Irish Fiscal Advisory Council

Pre-Budget Statement

BUDGET 2025

Key messages

The economy is thriving

We have record-high employment rates.
Wages are now outpacing price increases.

With this comes high pressure

Domestic prices such as rents, food services, medical costs are rising rapidly

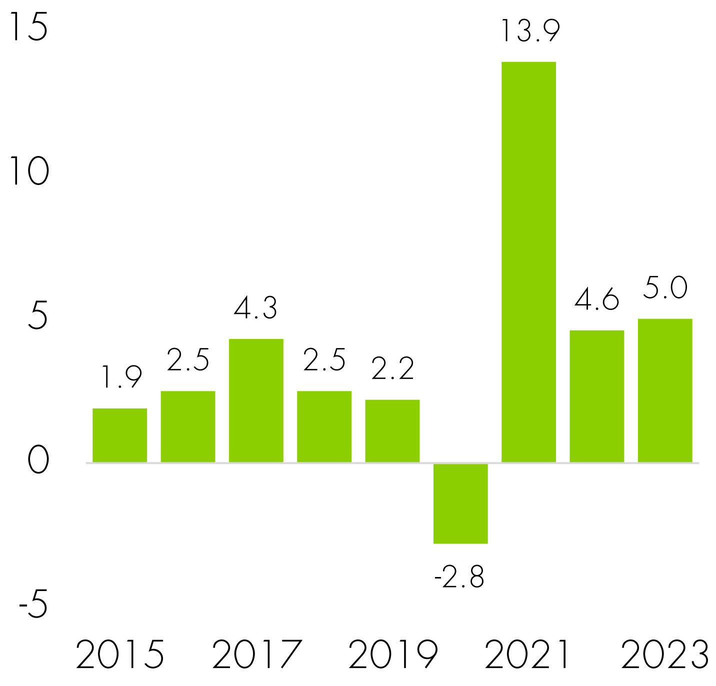
By not sticking to its rule, the Government is fuelling two major risks

