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# An Oifig Buiséid Pharlaiminteach Parliamentary Budget Office **Pre-Budget 2024: Current Fiscal Assessment and Long-Term Issues**

Publication 31 of 2023

## Séanadh

Is í an Oifig Buiséid Pharlaiminteach (OBP) a d'ullmhaigh an doiciméad seo mar áis do Chomhaltaí Thithe an Oireachtais ina gcuid dualgas parlaiminteach. Ní bheartaítear é a bheith uileghabhálach ná críochnúil. Féadfaidh an OBP aon fhaisnéis atá ann a bhaint as nó a leasú aon tráth gan fógra roimh ré. Níl an OBP freagrach as aon tagairtí d'aon fhaisnéis atá á cothabháil ag tríú páirtithe nó naisc chuig aon fhaisnéis den sórt sin ná as ábhar aon fhaisnéise den sórt sin. Tá baill foirne an OBP ar fáil chun ábhar na bpáipéar seo a phlé le Comhaltaí agus lena gcuid foirne ach ní féidir leo dul i mbun plé leis an mórphobal nó le heagraíochtaí seachtracha.

Is de chineál ginearálta í an Fhaisnéis. Baineann éiginnteacht le ráitis réamhbhreathnaitheacha agus d'fhéadfadh go dtiocfaidh nithe suntasacha chun cinn mar thoradh ar an bhFaisnéis. Ní sholáthraítear ráiteas cinntitheach leis an bhFaisnéis i ndáil le haon saincheist ar leith nó i ndáil le himthoisc phearsanta. Ní comhairle atá san Fhaisnéis. Ní mór a dheimhniú duit féin go bhfuil an Fhaisnéis a sholáthraímidne, an Oifig Buiséid Pharlaiminteach agus Coimisiún an Oireachtais (lena n-áirítear seirbhísigh, gníomhairí agus conraitheoirí na hOifige agus an Choimisiúin) oiriúnach agus iontaofa. Ní ghlacaimid aon fhreagracht as cruinneas ná oiriúnacht, ná eile, na Faisnéise agus ní thugaimid aon ráthaíocht ná aon ghealltanas ná aon bharánta i leith an chéanna; ná go mbeidh ár leathanaigh ghréasáin nó an Fhaisnéis nó ábhar eile saor ó earráidí, saor ó víris nó saor ó shárú. Ní ghlacaimid aon dliteanas (lena n-áirítear i leith éilimh maoine intleachtúla) a eascróidh as aon ábhar tríú páirtí nó aon suíomh gréasáin tríú páirtí a gcuirfimid nasc ar fáil chuige nó dá ndéanfaimid tagairt. Ní ghlactar le haon dliteanas ar bith, a mhéid is mó a cheadaítear faoin dlí is infheidhme nó (i) as aon iontaoibh a chuirfear san Fhaisnéis nó san ábhar ar ár leathanaigh ghréasáin nó (ii) as aon chaillteanas nó damáiste a eascróidh as an úsáid a bhainfidh tú as na leathanaigh ghréasáin sin nó i dtaca leis an úsáid sin. Féach ár [bhFógra Séanta cuimsitheach anseo](#). I gcás aon easaontacht a bheith idir an Séanadh seo agus ár bhFógra Séanta cuimsitheach, is ag an gceann deireanach a bheidh an forlámhas.

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# Wider fiscal, long-term issues

## 1. Introduction

Fiscal sustainability is the ability of a government to maintain public finances at a credible and serviceable position over the long term.<sup>1</sup> An assessment of the long-term sustainability of public finances first assumes that current policies will be honoured into the future. This precommits a substantial amount of the calculated available ‘fiscal space’ – a yearly measure of new budgetary resources available. It is also important to look at the government debt developments in parallel. The fiscal position can be eroded when increasing public debt reduces the potential for economic growth as funds are diverted away from necessary and productive investments, which fortunately for Ireland is not currently the case.

Lessons learned from the Covid-19 pandemic together with some acute policy challenges make fiscal planning into the medium and long term essential beyond the yearly planning for the annual Budget. Future tax and spending policies will need to account for ageing population and rising life expectancy, necessary climate changes affecting the productive capacity of the economy and the digital transition. It also involves being able to adjust for unforeseen circumstances beyond the control of the government, such as large swings in the economic cycle. Over the medium term, spending growth should be aligned with the rise in stable revenue sources.

This next section looks at the current fiscal assessment before Section 3 outlines the position of the General Government Balance leading into *Budget 2024*. In Section 4, the PBO debt sustainability assessment (DSA) model is used to examine possible future debt dynamics given government forecasts and Section 5 looks at the longer fiscal developments in more detail.

