Budget 2026

Flash Release

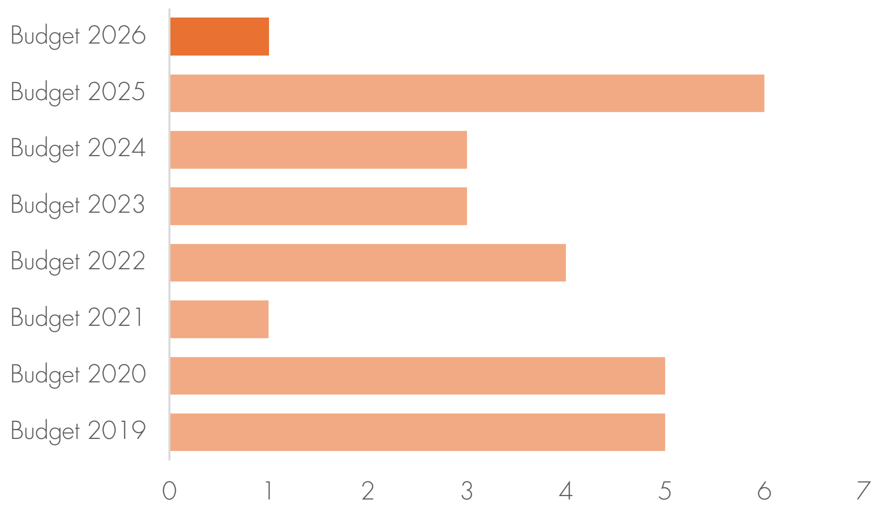
Irish Fiscal Advisory Council

1) This "Flash Release" gives the Council's first read on Budget 2026. It explores some of the key areas that the Council will assess in its next Fiscal Assessment Report, due out in November.

2) Budgetary forecasts in Budget 2026 only cover 2026, unlike recent budgets. Good planning and budgeting requires forecasts that go more than 15 months ahead. The Council has consistently stressed the need for budgetary forecasts that go at least five years ahead.

No excuse for the short forecast horizon

Number of years ahead forecast

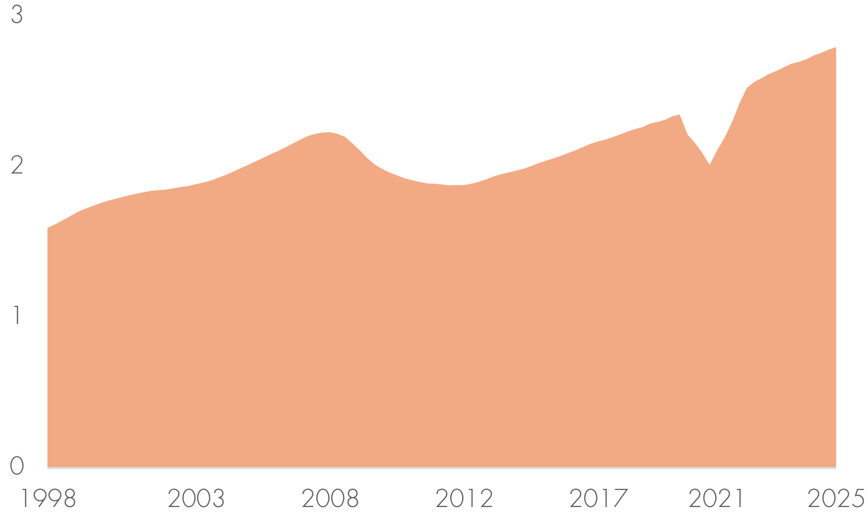


3) The Government has yet to submit an updated Medium-Term Plan to the European Commission. This five-year plan, which sets out an expenditure path, was due to be submitted over the summer but this is yet to happen. This suggests the process is not being taken seriously.

4) The Budget comes at a time when the Irish economy is performing well. Employment is at a record high and wage growth is exceeding inflation.

The Budget comes amid record job levels

Employment, millions

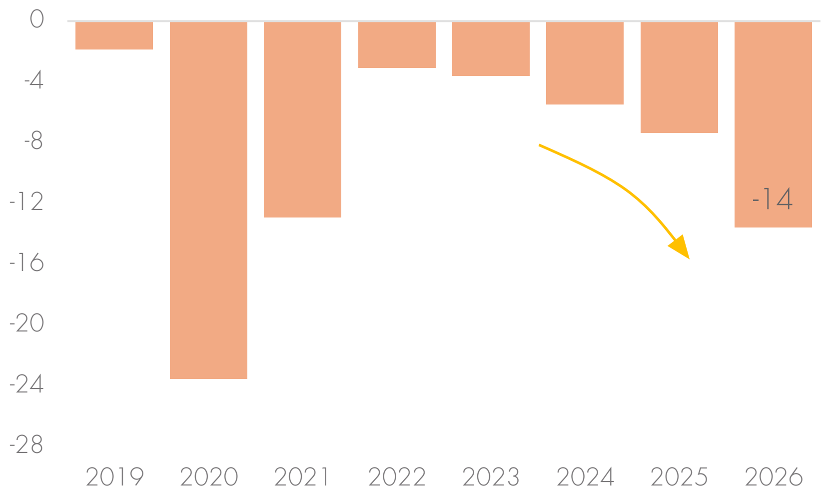


5) Standard economic advice would suggest that budgetary policy should provide less support when the economy is strong (like right now) and more when it is weak (were the economy to suffer a downturn).

