Budget 2025

Irish Economy

Economic Research **02 Oct 2024**

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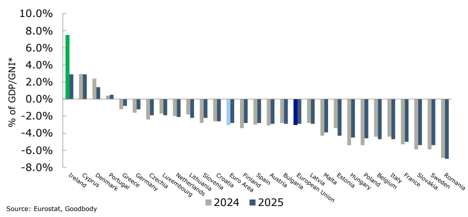
The Big (Apple) Giveaway

Record surplus forms the backdrop for Budget 2025

In contrast to many of its peers, Ireland was in the envious position of having to manage a record budget surplus in Budget 2025. Helped by record corporation tax receipts and the recent ruling by the Court of Justice in relation to Apple (€14.1bn), Ireland will run a surplus of 7.5% of GNI* in 2024, with a surplus of 2.9% of GNI* expected for 2025. Debt levels will continue to fall over the coming years, with gross debt expected to fall to 64% and net debt expected to fall to just 42% of GNI* by the end of next year. The headline statistics suggest that the Irish public finances are in rude health, but the dependence on, and the concentration risks around, corporation tax remain an ongoing source of concern in the context of growing policy and political risks on trade.

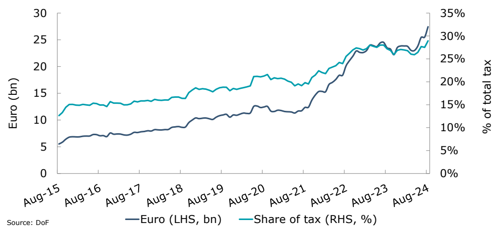
Budget balances across Europe



Inflationary, structural and political at the same time

Budget 2025 was framed in the context of three important points of reference for the Irish economy; (i) the economy is at full capacity, with further fiscal stimulus risking inflationary pressures; (ii) infrastructure shortages are having real impacts on Ireland's competitive position and must be addressed, and; (iii) the government was keen to address the preferences of households given the imminence of a general election. The budget measures will influence each of these factors in the coming period.

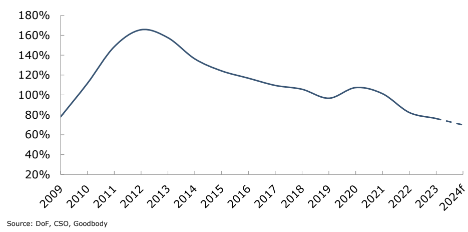
Corporation tax accounts for 29% of total taxes



Spending targets exceeded as "creep" continues

While Ireland continues to run large budget surpluses, this hides an underlying "spending creep" that has occurred over recent years. For 2024, spending will grow by 9% yoy, well above the government's own spending rule. This rule was put in place to prevent a repeat of pro-cyclical spending, but it has largely been ignored. While general government spending is forecast to grow by below 5% in 2025, there is a risk of a repeat of recent years, where spending targets were missed. This spending then acts as the base for the growth in the following year.

Government debt levels (Debt/GNI*)



Welcome focus on infrastructure for Apple monies

The government resisted the urge to spend the windfall gains coming from the Apple judgement. Instead, it focused on a number of "principles" which will guide the spending of these monies. It also identified four Key Investment Pillars - water infrastructure, the electricity grid, transport networks and housing – that will be the focus of capital investment plans in the coming years. Importantly, the government plans to leverage the size of these funds by "crowding-in" private capital. In our view, the monies should be seen as a downpayment on securing Ireland's future competitiveness, focusing on areas that will ensure ongoing success in attracting FDI into the future.

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Intro & main elements

Through a combination of solid economic growth and a large amount of good fortune, Ireland found itself in the envious position of having a record budget surplus for 2024 as the backdrop for Budget 2025. In the context of an economy at full capacity, the challenge of the government was to manage the inflationary impact of additional government spending while at the same time putting resources to work to close very clear infrastructural deficits in the economy. With a general election imminent, there was also a large political "elephant in the room" that provided an important backdrop to this Budget. All of these issues factors played a role in shaping the measures announced today.

