# Budget 2027: A Macroeconomic Perspective

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October 9th 2026

ESRI Post Budget Briefing

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# New budget, similar concerns to 2026

- Domestic economy continues to perform robustly, labour market performance strong
- As in past, our pre-budget recommendations suggested limiting net spending growth to sustainable levels
- We have previously signalled concerns about the fiscal stance whereby deficits – once account is taken of windfall corporate tax receipts – have been run for the last number of years.
- Our concerns remain. They are:
  - First, counter-cyclical fiscal policy requires that fiscal policy reduce demand pressures in the economy towards the peak of the economic cycle.
  - Second, the potentially transitory nature of a large proportion of Ireland's corporate tax receipts means that they could vanish quickly.
  - Within-year spending overruns
- Policy is attempting to simultaneously increase expenditure on recurring activities, address investment bottlenecks and cut taxes –only possible due to soft budget constraints - prioritise



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# Budget 2027 – Main macroeconomic elements

- Overall budgetary package
  - €8.65bn across taxation and expenditure
  - This is composed of:
    - €6bn in additional current expenditure
    - €1.1bn in additional capital expenditure
    - €1.6bn permanent tax measures
- Size of government expenditure
  - Total voted spend in 2027 – +€125bn, non-voted. +€19bn
- Tax measures – €1.6bn
  - Income tax adjustments & USC make up the bulk
  - Changes focused on SMEs, agriculture, housing market (Help-to-Buy, RZLT changes, DPT)
  - Carbon tax deferral (€177mn), CGT down to 31% (€186mn), R&D credit expansion (€118mn)
- Spending measures - € 7.1bn
  - Broad based - spending measures to provide existing and increased service delivery
  - Considerable focus on housing and related infrastructure
- Temporary measures relating to excise duties - €450mn - Mineral Oil Tax Non-Carbon Component Reduction Extension – end of February 2027
- Set aside €1.2bn for public sector pay agreements. Sufficient?



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# Short Term Outlook

## Middle-East Conflict Continues, Global Economy Pulled by Cross Currents



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# Global economy pulled by various cross currents

**Tailwinds – expansion of AI in global economy**

- Investment expenditures on AI-hardware and infrastructure
- Increase in productivity related to AI-usage

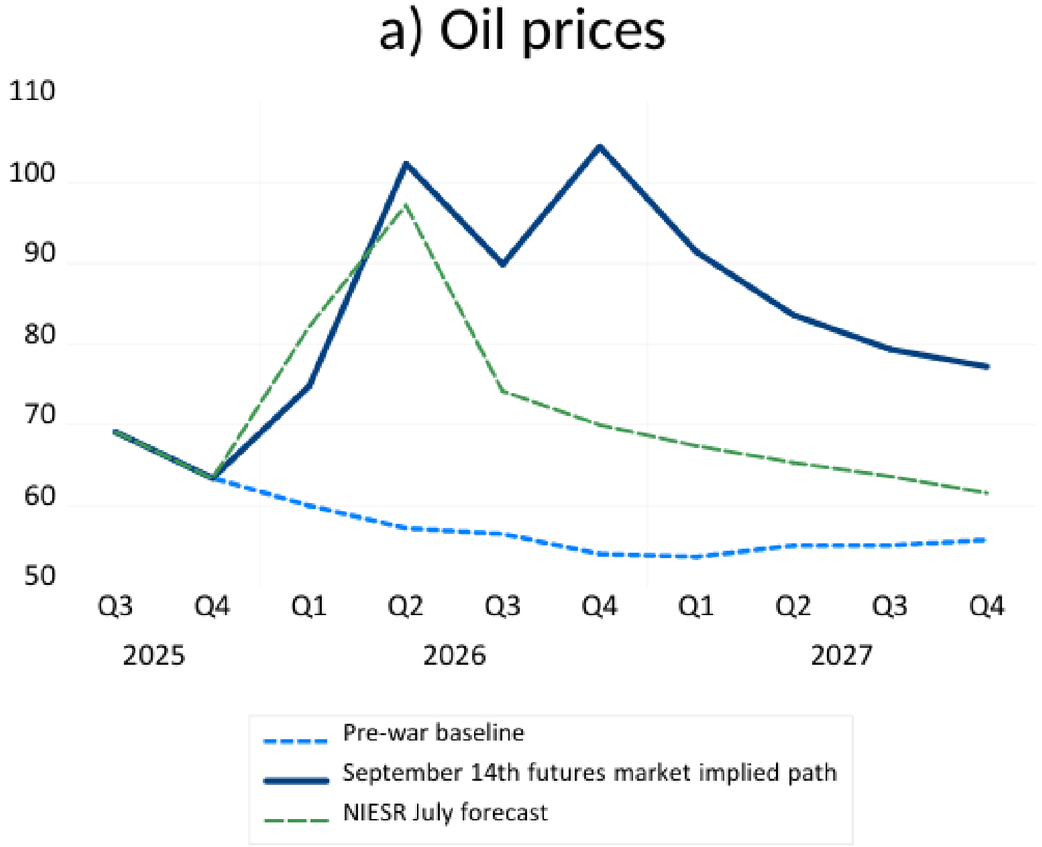


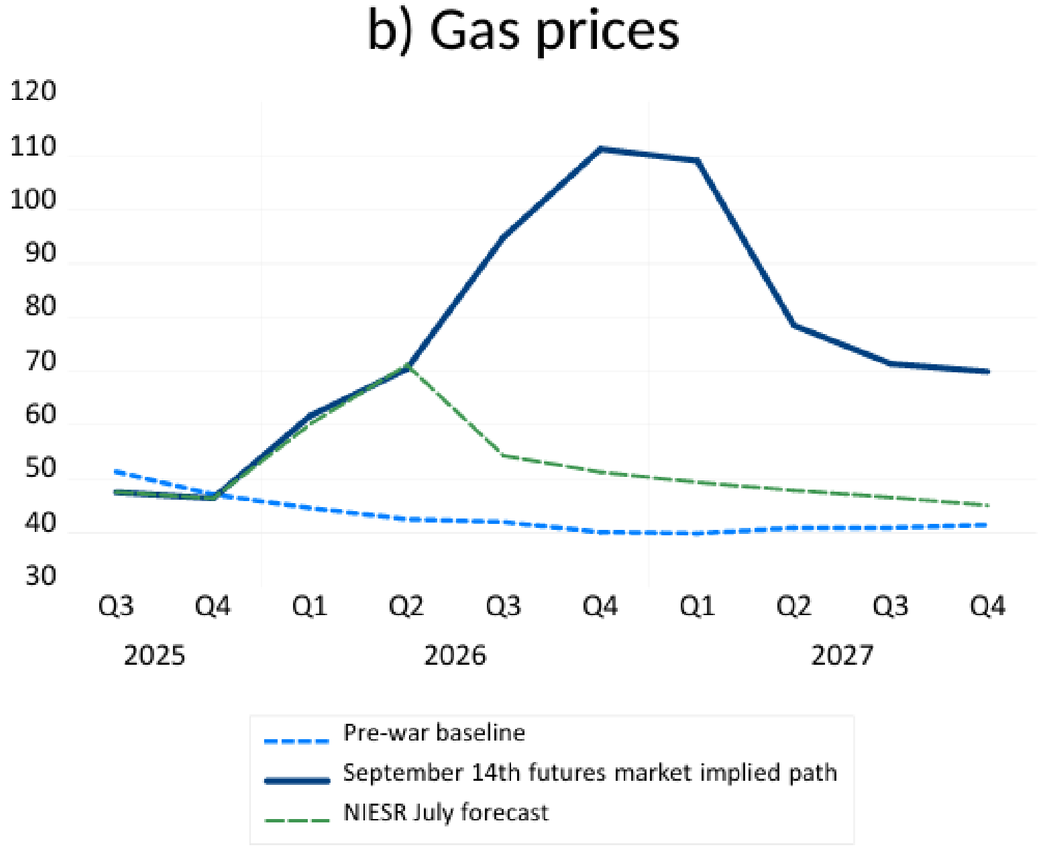
**Headwinds – energy costs and conflicts**

- Increased geopolitical uncertainties and conflicts
- Rising fossil fuel prices and energy-related cost pressures
- Increasing sovereign bond yields

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# Expectations for higher oil and gas prices, and for a longer duration



