Irish Fiscal Advisory Council

Press Release: Fiscal Assessment Report

The Government needs a serious fiscal framework

Under embargo until **Thursday 7th December 2023**

Council says big challenges are ahead and spending rule will be key

The Fiscal Council's latest report assesses the Government's plans as set out in *Budget 2024*.

Ahead of Budget 2024, economic activity was strong. Activity had broadly recovered, and employment was at record highs. The economy appeared to be performing above its normal capacity. This was clearly not a time to add too much fuel to the fire.

However, the Government announced another substantial package of measures in Budget 2024. At about €12 billion, this put it in line with other post-Covid budgets and roughly three times larger than pre-Covid packages. Cost-of-living supports included in the package were mostly untargeted. The "everything now" approach of tax cuts, a ramp-up in capital spending and current spending increases repeats Ireland's past mistakes. It entails using strong tax receipts in good times to expand the budget quickly at the risk of adding to price pressures, getting bad value for money, and potentially having to reverse measures in a downturn.

There was also evidence of poor budgeting on the spending side. Overruns in health, obvious before Budget Day, were not catered for sufficiently in the Budget. As a result, these overruns are now likely to entail higher-than-budgeted spending in 2023. As well as that, the health allocation for 2024 is barely enough to cover demographic and price pressures such that further overruns are highly likely.

The substantial increases in spending alongside a package of tax cuts meant that the National Spending Rule was breached. The breach, taken in isolation, might not be considered massive at 5.8% in 2024 as compared to the Rule's 5% limit. The Government argued it was necessary to deal with high inflation. However, 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.

More worryingly, the Government has already signalled that it will continue to breach the Rule in later years even as inflation recedes. The Government also employed fiscal gimmickry to flatter its numbers. Several items in Budget 2024 were labelled as "non-core" or temporary but look highly likely to persist beyond 2024. This includes Covid spending in health, Ukrainian supports, and additional capital spending increases labelled as "windfall".

This is deeply concerning. It undermines the National Spending Rule, which is now more important than ever. EU rules are unlikely to prove binding as they are linked to GDP. The Rule also takes on greater importance as Ireland is facing into substantial spending pressures from ageing and the costs of the climate transition. These challenges can be managed. But 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.

The Council strongly welcomes the Future Ireland Fund**.** It has the potential to put risky corporation tax receipts to good use, with the result that future generations have a smaller burden to offset the costs of a rapidly ageing population. This, coupled with the National Spending Rule, would help allay concerns about volatility in corporation tax receipts.

Commenting on the report, Michael McMahon, Acting Chairperson of the Fiscal Council, noted:

“Ireland’s economy remains in a position of strength and the public finances are on a good path. The Future Ireland Fund, in particular, will lessen the burden of tax increases and spending increases on future generations as pensions and healthcare costs grow. Yet Budget 2024 was marked by exceptionally bad budgeting, most notably in health. As well as that, the National Spending Rule was substantially undermined, through a mix of gimmickry and plans to repeatedly breach it. The Rule needs to be adhered to if Ireland hopes to sustainably meet challenges of rising costs related to pensions, healthcare and long-term care as well as its climate transition”.

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