

# DÁIL ÉIREANN

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## AN COISTE UM FHORMHAOIRSIÚ BUISÉID

## COMMITTEE ON BUDGETARY OVERSIGHT

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*Dé Máirt, 15 Iúil 2025*

*Tuesday, 15 July 2025*

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Tháinig an Roghchoiste le chéile ag 3 p.m.

The Select Committee met at 3 p.m.

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Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	
Máire Devine,	
Cormac Devlin,	
Mairéad Farrell,	
Johnny Guirke,	
Ged Nash,	
Joe Neville,	
Cian O'Callaghan,	
Edward Timmins.	

I láthair / In attendance: Deputy Pa Daly.

Teachta / Deputy Richard O'Donoghue sa Chathaoir / in the Chair.

*The select committee met in private session until 3.25 p.m.*

### **Quarterly Economic Commentary: Economic and Social Research Institute**

**An Cathaoirleach:** I ask everyone to please put their mobile phones and other devices on silent.

Before we begin, I wish to explain some limitations to parliamentary privilege and the practices of the Houses as regards references witnesses may make to other persons in their evidence. Witnesses are protected by absolute privilege in respect of the presentation they make to the committee. This means that they have an absolute defence against any defamation action for anything they say at this meeting. However, they are expected not to abuse this privilege. It is my duty as Chair to ensure that this privilege is not abused. Therefore, if their statements are potentially defamatory in relation to an identifiable person or entity, they will be directed to discontinue their remarks. It is imperative that they comply with any such direction.

I remind members of the constitutional requirement that in order to participate in a public meeting they must be physically present within the confines of the Leinster House complex. Members of the committee attending remotely must do so from within the precincts of Leinster House. This is due to the constitutional requirement that in order to participate in a public meeting, members must be physically present within the confines of the place where the Parliament has chosen to sit. In this regard, I ask any members participating via Teams that prior to making their contributions to the meeting, they confirm that they are on the grounds of the Leinster House campus.

Members are also reminded of the long-standing parliamentary practice that they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable or otherwise engage in speech that might be regarded as damaging to the good name of the person or entity. Therefore, if their statements are potentially defamatory in relation to an identifiable person or entity, I will direct them to discontinue their remarks. It is imperative that they comply with any such direction.

The purpose of this afternoon's engagement is to discuss the ESRI's quarterly economic commentary and other important topics, including the potential of tariffs, energy costs and the cost of living. I welcome Dr. Claire Keane, associate research professor, Dr. Conor O'Toole, associate research professor, Dr. Paul Egan, research officer, and Dr. Muireann Lynch, senior research officer. The committee welcomes the opportunity to engage with the witnesses. I thank them for being here. I invite them to make their opening statement.

**Dr. Conor O'Toole:** I thank the Chair for the invitation to appear before the committee. I am joined by my colleagues Dr. Claire Keane, Dr. Paul Egan and Dr. Muireann Lynch.

A range of indicators show that Ireland's economic performance remains strong. Employment has almost reached 2.8 million people and unemployment remains low, at just 4%. The consumer price index in May showed annual inflation of 1.7%. Nominal wage growth is substantially higher than price inflation, so real wages are rising. The headline public finances remain strong, with general government surpluses expected this year and next, thereby contributing to the falling debt-to-output ratio. Despite this apparent strength, however, we have revised our growth forecast downwards due to international developments. The Irish economy

is vulnerable to any deterioration in global trading conditions arising from either the imposition of trade tariffs or prevailing uncertainty around trade policy. Our forecast for growth in modified domestic demand, MDD, was 3% in our spring quarterly economic commentary, it is now 2.3%. For 2026, we have adopted a technical assumption that tariffs will settle at moderate levels, in line with the IMF forecasts. This would lead to a possible growth rate of MDD of 2.8%.

As well as monitoring international forecasts, we have published a detailed paper assessing the impact of rising protectionism on the Irish economy. Using the ESRI's COSMO model in conjunction with the global NiGEM model, the paper examined a range of tariff and non-tariff scenarios involving the US, EU, and global economies. The tariff scenarios deployed were a 10% reciprocal tariff scenario and a 25% reciprocal tariff scenario. Under the 10% tariff scenario, the results show a negative impact on Irish GDP of up to 2% and on modified domestic demand of 1.5%. Under the more severe 25% tariff scenario, the negative impact on GDP would be 3.5%, while MDD is projected to decline by 3% over a period of five to seven years.

The traded sector, which includes high-value industries like ICT and pharmaceuticals, is particularly exposed, with production in the sector falling by up to 4%, or double the impact on the domestic sector. This is especially concerning given the sector's outsized role in driving wages, tax revenue, and aggregate demand. This highlights the importance of the current carve-out for pharmaceuticals in terms of US tariff policy.

While Ireland has limited direct influence over EU-US trade policy, the results of the paper highlight the need for strong domestic policy responses. Investment in infrastructure and productivity-enhancing measures will be essential to preserve competitiveness and support resilience in the medium to long term. Overall, the findings underscore the importance of open trade relationships, and the potential vulnerabilities Ireland faces as a small, export-oriented economy amid a shift toward global protectionism.

On the domestic front, there are a number of risks. These are focused on housing and the public finances. The continued underprovision of housing relative to the needs of the population is both an economic and a societal concern. Increases in income, employment and population have seen housing demand outstrip supply, giving rise to rapid inflation in house prices and rents. Despite a rise in housing supply from 2015 onwards, evidence from 2024 and early 2025 suggests that the recovery has slowed due to a number of factors. Typical drivers of housing production include land costs and availability, labour costs, materials and inputs costs, the cost of financing, and price developments. The policy environment also has a major impact on production by targeting both the demand and supply sides.

A major challenge in an Irish context in delivering both housing and infrastructure is the issue of capacity constraints in the labour market. An ESRI review of the national development plan in 2024 found that an extra 40,000 workers in the construction sector would be required to produce an extra 20,000 housing units. However, increased productivity in the construction sector could make up for some of this shortfall. Recent research has pointed towards lower productivity for small and domestic-owned construction firms relative to foreign-owned construction firms in Ireland. This lack of productivity is likely to be inhibiting activity in the sector. Productivity could be enhanced through economies of scale with larger firms or by moving towards modern methods of construction that can help standardise production, lower costs and increase timeframes. Considering these factors in the round, allied with the outturn for 2024 and the first quarter of 2025, we do not foresee any major uptick in housing supply in 2025 and 2026. We are currently forecasting 33,000 units in 2025 and 37,000 units in 2026. However, most of the risks weigh on the downside.

With regard to the current state of the public finances, while the headline public finances appear in a robust state with ongoing surpluses, there are underlying weaknesses and risks. The outsized contribution of corporate tax revenues is well known and well understood, but it is still important to highlight that this is a source of considerable vulnerability. Recent Government surpluses would have been substantial deficits without windfall corporation tax revenues that are concentrated on a small number of taxpayers. Almost by definition, the windfall revenues could evaporate quickly in response to factors such as international legislative changes or corporate events. History, in particular the economic collapse, provides a stark reminder that a vulnerability in the tax base can become a major problem if something arises to test this vulnerability. While the establishment of the investment funds is extremely welcome, increasing the level of throughput from windfall payments to the funds would be advisable.

A second reason for voicing concern on the public finances relates to the fiscal stance. As pointed out over many years by the ESRI and others, such as the Irish Fiscal Advisory Council, IFAC, and the Central Bank, running underlying deficits is generally inadvisable when the economy is performing so well. A fundamental principle of fiscal management is that the fiscal stance should be countercyclical. Ireland's fiscal policy looks procyclical right now, in the sense that expenditure is increasing during a period of growth for the domestic economy. While some degree of spending increases could be justified if targeted towards addressing infrastructure bottlenecks, broad-based spending increases create risks such as overheating, as well as the longer term risk that it will be necessary to continue with a procyclical fiscal stance in any downturn.

While inflation has been slowing down, prices remain at elevated levels. ESRI research has shown that from 2020 to 2025, permanent changes to the tax and welfare system have resulted in small average income losses compared to policy changes pegged to wage growth. While temporary measures have been successful in helping households deal with rising prices, their inevitable phasing out will cause affordability issues. This is likely to lead to knock-on effects on poverty and inequality if headline welfare payments fail to keep pace with income growth.

Regarding energy developments, Irish energy prices have declined since the heights of the energy crisis in the wake of the war in Ukraine but remain at high levels. However, prices for electricity in particular have not yet declined to the same extent as in other EU countries. It is challenging to confidently identify the exact reasons for this but prices are still largely driven by gas prices, and Ireland has not diversified away from using gas to generate electricity to the same extent as other EU countries.

Large investments in the electricity grid are required in order to meet growing demand, diversify supply, and improve efficiency in the network. The cost of subsidising renewable energy is also likely to increase. These costs are fixed but will result in a reduction in the variable component of energy costs, that is, fossil fuels and carbon permits. This means the cost base of electricity is projected to shift away from variable costs and towards fixed costs. This is good for consumers, as it reduces exposure to high price spikes but may be regressive, depending on how these fixed costs are recovered by energy companies. Network tariffs should be designed taking these contributions to costs into account.

The picture we paint in our recent commentary is one of a robust domestic economy facing international headwinds and significant challenges in housing, infrastructure and the public finances. Our summer quarterly economic commentary shows that current Government expenditure relative to the size of the domestic economy has increased notably in recent years. While the balance across expenditure and taxation is a choice for the Government, managing the net

contribution to the economy is important. Our analysis, however, suggests that current expenditure in the coming years should be targeted and restrained, while capital investment projects should be carefully sequenced. I thank the members for their attention.

