Tithe an Oireachtais
Houses of the Oireachtas

An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
Spring Commentary 2024

Publication 25 of 2024

Séanadh

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1. Key Messages

1.1. Stability Programme Update

- The delayed release of the draft SPU report, followed by the Budgetary Oversight Committee's meeting with the Ministers after the final SPU, curtailed the Oireachtas' engagement. It is essential that the Oireachtas and its Committees have the opportunity to thoroughly review the medium-term budgetary plans.

1.2.Economy

- The Irish economy is in a relatively balanced position. Some of the significant headwinds that the economy experienced over the course of 2023 are expected to alleviate. In the absence of any further shocks, activity is expected to pick up as the year progresses.
- Ireland has entered a dis-inflationary process largely driven by a reversal of the sharp rise in energy prices, predominantly caused by Russia's invasion of Ukraine. The Harmonised Index of Consumer Prices (HICP) is set to average 2.1 per cent this year according to the SPU 2024. 'Core' inflation, which strips out volatile components such as energy, is expected to grow by 3 per cent this year as demand is continuing to exceed supply domestically.
- In terms of the labour market, the economy is approaching full employment, with unemployment at 4.5 per cent at end 2023. However, increased participation rates among female workers in the post-Covid era have flattened and Ireland has become increasingly dependent on workers from abroad (almost one in five of those in employment at end 2023 are not of Irish citizenship).
- Construction employment is actually down in the year to end 2023 and earnings in the sector in 2023 were static in nominal terms (therefore down in real terms), a concerning trend with current housing demand. Similarly, there has been no growth in ICT employment numbers in the year to end 2023.

1.3.Risks

- Ireland's economy is vulnerable to global trade disruptions and domestic supply constraints. Medium-term structural changes due to decarbonisation, demographic changes, digitalisation, and de-globalisation add to the uncertainty. Other risks include monetary policy shifts, energy shocks, multinational sector volatility, and climate change impacts.

1.4. Tax

- Compared to Budget 2024, tax revenue in the current year is expected to be €0.4 billion lower at €92.1 billion. This is driven by downward revisions to the expected level of VAT and 'other tax' receipts.
- The multinational sector's activities have provided a very substantial boost to the Irish public finances, not only through Corporation Tax (CT) receipts, but also benefitting other tax heads such as Income tax and VAT. This also highlights a critical concentration risk for the public finances and the economy more generally. As a result, saving windfall receipts and allocating public spending strategically, for example, by addressing key infrastructural bottlenecks while also implementing structural reforms would be a prudent strategy for government to help maintain the competitiveness of the Irish economy.
- Policy makers should be aware of the significant concentration risk present in the public finances. For instance, 7.7% of top earners are responsible for 54.1% of Income Tax payments. Furthermore, multinational employees, who constitute 35% of corporate employment, contributed to 55% of employment-related Income Tax and USC receipts in 2022. The concentration risk is also evident in Corporation Tax receipts, with the top ten corporate groups accounting for 60% of receipts in 2022 and 56% in 2023.

1.5.Spending

- Ensuring the sustainability of the public finances has become more challenging due to the multiple impacts of the pandemic, the war in Ukraine, energy shocks, and interest rates. The SPU assumes a reversion to the 5.1 per cent (net) expenditure growth rate. While this is welcome, there are risks that spending will increase, noting that spending projections have often been revised upwards in the past.
- Already in 2024, an extra €400 million is needed for public service pay. Overspending in Health has already pushed 2024's spending over profile. Non-core spending, which may become long-term, is predicted to decrease from 2024 to 2027.

1.6. Budget Balance & Debt Sustainability

- Budget surpluses are expected for the years 2024 to 2027. In 2024, the government is expected to run a surplus of €8.6 billion. However, if this figure is reduced to account for 'windfall' corporation tax receipts, the government will run an underlying budget deficit of €2.7 billion. The structural balance excluding excess CT (which captures the underlying fiscal position) was revised downwards between Budget 2024 and SPU 2024. This would suggest the current fiscal policy is pro-cyclical, potentially worsening supply-side constraints and labour market tightness.

- Ireland's debt-to-GNI* ratio is expected to decrease from 72.1% in 2024 to 66% in 2027, but the absolute debt level is rising. Large surpluses and inflation are reducing debt ratios. However, windfall CT receipts greatly affect Ireland's debt ratio. Without these, the debt-to-GNI* ratio would increase from 75.7% in 2024 to over 79% by 2027. The debt-to-GDP ratio is under the 60% limit set by EU Fiscal Rules. This is helped by GDP being much larger than GNI*.
- Systemic factors like climate change and an aging demographic could increase future debt. While the PBO finds that Ireland's debt situation is not deemed unsustainable, increasing nominal debt and systemic factors could exert future pressure.

1.7.Climate Change

- Ireland has a legal obligation to achieve a 51% reduction in greenhouse gas (GHG) emissions by 2030, and to achieve net zero emissions by 2050. Current projections are for Ireland to miss this 2030 target, only achieving a reduction of between 11% and 29%.
- Estimated spending on 'climate & environmentally favourable' policies and projects is forecast to reach almost €5.5 billion in 2024. Spending on these policies and projects will need to increase further to achieve targets and to avoid annual non-compliance costs as a result of missing our legally binding emissions reduction targets.
- Potential economic benefits from decarbonising the economy may be partially offset by the cost of reskilling, relocating, or winding up some incompatible sectors of the economy.

1.8. Demographics

- Ireland's demographic structure is changing due to increased levels of longevity and net migration as well as declining fertility rates. These changes have fiscal implications e.g., leading to changes in education, health and pension expenditure. The central demographic scenario outlined in the SPU projects annual net inward migration of 35,000 *per annum* from 2026 to 2030. However, there is a level of uncertainty associated with this figure. Net migration levels have often exceeded 35,000 in recent years.

1.9. New EU Fiscal Rules

- Updates to the EU's fiscal rules are set to be implemented in 2025. While the 3% of GDP deficit and 60% debt-to-GDP 'Maastricht Criteria' limits remain in place, their influence is less important. Instead, tailored, country-specific debt reduction adjustment speeds will be developed for each Member State, based on Debt Sustainability Analysis. It is possible that Ireland will face less scrutiny under the new EU fiscal rules given the State's

high GDP figures and the strong budgetary position bolstered by CT revenue.

2. The Stability Programme Update

This publication sets out a summary and analysis of the current economic conditions in Ireland. The publication of the Government's *Stability Programme Update* (SPU) 2024 provides an update on the current economic developments and sets out the Government's outlook for the remainder of 2024 and a medium-term outlook for the years 2025-2027.

This publication provides details of the SPU's short (2024) and medium-term (2025-2027) outlook. In addition, the publication provides further analysis on areas such as employment, tax forecasts, the budget balance and debt sustainability, developments in government spending, climate-related spending and demographics. The publication also discusses the newly proposed EU Governance Economic Framework and what the new rules mean for Ireland.

The Government published the *Draft Stability Programme Update* (SPU) 2024 on 22 April 2024. The SPU is Ireland's national medium-term fiscal plan which sets out the macroeconomic and fiscal forecasts for the short and medium term. The macroeconomic forecasts underpinning the SPU were endorsed by the Fiscal Council on 2 April 2024, while the final SPU was submitted to the European Commission by the end of April in accordance with the requirements of the European Semester.

To support budgetary scrutiny by Members of the Houses of the Oireachtas, in this note, the PBO identifies key issues arising from the SPU. It also summarises some of the main aspects of the document and highlights key changes from the previous forecasts (i.e., those contained in Budget 2024).

2.1. What is the role of the Stability Programme Update

The SPU provides a detailed outline of the current economic conditions in Ireland and sets the framework for economic and fiscal strategies over the medium term. It is an important document under the EU's fiscal framework. It serves both to comply with European requirements and to outline national fiscal policies that aim to promote economic stability and growth.

In the SPU, the Department of Finance (DoF) outlines Ireland's fiscal strategy and economic forecasts, reflecting the government's policy priorities and economic measures planned over the medium term. It serves as a roadmap for maintaining fiscal discipline while supporting economic growth.

2.2. Why is the Stability Programme Update important for Parliamentarians?

The *Stability Programme Update* (SPU) is integral to both short and medium-term budgetary planning. The SPU publishes the first Government forecasts of the year and updates Budget 2024 forecasts (published in October 2023).

As such, the SPU:

- Identifies whether economic forecasts have changed since October 2023 and the reason for changes to those forecasts,
- Identifies forecasts for 2024 and the potential implications for Budget 2025,
- Identifies economic assumptions on which economic and political choices are made,
- Identifies potential economic risks which, if realised, can disrupt potential forecast and budgetary planning (both short and medium term),
- Identifies how current economic performance and forecasted economic outlook will impact upon the General Government Balance and Government Debt,
- Identifies short term revenue forecasts (2024) and medium terms forecasts (2025-2027),
- Identifies allocated public expenditure spending,
- Assists parliamentarians in undertaking oversight of Government forecasts and budgetary planning, and
- Allows parliamentarians to examine economic forecasts throughout the budgetary calendar.

2.3. How does the SPU fit into the Budgetary Calendar?

As noted, the SPU is an important stage in the budgetary calendar (also known as the budgetary cycle) and updates on economic forecasts from Budget 2024 (published in October 2023). The budgetary calendar refers to a whole-of-year approach to the budget with a series of official government publications, stakeholder engagements and European assessments signposted throughout the year.

As shown in Table 1, the SPU is part of a wider budgetary calendar.[1]

Table 1: Budgetary Calendar

Item	Description	Oireachtas engagement
1. Budget 2024	Budget 2024 was published in October 2023. The Budget sets out the overall allocations down to programme level. In addition, the Government publish an Expenditure Report, the White Paper (estimates of receipts and expenditure for the year 2024) and tax policy changes.	The Budget is debated and voted upon in the Dáil.

[1] See the DoF website - Stability Programme Update 2024.

2.	Revised Estimates Volumes (REV) for the Public Service	The REV was published in December 2023 and provided details of spending allocations at a Vote level and subhead level. The REV also provided performance targets/ metrics associated with each allocation.	Sectoral Committees will engage with the relevant Minister to consider the allocations associate with appropriate Votes under their remit. The Dáil will then approve each individual Vote.
3.	Stability Programme Update (draft version)	The SPU, which includes the DoF's spring forecasts, is published in draft form initially. The Fiscal Council provides an assessment of the Report's calculations.	The Committee on Budgetary Oversight undertakes pre-SPU scrutiny and produces a report. The Committee engages with the Minister for Finance and the Minister for Public Expenditure and Reform, on the draft SPU
4.	Stability Programme Update (final version)	The final version is submitted to the European authorities at the end of April. The European Council will endorse the SPU in the form of Country-Specific Recommendations in June.	The Committee on Budgetary Oversight may consider the Country-Specific Recommendations.
5.	National Economic Dialogue	This is scheduled to take place on 27 May 2024.	Several Government Ministers will attend. Parliamentarians (e.g., Committee on Budgetary Oversight) may also attend.
6.	Public Service Performance Report (PSPR)	The PSPR will be published in May/ June 2024 and will set out how each Department performed against targets (metrics) for delivery of service. The PSPR will examine those targets between January and December 2023.	
7.	Summer Economic Statement (SES)	This is released in July. The SES provides an update to the spring forecast.	The Committee on Budgetary Oversight will engage with the Minister for Finance and the Minister for Public Expenditure and Reform. The Dáil may also discuss the SES.

8.	Budget 2025 Tax Strategy Group papers	These are usually released in July/ August.	
9.	Mid-Year Expenditure Report	This is released in July and provides details of: (1) actual spending to date (by vote) compared to allocated spending. The MYER provides an indication of potential overspends within each Vote. (2) identifies baseline pre-Budget expenditure ceilings. (3) Provides multi-annual ceilings for expenditure.	Sectoral Committees may engage with the relevant Minister to discuss details which arise in the MYER.
10.	Budget 2025	The annual budget for 2025, which includes the Economic and Fiscal Outlook (which contains the DoF's autumn forecasts), is expected to be presented in October.	
11.	Draft Budgetary Plan	This is submitted to the European Commission and the Eurogroup by 15 October.	
12.	Finance Bill 2024	This is presented after the Budget.	Engagement at each stage of the legislation e.g., with Finance Committee (third stage) and Dáil and Seanad (fourth stage).
13.	Supplementary Estimates	The allocation of additional spending to individual Votes if required.	Considered by relevant Committee with appropriate Minister. Dáil will approve following Committee consideration.

2.4. Parliamentary Engagement and Scrutiny

Parliamentary engagement and scrutiny of Ireland's medium-term budgetary plans has increased significantly in recent years. The publication of the draft and final Stability Programme Update (SPU) has aided this scrutiny.

The OECD noted that "*[i]n recent years, the government has sought to facilitate such a debate by publishing the SPU in draft form prior to its finalisation and*

submission to the European Commission, allowing some time for discussion at the relevant joint committee. In 2015 this process was taken a step further by publishing a new, more politically elaborated SES alongside the draft SPU and allowing a week in the Dáil (the full chamber rather than committee) for policy statements on these documents. Importantly, the SES set out the level of "fiscal space" which the government committed to utilise in the subsequent October budget, as well as an indication of how this space would be split between tax and expenditure measures."[2]

However, only in the last few years there has been an increase in parliamentary engagement on the SPU. The Committee on Budgetary Oversight published its *Final Report on the Framework for Parliamentary Engagement throughout the course of the Budget Cycle* in February 2021.[3] It noted that Ireland was an outlier internationally with regard to the level of Parliamentary engagement in the medium-term budgetary plan, that there was no formal approval of the SPU by the Oireachtas and no prior opportunity to provide input into it. The report recommended that the Committee would engage in pre-SPU scrutiny and lay a pre-SPU report before the Dáil, commencing in 2021.

Since that report, the Committee on Budgetary Oversight has undertaken pre-SPU scrutiny and published an annual pre-SPU report. The Committee has also engaged with the Minister for Finance and the Minister for Public Expenditure, NDP Delivery and Reform following the publication of the Government's draft SPU report (usually published in mid-April) and in advance of the Final SPU report (published in late April and submitted to the European Commission).

However, this year the Department's draft SPU report was not published until 24 April which allowed only for a single week before the final SPU report was published. Furthermore, the Committee met with both Ministers on 8 May, after the final SPU report was published. While acknowledging the Committee's pre-SPU scrutiny with stakeholders, there was little opportunity for the Oireachtas to engage with the Ministers before the medium-term budgetary plans were confirmed in the Final SPU report and submitted to the European Commission. While noting that the new Fiscal Rules will likely change the process of publishing the medium-term budgetary plans, it is important that there should be an opportunity for the Oireachtas and Committees to undertake scrutiny of those plans.

[2] OECD (2015) Review of budget oversight by parliament: Ireland.

[3] Committee on Budgetary Oversight (2021) Final Report on the Framework for Parliamentary Engagement throughout the course of the budgetary cycle.

3. Economy/Overview of Economic Forecasts

The SPU sets out the Department of Finance's updated macroeconomic forecasts. The document presents the economic performance for 2023, as well as forecasts for the period 2024-2027. Additional forecasts out to 2030 are also published in the SPU.

Overall, the Irish economy is slightly underperforming relative to the Department's autumn forecasts. Towards the latter stages of 2023 the domestic economy slowed, driven by weaker-than-expected consumer and business spending. This resulted in a slowdown in Modified Domestic Demand (MDD) in recent quarters. By contrast, employment and price dynamics provided a more positive picture. Employment continues to grow, and an additional 90,000 jobs were added in the last year despite tightening monetary policy being implemented and the fall in business and consumer spending. The price of energy has significantly decreased, and these lower wholesale prices have triggered a rapid decline in headline inflation, much quicker than expected.

3.1. External environment

In terms of the external economic developments, dis-inflation in Ireland's key trading partners is progressing at a more rapid pace than expected, although 'core' inflation (i.e., the measure of inflation that removes volatile components such as energy) has remained more persistent. Higher interest rates are a key driver behind these dynamics. The SPU acknowledges the possibility of a reversal in the high policy rates around the middle of this year. However, monetary policymakers have highlighted that the decision to lower interest rates will be data-dependent, taking into account various dynamics that could impact the maintenance of inflation at its target rate.[4]

Economic growth in Ireland's key export markets is progressing at different paces, with the United States outperforming the Euro Area and the UK. Relative to the Government's autumn forecast, the 2024 external growth assumptions for the US have been revised upwards to 2.7% (from 1.3%). For the UK and the Euro Area, the short-term growth forecast assumptions have been revised downward to 0.5% (from 0.8%) and 0.8% (from 1.1%), respectively. Growth in these two export markets is, however, expected to recover somewhat next year (both expected to grow by 1.5%).

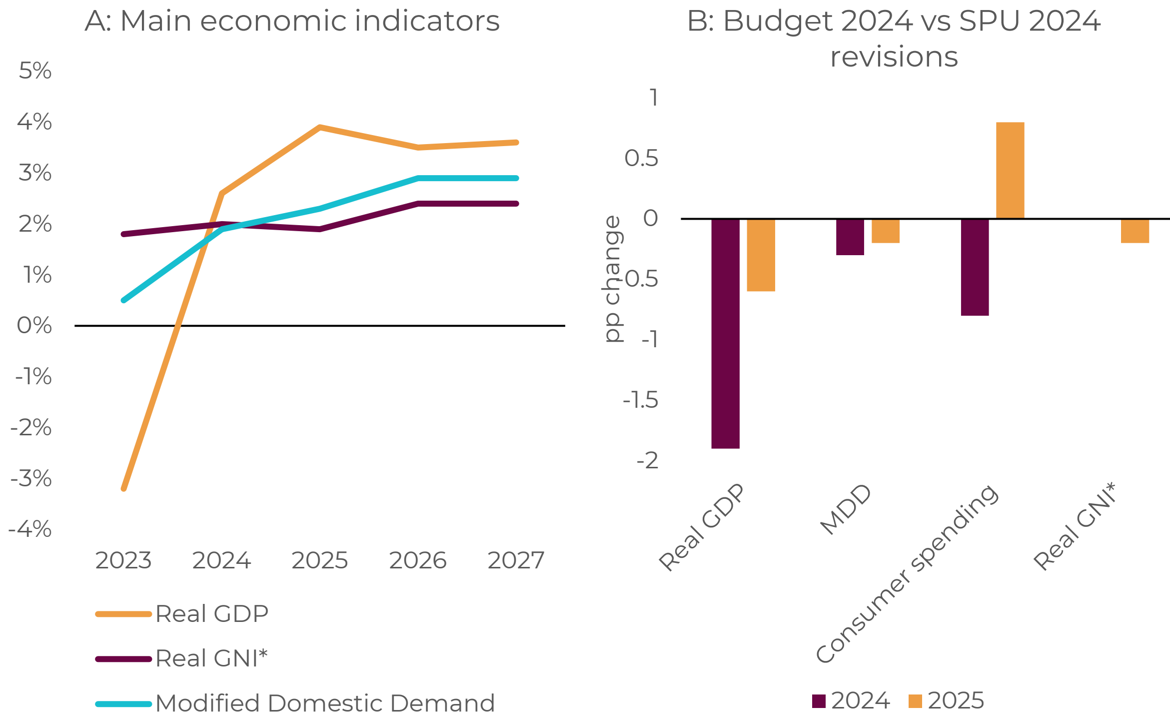
3.2. Growth forecasts

In terms of economic growth for Ireland, Figure 1a presents the forecasts out to 2027 for GDP and measures of the Irish economy that better capture domestic activity – GNI* and Modified Domestic Demand. Figure 1b presents the extent of the revisions to the main indicators for economic activity and growth since the Budget. Real GDP forecasts were revised to 2.6% in 2024 (from 4.5% in Budget 2024) and to 3.9% in 2025 (from 4.5% in Budget 2024). The SPU noted that the

[4] ECB, 'Monetary policy decisions' (11 April 2024).

economy faced three major headwinds in 2023, which negatively influenced economic activity.[5] It is, however, noted in the SPU that these headwinds are expected to gradually wane. Economic activity is therefore expected to begin to increase this year, dependent on the economy not experiencing further adverse shocks. GDP is expected to grow by 3.5% in 2026 and 3.6% in 2027.

