Medium-Term Fiscal and Structural Plan

October 2024

Prepared by the Economics Division
Department of Finance
finance.gov.ie

Ireland's medium-term fiscal and structural plan

October 2024

FOREWORD

Government is obliged to prepare a medium-term fiscal structural plan ('medium-term plan') under the revised fiscal rules.

Government is conscious that there will be a General Election by the first quarter of next year at the latest. It will fall to the next Government to produce a revised medium-term plan in due course. The next Government will, of course, have new priorities and new policies; this document is prepared without prejudice to the decisions of the next Government.

The current document does not include provision for additional capital spending – over €17 billion – to be financed by the AIB share sales and the proceeds of the Court of Justice of the European Union decision of 10th September 2024. Details on the use and timing of the drawdown of this spending will be included in the medium-term plan of the next Government's and, in the case of the Escrow funds, in line with the framework for the use of these windfall receipts (as announced in the Budget).

The main objective of the new framework is to strengthen Member States' fiscal sustainability, while fostering sustainable and inclusive growth through the promotion of growth-enhancing reforms and investments.

While still incorporating annual surveillance, the new governance framework moves towards a more medium-term orientation for budgetary policy. This medium-term focus is operationalised through new multi-annual national fiscal and structural plans with a four or five-year horizon (in line with the length of a Member State's national legislature).

The revised framework also aims to strengthen national ownership as, within these plans, each government will commit to a binding fiscal path as well as to a set of public investments and reforms.

While the medium-term plans will be proposed by Member States, these plans must be endorsed by the Council of the EU, on the basis of a positive assessment by the European Commission.

Annual implementation of the medium-term plans will be delivered through the Draft Budgetary Plans, while Member States will also submit annual progress reports each April, including updates on implementation of agreed reforms and investments.

As has been the case over the past decade or so, gauging the performance of the Irish economy is complicated by the presence of the foreign-owned sector, where large transactions can impact on the national accounts. Modified metrics are used in domestic economic analysis; there is, however, no provision for these in European Union law and so traditional macroeconomic variables are presented in this document.

The analysis in this document is based on *Budget 2025* which was presented to the Irish Parliament on 1st October 2024.

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Annex

Procedural, technical and other relevant issues

1. Budget for 2025

The medium-term fiscal and structural plan is a five-year plan based on medium-term projections set out in *Budget 2025. The macroeconomic forecasts underpinning Budget 2025 were endorsed by the Irish Fiscal Advisory Council ('the Fiscal Council') on 23rd September 2024 (see* **annex 1** *of Draft Budgetary Plan 2025)*.

Budget 2025 was presented to the Irish Parliament on 1st October 2024.

2. Date stamp

The macroeconomic analysis and forecasts contained in this document are based on economic and fiscal data available to mid-September 2024. Minor updates are incorporated to the economic projections to reflect *inter alia* the cost-of-living package introduced by Government as part of *Budget 2025*.

3. Rounding

Rounding can affect totals in all tables in this document.

4. Boxes

The document contains several boxes. These are short, self-contained pieces of analysis, the objective of which is to delve a little deeper into some topical economic and fiscal issues.

5. Corrections policy

The data and analysis set out in this document are compiled by Department of Finance staff; every effort is made to ensure accuracy and completeness.

If errors are discovered, subsequent corrections and revisions are incorporated into the digital version available on the Department's website. Any substantive change is detailed in the online version.

6. Consultation

On May 27th 2024, the Government hosted the National Economic Dialogue (NED), an annual event that provides a deliberative forum for stakeholders to participate in an open and inclusive exchange with Government on economic and social priorities. Discussions at NED 2024 included a medium-term focus in the context of the Government's obligations under the revised EU fiscal framework.

7. Presentation before parliament

The document was laid before (formally presented to) the Oireachtas on 15th October 2024.

Chapter 1
Economic and fiscal strategy – an overview

1.1 Economic policy strategy

The Irish economy is in a reasonably healthy position. The employment rate is at an all-time high, real incomes are on a rising trajectory and, at an aggregate level, household balance sheets are in good shape.

That said, there remain important sectoral imbalances – in the housing market, in other strategic infrastructural areas (such as energy and water)– that are weighing on economic and social progress. In particular, infrastructural deficits are limiting the economy's growth potential and, for this and other reasons, addressing the infrastructural gap is a key macroeconomic objective for Government.

Government is also conscious that slower moving, fundamental changes are at work, both domestically and internationally, that are transforming economic activity in Ireland. Navigating the challenges posed by adverse demographic trends, the need to decarbonise economic activity, transitioning to the digital economy and adapting to a less integrated global economy, is a key priority for Government.

Policies aimed at boosting productivity and enabling the transition to the 'new normal' in as smooth a manner as possible are at the core of the Government's response and are set out in this document.

1.2 Fiscal policy strategy

Turning to the public finances, the headline budgetary position has benefitted from the strength of the post-pandemic economic recovery as well as increased revenue flows from the corporate sector in the last few years.

The underlying budgetary position – the structural budget balance – is in a less favourable position than the headline balance. That said, the relatively modest level of debt (as a share of national income) provides important shock absorption capacity.

Against this backdrop, the Government's budgetary priorities are, in broad terms, three-fold.

First, with a rapidly expanding population, there is the need to provide additional public services. Government is providing the financing for this as there is a recognition that there is a need to better align inputs with outputs.

Secondly, Government is financing additions to the public capital stock. The public sector investment rate is being ramped up and this is provided for in the figures set out in this document. In addition, Government is committed to using the proceeds from one-off windfalls to address strategic infrastructural deficits in key areas. These are not provided for in the figures as there is no certainty regarding draw down of the funds.

Finally, in preparation for longer-term fiscal challenges, the Government has established two longer-term savings vehicles and is channelling much of the estimated corporate tax 'windfalls' to these funds.

1.3 Net spending

The revised fiscal framework requires Member States to set out a net spending ceiling. The net expenditure ceiling – set out as net primary expenditure is defined as general government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes matched and/or co-financed by the European Union, cyclical elements of unemployment benefit expenditure and one-off/temporary expenditure items outside the control of government.

Member States may not deviate from the ceiling unless there is a change in Government which allows a new plan to be submitted. As such, a new Government will be given the opportunity to submit a revised MTP, and new medium-term fiscal strategy, following the next General Election.

Table 1: Net spending

	2023	2024	2025	2026	2027	2028	2029	2030
Exchequer spending per Budget^	6.6	8.1	3.0	6.6	5.0	5.0	5.0	5.0
Implied net primary gg spending^^	7.5	9.8	5.1	6.5	4.9	5.4	4.7	4.2

^ gross voted exchequer spending.
^^ exchequer spending is translated into gg net spending by taking the projections set out in the Economic and Fiscal Outlook and adjusting for interest expenditure, discretionary revenue measures, expenditure on programmes matched and/or co-financed by the European Union, cyclical elements of unemployment benefit expenditure and one-off/temporary expenditure items outside the control of government. This also includes non-voted exchequer spending.
Source: CSO for 2023; Department of Finance for 2024-2030.

Chapter 2
Economic developments and outlook

2.1 Introduction

The Irish economy is at an advanced stage of the cycle, with high levels of demand running up against constraints on the supply-side, including in the labour market. Notwithstanding these imbalances, dis-inflation has been faster than initially foreseen, though this in part reflects external factors such as the decline in wholesale commodity prices and a re-normalisation of global supply chains.

The projections set out in this document are calibrated on the assumption of a gradual normalisation of economic activity, with a closer alignment of aggregate demand and supply in the years ahead.

2.2 Near-term economic developments and outlook

Irish exports rebounded strongly in the first half of this year, following the post-pandemic correction during 2023. Foreign sales of pharmaceuticals, semiconductors and computer services have been particularly strong, and this pattern is expected to continue in the second half of the year.[1]

Having stagnated at the start of the year, consumer spending picked up in the second quarter and this momentum is expected to continue in the second half of the year. In particular, the easing of inflation will support real wage growth, while cost-of-living related transfers from the government sector to the household sector – as part of *Budget 2025* – will further underpin household incomes, and hence spending, in the final quarter of the year.

Spending on goods and services by the government sector is projected to increase by 3 per cent in real terms this year, driven by *inter alia* the expansion of service provision in key policy areas.

Business spending has been volatile in the first half of the year due, in part, to highly concentrated machinery and equipment investment in the multinational sector, which is assumed to make a negative contribution in the second half of the year.

On the building and construction side, investment within the commercial real estate sector has been weak since the pandemic, with the structural shift in working arrangements (increased work-from-home) reducing demand for office space. In addition, the rising cost of capital has acted as an additional headwind over the past year or so. As a result, investment within the sector is set to contract further this year. On the residential side, activity is expected to accelerate in the second half of the year.

Putting all of this together, GDP is projected to contract by -0.2 per cent this year, driven mainly by weak outturns in the first half of the year owing to negative contributions from stocks and contract manufacturing.

The strong momentum from the second half of 2024 is expected to carry forward into next year. The temporary nature of the Government's cost-of-living package means that the stimulatory effects on consumer spending will unwind as the year progresses. The underlying pace of consumer spending will, however, remain solid, underpinned by a resilient labour market and the relative strength (in

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[1] Headline exports and investment have been significantly impacted by firm specific factors in the multinational sector, specifically related to corporate restructuring. This has led to a significant outflow of intellectual property assets i.e. the IP has been relocated outside of Ireland. This outflow is recorded as both a service export and as disinvestment in the national accounts (as it has resulted in a fall in Ireland's capital stock).

aggregate) of household balance sheets. Consumer spending is therefore projected to increase by 3.4 per cent next year.

The need to continue to enhance public service provision in key sectors and to meet demographic pressures will see public consumption growing at 2.4 per cent next year.

On the investment side, the projections assume a negative contribution from machinery and equipment investment next year on the basis of a significant unwinding of activity in parts of the multinational sector. Given the strong pipeline of commencements over the past year, dwelling completions are expected to pick up strongly next year and this momentum is expected to be maintained over the medium-term. The Government's commitment, under the *National Development Plan* (NDP), to increase capital investment will also support an expansion in building and construction activity next year. In contrast, investment within the commercial real estate sector is projected to remain subdued.

Meanwhile underlying exports (i.e. excluding exports of intellectual property) are projected to increase once again so that, in overall terms, GDP is projected to increase by 3.9 per cent next year.

2.3 Medium-term economic outlook

Medium- and longer-term growth projections are anchored in estimates of the economy's potential output (the 'supply-side'). This potential is determined by the availability of resources, in terms of labour and capital, as well the efficiency (productivity) to which they are combined in production.

Table 2: Macroeconomic prospects

	2023	2024	2025	2026	2027	2028	2029	2030
Economic activity				*per cent change*				
Real GDP	-5.5	-0.2	3.9	3.8	3.7	3.6	3.6	3.6
Nominal GDP	-2.1	3.0	6.1	6.0	5.9	5.8	5.8	5.8
Components of GDP				*per cent change*				
Personal consumption	4.8	3.2	3.4	2.9	2.7	2.6	2.6	2.4
Government consumption	4.3	3.0	2.4	2.7	1.7	1.7	1.7	1.7
investment	2.8	-21.8	23.2	5.3	5.3	5.2	5.2	5.2
Stock changes^	1.3	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Exports	-5.8	8.5	1.9	3.8	3.8	3.7	3.7	3.7
imports	1.2	6.4	3.9	3.6	3.5	3.4	3.4	3.4
Contributions to GDP growth				*percentage points*				
Domestic demand	2.2	-3.8	5.5	2.3	2.2	2.1	2.1	2.1
Stock changes	1.3	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	-9.1	4.9	-1.5	1.5	1.6	1.6	1.5	1.5
Statistical discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal amounts				*€ millions*				
GDP (nearest €25m)	509,950	525,200	557,200	590,600	625,425	662,000	700,050	740,375

^ contribution to GDP growth.
Source: CSO for 2023; Department of Finance for 2024-2030.

Estimates presented in the next Chapter indicate a positive 'output gap' at present – aggregate demand exceeds aggregate supply. This gap is projected to close slowly over time, with the economy growing broadly in line with potential over the medium-term (**table 6**).

2.4 Labour market developments and outlook

Solid output growth continued to yield positive dividends in the labour market, with strong employment growth recorded in the first half of 2024. The latest data show 2.75 million people now at work, with almost three-quarters of the working age population now in employment, an all-time high. Almost all of the employment gains arose from increases in labour supply, primarily net inward migration and increases in labour force participation. Female participation, in particular, has never been higher.

Looking ahead, employment growth of 2.4 and 1.8 per cent is projected for this year and next, respectively; to put it another way, almost 110,000 jobs are assumed to be added in the two-year period to end-2025. The unemployment rate is expected to remain low by historical standards and average 4½ per cent over the forecast horizon, broadly consistent with full employment.

