

Budget 2027

Irish Economy

High-quality problems

Budget surplus expected for sixth consecutive year in 2027

In contrast to the strains that are apparent in some European sovereigns currently, Ireland's public finances, at a headline level at least, remain in rude health. As expected, Budget 2027 points to Ireland running a headline budget surplus (2.5% of GNI*) for the sixth consecutive year. The surplus is underpinned by continued growth in tax revenues and comes despite spending growth which is expected to continue at rates above the economy's long-term potential. Concentrated corporation tax revenues remain a medium-term concern, but in the short-term are providing a bounty to support spending, particularly on infrastructure.

Capital spending to rise to a new high in 2027

The make-up of Budget 2027 was well-flagged in the Summer Economic Statement in July. Voted spending measures of €7bn were announced, focusing on welfare rates, public sector pay, health and capital spending increases. The capital spending package is in fact bigger than the voted spending numbers suggest as there is additional €1.1bn for additional "Strategic Capital Investment" and for the Metrolink in Dublin. These "non-voted" elements will increase capital spending to 6% of GNI* in 2027, a new cycle high, and amongst the highest levels in the EU. The work of the Accelerating Infrastructure Taskforce to unblock issues in the chain will be important in ensuring that this money is spent.

Income tax reductions & new investment account welcomed

The tax package was in line with expectations and was predominately made up of increasing income tax bands. This will provide a modest boost (c.1.7%) to aggregate disposable incomes in 2027, but inflation will have the opposite effect over the coming twelve months. Details of the new Savings and Investment Accounts (SIAs) were also announced that will improve the attractiveness of investing for Irish households, while simplifying the tax treatment and administration of qualifying investments.

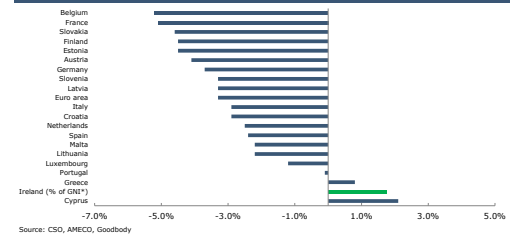
Net debt expected to fall to 35% of GNI* in 2027

By the end of 2027, the Irish government is expected to have put aside €32bn into two savings funds managed by the NTMA. This is helping a rapid reduction in net debt, which could fall to 35% of GNI* by the end of 2027. While uncertainties remain, this is helping to underpin Ireland's status as a "safe haven" in sovereign bond markets, with spreads remaining close to all-time lows. Further prudent management of the public finances and a greater recognition of the risks associated with a narrow tax base would help maintain this position.

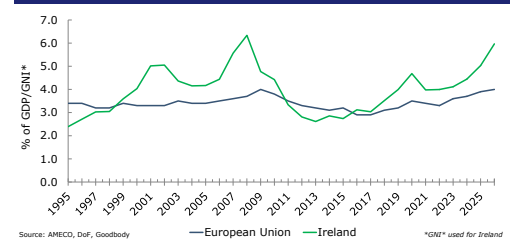
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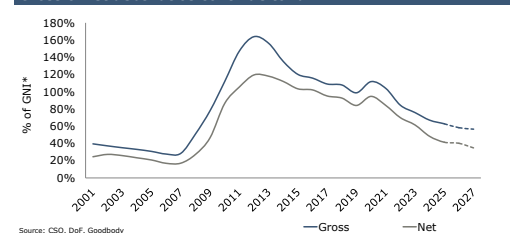
Budget balances in the euro area 2026



Government Investment as % of GDP*



Gross & net debt ratios continue to fall



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Budget 2027 – High-quality problems

With Ireland expected to have the largest budget surplus in the euro area in 2026, the background to Budget 2027 was very different to that in other member states. With tax revenues continuing their exceptional advance, the challenge for the Irish government was to temper expectations for a giveaway budget, while making provisions for potential fiscal measures to deal with a spike in energy prices over the winter period. At the same time, it had to continue to divert resources to capital spending to close its large infrastructure deficit. Finally, in the background, the issue of the sustainability of the concentrated corporate tax base remains a medium-term risk that needs to be managed.

How did it do on these issues? As previously outlined, Budget 2027 is once again predominantly a spending budget. General government spending is expected to grow by 6.5% in 2027, following average growth of 6.5% over the previous five years. The government largely stuck to its voted spending envelopes set out in the Summer Economic Statement. Within this, capital expenditure will grow by 5.9%, while current spending will increase by 6.0%. However, the capital spending is in fact expected to grow at a stronger pace in 2027 when one takes account of unallocated additional spending on strategic infrastructure as well as additional monies to the long-awaited Metrolink in Dublin. As a result, the Irish government has strengthened its commitment to addressing Ireland's infrastructure deficit in this budget, with capital spending expected to grow to 6% of GNI* in 2027, close to the highest in the euro area. At the same time, an additional €1bn into the Future Ireland Fund (FIF) goes some small way to addressing the gap between the scale of savings and the potential "temporary" revenues from the concentrated corporation tax base.

