

# Budget 2024: A Macroeconomic Perspective

## EVENT

ESRI Post-Budget Seminar

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## AUTHORS

Lea Hauser & Kieran  
McQuinn



# Overview

- Context for the budget
- Macroeconomic assessment
- Review of recent expenditure levels
- Key challenges – fiscal policy
- Impact of Budget 2024?

# Context

- Budget framed against
  - Slowing growth in the Irish economy
  - After a prolonged period of sustained growth
- Investment in key areas – housing, climate change
- Support households, businesses vis-à-vis increased cost of living
- However, avoid additional inflationary pressures
- Labour market:
  - Operating close to or at capacity
  - Unemployment at 4 per cent
- Inflation at 6 per cent in 2023, 3.2 per cent in 2024
- Exposure to international economic slow-down?

## Overview: Normalising domestically, slowing internationally

### *Domestic economy normalising after twin shocks*

- Historically low unemployment rate – labour market likely operating at capacity
- Excess savings down, consumption moderating
- Continued growth in taxation receipts

### *Multinational activity slows*

- Slowdown in export activity in key sectors
- Declining investment alongside higher interest rates
- Goods trade dropping more rapidly

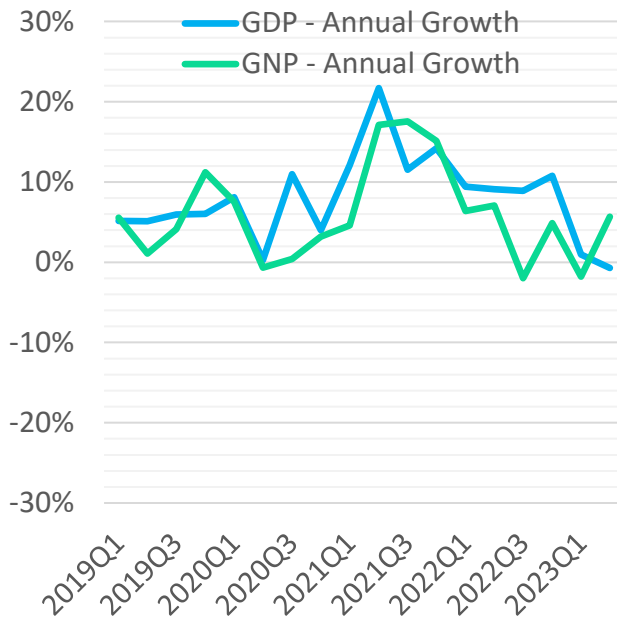
### *Headline inflation set to fall, core remains sticky*

- Declines in energy prices will contribute to fall in headline inflation but levels remain high and risk of acceleration in wages
- Domestic factors likely to take over inflationary impulses

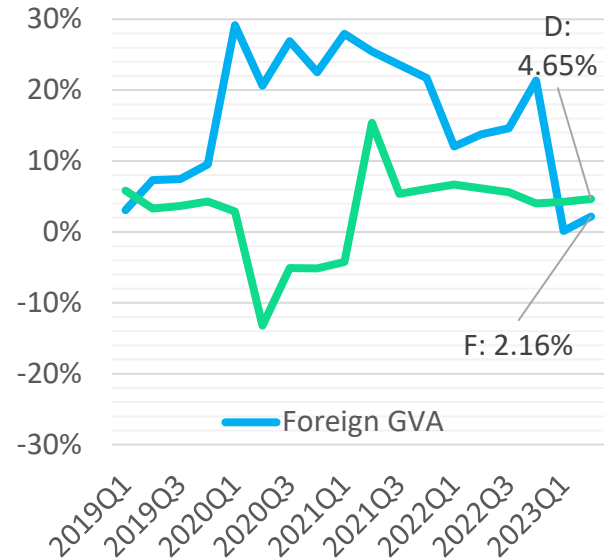
Forecast		
	GDP	MDD
<b>2022</b>	9.4	9.5
<b>2023</b>	-1.6	1.8
<b>2024</b>	3.5	2.4

# Dual economy on divergent paths

GDP & GNP Growth – Y-on-Y (%)