Figure 1: Forecasts of Economic indicators



Source: SPU 2024 and Budget 2024 Economic & Fiscal Outlook, and PBO calculations.

Looking at the underlying components of GDP:

- Forecasts for consumer spending were revised downwards to 2.4% in 2024 (compared to 3.2% in Autumn) and upwards to 3.1% in 2025. The downward revision is driven by weaker-than-expected growth in recent quarters, as household purchasing power was diminished by inflationary effects. A boost to real wages is expected to drive up momentum in consumer spending later in the year and into next year.
- Government consumption is expected to increase by 0.6% in 2024 and 0.7% in 2025. For 2024, this is a downward revision of 0.8 percentage points compared to Budget 2024. Government consumption growth is forecast to further increase in 2026 (1.1%) and 2027 (1.5%).
- Forecasts for Modified Investment were revised upwards for 2024. Modified investment is expected to increase by 1.8% in 2024 and 1.6% in 2025. This modest growth is consistent with the presence of both headwinds and tailwinds across the three main asset classes: construction, machinery &

[5] These headwinds were a loss in purchasing power due to an inflation spike, the associated impacts of tighter monetary policy and product- and sector-specific corrections that depressed export sales.

equipment and intangible assets. Modified investment is forecast to grow in both 2026 (5%) and 2027 (4.9%).
- Forecasts for Exports have been revised downwards, and exports are expected to grow by 2.8% in 2024 (down from 5.3% in the Autumn) and 4.6% in 2025. Over the medium term, exports are forecast to grow by 3.9% in 2026 and 2027. The rebound in export growth is partly driven by increasing demand for digital services globally.
- Modified Imports are forecast to grow by 2.2% in 2024 and 3.6% in 2025. The 2024 forecast was revised downward by 1.9 pp compared to Budget 2024, in line with a fall in modified domestic demand.

GNI* is forecast to grow by 2% in 2024 and 1.9% in 2025. MDD growth of 1.9% is projected for 2024 (-0.3pp revision since Budget 2024) reflecting the recent reduction in consumer spending. For 2025, MDD is expected to grow by 2.3% (-0.2pp revision since Budget 2024).

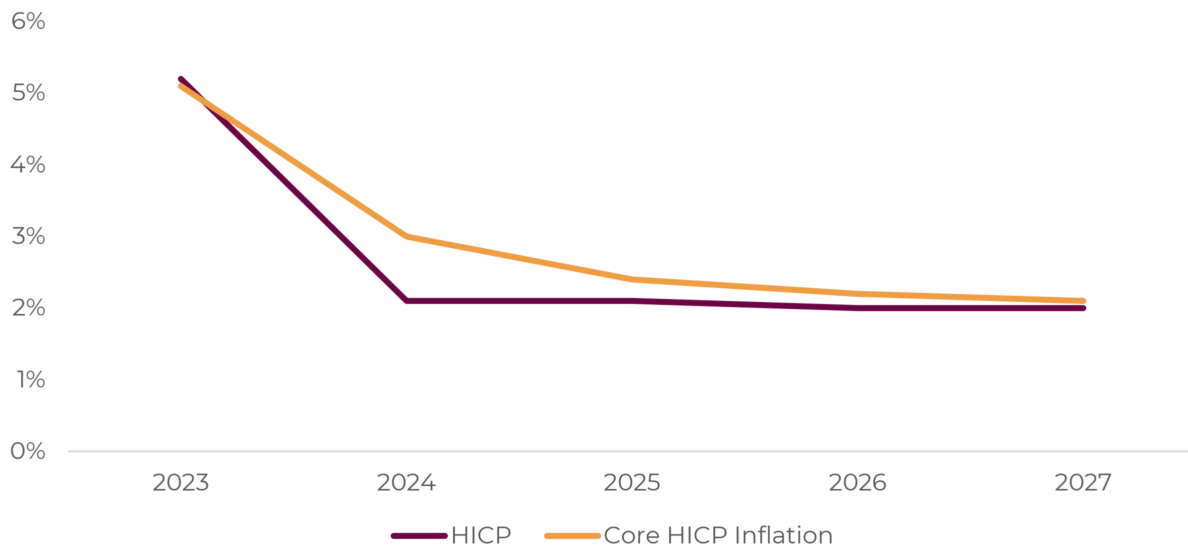
Other domestic institutions have also published their macroeconomic forecasts this year with a similar expectation of a pick-up in activity. The Central Bank forecast GDP to grow by 2.8 per cent and MDD to grow by 2.2 per cent in 2024.[6] The ESRI expects GDP growth of 2.5 per cent and MDD growth of 2.3 per cent this year.[7] The European Commission have a more pessimistic outlook for 2024 with a forecast of 1.2 per cent GDP growth for Ireland.[8] Next year, the Commission expects Irish GDP to accelerate further with growth of 3.6 per cent. This is in line with the Central Bank's forecast (3.5 per cent), although higher than the 2.3 per cent GDP growth forecast by the ESRI.

3.3. Inflation

Irish inflation has been reducing in recent months and is now converging towards the European Central Bank's 2% target. As of April 2024, the HICP (harmonised index of consumer prices) inflation rate stands at 1.6%, down from 2.7% in January 2024. The key driver of the reduction in inflation is the fall in energy prices. These are estimated to have increased by 1% in the month but decreased by 6.3% over the 12 months to April 2024. In contrast, food prices have increased by 0.6% in the last month and risen by 2.6% in the last year.[9] 'Core' inflation, which excludes the volatile components energy and unprocessed food, is estimated to have increased by 2.6% in the 12 months until April 2024.

[6] Central Bank of Ireland Quarterly Bulletin March 2024 (2024).
[7] ESRI Quarterly Economic Commentary, Spring 2024 (2024).
[8] European Commission Economic Forecast for Ireland (2024).
[9] CSO Press Statement Flash Estimates for the Harmonised Index of Consumer Prices April 2024 (2024).

Figure 2: Inflation forecasts



Source: SPU 2024.

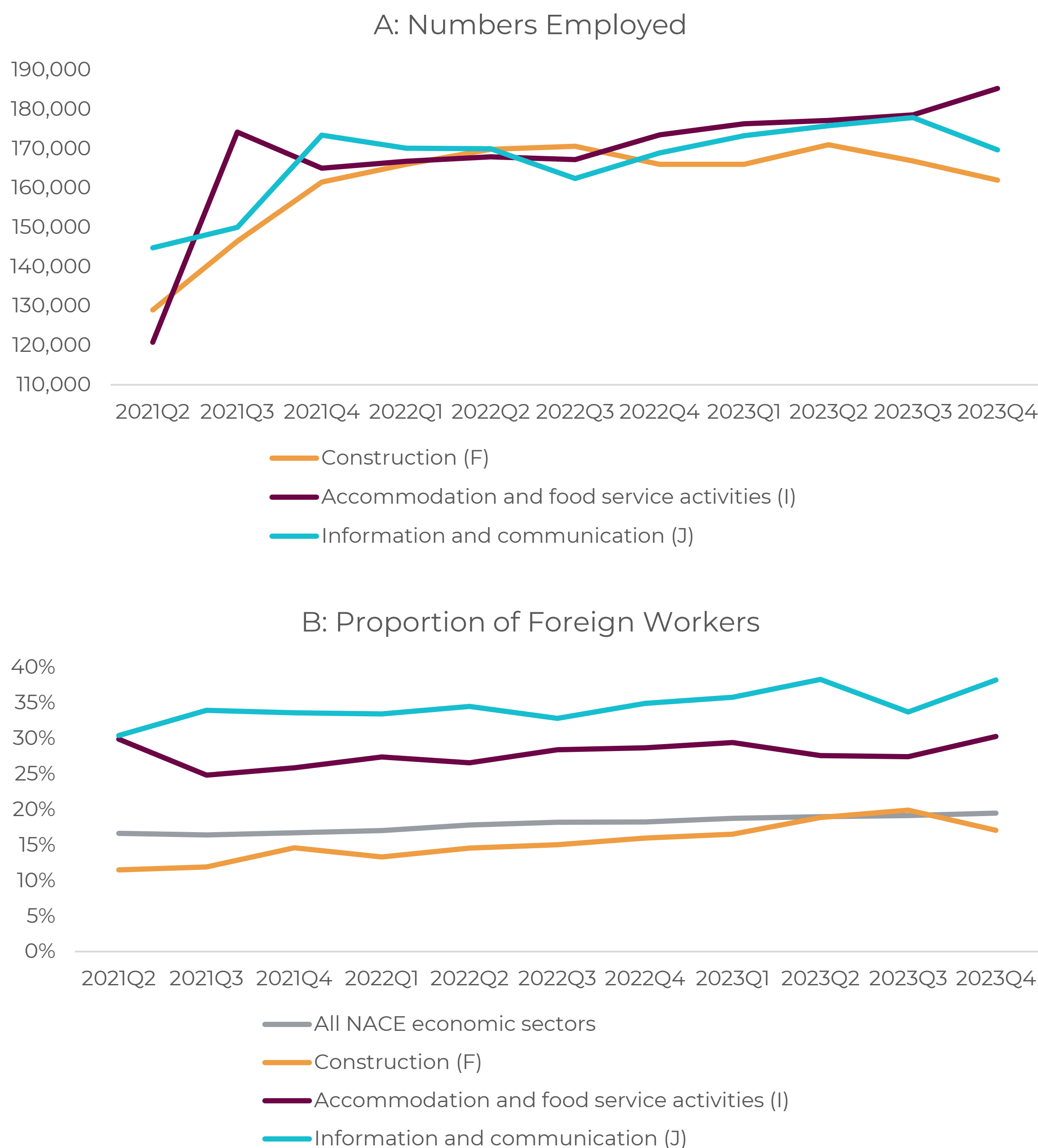
The SPU expects that headline inflation (as measured by the HICP) will fall in 2024 to 2.1% (vs. 2.9% in Budget 2024) and will remain at 2.1% in 2025. 'Core' inflation is forecast at 3% in SPU 2024 compared to 3.4% in Budget 2024, and is projected to fall to 2.4% growth by 2025.

3.4. Employment growth analysis

The total number of people in employment is up 4% over 1 year to end 2023 and up 6% over the 2 years to end 2023 (Q4 2023 v Q4 2021). Certain sectors have experienced a significant employment rebound in the post-Covid period. The accommodation and food services sector, which accounts for 7% of employment at end 2023, has experienced a 7% increase in employment numbers in the year to end 2023 and 12% increase in the 2-year period to end 2023. However, two other key sectors have experienced alternate trends, ICT and construction, both of which account for circa 6% of total employment each. There has been zero growth in ICT employment numbers in the year to end 2023 (ICT is the highest average earnings sector). Construction employment numbers, a key driver of dwelling completion increases, are actually down 2% in the year to end 2023 and are level (0%) in the 2 years to end 2023.

In addition, the reliance on workers from abroad is increasing, as unemployment is as low as 4.5% in 2023Q4. 38% of those employed in the ICT sector are not of Irish citizenship, up 9 percentage points since start 2021. 30% of those employed in the accommodation and food services sector are not of Irish citizenship, up 3 percentage points since start 2021. Overall, almost 1 in 5 of those in employment at end 2023 are not Irish citizens.

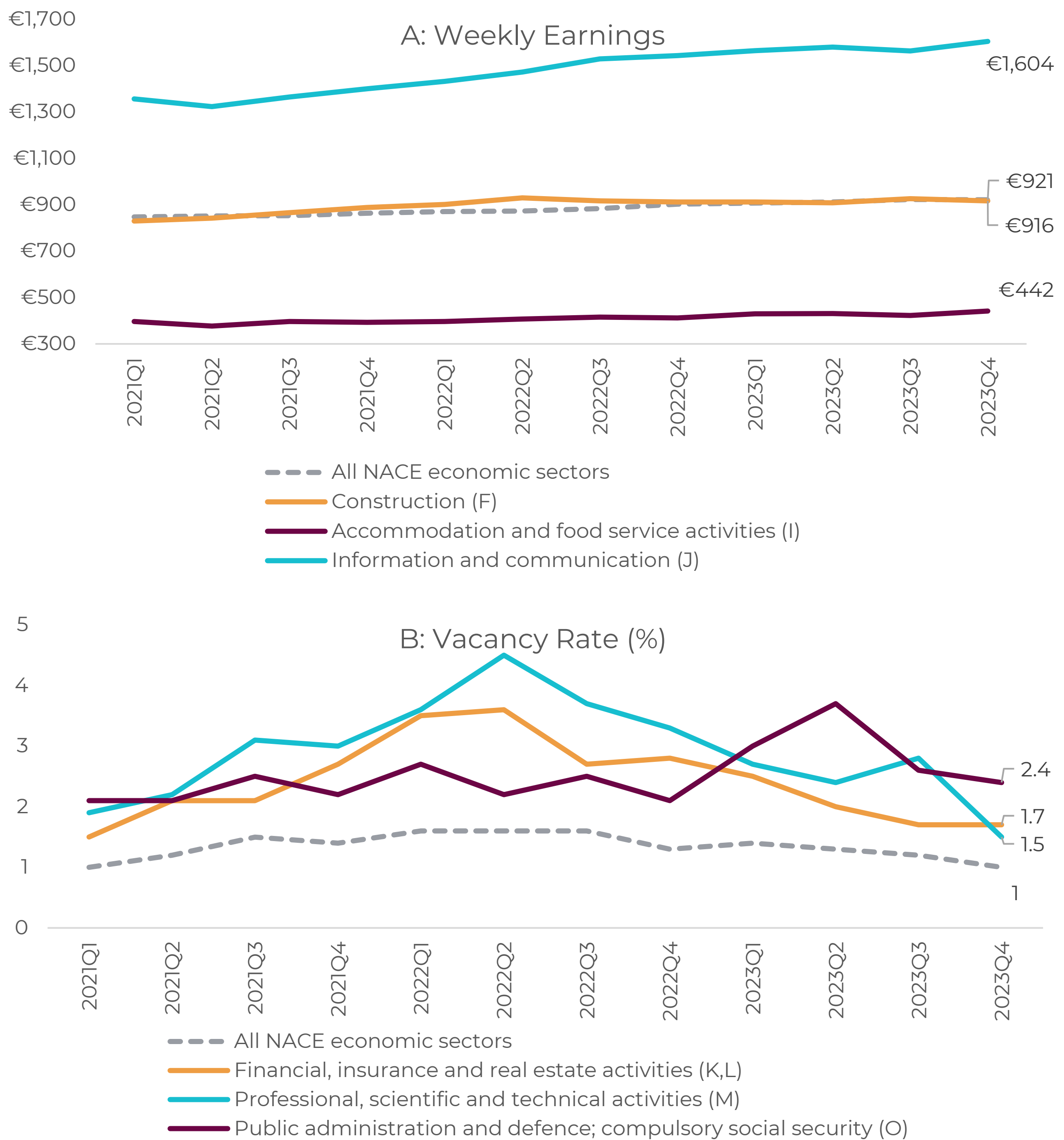
Figure 3: Employment Growth 2021Q1 - 2023Q4, selected sectors



Source: CSO QLF03 and CSO QLF47.

Average weekly earnings are up 4% overall in 2023, compared to 2022. Over the 2 years since 2021, earnings are up 7%. However, this varies significantly across sectors. While earnings in both the accommodation and food services sector and the ICT sector are both up 6% in the year to end 2023, earnings in the construction sector are static in nominal terms in 2023 – therefore falling in real terms, despite calming inflation.

Figure 4: Earnings Growth and Vacancy Rates, 2021Q1 - 2023Q4, selected sectors



Source: CSO EHQ03 and CSO EHQ16.

ICT is the highest average earnings sector, with only the financial services sector close. Earnings are up 16% in the ICT sector over the 2 years to end 2023 – a larger proportionate increase than any other sector. The accommodation and food services sector, with a high concentration of minimum wage workers, experienced a 10% increase in average weekly earnings over the 2 years to end 2023, albeit still the lowest earnings sector by some way.

The vacancy rate (job vacancies in a sector as a proportion of total jobs in a sector) was highest at end 2023 in the relatively high earnings sectors of financial

services, professional activities and public administration. However, the vacancy rates are down substantially in the financial services and professional activities sectors in 2023Q4 compared to 2022Q4. Overall, the vacancy rate is down 0.3 percentage points over 1 year to end 2023.

Box 1: Real Change in Income/Earnings by Group 2023-2024

Department of Finance inflation figures for 2023 and 2024 (5.2% for 2023 and forecast 2.1% for 2024), combined with wage growth figures of 4.6% for 2023 and 4.5% (forecast) for 2024, indicate a return to real income growth over the period as wage growth is set to outpace general price increases. However, the real change in incomes over 2023 and 2024 vary across groups. Table 2 below shows the numbers in each group analysed, combined with cumulative nominal increases in income/earnings in 2023 and 2024, in addition to the cumulative real change over the period.

