



Our Ref: FIN-MO-02844-2025

Mr. Seamus Coffey
Chair
Irish Fiscal Advisory Council
Whitaker Square (ESRI Building)
Sir John Rogerson's Quay
Dublin 2

13th August 2025

Dear Seamus,

I refer to the Irish Fiscal Advisory Council's *Fiscal Assessment Report* published on 10th June 2025.

My response to the Council is set out in the letter below. It is my intention to publish this letter on my Department's website.

Yours sincerely,

A handwritten signature in black ink, which appears to read 'Paschal Donohoe', is written over a horizontal line.

Paschal Donohoe T.D.
Minister for Finance

Introduction

Firstly, I want to thank Fiscal Advisory Council for its work in producing the *Fiscal Assessment Report* (FAR) and for providing an analysis of the Department of Finance's *Annual Progress Report* (formerly the Stability Programme Update).

The Council is an important part of our budgetary process and I always welcome its contribution to the public debate.

Macroeconomic assessment

I note the Council's endorsement of the Department's baseline macroeconomic forecasts contained in the *Annual Progress Report 2025* (APR). While these projections were endorsed in mid-March, the external economic environment has deteriorated considerably in the period between the endorsement and publication of the APR. In acknowledgement of the changed environment, my Department published an 'alternative' scenario alongside the endorsed baseline scenario, attempting to assess the potential impact of tariffs in place in April, which projects a downward revision of around 1½ per cent in MDD compared to the no-tariff baseline scenario by the end of 2026.

There is little or no precedent from which to make confident projections regarding the macroeconomic impact of trade de-coupling and a weakening of the transatlantic relationship, as you outline in the *Fiscal Assessment Report*. As such, the figures set out in the *Annual Progress Report* are more akin to scenario analysis.

Budgetary assessment

As you will be aware, the *Summer Economic Statement* was published on July 22nd, outlining the parameters for *Budget 2026* that will address the infrastructure gap while also boosting economic resilience for the future by focusing on investment rather than consumption.

A total budgetary package of €9.4 billion will be provided for in *Budget 2026* and will consist of €1.5 billion in taxation measures and €7.9 billion in spending measures. It is a package that aims to address the challenges we face today without jeopardising the long-term sustainability of the public finances.

I acknowledge the Council's views regarding the risks associated with volatile corporation tax receipts. I value the analysis undertaken by the Council around the risks facing the public finances, which I will consider in the coming months.

Government has acted to mitigate the risks around corporation tax through the establishment of the *Future Ireland Fund* and the *Infrastructure Climate and Nature Fund*, and I note that the Council has welcomed this. In June, we transferred a further c. €3 billion of windfall receipts into the funds, and by the end of this year there will be some €16 billion invested in the funds.

Regarding the in-year expenditure position, end-July Exchequer spending figures show gross voted spending for the first seven months of the year of €60.5 billion. This level of spending demonstrates sustained high levels of investment in the delivery of public services and infrastructure. Government takes a deliberate and planned approach to public spending that is focused on delivering our economic, social and climate ambitions – protecting our economy and enhancing the living standards for our people

Medium/long-term

I acknowledge the Council's concerns relating to challenges around infrastructure, the ageing population and climate change.

Government is developing a Medium Term Expenditure Framework for the period to 2030, which will support the delivery of progress on our key social and economic priorities. Moving to a medium-term expenditure framework will allow for better planning and effective prioritisation alongside increased transparency on the costs of delivering critical public services. The review of the National Development Plan (NDP) will be a key input to this framework.

The recently published NDP review sets out a transformational level of investment in critical infrastructure in Ireland, which will support future growth and the continued development of business across the country in the coming years. In undertaking this exercise a reappraisal of plans and capital programmes and project costings was conducted with the aim of ensuring a strong focus on value for money and delivery.

In respect of climate targets, I note that the Council has highlighted the possible transfer of as much as €26 billion in relation to the cost of compliance with EU climate targets. This figure is based on the marginal abatement cost for each area. I would not that a direct transfer to the EU at marginal abatement cost prices is unlikely, so in our analysis we prefer to use the ETS price estimates.

Fiscal Framework

The Council has a mandate to monitor and assess compliance with the Domestic Budgetary Rule.

I note the Council's assessment that Ireland complied with this rule, while also acknowledging the Council's appraisal of this rule in the context of the revised European fiscal framework. I share the Council's assessment that the revised EU fiscal framework no longer provides a viable constraint for Ireland, given the current fiscal position.

This underlines the importance of setting a credible domestic fiscal anchor to guide budgetary policy in Ireland. An appropriate medium-term fiscal strategy must find the right balance between increasing public spending in certain areas and addressing infrastructural deficits, while safeguarding our country for the years ahead. Such an anchor will underpin Ireland's new Medium-term Fiscal and Structural Plan, which officials in my Department are currently working on and expect to submit to the European Commission in the coming months.

Conclusion

Budget 2026 will be centred around investment, prioritising infrastructure and housing and the ongoing sustainability of the public finances. I would like to thank you again for your contribution in the *Fiscal Assessment Report*, and look forward to ongoing engagement over the coming months.