Irish Economic Update

AIB Economic Research Unit

1st October 2024

Budget 2025

Budget surplus funds substantial giveaways

Today's budget, the last of the current Government, contained a fresh package of cost of living support measures totalling €2.2bn that will be rolled out over the remaining months of 2024. These will mainly taking the form of direct household payments and energy credits. The Government is also providing an additional €6.9bn in other spending increases and €1.4bn in tax cuts for next year. This adds up to a total budget day package of €10.5bn.

The public finances remain in a strong state, allowing the large Budget day package. Indeed, the Dept. of Finance is still able to project budget surpluses of €23.7bn (7.5% of GNI) for 2024, €9.7bn (2.9% of GNI*) in 2025 and €8.3bn (2.4% of GNI*) in 2026. The net National Debt/GNI* ratio is also projected to continue declining, falling from 52.9% in 2024 to 43.2% by 2026. Meantime, the Government will take receipt of €14bn from the proceeds of the Apple tax case, driving the exceptional budget surplus in 2024. However, excluding windfalls receipts, the Government will run a deficit in the coming years. The Minister also outlined a long-term framework to funnel these and other one-off proceeds into infrastructure, albeit the details are to be finalised at a later date. The Fiscal Advisory Council, though, is concerned the budget may be overly pro-cyclical and inflationary in the context of an economy operating at full capacity.*

Key Points - Budget 2025

Budget 2025 is set against exceptional budget surpluses	Budget 2025 is set against exceptional budget surpluses. The starting point is a nearly €24bn surplus in 2024, including windfall proceeds from Apple Judgement of €14bn this year. The budget surplus is forecast to be €23.7bn in 2024 (7.5% of GNI*), and €9.7bn in 2025 (2.9% of GNI*). However, excluding windfall receipts, the Government will run significant deficits in the coming years.
Dept. of Finance macro projection point to continued growth but risks apparent	Dept. of Finance (DoF) macro projections point to continued growth in the near term with GDP and MDD forecasts broadly in line with the last Spring forecasts. However, DoF highlights the numerous risks to the outlook, including global geopolitical risks.
A substantial Budget-day package of €10.5bn announced	The budget also provided for the usual broad array of increased spending across Government departments and taxes. This includes €6.9bn in new spending measures, and €1.4bn in tax measures. Additionally, the Government announced a €2.2bn of "cost of living" package, largely in one-off payments in 2024. The total Budget package came to €10.5bn.
Fiscal Advisory Council highlights overheating risks	Given the expanded size of the Budget package versus prior guidance, the Fiscal Advisory Council has warned that the Government risks overheating an economy already operating at full capacity by surpassing its self imposed spending rule and be an overly expansionary stance to fiscal policy in the coming years.
Proceeds of Apple case to go towards infrastructure over the medium term	The Government also announced its long term intentions for the proceeds of the Apple tax case. The funds will go towards infrastructure spending in the coming years, although they were not allocated as yet to specific projects in Budget 2025. Nevertheless, this prudent statement of intent comes alongside substantial increases in planned capital spending in 2025 and 2026.

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Irish economy continues to grow at robust pace, but risks to the downside

- **Economic data continue to signal modest global growth and easing inflation in recent months.** At a regional level, there are signs of a cooling in US growth, reflected in slower jobs growth in recent months. Eurozone growth remains anaemic, particularly in Germany, while the UK has seen an upturn in activity in 2024 following a weak 2023. Global growth is expected at a modest c.3-3.5% in 2024 & 2025 (IMF & OECD), with **significant downside risks to the outlook,** including current geopolitical tensions and sticky inflation.

- Lead indicators suggest global growth remains positive with PMI surveys signalling modest gains, albeit largely driven by services sector activity, with manufacturing and construction sector activity on a weaker growth trajectory. Headline inflation remains on a downward trajectory, dropping below the 2% target in many markets in recent months.

- **In Ireland, the growth picture was robust in H1 2024.** Modified Domestic Demand (MDD) rose by 1.6% y/y in Q2 2024, consumer spending rose by 1.3% y/y, employment rose by 2.7% y/y; and wage growth was 5.6% y/y, reflecting a tight labour market. Looking ahead, **lead indicators suggest Irish growth will remain positive.** The AIB PMIs indicate private sector growth continues to outperform peer economies. The PMIs signal continued employment growth, while other lead indicators such as consumer confidence point to gradually improving sentiment as inflation normalises.

- In terms of the financial fundamentals, Ireland continues to have a large balance of payments surplus, the general government budget remains in strong surplus, while **private sector balance sheets are characterised by low levels of debt and high savings. Inflation has also fallen sharply this year.** The HICP rate stood at just 0.2% in September, down from a peak of 9.6% in 2022. Meanwhile, the core HICP rate has declined to 1.8%.

