Irish Fiscal Advisory Council

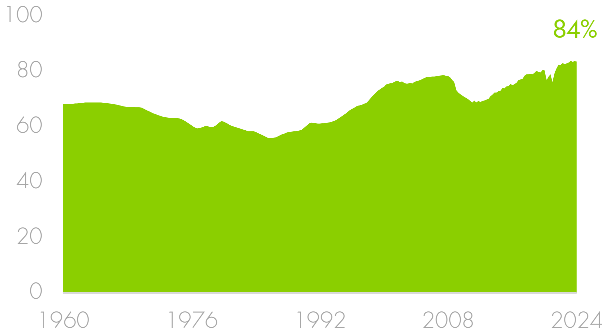
Pre-Budget Statement

BUDGET 2025

spending rule and it's the same but there's three years of it being broken so it's not

Employment is at an all-time high

% population aged 25-54 in employment

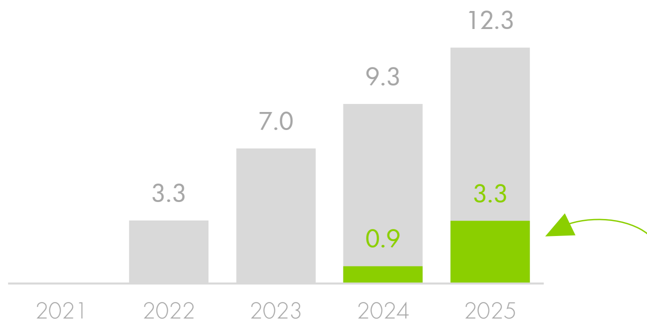


Ireland has never had as high a share of those in their peak working years at work.

Wages have started to rise faster than prices, helping to offset high costs faced in recent years.

The Government is breaching its rule

€ billion, spending and tax cuts beyond the National Spending Rule

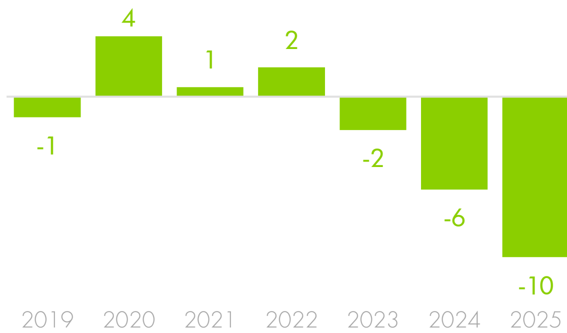


The Government is now €12 billion beyond what the rule would have allowed since 2022

And €3 billion beyond where it would be if it was allowing for higher-than-expected price increases

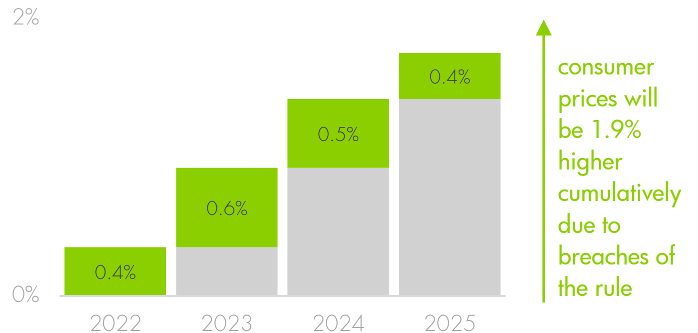
The ongoing breaches of the rule are contributing to large and growing underlying deficits

€ billion, Council estimates of the structural balance with overruns



and higher prices

% impact on consumer prices associated with rule breaches



This equates to adding about €1,000 to a typical household's yearly outgoings

Summary

Ireland's economy is strong. It has never had this high a share of people in their peak working ages of 25 to 54 at work. Wages have also begun rising sharply, offsetting the high costs faced in recent years.

However, the Government's "everything now" approach is adding needless pressure to the economy. The Government is planning yet another substantial budget with increases in current spending, tax cuts, and a continued ramp-up in capital spending. The package for Budget 2025 is already large. Any further overruns or untargeted cost-of-living supports will drive the Budget to almost double the size of pre-Covid packages. It will add even more fuel to price pressures. Work by the Central Bank suggests recent breaches of the spending rule will raise consumer prices by 1.9% by 2025. This adds about €1,000 to a typical household's yearly outgoings and makes it harder for people to afford everyday essentials.

The Government might also have to reverse these promises in future. While the Government boasts a surplus, this is driven by taxes from a handful of multinationals. It is only saving half of the €11.5 billion of corporation tax windfalls it is collecting. Without these windfalls, Ireland would be in a large and growing deficit. This deficit would be even larger if not for the exceptional number of jobs in the economy at present. The underlying deficit could rise to €10 billion with further overruns. The corporation tax is mirrored by many high-pay, high-tax jobs. This adds to the risk of Ireland's taxes being highly concentrated. If corporation tax or the exceptional numbers of people at work reverse, the Government might have to cut back on its promises, potentially when it should be supporting the economy. This would be a repeat of Ireland's past mistakes.

The Government should stick to its rule. The rule puts a speed limit on tax cuts and spending increases. By sticking to it, the Government can curb price pressures, ensure sustainable growth, help Ireland weather future recessions, and preserve its credibility. It would avoid Ireland's past mistakes of doing too much too quickly. While it means difficult choices, ultimately, this will help avoid needless job losses in the next downturn.

Latest projections

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

	2023	2024	2025	2026	2027
Economy					
Real GNI* growth	5.0	2.0	1.9	2.4	2.4
Nominal GNI* growth	9.0	5.4	4.6	4.9	4.8
Nominal GNI*, € billions	290.7	306.6	320.6	336.3	352.3
Price inflation, year-on-year change (HICP)	5.2	2.1	2.1	2.0	2.0
Public finances					
Budget balance	2.9	2.3	1.8	1.1	1.5
Budget balance (€ billions)	8.3	7.0	5.8	3.8	5.4
Windfall corporation tax (€ billions)	11.2	11.2	11.5	9.9	10.3
Budget balance excluding windfall corporation tax	-1.0	-1.4	-1.8	-1.8	-1.4
Budget balance excluding windfall corporation tax (€ billions)	-2.9	-4.2	-5.7	-6.1	-4.9
Structural budget balance	-0.8	-2.0	-3.3	-3.6	-2.8
Structural budget balance (€ billions)	-2.0	-5.7	-9.8	-11.3	-9.3
Revenue	42.5	42.5	42.8	42.2	42.2
Revenue excluding windfall corporation tax	38.7	38.8	39.3	39.3	39.3
Expenditure	39.7	39.7	39.8	39.6	39.2
Net debt ratio	62.1	59.1	58.1	56.8	55.1
Net debt (€ billion)	180.7	181.3	186.5	191.0	194.2

Sources: These projections use the Government's Stability Programme Update (SPU) 2024 projections released in April, but the budgetary amounts are updated to take account of latest outturns and the new spending measures announced in the Government's Summer Economic Statement 2024 published in July. Net debt is estimated as net $debt_t$ = net $debt_{t-1}$ – general government $balance_t$. Nominal GNI* forecasts take the latest 2023 outturn and apply the Department's growth rate forecasts to it.

