Irish Fiscal Advisory Council

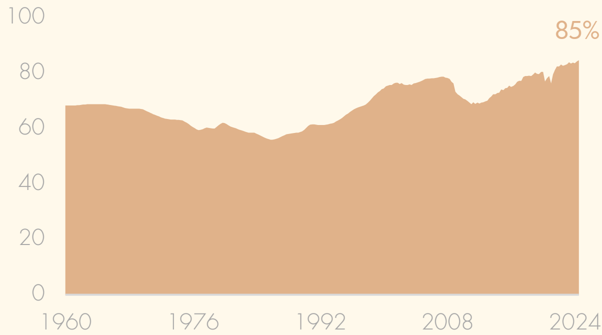
Fiscal Assessment Report

# Ireland's bounty

December 2024

## Employment is at an all-time high

% population aged 25-54 in employment

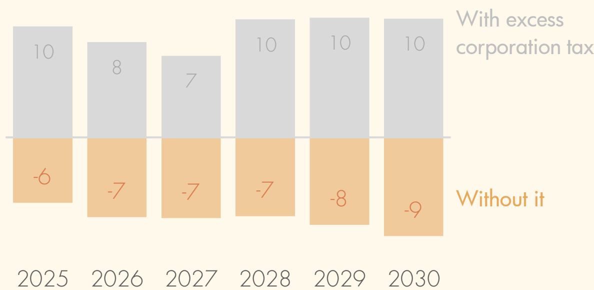



Ireland has never had as high a share of those in their prime working years at work.

Wages have started to rise faster than prices, helping consumers.

## Corporation tax keeping Ireland in surplus

€ billion, budget balance



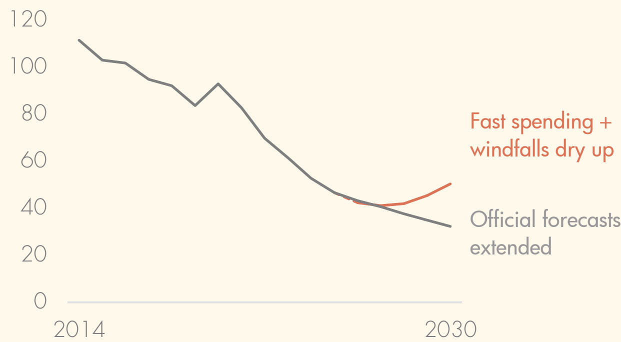

Phenomenal levels of excess corporation tax receipts, nearly €16 billion every year, are keeping Ireland in surplus.

Injecting these receipts into a strong economy is risky.

These receipts may well increase, but they remain high risk. Just three companies account for most of the windfalls.

## A de-anchored policy has risks

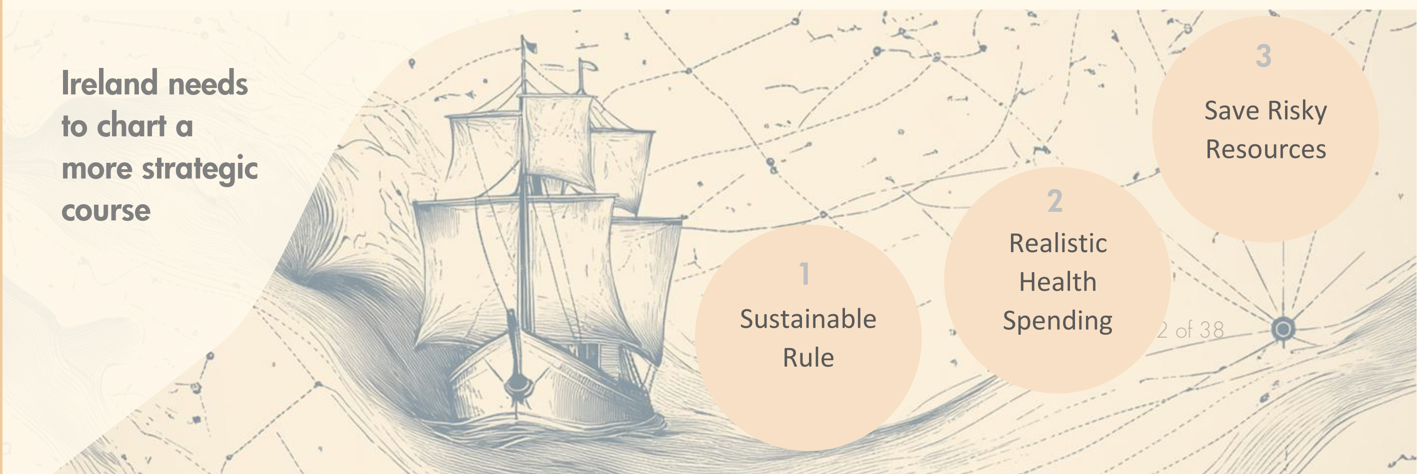
% GNI*, net government debt




A key risk for Ireland is that budget policy has become de-anchored. Awash with resources, spending has increased rapidly.

If this pattern continued and windfalls dried up, it would set Ireland's public debt on a steep upward path. Rising ageing pressures would make this difficult to reverse.

## Ireland needs to chart a more strategic course



# Summary

**Ireland's new government can reasonably expect steady growth and substantial tax receipts.** All-time records in employment rates and soaring tax receipts are not expected to unwind any time soon.

**Extraordinary corporation tax receipts are keeping the public finances in surplus.** The Government is benefiting from a handful of foreign multinationals paying phenomenal amounts of corporation tax here. These receipts could well grow further, with the ending of certain tax allowances and a rise in the effective rate boosting receipts. Without these, the rapid spending increases in recent years would have led to Ireland running larger deficits.

**Corporation tax receipts could grow further but are high risk**. A hit related to just two or three firms could substantially reduce these receipts. This could spill over into high-pay, high-tax jobs in the same sectors and could come at the same time as a wider recession. The bulk of receipts come from just two sectors — pharma and tech — so that factors affecting a few big companies may affect others.

**The real danger is that budget policy has lost its anchor.** Public spending, net of tax cuts, looks set to rise by more than 6% in 2024 and 2025 even when adjusted for inflation. This is double the upper estimates of Ireland's sustainable growth rate. A temptation will be to divert more corporation tax receipts towards further spending increases or tax cuts. In an already strong economy, this could mean further overspends, bad value for money, and delays. If budgets out to 2030 continue in this fashion and windfalls dry up, this would set debt on a much riskier course. This would be painful to reverse, particularly as pressures from an ageing population mount.

**Now is the time to plan seriously.** The Government should:
1) set out a sustainable rule it will stick to, curbing pressures and avoiding needless job losses in the next recession.
2) realistically plan for health, housing, and climate challenges.
3) treat its exceptional corporation tax receipts more like Norway treats its oil — as a high-risk, finite resource.

# Key indicators

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

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|
| Economy | | | | | | | |
| Real GNI* growth | 4.9 | 2.6 | 2.8 | 2.5 | 2.3 | 2.2 | 2.2 |
| Nominal GNI* growth | 8.1 | 5.3 | 5.3 | 5.0 | 4.9 | 4.5 | 4.5 |
| Nominal GNI*, € billions | 314.4 | 331.0 | 348.6 | 366.1 | 384.0 | 401.3 | 419.6 |
| Price inflation, year-on-year change [1] | 1.7 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Public finances | | | | | | | |
| Budget balance | 7.5 | 2.9 | 2.4 | 1.9 | 2.7 | 2.6 | 2.5 |
| Budget balance excl. excess corporation tax [2] | -2.0 | -1.7 | -2.0 | -1.9 | -1.8 | -1.9 | -2.1 |
| Structural budget balance [3] | -2.8 | -3.5 | -3.5 | -3.1 | -2.7 | -2.3 | -1.9 |
| Budget balance (€ billions) | 23.7 | 9.7 | 8.3 | 7.1 | 10.3 | 10.5 | 10.4 |
| Excess corporation tax (€ billions) [2] | 30.0 | 15.4 | 15.3 | 14.2 | 17.2 | 18.1 | 19.0 |
| Budget balance excl. excess corporation tax (€ billions) | -6.3 | -5.7 | -7.0 | -7.1 | -6.9 | -7.6 | -8.6 |
| Structural budget balance (€ billions) [3] | -7.8 | -10.3 | -10.9 | -10.1 | -9.2 | -8.4 | -7.3 |
| Revenue | 47.4 | 42.6 | 42.2 | 41.8 | 42.6 | 42.7 | 42.5 |
| Revenue excl. excess corporation tax | 37.8 | 37.9 | 37.9 | 37.9 | 38.1 | 38.2 | 37.9 |
| Expenditure | 39.9 | 39.7 | 39.9 | 39.8 | 39.9 | 40.1 | 40.0 |
| Net debt ratio | 52.9 | 46.7 | 43.2 | 40.7 | 37.7 | 35.0 | 32.3 |
| Net debt (€ billion) | 166.3 | 154.6 | 150.6 | 149.0 | 144.8 | 140.5 | 135.5 |

Sources: These projections are based on Budget 2025.
[1] Harmonised index of consumer prices (HICP).
[2] This uses the "windfall estimates" produced by the Department of Finance as they are in line with Council estimates.
[3] This is the bottom-up estimate produced by the Council.

# 1. The economic backdrop

The economy is performing strongly

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. However, prices remain high, and there are risks that domestic prices, including rents, could continue rising at a relatively brisk pace.

## Economic activity is strong

The broadest measure of Ireland's domestic economy is modified Gross National Income (GNI*).[1] This shows the economy grew by 5% last year — faster than normal rates.[2]

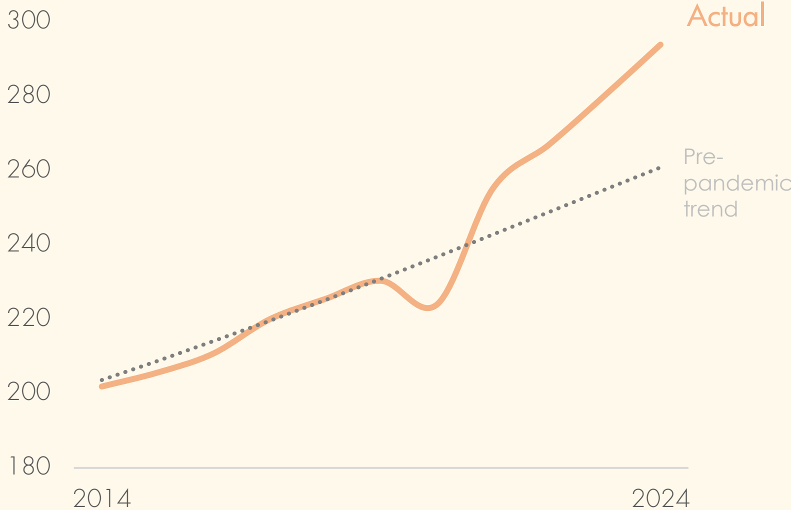
This fast growth means economic activity has risen above the trend it was on before the pandemic (Figure N° 1). There are reasonable doubts as to whether this higher path will be sustained. It might be explained by a larger population. But recent inward migration could yet prove cyclical and/or reverse if geopolitical tensions ease. Another explanation might be that participation and productivity have been

[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%.

boosted by remote working. Again, it seems premature to say this is permanent.