Table 2: Real Income/Earnings Growth by Group, 2023-2024

Group	2022 Numbers*	2023-2024 Cumulative Nominal Increase	Cumulative Real Change 2023-2024†
State Pension (Contributory)	484,541	9.5%	1.9%
State Pension (Non-Contributory)	97,727	9.9%	2.3%
Widow/er's or Surviving Civil Partner's Contributory Pension	124,896	11.2%	3.6%
Jobseekers' Allowance	146,185	11.5%	3.8%
Disability Allowance	157,807	11.5%	3.8%
Carer's Allowance	97,175	10.7%	3.1%
Total number in employment (* numbers Q4 2023)	2,706,400	9.3%	1.8%
Public Servants (* numbers Q4 2023)	397,122	8.0%	0.5%

Source: PBO analysis of SPU, DPENDPR, Social Protection and CSO data.
* 2022 figures except as indicated.
† Based on DoF 2023 & 2024 inflation estimates.

Notes:

- Group membership is not mutually exclusive, e.g., Public Servants are part of the total in employment group and a minority of these welfare recipients may also be in employment.

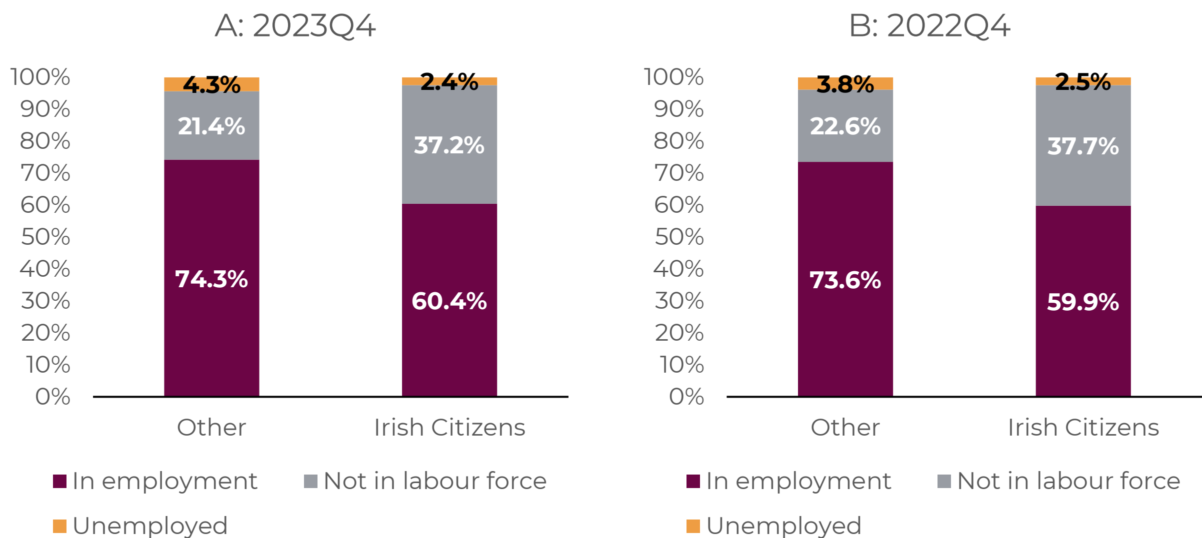
- Not all welfare recipients are shown, only the largest groups (excluding Child Benefit recipients). These six welfare recipient groups account for over 1.1 million persons – circa 41% of the total number in employment.
- Wage growth and inflation figures are from the Department of Finance. Public Servant pay growth figures are based on the 2023 and 2024 agreed pay increases.
- The main/most common rate is used for the welfare payments, e.g., the full Pension.
- One-off lump sums are not included in the welfare income changes as these payments are temporary in nature and do not impact purchasing power beyond the short-term.

Those in employment will have incurred a 1.8% increase in real income over the period, by the end of this year. Similarly, those on the Contributory State Pension will have incurred a 1.9% real increase in income, as increases are close to average wage growth. Other welfare recipients will experience a larger real increase due to the flat rate, rather than % increases, in welfare rates. Public Service pay will increase at a slower rate, based on agreed pay increases.

3.5. Labour Supply

With low unemployment levels and flattening labour force participation rates, Ireland is becoming increasingly dependent on workers from abroad. Migrants in Ireland have higher rates of labour force participation than Irish citizens. However, the proportion of migrants classified as unemployed is higher than the Irish population, and has grown over the 1-year period to end 2023.[10]

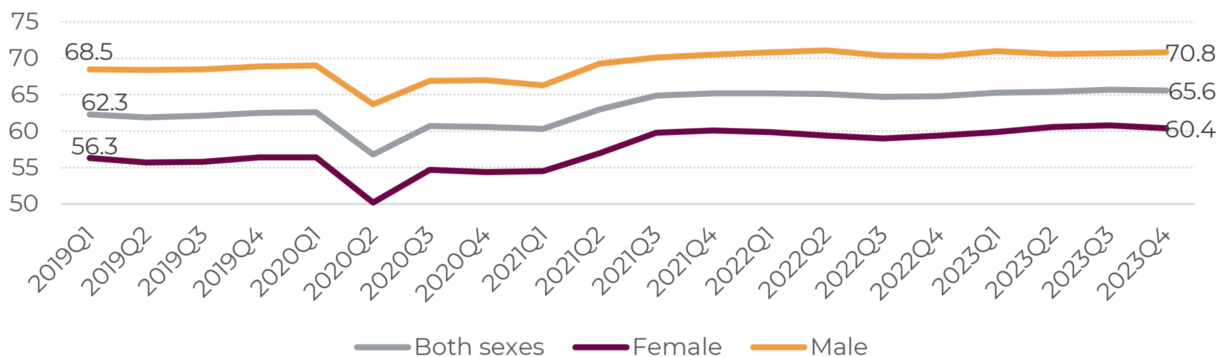
Figure 5: Economic Status in Ireland (based on citizenship)



Source: CSO QLF48.
Note: unemployment is shown here as a % of total persons in and not in the labour force, not only in the labour force as is the usual calculation for the unemployment rate.

Female labour force participation rates did increase in the post-Covid era, but are relatively flat in recent years. Participation rates may be improved further via flexible working options, childcare subsidies, and in-work benefits. Future labour market skills shortages may be addressed with further increases in female labour force participation rates and targeted labour imports.

Figure 6: Labour Force Participation rates by Sex (%)



Source: CSO QLF02.

[10] This is due to the greater proportion of Irish citizens who are not in the labour force, for example retirees and children.

4. Risks

The *Stability Programme Update* and other economic analysis forecast future economic activity, both in the short to medium term, using a combination of widely used indicators. However, economic risks pose a threat to such forecasts and can create volatility which potentially undermines the accuracy of such forecasts.

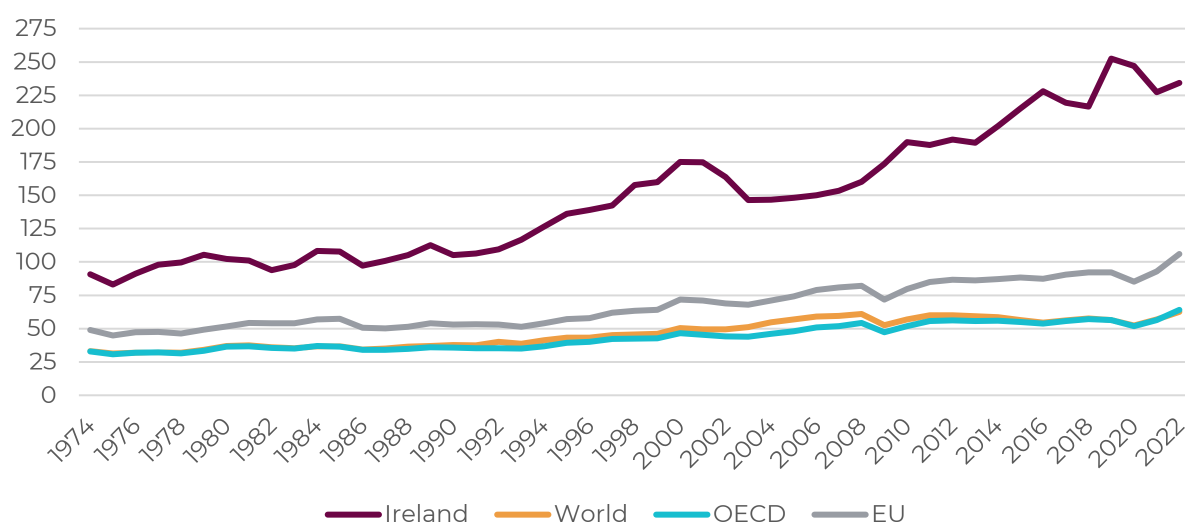
The inclusion of economic risks to any economic forecasts allows parliamentarians, Department officials and stakeholders to be cognisant of such risks and, should any developments in those areas occur, allow for re-assessment of initial forecasts.

The SPU 2024 outlines several risk factors, while observing that these risks are two-sided and broadly balanced. Nevertheless, external developments are continuing to pose significant near-term risks to the Irish economy. Some of these external risks relate to geopolitical tensions and possible trade fragmentation.

As an open and highly globalised economy, trade has been a significant driver of economic growth in recent years, and the SPU forecasts indicate that modified net exports will be the largest contributor to GDP growth over the forecast horizon.[11] Ireland's trade as a share of GDP has accelerated rapidly over the past 20 years, reaching higher than 230 per cent in 2022.[12] Figure 7 illustrates the importance of trade for Ireland, and how the trade-to-GDP ratio has increased significantly faster in Ireland relative to other main country groups. In addition to strong trade growth, Ireland is also highly integrated into global value chains. It is estimated that over 40 per cent of the value-added content in gross exports originated from abroad in 2020.[13]

[11] Modified net exports are net exports (exports minus imports) excluding aircraft leasing investments and net R&D imports.
[12] See The World Bank: Trade (% of GDP).
[13] See Box 2 in the SPU 2024 & OECD ICIO-TIVA highlights: GVC Indicators for Ireland.

Figure 7: Trade as a Share of GDP (1974-2022)



Source: World Bank.

World trade volumes were estimated to have grown by less than 1 per cent in 2023 according to the IMF, with projected growth of around 3 per cent in 2024 and 2025.[14] This is significantly lower than the pre-pandemic average of roughly 5 per cent as noted in the SPU.

As Ireland is reliant on the global markets both for exports, but also for imports of intermediate goods featuring in the preparation of these exports, this means that Ireland is highly prone to global disruptions to trade and protectionist policies. In the event of increasing trade restrictions and fragmentation, along with the risk of a persistent slowdown in global trade, this may have significant ramifications for Irish export growth. An acceleration of de-globalisation is therefore likely to negatively influence economic growth and will in turn have further spillover effects on the economy through lower employment and tax receipts.

Domestically, competitiveness poses a prominent risk to the economy. The Irish labour market is currently experiencing significant tightness with strong wage growth. The SPU forecasts indicate that supply constraints are likely to persist, leading to additional upward pressure on wage growth. Further supply constraints are present in relation to infrastructure, and in particular insufficient housing supply is weighing negative in terms of Ireland being an attractive destination for business and inward foreign direct investment (FDI).

In the medium-term Ireland is facing significant structural change. The SPU highlights four main economic challenges that will dominate this change process: decarbonisation, demographic changes, digitalisation, and de-globalisation. As these challenges are occurring simultaneously, the adaptation period is made highly difficult to predict, and the uncertainty surrounding the evolution of these challenges may cause the economy to evolve differently that what is initially assumed.

[14] IMF World Economic Outlook April 2024.

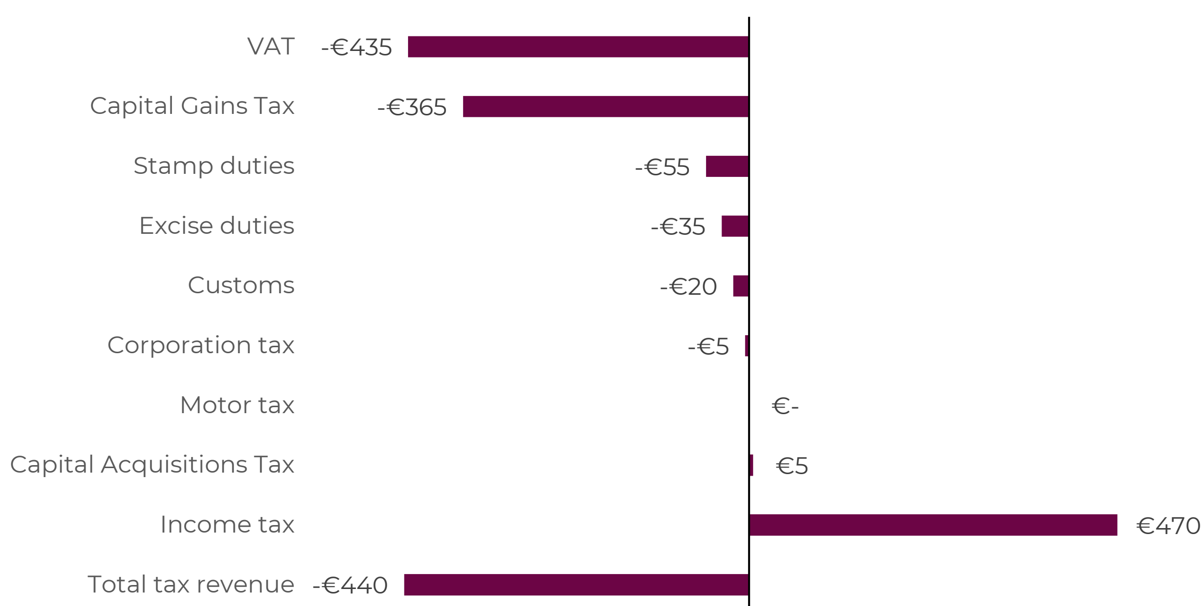
Other noteworthy risks include:

- The future path of monetary policy and associated impacts e.g. the ideal monetary policy stance and interest rate adjustments may differ between the overall Euro Area to Ireland, which could possibly impact Irish growth and competitiveness;
- Further energy shocks; Ireland is a net importer of energy, and its electricity supply is dependent on gas and other fossil fuels. Further global energy shocks are likely to quickly pass-through to Ireland;
- Further volatility of activities in the multinational sector, particularly in relation to contract manufacturing and investment; and
- Climate change and renewable energy targets; the necessary actions to reduce emissions and reach climate goals are uncertain and difficult to quantify, but will have implications both fiscally and for the macroeconomy. See further discussion of Climate Change at page 47.

5. Tax

Tax receipts in the first quarter of 2024 exceeded those from the same period in 2023. The Irish Exchequer collected €20.1 billion in taxes during Q1 2024, compared to €19.7 billion in Q1 2023. Corporation Tax contributed €1.9 billion in tax receipts in March 2024, which was lower than the March 2023 level of €2.6 billion. Income Tax receipts in March 2024 surpassed the March 2023 income tax receipts by approximately €300 million. The Exchequer collected €2.9 billion in tax receipts from VAT in March 2024, compared to €2.7 billion in March 2023.[15]

Figure 8: Changes to Tax Forecast in 2024 (€ millions) - SPU 2024 vs Budget 2024



Source: DoF Budget 2024 Economic and Fiscal Outlook and DoF SPU 2024.

Tax revenue for 2024 is forecast to be €92.1 billion. This is €440 million less than initially projected in Budget 2024.[16] The downward revision is primarily attributed to lower forecast VAT (-€435 million) and Capital Gains Tax (CGT) (-€365 million) yields. It should be noted that VAT forecasts are linked to Personal Consumption growth and the forecast for 2024 growth in Personal Consumption declined from 3.2% to 2.4% between Budget 2024 and the 2024 SPU.[17] In addition, CGT forecasts are linked to Nominal GDP growth. The forecast for 2024 growth in Nominal GDP declined from 7% to 5.4%. For further information on DoF tax forecasting methods see the 2019 Tax Forecasting Methodological Review.

The anticipated decline in VAT and CGT receipts are partially offset by an expected increase in Income Tax (€470 million). Forecasts for Stamp Duties, Excise Duties and Customs have also been revised downwards.

[15] See the DoF Fiscal Monitor: March 2024 (April 2024).
[16] See the DoF Budget 2024 Economic and Fiscal Outlook.
[17] See the DoF Tax Forecasting Methodological Review 2019 (2019) p.15 and p.51.

Figure 9: Forecast growth in tax revenue (%)

Source: DoF SPU 2024.

Overall tax revenue for 2024 is projected to rise by 4.6 per cent compared to 2023. Receipts are expected to increase across all tax categories, except for 'Other' taxes, which are impacted by projected declines in stamp duties (€60m) and motor tax (€40m). Tax revenue growth is forecasted to average 4.5 per cent over the period from 2025 to 2027.

Strong, robust growth is forecast for Income Tax receipts, with projections indicating that these receipts will climb to €34.7 billion in 2024, an increase of €1.98 billion compared to 2023. This upward trend is expected to continue out to 2027. Similar growth is expected in VAT receipts, with a revenue forecast of €21.3 billion for 2024, up from €20.3 billion in 2023. This suggests a +4.8 per cent growth in VAT receipts. A level of concentration risk exists in relation to Income Tax receipts. Based on PBO analysis of 2021 receipts, the top 7.7 per cent of tax units (i.e., those earning over €100,000) accounted for 54.1 per cent of Income Tax and USC payments. In addition, employees of multinationals make a significant contribution to tax revenue. In 2022, foreign multinational employments accounted for 55 per cent of all corporate employment-related Income Tax and USC receipts, despite only accounting for 35 per cent of corporate employments (Revenue 2024).

