BUDGET 2024

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AIM OF PRESENTATION

Budget 2024 is slightly expansionary, and longer -term issues have not been addressed.

AIM OF PRESENTATION

- Short-term constraints are easing
- Budget 2024 is slightly expansionary
- How to face long-challenges

INCREASING SPENDING NEXT YEAR

- Short-term consideration: how much can be spent?
  - We should not add to inflationary pressures
- Longer-term consideration: is it sustainable?
  - Need to avoid boom-bust patterns.

CONSTRAINTS ARE PHYSICAL RATHER THAN FINANCIAL

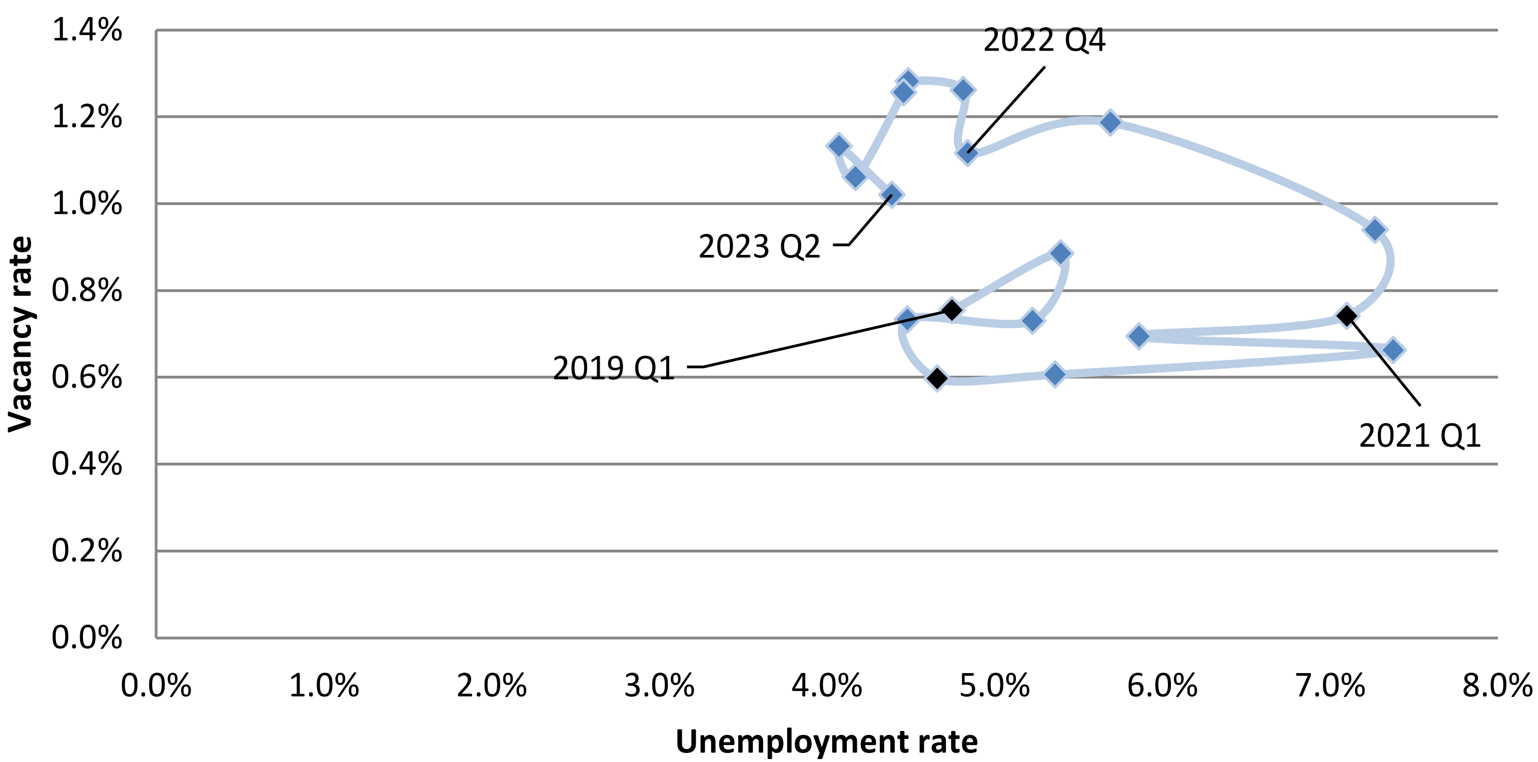
Low unemployment

Housing shortage

Electricity grid near capacity

SIGNS PRESSURE IS EASING

Beveridge Curve: The closer to the top left, the tighter the labour market



Source: CSO QLF01 EHQ16 and own calculations

A MATTER OF JUDGEMENT

Should the government follow an expansionary or contractionary policy?

A NEUTRAL STANCE IS APPROPRIATE

Leave the budget deficit unchanged.

(after adjusting for interest payments, the business cycle and windfall corporation taxes)

CURRENT PLANS ARE SLIGHTLY EXPANSIONARY

'NAÏVE' WAY

There isn't much change forecast in windfall receipts, the business cycle or interest payments.

	2022	2023	2024	2025	2026
General Government Balance (GGB) (€bn)		8.8	8.4		
Change in stance (€bn)			-0.4		

‘NAÏVE’ WAY

There isn’t much change forecast in windfall receipts, the business cycle or interest payments.

