Irish Fiscal Advisory Council

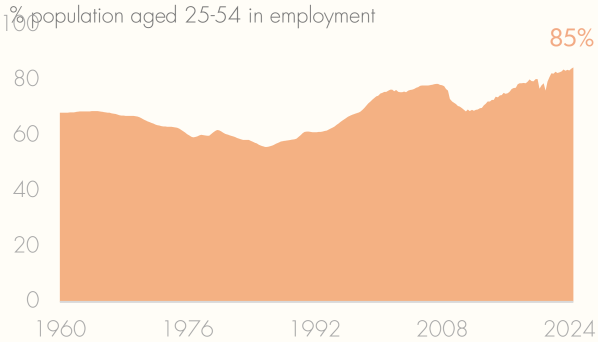
Fiscal Assessment Report

June 2025

Ireland’s outlook: strong today, uncertain tomorrow

Employment is at an all-time high

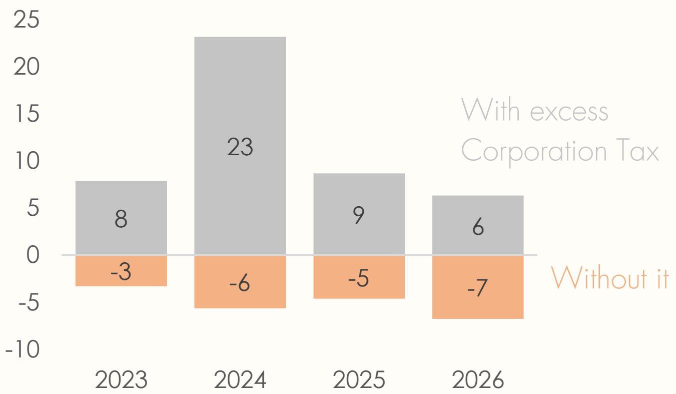
% population aged 25-54 in employment



The Irish economy is in a strong position as it enters an uncertain period. Ireland has never had as high a share of those in their prime working years at work.

Corporation tax keeping Ireland in surplus

€ billion, budget balance

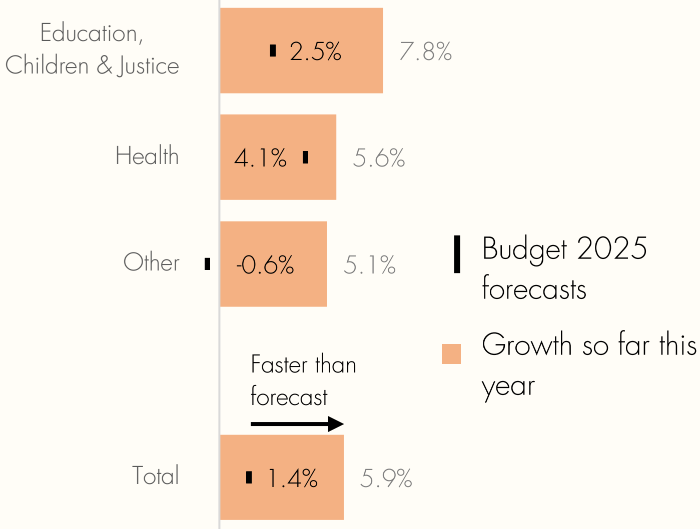


Phenomenal levels of excess corporation tax are keeping Ireland in surplus. Without these revenues, there would be a substantial deficit, despite a strong economy.

These receipts may well increase, but they remain high risk. Just three companies account for most of the excess corporation tax.

Large spending overruns look likely

% growth in current spending



Spending is growing at a much faster pace than Budget 2025 allowed for.

This is occurring in most areas of spending, not just health.

At the current pace of growth, overruns of €2 billion are likely.

Summary

Ireland's economy remains strong. Employment is high, wages are rising, and debt is low. But external pressures—like tariffs and EU-US trade tensions—could put future investment and exports at risk.

Ireland's public finances look solid. But they depend heavily on volatile corporation tax. Budget surpluses are due to corporation tax payments from a few large US companies. Other taxes are also performing well because the economy is performing well. Without these factors, Ireland would have a structural deficit of about 2.4% of GNI*. That's more than €2,500 for every worker.

The Government and the European Central Bank are both pumping money into the economy. The Government is cutting taxes and increasing spending at twice the sustainable rate. At the same time, the European Central Bank is lowering interest rates. These actions are boosting demand. This isn't suitable when the economy is already operating at full capacity.

Budgetary policy should smooth the swings in the economy. If the economy continues to perform well, then the Government should show restraint. If there is a significant downturn, that is the time for budgetary policy to support the economy.

There is no effective framework for fiscal policy at present. The European fiscal rules don't work well for Ireland. They rely on GDP and ignore the risks linked to corporation tax. The domestic fiscal framework is also weak. The Government hasn't proposed a clear plan for a domestic fiscal rule. On top of that, its budget forecasts only look 20 months ahead. Finally, the Government has not set departmental ceilings for 2026 and 2027.

Challenges remain around infrastructure, the ageing population and climate change. Ireland needs to improve its infrastructure to stay competitive. An ageing population and climate change will also put pressure on public finances.

Key indicators

% modified Gross National Income (GNI*) unless otherwise stated

	2024	2025	2026	2027	2028	2029	2030
Economy							
Real GNI* growth	4.1	2.7	2.5	2.4	2.3	2.2	2.2
Nominal GNI* growth	7.1	5.4	5.3	5.1	5.0	4.6	4.6
Nominal GNI*, € billions	311.6	328.4	345.7	363.2	381.2	398.9	417.3
Price inflation, year-on-year change [1]	1.3	2.1	2.1	2.0	2.0	2.0	2.0
Public finances							
Budget balance	7.4	2.6	1.8				
Budget balance excl. excess corporation tax [2]	-1.8	-1.4	-2.0				
Structural budget balance [3]	-1.6	-2.4	-2.1				
Budget balance (€ billions)	23.2	8.7	6.3				
Excess corporation tax (€ billions) [2]	28.8	13.3	13.1				
Budget balance excl. excess corporation tax (€ billions)	-5.7	-4.6	-6.8				
Structural budget balance (€ billions) [3]	-4.5	-7.5	-7.8				
Revenue	47.6	42.7	42.4				
Revenue excl. excess corporation tax	38.3	38.6	38.6				
Expenditure	40.1	40.1	40.5				
Gross debt ratio	70.0	65.3	62.5				
Gross debt (€ billion)	218.2	214.5	216.1				

Sources: These projections are based on Annual Progress Report 2025. No fiscal projections were provided in the Annual Progress Report 2025 beyond 2026.

[1] Harmonised index of consumer prices (HICP).

[2] This uses the "windfall estimates" produced by the Department of Finance as well as the proceeds from the CJEU ruling.

[3] This is the bottom-up estimate produced by the Council.

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1. The economic backdrop

Resilient economy sees storm clouds gathering

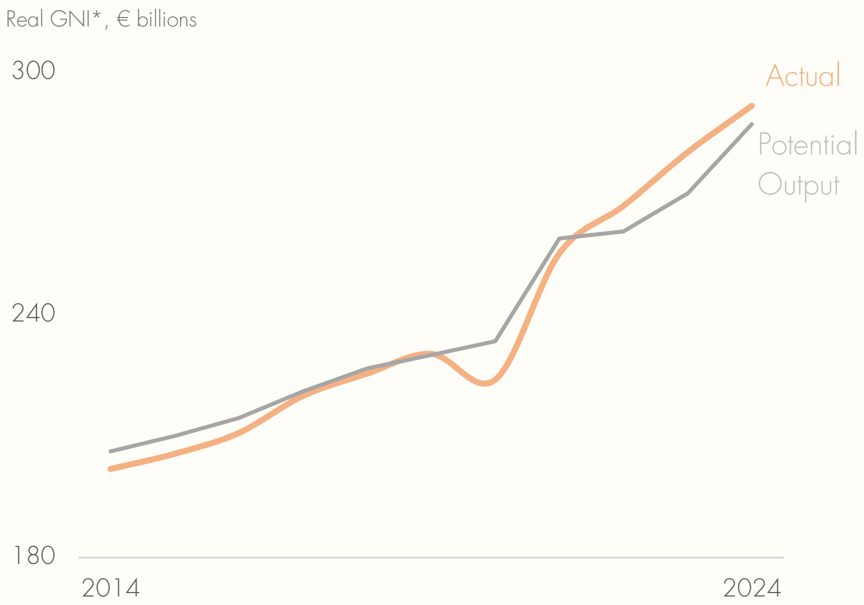
The Irish economy has entered a fraught international environment. But it arrives from a strong position. It has a record share of people at work. Real wages have recovered after sharp price rises, and households and businesses have low levels of debt. Nevertheless, tariff increases, rising trade tensions, and policy uncertainty cloud the outlook, slowing investment and job creation.

A strong starting position

2024 marked the fourth year in a row with faster than normal growth in the economy.[1] The broadest measure of Ireland's domestic economy is modified Gross National Income (GNI*).[2] While outturns for 2024 are not yet available, the Department of Finance estimates that growth was just above 4% last year. As a result, economic activity is now above its estimated potential (Figure1.1).

[1] The annual average since 1995 has been 3.4%.
[2] Throughout this report, "national income" can be taken to refer to GNI* for Ireland and Gross Domestic Product (GDP) for other countries.

1.1: **The economy is operating above potential levels of activity**



Sources: CSO and Fiscal Council estimates.
Notes: Potential output is estimated using a suite of models approach, as outlined in Casey (2019). Get the data.

Growth might have been even stronger than official estimates suggest, as consumer spending is likely to have been underestimated. The Central Statistics Office (CSO) data suggests growth in consumer spending, adjusted for inflation, was 2.8% in 2024. Yet, Value Added Tax (VAT) receipts and bank card transactions point to stronger activity.

Indeed, the Council's alternative consumer spending estimates show stronger real growth in 2024 (Figure 1.2).[3]

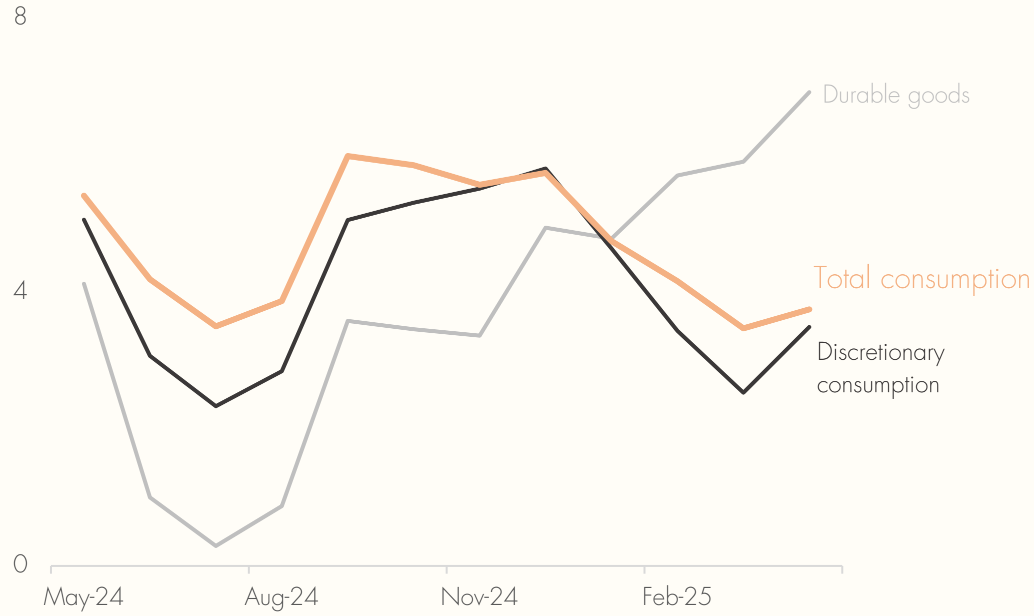
However, there are indications that consumption growth might be slowing this year. While growth in durable goods consumption remains strong, growth in discretionary consumption—spending on non-essential items like spending on holidays or in restaurants—has been falling and was only 3.5% in April.[4] This could signify an expected moderation from high growth rates. But it could also reflect a cautious

[3] The Council produces alternative estimates of consumer spending growth based on granular detail from the Central Bank's card transactions data (Carroll 2024). These capture a substantial portion of consumer activity, and suggest year-on-year growth rates may have been one percentage point higher for the second half of the year. Assuming that approximately half of the additional spending was offset by imports, this would suggest real GNI* growth potentially being 0.1 to 0.2 percentage points higher than the Department estimates for 2024.
[4] Both durable goods consumption and discretionary consumption can be good leading indicators of economic activity.

response from households to increased uncertainty from the international environment.

