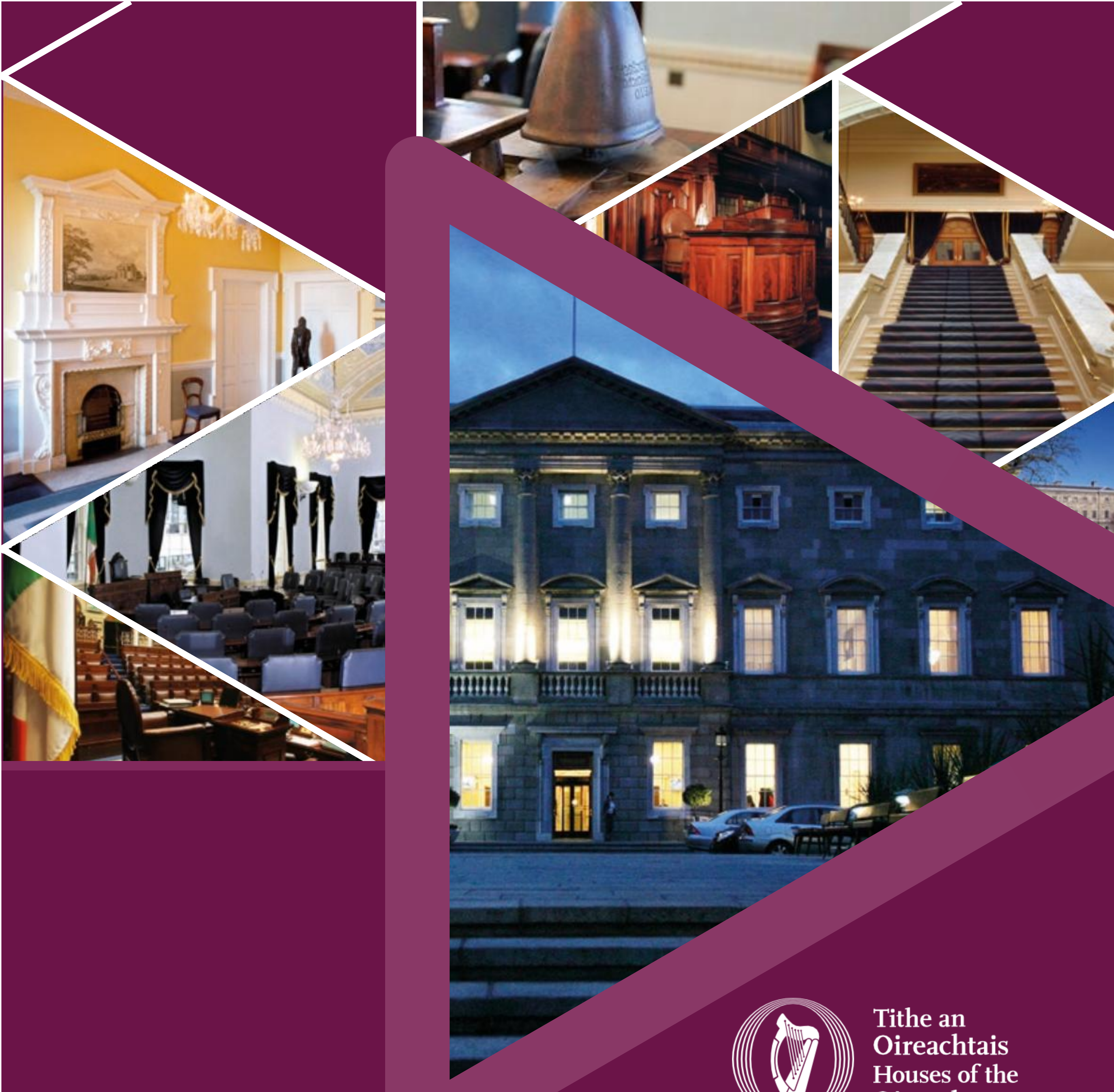

Tithe an Oireachtais
Houses of the Oireachtas

An Oifig Buiséid Pharlaiminteach

Parliamentary Budget Office

Pre-Budget 2026

Publication 25 of 2025

Séanadh

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Is de chineál ginearálta í an Fhaisnéis. Baineann éiginnteacht le ráitis réamhbhreathnaitheacha agus d'fhéadfadh go dtiocfaidh nithe suntasacha chun cinn mar thoradh ar an bhFaisnéis. Ní sholáthraítear ráiteas cinntitheach leis an bhFaisnéis i ndáil le haon saincheist ar leith nó i ndáil le himthoisc phearsanta. Ní comhairle atá san Fhaisnéis. Ní mór a dheimhniú duit féin go bhfuil an Fhaisnéis a sholáthraímidne, an Oifig Buiséid Pharlaiminteach agus Coimisiún an Oireachtais (lena n-áirítear seirbhísigh, gníomhairí agus conraitheoirí na hOifige agus an Choimisiúin) oiriúnach agus iontaofa. Ní ghlacaimid aon fhreagracht as cruinneas ná oiriúnacht, ná eile, na Faisnéise agus ní thugaimid aon ráthaíocht ná aon ghealltanas ná aon bharánta i leith an chéanna; ná go mbeidh ár leathanaigh ghréasáin nó an Fhaisnéis nó ábhar eile saor ó earráidí, saor ó víris nó saor ó shárú. Ní ghlacaimid aon dliteanas (lena n-áirítear i leith éilimh maoine intleachtúla) a eascróidh as aon ábhar tríú páirtí nó aon suíomh gréasáin tríú páirtí a gcuirfimid nasc ar fáil chuige nó dá ndéanfaimid tagairt. Ní ghlactar le haon dliteanas ar bith, a mhéid is mó a cheadaítear faoin dlí is infheidhme nó (i) as aon iontaoibh a chuirfear san Fhaisnéis nó san ábhar ar ár leathanaigh ghréasáin nó (ii) as aon chaillteanas nó damáiste a eascróidh as an úsáid a bhainfidh tú as na leathanaigh ghréasáin sin nó i dtaca leis an úsáid sin. Féach ár bhFógra Séanta cuimsitheach anseo. I gcás aon easaontacht a bheith idir an Séanádh seo agus ár bhFógra Séanta cuimsitheach, is ag an gceann deireanach a bheidh an forlámhas.

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Contents

1. Pre-Budget 2026

1.1. Key Messages

- Ireland's public finances rely heavily on a limited number of tax sources and economic sectors. Notably, the top ten corporate taxpayers accounted for 59% of all corporation tax receipts in 2024. This concentration exposes the country to significant fiscal risks, particularly those arising from changes in specific industries, individual firms, or international developments.
- Escalating geopolitical tensions are creating serious challenges for the global economy. While these risks are largely outside the control of the Irish government, maintaining fiscal discipline would strengthen the state's ability to respond swiftly and effectively to external shocks.
- Ireland's labour market continues to perform well, with nearly 64,000 more people employed in Q2 2025 compared to the same period last year—a 2.3% increase. The construction sector saw the highest growth at 18.4% year-on-year, which may help address future infrastructure and housing needs.
- Inflation remained stable at 2% in August. While prices for items such as food and non-alcoholic beverages rose by 4.7%, this was offset by declines in other areas, including energy products (-0.3%). This stable inflation environment provides the government with an opportunity to pursue a prudent fiscal stance, reducing the need for additional cost-of-living measures.
- Looking at the Irish economy at present, the economy appears to be at risk of overheating. In such a scenario, countercyclical fiscal measures could be considered. These might include reducing government spending and increasing revenues, with the aim of tempering excessive economic

stimulation and building reserves to help manage potential future downturns.

- The €8.7 billion in additional spending announced in the Summer Economic Statement (SES) and National Development Plan (NDP) review for 2025—comprising €5.5 billion in strategic equity/funding, €1 billion in current expenditure, and €2.2 billion in voted capital—is not aligned with a counter-cyclical fiscal approach. This figure excludes any further potential overruns or supplementary estimates.
- For Budget 2026, the SES proposed an overall package of €9.4 billion. This comprises €1.5 billion in tax reductions and an additional €7.9 billion in spending. A further €2.45 billion in non-voted spending was set out in the NDP review, taking the total Budget 2026 package to €10.35 billion.
- Spending has increased rapidly over the last few years, between Covid and, "once off" cost of living measures. Before all the announcements in the NDP review, SES and any possible measures in Budget 2026 that may have cost implications in 2025, spending in 2025 was already 24% higher than in 2020.
- It is more important than ever that expenditure is clearly profiled, managed in-year, and reviewed. The PBO have long highlighted the need for greater transparency around the costings that inform policy decisions, and also the lack of detail of the cost of maintaining the existing level of service. This is especially important as Ireland's population continues to grow and age.
- The PBO would also draw attention to the lack of detailed Spending Reviews, and the shortage of reviews of costly tax expenditures. Without published detailed analysis on the effectiveness and efficiency of spending or tax measures in meeting their policy aims, it is difficult to see whether these budgetary decisions have been sustainable and appropriate.

1.2. Reading this paper

This PBO Pre-Budget 2026 publication provides readers with a clear overview of the economic and policy context shaping the upcoming budget, along with the key issues likely to influence the Government's budgetary decisions.[1]

- An overview of the economic conditions underpinning Budget 2026 can be found on pages 5-37.
- The trends and composition of public spending – both current and capital – and changes to capital spending ceilings are on pages 38-57.
- The issue of the infrastructure deficit in Ireland is addressed on pages 58-66.
- An introduction to how the Existing Levels of Service (ELS) is costed in the annual budget is set out on pages 67-71.
- The trends, risks and potential options for tax revenues are outlined on pages 72-98.

[1] This paper has been republished with minor corrections and clarifications and with the addition of alt text for charts throughout.

1.3. Budgetary Context

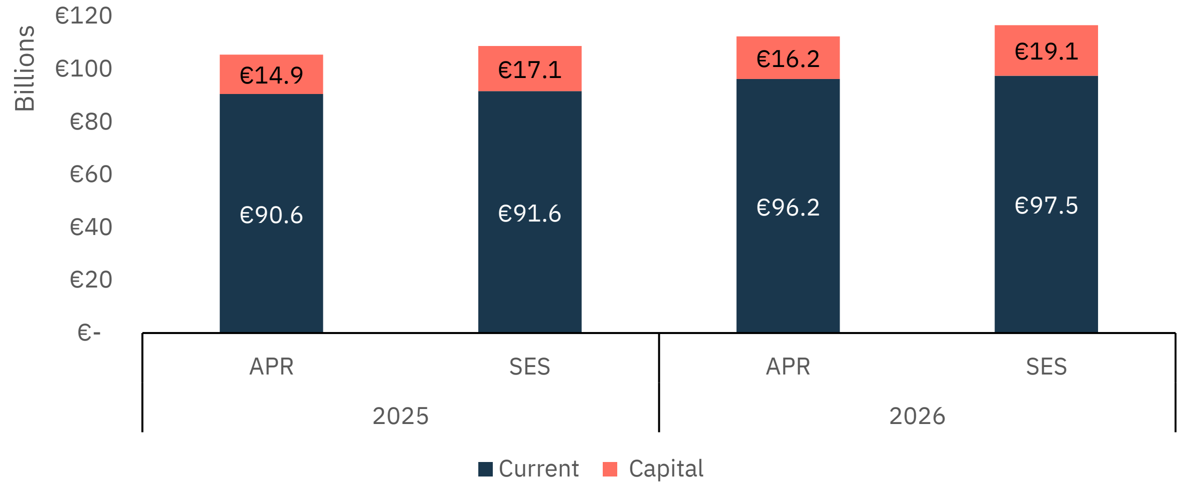
Since Budget 2025, there have been spending announcements in the National Development Plan Review and the Summer Economic Statement (SES) for additional spending within 2025, totalling €8.7 billion in additional spending:

- €5.5 billion in strategic equity/funding,
- €1 billion in current expenditure, and
- €2.2 billion in voted capital.

Figure 1 showcases this additional expenditure for 2025 and 2026, and the increases since the publication of the Annual Progress Report (APR) in May assuming that the Budget day package is not bigger, and excluding any further potential overruns or supplementary estimates.

The SES proposed an overall package of €9.4 billion for Budget 2026. This comprises €1.5 billion in tax reductions and an additional €7.9 billion in spending. A further €2.45 billion in non-voted spending was set out in the NDP review, taking the total Budget 2026 package to €10.35 billion.

Figure 1: Provisional Budgetary Outlook 2025-2026

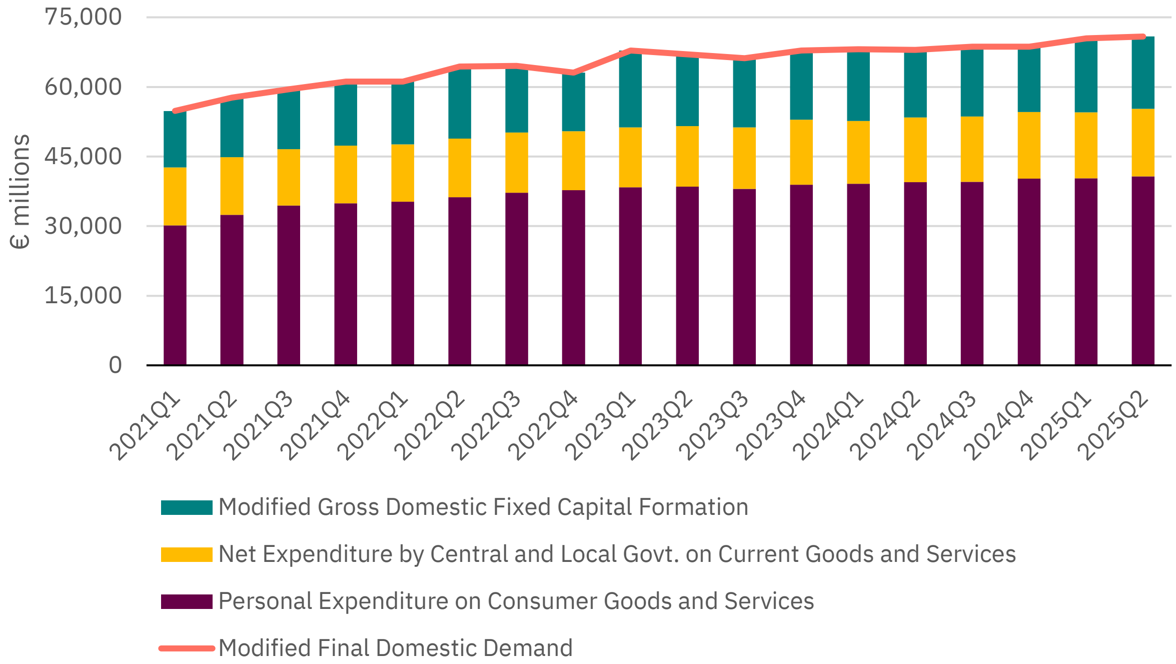


Source: PBO based on Budget 2025: Expenditure Report (2024), Summer Economic Statement (2025), and National Development Plan Review 2025 (2025).

2. Economic Overview

The domestic economy is in a strong position, characterised by high employment and low inflation. In Q2 2025, real GDP is estimated to have risen by 17.1% year-on year. Modified Domestic Demand (MDD), which provides a broad measure of underlying domestic activity that covers personal, government and modified investment spending, grew by 4.4% over the same period.[2] The largest component of MDD is personal expenditure on consumer goods and services, which increased by 3.2% over Q2 2024. The Central Bank of Ireland forecast in their Q2 Bulletin this year that MDD would grow by 2% in 2025 and 2.1% in 2026 under a baseline scenario which assumed tariffs would rise to 20% from July 2025.[3] While this tariff rate is not quite the status quo, MDD growth may remain positive this year despite the agreed 15% rate and modified exemption list.

Figure 2: Modified Final Domestic Demand Components (Constant Prices, Seasonally Adjusted)



Source: CSO (NAQ05)

[2] Quarterly National Accounts Quarter 2 2025 - Central Statistics Office
[3] Quarterly Bulletin No. 2 2025 - Central Bank of Ireland, 2025

Ireland's general government gross debt-to-GDP ratio was 40.9% at the end of 2024 while the general government balance showed a surplus of 4.3%.[4] The debt-to-GNI* ratio, which is a more suitable measure of Ireland's fiscal performance, was 70% in 2024 and projected to fall to 65.3% in 2025.[5] The Debt/GNI* ratio is not used in EU fiscal surveillance, however. Based on both debt-to-GDP and recent budget surpluses, Ireland is compliant with the core fiscal rules of the EU. These rules specify that the deficit ratio should remain below 3% of GDP and the debt ratio should remain below 60% of GDP.[6] The Irish Government plans to submit a new Medium-Term Fiscal and Structural Plan alongside the budget, which will set out sustainable budgetary plans for the next five years.[7] This document was previously to be published alongside the Summer Economic Statement.[8]

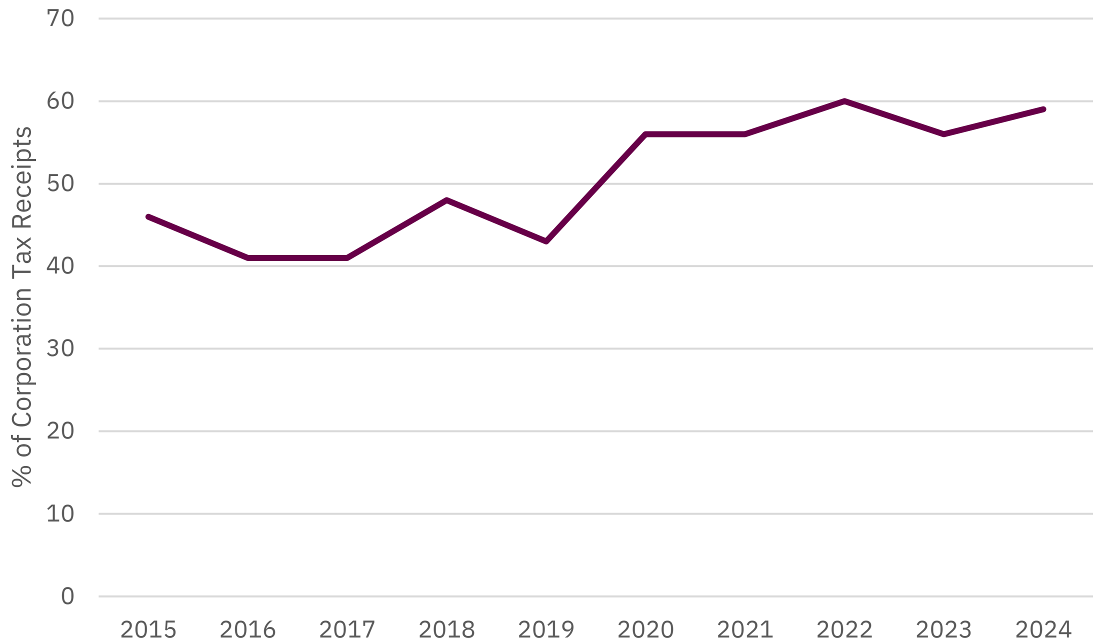
2.1. Multinational Corporations (Concentration and Trends)

Multinational corporations play an important role in the Irish economy both in terms of employment and economic growth. The Irish economy is reliant on the tax base provided by multinational corporations, especially in terms of corporation tax and income tax. Foreign-owned multinationals accounted for 88% of corporation tax receipts in 2024 (excluding exceptional receipts arising from the Apple state aid case), even though they accounted for 11% of the overall companies.[9] In relation to the State's reliance on a small number of multinational companies, the share of corporation tax receipts attributable to the top ten corporate groups in Ireland increased last year to 59% from 56% the previous year.[10] Section 7.2.2 of this

[4] Government Finance Statistics 2024 (April 2025) - Central Statistics Office
[5] Fiscal Assessment Report (June 2025) - The Irish Fiscal Advisory Council
[6] Excessive Debt Procedure - EUR-Lex
[7] Summer Economic Statement (2025) - Department of Finance & Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation
[8] Programme for Government 2025 - Securing Ireland's Future, p. 18 - Department of the Taoiseach, 2025
[9] Corporation Tax - 2024 Payments and 2023 Returns - Revenue
[10] Corporation Tax research reports - Revenue

document treats the topic of Corporation Tax in additional detail. It should be noted that the data used in this statistic as well as in Figure 3 is for corporate groups rather than companies. It should be noted that Revenue's company-level data refers to individual entities or subsidiaries rather than corporate groups.[11]

Figure 3: % of Corporation Tax Receipts for Top 10 Corporate Groups (Excl. receipts arising from the Apple state aid case)



Source: Revenue (Corporation Tax research reports)

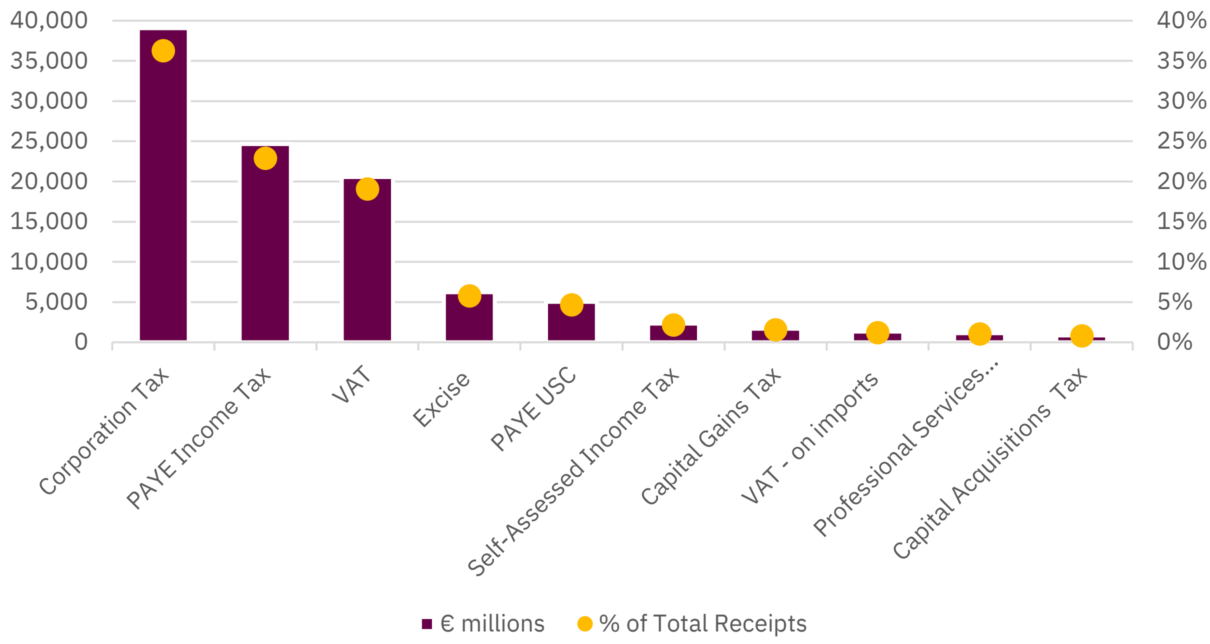
This narrow Corporation Tax base presents a concentration risk to Ireland. Ireland's fiscal position is disproportionately exposed to risks associated with individual countries, a small number of economic sectors, and specific firms. The most prominent risks are disruptions to global trade and changes in corporation tax policy. Ireland's VAT and income tax receipts are also boosted by the economic activity of multinational corporations and are therefore exposed to the same underlying risks. Certain risks are systemic and largely beyond the control of the Irish government, however prudent expenditure management would enable the

[11] Revenue (2017) 'Corporation Tax Receipts 2016 and Returns 2015' p13.

state to react more quickly and effectively to these shocks.[12] Figure 4 below provides an overview of the relative importance of Ireland's ten largest taxheads in 2024, highlighting the importance of corporation tax receipts the majority of which is derived from multinational corporations.

Figure 4: Tax Receipts (2024)

Includes receipts arising from the Apple state aid case.



