

# Budget 2025: A Macroeconomic Perspective

## EVENT

ESRI Post-Budget Seminar

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## AUTHORS

Lea Hauser, Dónal O'Shea &  
Kieran McQuinn



# Overview

- Context for the budget: Macroeconomic assessment
- Impact of greater investment?
- Public finances: Revenue and expenditure levels
- Key challenges for fiscal policy
- Impact of Budget 2025

## Context for the Budget: Macroeconomic Assessment

# Context for Budget 2025

- Budget framed against robust underlying growth in an economy
  - Operating near capacity
- Investment in key areas – housing, transport, climate change
- Labour market:
  - Operating close to or at capacity
  - Unemployment at 4.3 per cent
- Inflation expected to continue to fall into 2025
  - Leading to real wage increase
- Further support households and firms?
- Ireland to benefit from increase in global trade and output

# Macroeconomic Assessment Overview

## *Dual Economy*

- Real wage increase forecast for 2025
- Drive robust growth in the domestic economy
- Slow GDP growth caused by multinational sector

## *Record numbers in employment*

- Historically low unemployment rate
- Over 2.7m people employed – 1.3m in 1995!

## *Inflation set to continue to fall*

- Declines in energy prices
- Contributing to lower headline inflation

## *Healthy Public Finances*

- Continued growth in taxation receipts

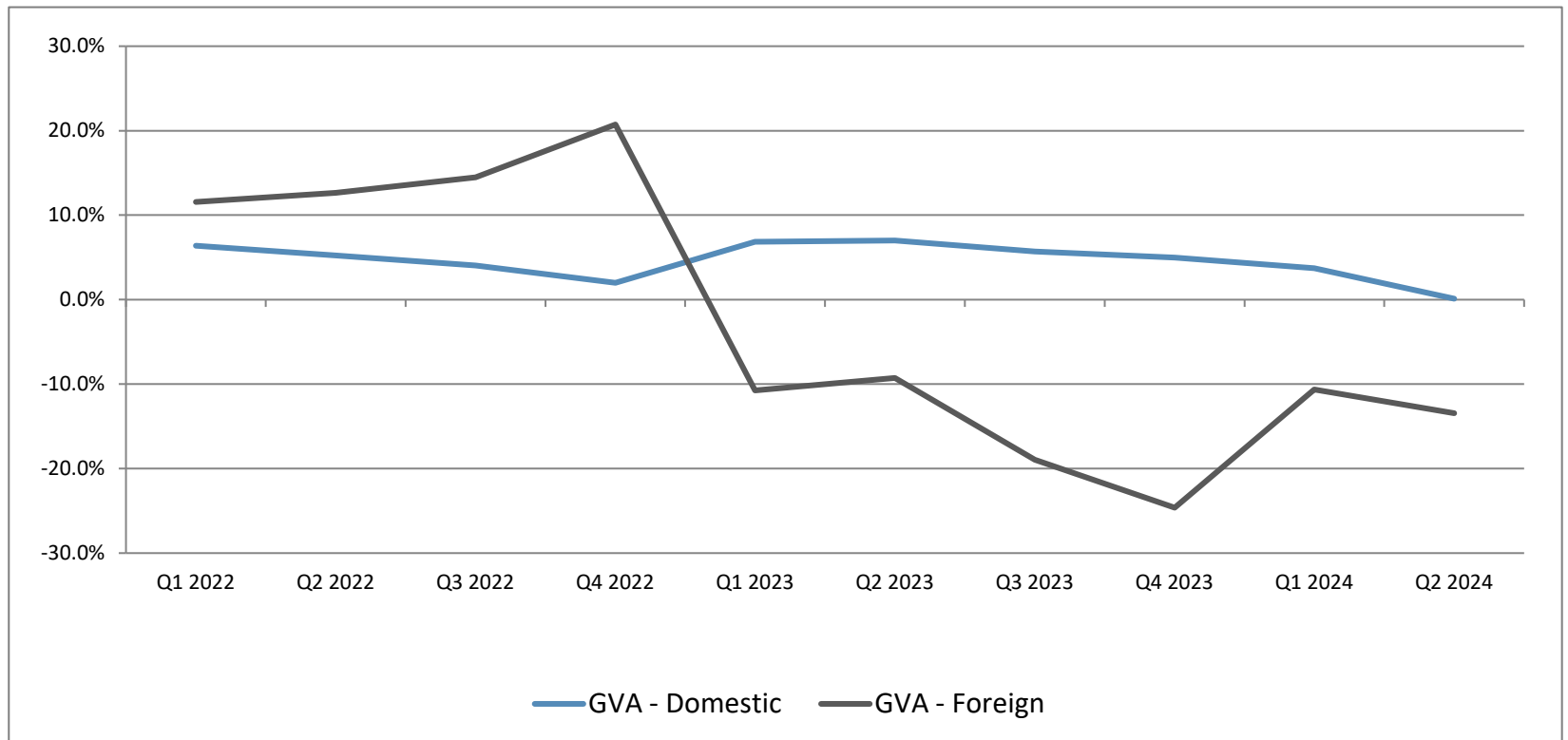
## *Housing Supply*

- Housing supply stalling vis-à-vis 2023 levels

Forecast		
	GDP	MDD
<b>2022</b>	8.7	9.1
<b>2023</b>	-5.7	2.7
<b>2024</b>	-0.4	2.3
<b>2025</b>	2.5	3.1

# Dual economy on divergent paths

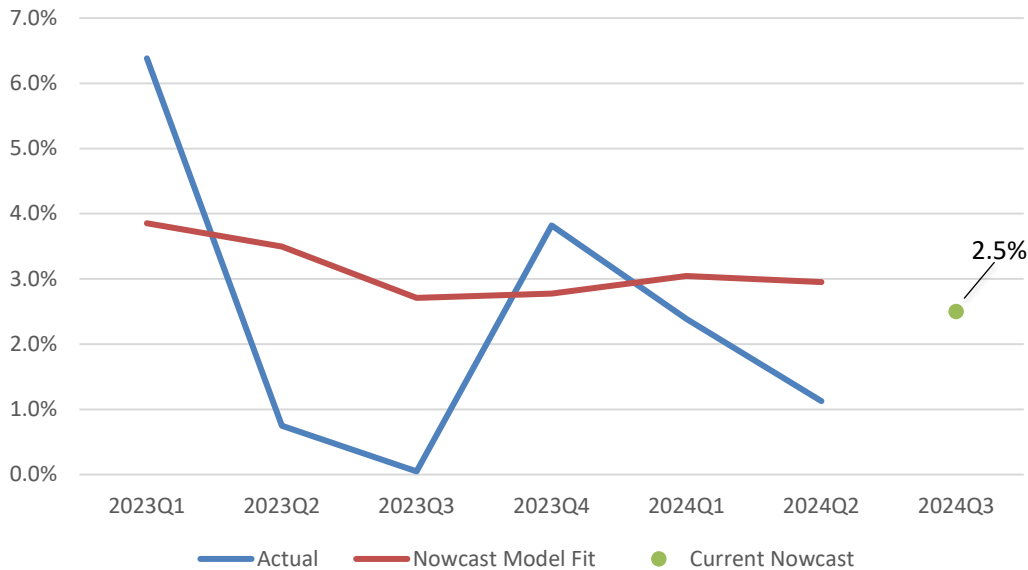
GVA GROWTH, FOREIGN & DOMESTIC SECTORS – Y-ON-Y (%)



Source: Central Statistics Office

# Nowcast of Modified Domestic Demand

**NOWCAST OF MODIFIED DOMESTIC DEMAND: 2023 – Q3 2024**



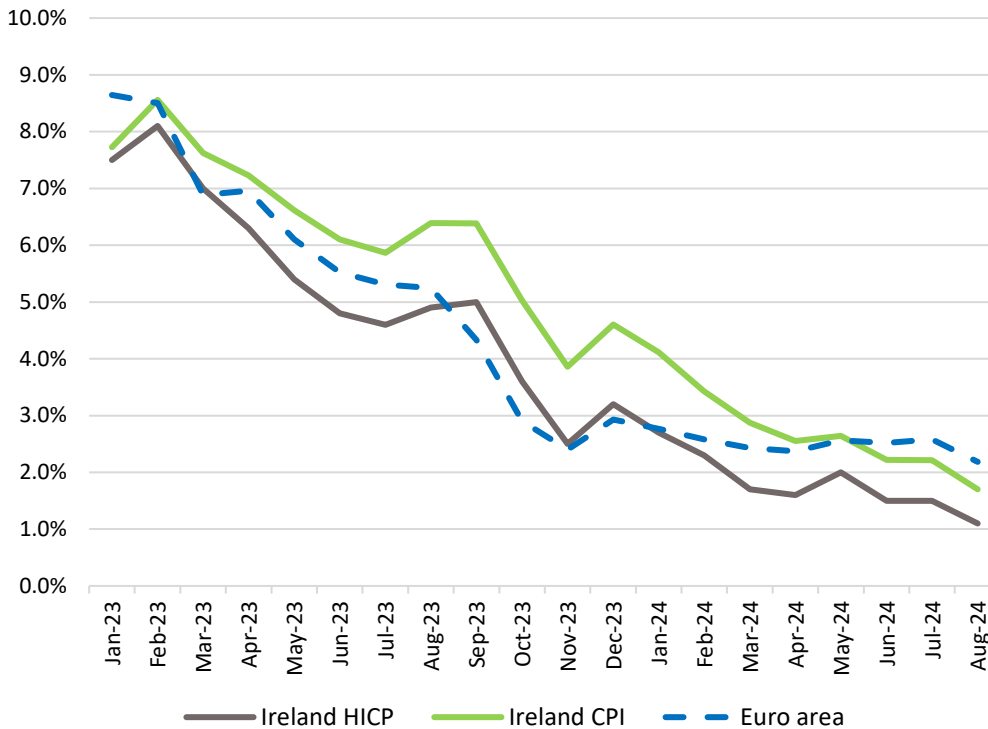
- Latest estimate of MDD is of current year-on-year growth of 2.5%
- We expect MDD growth to continue into 2025.