1. The economic backdrop

The economy is performing strongly, but prices fuelled by domestic activity, like rents, continue to rise sharply

The Irish economy is in a strong position. Energy prices are falling, wages are rising, and there has never been such a high proportion of people at work. But domestic price pressures, including rents, continue to rise sharply.

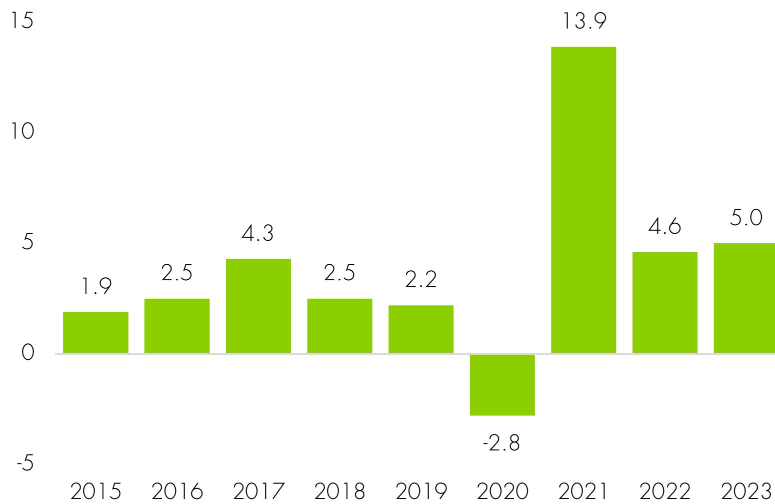
Economic activity has recovered

The broadest measure of Ireland's domestic economy is modified Gross National Income (GNI*).[1] On this basis, the economy grew by 5% last year — faster than historical norms.[2] Most forecasters had expected growth to moderate in 2023 after a sharp bounce-back following the pandemic. Instead, growth has remained rapid (Figure N° 1).

[1] Throughout this report, "national income" can be taken to refer to GNI* for Ireland and Gross Domestic Product (GDP) for other countries.
[2] The annual average since 1995 has been 3.4%.

Nº 1 **The Irish Economy is growing rapidly**

% growth in real GNI*

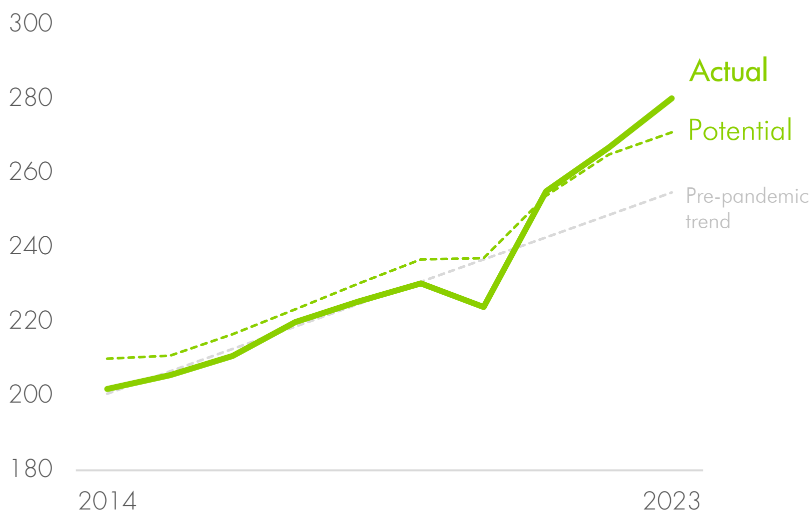


Source: Central Statistics Office (CSO). Get the data.

This fast growth means the economy has exceeded the path it was on before the pandemic. It also looks to be performing above its trend or "potential" levels of activity (Figure Nº 2).

Nº 2 **The economy is above normal levels of activity**

Real GNI*, € billions

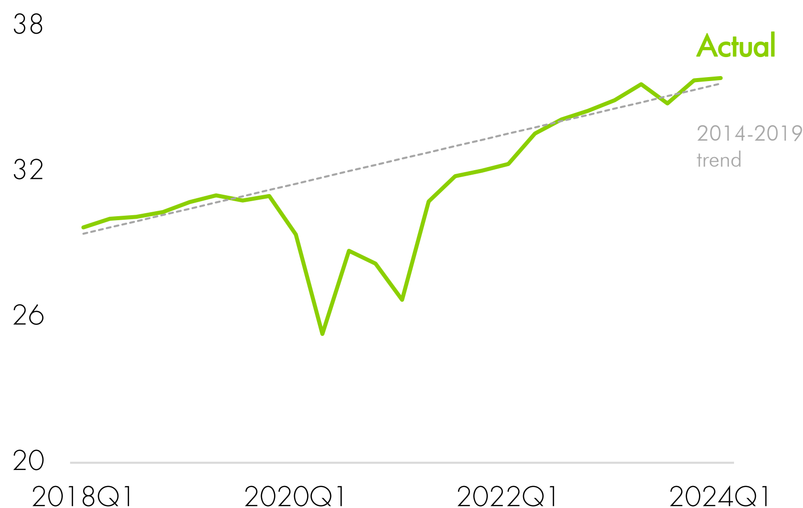


Sources: CSO and SPU 2024.
Notes: Pre-pandemic trend is calculated using Real GNI* from 2014 to 2019. Potential output is calculated using estimates from SPU 2024. Get the data.

Consumer spending has also recovered. It has been mostly above its pre-pandemic trend for about two years now when adjusted for prices (Figure Nº 3).

Nº 3 **Consumer spending has also recovered**

€ billions, constant 2022 prices



Source: CSO. Get the data.

Construction is struggling to ramp up

One weak point is investment. Construction has been sluggish. In part, this reflects an over-abundance of offices, with lower demand for new developments. And while housing construction is picking up, it remains slow. This reflects a mixture of factors: planning, viability, and shortages of construction workers.

