Rialtas na hÉireann
Government of Ireland

Budget 2023
Draft Budgetary Plan

Prepared by the Department of Finance
gov.ie/budget I #Budget2023

DRAFT BUDGETARY PLAN 2023

October 2022

Introduction

Regulation (EU) 473/2013 of the European Parliament and of the Council (part of the so-called 'two-pack') introduces a common budgetary timeline for euro area Member States. Specifically, Draft Budgetary Plans for the forthcoming year must be submitted to the European Commission and to the *Eurogroup* between the 1st and the 15th of October each year.

The document herein is the Irish Government's Draft Budgetary Plan and is being submitted to the European Commission and *Eurogroup* in accordance with the Regulation.

This document has been laid before the Houses of the Oireachtas. It is broadly consistent with *Budget 2023*, which was presented to Dáil Éireann (the Irish Parliament) on the 27th of September 2022 (the primary difference relates to the incorporation of actual general government data for 2021, where those outturns were published on 12th October).

The format and content of the document are in line with the requirements of the *Code of Conduct* (the Code) which *inter alia* requires macroeconomic and budgetary forecasts for the current and forthcoming years (in this case 2022 and 2023).

The Code specifies the data to be included in the Draft Budgetary Plans of the Member States. While modified measures of economic activity (modified domestic demand, modified gross national income, etc.) have greater prominence in the Department's various publications, there is no provision for this in the Code. Instead, the Code requires standard metrics such as gross domestic product, headline investment, etc. Accordingly, this document focuses almost entirely[1] on these headline metrics which, in an Irish context, should be interpreted with caution given the internationalisation of the economy.[2]

For the current set of Draft Budgetary Plans, the Commission has asked Member States to include additional information, namely data outlining the budgetary cost associated with the policy response to the energy shock and that arising from the provision of humanitarian assistance to Ukrainian migrants. The Commission has also asked Member States to document how the public finances are facilitating the digital and green transitions, as well as how energy security is being enhanced.

Estimates of the structural balance in this document are provided only for completeness; the figures should be treated with caution given the elevated uncertainty regarding estimates of the output gap at the current juncture.

Figures for pre-budget macroeconomic forecasts for this year and next were endorsed by the *Irish Fiscal Advisory Council*, as required under article 4(4) of the Regulation.

The macroeconomic analysis and forecasts contained in this document are based on data to mid-September while the fiscal analysis is based on data to end-September (with the exception of general government data, which were published in mid-October). All data presented herein are compiled on the *European System of Accounts* (ESA) 2010 statistical basis.

Rounding can affect totals in all tables in this document.

[1] With the exception of a small part of section 2.
[2] See, for instance, Department of Finance's explanatory note *GDP and 'Modified GNI'*, (2018), available at: https://www.gov.ie/en/publication/6a7788-gdp-and-modified-gni-explanatory-note/

Contents

Figures

Annexes

Section 1
Summary

Ireland's *Draft Budgetary Plan* is based on GDP growth of 10.0 per cent for this year, followed by an expansion of 4.7 per cent for next year. These projections take account of the macroeconomic impact of policy measures introduced in *Budget 2023*, presented to the Irish Parliament on 27th September 2022.

The macroeconomic forecasts upon which the Budget is based were endorsed by the *Irish Fiscal Advisory Council* on 19th September 2022.[3]

A general government surplus of 0.2 per cent of GDP is projected this year, an improvement from the 1.7 per cent deficit recorded last year. The improvement of the public finances is mainly driven by a significant increase in tax receipts, in particular corporation tax receipts; on the expenditure side of the equation, the phasing-out of pandemic-related spending is also having a favourable impact on the public finances. For next year, the general government surplus is expected to increase to 1.1 per cent of GDP.

To rebuild fiscal buffers and to ensure that potential windfall receipts are not used to finance permanent commitments, the Government is setting aside €2 billion (0.4 per cent of GDP) this year and €4 billion (0.7 per cent of GDP) next year in the *National Reserve Fund*.[4]

The debt-to-GDP ratio is forecast to be 45.2 per cent at the end of this year. The ratio is projected to fall to 41.1 per cent next year, driven by strong projected nominal growth in GDP next year as well as the assumed general government surplus.

[3] The endorsement letter from the Chairman of the *Irish Fiscal Advisory Council* is available at: https://www.gov.ie/en/publication/dea0c-budget-2023-irish-fiscal-advisory-council-documents/

[4] The *National Surplus (Exceptional Contingencies) Reserve Fund* was established in 2019 to build up fiscal buffers to absorb shocks.

Section 2
Economic Developments and Outlook

2.1 External Environment

Economic prospects in Ireland's main export markets have weakened, as the impact of higher commodity prices reverberates through the global economy. The front-loading of monetary policy normalisation and tighter financial conditions are additional headwinds that will likely tip some of Ireland's key export markets into recession.

Table 1: External assumptions

	2021	2022	2023
External GDP growth^		***per cent change***	
United States	5.7	1.5	0.5
Euro area	5.2	3.1	0.3
United Kingdom	7.4	3.4	0.0
Technical assumptions		***as stated***	
Euro-sterling exchange rate (€1=)	0.86	0.85	0.86
Euro-dollar exchange rate (€1=)	1.18	1.05	1.00
Brent crude (dollars per barrel)	70.7	100.8	89.0
Natural gas prices (stg£ per therm)	1.1	3.5	5.5

Notes:
^ Around four-fifths of Ireland's merchandise trade (three-fifths of total trade) is with the regions set out in the table.
Oil and gas prices (futures) in 2022 – 2023 are calculated on the basis of futures markets as of mid-September 2022.
Exchange rate outturns as of mid-September 2022 and unchanged thereafter.
Source: External growth forecasts are sourced from OECD *Interim Economic Outlook,* September 2022 update

The weaponisation of Russian gas supplies means that Europe is the epicentre of the global energy shock. Activity in the euro area has softened and is projected to move into negative territory in the second half of the year, as the squeeze on real incomes takes its toll. For next year, activity is projected to increase by just 0.3 per cent (**table 1**). In the UK, the energy shock is being aggravated by the additional supply-side shock associated with exiting the European Union. While the US economy is less exposed to the energy price shock, the aggressive pace of monetary tightening is weighing on activity, especially in residential investment. In China, the unravelling of the property bubble continues to depress activity, with potential spill-overs to other parts of the world.[5]

2.2 Irish economic developments in 2022

Economic activity rebounded in the second quarter of this year, as pandemic-related mobility restrictions were lifted. As expected, the ending of the pandemic boosted consumer spending in the second quarter – most notably spending on contact-intensive services – and triggered a rapid rebound in employment. At the same time, private sector investment in plants by parts of the multinational sector, as well as spending on machinery and office equipment to facilitate remote-working, has led to very high investment rates.

Price pressures had been building up from the second half of last year, reflecting rising geopolitical

[5] While not a major export destination, as the second largest economy in the world, developments in the Chinese economy have a major bearing on global prospects.

tensions and pandemic-related supply-chain problems. These price pressures intensified following the outbreak of war in Ukraine, which triggered very large price increases for many commodity prices, especially fossil fuels. As a result, consumer price inflation is now running at its highest rate in nearly half a century, a situation mirrored elsewhere. As Ireland is a net importer of energy products, higher prices mean a transfer of purchasing power abroad ('terms-of-trade' shock).

This shock to real household incomes is taking its toll on the economy, and is the main channel through which war in Ukraine is impacting domestically. In addition, monetary policy has tightened, external demand is weakening and uncertainty remains elevated; these factors will act as a brake on investment.

Higher frequency data suggest a weakening of domestic economic activity in the third quarter and higher winter fuel bills are set to tip consumer spending into negative territory. Transfers from the government sector will support disposable incomes but cannot fully compensate for the terms-of-trade shock; against this backdrop, households are set to prioritise essential over discretionary spending.

Forward-looking indicators are pointing downwards. That said, parts of the multinational sector continue to perform very strongly, notably the pharmaceutical, med-tech and information and communication technology (ICT) sectors. In the first half of the year, the volume of goods exports originating in Ireland increased by a quarter over the same period last year.[6] Services exports remained strong, led by ICT exports. As a result, the foreign-owned sector contributed around 8 percentage points to the growth of gross value added in the first half of the year in annual terms, compared with 4 percentage points in the domestic sector. Because of this, GDP is projected to increase by 10.0 per cent this year.

2.3 Irish economic outlook for 2023

Macroeconomic projections for next year are conditioned on the assumption of no major economic disruption arising from the reduction in Russian gas supplies to continental Europe. In other words, while there may be a cessation of Russian natural gas supplies, it is assumed that alternative energy sources and demand-management measures can plug most (though maybe not all) of the gap in larger continental countries. On this basis, the sharp jump in prices remains the main channel through which war in Ukraine is impacting on the domestic economy.

The key determinants of the outlook for the domestic economy next year will be the decline in domestic purchasing power and the deterioration in the external environment. While wages will offset some of the increase in the price level, real income growth is expected to be negative again next year. The fall in real income growth will act as a drag on consumer spending, which is projected to increase by just 1.8 per cent for the year (the increase is back-loaded to the second half of next year). As a result, consumer spending at the end of next year is around 4 percentage points below the level assumed in the spring forecasts (**figure 1A**).

Heightened uncertainty will weigh on investment spending, especially in the non-multinational sector. As a result, modified domestic demand (an Irish-specific concept that provides a better indicator of domestic economic conditions) at the end of next year is 3 percentage points below the level assumed in the spring projections (**figure 1B**).

