Irish Fiscal Advisory Council

Autumn 2025

Endorsement of macroeconomic forecasts

September 2025

Background

The Fiscal Council has a mandate to endorse the official macroeconomic forecasts produced by the Department of Finance.[1]

To set out how each endorsement process is carried out, the Council and the Department of Finance agreed a Memorandum of Understanding.[2]

This document gives an overview of some of the key aspects and discussions that took place during the latest endorsement process.

This exercise

The Council's most recent endorsement exercise related to the Department of Finance's macroeconomic forecasts for Budget 2026. It took place in September 2025.

The Department's provisional macroeconomic forecasts were completed on the 23rd September 2025 and were shared with the Council. The Council and Secretariat then met with Department staff to discuss its forecasts on 26th September ahead of making its endorsement decision.

The key dates underpinning the Council's endorsement of the Department of Finance's macroeconomic projections for Budget 2026 are set out in Appendix A.

[1] This follows the agreement at European level on the Regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (EU Regulation No 473/2013), Ireland is required under Article 4.4 to have its national medium-term fiscal plans and draft budgets based on independent macroeconomic forecasts, which means macroeconomic forecasts produced or endorsed by an independent body. In Ireland's case, this endorsement function is set out in the Fiscal Responsibility Acts 2012 and 2013 that entered into force on 23 July 2013. Under the Act, the Council as an independent body (as defined in Article 2.1.a of Regulation No 473/2013) has been assigned the endorsement function, and shall "endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department of Finance on which the Budget and stability programme will be based".

[2] This sets out the timelines, data, and nature of interactions. It is available online at: https://www.fiscalcouncil.ie/fiscal-responsibility-act/

Approach

The Council's approach to endorsement has four main aspects.

1) The Council compares the Department's forecasts with its own Benchmark projections. These are developed and finalised before viewing the Department's forecasts. It also considers them in light of forecasts produced by other agencies.
2) The Council assesses the methodologies used by the Department.
3) The Council looks to see if there are potential patterns of bias in the Department's previous forecasts.
4) The Council assesses how coherent the Department's forecasts are.

Overall endorsement decision

The Council assessed that the Department's macroeconomic forecasts were **within an endorsable range.**

This assessment took account of how plausible the Department's judgements were. The Council generally had a favourable assessment of the processes and methodologies used by the Department. For example, the Department used tools such as COSMO to assess the potential impacts of tariff and non-tariff trade barriers, as well as the impact of increased public investment.[3]

The Department's forecasts were out to 2030. The Council welcomes this five-year-ahead forecast horizon. The Council is of the view that the appropriate horizon for macroeconomic forecasts is at least five years.

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[3] COSMO is a macroeconomic model that was developed was developed as part of the Macro Modelling Project – a collaboration between the Central Bank of Ireland and the Economic and Social Research Institute. See Bergin et al (2017).

Key issues in this endorsement

The key areas of focus in this endorsement round included the impact of increased public investment, accounting for a potential increase in corporation tax receipts and the alignment of fiscal and macroeconomic projections.

The impact of increased public investment

Since the spring forecasting round, an updated National Development Plan was announced. This outlined increased ambition for public investment in Ireland. Some key judgements are required in order to assess the likely impact on the Irish economy.

Firstly, when is this additional public investment spending likely to take place. The updated National Development Plan did provide annual totals for Exchequer and non-Exchequer capital spending out to 2035. However, funding has also been provided to Uisce Éireann, ESB Networks and Eirgrid via equity injections. While the equity injections will take place in 2025, it is uncertain when these bodies will use these funds for capital projects.

