

Future Forty: A Fiscal and Economic Outlook to 2065

Committee on Budgetary Oversight

Opening statement by John McCarthy

Chief Economist in the Department of Finance

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Introduction

Let me begin by thanking the Chair and the Members for inviting officials from the Department to appear before the Committee today.

By way of introduction, my name is John McCarthy and I am chief economist in the Department. I am joined by colleagues from the Strategic Economic Development Unit of the Economics Division: Mr. Kevin Daly, Mr. Neil Gannon and Mr. Rob Barnes.

Background

In Ireland, as elsewhere, much of the economic and fiscal focus is on the near-term, with less resources devoted to medium- and longer-term dynamics.

To address this imbalance, last November the Department published ***Future Forty: A Fiscal and Economic Outlook to 2065***. This document examines how various structural changes – including demographic shifts – might affect Ireland’s economic and fiscal position over the next four decades.

A small number of other advanced economies have undertaken this type of long-term analytical work: the UK, Australia, New Zealand, Finland and Canada are perhaps the most noteworthy.

The analysis was undertaken by the team in the Strategic Unit over a period of about two years. The work involved significant engagement with other Government Departments, State Agencies and research organisations, including the ESRI.

The motivation for this project was a recommendation from the *Commission on Welfare and Taxation*, which highlighted the need to build long-term fiscal analysis capabilities to better prepare for multiple possible futures.

Assessing structural economic change

Our analysis focuses on global and domestic trends that will have powerful economic and fiscal impacts in the decades ahead. These are sometimes referred to as “the four D’s” - demographics, digitalisation, decarbonisation and deglobalisation.

In addition, the analysis documents the economic and budgetary impacts related to EU expansion, as well as future outcomes for the housing and healthcare systems.

Thus, we have conducted seven ‘deep dives’, each with high, central and low possibilities; this gives rise to over 2,000 outcomes.

I want to stress that our analysis is based on the standard ‘no policy change’ assumption; the reason for this is to provide a baseline against which new policies can be calibrated. In reality, policy will adapt to challenges as they arise.

The central scenario

Let me describe the central scenario.

In the not-too-distant future, natural labour force expansion is set to come to a halt and, in about a decade from now, is set to reverse. Alongside slowing productivity growth, overall economic growth is set to move onto a lower trajectory. Living standards, measured by GNI* per capita, continue to grow in this scenario, albeit at a slower rate than has been evident over recent decades.

With a growing and ageing population, Ireland’s healthcare and long-term care costs in this scenario double by the mid-2040s and to continue rising thereafter. Meanwhile, the cost of providing pensions doubles by the mid-2040s and triples by 2060. In total, age-related expenditure accounts for 46 per cent of all voted expenditure by 2065 in this scenario.

This combination of slowing growth and increasing pressure on public services results in an increasing deficit in the central scenario, which reaches just under 8 per cent of GNI* by 2065, with national debt rising to 148 per cent of GNI*.

It is important to stress that these are purely mechanical projections and are an output of the economic and policy structures examined in each scenario; in reality a small open economy like Ireland could not sustain fiscal aggregates of this magnitude.

Key messages

Let me turn to the key messages.

Future Forty points to five key trends that will shape our future.

Firstly, an **ageing population** will constrain labour force growth and increase demand for age-related public services. The analysis shows that higher migration and / or higher birth rates can help, but only at the margins.

Secondly, how we manage costs during the transition to **net-zero**, and how we prepare the economy for climate damages, will be critical.

Third is the issue of **healthcare provision**. Driving productivity and cost-efficiencies as well as smarter delivery models throughout the healthcare system will be critical to maintain fiscal sustainability as the population both expands and ages.

Fourth: Sustained **productivity growth** is the most powerful driver of living standards. Unlocking efficiencies, boosting skills and investing in digitalisation and innovation will be critical to driving output per hour worked.

Finally, slowing **globalisation** is expected in all scenarios. Accordingly, *Future Forty* assumes a fall-off in transitory tax receipts by the end of the 2030s, which fundamentally alters public finances.

It is important to stress that *Future Forty* is not a prediction and is not part of the Budgetary process. It is something different and new in the Irish context. It helps us understand the long-term trajectory of current trends so that we can better prepare for them and shape them into more positive outcomes.

Future Forty is not designed to directly inform annual budgets or day-to-day State spending. Instead, it is a long-term lens through which we can map economic and fiscal trends.

Perhaps the most important finding of the analysis is the identification of a narrowing window – a decade at most – in which we can prepare for known challenges and limit their costs, while embracing opportunities for continued long-term growth.

Conclusion

In summary, the analysis published by the Department aims to incorporate medium- and longer-term dynamics into the economic and fiscal debate.

In terms of next steps, we will continue to work on these issues, looking at other policy areas.

It is intended that our future analysis will be made public.

Thank you.