From an economic and fiscal management point of view, the suite of measures contained in Budget 2025 were a mixed bag. The decision to divert windfall gains from the €14.1bn Apple judgement to dealing with Ireland's infrastructure deficit is welcome. However, a host of untargeted fiscal measures is unwelcome, unnecessarily risking further inflation pressures in an economy at full capacity. While framed as "cost-of-living" measures, they were also likely seen as a political opportunity ahead of a general election that is likely imminent.

From a debt sustainability perspective, the headline statistics point to large surpluses, low interest payments, modest redemption needs and an ongoing reduction in debt ratios. This should support the credit position of the Irish sovereign. The budget position continues to be heavily dependent on corporation tax receipts, which now account for c.30% of tax revenues, with a small number of companies accounting for the lion's share of these receipts. In the context of heightened risks around tax and trade policies, especially around the upcoming US election, this provides an ongoing risk for Ireland.

Ireland can do little about these risks, but it can use the opportunity provided by a combination of "windfall" gains to put Ireland in a more competitive position by focusing on delivering world-class infrastructure. Money is not an issue in achieving this goal. The greater challenge is efficient delivery.

Economic backdrop – more of a "Goldilocks" economy

The growth backdrop for Budget 2025 can described as steady, if unspectacular. Modified Domestic Demand is forecast to grow by 2.9% in 2025, following growth of 2.5% in 2024. These represent upgrades on the forecasts contained in the Stability Programme Update (SPU) in April 2024.

Inflation forecasts have fallen since SPU 2024, with HICP set to average 1.7% this year and 1.9% in 2025, down from 5.2% in 2023. The labour market is expected to remain strong, with employment to grow by 1.8% in 2025 and the unemployment rate to remain close to current levels at 4.5%.

Growth outlook – main aggregates

	SPU '24		Budget '25	
	2024	2025	2024	2025
Economic Activity:				
Real GDP	2.6%	3.9%	-0.2%	3.9%
Modified Domestic Demand	1.9%	2.3%	2.5%	2.9%
Real GNI*	2.0%	1.9%	4.9%	2.7%
Prices:				
HICP	2.1%	2.1%	1.7%	1.9%
Core HICP	3.0%	2.4%	2.7%	2.3%
Labour Market:				
Employment	1.9%	1.5%	2.4%	1.8%
Unemployment	4.6%	4.7%	4.4%	4.5%

Source: DoF

Budgetary metrics – Devil in the detail

Headline statistics in Ireland are often distorted by the impact of multinationals on GDP, but have been further impacted by windfall gains from corporation taxes and the recent ruling by the Court of Justice of the European Union (CJEU) in relation to Apple. It is, therefore, vital to understand the underlying data. A summary of these is found in the table below.

