Irish Fiscal Advisory Council

Pre-Budget 2027 Statement

August 2026

Summary

The Irish economy is performing strongly and does not need support from Budget 2027. If a large budgetary package is introduced, it would likely mean higher prices for households and firms.

The planned budget package is larger than appropriate. As the economy is performing well, net spending growth should remain in line with the economy's sustainable growth rate. Current plans would increase net spending slightly faster than this rate. This follows three years of rapid spending growth, even after adjusting for inflation.

The actual budget package is likely to be much larger than what is announced on budget day. Spending overruns have been routine over the last decade, averaging more than €2 billion a year in today's terms. As a result, government spending has grown much faster than originally planned.

The Government is facing significant cost increases next year. A growing and ageing population means greater demand for public services. Inflation and other cost pressures will also mean extra government spending. These costs will absorb much of the funding available for new measures next year.

There is no suitable guide for budget policy at present. The Government's medium-term plan is the only framework currently in place. However, it is inappropriate as it allows net spending to grow faster than the economy's sustainable growth rate. Following this plan will result in an even greater dependence on risky corporation tax receipts.

Ireland needs its own domestic budgetary rule. This should be carefully designed and set out in legislation. Such a rule could help protect public investment, which was cut sharply after the financial crisis.

The Government should continue to make planned contributions to its savings funds. The Future Ireland Fund can help offset the predictable costs associated with an ageing population. By running larger surpluses, the Government would not need to borrow to make contributions to its savings funds.

Latest projections

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

	2025	2026	2027	2028	2029	2030
Economy						
Real GNI* growth	4.7	3.2	2.5	2.5	2.4	2.4
Nominal GNI* growth	3.8	6.3	5.5	5.2	5.1	5.1
Nominal GNI*, € billions	334	355	375	394	414	436
Price inflation, year-on-year change (HICP)	2.1	3.3	2.5	1.7	1.8	2.0
Public finances						
Budget balance	3.4	2.5	2.3	1.5	0.3	1.3
Budget balance (€ billions)	11.5	9.0	8.4	6.0	1.4	5.6
Potentially transitory corporation tax (€ billions)	18.4	20.0	21.3	23.0	21.8	26.7
Budget balance excluding potentially transitory corporation tax	-2.1	-3.1	-3.4	-4.3	-4.9	-4.9
Budget balance excluding potentially transitory corporation tax (€ billions)	-6.9	-11.0	-12.9	-17.0	-20.4	-21.1
Revenue	43.6	43.5	43.4	43.6	43.0	43.7
Revenue excluding potentially transitory corporation tax	38.1	37.9	37.7	37.8	37.8	37.6
Expenditure	40.2	41.0	41.1	42.1	42.7	42.4
Net debt ratio	43.2	42.1	39.3	37.7	36.3	33.2
Net debt (€ billion)	144.3	149.3	147.1	148.7	150.2	144.6

Sources: The projections shown are largely based on the Government's Annual Progress Report (APR) 2026 projections released in April 2026. However, these are updated for new national accounts and government finance statistics data for 2025. The budgetary forecasts are updated to take account of latest outturns and the new spending measures announced in the Government's Summer Economic Statement 2026 published in July. Spending figures shown incorporate further assumed overruns of €1.4 billion in 2026, which are assumed to carry into the spending base in later years. Revenue forecasts are also revised up by €1 billion in 2026 relative to forecasts in the Annual Progress Report (which also carries into the revenue base in later years). This reflects the strong performance of tax receipts in the first seven months of this year. Net debt is estimated using estimates for the general government balance as well as assumed transfers to the Future Ireland Fund and the Infrastructure, Climate and Nature Fund. From 2026 onward, only 10% of the Future Ireland Fund is assumed to be in liquid assets (also known as EDP debt instrument assets) which would be counted as eligible assets when calculating net debt.

1. The economic backdrop

A strong economy that doesn't require budgetary support

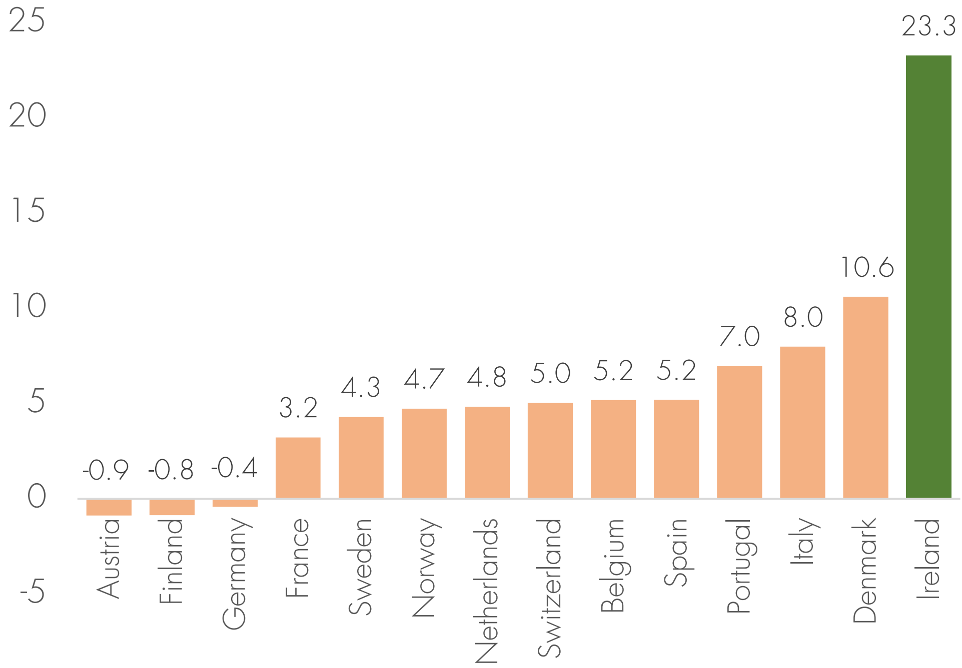
The Irish economy has continued to grow at a remarkable pace. The most reliable indicator of economic activity, Modified Gross National Income (GNI*), grew by 4.7% last year.

