

# Irish public finances

Stability Programme Update – April 2024

## Surpluses hide creeping spending indiscipline

### Headline surpluses despite slippage on spending discipline

The Stability Programme Update (SPU) is one of the two big fiscal “events” in the economic calendar that provide us with a detailed view of the government’s policy setting. The latest SPU published yesterday paints Ireland in a relatively positive headline fiscal position but there has been further slippage on spending discipline, resulting in lower headline budget surpluses over the forecast period. This is even before a likely “election” budget later this year.

### Lower budget surpluses expected in 2025 and 2026

On a headline basis, the forecasts point to public finances that are in solid shape in Ireland. A general government surplus of 2.8% of GNI\* is expected in 2024, relatively unchanged from the estimate set out in Budget 2024 last October. A surplus of 3.0% of GNI\* is expected in 2025. This represents a significant reduction on the 4.4% of GNI\* surplus pencilled in last October. Taking the four-year period 2023-2026, the cumulative surplus is now expected to be €35bn, down from €46bn last October. While this appears to be a healthy position, it must be put in the context of the estimated €44bn in “windfall” corporation tax receipts over the same time period.

### Higher spending due to public sector pay and “contingencies”

The lower budget surpluses are mainly a result of higher estimates for spending on public sector pay and an ongoing “contingency” for unforeseen events. While we credited the government for its transparency in identifying “core” and “non-core” spending, there is a higher risk now that this spending will in fact remain permanent. We note also the calls for further fiscal measures following the appointment of the new Taoiseach and in advance of the next General Election likely to be held in March 2025. With new European fiscal rules unlikely to be binding in the case of Ireland, it is important that it adheres to its own rules (such as the 5% spending growth rule). There has been slippage on this in recent years.

### Debt ratio continues to fall

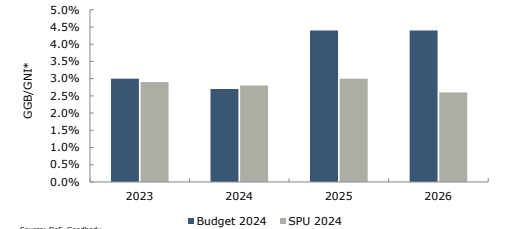
Despite the spending growth, debt levels continue to fall. Debt/GDP is expected to fall to just 39.5% in 2025, but this is flattered by the inflated level of GDP due to multinational profits. Debt/GNI\* is expected to fall to 69.7% in 2025. This means a continuation of an impressive downward trend having been at 107% as recently as 2020 and is now at the lowest level since 2009.

Economic Research

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### Evolution of budget surplus forecasts



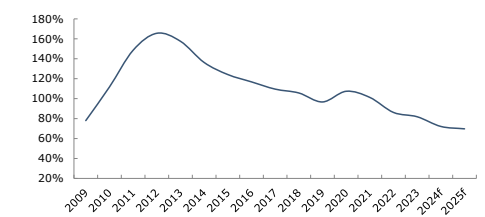
Source: DoF, Goodbody

### Growth Summary Table (YoY%)

	2024	2025
Real GDP	2.6%	3.9%
Real GNP	2.1%	3.5%
Modified Domestic Demand	1.9%	2.3%
Real GNI*	2.0%	1.9%

Source: DoF

### Government debt levels (Debt/GNI\*)



Source: DoF, CSO, Goodbody

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## Growth expected to remain close to potential out to 2026

The SPU projects that economic growth in Ireland will remain relatively stable over the forecast period to 2027. Modified domestic demand is expected to grow by 1.9% in 2024 and 2.3% in 2025. These represent modest downgrades in both cases (see table) but represents a relatively favourable outlook relative to the rest of the euro area.

Growth is expected to pick up to 2.9% in 2026 and 2027, pointing to growth in and at around long-term potential for the Irish economy over this period. Unemployment is also expected to remain low, while core inflation is anticipated to fall back to 2.1% this year and remain at close to this level over the forecast period. The risks here are skewed to the upside in our view given the tightness of the labour and the lack of spare capacity generally.

Main economic forecasts						
	Budget 2024		SPU 2024		Change	
	2024	2025	2024	2025	2024	2025
Real GDP	4.5%	4.5%	2.6%	3.9%	-1.9%	-0.6%
Real GNP	4.0%	4.0%	2.1%	3.5%	-1.9%	-0.5%
Modified Domestic Demand	2.2%	2.5%	1.9%	2.3%	-0.3%	-0.2%
Real GNI*	2.0%	2.1%	2.0%	1.9%	0.0%	-0.2%
Nominal GDP (€m)	575.0	612.6	531.9	565.6	-43.1	-47.0
Nominal GNP (€m)	411.8	438.3	409.8	435.1	-2.0	-3.2
Nominal GNI* (€m)	307.2	320.8	306.3	320.4	-0.9	-0.4
<b>Components of GDP</b>						
Personal consumption	3.2%	2.3%	2.4%	3.1%	-0.8%	0.8%
Govt. consumption	1.4%	0.1%	0.6%	0.7%	-0.8%	0.6%
Investment	3.6%	5.4%	-14.5%	3.6%	-18.1%	-1.8%
Modified Investment	0.1%	5.0%	1.8%	1.6%	1.7%	-3.4%
Modified Domestic Demand	2.2%	2.5%	1.9%	2.3%	-0.3%	-0.2%
Exports	5.3%	4.8%	2.8%	4.6%	-2.5%	-0.2%

