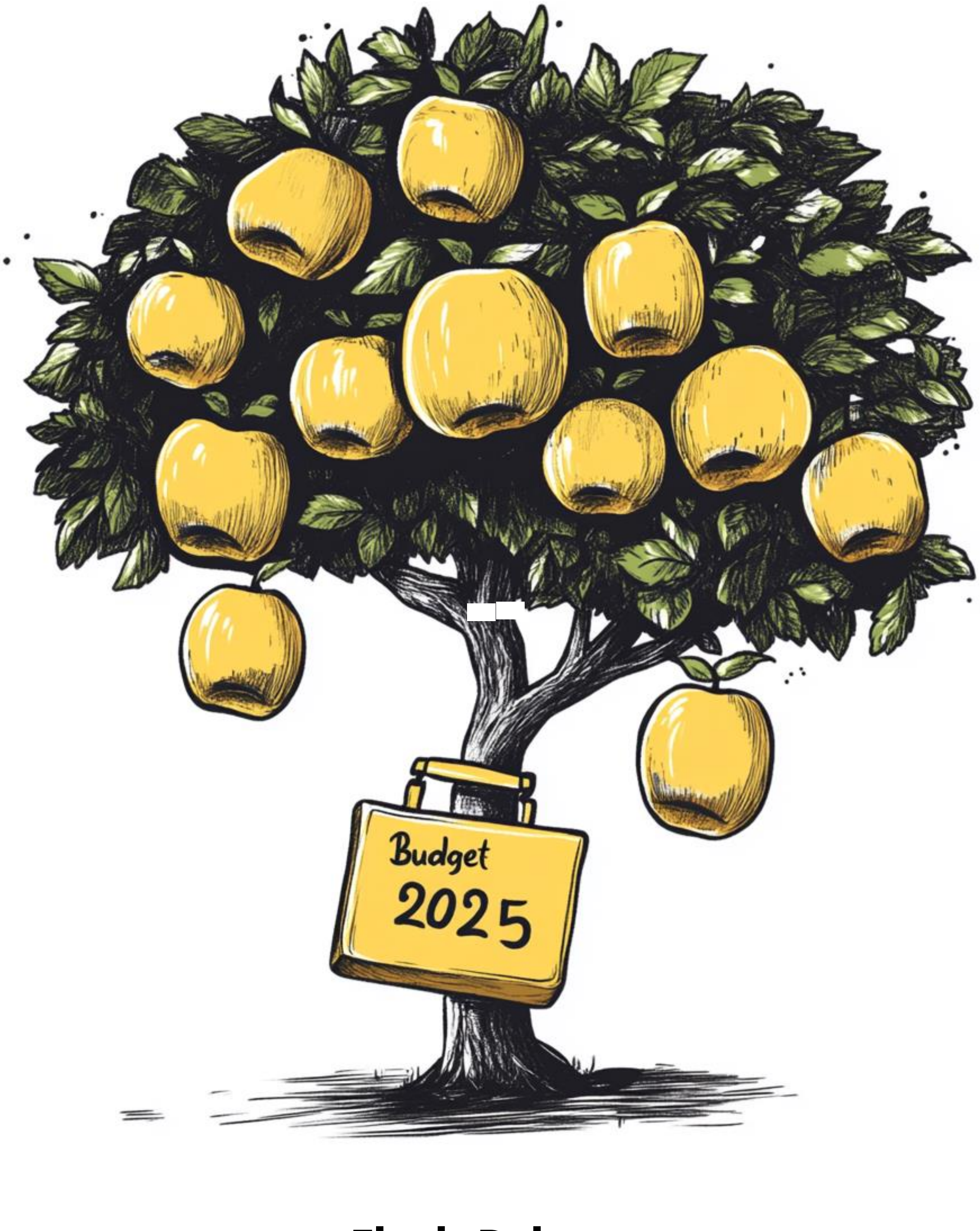
Irish Fiscal
Advisory Council



Flash Release

Budget 2025

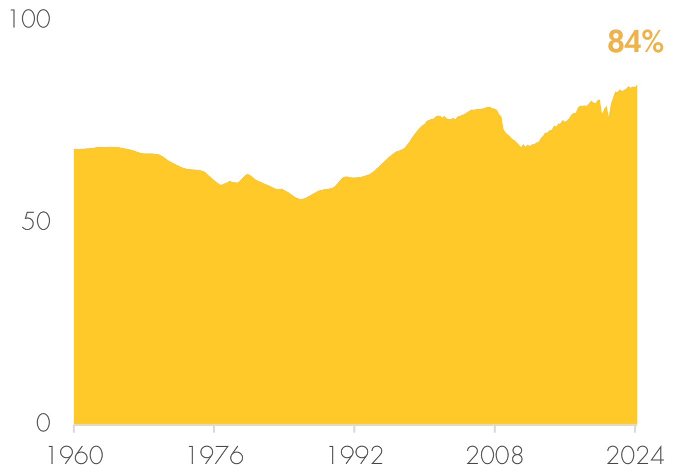
Flash Release

1) This "Flash Release" gives the Council's first read on Budget 2025. It explores some of the key areas the Council will assess in its next Fiscal Assessment Report.

2) Budget 2025 highlights many positives: an economy with record rates of people at work, price pressures still high in many areas but lessening as energy costs fall, substantial revenues, and steady growth.

The Budget comes amid record jobs rates

% population aged 25 to 54 in employment



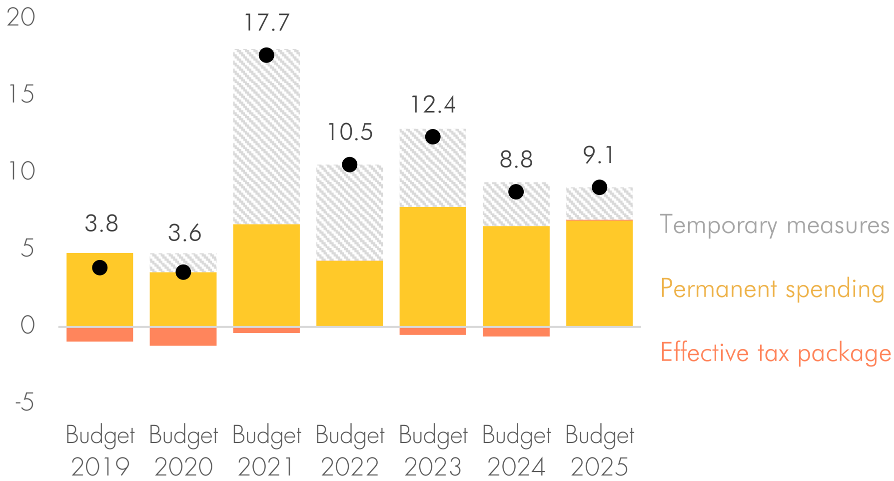
3) Yet with this strengthening of the economy comes pressures: worker shortages, difficulties delivering on infrastructure projects, and fast increases in prices such as rents and services.

4) The Government has announced a very large budget package. This will add to pressures and widen the underlying deficit. It repeats Ireland's past mistakes of pumping billions into the economy when it is at full employment. Ireland needs a more serious vision that delivers on the economy's needs without repeating the boom-to-bust pattern of its past.

5) The package announced by the Government this afternoon amounts to €9.1 billion. This is substantial compared to what would have been seen in the pre-Covid era.