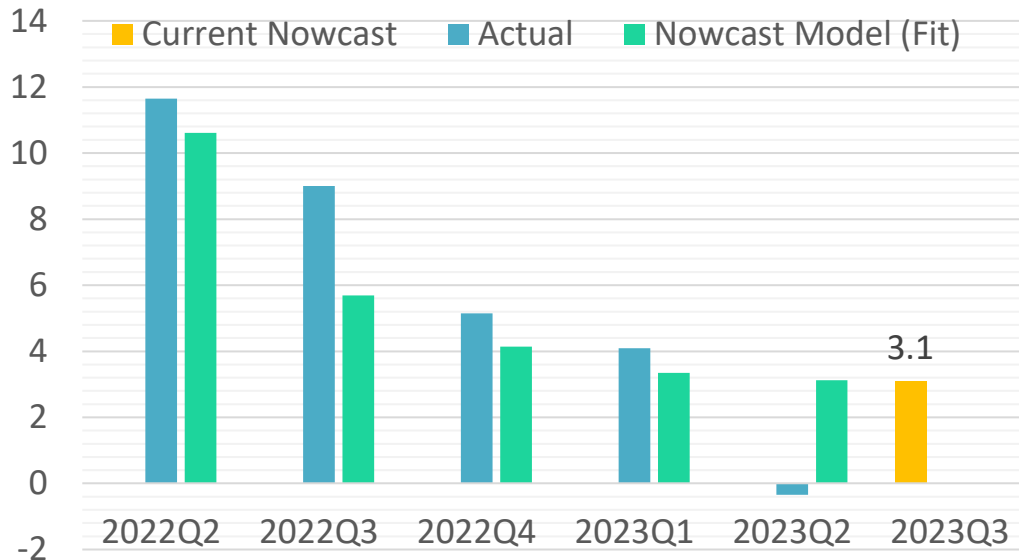


GVA Growth – Y-on-Y (%), Foreign & Domestic Sectors



# Nowcast of Modified Domestic Demand

## NOWCAST OF MODIFIED DOMESTIC DEMAND: Q22021 – Q32023



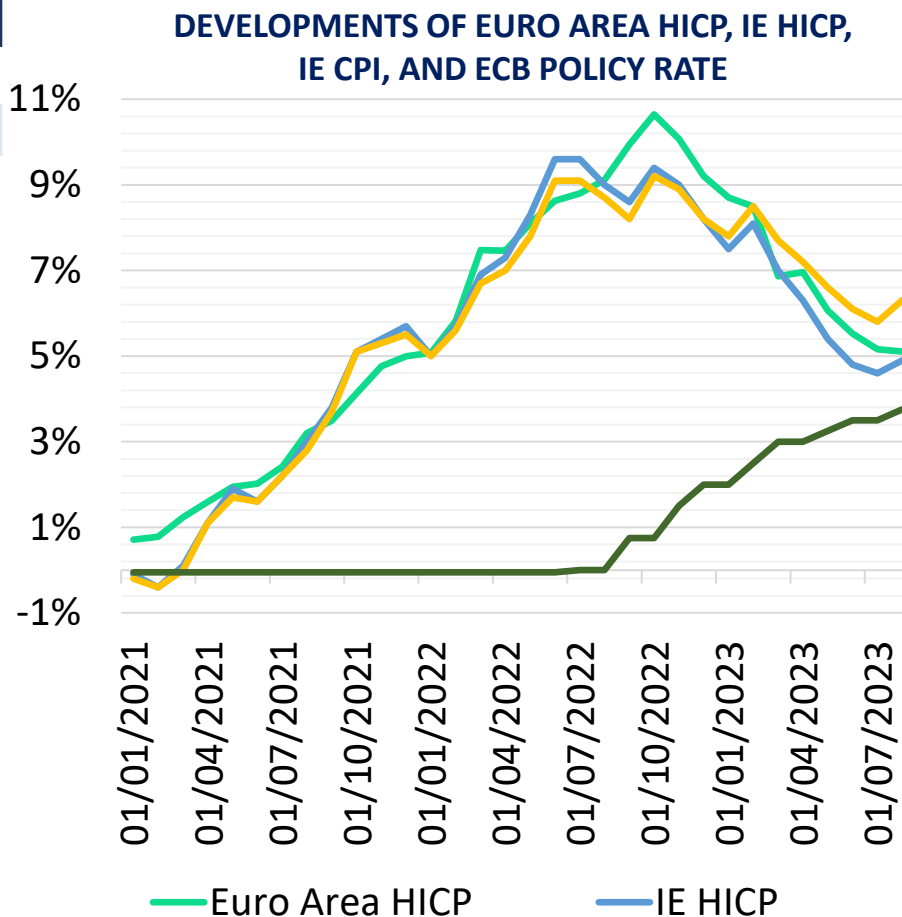
Note: Nowcast for Q2 includes data available through 14 June

