Irish Hairdressers Federation
Pre-Budget Submission

IRISH HAIRDRESSERS FEDERATION

Budget 2022 Pre- Budget Sumission Prepared for Irish Hairdressers Federation

Jim Power | September 20th 2021

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economics

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ABOUT THE IRISH HAIRDRESSERS FEDERATION

The Irish Hairdressers Federation (IHF) is the oldest hairdressing industry representative body in Ireland. It was formed as a voluntary group in 1974 and still remains a voluntary organisation. Since its establishment, the Federation has worked tirelessly to raise the status of hairdressing as a profession in Ireland, to provide advisory services to its members, to provide creative and competitive platforms through which their members' skills can be developed, to promote professional standards of service within the industry, to promote a standardised system of hairdressing training in Ireland, and to offer opportunities for members to get together with like-minded professionals to discuss issues that affect their everyday working lives.

The IHF is the only representative body that solely represents salon owners. It is the longest established hairdressing industry representative body in Ireland. It has a proven track record of successfully collaborating with representative bodies from other industries. It provides an Advice Line whereby members can get help or advice relating to trade or employment issues.

EXECUTIVE SUMMARY

- As the Covid-related restrictions are being relaxed, it is clear that the Irish economy is gradually returning to a sense of normality after 18 very challenging months. Notwithstanding the impact of the re-opening of the economy, the economic background against which Budget 2022 is being prepared is challenging in many respects. Growth is dominated by the multi-national sector of the economy, and some of the indigenous components are not performing as strongly. This is particularly the case for the SME segment of the economy.
- The stance of Budget 2022 must be focused on supporting economic recovery and employment creation. Hairdressing businesses, who are typical SMEs, have had a very challenging 18 months ands are now left with a significant debt legacy of deferred taxation; and bank debt servicing costs. These businesses will require ongoing support from the State for the foreseeable future.
- It is estimated that in 2019, Irish consumers spent around €1.1 billion on Hairdressing services, and €360 million on Health and Beauty treatments. In total, expenditure of €1.46 billion is equivalent to 1.3 per cent of total consumer expenditure. CSO data suggest that consumer expenditure on personal care declined by 4.8 per cent in 2020, but industry sources suggest that turnover for hairdressing businesses was down by at least 30 per cent in 2020.
- Employment in the Hairdressing sector expanded by 33.7 per cent from a low of 20,500 in the second quarter of 2011 to 27,400 in the third quarter of 2019, which is equivalent to 1.2 per cent of total employment in the economy. During 2019, there was a decline of 2,200 or 7.9 per cent in the numbers employed. The largest single cause of the decline in employment during 2019 was the abolition of trainee rates. Other factors that contributed to the decline in employment included the increase in the VAT rate from 9 per cent to 13.5 per cent in Budget 2019; a more cautious consumer; and the ongoing growth in the 'informal' economy in the hairdressing sector.
- During 2020 and into 2021, COVID-19 has had a very negative impact on employment in the sector In the first quarter of 2021, 18,300 people were employed in the sector, which is the lowest level of employment since the second quarter of 2020. It is likely that employment has expanded again since the re-opening of the sector in May 2021, but staff shortages are now seen as a significant issue for the sector.

- Margins in the Hairdressing sector have been squeezed in recent years due the increase in trainee rates of pay; higher supplier costs; and higher rents and insurance costs. For many business owners in what is a low-margin sector, it was necessary to increase prices to maintain business sustainability and survival.
- Budget 2022 has got to be cognisant of the challenges facing the Hairdressing sector and the economic, labour market and social contribution that it makes all over the country.

The following measures are recommended for the Hairdressing sector in Budget 2022:

- The VAT rate has again been reduced to 9 per cent from 1st November 2020 to 1st September 2022. This change was welcomed by the industry, but it is now time to announce that it will remain at 9 per cent permanently to dispel future uncertainty. The evidence suggests that the higher the tax burden on the Hairdressing sector, the more operators will be pushed into the informal segment of the industry.
- The abolition of training rates in March 2019 because of the Employment (Miscellaneous Provisions) Act 2018 has made it much less attractive for Hairdressing businesses to take on trainees. So rather than taking on the extra costs associated with trainees, many operators are now seeking to recruit more experienced staff, which in turn is pushing up wage costs. Taking in trainees has become significantly less attractive for many operators, and the lack of trainees in the sector is becoming problematical and will get worse in the future. To address this problem, the Government should introduce a flat rate subsidy per trainee, which would be administered in the same way as EWSS. It could be monitored the same way WRC monitored the trainee rates, and government resources are already there to manage it.
- A significant issue in the Hairdressing sector is that there is a lack of professional recognition for those who work within it. This is leading to skill shortages and skill gaps. There is an immediate requirement to boost the professional status of the industry, so that people will consider it as a valuable and worthwhile career choice, and that professionals will be retained within the sector. The apprenticeship scheme is being rolled out, but not at a sufficient rapid pace. The scheme needs to be ramped up and speeded up as quickly as possible. An increase in the grant from €3,000 to €6,000 would seriously enhance the effectiveness of the scheme. In addition, there should be a commitment to run a minimum number of classes every year. A well-functioning apprenticeship scheme is essential for the future viability of the industry.
- Within the Hairdressing sector, there is a requirement for a full review process of learning and development of professionals to meet the needs of the industry, ensuring that qualifications are nationally recognised, fit for purpose and accessible. In addition to the need for a nationally recognised qualification, there is a longer-term requirement for the Government to support the introduction of a CPD framework for hairdressing professionals, and the business management side of the industry. Government support of industry specific management and leadership skills is vital to drive sustainable development of the sector and to stimulate job creation now and into the future.
- The EWSS should be extended for the Hairdressing sector until the end of 2022 to enable the sector recover and deal with the COVID-related debt burden that has accumulated. In addition, the 30 per cent reduction in turnover criterion, should be reduced to 15 per cent to make it more effective for challenged businesses.

BACKGROUND TO SUBMISSION AHEAD OF BUDGET 2022

Since March 2020 the Hairdressing sector has experienced very challenging trading conditions. It was one of the first sectors to shut down to protect its customers and staff, and has been subject to periodic periods of closure and significant trading restrictions in the interim period. As well as the loss of businesses activity due to closure, the restrictions on the sector have served to limit customer numbers; increase costs in areas related to PPE; and have created significant staffing challenges.

Prior to COVID-19, the sector was already facing significant challenges due to the abolition of training rates in 2019, the growth of the informal economy in hairdressing services, and a general increase in business costs. COVID-19 has exacerbated all of these pressures and the longer-term survival of many of those businesses is now a real and growing source of concern.

Most of the businesses operating in the sector are classified as SME. They provide considerable employment all over the country, and hairdressing salons are a very important and attractive element of the streetscapes of villages, towns and cities throughout the countryside.

As the economy re-opens and as economic activity gradually approaches pre-pandemic levels, many Hairdressing businesses are left with a legacy of debt that includes deferred revenue liabilities and bank interest and loan repayments. There was a waiver on commercial rates from the second quarter of 2020 to the end of the third quarter of 2021. This was a very important support for Hairdressing businesses. It will take some time to work through the legacy debt burden, so it is important that the State continues to provide as much support as possible to Hairdressing businesses and small and medium-sized businesses in general for the foreseeable future.

This pre-budget submission makes a number of suggestions to help the Hairdressing sector navigate the challenges ahead, and ensure that the sector continues to make a strong social and economic contribution all over Ireland.

ECONOMIC CONTRIBUTION OF THE HAIRDRESSING SECTOR

The Hair and Beauty Services sector is a very labour-intensive area of economic activity, and it has a broad regional footprint, with salons in most villages, towns, and cities around the country.

Its value as a personal service both at an economic and social level was highlighted during the periodic forced closures of the sector between March 2020 and May 2021. The economic and employment contribution is very important, but the positive impact on mental health and wellbeing is also very significant.

Table 1: Breakdown of Employment & Number of Salons by County (2019)

COUNTY	NUMBER OF EMPLOYEES	NUMBER OF SALONS
Carlow	289	136
Dublin	6,965	2,131
Kildare	1,184	416
Kilkenny	555	161
Laois	462	155
Longford	201	97
Louth	753	316
Meath	1,145	331
Offaly	480	183
Westmeath	482	198
Wexford	877	288
Wicklow	885	269
Clare	632	232
Cork	2,910	1,048
Kerry	810	344
Limerick	1,037	413
Tipperary	913	383
Waterford	573	256
Galway	1,331	533
Leitrim	183	95
Mayo	746	280
Roscommon	320	116
Sligo	359	158
Cavan	441	194
Donegal	921	392
Monaghan	346	145
Not Stated	0	16
TOTAL	**25,800**	**9,286**

Source: CSO Labour Force Survey, Revenue Commissioners & Census 2016.