Source: DoF

## Lower surpluses projected in new forecasts

A comparison of the main fiscal aggregates with Budget 2024 last October shows relatively unchanged estimates for 2024, but relatively sizable changes for 2025 and beyond. As shown in the next table, a surplus of 2.8% of GNI\* is expected this year, with a 3.0% surplus expected in 2025 (down from 4.4% previously). Excluding "windfall" corporation tax, a deficit is now expected in both years.

Transfers to the Future Ireland Fund of c.€4bn per annum from 2024 and €2bn into the Infrastructure, Climate and Nature Fund (ICNF) from 2025 are included in the estimates. These impact on the Exchequer (cash) balance, but not the general government balance. The Exchequer is now expected to run a very modest surplus of €0.7bn in 2025, €3.4bn lower than expected last October.

Headline fiscal aggregates						
	Budget 2024		SPU 2024		Change	
	2024	2025	2024	2025	2024	2025
GG Balance	8.4	14.2	8.6	9.7	0.2	-4.5
GG Balance/GNI*	2.7%	4.4%	2.8%	3.0%	0.1%	-1.4%
Underlying GG Balance	-2.7	2.5	-2.7	-1.8	0.0	-4.3
Underlying GGB/GNI*	-0.9%	0.8%	-0.9%	-0.6%	0.0%	-1.3%
Exchequer balance	1.8	4.1	2.5	0.7	0.7	-3.4
GG Debt	222.2	219.4	220.8	223.2	-1.4	3.8
GG Debt/GDP	38.6%	35.8%	41.5%	39.5%	2.9%	3.6%
GG Debt/GNP	54.0%	50.1%	53.9%	51.3%	-0.1%	1.2%
GG Debt/GNI*	72.3%	68.4%	72.1%	69.7%	-0.2%	1.3%

Source: DoF Underlying GGB is the balance excluding "excess" corporation tax revenue

### Slippage in spending discipline evident

The reasons for the changes in the headline fiscal aggregates are set out in the table below, where we compared the detailed spending and revenue estimates both to Budget 2024 and to SPU 2023. A few key points stand out:

1. The main changes relate to expenditure, both relative to the Budget and to a year ago. On a headline basis, spending is expected to be €10.8bn higher in 2025 than was expected in SPU 2023.
2. Since Budget 2024, the biggest changes have come as a result of the recent public sector pay deal and a €3.2bn increase in social spending in 2025. The decision to continue budgeting for "contingencies" such as the refugee crisis and Covid is part of the reason for the increase in the latter.
3. Estimates of government revenues remain relatively stable. While there are ongoing concerns about the stability and sustainability of concentrated corporation tax receipts, this tax heading is still expected to grow in 2025.

Revenue & expenditure changes relative to Budget 2024 and SPU 2023										
	SPU 2023		Budget 2024		SPU 2024		CHG vs SPU23		CHG vs Budget	
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
<b>GG Revenue</b>	<b>129.2</b>	<b>135.0</b>	<b>129.6</b>	<b>136.0</b>	<b>130.2</b>	<b>137.3</b>	<b>1.0</b>	<b>2.3</b>	<b>0.5</b>	<b>1.3</b>
Tax revenue	94.4	99.0	92.6	97.8	92.1	97.5	-2.3	-1.5	-0.5	-0.3
Income	34.9	37.0	34.3	36.4	34.8	36.9	-0.1	-0.1	0.5	0.5
VAT	22.4	23.8	21.8	23.2	21.3	22.8	-1.1	-1.0	-0.5	-0.4
Corporation tax	25.1	25.5	24.5	25.8	24.5	25.6	-0.6	0.1	0.0	-0.2
Other tax	12.1	12.7	12.0	12.4	11.5	12.2	-0.6	-0.5	-0.5	-0.2
Other revenue	34.8	36.0	37.0	38.2	38.1	39.8	3.3	3.8	1.0	1.6
<b>GG expenditure</b>	<b>113.0</b>	<b>116.8</b>	<b>121.3</b>	<b>121.8</b>	<b>121.6</b>	<b>127.6</b>	<b>8.6</b>	<b>10.8</b>	<b>0.3</b>	<b>5.8</b>
Compensation of employees	30.9	32.0	31.5	32.1	32.9	34.6	2.1	2.6	1.4	2.5
Intermediate consumption	18.2	18.6	19.8	18.6	19.2	19.4	1.0	0.8	-0.6	0.8
Social	38.4	39.5	40.6	41.0	42.0	44.2	3.6	4.7	1.4	3.2
GFCF	12.1	13.2	12.8	14.4	13.2	15.0	1.2	1.8	0.4	0.6
Other	13.4	13.5	16.6	15.7	14.2	14.4	0.8	0.9	-2.4	-1.3

Source: DoF

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