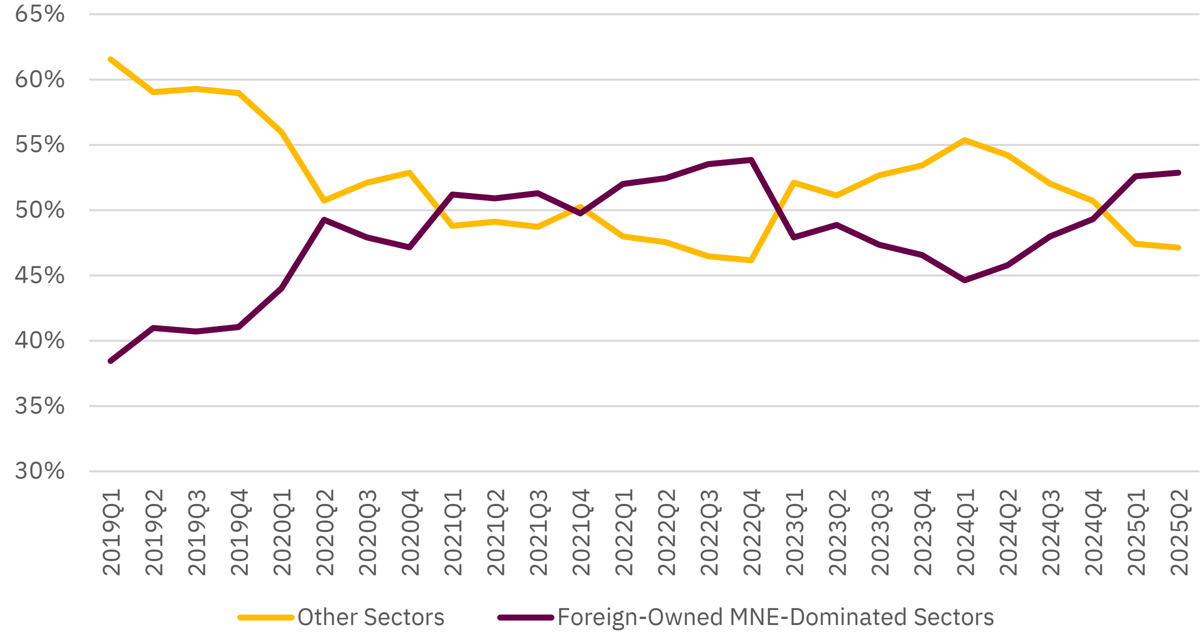
Source: Revenue (Net receipts by taxhead)

The foreign-owned multinational enterprise dominated sector in Ireland grew significantly during the COVID-19 pandemic and accounted for 54% of overall production by Q4 2022, as measured by Gross Value Added (GVA)[13] which is the value that producers have added to the goods and services they have bought[14]. Details of which subsectors are included in this classification are available from the CSO[15]. This sector fell behind domestic enterprises during 2023 and 2024, but as of Q1 2025 it once again accounted for the majority of GVA, at 52.4% of the total,

[12] Ireland: Selected Issues (June 2025) - IMF
[13] PBO Calculation based on NAQ06, CSO
[14] Gross Value Added - CSO - Central Statistics Office
[15] Gross Value Added for Foreign-Owned Multinational Enterprises - CSO - Central Statistics Office

having grown by 13.6% in Q1 compared with largely flat GVA in domestic sectors. The foreign-owned MNE-dominated sectors continued to account for the majority of GVA in Q2.[16]

Figure 5: Contributions to GVA (% of Total)

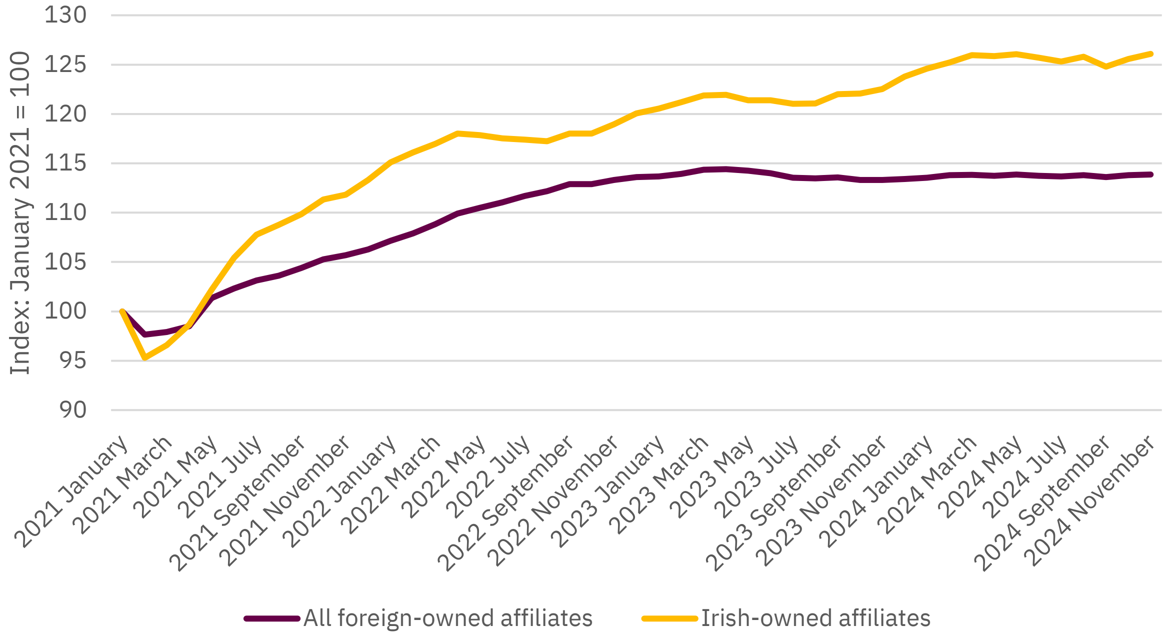


Source: [CSO (NAQ06, Constant Basic Prices, Seasonally Adjusted)]

In recent years, however, employment in foreign-owned enterprises has remained static. Between April 2023 and November 2024 (the latest such data point available from the CSO), seasonally adjusted employment in foreign-owned affiliates fell marginally (by 0.5%) while over the same period employment in domestic enterprises grew by about 3.4%.

[16] Foreign and Domestic GVA Quarterly National Accounts Quarter 1 2025 Final - Central Statistics Office

Figure 6: Flattening Employment in Multinational Enterprises



Source: CSO (EIA06)

2.2. Systemic and Geopolitical Risks

Geopolitical tensions and systemic risks have dominated headlines in recent years, with many of these situations having global economic implications. Following the Russian invasion of Ukraine in 2022 and the COVID-19 pandemic, global supply chains became stretched leading to inflationary effects throughout Europe and beyond.[17] While the economic impact stemming from these events has largely stabilised for Ireland, this section highlights additional geopolitical risks that could affect the Irish economy in the future.

2.2.1. The Middle East and Oil Shocks

The Irish economy is particularly exposed to fluctuations in global oil prices given the fact that we import 100% of our oil. Higher oil prices can exert inflationary pressures (as oil is an input in many economic sectors and affects downstream prices), reduce growth (by hampering production capacity), and cause the trade

[17] Pre-Budget Commentary 2025 - PBO (2024)

balance to deteriorate. Tensions between the US and Iran could have a significant effect on global oil prices. This situation remains highly fluid and uncertain, but Irish fiscal policy should account for the possibility of upcoming oil shocks. Notably, the Strait of Hormuz is located between Iran and Oman. In 2024, the equivalent of 20% of global petroleum liquids consumption passed through the strait, making it one of the world's most important oil chokepoints.[18] If this strait were to close, as has been threatened by Iran during previous periods of conflict, there would be a surge in global oil prices.[19] Moreover, the Red Sea and therefore the Suez Canal are both susceptible to disruption due to geopolitical tensions. For example, Houthi activities in the region have been interfering with and undermining confidence in nearby shipping routes since 2023.[20]

Oil prices can respond dramatically to global crises, having profound effects on production costs and economic activity. Recently, oil prices surged following the 2022 invasion of Ukraine and collapsed in the initial months of the COVID-19 pandemic, as can be seen in the chart below. Currently, oil prices are slightly elevated above their five-year average and trending downward.

[18] Amid regional conflict, the Strait of Hormuz remains critical oil chokepoint - US Energy Information Administration, 2025
[19] Iran's top security body to decide on Hormuz closure, Press TV reports - Reuters, 2025
[20] UK and international response to Houthis in the Red Sea 2024/2025 - House of Commons Library, 2025

Figure 7: Brent Crude ($ per Barrel)

Source: US Energy Information Administration

2.2.2. Potential Developments in Taiwan

The past decade has seen increasing military tensions between China and Taiwan as well as rising military spending by both nations.[21,22] An invasion of Taiwan would have two major impacts on the global economy. Firstly, Taiwan manufactures the majority of the world's semiconductors, and nearly all highly advanced semiconductors.[23] The disruptions caused by a slowdown in semiconductor production would impact communications, computing, transportation, healthcare, etc. Secondly, the Taiwan Strait is one of the world's busiest maritime trade routes. The Centre for Strategic & International Studies (CSIS) (a bipartisan, nonprofit policy research organisation) estimates that approximately €2.45 trillion worth of goods, or over a fifth of global maritime trade, moved through the Taiwan Strait in

[21] Taiwan: Defense and Military Issues - United States Congressional Research Service, 2025
[22] China's defence budget boost can't mask real pressures - International Institute for Strategic Studies, 2024
[23] Taiwan chip industry emerges as battlefront in U.S. - China showdown - Reuters, 2021

2022.[24] These two considerations constitute a significant risk to global productivity and trade.

2.3. International Trade

The full impact of the Second Trump Administration's tariff regime remains to be seen. The high levels of uncertainty around final negotiation agreements have likely acted to dampen investment and growth throughout the global economy since implementation.[25] Ireland is particularly exposed to the outcome of the tariff regime due to our international trade profile. Pharmaceuticals have played an important role in Ireland's economic growth and trade balance surpluses. Ireland currently runs a larger goods trade surplus with the US than with any other individual country and this balance is largely driven by pharmaceutical exports.[26] Pharmaceuticals and chemicals alone account for 73% of Irish exports to the US. Under the 10% tariff regime enforced between April and August this year, pharmaceuticals remained exempt from tariff measures. Overall, Ireland enjoyed a 75% total exemption from tariffs under this schedule.[27]

The agreement struck by the European Union on July 27th imposes a 15% general tariff on EU goods. Pharmaceuticals remain exempt under the current tariff schedule; however, this exemption may be temporary. The sector is likely to face future tariff exposure pending the outcome of the ongoing Section 232 investigation by the United States. However, the agreement reached in July ensures that future tariffs for EU pharmaceutical exports will be no more than 15%.[28]

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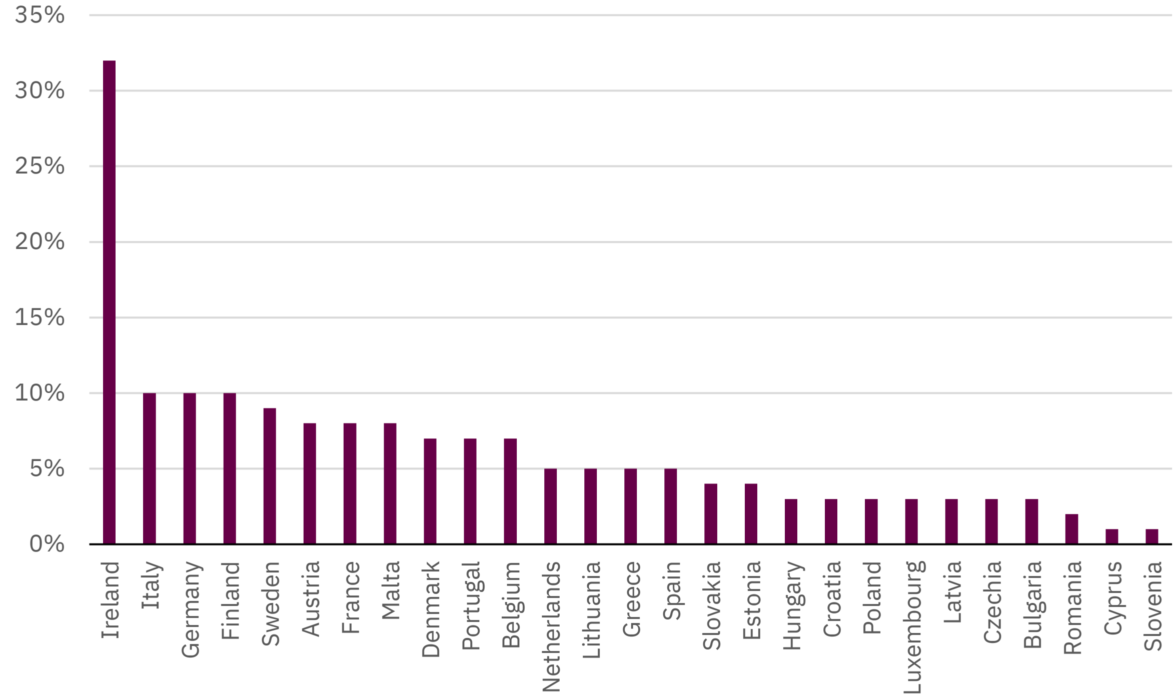
[24] Disruptions to Trade in the Taiwan Strait Would Severely Impact China's Economy - Centre for Strategic & International Studies, 2025
[25] Investment in an increasingly uncertain global landscape, p. 1 - Bank for International Settlements, 2025
[26] Value of Merchandise Trade by Commodity Group and Countries and Territories - Central Statistics Office
[27] Trade between Ireland and the US, April 2025 - PBO (2025)
[28] Questions and answers on the EU - US Joint Statement on Transatlantic Trade and Investment - European Commission (2025)

Figure 8: Share of Goods Exports to US (2024)



Source: Eurostat (DS-059322)

Certain key sectors remain largely unaffected in terms of direct tariffs. As the current tariff schedules only relate to goods, the technology services sector has suffered no direct impact, however, this could change if trade negotiations reopen for any reason in the future. The Fiscal Advisory Council considers a range of possible scenarios in their Fiscal Assessment Report (published in June 2025) and estimate losses to GNI* ranging from 0.2% to 2.4% compared to a no-tariff baseline, noting that these impacts would take effect gradually, settling after about seven to 10 years.[29] The 0.2% estimate corresponds with a unilateral US-imposed tariff scenario, which is most similar to the agreed trade deal.

The US dollar has weakened over the past year. A devalued dollar means that American consumers have less purchasing power to consume goods denominated in euros. This trend would intensify the impacts of tariffs on Ireland's goods trade

[29] Fiscal Assessment Report (June 2025), p. 13 The Irish Fiscal Advisory Council

balance. Figure 9 below shows how many US dollars can be purchased with €1, meaning that higher values indicate a weaker US dollar.

Figure 9: Exchange Rate (EUR/USD)

Source: ECB (Euro foreign exchange reference rates)

Since the Global Financial Crisis, economists have observed a trend towards deglobalisation.[30] This is characterised by the following trends:

- Rising protectionism (e.g., the US tariff schedule)
- Reduced international cooperation (e.g., Brexit)
- Geopolitical tensions (e.g., diversification away from Russian energy imports during the war in Ukraine)
- Localisation of supply chains[31] (e.g., taking a less international approach to the production of medical equipment following the COVID-19 pandemic)

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[30] The Impact of Deglobalisation and Protectionism on a Small Open Economy - The Case of Ireland - ESRI (2025)
[31] Mitchell AD. The Geography of Health: Onshoring Pharmaceutical Manufacturing to Address Supply Chain Challenges. World Trade Review. 2024;23(4):519-531. doi:10.1017/S1474745624000387

- Reduced foreign direct investment as firms factor potential trade barriers into current investment decisions.

Ireland has historically been a beneficiary of global economic integration, meaning that this overall trend presents a risk to Irish growth and prosperity.

2.4. Labour Market

The Irish labour market is in a period of low unemployment. The unemployment rate for Q2 2025 was 4.8%, having remained below 5% since Q4 2021. On a seasonally adjusted basis, unemployment in August was 4.7%.[32] This figure has now been below 5% for three and a half years. Seasonally adjusted unemployment did however increase between Q1 and Q2 in 2025, rising by 3,400 (2.6%) to 134,400.[33] Between Q2 2024 and Q2 2025, both short-term and long-term unemployment have risen by 5.7% and 18.2%, respectively, with 76.8% of unemployed persons being in short-term unemployment and the remainder in long-term unemployment. Youth unemployment (unemployment among those aged 15-24) increased by 11.4% to 49,500 over the same period.[34]

The employment rate for people aged 15-64 years stood at 74.7% in Q2 2025, which is a slight increase over 74.4% in Q2 the previous year.[35] Employment is at an all-time high in Ireland, with 2,818,100 people employed across all sectors in Q2 2025. Over 500,000 more people are in work than in early 2019.[36] Computer programming, pharmaceuticals, financial services, and public sector–dominated areas like health, social work, education, and public administration accounted for two-thirds of job increases between Q1 2019 and Q1 2025.[37]

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[32] Seasonally Adjusted Monthly Unemployment - Central Statistics Office
[33] Labour Force Survey Quarter 2 2025 - Central Statistics Office
[34] ibid
[35] ILO Participation, Employment and Unemployment Characteristics - Central Statistics Office
[36] ibid
[37] Fiscal Assessment Report (June 2025), p. 9 - The Irish Fiscal Advisory Council

The largest year-on-year increases in employment from Q2 2024 to Q2 2025 were in Construction and Human health & Social work activities, which saw gains of 18.4% and 3.9%, respectively. The rise in employment in Construction was driven by increases in construction of buildings and specialised construction activities. The largest decrease in employment in Q2 2025 was observed in Information & Communication, driven by a fall in those employed in computer programming, consultancy, and related activities. The increases in construction employment are consistent with efforts to address Ireland's infrastructure deficit. The recent decline in ICT employment may be attributed to several factors. One possibility is a correction following the surge in hiring during the post-Covid expansion of the sector. Another contributing factor could be the short-term displacement of jobs associated with the increasing adoption of generative Artificial Intelligence (AI) technologies (see section 2.4.2 for more information on this topic).

It is worth noting that both unemployment and employment have risen over the same time period. This can be explained by the following two factors. First, there have been certain sectoral shifts in the labour market over this period. Even though the employment rate has increased, three sectors had fewer people employed in Q2 2025 than Q2 2024 (ICT, accommodation and food services, and public administration and defence). Most notably, employment in the ICT sector decreased by 4.1%, or 7,700 people. Meanwhile, other sectors such as construction experienced strong employment growth. Secondly, as the overall labour force expands, not every new job seeker secures employment immediately, which can lead to a rise in unemployment.

In Q2 2025 the estimated labour market participation rate grew to 66.4% from 66% in Q2 2024, while the estimated total number of hours worked per week increased by 1.6 million hours (1.9%) over the same period.

Following the onset of the Covid-19 pandemic, the Irish labour market experienced a period of tightness — meaning there were relatively few unemployed people compared to the number of job vacancies, making it harder for employers to find suitable workers. It has been noted by the NTMA however that this tightness has eased over recent months[38]. In Q2 2025 there were 29,500 job vacancies which was down from 31,000 in Q1 2025 but unchanged from Q2 2024. Ireland is also experiencing a relatively high job vacancy rate by historical standards, but this figure (which stood at 1.3% in both Q1 and Q2 2025) is below the EU average (2.2% in Q1 2025).[39,40]

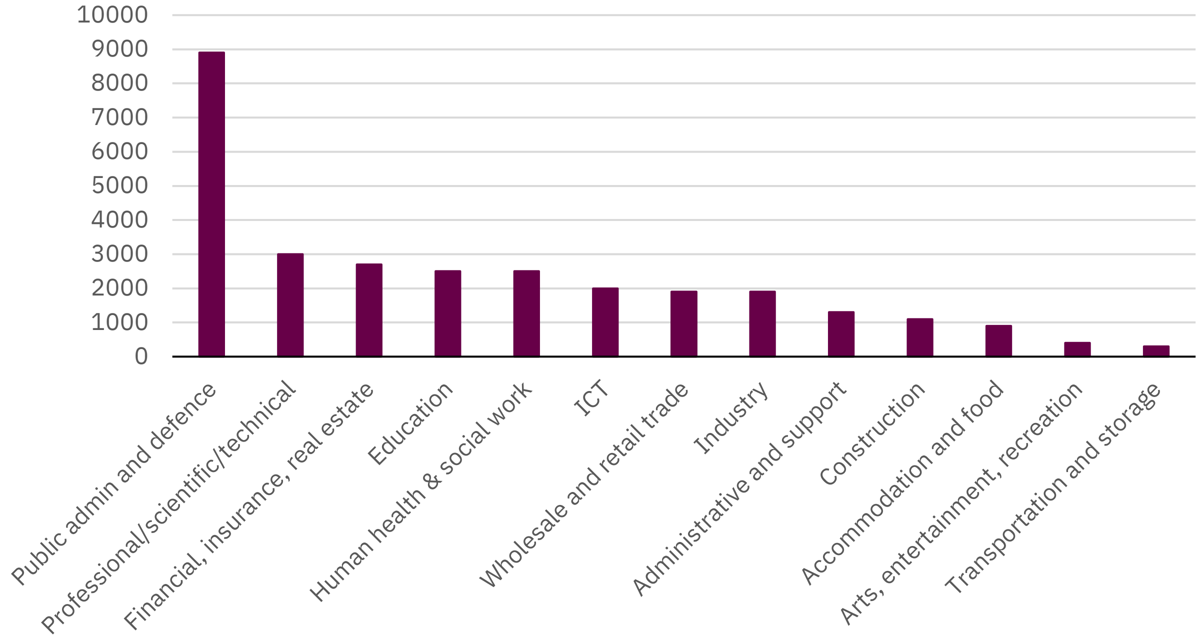
Figure 10: Job Vacancies (All Sectors)

Source: [CSO (EHQ16)]

Public administration and defence/compulsory social security functions exhibit the highest number of vacancies in absolute terms (8,900), followed by professional, scientific, and technical activities (3,000), and financial, insurance, and real estate activities (2,700).

[38] Ireland: Economic strength amid uncertain times (May 2025), p. 18 - NTMA
[39] Job Vacancies - Central Statistics Office
[40] European Statistical Monitor - Eurostat

Figure 11: Number of Job Vacancies (Q2 2025)



Source: CSO (EHQ16)

If labour supply fails to meet demand over a sustained period, this can create upward pressure on wages. While tight labour conditions benefit workers as high demand for labour leads to wage growth and enables labour mobility, continued high wage growth can create wage-price spirals, leading to inflation. A consistently inadequate supply of labour can also impact the productivity of firms. Both factors could work to erode Irish economic competitiveness and negatively impact Ireland's trade balance.

These conditions can also be indicative of economic overheating. This is a situation where the economy is operating beyond its productive capacity, meaning that supply is unable to match demand due to a lack of available resources such as labour and capital[41]. The Fiscal Advisory Council estimates that the economy is currently operating above its potential levels of activity.[42] This observation is borne out by sustained faster-than-normal economic growth.

[41] A Primer on Economic Overheating (2019) - PBO
[42] Fiscal Assessment Report (June 2025), p. 6-7 - The Irish Fiscal Advisory Council

Counter-cyclical fiscal policies are a conventional prescription for the problem of economic overheating. These measures (contractionary fiscal policy in this case[43]) would involve decreasing government spending and increasing government revenues, thereby avoiding excessive stimulation of the economy while securing funds to combat inevitable future economic downturns. The Fiscal Advisory Council instead notes that budgetary policy is currently providing a significant stimulus into the economy, which is not the appropriate response in an overheating situation.[44]

This is borne out by spending increases announced in the Summer Economic Statement and National Development Plan Review. In particular, an additional €8.7 billion (including €5.5 billion in strategic equity/funding, €1 billion in current spending and €2.2 billion in voted capital spending) has been announced for 2025, while €10.35 billion in additional spending has been announced for 2026.[45] This pro-cyclical approach to fiscal management may cause issues around inflation, competitiveness, and spending plans if not corrected. Counter-cyclical policies do not necessarily require spending cuts in all areas, but spending should be carefully managed, reviewed, and prioritised, and grow at a sustainable level. For example, Ireland’s deficient infrastructure requires government support, but any additional support in this area needs to be weighed against its contribution to excessive economic stimulus.

Failing to accrue sufficient government surpluses while the economy is performing well will also limit flexibility when combatting future economic crises. The government's related strategy of investing in the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF) is discussed elsewhere in this commentary.

Overheating could be worsened by the gradual lowering of interest rates by the European Central Bank. Since September 2023, the deposit facility rate, main

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[43] Introduction to the Irish Economy: Fiscal Policy (2023) - PBO
[44] Fiscal Assessment Report (June 2025), p. 28 - The Irish Fiscal Advisory Council
[45] Update on Recent Revisions to Government Spending Plans - PBO, 2025

refinancing operations rate, and marginal facility lending rate have been cut from 4% to 2%, 4.5% to 2.15%, and 4.75% to 2.4%, respectively.[46] If interest rates continue to fall, the domestic economy will be further stimulated, and additional counter-cyclical fiscal policies may be necessary. As Ireland has little influence over monetary policy and the EU economy is not at risk of overheating[47,48], a more cautious fiscal approach is advisable.

2.4.1. Labour Market Slack and Inactivity

While unemployment remains low, there are signs of slack in some areas of the labour market vis-à-vis declining numbers of hours worked and an increasing share of people in the potential additional labour force. Labour market slack refers to all unmet needs for employment[49] and can be considered a broader measure of unmet labour supply than unemployment. Labour market slack includes unemployment, underemployed part-time workers, people seeking a job but not immediately available for work, and people available to work but not seeking.[50] It has been noted by the Department of Finance that employment has risen by 18% over the past five years, but total hours worked have risen by only 10% due to a decline in average hours worked of almost 7%.[51]

Unemployment remains near historic lows, accompanied by a declining number of persons in unemployment that is long-term in nature (lasting over a year), suggesting that most of those who are unemployed are still readily employable. This declining trend was however interrupted in Q2 2025, with the number of long-term unemployed persons rising by 5,900.[52] There were approximately 780,000

[46] Key ECB interest rates - ECB
[47] Spring 2025 Economic Forecast: Moderate growth amid global economic uncertainty - European Commission (May 2025)
[48] 'No room for complacency', warns top ECB policymaker after traders cool on rate cuts - The Financial Times (August 2025)
[49] Labour market slack - employment supply and demand mismatch - Statistics Explained - Eurostat
[50] Ibid
[51] Economic_Insights_Volume_2_2025.pdf
[52] Labour Force Survey Quarterly Series - Persons aged 15 years and over - Central Statistics Office

individuals of working age in the inactive cohort last year (meaning that they were neither in employment or unemployment), however this figure is also close to historic lows and as a percentage of the working age population it sat below the euro area average in 2024 (22% vs 25%). Among the inactive population, roughly 106,000 belonged to the Potential Additional Labour Force (PALF) in 2024, representing a rise in the share of the population who were either seeking work but not immediately available or available for work but not seeking. This indicates an increase in slack since mid-2022 when this figure was lower.[53] There are 118,000 people in the PALF as of Q2 2025, but this is down from the figure for Q2 2024 (122,700).

Figure 12: Labour Market Slack (Trend Adjusted)

Source: [Eurostat (Labour market slack by sex and age - quarterly data)]

The discussion around labour market slack could become more important in the coming years as more workers are set to exit the labour force due to demographic ageing.[54] This trend will act to suppress labour supply in the medium term, so any

[53] Economic Insights Volume 2 (August 2025) - Department of Finance
[54] Continuity and Change Examining Recent Trends in the Irish Labour Market (August 2025) - Department of Finance

slack that exists in the economy may evaporate as it covers this shortfall. Under these new dynamics, Ireland may need to consider untapped sources of labour supply and avenues for increasing participation among the inactive population. Understanding how best to improve productivity per worker, especially in the domestic sector which lags behind MNCs in this regard, will also become an important consideration in ensuring continued growth.

