council is an official independent body with a mandate to assess the public finances

Our Fiscal Assessment Report provides an assessment of the Budget 2024 and the Government's plans



Key messages

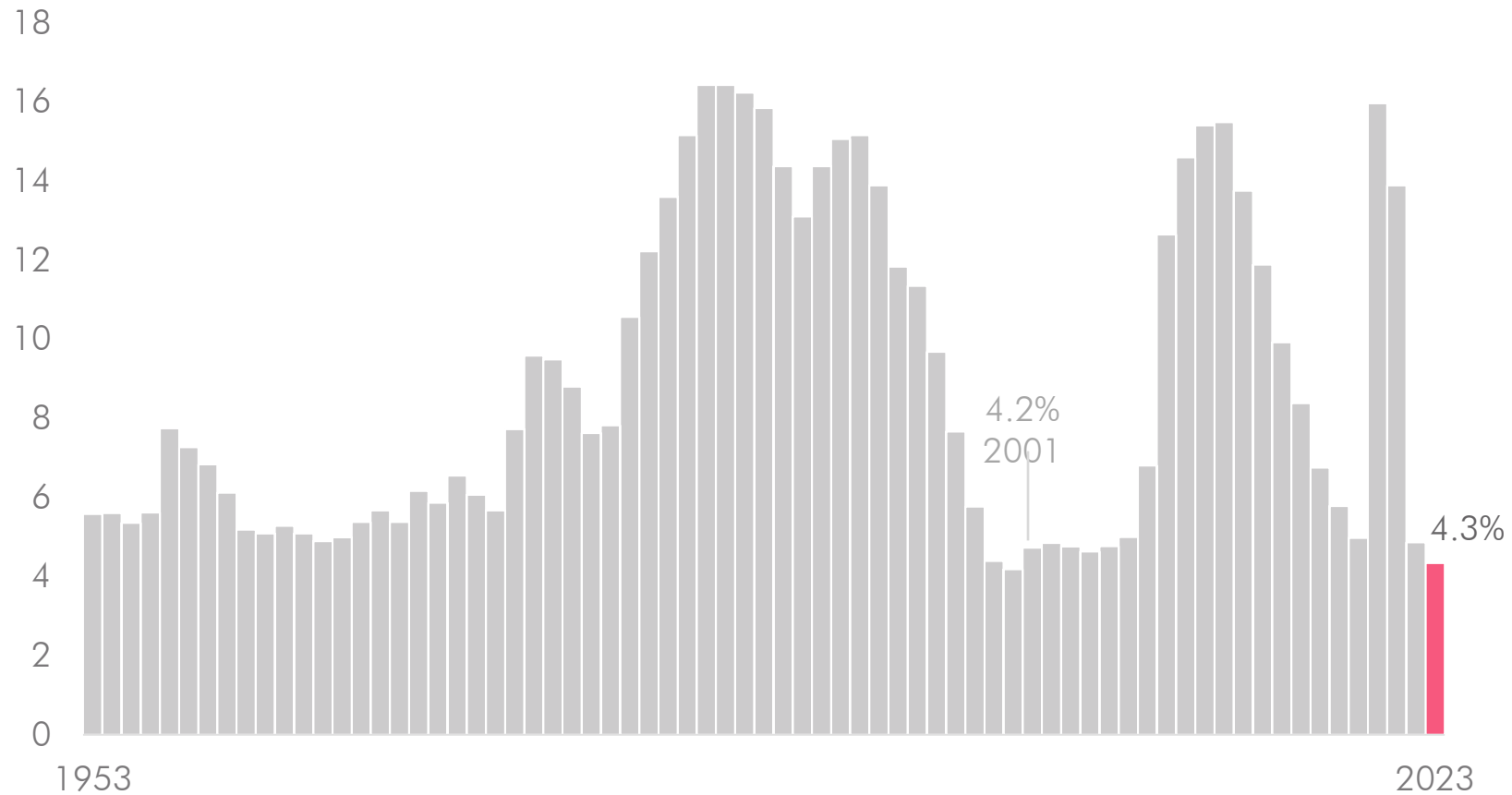
1. Given the strong economic recovery, exceptionally tight jobs market, and high price pressures, this was not a time to add fuel to the fire
2. Budget 2024 was substantial and indicates a further breach of National Spending Rule already planned for 2025
3. Fiscal gimmickry and poor budgeting, especially for health, reduce fiscal credibility
4. Ireland needs to be serious about National Spending Rule
5. We welcome the Future Ireland Fund and Infrastructure, Climate and Nature Fund
6. Not panicked nor relieved about corporation tax: not a concern if budget properly