*Note:* Nowcast for Q3 includes partial data for July

*Source:* Nowcast, Egan and Kren (2024)

# Inflation to continue to ease

IRISH CPI AND HICP COMPARED TO EURO AREA HICP



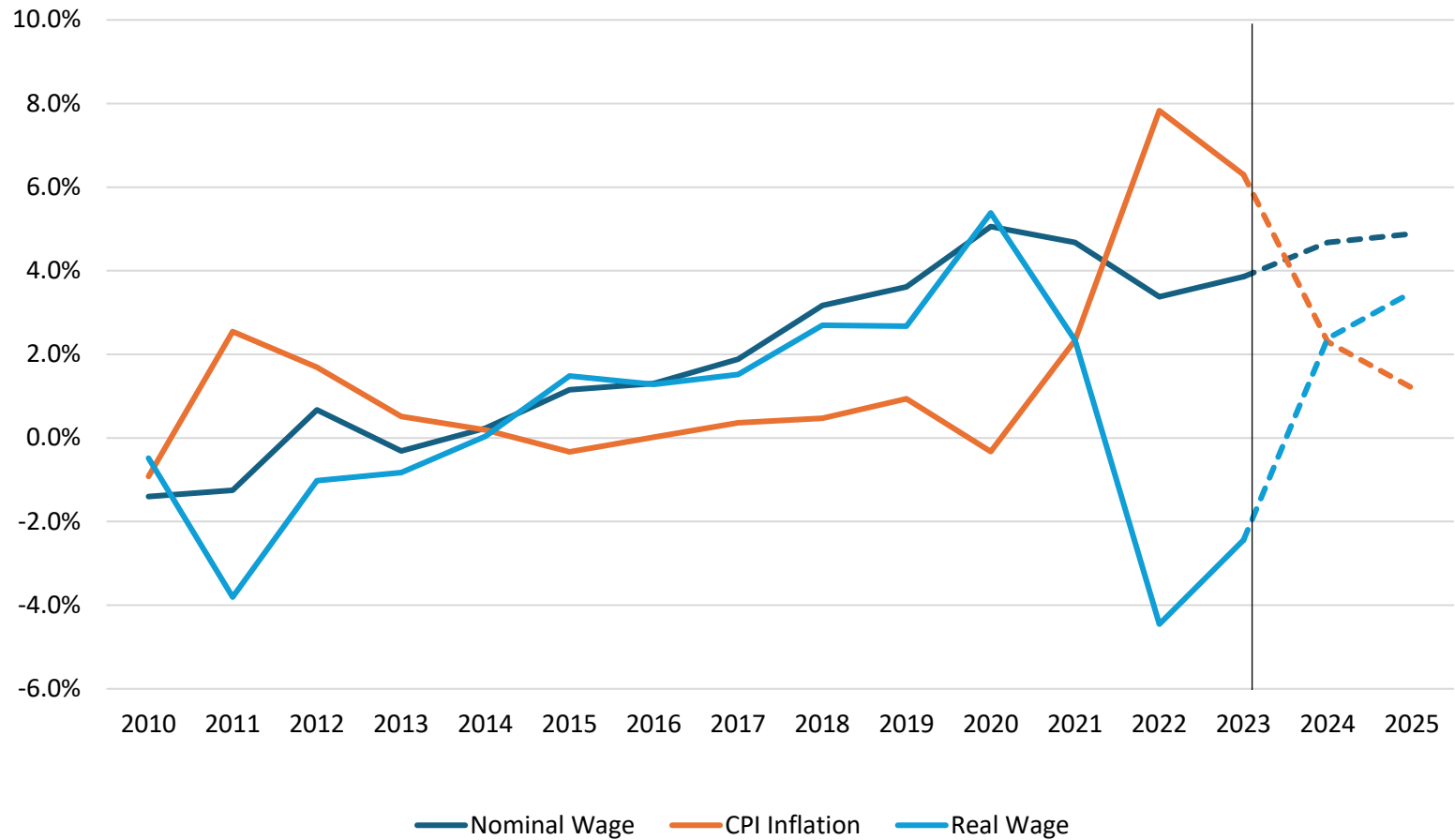
Source: Central Statistics Office and Eurostat