Table 3: Labour market developments, per cent change (unless stated)

	2023	2024	2025	2026	2027	2028	2029	2030
Population	1.9	1.9	1.2	1.0	1.0	0.9	0.9	0.8
Labour force	3.3	2.4	1.9	1.6	1.2	0.9	0.8	0.7
Employment ('000)	2,685	2,748	2,797	2,842	2,876	2,902	2,925	2,945
Employment	3.4	2.4	1.8	1.6	1.2	0.9	0.8	0.7
Unemployment rate (per cent)	4.3	4.4	4.5	4.5	4.5	4.6	4.6	4.6
Labour productivity^	-8.7	-2.5	2.0	2.2	2.5	2.7	2.8	2.8
Compensation of employees^^	10.9	7.7	6.4	6.1	5.3	4.9	4.8	4.5
Wages per head	6.9	4.9	4.2	4.2	3.9	3.9	3.8	3.7

^ GDP per person employed
^^ Non-agricultural sector
Source: CSO for 2023; Department of Finance for 2024-2030.

Over the medium-term, employment is assumed to evolve in line with growth in the labour force; taking into account migration flows and the evolution of the participation rate. Employment growth averaging 1 per cent per annum is anticipated in the second half of this decade.

Tight labour market conditions have put upward pressure on wage dynamics, with per-capita wage growth of 4.9 per cent projected for this year; this would be well in excess of the expected rate of inflation and, as a result, consistent with real wage gains. For next year, per-capita wage growth of 4.2 per cent is in prospect, and by 3½ - 4 per cent per annum over the remainder of this decade.

Box 1: Employment rate

For any economy, the employment rate is a key macroeconomic indicator. It shows the share of the population of working age (those aged 15-64) who are at work – the most dynamic economies tend to be those with high employment rates and high levels of productivity.

One of the most notable features of the post-pandemic labour market of many advanced economies has been an increase in the employment rate.

In Ireland, the employment rate is now at 74½ per cent, its highest level ever; in other words, three-quarters of the working age population is now at work. This compares with a high of 71½ per cent (2007) in the previous cycle.

Breaking this down by gender provides some insight into the underlying dynamics (**figure 1A**).

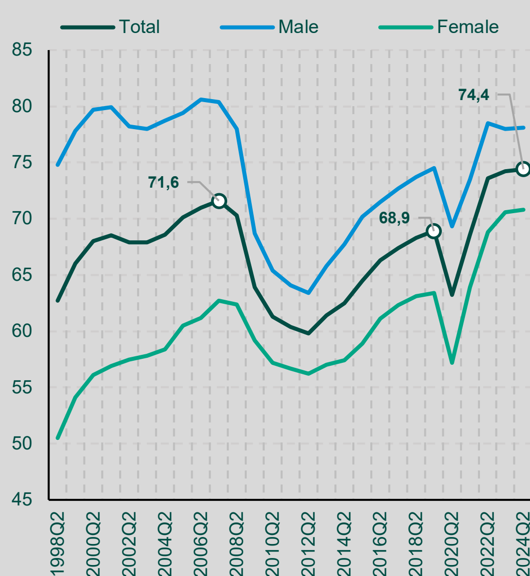
The female employment rate is now just under 71 per cent, an increase of over 7 percentage points relative to the pre-pandemic peak. Other data (not shown), show that the jump in the employment rate is due to higher rates of female participation in the labour market rather than any reduction in the (already low) female unemployment rate.

While this growth in the female employment rate partly reflects a continuation of a longer term trend in increasing female labour market participation, the growth since the pandemic exceeds that implied by the pre-pandemic trend, suggesting other factors are likely also at play. This additional increase may, in part, be explained by structural changes brought about by the pandemic, such as policies that facilitate hybrid working, as well as an expansion of childcare supports.

While the male employment rate has also increased sharply since the pandemic (by c. 3½ pp), it remains below its peak nearly two decades ago. This reflects the nature of the previous cycle, with a significant share of male workers employed in the inflated construction sector.

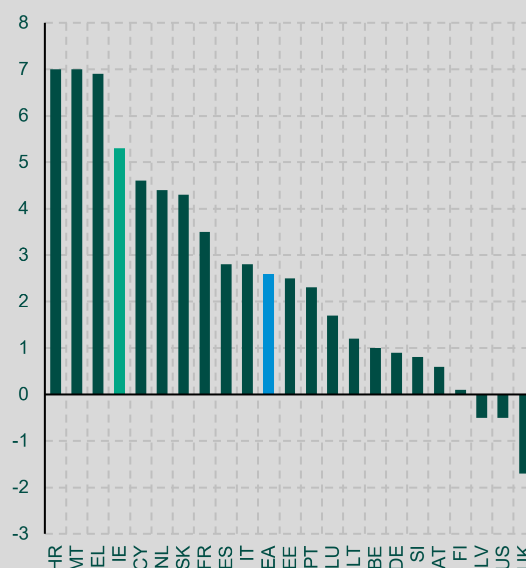
Figure 1: Employment rate – recent developments

A: Employment rate (15-64), per cent



Source: CSO

B: Change in employment rate, 2024Q2 vs 2019Q2



Note: Euro area = 15-64; US = 16+; UK = 16-64
Source: Eurostat, BLS, ONS

The increase in the employment rate in Ireland over the period compares favourably with European peers (**figure 1B**). Only Croatia (+7 pp), Malta (+7 pp) and Greece (+6.9 pp) have recorded larger increases in the employment rate; for the euro area as a whole, the increase was 2.6 pp.

Encouragingly, the strong growth in female employment in particular has resulted in a narrowing of the gap between the male and female employment rates to 7.3 pp.

As a result, the employment rate gender gap in Ireland is now below that of the euro area, which stood at 8.7 pp in the second quarter of 2024.

2.5 Prices

The decline in wholesale energy prices has triggered a rapid fall in headline inflation, in Ireland and elsewhere. The price of goods imported from abroad have also fallen throughout this year, as global supply chains have re-normalised following disruption during (and after) the pandemic. Second-round effects appear to have been fairly contained, as evident from the moderation in 'core' inflation (the headline figure excluding energy and unprocessed food prices).

While external inflationary pressures have subsided, pockets of inflationary pressures remain, notably in the domestic sectors of the economy. Core services inflation (services inflation excluding rents) remains elevated, with a rate of inflation at/or in excess of 4 per cent for 12 of the last 15 months (although there was a notable easing in September). This is indicative of ongoing capacity constraints against the backdrop of relatively strong domestic demand.

Taken together, headline and core inflation (excluding energy and unprocessed food) are expected to average 1.7 per cent and 2.7 per cent, respectively, this year. This projection is calibrated on the assumption of a pick-up in headline inflation in the final quarter of the year, due to energy 'base effects'.

Table 4: Price developments, per cent change

	2023	2024	2025	2026	2027	2028	2029	2030
GDP deflator	3.6	3.2	2.1	2.1	2.1	2.1	2.1	2.1
Personal consumption deflator	8.1	4.0	2.5	2.5	2.4	2.4	2.4	2.4
HICP	5.2	1.7	1.9	2.0	2.0	2.0	2.0	2.0
Core HICP^	5.1	2.7	2.3	2.2	2.2	2.2	2.2	2.1
Export price deflator	2.7	1.8	1.4	1.5	1.6	1.6	1.5	1.6
Import price deflator	3.5	1.6	1.4	1.5	1.5	1.5	1.5	1.6
Terms-of-Trade	-0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0

^ core inflation is HICP excluding the most volatile components, namely energy and unprocessed food.
Source: CSO for 2023; Department of Finance for 2024-2030.

Looking ahead, the path of domestically-generated price pressures will be key: the strength of domestic demand relative to supply means that core services sector inflation is likely to remain relatively elevated. Overall, therefore, core inflation is projected at 2.3 per cent for next year; taking into account expected energy price dynamics, this would result in headline inflation of 1.9 per cent.

Over the medium-term, inflation is projected to average 2 per cent per annum, consistent with price stability.

Chapter 3
Fiscal developments and outlook

3.1 Introduction

The public finances in Ireland continue to benefit from the economic cycle and, in the baseline scenario, this should continue over the medium-term. Windfall receipts arising from a legal ruling temporarily boost the headline surplus this year, while corporate tax receipts have continued to surprise on the upside.

Government has established two longer-term savings vehicles which are being capitalised via these corporate tax flows; the objective is to provide for inter-temporal smoothing of the budgetary costs associated with population ageing and other structural changes.

3.2 Near-term fiscal developments and outlook

Recently published data show a general government surplus of €8.3 billion (1.6 per cent of GDP) last year.

For this year, *Budget 2025* (presented to the Irish parliament in early October) is calibrated on a general government surplus of just under €23.7 billion (4.5 per cent of GDP). This includes the accrual[2] of all revenue arising from the Court of Justice of the European Union (CJEU) ruling of 10th September 2024 to this year.[3]

Excluding windfall corporation tax revenues, an underlying deficit of €6.3 billion (1.2 per cent of GDP) this year.

Looking ahead, the revenue side of the equation should continue to benefit from the economic cycle, with strong employment and corporate profit growth underpinning further increases in direct taxes ('taxes on income and wealth'). Solid consumer spending growth is assumed to support the continued expansion of indirect taxes ('taxes on production and imports').

In terms of outlays, budgetary policy is geared towards increased provision of public goods and services, and this will underpin a further increase in the public sector pay-bill ('compensation of employees'). The ramping-up of public investment spending under the NDP will also involve higher outlays. Interest expenditure on the national debt is expected to remain contained. Overall, a headline surplus of €9.7 billion (1.7 per cent of GDP) is anticipated for next year; this would be consistent with a underlying deficit of €5.7 billion (1 per cent of GDP).

3.3 Medium-term fiscal outlook

Medium-term budgetary projections are set out below (**table 5**). These are calibrated on the assumption that net spending – that is spending net of discretionary tax measures – evolves as set out in **Table A3**. The revenue projections are largely based on the assumption of the economy evolving in line with its estimated potential beyond the near-term. In addition, the medium-term forecast incorporates a downward adjustment to corporate tax receipts to account for the impact of global policy changes in this area.

[2] On a general government basis, the tax revenue associated with the CJEU ruling is classified as 'other revenue'.
[3] Note that in the national accounts classification of the budgetary arithmetic, this is treated as an 'other capital transfer'.

Table 5: General government balance, per cent of GDP	2023	2024	2025	2026	2027	2028	2029	2030
Net lending by sub-sector								
General government balance	1.6	4.5	1.7	1.4	1.1	1.6	1.5	1.4
: Central government	1.8	4.8	2.2	1.7	1.4	1.8	1.7	1.6
: Local government	-0.2	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2
Underlying balance (excl.CJEU)	1.6	1.8	1.7	1.4	1.1	1.6	1.5	1.4
General government								
Total revenue	24.3	28.4	25.3	24.9	24.4	24.7	24.5	24.1
Total expenditure	22.6	23.9	23.6	23.5	23.3	23.2	23.0	22.7
Net lending/borrowing	1.6	4.5	1.7	1.4	1.1	1.6	1.5	1.4
Interest expenditure	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Primary balance	2.3	5.1	2.4	2.0	1.7	2.2	2.2	2.1
One-off / temporary measures^^	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Revenue								
Total taxes	18.3	19.6	19.1	18.7	18.2	18.4	18.2	17.9
: taxes on production and imports	6.5	6.6	6.6	6.4	6.3	6.3	6.2	6.0
: current taxes on income, wealth	11.7	12.9	12.4	12.2	11.8	12.0	11.9	11.8
: capital taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	4.2	4.3	4.6	4.7	4.7	4.8	4.8	4.7
Property Income	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4
Other	1.3	4.0	1.3	1.2	1.2	1.1	1.1	1.1
Total revenue	24.3	28.4	25.3	24.9	24.4	24.7	24.5	24.1
p.m.: Tax burden	22.8	24.2	23.9	23.6	23.1	23.2	23.0	22.6
Expenditure								
Compensation of employees	6.1	6.6	6.5	6.5	6.4	6.3	6.3	6.2
Intermediate consumption	3.7	3.7	3.5	3.5	3.5	3.4	3.4	3.4
Social payments	7.8	8.4	8.0	7.9	7.8	7.6	7.5	7.4
: in-kind via market producers	2.0	2.1	2.0	2.0	1.9	1.8	1.7	1.6
: other than in-kind	5.8	6.3	6.0	5.9	5.9	5.8	5.8	5.7
Subsidies	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Interest expenditure	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Gross fixed capital formation	2.3	2.5	2.9	3.0	3.0	3.1	3.1	3.0
Capital Transfers	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Other	1.1	1.1	1.0	1.1	1.1	1.2	1.2	1.2
Resources to be allocated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	22.6	23.9	23.6	23.5	23.3	23.2	23.0	22.7
p.m. : Government consumption	12.2	12.4	12.3	12.2	12.1	11.8	11.7	11.6

Source: Department of Finance, CSO. One-off revenue from CJEU decision from September 10th 2024.

