An Roinn Airgeadais
Department of Finance

Budget 2022

Draft Budgetary Plan

Prepared by the Department of Finance
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DRAFT BUDGETARY PLAN 2022

October 2021

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 (DBP) 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 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 consistent with *Budget 2022*, which was presented to Dáil Éireann on the 12th of October 2021.

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 2021 and 2022).

The Code specifies the data to be included in the DBPs of the Member States. Therefore, 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 headline measures such as gross domestic product, headline investment, etc. Accordingly, this document focuses entirely on these headline metrics which, in an Irish context, should be interpreted with caution given the internationalisation of the economy.[1]

Estimates of the structural balance 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 end-September while the fiscal analysis is based on data to early October. All data presented herein are compiled on the *European System of Accounts* (ESA) 2010 statistical basis.

[1] 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/

Summary

Around 90 per cent of the Irish population (aged>12) is now fully inoculated and this mass vaccination has paved the way for an easing of public health restrictions. This, in turn, has triggered a rapid economic rebound, with consumer spending leading the way. That said, the pace of recovery is far from uniform across sectors.

This *Draft Budgetary Plan* is based on GDP growth of 15½ per cent for this year, and 5 per cent for next year. These projections take account of the macroeconomic impact of policy measures introduced in *Budget 2022*, presented to the Irish Parliament on 12th October 2021.

The pre-budget macroeconomic forecasts were endorsed by the *Irish Fiscal Advisory Council* on the 30th of September 2021.[2] A key building block of these projections is the assumption that the (SARS-CoV-2) virus remains contained at levels that do not jeopardise the capacity of the healthcare system.

The headline fiscal deficit is projected at 3.1 per cent of GDP this year, an improvement from the 4.9 per cent deficit recorded last year. As Covid-related supports are phased out over the next 6-9 months or so, the headline deficit is projected to narrow further. A deficit of 1.8 per cent of GDP is projected for next year.

The debt-to-GDP ratio is forecasted to be 55.2 per cent at the end of this year. The ratio is estimated to fall to 51.9 per cent next year, driven predominantly by strong projected nominal growth in GDP next year.

[2] The endorsement letter from the Chairman of the *Irish Fiscal Advisory Council* is available at: https://www.gov.ie/en/publication/fedf0-endorsement-letter-from-the-irish-fiscal-advisory-council/

Section 1
Economic Developments and Outlook

1.1 External Environment

Near-term prospects for Ireland's main exporting markets are broadly favourable at this point. Unprecedented economic policy support during the pandemic – both fiscal and monetary – has helped protect household incomes and corporate revenues in the euro area, UK and US,[3] and this should enable a relatively smooth hand-over to private demand. In all of these regions, the assumed normalisation in household savings should underpin robust consumer demand, while improving confidence alongside favourable financing conditions is expected to support an expansion of business investment.

Table 1: external assumptions

	2020	2021	2022
External GDP growth		***per cent change***	
United States	-3.4	6.0	3.9
Euro area	-6.5	5.3	4.6
United Kingdom	-9.8	6.7	5.2
Technical assumptions		***as stated***	
Euro-sterling exchange rate (€1=)	0.89	0.86	0.86
Euro-dollar exchange rate (€1=)	1.14	1.19	1.18
Brent crude (dollars per barrel)	43.3	68.0	67.2

Oil prices (futures) in 2021 – 2022 are calculated on the basis of futures markets as of mid-September 2021.
Exchange rate outturns as of mid-September 2021 and unchanged thereafter.
Source: OECD Economic Outlook, Interim Report (September 2021)

Short-term forecasts for Ireland's main export markets are set out above (**table 1**). Apart from epidemiological developments, the key sources of risk to these projections lie in the possibility of prolonged supply chain disruption and a premature withdrawal of policy support. In relation to the former, there is now mounting evidence that supply-side constraints – rather than a shortfall in demand – are now becoming the main barrier to growth. In the case of the UK, full customs checks are due to apply from the beginning of next year, and this could lead to some disruption to UK-bound Irish exports, notably amongst smaller and medium-sized firms.

The sharp rebound in global activity has led to a significant increase in oil prices this year, which are now well above pre-pandemic levels, and one of the drivers of higher consumer price inflation across the world. On the basis of futures markets in mid-September, oil prices were expected to average around $68 (€57) per barrel this year and around $67 (€57) per barrel next year. An important risk is that global gas shortages spill-over into the oil market (oil and gas are substitutes), putting upward pressure on prices.

[3] These three regions are the destination for around two-thirds of Ireland's exports.

1.2 Irish economic developments in 2021

Domestically-focused, contact-intensive sectors recorded a sharp decline in activity in the first quarter of this year, due to stringent public health restrictions associated with the *alpha* variant. A rapid recovery took hold as restrictions were eased in subsequent quarters. Notably, however, the initial contraction and subsequent rebound were considerably less than recorded during the first wave of the virus, confirming that firms and households have adapted, *inter alia* by shifting to e-commerce.

At the same time, available data confirm that large parts of the foreign-owned, multinational sector continued to perform strongly during the third wave with, in some cases, pandemic-related demand boosting production. On foot of these developments, and on the back of surging global demand for pharmaceuticals, digital services and goods produced by contract manufacturers in the Far-East, GDP in the second quarter of this year was actually one-fifth higher than its level immediately pre-pandemic (the final quarter of 2019).

With the re-opening of parts of the economy from the second quarter, households have begun to normalise their flow of savings and, are beginning to dip into stocks of accumulated 'excess' deposits – estimated at around €15 billion (or 15 per cent of nominal household spending in 2019) – in order to finance higher levels of spending. While initially concentrated in the purchase of goods, 'social consumption' – which relies on face-to-face contact – appears to have taken on the baton in more recent months. As a result, pre-pandemic levels of consumption should be reached in the third quarter, with a further increase in the final quarter as the remaining restrictions are eliminated. Overall, consumer spending is projected to increase by 6¾ per cent this year.