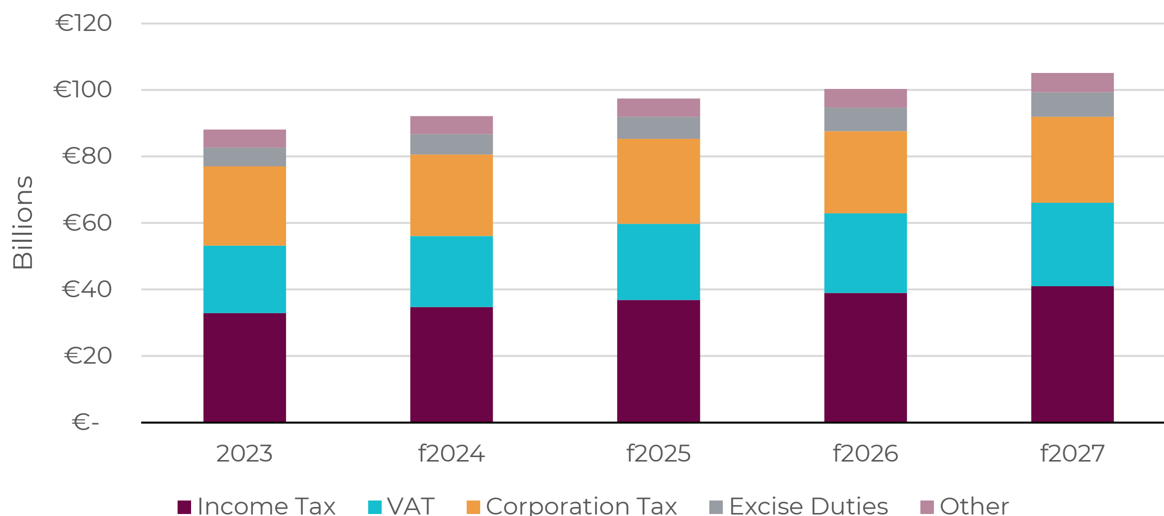
Turning to Corporation Tax (CT), it is forecast to yield €24.5 billion in 2024, €25.6 billion (+4.5 per cent) in 2025, and €24.7 billion in 2026 (-3.5 per cent). While Corporation Tax receipts are forecast to grow again in 2027, a reduction is expected for 2026 due to the impact of Pillar One.[18] This highlights the potential

[18] The current international corporate tax system, where taxing rights are based on a company's residency or physical presence, does not account for modern MNCs' ability to

volatility of these receipts and further underlines the risk of overreliance on Corporation Tax receipts. There is also a level of concentration risk associated with Corporation Tax receipts. The top ten corporate groups accounted for 60% of receipts in 2022 and 56% of receipts in 2023 (Revenue 2023 & 2024). The three highest contributing sectors in relation to CT in 2023 were 'Manufacturing', 'Information & Communication' and 'Financial & Insurance Activities'. These sectors contributed 38%, 17% and 15% of receipts respectively (Revenue 2024).

Projected tax revenue figures are set out in Figure 10.

Figure 10: Tax Revenue Forecasts



Source: DoF SPU 2024.
Note: 'f' denotes forecast values.

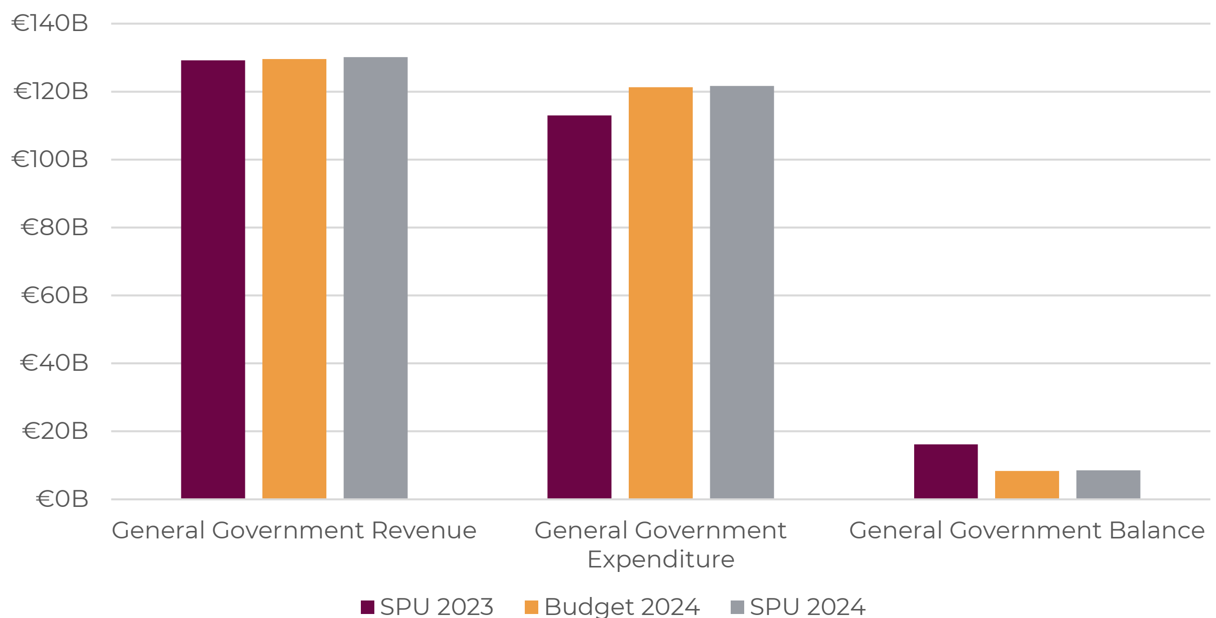
profit significantly from markets without a physical presence or local staff, such as in the digital economy. OECD Base Erosion and Profit Shifting (BEPS) Pillar One is about reallocating a portion of the profits of large MNCs from base jurisdictions to market jurisdictions. This would benefit large countries. This could result in less profit being allocated to branches or entities in Ireland, as the country has a relatively small population and consumer market (O'Connor, 2024).

6. Budget Balance and Debt Sustainability Analysis (DSA)

6.1. General Government Balance

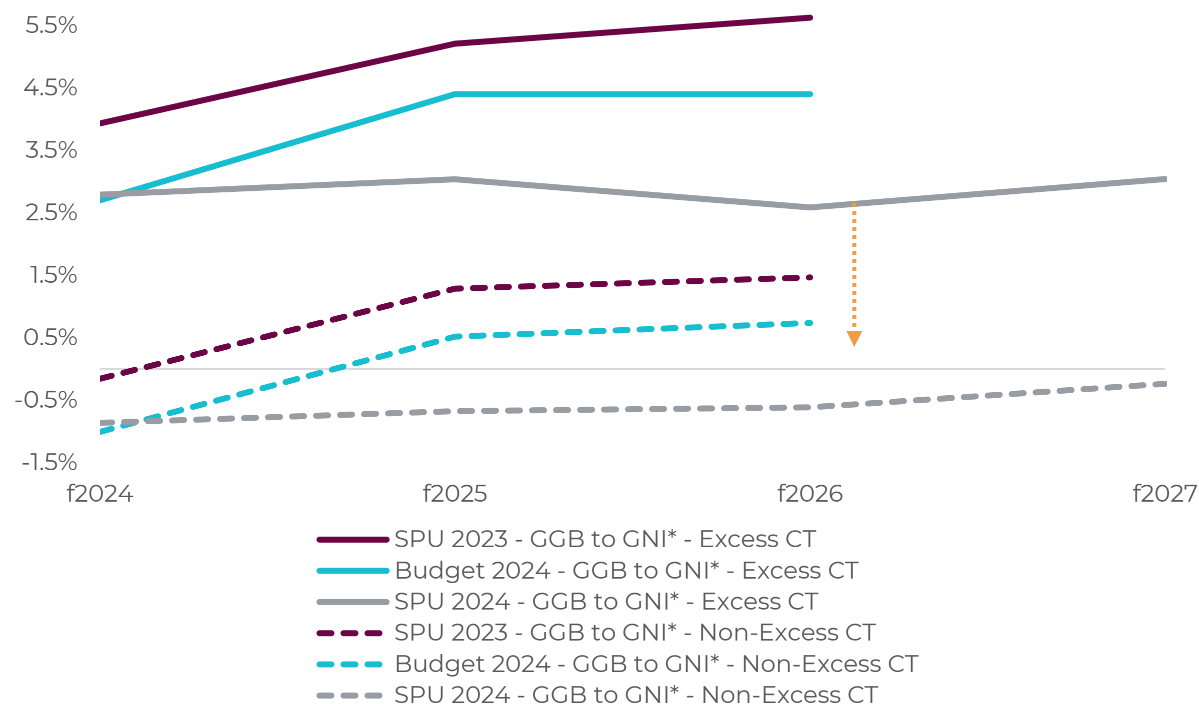
This section outlines the changes in the General Government Balance for the SPU 2024, comparing it to Budget 2024 and SPU 2023. As shown in Figure 11, the forecast for 2024 spending has been revised upward compared to the SPU 2023 projections. The projected General Government Balance for 2024, which is a surplus, stands at €16.2B in SPU 2023, €8.4B in Budget 2024, and now €8.6B in SPU 2024.

Figure 11: Forecasts for Key Fiscal Variables 2024



Source: SPU 2023, Budget 2024, SPU 2024.

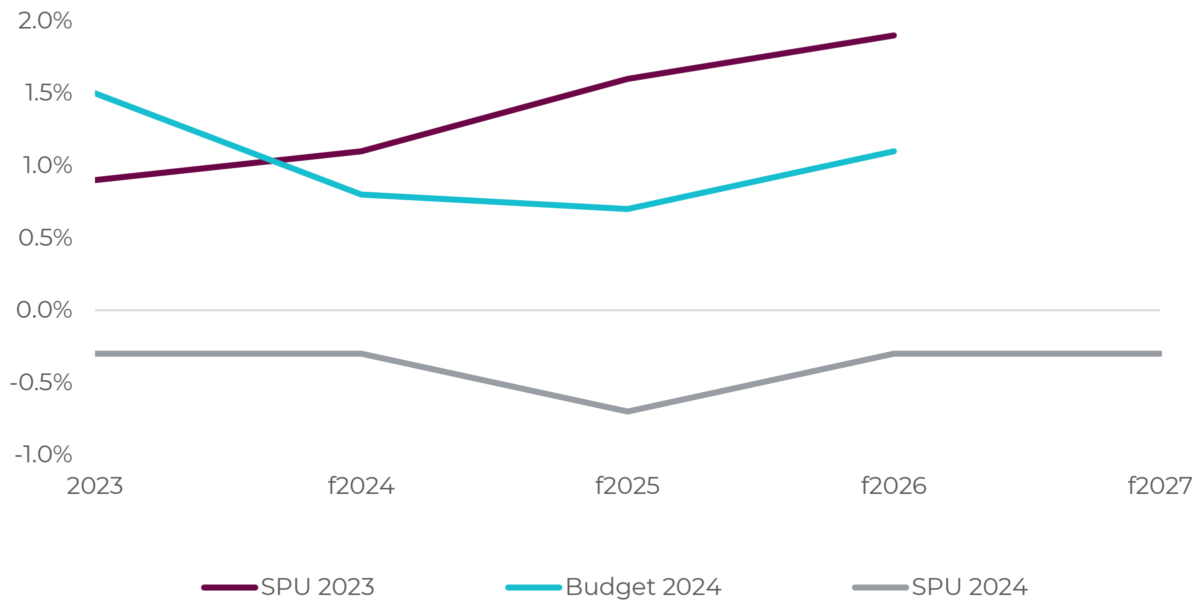
Figure 12: General Government Balance - SPU 2023 vs Budget 2024 vs SPU 2024 - Effect of Excluding Excess CT



Source: PBO DSA Calculator SPU 2024, SPU 2023, Budget 2024, SPU 2024.
Notes: The non-excess CT scenario also assumes modelled interest implications, as changes to the General Government Balance affect debt levels and hence interest costs. The non-excess CT scenario forecast is calculated by feeding in the DFIN parameters and the revenue forecast stripped of the excess CT into the PBO Debt Sustainability model to deterministic calculate year-by-year the forecasted debt and interest values.

In Figure 12 we examine the sensitivity of the General Government Balance to the exclusion of estimated windfall CT revenues. Excluding these excess revenues worsens the national fiscal position, with Ireland forecast to run an underlying General Government Deficit of -0.9% and -0.7% of GNI* (Modified Gross National Income) for 2024 and 2025 respectively on this basis.

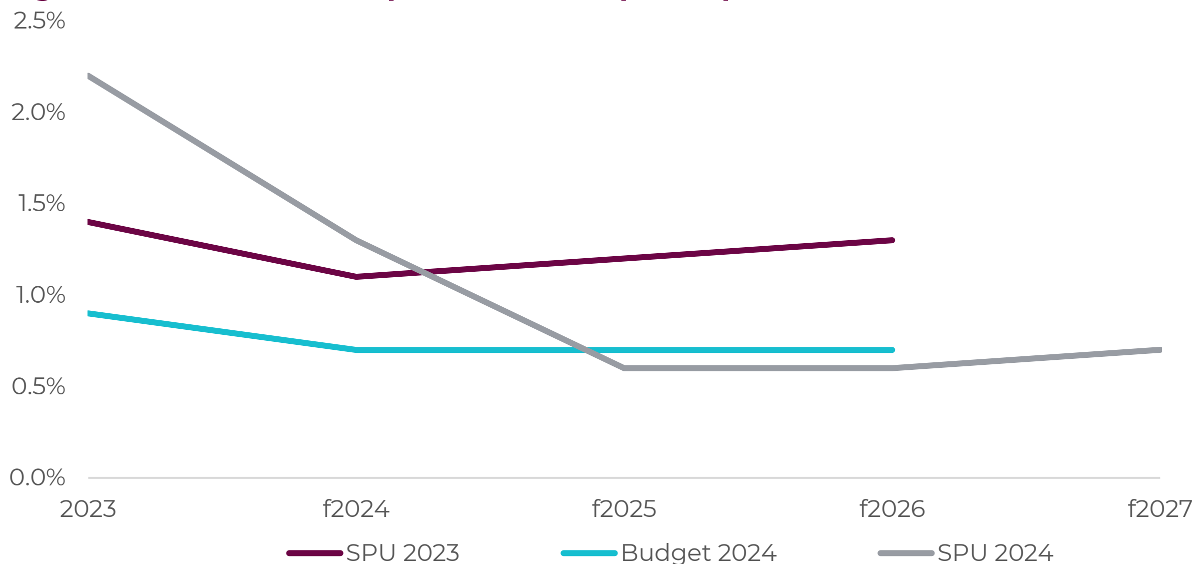
Figure 13: SPU 2024 Comparison for Structural Budget Balance (SBB) Percent GNI*



Source: SPU 2023, Budget 2024, SPU 2024.
Note: Windfall CT is excluded.

The Structural Budget Balance adjusts for the impact of the economic cycle and certain temporary factors, and excludes windfall revenues. Between Budget 2024 and the SPU 2024, the structural balance, excluding excess CT, was revised downwards and is forecast in the SPU 2024 as -0.3% GNI* and -0.7% GNI* for 2024 and 2025 respectively. This highlights that current fiscal policy is pro-cyclical, which could potentially exacerbate supply-side constraints and labour market tightness.

Figure 14: SPU 2024 Comparison for Output Gap Percent GNI*



Source: SPU 2023, Budget 2024, SPU 2024.

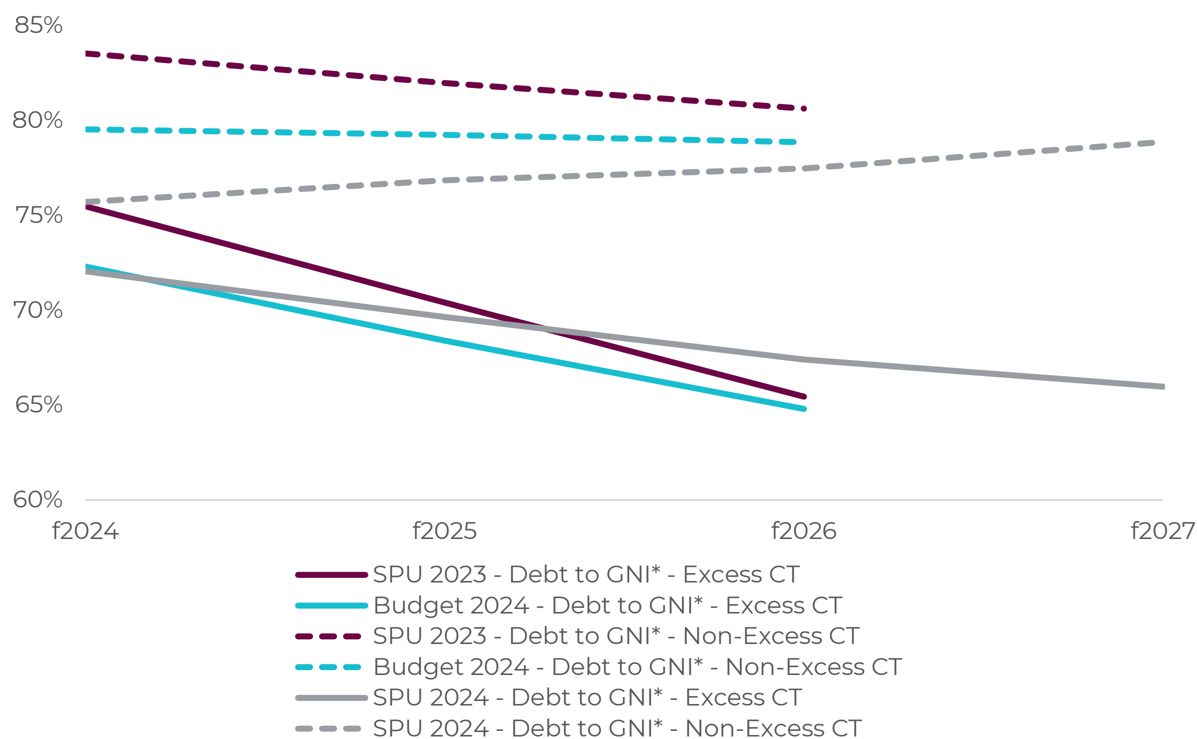
The output gap is an economic measure that quantifies the difference between the actual output of an economy and its potential output. When the output gap is positive, it indicates that the economy is at risk of overheating, as demand exceeds the current capacity. Conversely, a negative output gap signifies an economic downturn with unemployment and spare capacity.

To maintain a balanced economy, it is advisable to follow a counter-cyclical policy approach. This means striving for an output gap of 0%, which helps prevent the economy from either overheating or under-heating. As shown in Figure 14, Ireland is currently estimated to be operating above capacity. The forecast for 2024 has been revised upwards to 1.3% in the SPU.

6.2. Public Debt

As shown by Figure 15, the forecasted debt to GNI* in 2024 is 72.1% and is forecast to fall to 66.0% by 2027. Excluding windfall CT, the debt ratio rises to 75.7% and rises modestly over the forecast horizon. This point highlights that windfall CT receipts also have an important impact in flattening the relative debt position.

