Economic Research Unit

Economics Weekly

Bank of Ireland

April Stability Programme Update Published

April's Stability Programme Update (SPU), published this week, shows the Department of Finance still expect a substantial budget surplus of €8.6bn (2.8% of GNI*) in 2024, driven by a still robust outlook for the Irish economy. Crucially, the Department still believes the unexpected 25% fall in corporate tax revenues in Q1 2024 was a temporary timing effect and will unwind. That said, the outlook for corporate taxes remains uncertain as OECD BEPS reforms have yet to be fully implemented. The SPU also expressed concern that public spending in Q1 2024 was up 15% on the year. Finally, €4bn of the expected €8.6bn surplus in 2024 will be injected into new savings funds, to help meet the long-term costs of aging and other spending pressures, limiting the room for tax cuts and spending measures in October's Budget for 2025.

Substantial budget surpluses still expected: This week the Department of Finance published the draft April Stability Programme Update (SPU). The new forecast is for a government surplus of €8.6bn (2.8% of GNI*) in 2024, rising to €9.7bn (3% GNI*) in 2025. However, the SPU highlights the government plans to inject €4bn and €6bn in 2024 and 2025, into two new savings vehicles, the Future Ireland Fund (FIF) and Infrastructure, Climate and Nature Fund (ICNF). As these funds will be ring-fenced outside the exchequer they will not be available to finance higher public spending or tax cuts in October's Budget for 2025. Government debt is expected to be €221bn, 72% of GNI* at end-2024.

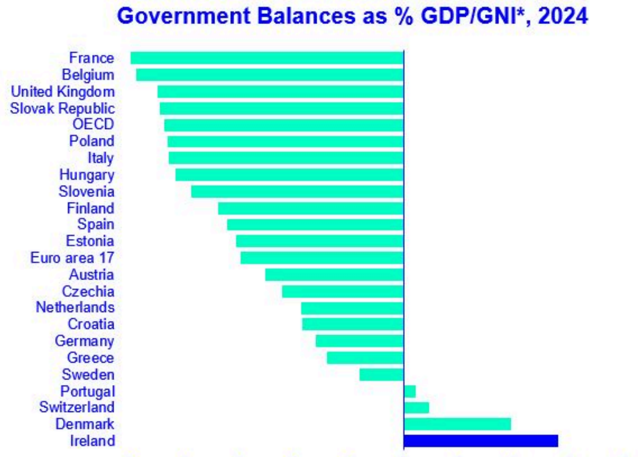
Robust economic growth forecast for 2024: The Department of Finance forecast is for 2.6% GDP growth in 2024, revised from 4.5% in October's Budget. However, this reflects the volatile multinational sector. Modified domestic demand is expected to grow by 1.9% in 2024, only a small downward revision. In contrast, the pace of jobs growth has beaten expectations, so employment is now expected to grow at a faster 1.9% pace in 2024, to 2.735 million. Consumer spending is forecast to grow 2.4% in 2024 and 3.1% in 2025. The key assumption here is that HICP inflation averages 2.1% this year and next, below the 4.5% expected pace of pay growth, so households' real incomes recover.

Fall in corporate tax revenues in Q1 likely a blip: The news that €2.4bn of corporate taxes were collected in Q1 2024, down 25% on the year, understandably fed concerns around this buoyant source of revenue. The SPU maintains this fall was due to an unexpected timing factor and lost ground will be made up later in the year. Corporate taxes are still expected to equal €24.5bn in 2024, up 2.7% on 2023. That said, the SPU cautions it still estimates €11bn of the corporate tax take are potentially volatile '*windfall*' receipts. Also, the full implementation of the OECD BEPS reforms, Pillars I and II, will eventually lead to a significant loss of corporate tax revenue to the exchequer .

Concerns on the pace of spending growth: The SPU still pencils in that core expenditure will rise by a substantial 5.1% in 2024 to €91.7bn, but asserts there are '*considerable expenditure risks*' for 2024. In Q1 2024 gross voted expenditure was €22.8bn, up 14.9% on the year, well above the anticipated growth rate. For example, health spending was €5.7bn in Q1 2024, already €350m, or 6.5%, ahead of Budgetary plans. The SPU notes overspending in some sectors in 2023 is persisting into 2024. It also highlights the costs associated with the €0.4bn public sector pay deal and expanding spending in health and international protection.

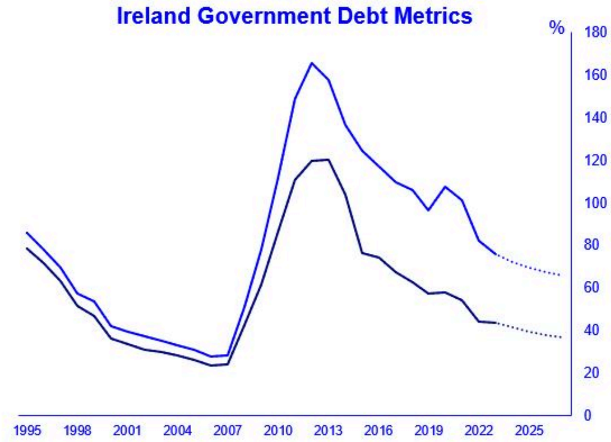
Group Chief Economist: Conall MacCoille

Government Balances as % GDP/GNI*, 2024



Source: Department of Finance, OECD

Ireland Government Debt Metrics



Source: Department of Finance, CSO

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