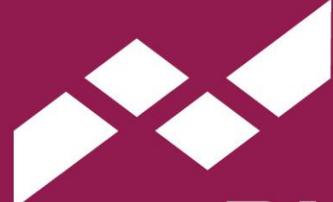


Assessment of Budget 2022



Jim Power
economics

The Global Issues

- Global economy much stronger, but dangers lurking
- Commodity prices under pressure
- Gas prices spiralling > will feed through to higher prices & other difficulties
- CO2 shortages
- Shipping chaos & spiralling container costs
- Semi-Conductors
- Construction materials & Packaging & Labour
- Supply Chain bottlenecks starting to cause serious problems
- ‘The shortage Economy’

Interest Rates

- Inflationary pressures building in system
- Central banks have been unconvinced that it is an enduring problem, but mood music changing a littler
- Bond buying still keeping bond yields down, but tapering likely in 2022
- Official rates in US could tighten in 2022, no pressure on ECB...yet
- Watch evolution of inflation

The Irish Economy in 2021

- Restrictions dominated first half '21 – gradual opening up > growth rebounding strongly
- Marked sectoral differences
- FDI, Professional Services, Public Sector, Financial Services strong
- Hospitality, Non-Essential Retail, Airline Industry & Personal Services challenged
- Labour market improving – some labour shortages emerging in some sectors
- Brexit impact significant
- Strong rebound in consumer spending
- International tourism & aviation have struggled, but slowly getting better
- Dual economy continues – will widen income inequality

Consumer Confidence



Merchandise Exports by Destination (Jan-July 21)

| REGION | €M | % CHANGE | % OF TOTAL EXPORTS |
|------------------|---------------|--------------|--------------------|
| EU-27 | 35,483 | -5.9% | 37.8% |
| Great Britain | 8,215 | +25.7% | 8.7% |
| Northern Ireland | 1,894 | +45.5% | 2.0% |
| USA | 29,009 | -2.1% | 30.9% |
| Other | 19,292 | -6.0% | 20.6% |
| Total | 93,893 | -1.9% | 100.0% |

Brexit Impact > Serious Trade Distortions

- Exports to GB +25.7% (€1.7 bln) > Chemical & Pharma Exports to GB +63% >Food & Live Animal Exports to GB -5%
- Exports to NI +45.5% (€592 mln)
- Imports from GB -31.7% (€2.9 bln) > Food & live Animal Imports from GB -48.8% (€817 m)
- Imports from NI +60.5% (€800 mln)
- Brexit is seriously complicating trade with UK
- Agri-food sector most impacted on Export side
- Imports of Food & Live Animals most affected on Import side
- EU Exports to UK +6.2%; EU Imports from UK -17.1%