1. Large and growing underlying deficits
2. Even higher prices

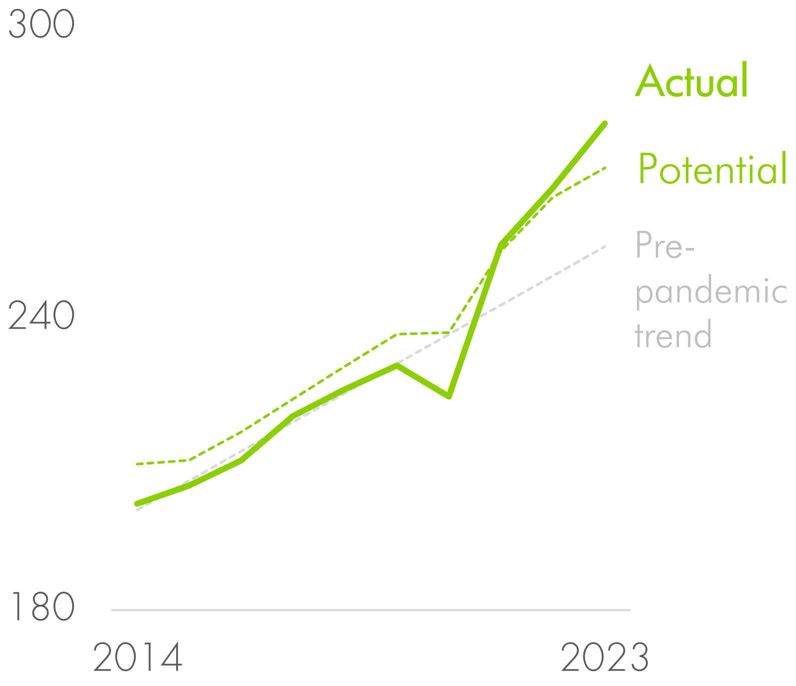
Detail

Strong economy

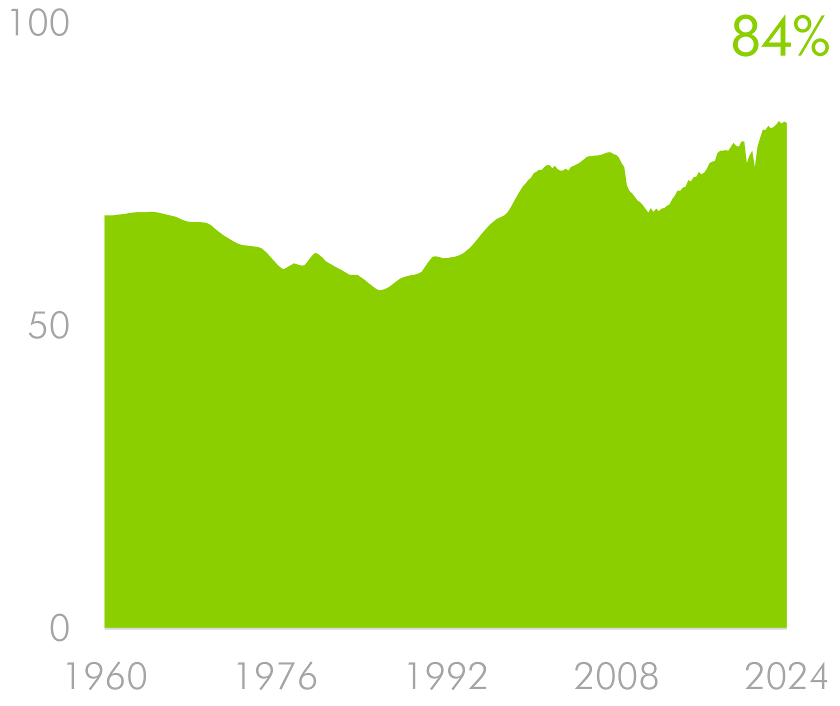
Rapid growth
% growth in real GNI*



Above normal levels of activity
Real GNI*, € billions



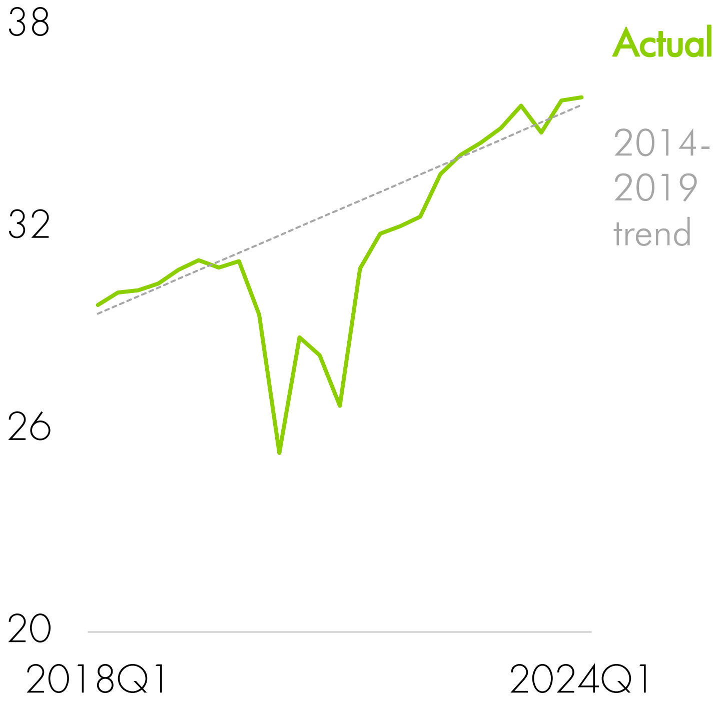
All-time high employment
% population aged 25-54 in employment



