BUDGET 2025

Rory O’Farrell

MAIN POINTS

- Budget 2025 doesn’t add to inflationary pressure, but longer-term issues have not been addressed.
- Put extra money into an national infrastructure agency.
- Hospitality should be helped by raising productivity, not VAT cuts
- More should be done on housing.

FISCAL STANCE IS APPROPRIATE

- Short-term constraints are easing
- Budget 2025 is neither expansionary nor contractionary
- Long term issues are building.

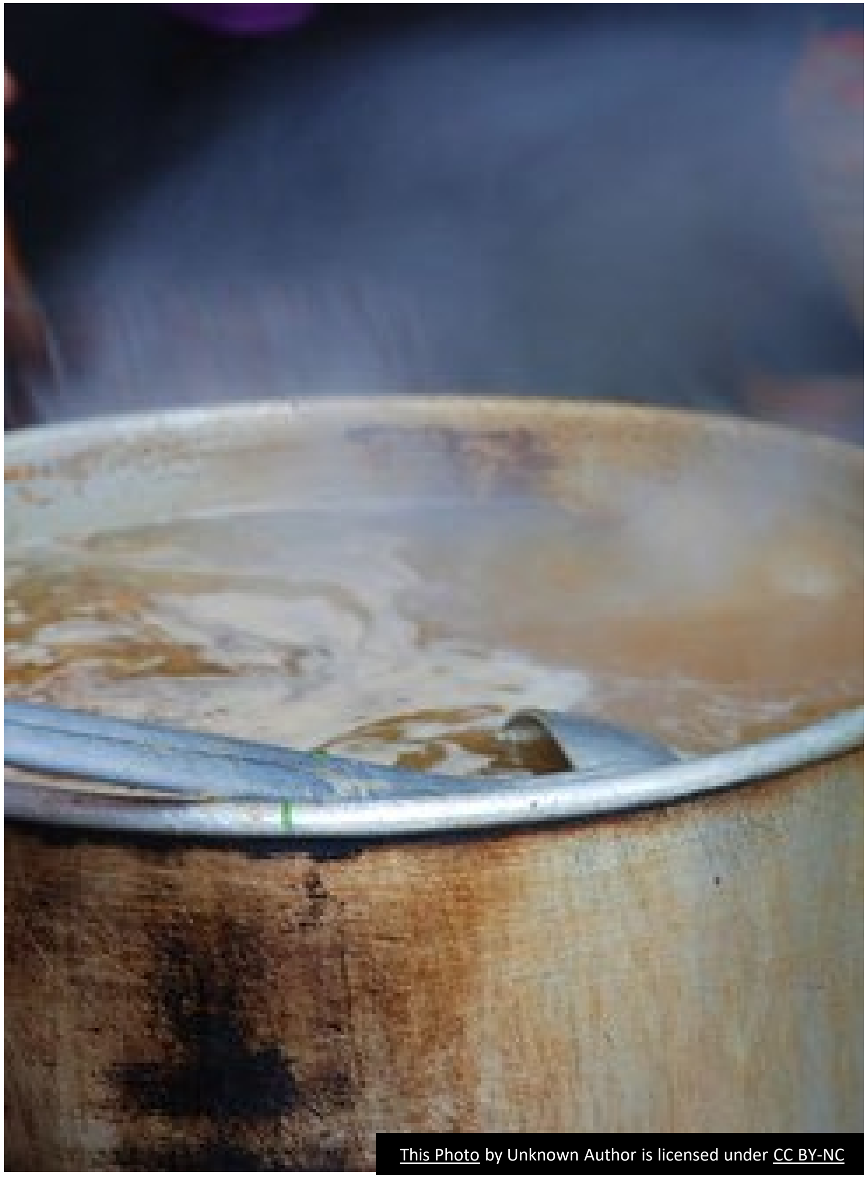
CONSTRAINTS ARE PHYSICAL RATHER THAN FINANCIAL

The economy is simmering, but not boiling over.

Low unemployment

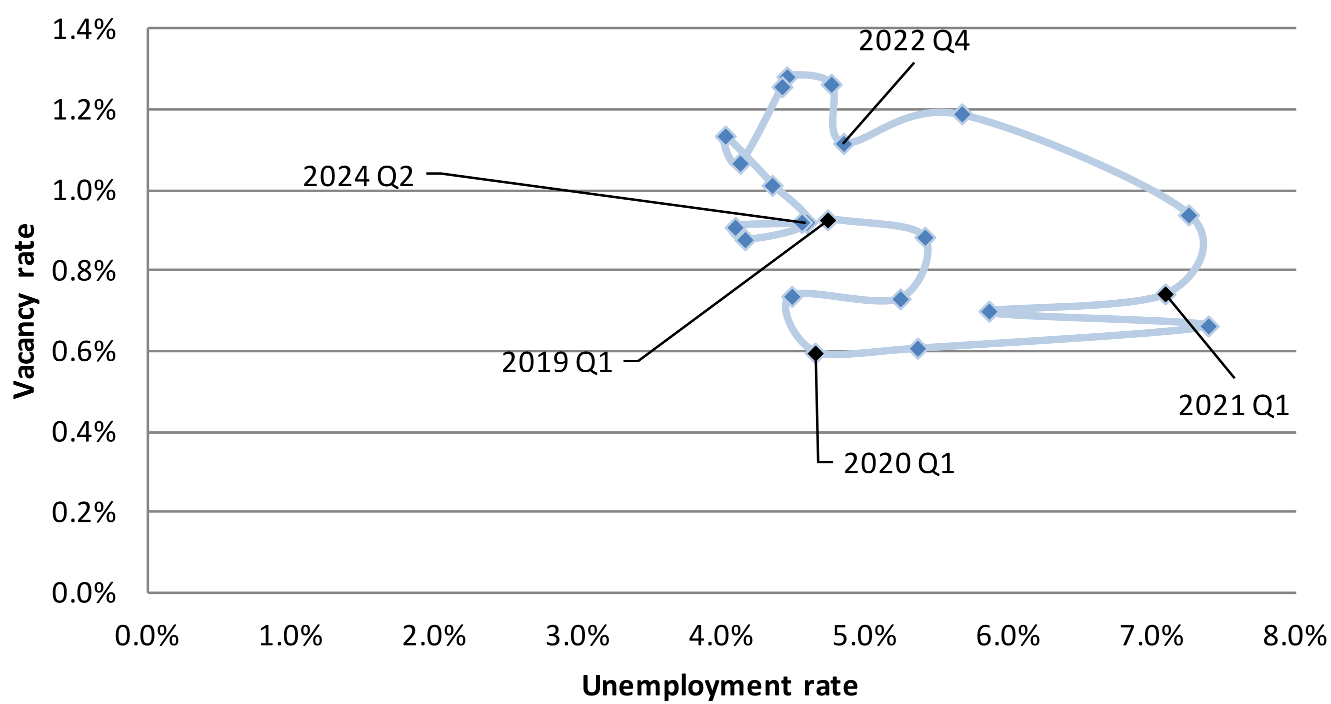
Housing shortage

Loads of money!!!!