**Deputy Cian O’Callaghan:** I thank the witnesses for coming before the committee and for the opening statement. My first question is on energy. Dr. O’Toole said it is challenging to identify the reasons that costs have not come down in Ireland compared to other EU countries. Will the witnesses talk us through what work they have done and any research they or others have done in this area?

**Dr. Conor O’Toole:** I will pass directly to Dr. Lynch, who is our energy expert.

**Dr. Muireann Lynch:** We are working on this right now. We are taking a look in particular at electricity costs. Gas costs are far more globally determined because essentially we are a node in the British gas market. The Irish gas market does not really exist. We are part of the British gas market. British gas supply is very well diversified. The prices are set by international movements. What is under our control is how much of our supply is met by gas, and it is a relatively high proportion in Ireland in comparison with other countries.

On the electricity side, it has been well flagged that our electricity costs are very high relative to the rest of Europe. However, when we adjust for purchasing power parity, in other words when we adjust for the cost of living, we come much closer to the average. What we have not yet been able to identify, because we are fairly early on in this work, is what is driving what. Are our energy costs high because our general cost level is high or is our general cost level high because our energy costs are high? It is probably a bit of both. It is worth saying that when we speak about the headline high numbers, they are very much driven by the fact we are a high-cost economy in general across the board.

With regard to the components of the cost we can control, it is quite difficult to compare like with like. Eurostat publishes data which is very helpful on the various components of electricity costs. Looking at this, our wholesale costs seem to be higher relative to the average. We are not doing so badly on the taxes and subsidies. For example, other countries have much higher VAT on electricity than we do. Our network costs are on the higher side also, simply because our network is bigger as our population is more dispersed.

On the wholesale side what we have seen is that while everybody’s costs went way up at the height of the energy crisis and then they all came down, our electricity costs have not come down to the same extent as those of other European countries. One thing we have noticed is that other European countries seem to have diversified away from gas generation more than we have here in Ireland. Again, how much of this is in our control? It could just be that we were very much ahead of the curve in term of renewable electricity anyway. Other countries are diversifying away from gas by diversifying to renewables, and we are already so far ahead on the renewables that we cannot push it any further. This remains to be seen. Obviously, we do not have nuclear power. We are phasing out coal, we do not have lignite and there are many technologies which, for one reason or another, we have ruled out. We are super-reliant on gas. As long as that is the case, it is difficult to see how prices the wholesale side will come down.

**Deputy Cian O’Callaghan:** In order that I am clear on this, does Dr. Lynch think we could be ahead of other countries on renewables? Is there evidence for this?

**Dr. Muireann Lynch:** In terms of the proportion of variable renewables such as wind, we

are way ahead of other countries. In terms of the proportion of renewable electricity across the board, we are not the highest. However, much of that is because the countries with very high renewable electricity, such as Finland and Switzerland, have hydro that we simply do not have. A great deal of their power comes from hydro. Scooping out hydro, which we cannot do anything about, and looking at variable renewables, including wind and solar energy, we are very much ahead of the curve.

**Deputy Cian O’Callaghan:** Doing more with renewables is one of the ways to get costs down. Is that what Dr. Lynch is suggesting?

**Dr. Muireann Lynch:** Renewables are a little complicated. More renewables put downward pressure on prices. Wholesale prices come down as you get more renewables. We can predict that using models, and we can see it in the data for Ireland and other countries. Having said that, renewables also get a subsidy, especially when prices are low. When prices are high, renewables pay back to the consumer and we get money back. When prices are low, the consumer pays a top-up to renewables. They depress the price level but in so doing kind of eat their own value a little because as prices are depressed, they need more of a top-up.

The real challenge is the fact that our renewable auctions are coming in so high. The bids during onshore auctions declined for the first time in the most recent auction, which was great to see. However, they are still very high compared with other countries. Why is that? We should have such a good wind resource. Why is our wind so expensive relative to these other countries? There seem to be a couple of things going on. The planning process is far more cumbersome in Ireland relative to other countries. The grid connection costs are highly uncertain. You do not find out until after the fact how much a grid connection is even going to cost. You are guessing the price you will need in order to figure out what kind of cost you will have to cover.

Another thing I am looking at increasingly is the competition ratio. When it comes to onshore wind, almost all the wind that goes into the auction has been getting a contract. Realistically, you do not have a big incentive to bid competitively if you know you are almost guaranteed a contract either way. While there is competition in the onshore market, it is between wind and solar. They are such different technologies that they are not competing properly.

We have had one offshore auction. The price came in super low. I was delighted. However, all the projects failed to get their planning applications in on time. I do not think any of them will be built by 2030. We will see what the next auction brings in terms of pricing, but I am less optimistic now than I was when the first auction came in.

**Deputy Cian O’Callaghan:** There are key issues around those auctions.

**Dr. Muireann Lynch:** There are.

**Deputy Cian O’Callaghan:** On the forecast for housing supply, it is expected that 33,000 units are to be built in 2025 and 37,000 in 2026. Dr. O’Toole indicated that most of the risks weigh on the downside. Will he expand on what he means by that? What are the implications in that regard?

**Dr. Conor O’Toole:** The year 2024 was a watershed for us. We expected quite a bit more momentum last year and coming in at approximately 30,000 units was a disappointment. When we look at some of the underlying factors that we use to try to forecast supply, what do we typically do? There is a range of hard factors involved, as I mentioned in my opening statement. Those include the cost of labour, planning and land availability. There are other factors relating

to momentum, in particular in respect of the relationship between planning applications and commencements, and how we forecast from commencements to completions. Looking across all those factors, two things are important. The development levy waiver and the water waiver had an impact on commencements last year. There was a considerable increase in commencements last year to 70,000. Typically, one would expect them to come through and become housing completions within a nine- to 18-month timeframe. However, we do not think those completions are going to follow the typical timeframe. We must then consider the other factors that weigh on the housing side. Those include rising labour costs and increases in the cost of general production materials. Inflation has moderated in that area, but the prices are still high. Land availability is another issue. All of these factors on the soft indicators and the more hard factors, taken together, suggest there is no real momentum in the market. When you look at the first quarter of this year, which is the most recent period for which we have data, the relevant number is just under 6,000. The first quarter of the year typically comes in around 20% of the annual total, if we consider the historical data. That puts us in or around the region we are in at the moment. Those factors are weighing from the outside.

**Deputy Ged Nash:** The witnesses are welcome. I have a number of questions based on the quarterly statement and their earlier contributions. It is clear that in recent budgets, a demonstrable procyclical approach has been taken while the advice would have been to the contrary. All the evidence shows that the procyclical and untargeted approach, if I can call it that, contributed to the inflationary environment we are experiencing. When inflation is high, those are on fixed low and middle incomes are most impacted. The sense and mood music this year, although we have not seen the summer economic statement, would suggest that a form of procyclical approach will be taken again on the current side. There are obviously choices to be made. We could introduce countervailing measures around taxation and revenue raising, but those are, I imagine, unlikely. I would take a different view.

I am assuming, based on what the witnesses have said and the warnings they, the Central Bank and others have made, that the ESRI will be opposed to taking a procyclical approach at this point. If that is the case, logic would suggest the witnesses would have a concern about, for example, the Government introducing extensive VAT reliefs for certain sectors. Those come at the cost of tax expenditure and that cost can often be recurring because they are difficult to end. There would be an argument made by many that the proposed VAT relief for certain elements of the hospitality sector would be unwise. Individual hospitality sector businesses are experiencing turbulence but there has always been churn and turnover in the hospitality sector. It is a sector that has added a significant number of jobs. The data show that new businesses are being registered all the time. I am assuming, based on what Dr. O'Toole said about the validity or otherwise of a procyclical approach, that it is not something the ESRI would recommend.

**Dr. Conor O'Toole:** Let me talk in general about our view on the fiscal stance or budgetary approach. It is clear that for a number of years, spending has been growing rapidly, particularly on the current side. On the capital side, we know there are long-standing infrastructural deficits, particularly in the energy infrastructure in wastewater, water treatment and the grid. Many infrastructural investments need to happen, and we would see those as critical to the competitiveness and long-term productivity of the economy. We expect that to have to be rolled out.

On the overall fiscal stance, a couple of elements are important. The first is that the Irish economy is growing rapidly, certainly in the domestic economy. It is always difficult with Ireland. There are well-known challenges in respect of the indicators for measuring the domestic economy. If we look at the labour market, which is the best signal we have, unemployment is at

4%, which is an historical low, and the level of employment is at an historical high. From that perspective, the economy is performing extremely well. One of the offshoots of a tight labour market is rising wages. To the end of last year and at the start of this year, we have seen nominal wages rise quite rapidly. That would be expected with such a tight labour market. Economists do not agree on many things, but they often agree about prudent budgetary management and running counter-cyclical fiscal policy. That means, in net terms, taking more out of the economy than you are putting in. The Government can choose the specific measures it wants on the revenue and taxation side. If it wants to make choices around one particular instrument, it can trade that off against spending on other instruments. From our point of view, and we were trying to reinforce this in the commentary, the net position needs restraint and the Government needs to pull back in net terms relative to what it is spending. While it can make choices on specific instruments, it needs to get that net position right so we can lead ourselves into a position where we are not overheating the economy too much or contributing to inflationary pressures, or leading ourselves into a position where that sort of instability returns to the public finances so we have to run procyclical fiscal policy during downturns and cut back when times are bad and when we would want the economy to be injected with public expenditure. It is to try to run those countercyclical fiscal policies.

