



An Roinn Airgeadais
Department of Finance

Irish economic situation and outlook

Presentation to the Tax Strategy Group

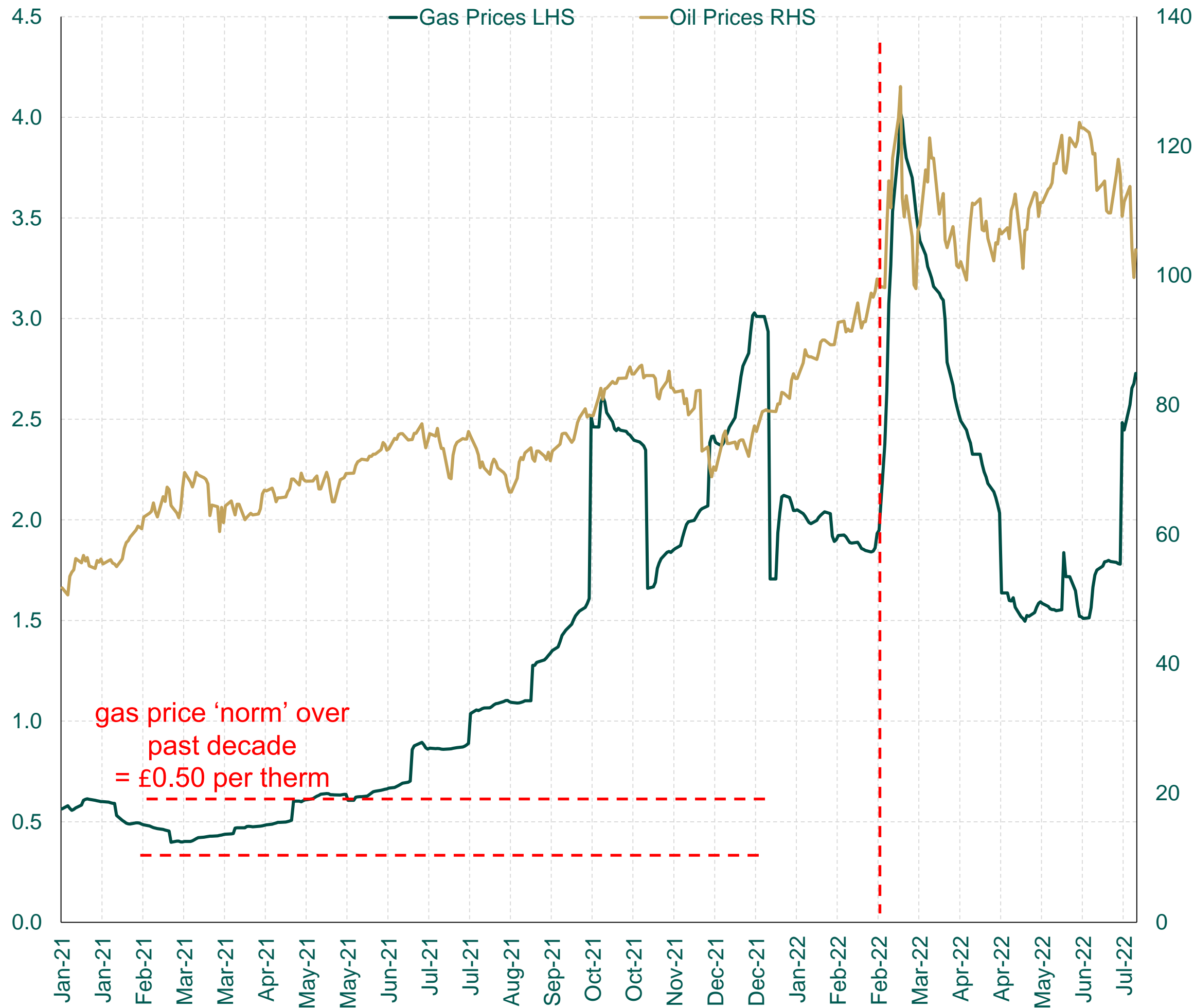
Brendan O'Connor

12 July 2022

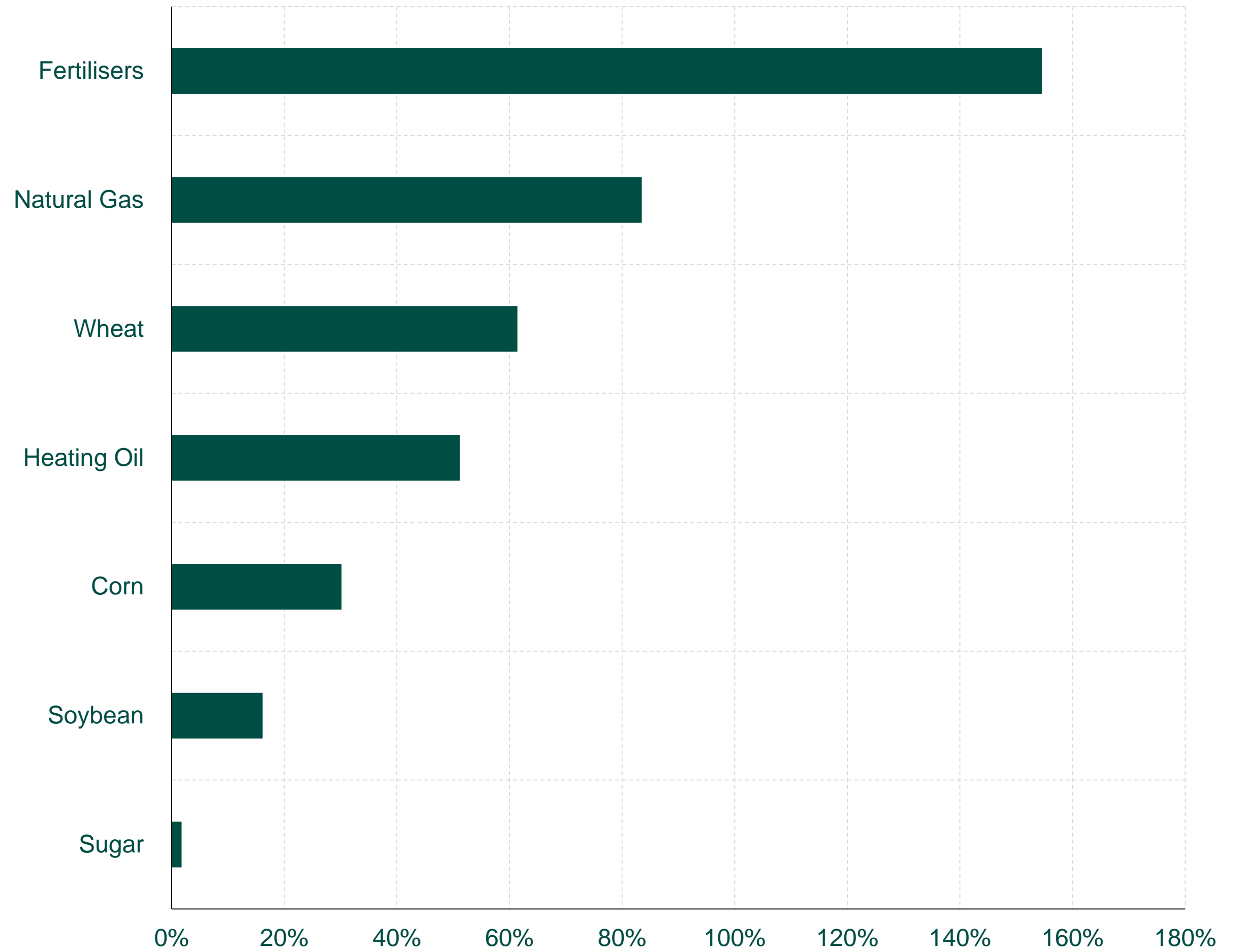
The war in Ukraine has impacted global markets



