Irish Fiscal Advisory Council

Press Release: Pre-Budget Statement — Beneath the surface: The costs, risks and pressures below the surface

Fiscal Council warns Budget 2027 likely to be much larger than announced

The Irish Fiscal Advisory Council warns that the actual budget package is likely to be much larger than what is announced on Budget Day.

Spending overruns have become routine and have repeatedly pushed spending above budget-day plans. Over the past decade, spending overruns have averaged more than €2 billion per year in today's terms. The last time spending was at, or below, budgeted levels was in 2013.

A strong economy does not require budgetary support

The Irish economy continues to perform well, with employment still growing. As a result, the economy does not need support from budgetary policy.

The Government's Summer Economic Statement implies net spending growth of 6% in 2027. This is faster than the sustainable growth rate of the economy of around 5%. As a result, it is not appropriate for an economy that is already in a strong position.

The Council warned that a large budget package would add to inflation and increase costs for households and businesses.

Cost pressures will absorb much of the available resources

The Government faces significant spending pressures in 2027 before any new policy measures are introduced. A growing and ageing population means greater demand for healthcare, pensions and other services.

Inflation and other cost pressures will also mean extra government spending. These pressures could amount to €8 billion in 2027. This would absorb much of the funding available for new measures next year.

A domestic fiscal rule is lacking

The Government’s medium-term plan is the only framework currently in place. However, it is not an appropriate guide for budgetary policy. It allows net spending to grow faster than the economy's sustainable growth rate.

Following this plan would result in an even greater dependence on risky corporation tax receipts. It would mean €7 out of every €8 collected in corporation tax would be used for ongoing spending commitments. Just €1 would be saved.

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.

Recommendations

The Council has five recommendations:

1) Limit net spending growth to the sustainable growth rate of the economy. A strong economy does not require extra support.

2) Set realistic spending ceilings for next year and beyond. These should take account of likely spending levels this year, as well as the cost pressures the Government is likely to face in the coming years.

3) Introduce a domestic fiscal rule to guide budgetary policy. The Government's medium-term plan is not an appropriate guide.

4) Run larger surpluses and save a greater share of corporation tax receipts. By running larger surpluses, the Government would not need to borrow to make contributions to its savings funds.

5) Continue to make planned contributions to the savings funds. The Future Ireland Fund can be a useful tool to offset future budgetary pressures. These include an ageing population and climate change.

Commenting on the report, Seamus Coffey, Chairperson of the Council, said:

“The Irish economy is in a strong position and does not need support from Budget 2027.

The Government's plans for Budget 2027 are slightly larger than what the Council would deem appropriate. But the bigger concern is that 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 and have resulted in government spending growing much faster than originally planned.

Ireland needs its own domestic budgetary rule. A carefully designed rule, set out in legislation, would provide a better guide for budgetary policy and help ensure that spending grows at a sustainable pace over time.”