LABOUR MARKET IS BACK TO 2019

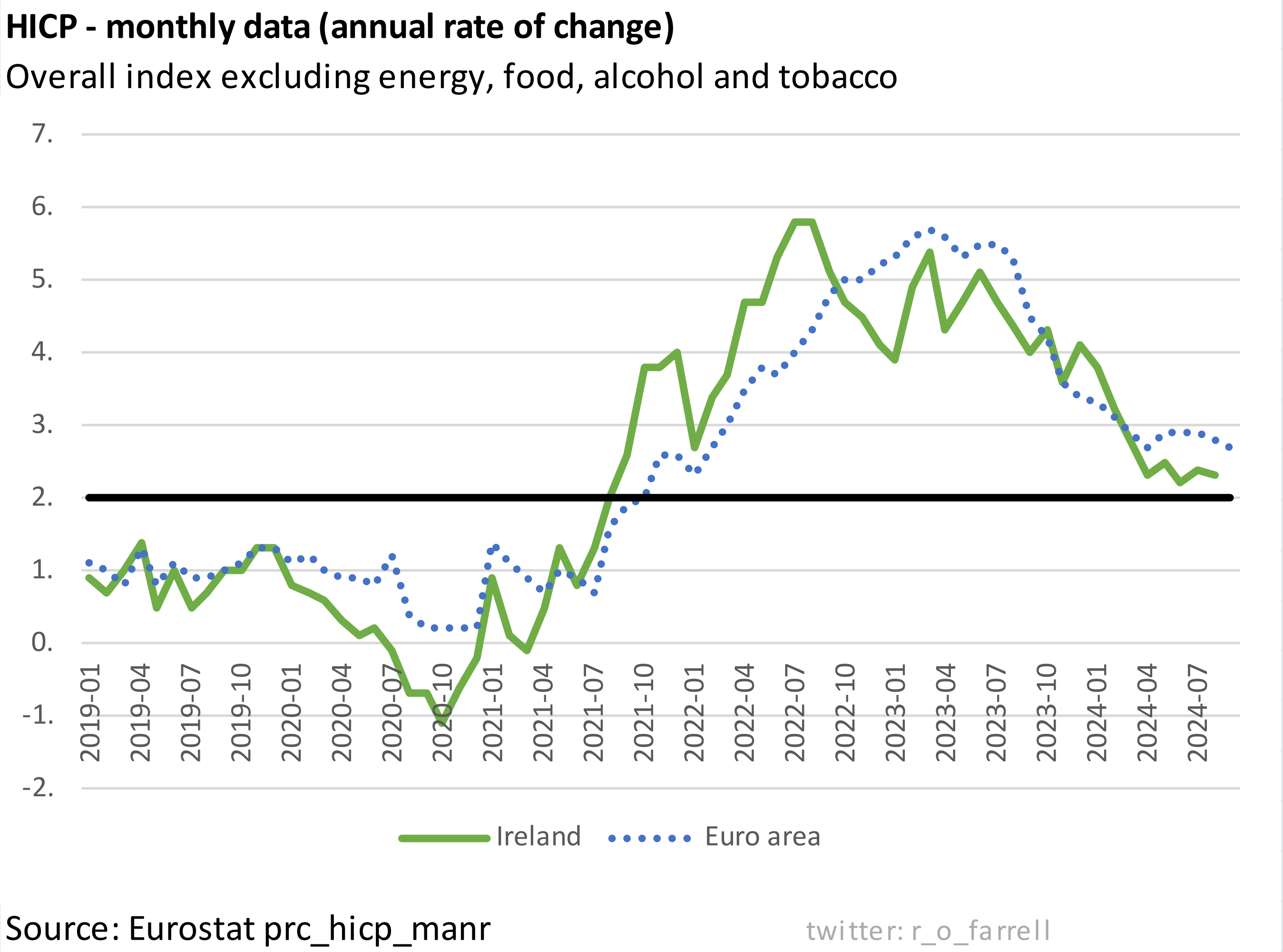
Beveridge Curve: The closer to the top left, the tighter the labour market



Source: CSO QLF01 EHQ16 and own calculations

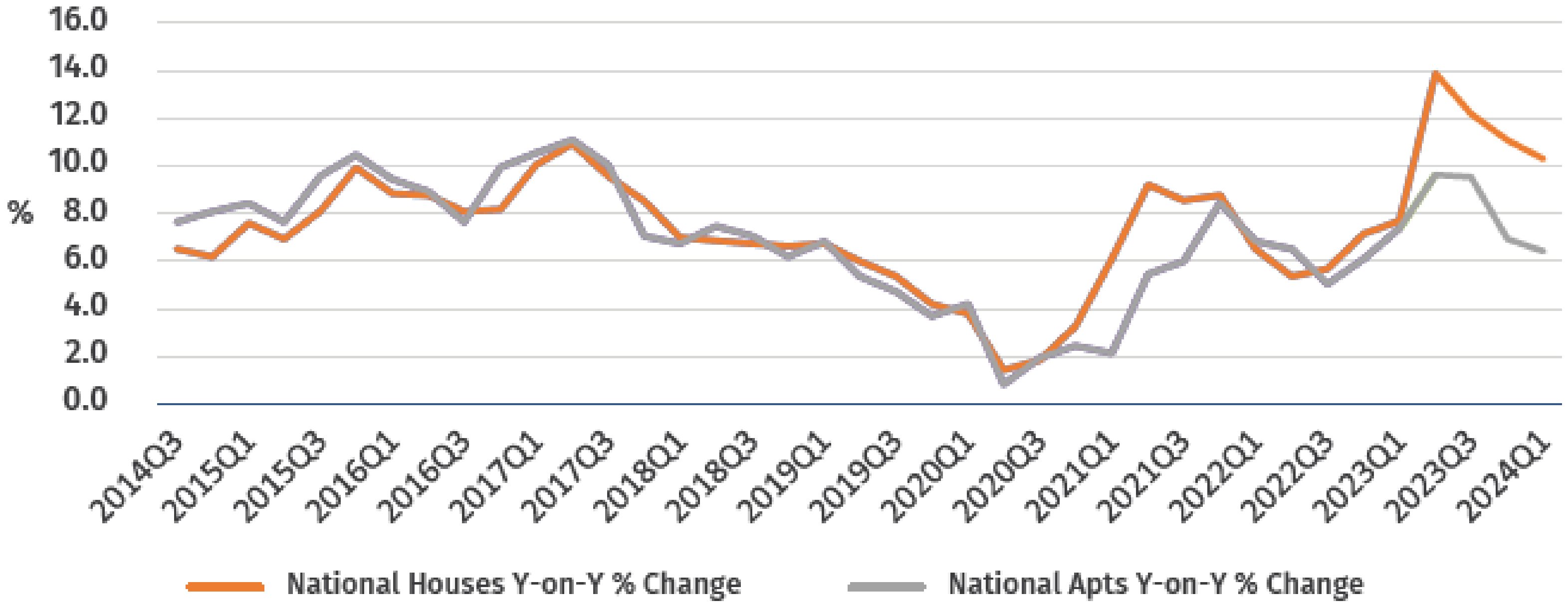
Note: Vacancy rate and unemployment rate are as a share of labour force (ages 15+)