Main fiscal aggregates - Ireland

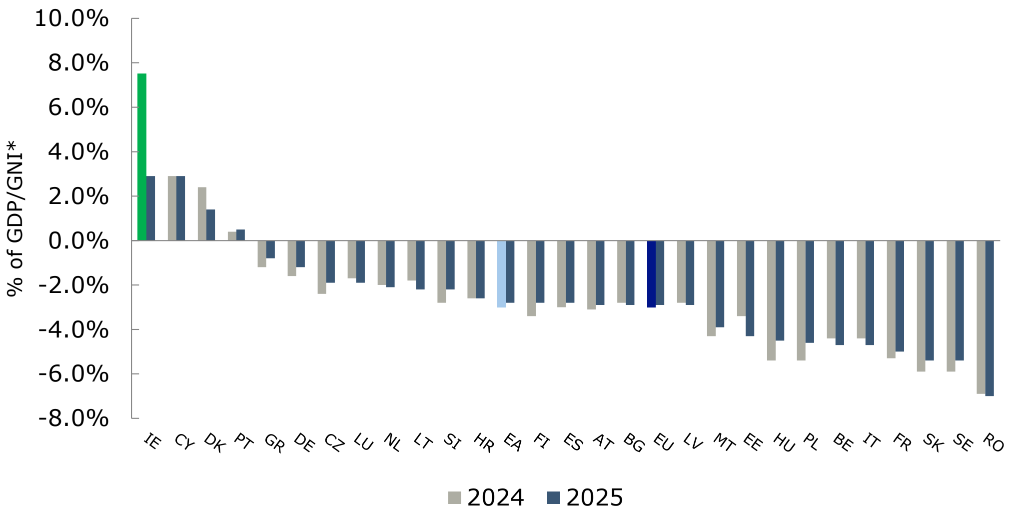
	SPU '23		Budget '24		SPU '24		Budget '25	
	2024	2025	2024	2025	2024	2025	2024	2025
General Govt. balance *(€bn)*	16.2	18.1	8.4	14.2	8.6	9.7	23.7	9.7
General Govt. balance *(% of GNI*)*	5.4	5.8	2.7	4.4	2.8	3.0	7.5	2.9
Underlying General Govt. Balance^ *(€bn)*	4.4	6.7	-2.7	2.5	-2.7	-1.8	-6.3	-5.7
Underlying General Govt. Balance^ *(% of GNI*)*	1.5	2.1	-0.9	0.8	-0.9	-0.6	-2.0	-1.7
Structural budget balance *(% of GNI*)*	1.1	1.6	0.8	0.8	-0.3	-0.7	-3.2	-2.7
General government debt *(€bn)*	224.4	220.2	222.2	219.4	220.8	223.2	217.2	211.2
General government debt ratio *(% of GNI*)*	75.4	70.4	72.3	68.4	72.1	69.7	69.1	63.8

^Underlying fiscal balance excludes the Department's estimate of windfall corporation tax receipts and the proceeds of the CJEU judgement

Source: DoF, Goodbody

At a headline level, Ireland will run a record budget surplus of €23.7bn in 2024, equivalent to 7.5% of GNI*. A surplus of €9.7bn is expected in 2025, equivalent to 2.9% of GNI*. At a headline level, these will be the largest surpluses in the EU. However, the underlying budget position (excluding windfall gains and excess corporation tax receipts) has been deteriorating. The underlying deficit will be €6bn in 2025, compared with an estimate of a surplus of €2.5bn at the time of Budget 2024 a year ago.

