Rialtas na hÉireann
Government of Ireland

Future Forty - A Fiscal and Economic Outlook to 2065

26 May 2026

Strategic Economic Development Unit, Department of Finance

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What is Future Forty?

- Blueprint for thinking about the longer-term economic and fiscal landscape
- Origins = Commission on Taxation and Welfare
- Long-term (to 2065) economic and fiscal outlook for Ireland
  - Building on work done for (e.g.) Australia, UK, Canada
- <u>Not</u> a forecast
  - Over 2,100 scenarios
  - Different population projections
  - Different productivity projections
- Structural changes – demographics, A.I., climate change, etc.
- Objective = deepen understanding of 'known unknowns'
- Deep analytical dives (*7)

Seven key drivers are assessed via 'Deep Dives'

- Climate Change and Green Transition
- Demographic Change
- Housing
- Digitisation
- Deglobalisation
- Healthcare
- EU Expansion

Main assumptions in the Central Scenario

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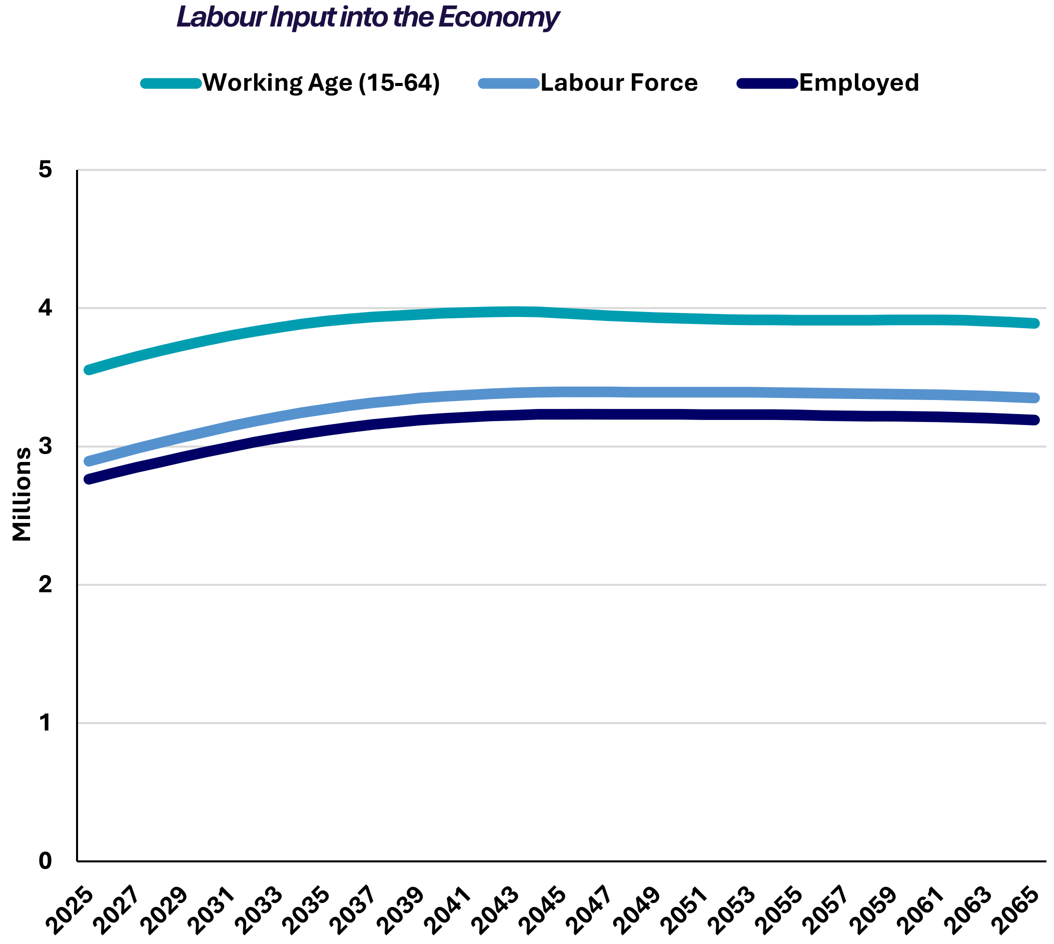
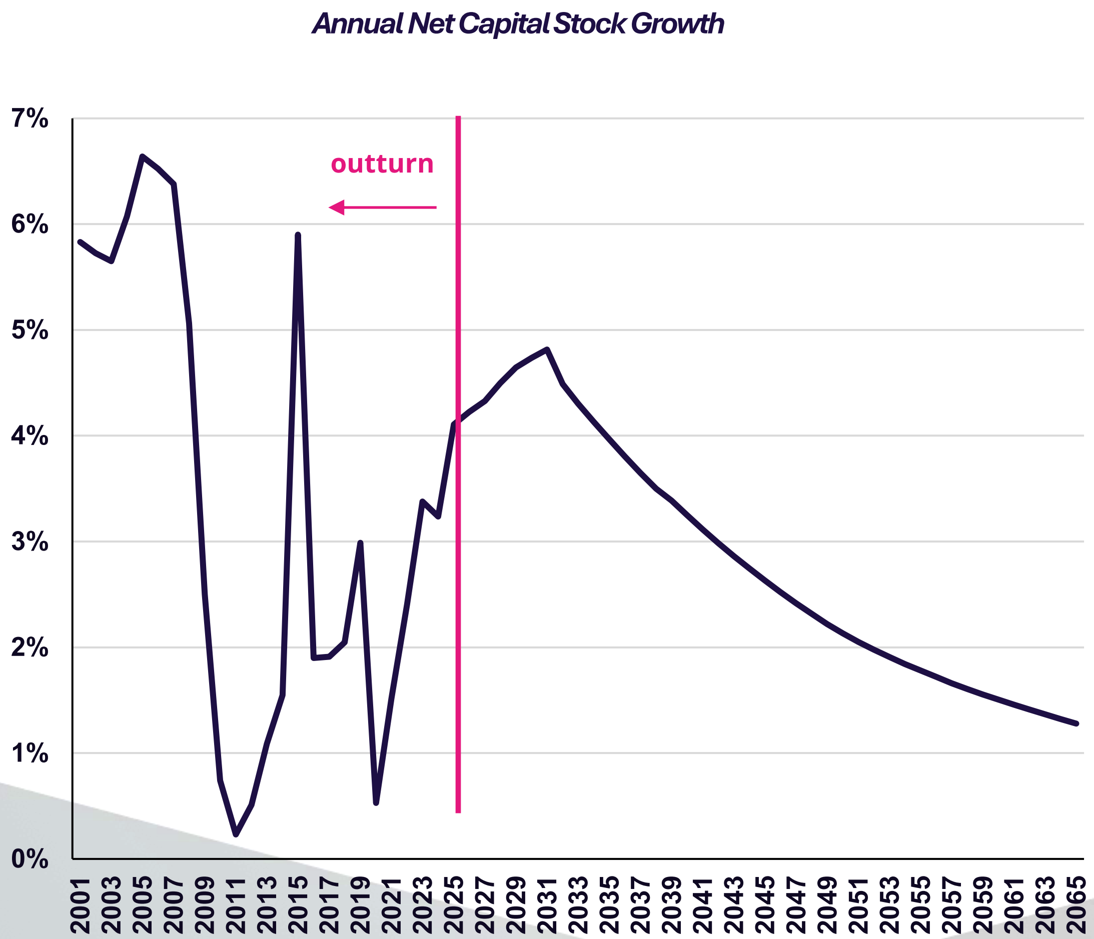
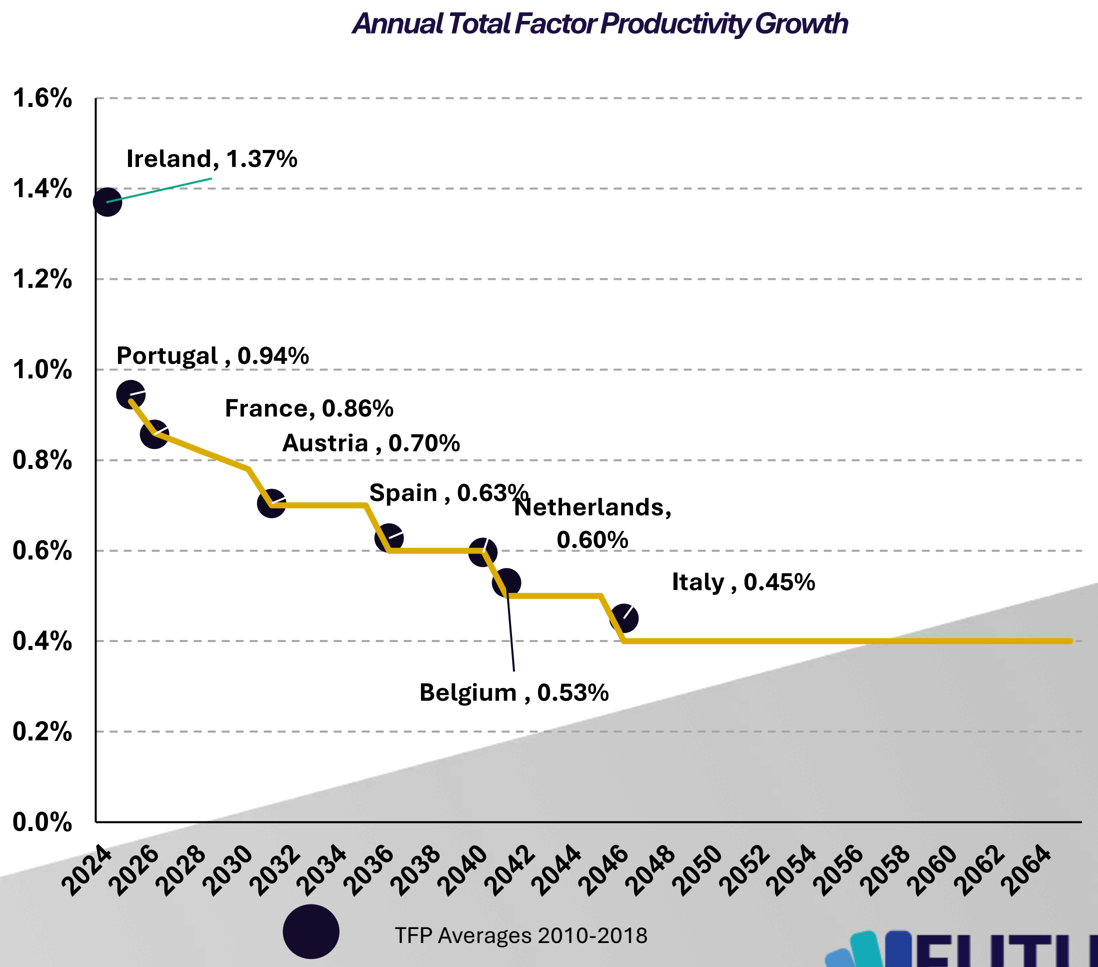
The size of the labour force will stagnate as the population ages