On this basis, a headline budgetary surplus is anticipated over the remainder of this decade. The fiscal balance, adjusted for the impact of the economic cycle and temporary factors, is known as the structural

balance. As a result of the projected windfall corporation tax receipts, and to a lesser extent, the economic cycle, a structural deficit is expected over the remainder of the decade.[4]

The figures set out do not provide for increased capital expenditure arising from the CJEU ruling (c. €14 billion) or from asset sales (c. €3 billion). The Government has decided to allocate these to boosting the capital stock, in key strategic areas. However, as there is no information regarding drawdown timelines, therefore, these are not included in the arithmetic.

Table 6: Structural budget balance, per cent of GDP (unless stated)^

	2023	2024	2025	2026	2027	2028	2029	2030
Headline fiscal developments								
General government balance	1.6	4.5	1.7	1.4	1.1	1.6	1.5	1.4
One-off / temp. measures^	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
One-off / temp. measures (DoF approach)^^	2.2	5.7	2.8	2.6	2.3	2.6	2.6	2.6
Interest expenditure	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7
General government primary balance	2.3	5.1	2.4	2.0	1.7	2.2	2.2	2.1
Economic cycle								
GDP growth rate	-5.5	-0.2	3.9	3.8	3.7	3.6	3.6	3.6
Potential growth rate^^^	4.3	3.1	3.2	2.9	2.8	3.6	3.5	3.5
Contribution (pp) from:								
: labour	2.6	1.9	1.3	0.8	0.5	-	-	-
: capital	-0.3	-0.8	-0.2	0.0	0.2	-	-	-
: total factor productivity	2.0	2.0	2.0	2.0	2.0	-	-	-
Output gap	0.7	-2.5	-1.9	-1.0	-0.2	-0.1	-0.1	0.0
Output gap (DoF approach)^^^^	1.7	2.3	1.7	1.4	1.1	0.9	0.5	0.2
Structural fiscal developments								
Cyclical budgetary component	0.4	-1.3	-1.0	-0.5	-0.1	-0.1	0.0	0.0
Cyclically adjusted balance	1.3	5.8	2.7	1.9	1.2	1.6	1.5	1.4
Structural budget balance	1.3	3.1	2.7	1.9	1.2	1.6	1.5	1.4
Structural primary balance	2.0	3.7	3.3	2.5	1.8	2.3	2.2	2.1
Structural balance (DoF approach) ^^^^^	-1.9	-3.2	-2.6	-2.7	-2.5	-2.2	-2.2	-2.2

Based on European Commission's harmonised methodology unless stated.
^ based on Commission's guidelines for estimating one-off/temporary measures. Includes one-off revenue from CJEU decision from September 10th 2024.
^^ excludes all windfall corporation tax receipts including ne-off revenue from CJEU decision.
^^^ potential growth series from 2028-2030 mechanically adapted to ensure consistency with European Commission's Debt Sustainability Analysis methodology.
^^^^ based on the Department of Finance's preferred methodology for estimating the output gap via a Kalman filter GNI* approach.
^^^^^ based on the Department of Finance's preferred methodology for estimating the output gap, excludes all windfall corporation tax receipts and scaled by GNI*.
Source: Department of Finance.

[4] The structural balance requires an estimate of the output gap, an unobservable variable that is notoriously difficult to measure in real-time. When the European Commission's harmonised methodology for estimating the output gap is used, a structural surplus is anticipated. Under this methodology, however, windfall corporation tax receipts are not removed.

Box 2: Corporation tax under different scenarios

Corporation tax receipts now account for 27 per cent of all tax collected by the State; ten years ago this figure was 15 per cent.

While this has provided the State with important resources to respond to the pandemic and the cost of living challenge, it is well established that these receipts are highly concentrated.

Given the scale of the increase, and the concentration of receipts, it is important to 'stress test' the public finances to understand the potential implications for the headline balance to a reversal of these flows.

Two indicative scenarios are presented below. These should be considered as the minimum impact as only 'first round' effects are taken into account, i.e. no spill-overs to other tax headings, etc. Nonetheless, the scenario analysis serves to highlight the magnitude of the vulnerability.

It is also worth stressing that the general government is in surplus because *inter alia* this wider metric is not affected by transfers to the *Future Ireland Fund* (FIF) and *Infrastructure, Climate and Nature Fund* (ICNF).

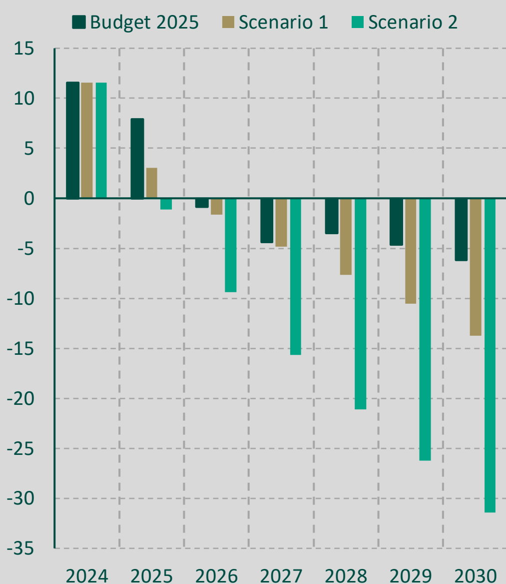
Scenario: corporate tax revenues flat-line at 2024 levels

In the first scenario, corporation tax revenues are assumed to stall at their 2024 level (excluding once-offs arising from the CJEU ruling of September 10th) (**figure 4a**).

Relative to baseline, this leads to significantly larger Exchequer deficits and correspondingly lower general government surpluses.

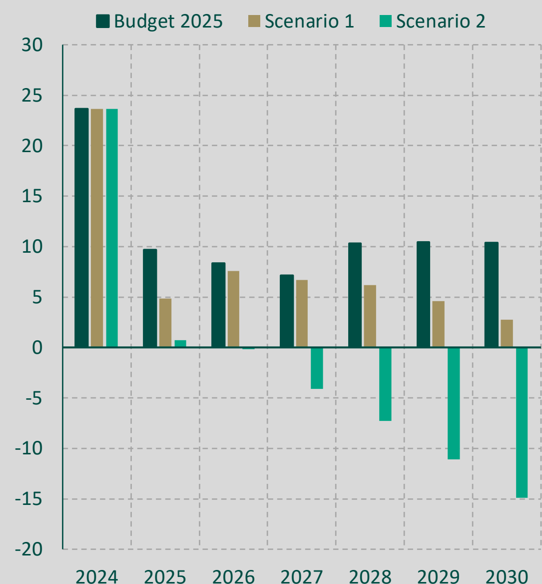
Figure 2: Impact of corporation tax shock on budget balances

A: Exchequer balance, € billions



Source: Department of Finance calculations

B: General government balances, € billions



Source: Department of Finance calculations

Scenario: corporate tax revenues flat-line at 2020 levels

In the second scenario, there is a large decline in corporation tax revenues, with a linear decline to their 2020 levels (€11.8 billion) by the end of the forecast horizon (**figure 4b**). With other tax revenues – and expenditure – unchanged, this opens up enormous deficits on both Exchequer and General Government bases.

There has been significant progress made in recent years in mitigating the risks around corporation tax: the FIF and ICNF both enable Government to prepare for future fiscal challenges and, at the same time, remove a large portion of 'windfall' receipts from the day-to-day expenditure base.

Ultimately, however, the exposure of the public finances to corporation tax can only be addressed through a sustainable and balanced approach to the wider budgetary strategy.

3.4 Debt dynamics

Data show general government debt amounting to €221 billion last year, equivalent to 43 per cent of GDP. The debt-income ratio is forecast to decline to 41 per cent this year reflecting the increase in the headline surplus.

The debt burden is projected to decline over the forecast horizon, reaching just 32 per cent of GDP by end-decade. The main contributions to the decline in the debt ratio are the assumed primary surplus and positive 'interest rate-growth' differentials.

In addition, the forecasts assumed the continued accumulation of financial assets, reflecting transfers to the *Future Ireland Fund* and *Infrastructure, Climate and Nature Fund*. Net public debt, therefore, is assumed to decline faster than gross public debt.

Table 7: General government debt developments, per cent of GDP (unless stated)

	2023	2024	2025	2026	2027	2028	2029	2030
Gross debt (€ billions)	220.7	217.2	211.2	212.5	217.8	224.8	231.7	234.3
Gross debt ratio	43.4	41.4	37.9	36.0	34.8	34.0	33.1	31.7
Change in gross debt ratio	0.1	-1.9	-3.5	-1.9	-1.2	-0.9	-0.9	-1.4
Contributions to change in debt ratio:								
: primary balance	-2.3	-5.1	-2.4	-2.0	-1.7	-2.2	-2.2	-2.1
: snowball effect	1.6	-0.7	-1.8	-1.6	-1.4	-1.3	-1.2	-1.1
- interest contribution	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7
- growth contribution	2.4	0.1	-1.5	-1.3	-1.3	-1.2	-1.2	-1.1
- inflation contribution	-1.5	-1.3	-0.9	-0.8	-0.7	-0.7	-0.7	-0.7
: stock-flow adjustment	0.8	3.8	0.7	1.6	2.0	2.6	2.5	1.8
Memo:								
Effective interest rate^	1.6	1.4	1.6	1.6	1.8	1.9	2.1	2.3

^ increases over time as debt issued with low coupon during pandemic is refinanced.
Source: CSO, Department of Finance and NTMA.

Box 3: Preparing the public finances for medium-term structural changes – the “4Ds”

There is mounting evidence to support the view that powerful structural changes are underway – in Ireland and elsewhere – that will have a major bearing on the economy and the public finances in the years ahead. These changes are sometimes collectively referred to as the “**4Ds**” and are set to shape economic trends in Ireland and other advanced economies beyond the short-term.

Demographic change

Ireland has one of the youngest populations in the EU at present. However, significant demographic change is expected over the coming decades as the population ages rapidly. This will put downward pressure on growth through its negative impact on the labour force and productivity, while at the same time putting upward pressure on demographically-sensitive spending such as pensions and healthcare. Indeed, the increase in age related expenditure between now and the mid-point of the century is projected to be larger in Ireland than in any other EU Member State.

Decarbonisation

Ireland has set binding commitments to become carbon neutral by the mid-part of this century. This will involve a transformation of economic activity and while the overall impact of decarbonisation on the growth potential of the Irish economy is difficult to estimate precisely at present, it will undoubtedly have significant implications for production and consumption due to the required if capital and labour from a ‘brown’ to ‘green’ economy.

Digitalisation

The importance of the information technology sector in the Irish economy would suggest the recent rapid acceleration in digitalisation, and in particular the scaling up of artificial intelligence, could boost productivity and, hence, economic growth, leading to positive spill-overs to the public finances.

However, should advances in technology be used as a substitute rather than a complement to labour, it could be associated with increases in unemployment and require increased expenditure on the smoothing of the labour transition (e.g. through upskilling and working age-supports).

De-globalisation

While it is debatable as to whether the world economy is ‘de-globalising’, it is beyond doubt that the nature of global economic activity is changing. As a major beneficiary of a globally integrated economy, Ireland is vulnerable to reversals in global economic linkages. Heightened geo-political tensions and the impact of the Covid-19 pandemic have added to the post-financial crisis suggestions that ‘peak globalisation’ may have already been passed. As such, de-globalisation would inevitably have a negative impact on the growth potential of the Irish economy and the public finances.

In recognition of these medium-term challenges, the Government is building up fiscal buffers in order to help support the economy through these structural changes.

In *Budget 2024,* the Minister for Finance announced two new long-term savings funds – *the Future Ireland Fund* (FIF) and the *Infrastructure, Climate and Nature Fund* (ICNF). The legislation for the establishment of these funds is now on the Statute Book.

While the FIF will be used to deal with future recognised structural challenges including ageing, climate and digitalisation, the ICNF is intended to operate in a counter cyclical manner to support State expenditure in the event of an economic or fiscal downturn and to assist in delivering Ireland’s climate and nature goals.

Both funds are to be capitalised by annual transfers from the Exchequer – 0.8 per cent of GDP per annum (from 2024 onwards) in the case of the FIF, and €2 billion per annum (from 2025 onwards) in the case of the ICNF. Moreover, in 2024, €4.3 billion has been transferred to the FIF from the National Reserve Fund.