## 2. Current Fiscal Assessment

Windfall corporation tax drove the headline budget balance into a large surplus in 2022. However, when excess or ‘windfall’ corporation tax is excluded, the budget remained in deficit, albeit small, last year. Further, the ongoing period of high inflation has boosted tax receipts. The effective income tax rate, generated by dividing total income tax receipts by whole economy compensation of employees, increased from 24% in 2021 to 24.8% last year. In a progressive income tax system like ours, nominal incomes increasing due to inflation will push more workers into high tax brackets in a process known as ‘fiscal drag’. Compositional changes in

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<sup>1</sup> OECD (2013), “[Fiscal sustainability](https://doi.org/10.1787/gov_glance-2013-11-en)”, in *Government at a Glance 2013*, OECD Publishing, Paris. DOI: [https://doi.org/10.1787/gov\\_glance-2013-11-en](https://doi.org/10.1787/gov_glance-2013-11-en)

employment growth and stronger earnings growth in high wage sectors could also be at play; the Central Bank estimates that up to one-quarter of the €4.1 billion income tax increase last year was due to fiscal drag.

Non-core or temporary spending has become a key driver of the evolution of expenditure growth over recent years. Initially this reflected measures introduced in response to the emergence of Covid-19. As pandemic-related spending started to dissipate, a range of new non-core spending measures were relied upon to provide cost of living and humanitarian supports. The cost-of-living measures in *Budget 2023* included household energy credits, increased welfare payments and the Temporary Business Energy Support Scheme. Expenditure linked to the humanitarian response to the invasion of Ukraine is expected to total €3 billion by the end of the year - €500m of which is an unallocated contingency. The latest Government spending projections include a further €700m of unallocated funding and note that 'the majority of which relates to reserve funding for additional non-core measures should they arise'.

The main risk is that these temporary measures will not sunset as originally intended. If these measures are not fully unwound, their budgetary effects will extend beyond 2023 – in effect becoming permanent measures. We wait to see what Budget 2024 brings in terms of their continuation especially as the Department of Finance's SPU currently does not foresee funding (yet) for the renewal of these measures.

Core expenditure also continues to grow strongly. The latest Government forecasts anticipate that committed core Exchequer spending growth year on year is set to fall back to 5% from 2024 onwards but this does not account for additional spending proposals to be announced on Budget Day. This reduction appears to be in line with the growth rate associated with the Exchequer net spending benchmark: it would represent a notable deceleration from the expected growth rate this year (7.4%) and would also fall below the medium term (five-year) average growth rate of 6.4%. It is likely that this is a minimum and the final comparison with the ceiling benchmark will need to be reassessed after Budget Day announcements.

The 2023 SPU explained that this so-called national expenditure rule is set net of discretionary tax changes which could balance additional core spending. It relates only to Exchequer spending on public service delivery. Spending in non-Exchequer areas (about one-fifth of total Government spending and mainly interest on the national debt and our contribution to the EU Budget) will push total government expenditure to higher levels.

### 3. General Government Balance

Due in main part to the exceptional growth in revenue discussed above, the General Government balance (GGB) is estimated to have improved from a deficit of 2.9% of GNI\* in 2021 to a surplus of 3% last year. Offsetting strong increases in government spending will likely absorb all of the favourable revenue developments this year, maintaining a similar percentage surplus for 2023. Note that the Euro Area as a whole reported a deficit of 3.6% (of GDP) for 2022.<sup>2</sup> In terms of the outlook for the Irish Government balances, the Central Bank projects that the underlying deficit (excluding estimates of 'windfall' corporate tax receipts) could narrow to 0.6% of GNI\* this year and run a surplus next year depending on the anticipated withdrawal of most of the remaining temporary or 'non-core' expenditure measures that have been introduced in recent years.<sup>3</sup>

The *Summer Economic Statement 2023* (July 2023) (SES) sets out a less favourable General Government balance than the *Stability Programme Update* (SPU) of three months earlier. The SES indicated increases in spending that exceed the 5% expenditure ceiling. The projected General Government balance for 2024, a surplus, is now forecast to be €11.7 billion - €4.5 billion less than the SPU projection.<sup>4</sup>

Given the risk that excess CT receipts may not materialise, an advised comparison is the share of 'underlying' GGB, excluding such inflows, to GNI\*. This shows a fiscal position that is not as healthy as 'headline' projections could portray. As seen in Figure 1, the underlying General Government budget (adjusted for "excess" CT) will show a deficit for 2023 and 2024 of -0.6% and -0.2% of GNI\* respectively.