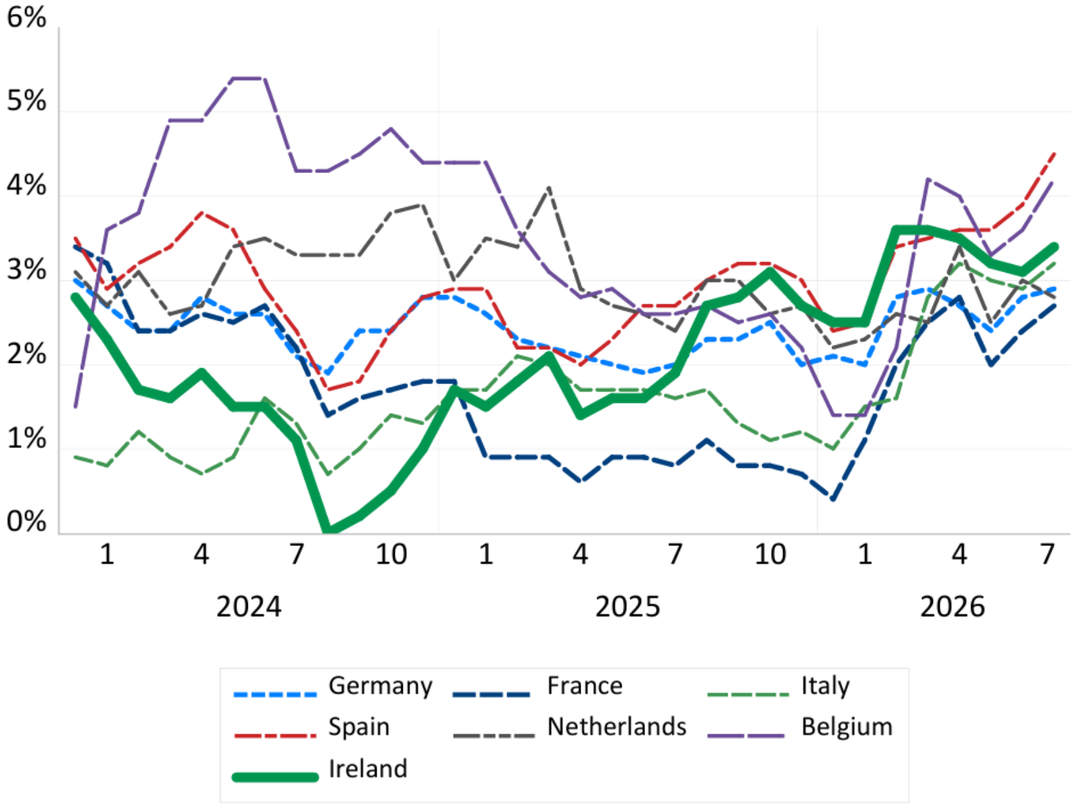





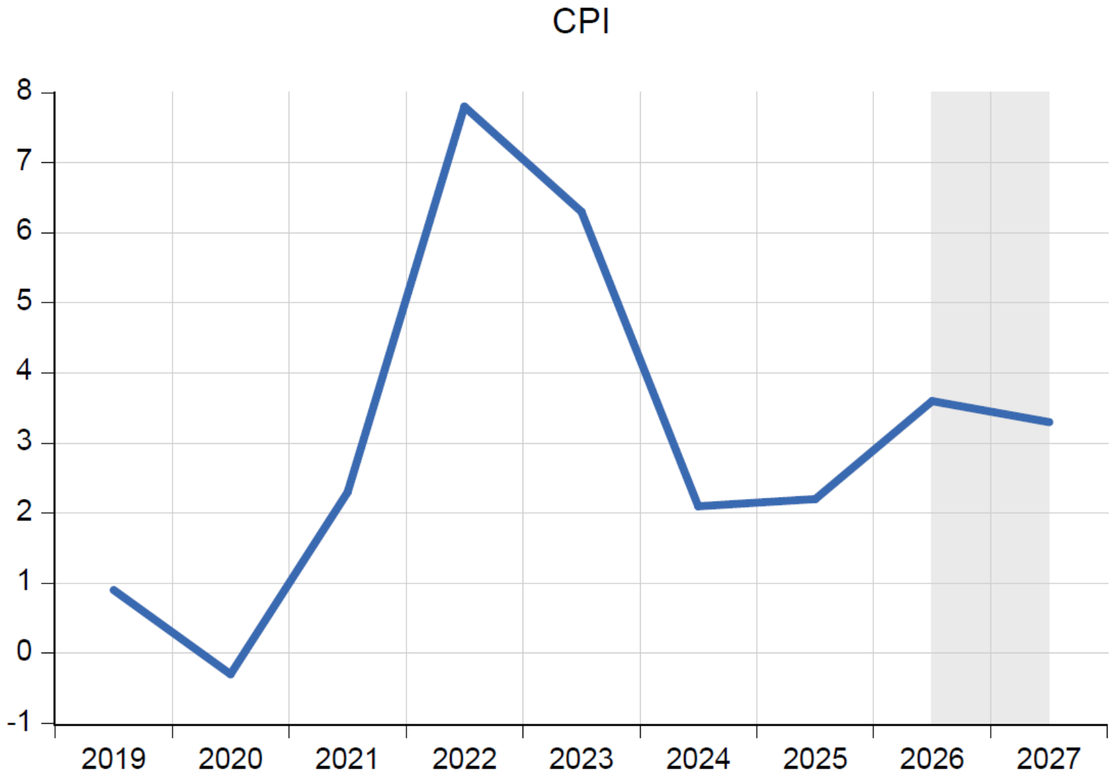

Oil prices in dollars per barrel, gas prices in equivalised dollars per barrel. Both shown as quarterly averages

