Rialtas na hÉireann
Government of Ireland

Draft Stability Programme Update

Incorporating the Department of Finance's Spring Forecasts

APRIL 2024

Prepared by Economics Division
Department of Finance
www.gov.ie/finance

Stability Programme

April 2024 Update

(Incorporating the Department of Finance's Spring Forecasts)

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1. Legal basis

EU Regulation 1175/11 requires all Member States to submit an annual update of their Stability Programme (Convergence Programme in the case of non-euro area Member States) to the European Commission by end-April each year. This document is Ireland's annual update, and it constitutes Ireland's national medium-term fiscal plan. It has been prepared in line with the May 2017 guidelines on the format and content of Stability and Convergence Programmes – the 'Code of Conduct'. This document should be read in conjunction with Ireland's *National Reform Programme 2024*.

It is anticipated that the regulation governing Stability Programmes of the Member States will shortly be replaced by updated legislation (revised fiscal rules); accordingly, it is not expected that the current document will be assessed by the European Commission or that a European Council opinion will be adopted.

2. Endorsement

The Department produces, and publishes, two set of macroeconomic projections each year – its spring forecasts (set out in the annual *Stability Programme*) and its autumn forecasts (set out in the *Economic and Fiscal Outlook* that accompanies the annual budget).

Under European Union law (set out in the so-called 'two-pack'), both sets of forecasts are subject to independent endorsement, a function that, in an Irish context and under the *Fiscal Responsibility Act 2012*, is assigned to the *Irish Fiscal Advisory Council* (the Council). A Memorandum of Understanding between the two institutions codifies the process, and is available at:
https://www.gov.ie/en/publication/caca92-memorandum-of-understanding-between-the-irish-fiscal-advisory-counci/

For comparison purposes, the main macroeconomic variables from each set of forecasts that has been subject to the endorsement process (which began in 2013) is set out on the Department's website, and available at: https://www.gov.ie/en/publication/6adc5-database-of-past-forecasts/

The macroeconomic forecasts were endorsed by the Council on 2nd April 2024 (**annex 1**). To operationalise this, staff in the Economics Division of the Department provided an initial set of projections to the Council on 19th March. Following an iterative process, a formal presentation was made by Departmental staff to the Council on 28th March.

The presentation provided to the Council is available on the Department's website at:
https://www.gov.ie/en/publication/e1660-spu-2024-presentation-to-ifac-28-march-2024/

3. Draft and final versions

The Government publishes each annual update of the Stability Programme in draft form, before submitting the final version to the European authorities at end-April.

4. Date stamp

The macroeconomic analysis and forecasts contained in this document are based on data available to end-March 2024.

5. Availability of chart data

In line with the Government's *Open Data Initiative,* the data underpinning charts in this document are available on the Department's website, available at:
https://www.gov.ie/en/publication/7c7c9-spu-2024-chartpack/

6. Rounding

Rounding can affect totals in all tables in this document.

7. Boxes

The document contains several boxes. These are short, self-contained pieces of analysis, the objective of which is to delve a little deeper into some topical economic and fiscal issues.

8. Corrections policy

The data and analysis set out in this document are compiled by Department of Finance staff; every effort is made to ensure accuracy and completeness. If errors are discovered, subsequent corrections and revisions are incorporated into the digital version available on the Department's website. Any substantive change is detailed in the online version.

9. Presentation before parliament

The document was laid before (formally presented to) the Oireachtas on 23rd April 2024.

Chapter 1
Overview and General Policy Strategy

1.1 Policy strategy

The flow of data since the Department's autumn assessment present mixed signals but, on balance, the evidence points to an economy that is in reasonable shape, at least in aggregate terms.

The brightest spots relate to the labour market and price dynamics. In terms of the former, employment continues to expand, with an additional 90,000 jobs added over the last year. Unemployment remains at exceptionally low levels and consistent with full employment. In relation to the latter, the energy shock is dissipating and the pass-through of lower wholesale prices to retailers has triggered a faster-than-anticipated decline in headline inflation.

On a slightly less positive note, incoming data show a loss in momentum for some key measures of demand. Consumer spending has softened more recently, while expenditure on (core) machinery and equipment by firms has weakened, though some of this probably reflects firm-specific developments. In part, these trends reflect the restrictive stance of monetary policy and its transmission, via the financial sector, to the 'real' economy. That said, evidence suggests that – at least to this point – the labour market fallout from aggressive monetary policy tightening has been very limited; this feature is common in other jurisdictions also and would not be typical of previous tightening cycles.

On foot of fairly subdued consumer and business spending, Modified Domestic Demand (MDD) has largely moved sideways in recent quarters. This, alongside product- and sector-specific factors that depressed exports, are behind the 3.2 per cent fall in GDP last year.

Looking ahead, MDD is projected to increase by 1.9 per cent this year; this is a modest downward revision relative to the Department's previous set of forecasts, and mainly reflects the weaker-than-assumed data-flow in the intervening period. An important consequence of more modest growth is that aggregate demand and supply have moved closer into balance, and this is reflected in the recent trajectory for 'core' inflation. Alongside the sharp fall in energy prices, headline inflation for this year is now projected at 2.1 per cent, broadly consistent with price stability.

As inflation retreats further, the purchasing power of household incomes is set to improve as this year progresses. The baseline scenario set out in this document is calibrated on the assumption that growth in real household disposable income underpins an expansion of consumer spending from the second half of this year and into next year. Firms are expected to respond to the improved demand, both domestic and external, by increasing capital expenditure. On this basis, MDD growth is projected at 2.3 per cent for next year.

Budgetary policy is an important economic tailwind right now: increased purchases of goods and services by Government, transfers to both households and firms, as well as income tax reductions have all helped to cushion the impact of higher prices on the private sector.

As well as supporting demand in the near-term, Government is also working to enhance the supply-side of the economy – in other words, laying the foundations for continued improvements in living standards over the medium-term. For instance, Government has ramped-up capital expenditure in order to address existing infrastructural deficits and eliminate bottlenecks. Most importantly, correcting the deficit in housing supply is a key priority for Government and there is now tangible evidence that the cumulative impact of existing policies is paying dividends: new house completions last year reached their highest levels since pre-2011, while upstream data, such as housing starts, point to a further increase this year. The Government is conscious that this remains below levels needed to meet demand; however, the direction of travel is clear and the policy priority is to build on this positive momentum.

Budgetary policy is also guided by the need to begin planning for the inevitable fiscal costs arising from major structural economic changes in the years ahead. Increased longevity, alongside the trend decline in fertility rates, mean that the Irish population is ageing rapidly, involving large expenditure outlays (**demographics**). The need to smooth the 'twin transitions' – to a carbon-neutral economy (**de-carbonisation**) and to a more digitised economy (**digitalisation,** including the role-out of artificial intelligence) – will be costly. Finally, the geopolitical equilibrium that characterised the global economy in the decades leading up to the financial crisis has clearly been upturned; while it is too early to conclude that globalisation is reversing, the evidence supports the view that international trade and investment patterns are changing. As one of the main beneficiaries of global economic integration, the Irish economy and the public finances are more exposed than most to changes in the global economic structure (**de-globalisation**).

A common theme running through each of these structural changes – collectively the "4Ds" – is the need for budgetary policy to ease the transitions, including by helping shift resources (capital and labour) from contracting sectors to expanding sectors (for instance, from 'brown' jobs to 'green' jobs). This will undoubtedly be costly: increased demographic expenditure alone will amount to 6 per cent of GNI* by 2050. In addition, the phasing out of fossil-fuel consumption means that *ceteris paribus* new revenue streams will need to be mobilised in order to replace the revenue that is currently generated from carbon-intensive economic activity (excise duties on fuel, for instance).

An additional consideration is the impact on the public finances arising from the OECD's two-pillar *Base Erosion and Profit Shifting* reforms (BEPS). Discussions remain on-going regarding a number of key elements of the first pillar (Pillar One) which, once agreed, would involve a portion of taxable profits from Irish-based multinationals being reassigned to other jurisdictions (by reference to where consumers are located) and, accordingly, a loss of tax revenue.

In relation to the second pillar (Pillar Two), the EU Minimum Tax Directive was transposed into Irish law in *Finance (No.2) Act 2023* giving effect to the new rules from 2024. This means that a minimum effective corporate tax rate of 15 per cent will apply to the profits of 'large' enterprises – those whose annual turnover exceeds €750 million – from this year which is expected to increase tax revenue, though it will be 2026 before there is any impact on receipts. Overall, the net effect of the two-pillar solution on Ireland will be a significant loss of corporate tax revenue.

The Government's budgetary policy is also shaped by the windfall nature of at least some of the corporation tax increase in recent years. These windfalls provide an important opportunity to support the inter-generational smoothing of the fiscal costs associated with structural change. In recognition of this, the Government is preparing for the establishment of two long-term savings vehicles, the *Future Ireland Fund* (FIF) and the *Infrastructure, Climate and Nature Fund* (ICNF); draft legislation to put these funds on a statutory footing was published last month.

Finally, it is worth highlighting governance changes at a European Union level – revised fiscal rules – that have both substantive and procedural consequences.

On process, Member States will be required to publish a medium-term fiscal plan and submit this to the relevant European institutions by 20th September of this year.[1]

On substance, the objective is to embed budgetary policies of Member States within a medium-term framework. To operationalise this, the medium-term fiscal plans will commit Member States to an agreed net expenditure path for a four or five-year period (five years in Ireland's case). This plan will subsequently be endorsed by the Council of the European Union (hereafter 'the Council'), with implementation monitored annually via annual progress reports in April of each year (replacing the annual update of Stability Programmes). National Reform Programmes are also being replaced, with each Member States' investment and reform priorities incorporated within the medium-term fiscal plan.

Once endorsed by the Council, it is not generally possible to deviate from the agreed net expenditure path, unless a new Government takes office. In other words, a Member State government cannot alter the net expenditure path once it has been endorsed by the Council. As such, net public spending growth is fixed for the duration of the fiscal plan.

1.2 Short-term economic and budgetary outlook

Relative to earlier expectations, measures of economic activity have under-performed somewhat, with the result that the economy began this year with less momentum than previously assumed. Having said that, spill-overs to the labour market from this slightly weaker demand have been limited, with employment remaining on an expanding trajectory. Crucially, the dis-inflation process is now well advanced, helped by a better balance between global demand and supply for energy products.

External demand is set to be relatively weak this year, with the cumulative impact of aggressive monetary policy tightening, and its lagged transmission from the financial sector to the real economy, weighing on activity in many of Ireland's key export markets.

On the domestic economic front, the Department's near-term baseline scenario involves a modest pick-up in activity in the early part of this year, with MDD growth then accelerating as the year progresses. The source of this strengthening is the anticipated lower inflation rate which, in turn, supports an improvement in the purchasing power of households. The quarterly acceleration in growth is assumed steady rather than strong, tempered somewhat by the lagged effects of already-implemented monetary policy tightening. These trends are expected to continue into next year.

Against this backdrop, MDD is projected to increase by 1.9 per cent this year (**table 1**), a 0.3 pp downward revision relative to the Department's previous forecast vintage (autumn 2023). For next year, MDD growth of 2.3 per cent is currently anticipated, a downward revision of 0.2 percentage points relative to the previous vintage.

Employment is set to expand over the course of this year and next, though at a slower rate than last year. Inflation (on a harmonised basis) is set to average 2.1 per cent this year, with a similar rate in prospect for next year. Quarterly profiles for the Department's near-term MDD, employment and inflation forecasts are set out below (**table 2**).

[1] The legislative text introducing the changes to the European fiscal framework notes the possibility for flexibility around this date.

Table 1: Summary – main economic and fiscal variables					
	2023	2024	2025	2026	2027
Economic activity			*per cent change*		
Real GDP	-3.2	2.6	3.9	3.5	3.6
Real GNP	4.4	2.1	3.5	3.0	3.1
Modified domestic demand	0.5	1.9	2.3	2.9	2.9
Real GNI*	1.8	2.0	1.9	2.4	2.4
Prices			*per cent change*		
HICP	5.2	2.1	2.1	2.0	2.0
Core HICP^	5.1	3.0	2.4	2.2	2.1
GDP deflator	3.0	2.8	2.3	2.2	2.1
External trade			*per cent GNI**		
Modified current account	5.0	5.5	5.4	5.4	5.0
Labour market			*per cent change (unless stated)*		
Total Employment (‘000)	2,685	2,735	2,775	2,815	2,845
Employment	3.4	1.9	1.5	1.5	1.1
Unemployment (per cent)	4.3	4.6	4.7	4.7	4.7
Public finances			*€ millions*		
General government balance	8,330	8,550	9,735	8,685	10,705
of which:					
: Exchequer balance	1,180	2,510	740	-1,855	-1,275
: Social Insurance Fund	3,385	4,115	5,380	6,425	7,450
: FIF / ICNF^^	4,000	4,050	6,035	6,255	6,525
: Other^^^	-235	-2,125	-2,420	-2,140	-1,995
General government balance, exc. windfall CT^^^^	-2,870	-2,650	-1,765	-1,215	405
Gross debt (€ billion)	220.7	220.8	223.2	226.4	232.4
Net debt position (year-end, € billion)	180.7	179.4	174.1	161.7	141.1
Public finances			*per cent GNI* (unless stated)*		
General government balance	2.9	2.8	3.0	2.6	3.0
General government balance, exc. windfall CT	-1.0	-0.9	-0.6	-0.4	0.1
Structural budget balance ^^^^^	-0.3	-0.3	-0.7	-0.3	-0.3
Gross debt	75.9	72.1	69.7	67.4	66.0
Net debt	62.2	58.6	54.3	48.1	40.1

Notes:
^ core inflation is the headline figure excluding unprocessed food and energy.
^^ FIF = Future Ireland Fund; ICNF = Infrastructure, Climate and Nature Fund.
^^^ other balance includes accruals.
^^^^ windfall corporation taxes are those that can’t be explained by fundamental factors.
^^^^^ estimates of the structural balance exclude estimates of windfall corporation tax receipts
Source: 2023 = CSO; 2024-2027 = Department of Finance.

Table 2: Key macroeconomic variables – quarter-on-quarter, per cent change (unless stated)								
	2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Consumer spending	0.7	0.7	0.9	0.9	0.8	0.7	0.7	0.7
Modified domestic demand	0.5	0.5	0.7	3.6	-1.9	0.7	0.7	0.7
Inflation rate^ (annual per cent)	2.2	1.8	1.8	2.7	3.4	2.3	1.6	1.0
Unemployment rate (per cent)	4.5	4.6	4.6	4.7	4.7	4.7	4.7	4.7

Notes: Seasonally adjusted data (except for inflation rate).
^ HICP.
Source: Department of Finance forecasts.

Turning to the budgetary outlook, a general government surplus of €8.6 billion is projected for this year, the equivalent of 2.8 per cent of GNI*. Excluding the impact of windfall corporate tax receipts – estimated at €11.2 billion – the underlying fiscal position (GGB*) is somewhat less benign: an underlying deficit of €2.7 billion is projected for this year.

For next year, the expenditure ceiling is set at €101.5 billion, which provides for an increase in voted spending of €4.4 billion. The ceiling includes a contingency reserve of €4.5 billion, which is in line with the non-core spending (excluding windfall capital investment and *Budget 2024* cost of living measures) for this year. With tax revenue growth projected at 5.8 per cent, this would equate to a surplus of 3 per cent of GNI* for next year. Excluding estimates of 'windfall' corporate tax, this would be consistent with an underlying deficit of €1.8 billion (0.6 per cent of GNI*).

As is the norm, the exact tax and spending parameters for next year will remain under review, and Government will set out its intentions in the *Summer Economic Statement*.

Budgetary surpluses are assumed for later years; it must be stressed, however, that, no provision is made for any reversal of corporation tax receipts, which is a major downside risk to the fiscal forecasts.

It is important to stress that the two savings vehicles (FIF, ICNF) are classified within the general government sector and, accordingly, transfers from the Exchequer account to the funds are neutral from a general government perspective. Crucially, as the resources are outside the Exchequer and ring-fenced within the funds, the resources are not available to finance increased expenditure[2] or reductions in taxation.

Public indebtedness this year is projected at €220.8 billion, the equivalent of 72.1 per cent of GNI*. For next year, public indebtedness is projected at €223.2 billion, 69.7 per cent of GNI*.

Macroeconomic and fiscal forecasts, for both this year and next, are also set out (**table 3**); incremental changes vis-à-vis the previous forecast vintage (autumn 2023) are also outlined.

The Department's macroeconomic forecasts set out in this document have been endorsed by the *Irish Fiscal Advisory Council* (**annex 1**) in line with Ireland's legal obligations as a euro area Member State.

[2] Funds in the ICNF can potentially be drawdown from 2026.

Table 3: Revision to forecast: spring vs autumn forecast for key macro-fiscal variables						
	2024 forecast		Δ pp	2025 forecast		Δ pp
	Spring 2024	Autumn 2023		Spring 2024	Autumn 2023	
Economic activity						
Real GDP	2.6	4.5	-1.9	3.9	4.5	-0.6
Real GNP	2.1	4.0	-1.9	3.5	4.0	-0.5
MDD	1.9	2.2	-0.3	2.3	2.5	-0.2
Consumer spending	2.4	3.2	-0.8	3.1	2.3	0.8
Prices						
HICP	2.1	2.9	-0.8	2.1	2.4	-0.3
Core HICP	3.0	3.4	-0.4	2.4	2.5	-0.1
GDP deflator	2.8	2.4	0.4	2.3	2.0	0.3
Labour market						
Employment (per cent)	1.9	1.3	0.6	1.5	1.3	0.2
Unemployment rate (per cent)	4.6	4.2	0.4	4.7	4.3	0.4
Public finances	€ bn		Δ € bn	€ bn		Δ € bn
Tax revenue	92.1	92.6	-0.4	97.5	97.8	-0.4
Exchequer balance	2.5	1.8	0.7	0.7	4.1	-3.3
General government balance	8.6	8.4	0.2	9.7	14.2	-4.5
General government debt	220.8	222.2	-1.4	223.2	219.4	3.8

Rounding may affect totals.
Source: Department of Finance.

Chapter 2
Economic Outlook

2.1 Summary

The various macro indicators present somewhat mixed signals but, on balance, the evidence suggests that the Irish economy is in reasonable shape at this point, at least in aggregate terms. Looking ahead, some of the headwinds that have dominated over the past year-or-so look set to ease, and this should support a pick-up in economic activity.

Relative to the Department's autumn forecasts, economic activity underperformed slightly in the second half of last year, with Modified Domestic Demand essentially moving sideways. In part, this reflects a re-normalisation of investment from very high levels this time last year. Additionally, consumer spending, the single largest sub-component of MDD and a key bell-weather of the economy, flat-lined at the tail-end of the year. On foot of these developments, the economy began this year on a somewhat weaker footing than had previously been assumed.

The evidence suggests that Irish economy has passed its cyclical peak, a common feature across many advanced economies at the current juncture. The aggressive tightening of monetary policy, in Ireland and elsewhere, is a key cyclical headwind.

More modest growth has resulted in a closer alignment of aggregate demand and supply though, on balance, supply remains the more binding constraint for the economy at this point. Nevertheless, the narrowing of the (positive) output gap, alongside the sharp decline in global energy prices, means the dis-inflation process is now well advanced, with headline inflation of just 1.7 per cent in March. Underlying (or 'core') inflation remains more persistent, however, and will be the key determinant of inflation dynamics beyond the very near-term. For this year, headline and 'core' inflation are projected at 2.1 and 3.0 per cent, respectively; for next year, the equivalent figures are 2.1 and 2.4 per cent.

The Department's forecasts are calibrated on the assumption that the unwinding of the energy price shock lays the foundation for a recovery in real (inflation-adjusted) household incomes as this year progresses; this, in turn, underpins a rebound in consumer spending. Against this backdrop, MDD growth is set to accelerate over the course of this year, averaging 1.9 per cent for the year as a whole. This is a downward revision (0.3 pp) from the Department's autumn forecasts, mainly on the back of weaker momentum coming into this year. As other headwinds moderate, MDD growth is set to accelerate to 2.3 per cent next year, a modest downward revision (0.2 pp) relative to the previous forecast vintage.

The growth rate is set to moderate over the medium-term, as demographic change limits the future increase in labour supply, and productivity growth eases as distance-to-the-frontier closes.

The brightest economic spot is the labour market, where employment growth remains solid. The latest data confirm that, notwithstanding the rapid and large shift in the stance of monetary policy, the economy remains at 'full employment' in the early months of this year.

Risks to this outlook are two-sided, and assessed as broadly balanced. The most pressing economic threats are external in origin, stemming from geopolitical tensions as well as potentially more adverse external demand conditions. Sector- and product-specific developments over the last year or so highlight the concentration of economic activity in Ireland and the risk this poses.

Box 1: 'Now-casting' the growth of Modified Domestic Demand for the first quarter

An unavoidable trade-off between timeliness and quality of data lies at the heart of conjunctural economic analysis. Understanding the economy in real-time is constrained by the fact the compilation of high quality macroeconomic data takes time and, accordingly, is only available with a lag.

In Ireland, for instance, official quarterly estimates for modified domestic demand (MDD) are generally published sixty days after the quarter has ended ('T+60'). For many other countries, the gap is even longer – 'T+90' being the norm. On the other hand, some countries produce earlier estimates ('T+45' or even 'T+30') but there are often subject to large revisions (hence the trade-off between timeliness and quality).

