Press Release: Fiscal Assessment Report

A growing need for a strong domestic fiscal framework

Under embargo until **Wednesday 5 June 2024**

The Government needs to show restraint to keep the economy and public finances on track

The Fiscal Council's latest report assesses the Government's medium-term plans set out in April's *Stability Programme Update*.

The Irish economy remains strong. The jobs market is extremely tight, with unemployment rates at record low levels. The economy is already operating at full capacity. Ireland's infrastructure has become stretched due to the growing economy. Loose budgetary policy would add to price pressures and could overheat the economy.

The Government is set to repeatedly breach the National Spending Rule. Net spending is set to increase by more than 5% this year and next year. Since the Rule was introduced in 2021, breaches add up to €8.5 billion (9.7%) by 2024. Our assessment of the breach is larger than that shown in *SPU 2024*. This is because we account for likely spending overruns and fiscal gimmickry.

Government revenue is highly concentrated and hence could reverse suddenly. Corporation tax receipts are concentrated among a small number of large foreign-owned multinationals. We estimate just 3 firms accounted for 43% of corporation tax revenues in 2022. Income tax is also highly concentrated. A small number of highly paid employees pay much of our income tax. A downturn in a small number of sectors would impact on income tax as well as corporation tax.

The current budgetary policy is not appropriate for the economy or the public finances. Given the strong economy, budgetary policy should not add to demand. The Government expects the underlying budget balance (excluding excess corporation tax receipts) to remain in deficit out to 2026. This would mean 19 consecutive years of deficits.

As always, there are many compelling demands for tax cuts and increased public spending. The costs of maintaining the existing levels of service are large. They exceed the planned increases in current spending set out in SPU 2024. Given some of the evident infrastructure shortfalls, it is tempting to increase public capital spending. Given the tight labour market, getting value for money on public investment could be challenging.

Therefore, choices need to be made. This is not a time for the 'everything now' approach of cutting taxes and increasing current and capital spending all at once. Increases in capital spending can be facilitated. This can be done without overheating the economy by increasing taxes or containing current spending.

Tying net spending to a sustainable growth rate is desirable. The new EU fiscal rules are unlikely to be a good guide for Ireland's budgetary policy. Rather, the National Spending Rule – which measures spending net of new tax measures – is a better guide for budgetary policy. If followed, the National Spending Rule can help avoid the boom-bust budgetary policies of the past. Spending can increase by more than 5% each year if tax-raising measures are introduced.

Health spending overruns have not been reflected in budgetary forecasts. This is despite health spending being well over budget early in the year. Overruns in spending are occurring earlier than normal and at a higher level. These overruns are unsurprising as poor budgeting persists.

The Council welcomes the setting up of the Future Ireland Fund. The Council believes that the Government could be more ambitious in saving into the fund. This would mean a larger fund would be available to offset the costs of an ageing population and climate change.

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

“The Irish economy is performing well and is operating at or above capacity. As a result, this is not the time for loose budgetary policy. Choices need to be made. Doing ‘everything now’ - tax cuts, current spending increases and ramping up capital spending-could overheat the economy and add to price pressures. By not making these choices, the Government is planning on breaching the National Spending Rule this year and next year. The National Spending Rule is a net spending rule. Any government has the option of raising taxes to facilitate higher spending growth, if that is their priority.

Significant health overruns are developing already this year. This is unsurprising given overruns from last year were not incorporated into the budget for 2024.

The Future Ireland Fund is an important tool to manage windfall corporation tax receipts. If larger savings were made now, that would mean more of the future costs of an ageing population and climate change could be offset."

###