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Parliamentary Budget Office

Pre-Budget 2027

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Séanadh

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1. Pre-Budget 2027

1.1. Key Messages

- Inflationary pressures have picked up again. Irish inflation has been above the euro-area average since September 2025, with rents, electricity and fuel costs contributing to the increase. Further energy price rises could feed through to other goods and services.
- Government spending growth in Ireland is expected to be among the highest in the EU in 2027. With the economy already operating close to capacity, there is a risk that strong growth in spending adds to price pressures rather than increasing output.
- In more recent years, spending increases are happening at different times in the year. During 2026, there has already been a supplementary for the Education and Youth Vote before Budget day. There is a pattern of high levels of supplementary spending after the Budget. Parliamentary scrutiny at these different points is key, as these contribute to higher spending growth than might be anticipated at Budget time.
- Monitoring efficiency and value for money is core to supporting delivery of high performing spending. Clear material should be provided to support parliament in scrutinising spending increases and what's being delivered with existing spending.
- The overall fiscal position remains strong, but there are underlying risks. The debt-to-GNI* ratio is expected to fall, although the level of debt and debt interest costs will continue to rise. Corporation tax receipts also remain highly concentrated, while a smaller share of these receipts is expected to be saved.
- The outlook remains exposed to developments outside Ireland. Geopolitical tensions, changes in US trade policy, developments in US financial markets and higher global borrowing costs could affect trade and investment, with implications for employment and tax receipts in Ireland.

1.2. Overview of the PBO's budgetary research

The PBO has published a number of separate research papers and data visualisations to support parliamentary scrutiny for Budget 2027. In a change this year, this means that this pre-Budget document should be read as a high-level document with direction to other material.

All these materials are available at the PBO's website at www.oireachtas.ie/pbo.

1.3. Budgetary Context

Budget 2027 is expected to involve an expenditure package of €7 billion, which comprises increases of:[1]

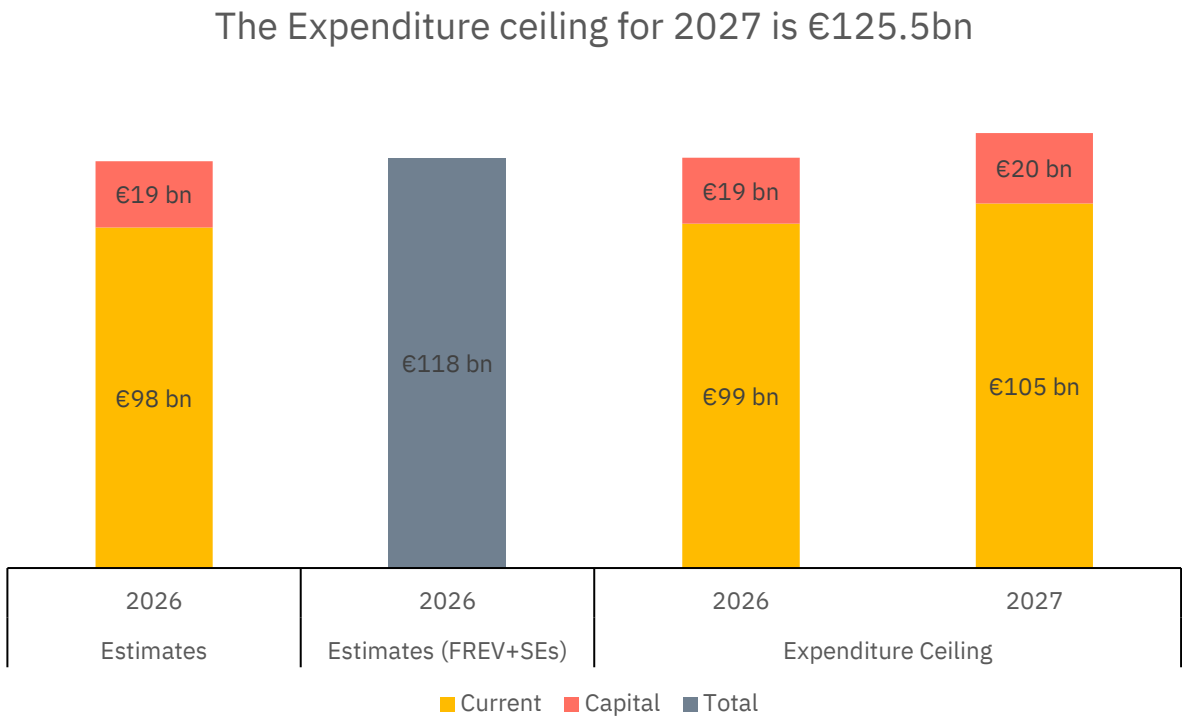
- €5.9 billion in current spending, and
- €1.1 billion in capital spending.

At the time of writing,[2] the Summer Economic Statement provided an Expenditure Ceiling of €118.4 billion for 2026, of which about €118.25 appears to be allocated. This means that there's only scope for some €150 million of additional spending within 2026 to remain within this Expenditure Ceiling.

While a levy has been imposed in 2026 to fund additional spending in the Education and Youth Vote, it remains to be seen if the Expenditure Ceiling will remain intact by year end. At present, it is likely that spending pressures in Health and other areas will force an upward revision to the ceiling.[3]

[1] Department of Finance and the Department of Public Expenditure, Infrastructure, Public Service Reform and Digitalisation, Summer Economic Statement: July 2026 (2026) p.20.
[2] 21 September 2026.
[3] Martin Wall, Government to authorise new funding as €700m agreed in April runs out (The Irish Times, 28 September 2026).

Figure 1: Expenditure Overview



Source: Revised Estimates for Public Services 2026 (2025), Further Revised Estimates for Public Services 2026 (2026), Supplementary Estimates for Public Services 2026 (2026), and Summer Economic Statement 2026 (2026).

Figure 1 shows that upward revisions to the 2026 allocation to date, by way of Further Revised and Supplementary Estimates (FREVs and SEs) has brought the allocation close to the ceiling outlined in the Summer Economic Statement.

If further Supplementary Estimates are required which push spending in 2026 above the ceiling of €118.4 billion, then the €7 billion 'increase' for Budget 2027 will be eroded. This is particularly so if additional funding in 2026 is not required to meet 'one-off' expenditures, and instead relate to recurring (ongoing) spending pressures.

The extent to which higher levels of spending within 2026 reflect the true costs of delivering public services rather than inefficiencies or waste is relevant when considering the portion of the proposed increase for 2027 can actually be utilised to expand or improve public services. This is discussed in brief in Existing Levels of Service (ELS) p.25.