Economic outlook



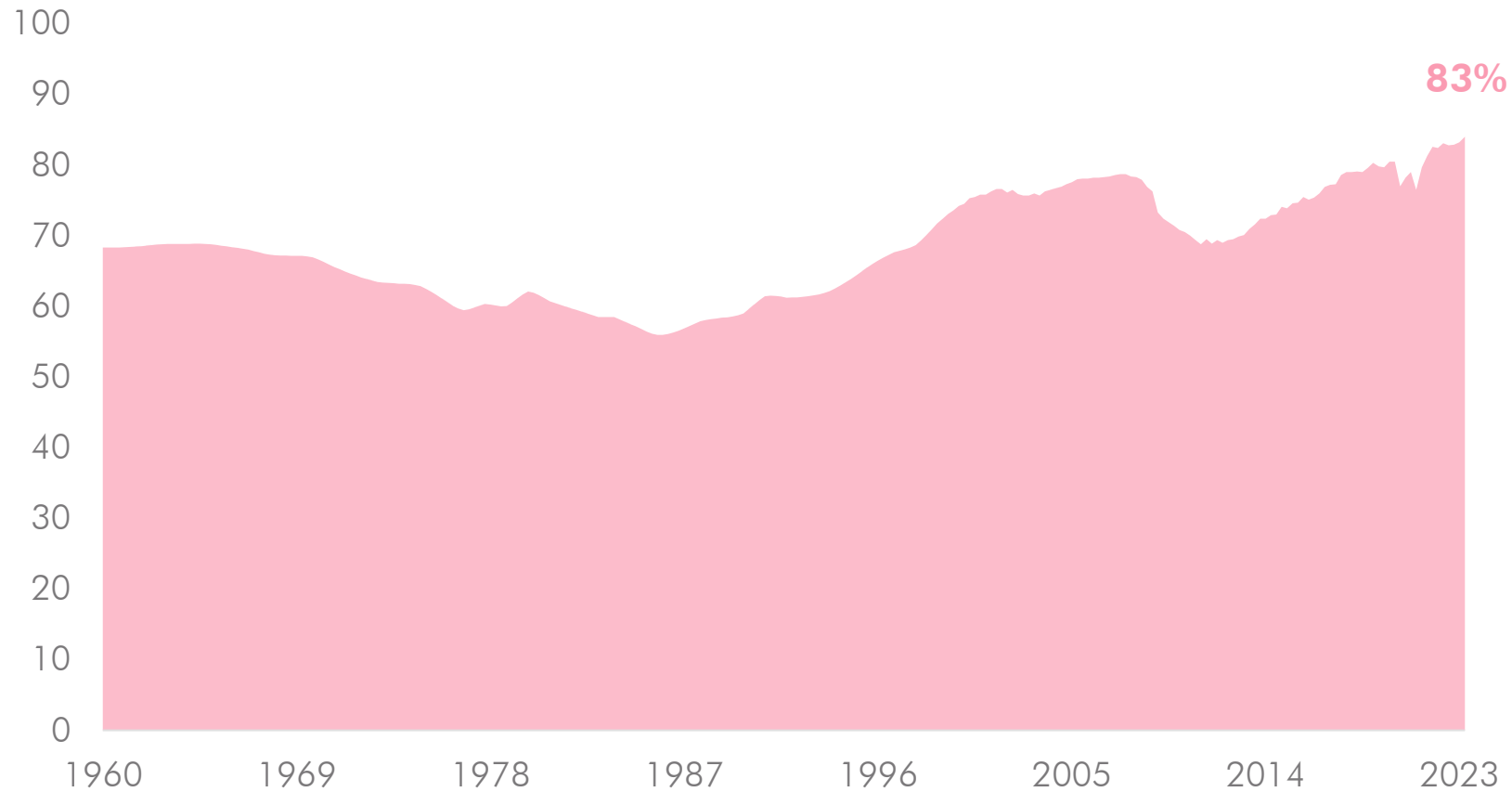
Unemployment is close to record lows

% unemployed in labour force, ages 15-74



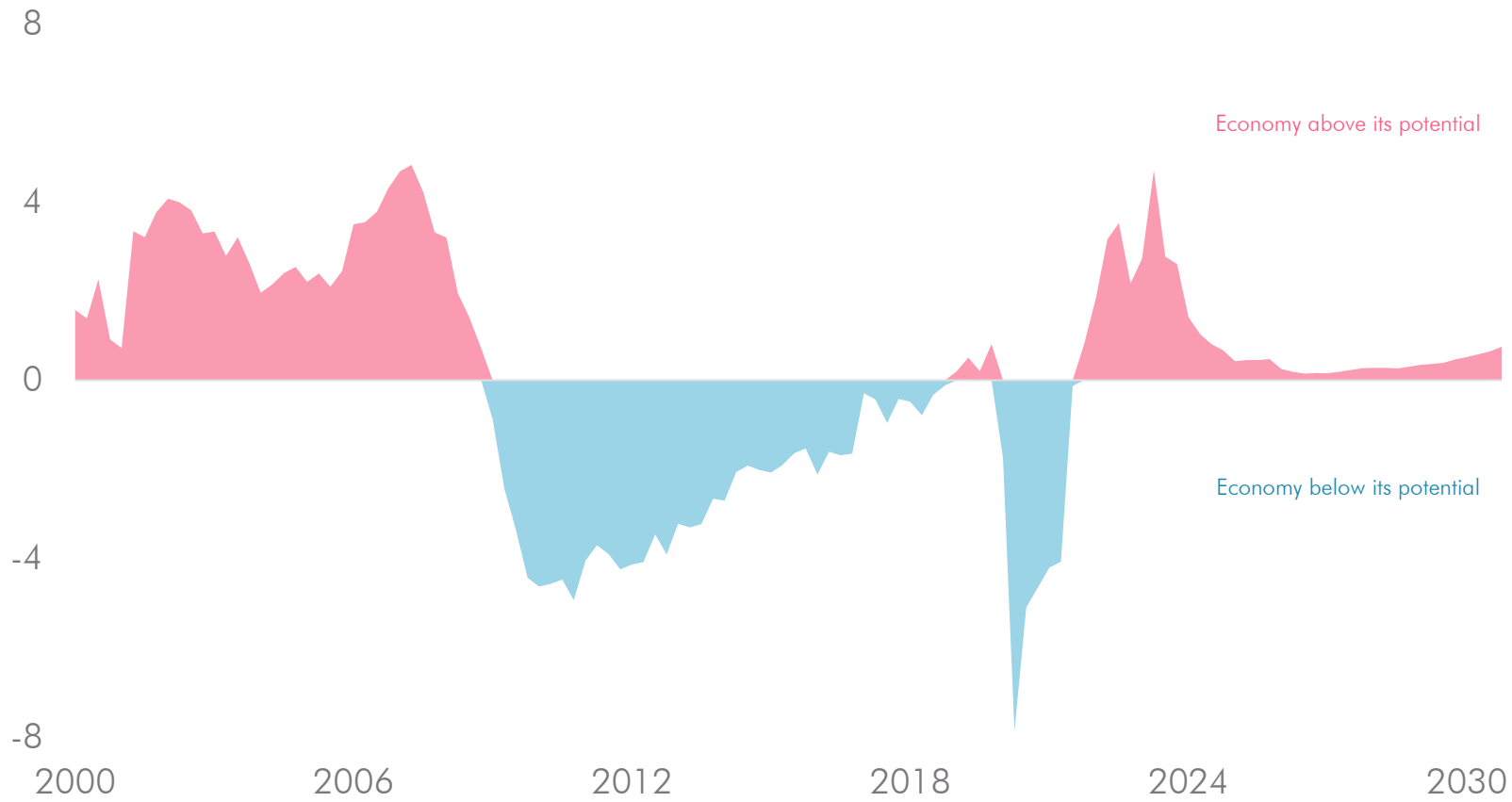
Record high labour force participation

% of population at "prime" age (25-54 years old) employed



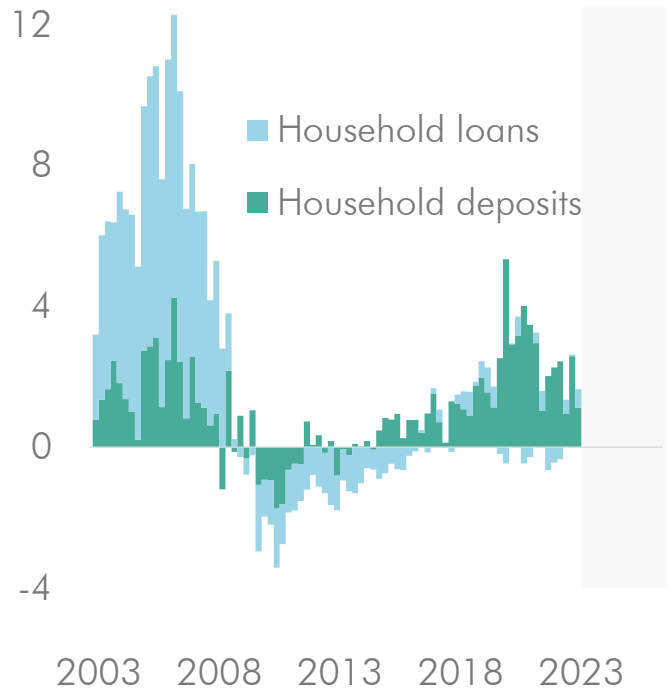
Economy showing signs of overheating

% gap between actual and potential economic activity

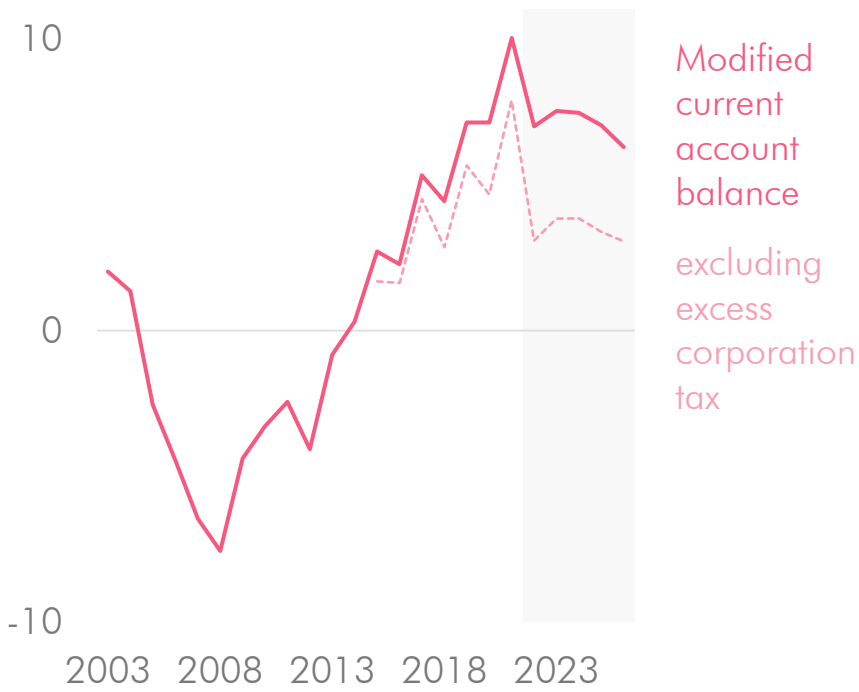


Though activity not fuelled by credit, and savings are high

€ billion net transactions

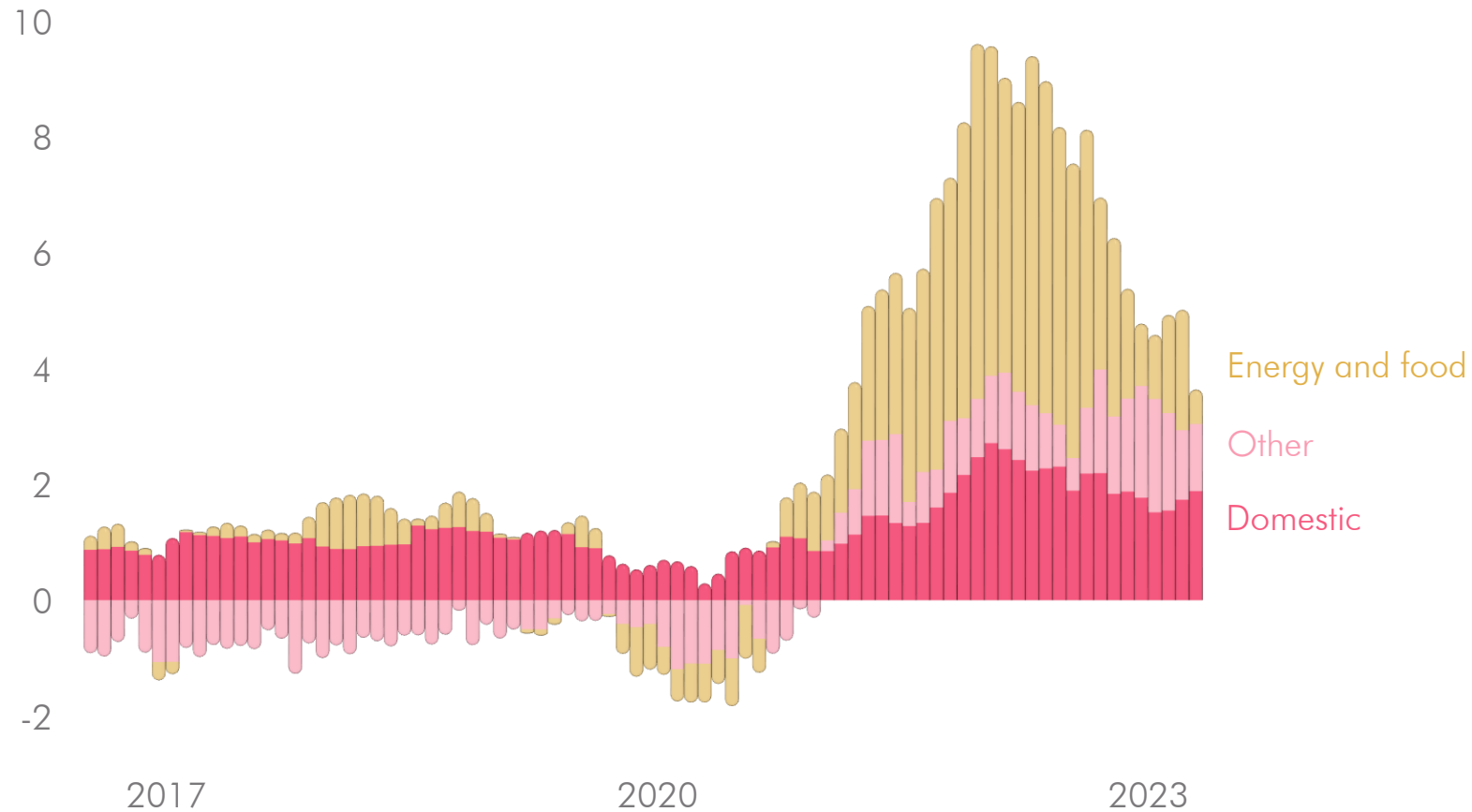