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# HICP inflation by country




# CPI Trend & Forecast

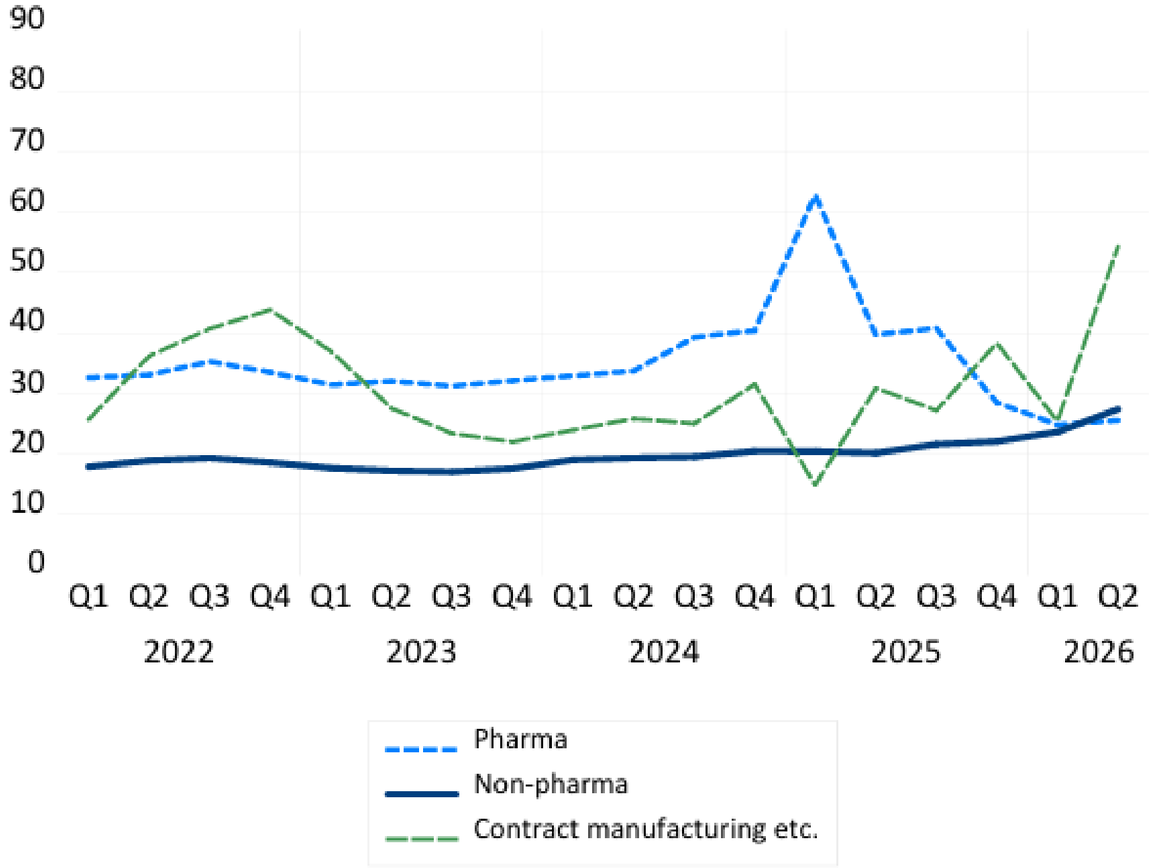




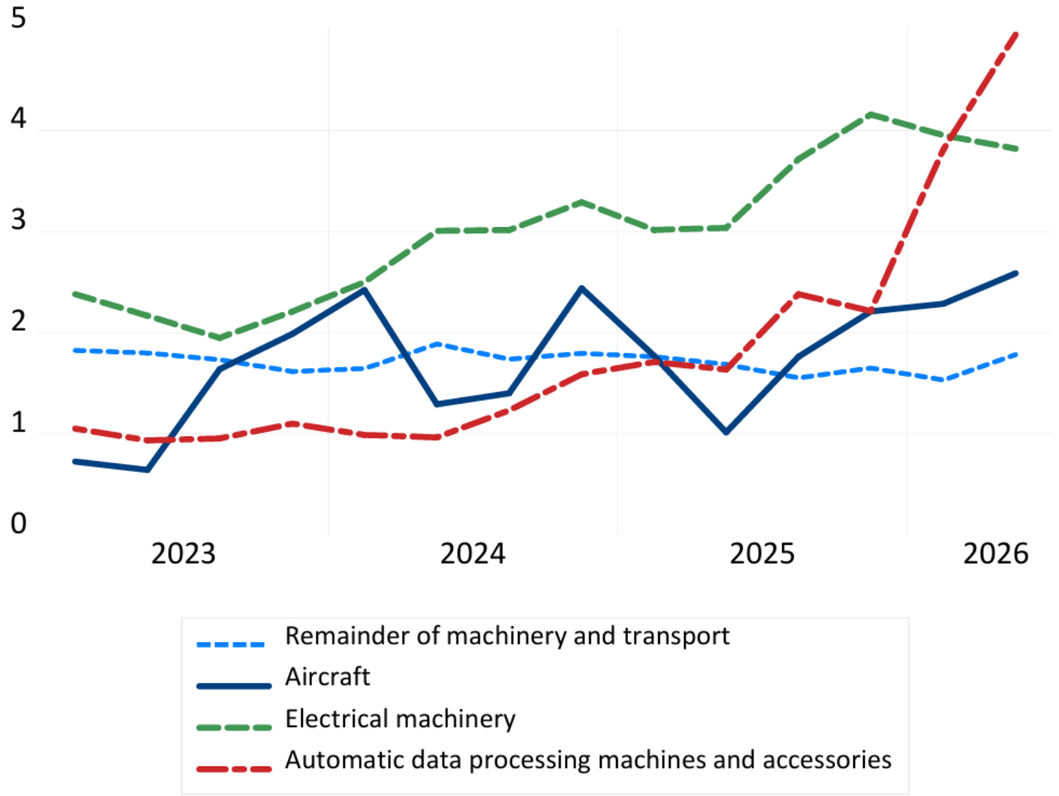

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# Trends in components of exports (€, bn, current prices)

a) Components of Goods Exports




b) Components of transport and machinery



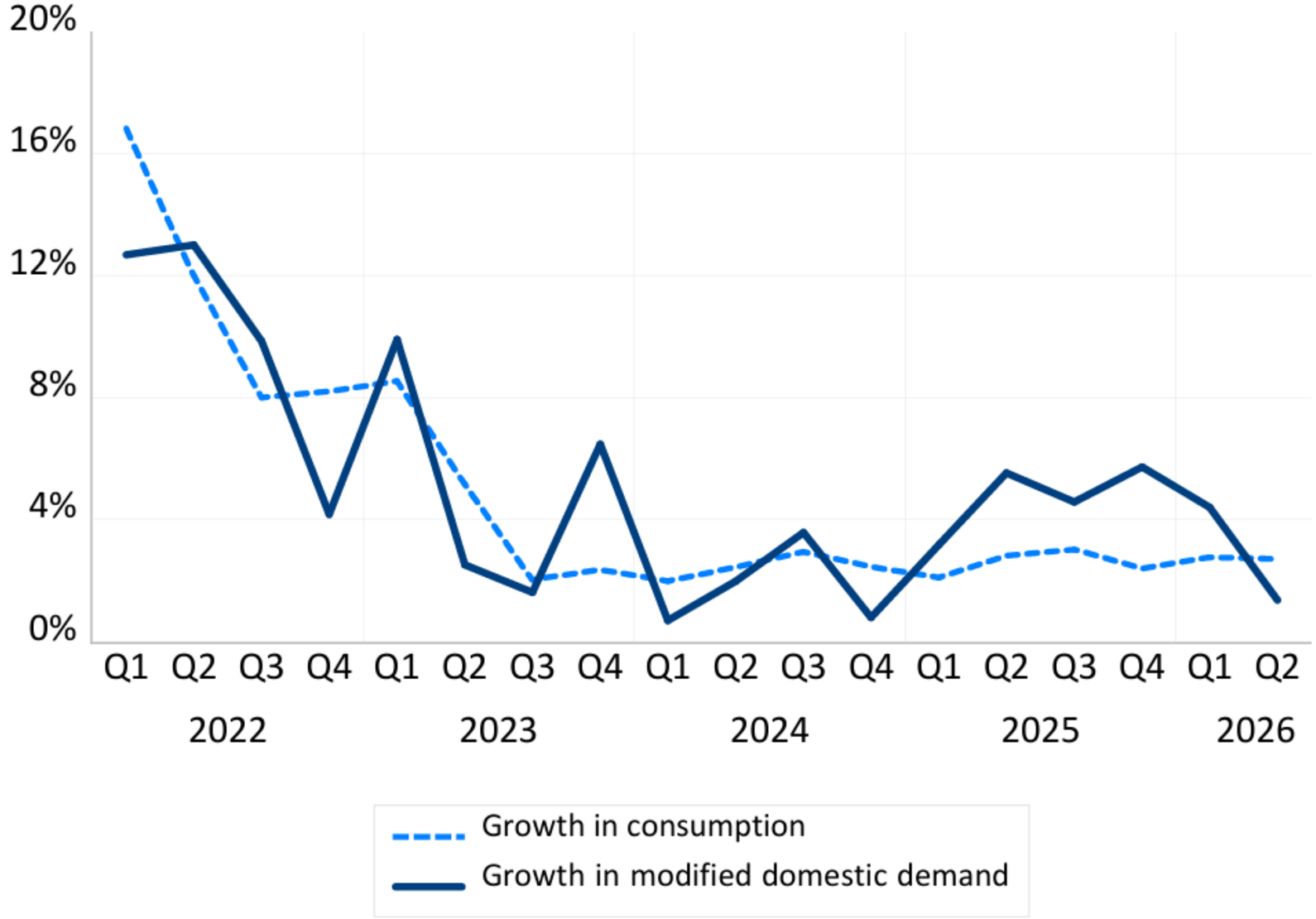

Key point to note in panel (a) – non-pharma exports higher than pharma in the most recent quarter



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# Domestic growth resilient despite energy cost pressures