2. Economic Overview

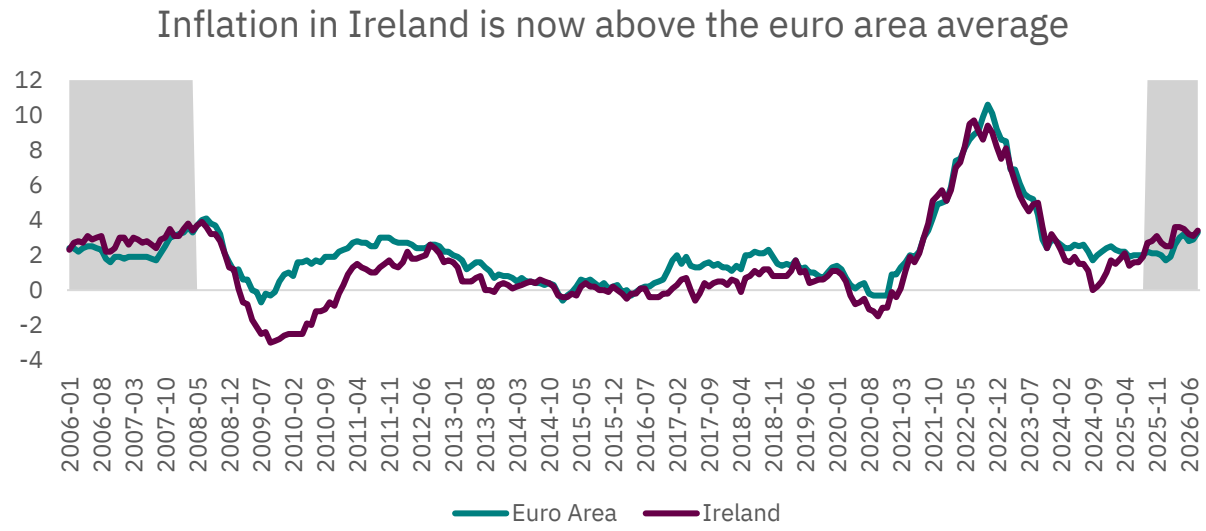
2.1. Irish Inflation Developments

Inflation in Ireland has picked up in recent months, following the outbreak of war in Iran. Inflation averaged 3.2% over the first eight months of 2026 (as measured by the HICP), compared with 2.1% in 2025. Prices in Ireland have continued to rise, with the price level in August 3.4% higher than in the same month last year.[4]

Much of the recent increase is due to higher rents, electricity prices and fuel costs. If these items were excluded, inflation would have averaged 2.3% over the first eight months of the year.[5] The outlook will depend to a large extent on what happens to oil prices. If they remain high, increased energy and transport costs may gradually feed through into the prices of other goods and services.

This was the pattern seen in 2022. Energy prices rose sharply following the war in Ukraine, but the impact did not remain confined to household energy bills and fuel. Higher costs eventually spread more widely through the economy, contributing to a longer period of elevated inflation.

Figure 2: Inflation (HICP) Ireland vs Euro Area



Source: Eurostat, Harmonised Index of Consumer Prices, monthly data, annual rate of change.

[4] Eurostat, Harmonised Index of Consumer Prices.
[5] PBO calculations using Eurostat data.

Since September 2025, inflation in Ireland has been higher than the euro area average in every month (as highlighted in Figure 2 above). This is a notable change from the experience of the past two decades. For most of that period, Irish inflation was below the euro area average. On the occasions when it moved above the average, the difference was generally short lived and never persisted for more than six months.

The last comparable period was during the Celtic Tiger years, when Irish inflation was above the euro area average for 23 consecutive months. A prolonged gap of this kind may suggest that demand in the Irish economy is growing more quickly than its capacity to provide goods and services.

There is also a risk that the gap becomes harder to reverse over time. Interest rates are set for the euro area as a whole rather than for individual countries. When inflation is higher in Ireland, the interest rate after allowing for inflation is effectively lower here than in other euro area countries. This can support further borrowing and spending at a time when conditions in the Irish economy may require the opposite.

2.1.1. Impact of Inflation on the Public Finances

Inflation affects both government revenue and spending, although its overall impact depends on which prices are rising. On the revenue side, higher wages and prices can increase income tax, PRSI and VAT receipts. Income tax receipts may rise particularly quickly if tax bands and credits are not adjusted in line with wages, an effect known as fiscal drag. Higher prices may also increase corporation tax receipts, but only where companies can raise their prices without costs rising by the same amount.

Inflation puts pressure on public spending. If public service pay and social welfare payments do not keep pace with prices, their value falls in real terms, often leading to demands for increases. Government also faces higher costs for providing public services and infrastructure, meaning that more must be spent simply to maintain the same level of services and investment.

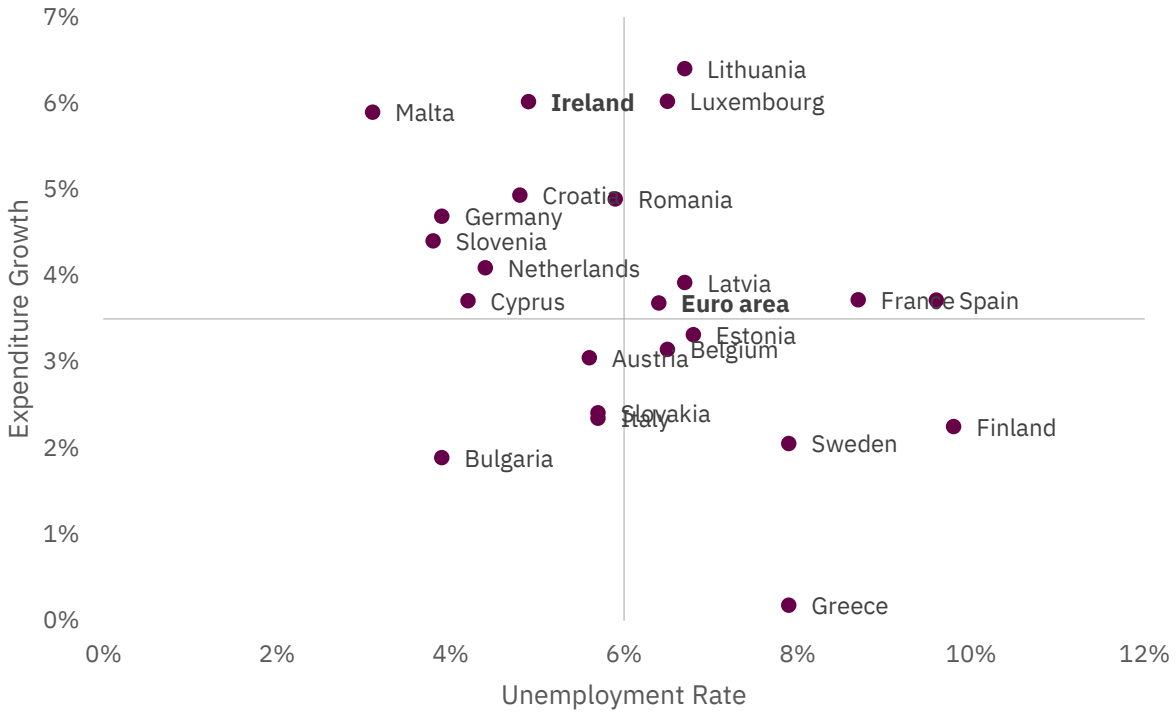
Tax receipts may respond more quickly than spending, so inflation can initially appear to improve the public finances. Over time, however, higher pay, welfare and operating costs may offset this benefit. The final impact depends on the source and duration of inflation and on the Government's policy response.

2.2. The Role of Fiscal Policy in a Monetary Union

Interest rates are set by the European Central Bank for the euro area as a whole. When prices in Ireland rise faster than elsewhere, interest rates cannot be adjusted specifically for Irish conditions. This makes fiscal policy -tax and spend policies- the main tool available to the Government to manage demand in the economy.

Figure 3 compares projected general government spending growth in 2027 with expected unemployment across the EU. If budgets were being used to offset economic conditions, countries with higher unemployment might be expected to increase spending more quickly, while those with tighter labour markets would show slower growth (i.e. countercyclical fiscal policy).