Since 2019, the Irish economy has been growing rapidly. Even after accounting for increases in population and prices, activity in Ireland has increased substantially. Since 2019, real output per person has increased by 23%. This corresponds to 3.6% average growth per year over this period. This is by far the fastest growth seen in high-income European countries over this period (Figure 1.1).

Put another way, output per person (after adjusting for prices) has grown from €50,000 to €62,000 in the space of six years.

1.1: **Recent growth in Ireland has been exceptional**

Percentage change in output per person between 2019 and 2025.



Source: CSO and Eurostat.
Notes: Real GDP per person is used for the other high-income European countries shown.
Real GNI* per person is used in Ireland.

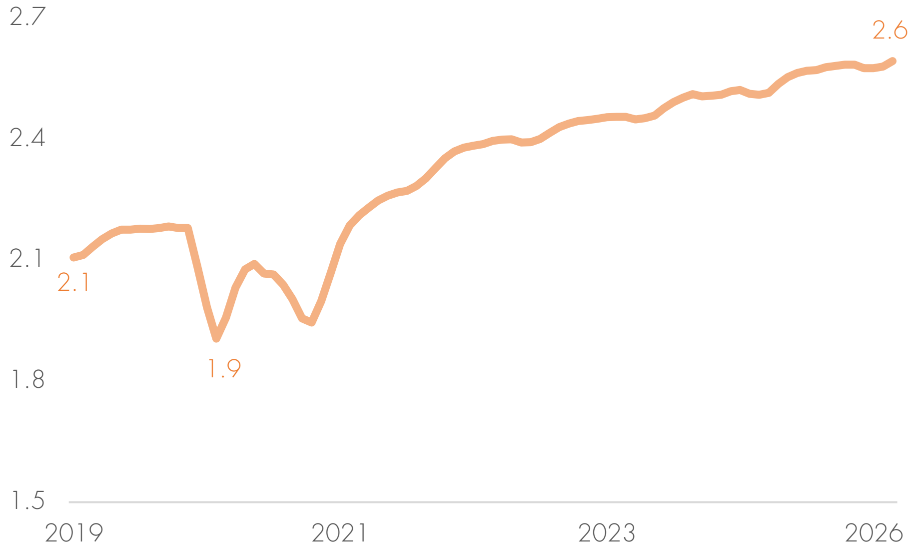
For 2026, the economy still appears to be performing well. Administrative data shows that employment in the first five months of the year grew by 2.4% relative to the same period last year. This is a similar rate of growth to that which occurred in 2025.[1]

One sector which is performing less strongly this year is the tech sector. Employment in this sector has largely plateaued over the last year. As shown by Cronin (2026a), foreign-owned multinationals in this sector are major contributors to income tax, PRSI and VAT receipts.

[1] The Labour Force Survey shows a slightly weaker picture, with employment in the first half of the year 0.4% higher than last year. However, this is based on survey data. As a result, we put more weight on monthly administrative data published by the CSO. This draws on Revenue data on PAYE returns.

1.2: **Employment continues to grow**

Employees, millions, three-month moving average



Source: CSO.

Notes: The data shown is from the Revenue Commissioners PAYE Modernisation. This provides real-time data on employments and taxes paid.

However, other sectors are still showing strong growth.[2] The strength of the Irish labour market is also evident in recent income tax and PRSI data. Compared to the first 7 months of last year, income tax receipts are up 7.5% with PRSI receipts up 8.8%.[3]

Overall, the economy is still in a very strong position. With that in mind, it does not require support from budgetary policy. A large budgetary package would likely fuel further inflation.

Inflation remains elevated

The headline inflation rate has fallen back to 3.1% in July, down from a peak of 3.6% in March. Oil based prices have fallen since their recent peak; however natural gas prices are at their highest since early 2023 and volatility remains high due to the ongoing war in the Middle East. Food inflation remains subdued for now, but persistent dry conditions across Europe could place upward pressure on prices in the coming

[2] Sectors such as construction, financial and professional services and public sector dominated areas (health, education and public administration) are all growing strongly.

[3] Both income tax and PRSI receipts this year are benefiting from previous policy decisions. As income tax bands and credits were not indexed in line with wage growth in Budget 2026, the average effective tax rate has increased. For PRSI, an increase in contribution rates was introduced from 1st October 2025.

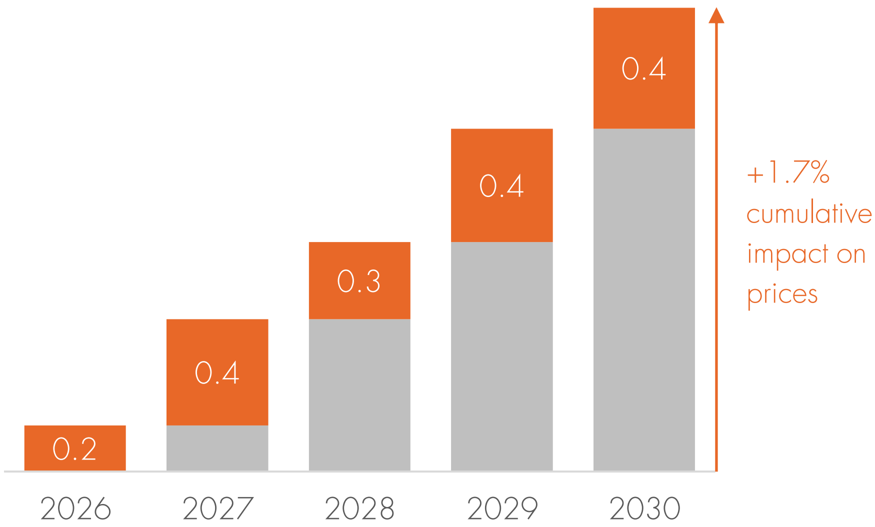
months. Domestically, goods and services with low import content continue to have relatively high price growth, which reached 3.8% in July.