Figure 15: Debt to GDP/GNI* - Budget 2024 vs SPU 2024 - Effect of Excluding Excess CT



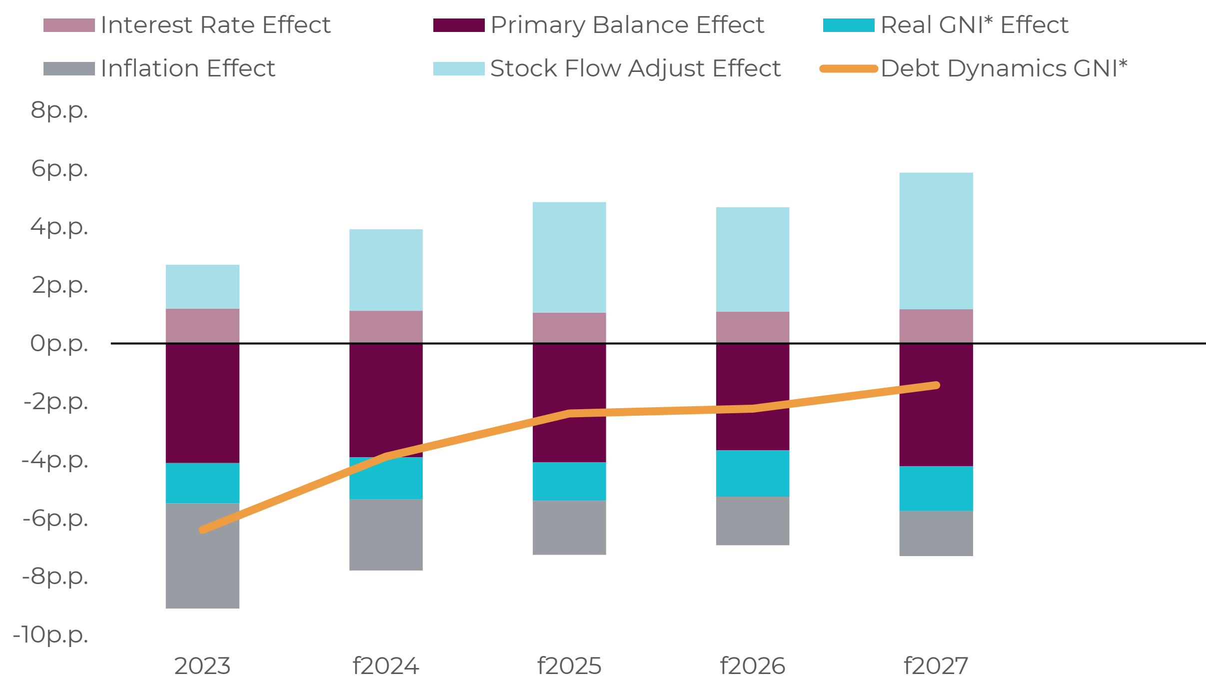
Source: PBO DSA Calculator SPU 2024, SPU 2023, Budget 2024, SPU 2024.
Note: The non-excess CT scenario also assumes modelled interest implications, as changes to the General Government Balance affect debt levels and hence interest costs. The non-excess CT scenario forecast is calculated by feeding in the DFIN parameters and the revenue forecast stripped of the excess CT into the PBO Debt Sustainability model to deterministically calculate the forecasted debt and interest values for each year.

The PBO finds that the revised SPU 2024 plans would still be within the core EU Fiscal Rules[19] of 60% debt to GDP ratio, even if excess CT revenues were excluded. This is primarily due to Irish GDP being approximately double GNI*. Likewise, the PBO finds that the current spending plans would still be within the core EU Fiscal Rules of -3% GGB to GDP, even if excess CT was removed.

Since the peak during COVID-19, Irish national debt in nominal terms has remained at elevated levels, despite the improvements in the public finances since the pandemic. This leaves the Irish economy somewhat vulnerable to future economic shocks by limiting capacity for future borrowing. There could be merits to using windfall CT to reduce the national debt, in conjunction to allocating them to investment funds.

While interest rates remain elevated as part of monetary policy tightening, the long-weighted maturity on Ireland's debt largely insulates it in the short-term from the increases in Ireland's bond yields.[20] Higher interest policy rates will act to dampen economic growth and ensure inflation is 2% over the medium-term.

Figure 16: Debt Dynamics Effect on the Debt to GNI* Ratio, Percentage Points



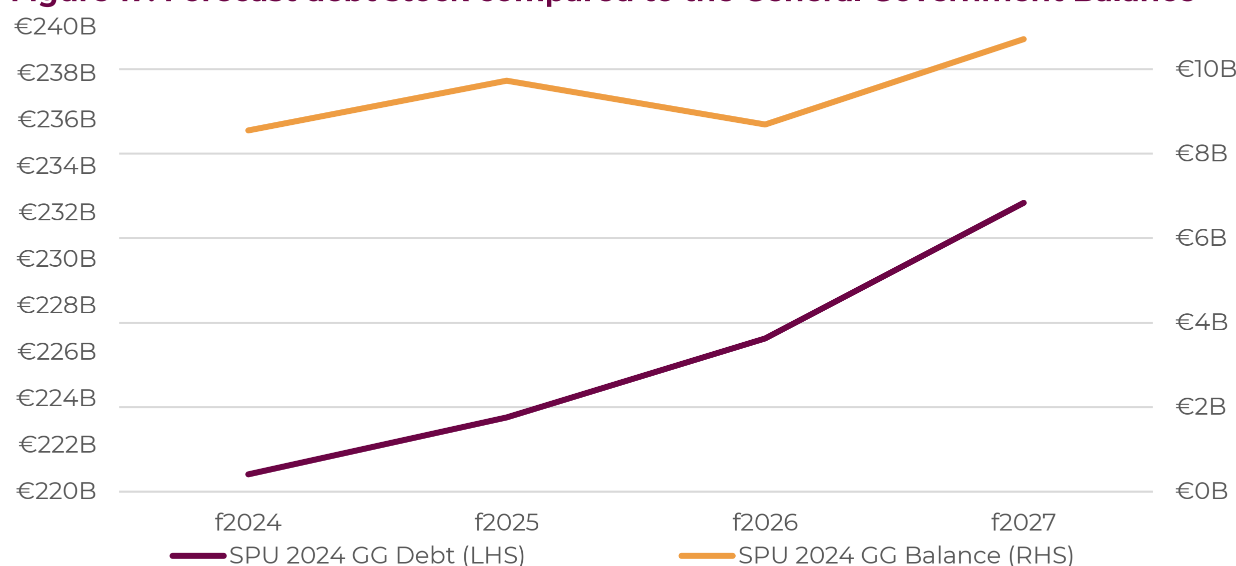
Source: PBO DSA Calculator SPU 2024, SPU 2024.
Notes: The aggregate change in the debt to GNI* ratio is decomposed into the constituent drivers. Windfall CT receipts are included in the primary balance effect, as they increase tax receipts, but these also have an effect within the interest rate channel in cases where the primary balance net of windfall CT would be in deficit and require debt issuance.

[19] PBO - PBO Note on Proposed new EU Fiscal Rules (EU Economic Governance Framework) (2022).

[20] See the PBO Debt Infographic SPU 2024. For an interactive calculator to test all of the debt implications of alternative budgetary plans and macroeconomic shocks, see the PBO DSA Calculator SPU 2024.

While the GNI* debt ratio is set to decrease over the forecast period of the SPU, we decompose why this is the case in Figure 16. We break the debt dynamics into a number of component effects: the primary balance effect, interest rate effect, inflation effect and the real GNI* growth effect.[21] Our analysis indicates that Ireland's debt ratio in 2024 and 2025 is primarily being reduced by the running of a General Government Surplus (i.e. a negative primary balance effect) and by inflation, which is increasing the size of the Irish economy in nominal terms.

Figure 17: Forecast debt stock compared to the General Government Balance



Source: SPU 2024.

It should be noted that the SPU 2024 now plans to increase the General Government debt in 2024 and all horizon years, despite running surpluses of over €8 billion in all years - see Figure 17.

In summary, the PBO does not find that Ireland's debt is on an unsustainable trajectory. While debt ratios are reducing over the forecast horizon, this is predominantly due to a large budget surplus and inflation eroding the size of national debt. In contrast, absolute debt levels, - in euro terms - are increasing, despite the large surpluses forecast to 2027. This scenario means that the Irish economy is reliant on sustained growth to reduce relative debt levels. A reduction in absolute debt could be prudent, and some excess CT receipts could be used for such a purpose. This would create further capacity in the public finances to respond to unknown, and potentially large economic shocks. Other systemic issues such as aging demographics and the climate transition are major long-term risks which may also need accommodation in the national debt.

[21] Readers should note that we include windfall CT in Figure 16. Excluding windfall CT would worsen the debt dynamics by reducing the primary balance effect, and increasing the interest rate effect via marginal debt.

6.3. The General Government Walk

There is a calculation, or a walk, from Exchequer balance to General Government balance, where the 2024 forecast increases from €2.51 billion (Exchequer) to €8.55 billion (GGB). The General Government balance includes among other factors the net lending of the Social Insurance Fund as well as the investment funds. The General Government balance is a standardised indicator for fiscal monitoring in the European Union and contrasts with the cash based set of accounts of the Central Fund, the Government's main account and the basis of the Exchequer balance.[22]

General Government involves four main components:

- Central Government - exchequer and non-commercial semi-state bodies/agencies, such as Technological Universities,
- State Government - not applicable for Ireland,
- Local Government - including most major approved housing bodies, and
- Social security funds - the Social Insurance Fund.

The walk, or adjustment, from Exchequer balance to General Government balance involves three main components:

- Accounting adjustments,
- Timing adjustments - as Central Fund accounts are recorded on a cash basis while the General Government balance reporting is on an accrual basis, and
- Broader sector adjustments - non-Exchequer revenue and expenditure are included in General Government balance. For example, this includes PRSI receipts and net receipts from local Government- including local authorities and most major approved housing bodies, in addition to the activities of non-market public corporations.

It should be noted that most major approved housing bodies (AHBs) along with local authorities are included in the General Government balance and debt statistics, for EU fiscal rules compliance. There are currently approximately 50 approved housing bodies included. The majority of "tier-3" (+300 units) AHBs were reclassified to General Government in 2017, and additional AHBs have since been included in recent years.[23] The General Government Framework has been effective in ensuring that housing investment, as well as state owned corporations, remain "on the books" across the EU over time. This is particularly important for assessing Ireland's debt sustainability.

[22] Eurostat, European system of national and regional accounts.
[23] EUROSTAT, Sector classification of Approved Housing Bodies (2017).

6.4. New Sovereign Wealth Funds

To mitigate the exposure of the Irish public finances to the potential volatility of corporation tax receipts, two savings vehicles have been established, (i) the Future Ireland Fund (FIF) and (ii) the Infrastructure, Climate and Nature Fund (ICNF).

As of now the State has two sovereign wealth funds – the Ireland Strategic Investment Fund (ISIF) and the National Reserve Fund (NRF). Once the Future Ireland Fund and Infrastructure, Climate and Nature Fund Bill is enacted there will be three sovereign wealth funds, ISIF, FIF and ICNF. The NRF will be dissolved following the enactment of the Bill with the remaining money being transferred into FIF and ICNF.[24] A Regulatory Impact Analysis outlined how the NRF was intended to be a short-term fund, primarily investing in Irish national debt. Given the scale of the forecasted surpluses, it may not be optimal from a commercial point of view to transfer more funds to the NRF as it would forego the opportunity to invest over a longer time horizon.[25,26]

See a description of three funds that will operate in Table 3.

Table 3: Overview of Ireland's Sovereign Wealth Funds

Fund	Description	Funding Mechanism	Drawdown of Funds
Future Ireland Fund (FIF)	To support state expenditures (e.g., pension liabilities) from 2041 onwards by saving a portion of forecast surpluses from 2024 to 2035.	FIF will receive annual contributions of 0.8 per cent of GDP from 2024 to 2035. These annual contributions can be reduced to 0.4 per cent or 0.0 per cent if there is a deterioration in the public finances. The remainder of the dissolved NRF will be allocated to FIF after €2bn has been allocated to ICNF.	Payments from the fund can begin in 2041, with annual withdrawals capped at 3 per cent of its value (increasing to 5 per cent under certain conditions).
Infrastructure, Climate and Nature Fund (ICNF)	To support state expenditures during economic downturns and fund environmental projects from 2026 to 2030.	Allocations of €2bn per year from 2025 to 2030. An additional €2bn of funding will come from the assets of the dissolved NRF.	May be used to address fiscal downturns (up to 25 per cent of the fund in a single year) and fund designated environmental projects (up to 22.5 per cent in a single

[24] DoF, Press Release: Minister McGrath announces €4 billion transfer to the National Reserve Fund (November 2023).
[25] See 'RIA Future Ireland Fund and Infrastructure, Climate and Nature Fund Bill 2023'.
[26] See 'Bill Digest - National Surplus (Reserve Fund for Exceptional Contingencies) Bill 2018'.

			year from 2026 to 2030, with a cumulative maximum of €3.15bn over the five years).
Ireland Strategic Investment Fund (ISIF)	To invest on a commercial basis to support economic activity and employment in Ireland. It is comprised of (i) legacy investments in Irish banks, (ii) an Irish Portfolio (holdings in non-publicly traded companies) and (iii) a Global Portfolio (equities, bonds and investment vehicles).	The Irish government allocates funding to ISIF based on specific needs and economic priorities.	ISIF is designed to be a long-term fund. This long-term view enables ISIF to be a source of "permanent" or "patient" capital that can work to a longer-term horizon than most participants in the market.[27]

Sources: Creighton (2024) and Ashmore (2024).

The statutory provisions such as the starting date of 2041 for FIF withdrawals and the percentage limits on the ICNF are embedded in legislation. Changing these provisions would require amending the legislation i.e., passing new laws through the legislative process. New legislation in future may potentially lead to changes e.g., the old National Pension Reserve Fund was mostly used during the post-2008 banking crisis. In relation to ISIF, while it is intended to be a long term fund, Section 47 of the National Treasury Management Agency (NTMA) Act 2014 sets out the criteria for payments from the ISIF to the Exchequer. The Minister may (after consultation) direct the NTMA to make a payment from the Fund to the Exchequer. Although it states that this cannot be done prior to 2025, it does seem to allow for instances where it can happen before then. Additionally, a paper from the Department of Finance noted that €1.5 billion was transferred from ISIF to the NRF in 2019 which was subsequently used in 2020 to cover Covid-19 expenses.

[27] DoF (2018) 'Ireland Strategic Investment Fund (ISIF) Review'.

7. Spending 2024-2027

7.1. Key Messages

- Supplementary Estimates of €400 million will be required in 2024 to meet costs associated with the public service pay agreement.
- Spending in 2024 is already over profile at end-April, driven primarily by overspending in the Health Vote.
- Non-core spending is projected to decline over the period 2024-2027. There may be a need to recognise that some non-core spending may be long-term in nature and is unlikely to be unwound. In such cases, proxy measures may be helpful and could be used in future to track the impact of similar unforeseen events as and when they arise.

7.2. Introduction

Before commenting on spending in the short to medium-term it is important to provide some context by way of reviewing recent developments in spending. Figure 18 shows Voted spending for 2019-2023 (audited), 2024 (provisional outturn) and 2025-2027 (forecast).

Voted spending here refers to Gross Government spending, which is a means to describe the cost of delivering public services. It includes the money allocated by Dáil Éireann, and money it allows bodies to retain from their income to offset their costs. It also includes the spending of the Social Insurance Fund (SIF) and the National Training Fund (NTF).[28]

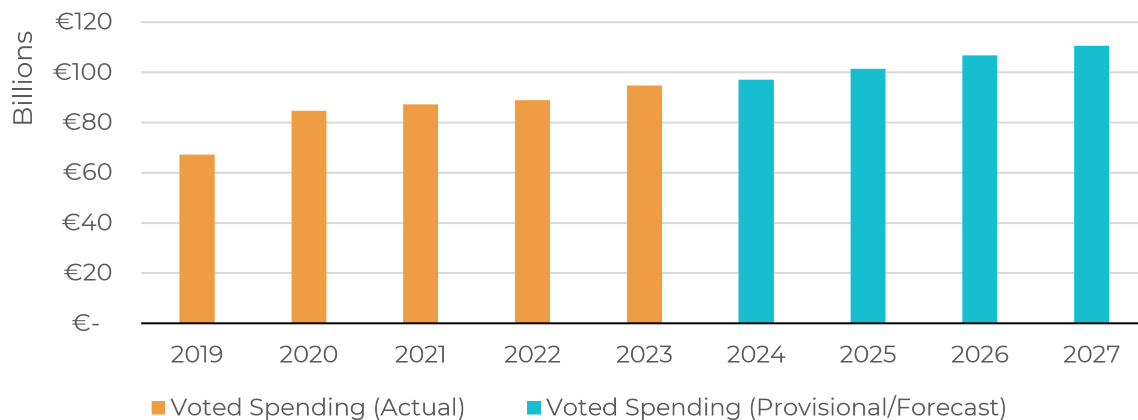
Gross Government spending rose considerably in 2020 in response to the pandemic. As pandemic related spending eased, other pressures emerged, specifically spending associated with the Russian invasion of Ukraine and measures introduced to mitigate the cost-of-living pressures facing citizens. Over the period (2019 to 2027) spending is set to increase from €67.27 billion to €110.57 billion (+64.4%).

Voted Spending in 2024 as reported in the SPU is €400 million greater than set out in the Revised Estimates for Public Services 2024 (the REV) (December 2023). An additional €400 million is required "for costs associated with agreed and ratified public service pay agreement"[29] despite a "technical allocation of funds in respect of public service pay and pensions" amounting to "€0.7 billion across

[28] Government Expenditure (Spending) is defined in the Ministers and Secretaries (Amendment) Act 2013. Technically the spending from the SIF and the NTF are not Voted as part of the Budget process.
[29] Department of Finance, Stability Programme Update 2024 (2024) p.30.

both pay and pensions" being set out in REV 2024.[30] This additional funding will be provided later in 2024 by way of Supplementary Estimates.[31]

Figure 18: Voted Spending 2019-2027



Source: PBO based on DPER Databank, and Department of Finance, Stability Programme Update 2024 (2024) p.30.
Note: 2023 Voted Spending, as set out in the SPU (€94.727 billion), is lower than the Voted allocation for 2023 set out in REV 2023 (€95.908 billion) and the provisional outturn outlined in REV 2023 (€94.931 billion).

Table 4 compares spending data outlined in the *Revised Estimates for Public Services 2024* and the *Stability Programme Update 2024* (SPU 2024). 2024 spending is already set to considerably exceed the ceiling as set out in REV 2024. This is primarily driven by higher levels of Voted Current Spending (+€684 million) set out in the SPU. This increase, as already noted, is primarily due to greater costs (+€400 million) associated with the *Public Service Agreement 2024-2026* than provided for in the REV.

Table 4: REV Estimates and Expenditure Ceiling Composition 2024 (€ millions)

	REV 2024	SPU 2024
Current Expenditure	€83,270.784	€83,925
Capital Expenditure	€13,015.866	€13,135
Total Expenditure	€96,286.65	€97,063[32]
Unallocated	€376	€376[33]
Total Gross Expenditure	€96,662.65	€97,439

Source: PBO Based on Revised Estimates for Public Services 2024 (December 2023); and Department of Finance, Stability Programme Update 2024 (2024) p.25, p.27, and p.30.