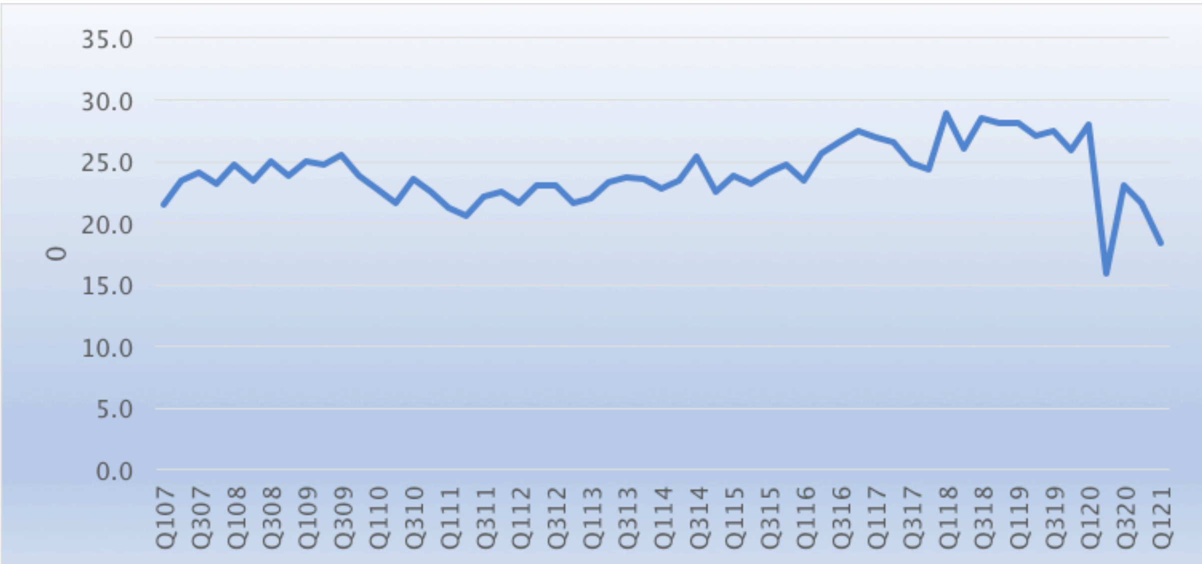
The Hair and Beauty sector has a very strong and broad regional footprint, with a significant number of businesses and considerable employment in every county of the country. Data compiled from the CSO and the Revenue Commissioners estimate that there were around 9,286 Hair and Beauty salons in Ireland in 2019. Salons have a strong presence on the streets of Ireland's villages, towns and cities, and they are instrumental in driving footfall.

CSO labour force data estimate that in the final quarter of 2019, 25,800 people were employed in the Hairdressers & Related Services. Table 1 provides a breakdown of the salons and employment by county in 2019. More up to date data are not available, and with the PUP and EWSS it is very difficult to assess what the current regional situation is.

Figure 1 shows the trend in employment in Hairdressing and Related Services in recent years. Employment expanded by 33.7 per cent from a low of 20,500 in the second quarter of 2011 to 27,400 in the third quarter of 2019, which is equivalent to 1.2 per cent of total employment in the economy.

However, during 2019, there was a decline of 2,200 or 7.9 per cent in the numbers employed. The largest single cause of the decline in employment during 2019 was the abolition of trainee rates. Trainee employment was ceased due to the high additional costs of employing them, and new trainee hires ground to a standstill during 2019. Unfortunately, trainees are deemed the most expendable costs in a salon when financial difficulties are experienced, because they are basically non-earning staff members. Other factors that contributed to the decline in employment included the increase in the VAT rate from 9 per cent to 13.5 per cent in Budget 2019; a more cautious consumer; and the ongoing growth in the 'informal' economy in the hairdressing sector. During 2020 and into 2021, COVID-19 has had a very negative impact on employment in the sector. In the first quarter of 2021, 18,300 people were employed in the sector, which is the lowest level of employment since the second quarter of 2020. It is likely that employment has expanded again since the re-opening of the sector in May 2021, but staff shortages are now seen as a significant issue for the sector.

Figure 1: Employment in Hairdressers & Related Services



Source: CSO

Based on the consumer expenditure weightings contained in the Consumer Price Index (CPI), it is estimated that in 2019, Irish consumers spent around €1.1 billion on Hairdressing services, and €360 million on Health and Beauty treatments. In total, expenditure of €1.46 billion is equivalent to 1.3 per cent of total consumer expenditure.