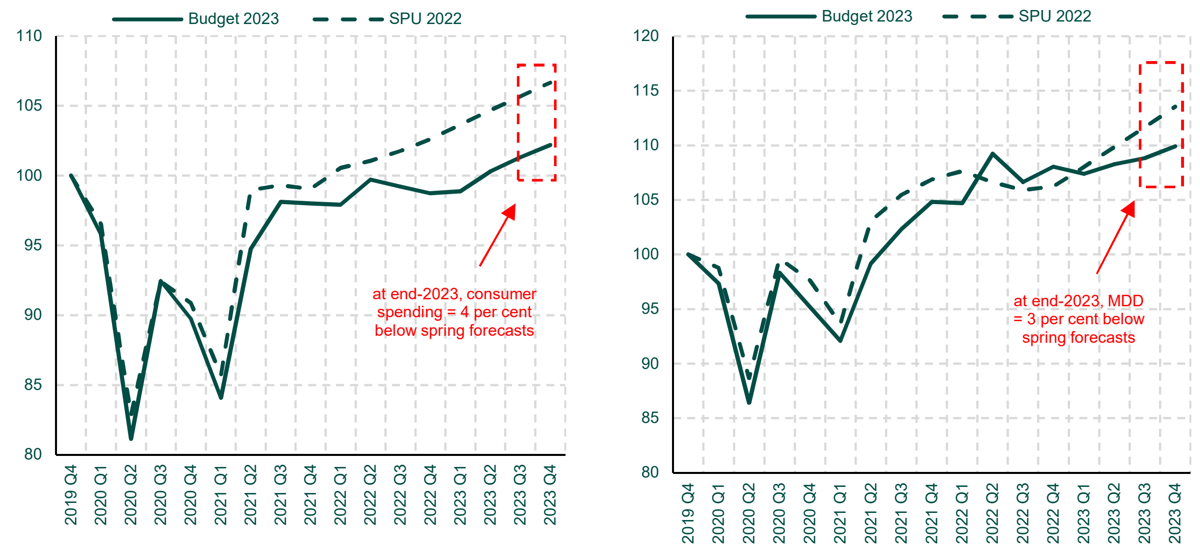
Similar dynamics are at work in Ireland's key export markets – declining household incomes in real terms, weak investment spending – and so the external situation is challenging, although Ireland's export portfolio (dominated by pharma, ICT and med-tech) will provide some support to aggregate

[6] In other words, excluding the production (and subsequent export) of goods through outsourcing to third-country 'contact manufacturers'.

demand. On the basis of these assumptions, GDP is projected to increase by 4.7 per cent next year.

Figure 1: Quarterly projections for household consumption and MDD

A: Quarterly profile for consumption, 2019q4 = 100 | B: Modified Domestic Demand, 2019q4 = 100



Note: Level immediately pre-pandemic set=100.
Source: CSO and Department of Finance.

Note: Level immediately pre-pandemic set=100.
MDD = domestic demand excluding investment in imported intellectual property and investment in aircraft for leasing purposes.
Source: CSO and Department of Finance.

Table 2: Macroeconomic prospects

	2021	2022	2023
Economic activity		***year-on-year per cent change***	
real GDP	13.6	10.0	4.7
nominal GDP	14.3	17.1	9.3
real modified GNI	15.4	5.1	0.4
real MDD	5.8	7.7	1.2
components of GDP		***year-on-year per cent change***	
personal consumption	4.6	5.5	1.8
government consumption	6.5	2.9	-1.5
investment	-39.0	-6.6	3.8
stock changes^	0.3	0.0	0.0
exports	14.1	12.5	5.5
imports	-8.3	7.2	4.1
contributions to real GDP growth		***annual percentage point contribution***	
domestic demand (exc. stocks)	-14.6	0.2	1.0
net exports	28.3	9.9	3.8
stock changes	0.3	0.0	0.0
statistical discrepancy	-0.4	0.0	0.0

Rounding can affect totals.
^ Contribution to GDP growth.
Source: 2021 - CSO; 2022 - 2023 Department of Finance.

2.4 Price Developments

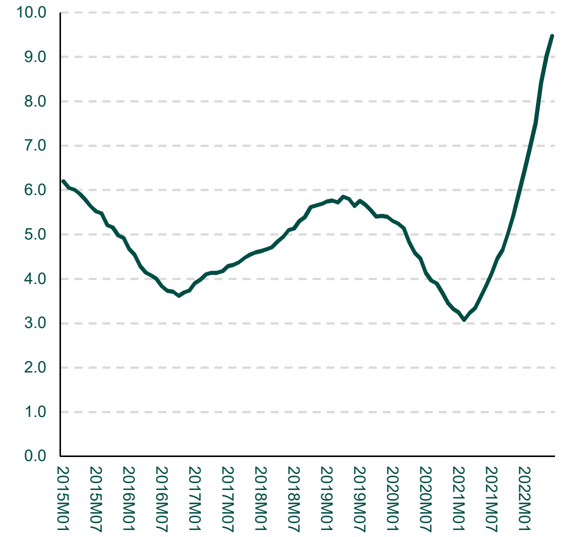
Consumer price inflation has accelerated sharply across advanced economies since the spring, with multi-decade highs recorded in most regions over the summer.

In Ireland, the key driver of inflation has been the increase in wholesale energy (particularly gas) prices following Russia's invasion of Ukraine. As a result, Ireland's energy import bill (**figure 2A**) was around €10 billion (annualised) in July this year, double the 2015-2020 average. Moreover, as hedged positions are unwound and prices *inter alia* reflect gas price developments over the summer, the direction of travel for the import bill is clear.

Other commodity prices, such as those for wheat, fertilisers and metals, also increased sharply in the immediate aftermath of the invasion, but have subsequently retreated somewhat. These external inflationary pressures have been further exacerbated by persistent global supply chain disruptions. On the domestic front, the ongoing mismatch between demand and supply in parts of the labour market is also contributing to higher prices. Accordingly, inflation has become more broad-based (**figure 2B**).

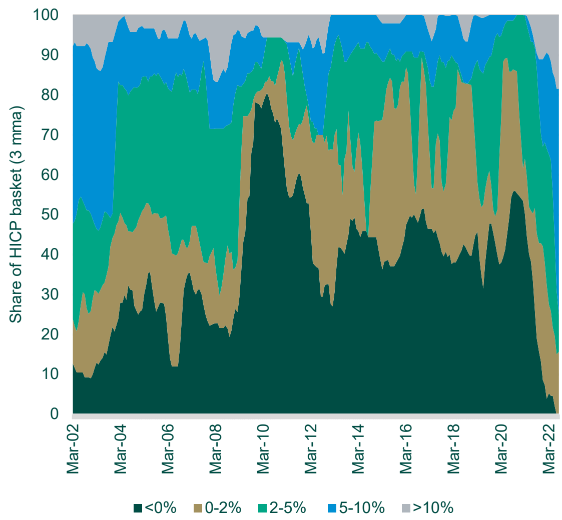
Figure 2: Inflation drivers

A: Ireland's energy import bill, € billion



Note: figures are annualised (12-month rolling sum).
Source: Department of Finance.

B: Inflation rates across the HICP basket



Source: Department of Finance.

Looking ahead, headline (HICP) inflation is expected to increase further in the final quarter of this year. Natural gas prices have increased further over the summer[7] and, as wholesale prices pass-through to retail prices, this will add to inflation. Core inflation is also expected to continue to pick up over the course of this year as the indirect effects of higher energy prices continue to pass through to other sectors, in particular food, transport and non-energy goods. While there is evidence that bottlenecks in global supply chains may be gradually unwinding, relatively strong wage growth will keep services inflation elevated. For this year as a whole, an average inflation rate of 8.5 per cent is in prospect, with the rate peaking at 10.4 per cent in the fourth quarter, while core inflation is projected to average 5.3 per cent.

[7] Subsequent to the publication of *Budget 2023*, wholesale gas prices have eased somewhat.

Table 3: Price developments, per cent change			
	2021	2022	2023
GDP deflator	0.7	6.5	4.4
Personal consumption deflator^	3.8	7.5	6.2
Harmonised index of consumer prices (HICP)	2.5	8.5	7.1
Core HICP inflation^^	1.7	5.3	4.6
Export price deflator (goods and services)	1.0	5.6	3.0
Import price deflator (goods and services)	3.6	5.1	2.4
Terms-of-trade (good and services)	-2.5	0.4	0.6

^ Both the personal consumption deflator and the HICP measure the change in the average price of a fixed basket of goods and services. However, the two measures differ in terms of the goods and services covered and the weights assigned to each item.
^^ 'Core' inflation excludes energy and unprocessed food.
Source: 2021 - CSO; 2022 to 2023 - Department of Finance.

Some easing of the annual rate is anticipated next year as energy price base effects drop out of the annual rate, supply chain disruptions further unwind and employment growth slows. Despite this easing, the price level will remain elevated, with headline and core inflation of close to 7 and 4.6 per cent respectively forecast for next year. As a result, the price level in the fourth quarter next year is expected to be 13 per cent up on the level in the first quarter this year, with the largest increases for essentials such as rents, food and energy.

2.5 Labour Market

The Government's policy response to Covid – maintaining the employer-employee link during the different waves of the virus – has underpinned the post-pandemic rapid recovery in employment. The level of employment reached over 2.55 million people in the second quarter of this year, the highest level ever. Increased labour force participation, mainly among female and youth workers, has been a key factor behind the strong employment recovery. Structural changes, such as greater flexibility afforded by remote-working opportunities, may be a significant factor behind this development.

Table 4: Labour market developments, per cent change (unless stated)			
	2021	2022	2023
Employment	11.0	18.3	1.2
Unemployment rate (per cent)	15.9	5.2	5.1
Labour productivity^	2.4	-7.0	3.4
Compensation of employees*	9.8	12.3	7.2

^GDP per person employed.
*Non-agricultural sector.
Source: 2021 = CSO: 2022-25 = Department of Finance.

Looking ahead, higher frequency data indicate some softening in employment growth in the second half of the year. This is consistent with more modest MDD growth, and would result in an average unemployment rate of 5.2 per cent this year.[8] For next year, employment growth is expected to remain relatively subdued, in keeping with the general economic outlook. Growth of 1.2 per cent (32,000 jobs) is assumed,[9] consistent with an unemployment rate of just over 5 per cent for the year.

[8] The unemployment rates for the first quarter and part of the second quarter of the year incorporate *Pandemic Unemployment Payment* recipients (PUP) as unemployed.
[9] The annual comparison is affected the continuation of the PUP in the first two quarters of 2022.