% of GNI*

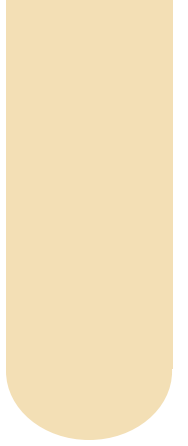


Domestic price pressures have persisted

% change in HICP inflation, year on year



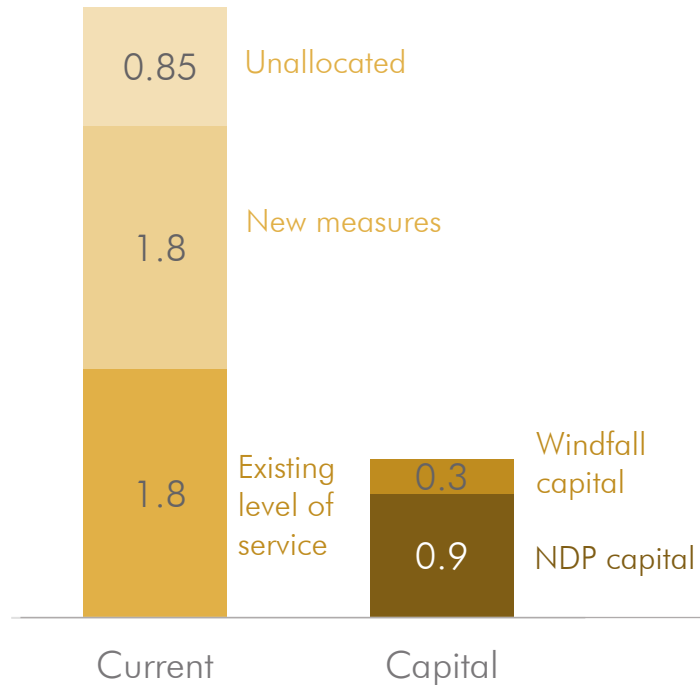
Budget outlook



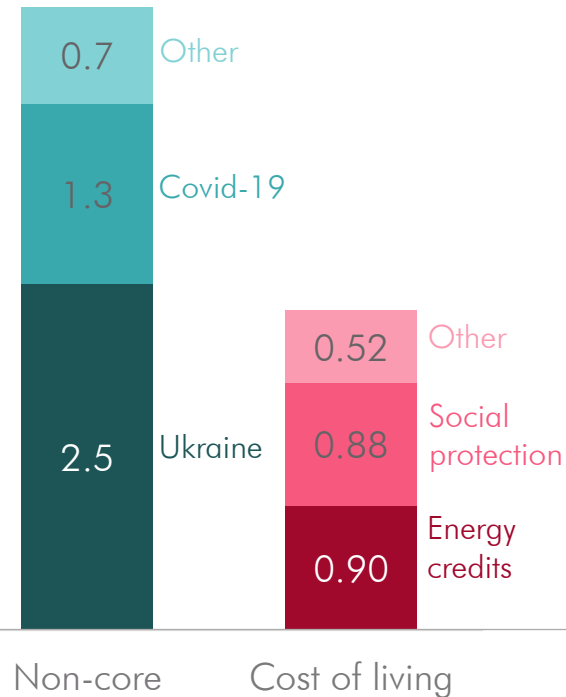
Substantial budget package

€ billion

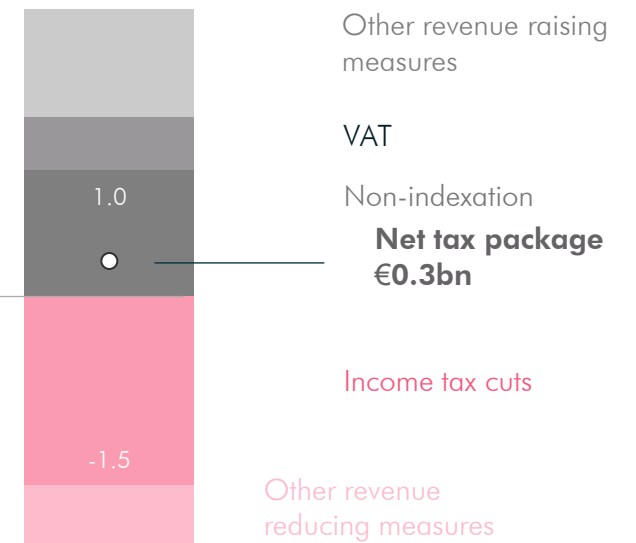
Core Spending



Other Spending

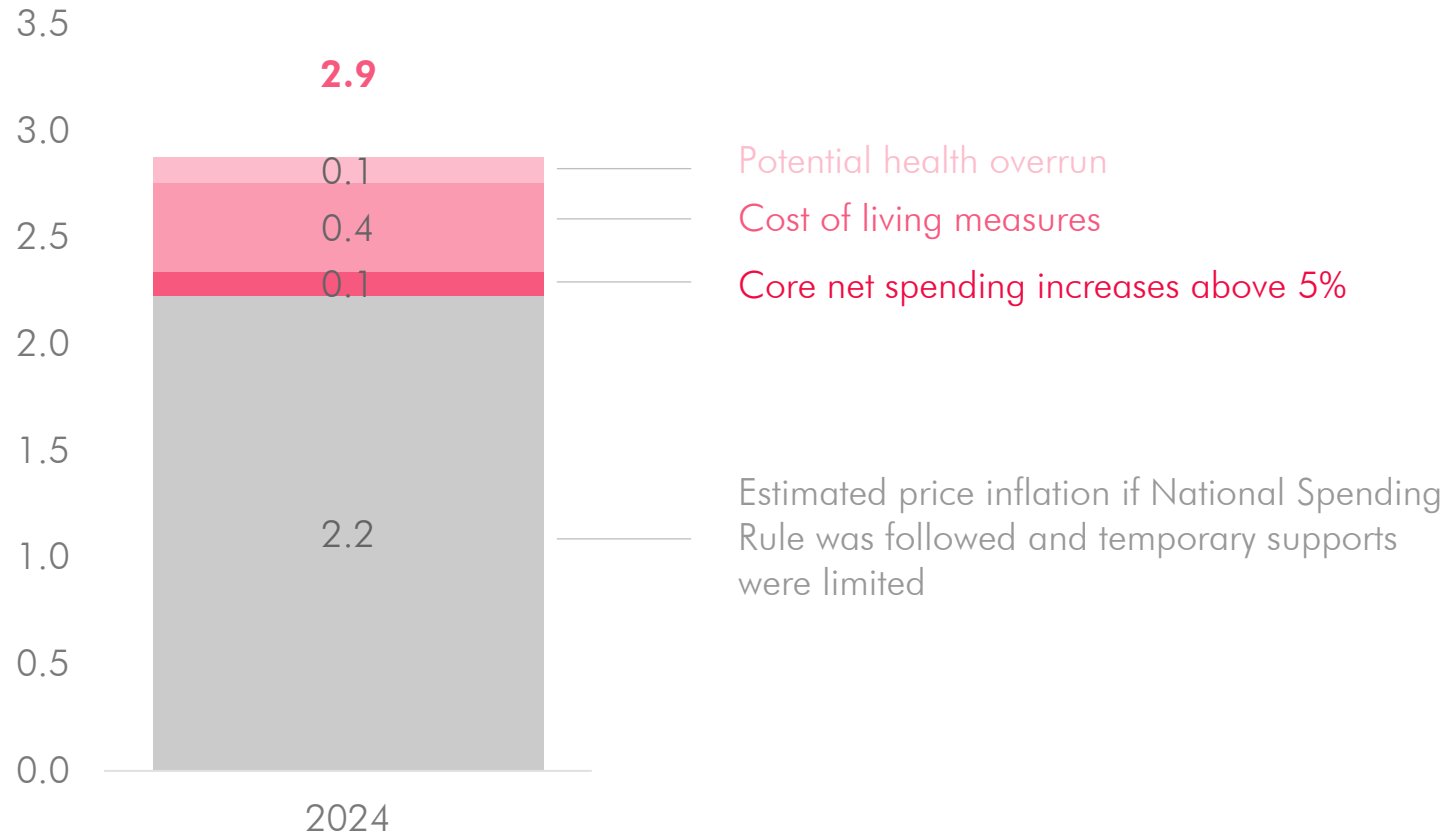


Effective tax package



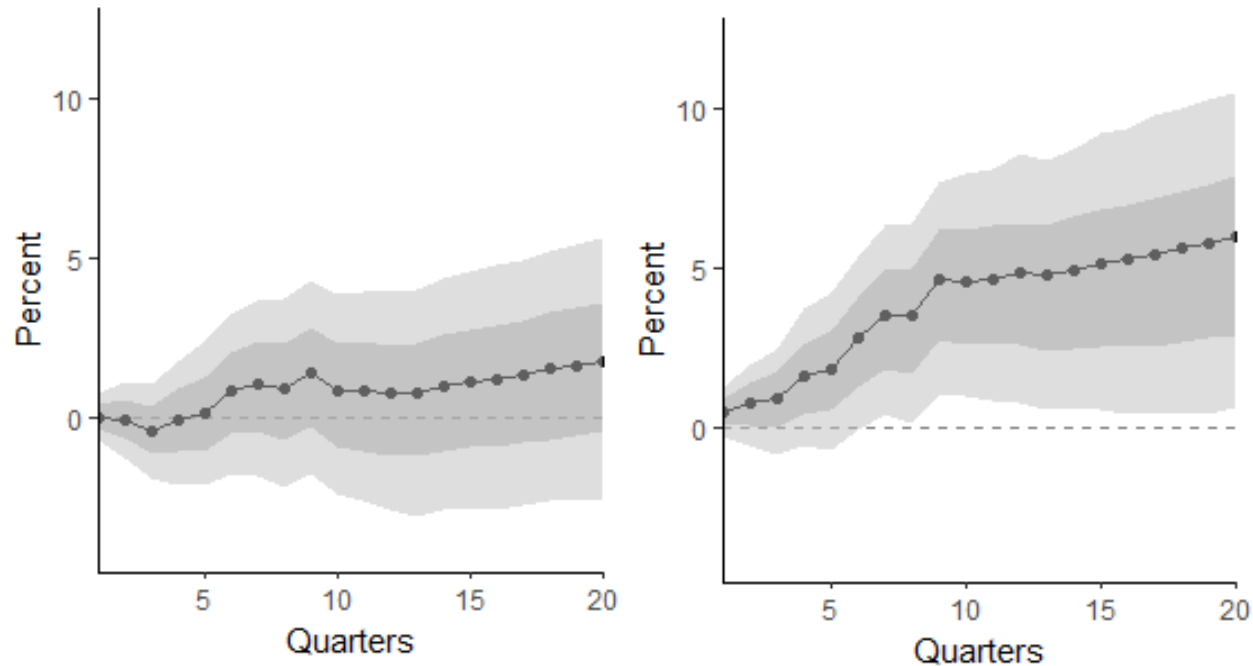
Likely to cause higher inflation

% estimated impact HICP inflation in 2024 due to Budget package



Some new evidence that tax cuts raise prices more