There were some measures to reduce the burden of energy costs on households and businesses as expected, but they remain small relative to the measures introduced in 2022/2023. While there is stated government objective to transition away from fossil fuels, it had to make a choice to temporarily reduce the financial incentives implicit in higher prices by extending the temporary reduction in fuel duties, while at the same time increasing other measures such as retrofit and EV incentives and the investment in the electricity grid. Given the uncertainty around the cost of energy over the coming months, we would have expected some form of "contingency reserve" for potential additional measures, as was done previously in the case of COVID and Brexit.

The main tax measure in the budget was a €2,500 increase in the standard-rate income tax band to €46,500, costing €1.3bn. For a single worker on a gross income of €52K, this will bring a small gain of 1.7%, helping offset some of the hit as a result of higher expected inflation over the coming twelve months. The other anticipated tax measure related to the new Savings and Investment Account (SIA). Our banks analyst Denis McGoldrick says that "The announced €50k tax-free threshold and €12k maximum annual contribution limit are broadly in line with our expectations. While the structure combines both an annual contribution cap and a tax-free threshold, sharing characteristics with both the UK's ISA regime and Sweden's ISK framework, the 1% annual charge on balances above the threshold is modest and should not represent a significant barrier to participation for most investors. As a result, the SIA should improve the attractiveness of investing for Irish households, while simplifying the tax treatment and administration of qualifying investments."

From a macro-economic perspective, Ireland remains the envy of the rest of Europe from a fiscal perspective. While we welcome the increased focus on capital spending and the higher contribution to the savings funds, medium-term risks remain around the concentration of corporation tax receipts. In the short-term though, there may indeed be even further upside risks to corporation tax revenues that continue to stand Ireland apart in an uncertain world.

Macro-economic environment

The Irish economy has performed strongly despite international geopolitical uncertainty and the energy shock. Compared to forecasts published in the Annual Progress Report (APR) in April, the forecast for Modified Domestic Demand (MDD) has been revised upwards to 3.7% (from 2.1%) for 2026, with the 2027 forecast put at 3.0% (unchanged).

Macro forecasts				
	APR '26		Budget '27	
	2026	2027	2026	2027
Economic Activity				
Real GDP	3.1%	3.5%	-0.7%	3.8%
Modified Domestic Demand (MDD)	2.1%	3.0%	3.7%	3.0%
Real GNI*	3.2%	2.5%	3.1%	3.5%
Prices				
HICP	3.3%	2.5%	3.3%	3.0%
Core HICP	2.8%	2.6%	2.7%	2.9%
Labour Market				
Employment	1.6%	1.4%	0.8%	1.8%
Unemployment	4.7%	4.8%	5.0%	5.0%

Source: DoF

Fiscal aggregates

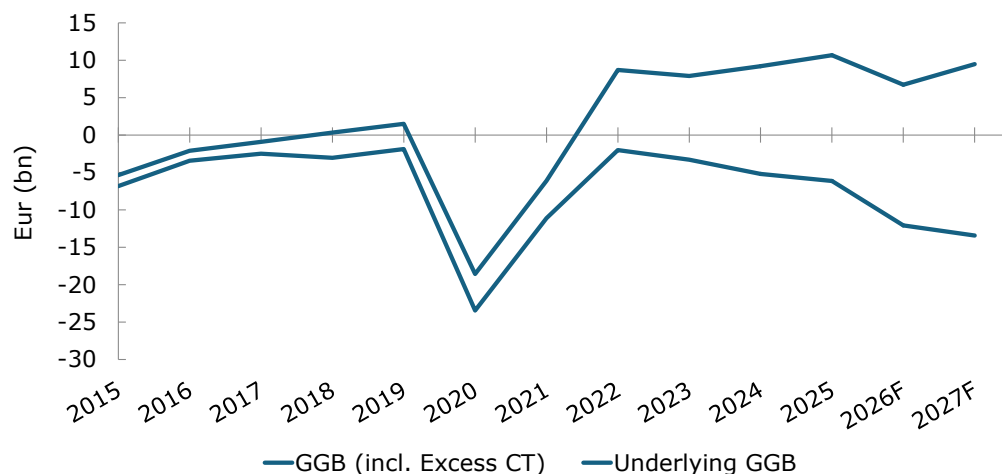
A summary of the main fiscal aggregates are found in the following table, along with how these forecasts have changed since April 2026.

Fiscal forecasts				
	APR 26		Budget 2027	
	2026	2027	2026	2027
GGB (€bn)	9.2	9.0	6.7	9.5
GGB (% of GNI*)	2.5	2.4	1.9	2.5
Underlying GGB (€bn)	-10.8	-12.3	-12.1	-13.4
Underlying GGB (% of GNI*)	-3.0	-3.2	-3.4	-3.5
Structural budget balance (% of GNI*)	-4.0	-3.9	-4.5	-4.6
General government debt (€bn)	208.1	213.8	207.9	214
General government debt ratio (% of GNI*)	57.6	55.7	58.5	56.4

Source: DoF

Relative to the Annual Progress Report, the expected general government surplus has fallen from €9.2bn (2.5% of GNI*) to €6.7bn. However, the expected surplus for 2027 has been revised up modestly. These are largely owing to a changing of the timing of corporation tax receipts. Adjusting for estimated “windfall” corporation tax receipts, the underlying deficit for both 2026 and 2027 has deteriorated since the APR, highlighting the potential medium-term vulnerabilities in the public finances.

