



Goldilocks or not? Irish Government sets out Budget parameters

The recently released Summer Economic Statement set the boundaries for the upcoming Irish Budget in October, with the Government announcing a planned budget day package of €8.3bn (3% of GNI*). The majority of this is for spending measures (€6.9bn) with the remainder (€1.4bn) expected to fund income tax cuts. While new spending measures are expected in October, the majority (€5.1bn) are already pre-announced or “stand-still” measures, including funding for the public sector pay agreement, and €1.5bn to meet the large deficit already built up in the health service in 2024, followed by an additional €1.2bn in 2025.

The Government's budget strategy has attracted criticism from the Fiscal Advisory Council for being too expansionary in the context of an economy at full capacity. Certainly, the continued running of underlying fiscal deficits (excluding excess corporation taxes) is a concern, with current expenditure growth consistently above the national “spending rule” of 5% per annum. However, last year's announcement of the establishment of two sovereign wealth funds is to be welcomed, with the Government beginning to funnel some of the excess corporation tax receipts into these funds this year. Moreover, the early identification and plugging of the funding gap in Health at the mid-year instead of Budget day is a sensible move, but longer term spending restraint will be required in this area.



More broadly, the Irish economy continues to grow at a robust pace, yielding significant tax revenues for the Government. Year -to-date, tax revenues are 9.3% higher compared to the same period in 2023. However, the growing reliance on multinationals to underpin the tax base remains the key threat to the highly-open Irish economy and the Government finances in the face of geopolitical risks and recent “de-globalisation” trends. A continued focus on improving Ireland’s debt dynamics, and targeted tax and spending measures which enhance the productive capacity of the economy should be the priority in the medium term to build up resilience to these potential global headwinds.

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