

Fiscal Assessment Report

DECEMBER 2024

Ireland's Bounty



**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.



Key messages

Things are looking promising

Record employment rates

Bountiful corporation tax

Massive opportunity now

to save more

reduce future ageing pressures

tackle infrastructure deficits and climate transition

But there are risks too

Policy may have lost its anchor

Using more corporation tax for ongoing commitments in this environment could mean more overspends, bad value for money, and delays

What should the next government do?

1 Set out a sustainable rule it will stick to

This can help curb pressures and avoid needless job losses in the next recession.

2 Realistically plan

For health, housing, and climate.

Ireland is already a high spender in health and housing. But it can get better value.

On climate, Ireland can take more actions sooner to avoid heavy penalties later on.

3 Treat its exceptional corporation tax receipts more like Norway treats its oil

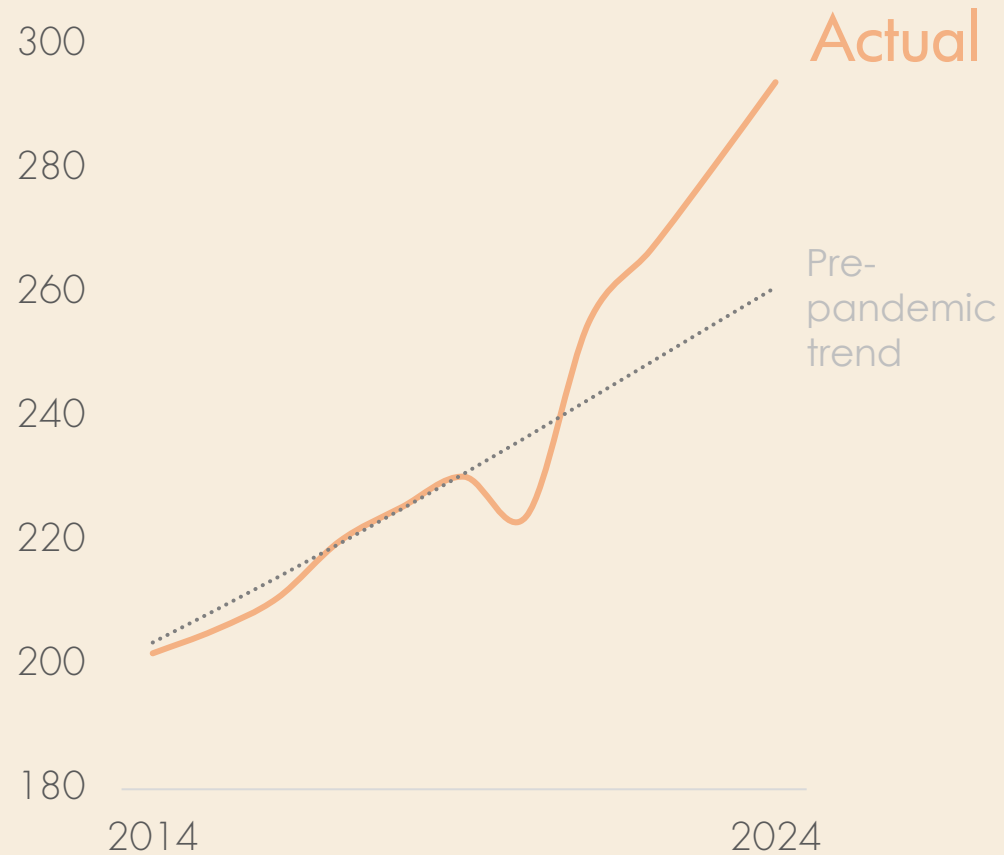
This means recognising it as a high-risk, finite resource and saving more.

Avoids "Dutch Disease"