The growth in capital stock and productivity will also slow over time





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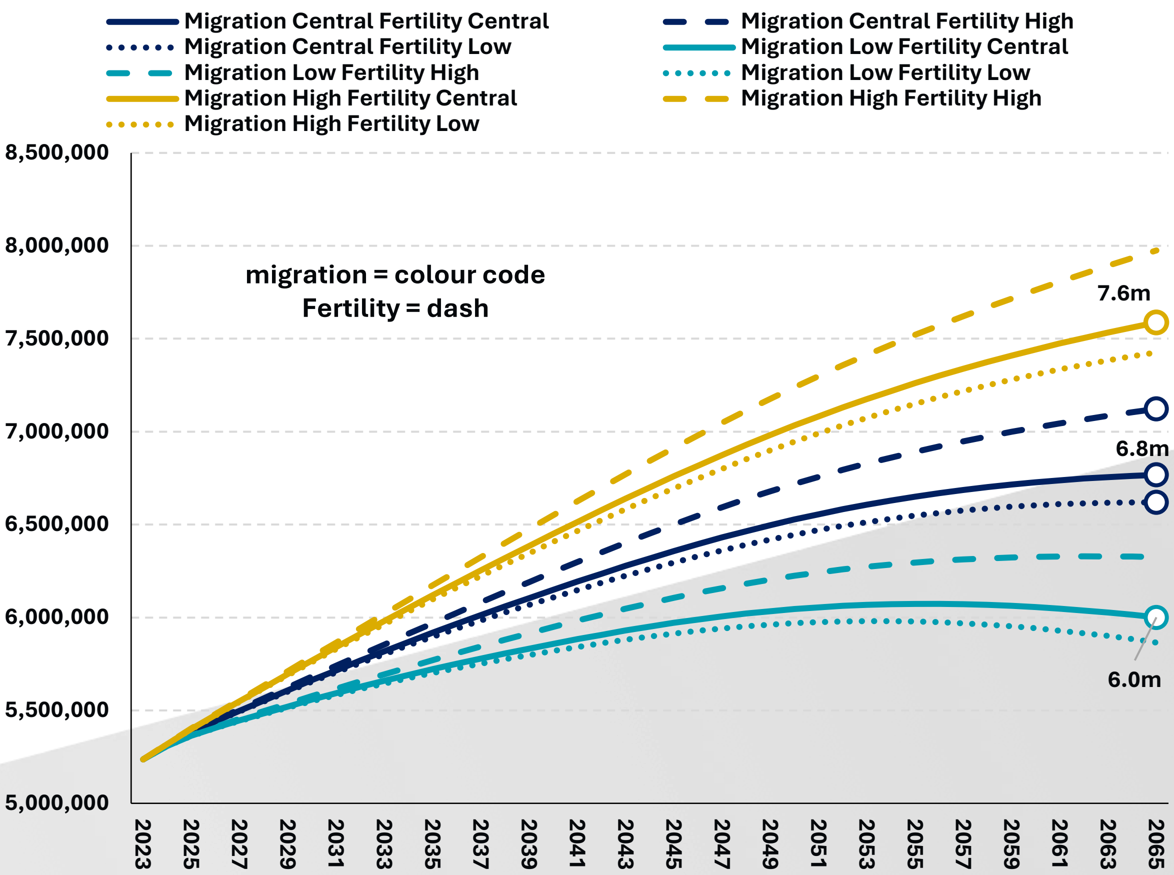
Deep Dives

Demographic projections are central and outcomes will have transformative economic and fiscal costs

- Net migration is the most unpredictable component
- Novel 'bottom up' approach:
  - **Central scenario:** Net migration ranges between 35,000 – 40,000 p.a.
  - **High scenario:** Net migration ranges between 53,000 – 58,000 p.a.
  - **Low scenario:** Net migration falls to c.18,500 per annum
- Several **fertility rate scenarios** are also modelled
- Key findings include:
  - Migration is the sole driver of labour force growth in the long-term
  - High emigration rate among most skilled migrants
  - Long-term contingency planning is vital