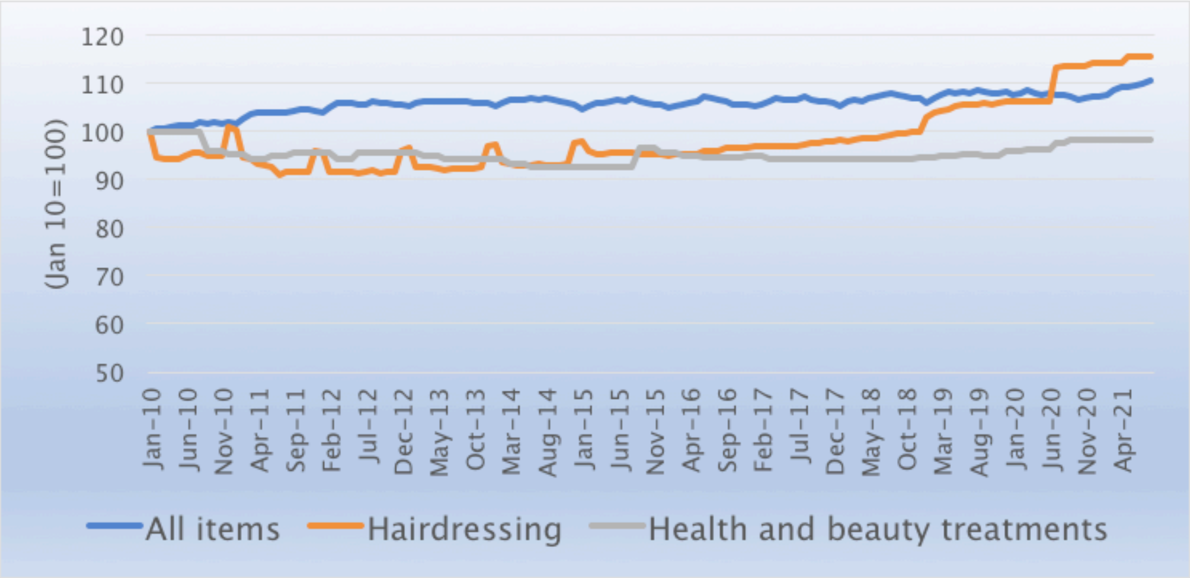
CSO data suggest that consumer expenditure on personal care declined by 4.8 per cent in 2020, but industry sources suggest that turnover for hairdressing businesses was down by at least 30 per cent in 2020.

Figure 2 shows the trend in average consumer prices for all items in the CPI; Hairdressing; and Health and Beauty Treatments.

The average price of hairdressing services increased by 15.7 per cent between January 2010 and August 2021. There were two occasions over that period when there were significant increases. Firstly, following the increase in the VAT rate for hairdressing services from 9 per cent to 13.5 per cent in Budget 2019, the average price of hairdressing services increased by 3 per cent in January 2019. Secondly, in July 2020, CSO inflation data show that average prices for hairdressing services increased by 6.4 per cent, most probably in response to the increased costs and reduced capacity as a result of COVID-19 health and safety protocols. Post-COVID wages have not fallen in the sector. In addition, margins have been squeezed in recent years due the increase in trainee rates of pay; higher supplier costs; and higher rents and insurance costs. For many businesses owners in what is a low-margin sector, it was necessary to increase prices to maintain business sustainability and survival.

The average price of hairdressing services increased by 1.7 per cent in the year to August 2021, which compares to an overall average increase of 2.8 per cent in consumer prices.

Figure 2: Consumer Price Trends



Source: CSO PxStat

The VAT rate applying to Hairdressing services was reduced from 13.5 per cent to 9 per cent with effect from 1st November 2020. It was originally due to revert back to 13.5 per cent on 31st December 2021, but this deadline has been extended to 1st September 2022.

The average price of health and beauty treatments declined by 1.5 per cent between January 2010 and August 2021.

For many consumers, expenditure on Hairdressing services is a discretionary form of spending, and is heavily influenced by the health of the economy. Despite the recovery in the economy since 2014, the personal sector has been financially stretched as a result of the high personal tax burden; low growth in wages; and more precarious employment. The net result is that seeking increased value for money has become a significant characteristic of the personal sector. This has resulted in significant growth in the 'informal' economy component of hairdressing, and a lack of pricing power by legitimate operators. This trend has been exacerbated by COVID-19, and it is likely that the 'informal' economy for hairdressing will remain a significant component of the sector in the absence of a serious attempt to address it.

BUDGET 2022 & THE HAIRDRESSING SECTOR

Budget 2022 must take on board the significant economic and financial contribution that the Hairdressing sector makes all over the country; the current business environment in which it operates; the unfair competition from the 'informal' sector; and the impact of COVID-19 on business operations, revenues, and profitability.

Given the labour market challenges facing the economy at the moment, it is imperative that policies are put in place to preserve employment in a sector that has a very strong regional footprint. This is particularly important in the context of the job pressures that the rural regions in particular are facing as a result of the impact of COVID-19 on the tourism sector.

The following initiatives and policies should be included in Budget 2022 to support legitimate businesses and employment in the Hairdressing sector.

REDUCED VAT RATE

To boost employment in the aftermath of the 2007/08 economic and financial shock, the Department of Finance cut the VAT rate from 13.5 per cent to 9 per cent for a range of activities, including Hairdressing on 1st July 2011.

