Irish Fiscal Advisory Council

Press Release: Fiscal Assessment Report — Ireland's outlook: strong today, uncertain tomorrow

Ireland's economy is in a strong position, but the Irish Fiscal Advisory Council warns of growing risks. The Council flags tariffs and trade tensions as a major threat to investment and exports.

In headline terms, the public finances are in surplus. But this is due to remarkably high corporation tax and a very strong economy. Without these factors, there is a **structural deficit of 2.4% of GNI*** — equivalent to **€2,500 per worker**. In the short term, corporation tax is likely to grow further. However, these receipts remain high-risk. A handful of large US firms pay most of the corporation tax.

Government spending is rising much faster than planned. The Council says poor budgeting is mostly to blame. So far this year, current spending has increased by almost 6% — well above the 1.4% implied by Budget 2025. This is because earlier overruns weren't properly built into the latest forecasts.

Looking ahead to Budget 2026, the Council says the Government should adapt its approach to the state of the economy. If the economy stays strong, there's no need for extra stimulus. In that case, budgetary policy should show some restraint. But if the economy takes a downturn, budgetary policy should provide support.

The Council also raises concerns about Ireland's fiscal rules. It says the current framework is not effective. EU rules won't help much either. They still rely on GDP and ignore the risks from volatile corporation tax receipts.

So far, the new Government hasn't set out any clear plans for a domestic fiscal rule. And with forecasts covering only the next 20 months, Ireland still lacks a proper medium-term fiscal strategy. Finally, the government has not set departmental ceilings for 2026 and 2027.

Looking ahead, the Government should:

1) Commit to a fiscal rule. This would set a sustainable growth rate for spending net of tax changes.

2) Use budgetary policy to reduce the ups and downs of the economic cycle. This means showing restraint when the economy is strong. It also means providing support when the economy is struggling.

3) Focus on infrastructure and competitiveness. No matter how the economy evolves, Ireland needs to address shortages of key infrastructure.

4) Set realistic spending forecasts. Recent forecasts have ignored previous overruns and been unrealistic.

Commenting on the report, Seamus Coffey, the Council's Chairperson noted:

“The Irish economy is in a strong position going into a period of uncertainty. The government needs to ensure that budgetary policy reduces the ups and downs of the economy. Introducing a rule would help guide fiscal policy in the coming years.”