Budget balances across Europe

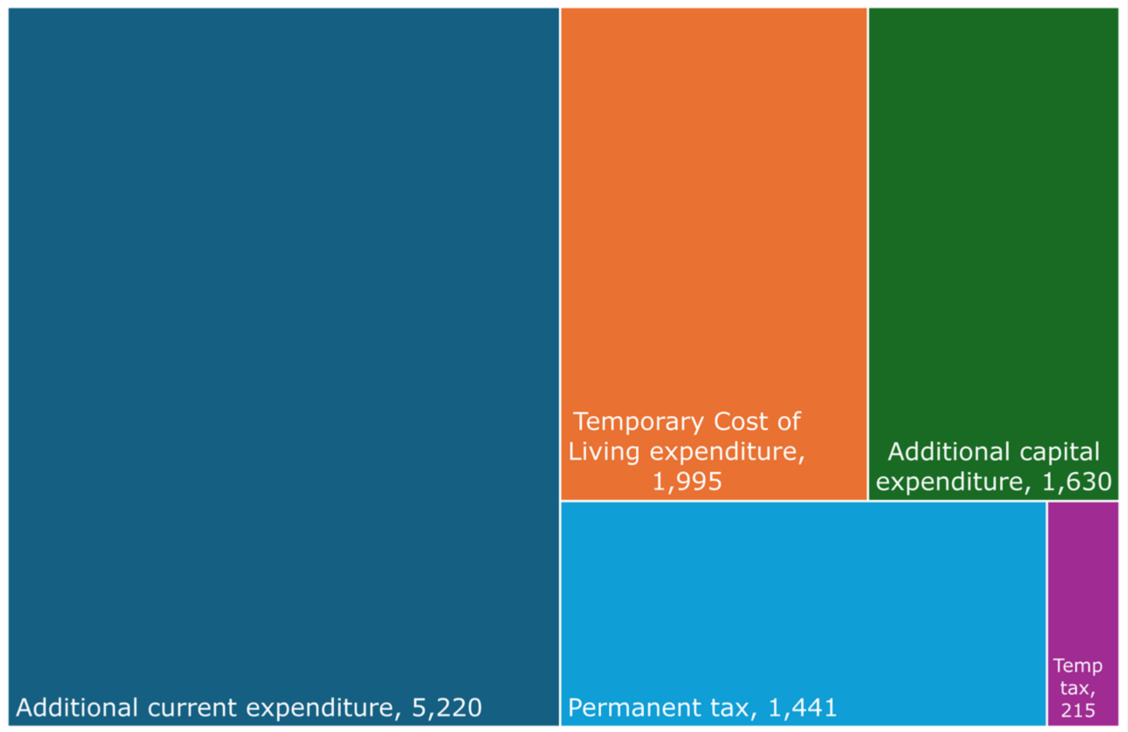


Source: AMECO, Eurostat, Goodbody

Summary of tax & expenditure changes

The Summer Economic Statement provided for an overall budgetary package of €8.3bn for Budget 2025, but this was supplemented by an additional €2bn "cost of living" package. The main components of the budget package are shown in the chart below. It's comprised of an expenditure package of €8.8bn and tax cuts of €1.65bn.

Main budgetary measures



Source: DoF

The main components of the expenditure package are:

- Maintaining existing level of service – This costs €3.4bn and accounts for issues such as the aging of the population, wage inflation and input cost increases.
- Capital spending – an increase of €1.6bn has been allocated
- New measures - €1.9bn in new measures set out in Budget 2025
- Cost-of-Living measures – Despite inflation falling to a three year low, the government decided to introduce another €2bn of measures to assist households. These will come from the 2024 budget and include energy credits (€500m), double child benefit payments (€371m), bonus welfare payments (€350m) and additional fuel allowances (€126m). While these once-off payments could be somewhat justified in the context of high energy prices and high inflation, there is less justification for these untargeted supports in the context of limited spare capacity and an inflation rate that is close to zero.

The main components of the taxation measures are:

- Income tax credits & USC – The income tax package accounts for the bulk of the taxation measures. This includes a €2,000 increase in the standard rate cut-off point, increases in tax credit, a reduction in the 4% USC rate to 3% and an increase in the 2% rate ceiling.
- Help-to-Buy extension to 2029 – Help-to-Buy, which provides up to €30K support for first-time buyers of new homes, is extended until the end of 2029 at a cost of €185m.
- Cost of living – Mortgage relief will be extended for another year, the 9% VAT rate for gas and electricity will be extended to April 2025 and there will be a back-dated increase in the renter tax credit for 2024.

