Irish Fiscal Advisory Council

Press Release:

Fiscal Assessment Report — Budgeting like there's no tomorrow

In its latest Fiscal Assessment Report, the Irish Fiscal Advisory Council warns that budgetary policy is adding more money into an already strong economy. The report also highlights future budgetary pressures and a lack of long-term planning.

The public finances are heavily reliant on corporation tax

While the Government is running surpluses, these are driven by corporation tax from a few large US companies. After excluding what the Department of Finance deems "excess" corporation tax, a deficit of almost €14 billion is expected next year.

Predictable budgetary pressures are coming

Ireland faces significant and predictable budgetary pressures. These arise from supporting an ageing population and addressing climate change. These costs amount to 6% of national income by 2050 (€20 billion in today's terms). The Council stresses that now is the time to prepare for these challenges, while the economy is strong.

Fast spending growth continues

Against this backdrop, budgetary policy continues to add money into the economy when it is not needed. Spending net of tax measures is set to grow by over 11% in 2025. This is much faster than a sustainable rate.

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.

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.

The Government has not set any rule or guide for budgetary policy. It has not submitted an updated Medium-Term Plan to the European Commission. The Programme for Government had committed to doing so earlier this summer.

Looking ahead, the Government should:

1) **Use budgetary policy to smooth the economic cycle.**
This means supporting the economy when it's weak, but showing restraint when it's strong.

2) **Run bigger surpluses and save more of the corporation tax.**
Given the strong economy, the Government has an opportunity to prepare for predictable future costs. The more the Government saves now, the better prepared it will be for an ageing population and climate change.

3) **Move away from year-to-year budgeting.** Moving to multi-annual budgeting would give agencies more certainty over their future funding. This would aid better planning and delivery of public services.

4) **Set a domestic fiscal rule.** Introduce a national rule to guide spending growth net of tax changes.

5) **Improve forecasting.** Forecasts should go at least five years ahead.

Commenting on the report, Seamus Coffey, the Council's Chairperson noted:

"The Irish economy is performing well. It does not require support from budgetary policy. While Ireland's public finances appear to be strong, they are heavily reliant on corporation tax receipts.

The Government plans to run a smaller surplus next year. That means we are saving an even smaller share of our corporation tax receipts.

By adding money into the economy when it is strong, the public finances are less well prepared for the next economic downturn and predictable budgetary pressures.

We don't know what the Government's plans are beyond next year. Budget 2026 contained no budgetary figures beyond 2026. This is very poor practice. Good planning and budgeting require forecasts that go more than 15 months ahead. "