- Consumption slowing and investment base effects led to decline in Q2 2023.
- We expect MDD growth to normalise in 2023.

# Inflation easing but persistent

Price Developments	2022	2023	2024
Inflation (CPI)	7.8	6.0	3.2
Inflation (HICP)	8.1	5.6	2.8

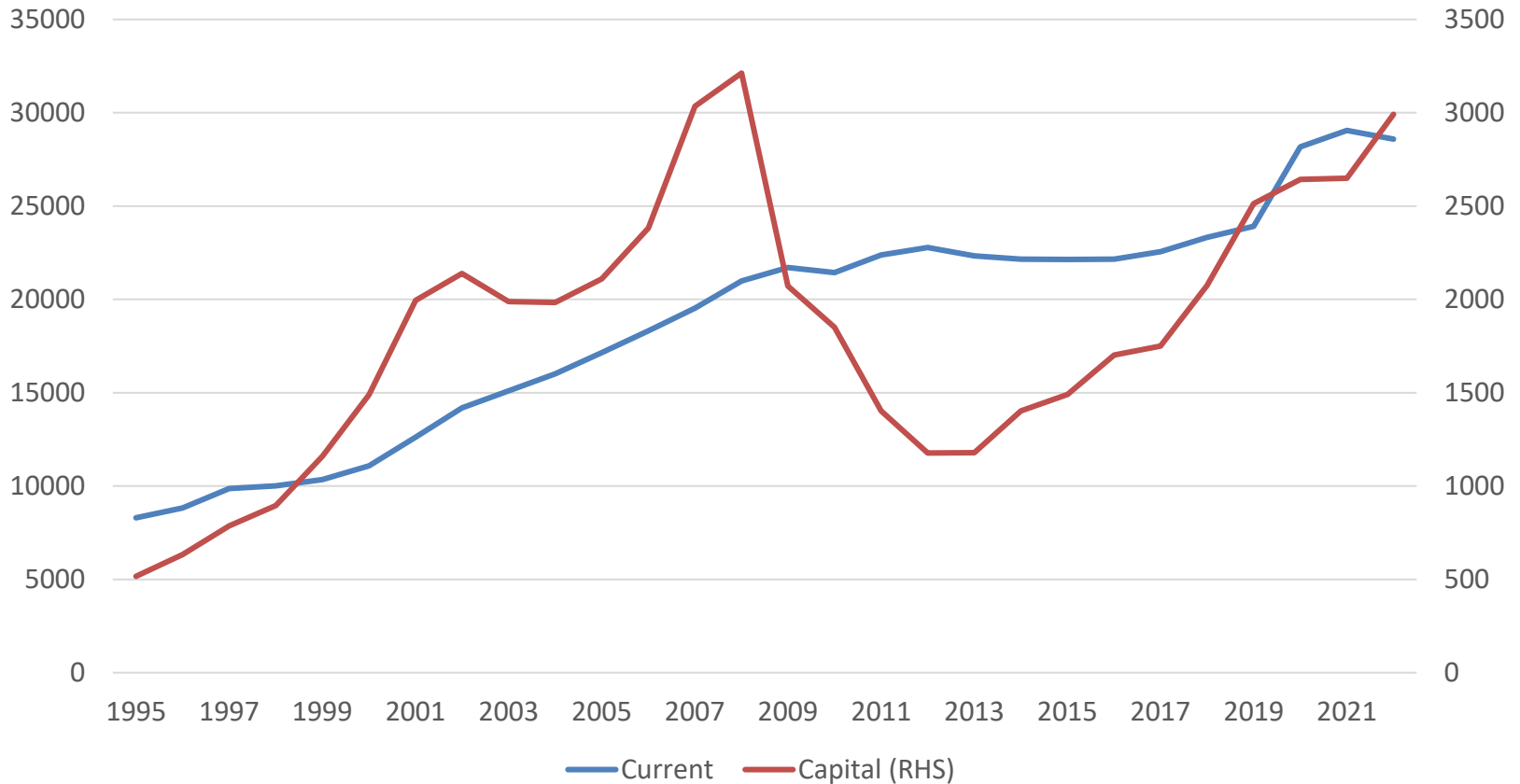
- Inflation has peaked.
- Energy price pressures are abating.
- Inflation now driven by food and housing costs.
- Recovery of supply chains and energy markets coupled with interest rate increases will put downward pressure on demand-side and supply-side inflationary pressures.
- CPI and HICP rates to moderate in 2024.