**Deputy Ged Nash:** On making the net position better, it would classically be said that if we were going to invest in the economy and inject more current spending into the system, and do more with capital, which we need to be smarter about, to balance that out you would introduce certain forms of taxation to review that position in a way that would not impact on employment and would encourage productivity and balance things out. The Commission on Taxation and Welfare was very clear on the kinds of things we need to do for all kinds of reasons. We know the tax base is under pressure. We are told every single day, and it has been the case for years for different reasons from those we are experiencing today, that our overreliance on a small number of firms for corporation tax is dangerous, as is our overreliance on a small handful of FDI investors, mostly from the US, for our income tax base. All those risks are there.

Would the institute advise that the Commission on Taxation and Welfare report be dusted down again and properly considered? What forms of taxation that it has proposed could be considered to avoid damaging the economy and giving taxes on labour a bit of a break?

**Dr. Conor O'Toole:** I have not done any specific research on alternative taxation measures which need to be introduced at present. However, a couple of things are worth reinforcing from the Deputy's questions. One is the overreliance on corporation tax. We have seen corporation tax explode to approximately 30% of total revenue. A very small number of firms are contributing the majority of that corporation tax. The real risk is that if corporate-specific shocks happen to one or two of those individual firms and they lose profitability or move their operations around the globe, because these are hugely globalised firms, that could have a major knock-on impact on the Irish budget.

The key thing for us is trying to think about that overreliance and what we do with those windfall gains we are getting from the corporation tax receipts. Our suggestion would be to funnel more of them into the investment funds. The net contributions, I understand, are in and around €6 billion to the funds per annum, which is probably half of the windfall gains or less. Putting more of those windfall gains into the funds would certainly be advisable to store up that wealth for the future.

I do not know if any of the other witnesses wish to come in on the tax measures.

**An Cathaoirleach:** We might come back to it because I have another speaker and we are over time on the last two contributors. I am trying to be fair to everyone. Deputy Devlin is next.

**Deputy Cormac Devlin:** I thank Dr. O'Toole and his colleagues for coming in today and for their opening remarks.

Returning to the energy transition Dr. Lynch spoke about, she mentioned the institute was doing a piece of work at present. When does the institute expect to finish that work? Obviously, it is analysing it in great detail other markets as well. The witnesses referred to the high cost of wind from Ireland in comparison with other jurisdictions, I presume in the EU. Could Dr. Lynch outline some short-term interventions to accelerate energy diversification here, which would maybe enable us to have a greater diversification of wind energy or renewables in general, as opposed to our current make-up?

**Dr. Muireann Lynch:** I might kick to touch on when we expect that paper to come out.

**Deputy Cormac Devlin:** It is to be confirmed. Okay.

**Dr. Muireann Lynch:** Yes, it is hopefully imminent and definitely this calendar year.

Regarding diversification, there is the energy side and the electricity side. It is challenging because the main policy behind decarbonisation is to electrify as much as possible and, at the same time, our electricity sources are shrinking in diversity. Realistically, we are just looking at wind, gas and interconnection - that is it. The other options for diversification include things like synthetic biofuels, hydrogen and possibly switching from kerosene in rural households to something like LPG, bio-LPG or HVO. We currently have another piece of work on the go that suggests there might be some arguments for going that route, assuming they are sustainable and low carbon. That is the big hashtag we always want to care about.

When it comes to things like electric cars and heat pumps, we totally ignore all their embodied emissions. It is a little inconsistent to start getting upset about how sustainable our biofuels are when no one is as upset about how sustainable our other investments are. Realistically, as long as nuclear energy is off the table, on the power-gen side we do not have huge options. Diversifying within renewables is not super helpful. The evidence for the idea that going all-wind is bad, and that we should complement wind with solar and geothermal energy or whatever, is not great. Having said that, solar is currently going gangbusters in a way nobody expected. You want some in your portfolio. However, as long as it is wind and gas, the more wind the better.

**Deputy Cormac Devlin:** Dr. Lynch is saying it is much of the same for any further inter-connectors, for example. Is it fair to say there should be more renewable energy sourced preferably in the domestic market?

**Dr. Muireann Lynch:** Yes. The other alternatives are something like CCS and, again, immature technology we have no experience with. I would not rule it out. We did some research that showed it was relatively competitive. Once you get to the high levels of renewables we are targeting, the marginal cost gets really high. The current target is 80% by 2030. Realistically, that is going to be so expensive that other expensive technologies like CCS will start to play ball.

**Deputy Cormac Devlin:** The institute might keep us posted anyway because that body of work would be of interest to the committee.

If I can return to the reference to housing and its supply, the institute identified labour shortages and low productivity as key constraints. Would it suggest or support a targeted visa or work permit scheme to attract construction workers? It was mentioned the labour market was tight anyway but particularly in that sector and maybe this could be done alongside incentives for the modern method of construction, which Dr. O'Toole also referred to in his opening remarks.

**Dr. Conor O'Toole:** Yes. It is clear from the research we have done in the NDP review and which colleagues in the Central Bank did at the end of last year that it is a major challenge with the resources available in the economy to double our housing output. We are doing approximately 30,000 right now and we want to get up to more than 50,000 units per annum. That is a major capacity challenge, for both the labour inputs and how we produce them. There will have to be a range or basket of measures that will help contribute to that. One is the standardisation of the modern methods of construction. The more we can adopt these pro-productivity-type production processes and the more units we can get per unit-labour input, the better it is going to be. We will be on a much clearer path to achieving the targets.

There are other industry-specific issues which have also been raised, such as the scale within the sector. There are many smaller firms in the Irish construction sector and in a sense, because of their size, they do not have economies to scale. This means their labour productivity and general productivity cannot rise as much as larger firms, which can get those economies to scale. Having larger firms, especially if we can attract some foreign construction firms into the economy, to help with both infrastructure and housing can be a positive.

On the labour shortage, I have not done any specific research into visa programmes like that but if we have a specific deficit in a particular skill set in that market and there is a challenge to finding that domestically, we have to find that labour somewhere because we need to produce these houses. I do not have any specifics on that but certainly, policies that would bring the right type of labour into the economy would be welcomed from a construction output perspective.

**Deputy Cormac Devlin:** Going back to Dr. O'Toole's earlier point on full employment and the low unemployment rate, which has been consistent for a number of years now, this would not be specific only to the housing construction sector. Given the pressures in other sectors as well, would the ESRI look at ways of incentivising more employees in those sectors?

**Dr. Conor O'Toole:** Looking back through Irish economic history, one of the very clear channels through which our labour market has operated is the migration channel. Going back to the seventies and eighties, with outward migration, Irish households flowed to the US, the UK and other markets. Then, when the economy improved here, that labour flowed back in through that migration channel. The Irish labour market is particularly open and fluid. It responds to incentives and relative wages in other economies. The integration with international labour markets, particularly the EU and the UK, is a critical part of the functioning of the-----

**Deputy Cormac Devlin:** I will ask my last question quickly because the Chair is looking at me. I am nearly a minute over. On the corporation tax vulnerabilities Dr. O'Toole mentioned, given the risk of a sudden drop in corporate tax receipts, what is the optimal contribution from windfall taxes to the Future Ireland Fund to safeguard long-term fiscal stability?

**Dr. Conor O'Toole:** It is tricky to put a specific number on it. When we think about the savings capacity of the economy through those windfall taxes, to pass through to the specific investment funds, what are we trying to do there? We are trying to build up these long-term assets

we will have, to be able to deploy for the predictable challenges, like population ageing, which we know are coming down the line, and shock absorption capacity, but also for investment in the climate transition and infrastructure deficits. Our sense of this would be that we should be putting as much of these windfall taxes as is possible into those longer term funds.

**Deputy Edward Timmins:** I thank the witnesses for coming in. I have six or seven specific questions, so if the witnesses could be as concise as they can in their answers, I would be very grateful. I thank them for their presentation. Have they done an analysis of the estimated impact of the 10% or 25% tariffs on all tax revenue in this country?

**Dr. Conor O'Toole:** I will pass to my colleague Dr. Paul Egan, who did the work on tariffs.

**Dr. Paul Egan:** We published a working paper in March. It was co-authored with the Department of Finance. We looked at the macro impact on 10% and 25% tariffs. It also looked at the impact on public finances. The way the model we used works is it splits out revenue into three different stands: indirect, which is VAT receipts; corporation tax, which, obviously, is the profits firms make; and personal tax, which is income. We saw significant falls across all three.

**Deputy Edward Timmins:** Is that published? Is that available?

**Dr. Paul Egan:** Yes, it is in the working paper. It is important to highlight that the corporation tax measure in the model we used does not include windfall tax, so any hit to a specific sector or industry that contributes significantly to corporation tax would have been outside of the realm. You can take the general fall in corporation tax and then layer on additional risks.

**Deputy Edward Timmins:** The ESRI outlined figures on a reduction of modified domestic demand due to tariffs. Did the ESRI look at a reduction in housing demand due to the same scenario?

**Dr. Paul Egan:** Not in this paper. There is a financial and housing block within the model. It was not the focus of this paper. A couple of different levers would be at play here. When we shock the model with tariffs, incomes and modified domestic demand come down. However, price pressures across the eurozone also feed into the Irish economy. Interest rates would then be adjusted by the European Central Bank to counteract inflationary measures. That would all have an impact on housing prices, demand and supply. Therefore, it is difficult to isolate the specific-----

**Deputy Edward Timmins:** When the ESRI reported a few months that we need 60,000 homes per annum-----

**Dr. Paul Egan:** No, we did not focus on house prices or housing demand.

**Deputy Edward Timmins:** Previously, the ESRI made projections that the economy needed 60,000 based on current scenarios, but it has not done a revised figure based on being hit by tariffs of 10% or 25%.

**Dr. Paul Egan:** No.

**Deputy Edward Timmins:** That is okay; I was just wondering about that. As a related question, has the ESRI looked at the potential impact on the economy of tariffs imposed by the EU on inflation, employment and growth?

