An Roinn Airgeadais
Department of Finance
Oifig an Aire
Office of the Minister

Mr. Michael McMahon
Acting Chair
Irish Fiscal Advisory Council
Whitaker Square (ESRI Building)
Sir John Rogerson's Quay
Dublin 2

30th July 2024

Dear Michael,

I refer to the Irish Fiscal Advisory Council's *Fiscal Assessment Report* published on 5th June 2024.

My formal response to the Council is set out in the attached. It is my intention to publish this letter on my Department's website.

Yours sincerely,

Jack Chambers T.D.
Minister for Finance

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Formal response of the Minister for Finance, Jack Chambers T.D.,

to *Fiscal Assessment Report*, June 2024[1]

Introduction

Let me begin this letter by thanking the Fiscal Advisory Council for its work in producing the Fiscal Assessment Report (FAR) and for providing an analysis of the *Stability Programme Update 2024*.

Macroeconomic assessment

I note the Council's recent endorsement of my Department's macroeconomic forecasts for the Stability Programme Update 2024. The forecasts indicate that the Irish economy continues to perform strongly, with economic activity expected to continue to grow over the coming years, albeit at a more moderate pace. While headline inflationary pressures are abating, underlying inflation remains high, interest rates remain elevated and external demand remains weak.

My Department shares the Council's judgement that macroeconomic risks are broadly balanced at present. Given the open nature of the economy, a deterioration in the external environment could have knock on implications for growth in the Irish economy. I also note that the Council has highlighted the potential upside risks, including higher net inward migration and/or a faster than assumed fall in inflation.

Budgetary assessment

As you will be aware, Government recently published the *Summer Economic Statement* and has adjusted its expenditure strategy for 2025 in order to accommodate higher capital spending and to provide additional public services against the backdrop of larger-than-assumed population.

Government will be providing for a total package of €8.3 billion in *Budget 2025*, consisting of €1.4 billion in taxation measures and a €6.9 billion expenditure budgetary package. I believe that this budgetary strategy takes into account the economic realities of today while ensuring the public finances remain on a sustainable trajectory over the longer term.

The voted expenditure ceiling of €105.4 billion will facilitate a budget that will:

- provide further increased levels of investment in the National Development Plan through an increase of €1.4 billion over the 2024 allocation;
- accommodate new measures in line with Government priorities including in relation to the National Training Fund;

[1] The *Irish Fiscal Advisory Council* publishes two Fiscal Assessment Reports each year. During the legislative scrutiny phase of the *Fiscal Responsibility Bill* 2012, which *inter alia* established the Council on a legislative basis, the Minister for Finance committed to formally responding to each of the Reports.

- cater to demand for increasing levels of public service delivery due to a changing demographic profile, especially in population terms;
- provide an increase of €5.5 billion on current expenditure; and
- continue to fund measures required to respond to external shocks from the Contingency Reserve.

Challenges in recent years have required a responsive approach to the management of the public expenditure, and Government's response has balanced the need to address expenditure priorities against the risk of overheating with an approach that delivered:

- sustainable and continued investment in public services and infrastructure;
- targeted support to protect the most vulnerable, including through permanent and temporary cost of living measures.

The expenditure strategy for 2025 is targeted at addressing the challenges still arising from the high levels of inflation experienced across 2022 and 2023. The challenges are compounded by the unwinding of temporary measures, the increased demands on public services, and the need for further improvements in infrastructure. The NDP is central to delivering the vital infrastructure needed to support our future economic and social progress and Budget 2025 continues the prioritisation of capital spending in recent years, with capital investment growing at a higher rate than current spending.

Budget 2025 will be set against a backdrop of full-employment, capacity constraints and a high degree of concentration of tax receipts within the corporate sector. In the medium-term, structural fiscal challenges will pose significant risks to the Irish economy. These challenges (the '4Ds' of demographic change, de-globalisation, decarbonisation and digitalisation) will reshape our economy in the years and decades to come. To prepare for these changes, it is essential that we continue to enhance the State's stock of public capital and improve public services, which will, necessarily, involve significant fiscal costs. However, Government is determined that these additional costs have to be associated with increased levels of efficiency and productivity gains.

I agree with the Council's comments on the vulnerability of our public finances to volatile corporation tax receipts and appreciate the valuable analysis undertaken by the Council in highlighting the risks around these receipts. I also welcome the Council's support of the two long-term savings vehicles, the *Future Ireland Fund* and the *Infrastructure, Climate and Nature Fund*, which were established to, in part, help mitigate this vulnerability. As you will be aware, the legislation was recently signed into law and is a significant step in ensuring that we prepare for the known fiscal challenges that we face.

Fiscal Rules

I acknowledge the Council's assertion that, overall, Ireland is on track to comply with the legislated domestic and EU fiscal rules in 2024. I also welcome the Council's summary of the impact of the reforms to the EU fiscal framework on the formulation of domestic budgetary policy in Ireland – in a nutshell, that the EU framework is sub-optimal from an Irish fiscal perspective.

A central element of the reformed EU fiscal framework is the publication of a medium-term fiscal structural plan by each Member State. Given Ireland's positive fiscal position at present, Ireland will not receive a binding fiscal constraint from the European Commission ahead of the publication of the first medium-term plan. Nevertheless, Ireland will still need to set a binding net expenditure limit as part of this plan.

The setting of this spending limit will, of course, require a measured assessment of the domestic and international economic environment, as well as an appropriate path for public expenditure and a suitable tax strategy to meet both short-term priorities and the longer-term needs of the economy and society as a whole. The Government will publish Ireland's first medium-term fiscal structural plan, which will include a binding net expenditure limit, in the Autumn.

Conclusion

The strategy announced for *Budget 2025* allows for continued fiscal support to households and businesses, the provision of additional public services, further investment in capital stock, in particular housing. It builds upon the progress that we have made in ensuring resilient public finances so that we approach future challenges from the strongest possible position.