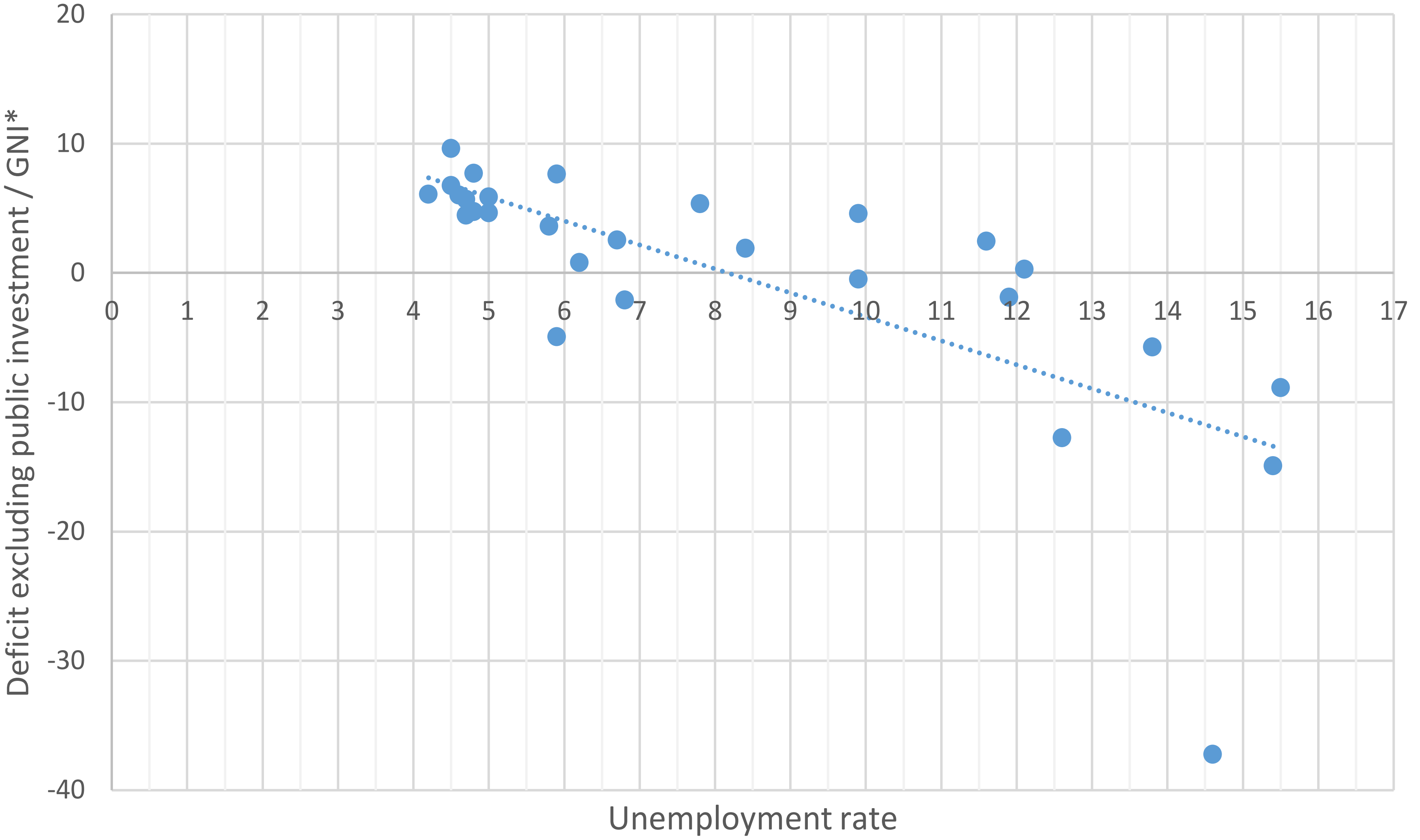
	2022	2023	2024	2025	2026
General Government Balance (GGB) (€bn)	8.5	8.8	8.4	14.2	14.6
Change in stance (€bn)		0.3	-0.4	5.9	0.4

Closer to **€1.1bn** in stimulus once windfall taxes, changes in interest payments and the business cycle are accounted for.

Prudent to raise taxes 1% to 2% of GNI* to meet **current** spending (different views how to estimate).

Another 2% needed by 2030 for ageing costs.

Relationship between unemployment rate (ages 15 to 74) and public deficit excluding investment (as share GNI*) %



Source: CSO NA001, Eurostat UNE_RT_A_H, UNE_RT_A, GOV_10A_MAIN and own calculations