Research conducted by the Department of Finance (2018) shows that between 2011 and 2016, employment in the Hairdressing & Beauty sector increased by 25 per cent. CSO data show that between the second quarter of 2011, just before the 9 per cent VAT rate was introduced and the final quarter of 2018, just before the VAT rate was increased, employment in the sector expanded by 36.6 per cent. In the period of the increased VAT rate from Q4 2018 and Q3 2020 employment declined by 20.5 per cent. Some of this period obviously included COVID-19.

The main benefit of the last VAT reduction was that salons reduced their prices and this created increased consumer demand, and more regular visits to the salon. This helped business survival and employment levels. Indeed, in July 2011 the average consumer price of hairdressing services declined by 2.2 per cent compared to the previous month.

In terms of boosting employment in the sector, the VAT reduction was effective and contributed to the significant growth in employment that occurred. The VAT rate has again been reduced to 9 per cent from 1st November 2020 and 1st September 2022. This change was welcomed by the industry, but it is now time to announce that it will remain at 9 per cent permanently to dispel future uncertainty. The evidence suggests that the higher the tax burden on the Hairdressing sector, the more operators will be pushed into the informal segment of the industry.

Between 2012 and 2016, the average annual cost of the VAT reduction for the Hairdressing sector was just €26 million.

TRAINING RATES

In March 2019, under the Employment (Miscellaneous Provisions) Act 2018, the payment of training rates to trainee hairdressers was abolished.

Trainees over the age of 20 are now legally entitled to the National Minimum Wage, which stands at €10.20. For trainees under the age of 20, lower hourly rates of pay can be paid. For those aged 18 or under, the minimum hourly rate of pay is €7.14; for those aged 18, it is €8.16; and for those aged 19, it is €9.18.

The changes introduced in the Employment (Miscellaneous Provisions) Act 2018 has made it less attractive for operators to take on trainees. So rather than taking on the extra costs associated with trainees, many operators are now seeking to recruit more experienced staff, which in turn is pushing up wage costs.

Taking in trainees has become significantly less attractive for many operators, and the lack of trainees in the sector is becoming problematical and will get worse in the future.

To address this problem, the Government should introduce a flat rate subsidy per trainee, which would be administered in the same way as EWSS. It could be monitored the same way WRC monitored the trainee rates, and government resources are already there to manage it. The sector fully supports the Apprenticeship scheme, which will ultimately benefit the industry, but during the transition period direct cash support to safeguard and generate trainee rates will be required.

Many salons already have their own structured training programmes. Most trainees currently train in a 3 to 4-year programme. However, there has been a 2-year gap (March 2019 to March 2021) where no trainees were being taken on by salons.

APPRENTICESHIP SCHEME

In the July 2020 COVID-19 stimulus plan, the Government introduced a new apprenticeship incentivisation scheme which provided a €3,000 payment to support employers to take on new apprenticeships. It also announced subsidies of €7,500 paid to employers under a JobsPlus scheme, paid over 2 years to hire somebody under the age of 30 who is on the live register or the pandemic unemployment scheme.

These measures were welcome. A significant issue in the Hairdressing sector is that there is a lack of professional recognition for those who work within it. This is leading to skill shortages, skill gaps and safety issues. The creation of an apprenticeship scheme should help address these problems.

There is a requirement to continue to boost the professional status of the industry, so that people will consider it as a valuable and worthwhile career choice, and that professionals will be retained within the sector. It is not regarded as a valuable career choice; and there is a skills gap which is manifesting itself in increasing difficulty in sourcing skilled staff.

Until recently, there was no nationally recognised apprenticeship for hairdressers in Ireland that was mapped to the National Framework of Qualifications (NFQ). However, the first nationally recognised hairdressing qualification has been developed by Limerick and Clare Education and Training Board (ETB) in conjunction with the Industry Consortium Steering Group. The programme is designed to deliver a nationally recognised standard that will be responsive to the needs of the industry.

The qualification involves an apprenticeship, which is defined as a programme of structured education and training. It combines learning in the workplace with learning in an education or training centre.

The apprenticeship scheme is being rolled out, but not at a sufficient rapid pace. The scheme needs to be ramped up as quickly as possible. An increase in the grant from €3,000 to €6,000 would seriously enhance the effectiveness of the scheme. In addition, there should be a commitment to run a minimum number of classes every year. A well-functioning apprenticeship scheme is essential for the future viability of the industry.

The objective of the National Hairdressing Apprenticeship is to provide a nationally recognised qualification to the sector and provide a skilled pool of talent to meet the growing needs of the industry and add value to the employer's business.

Within the Hairdressing sector, there is a requirement for a full review process of learning and development of professionals to meet the needs of the industry, ensuring that qualifications are nationally recognised, fit for purpose and accessible.