1.2: **Household consumption growth remains robust, but is slowing**

Real, % change y/y



Sources: Carroll (2024) and Fiscal Council estimates.
Notes: Figures are based on y/y growth of the 3-month moving sum of consumption estimates from Carroll (2024). Discretionary consumption is spending on non-essential items, like takeaway meals, restaurants and holidays. The discretionary category is based on work by the ONS and the ABS. Get the data.

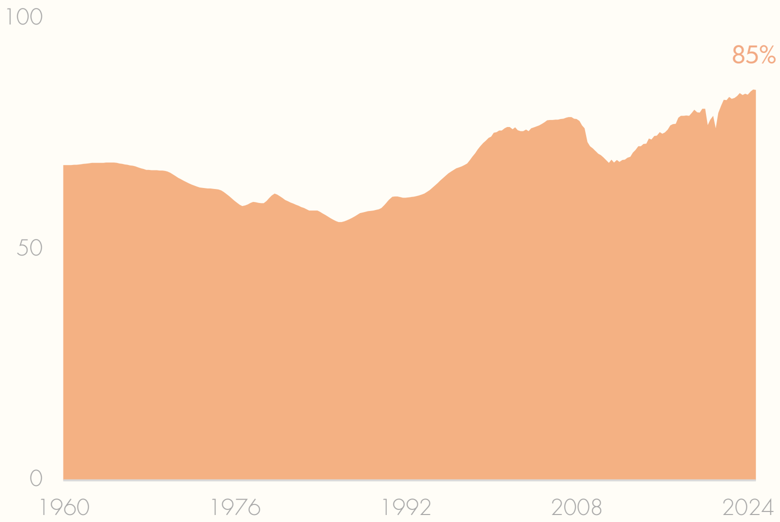
Reflecting the fast pace of recent economic growth, Ireland's jobs market has become remarkably tight. Taking those aged 25–54, often considered people's prime work years, the share of people at work reached record highs (Figure1.3).[5] The flexibilities of remote working and the pressures of high prices may both have driven increased participation rates.[6] This has helped to meet the increased demand for workers.

[5] Egan and Roche (2025) outline how the Irish economy could be impacted by a range of possible tariffs. Their most severe scenario shows employment 3% lower than would otherwise be the case. Even if this were to materialise, the employment rate would still remain very high by historical standards.

[6] While one-in-thirteen people employed in Ireland in 2019 reported "usually working from home", this had risen to one-in-five in 2024. Increased labour force participation has been mostly driven by women. Female participation rates have increased from 56% in 2019 to 61% in 2024.

1.3: **Employment is at an all-time high**

% population aged 25-54 in employment

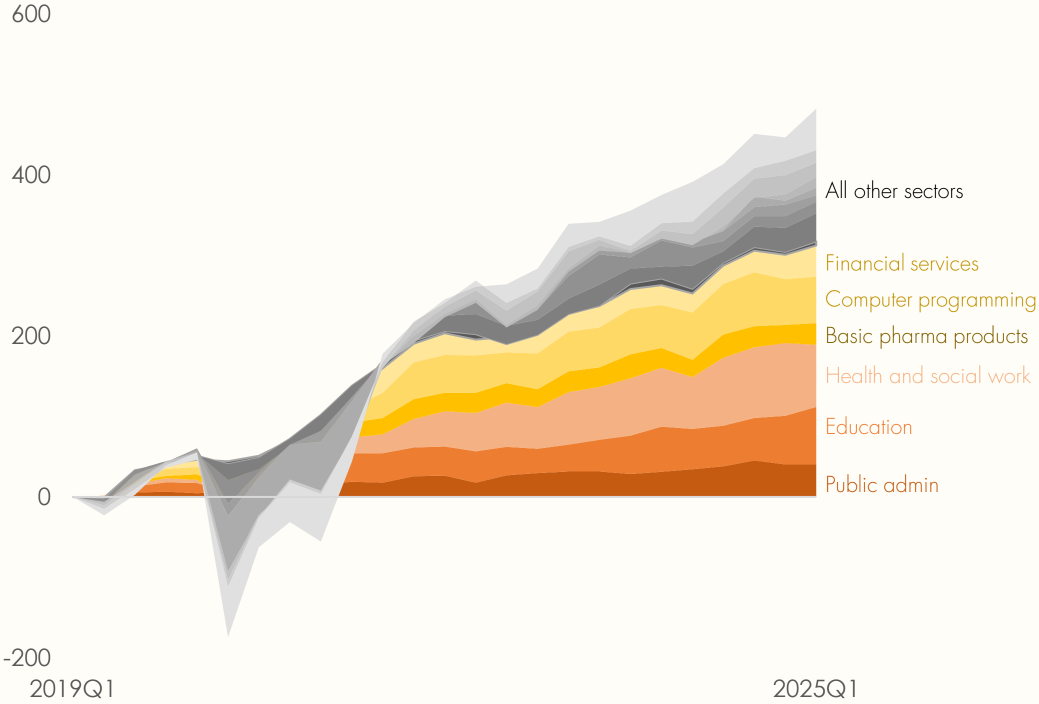


Sources: CSO, AMECO and ESRI data. Get the data.

There are now nearly 500,000 more people in work than in early 2019. A striking feature of this increase in jobs has been the role played by multinationals and the State. Computer programming, pharmaceuticals, financial services, and public sector–dominated areas like health, social work, education, and public administration accounted for two-thirds of job increases between Q1 2019 and Q1 2025. These sectors represented less than one-third of total jobs across the economy in 2019.

1.4: **Job growth has been driven by the State and multinationals**

000s, cumulative change in employment, Q1 2019 to Q1 2025



Sources: CSO and Fiscal Council estimates. Get the data.

Wages have also rebounded. The ground lost to the rise in prices in 2022 has been recovered, with real hourly wages now in line with their pre-pandemic trend (Figure 1.5).[7] Within this, lower-pay sectors are about 2% above trend. By contrast, high-pay sectors have been effectively flat for five years, leaving them about 8% below trend. This primarily reflects a marked slowdown in wage growth in professional, scientific and technical activities, as well as administrative and support services. This is somewhat surprising, as employment in high-pay sectors like pharmaceuticals and financial services has grown substantially since 2019 (Figure 1.4).

It's notable, however, that pay in multinational-dominated sectors tend to be much higher — double other sectors.[8]

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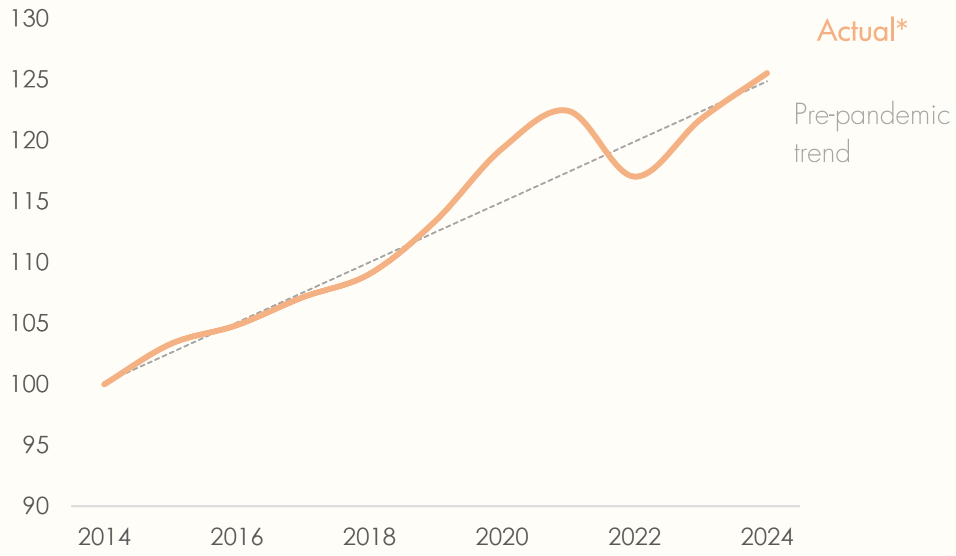
[7] This estimate of wage growth is derived from compensation of employees from the Quarterly National Accounts. This is then divided by the employee hours series from the Quarterly National Accounts.

[8] Multinational dominated sectors are defined by the CSO as sectors where at least 85% of turnover is accounted for by foreign multinationals in that sector. These sectors are pharmaceuticals, manufacturing of medical devices, manufacturing of computer, electronic and optical products and Information and communication technology.

1.5: **Real wages are now above pre-pandemic trend**

Real hourly wages, Index: 2014=100



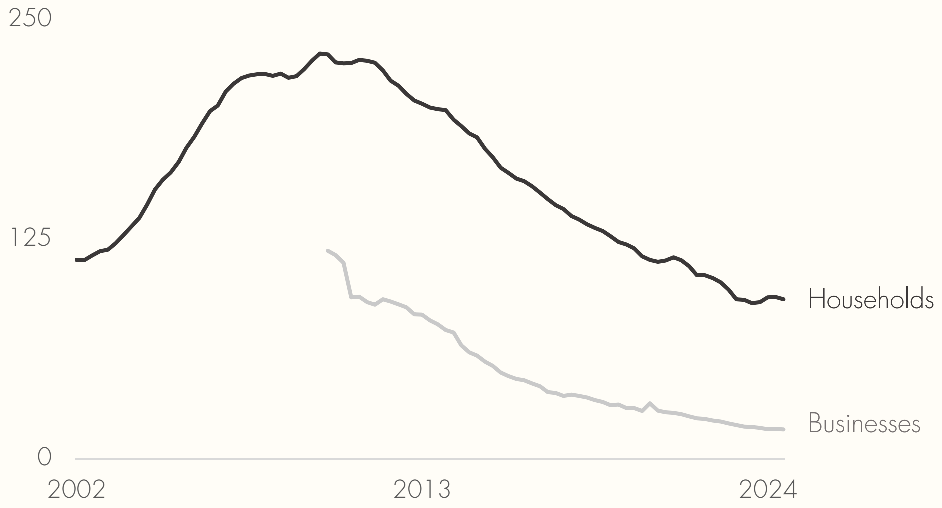
Sources: CSO and Fiscal Council estimates.
Notes: Compensation of employees from the quarterly national accounts is used. This is divided by employee hours from the quarterly national accounts. *The data are adjusted in the period 2020 to 2022 to account for the changing composition of employment. During this period, substantial numbers of low-wage workers exited, and then re-entered work. The pre-pandemic trend is calculated over 2014 to 2019. HICP is used as the measure of inflation. Get the data.

The economy also looks resilient in terms of indebtedness. The debt burden for both households and businesses has fallen markedly over the last decade (Figure 1.6). This reflects low levels of investment by domestic businesses in recent years.[9] This low level of investment damages future productivity growth.

[9] For households, the reduction in debt is likely driven by a lack of housing, rather than an active choice to reduce borrowings.

1.6: **Household and business debt is low**

% of disposable income for households and % domestic GVA for businesses



Sources: CSO, Central Bank of Ireland, and Fiscal Council estimates.
Notes: Household debt is calculated as total loans to households and non-profit institutions serving households divided by annualised total disposable income. Business debt is total credit advanced to Irish resident small and medium enterprises excluding those in financial intermediation and property-related sectors. Get the data.

Rising trade tensions worsen the outlook

While the economy entered 2025 with a strong outlook, rising trade tensions now threaten this. Even if trade policies revert to their 2024 terms, the uncertainty caused by the stop-start nature of tariffs has already disrupted investment plans and trade patterns. This is likely to weigh on short-term economic growth.