2.4.2. Impact of Generative AI on the Labour Market

The share of job postings in Ireland mentioning AI skills is higher than in many other European countries.[55]

Research by the Department of Finance and Department of Enterprise, Trade and Employment had suggested that 30% of Ireland's employees are exposed to AI (i.e., where there is a risk that AI could substitute for labour), while 33% of employment is in occupations where AI is likely to complement labour (to boost productivity). That analysis also suggested there is a positive correlation between AI exposure and earnings, suggesting that higher earners stand to benefit most from increased AI adoption; a similar correlation is also observed for educational attainment.[56]

Certain early data suggests that an AI-related impact is beginning to be seen in the United States labour force, where it appears that certain occupations are seeing employment decline, where AI can automate human labour. There is also evidence that it has a significant and disproportionate impact on entry-level workers or early-career workers (e.g., lower levels of employment of 22- to 25-year-olds in sectors such as software development and customer service).[57]

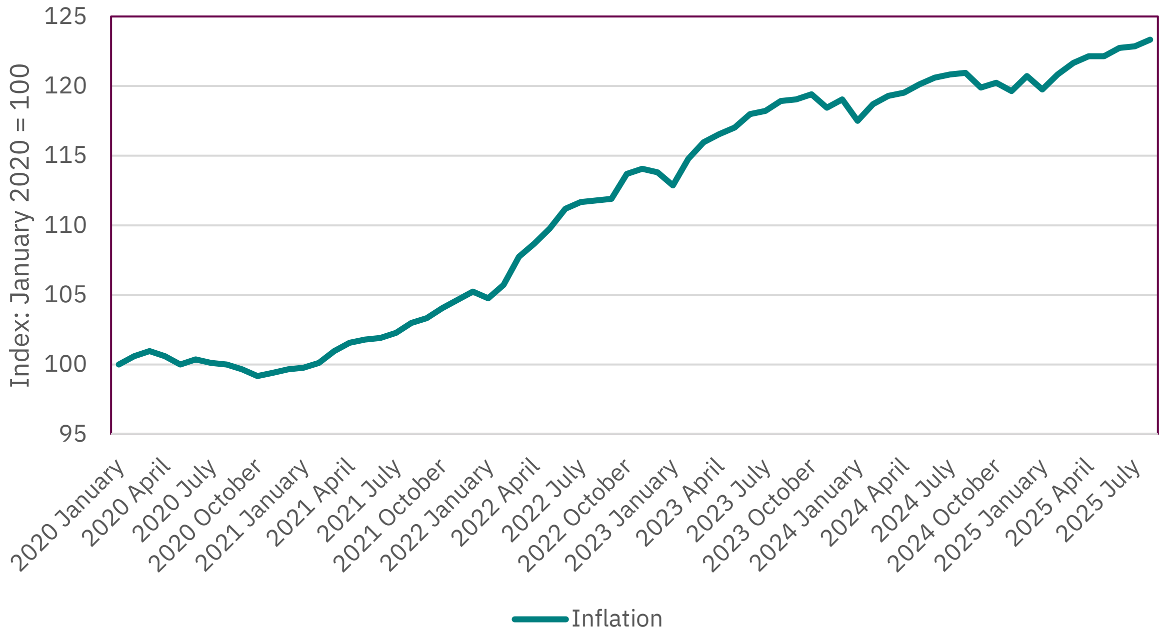
2.5. Inflation and Wages

Inflation in the Irish economy has largely been brought under control and stood at 2% in August 2025.[58,59] This is a significant improvement from the high inflation

[55] Indeed Hiring Lab 'European Labour Market Trends - July 2025' p10.
[56] "Artificial Intelligence: Friend of Foe? Summary and Public Policy Considerations", (2024), Department of Finance and Department of Enterprise, Trade and Employment
[57] Canaries in the Coal Mine? Six Facts about the Recent Employment Effects of Artificial Intelligence
[58] Consumer Price Index August 2025 - Central Statistics Office
[59] Consumer Price Index - Central Statistics Office

levels observed between 2021 and 2023, but prices have stabilised at a higher level (as shown in Figure 13).

Figure 13: Price Levels (CPI Data)



Source: CSO (CPM01 - Rebased CPI data)

There are several areas of uncertainty that make it difficult to forecast future inflation. However, the following factors could have an impact.

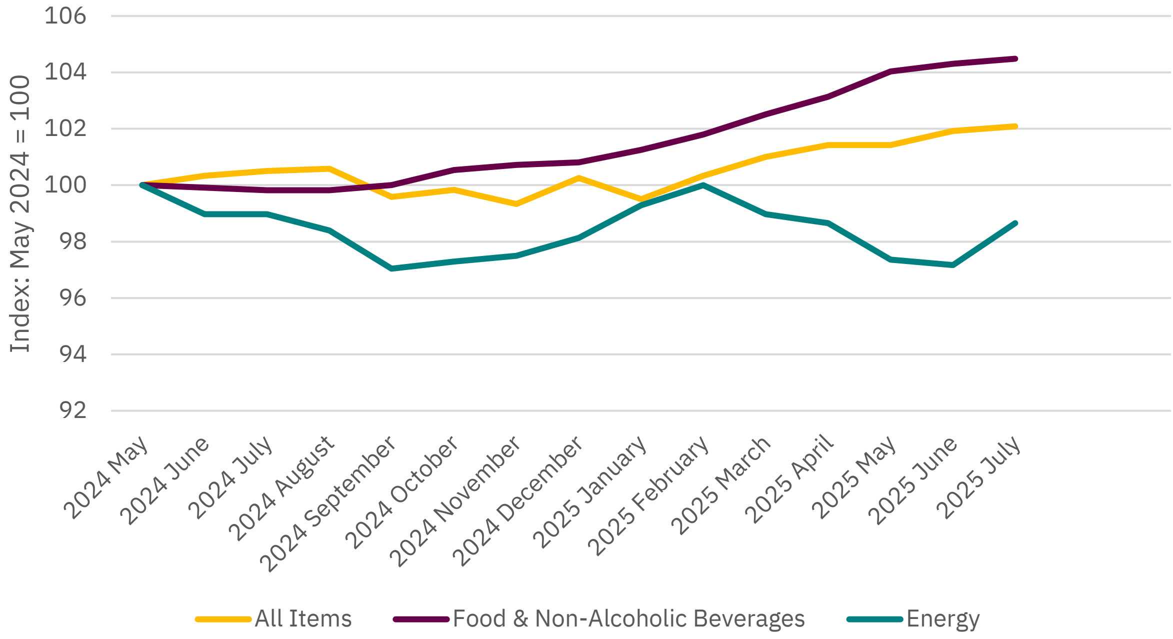
- Geo-political tensions (such as the war in Ukraine, ongoing conflict in the Middle East, potential future developments in Taiwan)
- Disruptions to global supply chains caused by US tariff measures, regional conflicts, and other factors contributing to deglobalisation of trade.
- Monetary policy (primarily interest and exchange rate changes)
- Domestic factors (such as labour market conditions)

Inflation is expected to remain close to 2% in 2026 according to the main forecasting bodies (Department of Finance, Central Bank of Ireland, ESRI, IMF, European Commission) with estimates ranging between 1.7% and 2.2%.[60]

[60] Annual Progress Report (2025), p. 38 - Department of Finance

Although that inflation level is widely considered to be stable, price movements vary for different sectors. Food & Non-Alcoholic Beverages increased by 5.1% between August 2024 and August 2025[61,62] while energy products have been deflating consistently since October 2023.

Figure 14: Food and Energy Inflationary Dynamics

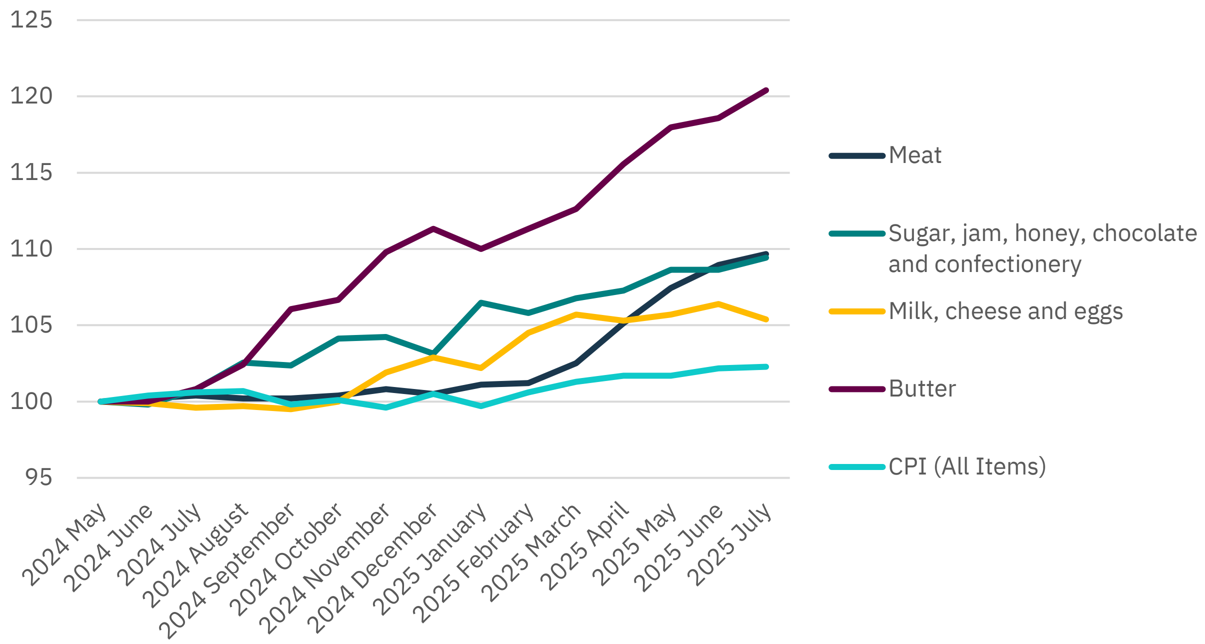


Source: [CSO (CPM15 - Rebased HICP Data)]

Food & Non-Alcoholic Beverages rose due to higher prices across a range of products such as meat, chocolate & confectionery and dairy products. This indicates that certain consumer staples are becoming less affordable and that control over inflation has not propagated through all sectors. Notably, the price of butter rose by 18.3%, meat by 10.7%, and milk, cheese, and eggs by 7.3% over this period.[63]

[61] Consumer Price Index - Central Statistics Office
[62] Consumer Price Index August 2025 - Central Statistics Office
[63] ibid

Figure 15: CPI for Selected Food Items

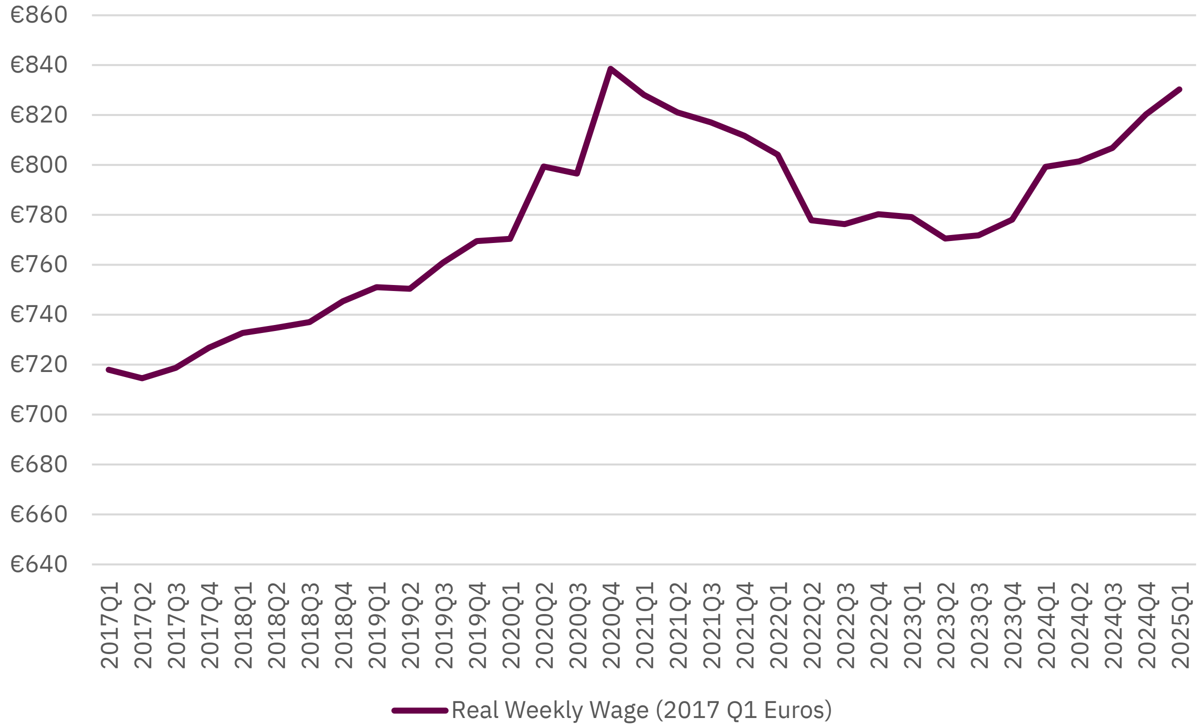


Source: [CSO (CPM18 - Rebased CPI Data)]

Wages have rebounded since the COVID-19 pandemic and real hourly wages are now in line with their pre-pandemic trend. However, the Fiscal Advisory Council notes that high-pay sectors have been effectively flat for five years, leaving them about 8% below the pre-pandemic trend, whereas lower-pay sectors are 2% above trend.[64] The chart below shows real weekly wages across all NACE economic sectors relative to price levels in Q1 2017. Real wage growth has been strong since 2024.

[64] Fiscal Assessment Report (June 2025), p. 10 - The Irish Fiscal Advisory Council

Figure 16: Real Weekly Wage (in terms of Q1 2017 price levels)



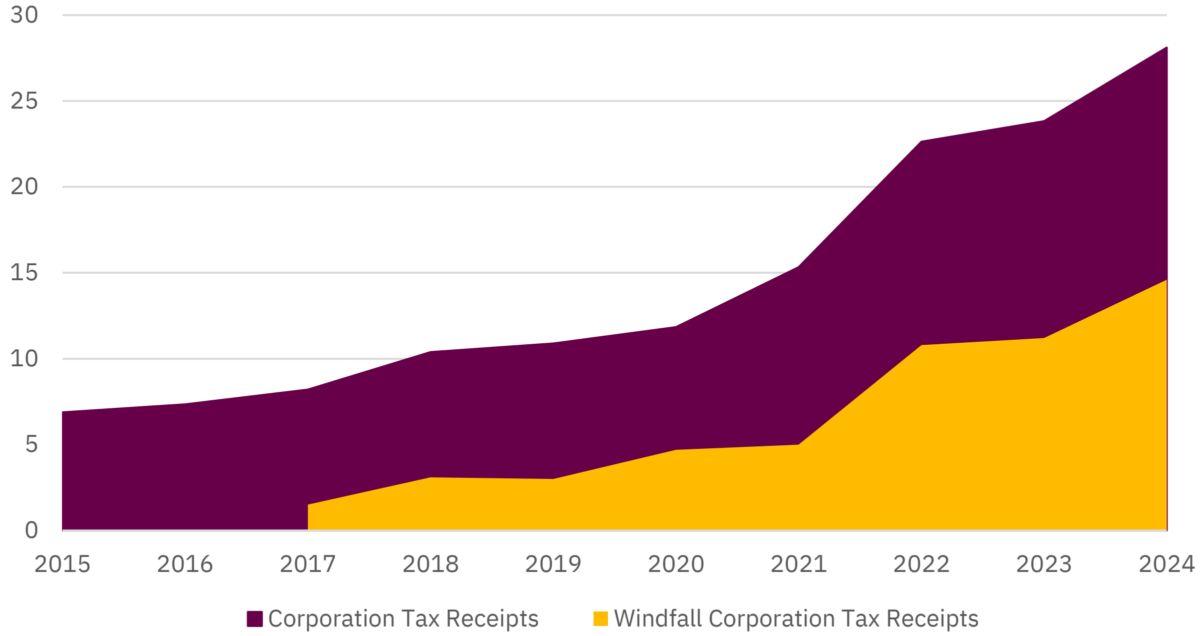
Source: CSO (EHQ03, CPM15, PBO calculations)

2.6. Fiscal Sustainability

2.6.1. Corporation Tax Receipts and Government Funds

Excluding payments arising from the Apple state aid case, €145.4 billion has accrued to the state in the form of corporation tax receipts since 2015, the year where receipts started rising sharply. Much of this increase has been driven by "windfall" corporation tax receipts, which are estimated to constitute approximately 37% of that amount.

Figure 17: Corporation Tax Receipts (€ billions)



Source: Summer Economic Statement 2025 - Chartpack, IFAC Fiscal Assessment Report June 2023, Stability Programme Updates (2023, 2024, 2025) - Department of Finance

Much of the Ireland's corporation tax since 2015 has been spent on once-off pandemic-related costs and cost-of-living supports in recent budgets. However, there has also been a notable increase in capital spending. Capital expenditure has increased by 104% (€7.4 billion) since 2019, while current expenditure has increased by 52% (€29 billion) over the same period.[65] This increase in capital spending represents a return to the norm. Capital spending had previously peaked in 2008 (accounting for 14.4% of the State's total budget) before falling significantly during the sovereign debt crisis, reaching 6.2% of total spending in 2013.[66] Capital expenditure has been trending upwards since then. According to the Summer Economic Statement for 2025, total public spending next year will be €116.6 billion, €19.1 billion (or 16.4%) of which will be capital spending.[67]

[65] Summer Economic Statement (July 2025) p. 14 - Department of Finance & The Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation
[66] Pre-Budget Commentary 2025 - PBO
[67] Summer Economic Statement (July 2025) p. 16 - Department of Finance & The Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation

The Fiscal Advisory Council notes that just over one-third of the forecast excess corporation tax receipts are set to be saved from 2026.[68] Meanwhile, less than 10% of receipts from 2015 onward (including 2025 forecasted receipts) will have been saved in the FIF and ICNF by year-end. This figure is derived from the Revised National Development Plan which states that a total of €2 billion will be invested in the ICNF each year from 2024 to 2030, building up to an overall fund of €14 billion.[69] The NTMA states that in total in 2024, approximately €8.4 billion was contributed to the FIF[70]. According to the NTMA and Summer Economic Statement, the Government will contribute 0.8% of (relevant) GDP to the FIF each year until 2035. By the end of 2026, almost €16 billion will have been transferred to the funds.[71]

There are certain risks associated with this strategy.

Excess receipts being injected directly into an economy that is already performing strongly rather than being ringfenced in one of these two funds contributes to overheating risk, as discussed earlier in this report. The ICNF in particular will help to combat procyclicality in the future[72], so further investment in this fund would be encouraged from this perspective.

Although corporation tax receipts may continue to grow, there is growing risk that these receipts will fall. If tariffs or more favourable tax policies in the US prompt certain key sectors or firms to reshore in the US, then receipts could fall dramatically over a short timeframe. High concentration in corporation tax receipts (i.e., low diversification) comes with high levels of uncertainty and volatility.

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[68] Fiscal Assessment Report (December 2024), p. 35-36 - The Irish Fiscal Advisory Council
[69] NDP Review 2025, p. 34 - Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation
[70] Future Ireland Fund FAQs - NTMA
[71] Summer Economic Statement (July 2025), p. 13 - Department of Finance & The Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation
[72] Ibid

If sufficient funds are not directed to the Future Ireland Fund and the Infrastructure, Climate and Nature Fund, then Ireland could find itself in a vulnerable position when the effects of demographic ageing, falling competitiveness, and failure to meet climate commitments are realised. Failing to meet agreed upon climate commitments alone could result in costs ranging from €8 billion to €26 billion.[73]

High excess corporation tax receipts could also be used to pay down Ireland's debt more aggressively. Ireland's debt position is currently manageable, both as it is forecast to trend downwards further and it has also been financed at low interest rates. However, if significant refinancing is required in the future, then the State may experience increased exposure to interest rate shifts and reduced flexibility when dealing with future crises.

Some prudent measures related to Ireland's concentrated and high receipts in this area, as noted by the Fiscal Advisory Council, are economic diversification (reducing exposure to foreign multinationals), saving additional corporation tax receipts, and focusing on long-run potential boosting other parts of the economy and enhancing competitiveness.[74,75]. In relation to long-run potential and enhanced competitiveness, the PBO acknowledges the strategic objectives of the National Development Plan and the medium to long-run aims of the Future Ireland Fund and the Infrastructure, Climate and Nature Fund; however, the government could contribute additional receipt flows to these funds. Moreover, these prudential measures are interrelated; for example, enhancing Ireland's competitiveness by developing infrastructure stock could stimulate domestic industries, reducing exposure to large foreign multinationals.

[73] A Colossal Missed Opportunity (2025) - The Irish Fiscal Advisory Council
[74] Fiscal Assessment Report (December 2024), p. 35 - The Irish Fiscal Advisory Council
[75] More Revenue and More Concentration (2025), p. 23-26 - The Irish Fiscal Advisory Council

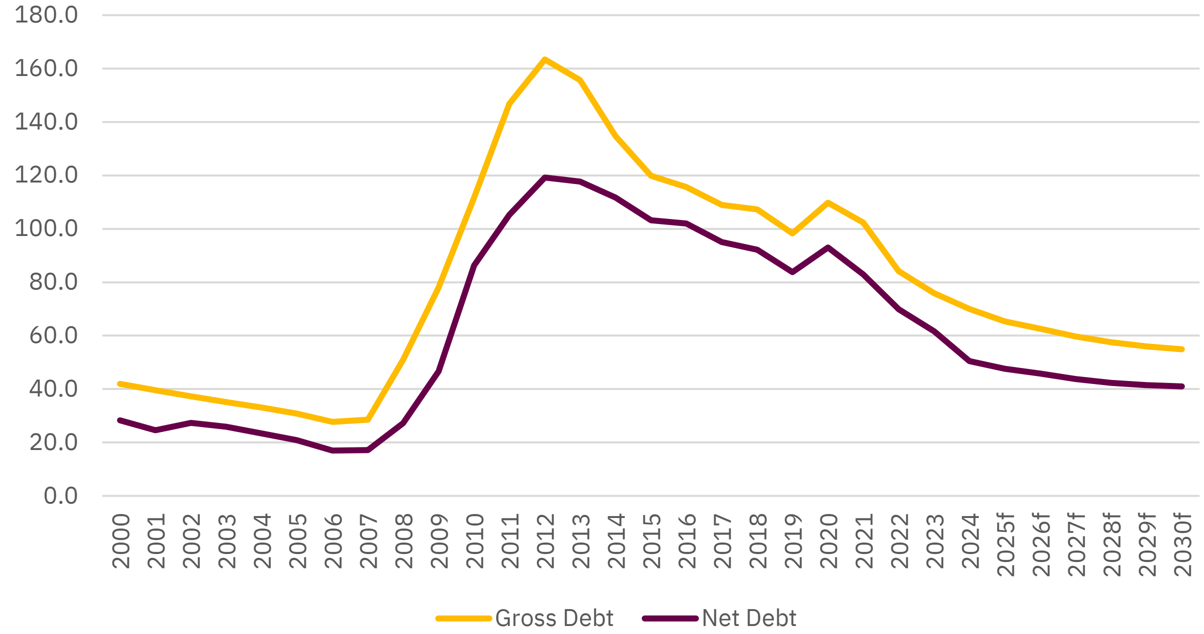
2.6.2. Sovereign Debt

Ireland is in a stable position in terms of sovereign debt and the State has a considerable degree of flexibility in deciding how and when to pay down its debt. Government surpluses over recent years coupled with the long weighted average maturity of Irish debt mean that borrowing requirements in the short to medium term should be relatively low.[76,77] Sovereign debt is therefore not expected to increase significantly over this time period.

In the long term, sufficient investment in the FIF and ICNF should also have a moderating effect on future debt requirements. The Fiscal Advisory Council notes that Ireland's debt trajectory is encouraging with the net debt ratio (as a share of GNI*) having fallen considerably from a peak of 119.2% in 2012 to 50.4% in 2024 and projected to fall to 41% in 2030.[78] The decrease in the debt ratio has primarily been driven by strong economic growth rather than by significant debt repayments. This downward trend is illustrated in the chart below using data from IFAC's Fiscal Assessment Report from June 2025.

[76] NTMA publishes 2025 mid-year business update (July 2025) - NTMA
[77] Annual Report on Public Debt in Ireland 2024 - Department of Finance (2025)
[78] Fiscal Assessment Report (June 2025) - The Irish Fiscal Advisory Council

Figure 18: Sovereign Debt (Share of GNI*)

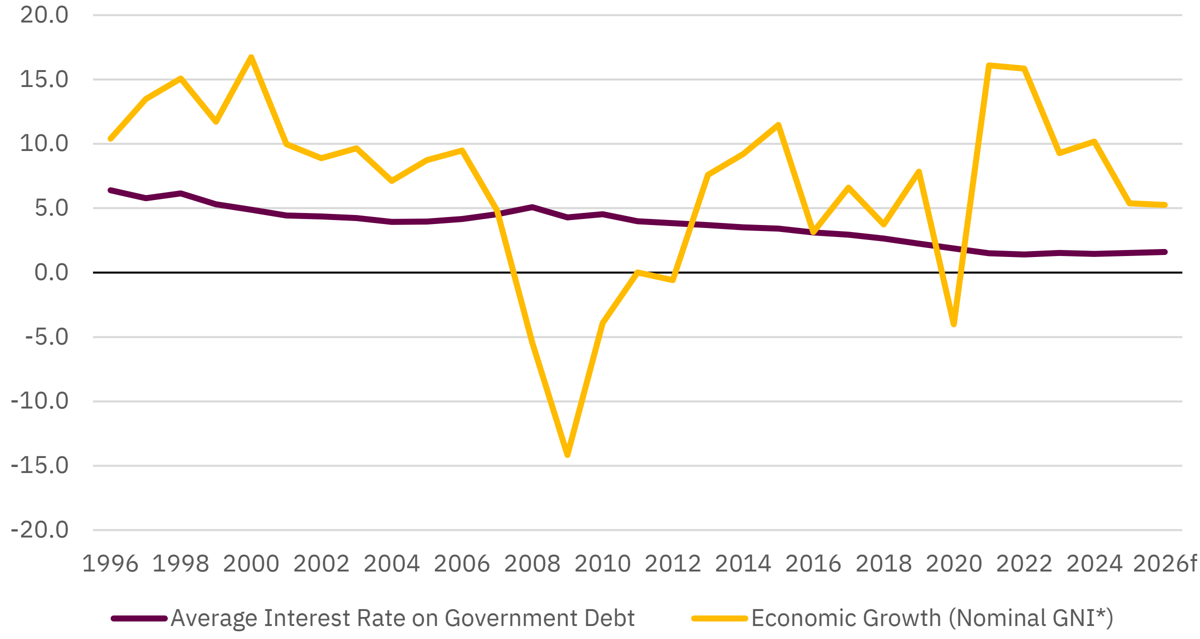


Source: Fiscal Assessment Report (June 2025) - The Irish Fiscal Advisory Council

The Fiscal Advisory Council also noted that Ireland's debt sustainability has benefitted from a positive differential between economic growth and the average interest rate the Government has paid on debt in recent years.[79] Ireland's annual interest costs have fallen over previous years and are estimated at approximately €3.1 billion for 2024.[80]

[79] Annual Report on Public Debt in Ireland 2024 - Department of Finance (2025)
[80] Irish Economy and Public Finances (May 2025) - NTMA

Figure 19: Average Interest Rate vs Economic Growth



Source: Annual Progress Report (2025), CSO (NA001)

Although large corporation tax revenues, consistent GNI* growth, low interest costs, and long weighted average maturity are contributing positively to Ireland's debt sustainability, it is worth noting the following risks.