Despite some expected softening in the labour market over the next year or so, relatively tight conditions and skills shortages for some sectors are likely to persist. This, alongside price increases in the economy more generally, is likely to contribute to upward pressures on wages in the near-term.

Compensation of employees (the economy-wide pay-bill) increased by just under 10 per cent last year, with new distributional data from the CSO showing that the bulk of pay growth was for higher earners (consistent with the 17.4 per cent growth in income taxes last year).[10] Data for the first half of 2022 indicate that the wage bill is set to increase substantially this year, with the strength of income taxes in the year-to-date supporting this conclusion. Overall, compensation of employees is projected to grow by around 12.3 per cent this year, and by 7.2 per cent next year.

[10] See annual national accounts.

Section 3
Budgetary developments and outlook

3.1 Budget balance

Total revenue is projected at 22.5 per cent of GDP this year, reflecting *inter alia* the strength of current taxes on income and wealth (income and corporate tax revenues). Total expenditure as a share of national income is projected at 22.2 per cent, a decline relative to last year reflecting the phasing out of pandemic-related fiscal support. Accordingly, a general government surplus of 0.2 per cent of GDP (**table 5**) is anticipated for this year. This follows a deficit of 1.7 per cent of GDP last year.

Table 5: Expenditure and revenue by main components, per cent GDP

	ESA Code	2021	2022	2023
Total revenue	TR	**23.1**	**22.5**	**21.9**
of which:				
Taxes on production and imports	D.2	6.9	6.4	6.2
Current taxes on income, wealth, etc.	D.5	10.7	11.0	10.8
Capital taxes	D.91	0.1	0.1	0.1
Social contributions	D.61	4.0	3.7	3.6
Property income	D.4	0.1	0.1	0.1
Other		1.3	1.2	1.1
p.m.: Tax burden*		21.9	21.4	20.8
Total expenditure	TE	**24.8**	**22.2**	**20.7**
of which:				
Compensation of employees	D.1	6.2	5.7	5.4
Intermediate consumption	P.2	3.7	3.6	3.0
Social payments	D.62, D.632	8.8	7.7	7.2
of which: unemployment benefits				
Interest expenditure	D.41	0.8	0.7	0.7
Subsidies	D.3	1.7	0.5	0.4
Gross fixed capital formation	P.51g	2.1	2.0	2.1
Capital transfers	D.9	0.4	0.9	0.3
Other		1.1	1.1	1.5
General government balance	TR-TE	**-1.7**	**0.2**	**1.1**

* Formally, the tax burden is defined as D.2+D.5+D.61+D.91-D.995.
Source: CSO 2021; Department of Finance forecasts for 2022 – 2023.

For next year, total revenue as a share of GDP is projected at 21.9 per cent, a figure which takes account of the tax policy changes (**table 6**) outlined in *Budget 2023*. After taking account of policy measures, total expenditure is projected at 20.7 per cent of GDP for next year. As a result, a general government surplus of 1.1 per cent of GDP is forecast for next year.

Taking account of estimated windfalls, as well as the position in the cycle (the 'output gap'), the underlying or structural balance is estimated at 0.6 per cent of GDP (**table 7**).

Table 6: Discretionary measures taken by general government							
Measures^ *****	**Detailed description**	**ESA Code**	**Accounting principle**	**Adoption Status**	**Budgetary Impact (per cent GDP)**		
					2021	**2022**	**2023*****
Carryover~	VAT, Income Tax, Excise	D.51, D.21, D.91	Cash	Implemented	0.01	0.06	0.00
Income Tax	Help to Buy, Personal Tax Bands and Credits, Employee Tax Credit, Earned Income Tax Credit, USC threshold, Compliance, Rent Tax Credit	D.51	Cash	Legislation pending	-0.02	-0.13	-0.28****
VAT	9% Rate on Gas & Electricity, 0% VAT Rate for Newspapers, Decrease in Farmer's Flat Rate	D.21	Cash	Legislation pending	-0.08	0.00	-0.01
Corporation Tax	R&D Credit, Knowledge Development Box	D.51	Cash	Legislation pending	0.00	0.00	0.00
Excise Duties	Carbon Tax, Tobacco Tax, Reduction on Fuel	D.21	Cash	Legislation pending	0.04	0.02	0.04
Other*	Extension of Bank Levy, Concrete Products Levy	D.51, D.21	Cash	Legislation pending	0.00	0.01	0.03
Total Measures **					**-0.04**	**-0.04**	**-0.22**

~ carryover from previous measures.
^ Revenue measures detailed here; discretionary expenditure measures are in the *2023 Expenditure Report* available at: https://www.gov.ie/en/publication/eb6ec-budget-2023-expenditure-reports/
* See Annex for summary of tax measures.
** The discrepancy in the reconciliation between the no-policy change scenario ('White Paper'), the impact of discretionary measures and the final budget tables can be explained by second round effects arising from the introduction of the budgetary package. This is not included in the table above.
*** 2023 only reflects the impact of any carry forward from measures introduced in previous years or announced in *Budget 2023*
**** Income tax figures do not incorporate the impact of non-indexation. Rent tax credit includes credit for rent paid in both 2022 and 2023.
***** One-off revenue measures are included as discretionary revenue measures.

Table 7: General government balance by subsector, per cent GDP (unless stated)

	ESA Code	2021	2022	2023
General government	S.13	-1.7	0.2	1.1
: central government	S.1311	-1.6	0.3	1.3
: local government	S.1313	-0.1	-0.1	-0.2
: social security funds	S.1314	M	M	M
Interest expenditure	D.41	0.8	0.7	0.7
Primary balance		-0.9	0.9	1.8
Potential output, per cent change		4.6	2.9	1.0
Output gap		-1.6	0.3	-0.4
Cyclical budgetary component		-0.8	0.1	-0.2
Cyclically-adjusted balance		-0.8	0.1	1.3
Cyclically-adjusted primary balance		-0.1	0.7	2.0
Structural balance		0.1	0.1	0.6

Notes:
Methodology for estimating potential output based on Murphy *et.al* (2018), available at: https://www.gov.ie/en/publication/65c119-estimating-irelands-output-gap/.
Estimates of windfall corporation tax receipts treated as one-off/temporary measures.
M = not applicable.
Source: Department of Finance

3.2 National Reserve Fund

The Government established the *National Surplus (Exceptional Contingencies) Reserve Fund* in 2019 to build up fiscal buffers to enable the economy to absorb shocks. The Fund was never capitalised due to the outbreak of the Covid-19 pandemic, shortly after the legislation was enacted.

In *Budget 2023*, and reflecting the large jump in corporation tax receipts, the Government has decided to transfer €2 billion (0.4 per cent GDP) to the Fund (to be re-named the *National Reserve Fund*) this year and €4 billion (0.7 per cent of GDP) next year. The objective is to ensure that potential windfall tax receipts are not used to finance permanent commitments, as well as to enhance fiscal resilience.

3.3 Public debt

The level of public indebtedness remains elevated at 55.4 per cent of GDP at the end of last year (**table 8**). A reduction in the ratio is in prospect for this year and next, driven by the improvement in the fiscal position and the assumed strong nominal GDP growth. At the end of next year, the debt-GDP ratio is projected at 41 per cent.

Net public indebtedness – which takes account of accumulated cash and other assets – is much lower at 38 per cent of GDP at the end of this year, falling to just under 35 percent at the end of next year.

While the State will not need to finance deficits in the coming years (at least on the basis of current projections), it will need to re-finance a quantum of maturing debt (roll-over needs). The cost of this new debt issuance is rising – in mid-September, sovereign borrowing for 10 years carried an interest rate of 2½ per cent, the highest since mid-2014.

Table 8: General government debt developments, per cent of GDP			
	2021	**2022**	**2023**
Gross debt [a]	55.4	45.2	41.1
Change in gross debt	-3.0	-10.2	-4.1
Contributions to change in gross debt ratio			
Primary balance	0.9	-0.9	-1.8
Interest expenditure	0.8	0.7	0.7
Stock-flow adjustment	2.6	-1.9	0.9
Composition of stock-flow adjustment			
- Change in cash	2.3	-1.4	0.1
- Differences between cash and accruals [b]	0.4	0.0	1.0
- Net accumulation of financial assets [c]	-0.1	-0.4	-0.1
of which:			
- Privatisation proceeds	M	M	M
- Valuation effects and other [d]	M	M	M
Implicit Interest rate on debt [e]	1.5	1.4	1.6
Other relevant variables			
Liquid financial assets [f]	10.3	7.0	6.4
Net financial debt	45.1	38.1	34.7

Notes:
(a) As defined in Regulation (EC) No 479/2009.
(b) The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.
(c) Liquid assets (currency), government securities, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.
(d) Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.
(e) Proxied by interest expenditure divided by the debt level of the previous year.
(f) Liquid assets are here defined as AF.1, AF.2, AF.3 (consolidated for general government, i.e. netting out financial positions between government entities), A.F511, AF.52 (only if quoted in stock exchange)
M = not applicable
Source: Department of Finance

As well as *actual* liabilities, it is important to consider potential, or *contingent*, liabilities of general government. These have fallen significantly in recent years and are now estimated at just 0.2 per cent of GDP (**table 9**).

Table 9: Contingent liabilities, per cent of GDP			
	2019	**2020**	**2021**
Public guarantees	0.0	0.2	0.2
of which: linked to the financial sector	*0.0*	0.0	0.0

Source: CSO

3.4 Additional fiscal data requested by the European Commission

The war in Ukraine is having a significant impact on the public finances of all Member States of the EU, with two main channels:

- Fiscal measures to mitigate the impact of higher energy prices on households and firms;
- Fiscal supports associated with inflows of Ukrainian migrants.

To provide cross-country clarity and transparency on these costs, the European Commission has asked Member States to document the fiscal impact of these measures in their Draft Budgetary Plans. In addition, and not unrelated, the Commission has asked Member States to provide information on how budgetary policy is helping to facilitate both the green and digital transitions, as well as enhancing energy security.

3.4.1 Fiscal support to address cost of living

The Irish Government's budget is built around two complementary strands.