Figure 3: Forecast Unemployment Rate vs Projected Growth in General Government Spending, in 2027



Source: European Commission, Directorate-General for Economic and Financial Affairs, AMECO database, Spring 2026 Economic Forecast; PBO calculations.
Note: The figure compares the forecast unemployment rate in 2027 with the projected nominal growth in general government expenditure in 2027. Euro-area unemployment refers to the aggregate euro-area rate.

Ireland does not follow this pattern. Unemployment is forecast to be 4.9% in 2027, compared with 6.4% across the euro area, yet government spending is projected to

grow at the second-fastest rate in the EU. Only Malta combines a similarly tight labour market with faster spending growth.

When government spending grows rapidly in an economy already operating close to capacity, limited supply of workers and other resources can restrict the increase in output. This means that some of the additional spending may instead lead to higher prices.

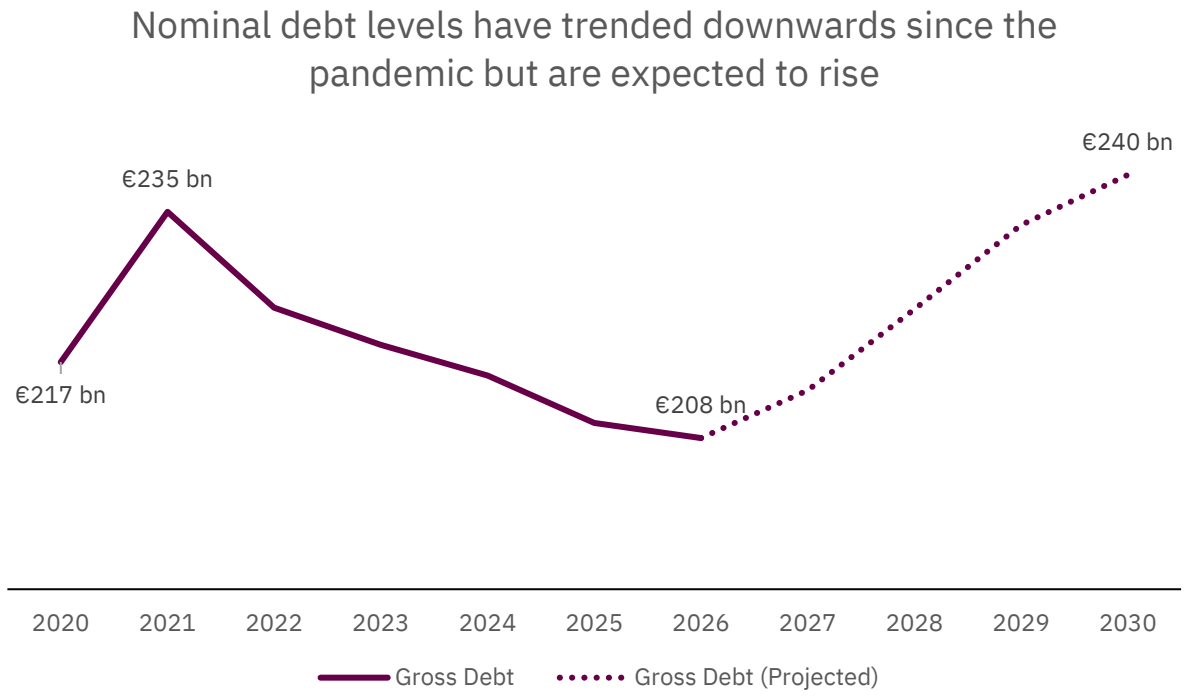
The Irish Fiscal Advisory Council estimates that if budgetary policy continues in line with recent years, it will add to inflation. In their paper they state that if government spending were to grow by 9% a year rather than 5% (for example), the price level would be 1.7% higher by 2030. The Council estimates that the resulting increase in prices could add around €1,000 to the annual cost of an average household's purchases by 2030.[6]

[6] Pre-Budget-2027-Statement-website.pdf

2.3. Public Debt

The nominal level of government debt has declined since its 2021 peak but is expected to rise in the coming years. However, despite a projected €31.5 billion increase in debt between 2026 and 2030, Ireland's ratio of gross debt to modified gross national income (GNI*) is expected to fall over this period, reaching 54% in 2030.[7] Potential sources of risk to this trajectory include weaker economic growth than anticipated, shocks that would necessitate new borrowing without boosting growth or higher interest rates.

Figure 4: Irish nominal gross debt levels (2020–2030)



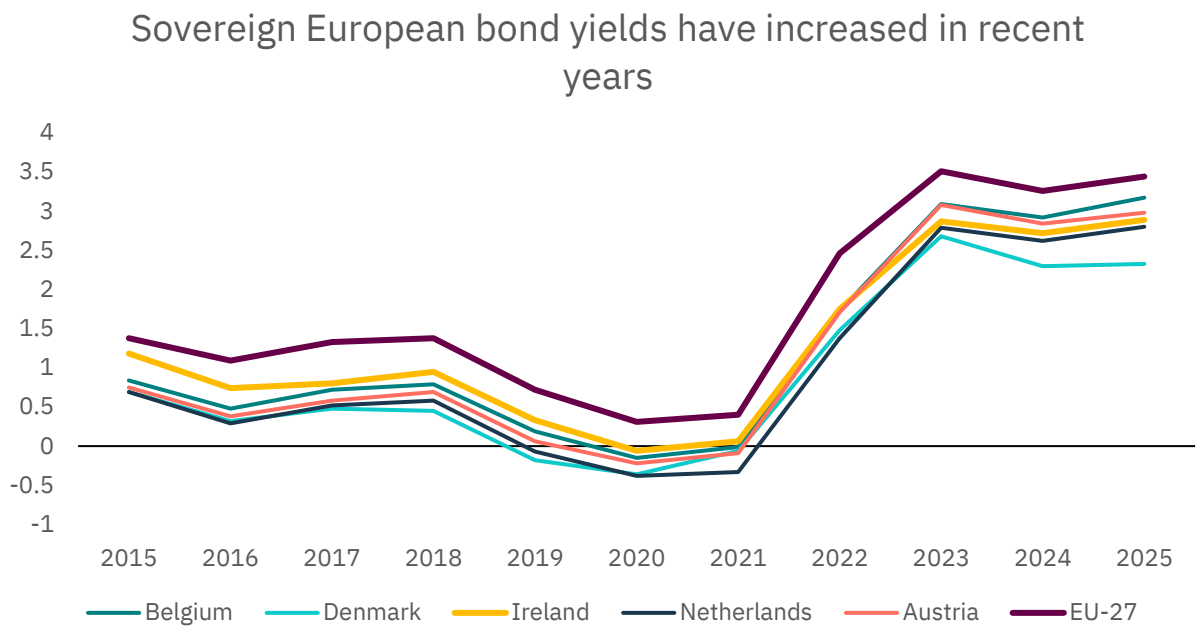
Source: CSO, Department of Finance.