General government balance - incl. & excl. "Excess" CT receipts



Source: DoF

Summary of tax & expenditure changes

The Summer Economic Statement (SES) set out an overall package of €8.5 billion, of which €7 billion was additional spending and €1.5 billion was tax cuts. This represents a €0.9 billion decrease yoy. Of the spending, public depending on rose 5.9 billion and capital expenditure 1.1 billion. An overall spending ceiling of €125.5 billion was set, of which €105.2 was current.

Core Budget Packages 2024-2027

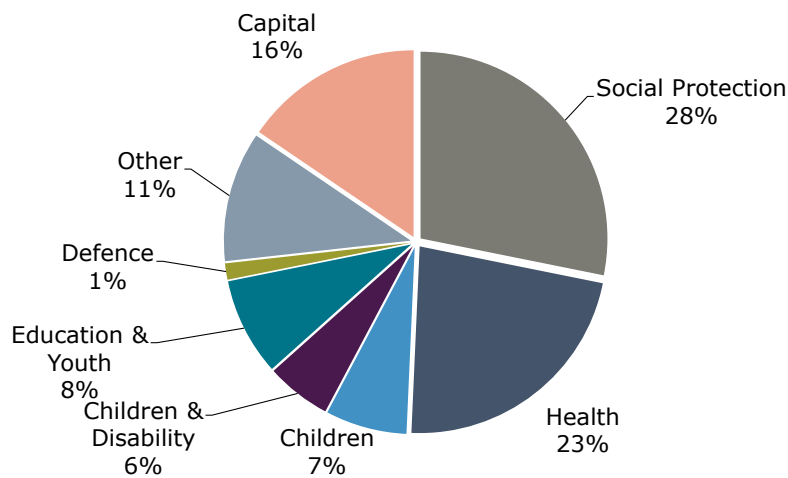
Category	Budget 2024	Budget 2025	Budget 2026	Budget 2027
Total Spending (€bn)	5.2	6.9	8.1	7
Core	5.2	6.9	8.1	7
Total Tax Cuts (€bn)	1.1	1.4	1.3	1.5
Core Budget Package (€bn)	6.4	8.3	9.4	8.5

Source: DoF

Income tax formed the largest component on tax measures (see Appendix for full details), accounting for €1.3 billion of the total. The largest of these moves were in changes to the standard rate off which was raised by €2500, to €46500. Further supports on the business side have also been introduced such as increases and changes in the R&D tax credit, a lowering of the CGT from 33% to 31%, and promises of additional aid for rural pubs and theatres.

The key elements of the of the latest budgetary spending package for 2027 are shown below.

Budget 2027: Spending increases as a % of total increase (€7bn)

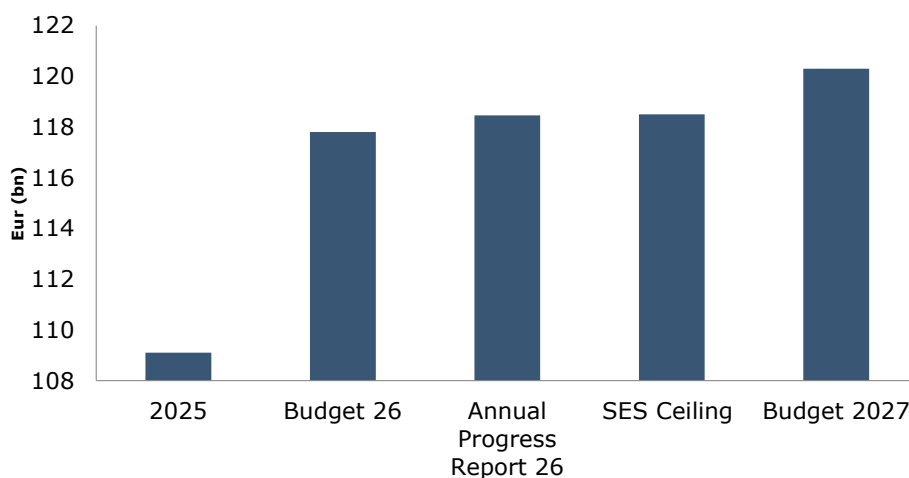


Source: DoF

The largest component of the current expenditure increase was Social Protection. Health also contributed materially. This department has seen significant spending overruns in recent years. To better manage public spending, Minister Jack Chambers announced a new initiative track spending efficiencies within public departments (an Irish "DOGE" or "An Bord Snip Nua"?). While its remit is yet unclear, the ability of the Minister to keep spending aligned with the Summer Economic Statement, would give one hope it will be a step in the positive direction.

The Budget continues to see an upward revision of the voted expenditure ceiling, rising approximately €2 billion to €120 billion. Of this €19.5 billion is capital and €100.8 is current expenditure. While the coalition will break its spending ceiling, by about 1.5 billion, about half of this is attributable to health overspends.