Population scenarios



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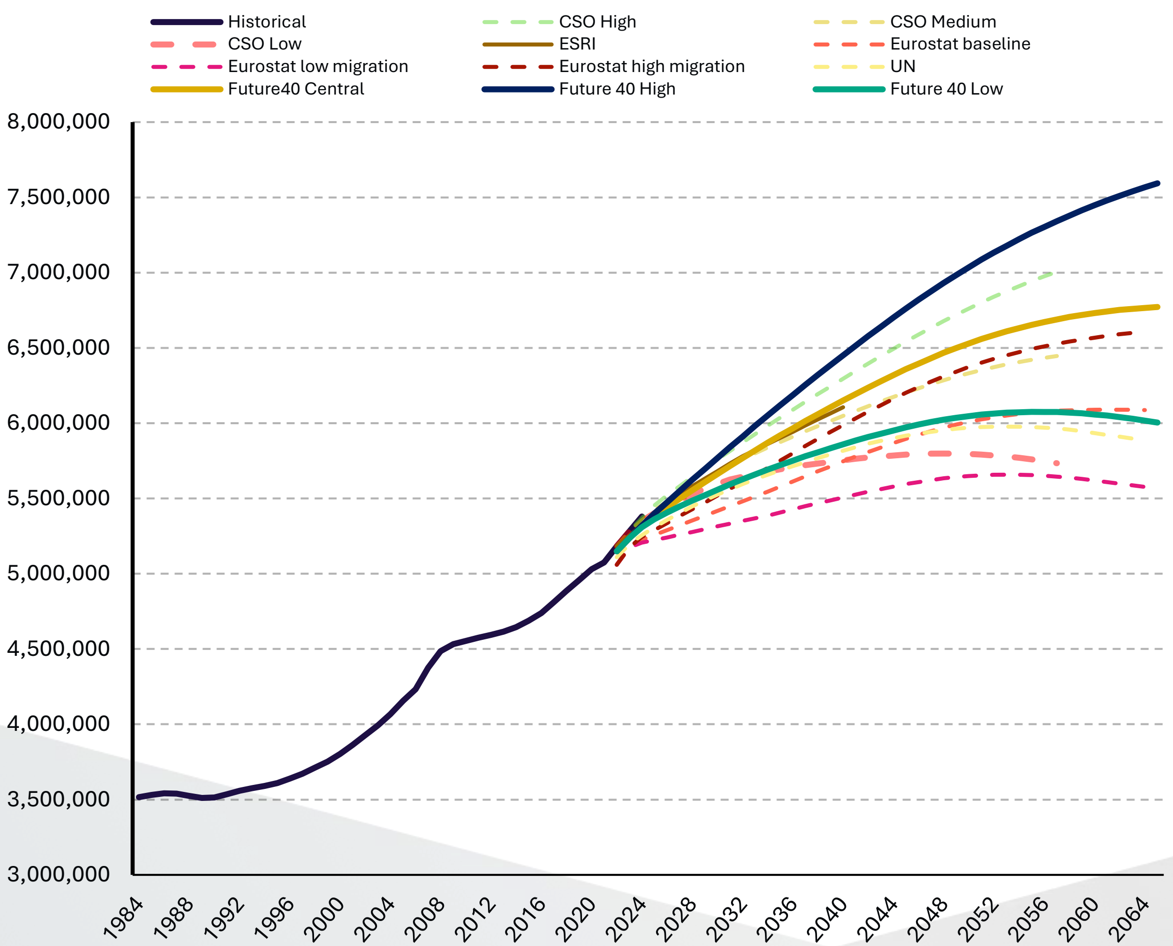
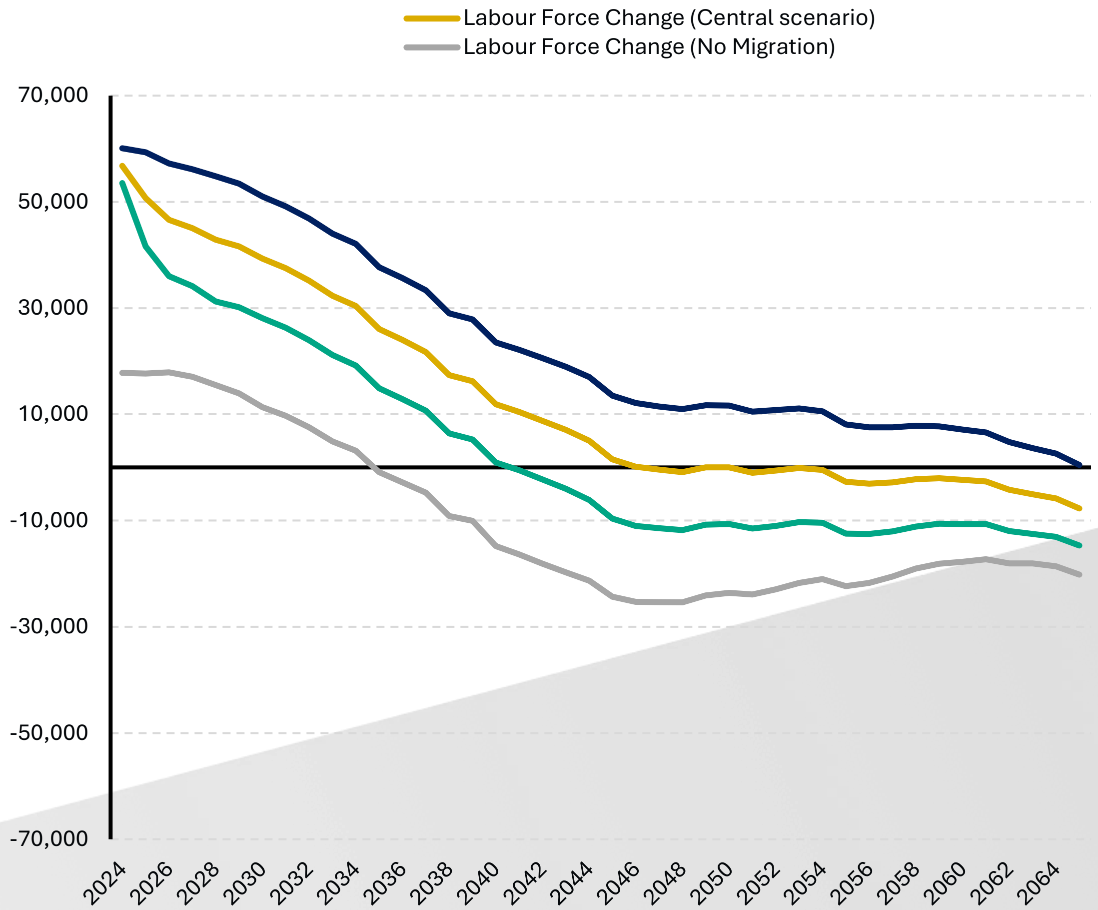
However - regardless of the outcome, labour will increasingly become dependant on migration