Looking further ahead, sectors key to Ireland's recent growth now face fundamental questions about their future investment decisions in Ireland. Existing capacity in Ireland is still likely to be needed by pharmaceutical firms as it takes time to scale up operations elsewhere.[10] Services sectors, such as the tech sector, may not be directly impacted by tariffs. However, if the trade dispute escalates and both sides respond with new tariffs, the services sector could also be directly impacted.[11]

The potential impact of tariffs on the Irish economy varies widely, depending on the scope and severity of the tariffs and

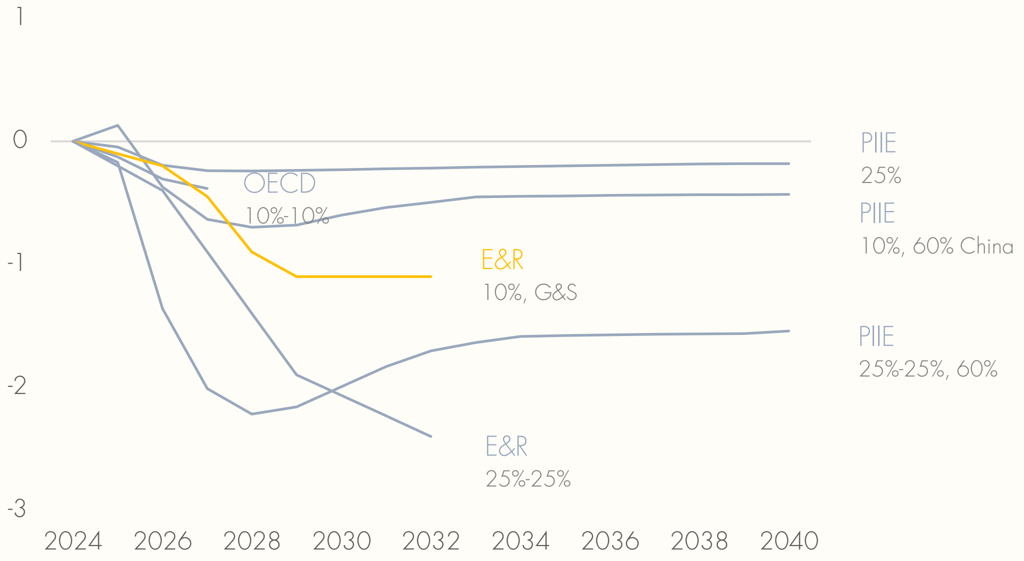
[10] Pharmaceutical products have been exempted from tariffs by the US thus far. However, this remains under active review. Building a new pharmaceutical manufacturing facility from scratch typically takes between 5 to 10 years to become operational (Phrma Research, 2025).
[11] Ursula von der Leyen, the European Commission president, told the Financial Times that the EU could target services if talks failed, potentially including a tax on digital advertising revenues that would hit tech groups with their EU headquarters in Dublin, such as Google and Meta.

retaliatory measures. There are several studies exploring the impact of various tariffs. Mapping the results on to Ireland, we find a wide range of potential impacts on real GNI*. These range from relatively minor impacts of about 0.2 percentage points for unilateral US-imposed tariffs up to 2.4 percentage points for retaliatory tariffs. In most cases, the impacts take effect gradually, settling after about 7 to 10 years (Figure 1.7).

Much of the economic impact may stem from the trade policy uncertainty rather than the actual effect of changes in tariffs. Most model-based estimates of the impact of tariffs do not incorporate the effect of uncertainty.

1.7: Potential tariff impacts on Ireland

% impact on level of GNI* for tariff scenarios versus a no-tariff baseline



Sources: Various and Fiscal Council estimates. Get the data.

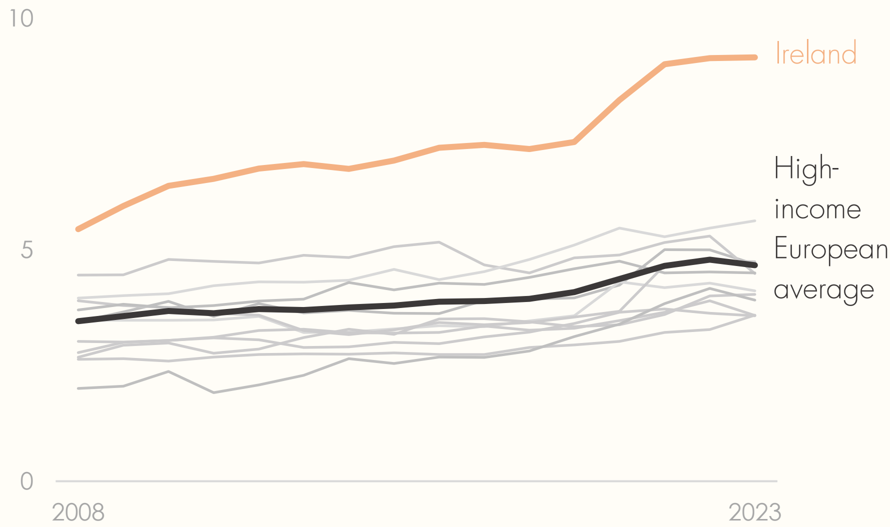
Notes: The figure shows the estimated impact on the level of real GNI* from various tariff scenarios. These focus on scenarios assuming tariffs on goods rather than both goods and services, except for Egan and Roche (2025) or "E&R" estimates indicated by the yellow line, which cover both. The estimates use Irish-specific estimates where available, or they combine country-specific trade weights and an assumed external demand to GNI* elasticity of 1.1 based on internal modelling work. This is broadly in line with previous work by Bermingham and Conefrey (2011). For the E&R estimates, we assume that real GDP corresponds to real GNI*, given that the COSMO model underpinning the analysis largely draws on an earlier sample that has fewer distortions from multinational activity.

These estimates are top-down analyses. As a result, they could overlook key firm- and sector-specific impacts. Given the concentration of Ireland's exporting sectors, a few key decisions by large players could make substantial differences to future outcomes. For example, Ireland has an unusually large share of employment in pharmaceuticals and ICT (Figure 1.8).

As a result, the top-down estimates could easily underestimate the impact of trade policy changes on the Irish economy. Whether or not these sectors ultimately face tariffs will be a key determinant of how damaging trade tensions are for the Irish economy. In the meantime, uncertainty alone may delay investment decisions, compounding the potential impact.

1.8: **Ireland has unusually large pharma and tech sectors**

Percentage of total employment accounted for by pharmaceuticals and ICT



Sources: Eurostat and Fiscal Council estimates. Get the data.
Notes: Employment in the pharmaceutical sector (Nace Code C21, Manufacture of basic pharmaceutical products and pharmaceutical preparations) and Information and Communications sector (NACE code J) as a share of total employment is shown. Countries shown are Belgium, Denmark, Germany, Ireland, Spain, France, Italy, Netherlands, Austria, Portugal, Finland, and Switzerland.

Firms are already reacting to a changing environment

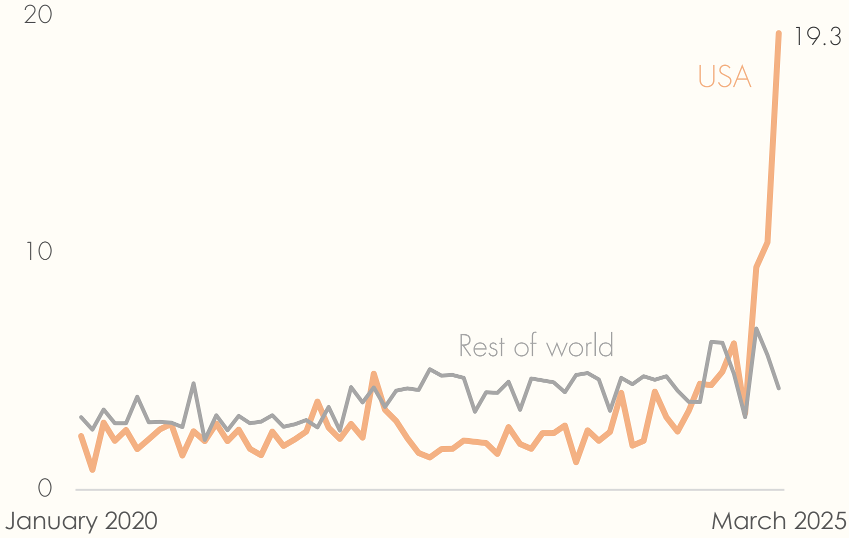
Firms are already reacting to the threat of tariffs. In the early months of 2025, there has been a significant increase in Irish exports to the US. This huge increase in exports is mainly driven by the pharmaceutical sector, which is currently exempted from tariffs. Almost €40 billion of pharma products were exported to the US in the first three months of this year (Figure 1.9). This is almost as much as all pharma exports to the US in 2024.[12]

[12] Medicinal and pharmaceutical exports to the USA in 2024 were €44 billion.

Some of these increased exports may be from existing stocks of products, but this remains unclear. As a result, lower exports may be expected later in the year. However, the early months of this year demonstrates how agile large multinationals can be in responding to a changing landscape.

1.9: **Monthly pharma exports to the USA surged in early 2025**

Pharmaceutical exports from Ireland, € billion



Source: CSO. Get the data.
Notes: The series shows Irish exports of Medicinal and pharmaceutical products.

Other risks

There are also other macroeconomic risks facing Ireland in the coming years.

A key question is how appropriate interest rate and budgetary policy will be for Ireland. Interest rates were already being gradually cut by the European Central Bank. They could well be reduced further and faster to offset the impact of trade tensions. The Government might also continue to increase spending and cut taxes at an excessively fast pace. Should trade tensions subside and Ireland continue to operate near full employment, these policies could put undue pressure on the domestic economy. This would be expected to lead to higher prices for domestic services and rents. On the other hand, if trade tensions escalate, there is a risk that the Government cuts spending and raises taxes, which would make the downturn worse.

2. The public finances

Spending will be higher than forecast in 2025

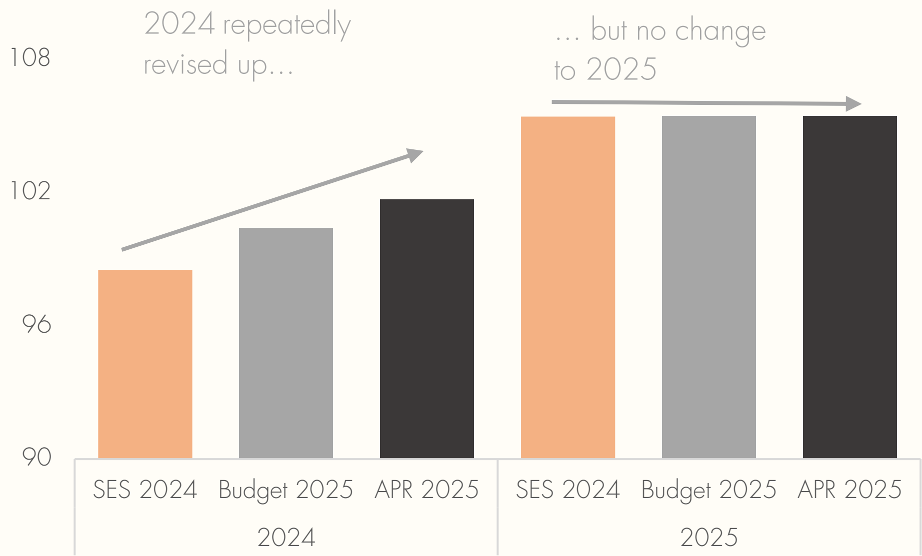
While the public finances remain in surplus, the international outlook casts some uncertainty. The main risks relate to repeated spending overruns and corporation tax receipts. Corporation tax is highly dependent on a small number of US multinationals. In addition, growth in other taxes would soften and unemployment-related spending could rise, if growth weakened.

Overruns will occur in 2025

Despite the economic uncertainty, one thing is certain—spending will be higher than forecast in 2025. At the time of the Summer Economic Statement in July 2024, spending in 2025 was projected to be €6.9 billion higher than in 2024. However, further post-budget overruns meant spending in 2024, excluding one-off measures, was €3.2 billion higher than forecast in the (Figure 2.1). Despite this, the forecasts for 2025 remained unchanged. The projected increase for 2025 is now €3.7 billion, close to half the earlier estimates. This is simply not credible.

2.1: **Further overruns in 2024 have been ignored**

€ billion, gross voted expenditure



Sources: Department of Finance, and Fiscal Council estimates. Get the data.
Notes: Figures for 2024 exclude additional one-off cost of living spending worth €2 billion.