LONGER TERM ISSUES

Ageing

Housing

Local government

AGEING

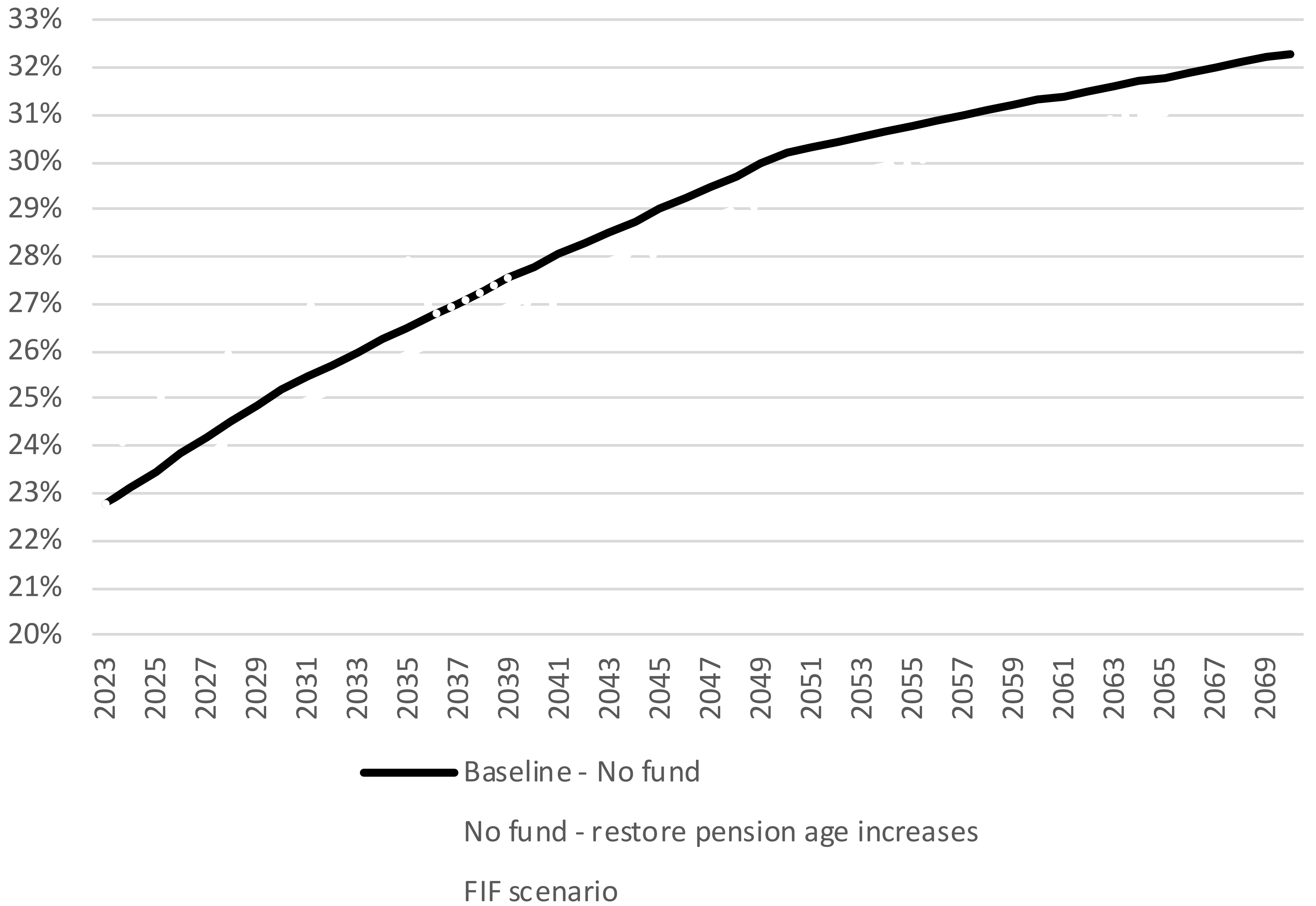
IRELAND FACES COSTS FORM AN AGEING POPULATION

Two options:

Reduce costs directly (e.g. increase pension age)

Create a fund (not recommended)

Projected ageing costs net of contributions to fund, as a percentage of GNI*

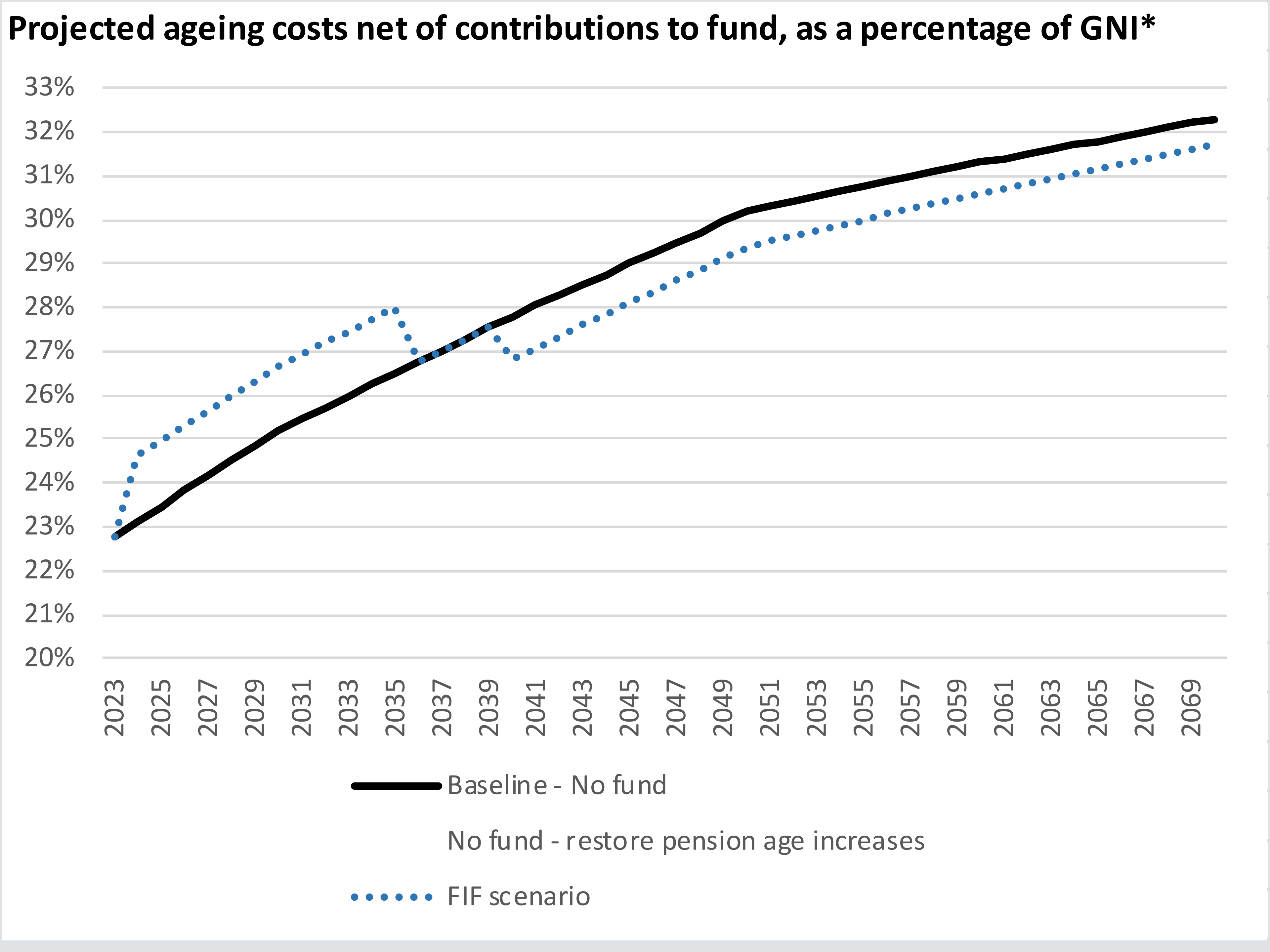


FUTURE IRELAND FUND

Seeded with €4.1 billion from the National Reserve Fund (NRF)

Save the equivalent of 0.8% of GDP (1.5% GNI*) every year until 2035.

