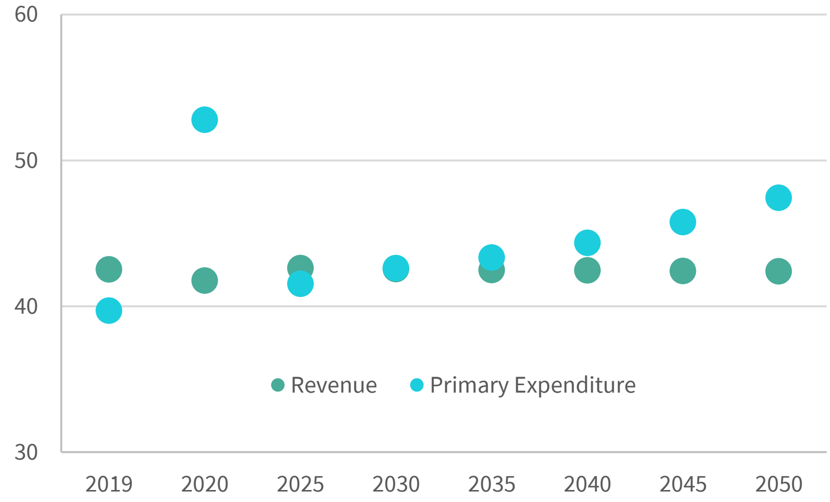
Visual Summary

This report provides the Fiscal Council's assessment of the long-run sustainability of the public finances in Ireland to 2050. The projections reflect population ageing and future economic growth. As a baseline, they take current policies as maintained into the future. While long-term projections are uncertain, they can help to guide policy choices today.

Spending is projected to outpace revenue as ageing-related costs rise

% of GNI* (general government basis)



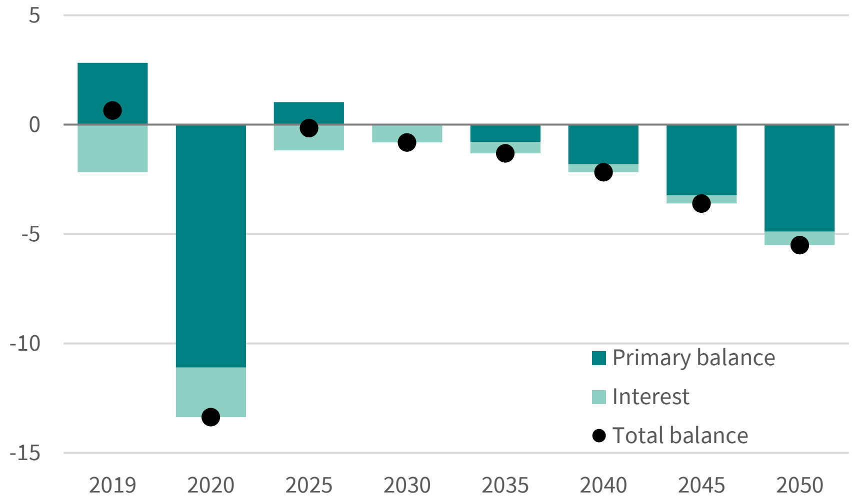
Government spending would outpace revenue growth under current policies.

While revenues are projected to remain just over 42 per cent of GNI*, primary spending rises from 40 to over 47 per cent by 2050.

Sources: Eurostat; CSO; Department of Finance; and Fiscal Council projections.

Increasingly large budget deficits would emerge after 2025 under current policies

% of GNI* (general government basis)



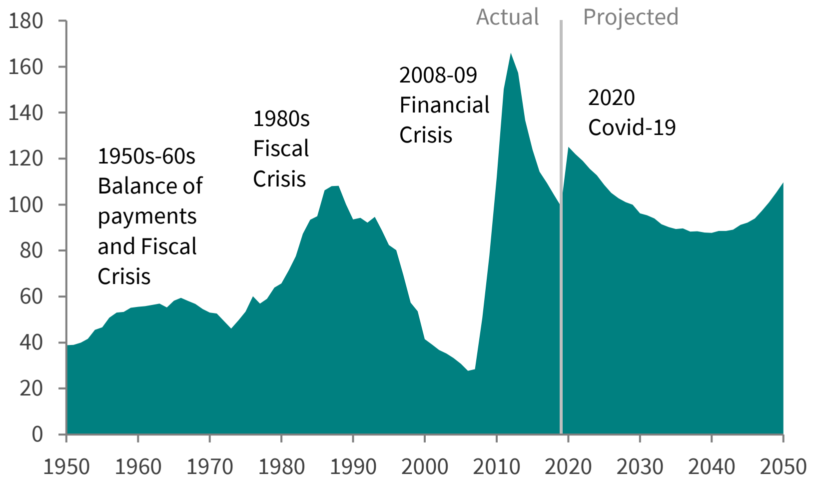
Assuming that the budget is balanced in 2025, the government deficit would grow substantially in the coming decades under current policies.

