ESRI Opening Statement

Oireachtas Budgetary Oversight Committee

22 September 2026

Let me begin by thanking the Chair and the Committee for the invitation to attend today. I am Conor O'Toole, Research Professor at the ESRI and I am joined by my colleague Alan Barrett who is also a Research Professor at the ESRI.

In these opening remarks, we want to set out the broad economic and fiscal context surrounding Budget 2027. It has been a recurring theme in recent ESRI Commentaries that our narrative contains elements of both optimism and caution. The optimism is based on the continued good performance of the economy. Employment grew by 0.8 per cent in the year to Q2 2026 and now stands at over 2.8 million. Strong VAT returns and consumption growth in the first half of the year also indicate positive underlying momentum in the economy.

As regards caution, our views on the likely future path of the economy continue to be tempered by the potential fragility of the public finances and some concerning features of the global economy. The headline public finance figures disguise vulnerabilities, namely, the unusually high share of corporate taxes in total revenues, the high proportion of corporate taxes which is windfall in nature and the low number of companies paying a high share of the corporate taxes.

These vulnerabilities in the public finances would always be concerning but in the context of some troubling features of the global economy, the concerns become elevated. The global economy is being presently pulled between two major cross currents. First, the conflict involving the US, Israel and Iran has re-escalated in recent days which has led in turn to oil prices increasing, with Brent crude surpassing €100 per barrel. This brings back the prospect of higher inflation rates for a prolonged period and consequent interest rates rises.

The second major cross-current is the largescale increase in capital expenditures globally on AI-related technology and hardware which has provided a timely upside boost for global prospects. Capital expenditures on the infrastructure needed to run the AI-economy such as data centres, chips, and energy production have increased considerably. As a globally integrated economy with a large technology sector, Ireland is well placed to experience upside effects from this AI rollout, impacting investment and exports in particular.

However, notable downside risks remain and these reinforce the existing vulnerabilities to the public finances and wider economy. These risks are threefold: first, the investments in AI-related activities may not meet return expectations and this may have

knock on effects on corporate earnings and employment in the related sectors. Second, technology-related employment may be more sensitive to AI replacement in a knowledge-based economy like Ireland, thus near-term displacement could occur to jobs. Thirdly, the interaction of heightened geopolitical tensions and a further disruption to energy markets could put additional pressures on households and firms. This could lead to increased short-term demands for policy protection which is likely reliant on the uncertain and windfall revenues of multinationals.

Another point that must be noted is that sovereign borrowing costs are rising internationally, in particular for those economies with pre-existing fiscal vulnerabilities; high debt levels, large and persistent deficits and low growth out-turns. The potential implications for Ireland of this mix of large fiscal deficits, growing national indebtedness and increasing bond yields across a number of countries are not necessarily all known and understood. It will be recalled that the first signs of the global financial crisis occurred in US private debt markets, which exposed international credit market vulnerabilities. High indebtedness among euro members compounded the difficulties. While we are not drawing such a conclusion here at the present time, the high level of public debt in the US is raising concerns in markets. Of more immediate concern for Ireland is the possibility that a generalized increase in bond yields will include Ireland. To some extent this is being seen already with Irish rates also on an upward path.

Some of the key parameters of Budget 2027 have already been announced in the Summer Economic Statement. We would make the following points.

First, although a package of €8.5 billion will be consistent with maintaining a general government surplus, when account is taken of the windfall corporation tax, a deficit emerges. As argued previously, this strikes us as being at odds with prudent fiscal management, especially where windfall revenues are used to fund recurrent expenditures.

Second, an increase of 5.9 per cent on the 2026 expenditure base loses meaning if spending overruns in 2026 become part of the actual opening position in 2027 and this is compounded if there are spending overruns in 2027. The important point here is to have credible fiscal plans and to adhere to them, in line with the thinking set out in the Medium-Term Fiscal and Structural Plan which was published in December 2025.

Third, fiscal policy should always aim to be counter-cyclical. But Irish fiscal policy has rarely (if ever) been operated in this manner and policy currently is highly pro-cyclical. We would recommend that Budget 2027 be characterised by caution whereby a larger headline surplus is targeted this year and a path set for a reduction in the windfall-adjusted deficit over time.

While we urge a high degree of caution in managing the public finances, this does not mean that specific needs cannot be addressed. But sound fiscal management does

imply targeted approaches should be employed where possible. In that context, we would highlight research showing how a second, mean-tested tier of child benefit could lift 40,000 children out of poverty at a cost of just under €700 million.

A long-standing theme of ESRI Commentaries has been the requirement to deploy capital to address well known challenges in housing, healthcare, water, energy and broader infrastructure. Ensuring a continued expenditure on capital items that does not vary with the economy cycle will be critical to ensuring long term growth prospects. Investment data lay bare the continued dominance of multinationals in investment activities. Ensuring the deployment of capital by Government and domestic firms is critical to building a resilient economic structure and will help position Ireland to battle shifting global sands.

We look forward to your questions.