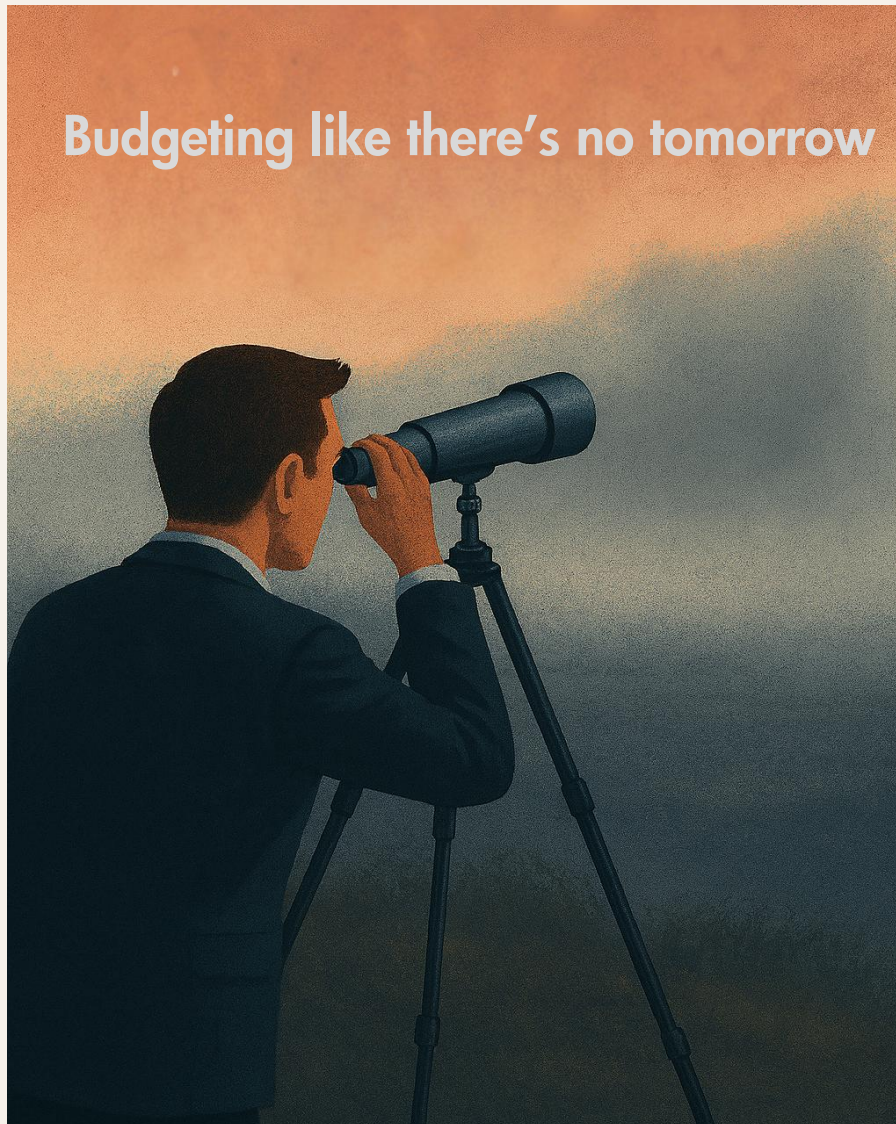


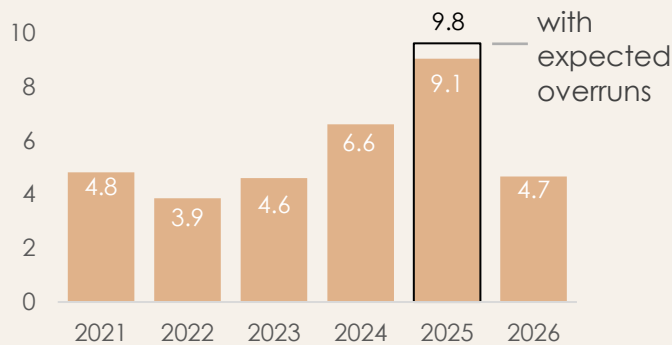
Fiscal Assessment Report
November 2025

Budgeting like there's no tomorrow



Spending is growing at a fast pace

Real net policy spending growth (after accounting for inflation)

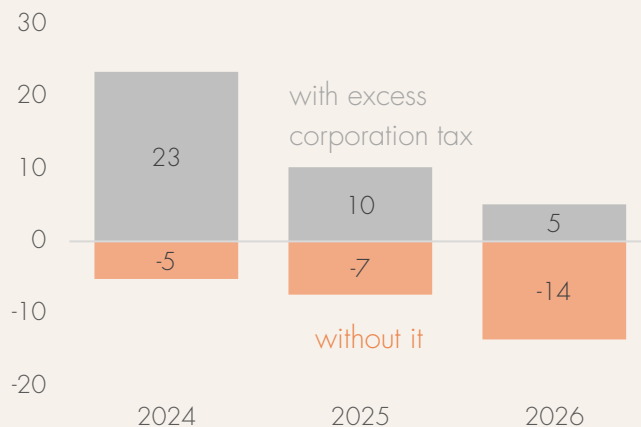


Spending (net of tax changes) has been growing at a rapid rate in recent years. This is the case even after accounting for inflation.

While forecasts for 2026 suggest a moderation in growth, this is still well above a sustainable growth rate for net spending.

Corporation tax is keeping the public finances in surplus

€ billion, budget balance

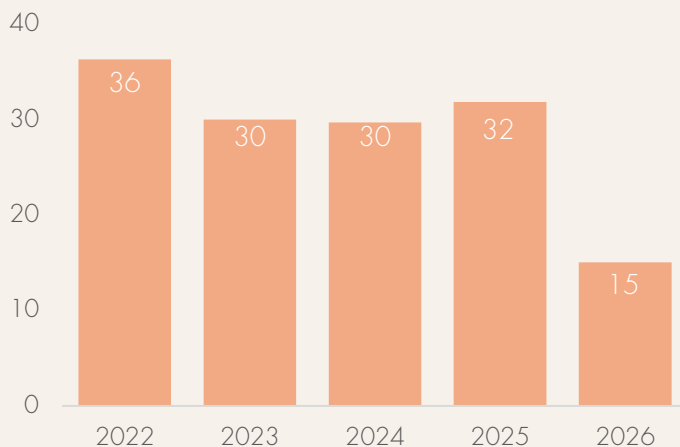


Phenomenal levels of excess corporation tax are keeping the public finances in surplus.

Without these receipts, there would be a significant and growing deficit. This comes at a time when the economy is performing well and generating substantial tax receipts.

The share of corporation tax being saved is planned to fall

General government surplus as a share of corporation tax receipts (%)



The Government is planning on saving less and less of the corporation tax receipts being collected.

This marks a significant shift in policy. It means the public finances are less well prepared for the next economic downturn and predictable budgetary pressures.

Summary

Ireland's economy remains strong. Employment is high, wages are rising faster than inflation. The Irish economy does not require support from budgetary policy.

Ireland's public finances appear solid at first glance. But they depend heavily on volatile corporation tax. Budget surpluses are due to a strong economy and corporation tax payments from a few large US companies.

Ireland is set to face large budgetary pressures in the coming decades. Most of these costs come from supporting an ageing population, addressing climate change and ongoing investment in infrastructure. These costs could push the public finances from a surplus to a significant deficit.

Against this backdrop, budgetary policy is adding money into the economy when it is not needed. The Government is planning on spending most of its corporation tax receipts. Only 15% of corporation tax receipts will be saved next year, down from 32% this year. This is a marked shift in policy. It means the public finances are less well prepared for the next economic downturn and predictable budgetary pressures.

The Government is budgeting like there's no tomorrow. Budget 2026 contained no budgetary forecasts beyond next year. Good planning and budgeting require forecasts that go more than 15 months ahead.

There is no effective framework for fiscal policy in Ireland. The Government has not set any rule or guide for budgetary policy. Despite commitments in the Programme for Government to submit an updated Medium-Term Plan to the European Commission, this has not happened.

The Government needs to move away from year-to-year budgeting. Moving to multi-annual budgeting would give government agencies more certainty over their future funding. This would support better planning and delivery of public services, along with the investment needed to sustain growth in Ireland.

Key indicators

% modified Gross National Income (GNI*) unless otherwise stated

	2024	2025	2026	2027	2028	2029	2030
Economy							
Real GNI* growth	4.8	3.3	3.3	2.5	2.4	2.3	2.3
Nominal GNI* growth	10.2	5.7	6.2	5.2	5.2	4.8	4.7
Nominal GNI*, € billions	321	339	360	379	399	418	438
Price inflation, year-on-year change ¹	1.3	1.8	1.9	1.9	1.9	1.9	1.9
Public finances							
Budget balance	7.0	3.0	1.4				
Budget balance excl. excess corporation tax ²	-1.9	-2.2	-3.8				
Structural budget balance ³	-2.6	-3.0	-4.6				
Budget balance (€ billions)	22.6	10.3	5.1				
Excess corporation tax (€ billions) ²	28.6	17.6	18.7				
Budget balance excl. excess corporation tax (€ billions) ²	-5.2	-7.4	-13.6				
Structural budget balance (€ billions) ³	-8.3	-10.2	-16.6				
Revenue	46.3	43.1	42.3				
Revenue excl. excess corporation tax ²	37.4	37.9	37.1				
Expenditure	39.2	40.1	40.9				
Gross debt ratio	67.1	61.7	58.6				
Gross debt (€ billion)	215.4	209.4	211.2				

Sources: CSO and Budget 2026.

Notes: No budgetary forecasts were provided in Budget 2026 for the years 2027-2030. Fiscal Council budgetary projections for the years 2027-2030 can be found in table 2.7.

¹ Harmonised index of consumer prices (HICP).

² This uses the "windfall estimates" produced by the Department of Finance as well as the proceeds from the CJEU ruling.

³ Figures for 2024-2026 are taken from Budget 2026.

Contents

Sections

1 The economic backdrop: the economy is performing well despite global uncertainty	6
2 The public finances: Spending growth far outpacing revenue growth	13
3 How Supportive and Sustainable is Budgetary Policy?	24

1. The economic backdrop

The economy is performing well, despite global uncertainty

The Irish economy has continued to perform well in 2025. The number of people at work has reached a record high and is continuing to increase. Wages are growing faster than inflation. Both fiscal and monetary policy have been adding to demand in the Irish economy.

Employment has continued to grow and is up more than 2% so far this year. Both inward migration and increased labour force participation have helped to supply workers to fill these jobs.