The gap between revenues and non-interest spending would rise to almost 5 per cent of GNI* by 2050.

Sources: Eurostat; CSO, Department of Finance; and Fiscal Council projections.
Note: Underlying balances are shown, which exclude financial transactions (such as bank recapitalisations) and other one-offs.

The government debt burden will rise in coming decades under current policies

% of GNI* (general government basis, gross)



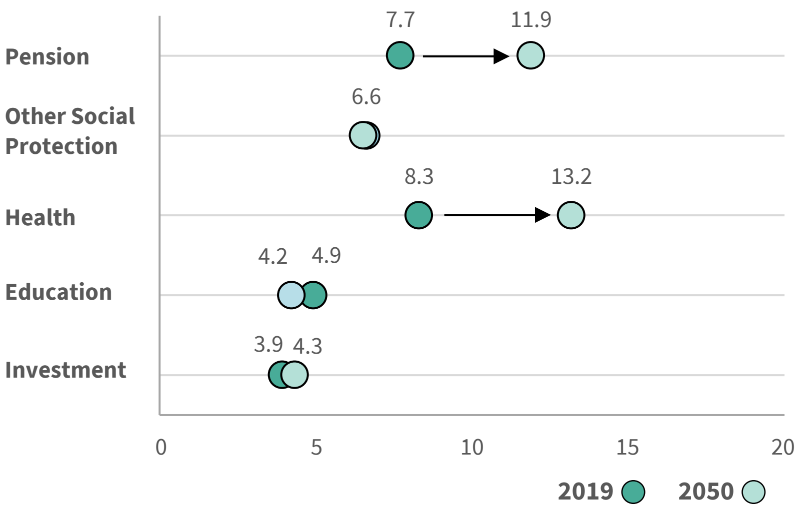
Starting from a balanced budget in 2025, the government debt burden would fall from its high Covid-19 levels to bottom out near 90 per cent of GNI* midway through the next decade.

Under current policies, the debt burden will then rise again steeply after 2040, as the population ages and as GNI* growth slows.

Sources: CSO; FitzGerald and Kenny (2018); Department of Finance; and Fiscal Council projections.
Note: Graph shows gross debt. Modified GNI* is linked to GNI for 1970–1995 and to GNP for 1950–1969.1

Spending increases will be driven by pensions and health care

% of GNI* (general government basis)



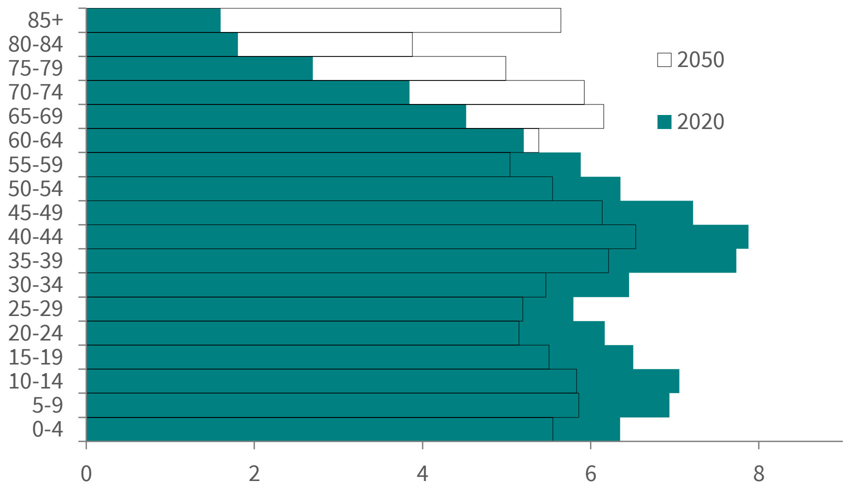
The increase in government spending as a share of GNI* is primarily driven by areas affected by ageing and higher health costs.