The economy is performing strongly

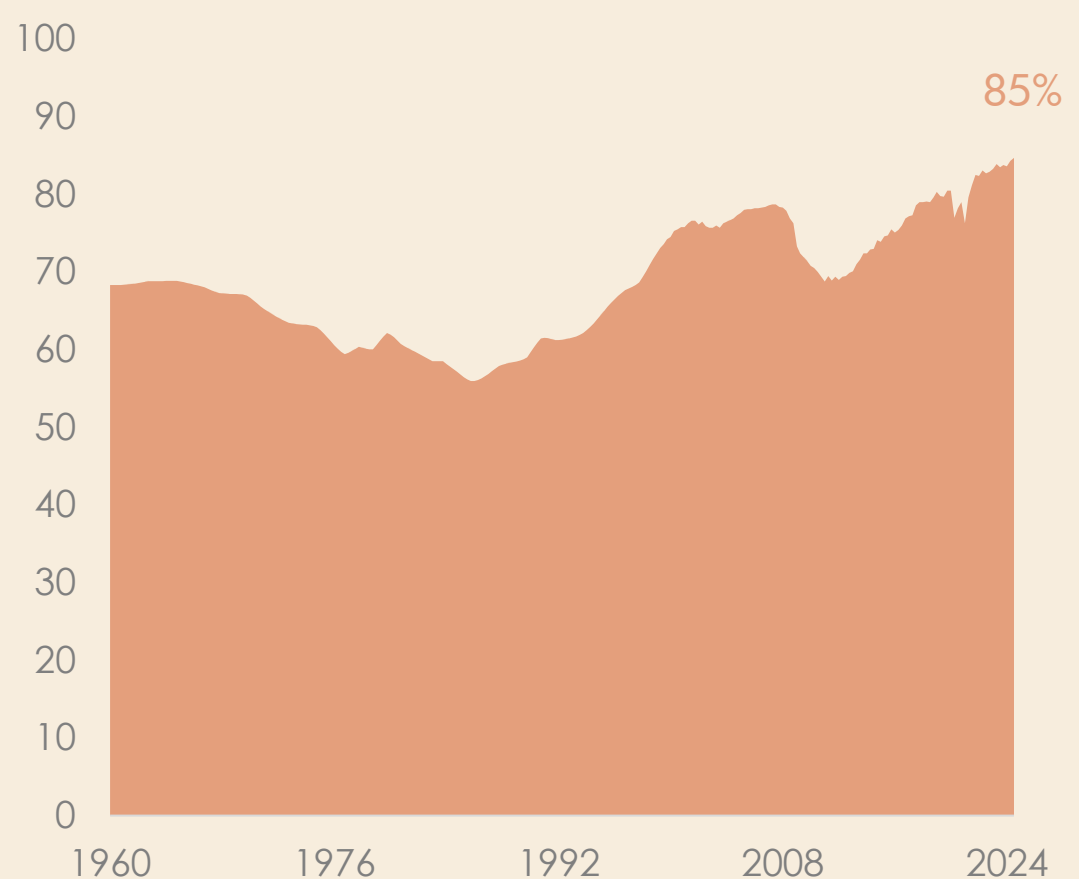
Well above trend levels of activity

Real GNI*, € billions



Employment at all-time highs

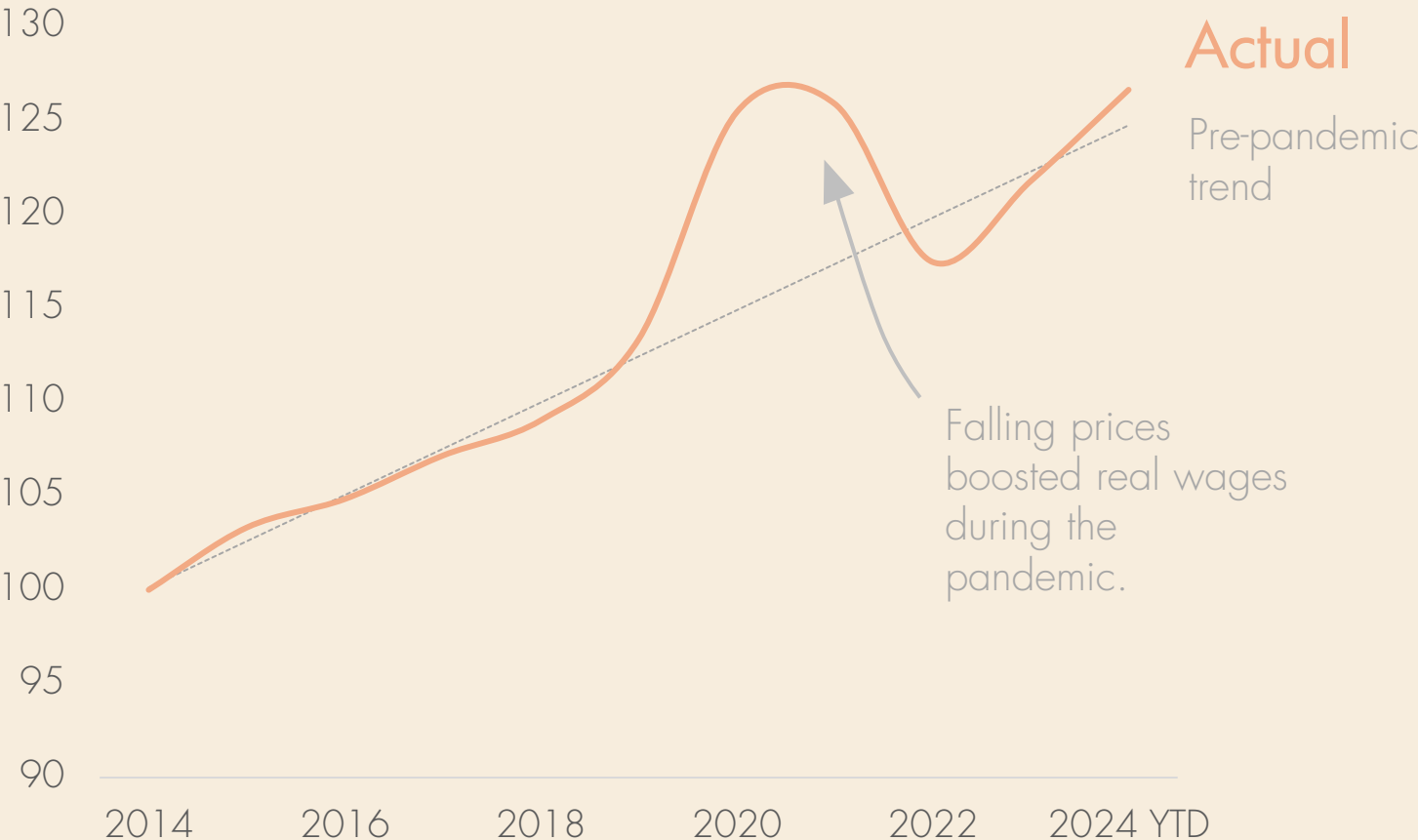
% population aged 25-54 in employment



Wages have made up lost ground