In an effort to overcome this problem, and to try to gain a better insight into the performance of the economy in real-time, economists have increasingly expanded their analytical toolkit by constructing 'bridge models'. These (mathematical) models essentially utilise available higher frequency data (monthly data, soft data, etc.) in order to 'bridge' the quarterly data gap.

In this spirit, the Department makes use of a methodology known as '*nowcasting*', the objective of which is to combine multiple data available at higher frequencies (retail sales, industrial production, consumer sentiment, etc.) into a single metric that summarises the performance of the economy in real-time.^ This tool provides an early indicator of changes in activity and is one of the key variables used by the Department to monitor economic developments; many of these variables can be viewed in the Department's newly launched dashboard.^^

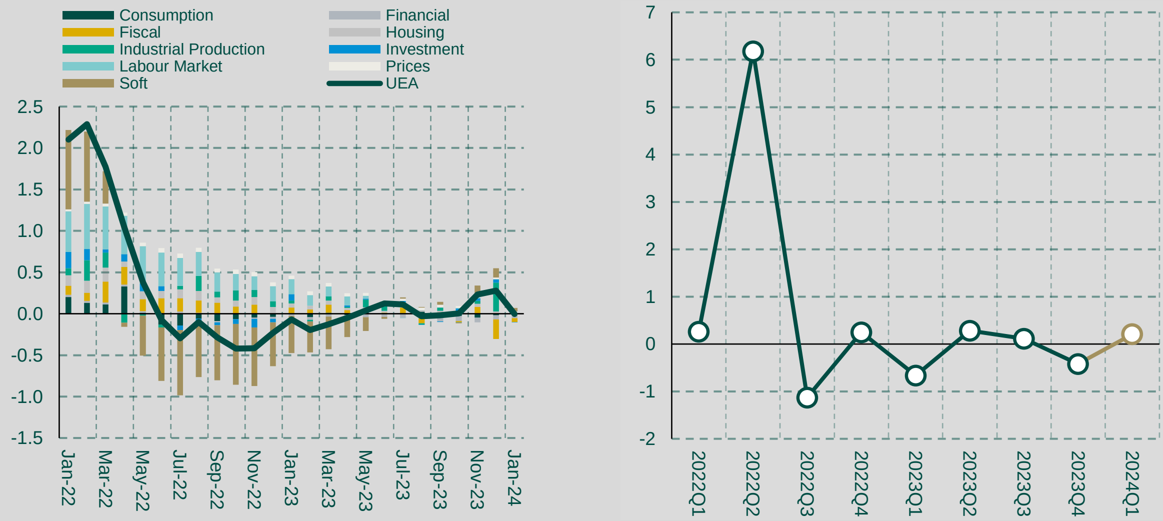
To produce the 'nowcast', a measure called the Underlying Economic Indicator (UEA) is first constructed. This is a single variable that incorporates and summarises data from a wide variety of sources, providing an estimate of how economic activity for each month compares with its long-run trend (**figure 1A**).

The UEA is then linked to the historical outturn for MDD to provide an estimate for economic growth for the current quarter in real-time (**figure 1B**).

Figure 1: Underlying economic activity and Modified domestic demand now-cast

A: Underlying economic activity by indicator category

B: Nowcast of MDD, q/q per cent change



Source: CSO, Department of Finance.

Source: CSO, Department of Finance.

The decomposition of the UEA shows that industrial production was a key driver of economic activity in both January and December, while soft indicators (consumer sentiment, PMIs, etc.) also contribute positively. However, economic activity has been dragged downwards by other indicators. For instance, financial indicators have remained negative since mid-2022, while the contribution from labour market variables has eased significantly since their high point in the first quarter of 2023, though its overall effect remains positive.

The most recent nowcast suggests that MDD growth rates are likely to remain relatively weak in the first quarter of 2024, continuing the pattern of relatively low growth that has characterised the economy since the monetary policy tightening cycle began in mid-2022.

^ For more detail on the methodology used, see L. Daly and L. Rehill (2020), *Where are we now? Examining Irish Economic Developments in Real Time*, available at:
https://www.gov.ie/en/publication/e6b3a7-where-are-we-now-examining-irish-economic-developments-in-real-time/
^^ The Department's Economic Indicators Dashboard is available at:
https://www.gov.ie/en/publication/f712c-dashboard-of-economic-indicators/

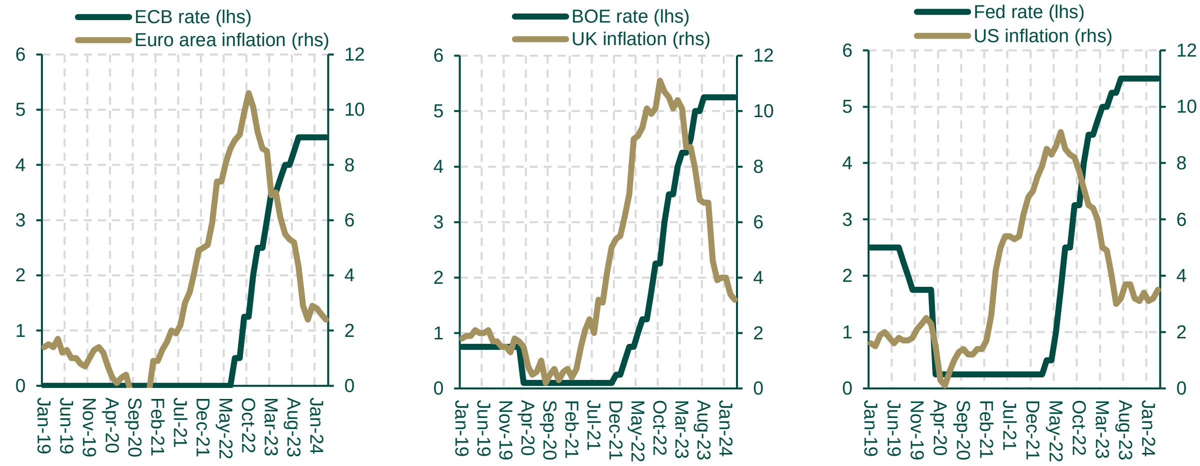
2.2 Macroeconomic projections for 2024 and 2025

2.2.1 External economic environment

Following several successive waves, incoming data confirm that headline inflation in advanced economies is now converging towards central bank target rates. Indeed, the pace of dis-inflation has been more rapid than assumed although, importantly, rates of 'core' inflation (i.e. such as those which exclude volatile components such as energy prices) remain more persistent, albeit at rates below their peak.

Figure 2: Monetary policy and inflation in key trading partners

A: Euro area, per cent | **B: United Kingdom,** per cent | **C: United States,** per cent



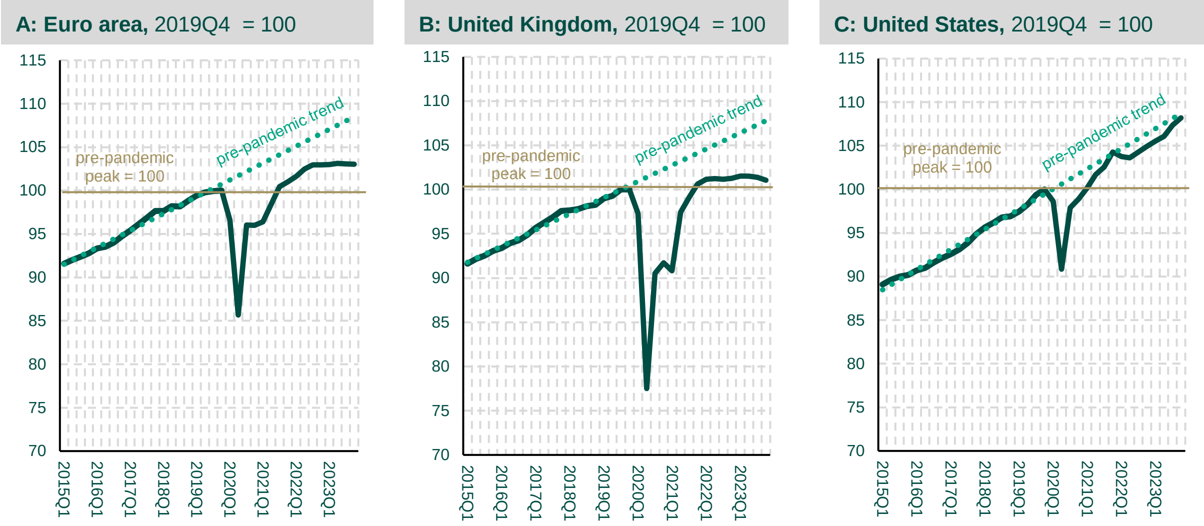
Note: inflation = HICP. Source: Macrobond. | Note: inflation = CPI. Source: Macrobond. | Note: inflation = CPI. Source: Macrobond.

By helping to re-balance aggregate demand and supply, the restrictive stance of monetary policy is a key factor behind the moderation in inflation in Ireland's main export markets (**figure 2**). As price pressures have receded, market participants have revised their expectations regarding the 'terminal rate' (i.e. the high-point for policy rates in the current cycle), with the money market curve currently suggesting a turning point around the middle of this year. That said, monetary policymakers in all regions have confirmed that the stance will be data-dependent, taking into account *inter alia* wage setting and other dynamics that might compromise the achievement of inflation targets on a durable basis.

Recent data confirm heterogeneous growth patterns in advanced economies (**figure 3**). The US has generally outperformed European economies over the past year or so, reflecting the impact of fiscal stimulus alongside the running-down of pandemic-related 'excess' savings by households; growth has, accordingly, surprised on the upside in the US. Conversely, activity in the euro area has stagnated of late, reflecting the loss of purchasing power (as a net energy importer, the terms-of-trade deterioration has been larger in the euro area than in the US), the partial withdrawal of fiscal support and weak demand in key trading partners. That said, unemployment in the euro area is at its lowest rate since the inception of the single currency. Activity has largely flat-lined in the UK, for broadly similar reasons to the euro area. Meanwhile, the Chinese economy (a middle-income country but a key driver of global growth) has struggled to absorb the impact of the correction in its real estate sector.

Near-term projections for demand in Ireland's main export markets are set out below (**table 4**). As the terms-of-trade shock continues to unwind, economic activity in the euro area is set to recover from the second half of this year and into next; on this basis, GDP is projected at 0.8 per cent this year, followed by 1.5 per cent next year. A similar pattern is assumed for the UK, with output expanding by 0.5 per cent this year and by 1.5 per cent next year. For the US, the near-exhaustion of ‘excess’ household savings and the fading of fiscal stimulus are assumed to result in more modest, though still relatively strong growth: GDP is set to expand by 2.7 and 1.9 per cent, respectively, this year and next.

Figure 3: GDP in Ireland’s key trading partners



Source: Macrobond. Source: Macrobond. Source: Macrobond.

Table 4: External assumptions, per cent change (unless stated)

	2023	2024	2025	2026	2027
GDP growth in key export markets					
United States	2.5	2.7	1.9	2.0	2.1
Euro area	0.4	0.8	1.5	1.4	1.3
United Kingdom	0.1	0.5	1.5	1.7	1.7
Memo: World trade	0.3	3.0	3.3	3.5	3.4
Financial variables					
Euro-sterling exchange rate (€1=)	0.87	0.86	0.86	0.86	0.86
Euro-dollar exchange rate (€1=)	1.09	1.09	1.09	1.09	1.09
Interest rate: 3-month euribor	3.5	3.0	2.3	-	-
Commodity prices					
Brent crude ($ per barrel)	82.1	80.2	75.6	72.7	70.1
Natural gas prices (stg£ per therm)	1.04	0.67	0.75	0.73	0.71

Notes:
Oil and gas prices (futures) are calculated on the basis of futures markets as of mid-March 2024.
Exchange rate outturns as of mid-March 2024 and unchanged thereafter.
Interest rate as per market expectations as of mid-March 2024.
Source: External growth forecasts are sourced from the IMF *World Economic Outlook*, April 2024.

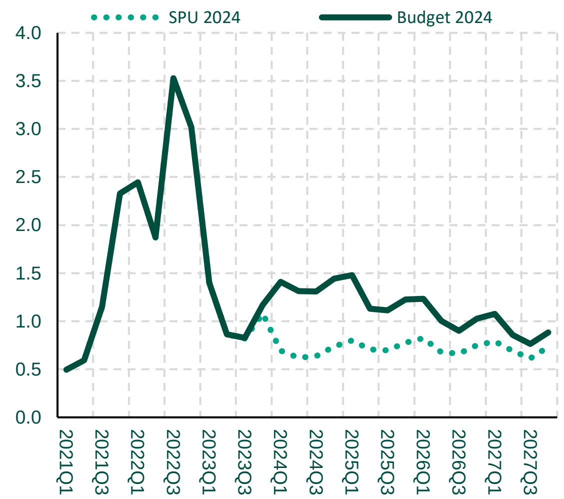
The economic fall-out from geopolitical instability in the Middle East has, so far, been relatively contained. The main transmission channel heretofore has been via higher international transport costs, arising from the re-routing of Asia-Europe shipping from the Red Sea to the Cape of Good Hope, the latter taking c.10-14 days longer. Unlike immediately post-pandemic (when advanced economy demand exceeded supply by a much wider margin), these higher input costs associated with maritime logistics have, at least in part, been absorbed by corporates, rather than fully passed-on to the retail level. More broadly, however, an escalation of geopolitical tensions remains a risk to the outlook (**box 2**).

The better balance between global demand and supply has had a favourable impact on wholesale energy prices. On the basis of the futures curve, the wholesale price of oil (Brent crude) is expected to average around $80 dollars a barrel this year, before declining to roughly $75 dollars a barrel next year (**figure 4B**). Wholesale gas prices (**figure 4A**) have declined substantially since the Budget and are now expected to average approximately £0.70 per therm over the forecast horizon, down sharply from the average of £2.7 per therm in 2022.

Holding key bilateral exchange rates at their mid-March levels – the cut-off date for calibrating the forecasts in this document – implies a euro-dollar rate of €1 = $1.09 for this year (a marginal 0.4 per cent euro appreciation – **figure 4C**). The same approach implies a euro-sterling bilateral rate of €1 = stg£0.86 for this year (a 1.6 per cent euro depreciation – **figure 4D**).

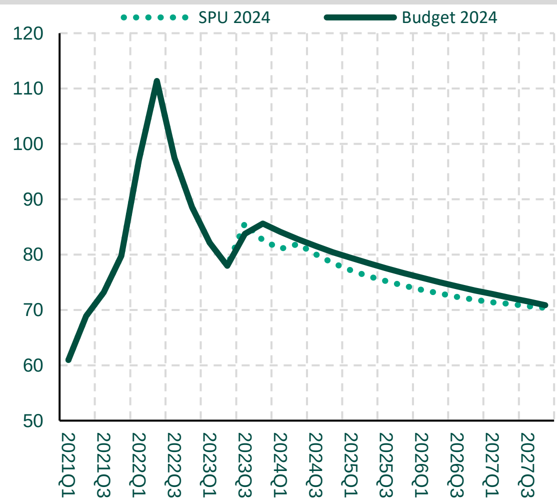
Figure 4: Changes in key external variables relative to autumn forecasts

A: Gas prices, stg£ per therm



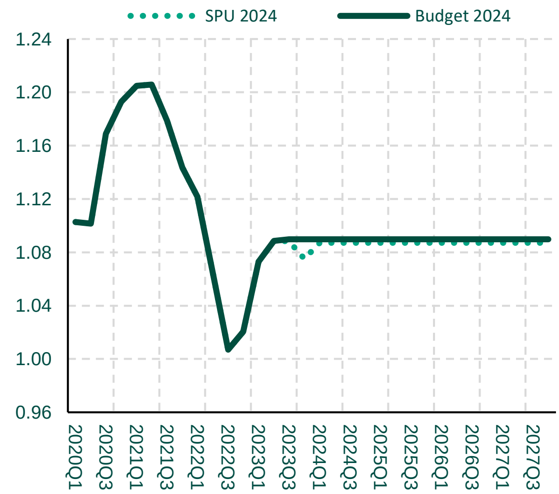
Note: held constant at rates prevailing at mid-March.
Source: Macrobond, Department of Finance

B: Oil prices, (Brent crude) $ per barrel



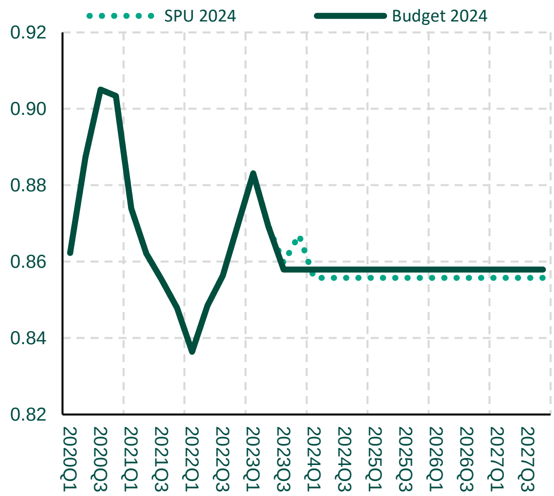
Note: held constant at rates prevailing at mid-March.
Source: Macrobond, Department of Finance

C: Euro-dollar bilateral exchange rate, €1 = $X



Source: Macrobond, Department of Finance

D: Euro-sterling bilateral exchange rate, €1 = stg£X



Source: Macrobond, Department of Finance

Box 2: Geopolitical risk and global value chain fragmentation

The Covid-19 pandemic, the war in Ukraine and recent disruptions in the Red Sea have highlighted the vulnerabilities associated with global supply chains that have become increasingly concentrated in recent decades, most notably supply shortages and rapid price spikes.

More fundamentally, it is evident that national and economic security considerations are re-shaping industrial policies in some advanced economies – with activity pivoting towards domestic production ('re-shoring'), shortening of supply chains ('near-shoring') or favouring strategic allies in production location decisions ('friend-shoring'). These evolving industrial strategies are especially prevalent in technologies that are critical to the climate and digital transitions.**^**

In short, priorities are shifting from strategies geared around *efficiency* of production (or, in economic terms, from production based on comparative advantage) towards strategies geared around *security* of production.

These developments are overlapping with historically weak global trade growth: global trade stood at just over 60 per cent of GDP in 2022, effectively the same level as in 2008 (to put this into perspective, global trade as a share of GDP had increased by 20 percentage points in the previous two decades).

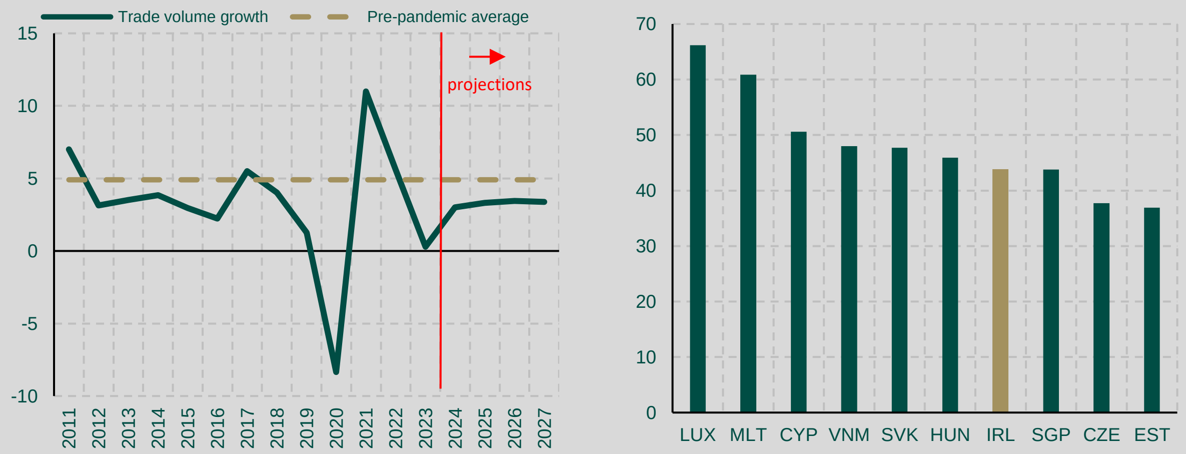
Last year, global trade is estimated to have grown by less than 1 per cent, well below the pre-pandemic long-run average growth rate of almost 5 per cent; the IMF is projecting relatively muted growth in the years ahead, with trade distortions and geo-economic fragmentation expected to weigh on global trade (**figure 5A**).

Moreover, recent years have seen a sharp increase in the number of trade restrictions being imposed: according to *Global Trade Alert*, more than 3,000 new restrictions on trade were introduced last year, around five times the annual average in the decade leading up to the pandemic. The IMF estimates that that trade fragmentation could reduce global GDP by between 0.3 and 2.3 per cent in the long-run, with estimates increasing to 7 per cent if adjustment costs are assumed to be greater.**^^**

Figure 5: Trade and global value chain integration

A: IMF world trade volume forecast, per cent

B: Backward participation in GVCs in 2020, per cent



Source: IMF World Economic Outlook April 2024

Note: measured as the value of imported intermediate goods and services embodied in exports, as a share of total exports. Figures refer to top ten countries.
Source: OECD TiVA database

Developments in global trade are of particular importance for Ireland, given the highly globalised nature of the economy. In contrast to wider developments, Ireland's trade as a share of GDP has continued to increase in recent years, reaching more than 230 per cent in 2023. The Irish economy is also highly integrated into global value chains, with more than 40 per cent of gross exports' content originating abroad (**figure 5B**).

