Exchequer figures remain strong but vulnerabilities visible

MARTIN FRAWLEY

Income tax receipts were up by more than 7% last year to almost €33 billion, reflecting the continuing growth in the labour market, according to the Exchequer returns for 2023.

VAT receipts were also up significantly last year, rising by 9.4% over the 2022 figures, to €20.3 billion, again indicating that spending continues its recovery since the pandemic.

The only "blip" in the Exchequer figures for last year was that corporation tax receipts for the year came in at €23.8 billion – up €1.2 billion (5.3%) – which is more modest growth than in previous years. However, the Minister for Finance has repeatedly warned about a looming slowdown in corporation tax receipts and has structured government spending on such a scenario.

However, an overall Exchequer surplus of €1.2 billion was recorded last year, below the surplus of €3.8 billion recorded in 2022. This drop in the surplus is down to increased public expenditure as well as the transfer of €4 billion to the National Reserve Fund.

Transfers to the Reserve Fund are neutral from a general accounting perspective and the Exchequer noted a general government surplus of just under €8 billion for 2023.

Overall, tax receipts were largely as anticipated in Budget 2024, coming in at just over €88 billion – up €5 billion (6%) on 2022.

While this suggests an overall strong economy, as the Government sits down with the public service unions to resume talks on a new public service pay deal, the Minister for Finance, Michael McGrath, warned against permanent fiscal commitments being made on the basis of transitory revenues.

Once again, the Minister noted the volatility of corporation tax receipts and noted that if "windfall corporation tax receipts" were excluded, it would result in an underlying deficit.

"Indications are that pandemic-era surge in exports in a small number of sectors – which drive corporate profitability in Ireland – are now unwinding; this would mean more modest growth in corporation tax receipts in the coming years", said the Minister.

SOFTEN THE COUGH

The Minister for Public Expenditure and Reform, Paschal Donohoe, noted that gross voted expenditure last year was €94.7 billion last year – up 6.7% on 2022, and well ahead of the Government's self-imposed 'rule' to limit spending increases to 5%.

If these warnings are designed to "soften the cough" of the unions, they can counteract that inflation increased in December.

Released on the same day as the Exchequer returns, the CSO figures showed that inflation fell from 3.5% to 2.5% in November 2022, but then rose again last month to 3.2%. This is the Harmonised Index of Consumer Prices (HICP) which compares consumer prices across the EU but excludes mortgage interest payments.

The official measure of inflation in Ireland is the Consumer Price Index (CPI), which includes mortgage interest payments. The CPI came in even higher in December at 3.9% in the year to November.

The CSO said that the core HICP rate, which excludes energy and unprocessed food, was estimated at 4.3% in the year to December, up from 3.9% in the year to November.