Under current polices, government spending on pensions would rise from 7.7 per cent of GNI* to 11.9 per cent in 2050. Health spending would rise from 8.3 per cent to 13 per cent.

Sources: Eurostat; CSO; Department of Public Expenditure and Reform; Department of Finance; and Fiscal Council projections.
Note: Pension includes public sector pensions; Health includes long-term care.

Older age groups are projected to grow faster than other age groups

Age Cohort as % total population



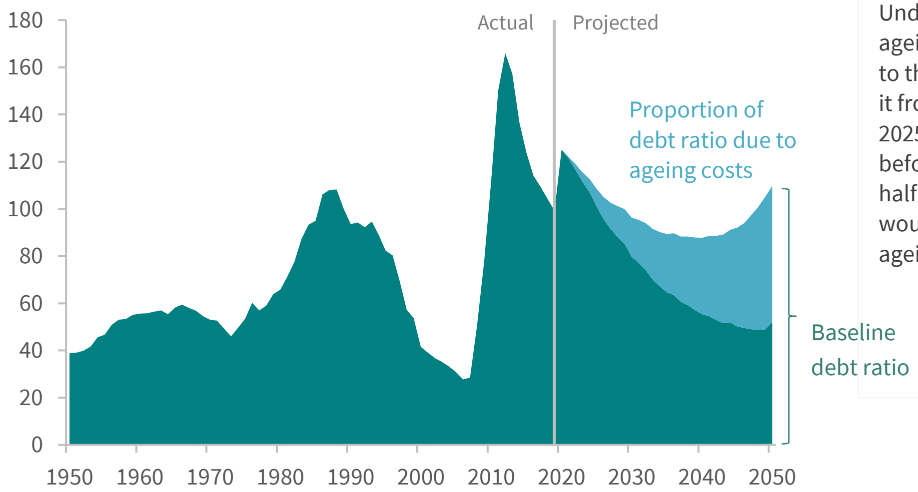
The rise in public spending on health and pensions primarily reflects an ageing population.

Older people will represent a higher share of the population, with the share of ages 65+ increasing from 14 per cent in 2020 to almost 27 per cent by 2050.

Sources: CSO; and Fiscal Council projections.
Note: The bars are in terms of shares of 5-year age cohorts, except for the 85+ age category. The underlying total population is 4.9 billion in 2020 and 6.0 billion in 2050.

Ageing costs are set to add significantly to the debt burden

% of GNI*

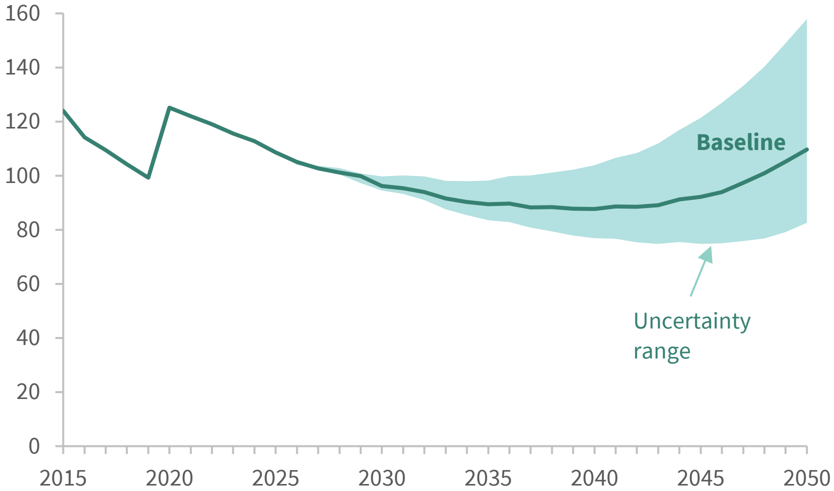


Under current policies, ageing-related costs will add to the debt burden, diverting it from a steady decline from 2025 to reach a higher trough before rising again. Around half the debt burden in 2050 would reflect unfunded ageing costs.

Sources: Fiscal Council workings.
Note: The blue shaded region shows the proportion of the baseline debt ratio that can be attributed to an ageing population relative to 2020 demographics. See Section 3.6 for details.