Response of consumer prices to 1% of GNI* cut in taxes

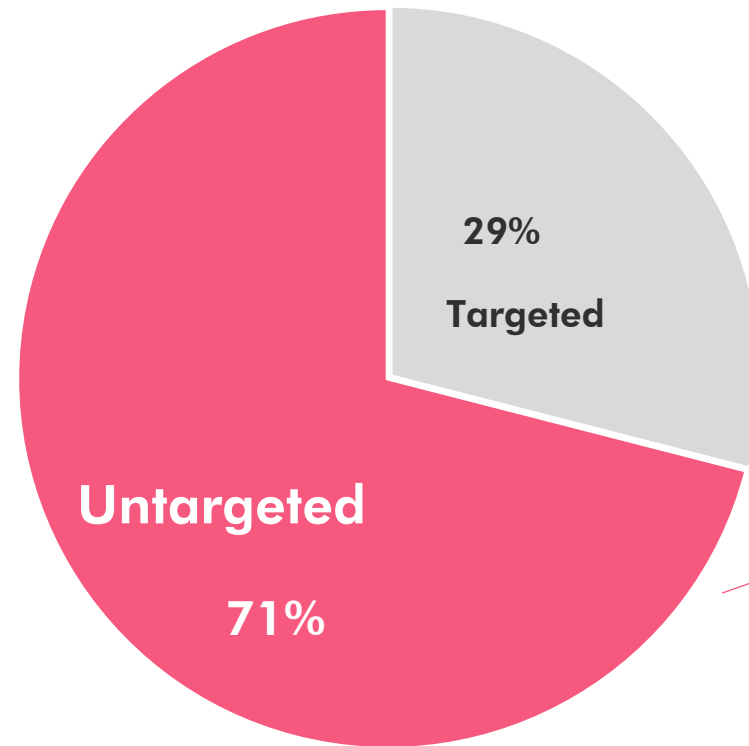


New estimates suggest Budget tax cuts could raise prices by 0.5 to 1.8% after two years.*

* Relative to a baseline in which no new tax measures were introduced in *Budget 2024*.

Cost-of-living measures highly untargeted

% of total cost-of-living measures



Total measures

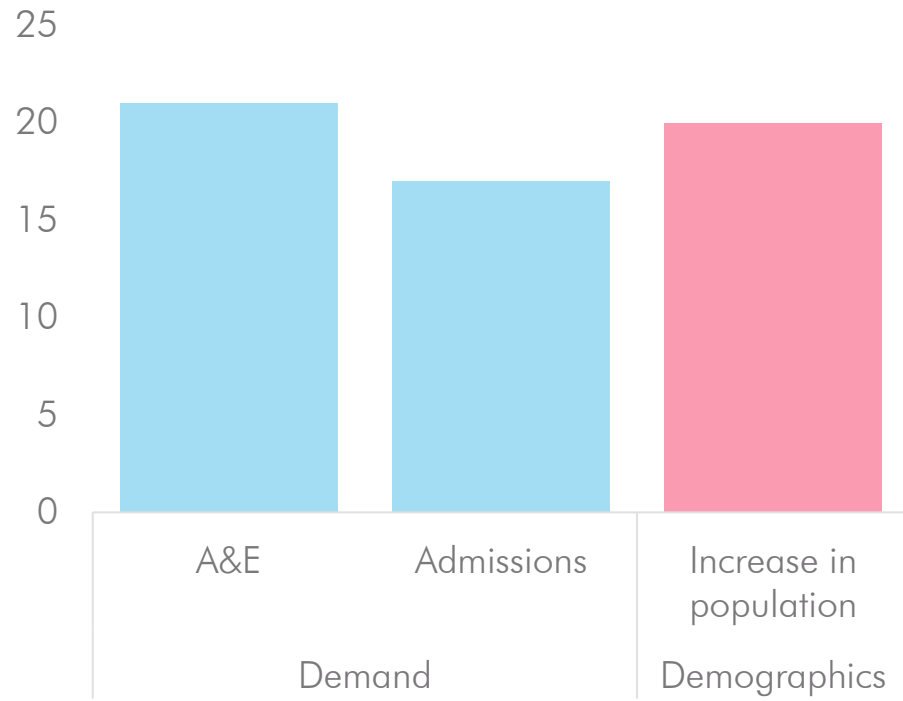
€2,917m

Energy credits	€900m
Child benefit	€179m
Education measures	€250m
Business supports	€250m
Mineral oil tax cuts	€171m
Electricity & gas VAT cuts	€315m