6) While the Government is running a surplus, this is driven by the extraordinary amount of corporation tax that is being collected. Without these revenues, the Government's own figures show a deficit of almost €14 billion could emerge next year, a deterioration of €6.2 billion.

A large and growing underlying deficit

General government balance (excluding excess corporation tax), € billion

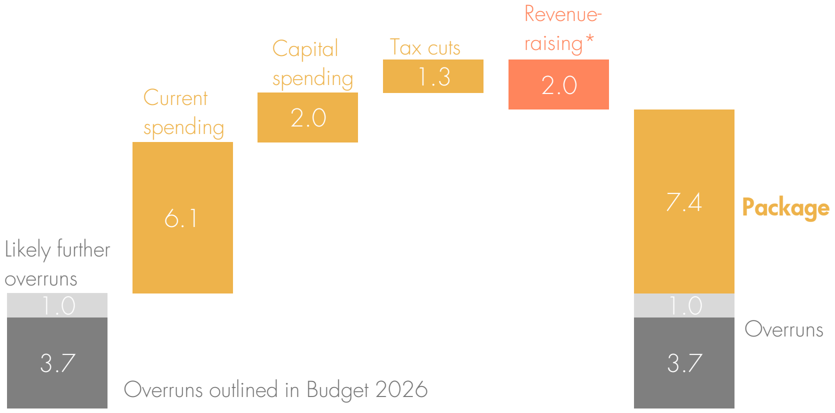


Sources: Budget 2026 and Fiscal Council workings.
Notes: Budget 2026 estimates of excess corporation tax are used for 2024-2026. For prior years, Fiscal Council estimates are used.

7) The Budget outlined €6.1 billion for current spending increases, €2 billion for capital spending increases, and €1.3 billion of tax changes. Unlike recent budgets, all of the measures announced are permanent, and will recur every year.

Overruns and permanent measures

€ billions

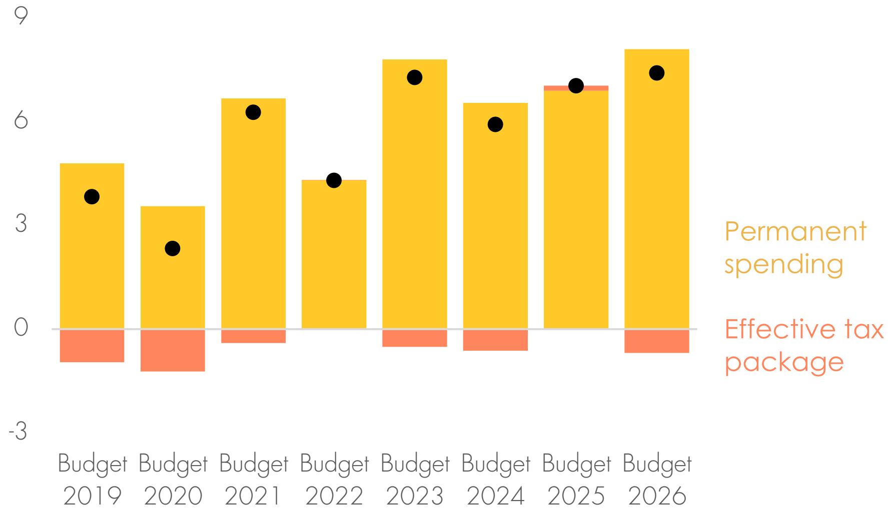


Sources: Budget 2026 and Fiscal Council workings.
*Revenue-raising measures reflect the amount that would be raised from not indexing tax bands and credits, the carryover impacts from previous years' tax measures, other tax increases, such as carbon tax and PRSI increases, and some top-up tax revenues arising from the introduction of a 15% effective corporation tax rate for large multinationals.

8) The package announced by the Government this afternoon amounts to at least €7.4 billion (adjusted for tax measures). This is larger than the package of permanent measures introduced in recent budgets.