CORE INFLATION IS STABILISING



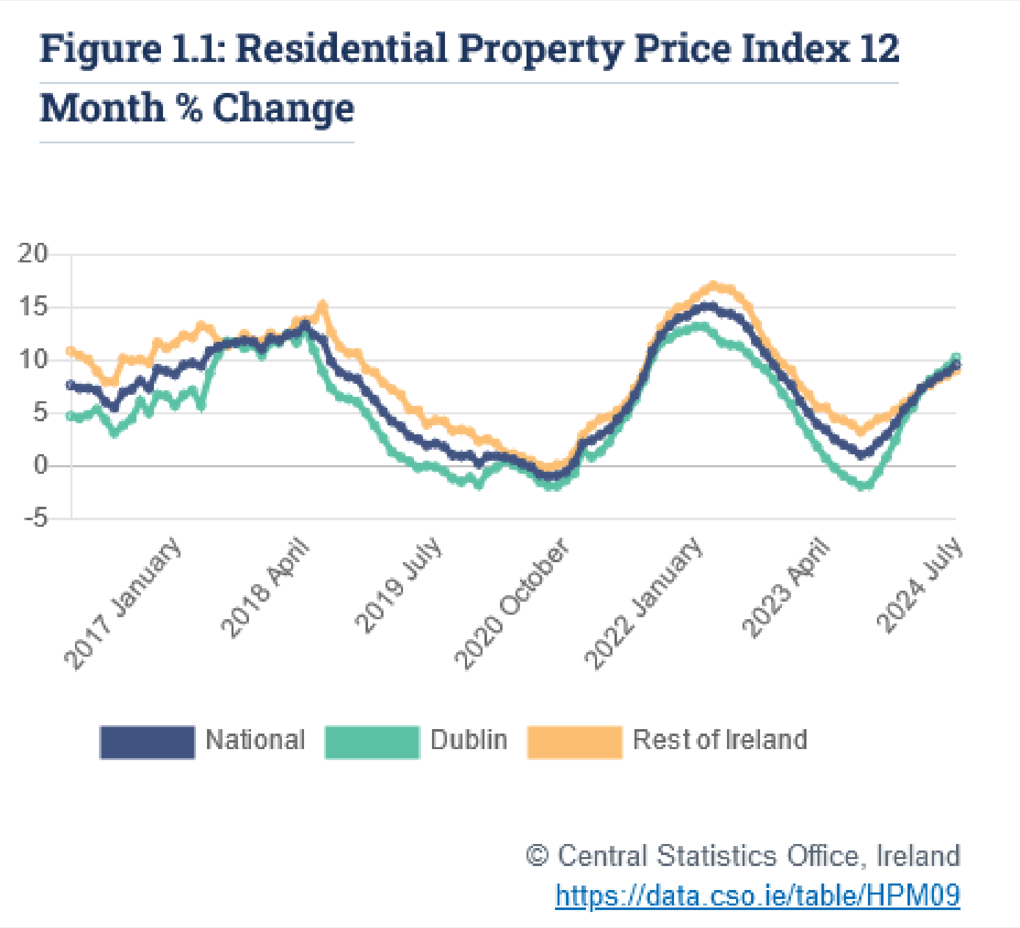
RENTS ARE STILL INCREASING

Figure 4 – RTB Rent Index - Year-on-Year Rate of Change (%) in Standardised Average Rent in New Tenancies for Houses and Apartments – National



Source: RTB Rent Index Q1 2024

HOUSE PRICES TOOK OFF AGAIN



A MATTER OF JUDGEMENT

Should the government follow an expansionary or contractionary policy?

A NEUTRAL STANCE IS APPROPRIATE

Leave the budget deficit unchanged.

(E.g. by allowing revenue and expenditure to rise with output and inflation.)

CURRENT PLANS ARE LARGELY NEUTRAL

Short term ok (not very inflationary)

Long term structural issues

FISCAL STANCE – TEENY BIT CONTRACTIONARY

	2023	2024	2025
Underlying General Government Balance	-€2.9bn	-€6.3bn	€5.7bn
As % GNI*	-1.0%	-2.0%	-1.7%
Change in GGB as % GNI*			

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FISCAL STANCE – LARGELY NEUTRAL IN 2025

	2023	2024	2025
Underlying General Government Balance	-€2.9bn	-€6.3bn	€5.7bn
As % GNI*	-1.0%	-2.0%	-1.7%
Change in GGB as % GNI*		-1.0%	+0.3%

General government revenue excluding Apple case

An increase of 4.76% is in line with inflation and GNI* growth (IFAC agree)

2024 €134,590 million

2025 €140,995 million

From Table 13 of Budget 2025 Economic & Fiscal Outlook

General government expenditure

An increase of 4.75% is in line with inflation and GNI* growth (IFAC *should* agree)

2024 €125,335 million

2025 €131,290 million

From Table 13 of Budget 2025 Economic & Fiscal Outlook

BUT… FINANCES AREN'T SUSTAINABLE

2025 surplus: 'only'	€9.7bn
We're getting	€15.4bn in excess corporation tax
DoF estimate	€ 4.0bn from cyclical factors
Surplus 'should' be	€19.4bn!

