

Opening Statement – Oireachtas Committee on Budgetary Oversight

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Budgetary responses to the energy crisis and cost of living pressures.

Let me begin by thanking the Chair for the invitation to the ESRI to appear before the Committee. I am Dr. Claire Keane and I am joined by my colleagues Professor Martina Lawless, Professor Conor O’Toole, Dr Miguel Tovar Reaños and Dr. Andrés Estévez. We are grateful for the opportunity to appear before the Committee today to provide our views on the Budgetary responses to the energy crisis and cost of living pressures.

Macroeconomic Backdrop and Context

The recent conflict in Iran has sent shockwaves through both global energy markets and the international economy. The increase in inflationary pressures, as well as the greater level of uncertainty, will put downward pressure on economic activity and dampen both domestic and external demand.

The magnitude of the shock will depend on both its duration and severity. A rule of thumb from previous research by Egan et al. (2023)¹ was that every 30 per cent increase in oil and gas prices led to a one per cent increase in consumer prices in Ireland. This led us to increase our inflation forecast to over 3 per cent for the present year in our recent Quarterly Economic Commentary, Spring 2026.² In that forecast, we used the technical assumption that oil and gas price pressures would moderate towards the end of 2026 in line with futures markets at that time.

However, the crisis now appears likely to be more prolonged in nature and therefore the price shock will be larger and longer-lasting than built into that early forecast.³

¹ Egan, Paul, Bergin, Adele and O’Toole, Conor, (2023), The potential impact of the war in Ukraine on the Irish economy, No WP759, Papers, Economic and Social Research Institute (ESRI).

² Barrett, A., O’Toole, C., and O’Shea, D. (2026). Quarterly Economic Commentary, Spring 2026, ESRI Forecasting Series, Dublin: ESRI, <https://doi.org/10.26504/QEC2026SPR>

³ We will be revisiting our forecasts in the Summer 2026 Quarterly Economic Commentary which will be published at the end of June.

The government has announced two packages of temporary supports for households and industry, at a combined cost of approximately €750 million. These include measures such as reductions in excise duties, an extension of the Fuel Allowance season and changes to the Diesel Rebate Scheme as well as a deferral of the planned carbon tax increase.

Policy Targeting and Longer-Term Energy Policy Aims

We know from previous work that energy inflation tends to be larger for those on lower incomes. Forthcoming work will look at the distributional impact on households of the package of supports announced to date.⁴ We anticipate that, like the cost-of-living packages rolled out between 2022 and 2025, the current measures will benefit lower income households more than higher income households in percentage terms. However, in absolute terms, higher income households are likely to benefit more, a consequence of the untargeted nature of excise cuts, which reduce prices paid by all consumers.

A recently published report by Estevez and Tovar (2026) shows that well-targeted interventions to address energy poverty can provide more effective support to those most in need at a much lower cost than universal measures. It also emphasises that because energy poverty is experienced in diverse ways, monitoring systems should track a range of indicators.

Universal measures like electricity credits help all households, but they have limits: the flat amount may not be sufficient for the most vulnerable, and substantial resources are inevitably directed to households with little or no need for assistance. As a result, emergency measures should be targeted and explicitly temporary, with a clear distinction from longer-term structural reforms.

The report shows that households in energy poverty rely heavily on supports such as housing assistance, child benefits, and disability benefits, reflecting overlapping socio-economic challenges. This suggests that energy poverty policy must be closely integrated with broader social protection, housing, and energy strategies to ensure better targeting.

⁴ This will be published shortly as a QEC Research Note.

ESRI research indicates that the targeting of the Fuel Allowance can be improved to better support vulnerable households⁵. Although eligibility has been expanded—for example, to include households receiving the Working Family Payment—there is a high potential for non-take-up, partly due to administrative burden⁶. In addition, while other energy cost supports, such as the Additional Needs Payment, are available, their reliance on discretionary eligibility criteria can further increase administrative complexity for applicants and potentially limit access to assistance⁷.

Implications for Budgetary Policy and Public Finances

Ongoing reliance on fossil fuels, the prices of which are subject to large volatility, leaves households and businesses exposed in the long-run and has the potential to reduce economic growth in an oil-importing country such as Ireland. Additionally, if the recently introduced measures are not unwound in a timely manner, they will hinder our ability to reduce energy demand and incentivise the uptake of sustainable energy technology.

Furthermore, any budgetary shock is likely to put pressure on our ability to deliver on the longer-term infrastructure deficits such as housing, healthcare and transportation. Hard choices will have to be made and any supports should be financed from within the current spending limits rather than from additional expenditure. Targeted, tailored, and proportionate measures must be used to ensure the public finances remain on an even keel and avoid following procyclical budgetary policy. All of these developments occur with a backdrop of an increasing reliance on corporation tax revenues which are highly concentrated in a small number of large multinational corporations and contain a large windfall component. This tax fragility would suggest an even greater level of prudence is required in spending choices.

⁵ See Pillai, A., Tovar Reaños, M. and Curtis, J. (2023). Keep out the cold: An analysis of potential gaps in fuel poverty policies in Ireland, *Energy Research & Social Science*, 98, 103012.

⁶ See Doorley, K. and Kakoulidou, T. (2024). The Trouble with Take-Up, *The B.E. Journal of Economic Analysis & Policy*, 24(2), pp. 673–682.

⁷ See Ceallaigh, D., Martin, L., Timmons, S., Robertson, D. and Lunn, P. (2026) The response of low-income households to the cost-of-living crisis in Ireland. Dublin: Economic and Social Research Institute (ESRI).