Driven by consumer spending

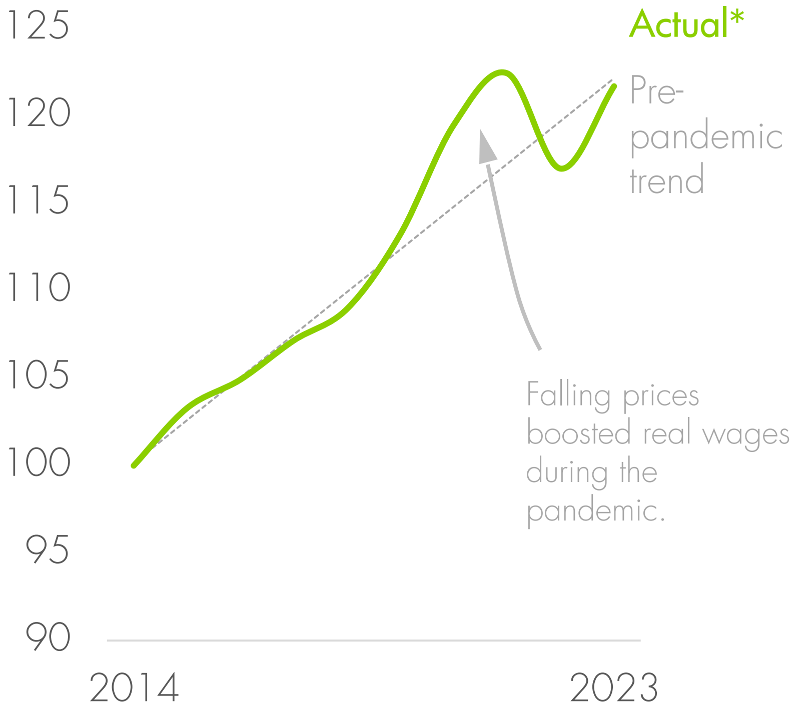
Consumer spending recovers

€ billions, constant 2022 prices



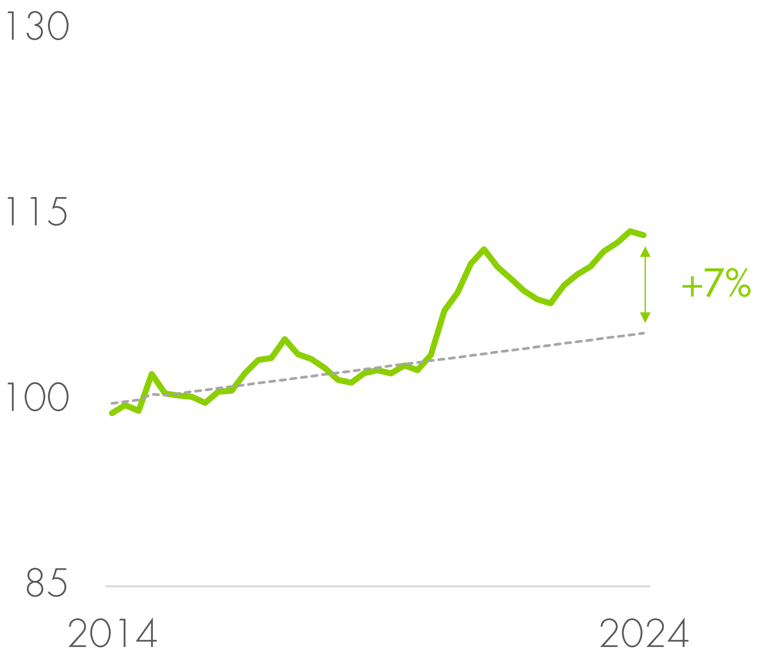
Wages bounce back

Real hourly wages, Index: 2014=100



Low-wage sectors also see it

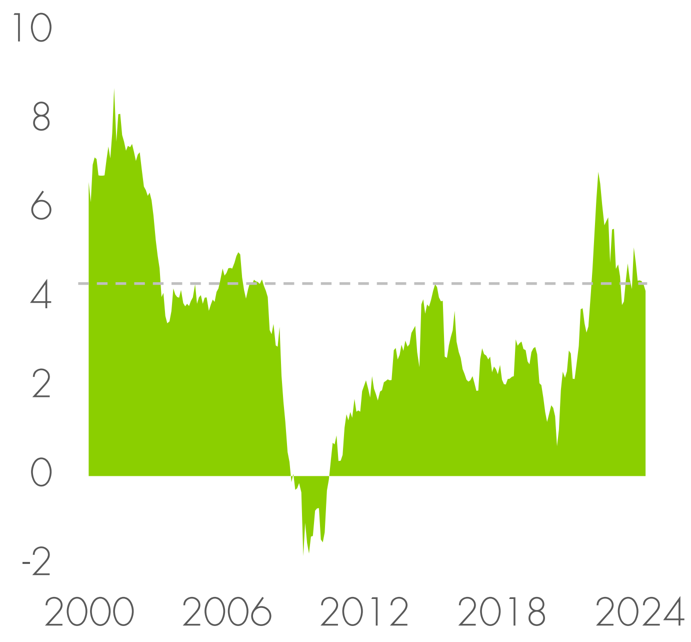
Real hourly wages, Index: 2014=100, 4Q avg