If budgetary policy continues in line with recent years, it will add to inflation. Boyd et al. (2026) show that if government spending grows by 9% per year rather than 5% per year, the price level would be 1.7% higher by 2030.[4] For an average household, this would equate to a cumulative increase of €1,000 in annual outgoings.[5]

While households may feel some temporary benefits from additional government spending, that would be offset by a permanently higher cost of living.[6]

1.3: **Budgetary policy could increase the cost of living**

Estimated impact on prices of fast net government spending growth continuing



Source: Fiscal Council workings based on Boyd *et al.* (2026).

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[4] This combines the effects of two scenarios presented in Boyd et al. (2026). First, the difference between government spending increasing by 5% per year, rather than the Government's planned spending growth. Second, the difference between the Government's planned spending growth and a scenario whereby it grows by 9% per year. The 9% growth referenced here is the average annual growth rate of general government spending from 2019-2025.

[5] This estimate uses average weekly household spending data from the 2022/2023 Household Budget Survey. This is then updated to 2025 levels using the growth of nominal consumption spending per capita from the national accounts. Doing this implies an average annual household spend of €58,500. Multiplying this level of spending by 1.7% gives an increased cost to households of €1,000 per year.

[6] How individual households would benefit from additional government spending would depend both on the type of expenditure and the composition of the household.

2. The public finances

Spending overruns have become commonplace

Spending continues to grow quickly

Spending is growing at a fast pace this year. For the first seven months of the year, current spending grew by almost 8%. This continues a pattern of fast spending growth in recent years. The Government has already revised up spending forecasts for this year by €0.7 billion. This is due to education overruns, which were already apparent at budget time, and energy supports which were introduced this year.

Further overruns are almost certain. Health spending is higher than budgeted in the first seven months of the year. This is largely predictable. Carroll (2026) highlighted that hospital budgets for 2026 were set at almost exactly the same level as was spent in 2025. This is despite a growing and ageing population, which means more demand for health services. Cost pressures will also push spending higher.

Given the growth rate of spending so far this year, we estimate that a further €1.4 billion of current spending overruns this year are likely.[7] This is on top of €0.7 billion of overruns that the Government has already acknowledged.

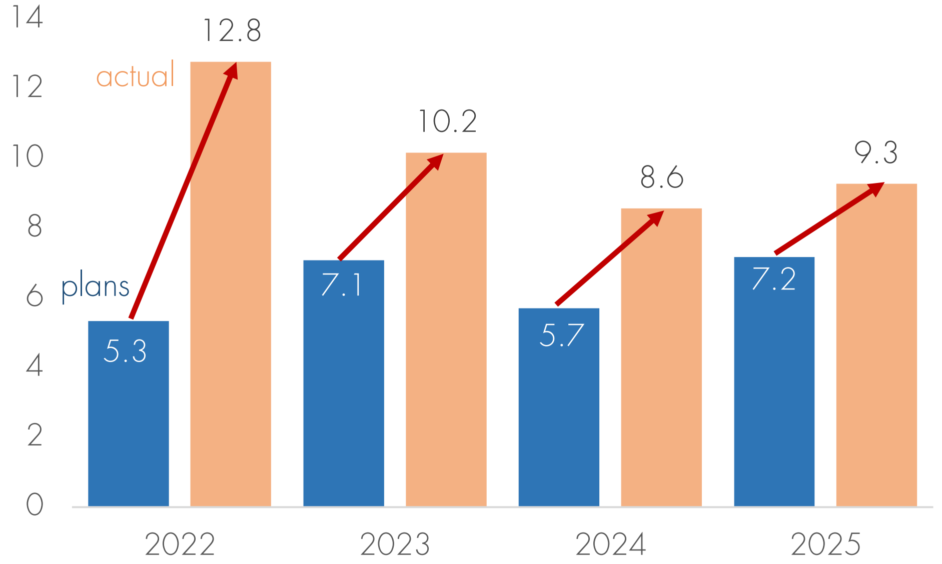
One of the causes of overruns in recent years has been underestimating spending levels in the current year when budgeting for the following year. If spending forecasts for 2026 are not revised up prior to Budget 2027, overruns are likely again next year.