Chapter 4
Government's investment strategy

4.1 Introduction

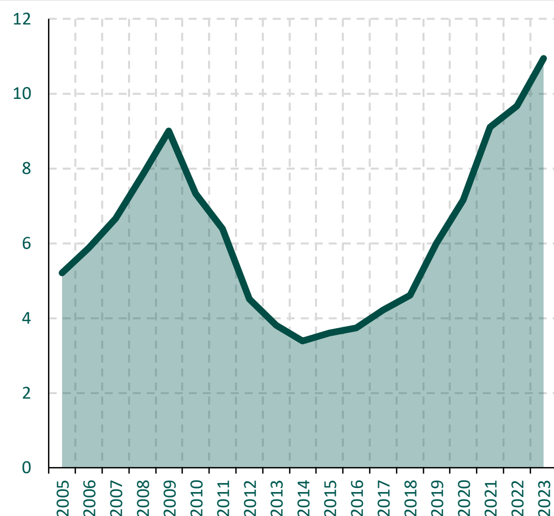
Addressing the infrastructural gap is a key part of the Government's approach to supporting economic growth, boosting living standards and well-being, and underpinning further social progress in the years ahead. As well as scaling-up 'traditional' infrastructure – water, energy, waste treatment, etc. – large-scale investment needs also arise from the need to support the digital and climate transitions. In the latter case, both private and public capital will be needed to fill the financing gap, with the lion's share borne by the private sector. That said, there will be an important role for public capital, including by helping to catalyse private sector investment.

4.2 Economic backdrop

Public capital investment was scaled back in the aftermath of the Irish financial crisis (**figure 3A**). Indeed, this pro-cyclical approach has often been a feature of public investment in Ireland (**figure 3B**)

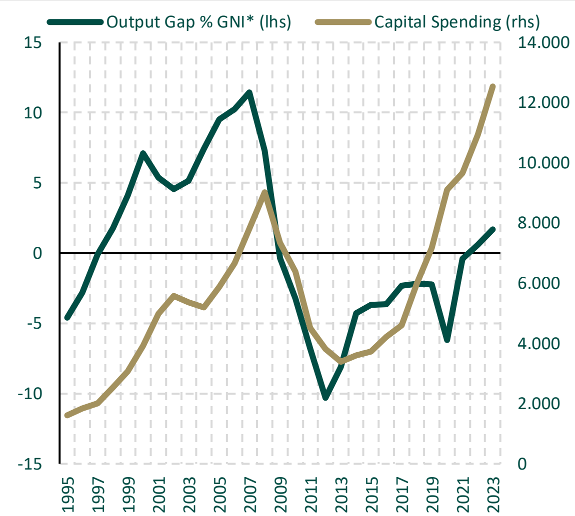
Figure 3: Significant spending increases at top of the economic cycle

A: voted capital expenditure, € bn



Source: CSO.

B: output gap and voted capital spending



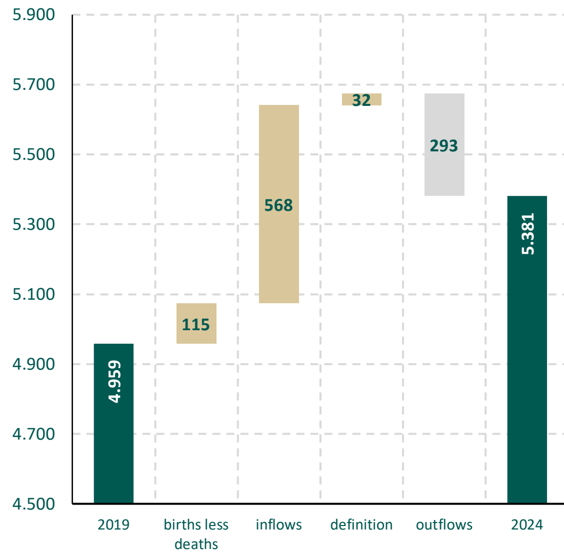
Source: CSO.

The recovery of the Irish economy from the joint banking and sovereign debt crises has been rapid. It has been accompanied (and facilitated) by a large increase in employment which, since the pandemic, has been driven by increased inward migration. The population is now around 9 per cent larger than was the case just before the pandemic (**figure 4A**), an increase that stands out in a European context (**figure 4B**). Growth in public capital stock has not kept pace with this increase in population and, accordingly, the infrastructural gap has become more binding.

To address this deficit, Government is making available a large quantum of financing, via the NDP and by allocating some of the recent windfalls to capital spending. Moreover, Government is also committed to maintaining public investment at high levels into the future, with a counter-cyclical fund established in order to finance capital spending during a downturn. In doing this, Government is creating the certainty needed to encourage additional private investment and, importantly, to end the pro-cyclical approach to capital spending that characterised the past.

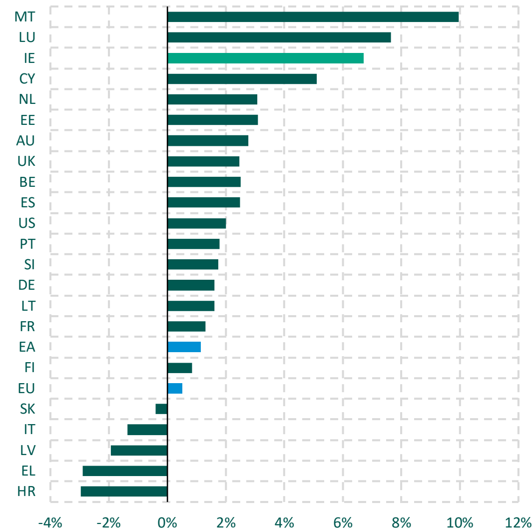
Figure 4: The Irish population is growing faster than EU norms

A: population growth in Ireland since the pandemic, '000



Source: CSO.

B: population growth 2019-2023: Ireland and the EU, per cent



Source: 2023 Eurostat data. Note: Latest outturn for Eurostat data is 2023.

4.3 National Development Plan

The *National Development Plan 2021-2030*[5] (October 2021) sets out the Government's strategy for boosting the stock of public capital over the remainder of this decade. The 10-year infrastructural plan sets out €165 billion of funding to support capital projects across the country between 2021 and 2030.[6]

Such sustained levels of public investment will help eliminate various capacity constraints – including bottlenecks in the housing market – and, in this manner, lay the foundations for the future improvements in living standards.

Complementing the NDP, the Government also has a number of sector-specific programmes of investment.

4.3.1 Housing

The increase in population, economic growth and the chronic under-supply of housing in the aftermath of the global financial crisis (GFC), means housing supply has failed to keep up with demand for around a decade. While Budget 2025 contained a record €6 billion capital investment in housing for next year, significant and ongoing private investment will be required to meet housing need. It is widely acknowledged that the initial target of 33,000 units per annum contained in the Government's *Housing for All* plan[7] will need to be revised upwards to c.50,000 units per annum.

4.3.2 Climate

Similar to the demands placed on the construction sector, demographic developments have put increased pressure on existing transport infrastructure. In addition, targets set out in the 2024 Climate

[5] https://www.gov.ie/en/publication/774e2-national-development-plan-2021-2030/

[6] An additional €2.25 billion from the windfall tax receipts was made available to capital expenditure over the period 2024-26 in the 2023 Summer Economic Statement (SES). This was to facilitate the progression of important projects and enable more rapid development of key Programme for Government commitments. An additional capital expenditure of €250 million is being made available for 2024 from windfall exchequer receipts with a further €2 billion is being made available across 2025 (€750 million) and 2026 (€1.25 billion).

[7] The Government's over-arching multi-annual housing plan, setting out the Government's housing strategy out to 2030.

Action Plan to reduce fuel usage, and significantly increase sustainable transport trips will require significant capital investment.

4.3.3 Energy Security

Concurrently, the need to reduce emissions and phase out the use of fossil fuels to meet internationally agreed obligations is dependent on ensuring a secure supply of green energy. Ireland's geographic location and climate offers significant opportunities in this regard - namely through the use of wind energy. The realisation of such potential will require significant investment in the sector. At the same time, recent geopolitical tensions, particularly in light of the Russian invasion of Ukraine, have highlighted the importance of energy security, further emphasising the need for investment in the sector.

4.3.4 Education

A flexible skills system is needed to address skills shortages and mismatches as they emerge, while also planning for future skills needs. This is especially important given the evidence of capacity constraints and skills mismatches within certain sectors of the Irish economy, including the construction sector that could constrain the viability or efficiency of the delivery of investment projects. At *Budget* 2025 the Government announced a multi-year strategy for use of the National Training Fund. The Fund will spend €1.5 billion from 2025 to 2030 to better fund research, further and higher education and skills.

4.4 Additional financing

The Government has also decided to allocate 'windfall' receipts towards boosting the public capital stock. There have been two recent sources of windfall receipts – notably from the disposals of part of the State's shareholding in AIB and arising from the decision of the Court of Justice of the European Union (CJEU).

4.4.1 Disposal of shares in AIB

The Government has announced that €3 billion from the disposal of part of the State's shareholding in AIB will be made available as additional funding towards infrastructure spending in the coming years. The additional resources will be ring-fenced and drawn down when the funding is required and the necessary arrangements are in place to use it.[8]

These additional resources will be made available for use in three critical infrastructure areas – housing, water and energy infrastructure.

Housing

To continue to drive the delivery of social and affordable homes, €1.25 billion of the additional funding will be allocated to the Land Development Agency (LDA), bringing the total amount of funding available to the LDA to €6.25 billion.

Water

€1 billion of the additional resources will be made available to Irish Water for non-domestic capital investment. This additional allocation will be invested in capital projects related to remedial action lists, connections for new housing and addressing urban wastewater pressures.

Electricity grid

The upgrading of Ireland's electricity grid infrastructure is crucial to ensuring the economy is equipped for the next phase of its development. With this in mind, €750 million will be provided to facilitate an

[8] As these resources have been ring-fenced but the timing of the draw down is unknown, the additional investment of €3 billion has not been taken into account in the expenditure projections underpinning the medium-term fiscal plan.

initial, direct equity injection to support capital spending on the further development of electricity grid infrastructure in Ireland.

4.4.2 Court of Justice of the European Union ruling

The decision taken by the CJEU on 10th September 2024 means the proceeds of the Apple Escrow Fund will soon begin to flow to the Irish State.[9]

The key consideration from a policy perspective is how the economic and social rate of return from this one-off resource can be maximised. In this context, the Department of Finance and Department of Public Expenditure, NDP Delivery and Reform has published a framework for the use of these funds.[10] This framework revolves around strategic investment priorities (pillars):

Pillar 1: Water: Accelerate the upgrade of water and wastewater infrastructure
Pillar 2: Electricity: Expand electricity grid capacity to improve connectivity
Pillar 3: Transport: Improve transport networks countrywide
Pillar 4: Housing: Strategic Infrastructure Investment

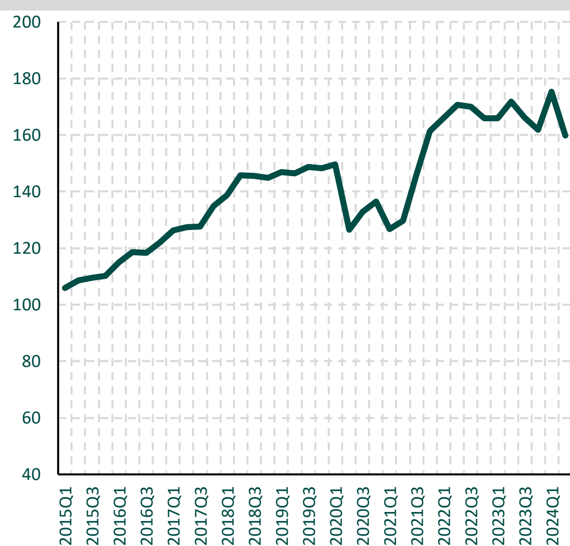
Work will begin on advancing the framework for the use of these funds. This will include a focus on deliverability, value-for-money, additionality and prioritisation for economic impact.

4.5 Capacity constraints and other considerations

In summary, therefore, finance is not a constraint on boosting the capital stock. However, there are constraints on the 'real' side. Perhaps most notable is the shortage of construction sector workers (**figure 5A**) as well as an economy operating at essentially 'full employment'.

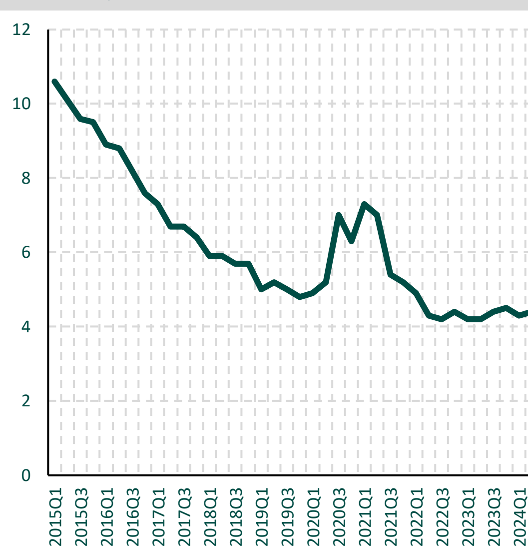
Figure 5: Labour constraints

A: construction sector employment, 000



Source: CSO.