Despite a near-shutdown of activity in the first quarter, house-building has proven to be relatively resilient this year, with data for housing starts pointing to a pick-up in completions over the second half of the year. Growing optimism that the worst of the pandemic has passed, alongside relatively favourable financing conditions, is supporting non-housing investment spending by the corporate sector. Overall investment spending this year is estimated at 47 per cent lower than last year (with last year's number inflated by significant investment in intellectual property assets).

On the external front, headline exports have increased substantially in the first half of this year, primarily due to a very strong expansion in exports related to 'contract manufacturing' and other globalisation-related factors. At the same time, goods exports from outside of the multinational sector also performed solidly this year, reflecting *inter alia* the rebound in external demand and, possibly, the delayed implementation of full customs checks by the UK authorities. On the services side, double-digit export growth is expected, largely on foot of a robust performance of ICT exports. In overall terms, export growth of around 16 per cent is projected this year.

1.3 Irish economic outlook for 2022

A fundamental building block of the Department's autumn forecasts is the assumption that there are no further public health restrictions and so there is a normalisation of economic activity over the short-and medium-term. On this basis, consumer spending is expected to benefit from a further reduction in the household savings rate, as this reverts to levels more in line with historical norms. Households also accumulated a large stock of 'excess savings' during the pandemic, and a partial unwinding of this is assumed to support spending on some big-ticket items, such as car purchases and international travel.

In terms of the quarterly consumption profile some of the pent-up demand has already been released, and so the quarterly growth pattern involves more modest, but still solid, increases in consumer spending between now and end-2022 (**figure 1A**). This would involve quarterly growth rates slightly

above pre-pandemic trend, and result in an annual growth rate of 9½ per cent for next year. Importantly, this figure is partly a reflection of 'base effects' associated with the large fall in spending during the lockdown in the first quarter this year.

Investment spending is projected at just under 9 per cent next year, led by higher levels of investment spending in building and construction. The need to rebuild productive capacity after a period of under-investment, as well as the need to invest in IT platforms (given rising digitalisation during the pandemic), will underpin business spending on machinery and equipment next year.

Table 2: macroeconomic prospects

	2020	2021	2022
Economic activity		*year-on-year per cent change*	
real GDP	5.9	15.6	5.0
nominal GDP	4.6	15.0	7.3
real modified GNI	-3.5	4.7	5.2
real MDD	-4.9	5.2	6.5
components of GDP		*year-on-year per cent change*	
personal consumption	-10.4	6.8	9.6
government consumption	10.9	2.3	-1.8
investment	-23.0	-47.1	8.9
stock changes^	0.3	-0.3	0.0
exports	9.5	16.1	5.7
imports	-7.4	-10.5	7.5
contributions to real GDP growth		*annual percentage point contribution*	
domestic demand (excl. stocks)	-14.5	-16.6	4.0
net exports	21.4	32.5	1.0
stock changes	0.3	-0.3	0.0
statistical discrepancy	-1.3	0.0	0.0

Rounding can affect totals.
^ Contribution to GDP growth.
Source: 2020 - CSO; 2021 - 2022 Department of Finance.

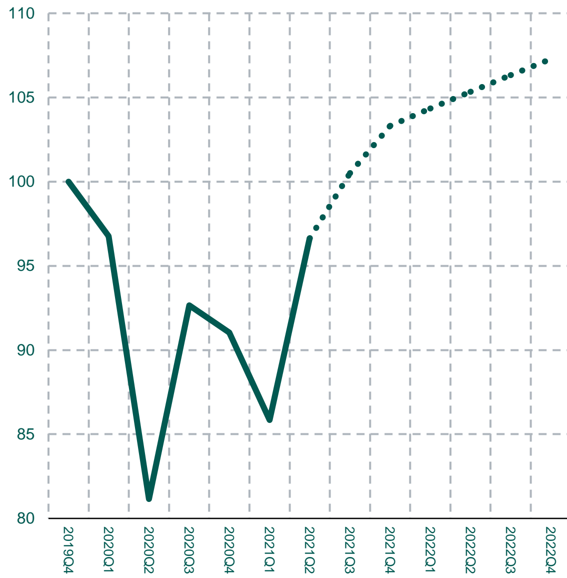
Exports are projected to increase by almost 6 per cent next year, supported by a broadly favourable external environment. Service exports are assumed to be the main driver, underpinned by ICT exports once again. While smaller in monetary terms, the employment-content of tourism and travel exports is significant; exports of these services are set to increase significantly over next year – albeit from a very low base – as more-and-more international travel restrictions are relaxed.

On the other hand, exports of goods are projected to decelerate sharply; this is based on the purely technical assumption that exports related to 'contract manufacturing' do not make a significant contribution to growth next year. The introduction of full customs procedures by the UK authorities under the *Trade and Cooperation Agreement* could also be a significant headwind, in particular, for indigenous exports.

On the basis of these assumptions, GDP is projected to increase by 5 per cent next year. More relevant measures of economic activity such as GNI* and MDD are projected to grow by 5¼ and 6½ per cent respectively in 2022.

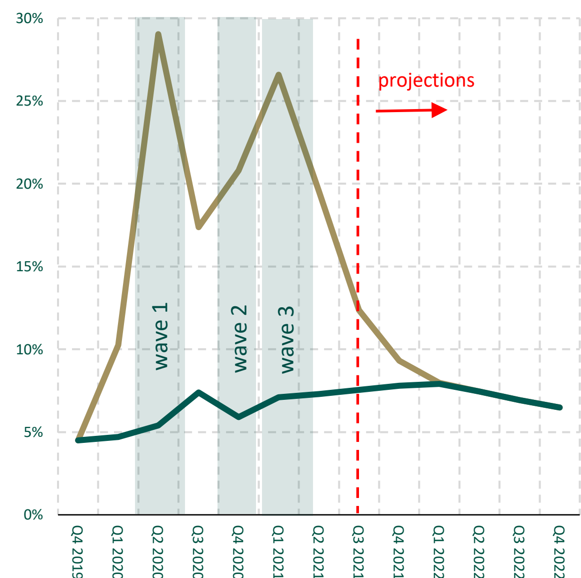
Figure 1: Quarterly projections

A: Quarterly profile for consumption, 2019q4 = 100



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

B: Quarterly unemployment projections, per cent



Note: gold = covid-adjusted measure, which takes into account those on the PUP; green = standard (ILO) unemployment rate.
Source: CSO and Department of Finance.