Budget day plans have rarely been realised

The Government is planning to moderate spending growth in the years ahead. There have been plans to do so for some time, which are yet to materialise.[8]

2.1: **Spending has grown at a much faster pace than planned**

Planned and actual growth of net spending, per cent



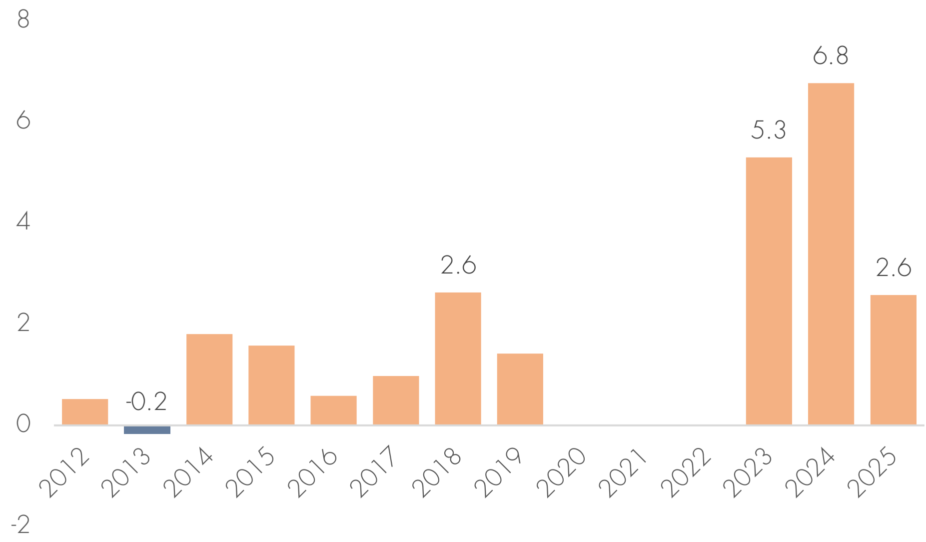
Sources: Department of Finance and Fiscal Council workings.
Notes: Net spending is calculated as follows: net spending = general government spending – one-off spending – interest – cyclical unemployment costs – EU cofinanced and funded spending – discretionary revenue measures. As it is a net measure, it recognises the role of tax changes. That is, a rise in net spending is offset by tax-raising measures but is added to by tax cuts. The planned growth rates of net spending shown are Fiscal Council estimates of net spending based on the budget for that year. For example, the planned growth rate of net spending in 2022 is taken from the November 2021 Fiscal Assessment Report, which was based on Budget 2022. The actual rates of net spending growth shown are consistent with the Council's latest estimates of net spending growth (also shown in Figure 3.1).

[7] Much of this is driven by likely overruns in health (€0.6 billion), social protection (€0.4 billion, due to the likely payment of the Christmas bonus, which was not budgeted for), foreign affairs (€0.3 billion) and housing (€0.2 billion).
[8] This planned moderation in net spending growth can be seen from how planned net spending growth in one year is often lower than the actual rate of net spending growth in the previous year, as shown in Figure 2.1.

The last time spending was at, or below budgeted levels was in 2013.[9] Spending has repeatedly been above the levels set out in the Budget in the previous autumn.[10] Since 2014, current spending overruns have averaged 2.6% of the budgeted amount. In today's money, that equates to €2.4 billion per year.[11]

2.2: **Spending overruns have been commonplace for over a decade**

Current spending overruns, percentage of initial budget



Notes: The chart shows the difference between actual gross voted current spending and the amount budgeted for each year. For example, the bar in 2025 compares gross voted current spending in 2025 to the forecasts for gross voted current spending in Budget 2025. The difference is shown as a percentage of the budgeted amount. The years 2020-2022 are excluded, as they are heavily impacted by the Covid-19 pandemic and the Russian invasion of Ukraine. The orange bars show overruns, while the single blue bar shows the one instance of spending being below budgeted levels.

Not appropriately factoring in a new public service pay deal will result in overruns

The most recent public service pay deal expired on 30 June 2026. Budget 2027 will need to leave appropriate room for the costs of a potential pay deal in the budgetary figures, otherwise overruns will be all but guaranteed.

Budget 2024 and the Revised Estimates of Public Services 2024 allocated only €0.7 billion towards the potential cost of

[9] Ireland exited an EU-IMF financial assistance programme in December 2013. We exclude the years 2020-2022 from our analysis, due to the impacts of the Covid-19 pandemic and the Russian invasion of Ukraine.

[10] Analysis from the European Fiscal Board (Larch and Mazzola, 2025) suggests spending exceeds forecast levels in many European countries. However, Ireland seems to have larger forecast errors for government spending than most countries. The forecasts examined in this case are European Commission forecasts rather than that of national governments.

[11] This is calculated by multiplying 2.6% by gross voted current spending in 2025 (€92.9 billion).

a new pay deal for 2024. However, the cost of the subsequently agreed pay deal in 2024 amounted to €1.1 billion, more than 50% higher than allocated, resulting in substantial overruns.

Government revenue continues to grow

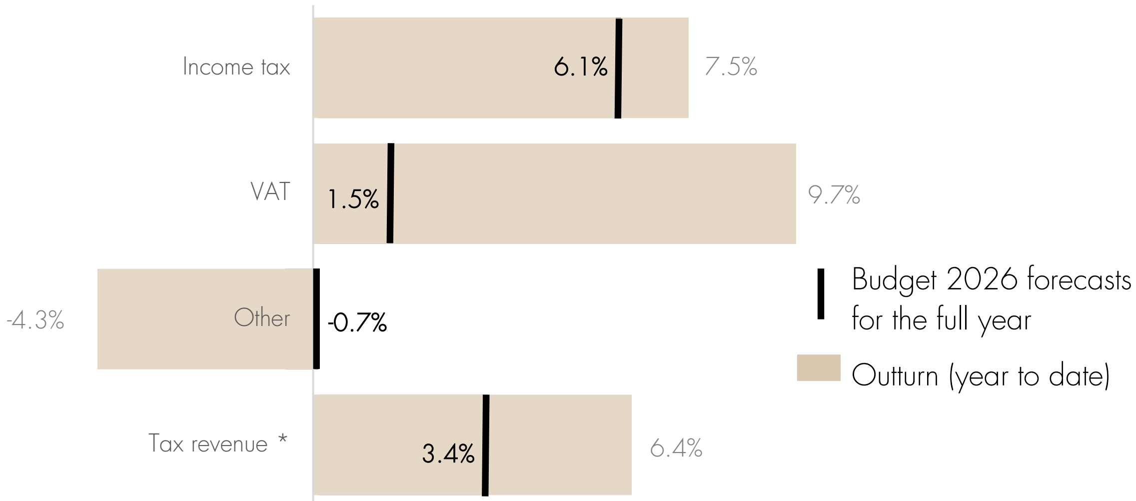
For the first seven months of the year, both income tax and VAT are growing faster than projected in Budget 2026.