Another large permanent package

€ billions, adjusted for effective tax increases*



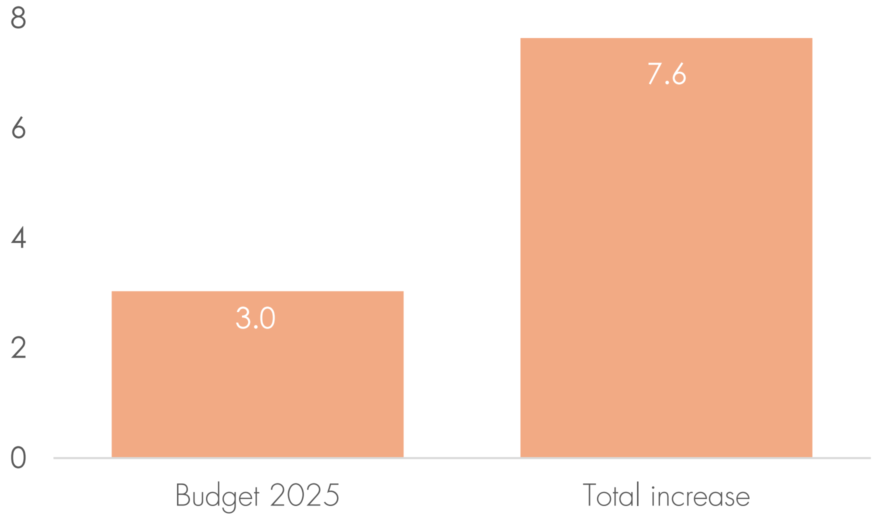
Sources: Budget 2026 and Fiscal Council workings.

Note: The chart shows "permanent" spending in each Budget, which refers to the gross voted spending increases announced by governments on Budget Day plus any temporary items that turned out to be permanent. The "effective tax package" includes the tax package as well as the amount that would be raised from not indexing tax bands and credits, the carryover impacts from previous years' tax measures, other tax increases, such as carbon tax and PRSI increases, and some top-up tax revenues arising from the introduction of a 15% effective corporation tax rate for large multinationals.

9) While much of the focus today is on the budget day package, there is no guarantee that spending will evolve as outlined today. Spending increases this year are likely to be more than double what was announced in the budget last October.

Spending increases this year are larger than was outlined in last year's budget

€ billions

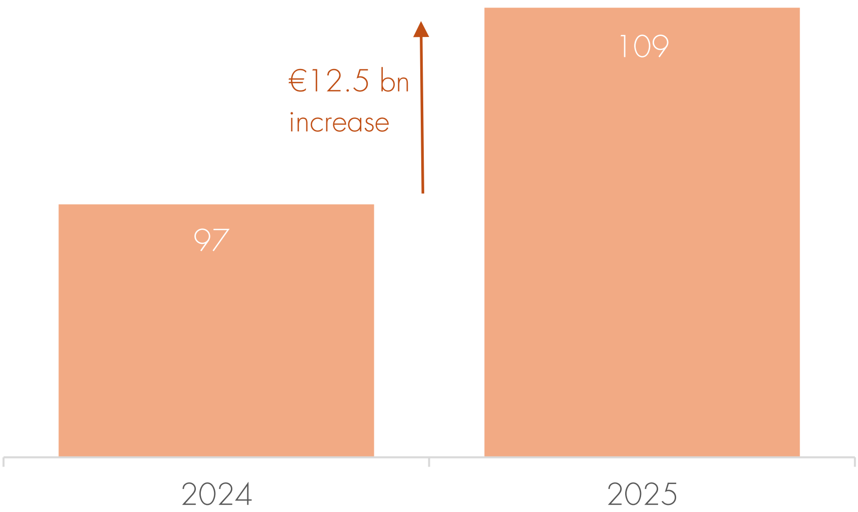


Source: Budget 2025, Budget 2026 and Fiscal Council calculations.
Notes: Budget 2025 allocated an increase of €3 billion for gross voted spending in 2025 compared to what was forecast for 2024 in Budget 2025. Budget 2026 incorporated a spending overrun of €3.7 billion. A further spending overrun of about €1 billion is based on Fiscal Council work examining spending growth in the year-to-date. The €7.6 billion increase shown here is relative to the Budget 2025 estimate of gross voted spending for 2024.

10) Budget 2024 set out a base of €96.6 billion of Gross Voted Expenditure for 2024. As things stand, Gross Voted spending in 2025 is set to be €109 billion. This is an increase in spending in 2025 of €12.5 billion (12.9%) relative to what was originally set out for 2024.

Spending is growing rapidly this year

Gross Voted spending, € billions



Notes: The 2024 figure shown is the Budget 2024 level for gross voted spending in 2024. The 2025 figure is the most recent estimates published in Budget 2026.