It will be difficult for Ireland to boost construction further. The Council (2024) has outlined the challenges with increasing the numbers of construction workers needed for many projects. Few if any construction workers in Ireland are unemployed. Bringing in workers has its challenges too. Wages are relatively less attractive than they were in the mid-2000s. One option is to extend more work permits to those coming from outside the EU, but this will add to existing pressures on housing and other infrastructure needs.[3] Training and apprenticeship programmes might add to the workforce, but these will take time.

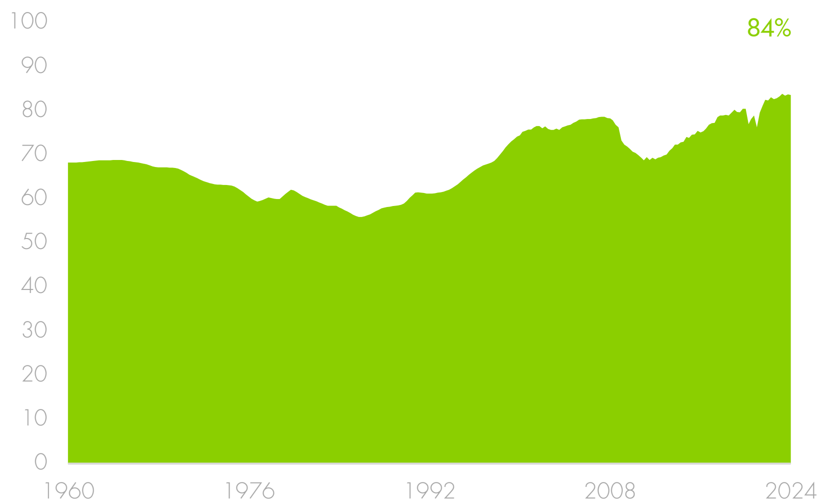
[3] This could be done by adding construction occupations to the critical skills occupation list. Occupations on the critical skills list are not subject to the labour market needs test. In addition, holders of the critical skills employment permit can apply for immediate family reunification.

Ireland’s jobs market has never been tighter

At the same time, Ireland’s jobs market has never been tighter. The ages 25–54 years old are often considered people’s peak work years. On this basis, there has never been a greater share of people actively working in Ireland’s history (Figure N° 4).

N° 4 **Employment is at an all-time high**

% population aged 25-54 in employment



Sources: CSO, AMECO and ESRI data. Get the data.

Since the pandemic, there has been a steep rise in those working or seeking work. The flexibilities of remote working have boosted the number of people interested in seeking work as has the rapid rise in the cost of living.

This is adding fuel to price pressures

With so many at work, upward pressure on prices and wages is to be expected. Headline measures of price rises have fallen as international energy prices have dropped. But pressures can still be seen in domestic prices. Indeed, the pace of increase remains higher now than at any other time outside of the pre-financial crisis period (Figure N° 5).

N° 5 **Domestic prices are rising quickly**

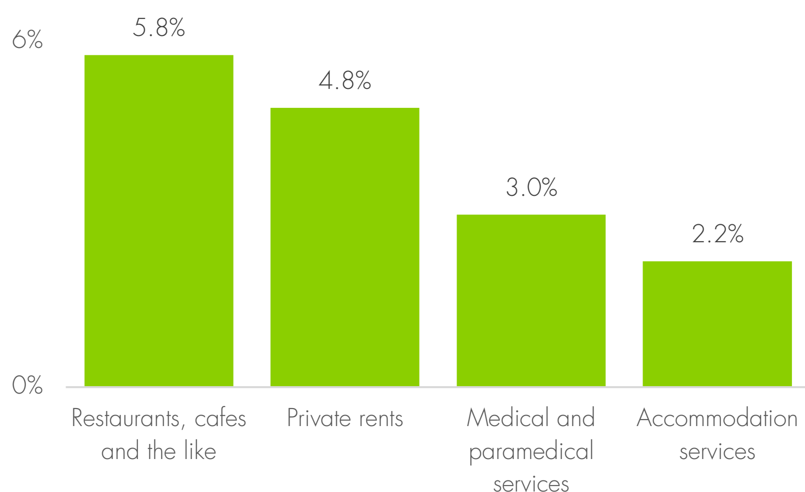
% change, year-on-year, domestically generated price inflation

Source: CSO. Get the data.

The rise in domestic prices is evident across many areas. For instance, prices continue to rise relatively fast in restaurants and cafés, rent, and medical services (Figure N° 6).

N° 6 **Price pressures evident in hospitality, rent, and health**

% change, year-on-year, latest three months (May to July 2024)



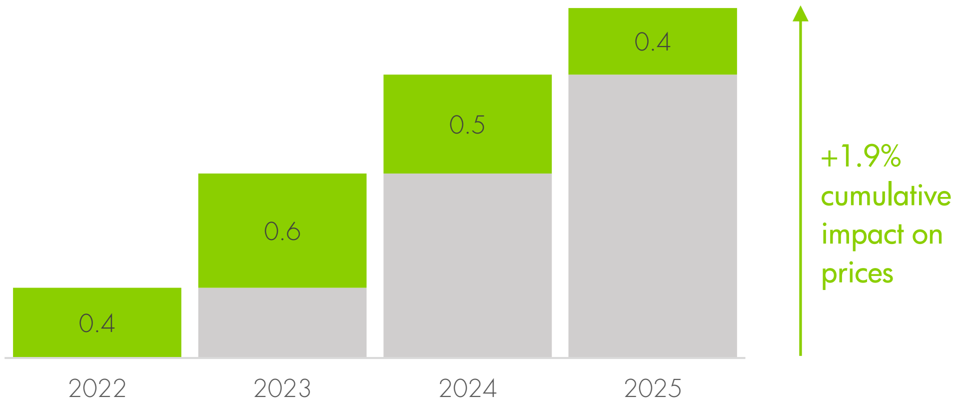
Source: CSO. Get the data.

The Government has added to these price pressures. Pumping money into an economy that is already performing strongly is always likely to increase inflation. Research by staff at the Central Bank (Conefrey, Hickey, Lozej, & McInerney, 2024) suggests that prices could be 1.9% higher in 2025 due to the Government breaking the National Spending Rule (Figure N°

7). This equates to an additional €1,000 on a typical household's yearly outgoings.[4]

N° 7 **Budget packages have boosted prices further**

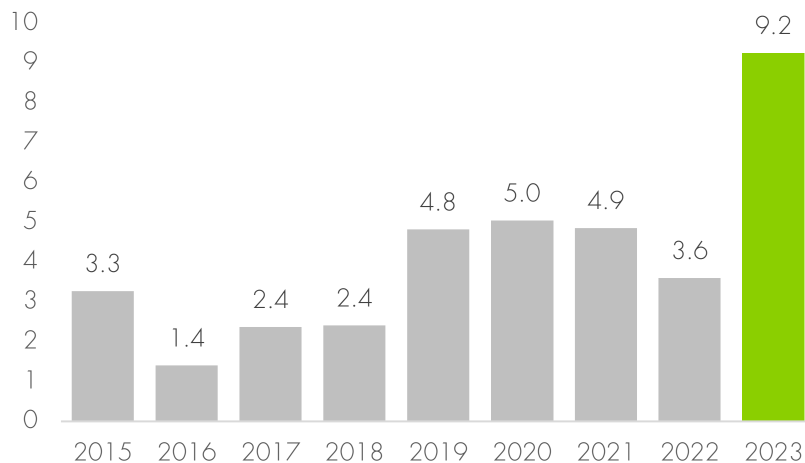
Estimated impact on prices due to budgets going further than net spending rule



Source: Fiscal Council workings based on Conefrey, Hickey, Lozej, & McInerney (2024).
Get the data.

