Irish Fiscal Advisory Council

Fiscal Assessment Report
June 2025

Supporting items

This provides additional information related to the Council's analysis in its main report

Item 1 — Detail on our assessment of fiscal rules

The previous Government introduced the National Spending Rule in 2021. It aimed to set a limit on spending increases and tax cuts that would be considered sustainable. It was set at the economy's trend growth rate—believed to be 5%. However, the previous Government breached this 5% growth rate each year. The new Government appears to have abandoned the rule.

The net spending rule

€ billion unless stated otherwise

	2021	2022	2023	2024	2025	2026
How the spending rule is assessed						
Total spending [1]	75.9	88.8	94.7	103.7	105.4	112.4
plus assumed overrun [2]					2.0	2.0
less one-offs for cost-of-living supports [3]		-3.1	-2.1	-2.5		
Total spending less one-offs		85.8	92.6	101.2	107.4	114.4
plus/less net impact of revenue measures [4]		0.0	-0.4	-0.3	0.3	-0.8
Total net spending		85.7	92.1	100.9	107.7	113.6
Single-year assessment [5]						
Total net spending		13.0%	7.4%	9.0%	6.4%	5.7%
5% path	5%	5%	5%	5%	5%	5%
Cumulative assessment since 2021						
Total net spending	75.9	85.7	92.1	100.5	107.0	113.1
5% path	75.9	79.7	83.7	87.9	92.3	96.9
Cumulative gap	0.0	6.0	8.4	12.6	14.7	16.3
Cumulative gap in %	0.0%	7.6%	10.1%	14.4%	16.0%	16.8%

Sources: The Government's Annual Progress Report 2025, and Fiscal Council workings.
[1] Total spending refers to total gross voted spending — a measure of central government spending that excludes interest and other non-voted spending. Note that for 2021, we use the original budgeted amount rather than the outturn, which was artificially lower as a result of the pandemic making some spending programmes impossible to proceed.
[2] The overruns in 2025 and 2026 assumes spending in these years is €2 billion higher due to current spending overruns in 2024 carrying forward and being repeated, rather than falling out as Annual Progress Report 2025 assumes.
[3] One-offs here are based on the Council's assessment of cost-of-living items that are temporary. Costs related to Ukrainian supports and supports for international protection applicants are included in total spending as they persist in the Government's projections.
[4] Revenue-raising measures (such as tax increases) can be used to offset bigger spending increases, whereas revenue-reducing measures (such as tax cuts) would lower the scope for spending increases. Estimates of revenue-reducing and revenue-raising measures are those judged by the Fiscal Council.
[5] This is if the National Spending Rule was followed in 2025, ignoring and not making up for past breaches.

Summary fiscal rules assessment

% of GDP

	2024	2025	2026
Corrective Arm			
General government balance	4.3	1.5	1.0
General government balance Limit	-3.0	-3.0	-3.0
	✓	✓	✓
General government debt	40.9	37.7	35.9
Debt-to-GDP ratio Limit	60.0	60.0	60.0
	✓	✓	✓
Preventive Arm & Domestic Budgetary Rule			
MTO for the structural balance	-0.5	-0.5	-0.5
Structural balance	1.2	0.7	0.4
	✓	✓	✓

Sources: CSO; Annual Progress Report; and Fiscal Council workings.

Notes: All figures are presented on a general government basis. Assessments are based on the latest Department of Finance projections of revenue, expenditure, potential output, and the output gap. We use the Council's principles-based approach for assessing the Domestic Budgetary Rule and we reflect the Council's own views on what constitute one-off or temporary items. The medium-term objective (MTO) is assumed constant at –0.5% of GDP for each year.

The new EU fiscal rules do not work well for Ireland. For one, they rely heavily on GDP. This fails to recognise that GDP is not a good measure of national income for the Irish economy.[1] Ireland's debt ratio, when measured on a GDP basis is low and projected to stay below 60% of GDP. A second issue is that the rules do not treat some of Ireland's corporation tax receipts as exceptional despite their high concentration and the risk that they could fall suddenly. If these high-risk receipts disappeared, Ireland would be running a deficit.