11) These increases above what was set out on Budget Day are due to a combination of repeated expenditure overruns and within-year policy changes. Spending in 2025 could be even higher than currently forecast, if spending trends seen so far this year continue.

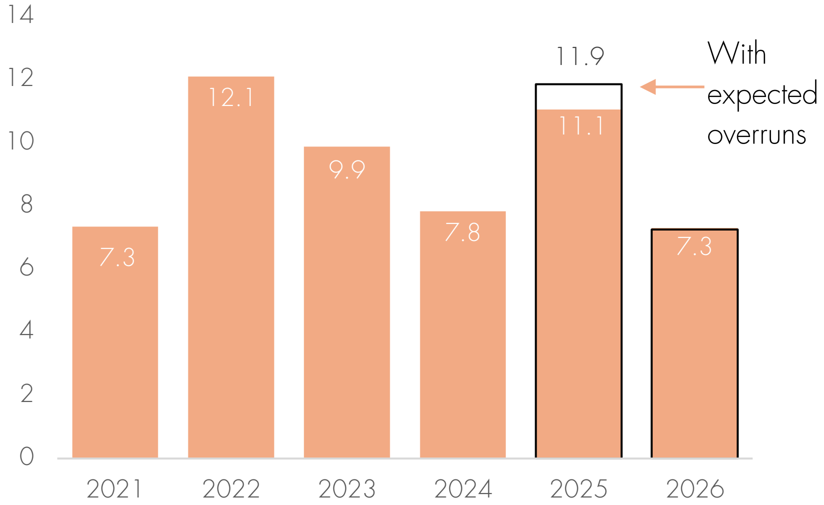
12) While the tax package announced today appears to be relatively modest, it will have a bigger impact in future years. The full-year costs will be much higher than the cost in 2026 (€2.3 billion vs €1.3 billion). This is due to measures introduced midway through 2026.

13) Budget 2026 includes more realistic forecasts for corporation tax receipts. The Department now expects a €3bn positive impact from OECD BEPS reforms in 2026—an improvement on earlier estimates of a €2bn negative impact. This is consistent with Fiscal Council projections.

14) Our first read is that this means that nominal spending net of tax measures is set to grow by more than 11% in 2025 and 7.3% for 2026.

Net Spending is still growing at a rapid pace

% growth in net policy spending

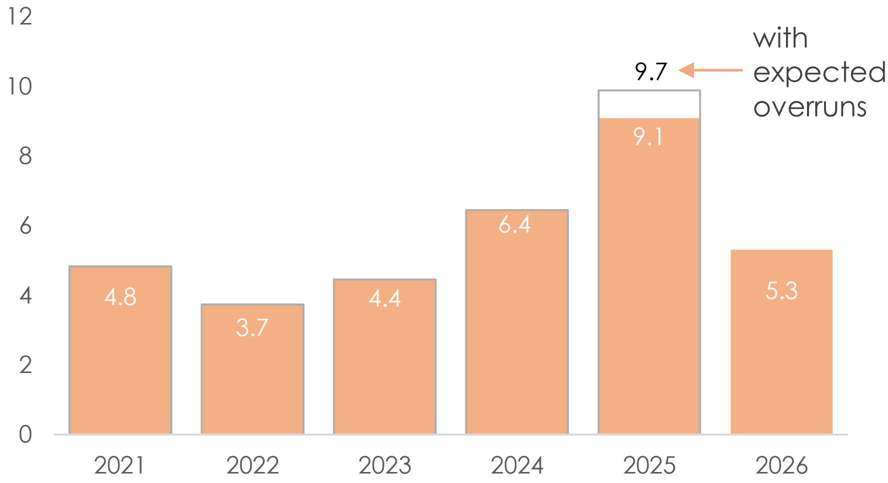


Notes: The "Net Policy Spending" measure assesses the pace of expansion in government policy. It is based on overall general government spending, and it excludes spending that is temporary or cyclical, assuming the normal long-run rate of unemployment is 5%. As it is a net measure, it recognises the 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 €1 billion higher than that outlined in Budget 2026, as spending data for the year-to-date would suggest.

15) Even after accounting for inflation, spending net of tax changes is growing at a rapid pace, over 9% in 2025 5.3% in 2026. This is much faster than the sustainable growth rate of the Irish economy.

After adjusting for inflation, net spending is still growing at a rapid pace

% growth in net policy spending (adjusted for inflation)



Notes: The "Real 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. Also, as it is a real measure, inflation is subtracted from the nominal growth rate of net spending. The higher estimate for 2025 assumes spending in 2025 is €1 billion higher than that outlined in Budget 2026, as spending data for the year-to-date would suggest.

16) Again, this assessment is preliminary. The Council will give its full assessment of Budget 2026 in its Fiscal Assessment Report. By then, typically more information will be available, which will allow a more complete analysis.