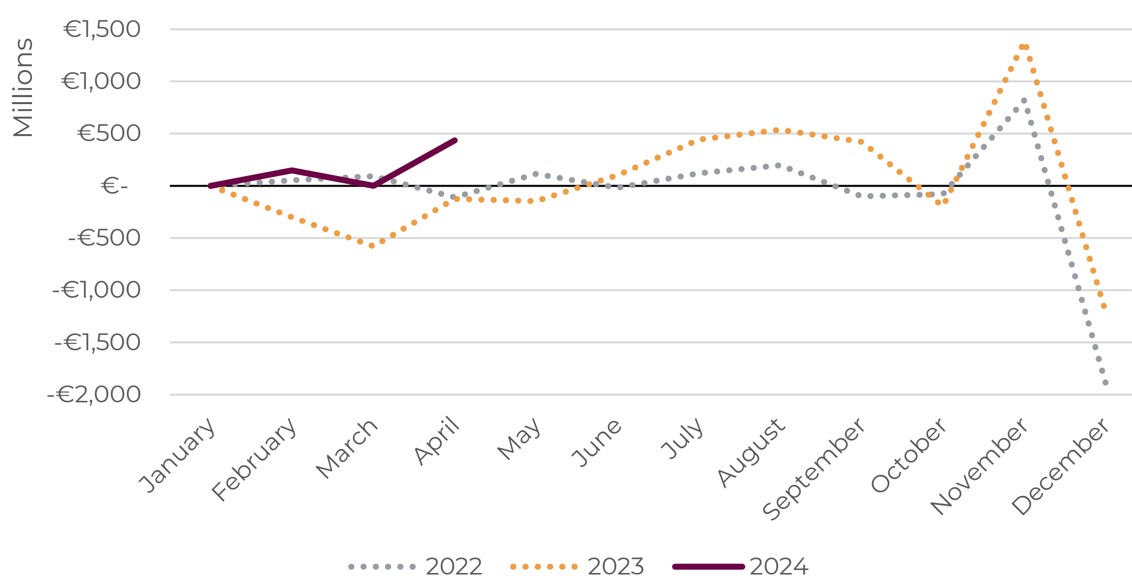
[30] Department of Public Expenditure, NDP Delivery and Reform, Revised Estimates for Public Services 2024 (December 2023) pp.1-2.
[31] Department of Finance, Stability Programme Update 2024 (2024) p.25.
[32] The SPU describes (p.27) €97,060 million of Voted spending for 2024; however, it later (p.30) specifies €97,063 million of Voted spending. Here we assume the latter figure is correct and the earlier figures have been rounded for convenience.
[33] The SPU refers to €0.4 billion of unallocated spending for 2024 (p.25). Here we assume the amount is unchanged from REV 2024.

7.3. Short-Term (2024 Spending)

While the spending forecast provides for a steady rate of growth in core Voted spending year-on-year of about 5% (2023-2027); in reality, spending is likely to deviate from these levels.

Figure 19 shows gross cumulative variance for 2022 to date. In practice, gross cumulative variance measures gross spending against the profiled (estimated) spending for a given point in the year. Positive variance reflects effective overspending while negative variance means spending is below the level anticipated.[34] Variance tends to grow towards year-end, with spending drifting evermore from profile as the year proceeds; with supplementary estimates towards year end allocating additional resources.

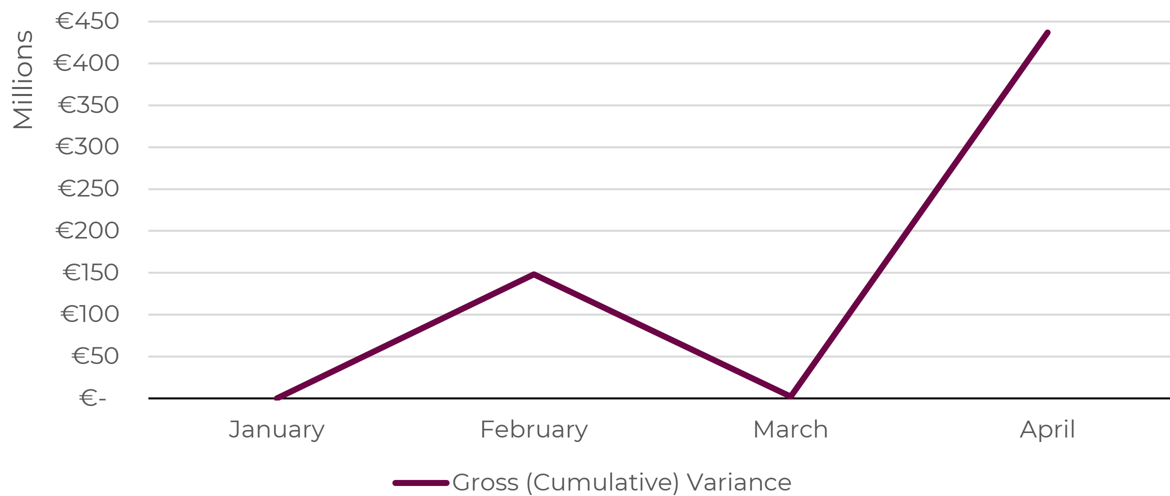
Figure 19: Gross Cumulative Variance (2022 to date)



Source: PBO based on Department of Finance, Fiscal Monitor (January 2022 to April 2024).

[34] Variance can arise due to timing issues e.g., a delay in commencing a building project, or may arise where estimated costs are incorrect e.g., utilities spending projected prior to a major market shock that drives costs up.

Figure 20: Gross Variance 2024

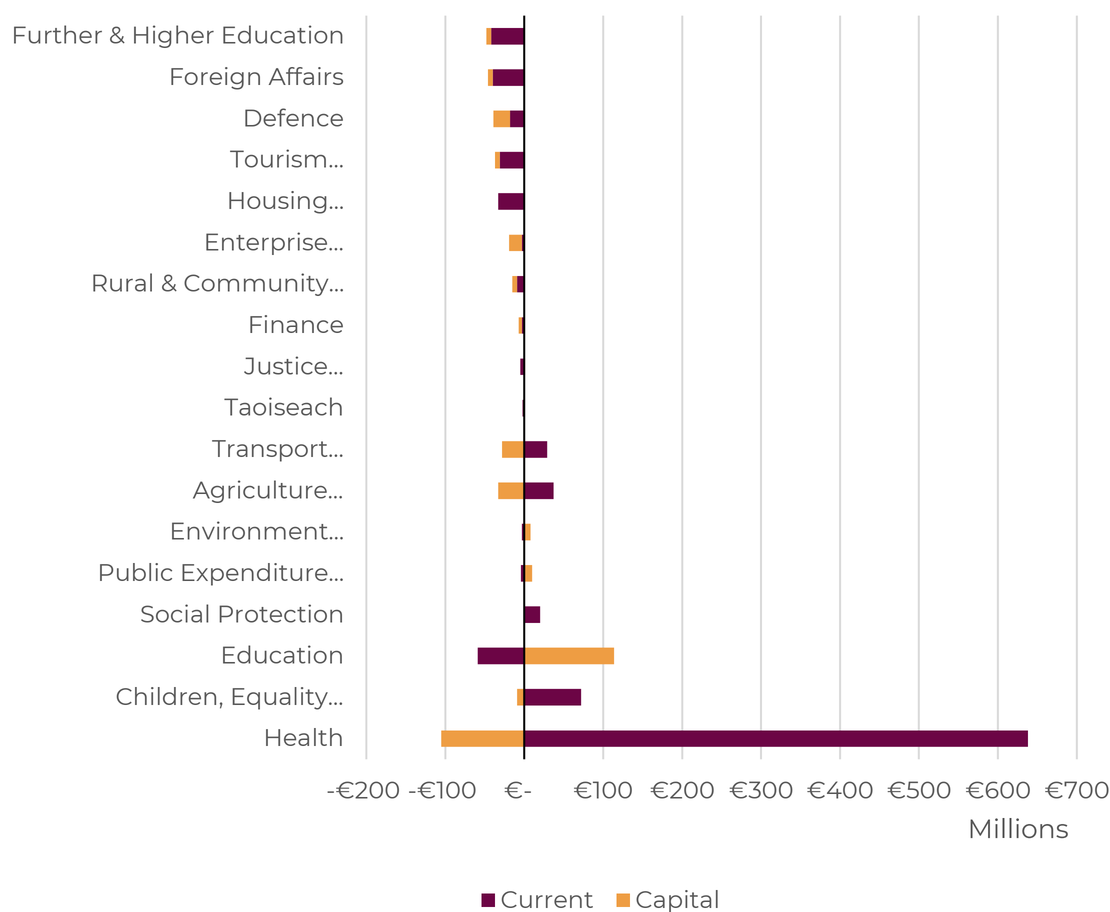


Source: PBO based on Department of Finance, Fiscal Monitor (January to April 2024).

Figure 19 and Figure 20 show recent trends in gross spending. Figure 19 shows gross cumulative variance for the period 2022 to date, showing that variance in 2024 is skewing positive (indicating higher levels of spending than projected). However, previous years show that positive variance (spending in excess of profiled levels) has a tendency to grow from mid-year onwards.

Figure 20 shows 2024 gross cumulative variance in isolation. This shows a significant increase in over profile spending at end-April (+€437 million). Figure 21 shows, by Vote Group, the positive and negative variance for current and capital gross spending. This shows that the overall gross cumulative variance (+€437 million) is largely driven by significantly over-profile current spending in the Health Group of €638 million.

Figure 21: Gross Variance by Vote Group (end-April 2024)



Source: PBO based on Department of Finance, Fiscal Monitor: April 2024 (May 2024).

Gross spending at end-April 2024 is €3.24 billion greater than at the same point in 2023. If spending were on profile in 2024, the increase would be just €2.804 billion.

7.4. Medium Term (2024-2027 Spending)

The SPU uses a technical assumption to project 'core' spending for 2024 to 2027. The SPU estimates a growth rate in core expenditure of 5.1% for 2024. Then, it assumes that core expenditure will grow by 4.9% in 2025, and 5% in 2026 and 2027.

Table 5: Technical Assumptions on Expenditure (€ millions)

	2023	2024	2025	2026	2027
Voted Expenditure	€94,727	€97,063	€101,470	€106,767	€110,568
Core Expenditure	€87,216	€91,695	€96,220	€101,017	€106,068
Non-Core Expenditure	€7,511	€5,368	€5,250	€5,750	€4,500
Percentage (%) Change Core Expenditure	-	5.1%	4.9%	5%	5%

Source: Department of Finance, Stability Programme Update 2024 (2024) p.30.

Voted spending in 2024 is projected to reach about €97 billion, over €5 billion of which is non-core spending. This comprises:

- €4,513 million of contingency reserve,
- €250 million windfall capital,[35] and
- €650 million one-off.[36]

The composition of the Expenditure Ceiling for 2024 is set out in Table 5. The technical assumption relates only to core spending. Within Voted spending, declining non-core spending offsets rising core spending over the period 2023-2027. This means that:

- Voted spending is increasing by €15.84 billion between 2023 and 2027 (+16.7%), while
- Core spending is increasing by €18.85 billion (+21.6%) over the same timeframe, and
- Non-core spending is declining by €3,011 million (-40.1%).

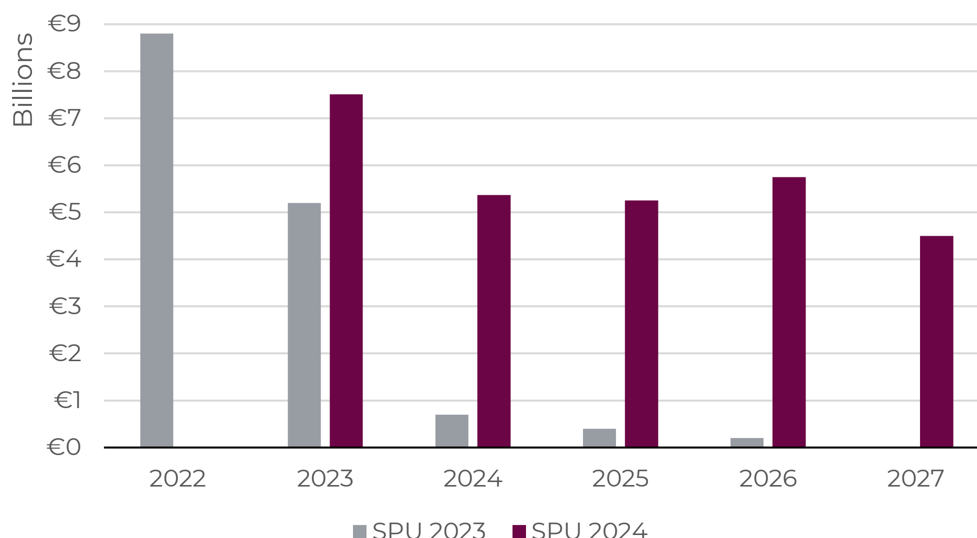
7.4.1. Non-Core Spending

Non-core spending for 2023 to 2027 is almost €28.4 billion. While only projections for the period 2023-2026 overlap with SPU 2023, non-core spending provision is considerably higher in SPU as illustrated in Figure 22.

[35] Windfall capital has been allocated.
[36] These reflect the cost-of-living costs arising from Budget 2024.

Non-core expenditure (excluding windfall capital investment and the Budget 2024 cost of living package) of €4.5 billion in 2024 includes provision for Covid-related spending primarily in Health, costs relating to accommodating and supporting beneficiaries of temporary protection from Ukraine and expenditure related to EU funds. Given the uncertainties in relation to this expenditure both in terms of quantum and duration, for the period 2025 to 2027 on a technical basis there is a contingency reserve included of €4.5 billion, which is in line with the amount set aside this year.

Figure 22: Non-Core Spending 2022-2027



Source: PBO based on Department of Finance, Stability Programme Update 2023 (2023) p.30; and Department of Finance, Stability Programme Update 2024 (2024) p.30.

Non-core spending comprises three distinct components:

- Contingency Reserve: This includes provision for COVID related spending (primarily in Health), costs associated with accommodation and supports for Ukrainian citizens availing of temporary protection in Ireland, and spending related to EU funds,[37]
- Windfall capital: Additional capital spending on critical infrastructure and the Climate Action Fund utilising windfall exchequer receipts from Corporation Tax,[38] and
- One-off spending measures: Various cost-of-living measures introduced in budget 2024 on a 'one-off' basis.[39]

[37] Department of Finance, Stability Programme Update 2024 (2024) p.30.
[38] Department of Public Expenditure, NDP Delivery and Reform, Budget 2024: Expenditure Report (October 2023) p.12, and Department of Finance and the Department of Public Expenditure, NDP Delivery and Reform, Summer Economic Statement (July 2023) p.12.
[39] Department of Public Expenditure, NDP Delivery and Reform, 'Your Guide to Budget 2024' (October 2023).

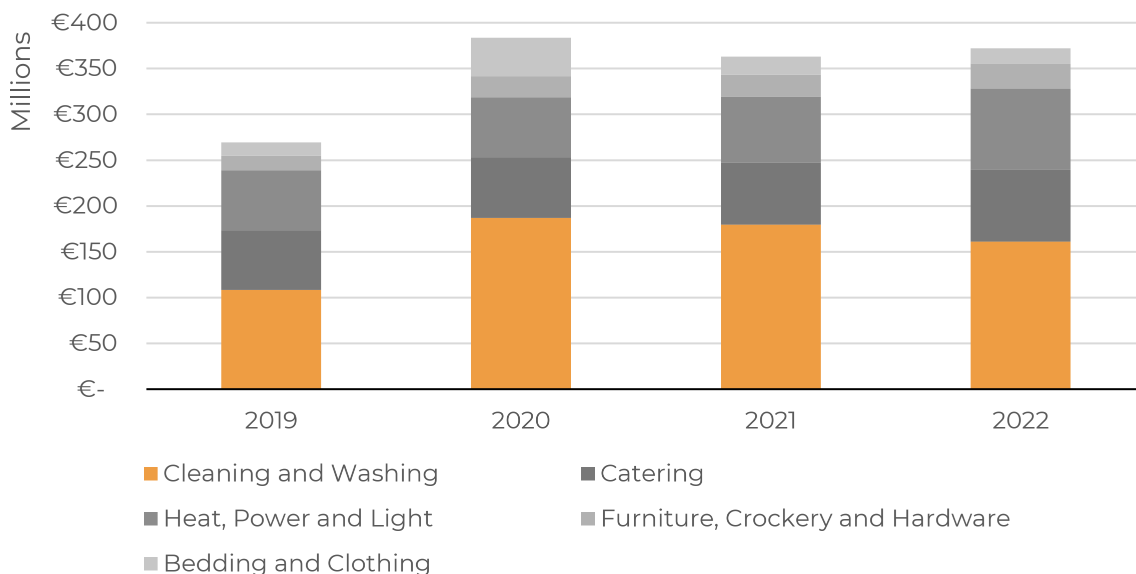
Since 2020 there have been a series of shocks that have resulted in public spending of, theoretically, a temporary and transient nature. This included various measures associated with BREXIT, COVID-19 (e.g., enterprise supports), a response to cost-of-living increases by way of various targeted and non-targeted supports (e.g., electricity credits), and spending associated with supporting Ukrainian citizens displaced by Russia's invasion of Ukraine.

While certain spending on these measures has been clearly identified and categorised (for example some COVID measures were funded by distinct subheads), some issues appear to be 'sticky' and do not appear to be as transient as initially envisaged.

The rationale for providing for additional COVID related Health spending under a contingency reserve appears to be waning. At this stage, COVID-19's impact on the health sector looks increasingly permanent. As such, the argument for treating COVID-19 spending as permanent, ongoing, and therefore 'core' is gaining ground.

This does create a risk of the Health budget absorbing additional funds without clarity as to what is being provided from these funds (a longstanding issue). The pandemic has further highlighted the need for enhanced reporting of spending information on Health spending that is fundamental to supporting the overall health sector. Proxy measures might be more suitable in future to track the impact of COVID-19 on the health sector. Figure 23 illustrates one such potential 'proxy' measure for the impact of COVID-19 on the Health Service, with the HSE's spending on 'Cleaning and Washing' (highlighted) increasing by almost €78.9 million (46.6%) in 2020.