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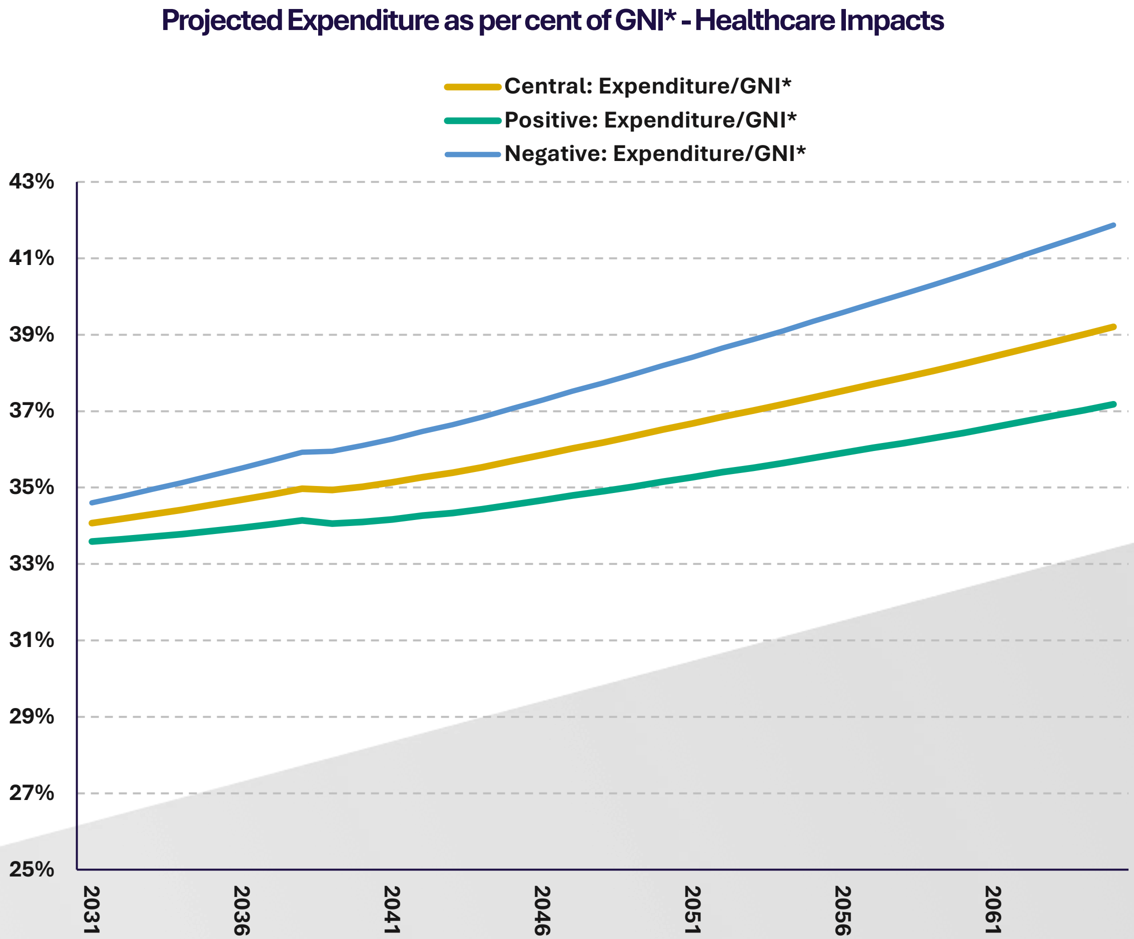
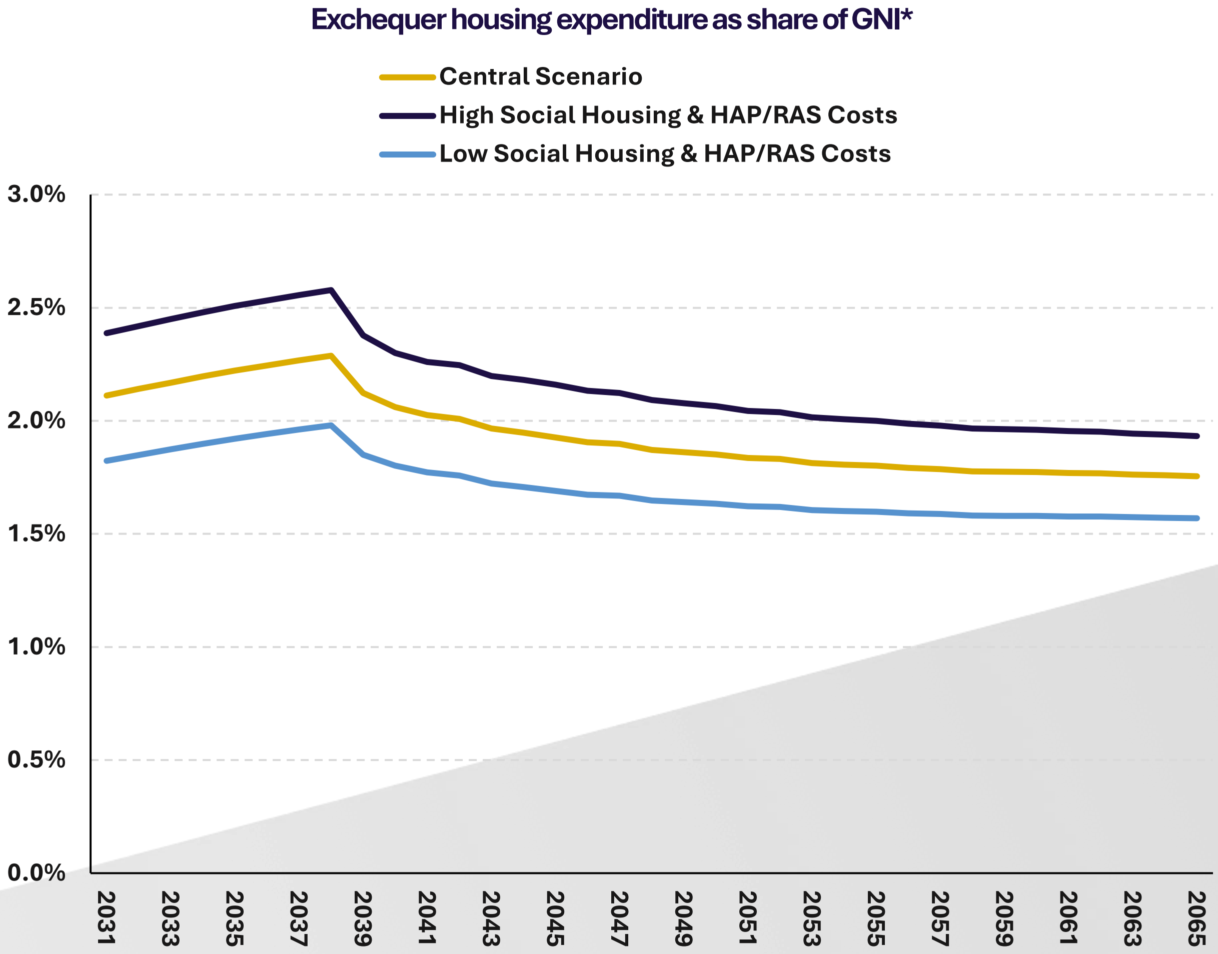
Due to an ageing population, health and long-term care will put sustained pressure on public finances

- Explores the future of the health system in Ireland
- Focuses on key drivers of expenditure
- Central scenario projects **total healthcare expenditure**:
  - 9.2% GNI* in 2031
  - 12.6% GNI* in 2065
- Scenario analysis:
  - Positive scenario = 10.6% in 2065
  - Negative scenario = 15.6% in 2065
- Central scenario projects **long-term care expenditure**:
  - 2.5% GNI* in 2031
  - 4.8% GNI* in 2065



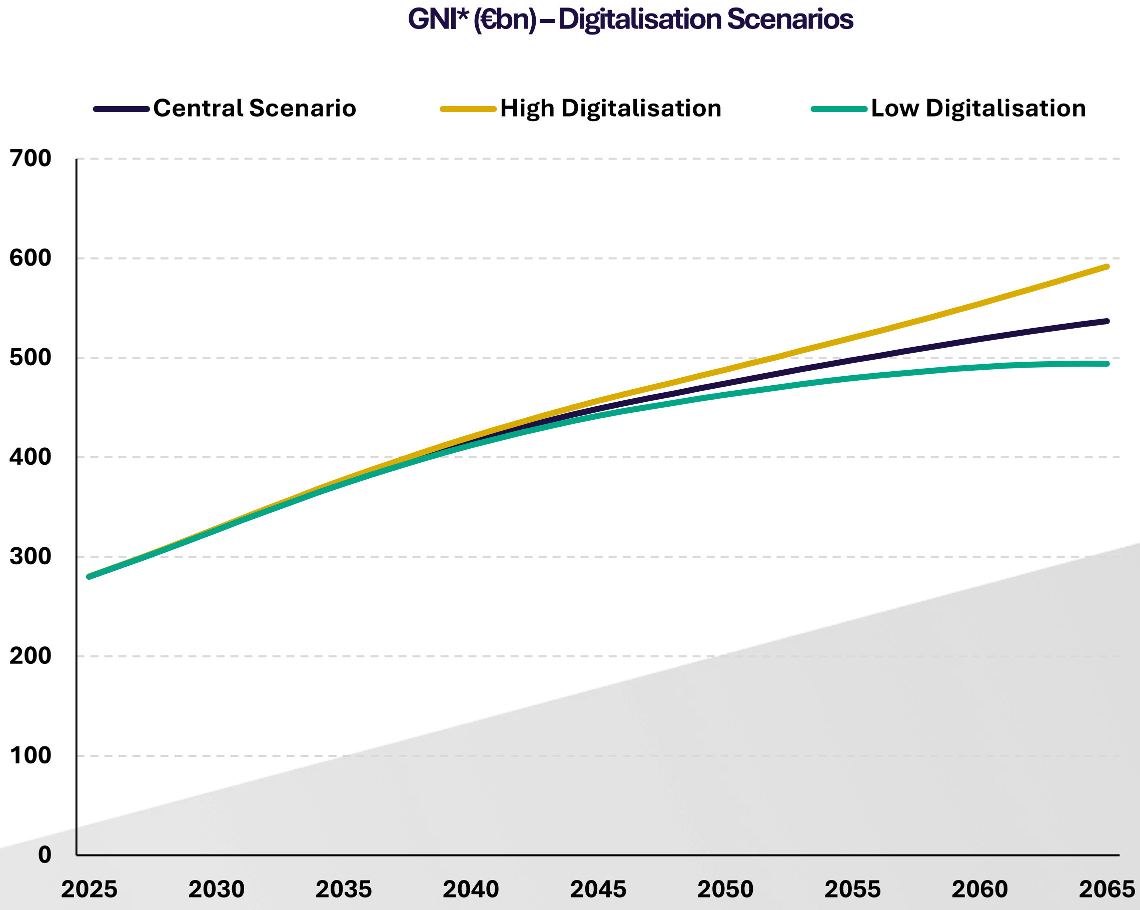
Housing costs will rise over the short term, but are set to peak in the late-2030s

- Focuses on the fiscal cost of housing only
- Housing demand:
  - based on demographic projections,
  - expected to moderate in the next fifteen years if construction maxes out at 60,000 PA
  - balanced with supply by 2040
- Fiscal costs to moderate in the 2040s
  - vary across different scenarios
  - social housing and related supports