Leading to high pressures

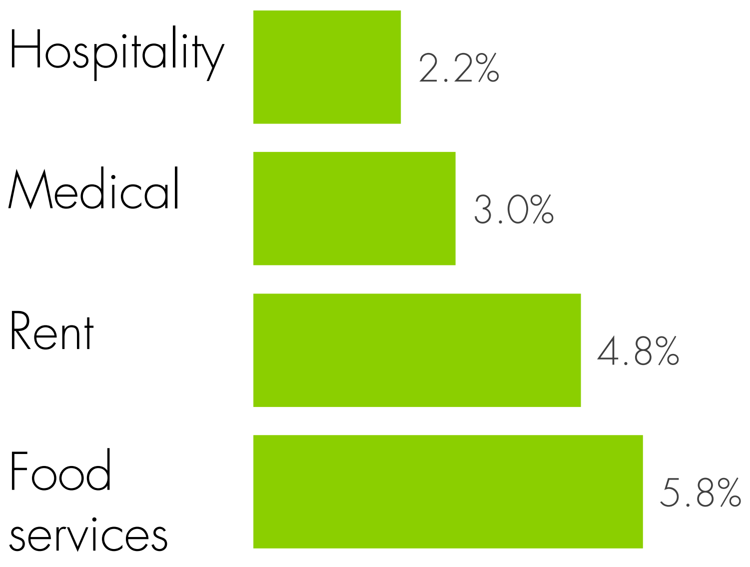
Domestic prices rising quickly

% change, year-on-year



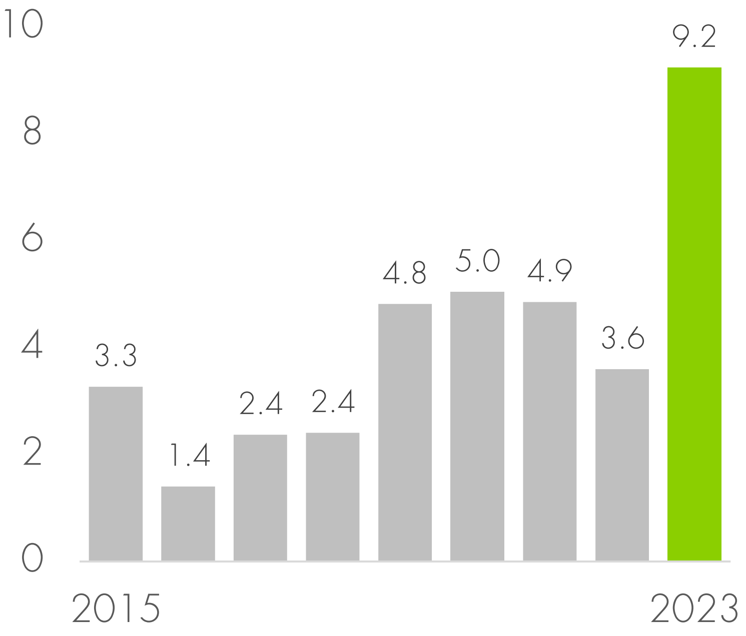
Hospitality, rent, and health

% change, year-on-year, latest three months



Fast wage increases

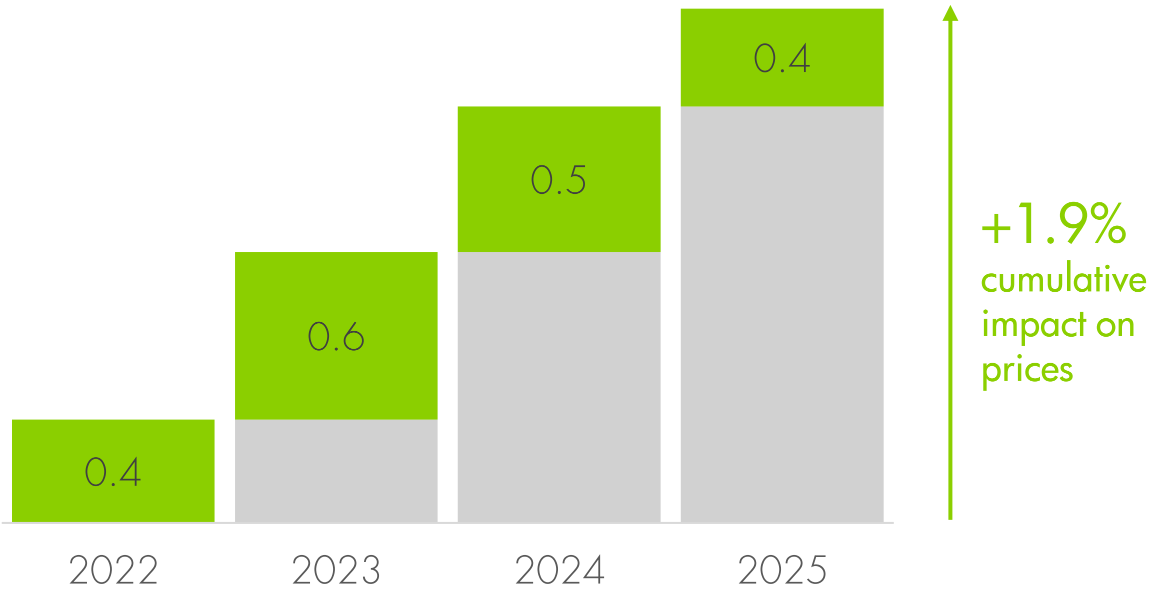
% change, year-on-year, hourly nominal wages