Real wages now above pre-pandemic trend

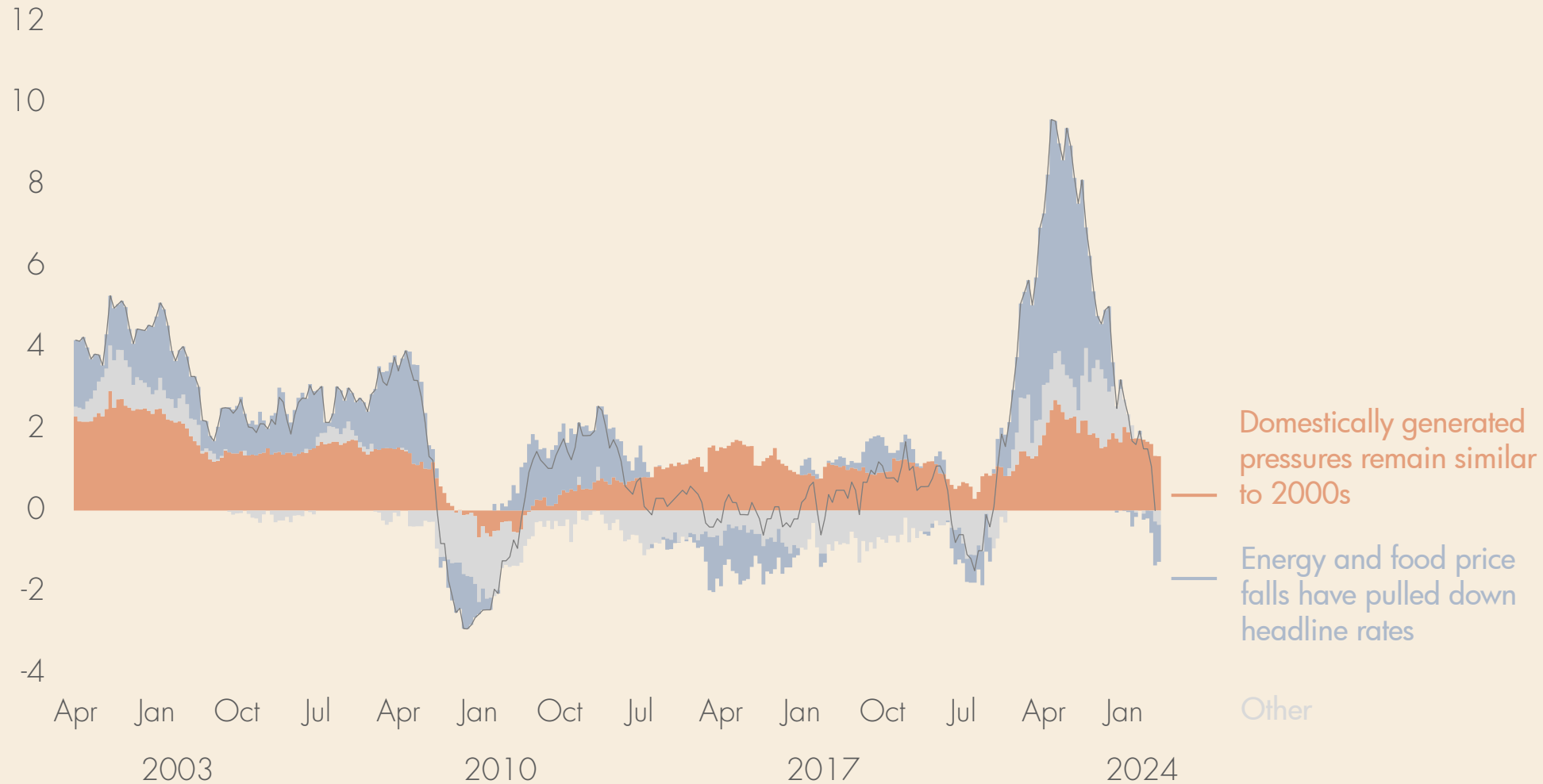
Real hourly wages, Index: 2014=100



Risks around price pressures remain

Domestic prices main contributor as energy prices fall

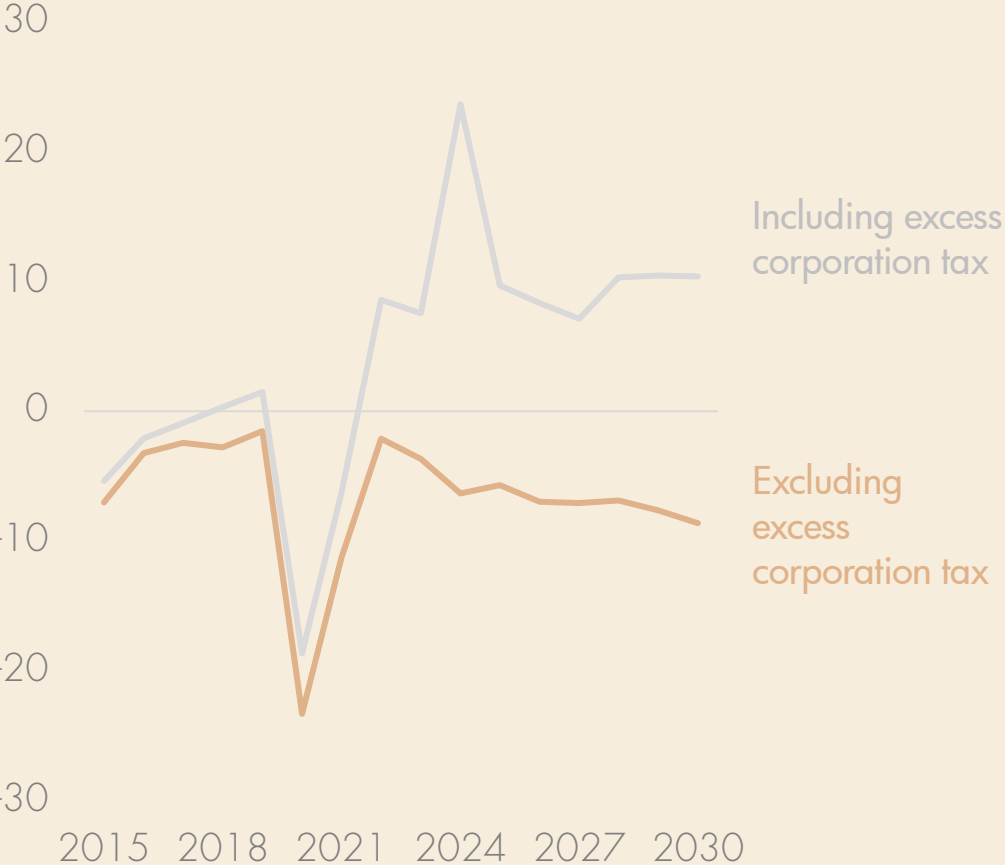
% change year-on-year in HICP, and percentage point contributions