B: unemployment rate



Source: CSO.

[9] While funds in the escrow account have been accounted for in the headline government balance, as the funds have yet to be allocated they are not taken into account in the expenditure projections underpinning the medium-term plan.
[10] https://www.gov.ie/en/publication/38d57-budget-2025-use-of-the-escrow-receipts/

Box 4: Capital investment 'shock'

The alleviation of capacity constraints and supply-side bottlenecks in the Irish economy is a key policy goal, as highlighted by the capital expenditure plans laid out in the NDP^.

However, while the primary objective of this investment is to improve the quality of public service provision and to ease these constraints, government capital spending is also an important source of aggregate demand and a level increase in the magnitude of this spending would have significant macroeconomic effects.

The complex nature of such a shock necessitates the use of a general-equilibrium modelling approach to fully account for its economic impact. To this end, the COSMO model^^ of the Irish economy is used by the Department to estimate the effect of higher state investment on the domestic economy.

A purely hypothetical scenario is modelled in which the level of government capital spending is permanently raised by 25 per cent for the next five years. The results produced by this exercise are set out below (**table 9**).

Table 8: Higher public capital spending scenario, pp deviation from baseline

	T	T+1	T+2	T+3	T+4	T+5
GDP	0.6	0.7	0.8	0.9	0.9	0.9
GVA, Traded Sector	0.0	0.0	0.0	0.0	0.0	0.0
GVA, Non-Traded Sector	0.4	0.7	1.0	1.2	1.2	1.2
Total Employment	0.8	1.1	1.2	1.3	1.4	1.3
Private Investment	0.9	1.1	1.2	1.2	1.2	1.2
Consumption	0.4	0.7	0.9	1.0	1.0	0.9

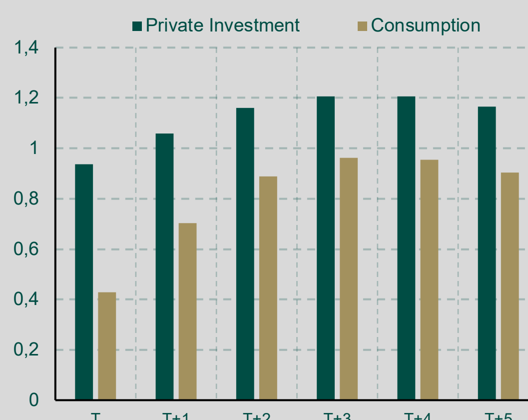
The modelled increase in public capital expenditure has a positive impact on both employment and GDP, which are, respectively, 1.3 per cent and 0.9 per cent higher than baseline by the end of the horizon (five years after the shock). This expansionary effect operates both through the direct impact of government spending, as well as through second-round effects including the crowding-in effect on private investment, which is 1.2 per cent higher than would be the case under the baseline scenario by the end of the horizon.

Figure 6: Higher public capital expenditure scenario

A: GDP and Employment, pp. deviation from baseline

Source: Department of Finance.

B: Investment and Consumption, pp. deviation from baseline



Source: Department of Finance.

Overall, an increase in government capital expenditure would have a strong stimulatory impact on the domestic economy, driven by the significant expansion in the non-traded sector. It should also be noted the model used does not fully account for the capacity of the business cycle to shape the impact of a shock. Increases in capital spending at the peak of the business cycle risks exacerbating overheating pressures to a greater degree than is shown here.

^ Department of Public Expenditure, NDP Delivery and Reform. (2021). National Development Plan 2021-2030.
^^ Bergin, A., Conroy, N., Rodriguez, A.G., Holland, D., McInerney, N., Morgenroth, E.L. and Smith, D., 2017. COSMO: A new COre Structural MOdel for Ireland (No. 553). ESRI Working Paper.

Government also recognises that the planning system is a major barrier to ramping up the capital stock and reforms to the system are now in train (see chapter 5).

4.6 Summary

Ireland has significant investment needs across some key sectors. While the public sector will not be able to meet these needs on its own and significant levels of private funding is required, it is clear that a sustained programme of State-driven capital expenditure is necessary. The NDP – as well as other strategic investment plans such as Housing for All — will go some way in addressing those needs and further investment is likely under the next Government.

However, very real capacity constraints and risks of overheating mean that trade-offs abound. Such a programme of investment will need to be carefully calibrated to ensure that competitive pressures are not exacerbated by rising prices.

Chapter 5
Structural reforms

5.1 Introduction

This chapter provides an overview of the main reforms that are currently being implemented, or that have been announced, by Government. The objective of these reforms is to boost the resilience of the economy and to support the transition to the 'new normal'.

At an EU level, a number of common priorities have been established: the need to promote a fair green and digital transition, to promote social and economic resilience and to ensure energy security. The reforms being implemented in Ireland are consistent with these common priorities. The reforms also address the Country Specific Recommendations to Ireland by the Council of the European Union in the context of the European Semester.

Reform area #1: Addressing imbalances in the housing market

Strong economic growth, alongside a sharp increase in the size of the population has increased the demand for housing. Increasing the supply of housing in order to address the shortfall vis-à-vis demand is a key priority for Government. There are several strands to the Government's response.

Housing for All

Housing for All, the Government's multi-annual strategy to increase housing availability and affordability, is now in its fourth year of implementation. The objective is to provide for over 300,000 new homes by end-2030, including 90,000 social homes, 36,000 affordable purchase homes and 18,000 cost rental homes.

A whole-of-Government plan to build a sustainable housing system, key policies include eradicating homelessness, increasing social housing delivery and supporting social inclusion; increasing new housing supply; and addressing vacancy and efficient use of existing stock.

Over the past two years, housing delivery has exceeded the targets set out in the Housing for All plan, but growth in population, changes in demographics, interest rate developments, and other factors mean that adjustments are necessary. A new target of c.50,000 new units per year will be published shortly.

Spatial planning is a key part of the Government's approach to sustainable development. The National Planning Framework (NPF) sets out high-level national policies and objectives, which are essential to achieving proper planning and sustainable development, with a clear vision to guide future development and investment decisions. The Government published its draft revision of the NPF for public consultation in July 2024.

Planning Reform

The new Planning and Development Bill was recently passed by the Oireachtas (Irish legislature) and is expected to be signed into law by the President shortly. The Bill is designed to modernise and enhance Ireland's planning system. It introduces significant reforms aimed at streamlining the planning process, reducing administrative burdens, and facilitating more effective engagement and decision-making. It aims to bring greater clarity, consistency and certainty to how planning decisions are made, puts plan-making at the centre and improves the functioning of the planning system, whilst protecting

public participation. The structures of planning have been reviewed to ensure alignment and consistency, both with Ireland's European and environmental obligations and in relation to the various tiers of national, regional and local plan making. Key reforms in the Bill include:

> Users of the planning system will benefit from greater certainty through the introduction of a range of statutory timelines across the various consenting processes;
> The lifespan of Development Plans will be extended from six years to ten years and will be more strategic in nature;
> The cycles of these plans will align to the cycle of census data availability and will be reviewed every five years;
> An Bord Pleanála will undergo an organisational restructure and will be subject, for the first time, to statutory timelines;
> Significant resources have been invested in this restructure and further resources are being invested in the wider planning system;
> The alignment of strategic planning at national, regional and local level over longer cycles will also bring greater clarity as will the streamlining of guidance through the introduction of National Planning Policy Statements; and
> Significant reforms to judicial review, including the removal of leave stage for applications, clarification of sufficient interest and the introduction of an Environmental Legal Cost Financial Assistance Mechanism and Scale of Fees.

Reform area #2: Addressing climate change

Ireland has accepted ambitious targets under the EU's 'Fit for 55' package to significantly reduce greenhouse gas emissions, increase energy efficiency and increase the proportion of energy derived from renewable sources.

The most relevant instruments setting quantifiable targets for Ireland are the Effort Sharing Regulation (ESR), the Land Use, Land Use Change, and Forestry Regulation (LULUCFR), the Emissions Trading Scheme (ETS), the Energy Performance of Buildings Directive (EPBD), the Energy Efficiency Directive (EED) and the Renewable Energy Directive (RED).[11] A failure to achieve these targets through domestic policies and measures will necessitate the use of available flexibilities, including the purchase of emissions credits or statistical transfers from other member states.

Under national legislation, Ireland is committed to achieving climate neutrality no later than 2050, with a 51 per cent reduction in greenhouse gas (GHG) emissions by 2030 (relative to 2018 levels). These objectives are set out in the Climate Action and Low Carbon Development (Amendment) Act 2021 which establishes a legally binding framework, with targets and commitments, to ensure the necessary structures and processes are in place to deliver on national, EU and international climate goals and obligations in the near and long term. Implementation of the Ireland's climate ambitions are carried out under successive Climate Action Plans.

[11] Ireland has a derogation from the ETS2 until 2031 on the basis of its carbon tax and the likelihood that the carbon tax rate will remain above the ETS2 rate for the period to 2030.

Carbon Budgets and Sectoral Emissions Ceilings

The Environmental Protection Agency's (EPA) latest analysis shows that while GHG emissions are projected to fall by 2030 (relative to 2018 levels), a significant gap to the 51 per cent threshold remains in all scenarios. This must be addressed if Ireland is to achieve its legally binding, emissions reduction targets.

Under the EU ESR, LULUCFR and RED, based on existing measures, Ireland is projected to miss its targets by a considerable margin in each case and is likely to use available flexibilities, including the purchase of emissions credits and statistical transfers from other member states, to achieve compliance. These costs may be very significant, depending on the prevailing price of emissions credits and statistical transfers when purchased.

Climate Action Plan

Implementation of the Ireland's climate ambitions are carried out under successive Climate Action Plans (CAPs). The most recent plan, Climate Action Plan 2024 (CAP24), sets out how Ireland will speed up action to respond to the climate crisis, reducing overall greenhouse gas emissions by 51 per cent by 2030 and reaching net-zero emissions by 2050. It also aligns with the legally binding economy-wide carbon budgets and sectoral ceilings agreed by Government. CAP24 is focused on high impact actions and progress reports acknowledge new initiatives or significant steps towards achieving Ireland's climate ambitions. In line with those principles, a legacy exercise on previous Climate Action Plan actions that were not completed during 2023 (approx. 100) was undertaken and published. Delayed actions considered to be of higher impact will be retained for progress reporting in CAP24, and beyond, until they are completed, alongside any new CAP24 actions.

Under the Climate Action Plan significant reforms are underway to address Ireland's greenhouse gas emissions in areas including agriculture and land use, transport and retrofitting.

Carbon pricing

Ireland's carbon tax, in place since 2010, is one of the most broadly-based carbon taxation systems in the world. Legislation is in place to increase the annual rate of carbon tax until at least 2030 (reaching €100/tonne). It is currently charged at a rate of €63.50 per tonne of CO_2 and levied on sales of fossil fuels.

Proceeds from the carbon tax are hypothecated, and allocated to support households at risk of fuel poverty and to fund retrofitting measures for poorer households as well as a range of other measures.

Water and wastewater

The Government is committed to protecting and restoring Ireland's natural waters by complying fully with the requirements of the Water Framework Directive. The Water Action Plan 2024, published in September 2024, is Ireland's third River Basin Management Plan. It outlines the measures the Government and other sectors are taking, out to 2027, to improve water quality in Ireland's groundwater, rivers, lakes, estuarine and coastal waters, and provide sustainable management of our water resources.

The Plan enhances and builds upon the work of the first and second cycle plans and where necessary, addresses the shortcomings experienced during the implementation of previous plans. The responses to shortcomings addressed include, for example, strengthening the incorporation of the integrated

catchment management approach, improving the environmental ambition, improving the evidence base for ‘targeting the right measures in the right place’ and securing dedicated resources to deliver these, increasing environmental enforcement and compliance, and strengthening the governance structures.

Energy

Ireland has firmly established its commitment to the clean energy transition, evident in the substantial growth of installed renewables capacity. Successive Climate Action Plans have outlined goals for renewable energy, focusing on solar, onshore wind, and offshore wind generation. Aside from obvious environmental rationale, there is a clear economic one. The growth in demand driven by *inter alia* population increases and energy intensive facilities such as data centres, necessitates a significant increase in capacity.

In 2023, renewable generation accounted for 40.7 per cent of electricity, an increase from 38.6 per cent in 2022. Electricity emissions decreased by just under 8 per cent in 2023, which is attributable to an increase in renewable generation, coupled with reductions in coal, fuel oil, and peat use for electricity generation.

Energy Security in Ireland to 2030 (November 2023) outlines the strategy to ensure energy security in Ireland for this decade, while ensuring a sustainable transition to a carbon neutral energy system by 2050.