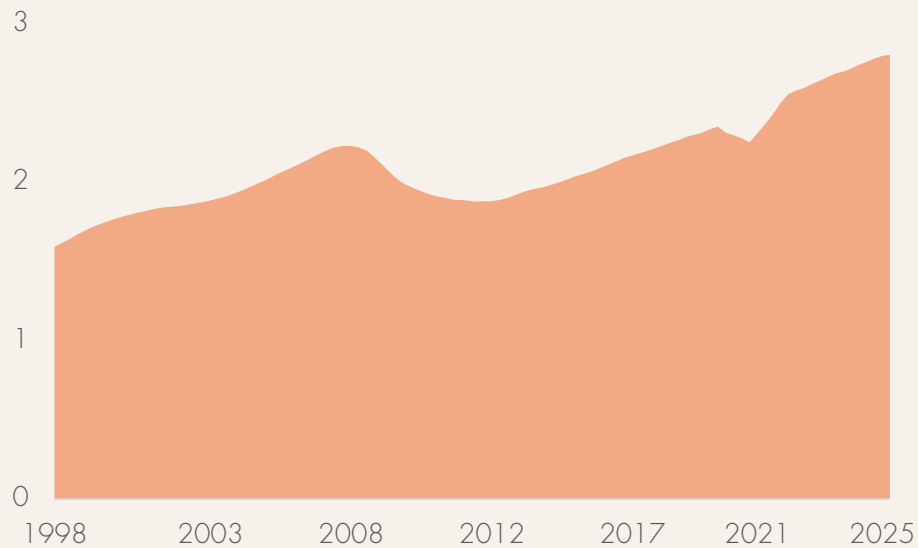
However, there have been some signs in recent months that job growth may be slowing. Recent Labour Force Survey data suggests more moderate rates of job growth in the second half of this year. The unemployment rate has also increased slightly.¹ However, overall, the labour market still appears to

¹ There are mixed signals on unemployment. The Labour Force Survey points to unemployment increasing in 2025Q3. Live register figures, by contrast, show no significant increase in unemployment claims.

be in a strong position. The current unemployment rate (5%) is very low by historical standards.

1.1: **Employment has reached record highs and is still growing**

Millions of people in employment, four-quarter moving average

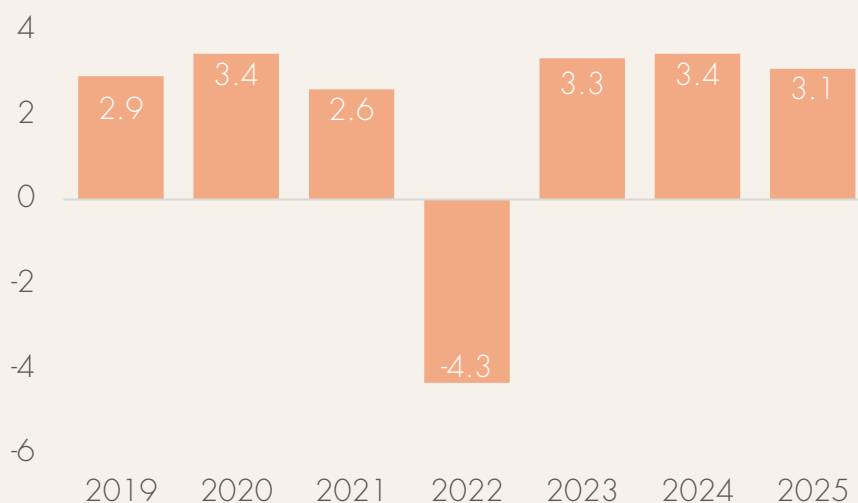


Source: CSO

The strong labour market is also evident in wages, which are increasing strongly as firms compete for scarce workers. In aggregate terms, hourly wages are growing faster than inflation.

1.2: Wages are growing faster than prices

Percentage change in real hourly wages (adjusted for inflation)



Sources: CSO, Budget 2026

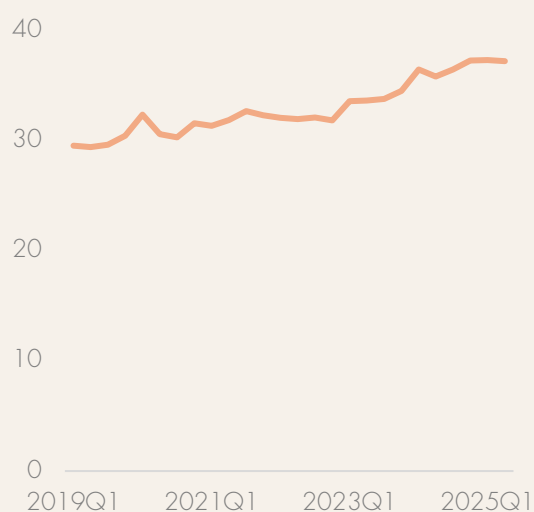
Notes: Nominal hourly wages are calculated using total compensation of employees from the Quarterly National Accounts. This is then divided by total hours worked by employees from the same data source. An adjustment is made over the years 2020-2023 to account for compositional changes in employment that occurred due to the pandemic and subsequent reopening of sectors of the economy. For 2025, the growth in wages for the first half of the year is shown. Inflation is given by changes in the Harmonised Index of Consumer Prices (HICP). For 2025, inflation forecasts from Budget 2026 are used.

This strong wage growth is supporting household disposable income (Figure 1.3A). Together with rising house prices, this disposable income is leading to rising household wealth (Figure 1.3B). At the end of 2025Q1, median household net wealth had risen above €375,000.² Overall, households are in a strong financial position.

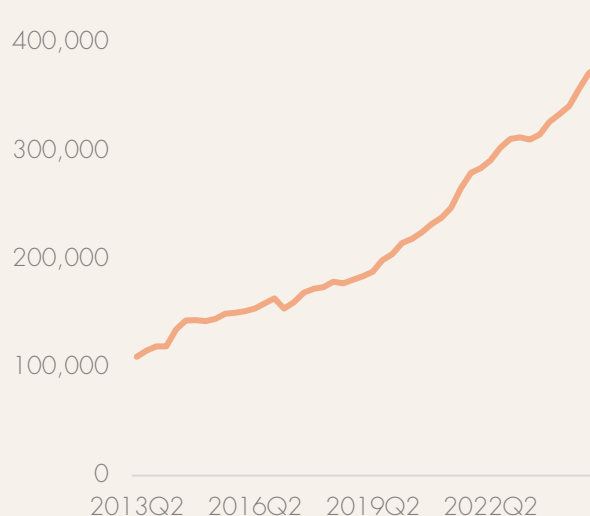
² While this figure is influenced by artificially high household size due to housing supply issues, underlying wealth has increased significantly over this period.

1.3: The household sector is in a strong financial position

A. Household disposable income
€ billion 2015 prices, seasonally adjusted



B. Household wealth
€, median household wealth



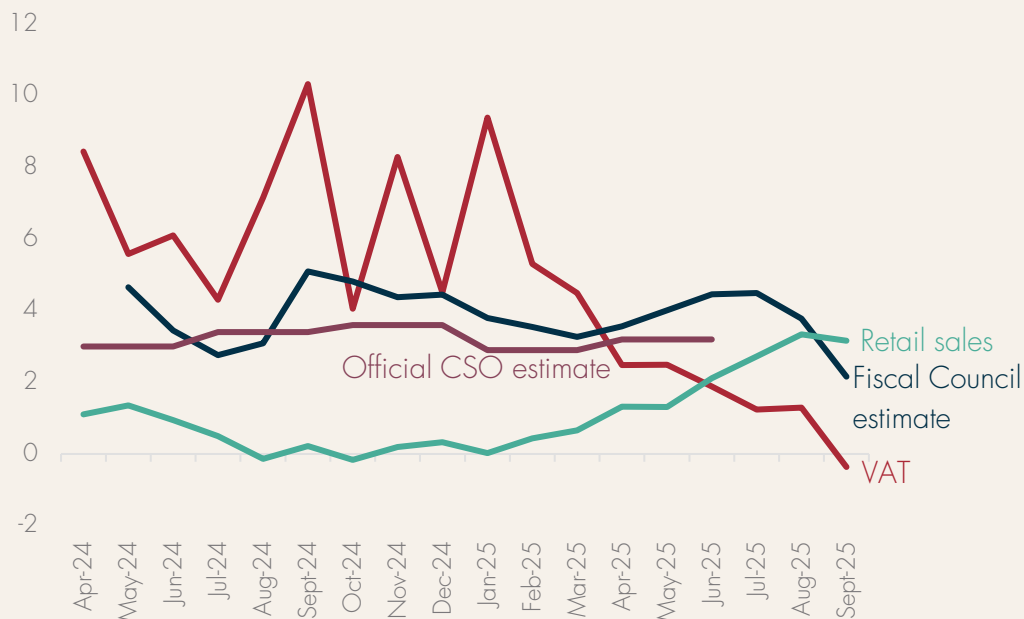
Sources: CSO; ECB.

Notes: Seasonally adjusted household disposable income is deflated using HICP.

The strong financial position of households is supporting consumption. Despite headwinds, household consumption in 2025 continues to be robust. However, based on Fiscal Council estimates, consumption growth slowed to a modest 2.2% in Q3 (Figure 1.4). This is also consistent with VAT receipts, which have been weaker in recent months.

1.4: Real consumption growth has slowed

Volume, % change y/y



Sources: CSO; Central Bank of Ireland; Department of Finance and Fiscal Council's workings.

Note: Fiscal Council's FCE estimate based on Carroll (2024). Retail sales is all retail sales excluding motor trades. VAT is the three month moving average deflated by HICP. VAT is adjusted backwards by one month to reflect when activity took place.

Supporting this robust consumption growth was a moderation in inflation. Between March 2024 and August 2025, inflation had remained at or below 2%. However, in recent months, inflation has picked-up with inflation in October of 2.8%. This recent uptick has been driven by energy and services (excluding rent) inflation.

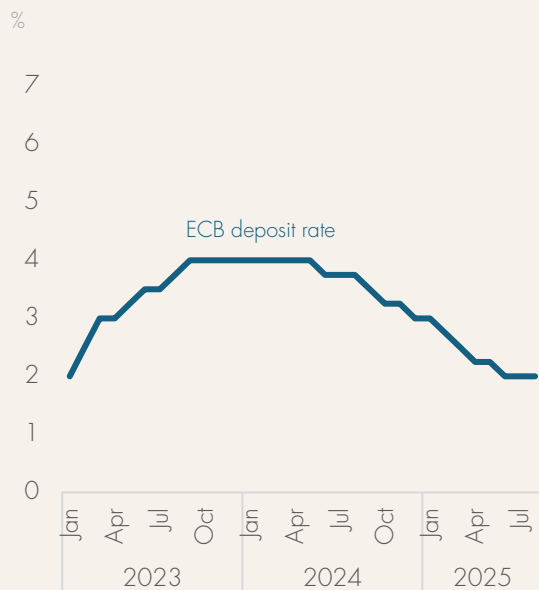
Notably, in September, rental price growth fell below 4%. Excluding the impact the pandemic had on the rental market, this would be the first time since 2013 rental price growth has been below 4%.