Corporation tax driving surpluses

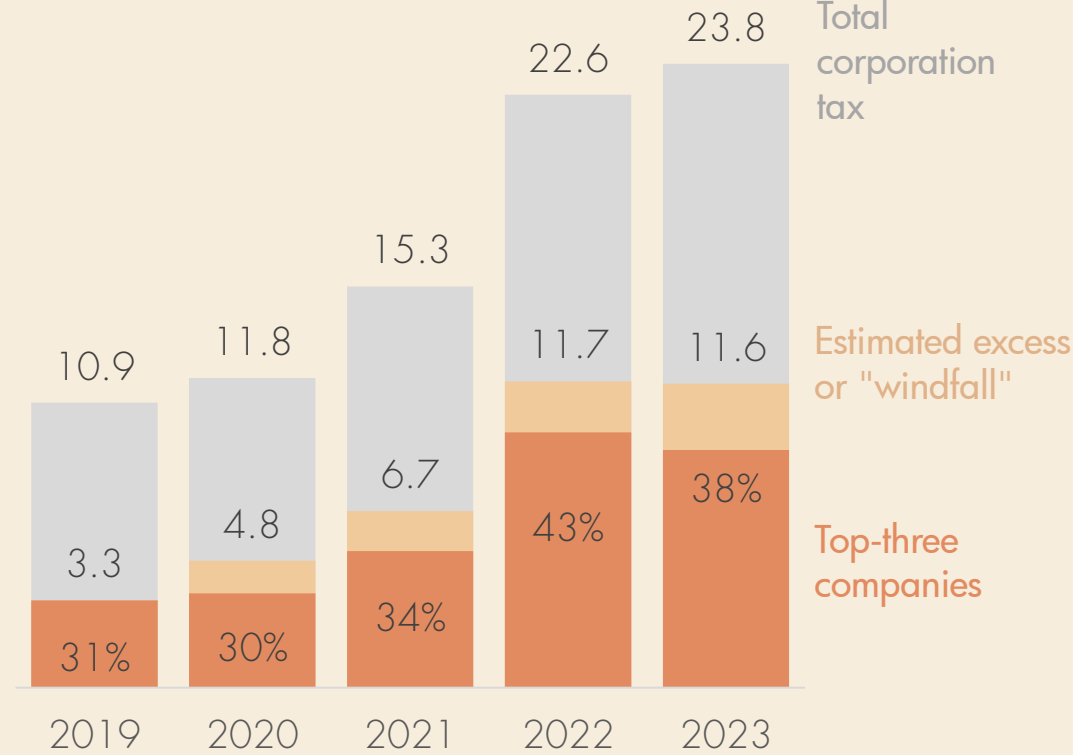
Excess corporation tax plays a big role

€ billions, general government balance



The excess is incredibly concentrated