In addition to the need for a nationally recognised qualifications, there is an immediate requirement for the Government to support the introduction of a CPD framework for hairdressing professionals, including hairdressing skills and business management. Such a framework would be beneficial in addressing the skill gaps. Ongoing structured training and development would increase confidence by teaching the requisite skills; would increase job satisfaction; and would enhance employee productivity. These attributes would enhance the sustainability and professionalism of the sector, and make it an attractive one to work in. This is of vital importance.

Elevating the professional status of the sector would create a public recognition of those working in the sector and would enable consumers make informed choices when choosing to utilise the services of informal participants or a reputable professional business that operates to the highest professional technical and safety standards, and who contributes fully to the Exchequer.

Government support of industry specific management and leadership skills is vital to drive sustainable development of the sector and to stimulate job creation now and into the future.

EWSS

The EWSS should be extended for the Hairdressing sector until the end of 2022 to enable the sector recover and deal with the COVID-related debt burden that has accumulated. In addition, the 30 per cent reduction in turnover criterion, should be reduced to 15 per cent to make it more effective for challenged businesses.

ECONOMIC BACKGROUND TO BUDGET 2021

As the Covid-related restrictions are being relaxed, it is clear that the Irish economy is gradually returning to a sense of normality after 18 very challenging months. The economic recovery is broadly based and is impacting on most sectors of the economy.

Notwithstanding the impact of the re-opening of the economy, the economic background against which Budget 2022 is being prepared is challenging in many respects. Growth is dominated by the multi-national sector of the economy, and some of the indigenous components of the economy are not performing as strongly. This is particularly the case for the SME segment of the economy.

Ireland was one of the few global economies to record positive GDP growth in 2020, but caution is required in interpreting Irish national accounts data. GDP expanded by 5.9 per cent in 2020, but GDP grossly exaggerates the real health of the economy due to the distortions created by the multi-national sector in particular. Gross National Income * (GNI*) is a more accurate and representative measure of real activity in the economy. In 2020, GNI* contracted by 3.5 per cent. This is more consistent with the growth environment experienced by the indigenous sectors of the economy.

Official national accounts data for the second quarter of 2021 suggest an ongoing economic recovery. Quarter-on-quarter and year-on-year growth rates are somewhat misleading, as the first quarter of 2021 saw significant Covid-related restrictions, while the second quarter of 2020, was the most severely affected quarter since the pandemic began.

Quarter-on-Quarter Changes (Q2 2021 v Q1 2021)

- GDP in the second quarter was 6.3 per cent per cent higher than the previous quarter, GNP was 6.7 per cent higher, and Modified Domestic Demand, which strips out the multi-national distortions, was 8.4 per cent higher.
- Both the multi-national and the indigenous components of the economy expanded strongly in the second quarter. Multi-national dominated sectors saw growth of 3.7 per cent in output compared to the first quarter, and indigenous sector output increased by 2 per cent.
- The indigenous components had been most adversely affected by COVID-19 restrictions, so as the economy opens up, there is naturally a strong rebound in indigenous activity, particularly construction output and consumer expenditure. This will be more pronounced in the second half of the year.

Year-on-Year Changes (Q2 2021 v Q2 2020)

- In the second quarter, GDP was 21.6 per cent higher than a year earlier and GNP was 15.8 per cent higher.

  In the first half of the year, GDP was 16.3 per cent higher than the first half of 2020, and GNP was 9 per cent higher. Modified Domestic Demand was 4.3 per cent higher.