**Dr. Paul Egan:** Yes, we layered it across a number of different scenarios where we looked

at 10% US-----

**Deputy Edward Timmins:** I am asking about EU tariffs.

**Dr. Paul Egan:** We looked at it across four different scenarios. To get to the EU ones, we looked at if the US imposed tariffs on the EU and then if the EU responded with reciprocal tariffs. We could see the impact worsening as the trade war, for want of a better term-----

**Deputy Edward Timmins:** The ESRI has done studies based on the EU imposing 10% and 25%.

**Dr. Paul Egan:** Yes, reciprocal tariffs, for example, if the US hits the EU with 25% and the EU responds with 25%.

**Deputy Edward Timmins:** That is published, is it?

**Dr. Paul Egan:** Yes. It is in the working paper.

**Deputy Edward Timmins:** On page four of the opening statement, I could not fully understand the statement, “While inflation has been slowing down ... permanent changes to the tax and welfare system have resulted in small average income losses...” I get that, although it is described as insignificant, basically, at 0.3% of disposable income, but I could not really get the phrase “compared to policy changes pegged to wage growth”.

**Dr. Claire Keane:** When we look at changes to the tax and welfare system, we do not just compare the current tax and welfare rates with what will happen next year. We instead look at what they would look like if they increased in line with inflation. We add on a certain percentage of inflation, whatever there is in a year, to the starting rates now.

**Deputy Edward Timmins:** It is adjusted for inflation.

**Dr. Claire Keane:** What we found is that, since 2020, all the changes that happened, including all the temporary measures like energy credits, the extra welfare payments, etc., have pretty much kept pace with inflation. The temporary measures are doing a lot there. It means that the permanent social welfare system has fallen behind. Wages are growing in the economy but the welfare rates are not growing by the same amount. What it means, in effect, is that when the temporary measures get discontinued, there will be a shock to people who are welfare-dependent because their welfare rates have not been keeping pace with wage growth over time. Does that make sense?

**Deputy Edward Timmins:** They have not been keeping pace with wage growth or with inflation.

**Dr. Claire Keane:** Unusually, since 2020, wage growth and price inflation have pretty much been the same. Usually in an economy and over the past few decades in Ireland, wages grow by a faster rate than price inflation. Since 2020, they have been roughly the same growth.

**Deputy Edward Timmins:** They are fairly identical then.

**Dr. Claire Keane:** Pretty much. They are within 1% of each other. That is unusual but it-----

**Deputy Edward Timmins:** Social welfare lags.

**Dr. Claire Keane:** Exactly. Social welfare is lagging behind that. That means that, over time, if you do not keep the permanent social welfare system in line with wage growth, there will be a rise in inequality.

**Deputy Edward Timmins:** Has the ESRI produced figures on that that I can read up on?

**Dr. Claire Keane:** Yes. In the December quarterly economic commentary, there is an article. Every year, we produce an article looking at the impact of budgets. We looked at the recent budget and all the budgets since 2020.

**Deputy Edward Timmins:** We talk about growth and real wages. Is this gross wages net of inflation or take-home wages net of inflation? Let us say the wage growth was 10% in a year and inflation was 5% or 4%, so the net is 6%. Does the ESRI take the 10% net of income tax?

**Dr. Claire Keane:** Yes, in our analysis, we do. For example, if we want to look at the impact of all the budgets since 2020, we look back at what welfare rates and taxes were in 2020 and we increase them by the full 20-something-percent wage growth over that time.

**Deputy Edward Timmins:** The wage growth is taken net of income tax.

**Dr. Claire Keane:** The wage growth is net of price inflation. Effectively it is zero.

**Deputy Edward Timmins:** But it is not net of income tax. If there is wage growth of 10%, real net wage growth might only be 6%.

**Dr. Claire Keane:** We look at the growth in gross wages because that is what-----

**Deputy Edward Timmins:** Gross wages are the ESRI's measure.

**Dr. Claire Keane:** Yes, gross wages are our measure.

**Deputy Edward Timmins:** I often think that is a bit misleading because net wages are what counts.

**Dr. Claire Keane:** Sorry. In all our analyses, we are always focused on the impact on net income. When we say there was a certain percent impact in decile 1 or decile 10, it is always on net wages. We factor in all the tax and welfare changes. All that we use that gross figure for is our starting point. If the social welfare rates were-----

**Deputy Edward Timmins:** Unless the tax rate changes then-----

**Dr. Claire Keane:** The model we use takes account of those. The model we use will have all of those - the social welfare rates and the taxes – within them.

**Deputy Edward Timmins:** I have two snappy questions in the last minute. Does the ESRI do long-term forecasts of, for example, five, ten or 20 years?

**Dr. Claire Keane:** For?

**Deputy Edward Timmins:** Economic.

**Dr. Conor O'Toole:** Yes. The ESRI has historically undertaken a series of longer term economic outlook pieces. The last one was published in 2016 and, before that, there had been multiple medium-term reviews, which is what they are called. We have not published a very long-term forecast since 2016. The piece we do is a two-year forecast.

**Deputy Edward Timmins:** How long is the farthest forecast?

**Dr. Conor O'Toole:** Our quarterly economic commentary is a two-year forecast.

**Deputy Edward Timmins:** This is my last question. Are we putting away enough in the different rainy-day funds that we talk about? If not, how much more would Dr. O'Toole suggest we put away? I know he was asked this earlier as a general question and that he probably cannot be specific on it. Does he have any specific recommendations?

**Dr. Conor O'Toole:** I will answer how I answered previously on this. In general, we would advise that as much as possible of the windfall corporation taxes be put into the fund. We have two funds, the Future Ireland Fund and the Infrastructure, Climate and Nature Fund. The commitments to those are approximately €6 billion per annum. If we look at the past couple of years, that is about half of the windfall corporation tax. We would be pushing for it to be much closer to that windfall.

**Deputy Mairéad Farrell:** Gabhaim buíochas leis na finnétithe as teacht os comhair an choiste. It is always interesting to hear what the witnesses have to say. We live in very unsure times in terms of tariffs and all of that. I am not asking any of the witnesses to predict the future or even what might happen tomorrow, let alone on 1 August. One of the things noted in the quarterly economic commentary was about Trump's efforts to reshore manufacturing to the US and the impact that could have on this State. That is a risk that we will always have with foreign direct investment, no matter where it is from, if there is an effort to reshore, which there can be in order to try to bring back more middle-class jobs and whatever else to the origin country. What I am trying to understand is how likely tariffs themselves would have an impact on reshoring, exclusively by themselves, or whether that would need to be more of a three-pronged approach.

**Dr. Conor O'Toole:** I am very glad that the Deputy let us off with not trying to predict what is going to happen with the US tariff rates. I am sure the committee knows more than we do about what is going there.

**Deputy Mairéad Farrell:** No, we do not.

**Dr. Conor O'Toole:** The impact of tariffs is as complicated as it is multifaceted. Regarding what to expect, we can differentiate between the short-term impact and the long-term impact of them. If we look at some of the data for the first quarter of this year, in the short term, we saw a massive increase in exports, as firms moved goods and inventories back to the US to try to avoid the introduction, in early April, of the tariffs. In the short term, there is a lot of variability in a lot of firms' specific flows to try to avoid the tariffs.

In the longer term, what happens will depend on two things, namely, the rate of the tariffs that stays on a more permanent basis. For example, if we land at a more benign tariff, especially one that might give exemptions to areas like pharma, then the impact will be much less than it would otherwise be. If it is a much more aggressive tariff, and that stays on a more permanent basis, with firms having to start planning on that basis, then it is likely to have a bigger impact.

With the tariffs we are only talking about the goods side of the economy, which accounts for about half of our exports. Half are services and half our good. Within goods, pharma is the big one, comprising about half of the country's goods exports. The question is to what extent would firms reshore activities to sell into the US domestic market or how much will they leave in third countries to export to the rest of the world. These are very complicated, firm-specific

decisions but all of these elements will lead into what the direct impact on the strategies will be for Ireland.

In general, tariffs and the uncertainty about the rate setting are bad for investment. Rates of investment are slowing, as can be seen in the data up to now. Firms will pause and hold off on capital deployment until such time as they can-----

**Deputy Mairéad Farrell:** They will do that with uncertainty of any kind.

**Dr. Conor O'Toole:** Exactly.

**Deputy Mairéad Farrell:** That is normal for businesses, so if there is a period of uncertainty-----

**Dr. Conor O'Toole:** Exactly, it is dampening all of the activity, as we can clearly see now. Two things matter, namely, how much the uncertainty goes away and we know the permanency of these tariffs and what level the rates hit at, over time.

**Deputy Mairéad Farrell:** Does Dr. O'Toole think that tariffs as a measure exclusively would mean reshoring from Ireland?

**Dr. Conor O'Toole:** If tariffs stay permanently and that builds a price barrier between the different markets-----

**Deputy Mairéad Farrell:** Yes, especially for pharma, because it will impact the cost of medicines for Trump's own voters.

**Dr. Conor O'Toole:** If firms feel that moving production back to the US allows them to avoid the tariff and avoid the price impact, then they may do so, if they are selling directly into the US market. It will be a complicated web of interactions that will lead to the outcome.

**Deputy Mairéad Farrell:** It all depends on what happens long term, realistically, because I assume that most people will not make rash decisions on the basis of a four year term.

**Dr. Conor O'Toole:** Building a pharma plant is a 25- or 30-year investment of very large sums of capital. That will go past Trump's term in office and it will go to where things go next. Firms will try to make the best decision they can in an extremely uncertain environment, but we can certainly see it dampening investment already.