Oil and gas spot prices – US\$ per barrel, stg£ per therm



Commodity prices, per cent change from January average to May 13th

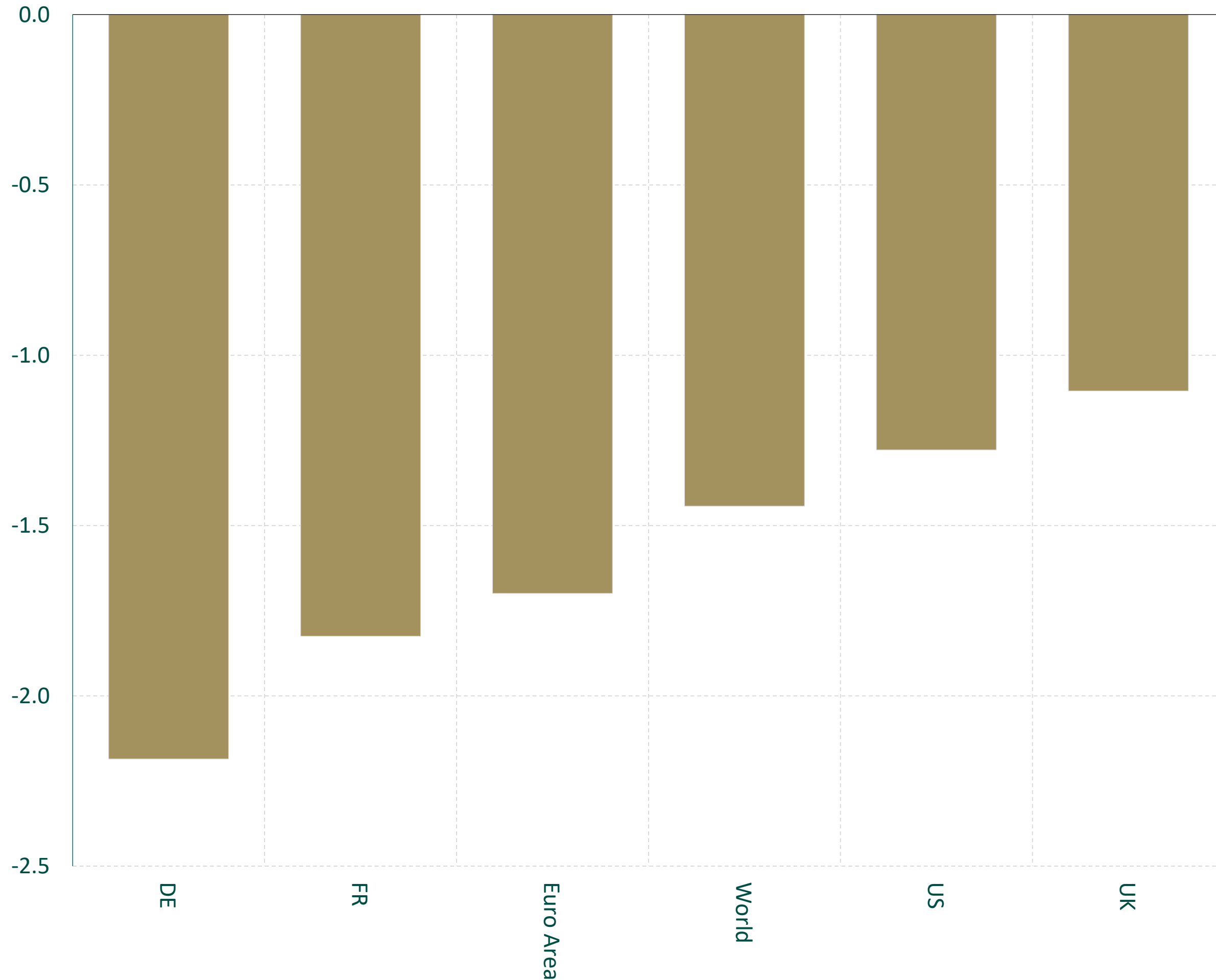


The global economy: 'stagflation' in prospect?

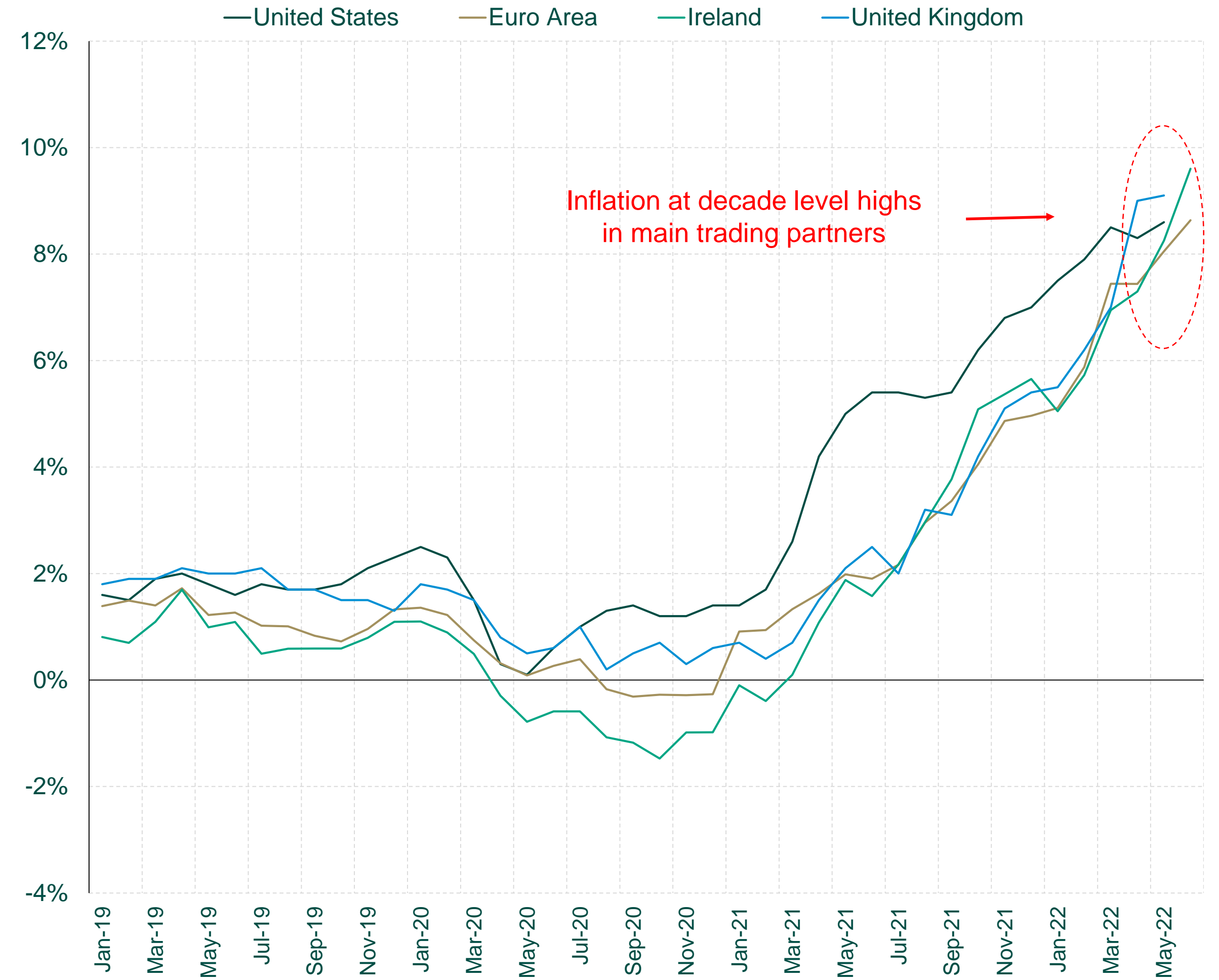


Growth weakens in advanced economies....