Planned Government Expenditure Ceilings

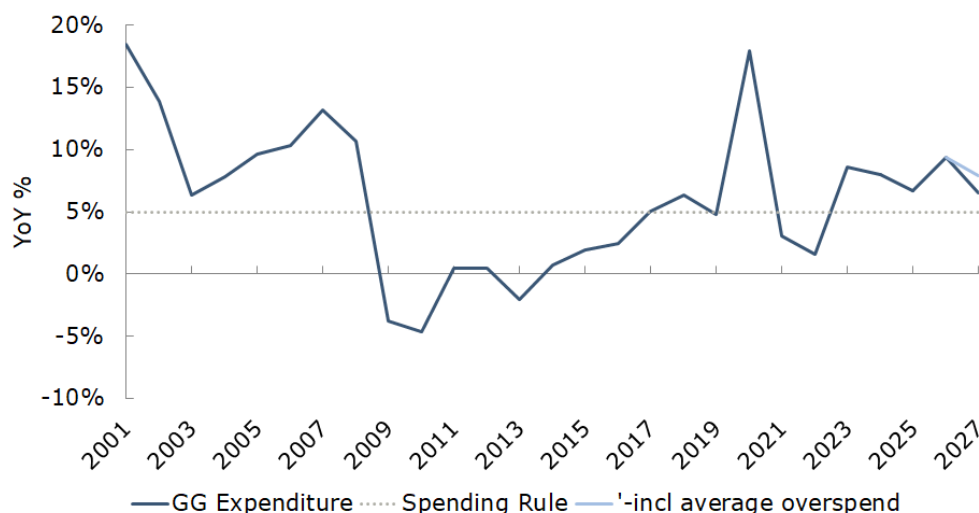


Source: DoF

Another spending budget – putting it all in context

On the broadest measure - General Government - spending is forecast to increase by 6.5% to €156bn in 2027. This follows an estimated 9.4% growth in 2026 and 7.6% per annum over the 2020-2025 period. It thus represents a planned moderation on the growth seen in recent years. However, spending discipline has been an issue for some time; the last time spending was at, or below, budgeted levels was in 2013, according to the Irish Fiscal Advisory Council. An overspend in line with the average of the last decade (€2bn) would result in spending growth of 7.9% in 2027. In both cases, this is above the previously targeted 5% expenditure benchmark which attempts to limit the align spending growth with the medium-term potential of the economy.

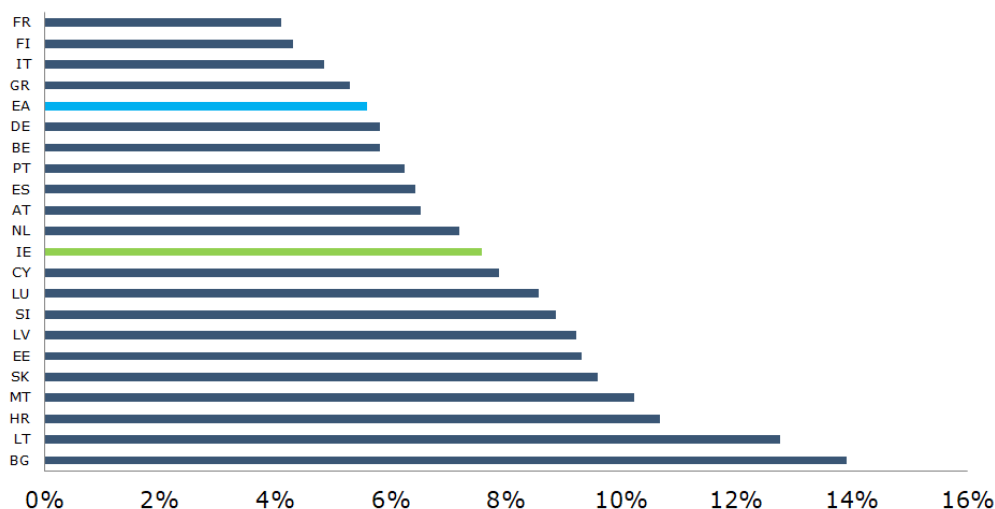
General government spending growth to moderate from 2026 rate but remain high



Source: CSO, DoF, IFAC, Goodbody

Among the older euro area member states, Ireland has had amongst the fastest growth in spending over recent years, averaging 7.6% yoy over the 2019-2025 period, compared to 5.6% in the euro area overall. One can argue that the spending increases were justified over pandemic years, but spending growth has continued at a high pace over recent years at a rate above the long-term potential of the economy and have contributed to inflationary pressures.