N° 1 **The economy is well above trend levels of activity**

Real GNI*, € billions

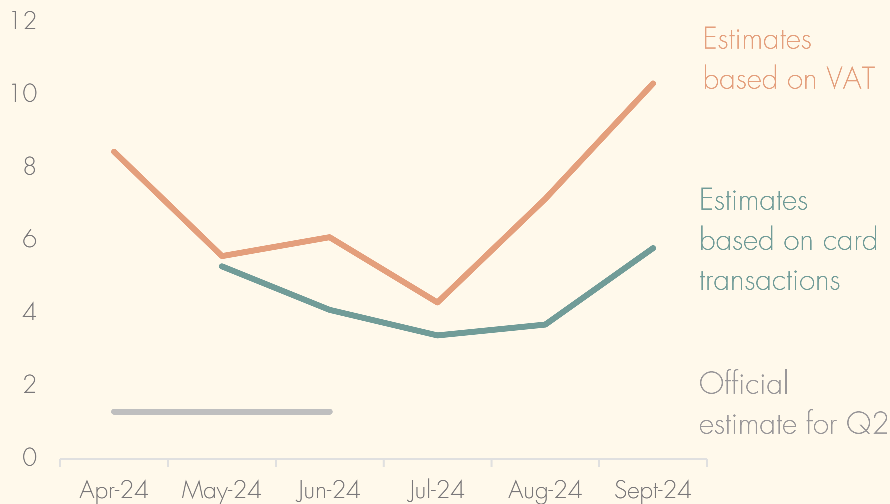



Sources: CSO and Budget 2025. Get the data.
Notes: Pre-pandemic trend is calculated using Real GNI* from 2014 to 2019.

Within domestic activity, consumer spending may be performing more robustly than appears. Official estimates from the Central Statistics Office (CSO) suggest growth in consumer spending, adjusted for inflation, was 1.3% compared to the same period of last year. However, other sources suggest it has grown far more strongly. Data on Value Added Tax (VAT) and estimates based on bank card transactions (Carroll, 2024) both suggest much stronger growth in recent months.

## N° 2 Consumer spending is potentially much stronger

Real, % change y/y




Source: CSO; Central Bank of Ireland; Department of Finance and Fiscal Council's workings. Notes: All figures are in real terms. The new monthly consumption estimate is based on Carroll (2024). The VAT data and the new monthly estimate are based on 3-month moving sums of each variable. VAT data is deflated by HICP. To ensure comparability, the VAT data is adjusted backwards by one month given the timing issues related to the payment of VAT receipts. Get the data.

## Construction is struggling to ramp up

While consumer spending has recovered strongly, construction investment has been sluggish. This reflects a falloff in office development, and difficulties ramping up homebuilding.

## Ireland's jobs market has never been tighter

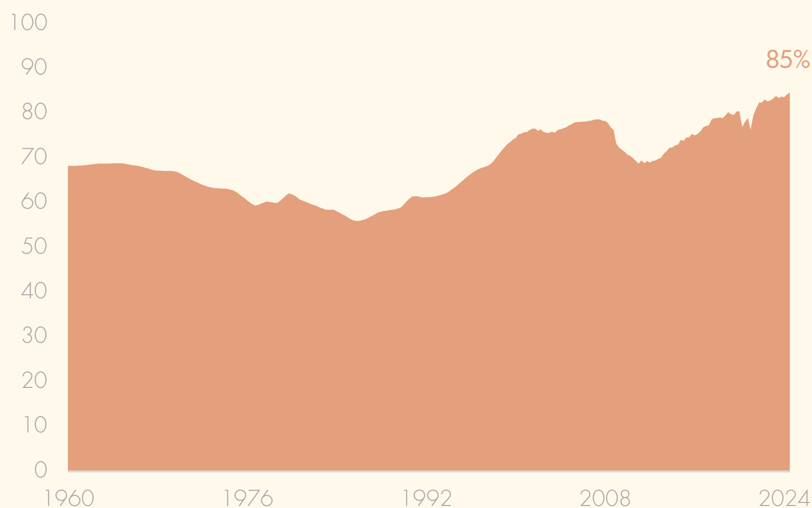
Ireland's jobs market remains extremely tight. The ages 25–54 are often considered people's prime work years. On this basis, there has never been a greater share of people working in Ireland's history (Figure N° 3).

Since the pandemic, there has been a steep rise in those working or seeking work. The flexibilities of remote working and the rising cost of living may both have played a role in boosting the number of people interested in seeking work.[3]

[3] This effect appears to be more pronounced for females. Between Q1 2019 and Q3 2024, female employment rates for ages 25-54 rose from 74% to 80%, whereas male employment rates had risen from 86% to 90%. Over a similar timeframe, those who report "usually working from home" has increased from 7.5% of employment in 2019 to 20.6% in 2023.

N° 3 **Employment is at an all-time high**

% population aged 25-54 in employment




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

Employment has grown by 18% since 2019.[4] These increases have been spread across three broad categories. The largest increases are in jobs areas that are predominantly supported by state funding: accounting for 40% of employment increases. High productivity sectors, like information and communications technology and professional services, account for just over a third of employment increases. This is despite this sector only accounting for 21% of employment in 2019. Other sectors (such as Industry and construction) account for about a quarter of employment growth and have experienced the slowest pace of growth since 2019.

## Falling energy prices mask underlying pressures

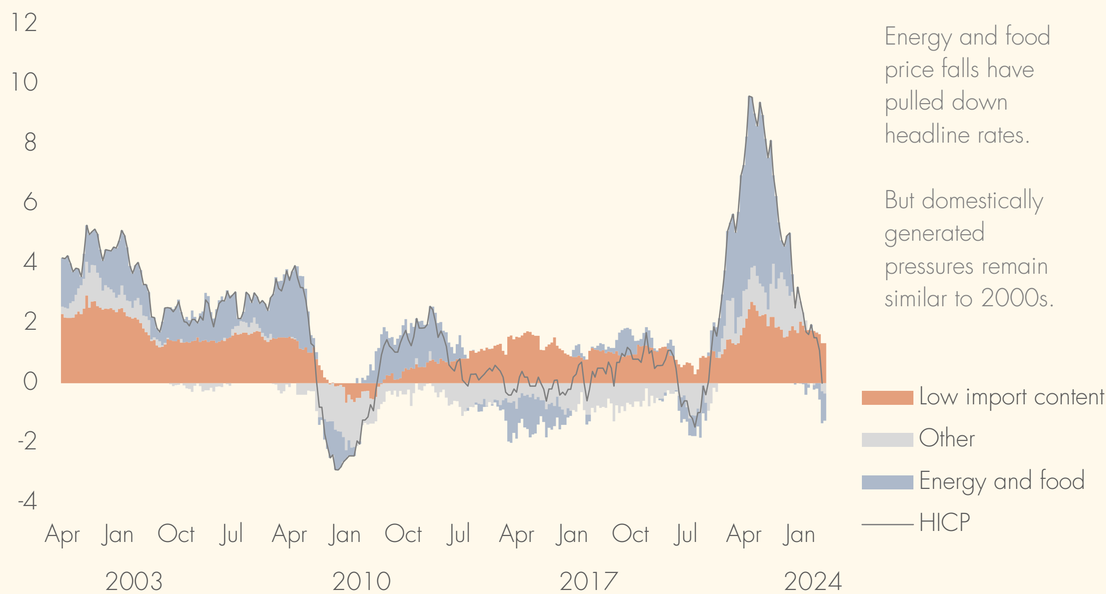
With so many at work, upward pressure on prices and wages is to be expected. Headline measures of inflation have fallen as international energy prices have dropped.

The main driver of rising prices at the moment is domestic prices (Figure N° 4). This includes areas like rent, restaurants and cafés

[4] This equates to an increase of 427,000 in employment.

Nº 4 **Inflation driven by domestic pressures as energy prices fall**

% change year-on-year and percentage point contributions




Source: Eurostat. Get the data.

Notes: Domestically generated inflation or inflation with a "low-import content" is based on the Fröhling et al. (2022) approach.

The Government has added to these price pressures. Pumping money into an economy already performing strongly is always likely to increase inflation. Central Bank research (Conefrey, Hickey, Lozej, & McInerney, 2024) suggests that prices could be 1.9% higher in 2025 due to the Government breaking the National Spending Rule. This equates to an additional €1,000 on a typical household's yearly outgoings.[5]

Wages are also now rising quickly. In 2023, hourly wages rose by 9.2%. While growth moderated in the first half of 2024 (6%), this is still a rapid pace of wage growth.[6]

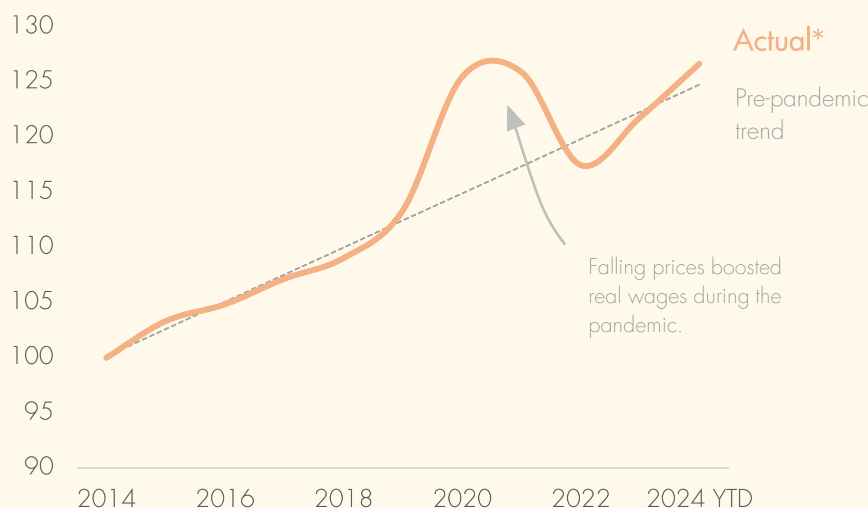
Part of recent increase in wages is a catch up to high prices. All the ground lost in 2022 has now been made up when adjusting for the composition of employment and for prices. Average real wages are actually above their pre-pandemic trend on average. They are 11.7% above 2019 levels (Figure Nº 5).