**Deputy Mairéad Farrell:** This in some ways answers part of the next question I was going to ask about the potential 30% tariffs. We have had other discussions here with Irish Fiscal Advisory Council and the Parliamentary Budget Office on the potential impacts on various sectors, including the food and drinks sector, and the possibility of pharma being excluded. What is the potential impact? If pharma is targeted, will that be the biggest impact for us?

**Dr. Conor O'Toole:** Yes, I will let Dr. Egan come in on this as well. When I think about the overall impact of tariffs, two things come to mind. The first question is whether pharma will get a carve-out or not. That is our biggest, direct goods export, particularly to the US, and that will be directly affected if there is a tariff on it. The second question is to what extent the services exports such as computer services exports by US multinationals to the rest of the globe get dragged into the reciprocal measures through the non-tariff barriers. Will there be any spillover to this activity that could affect the digital activities? If that is the case, it will have a big negative effect on Ireland because those firms have lots of exports here and employ many people.

**Deputy Mairéad Farrell:** I have one last question for whomever wants to answer. I am conscious of time.

**An Cathaoirleach:** You can have a little extra time, Deputy.

**Deputy Mairéad Farrell:** Dr. O'Toole noted that corporation taxes for the first two quarters of this year were lower than the same period last year. I think it is usually the case that the corporation tax for the second two quarters tend to outperform the first two. What is Dr. O'Toole's sense of that at this point?

**Dr. Conor O'Toole:** That was driven really by the May data, which had dropped back, but it is back up again in June. We have the data since we published the report and it is way up again for the first six months of the year, relative to the same period last year.

**Deputy Mairéad Farrell:** It is back up again.

**Dr. Conor O'Toole:** It is. That it is going up and down all the time just highlights the volatility of it. That was the point we were trying to make.

**Deputy Mairéad Farrell:** Given that there is such an infrastructural deficit, Dr. O'Toole mentioned the need to invest in good infrastructure to enable us to do business.

**Dr. Paul Egan:** To reiterate what Dr O'Toole was saying, from the work we did earlier in the year, the model has limitations and it will just look at the slowdown of global trade and how that will impact various sectors of the Irish economy. The sectors are quite broad, but if there are targeted measures on sectors that are key to the Irish economy, that would make even more profound the negative impacts shown in the work that we did. If there was a targeted measure on particular sectors that employed many people or paid high wages, there could be a knock-on effect into income tax and corporation tax. That would be seen as an additional risk outside of the realm of what we can actually model.

**An Cathaoirleach:** I will start with energy and solar power. Solar has taken off and we discussed the reasons for this. We also mentioned obstacles such as planning. From my perspective, the reason is the planning guidelines from 2006 and the draft guidelines of 2019. There are actually no proper guidelines for wind farms. There have been court cases in which three wind farms have been stopped and some 70 wind turbines are being decommissioned because of landslides. The health implications for people in the vicinity of wind farms were never taken into account. We now see people going for solar and looking at it as a safer option. From a planning perspective, it seems that solar planning permissions are being granted a lot faster and there are fewer objections because people see there are fewer health implications. The reason wind is not taking off in this country is that health guidelines were not implemented in the planning process when people were looking for wind turbines. As regards offshore, the designated maritime area plans, or DMAPs, have been delayed for the past five years, when we could have been looking at offshore wind. Delaying that process goes back to the previous Government. It is now trying to speed it up because of the planning guidelines and the failure of those guidelines to allow for health implications, not only for people but also for wildlife and animals on grazing pastures. A pattern is now emerging. It looks like wind and profits came before health.

On inflation, we are talking about VAT, profit tax and PAYE. If we look at inflation versus wages, inflation means wages go up, as we know. When inflation goes up, wages go up to try to counteract it, and we are then talking about social welfare. The only thing that did not change is if a glass of water cost €1 five years ago, and today it costs €3, you are still only getting the

same glass of water but it costs three times the price. The tax revenue from that €3 has now increased, even though the person getting that glass of water is paying three times the price he or she paid for the same product five years ago. With inflation going up, how can we counteract paying two or three times the price?

I am a building contractor. I have been 35 or 40 years in business. I have seen the price per square foot per house in the past five years go from €120 to €200. It is the same house. I have also looked at the tax regime on this. A price of €200 a square foot, plus VAT at 13.5%, gives an increase in tax revenue for the same house, which actually fuels inflation so people's wages have to rise. People are then under pressure. If we keep going on the current trajectory, and inflation and wages keep rising, the only person it will cost is the consumer. We are then talking about social welfare costs going up. The Government is the only one that gets extra revenue with inflation, and this is why governments love inflation, because there is more tax revenue. If we keep going on that trajectory, we are heading for recession because something has to give.

It was said that the population is going up and there is only a 4% unemployment rate, but we also have a problem with infrastructure. The guidelines for delivering infrastructure are now through a Government-funded body, which is not delivering infrastructure. It was asked how we can get more contractors in, which I have been saying, and developer-led infrastructure so it meets demand, can try to lower the pricing of housing in this country, and can allow the likes of Irish Water to take over after it is developed. The smaller contractor was talked about in the contributions. The reason smaller contractors cannot get on that in the first place is they have to show they have done a single project, of more than €2 million, to actually get on to do some of the infrastructure. This is even though the same contractors are doing this for the larger contractors, which are taking all the revenue out of it. The smaller contractors are doing all the work anyway but they cannot actually deliver because of the criteria to get on for the contracts in the first place.

What do the witnesses see happening to stabilise inflation, so that in five years' time we are not looking at this again and saying we are now paying five times the price for the same product and the Government is getting five times more revenue? I think 36% of a mortgage is tax-related for a person who is building his or her own house, when that person's wages and VAT, at both 13.5% and 23%, are taken into account. The working squeezed middle is being squeezed more and more. If we keep going on this trajectory, we are looking at a recession. How do we counteract it?

**Dr. Conor O'Toole:** There are a couple of elements it is important to pick up on. As the Cathaoirleach mentioned, tax rates are applied as a proportion of the underlying activity, which is why, as the value of that grows over time, they rise over time. A key issue is how we get back to a situation where we have price stability, and low price growth over time, but also have rising living standards. We want people's incomes to grow faster than inflation over time because that leads to rising living standards. How does that typically happen in economies globally? It happens through capital deepening, so we get better technology or capital, which can help to raise productivity growth. We get economic growth through population growth plus productivity growth and employment growth. In the construction sector, but also more broadly in the domestic economy, if we can raise productivity levels in domestic firms, that should help to raise living standards. It is to be hoped, therefore, to have above-inflation wage increases that would allow people's living standards to rise.

**An Cathaoirleach:** I understand what Dr. O'Toole is saying but it is not happening. Wages are rising with inflation, but it is coming back full circle. If you are an employer, and the price

of something has gone up, you still have a basic 6% margin on your business, regardless. When inflation goes up, you still have the 6% margin and you have to make sure your business can run. To break that cycle, something has to give. What we have done for the past decade has shown that looking to Government agencies to deliver products has not worked. Now we have to go to developer-led infrastructure to deliver sewerage, water and electricity and not fight the likes of planning permissions or take legal cases that hold things up. We should free up stuff that can actually do that, including offshore wind, which can give us free electricity.

The witnesses talked about gas. The price of gas in April was 4.1 cent a unit. May's price was 7.3 cent per unit. We have got to look at the fact that within a month, there was a massive increase. Based on unit costs, we are spiralling out of control. Inflation and inflation of wages goes directly back to fuel exactly what is happening because we do not have the proper infrastructure to do what we need to on productivity.

I will come back to Dr. O'Toole in a while, but I will let others speak.

**Deputy Johnny Guirke:** I thank the representatives for the presentation. The ESRI has reduced its forecast for housing completions, from previous commentary, for the present year. It now expects 33,000 completions in 2025 and 37,000 in 2026, but there are considerable downside risks. What are those risks? Are they infrastructure, water, sewerage or tradespeople?

**Dr. Conor O'Toole:** All of the above. The labour market is a constraint. There is low capacity in the sector to expand in terms of labour availability and there are rising wage costs. That will obviously put downward pressure on production capacity. The capacity of the water network to connect units to that infrastructure is challenged. Irish Water has said it will lead an expansion in its operations to be able to connect more than 35,000 units to the grid over time. That is obviously a constraint. A range of factors is weighing on the outlook.

It is particularly tricky to forecast housing supply at present because of that big jump in commencements we had last year from the development levy waiver. That policy-related increase in commencements has made it much more complicated to work out what the path of those commencements is through to completions. We are eagerly awaiting the data for the second and third quarters of this year because we should start to see some of those commencements come through, if they follow the typical timeframe. If they do not and they were just policy-related commencements trying to take that waiver, we will not see them come through and we will know it is not a good forecasting benchmark.

**Deputy Johnny Guirke:** Dr. O'Toole noted the importance of exports at this time for the Irish economy. The weaker dollar at the moment must be hurting exports. A lot of companies are probably paid in dollars. I asked this question of the Central Bank the other day and it did not seem to know. In the next year, do the witnesses have any idea whether the dollar will get weaker or stronger?

**Dr. Conor O'Toole:** Typically that is extremely complicated, because it relates to the global economy. The dollar is one of the reserve currencies. It is impacted by all the various international geopolitical events. For Ireland, what matters is the dollar-euro exchange rate. When tariffs were introduced, we would have expected to see the dollar strengthen relative to the euro. We did not see that. It depreciated. Why? It is because of the uncertainty that has kicked in, which has outweighed any of the other effects. As long as that uncertainty is in the market and we have this difficulty with whether the dollar is the safe haven it used to be, given the American policy choices and the direction in which the American economy is going, it is hard to see

the dollar recovering significantly. However, it will depend on how those geopolitical events play out.

**Deputy Johnny Guirke:** Regarding tariffs and reciprocal tariffs, the most important thing is how they will affect the American economy. That will decide how much he will push it. Am I right in saying that?