Monetary policy is providing stimulus to the economy

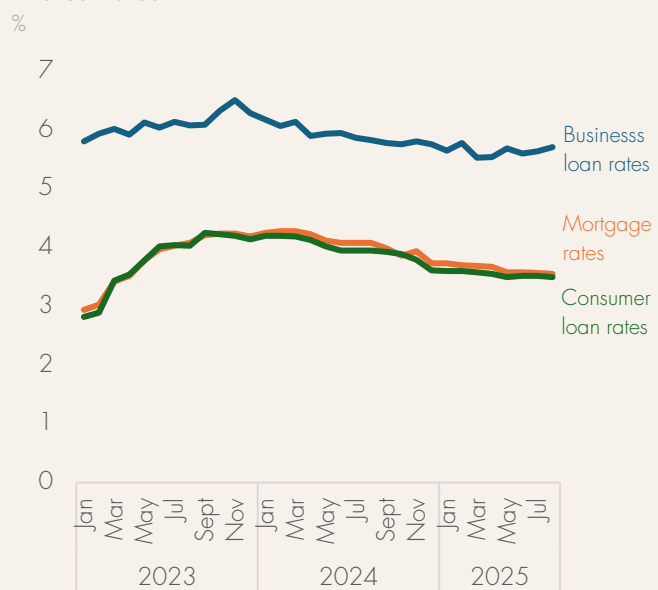
Over the course of 2024 and into 2025, the ECB has steadily cut interest rates (Figure 1.5). This is slowly passing through to the rates faced by households and businesses, providing a stimulus to the economy at a time it is already performing well.

1.5: Falling interest rates are stimulating the economy

ECB's deposit rate has been falling



...which is slowly passing through to customer interest rates



Sources: Central Bank of Ireland; ECB.

Notes: Interest rate data is taken from Table B.2.1 of the retail interest rate publication by the central bank. These are weighted average interest rates for new lending. Business loans refers to the interest rates on new lending of €1 million or more.

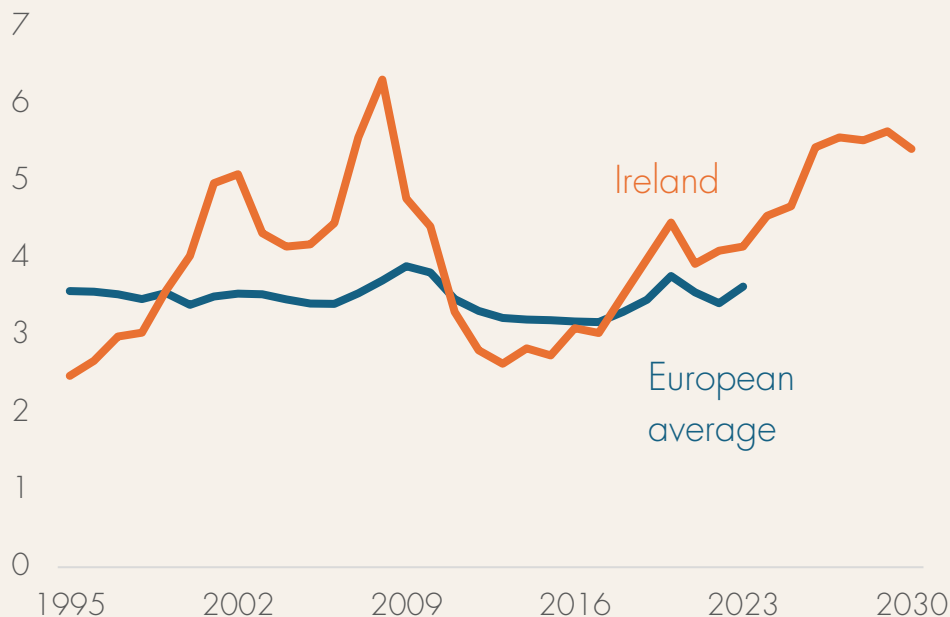
Ireland has shortfalls in infrastructure

While the economy has grown strongly in recent years, Ireland's infrastructure has struggled to keep up. This shortage of infrastructure is evident in a number of areas such as housing, health, transport, water and electricity. This has a material impact on citizens' ability to access essential services. A shortage of infrastructure also has implications for the competitiveness of the Irish economy.

The recent review of the National Development Plan set out ambitious plans for public investment out to 2035 (Figure 1.6). Infrastructure shortfalls cannot be addressed in a few years. It requires high levels of investment being sustained over many years.

1.6: Public investment is planned to reach high levels

Public gross fixed capital formation as a share of national income



Sources: CSO, Budget 2026, 2025 NDP Review and Conroy (2025)

Notes: Government expenditure on gross fixed capital formation as a share of national income is shown. Modified gross national income is used for Ireland, GDP is used for other countries. Budget 2026 forecasts for public gross fixed capital formation are used for 2025 and 2026. For 2027-2030 general government investment forecasts are derived using the changes in exchequer and non-exchequer funding for public investment shown in the revised National Development Plan. In 2030, exchequer capital spending is assumed to grow at the same rate as in 2029, rather than falling as implied in the National Development Plan. The countries included to calculate the high-income European average are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

While public investment can play a role, significant private investment will be required also. Typically, the private sector accounts for over 75% of investment in developed economies. The legal and planning system has been a barrier to building infrastructure in Ireland (Conroy and Timoney, 2024).³

Reforms are in motion. These would place greater weight on the common good associated with infrastructure projects, relative to the rights of individuals to object. If successful, these reforms could make it much more attractive for the private sector to build key infrastructure. It would also make it easier and likely cheaper for public projects to be delivered.

³ Delays in receiving final planning approval increases costs and reduces viability of projects. Uncertainty over whether final approval also adds risk and costs. Finally, navigating planning appeals and judicial proceedings brings substantial costs.

2. The public finances

Spending growth far outpacing revenue growth

While the public finances remain in surplus, the international outlook continues to cast some uncertainty. The main fiscal risks relate to the fast pace of spending growth, repeated spending overruns, and the growing reliance on corporation tax receipts.

Fiscal risks are growing

Budget 2026 shows spending growth outpacing revenue growth, leading to deterioration in the headline and underlying fiscal positions of the State. This means existing fiscal risks are being exacerbated.

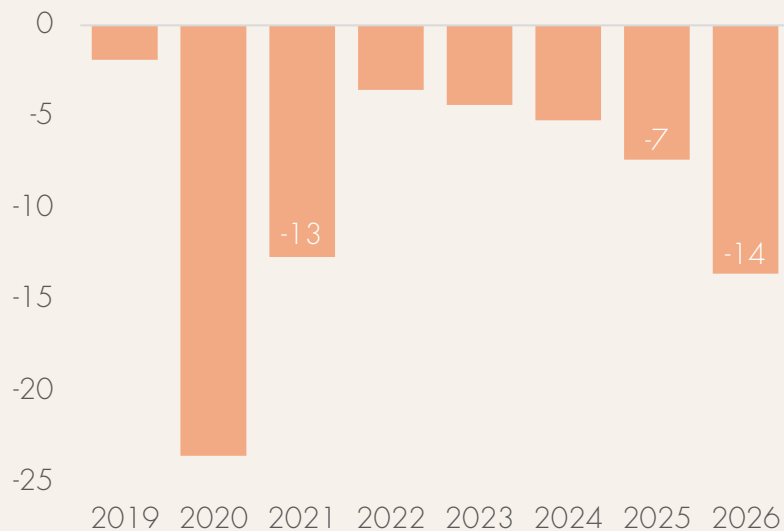
Gross voted spending is forecast to grow by 8% in 2026. By contrast, tax revenue is forecast to grow by only 4.4%. Excluding corporation tax, tax revenue growth is set to be just 3.8%.

Budget 2026 forecasts a €5 billion deterioration in the headline balance, and a €6 billion deterioration in the underlying deficit next year. As a result, the underlying deficit is forecast to rise to €14 billion, or 3.9% of GNI* (Figure

2.1). This is larger than the underlying deficit seen in 2021, when Ireland was in the midst of a pandemic-induced downturn.⁴

2.1: The budgetary position is deteriorating

€ billion, general government balances (excluding excess corporation tax)



Source: Department of Finance.

Spending has been predictably and consistently revised up

Spending forecasts have been repeatedly revised up. While forecasts often show a moderation in spending growth over the medium-term, this moderation has repeatedly failed to materialise (Figure 2.2).

⁴ After adjusting for those in receipt of the Pandemic Unemployment Payment, the unemployment rate in 2021 was almost 14%. By contrast, Budget 2026 forecasts an unemployment rate of 4.8% in 2026.

2.2: Spending forecasts consistently revised up

€ billion, gross voted spending

160

120

80

40

2010

2015

2020

2025

2030

Budget 2026

Source: Department of Finance.

Notes: Figures show vintages of gross voted spending forecasts since Budget 2011.

Spending in 2024 and 2025 was consistently revised above plans that were originally set out. Budget 2024 outlined a gross voted spending level of €96.6 billion for 2024. The outturn for 2024 (excluding one-off cost-of-living measures) was €101.7 billion, €5.1 billion higher than originally planned.

For 2025, spending is projected to exceed the level of €105.4 billion, set in Budget 2025. In fact, Budget 2026 is now forecasting that spending in 2025 will be €109.1 billion. As the Council pointed out in its December 2024 Fiscal Assessment Report (Irish Fiscal Advisory Council 2024), this was predictable as overruns in 2024 were ignored and not factored into the spending base for 2025 (Figure 2.3). The result is spending in 2025 will be €12.5 billion more than the €96.6 billion figure originally set out for 2024.

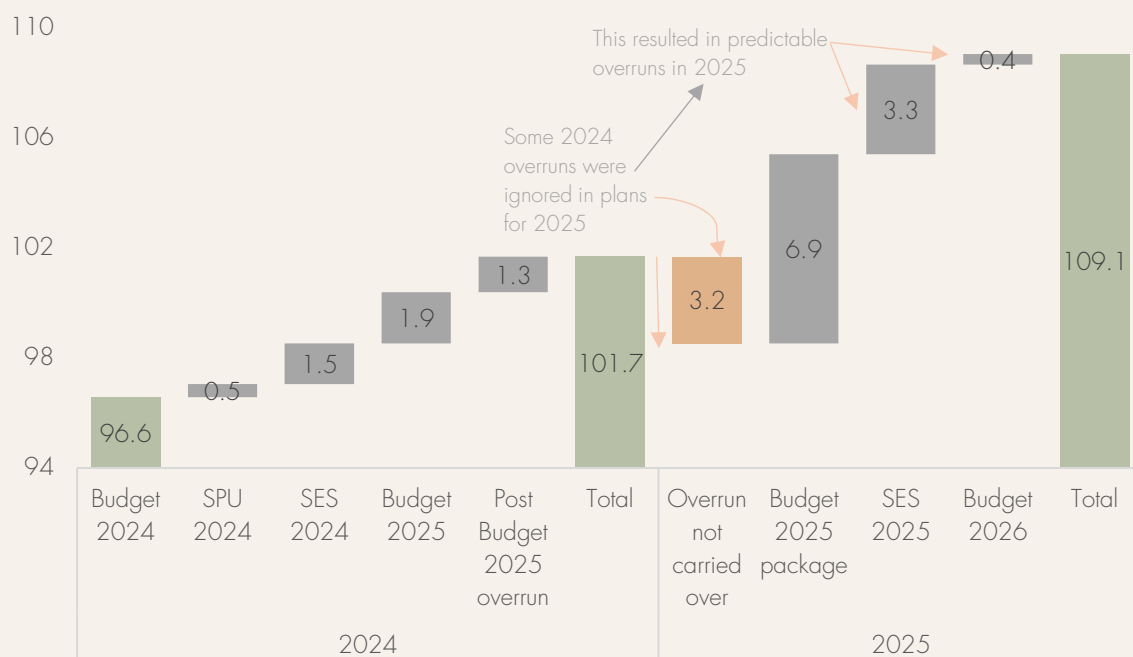
Recent years have seen a predictable pattern of post-budget in-year overruns, with a €1.3 billion post-budget overrun (or forecast errors) in both 2023 and 2024. 2025 looks set to be no different, with spending likely to be higher than currently forecast in Budget 2026.