1.4 Price Developments

After several years of under-shooting, consumer price inflation has picked up since the beginning of this year, partly as a result of temporary factors which are expected to fade over time. These include the normalisation of oil prices following their collapse in spring last year, and the mismatch between demand and supply that has emerged in some sectors following the re-opening of the economy.

Table 3: price developments

	2020	2021	2022
		per cent change	
GDP deflator	-1.2	-0.6	2.2
Personal consumption deflator	0.7	3.4	3.3
Harmonised index of consumer prices (HICP)	-0.5	2.3	2.2
Core HICP inflation^	-0.1	1.7	2.1
Export price deflator (goods and services)	-2.1	-1.2	1.4
Import price deflator (goods and services)	-1.1	0.8	1.4
Terms-of-trade (good and services)	-1.0	-2.0	0.1

^ 'Core' inflation excludes energy and unprocessed food.
Source: 2020 - CSO; 2021 to 2022 - Department of Finance

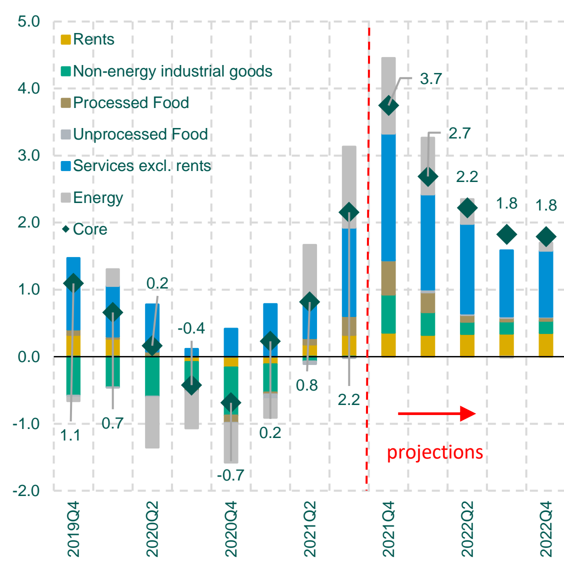
Headline HICP inflation is expected to peak in the fourth quarter of this year (**figure 2A**). This assumption takes into account base effects associated with the reversal of the temporary VAT reduction, which will add to the year-on-year rate of increase in the coming months.[4] For the year as a whole, headline HICP inflation of 2.3 per cent and core inflation (which excludes the volatile components

[4] As part of the July Stimulus package last year, the standard rate of VAT was reduced from 23 to 21 per cent between September 2020 and February 2021. This reduction was reversed in March, and so 'base effects' will temporarily affect the annual rate of inflation from September this year.

of energy and unprocessed food) of 1.7 per cent are projected. The rate of inflation should ease over the course of next year, as supply-side pressures are assumed to dissipate. Headline HICP inflation of 2.2 per cent is projected for next year; the corresponding rate for core inflation is 2.1 per cent.

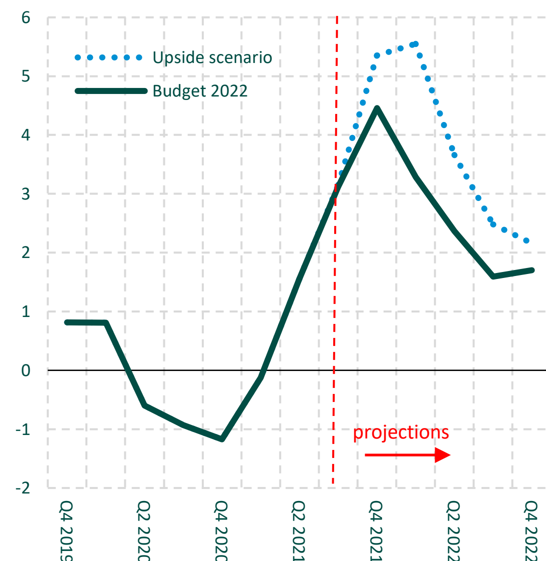
Figure 2: Inflation dynamics

A: Quarterly profile for core inflation



Note: core inflation = headline exc. energy and unprocessed food.
Source: Department of Finance.

B: Higher inflation shock



Note: simulation described in text.
Source: Department of Finance.

The inflation trajectory that underpins the Department's baseline forecasts is one in which energy price inflation slows (as base effects unwind) and supply chain pressures gradually dissipate. This, of course, cannot be guaranteed and a scenario in which more persistent global supply chain disruption, alongside higher energy prices and a faster-than-assumed unwinding of domestic excess savings is set out above **(figure 2B)**. In this simulation, HICP inflation this year would be approximately ¼ percentage points higher; for next year, inflation would be around 1¼ percentage points higher. About half of the increase next year is attributable to recent developments in oil and gas prices, with the remainder explained by the inflationary impact of a more rapid unwinding of excess savings and a more persistent imbalance between demand and supply. While not assumed in this scenario, 'second-round' effects (such as higher inflation expectations feeding into wage demands) could put additional upward pressure on inflation.

1.5 The Labour Market

The outlook for the labour market has significantly improved since the publication of the *Stability Programme Update* in April. High frequency data, from both official and unofficial sources, suggest an acceleration in the pace of employment creation over the summer, largely on foot of the (partial) resumption of face-to-face service activity.

For instance, the number of people in receipt of the pandemic unemployment payment (PUP)[5], fell by over a quarter of a million from the start of May 2021 to the end of September, with data suggesting that the bulk of those exiting the PUP have transitioned to employment over the summer months (in some cases to employment subsidised via the EWSS). PUP numbers stand at just under 100,000 for

[5] The PUP is available to employees and the self-employed who have lost their job on or after 13 March 2020 due to the pandemic. The scheme consists of a weekly payment to recipients that varies based on their earnings when they were working.

the first time since the beginning of the pandemic, down from almost half a million in early February 2021 (roughly one-fifth of the labour force). In addition, real-time data show that new and total job postings on employment website *Indeed* are now around 40 per cent above their pre-pandemic levels.