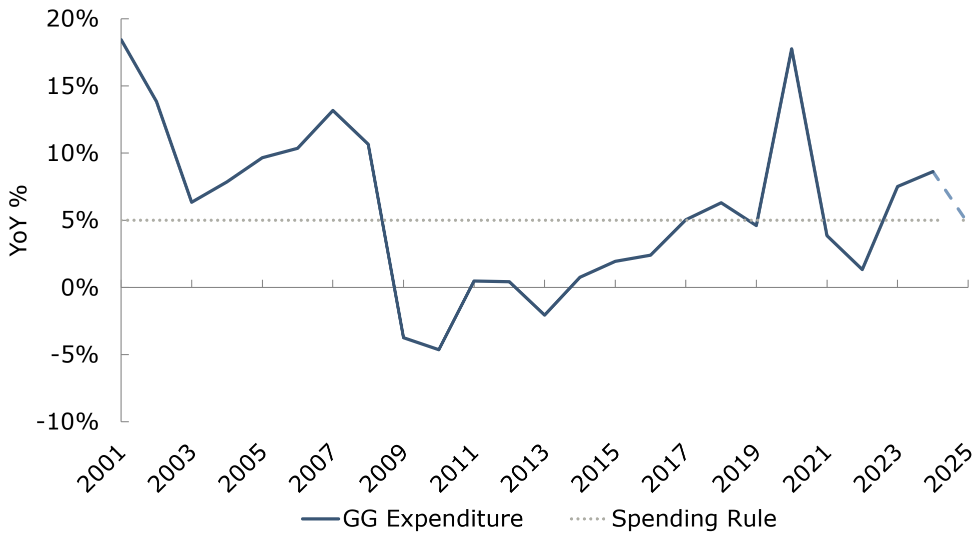
- Taxation on residential property – As flagged, there will be an increase on the stamp duty rate on bulk acquisitions of residential property to 15% (from 10%). A new stamp duty rate of 6% will be introduced for properties valued at over €1.5m. This is expected to raise €80m.
- Increases in excise and carbon tax – The carbon tax increase will raise €157m in revenue, while an increase in excise duties will raise €70m.

Spending creep in train but still in line with historical norms

General government spending is estimated to increase by 8.6% yoy in 2024 to €125bn. This means that the government will miss its 5% spending rule once again this year. The government previously separated spending between "core" and "non-core" to reflect what were thought to be temporary costs associated with Brexit, COVID and the cost-of-living crisis. Unfortunately, this practice ceased at the time of the SES and today's budget document does not reinstate the practice.

The 5% spending rule was introduced to prevent a repeat of pro-cyclical spending and instead grow spending in line with the sustainable growth path of the economy. There has been a record of spending creep that has occurred over recent years. 5% spending growth is forecast for 2025, but targets have been exceeded in recent years. For the period 2020-2025, spending growth has averaged 7.3%. This compares to average growth over the 2001-2008 period of 11.3%. Ireland will not be affected by new fiscal rules coming into effect in the euro area in 2025 due to its relatively low debt level. It is therefore even more important to impose self-discipline in this context.

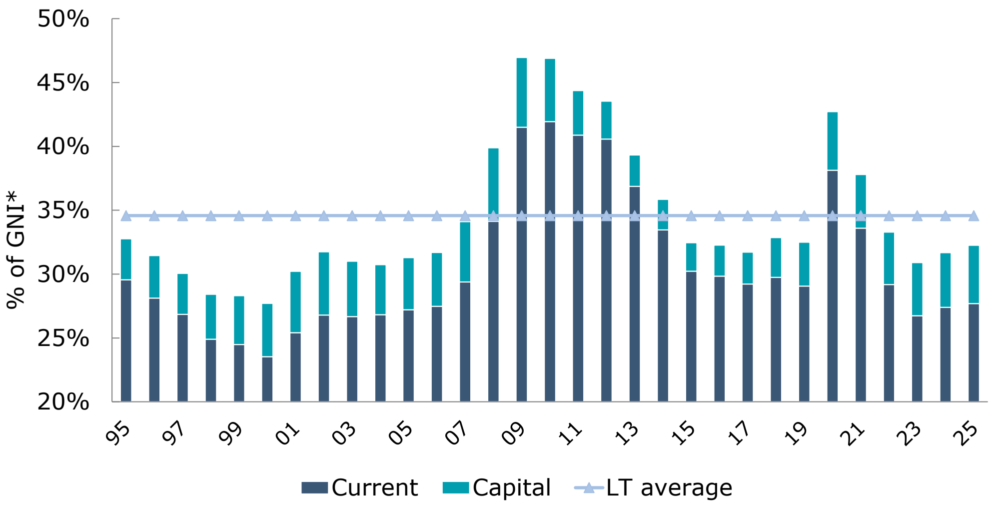
General Government Expenditure and the 5% spending rule