- Meanwhile, **capacity constraints are becoming more binding on the domestic front.** Thus, while the Irish economy is expected to expand in the period ahead, it is projected to be at a more moderate pace than in recent years, albeit underlying growth should be stronger than the low GDP figure now expected for 2024.

- This is reflected in **the latest Dept. of Finance macro economic forecasts. GDP is projected to be broadly flat in 2024 and up 3.9% and 3.7% in 2025 and 2026, respectively.** Meanwhile, MDD is forecast to grow by 2.5% in 2024, 2.9% 2025 and 3% in 2026. The labour market is expected to remain tight. The unemployment rate projected to remain very low at 4.5% next year and in 2026.

DEPT OF FINANCE ECONOMIC FORECASTS

(%)	2023	2024(f)	2025(f)	2026f)
GDP	**-5.5**	**-0.2**	**3.9**	**3.7**
GNI*	**5.0**	**4.9**	**2.7**	**2.7**
MDD	**2.6**	**2.5**	**2.9**	**3.0**
Private Cons	4.8	3.2	3.3	2.9
Gov Expd.	4.3	3.0	2.8	1.8
Mod. Fixed Inv.	-4.4	0.2	1.9	4.8
Mod. Imports	-0.1	9.6	3.9	3.3
Exports	-5.8	8.5	1.9	3.8
HICP	5.2	1.7	1.9	2.0
Employment	3.4	2.4	1.8	1.5
Unemploy. Rate	4.3	4.4	4.5	4.5

Source: Dept. of Finance, October 2024

Apple boosts the budget surplus in 2024 and 2025, but deficit underlying

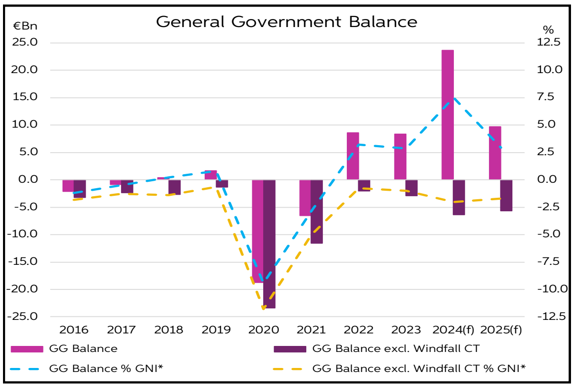
- A General Government surplus target of €8.4bn was initially set for this year in Budget 2024. This was revised up to €8.6bn in the Stability Programme Update last April following better than expected budgetary outturn for 2023. The past six months, though, have seen an acceleration in tax revenues, especially corporation tax receipts, as well as the unexpected proceeds of the Apple tax case. Thus, the Dept. of Finance now expects the budget surplus to be in the region of €23.7bn in 2024 (7.5% of GNI*).

- **The General Government budget balance is expected to remain in significant surplus in the coming years. The Government is targeting surpluses of €9.7bn (2.9% of GNI*) in 2025, easing to €8.3bn in 2026 (2.4% of GNI*).** However, at an underlying level, Ireland will actually run a budget deficit, excluding both ongoing excess corporate tax receipts and the proceeds from Apple Judgement of €14bn this year. This deficit will be €6.3bn (2% of GNI*) in 2024 and €5.7bn (1.7% of GNI*) in 2025.

Spending increases the focus of Budget 2025

- **The announcements today total a €10.5bn Budget day package worth €8.3bn for 2025, alongside €2.2bn of "cost of living" measures for 2024.** Of the €8.3bn, €6.9bn is allocated to spending and €1.4bn on taxation measures.

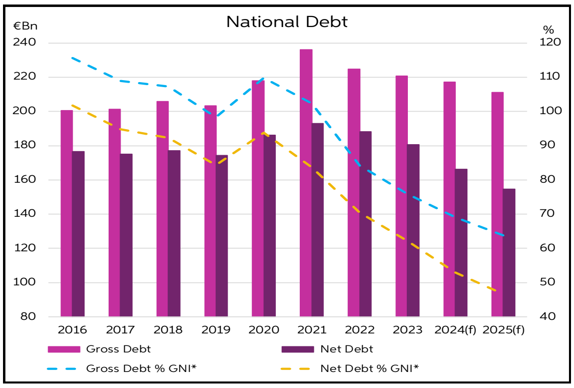
- **The spending commitments are broken down into new measures and pre-committed spending** from prior Budgets and public sector pay deals. The €2.2bn cost of living package will largely flow into one-off welfare payments and a fresh round of energy credits for all households in 2024. For 2025, welfare payments will be increased, alongside increases in health and education, amongst other departments spending ceilings. The capital budget will also be boosted by €1.6bn (+12.3%) to a record high of €15bn.