[5] 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.

[6] This estimate of wage growth is derived from compensation of employees from the Quarterly National Accounts. This is then divided by the actual hours worked series from the Labour Force Survey. Survey data such as the Earnings Hours and Employment Costs Survey (EHECS) shows more modest growth in hourly earnings (4-5%).

Nº 5 **Real wages now above pre-pandemic trend**

Real hourly wages, Index: 2014=100




Sources: CSO and Fiscal Council workings. Get the data.
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. 2024YTD shows the first half of 2024.

## Risks

There are other macroeconomic risks facing Ireland in the coming years.

One such risk is pro-cyclical policy. Interest rates are likely to be cut by the European Central Bank in the near term. Given the Irish economy is already operating at full capacity, a cut in interest rates would likely lead to higher prices rather than higher economic activity.

Inappropriate fiscal policy could also amplify this affect. There is a significant risk that fiscal policy becomes excessively expansionary in the coming years, while the economy is already performing strongly.

There are some clear downside risks from overseas. Geopolitical tensions remain high and an escalation of trade tensions look likely. Given Ireland's open economy, these could have a large impact and potentially lead to a resurgence of inflation.

The prospect of these trade tensions also creates more uncertainty, acting as a drag on investment, particularly Foreign Direct Investment.

# 2. The public finances

Corporation tax receipts are bountiful but risky

The public finances look set to continue being boosted by extraordinary corporation tax receipts and a strong economy. These receipts may continue, but risks abound.

Ireland's official budgetary projections are also highly unrealistic. They ignore obvious pressures in health spending and the costs associated with the green transition. They also omit announced plans to spend more exceptional proceeds: those linked to the sale of bank shares. However, corporation tax revenues are likely to be higher than projected, potentially becoming even more concentrated.

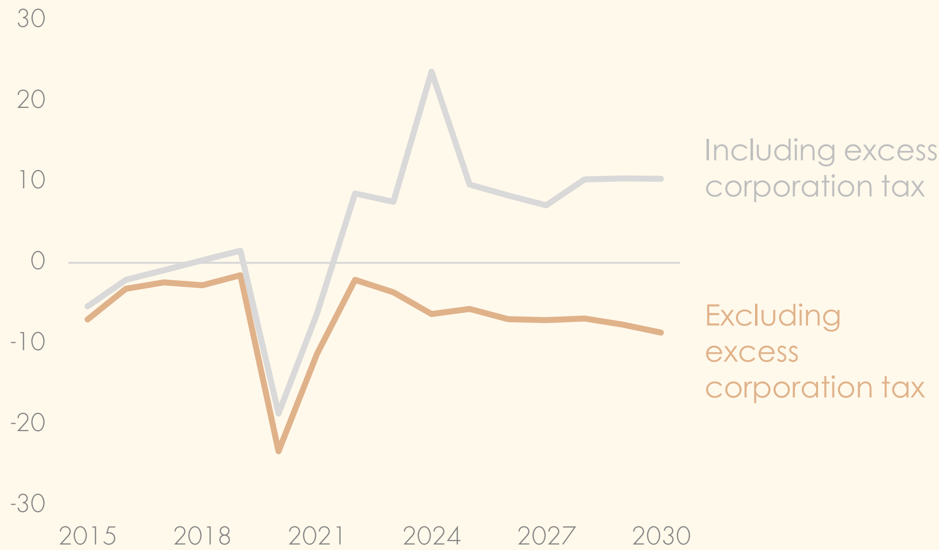
## Corporation tax is driving the surpluses

Ireland's extraordinary intake of corporation tax receipts has continued (Figure N° 6). Even when the Apple case money is excluded, corporation tax receipts have almost tripled since 2019 and are expected to account for 28% of total tax in 2024. This is twice the average share from 1999 to 2018.

N° 6

## Exceptional corporation tax driving surpluses

€ billions, general government balance



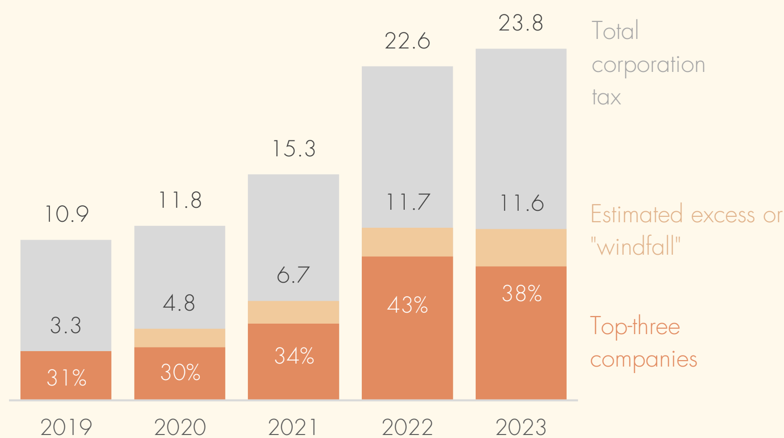

Sources: CSO, Department of Finance, and Fiscal Council workings. Get the data.
Notes: Forecasts as per Budget 2025. Estimates of excess corporation tax are taken from Budget 2025. 2015-2021 numbers are from Fiscal Council estimates.

Without these exceptional receipts, the government would be running a deficit of €6.3 billion in 2024. In effect, the surplus is being produced by a handful of foreign multinationals based on their worldwide profits.

N° 7

## Corporation tax is incredibly concentrated

€ billions, corporation tax




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

The receipts remain highly concentrated. Most of the "windfall" element, the excess relative to what can be explained by growth in the domestic economy, is estimated to be accounted for by just three companies.

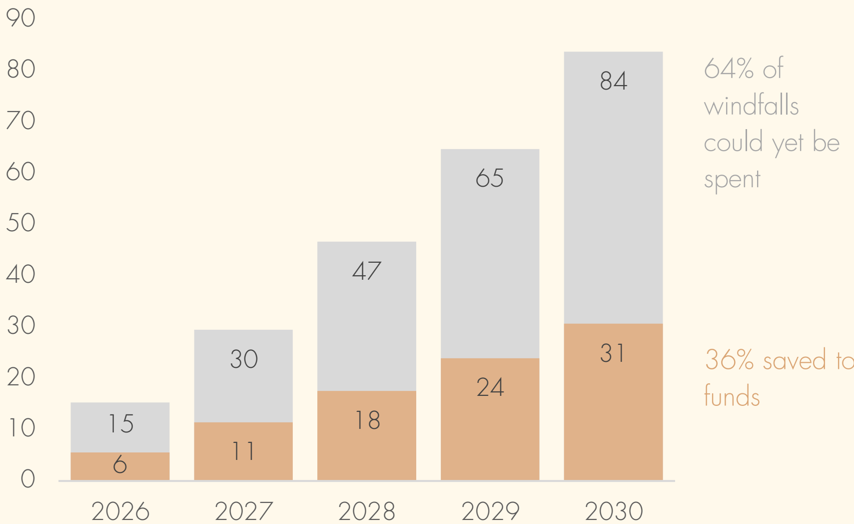
The receipts are also subject to lots of risks outside of the government's control. One such risk is the possibility of U.S. policy changes leading to less revenues being collected here. As it stands, about three-quarters of Ireland's corporation tax receipts are from large U.S. multinationals.

Just over one-third of the forecast receipts are set to be saved after next year. A risk is that the rest is pumped into an already strong economy. The Government estimates it will collect €84 billion of windfalls cumulatively between 2026 and 2030. It plans to set aside €31 billion in savings funds when spending out of these funds is accounted for (Figure N° 8).

A better solution would be to save more of these receipts. Doing so would create a predictable future stream of income with which to fund ongoing services and supports.

N° 8 **The plan is to save just one-third of the windfalls**

€ billions, cumulative windfalls and net transfers




Sources: Department of Finance. Get the data.

Notes: Based on Budget 2025 plans, with withdrawals from the Infrastructure, Climate and Nature Fund accounted for in net transfers to funds.

## 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 even a few companies were to reduce corporation tax payments in Ireland, this would have large impacts.

## The tax base is being narrowed

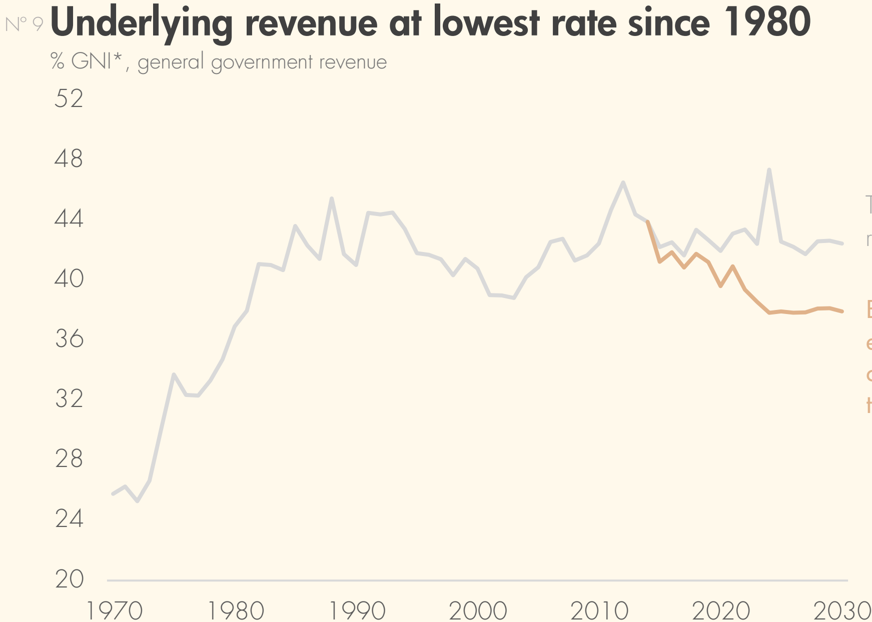
One of the features of recent years has been a narrowing of the tax base. While corporation tax receipts have become more concentrated, broader taxes like the Universal Social Charge (USC) have been gradually cut and their bases narrowed. This trend may continue.

