



Our Ref: FIN-MO-00095-2025

17. January 2025

Mr. Seamus Coffey
Chair
Irish Fiscal Advisory Council
Whitaker Square (ESRI Building)
Sir John Rogerson's Quay
Dublin 2

Dear Seamus

I refer to the Irish Fiscal Advisory Council's *Fiscal Assessment Report* published on 5 December 2024.

My formal response to the Council is set out in the attached. It is my intention to publish this letter on my Department's website.

Yours sincerely

Jack Chambers TD
Minister for Finance

Introduction

Let me begin by thanking the Council for its work in producing the Fiscal Assessment Report (FAR) and for providing its analysis of *Budget 2025*.

Macroeconomic assessment

I note the Council's endorsement of my Department's *Budget 2025* macroeconomic forecasts. The short-term forecasts indicate that the Irish economy is performing relatively strongly at present, reflecting the solid performance of the labour market and the continued easing in inflation.

However, since the publication of *Budget 2025* the economic backdrop has become increasingly uncertain as external risks have compounded, geopolitical tensions have escalated and the prospects for protectionist trade policies have increased.

Budgetary assessment

Short-term

Turning to the budgetary assessment, I note the Council's view of certain aspects of the Budget fiscal projections and of the *Budget 2025* package. Government decided to increase public expenditure for this year in order to allow for increased capital investment and additional public services in the context of a larger-than-expected population.

Government provided for a package of €8.3 billion in *Budget 2025*, consisting of €1.4 billion in taxation measures and a €6.9 billion expenditure package. In recognition of still-elevated prices, this was supplemented by a €2.2 billion package of temporary Cost of Living supports for households and businesses. I believe that this strikes an appropriate balance by continuing to invest in our public services and infrastructure, shielding workers from a higher tax burden and, at the same time, ensuring our public finances remain on a sustainable footing over the medium-term.

The voted expenditure ceiling of €105.4 billion facilitated a budget that will support households and firms, while boosting the resilience of our economy through:

- Delivering improvements in public services – accommodating new measures in line with Government priorities and meeting demand for increasing levels of public service delivery due to a growing and changing population;
- Further enhancing the capital stock, including housing, by providing record increased levels of investment under the National Development Plan;
- Providing increased investment in our Health service, in line with the two-year funding agreement;
- Continuing to fund measures required to respond to external shocks, such as our humanitarian response to the Ukraine war, demands on our international protection accommodation services and legacy impacts from the pandemic through the Contingency Reserve.

Public spending in recent years has responded to a changing economic and social context, with high rates of inflation, a larger population than previously assumed, and the need to expand the stock of public infrastructure.

Medium/long-term

I share the Council's assessment of the key structural challenges facing the Irish economy over the medium-to-longer term. The three challenges highlighted by the Council – the costs associated with an ageing population, the climate transition and the need to continue boosting our stock of infrastructure, particularly in respect of housing – will place enormous pressure on our public finances in the coming years and decades.

That is why the two new long-term savings funds, the *Future Ireland Fund* and the *Infrastructure, Climate and Nature Fund*, have been established. These funds will help us to part-fund our response to these challenges and also help to safeguard our fiscal sustainability by setting aside volatile 'windfall' tax receipts.

Fiscal Framework

The Council has a mandate to monitor and assess compliance with the Domestic Budgetary Rule. I note the Council's assessment of compliance with the rule while, at the same time, recognising their appraisal of this rule in the context of the new EU fiscal framework.

I also acknowledge the Council's assessment that the revised EU fiscal framework does not impose a binding constraint on Ireland. As the Council highlight, this emphasises the importance of an appropriate fiscal stance to help solidify the sustainability of the public finances, in light of present and future challenges, and secure a better future for all.

Conclusion

Budget 2025 was framed against a backdrop of significant headline budgetary surpluses and an economy at full employment, but with still-elevated price levels.

In this context, the Budget aimed to get the balance right, providing support to households and firms and investing in our public services while ensuring that we approach future challenges from the strongest possible fiscal position.