N° 8 **Wages are now rising quickly**

% change, year-on-year, hourly nominal wages



Source: CSO and Fiscal Council workings. Get the data.
Notes: Hourly wages are calculated as compensation of employees from the Quarterly National Accounts divided by actual hours worked from the Labour Force Survey.

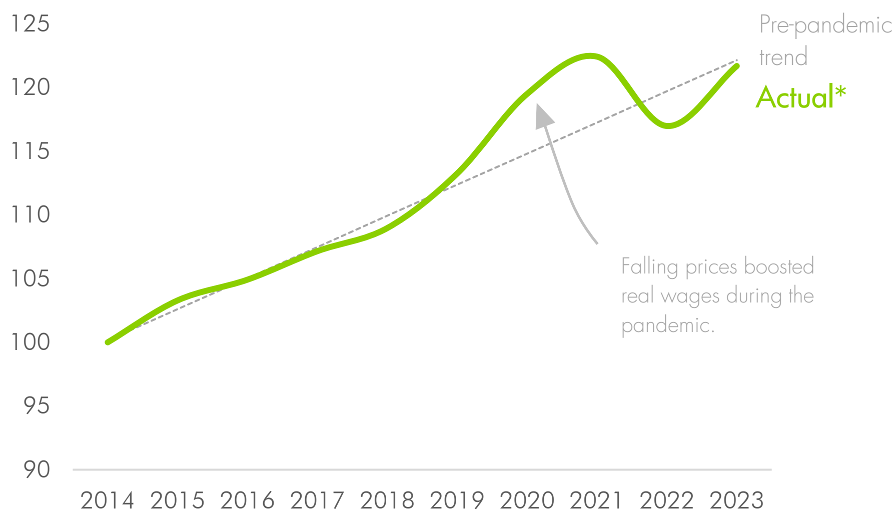
Wages are also now rising quickly. In 2023, hourly wages rose by 9.2%. This is faster than at any time in the past decade (Figure N° 8).

[4] This estimate uses average weekly household spending data from the 2022/2023 Household Budget Survey, implying an average annual spend of €52,500, together with the estimated cumulative price impact of breaching the National Spending Rule out to 2025.

Part of this is a catch up to high prices. Almost all the ground lost in 2022 has been made up when adjusting for the composition of employment and for prices. Real wages are back to their pre-pandemic trend on average. They are 7% above 2019 levels (Figure N° 9). While this is an average, a similar pattern is visible when looking at low- as well as high-wage sectors.

N° 9 **Real wages have caught up to their trend**

Real hourly wages, Index: 2014=100



Sources: CSO and Fiscal Council workings.
Notes: Compensation of employees from the quarterly national accounts is used. This is divided by actual hours worked from the Labour Force Survey. *The data are adjusted in the period 2020 to 2022 to account for the changing composition of employment. During this period, substantial numbers of low-wage workers exited, and then re-entered work. The pre-pandemic trend is calculated over 2014 to 2019. HICP is used as the measure of inflation. Get the data.

Money flows are weakening

The current account balance shows how a country is performing with respect to the rest of the world. If it is in surplus, generally this means it is selling more goods and services to other countries than it is buying from them. It also tells us about other flows, such as overseas investments.

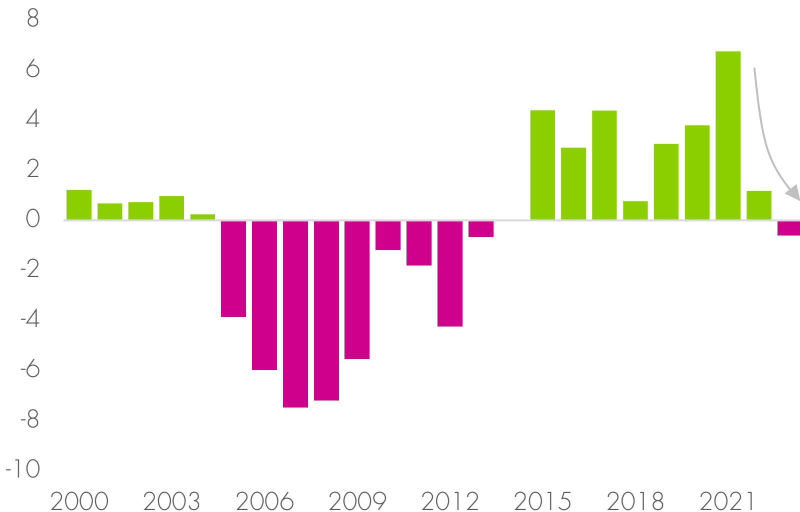
In recent years, Ireland has had a very strong current account surplus. This is the case even when windfall corporation tax receipts and other distortions are excluded. On this basis, the surplus peaked at almost 7% of national income in 2021. This signalled an economy saving more than it was investing — a position that usually unwinds in time.

However, the past two years have seen a sharp weakening in the underlying current account. It moved sharply into deficit in

2023 — its first in a decade (Figure N° 10). This may simply signal more investment, but it could also potentially signal weakening competitiveness or a move toward Ireland's growth relying more on domestic consumer spending and less on exports. Past research shows how the current account balance in Ireland deteriorated sharply ahead of the 2008/2009 financial crisis, with initial estimates understating this deterioration (Conroy and Casey, 2019).

N° 10 **Ireland's current account surplus has weakened rapidly**

% GNI*, modified current account balance excluding excess corporation tax receipts



Sources: CSO, Department of Finance, and Fiscal Council workings.
Notes: This measure of the current account balance is the CSO's modified current account with one additional adjustment: the removal of windfall corporation tax. It excludes globalisation impacts such as the depreciation and trade of intellectual property and leased aircraft. Estimates of excess corporation tax are Department of Finance estimates for 2022 and 2023, with Fiscal Council estimates used for earlier years. Get the data.