	2023	2024	2025
Inflation (CPI)	6.3	2.3	1.2

- Inflation is falling
- Most sectors experiencing
  - Modest price growth
- Inflation now driven by
  - Restaurant and hotel sector
- Energy prices falling
- Irish inflation among
- Lowest in Eurozone



# Real incomes set to increase



Source: Central Statistics Office and author's calculations.

## **Greater Investment to stimulate long-term growth?**

# Lower Long Run Growth Rates

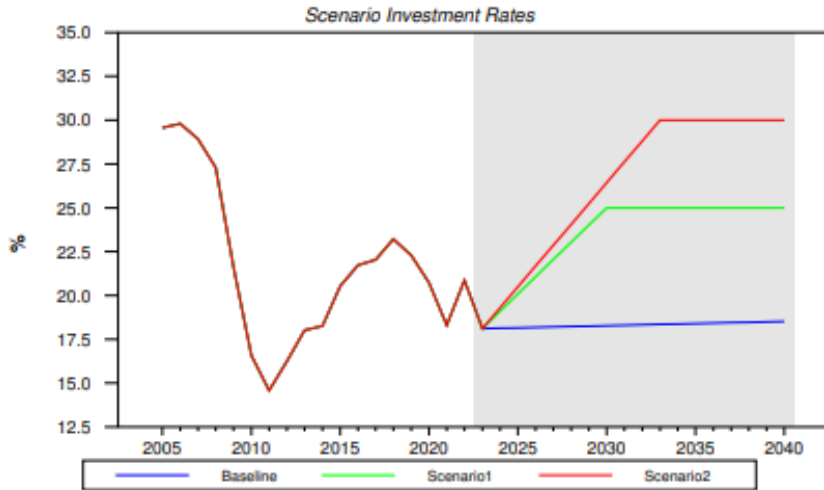
- Egan and McQuinn (2024)
- Use a traditional Solow growth model,
  - Controlling for distortions in Irish national accounts,
- Generate long-run forecasts: 2024 - 2060
- Current strong persistent growth predicted to give way to
- More subdued rates in future decades
- Baseline case underpinned by latest demographic forecasts
- Slower growth to be driven by
  - Population dynamics and
  - Declining rate of productivity growth

# Greater Investment to Boost Growth?

- Barrett and Curtis (2024) point to infrastructure deficits
  - Housing, Transport, Water and Energy
  - Climate Change
- Draghi (2024): Importance of investment across Europe
- Recommends investment rate  $\uparrow$  22 to 27 per cent
- Using Solow model Egan and McQuinn (2024) model plausible
  - Increases in investment rate up to 2034 and
  - Assess impact on output growth in the economy

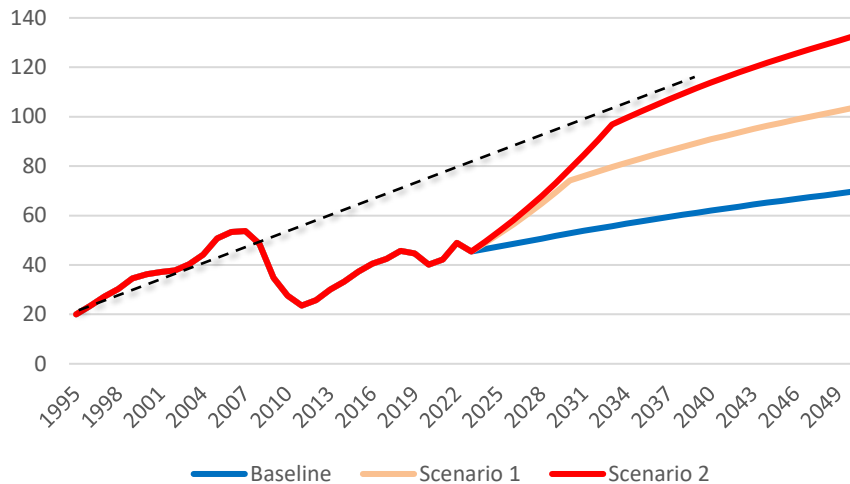
# Investment Scenarios

## IRISH INVESTMENT RATE (% OF OUTPUT)



- Scenario 1 sees investment rate gradually build to 25%
- Scenario 2 sees investment rate return to 30% level achieved during 2005-6
- Combination of public and private investment required to achieve this