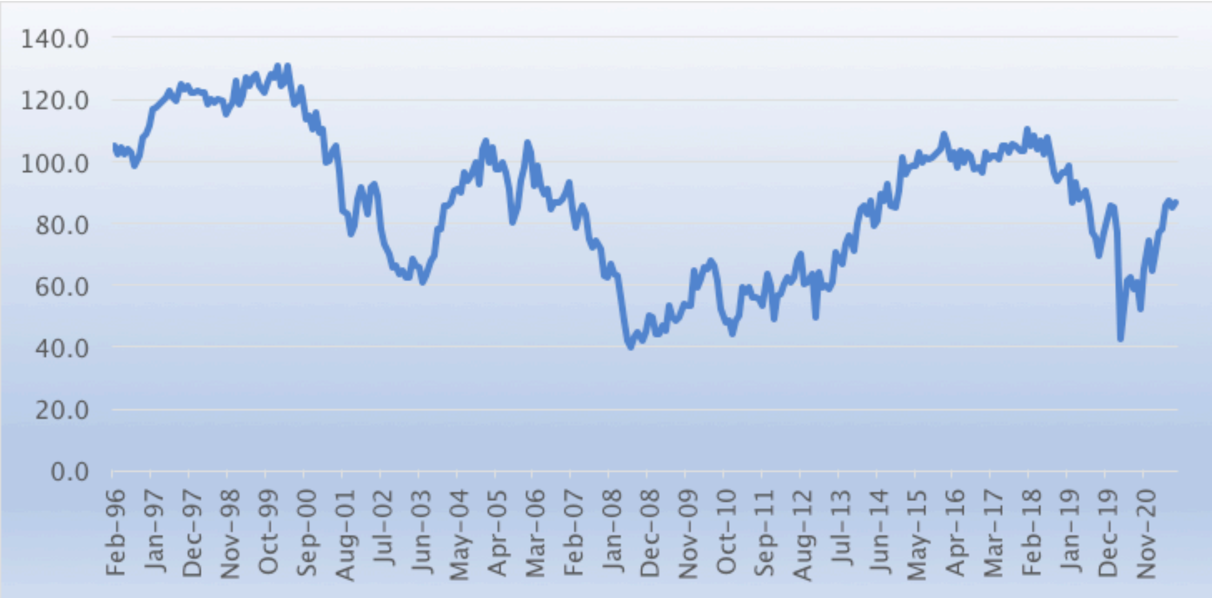
It is instructive to consider activity levels with the pre-Covid situation. GDP in the first half of 2021 was 20.8 per cent higher than the first half of 2019, and GNP was 12.6 per cent higher. This suggests a very strong growth performance despite Covid. However, growth was driven by the exceptionally strong performance of the multi-national sector. The indigenous component of the economy has performed less strongly. Modified Domestic Demand in the first half of 2021 was still 3.5 per cent lower than the first half of 2019.

In overall terms, the dual nature of the Irish economy is very pronounced, but the indigenous economy is now recovering. However, there is still some catching up to be done.

CONSUMER DYNAMICS

Consumer confidence has rebounded strongly following the collapse that occurred in April 2020. The recovery in confidence is primarily driven by the positivity engendered by the vaccine rollout and the consequent opening up of the economy. The labour market is improving; household savings in July reached a record high of €134 billion; and earnings growth is picking up. However, inflationary pressures are building up in the economy. In the year to August, average consumer prices increased by 2.8 per cent, which is the highest rate since November 2011. Higher prices will undermine consumer purchasing power.

Figure 3: Consumer Confidence



Source: KBC Bank Ireland

National accounts data show that total consumer spending on goods and services in the first half of 2021 was 2.5 per cent higher than the first half of 2020. The value of retail sales on goods was 16 per cent higher in the first half of 2021 than the first half of 2020, but when strong car sales are excluded, the value of sales was 4.1 per cent higher.

THE LABOUR MARKET

COVID-19 has had a very significant impact on the labour market. However, as the economy re-opens, the labour market is improving. The standard measure of unemployment in August stood at 171,200 people, equivalent to 6.4 per cent of the labour force. This is down from 7.1 per cent of the labour force in August 2020 and a high of 7.7 per cent in March 2021. However, if all of the claimants of the Pandemic Unemployment Payment (PUP) were classified as unemployed, the unemployment rate stood at 12.4 per cent in August, down from 17.1 per cent in August 2020.

On 7th September 2021, 140,318 people were in receipt of the Pandemic Unemployment Payment (PUP). This is down from a peak of 602,100 in May 2020. Of the total number of PUP recipients, 7,130 or 5.1 per cent work in 'Other sectors e.g., hairdressing and beauty salons.

THE FISCAL SITUATION

On the fiscal front, the public finances have moved into significant deficit since March 2020, but this is due to increased expenditure related to Covid-19, rather than a decline in revenues. Tax revenues have held up remarkably well during the Pandemic. In total, it is estimated that the State has had to borrow €34 billion more than it was planning to deal with the Covid-19 crisis.

In the first 8 months of 2021, an Exchequer deficit of €6.7 billion was recorded, but on a 12-month rolling basis, the deficit was €9.5 billion. Total tax receipts in the first half of the year were 15.2 per cent or €5.2 billion higher than the equivalent period of 2020. Income Tax receipts were 18.9 per cent higher; Corporation Tax receipts were 8.1 per cent higher; and VAT was 25 per cent higher.

The strength of tax receipts reflects strong profitability in the multi-national component of the economy; a strong rebound in consumer spending; and the highest earning and highest tax-paying element of the labour force was not significantly affected by Covid-19.

In Budget 2021, the Department of Finance targeted a deficit of €20.5 billion (5.7 per cent of GDP) in 2021. Based on the first 8 months of the year and the stronger than expected growth, the deficit is more likely to come in at less than €17 billion. While such an outturn would provide some comfort, it would still represent a significant level of borrowing.