Source: DoF, CSO, Goodbody

Despite the growth in recent years, spending is not excessive relative to historical norms. The following chart shows voted current and capital spending relative to GNI* since 1995 (we strip out banking costs from the GFC period in this calculation). Due to the growth in GNI*, current levels of spending appear sustainable.

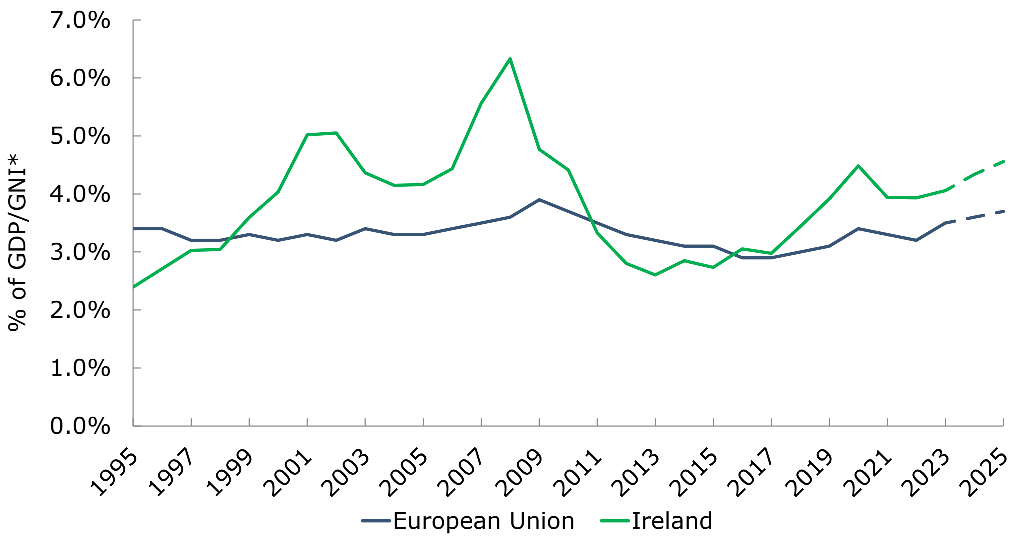
Spending not excessive relative to GNI*



Source: DoF, CSO, Goodbody

The additional allocation announced for 2025 means that capital spending will grow to an estimated 4.6% of GNI* next year, the highest level since 2009. This compares to an EU average of 3.7% of GDP. Given the infrastructural shortages in Ireland it is important that the country sustains a high level of capital spending.

Government Investment leads EU average



Source: AMECO, CSO

What will Ireland do with the €14.1bn Apple monies?

The Irish public finances received a further unexpected boost in September with the decision of the CJEU to direct Apple Inc to pay Ireland €14.1bn in back taxes relating to historical tax rulings. This was a late addition to the budgetary arithmetic. The government largely avoided the urge to make quick decisions on the ultimate use of these funds. Instead, it set out six principles that would govern the use of these funds. These are listed below. In addition, the Department of Finance highlighted four "Strategic Investment Pillars" – Water infrastructure, the electricity grid, transport networks and housing.

It is noteworthy and welcome that it is the DoF's strategy to leverage these funds by "crowding-in" private capital to complete these key strategic infrastructure projects.