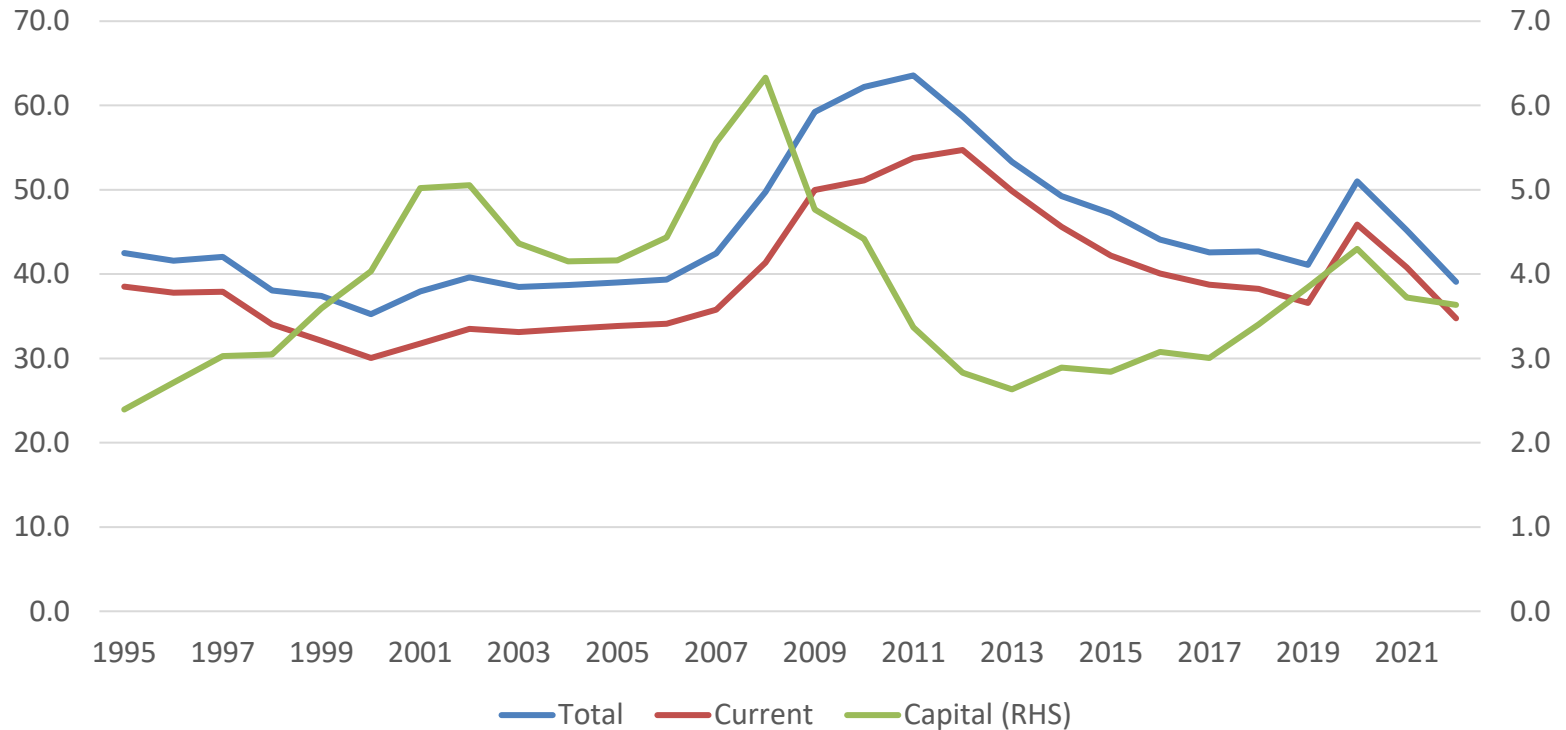
## A review of Irish expenditure levels