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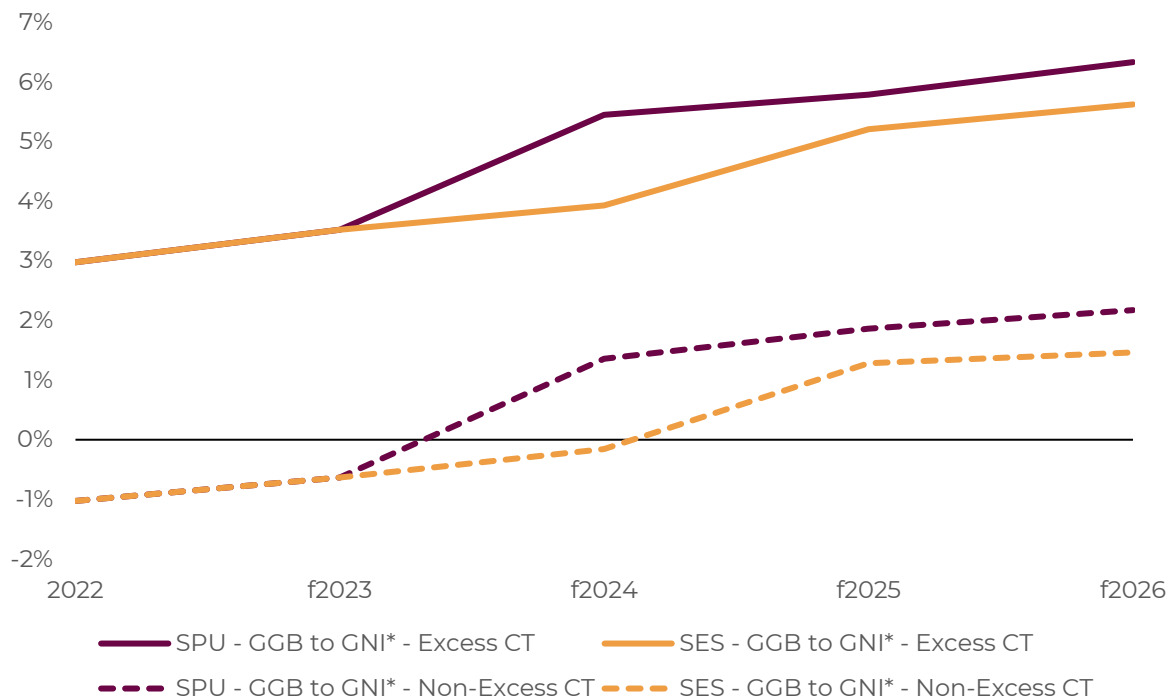
<sup>2</sup> See for example [Central Bank of Ireland](#) (2023), [European Commission](#) (2023) and [Department of Finance](#) (2023).

<sup>3</sup> Central Bank of Ireland (2023), [Quarterly Economic Bulletin](#), September 2023.

<sup>4</sup> The surplus was estimated to be €10.7 billion at Budget 2023 and €16.2 billion in the SPU at April 2023.



**Figure 1: GGB to GNI\* ratio (inclusive and exclusive of Excess Corporation Tax (CT) receipts)**



Source: [PBO DSA Calculator SPU 2023](#), [SPU 2023](#), [SES 2023](#).

Assumption: The SES 2023 GGB is the SPU 2023 GGB (with unchanged assumptions) after taking into account the SES 2023 fiscal parameters and their modelled interest implications. The non-excess CT scenario also assumes modelled interest implications, as changes to the General Government balance affect debt levels and associated interest costs. The non-excess CT scenario forecast is calculated by feeding in the Department of Finance parameters and the revenue forecast stripped of the excess CT into the PBO Debt Sustainability model to deterministically calculate, year by year, the forecast debt and interest values.

On this 'underlying' basis, GGB could remain in deficit in 2023, balancing in 2024, with a significantly lower surplus projected for 2025. This leaves considerably tighter fiscal space to increase spending in the event of future negative economic shocks. That said, either scenario will be comfortably within the EU fiscal rule of -3% GGB to GDP ratio.

According to the Government's latest fiscal projections, the structural primary balance is likely to show a restrictive fiscal stance for 2023 before turning expansionary for 2024 given the increased government spending signalled.<sup>5</sup> Between Budget 2023 and the SPU 2023 the structural General Government budget balance, including excess CT, was revised upwards and is forecast in the SPU as €10 billion (3.5% GNI\*) and €16.2 billion (5.4%

<sup>5</sup>The structural (or cyclically-adjusted) government balance adjusts for the impact of the economic cycle and certain temporary factors. The structural primary balance excludes temporary measures some of which will be excess CT receipts, interest spending and adjusts for cyclical changes in the economy. These are factors outside of Government control and thus it is considered a considered the best indicator for the fiscal stance.

GNI\*) for 2023 and 2024 respectively.<sup>6</sup> A deterioration in the structural balance follows when fiscal policy is stimulating the economy while an improvement in the balance points to a restrictive stance. As such, any additional government spending (government consumption or expenditure on transfers) or tax cuts – above those that underpin the Government's current fiscal forecasts will imply an expansionary fiscal stance at a time when the economy is already growing at full capacity.

A macroeconomic stimulus, particularly if funded by excess CT, would lead to a larger positive output gap in an already fast-growing economy. This means there would be even more capacity constraints which will further accelerate the existing upward pressure on prices and wages. Similarly, a stimulus to domestic demand provided by a significant tax cut would also increase inflation. Such imbalances aggravating overheating pressures in the economy, could do more harm than good, including some disincentivising trade opportunities in the medium term due to terms-of-trade effects possibly affecting relative prices. A tighter fiscal stance would be appropriate if overheating risks materialise, particularly due to some key shortages in the labour market.