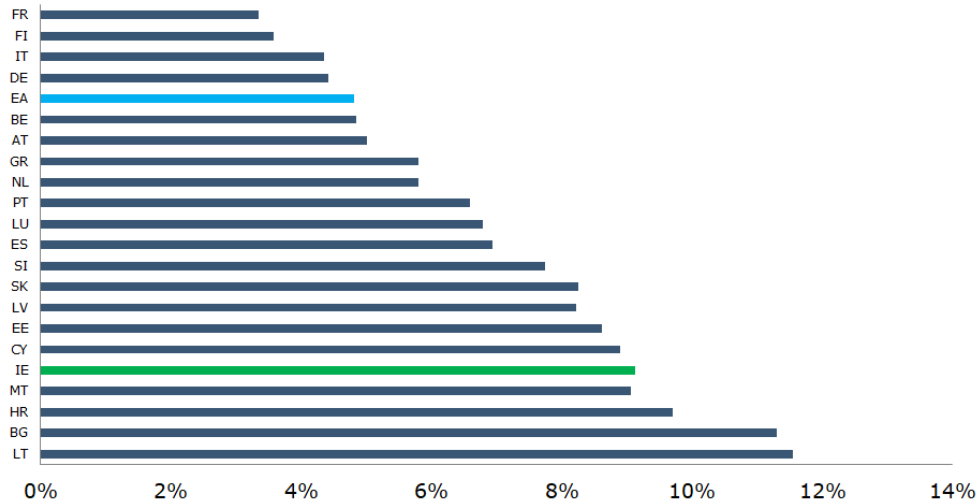
Government expenditure growth (% p.a.) – 2019-2025



Source: European Commission

Ireland has been able to run budget surpluses due to extraordinary growth in revenues over this period. General Government revenues grew by 64% over this time period, or 9% growth per annum. In 2026, it is estimated to have grown by 5.9%. Over the 2019-2025 period, Ireland has had the fastest rate of growth amongst any of the older members of the euro area and is almost double the euro area average growth of 4.8%.

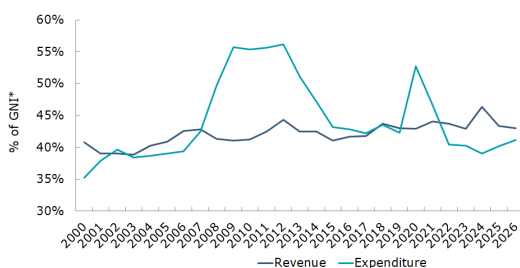
Government revenue – Annual average growth 2019-2025



Source: European Commission

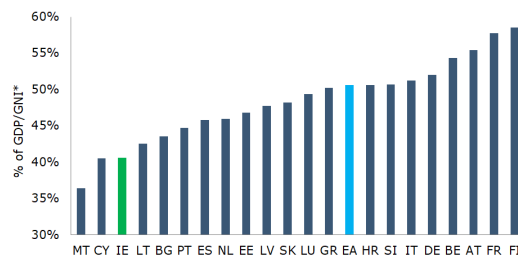
Despite high spending growth over recent years, spending relative to the size of the economy (GNI*) stands at 41.2% and is below its long-term average (44%) and well below the euro area average of 50%.

Spending/Revenue to GNI* in Ireland...



Source: CSO, DoF

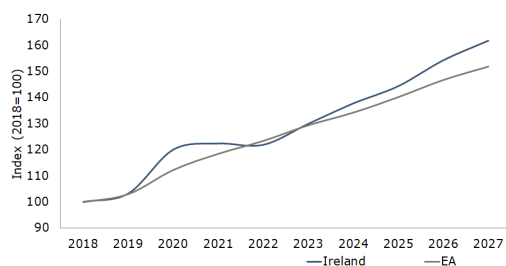
...is low relative to other euro area states



Source: AMECO

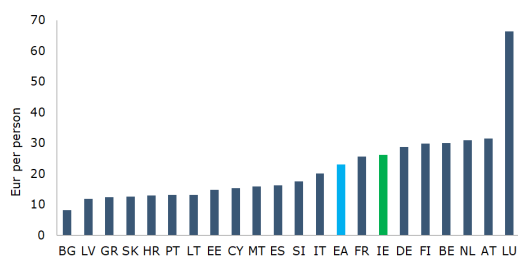
Another important consideration in the assessment of the path of government spending over recent years is the growth in the economy and, in particular, the growth in the population. We estimate that the growth in government expenditure per capita averaged 5.9% in Ireland over 2019-2025, compared to 5.3% in the euro area average, and was behind that seen in Netherlands (6.4%) and slightly ahead of Germany (5.5%). The spending growth was thus partly justified by the need to increase government services to facilitate a bigger state as well as the need to ramp up capital spending to address a significant infrastructure deficit.

Spending per head since 2018 (indexed)