## Underlying revenues are declining

While exceptional levels of corporation tax are keeping revenues high overall, a very different picture emerges without these. On this basis, revenue as a share of national income is at its lowest level since 1980. It is forecast to remain low out to 2030.

Nº 9 **Underlying revenue at lowest rate since 1980**

% GNI*, general government revenue



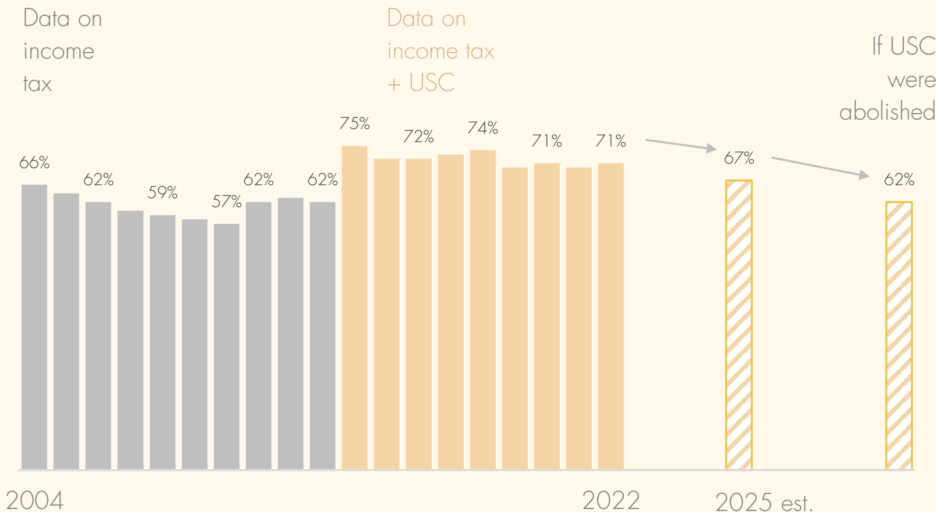

Sources: Department of Finance forecasts, and Fiscal Council workings.
Notes: Excess corporation tax is given by Budget 2025 estimates. Fiscal Council estimates are used before 2022. General government revenue data is used back to 1995. This is then extended back to 1970 using total central and local government revenue from the annual national accounts. GNI* is extended back to 1970 using Gross National Product. Get the data.

One area where taxes appear to be narrowing again is income tax. Income tax and USC are a relatively stable source of revenues and represent nearly 30% of all taxes. Yet, the latest estimates from Revenue suggest that the share of

taxpayers paying any income tax or USC has fallen from around 70% to 67%. This means one-third of taxpayers are exempt. If the pattern of reducing the USC tax take was continued until it was abolished this would mean that just 62% of taxpayers would be liable for income tax — a substantial narrowing of the tax base (Figure N° 10).

N° 10 **Income tax may be narrowing again**

% of taxpayer units paying income tax or USC




Source: Revenue and Fiscal Council workings.
Note: The USC was introduced in 2011, but data on the share paying income tax or USC are only available back to 2014. In 2019, Revenue expanded its data coverage through its "PAYE Modernisation Programme". Among other things, this led to taxpayers that receive State Pension but no other forms of taxable income, such as those receiving state pensions, being included for the first time. This meant a structural break in the data series between 2018 and 2019, resulting in a downward shift in the share of taxpayers not paying tax. Get the data.

## Corporation tax may continue to mask reductions elsewhere

Ireland's move to a higher minimum effective tax rate on certain firms is likely to lead to higher corporation tax receipts. However, this is not reflected in official forecasts.

The official corporation tax forecasts assume a €2 billion reduction in receipts from 2026. This is based on an outdated January 2020 estimate which assumes that OECD tax reforms are implemented in full.

Since then, corporate tax receipts have increased nearly three-fold, up by €18.6 billion.[7] Mechanically, with receipts so

[7] This compares 2019 figures, the figures available at the time the estimate was made, with Budget 2025 forecasts for 2024 (excluding the Apple money).

much larger, these estimates look to be outdated. Furthermore, as things stand, only one part of the tax reforms—the minimum effective tax rate—is likely to be implemented. This part is expected to increase Ireland's revenues, while the other revenue-reducing part "Pillar I" is unlikely to be enacted.

Outside of the OECD tax reforms, the exhaustion of capital allowances may well see corporation tax receipts increase even further.

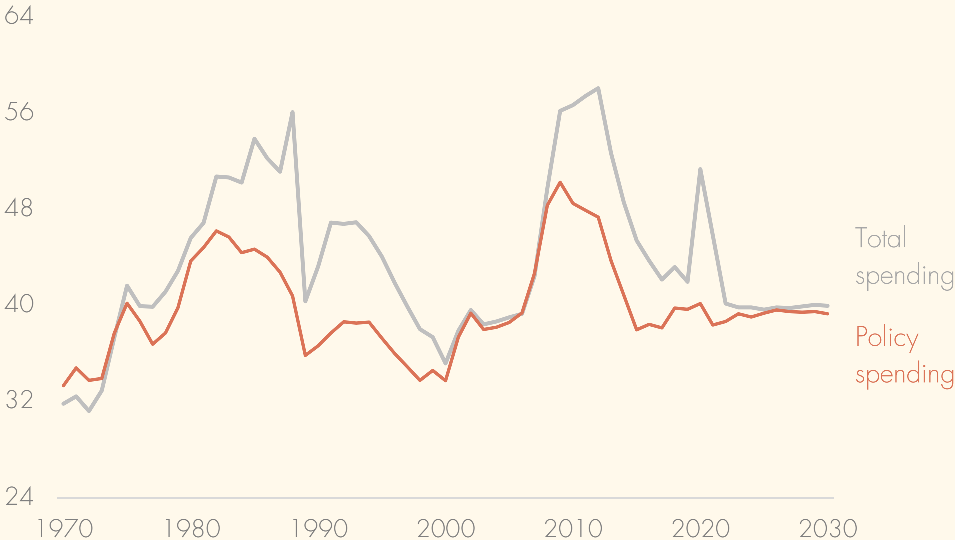
Ireland may also benefit from a further revenue upside—the revenue from large fines issued by the Data Protection Commission. To date, fines issued exceed €3 billion but these are subject to ongoing appeals processes.

## Spending has increased at a rapid pace

Government spending has increased at a rapid pace in recent years, but the official projections suggest this will slow markedly in the coming years. This looks highly unrealistic, especially as overruns in 2024 are not budgeted for in 2025.

### Nº 11 Government spending back at pre-financial crisis levels

% GNI*, general government expenditure

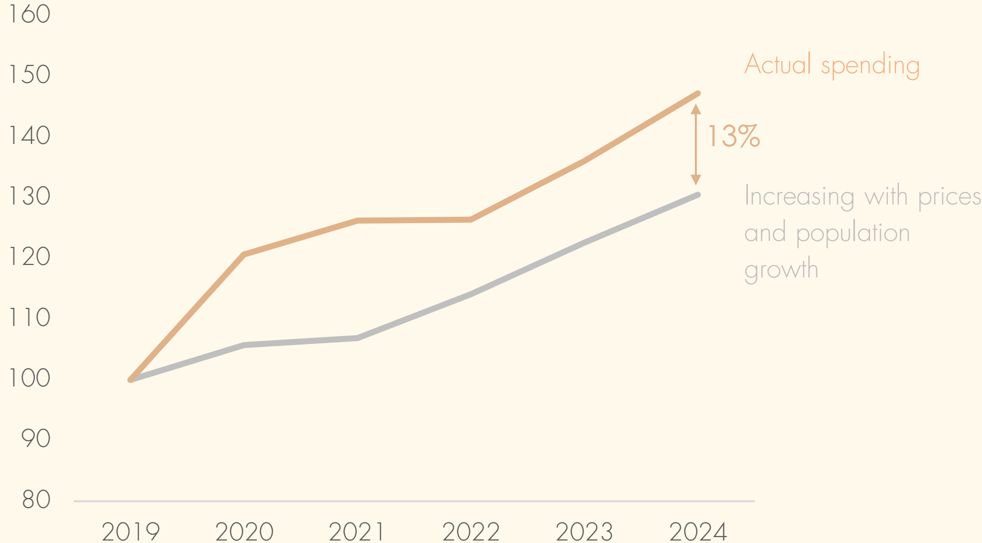



Notes: General government spending is shown as a percentage of modified gross national income. Before 1995, general government expenditure is extended back using total expenditure of central and local government given in the annual national accounts. Before 1995, GNP growth rates are used as GNI* data is only available back to 1995. The grey line shows "policy spending" as a % of nominal potential GNI*, stripping out interest costs, one-off expenditures and the estimate costs or savings associated with cyclical unemployment. Get the data.

Comparing how spending has evolved from 2019 to 2024 lets us look through the pandemic's temporary effect on spending. Overall, total government spending has grown by 44% over this period: 8% per year on average. While this is rapid growth, nominal national income outpaced it at almost 9% per year. As a result, government spending has fallen slightly as a share of national income. Government spending as a share of national income is now back to levels that would have been seen before the financial crisis. Stripping out interest costs, and temporary factors, the series has been broadly stable at around 40% of GNI*.

## N° 12 Spending has grown faster than prices and the population

Current primary general government spending, index 2019=100




Notes: General government current primary spending is shown. This excludes interest payments and investment. The alternative series shows how current primary spending would evolve if it simply grew in line with population growth and inflation. Prices here takes a weighted average of HICP and hourly public sector wages. Exceptional spending on Covid-19 supports such as the Pandemic unemployment payment added to spending in 2020, 2021 and 2022. Get the data.

A key question is whether the recent increase in spending is sustainable given the path for revenue? Well, there are several factors to consider:

First, one reason that spending has not risen faster is due to falling interest costs. This is mostly outside of the government's control.

Second, the strong jobs market has kept down welfare costs, like jobseekers' payments. This has also meant that spending has not risen faster.

Third, much of this additional spending has been financed by risky corporation tax receipts, while underlying revenues appear to have fallen (see earlier).