1. Corporation tax revenues have likely moderated Irish borrowing requirements since 2015. If corporation tax receipts fall over the coming years, then Ireland's borrowing requirements may increase. Given the "windfall" nature of much of this revenue, this is a distinct possibility.

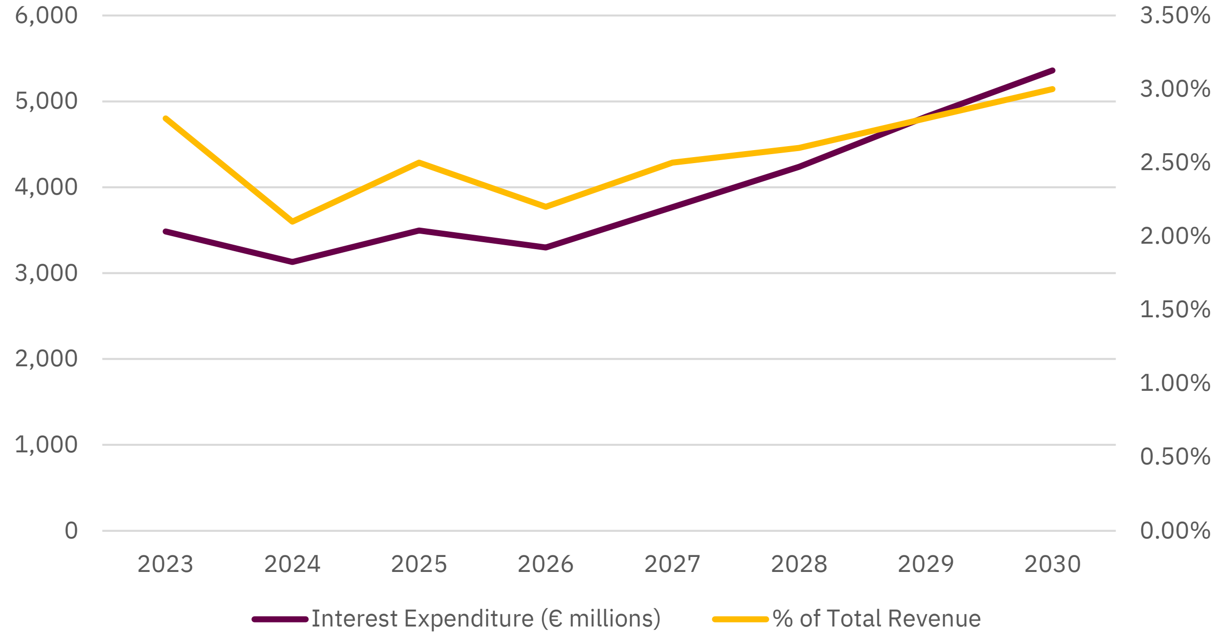
2. Ireland's economic growth is forecast to moderate in the coming years.[81] This change would lead to a decrease in the differential between interest paid on sovereign debt and economic growth and have a negative impact on Irish debt ratios.

3. Interest costs remain low, but this is not guaranteed going forward. For example, if inflationary pressures return in the future, then the ECB would likely respond by

[81] Fiscal Assessment Report (June 2025) - The Irish Fiscal Advisory Council

raising the base interest rate. As a significant amount of Irish debt has already been refinanced at low interest rates, potentially higher rates in the future mainly present a risk to debt sustainability in the medium term. In the short term, general government interest expenditure is forecast to increase gradually over the coming years but to remain capped at just over 3% of forecasted annual general government revenue over this period.

Figure 20: General Government Interest Expenditure



Source: [Medium-Term Fiscal and Structural Plan (2024), Table A2 - Department of Finance]

2.6.3. Recent Revisions to Government Spending Plans

Additional spending measures for 2025 and 2026 were announced in the National Development Plan Review and Summer Economic Statement, both published in July of this year.[82,83] These announcements will increase general government expenditure for 2025 and 2026, which will result in a lower general government balance (GGB) for both years than was previously forecast in the Annual Progress Report published in May 2025.[84]

General government balance provides a more complete view of the State's fiscal health than Exchequer balance, as it considers the revenue and spending of other agencies and bodies that sit outside of the Exchequer (including items such as PRSI receipts and the activities of local government and non-market public corporations).[85] It is therefore the measure of surplus/deficit that is scrutinised in EU fiscal surveillance and among market participants.

Modelling done by the PBO suggests downward revisions in the GGB from €8.65 billion to €5.45 billion for 2025 and from €6.31 billion to €1.23 billion for 2026.[86] Moreover, €5.5 billion in equity financing for 2025 was announced in the NDP Review and the SES. This financing is currently 'off-balance sheet', however the final classification of this spending ultimately rests with Eurostat. If this financing is considered to be a capital transfer, then it will be added to general government expenditure, resulting in a slight deficit of €0.04 billion for 2025. The uncertainty

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[82] National Development Plan Review 2025 - Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation (2025)
[83] Summer Economic Statement 2025 - Department of Finance; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation (2025)
[84] Annual Progress Report 2025 - Department of Finance; Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation (2025)
[85] Information Note - Walk from Exchequer Balance to General Government Balance 2024 - Central Statistics Office
[86] Update on recent revisions to Government spending plans - PBO (2025)

around the final classification of this financing only applies to the estimates for 2025.

While even these revised figures are safely compliant with EU fiscal rules, it is still worth noting that there have been substantial changes to the general government balance since the last official estimates provided by the Government in May.

While it is important to consider GGB, it is also advisable to consider this figure in the absence of windfall corporation tax receipts. When these receipts are subtracted, the figure that remains is the underlying GGB. This figure is more indicative of the underlying performance of the Irish economy, although it is not formally scrutinised by the EU. This figure stood at -€4.64 billion for 2025 and -€6.79 billion for 2026 in the Annual Progress Report for 2025. Based on our modelling, the underlying GGB will be -€7.84 billion for 2025 (-€13.34 billion if equity financing is treated as a capital transfer/investment grant) and -€11.87 billion for 2026.

3. Public Spending

3.1. The Path of Public Spending: 2014 to Date

As Ireland's economy recovered from the global financial crisis of 2009, gross Voted spending has been on the rise.[87] The 2025 allocation of more than €105 billion is a €50.6 billion (92.6%) increase on outturn spending in 2015. As of July 2025, Government had revised this upwards to €108.7 billion. Figure 21 shows gross spending from 2014 to date. It compares:

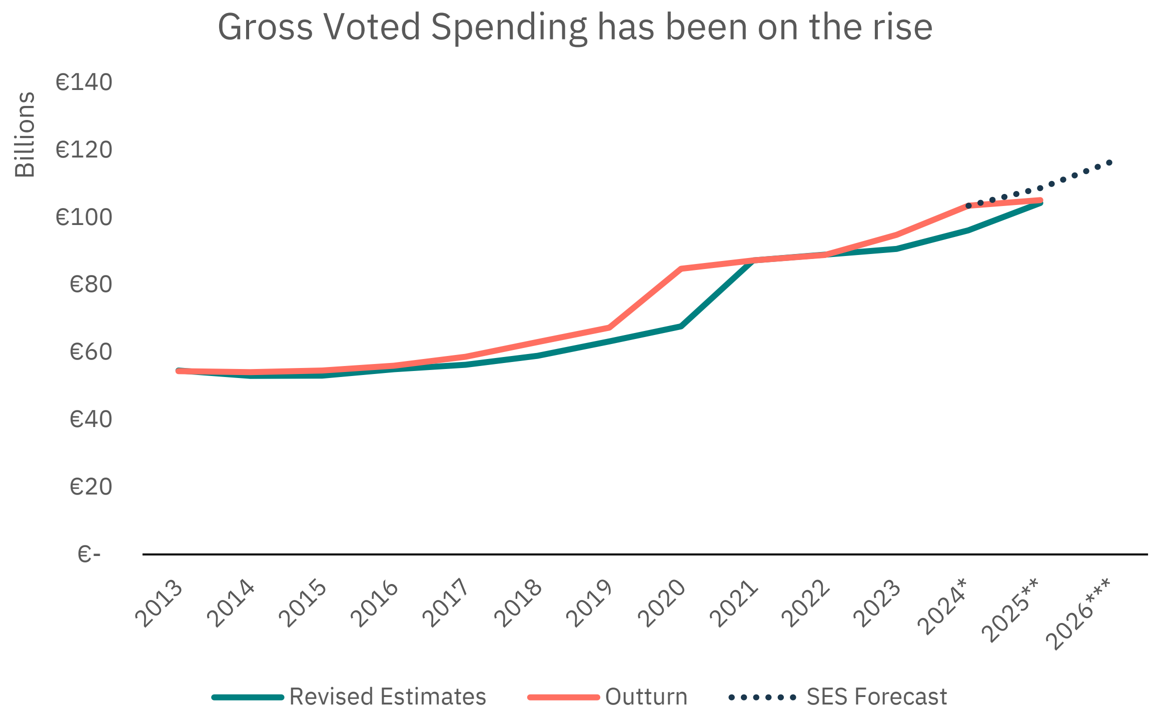
- Spending as set out in the Revised Estimates for Public Services (REV) for each year. In effect this is the first detailed forecast of spending for a year,
- Outturn (for 2014 to 2023), which is the actual amount spent in a given year, and
- Provisional outturn (2024), and the 2025 allocation alongside an alternative upwardly revised allocation as per the Summer Economic Statement.

This gives a sense of the accuracy of forecasting gross spending over the period. Excluding the impact of the pandemic in 2020 (where gross outturn was 25.2% greater than the amount set out in the REV), the biggest deviation is likely to occur in 2024 (~7.6% greater than set out in the REV).

While the end-year spend is hard to determine with certainty (see also Figure 24), with just the announced additional spending (€108.7 billion), an end-year position of 4.2% over the initial REV estimate can be expected. Any additional spending necessitating Supplementary Estimates could push gross voted spending in 2025 above the initial amount provided for in REV 2025 (December 2024).

[87] This includes the Social Insurance Fund (SIF) and the National Training Fund (NTF). Government expenditure (spending) is defined in the Ministers and Secretaries (Amendment) Act 2013. For more information see PBO, An Overview of the Social Insurance Fund (2018) and PBO, An Overview of the National Training Fund (2023).

Figure 21: The Big Picture



Source: PBO based on Revised Estimates for Public Services (2014 to 2025), DPER, 'Databank' (Accessed 03 July 2025), and Department of Finance and Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, Summer Economic Statement (July 2025) pp.14-5.
* Outturn for 2024 is provisional.
** Outturn for 2025 is simply the allocation as of September 2025.
*** The gross allocation for 2026 is stated in the Summer Economic Statement.

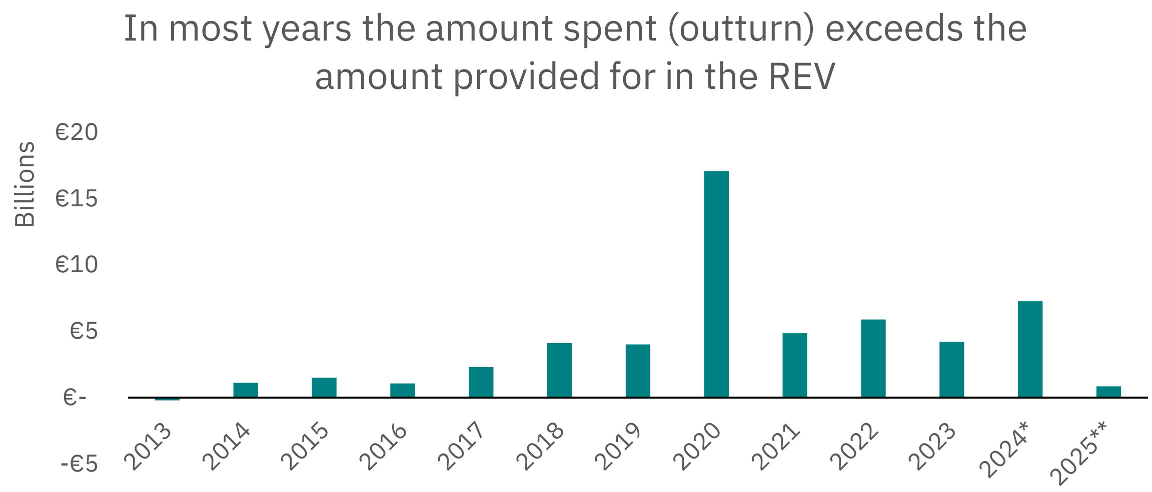
Figure 22 shows the annual difference between the gross spending outlined in the REV and the amount actually spent at end-year. In general, additional monies are allocated in-year (via Supplementary Estimates) to deliver additional services, or to meet funding shortfalls.

In 2021 and 2022 larger amounts were allocated at year-commencement to meet pandemic needs, but these were not fully utilised. It is unusual that outturn spending be lower than the gross voted allocation in the REV.

Figure 22 also includes the provisional outturn for 2024, almost €7.3 billion more than was allocated in the Revised Estimates. It also shows the total allocation for

2025 as of the Summer Economic Statement (July), €108.7 billion, some €4.4 billion more than was allocated in the Revised Estimates.

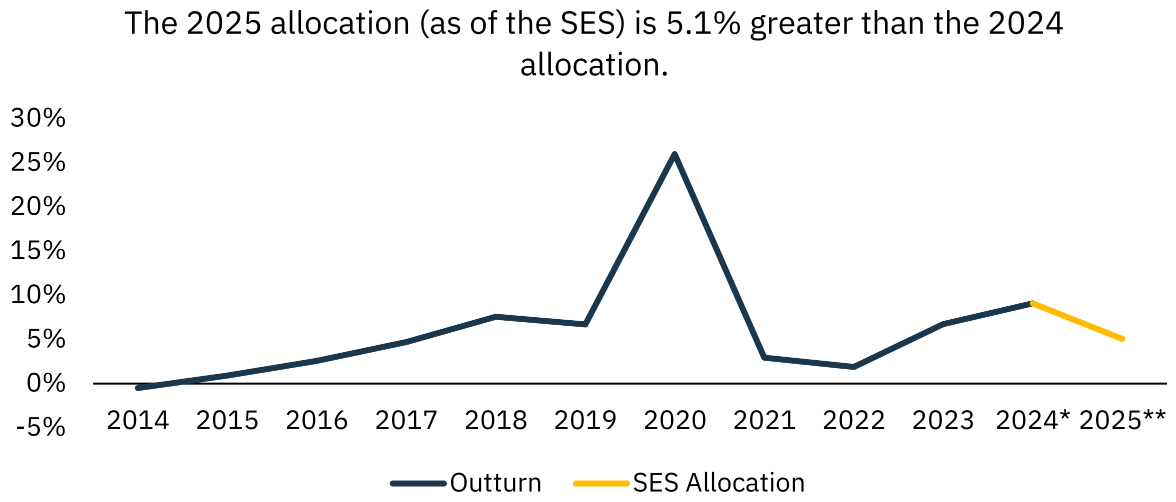
Figure 22: How it Starts vs How it Ends



Source: PBO based on Revised Estimates for Public Services (2014 to 2025), DPER, 'Databank' (Accessed 03 July 2025), and Department of Finance and Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, Summer Economic Statement (July 2025).
* Outturn for 2024 is provisional.

Figure 23 shows the annual change in outturn of Gross Voted Spending. Spending in 2014 being about 0.5% lower than in 2013. In 2020 a pandemic spike can be observed, with outturn returning to more modest year-on-year changes from 2021. Outturn for 2024 is provisional, and outturn for 2025 is the total allocation for 2025 as outlined in the Summer Economic Statement. Figure 23 shows that 2025 outturn is currently estimated to be around 5.1% greater than in 2024 (+€4.4 billion).

Figure 23: Annual Change in Outturn Spending

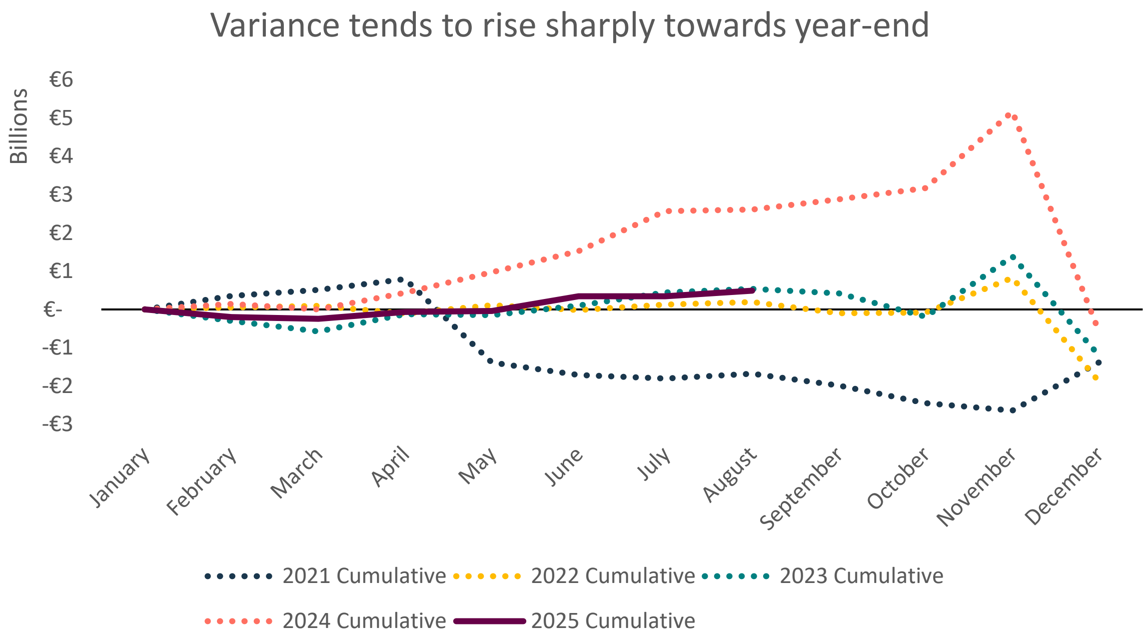


Source: PBO based on DPER Databank (Accessed 3 July 2025), and Department of Finance and Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, Summer Economic Statement (July 2025).

At the start of each year Government develops monthly profiles for spending for the coming year. These reflect the amount it expects to have spent by the end of each month as the year develops.

Spending can be on-profile (on-target) or may be above or below profile for various reasons. Above profile spending implies spending is above the level profiled which could reflect 'overspending', unforeseen demand, or expenses arising earlier than expected. Likewise spending under profile could reflect incorrect assumptions regarding demand for services, delays in delivery etc.

Figure 24: Total Gross Cumulative Variance 2021 to 2025



Source: PBO based on Department of Finance, [Fiscal Monitor](#) (Various).

Figure 24 shows total gross cumulative variance for the period 2021-to-date.[88] Variance tends to increase as the year progresses, with variance being very significant in November for 2022 to 2024. Variance tends to decline in December each year as the profile is revised upwards to reflect any additional allocations from Supplementary Estimates – obscuring the true variance against the original profile from the start of the year.

At end-August, gross spending was €490 million ahead of profile (€304 current and €186 capital).[89] However, variance tends to experience growth in Q4, meaning that spending may well rise above profile towards year-end, requiring additional funding by way of supplementary estimates.

[88] Total gross cumulative variance is the sum of current and capital variance. In some cases variance in one (current or capital) may offset variance in the other when they are taken together.
[89] See Department of Finance, Fiscal Monitor (August 2025).

3.2. The Importance of Expenditure Profiles

Profiling public expenditure (spending) is an important process as it shows Government's capacity to accurately budget. Variance from profile may indicate that Government's overall budgetary projections are poor quality, indicating that additional funding may be required. Accurate profiling of spending requires that the future costs of maintaining existing levels of service (ELS) be robust (see p.67), alongside the costing of any new measures a Government seeks to implement.

However, profiles of spending cease to be meaningful in periods of crisis. As such, variance from profiles during the pandemic are a natural consequence of such a period of uncertainty.

Historically, early each year the profiles of expenditure were published. These outlined the anticipated levels of spending at the end of each month for the coming year. Specifically, these expenditure profiles were published in a document called the Exchequer Borrowing Requirement Profiles, the last of which appears to have been published in 2019.[90] While these profiles of spending are still developed, they are no longer published at the start of each year but instead published in a drip-fed format through the Fiscal Monitor publication. These profiles are then subject to revision later in the year – which can obscure the full extent of deviation from the original budgetary plan. Figure 24 above clearly shows this, with variance in December tending to dip downwards not because of a reduction in spending against profile, rather because of the upward revision of the profile.

This issue has also been noted by the Irish Fiscal Advisory Council. The PBO agrees with their recommendation that "These monthly profiles for spending should be made publicly available."[91]

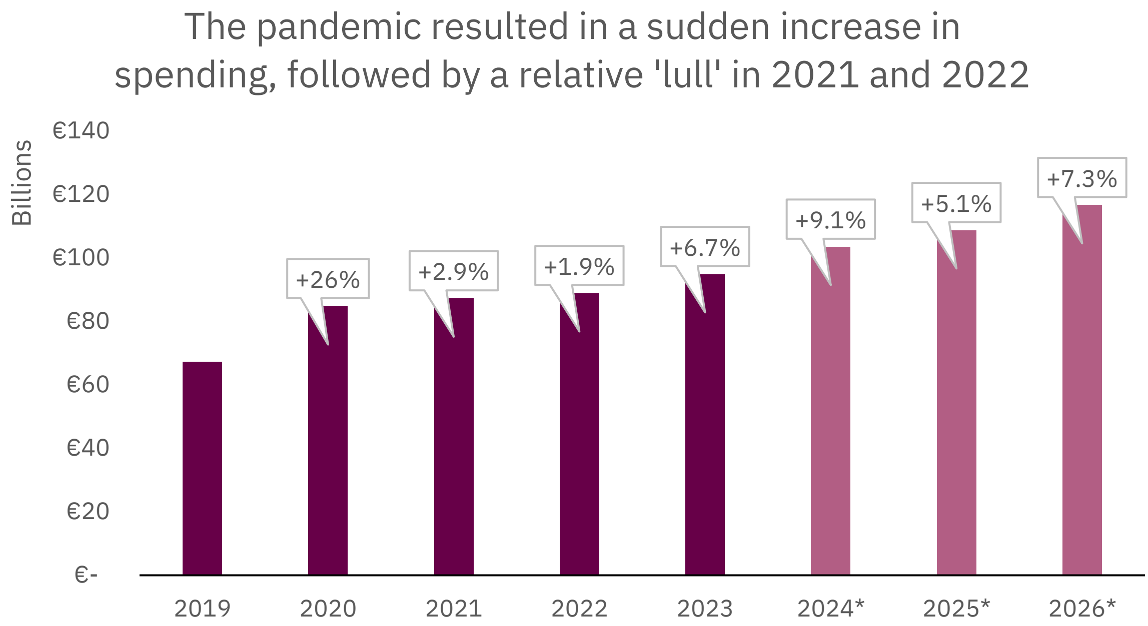
[90] Department of Finance, Exchequer Borrowing Requirement Profiles (March 2019).
[91] Irish Fiscal Advisory Council, Fiscal Assessment Report: June 2025 (June 2025) p.17.

3.3. Recent Developments

Figure 25 shows how the pandemic resulted in a very significant year-on-year increase in gross voted spending. As significant resources were allocated to deal with the impacts of the pandemic, there appeared to be a relative flattening in the levels of gross spending during the period 2020 to 2022. However, gross spending has since resumed its growth trajectory.

Figure 25 shows the outturn spending for 2019 to 2023, with provisional figures for 2024, 2025 (inclusive of additional funding announced within the Summer Economic Statement), and the stated 2026 allocation.

Figure 25: Gross Voted Spending Trends



PBO based on Department of Public Expenditure, Infrastructure, Public Service Reform, and Digitalisation, 'Databank' (Accessed 08 September 2025), and Department of Finance and Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, Summer Economic Statement (July 2025).