### 4. Debt

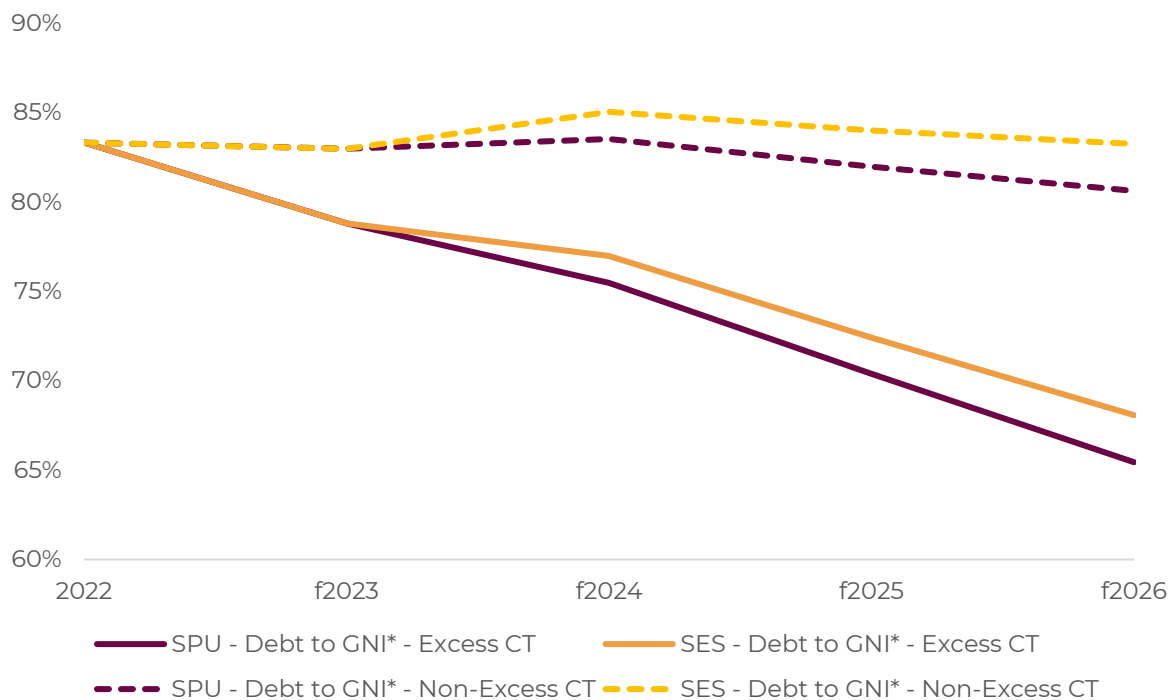
Running a primary surplus will reduce the size of Ireland's debt ratios in 2023 and 2024. The stock of net government debt decreased by almost €14 billion between Q1 2022 and Q1 2023.<sup>7</sup> As discussed above, the overall public finances improved very significantly in 2022, driven by the phasing out of the temporary pandemic expenditure along with exceptional strong growth in tax revenue, particularly corporation tax.

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<sup>6</sup> It is currently forecast to be +2.7% in 2025.

<sup>7</sup> CSO (2023) [Government Finance Statistics](#), Quarter 1 2023.



**Figure 2: Debt to GNI\* ratio & Excess Corporate Taxes**

Source: [PBO DSA Calculator SPU 2023](#), [SPU 2023](#), [SES 2023](#).

Note: the EU Fiscal Rules centre on a 60% debt-to-GDP ratio.

Assumption: The SES 2023 GGB is the SPU 2023 GGB (with unchanged assumptions) after taking into account the SES 2023 fiscal parameters and their modelled interest implications.

The non-excess CT scenario also assumes modelled interest implications, as changes to the General Government balance affect debt levels and hence interest costs.

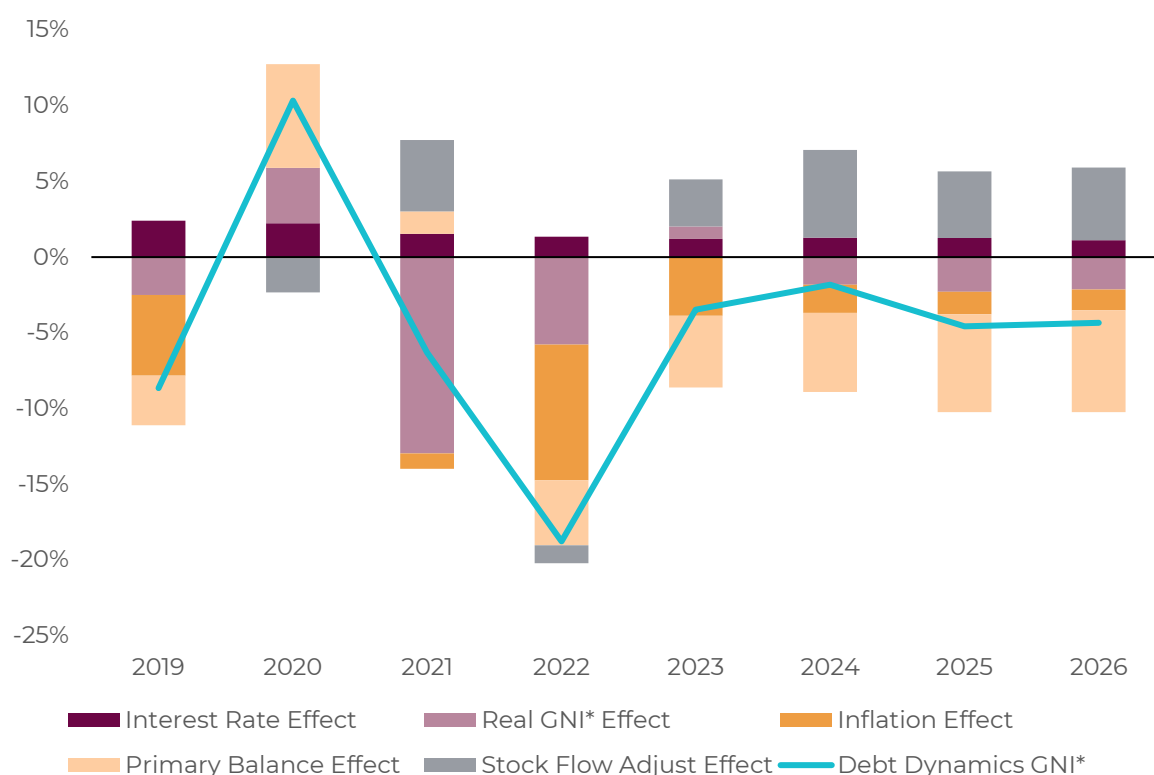
The non-excess CT scenario forecast is calculated by feeding in the Department of Finance parameters and the revenue forecast stripped of the excess CT into the PBO Debt Sustainability model to deterministically calculate, year by year, the forecast debt and interest values.