**Dr. Conor O'Toole:** One would expect so but I am not sure whether those are the calculations being used by the American Administration. It has many different objectives and it is using these various tariff measures as part of trying to meet its political objectives. As I mentioned earlier in response to Deputy Mairéad Farrell, what really matters is what goods are covered by tariffs and whether some of the services activity gets pulled into the non-tariff barriers, if there is an escalation of the trade war element of the negotiation process. If the pharmaceutical industry is exempt and non-tariff barriers are not applied to services activity, the impact will be much less than if that occurs.

**Deputy Johnny Guirke:** In his opening statement Dr. O'Toole mentioned that energy prices have declined but remain at high levels. Many SMEs and individuals tell me that their energy costs have not reduced at all. We still seem to have one of the highest energy costs in Europe. Why is that?

**Dr. Conor O'Toole:** I will let Dr. Lynch respond to that.

**Dr. Muireann Lynch:** Retail and wholesale prices have come down from the peak we saw in 2022. Specific businesses should perhaps look into switching supplier or perhaps their usage has gone up. In general, why have prices not come down? It seems the high usage of gas in Ireland is driving that to some extent. Also, if we adjust energy prices for purchasing power parity, we come much closer to the European average. It is at least somewhat bound up with the fact we are a high cost-of-living economy in general. I went into more detail previously in response to Deputies Cian O'Callaghan and Devlin. Perhaps the Deputy would like to look back at that. We are also writing a paper at the moment on electricity costs, which we would be happy to send on to the committee when it has been finalised.

**Deputy Johnny Guirke:** The ESRI talks a lot about targeted measures. What does it mean by that? Are they for the less well-off in society for budgets and how the Government should spend money going forward?

**Dr. Claire Keane:** We have done analysis. For example, if we look at the last budget, there was a lot of money for families with children. There were additional child benefit payments, additions to social welfare and additional social welfare payments. However, we did not see that feed into child poverty rates. It was anticipated that there would be no decline. That suggests the money is being spent in an untargeted way. Things like energy credits and the additional child benefit are not targeted. They are going to high-income households as well. We are saying that money could be saved by not paying them universally, but targeting them. Work has been done, for example, looking at having an additional second tier of child benefit that would be means-tested, while retaining the current child benefit. Those kinds of targeted measures can help lower income households. The Government would be spending less because it would not be given to everyone and it would be spent on the people who really matter, those at the lower end of the income distribution who are experiencing poverty. In general, the energy credit is a good example. It was given to everyone regardless and while I was delighted to see it come off my bill, thankfully, I did not need it and it is not so easy to give these things back. Target-

ing those measures helps to save money and also helps to ensure it goes into the pockets of the people who really need it.

**Deputy Máire Devine:** The ESRI's quarterly economic summary states it expects unemployment to remain low and wage growth to exceed inflation this year and in 2026. That would be welcome in my constituency, Dublin South-Central, and across the country. The most pressing need that underpins everything in this country is housing. My colleague spoke about this previously. There is a kind of depressing forecast for this year and next year for all families, not just homeless families but people earning decent wages with jobs, and young people, people in their 40s and 50s and older people. It affects every stratum of life. Is there anything the witnesses can say that might lighten that load? I do not see us meeting any of our targets. It will be poor.

Last week, I asked the Central Bank about productivity, which is 20% lower than other European countries, and the idea of modern methods of construction, such as off-site construction and delivery. The Central Bank thought that would significantly reduce the discrepancy and allow us to catch up a little with the norm across Europe. Do the witnesses have a ray of hope for housing?

Will the Minister's recent lurch towards reducing the minimum size of units to produce more units mean more people can be housed in smaller spaces? What will the impact be on housing people, whether through purchase, affordable or social housing? That is probably three sub-questions in one.

**Dr. Conor O'Toole:** Let me start with the ray of hope for housing, if I may. From 2015 until last year, we saw a sustained increase in housing output over time. It was coming from a low base, but it was a sustained increase. Last year was much weaker than we had anticipated and there was no momentum coming into the first quarter of this year. There were just under 6,000 completions in the first quarter. When we consider that with the various factors I talked about on the cost side and other factors that have an impact on housing production, we do not see any momentum to break past the 33,000 units in our forecast for this year. There will be a little more next year, but there is a lot of uncertainty around the commencement figure that went up so much last year and when or if those housing units will come on line. There is some uncertainty but I certainly feel the risks are on the down side. Thinking about the underlying population or structural requirements of the housing need for the economy, there are various publications. Dr. Egan was involved in one and there were others by the Housing Commission and the Central Bank. We are talking about north of 50,000 units per annum to stand still with our housing need and it does not look like we will get there this year or next year, on the current data.

On the minimum unit sizes, a few aspects are important. Can housing be rightsized for the population? Looking at the Irish housing stock in comparison with that of other countries, there is a deficit of smaller apartment urban dwellings in Ireland. We have lots of family housing units but one of the deficits we have is small housing units, especially for single individuals and people waiting to downsize or rightsize their housing need.

There are pros and cons to every policy choice but I can see economic advantages to having the flexibility on producing more smaller units in particular developments. It is not suitable for many housing needs, but there are groups in the population for whom smaller units are important. There is an interesting parallel I might draw. There is an organisation in Finland that is involved in housing policy and specifically homelessness policy. It is called the Y-Foundation.

It has about 20,000 apartments under management in Finland and works with the state to house persons with additional needs who are experiencing homelessness. It has a particular policy with about 7,000 units in it. The average size of those is about 38 m sq., so they are quite small studios or one-bedroom apartments. There can be appropriately small-sized unit for particular cohorts of the population and I think that that is important.

**Deputy Máire Devine:** Okay. We do not have to live in them, probably. My time is short. I thank Dr. O'Toole for that. I will pick up on something he said to my colleague Deputy Farrell. He spoke about the tariffs and the exports but he broke it down with respect to pharmaceuticals - and it is pharmaceuticals we are talking about. If pharmaceutical products are just sent to America for in-house health consumption with that tariff, can Dr. O'Toole give the percentage of what that is and what the percentage is for the rest of the world, or Europe in particular?

**Dr. Conor O'Toole:** No, I do not have those figures. I was talking more on a company-by-company basis. There would be a particular pharmaceutical company that would have a set of global sales broken down by how much it sells in the US and how much it sells in other countries. It will have to make the calculation as to whether, given the tariff rate, it would make more sense to produce the stuff it wants to sell to US consumers in the US or produce it somewhere else and export it to the US. It really will be a company-by-company assessment that will have to be undertaken depending on whether or not pharmaceuticals gets covered and depending on what the tariff would be if it comes into-----

**Deputy Máire Devine:** It could be something for our side to negotiate with as well. It could be a deal with America for the American market and then there could be the rest. The figures on that would be interesting, so it is not as scary-looking to everybody. It might help a little to steady the ship. We are not going to lose everything.

**Dr. Conor O'Toole:** I do not think those data are available in the national statistics.

**Deputy Máire Devine:** Yes, okay.

**Dr. Conor O'Toole:** The way I was talking about it was more conceptually about how companies would manage their inventories.

**Deputy Máire Devine:** There was high inflation between 2022 and 2023 with Covid and Russia's invasion of Ukraine and then there was stabilisation between 2023 and 2024. However, in October of last year, it started to rise again, and across the eurozone. Do the ESRI know of a concise summary of the domestic and outside influences on that? Is it attributable to Israel's genocide in Gaza or its attacks on Iran and the war it started there as well? Is it Russia's continuing war of aggression on Ukraine or is it just US tariffs? Is it all that mishmash put together in a very unstable and uncertain world?

**Dr. Conor O'Toole:** There are a range of factors affecting inflation. There are a number of components we typically take into consideration when we are trying to forecast or explain the inflation rate. One is domestic wage rates, how fast they are growing and how much are they contributing to the domestic price pressures. We would also take import prices, like what the Deputy was talking about there, namely, that basket of prices that come from outside into Ireland and see what sort of effect they would have. They are much more impactful, certainly, on goods than on services. Services are much more likely to be domestically driven inflation. We saw inflation really come down quite rapidly through the end of last year, stop around October and then take off again. One of the risks we see is that when there is such a prolonged period

with a low employment rate - a full-employment context - and external factors maybe washing out, like some of the energy price factors Dr. Lynch was talking about coming out of the inflation basket, which used to be increasing and are now kind of stabilising, and wages are growing so rapidly, there is a risk that will feed back into domestic prices and we could have that upward pressure on the price level from that low unemployment capacity constraint. That is certainly a risk we mentioned in our last commentary. We see it as a real risk.

**Deputy Joe Neville:** This committee has been very informative over the past few weeks and I have learned a huge amount from the people coming in. It is very good to have the ESRI in as well. I have read through the brief and we received the opening statements. I will ask individual questions, but a trend I have identified is that there is almost a fear coming from the Central Bank, the Irish Fiscal Advisory Council and kind of from the ESRI about the economy that we are at risk of overheating. Is it fair to say that is coming from the witnesses too?

**Dr. Conor O'Toole:** It is kind of complicated-----

**Deputy Joe Neville:** I am just talking about the windfall taxes, because it keeps coming out as a trend.

**Dr. Conor O'Toole:** It does. There is a dichotomy at present. The domestic economy is growing very rapidly and we have a low unemployment rate. Employment has grown quite rapidly since the Covid period. As I mentioned in the previous response, the risk is that at full employment we have this impact of the labour market feeding through into prices through wage growth and that price growth can cause-----

**Deputy Joe Neville:** I will jump in because it was said that wages are rising faster than inflation.

**Dr. Conor O'Toole:** Exactly, the real wage is rising. What you can have there is a feedback, as the Chair said earlier, back into wages and into prices again. We get these second-round effects that can escalate price pressures. That is a particular risk. One of the risks we mentioned in our commentary, coming back to the windfall element, relates to the fiscal stance, that is, how much money the Government is putting into a fast-growing economy that is at capacity. That certainly is a risk, in terms of putting too much money into the economy too quickly when it really does not need that stimulus. Economies at low unemployment do not need government stimulus.