- **All in, Government voted spending will increase by 8.1% in 2024 and 3% in 2025,** slightly ahead of what was projected in the Summer Economic Statement due to the one-off cost of living measures.

- **The Government also announced its intentions for the Apple tax receipts of €14bn.** These will flow entirely into infrastructure delivery, although the Government has not allocated the monies to specific projects pending the development of a framework for spending one-off windfall receipts.

- On the tax side, the **measures are focused on reducing income tax and Universal Social Charge**, taking up the vast majority of the €1.4bn package. This comes alongside some small revenue-raising measures including increases to stamp duty, excise duty and carbon tax.



- **DoF sees tax receipts rising by a further 3.1%, or €3bn, to €97.7bn in 2025, excluding Apple proceeds.** Of the main tax heads, income tax, VAT and excise duties are forecast to register good growth in 2025. Meanwhile, corporation tax is expected to be broadly flat, ex Apple, in 2025, at €29.5bn. This may prove too conservative given the trends in income generated by key multinationals in Ireland.

- There are also concerns that the sharp rise in revenues from this tax head in recent years will not be sustained. **The Dept. estimates that up to €15.9bn of the €29.5bn in corporation tax receipts in 2024 could be 'windfall' in nature.** Furthermore, Ireland remains vulnerable to potential global tax code changes, and sector-specific risks. Thus, forecasting corporation tax receipts is challenging over the medium term.

Fiscal Advisory Council critical of breach of spending rule limit

- The **Government's own National Spending Rule** is to limit the growth in spending net of new tax measures to **no more than 5%** each year. The spending plans as set out in the Dept.'s Summer Economic Statement in July already indicated that this threshold would be broken. This has drawn strong criticism from the Irish Fiscal Advisory Council, saying it adds to the pro-cyclical stance of fiscal policy and could lead to more persistent inflationary pressures. In its view, there will now be an overly expansionary stance to fiscal policy in the coming years.

- Certainly, given the current strength of the Irish economy and the low rate of unemployment, a more cautious approach to the Budget could be merited. In this context, it is welcome that the Government has indicated that the windfall Apple taxes will go towards capacity-enhancing infrastructure, instead of flowing into ongoing current expenditure. However, the capital budget has undershot DoF projections in recent years, suggesting construction capacity, rather than funding, remains the key constraint on infrastructure delivery.

- With the Government **set to run an underlying deficit**, excluding tax windfalls, and a structural deficits; a firm commitment to closing this deficit in the coming years while the economy is running at capacity could be a prudent feature of future budgets.

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Tax & Spend Policy Measures
Budget 2025

Total Revenue & Spend

	€ millions	2024	2025	Growth (Year-on Year)
A	**Revenues**	**106,775**	**108,525**	**1.6%**
	of which			
	Income Tax	35,030	36,300	4%
	Corp Tax (ex Apple)	29,500	29,630	0%
	VAT	21,635	22,680	5%
	Others	20,610	19,915	-3%
B	**Expenditure**	**95,205**	**100,640**	**5.7%**
	of which			
	Net Current	77,560	79,925	3%
	Net Capital	17,645	20,715	17%
C (A-B)	**Exchequer Balance**	**11,570**	**7,885**	
	Gen Gov Balance (GGB)	**23,665**	**9,700**	**-59%**
	% GNI*	**7.5%**	**2.9%**	
	GGB ex windfall tax^	**(6,345)**	**(5,700)**	**10%**
	% GNI*	**-2.0%**	**-1.7%**	

New Measures

	Tax - Yield / Cost				Spend - Cost		
	€ millions	**2025**	**Full Year**		€ millions	**2025**	**Full Year**
A	**Tax Cuts**	**2,044**	**2,334**	D	**Current**	**7,200**	**5,200**
	Income Tax	1,120	1,290		Social Protect	1,309	1,309
	USC	470	540		Health	1,213	1,213
	Business Supports	142	221		Education	525	525
	Housing Supports	282	187		Housing	311	311
	CAT (Inheritence)	22	88		Other	1,842	1,842
	Others	8	8		Cost of Living (2024)	2,000	-
B	**Tax Rises**	**577**	**551**	E	**Capital**	**1,600**	**1,600**
	Excise	87	87		Housing	580	580
	Carbon Tax	122	157		Health	226	226
	Bank Levy	200	200		Transport	213	213
	Other	168	108		Education	360	360
					Other	221	221
C (A-B)	**Total Tax**	**1,467**	**1,782**	F (D+E)	**Total Spend**	**8,800**	**6,800**
G (C+F)	**Total Budget Package**	**10,267**	**8,582**				
	% of GDP	**1.8%**	**1.5%**				
	% of GNI*	**3.1%**	**2.6%**				

Source: Dept. of Finance, Budget 2025

^ excluding windfall corp tax and Apple case tax of €14.1bn in 2024