It is hard for the Council to discern what the likely overrun in 2025 will be. Despite requesting the monthly departmental spending profiles on several occasions, the Department of Public Expenditure, Infrastructure, Public Sector Reform and

Digitisation has failed to provide them to the Council.
 However, based on recent trends, current spending could be as much as €0.7 billion higher than forecast in Budget 2026. These post-budget overruns are a fundamental budgetary failing, which appears to be repeated every year.

2.3: **Spending consistently and predictably increasing more than forecast**

€ billion, gross voted spending



Source: Department of Finance.

Notes: Figures for 2024 do not include one-off cost-of-living spending of €2 billion in 2024.

Budget 2026 repeats past mistakes, with a likelihood of overruns, given the recent record. Once again, likely post-budget overruns in 2025 have not been factored into the baseline figures from which the 2026 figures are derived.

However, the inclusion of a €1 billion contingency in 2026 will mitigate the extent to which these overruns impact on the budget balance. The contingency—which was not included as part of the €9.4 billion budget day package—is, in part, to cover known spending pressures, like the costs associated with the EU presidency, and an extra pay day.⁵ Any known spending pressures should be included in the regular budget figures rather than allocated to a contingency fund.

As 2025 overruns were not factored into the 2026 figures, this contingency is likely to be used to cover overruns. In

⁵ Reports in the media suggest the cost associated with the EU presidency could be in the region of €150-180 million: [‘God only knows what will be tried’: EU leaders’ safety in Ireland comes under spotlight – The Irish Times](#).

addition, the current public sector pay deal will expire on 30th June 2026. Any subsequent pay deal may lead to further overruns in the second half of 2026.

Corporation tax forecasts are now more realistic

Budget 2026 did see a significant revision to forecasts of corporation tax receipts. The Department revised its assumed impact of BEPS reforms from a negative €2 billion to a positive €3.2 billion in 2026.⁶ The Council welcomes this revision. This is in line with recent Fiscal Council estimates of the likely yield from BEPS Pillar II reforms in 2026 (Cronin, 2025).⁷

Corporation tax is forecast to reach record levels in 2026 (€34 billion). This is equivalent to almost 25% of primary spending in 2026. This shows how important corporation tax has become to the public finances in Ireland.

A sizeable tax package is already implicit for 2027

In recent years, the true cost of the tax package has been larger than portrayed on budget day. As many tax cuts start mid-year, their first-year cost is often much lower than the full-year cost. Budget 2026 introduced a number of tax measures. Many of these measures are due to start midway through 2026.⁸ This means the cost of these measures is lower for 2026 than would otherwise be the case. However, the full cost of these measures will be felt in 2027.

As a result, the Government has already committed to a substantial amount of tax reductions in 2027. This is before any new measures are introduced in 2027. This carryover impact is €0.8 billion (Figure 2.4). This is a similar approach (on a bigger scale) to that in Budget 2024 and Budget 2025.

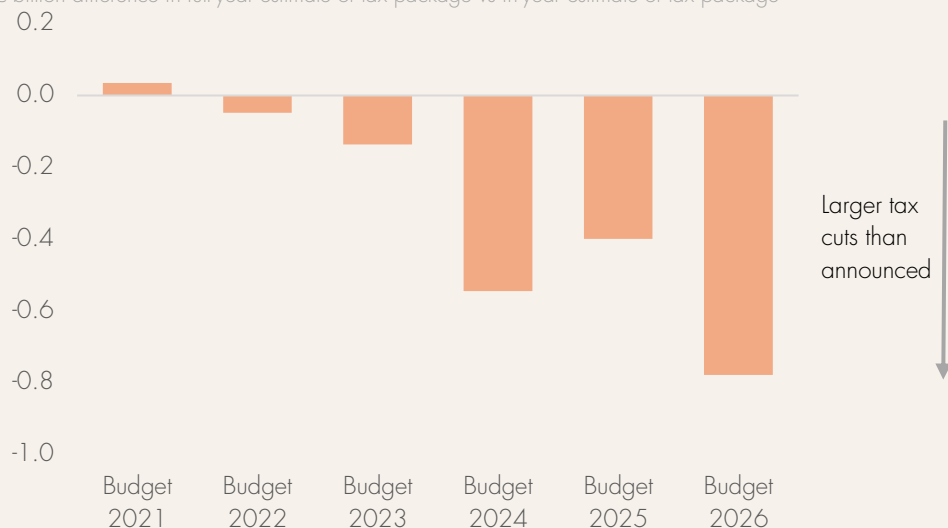
⁶ The Department's assumption of a €2 billion negative impact was based on the assumption that Pillar I and Pillar II of the OECD BEPS reforms would be implemented. As things stand, only Pillar II (the global minimum tax) is implemented.

⁷ Cronin (2025) estimates that €5 billion of additional revenue is likely to be paid due to the BEPS reforms, with increased payments being spread over 2026 and 2027.

⁸ For example, the reduced VAT rate for food, catering and hairdressing is due to commence on 1st July 2026. The cost of this reduction in 2026 is €232 million, while the full year cost is €681 million.

2.4: Impact of tax cuts have been larger than portrayed in budget package

€ billion difference in full-year estimate of tax package vs in-year estimate of tax package



Sources: Department of Finance.

Notes: Figures exclude temporary measures and the bank levy.

Despite the impact of announced tax cuts being larger than portrayed, the overall net impact of tax measures in recent years have typically been revenue raising (Figure 2.5).⁹

This is due to two key factors. First, non-indexation of the income tax bands and credits is a significant revenue raising measure.¹⁰ This is not incorporated into the announced tax package on budget day. Non-indexation of the tax bands and credits means that, due to inflationary pressures, more people end up in higher tax bands. This increases their average tax rate and results in more tax revenue for the State.¹¹

Second, rates of PRSI have increased in recent years.¹² Changes to PRSI rates are typically not counted as part of the tax package on Budget day.

For 2026, sizeable revenue raising measures are implemented. This is primarily due to the implementation of the OECD BEPS Pillar II reforms. The Department estimate that this measure will raise €3.2 billion in 2026. However, the

⁹ As discussed above, the full-year costs of tax cuts are often larger than the cost in the year they were initially introduced. This is mainly due to tax policy changes announced midway through the year.

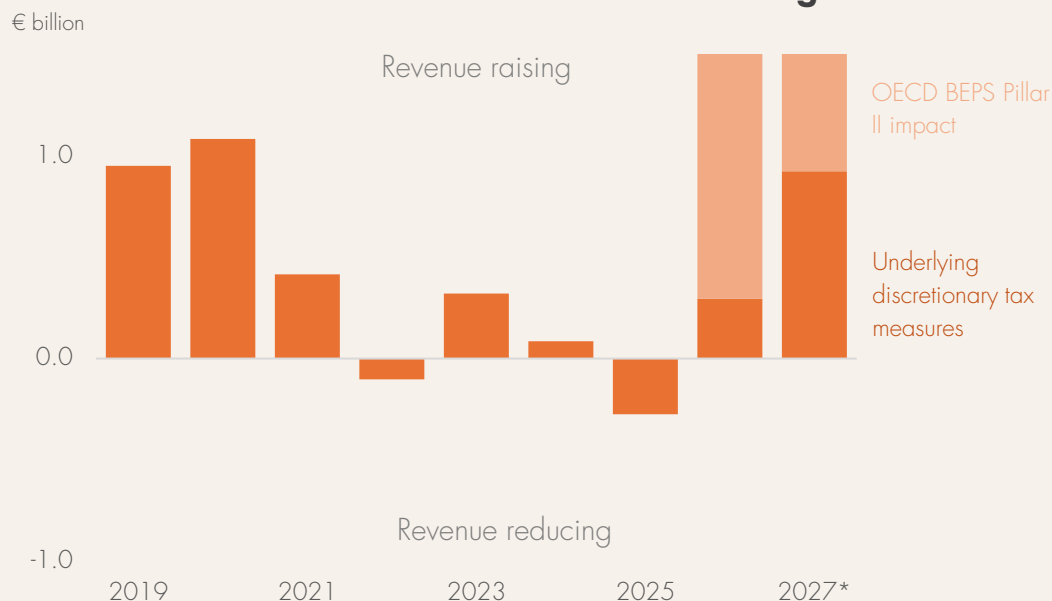
¹⁰ The additional revenue raised from non-indexation has never been incorporated into the announced tax package on Budget day. For example, in 2026, non-indexation is estimated to raise €1.1 billion in additional revenue.

¹¹ From Budget 2023 to Budget 2025, the Government at the time, announced income tax cuts that were similar to the amount raised by non-indexation. For Budget 2019 and Budget 2022, the income tax cuts were around half the amount raised by non-indexation. Budget 2020, Budget 2021 and Budget 2026 did not include any substantial income tax package.

¹² For 2025, increases in PRSI are estimated to raise €323 million in additional revenue.

Council do not include the full €3.2 billion as a permanent revenue raising measure. The Council include only the share of the expected yield that is not considered excess corporation tax as a discretionary tax measure.¹³ This is to reflect only the revenue raising measures which are permanent and can be relied upon indefinitely.¹⁴

2.5: Tax measures have tended to be revenue raising



Sources: Department of Finance and Fiscal Council workings.

Notes: Estimates of revenue-reducing and revenue-raising measures are those judged by the Fiscal Council. These tax measures include the expected yields arising from the non-indexation of the income tax system. In 2026, they also include the expected yield from BEPS Pillar II reforms that is not deemed to be excess. See Box A in the Supporting Items for further detail.

*Figures for 2027 are based on carryover impacts of previously announced or implemented measures, and are before any tax package has been announced for 2027. As a result, figures are likely to change significantly following Budget 2027.

Medium-term forecasts are absent once again

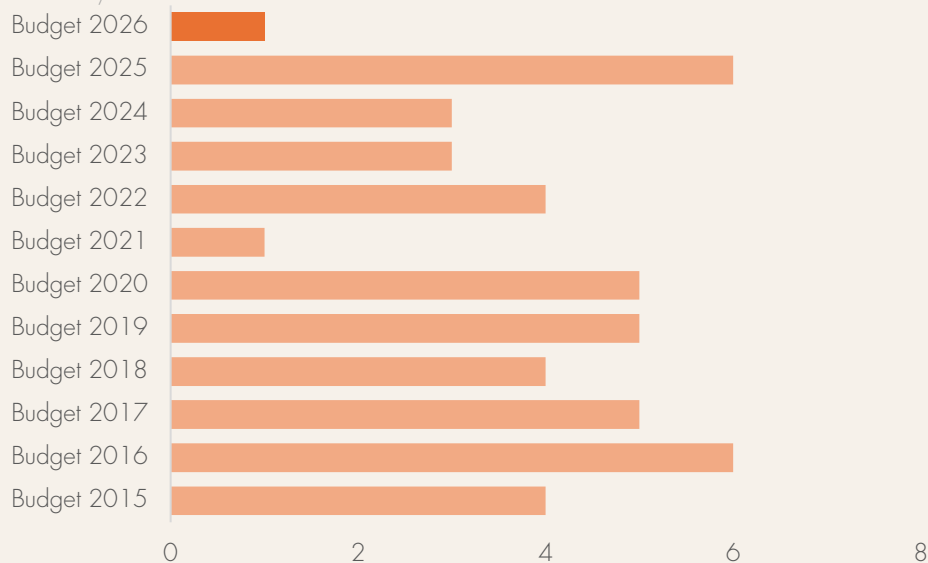
Budget 2026 has the shortest possible forecast horizon. Only Budget 2021, produced at the height of the Covid-19 pandemic, had a similarly short forecast horizon (Figure 2.6). There is no excuse for the short forecast horizon.