Other taxes (such as excise) have been weaker than expected. This is due to policy changes introduced during the year, such as reduced rates of excise on petrol and diesel and the delayed increase in the carbon tax.

Overall, it seems likely that tax revenue will be higher in 2026 than projected in Budget 2026.

2.3: **Taxes are growing strongly this year**

% change year on year



Notes: * denotes excluding corporation tax

The proposed tax package for Budget 2027

The Summer Economic Statement indicated that €1.5 billion in new tax cuts would be introduced as part of Budget 2027. The Council views indexing of income tax bands and credits in line with wage growth as a neutral policy. This is because indexation keeps the average effective tax rate steady from year to year.[12] Government estimates suggest indexing the income tax system would cost €1.2 billion.[13]

However, the impact of decisions made in prior years will also influence revenue levels in 2027. For example, a reduced rate of VAT for the hospitality sector was introduced midway through 2026. The full cost of this revenue reducing measure will be felt in 2027.[14]

Some tax increases are also planned, however. PRSI rates are due to increase in October of 2026 and 2027.[15] These increases would result in €450 million of additional revenue in 2027. Increases to the carbon tax are also planned. These increases are estimated to lead to about €100 million in additional revenue in 2027.

Corporation tax: a three-company story

Newly available public information shows how much Ireland's public finances rely on three very large companies.[16]

In 2025, Eli Lilly paid around €5.8 billion in Irish corporation tax (US$6.6 billion), which amounts to 18% of all corporation tax collected.[17] Microsoft paid about €5.1 billion (US$5.6 billion) in Irish corporation tax between July 2024 and June 2025, and around €5.6 billion (US$6.5 billion) between July 2025 and June 2026. In total, Microsoft's tax payments accounted for 17% of Ireland's corporation tax receipts across those two years.

Apple paid US$17.1 billion in Irish corporation tax between October 2024 and September 2025. This mainly reflects

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[12] If the Government were to decide not to index income tax bands and credits (as was the case in Budget 2026), this would be treated as a revenue-raising measure. This is consistent with the approach taken by the European Commission.

[13] See Tax Strategy Group Papers (Department of Finance, 2026), using the full year cost from Table 18.

[14] Budget 2026 estimates suggested a cost of €232 million in 2026, rising to €681 million in a full year. As a result, the increased cost in 2027 is €449 million.

[15] All PRSI contribution rates will increase by 0.15 percentage points in October 2026 and by a further 0.15 percentage points in October 2027.

[16] Two recent changes mean that many large multinationals must publicly disclose how much corporation tax they pay in Ireland for the first time. The first change is an update to US accounting standards. Public companies must now disclose their tax payments in any country that accounts for at least 5% of their total corporation tax bill. If Ireland meets that threshold, a company must report how much tax it pays here. The second change is the EU's new public Country by Country Reporting rules. These require large multinationals to publish information such as revenues, pre-tax profits and tax paid in each EU country in which they operate, as well as a small number of other non-EU countries.

[17] These multinationals report their corporation tax payments in Ireland in US dollars. We convert them to euros using the average exchange rate for each company's financial year. The percentage shares of total receipts exclude any one-off receipts linked to the Apple State-Aid case.

exceptional, one-off payments related to the Apple State-Aid ruling, as well as the tax on profits earned during the year.[18]

Together, Eli Lilly, Microsoft, and Apple likely paid almost half of Ireland's corporation tax in 2025.[19] These published figures are consistent with previous estimates that the three largest corporation taxpayers accounted for almost half (46%) of all corporation tax receipts in 2024 (Cronin, 2026b).

Ireland's corporation tax receipts have become increasingly concentrated, first in a few sectors, then in a few firms, and now in a few highly profitable products and services. In the short term, receipts are likely to remain strong, so long as these products continue to generate large profits, new products prove profitable, and company structures and international tax rules stay the same.

However, as corporation tax revenues become more concentrated, they also become riskier. That is, Irish tax revenues are more exposed to the fortunes of specific products and services and decisions made by a small number of companies. This raises the uncertainty around future receipts and the risks that they could be much higher or lower than current levels.

[18] In total, Apple paid an additional €12.7 billion in corporation tax in Ireland on foot of the State-Aid ruling. This amount was paid over four months, from October 2024 to January 2025. We do not convert the US$17.1 billion total into euros because it is unclear which exchange rate is most appropriate. An annual average exchange rate would normally be used, but the State-Aid ruling resulted in unusually large, one-off payments in specific months. This likely makes an annual average exchange rate less appropriate in this case.

[19] This excludes any one-off receipts linked to the Apple State-Aid case.