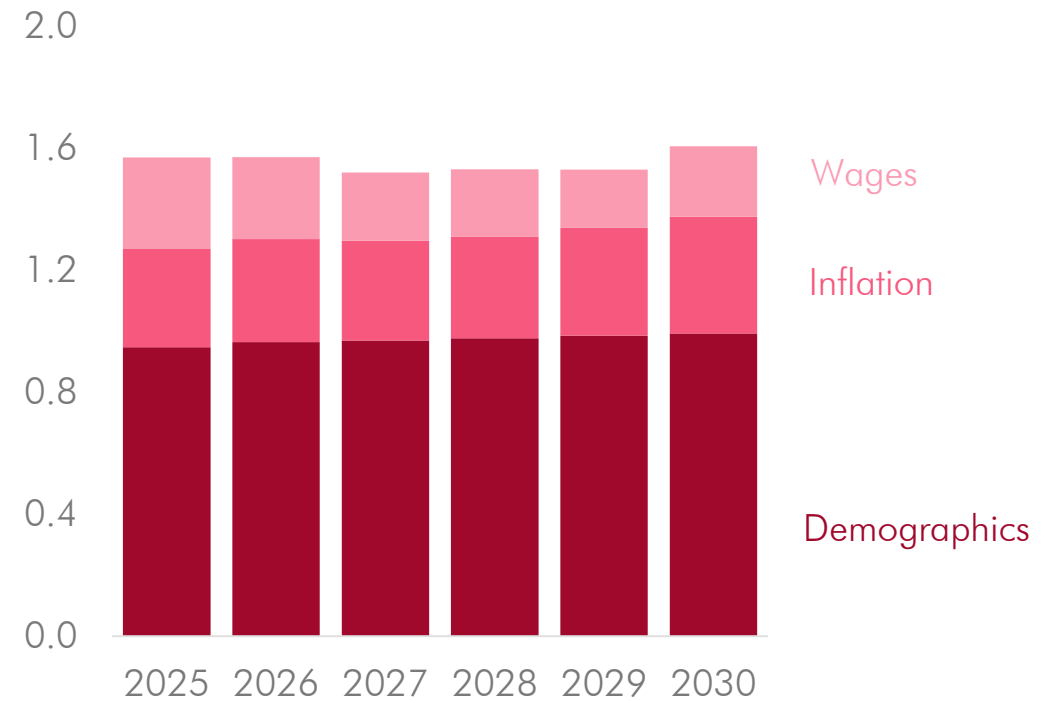
€2,065m

Health demand has been largely predictable

Admissions match population (age 75+) increases
% changes 2019-2023

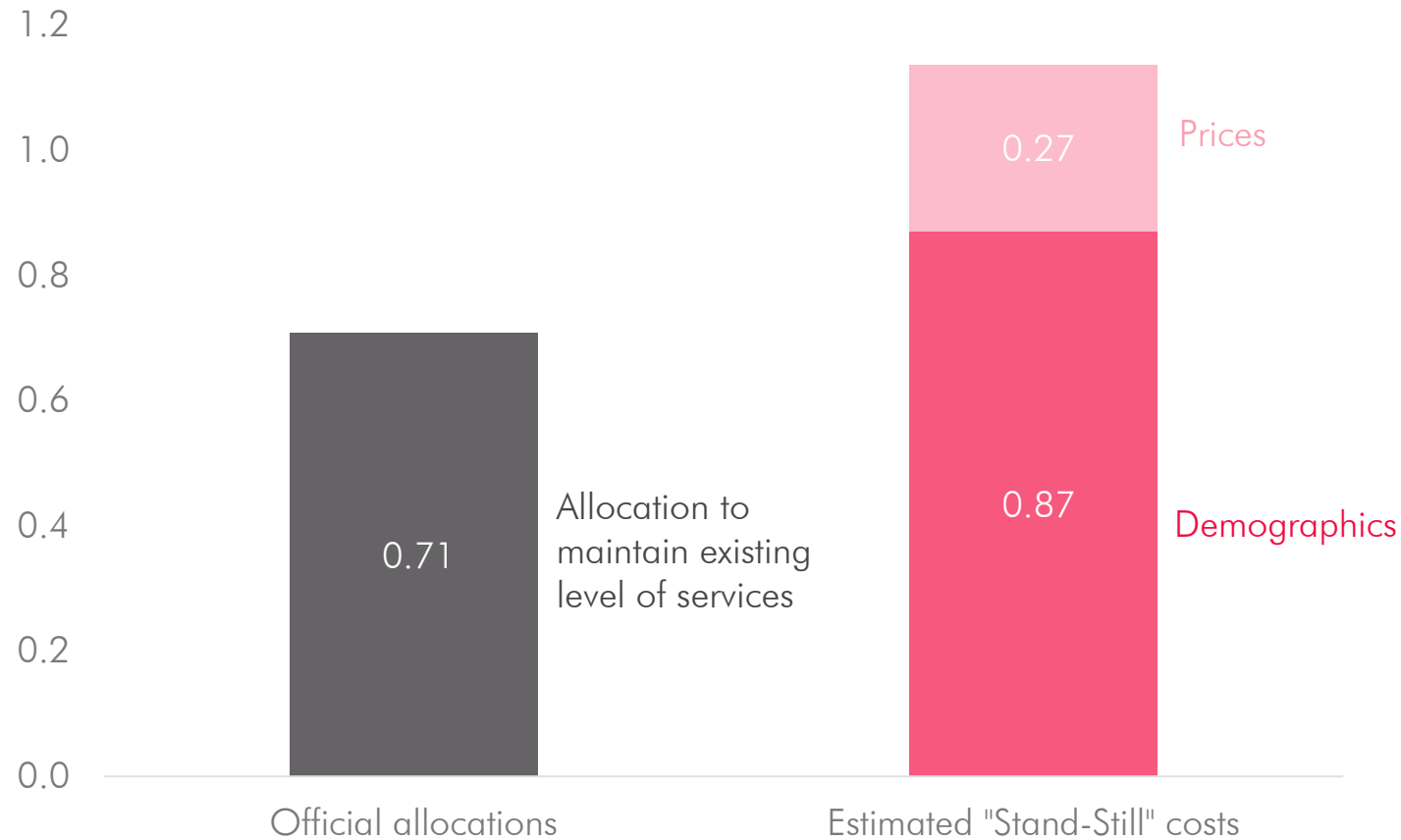


Estimated Stand-Still costs in Health
€ billion



Health allocation insufficient even to cover 2024 "Stand-Still" costs

€ billion, 2024 health expenditure



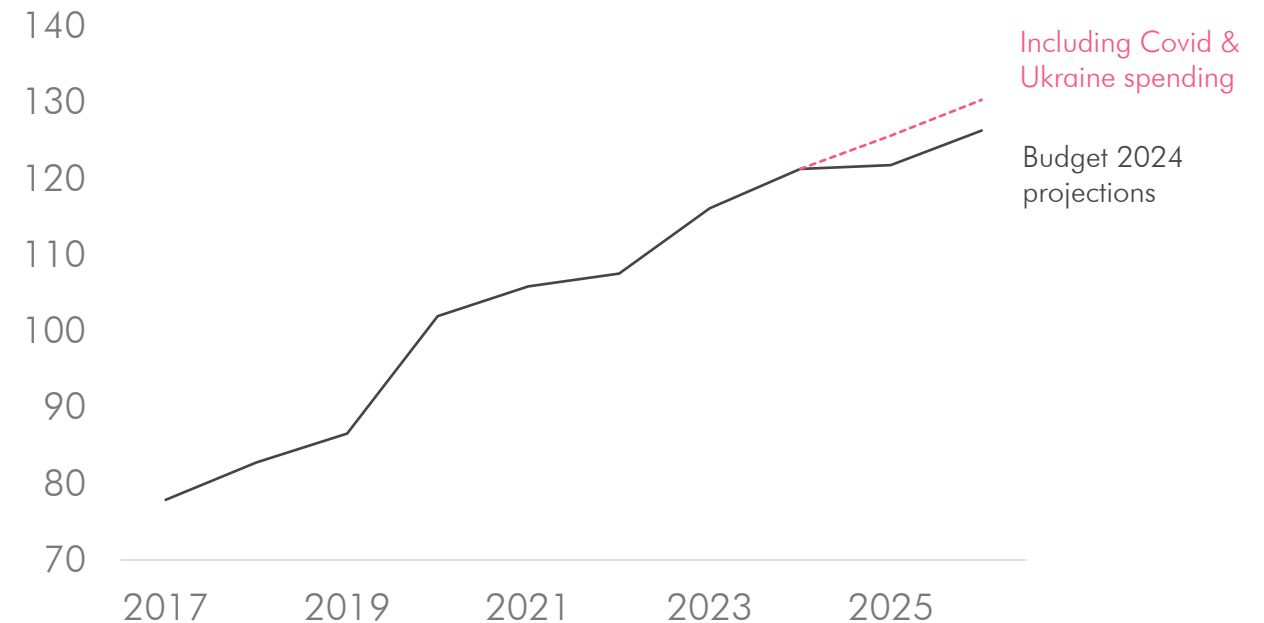
Spending forecasts are low

Budget assumes spending on humanitarian assistance (€2.5bn) and Covid (€1.3bn) falls to zero after 2024.

Likely these costs continue.

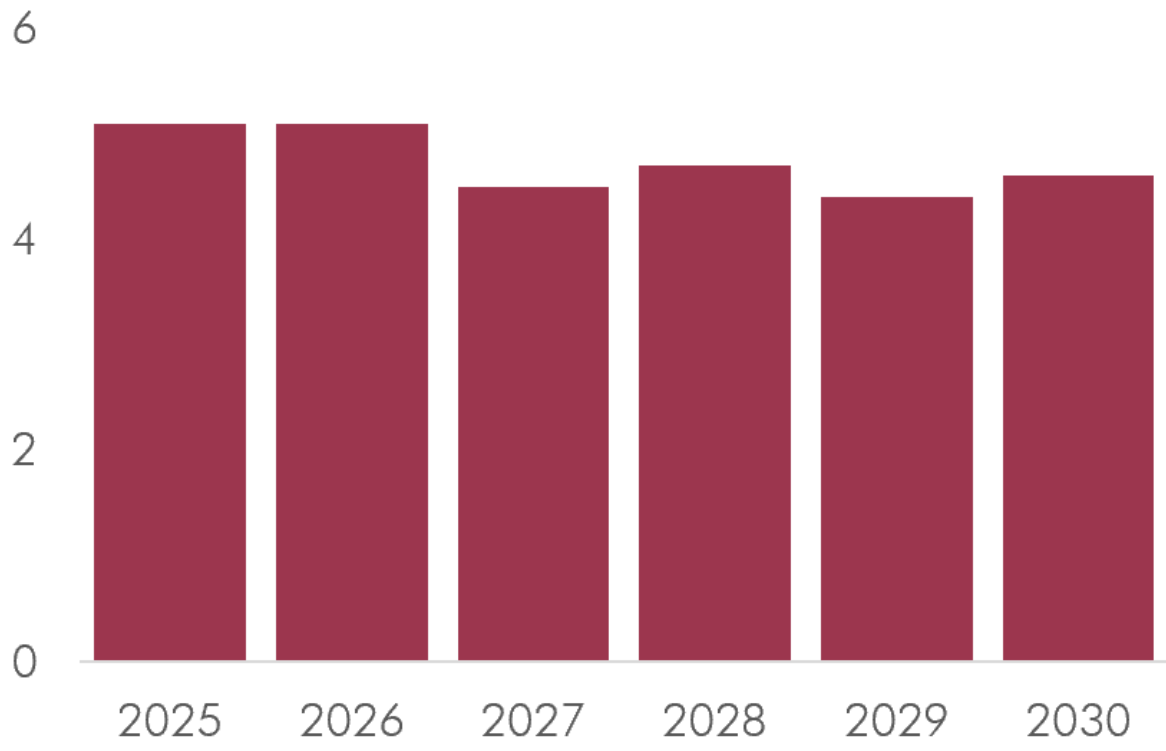
Total spending

€ billion, general government basis



Significant Stand-Still costs

Total Stand-Still costs
€ billion increases



And fiscal gimmickry and poor transparency weaken credibility

Core, non-core, windfall capital investment and one-off (cost of living measures).

Overruns for 2023 not fully factored in (especially in health).

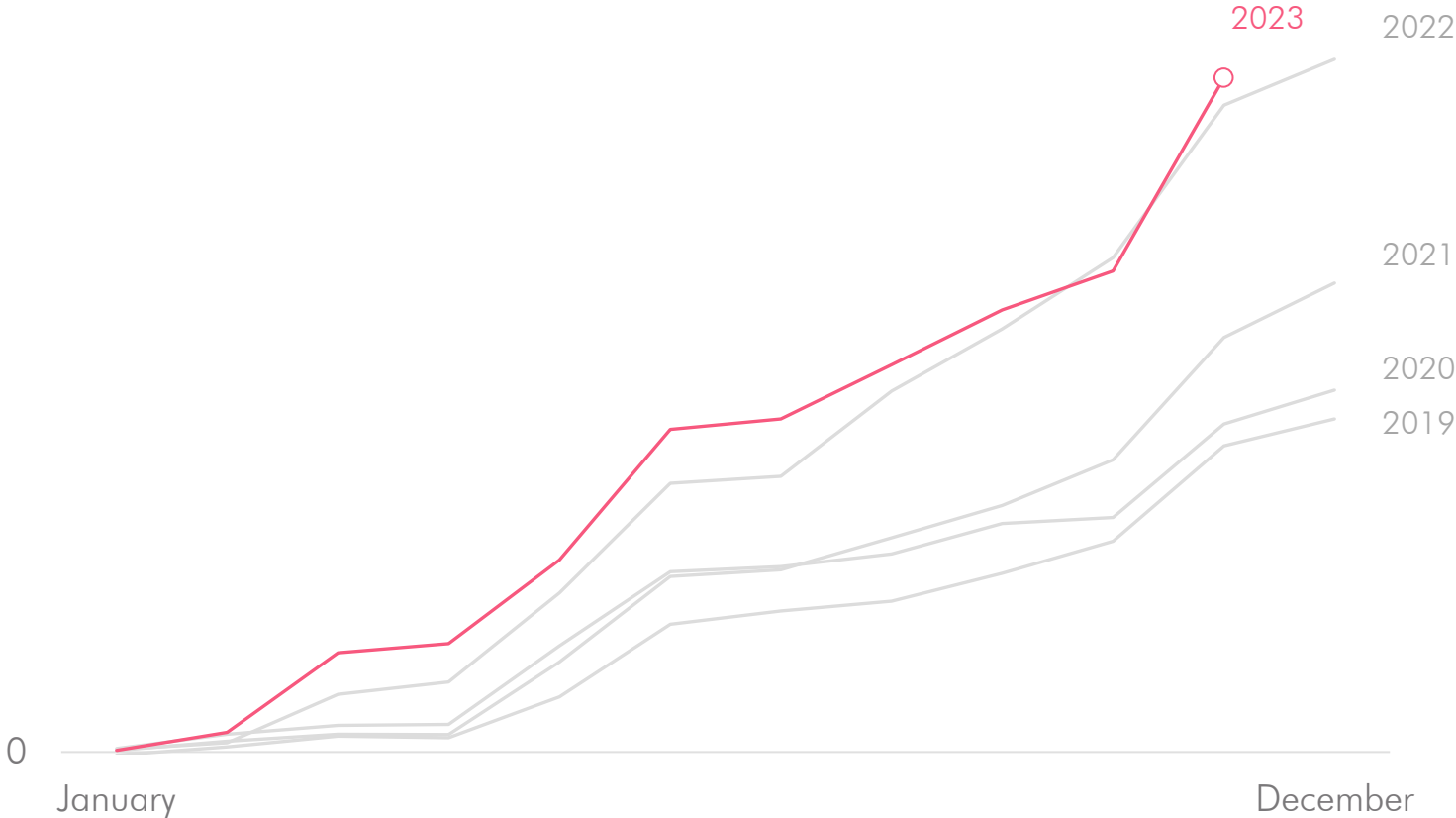
No assessment of net core spending even though it's a net rule.