¹³ See Box A in the [Supporting Information document](#) for further details on how the proportion that is not excess is calculated.

¹⁴ The Department of Finance do not treat the implementation of this measure as a revenue raising measure. On the other hand, the European Commission treat the full impact of this reform as a discretionary tax measure. This is because it views these revenues as a direct consequence of a new tax introduced in Ireland.

2.6: No excuse for the short forecast horizon

Number of years ahead forecast



Sources: Department of Finance.

Extended forecasts show a further deterioration in the State's underlying fiscal position

Medium-term forecasts are crucial to be able to assess the sustainability of the public finances. Given the short horizon of official forecasts, the Council has produced an extended set of fiscal forecasts out to 2030. These budgetary forecasts use the Department of Finance's macroeconomic projections as an input.¹⁵

Table 2.7 presents the Council's extended fiscal forecasts out to 2030. Over 2026–2030, spending growth is forecast to average 5.7%, while revenue growth is projected to average 4.7%. As a result, in this relatively benign scenario, the underlying fiscal position is set to deteriorate further, from an underlying deficit of 2.2% of GNI* in 2025 to a deficit of 4.7%, or €20.5 billion, by 2030. By 2030, only 9% of corporation tax receipts are projected to be saved. This represents a major fiscal risk for the State.

¹⁵ The Department produced macroeconomic forecasts out to 2030. These act as an input to revenue and spending forecasts. Capital spending plans are consistent with the NDP. Expenditure forecasts take into account "stand-still" costs. Forecasts assume contributions to the Future Ireland Fund and the Infrastructure Climate and Nature Fund continue out to 2030. Further details on the assumptions behind the extended forecasts can be found in the [Supporting Information document](#).

2.7: Extended forecasts show a continued deterioration in the underlying

fiscal position

€ billion (unless otherwise stated)

	2024	2025	2026	2027	2028	2029	2030
Total revenue	148.6	146.4	152.4	160.9	168.6	176.0	183.8
Taxes on production and imports	35.6	37.8	38.6	39.5	40.9	42.5	44.3
Current taxes on income, wealth	66.2	72.0	76.2	81.4	85.2	89.0	93.0
Capital taxes	0.9	1.2	0.9	1.0	1.0	1.1	1.1
Social contributions	23.0	24.8	26.3	28.0	30.0	31.4	32.8
Property Income	2.2	2.1	2.2	2.4	2.5	2.6	2.7
Other	20.7	8.5	8.1	8.6	9.0	9.5	9.9
Total expenditure	126.0	136.2	147.3	155.6	163.5	172.6	179.9
Compensation of employees	34.0	36.7	39.8	41.4	43.2	45.1	47.0
Intermediate consumption	20.2	21.8	22.9	24.6	26.1	27.5	28.8
Social benefits	42.7	44.7	47.6	50.4	53.1	56.0	59.0
GFCF	14.6	15.9	19.6	21.1	22.1	23.6	23.7
Interest	3.4	3.3	3.8	4.1	4.4	4.7	5.2
Capital transfers	2.8	5.5	4.4	4.1	4.1	4.7	4.7
Other	8.3	8.3	9.3	9.9	10.5	11.1	11.6
Excess corporation tax	28.6	17.6	18.7	21.2	22.3	23.3	24.4
Balance	22.6	10.3	5.1	5.3	5.1	3.4	3.9
Balance (excl. Excess corporation tax)	-5.8	-7.4	-13.6	-15.8	-17.2	-20.0	-20.4
Balance (% of GNI*)	7.1	3.0	1.4	1.4	1.3	0.8	0.9
Balance (excl. Excess corporation tax, % of GNI*)	-1.8	-2.2	-3.8	-4.2	-4.3	-4.8	-4.7
Net debt ratio (% of GNI*)	48.3	40.2	40.7	38.6	36.7	35.6	34.4

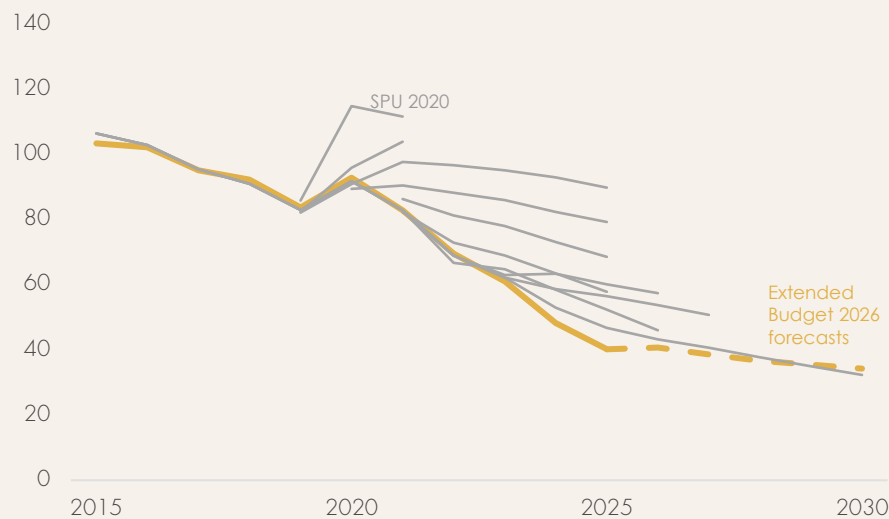
Sources: CSO; Department of Finance and Fiscal Council workings.

Notes: Figures are on a general government basis. Figures in black are from Budget 2026. Figures in blue are the Council's extended fiscal forecasts. For a full description of the methodology employed, please see the online appendix.

While the underlying position is deteriorating, the headline position is forecast to remain healthy over the medium-term. After falling rapidly from 96% of GNI* in 2020 to a forecast value of 40% at the end of 2025, the net debt ratio is projected to fall only moderately to 34% of GNI* by 2030 (Figure 2.8).

2.8: Net debt ratio looks set to stabilise below 40%

Net debt, % of GNI*



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

Notes: Figures for 2026-2030 are based on the Council's extended Budget 2026 forecasts in Table 2.6.

General government forecasts continue to have methodological issues

On several occasions, the Council has highlighted methodological issues with the forecasts of general government revenue and expenditure. While some specific issues have been rectified, others remain.¹⁶

These methodological issues are leading to poor forecasts— independent of any subsequent policy changes. The Department forecasts the “walk” from Exchequer forecasts to general government first, then backs out revenue and expenditure components of general government consistent with this walk. Instead, forecasts of general government components should take precedence over estimates of the walk. The current approach leads to poor forecasts of the components of general government spending and revenue.

For instance, in Budget 2026 there was a downward revision to the growth rate of non-PRSI social contributions in 2026 from 8% to 1.5% (Figure 2.9B). It is unclear why there would

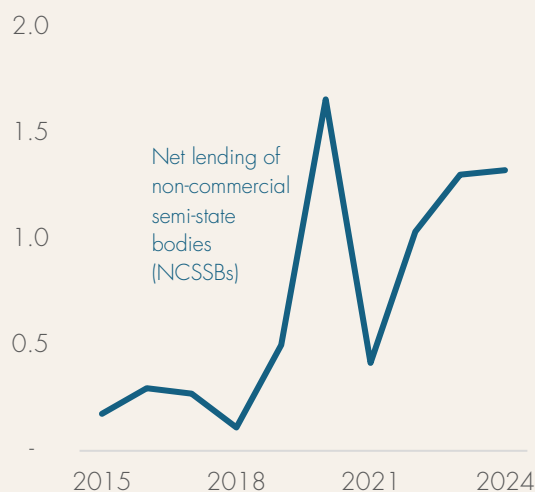
¹⁶ For instance, in the Council's June 2025 Fiscal Assessment Report (Irish Fiscal Advisory Council 2025), the Council highlighted unrealistic forecasts of compensation of employees in 2025 in the Annual Progress Report 2025. The forecast of compensation of employees now looks more realistic.

be no growth in non-PRSI social contributions in 2026, or why this revision would occur.

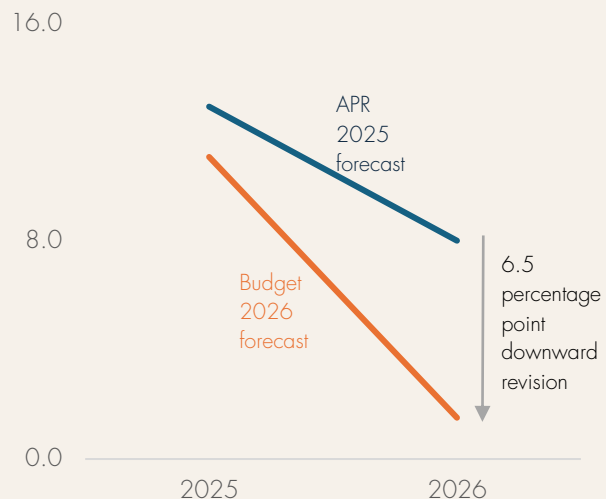
Forecast errors of the “walk” components continue to be large. Figure 2.9A shows the in-year (3-month ahead) absolute forecast errors of non-commercial semi-state bodies (NCSSBs). These errors have averaged €1.1 billion over the past five years. This is a sizeable forecast error in such a short period of time.

2.9: General government forecasts have methodological issues

A. Large in-year forecast errors for NCSSBs
€ billion, absolute value forecast error



B. Non-PRSI social contributions
% growth



Sources: Department of Finance.

Notes: For panel A, figures show the absolute forecast error for the in-year forecast between the outturn in an SPU/APR and the previous Budget. For instance, the figure for 2022 shows the forecast error for 2022 between the forecast in Budget 2023 and the outturn in SPU 2023. Panel B shows the forecast growth rates of non-PRSI social contributions. Figures for Non-PRSI social contributions are arrived at by subtracting the forecasts for PRSI receipts from social contributions. Non-PRSI social contributions are made up of government employee pension contributions and imputed employers' social contributions.

The Department should move to a more appropriate methodology forecasting general government figures. A more appropriate methodology to forecasting general government balance would be to forecast the components of general government revenue and expenditure and then back out the “walk”.

3. How supportive and sustainable is budgetary policy?

Budgetary policy needs to lean against swings in the economy

Standard economic advice suggests policy should smooth the economic cycle. For budgetary policy, this means providing less support when the economy is strong (like right now). This means the Government has more resources to deploy when the economy is weak (were the economy to suffer a downturn).