There are obvious infrastructure needs, but Ireland needs to get the balance right

There are many areas where Ireland's infrastructure is below its peers. This includes areas like housing, transport, energy, and health. While it is tempting to simply boost capital spending to address these deficits, getting value for money in such a tight labour market will be exceptionally difficult.

It is also not clear that more funding will be the answer. Ireland's public spend on health already ranks among the highest in the OECD, despite its younger population. Similarly, public spending on housing was the second highest in the Euro Area as a share of national income in 2023. And

the Exchequer's capital spending on housing was just shy of its previous 2008 peak of 1.8% of GNI* last year (Conefrey, Hickey, Lozej, & McInerney, 2024).

This calls for some balance. The Government should try to improve how infrastructure is delivered rather than simply push more money towards it — something which will inevitably drive up prices and lead to further shortages of workers in construction. This means improving the planning system. It means timing investments better so that not everything is done in an upturn when it is most difficult and most expensive to deliver. And it means improving how the Government delivers projects.

Rebalancing to less worker-intensive areas could help

There are other ways to achieve investment targets when facing capacity constraints. Better plans, regulations, and incentives can be used to promote more certainty and incentivise a private sector response. To get around capacity constraints, the Government could rebalance its spending to areas that rely less on workers and more on imports. This approach would lessen the draw on domestic resources, which tends to aggravate price pressures.

One example of how investment priorities could be rebalanced applies to the green transition. A substantial portion of spending will ultimately have to fall on imports of electric vehicles to meet targets (Casey & Carroll, 2023). This relies more on financial incentives and providing some charging infrastructure. By contrast, retrofitting targets need a substantial amount of labour if they are to be achieved.

If the State does not achieve a timely green transition, it faces substantial non-compliance costs. The Climate Change Advisory Council (2024) has recently flagged how costs could reach €8 billion if timely action is not taken to achieve Ireland's climate targets. This money would have to be used to purchase credits and transfers from other EU Member States when it could be more usefully invested in the Irish economy.

2. The public finances

Extraordinary corporation tax receipts are creating surpluses

The public finances continue to be boosted by the exceptional levels of corporation tax, lots of people at work, and a relatively strong economy.

Corporation tax is driving the surpluses

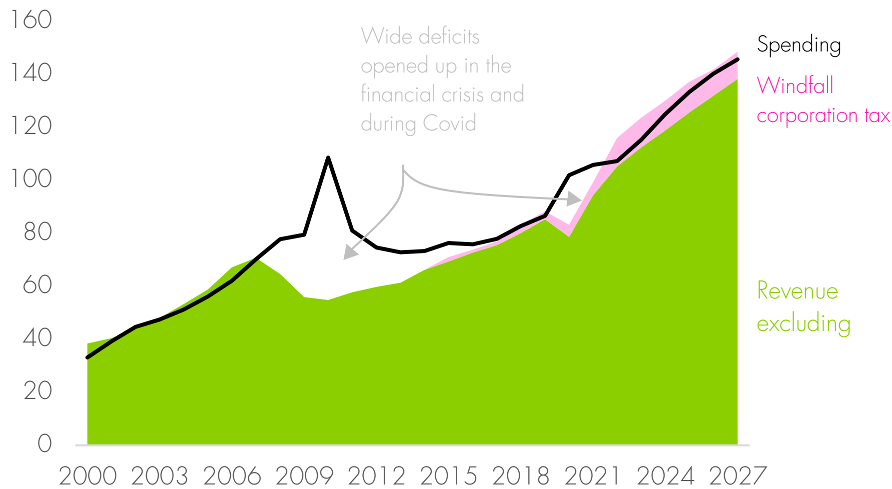
Ireland's extraordinary intake of corporation tax receipts has led to a surplus. However, without these windfalls, the surplus would disappear, leaving a large deficit.

This is unlike normal surpluses. Normally if a government collects more revenue than it is spending, it is said to be taking money out of the economy. However, the surplus is entirely driven by exceptional corporation tax receipts. These are paid by a handful of foreign multinationals based on overseas profits. The Government is not reducing demand in the Irish economy (Figure N° 11).

The highly unpredictable nature of the windfalls means they should be set aside. By saving them, the State can create a more predictable stream of income with which to fund ongoing services and supports.

N° 11 Spending is ahead of underlying revenues

€ billions, general government

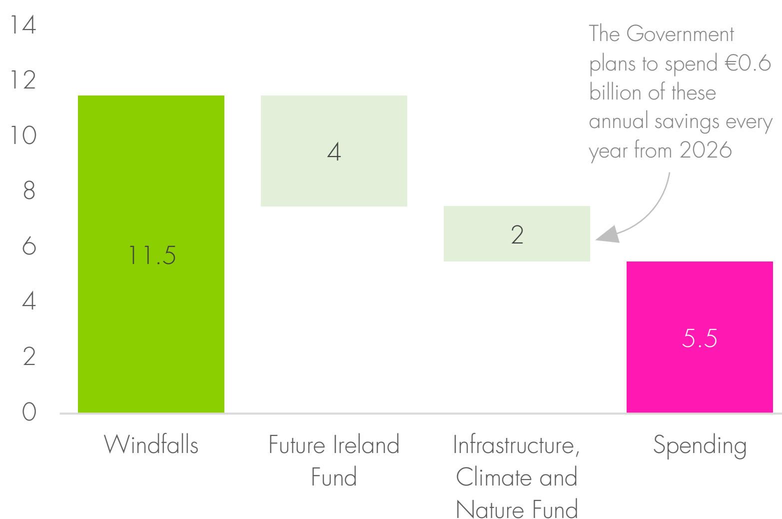


Sources: CSO, Department of Finance, and Fiscal Council workings.
Notes: Council estimates of windfalls prior to 2022. Get the data.

Instead, the Government is saving just half of its corporation tax windfalls and pumping the rest into the economy. The Government estimates it will collect €11.5 billion of windfalls in 2025. It plans to set aside €6 billion: €2 billion of that in a Fund that will soon begin reinvesting in the Irish economy from 2026 (Figure N° 12). The remaining €5.5 billion is being injected into the economy at a time when Ireland has record employment rates. This ongoing spending will continue even if corporation taxes fall.