Over the past 18-months, sovereign borrowing costs increased. The Irish 10-year bond yield increased from 0.3% in January 2022 to 2.89% at the end of August 2023. Even so, projections for expenditure on debt interest over the medium term remain relatively contained. The long-weighted maturity on Ireland's debt largely insulates it in the medium-term from the increases in Ireland's bond yields.<sup>8</sup> This is because there is a modest level of redemptions in the coming years, and debt that is maturing over the next two years was issued over the period 2009-2014 at rates above the current yield on Irish debt. As a result, the average or effective interest rate on the entire debt stock is expected to remain close to record low levels in the near future. The weighted average maturity of Ireland's debt from July

<sup>8</sup> See the [PBO Debt Infographic SPU 2023](#). For an interactive simulation on how changes to Ireland's borrowing interest rate will affect the cost of servicing Ireland's debt, see the [PBO Interest Rate Risk DSA SPU 2023](#). For an interactive calculator to test all of the debt effects and implications of alternative Budgetary plans, see the [PBO DSA Calculator SPU 2023](#).

2022 to July 2023 only decreased slightly from approximately 11.4 years to 11.1 years.<sup>9</sup>

**Figure 3: Debt Dynamics Effect on the Debt to GNI\* Ratio**



Source: [PBO DSA Calculator SPU 2023](#), CSO National Accounts data.

Inflation – especially when it is unexpected - helps to decrease the real value of a country's debts. It will increase nominal GDP and General Government balances. Figure 3 shows inflation was a major effect in reducing our debt-to-GNI\* ratio in 2022 and 2023.

The PBO finds that the revised *Summer Economic Statement 2023* (SES) plans would still be within the core EU Fiscal Rules of 60% Debt to GDP ratio, even if excess corporation tax (CT) was removed. This is primarily due to the growth in nominal Irish GDP and GNI\*, which includes inflation. In the near term to 2026, the PBO does not find that Ireland's debt is on an unsustainable trajectory.

### Box 1: EU Fiscal Rules

In spring 2020, application of the EU fiscal rules was suspended in the wake of the Covid-19 pandemic in Europe. Known as the 'general escape clause', this suspension allowed Member States to deploy the massive

<sup>9</sup> PBO calculation on [Public NTMA Maturity Profile Data](#).

public resources needed to keep economies afloat and prevent public health care systems from collapsing.<sup>10</sup>

On 26 April 2023, the Commission presented its long-awaited package of legislative proposals to implement a comprehensive reform of the EU's economic governance rules.<sup>11</sup> The package included proposals for two regulations and one directive.<sup>12</sup> The aim is to address shortcomings in the current framework recognising that a one-size-fits-all approach across the whole EU does not work. They address the need to reduce much-increased public debt levels, build on the lessons learned from the EU policy response to the COVID-19 crisis and prepare the EU for future challenges by supporting progress towards a green, digital, inclusive and resilient economy and making the EU more competitive.

This wave of EU reforms looks set to promote the use of a single operational anchor for guiding the public finances in a sustainable direction. This anchor will be a spending path initially set on the basis of sustainable growth in the economy and public revenues. Spending by Member States can be adjusted up or down if taxes are raised or lowered in order to keep net spending on the agreed path.<sup>13</sup>

Using a more risk-based and transparent surveillance framework, national medium-term fiscal-structural plans (FSP) will be the key input into the Commission's proposals. Member States will design and present plans setting out their fiscal targets, measures to address macroeconomic imbalances and priority reforms and investments over a period of at least four years. In particular, Member States will have to state in their FSPs how their net public expenditure will evolve over the duration of the FSP and this evolution will define the adjustment path of their fiscal policy requirement of maintaining sound public finances. These plans will then be assessed by the Commission and endorsed by the Council based on common EU criteria. Member States will be encouraged to implement identified structural reform and investment

<sup>10</sup> For further information see PBO - [PBO Note on Proposed new EU Fiscal Rules \(EU Economic Governance Framework\)](#) – 2022.