Informed by the Government’s energy security policy objectives - to ensure energy is affordable, sustainable and secure - the review considered the risks to oil, natural gas, and electricity. The report sets out that Ireland’s future energy will be secure by moving from an oil- and gas-based energy system to an electricity-led system, maximising renewable energy potential, flexibility and being integrated into Europe’s energy systems. The report includes a range of short and medium-term measures including the need for additional capacity of indigenous renewable energy, but also energy imports, energy storage, fuel diversification, demand side response, renewable gases, and the creation of a strategic gas emergency reserve on a transitional basis.

A new plan-led approach to offshore renewable energy (ORE) was adopted by Government in May 2023. Central to this plan-led approach is the requirement that all post Phase One offshore wind developments in Ireland must be situated in marine areas identified for this purpose that are located within Designated Maritime Area Plans (DMAPs). Ireland’s first ORE DMAP is to be located off the South Coast and will identify a suitable area or areas for future deployments of fixed bottom offshore wind projects that aim to assist in delivery of the 2030 target and beyond. A Future Framework for Offshore Renewable Energy was launched in May 2024 and is the long-term model and vision for ORE in Ireland. The policy sets out the pathway Ireland will take to deliver 20GW of offshore wind by 2040 and at least 37GW in total by 2050. Critically, it also provides the evidence base for Ireland’s ambitious ORE targets.

The electricity sector continues to face an immense challenge in meeting its requirements under the sectoral emissions ceiling, as the decarbonisation of other sectors, including transport, heating, and industry, relies to a significant degree on electrification. The North-South Interconnector project will see the addition of a new 400 kV overhead line to the electricity network, connecting the electricity grids in Ireland and Northern Ireland. The increased capacity will improve the security of electricity supply across the island of Ireland and enable more renewable energy on the grid. The Celtic Interconnector is a high-voltage subsea power cable that will link the electricity grids of Ireland and France. It will include enough capacity to power 450,000 homes and will create a direct electricity link from Ireland to

the European Union. The 700-megawatt submarine cable is due to be completed in 2026 with integration to the grid expected by 2027.

Reform area #3: Enabling the digital transition

Achieving a comprehensive and inclusive digital transition is central to advancing Ireland's economic and social ambitions. Building on Ireland's position as a digital leader, Government's cross-cutting approach aims to deliver the full potential of the digital transition to people and businesses through a number of initiatives and strategies.

Embracing the digital transition

The National Digital Strategy, Harnessing Digital – The Digital Ireland Framework, reflects Ireland's ambition to remain a European and global digital leader, and the strong commitment to progressing the digital transformation of the economy and society. It aims to maximise the economic and societal benefits from digitalisation and to ensure that all are in a position to enjoy those benefits by:

- making connectivity available to everyone, including through the National Broadband Plan, Remote Working Hubs and Broadband Connection Points, with a target of having all Irish households and businesses covered by Gigabit network no later than 2028 and all populated areas covered by 5G no later than 2030;
- providing digital skills for all – from school, to further and higher education, to life-long learning, with a target of increasing the share of adults with at least basic digital skills to 80 per cent by 2030;
- ensuring widespread access and use of inclusive digital public services, with a target of 90 per cent of services to be consumed online by 2030;
- helping small businesses benefit from digital opportunities by providing grants and assistance, with a target of 90 per cent of SME at basic digital intensity by 2030 and 75 per cent enterprise take-up in cloud, AI and big data;
- investing in cyber-security to protect Irish citizens and businesses, including increased resources for the National Cyber Security Centre;
- ensuring a modern and well-resourced regulatory framework; and
- playing a leading role in Europe right across the digital agenda.

The strategy includes developing a new Life Events digital portal to streamline interactions with government services for crucial life events, such as the registration of births or deaths. In parallel, work on an EU-compatible digital wallet is progressing and will have the potential to hold digital versions of government-issued credentials such as the European Health Insurance Card or driving licence.

Promoting digital inclusion

'Digital for Good: Ireland's Digital Inclusion Roadmap', was published in August 2023. The Roadmap brings together work across Government to achieve digital inclusion through better skills, access, and infrastructure. A progress update will be included in the 2024 Harnessing Digital Update. The Adult Literacy for Life (ALL) Strategy is a crucial element of the Roadmap, and the delivery of priorities set out under ALL will be central to the effective and successful delivery of the Roadmap. Significantly, the ALL Strategy aims to reduce the share of adults in Ireland without basic digital skills from 47 per cent to 20 per cent by 2030.

Reform area #4: Supporting enterprise

Recognising the enterprise sector as a key pillar for Ireland's future, a number of reforms and investments aimed at strengthening the conditions for businesses to thrive and grow are currently underway.

Enterprise Policy

The Government's approach to enterprise policy is guided by the priorities set out in the White Paper on Enterprise 2022-2030 – published in December 2022. The White Paper envisions a vibrant, resilient, sustainable, and regionally balanced economy made up of a diversified mix of leading global companies, internationally competitive Irish enterprise and thriving local businesses. Some 15 key targets are set across the lifetime of the strategy including integrating decarbonisation and net zero commitments; placing digital transformation at the heart of enterprise policy; advancing Ireland's Foreign Direct Investment and trade value proposition; strengthening the Irish-owned exporting sector; enabling locally trading sectors to thrive; stepping up enterprise innovation; and building on our strengths and opportunities.

Research and Innovation

Impact 2030: Ireland's Research and Innovation Strategy published in May 2023 is all of Government strategy which seeks to position research and innovation at the heart of addressing Ireland's societal, economic and environmental challenges. Impact 2030 has five pillars, on the impact of, research and innovation on our economy, society and the environment; research and innovation structures on excellence and outcomes; innovation on enterprise success; talent at the centre of the research and innovation ecosystem; and research and innovation on Ireland's all-island, EU and global connectivity.

Significant reforms being advanced under the Impact 2030 strategy include the creation of a new competitive research and innovation funding agency that, as well as investing in excellent research within disciplines, will integrate human and sciences perspectives; enhancement of linkages between the public research system and policymakers; strengthening of the technological universities' research and innovation offices to increase regional impact; and support for enterprise performance throughout the regions through a new national smart specialisation strategy.

There is a significant gap between the innovation performance of enterprise in Ireland as against other advanced economies, and between Foreign Direct Investment (FDI) and indigenous firms. Under Impact 2030 Ireland will broaden and deepen enterprise innovation capability, with particular focus on indigenous SMEs, on linking our multinational and SME innovation base, and further embedding FDI. Ireland will also cultivate industry-academic collaboration and research commercialisation, including easier industry access to the public research system and a greater number of innovation-driven start-ups emerging from it. Implementation of smart specialisation, focusing on research and technology areas of greatest relevance to Irish-based enterprise, will seek to promote and to coordinate innovation diffusion across regions. Ireland will deliver a competitive national enterprise R&I ecosystem, including fiscal, patenting and IP protection, and standards development.

Skills and Training

The Government continues to progress reforms of Irelands skills and training provisions underpinned by the recommendations arising from the OECD Skills Strategy for Ireland. High level reforms include the establishment of a new National Skills Council (NSC) involving changes to the NSC's mandate and membership to act as a platform for strategic engagement with Irish industry, enterprise, and the main

non-governmental stakeholders with a strong interest in skills and workforce development policy. The new Council will be supported by a High-Level Skills Implementation Group, bringing the important views, inputs and expertise of the "supply" side and the public sector to drive this key agenda.

In Budget 2025, a package of approximately €1.5 billion from the National Training Fund, over a six-year period to 2030, comprising both current and capital investment, has been allocated to better fund research, further and higher education, skills and development and decarbonisation initiatives.

Work is also underway on meeting specific sectoral skills needs for construction, green skills, ICT, early learning and childcare, education, and health and social care. Given the current — and future — investment priorities outlined in this Plan, a clear focus will continue to be put on construction related skills and training.

A new Tertiary Education Strategy is currently being developed, as provided for within the provisions of the Higher Education Authority Act 2022. This new Strategy will outline a vision of how the sector can become an engine for economic growth, as well as an instrument to enhance social cohesion. A key part of the new strategy will be reforming the current system to make it more flexible and agile to address the key skills challenges Ireland faces.

Other critical reforms include implementation of the Action Plan for Apprenticeship 2021–25, including the development of a single national apprenticeship model embodying greater flexibility and responsiveness to workforce requirements. Similarly, the national further education and training (FET) strategy, *Transforming Learning 2020-2024* is based on three core pillars of building skills, fostering inclusion, and facilitating pathways to deliver a more strategic and integrated FET system.

Reform area #5: Supporting employment and the labour market

Ireland is currently experiencing record levels of employment. The Government is aiming to build upon this, bringing forward policies designed to support the continued strong labour market performance.

Working conditions

Ireland has committed to the introduction of a National Living Wage, with no regional or sectoral variations, set at 60 per cent of hourly median wages by January 2026. This will be achieved through incremental changes to the National Minimum Wage over a four-year period, unless otherwise agreed by Government on the advice of the Low Pay Commission. In 2025 the National Minimum Wage will increase by 80 cents. This increase was recommended by the Low Pay Commission in their Annual Report 2024 which was considered and accepted by the Government in the context of Budget 2025.

Statutory Sick Pay is being phased in over 4 years, beginning in 2023 with three days sick pay and rising to 10 days sick pay by 2026. Increases in 2025 and 2026 are subject to ministerial decision. In the making of this decision the Minister will have regard to several key factors outlined in section 6 of the Sick Leave Act 2022.

The Government is committed to the transposition of the EU Directive on Adequate Minimum Wages by the deadline of November 2024 and will publish an Action Plan on enabling conditions for collective bargaining by the end of 2025 as required by the Directive.

The Government will keep under review the timing and phasing of labour market reforms, taking into account up-to-date impact analysis, to ensure that the cost burden on SMEs in the most affected sectors is sustainable.

Labour Market Activation

Pathways to Work 2021-2025, Ireland's national employment services strategy is the Government's overall framework for activation and employment support policy. It is an initiative designed to improve labour market participation and address unemployment by providing targeted support to the long-term unemployed and other vulnerable groups.

Following a mid-term review in May 2024 an updated strategy of commitments and key performance indicators (KPIs) was published to address existing and medium to longer term economic challenges such as labour and skills shortages, the green and digital transitions and the need to increase participation rates for disadvantaged groups. In addition, new outcome KPIs include ambitious targets to increase the employment rate for groups under-represented in the labour market (people with disabilities, lone parents and Travellers) and in relation to moving people who are long-term unemployed into sustainable employment.

The Mid-term Review recognises that the Public Employment Service (PES) must continue to support a wide variety of cohorts seeking to access employment opportunities, some of which will act as important stepping-stones or pathways to the ultimate goal of securing sustained employment. The Mid-term Review contains a focus on the quality of jobs as well as the quantity of jobs. Supporting particularly disadvantaged groups into meaningful employment opportunities will put a premium on effective co-operation between the PES network, employers, unions, NGOs, and the Further Education and Training providers, and will involve adopting a model, which continues to support in-work progression for these cohorts. This will be particularly important when tackling the future challenges posed to the Irish economy by digitalisation, the green transition, and an ageing population, as well as the challenge of assisting disadvantaged groups to find good employment outcomes.

Reform area #6: Promoting social inclusion

Government is committed to improving the quality of life for all groups across society. There are a number of ongoing strategies and reforms to ensure that the benefits of Ireland's prosperity reach every sector of society.

Roadmap for social inclusion

Ireland's Roadmap for Social Inclusion 2020–2025 builds on the work of its predecessors with the aim of reducing the number of people in consistent poverty in Ireland (to 2 per cent or less) and increasing social inclusion for those who are most disadvantaged. Ireland has committed to a reduction in the number of people AROPE by 90,000, with 50 per cent (45,000) of these to be children. This target is more ambitious than the proposal for Ireland from the European Commission. In the Roadmap for Social Inclusion the Government set a target of reducing the AROPE from 21.1 per cent in 2018 to approximately 16.7 per cent in 2025. In 2023, the AROPE stood at 19.2 per cent, indicating a slight decrease of 0.4 per cent compared to 2022. The mid-term Review Report for the Roadmap for Social Inclusion reaffirms the Government's ambition to reduce the national consistent poverty rate to 2 per cent or less and make Ireland one of the most socially inclusive countries in Europe.

Disability

Work across Government to develop Ireland’s next National Disability Strategy, which will seek to progress Ireland’s implementation of the UNCRPD, is underway.

Integration of migrants

The Migrant Integration Strategy, and the National Strategy for Women and Girls concluded in 2022. Work to develop successor strategies is ongoing. The second National Traveller and Roma Inclusion Strategy, 2024 – 2028 (NTRIS II), published in July 2024, aligns with the objectives of the EU's Roma Strategic Framework and represents a whole of Government approach to ensuring the full inclusion of Traveller and Roma communities in Irish society.