As fiscal rules bind, use of fiscal gimmicks tends to increase
(Alt et al., 2014; Koen and van den Noord, 2005; von Hagen and Wolff, 2006)

Corporation tax receipts look set to meet Budget forecasts

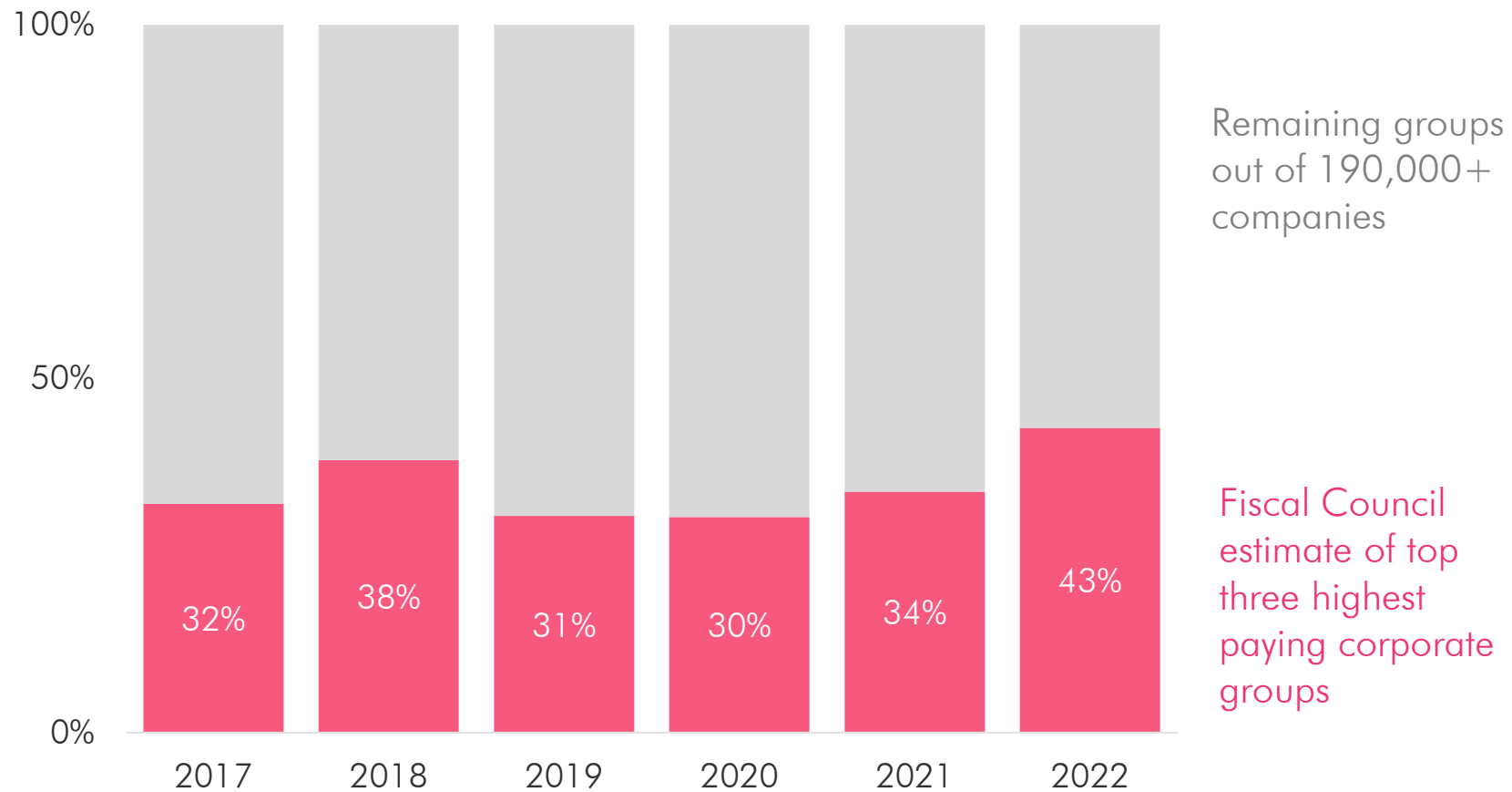
€ billions, cumulative monthly receipts

25



But concentration risks have grown

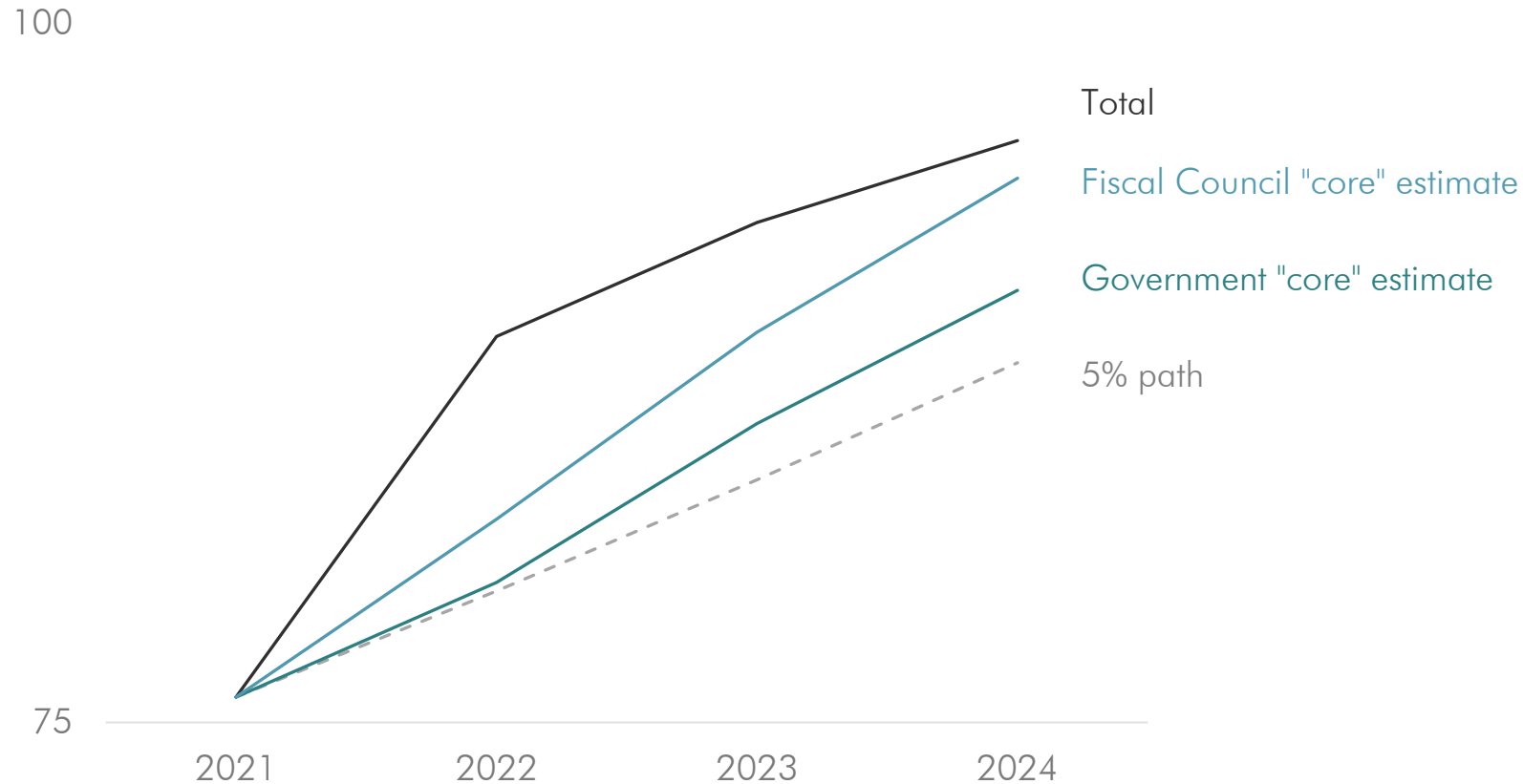
% total corporation tax receipts



Fiscal Stance

Different estimates for net spending exceed the 5% path

€ billions, core net spending



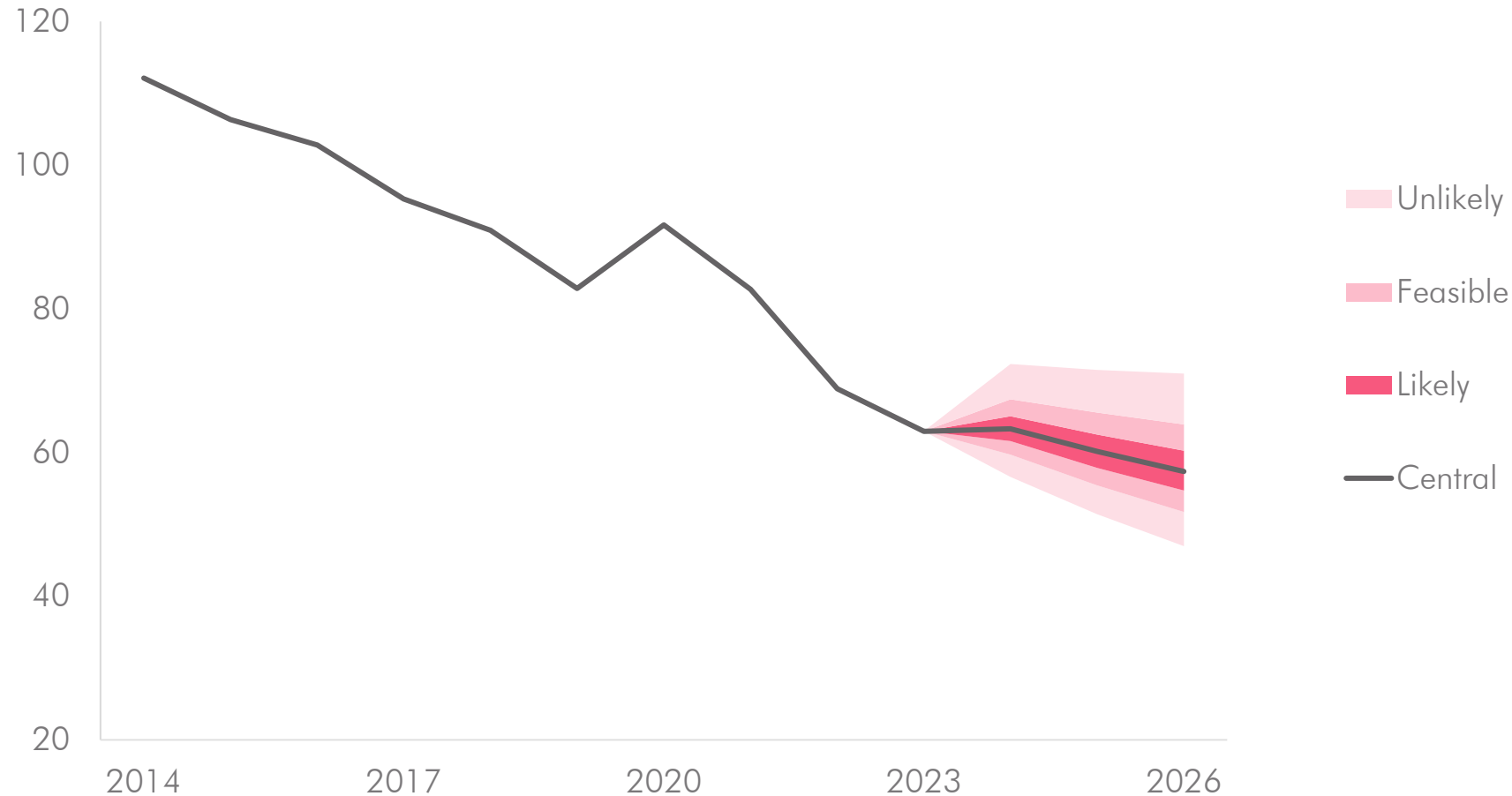
Since the Rule was introduced in 2021, the level of budgetary measures is cumulatively €6.6 billion (7.5%) above what would be implied by a 5% path.

Total net spending is forecast to reach €95.8 billion in 2024, €7.9 billion above a hypothetical 5% path from 2021.

