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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Ireland

{SWD(2024) 950 final}

(only the Irish and English texts are authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

CONSIDERATIONS CONCERNING IRELAND

6. On 15 October 2024, Ireland submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Ireland of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation setting the net expenditure path of Ireland for the years 2025 to 2028[4], which the Commission expects the Council to act upon in a timely manner.

7. On 15 October 2024, Ireland submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[5]. The plan commits to net expenditure growth not exceeding 5.1% in 2025, 6.5% in 2026, 4.9% in 2027, 5.4% in 2028, and 4.7% in 2029. The Commission has assessed the medium-term fiscal-structural plan of Ireland and recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

8. According to the Draft Budgetary Plan, Ireland's real GDP is projected to grow by 3.9% in 2025 (-0.2% in 2024), while inflation is forecast at 1.9% in 2025 (1.7% in 2024). According to the European Commission Autumn 2024 Forecast, Ireland's real GDP is projected to grow by 4.0% in 2025 (-0.5% in 2024), while inflation is forecast at 1.9% in 2025 (1.4% in 2024). Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's forecast for 2025 and 2024. Ireland complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.

9. Based on the Commission's estimates, the fiscal stance[6] is projected to be expansionary by 0.1% of GDP in 2025, following an expansionary fiscal stance of 0.3% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

10. According to the Draft Budgetary Plan, Ireland's general government surplus is projected to decrease to 1.7% of GDP in 2025 (4.5% in 2024)[7], while the general government debt-to-GDP ratio is set to decrease to 37.9% at the end of 2025 (41.4%

[3] Not yet published.

[4] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Ireland, 26.11.2024, COM(2024)717 final.

[5] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[6] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

[7] According to the Draft Budgetary Plan, one-off measures are associated with a balance-improving impact of 0% of GDP in 2025 (2.7% of GDP in 2024). There is only one large one-off measure relating to the Court of Justice of the European Union ruling of 10 September 2024. This is in line with the European Commission Autumn 2024 Forecast.

at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 9.8% in 2024 and 5.1% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is the same as the growth rate in the medium-term fiscal-structural plan submitted by Ireland on 15 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, Ireland's general government surplus is projected to decrease to 1.4% of GDP in 2025 (4.4% in 2024), while the general government debt-to-GDP ratio is set to decrease to 38.3% at the end of 2025 (41.6% at the end of 2024). The decrease in the surplus is driven by a slowdown in revenue growth in the absence of one-off revenues as seen in 2024. According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 9.2% in 2024 and 6.6% in 2025. The main differences between both sets of projections for net expenditure reflect diverging assumptions on the permanent impact beyond 2024 of the 'cost of living' package announced in Budget 2025.

11. The Draft Budgetary Plan assumes that expenditure amounting to 0.1% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to below 0.1% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Ireland.

12. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include the non-indexation of personal income tax to wage increases, a range of income tax cuts and extensions of the Help to Buy scheme and VAT cuts for gas and electricity. On the expenditure side, these measures include increases in public sector wages and the costs associated with hosting people fleeing the war in Ukraine. According to the Commission estimates, the overall additional impact of the revenue measures increases the general government surplus by 0.2% of GDP in 2025.

13. According to the European Commission Autumn 2024 Forecast, Ireland's net expenditure is projected to increase by 6.6% in 2025, which corresponds to a cumulative growth of 16.4% in 2024 and 2025 taken together. These net expenditure growth rates would not be fully appropriate steps towards the implementation of the medium-term fiscal structural plan[8].

14. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to increase to 2.8% of GDP in 2025 (from 2.4% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to remain stable at 0.1% of GDP in 2025 (0.1% of GDP in 2024).

15. On 21 October 2024, upon the Commission recommendation of 19 June 2024[9], the Council recommended Ireland to address the expected increase in age-related expenditure by making the healthcare system more cost-effective. The Draft

[8] According to the European Commission Autumn 2024 Forecast, the annual growth of net expenditure in 2025 exceeds by 0.3% of GDP - while the cumulative growth of net expenditure in 2024 and 2025 taken together exceeds by 0.2% of GDP - the maxima from the medium-term fiscal structural plan of Ireland.

[9] Commission recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Ireland, 19.06.2024, COM(2024)607 final.

Budgetary Plan presents several measures concerning the Irish health system, aimed at improving its accessibility and quality.

16. According to the European Commission Autumn 2024 Forecast, Ireland's net expenditure growth in 2025 is not fully in line with the initial steps towards the implementation of the medium-term fiscal structural plan that the Commission assessed and recommends to the Council to endorse. Therefore, the Commission invites Ireland to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2025 is in line with Ireland's medium-term fiscal structural plan. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	-5.5	-0.2	-0.5	3.9	4.0
2	HICP inflation	% change	5.2	1.7	1.4	1.9	1.9
3	General government balance	% GDP	1.5	4.5	4.4	1.7	1.4
4	Primary balance	% GDP	2.2	5.1	5.1	2.4	2.0
5	General government gross debt	% GDP	43.3	41.4	41.6	37.9	38.3
6	Fiscal stance (**)	% GDP	-0.9		-0.3		-0.1
7	Net expenditure growth (annual)	% change		9.8	9.2	5.1	6.6
8	Net expenditure growth (cumulative)	% change				15.4	16.4
			According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Ireland				
9	Maximum growth rates of net expenditure (*)	% change	Annual			**5.1**	
10		% change	Cumulative			**15.4**	

Notes :
* According to the Commission Recommendation for a Council Recommendation setting the net expenditure path of Ireland for the years 2025 to 2029.
** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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