Here, we assess the rules on a GNI* basis and exclude excess corporation tax receipts.

Summary fiscal rules assessment (alternative assessment)

% of GNI*

	2024	2025	2026
Corrective Arm			
General government balance*	-1.8	-1.4	-2.0
General government balance Limit	-3.0	-3.0	-3.0
General government debt	70.0	65.3	62.5
Debt-to-GDP ratio Limit	60.0	60.0	60.0
Preventive Arm & Domestic Budgetary Rule			
MTO for the structural balance	-0.5	-0.5	-0.5
Structural balance [(1)]	-2.0	-3.0	-3.4

Sources: Department of Finance; and Fiscal Council workings.
Notes: All figures are presented on a general government basis. Assessments are based on the latest Department of Finance projections of revenue, expenditure, windfall corporation tax receipts and the output gap, as well as the Council's projections for potential GNI*. We use the Council's principles-based approach for assessing the Domestic Budgetary Rule and we reflect the Council's own views on what constitute one-off or temporary items. The medium-term objective (MTO) is assumed constant at –0.5% of GNI* for each year.
[(1)] The structural balance estimates for 2025 and 2026 assume current spending in these years is €2 billion higher due to overruns in 2024 carrying forward and being repeated, rather than falling out as the Annual Progress Report 2025 assumes.

[1] It includes the profits of foreign multinationals which are not available for use by Irish residents. Huge worldwide exports by foreign multinationals are accounted for in Irish exports underpinning GDP. The gap between GNI* and GDP has grown to over €200 billion. This means that Ireland's debt ratio relative to national income is understated when scaled against GDP. For more on the EU rules, see the Council's 2024 Briefing Note.

Net expenditure path (Fiscal Council assessment)

€ billion

	2023	2024	2025	2026
Total Expenditure [1]	115.9	125.1	131.6	140.1
Add assumed overruns [2]			2.0	2.0
Less Interest	-3.4	-3.2	-3.3	-3.5
Less EU co-financed current spending	-0.5	-0.6	-0.6	-0.6
Add Cyclical unemployment expenditure	0.4	0.4	0.3	0.3
Less Expenditure funded by transfers from the EU	-0.7	-0.3	-0.3	-0.3
Less One-off expenditure items [3]	-2.1	-2.5	0.0	0.0
Adjusted expenditure	109.6	119.0	129.6	138.0
Add/Less Discretionary revenue measures [4]	-0.4	-0.3	0.3	-0.8
Nationally financed net primary expenditure	109.1	118.7	129.9	137.2
Single-year assessment				
Nationally financed net primary expenditure growth [5]		8.3%	9.2%	5.8%

Sources: CSO; Department of Finance; and Fiscal Council workings.

[1] Total expenditure refers to general government expenditure.

[2] The overruns in 2025 and 2026 assumes spending in these years is €2 billion higher due to current spending overruns in 2024 carrying forward and being repeated, rather than falling out as Annual Progress Report 2025 assumes.

[3] One-offs here are based on the Council's assessment of cost-of-living items that are temporary. Costs related to Ukrainian supports and supports for international protection applicants are included in total spending as they persist in the Government's projections.

[4] Revenue-raising measures (such as tax increases) can be used to offset bigger spending increases, whereas revenue-reducing measures (such as tax cuts) would lower the scope for spending increases. Estimates of revenue-reducing and revenue-raising measures are those judged by the Fiscal Council.

[5] The growth rates for "nationally financed net primary expenditure" are equal to $\frac{\text{Nationally financed net primary expenditure}_t}{\text{Adjusted expenditure}_{t-1}} - 1$

Net expenditure path (Department of Finance assessment)

€ billion

	2023	2024	2025	2026
Total Expenditure	115.9	125.1	131.6	140.1
Less Interest	-3.4	-3.2	-3.3	-3.5
Less EU co-financed current spending	-0.5	-0.6	-0.6	-0.6
Add/Less Cyclical unemployment expenditure	0.1	0.0	0.1	-0.1
Less Expenditure funded by transfers from the EU	-0.7	-0.3	-0.3	-0.3
Add/Less One-off expenditure items	0.0	0.0	0.0	0.0
Adjusted expenditure	111.4	121.1	127.4	135.7
Add/Less Discretionary revenue measures	0.2	-0.8	0.1	-0.9
Nationally financed net primary expenditure	111.6	120.3	127.5	134.8
Single-year assessment				
Nationally financed net primary expenditure growth [1]		8.0%	5.3%	5.8%