N° 12 The plan is to spend half of the windfalls

€ billions

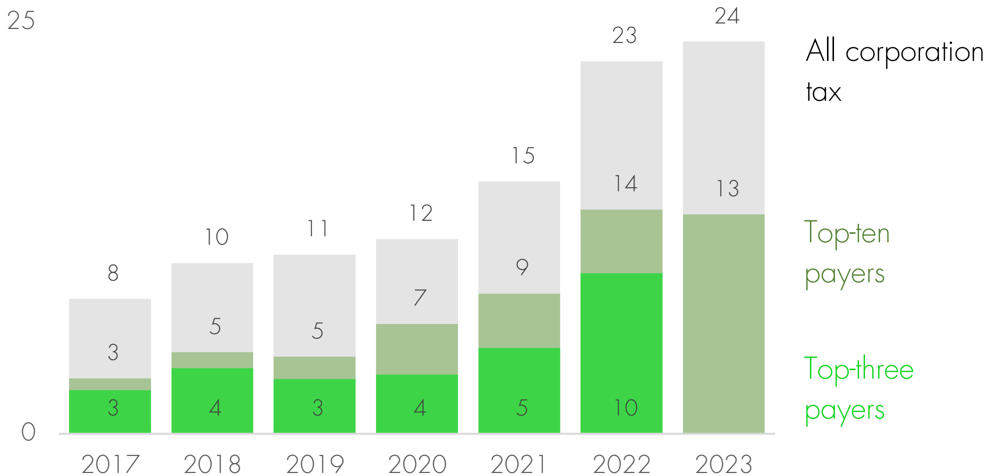


Sources: Department of Finance.
Notes: Based on 2025 plans. Get the data.

Corporation tax receipts could well rise again ahead of the Budget, but using these tax receipts to fund long-term promises is dangerous. The receipts are incredibly concentrated. Just three multinationals made up 43% of corporation tax receipts in 2022 (Figure N° 13).

N° 13 **Corporation tax is incredibly concentrated**

€ billions, corporation tax



Sources: Sources: Revenue Commissioners, Cronin (2023), and Fiscal Council workings. Note: Estimates for top-three payers are not yet available for 2023. Get the data.

The underlying picture is weaker

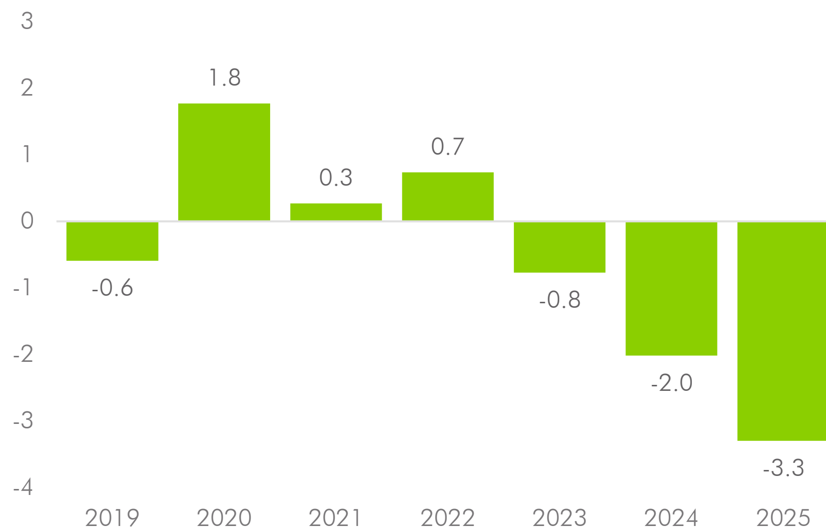
As well as being boosted by exceptional corporation taxes, the budget balance is benefiting from record numbers of people at work. This leads to fewer welfare payments, and far more taxes on income being collected. If the windfalls unwound and unemployment returned to more normal rates, a €10 billion deficit, equivalent to 3.3% of GNI*, would be likely (Figure N° 14).[5]

This underlying deficit is substantial. To put it in context, a deficit this large would require €3,600 of tax increases for every worker or €1,800 in spending cuts for every person to close it. While closing the deficit in full might not be necessary to ensure debt sustainability, this gives a sense of the underlying gap behind the headline numbers.

[5] This analysis assumes spending overruns, primarily in health, continue this year, such that the overall overrun is €3.5 billion — €2 billion more than the Government assumed in its summer forecasts.

N° 14 **The underlying deficit is large and growing**

% GNI*, bottom-up estimates of the structural balance, which also excludes windfall corporation tax



Sources: Department of Finance forecasts, and Fiscal Council workings.
Notes: The bottom-up estimate of the structural balance excludes windfall corporation tax and incorporates the Council's estimate of larger overruns in 2024. It is based on an approach that estimates permanent or "structural" revenues and the level of spending that would be expected if unemployment returned to a long-run rate of 5%. Get the data.

The Government is finding it difficult to stick to its rule

The Government has struggled to stick to the spending rule it introduced in 2021. These struggles come amid various spending pressures, the rise in the cost of living, and a budget surplus that appears healthier than it is.

The National Spending Rule was introduced in summer 2021. The idea was to set a speed limit on spending increases and tax cuts that would be sustainable. It was set at the economy's trend growth rate, which was believed to be 5%. This was a combination of 3% real growth and 2% for expected price inflation. Inflation might fluctuate around 2%, but sticking to a 2% assumption helps keep the rule countercyclical — as in, it avoids adding more pressure to fast-rising prices.[6] This does not mean spending can rise by no more than 5%. The Government can increase spending faster if it is willing to finance this sustainably with higher taxes.

[6] As Lane (2021) notes, keeping to a 2% assumption limits fiscal space when inflation is already high. This makes sense in general. Higher inflation tends to signal high demand and a need for policy to offset this in a countercyclical way. Similarly, when demand is weak and inflation falls below the 2% target, the 2% assumption effectively increases a government's fiscal space. That is, it still allows an expansion consistent with the 2% assumption even when price pressures are lower than that.

Since the rule's introduction, three things have happened.

First, long-term growth expectations for the Irish economy have fallen slightly. The Department of Finance (2023) estimates Ireland's long-term growth rates to average between 0.5% and 2.5% — less than the 3% assumed. This is broadly in line with estimates from others (McQuinn & Whelan, 2018; Irish Fiscal Advisory Council, 2020; OECD, 2023).[7] Recent estimates by FitzGerald (2023) point to fast growth from 2013 to 2021. However, these growth rates applied before the rule was instated and coincided with a period of rapid job creation as unemployment rates fell from almost 14%. Recent population increases could raise potential output. But it remains to be seen just how much of the recent population increases will prove permanent.

Second, Ireland's prices have risen faster than expected following the war in Ukraine. It was expected that price inflation would average close to 2% annually. Instead, the average is likely to be closer to 4½ % over 2022–2025.

On balance, the 5% growth rate is still appropriate for the National Spending Rule. Revenues look set to rise sustainably by about 5% each year out to 2027 (Irish Fiscal Advisory Council, 2024).