For this year, overall employment growth of 7¾ per cent is expected (c. 150,000 jobs), with the unemployment rate approaching 9 per cent by year-end (**figure 1B**). For next year, employment growth of just over 13 per cent (c. 275,000 jobs) is projected, with particularly strong growth in part-time employment assumed. On this basis, the number at work is expected to return to its pre-pandemic level in the mid-part of 2022, with the unemployment rate expected to fall to 6½ per cent by the end of next year.

Table 4: labour market developments

	2020	2021	2022
		per cent change (unless stated)	
Employment	-16.7	7.8	13.2
Unemployment rate (per cent)	19.2	16.8	7.2
Labour productivity^	27.1	7.3	-7.2
Compensation of employees*	0.7	6.9	6.0

Note: *Non-agricultural sector.
Employment and unemployment outturns and projections are on the basis of the CSO Covid-adjusted series which treats all recipients of the PUP as unemployed.
Source: 2020 - CSO; 2021 to 2022 - Department of Finance

Despite the labour market bearing the brunt of the impact the pandemic the last year, compensation of employees – the national accounting terminology for the economy-wide pay-bill – increased by 0.7 per cent. While this may appear at odds with the exceptionally large fall in employment last year, the Government wage subsides via the EWSS helped to offset this. For this year, data for the first half of 2021 indicate that the wage bill is set to increase substantially, on foot of a recovery in employment, continued subsidisation of employment by Government and strong growth in earnings per capita in some sectors. The strength of income taxes in the year to date supports this conclusion. Overall, compensation of employees is projected at around 7 per cent this year and 6 per cent for next year (**table 4**).

Table 5: sectoral balances

	2020	2021	2022
		per cent of GDP	
Net lending/net borrowing vis-à-vis the rest of the world^	-2.7	16.5	14.9
of which:			
- Balance on goods and services	22.3	45.4	44.0
- Balance of primary incomes and transfers	-24.9	-28.9	-29.1
- Capital account	0.0	0.0	0.0
Net lending / borrowing of the private sector	2.2	19.6	16.7
Net lending / borrowing of general government	-4.9	-3.1	-1.8
Statistical discrepancy	-0.9	-0.7	-0.7

Source: CSO; Department of Finance. Rounding can affect totals.
^This is equivalent to the current account as the Department do not produce forecasts of the capital account.
Net lending to private sector residually determined as current account less general government balance.

Section 2
Budgetary Developments and Outlook

In Ireland, as elsewhere, the fiscal response to the pandemic has been very large, with pro-active budgetary policy taking many forms: income supports for households, liquidity injections for firms, loan guarantees, targeted taxation reductions, to name just some. In addition, Government has ramped-up funding to provide enhanced public health capacity. From a macroeconomic perspective, the objective has been to stabilise, in so far as possible, short-term demand and to limit the supply-side fall-out from the pandemic (so-called 'scarring effects').

The fiscal support to households and firms means government expenditure will surpass revenue this year, with an estimated fiscal deficit of 3.1 per cent of GDP (**table 6**). This follows a deficit of 4.9 per cent of GDP last year. With a large part of the economy now able to stand on their own two feet, fiscal supports are being phased out over the next 6-9 months, so that a further narrowing of the deficit is in prospect for next year. A deficit equivalent to 1.8 per cent of GDP is currently projected.

Table 6: general government balance broken down by subsector

	ESA Code	2020	2021	2022
		per cent GDP (unless stated)		
General government	S.13	-4.9	-3.1	-1.8
: central government	S.1311	-4.9	-2.8	-1.5
: local government	S.1313	-0.1	-0.3	-0.3
: social security funds	S.1314	M	M	M
Interest expenditure	D.41	1.0	0.8	0.7
Primary balance		-3.9	-2.3	-1.1
Potential GDP growth		9.7	14.1	4.6
Output gap (per cent of potential GDP)		-2.1	-0.8	-0.4
Cyclical budgetary component (per cent of potential GDP)		-1.1	-0.4	-0.2
Cyclically-adjusted balance		-3.9	-2.7	-1.6
Cyclically-adjusted primary balance		-2.8	-1.9	-0.9
Structural balance		-0.8	-0.2	-0.2

Notes: estimates of the output gap are based on the Department's preferred methodology for calculating the potential output using domestic gross value added (GVA), see Murphy et.al (2018) available at:
https://www.gov.ie/en/publication/65c119-estimating-irelands-output-gap/.
Treatment of one-off/temporary measures in line with approach described in Box 6 of the 2021 Stability Programme Update, available at:
https://www.gov.ie/en/publication/d3e2f-stability-programme-update-2021/
M = not applicable
Source: Department of Finance

Allowing the public indebtedness to increase was the most appropriate strategy to absorb the impact of the pandemic. At end-2020 the debt-GDP ratio stood at 58.4 percent (**table 7**). A reduction in the ratio is in prospect for this year and next; while further debt will likely be accumulated, the assumed strong nominal GDP growth will help to reduce the ratio. By end-2022, the debt-GDP ratio is projected at just under 52 per cent.

Net public indebtedness – which takes account of accumulated cash and other assets – is much lower at 47 per cent of GDP at end-2021 and 46.1 percent at end 2022. From a financing perspective, the cost of sovereign borrowing remains low, with only a very minor premium *vis-à-vis* borrowing costs for the German sovereign. Importantly, there are no roll-over requirements this year, i.e. the Irish Government does not need to borrow to fund maturing debt instruments.