Notes: The 5% path takes the total spending allocated for 2021 and grows it by 5% each year. The Government "core" estimate includes all core spending, adjusted for the net impact of new tax measures. The Fiscal Council "core" estimate begins with the Government "core" estimate but also factors in additional spending measures. These include the portion of Covid spending likely to be permanent, all spending related to supporting Ukrainian refugees, and windfall capital investment. Total net spending equals gross voted expenditure, adjusted for

But debt sustainability looks reasonably assured near term

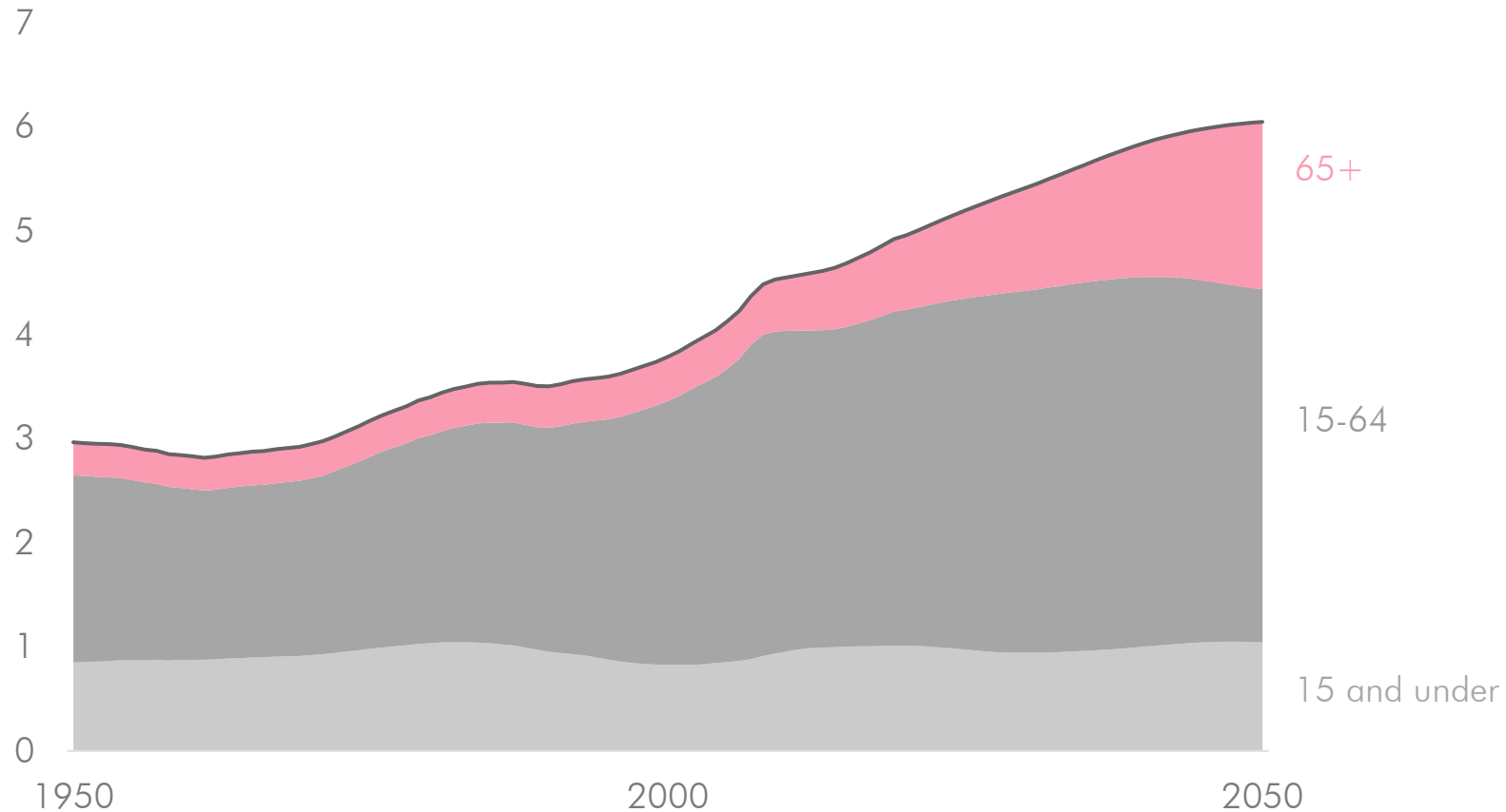
% GNI* net debt ratio



The fan chart on the left shows the probability of different paths for the net debt ratio. The "Likely" range covers the 30% confidence interval, "Feasible" the rest of the 60% interval, and "Unlikely" the rest of the 90% interval.