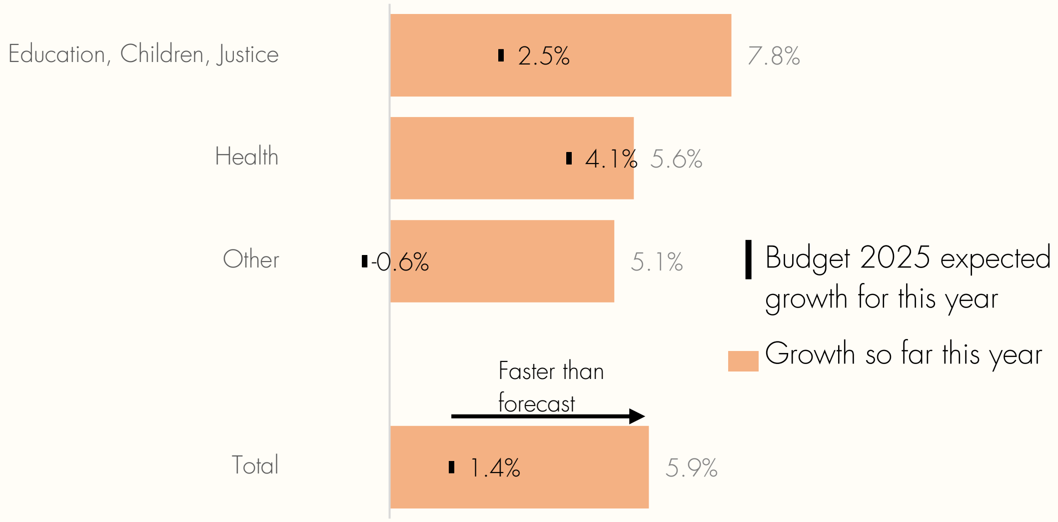
Current spending is growing at a fast pace for the first five months of this year (5.9%). This pace far exceeds the growth rate that would be consistent with Budget 2025 forecasts (1.4%) given the final level of spending in 2024.[13] All main areas of spending are growing at a rate that is faster than would be consistent with Budget 2025 forecasts (Figure 2.2). Large overruns look set to be repeated in 2025.

There are no published monthly profiles of government expenditure for this year. These monthly profiles for spending should be made publicly available. In addition, the Department for Public Expenditure, NDP Delivery and Reform failed to provide these spending profiles to the Council when requested. This seriously inhibits the Council from assessing budgetary forecasts, a key part of our mandate. Without these monthly profiles, it is difficult for the Council to precisely estimate how large spending overruns will be for this year.

[13] The forecast growth rate for gross voted current spending in 2025 in the Budget 2025 documents was 2.4%. However, current spending overran what was expected in 2024. Relative to the outturn level of spending in 2024, current spending is planned to grow by 1.4%. Excluding €2 billion of cost of living measures in 2024, current spending is planned to grow by 3.7%.

2.2: **Spending in 2025 is growing faster than forecast**

% change year-on-year, gross voted current spending

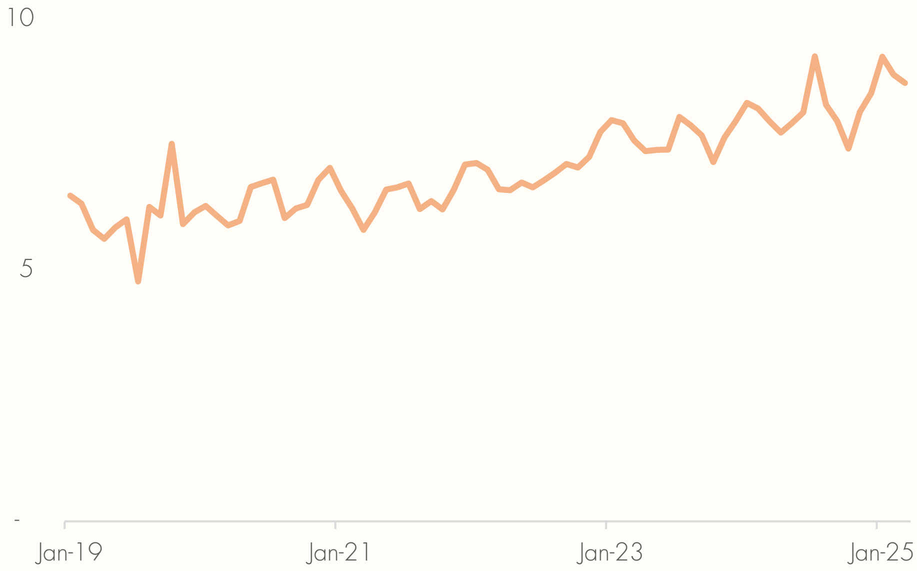


Sources: Department of Finance forecasts, and Fiscal Council estimates. Get the data.

Spending on compensation of employees looks set to exceed the Department's forecast. Public sector pay continues to rise at a fast pace, with the pay bill in the first quarter 8.6% higher than in the previous year (Figure 2.3). In March there was a 1% increase in public sector pay scales, with a further 1% increase in public sector pay is scheduled to occur in August, and a local bargaining increase equivalent to 1% scheduled in September. Despite the fast growth so far this year, the scheduled pay rises, and likely increases in the number of public sector workers, the Department is forecasting growth of only 3.5% for compensation of employees in 2025.

2.3: **The public sector pay bill continues to increase rapidly**

€ billion, three-month moving sum



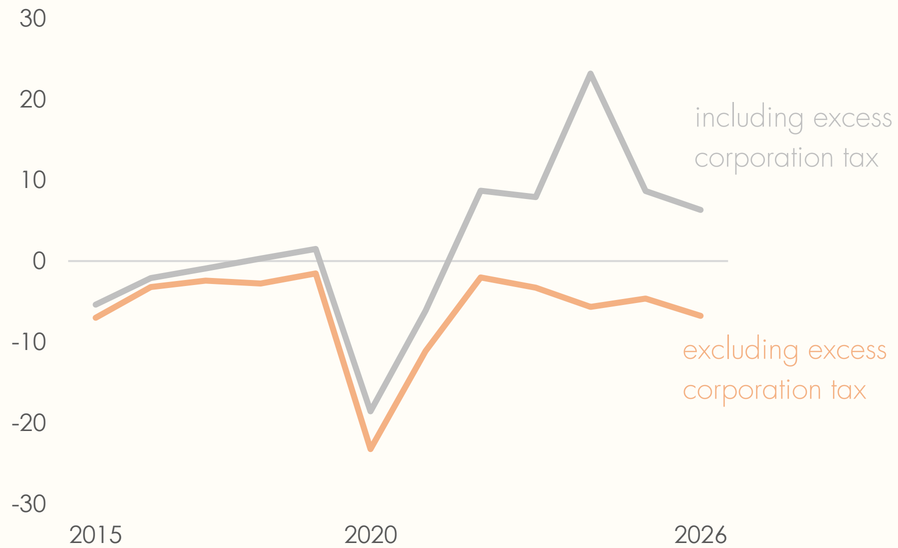
Sources: Department of Finance and Fiscal Council estimates. Get the data.
Notes: Figures show the three-month moving sum of the monthly general government compensation-of-employees data taken from the "Monthly revenues and expenditures of all subsectors of general government" documents.

Corporation tax propelled budget surpluses

Ireland's extraordinary intake of corporation tax receipts led to surpluses in recent years (Figure 2.4). Without these receipts, substantial deficits would be occurring. This is despite a strong economy with record-high levels of employment.

2.4: **Exceptional corporation tax driving surpluses**

€ billions, general government balance

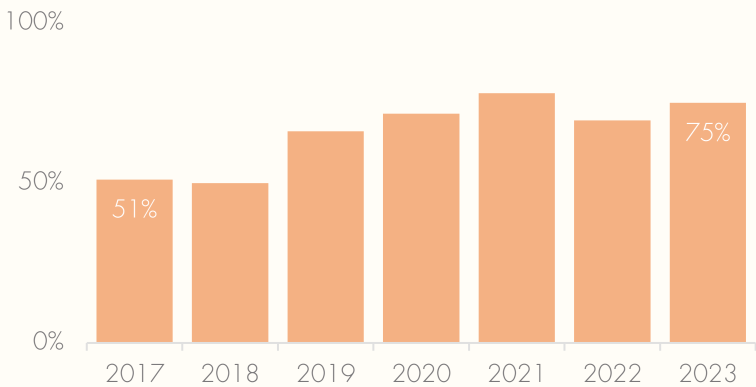


Sources: CSO, Department of Finance, and Fiscal Council estimates.
Notes: Forecasts as per Annual Progress Report 2025. Estimates of excess corporation tax are taken from Annual Progress Report 2025. 2015-2021 numbers are from Fiscal Council estimates.
Get the data.

These receipts remain incredibly concentrated. Three-quarters depend on US companies. And most of the estimated "excess" receipts, the part not explained by growth in the domestic economy, can be accounted for by just three companies.

2.5: **US firms dominate Irish corporation tax receipts**

% of total corporation tax receipts



Sources: Department of Finance (2025), Inland Revenue Service (2025) and Cronin (2025).
Notes: The Inland Revenue Service publishes the corporation tax paid by large US multinationals in Ireland for each July-June period. For example, the year '2023' covers the 12 months from July 2022 to June 2023. Ireland's Department of Finance publish monthly corporation tax receipts, which we adjust to align with the July-June year. To ensure consistency, we apply the average annual USD to EUR exchange rate for the same period. June 2023 is the most recent year for which US data is available. Get the data.

The receipts are also subject to lots of risks outside of the Government's control. This includes U.S. policy changes that could lead to less revenues being collected here.

Despite the risks, corporation tax is likely to be higher than forecast

While the Department forecasts corporation tax revenue to remain broadly unchanged at €28 billion out to 2026, four factors could yet boost receipts even further, at least in the short term.

First, the Department's estimate of the impact of OECD BEPS reforms is simply not credible. The Department are forecasting a negative €2 billion impact from Pillar I and Pillar II reforms in 2026. Pillar II will increase the effective tax rate for many large multinationals. This means these firms would pay more tax than they otherwise would from June 2026. Cronin (2025) estimates the impact of the reforms, as things currently stand, is likely to be in the region of a positive €3 billion in 2026—a €5 billion swing in forecast revenue.[14] Meanwhile, the Pillar I reforms that would likely reduce Irish tax receipts are unlikely to be enacted.[15] As a result, the Department's assumption of a net negative impact from the reforms is not realistic.

Second, many of Ireland's biggest corporation taxpayers are not currently directly impacted by trade tensions. These corporations expect their global profits to increase this year. This could lead to higher tax payments in Ireland.[16]

Third, the exhaustion of capital allowances could also boost corporation tax receipts. Some large multinationals have made significant capital outlays to buy intangible assets over the past decade.[17] This spending can be offset against trading profit as a capital allowance. However, these capital allowances appear to be running out. This means these firms might pay more corporation tax in the coming years, provided their company structures and profits stay largely the same.

[14] Cronin (2025) estimates an increase in revenue of approximately €5 billion for Ireland from the Pillar II reforms. However, this will be spread over 2026 and 2027, with the majority of the increase arising in 2026. This assumes large multinationals pay the higher tax rate and maintain their activities in Ireland.

[15] Pillar I reforms would reallocate part of taxable income from Ireland to other market jurisdictions.

[16] The largest payers are in the ICT services and pharmaceutical sectors. Currently, tariffs do not directly apply to either, as pharmaceutical products have so far been excluded from tariffs on goods.

[17] These intangible assets include hugely valuable patents, trademarks, brands, and software licences.

Fourth, Ireland's pharmaceutical exports jumped by 154% year-on-year in the first quarter of 2025, as firms responded to the threat of tariffs. This surge alone could lead to higher corporation tax revenues this year, even if exports slow down for the rest of the year.[18]

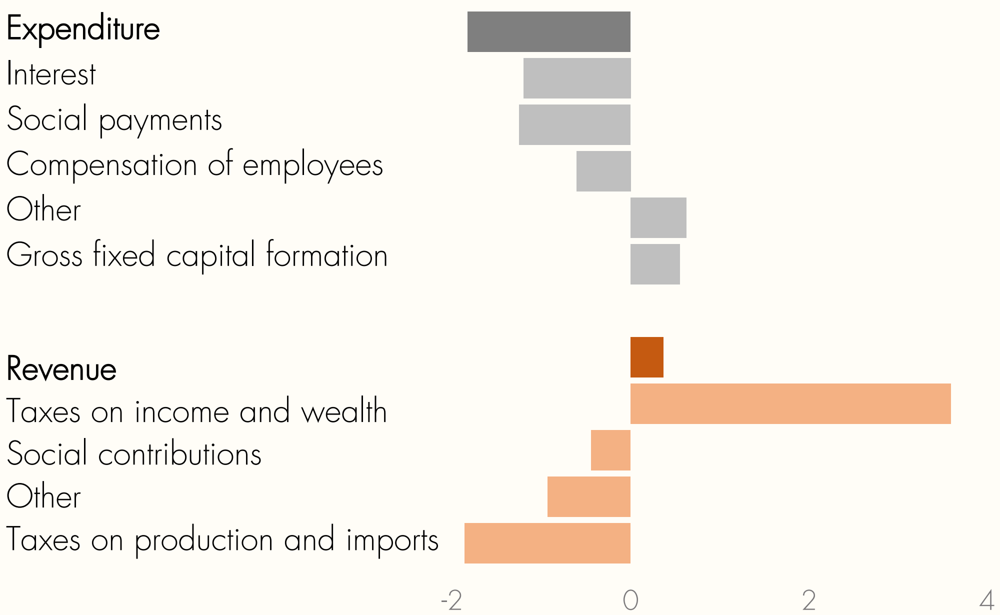
Consequently, under current policies, we expect corporation tax revenues to continue rising, at least in the short term.