As well as smoothing the economic cycle, budgetary policy needs to be mindful of the sustainability of the public finances. While the public finances appear to be healthy at present, there are predictable future costs which Ireland will face. These include an ageing population and climate change.

There are two ways in which we measure if government policy is adding to or subtracting from demand.

Net policy spending

First, we can examine how net policy spending is evolving. This is government spending, net of tax changes made.^{17,18} If net policy spending is growing faster than the sustainable growth rate of the economy, then the Government is adding to demand.

In cash terms, net policy spending has been growing at a very fast rate in recent years (Figure 3.1). Budget 2026 forecasts suggest another year of fast net policy spending growth is expected next year (6.7%).

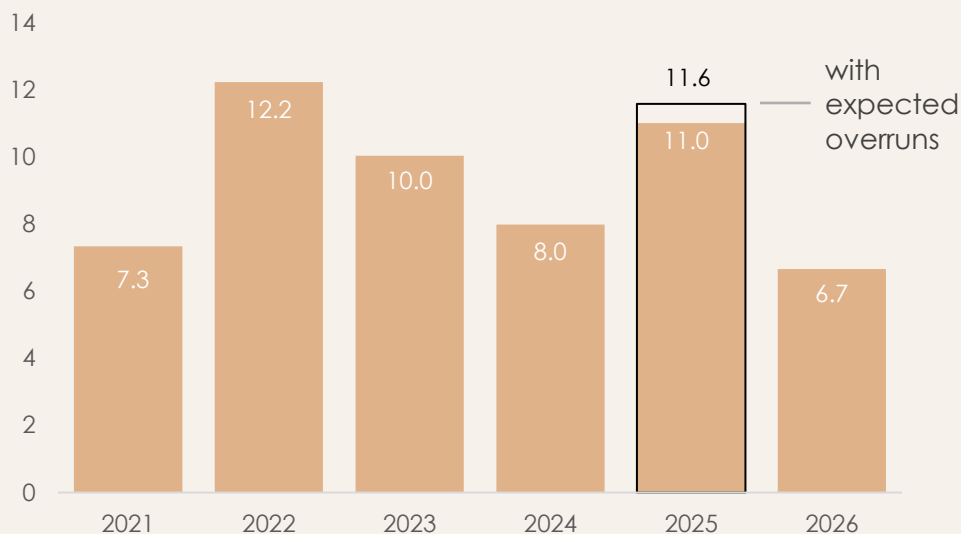
If net policy spending were to increase by 6.7% next year, that would mark a moderation from recent growth rates. However, given the pattern of spending overruns in recent years, government expenditure may grow faster than Budget 2026 figures suggest.

¹⁷ Net policy spending is calculated as follows: net policy spending = general government spending – one-off spending – interest – cyclical unemployment costs – discretionary revenue measures. Cyclical unemployment costs are calculated by comparing the current unemployment rate to an assumed long-run rate of 5%. If tax raising measures are introduced, this means a lower level of net policy spending. By contrast, tax cuts imply a higher level of net policy spending.

¹⁸ The largest revenue raising measures in 2026 is the BEPS Pillar II reforms to corporation tax. The Department of Finance expects that this will raise €3.2 billion of additional revenue in 2026. The Council assesses that 62% of this additional revenue is likely to be “excess”. As a result, the Council counts 38% of this revenue (€1.2 billion) as a revenue raising measure introduced by the Government (see the [Supporting Items document](#) for details on how this is calculated). This reduces the rate of net spending growth, as it measures spending growth net of tax measures introduced. It could be argued that the yield from higher corporation tax revenue should not be counted for this purpose, as collecting additional revenue from large multinationals operating in Ireland is unlikely to subdue demand in the Irish economy. If this revenue raising measure was ignored, net policy spending would be increasing by 7.6% in 2026.

3.1: Net spending is growing at a fast pace

% growth in nominal net policy spending



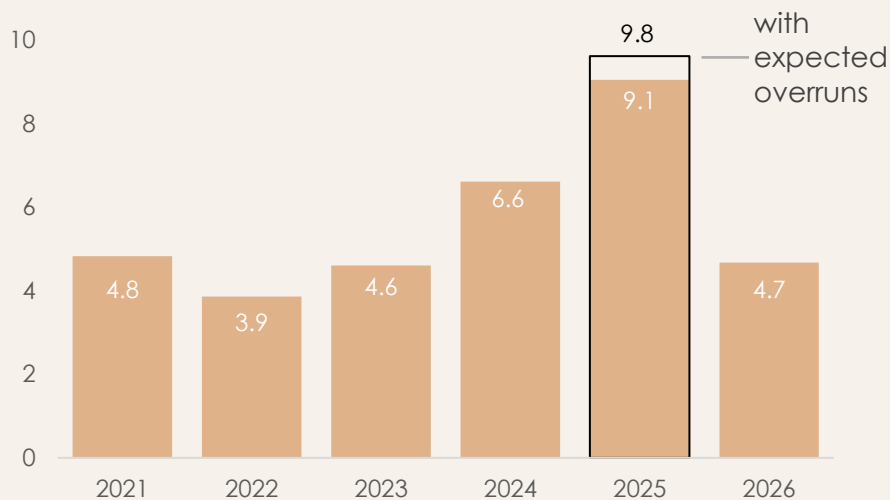
Notes: The “Net Policy Spending” measure assesses the pace of expansion in government policy. It is based on overall general government spending, and it excludes spending that is temporary or cyclical, assuming the normal long-run rate of unemployment is 5%. As it is a net measure, it recognises the 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. For example, the increased rate of corporation tax is expected to yield significantly more revenue. The higher estimate for 2025 assumes spending in 2025 is €695 million higher than that outlined in Budget 2026, as spending data for the year-to-date would suggest.

Some of the high growth of spending in recent years can be explained by inflation. In 2022 and 2023 inflation was significantly above normal levels. After adjusting for inflation, real net policy spending grew at an average rate of 3.7% over 2019-2023 (Figure 3.2). However, the rate of growth was much faster in 2024 (6.6%) and it will be even faster in 2025 (over 9%).

Budget 2026 projections imply that real net policy spending will grow by 4.7% in 2026. While this would be a moderation in growth, it is still in excess of the sustainable growth rate of the economy. Recent evidence suggests actual spending growth may be faster than that planned in Budget 2026.

3.2: Net spending is growing faster than inflation

% growth in net policy spending, after accounting for inflation



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 €695 million higher than that outlined in Budget 2026, as spending data for the year-to-date would suggest. What is shown here is real net policy spending, that is net policy spending which is then adjusted for inflation.

The underlying budget balance

The underlying budget balance also gives a sense of how budgetary policy is adding to or subtracting from demand in the economy. Ordinarily, the headline budget balance would show how budgetary policy is impacting on the economy.

However, much of the corporation tax received by the Government is being paid by foreign multinationals.¹⁹ As a result, the payment of tax by these firms in Ireland does not reduce demand in the Irish economy. This contrasts with income tax, where payments come directly from workers' earnings. That reduces household disposable income and weakens demand in the economy.

On an underlying basis, the Government is spending more than it is collecting in revenue. This deficit has been increasing in recent years (Figure 2.1). This suggests that budgetary policy is adding to demand in the Irish economy, with that impact increasing in recent years.

¹⁹ These multinational firms are largely servicing international markets from Ireland.

Procyclical policy is continuing

Overall, it is clear that budgetary policy has been injecting more money into an economy that's already performing well. This is a textbook example of procyclical fiscal policy.²⁰

Recent policy decisions mean the Government will have fewer resources available to respond to the next economic downturn. The Covid-19-induced recession showed how budgetary policy can support households and businesses during a downturn.

Recent budgetary policy also means that the public finances are less prepared for future budgetary pressures. These include an ageing population and climate change.

A final consequence of recent budgetary policy is that it makes delivering public investment more difficult. There is limited construction capacity in Ireland. By injecting additional money into the economy, it becomes harder and more expensive to deliver much-needed public investment.

It's currently impossible to assess the Government's fiscal stance beyond 2026, as no budgetary forecasts have been published beyond next year. In addition, there is no clear guide for budgetary policy in the medium term.

The Government plans to spend most of corporation tax

Only a few years ago, there was broad agreement that exceptional corporation tax receipts should not be used to fund permanent spending commitments.²¹ As a result, these receipts were expected to be saved, with the Government running surpluses and allocating money into two funds.²²

This approach has gradually shifted in recent years and is expected to change significantly next year. Between 2022

²⁰ In addition, monetary policy is also providing unnecessary support via lower interest rates.

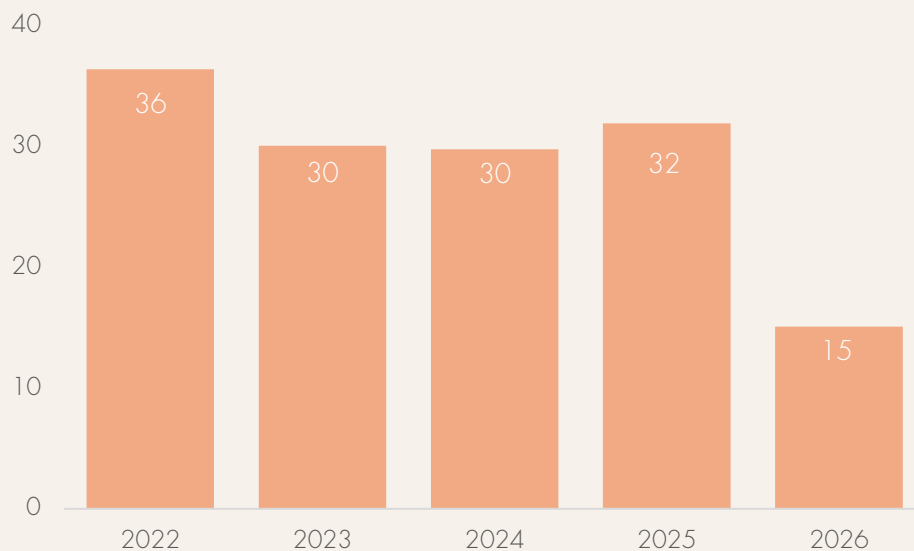
²¹ In April 2023, the then Minister for Finance stated "We have to avoid the mistake of building up permanent expenditure and taxation commitments on the back of receipts that could prove to be temporary. To make such a mistake would be to expose taxpayers, and the sustainability of our finances, to unnecessary and unacceptable risk."

²² See Future-proofing the public finances – the next steps (Department of Finance, 2023). "A key message from the paper is that the benefits of establishing a long-term public savings vehicle would be two-fold. Firstly, it would help to ensure that potentially windfall corporation tax receipts are not used to fund permanent expenditure increases or tax reductions."

and 2024, the Government saved over 30% of corporation tax receipts.

3.3: **The share of corporation tax being saved is planned to fall**

General government surplus as a share of corporation tax



Sources: CSO and Budget 2026.

Notes: Estimates of both the general government surplus and corporation tax are adjusted for receipts from the Apple tax judgement.

The Government's own plans suggest that it will save less of the corporation tax being collected next year. This is despite corporation tax being forecast to increase by almost €2 billion next year. One justification offered for spending more of these revenues now rather than saving them is the need for increased investment in Ireland's infrastructure.