Growth in modified domestic demand and consumption

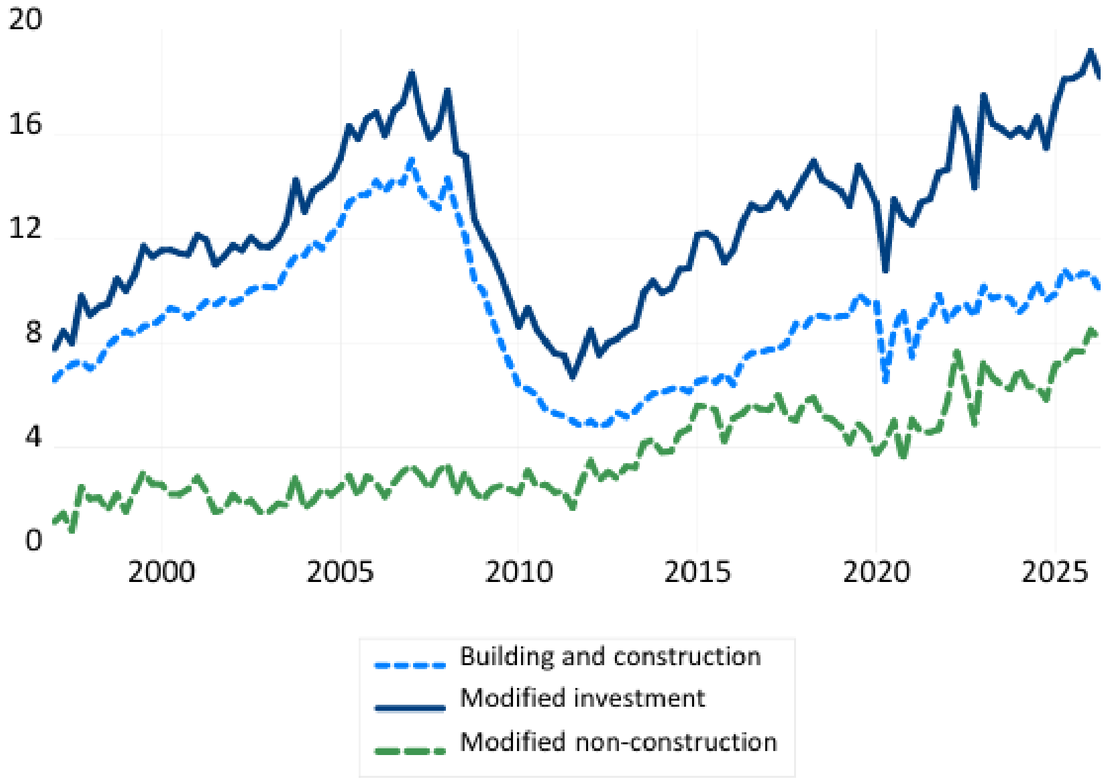




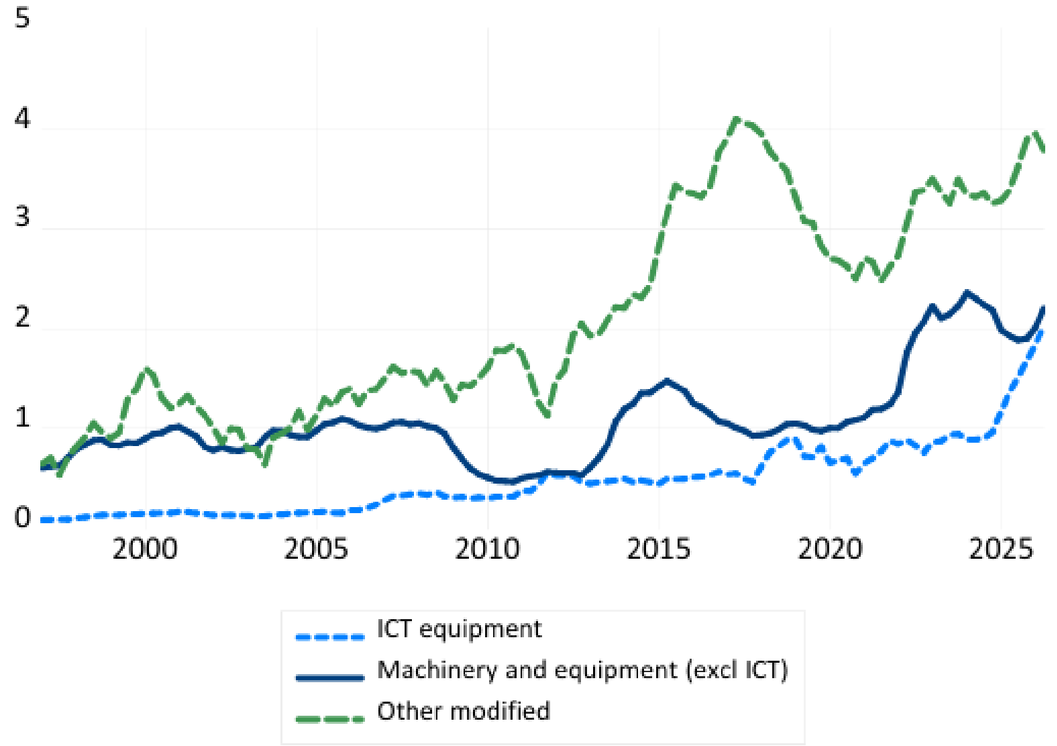

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# Recent modified investment growth driven by the non-construction category

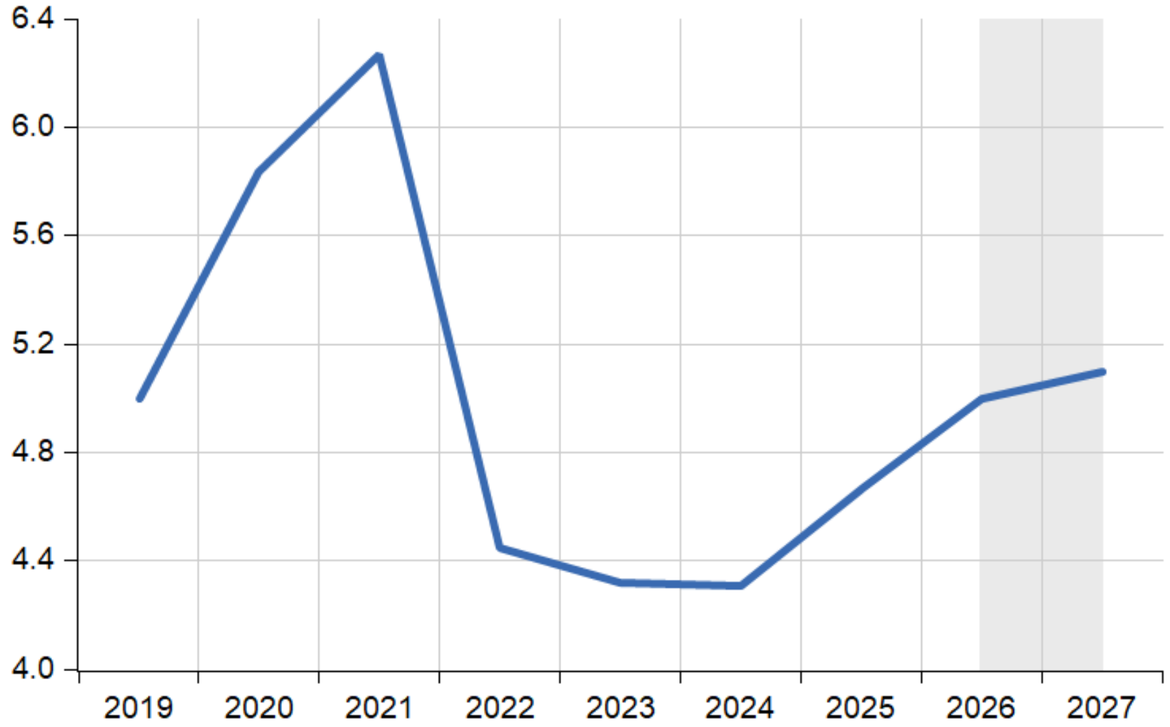
a) Levels (€, bn, constant prices)