Figure 23: HSE Housekeeping Spending 2019-2022



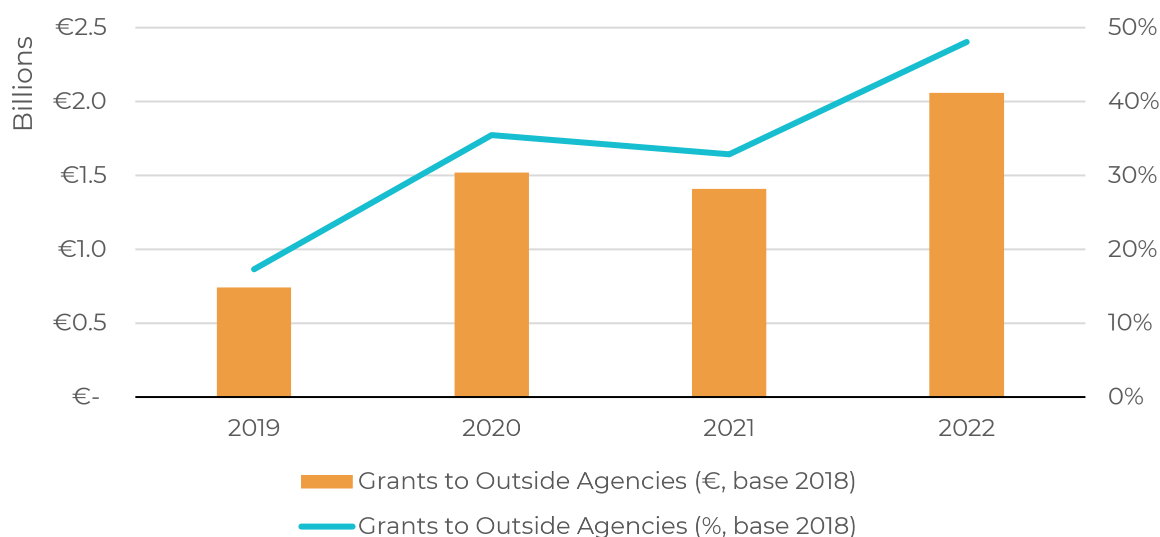
Source: PBO based on HSE Annual Report and Financial Statements 2020 and 2022.

Beyond this, a major area of HSE spending is HSE grants to outside agencies, as was recently highlighted in another PBO publication Total Health Spending in Ireland & HSE Commentary (2024).

7.4.1.1. HSE Grants to Outside Agencies

In 2020 there was a significant increase in HSE 'Grants to Outside Agencies' of over €778 million (15.5%). Unfortunately, it is difficult to provide detailed analysis of what this spend funded due to the sheer number of outside agencies in receipt of grants (677 received more than €100,000 in 2022).[40]

Figure 24: HSE Grants to Outside Agencies

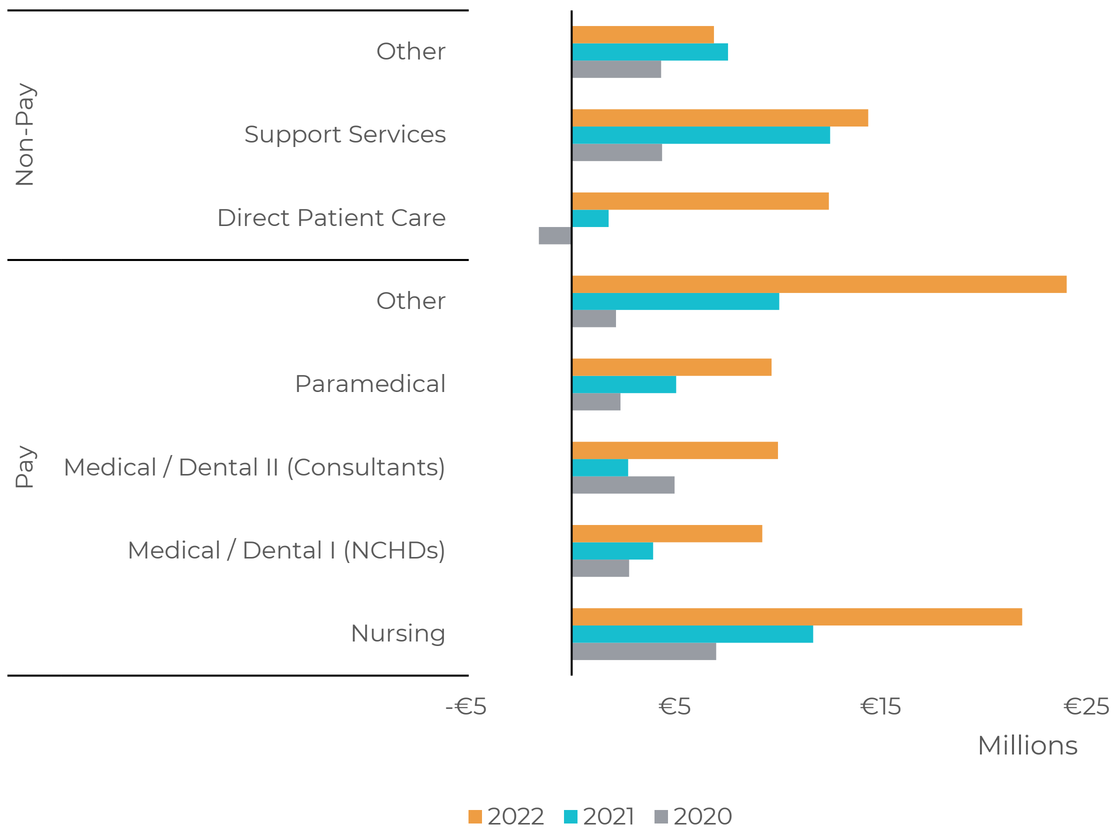


Source: PBO based on HSE, Annual Report and Financial Statements 2019, 2020 and 2022.

In 2022, St James's Hospital received a grant of almost €540 million, more than any other agency.[41] In 2022 gross current spending by St James's was almost €598 million, with just over €14 million capital spending. Breaking down current spending compared to 2019 levels, gross current spending increased by almost €109 million as of 2022; primarily driven by increases in spending on pay on nursing (+€21.9 million) and Other pay (+€24 million).[42]

[40] See PBO, Total Health Spending in Ireland & HSE Commentary (2024) p.22.
[41] HSE, Annual Report and Financial Statements 2022 (July 2023) p.210.
[42] Other pay encompasses pay for Management & Administration, Catering & Housekeeping / Support Services / Porters, Maintenance and Technical Staff, Pensions & refunds, and Gratuities / Lump Sums.

Figure 25: St James's Hospital Gross Current Spending 2020-2022 (baseline 2019)

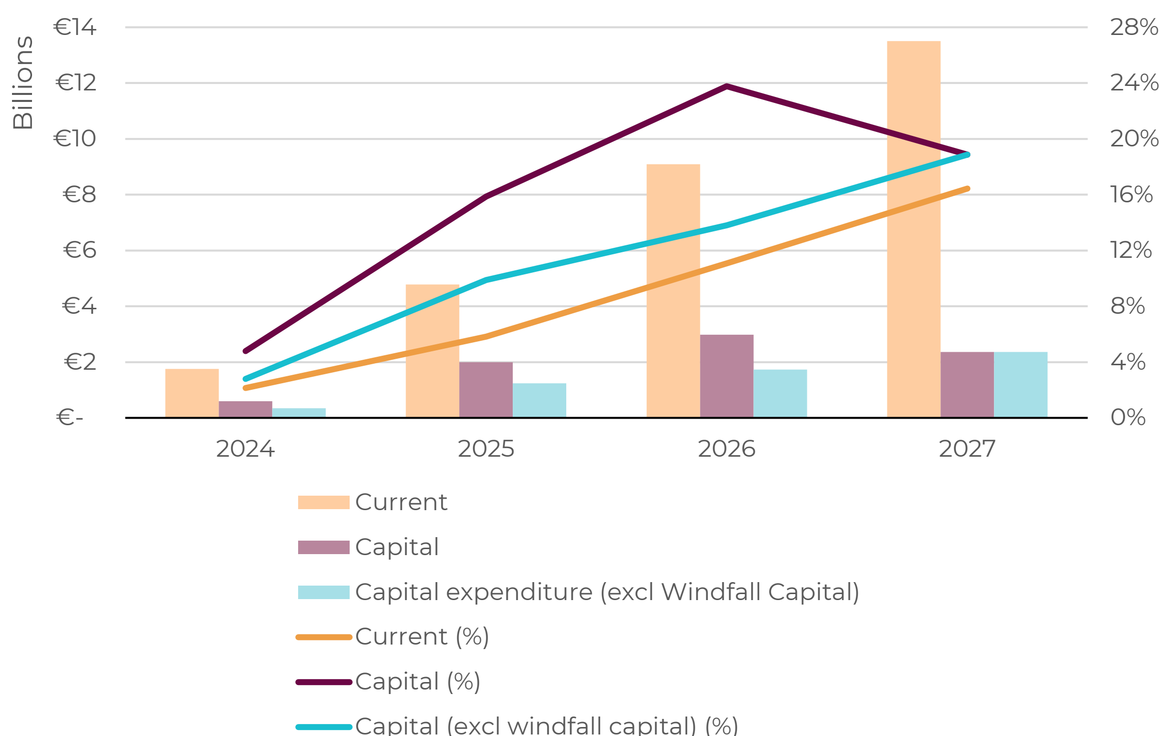


Source: PBO based on Financial Statements for St. James's Hospital 2020 and 2022.

7.5. Forecast Developments in Spending

The *Stability Programme Update 2024* sets out budgetary projections for the period 2023 to 2027. Figure 26 shows a pattern of steady growth in current spending with a more erratic pattern emerging for capital spending.

Figure 26: Gross Voted Spending Change 2024-2027 (baseline 2023)



Source: Department of Finance, Stability Programme Update 2024 (2024) p.27.

It appears the drop in voted capital spending in 2027 corresponds to the lack of a windfall capital allocation beyond 2026, tracking projected capital spending exclusive of the capital windfall allocation shows a more linear trend in growth of capital spending (teal).

8. Climate Change

8.1. Key Messages

- Ireland has a legal obligation to achieve a 51% reduction in greenhouse gas (GHG) emissions by 2030, and to achieve net zero emissions by 2050. Current projections are for Ireland to miss this 2030 target, only achieving a reduction of between 11% and 29%.
- Estimated spending on 'climate & environmentally favourable' policies and projects is forecast to reach almost €5.5 billion in 2024. Spending on these policies and projects will need to increase further to achieve targets and to avoid annual non-compliance costs as a result of missing our legally binding emissions reduction targets.
- Potential economic benefits from decarbonising the economy may be partially offset by the cost of reskilling, relocating, or winding up some incompatible sectors of the economy. While the decarbonisation of the economy must rapidly take place, it is imperative that this occurs as part of a Just Transition.

8.2. Ireland's Climate Commitments

The central importance of tackling the climate crisis has seen climate action policy become a major priority for Government. Achieving legally binding targets around emissions reduction and environmental safeguarding – and the knock-on effects on the economy – will require significant levels of public spending if the goal of reaching net zero/climate neutrality by 2050 is to be met.

Ireland's response to addressing the crisis of climate change and environmental degradation has seen it adopt two separate – but complementary – emissions reduction targets at the international and national level.

At the European level, Ireland has signed-up to the EU's Effort Sharing Regulation (ESR) committing to a targeted 42% reduction in 2005 greenhouse gas (GHG) emission levels by 2030.[43] This target only relates to Ireland's emissions not covered by the EU Emissions Trading Scheme (ETS) and is therefore net of emissions generated through energy production, manufacturing, and industrial processes. National targets covering all forms of emissions (excluding emissions from aviation) were legislated for in the Climate Action and Low Carbon Development (Amendment) Act 2021, which committed to a legally binding 51% reduction in GHG emissions by 2030 against 2018 levels.[44] Both sets of targets – EU and National – are interim goals intended to create the pathway to reaching net zero emissions no later than 2050.

[43] EU Effort Sharing Regulation (ESR). European Commission, 2018.
[44] Climate Action and Low Carbon Development (Amendment) Act 2021. Irish Statute Book, 2021.

The scale of change required to transition to a climate-resilient, biodiversity rich and climate neutral economy will result in significant disruption in some areas of the economy but also present significant opportunities in others.

While the SPU does not directly reference the economic impacts of climate change or climate action policies, these policies will directly impact Ireland's economy for decades to come. The economic impact of Ireland's transition to a de-carbonised economy in addition to the fiscal impact of the adaptation and response to the effects of climate change are largely unknown and difficult to accurately forecast, but may have consequences such as:

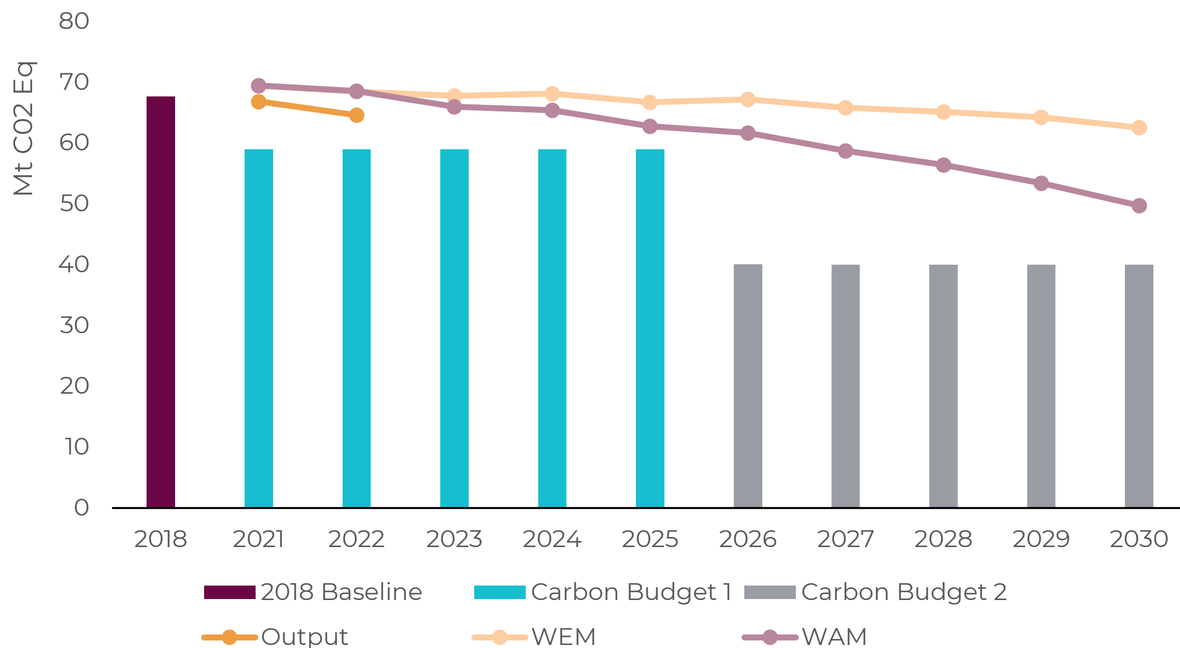
- Potential economic opportunities from developing green (low carbon) sectors may be offset by the need to curtail or shutter some brown (high carbon) sectors.
- Brown jobs in industries that cannot pivot to green work practices may lead to increased unemployment and a scarring effect in some areas.
- The development of new sectors based around renewable energy generation, renewables linked industrial processes, and the development of an energy export market.

8.3. Carbon Budgets and Emissions Reduction Targets

Under the 2021 Climate Action Act, the Climate Change Advisory Council was assigned the role of proposing a programme of three carbon budgets, each with a duration of five years, that would set the emissions parameters under which Ireland must operate to achieve its emissions reduction targets. The first two of these carbon budgets, covering the years 2021-2025 and 2026-2030, account for the maximum amount of GHG emissions that can be emitted over the decade to remain within the 51% reduction target. The budget covering 2021-2025 allows for cumulative emissions of 295 Mt $C0_2$ Eq,[45] or an average of 59 Mt $C0_2$ Eq *per annum*. The second budget (2026-2030) allows for just 200 Mt $C0_2$ Eq over the five-year period, or 40 Mt $C0_2$ Eq *per annum*.[46] For context, in 2022 the Irish Agriculture sector emitted 22.4 Mt $C0_2$ Eq while the Transport sector emitted 11.8 Mt $C0_2$ Eq.[47] Figure 27 sets out actual and projected emissions against annual carbon budgets, out to 2030.

[45] Greenhouse gas emissions at a national level are typically made up of a range of harmful gasses including carbon dioxide, methane, and nitrous oxide. To refer to overall emissions and to aid measurement, these combined GHG are referenced in megatonnes of carbon dioxide equivalent, or Mt $C0_2$ Eq, with a megatonne being 1 million tonnes.
[46] Carbon Budgets. Climate Change Advisory Council, 2021.
[47] Ireland's National Inventory Report 2024. EPA, 2024.

Figure 27: Carbon budget allocations against output and projected GHG emissions 2021-2030



Source: EPA projections 2022-2040, EPA final GHG estimates 1990-2022, and Climate Change Advisory Council.

While 2021 and 2022 both saw reductions on 2018 levels of emissions,[48] emissions in both years exceeded 60 Mt CO_2 Eq – well in excess of the annual maximum permitted emissions of c.30 Mt CO_2 Eq which must be reached by 2030. With emissions capped over the five-year period, annual excess emissions must be made up in subsequent budget years. In its most recent report on future emissions, the EPA has projected the cumulative 2021-2025 carbon budget will be exceeded by between 37 and 45 Mt CO_2 Eq. As a result of this projected shortfall which must be carried over to the next budget period, and due to insufficient measures to reduce emissions currently being in place, the 2026-2030 carbon budget is also projected to be exceeded by between 80 and 125 Mt C02 Eq.[49]

On the current trajectory, the EPA projects that by 2030 Ireland will achieve between 11% and 29% reduction in emissions over 2018 levels – far below the required 51% reduction set out in the Act. The upper-end reduction of 29% is *with additional measure* (WAM) taken into account, therefore already accounting for proposed emissions reductions stemming from policies within the annual Climate Action Plans, but that may not yet be fully implemented. Crucially, however, the potential for emissions reductions from the move to an 80% share of electricity generation from renewable sources is not accounted for in the EPA projections.[50]

[48] Ibid.
[49] Ireland's Greenhouse Gas Emissions Projections 2022-2040. EPA, 2023.
[50] Ibid.

8.4. Projected Spending

In 2024, spending on 'climate & environmentally favourable' policies and projects is forecast to reach almost €5.5 billion while 'climate & environmentally unfavourable' expenditure is estimated to exceed €1.5 billion.[51]

Of this favourable spending, €788 million is expected to be funded through the hypothecated element of carbon tax revenues, with total annual carbon tax revenues expected to exceed €1 billion for the first time.

The Programme for Government in 2020 set out the intention to hypothecate all additional carbon tax revenues raised from annual increases in the rates. It is estimated that this hypothecation would raise revenues of €9.5 billion over the 10 years from 2020 to 2030. €5 billion of that will be invested in energy efficiency initiatives in residential and community sectors. The remaining €4.5 billion in additional carbon tax receipts will be used to boost the Government's current spending on public services.