Against this backdrop, an intensification of trade fragmentation or de-globalisation would pose a significant risk to Irish exports, with knock-on implications for employment and tax receipts. Forthcoming analysis will explore the impacts of a slowdown in world trade on the Irish economy.**^^^**

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^ See *EU Industrial Policy and Potential Implications for Ireland, Economic Insights –April 2024*, available at: https://www.gov.ie/en/publication/fdbbf-economic-insights-volume-2-2024/
^^ https://www.imf.org/en/Publications/WP/Issues/2023/03/24/Fragmentation-in-Global-Trade-Accounting-for-Commodities-531327
^^^ Research as part of the Department's Joint Research Programme with the ESRI.

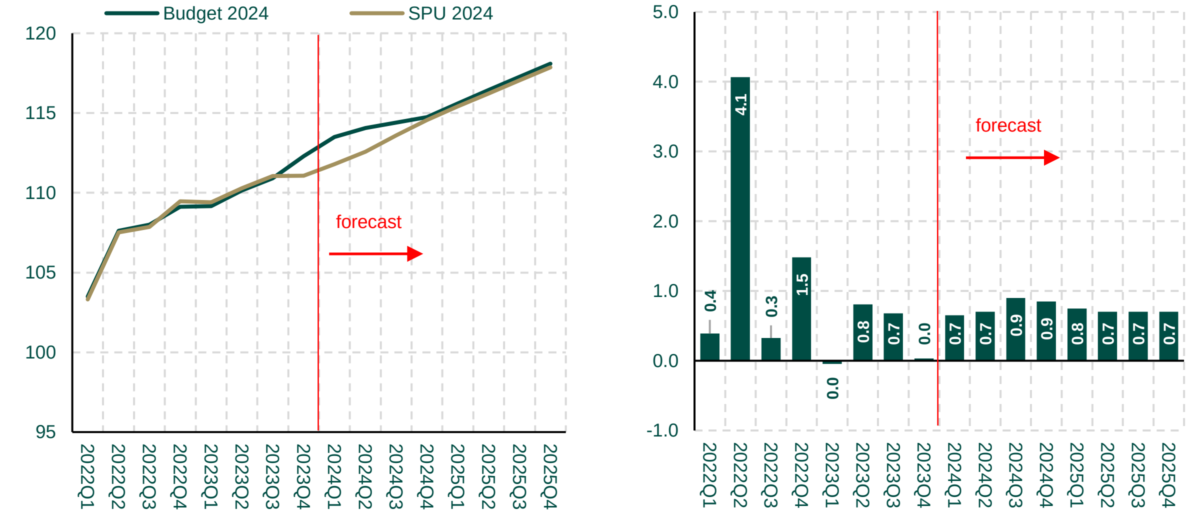
2.3.2 *Domestic prospects*

Economic activity last year was held back by three major headwinds: the loss in purchasing power due to the inflation spike, the associated impact of tighter monetary policy and, finally, by product- and sector-specific corrections that depressed export sales. These headwinds are now gradually waning; in the absence of further shocks to the economy, therefore, activity has likely bottomed out and should begin to increase as this year progresses.

Figure 6: Quarterly profile for consumer spending

A: consumer spending, 2019q4 = 100

B: Consumer spending, quarter-on-quarter growth rate



Source: CSO, Department of Finance

Source: CSO, Department of Finance

Consumer spending came to a stand-still in the fourth quarter last year, with the purchasing power of households squeezed by the cumulative effects of price increases. High frequency data (retail sales, sentiment) suggest a modest pick-up in the first quarter of this year, supported by additional cost-of-living supports. With further road to travel on the disinflation process (as wholesale energy prices pass-through to retail prices), household real income growth should move back into positive territory as the year progresses. The boost to real wages, in particular, should support a pick-up in the pace of consumer spending growth later in the year. With further real wage growth anticipated for next year, consumer spending should gain further momentum.

It is also worth highlighting that household balance sheets are in good shape (at least in aggregate terms), with household net worth (assets minus liabilities) at an all-time high. The pool of excess savings built-up during the pandemic is still largely intact, much of it sitting in instant access overnight deposits (**box 3**). This means that many (though not all) households could absorb additional shocks, at least in the short-term, by running down these savings. The household savings rate – the share of household income that is not consumed – remains above pre-pandemic levels, suggesting some lingering risk aversion on the part of households. A normalisation of savings behaviour would represent an upside risk to the Department's consumption projections.[3]

In summary, after a modest start to the year, consumer spending should increase as this year progresses, gaining further momentum next year (**figure 6**). Against this general backdrop, real consumer spending growth of 2.4 per cent is projected for this year, accelerating to 3.1 per cent next year.

[3] The household savings rate for the fourth quarter of 2023, published after the finalisation of the Department's forecasts, contained revisions to household income, boosting the savings rate in 2023 by 1½ percentage points.

Box 3: Sources and uses of household disposable income

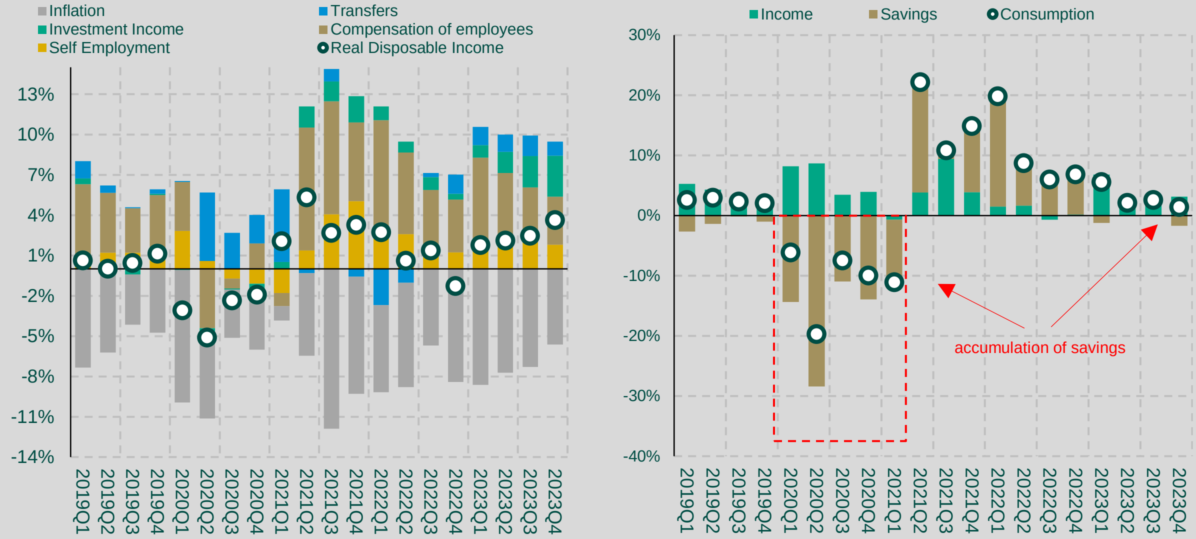
The various challenges and trade-offs faced by Irish households in recent years are, perhaps, most evident from the Institutional Sector Accounts (ISA). These data document both the source (or origin) of disposable income of the household sector – in aggregate terms – and the subsequent allocation (or use) of this income between current spending and saving.

The sources of real (inflation-adjusted) household income (**figure 7A**) illustrate the resilient performance of the labour market over the last number of years, with compensation of employees (essentially employee earnings) driving growth in household income since mid-2021. This has, however, been somewhat offset by the corrosive effects of inflation, which has been a major drag on real income growth over the past two years. In 2023, for instance, real household incomes grew by just over 3 per cent, despite compensation of employees (the national wage bill) rising by 8½ per cent, with the difference largely driven by price increases.

Figure 7: Household disposable income growth – source and uses

A: Source of real household incomes, year-on-year

B: Use of real household income and saving, year-on-year



Note: Inflation refers to the personal consumption deflator (PCD)
Source: CSO.

Note: Savings, consumption and income all deflated by PCD
Source: CSO

Against this backdrop of inflation, households have faced a trade-off between adjusting their spending or forgoing savings. In aggregate terms, households have responded by softening consumer spending. A large wedge exists between the value of consumer spending which has increased by 20 per cent since the first quarter of 2022 and the volume of spending which only increased by 7½ per cent over the same period.

The decision to slow the pace of real consumer spending growth takes on increasing significance when the stock of household savings is taken into consideration. Having accumulated substantial 'excess' savings during the pandemic (**figure 7B**) households could have used these excess savings to support consumption volumes during the period of high inflation, as has been the case in the US,^ where households have now largely exhausted their existing stock of 'excess' savings.

The decision by Irish households not to do the same, and indeed to increase savings over the past year, may reflect a number of factors including the precautionary behaviour of households at a time of heighted uncertainty and the concentration of savings within higher-income households.^^ As a result, Irish households continued to hold around over €152 billion in deposit accounts at the start of this year.

Looking ahead, despite the period of elevated inflation, household balance sheets remain in a healthy position (at least in aggregate terms). The easing in inflation should give rise to a pick-up in real income growth this year, which in turn should boost consumer spending over the coming quarters.

^ https://www.frbsf.org/research-and-insights/data-and-indicators/pandemic-era-excess-savings/
^^ See *Two sides of the same coin: consumption and savings patterns post-pandemic, Economic Insights – Winter 2023*, available at: https://www.gov.ie/en/publication/6a0b0-economic-insights-winter-2023/

A number of factors will determine the trajectory for public consumption in the near-term. For instance, standstill-related expenditure (i.e. provision of existing levels of service) will necessitate volume increases, as a result of *inter alia* demographic changes. Furthermore, additional purchases of current goods and services will be required as the Government expands its service provision in key policy areas. As a result, growth in real public consumption (i.e. after accounting for price effects) is projected at 0.6 per cent for this year and 0.7 per cent for next.

Modified investment consists of capital spending across three broad asset classes, each with their own drivers. The first relates to building and construction, where new housing supply amounted to just under 33,000 units last year, the highest since 2008. The pipeline for new housing remains relatively strong: this reflects the provision of record levels of funding by Government, as well as the reforms under *Housing for All* which are continuing to unlock bottlenecks. On the other hand, outlays on home improvements (extensions, retrofits, etc.) fell marginally last year, with the impact of higher costs likely taking a toll. Investment in commercial real estate appears to be undergoing structural change, with a fall-off in demand as new, post-pandemic work patterns have reduced office occupancy rates.

A second class of assets relates to spending on machinery and equipment which is dominated by the investment cycles of Irish-resident multinationals. This expenditure has been volatile in recent years: rising sharply and subsequently contracting as large projects were completed. For domestic firms, survey evidence and lending data suggest that underlying capital spending remains weak, continuing a trend that pre-dates the pandemic. With tight financing conditions alongside heightened uncertainty, spending within this asset class is likely to remain subdued this year. A pick-up *in tandem* with general economic – domestic and international – conditions is assumed for next year.

The final asset class refers to investment on intangible assets such as intellectual property (IP) and software, though any expenditure on IP assets sourced from abroad (i.e. on-shored) are excluded from modified investment. This asset class surprisingly declined last year, particularly in the context of the increasingly digitised economy and the rapid roll-out of artificial intelligence. A bounce-back is expected this year and next with growth of 9 per cent project in both years. With both headwinds and tailwinds, modified investment is projected to be relatively flat this year.

Putting all of this together, MDD growth of 1.9 per cent is projected for this year, a 0.3 percentage point downward revision relative to the Department's autumn projections (**table 3**). An acceleration in the growth rate to 2.3 per cent is in prospect for next year.

Table 5: Macroeconomic prospects, per cent change (unless stated)	2023	2024	2025	2026	2027
Economic activity			***per cent change***		
Real GDP	-3.2	2.6	3.9	3.5	3.6
Nominal GDP	-0.3	5.4	6.3	5.8	5.7
Real GNI*	1.8	2.0	1.9	2.4	2.4
Nominal GNI*	6.4	5.4	4.6	4.9	4.8
Real modified domestic demand	0.5	1.9	2.3	2.9	2.9
Components of GDP			***per cent change***		
Personal consumption	3.1	2.4	3.1	2.8	2.7
Government consumption	1.7	0.6	0.7	1.1	1.5
Investment	2.9	-14.5	3.6	5.4	5.3
Modified investment^	-7.1	1.8	1.6	5.0	4.9
Stock changes^^	0.9	0.0	0.0	0.0	0.0
Exports	-4.8	2.8	4.6	3.9	3.9
Imports	0.4	-1.6	3.8	3.6	3.6
Modified imports	-1.1	2.2	3.6	3.3	3.3
Contributions to GDP growth			***percentage points***		
Modified domestic demand	0.3	0.7	0.9	1.2	1.2
Modified net exports	-5.6	1.9	3.0	2.3	2.3
Stock changes	1.0	0.0	0.0	0.0	0.0
Statistical discrepancy	1.1	0.0	0.0	0.0	0.0
Nominal amounts			***€ millions***		
GDP (nearest €25m)	504,625	531,925	565,625	598,200	632,525
GNI* (nearest €25m)^^^	290,675	306,300	320,350	336,000	352,000

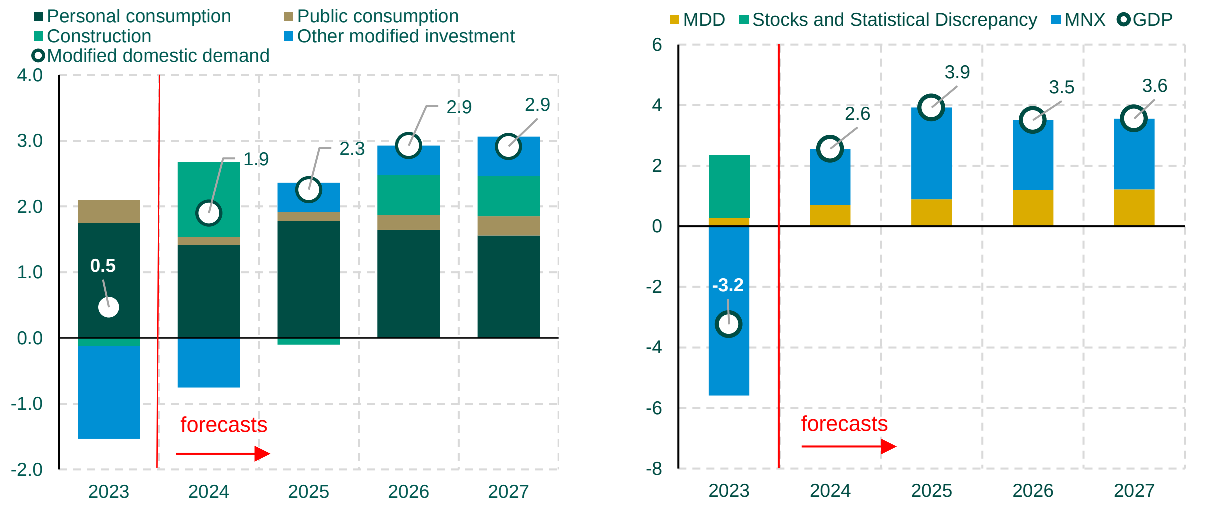
^ modified investment excludes investment in aircraft for leasing and investment in R&D from abroad; ditto for modified imports.
^^ contribution to GDP growth.
^^^ based on GNI less depreciation of R&D-related service imports and trade in IP, depreciation of aircraft for leasing, and net factor income of re-domiciled PLCs.
GNI* for 2023 is Department of Finance estimate.
Source: 2023 = CSO; 2024-2027 = Department of Finance.

On the external side, goods produced and transported from Ireland are expected to recover this year, with some of the sector-specific factors that weighed on foreign sales assumed to have bottomed-out. The evidence at this point suggests that the introduction of import checks by the UK authorities has had limited effects on bilateral trade. However, goods produced elsewhere, but included in the national accounts concept of trade ('contract manufacturing'), are assumed to continue to weigh on the export performance this year. Exports of services should contribute positively, *inter alia* due to increasing global demand for digital services. Overall, export growth of 2.8 and 4.6 per cent are expected for this year and next.

Figure 8: Contributions to modified domestic demand and to GDP

A: Contributions to change in MDD, percentage points

B: Contributions to change in GDP, percentage points



Notes: Other modified investment is machinery and equipment excluding investments in aircraft by the leasing sector, plus domestic R&D.
Source: CSO, Department of Finance

Notes: Modified net exports (MNX) is net exports (exports less imports) excluding investments in aircraft by the leasing sector and net R&D imports.
Source: CSO, Department of Finance

On the other side of the trade equation, modified imports are assumed to expand by 2.2 per cent this year, and by 3.6 per cent next year, in line with the projection for modified final demand. Joining all of these dots, GDP growth of 2.6 and 3.9 per cent, respectively, is envisaged for this year and next. GNI* growth is expected to increase by 2 per cent this year,[4] with a further expansion of 1.9 per cent for next year.

2.3 Price developments

The dis-inflation process in Ireland is now well advanced, mirroring developments elsewhere. In large part this reflects a reversal of the sharp energy (and other commodity) price increases triggered by Russia's invasion of Ukraine. Ireland's energy import bill (**figure 9A**), having increased three-fold, is now on a declining trajectory and, as lower wholesale prices are passed-through to retail prices, headline inflation should ease further in the coming months.

Measures of underlying inflation – such as services or 'core' inflation – have retreated less rapidly, indicative of demand continuing to exceed supply, including in the labour market. To put it another way, the drivers of inflation have shifted from external to domestic sources, and the latter will be crucial in determining the future path of price dynamics.

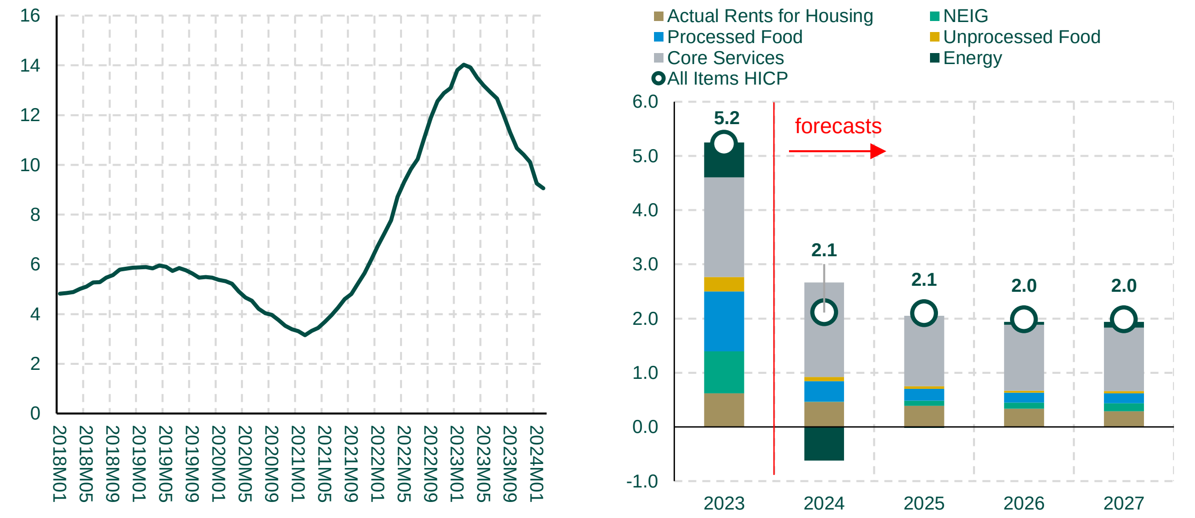
Core inflation of 3.0 per cent is projected for this year, as demand in the domestic economy remains relatively strong. Headline inflation is forecast at 2.1 per cent; the difference between the two metrics reflects the impact of lower energy prices. For next year, headline and core inflation are forecast at 2.1 and 2.4 per cent, respectively.

[4] See *A tale of two sectors: an exploration through the institutional sector accounts*, Economic Insights – Spring 2024 (Department of Finance), available at:
https://www.gov.ie/en/publication/a73b6-economic-insights-spring-2024/

Figure 9: Inflation developments and drivers

A: Energy import bill, € billions

B: contributions to inflation, percentage points



Note: 12-month rolling sum.
Source: CSO, Department of Finance

Source: CSO, Department of Finance

Table 6: Price developments, per cent change

	2023	2024	2025	2026	2027
GDP deflator	3.0	2.8	2.3	2.2	2.1
Personal consumption deflator^	6.9	3.1	2.5	2.1	2.2
Harmonised index of consumer prices	5.2	2.1	2.1	2.0	2.0
Core HICP inflation^^	5.1	3.0	2.4	2.2	2.1
Export price deflator	2.4	1.8	1.6	1.7	1.6
Import price deflator	2.8	1.7	1.6	1.7	1.6
Terms-of-trade	-0.4	0.1	0.0	0.0	0.0

Notes:
^ personal consumption deflator has been above headline HICP in recent years. The gap is largely explained by differences in the weights of goods and services in the HICP and personal consumption baskets.
^^ core inflation is HICP inflation excluding the most volatile components, namely energy and unprocessed food.
Source: 2023 = CSO; 2024-2027 = Department of Finance.