OECD forecasts (June) incorporate significant downward revision for 2022



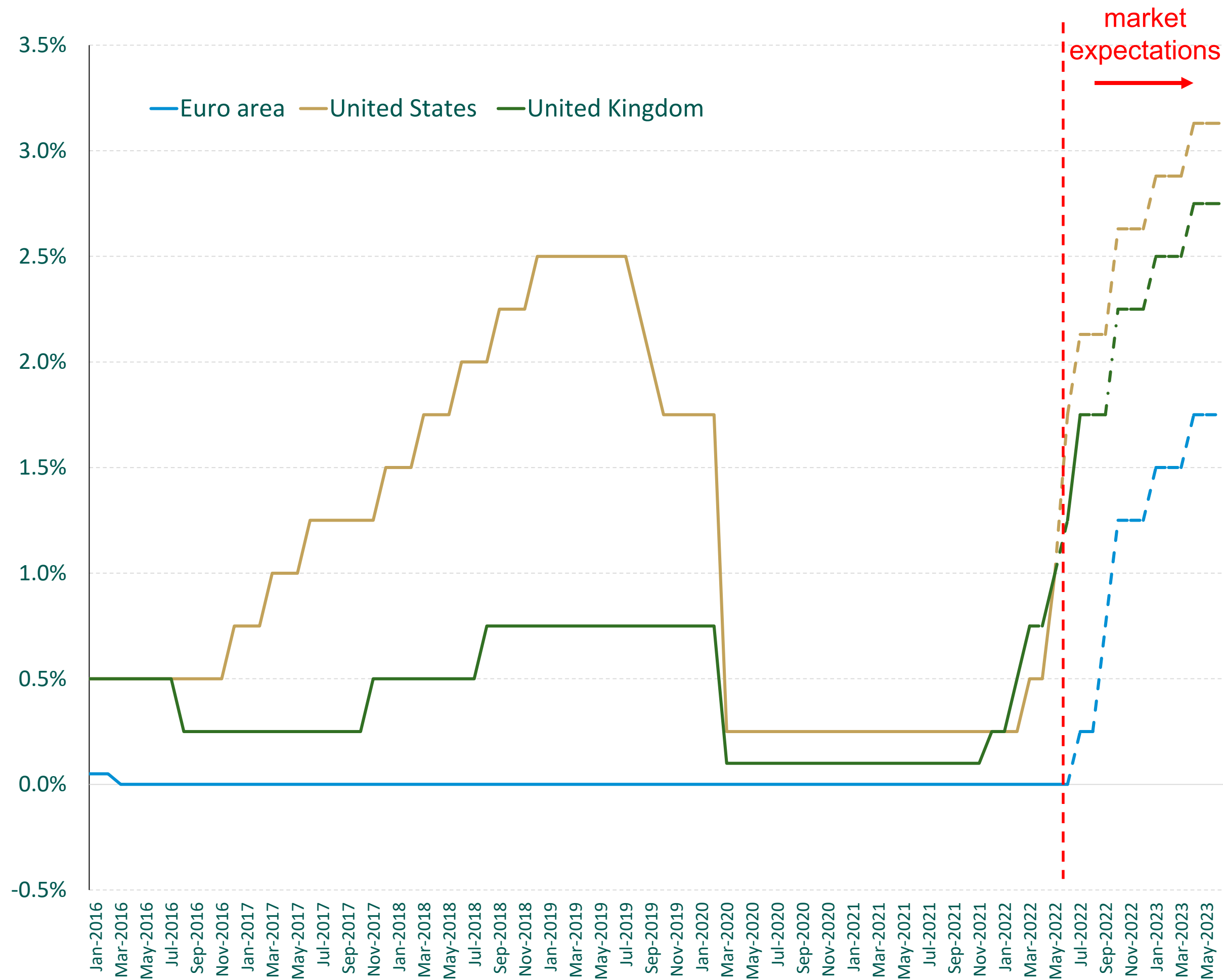
...as inflation picks up



Monetary policy 'normalisation' in prospect

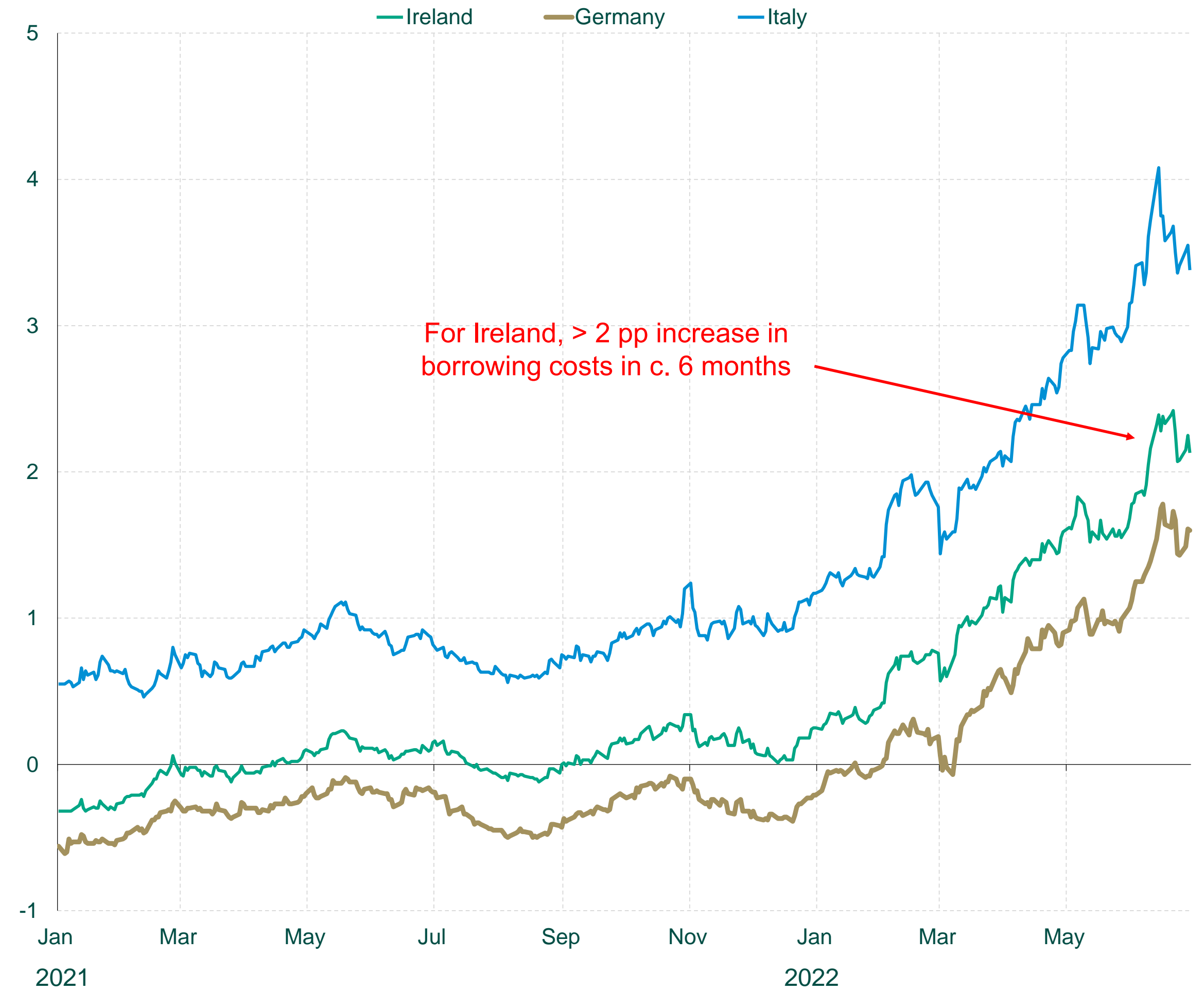


Key central bank policy rates, per cent



...Borrowing costs on rising trajectory...