3. The fiscal stance for Budget 2027

A large budgetary package could fuel further inflation

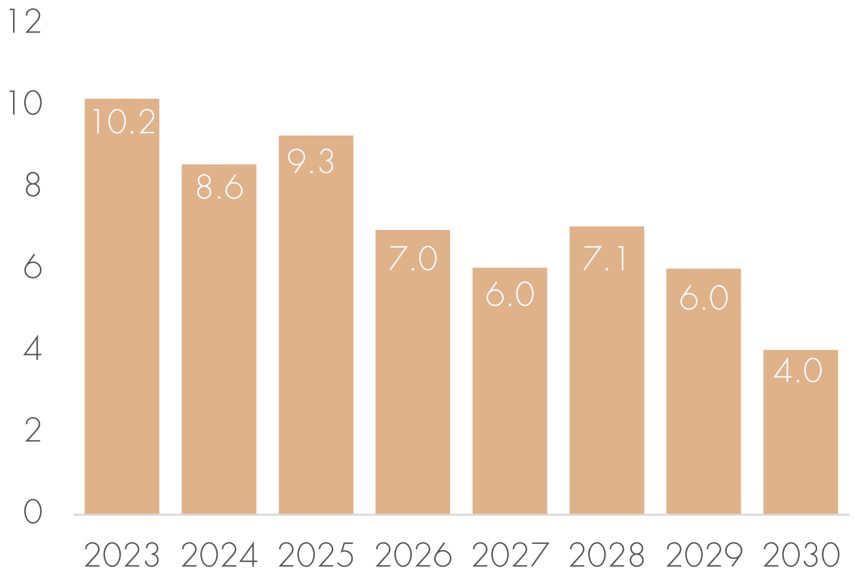
The package

The Summer Economic Statement outlined the broad plans for Budget 2027. It indicated that voted spending would increase by €7 billion (a 5.9% increase), with a tax package of €1.5 billion of new measures.

Taking the Government's tax and spending plans at face value, this translates into a net spending increase of 6% for 2027. Previous history would suggest that the actual increase will likely be significantly bigger than that announced on budget day.

3.1: **Net spending set to grow at a fast pace**

% nominal growth in spending net of new tax measures



Notes: Net spending is a measure of government spending, adjusted for tax policy changes. Net spending growth forecasts are primarily based on forecasts in the Annual Progress Report. These are then updated for new information contained in the Summer Economic Statement, as well as revisions to the Government Finance Statistics which have occurred since then. Figures for 2026 incorporate further spending overruns of €1.4 billion in addition to those already incorporated into Annual Progress Report forecasts. These spending overruns are assumed to carry into later years.

Our advice

Given the strength of the economy, a large budget package is not appropriate. The Council's advice is that spending (net of tax policy changes) should grow no faster than the sustainable growth rate of the economy. The Irish economy's sustainable growth rate is estimated at 2.5– 3%. Adding 2% long-run inflation, this implies nominal sustainable growth of 4.5–5%.

The Government's spending plans for 2027, set out in the Summer Economic Statement, are slightly more than what the Council would deem appropriate. This follows three years of rapid net spending growth, even after adjusting for inflation.[20]

However, the bigger concern is that actual net spending growth is likely to be even higher than these plans suggest. Over the past decade, net spending growth has been routinely higher than budget day plans suggested.

Showing restraint and introducing a modest budget-day package would bring about benefits for citizens. It would help

[20] After accounting for inflation, net spending grew by 7% in 2025, 7.1% in 2024 and 4.7% in 2023.

moderate inflation and the costs households and business are facing.

A modest package would also limit Ireland's reliance on risky corporation tax receipts, which is already extremely high. Saving a greater share of corporation tax receipts would mean Ireland is better prepared for future challenges like an ageing population and climate change.

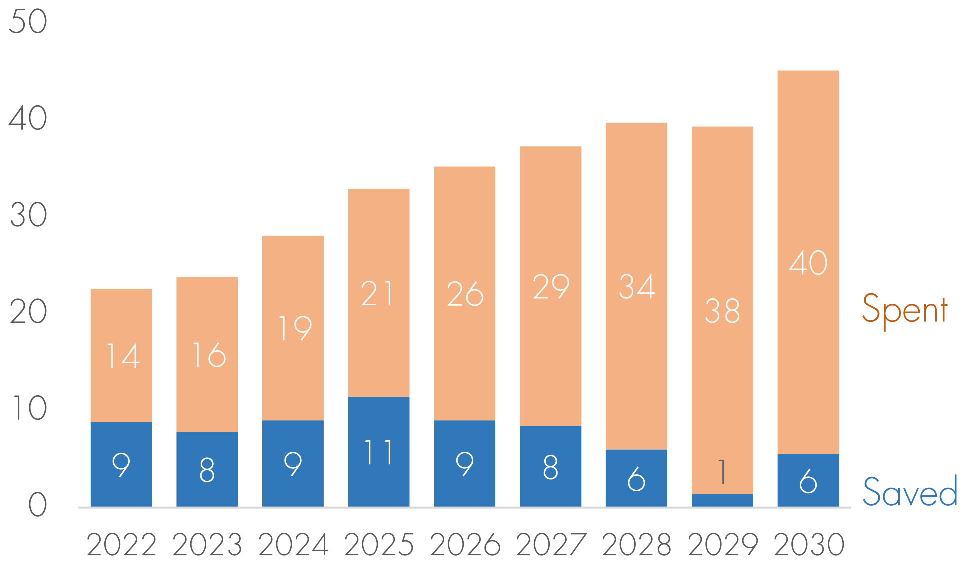
A modest package would mean choosing between areas of priority. Greater spending in one area (such as investment) means either less spending in other areas or higher taxes than otherwise (smaller tax cuts or outright tax increases).

Reliance on corporation tax is planned to increase

Based on the Government's own figures, a growing share of corporation tax receipts are set to be used for spending, rather than being saved. Over 2027-2030, out of every €8 the Government collects in corporation tax, it plans on spending €7 and saving €1.