Source: AMECO

Government spending per head

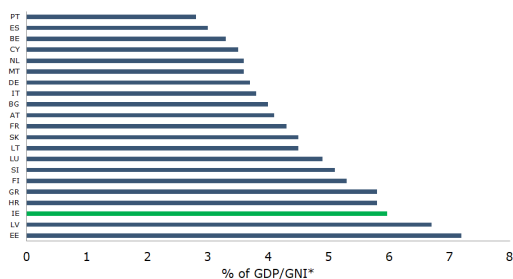


Source: AMECO

Strong commitment to capital spending as it is planned to hit 6% of GNI* in 2027

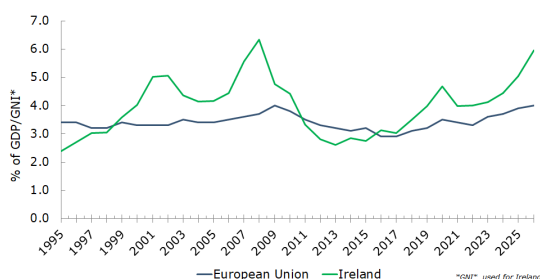
Government investment is expected to top €20bn in 2027 for the first time. It has more than doubled in nominal terms since 2022, highlighting the ambition to address Ireland's infrastructure deficits in housing, energy and transport in particular. Such a sustained level of spending has not been seen in Ireland in 20 years. Spending requirements under the National Development Plan (NDP) suggest that there will continue to be a high level of spending on capital projects over the period to at least 2030. At an expected 6.0% of GNI* in 2027, Ireland has one of the highest levels of capital spending in the euro area. In Budget 2027, it is notable that the government elected to devote more unallocated capital spending and transfers. This includes an additional €620m for "Strategic Capital Investment", €540m funding for Metrolink and an additional €1bn transfer into the Future Ireland Fund. These capital investments are expected to grow over the period to the end of the decade.

Capital spending – one of the highest in EU...



Source: AMECO, DoF, Goodbody

...and expected to hit 6% of GNI* in 2027



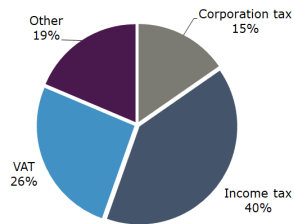
Source: AMECO, DoF, CSO, Goodbody

Corporation tax – upside short-term risks, medium-term vulnerability

Tax revenues are expected to grow strong once again in 2027.

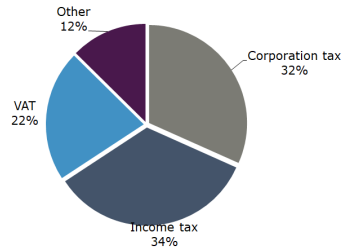
Corporation tax will account for 33% of total taxes and 33% of total government revenue in 2027. This is up from 15% in 2016 and compares to an OECD average of 12%. Income tax will account for 34% of the total, with VAT at 22% of the total. Compared to a decade ago, the share stemming from corporation tax has more than doubled.

Tax breakdown 2016 (Total = €49bn)



Source: DoF

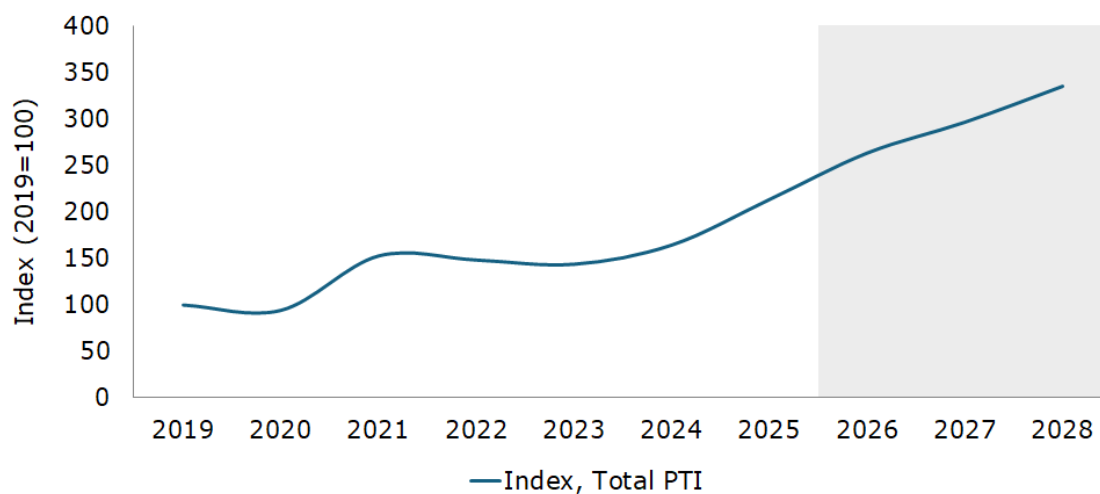
Tax breakdown 2026 (Total = €112bn)



Source: DoF

This issue has already been discussed at length. Our view has been that the expected growth in profitability of large multinationals with operations in Ireland is such that there were further upside risks for corporation taxes in the short-term, despite the medium-term risks evident in the highly concentrated nature of the tax base. The chart below looks at the expected aggregate profits of 16 large multinationals with operations in Ireland. We remain of that view and would prefer to see a stricter link between the potential “temporary” portion of the tax take and amounts of money that is diverted into savings funds.