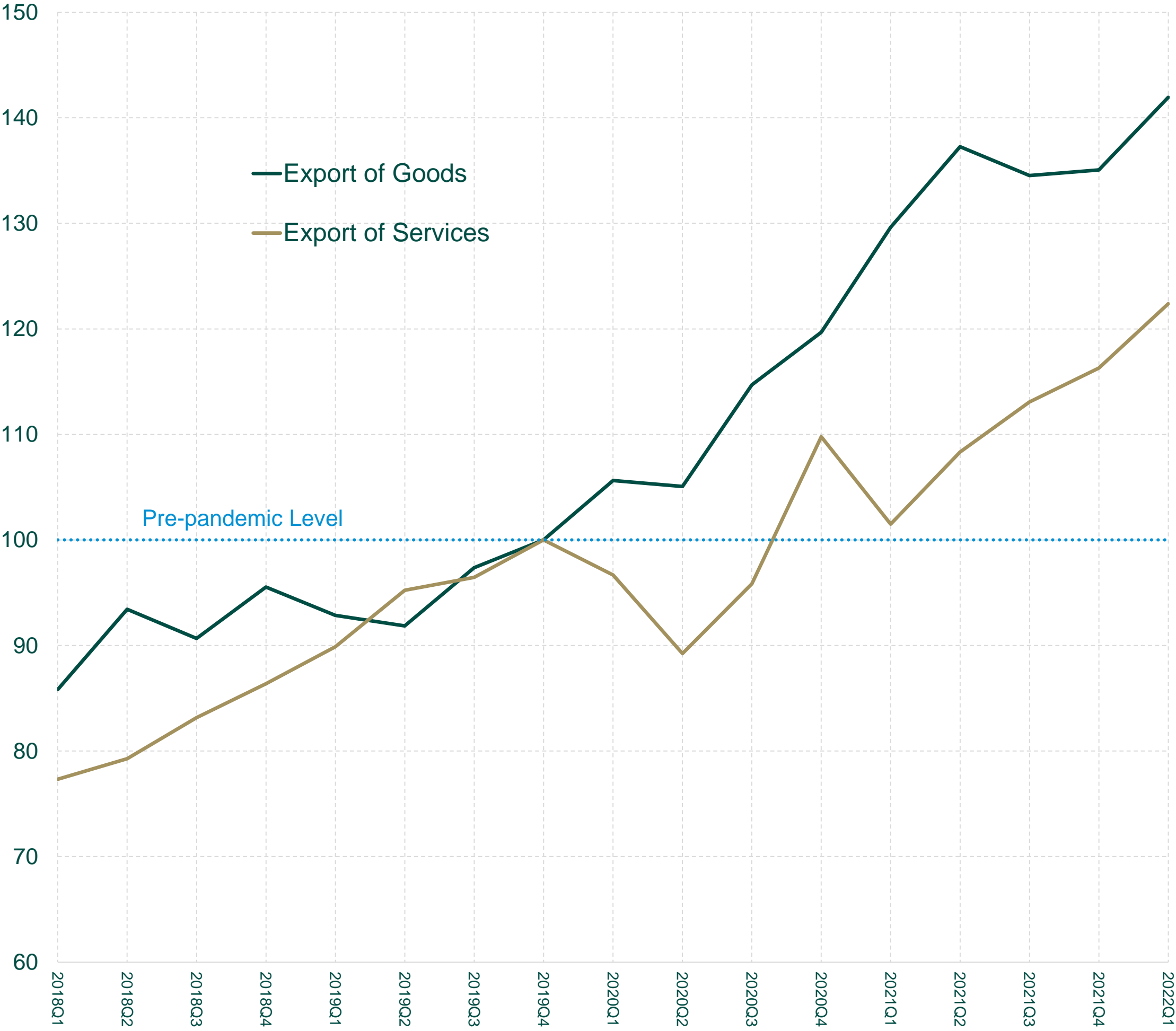
Exit from QE has resulted in sharp increase in 10-year sovereign borrowing costs



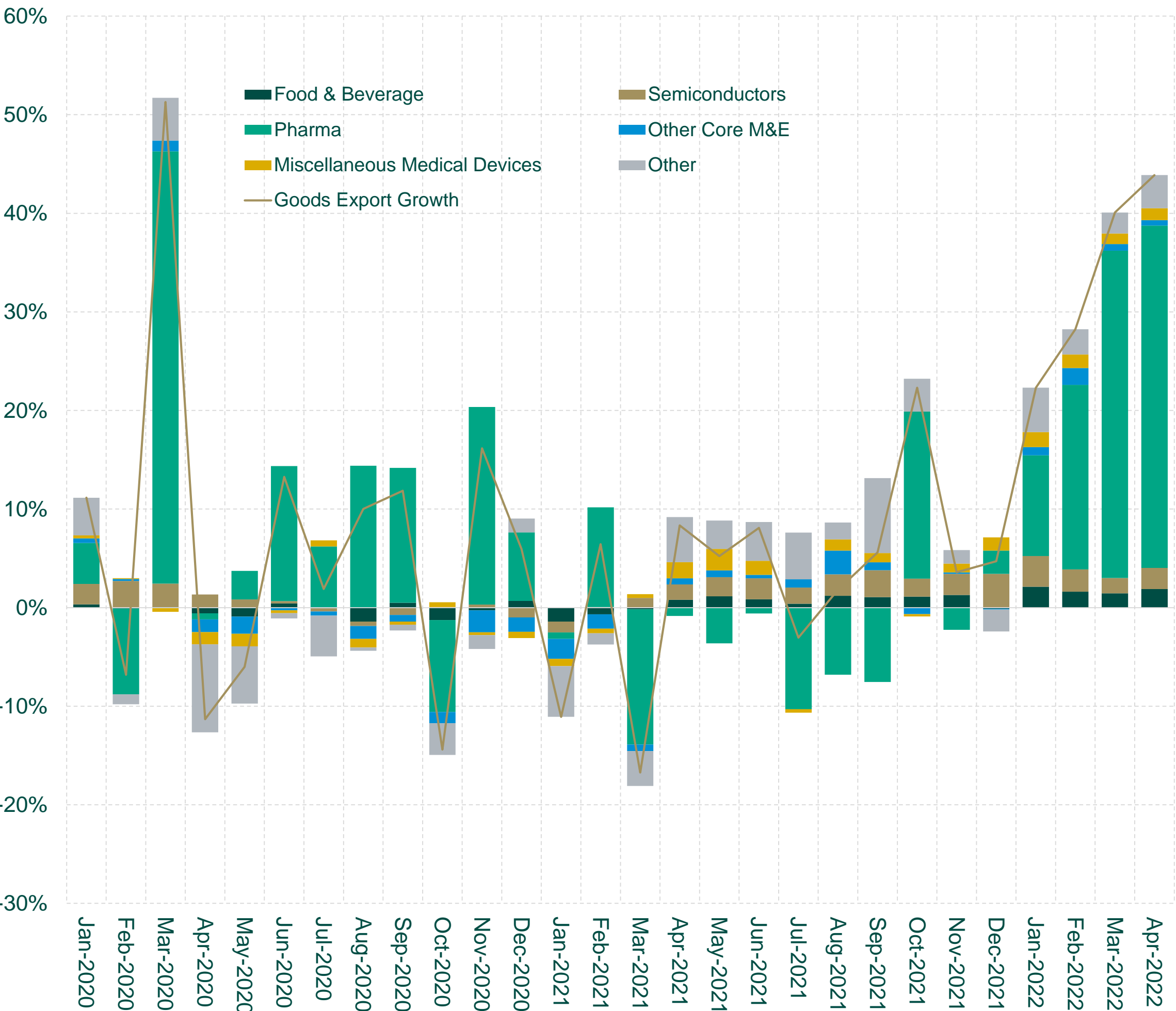
MNCs: exports resilient to pandemic and war