While Irish borrowing costs are low relative to many other EU countries, sovereign borrowing costs have risen in recent months. The NTMA's latest issuance in September 2026 recorded a yield of 3.42% for its largest tranche (€700 million maturing in 2035).[8] This is a modest increase over a comparable tranche issued two

[7] Annual Progress Report 2026, Department of Finance, 21 April 2026, p.37.
[8] Ireland sells €1.25 billion of bonds maturing in 2032 and 2035 by auction, NTMA, 3 September 2026.

months prior (€800 million maturing in 2036).[9] The annual cost of servicing Ireland's debt is expected to approximately double between 2025 and 2030, rising from €3 billion to €6.1 billion.[10] This increase is expected to be driven by the refinancing of debt that was originally issued at exceptionally low rates during periods of quantitative easing.[11] Higher debt servicing costs also result from a higher level of debt, all other things being equal. This means that additional borrowing that may be required to provide future funding to the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF), for example, would contribute to these costs in the coming years. On this point, the Irish Fiscal Advisory Council noted in a recent letter to the Minister for Finance that according to the Government's fiscal forecasts, surpluses are forecast to decline after 2027 and additional borrowing may indeed be required to finance contributions to the FIF and ICNF.[12]

Figure 5: Selected long-term sovereign bond yields (%), 2015–2025



[9] Ireland sells €1.25 billion of bonds maturing in 2036 and 2055 by auction, NTMA, 9 July 2026.
[10] Annual Progress Report 2026, Department of Finance, p. 34
[11] Given that it is often infeasible for a nation to repay debt in its entirety as it falls due, it is common practice to issue additional debt (or "refinance" existing debt) at current market rates to meet maturing obligations while maintaining the outstanding debt stock. Quantitative easing is a tool central banks can use. It refers to the large-scale purchase of financial assets by central banks in order to stimulate consumption and investment when interest rates are already very low.
[12] Letter to Minister for Finance regarding Funds, Irish Fiscal Advisory Council, 24 August 2026.

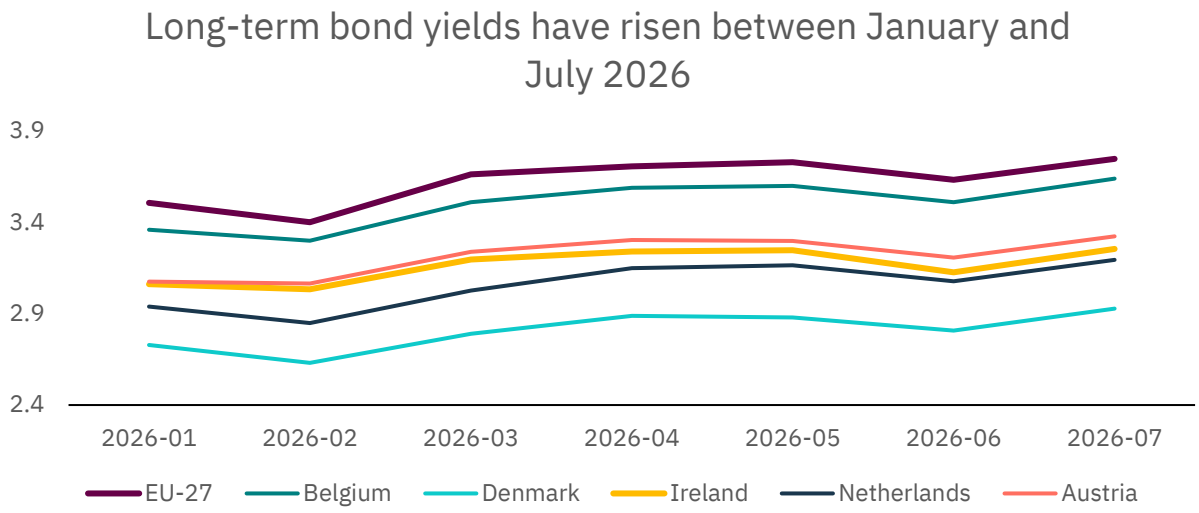
Source: Eurostat.
Note: This chart shows Maastricht criterion long-term interest rates to illustrate changes in borrowing costs over the past decade, for small, open EU economies.

The sovereign bond market has recently exhibited significant turbulence and rising bond yields, with potential contributing factors including uncertainty regarding the duration of global conflicts or the outbreak of new conflicts, heightened inflation expectations, high levels of sovereign debt issuance, and competition for capital from AI-related investment.[13] The risks associated with rising borrowing costs are considered in greater detail in the risks section of this report.

Despite rising borrowing costs, Ireland is in a relatively comfortable position with regard to its future borrowing requirements, with its sovereign ratings carrying stable or positive outlooks from all major rating agencies.[14] Following two upgrades in 2026, Ireland's sovereign rating has returned to AA+ with S&P and Aa2 with Moody's for the first time since 2009 and 2010, respectively.[15] These upgrades reflect several favourable indicators of Ireland's economic and fiscal position, including continued debt reduction, a long average debt maturity, and stronger fiscal buffers.[16] However, limiting reliance on borrowing and continuing to transfer windfall tax receipts into the State's sovereign wealth funds would reduce fiscal and refinancing risks.

[13] Big tech, big debt: when US tech giants tap the euro area bond market, The ECB Blog, 31 August 2026.
[14] Credit Ratings, NTMA.
[15] Credit ratings are assessments of an issuer's (in this case Ireland's) ability to repay its debts, and more favourable ratings may support lower borrowing costs.
[16] Statements by the NTMA regarding Standard & Poor's and Moody's upgrades of Ireland's sovereign debt rating can be found here and here, respectively

Figure 6: Selected long-term sovereign bond yields (%), 2026



Source: Eurostat.

2.4. Fiscal Sustainability

Corporation tax receipts and the risks associated with them have featured prominently in discussions about taxation since approximately 2015. A key risk associated with what may be windfall corporation tax receipts is that the State becomes reliant on them despite their high concentration among a small number of firms and sectors, limited connection to domestic economic activity, potential volatility, and uncertain longevity. This does not imply that receipts will necessarily decline or cease; rather, it highlights the possibility of a sudden decline against which policymakers may have limited recourse.

In 2025, 56% of net corporation tax receipts were attributable to 10 companies.[17] This figure is not substantially different from those recorded in recent years, but, as explained by the Irish Fiscal Advisory Council, recent changes to US accounting standards and the EU's new public Country-by-Country Reporting rules provide additional insights into Ireland's tax base. In this context, the Council noted that three companies likely accounted for nearly half of Ireland's corporation tax receipts in 2025.[18]

Certain institutions, such as the European Commission, have noted that Ireland saves a relatively small proportion of its windfall revenue.[19] Based on Government figures, the Irish Fiscal Advisory Council estimated that the proportion of corporation tax receipts being saved will decline from 34% in 2025 to 13% in 2030.[20] A lower saving rate would leave fewer resources available to finance identified future spending needs or to respond to revenue shocks. It also embeds these revenues into funding spending process and are therefore potentially volatile and unsustainable.

[17] Not including one-off receipts arising from the Apple state aid case. Corporation Tax - 2025 Payments and 2024 returns, Revenue, 7 May 2026, p.6.
[18] Not including one-off receipts arising from the Apple state aid case. Pre-Budget 2027 Statement, Irish Fiscal Advisory Council, August 2026, pp. 12–13.
[19] 2026 Country Report - Ireland, European Commission, June 2026, p.4.
[20] Pre-Budget 2027 Statement, Irish Fiscal Advisory Council, August 2026, p.16.

The Summer Economic Statement noted that tax revenue in the year to end of June was €2.3 billion, or 4.8%, higher than in the corresponding period of 2025.[21] By end-August, the year-on-year increase had reached €3.9 billion, or 6.2%. Nevertheless, gross voted current expenditure grew more rapidly than tax revenue over the same period.[22]

[21] Summer Economic Statement 2026, Department of Finance, 22 July 2026, p.16
[22] Gross voted current expenditure growth was 8% year-on-year while tax revenue growth was 6.2% year-on-year in the Analytical Exchequer Statement for August 2026. Voted expenditure differs from non-voted expenditure, which is provided for in legislation and does not require annual review or Dáil approval. Capital expenditure is not captured by this figure. For further reading on this topic, please consult this PBO note.