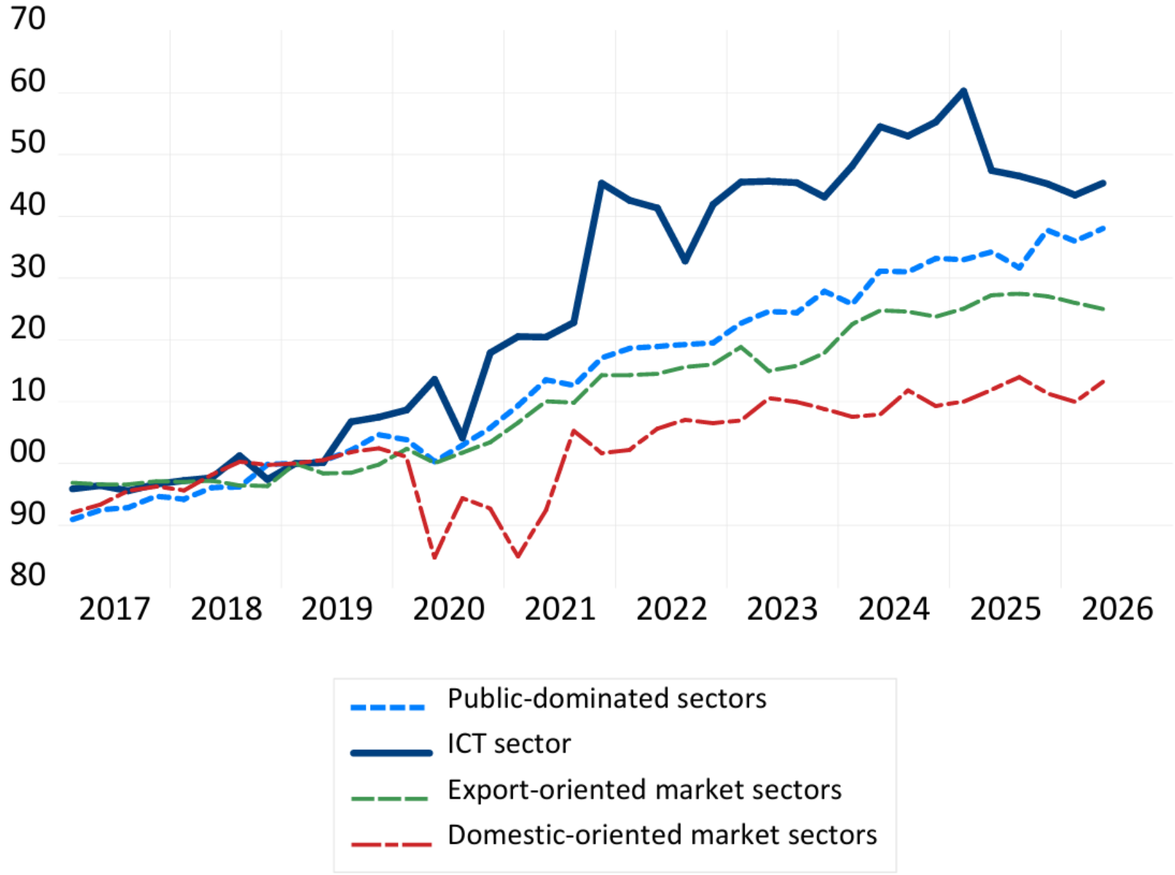

a) Modified non-construction



# Unemployment rate stands at 5 per cent



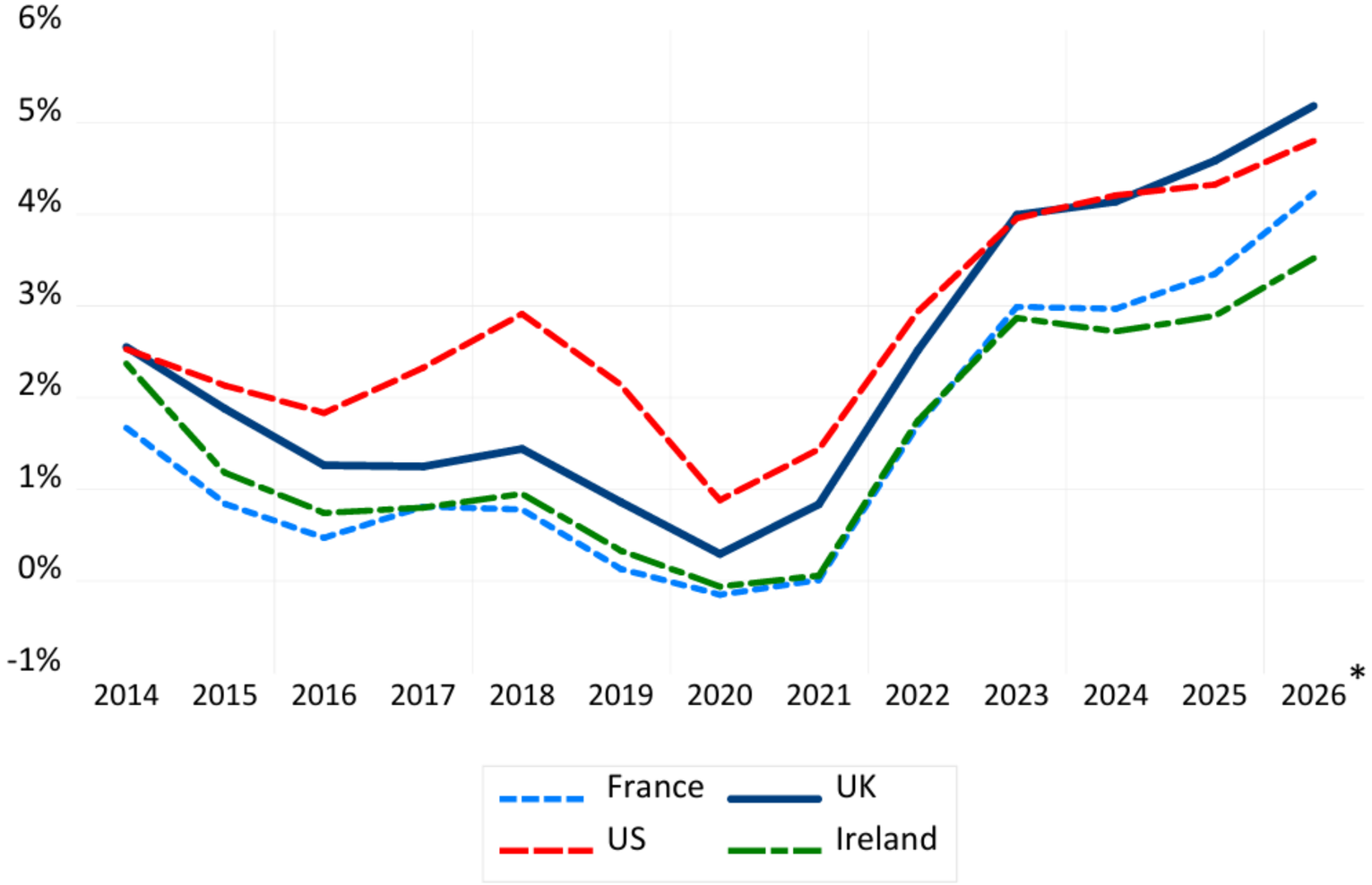

# Employment by group of sectors (index, 2019 = 100)






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# 10 year government bond yields increasing




* 2026 figure shows yields as of 9th September



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# PUBLIC FINANCES OUTLOOK

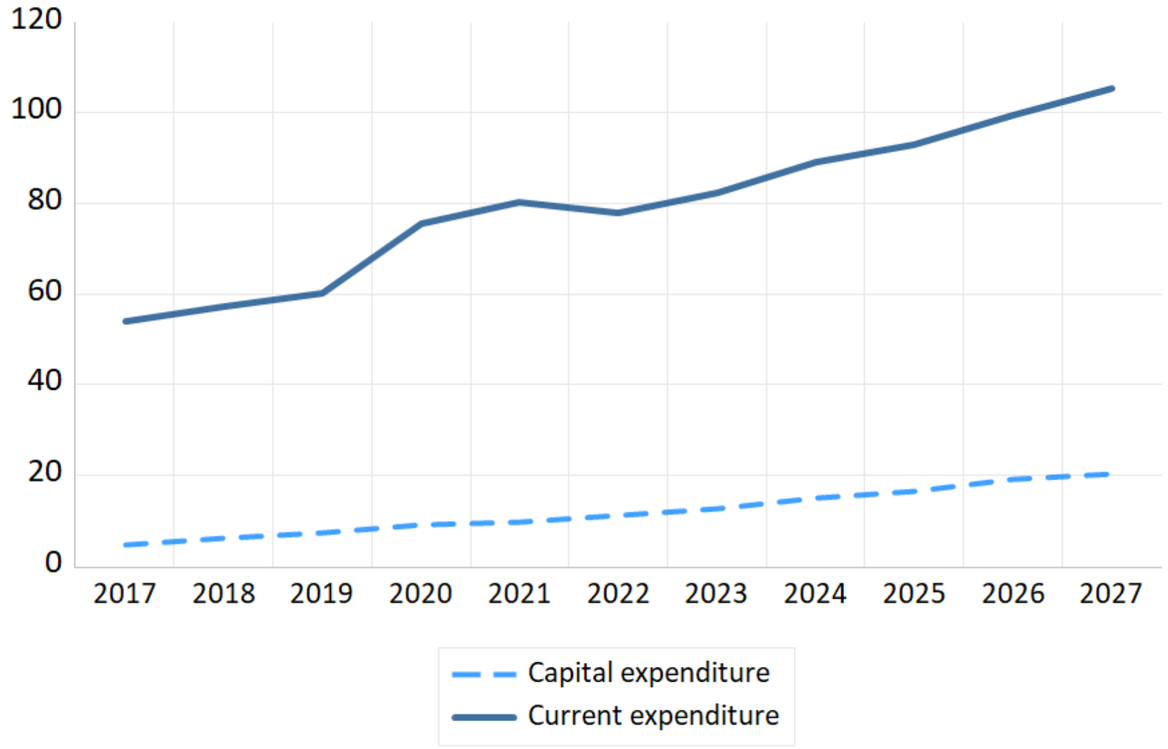
## CONCENTRATION RISKS BUILDING, SPENDING RISING ABSENT BINDING FISCAL CONSTRAINTS



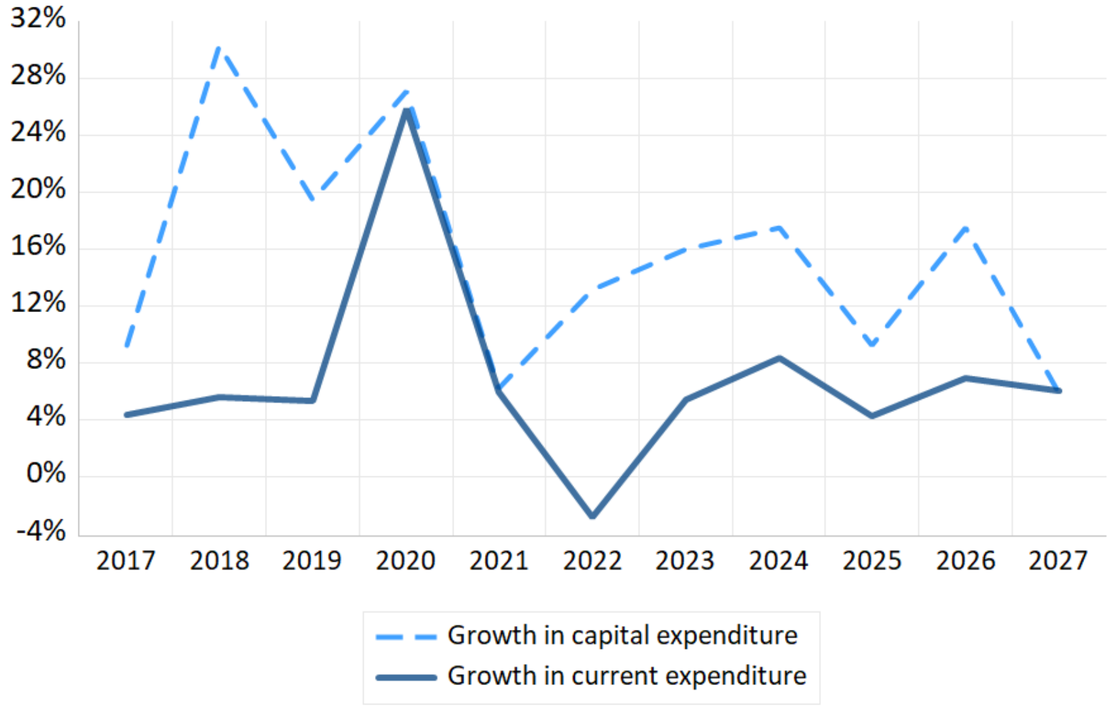
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# Government expenditure growing rapidly