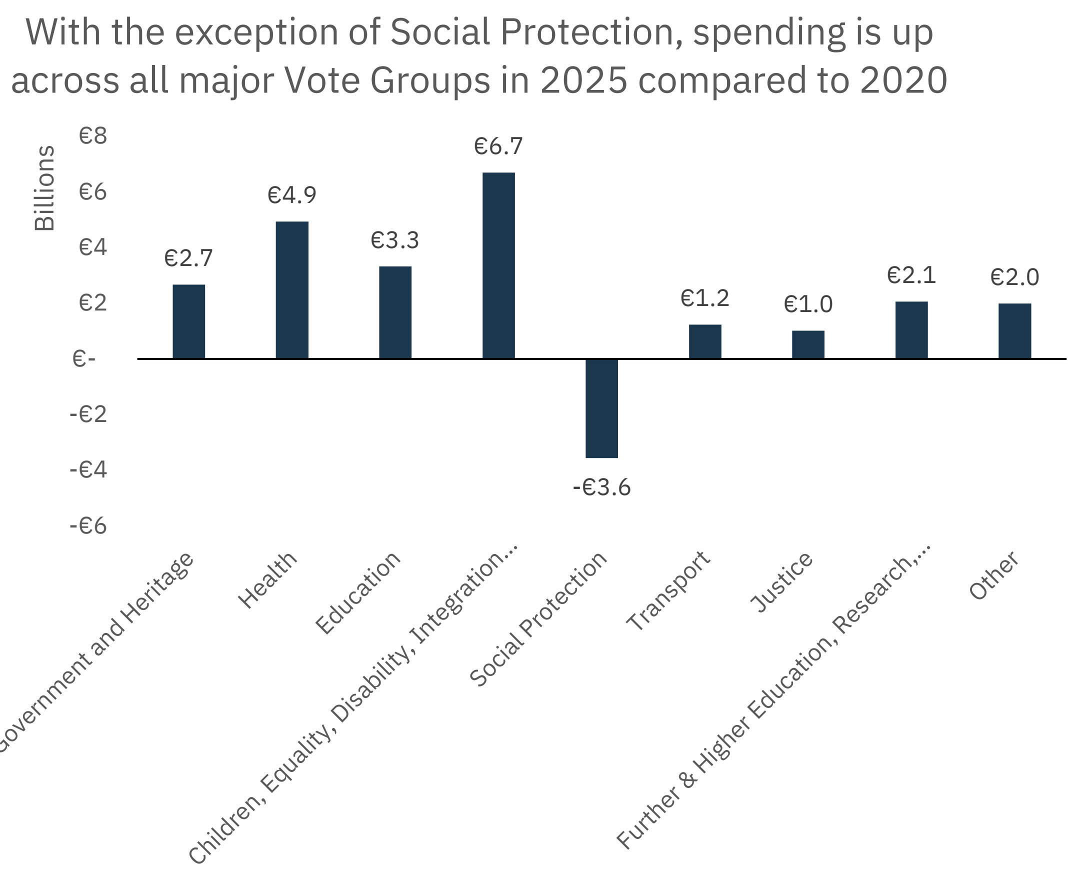
In 2025 the gross voted allocation is approaching €105.2 billion compared to €84.7 billion in 2020 (an increase of 24.1%).[92] As noted earlier in this paper, there will

[92] Compared to pre-pandemic spending, the 2025 gross voted allocation is 56.3% greater than the 2019 gross voted spending outturn.

likely be additional spending in 2025 over and above the ~€105.2 billion allocated (see Figure 23 and Figure 24). These increases would result in spending reaching 28.3% above 2020 levels. Currently the total anticipated spending is approximately €108.7 billion; however, due to the lack of detail as to which Vote Groups are in receipt of this additional funding, the following discussion focuses on the ~€105 billion for which this detail is available.

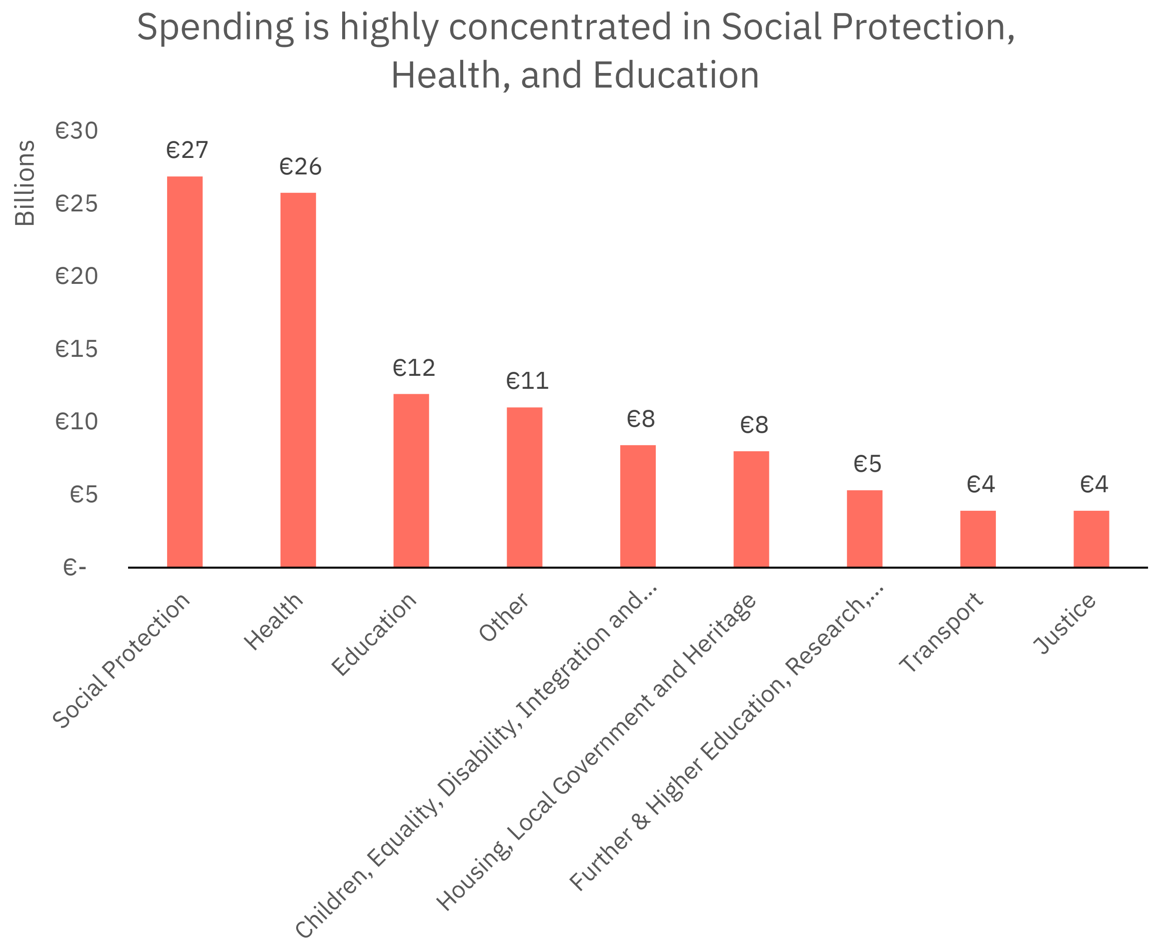
Figure 26 shows the change in gross voted spending across major Ministerial Vote Groups between 2020 and 2025, with other less financially significant Vote Groups bundled together as 'Other'. In this time period some structural changes have occurred within Votes, in particular, disability spending that previously took place through the Health Vote was moved to the Children, Equality, Disability, Integration and Youth group (CEDIY). In effect, part of the increase in spending under the CEDIY vote group is in respect of healthcare services provided by the Health Service Executive.

Figure 26: Vote Group Gross Spending 2020 vs 2025



Source: PBO based on Department of Public Expenditure, Infrastructure, Public Service Reform, and Digitalisation, '[Databank]' (Accessed 08 September 2025).

Figure 27: Composition of Spending



Source: PBO based on Department of Public Expenditure, Infrastructure, Public Service Reform, and Digitalisation, 'Databank' (Accessed 08 September 2025).

Figure 27 shows that spending is highly concentrated within a small number of the 18 total Ministerial Vote Groups. Health and Social Protection (including the Social Insurance Fund) combined make up 50.1% of the gross government expenditure allocation in 2025. While spending in all areas must be scrutinised, this demonstrates how heavily spending performance in these areas can affect the overall end-year position.

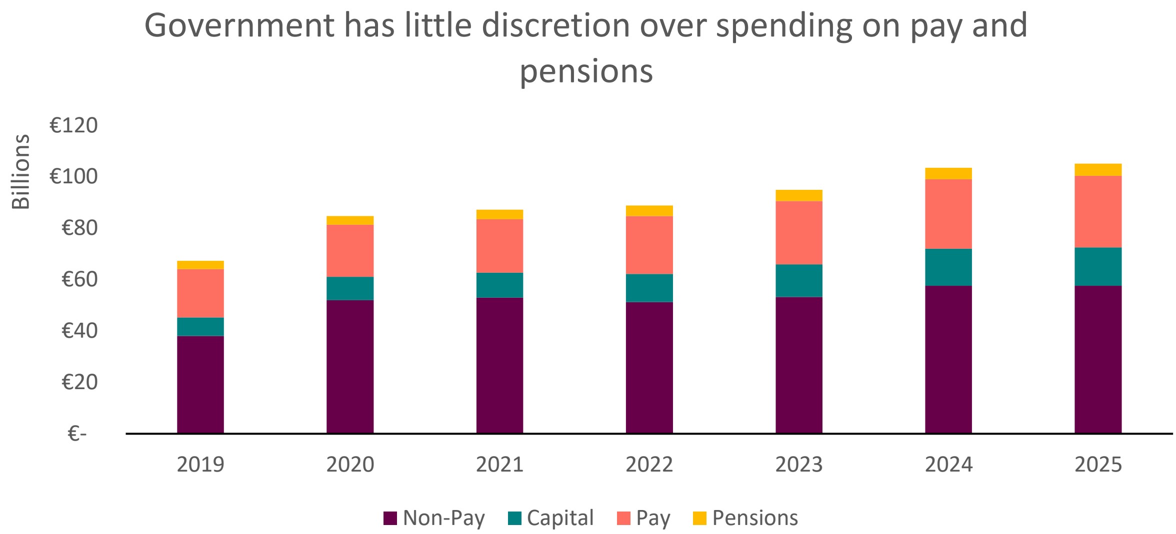
3.4. Composition of Spending

Spending is comprised of current and capital spending.[93] Current spending is itself commonly broken down into spending on pay, pensions, and non pay. Non pay current spending is generally associated with the general costs of the provision of public services.

Government has most discretion in how it allocates non-pay resourcing; however, fiscal consolidation can result in reductions to capital spending. Pay and pension spending may be affected in more extreme cases of fiscal consolidation.[94] Figure 28 shows spending for the period 2019 to 2025.[95] It highlights that considerable proportions of gross voted spending are subject to relatively limited discretion. Even so, discretion over non-pay current spending is limited as much of this 'rolls over' from year-to-year to maintain existing services. As such, discretion over spending tends to be limited to marginal changes.

[93] See PBO, An Overview of Current and Capital Spending within Government Expenditure (2023).
[94] Jacopo Bedogni and Keith Fitzgerald, Revenue volatility and the role of the Rainy-Day Fund: Potential mechanisms for identifying and setting aside excess receipts (Parliamentary Budget Office, 2020) p.7.
[95] Spending in 2024 and 2025 is provisional.

Figure 28: Composition of spending 2019 to 2025

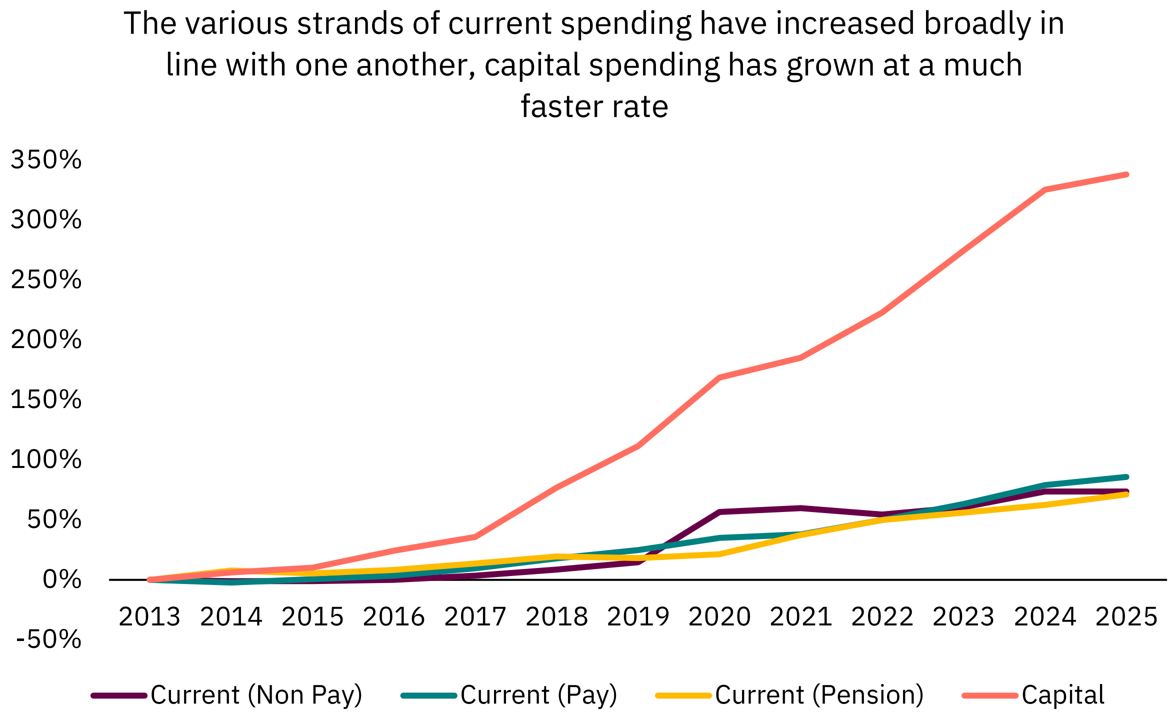


Source: PBO based on Department of Public Expenditure, Infrastructure, Public Service Reform, and Digitalisation, 'Databank' (Accessed 08 September 2025).
Note: 2024 and 2025 spending figures are not final.

Figure 29 shows the rate of growth in gross voted spending compared to 2013 levels. Spending has grown at similar rates for pay and pensions over the period. A short-term spike to current non-pay spending happened in 2020 and 2021 as funds were allocated to the pandemic response. Spending on current non-pay has since returned to similar levels of growth as current pay and current pension spending.

Notably, spending on capital has grown very significantly over the period. In part, this reflects a collapse in spending on capital prior to 2013. As such the growth in capital spending reflects the legacy of fiscal consolidation of the preceding years.

Figure 29: Rate of Growth in Spending, by component, 2013-2025



Source: PBO based on Department of Public Expenditure, Infrastructure, Public Service Reform, and Digitalisation, 'Databank' (Accessed 08 September 2025).

The majority of government spending is not truly discretionary. Government tends to have little true freedom to allocate funding as it sees fit, as much funding is already committed to maintain existing public services at levels of delivery and quality that are expected by the electorate.

As such, the budget process often has an incremental focus i.e., on the relatively small amounts of change at the margins. As such, a disproportionate focus of many stakeholders is placed on new changes, while relatively little attention is given to the 'rolling over' of previous funding decisions. As such, stakeholders often focus on the tip of the iceberg, ignoring the vast amounts of spending previously committed, and rarely investigate the ongoing merits of those previous spending decisions.

Reviews of expenditure aim to consider existing spending choices and provide an evidence base to make choices. The PBO's recent paper on the Spending Review process highlights that the aim of the Spending Review process is to improve how

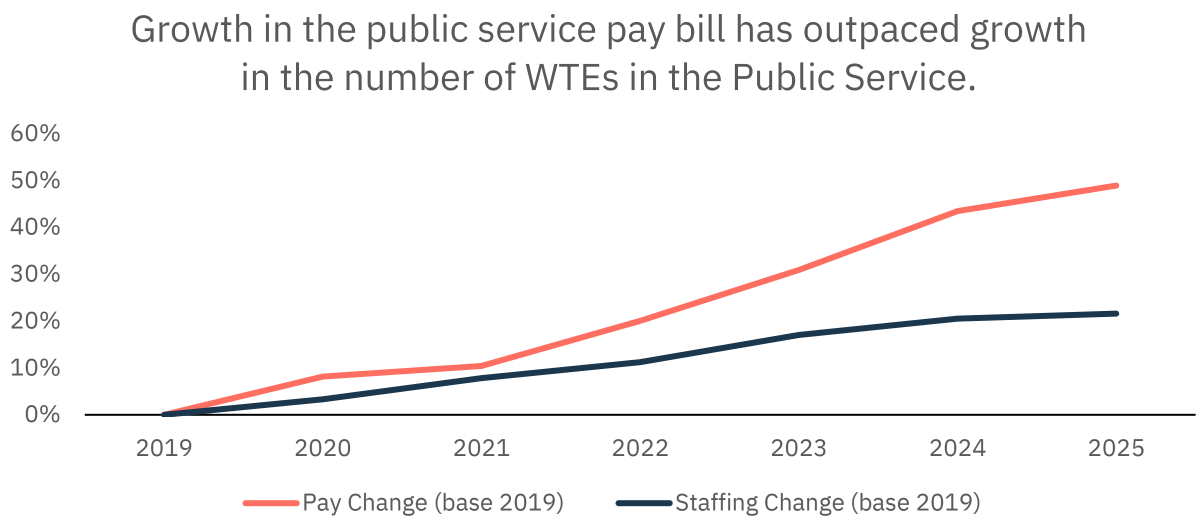
Ireland’s public finances are allocated across Government. It seeks to do this by assessing the efficiency and effectiveness and sustainability of public spending in meeting policy objectives. It supports using available data and evidence to continue policy interventions, or initiate reforms of programmes if appropriate to achieve the stated outcomes. Spending Reviews may involve identifying areas where savings may arise or reprioritising spending for alternative programmes. Overall, the Spending Review process is a tool that is aimed at maximising the policy impacts from the resources available to a government[96]. The Spending Review process is under review and very limited papers have been published in 2024 or 2025. This means it is unclear what process to review expenditure is in place and means that the evidence base is not publicly available if needed in future.

[96] PBO 2025, Ireland's Spending Review Process 2017-2023

3.4.1. Public Sector Pay and Staffing

Figure 30 shows that in broad terms public sector pay is increasing at a faster pace than overall public sector employment (Whole Time Equivalents / WTEs).

Figure 30: Changes in Public Sector Employment and Pay (base Q4 2019)



Source: PBO based on Department of Public Expenditure, Infrastructure, Public Service Reform, and Digitalisation, 'Databank' (Accessed 08 September 2025).
Note 1: 2024 and 2025 figures for pay spending are not final. The pay figure used from the above source is not inclusive of all sub-sectors of the public sector (e.g., Local Authorities).
Note 2: Staffing figures are for Q4 for each year except 2025 (which has Q2 data). Staffing includes all sub sectors of the public sector.

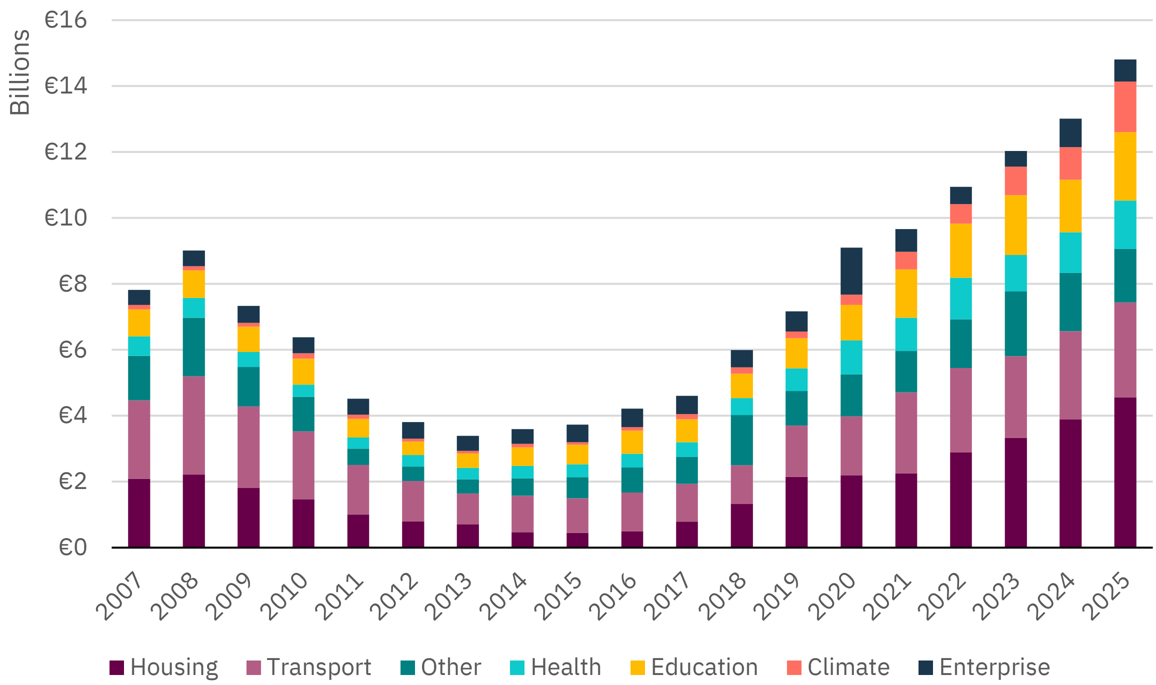
A more detailed examination of public sector pay is required to draw more nuanced conclusions; however, it is likely there are additional factors over and above increases in levels of compensation.[97] For example, over this period the number of WTEs employed in the Health sector has grown by 24.5%. This sector is often associated with irregular working patterns (which result in overtime / elevated rates of pay) as well as having a considerable proportion of highly skilled and educated workers (again increasing pay pressures).

[97] For discussion of such issues see Parliamentary Budget Office, The Irish Public Sector: An Overview of the Composition of the Public Sector, and of the Development of Exchequer Funded Public Sector Pay (2021).

4. Capital allocations

As noted above, capital allocations have increased substantially in recent years – though these increases are built on a very low base. Figure 31 shows the volatility and share of total capital spending between 2007 and 2024, broken down to highlight the major spenders. The majority (75%) of in-year capital spending over this time was typically focussed across four Departments/Votes – Housing, Transport, Education and Health. It should be noted that capital funding for water and sanitation projects fall under the Housing allocation while public transport investment, road building/maintenance, and active travel investment all fall under the Transport allocation.

Figure 31: Capital spending by Vote, 2007 to 2025



Source: [DPER Databank, Revised Estimates for Public Services 2025,](#) and PBO Calculations
Note: 'Other' includes all other Government Departments.

Despite the significant proportion of the total capital budget directed to these departments, they represent the areas where a deficit in infrastructure is perhaps most acutely felt by and visible to the public, such as the low housing availability, limited public transport, or a lack of hospital beds.

4.1. National Development Plan 2021-2030

The National Development Plan (NDP) 2021-2030 set out the high-level goals and capital ceilings for the state's major infrastructure investment plans for the decade.[98] Seeking to address the "opportunities and challenges" faced by Ireland relating to "Covid-19, Brexit, housing, health, and climate action", as well as a projected population growth of 1 million people between 2016 and 2040.[99] Approximately €165 billion in Exchequer and non-Exchequer expenditures were provided for in the plan.

While Exchequer capital spending over the first five years of the plan was broadly in line with allocations, missed targets around housing delivery,[100] delays and overspends on large capital projects,[101] capacity issues in the energy grid,[102] pressures on the water system,[103] and slow roll out of public transport projects have highlighted the deficiencies in Ireland's infrastructure delivery.[104] Furthermore, a period of high inflation leading to upwards pressures on construction costs alongside population growth at much higher levels than originally planned for in 2021 resulted in the need to revise the NDP for the remainder of the decade.

[98] National Development Plan 2021-2030, Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, 2021.
[99] Ibid. page 4
[100] Capacity constraints and Ireland's housing supply, Library & Research Services, 2025.
[101] June 2026 before National Children's Hospital treats patients, committee told, RTE, May 2025.
[102] All-island resource adequacy assessment 2025-2034, EirGrid, 2025.
[103] Water scarcity, Climate Ireland (EPA), 2023.
[104] Public Transport Projects Active List, Transport Infrastructure Ireland, (accessed August 2025).

4.2. Revised National Development Plan 2026-2035

The Revised NDP has set out the headline capital allocations from 2026-2035 and revised departmental capital ceilings to 2030.[105] When comparing the two plans, the scale of the revised allocations is significant. Over the period 2026-2030, the state intends to spend an additional €40.93 billion (45%) above what was proposed in the original plan. Table 1 sets out the allocations from both plans along with the monetary and percentage changes for each year and the five-year totals.

Table 1: Comparison of NDP capital funding 2026-2030 (€ billions)

	2026	2027	2028	2029	2030	Total
Capital funding set out in NDP 2021-2030						
Exchequer	14.2	14.9	15.4	15.9	16.4	76.8
Non-Exchequer	2.9	2.9	2.9	2.9	2.9	14.5
Total	17.1	17.8	18.3	18.8	19.3	91.3
Capital funding set out in revised NDP 2026-2035						
Exchequer	19.1	20.3	21	21.4	20.7	102.5
Non-Exchequer	5.35	5.52	5.56	6.65	6.65	29.73
Total	24.45	25.82	26.56	28.05	27.35	132.23
€ change in funding 2026-2030						
Exchequer	4.9	5.4	5.6	5.5	4.3	25.7
Non-Exchequer	2.45	2.62	2.66	3.75	3.75	15.23
Total	7.35	8.02	8.26	9.25	8.05	40.93
% change in funding 2026-2030						
Exchequer	35%	36%	36%	35%	26%	33%
Non-Exchequer	84%	90%	92%	129%	129%	105%
Total	43%	45%	45%	49%	42%	45%

Source: NDP 1, NDP 2, PBO own calculations

[105] National Development Plan Review 2025, Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, 2025.