Childcare

Several significant reforms continue to be implemented with a view to making high quality early learning and care, and school age childcare, accessible. These include the National Childcare Scheme opened in November 2019 providing both universal and income-related subsidies to help parents meet the cost of quality childcare. A universal two-year pre-school programme called Early Childhood Care and Education Programme (ECCE) has also been introduce for all children within a certain age range. It provides children with their first formal experience of early learning before they start primary school. Alongside this the Better Start Access and Inclusion Model (AIM) is a programme to promote inclusion and to ensure that children with disabilities can meaningfully participate in the free pre-school Early Childhood Care and Education (ECCE) programme in mainstream pre-school settings.

Building on these reforms a programme to plan for a new National Early Learning and Childcare Agency is underway. This dedicated state agency will assist in the development of a more streamlined structure to better support the delivery of early learning and childcare and will support the implementation and progression of the significant reform agenda envisaged under First 5, the Whole of Government Strategy for Babies, Young Children and their Families. Further reforms include the National Action Plan for Childminding (NAPC) 2021-2028 as part of which a range of reforms within early learning and childcare is be progressed.

Reform area #7: Improving the provision of healthcare

The health and wellbeing of Ireland’s population is essential to our society and country. As life expectancy and population levels continue to rise in Ireland, the provision of high-quality and affordable health services becomes even more critical.

Sláintecare reform

Sláintecare reform is transforming how healthcare in Ireland is delivered, building towards equal access to services for everyone based on patient need and not their ability to pay. The Sláintecare vision of one universal health service for all, providing the right care, in the right place, at the right time supported by the development of new models of care that allow people to stay healthy in their homes and communities for as long as possible. Work on progressing Sláintecare is ongoing.

Through Enhanced Community Care (ECC), a patient-centred population-based approach is integrating community care with the acute hospital sector, providing health services closer to people’s homes, and reducing pressure on acute hospitals. Work is now focused on designing patient-centred care models, and on developing better primary and community care.

A key aspect of the Sláintecare reform programme is the restructuring of the HSE into 6 operational Health Regions. The 6 Health Regions came into effect in March 2024. Hospital Groups and Community Healthcare Organisations will be stood down by the end of 2024 as responsibility transitions to the Regions. Further reforms and devolution of authority will take place on a phased basis through 2024 and 2025.

Significant progress is also being made on expanding elective facilities. Four new Elective Hospitals in Cork, Galway and Dublin which together will deliver nearly one million procedures, treatments and diagnostics each year.

Digital health solutions

The provision of digital health solutions is a fundamental enabler for the reform of the health service and the implementation of Sláintecare. The new digital health strategy for Ireland (Digital Health Strategic Framework (2024-2030) sets out a shared vision and guide a clear roadmap for investment in digital health, including delivery of digital patient records. The Framework encompasses six Principles, each comprising a series of HSE-defined Strategic Initiatives. A total of 48 Strategic Initiatives have been identified, prioritised, and the associated costs have been estimated, using inputs, advice, and involvement from stakeholders across the health sector at each stage of the development. The Roadmap will support the transformation of health and social care delivery in Ireland, empowering patients, enhancing trust and data protection, promoting connected care, through building a robust digital infrastructure and providing general direction and guidance to our health and social care transformation journey.

Long-term care

The Government established an independent Commission on Care for Older People in March 2024. The Commission is charged with examining the health and social care services and supports for older people across the continuum of care and making recommendations to the Government for their strategic developments.

The work of the Commission is being advanced through three discrete modules of work which will run consecutively.

- Module 1 will focus on the health and social care services and supports provided for older people in the community; models of supported living, inclusive of low, medium, and high-support residential care; and relevant policy initiatives that are in train in this domain.
- Module 2 will focus on the strategic development of health and social care services and supports for older people, inclusive of the reorientation of the model of care into the community; the development of supported living options; the potential of new technologies to enhance service-provision; the strategic development of capital infrastructure; funding and resource-allocation models; and projected expenditure.

Module 3 will examine whether the mainstreaming of ageing across Government and civil society is effective in supporting citizens' healthy, positive, and autonomous ageing across the life-course, for example through age-friendly environments, educational and employment opportunities, transport accessibility, and digital inclusion.

Reform area #8: Ensuring sustainable public finances

It has been well documented that there are known structural challenges on the horizon including ageing, climate change and the digital transition. Against this background, reforms are integral to ensuring that Ireland can meet these challenges from a strong fiscal position.

Sustainability of social insurance fund

The Actuarial Review of the Social Insurance Fund as at 31 December 2020, concluded and published in March 2023, found that even without any economic shocks to the economy or change to policy, the long-term sustainability of the Fund will face significant challenges. In this context, the Government agreed the PRSI Roadmap for incremental increases. In line with the Roadmap there will be modest, incremental increases in all classes of PRSI (employer, employee and self-employed) over the period 2024-2028 commencing with an increase of 0.1 percentage points on 1 October 2024, followed by a further 0.1 per cent in October 2025, gradually rising to 0.2 per cent in October 2028.

Introduction of pay-related social benefits

The Government will also introduce a new Pay Related Jobseeker's Benefit in March 2025, whereby the weekly rate of payment for people who have at least 5 years paid PRSI contributions will be set at 60 per cent of previous earnings, subject to a maximum of €450 for the first 3 months. After that, the rate will reduce to 55 per cent of earnings, subject to a maximum of €375 for the following 3 months and a further 3 months will be paid at the rate of 50 per cent, up to a maximum €300 payment.

Introduction of auto-enrolment to widen pension coverage

In September 2025, Ireland will introduce a new Auto-enrolment (AE) pension savings scheme for certain employees who are not paying into a pension. Designed to address gaps in pension coverage and to safeguard the standard of living of the retired population in the future, this initiative will automatically enrol employees into a retirement savings plan, with contributions from individuals, employers, and a top-up from the state. AE will operate on an 'opt-out' basis rather than 'opt-in', making it semi-mandatory. Employees will be automatically enrolled but have the option to opt out after six months of participation, with provisions to re-enroll them every two years if they remain eligible but opt out. Under the final design principles of the AE system, the State will make a contribution to participant's retirement savings funds at a rate of €1 for every €3 saved by the employee. The introduction of the scheme will be gradually phased in over a decade, with both employer and employee contributions starting at 1.5 per cent, and increasing every three years by 1.5 percentage points until they eventually reach 6 per cent by Year 10.

Retirement age

Other reforms underway include, the Employment (Restriction of Certain Mandatory Retirement Ages) Bill 2024, being progressed through the legislature, which will deliver a statutory provision which will allow, but not compel, an employee to stay in employment until the State pension age, which is 66. The Bill also provides for certain exemptions to this measure in limited circumstances.

Establishment of longer term savings vehicles

The Government has established the Future Ireland Fund and the Infrastructure, Climate and Nature Fund, to limit the exposure of the public finances to concentration risk from corporation tax receipts and ensure that permanent expenditure is not funded by potentially transient receipts. The objective of these

funds is to ring-fence 'excess' corporate tax receipts in order to help finance the structural challenges of the "4Ds" – shifting demographics, decarbonisation, digitalisation and de-globalisation.

Addressing aggressive tax planning

Ireland will continue to address aggressive tax planning through implementation of Ireland's Corporation Tax Roadmap.[12]

Reform area #9: Absorption of cohesion funding

EU Cohesion Policy aims to address regional disparities by strengthening economic, social and territorial cohesion across the EU. In addition, it supports the Union's political priorities, especially the green and digital transitions. EU cohesion funds comprise a significant proportion of the EU's long-term budget, the Multiannual Financial Framework (MFF).

Ireland's allocation

For the 2021-2027 MFF, Ireland was designated €1.4 billion in EU cohesion funds. This will be mainly delivered through four EU programmes:

> €396 million for the European Regional Development Fund (ERDF);
> €508 million for the European Social Fund+ (ESF+);
> €84.5 million for the EU Just Transition Fund; and,
> €142 million for the European Maritime Fisheries and Aquaculture Fund (EMFAF).

Together, these cohesion funds will promote economic and social development in Irish regions. In particular, the ERDF will help strengthen regional innovation, reduce energy poverty and improve urban living by supporting the implementation of the Northern and Western Regional Programme 2021-2027 and the Southern, Eastern and Midland Regional Programme 2021-27.

In line with the European Pillar of Social Rights and with a particular focus on disadvantaged groups, the ESF+ will contribute to reducing the risk of poverty and social exclusion as well as promoting access to employment through skills training, lifelong learning and education measures. The Just Transition will support Ireland's Midland's region by alleviating the impact of the transition out of peat for electricity generation.

[12] https://www.gov.ie/en/publication/678e5-irelands-corporation-tax-roadmap-january-2021-update/

Table 9: Structural reforms and investment priorities			
Sectoral heading/sub-heading	**RRF/MFF**	**CSR**	**Common priorities**
Housing	RRF	2020.2.3, 2019.3.5	2
Supporting enterprise			
Enterprise policy	RRF, MFF	2020.3.1, 2020.3.3, 2019.3.6, 2019.3.7	2
Research and innovations	RRF, MFF	2020.3.7	2
Labour market participation			
Improving working conditions	MFF		2
Skills and training	RRF, MFF	2023.4.6, 2020.2.1, 2019.2.1	2
Labour market activation	MFF	2020.2.1, 2019.2.1	2
Social inclusion	MFF	2019.2.1	
Childcare	MFF	2019.2.2	2
Healthcare	RRF	2024.1.2, 2021.1.4, 2020.1.2,	2
Pensions and social insurance	RRF	2023.1.5, 2022.1.4,	2
Taxation	RRF	2020.4.1, 2020.4.2, 2019.1.2	
Planning		2024.4.1, 2023.4.3 2022.4.2	1, 3
Climate action and the environment			
Climate Action Plan	RRF, MFF	2023.4.5, 2023.4.6, 2022.1.2, 2022.4.3, 2022.4.5, 2020.3.4 2020.3.5, 2019.3.1, 2019.3.2	1, 3
Waste management		2023.3.1, 2022.3.1	1
Water and wastewater	RRF	2024.3.1, 2023.3.2 2022.3.2, 2020.3.6, 2019.3.3	1
Retrofitting	RRF, MFF	2024.4.2, 2023.4.4 2022.4.4	1, 3
Energy security	RRF	2024.4.1, 2023.4.1, 2023.4.2, 2022.1.2, 2022.4.1, 2022.4.2, 2022.4.3	1, 3
Digital transition	RRF, MFF	2023.4.6, 2022.1.2, 2020.2.2, 2020.3.4, 2020.3.8, 2019.3.4	1
Cohesion funds		2024.2.2, 2023.2.2	2

Notes: 1 = A fair green and digital transition, including consistency with the European Climate Law; 2 = Social and economic resilience, including the European Pillar of Social Rights; 3 = Energy security. 2024 CSRs are subject to endorsement of the Council of EU, as such 2024 CSR reference number may be subject to change.

Annex

Table A1: External assumptions, per cent change (unless stated)								
	2023	2024	2025	2026	2027	2028	2029	2030
External GDP growth								
United States	2.5	2.6	1.6	2.0	2.1	2.1	2.1	-
Euro area	0.5	0.7	1.3	1.4	1.3	1.3	1.2	-
United Kingdom	0.1	1.1	1.2	1.7	1.7	1.6	1.4	-
Technical assumptions								
Euro-sterling exchange rate (€1=)	0.87	0.85	0.84	0.84	0.84	0.84	0.84	0.84
Euro-dollar exchange rate (€1=)	1.08	1.09	1.11	1.11	1.11	1.11	1.11	1.11
Brent crude ($ per barrel)	82.1	80.6	74.0	71.9	70.6	69.8	69.3	69.1
Natural gas prices (stg£ per therm)	1.0	0.8	1.0	0.9	0.8	0.7	0.7	0.7

Note:
Oil and prices (futures) are calculated on the basis of futures markets as of mid-September 2024.
Exchange rate outturns as of mid-September 2024 and unchanged thereafter.
Source: External growth forecasts from OECD Interim Economic Outlook for 2024-2025; IMF WEO for 2026-2029.