Where has the spending risen? In a structural sense, we can see that spending has risen in two key areas: health and public investment. Spending in each of these areas has grown by about 60% from 2019 to 2024.[8]

People may not feel the impact of this extra spending in their lives. One reason is that much of this additional spending has been eaten up by price increases and increased demand for services. If one accounts for price increases and increased population, government spending has increased by 13% since 2019.[9]

## The budgetary forecasts are not credible

### Inappropriate starting points are used for spending

Budget 2025 starts with an expected outturn for 2024 spending that is too low. This makes it highly likely that the 2025 forecasts are also unrealistically low. A similar problem emerged with Budget 2024: the starting point was too low leading to overruns, particularly for health spending.

The Government used the Summer Economic Statement 2024 as its starting point for 2025 forecasts. This included €1.9 billion in overruns for 2024, but the overruns are expected to reach closer to €3.8 billion.[10]

This reliance on outdated assumptions means significant overruns are quite likely next year. They are likely to exceed €1 billion, unless major policy changes are made.

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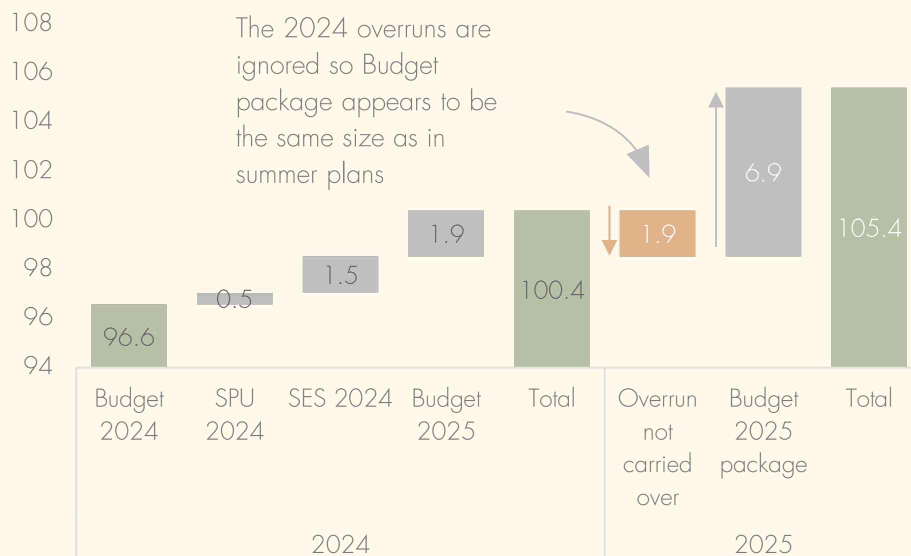
[8] This calculation assumes that general government investment in 2024 is at the level forecast in Budget 2025. For current health spending, it is assumed that health spending for the year as a whole is in line with the year-on year growth so far this year. An adjustment needs to be made to account for the transfer of responsibilities from the Department of Health to the Department of Children, Equality, Disability, Integration and Youth in 2020.

[9] Several different measures of prices can be used to assess the cost of providing public services. These range from measures of public sector wages to the general price level. These measures all point to prices increasing by about 20% over this five-year period. The population has increased by almost 9% in the last five years

[10] Although 2024 overruns are higher in Budget 2025 than in the Summer Economic Statement, the official estimated cost of maintaining existing levels of public services in 2025 was reduced from €3.7 billion to €3.4 billion. This was despite more spending in 2024 than was previously expected.

Nº 13 **2024 saw large overruns that disappear in 2025**

€ billions, gross voted expenditure




Sources: Department of Finance, and Fiscal Council workings.
Notes: This excludes the one-off cost of living payments worth €2 billion in 2024. Get the data.

## Major policy decisions are not included in spending

One of the biggest changes in policy announced with Budget 2025 was a €3 billion increase in public investment. This was said to be funded by the proceeds of AIB share sales.

This is a substantial increase in spending, yet it was not included in the budgetary figures. It comprised €1.25 billion for housing, €1 billion for water infrastructure, and €0.75 billion for the electricity grid. This spending should have been included in the general government expenditure forecasts in Budget 2025.

## General government forecasting problems persist

Issues highlighted in past Fiscal Assessment Reports remain. These issues all stem from the approach taken to forecast general government figures.

On the spending side, Budget 2025 includes overly conservative forecasts for growth in intermediate consumption — the goods and services used as inputs by the public sector to provide other services and supports. These are just 1% for 2024 and just 0.7% for 2025. This compares to an annual average of 8.8% per annum from 2014-2023.

On the revenue side, there are also unrealistic assumptions for the non-PRSI part of social contributions. These are projected to grow sharply by close to 20% in 2025.[11] Yet it does not appear to be linked to any policy change or credible explanation.

With more realistic assumptions for social contribution growth (9%) and more realistic growth rates for intermediate consumption (4% in 2024 and 2025), the general government balance in 2025 would be €1.6 billion (0.5% of GNI*) worse than currently forecast. Net debt would be 0.6 percentage points higher at 47.3% of GNI* in 2025.

[11] Social contributions are made up of 1) PRSI receipts, 2) government employees' pension contributions, and 3) employers' imputed social contributions. In 2025, social contributions are forecast to grow by 12%. PRSI is forecast to grow by only 9% in 2025, meaning that government employees pension contributions and employers imputed social contributions combined, are forecast to grow by close to 20% in 2025.

# 3. The stance

Now is the time for a real strategy

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 economy does not need more stimulus

The economy is already at record rates of employment. Domestic price pressures have moderated but risk continuing. Ireland is attracting substantial numbers of workers from overseas.

These signals all herald an economy that is performing beyond normal and sustainable levels of activity. In such an environment, governments should ensure policy does not add more pressure to the economy.

However, Budget 2025 once again saw an increase in spending, net of tax cuts, that was beyond what the Council considers appropriate. This reflects the fact that Budget 2025 saw a lot of additional and permanent expenditure related to 2024. This was in the form of overspends, particularly in health, that are likely to carry through to subsequent years.

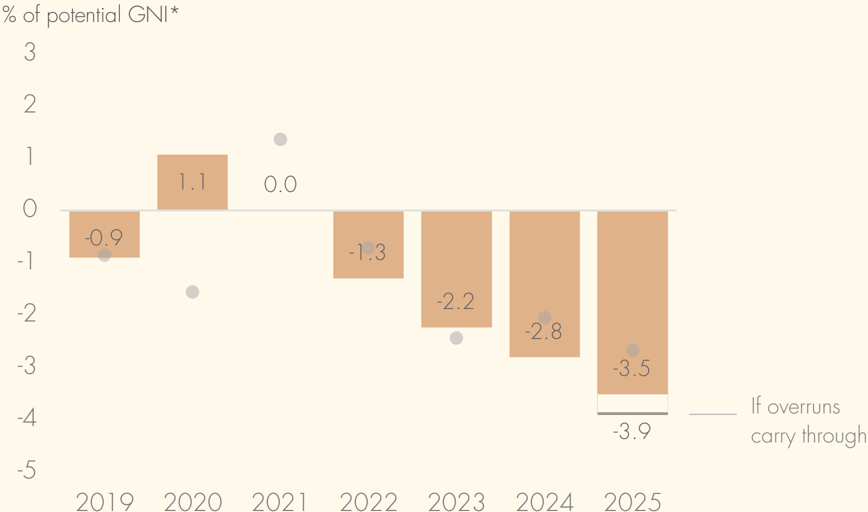
This does not represent prudent management of the economy and public finances.

There are two reasons why this approach is inappropriate. First, it comes at a time when the economy is showing record employment rates and does not need additional stimulus. Second, the result is a wider underlying or "structural" deficit.

Using the Council's two approaches to estimate this underlying position, the deficit appears to have widened. For 2025, it is likely to be close to around 3.5% of GNI*, equivalent to over €10 billion. This would climb to 3.8% or over €11 billion if overruns in 2024 carry through to next year, rather than disappearing as Budget 2025 assumes.

N° 14 **Larger structural deficits**

% of potential GNI*



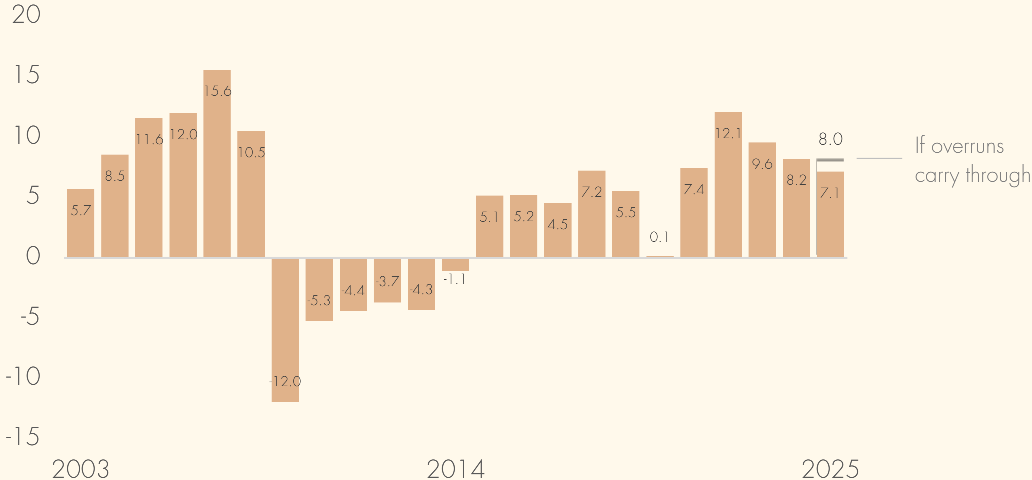

Sources: Budget 2025 and Council workings.
Notes: The bottom-up estimates shown as solid bars assume assumes structural revenue grows in line with potential growth, except for any new discretionary revenue measures. In effect, this looks through excess corporation tax receipts collected after 2019. Structural spending removes all one-offs and the estimated cyclical savings or costs associated with current unemployment levels. The top-down estimates are shown as light grey dots. These are based on the Council's estimates of the output gap and exclude excess corporation tax receipts. The wider structural deficit estimate for 2025 assumes current spending in 2025 is €1 billion higher due to overruns in 2024 carrying forward and being repeated, rather than falling out as Budget 2025 assumes. Get the data.

The expansion can also be seen in tax and spending policies. The Council's "net policy spending measure" gives a broad measure of government policy. It shows how much the government is increasing spending less the impact of tax policy changes. This measure shows continued fast increases in recent years (Figure N° 15). The expansion in 2024 is estimated to be over 8%. If the current spending overruns this

year carry through to 2025, the pace of expansion could be over 8% again.