Addressing infrastructure shortfalls will require sustained high levels of investment over many years. As a result, public investment should not be viewed as a temporary cost. It is going to be required for many consecutive years. As a result, this spending should be financed through reliable and stable sources of revenue.

Given the absence of official budgetary forecasts, we use the Council's budgetary projections for 2027-2030 to look further ahead. These projections suggest that the share of corporation tax being saved will continue to fall, reaching 9% in 2030.

Budget 2026 forecasts for next year suggest corporation tax will be equivalent to almost 25% of primary spending. This gives a sense of how important corporation tax is to the Irish public finances.

The public finances are benefiting from a strong economy

As well as benefitting from collecting an extraordinary level of corporation tax receipts, the public finances are benefiting from a strong economy. With record numbers of people at work, this results in large income tax and PRSI receipts.

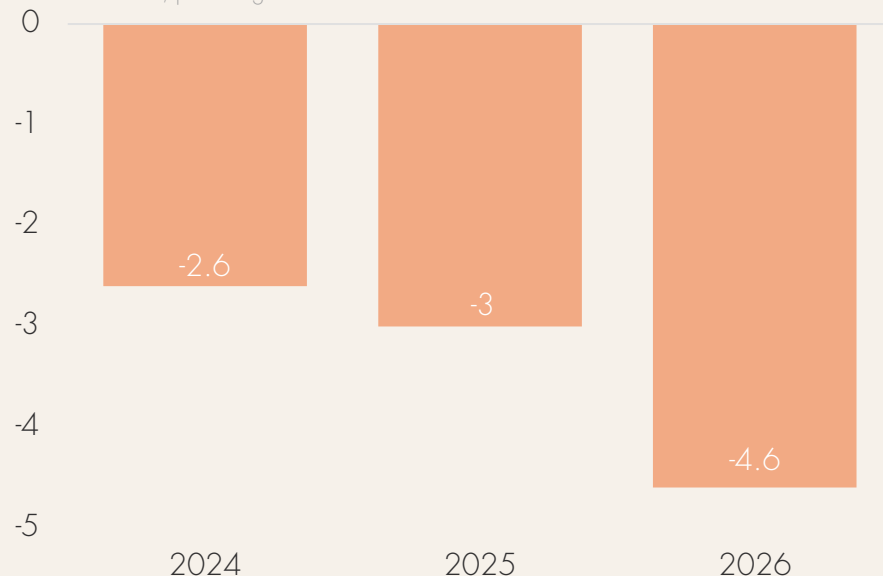
The structural balance attempts to show how the public finances would look if economic activity returned to more normal levels.²³ Using Department of Finance estimates published in Budget 2026, a large and growing structural deficit is apparent. In 2026, this is forecast to be 4.6% of national income (Figure 3.4). This is equivalent to almost €17 billion.

This gives a sense of how large a deficit there would be if corporation tax receipts were to fall and economic activity returned to more normal levels.

²³ These estimates also exclude excess corporation tax receipts.

3.4: Large and growing structural deficits are evident

Structural balance, percentage of GNI*



Source: Budget 2026.

Notes: The structural balance shown here are estimates produced by the Department of Finance for Budget 2026. It is calculated by taking the general government balance and making two adjustments. First, adjusting for the economic cycle. At present the Irish economy is deemed to be operating above its sustainable level. As a result, lower activity (and hence lower tax revenues) would be expected in normal times. Secondly, Department of Finance's estimates of 'excess' corporation tax are excluded.

Budgetary pressures are coming — ready or not

One obvious downside of the short forecast horizon in Budget 2026 is that it does not show some of the budgetary pressures which are coming.

An ageing population is to be celebrated. It reflects increased life expectancy. However, it is going to have budgetary implications. Spending on pensions and healthcare will increase significantly as the population ages.²⁴

In addition, as highlighted by Casey and Carroll (2023), climate change will have a significant impact on Ireland's public finances. This will involve higher spending and will result in some revenue streams falling and needing to be replaced.

Overall, if policy remained unchanged, these two factors would make the public finances less favourable. By 2050,

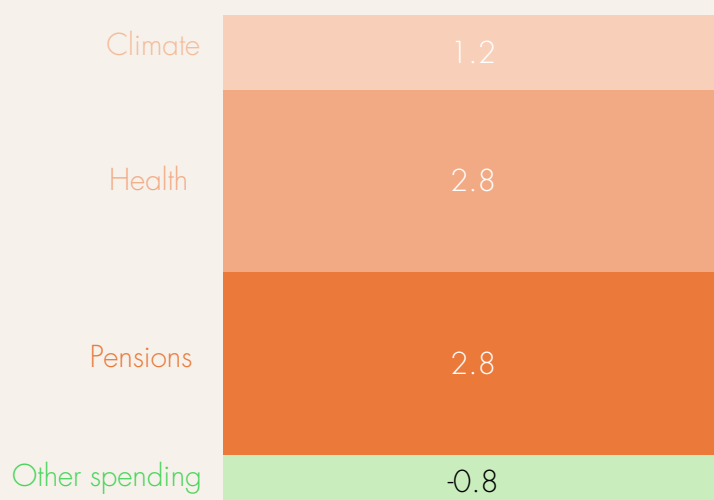
²⁴ See Fiscal Council (2020)

their impact would be 6% of national income (Figure 3.5). In today's money, that is equivalent to more than €20 billion.

The Department of Finance (2025) has produced scenarios for the path of the economy and public finances out to 2065. These scenarios are very useful and illustrate how the public finances might evolve over under current policies. These scenarios should be a complement to (not a replacement for) budgetary forecasts that should go at least five-years-ahead.

3.5: **Ageing and climate will have a big impact on the public finances**

Impact on the general government balance by 2050, percent of national income (GNI*)



Sources: Budget 2026, Fiscal Council (2020) and Casey and Carroll (2023).

Notes: Positive values indicate that the factor worsens the general government balance (additional spending or reduced government revenue). Pensions and health costs are calculated using the Council's long-term sustainability report (Fiscal Council, 2020). This is done by taking the difference between spending levels (as a share of national income) projected for 2050 and 2026. Estimates of additional spending required and revenues that will need to be replaced as part of the green transition are taken from Casey and Carroll (2023). The fall in "other spending" is mainly driven by education, as a smaller share of the population is in younger age groups.

Ireland set to break net spending limits

New EU fiscal rule reforms came into effect last year. They now have a more medium-term focus with a net spending rule.²⁵ This rule sets a limit on how quickly government

²⁵ Net spending refers to nationally financed net primary expenditure. The new EU fiscal rules define it as general government expenditure excluding interest, one-offs, EU-funded spending, national spending on programmes co-funded by the EU, and temporary spending on unemployment related to the cycle. It adjusts for the net impact of tax measures; tax-raising measures can be used to offset larger spending increases, whereas tax cuts would reduce the scope for spending increases. This EU measure differs slightly from the Fiscal Council's estimate of net policy spending, which includes EU-funded and co-funded spending.

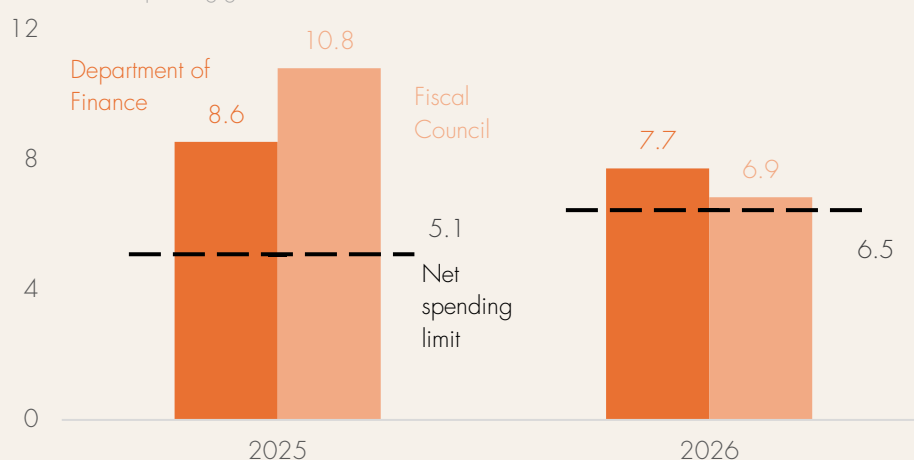
spending can grow. Faster spending growth is allowed if it is matched by higher taxes.

The previous Government published its medium-term plan in October 2024. It set limits for net spending growth over five years, from 2025 to 2029. Although the current Government may submit a new plan with updated limits for net spending growth, it has yet to do so.²⁶ Therefore, it remains bound by the existing limits.

Ireland plans to break these spending limits in 2025 and 2026; rather than the 5.1% and 6.5% increases set out in the medium-term plan, the Department of Finance now expects net spending to grow by 8.6% and 7.7% (Figure 3.6). This mainly reflects much faster-than-expected growth in total spending.²⁷ For example, total spending in 2026 is now expected to be €8.3 billion higher than what was initially announced in the medium-term plan.

3.6: Ireland plans to break net spending growth limits

% estimated net spending growth



Sources: Draft Budgetary Plan 2026 and Fiscal Council workings.

Notes: Net spending refers to nationally financed net primary expenditure. The Department of Finance set limits for net spending growth of 5.1% in 2025 and 6.5% in 2026 in its medium-term plan. These limits were later approved by the Council of the European Union. The Fiscal Council's estimates of net spending growth differ for three main reasons. First, they assume spending overruns of €0.7 billion in 2025. This higher level then carries into 2026. Second, the Council considers €2.5 billion of spending in 2024 as one-off. Excluding these one-off items lowers the base in 2024, which makes the increase in spending larger in 2025. Third, the Council includes the expected yield from BEPS Pillar II reforms that is not deemed to be excess in 2026 (€1.2 billion). This increase in tax revenue reduces net spending growth in 2026. Item 1 in the Supporting Items shows how these net spending growth estimates were calculated.

²⁶ This is permitted for new governments under the new EU fiscal rules. The Programme for Government committed to submitting a new medium-term plan this summer alongside the Summer Economic Statement. However, this plan has yet to be published.

²⁷ Here, total spending refers to general government expenditure.

Ultimately, the European Commission will be the body that assesses whether Ireland has broken its net spending limits. It also expects Ireland to exceed its limit in 2025. It projects net spending to grow to by 7.7% this year, far in excess of the 5.1% ceiling (European Commission 2025).

No penalty likely for breaking spending limit

It remains unclear what action, if any, the European Commission might take should Ireland breach its annual net spending limits as expected. As long as Ireland keeps its public debt below 60% of GDP and its deficit within the 3% of GDP limit, it will likely face minimal external scrutiny at an EU level (Figure 3.7).