**Gross Voted Government Expenditure (€bn, nominal) – Current and Capital Expenditure**




**Growth Rate in Nominal Gross Voted Expenditure – Capital and Current (Year-on-Year)**



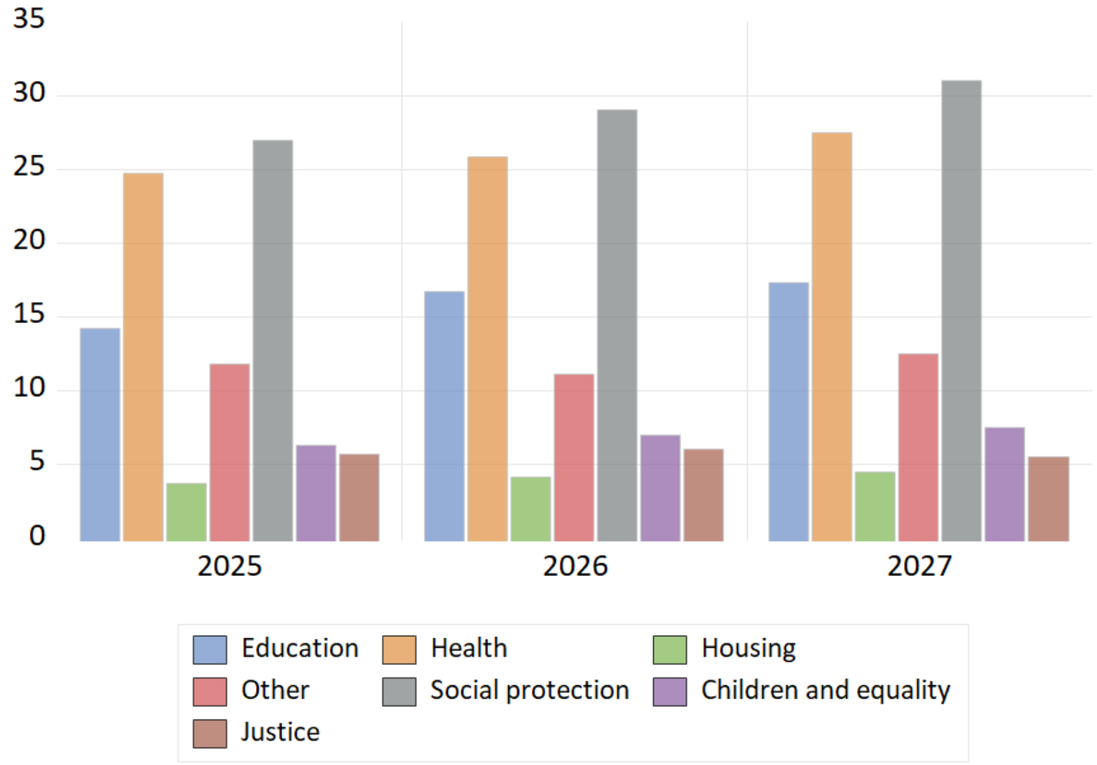



Figures up to 2025 drawn from Department of Public Expenditure databank, 2026 and 2027 drawn from Expenditure Report Budget 2027

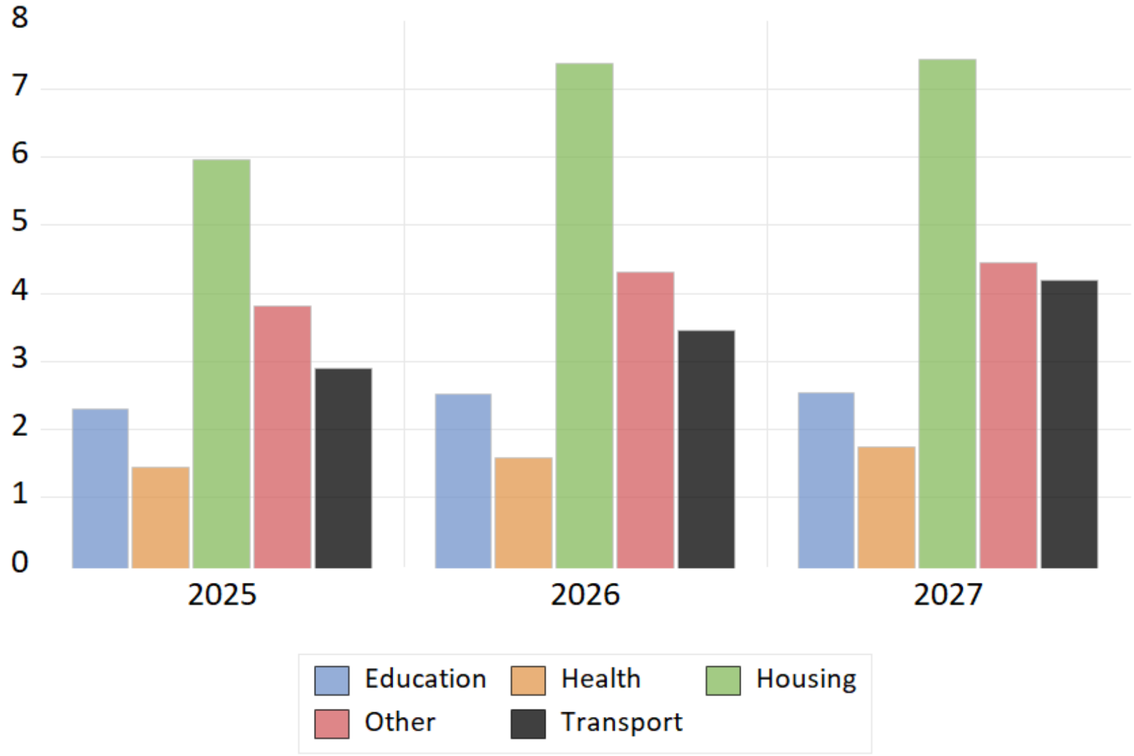
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# Where is the expenditure going?