<sup>11</sup> [European Commission - Commission proposes new economic governance rules fit for the future - 2023](#)

<sup>12</sup> One regulation aims at amending the effective coordination of economic policies and multilateral budgetary surveillance (or the so-called 'preventive arm' of the Stability and Growth Pact [SGP]) and another is intended to speed up and clarify implementation of the excessive deficit procedure (the so-called 'corrective arm' of the SGP). The proposed directive aims at amending the Member States' budgetary frameworks to align them with the new fiscal framework set out in the proposed regulations.

<sup>13</sup> Casey, E. and B. Cronin (2023) *Ireland's spending rule and the third wave of the EU's fiscal rules* Analytical Note No. 20, June 2023.

measures and be willing to comply with a more tailored fiscal adjustment path.<sup>14</sup>

The new rules look set to put more focus on a sustainable path for government debt ratios rather than specific targets. This takes account of the substantial and inherent uncertainty of defining debt sustainability. While ceilings, such as the 60% of GDP debt limit would remain in place, their determination of how the framework operates would be less deterministic. The rules target a plausible downward path for debt ratios judged to be high risk. Moreover and of particular relevance to the Irish economy, the new rules would reduce the centrality of the directly unobservable output gap which is heavily distorted by volatile growth dynamics.

While Member States should have more control over the design of their medium-term plans, there is likely to be a more stringent enforcement regime to ensure delivery on the commitments in the national medium-term fiscal-structural plan. Ireland should comfortably meet the conditions as they are centred on GDP metrics which is overstated for Ireland due to the activities of foreign-owned multinationals. In addition, Ireland's excess corporation tax receipts from a very small number of these flatters the budgetary position.

A parallel assessment of Ireland's debt sustainability on the basis of GNI\* instead of GDP and a deduction of the windfall element of corporation tax receipts will yield a very different picture of the Government debt situation. At present our debt ratio is not problematic in these terms but should be presented and monitored in parallel for domestic policy purposes and fair comparison with EU partners.

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<sup>14</sup> Ireland with a public debt ratio under 60% of GDP and a budget deficit below 3% of GDP is likely to have to set a net public expenditure path so that it satisfies two requirements. First, that by the end of their FSP's adjustment period, it results in the structural primary balance – that is, the government budget balance excluding all cyclical revenue and expenditure, such as unemployment benefits and income tax, as well as interest payments – that the European Commission will have specified for them based on its forecasts about their public debt (effectively, the Commission's Debt Sustainability Analysis). Second, a general budget deficit (that is, the overall difference between public revenues and public expenditure) is below the 3% of GDP reference value specified in one of the Protocols attached to the Treaty for the Functioning of the EU (TFEU) and, according to the Commission's forecasts, expected to remain so for 10 years following the end of the FSP adjustment period without any additional policy measures.

## 5. Longer term considerations for the Public Finances

Budget 2024 will focus on spending and tax measures to be introduced during the coming year. There will be some short to medium forecasts included in the budget documents for the next 3 to 5 years. However, this focus on the immediate year ahead and ‘new spending measures’ for all Government departments can mean that there is little focus on how to meet the range of future challenges that we face. We know that beyond the near-term challenge of sustainably managing the public finances, longer term pressures will affect the budgetary position by 2030 and beyond. Meeting those challenges will require structural reforms and some difficult decisions about how to prioritise resources.

The most obvious of these is ageing as it is well recognised that an older population will require an increased share of public funding to meet higher costs in the areas of healthcare, long-term care and pensions. Eurostat estimate that the old age dependency ratio (based on the number of persons aged 15-64 for each person aged 65 and over) is expected to increase from around 23% in 2030 to 47% by 2060. To deliver existing levels of public services to an older population, the Department of Finance estimates that by 2030 additional expenditure of €7 billion to €8 billion will be required relative to the outlay in 2019. The fiscal costs of ageing will continue to increase thereafter with overall age-related government spending expected to rise to just under 30% of GNI\* in 2050, up from 21.4% in 2019.<sup>15</sup>

As the State Pension age has not increased, additional future pension costs will have to be met by increasing social insurance (and or tax) contributions.<sup>16</sup> The higher burden due to the necessary increase in contributions may have a negative impact on the labour market and economic activity.

Moreover, the fiscal impact of digitalisation and the impact of the green transition is more uncertain.

### Ageing population

There are currently 768,900 persons aged 65 and over in the population – up 22.1% since 2016.<sup>17</sup> Total spending on pensions has increased by €3 billion in the last 10 years. Social welfare expenditure on pensions (which includes the State Contributory Pension, the State Non-Contributory Pension, the Widow/er’s or Surviving Civil Partner’s Contributory

<sup>15</sup> Department of Finance, [\*Population Ageing and the Public Finances in Ireland\*](#) (September 2021).

<sup>16</sup> Department of Social Protection, ‘[Minister Humphreys announces landmark reform of State Pension System in Ireland](#)’ (September 2022).