Yet another large package

€ billions, adjusted for effective tax increases*

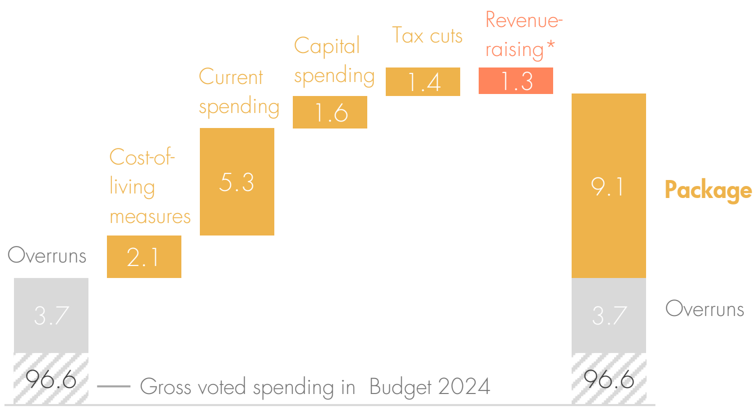


Note: The chart shows "permanent" spending in each Budget, which refers to the gross voted spending increases announced by governments on Budget Day plus any temporary items that turned out to be permanent. The "temporary" measures include things like the pandemic unemployment payments during Covid, and cost-of-living supports. The "effective tax package" includes the tax package as well as the amount that would be raised from not indexing tax bands and credits, the carryover impacts from previous years' tax measures, and other tax increases, such as carbon tax increases.

6) The Budget contained €6.9 billion of permanent measures. The tax package is effectively neutral. That is, €1.4 billion of tax cuts cancel out what would be raised by people drifting into higher tax bands plus the carryover impact of measures introduced previously. Spending measures total €6.9 billion (€5.3 billion current and €1.6 billion capital). The rest of the €9.1 billion package then relates to temporary cost-of-living measures.

Temporary and permanent measures

€ billions, net scale of the Budget package



*Revenue-raising measures reflect the amount that would be raised from not indexing tax bands and credits, the carryover impacts from previous years' tax measures, and other tax increases, such as carbon tax increases.

7) Part of the increase in spending relates to overruns in 2024. The Government today clarified these will be €3.7 billion, when compared to Budget 2024 estimates. This adds €1.8 billion to the €0.4 billion already announced in April for the public sector pay deal and €1.5 billion for health in summer. Capital spending makes up €0.8 billion of the total overrun.

8) Only about half of the Government's €2.1 billion of cost-of-living measures were targeted. The universal energy credits, child benefit payments, and extension to VAT cuts on electricity and gas make up €1 billion of this. The same supports could have been provided to those most in need at a much lower cost.

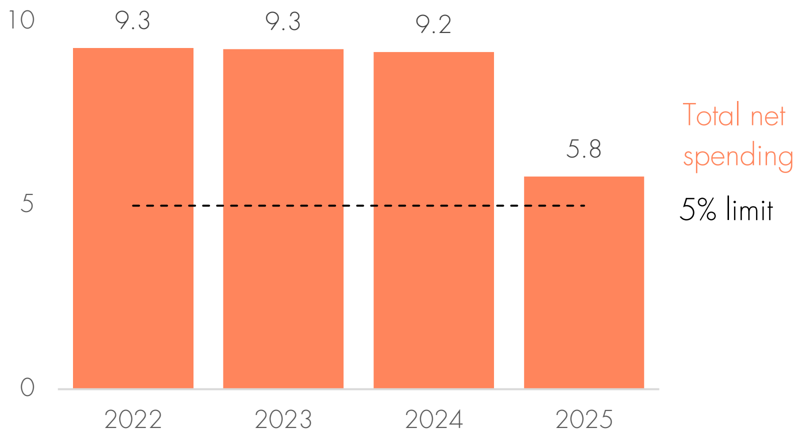
9) The package is probably larger than we've shown here. The Government announced another €3 billion of funding for investment (€1.25 billion for the Land Development Agency, €1 billion for Uisce Éireann and €0.75 billion for EirGrid). While these amounts should be considered additional spending, they do not seem to appear in the Budgetary figures.

10) Our first read is that this means a net spending increase of 9.2% for 2024 and 5.8% for 2025. This is far higher than the Government's own 5% limit. The

2025 growth rate could rise to 8.8% if the €3 billion additional capital spending increases noted above were included for that year.