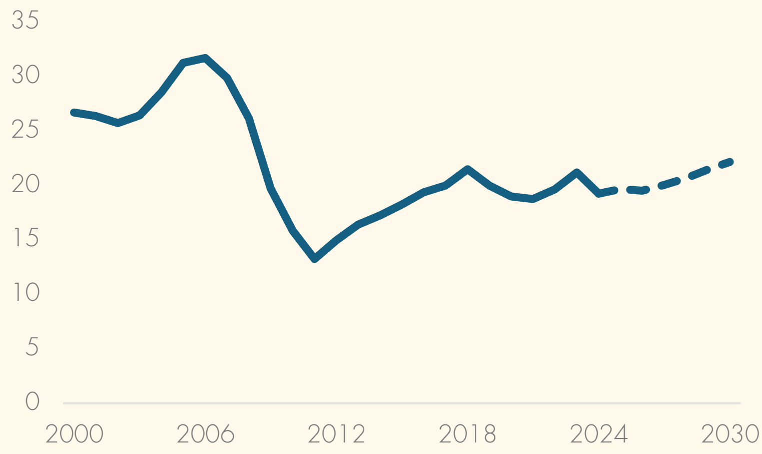
Secondly, will these investments lead to higher or lower levels of private sector investment. Given the economy is already operating at capacity, additional public investment could replace private investment (often referred to as "crowding out"). This could happen as the public sector competes with the private sector for construction sector workers and capacity.

On the other hand, public investment could make it more attractive for some private sector investment to take place. For example, public investment in water, electricity generation and electricity grid would all make private sector investment in housing more viable.

Overall, modified investment is expected to increase as a share of national income over the forecast horizon.

N° 1 **Investment is forecast to rise later in the decade**

Modified investment as a percentage of national income



Source: Department of Finance and CSO.
Notes: National income referred to here is modified Gross National Income. Modified investment excludes investment in leased aircraft, traded intellectual property and imported Research and Development. Budget 2026 forecasts are shown by the broken line.

The impact of corporation tax receipts

Corporation tax receipts not only impact the public finances but also have an impact on key measures of economic activity. Both modified gross national income (GNI*) and the modified current account (CA*) are impacted by corporation tax receipts paid by foreign multinationals.

As part of the OECD's Pillar II reforms, Ireland has introduced a new 15% minimum effective corporation tax rate, higher than the 12.5% statutory rate. Previous research by the Council has estimated the potential impact of this on corporation tax receipts (Cronin, 2025). These estimates suggest a €5 billion increase in receipts, relative to this change not being made. This would be expected to be received over 2026 and 2027.[4]

The Department has now incorporated estimates of the impact of the 15% corporation tax rate. The higher rate is assumed to increase corporation tax receipts by €3 billion in 2026 only. This is a welcome revision to the previous assumed impact of BEPS reforms.[5]

This increased corporation tax is reflected in both GNI* and CA*. The Department is forecasting an increase in the modified current account surplus in 2026, largely driven by increased corporation tax payments made by multinational companies.

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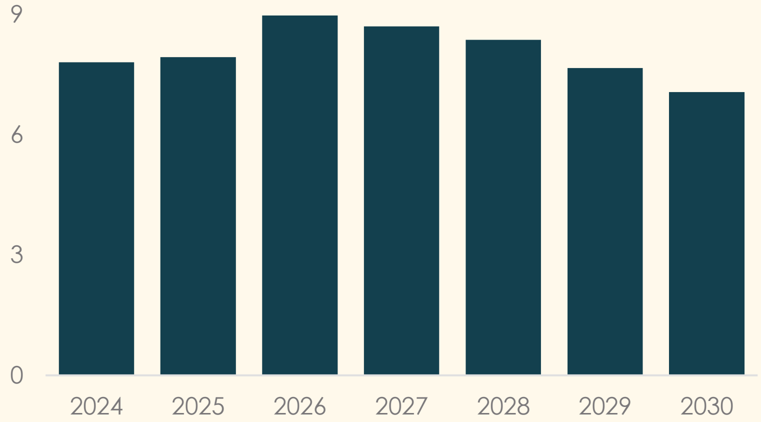
[4] The first top-up tax return must be filed no later than 18 months after the end of a group's financial year. The top-up tax applies to accounting periods beginning on or after 31 December 2023. This means the first top-up tax payment deadline will be 30 June 2026 and apply to groups with a December 2024 year end. Depending on their year-end, companies will make their first top-up tax payment between June 2026 and May 2027.

[5] Previously, for the purpose of macroeconomic projections, the Department assumed no impact from the implementation of OECD reforms.

N° 2 **The modified current account balance is expected to rise next year**

Modified current account as a share of national income



Source: Department of Finance and CSO.