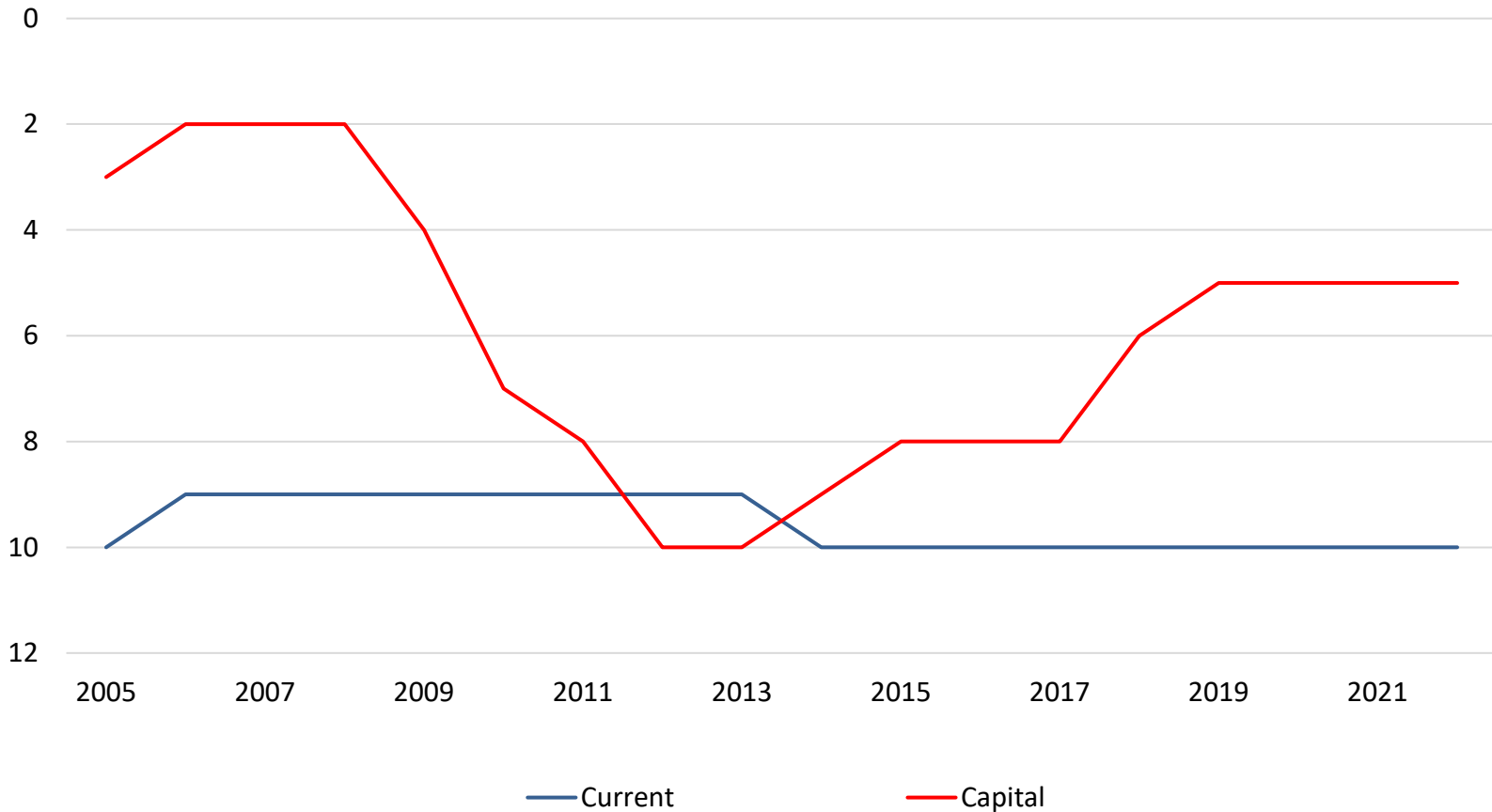
## Irish current and capital expenditure per head (€'s per head)