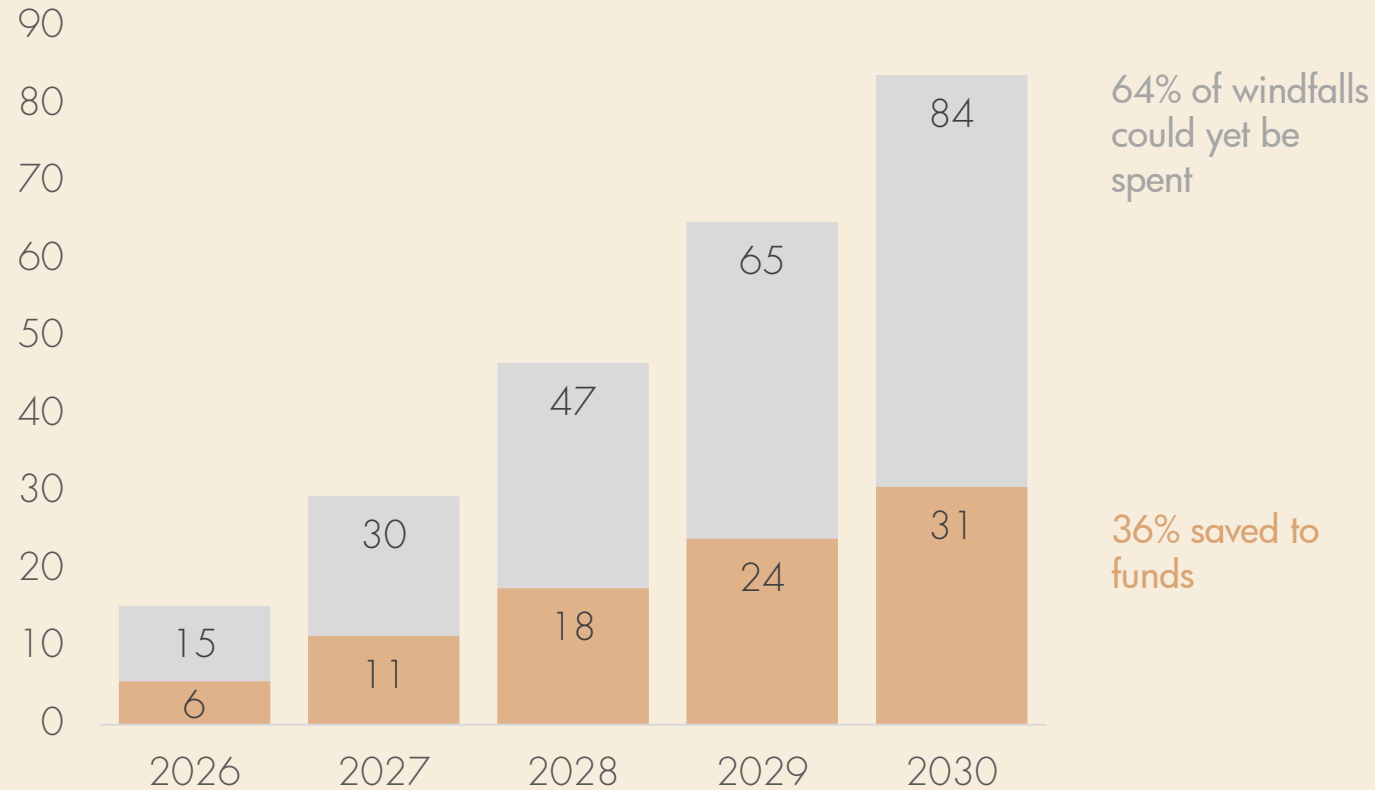
€ billions corporation tax receipts



About one-third being saved

Savings to the funds

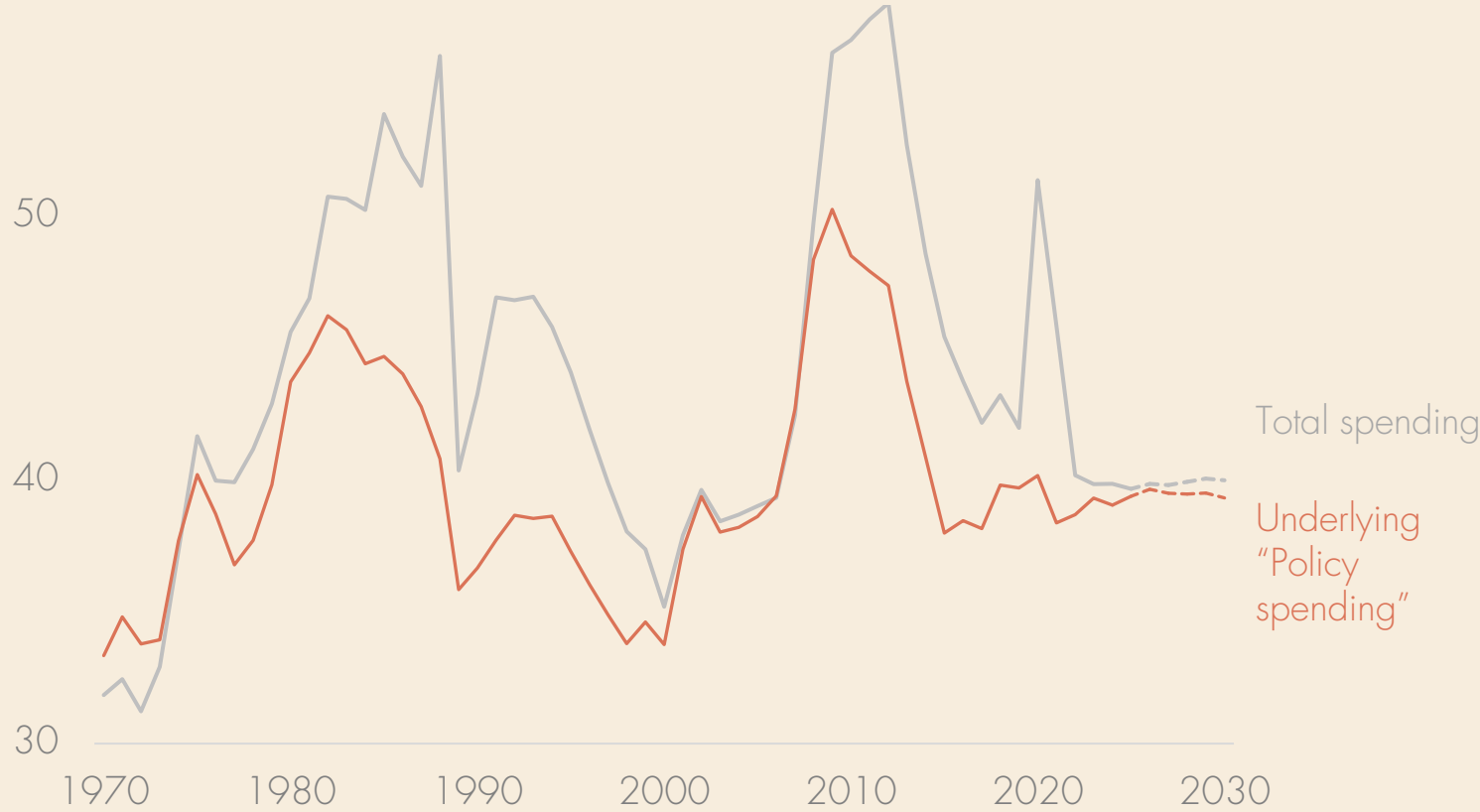
€ billions, cumulative windfalls and net transfers