4.2.1. Revised capital ceilings

The exchequer funded capital ceilings for the vote groups were published in the revised NDP. While there have been some reallocations of functions between the various vote groups, all areas have been provided with a ceiling increase for the second half of the decade. The Housing (including water) and Transport vote groups have been provided the largest ceiling increases at €18.4 billion and €9.3 billion, respectively. Perhaps notably, the Justice vote group sees it’s 5-year ceiling increase by ‘only’ €828 million to €2,180 million despite the potential for increased capital costs relating to reception and accommodation for international protection seekers as required under the EU migration pact.[106,107]

[106] Common Implementation Plan for the Pact on Migration and Asylum. EU Commission, 2024.
[107] Department of Justice, Brief on Ireland’s National Implementation Plan for the EU Migration and Asylum Pact, 2025

Table 2: New voted capital ceilings by Vote group 2026-2030 (€ millions)

Vote Groups	2021-2025	2026-2030	Difference
Agriculture, Food and the Marine	€1,413	€1,625	€212
Children, Disability and Equality	€255	€795	€540
Climate, Energy and Environment	€4,179	€5,640	€1,461
Culture, Communications and Sport	€1,004	€2,220	€1,216
Defence	€697	€1,700	€1,003
Education and Youth	€4,372	€7,550	€3,178
Enterprise, Tourism and Employment	€2,708	€3,680	€972
Finance	€107	€116	€9
Foreign Affairs and Trade	€113	€200	€87
Further and Higher Education, Research, Innovation & Science	€2,889	€4,550	€1,661
Health	€5,657	€9,250	€3,593
D/HLGH (Housing)	€17,564	€35,955	€18,391
Justice, Home Affairs and Migration	€1,352	€2,180	€828
Public Expenditure, Infrastructure, Public Service Reform and Digitalisation	€1,462	€1,962	€500
Rural and Community Development and the Gaeltacht	€962	€1,329	€367
Social Protection	€81	€226	€145
Transport	€13,001	€22,330	€9,329
Shared Island Fund	€500	€990	€490
European Regional Development Fund	€400	€100	-€300

Source: NDP 1, NDP 2, PBO own calculations
Note: Additional non-Voted exchequer funding of €15 billion for the period 2026-2030 was announced within the NDP Review. The timing and specific sectoral allocations was not fully laid not for the years 2026-2030. For example, €2 billion from the Infrastructure, Climate and Nature Fund has been allocated to the Metrolink project out to 2030. For more information see the National Development Plan Review 2025 (July 2025) p.28.

5. Tackling the infrastructure deficit

Ireland's infrastructure has long struggled to meet the demands of a growing population and economy. Rapid economic growth between 1993 and 2008 propelled Ireland from a low- to high-income country, but this transition left limited time to develop the capacity needed to deliver infrastructure at the scale required for a wealthier nation.

As highlighted in the Irish Fiscal Advisory Council's 2024 report, Ireland's capital stock has consistently lagged the EU average on a per capita basis.[108] Although successive governments have made efforts to close this gap, the legacy of underinvestment—particularly during the post-2008 austerity period—has left a substantial infrastructure deficit.

Challenges in delivering infrastructure across key sectors—housing, health, education, water, energy, and transport—have persisted for years. However, public scrutiny and policy attention have intensified recently, reflecting growing concern over Ireland's ability to address these longstanding issues. The IMF's 2025 staff report underscored infrastructure deficiencies as a major threat to Ireland's future competitiveness and economic growth.[109]

5.1. What is an 'infrastructure deficit'?

An infrastructure deficit refers to the gap between the infrastructure a country currently has and the infrastructure it needs to support economic growth, social development, and environmental sustainability.[110] This can include shortfalls in

- Transport (e.g. roads, railways, ports)
- Energy (e.g. power generation, transmission)

[108] Ireland's Infrastructure Demands, Irish Fiscal Advisory Council, 2024.
[109] Staff Country Report: Ireland, International Monetary Fund, 2025.
[110] Infrastructure Deficit in Land Transport Infrastructure in India, Economic Advisory Council and the Institute for Competitiveness, 2024.

- Water and sanitation
- Digital infrastructure (e.g. broadband, mobile networks)
- Public facilities (e.g. schools, hospitals)

It can be measured in terms of quantity (i.e., insufficient levels of infrastructure) or quality (i.e., the existing infrastructure is outdated or poorly maintained).

An infrastructure deficit poses significant challenges across multiple dimensions of development. It constrains economic growth by increasing costs for businesses, reducing productivity, and limiting access to markets. At the same time, it diminishes quality of life, as inadequate water, sanitation, healthcare, and transport systems directly impact public health and well-being.[111] These deficits also tend to worsen inequality, disproportionately affecting rural and low-income communities and deepening existing social divides.[112] Furthermore, outdated or insufficient infrastructure limits a region's ability to withstand climate-related shocks such as floods or storms, thereby reducing climate resilience.[113] Finally, infrastructure gaps discourage investment, as investors are less likely to commit capital in areas where basic systems are unreliable or underdeveloped.[114]

[111] Flush with multinational money, Ireland struggles to close infrastructure gap, Reuters, September 2024.
[112] The impact of infrastructure to enterprise in the North-West region, Department of Enterprise, Tourism, and Employment, 2024.
[113] Storm Éowyn exposed Ireland's infrastructure deficits. Now it's time to act, The Irish Times, April 2025.
[114] Addressing the global infrastructure deficit—Can we rely on institutional investors?, | International Institute for Sustainable Development, 2015.

5.2. What causes an infrastructure deficit?

A deficit can arise due to several factors and may result from a confluence of issues rather than from one single cause.

5.2.1. Fiscal issues

A steady and consistent decline in Government capital spending on public infrastructure can lead to underinvestment in key areas that takes a number of years to manifest. Inflationary pressures that increase the cost of delivering or building infrastructure means that fewer outputs are achieved, despite continued investment.[115]

5.2.2. Regulation and planning

Bottlenecks in the planning and regulatory system may delay essential projects from progressing at sufficient pace. This can lead to projects being delayed – increasing the costs and reducing the public good that can be derived from delivery – or even lead to future projects being 'shelved' due to concerns over their viability.[116]

5.2.3. Demographics

Changes in the population – in terms of size and composition – will impact a country's infrastructural requirements. Having access to reliable forecasts for the size and make-up of a country's population is a key component when developing infrastructure plans. Even when sufficient capital investment is being made, it must be optimised to deliver the right projects in the right locations at the right time.[117]

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[115] The Infrastructure Deficit, Policy Paper, New America, 2011
[116] Ireland's Infrastructure Demands, Irish Fiscal Advisory Council, 2024.
[117] Using population data to inform infrastructure investment, Consumer Data Research Centre, 2024.

5.3. Reducing the deficit and the constraints

While the government has committed substantial funding through the National Development Plan (NDP), the ability to translate this investment into timely and effective infrastructure delivery is constrained by several structural and economic factors.

5.3.1. Labour supply constraints

Access to sufficient levels of skilled labour in the construction sector is essential to delivering on infrastructure plans - particularly when it comes to housing construction.[118] The Fiscal Council have estimated that Ireland would require about 240,000 construction workers over the next decade to meet its infrastructure needs.[119] This level of employment was last seen in 2007 when the sector was at its peak before the financial crash.[120] While employment in the sector has remained mostly flat since 2021 (fluctuating between c.160k-170k), Q2 2025 saw year-on-year employment growth of 29,600 construction workers (+18%) with approximately 190,000 workers now employed in the sector.[121]

However, the Construction Industry Federation (CIF) had argued that "planning and infrastructure barriers, not labour shortages" are larger issues for the delivery of capital projects.[122] In their view "government needs to urgently unlock land, increase planning efficiency and provide multiannual funding for critical infrastructure" especially in relation to the delivery of housing.[123]

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118 ESRI, Quarterly Economic Commentary, Summer 2025, 2025
119 Ireland's Infrastructure Demands, Irish Fiscal Advisory Council, 2024.
120 CSO, QLF03, August 2025.
121 Ibid
122 Planning and infrastructure barriers, not labour shortages, undermine housing delivery, Construction Industry Federation, July 2025.
123 Ibid

As a greater number of essential and substantial projects are progressed, it is likely that a combination of both access to labour, planning reform, and access to finance will all be essential.

5.3.2. Inflationary pressures

Ireland's economy is currently operating close to full capacity, with record employment and low unemployment rates.[124] In such an environment, increased capital investment risks fuelling inflation rather than stimulating growth. IFAC warns that without offsetting measures—such as reallocating existing spending or increasing taxes—additional infrastructure investment could exacerbate inflationary pressures.[125]

Recent data from the Central Statistics Office (CSO) show that headline inflation in Ireland has stabilized at just under 2% with construction inflation in 2024 slightly above this figure at 3%.[126],[127] The construction sector is particularly vulnerable to cost escalations due to global supply chain disruptions and commodity price volatility, which have led contractors to inflate bids to hedge against uncertainty.[128]

5.3.3. Maintaining infrastructure

Investing in physical infrastructure—such as transport networks, hospitals, or schools—is only the beginning. To ensure these assets continue delivering reliable services, ongoing maintenance is essential.

Infrastructure is designed to meet specific performance standards. However, over time natural wear and depreciation begin to affect performance and quality.[129]

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124 Ireland's Infrastructure Demands, Irish Fiscal Advisory Council, 2024.
125 Ibid.
126 Consumer Price Index July 2025, CSO, 2025.
127 Tender Price Index, SCSI, 2025.
128 Ireland's Infrastructure Demands, Irish Fiscal Advisory Council, 2024.
129 International Monetary Fund , Well Spent: How Strong Infrastructure Governance can End Waste in Public Investment, 2020

Without regular upkeep—through protection and renewal—assets deteriorate faster, leading to reduced service levels and higher long-term costs.

To avoid this decline, governments must allocate sufficient funding for "steady state" maintenance.[130] This refers to the investment required to keep infrastructure at its current condition, preventing both significant deterioration and unnecessary upgrades. It's a baseline commitment that ensures public assets remain functional and safe.

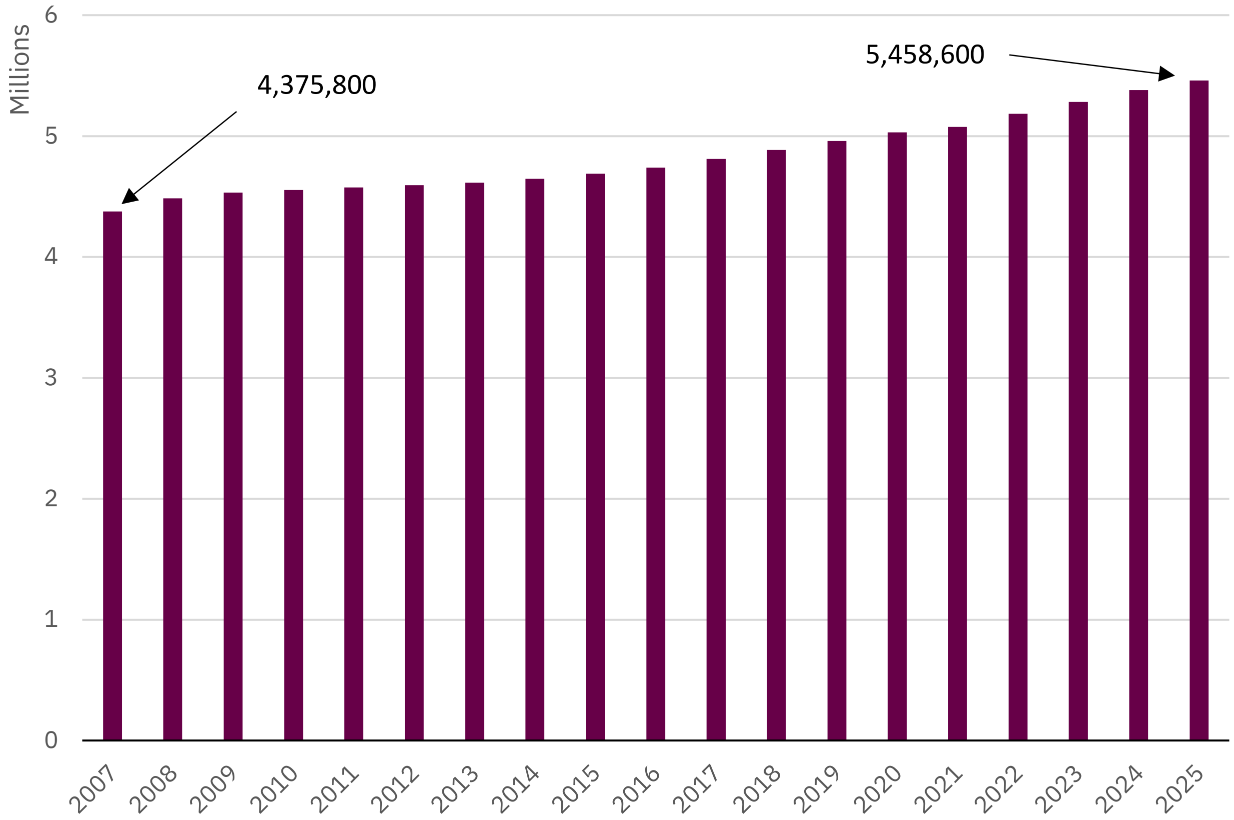
Preventative maintenance is not only more cost-effective than major rehabilitation or rebuilding, but it also delivers better value for public money.[131] By acting early, governments can extend asset lifespans, reduce service disruptions, and avoid the financial and social costs of infrastructure failure.

5.3.4. Population change

Ireland's population continues to grow, driven by strong net inward migration and natural increases. Since 2007, the total population is estimated to have increased by almost 1.1 million people (figure 32). Between 2016 and 2025 alone, the population is estimated to have increased by 739,000 people, reaching almost 5.46million.[132]

[130] Department of Transport, Protection and Renewal of the Regional and Local Road Network, 2023
[131] Department of Transport, Protection and Renewal of Ireland's Road and Railway Network, 2021
[132] Population and Migration Estimates, April 2025, CSO, 2025.

Figure 32: Ireland's population 2007-2025



Source: CSO, Population and Migration Estimates, August 2025 (2025)

Projections from the CSO suggest that the population could exceed 6.1 million by 2040 under baseline scenarios, with even higher growth possible under high migration assumptions.[133]

This demographic expansion places significant pressure on existing infrastructure. As referenced in the PBO's pre-Budget 2025 report, the scenarios underpinning the demographic projections – on which the National Planning Framework (NPF) and infrastructure plans are based – are possibly underestimating the potential for population growth when compared to historic trends.[134] Furthermore, while the 2018 NPF outlined the expectation that Average Household Size (AHS) in Ireland

[133] Regional Population Projections 2023-2042, CSO, 2025.
[134] Pre-Budget Commentary 2025, PBO, 2024.

would decline to around 2.5 people per household by 2040,[135] no AHS expectation or target was outlined in the 2025 Revision to the National Planning Framework.[136] Reliable and dynamic population forecasting is therefore essential for effective infrastructure planning and investment prioritisation. Recently published revised population forecasts out to 2065 do acknowledge that higher levels of growth may occur in the coming years than those used to underpin the NPF. However, these new forecasts will not be used to revise the NPF or Project Ireland 2040. Instead, the report suggests that "it would be prudent, at least in the short-to-medium run, to prepare contingency plans for a high-case migration scenario".[137]

Balancing the need to target investment to those that require it today while also being conscious of the long-term needs of the population is complex. With an aging population and declining birth rate the populations' needs in the coming years will shift - though this should not result in the prioritising of one group's future needs over another's more immediate ones.

5.3.5. Financial risks associated with an undersupply of housing

5.3.5.1. Business competitiveness risk

Infrastructural bottlenecks such as housing shortages can damage labour supply, foreign direct investment (FDI), and competitiveness.[138,139,140] The availability of housing impacts on the ability of employers to attract and retain talent, meet wage demands,[141] and offer a high quality of life to employees.

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[135] Project Ireland 2040 ‘National Planning Framework’ (2018) p95.
[136] ‘Final Draft Revised National Planning Framework’ (2025) p90-94.
[137] Department of Finance, Future Forty: Ireland's demographic outlook, (2025) p60.
[138] NCPC (2025) ‘Ireland’s Competitiveness Challenge 2025’.
[139] IDA Ireland (2025) ‘Adapt Intelligently: A Strategy for Sustainable Growth and Innovation 2025-29’.
[140] NCPC (2025) ‘Retrospective Review, 2020-2023’ p28.
[141] OECD (2025) Economic Survey of Ireland 2025, p84.

Housing shortages may also affect labour mobility, with workers being less able to move to find jobs that match their skills.[142]

5.3.5.2. Ageing population and pension cost risk

Renter households transitioning to retirement face financial challenges, given ongoing rent payments and the absence of the financial cushion traditionally provided by homeownership. For instance, in 2023 almost 32,000 households where the main claimant was aged 50 or over were either on a social housing waiting list or currently in HAP supported rental accommodation. Furthermore, more than half of these households were identified as 'single' and likely living alone. The difficulty in securing affordable mortgage finance and the unsustainability of renting into older age increases the likelihood these households will require state support for their housing needs in both the immediate and long term.[143] The decline of homeownership rates amongst younger age cohorts has the potential to impact on future poverty rates. Alternatively, in the future, it may require additional income supports to be provided to households with inadequate incomes, which may be fiscally costly for the State and may shift financial risk onto taxpayers.[144,145]

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[142] Vladyslav (2011) 'Housing Market and Labor Mobility'.
[143] PBO, Social Housing - Ongoing Need 2023, (2024).
[144] Slaymaker et al (2022) 'Future trends in housing tenure and the adequacy of retirement income'
[145] See the Pensions Council observations (2023)

6. Existing Levels of Service (ELS)

6.1. The Importance of ELS Estimates in the Budget Process

Key drivers of public expenditure increases include demographic factors such as an ageing population as well as non-demographic factors such as price pressures.[146] The estimated additional expenditure required to maintain current levels of public services into the future accounting for these drivers of expenditure, is commonly referred to as 'existing levels of service' (ELS). ELS expenditure only accounts for the maintenance of current service levels, accounting for demographic changes and price pressures. It does not account for any envisioned improvement in the level of service. Furthermore, estimated required ELS expenditure increases assume no policy changes.

6.2. Current ELS Estimation Practices

6.2.1. The Budget

The Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation (DPEIPSRD) outlines the ELS provisions for Departments in its annual Budget Expenditure reports.[147] These ELS provisions have been determined as part of the annual budget negotiation process.[148] This is as opposed to being transparently estimated, and set in advance, over the short to medium term. Expenditure on ELS in the annual Budget Expenditure Report is listed under the categories of 'Pay Deal Impact', 'Carry over', 'Other ELS', and 'Demographics'.

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[146] Ulla, P., (2006) "Assessing Fiscal Risks Through Long-term Budget Projections" OECD Journal on Budgeting
[147] DPEIPSRD Budget Expenditure Report 2025
[148] DPEIPSRD Mid-Year Expenditure Report 2024 p. 28

'Pay Deal Impact' refers to the expenditure increases as a result of the existing central public service pay agreements. This category of ELS expenditure is obviously only included during a period of public sector pay agreement implementation.

'Carry over' refers to the rollover costs of measures implemented in the previous year's budget decisions into the following year. This is due to the fact that the full costs of these new measures may roll into the following year in the Estimates process if a scheme or policy change is only due to start after January in the year first introduced.[149]

The **'Other ELS'** category is not accompanied by any definition of what this ELS provision contains. However, it represents a substantial portion of Departments' ELS allocation with an average of 45% in Budget 2025, reaching as high as 92% of the Department of Rural and Community Development's ELS allocation.

'Demographics' refers to the "adjustment in expenditure as the size and demographic composition of our population changes".[150] ELS funding for demographic change is provided to the Departments of Children, Equality, Disability, Integration and Youth, Education[151] and Social Protection. With regard to the Department of Health - overall ELS funding is provided as part of a two-year health funding agreement in recognition of the cost pressures arising from a growing and ageing population and price increases, among other factors. However, there is not a breakdown of the provision for each component. Across the Departments, there is no reference to any evidence base for the ELS demographic provisions. Previously, published work by the Irish Government Economic and Evaluation Service (IGEES), 'Budgetary Impact of Changing Demographics' (2016,

[149] DPEIPSRD Budget Expenditure Report 2025 p. 25
[150] DPEIPSRD Budget Expenditure Report 2025 p. 25
[151] Department of Further and Higher Education, Research, Innovation and Science was allocated demographic increases in 2023, but not in 2024 and 2025.

2019[152]) was used "to inform demographic funding provided to these Departments on an annual basis through the Estimates process".[153] However, this evidence base is no longer cited post the Budget Expenditure Report 2020.

6.2.2. Medium- and Long-Term ELS Projections

The Department of Finance publishes medium-term and long-term projections in its publication – 'Population Ageing and the Public Finances in Ireland'[154] in the areas of Pensions, Health, Long-Term Care and Education. The Department of Social Protection publishes long-term social insurance income and expenditure projections in its Actuarial Review of the Social Insurance Fund.[155] Furthermore, accrued-to-date liability analysis is carried out by DPEIPSRD's on public service occupational pensions.[156] While it appears some of these reports do feed into Budget ELS provision estimates,[157] it could be made clearer through referencing, where appropriate, in the Budget Expenditure Reports.

6.2.3. Conclusion

The PBO has previously noted the lack of clarity and inconsistency in the Government's approach to reporting ELS provisions.[158] It is important that ELS provisions are arrived at in a **transparent**, and **evidence-based**, manner in order to enable Oireachtas members to fulfil their role in approving and providing oversight of the State's finances as well as to enable the Committee on Budgetary Oversight to conduct ex-ante scrutiny of budgetary matters.

[152] Connors, J., Moran, C., and Ivory, K., (2019) "Budgetary Impact of Changing Demographics from 2020-2030" Spending Review 2019
[153] DPEIPSRD Budget Expenditure Report 2020 p. 22
[154] Department of Finance Population Ageing and the Public Finances in Ireland 2021
[155] Department of Social Protection - Actuarial Review of the Social Insurance Fund 31 December 2021.
[156] DPEIPSRD - Actuarial Review of Public Service Occupational Pensions in Ireland 2024.
[157] Committee on Budgetary Oversight debate (2023).
[158] Parliamentary Budget Office, Existing Level of Service (ELS) Explained (2024).

Estimating required ELS expenditure also helps to identify the available fiscal space for new measures within existing spending limits, as well as the sustainability of ELS expenditure over the medium to long-term. The Irish Fiscal Advisory Council has previously recommended the incorporation of ELS estimates into broader macro forecasts over the medium-term in order to improve focus on medium-term budgeting.[159] The Fiscal Council provides its own ELS estimates ('Stand Still' costs) in their Fiscal Assessment Reports which suggest the Government is underestimating the cost of ELS over the medium term.[160]

Understanding the long-term cost implications of maintaining public services at a standstill requires developing an understanding of future demand for those services. From this, Government can better determine which areas will be required to generate increased productivity if fiscal sustainability is to be achieved, while at the same time providing the adequate space for new policy measures.

6.2.4. PBO Recommendations:

- The publication of a comprehensive official methodology for estimating required increases in ELS components across Departments covering the short, medium, and long-term.
- The integration of such transparent evidence-based ELS estimates into the annual budget process. While the PBO acknowledges the role of departmental negotiations in the allocation of funds across votes, ELS figures should ideally be informed by a transparent evidence base.
- The consistent presentation of ELS estimates, with clear breakdowns of components in the Budget Expenditure Reports. These provisions could reference the methodology document.

[159] Irish Fiscal Advisory Council, Fiscal Assessment Report: May 2022 (2022) pp.59-60.
[160] Irish Fiscal Advisory Council- Fiscal Assessment Report - June 2024. The methodology underpinning these estimates are provided in the Council's Long-term Sustainability Report.

- Comparing these long-term expenditure projections with long-term revenue projections in order to assess the long-term fiscal sustainability of the Public Finances.

7. Revenue

Tax receipts in the first eight months of 2025 exceeded those from the same period in 2024. From January to August 2025, €64.1 billion in tax revenue was collected, up by €4.4 billion (or 7.3%) on the same period last year. When excluding one-off receipts arising from the Apple state aid case, total receipts of €62.4 billion were collected, ahead of the same period last year by €2.6 billion (or 4.4%).[161]

7.1. Overview of the Irish tax system

For historical tax data, see a link to the PBO's recently published tax dashboard showing tax head compositions here.[162] This provides an overview of the tax base and how much each tax type contributes to State revenue, the role of different sectors of the economy in generating tax revenue, and the regional variation of tax receipts across Ireland.

The PBO also publishes a monthly Fiscal Monitor, which gives an overview of the current tax and spend data within 2025. The most recent dashboard is available here.