There is significant uncertainty about future fiscal challenges given risks around growth

General government gross debt as a % of GNI*



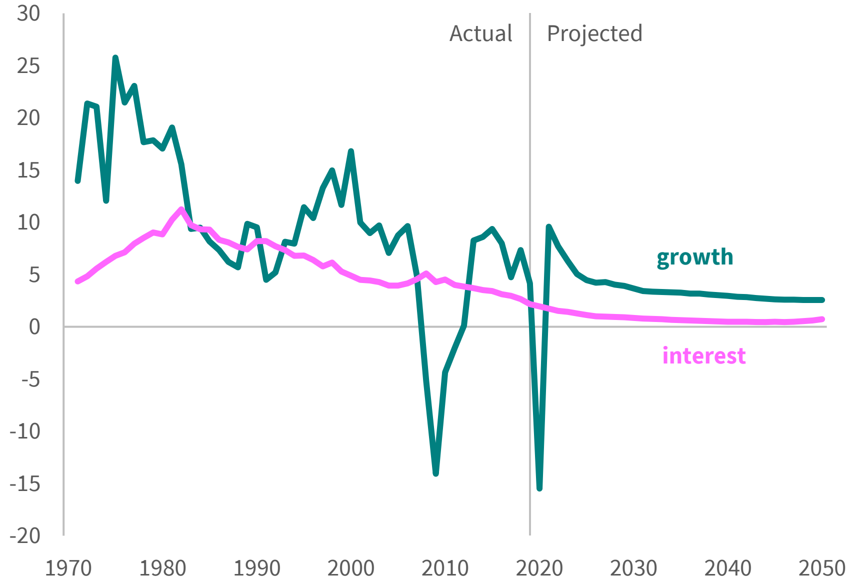
There is substantial uncertainty around long-term growth, migration and labour market projections.

Under a range of economic scenarios, gross debt is projected to range from 83 per cent to 158 per cent of GNI* by 2050.

Sources: CSO; Department of Finance; and Fiscal Council projections.
Note: The uncertainty range is based on alternative assumptions for TFP growth over the long run of +/- 0.5 percentage points. This roughly corresponds to the middle two-thirds of the range of potential outcomes estimated under various approaches. The range also includes participation rates +/- 5 percentage points (ages 20–64) and the higher/lower migration consistent with growth.

Ireland’s interest-growth differentials are projected to be very favourable, but there are risks

%



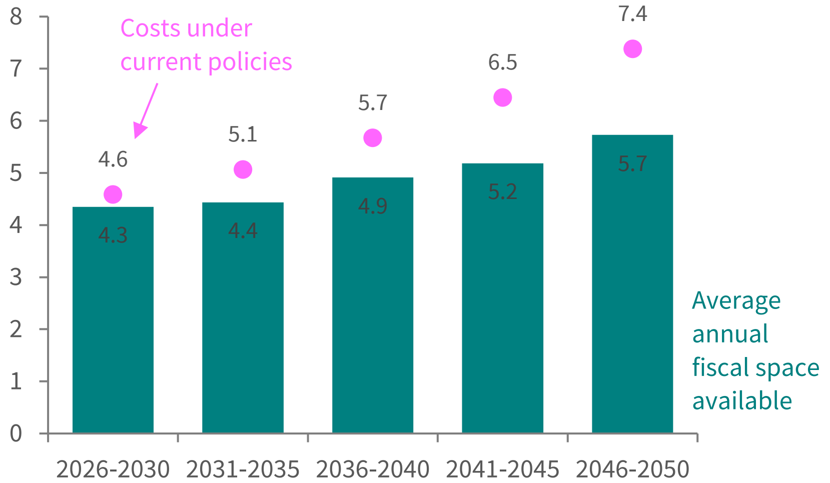
Ireland is projected to experience favourable debt dynamics, helping to keep the debt burden on a downward path over the next 10–15 years.

However, interest rates might rise without any increase in nominal growth rates for Ireland, reversing these dynamics.

Sources: CSO; and Fiscal Council projections.
Notes: “Growth” refers to annual nominal GNI* growth rates. “Interest” is the average effective interest rate on government debt (calculated as general government interest costs over the previous period’s general government debt).