Spending has kept pace with growth

Spending back to pre-financial crisis levels

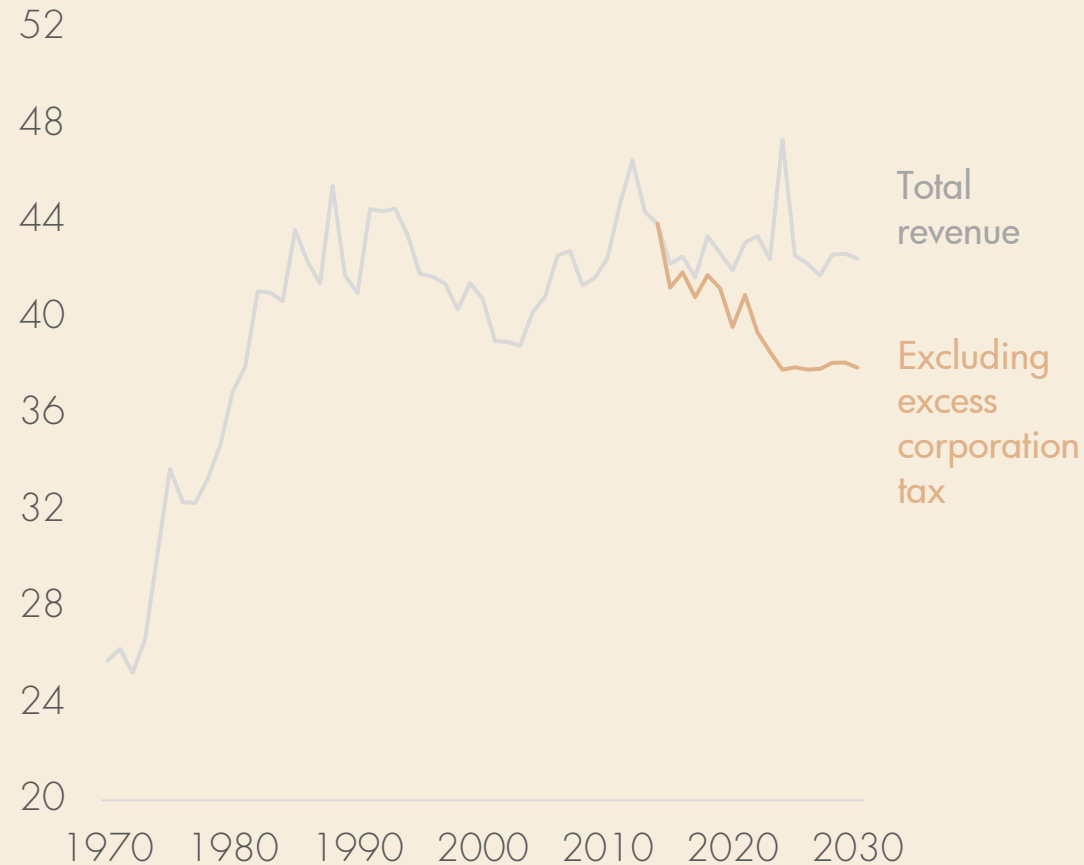
% GNI*, general government expenditure



As underlying revenue narrows

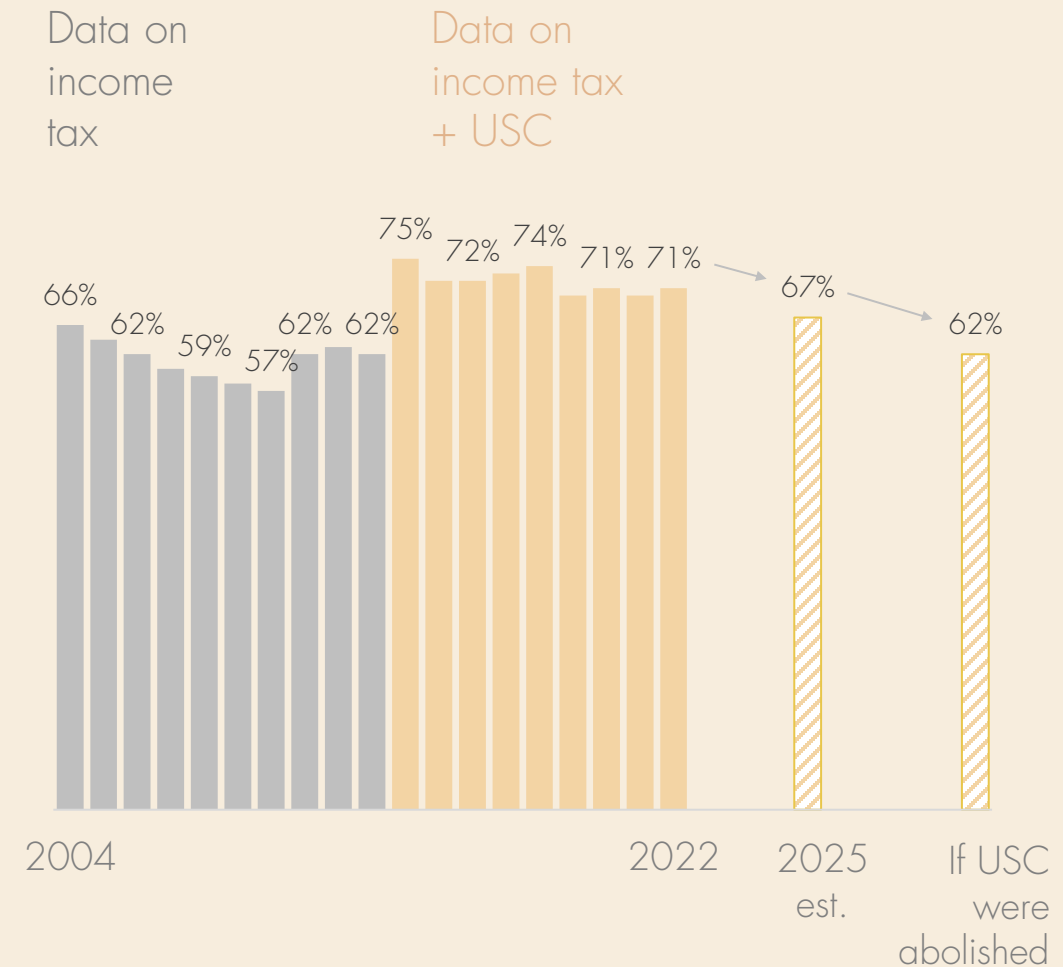
Underlying revenue lowest since 1980

% GNI*, general government revenue



Income tax may be narrowing again

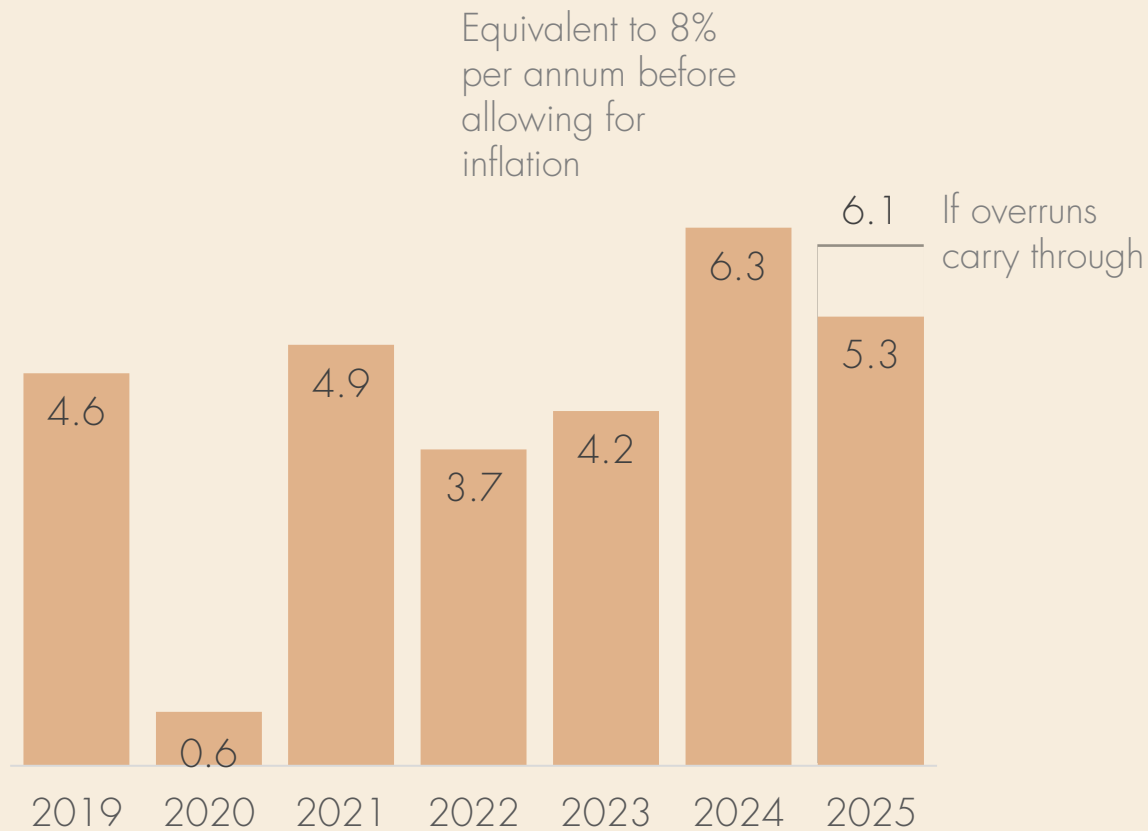
% of taxpayer units paying income tax or USC