3. Risk

3.1. Geopolitical Risk

The war in Iran has lasted longer than may have been initially anticipated, with few signs of an imminent de-escalation. A prolonged conflict could expose economies to sustained supply shocks affecting critical commodities, including oil and natural gas, as well as generating inflationary effects. The conflict has generated additional costs throughout Europe, including through funding policy supports and higher fuel prices, although releases from strategic oil reserves have helped to limit price increases.[23] Looking ahead, further increases in energy prices could occur if available reserves continue to decline. The Bab al-Mandab Strait and the Red Sea also remain vulnerable during this conflict due to Houthi activities in the region. The Bab al-Mandab is the southern gateway to the Red Sea, connecting Europe to Asia via the Suez Canal in the North, through which 15% of global maritime trade volume usually travels.[24] Trade volumes and ship transits through the Red Sea have been significantly reduced since December 2023, with many ships instead navigating around the Cape of Good Hope, increasing transport times and shipping costs. Further deterioration of the security situation could lead to additional trade disruption, resulting in higher import prices which would feed into Irish inflation.

Other sources of geopolitical risk include long-standing tensions across the Taiwan Strait. As discussed in last year's pre-budget commentary, the economic effects of a confrontation over Taiwan could include substantial disruption to both maritime trade and semiconductor production.[25] Bloomberg estimates that global GDP could be 9.6% (US$10.6 trillion) below baseline in the first year of its highest-impact modelled scenario, involving a conflict between the US and China over Taiwan.[26] Beyond the global impact on trade and growth, given the Irish economy's high level

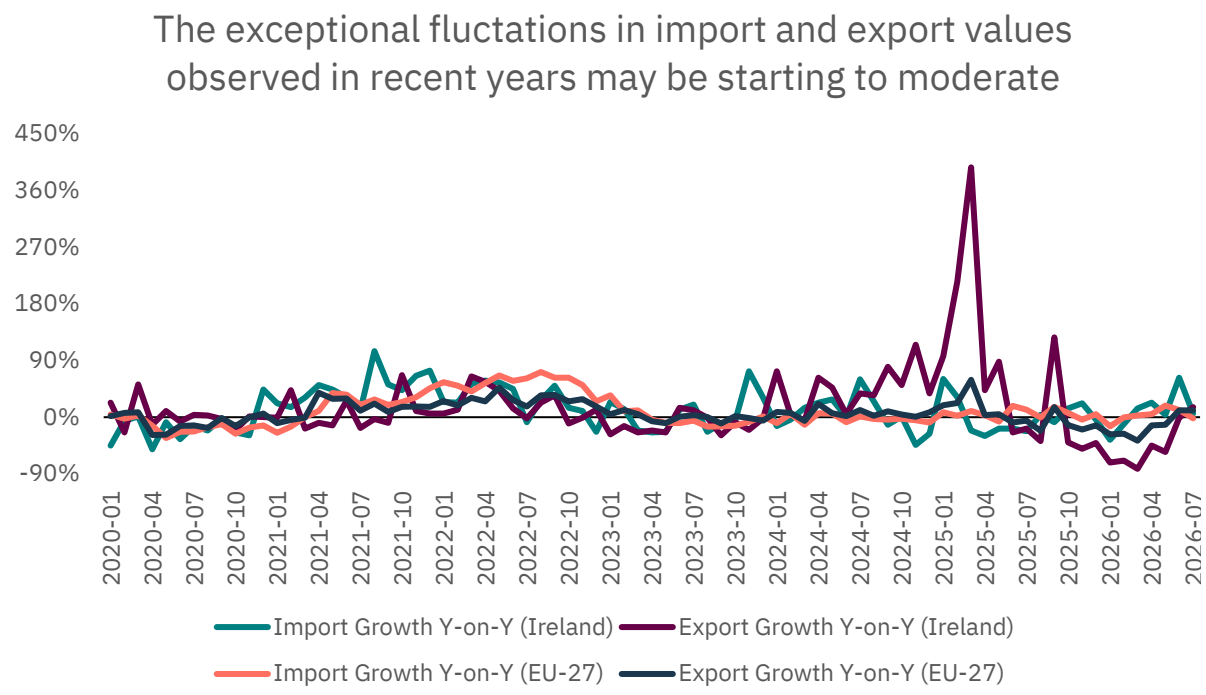
[23] The energy-related cost to the EU as of June 2026 was estimated to be €62 billion (considering both policy supports and increased fuel costs). War in Iran: 100 days in, €60 billion out, Institut Jacques Delors, 5 June 2026.
[24] Red Sea Attacks Disrupt Global Trade, IMF Blog, 7 March 2024.
[25] Pre-Budget 2026, Parliamentary Budget Office, 17 September 2025, pp.12–13.
[26] The $10 Trillion Fight: Modeling a US-China War Over Taiwan, Bloomberg, 10 February 2026.

of exposure to the technology sector, any disruption to semiconductor supply chains could have negative implications for both corporation tax receipts and employment. A reduction in employment or earnings in the technology sector could also negatively impact income tax receipts.

3.2. US Trade & Tariff Policy

The European framework for the new EU-US trade deal entered into force on 1 July 2026, after being formally approved by the European Parliament and Council of the EU. Key features of this deal include a tariff ceiling of 15% on most EU goods entering the US, improved market access for certain US agri-food products, zero tariffs on US industrial goods entering the EU, and certain guardrails that allow for future review or suspension of these conditions.[27] Figure 7 shows year-on-year percentage changes in the value of Irish and EU trade with the US.[28] Irish export growth turned positive in July 2026 for the first time since September 2025, however, the extent to which this is attributable to the implementation of the EU-US trade deal is unclear. Moreover, it is difficult to accurately predict future export growth against the backdrop of recent US trade policy.

Figure 7: Year-on-Year Percentage Change in Nominal US Trade Values



Source: Eurostat, PBO calculations.
Note: Exports in this chart refer to goods entering the US from the EU or Ireland. Imports refer to goods entering the EU or Ireland from the US.

[27] The EU-US trade deal: restoring stability and predictability, European Commission, last updated 27 July 2026.
[28] The negative export growth observed in 2026 partly reflects significant stockpiling in the previous year.

On his latest visit to Ireland, President Trump indicated an intention to remove tariffs on Irish whiskey.[29] If implemented, this would reduce the tariff burden on an export category that accounted for 0.8% of annual Irish goods exports to the US, on average, between 2015 and 2025.

[29] Trump 'going to take the tariffs off Irish whiskey' as visit ends, RTÉ, 14 September 2026.

3.3. Market Risk

Certain valuation measures of the US stock market are elevated relative to their historical levels, leading to discussions among some commentators of potential overvaluation. Although identifying stretched valuation metrics does not establish whether, or when, any decline in market prices will occur, a sudden decline in share prices or an associated slowdown in investment could have significant economic and fiscal implications for Ireland, given the economy's exposure to the US technology sector.[30] Indeed, Ireland is more integrated with the US economy than many other EU Member States in terms of trade, investment, and tax revenue, making this a relevant external risk to the Irish economy. One metric to consider is the cyclically adjusted price-to-earnings ratio (CAPE).[31] High CAPE values have historically been associated with lower subsequent long-run returns. The CAPE currently stands at 41.6 for the S&P 500, while the ratio's historical peak was 44.2 in December 1999. However, historical similarities in valuation measures do not necessarily imply comparable subsequent market outcomes. Another metric that can be used to assess market valuation is the Buffett Indicator. This metric is the ratio of total US stock market valuation to US GDP, which is near its highest recorded level, currently measuring 302%.[32] While these measures are elevated relative to their historical norms, which may be consistent with potential overvaluation in the US stock market, it is not possible to reliably determine that this is the case.