This is a major risk.

During Financial Crisis each €1bn of consolidation cost about 10,000 to 20,000 jobs.

Large international risks – US has a fiscal deficit (about 6% of their GDP)

WHAT I’D LIKE

Reform tax (Commission on Taxation and Welfare) and gradually close the €10 billion gap.

Create a national infrastructure agency that is funded upfront with the extra money we have.

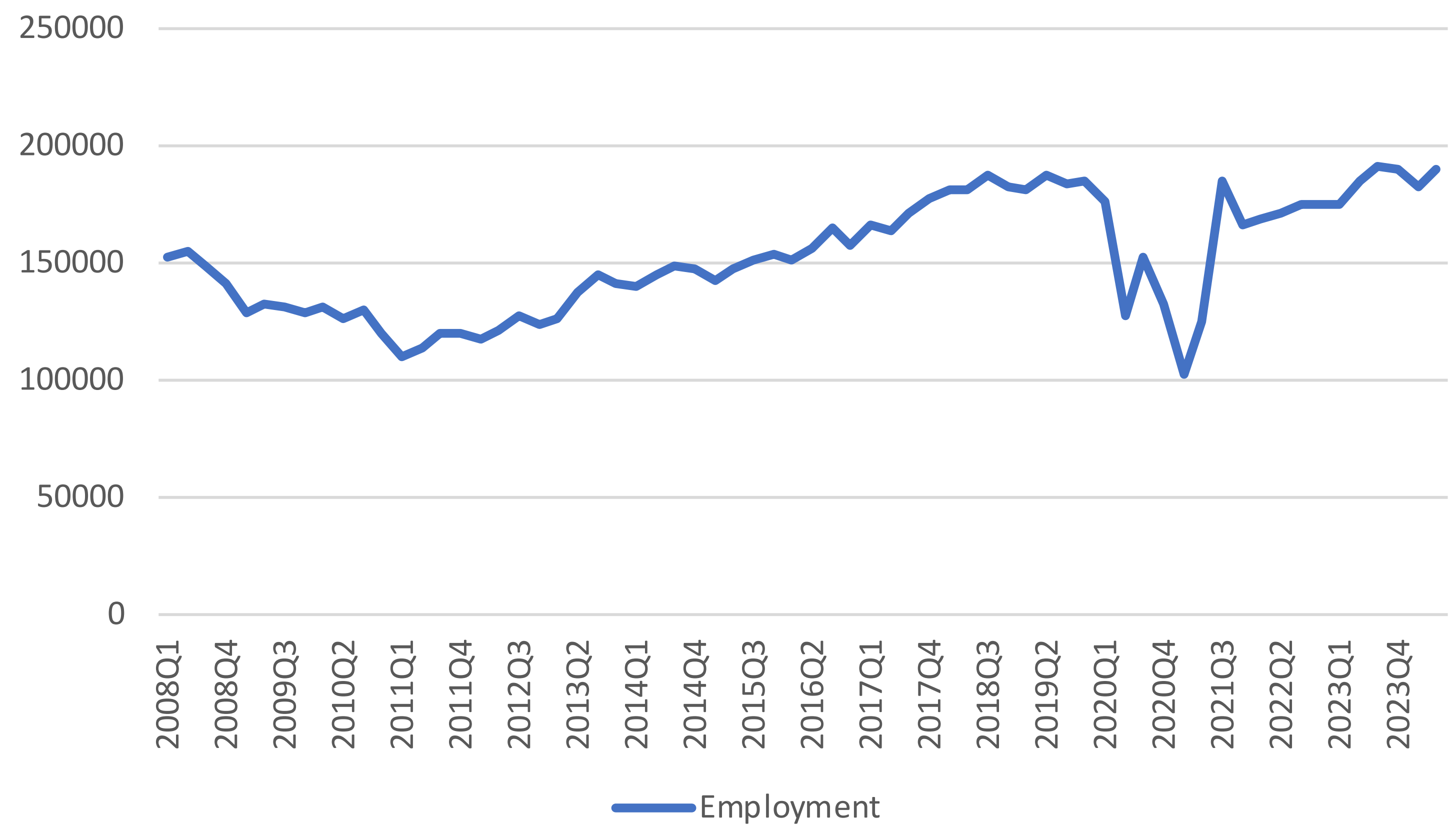
HOSPITALITY

Overall, hospitality sector is stable, but not booming (unlike some other sectors).

We should aim to raise productivity rather than cut VAT.