**Deputy Joe Neville:** I have got the upcoming budget in mind and others have alluded to it as well. Does Dr. O'Toole think the Government needs to pull the brakes regarding current spending?

**Dr. Conor O'Toole:** We certainly think the net spend needs to be restrained. Obviously the Government will want to make choices within that. It has choices on the spending side if it potentially wants to undertake particular activities or if it wants to target infrastructure and try to get to grips with these infrastructural deficits.

**Deputy Joe Neville:** The problem with infrastructure is that even though it might be capital, it obviously has a current impact. We can decide we are going to put billions into capital infrastructure but it obviously has a knock-on current impact because it puts more money into the economy.

**Dr. Conor O'Toole:** It does. For example, if you build a hospital, you have to staff it and

there are knock-on impacts and interactions between the two. That is why we are trying to reinforce that net position whereby if we want to do more on the spending side, we have to have more restraint on the taxation side. In a sense, we can make choices within that but we are pulling back in general and on the economy in a net sense. Really that is the advice from us on that. It is echoed by other commentators like the Central Bank and IFAC. In a sense, it is across the board. As I said earlier, we do not always agree on everything but we seem to agree-----

**Deputy Joe Neville:** They all seem to be very much in agreement on this, though. I have noticed that over the last few weeks.

**Dr. Conor O'Toole:** Yes. We can see where the economy is at. We have had such low unemployment for so long and such a fast-growing domestic economy that this potential instability in the corporation tax through these windfall payments, the fact public spending has been rising to such an extent and, on top of that, we have all these international uncertainties like tariffs. The small, open nature of the Irish economy really leaves us exposed to these risks.

**Deputy Joe Neville:** I have a specific question there. It might be too specific and Dr. O'Toole might have the answer off the top of his head. Windfall taxes keep coming up and we all know a windfall is defined as something unusual. Do we have a view on how much of our current revenue is based on these windfall corporation taxes?

**Dr. Conor O'Toole:** The Department of Finance has published figures on the windfall element of the corporation tax. I just do not-----

**Deputy Joe Neville:** How do we differentiate between what is the windfall element and the current element of it?

**Dr. Conor O'Toole:** This particular phrase that is used is related to the corporation tax specifically and to how much of the revenue is explained by the underlying economic fundamentals and is recurring based on those fundamentals.

**Deputy Joe Neville:** Things could change, like the tariffs, but obviously some of that would still be there. How much of it is vulnerable?

**Dr. Conor O'Toole:** The windfall element is vulnerable. I do not have the figures in front of me about what specifically it is, but the Department of Finance has published reasonable estimates of that, which are relied on by a number of bodies. The question is, what do we do with those windfall elements? Obviously, they accrue to the State. It is a bit like an oil find whereby money comes into the State and it has access to it, so what should it do with it? Our suggestion would be that it would be put into the funds to save for a rainy day and to prepare for the many challenges we face, from ageing to climate.

**Deputy Joe Neville:** It is like a bonus to someone's wages in a household budget. We would not be planning the rest of the year on that.

**Dr. Conor O'Toole:** If the Government going to save all of that budget like we are suggesting, then that is certainly what we would be putting forward in terms of prudent fiscal policy.

**Deputy Joe Neville:** I will ask a couple of specific questions. I could not help but notice during Leaders' Questions what Deputy McDonald said about how our increases in energy costs still remain some of the highest and, in fairness, some other contributors said the same. I also know from my own studies where we are getting our energy from. Is it purely related to

the price of gas, because Dr. O'Toole identified that as well, with gas still being the key energy provider to the country over wind and everything else? Is our higher energy cost coming from the fact that it is gas as we do not have any nuclear energy and we have very little-----

**Dr. Muireann Lynch:** On the electricity side, the fact that-----

**Deputy Joe Neville:** That is the explainer for it. Is that correct?

**Dr. Muireann Lynch:** It is certainly not just one factor, but the high proportion from gas is one of a range of factors, yes.

**Deputy Joe Neville:** Okay. I was just interested. As I said, it all made sense from a few different things I read. Sometimes, one wonders why-----

**Dr. Muireann Lynch:** Other factors include planning; the fact that we have a more dispersed population; our network costs are higher; historic underinvestment in the grid; the fact that we are a small island economy; the fact that the power system itself is isolated so we are kind of limited in the economies of scale we can get from our power generation; and the fact that we have not managed to invest in gas generation at all in about a decade, so we are having to run a bunch of really-----

**Deputy Joe Neville:** Older.

**Dr. Muireann Lynch:** -----old units that are setting the price a lot of the time. There is a huge range of factors going in there but certainly, one of the outliers relative to the rest of Europe is our dependence on natural gas.

**Deputy Joe Neville:** Okay, perfect. If the Chair does not mind, I will throw in one or two other questions. This is the million dollar question, ultimately, and no one probably knows the answer, but what are the witnesses' views on the potential 30% taxes, especially on pharma? Is it a longer-term, slow-burn impact over time where they would see the risk, or would there be any immediate risk?

**Dr. Paul Egan:** I mentioned before that I and a co-author from the Department of Finance did a bit of work earlier in the year. We applied a number of different tariffs, one of which was the one the Deputy was talking about - it was not 30%; it was 25% because that was the figure being bandied about at the time. We have a seven-year horizon we look at and we can kind of look at a fall from the baseline. The baseline would be if no tariffs are introduced, so what the Irish economy would have been without the imposition of tariffs. It is a significant effect. After seven years, we see GDP falling by nearly 4% from the no-tariff baseline. We have MDD falling by 2%-----

**Deputy Joe Neville:** I am sorry; does Dr. Egan mean a 4% difference or a 4% fall?

**Dr. Paul Egan:** A 4% fall from the absolute value. It is hard to put a number on it because we would have to know what the projection for GDP would be, but if we were to apply it even to what GDP was last year and take more or less 4% off, it is a significant impact. We can do the same with employment, for example, if we were to take what employment was even last year and we see employment falling by 3% after the seven years. That would be a permanent imposition, so if tariffs were placed and not removed. It would be a 25% reciprocal tariff, where the US hits the EU and then a quarter later, the EU comes back with a retaliatory tariff and they both stay in place indefinitely. If we were to take employment figures last year, that would be

again a significant number. Presumably, all going well in the baseline without any tariffs, GDP and employment would be in a stronger position. Seven years down the line, GDP would be higher and the number of people in employment would be higher so the figure would even be greater than that.

**An Cathaoirleach:** We have time and I have guests in as well so what I am going to do, and I am going to stick to it this time, is allow four minutes for questions and answers. I am going to pull members at four minutes to allow other people to get in. Deputy Timmins has four minutes.

**Deputy Edward Timmins:** I will take less.

**An Cathaoirleach:** If the Deputy takes less time, that is fine.

**Deputy Edward Timmins:** I will come back in because I did not have time in my first contribution. This is slightly related to Deputy Neville's point. We hear the phrase "windfall taxes" thrown around a lot. Is there an exact definition of it? Can someone tell me exactly how much it is? I can work out how much it is. The underlying deficit this year is €4.2 billion. Next year, it is going to be €6.8 billion. I presume the difference between that and the real surplus is the windfall tax. However, how do we actually calculate the windfall tax? Is it purely corporation? It is not income tax at all.

**Dr. Conor O'Toole:** Basically, the calculations that are being used for a kind of sustainability analysis around the budgetary process at present, certainly by us and other commentators, is the windfall element in the corporation tax receipts. It is kind of difficult to define. The Department of Finance looked at it, coming at estimates from the bottom up around how much of that activity is well explained by the fundamentals of the companies and how much is of a one-off nature or exceptional nature, and defined that component as windfall.

**Deputy Edward Timmins:** Is that written anywhere?

**Dr. Conor O'Toole:** It is not a calculation we do ourselves. We rely on the Department for that.

**Deputy Edward Timmins:** Is that written anywhere? Can I look up somewhere that will tell me it is based on these corporations and-----

**Dr. Conor O'Toole:** I would have to check that for the Deputy. I am not sure where that definition is spelled out in detail but certainly, if the Deputy checks the Department of Finance's information in its annual progress report or some of the material relating to the budget for last year, it should have details of those calculations, or certainly outline those calculations in part in that material. It is not a calculation we do ourselves, however.

**Deputy Edward Timmins:** Okay. I thank Dr. O'Toole.

**Deputy Pa Daly:** I thank everyone very much. I apologise for coming in late. I have one question arising out of the witnesses' opening statement. Dr. O'Toole mentioned that the cost base is moving towards more fixed costs and national tariffs and so forth. He said that it may be regressive and that it could be disproportionately on households *vis-à-vis* large energy users. Is the ESRI recommending that the tariffs should be imposed more proportionately or more fairly on the larger energy users, such as data centres, than on households, perhaps, or that they should be taking more of a share?

**Dr. Muireann Lynch:** It is tricky. There is a fixed portion that is directly under regulatory control, which is the public service obligation. These days, it only covers renewables, but the renewables component is going up and up. That is just set by the regulator and that is per household. As it is on every single household, it is regressive because it represents a higher proportion of a poorer household's income compared with a higher income household's income. The other part is the fact that the cost base is moving increasingly toward network assets and also the capacity element, essentially, and less and less is coming from fossil fuels and carbon. The way the costs of the network are recouped is by network tariffs, that is, the distribution use of system, DUoS, and transmission use of system, TUoS. At the moment, the supply companies buy their electricity on the wholesale market, which is a variable cost. They pay their network tariffs, which is a fixed cost. It is totally up to them as to how they pass those costs on to their consumers. From what we see on the various retail tariffs, it seems that some suppliers have a higher fixed standing charge and a lower variable tariff. Other suppliers go the other way. However, we do not at the moment have any kind of regulation that says how much of the revenues from the supply companies must come from fixed or variable.