Aggregate pre-tax income of “Big 16” corporate taxpayers in Ireland

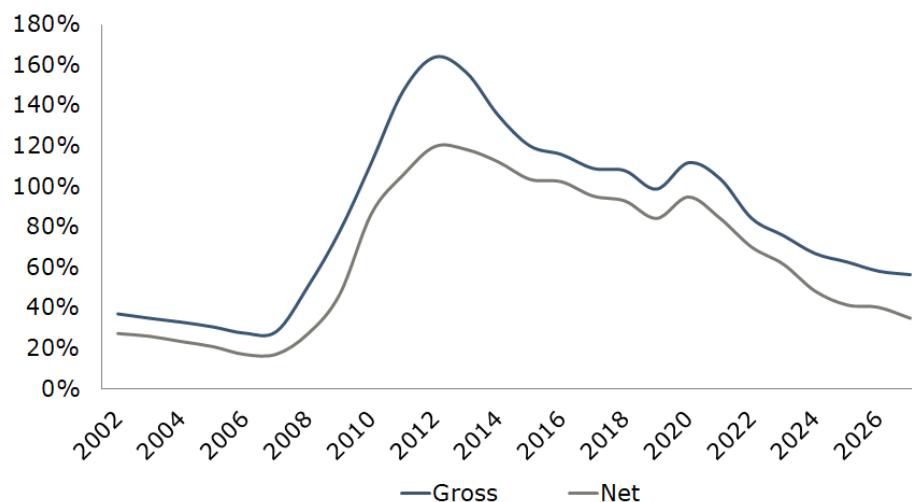


Source: Company reports, Goodbody (forthcoming)

Debt dynamics

Ireland's debt dynamics continue to improve as a result of a combination of ongoing growth in GNI*, ongoing budget surpluses and the growing value of savings in the Future Ireland Fund (FIF) and the Irish Climate and Nature Fund (ICNF). Gross debt as a % of GNI* is expected to fall to 58% at the end of 2026, while net debt will be just 40%. For 2027, we estimate that net debt will fall to 35% of GNI*.

Net debt could fall to 35% of GNI* in 2027, down from a COVID peak of 95%



Source: CSO, DoF, GNI*

As well as continuing to have a large cash buffer, the rising value of the sovereign wealth funds play an increasingly important role in the gap between gross and net debt in Ireland. The government has decided to inject an additional €1bn in the Future Ireland Fund (FIF) next year, something which we welcome. This takes the total injections next year to €7.7bn. On reasonable assumptions, we estimate that the value of these funds could grow to c.€57bn (13% of GNI*) by the end of the decade.

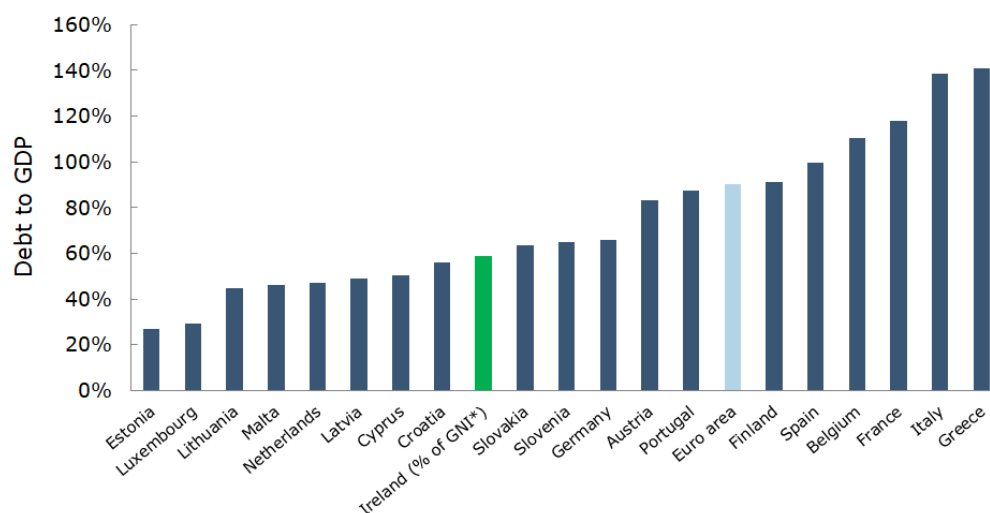
Expected value of savings funds held by the NTMA (€bn)

	2024	2025	2026	2027f	2028f	2029f	2030f
<i>Accumulated value of savings funds</i>							
FIF	8,350	12,614	17,492	23,714	29,275	35,245	41,623
ICNF	2,000	4,044	6,165	8,350	10,601	12,919	15,306
Total	10,350	16,658	23,657	32,064	39,876	48,164	56,929
% of GNI*	3%	5%	7%	8%	10%	11%	13%
<i>Annual contributions</i>							
FIF	8,350	4,080	4,500	5,697	4,849	5,092	5,321
ICNF	2,000	2,000	2,000	2,000	2,000	2,000	2,000

Source: DoF, Goodbody

While full details on net debt positions are not available, the chart below shows that on a gross basis, Irish debt levels are expected to be more than 30 percentage points below the euro area average of 90% at the end of next year.