Third, the Government has introduced techniques to get around the rule. The Council has highlighted this "fiscal gimmickry" extensively. The Government looks to have abandoned some of this with its Summer Economic Statement. It now focuses on total spending rather than a "core" and "non-core" split. This is good. It means it is no longer characterising some long-lasting spending as temporary.

However, elements of the gimmickry remain. The Government is still citing some capital spending as being financed by windfalls even though this spending appears permanent and the windfalls are highly uncertain. It still has large contingencies for all years that could be used for spending outside of their stated purpose. And the Government still has not budgeted for well-flagged cost-of-living supports that it plans to unveil as part of Budget 2025. This leaves the picture of how the rule is being complied with still quite murky.

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[7] This takes the compound annual average growth rates for 2027–2046 in McQuinn & Whelan (2018) and for 2031–2050 for OECD (2023).

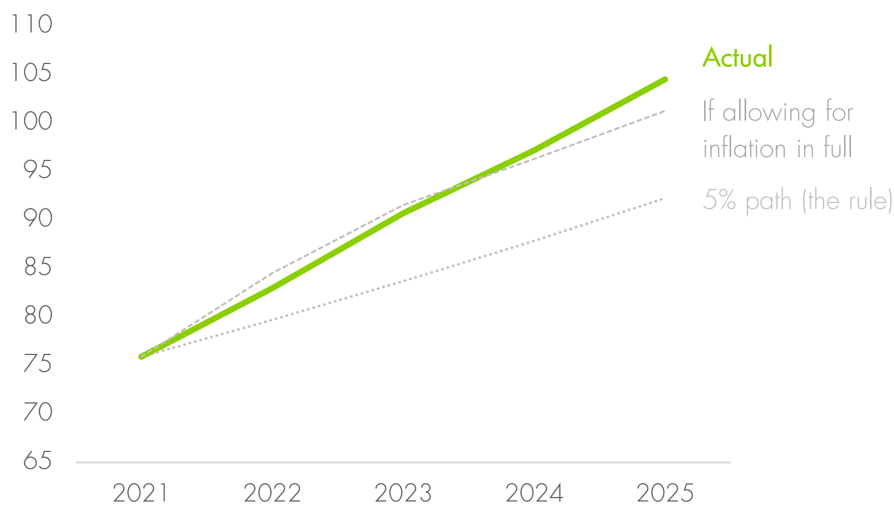
The breaches go beyond inflation

The Government has said that it needed to do more than the 5% limit set by the rule in recent years to allow for higher inflation.

Rising prices have certainly put pressure on spending. But the Government has gone further again. The level of spending in 2025, allowing for tax measures, will be €12 billion above what the rule allowed (Figure N° 15). It would still be €3 billion higher than if the Government had allowed for inflation in full.[8]

N° 15 **Budgets break the rule and go beyond inflation**

Net spending, € billions



Source: Fiscal Council workings and Department of Finance projections. Get the data.
Notes: The figure shows net spending. That is, the level of spending plus the cumulative impact of tax measures since 2021. The "actual" level includes spending expected to persist, such as Covid- and Ukraine-related spending the Government forecasts will continue. The "allowing for inflation in full" path shows the level of net spending that would have been consistent with 3% real growth plus a full allowance for actual inflation, averaging 4½ % per year. The 5% path is the path consistent with the net spending rule.

A related argument is that the faster budget expansions were needed for a larger population. The larger population could prove to have raise Ireland's potential output permanently by raising its supply of labour, but this is highly uncertain. And by pumping more money into an economy with record employment rates now, the Government risks worsening the problem of rising prices and capacity constraints.

[8] This compares the actual net spending path with a scenario where spending grew 7½ % per annum — a rate that would be consistent with 3% growth for real incomes plus the actual average annual consumer price inflation rate of 4½ %.

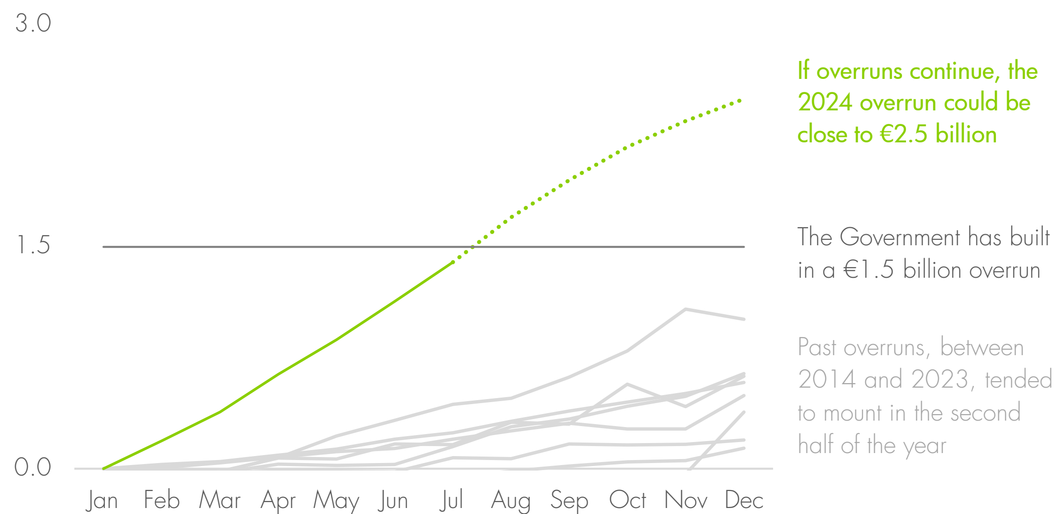
Spending forecasts remain unrealistic

The Government's spending forecasts remain unrealistic for two reasons: overruns and things not budgeted for.

First, spending overruns look set to continue. These are most prominent in health spending, though they've spread to other areas too. The health overspends reflect a mix of underbudgeting and lax controls. Health overruns could be far more than the extra €1.5 billion the Government provided midway through this year (Figure N° 16).

N° 16 **Health overruns are already substantial this year**

€ billions, cumulative monthly overruns for current health spending, 2014 – 2023



Sources: Department of Finance, and Fiscal Council workings.
Notes: The overruns are assumed to maintain a similar trajectory to historical years and a similar % overrun as it has for the year to date. Get the data.

Overruns in Ireland's health budgeting have been common. This is partly because hospital and primary care budgets are set tightly. Increases to health ceilings in recent years have been set below the costs of delivering the same services but for a larger population and with higher prices. At the same time, efforts to make delivery more efficient have rarely materialised. This is likely to have created a "soft budget constraint" —managers anticipating overruns will be funded, hence reducing their incentive to stay within budget or generate savings.