There are really good reasons for that. The question that is being asked worldwide in which policymakers in all jurisdictions are interested is, as we move more and more towards the fixed side of things, if we are charging fixed costs to recoup the variable costs as well and then higher income households can do things like invest in solar panels which means they have to pay even less toward the networks, do we then get a higher network cost being borne by a smaller and smaller proportion of households, within which are disproportionately poorer households? These things can compound on one another. It is tricky to calculate and we have tried to model this a number of ways. This is a live policy question and the European Union is interested in it as well.

**Deputy Pa Daly:** I hear what Dr. Lynch is saying about unfairness between households but with the move to renewables and moving away from being beholden to the international gas markets, as my colleague said, does she have a view on whether data centres that are taking up most of the excess energy created by renewables should be paying a higher proportion in the fixed charges?

**Dr. Muireann Lynch:** Data centres are imposing significant costs on the system but they are also helping out an awful lot with their responsiveness. The transmission system operators are making good use of that. Are data centres a net loss from a cost and climate point of view? Absolutely. No one is denying that.

**Deputy Pa Daly:** Should they be paying more?

**Dr. Muireann Lynch:** Are they paying their way is exactly the question. It seems that we will add a bunch of bells and whistles on top of the grid connection requirements *vis-à-vis* whether they can be islanded, have to have on-site generation or have to invest in biomethane, etc. It would be preferable to determine what they are costing the power system and charge them appropriately.

**Deputy Pa Daly:** Is that being done at the moment?

**Dr. Muireann Lynch:** I cannot quite get to the bottom of it but there is certainly room to increase network charges as opposed to increase a whole basket of requirements.

**Deputy Pa Daly:** Does Dr. Lynch suspect they are not paying their fair share?

**Dr. Muireann Lynch:** That is not something I can calculate because we just do not have the access to the contracts they have or their usage. They are investing heavily in renewables out of their own pocket, yet they are paying the same subsidy of renewables. That is a net gain for the consumer. We are benefiting from the renewables they are investing in without having to subsidise those renewables because those renewables are subsidised directly from power system and the data centre companies. We do not know how it all comes out in the wash together.

**An Cathaoirleach:** We can allow another question in a minute. I have another question. I want quick answers, if possible. On wind turbines, there are so many legal challenges against wind turbines at the moment because of the knock-on effect of guidelines. Wind turbines that were put up 15 years ago were only 80 m or 100 m high. They are coming to the end of their shelf life now. A new wind turbine cannot be fit on the same system because they are mast-based. If those companies decide to pull out of this country, who will pay for dismantling those wind turbines? Has that been allowed for in budgets going forward based on the taxes coming in? We are seeing it at the moment. Three turbines in Wexford have been decommissioned. There are 70 turbines in Galway that will be decommissioned. Who will pay?

**Dr. Muireann Lynch:** There is no subsidisation of those costs. We cannot point to any tariff and say that is what it costs to decommission. That is just something that is being absorbed into the general cost base of these energy companies and that will be reflected in the tariffs and the bids they make.

**An Cathaoirleach:** These energy companies have received funding from Government. There was €280 million given in subsidies for 28 wind turbines. When they did a business case to build those wind turbines, it did not make economic sense for them to be built unless they were given funding of €280 million to do that. Tomorrow morning, these companies could walk away after getting all these subsidies and leave the problem to the Irish taxpayer.

**Dr. Muireann Lynch:** I cannot speak to that specifically but if a wind farm has to be decommissioned, you cannot really just walk away and not decommission it. The question is whether they should be decommissioned. From an energy policy point of view, it seems it would be optimal to re-energise a lot of these sites, yet, for regulatory reasons as the Cathaoirleach mentioned, that is not happening.

**An Cathaoirleach:** Exactly. The turnover for businesses is up at the moment but when it comes to their profits that are being taxed, their profits are down. I refer to the trajectory of those taxes at the moment. I am in business and have seen the projections in recent years. My turnover is up but my profits are down because of different changes, year on year. You could be in a fixed price contract and then there are two or three changes with inflation and you are caught. There are small things that can be put in place to allow for inflation once it goes over 5% but, overall, turnover is up and profits are down. How long can that be sustained before the viability of businesses becomes a major problem?

**Dr. Conor O'Toole:** With any general economic development, profitability is what drives businesses. If they are not making a profit in the medium term, they will have to think about their sustainability and whether or not they continue operations. I do not know about the specific examples the Cathaoirleach gave but in general, where firms in Ireland are committing capital and investing in a fast-growing economy like the one we have domestically, it is high cost but we have relatively high incomes. Households are spending. There are potential avenues to make a return and to earn revenue but it is challenging to turn that into a profit in the current environment. I am not a business owner like the Cathaoirleach and I do not know those

challenges day to day but I am sure it is very difficult to make businesses work.

**An Cathaoirleach:** I have a final question that might be for Dr. Keane. She spoke about lower income families. I am talking about the middle income families where both people in the household are working and in good jobs. They say to me that they are both working and paying their way. They have children to go to college. Their costs are going up and they now see people who are not as well off as they are in terms of wages, but are actually better off when it comes to being subsidised for college places and all the different breaks. They work out what they are paying for and they take their earnings after tax at the end of the week. They are providing for their own house. They are paying for everything but they qualify for nothing. They have no problem working for a person who is less well off than them or in a different situation, but it seems to me now that it is the squeezed middle, as I call them, that are working all the time. When they look at somebody who is earning less, that person is actually getting more than the person who is working. People ask me am they are better off not working because their children will be looked after better and they might qualify for more. If they earn less, they will get more, rather than working to earn more and get less.

When Dr. Keane said that she was going to look at the criteria for lower income earners, should we not be looking at their net income? When we look at them for means testing, should we not look at their outgoings to make sure the person who is working and wants to work to provide for everyone gets a reward to keep them working and they can actually pay for the less well-off?

**Dr. Claire Keane:** Sure. A piece of work we did years ago that I found really interesting was looking at people's cash incentives to work. I think it was close to 95% of people who were better off not working were in employment. People intrinsically want to work, even if they might be financially better off if they did not. While our headline tax and social welfare system has been keeping pace with wage inflation, income limits for things like SUSI grants, medical cards and childcare subsidies were introduced and remain frozen. Recent work we did showed that the income medical limits for a medical card have not changed since 2005, despite 45% growth in wages. There is a rule in the system that if all of your income is from social welfare, you get a medical card. You could have two families on the same income and only one qualifies, even though they are on the same income, because one is purely in receipt of social welfare.

There is a fear of people in receipt of social welfare to take up employment because those income limits are not changing. The situation with student grants is very similar. While wages have been growing, the income limits for the grants means people at the very lower end get them but people at the lower to middle end are not getting those entitlements. Overall, we do not have formal indexation, which is increases in line with inflation. We have informal indexation for the social welfare system and it has been keeping pace with price growth and wage growth but we do not see that with additional benefits such as housing supports, medical cards and student grants. It is really important that those income limits do not get forgotten about. It is the same with childcare subsidies. There is more support for those on lower incomes. We have been rolling out increases in the universal payments to people but we are not increasing those income limits for those in line with wage growth. It is important to look at the system as a whole and that those means-tested elements keep pace with price growth so that people are not having them taken away.

**An Cathaoirleach:** I have one last question related to rising inflation. The proposed 9% VAT rate that I hope will come in would allow businesses to not increase their costs, ensuring

that a family break, for example, does not cost more for the consumer. It has been shown that holidays are at the back of the list. People are seeing they cannot afford to go on holidays or breaks or to dinner. Based on a survey that was done recently, one in four families does without a meal to help provide for their children and to make various payments, be those for a car or whatever. I would welcome the 9% VAT rate because it could stop companies from raising their overall turnovers to try to subsidise something else when they are battling wage increases. I will give one example. I was talking to a hotelier who was not only providing hotel stays but also food. One increase alone in wages cost the hotelier, over the term of one year, €430,000 extra. The hotelier then has to look at the rooms, which are at a different rate, the food and everything else. If the hotel is providing music, a band or alcohol, there is a certain tariff. It is so complicated, people would nearly want to have a tax adviser sitting there to advise them on how to simplify that and help them to have a quality of life outside of work. The 9% VAT rate is a must to help that because it can actually become a reward system for people who are working hard and who might want a small break to get away. It also stops the likes of the hoteliers and all the rest of those people who are supplying food in different areas from raising their prices to try to counteract the wage increases.

**Dr. Claire Keane:** Certainly, that is true about the simplification of the entire tax system. Sometimes, one looks at the rules of what incurs one rate versus another. The more complicated a system, the more difficult it is for people to understand and the more it incentivises people to try to get around different rules. If we maintain a certain tax rate, how are we going to spend that money elsewhere? That is where I am glad that I am not a policymaker but just a researcher on it because if one does not tax in one area, then one has to make it up elsewhere.

**An Cathaoirleach:** As there are no other questions, that concludes this session. I thank our witnesses, Dr. Claire Keane, associate research professor; Dr. Conor O'Toole, associate research professor; Dr. Paul Egan, research officer; and Dr. Muireann Lynch, senior research officer, for attending the meeting and answering all our questions. The meeting now stands adjourned.

The select committee adjourned at 5.13 p.m *sine die*.