Ageing pressures mean that the cost of maintaining existing services levels each year would exceed the available fiscal space

€ billion



The cost of "standing still' in policy terms will increase at a faster pace than fiscal space generated by growth from 2026. This would require offsetting tax and spending measures.

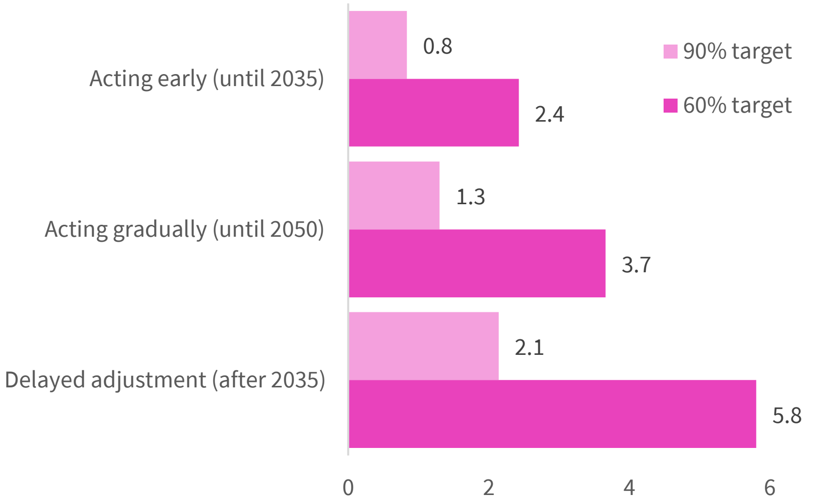
By the early 2030s, this cost exceeds the available fiscal space by on average €1.7 billion per year.

Source: Fiscal Council workings.

Note: It is assumed potential growth equals actual growth over the long term. The fiscal space available for each year is determined by the previous year's policy spending multiplied by the current year's nominal growth rate. See Section 3.5 for further details.

Strengthening the public finances earlier would ultimately require less adjustment

Fiscal adjustment required after 2025 to stabilise debt by 2050, cumulative % of GNI*



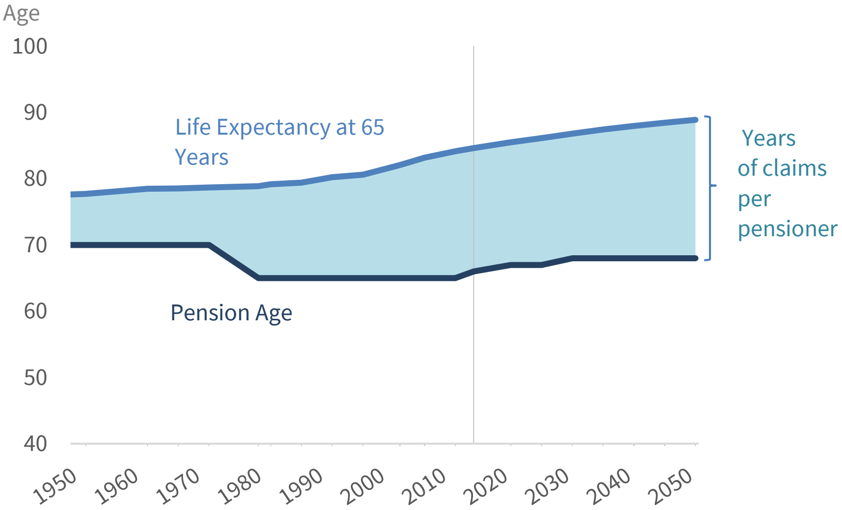
Acting sooner to manage ageing challenges would ultimately cost less.

To keep debt from rising back above 90 per cent of GNI*, governments would have to reduce spending or raise additional revenues by 0.8 per cent of GNI* if action is taken early but by 2.1 per cent if delayed to after 2035.

To reduce debt to 60 per cent of GNI*, larger adjustments would be needed.

Source: Fiscal Council workings.