Robust growth in exports....



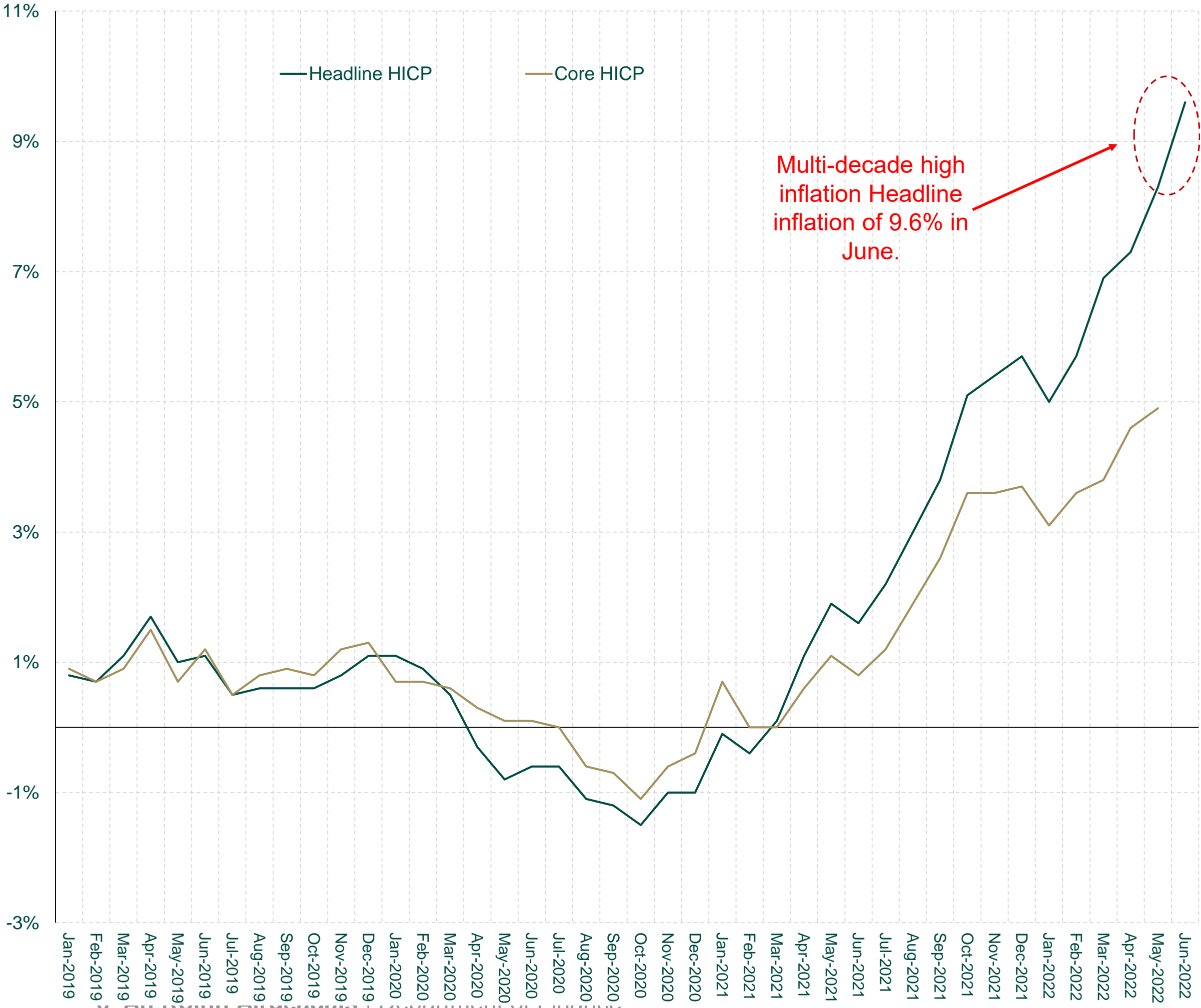
....driven by exceptionally strong pharma and ICT growth



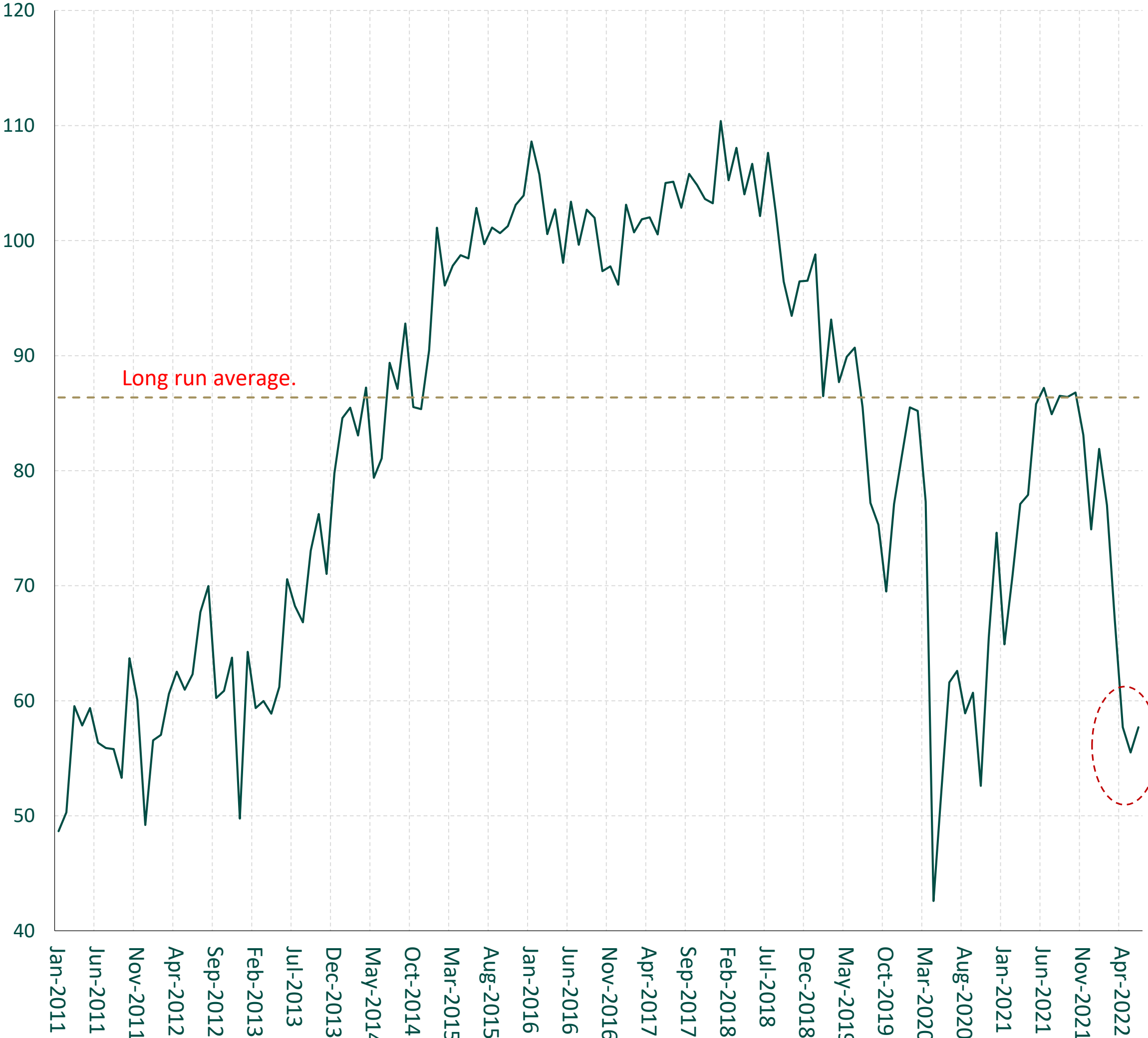
Domestic: Rising prices squeezing incomes, uncertainty affecting sentiment



