Opening Statement – Oireachtas Committee on Budgetary Oversight

'Budget 2026: Post-budget examination'

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Opening Statement

The NERI would like to thank the Cathaoirleach, and members and staff of the Committee for the invitation to appear before you today to give our assessment of Budget 2026.

A lot has already been said about Budget 2026 but it's worth emphasising some key points.

One of the first rules of government is the sound management of public finances. As it happens, Budget 2026 is clearly expansionary and inflationary. The net spending increase (i.e. gross spending net of tax changes) of €9.4 billion is well above the 4% to 5% sustainable growth rate of the economy. The budget will add to growth and to inflation in 2026.

The budget is also taking place in the context of an economy that is now three years into an economic boom, with close to record employment rates, a projected half a million extra in work between the end of lockdown and the end of 2026, and evident labour and infrastructure shortages across the economy. While real household disposable incomes fell in 2022 and 2023 on account of the elevated price inflation, real incomes subsequently increased in 2024 and 2025. Growth is slowing but we are at or near full employment. We can legitimately debate whether the economy is overheating but it is certainly experiencing capacity constraints.

If we put the facts together it is abundantly clearly that the budget is firmly pro-cyclical and that the fiscal stance is too loose. We are channelling the mid-2000s with boom-time budgeting in a boom-time economy.

And yet it is true that we have a projected surplus in the public finances next year of close to €5 billion. Unfortunately, the recent headline surpluses seem to be engendering a troubling sense of complacency about the longer-term fiscal squeeze that an ageing society and other pressures will bring. The warnings of the Commission on Taxation and Welfare about the sustainability of the tax base are being ignored.

The truth is that the only thing differentiating Ireland from the deficits and austerity facing France, the United Kingdom and other Western economies is the windfall corporation tax receipts emanating from a tiny group of US multinationals. These companies are exploiting Ireland's tax regime to reduce their global corporation tax payments, with Ireland benefiting as a side effect. These companies can very easily change their tax arrangements and Ireland's corporation tax yield is therefore extremely vulnerable to policy shifts in the United States, to downturns in the fortunes of individual companies, or to boardroom decisions to move IP assets out of Ireland.

If these receipts were to vanish we would be left with a yawning deficit in the public finances. We should not be running any kind of deficit when the economy is at or near capacity.

While the winding down of these circa €15 billion in tax receipts may seem a low probability event to some, it is clearly a high risk strategy to rely on these taxes. I do not believe these receipts are likely to decline in 2026, in fact I believe they will increase. Even so, we need to change our strategy so that over the next few years all of the windfall corporation taxes are being saved in the twin savings funds and not just a portion of them. We will also need to diversify our sources of revenue. Government revenue excluding corporation tax is well below that of comparable European countries as a percentage of national income.

Notwithstanding this concern, many of the policy directions announced in the budget are broadly positive. Moving from universal once-off payments to targeted income supports was a necessary shift. However, much more needs to be done to ensure adequacy of income for vulnerable households amidst an ongoing cost of living crisis for the bottom half of the income distribution. The Commission of Taxation and Welfare made a number of important proposals around adequacy benchmarking, a 2nd tier of child benefit, and income tapering. Unfortunately there has been little progress in this regard.

Higher spending on infrastructure is really welcome given our severe capacity constraints in energy, water, transport, and of course housing. We have a massive need for housing and infrastructure and these twin crises must be addressed with decisiveness. In theory, we are now moving to an appropriate level of annual public investment. Unfortunately, it is unclear whether the increased budget allocation will even be spent. We simply don't have the domestic construction workers to quickly ramp up housing supply while also meeting our infrastructure and retrofitting objectives. Is there a plan to divert workers from elsewhere or to improve productivity through regulatory or other reforms? The reality is we will need to import the relevant workers if we are to see a short-term ramp-up in supply.

While far from an austerity budget it was clearly not a populist one. Effective tax rates will increase, albeit very marginally, for most workers. But context is important. We have already noted that Ireland's ratio of government revenue to economic output is well below the average for the European Union once we exclude footloose corporation tax receipts. This doesn't mean that income tax paid by workers ought or ought not, be indexed for inflation or wage growth. However, it does mean that some taxes will need to increase over the medium-term.

In this context, the decision to cut taxes for the hospitality sector at a time of full employment – the lowest paying and least productive sector in the economy no less – is a particularly bizarre one. Wasting €700 million annually on a policy that will generate little to no new jobs is a breathtaking waste of resources. The opportunity cost is enormous. We could have hired over 11,000 nurses, made public transport free, or taken 50,000 children out of poverty with that money, or alternatively, we could have just saved the money in order to reduce the need for tax increases in the future.

Unfortunately, the evidence free tax breaks for the loudest business lobby follow a well-worn pattern of responding to complex policy issues with a blunt, ineffective and regressive tool. This measure will do precisely nothing to promote the economy's productivity – indeed it will have the opposite effect.

The needed direction of tax reform is to move in precisely the opposite direction through a medium-term project of generating billions in additional revenue via the gradual winding down of the existing tax breaks – not making the existing ones more generous or adding new ones. There is also significant scope to increase the tax yield from capital, property and assets as noted for example by the Commission on Taxation and Welfare.

Lots of mistakes were made and opportunities not taken on budget day. We needed a countercyclical budget that reinforced our resilience to future shocks. We got the opposite. This is not the time to stimulate the economy and our fiscal stance is highly irresponsible.

In addition, there is no obvious strategy to deal with our high rates of deprivation and child poverty. Minimum wage workers will be forced to wait at least three more years before we achieve a living wage. We continue to under-invest in the key ingredients of long-run growth and productivity such as public R&D and education and we continue to distort the economy with tax breaks. While the government was correct to emphasise investment the increase in capital spending should have been accompanied by tax increases rather than tax cuts.

We need a national conversation about how we might develop a model of development, growth and prosperity fit for the 21st century – a 'new economic model' that prioritises productivity, good jobs, economic security and resilience. We'll be waiting another year it seems.

We are happy to take questions.