Government is adding to pressure

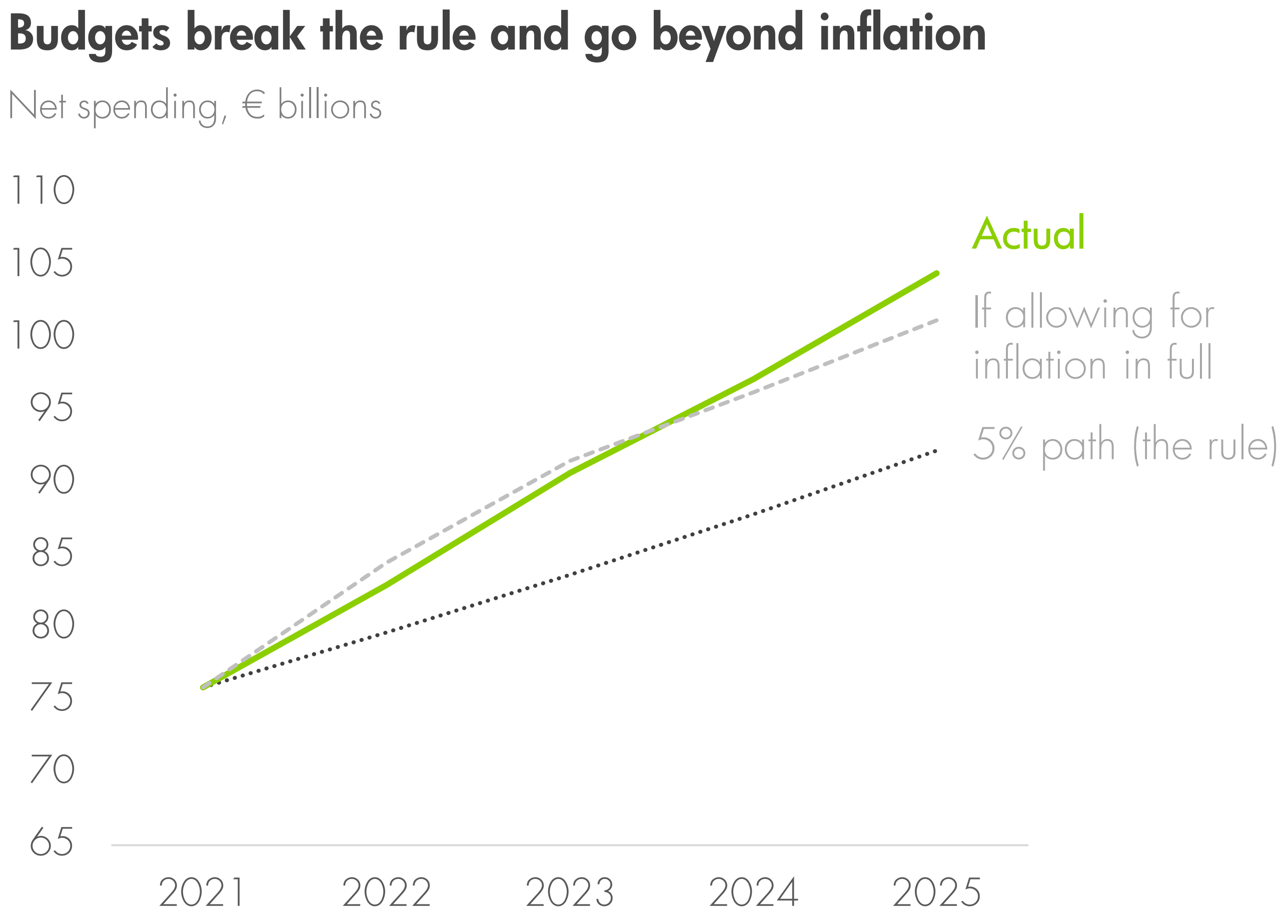
Large budget packages boost prices

Estimated cumulative impact on prices

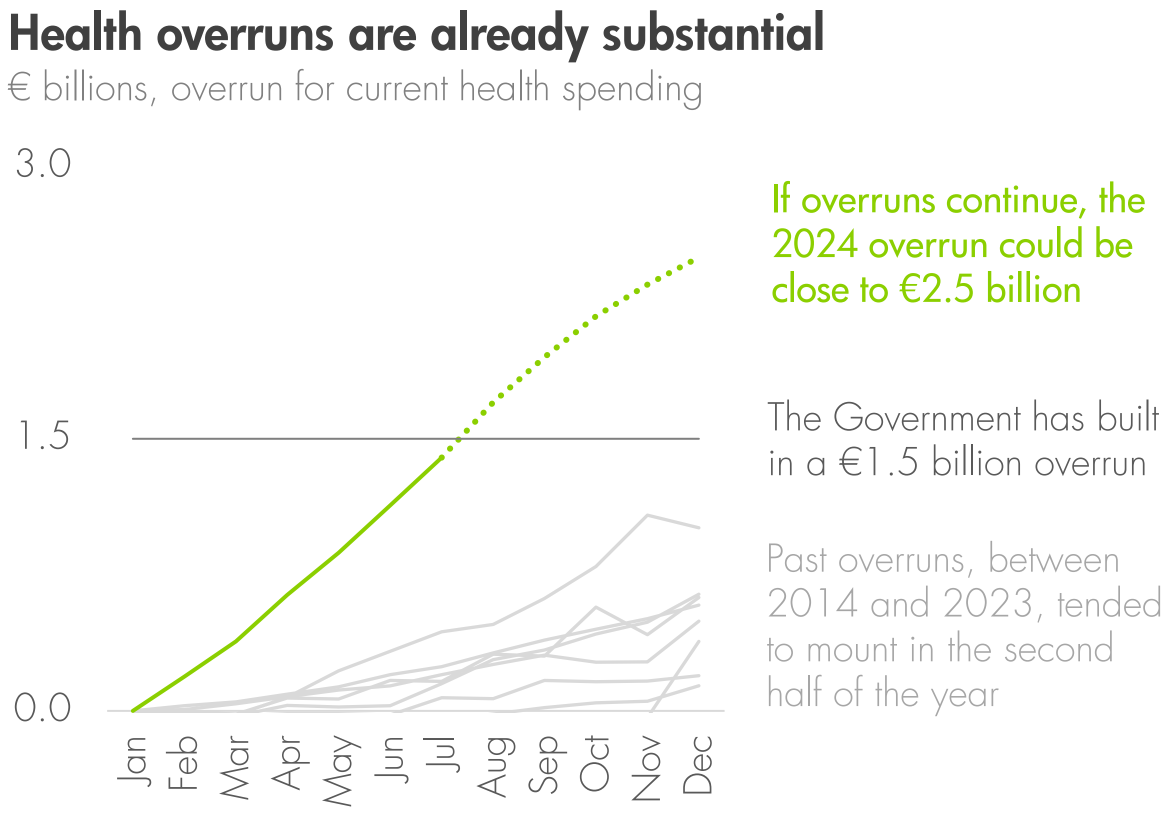