Draw down the returns (I assume 4%) from 2040


Projected ageing costs net of contributions to fund, as a percentage of GNI*
33%
32%
31%
30%
29%
28%
27%
26%
25%
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22%
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20%
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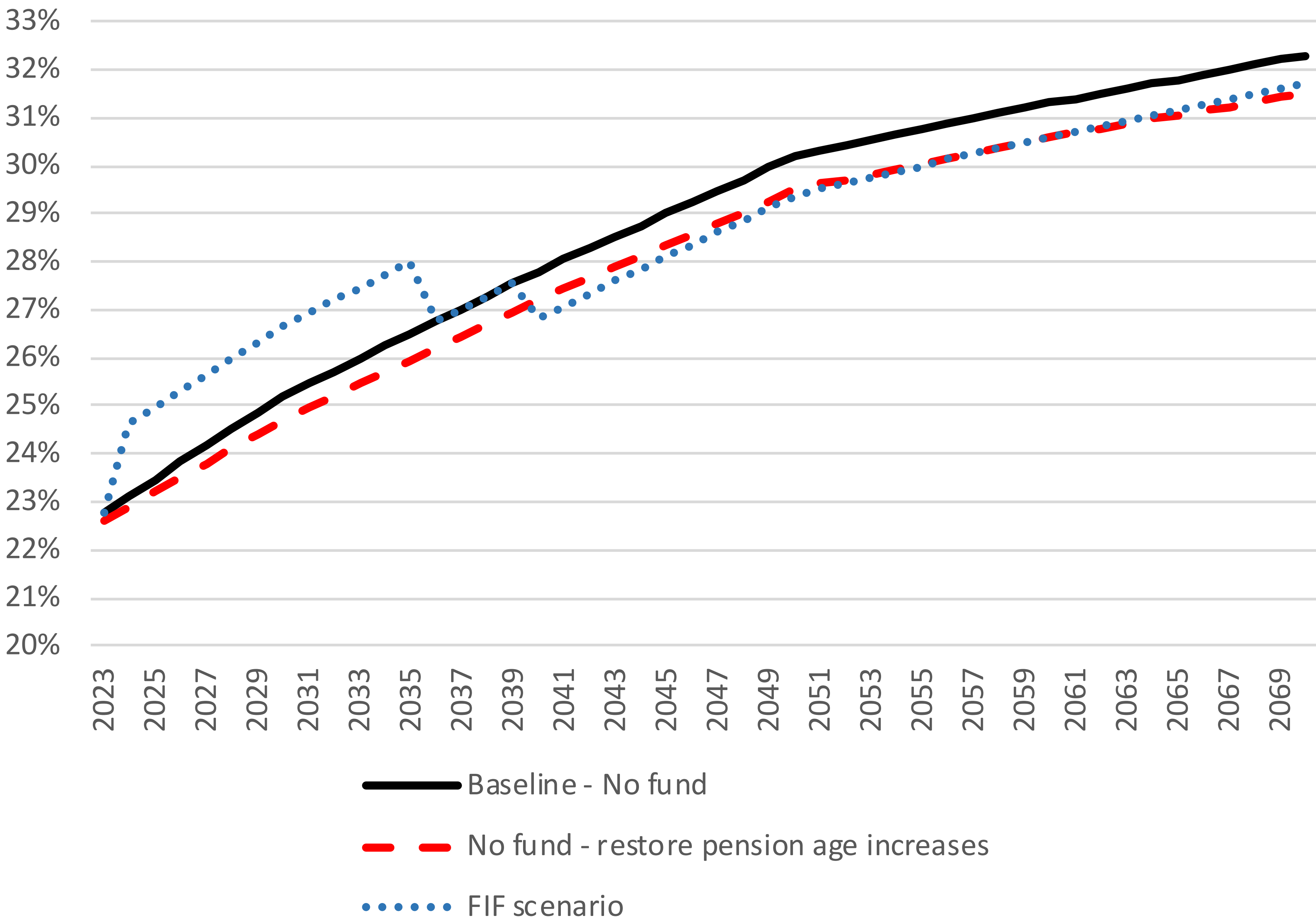
Baseline - No fund
No fund - restore pension age increases
FIF scenario

Projected ageing costs net of contributions to fund, as a percentage of GNI*



CREATE AN INFRASTRUCTURE FUND/AGENCY

Use windfall corporation tax for an infrastructure fund (suggested by IBEC and NERI).

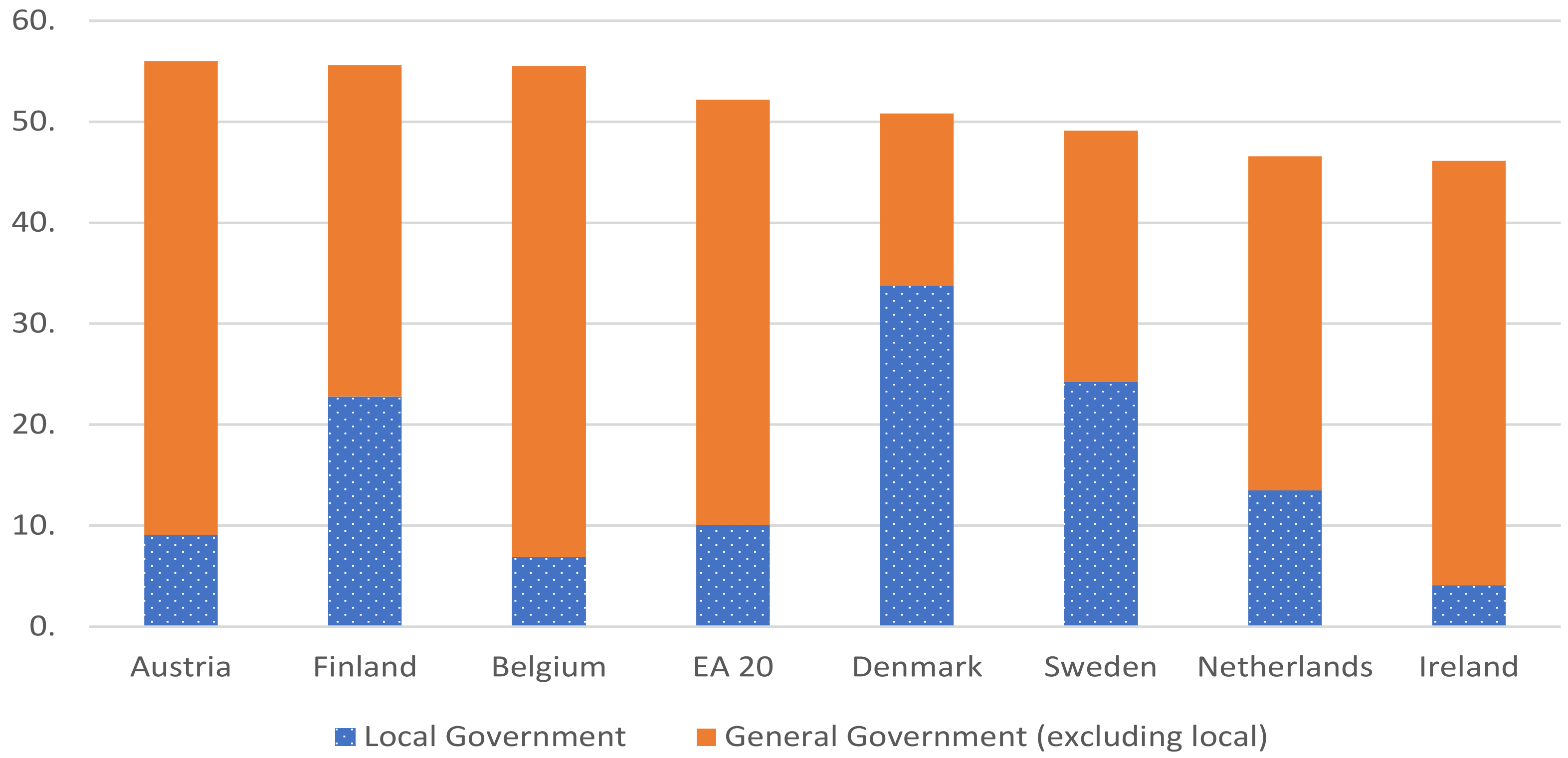
End boom-bust cycle.