Table 7: general government debt developments

	2020	2021	2022
		per cent of GDP	
Gross debt	58.4	55.2	51.9
Change in gross debt	1.1	-3.2	-3.3
Contributions to change in gross debt ratio			
Primary balance	-3.9	-2.3	-1.1
Interest expenditure	1.0	0.8	0.7
Stock-flow adjustment	-1.2	1.3	-1.3
Composition of stock-flow adjustment			
- Change in cash	0.2	0.9	-1.7
- Differences between cash and accruals [b]	0.3	0.4	0.1
- Net accumulation of financial assets [c]	-1.6	0.1	0.3
of which:			
- Privatisation proceeds	M	M	M
- Valuation effects and other [d]	M	M	M
Implicit Interest rate on debt [e]	1.9	1.5	1.4
Other relevant variables			
Liquid financial assets [f]	8.6	8.2	5.8
Net financial debt	49.9	47.0	46.1

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

Table 8: Contingent liabilities

	2018	2019	2020
		per cent of GDP	
Public guarantees	0.0	0.0	0.2
of which linked to the financial sector			
Eligible Liabilities Guarantee	0.0	0.0	0.0
Other	0.0	0.0	0.2

Source: Department of Finance

Table 9: expenditure and revenue projections on a no-policy change basis				
	ESA Code	2020	2021	2022
			per cent of GDP	
Total revenue at unchanged policies	**TR**	**22.4**	**21.7**	**21.0**
of which:				
Taxes on production and imports	D.2	6.5	6.3	6.3
Current taxes on income, wealth, etc.	D.5	10.1	10.0	9.5
Capital taxes	D.91	0.1	0.1	0.1
Social contributions	D.61	4.0	3.7	3.6
Property income	D.4	0.3	0.2	0.1
Other		1.4	1.3	1.2
p.m.: Tax burden		20.9	20.4	19.8
(D.2+D.5+D.61+D.91-D.995)				
Total expenditure at unchanged policies	**TE**	**27.4**	**24.8**	**22.5**
of which:				
Compensation of employees	D.1	6.6	6.0	5.8
Intermediate consumption	P.2	4.0	3.9	3.1
Social payments	D.62, D.632	10.3	8.7	7.2
of which: unemployment benefits				
Interest expenditure	D.41	1.0	0.8	0.7
Subsidies	D.3	1.5	1.3	0.6
Gross fixed capital formation	P.51g	2.4	2.2	2.5
Capital transfers	D.9	0.5	0.7	0.7
Other		1.1	1.2	2.0

Source: Department of Finance forecasts

Table 10: Expenditure and revenue targets, broken down by main components

	ESA Code	2020	2021	2022
			per cent of GDP	
Total revenue target	**TR**	**22.4**	**21.7**	**21.0**
of which:				
Taxes on production and imports	D.2	6.5	6.3	6.3
Current taxes on income, wealth, etc.	D.5	10.1	10.0	9.6
Capital taxes	D.91	0.1	0.1	0.1
Social contributions	D.61	4.0	3.7	3.6
Property income	D.4	0.3	0.2	0.1
Other		1.4	1.3	1.2
p.m.: Tax burden		20.9	20.4	19.9
(D.2+D.5+D.61+D.91-D.995)				
Total expenditure target	**TE**	**27.4**	**24.8**	**22.8**
of which:				
Compensation of employees	D.1	6.6	6.0	5.8
Intermediate consumption	P.2	4.0	3.9	3.2
Social payments	D.62, D.632	10.3	8.7	7.3
of which: unemployment benefits				
Interest expenditure	D.41	1.0	0.8	0.7
Subsidies	D.3	1.5	1.3	0.6
Gross fixed capital formation	P.51g	2.4	2.2	2.5
Capital transfers	D.9	0.5	0.7	0.7
Other		1.1	1.2	2.0

Source: Department of Finance forecasts

Table 11: Amounts to be excluded from the expenditure benchmark

	2019	2020	2021	2022
		per cent of GDP (unless stated)		
Expenditure on EU programme matched by EU funds	0.2	0.2	0.2	0.3
Cyclical unemployment benefit expenditure*	-0.7	1.3	0.8	-0.3
Effect of discretionary revenue measures**	0.3	0.2	0.0	0.0
Revenue increases mandated by law	M	M	M	M

*The cyclical component of unemployment benefit expenditure is derived by applying a projected cost per person employed to an estimate of the unemployment gap (i.e. difference between the actual and structural unemployment rates. The latter is the estimated NAWRU consistent with the harmonised EU methodology

**This 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)

M = not applicable

Source: Department of Finance forecasts

Table 12: Discretionary measures taken by General Government (All Central Government, unless stated)

Measures^	Detailed description	Target ESA Code	Accounting principle	Adoption Status	Budgetary Impact (per cent GDP)		
					2021	2022	2023***
Carryover from previous measures	VAT, Income Tax, Excise	D.51, D.21, D.91	Cash	Implemented	0.0	0.1	0.0
Income Tax changes	Help to Buy, Personal Tax Bands and Credits, Employee Tax Credit, Earned Income Tax Credit, USC threshold	D.51	Cash	Legislation pending	0.0	-0.1	0.0
Corporation Tax Measures	Accelerated Capital Allowance scheme for Energy Efficient Equipment, Digital Games Credit	D.51	Cash	Legislation pending	0.0	0.0	0.0
Excise Duties	Carbon Tax, VRT Measures, Tobacco Tax	D.21	Cash	Legislation pending	0.0	0.0	0.0
Other Discretionary measures*	Extension of Bank Levy	D.51, D.21	Cash	Legislation pending	0.0	0.0	0.0
**Total Measures ** **					**0.0**	**0.0**	**0.0**

^ Revenue measures are detailed here. In addition, a wide range of discretionary expenditure measures have been taken. Details for 2022 are contained in the *2022 Expenditure Report* available at: https://www.gov.ie/en/publication/cb7ac-expenditure-reports/
* See Annex for summary of tax measures.
** The discrepancy in the reconciliation between the no-policy change scenario, 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 2022*

Section 3
Comparison with April 2021 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 2021 Update of Ireland's Stability Programme (the Department's spring forecasts) is set out below.