Equates to +€1,000 on typical household's yearly outgoings

It’s breaking its rule



And there's more to come

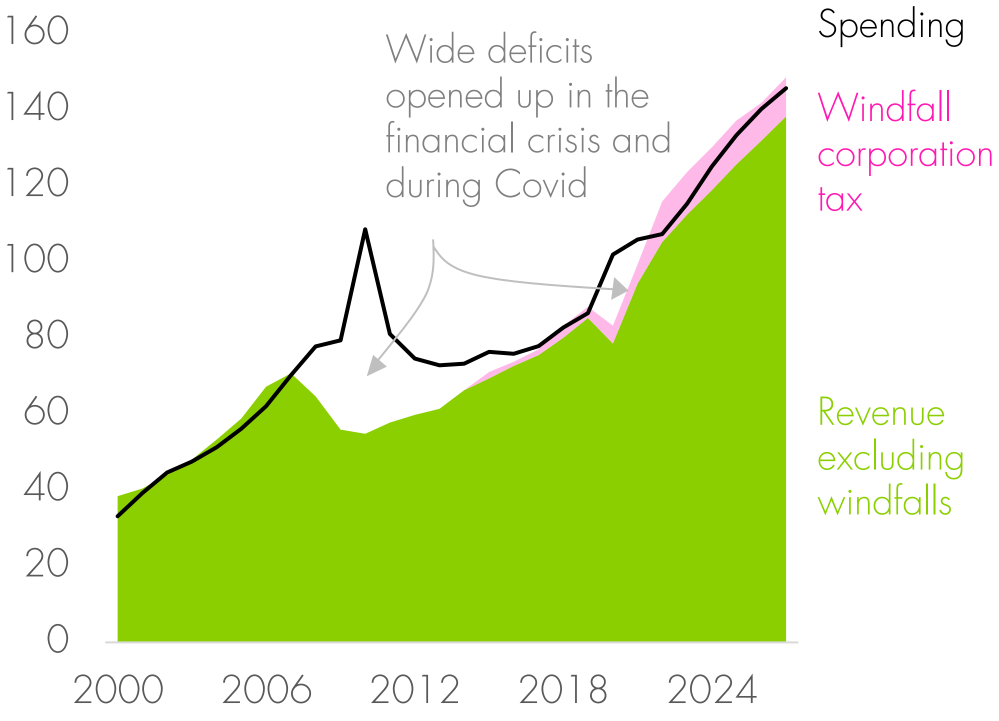


Christmas Bonus	**€300 million**
Other overruns	**???**
Cost of living package	**???**