Larger underlying deficits

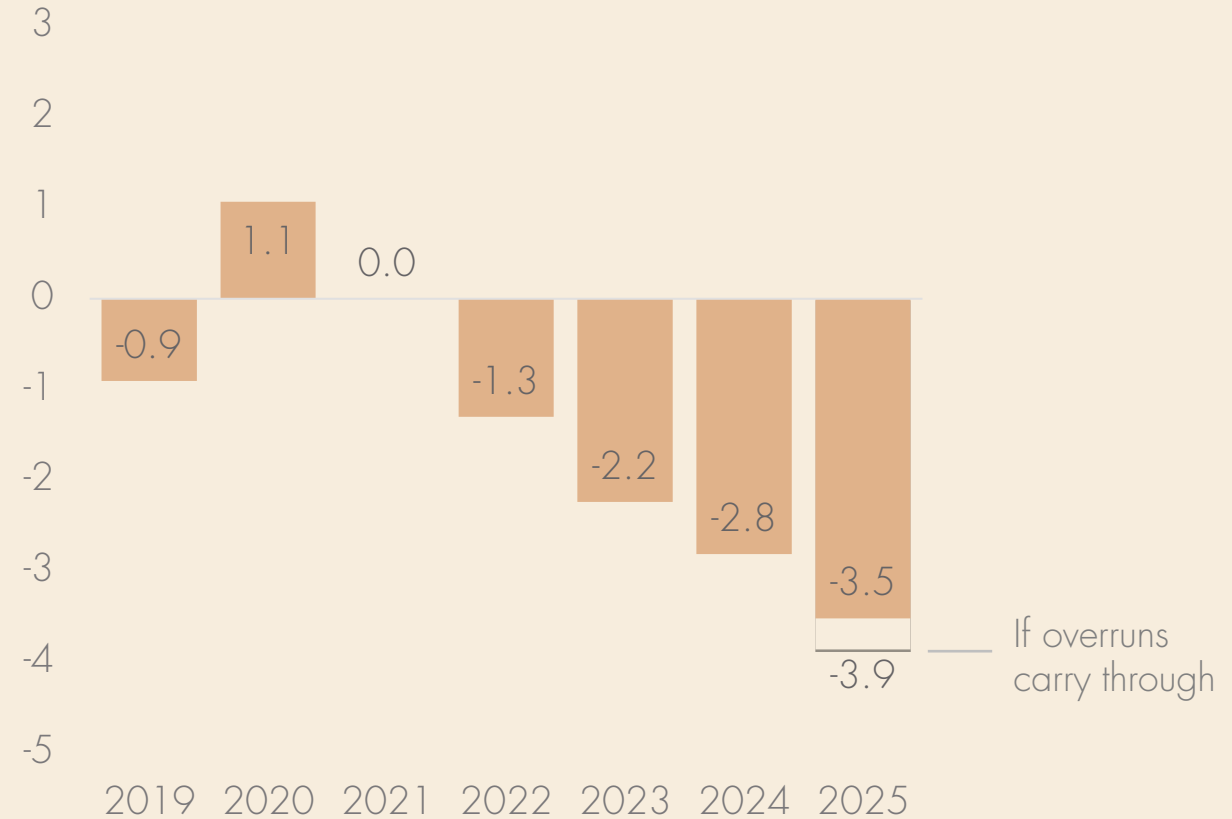
Fast real net policy spending growth

% changes in real net policy spending



Wider structural deficits

% of potential GNI*



Plans lack credibility

Overruns

Not carried through

€1.9 billion overruns budgeted for 2024

But expected to be closer to €3.8 billion

Means overruns very likely next year

AIB share sales

Announced Not budgeted for

€1.25 billion for housing

€1 billion for water infrastructure

€0.75 billion for the electricity grid

Apple money

Not budgeted for

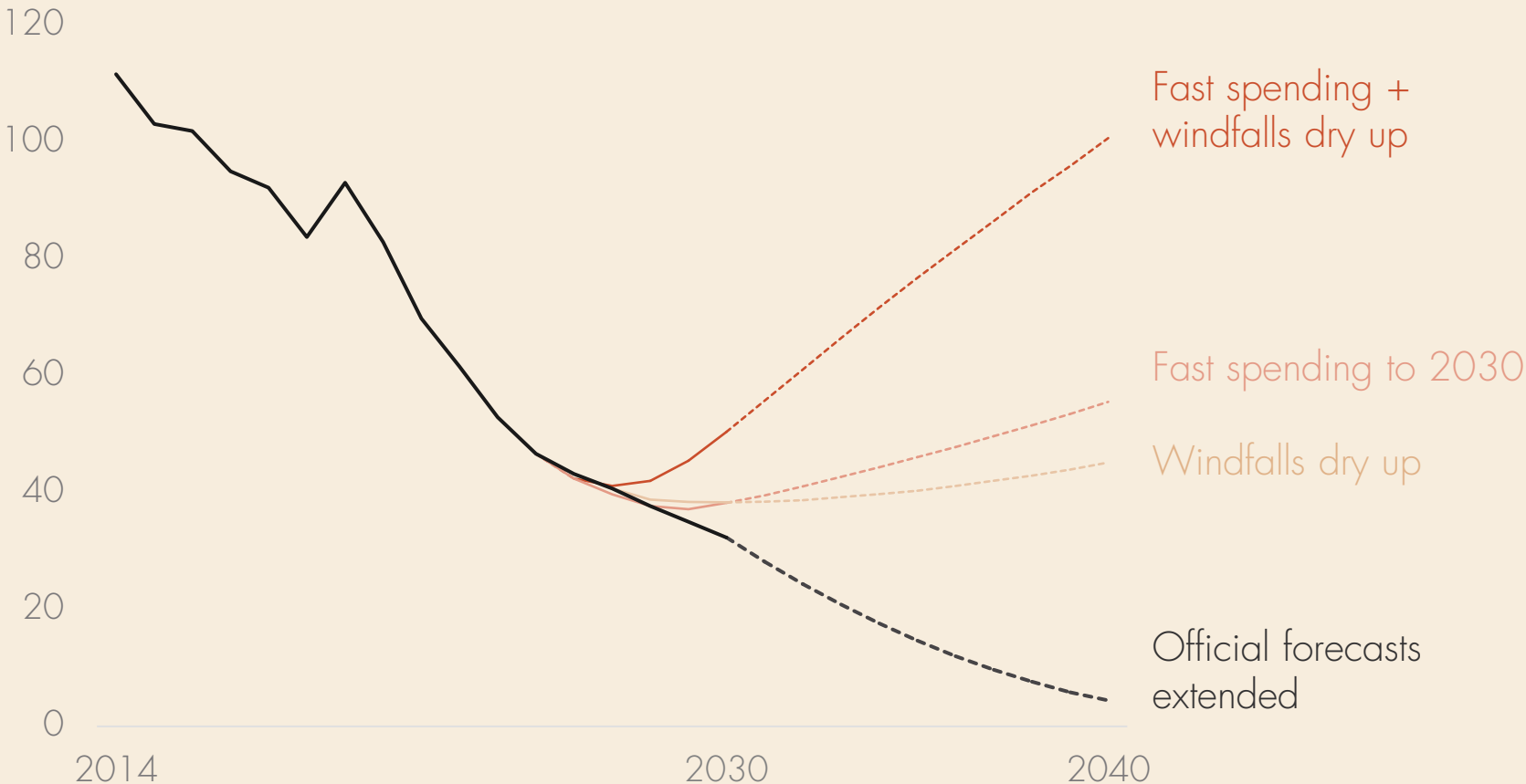
€14 billion

Likelihood is this will raise spending plans further again

De-anchoring could pose risks

Net debt ratio

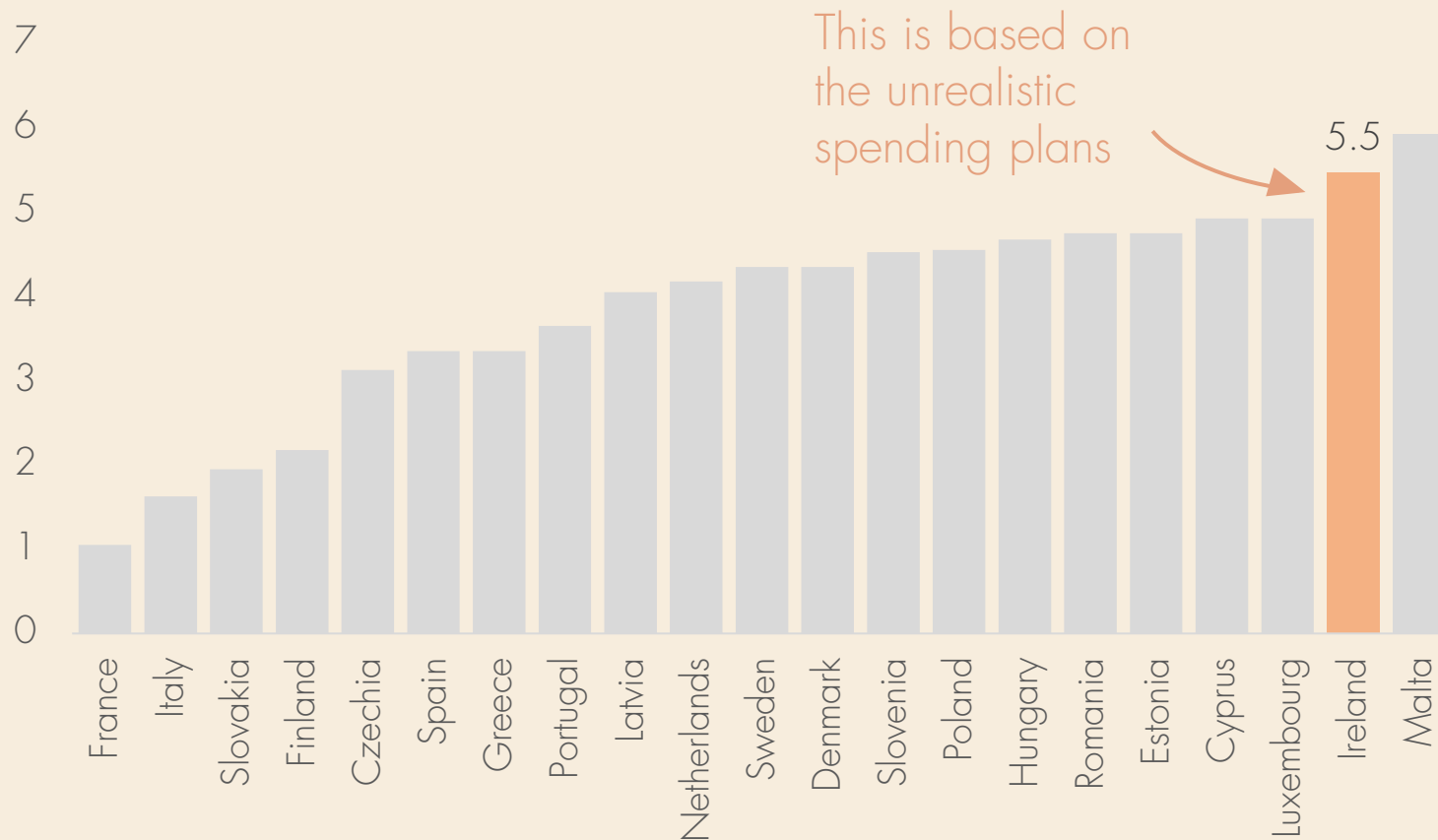
% of GNI*



EU rules unlikely to lead to restraint

Net primary spending growth

% average annual growth rates, 2025 to 2028



Checklist

What Ireland needs for a better fiscal framework

Better forecasts

Forecast at least five years ahead

Forecast spending realistically

Clear guardrails