The first strand involves a set of one-off measures to support households and firms against the backdrop of higher-than-anticipated inflation; these measures amount to 0.9 per cent of GDP and are largely payable in the final quarter of this year (**table 10**). For households, these measures mainly take the form of transfers and (electricity) credits. For firms, the key policy response is a form of grants to those firms where the cost of electricity and gas inputs has risen by more than half over the past year.

The second stand involves more permanent changes to tax and spending; these amount to 0.6 per cent of GDP and largely take effect in 2023 (**table 11**). Moreover, these measures follow on from measures (not detailed here) taken during 2022 which amount to 0.6 per cent of GDP.

Table 10: Budget 2023 one-off cost of living package, per cent GDP

	2022	2023
Energy related		
Electricity credit*	0.08	0.15
Fuel Allowance Lump Sum	0.03	-
Extension of reduction in excise duty to end-February	0.03	0.02
Extension of 9% reduction in VAT rate on electricity and gas to end-Feb	-	0.01
Temporary Business Energy Support Scheme (TBESS)	0.12	0.11
Ukraine Emergency Support Scheme**	0.04	-
Support to other services/sectors	0.07	-
Other measures with cost mitigating impacts		
Weekly Welfare Schemes double week	0.06	-
Carer's Support Grant & Disability Support Payment Lump Sum	0.04	-
Child Benefit Double Payment	0.03	-
Once-off Reduction in Student Contribution Fee	0.02	-
Other expenditure	0.02	-
Rent credit for rent paid in 2022	-	0.04
Total	0.55	0.32

Notes:
* This excludes VAT forgone of €0.1 billion. €200 off electricity bill in November/December, €200 off electricity bill in January/February and €200 off electricity bill in March/April.
** This scheme will provide funding to help firms faced with liquidity shortages as a result of increased energy costs.

Table 11: Budget 2023 measures, per cent GDP

Measures	Detailed description	Budgetary Impact 2023
Energy related		
Energy Efficiency	National Retrofit Plan, funded through increases in the carbon tax. €133m of this allocation will be used to provide free energy efficiency upgrades to households in, or at risk of, energy poverty through the Warmer Homes Scheme.	0.05
Transport	Continuation of 20% average fare reduction and Young Adult Card on Public Transport services to the end of 2023 (temporary) Continuation of Young Adult Card on commercial bus services	0.03
Income Support	Fuel Allowance Measures	0.01
Other measures with cost mitigating impacts		
Education	Free School Books Scheme	0.01
Childcare	National Childcare Scheme – increase in the universal subsidy from 50c to €1.40 per hour	0.02
Income Supports	Weekly Personal and Qualified Adult Rates of Payment for Pensioners, Weekly Personal and Qualified Adult Rates of Payment for Working Age Recipients, Employment Supports, Qualified Child Increase, Working Family Payment Threshold Increase	0.17
Health	GP Visit Cards eligibility measures, Extension of free contraception measure to women aged 16-30, Acute Adult Inpatient Charges, IVF Access	0.02
Higher Education	SUSI - Student Contribution Fee, SUSI - Maintenance Grant Increase, SUSI - Income Threshold, PhD student stipend, Postgrad Fee Contribution Grant	0.01
Taxation	Income tax package, rent credit for rent paid in 2023	0.24
Total		**0.57**

Rounding may affect totals.

3.4.2 Fiscal costs related to humanitarian assistance for Ukrainian refugees

The provision of humanitarian supports to refugees from Ukraine has been a key priority for Government during 2022. Support services have included *inter alia* the provision of accommodation, social protection (income) support, education and support for community responses. To end-August (latest data available at the time of the Budget), almost €0.4 billion (0.1 per cent of GDP) had been spent, providing support for c.50,000 people.

The number of arrivals has been a downward trend in recent months, with the seven-day average in the range of 100-120 over the month prior to the Budget (compared with almost 700 at peak). In addition, recent data show some migrants leaving the State (either to return home or go elsewhere) in the months following arrival.

Against this backdrop, and using available data and information regarding service costs, three scenarios have been developed.

Table 12: Scenario analysis

	Low		Medium		High	
Total number of refugees at end-2023	c.55k		c.65k		c.75k	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**
Estimated cost (€ bn)	1.0	1.6	1.0	1.8	1.0	2.2

Source: Department of Public Expenditure and Reform

Fiscal costs are expected to be in the region of €1 billion (0.2 per cent of GDP) for 2022 and a range of €1.6-2.2 billion (0.3-0.4 per cent of GDP) in 2023. As a result, the non-core expenditure for the State's response to the war in Ukraine in 2023 is revised to €2 billion (0.4 per cent of GDP, down from €3 billion assumed in the *Stability Programme Update*).

This funding will remain under review with some of it allocated as part of the *Revised Estimates Volume 2023* when more information will be available regarding the number of arrivals, usage of services, actual spend in 2022 and requirements in 2023. It is expected the most significant allocations will relate to the provision of accommodation and social welfare supports.

3.4.3 Public investment for the green and digital transitions, and for energy security

The Irish Government published the *National Development Plan 2021-2030* (NDP) in October 2021 setting out a 10-year commitment for public capital investment. The NDP also provides for 5-year capital investment ceilings for each sector. It provides for €165 billion of investment, with annual investment targeted to reach 5 per cent of modified GNI in 2030 (a level of investment which would be amongst the highest in the EU). The Government's commitment to this approach was re-iterated in *Budget 2023,* with Exchequer (i.e. central government) expenditure of over €12 billion in 2023, the highest level of investment in the history of the Irish State.

As part of the NDP, each priority area for investment was assessed for climate impacts and these are detailed. The NDP also documents the range of initiatives to enhance climate funding and the consideration of climate impacts in project appraisal. In addition, Ireland is engaged with the European Commission (DG Reform) and the OECD, under the Technical Support Instrument, to boost climate considerations as part of the domestic Public Spending Code for approval of infrastructure projects.

In terms of prioritising green and digital investments, €5 billion is being allocated for residential retrofit as part of the NDP to bring 500,000 homes to B2 BER ratings by 2030 (i.e. more energy efficient); and the *National Broadband Plan* will connect 544,000 premises to high-speed broadband in the coming years. Finally, Ireland was successful in the submission of its *National Recovery and Resilience Plan* as part of *NextGenerationEU*, with 42 per cent of the investments green-tagged and 32 per cent of funding digital-tagged.

Government has also set an objective of achieving 7GW of installed offshore wind by 2030, 5 GW of which will contribute to the wider target of achieving 80 per cent renewable electricity by the end of this decade; the remaining 2GW to be dedicated to the production of renewable hydrogen. The 5 GW target will be procured through Ireland's EU State Aid approved renewable electricity support scheme, with the first dedicated offshore wind auction to launch before end-2022.

The long-term aim of Ireland's offshore renewable energy policy is to move towards a plan-led enduring regime that maximises the potential of offshore renewable energy with generation deployment located with sensitivity to both system demand and export potential, while solidifying the long-term security of energy supply.

The Department of Environment, Climate and Communications (DECC), in conjunction with the Transmission System Operator (EirGrid) and the Independent Regulator (CRU), administer the *Renewable Electricity Support Scheme* (RESS), which is a competitive auction-based scheme to deliver utility scale renewable electricity generation projects, including onshore wind, through a two-way contract for difference. An important instrument in supporting renewable electricity development through the RESS, and its predecessor scheme REFIT (a one-way contract for difference), is the Public Service Obligation (PSO). The PSO guarantees an agreed price per MW/h of electricity produced by renewable electricity generators under the two schemes and is funded through a levy on the final electricity customers (when the wholesale price is lower than the agreed RESS/REFIT price) or through payments by suppliers when the wholesale price is higher than the RESS price.

In addition, this year the Government approved capital funding – in the order of €350 million - for EirGrid to provide temporary emergency generation units to ensure security of supply over the coming winters.

Section 4
Comparison with April 2022 Stability Programme

The projection for the general government balance (**table 13**) and general government debt (**table 14**) in this *Draft Budgetary Plan* (the Department's autumn forecasts) with that at the time of the April 2022 Update of Ireland's Stability Programme (the Department's spring forecasts) is set out below.

Table 13: General government balance, per cent GDP

	2021	2022	2023
GG Balance – April Stability Programme	-1.9	-0.4	0.2
GG Balance – Draft Budgetary Plan	-1.7	0.2	1.1
Difference (pp)	0.3	0.6	0.9

Source: CSO 2021; Department of Finance forecasts for 2022 – 2023.

Table 14: General government debt, per cent GDP

	2021	2022	2023
GG Debt – April Stability Programme	56.0	50.1	46.3
GG Debt – Draft Budgetary Plan	55.4	45.2	41.1
Difference (pp)	-0.6	-4.9	-5.2

Source: CSO 2021; Department of Finance forecasts for 2022 – 2023.

Section 5
Distributional impact of the main budgetary measures

5.1 Introduction

Article 6(3) of Regulation 473/2013 requires Member States, where possible, to provide information (either qualitative or quantitative) on the distributional effects of budgetary measures. Material on the distributional and other effects of *Budget 2023* measures is presented alongside the Budget and summarised below.[11]

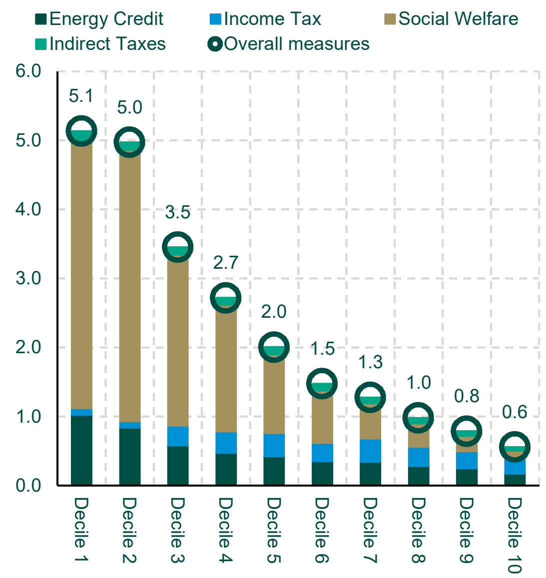
The Departments of Finance, Public Expenditure and Reform, and Social Protection conduct distributional assessments of proposed tax and welfare measures in line with the Government's commitment to undertake a social impact assessment of the Budget.