Sharp decline in consumer sentiment



...Sharp decline in consumer sentiment

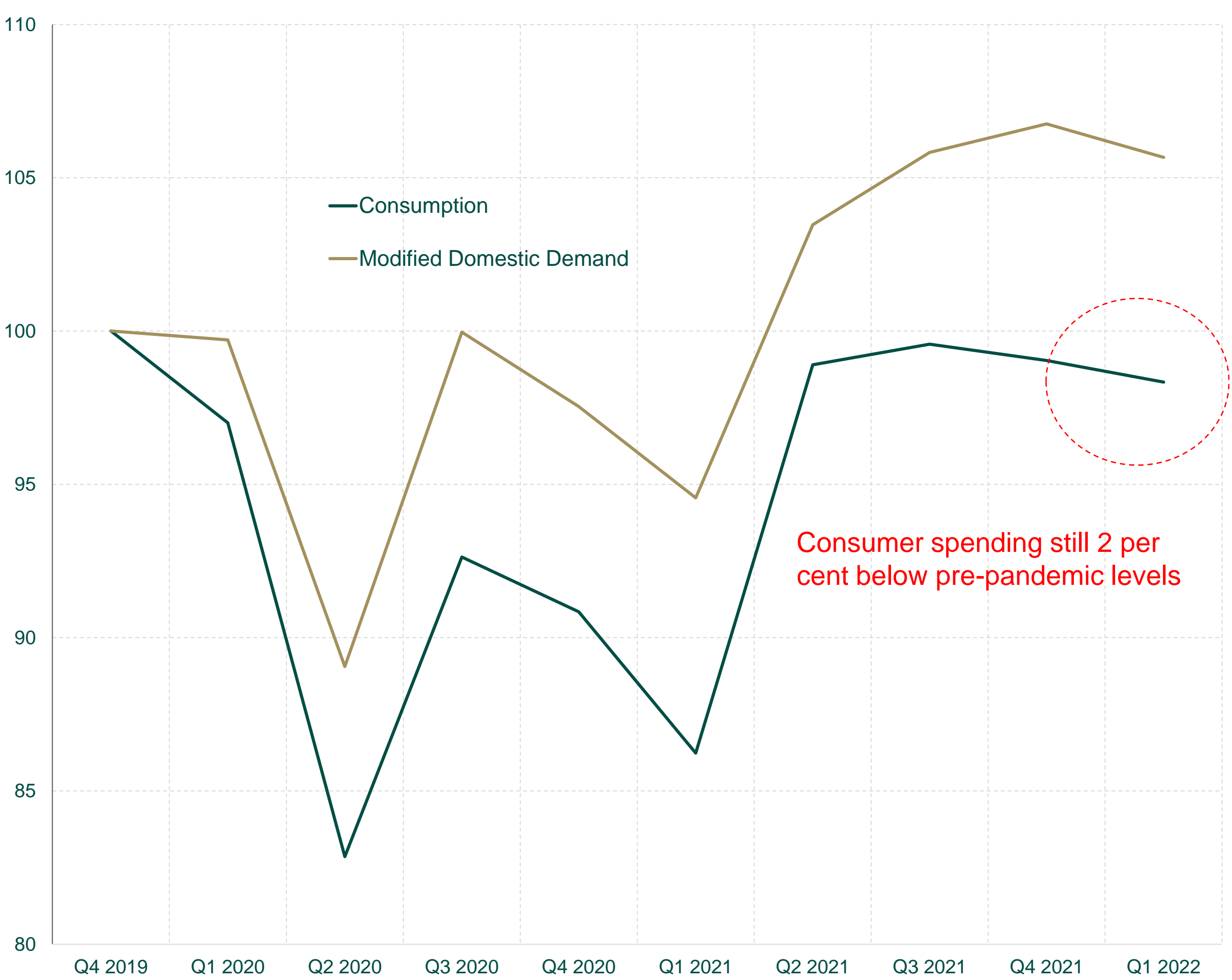
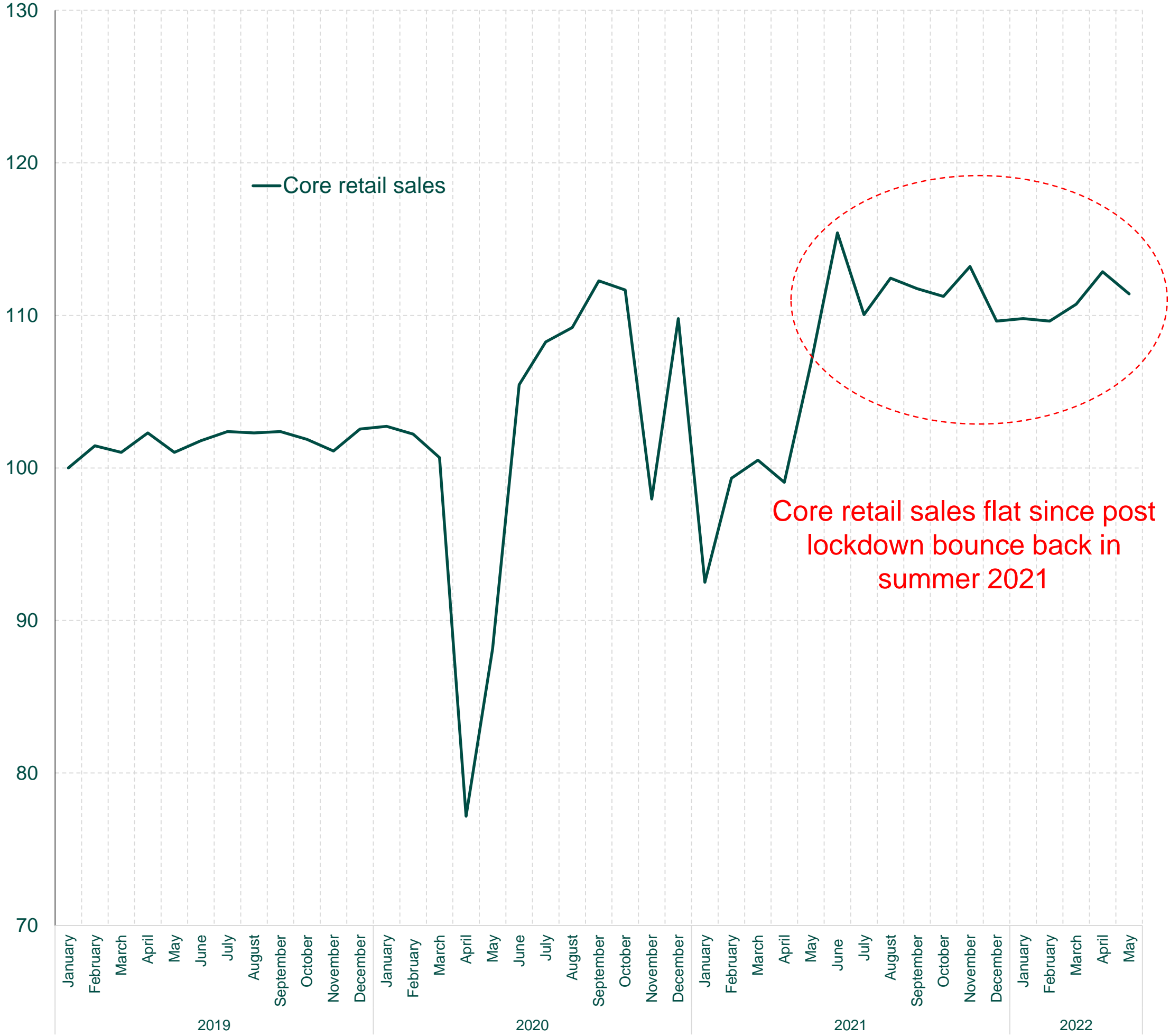