Nº 15 **Fast policy expansions**

% changes in net policy spending




Sources: Budget 2025 and Council workings.
Notes: The "Net Policy Spending" measures 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 €1 billion higher due to current spending overruns in 2024 carrying forward and being repeated, rather than falling out as Budget 2025 assumes. Get the data.

These large expansions virtually guarantee that the net spending rule will continue to be breached in 2024 and 2025. And while the Council argued that breaching the rule on a temporary and limited basis in previous years was justified, given high price pressures, the case for this has lessened as headline inflation rates have fallen.[12]

Another way to highlight the speed of recent budgetary expansion is by controlling for inflation. When looking at the expansions in real terms, allowing for price increases, this would suggest annual average expansions of the order of 6.2% in 2024 and 2025. This is twice the rate of upper estimates of Ireland's sustainable potential growth rates.[13]

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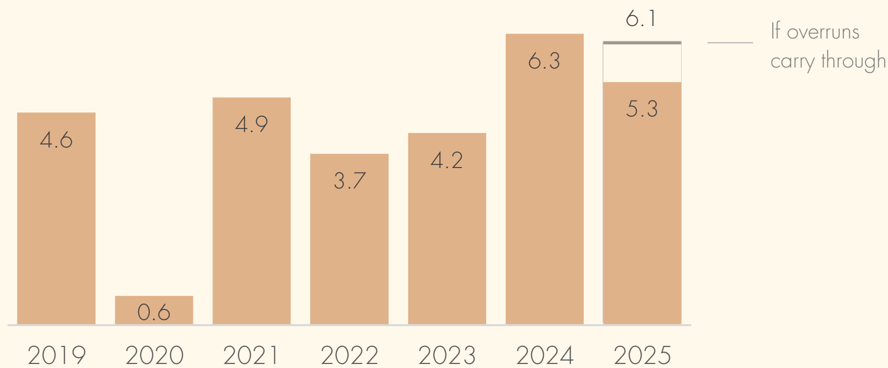
[12] It's worth noting that the Council also advocated for substantial deficits being run during Covid, despite the costs, given that they would be temporary and would help limit lasting economic damage.
[13] The Department of Finance's research suggests Ireland's long-term growth rates will average between 0.5% and 2.5%. This is broadly in line with estimates from others (McQuinn & Whelan, 2018; Irish Fiscal Advisory Council, 2020; OECD, 2023). Recent estimates by FitzGerald (2023) point to fast growth from 2013 to 2021. However, these growth rates are backward looking and coincided with a period of rapid job creation as unemployment rates fell from almost 14%.

Nº 16 **The speed is obvious, even allowing for inflation**

% changes in real net policy spending



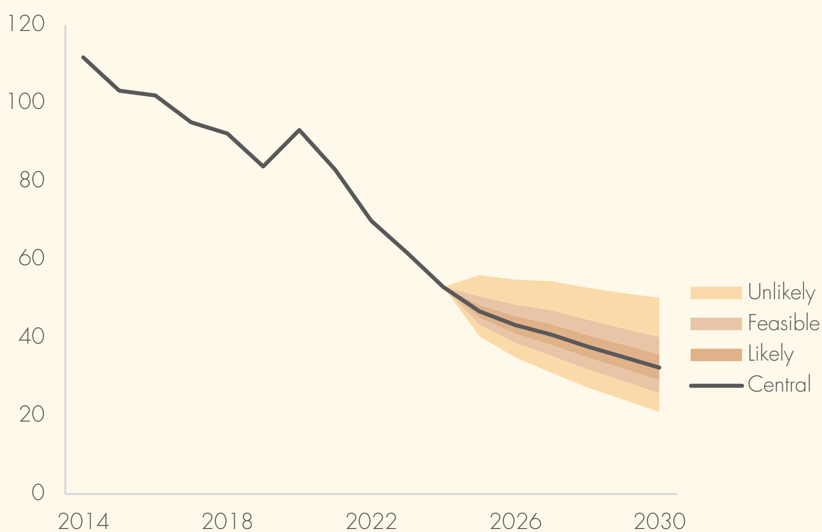

Sources: Budget 2025 and Council workings.
Notes: This measure is the same as in the previous figure, but it is adjusted for prices using the harmonised index of consumer prices. As before, the higher estimate for 2025 assumes spending in 2025 is €1 billion higher due to current spending overruns in 2024 carrying forward and being repeated, rather than falling out as Budget 2025 assumes. Get the data.

## The debt path is encouraging but risks drifting

Ireland's debt sustainability outlook is better than it has been in a long time. Based on the official budgetary forecasts, the debt ratio would have less than a 5% chance of being above current levels in 2030.

Nº 17 **Debt is likely to fall should windfalls remain**

% GNI*, net debt ratio




Sources: Budget 2025 projections and Council workings. Get the data.
Notes: The chart shows the probability of different debt paths based on the Council's macro-fiscal model, Maq. It takes account of growth feedbacks, debt security costs, maturities, and new issuances. The "likely" range covers the 30% confidence interval; "feasible" covers the rest of the 60% interval; and "unlikely" the rest of the 90% interval.

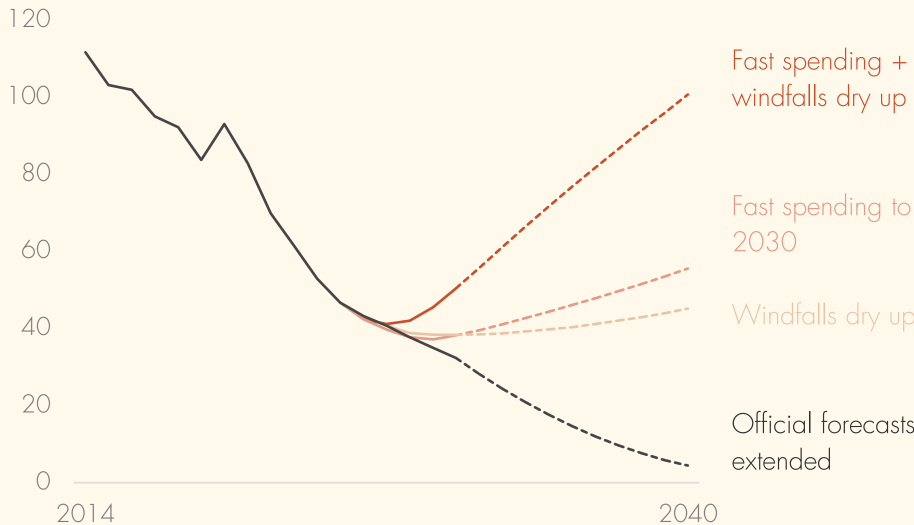
But this comes with a massive health warning. First, it assumes that spending is as projected in Budget 2025. Second, it assumes excess corporation tax receipts remain.

Right now, a risk is that policy has become "de-anchored" — basically allowed to drift beyond sustainable expansions. The official projections assume tax cuts and extra spending will be balanced — meaning they won't grow faster than the economy's sustainable growth rate. This would mean increases of about 5% each year.

Realistically, it is not very believable to say that net spending growth will be about 5% each year. If the next government continues in the vein of recent budgets and grows current expenditure by about 8% on average each year over the next five budgets, it would set net debt on a steeper upward path (Figure N° 18). Even if policy was to stabilise at that point, maintaining spending as a share of GNI* outside of increases related to ageing pressures, the trajectory would see net debt rising to about 56% of GNI* by 2040. On its own, this is not a troubling scenario. The question is what happens to risky corporation tax receipts?

N° 18 **De-anchoring could pose risks**

% GNI*, net debt ratios




Notes: The windfalls scenario assumes excess corporation tax receipts projected by the Department of Finance gradually unwind over 2027, 2028, and 2029. The fast spending scenario assumes windfall corporation tax receipts remain, but that current spending rises at the same pace out to 2030 as in 2023 and 2024 — by 8% per annum on a general government basis. It then is assumed to grow at the pace of nominal GNI* thereafter, except for the additional increases associated with ageing costs. The combined scenario assumes both risks materialise, with spending continuing to grow rapidly, and windfalls gradually drying up. Get the data.

Excess corporation taxes could unwind. This could also push debt ratios higher than official projections suggest over the long run. Again, on its own, this risk is not a material concern. It could be reasonably contained so long as budgets were sufficiently anchored.

The real risk is that budgets lose their anchor, and that exceptional corporation tax receipts gradually dry up. If this happened, debt ratios would drift onto a steep upward path that would be more difficult to reverse, particularly with ageing pressures continuing to mount. This points to some of the radical uncertainty that surrounds Ireland's debt path.

## Cracks in the fiscal rules have emerged

Is the risk of a de-anchoring in budgetary policy realistic? One problem is that Ireland's fiscal rules have become more toothless in recent years. In some senses, they may be giving a false sense of security.

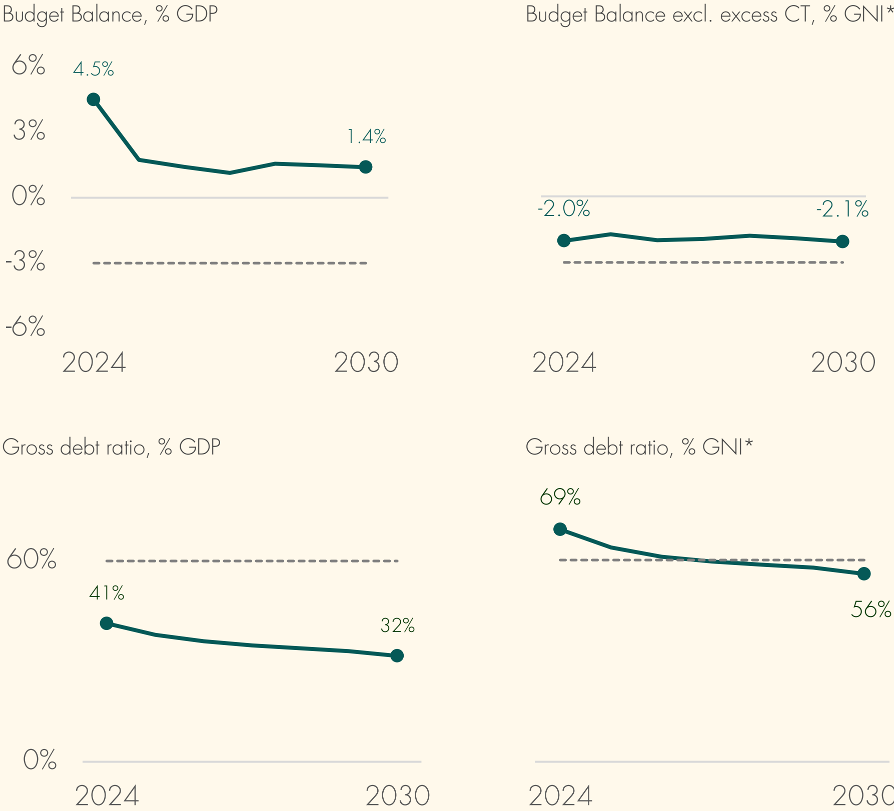
The reformed EU rules focus on a core measure of spending net of tax changes. However, they rely on GDP and ignore risks around excess corporation tax receipts.[14] This gives a misleading impression of lower debt ratios, smaller deficits, and limited risks around revenues. Previously, the rules set limits for net spending even when countries were complying with debt and deficit limits. However, this preventive element is now tamer in the sense that, so long as Ireland's public debt remains below 60% of GDP and deficits within the 3% of GDP limit, it is likely to face little external oversight.