5.2 Approach and results

In addition to the regular policy measures undertaken as part of the budgetary cycle, *Budget 2023* includes a range of one-off Cost of Living (CoL) measures. These one-off measures mainly affect the final quarter of this year; the permanent measures set out in *Budget 2023* mainly apply from the beginning of next year. On this basis, the analysis below assesses the distributional impacts of the CoL and permanent measures separately (noting, however, that there is some overlap between the two).

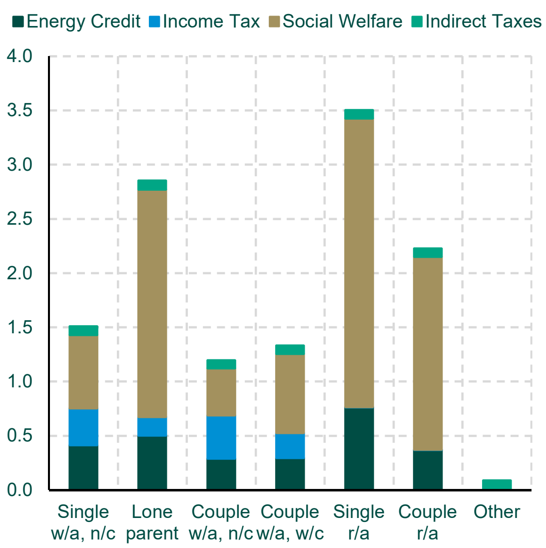
Figure 3: Cost of Living measures – per cent change in weekly disposable income

A: by income decile



Source: Department of Finance calculations using ESRI's SWITCH 5.3 micro-simulation programme and ITSim indirect taxes satellite model.

B: by household type



Note: w/a = working age; n/c = no children; w/c = with children; r/a = retirement age.
Source: Department of Finance calculation using ESRI's SWITCH 5.3 micro-simulation programme and ITSim indirect taxes satellite model.

In net terms, households experience an average gain in weekly disposable equivalised income of 1.6 per cent, in nominal terms, for the remainder of 2022, with the overall impact being strongly progressive (**figure 3A**). The net package benefits all income levels, with equivalised disposable income increasing

[11] See '*Budget 2023*: Beyond GDP - Quality of Life Assessment' Department of Finance, available at: https://www.gov.ie/en/publication/04fef-budget-publications/

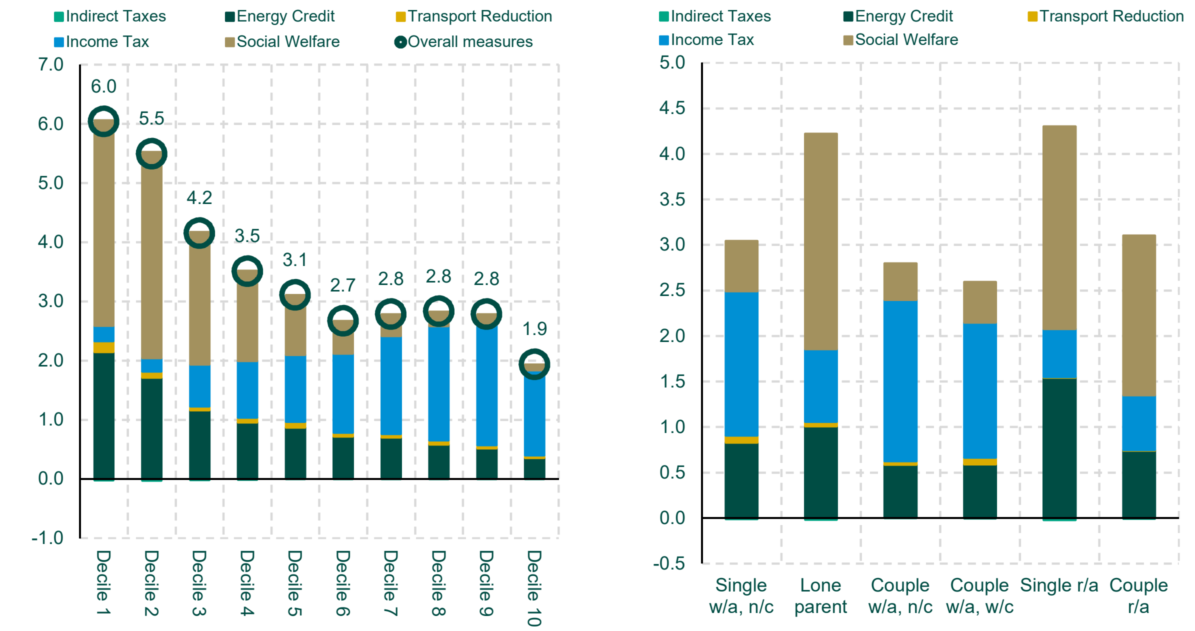
for all deciles. The first three deciles gain the most, with disposable income rising by an average of 4.5 per cent. Retirement age singles and lone parents are the family types that gain the most, in nominal terms (**figure 3B**). Welfare measures have a significant impact on income for most family types.

In 2023, budgetary adjustments to tax and welfare mean that households will experience an average gain in weekly disposable equivalised income of 3 per cent, in nominal terms. The largest gains are at the lower end of the overall impact being strongly progressive (**figure 4A**). The net package is shown to benefit all income levels, with equivalised disposable income increasing for all deciles. The first three deciles gain the most, with disposable income rising by an average of 5.2 per cent. Income deciles 1 to 5 gain more from welfare measures and the energy credit, while deciles 6 to 10 gain more due to income tax changes. In nominal terms, retirement age singles and lone parents gain significantly more than other family types (**figure 4B**). Much of this growth is due to welfare measures, while most other family types gain more from income tax changes.

Figure 4: *Budget 2023* measures – per cent change in weekly disposable income

A: income decile

B: household type



Note: w/a = working age; n/c = no children; w/c = with children; r/a = retirement age.

Source: Department of Finance calculations using ESRI's SWITCH 5.3 micro-simulation programme and ITSim indirect taxes satellite model.

Source: Department of Finance calculation using ESRI's SWITCH 5.3 micro-simulation programme and ITSim indirect taxes satellite model.

5.3 Additional metrics

As well as the model-produced distributional analysis set out above, the Department of Finance also publishes the impact of taxation changes on disposable income of various family-types (**table 15**).

Table 15: Change in gross income by family type, per cent						
	Single person, no children, private sector employee taxed under PAYE Full rate PRSI contributor	Married couple, one income, no children, private sector employee taxed under PAYE full rate PRSI contributor	Married couple, one income, two children, private sector employee taxed under PAYE full rate PRSI contributor	Single person, no children, taxed under Schedule D	Married couple, one income, no children, taxed under Schedule D	Married couple, one income, two children, taxed under Schedule D
Gross Income[12]	Change as % of Net Income[13]					
€	%	%	%	%	%	%
15,000	0.0	0.0	4.2	0.0	0.0	0.0
20,000	0.8	0.0	4.0	0.8	0.0	0.0
25,000	0.9	0.2	3.7	0.9	0.2	0.2
30,000	0.7	1.0	3.5	0.7	1.0	0.1
35,000	0.7	0.9	3.3	0.7	0.9	1.0
40,000	2.6	0.8	0.9	2.6	0.8	0.9
45,000	2.4	0.7	0.9	2.4	0.7	0.9
55,000	2.1	2.1	2.1	2.1	2.1	2.1
65,000	1.8	1.9	1.9	1.8	1.9	1.9
75,000	1.7	1.7	1.7	1.7	1.7	1.7
100,000	1.3	1.4	1.4	1.3	1.4	1.4
125,000	1.1	1.2	1.2	1.1	1.2	1.2
150,000	1.0	1.0	1.1	1.0	1.0	1.1
175,000	0.8	0.9	0.9	0.9	0.9	1.0

Source: Department of Finance

[12] Gross Income does not take account of the increase in the National Minimum Wage (NMW). For example, the NMW increase form €10.50 per hour to €11.30 per hour from 1 January 2023.
[13] Includes the changes in Income Tax, Universal Social Charge, PRSI and Working Family Payments for 2023, but does not include any of the additional cost of living one-off measures. Also, for the purpose of this analysis net income includes Child Benefit and Working Family payments, where relevant.

Section 6
Compliance with country specific recommendations

On 24 June, the European Council adopted the 2022 Country Specific Recommendations (CSRs) for Ireland. These may be found at:

https://data.consilium.europa.eu/doc/document/ST-9749-2022 INIT/en/pdf

The measures that Ireland has taken to address the CSRs, are summarised below (**Table 16**), with a focus on measures included in *Budget 2023*.