[30] Some of the broader implications of a correction in AI-related US equity prices are discussed in the publication: The Impact of an AI-Related US Equity Price Correction on the Irish Economy, Department of Finance, 22 July 2026.
[31] This ratio compares the market price of a stock or index to the underlying historical earnings over the previous ten years, adjusted for inflation.
[32] http://www.buffettindicator.org/, 3 September 2026, retrieved 22 September 2026

3.4. Rising US Long-term Interest Rates

Rising US long-term interest rates can also reflect an increase in the risk premium demanded by investors, including in response to concerns about inflation, fiscal sustainability and the growing supply of government debt. Where higher yields -i.e interest rates reflect greater perceived risk rather than stronger economic growth, the implications can extend beyond the US. As US Treasuries provide an important benchmark for global financial markets, a sustained rise in yields can make borrowing costs higher internationally and increase the cost of financing investment and capital projects.

US long-term government borrowing costs have risen to their highest level since 2007, with the yield on ten-year US Treasury bonds moving above 5% in September 2026. This matters for Ireland because US government bond yields influence the returns investors expect from other investments.

Higher yields increase the return that a proposed project must offer to be considered worthwhile. This could limit investment by US multinationals, particularly in capital-intensive areas such as data centres and pharmaceutical manufacturing. The effect may be greater where projects rely heavily on borrowing, although many large multinationals also fund investment from their own resources.

If projects in Ireland are delayed or scaled back, the Exchequer could receive less corporation tax, income tax and PRSI than it otherwise would. However, the size of any effect would depend on whether investment is redirected elsewhere and on how employment and company profits are affected.

Higher US interest rates may also strengthen the dollar, although this is not guaranteed. A stronger dollar can make Irish exports more competitive in the US and increase the euro value of dollar-denominated sales and profits. However, it can also raise the cost of imports priced in dollars, including energy and some business inputs.

4. Public Spending

Spending in 2027 is proposed to rise by ~€7 billion. €5.9 billion of this is for increased levels of current spending, and the balance of €1.1 billion for additional capital spending. Two major questions arise:

- What policies or measures do these increases provide for? And
- What do we get for the increased spend?

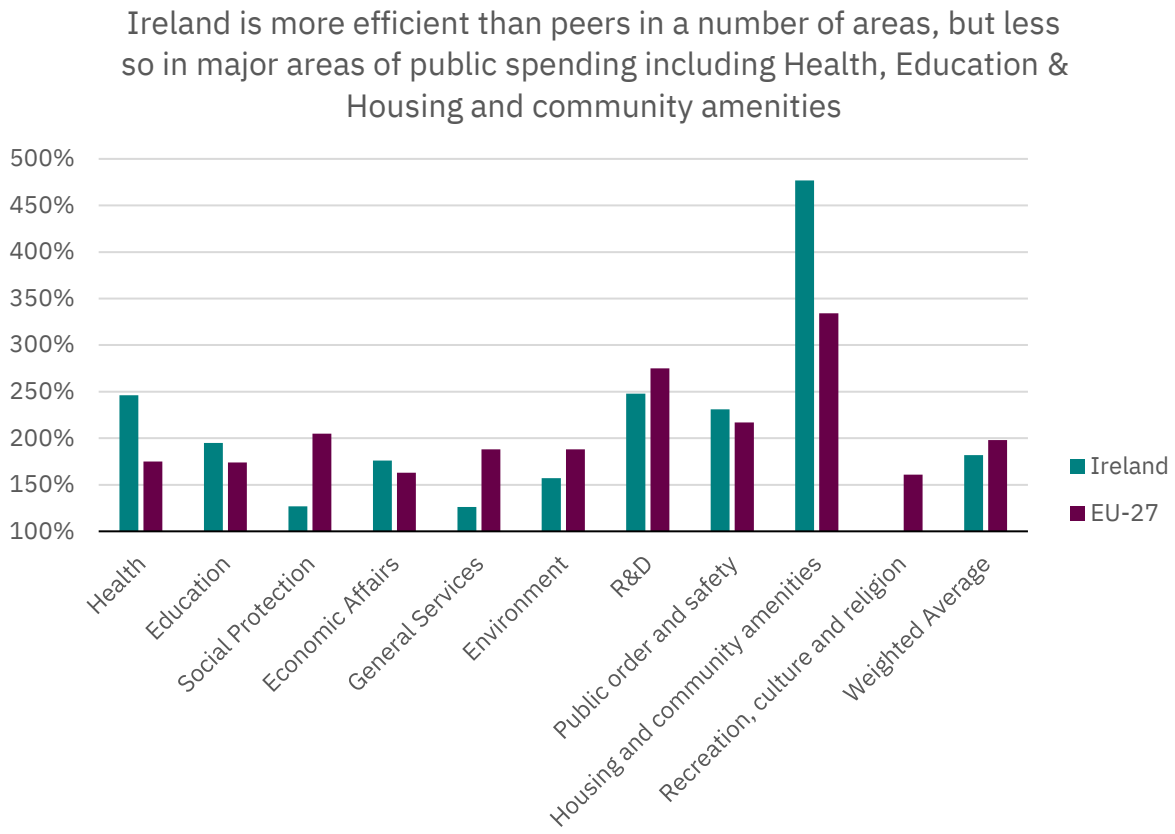
Analysis of spending levels are a focus across Europe, both to look at the total amount of spending but also the quality of it. A recent European Commission report looked at the quality of public finances[33], focussing on public spending efficiency and composition. This highlighted that all Member States face the common challenge of ensuring that public finances can respond to growing spending needs while preserving fiscal sustainability.

Public spending is deemed to be efficient if, given the available technology, a certain level of output is produced using the least amount of resources or, alternatively, if inputs used produce the largest possible amount of output. The Commission found that Ireland's "Efficiency scores" are relatively good in several areas, but in others, we use considerably more resources than our peers to achieve the same output.[34]

Figure 8 shows this in graphic form. For example, a score of 125% means 25% more spending is used to generate the same level of output (performance) as an efficient country. Figure 8 shows that Ireland is extremely efficient in certain areas, performing better than average in several areas and reaching the 'efficiency frontier' in "Recreation, culture and religion".

[33] European Commission, Report on Public Finances in EMU (2026) p.26.
[34] European Commission, Report on Public Finances in EMU (2026) p.33.

Figure 8: Efficiency Scores



Source: PBO based on European Commission, Report on Public Finances in EMU (2026) p.33.

When considering Ireland's potential efficiency in particular areas, it is important to be aware that the European Commission's research uses Classification of the Functions of Government (COFOG). This may not align with the domestic 'Vote' structure, e.g., classifications that imply alignment with specific Votes such as 'Education' may, in fact, encompass functions that extend to other Votes.

Therefore, potential 'fiscal gains' cannot be directly attributed to specific Votes but are instead more broadly indicative of policy areas where efficiency gains are possible.

Overall, the Commission's research suggests that the greatest fiscal savings for Ireland would arise from increased efficiency in areas that are both inefficient (compared to the EU average) and represent major areas of public spending. In this

sense, the greatest savings arise in Health (high inefficiency) and Education (efficiency close to EU average).[35]

Overall, the Commission ranks nations based on their potential fiscal gains in terms of GDP. Under this methodology Ireland performs relatively well, with potential fiscal savings below the EU average level.