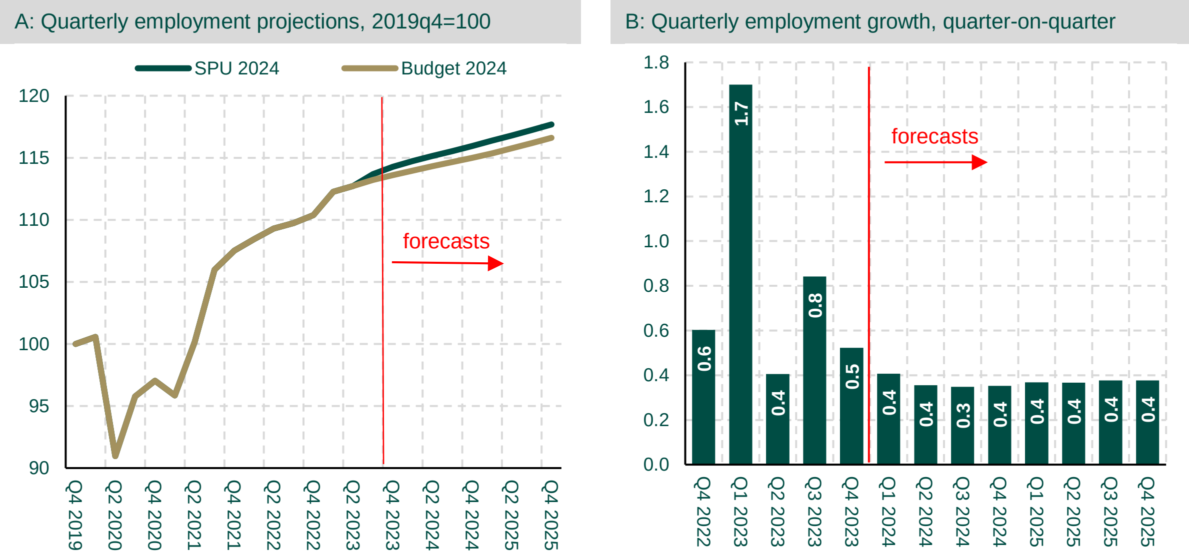
2.4 Labour market developments

The economy added almost 90,000 jobs over the course of last year, with around three-quarters of the working age population now in employment, a near-record high. Almost all of the employment gains arose from increases in labour supply, with net inward migration and increased participation among female workers the main sources of this additional supply.

More recent data provide tentative signs of a closer alignment between labour demand and supply. Job postings data from *Indeed.com* suggest some softening in labour demand, while the evolution of vacancy rates and measures of 'under-employment' are consistent with this assessment.

The demand for labour looks set to moderate in the near-term, although shortages of supply will dominate in some sectors. Employment growth of 1.9 and 1.5 per cent is projected for this year and next; to put it another way, around 80,000 jobs are assumed to be added in the two-year period to end-2025.

Figure 10: Labour market developments



Source: CSO, Department of Finance. Source: CSO, Department of Finance.

Tight labour market conditions put upward pressure on wages last year, with nominal employee compensation (essentially wages) per head increasing by 4.6 per cent. While this was lower than the increase in prices, loss in household purchasing power was partly compensated by Government transfers.

Table 7: Labour market developments, per cent change (unless stated)

	2023	2024	2025	2026	2027
Employment	3.4	1.9	1.5	1.5	1.1
Unemployment rate (per cent)	4.3	4.6	4.7	4.7	4.7
Labour productivity^	-6.4	0.7	2.4	2.0	2.5
Compensation of employees^^	8.5	6.7	6.3	5.8	5.2
Wages per head	4.6	4.5	4.5	4.1	3.9

^ GDP per person employed
^^ Non-agricultural sector.
Source: 2023 = CSO; 2024-2027 = Department of Finance.

Notwithstanding more modest demand for labour, supply constraints are likely to persist and this is assumed to put upward pressure on wages. Per capita increases of 4.5 per cent are forecast for this year and next. These figures take into account the impact of the 12 per cent increase in the minimum wage at the beginning of the year as well as implementation of the public sector pay agreement. As inflation moderates, real wage growth is set to move firmly into positive territory.

Box 4: Greening of the labour market

As well as the risks to human health and wellbeing, climate change poses a major threat to the global economy, with the window of opportunity to mitigate its most extreme impacts closing rapidly.

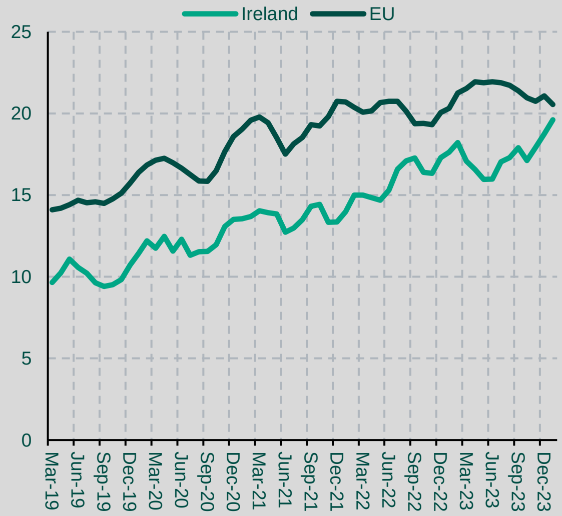
Central to the global policy response is the decarbonisation of economic activity, with Ireland committing to achieving 'net zero' across all sectors of the economy by 2050 as part of the European *Green Deal.* The transition to net zero will, however, require a transformation of the economy, specifically of how goods and services are produced.

Along with investment in infrastructure, 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.

This transition is already underway, with green job postings as a share of total job postings trending upwards in recent years (**figure 11A**). While job postings data point to a concentration of green jobs in higher skilled occupations (e.g. professional and managerial occupations) (**figure 11B**), data on the environmental properties of existing employments are limited. However, an understanding of the incidence of green and brown employment is crucial to identify those groups and communities that may be at higher risk of displacement as a result of the net zero transition, and to target policies accordingly.

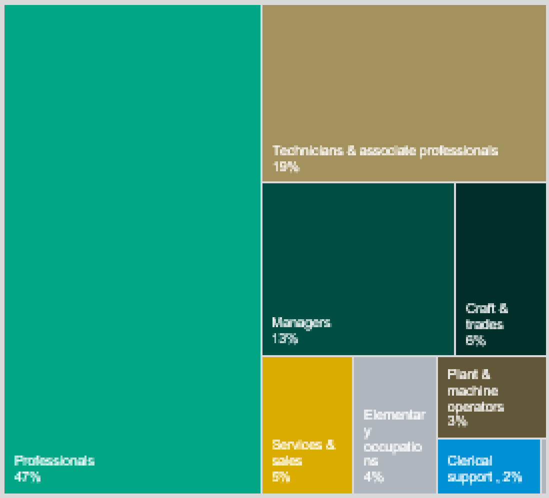
Figure 11: Green job postings

A: Green jobs per 1,000 job postings, 3 month m.a.



Source: Bruegel

B: Green job postings by occupation in Ireland 2023



Source: Bruegel

Cross-country evidence from the OECD suggests that green jobs accounted for around 8 per cent of employment on average in Europe in 2019, with little change in this share over the preceding decade. The estimated share of brown jobs is lower at 4 per cent.^ Notably, the distribution of green employment differs within countries, with men more likely to hold green jobs than women, and those with higher levels of education more likely to be employed in green jobs; this underscores the need for targeted policies to ensure a just transition.

To address some of the information gap, forthcoming analytical work by the Department (jointly with the ESRI) will use the Occupational Information Network (O*NET) taxonomy of green occupations along with Irish Labour Force Survey data to estimate the incidence of green and brown occupations in Ireland over time.

A key focus will be the characteristics of these workers (e.g. gender, age, education, region, tenure) and how they have evolved over time. The task and competency content of both green and brown jobs will also be explored to help inform policy in terms of the likely training requirements for future green jobs and the extent to which the skills of workers exiting brown jobs will be transferable to other parts of the labour market.

^ Causa, O., Nguyen, M. and Soldani, E. (forthcoming) Lost in the green transition? Measurement and stylized facts, OECD.

2.5 Balance of payments and flow-of-funds

The (modified) current account surplus is estimated at 5 per cent for last year.[5] The external account is assumed to remain in surplus over the forecast horizon *inter alia* as the trade surplus balance continues to widen (including via the terms-of-trade, i.e. the price of exports relative to the price of imports).

Table 8: Savings, investment and the balance of payments, per cent of GDP (unless stated)

	2023	2024	2025	2026	2027
Gross savings	37.0	37.0	37.4	37.5	37.6
Modified gross savings (per cent GNI*)	29.9	30.2	29.8	30.1	30.0
of which:					
- households	5.8	5.5	5.3	5.2	5.2
Investment^	27.1	23.0	22.7	22.9	23.1
Modified investment (per cent GNI*)	24.9	24.6	24.4	24.7	25.0
of which:					
- households	3.4	3.6	3.8	3.9	4.1
Current account	9.9	14.0	14.6	14.6	14.5
of which:					
- trade balance	33.5	37.7	38.5	38.8	39.0
- income balance	-23.7	-23.7	-23.9	-24.2	-24.5
Modified current account (per cent GNI*)	5.0	5.5	5.4	5.4	5.0

Notes:
^ More specifically, gross capital formation, which is the sum of gross domestic fixed capital formation, changes in stocks and the statistical discrepancy.
Source: 2023 = CSO; 2024-2027 = Department of Finance.

From a flow-of-funds perspective, after recording a net financial surplus of 6.3 per cent of disposable income last year, the household sector (in aggregate terms) will likely continue accumulating net financial assets this year and next. In other words, after financing the purchase of current goods and services as well as the acquisition of housing assets, the household sector is expected to be, once again, a net lender to other sectors.

The general government sector also recorded a net financial surplus last year, and this is projected to continue both this year and next. This net lending position is predicated on the assumption of no decline in corporate tax receipts.

Taken together, the underlying current account of the balance of payments – as proxied by the savings-investment balance of the household and general government sectors – is set to remain in positive territory in the coming years.

2.6 Medium-term economic prospects

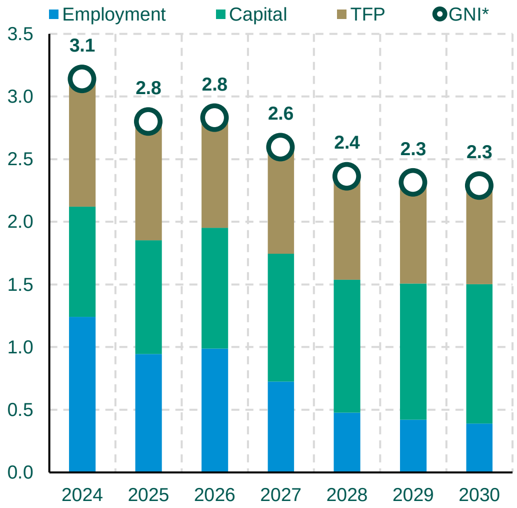
The output gap at present is estimated to be positive – in aggregate terms, demand exceeds supply. The near-term projections envisage a closing of the output gap with, thereafter, economic activity assumed to evolve in line with the economy's supply capacity. In other words, medium-term economic prospects will be determined by the availability of capital and labour, as well as how effectively they are

[5] Department's estimates as the CSO does not provide a quarterly estimate of the modified position.

combined (total factor productivity) to produce outputs. Work undertaken by the Department shows that the growth in this supply will slow from the second half of this decade, in line with *inter alia* an ageing population and a structural easing in productivity growth.[6] Forecasts for aggregate demand, which are consistent with the supply-side in the medium-term, are presented below (**table 9**).

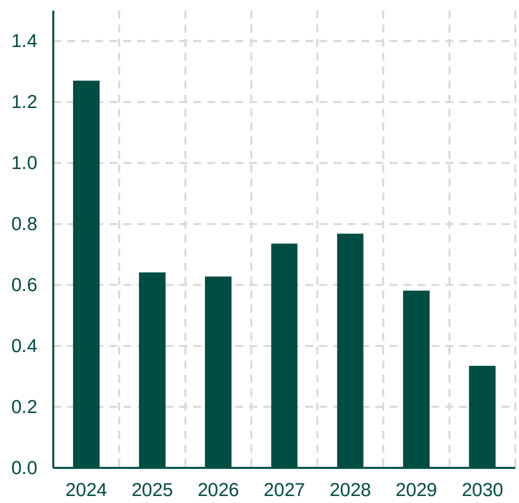
Figure 12: Medium and long term projections

A: Supply-side contributions to GNI* growth (to 2030)



Source: Department of Finance

B: Output gap, per cent GNI*



Note: The output gap is the difference between potential and actual output, as a share of potential output.
Source: Department of Finance

Table 9: Medium term forecasts – key macro and fiscal variables, per cent change (unless stated)

	2023	2024	2025	2026	2027	2028	2029	2030
Personal consumption	3.1	2.4	3.1	2.8	2.7	2.6	2.6	2.4
Modified investment	-7.1	1.8	1.6	5.0	4.9	4.8	4.6	4.6
Modified Domestic Demand	0.5	1.9	2.3	2.9	2.9	2.9	2.9	2.8
Exports	-4.8	2.8	4.6	3.9	3.9	3.7	3.7	3.7
GNI*	1.8	2.0	1.9	2.4	2.4	2.3	2.1	2.1
GNI*, € billion	290.7	306.3	320.4	336.0	352.0	368.5	385.0	402.0
GDP, € billion	504.6	531.9	565.6	598.2	632.5	669.1	707.7	748.5
Inflation (HICP)	5.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Labour force	3.3	2.1	1.6	1.5	1.1	0.7	0.7	0.6
Employment	3.4	1.9	1.5	1.5	1.1	0.7	0.6	0.6
Unemployment rate (per cent)	4.3	4.6	4.7	4.7	4.7	4.7	4.8	4.8

Source: CSO, Department of Finance calculations.

[6] S. Hogan, L. Rehill and MT. Sanjani (2023), *Horizon Scanning – calibrating medium to long-term economic projections*. Department of Finance, available at:
https://www.gov.ie/en/publication/c31bc-horizon-scanning-calibrating-medium-to-long-term-economic-projections/

Box 5: Potential impact of artificial intelligence on Ireland's labour market

Work has been underway in the Department of Finance (DFIN) and Department of Enterprise, Trade and Employment (DETE) on assessing the potential impacts of Artificial Intelligence (AI) on the Irish labour market. Utilising methodologies developed by Felten *et al*. (2021)^ and the IMF^^, the research estimates Irish occupations' relative exposure to AI, and determines whether AI is likely to have a complementary or substitution effect on labour in those occupations. The research also assesses Ireland's overall labour market exposure to AI and how this varies across different demographic groups.

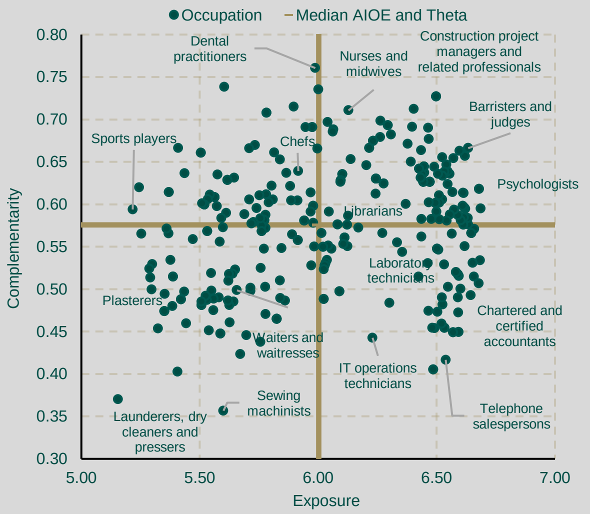
The analysis assesses each occupation included in the 2022 Census, assigning them to one of four categories: i) High Exposure, High Complementarity, ii) High Exposure, Low Complementarity, (iii) Low Exposure, High Complementarity; and (iv) Low Exposure, Low Complementarity. These are set out below (**figure 13A**), with each occupation plotted for AI occupational exposure (AIOE) and for AI potential complementarity (θ). The graph's quadrants are split using the median values of both exposure and complementarity – accordingly, the total number of occupations is split equally between the four quadrants. Results should be interpreted with this in mind.

The bottom right quadrant can be viewed as reflecting an 'at risk' area, where occupations are relatively more exposed *and* substitutable to AI applications. It is important to note that occupations in this category will not necessarily be substituted or transformed by AI, just that the current understanding of AI applications indicates that these occupations are most at risk, relative to other occupations. By contrast, the top right quadrant can be seen as a 'high potential benefit' area, where occupations are highly exposed to AI and where workers are most likely to be able to integrate AI applications into their jobs in a complementary way – increasing productivity.

Research by the IMF^^^ found that, on average, 60 per cent of employment in advanced economies is highly exposed to AI. Analysis by DFIN (forthcoming) finds that Ireland's labour market is marginally more exposed to AI, at 63 per cent, although Ireland also has a higher-than-average share of persons working in highly complementary roles.

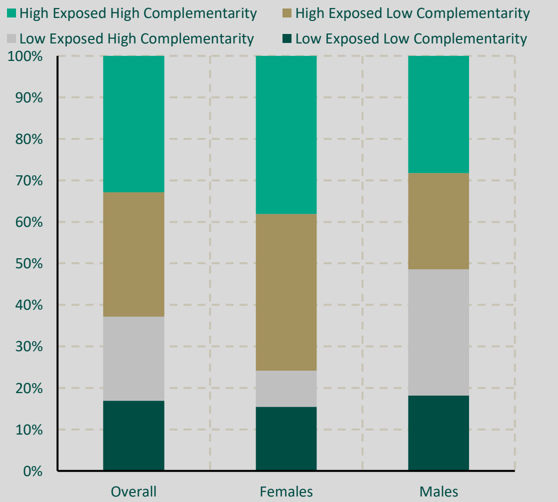
Figure 13: AI exposure and complementarity

A: AI exposure and potential complementarity for Ireland



Source: Department of Finance (adapted from Pizzinelli et al, 2023)

B: Employment shares by gender



Source: Department of Finance

In addition, the analysis captures how employment shares differ between males and females (**figure 13B**). Females are far more likely to work in highly exposed roles compared to males (76 vs 51 per cent), including in roles that are considered to be most at risk of AI disruption (38 vs 23 per cent). Females greater labour market exposure to AI is a result of relatively higher levels of employment in highly exposed occupations such as customer service or administration. Males are more likely to work in roles in the agricultural or construction sector which are typically less exposed (further analysis of these trends, including detailed breakdowns by age, educational attainment, citizenship, region, and income decile, will be provided in the forthcoming research paper).

^ Felten et al. 2021. Occupational, industry, and geographic exposure to artificial intelligence: A novel dataset and its potential uses, available at: https://doi.org/10.1002/smj.3286
^^ Pizzinelli et al. 2023. Labor Market Exposure to AI: Cross-country Differences and Distributional Implications, available at: https://www.imf.org/en/Publications/WP/Issues/2023/10/04/Labor-Market-Exposure-to-AI-Cross-country-Differences-and-Distributional-Implications-539656
^^^ Cazzaniga et al. 2024. Gen-AI: Artificial Intelligence and the Future of Work, available at: https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2024/01/14/Gen-AI-Artificial-Intelligence-and-the-Future-of-Work-542379

Chapter 3
Exchequer Developments and Outlook

3.1 Summary

The Exchequer is projected to record a surplus of €2.5 billion this year. The strong headline position masks underlying vulnerabilities, however, with 'windfall' corporation tax receipts accounting for about half the corporate tax yield this year. For next year, an Exchequer surplus of €0.7 billion is currently projected.

3.2 Exchequer outlook for 2024

3.2.1 Tax revenue

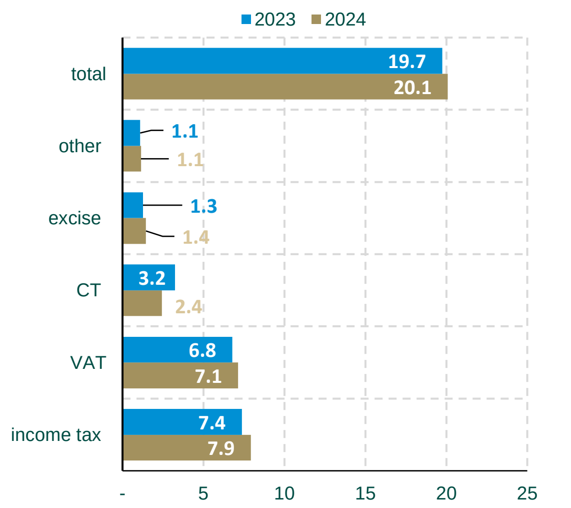
Tax receipts to end-March were €20.1 billion, €0.3 billion (1.8 per cent) ahead of the same period last year (**figure 14A**). The first quarter yield was, however, €1.0 billion behind expectations; indications are that this shortfall is due to an (unexpected) timing factor relating to corporation tax payments and it is anticipated that the lost ground will be made-up later in the year.

In terms of direct taxes, continued resilience in the labour market is mirrored in income tax receipts, which were up by €0.6 billion (7.6 per cent) year-on-year in the first quarter. Corporate tax receipts in the first quarter were €0.8 billion (24.8 per cent) below the same period a year earlier, though this reflects timing.

Turning to indirect taxes, steady growth in (nominal) consumer spending is reflected in VAT receipts, which are up €0.4 billion (5.4 per cent). The annual increase of €0.2 billion (14.5 per cent) in excise receipts in the first quarter reflects the impact of winding down the 'cost-of-living' supports introduced by Government over the course of the last two years.