Table 13: General government balance

	2020	2021	2022
		per cent GDP	
GG Balance – April Stability Programme	-5.0	-4.7	-2.8
GG Balance – Draft Budgetary Plan	-4.9	-3.1	-1.8
Difference (pp)	0.1	1.6	1.0

Source: Department of Finance forecasts

Table 14: General government debt

	2020	2021	2022
		per cent GDP	
GG Balance – April Stability Programme	59.5	62.2	60.2
GG Balance – Draft Budgetary Plan	58.4	55.2	51.9
Difference (pp)	-1.1	-7.0	-8.3

Source: Department of Finance forecasts

Section 4
Distributional Impact of the Main Budgetary Measures

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 effect of *Budget 2022* measures on different income categories is presented in the Budget and some of it is reflected in this section.

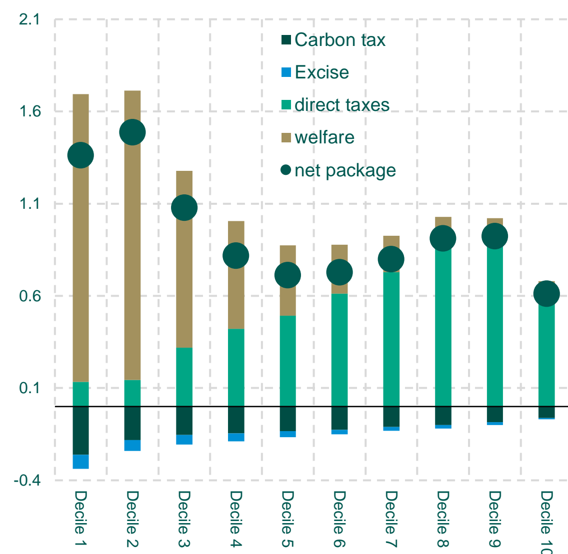
The full documentation is available at: https://www.gov.ie/en/publication/7599a-budget-publications/

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.

In net terms, households experience an average gain in weekly disposable equivalised income of 0.86 per cent, with the overall impact being broadly progressive (**figure 3A**). The net package is shown to benefit all income levels, with equivalised disposable income increasing for all deciles. Overall, average impacts on net disposable incomes are estimated in the range of 1.3 per cent for the first three deciles, with the income of the remaining seven deciles increasing in the region of 0.8 per cent. The first and second deciles show the strongest gains, largely on account of the working age benefits and pensions.

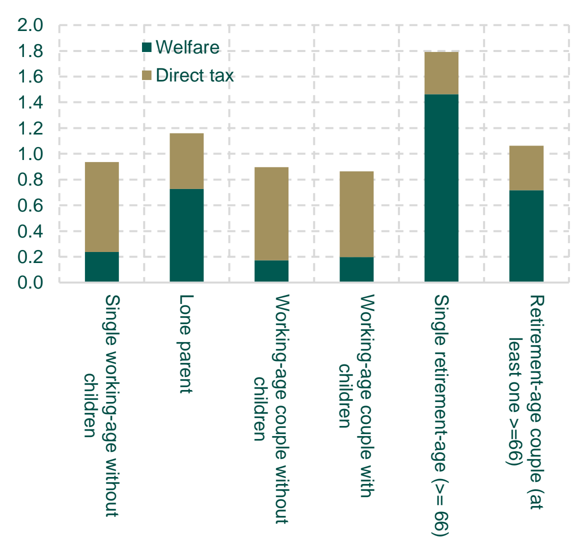
Figure 3: distributional analysis

A: per cent of weekly equivalised disposable income



Note: disposable income per household.
Source: Department of Finance calculations using ESRI's SWITCH

B: by family type – per cent change in disposable income



Source: Department of Finance.

By family type (**figure 3B**) income gains from the welfare package are highest for both single persons and couples of retirement age and lone parents. Income gains from changes to direct tax are highest for working age couples with and without children

Section 5
Country Specific Recommendations

During the summer, the European Council adopted the Country Specific Recommendations (CSRs) for Ireland. These may be found at:

https://ec.europa.eu/info/sites/default/files/economy-finance/com-2021-507_1_en_act_part1_v3.pdf

The measures taken to address the CSRs are summarised below (**table 16**).

Table 16: CSR Recommendations	
Country Specific Recommendation	**Progress to Date**
CSR 1.	
In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.	A key priority in *Budget 2022* is ensuring that the substantial investment in public services and infrastructure is being used effectively to have a meaningful impact on social and economic progress and to address the longer-term challenges facing the economy, such as an ageing population, the digital transition, and climate change. To this end, core capital expenditure has been set at €11.2 billion for 2022, with an additional €500 million in capital expenditure allocated under the Brexit Adjustment Reserve (BAR). A further €565 million from the BAR is expected to be spent in 2023. A review of the *National Development Plan* (NDP) was published on 4th October 2021. The revised plan incorporates total investment of €165 billion, €136 billion of which will be direct Exchequer spending over the ten-year period from 2021-2030. A key element of the NDP is *Housing for All*, a multi-annual, multi-billion euro plan which will make over €20 billion available over the next five years, the largest housing budget in the history of the State. In addition, Ireland has set out a set of 16 investments and 9 reform commitments in the *National Recovery and Resilience Plan* (RRP), which was submitted to the European Commission on 28th May. The RRP received a positive assessment from the European Commission on 16th July and was endorsed by the Ecofin Council on 6th September. The measures in the plan fall under three priorities; advancing the green transition, accelerating and expanding digital reforms and transformation, and social and economic recovery and job creation.
CSR 2.	
When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.	A medium-term budgetary strategy was set out in the *Summer Economic Statement 2021* and expanded upon in *Budget 2022*. It is determined by the need to ensure that the public finances remain on a sustainable path while continuing to support economic activity. An expenditure rule was introduced, allowing permanent expenditure to increase in line with the economy's estimated trend growth rate. These levels of expenditure would be consistent with achieving a balanced budget by the mid-part of the decade. Furthermore, from 2022 onwards, it is planned that borrowing would be for capital purposes only. The rationale in this approach is to stabilise the debt-income ratio.