The potential savings are relevant to later discussions in Existing Levels of Service (ELS) p.25.

[35] European Commission, Report on Public Finances in EMU (2026) p.34.

4.1. Public Service Pay

Public sector pay is expected to make up over 25% of Voted spending in 2027. As such, changes to the pay bill are important considerations each year. Changes to the pay bill are primarily caused by either (or both) a change in the size of the workforce or rates of pay. Recently, the PBO modelled the possible costs arising from a growing workforce, and a possible new Public Service Pay Agreement modelled on the structure of the Public Service Agreement 2024-2026.

Given how significant pay is within Voted spending, increases to the pay bill would absorb some of the Government's capacity to implement new or expanded measures in Budget 2027.

The Irish Fiscal Advisory Council estimate associated spending pressures of €1.1 billion for 2027.[36] This aligns closely with the primary scenario the PBO modelled which assumed the replication of the 2024-2026 Public Service Agreement. In this case the PBO estimated a 2027 cost of just over €1.1 billion.[37]

In either the PBO or Fiscal Council Scenarios, the €5.9 billion of current expenditure growth provided for in the Summer Economic Statement is significantly impacted, leaving ~€4.8 billion to maintain existing public services and to provide for any new spending measures.

Due to the expiration of the Public Service Agreement 2024-2026 in mid-2026, there's potential for a future negotiated agreement to include elements that further inflate spending on pay in 2026 either during 2026, or via a retrospective application if a new agreement is not implemented until 2027.

[36] Irish Fiscal Advisory Council, Pre-Budget 2027 Statement: August 2026 (2026) p.19.
[37] PBO, The Cost of a New Public Sector Pay Deal (2026).

4.2. Existing Levels of Service (ELS)

Each Budget involves providing for the continuation of existing policies, as well as introducing new measures. Usually, the focus is on what new measures are possible within the funding available; however, this requires an understanding of the cost of maintaining current public services at the same level (accounting for demographic and price pressures). As recently stated by the PBO: [38]

> Ultimately, understanding ELS helps answer a fundamental budgetary question: how much of next year's budget would be required to maintain existing services and supports? ELS specifically accounts for the current level of service. It does not include any envisioned improvements, any new policies, or any savings from delivering services more efficiently. The annual cost of ELS is, however, subject to change due to changing demand for services from demographic and price changes.

ELS serves as a useful tool when examining how much of additional spending is likely to be absorbed by the need to maintain services at their current levels. However, the Minister for Public Expenditure, Infrastructure, Public Service Reform and Digitalisation has stated that:[39]

> The issue with ELS is that, essentially, it takes embedded inefficiencies as a given and adds something marginal to them.

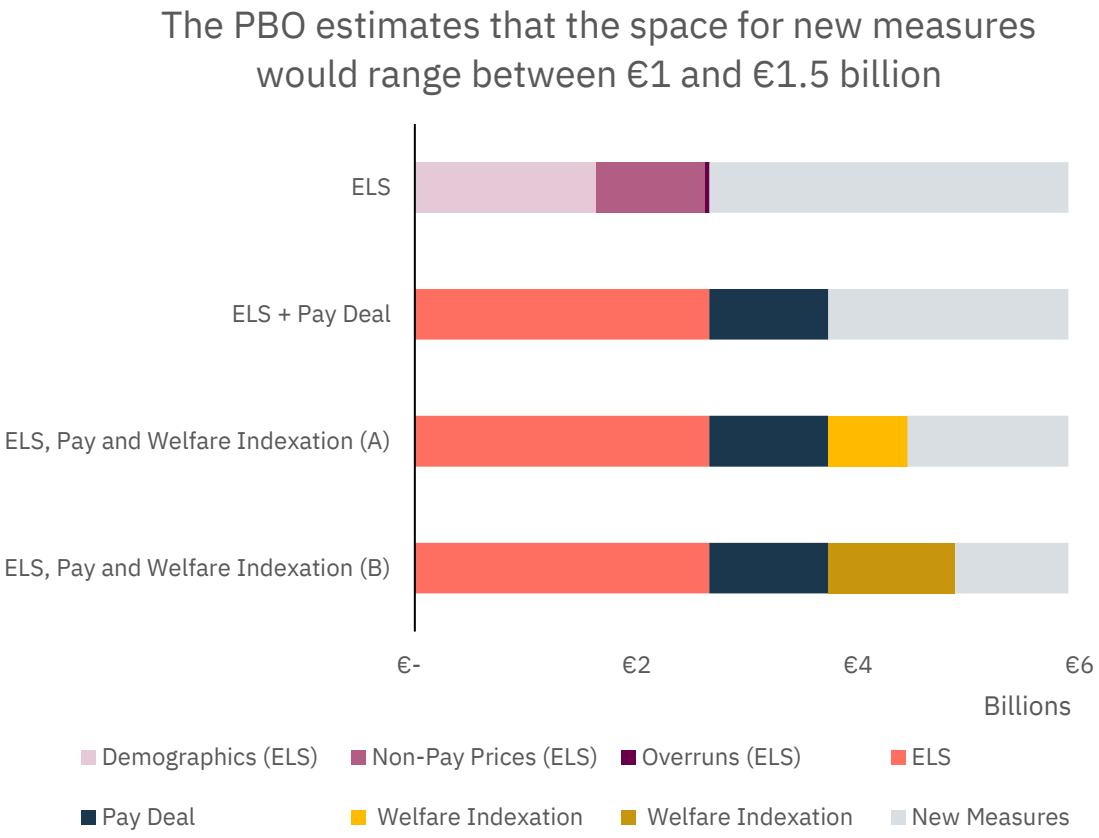
Absent any indication of the scale of such inbuilt inefficiencies, recent PBO work shows that ELS alone would utilise 45% of the indicative current spending increase. This could rise to ~63% in the event of a public sector pay deal and to between 75% and 83% in welfare indexation scenarios.[40] Figure 9 illustrates how the €5.9 billion package could be accounted for in Budget 2027. It shows:

- ELS components combine to a total cost of ~€2.66 billion (45% of the available space), with
- A potential pay deal costing a further ~€1.08 billion (18% of the available space), and

[38] PBO, Estimated ELS Costs for Budget 2027 (2026).
[39] Minister Jack Chambers, Committee on Budgetary Oversight debate - Tuesday, 3 Mar 2026. Accessed 21 September 2026.
[40] PBO, Estimated ELS Costs for Budget 2027 (2026).

- Welfare Indexation under alternative scenarios, HICP Inflation (A), and Earnings Growth (B), costing between €0.72 and €1.14 billion (between 12 and 19% of the remaining space), leaving a balance of
- Between €1.02 and €1.45 billion for “New Measures”.

Figure 9: ELS 2027



Source: PBO, Estimated ELS Costs for Budget 2027 (2026).

It is appreciated that the intention may be to prevent the automatic 'rollover' of spending from one year to another, and to encourage a process of efficiency and productivity gains within existing spends. Regardless of the rationale, omitting ELS costs from Government's budgetary approach appears to be based on an inflated sense of the scale of savings that are possible within public spending. As discussed earlier, the European Commission's research shows limited scope for efficiency

gains in a range of areas of spending in Ireland.[41] It found that the greatest savings are possible in the Health and Education areas.