HOSPITALITY SECTOR EMPLOYMENT JUST OFF ALL TIME HIGH

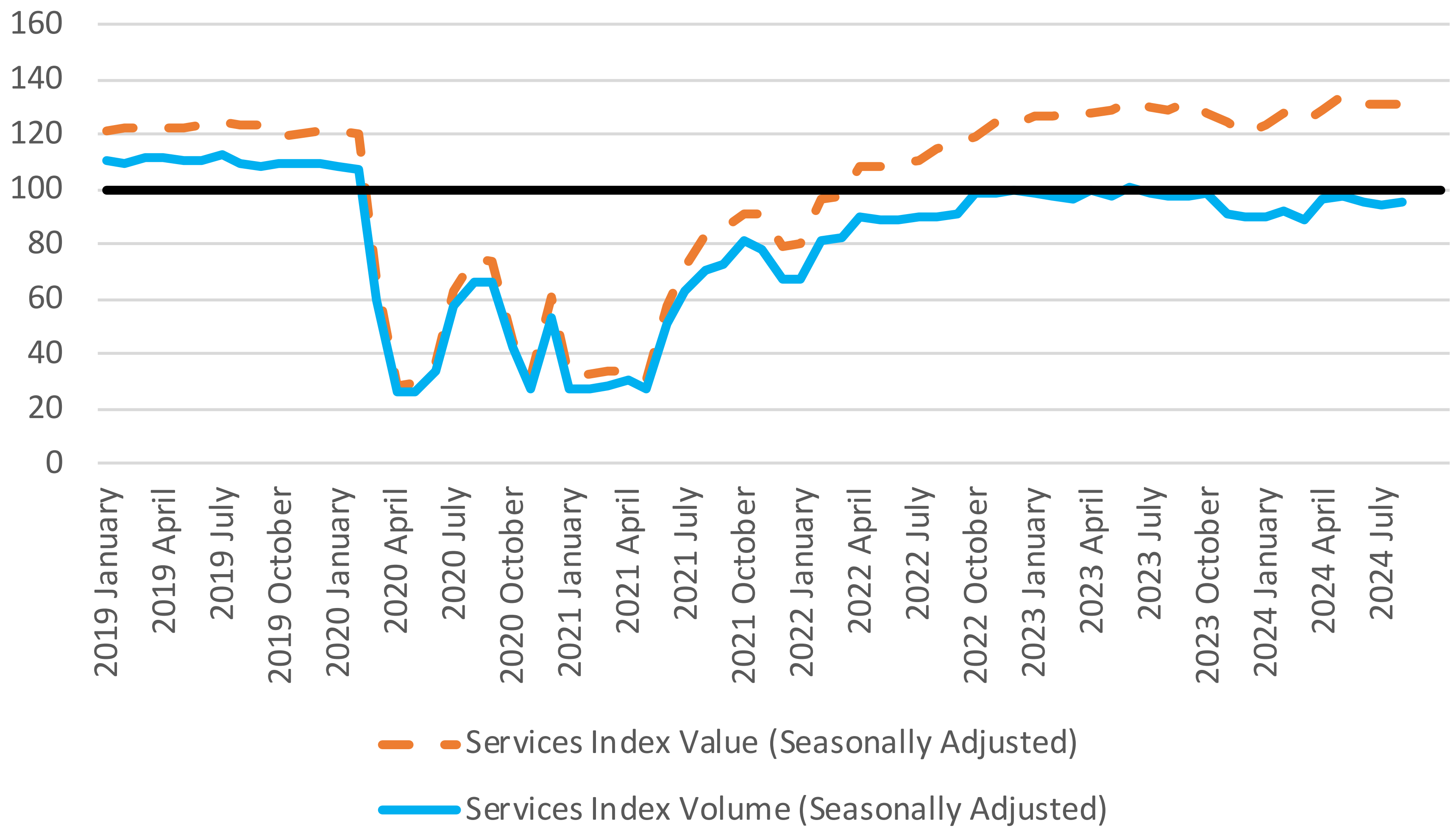
Employment in Accommodation and Food Sector