Table 16: CSR Recommendations

Country Specific Recommendation	Progress to Date
At the same time, enhance investment to boost growth potential.	The Irish Government published on Monday October 4th the renewed 10 year strategic investment plan, the *National Development Plan 2021-2030* (NDP). This plan sets out overall allocations for 10 years out to 2030, as well as 5 year capital investment ceilings for each sector. The total plan contains €165 billion of investments, which is targeted to reach 5 per cent of modified GNI in 2030. This would be among the highest levels of capital investment in the EU. This plan is a 42 per cent increase on the previous *National Development Plan 2018-2027*, which consisted of overall investment of €116 billion. Central state expenditure will be over €11 billion in 2022, the highest level of investment in the history of the State.
CSR 3.	
Pay particular attention to the composition of public finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery.	A total of €48 billion has been made available between 2020 and 2022 to respond to the Covid-19 pandemic, with public debt increasing by a broadly similar magnitude. This robust response was facilitated by the strong position of the public finances immediately prior to the pandemic. In 2019, Ireland ran a budget surplus of 0.5 per cent of GDP. While this was the correct response in a time of crisis, as the pandemic begins to fade, this extraordinary monetary support will be withdrawn in recognition that the current pressures on the public finances are not sustainable. For example, the main labour market supports will end in the first half of 2022 — the Pandemic Unemployment Payment is due to end on 8th February, while the Employment Wage Subsidy Scheme will end at end-April. The introduction of fixed expenditure ceilings, aligned to the estimated trend growth rate of the economy, will allow permanent spending to increase while also allowing for some temporary supports to continue on a tapered basis. Tax revenue will be allowed to fluctuate in accordance with the economic cycle without amending the ceiling. This approach to calibrating the medium-term budgetary strategy is consistent with short-term cyclical stabilisation and medium-term fiscal sustainability. Additional supports in respect of Covid-19 are assumed to be fully unwound by 2023, while increased spending on capital will boost long-term efficiency, productivity and assist in climate and digital transitions. The cornerstone of capital spending is the *National Development Plan 2021-2030*, which will boost the economy's stock of infrastructure and, in doing so, support private investment. It also includes strengthened governance arrangements in order to focus on delivery of efficient and cost-effective public infrastructure. While revenue projections assume a broad increase out to 2025, medium-term fiscal projections allow for a decline in corporation tax relative to the baseline, taking into account the potential impact of the OECD Base Erosion and Profit Shifting (BEPS) process.

Table 16: CSR Recommendations

Country Specific Recommendation	Progress to Date
Prioritise sustainable and growth enhancing investment, notably supporting the green and digital transition.	As part of the announced *National Development Plan 2021-2030* (NDP), each priority area was assessed for climate impacts and detailed in the Report. Chapter 3 in the NDP details the range of initiatives to enhance climate funding and the consideration of climate impacts in project appraisal. Ireland is engaged with 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; 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 €989 million *National Recovery and Resilience Plan* as part of NextGenerationEU, with 42 per cent of the investments tagged as climate expenditure, and 32 per cent of the investments tagged as digital expenditure.
Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.	*Budget 2022* announced that in accordance with commitments to international tax reform, in Finance Bill 2021 the transposition of the Anti-Tax Avoidance Directives will be completed. This will be achieved by the introduction of a new Interest Limitation Ratio and new Anti-Reverse Hybrid rules, both of which have been developed over the year with the input of stakeholders through a series of public consultations. Ireland joined the global agreement at the OECD which will reallocate tax rights from the biggest companies to be taxed in market jurisdictions, as well as introducing a minimum effective tax rate of 15 per cent for companies with a turnover in excess of €750 million. A public consultation also took place this year on updating Ireland's treaty policy with a particular focus on developing countries. A treaty policy statement will issue in the first quarter of next year. Independent economic research on outbound payments from Ireland was carried out and it is published on the Department of Finance website. This will inform the development of future policy measures on outbound payments with a public consultation expected by the end of the year. *Budget 2022* also provides further detail about how Ireland plans to strengthen the coverage, adequacy, and sustainability of health and social protection systems for all. Some headline measures are detailed below. Among the new measures in *Budget 2022* to increase healthcare access and utilisation in a sustainable way include:

Table 16: CSR Recommendations

Country Specific Recommendation	Progress to Date
	• The extension of free-at-the-point-of-use general practitioner (GP) care from children aged up to five years, to children aged up to seven years. • The lowering of the threshold for the maximum someone will have to pay for approved prescribed drugs from €114 to €100 per month. • Additional funding of €250 million to tackle hospital waiting lists that have grown over the course of the Covid-19 pandemic. • The provision of free contraception for women aged 17-25 • Expanding access to dental care for medical card holders. • Continued expansion of critical care capacity in acute hospitals, with funding allocated to increase capacity by 33 per cent by the end of 2022 compared to pre-pandemic levels. *Budget 2022* provides for a first general rate increase for social protection weekly payments since 2019, in addition to other targeted measures, aimed at supporting the most vulnerable. These measures include: • A €5 increase to all weekly social protection payments • A €3 increase to the Living Alone Allowance • A €2 increase to the payment in respect of qualified children aged under 12 and a €3 increase to the payment in respect of qualified children aged 12 and over • An increase of €5 in the Fuel Allowance, as well as changes to the qualification criteria for, which will enable more people to avail of the payment

Annex

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

Table A2: Taxation measures for introduction in 2022		
Measure	**Yield/Cost 2022**	**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 in the Personal Tax Credit from €1,650 to €1,700 An increase in the Employee Tax Credit from €1,650 to €1,700 An increase in the Earned Income Credit from €1,650 to €1,700	- €520m	- €597m
Sea-going Naval Personnel Tax Credit Extension of the Sea-going Naval Personnel Tax Credit to 31 December 2022	- €0.5m	- €0.5m
USC The following changes to USC will apply from 1 January 2022. • €608 increase to €21,295 band ceiling The increase in the 2 per cent rate band ceiling will ensure that a full-time adult worker who benefits from the increase in the hourly minimum wage rate from €10.20 to €10.50 will remain outside the top rates of USC. The USC Rates & Bands from 1 January 2022 will be: Incomes of €13,000 are exempt. Otherwise: • €0 – €12,012 @ 0.5 per cent • €12,013 – €21,295 @ 2 per cent • €21,296 – €70,044 @ 4.5 per cent • €70,045+ @ 8 per cent • Self-employed income over €100,000: 3 per cent surcharge The reduced rate of USC for medical card holders is being extended for a further year, at an estimated cost of €62m in 2022 and €72m per annum thereafter. This measure is revenue neutral as it is already included in the tax base.	- €22m	- €26m
Work from Home Measure In light of Government policy to facilitate and support remote working, the current tax arrangements for working from home will be enhanced and formalised so that an income tax deduction amounting to 30 per cent of the cost of vouched expenses for heat, electricity and broadband in respect of those incurred while working from home can be claimed by taxpayers.	- €10m	- €11m
Measures to support Enterprise/SMEs/Agri-sector		
Employment Wage Subsidy Scheme The Employment Wage Subsidy Scheme will be extended until 30 April 2022,		