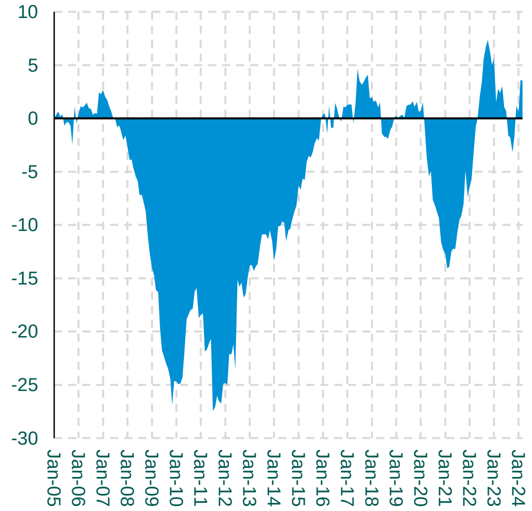
Figure 14: Exchequer developments

A: Tax receipts in the first quarter, € bn



Rounding may affect totals.
Source: Department of Finance.

B: Exchequer deficit, rolling 12-month sum, € billions



Source: Department of Finance.

Looking ahead, and consistent with the macroeconomic projections outlined earlier, the tax yield for this year is projected at €92.1 billion, broadly in line with the Department's forecasts set out in October alongside *Budget 2024*.

For direct taxes, income tax receipts are forecast at €34.8 billion, an increase of €1.9 billion (5.6 per cent) that is calibrated on the assumption of continued relatively strong employment and wage growth. On the corporate side, available information points to several 'one-off' payments and technical factors – working in both directions – in the coming months that are expected to largely cancel out over the course of the year. Corporate tax receipts are projected at €24.5 billion for the year, reflecting the assumed increase in profitability; this would constitute a €0.7 billion (2.7 per cent) annual increase and continues the trend observed in the second half of last year, namely a levelling-off in this revenue stream.

For indirect taxes, VAT receipts are forecast at €21.3 billion; this would be an annual increase of €1.0 billion (4.8 per cent), and is in line with assumptions regarding the evolution of its base (nominal growth in consumer spending). Excise duties are projected at €6.2 billion, an increase of €0.6 billion (10.3 per cent).

Other tax receipts are forecast to yield €5.4 billion, with stamp duties and capital taxes (capital gains tax, capital acquisitions tax) accounting for the bulk of these.

This would leave the total tax yield at €92.1 billion this year, 4.6 per cent ahead of last year's yield and consistent with a tax-GNI* ratio of 30 per cent. Updated quarterly profiles for tax revenue this year are set out later in this document (**annex 5**).

3.2.2 Other revenue

Non-tax revenue this year is projected at €1.1 billion. Capital resources – which includes EU funding – are expected to be around €2.0 billion.

3.2.3 Expenditure developments

Budget 2024 set out additional expenditure allocations for this year, which will build on the increased investment in 2023, and recent years. The *Revised Estimates for Public Services 2024* (REV) outlined an overall Government Expenditure Ceiling of €96.7 billion for 2024. This funding will facilitate continued investment in public services and infrastructure through increased core expenditure. There is also provision for non-core spending to ensure sufficient resources to respond to external challenges, in particular in response to the Ukrainian humanitarian crisis. There is a total of €0.4 billion remaining unallocated under the Government Expenditure Ceiling for 2024, this includes Windfall Capital funding, funding remaining under the Shared Island Initiative and unallocated non-core expenditure. This funding may be allocated at a later date in 2024.

The REV made a technical allocation of €0.7 billion towards the costs of a potential public sector pay agreement. Since the publication of the REV in December 2023, Government has reached agreement on a new public sector pay agreement for the period 2024-2027. In total, the Agreement has an estimated cost of €3.6 billion, of which €1.1 billion falls in 2024. An additional €0.4 billion, upon ratification of the agreement, will be provided to Departments as required through supplementary estimates later in the year.

At the end of the first quarter of 2024, overall gross voted expenditure by Departments was €22.8 billion. This is on profile, with current expenditure €0.3 billion (1.3 per cent) above profile and capital expenditure €0.3 billion (13.6 per cent) below profile. The annual increase in the expenditure was 14.9 per cent in the first quarter, a rate that is well above the anticipated growth rate based on the budgetary parameters with:

- Current expenditure up €2,407 million (12.9 per cent) year-on-year; and,
- Capital expenditure up €542 million (45.5 per cent) year-on-year.

These figures reflect increased investment in a range of public services, including recruitment of additional frontline staff and enhanced social protection payments, cost-of-living payments for households and business, as well as substantially increased capital expenditure reflecting the ramping up of the National Development Plan.

Developments in the first quarter indicate considerable expenditure risks for 2024. Overspending in 2023 in certain sectors is persisting in 2024. This is in a context where there is no unallocated contingency funding available to meet these expenditure pressures. These pressures include:

- additional costs associated with public sector pay deal of €0.4 billion is above budgeted parameters with the impact to materialise from end-April onwards; and
- expanding monthly expenditure in a number of sectors, most notably the Health and International Protection sectors.

These developments will have knock-on consequences for the development of *Budget 2025*. This is in addition to the significant carryover costs already estimated for 2025 of measures being introduced throughout this year, particularly in areas such as the Departments of Social Protection, Housing and Children, Equality, Disability Integration and Youth.

Non-voted spending (mainly debt interest payments and Ireland's contribution to the EU budget) is forecast at €12.5 billion.

3.2.4 Summary

An Exchequer surplus of €3.5 billion (12-month rolling sum) was recorded at end-March (**figure 14B**). For this year as a whole, an Exchequer surplus of €2.5 billion is in prospect, €0.7 billion up on the Department's autumn forecasts. Despite a small downward revision in tax revenues and some slippage on the expenditure front that has already occurred, the fiscal position benefits, relative to the Budget projection, from a reduction in the contribution to the EU Budget as well as slightly smaller transfer (subject to legislation being on the statue books) of €4.1 billion (0.8 per cent of GDP) to the *Future Ireland Fund* in the second half of this year (this is neutral on a general government basis).

Table 10: Budgetary projections 2023-2027, € million	2023	2024	2025	2026	2027
CURRENT BUDGET					
Expenditure					
Gross voted current expenditure	82,165	83,925	86,945	91,255	95,670
Non-voted current expenditure	7,395	7,140	8,265	8,195	8,660
Gross current expenditure	**89,560**	**91,065**	**95,210**	**99,450**	**104,330**
less expenditure receipts and balances	16,255	16,735	16,910	17,280	17,750
Net current expenditure	**73,305**	**74,330**	**78,300**	**82,170**	**86,580**
Receipts					
Tax revenue	88,115	92,135	97,460	100,345	105,165
: income tax	32,915	34,770	36,895	39,005	41,005
: VAT	20,345	21,325	22,820	23,940	25,105
: corporation tax	23,835	24,485	25,590	24,685	25,820
: excise duties	5,615	6,195	6,695	7,080	7,425
: stamp duties	1,760	1,700	1,705	1,775	1,875
: motor tax	910	870	820	770	715
: customs	580	585	615	645	675
: capital gains tax	1,520	1,540	1,610	1,700	1,760
: capital acquisitions tax	635	665	710	745	785
Non-tax revenue	2,225	1,150	1,455	1,210	1,370
Net current revenue	**90,345**	**93,285**	**98,915**	**101,555**	**106,535**
CURRENT BUDGET BALANCE	**17,040**	**18,955**	**20,615**	**19,385**	**19,955**
CAPITAL BUDGET					
Expenditure					
Gross voted capital expenditure	12,535	13,135	14,525	15,515	14,900
Non-voted capital expenditure	5,240	5,355	7,330	7,350	7,615
of which:					
*-Transfer to the Future Ireland Fund^*		4,050	4,035	4,255	4,525
*-Transfer to the ICNF^^*			2,000	2,000	2,000
Gross capital expenditure	**17,775**	**18,490**	**21,855**	**22,865**	**22,515**
Less capital receipts	60	40	40	40	40
Net capital expenditure	**17,715**	**18,450**	**21,815**	**22,825**	**22,475**
Capital resources	**1,855**	**2,005**	**1,940**	**1,585**	**1,245**
CAPITAL BUDGET BALANCE	**-15,860**	**-16,445**	**-19,875**	**-21,240**	**-21,230**
Exchequer Balance	**1,180**	**2,510**	**740**	**-1,855**	**-1,275**
Government Expenditure Ceiling	**-**	**97,065**	**101,470**	**106,770**	**110,570**

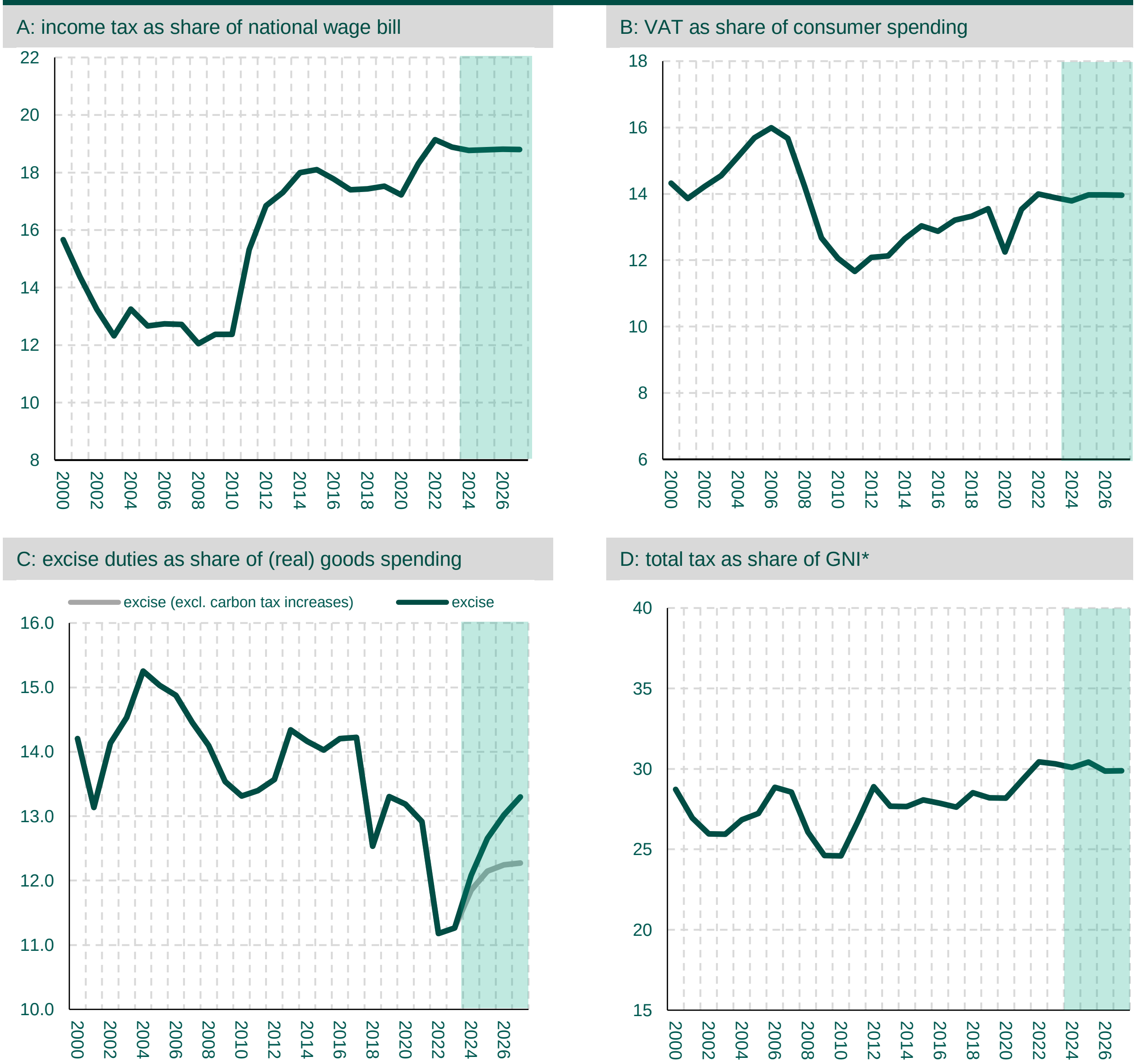
Notes:
^ Legislation in respect of both long-term funds is working its way through the Oireachtas; transfers are technical assumptions.
^^ *Infrastructure, Climate and Nature Fund*.
2023 outturn figures are based on the December 2023 *Fiscal Monitor*.
Rounding may affect totals.
Source: Department of Finance.

3.3 Exchequer outlook for 2025

3.3.1 Tax forecasts

The direct taxation yield next year is projected to increase at a broadly similar rate to this year. Income tax is expected to expand by €2.1 billion (6.1 per cent), broadly in line with the projected growth rate of the national wage bill (**figure 15A**). The Department uses projections of wage growth to estimate the yield from 'non-indexation' of the tax system: in other words, how much additional revenue the Exchequer would receive from 'fiscal drag' if income tax bands and credits were not adjusted to keep pace with wage growth. This estimate is used to assist in the framing of the Budget taxation package. On this basis, non-indexation of the income tax system would be expected to raise in the region of €1.2 billion next year under the current projections.[7] Corporate tax revenue is expected to grow by €1.1 billion (4.5 per cent), reflecting the projected increase in profitability.

Figure 15: Tax revenue relative to their bases, per cent



Source: Department of Finance calculations.

Source: Department of Finance calculations.

[7] The *Revenue Commissioners* provide estimates for indexation in their *Ready Reckoner*, available at: https://www.revenue.ie/en/corporate/information-about-revenue/statistics/ready-reckoner/index.aspx
This publication is updated in advance of the Budget.

On the indirect side, VAT receipts are projected to increase by €1.5 billion (7.0 per cent), consistent with the assumed expansion of consumer spending (**figure 15B**). The excise duty yield (**figure 15C**) is forecast at €6.7 billion (up 8.1 per cent).

Other taxes are projected at €5.5 billion, leaving the overall tax yield at €97.5 billion, a 5.8 per cent increase. This is, broadly, unchanged relative to the autumn forecasts (**table 11**). This would mean a tax burden (tax as a share of national income) of 30.4 per cent next year (**figure 15D**).

Table 11: Evolution of near-term tax forecast vs previous forecast, €bn

			Δ_2024 since autumn forecast						Δ_2025 since autumn forecast				
	2023	2024	total	: base	: macro	: policy	: other	2025	total	: base	: macro	: policy	: other
Income tax	32.9	34.8	0.5	0.0	0.1	0.0	0.4	36.9	0.5	0.5	0.1	0.0	0.0
Corporation tax	23.8	24.5	0.0	0.3	-0.7	0.0	0.4	25.6	-0.2	0.0	-0.1	0.0	-0.1
VAT	20.3	21.3	-0.4	-0.1	-0.3	0.0	-0.1	22.8	-0.3	-0.4	0.1	0.0	0.0
Excise	5.6	6.2	0.0	0.0	0.0	0.0	0.0	6.7	0.0	0.0	0.1	0.0	0.0
Other taxes	5.4	5.4	-0.4	-0.3	-0.1	0.0	0.0	5.5	-0.4	-0.3	-0.1	0.0	0.0
Total	**88.1**	**92.1**	**-0.4**	**-0.2**	**-1.0**	**0.0**	**0.8**	**97.5**	**-0.4**	**-0.3**	**0.1**	**0.0**	**-0.1**

Notes:
'Base' refers to the change in the previous year's outturn which changes the level (the 'starting point' effect).
'Macro' refers to the impact of changes in the projected macroeconomic base for each tax heading.
'Policy' refers to changes in Government policy since the Department's previous set of forecasts.
'Other' includes one-off and other adjustments.
Note that the breakdown in this manner is based on estimates.
Rounding may affect totals.
Source: Department of Finance.

3.3.2 Other revenue

Non-tax revenue will continue to benefit from dividend payments to the Exchequer next year, as well as from the distribution of the *National Asset Management Agency*[8] surplus, with approximately €0.3 billion and €0.2 billion, respectively, expected to be transferred to the Exchequer in 2025.

On the capital side, and in contrast to previous years, the Exchequer will no longer benefit from the proceeds of bank share sales, with proceeds instead being retained in the *Ireland Strategic Investment Fund* (neutral on a general government accounting basis).

3.3.3 Expenditure

Multi-annual expenditure ceilings for the period 2025 to 2027 are set out below (**table 12**), on a technical basis. While the SPU is a no policy change document, there have been a number of developments since previous publication of multi-annual ceilings in the *Budget 2024* documentation.

Those figures have been updated to reflect expenditure developments to date and policy decisions taken by Government as follows:

- 2023 ceiling updated to take account of increased expenditure outturn;
- Additional €0.1 billion for 2024 agreed as part of REV 2024;

[8] As a purely financial transaction, this transfer does not benefit the general government balance.

- Additional €0.4 billion for 2024 for costs associated with agreed and ratified public service pay agreement; and
- the recent publication of NDP ceilings for Departments for the period out to 2026 utilise the windfall capital amounts of €2.25 billion as set out in the table.

Overall these changes impact upon the year-on-year growth rates for core expenditure in 2024 and 2025. The higher outturn in 2023 reduces the core expenditure annual growth rate for 2024 from 6.1 per cent last October, i.e. as per the budget documentation, to 5.1 per cent. The 5 per cent Medium Term Expenditure Strategy is the basis for the future ceilings (though ceilings for the period 2026-2030 will be a matter for the next Government).

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. The contingency reserve will be reviewed in the context of the Summer Economic Statement reflecting the latest developments.

Table 12: Technical assumptions on expenditure, € million

	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
core – year-on-year increase		4,479	4,525	4,797	5,050
core – year-on-year increase, per cent		**5.1**	**4.9**	**5.0**	**5.0**
Other expenditure					
: contingency reserve	4,625	4,513	4,500	4,500	4,500
: windfall capital^	-	250	750	1,250	-
: one-off^^	2,886	605			

Notes:
^ the windfall capital line is kept for consistency of presentation with Budget documentation (though is now allocated).
^^ one-off in 2024 is the Cost of Living package impacts in 2024 from Budget 2024.
Core expenditure growth was planned at 6.1 per cent in the *Summer Economic Statement* on the estimates. This growth is recalculated now on the basis of provisional outturn for 2023. Due to the additional spending in 2023 this has eased to c. 5.1 per cent.
Rounding may affect totals.
Source: Department of Public Expenditure, NDP Delivery and Reform.

Given the technical nature of the SPU, there will be a number of key expenditure policy issues to be considered in the *Summer Economic Statement* 2024 and as part of the preparation of the medium-term Fiscal Structural Plans.

3.3.4 Summary

All-in-all, a modest Exchequer surplus of €0.7 billion is in prospect for next year. These projections take into account the assumed transfer to both the *Future Ireland Fund* (0.8 per cent of GDP, or €4.0 billion) and the *Infrastructure, Climate and Nature Fund* (€2.0 billion).

Tax revenue is broadly in line with the projections published at Budget time. The inclusion of the technical €4.5 billion contingency reserve (as outlined above) is reflected in the increase in current expenditure, offset to a small extent by appropriations-in-aid. An increase in voted capital expenditure is offset by a somewhat lower contribution to the *Future Ireland Fund*, relative to the Budget forecasts.

Table 13: Changes in Exchequer balance since autumn forecast

	2023	2024	2025	2026	2027
EBR: previous (autumn) forecast	2.2	1.8	4.1	2.3	-
EBR: current (spring) forecast	1.2	2.5	0.7	-1.9	-1.3
Difference (1 = 2 - 3)	-1.0	0.7	-3.3	-4.1	-
Change in revenue (2 = 2a + 2b)	-0.1	-0.3	-0.2	-1.1	-
: Δ_tax revenue (2a)	-0.2	-0.4	-0.4	-1.1	-
: Δ_other revenue (2b)	0.1	0.1	0.2	0.1	-
Change in expenditure (3 = 3a + 3b)	0.9	-1.0	3.1	3.1	-
: Δ_current (3a)	0.3	-0.8	3.3	3.6	-
: Δ_capital (3b)	0.6	-0.2	-0.1	-0.6	-

Notes:
The autumn forecast horizon was to 2026.
Rounding may affect totals.
Source: Department of Finance.

3.4 Medium-term outlook for the Exchequer

In line with the economic outlook outlined previously, tax revenue is projected to increase by an average of around 5 per cent per annum over the medium-term (excluding the assumed impact of BEPS as noted below). Voted spending over the period is based on the Government's spending rule, which sets (net) spending growth at 5 per cent per annum. It is emphasised that these are technical assumptions: the setting of expenditure policy beyond 2025 is entirely a matter for the next Government.

The tax revenue projections are far-from-certain, with downside risks dominating. A key source of uncertainty is the impact of the OECD's two-pillar *Base Erosion and Profit Shifting* reforms (BEPS), which is expected to negatively impact on receipts from 2026 onwards.

Chapter 4
General Government Developments and Outlook

4.1 Summary

Taking account of the updated economic projections, a general government surplus amounting to €8.6 billion (2.8 per cent of GNI*) is in prospect for this year. If windfall corporate tax receipts are excluded, the projected deficit is 2.7 billion (0.9 per cent of GNI*). For next year, a headline general government surplus of €9.7 billion (3 per cent of GNI*) is currently anticipated; this would be equivalent to an underlying deficit of 1.8 billion (0.6 per cent of GNI*).