Table 16: Country Specific Recommendations and actions taken	
Country Specific Recommendation	**Progress to date, focusing on measures included in *Budget 2023***
CSR 1.	
In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation.	In summer 2021, the Government adopted a medium-term budgetary strategy based on public expenditure growth of 5 per cent per annum in line with the economy's estimated trend growth rate. Reflecting the less benign inflationary environment, and especially the impact of higher energy prices on the most vulnerable groups, this strategy was adapted, on a once-off basis, in this year's budget. For next year, permanent expenditure has been set at €85.9 billion up 6.3 per cent on an annual basis. This will support the implementation of measures that can protect the most vulnerable in society, while also not exacerbating inflationary pressures. Temporary funding of €4.5 billion is also provided for inter alia Covid-related spending and assistance to refugees from Ukraine. This is being complemented by a Cost of Living package for households and businesses of one-off supports amounting to €4.1 billion, which will take effect from Q4 2022. Government is also providing for €2 billion to be transferred to the National Reserve Fund in 2022, and a further €4 billion to be transferred in 2023. The purpose is to ensure that windfall corporate tax receipts are not used to finance permanent increases in public expenditure.
Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	The National Development Plan 2021-2030 (NDP), published October 2021, sets out a 10 year commitment for public capital investment, as well as 5 year capital investment ceilings for each sector. The total plan contains €165 billion of investments, which are targeted to reach 5 per cent of modified GNI in 2030. This commitment was re-iterated in Budget 2023 with central State expenditure of over €12 billion in 2023, the highest level of investment in the history of the State. As part of the NDP, each priority area was assessed for climate impacts. The NDP details the range of initiatives to enhance climate funding and the consideration of climate impacts in project appraisal. In addition, Ireland is engaged with the European Commission (DG Reform) and the OECD, under the Technical Support Instrument, to boost climate considerations as part of the Public Spending Code for approval of infrastructure projects. In terms of prioritising green and digital investments, €5 billion is being allocated for residential retrofit as part of the NDP to bring 500,000 homes to B2 BER ratings by 2030; and the *National Broadband Plan* will connect 544,000 premises to high-speed broadband in the coming years. Ireland was successful in the submission of its *National Recovery and Resilience Plan* (NRRP), with 42 per cent of the investments 'tagged' as green and 32 per cent tagged as digital. Ireland is undertaking an assessment process to evaluate potential applications for funding under RePowerEU. The EU Just Transition Fund will support the just transition in the midlands region of Ireland while the ESF+ will support investment in digital and green skills. Government has set an objective of achieving 7GW of installed offshore wind by 2030, 5 GW of which will contribute to the wider target of achieving 80 per cent renewable electricity by the end of this decade. This will be procured through Ireland's EU State Aid approved renewable electricity support scheme. Ireland will invest 30 per cent of its ERDF resources on scaling up investment in actions that improve the energy efficiency of residential homes while targeting homeowners in, or at risk of, energy poverty

Table 16: Country Specific Recommendations and actions taken	
Country Specific Recommendation	**Progress to date, focusing on measures included in *Budget 2023***
	across the regions. This year the Government approved capital funding – in the order of €350 million - to ensure security of supply over the coming winters. EMFAF will support increased energy efficiency and use of renewables across the seafood sector. It will support innovation in technology and processes to reduce environmental impact, and measures to protect marine biodiversity and address marine litter.
For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Address the expected increase in age-related pension expenditure by ensuring the fiscal sustainability of the state pension system.	A medium-term budgetary strategy was set out in the Summer Economic Statement 2021 and updated in the Summer Economic Statement 2022. An expenditure rule was introduced, allowing permanent expenditure to increase in line with the economy's estimated trend growth rate. From 2024 onwards, public expenditure will grow at 5 per cent per annum, which is consistent with achieving a budgetary surplus over the medium-term and a continued decline of the debt-income ratio. A series of reforms to the State Pension system in Ireland were recently approved by Government, in response to the recommendations from the Commission on Pensions. To address the expected increase in age-related pension expenditure and to ensure the fiscal sustainability of the State Pension system, in 2023 the Department of Social Protection will present a proposal for Government to consider the changes required to social insurance contribution rates or the social insurance revenue base from 2024, for the following decade. This proposal will be based on new data from the latest statutory Actuarial Review of the Social Insurance Fund, with base broadening also expected to be considered as part of this process.
CSR 2.	
Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 8 September 2021. Submit the 2021–2027 cohesion policy programming documents with a view to finalising the negotiations with the Commission and subsequently starting their implementation.	Ireland has successfully completed a number of regulatory reporting requirements including biannual progress reports in October 2021 and April 2022, and Common Indicators reporting in February 2022 and August 2022. Negotiations with the Commission on the Operational Arrangements are ongoing. Subject to these negotiations being finalised, Ireland will make its first payment request in the second half of 2022 and in each subsequent year until 2026. The European Commission adopted Ireland's Partnership Agreement for the Cohesion Policy Funds in September. The Commission has indicated that it will also adopt Ireland's ERDF programmes in October 2022. The ESF+, the EUJTF and the EMFAF programmes are all expected to be adopted by year end.
CSR 3.	
Focus efforts on boosting the circular economy. In particular, develop both infrastructure and policies to prevent waste and increase reused and recycled content, and develop a more effective system for the separate collection of recyclable waste,	**Circular Economy:** The Whole of Government Circular Economy Strategy 2022-2023 was launched in December 2021 and will provide a national policy framework for Ireland's transition to a circular economy. The Environmental Protection Agency's Circular Economy Programme, also launched in December 2021, will give effect to the objectives in the Strategy. The National Food Waste Prevention Roadmap, which will set out a series of actions to help deliver the reductions necessary to halve Ireland's food waste by 2030, is due to be launched in late 2022. The Circular Economy and Miscellaneous Provisions Act 2022, enacted in July 2022,

Table 16: Country Specific Recommendations and actions taken	
Country Specific Recommendation	**Progress to date, focusing on measures included in *Budget 2023***
including biodegradable waste. Promote safer and cleaner waste-water circuits.	provides a clear legislative framework for Ireland's transition to a circular economy, will place the Strategy, Roadmap and Programme on a statutory footing. The Act also provides for the introduction of a number of environmental levies, including a waste recovery levy and levies on single use cups, packaging and food containers. A working group has been established to further the introduction of the waste recovery levy which will be complementary to the existing Landfill Levy and further incentivise recycling over disposal and recovery. A levy on single-use disposable cups is being introduced to incentivise people to choose to re-use and it is expected that the regulations introducing the levy will be published in the coming months, with a commencement date for the levy in 2023. The Act also provides for a mandatory segregation and incentivised charging regime for commercial waste, similar to what exists for the household market, to ensure waste minimisation and proper segregation in the sector. It is also intended to introduce legislation which will ensure all households on a kerbside waste collection service will be provided with an organic waste bin by end of 2023. A Deposit Return Scheme (DRS) is being introduced to encourage more people to recycle drinks containers. The DRS will be launched Q4 2022, when the scheme will open for registrations from producers and retailers and will be implemented over the course of 2023. **Water:** The Programme for Government commits to funding Irish Water's capital investment plan for water infrastructure on a multi-annual basis. The 2022 capital provision of €830 million for Irish Water is an increase of €138 million over the 2021 provision of €692 million, and reflects the continued investment in water infrastructure planned under the recently published National Development Plan, 2021 to 2030. This plan commits to almost €6 billion investment to be undertaken by Irish Water in the period from 2021-2025 of which over €4.5 billion will be Voted Exchequer funded in respect of domestic water services. This significant multi-billion euro investment programme is to ensure the continued operation, repair and upgrading of the country's water and waste water infrastructure, to support social and economic development across the State and continued care of the water environment. The Rural Water Programme, through Exchequer funding, delivers improvements to water services in areas of rural Ireland where there are no public water/waste water services provided by Irish Water, the national utility. For waste water services, grant assistance is available through local authorities, under the Programme for capital works for the following: > Waste water collection and treatment needs of villages/settlements that do not have access to public water/waste water services, and > Waste water collection and treatment needs of households in rural areas. The Programme provides for priority investment needs, which will support proper planning and sustainable development in rural areas. It will also help Ireland meet its Water Framework Directive commitments. The Programme also provides funding certainty for the continuous improvement of rural water services. Funded through the National Development Plan, €175 million has been

Table 16: Country Specific Recommendations and actions taken	
Country Specific Recommendation	**Progress to date, focusing on measures included in *Budget 2023***
	provided for capital investment in water services – including waste water services – under the Rural Water Programme for the period 2021-2025. The 3rd River Basin Management Plan for the period 2022-2027 (forthcoming) will address all of the pressures impacting on our waters. Protecting and restoring water quality in Ireland will most of all need measures to address the loss of agricultural nutrients to water, continue to improve waste water treatment and to re-establish natural free-flowing conditions in more rivers. The plan will include: > Continued investment in Irish Water to improve waste water infrastructure at an estimated cost of €1.022 billion, over the period 2020-2024; > A multi-annual investment programme to provide waste water infrastructure for villages not served by public waste water collection systems; and > Continue to help fund upgrades to domestic waste water treatment systems.
CSR 4.	
Reduce overall reliance on fossil fuels. Accelerate the deployment of renewable energy, in particular offshore wind, including by introducing reforms to improve the efficiency of the planning and permit system, particularly by reducing the duration of procedures.	Between 2019 and 2020, electricity generation from renewables increased by 1.6TWh (14.3 per cent) to 13.5TWh. **Offshore wind and maritime infrastructure:** In relation to offshore wind, the following actions are being pursued: > A Delivery Taskforce has been established to accelerate the development of offshore wind. The Taskforce includes a range of workstreams seeking to ensure the planning, grid connection, financial support mechanisms and supporting polices are in place; > The Maritime Area Planning Act 2021 sets out a new streamlined planning process for offshore wind. The commencement of the relevant parts of that legislation is ongoing throughout 2022; > The Maritime Area Regulatory Authority (MARA) will be operational by Q1 2023; > The Minister for the Environment, Climate and Communications opened the application process for the first batch of Maritime Area Consents (MAC) for offshore wind developers, under the new maritime planning regime in April 2022. Assessments on all applications received have been completed and indicative decisions made, with documentation soon to be finalised; > An Bord Pleanála will be in a position to accept applications from this first batch of projects for planning permission, once the MACs have been granted. A workforce plan is being put in place to support this, with significant additional resources allocated for the recruitment of additional staff. The Government recently approved the prioritisation of renewable energy plans and projects in the Irish Maritime Area, as a direct response to the Energy and Climate crises. This decision follows on from the recently agreed Government ambitions for an increase of offshore wind energy, which targets the delivery of an additional 2GW of offshore wind by 2030, for the production of green hydrogen. The following projects will receive priority attention:

Table 16: Country Specific Recommendations and actions taken	
Country Specific Recommendation	**Progress to date, focusing on measures included in *Budget 2023***
	> Any marine infrastructure projects that align with Government decisions to address risks to energy security of supply; > Projects that are capable of delivering 200MW or above of offshore renewable energy to meet domestic demand before 2030, using well established, proven technologies; > Infrastructure that will support delivery and deployment of Renewable Energy projects such as grid and port facilities; and > Projects utilising emerging technology that may have the ability to assist the State in meeting its 2030 targets, such as floating wind and green hydrogen. To give effect to this decision, approval has also been given to the immediate development of a Statutory Marine Planning Policy Statement (MPPS) by the Department of Housing, Local Government and Heritage, that will prioritise energy and energy-related projects above all other maritime activities during the six year lifetime of the MPPS. By taking this action, the State's consenting authorities, such as An Bord Pleanála and the soon to be established Maritime Area Regulatory Authority (MARA) will be in a position to prioritise the processing of renewable energy projects, including those that support the development of Offshore Renewable Energy infrastructure in both the marine and onshore. **Support schemes for renewable electricity generation:** The Renewable Electricity Support Scheme (RESS) is a competitive auction-based scheme to deliver utility scale renewable electricity generation projects. The first RESS auction (2020) is expected to deliver approximately 15 per cent increase in Ireland's current renewable energy generation capacity by the end of 2023. The second RESS auction took place in May 2022 and is expected to deliver a nearly 20 per cent increase in Ireland's renewable electricity generation. Projects will be delivered between 2023 and 2025. The Climate Action Plan 2021 also commits to the development of a support scheme for small-scale non-domestic renewable electricity generators (above 50kW but smaller than those supported under the RESS). The design of this Small-Scale Generation scheme is currently being progressed and it is expected to become available in 2023. **Reforms to the planning framework:** The Climate Action Plan 2021 sets out a series of actions to enable the delivery of a more comprehensive and consistent planning policy approach for determining renewable energy development at the regional and local level and ultimately increase the deployment rate of electricity from renewable sources including a Renewable Electricity Spatial Policy Framework (RESPF), to set out targets for onshore renewable electricity to inform spatial plans. The objective of this framework is to develop a comprehensive and clear framework that will translate national energy policy objectives to the regional level in a consistent manner. The National Energy Security Framework (NESF), published in April 2022 places a significant emphasis on the replacement of fossil fuels (such as gas used in electricity generation) with renewable energy (such as onshore wind, offshore and solar power) as a key method of reducing Ireland's reliance on imported fossil fuels.

Table 16: Country Specific Recommendations and actions taken	
Country Specific Recommendation	**Progress to date, focusing on measures included in *Budget 2023***
	Ireland is also currently reviewing its procedures for the granting of project consents through its domestic planning system, including how it legislates for procedures relating the required environmental assessments under the relevant European Directives. As part of this review, Ireland will be examining timelines for the consenting of projects through the planning system and, in particular, for renewable energy projects and the supporting infrastructure. This review is due to be complete by end Q4 2022. The Government has committed to establishing a new Division of the High Court specifically dealing with planning and environmental issues, in order to expedite judicial appeals against key strategic infrastructure, including renewable energy generation. The timeline for the establishment of this new division is end of Q4 2022. The Department of Housing, Local Government and Heritage, in consultation with the Department of Environment, Climate and Communications, has undertaken a review of the solar panel planning exemptions set out in the Planning and Development Regulations, with a focus on facilitating increased self-generation of electricity. Exemptions for a significant proportion of rooftop and other solar PV structures from the requirement to obtain planning permission will be in place by the end of 2022. A range of short and long term actions to ensure security of electricity supply are being progressed under the Commission for the Regulation of Utilities (CRU) Security of Electricity Supply: Programme of Actions by CRU in cooperation with the Department of Environment, Climate and Communications & EirGrid. Outputs will be reflected in updated capacity margin projections, which are published in the annual Generation Capacity Statements.
Upgrade energy infrastructure, including for storage, and enhance the stability of the grid.	**Storage:** There were no specific measures in Budget 2023 to support energy storage. Currently most storage projects in Ireland provide short-term storage and are financed based on system services revenue (DS3) and through the SEM capacity auctions. The 2021 Climate Action Plan set out specific actions to help further develop energy storage, including the publication of a policy framework for electricity storage. This framework is due for publication in Q1 2023. A public consultation will be published shortly. Separately, the CRU has committed to reviewing the regulatory treatment of storage including licensing, charging and market incentives in 2023. **Upgrading Grid Infrastructure:** The Irish electricity grid is segregated into two parts, the Transmission Network, operated by EirGrid as the Transmission System Operator, and the Distribution Network, operated by ESB Networks as the Distribution System Operator. The Commission for the Regulation of Utilities (CRU) is responsible for, inter alia, the economic regulation of the system operators. The cost of building, safely operating and maintaining the electricity system is recovered by system operators through charges on customers, all of which is overseen and agreed with the CRU. System operator spending is agreed with the CRU in five year cycles, referred to as Price Reviews. The current Price Review, PR5, spans the period 2021 to 2025 and will see a capital investment spend of €4 billion in the electricity network. PR5 comes at an important time for the evolution of the electricity networks and will play an important role in enabling the transition to a low carbon system by 2030.

Table 16: Country Specific Recommendations and actions taken

Country Specific Recommendation	Progress to date, focusing on measures included in *Budget 2023*
Ensure the fast implementation of deep building retrofits.	The Climate Action Plan and National Retrofit Plan have set ambitious targets to retrofit 500,000 homes to a Building Energy Rating of B2 or carbon equivalent and to install 400,000 heat pumps in existing buildings by the end of 2030. In February 2022 the Government announced an enhanced package of measures to support the uptake of home energy upgrades: > A new National Home Energy Upgrade Scheme providing increased grant levels of up to 50 per cent of the cost of a typical deep retrofit to a B2 BER standard; > Establishment of a network of registered One Stop Shops to offer a start-to-finish project management service, including access to financing, for home energy upgrades; > A significant increase in the number of free energy upgrades provided to those at risk of energy poverty alongside changes to the operation of the Warmer Homes Scheme. This includes ensuring the Scheme prioritises those in the worst performing homes first and opening the Scheme for homeowner 'revisits' thereby allowing them apply for deeper energy upgrade measures now available under the scheme; > A special enhanced grant rate, equivalent to 80 per cent of the typical cost, for attic and cavity wall insulation has also been introduced for all households. This will help to urgently reduce energy use as part of the Government's response to current exceptionally high energy prices. In Budget 2022, a total of €267.2 million capital funding was allocated for Sustainable Energy Authority of Ireland (SEAI) residential and community retrofit schemes and the Solar PV schemes part of the Revised Estimates Volume. This allocation was adjusted to €244.2 million on foot of the Supplementary Estimate. The investment targets almost 27,000 home energy upgrades in 2022, including over 8,600 homes to a BER of B2. Demand has been exceptionally high – here is a summary of progress to end-August 2022: > Over 30,000 applications for support received (up 140 per cent year-on-year); > 13,400 home energy upgrades completed (up 70 per cent year-on-year); > 4,250 B2s completed (up 140 per cent year-on-year); > 2,800 homes upgraded under SEAI energy poverty schemes (up 200 per cent); > 12 One Stop Shops have been registered. SEAI is working with a number of other organisations seeking to be registered; > On track for achieving 27,000 target for full year 2022; > It is intended to build on the strong performance seen this year with a robust pipeline of activity planned for the rest of the year and the expanded budget will continue the momentum into 2023. In addition, €85 million funding was provided for the Local Authority Energy Efficiency Retrofit Programme. This investment is targeted to deliver 2,400 B2 (or equivalent cost optimal) upgrades in 2022. Budget 2023 provided €337 million for SEAI residential and community energy upgrade schemes including the Solar PV scheme. €291 million of this allocation will come from carbon tax revenue. This will facilitate the delivery of home upgrades to 37,000 homes. A further €87 million has also been allocated for the Local Authority Retrofit Programme in 2023.

Table 16: Country Specific Recommendations and actions taken	
Country Specific Recommendation	**Progress to date, focusing on measures included in *Budget 2023***
	The Department is engaging with the Strategic Banking Corporation of Ireland (SBCI) and the European Investment Bank (EIB) in relation to the development of a residential retrofit loan guarantee scheme. The loan guarantee will be part-funded by the Exchequer and the RRF under Ireland's NRRP. The loan guarantee will provide risk protection to the retail credit institutions participating in the scheme. This will enable the credit institutions to offer loans with reduced interest rates to private homeowners and non-corporate landlords and make comprehensive home energy efficiency upgrades more affordable to consumers. This approach will signal to the banking sector new, sustainable business opportunities associated with retrofit and the transition to a low carbon economy as well as increasing the volume of retrofit activity. The Scheme will provide an estimated lending portfolio of up to €500 million and loans will be available from early 2023.
Accelerate the electrification of transport, including by installing charging facilities.	The Government is fully committed to supporting a significant expansion and modernisation of the electric vehicle (EV) charging network. A draft National Electric Vehicle Charging Infrastructure Strategy was published for consultation in March 2022. The draft strategy sets out the government's ambition regarding the delivery of a public EV charging network to support up to 194,000 electric cars and vans by the middle of the decade. Responses and submissions received as part of the consultation are being considered in the development of the final Strategy for publication in December 2022. The Government has committed significant funding to support low emitting vehicles through the National Development Plan, which currently includes an allocation of almost €500 million for the period 2021-2025 and additional support from the Climate Action Fund. In Budget 2023, €100 million was allocated to ensure the continued transition to EVs, including €17 million for EV charging infrastructure. This underpins the Government's commitment to making EVs accessible to all. This funding will continue to incentivise the switch to electric vehicles and enable the expansion of a rapid EV charging network to stay ahead of demand.