THE SUMMER ECONOMIC STATEMENT

The Summer Economic Statement sets out the medium-term projections for economic activity and the public finances. Despite the strength of tax revenues and economic growth subsequently, it is likely that the parameters set out in this statement will form the basis for Budget 2022.

The economic growth projections will be crucial to the achievement of the budgetary strategy. Growth is projected to rebound strongly in 2021 and 2022, before settling down to a trajectory that looks consistent with Ireland's growth potential. These economic growth projections look realistic based on what we know at the moment.

A core budget package of €4.7 billion is targeted for Budget 2022. Of this total, €1.5 billion will be laid aside for new budgetary measures, with €500 million directed at tax changes and €1 billion for expenditure measures. Budget 2022 will be a complicated affair and the real challenge for the Government will be to wean the economy off Covid supports, start the process of restoring some semblance of order to the public finances, and ensuring that economic recovery is supported. The Government is setting aside €2.8 billion for income, business and other supports should they be needed.

The debt objective is to stabilise the debt by 2023 and reduce it gradually thereafter. Ireland's government debt burden is dangerously high.

On the expenditure side, the Government is adopting an expenditure rule, whereby core (non-Covid) expenditure growth is tied to the estimated trend growth in the economy, adjusted for inflation. Government is going to allow permanent spending increase by 5 per cent per annum in the post-pandemic years. If achieved, this would be a sensible, albeit generous strategy. Between 2022 and 2025, the Government intends to deliver €49.4 billion in capital spending.

Table 2: Economic & Fiscal Projections 2020-2025 from Summer Economic Statement

	2020	2021	2022	2023	2024	2025
GDP	3.4%	8.8%	5.1%	3.7%	3.3%	3.2%
Modified Domestic Demand	-5.5%	2.6%	7.4%	3.8%	3.4%	3.4%
Total Employment (000s)	1,972	2,051	2,276	2,351	2,405	2,457
Employment	-15.1%	4.0%	11.0%	3.3%	2.3%	2.2%
Unemployment Rate	18.7%	16.3%	8.2%	6.7%	6.0%	5.5%
Total Voted Gov Spending (€m)	€85,285	€90,720	€88,200	€85,100	€89,040	€93,230
General Gov Balance (% GDP)	-5.0%	-5.1%	-3.4	-1.8	-1.6	-1.5
General Gov Balance (% GNI*)	-8.9	-9.4	-6.2	-3.3	-3.0	-2.8
Gen Gov Debt (€ bln)	€218.2	€241.5	€252.3	€262.3	€273.4	€281.7
Gen Gov Debt (% GDP)	59.5	60.3	58.9	58.1	57.7	56.7
Gen Gov Debt (% GDP)	105.1	111.8	108.6	108	107.7	106.3

Source: Department of Finance, Summer Economic Statement, 14th July 2021

KEY ISSUES FOR BUDGET 2022

The prospects for economic recovery in the second half of 2021 and into 2022 are positive. The economy is now being steadily re-opened and economic activity is rebounding strongly. A point of particular note is that between March 2020 and July 2021, household deposits increased by €27.5 billion to reach a record high of €134 billion. This means that there will be a strong rebound in consumer spending as pent-up demand is released into the economy. However, from a fiscal perspective, the legacy of Government debt in the aftermath of the pandemic will have a significant influence on fiscal policy over the coming budgets. In addition, for those businesses most adversely affected by the COVID-19 restrictions and who are left with a significant debt legacy, it will take some time for full business recovery, and continued State support will be required.

The key issues that should guide Budget 2022 include:

- The economy is recovering, but the indigenous component of the economy is lagging the very strong multi-national component of the economy.
- Covid-related financial supports are being, and will continue to be wound down. However, some of the worst affected sectors of the economy now have a significant debt legacy, and will require ongoing support for some time.
- Labour shortages are evident in many sectors of the economy, so policy will need to incentivise labour force participation to the greatest extent possible, and ensure that apprenticeships are expanded.
- The public finances will have to be brought back into balance over the coming years. This will

necessitate tight control over Government expenditure and the maximisation of tax revenues. The objective is to eliminate the high level of borrowing that had to be put in place to deal with Covid-19 by 2023. Hence, this will be addressed in Budget 2022 and Budget 2023.

- The threat to future Corporation Tax receipts from international tax developments means that the public finances will have to be manged as prudently as possible. There is no guarantee that the current record levels of corporation tax will be sustainable, so it is important to plan for the eventuality of a significant reduction at some point in the future. Basing future expenditure plans on a tax base that may not be sustainable would be a risky strategy.
- Addressing climate change and ensuring the necessary incentives to change consumer behaviour are in place will be very important.