In recent years, the tax base has narrowed while interest spending has fallen

Given the buoyant growth in the economy, total spending, despite its rapid expansion, has fallen as a share of national income since 2019 (Figure 2.6). A large element of this has been due to non-policy factors, like interest spending, which has fallen by 1.2 percentage points of GNI*.

2.6: **Total spending has fallen as a share of national income**

Percentage point change in share of GNI* between 2019 and 2024



Sources: CSO and Department of Finance.
Notes: Figures exclude receipts from the CJEU ruling. Other expenditure includes subsidies and capital transfers. Other revenue includes property income. Get the data.

Social payments have also seen a fall in their share of national income, with much of this being driven by a decline

[18] Pharmaceutical exports in Q1 2025 reached €56 billion—more than half of the €100 billion total for all of 2024.

in the share of spending on old age (pension), and family and children.[19]

Revenue has increased as a share of national income since 2019. However, this is mainly driven by the phenomenal growth in corporation tax receipts.

Underlying revenues have fallen in several key areas: Taxes on production and imports (excise and VAT) and social contributions (PRSI).

The decline in excise duty is driven by a fall in the revenue as a share of national income coming from petrol and diesel, and a fall in the revenue from alcohol and tobacco. The real tax rate on alcohol—the tax rate adjusted for inflation—has declined over several years with tax rates unchanged since 2013. Likewise, despite increases from the carbon tax, the real tax rate on petrol has declined since 2019, while the real tax rate on diesel is on par with 2019.

The fall in PRSI has primarily been driven by employers PRSI, reflecting changes in the tax base, rather than policy changes. While the fall in VAT has been driven by a fall in consumption as a share of national income, and a switch from goods consumption (which are VAT rich) to services (which are less VAT rich).

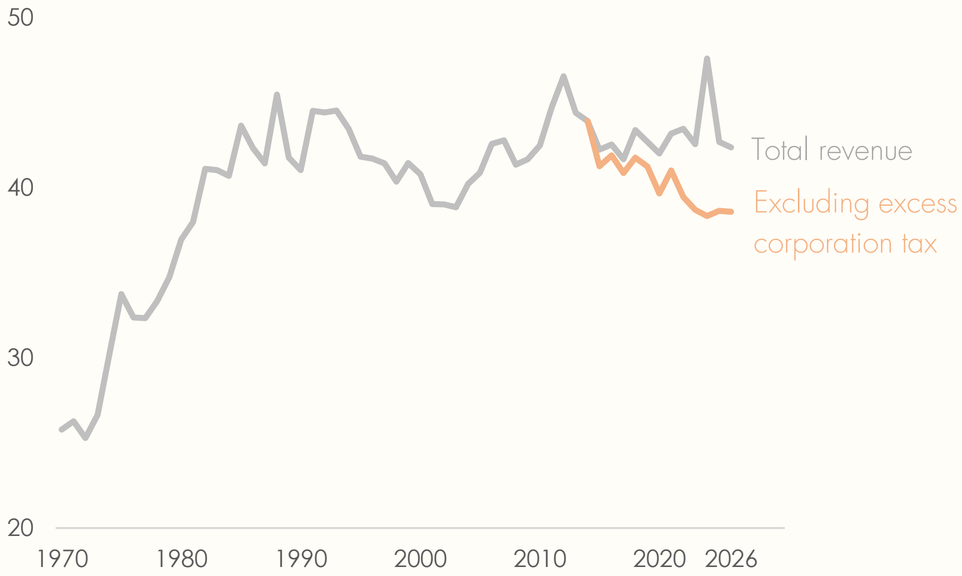
At the same time, the income tax base has also been narrowing. In 2019, 30% of income earners did not pay income tax or USC. This is expected to rise to 33% in 2025.[20]

Looking over a longer time horizon, it's clear that underlying government revenue has declined as a share of national income (Figure 2.7). When excess corporation tax receipts are excluded, revenue is now at its lowest level relative to national income since 1980.

[19] Between 2019 and 2023, spending on old age social protection fell by 0.7 percentage points of national income, while spending on family and children fell by 0.6 percentage points.
[20] For further details see the Council's December 2024 Fiscal Assessment Report (Irish Fiscal Advisory Council 2024).

2.7: **Underlying revenue at lowest rate since 1980**

% GNI*, general government revenue



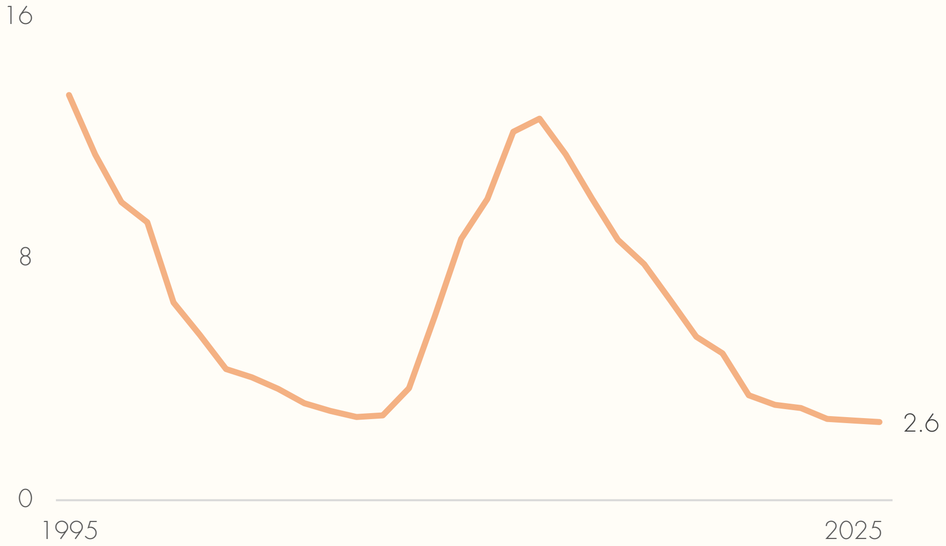
Sources: Department of Finance forecasts, and Fiscal Council estimates.
Notes: Excess corporation tax is given by Annual Progress Report 2025 estimates. Fiscal Council estimates are used before 2022. General government revenue data is used back to 1995. This is then extended back to 1970 using total central and local government revenue from the annual national accounts. GNI* is extended back to 1970 using Gross National Product. Get the data.

Debt dynamics continue to be favourable

Even excluding the exceptional corporation tax receipts, Ireland's debt dynamics continue to be favourable. The Department is forecasting the gross debt to GNI* ratio to fall to 61% by 2026. In addition, Ireland's interest burden fell to a series record low in 2024, and is projected to remain at that level (Figure 2.8).

2.8: **The interest burden has fallen to record lows**

% of general government revenue



Sources: Department of Finance.
Notes: Revenue figures exclude excess corporation tax receipts as well as the receipts arising from the CJEU judgement. Get the data.

Trade developments put revenues at risk

Understanding how the international trade developments will impact Ireland's public finances is exceptionally difficult.

The largest area at risk is corporation tax receipts. But in that case, its highly concentrated nature means that decisions made by a handful of firms matter hugely. Elsewhere, the tax impacts should be more in line with how economic activity is impacted. Yet the uncertainty around trade policy means that there is a wide range of potential impacts here. Box A explores the potential fiscal impacts.

Box A — What trade policy might mean for the public finances

This box looks at the potential long-run impact that global trade developments could have on the Irish economy and public finances.

One of the most comprehensive studies for Ireland of the impact of tariffs is Egan and Roche (2025). This offers a valuable top-down assessment of the potential impacts on the Irish economy relative to a no-tariff baseline. This box focuses on their estimates of the impact of a permanent bilateral set of 25% tariffs between the EU and US. This is the most adverse individual scenario considered in the study. In this scenario, the analysis implies 3% lower employment in Ireland than would otherwise be the case after 7 years.[21]

[21] While this is the most adverse scenario presented in the paper, more adverse effects could be felt via higher tariffs. In addition, this study doesn't incorporate the impact of policy uncertainty.

To better gauge its potential budgetary impacts, we use judgment to map the overall impact on employment to various sectors (Table A1). These estimates are informed by the concentration of foreign multinationals in each sector. However, in some sectors such as pharmaceuticals, the long-term nature of investments made here mitigates the impact of tariffs somewhat. The food and beverage sector is assumed to be heavily impacted. 38% of all beverage exports in 2024 went to the US.

Some domestic sectors are also adversely affected. This is because of lower domestic demand.[22] For example, the impact on wholesale and retail employment is based on Egan and Roche (2025) estimates of the impact on consumption.

A1: Some sectors are likely more exposed to tariffs than others

	Employment in 2024	Employment impacts in the adverse scenario	
	000s	%	000s
Pharmaceutical	66	5	3
Other foreign manufacturing	93	10	9
ICT	176	14	25
Food and beverage	57	12	7
Financial and insurance	125	6	8
Wholesale and retail	323	2.8	9
Hotels, restaurants	186	10	19
Transportation and construction	289	0.8	2
Total		3.0	81

Sources: CSO, Egan and Roche (2025), and Fiscal Council estimates.
Notes: Other foreign manufacturing is predominantly the manufacturing of medical devices.

Next, we apply those impacts on employment to the tax revenues paid in the relevant sectors (Table A2). This is important to do on a sectoral level, as some sectors which are impacted have very high wage levels on average. As a result, those employees face high effective tax rates. This is why the impact on income tax and PRSI (3.8% and 3.6%) is higher than the impact on employment (3%).

A2: Taxes would likely suffer as a result of tariffs

€ billion impact on revenues for each sector

	Income tax	VAT	PRSI	Total
Manufacturing	0.3	0.1	0.2	0.6
ICT	0.5	0.1	0.2	0.9
Financial and insurance	0.2	0.0	0.1	0.4
Domestic sectors	0.2	0.4	0.1	0.7
Total	1.3	0.7	0.6	2.6
Total (%)	3.8	3.5	3.6	

Sources: CSO, Revenue, and Fiscal Council estimates.
Notes: Manufacturing here comprises pharmaceuticals, medical devices and other manufacturing. Domestic sectors here are primarily retail, restaurants and hotels.

The analysis suggests that the impact on the public finances is likely to be slightly larger than the impact on the economy as a whole. This is because the sectors most likely to be directly impacted have highly paid jobs. These are more tax rich than the average job in the Irish economy.

[22] In addition, lower growth in the US and the world economy could mean lower external demand from foreign visitors.

There is one upside that could counteract these revenue losses somewhat. If a tit-for-tat trade war between the EU and US were to emerge, some revenue would be raised from tariffs on goods (and possibly services) imported from the US. 20% of customs tariffs are retained by the country concerned, with the remaining 80% going into the EU budget. However, given the likely behavioural effects and reduction in trade in such a scenario, this revenue is likely to be relatively small.

Corporation tax is clearly an extremely important source of revenue at present. Given how sensitive the impact of tariffs on corporation tax is to the specific sectors covered, we do not present specific estimates here. As discussed above, if pharmaceutical and tech services continue to be exempted from tariffs, then there may be a limited impact on corporation tax receipts.

Major policy decisions are not yet included

In addition to likely overruns, well flagged policy changes are not yet included in government forecasts. The previous Government had signalled that it was going to increase capital spending, on housing, water and grid infrastructure using €3 billion of proceeds from selling shares in AIB. Further spending is likely to come from increases in spending in the new National Development Plan due in the summer.