The European Commission (2024) recently assessed that Ireland plans to break its own limit for net spending growth in 2025. In October's Budget, the Department of Finance forecast a 5.1% increase in net spending for 2025, in line with the limits set out in its medium-term plan.

[14] The new EU fiscal rules came into effect this year. Countries set annual limits on how much they can grow spending. The level of scrutiny at EU level will depend on the size of a country's debt and deficit relative to GDP. If there are high risks of debt being beyond 60% of GDP or if deficits are wider than 3% of GDP, countries will typically have to adjust their tax and spending plans. They will then face external scrutiny over their progress in relation to these plans. As Ireland's GDP levels are artificially inflated by distortions linked to the activities of a relatively small number of foreign-owned multinational enterprises, its debt ratios on a GDP basis give an overly benign assessment of its capacity to service debt. Substantial injections of corporation tax receipts also continue to flatter Ireland's budget balance and, thus, its debt path, even though there are serious concerns about the reliability of these revenues.

However, the Department of Finance and the Commission differ in how they estimate net spending growth. The Commission assesses that Ireland's net spending will increase by 6.6% in 2025. It notes the main differences reflect its view that some cost-of-living measures announced in Budget 2025 will become permanent.

Nº 19 **The EU rules: 3% deficit limit and 60% debt limit**




Source: Department of Finance. Get the data.

It is not clear what action, if any, the Commission might take if Ireland breaches its annual spending limits. The next Government may simply submit a revised medium-term plan that raises the limits for net spending, including for 2025.

At the same time, the domestic net tax and spending rule has been repeatedly breached since its introduction. A net spending rule may be a sensible one. However, it previously had no backing in legislation. As such, it was purely a notional commitment made by the Government.

## This leaves no credible constraint

The reality is that both the new EU fiscal rules and the domestic rules no longer provide any credible constraint for Ireland.

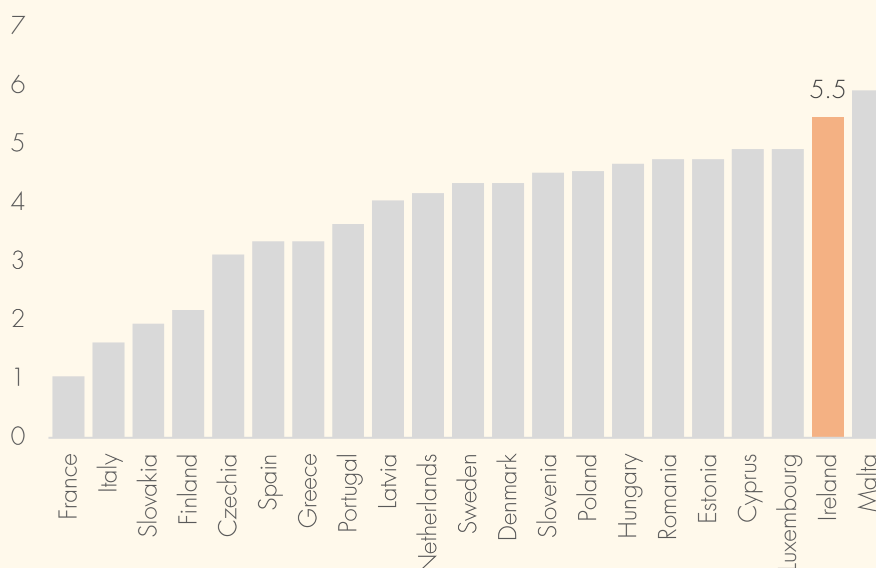
The overly benign picture changes when we adopt more appropriate metrics for Ireland.

First, we use Ireland's modified measure of national income — 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 remain above 60% of GNI* until 2027.

Next, we strip out excess corporation tax receipts from Ireland's budget balance. This is the part that is beyond what can be explained by underlying domestic activity. On this measure, the Department of Finance estimates deficits around 2% of GNI* being run out to 2030.

### Nº 20 Ireland is one of the least constrained by EU rules

% average annual growth in net primary spending, 2025 to 2028




Source: Department of Finance and other national finance ministries. Notes: This figure shows the projected average annual growth in net primary spending from 2025 to 2028 for the 21 Member States that have so far submitted a medium-term plan to the European Commission. Get the data.

The upshot of the EU fiscal rules not working for Ireland is a much looser policy than elsewhere. The purely technical

projections set out in Ireland's medium-term plan submitted to Europe show average net spending expansions of 5.5% per annum out to 2028. This is already the second fastest in the EU. If overruns and the spending related to Apple- and AIB-related money were included, it would likely be the fastest.

Another area where the rules are failing to work for Ireland is in terms of the Domestic Budgetary Rule. The Council has a mandate to monitor and assess compliance with this.[15] Using the Council's "Principles-Based Approach", the structural balance will be in surplus of the order of 1% of GDP in 2024 and 2025. This would comply with the medium-term objective. However, there are two problems. First, these estimates ignore distortions related to GDP and the role played by excess corporation tax. Excluding all of the excess corporation tax, the estimates would exceed Ireland's medium-term objective, falling to structural deficits larger than 2%. Second, the medium-term objective itself has effectively been repealed.[16]

## Future challenges remain

### Ageing

Ireland has many future challenges. Foremost, is how it manages an ageing population. The population aged 66 and over is set to almost double over the next 30 years. By contrast, the working age population is set to remain broadly stable. As a result, the number of workers for every pensioner is likely to fall from 3.5 to 3 by 2030 and to continue falling towards 2 by 2050. Those in retirement are also expected to live longer. Despite, these pressures, the Government opted not to increase the pension age.

This transformation of the population is rapid by international standards. It will put pressure on the state to provide more healthcare, long-term care and pension

[15] 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 set at –0.5% of GDP. The Council uses a "principles-based approach" to assess it, thus addressing some of the shortcomings with the European Commission's approach. For instance, it uses more appropriate measures of potential output for Ireland and more recent forecasts to estimate the structural balance.

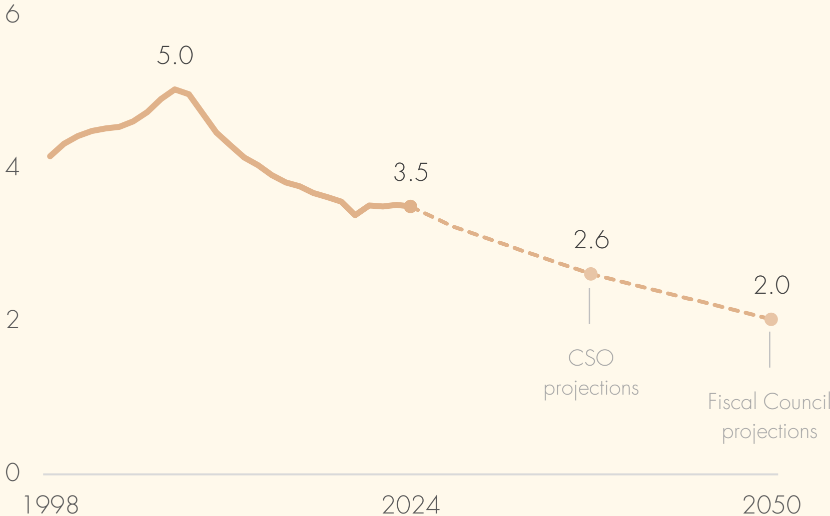
[16] Part 1 of the Fiscal Responsibility Act 2012 defines the medium-term budgetary objective at the core of Ireland's Budgetary Rule as the "objective required by the 1997 surveillance and coordination Regulation". However, this EU regulation was repealed earlier this year (see Article 37).

payments. It will also mean slower growth in the economy and hence in tax revenues. Under existing policies, this will push up Ireland's debt ratio.

Action sooner rather than later will ultimately be less costly. Research by the Fiscal Council has shown that acting sooner to manage ageing challenges would cost less than 40% of what it would if actions were delayed (Irish Fiscal Advisory Council, 2020).[17]

Nº 21 **Population to age rapidly**

Ratio workers to pensioners (total employment relative to population aged 66+)




Sources: CSO and Fiscal Council workings.
Notes: The Figure shows the CSO's middle scenario for Ireland's projected population comprising net inward migration of 30,000 per annum from 2032. It is shown in terms of 95% of the labour force (assuming 5% unemployment) and is compared to those aged 66+. The dashed line is a linear interpolation of the projections. The 2037 to 2050 projection is based on an update of the Fiscal Council's (2020) Long-term Sustainability Report projections, aligning these to the CSO's newer estimates. Get the data.

The Government was 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.

On their own, these measures will still not fully offset costs associated with ageing. However, they are an important part of the solution to dealing with these costs, which will fall much more heavily on the next generation of taxpayers.

[17] This assumed governments would reduce spending or raise tax revenues to address ageing pressures before 2035. The delayed scenario assumed they waited until after 2035.

For instance, modelling by the Council suggests that the Future Ireland Fund could make a substantial dent in ageing costs, covering more than half of the rise in annual spending associated with ageing between 2023 and 2041 and a quarter by 2050.[18]

## Climate

The second largest budgetary challenge Ireland faces after ageing is the climate transition.