4.2 General government balance: outlook for 2024

General government revenue is estimated at €130.2 billion this year, the equivalent of 42.5 per cent of GNI*. In compositional terms, taxes on income and wealth – essentially income and corporate taxes – are estimated at €62.6 billion, an increase of 4½ per cent relative to last year. Taxes on production and imports, which are mainly indirect taxes such as VAT, excise and customs duties, are estimated at around €34.7 billion, an annual increase of 5 per cent. Social security receipts are projected at €23.3 billion, an annual increase of 8 per cent, in line with the projection for employment growth.

On the other side of the equation, general government expenditure is estimated at almost €121.6 billion (39.7 per cent of GNI*). Primary expenditure – total expenditure excluding debt interest payments – is estimated at €118.2 billion, with interest expenditure estimated at €3.4 billion this year.

As a result of these developments, the general government surplus for this year is estimated at just over €8½ billion (2.8 per cent of GNI*). Windfall corporate tax receipts are estimated at €11.2 billion; this means the underlying deficit of 2.7 billion (0.9 per cent of GNI*).

4.3 General government balance: outlook for 2025

Next year, taxes on income and wealth are projected at €65.7 billion, an increase of 5 per cent. Income taxes should benefit from continued employment and earnings growth while the ongoing expansion in exports – and hence profitability – should underpin further growth in corporate tax receipts, albeit at a more modest pace than in 2020-2022.

Taxes on production and imports are projected at €36.7 billion, an increase of over 5½ per cent. Other general government revenue, including social security receipts, is projected at just under €35 billion. As a result, total general government revenue is projected at €137.3 billion next year, consistent with a revenue-GNI* ratio of 3 per cent.

On the expenditure side, the largest components relate to the public sector pay-bill (compensation of employees) and current transfers from the general government sector (social payments). The former is projected at €34.6 billion for next year, while the latter is projected at €44.2 billion. Government investment is projected at just under €15 billion, the equivalent of 4.7 per cent of GNI*. This takes into account the funding for capital projects as part of the *National Development Plan [2021-2030]* and the Next Generation EU's *Recovery and Resilience Facility*. Other expenditure is projected at €33.8 billion so that, in aggregate terms, general government spending is projected at €127.6 billion. This would be consistent with an expenditure-GNI* ratio of 39.8 per cent.

Table 14: Exchequer balance to GGB 2023-2027, € million (unless stated)	2023	2024	2025	2026	2027
Exchequer balance	1,180	2,510	740	-1,855	-1,275
Walk^	7,150	6,040	8,995	10,540	11,980
General government balance	**8,330**	**8,550**	**9,735**	**8,685**	**10,705**
of which:					
General government revenue	**123,715**	**130,175**	**137,290**	**141,900**	**148,705**
Taxes on production and imports	32,995	34,675	36,655	38,225	39,830
Current taxes on income, wealth	59,870	62,560	65,740	67,005	70,160
Capital taxes	635	665	710	745	785
Social contributions	21,565	23,300	25,455	27,235	29,075
Property Income	2,005	1,955	1,705	1,670	1,865
Other	6,645	7,020	7,025	7,020	6,990
General government expenditure	**115,380**	**121,625**	**127,560**	**133,210**	**137,995**
Compensation of employees	31,080	32,935	34,625	36,305	38,030
Intermediate consumption	18,980	19,205	19,395	19,655	19,940
Social payments	39,790	42,015	44,215	45,815	47,520
Interest expenditure	3,485	3,425	3,370	3,645	4,130
Subsidies	2,540	2,555	2,570	2,590	2,610
Gross fixed capital formation	11,775	13,170	14,960	16,555	16,995
Capital transfers	2,215	2,515	2,530	2,505	2,355
Other	5,515	5,805	5,895	6,140	6,415
			*per cent of GNI**		
GGB per cent GNI*	2.9	2.8	3.0	2.6	3.0
Total revenue, per cent GNI*	42.6	42.5	42.9	42.2	42.2
Total expenditure, per cent GNI*	39.7	39.7	39.8	39.6	39.2
memo items			*€ billions*		
Estimated windfall corporation tax^^	11.2	11.2	11.5	9.9	10.3
Underlying GGB^^^	-2.9	-2.7	-1.8	-1.2	0.4

Notes:
Expenditure figures beyond this year include provision for contingency reserve.
^ the 'walk' from the exchequer balance to the general government balance is set out in the appendix.
^^ Figures are rounded to the nearest €100 million.
^^^ Underlying general government balance is the fiscal position excluding estimated windfall corporation tax receipts.
Source: Department of Finance, Department of Public Expenditure and Reform, CSO.

Accordingly, a general government surplus of €9.7 billion (3 per cent of GNI*) is in prospect for next year. Excluding the impact of windfall corporate tax receipts, the underlying deficit is projected at 1.8 billion (0.6 per cent of GNI*).

As the two savings vehicles (FIF, ICNF) are classified within the general government, transfers from the Exchequer account to the funds are neutral from a general government perspective. Crucially, as the resources are outside the Exchequer and ring-fenced within the funds, the resources are not available to finance increased expenditure[9] or reductions in taxation.

[9] Funds in the ICNF can potentially be drawdown from 2026.

4.4 Medium-term outlook for the general government sector

Medium-term income and expenditure projections for the general government sector are set out above (**table 14**), conditioned on the economic forecasts set out earlier and consistent with the assumed evolution of central government receipts and expenditure. General government revenue is projected to continue to increase over the medium-term, while general government expenditure moves in line with the Government's expenditure rule. On this basis, general government surpluses of 2.6 and 3 per cent of GNI* are assumed for both 2026 and 2027.

The evolution of the headline balance is detailed below (**table 15**) and compared with the medium-term projections set out in the autumn forecasting round.

Table 15: Changes in general government balance since autumn forecast, € billions

	2023	2024	2025	2026	2027
GGB: current (spring) forecast	8.3	8.6	9.7	8.7	10.7
GGB: previous (autumn) forecast	8.8	8.4	14.2	14.6	-
Difference (1 = 2 - 3)	**- 0.5**	**0.2**	**- 4.5**	**- 5.9**	**-**
Change in GG revenue (2 = 2a + 2b)	**- 1.2**	**0.5**	**1.3**	**0.9**	**-**
: Δ_tax revenue (2a)	- 0.1	-0.1	-0.1	-0.8	-
: Δ_other revenue (2b)	- 1.1	0.6	1.4	1.8	-
Change in GG expenditure (3 = 3a + 3b)	**- 0.7**	**0.4**	**5.8**	**6.9**	**-**
: Δ_capital^ (3a)	- 1.0	-0.7	-0.0	-0.0	-
: Δ_other (3b)	0.2	1.1	5.8	6.9	-

Notes:
^ includes gross fixed capital formation and capital transfers.
The autumn forecast horizon was to 2026.
Source: Department of Finance, CSO.

Box 6: Next generation of European fiscal rules

In February, the European Parliament and the Council of the European Union (hereafter the 'Council') reached agreement on reform of the Union's fiscal framework (formally the 'Economic Governance Review'), following an extensive review. The reform package, which is currently working its way through the EU legislative process, with the aim of being in force in May, will involve a sea-change in how budgetary policy is formulated in Ireland.

The main objectives of the reforms are to strengthen Member States' debt sustainability, and promote sustainable and inclusive growth through growth-enhancing reforms and investments. The reforms are an attempt to enhance budgetary discipline in the EU, as deficits have evolved into a structural fixture of the public finances in the bloc – the EU as a whole has not recorded a surplus since the beginning of monetary union (**figure 16A**).

While still incorporating annual surveillance (in the spring), the new framework will have a greater focus on the medium-term, and aims to promote greater national ownership.

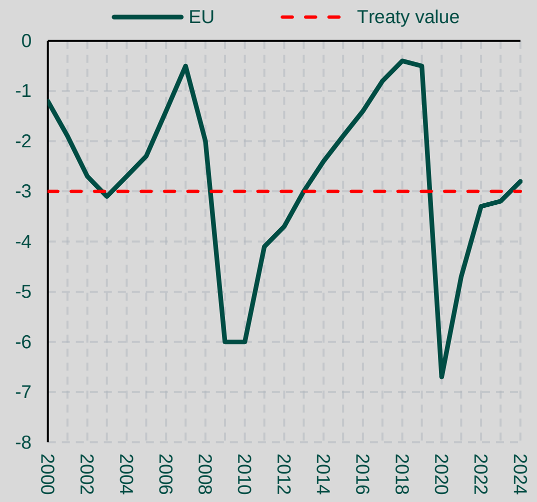
The Maastricht Treaty reference values (3 per cent of GDP budget deficit and 60 per cent debt-to-GDP) remain unchanged. However, new binding national fiscal-structural plans, with a four or five-year horizon**^** and centred on a single indicator – net expenditure growth**^^** – form the cornerstone of the new framework. The expenditure path relates to all General Government expenditure, not just exchequer spending, i.e. not limited to the 'core' voted expenditure subject to the domestic spending rule.

Given Ireland's positive fiscal position, with a budgetary surplus and public debt below 60 per cent of GDP (**figure 16B**), Ireland will not receive a binding fiscal constraint from the European Commission.**^^^** Nevertheless, Ireland will still need to commit to a five-year plan, setting a binding net expenditure limit. This plan will be endorsed by the Council and will be monitored annually (through Annual Progress Reports, which will replace Stability Programme Updates and National Reform Plans).

Once endorsed by the Council, in general it will not be possible to alter or update 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.

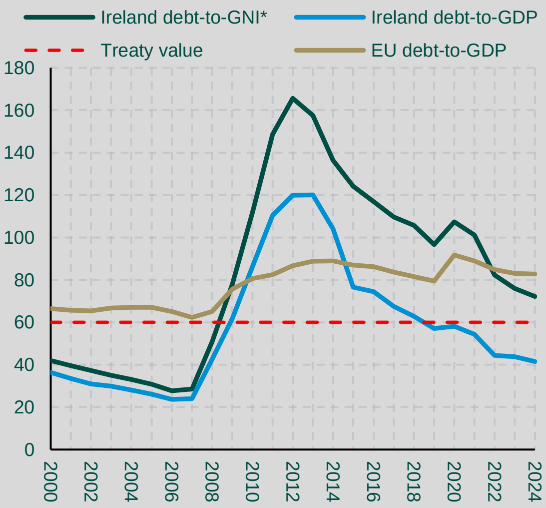
Figure 16: Fiscal discipline across the EU

A: Budget balance, per cent of GDP



Source: Ameco, CSO and Department of Finance.

B: Public debt, per cent of national income



Source: Ameco, CSO and Department of Finance.

The reforms to the fiscal framework mean the formation of a new budgetary strategy will need to be considered. This will require careful examination of the macro-economic environment, a sustainable and credible path for public expenditure and an appropriate tax strategy to meet both short-term priorities alongside the longer-term needs of the economy and society. Ireland's first medium-term fiscal-structural plan will be published in the autumn.

^ The medium-term fiscal structural plan should line up with the length of the national legislature; in Ireland's case this would be 5 years.
^^ Net primary expenditure is government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes funded by the Union, cyclical elements of unemployment benefit expenditure and other expenditure items outside the control of government.
^^^ Ahead of the preparation of medium-term fiscal structural plans, the European Commission 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.

4.5 Structural budget balance

The fiscal balance, adjusted for the impact of the economic cycle and for temporary factors, is known as the structural (or cyclically-adjusted) budget balance. Estimates are presented below (**table 16**), which treat windfall corporate tax receipts as one-offs. On this basis, a structural deficit of 0.3 per cent is anticipated this year. The structural deficit is projected to widen next year due to the treatment of one-off measures.[10] From there, the structural position is expected to improve slightly, with deficits of 0.3 per cent projected in 2026 and 2027.

Table 16: Structural budget balance, per cent of GNI* (unless stated)

	2023	2024	2025	2026	2027
Headline fiscal developments					
General government balance	2.9	2.8	3.0	2.6	3.0
One-off / temporary measures	2.0	2.5	3.4	2.6	2.9
Interest expenditure	1.2	1.1	1.1	1.1	1.2
General government primary balance	4.1	3.9	4.1	3.7	4.2
Economic cycle					
GNI* growth rate	1.8	2.0	1.9	2.4	2.4
Potential growth rate	2.3	2.7	2.3	2.2	2.2
Output gap	2.2	1.3	0.6	0.6	0.7
Structural fiscal developments					
Cyclical budgetary component	1.2	0.7	0.3	0.3	0.4
Cyclically adjusted balance	1.7	2.1	2.7	2.3	2.7
Structural budget balance	-0.3	-0.3	-0.7	-0.3	-0.3
Structural primary balance	0.9	0.8	0.4	0.8	0.9

Source: Department of Finance.

[10] Despite an improvement in the headline fiscal position, the increase in the structural deficit in 2025 is driven by a reduction in one-off expenditure measures next year, while one-off revenues measures (i.e. windfall corporate tax receipts) are projected to remain relatively stable. One-off expenditure and revenue measures are excluded from the calculation of the structural balance.

Chapter 5
General Government Debt

5.1 Summary

Public indebtedness is projected at €220.8 billion (72.1 per cent of GNI*) at the end of this year. The baseline projection involves an increase in the amount of outstanding debt by the end of the forecast horizon; however, reasonably solid economic prospects over the medium-term mean that the debt-national income ratio should fall.

The shift in the stance of monetary policy means that sovereign borrowing costs have been on a rising trajectory over the past year. This shift will have important implications: the re-financing of maturing debt in the second half of this decade will likely trigger higher debt servicing costs (as some debt issued in recent years carried a zero coupon).

5.2 Debt developments and outlook

With a headline general government surplus of €8.6 billion (2.8 per cent of GNI*) in prospect, public debt is set to remain at just under €221 billion this year. This would leave the debt-GNI* ratio at 72.1 per cent, a decline of 3.8 percentage points relative to last year.

Table 17: General government debt developments, per cent of GNI* (unless stated)

	2023	2024	2025	2026	2027
Gross debt (€ billions)	220.7	220.8	223.2	226.4	232.4
Gross debt ratio	75.9	72.1	69.7	67.4	66.0
Change in gross debt ratio(=1+2+3)	-6.4	-3.8	-2.4	-2.3	-1.4
Contributions to change in debt ratio^:					
General Government deficit (X=1a+1b)	-2.9	-2.8	-3.0	-2.6	-3.0
: interest expenditure (1a)	1.2	1.1	1.1	1.1	1.2
: primary deficit (1b)	-4.1	-3.9	-4.1	-3.7	-4.2
SFA (2=2a+2b+2c+2d+2e+2f+2g)	1.5	2.8	3.8	3.6	4.7
: change in liquid assets (2a)	0.9	-1.4	-1.0	-0.5	0.5
: interest adjustments (2b)	0.1	0.1	0.2	0.0	0.0
: equity transactions (2c)	-0.2	-0.1	0.0	0.0	0.0
: accrual adjustments (2d)	0.2	0.0	0.0	0.0	0.1
: impact of ISIF (2e)	0.1	0.2	0.1	0.1	0.1
: collateral held (2f)	0.0	0.0	0.0	0.0	0.0
: other (2g)	0.5	4.1	4.6	4.0	4.2
Nominal GNI* contribution (3)	-5.0	-3.9	-3.2	-3.2	-3.1
Memorandum items:					
: average interest rate	1.6	1.6	1.5	1.6	1.8

Notes:
^ A positive sign indicates that a component is increasing the debt ratio and *vice versa.*
SFA = stock-flow adjustment.
Source: CSO, Department of Finance and NTMA.

This downward trajectory in the debt-income ratio is set to continue next year, with debt projected at 69.7 per cent of GNI*. Further modest rises in public indebtedness are envisaged over the medium-term but, crucially, this is contingent upon continued robust economic growth, sound budgetary management and the absence of any significant shock to corporate tax revenue (or, indeed, other revenue streams). As previously highlighted, the corporate tax revenue stream is highly concentrated, and any sharp reversal would have negative implications for the debt-income trajectory.

5.3 Structural aspects of Irish public debt[11]

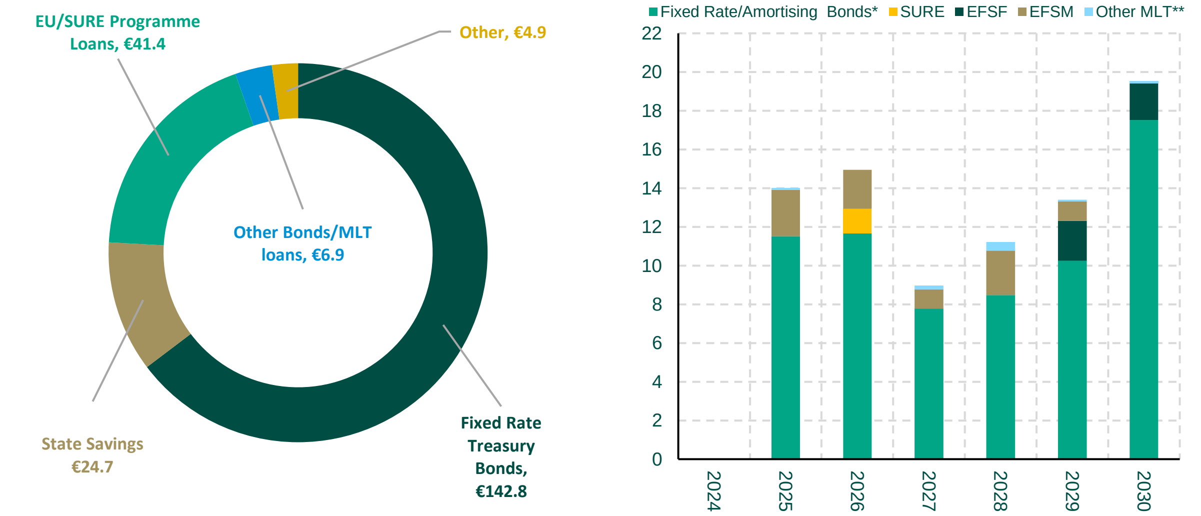
5.3.1 Composition of debt

The composition of public debt is an important structural dimension that must be considered in any assessment. The latest data show that, at end-2023, total outstanding liabilities of General Government amounted to €220.7 billion (**figure 17A**). Almost two-thirds of these were fixed-rate treasury bonds. Obligations to the official sector – the *European Financial Stabilisation Mechanism* (EFSM) and *European Financial Stability Facility* (EFSF) – were the next most important, accounting for just under a fifth of liabilities.

Figure 17: Structural aspects of Irish general government debt

A: composition of debt at end-2023, € billion

B: maturity profile 2024-2030, € billions^



Note:
The "other" category includes consolidation adjustments in respect of debt, including Government bonds and short-term paper, held by General Government entities.
Source: CSO, NTMA.

Note:
^ As at end-March 2024.
* Includes NTMA repo activity.
** Excludes other MLT loans of €5m.
Source: NTMA.

5.3.2 Funding and maturity profile

In November of last year, the National Treasury Management Agency (NTMA, Ireland's debt management office) announced a bond funding range of €6-10 billion for 2024.

In the first quarter of this year, the NTMA issued €4 billion of bonds. In January, a new 10-year benchmark bond, maturing in October 2034, was launched in a syndicated transaction. €3 billion was issued at a yield of 2.65 per cent. Subsequently, in March, in its first bond auction of the year, the NTMA sold €0.5 billion of that 10-year benchmark bond and €0.5 billion of the green bond maturing in 2043 at respective yields of 2.75 per cent and 2.95 per cent.

On the redemptions front, an €8 billion bond matured in March, while a €0.8 billion EFSM loan also came due in the first quarter. For next year, there is one bond maturing in March – the 5.4 per cent 2025 bond – which has an outstanding balance of €11.5 billion (**figure 17B**). A further €2.4 billion EFSM repayment – the third for this loan facility – also comes due.

[11] More detail on the structural aspects of Irish public debt is set out in the Annual Report on Public Debt 2023, op cit.

Cash and liquid asset balances which were almost €25 billion at the start of the year had dropped to less than €22 billion by the end of the first quarter, largely reflecting the March bond redemption. These balances are expected to decline further by year-end.

5.3.3 Net debt

General government debt, as defined under the Excessive Deficit Procedure (EDP) regulation, is a gross measure of government liabilities. It is also important to take into account financial assets of the general government sector. In Ireland, EDP-defined financial assets include liquid assets held by the Exchequer, *Ireland Strategic Investment Fund* cash and non-equity investments and other cash and liquid assets held by the general government sector.

Table 18: Gross and net general government debt, per cent of GNI* at end-year

	2023	2024	2025	2026	2027
General government debt (gross)	75.9	72.1	69.7	67.4	66.0
EDP debt instrument assets	13.8	13.5	15.3	19.3	25.9
Net debt position	62.2	58.6	54.3	48.1	40.1
Net debt position (including FIF and ICNF)^		56.6	50.9	43.3	33.9

Notes:
^ This is a broader measure than EDP debt instrument assets that includes fund assets – Future Ireland Fund and Infrastructure, Climate and Nature Fund.
Source: CSO, Department of Finance and NTMA.

On this basis, net debt is gross government liabilities excluding these liquid financial assets of government (**table 18**). At end-2024, net public indebtedness is projected at 58.6 per cent of GNI*, and at 54.3 per cent of GNI* for next year.

5.3.4 Credit rating

Ireland's long-term credit rating is now firmly in the "AA" category with all the main rating agencies (**table 19**).