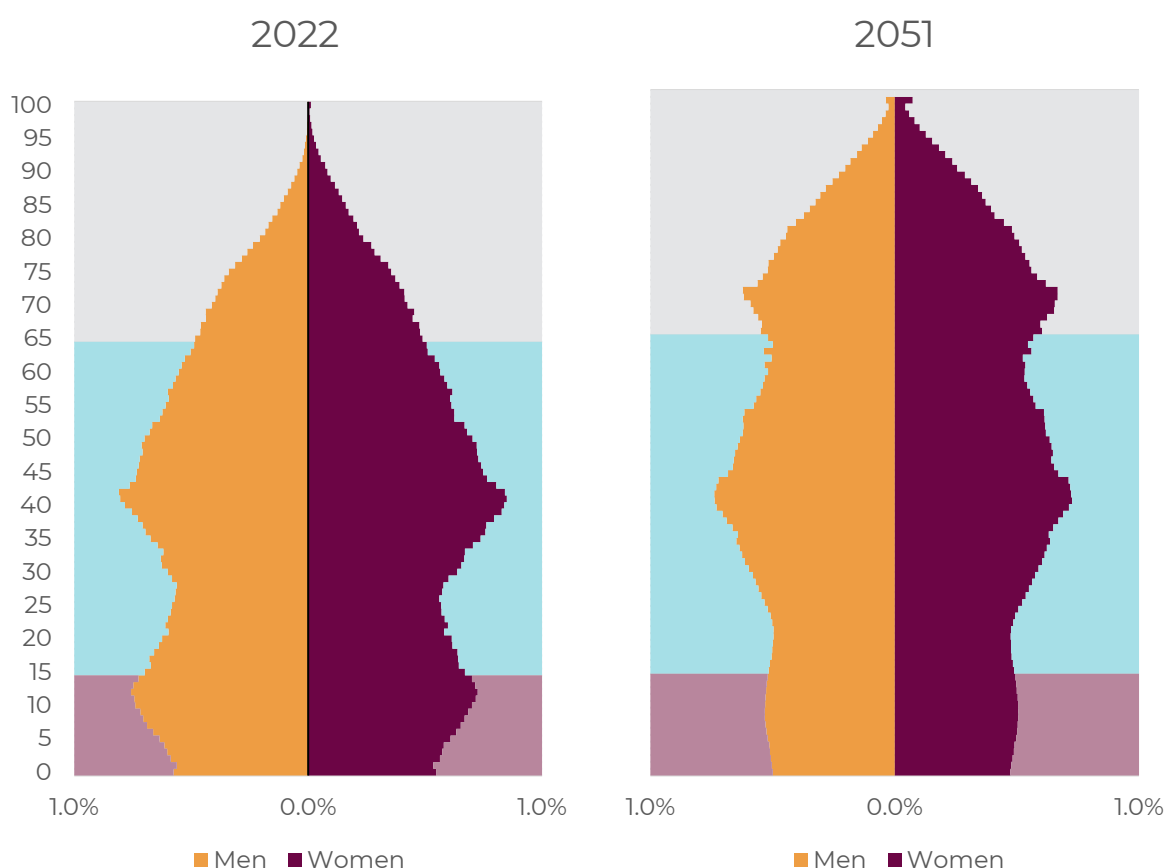
<sup>17</sup> [Population and Migration Estimates, April 2022 - CSO - Central Statistics Office](#).

Pension and the Widow/er's or Surviving Civil Partner's Non-Contributory Pension) accounted for 38.2% of all social welfare spending in Ireland in 2022. The State Contributory Pension accounted for 70% of the total €9.4 billion spent on pensions in 2022.<sup>18</sup>

Figure 4 illustrates Ireland's population pyramid in 2022 alongside a projection of the population structure in 2051. The data series shows the population distribution by age and gender. The population's composition is also divided into three categorisations:

- Young age (0-15 years): This population cohort falls within the area of the chart shaded pale purple,
- Working age (16-64 years): This population cohort falls within the area of the chart shaded pale blue, and
- Old age (65+ years): This population cohort falls within the area of the chart shaded light grey.

**Figure 4: Population Pyramids 2022 vs. 2051**



Source: PBO based on CSO, '[F3027: Population](#)' (August 2023); and '[Population and Labour Force Projections 2017 - 2051](#)' (June 2018).

<sup>18</sup> PBO calculation based on Department of Social Protection, '[Statistical Information on Social Welfare Services 2022](#)' (2023).



The current 65+ age cohort represents 14% of the population (1 in 7 people), and the Fiscal Council project that to increase to almost 27% by 2050 (1 in 4 people).<sup>19</sup> In contrast to this, the rest of the population is expected to increase by just 17% and will make Ireland one of the fastest aging countries in the EU with the old age dependency ratio, measuring the ratio between the population aged 65+ and the working age population set to rise significantly.<sup>20</sup> This means that there will be fewer people to provide supports for the older population.

### Digitalisation

The digital economy incorporates all economic activity reliant on, or significantly enhanced using digital inputs, including digital technologies, digital infrastructure, digital services, and data. It refers to all producers and consumers, including government, that are utilising these digital inputs in their economic activities. Digitalisation has fundamentally changed the economy and will continue to do so. A 2022 report from the Central Statistics Office reveals that 22% of the Irish economy's output in 2020 was digitally ordered - representing €154 billion of transactions. This comprised €21 billion (3% of total) of goods and €133 billion (19% of total) of services.<sup>21</sup>

Developing adequate (re-)training opportunities and providing a labour market and innovation environment which encourages the creation of “future-focused jobs” is essential to improve productivity and equity while avoiding a polarisation of labour markets. Minimum wages can help contain wage inequality in the presence of these structural developments.