Rising prices, flat output



Retail sales essentially flat since last summer.....

...overall recovery in output has stalled

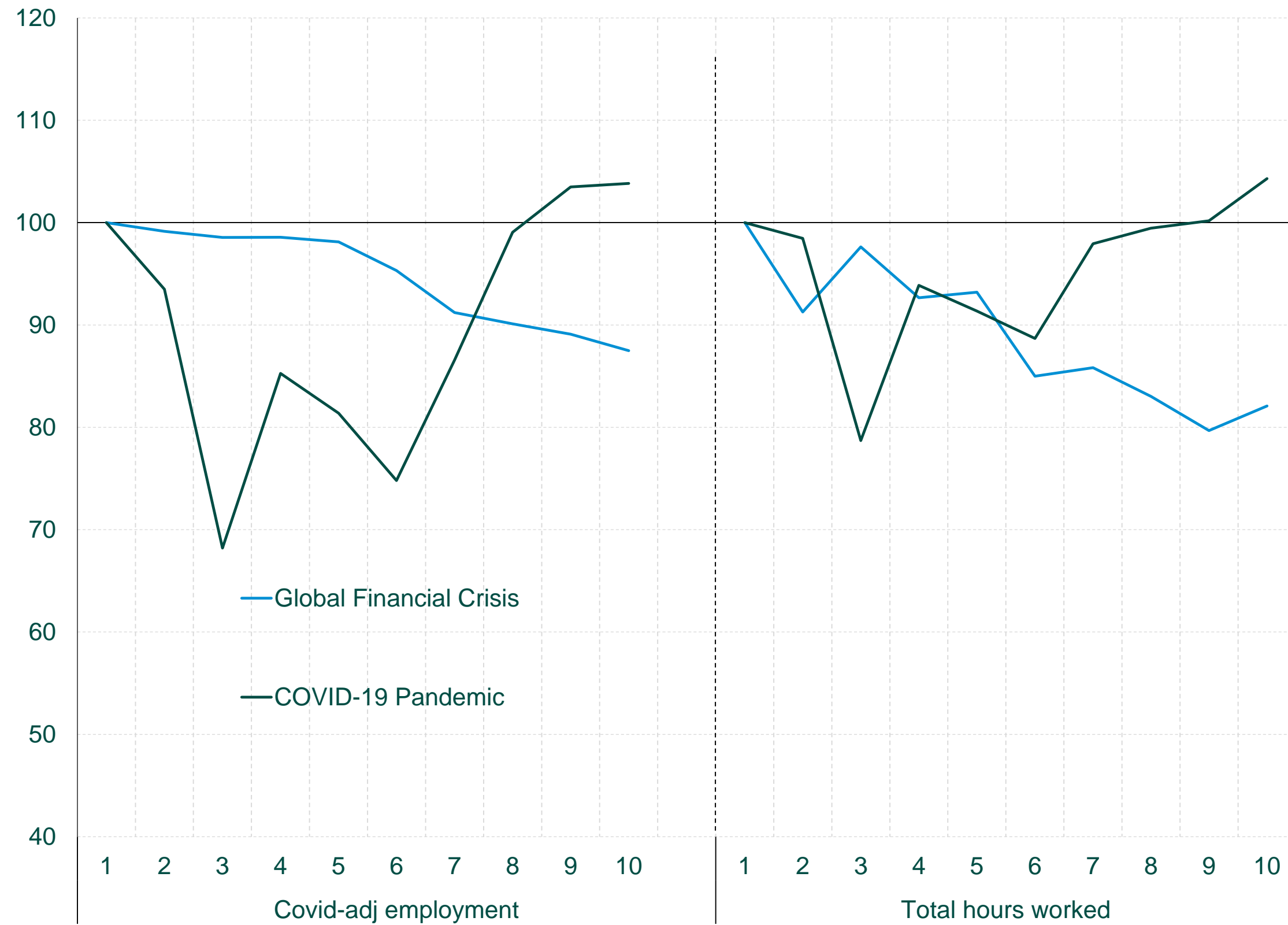


But, not all bad news on domestic front



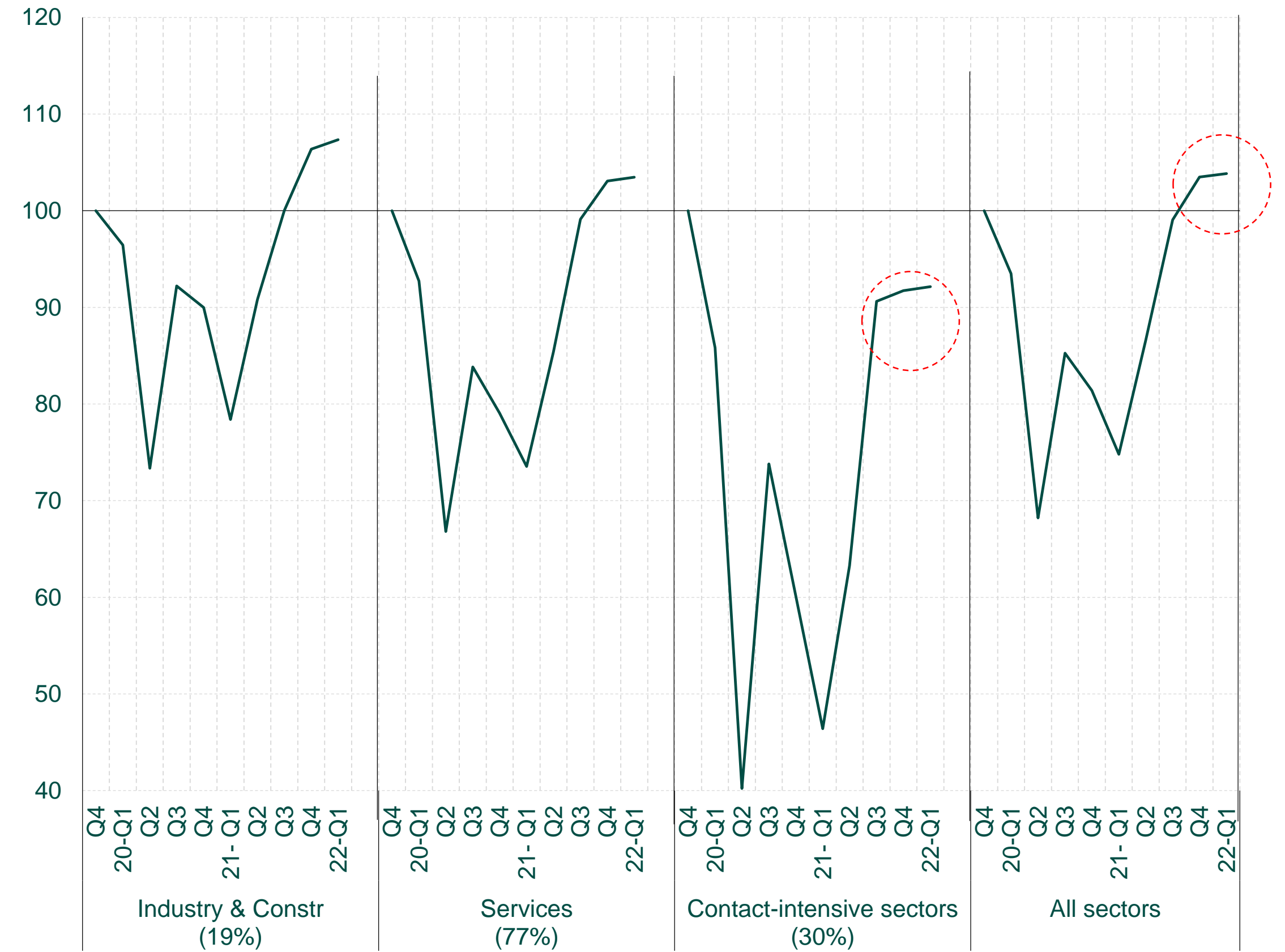
Rapid rebound in employment...

Rapid rebound in employment – highest level ever and near ‘full’ employment



...some sectors still lag

Demand-supply imbalances giving rise to decades-high inflation, compounded by war-induced energy prices

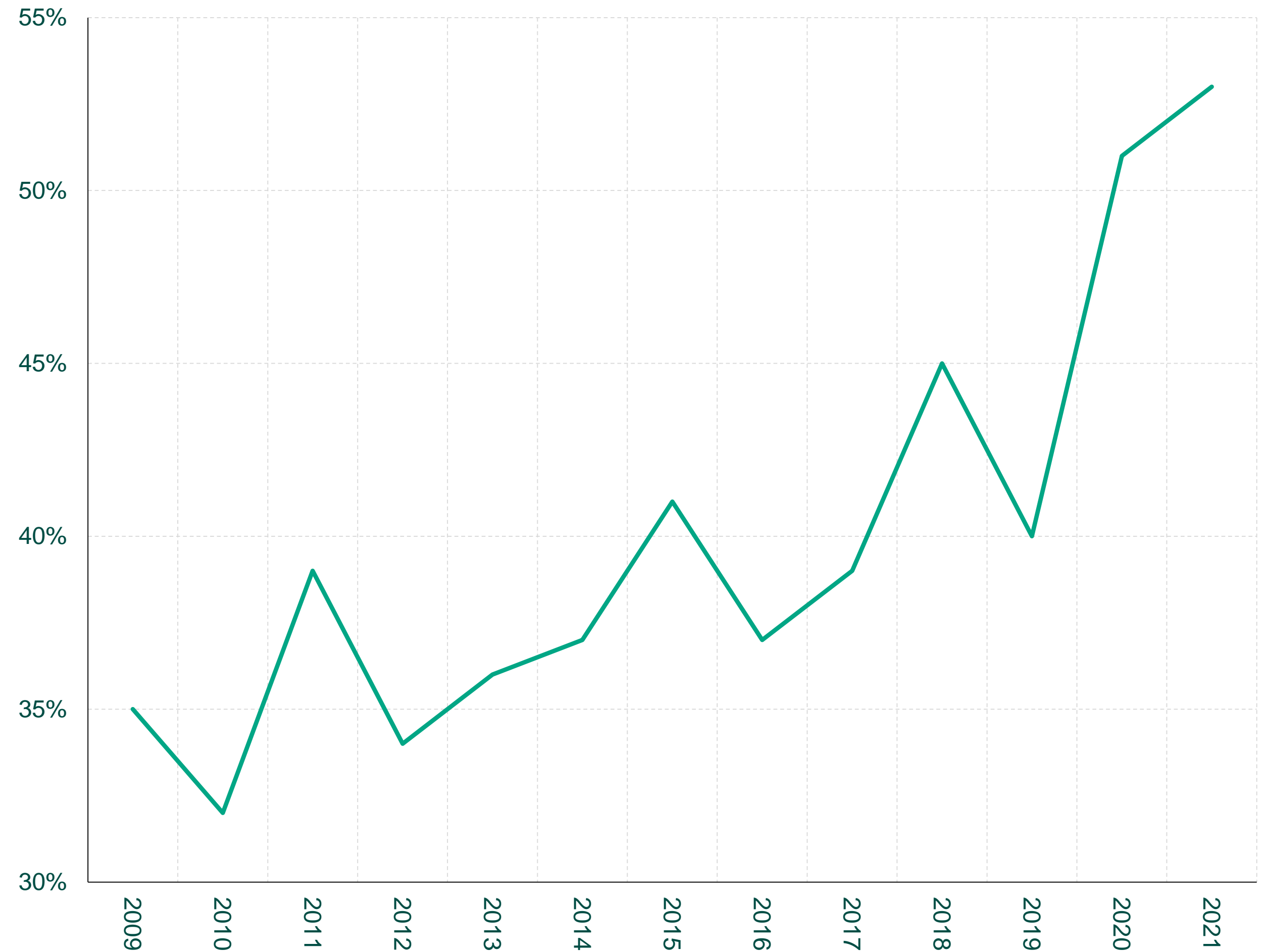


Very modest surplus in prospect – all due to corporation tax overshoot



- **Tax overshoot:**
 - “pandemic-proof” MNC sectors
 - modest surplus in 2022 / 2023
- **Corporation tax surprises account for the surplus**
 - €1 in €4 total receipts from corporate sector
 - : 2011 – CT = €3.5 bn
 - : 2021 – CT = €15.3 bn
 - indirect receipts (through employment) even larger
- **Over half of CT receipts due to 10 firms**
 - €1 in €8 total receipts from 10 firms
- **Serious vulnerability for public finances**

Corporation tax receipts paid by “top 10” firms, share of total



Budgetary strategy (SES): qualitative terms



- Need to be aware of **trade-offs** once again
 - Borrowing costs are rising
 - Public debt is very elevated (€47k per capita)
 - Significant medium-term challenges (CT concentration, ageing, climate and digital transitions)
- Need to adapt **spending** strategy to mitigate impact of higher inflation
 - Government cannot fully offset impact of inflation
 - Balance between providing support and not adding to inflation
- Need to adapt **taxation** strategy to avoid ‘bracket creep’ effects of inflation
- Need to be conscious of **medium-term fiscal challenges**
 - ageing population [stand-still cost = c.€7 billion per annum by end-decade]
 - finance climate and digital transitions
 - build-up buffer to falling corporation tax revenues