Table 19: Irish sovereign credit rating

	Long-term rating	Short-term rating	Outlook
Standard & Poor's	AA	A-1+	Stable
Moody's	Aa3	P-1	Stable
Fitch Ratings	AA-	F1+	Positive

Notes:
As at April 2024.
Source: NTMA

Chapter 6
Risk and Sensitivity Analysis

6.1 Summary

The near-term domestic and international economic outlook is uncertain. Near-term risks to economic activity and inflation are two-sided and judged to be broadly balanced at this juncture. Key economic risks relate to the world economy, including the impact and path of monetary policy, geopolitical tensions and trade fragmentation. Turning to the domestic economy, competitiveness risks are to the fore particularly in the context of a tight labour market and other supply side bottlenecks (e.g. housing, infrastructure). Certain activities within the multinational sector have shown an unusually high degree of volatility in recent years, particularly for contract manufacturing and investment, and can have an amplifying effect on other economic variables.

The impact of plausible alternative scenarios for some of these variables on the central forecasts are set out in this chapter. The Department's assessment of risks is set out in the risk assessment matrix later in the chapter.

Beyond near-term risks, the economy is facing into a period of structural change characterised by simultaneous economic challenges in the form of decarbonisation, demographic change, digitalisation and de-globalisation – collectively the '4 Ds'.[12] Over the medium-term, the economy may evolve differently to that described earlier, depending on the evolution of these known, and other unknown, changes. Over the medium-term, the supply of labour is assumed to be driven by net migration flows, which have been particularly volatile in recent years. The impact of plausible alternative scenarios for these variables on the central forecasts is considered.

6.2 Alternative scenario #1: machinery and equipment investment

Over recent years, plant and machinery investment has surged to record high levels, driven by a small number of multinational companies expanding operations in Ireland (**figure 18A**).[13] This category grew by 45 per cent in 2022, subsequently reversing in 2023.

The Department's central forecasts are conditional on the assumption that this large-scale expansion has been brought to completion and machinery investment will revert to a normal level throughout 2024, consistent with the long-term pre-pandemic trend growth rate.[14] However, given the exceptionally large and concentrated nature of this investment over recent years, the risk of further volatility should not be understated.

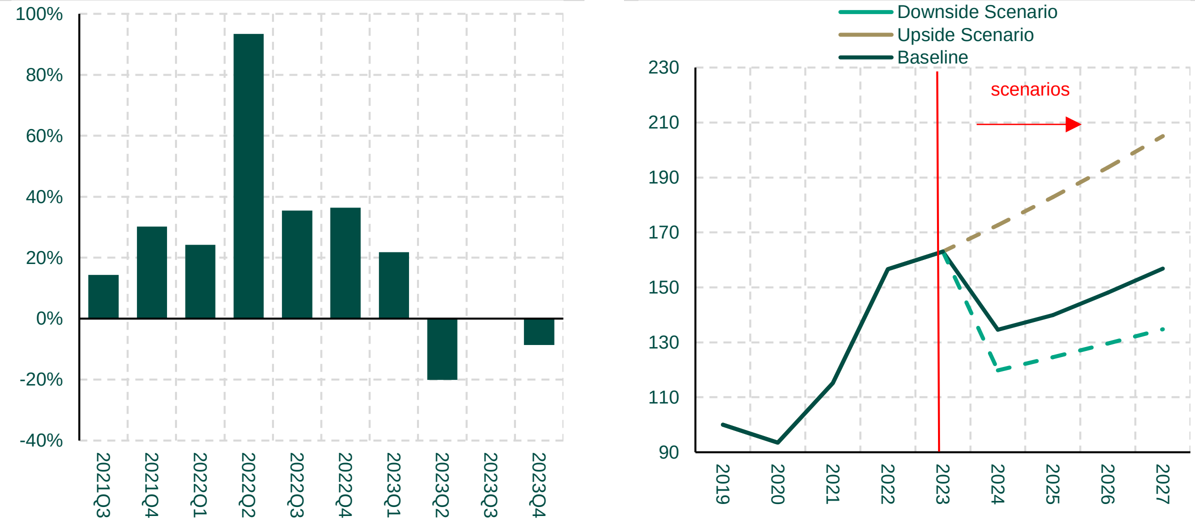
An upside scenario is presented (**figure 18B**) in which the elevated levels of investment in machinery and equipment continues over the forecast horizon. This is consistent with the investment needs under the 'twin transition' towards a digitalised and decarbonised economy, (e.g. carbon efficient machinery, capital investment to support data requirements for AI, etc.). However, given concentrated investment growth over recent years, the underlying investment environment remains unclear, especially given the

[12] Department of Finance, Summer Economic Statement 2023, *The Irish economy in 2030 – enabling a sustainable future for all* available at:
https://www.gov.ie/ga/foilsiuchan/cfde8-summer-economic-statement-2023/
[13] In 2022, the volume of machinery and equipment - excluding the volatile aircraft investment series (which includes aircraft for leasing) - investment rose by over 45 per cent to €12.6 billion, with investment levels remaining elevated throughout most of 2023.
[14] The need to supress outturn data for confidentiality purposes makes an assessment of the outlook particularly challenging.

higher costs of capital. In the downside scenario, underlying investment proves weaker than anticipated, resulting in a sharper contraction in machinery and equipment this year.

Figure 18: Volatility and scenarios of (non-aircraft) machinery and equipment investment

A: Volatile growth in M&E, year-on-year growth | B: M&E scenarios, index 2019=100



Source: CSO; Department of Finance | Source: CSO; Department of Finance

In the upside scenario, modified investment grows at just over 8 per cent this year and 2¼ per cent in 2025, compared with growth rates of 1¾ and 1½ per cent set out in the central projections. In the alternative scenario, the impact would be to raise MDD growth this year and next to 3¼ and 2½ per cent, respectively. In the downside scenario, modified investment would contract by just over ½ per cent in 2024, with MDD growth easing to 1½ per cent as a result. For 2025, modified investment would pick-up to 1¾ per cent with a corresponding MDD growth of just over 2¼ per cent.

6.3 Alternative scenario #2: contract manufacturing exports

Exports associated with contract manufacturing are extremely volatile (**figure 19A**) – increasing by 26 per cent in 2022 and declining by 23 per cent in 2023 – and, accordingly, are difficult to forecast with any degree of accuracy.[15] These activities have become an increasingly important share of measured economic activity, despite having very little domestic spill-overs (in terms of production and employment).[16] Indeed, these exports were a key driver of the fall in exports and GDP last year.

Globalisation-related exports (and contract manufacturing in particular) are likely to have a lower import content than goods exports produced in Ireland given that the key driver of value added in their production – intellectual property – is located in Ireland (production therefore does not necessitate a royalty payment outflow). This implies a high sensitivity of GDP to changes in contract manufacturing. To highlight this sensitivity, alternative assumptions for the path of these exports and their implications for GDP are examined below.

[15] Goods exports can be broken down into 'cross-border' goods exports (i.e. goods produced in and shipped from Ireland) and 'globalisation-related' goods exports. Globalisation exports mainly comprise of contract manufacturing - essentially exports that are produced under contract in third countries where the inputs (including in many cases intellectual property) and outputs remains under control of the Irish resident MNC – and to a lesser extent merchanting and 'other conceptual adjustments'.

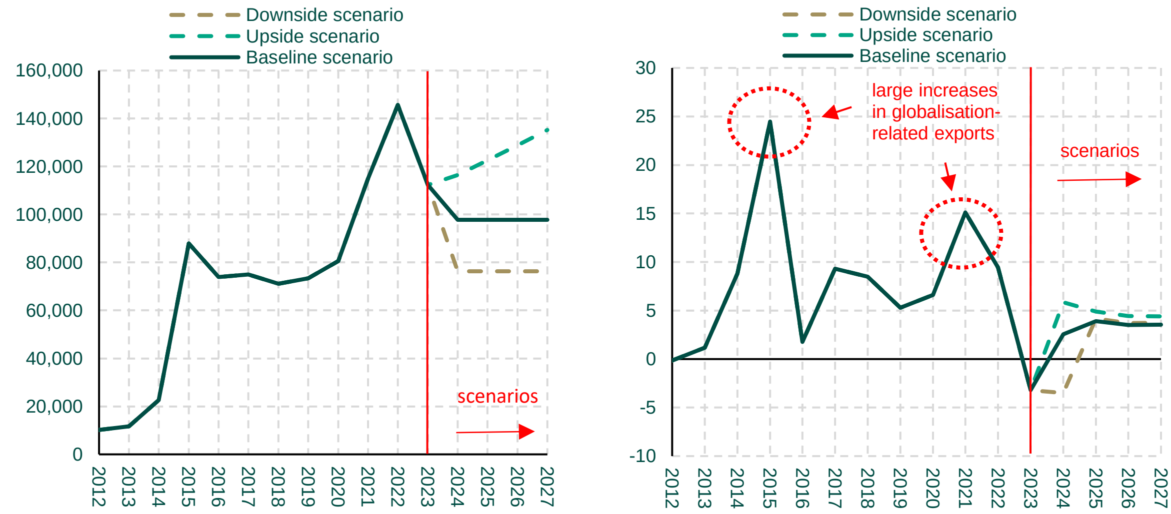
[16] Globalisation-related goods exports accounted for more than a third of goods exports and more than a fifth of GDP in 2023. It is widely recognised however that Irish GDP is a poor indictor of the domestic economy and activities such as contract manufacturing create no jobs in Ireland. Nonetheless, volatility in GDP has implications for tax revenues, given the fact that corporate profits make up a large component of this measure.

The Department's baseline projections set out in this document are based on the purely technical assumption that globalisation-related exports return to their 2020-2021 average level in 2024 – thereby treating the 2022 surge and 2023 decline as a one-off – and remain at this level over the forecast horizon. In the 'upside' scenario, globalisation-related goods exports are assumed to grow at the same rate as cross-border goods exports (i.e. those produced and shipped from Ireland). GDP growth in 2024 in this scenario is more than 3 percentage points higher than in the baseline scenario (at 5.8 per cent), and growth remains almost one percentage point higher than the baseline by 2027 (**figure 19B**).

Figure 19: Globalisation-related exports scenarios

A: Globalisation-related exports, € millions

B: GDP growth, per cent



Source: CSO, Department of Finance

Source: CSO, Department of Finance

In the 'downside' scenario, globalisation-related goods exports are assumed to fall back to their 2015–2019 average level in 2024, remaining at this level in subsequent years. GDP in this case would fall by 3½ per cent in 2024, more than 6 percentage points below the baseline growth rate (though having almost no domestic impact). GDP grows at a similar rate to the baseline scenario from 2025 onwards, with the level of globalisation-related exports assumed to remain flat in both scenarios.

6.4 Alternative scenario #3: net migration

As unemployment is expected to remain relatively low and labour force participation is set to ease as the population ages, the Department's central scenario assumes that net migration is the key driver of labour force and employment growth over the forecast horizon; annual net inward migration of around 35,000 is projected for 2026-2030. While this remains below the pre-pandemic level, infrastructural constraints (e.g. housing supply) and a decline in net inflows from Ukraine are expected to result in more modest inflows over the medium-term.

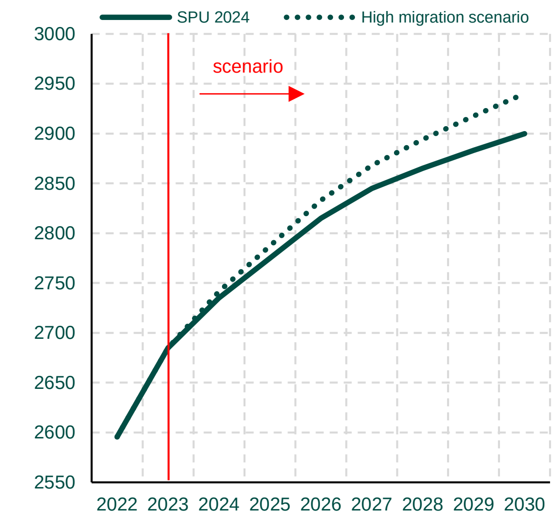
However, the outlook remains highly uncertain and it is possible that net migration could surprise on the upside (or, though less likely, on the downside). Against this backdrop, two alternative net migration scenarios are calibrated, and their implications for labour force and employment growth assessed.

The upside scenario assumes annual net inward migration of 45,000 from 2026-2030. As well as the economic cycle ('pull' factors), recent strong immigration flows have been driven by conflict and geopolitical instability around the world ('push' factors). With little prospect of resolution in the near-term, these push factors could trigger larger inflows than currently anticipated; more fundamentally, the increased frequency of climate-related disasters in vulnerable countries could also result in additional inward flows over the medium-term.

Applying the same assumptions regarding the proportion of migrants of working age and their labour force participation rates as in the central scenario, the additional inward flows increase the labour force by 42,000 and employment by 40,000 by 2030 (**figure 20A**). This adds around ¼ pp on average to both labour force and employment growth per annum over the medium-term.

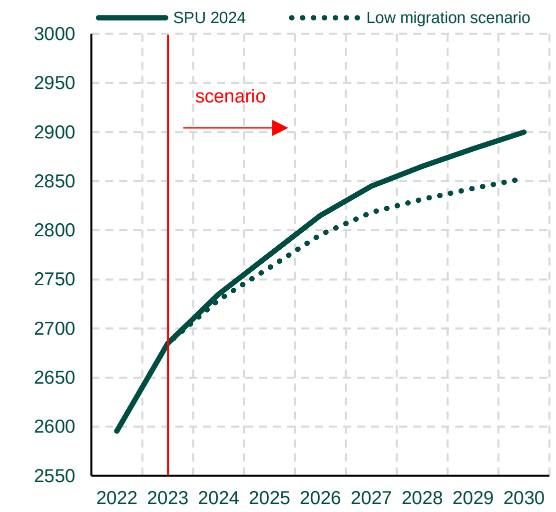
Figure 20: Net migration impact on employment

A: Employment – upside scenario



Source: CSO, Department of Finance

B: Employment – downside scenario



Source: CSO, Department of Finance

A scenario in which net inward migration proves lower than anticipated is also possible, if for example the rate of return of Ukrainian migrants proves higher than anticipated or ageing populations in other economies increases competition for immigration to support labour force growth. In the downside scenario, net inward migration averages 25,000 per annum over 2026-2030, with labour force and employment growth roughly ¼ pp lower than in the central scenario each year (**figure 20B**).

6.5 Risk matrix

The Department's assessment of the main short and medium-term macroeconomic (**table 20**) and fiscal (**table 21**) risks is set out below.

Table 20: Risk assessment matrix – economic			
Risk	**Likelihood**	**Origin**	**Impact and main transmission channel**
Downside			
Weaker external demand	**Medium**	**External**	**Medium / High** – global demand could be even worse, given structural economic difficulties in several large countries (productivity in euro-area), and the fragmentation of global supply chains across geo-economic blocks.
Escalation of geopolitical tensions	**Medium**	**External**	**High** – geopolitical tensions (e.g. Ukraine, Middle-East, Taiwan – over 90 per cent of the world's advanced semi-conductors are produced in Taiwan, over 40 per cent of crude oil comes from the Middle East) could spill-over to the global economy.
Further energy shocks^	**Medium**	**External**	**High –** Ireland is reliant on imports of gas and other fossils fuels for electricity supply. Gas markets remain very tight with limited supply coming on stream in the near term. Any shocks to world markets would have a rapid pass-through to Ireland.
Inappropriate monetary policy stance	**Medium**	**External**	**Medium** – the monetary policy stance appears to be at a turning point, that said the overall euro area stance may not be optimal for Ireland with implications for Ireland's growth outlook and competitiveness.
Disorderly adjustment in China	**Low**	**External**	**Low** – the correction of imbalances in the Chinese economy (excess corporate leverage, excess property investment, insufficient household consumption) could trigger economic difficulties elsewhere.^^
Loss of competitiveness	**Medium**	**Domestic**	**High** – the Irish economy is currently operating at capacity, and supply-side bottlenecks (e.g. housing and labour markets) and an acceleration of wage growth could further weigh on Ireland's attractiveness as a location for business activity.
Digitalisation / Artificial Intelligence	**Medium**	**External**	**Medium / High** – AI may lead to certain tasks, even those that are knowledge-intensive, at risk of automation.
Sector-specific shock	**Medium**	**External**	**Medium / High** – shocks to systemically important large firms or sectors in Ireland would have a negative impact on output and incomes.
Upside			
MNCs	**High**	**External**	**High** – stronger value-added from multinationals would boost investment, wages, corporate sector output, and GDP.
Normalisation of household savings	**Medium**	**Domestic**	**High** – a normalisation of savings rates and greater than assumed use of 'excess' savings built up during the pandemic by households would boost spending or investment and increase domestic demand.
Faster-than-expected fall in inflation	**Medium**	**External**	**Medium** – faster-than-expected disinflation in internationally-traded goods (including food, energy) would pass through to a more rapid disinflation process, boosting real household incomes and consumer spending.
Higher than expected migration	**Medium**	**External**	**Medium** – higher-than-expected migration would boost labour supply, employment and output and keep a lid on adverse competitiveness developments.
Higher than expected housing supply	**Medium**	**Domestic**	**Medium** – stronger-than-assumed housing supply would help address longstanding bottlenecks within the economy, directly stimulating the economy and, indirectly, support further inflows of foreign direct investment.
Digitalisation / Artificial Intelligence	**Medium**	**External**	**Medium / High** – AI may improve the pace of innovation and provide strong complementarities to workers' that boost their productivity.

^ While European storage levels are currently high, global gas supply remains very tight with prices elevated above historic norms and highly volatile as a result.
^^ See *Economic Insights – Winter 2022*, Department of Finance available at: https://www.gov.ie/en/publication/2e14a-economic-insights-winter-2022/

Table 21: Risk assessment matrix – fiscal		
Risk	**Likelihood**	**Impact and main transmission channel**
Domestic		
Humanitarian assistance measures	**Medium**	**Medium** – war in Ukraine has triggered large migrant flows; Ireland's international and humanitarian obligations have necessitated a significant increase in public expenditure, which could potentially become larger.
Ageing population	**Medium**	**Medium** – unfunded reversals to the retirement age will adversely affect the public finances.
Corporation tax: policy change	**High**	**High** – revenue from this source is expected to be affected as international tax policy changes take effect; the actual cost could be higher than currently assumed.
Corporation tax: concentration risk	**Low**	**High** – almost 60 per cent of corporation tax revenue arises from the 10 largest payers; a shock to this revenue stream would have severe implications for the public finances.
External		
Borrowing costs	**Medium**	**Medium** – global sovereign borrowing costs have risen from exceptional lows during the pandemic and further increases are possible.
Climate change and renewable energy targets	**High**	**High** – climate policy and the corresponding actions needed to reduce emissions will have macroeconomic and fiscal implications that are uncertain and difficult to quantify.
Litigation or one-off measures	**Medium**	**Medium** – an adverse or unexpected outcome of litigation against the State or other one-off fiscal costs, which resulted in additional expenditure could pose a risk to the achievement of budgetary targets.

Source: Department of Finance.

Chapter 7
Long-Term Sustainability of the Public Finances

7.1 Introduction

Increased longevity, allied with the trend decline in fertility rates that has been underway for decades, means the demographic structure of the Irish population is changing rapidly. These changes will have major economic and fiscal implications; in the case of the former, the potential growth rate of the economy will slow while, in the case of the latter, significant fiscal outlays will be needed to provide additional healthcare, pension and long-term care services.

While a range of reform measures are being implemented to mitigate the fiscal costs, additional policy responses will be necessary to safeguard the public finances in the coming decades.

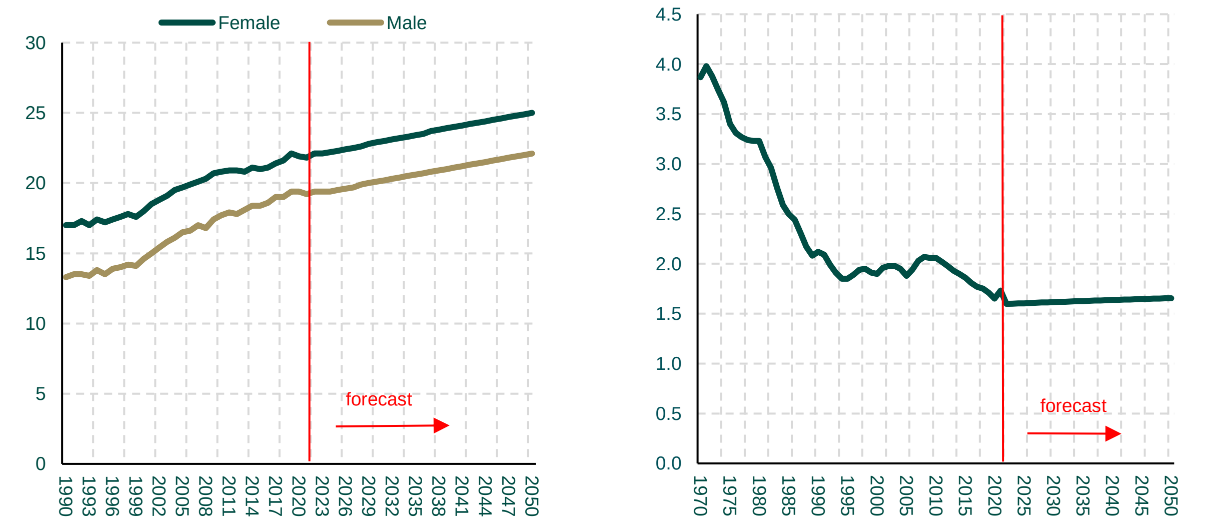
7.2 Background

Compared with many other EU Member States, Ireland's demographic structure is relatively favourable at present. At 39, the median age of the population is the second youngest in the EU, while Ireland has the highest share of the population aged 19 years or under (26 per cent) and the second lowest share of the population aged 65 years or over (15 per cent).