Key principles for allocating windfall receipts arising from CJEU ruling on Apple

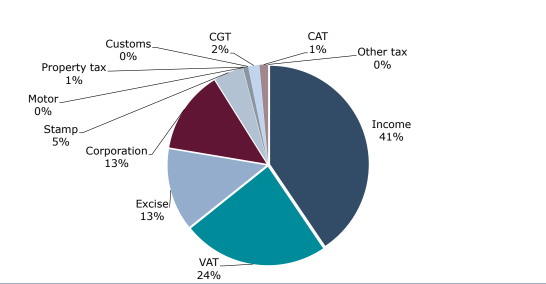
1	Receipts must not be used to finance additional current expenditure
2	Receipts should not be used to narrow the tax base
3	There is need to consider longer term debt dynamics
4	There is strong merit in building up financial assets for the future
5	There is strong merit in building up the public capital stock
6	Additional capital spending involves trade-offs

Source: DoF

Summary of tax revenue mix relative to historical norms

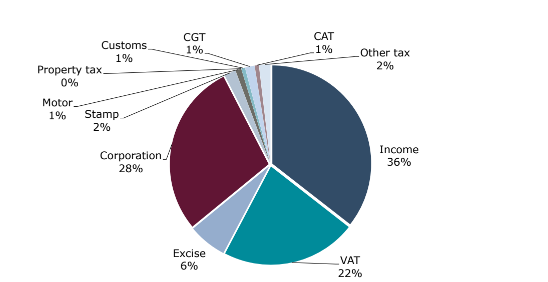
Rapid growth in government revenues has meant that Ireland has been able to maintain a budget surplus despite strong growth in expenditure in recent years. Excluding the €14.1bn in Apple monies counted in general government revenue this year, total revenue is estimated at €135bn this year. This is up from €88bn in 2019. Within this, tax revenue is estimated at €97.7bn this year (excl. Apple monies), up from €59.3bn in 2019. The biggest contribution to this increase has been corporation tax (+€18bn), followed by income tax. On a longer-term basis, the pie charts below highlight the degree to which corporation taxes have risen in importance as a proportion of total taxes since 2014.

Irish tax revenues - 2014



Source: DoF

Irish tax revenues - 2024

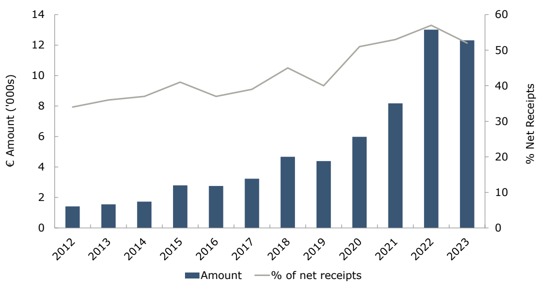


Source: DoF

Dependence on corporate tax at a record high

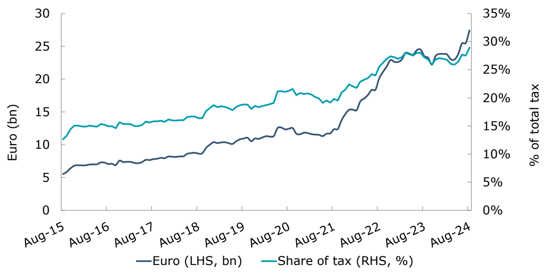
The dependence on corporate tax is not a new phenomenon but it does come into more focus given the heightened policy and political risks regarding trade globally at the current time. Corporation taxes now represent 29% of total tax in Ireland, while over 50% of net corporation tax receipts come from just ten companies.