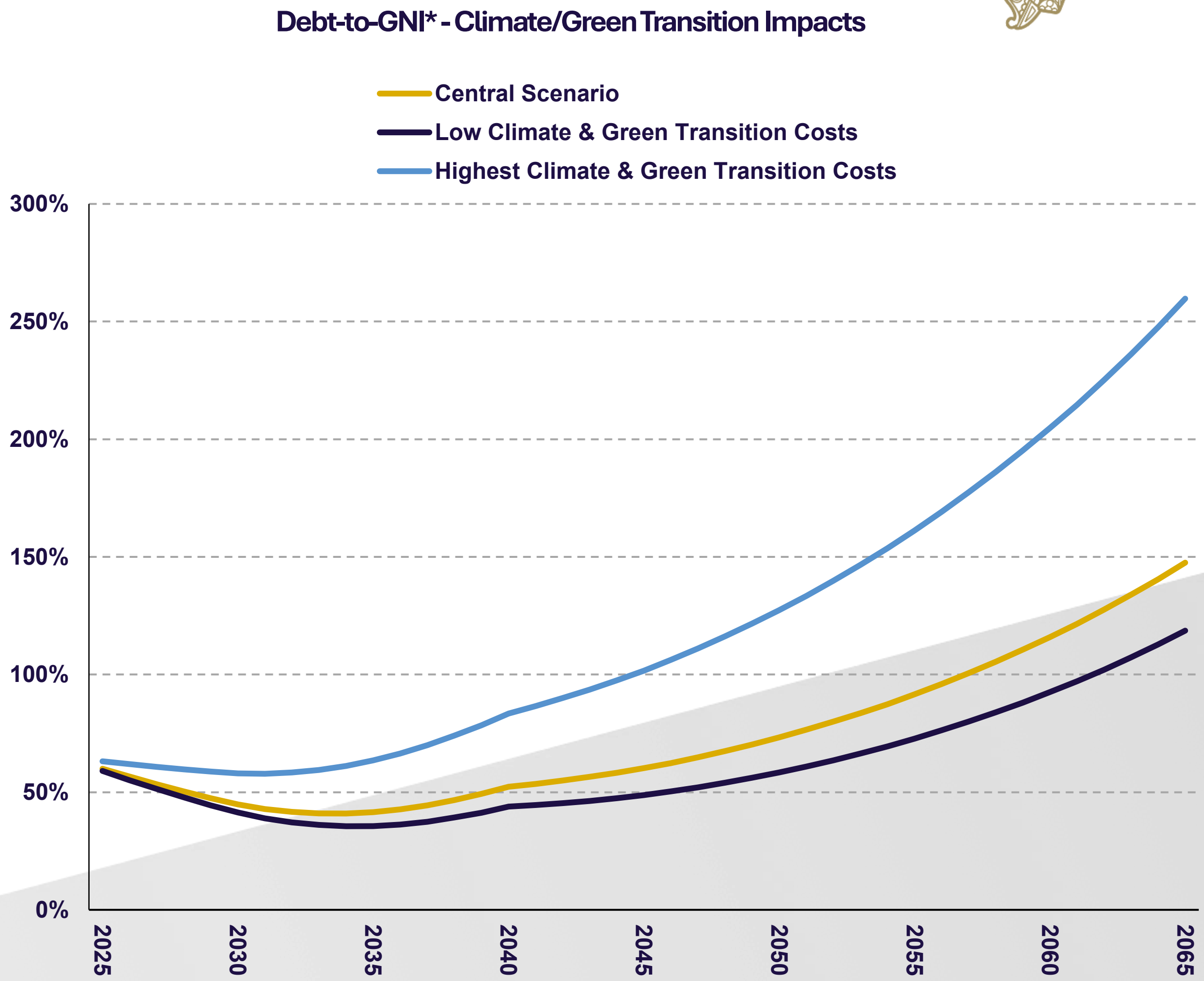
Digitalisation offers opportunities but will require investment

- Digitalisation:
  - productivity growth via adoption of novel digital technologies
- Central scenario:
  - Δ_TFP = 0.54% p.a. 2030-2065
  - thus: GNI* = €537bn (today's prices)
- High digitalisation scenario
  - Δ_TFP = 0.59% p.a. 2030-2065
  - thus: GNI* = €592bn (today's prices)
- Highlights 'compounding'
  - policies affecting productivity = appear marginal in short-term but have significant long-run benefits



Climate damages and green transition costs pose the single most significant fiscal threat

- Future Forty explores economic and fiscal impacts of both climate change and the green transition.
- Climate Change and related damages are modelled through the EU COACCH Model which reduces economic output, with impacts rising over time.
- Climate damages will involve budgetary costs, and thus generate a fiscal impact also.
- Costs from green transition are expected to fall gradually over time as we near net-zero.
- Alternative scenarios are modelled, which vary the level of global climate action/emissions reduction, and State intervention in addressing costs.



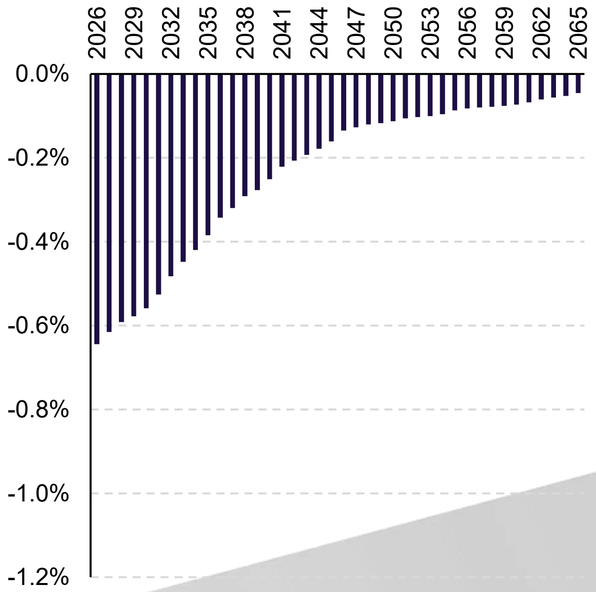
‘Slowbalisation’ is baked into the Central Scenario, but worse alternatives are examined

Scenario 1
Central Scenario: ‘Slowbalisation’

Total trade and investment with the rest of the world will grow at the same rate as GNI* for the duration of the projection period.

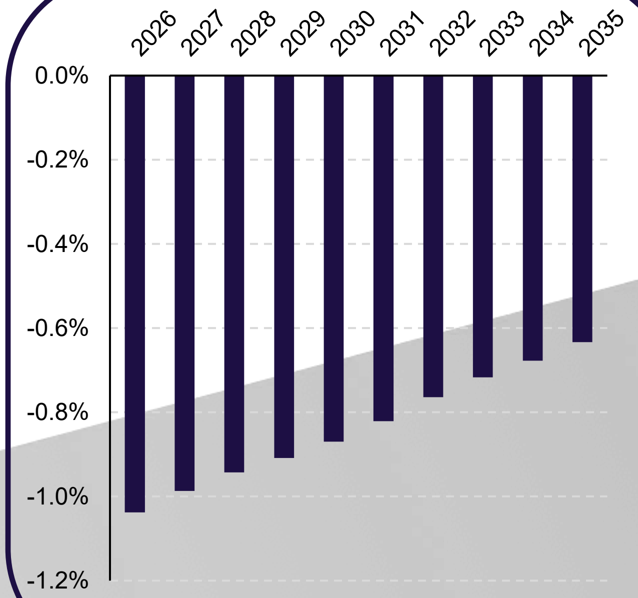
Scenario 2
Gradual Deglobalisation

Total trade and investment with non-OECD countries stagnates out to 2065, whilst trade and investment with OECD partners compensates for only half of the losses.



Scenario 3
Sudden Deglobalisation

Total trade and investment with non-OECD countries rapidly falls until 2035, whilst trade and investment with OECD partners compensates for only half of the losses.



- Fragmentation between IE and non-OECD in alternative scenarios is proxied by a reversal of recent economic openness, facilitated by the global trading system administered by the WTO.
- The historic impact of WTO membership on bilateral trade and investment links with Ireland is estimated to proxy the potential impact of fragmentation on trade and investment.
- The analysis then estimates the historic elasticity between Irish goods exports, service exports and inward investment with GNI*.