Repeated rule breaches since 2022

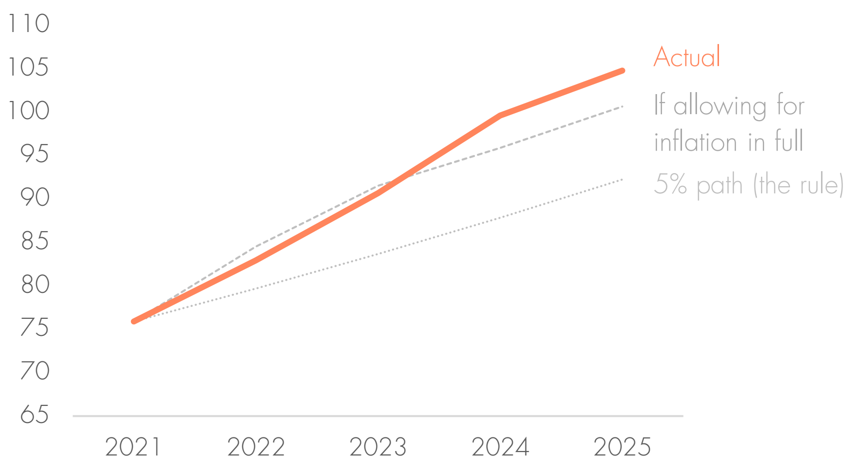
% year-on-year growth, net spending



11) The breaches of the net spending rule since 2022 are substantial. The Government is likely to be at least €12.5 billion above what the rule would have allowed by 2025 in cumulative terms. Even if you allowed for the higher inflation in full in recent years, the breach would still be €4.1 billion.

Budgets break the rule and go beyond inflation

Net spending, € billions



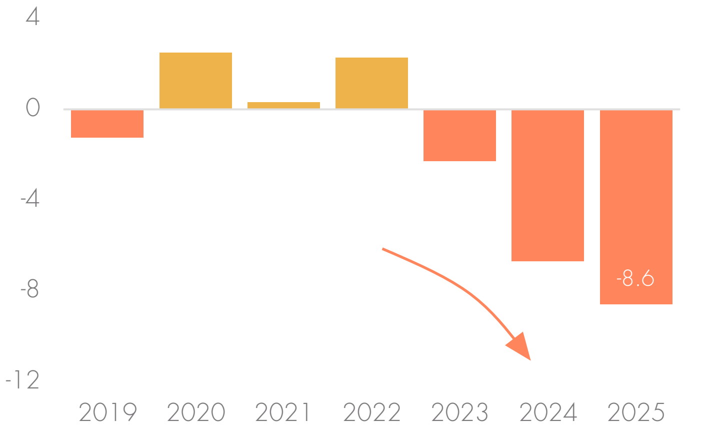
Note: The chart shows net spending. That is, the level of spending plus the cumulative impact of tax measures since 2021. The "actual" level includes spending expected to persist, such as Covid- and Ukraine-related spending the Government forecasts will continue. The "allowing for inflation in full" path shows the level of net spending that would have been consistent with 3% real growth plus a full allowance for actual inflation, averaging 4½ % per year. The 5% path is the path consistent with the net spending rule.

12) Large budget packages in recent years have put money back in people's pockets. But they have taken it away by pushing up prices. By breaching its rule, the Government is estimated to add €1,000 to the cost of a typical household's yearly outgoings. This is probably an underestimate.[1]

13) While the Government is running a surplus, this is driven by two factors. First, an extraordinary amount of corporation tax is being collected. Secondly, the economy is performing extremely well. If these were to reverse, a deficit of almost €9 billion could emerge.