in a graduated form. The following are the broad parameters of this extension: • no change to EWSS for the months of October and November, • businesses availing of the EWSS on the 31st of December 2021 will continue to be supported until the 30th of April 2022, • across December, January and February, the original two-rate structure of €151.50 and €203 will apply, • for March and April 2022, a flat rate subsidy of €100 will be put in place. In addition, the reduced rate of Employers' PRSI will no longer apply for these two months, and • The scheme will close to new employers from 1 January 2022. The estimated cost of extending the EWSS from November 2021 to 30 April 2022 is in the region of €1.26 billion, which is funded by the Vote for the Department of Social Protection.		
Taxation of International Flight Crew Section 127B of the Taxes Consolidation Act 1997 provides for the tax treatment of flight crew in international traffic. An amendment will be introduced in the Finance Bill to exclude non-resident air crew where certain conditions are satisfied.	- €10m	- €12m
Measures to support Enterprise Finance Bill 2021 will introduce a new tax credit for the digital gaming sector. The relief will be available at a rate of 32 per cent, on eligible expenditure of up to a maximum limit of €25 million per project.	- €2m	- €6m
The relief for certain start-up companies will be extended in Finance Bill 2021, for a period of five years. The relief will also be amended such that companies may avail of the relief within their first five years of trading, an increase from the current three year claim window.	- €5.7m	- €10m
Employment Investment Incentive (EII) Extension and expansion of the Employment Investment Incentive scheme to end-2024.	- €10m	- €10m
Stock Relief Extension of stock relief (sections 666, 667B, 667C of Taxes Consolidation Act).	- €8m	- €8m
Young Trained Farmer Extension of Young Trained Farmer (Stamp Duty) Relief to the end of 2022	- €15m	- €15m
Expansion of Warehousing of tax liabilities The 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.		

Housing		
Extension of Help to Buy to end-2022 The Help to Buy measures is being extended at the enhanced rate of support to end 2022.	- €83m[6]	- €83m
Extension of pre-letting expenses for landlords to end 2024 (S97A) This measure relating to of pre-letting expenses for landlords is being extended to end 2024.	- €3m	- €3m

Climate and Environmental Measures		
Tax treatment of income from micro-generation of electricity A tax disregard (€200) is being introduced in respect of personal income received by households who sell residual electricity that they generate back to the grid.	- €1m	- €1m
Carbon Tax[7] As set out in Finance Act 2020, the rate of carbon tax will increase by €7.50 from €33.50 to €41.00 per tonne of carbon dioxide emitted. This applies from budget night for auto fuels and 1 May 2022 for all other fuels.	+ €109m	+ €148m
Vehicle Registration Tax VRT new rates table and extension of relief for BEVs	+ €82m	+ €82m
Accelerated Capital Allowances The Accelerated Capital Allowance scheme for Energy Efficient Equipment, which allows an accelerated deduction when businesses invest in highly energy efficient equipment, is being amended to prohibit equipment directly operated by fossil fuels from qualifying for the scheme.	€nil	€nil
The Accelerated Capital Allowance scheme for Gas Vehicles and Refuelling Equipment allows an accelerated deduction when businesses invest in vehicles powered by natural gas / biogas and related refuelling equipment. The scheme is being extended to end 2024 and is being amended to include hydrogen powered vehicles and refuelling equipment. It provides for the acceleration of existing allowances and therefore is cost-neutral over the lifespan of the assets.	- €2m	€nil

Anti-Avoidance		
Completion of ATAD Transposition Introduction of new Interest Limitation Rule in line with Article 4 of the Anti-Tax Avoidance Directive (ATAD). This measure will place a limit on deductible interest expenses of 30 per cent of EBITDA for companies within scope of the measure. Disallowed interest may be carried forward and may be deducted in future years if the company has sufficient interest capacity. Full details of the measure will be contained in the Finance Bill.	€nil	€nil

[6] Full cost of measure is estimated to be in the region of €175m, of which €92m is in the tax base

[7] Carbon tax revenues are fully hypothecated to specific spending commitments. For details please see the *Expenditure Report 2022*, available at https://www.gov.ie/en/publication/cb7ac-expenditure-reports/

Introduction of new anti-reverse-hybrid rules in line with Article 9(a) ATAD. This measure will bring certain tax transparent entities (such as partnerships) within scope of Irish tax where the entity is 50 per cent or more owned/controlled by entities resident in a jurisdiction that regard it as tax opaque and, as a result of this hybridity, double non-taxation occurs. Full details of the measure will be contained in the Finance Bill.	€nil	€nil

Additional Taxation Measures		
VAT Decrease in the Farmers Flat Rate Addition from 5.6 per cent to 5.5 per cent	+ €5.8m	+ €7m
Tobacco Products Tax Increase in 50c on pack of 20 cigarettes with pro-rata increase on other tobacco products.	+ €56m	+ €56m
Bank Levy Extension of bank levy to end-2022.	+ €87m	+ €87m
Employer's PRSI From 1 January 2022 the weekly income threshold for the higher rate of employer's PRSI will increase from €398 to €410. This follows a recommendation of the Low Pay Commission to ensure that the increase in the hourly minimum wage does not lead to work disincentives for workers, in particular those seeking to work full-time.	- €10.6m	- €12.5m

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