3.2: **Corporation tax will be largely spent, not saved**

€ billions, corporation tax receipts used for spending and those saved



Notes: The general government balance is taken as the measure of government saving here. Forecasts from the Annual Progress Report are used and are then updated to reflect four factors. First, further anticipated spending overruns in 2026 (€1.4 billion), which carry into later years. Second, revenue forecasts are revised up by €1 billion in 2026, reflecting strong revenue growth in the first seven months of the year. This additional revenue carries into later years. Third, the updated tax package announced in the Summer Economic Statement for 2027. Fourth, revisions to the Government Finance Statistics (since the publication of the Annual Progress Report) are incorporated. All figures exclude proceeds from the Apple tax judgement. Forecasts of corporation tax receipts from the Annual Progress Report are used.

Contributions to the funds should continue

The Government has established two savings funds. The purpose of these funds is to save the extraordinary corporation tax receipts that are being collected. These savings could then be invested, earn a return and help offset the costs of an ageing population and climate change in later decades.

The most important first step is that a greater share of corporation tax receipts should be saved, rather than used for ongoing spending commitments. On the contrary, the Government plans to spend the bulk of corporation tax receipts.

Borrowing to put money into the savings funds should not be necessary. With record levels of employment and corporation tax being collected, the Government should be running bigger surpluses than it is planning. This would mean borrowing would not be needed for contributions to savings funds.

Increased costs limit the scope for new measures

Before considering any new policies or measures, the cost of providing today's level of service in 2027 will rise. The Council's stand-still scenario attempts to estimates these costs, which arise due to changing demographics and price rises.

A growing and ageing population means more demand for services like healthcare and pensions (€2 billion).

Prices will also rise. Uprating social protection payments and public service pensions in line with wage growth would mean additional costs (€1.6 billion). Similarly, if a public service pay deal were to be agreed, matching economy-wide wage growth, that would mean additional costs in 2027 (€1.1 billion). Inflation will also add to non-pay costs the Government faces, like equipment, medicines and utilities (€0.9 billion).

The Government has also committed to increasing capital spending in 2027 (€1.2 billion). As outlined earlier, there are likely to be further spending overruns in 2026. Given spending overruns have typically carried into the following year, this would imply additional costs for 2027 (€1.4 billion).[21]

Clearly, there are significant cost pressures associated with maintaining existing public services in 2027 at their 2026 level (€8.1 billion).

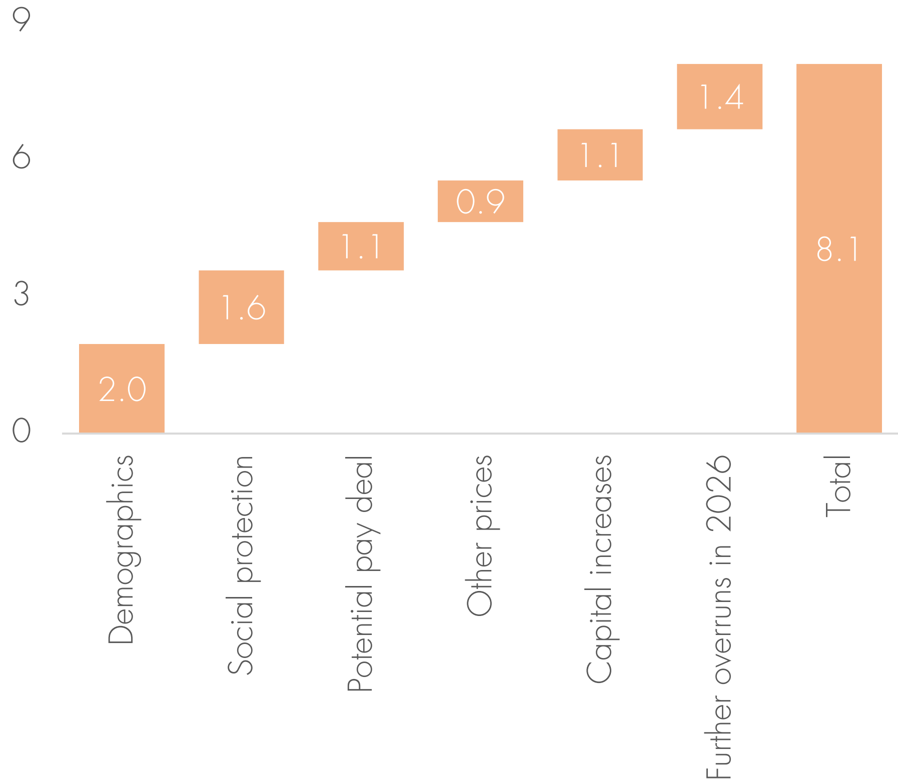
If the State were to become more efficient in providing public services, that would free up additional resources for new policy measures. However, previous attempts to achieve cost savings have failed to have a material impact on spending and overruns have persisted.

The Government could also choose to uprate payment rates at a slower rate than we assume. This would result in more room for measures in other areas. It could also choose to increase certain taxes, to broaden the tax base for particular taxes, or choose not to index income tax bands and credits in line with wage growth.

[21] The other €0.7 billion of overruns in 2026 have already been acknowledged by the Government in both the Annual Progress Report and the Summer Economic Statement. As a result, this expenditure has already been incorporated into the Government's spending plans for 2027.