A large and growing underlying deficit

€ billion, estimates of the structural balance



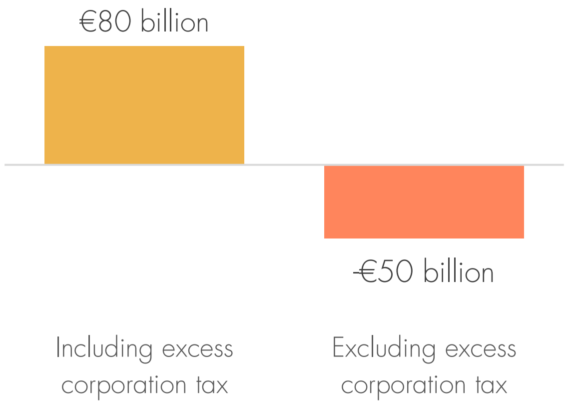
Notes: The bottom-up estimate of the structural balance excludes Department of Finance estimates of windfall corporation tax. It is based on an approach that estimates permanent or "structural" revenues and the level of spending that would be expected if unemployment returned to a long-run rate of 5%

[1] Based on annual household expenses of circa €50,000 — see Fiscal Council (2024) and Conefrey et al. (2024). This is based on net spending growth averaging 8.2% over 2022-2025. It now appears that spending growth may be stronger again.

14) While large headline surpluses are forecast for the coming years, these are driven entirely by extraordinary corporation tax receipts. Using the Departments estimates of "windfall" receipts, underlying deficits over the period 2024-2030 add up to €50 billion.

The surpluses projected are completely reliant on excess corporation tax

€ billion, cumulative budget balances from 2024 to 2030

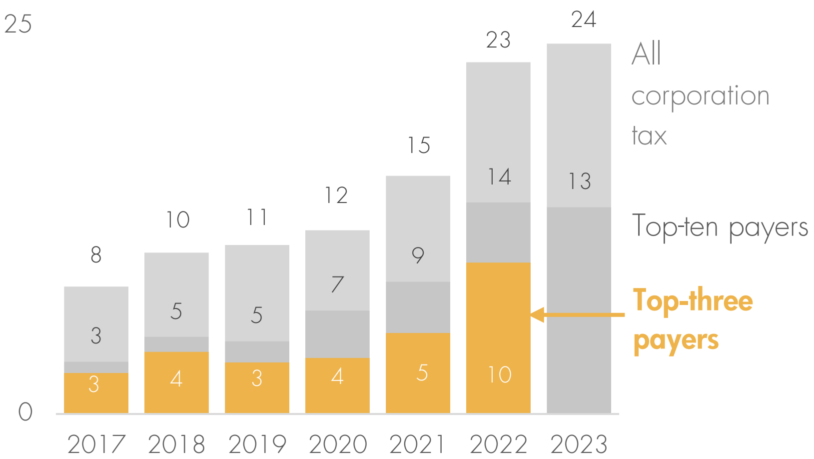


Note: Excess corporation tax receipts are receipts above what would be explained by domestic economic activity. The estimates used are those the Department refers to as "windfall" corporation tax receipts.

15) The amounts of corporation tax being collected are exceptional. They have more than doubled in three years and are incredibly concentrated. Just three companies account for 43% of all corporation tax — €10 billion of the total €23 billion collected in 2022.

Corporation tax is highly concentrated

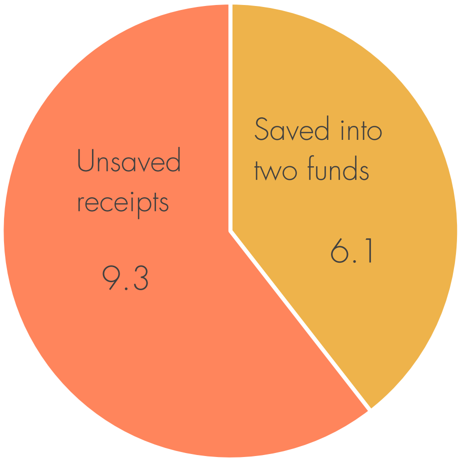
€ billion



16) It is good that the Government is saving some of these exceptional receipts. But it is planning to save less than half of them in its new funds. The Council favoured more being set aside, given how concentrated and risky these receipts are.

Less than half the excess corporation tax is being saved in the new funds

€ billion, 2025



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