These relatively favourable structural parameters are set to change significantly in the decades ahead. In common with other advanced economies, healthier lifestyles and improved healthcare have increased longevity (**figure 21A**); the average male / female who reaches 65 can now be expected to live 19 / 22 years, around 6 / 5 years longer than would have been the case in 1990. In addition, and again a common feature of advanced economies, fertility rates have been on a downward trend in recent decades (**figure 21B**). Indeed, the latest data show the fertility rate at 1.7, well below the 2.1 needed to maintain the population in the absence of migration.

Figure 21: Key demographic trends

A: life expectancy at age 65 | B: fertility rate



Source: Eurostat.

Note: fertility rate = no. of children per female of childbearing age
Source: Eurostat and CSO

As well as societal implications, these demographic changes have major economic and budgetary consequences. Analysis produced by the Department, working alongside other Member States and the European Commission,[17] shows how the population is likely to evolve in the years ahead, and estimates the economic impact associated with changes in the structure of the population (**table 22**).

Table 22: Long-term economic and demographic projections, per cent growth rate (unless stated)

	2022	2030	2040	2050
Labour input	2.7	0.6	0.1	-0.1
: Employment	3.1	0.6	0.1	-0.1
: Hours worked per employee	-0.3	0.0	0.0	0.0
Labour productivity	4.5	2.7	1.6	1.4
: Total factor productivity	5.0	1.9	1.0	0.9
: Capital deepening	-0.5	0.8	0.6	0.5
Potential GDP	7.3	3.3	1.7	1.2
Population ('000s)	5,117	5,433	5,762	6,017
population aged >= 65 ('000s)	773	970	1,239	1,546
population aged 20-64 ('000s)	3,006	3,224	3,348	3,235
Old-age dependency ratio (per cent)^	25.7	30.1	37.0	47.7

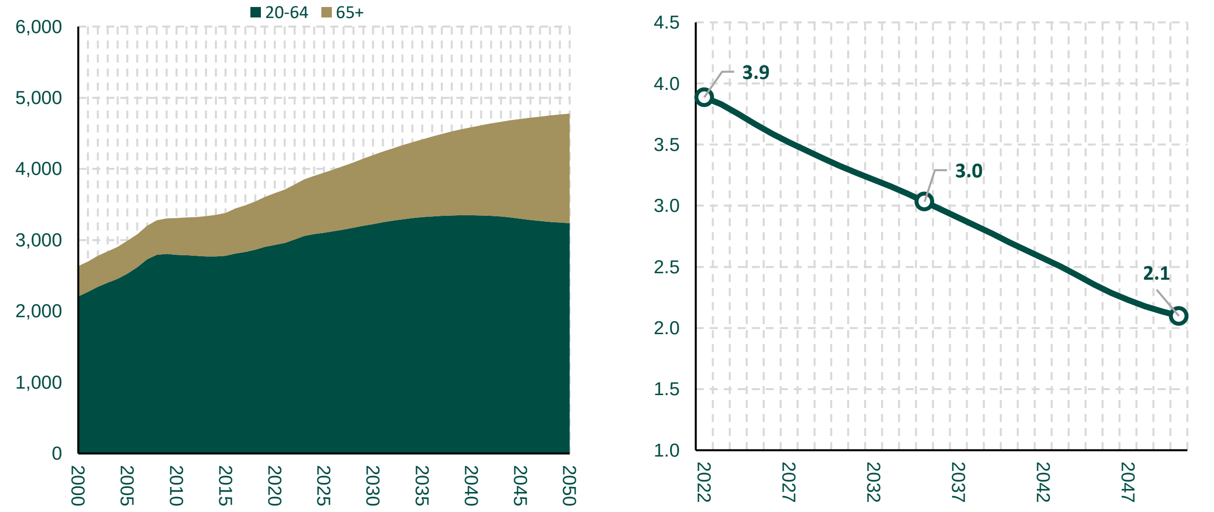
Notes:
^ The Old-Age Dependency Ratio (OADR) is defined here as the population aged 65 and above divided by the population aged 20-64 (though clearly some people over 65 remain economically active).
Source: 2024 Ageing Report Underlying Assumptions & Projections Methodologies

The analytical work[18] shows that the old age dependency ratio is set to double between now and 2050. In other words, the population aged 65 and over is projected to grow significantly faster than the population aged 20 to 64, i.e. the working age population, over the coming decades (**figure 22A**).[19]

Figure 22: Population structure

A: Population aged >=20, '000

B: Inverse old-age dependency ratio



Source: CSO and Eurostat.

Source: Department of Finance

[17] The macro-economic assumptions and the methodologies used in the European Commission (EC) - EPC 2024 Ageing Report are published in the 2024 Ageing Report: Underlying Assumptions and Projection Methodologies, available at: https://economy-finance.ec.europa.eu/publications/2024-ageing-report-underlying-assumptions-and-projection-methodologies_en

[18] More in-depth analysis for Ireland will be set out in *Population Ageing and the Public Finances in Ireland*, Department of Finance (forthcoming).

[19] While the State Pension Age in Ireland is currently 66 years of age, the working age population is defined here as 20-64 to allow for cross-country comparison.

As a result of this projected shift in the demographic structure, the old age dependency ratio is set to increase from around 25 per cent in 2022 to over 47 per cent by the mid-part of the decade. Put another way, there are currently almost 4 persons of working age for each person aged 65 and over; by 2050, this ratio is projected to fall to just over 2 (**figure 22B**). In other words, each worker will have to shoulder a heavier burden.

7.3 Long-term budgetary prospects

As well as the impact on the supply side of the economy, the analytical work also assesses the fiscal costs associated with shifting demographics (**table 23**). These are mostly on the expenditure side of the accounts with, at present, age-related expenditure amounting to 22 per cent of national income. Most of this relates to spending for older cohorts (pension, healthcare and long-term care), with around a quarter due to spending for younger cohorts (education).

Table 23: Long-term spending projections, per cent of GNI*

	2022	2030	2040	2050	∆ 2022-2050
Total age-related expenditure	**22.0**	**22.7**	**24.9**	**28.0**	**6.0**
- Total pension expenditure	7.0	7.6	9.3	11.0	4.0
: State (Social Welfare) pension	5.4	6.0	7.4	9.2	3.8
: Public Sector pension	1.6	1.6	1.9	1.8	0.2
- Health care	7.6	8.0	8.7	9.3	1.7
- Long-term care	2.3	2.5	3.0	3.6	1.3
- Education	5.2	4.5	4.0	4.2	-1.0

Now = 2022 (latest data)
Source: 2024 Ageing Report (forthcoming) and Department of Finance calculations

Total age-related expenditure is expected to increase by 6 percentage points, by 2050, to 28 per cent of GNI*, above the projected EU and euro area average (as a share of GDP) for the same point in time. Pension-related expenditure will account for the greatest share of age-related expenditure and is projected to increase by 4 percentage points by 2050, while expenditure on healthcare and long-term care is projected to increase by 1¾ and 1¼ percentage points of GNI*. In contrast, education expenditure is projected to fall by 1 percentage point over the projection period, reflecting the falling share of the population aged 18 years and under.[20]

7.4 Conclusion

Ireland's population is ageing rapidly, with implications for the economy and the public finances. In relation to the former, the trend growth rate of the economy is set to slow, with productivity set to become the main engine of growth. In relation to the latter, age-related expenditure is projected to increase by 6 percentage points of GNI* by 2050. Absorbing these additional costs will require additional policy responses; the alternative is to place an enormous financial burden on the next generation.

[20] The fiscal policy responses to the developments outlined in this chapter are detailed in the update to *Population Ageing and the Public Finances in Ireland, Department of Finance* (forthcoming).

Annexes

Irish Fiscal Advisory Council

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2 April 2024

Dear Secretary General Hogan,

The Council has a statutory obligation to endorse, as appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Stability Programme Update (SPU) *2024* will be based.[1]

The Council's endorsement approach has three elements:

1) comparing the Department's macroeconomic forecasts with the Council's Benchmark projections and with forecasts from other bodies;
2) considering the methodologies used to produce the forecasts; and
3) reviewing the Department's past forecast errors for evidence of systematic bias.

The Council discussed the Department's forecasts at its endorsement meeting on 28th March 2024.

The Irish Fiscal Advisory Council endorses as within the range of appropriate forecasts the set of macroeconomic projections prepared by the Department of Finance for *SPU 2024* covering the years 2024 to 2030.

The Council is satisfied that the forecasts are within an endorsable range taking into account the methodologies used and the plausibility of the judgements made.

The Council will discuss the endorsement process and assess the macroeconomic projections in its forthcoming Endorsement Note and Fiscal Assessment Report.

Yours sincerely,

Michael McMahon, Acting Chairperson.

[1] The Fiscal Responsibility Act 2012, as amended by the Ministers and Secretaries (Amendment) Act 2013, states that: "The Fiscal Council shall— (a) endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

Annex 2
Comparison of forecasts

Table A1: Comparison of 2024 forecasts with other public sector institutions					
	GDP	employment	inflation	gg balance	gg debt
Department of Finance	2.6	1.9	2.1	1.6	41.5
Central Bank of Ireland	2.8	1.6	2.0	1.4	42.5
ESRI	2.5	1.6	2.4	2.2	40.0
IMF	1.5	-	2.4	1.4	41.2
European Commission	1.2	-	2.2	0.6	41.4

Notes:
Economic variables in per cent change; fiscal variables as a per cent of GDP.
Source: latest forecasts from the institutions cited.

Table A2: Comparison of 2025 forecasts with other public sector institutions					
	GDP	employment	inflation	gg balance	gg debt
Department of Finance	3.9	1.5	2.1	1.7	39.5
Central Bank of Ireland	3.5	1.5	1.8	2.2	40.4
ESRI	2.3	0.4	2.1	2.7	37.0
IMF	2.5	-	2.0	1.3	38.6
European Commission	3.2	-	1.9	1.0	40.2

Notes:
Economic variables in per cent change; fiscal variables as a per cent of GDP.
Source: latest forecasts from the institutions cited.

Annex 3
Additional fiscal data

Table A3: Difference between exchequer balance and general government balance, € millions					
	2023	2024	2025	2026	2027
Exchequer balance	1,180	2,510	740	-1,855	-1,275
Exclude equity and loan transactions	-680	-295	-65	-75	-85
Adjust for interest accrual	185	285	550	85	-100
Adjust for tax accruals	-85	230	190	195	200
Adjust for other accruals	650	-360	-235	-145	35
Net lending of NCSSBs^	250	-1,170	-1,365	-1,420	-1,490
Impact of ISIF	305	500	375	250	255
Net lending of Social Insurance Fund	3,385	4,115	5,380	6,425	7,450
Net lending of other EBFs^	160	170	345	560	655
Net lending of Local Government	-1,020	-1,485	-2,215	-1,590	-1,465
National Reserve Fund/ FIF/ ICNF^^	4,000	4,050	6,035	6,255	6,525
General government balance (GGB)	8,330	8,550	9,735	8,685	10,705
GGB, per cent of GNI*	2.9	2.8	3.0	2.6	3.0
Nominal GNI*	290,675	306,300	320,350	336,000	352,000

Notes:
Expenditure figures beyond this year include provision for contingency reserve.
In the case of 'net lending', a positive sign indicates a sector is a net lender, a negative sign a net borrower.
GNI* rounded to nearest €25 million.
^ NCSSB = non-commercial semi-state bodies, EBF = extra budgetary fund.
^^ FIF= Future Ireland Fund, ICNF = Infrastructure, Nature and Climate Fund.
Source: Department of Finance, CSO, NTMA

Table A4: General government balance, per cent of GNI*	2023	2024	2025	2026	2027
Net lending by sub-sector					
General government balance	2.9	2.8	3.0	2.6	3.0
: Central government	3.2	3.3	3.7	3.1	3.5
: Local government	-0.4	-0.5	-0.7	-0.5	-0.4
General government					
Total Revenue	42.6	42.5	42.9	42.2	42.2
Total Expenditure	39.7	39.7	39.8	39.6	39.2
Net lending/borrowing	2.9	2.8	3.0	2.6	3.0
Interest expenditure	1.2	1.1	1.1	1.1	1.2
Primary balance	4.1	3.9	4.1	3.7	4.2
One-off / other temporary measures	2.0	2.5	3.4	2.6	2.9
Total Revenue					
Total taxes	32.2	32.0	32.2	31.5	31.5
: Taxes on production and imports	*11.4*	*11.3*	*11.4*	*11.4*	*11.3*
: Current taxes on income, wealth etc.	*20.6*	*20.4*	*20.5*	*19.9*	*19.9*
: Capital taxes	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Social contributions	7.4	7.6	7.9	8.1	8.3
Property Income	0.7	0.6	0.5	0.5	0.5
Other	2.3	2.3	2.2	2.1	2.0
Total revenue	42.6	42.5	42.9	42.2	42.2
p.m.: Tax burden	39.9	40.0	40.5	40.0	40.1
Total Expenditure					
Compensation of employees	10.7	10.8	10.8	10.8	10.8
Intermediate consumption	6.5	6.3	6.1	5.8	5.7
Social payments	13.7	13.7	13.8	13.6	13.5
: Social transfers in kind via mkt producers	*3.5*	*3.4*	*3.4*	*3.3*	*3.3*
: Social transfers other than in kind	*10.2*	*10.4*	*10.4*	*10.3*	*10.2*
Subsidies	0.9	0.8	0.8	0.8	0.7
Interest expenditure	1.2	1.1	1.1	1.1	1.2
Gross fixed capital formation	4.1	4.3	4.7	4.9	4.8
Capital Transfers	0.8	0.8	0.8	0.7	0.7
Other	1.9	1.9	1.8	1.8	1.8
Resources to be allocated	0.0	0.0	0.0	0.0	0.0
Total expenditure	39.7	39.7	39.8	39.6	39.2
p.m. : Government consumption	21.3	20.8	20.7	20.6	20.4
GNI* at current market prices	290,675	306,300	320,350	336,000	352,000

Notes:
Expenditure figures beyond this year include provision for contingency reserve.
Source: Department of Finance, CSO and NTMA.

Table A5: General interest expenditure, € millions					
	2023	2024	2025	2026	2027
National Debt cash interest	3,170	3,125	3,465	3,270	3,540
per cent tax revenue	3.6	3.4	3.6	3.3	3.4
per cent of GNI*	1.1	1.0	1.1	1.0	1.0
National Debt cash interest accruals	-190	-285	-550	-85	100
Consolidation and grossing adjustments	395	435	270	270	300
Accrued promissory note interest	-	-	-	-	-
Other	115	150	190	195	190
Total Interest on ESA2010 basis	3,485	3,425	3,370	3,645	4,130
per cent of total gg revenue	2.8	2.6	2.5	2.6	2.8
per cent of GNI*	1.2	1.1	1.1	1.1	1.2

Notes:
Rounding may affect totals.
Source: Department of Finance, CSO and NTMA.

Table A6: Projected movement in general government debt, € billions					
	2023	2024	2025	2026	2027
GG Debt: Opening Position	**224.7**	**220.7**	**220.8**	**223.2**	**226.4**
In-year flows:					
Exchequer borrowing requirement	-1.2	-2.5	-0.7	1.9	1.3
Change in Exchequer deposits	2.6	-4.2	-3.3	-1.8	1.7
Net lending of NCSSBs	0.2	1.2	1.4	1.6	1.4
Net lending of local government	0.3	1.5	2.2	1.6	1.5
Other flows	-6.0	4.0	2.8	0.0	0.1
GG Debt: Closing Position	**220.7**	**220.8**	**223.2**	**226.4**	**232.4**

Notes:
NCSSBs = Non-commercial semi-state bodies
Source: Department of Finance, CSO and NTMA.

Annex 4
Summary: Macroeconomic and fiscal aggregates

Table A7: Summary – macroeconomic aggregates					
	2023	2024	2025	2026	2027
Economic activity	***year-on-year per cent change (unless stated)***				
Real GNP	4.4	2.1	3.5	3.0	3.1
Real GDP	-3.2	2.6	3.9	3.5	3.6
Nominal GDP (nearest €25m)	504,625	531,925	565,625	598,200	632,525
Nominal GNP (nearest €25m)	389,250	409,800	435,050	458,475	483,175
Nominal GNI* (nearest €25m)	290,675	306,300	320,350	336,000	352,000
Components of GDP	***year-on-year per cent change***				
Personal consumption	3.1	2.4	3.1	2.8	2.7
Government consumption	1.7	0.6	0.7	1.1	1.5
Investment	2.9	-14.5	3.6	5.4	5.3
Modified investment	-7.1	1.8	1.6	5.0	4.9
Modified domestic demand	0.5	1.9	2.3	2.9	2.9
Exports	-4.8	2.8	4.6	3.9	3.9
Contributions to real GDP growth	***percentage points***				
modified domestic demand	0.3	0.7	0.9	1.2	1.2
modified net exports	-5.6	1.9	3.0	2.3	2.3
stock changes	1.0	0.0	0.0	0.0	0.0
statistical discrepancy	1.1	0.0	0.0	0.0	0.0
Price developments	***year-on-year per cent change***				
HICP	5.2	2.1	2.1	2.0	2.0
GDP deflator	3.0	2.8	2.3	2.2	2.1
Personal Consumption Deflator	6.9	3.1	2.5	2.1	2.2
Labour market	***year-on-year per cent change (unless stated)***				
Employment	3.4	1.9	1.5	1.5	1.1
Unemployment (per cent of labour force)	4.3	4.6	4.7	4.7	4.7
Labour productivity	-6.4	0.7	2.4	2.0	2.5
Compensation of Employees^	8.5	6.7	6.3	5.8	5.2
Compensation per Employee^^	4.6	4.5	4.5	4.1	3.9
External	***per cent of GDP***				
Trade balance	33.5	37.7	38.5	38.8	39.0
Modified current account (per cent GNI*)	5.0	5.5	5.4	5.4	5.0
Cyclical Developments	***per cent of potential GNI****				
Domestic output gap	2.2	1.3	0.6	0.6	0.7

Notes:
^ non-agricultural sector
^^ non-agricultural sector
Source: 2023= CSO; 2024-2027 = Department of Finance.

Table A8: Summary – fiscal aggregates	2023	2024	2025	2026	2027
Exchequer			***€ millions***		
Exchequer Balance	1,180	2,510	740	-1,855	-1,275
Tax Revenue	88,115	92,135	97,460	100,345	105,165
General government			***€ millions***		
Total Revenue	123,715	130,175	137,290	141,900	148,705
Total Expenditure	115,380	121,625	127,560	133,210	137,995
General government balance	8,330	8,550	9,735	8,685	10,705
General Government			***per cent GNI****		
Total Revenue	42.6	42.5	42.9	42.2	42.2
Total Expenditure	39.7	39.7	39.8	39.6	39.2
General government balance	2.9	2.8	3.0	2.6	3.0
Interest expenditure	1.2	1.1	1.1	1.1	1.2
Primary balance	4.1	3.9	4.1	3.7	4.2
Gross fixed capital formation	4.1	4.3	4.7	4.9	4.8
Gross debt	75.9	72.1	69.7	67.4	66.0
Net debt	62.2	58.6	54.3	48.1	40.1

Source: Department of Finance, Department of Public Expenditure, NDP Delivery and Reform, CSO and NTMA.

Annex 5
Revised tax revenue profiles

Table A9: Quarterly profile of expected Exchequer tax receipts, 2024

	Q1	Q2	Q3	Q4	Total
Customs	128	145	142	170	585
Excise Duties	1,449	1,501	1,634	1,612	6,195
CGT	231	64	102	1,142	1,540
CAT	65	62	114	423	665
Stamp Duties	342	365	423	570	1,700
Income Tax	7,988	8,590	7,968	10,223	34,770
Corporation Tax	2,434	8,515	4,581	8,956	24,485
Value Added Tax	7,208	3,695	6,718	3,704	21,325
Motor Tax	246	227	216	182	870
Total	**20,091**	**23,162**	**21,899**	**26,982**	**92,135**

Notes:
Rounding may affect totals.
Unallocated receipts to end-Q1 are distributed between income tax and VAT.
CGT is capital gains tax and CAT is capital acquisitions tax.
Tax revenue profile is consistent with the tax revenue forecast of €92.1 billion as published in this document.
Source: Department of Finance.

Table A10: Cumulative profile of expected Exchequer tax receipts, 2024

	End-Q1	End-Q2	End-Q3	End-Q4	Total
Customs	128	273	415	585	585
Excise Duties	1,449	2,949	4,583	6,195	6,195
CGT	231	295	398	1,540	1,540
CAT	65	127	242	665	665
Stamp Duties	342	707	1,130	1,700	1,700
Income Tax	7,988	16,578	24,546	34,770	34,770
Corporation Tax	2,434	10,949	15,529	24,485	24,485
Value Added Tax	7,208	10,903	17,621	21,325	21,325
Motor Tax	246	472	688	870	870
Total	**20,091**	**43,254**	**65,153**	**92,135**	**92,135**

Notes:
Rounding may affect totals.
Unallocated receipts to end-Q1 are distributed between income tax and VAT.
CGT is capital gains tax and CAT is capital acquisitions tax.
Tax revenue profile is consistent with the tax revenue forecast of €92.1 billion as published in this document
Source: Department of Finance.

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