There is still potential to make healthcare spending more efficient. Ireland is a high spender on health by international standards, despite its relatively young population (Casey & Carroll, 2021). The Government needs to reign in health

overruns and get control of health spending. Two key steps would be to undertake a more comprehensive review of existing health spending and then to set out more realistic forecasts.

Second, several items are being left out of the Government's forecasts. This includes costs associated with the climate transition and the payment of the Christmas Bonus — something that the Government continuously pays out, but never budgets for.

While the spending forecasts are likely to be unrealistically low, corporation tax could yet again mask these problems. Corporation tax receipts have performed strongly in 2024. They could well exceed expectations again this year. However, relying on these receipts to plug the gap would raise the risks around various long-term promises the Government is making. A sudden rise in corporation tax receipts ahead of the Budget should not be viewed as an increase in resources that can safely fund public services on an ongoing basis.

3. The fiscal stance for Budget 2025

The Government needs to stick to its rule

When assessing how the government should approach each Budget, the Council assesses two things. It considers the economy: whether it needs more or less support overall. And it considers debt sustainability: the extent to which public debt is likely to avoid rising in a way that requires sudden sharp cutbacks.

The Government needs to show some restraint

With the economy faring strongly, and record numbers at work, it is clearly not in need of exceptional budgetary support. That is not to say that no individuals are struggling, nor that Ireland's infrastructure or public services cannot be improved. What it means is that choices have to be made.

If the Government wants to expand in some areas, it needs to take away from others. This can be done either by growing spending more slowly in some areas, by finding savings, by postponing tax cuts, or even by raising taxes.

The Government needs to stop adding fuel to price pressures and making promises that it may have to reverse in later years. By going far beyond its spending rule, the Government is adding needless pressure to an already hot economy, and it

increases the risk that deep cuts will have to be made in the next recession.

This "everything now" approach puts Ireland's economic stability, long-term growth, and people's livelihoods at risk. It means prioritising short-term gains over long-term stability.

The Government should stick to its rule so as to lessen price pressures and safeguard growth

The National Spending Rule puts a speed limit on tax cuts and spending increases. It can curb price pressures, ensure sustainable growth, and help Ireland weather future recessions.

By sticking to the rule, the Government can put long-term stability ahead of short-term gains. It can avoid past mistakes of doing too much too quickly, preserve its credibility, and keep debt on a steady downward path. Ultimately, this will help avoid needless job losses in the next downturn.

Why restraint is so important

In this context, it is worth comparing how Irish governments responded to the last two major recessions.

In the Covid-induced recession of 2020, the Government had the ability to support the economy and society with supports like the Pandemic Unemployment Payment. It pumped €32 billion of additional support into the economy between 2020 and 2023, 12% of national income. This was the equivalent of all of Ireland's yearly spend on health, housing and transport being added to existing spending. This is how budgetary policy should operate and the Council advocated this approach. When the economy is weak, budgetary policy should rightly step in and provide support, lessening the economic impact as workers lose their jobs.

By contrast, after the 2008–2009 financial crisis, successive Irish governments were unable to support people as they lost their jobs. Large cuts to spending and increases in taxes were made at exactly the time when these were most damaging. This reflected how, in the run-up to the crisis, public spending was increased and taxes cut rapidly, as the real estate bubble enriched the tax take. These policies had to be quickly reversed when those revenues disappeared.

Making choices between different demands and not doing everything now can leave Ireland in a stronger position. It reduces price pressures. It reduces the risk of bad value for money. And it leaves Irish governments better able to fight the next recession.

Cost-of-living measures will only raise consumer prices further

The Government is planning more cost-of-living measures for Budget 2025. These were not included in its updated forecasts unveiled in summer.

The cost-of-living measures were first introduced as a temporary support when prices started rising rapidly in 2022. With inflation having settled, and prices now appearing to be permanently higher, the Government needs to move away from temporary measures. These were meant to be a temporary and targeted response. However, the measures have seldom been targeted — less than one-third of measures have been targeted in the last two Budgets. And they continue to be repeated.

The debt path is encouraging, but it is heavily reliant on corporation tax windfalls

Ireland's debt sustainability outlook is better than it has been in a long time, but it relies on factors that could unwind quickly.

The net government debt ratio fell to 62% of GNI* in 2023. This is half its financial crisis peak, but still more than double pre-crisis levels. Compared to other countries, Ireland has moved down from being one of the most indebted countries in the world to around the middle of the pack. Out of 25 small OECD economies, Ireland had the sixth highest net debt ratio at the end of last year.

While it is impossible to say what a safe debt level is, lower or, at least, steadily falling debt ratios are generally considered more sustainable. Ireland benefits from relatively manageable financing needs. It also has virtually all its existing debt set at fixed interest rates. This helps insulate it against sudden economic changes.

However, as a small economy, Ireland's debt remains relatively risky. Smaller economies tend to be more volatile (Furceri and Karras, 2007 and 2008). They cannot rely on a large domestic market to offset downturns elsewhere. This leaves them more vulnerable to sudden changes in growth, which is vital to debt sustainability.

While Ireland's debt ratio is falling, this depends crucially on corporation tax windfalls. A sudden disappearance of these receipts, even with no adverse growth impacts, would see Ireland's debt stall at current levels.

Worse outcomes can be imagined. These include the possibility that a recession comes at the same time as some large corporation taxpayers reducing their payments. Similarly, job losses concentrated in the tech and pharma would further weaken the outlook for debt sustainability. Ireland relies on these sectors heavily for both corporation tax receipts and high-income, high-tax jobs.[9] It is therefore possible that a sharp drop in income taxes could come at the same time as a drop in corporation tax.

Stick to the rule and improve planning

Ireland also has many future challenges related to an ageing population. The ratio of pensioners to workers will continue rising in the coming years. This will exert upward pressure on the debt ratio. Those in retirement are also expected to live longer. This will mean higher spending on pensions, healthcare, and long-term care. It will also mean slower growth in the economy and in tax revenues.

Action sooner rather than later will ultimately be less costly (Irish Fiscal Advisory Council, 2020). The Government is right to have set up the Future Ireland Fund to save corporation tax windfalls with a view to meeting ageing costs in future. It is also right to have set out gradual increases in Pay Related Social Insurance (PRSI), having opted against increasing the pension age. However, neither of these measures goes far enough to offset ageing pressures in full. Better planning and sticking to the National Spending Rule will be essential to meeting these challenges.

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[9] See Box B of the Council's June 2024 Fiscal Assessment Report for details on the concentration of Ireland's tax system (Irish Fiscal Advisory Council, 2024).

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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 spending rule calculations, the estimated structural balance, and the Council's estimates of stand-still costs.

VIEW SUPPORTING ITEMS