## REAL INVESTMENT (€, BN)



# Benefits to Increasing Investment

Baseline Growth Forecast (%)			
	2024-2030	2030-2040	2040-2050
<b>Output</b>	2.0	1.5	1.1

Growth Forecast under Scenario 2 Investment (%)			
	2024-2030	2030-2040	2040-2050
<b>Output</b>	2.5	2.4	1.6
<b>Change vs Baseline</b>	+ 0.5	+ 0.9	+ 0.5

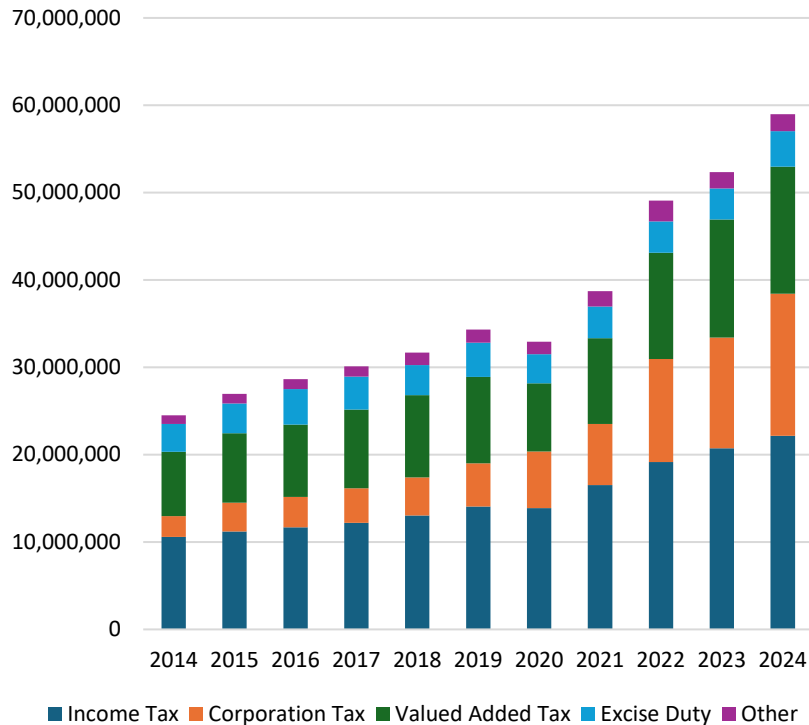
Source: Egan and McQuinn (2024)

Note: higher investment scenario entails gradual increase of investment rate to 30% by 2034