**Gross Voted Government Expenditure (€bn, nominal) – By Vote Group – Current Spending**

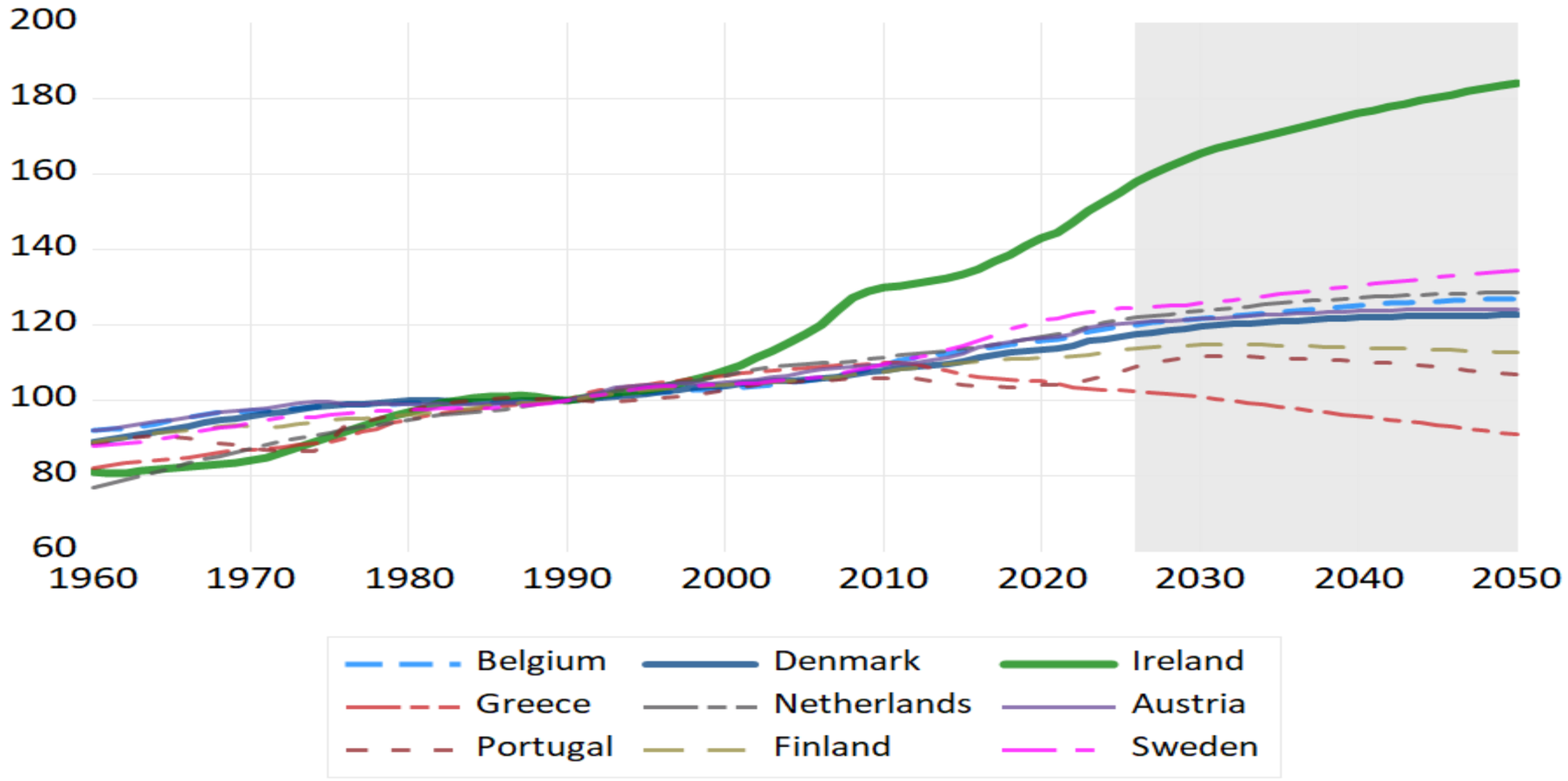



**Gross Voted Government Expenditure (€bn, nominal) – By Vote Group – Capital Spending**



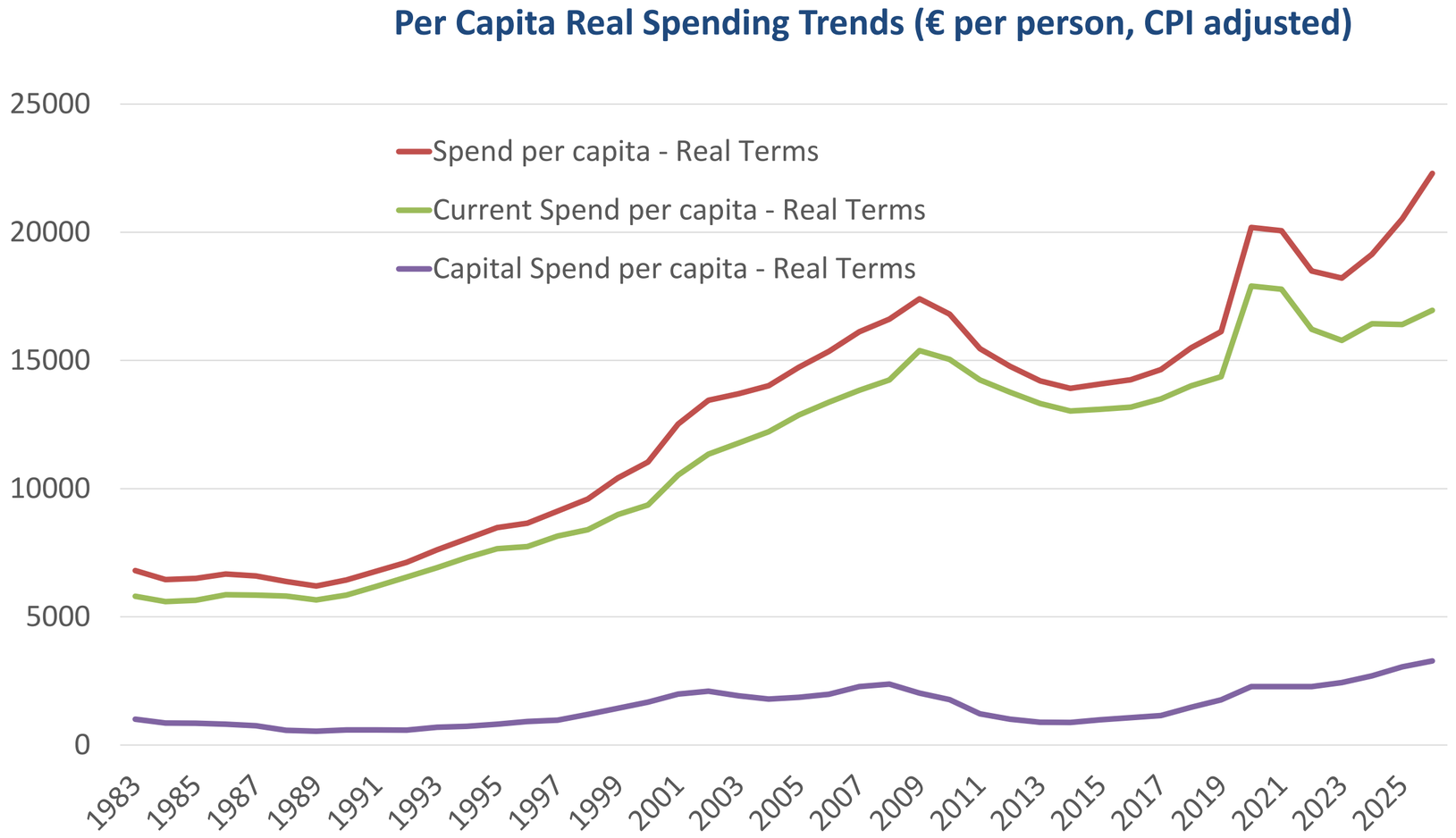
# Population increase set to continue

## Population Growth- Index, 1990=100




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# Compensating for inflation and a growing population?