As the carbon tax is intended to elicit a behavioural change that encourages a reduction in the use of fossil fuels, the projections for future revenues cannot be certain. However, based on previous trends, over the period covered by the SPU (2024-2027), the PBO estimates that approximately €5.5 billion in carbon tax revenues will be collected of which €3.9 billion would be hypothecated.

The PBO has published an overview of the carbon tax and how it is spent up to 2024, that can be found here.

Projects funded via carbon tax revenue recycling have been identified and prioritised to ensure a continued funding stream is available throughout the project lifetime, while in-year tracking helps facilitate improved oversight and analysis of overall of climate related spending.[52] However, for non-carbon tax funded measures not covered by the *National Development Plan*, there can exist a lack of certainty around committed multi-annual budgets which are necessary for policy planners to design and implement effective climate policy. To tackle the climate crisis, it is essential that mid-to-long-term targets are set and adhered to fully – with consistent funding and political support.

The lack of clarity around the fiscal response to climate action should be of concern given the limited time available to implement the changes required to meet targets and to avert the worst impacts of climate breakdown. In their report assessing the potential impact of climate change on Ireland's public finances, the Fiscal Council highlighted just some of the potential costs of action and inaction to the economy:[53]

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[51] Climate Related Spending 2024. DPENDR, 2023.
[52] Green Budgeting in REV 2024. PBO, 2024.
[53] What climate change means for Ireland's public finances. Irish Fiscal Advisory Council, 2023.

- An annual average cost of €350 million up to 2030 – rising to €700 million, or 0.2% of GNI*, *per annum* post-2030 – in non-compliance costs as a result of missing our legally binding emissions reduction targets.
- Costs of extreme weather events in the region of 0.2% of GNI*, with an example cost of just one "1-in-10-year" flooding event for Dublin City potentially ranging from €333 million to €2.94 billion. The current flood defence budget for the OPW is €100 million.
- An immediate need for spending linked to the climate transition to be in the region of 0.6% and 1.1% of GNI* until at least 2030.
- A reduction in excise, VAT on energy and other fossil fuel linked revenues – estimated at about 0.9% of GNI* or €2.5 billion – by 2030.

8.5. Greening the Labour Market

In acknowledging the rapid shift required to meet our climate targets and uphold the legally binding commitment to achieve 'net zero' across all sectors of the economy by 2050, the SPU highlights that:[54]

"*a reallocation of workers across occupations and sectors will be required. Specifically, the green transition will involve job destruction in 'brown sectors' alongside job creation in 'green sectors'. Policies will therefore be required to smooth the reallocation of workers within the economy – via upskilling and re-skilling – to align the skills of workers (labour supply) with the needs of employers (labour demand) in order to avoid mismatches.*"

While the decarbonisation of the economy must rapidly take place, it is intended that this occurs as part of a Just Transition, with the state ensuring that workers in industries and sectors which will be most impacted by the coming changes are not left to carry the burden of climate action. The PBO welcomes the Department of Finance's joint analytical project with the ESRI to develop an estimate of the incidence of green and brown occupations in Ireland, including the characteristics of these workers. Identifying which jobs and cohorts of the populations are most at risk from the changing economy will help policymakers to target resources more accurately and efficiently.

However, caution must be exercised when considering what sectors may 'green' over time, the scale of investment required for reskilling/upskilling, and the likelihood that those currently in 'brown jobs' will be able to transfer to 'green jobs'. Based on the types of roles and required skills for many 'green jobs', they tend to be filled with highly educated workers moving from non-green jobs to similar green occupations. In contrast, the rate of 'brown job' workers moving to 'green jobs' is significantly lower, with such moves in the UK at about 2.8% in 2019.[55] The report cautions that:[56]

[54] Draft Stability Programme Update 2024. Department of Finance, 2024 (page 20).
[55] Net Zero Jobs: The impact of the transition to net zero on the UK labour market. London School of Economics, 2022.
[56] Ibid, p9.

"*Transitions out of, and reskilling of brown jobs – together with ensuring that the skill needs of green jobs are met – will likely require extra effort from firms, the government, and workers themselves, and such efforts are likely to vary across places, sectors, and demographic groups.*"

In comparison to other European countries, Ireland's heavy industrial sector is not a significant contributor to the overall labour force. In 2019, 286,000 of the 2,361,000 people in employment were classified as being in 'Industry'. However, less than 6% of these jobs (15,962) would be considered exclusively as 'brown jobs' as they relate to mining, quarrying, fossil fuel extraction, and chemical production.[57] Therefore, for many jobs in 'industry' and other sectors, transferring to renewable energy sources and changes to work processes or inputs may result in the jobs/sectors moving from 'brown' to 'green' without significant disruption.[58] The proposed expansion of the renewable energy sector will bring job opportunities both directly and indirectly – as highlighted in the Department of Enterprise, Trade and Employment's offshore wind industrial strategy.

It is not clear how such largescale investments in industrial development can be made given Ireland's low industrial base and limited pool of indigenous enterprises supporting the renewables sector. With the economy currently at full employment, reskilling into the green economy may take existing workers from other infrastructure sectors within Ireland while global competition for these skills will also exist as other economies shift to net zero simultaneously.

With much of the capital cost for the development in green sectors coming from outside the state, it is essential that Ireland signals its capacity to support these sectors through immediate investment in reskilling/upskilling workers and the development of supporting infrastructure.

[57] Labour Force Survey (LFS) Quarter 4 2019 - CSO - Central Statistics Office.
[58] See the CSO website.

9. Demographics

The SPU describes demographic change as one of the '4Ds' (i.e., one of four major structural budgetary challenges), alongside de-carbonisation, digitalisation and de-globalisation.

9.1. Fiscal Impact of Demographics

The SPU discusses the fiscal impact of demographic change. Ireland's population is ageing rapidly due to increased longevity and declining fertility rates. Demographic changes are expected to limit future increases in labour supply, slow the potential growth rate of the economy and necessitate additional spending on healthcare, pension, and long-term care services. By 2050, increased demographic-related expenditure alone is projected to amount to 6 per cent of GNI*.[59]

9.2. CSO Projections

Following each census, the Central Statistics Office (CSO) develops long-term demographic projections. A range of projections are created based on different scenarios for fertility rates, mortality rates, and net migration. As of May 2024, the CSO's long-term demographic projections have not yet been updated to take account of Census 2022 results.

The most up-to-date long-term demographic CSO projections available are those that were produced following the 2016 Census. These projections were based on various combinations of three migration and two fertility scenarios (which are shown in Table 6):

Table 6: CSO Demographic Projection Assumptions

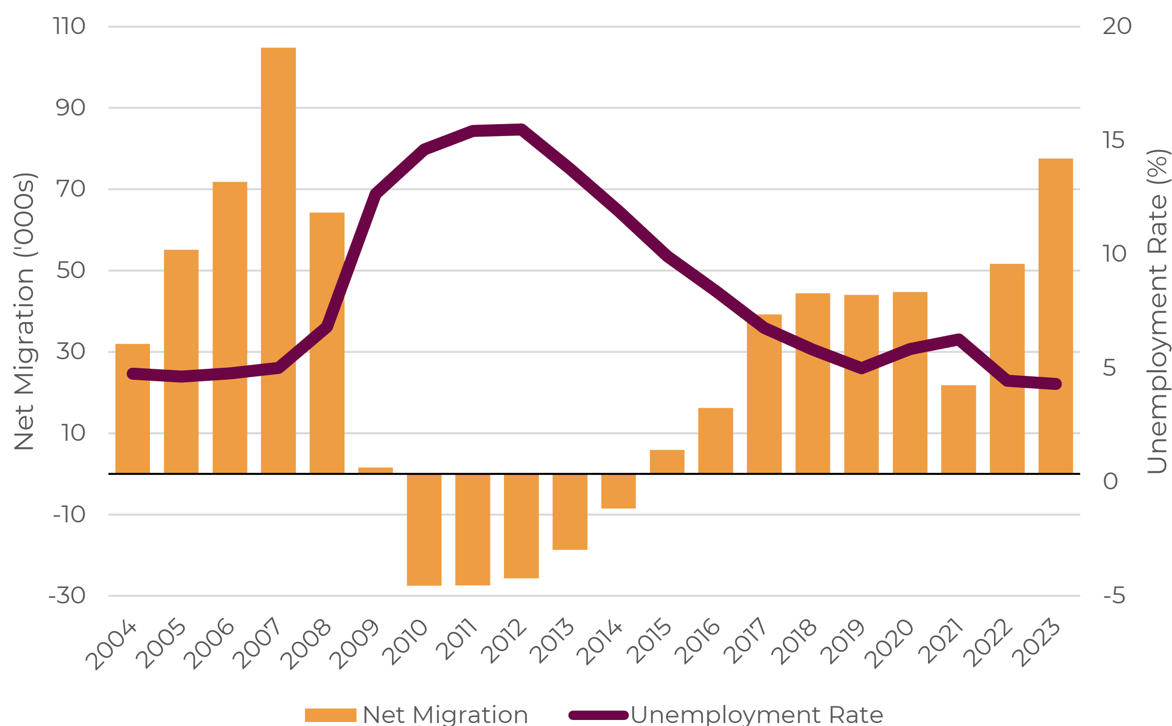
Scenario	Description
M1	Net migration of 30,000 individuals per year.
M2	Net migration of 20,000 individuals per year.
M3	Net migration of 10,000 individuals per year.
F1	A continuation of the natural population growth that occurred before 2016.
F2	Reduction in fertility.

Source: CSO.

In the years following 2016, net migration has usually exceeded the highest net migration scenario (M1) - see Figure 28 below for specific figures. Ireland has also experienced a decline in fertility rates.

[59] See the DoF, SPU 2024 (sec 7.3).

Figure 28: Net Migration and Unemployment



Source: CSO figures for net migration and unemployment (ages 15-74)

9.3. Likelihood of future demographic trends

The SPU's central demographic scenario assumes net migration will be a key driver of labour force and employment growth. It projects an annual net inward migration of 35,000 for the years 2026 to 2030. While the net migration figure of 35,000 *per annum* is below pre-pandemic levels (i.e., net migration was 39,200, 44,400 and 44,000 in 2017, 2018 and 2019 respectively),[60] housing supply constraints and a decline in net inflows from Ukraine may result in lower inflows over the medium-term.

The SPU describes higher-than-expected migration as an upside risk. This would boost labour supply, employment, output and mitigate against adverse competitiveness developments. The SPU also outlines an alternative 'upside' demographic scenario which assumes a higher net inward migration of 45,000 per annum from 2026 to 2030. The additional inward population flows could increase the labour force by 42,000 and employment by 40,000 by 2030, adding around 0.25 per cent on average to both labour force and employment growth per annum over the medium-term.

The SPU outlines key demographic trends up to 2050. This analysis is based on projections set out in the European Commission's (EC) 2024 Ageing Report.[61] The EC assumes net migration to Ireland of circa 16,000 *per annum* from 2024-2030 and circa 17,000 *per annum* over the period 2024-2050.

[60] See the CSO website.
[61] See the European Commission's 2024 Ageing Report webpage.

A potential risk associated with the demographic projections set out in the SPU document is an underestimation of future net migration figures. The Government of Ireland has a target of maintaining full employment (i.e., unemployment below five per cent) until at least 2030.[62] In the years since EU enlargement in 2004, periods of full employment in Ireland (i.e., 2004-2007, 2019 and 2022-present) have experienced an average of circa 62,000 in net migration per annum.

The SPU states that more in-depth analysis for Ireland's demographics will be set out in a forthcoming Department of Finance report entitled 'Population Ageing and the Public Finances in Ireland'.

[62] See the Department of Enterprise, Trade and Employment's 'White Paper on Enterprise 2022 – 2030'.

10. Newly Proposed EU Governance Economic Framework 2025

Updates to the EU fiscal rules are set to be implemented in 2025. While the 'Maastricht Criteria' remain in place (i.e., the 3 per cent of GDP deficit limit and 60 per cent debt-to-GDP ratio), their influence is less important. Significantly, the One-Twentieth (1/20th) Rule will be removed.[63] Instead, the EC will bilaterally negotiate tailored country-specific debt reduction adjustment speeds (or 'fiscal adjustment paths') with each Member State, based on Debt Sustainability Analysis. In highly indebted countries the new rules will focus more on ensuring a sustainable path for government debt levels, rather than on specific targets. The new rules will also give more room for public investment by allowing countries to bring down excess debt at a slower pace e.g., over a four to seven years period. The revised process for the coordination of economic and multilateral surveillance is outlined in Table 7 below:

Table 7: The New EU Fiscal Surveillance Process

No.	Measure	Description
1.	Technical Trajectory	The EC will develop a multi-annual technical trajectory anchored on Debt Sustainability Analysis. High Debt Countries: In cases where the debt path is found to be potentially risky (i.e., debt over 60 per cent of GDP or a deficit in excess 3 per cent of GDP), the EC will put forward a path for the country's net government expenditure that would set the debt ratio on a suitable downward path. This expenditure path will involve a constraint on net spending growth lasting from four to seven years. The path (or Technical Trajectory) will be based on a Debt Sustainability Analysis. Low Debt Countries: Ahead of the preparation of medium-term fiscal structural plans, the EC will provide Member States with debt above 60 per cent of GDP and/or deficits above 3 per cent of GDP with a baseline fiscal trajectory setting out what it considers to be the necessary budgetary path to ensure a sufficient pace of debt reduction. Low debt countries such as Ireland will only be provided with technical information related to keeping their deficit levels below 3 per cent.
2.	Design of the Plan	Member States will then produce medium-term fiscal structural plans, including reforms and investments. Assessments by independent fiscal institutions (such as the Fiscal Council) would be reflected in each Member State's plan.
3.	Assessment and Adoption	The EC endorses each Member State's plan or requests a revised plan. Assessment will centre on 'Net Primary Expenditure' (i.e., government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes funded by the EU, cyclical elements of unemployment benefit expenditure and other expenditure items outside the control of government). A positive assessment is contingent upon the plans putting debt on a

[63] The 1/20th Rule stipulates that a country's debt ratio should decline at an annual rate of one-twentieth of the excess of the debt ratio over the 60% debt-to-GDP target.

		sustainable downward trajectory and maintaining budget deficits within acceptable limits.
4.	Implementation	An agreed set of spending ceilings will be put in place for the subsequent four to seven years. Member States will present annual progress reports as part of the European Semester Cycle. The EC and European Council monitor compliance with the endorsed plan.

Sources: Casey & Cronin (2023), DoF (2024), Höflmayr (2024) and Pamies (2023).

10.1. What do the new rules mean for Ireland?

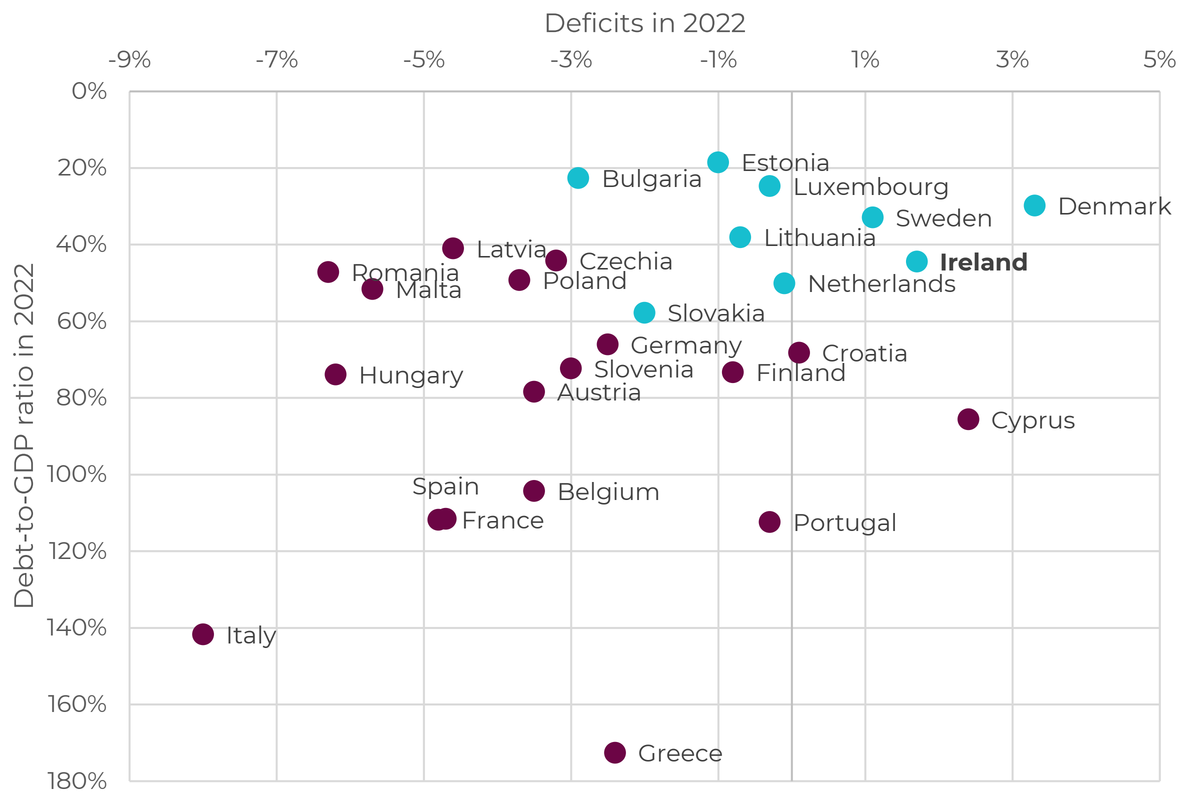
Given Ireland's relatively strong fiscal position, with a budgetary surplus and public debt below 60 per cent of GDP, the State will not receive a binding fiscal constraint from the EC. It is possible that Ireland will face less scrutiny under the new EU fiscal rules given the State's high GDP figures. Ireland has recorded budgetary surpluses in recent years and its debt-to-GDP ratio sits at a 'healthy' 44 per cent (despite having one of the world's highest per capita public debt levels of €42,000 per person).[64]

Ireland will still need to commit to a five-year plan and set a net expenditure limit. This plan will be endorsed by the European Council and will be monitored annually (through Annual Progress Reports which will replace SPUs and National Reform Plans). Once endorsed by the Council, it will not be possible to change the agreed net expenditure path during or between years unless a new Government takes office. In other words, the allowable level of spending can only be altered if matched by additional discretionary revenue-raising measures.

As shown in Figure 29, compliance with the fiscal rules around the EU is uneven.

[64] See Department of Finance (2024) Annual Report on Public Debt in Ireland 2023.

Figure 29: Debt to GDP ratios and deficit levels in the EU



Source: Eurostat - Quarterly government debt and Government deficit/surplus, debt and associated data.

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Publication Date: 24 May 2024

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