## Public Finances: Revenue and Expenditure Levels

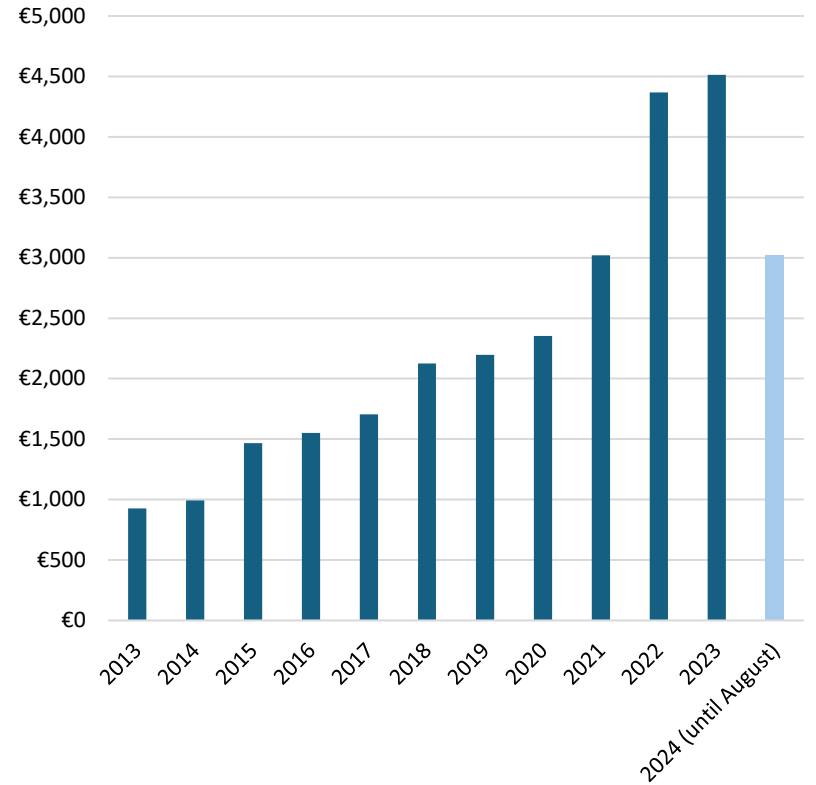
# Increases in Tax Revenue

**GROWTH IN MAIN TAXATION HEADING JAN-AUG (000'S €'S)**



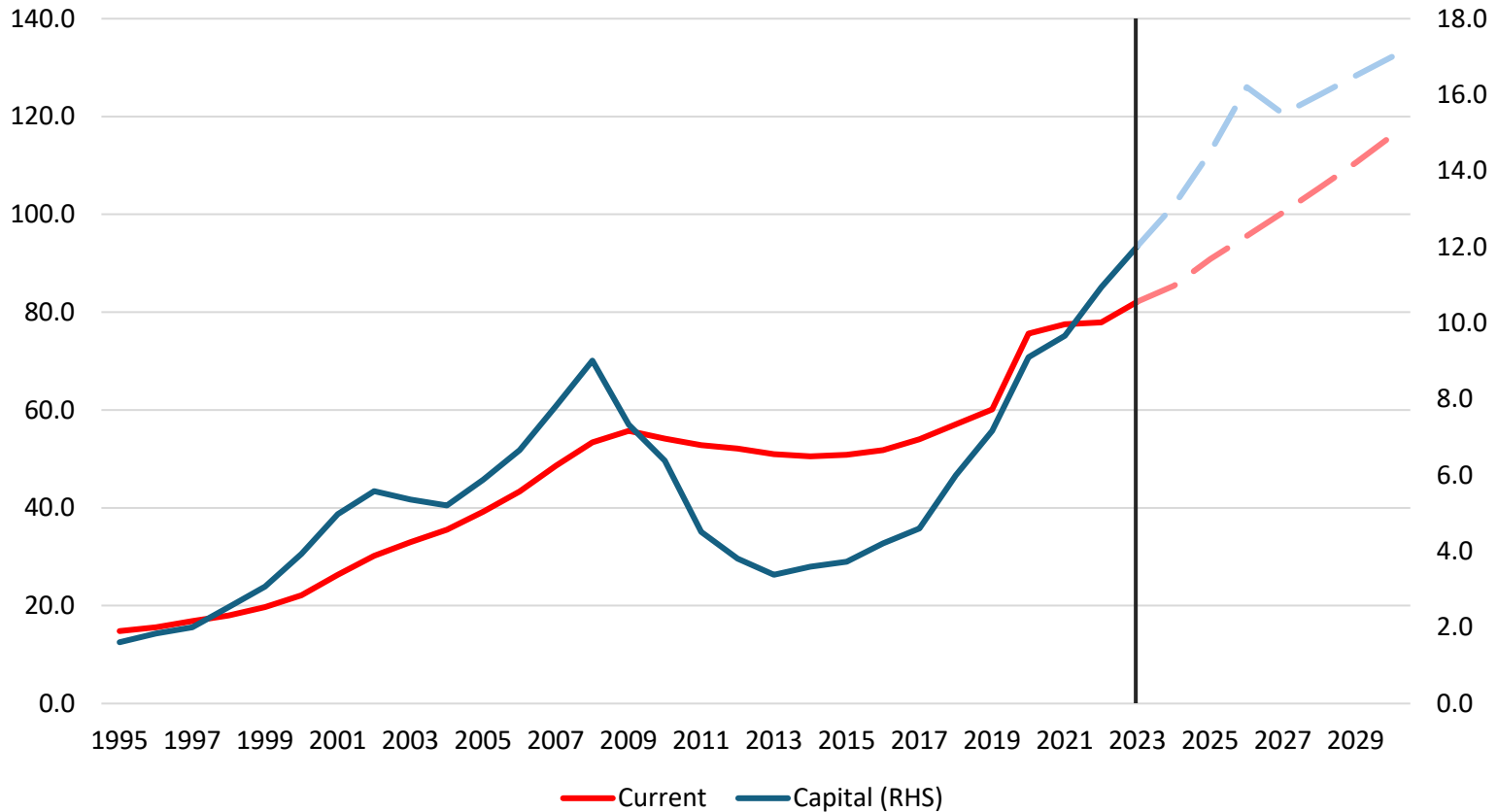
Source: Department of Finance and Authors' calculations