Source: CSO EHQ16

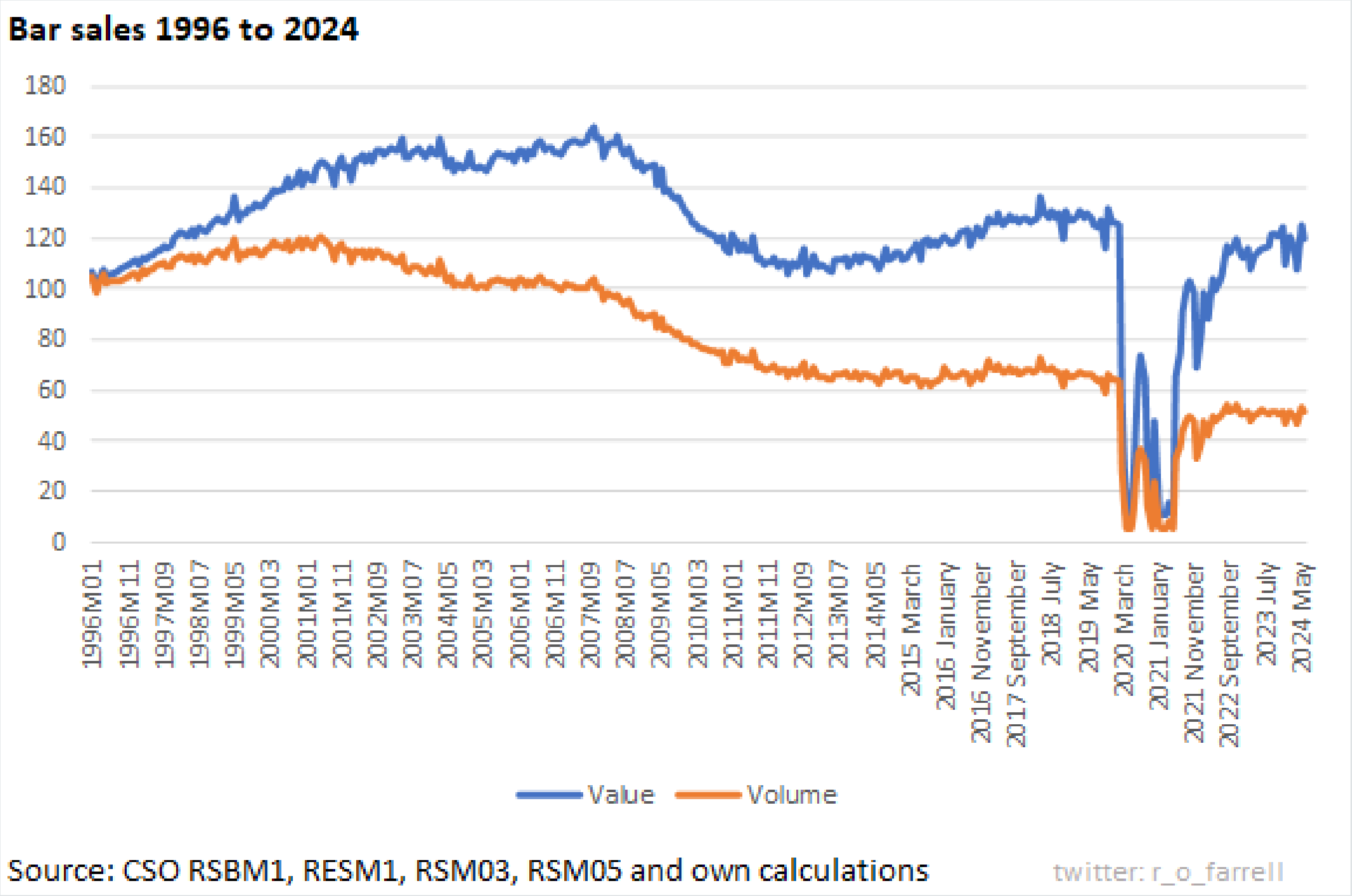
twitter: r_o_farrell

Accommodation & Food Service Activities Base 2015=100



Source: CSO MSI02

SOME ELEMENTS OF HOSPITALITY ARE IN LONG TERM DECLINE



Some areas hit harder than others

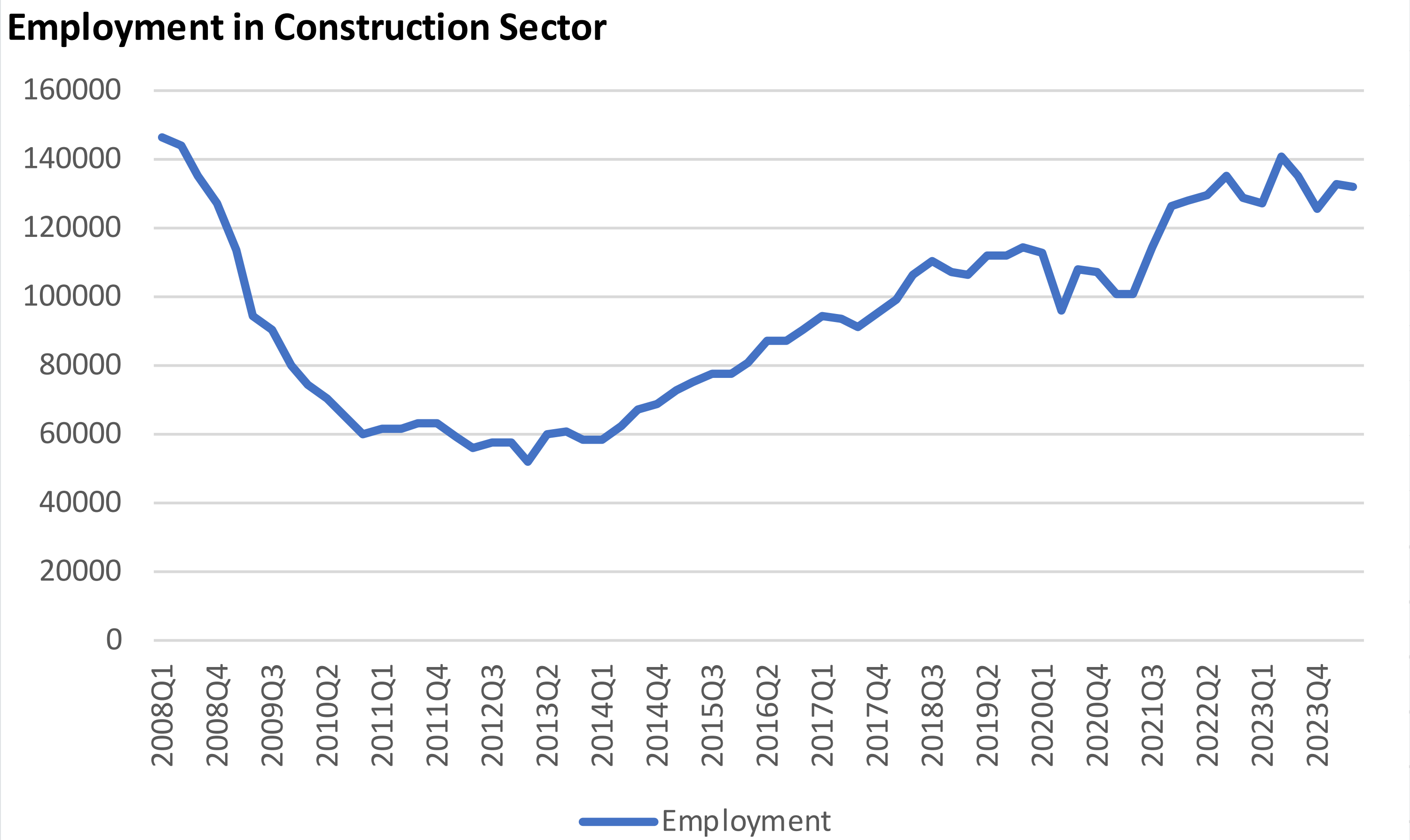
- Accommodation vs food
- City centres vs suburbs
- Dublin vs Killarney

Money better place raising productivity rather than VAT cuts.

Reducing alcohol consumption has been official policy for a long time (and has worked!)