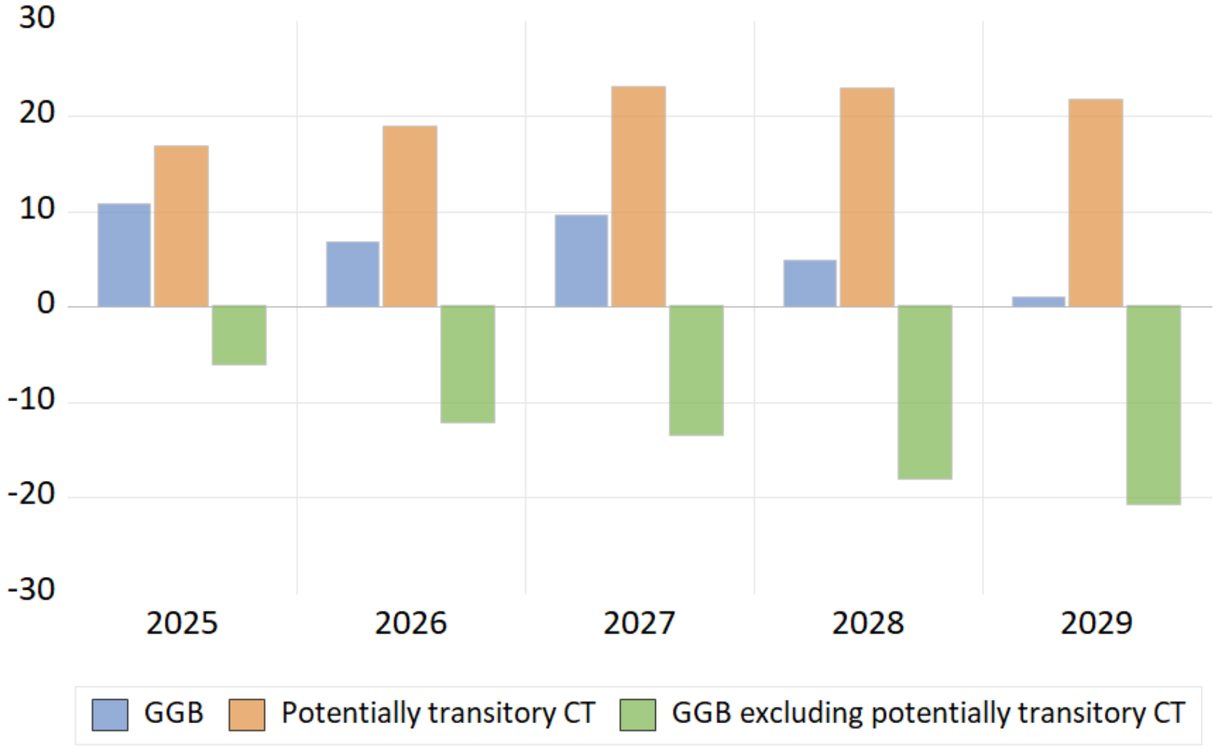




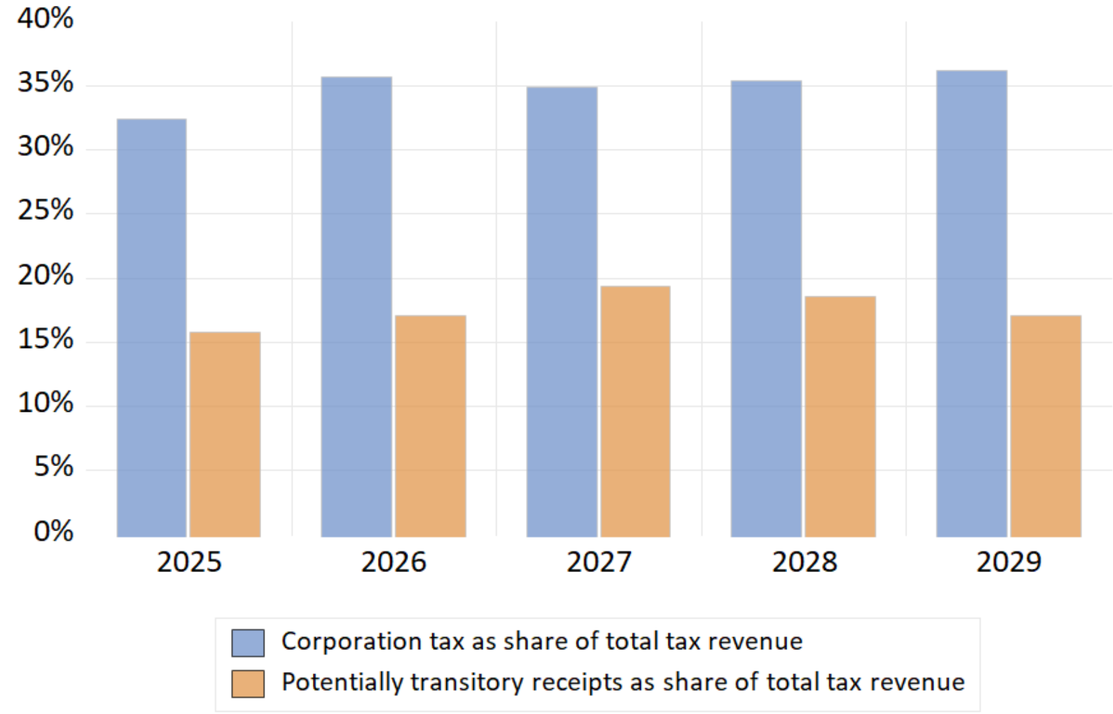

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# Concentration to increase, underlying balance to deteriorate

## General Government Balance, headline and underlying




## Corporation tax as % of Total Tax Revenue






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# Tax transparency data shed new insights

## Deep dive on Microsoft – Tax payments and employment (USD, 1/7/24 – 30/6/25) - as reported by submission to CRO

| | Income tax paid | Per cent of Microsoft tax | Number of employees | Per cent of Microsoft employment | Microsoft Tax per Employee |
|---|---|---|---|---|---|
| Ireland | 5,584,756,934 | 19% | 6654 | 3% | 839,308 |
| Netherlands | 105,488,074 | 0% | 1929 | 1% | 54,685 |
| Denmark | 8,386,999 | 0% | 851 | 0% | 9,855 |
| Germany | 174,229,664 | 1% | 3471 | 2% | 50,196 |
| France | -96,410,747 | 0% | 2568 | 1% | -37,543 |
| All other tax jurisdictions | 22,868,364,055 | 80% | 212722 | 93% | 107,504 |



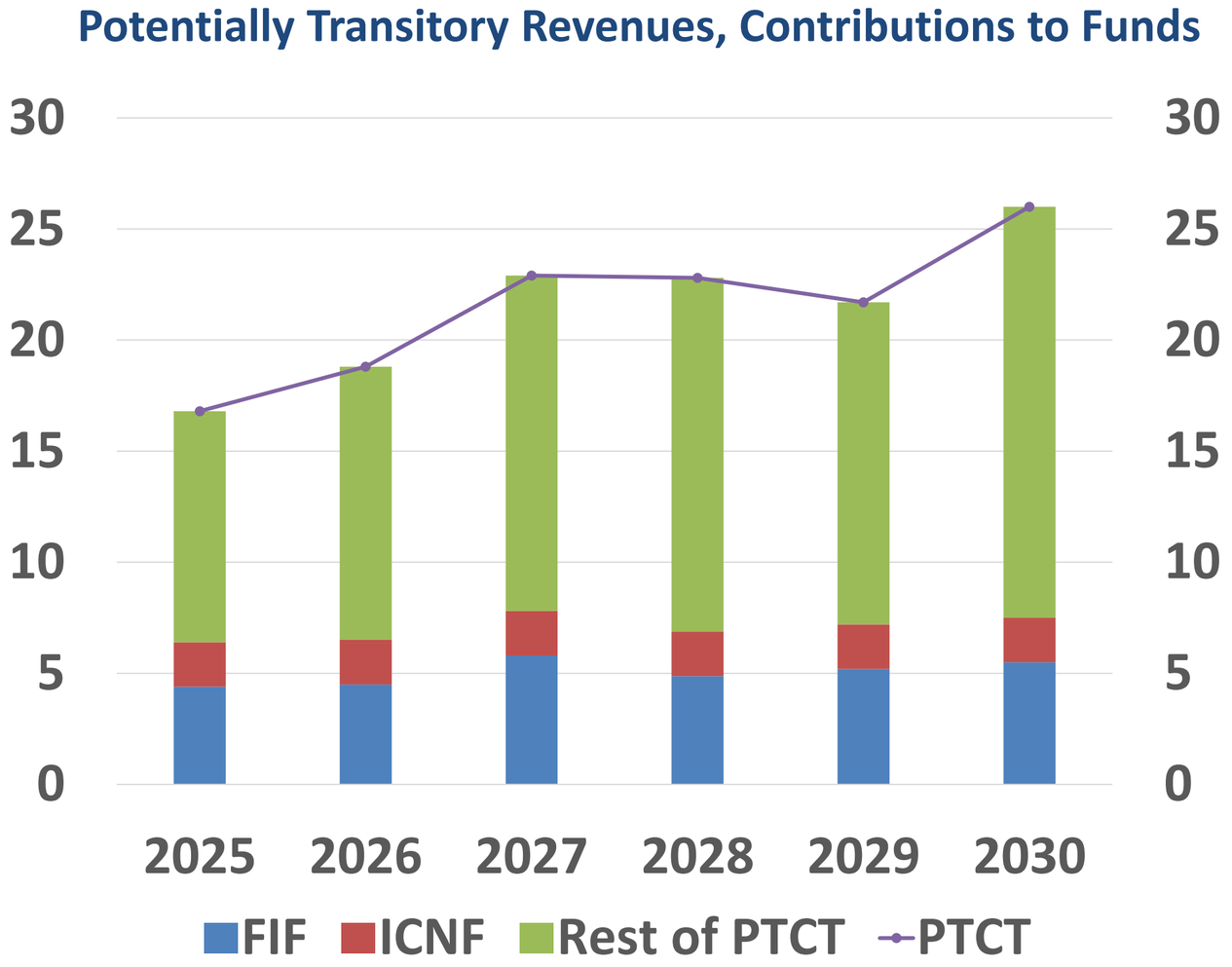
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# Recent large General Government Surpluses driven by excess CT

Concentration risk is threefold

1. Payments by small number of firms
2. Highly paid FDI employees proportion of income tax
3. Expenditure of potentially transitory CT feeds back into other tax heads through normal economic channels

Policy should aim to run larger surpluses and store more wealth now in the investment funds






*Source:* Department Finance Annual Progress Report 2025/2026 (2024-2026), Irish Fiscal Advisory Council 'Fiscal Assessment Report June 2023'
*Box, Eurostat D: Windfall corporation tax receipts flattering the public finances* (20

# Overall assessment

- As with last year, Budget 2027 comes at a time of robust economic activity domestically but increasing international uncertainties
- Economy expected to perform well across forecast horizon, AI rollout is providing a strong tailwind and Ireland is expected to benefit in the short term
- Government expenditure has increased notably in recent years
  - Economy doesn't need additional support at present
    - Additional taxation and spending measures present overheating risk
    - Additional spending on new employment for service delivery could be challenging in capacity constrained economy
  - Need to break the pro-cyclicality of spending in long run, in particular maintain capital expenditure
  - Windfall element of corporation tax
    - Risks to stability and resilience of public finances if these were to evaporate/dissipate
    - Potential correlated risk between component of income tax for FDI workers and corporation tax from FDI sector



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