3.3: **Significant costs could arise next year**

Spending pressures for 2027, € billions



Sources: Fiscal Council calculations.
Notes: Each bar indicates the additional spending that may arise in 2027 due to each factor listed. Demographics here refers to additional spending that would arise due to growing demand for services, mostly due to a growing and ageing population. Social protection refers to the cost of uprating social protection and public sector pension payments in line with wage growth. Potential pay deal here refers to the cost of uprating public service pay in line with economy-wide wage growth. Other prices here refer to the impact of general inflation on non-pay costs the Government faces. Capital increases refer to planned increases in gross voted capital spending as outlined in the Annual Progress Report. Further overruns in 2026 refers to additional overruns that may occur in 2026, above those already acknowledged by the Government. These are calculated based on the rate of spending growth observed in the first seven months of the year.

Ireland needs an effective guide for budgetary policy

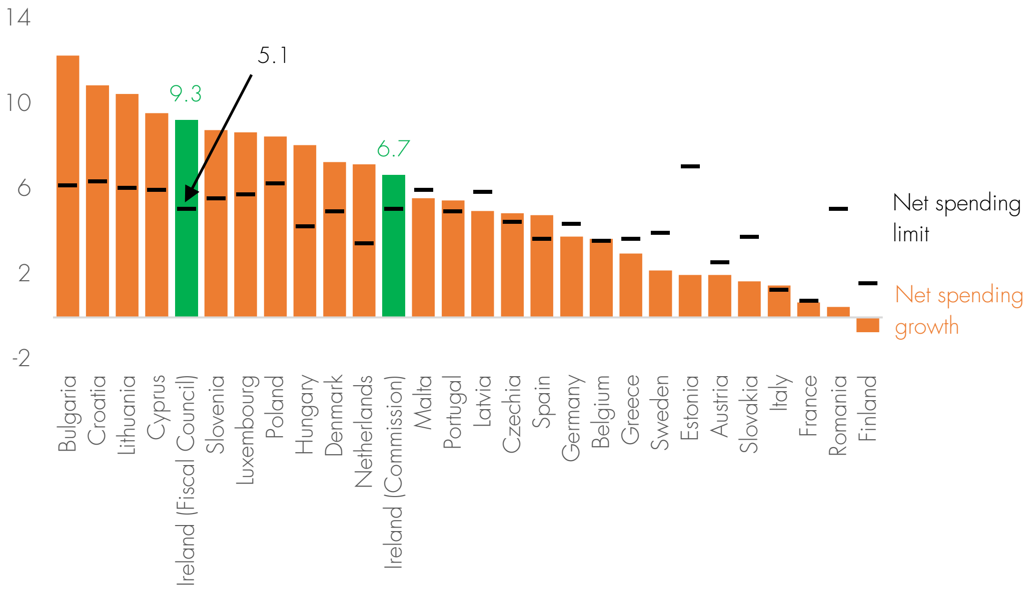
The only guide for budgetary policy in Ireland at present is the medium-term plan. This plan is helpful, as it helps bring policy in a more medium-term direction.

However, the planned growth of net spending in Ireland is well above the sustainable growth rate of the economy and hence is too fast. Staying within the limits set out in the medium-term plan does not mean good budgetary policy is being followed.

In the first year with this new medium-term approach, Ireland broke its annual net spending limit. The Council assessed that net spending increased by 9.3% in 2025, above its 5.1% ceiling. This increase was among the fastest in the EU.

3.4: **Ireland's spending growth is among the fastest in EU**

% year-on-year growth in net spending, 2025



Sources: European Commission and Fiscal Council estimates.
Notes: The lines show each country's 2025 limit for net spending growth. The bars show actual net spending growth, as calculated by the European Commission. For Ireland, we also include the Fiscal Council's estimate (9.3%), which is higher than the European Commission's estimate (6.7%). The main difference is the Council treats €2.5 billion of spending on cost-of-living measures in 2024 as one-off. This lowers the base in 2024 and makes the increase in spending larger in 2025. Net spending is calculated as follows: net spending = general government spending – one-off spending -interest – cyclical unemployment costs – EU cofinanced and funded spending – discretionary revenue measures.

The European Commission also assessed that Ireland exceeded its net spending limit in 2025. However, as long as Ireland's public debt stays below 60% of GDP and its deficit is below 3% of GDP, the Commission will not take any enforcement action.

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

Ireland's public finances are currently in a strong position, but the country faces predictable costs coming from an ageing population and climate change. As a result, Ireland needs a domestic guide or rule for fiscal policy. One option would be a net spending rule whereby net spending growth would be in line with the sustainable growth rate of the economy.

Key features of such a rule would include:

1. Setting the rule on a legal basis. International evidence suggests that placing fiscal rules on a legal footing increases the likelihood of compliance and reduces the frequency of amendments.

2. Set the rule on a general government basis. This gives the most comprehensive view of government spending. About 20% of spending occurs outside of the exchequer.

3. Design appropriate escape clauses. If exceptional circumstances arise, the Government should be given additional leeway. Escape clauses should be well designed and cover a variety of events.

4. Protect public investment. A minimum level of public investment as a share of GNI* could be set. This would help reduce sudden cuts to public investment, as happened after the Global Financial Crisis.

5. Take account of the economic cycle. Changes in spending due to changing economic circumstances (e.g. unemployment spending) should be discounted.

These recommendations are in line with the IMF (2018) principles for effective fiscal rules – simplicity, flexibility, and enforceability – as well as the specific proposals made by the IMF for Ireland (Rozenov *et al.*, 2025). Net spending rules are typically seen as relatively simple to explain and measure. Designing appropriate escape clauses would give the Government the required flexibility to deal with crises. Assessments of compliance from independent fiscal institutions can aid enforcement.

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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 Council's estimates of stand-still costs.

VIEW SUPPORTING ITEMS