Next public pay deal seen as a financial risk for new government

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The annual increase in spending on public pay could conceivably rise from €554.7m in 2026, to €1.66 billion by 2027, according to an independent Dáil report, which looks at the "main fiscal risks" facing the next government.

In the just-published report for members of the incoming Dáil, the 'Parliamentary Budget Office' suggests that the next public sector pay bill will be one of a number of risks facing the Irish economy during the next parliamentary term.

The exercise also identifies an over-reliance on those earning €100,000 or more – making up just 11.4% of taxpayers – and who account for 66% of total income tax and USC.

"While this highlights a very progressive redistributive system, this concentration of tax revenue from a small segment of the population underscores the vulnerability of the tax base to economic shifts affecting high earners," the report says.

Broadening or diversifying the tax base could mitigate this risk, the report says.

On the next 'Public Sector Pay Deal', the report says:

"From 2025 to 2030 wages in the Irish economy are expected to grow strongly (ranging from 3.7% to 4.2%). If future public sector pay deals grew in line with this (the current deal is in place until 2026) and the number of workers grew in line with expected population growth, the annual increase would rise from €554.7 million in 2026 to €1,663.2 million in 2027."

"COMPLEX LANDSCAPE"

Entitled the 'Fiscal Context for the 34th Dáil: State of Play and Main Risks', the report says that as a new parliament takes office, it faces "a complex fiscal landscape". Aside from the risks posed by public service pay costs, it also focuses on the looming issue of the corporate tax base and the indexation of tax bands.

On numbers, the report says from the fourth quarter of 2008 to the same period in 2023, the total number in public sector employment increased by 22.15%. Education saw the highest growth (32.93%), while Defence experienced the largest decline (-29.72%).

"Managing this workforce growth and addressing sectoral imbalances will be crucial. The increase in public sector employment reflects the growing demand for public services, but it also adds to the fiscal burden", the report warns.

Other potential risks are:

- **Indexing Costs:** The increasing costs of indexing tax credits, bands, and social welfare payments to inflation and wage growth would lead to higher spending. "From 2026 to 2030, the cost of indexing tax credits and bands to the average of projected inflation and wage growth (as outlined in the medium term fiscal and structural plan) is expected to rise from €740 million to €970 million," the report says. Similarly, the cost of indexing social welfare payments is projected to increase from €785 million to €854 million over the same period.

- **Corporation Tax Volatility:** Corporation Tax (CT) growth has been very volatile from 2015 to 2023, with growth rates ranging from a high of 48% in 2022 to a low of 5% in 2019. The top 10 companies' contribution to net receipts peaked at 57% in 2022 before slightly decreasing to 52% in 2023. In the first eleven months of 2024 Corporation Tax Revenue was 59% higher than the same period last year. This volatility and concentration pose risks to revenue stability. The high concentration of CT receipts from a few large multinational companies makes Ireland's fiscal position vulnerable to global economic changes and corporate tax reforms.
- **General Government Balance:** Between 2023 and 2030, the general government balance fluctuates, peaking at €23.7 billion in 2024 before stabilizing around €10 billion by 2030. Windfall corporation tax receipts have a significant impact during this period. Excluding these windfalls and The Court of Justice of the European Union rulings, the underlying general government balance shows a consistent deficit, worsening from -€2,870 million in 2023 to -€8,620 million in 2030. This indicates structural fiscal challenges that need to be addressed to ensure long-term sustainability.