The reality for a substantial part of public spending is that greater efficiencies or productivity are not possible given that spending choices are based on policy decisions. This includes for example, pay and pensions of public service workers, social welfare payments etc. Omitting ELS calculations from the Government's approach to budgeting means there is no benchmark against which to measure if efficiencies or productivity gains are being achieved i.e., if it is not clear what the expected level of spend is, then it is impossible to identify savings or efficiencies arising.

[41] European Commission, Report on Public Finances in EMU (2026).

4.3. Cost of Disability Payments

In 2026 Government conducted a public consultation on the cost of disability to inform its approach to introducing an annual Cost of Disability payment.[42] The PBO has previously conducted an analysis of Exchequer spending on disability in Ireland (2024).[43]

While noting some criticism of our methodology,[44] the PBO maintains there's still a need to better understand the total level of state spending either directly or indirectly attributable to disability. Furthermore, the PBO notes that scheme eligibility does not always clearly distinguish between disability and other criteria (such as age). This could make attaching eligibility for this annual payment to a specific scheme, or schemes, could potentially pose challenges.

Complexity in policy design is not in itself an argument against policy development; however, the PBO notes that the highly complex issue of determining who is, and by extension who is not eligible for a cost of disability payment is a highly sensitive matter. An overly restrictive approach could fail a cohort of the population, while an overly expansive approach could potentially significantly add to levels of spending over time.[45]

[42] Department of Social Protection, Public Consultation on the Cost of Disability (2026).
[43] PBO, Disability Spending in Ireland (2024).
[44] Independent Living Movement Ireland, Disability spending in Ireland: A critical review (2025).
[45] The PBO has been critical of the apparent conflation of age and disability in some schemes. This position was disputed by the Department of Social Protection. In any case, disability prevalence tends to increase with age. See, for example, Figure 1.2 of CSO, Census of Population 2022 Profile 4 - Disability, Health and Carers (September 2023).

5. Revenue

Tax revenue to end-August stood at €66.3 billion, which was up on last year by €3.9 billion (6.2 per cent).[46] Estimated tax revenue at the end of 2026 was forecast to be €110.8 billion.[47]

The Summer Economic Statement stated that Budget 2027 would provide for a tax package of €1.5 billion of new measures.

There has been much speculation about the possible measures which could be introduced on Budget day such as indexation of income taxation, inheritance tax change, a tax-incentivised savings scheme, and rumoured adjustment of credits such as renters' credit, etc.

The PBO has published material to help Members to prepare for some Budget day announcements including: taxation on labour and how it compares to European peers;[48] and a distributional analysis of possible tax band indexation, including the exchequer impact.[49]

Overall, it is important that the forthcoming Budget balance the needs to ensure a sustainable tax base which is broadly based, while also seeking to adjust the tax system where inequalities exist.

[46] Excluding the once-off receipts arising from the CJEU ruling of 2024
[47] Department of Finance, 2026 Annual Progress Report
[48] PBO, Labour Income Taxation in Ireland with European Comparison (2026).
[49] PBO, Tax Band Indexation and Income Tax Receipts Scenarios (2026).

5.1. Potential extensions of tax measures

Based on the Tax Expenditure Passport publication[50], there are a number of tax expenditures which are due to expire at the end of 2026. The usual process is that that the Department of Finance and Revenue Commissioners, in conjunction with relevant departments or stakeholders, would review such measures and announce any potential extensions or amendments to these on Budget day. Such reviews could include economic evaluations as per the "best practice" guidelines[51]. The subsequent Finance Bill would then implement these changes.

Measures due to expire at end 2026 are:

- Employment Investment Incentive (EII)
- Start-Up Relief for Entrepreneurs (SURE)
- Start-Up Capital Incentive (SCI)
- Angel Investor Relief
- Relief from tax for certain start-up companies (486C)
- Mortgage Interest Tax Relief
- Acceleration of wear and tear allowances for farm safety equipment
- Relief from VRT (battery electric vehicles)

Two of these measures (EII and the relief from VRT for battery electric vehicles) should be subject to a "level 2" evaluation, as their annual cost is between €20 and €100 million. Under the guidelines, this would include a quantitative analysis or cost-benefit analysis to look at issues such as deadweight and opportunity costs.

Based on the most recent data on the take-up of all the measures listed above, if all those measures were renewed without changes, these would likely cost over €100

[50] Department of Finance, September 2026 "Tax Expenditure Passports 2026".
[51] Department of Finance, October 2024 "Tax Expenditures Evaluation - Updated Guidelines".

million[52]. The Summer Economic Statement indicated that the tax package in Budget 2027 would be €1.5 billion. Any intention to extend these measures alongside any changes to income tax such as indexation would reduce the available space for "new measures".

[52] There is no data on the take-up of the Angel Investor Relief. The most recent data for the mortgage interest tax relief was 2024 data, at a cost of €29.1 million for 40,900 taxpayer units. As that scheme was revised to have more limited value for an applicant in 2026, and as those mortgage payers may no longer qualify for the scheme as the balance on their mortgage reduces, estimating the potential cost of an extension for this scheme cannot be easily made. The majority of that cost for extension would be for EII (€56.8m in 2023), the relief from VRT (€44.4m in 2025) and the 486C relief (€9.3 million in 2024).

6. Summary

Ireland's economy is currently performing well,[53,54] with substantial, if highly concentrated, tax revenues but highly dependent on a small number of multinational corporations and higher income earners.[55,56]

As public expenditure expands, there's a risk that this is funded by unreliable sources (windfall taxation). The Central Bank has cautioned that:[57]

> Government expenditure growth is running well in excess of the growth in tax revenue when excess corporation tax is excluded, presenting a material downside risk to the public finances[.]

Further, rising levels of investment in capital infrastructure is being applied to an economy that is at capacity.[58] This risks a pro-cyclical approach, leaving Government an unenviable choice between more actively trying to address an infrastructure deficit while also trying to avoid overheating the economy.

A recent PBO visualisation has shown two examples of how the economic cycle has major implications for the public finances, and the broader implications that has for Ireland:[59]

- The Social Insurance Fund[60] which is funded by PRSI contributions can rapidly drain its reserves and rely on Exchequer 'top-ups', swinging dramatically from annual surpluses to deficits, and
- Capital investment can collapse as it is easier to cut medium to long term investment plans rather than day-to-day spending.

Recent PBO analysis shows that the space for spending on new or expanded measures in 2027 is likely extremely limited.[61] When this is considered alongside an

[53] Central Bank of Ireland, Quarterly Bulletin No. 3 2026 (16 September 2026).
[54] ESRI, Quarterly Economic Commentary, Autumn 2026 (September 2026).
[55] PBO, An analysis of corporation tax revenue growth (2024).
[56] PBO, Labour Income Taxation in Ireland with European Comparison (25 September 2026).
[57] Central Bank of Ireland, Quarterly Bulletin No. 3 2026 (16 September 2026).
[58] ESRI, Quarterly Economic Commentary, Autumn 2026 (September 2026) p.8.
[59] PBO, Safeguarding Priorities: Key policy areas through the economic cycle (2 October 2026).
[60] PBO, What is the SIF? (Forthcoming, October 2026).
[61] PBO, Estimated ELS Costs for Budget 2027 (2026).

economy already at capacity, and reliant on revenues that are highly sensitive to economic shocks (domestic or international), as well as facing a long-term trajectory of an ageing population, there is an ever greater need to prepare for future economic shocks.

While addressing an infrastructure deficit remains an important issue for the State, it is also necessary to prepare for counter-cyclical investment should that scenario arise. In that case, rather than cutting capital spending, maintaining it could potentially shelter the economy from the more severe aspects of such a downturn.

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