## Ireland's expenditure as a percentage of GNI\*



# Ireland's ranking in current and capital expenditure



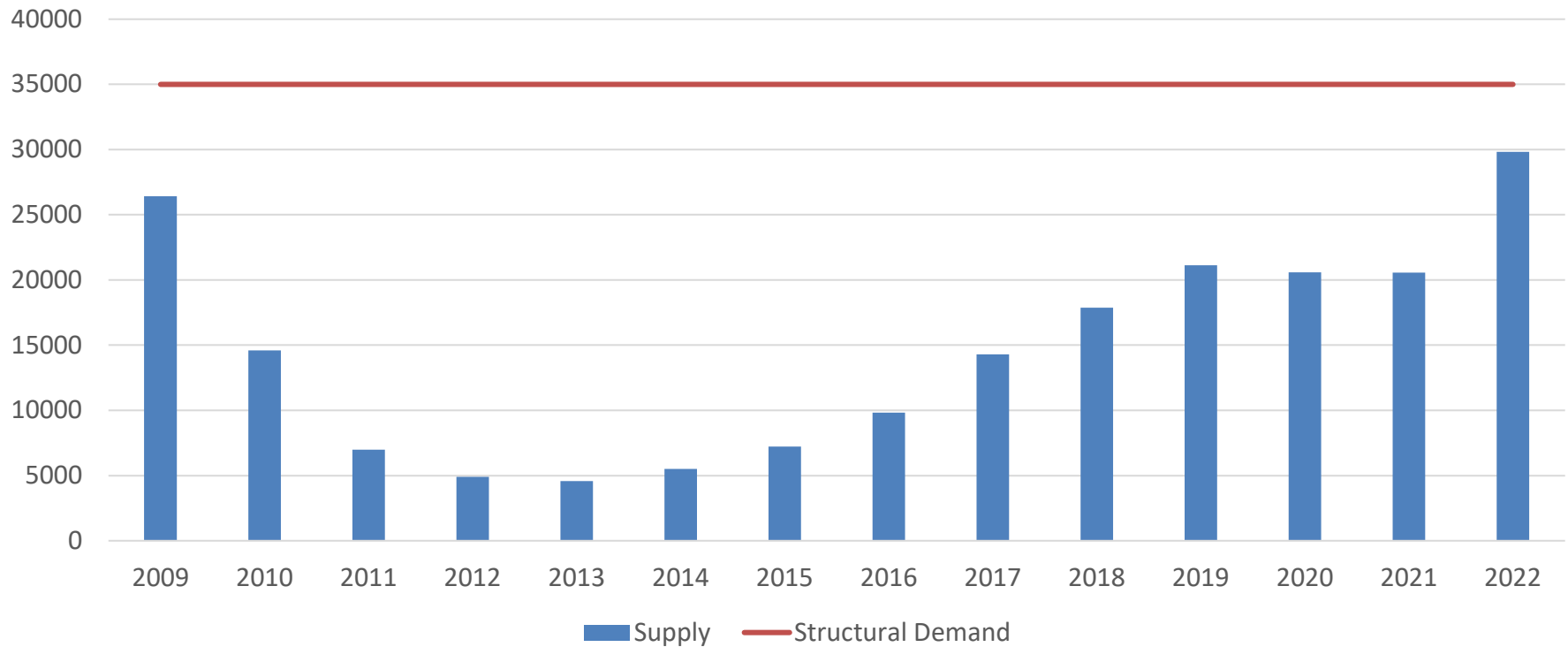
# Review of expenditure levels

- Volatile over the period 1995 – 2022
- Particularly capital expenditure
  - In absolute and
  - In relative terms
- Low capital expenditure vis-à-vis other EU countries
  - Government investment levels low generally
- After GFC - capital expenditure playing catch-up?
- Capital expenditure very pro-cyclical

## Challenge: Higher interest rate environment

- Era of low cost of finance at an end?
- Higher interest rate environment due to inflationary pressures
- Poses challenges for future investment
  - Ma and Zimmermann (2023)
  - Hysteresis and monetary policy
- Greater levels of investment going forward
- Requires greater role for fiscal policy?

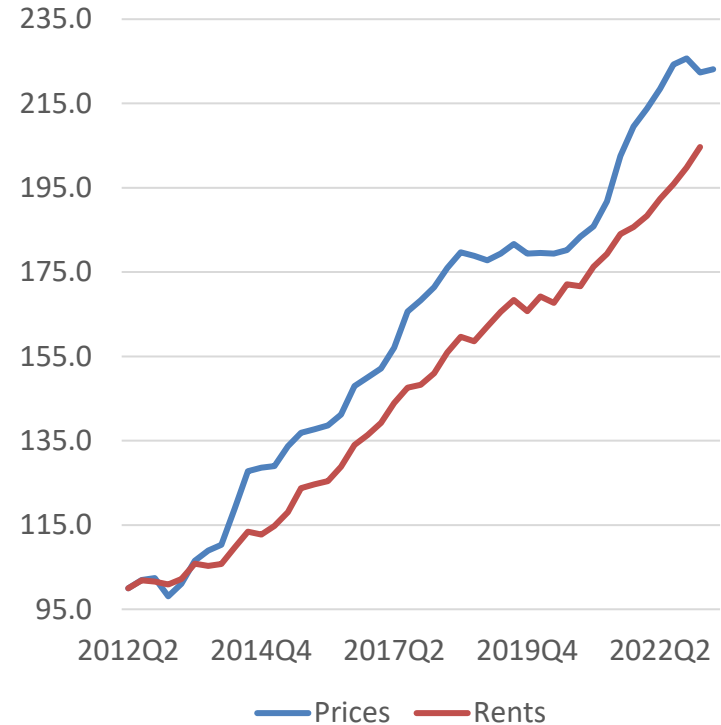
# Housing supply versus demand



# Higher interest rates and the housing market

- Higher interest rates impacts housing
- Both on the demand and supply side
- Decreases affordability and
- Increases cost of finance
- Implications for housing output
- If housing targets are to be met
- Greater Government expenditure?

Irish house prices and rent levels  
(index 2012 = 100)



# Impact of budget?

- Sizeable package overall
- Core + non-core amounts to nearly €14bn in additional spending
- If that is spent, constitutes
  - A significant injection into a fast-growing economy
- Particularly in the context of
  - 4 per cent unemployment and 6 per cent inflation
- Significant capital expenditure
- Should be accompanied by restraint on the tax side
- Create the space for investment without overheating



# Impact of budget (continued)?

- Future Ireland Fund + Infrastructure Climate and Nature Fund
  - To be welcomed
  - Delineate taxation revenues between sustainable and unsustainable
  - Given past experience - counter-cyclical element is welcome
  - More adept at spending on large infrastructure projects
  - Details of spend and prioritisation important
- Childcare subsidy
  - Increases in female labour force participation?
  - If so to be welcomed
- Increase in vacant homes tax
  - Welcome move to increase supply

# Thank You