Source: Annual Progress Report and bilateral communication with the Department of Finance

[1] The growth rates for "nationally financed net primary expenditure" are equal to $\frac{\text{Nationally financed net primary expenditure}_t}{\text{Adjusted expenditure}_{t-1}} - 1$

Item 2 — Our "Stand-Still" estimates

Stand-Still costs are estimates of how much public spending will have to rise by in future to maintain existing supports and services, while allowing for demographic changes and price pressures. They assume social welfare and public sector pay rise in line with general wages. Ultimately, this is a policy choice, and the approach assumes no efficiency gains in how public services are provided.

The Council's "Stand-Still" estimates

€ billion, gross voted expenditure basis

	2026	2027	2028	2029	2030
Government's current spending increases	5.7				
Our estimates of "stand-still" costs	4.7	4.6	4.8	4.7	5.0
of which Demographics	1.7	1.6	1.7	1.6	1.7
of which Prices and wages	3.0	2.9	3.1	3.1	3.3
Broken down by key area					
Education including the National Training Fund	0.4	0.3	0.4	0.4	0.4
Health and long-term care	1.6	1.6	1.7	1.7	1.7
State pensions	1.2	1.2	1.3	1.4	1.4
Public Sector pensions	0.3	0.3	0.3	0.2	0.3
Other social welfare payments	0.5	0.5	0.5	0.5	0.5
Rest of gross voted spending	0.6	0.6	0.6	0.6	0.6
Due to demographics					
Education including the National Training Fund	0.0	-0.1	0.0	0.0	0.0
Health and long-term care	0.9	0.9	0.9	0.9	1.0
State pensions	0.5	0.5	0.5	0.6	0.6
Public Sector pensions	0.1	0.1	0.1	0.1	0.1
Other social welfare payments	0.3	0.2	0.1	0.1	0.1
Due to prices or wages					
Education wages	0.4	0.4	0.4	0.4	0.4
Education prices	0.1	0.1	0.1	0.1	0.1
Health wages	0.3	0.3	0.3	0.3	0.4
Health prices	0.4	0.4	0.4	0.4	0.4
State pension	0.7	0.7	0.8	0.8	0.8
Public Sector pension	0.2	0.2	0.2	0.2	0.2
Social Welfare (excl. pensions)	0.3	0.4	0.4	0.4	0.4
Rest of gross voted spending wages	0.3	0.3	0.3	0.3	0.3
Rest of gross voted spending prices	0.3	0.3	0.3	0.3	0.3

Sources: APR 2025, and Fiscal Council workings.

Notes: For 2025, the public sector pay deal is incorporated. For 2026, economy-wide wage growth is used as the pay deal only applies for half the year.

Item 3 —How the official tax forecasts are made

This section shows how the Government's official tax forecasts are made.

We break down the yearly tax projections so as to better understand how the forecasts are arrived at.

The annual changes in taxes broken down into:

1) "macro" drivers — the part of the forecast driven by growth in the relevant macro driver. A macro driver can be something like wage growth in the case of income tax, given that income tax is sensitive to how this evolves.

2) "one-offs" — non-recurring items that affect receipts.

3) "policy" changes, such as government decisions to cut or increase taxes. For income tax items, like PAYE and USC, this does not include the yield from higher wages. Instead it focuses on specific discretionary changes in tax policy, like rate reductions or a widening of bands.

4) "warehousing" the net impact of warehousing of taxes from 2020 - 2022, with repayments thereafter.

5) "carryover" effects — policy impacts that are carried over from previous years.

6) "other" effects — other potential elements affecting the forecasts, including judgment applied by the Department of Finance. It is calculated as the difference between the Fiscal Council's internal forecasting exercise and the Department of Finance's own forecasts.

How the official tax forecasts are constructed

€ billion, year to year changes