Allows expertise to be developed and retained.

LOCAL GOVERNMENT

SPENDING IS MODERATELY LOW, BUT EXTREMELY CENTRALISED

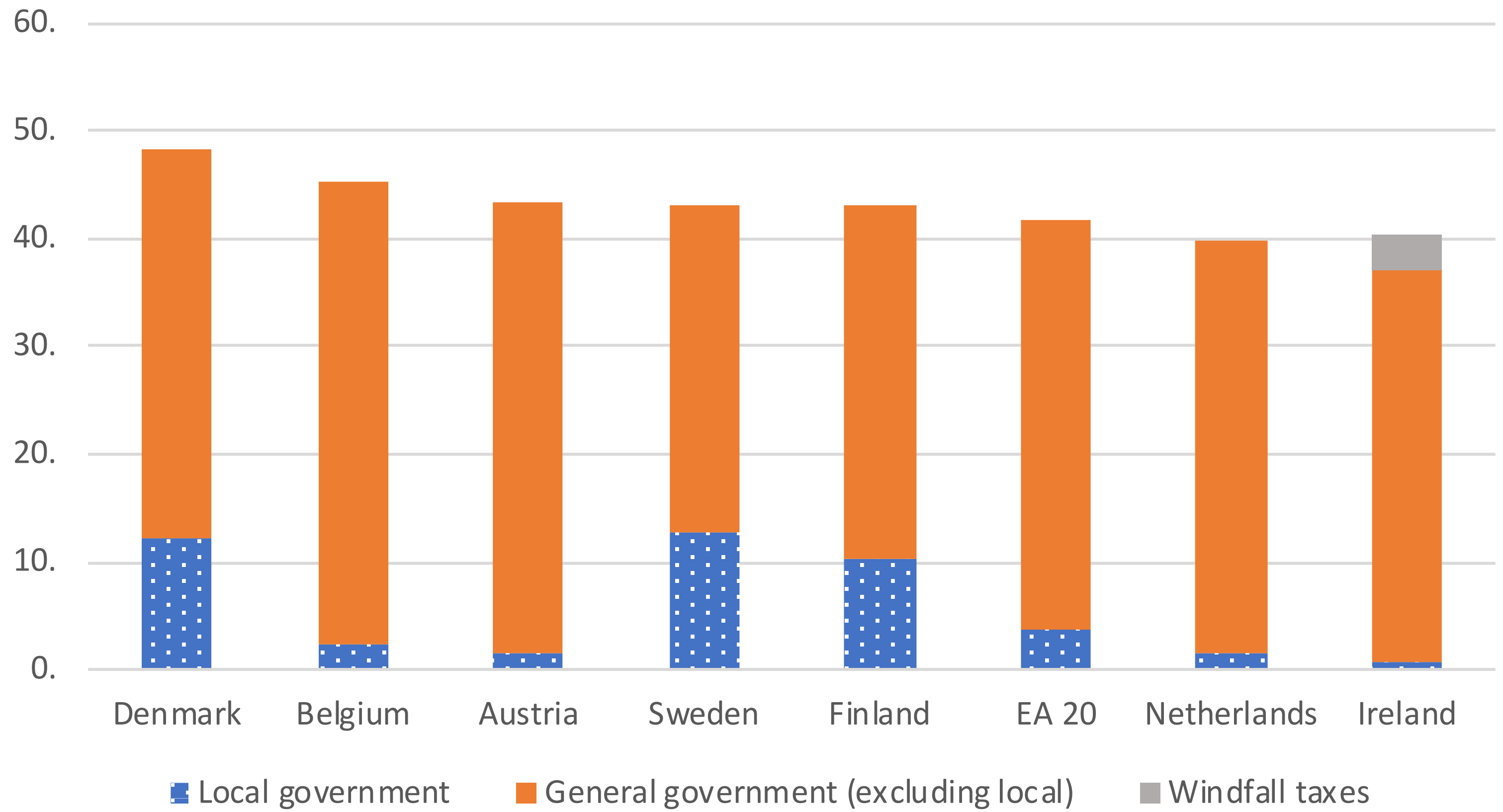
Government spending as a percent of GDP (GNI* for Ireland) 2021



Source: Eurostat gov_10a_exp and own calculations

REVENUE IS LOW (ONCE WINDFALLS REMOVED)

Government revenue as a percent of GDP (GNI* for Ireland) 2021



Source: Eurostat GOV_10A_TAXAG, IFAC (2022), and own calculations

CONCLUSION

We face challenges, but we’ve the resources to deal with them.

How money is spent is as important as how much.