These areas are all likely to see government spending higher than currently forecast.

3. The stance

Budgetary policy needs to lean against swings in the economy

When assessing how the Government should approach each Budget, the Council assesses two things. It considers the economy: whether it needs more, or less, support overall. And it considers debt sustainability: the extent to which public debt is likely to avoid rising in a way that requires sudden sharp cutbacks.

The economy is already being substantially supported

Entering 2025, the economy was already performing exceptionally strongly (Section 1). In such an environment, the Government should avoid adding more pressure to the economy.

At present, budgetary policy is providing significant stimulus into the economy (Figure 3.1). This is evident from the structural balance. This measure takes the general government balance, subtracts excess corporation tax receipts and adjusts for the cyclical position of the Irish economy.[23] After making these adjustments, government spending significantly exceeds government revenue. This deficit (2.4% GNI*) is equivalent to

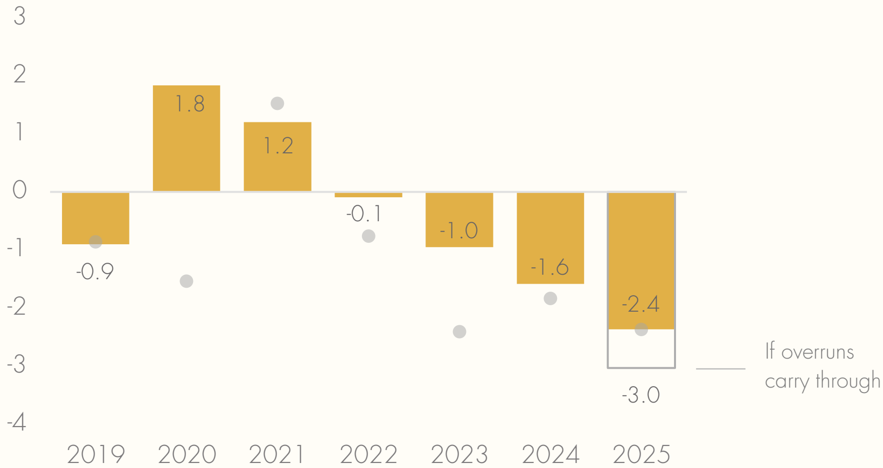
[23] Almost all of the corporation tax being paid in Ireland is from foreign owned multinationals. As a result, it is not tax which is being paid by domestic residents. As a result, this tax does not reduce demand for goods and services in Ireland.

more than €2,500 per worker. This is a large stimulus being injected into the Irish economy.

Because fiscal policy is adding to demand in an already strong economy, the Council judged this to be imprudent management of the economy and public finances back in December.

3.1: The Government is already providing huge support

% of potential GNI*



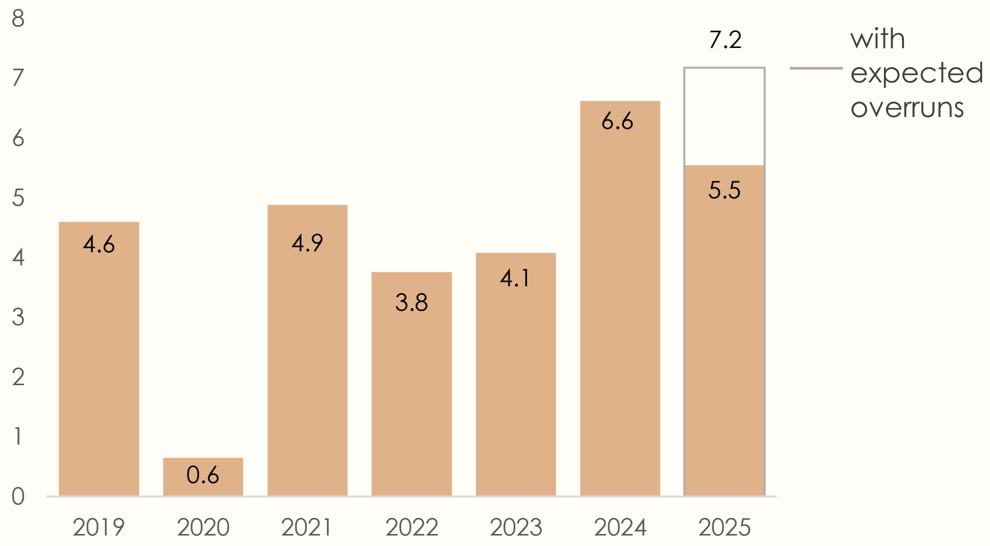
Sources: Annual Progress Report 2025 and Fiscal Council estimates.
Notes: The bottom-up estimates shown as solid bars assume assumes structural revenue grows in line with potential growth, except for any new discretionary revenue measures. In effect, this looks through excess corporation tax receipts collected after 2019. Structural spending removes all one-offs, and the estimated cyclical savings or costs associated with current unemployment levels. The top-down estimates are shown as light grey dots. These are based on the Council's estimates of the output gap and exclude excess corporation tax receipts. The wider structural deficit estimate for 2025 assumes current spending in 2025 is €2 billion higher due to overruns in 2024 carrying forward and being repeated, rather than falling out as Annual Progress Report 2025 assumes. Get the data.

The stimulus budgetary policy is providing has been building up over recent years. Budget 2025 added to that, with plans for further rapid spending increases and tax cuts this year.[24] The pace of expansion was twice what the Council would consider sustainable (Figure 3.2).[25]

[24] Net spending increases shown here are much faster than spending growth plans shown in Figure 2.2 (which shows gross voted current spending is forecast to grow by just 1.4%). This is for four reasons. First, net policy spending includes current and capital spending. Capital spending is planned to increase by €1.8 billion (12.5%) in 2025. Second, this measure excludes one-off spending, which was around €2 billion in 2024. This is assumed to fall to zero in 2025. Third, net policy spending is measured on a general government basis, which considers all government spending, not just that within the exchequer. Non-exchequer spending is forecast to grow in 2025. Finally, net policy spending takes account of tax policy changes. In 2025, when all tax policy changes are considered, taxes are being cut slightly. This adds to net policy spending growth in 2025.
[25] Net spending growth in line with the long-run potential growth of the Irish economy (2.5% in real terms, 4.5% after accounting for inflation) would be considered a neutral fiscal policy.

3.2: **Spending net of tax measures is growing rapidly**

% changes in real net policy spending



Sources: Annual Progress Report 2025 and Fiscal Council estimates.
Notes: The "Net Policy Spending" measure assesses the pace of expansion in government policy. It is based on overall general government spending, and it excludes spending that is temporary or cyclical, assuming the normal long-run rate of unemployment is 5%. As it is a net measure, it recognises the role of tax changes. That is, a rise in net policy spending is offset by tax-raising measures but is added to by tax cuts. The higher estimate for 2025 assumes spending in 2025 is €2 billion higher, as spending data for the year to date would suggest. Net spending growth is adjusted for prices using the harmonised index of consumer prices. Get the data.

As well as the economy being supported by budgetary policy, monetary policy is also playing a role. The European Central Bank has gradually cut its deposit facility rates from a peak in June 2024 of 4% to 2% in June 2025. It is likely to reduce rates further this year.

These twin supports would be appropriate if the economy were weak and required assistance. This is not the case at present. This could change quickly amid escalating trade tensions. Given the current state of the Irish economy, the fiscal and monetary policy stance is not appropriate for Ireland.

Should the Government adjust its plans?

The Government has set out its tax and spending plans for 2025, but plans may be altered if the economy suffers a significant downturn. Both the Programme for Government and recent comments from the Minister for Finance suggest that if a downturn were to occur, existing spending plans would be maintained, but tax cuts would be postponed.

This change would be procyclical. The Government is clearly stating that if the economy is performing well, they will provide support to the economy. If the economy is weaker, they will provide less support. This is exactly the opposite of what standard economic advice would suggest.

This continues a pattern of recent years, where budgetary policy has pumped money into an economy already performing well.

What should the stance be beyond this year?

Looking ahead to Budget 2026, much will depend on how the Irish economy performs in the meantime. If the Irish economy continues to perform well, and changes to the international environment have a limited impact, then the economy would not require exceptional budgetary support. Pumping additional resources into an economy already operating flat out would add to prices and risk overheating the economy.

That is not to say that no individuals are struggling, nor that Ireland's infrastructure or public services cannot be improved. But it means that choices would need to be made. If the Government wants to spend more in a certain area, or tax less in another, it needs to offset that by doing less in other areas.

Provided the economy continues to perform well, spending growth (net of tax changes) should be no faster than the long-run nominal growth rate of the economy.

If the economy does suffer a significant downturn, then a different strategy is required. In that case, budgetary policy should provide assistance.

A good example of budgetary policy helping during an economic downturn occurred during the Covid-19 pandemic. The Council was in favour of budgetary policy supporting the economy in that instance.

A key part of the budget process is forecasting government spending. Spending forecasts need to be made more realistic as part of Budget 2026. Spending this year looks likely to be well above what was projected in Budget 2025. If this is not incorporated into future projections, then fiscal forecasts will be wrong from the outset.

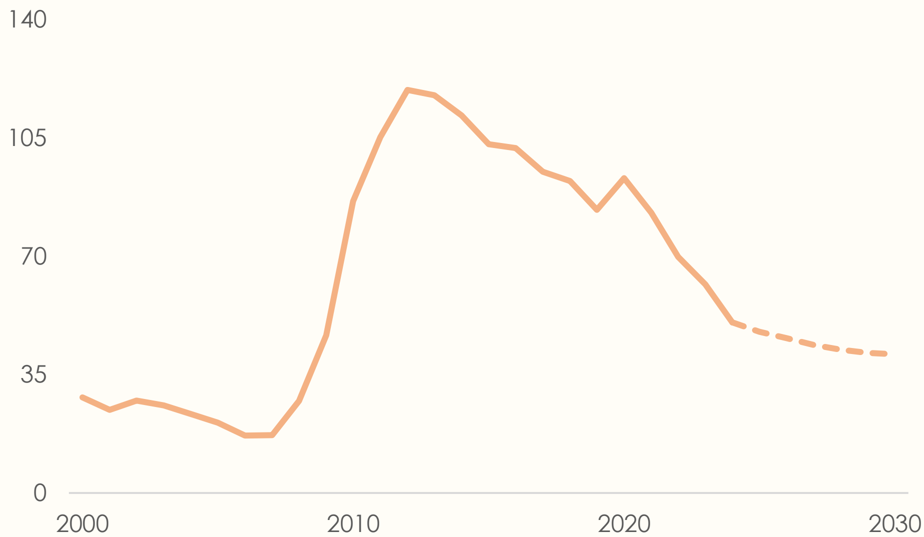
The debt path is encouraging but risks remain

Ireland's debt sustainability has improved significantly since 2012 (Figure 3.3). This has been driven by three factors.

1. The massive flow of corporation tax since 2015. Approximately €70 billion of exceptional corporation tax has been collected over this period.
2. Economic growth has been rapid over this period. Nominal GNI* growth has averaged 7.8% per year since 2012.
3. Interest costs have fallen substantially. The average effective interest rate on government debt has halved from 3.6 to 1.8% since 2012.

3.3: **The debt ratio has fallen rapidly**

% GNI*, net debt ratio



Sources: CSO, Annual Progress Report 2025 and Fiscal Council estimates.
Notes: The extended debt path produced by the Council is shown by the dashed line here. Get the data.