CONSTRUCTION

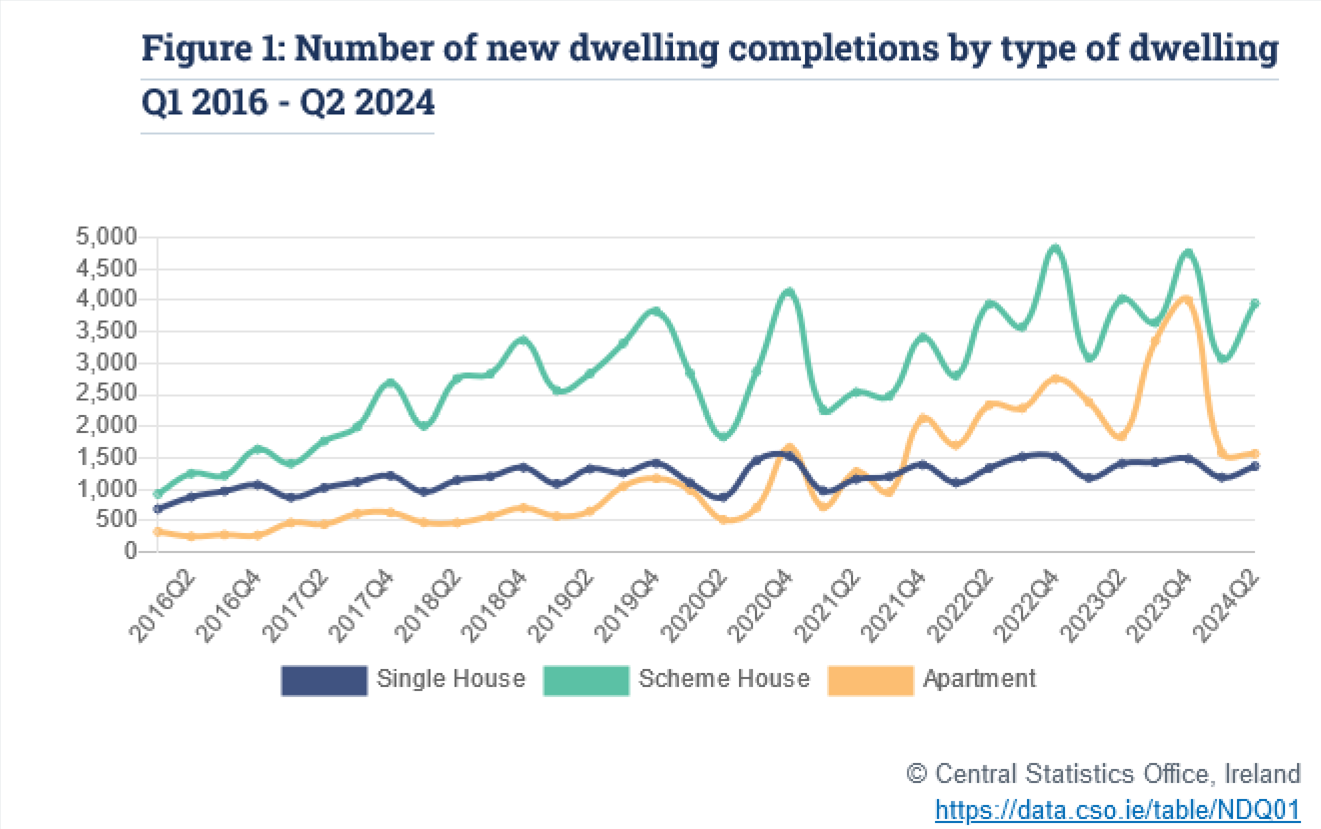
CONSTRUCTION EMPLOYMENT GROWTH HAS STALLED



Source: CSO EHQ16

twitter: r_o_farrell

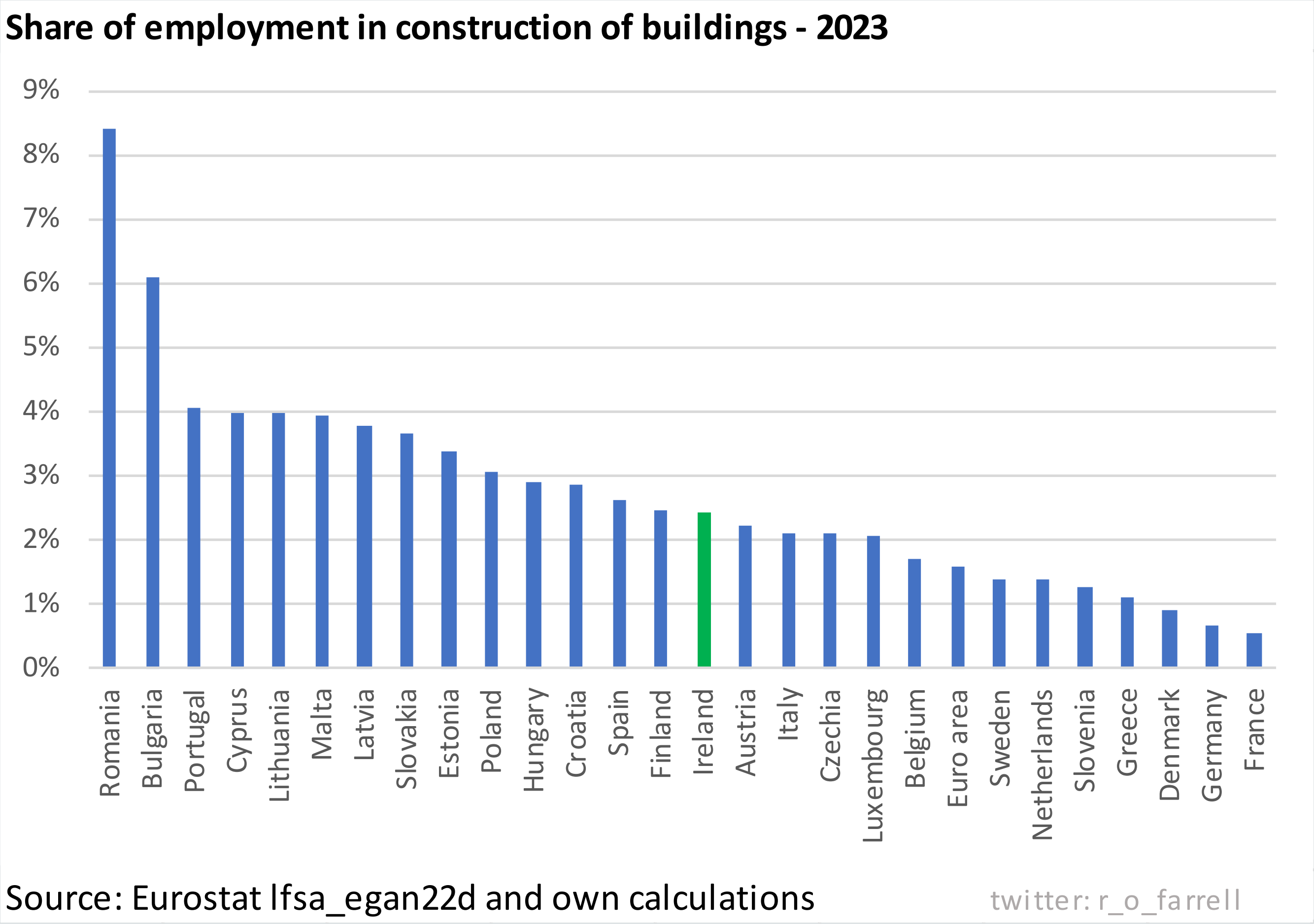
NEW DWELLING COMPLETIONS DOWN 5%



Central Bank forecast

- slight fall dwelling completions this year
- Increases 2025 onwards

SHARE OF EMPLOYMENT IN CONSTRUCTION IS LARGE FOR WESTERN EUROPE – NEED TO RAISE PRODUCTIVITY



CONCLUSION

From a macro perspective:

- This budget doesn’t make things particularly worse
- Does little to fix the problems that have been growing