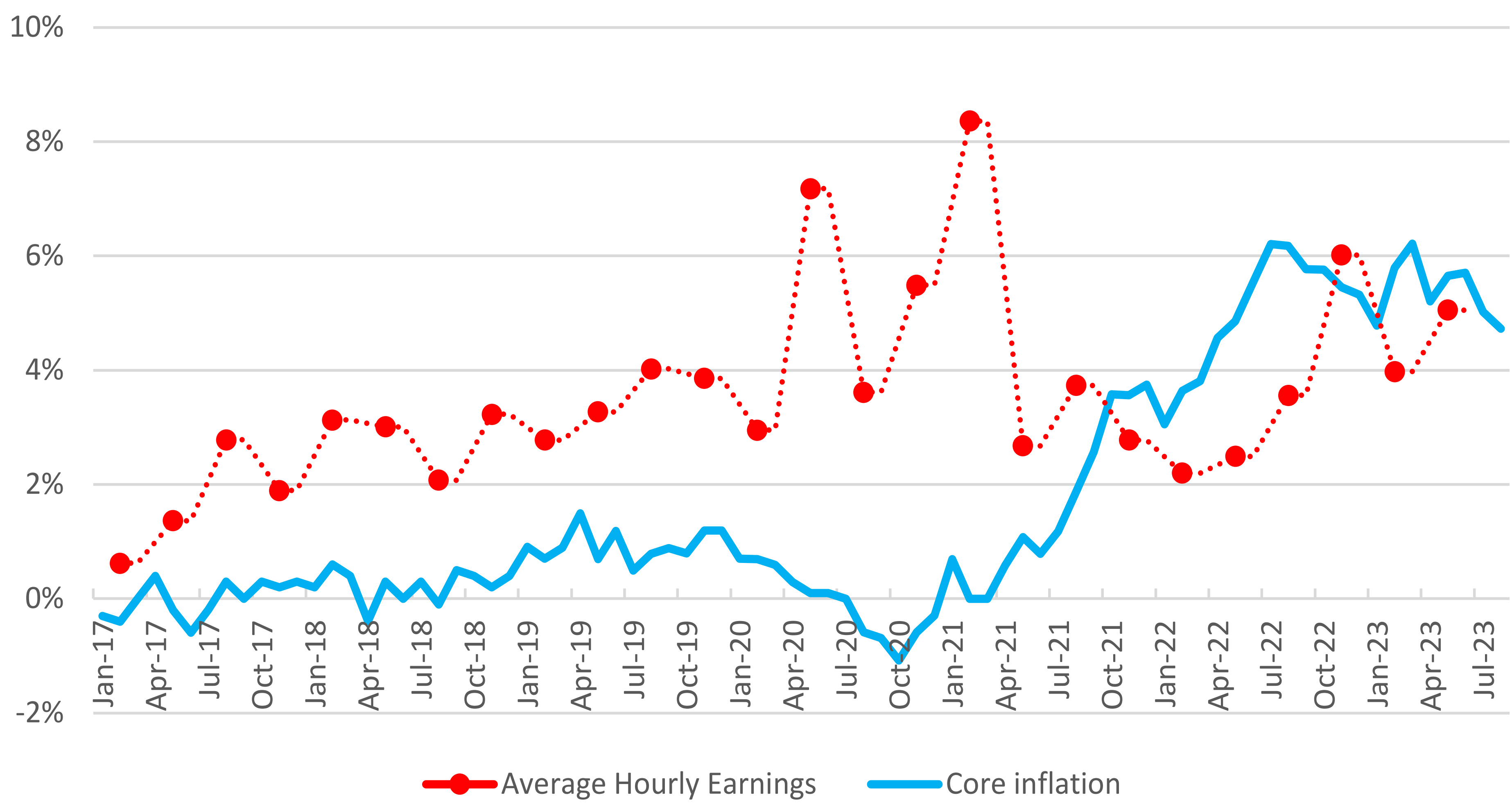
Expanding local government can lead to a more efficient and more democratic economy.

BONUS SLIDES

MODERATE SURPLUSES

	FIGURES AS % GNI*				
		2023	2024	2025	2026
1	GGB excluding windfalls	-0.6%	0.0%	1.6%	1.9%
2	Standstill costs	0.0%	-0.1%	1.0%	1.1%
3	GGB excluding windfalls, including standstill costs (1-2)		0.0%	0.5%	0.8%
4	Investment under NDP	4.2%	4.3%	4.3%	4.3%
5	GGB excluding windfalls and investment (1+4)	3.5%	4.3%	5.9%	6.2%
6	Investment related standstill costs		0.3%	0.3%	0.2%
7	GGB excluding windfalls and investment, including current standstill costs (1-2+4+6)		4.6%	5.1%	5.3%

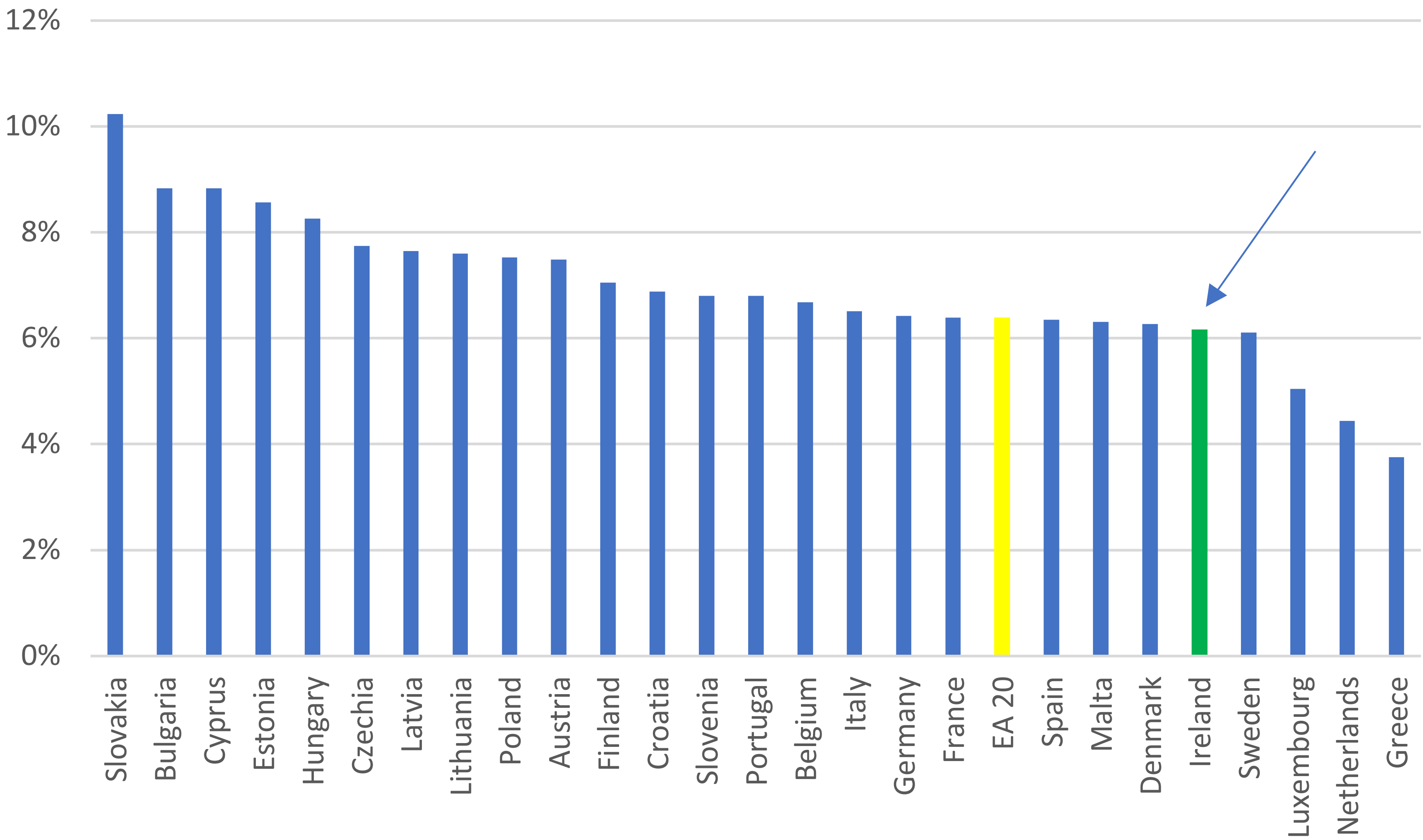
Percentage change on same period previous year