Beyond its potential to boost productivity and living standards, digitalisation does not necessarily replace jobs on aggregate but changes their content and social impact. While it tends to raise income, it will have implications for the wealth distribution with a shift of income from labour to capital. Digitalisation has ambiguous effects on competition including how economic sectors respond to fiscal policy. The main, widely acknowledged challenge is in the difficulty of taxation that a digital economy creates. In particular, digitalisation provides opportunities for volatile profit-shifting across jurisdictions.

### Climate

The Government has a key objective of achieving ‘net zero’ emissions by 2050 and has set interim targets set out in legislation<sup>22</sup> requiring a halving of CO<sub>2</sub> and other greenhouse gas (GHG) emissions by 2030 relative to 2018.

<sup>19</sup> Irish Fiscal Advisory Council, [Long Term Sustainability Report \(2020\)](#).

<sup>20</sup> [Economic Outlook No 113 - June 2023. : Ireland \(oecd.org\)](#).

<sup>21</sup> Central Statistics Office, [Digital Transactions in the Irish Economy 2020](#), November 2022.

<sup>22</sup> [Climate Action and Low Carbon Development \(Amendment\) Act 2021](#).

Latest data from the EPA show that total GHG emissions decreased by 1.9% (1.19 Mt CO<sub>2</sub>eq) in 2022 compared to 2021<sup>23</sup> driven by higher fuel prices, increased renewable energy, behavioural change and regulation. The report highlights that 47% of Ireland's Carbon Budget for 2021-2025 has been used in the first 2 years. An extremely challenging annual reduction of 12.4% is required for each of the remaining years if Ireland is to stay within the Budget.

Another important ongoing consideration is EU requirements to establish strong long-term renovation strategies (retrofitting), aiming at decarbonising the national building stocks by 2050, with indicative milestones for 2030, 2040 and 2050.<sup>24</sup> Required Irish investments in energy efficiency will stimulate the economy, especially the construction industry and will add to associated capacity constraints in the sector. This could lead to a divergent property market with high prices being demanded for the newer and more in-demand green buildings and older, less green stock being less desirable.

As the COVID rebound continues, current decarbonisation actions are being outpaced by increased energy demand across the economy and dependence on fossil fuels for energy generation.<sup>25</sup> More action is needed across all sectors, but particularly in sectors not covered by emission trading, notably agriculture and transport. A significant increase of 6% in transport emissions in 2022 highlights the risk that a growing economy, with high employment, will continue to produce emissions if emissions cannot be decoupled from increased activity by using cleaner and alternatives sources of energy. Reducing emissions will rely on regulatory measures and a gradual alignment and raising of carbon prices.

While there is a high degree of clarity as to the costs of an ageing population, there is less clarity or detail as to the likely considerable costs associated with meeting climate change targets. Providing greater clarity

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<sup>23</sup> Environmental Protection Agency, '[Ireland's 2022 Greenhouse Gas Emissions show a welcome decrease, but much work remains to be done](#)' (July 2023).

<sup>24</sup> To boost energy performance of buildings, the EU has established a legislative framework that includes the Energy Performance of Buildings Directive 2010/31/EU and the Energy Efficiency Directive 2012/27/EU. Both directives were amended in 2018 and 2019, as part of the [Clean energy for all Europeans package](#). In October 2020, the Commission presented its [Renovation wave strategy](#), as part of the [European Green Deal](#). Proposed amendments to the Energy Performance of Buildings Directive aimed at ensuring buildings are categorised as zero-emission buildings, by 2030 for new builds and 2050 for existing buildings, are currently going through the EU's legislative process.

<sup>25</sup> Emissions decreased by 1.8% despite a 2.1% increase in overall electricity demand. Reductions in coal, oil and peat used in electricity generation were largely offset by the highest gas usage since 2010 despite increased renewable energy.

on these costs would help to generate dialogue on options as to how best meet and provide for them in the public finances into the future.

## **6. Concluding remarks**

As a small open economy, Ireland has achieved remarkable income growth averaging in excess of 3 per cent per year in real terms, over recent decades. By international standards, our labour productivity is currently high (even in GNI\* terms) but our scope for continued out-performance may be limited. Ireland's relatively young population is projected to radically change in the coming decades. The number of people over the age of 85 is likely to increase fourfold between 2020 and 2050. By contrast, the rest of the population is projected to expand by much less. This rapid ageing of the population structure marks Ireland as one of the fastest-ageing populations in the EU.

The digital revolution is transforming our economy. With the economic gains come new challenges including the reshaping of markets and the world of work. The interaction between technological change and economic conditions will continue to affect policy implementation, not least international cooperation on tax matters.

Government debt positions may currently be favourable by the metrics used for international comparison but building fiscal buffers to absorb shocks, not least a falloff in corporation tax receipts or a rise in interest rates on future government debt, is essential.

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