7.2. Risks applying to Corporation Tax and Income Taxes

The concentration of tax receipts is a pressing concern for public finances. Approximately 88% of total tax receipts are derived from income taxes (38%), corporation tax (27%), and VAT (23%). Notably, corporation tax and income tax are heavily concentrated among a small number of payers. Between 2019 and 2023, corporation tax receipts more than doubled, now standing at over five times their 2014 levels. In 2024, 59% of corporation tax receipts were paid by just 10

[161] Department of Finance (2025) 'Fiscal Monitor August 2025' p4.
[162] PBO (2025) 'Tax Receipts Dashboard'.

corporate groups.[163] This leaves a substantial portion of Irish revenue exposed to the fortunes and decisions of a few firms.[164]

7.2.1. Income Tax

Income tax receipts exhibit concentration. Ireland's progressive income tax system ensures that higher earners contribute a larger share of their income to public finances, aiding in reducing income inequality and funding essential public services. However, this system's reliance on a small group of high-income earners introduces vulnerabilities. The Tax Strategy Group (TSG) papers highlighted that in 2025, of an estimated 3,486,800 total taxpayer units,[165] the top 1% of taxpayer units (earning over €297,400) will contribute to 23.4% of the combined Income Tax and USC yield, while the top 5% of taxpayer units earning over €146,500 will contribute to 48% of the Income Tax and USC yield.[166] The top 20% of taxpayer units pay 79.1% of total income tax receipts.[167]

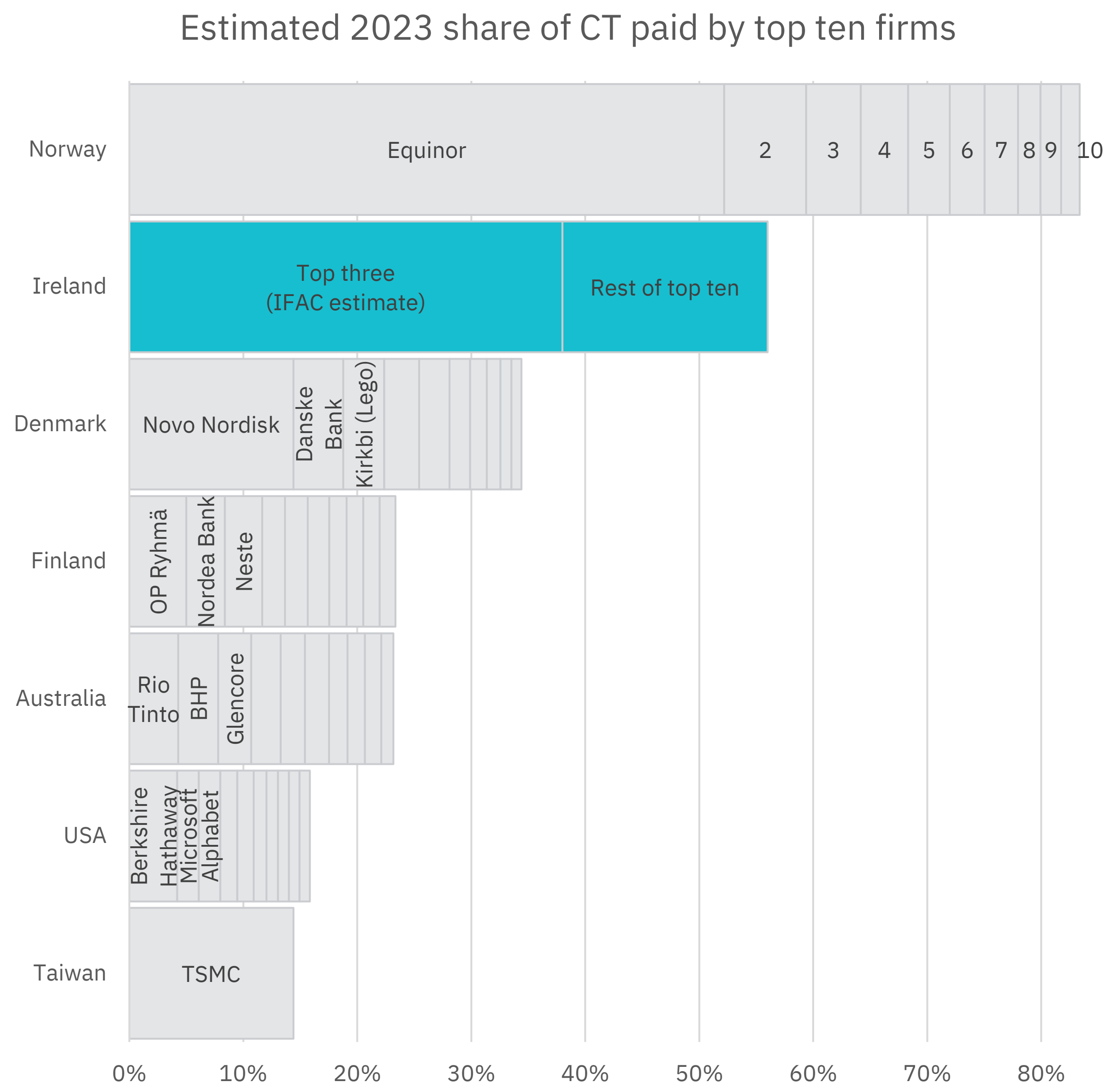
Foreign-owned MNC employments accounted for 57% of all corporate employment-related income tax and USC receipts in 2023, despite representing only 36% of corporate employments.[168]

7.2.2. Corporation Tax

As shown in Figure 33, the concentration of Ireland's CT receipts amongst the top ten taxpaying corporate groups appears to be above average.

[163] Revenue (2025) 'Corporation Tax – 2024 Payments and 2023 Returns' p8.
[164] Previous research by the Parliamentary Budget Office (PBO) has highlighted the volatility of these receipts, which can fluctuate significantly due to changes in global economic conditions and international tax rules. See PBO (2024) 'An analysis of corporation tax revenue growth'.
[165] A taxpayer unit is either an individual with any personal status who is singly assessed or a couple in a marriage or civil partnership who have elected for joint assessment, in which case they are counted as one taxpayer unit.
[166] Department of Finance (2025) ' Income Tax - Tax Strategy Group - 25/01' p13 & 21-22.
[167] Department of Finance (2025) ' Income Tax - Tax Strategy Group - 25/01' p13.
[168] Revenue (2025) 'Corporation Tax – 2024 Payments and 2023 Returns' p37-38.

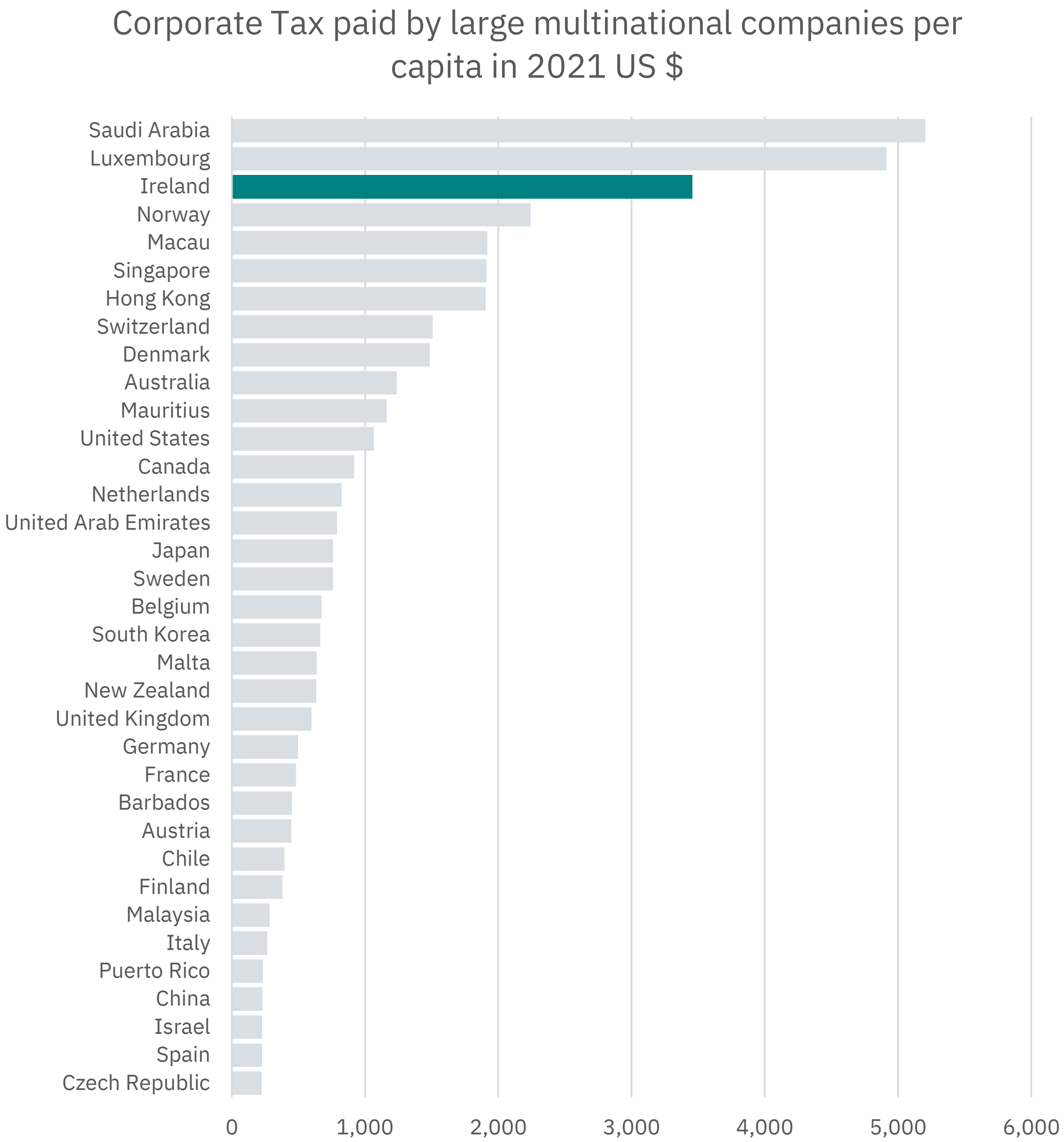
Figure 33: Estimated Share of Total Corporation Tax Receipts paid by the top ten largest corporate taxpayers/groups in 2023



Sources: Author's calculations as well as total CT paid figures from OECD Details of Tax Revenue, and Australian Bureau of Statistics. Top ten taxpayer data – Australian figures (including subsidiaries) from government website, Danish figures from Danish tax authority website, Ireland (IFAC Fiscal Assessment Report December 2024, p12 & Revenue 2024, p9), Finland (YLE-Finnish Broadcasting Company article 07/11/2024), *US figures are provisions for domestic tax from relevant Form 10-Ks (and are indicative figures as they may not align with the US government's fiscal year), Norway (Equinor 2024 Tax Contribution Report p25 & Kapital Magazine article 11/11/2024), and Taiwan (TSMC 2023 Sustainability Report, p199).

As can be seen Figure 34, on a per capita basis, Ireland receives amongst the highest levels of CT paid by large MNCs.

Figure 34: Top 35 jurisdictions for CT paid by large MNCs on cash basis per capita with annual global turnover of more than €750 million in 2021

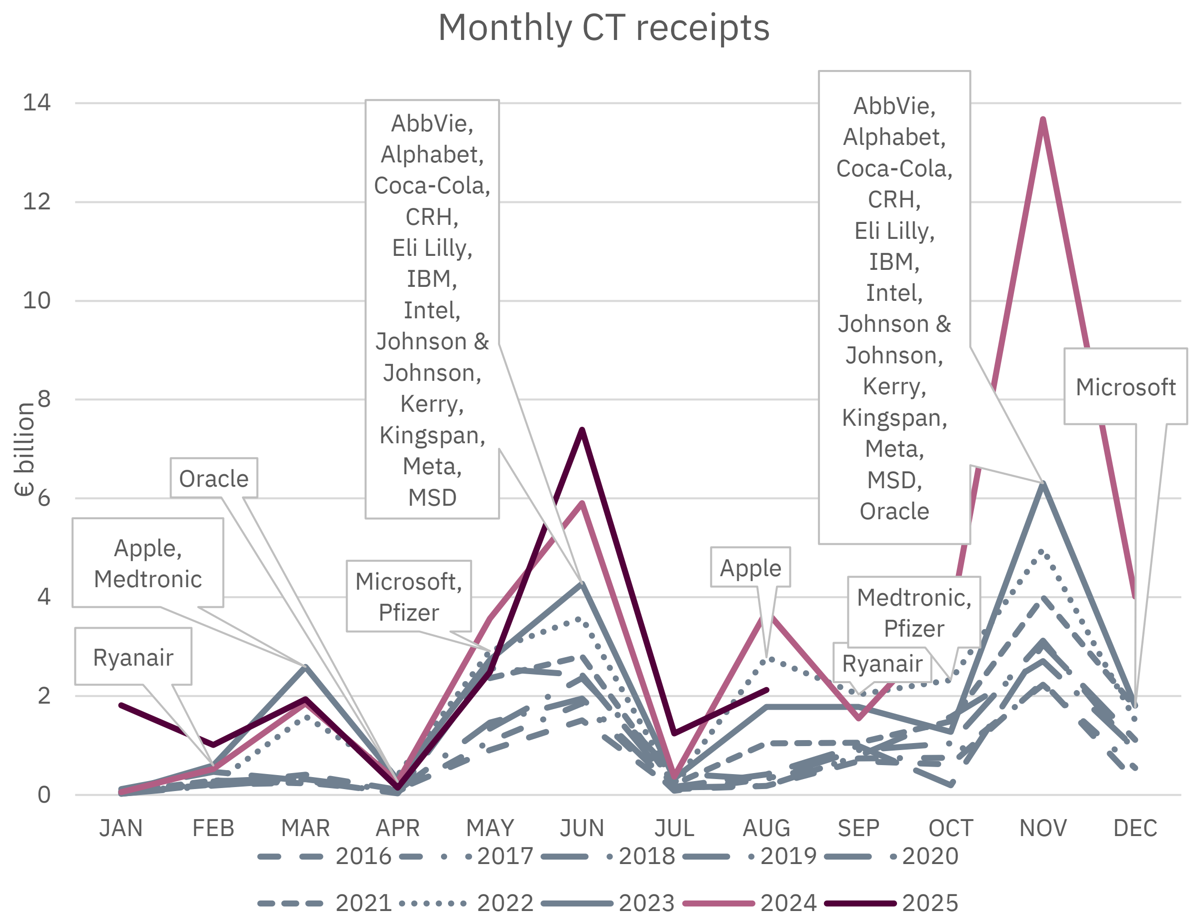


Source: OECD webpage 1 & webpage 2. World Bank population data. Note that jurisdictions with fewer than 100,000 inhabitants have been excluded. Calculations are based on OECD Country-by-Country Reporting (CbCR) data for 2021 (tax paid on cash basis per counterpart jurisdiction). Note that the OECD CbCR database has limitations. It only includes data up to 2021, and many countries receive too few country-by-country reports to meet the thresholds required for publication under their confidentiality rules. These thresholds vary by jurisdiction, with each country applying its own standards to determine whether the data can be disclosed (see Cronin, 2025 p37).

As shown in Figure 35 below, the impact of individual firms on CT receipts is particularly evident in Ireland's volatile monthly tax revenue data. Many companies have financial years which do not align with the January-to-December calendar year. Dates for preliminary tax, due in the sixth and eleventh months of an accounting year for large taxpayers, are key drivers of CT receipts. Companies pay around 90% of their estimated tax due for the financial year in these two months. The third instalment is paid in the ninth month of the following accounting period. For example, a large Irish tax resident company with a December year-end would make preliminary corporation tax payments in June and November of the relevant accounting year. It would then have until the following September to file its tax return and pay the final outstanding amount.[169]

[169] See PBO (2024) 'An analysis of corporation tax revenue growth' p12.

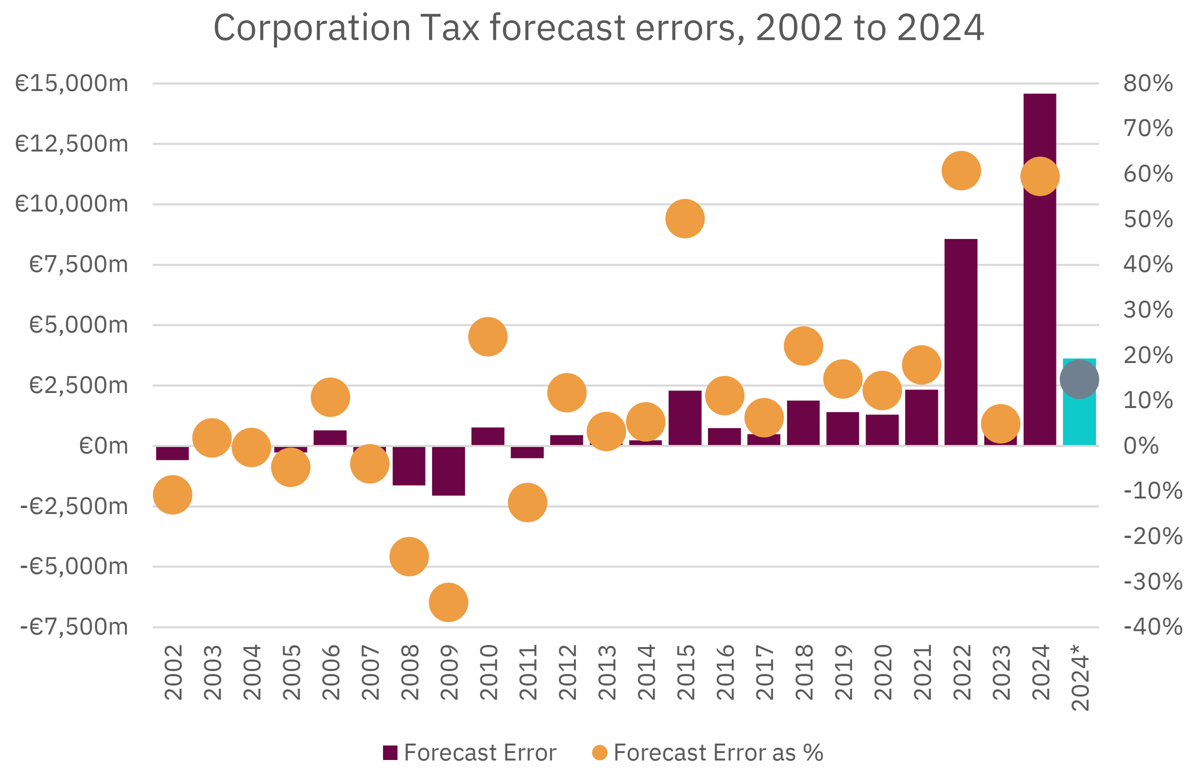
Figure 35: Total monthly CT receipts, 2016 to 2025, with corresponding estimated preliminary tax payment dates highlighted for an illustrative selection of Irish entities/branches (financial year months 6 and 11)



Data Sources: Monthly CT receipt data from Department of Finance databank. For further information on large MNCs in Ireland see NTMA (2025) 'Investor Presentation July 2025' p63 and Goodbody (2025) 'Irish Economy Health Check: Dodging bullets - Impact of Trump 2.0' p14. Note that over several months in late 2024 and early 2025, Apple state aid case receipts were received (see the Department of Finance fiscal monitor webpage).

As shown in Figure 36, since 2012 CT receipts have had a pattern of outperforming the one-year ahead forecasts published on Budget Day.

Figure 36: CT receipts have outperformed one-year-ahead forecasts since 2012



Source: PBO analysis based on data from the Department of Finance Databank and 2025 Annual Progress Report (p23), and one-year ahead forecasts published in annual budget documentation.
*Excludes Apple state aid case-related payments.

7.3. Potential options that may occur in Budget 2026

The Summer Economic Statement stated that Budget 2026 would have an overall package of €9.4 billion, and specifically a tax package of €1.5 billion. It should be noted, this estimated fiscal projection was stated as being dependent on the tariff landscape.[170] The PBO has set out details of some tax options which may be considered as part of Budget 2026. This should not be seen as the PBO endorsing these options, but these are shown as illustrative of the proposals being raised.

7.3.1. Potential changes to the 9% VAT rate

VAT on goods and services is subject to EU VAT law, with which Irish VAT law must comply. The EU VAT Directive governs large portions of VAT policy, and proposals which alter the Directive are subject to discussion and unanimous agreement at EU level.[171]

Ireland applies reduced rates of VAT to an extensive range of activities relative to other Member States, including the application of the zero rate.

Ireland applies a standard VAT rate of 23% (cars, petrol, diesel, alcohol, tobacco, electrical equipment and adult clothing); two reduced rates (i) 13.5% on some domestic fuel, construction, housing and labour intensive services, including food and catering services, and (ii) 9%, which applies to admission to periodicals, sporting facilities, gas and electricity (until 31 October 2025)[172] and heat pumps from 1 January 2025; the zero rate applies to basic foodstuff, children's clothes and shoes, newspapers, solar panels installed on houses and schools, and oral medicines; and a 4.8% rate applies to the supply of live animals; while services

[170] Government of Ireland (2025), Summer Economic Statement 2025
[171] Department of Finance (2025) 'Ministerial Brief - January 2025' p49-50.
[172] DCEE press release 12/04/2025 'Minister O'Brien welcomes further 6-month extension of 9% VAT on gas and electricity'.

such as transport, education, financial services,[173] and hospitals are exempt from VAT[174].

The reduced rate of 9% has previously applied on a temporary basis to the hospitality and tourism sectors from 1 November 2020 to 31 August 2023, and then returned to 13.5%. It was estimated to cost over €1.3 billion[175]. The hospitality sector has been seeking a reinstatement of the 9% VAT rate[176,177,178,179]. The main argument advanced for this has been that economic uncertainty has created the need for additional supports for businesses in this sector arising from issues such as changes to sick pay, high inflation and pension auto-enrolment for employees[180]. The Government's Programme for Government said they would bring forward measures to supports SMEs, in particular the retail and hospitality sector[181].

The estimated cost of reducing VAT to 9% for all the sectors where that rate previously applied (namely hospitality, accommodation, hairdressing and entertainment) was €867.7 million per annum (based on June 2025 data). If only certain sectors had the reduced rate, this would reduce the cost, but increases complexity. While it is possible to change the VAT rate for hospitality or accommodation separately, this has risks for practical operational concerns e.g. for hotels, they would need to apportion accommodation and meals separately. It would affect the principle of fiscal neutrality which requires universal application within the same sector. It may also increase the risk of avoidance and manipulation of the VAT system. If the reduced rate applied to accommodation only, it would cost €134.9 million per annum. If it applied to food and catering only, it would cost

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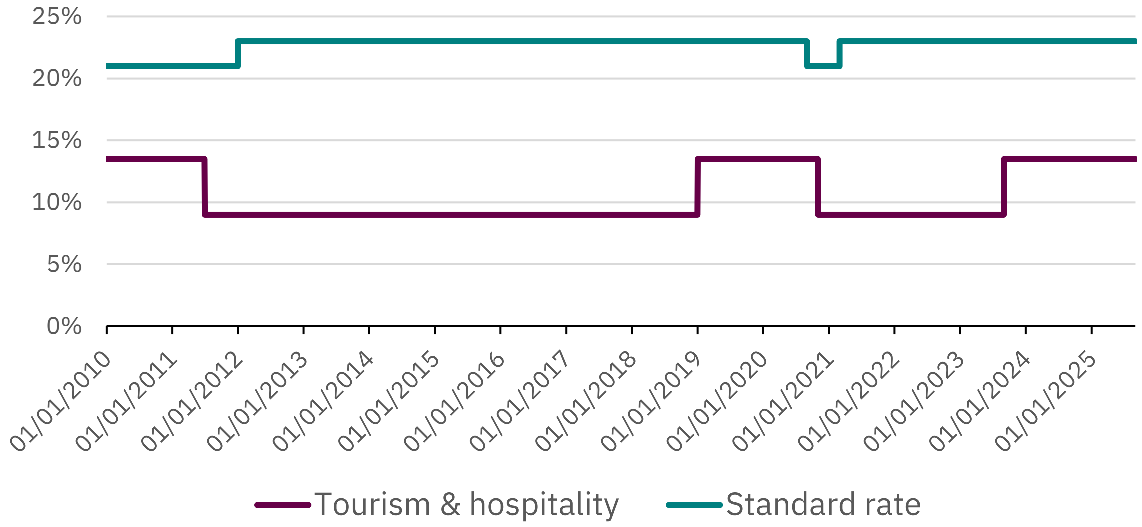
173 Pekanov & Schratzenstaller (2025) 'The taxation of the EU's financial sector' p18 and p26-27.
174 Tax Strategy Group 2025 Value-Added Tax - Tax Strategy Group 25/08 pg. 4-5
175 Ibid, pg 11.
176 VAT 9 - Restaurants Association of Ireland
177 Why Ireland's 9% Vat rate is crucial for the survival of restaurants and cafés
178 Hoteliers Push Back against Misleading Claims about Cost of 9% VAT Reduction | Hotelnews.ie
179 RTE, ICTU calls proposed VAT cut 'economic vandalism'
180 Tax Strategy Group 2025 Value-Added Tax - Tax Strategy Group 25/08
181 programme-for-government-securing-irelands-future.pdf, pg 14

€674.6 million per annum, and if hairdressing or entertainment are included it would add €19.8 million or €38.4 million extra per annum respectively[182].

The most frequently changed VAT rate in recent years has been the rate applying to the hospitality and tourism industry. Four changes have occurred since 2011. As of 2023, this sector accounted for approximately 2.2% of national income and 6.7% of employment, and between 11% to 15% of household consumption.[183] The rationale behind the reduction was to reduce consumer prices, increase consumer demand and thereby stimulate employment in the sector.[184]

Figure 37: VAT rates in Ireland from 2010 to 2025



Data source: Carroll (2025) 'VAT rate changes and pass-through: Evidence from the Irish hospitality and tourism industry' (forthcoming working paper).

The extent to which a VAT rate increase affects consumer prices depends on the level of 'pass-through' i.e., the proportion of the tax change that is passed on rather than absorbed by businesses.

[182] Tax Strategy Group 2025 Value-Added Tax - Tax Strategy Group 25/08
[183] Carroll (2025) 'VAT rate changes and pass-through: Evidence from the Irish hospitality and tourism industry' (forthcoming working paper) p2-3.
[184] PBO (2023) 'Hospitality and Tourism: Analysing the Rationale for Reduced VAT' p27.

As shown in Table 3 below, pass-through rates are typically larger for VAT rate increases than for VAT rate cuts.[185]

Table 3: Estimated impact on hospitality and tourism prices from VAT rate changes

Year	VAT Rate Change	Impact on Prices	Pass-through to Prices	Direct Impact on Inflation
2011	−4.5pp	−2%	50%	−0.3pp
2019	+4.5pp	3.60%	88%	0.5pp
2020*	−4.5pp	−0.2%	6%	0pp
2023	+4.5pp	1.50%	36%	0.2pp

Data source: Carroll (2025) 'VAT rate changes and pass-through: Evidence from the Irish hospitality and tourism industry' (forthcoming working paper).

7.3.2. Impact of non-indexation (fiscal drag)

Income tax rates and thresholds do not automatically adjust over time as incomes grow. Fiscal drag (also known as 'bracket creep' or 'non-indexation') is a phrase used to describe increases in tax revenues that arise when taxpayers move into higher tax brackets as their earnings rise.[186] Its impact depends on the setting of thresholds and allowances (also known as just ‘thresholds’), growth in prices (inflation), and growth in earnings.[187] Fiscal drag does not affect all taxpayers equally. The effect is largest for individuals earning just above a tax threshold.[188]

In Ireland, the income tax system is not indexed, but instead subject to discretionary change each year. The government estimates that the non-indexation of the income tax system alone would raise in the region of €1.1 billion in 2026.[189] This cost does not include indexing the benefit system, which should move in

[185] Carroll (2025) 'VAT rate changes and pass-through: Evidence from the Irish hospitality and tourism industry' (forthcoming working paper).
[186] Fiscal Council (2024) 'Supporting items' p3.
[187] UK House of Commons Library (2025) 'Fiscal drag: An explainer' p5.
[188] Australian PBO (2021) 'Bracket creep and its fiscal impact' p5-7.
[189] Department of Finance (2025) 'Annual Progress Report' p24.

tandem in order to prevent disincentives to work. The choice not to change the rates and bands would mean that taxpayers may feel it is not beneficial to take on extra paid work. Choosing not to index may also act to slow discretionary spending.