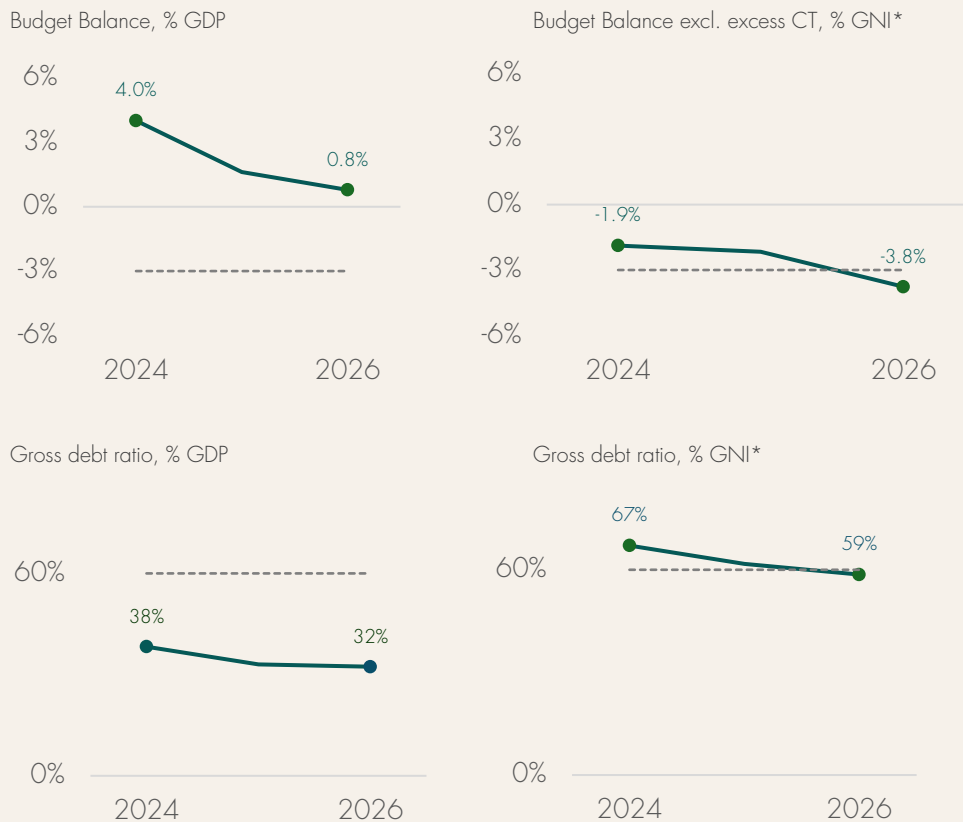
These benchmarks are totally ill-suited for Ireland. They do not provide any credible constraint due to their emphasis on GDP, while exceptional corporation tax receipts flatter Ireland's headline budgetary position.

A less positive picture emerges when we adopt metrics that are better suited to Ireland.

First, we use GNI* as the basis for our assessments. This has a closer link to things like jobs created and the more reliable tax revenues. It gives a more accurate picture of Ireland's debt sustainability. On this measure, the Department of Finance projects that gross debt will only fall below 60% of GNI* in 2026 (Figure 3.7).

Second, we remove excess corporation tax receipts from Ireland's budget balance. This is the part that cannot be explained by the activity of domestic firms and is instead linked to the exceptional performance of foreign multinationals. On this measure, the Department of Finance estimates large and growing deficits, reaching 3.8% of GNI* in 2026 (Figure 3.7).

3.7: The EU rules: 3% deficit limit and 60% debt limit



Source: Department of Finance.

Previously, the rules set limits for net spending even when countries complied with debt and deficit limits. However, this is no longer the case.

The most likely outcome is that the new Government will simply publish a new medium-term plan, raising the limits for net spending for 2026 and beyond.

The wait for a domestic fiscal rule continues

Meanwhile, the current Government has yet to implement a domestic fiscal rule. The previous Government had the National Spending Rule, which set a 5% limit for net spending growth. However, it repeatedly exceeded this limit.

A net spending rule could be a simple, yet effective, safeguard for the public finances. If set as multi-year ceilings, it could help to ensure that Ireland's public finances are managed in a sustainable way.

Unlike the EU rules, a domestic rule could be designed to suit Ireland's specific circumstances. It could draw on the Department of Finance's estimates of potential or trend growth. And it could overcome issues related to GDP and exceptional levels of corporation tax receipts.

A rule like this would also bring wider benefits. It would help focus budgetary policy on long-term challenges. With greater funding certainty, government departments would be better placed to coordinate how they deliver on major challenges, such as population ageing and climate change.

For the rule to work, the new Government needs to show that it is serious about managing the public finances sustainably. One way to do this would be to set the rule in legislation. Or, at the very least, governments should seek cross-party agreement on the broad outlines of such a rule as in Finland and Sweden.²⁸

The Medium-term budgetary framework has been ignored

The Medium-Term Budgetary Framework legally requires the Government to set departmental expenditure ceilings for the following three years.

However, no departmental ceilings were set for 2026 and 2027. These ceilings are required under the Ministers and Secretaries (Amendment) Act 2013.²⁹

This is a clear violation of the framework. The Government should set realistic ceilings, and these should be set as part of the budgetary process.

Evidence from the World Bank (2024) suggests that countries with a Medium-Term Expenditure Framework tend to deliver government services more efficiently. Taking a multi-annual approach to budgeting (rather than the year-to-year approach currently in place in Ireland) brings many benefits. These benefits include better planning and more efficient resource allocation. It stands to reason that if government agencies know what their funding levels are likely to be over the next

²⁸ Casey and Cronin (2023) discuss four international case studies that would be relevant to Ireland when designing a spending rule.

²⁹ See section 17(6) of the Ministers and Secretaries (Amendment) Act 2011, as amended by the Ministers and Secretaries (Amendment) Act 2013.

five years, they will be better able to plan and deliver services effectively.

Work needed to fully adopt new EU rules

The new EU fiscal rules came into effect last year. The package of reforms included an EU directive which sets minimum requirements for budgetary frameworks for Member States.

This EU directive must be transposed into Irish law by 31 December 2025. The European Commission published a report in June detailing how Member States are progressing with this.³⁰ Once the transposition deadline passes, the Commission will assess whether the updated national laws comply with the amended directive.

The directive strengthens the role of independent fiscal institutions (IFIs), such as the Fiscal Council. The Council will continue to endorse, as it considers appropriate, the Government's macroeconomic forecasts, and assess the Government's compliance with its fiscal rules. In addition, IFIs shall now also assess "the consistency, coherence and effectiveness of the national budgetary framework". This new responsibility is loosely defined, and how it will be transposed into Irish law remains uncertain.

Crucially, a 'comply or explain' principle will apply to each of these assessments. That is, the Government shall comply with the IFI's assessments or publish, within two months, an explanation of why it is not doing so.

To fulfil this expanded role, the directive notes that IFIs require sufficient resources, functional autonomy, and adequate and timely access to data. At present, the Council relies on goodwill to access key information. This is far from ideal and can hamper the independence of a fiscal institution. In addition, the Council does not have complete autonomy over how it spends the funding it is allocated. Fully transposing the directive would formalise the Council's right to timely information and allow it to operate more effectively.

³⁰ This Interim Progress Report on the Implementation of the new Directive is available [here](#).

The Government plans to use a Statutory Instrument to transpose the directive in Irish law. This approach is often preferred by governments as it only needs the relevant Minister's signature to take effect. This makes it faster than passing a new Act. However, Statutory Instruments have clear drawbacks: they typically receive less parliamentary scrutiny, attract less public attention, and can be more easily amended by the Minister, so long as the changes remain consistent with the directive.

Domestic Budgetary Rule should be reformed

Ireland's Domestic Budgetary Rule is not fit for purpose. The Council has a mandate to monitor and assess compliance with this rule.³¹ It expects Ireland to comply with the medium-term objective in 2025 and 2026.

However, two key problems persist. First, the estimates of the structural balance ignore distortions related to GDP and the role played by excess corporation tax. Second, the medium-term objective itself has effectively been repealed under the new EU rules.³²

The Fiscal Responsibility Act (2012) sets out Ireland's fiscal rules, but the EU laws underpinning them have now been amended or replaced.

Some aspects of the Fiscal Responsibility Act are broadly in line with the revised EU fiscal rules. Both still hinge on a 3% of GDP deficit limit and 60% debt-to-GDP limit. And although the medium-term objective has been removed, the overall aim of the new rules is still to achieve fiscal sustainability over the longer term. However, the Budgetary Rule should be reformed to reflect the shift in focus to a net spending rule.

³¹ The Budgetary Rule is deemed to be achieved if the structural balance — a measure of the budget balance stripping out temporary and cyclical effects — meets a specified target, or is moving towards it. This target, the medium-term objective, is assumed constant at -0.5% of GDP each year. The Council uses a "[principles-based approach](#)" to assess it, thus addressing some of the shortcomings with the European Commission's previous approach. For instance, it uses more appropriate measures of potential output for Ireland and more recent forecasts to estimate the structural balance.

³² [Part 1](#) of the Fiscal Responsibility Act 2012 defines the medium-term objective at the core of Ireland's Budgetary Rule as the "objective required by the 1997 surveillance and coordination Regulation". However, this EU regulation was repealed last year (see [Article 37](#)).

A new approach is needed to budgeting

While Ireland faces challenges, it finds itself in a strong position. The economy is still performing well. With record numbers at work, this is resulting in substantial tax receipts.

The Council has five recommendations as to how budgeting in Ireland can improve:

1. **The Government needs to ensure budgetary policy reduces the ups and downs of the economic cycle.** This means supporting the economy when it is weak. But it also means showing restraint when the economy is strong.
2. **The Government should be running bigger surpluses today and setting more aside into savings funds.** Given the strong economy, the Government has an opportunity to prepare for predictable future costs. These include an ageing population and climate change. Setting more aside into the savings funds now would leave Ireland better prepared to deal with these challenges.
3. **The Government needs to move away from year-to-year budgeting.** Moving to multi-annual budgeting would give government agencies more certainty over their future funding. This would aid better planning and delivery of public services.
4. **The Government should set a rule or guide for budgetary policy.** At present, there is no effective guide for future budgetary policy. The Government should set out some limits on spending growth net of tax changes.
5. **The Government should improve how it produces forecasts.** General government forecasts should take precedence over Exchequer forecasts. The current approach is leading to predictable forecast errors for general government figures. Forecasts in Budget 2026 only went 15 months ahead. To aid planning, forecasts should be at least five years ahead. In addition, spending forecasts should be projected from the realistic level of spending in the current year—including likely overruns—not on the prevailing level of voted expenditure at the time of the Budget. Not doing so means spending forecasts in the budget are wrong from the start.

Checklist for a better fiscal framework

Forecast process

Forecast at least five-years ahead

X

Forecast spending realistically

X

Clear guardrails

Set a long-term fiscal objective, like a debt limit

X

Legislate for a national rule that is consistent with the fiscal objective

X

Put in place appropriate savings funds for excess corporation tax

✓

More transparency

Provide transparent costings of major policy changes

X

Make non-Exchequer forecasts more transparent

X

Show how rules are being adhered to or not

X

Overall assessment

1 out of 8

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Supporting items

You can find more information supporting the Council's analysis online at this link.

This includes information on the fiscal rules and the Council's estimates of Stand-Still costs — the costs of maintaining today's public services and supports over time. There are also further details on the methodology used by the Council to produce extended budgetary forecasts out to 2030.

[VIEW SUPPORTING ITEMS](#)