Table A2: General government balance, € million (unless stated)								
	2023	2024	2025	2026	2027	2028	2029	2030
Net lending by sub-sector								
General government balance	8,330	23,660	9,700	8,335	7,125	10,315	10,460	10,385
: Central government	9,350	25,080	12,135	10,235	9,010	12,215	12,095	11,980
: Local government	-1,020	-1,420	-2,435	-1,900	-1,885	-1,895	-1,635	-1,595
Underlying balance (excl.CJEU)	8,330	9,560	9,700	8,335	7,125	10,315	10,460	10,385
General government								
Total revenue	123,715	148,995	140,990	147,290	152,870	163,640	171,215	178,180
Total expenditure	115,385	125,330	131,290	138,950	145,745	153,320	160,755	167,795
Net lending/borrowing	8,330	23,660	9,700	8,335	7,125	10,315	10,460	10,385
Interest expenditure	3,485	3,130	3,495	3,300	3,770	4,240	4,820	5,360
Primary balance	11,815	26,790	13,190	11,640	10,895	14,560	15,280	15,745
One-off / temporary measures	-	14,100	-	-	-	-	-	-
Revenue								
Total taxes	93,500	103,035	106,425	110,645	113,850	121,645	127,065	132,710
: taxes on production and imports	32,995	34,640	36,645	38,035	39,490	41,515	43,090	44,690
: current taxes on income, wealth	59,870	67,750	69,175	71,970	73,685	79,420	83,225	87,230
: capital taxes	635	640	605	640	675	710	750	790
Social contributions	21,565	22,745	25,475	27,485	29,490	31,965	33,660	34,860
Property Income	2,005	2,005	1,965	1,950	2,195	2,430	2,680	2,725
Other	6,645	21,210	7,130	7,205	7,335	7,595	7,810	7,885
Total revenue	123,715	148,995	140,990	147,290	152,870	163,640	171,215	178,180
p.m.: Tax burden	116,115	126,865	133,040	139,305	144,545	153,610	160,725	167,570
Expenditure								
Compensation of employees	31,080	34,455	36,465	38,460	40,190	41,875	43,800	45,985
Intermediate consumption	18,980	19,445	19,580	20,885	22,095	22,825	24,045	24,945
Social payments	39,790	44,170	44,740	46,730	48,640	50,380	52,350	54,620
: in-kind via mkt producers	10,035	10,920	11,100	11,590	12,045	12,070	12,080	12,095
: other than in-kind	29,755	33,255	33,635	35,140	36,595	38,310	40,270	42,525
Subsidies	2,540	2,380	2,415	2,430	2,485	2,525	2,560	2,615
Interest expenditure	3,485	3,130	3,495	3,300	3,770	4,240	4,820	5,360
Gross fixed capital formation	11,775	13,320	16,115	17,530	18,535	20,700	21,985	22,575
Capital Transfers	2,215	2,480	3,025	3,085	2,980	2,975	3,015	3,085
Other	5,515	5,955	5,455	6,525	7,055	7,795	8,180	8,605
Resources to be allocated	-	-	-	-	-	-	-	-
Total expenditure	115,385	125,330	131,290	138,950	145,745	153,320	160,755	167,795
p.m. : Government consumption	62,055	65,219	68,301	72,082	75,669	78,377	81,950	85,661
GDP at current market prices	509,950	525,188	557,211	590,610	625,417	661,989	700,061	740,374

Source: Department of Finance, CSO, NTMA.

Table A3: Net expenditure path, € million (unless stated)								
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
General government revenue	**123,715**	**148,995**	**140,990**	**147,290**	**152,870**	**163,640**	**171,215**	**178,180**
of which:								
Transfers from the EU	2,140	1,865	1,980	1,825	1,675	1,475	1,425	1,425
Total revenue other than transfers from the EU	121,575	147,130	139,010	145,465	151,195	162,165	169,790	176,755
Revenue measures (increments, excluding EU funded measures) ^	30	-340	-665	-	-	-	-	-
One-off revenue included in the projections (levels, excluded EU funded measures)^^	-	14,100	-	-	-	-	-	-
General government expenditure	**115,385**	**125,332**	**131,291**	**138,951**	**145,743**	**153,322**	**160,756**	**167,795**
of which:								
Expenditure funded by transfers from the EU	2,140	1,865	1,980	1,825	1,675	1,475	1,425	1,425
Nationally financed expenditure	113,245	123,467	129,311	137,126	144,068	151,847	159,331	166,370
p.m. National co-financing of programmes funded by the Union	465	565	615	650	650	395	325	325
p.m. Cyclical component of u/e benefits	-90	-15	-15	-135	-185	-200	-200	-195
p.m. one-off expenditure included in the projections (excluding EU funded measures)	-	0	0	0	0	0	0	0
Net nationally financed primary expenditure (before revenue measures)	109,390	119,790	125,215	133,305	139,835	147,415	154,385	160,880
Net nationally financed primary expenditure (growth rate)	**7.5**	**9.8**	**5.1**	**6.5**	**4.9**	**5.4**	**4.7**	**4.2**

^ Net discretionary revenue measures above 0.1 per cent of GDP reported in 2023, 2024 and 2025 in line with European Commission framework. For full breakdown of discretionary revenue see Annex 2 of *Ireland's Draft Budgetary Plan 2025*, available at: https://www.gov.ie/en/publication/ce133-draft-budgetary-plan-2025/. ^^ One-off revenue from CJEU decision from September 10th 2024.
Source: CSO, Department of Finance.

Table A4: Technical general government debt trajectory 2030-2038, per cent of GDP (unless stated)									
	2030	2031	2032	2033	2034	2035	2036	2037	2038
Gross debt	31.7	29.5	27.7	26.1	24.7	23.5	21.8	20.2	18.8
General government balance	1.4	1.3	1.2	1.1	1.0	0.9	0.8	0.6	0.6
Structural primary balance	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Cyclical component	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
One-off measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Effective interest rate	2.3	2.3	2.4	2.5	2.6	2.7	2.7	2.8	2.8
Stock-flow adjustment	1.8	0.7	0.7	0.7	0.7	0.7	0.0	0.0	0.0
Potential GDP, growth rate	3.5	2.7	2.4	2.0	2.0	1.9	1.8	1.8	1.8
Real GDP, growth rate	3.6	2.7	2.4	2.0	2.0	1.9	1.8	1.8	1.8
GDP deflator, growth rate	2.1	2.4	2.5	2.6	2.5	2.5	2.5	2.4	2.4
Nominal GDP, growth rate	5.8	5.2	4.9	4.6	4.5	4.4	4.3	4.3	4.2

Note: This table is a requirement of the new EU fiscal framework. Evolution of the debt ratio is based on a technical no-policy change scenario where there the structural primary balance is held constant as a share of GDP between 2031 and 2038. Between these years, changes in the primary balance are driven by increases in the cost of ageing. All other assumptions underpinning this trajectory between 2031 and 2038 are based on the European Commission's framework.
Source: Department of Finance, European Commission.

Table A5a: Investment needs related to EU Common Priorities

A fair green and digital transition, including consistency with the European Climate Law
Ireland has accepted ambitious targets under the EU's 'Fit for 55' package to significantly reduce greenhouse gas emissions, increase energy efficiency and increase the proportion of energy derived from renewable sources (see **Reform Area #2 in Chapter 5**) for more details. Likewise, as set out in **Reform Area #3,** achieving a comprehensive and inclusive digital transition is central to advancing Ireland's economic and social ambitions. Building on Ireland's position as a digital leader, Government's cross-cutting approach aims to deliver the full potential of the digital transition to people and businesses through a number of initiatives and strategies.
Under national legislation, Ireland is committed to achieving climate neutrality no later than 2050, with a 51 per cent reduction in greenhouse gas (GHG) emissions by 2030 (relative to 2018 levels). These objectives are set out in the Climate Action and Low Carbon Development (Amendment) Act 2021 which establishes a legally binding framework with targets and commitments to ensure the necessary structures and processes are in place to deliver on national, EU and international climate goals and obligations in the near and long term. Implementation of the Ireland's climate ambitions are carried out under successive Climate Action Plans. The Environmental Protection Agency's (EPA) latest analysis shows that while GHG emissions are projected to fall by 2030 (relative to 2018 levels), a significant gap to the 51 per cent threshold remains in all scenarios. This must be addressed if Ireland is to achieve its legally binding, emissions reduction targets. The Government is committed to protecting and restoring Ireland's natural waters by complying fully with the requirements of the Water Framework Directive. The Water Action Plan 2024, Ireland's third River Basin Management Plan, enhances and builds upon the work of the first and second cycle plans and where necessary, addresses the shortcomings experienced during the implementation of previous plans. The responses to shortcomings addressed include, for example, strengthening the incorporation of the integrated catchment management approach, improving the environmental ambition, improving the evidence base for 'targeting the right measures in the right place' and securing dedicated resources to deliver these, increasing environmental enforcement and compliance, and strengthening the governance structures.
The National Digital Strategy, *Harnessing Digital – The Digital Ireland Framework*, reflects Ireland's ambition to remain a European and global digital leader, and the strong commitment to progressing the digital transformation of the economy and society. It aims to maximise the economic and societal benefits from digitalisation and to ensure that all are in a position to enjoy those benefits (specific targets set out in **Reform Area #3).** *Digital for Good: Ireland's Digital Inclusion Roadmap*, was published in August 2023. The Adult Literacy for Life (ALL) Strategy is a crucial element of the Roadmap. The ALL Strategy aims to reduce the share of adults in Ireland without basic digital skills from 47 per cent to 20 per cent by 2030.

Notes: for more detail see Chapter 5.

Table A5b: Investment needs related to EU Common Priorities
Social and economic resilience, including the European Pillar of Social Rights
The capacity to absorb shocks and undergo structural transformations in a socially just and inclusive manner requires deepening the resilience of societies and economies across the EU, especially given the unpredictable and increasing nature of global change. As highlighted in **Reform Area #6**, the Government is committed to improving the quality of life for all groups across society. There are a number of ongoing strategies and reforms to ensure that the benefits of Ireland's prosperity reach every sector of society.
Ireland continues to be fully supportive of the European Pillar of Social Rights and its Action Plan. The Action Plan sets out concrete initiatives, including setting EU wide headline targets, to be achieved by 2030. *Ireland's Roadmap for Social Inclusion 2020–2025* builds on the work of its predecessors with the aim of reducing the number of people in consistent poverty in Ireland (to 2 per cent or less) and increasing social inclusion for those who are most disadvantaged. Ireland has committed to a reduction in the number of people at risk of poverty or social exclusion (AROPE) by 90,000, with 50 per cent (45,000) of these to be children. In the *Roadmap for Social Inclusion*, the Government set a target of reducing the AROPE from 21.1 per cent in 2018 to approximately 16.7 per cent in 2025.
Pathways to Work 2021-2025, is an initiative designed to improve labour market participation and address unemployment by providing targeted support to the long-term unemployed and other vulnerable groups. Following a mid-term review in May 2024, an updated strategy of commitments and KPIs was published to address existing and medium to longer term economic challenges such as labour and skills shortages, the green and digital transitions and the need to increase participation rates for disadvantaged groups. The review recognises that the Public Employment Service (PES) must continue to support a wide variety of cohorts seeking to access employment opportunities. Supporting particularly disadvantaged groups into meaningful employment opportunities will put a premium on effective co-operation between the PES network, employers, unions, NGOs, and the Further Education and Training providers, and will involve adopting a model, which continues to support in-work progression for these cohorts. This will be particularly important when tackling the future challenges posed to the Irish economy by digitalisation, the green transition, and an ageing population, as well as the challenge of assisting disadvantaged groups to find good employment outcomes.
Work across Government to develop Ireland's next *National Disability Strategy*, which will seek to progress Ireland's implementation of the United Nations Convention on the Rights of Persons with Disabilities (UNCRPD), is underway. The *Migrant Integration Strategy*, and the National Strategy for Women and Girls concluded in 2022. Work to develop successor strategies is ongoing. The second National Traveller and Roma Inclusion Strategy, 2024 – 2028 (NTRIS II), published in July 2024, aligns with the objectives of the EU's Roma Strategic Framework and represents a whole of Government approach to ensuring the full inclusion of Traveller and Roma communities in Irish society.

Notes: for more detail see Chapter 5.

Table A5c: Investment needs related to EU Common Priorities

Energy security
As referenced in **Reform Area #2**, *Energy Security in Ireland to 2030* outlines the strategy to ensure energy security in Ireland for this decade. The report includes a range of short and medium-term measures including the need for additional capacity of indigenous renewable energy, but also energy imports, energy storage, fuel diversification, demand side response, renewable gases, and the creation of a strategic gas emergency reserve on a transitional basis.
A new plan-led approach to offshore renewable energy (ORE) was adopted by Government in May 2023. Central to this plan-led approach is the requirement that all post Phase One offshore wind developments in Ireland must be situated in marine areas identified for this purpose that are located within Designated Maritime Area Plans (DMAPs). A Future Framework for Offshore Renewable Energy was launched in May 2024 and is the long-term model and vision for ORE in Ireland. The policy sets out the pathway Ireland will take to deliver 20GW of offshore wind by 2040 and at least 37GW in total by 2050.
The electricity sector continues to face an immense challenge in meeting its requirements under the sectoral emissions ceiling, as the decarbonisation of other sectors, including transport, heating, and industry, relies to a significant degree on electrification. The North-South Interconnector project will see the addition of a new 400 kV overhead line to the electricity network, connecting the electricity grids in Ireland and Northern Ireland. The Celtic Interconnector is a high-voltage subsea power cable that will link the electricity grids of Ireland and France. It will include enough capacity to power 450,000 homes and will create a direct electricity link from Ireland to the European Union. The 700-megawatt submarine cable is due to be completed in 2026 with integration to the grid expected by 2027.

Notes: for more detail see Chapter 5.

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