Due to considerable unknowns, a different approach was taken to modelling EU expansion

Wave One - Serbia, Albania, Macedonia, Montenegro

Wave Two - Bosnia & Herzegovina, Moldova, Georgia, Kosovo

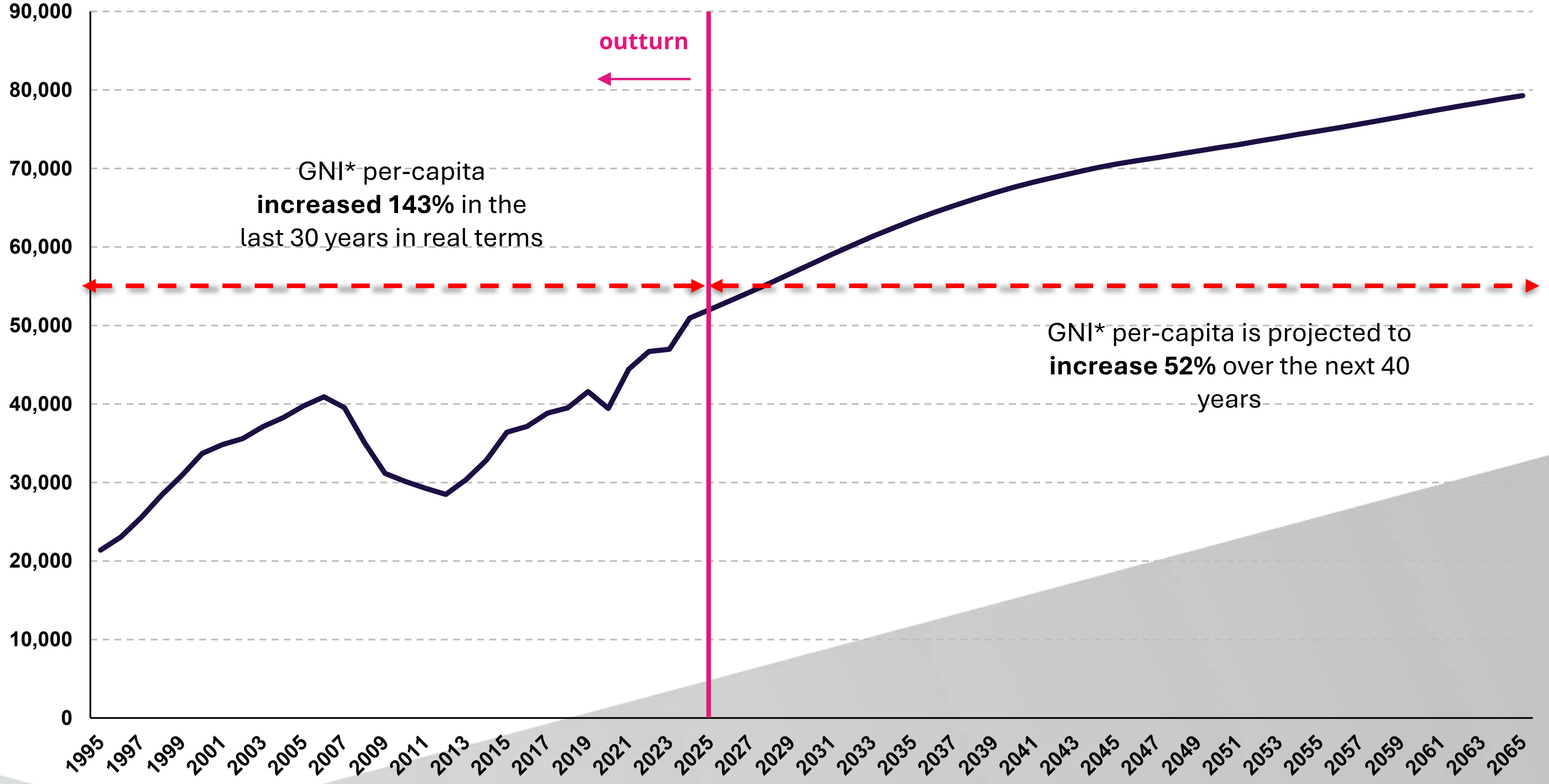
Outcome	Timing	Modelling
Outcome 1 – Mid-Term Waves	• Wave One in 2035 • Wave Two in 2045	Irish goods exports and inward migration impacts modelled via gravity model
Outcome 2 – Early Waves	• Wave One in 2030 • Wave Two in 2040	Irish goods exports and inward migration impacts modelled via gravity model
Outcome 3 – Late Waves	• Wave One in 2045 • Wave Two in 2055	Irish goods exports and inward migration impacts modelled via gravity model
Outcome 4 – Ukraine	• Joins in 2035*	Irish goods exports impacts **only** modelled via gravity model
Outcome 5 – Türkiye	• Joins in 2045	**EU** goods export impacts and inward migration modelled via gravity model

Key Findings

Growth in living standards (measured as GNI* per-capita) is set to slow considerably

- The Central Scenario projects a slowdown in GNI*per-capita growth, plateauing at 0.5-0.6% per annum from the mid-2040s.

- This, coupled with the tightening of fiscal resources, may have a compounding effect on growth in living standards.