As no fiscal projections were provided in the Annual Progress Report beyond 2026, the Council produced its own extended fiscal forecasts. These fiscal forecasts are consistent with the macroeconomic projections underlying the 2025 Annual Progress Report. These fiscal forecasts were used to produce forecasts of net debt.[26]

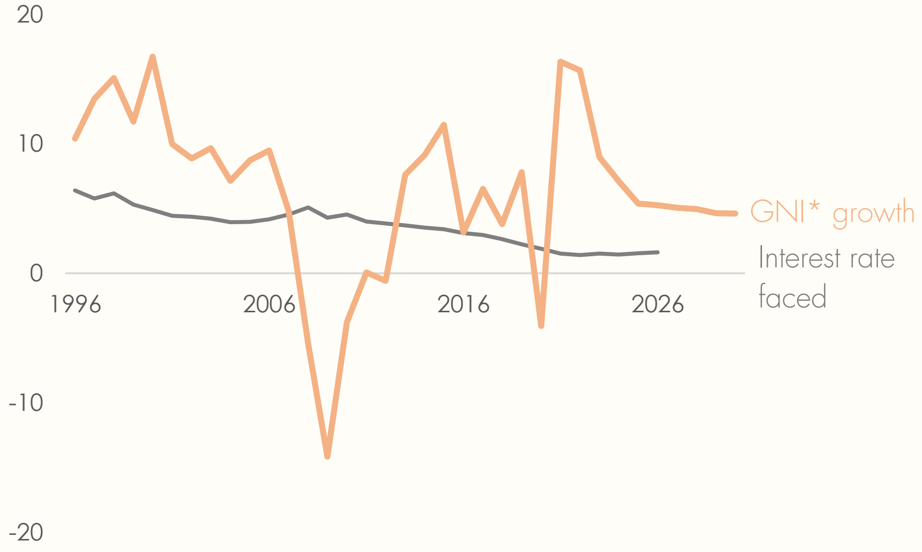
[26] No projections for net debt were provided in the Annual Progress Report 2025 beyond the outturn for 2024.

The differential between economic growth and average interest rate the Government pays on debt is key to debt sustainability. Ireland has benefitted from economic growth vastly outpacing interest costs since 2013 (Figure 3.4).[27] While still favourable, this advantage is likely to be less pronounced in the coming years, with economic growth likely to moderate.

In addition, Ireland is set to face significant budgetary challenges in the coming years, most notably from an ageing population and climate change.

3.4: **Growth looks set to exceed interest costs**

% growth in nominal GNI*and the average interest rate on government debt (%)



Sources: Annual Progress Report 2025 and CSO.
Notes: The average interest rate on government debt is calculated by taking the ratio of general government interest costs for the current year to the general government debt for the previous year. Get the data.

EU fiscal rules don't work well for Ireland

Ireland is in a favourable position. But much depends on how the Government budgets and how it manages its corporation tax revenues.

The fiscal rules do not provide a binding constraint. In many ways, they provide a false sense of security.

The reformed EU rules focus on a broad measure of spending net of tax changes. However, they still rely on GDP and overlook the risks around excess corporation tax

[27] The one exception being the contraction in the economy in 2020 due to the Covid-19 pandemic.

receipts.[28] Previously, the rules set limits for net spending even when countries were complying with debt and deficit limits. However, this preventive element now appears toothless.

As long as Ireland keeps its public debt below 60% of GDP and its deficit within the 3% of GDP limit, it will likely face little external scrutiny at an EU level (Figure 3.5).

In June, the European Commission (2025) assessed that Ireland risks breaking its own limit for net spending growth in 2025. The Department of Finance forecast a 5.3% rise in net spending for 2025 in the Annual Progress Report.[29]

However, the Commission and the Department of Finance use different methods to estimate net spending growth. The Commission assesses that Ireland's net spending will increase by 6.7% in 2025. It attributes the difference mainly to its belief that some cost-of-living measures announced in Budget 2025 will become permanent.

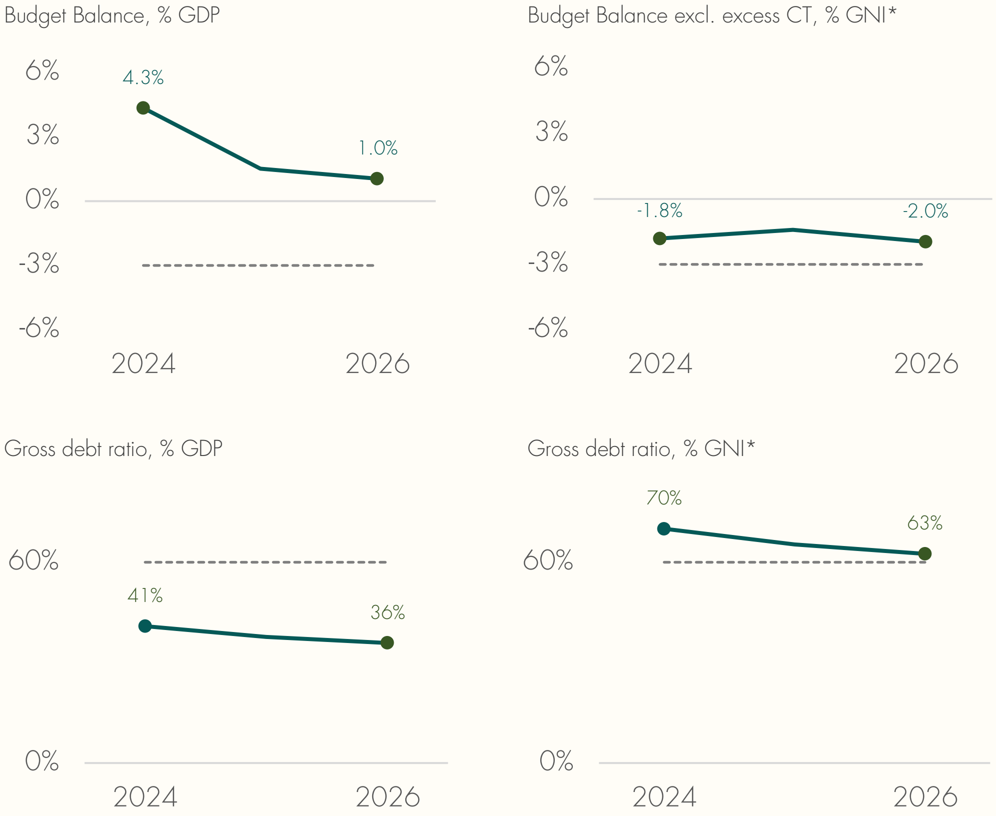
However, it is not clear what action, if any, the Commission might take if Ireland breaches its annual spending limits. Moreover, the new Government may simply submit a revised medium-term plan that raises the limits for net spending, including for 2025.[30]

[28] Under the new EU fiscal rules, countries set annual limits on how much they can grow spending. How closely the EU monitors a country will depend on the size of a country's debt and deficit relative to GDP. If a country's debt is at high risk of exceeding 60% of GDP or if its deficit is over 3% of GDP, it will typically need to adjust its tax and spending plans. It will then face external scrutiny over its progress in relation to these plans. Ireland's GDP levels are artificially inflated by the activities of a small number of foreign-owned multinationals. This means Ireland's debt-to-GDP ratio gives an overly favourable assessment of its capacity to service debt. In other words, they make Ireland's debt position look better than it really is. What's more, substantial injections of corporation tax receipts —driven by many of these multinationals—continue to make Ireland's budget balance appear stronger, despite real concerns about how reliable these revenues are in the long term.

[29] This projected net spending growth rate exceeds the 5.1% growth rate in the medium-term plan. The difference is mainly because general government expenditure in 2024 was a bit lower than expected and the forecast for general government expenditure in 2025 has increased slightly.

[30] This is permitted for new governments under the reformed EU fiscal rules. The Programme for Government committed to submitting a new medium-term plan this summer alongside the Summer Economic Statement.

3.5: **The EU rules: 3% deficit limit and 60% debt limit**



Source: Department of Finance. Get the data.

Meanwhile, there is currently no domestic net spending rule in place. The previous Government had introduced such a rule. However, it repeatedly breached the spending growth limits imposed by the rule.

A net spending rule may be a sensible one. However, the previous rule had no legislative footing and, thus, no penalty when spending limits were exceeded. In effect, it was purely a symbolic commitment made by that Government.

This leaves no credible constraint

The reality is that both the new EU fiscal rules and their mirror in domestic legislation no longer provide any credible constraint for Ireland. All the while, the Government appears to have abandoned the National Spending Rule introduced by the last Government, which set a 5% limit for net spending growth.

A less positive picture emerges when we adopt metrics that are better suited to Ireland.

First, we use Ireland's modified measure of national income — GNI* — as the basis for our assessments. This has a closer link to things like jobs created and the more reliable tax revenues. It gives a more accurate picture of Ireland's debt sustainability. On this measure, the Department of Finance projects that gross debt will remain above 60% of GNI* until at least 2026 (Figure 3.5).

Next, we strip out excess corporation tax receipts from Ireland's budget balance. This is the part that cannot be explained by the activity of domestic firms and is instead linked to the exceptional performance of foreign multinationals. On this measure, the Department of Finance estimates deficits around 2% of GNI* being run out to 2026 (Figure 3.5).

Furthermore, Ireland's Domestic Budgetary Rule is not fit for purpose. The Council has a mandate to monitor and assess compliance with this rule.[31] Ireland complied with the medium-term objective in 2024, and is also expected to do so in 2025 and 2026. However, two key problems persist. First, the estimates of the structural balance ignore distortions related to GDP and the role played by excess corporation tax.[32] Second, the medium-term objective itself has effectively been repealed.[33]

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[31] The Budgetary Rule is deemed to be achieved if the structural balance — a measure of the budget balance stripping out temporary and cyclical effects — meets a specified target, or is moving towards it. This target, the medium-term objective, is set at –0.5% of GDP. The Council uses a "principles-based approach" to assess it, thus addressing some of the shortcomings with the European Commission's approach. For instance, it uses more appropriate measures of potential output for Ireland and more recent forecasts to estimate the structural balance.

[32] Excluding excess corporation tax and using GNI* as the base, the structural deficit would rise above 2% of GNI* in 2025 and 2026. This would exceed Ireland's medium-term objective.

[33] Part 1 of the Fiscal Responsibility Act 2012 defines the medium-term budgetary objective at the core of Ireland's Budgetary Rule as the "objective required by the 1997 surveillance and coordination Regulation". However, this EU regulation was repealed last year (see Article 37).

The forecast horizon is far too short

The budgetary projections in the Annual Progress Report only cover this year and next. This shorter forecast horizon is a major backwards step. It represents the bare minimum to meet legal requirements.[34] In contrast, Budget 2025 had five-year-ahead fiscal forecasts so this shift marks a clear backsliding on previous practice.

Good planning and medium-term budgeting require forecasts that go more than 20 months ahead. The Council has consistently stressed the need for budgetary forecasts that go at least five years ahead.

The absence of medium-term budgetary forecasts shows that the Government has no fully-realised medium-term budgetary strategy. By having such a short forecast horizon, the fiscal challenges from an ageing population and climate change cannot be adequately reflected in budgetary forecasts.

The Medium-term budgetary framework is not being respected

The existing Medium-Term Budgetary Framework is seen by Government as a box-ticking exercise. Every year, the Government is required to set departmental expenditure ceilings for the following three years.

There have been problems with this process. First, they have tended to be unrealistically flat in cash terms after the first forecast year. Second, recent years have seen the publication slip well beyond Budget time coming out instead in December. Third, and most egregiously, no departmental ceilings were set for 2026 and 2027.[35] These ceilings are required under the Ministers and Secretaries (Amendment) Act 2013.[36]

This is a clear violation of the framework. The Government should set realistic ceilings, and these should be set as part of the budgetary process.

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[34] The Annual Progress Report is primarily a backward-looking document. Its main aim is to compare actual net spending growth in the previous year with what was originally planned. One-year-ahead fiscal forecasts are optional. It replaces the Stability Programme Update which required Member States to provide fiscal forecasts for at least three years, with the option to include a longer period.
[35] Aggregate ceilings were set, but not at a departmental level.
[36] See section 17(6) of the Ministers and Secretaries (Amendment) Act 2011, as amended by the Ministers and Secretaries (Amendment) Act 2013.

Future challenges remain

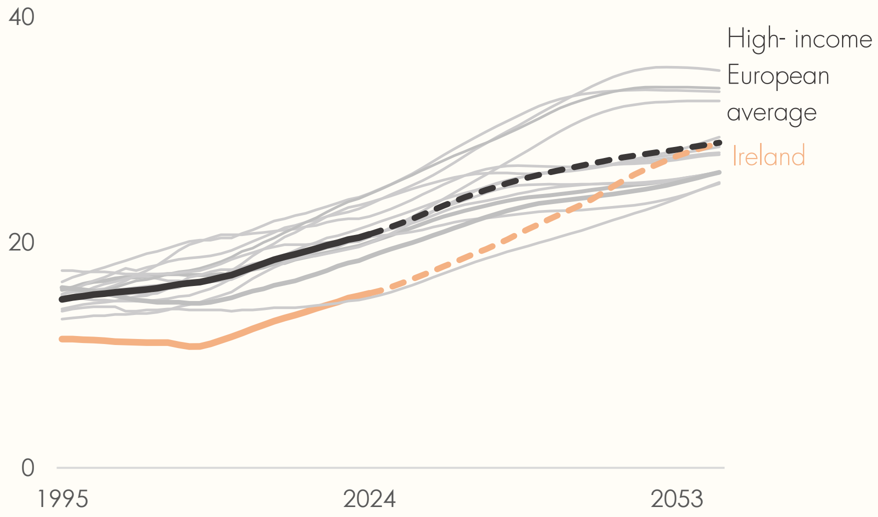
Ageing

An ageing population is the biggest budgetary challenge Ireland faces over the medium term. One in 6.5 people currently is aged 65 or over. This is set to increase to almost one out of every 3 people by 2057. Those in retirement are also expected to live longer. Despite, these pressures, the Government opted not to increase the pension age.