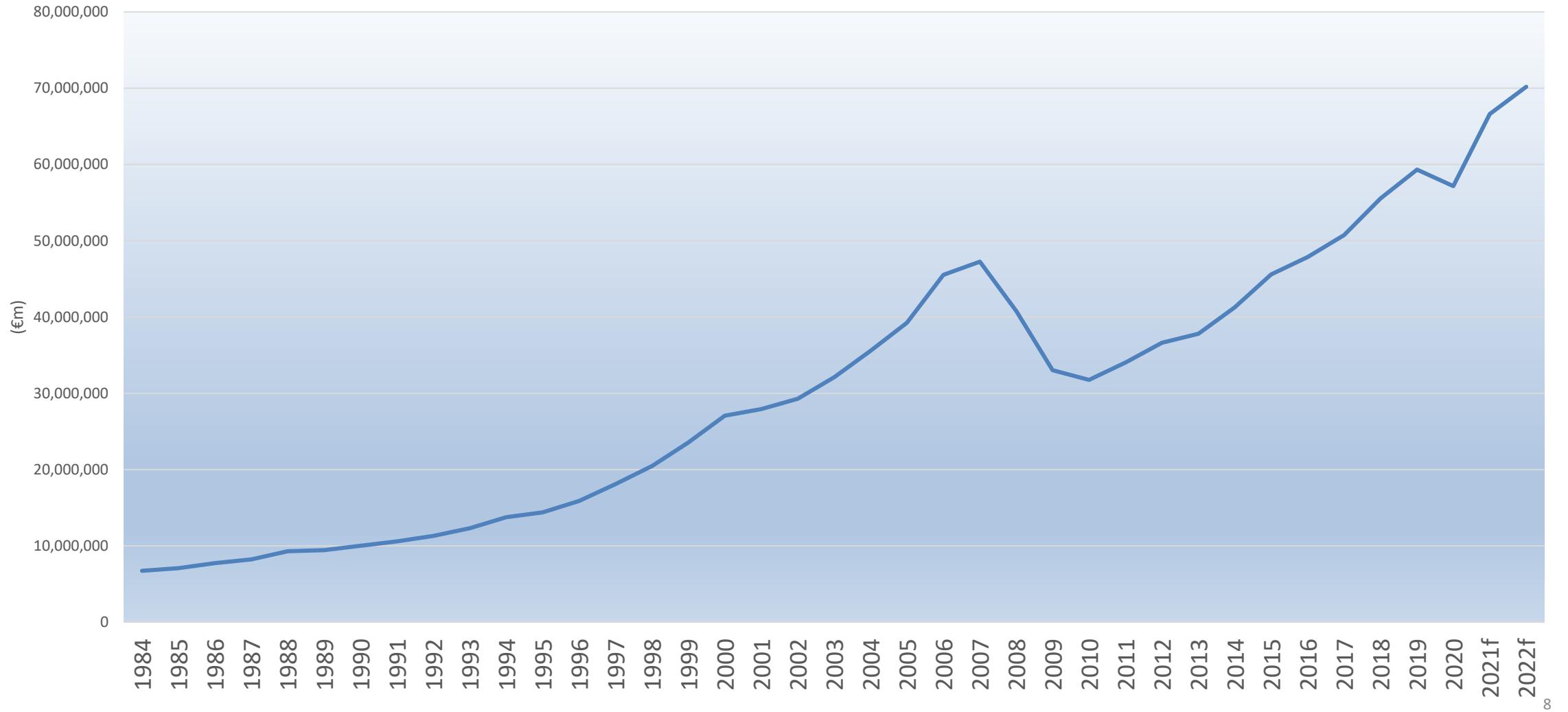
Background to Budget 2022

- Economy bouncing back strongly
- Public finances stronger than expected General Government Deficit -€13.2 billion (Budget 2021 Target €20.2 billion)

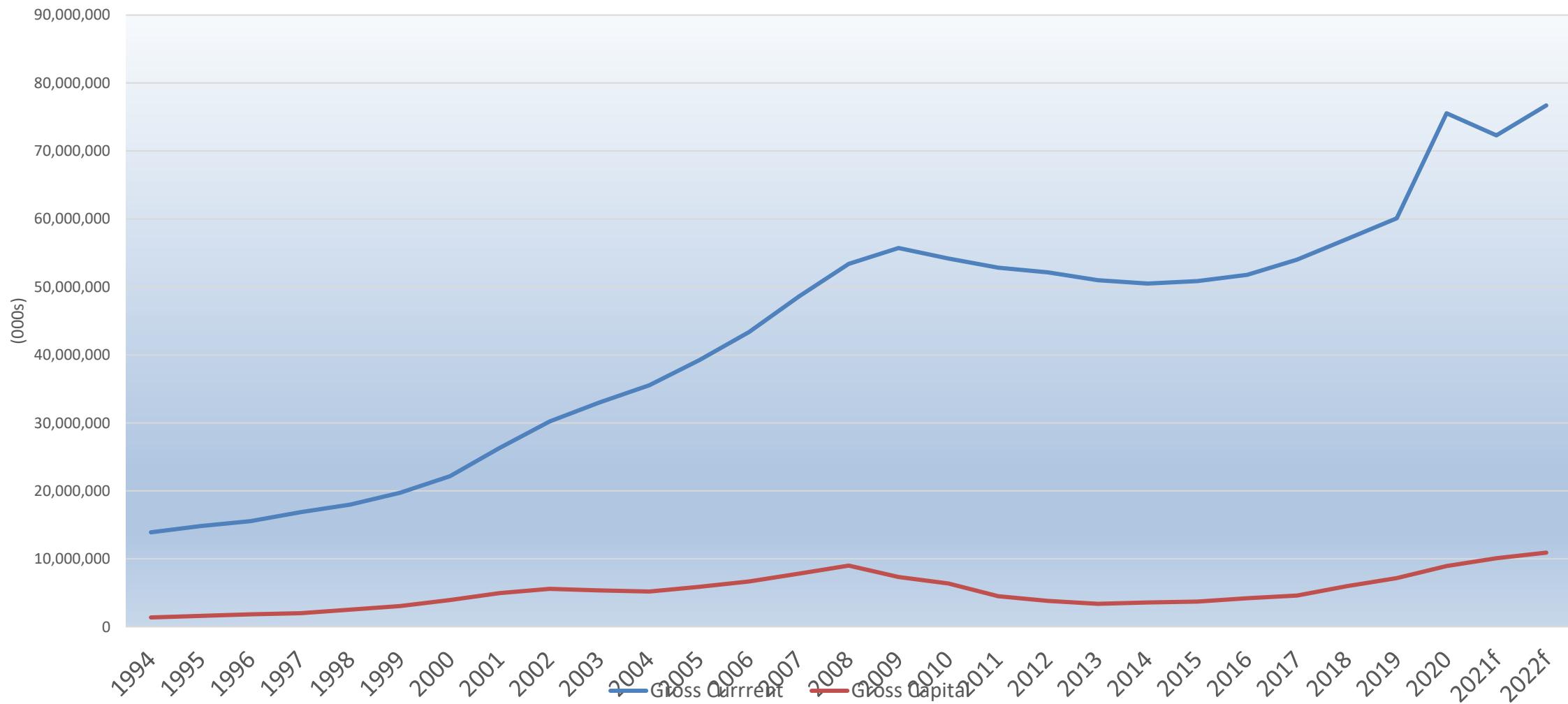
Key Challenges:

- Restoring order to public finances
- Dual Economy > MNCs v Indigenous SMEs
- Weaning the economy off Covid supports
- Housing > economically and politically crucial
- Climate change
- OECD Corporation Tax changes
- Labour shortages > Childcare
- Cost of Living pressures

Tax Revenues



Gross Government Expenditure



Tax Revenues Jan-Sep 2021 > Very Buoyant

| TAX CATEGORY | €m | % OF TOTAL | YEAR-ON-YEAR CHANGE |
|--------------------------|---------------|---------------|---------------------|
| Income Tax | 18,445 | 40.2% | +19.5% |
| VAT | 12,439 | 27.1% | +26.0% |
| Corporation Tax | 8,057 | 17.6% | +7.9% |
| Excise | 4,075 | 8.9% | +7.4% |
| Stamps | 1,144 | 2.5% | +22.3% |
| Capital Gains Tax | 332 | 0.7% | +11.2% |
| Capital Acquisitions Tax | 229 | 0.5% | +19.7% |
| Customs | 355 | 0.8% | +91.7% |
| Motor Tax | 719 | 1.6% | -1.8% |
| Other | 70 | 0.1% | - |
| Total | 45,865 | 100.0% | +15.9% |

Economic Assumptions Budget 2022

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|-------|-------|------|------|------|
| GDP | 15.6% | 5.0% | 4.1% | 3.7% | 3.6% |
| Modified Domestic Demand | 5.2% | 6.5% | 4.2% | 4.0% | 3.8% |
| Modified Gross National Income (GNI*) | 4.7% | 5.2% | 3.5% | 3.3% | 3.2% |
| Personal Consumption | 6.8% | 9.6% | 3.6% | 3.4% | 3.2% |
| Modified Investment | 4.0% | 6.4% | 7.6% | 7.1% | 6.6% |
| Exports | 16.1% | 5.7% | 5.1% | 4.6% | 4.4% |
| Inflation (HICP) | 2.3% | 2.2% | 1.9% | 2.1% | 2.2% |
| Employment | 7.8% | 13.2% | 2.7% | 2.6% | 2.2% |
| Unemployment Rate | 16.8% | 7.2% | 6.0% | 5.3% | 5.0% |

Fiscal Assumptions Budget 2022

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|----------|---------|---------|-------|--------|
| General Gov. Balance (€m) | -€13,225 | -€8,260 | -€1,080 | -€270 | €875 |
| General Gov Balance (% GNI*) | -5.9 | -3.4 | -0.4 | -0.1 | +0.3 |
| Gen Gov Debt (€ bln) | €236.7 | €238.7 | €246 | €250 | €250.2 |
| Gen Gov Debt (% GNI*) | 106.2 | 99.2 | 96.7 | 93.3 | 89.5 |

Key Measures

- €4.7 bln package: Expenditure €4.2 billion, Taxation €500 million reduction (€230 m tax raising measures)
- Indexation of tax bands & allowances
- Childcare
- Climate Change
- Housing
- Business support > EWSS, Commercial rates waiver extended
- Significant social welfare package
- AN APPROPRIATE BUDGET IN THE CIRCUMSTANCES

FOLLOW JIM POWER ONLINE

- Podcast Launched February 2021
- ‘The Other Hand’
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- <https://cjpeconomics.substack.com/>