**CORPORATION TAX RECEIPTS PER CAPITA (€)**





## Actual and Planned current and capital expenditure (€bn)

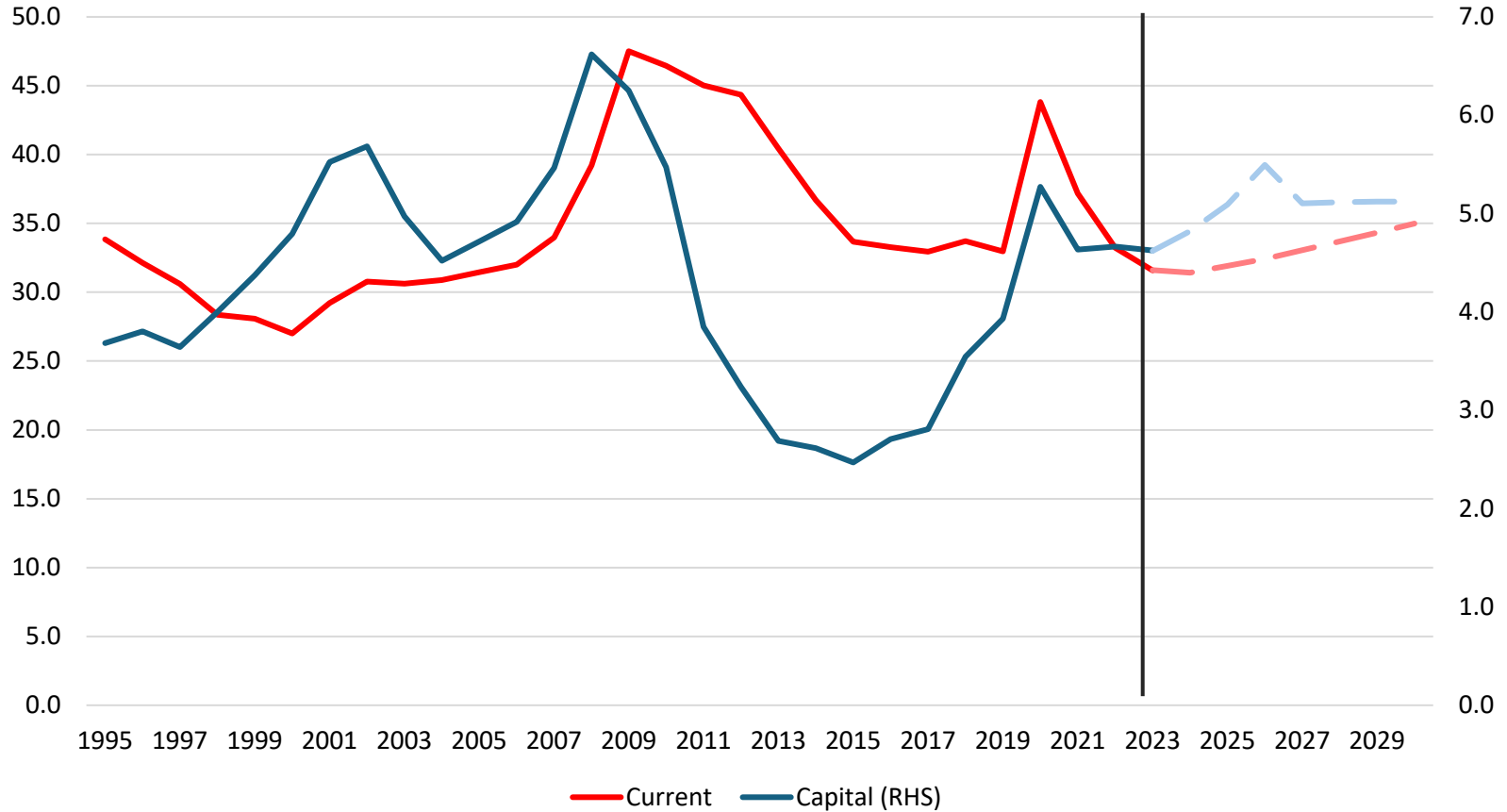


Source: Department of Finance and Authors' calculations

# Review of expenditure levels

- Volatile over the period 1995 – 2022
- Capital expenditure particularly volatile and pro-cyclical
  - In absolute and
  - In relative terms
- Low capital expenditure vis-à-vis other EU countries
  - Government investment levels low generally
- After GFC - capital expenditure playing catch-up?
- When considering sustainability of public expenditure
  - Important to consider spending in the context of
  - Likely growth in output

# Actual and Planned expenditure as a percentage of Output



Source: Department of Finance and Authors' calculations  
Output given in the form of Net National Output following Fitzgerald (2018)