Assumed fiscal policy

When producing macroeconomic forecasts, the Department of Finance aims to ensure that the assumptions they use are in line with fiscal policy. This incorporates likely changes in government spending and taxation levels. This is good practice which should continue. However, this does mean that macroeconomic projections rely on good quality forecasts of the public finances.

The Council has previously highlighted issues with forecasts of government spending, which have often underestimated the final outturn. While poor spending forecasts have obvious implications for fiscal forecasts, they also have an impact on macroeconomic forecasts.

The Government should set out a clear plan for medium-term spending and then stick to it. This would enable better planning and management of the public finances. It would also aid macroeconomic forecasting, as future fiscal policy would be more predictable.

References

Bergin, A., Conroy, N., Garcia Rodriguez, A., Holland, D., McInerney, N., Morgenroth, E., & Smith, D. (2017). *COSMO: A new COre Structural MOdel for Ireland.* Dublin: Economic and Social Research Institute. Retrieved from https://www.esri.ie/publications/cosmo-a-new-core-structural-model-for-ireland

Cronin, B. (2025). *More revenue and more concentration, how the OECD's minimum effective tax rate will affect Ireland's corporation tax receipts.* Dublin: Irish Fiscal Advisory Council Working Paper. Retrieved from https://www.fiscalcouncil.ie/more-revenue-and-more-concentration/

Appendix A: Timeline

Timeline for the Endorsement

4 September	The CSO released its Quarterly National Accounts estimates for Q2 2025.
9 September	The Council's Secretariat and the Department's macroeconomics team met with the CSO to clarify technical details related to its latest Quarterly National Accounts estimates.
16 September	The Council finalised its benchmark macroeconomic projections. This was done in advance of receiving a preliminary set of forecasts from the Department of Finance.
16 September	The Department sent the Council preliminary forecasts in line with Memorandum of Understanding requirements.
18 September	The Department presented its preliminary forecasts to the Council's Secretariat.
23 September	The Department sent an updated set of forecasts.
26 September	The Department of Finance presented its forecasts to the Council and Secretariat and answered questions. After the meeting the Council had a preliminary discussion on its endorsement decision.
26 September	The Council finalised a decision on the endorsement. The Chairperson of the Council wrote a letter to the Secretary General of the Department of Finance endorsing the set of macroeconomic forecasts.

Appendix B: Benchmark projections

The Council's Benchmark projections were an input to its endorsement exercise. These were finalised on Tuesday 16th September prior to receiving the Department of Finance's preliminary forecasts.

Benchmark projections

% change in volumes unless otherwise stated

	2025	2026	2027	2028	2029	2030	2031
Demand							
GNI*	4.2	3.0	3.0	3.1	2.8	2.6	2.5
Modified domestic demand [a]	4.2	3.2	3.2	3.5	3.2	2.9	2.7
Consumption	3.2	3.1	2.7	2.6	2.2	2.3	2.2
Modified investment [a]	6.6	3.3	4.7	6.7	6.3	4.8	4.4
Supply							
Potential output	2.5	2.6	2.7	2.8	2.6	2.5	2.3
Output gap (% potential output)	0.5	0.9	1.0	1.1	1.3	1.3	1.3
Labour Market							
Labour force	2.6	1.5	1.4	1.1	1.1	0.9	0.8
Employment	2.3	1.5	1.4	1.1	1.0	0.9	0.8
Unemployment rate (% labour force)	4.5	4.5	4.5	4.5	4.5	4.5	4.6
Prices							
HICP	1.8	1.9	1.9	1.9	1.8	1.8	1.7
HICP excluding energy	2.1	2.3	2.0	1.9	1.9	1.8	1.8
Personal consumption deflator	1.8	2.5	2.3	2.2	2.1	2.1	2.0
GNI* deflator	1.8	2.1	2.1	2.0	2.0	1.9	1.8
Other							
Nominal GNI*	6.0	5.2	5.2	5.2	4.9	4.6	4.4
Nominal GNI* (€ billion)	341	358	377	396	416	435	454
Savings ratio	12.4	12.0	11.7	11.5	11.7	11.5	11.2

[a] Modified (final) domestic demand and modified investment exclude aircraft for leasing and research and development service imports and trade in intellectual property.