The Council estimates that reasonably manageable spending increases will be required to achieve the transition. These are of the order of 0.6% of GNI* per annum or €2 billion in today's money — about one-eighth of the capital budget planned for 2025.

A bigger challenge will be to replace the taxes likely to fall away as people shift to greener transport and energy. Today's tax system would raise far less money in a future where electric vehicles and renewable energy become the norm. Replacing these taxes would not represent an increase in effective taxation. But it does require careful planning. The Council estimates that, if today's tax system was left unchanged, the fall in annual revenues could rise to 1.6% of GNI*or €5 billion in today's money. This is almost as much as the USC raises.

The climate transition raises challenges, but doing nothing has substantial costs. If Ireland fails to reduce its emissions, as it currently looks set to by a wide margin, it may have to transfer large amounts of money to neighbouring countries. This would be in the form of the government being required to purchase statistical transfers or credits — basically overperformances in other countries. A recent report by T&E (2024) suggests Ireland's costs could be between €1.7 and €9.6 billion by 2030. However, these estimates assume Ireland follows through on measures that it looks increasingly unlikely to implement. If these measures were not implemented, then the State would be further from its climate objectives and would face much higher compliance costs, potentially as high as €20 billion.[19]

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[18] This assumes contributions continue after 2035, when they are currently planned to cease.
[19] This estimate adjusts for additional measures not yet adopted and takes on board non-compliance costs associated with the full set of legislative requirements.

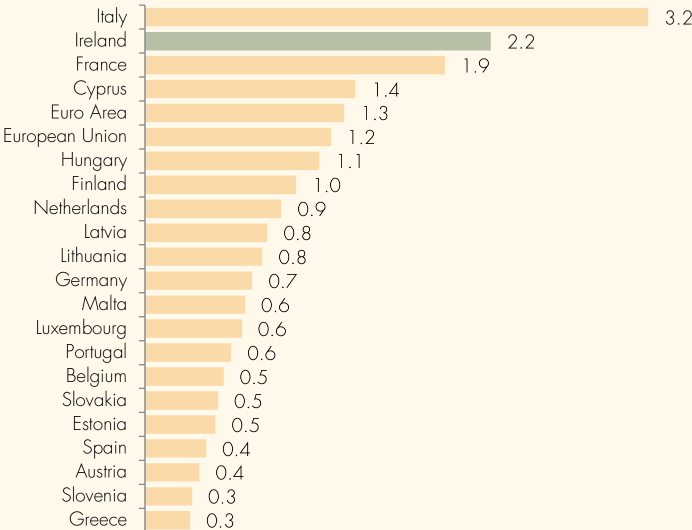
A transfer of as much as €20 billion would be a colossal waste of taxpayers' money — equivalent to virtually an entire year's capital budget.[20] Instead of transferring this money to neighbouring countries, the next government should take more effective action to avoid these costs, reduce energy costs and pollution, and improve people's health.

## Infrastructure deficits

One of the major challenges facing Ireland's governments over the past decade has been efforts to improve Ireland's infrastructure. Ireland continues to lag other high-income European countries. Conroy and Timoney (2024) find that Ireland's infrastructure is 20–25% behind its peers. The biggest shortfall is in housing, though continued investment in health, transport and energy will also be needed.

Nº 22 **Public spending on housing is already high**

Government housing expenditure % GNI* (% GDP for other countries)




Sources: Central Bank of Ireland (2024).
Notes: Ireland is shown in green. The other countries shown are high-income European countries. Data refers to 2022 spending. This covers all spending on housing. This includes current spending on schemes such as Housing Assistance Payments, Rental Accommodation Scheme and rent supplement. Get the data.

Part of the challenge has been the limited capacity after Ireland's last crisis. The financial crisis saw the number of construction workers in Ireland fall by two-thirds from 240,000 to just 80,000 in the space of five years. Since then, the

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[20] The costs would arise in the early 2030s when the capital budget will be larger in cash terms.

sector has slowly built back up its capacity to about 170,000 workers. But investment in new technologies has lagged other countries. And the level of output per hour worked is a third less than in peers. This partly reflects the low uptake of modern methods of construction, such as off-site manufacturing.

To catch up, Ireland will need to do three things:

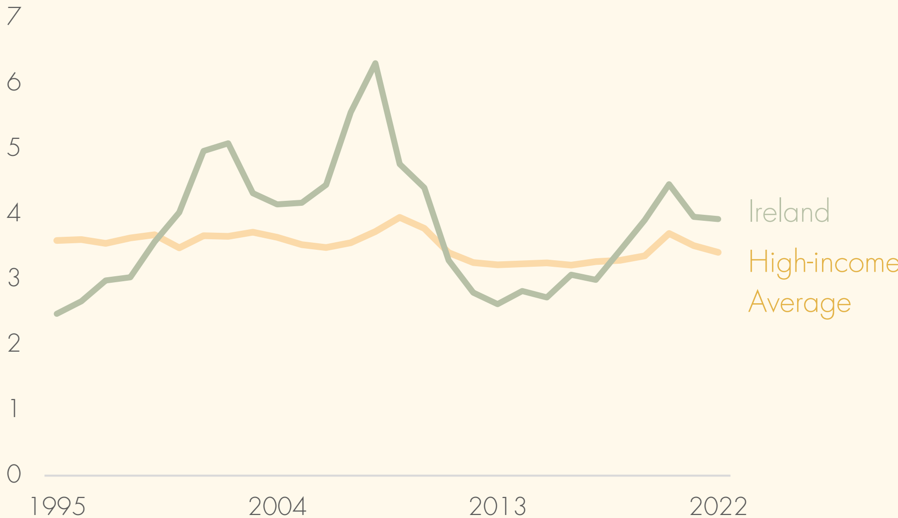
First, it will need to sustain current high levels of investment in these areas. In housing, it may have to do more depending on how much policy facilitates private sector delivery. This could be achieved by re-allocating more of current spending to capital spending, with Ireland's overall spend on housing already the second highest in Europe (Figure N° 22).

Second, it will need to boost productivity in the sector if it is to make the need for additional workers less acute.

Third, the planning and objection system will need to be streamlined. Delays and uncertainty created by the system are impacting projects. The new Planning and Development Act may help, but it is too soon to tell.

N° 23 **Public investment is now high by international standards**

% GNI*, general government investment (% GDP for other countries)




Sources: Conroy and Timoney (2024). Get the data.

Notes: The average investment as a share of national income in high-income European countries is shown.

Another way to address infrastructure deficits is to reprioritise. With the economy already operating at full capacity, the Government could rebalance its spending to areas that rely less on workers and more on imports. This would add less fuel to price pressures or shortages in the labour market.

One example of how investment priorities could be rebalanced applies to the green transition. Providing supports for the import of a large number of electric vehicles for instance would help Ireland meet its climate objectives without adding to pressures on worker shortages or domestic prices.

## This is the time to plan

The challenges Ireland faces can be managed as it finds itself in a uniquely strong position. The economy is faring strongly, with record numbers at work, and bountiful tax receipts.

The risk for Ireland is that its government continues to practice overly expansionary budgets. The strength of the economy means that it is a risky environment in which to inject more resources beyond what can be financed by steady increases in its more stable revenues.

If we are to avoid repeating Ireland's boom-to-bust pattern of behaviour, a few things are needed.

- First, the next government needs to set some limits on what it thinks is sustainable. Otherwise, budgets will yet again be subject to the vagaries of annual pressures as Budget Day approaches. It does not have to be the net spending rule introduced by the current Government. But something along these lines would help to avoid a repeat of the boom-to-bust tendencies Ireland has exhibited in the past. This could be guided by some longer-term debt limit.

- Second, the next government needs to get to grips with how it forecasts health spending. Ceilings have regularly been unrealistically low. They fall short of predictable costs associated with ageing pressures and price increases (Casey & Carroll, 2021). This approach is often adopted to encourage staff to find savings and become more efficient. However, overruns have been repeatedly accommodated, hence undermining any efforts to achieve this.

  With the Irish state already a high spender on health, the solution seems to be twofold. The next government should undertake a comprehensive review of health expenditure, and it should set out more realistic

ceilings that allow for highly predictable cost pressures.

- Third, the next government needs to rethink its strategy around excess corporation tax receipts. These receipts are highly concentrated and risky. There is a realistic possibility that they continue to expand. However, at the same time, the risk that the receipts unwind also appears to be growing. The receipts are becoming more concentrated over time, and risks of U.S. policy changes reducing Ireland's tax take is now higher.

  The sensible response to these risks is to treat excess corporation tax receipts like Norway treats its oil revenues: as a finite and risky resource. Unlike Norway, Ireland is not able to produce geological surveys that would tell it how long these resources might last. And unlike Norway, which saves all its risky resources, spending only the investment returns, Ireland's policy now is to save just over one-third (Figure N° 8). The rest is still up for decision.

  This approach warrants a rethink. If the receipts are fundamentally high-risk in nature, then they should be treated as such. If the next government continues to use these receipts, it could result in "Dutch Disease". Mien and Goujon (2022) define this as where reliance on a single commodity or sector of the economy has negative side effects. It can drive up prices and wages relative to other countries, harming competitiveness.[21] In Ireland's case, corporation tax meets the criteria of a resource curse: substantial receipts, with high volatility, concentration, and risks of being finite in duration.

  To protect itself from these risks, Ireland should look to do three things: diversify its economy, making it less vulnerable to foreign multinationals, save more of its corporation tax receipts, and focus on improving long-run potential boosting other parts of the economy and enhancing competitiveness. By taking these steps,

[21] Typically, this occurs through the appreciation of the real exchange rate. For Ireland, in a monetary union, the more relevant channel would be through higher domestically generated prices and wages.

Ireland can reduce its risk of Dutch Disease and ensure that its economy is more resilient.

Looking at how Ireland manages its budgets — its fiscal framework — there are many shortcomings. While forecasts are now thankfully more medium-term in nature, they are still unrealistic. Moreover, there is no credible anchor in place to prevent runaway tax cuts and spending increases. And transparency around key aspects of the budget is still lacking.

Now is the time to address these shortcomings.

## Checklist for a better fiscal framework

**Better forecasts**

Forecast at least five years ahead

Forecast spending realistically

**Clear guardrails**

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

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

Put in place appropriate savings funds for excess corporation tax

**More transparency**

Provide transparent costings of major policy changes

Make non-Exchequer forecasts more transparent

Show how rules are being adhered to or not

**Overall assessment** **2 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.

VIEW SUPPORTING ITEMS