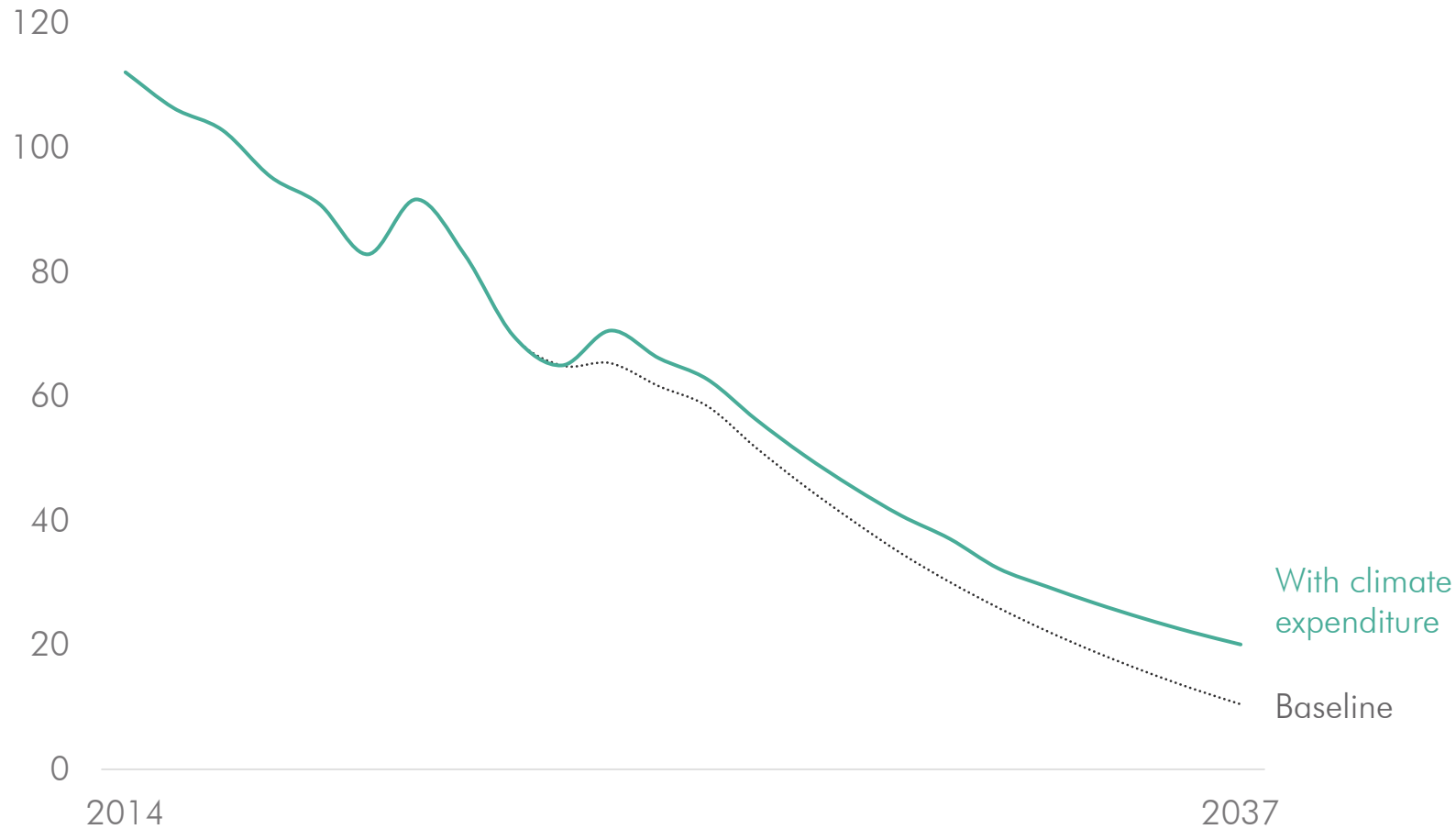
Older age cohorts will put upward pressure on spending

Population in millions



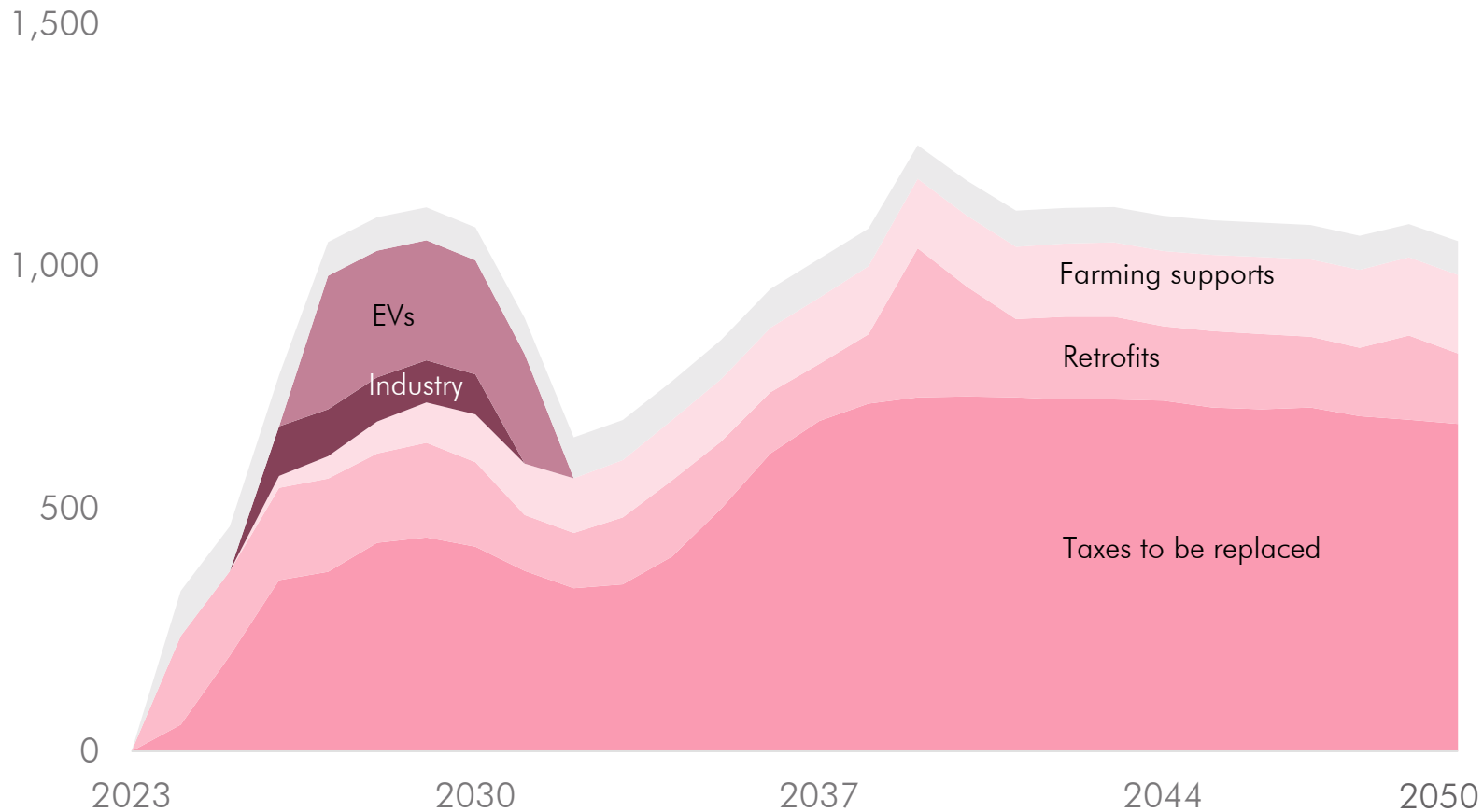
Climate-related spending supports could be managed

% GNI*, net debt ratio



But it needs to be planned

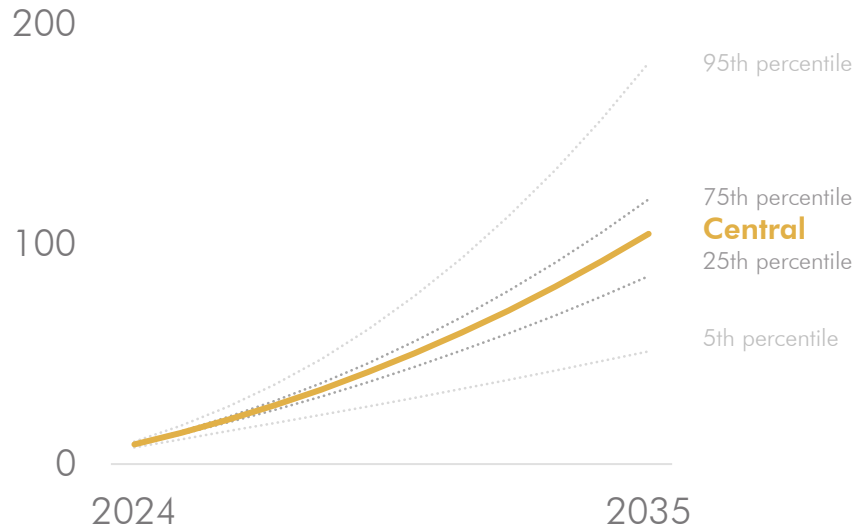
€ per person estimated impact of climate-related supports and revenue reductions, 2023 prices



Future Ireland Fund

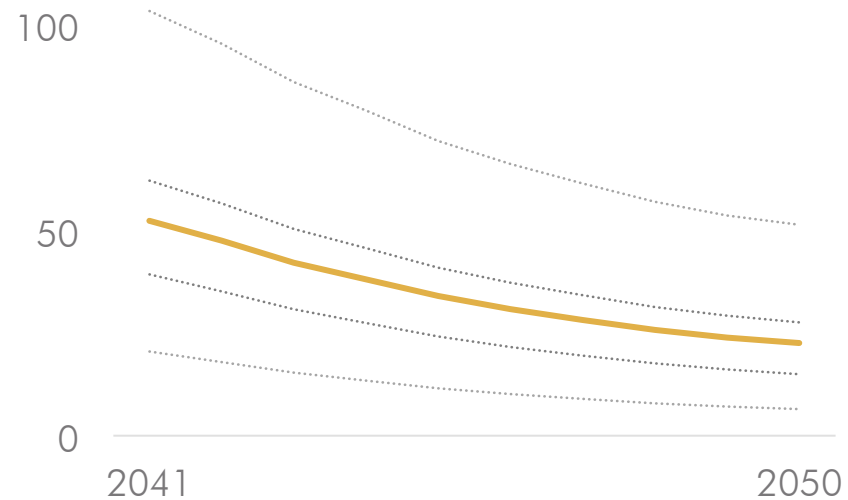
The Fund could grow substantially

€ billions, potential fund reserves



Meaning its returns could cover a substantial portion of ageing costs

% of estimated additional ageing costs vs 2023 covered by 5% returns



Need for a serious fiscal framework

National Spending Rule and realistic planning now more important than ever.

EU rules unlikely to bind as they are linked to GDP.

This Government and future governments should commit to adhering to the Rule to avoid adding to inflation pressures and risking painful cuts to spending or tax increases in future.

Spending rule should be reinforced too

Legislated for

General government basis

Made robust to gimmickry

Recap

1. Given the strong economic recovery, exceptionally tight jobs market, and high price pressures, this was not a time to add fuel to the fire
2. Budget2024 was substantial and indicates a further breach of National Spending Rule already planned for 2025
3. Fiscal gimmickry and poor budgeting, especially for health, reduce fiscal credibility
4. Ireland needs to be serious about National Spending Rule
5. We welcome the Future Ireland Fund and Infrastructure, Climate and Nature Fund
6. Not panicked nor relieved about corporation tax: not a concern if budget properly