Set a long-term fiscal objective, like a debt limit

Legislate for a national rule that is consistent with the fiscal objective

Put in place appropriate savings funds for excess corporation tax

More transparency

Provide transparent costings of major policy changes

Make non-Exchequer forecasts more transparent

Show how rules are being adhered to or not

Overall assessment

2 out of 8



Huge opportunity now

There is a lot of promise.

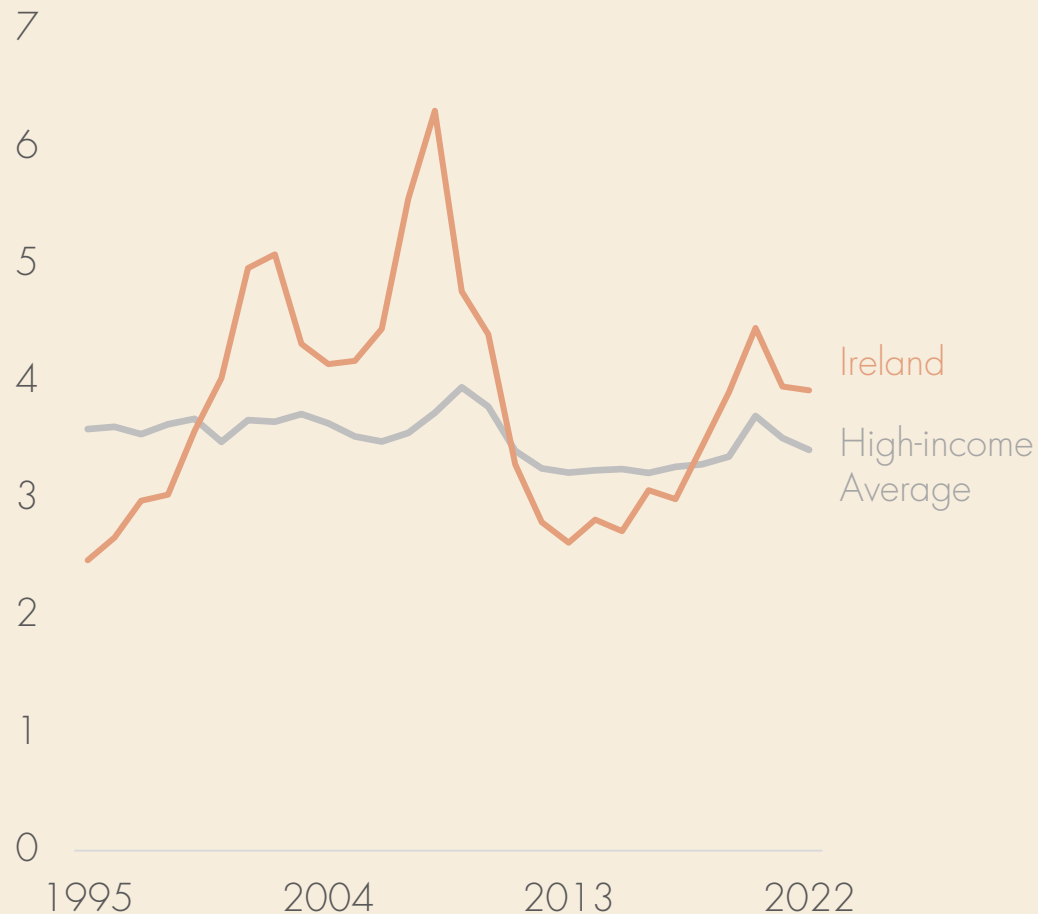
A rule and some realistic plans could help Ireland tackle infrastructure deficits, ageing pressures, climate needs, while also protecting growth, and limiting future job losses.

But Ireland needs to avoid the old pattern: ramping up ongoing commitments as each budget day approaches.

Remember!

Public investment has risen to high rates

% GNI*, (general government investment (% GDP for other countries))



- Second-highest spender on housing in Europe
- Among highest spenders on health in OECD
- The next government should undertake a comprehensive review of health expenditure