

# Irish Economy

Summer Economic Statement 2023

## Largest surplus in euro area despite bigger budget package

### Breach of spending rule does not threaten sustainability

In its *Summer Economic Statement (SES)*, the Irish government has set out its stall for the public finances in 2024. Although it has admitted that it will break its own expenditure rule for the second consecutive year in 2024, the breach is modest and focuses more on capital spending growth rather than current. With a very large budget surplus (c.4% of GNI\*) still forecast for next year, the decision certainly does not threaten stability in the public finances in our view.

### Higher inflation cited as reason for need for bigger package

A core budgetary package of €6.4bn for Budget 2024 was agreed by the Irish government today, split 5:1 in favour of spending increases over tax cuts. The spending package is €1bn greater than the trajectory set out in April's SPU and means that the government will breach its 5% spending rule once again next year. Core spending will grow by 6.1% next year. The government justifies the breach of the spending rule due to the ongoing high inflationary environment. As inflation is expected to fall over the forecast horizon, it commits to returning the 5% core spending growth target in 2025 and 2026. Time will tell on that front.

### Welcome increase in capital spending

In addition to the core spending elements, the government will continue with its temporary spending in 2024, a feature of budgets for the past five years. Temporary spending is expected to amount to €4bn in 2024 (up from a previous estimate of €0.7bn), with €2.5bn being devoted to the Ukraine Humanitarian crisis. In addition, an extra €2.25bn will be provided for "shovel-ready" capital projects during the 2024-2026 period dependent on windfall corporation tax receipts continuing. This is welcome given the large infrastructural deficits and will bring capital spending to amongst the highest in the EU over the coming years. While there was no further detail was provided, the proposed sovereign wealth fund could be used to smooth out often volatile capital spending over the coming years.

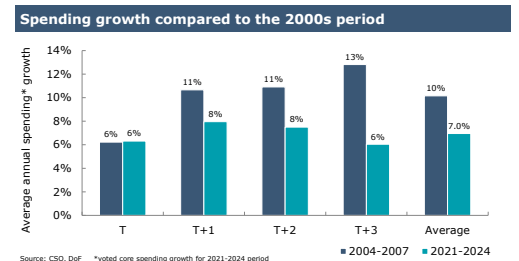
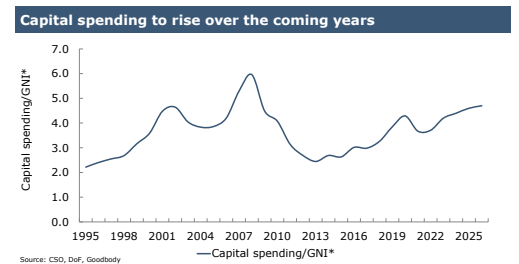
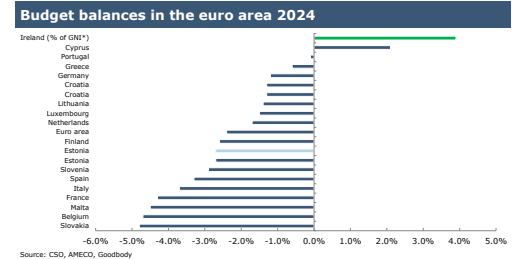
### Large budget surplus forecast despite bigger spending package

Despite the increased spending plans, the government estimates that Ireland will achieve a general government surplus of €11.7bn in 2024, or 3.9% of GNI\*. If achieved, this would be the largest surplus in the euro area and compares to a current euro area aggregate forecast of -2.4% of GDP. If "windfall" corporation taxes were to be excluded, the budget is expected to be close to balance next year. With no spare capacity remaining in the Irish economy, it can certainly be argued that the Irish government should be aiming to have a dampening effect through fiscal policy. However, the scale of this "error" is limited, and is aided by the ongoing separation of core versus temporary spending. This contrasts with the 2000s period for example, where spending grew at an average pace of 12% in the three years prior to the cycle peak.

Economic Research

04 Jul 2023

18:50 BST



## Economist

**Dermot O'Leary**  
+353-1-641-9167  
dermot.c.oleary@goodbody.ie

**Shaun McDonnell**  
+353-1-641-9127  
shaun.mcdonnell@goodbody.ie

### **Analyst Certification**

The named Research Analyst certifies that: (1) All of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities and issuers. (2) No part of my remuneration was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report.