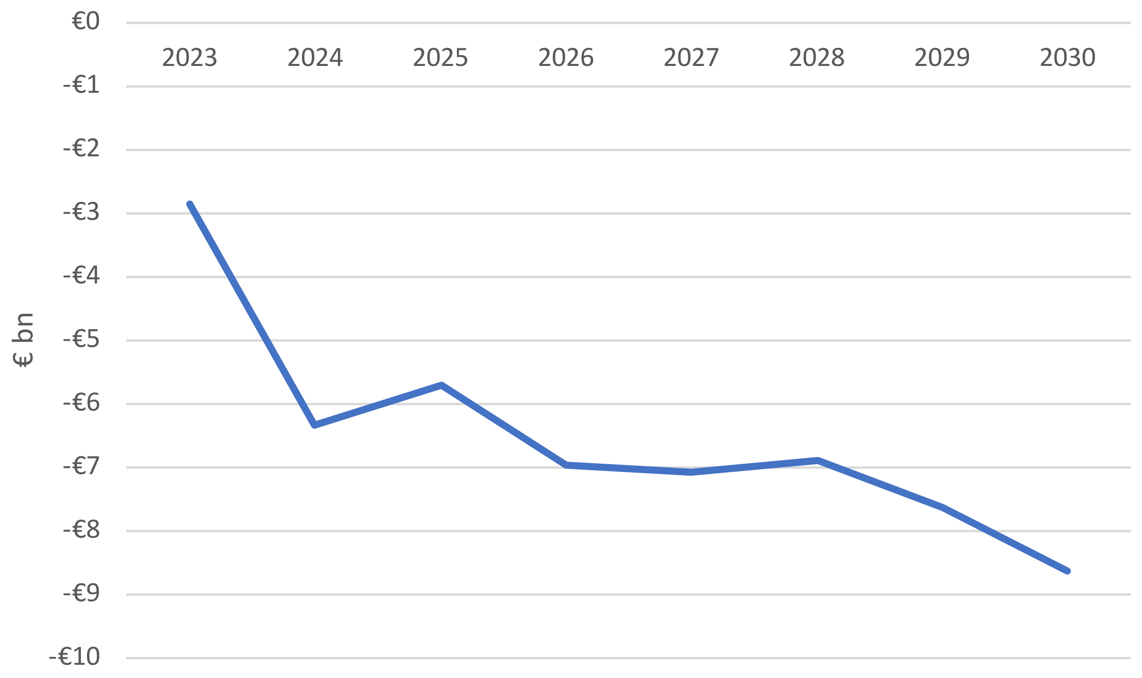
Put the extra money into an infrastructure fund

Construction shouldn’t be stalling.

BONUS SLIDES!

WE SHOULD HAVE AN UNDERLYING SURPLUS

Underlying deficit



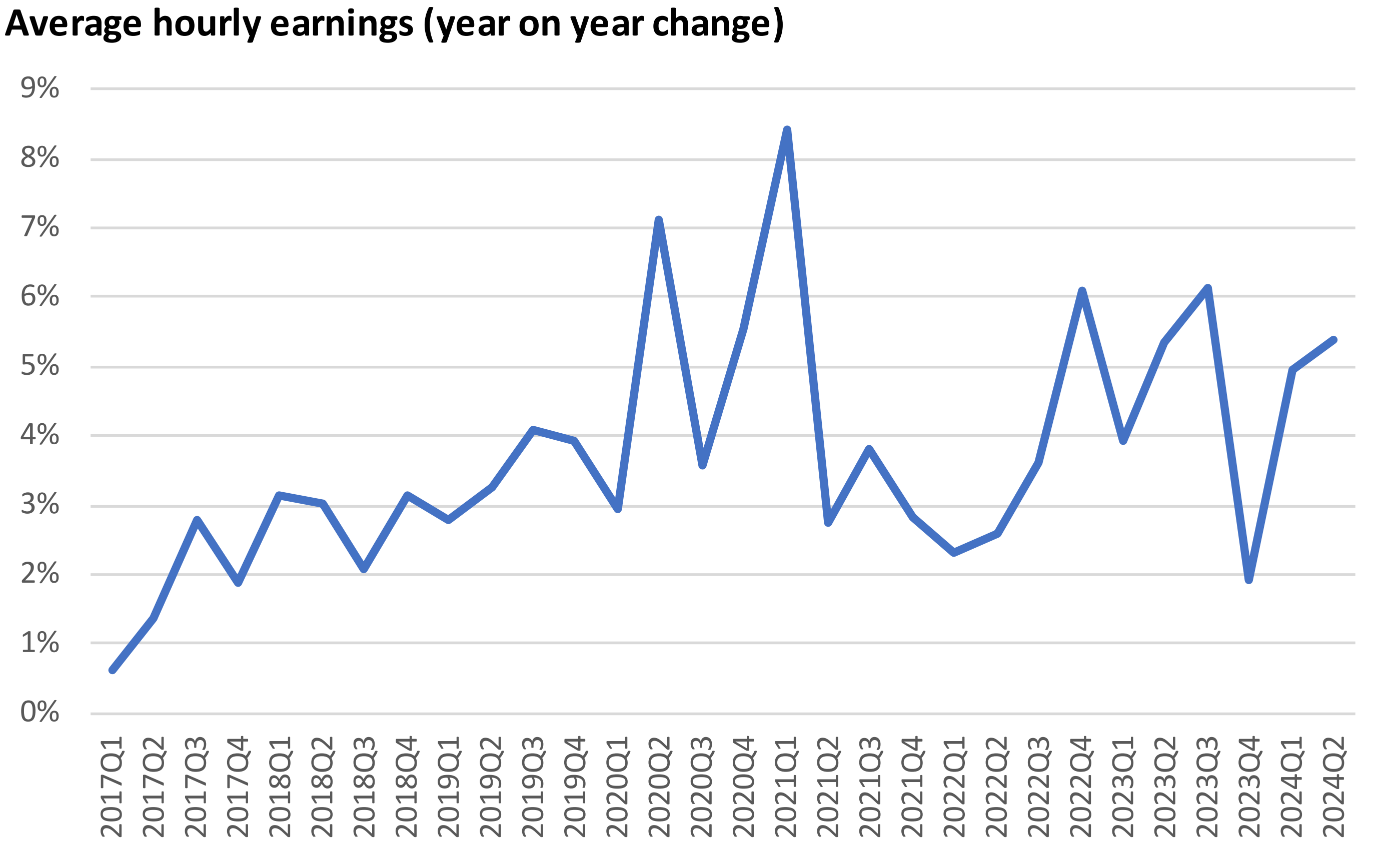
Source: Department of Finance Budget 2025 Economic & Fiscal Outlook Table 13

From 2015 to 2023 in windfall corporation tax receipts IFAC estimates we got €44bn.

This roughly equals the bank bailouts.

PLANNING PERMISSION DOWN

STEADY WAGE GROWTH



Source: CSO EHQ03 and own calculations