Annex 1 – Methodology

Table A1: Methodological aspects

Estimation Technique	Step of the Budgetary Process	Relevant features of the model	Assumptions
Demand side forecasting	In advance of endorsed and final budgetary forecasts	Iterative-analytic approach: several partial models based on various national account outputs.	Technical assumptions on trading partner growth, exchange rates and commodity prices are assumed.
Supply side forecasting	In advance of endorsed and final budgetary forecasts	Potential GDP is modelled as per the harmonised methodology endorsed by the EPC. Additional estimates of potential output are produced based on the Department's preferred methodology (see https://www.gov.ie/en/publication/65c119-estimating-irelands-output-gap/)	Supply side variables modelled endogenously to 2023 in line with Commission approach with mechanical closure of the output gap between 2024 and 2026.
Tax forecast	In advance of final budgetary forecasts	Iterative-analytic approach: partial models based on relationship of tax trends to macro variables	The short-term impact of tax policy changes is included

Source: Department of Finance forecasts

Annex 2 – Additional fiscal data[14]

Table A2: Expenditure and revenue projections on a no-policy change basis, per cent GDP

	ESA Code	2021	2022	2023
Total revenue at unchanged policies	**TR**	**23.1**	**22.5**	**21.9**
of which:				
Taxes on production and imports	D.2	6.9	6.4	6.2
Current taxes on income, wealth, etc.	D.5	10.7	11.0	10.8
Capital taxes	D.91	0.1	0.1	0.1
Social contributions	D.61	4.0	3.7	3.6
Property income	D.4	0.1	0.1	0.1
Other		1.3	1.2	1.1
p.m.: Tax burden		21.9	21.4	20.8
(D.2+D.5+D.61+D.91-D.995)				
Total expenditure at unchanged policies	**TE**	**24.8**	**22.2**	**20.7**
of which:				
Compensation of employees	D.1	6.2	5.7	5.4
Intermediate consumption	P.2	3.7	3.6	3.0
Social payments	D.62, D.632	8.8	7.7	7.2
of which: unemployment benefits				
Interest expenditure	D.41	0.8	0.7	0.7
Subsidies	D.3	1.7	0.5	0.4
Gross fixed capital formation	P.51g	2.1	2.0	2.1
Capital transfers	D.9	0.4	0.9	0.3
Other		1.1	1.1	1.5

Notes: values are on an ex-post policy change basis as general government revenue and expenditure is not compiled on a no-policy change basis.
Source: CSO 2021; Department of Finance forecasts for 2022 – 2023.

Table A3: Amounts to be excluded from the expenditure benchmark, per cent GDP

	2021	2022	2023
Expenditure on EU programme matched by EU funds	0.1	0.2	0.2
Cyclical unemployment benefit expenditure*	0.9	-0.4	-0.3
Effect of discretionary revenue measures**	0.0	0.1	0.0
Revenue increases mandated by law	M	M	M

*see previous DBPs for explanation
**captures the multi-annual impact of all discretionary revenue measures enacted in all budget announcements to date (not just those in excess of 0.05 per cent of GDP). These figures include the impact of non-indexation, which differs from the approach in table 6.
M= not applicable
Source: Department of Finance.

[14] The Code of Conduct requires Member States to supply the additional tables set out in this annex.

Annex 3 – Detailed taxation measures in *Budget 2023*

Table A4: Taxation measures for introduction in 2023

Measure	Yield/Cost 2023	Yield/Cost Full Year
Personal Income Tax		
Income Tax An increase of €1,500 in the income tax standard rate band for all earners, from €35,300 to €36,800 for single individuals and from €44,300 to €45,800 for married couples / civil partners with one earner. An increase of €75 in the Personal Tax Credit from €1,700 to €1,775 An increase of €75 in the Employee Tax Credit from €1,700 to €1,775 An increase of €75 in the Earned Income Credit from €1,700 to €1,775 An increase of €100 in the Home Carer Tax Credit from €1,600 to €1,700	- €1,064m	- €1,226m
Sea-going Naval Personnel Tax Credit Extension of the Sea-going Naval Personnel Tax Credit to 31 December 2023	- €0.5m	
USC An increase of €1,625 to the 2% rate band ceiling from €21,295 to €22,920	- €67m	- €77m
The reduced rate of USC for medical card holders is being extended for a further year. This measure is revenue neutral as it is already included in the tax base.	nil[15]	nil
Measures to support Enterprise/SMEs/Agri-sector		
Slurry Storage Facilities Accelerated capital allowances for the construction of slurry storage facilities so that 50% of expenditure is claimed over two years	nil	-€9m
Foreign Earnings Deduction Extension of Foreign Earnings Deduction (FED) to 31 December 2025	nil	nil
Key Employee Engagement Programme Extension of Key Employee Engagement Programme (KEEP) to 31 December 2025, facilitating the buy-back of KEEP shares by the issuing company and increasing the company limit to €6 million	nil	nil
Special Assignee Relief Programme Extension of Special Assignee Relief Programme (SARP) to 31 December 2025 and increasing the minimum income limit for new entrants to €100,000	nil	nil

[15] "nil" signifies that the cost of this item is already incorporated in the base, and as such its further extension incurs no additional cost in terms of budgetary planning.

Section 481 Film Relief Finance Bill 2022 will extend Section 481 from its current end date of 31 December 2024 to 31 December 2028[16]	nil	nil
Research & Development Tax Credit Finance Bill 2022 will introduce changes to the payment provisions for the R&D tax credit, to align with new international definitions of refundable tax credits.[17]	nil	nil
Knowledge Development Box Finance Bill 2022 will extend the sunset clause of the KDB for 4 years, to accounting periods commencing before 1 January 2027. The KDB will have a new effective rate of 10%, to come into effect from a date to be set by commencement order.[18]	nil	+€8m
Young Trained Farmer (Stamp Duty Relief) Extension of Young Trained Farmer (Stamp Duty) Relief to end-2025	- €15m	- €15m
Farm Consolidation (Stamp Duty) Relief Extension of Farm Consolidation (Stamp Duty) Relief to end-2025The tax debt warehousing scheme will be expanded to allow self-assessed income taxpayers with employment income who have a material interest in their employer company to warehouse income tax liabilities relating to their Schedule E income from that employer company.	nil	nil
Farm Restructuring (Capital Gains Tax) Relief Extension of Farm Restructuring (Capital Gains Tax) Relief to end-2025	nil	nil
Stock reliefs Extension of the Young Trained Farmer and Registered Farm Partnerships stock reliefs to 31 December 2024	-€3m	-€3m
Small Benefit Exemption An increase in the limit to €1,000 and an increase in the number of benefits in a year that an employer can give from one to two per year.	-€2m	-€2m
Measures to support housing output		
Extension of Help to Buy to end-2024 Extension of Help to Buy (HTB) to 31 December 2024	- €83m[19]	- €83m
Living City Initiative Extension of the Living City Initiative (LCI) to 31 December 2027, acceleration of relief for owner-occupiers so that it can be claimed as a deduction from total income of 15% of the total eligible expenditure in each of the first six years and 10% for the seventh year and carry forward of relief for owner-occupiers. This measure relating to of pre-letting expenses for landlords is being extended to end 2024.	nil	-€0.5m

[16] Section 481 was scheduled to expire on 31 December 2024. Therefore the extension of the relief does not result in an additional cost in 2023 or 2024. The cost of extending the relief is only applicable from 2025 onward. The estimated cost of the relief in 2025 will be €98m, based on the cost of the relief in 2021 to date.
[17] These measures will be broadly cost neutral as there is no change to the quantum of credit which a taxpayer may claim.
[18] The change to the rate of the KDB will come into effect when commenced by the Minister, to be determined by reference to international progress on implementation of the Pillar Two Subject to Tax Rule. This is expected to occur at some point during 2023.
[19] Full cost of measure is estimated to be in the region of €175m of which €92m is in the tax base.

Pre-letting Expenses Increase eligible expenditure limit for pre-letting expenses for landlords to €10,000 and halve the vacancy period to six months	-€1m	-€2m
Rent tax credit[20] Introduce a new €500 tax credit for private tenants not in receipt of other State housing supports. The credit will be claimable "in year" in 2023 and in subsequent years and from early in 2023 in respect of rent paid in 2022.	-€200m	-€200m
Vacant Homes Tax A Vacant Homes Tax (VHT) will be introduced in 2023. The tax will apply to residential properties which are occupied for less than thirty days in a twelve month period.	+€3m	+€3m
Extension of Residential Development Stamp Duty Refund Scheme to end-2025	nil	nil
Defective concrete products levy New levy of 10% on certain concrete products at point of first supply	+€80m	+€80m
Climate and Environmental Measures		
Carbon Tax[21,22] The Carbon Tax rate will increase from the current rate of €41 to €48.50 per tonne of CO_2. This will apply to auto fuels with effect from 12 October 2022 and all other fuels from 1 May 2023.	+ €114m	+ €151m
Additional Taxation Measures		
Excise Duty €0.50 increase on pack of 20 cigarettes with pro-rata increase on other tobacco products	+ €54m	+ €54m
Excise Duty Small Cider Producers Excise Relief Scheme	-€1m	-€1m
Excise Duty Special Exemption Order excise fee reduction	-€2m	-€2m
VAT Application of zero VAT rate for newspapers and news periodicals, including digital editions	-€32.5m	-€39m
VAT Application of a zero VAT rate for Automatic External Defibrillators and period products	-€0.4m	-€0.5m
VAT Application of a zero VAT rate for all non-oral Hormone Replacement Therapy	-€0.8m	-€1m
VAT Application of a zero VAT rate for all non-oral Nicotine Replacement Therapy	-€0.8m	-€1m
VAT Flat-rate compensation percentage for farmers reduced from 5.5% to 5.0%	+€38m	+€46m

[20] The permanent cost of this measure is estimated at €200 million per annum.
[21] VAT exclusive revenue.
[22] Revenue from carbon tax increases are fully hypothecated to specific spending commitments.

Bank Levy Extended to end of 2023	+ €87m	
Compliance Revenue will conduct a range of targeted projects which will include PAYE compliance interventions involving a further focus on share schemes, and increased debt management activity. It is expected that these projects will yield additional Exchequer receipts arising from increased taxpayer compliance.	+ €80m	+ €80m

Temporary Measures		
Extension of Excise Reduction to end February 2023 [23]	-€117m	
Extension of 9% VAT rate for gas and electricity[24]	-€45m	

[23] VAT inclusive cost. This measure is part of the 2022 one-off cost of living package and does not form part of the budgetary tax package for 2023.
[24] This measure is part of the 2022 one-off cost of living package and does not form part of the budgetary tax package for 2023.

Tithe an Rialtas. Sráid Mhuirfean Uacht, Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street, Dublin 2, D02 R583, Ireland

T:+353 1 676 7571 | @IRLDeptFinance
www.gov.ie/finance