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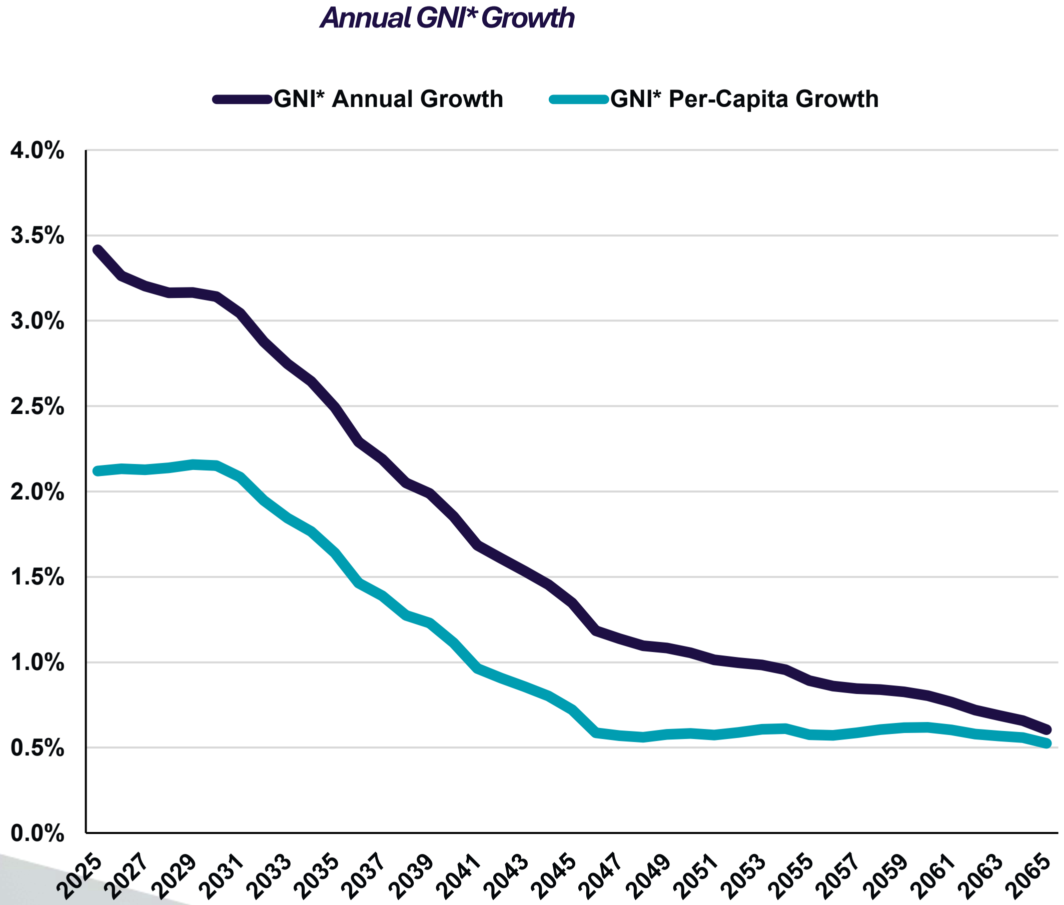
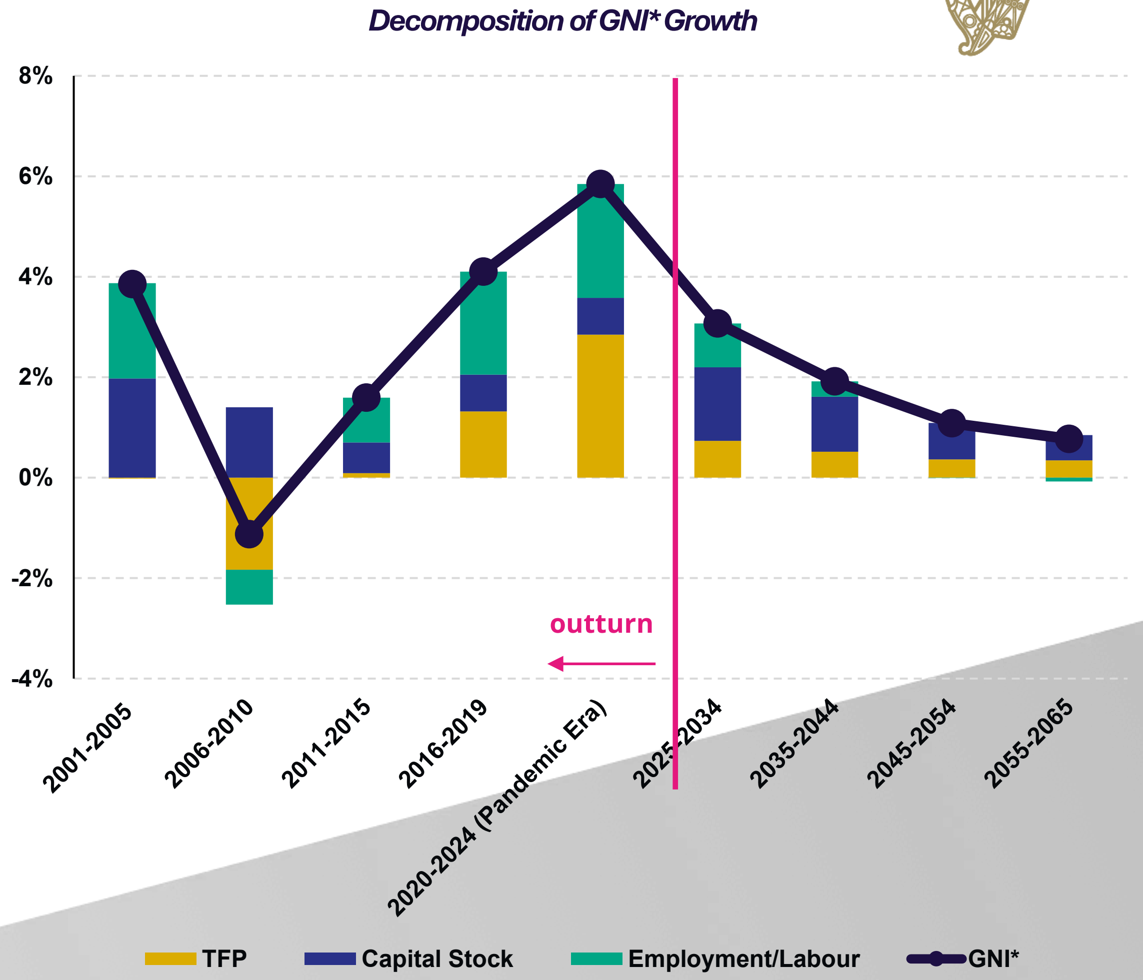
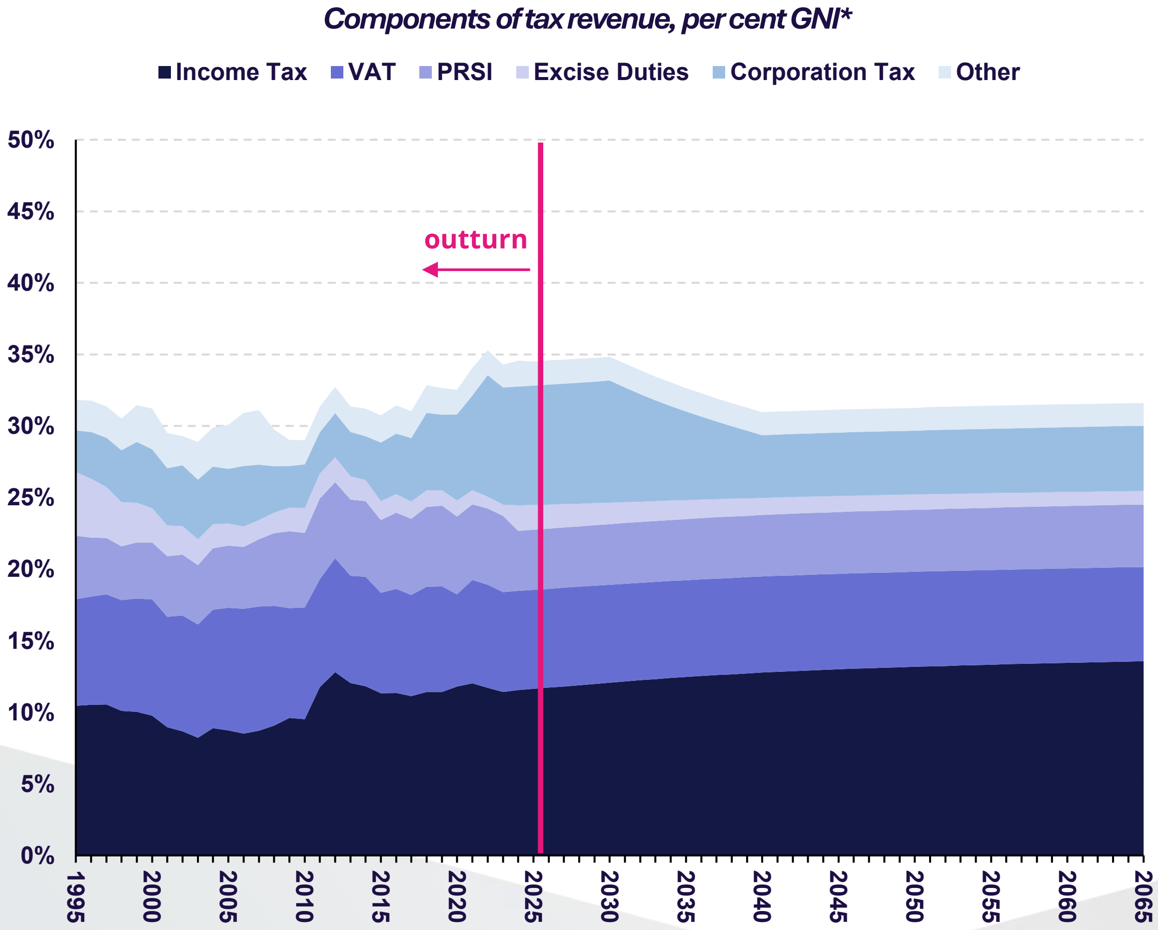
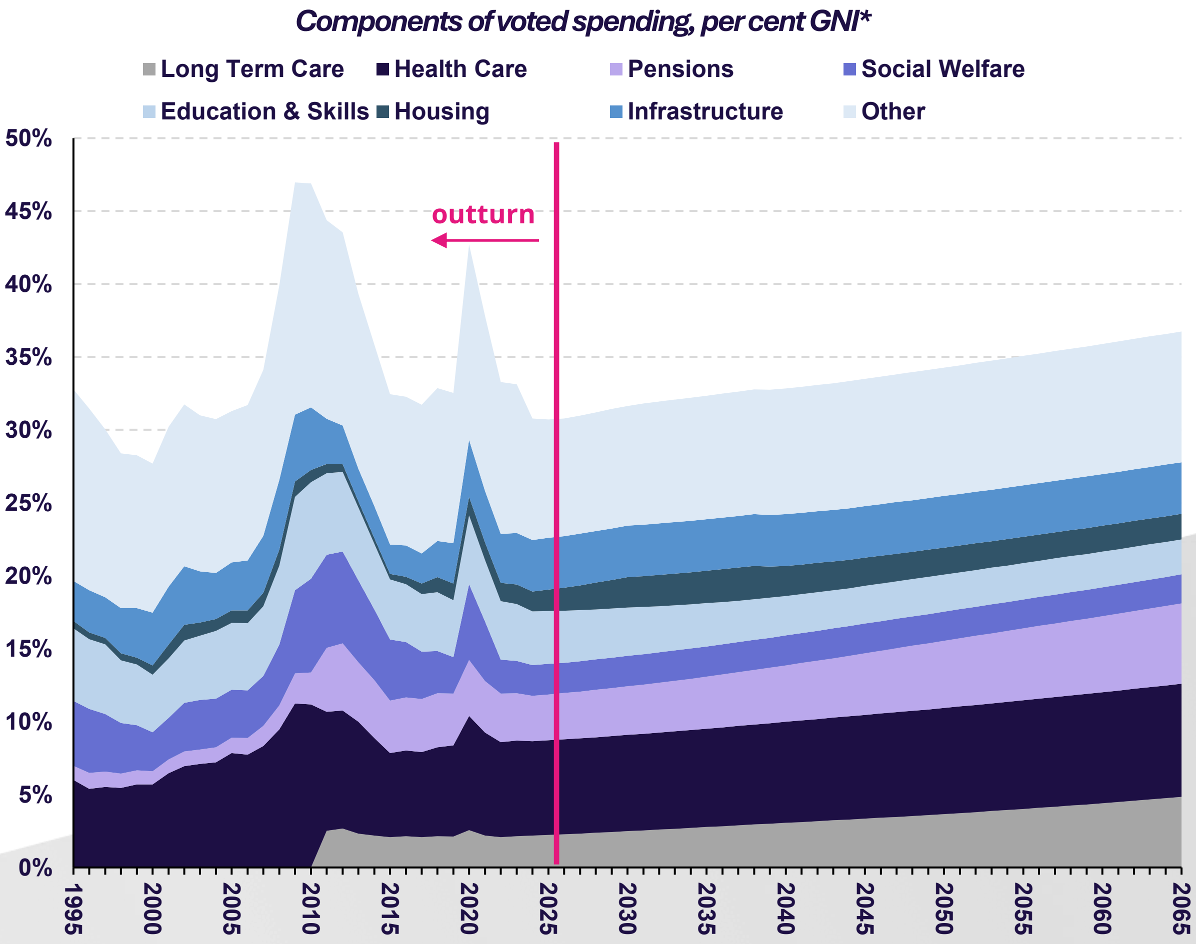
The rate of economic growth will slow over time, primarily due to limited labour availability