Gross debt levels* in the euro area



Source: AMECO *Debt to GNI* for Ireland, Debt to GDP for all other countries

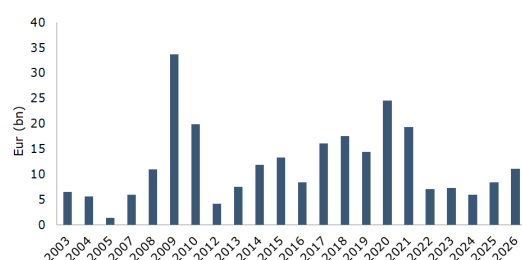
Funding needs remain low for now

The table below attempts to estimate the potential funding needs of the Irish sovereign over the coming years. The NTMA set out a target range of €10bn-€14bn for 2026, of which €11bn has been raised to date. Ireland has very modest redemptions due in 2027, amounting to €8.8bn (€7.8bn government bond plus €1bn EFSM redemption). Along with an expected Exchequer borrowing requirement of €1.3bn, it is reasonable to assume that a similar funding range to this year's will be targeted for 2027. The redemption requirement is similarly small in 2028, amounting to €9.5bn, before rising to €13.3bn and €19.4bn in 2029 and 2030, respectively. Along with expected increase in the Exchequer deficit towards the end of the decade, this suggests rising debt issuance requirements over that time period

Interest bill is low, but has troughed

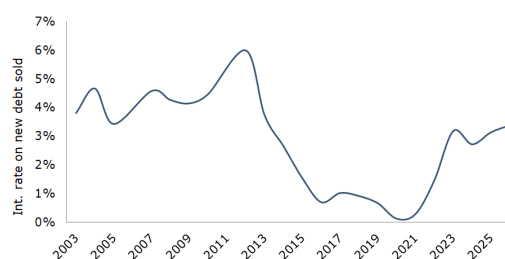
Following a decade of very low rates, interest rates have begun to rise for European government bonds. Despite spreads on Irish government bond yields remaining very tight, borrowing costs have risen this year, with the average yield on the €11bn debt sold in 2026 at 3.39%, up from 3.14% in 2025 and the highest average rate since 2013.

New Irish debt sold



Source: NTMA

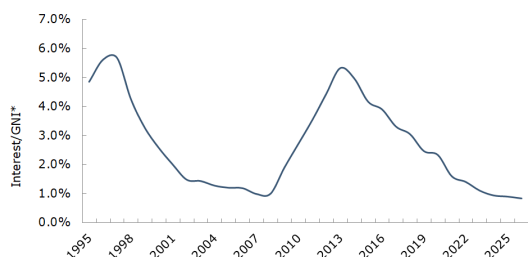
Average interest rate on new debt



Source: NTMA

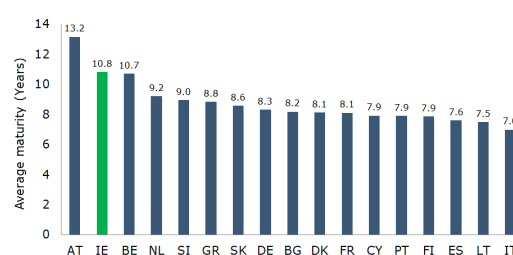
Despite the increase, debt interest costs are expected to remain low over the coming years due to a relatively high average maturity, with low interest costs locked in. The average maturity of the Irish sovereign debt stock is currently 10.8 years, behind only Austria in the EU.

Debt interest costs remain low but troughed



Source: DoF, CSO, Goodbody

Average maturity of debt stock

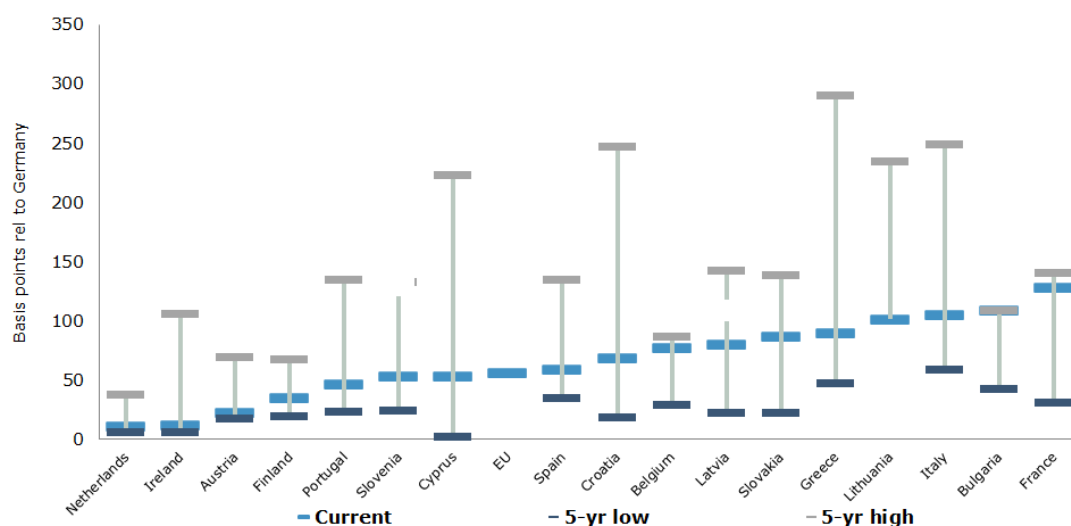


Source: ECB

Irish sovereign bonds remain a safe haven

From a market perspective, Ireland has remained a relative safe haven in government bonds in the recent period of volatility associated with increased concerns around France. Ratings moves have continued to be positive, and the spread over Germany remains close to all-time lows.

Sovereign spreads relative to Germany – Ireland remains close to lows



Source: Factset

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