Source: CSO EHQ03, CPM15 and own calculations

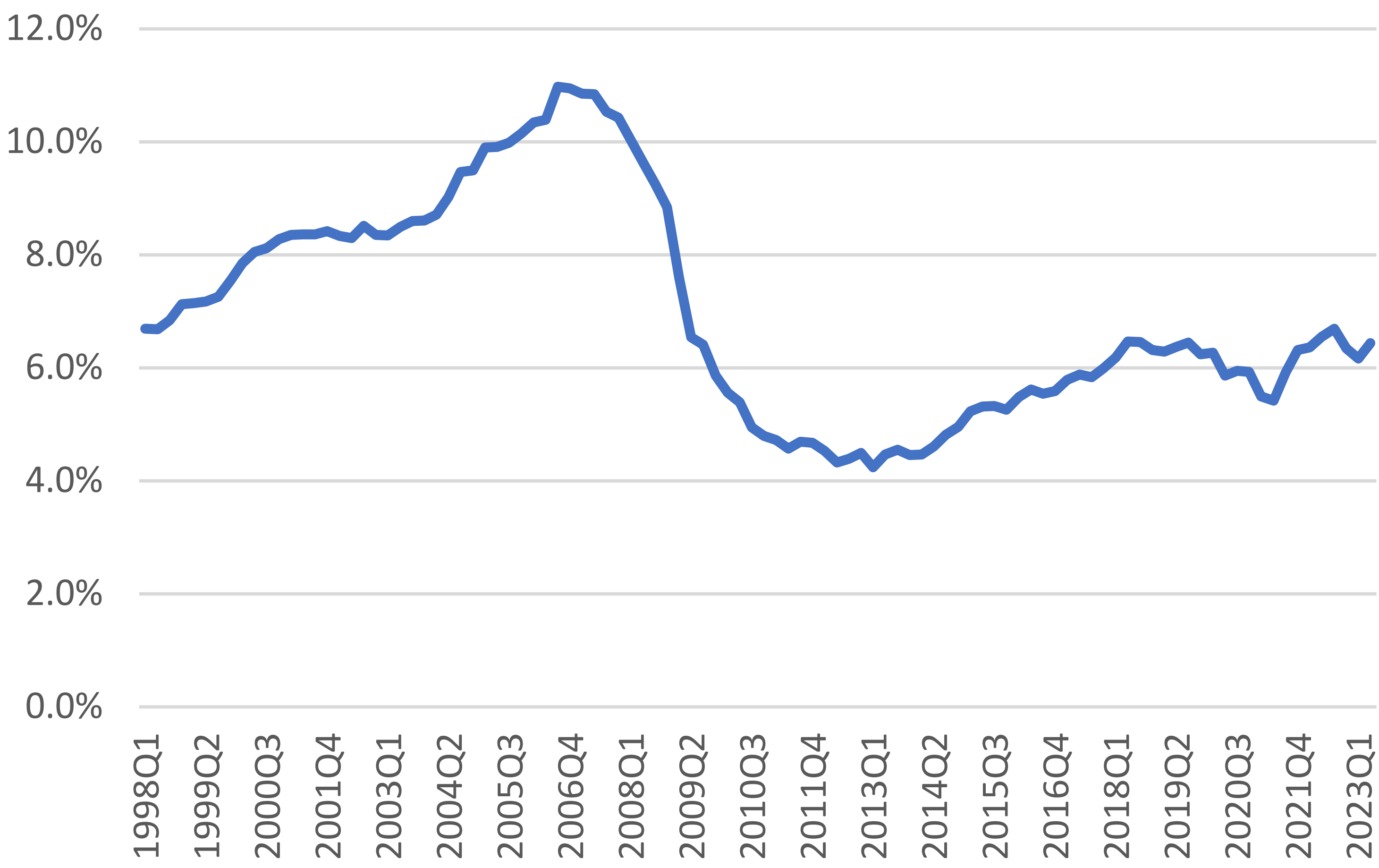
Note: Core inflation includes all items excluding energy and unprocessed food

Share of construction in total employment (Q1 2023)



Source: Eurostat LFSQ_EGAN2 and own calculations

Share of construction in total employment



Source:CSO QLF03 and own calculations

GOVERNMENT SPENDING BY FUNCTION AS A PERCENT OF GDP (GNI* FOR IRELAND) 2021

	Ireland	Peer average	Euro Area 20
General Public Services	4.3	6.2	6.1
Defence	0.4	1.1	1.2
Public Order and Safety	1.5	1.5	1.7
Economic Affairs	5.8	6.0	6.4
Environmental Protection	0.6	0.7	0.9
Housing and Community Amenities	1.1	0.4	0.6
Health	9.9	8.6	8.3
Recreation, Culture and Religion	0.9	1.4	1.1
Education	5.6	5.8	4.7
Social Protection	16.2	20.6	21.1
Total	46.1	52.3	52.2
Social Protection – old age	6.5	10.3	11.1
Total excluding old age	39.6	42.0	41.1

Main tax aggregates as a percent of GDP (GNI* for Ireland) 2021			
	Ireland	Peer average	Euro Area 20
Taxes on production and imports	12.8	15.1	13.1
Taxes on individual or household income	12.1	14.0	n.d.
Taxes on the income or profits of corporations	6.7	3.5	n.d.
Capital taxes and Current taxes on capital	0.2	0.7	0.6
Employers' actual social contributions	3.7	5.2	7.9
Households' actual social contributions	2.2	4.4	6.2
Other	2.6	1.2	n.d.
Total receipts*	40.4	43.8	41.8

*Total receipts from taxes and social contributions (including imputed social contributions) after deduction of amounts assessed but unlikely to be collected

GOVERNMENT PLANS ARE UNREALISTIC

Budget 2024 plans meet IFAC's 'stand still' costs

No spending on Ukrainian refugees from 2025 onwards.