Corporation tax might plug gap

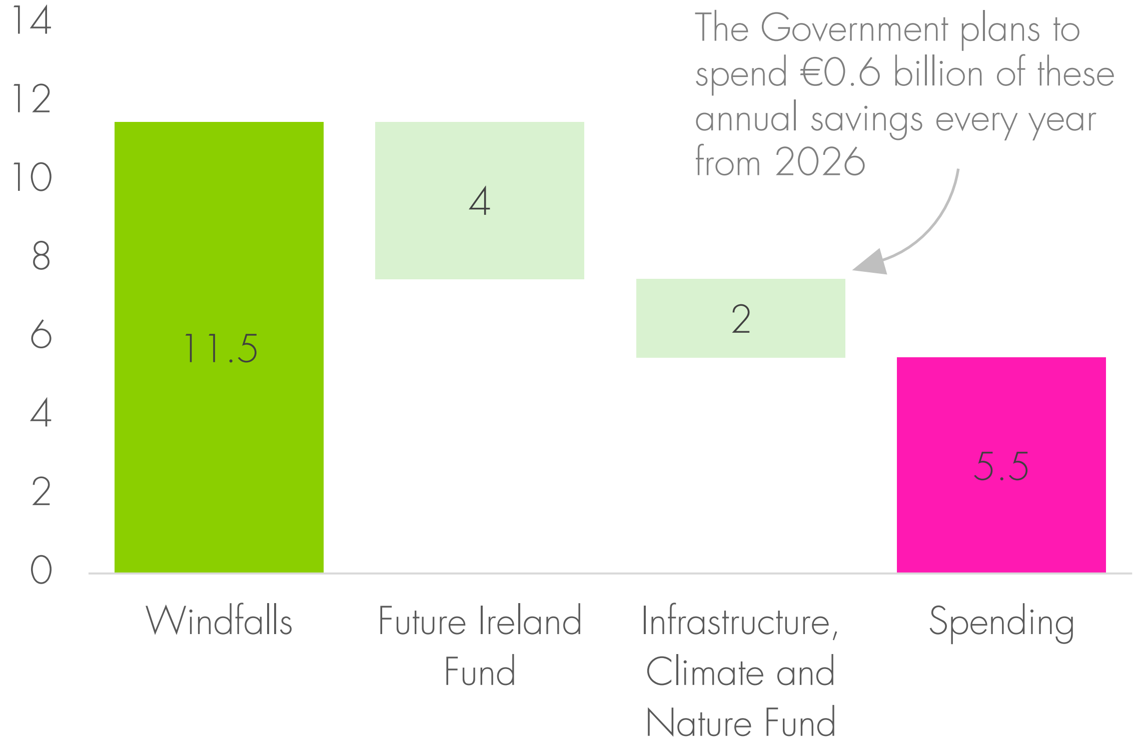
Surplus driven by windfalls

€ billions, general government

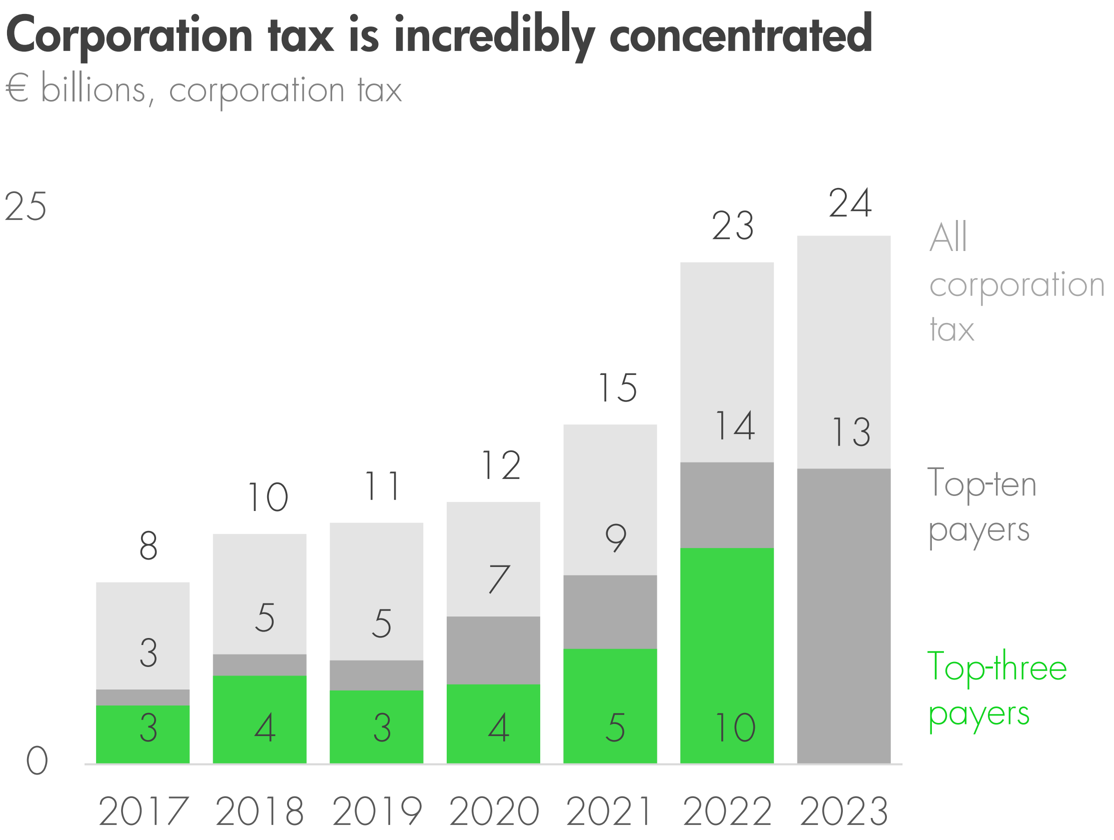


Government to spend half the windfalls

€ billions

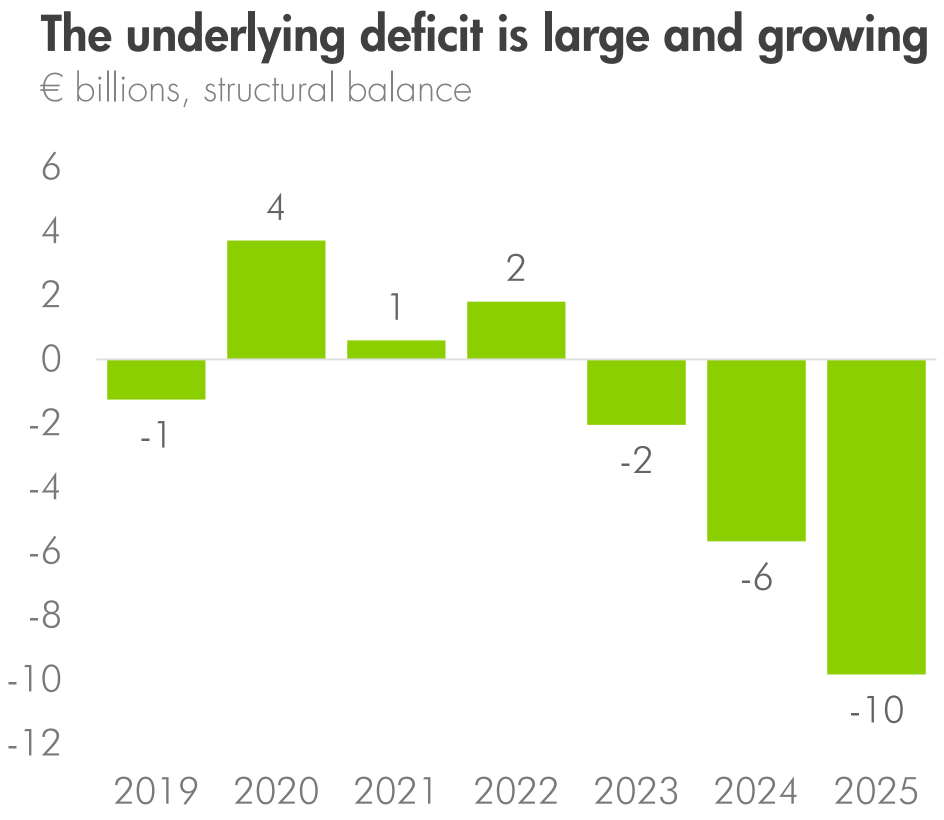


But it is incredibly risky



Many of the same firms attract high-pay, high-tax jobs

Beneath, the deficit is widening



This underlying deficit is substantial.

To put it in context, a deficit this large would require €3,600 of tax increases for every worker or €1,800 in spending cuts for every person to close it.

While closing the deficit in full might not be necessary to ensure debt sustainability, this gives a sense of the underlying gap behind the headline numbers.

Why are we concerned

The risks are clear

The Government has few constraints other than the National Spending Rule and the economy's capacity to take the extra pressure.

Continuing to breach the rule will push up prices and generate a wider underlying deficit.

Everyone pays when prices are pushed higher.

And the deficit could materialise suddenly, even with a handful of multinationals being affected.

Key questions

1

Is breaking the rule necessary with high inflation and fast population growth?

It's still early to say how much of the population increase will lead to permanent impacts on the economy.

Whatever the case, in responding to the additional pressures now, with more immediate spending, the Government is still adding to those same pressures.