Allowing the pension age to follow rising life expectancy would help to stabilise the public finances



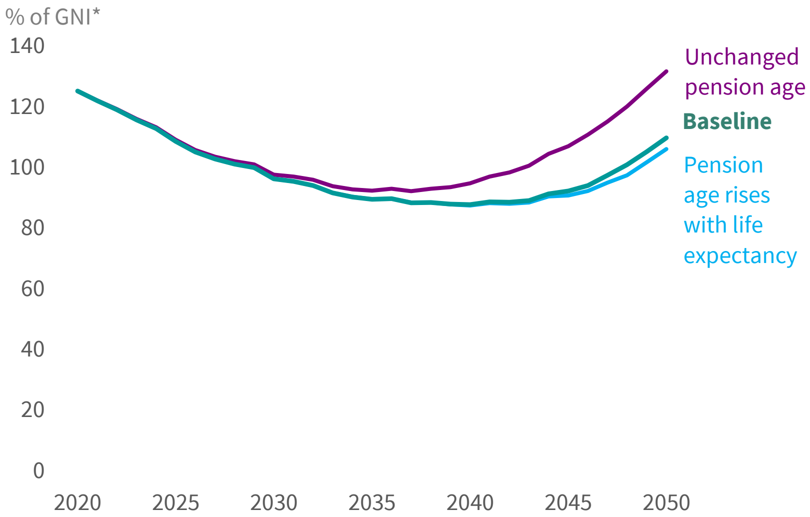
Pension policies have a clear link to spending pressures associated with ageing.

Ireland's pension age has been relatively constant over time, while average life expectancy has risen significantly.

Relative to a constant pension age scenario from 2020, adjustment with increases in life expectancy would initially save the Government some 0.3 per cent of GNI* annually, rising to 1.1 per cent by the late 2040s.

Sources: CSO; Government of Ireland; and Fiscal Council workings.
Note: The baseline includes legislated adjustments to the pension age in 2021 and 2028.

Gross debt is sensitive to different pension-age policies



Keeping the state pension age at its current level (66) would imply higher spending and gross debt.

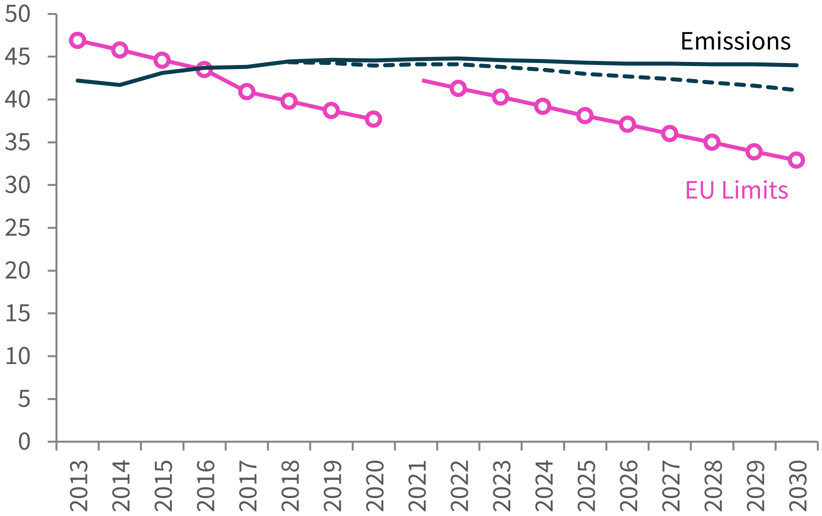
Increasing the pension age in 2021 and 2028 in line with current legislation would improve sustainability.

Continuing to increase the pension age as life expectancy increases in future decades would contribute further to slowing the rise in spending and debt ratios.

Sources: CSO; Department of Public Expenditure and Reform; Department of Finance; and Fiscal Council projections.
Note: The debt-ratio scenarios assume a pension age that rises to 67 in 2021 and then to 68 in 2028 in the baseline scenario, compared to a constant pension age of 66 (upper range) and pension age dynamically changing with projected life expectancy (lower range).

Ageing costs will come at a time when Ireland will face other challenges such as climate change

Levels of greenhouse gas emissions (Mt CO_2eq)



Ireland will face challenges from climate change, in terms of its adverse effect on both the economy and on the public finances.

Delaying action on climate change mitigation may mean that more drastic and costly measures may be required. This could come at the same time as Ireland is facing significant challenges from ageing pressures.

Sources: Climate Change Advisory Council (2019); and Fiscal Council workings.
Note: Original data are taken from the EPA (2019) National Emissions Inventory, Ireland's Greenhouse Gas Emissions Projections 2018–2040 and Effort Sharing Regulation (2016).