Meeting with Oireachtas Select Committee on Budgetary Oversight

Opening Statement, Acting Chairperson, Professor Michael McMahon Irish Fiscal Advisory Council, Wednesday 13 December 2023

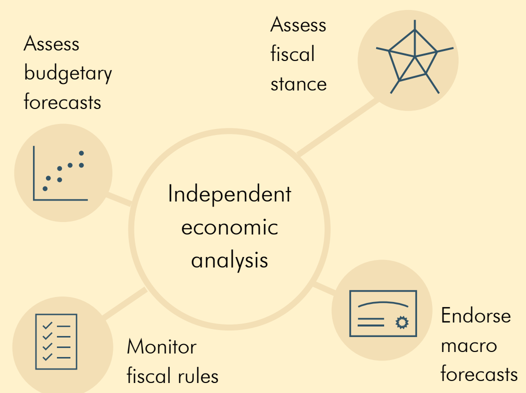
The Council is grateful to the Chair and members of the committee for inviting us to appear before them again. As they know, we value these engagements and see them as an integral part of our work.

I am joined by my fellow Council members Ms Dawn Holland, Dr Adele Bergin, and Mr Alessandro Giustiniani, and by the Council's Chief Economist, Eddie Casey.

The Council's Mandate

As an official independent body established under the Fiscal Responsibility Act (2012), the Council's mandate revolves around four elements: endorsing and assessing the official macroeconomic forecasts, assessing official budgetary projections, monitoring compliance with fiscal rules, and assessing the Government's overall fiscal stance.

This means the Council's focus is on the broader fiscal perspective, not individual tax or spending measures.



This meeting is a welcome opportunity to discuss our recent Fiscal Assessment Report.

The report assesses the Government's plans as set out in Budget 2024.

Ahead of Budget 2024, economic activity was strong. Activity had broadly recovered, and employment was at record highs. The economy appeared to be performing above its normal capacity. This was clearly not a time to add too much fuel to the fire.

However, the Government announced another substantial package of measures in Budget 2024. At about €12 billion, this put it in line with other post-Covid budgets — roughly three times larger than pre-Covid packages. Cost-of-living supports

included in the package were mostly untargeted. The “everything now” approach of tax cuts, a ramp-up in capital spending and current spending increases repeats Ireland’s past fiscal mistakes. It entails using strong tax receipts in good times to expand the budget quickly at the risk of adding to price pressures, getting bad value for money, and potentially having to reverse measures in a downturn.

There was also evidence of poor budgeting on the spending side. Overruns in health, obvious before Budget Day, were not catered for sufficiently in the Budget. As a result, these overruns are now likely to entail higher-than-budgeted spending in 2023. As well as that, the health allocation for 2024 is barely enough to cover demographic and price pressures such that further overruns are highly likely.

The substantial increases in spending alongside a package of tax cuts meant that the National Spending Rule was breached. The breach, taken in isolation, might not be considered massive at 5.8% in 2024 as compared to the Rule’s 5% limit. The Government argued it was necessary to deal with high inflation. However, since the Rule was introduced in 2021, the level of budgetary measures is cumulatively €6.6 billion (7.5%) above what would be implied by a 5% path.

More worryingly, the Government has already signalled that it will continue to breach the Rule in later years even as inflation recedes.

The Government also employed fiscal gimmickry, a term used in economics and political science, to flatter its numbers. Several items in Budget 2024 were labelled as “non-core” or temporary but look highly likely to persist beyond 2024. This includes Covid spending in health, Ukrainian supports, and additional capital spending increases labelled as “windfall”.

This is deeply concerning. It undermines the National Spending Rule, which is now more important than ever. EU rules are unlikely to prove binding in future as they are linked to GDP and do not take sufficient account of excess corporation tax receipts. The Rule also takes on greater importance as Ireland is facing into substantial spending pressures from ageing and the costs of the climate transition.

These challenges can be managed. But this Government and future governments should commit to adhering to the Rule to avoid adding to inflation pressures and risking painful cuts to spending or tax increases in future.

There are clear pressures to improve Ireland's public services and infrastructure, we highlight the need for this in the report. But the lessons from the 2000s are clear. Doing everything now adds to price pressures in the economy, and worsens value for money on public projects compared to doing them at another time. As we discussed at this Committee in September, a boom-bust cycle in the construction sector risks exacerbating capacity constraints. We are not saying that there should be no capital spending increases, but rather these spending increases require careful planning and should be part of an appropriate aggregate fiscal budgeting.

We also highlight that Ireland is in an envious position of having favourable debt dynamics such that debt is forecast to fall. This can also help to put us in a good position from which to address the bigger challenges coming, as well as to respond to adverse economic developments. But this does not address the procyclical stimulus provided by the large budget package at a time of high inflation, and exceptionally low unemployment, nor does it excuse the nature of the budgeting, and the loss of credibility that can result from undermining the National Spending Rule. As we have seen in Ireland in the not-so-distant past, and more recently in the UK, favourable fiscal positions can change quickly and with extremely damaging implications.

The Council strongly welcomes the Future Ireland Fund. It has the potential to put risky corporation tax receipts to good use, with the result that future generations have a smaller burden to offset the costs of a rapidly ageing population. This, coupled with the National Spending Rule, would help allay concerns about volatility in corporation tax receipts. But while a positive and welcome development, this is will, on the basis of the current outlook, only contribute around 25% of the additional costs of ageing by 2050. The importance of a credible, forward-looking budgetary framework remains as important as ever.