2

Isn't the Government running a surplus?

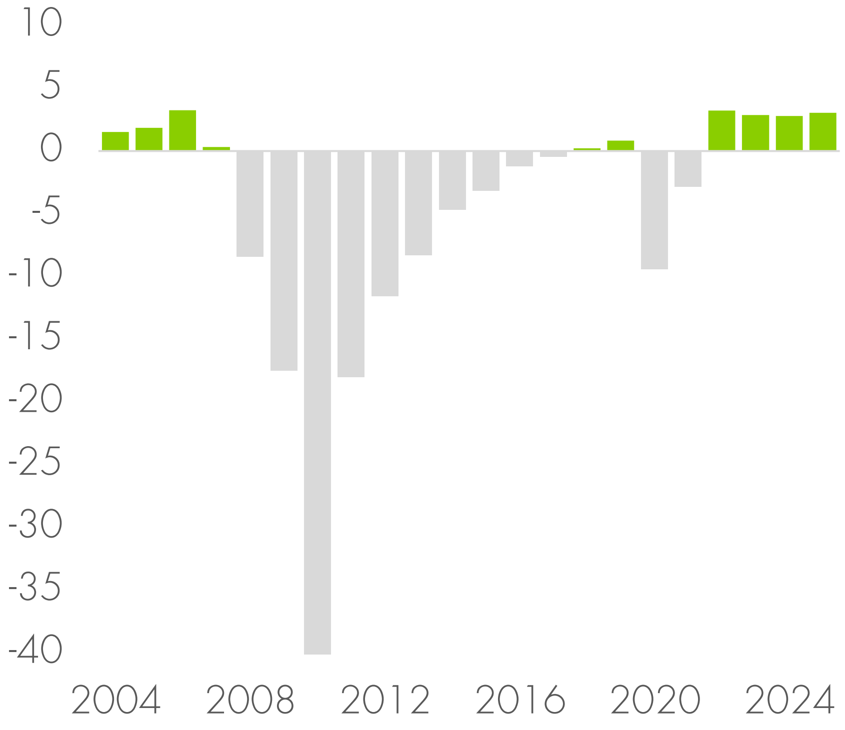
We ran a surplus in the 2000s right up until the crisis.

It didn't make things safe then. It doesn't now.

The exposure to windfalls and narrowing of tax base has some parallels.

Headline surpluses then and now

% GNI*



3

Will more breaches of the spending rule lead to overheating?

This is about keeping people's jobs, incomes, and livelihoods safe.

We all want more and better services and infrastructure.

But the "everything, everywhere, all at once" approach is costly. It adds to pressures now and may mean the Government has to later reverse commitments.

4 What about Ireland's infrastructure deficits?

We know there are infrastructure deficits, but it's not clear more funding will help.

One option is to rebalance to less worker-intensive areas.

We also need better planning, regulations, and incentives. This can promote more certainty and greater private sector investment.

Irish Fiscal Advisory Council

ABOUT US

The Fiscal Council is responsible for providing an honest and independent assessment of how the Government is managing the public finances and the economy.

This includes tracking how it is complying with rules designed to keep the public finances safe. It also includes approving the Government's economic forecasts to ensure they are realistic.