Low public sector wage increases.

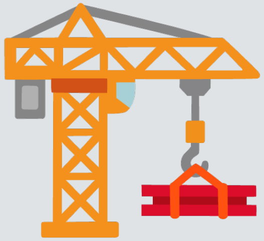
€bn	2023	2024	2025	2026
Stand-still costs		5.6	5.4	5.2
Shortfall	0.0	-0.2	3.2	3.6

NEED TO SPEND MORE ON INFRASTRUCTURE AND HOUSING

How many homes are needed each year?

The government estimated 33,000

It is more likely 50,000 are needed



THERE IS SCOPE TO RAISE INVESTMENT

	2023	2024	2025	2026
25% above NDP		1.8	3.4	3.55
Housing pressures		0.5	1	1
Total	11.86	15.12	18	18.75
As % GNI*	4.2%	5.1%	5.8%	5.7%

MONEY IS NOT ENOUGH

Lack of strategic direction

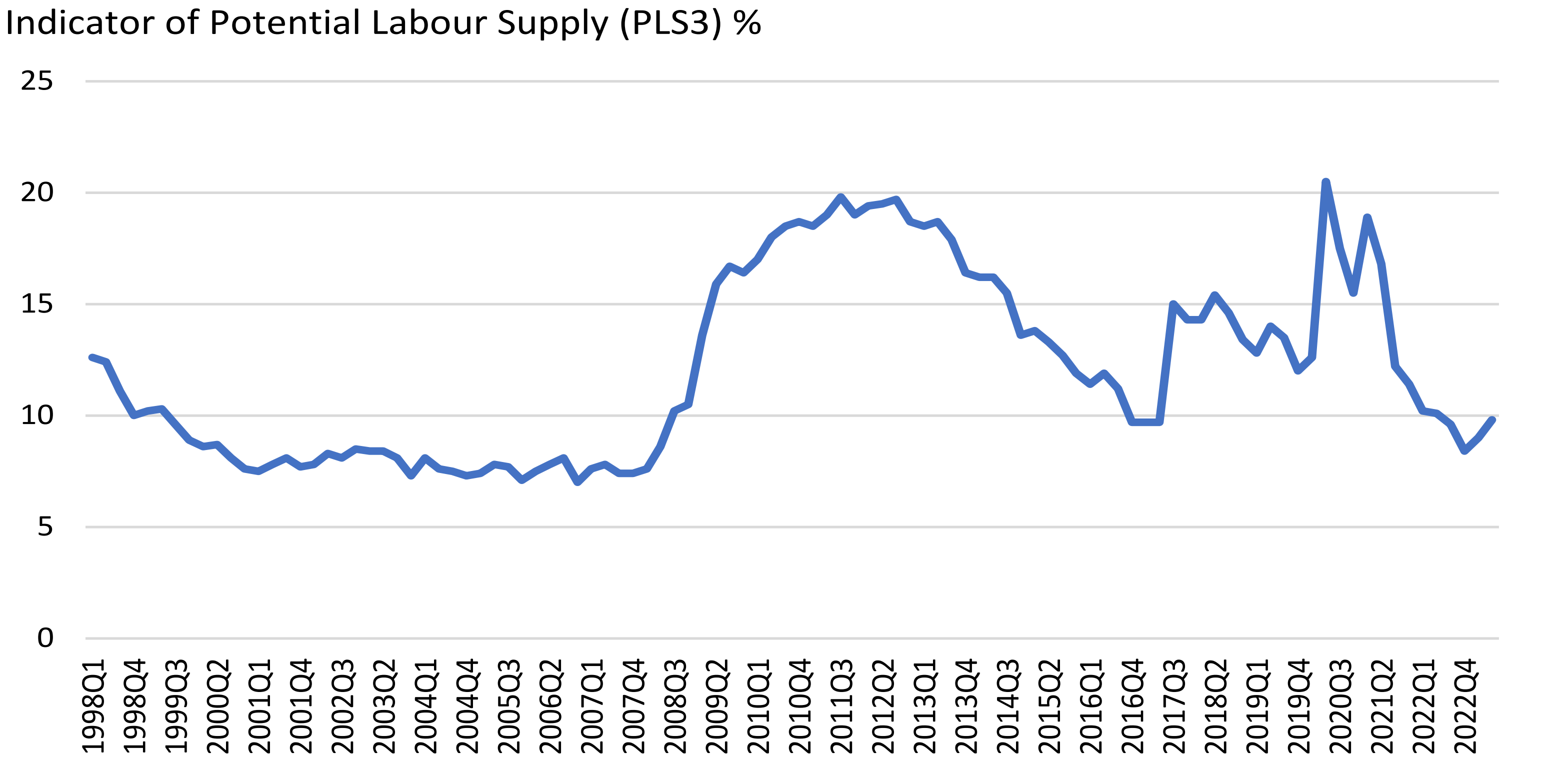
- Winding down NAMA and forming Land Development Agency shows the lack of coherence.
- Lack of scale in procurement (approved housing bodies)
- Reform planning (restrict objections on height/density to Local Area Plan Stage).
- Use public procurement to promote modern building methods

REVENUE OPTIONS

Raising capital taxes	0.5%	of GNI*
Employers’ PRSI	1%	of GNI*
Employee’s PRSI	0.5%	of GNI*
Environmental taxes	1%	of GNI*

Report from Commission on Taxation – wealth tax?

SOME ROOM TO INCREASE EMPLOYMENT



Source: CSO QLF30