7.3.3. Potential changes to inheritance tax

Capital Acquisitions Tax (CAT) is paid by a beneficiary on gifts and inheritances they receive. Liabilities related to inheritances are called 'Inheritance Tax'.[190] At present, the CAT Group A threshold of €400,000 means that parents can transfer assets to their children, with the first €400,000 per child exempt from CAT. After this threshold, the lifetime value of asset transfers are taxed at a rate of 33%. CAT liability is based on aggregate transfers of assets received, since 5 December 1991[191]. Residential property comprises most intergenerational transfers.[192]

In 2024 several CAT inheritance-related changes were introduced:

- the CAT Group A (children or parents) threshold was increased from €335,000 to €400,000,
- the CAT Group B (brother, sister, niece, nephew, or lineal ancestor or lineal descendant) threshold was increased from €32,500 to €40,000, and
- the CAT Group C (all other cases) threshold was increased from €16,500 to €20,000.

It was estimated that the above-mentioned increases in CAT group thresholds cost €88 million.[193]

There have been some proposals that changes could be made to the treatment of inheritances outside Group A, i.e. relating to the tax-free threshold for inheritances and gifts from aunts, uncles and siblings being significantly lower than that of

[190] PBO (2024) 'Information Note: Inheritance Tax' p5.
[191] See: https://www.revenue.ie/en/gains-gifts-and-inheritance/cat-thresholds-rates-and-aggregation-rules/index.aspx
[192] PBO (2024) 'Information Note: Inheritance Tax' p2.
[193] Department of Finance (2025) 'Capital Taxes Tax Strategy Group - 25/05' p13.

inheritances and gifts from parents. The Tax Strategy Group paper provided a number of examples of other OECD countries and their inheritance tax approaches, and also some highly caveated costings due to the lack of appropriate data[194].

7.3.4. Potential housing tax incentives in the forthcoming Budget

Housing is a key political issue. Construction levels are trending below target of 41,000 new homes in 2025 (with 15,152 completed in the first half of 2025).[195,196] Homeless levels were at a new height at end June of 15,915 (10,957 adults and 4,958 children)[197]. As such, while there have been changes to planning regulations and new capital investment plans set out in the NDP review aiming to support the delivery of housing[198], it has been suggested that housing tax incentives may be considered.[199,200]

A wide range of different supports could be structured through the tax system, but much care should be taken if introducing a new incentive. During the boom, Ireland introduced a number of property-based tax incentives which ended up extended beyond their appropriate policy aim, whether in place longer than necessary or in areas which were not geographically necessary[201]. There is much economic literature examining the intersections of tax incentives and the property market, with some key principles to be aware of before introducing a new tax incentive. For any new incentive, the PBO would highlight:

[194] Department of Finance (2025) 'Capital Taxes Tax Strategy Group - 25/05'
[195] DHLGH (2024) Press Release 05/11/2024.
[196] Central Statistics Office, New Dwelling Completions
[197] Department of Housing, Local Government and Heritage Monthly Homelessness Report - June 2025
[198] Department of the Taoiseach - press release Government publishes updated National Development Plan
[199] Business Post, 'We can't build': Developers warn of 150,000 housing shortfall without urgent tax and rent reform
[200] Business Plus, Minister set to ignore Makhlouf warning on developer tax breaks
[201] Department of Finance, Budget 2006: Review of Tax Schemes

- A tax incentive should be introduced only taking into account other tax or direct expenditure schemes in the same policy space and how these interact.[202] In the last decade, there have been a number of tax measures introduced which interact with the property market[203], but no thematic evaluation of how these are effecting each other. Such an evaluation would consider which are achieving their targeted policy aim and which might have perverse incentives. For example, incentives to attract new landlords to the rental market may be inconsistent with incentives targeting home purchase.
- In this market, tax incentives should appropriately target supply, rather than increase demand. For example, Mazars highlighted that the Help to Buy scheme, despite aiming to boost supply, "promotes demand for new housing in a market where the problems that exist are unequivocally supply constraints" and that it was poorly targeted with respect to incomes, location, house prices and other socioeconomic factors, and has a considerable deadweight.[204,205] As such, it is important that measures are appropriately designed.
- Decisions made about construction developments have a long timeline – as such, regular changes to the cost of a development project delay decision-making. Uncertainty reduces construction activity.[206] It is essential that tax policy provides clarity for developers, so costs of construction projects are not changing annually.
- Tax incentives may not have the required impact if supply is constrained, such as by factors like limited finance for developers with viable projects, the planning system and the absence of infrastructure needed to support development. If supply cannot respond appropriately, models suggest tax breaks in these circumstances can simply lead to a transfer of tax revenue

[202] Department of Finance, Budget 2025 - Tax Expenditures Evaluation - Updated Guidelines
[203] Revenue, Personal tax credits - Land and property
[204] Department of Finance (July 2022) Help to Buy Scheme Review - Final Report - Mazars
[205] Housing Commission (2024) 'Report of the Housing Commission' p73.
[206] Mayo & Sheppard (2001) 'Housing Supply and the Effects of Stochastic Development Control'.

from the state to developers with no effect on supply.[207] The ESRI has previously suggested that tax breaks aimed at stimulating house and apartment building should be avoided until (a) it can be conclusively shown that the "market failure" to be corrected will yield positive results without excessive unintended transfers to developers and (b) the impacts of regulations on the cost of building are properly understood and also the potential effects of any tax breaks in the context of regulatory-related costs.[208]

[207] ESRI (2015) Tax Breaks and the Residential Property Market | ESRI
[208] Ibid.

7.4. US business and international tax changes

US tax policy is important for Ireland's economic model. Around 70% of FDI into Ireland originates from the US, and around 220,000 people are employed by US Multinational Companies (MNCs).[209] Furthermore, in 2023 US firms accounted for 75% of Ireland's corporation tax revenue.[210]

7.4.1. 2025 One Big Beautiful Bill Act

The 2025 One Big Beautiful Bill Act (OB3) made some changes to the previous Trump Administration's major tax reform, the 2017 Tax Cuts & Jobs Act (TCJA).

In essence, OB3 encourages companies to make things in America.[211] While the headline US corporate tax rate remains unchanged at 21%, OB3 lowers the tax burden for many US companies. Changes enacted under OB3's Foreign-Derived Deduction Eligible Income (FDDEI) provision (a 14% CT rate on certain export-related income), may incentivise US MNCs to retain more intellectual property in the US, while the Net Controlled-Foreign-Company Tested Income (NCTI) provision may lessen the incentive for US MNCs to build tangible assets outside the US (e.g., in Ireland).[212] Furthermore, OB3 has permanently extended the '100% Bonus depreciation' measure. This is an accelerated form of depreciation cost recovery. It allows companies in the US to deduct a fixed percentage of an asset's cost upfront instead of spreading the deduction out over its useful life. This may potentially incentivise more companies to invest within the US.[213]

OB3 may reduce effective corporate tax rates in the US for many multinationals. At the same time, Ireland's adoption of the OECD's Pillar Two rules, a 15% minimum effective tax rate for large MNCs, is narrowing the tax differential between the two

[209] Department of Finance (2025) 'Ministers Brief' p19.
[210] Cronin (2025) 'More revenue and more concentration', Irish Fiscal Advisory Council, p6.
[211] PwC US (2025) 'Cross-border Tax Talks 04/09/2025'.
[212] The provision in NCTI's precursor (Global Intangible Low-Taxed Income), relating to an exemption on the first 10% return on overseas tangible assets, has been removed.
[213] PwC US (2025) Cross-Border Tax Talks '17/07/2025' & '27/08/2025'.

countries. In addition, Ireland is exposed to the evolving US tariff regime (see Section 2.3), which could further impact investment decisions by US MNCs weighing the relative attractiveness of locating activity in Ireland versus the US.[214]

7.4.2. US carveout from OECD BEPS Pillar Two

BEPS Pillar Two is the global minimum effective corporation tax rate of 15% which applies to MNCs with revenue above €750 million per year.[215,216]

Pillar Two consists of a series of interlinked rules, known as the Global Anti-Base Erosion (GloBE) rules.[217] The three GloBE rules are:

- Qualified Domestic Minimum Top-Up Tax (QDMTT), an optional rule which allows jurisdictions to collect top-up tax due in respect of activities/entities in that jurisdiction.
- The Income Inclusion Rule (IIR), which operates on a top-down basis, with the parent company responsible for ensuring that the minimum 15% has been paid in each jurisdiction.
- The Under Taxed Profit Rule (UTPR), a backstop rule which comes into general effect one year after the IIR. It allows for any top-up tax due, and which has not been collected via an IIR or QDTT, to be collected via other group entities in other jurisdictions.

A carve-out or exemption from the IIR and UTPR for US companies was announced during summer 2025.[218,219] The carve-out deal is a political-level agreement/shared conceptual understanding. [220] This means that there is currently a lack of detail on how it will be fully implemented.

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[214] EY (2025) 'How Trump's One Big Beautiful Bill Recalibrates Ireland and the EU'.
[215] PBO (2024) 'An analysis of corporation tax revenue growth' p14.
[216] For further information see the OECD webpage on Pillar Two.
[217] Department of Finance (2025) 'Ministerial Brief - January 2025' p87.
[218] Department of Finance Canada (2025) 'G7 statement on global minimum taxes'
[219] Saint-Amans (2025) 'The implications of G7 agreement on the global minimum tax'
[220] Deloitte (2025) 'G7's Pillar Two shared understanding'.

7.5. Tax Expenditures

Tax expenditures are a part of the tax system which involve public spending undertaken through the tax system. These can include reliefs, credits, deductions or deferrals of tax which aim to incentivise particular behaviour or promote more economically and socially optimal outcomes than would otherwise occur. Best international practice recognises the importance of regular reporting and reviews of these expenditures, especially as they are subject to less parliamentary scrutiny than voted expenditure[221].

This year, the Department of Finance have published very useful information on tax expenditures in advance of the Budget[222], alongside the tax strategy group papers[223]. These include detailed information on the quantum of tax expenditures, highlighting that in aggregate, tax expenditures cost approximately €8 billion in 2024. This is higher than the spending of most government departments. Prudent fiscal policy would suggest these are regularly reviewed to judge whether the allocated expenditure could be more usefully used in a different way. Those tax expenditures which are not beneficial enough should be immediately ceased or have sunset clauses applied (setting a defined end-date for the tax expenditure at which it would expire).

Of a total of 117 tax expenditures, the ten costliest amounted to c. €5.42 billion[224]. Due to the high cost foregone, it would be important that these are regularly reviewed to see whether these continue to provide a full benefit. It is important to note that of these top ten tax expenditures, two have reviews forthcoming in 2025 (R&D tax credit and rent tax credit). However, three have not been reviewed since

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[221] Department of Finance, 2025 Tax Expenditures in Ireland: 2025 Report
[222] Ibid.
[223] Tax Strategy Group 2025, Tax Expenditures - Tax Strategy Group - 25/07
[224] It should be noted that the Department of Finance July 2025 paper gave a figure for the top 10 most expensive tax expenditures, but this listed health expenses twice in the top 10. As such the PBO has a slightly different calculation and list. The PBO has also used updated data published by Revenue in August 2025.

the guidelines on how to review a tax expenditure were introduced in 2014, two were considered by the Commission on Taxation and Welfare but not subject to a full review, and one was last reviewed in 2014. As such, of that approximately €5.42 billion, only four have been recently reviewed or are being reviewed, and thus only €1.97 billion of that quantum has been reviewed in the last decade. The lack of scrutiny of this is not best practice and could mean that these tax expenditures are not efficient, equitable, or meeting current policy goals.

Table 4: Top 10 tax expenditures by cost

Name of the tax expenditure	Most recent cost in millions (2024 or latest year)	Last reviewed
Research & Development Tax Credit	€1,407 million	Forthcoming in 2025
Pension Contributions	€1,154 million	Considered as part of the Commission on Taxation and Welfare, not a proper review
Exemption of employers' contributions from employee BIK	€956 million	No review
CAT Business Relief	€430 million	No review
Medical Insurance Relief	€405 million	Considered as part of the Commission on Taxation and Welfare, not a proper review
Health Expenses (Total)	€269 million	No review
CAT Agricultural Relief	€237 million	2014, Agri-Tax Review
Help to Buy	€225 million	2022, Review by Mazars
Rent Tax Credit	€183 million	Forthcoming in 2025
Revised Entrepreneur Relief (CGT)	€156 million	Considered as part of the Commission on Taxation and Welfare, cost benefit analysis published in 2023

Source: Department of Finance, 2025 Tax Expenditures in Ireland: 2025 Report, Department of Finance, 2024 Tax Expenditure Evaluation - Updated Guidelines and Revenue Cost of Tax Expenditures (updated August 2025).

A total of 11 reviews are listed for 2025, set out below. This is a positive increase in the number of reviews compared to last year, when seven reviews were completed. It is beneficial that the Department are conducting an increased number of reviews, but it should be noted that only 50 evaluations were carried out between 2014 and

Budget 2025[225]. It also means that almost half the tax expenditures have not been reviewed in the last decade.

Expected reviews in 2025[226]:

1. Accelerated Capital Allowances for Expenditure on Slurry Storage
2. Farm Income Volatility Review (ex-ante review)
3. Proposed Extension of the Income Tax Relief for Retrofitting Landlords
4. Sunset Income Tax Relief for Manufacturers of Uilleann Pipes and Irish Harps
5. Proposed Extension of the Income Tax Exemption for Householders for Profits from the Micro-generation of Electricity
6. Income Tax Relief for Gym Memberships (ex-ante review)
7. Review of the Reduced Rate of USC for Medical Card Holders
8. Review of the Special Assignee Relief Programme (SARP)
9. Review of Foreign Earnings Deduction (FED)
10. Review of the Rent Tax Credit
11. Evaluation of the Research and Development (R&D) Tax Credit

The Department is improving the transparency of tax expenditures further, and intend to publish details of tax expenditures at Budget time with a "passport" or description section for each tax expenditure this year alongside. The passport provides a summary of key details for each tax expenditure on the master list, as well as details of the history of the tax expenditure including the number of target beneficiaries and the legal reference of the provision are included. Subject to data availability, the passport provides information on revenue forgone and claims in recent years, sunset clauses and the results of the latest evaluation[227].

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[225] Budget 2025 - Tax Expenditures Evaluation - Updated Guidelines
[226] Department of Finance, 2025 Tax Expenditures in Ireland: 2025 Report
[227] Ibid.

7.5.1. Digital Games Tax Credit

The Digital Games Tax Credit scheme is due to expire on 31 December 2025. A decision will be made on whether to extend the scheme for a further period.[228]

The aims of the incentive are to:

- be a cultural policy tool addressing the lack of Irish or European influence in the videogames market,
- retain the operations of the main brands that are here through the addition of development activities,
- support the scaling-up of indigenous developers, and
- attract new inward investment into the sector.[229]

The rate of the Digital Games Tax Credit is set at 32%. It is available on eligible expenditure of up to €25 million per game (by way of comparison section 481 Film Relief applies a cap of €125 million on a per project basis while the UK's Video Games Expenditure Credit does not have a cap in place).[230,231] There is a per project minimum expenditure requirement of €100,000. The credit is available on expenditure incurred in the design, production, and testing stages of the development of qualifying digital games, provided certain conditions are met. State aid approval for the credit was received in late 2022.[232]

As can be seen in Figure 38, the global videogame industry is much larger than cinema.

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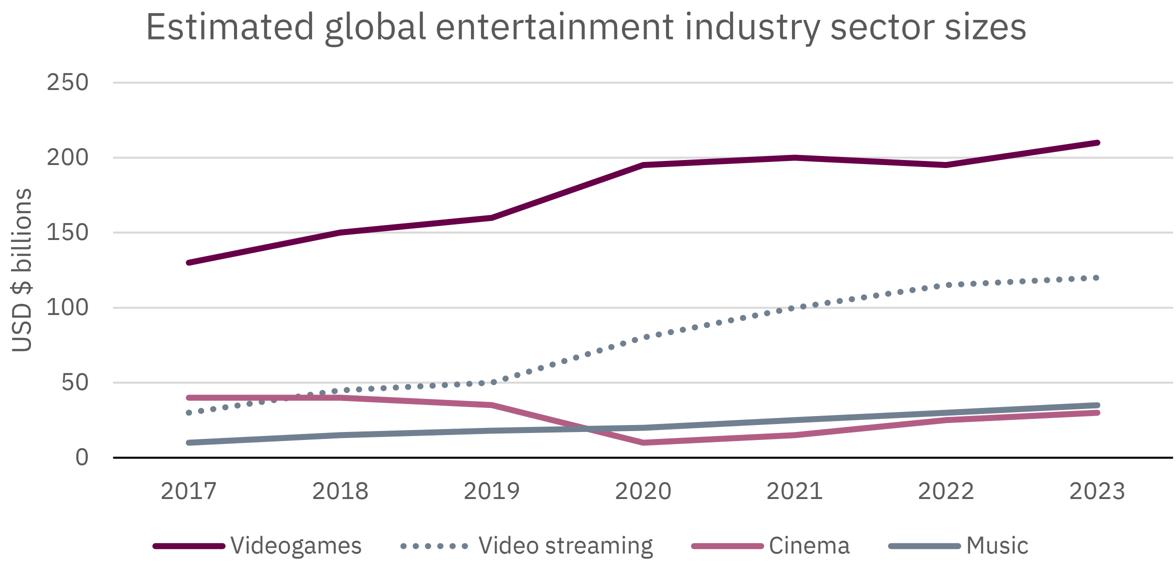
[228] Department of Finance (2025) 'Ministerial Brief – January 2025' p91.
[229] Government of Ireland press release 21/11/2022 'Ministers Donohoe and Martin launch Tax Credit for Digital Games'.
[230] See Revenue's Film Relief (Section 481 Film Tax Credit) webpage.
[231] See the HM Revenue & Customs Claiming Video Games Expenditure Credits for Corporation Tax webpage.
[232] Department of Finance (2025) 'Ministerial Brief - January 2025' p90-91.

Figure 38: Estimated global entertainment industry sector sizes

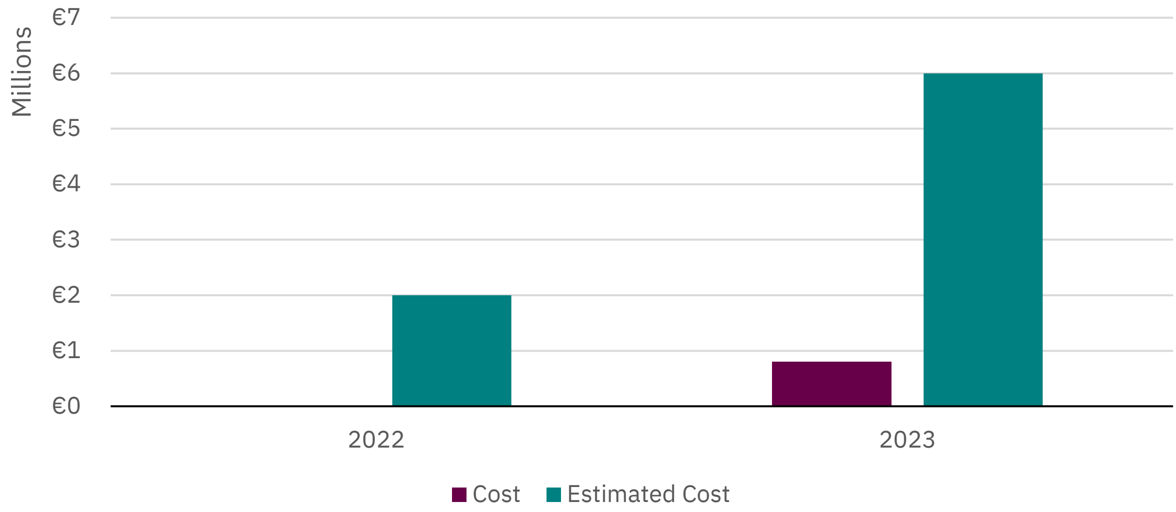


Source: Financial Times/Omdia 'The Future of Entertainment'.

As of 2022, Ireland was generating less than 1% of European digital gaming products.[233] The number of new titles published by local developers in 2018 was estimated to be amongst the lowest in Europe, when 8 new titles were published. This is lower than similarly sized countries such as Denmark and Finland, which published 82 and 108 new local titles respectively.[234,235] Furthermore, employment in the sector in Ireland has not matched global trends. It has decreased since 2011. While there were 2,283 directly involved in the production of games in 2011, this fell to 1,638 in 2022.[236,237,238]

[233] PBO (2022) 'Budgetary Issues in the Finance Bill 2022' p24.
[234] EGDF (2019) 'European Video Games Industry Insights Report' p23.
[235] In Finland, two videogame companies are among the top 25 corporate taxpayers (Supercell and Small Giant Games). For more info see Finnish Broadcasting Corporation (2024) 'Pankeilta tuli taas muhkeat verotuotot valtion kassaan – katso kuntasi parhaat yritysveronmaksajat Ylen koneesta'.
[236] Forfas (2011) 'Games Sector in Ireland: An Action Plan for Growth' p21-22.
[237] European Commission (2022) 'State Aid – Ireland Tax credit for digital games' p2.
[238] Department of Finance (2021) 'Corporation Tax: Tax Strategy Group – 21/05' p21.

Figure 39: The Digital Games Tax Credit exchequer cost (in million €) from 2022 to 2023 was lower than anticipated



Sources: Revenue 'Cost of Tax Expenditures' p2 and Budget 2022: Tax Policy Changes p4.

Uptake has been lower than expected. Figure 39 shows the actual cost of the Digital Games Tax Credit, compared with the estimated cost. For 2022 and 2023, it was estimated that the cost of the tax credit would be €2 million and €6 million respectively.[239,240] Based on the data currently available, the actual cost of the tax credit was zero and €0.8 million for the years 2022 and 2023 respectively.

Some commentary has highlighted issues with the design of the Digital Games Tax Credit. The issues identified include (i) directors and owners at digital games development companies are exposed to personal liability if tax credits are incorrectly claimed, (ii) limitations on co-development (co-dev) where some work is contracted out to another game development studio,[241] (iii) the exclusion of post-

[239] Government of Ireland (2021) 'Budget 2022 Tax Policy Changes' p4.
[240] The Digital Games Tax Credit was originally anticipated to cost a total of €20 million over the period 2022 to 2025. European Commission (2022) 'Commission approves €20 million Irish scheme to support development of cultural digital games'.
[241] The sub-contractor payments limit is €2,000,000 per game. See the Revenue 'Tax and Duty Manual - Section 481A Digital Games Corporation Tax Credit Part 15-02-07' p18 for further information.

launch development work or live service models, and (iv) the €25 million cap on eligible expenditure.[242243,244,245,246]

While the Quebec and UK videogame tax credits allow claims on post-launch work,[247,248] no EU member state allows for significant/long-term post-release work to be claimed. As the Tax Credit is a state aid, it needs to align with the requirements of the European Commission as a cultural state aid under Article 107(3)(d) Treaty on the Functioning of the European Union (TFEU).[249] The Tax Credit is designed not just as an economic incentive but as a cultural policy tool. Culture-related criteria inform its design and parameters. Therefore, there may be less scope for flexibility around the funding and support rules compared with non-EU member states.

7.5.2. Other expiring tax measures

Members may wish to note that the following tax measures are also due to expire end December 2025, so may be considered in the forthcoming Budget and Finance Bill.

Stamp Duty

- 81AA Transfers to young trained farmers,[250]

[242] The administrative burden associated with applying for the credit, as well as the per project minimum expenditure requirement of €100,000, may lessen the incentive for microenterprises to apply for the tax credit.
[243] RTÉ new article 16/07/2024 'Government urged to change digital game tax credit'.
[244] Irish Tax Institute (2023) 'Pre-Finance Bill Submission' p38.
[245] IMIRT (2024) 'Pre-Budget 2025 Submission on Proposed Improvements to Section 481A Digital Games Tax Credit'
[246] The Currency article 03/10/2023 'Tax breaks and the MedTech model: Ireland's games industry is "only scratching the surface" of its potential'.
[247] HM Revenue & Customs (2025) 'Guidance - Claiming Video Games Expenditure Credits for Corporation Tax'.
[248] See the Investissement Québec webpage.
[249] O'Brien (2024) 'The new tax credit regime for digital games production in Ireland', Irish Journal of Arts Management and Cultural Policy, p105.
[250] Revenue (2025) 'Stamp Duty Manual Section 81AA: Transfers of land to young trained farmers' p3

- 81C Further farm consolidation relief,[251] and
- 83D Repayment of stamp duty where land used for residential development.[252]

Taxation of rents and certain other payments

- 97B Deduction for retrofitting expenditure.[253]

Income tax

- 216D Certain profits of micro-generation of electricity.[254]

Machinery or plant: initial allowances, wear and tear allowances, balancing allowances and balancing charges

- 285A Acceleration of wear and tear allowances for certain energy-efficient equipment,[255] and
- 285C Acceleration of wear and tear allowances for gas vehicles and refuelling equipment.[256]

Other reliefs and exemptions

- 604B Relief for farm restructuring.[257]

Farming and market gardening

- 658A Farming: accelerated allowances for capital expenditure on slurry storage.[258]

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[251] Revenue (2025) 'Tax and Duty Manual SDCA section 81C: Farm consolidation relief' p3.
[252] Constructions operations on land must commence on or before 31 December 2025. See Revenue (2025) 'Tax and Duty Manual Section 83D: Residential development repayment scheme' p3.
[253] Revenue (2024) 'Tax and Duty Manual Part 04-08-20 Deduction for Retrofitting Expenditure' p3.
[254] Revenue (2024) 'Tax and Duty Manual Part 07-01-44 Exemption of Certain Profits of Microgeneration of Electricity' p3.
[255] PBO (2024) 'Assessing the Uncertainty of Budget 2024 Costings' p7.
[256] Revenue (2024) 'Tax and Duty Manual Part 09-02-06 Accelerated wear and tear allowances for gas vehicles and refuelling equipment' p3.
[257] Revenue (2024) 'Tax and Duty Manual Part 19-07-03B Relief for farm restructuring (S.604B)' p3.
[258] Revenue (2024) 'Notes for Guidance – TCA 1997 – Finance Act 2024 Edition - Part 23' p14.

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