While other countries are experiencing ageing populations, Ireland is facing a more rapid change (Figure 3.6). In budgetary terms, this means more demand for healthcare, long-term care and pensions. It will also mean slower growth in the economy and hence in tax revenues.

3.6: **The population is set to age rapidly**

Percentage of the population aged 65 or over



Sources: CSO, Eurostat and European Commission (2024). Get the data.
Notes: Dashed lines indicate projections. Irish projections come from the M2 scenario of the CSO (2024) population projections. For other countries, projections from the European Commission Ageing Report are used.

Action sooner rather than later will ultimately be less costly. Research by the Fiscal Council has shown that acting sooner to manage ageing challenges would cost less than

40% of what it would if actions were delayed (Irish Fiscal Advisory Council, 2020).[37]

The Government has taken two steps to prepare for an ageing population. First, it has established the Future Ireland Fund. This fund is intended as a way of saving the extraordinary corporation tax being collected today and offsetting the costs of an ageing population. The Council welcomes the establishment of this fund. Second, the Government has planned gradual increases in Pay Related Social Insurance (PRSI), to help fund increased spending needs.

On their own, these measures will still not fully offset costs associated with ageing. However, they are an important part of the solution to dealing with these costs, which will fall much more heavily on the next generation of taxpayers. For instance, modelling by the Council suggests that the Future Ireland Fund could make a substantial dent in ageing costs, covering more than half of the rise in annual spending associated with ageing between 2023 and 2041 and a quarter by 2050.[38]

Climate

The climate transition is the second largest budgetary challenge Ireland faces.

The Council estimates that reasonably manageable spending increases will be required to achieve the transition (Casey and Carroll 2023). These are of the order of 0.6% of GNI* per annum or €2 billion in today's money — about one-eighth of the capital budget planned for 2025.

A bigger challenge will be to replace the taxes likely to fall away as people shift to cleaner transport and energy. Today's tax system would raise far less revenue in a future where electric vehicles and renewable energy become the norm. Replacing these taxes would not represent an increase in effective taxation. But it does require careful planning. The Council estimates that, if today's tax system

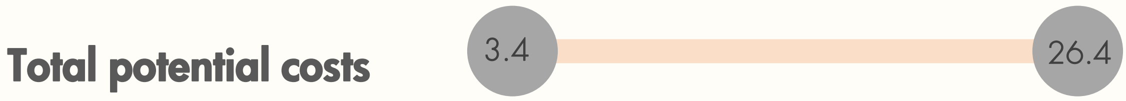
[37] These actions include a combination of increasing the pension age, as well as increasing taxes or reducing spending. This assumed governments would reduce spending or raise tax revenues to address ageing pressures before 2035. The delayed scenario assumed they waited until after 2035.
[38] This assumes contributions continue after 2035, when they are currently planned to cease.

was left unchanged, the fall in annual revenues would amount to 1.6% of GNI* or €5 billion in today's money. This is almost as much as the USC raises.

The climate transition raises challenges but doing nothing has substantial costs. If Ireland fails to reduce its emissions, as it currently looks set to by a wide margin, it may have to transfer an enormous amount of money to neighbouring countries. This would be in the form of the Government being required to purchase statistical transfers or credits — basically overperformances in other countries. Recent estimates from the Irish Fiscal Advisory Council & Climate Change Advisory Council (2025) suggest these costs could be extremely high (Figure 3.7).

3.7: **Costs of missing climate targets could reach €26 billion**

€ billions



Source: Irish Fiscal Advisory Council & Climate Change Advisory Council (2025)

A transfer of as much as €26 billion would be a colossal waste of taxpayers' money — equivalent to almost €5,000 for every person in Ireland. Instead of transferring this money to neighbouring countries, the Government should take more effective action to avoid these costs, reduce energy costs and pollution, and improve people's health.

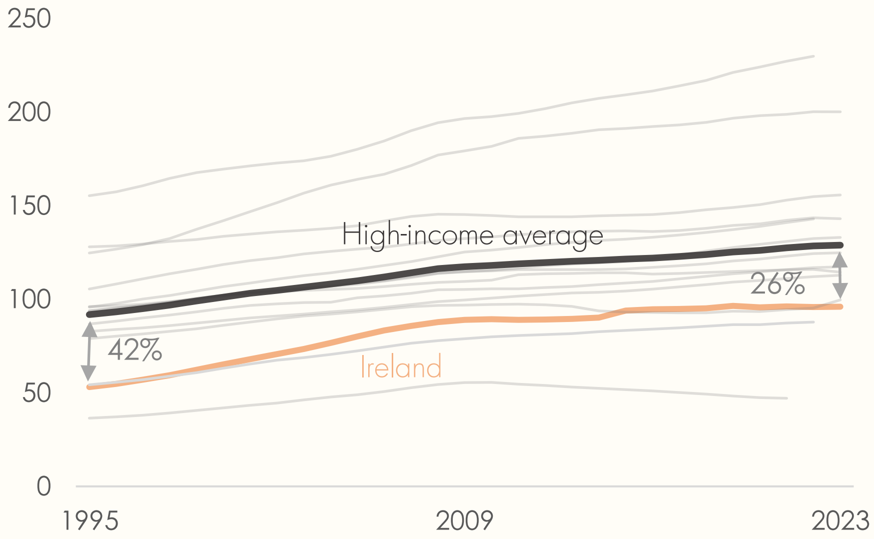
Infrastructure

Ireland's infrastructure continues to lag other high-income European countries (Figure 3.8). Conroy and Timoney (2024) find that Ireland's infrastructure is about 25% behind its peers. Significant shortfalls in housing, health, transport and electricity are evident. These challenges can only be addressed through sustained high levels of investment in these areas.

Regardless of what happens to the international environment, these infrastructure deficits need to be addressed. If the economy weathers the changing environment, it will have high levels of employment and high demand for infrastructure. If there is some form of downturn, then competitiveness would be key to restoring low unemployment and a prosperous society. Infrastructure is a key part of competitiveness and something Ireland needs to seriously address in the coming years.

3.8: **Ireland's infrastructure is lagging behind**

Capital stock per capita



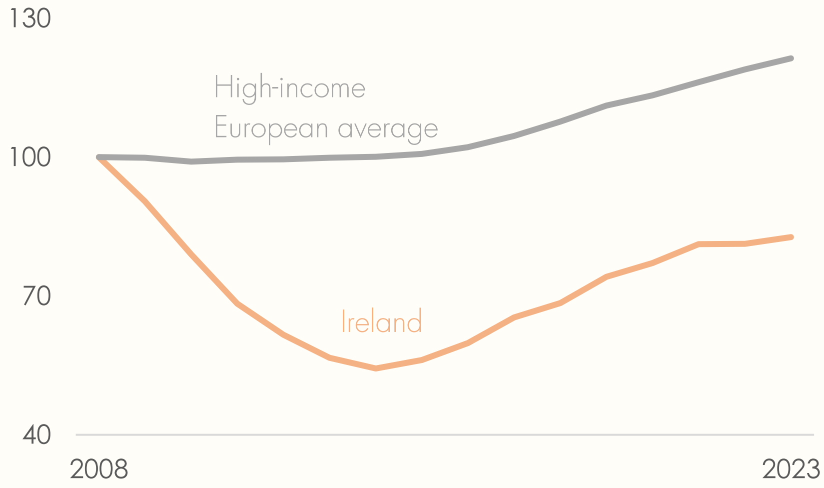
Sources: Conroy and Timoney (2024).
Notes: The countries shown are Belgium, Denmark, Germany, Ireland, Greece, France, Italy, Luxembourg, Netherlands, Austria, Finland, Sweden and Norway. Get the data.

Some of this shortage of infrastructure is a legacy of the financial crisis in Ireland. Much of the capacity in the construction sector was lost thereafter. Many construction firms went bust, and many of the workers emigrated. Construction employment quickly fell from almost 240,000 to 85,000.

Although employment has gradually recovered since then (up to 170,000 workers), investment in new construction methods has lagged other countries (Figure 3.9). As a result, output per hour worked is 33% lower than in peer countries. This partly reflects the low uptake of modern methods of construction, such as off-site manufacturing. This low level of investment may be due to the boom-bust nature of the construction sector in Ireland. When firms see how quickly things can change, they may be more reluctant to invest for the long term.

3.9: **Construction sector capital is yet to recover**

Capital stock in the construction sector, index: 2008=100



Sources: Conroy and Timoney (2024). Get the data.

Notes: High-income European countries consist of Austria, Belgium, Germany, Greece, Spain, Finland, France, Ireland, Italy, Luxembourg and the Netherlands

To catch up, Ireland will need to do three things:

First, it will need to sustain high levels of investment in key areas. Some of the infrastructure deficits are in areas where the State is the biggest provider, for example healthcare. Government capital investment in healthcare is already at high levels. If this can be maintained in the coming years, this will help address infrastructure shortfalls in that area.

Second, it will need to boost productivity in the construction sector if it is to make the need for additional workers less acute.[39]

Third, the planning and objection system for construction will need to be streamlined. Delays and uncertainty created by the system are impacting projects. The new Planning and Development Act (2024) may help, but it is too soon to tell. Most investment is carried out by the private sector, so this needs to be facilitated as much as possible. This is particularly important now, as investment tends to be delayed during periods of uncertainty.

[39] The Programme for Government committed to at least 25% of all State funded housing projects to be delivered using modern methods of construction.

This is the time to plan

The challenges Ireland faces can be managed as it finds itself in a uniquely strong position. The economy is performing strongly, with record numbers at work, and bountiful tax receipts.

If budgetary policy is to help navigate current and future challenges, a few things are needed.

- First, the Government needs to ensure budgetary policy reduces the ups and downs of the economic cycle. This means showing restraint when the economy is strong and being more generous when the economy is stuttering.

- Second, the Government needs to set some limits on net spending it thinks is sustainable. Otherwise, budgets will yet again be subject to the vagaries of annual pressures as Budget Day approaches. The new Government is yet to outline any concrete proposals in this regard.

- Third, the Government needs to focus on competitiveness and infrastructure. While there is uncertainty over many issues, the shortage of infrastructure is going to have to be addressed regardless of what the international environment looks like.

- Fourth, the Government needs to improve how it forecasts spending. When formulating Budget 2025, the Department didn't account for the money they were going to overspend in 2024 when planning for 2025. This created unrealistic budget figures from the beginning—a problem that keeps recurring. To avoid repeating this mistake, Budget 2026 and future medium-term plans must start with accurate baseline figures that includes all likely overspends in 2025. Otherwise, spending projections will be wrong from the outset.

Ireland's approach to managing its budgets — its fiscal framework — has many shortcomings. Its fiscal forecasts are unrealistic. Moreover, there is no credible anchor in place to prevent runaway tax cuts and spending increases.

The new Government now has an opportunity to address these shortcomings.

Checklist for a better fiscal framework

Better forecasts	
Forecast at least five-years ahead	✗
Forecast spending realistically	✗
Clear guardrails	
Set a long-term fiscal objective, like a debt limit	✗
Legislate for a national rule that is consistent with the fiscal objective	✗
Put in place appropriate savings funds for excess corporation tax	✓
More transparency	
Provide transparent costings of major policy changes	✗
Make non-Exchequer forecasts more transparent	✗
Show how rules are being adhered to or not	✗
Overall assessment	**1 out of 8**

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Supporting items

You can find more information supporting the Council's analysis online at this link.

This includes information on the fiscal rules and the Council's estimates of Stand-Still costs — the costs of maintaining today's public services and supports over time.

VIEW SUPPORTING ITEMS