### **Regulatory Information**

Goodbody Stockbrokers UC, trading as Goodbody, is regulated by the Central Bank of Ireland. In the UK, Goodbody is also subject to regulation by the Financial Conduct Authority. Goodbody is a member of Euronext Dublin and the London Stock Exchange. Goodbody is a member of the group of companies headed by AIB Group plc. This publication has been approved by Goodbody. The information has been taken from sources we believe to be reliable, we do not guarantee their accuracy or completeness and any such information may be incomplete or condensed. All opinions and estimates constitute best judgement at the time of publication and are subject to change without notice. The information, tools and material presented in this document are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities.

### **Conflicts of Interest**

Goodbody has procedures and policies in place to identify and manage any potential conflicts of interest that arise in connection with its research business. Goodbody analysts and other staff who are involved in the preparation and dissemination of research operate and have a management reporting line that is independent to its business. Information barriers are in place between the Corporate Finance arm and the Research arm to ensure that any confidential and or price sensitive information is handled in an appropriate manner.

Our Investment Research Conflicts of Interest Policy is available at [Conflicts of Interest](#)

Investors should be aware, that, where appropriate, research may be disclosed to the issuer(s) in advance of publication, in order to correct factual inaccuracies only and not to materially amend the research in any way. Goodbody is satisfied that it has operational procedures in place, which ensure that such disclosures will not compromise the report's objectivity.

The list of companies for which Goodbody acts as market maker and on which it provides research, is available at [Regulatory Disclosures](#)

## Other disclosures

A description of this company is available at [Company Descriptions](#)

All prices used in this report are as at close of business of the previous working day unless otherwise indicated.

A summary of our standard valuation methods are available at [Valuation Methodologies](#)

A summary of share price recommendations and whether material investment banking services have been provided to these companies is available at [Regulatory Disclosures](#)

Other important disclosures are available at [Regulatory Disclosures](#)

Goodbody updates its recommendations on a regular basis. A breakdown of all recommendations provided by Goodbody is available at [Regulatory Disclosures](#). Where Goodbody has provided investment banking services to an issuer, details of the proportion of buys, holds and sells attributed to that issuer will also be included. This is updated on a quarterly basis.

## Recommendation Definitions

Goodbody uses the terms "Buy", "Sell" and "Hold". The term "Buy" means that the analyst expects the security to appreciate in excess of 10% over a twelve month period. The term "Sell" means that the security is expected to decline in excess of 10% over the next twelve months. The term "Hold" means that the analyst expects the security to neither appreciate more than 10%, or depreciate more than 10% over the next twelve months.

On 26th November, 2012, the terms "Add" and "Reduce" were removed from the Recommendation Definitions and both were replaced with the "Hold" recommendation. Any Previous Recommendation that refers to either an "Add" means that the analyst expected the security to appreciate by up to 15% over a twelve month period. Any Previous Recommendation to "Reduce" means that the analyst expected the security to decline by up to 15% over the next twelve months.

In the event that a stock is delisted the firm will automatically cease coverage. If however the firm ceases to cover a stock for any other reason the firm will disclose this fact.

## Distribution of research to clients of Goodbody Securities Inc (GSI) in the US

GSI distributes third-party research produced by its affiliate, Goodbody

GSI is a member of FINRA and SIPC

GSI does not act as a market-maker.

Neither GSI nor its affiliates hold a proprietary position and/or controls on a discretionary basis more than 1% of the total issued share capital of this company/these companies.

This information was current as of the last business day of the month preceding the date of the report.

An affiliate of GSI may have acted, in the past 12 months, as lead manager/co-lead manager of a publicly disclosed offer of the securities in this company. Investors should be aware that an affiliate of GSI may have provided investment banking or non-investment-banking services to, and received compensation from this company in the past 12 months or may provide such services in the next three months. The term investment banking services includes acting as broker as well as the provision of corporate finance services, such as underwriting and managing or advising on a public offer. All transactions by US persons involving securities of companies discussed in this report are to be effected through GSI.

## Disclaimer

While all reasonable care has been taken in the production and dissemination of this report it is not to be relied upon in substitution for the exercise of independent judgement. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you.

Private customers having access, should not act upon it in anyway but should consult with their independent professional advisors. The price, value and income of certain investments may rise or may be subject to sudden and large falls in value. You may not recover the total amount originally invested. Past performance should not be taken as an indication or guarantee of future performance; neither should simulated performance. The value of securities may be subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities.

All material presented in this report, unless specifically indicated otherwise is copyright to Goodbody. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Goodbody.