## **Challenge for Fiscal Policy: Development of Metrics to Assess Productivity**

# Challenge: Develop metrics for productivity

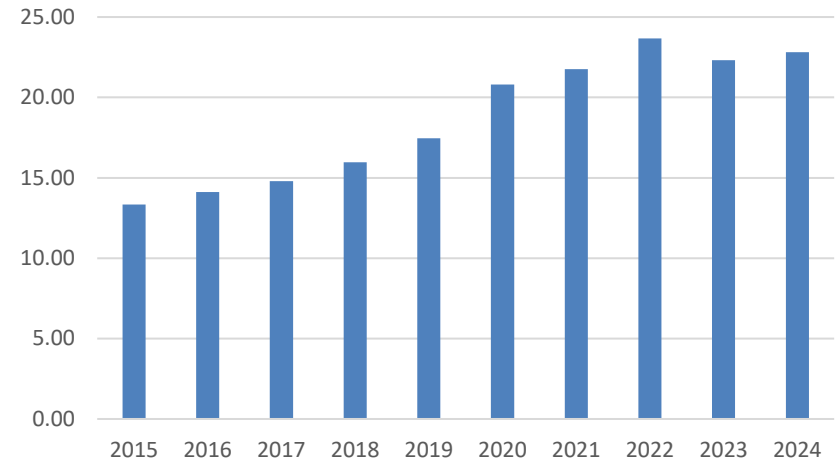
- Need for greater investment acknowledged
- Will increased public expenditure cause improved performance
- In health, housing, transport and climate change?
- QEC (2024):
  - Metrics that assess performance must be established and measured<sup>1</sup>
- Further investment dependent on improvement in metrics?

<sup>1</sup> Walsh and McQuinn, 2024

# Example: Productivity Metrics Health

- Increased spending on health
- Establishment of
  - Productivity and Savings Taskforce in 2024
- Refinement of metrics required
- To ensure variations across time
- and regions are explained
- Learning from other countries
  - UK Institute for Fiscal Studies

TOTAL PUBLIC EXPENDITURE HEALTH (INCL. HSE) (€, BN)



Source: Dept of Public Expenditure databank

Note: Gross Public Expenditure figures used in line with Parliamentary Budget Office (2023):  
[https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2023/2023-06-13\\_measuring-the-cost-of-public-service-provision-gross-and-net-spending-in-ireland\\_en.pdf](https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2023/2023-06-13_measuring-the-cost-of-public-service-provision-gross-and-net-spending-in-ireland_en.pdf)

## Example: Residential Zoned Land Tax

- Government spend on housing trebled since 2017<sup>3</sup>
- Land accounts for approximately
  - 15-20% of the cost of production of housing<sup>4</sup>
- Residential zoned land tax
  - Ensure more efficient and sustainable delivery of land
  - Ultimately reduce land costs?
- Implementation of RZLT ensures
  - Greater efficiency of Government spending on housing?

<sup>3</sup> DPER Databank

<sup>4</sup> McQuinn (2024)

## Impact of Budget 2025



# Allocation of Capital Investment Budget 2025

Gross Voted Capital Expenditure			
€, bn	2023	2024	2025
<b>Housing</b>	3.52	3.92	4.50
<b>Transport</b>	2.59	2.68	2.89
<b>Health</b>	1.08	1.23	1.46
<b>Environment</b>	0.85	0.99	1.14
<b>Education</b>	0.86	0.94	1.3
<b>Other</b>	2.67	3.53	3.63
<b>Total</b>	11.57	13.29	14.92

- Largest increases in Housing and Education
- Additional investment not included in these figures also announced:
  - €0.75bn Eirgrid
  - €1.0bn Uisce Éireann
  - €1.25bn Land Development Agency

Source: Dept of Finance Expenditure Report 2024 and 2025

# Impact of budget 1

- Increased Investment
  - To be welcomed
  - Details of spend and prioritisation important
  - Need to become more adept at spending on large infrastructure projects
  
- Use of Investment Funds
  - To be welcomed
  - Helps to delineate taxation revenues between sustainable and unsustainable
  - Given past experience - counter-cyclical element is welcome

Total Gross Voted Expenditure			
(€, bn)	2023	2024	2025
<b>Current</b>	74.3	85.3	90.5
<b>Capital</b>	11.7	13.3	14.9
<b>Total</b>	85.9	98.6	105.4

Source: Dept of Finance Expenditure Report 2024 and 2025

# Impact of budget 2

- Sizeable package overall
- Constitutes a significant injection into a fast-growing economy
  - Particularly in the context of 4.3% unemployment
- Changes on the tax side
  - $\approx$  indexation
- In the context of robust growth
  - Untargeted welfare lump sums unsustainable in the long run
  - Half of €2.2bn in one-off payments consists of child benefit and energy credit
  - Second tier of child benefit more sustainable and effective?

# Thank You

# References

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