Corporation tax receipts - top 10 companies



Source: Revenue

Corporation tax accounts for 29% of total



Source: DoF

Sovereign wealth funds could be even bigger

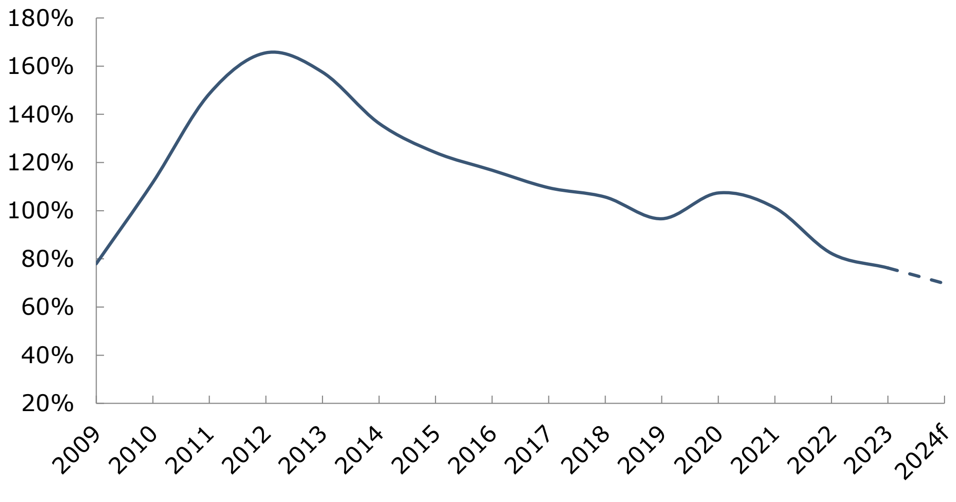
The initiation of the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF) this year are welcome additions. These "sovereign wealth" funds were set up to divert some of the excess funds from potentially temporary corporation tax receipts. In the case of the FIF, 0.8% of GDP per annum will be transferred while €2bn will be transferred from 2025 onwards to the ICNF. €4bn will be transferred to the FIF this year.

While welcome, it would be even more appropriate to link the scale of the transfers to the estimate of "excess" corporation tax receipts. Since the fund was first mooted, the scale of "excess" corporation tax receipts has risen substantially yet the calculations for the funds transfer has not changed. For 2024, the DoF's estimate of "excess" corporation tax receipts is €15.9bn, well above the €4bn transfer to the funds.

Debt ratios continue to fall steadily

Irish debt is expected to fall to 69% of GNI* in 2024, down from 76% of GNI* in 2023. This includes a *nominal* reduction in debt (from €221bn to €217bn), while the nominal level of debt is expected to fall further to €211bn in 2025 (64% of GNI*). This means a continuation of the downward trend that has been in place since 2012 when Irish debt levels peaked at 166% of GNI*.

Government debt levels (Debt/GNI*)



Source: DoF, CSO, Goodbody

The true balance sheet position is even more comfortable when one takes account of financial assets of the State. When cash, liquid assets and monies invested in the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF) is excluded, net debt is expected to fall to just 42% of GNI* in 2025.

The NTMA will lay out its issuance schedule for 2025 later this year, but it is clear that the Irish State is in a very comfortable funding position. Due to issues such as transfers to the savings funds, timing around the payment of accruals, there are significant differences between the Exchequer (cash) balance and the General Government Balance (GGB). For 2025, an Exchequer surplus of €7.9bn is expected, helped by €6.1bn in payments as a result of the Apple judgement. The NTMA currently has €27.5bn in cash & liquid assets as at the end of August 2024. The NTMA has prudently maintained high cash balances over recent years, but has allowed for a reduction in these cash balances in 2025 (-€5.1bn). Redemptions are relatively low, with €11.5bn in bonds maturing, as well as €2.4bn in payments due to the EFSM.

Potential funding & issuance 2025 - 2027

	2025	2026	2027	2025 - 2027
Bond redemptions	11,512	11,662	7,775	30,949
EFSM	2,400	2,000	1,000	5,400
SURE	-	1,273	-	1,273
Other	103	3	203	308
Exchequer balance	7,885	-835	-4,365	2,685
Change in cash balance	-5,100	-	-	-5,100
Issuance requirement (lower cash balance)	1,030	15,772	13,343	30,145
Issuance requirement (no change to cash balance)	6,130	15,772	13,343	35,245

Source: DoF, NTMA, Goodbody

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