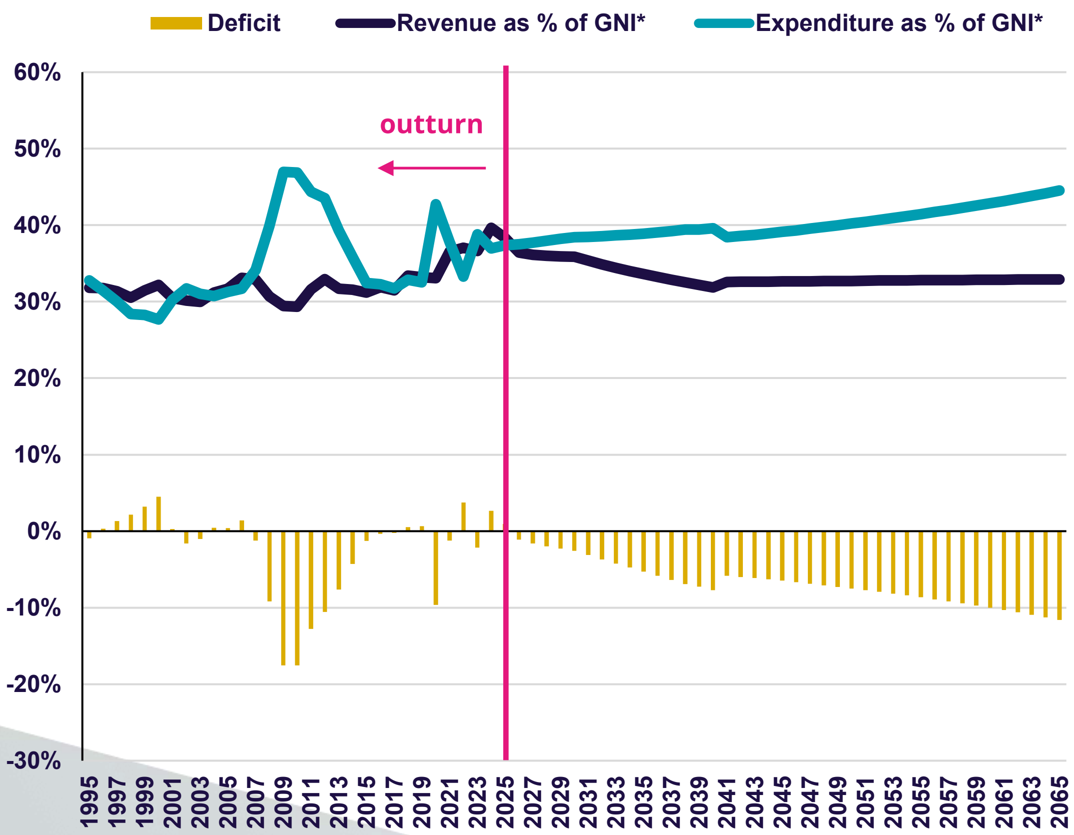
A slowing economy will have severe implications for public finances, with tax revenue stagnating and ageing costs rising



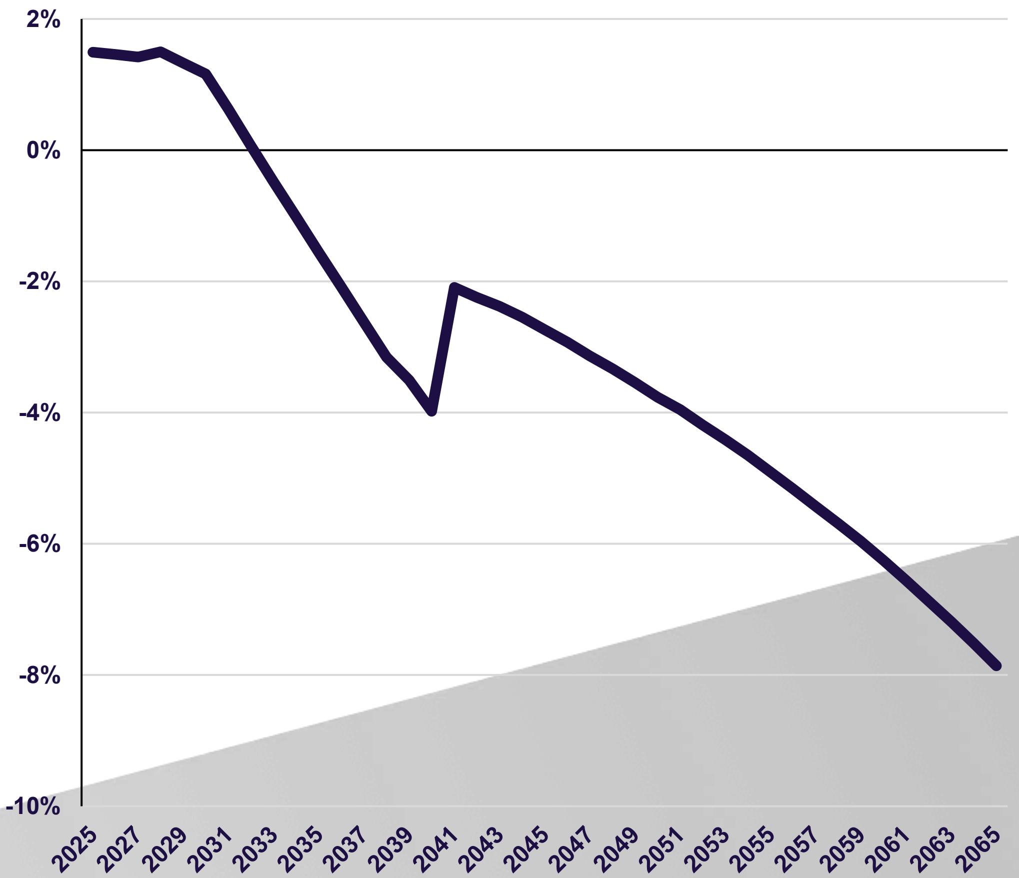


The exchequer's resources will be unable to cover annual expenditure by the mid-2030s…

Exchequer Balance (% of GNI)*

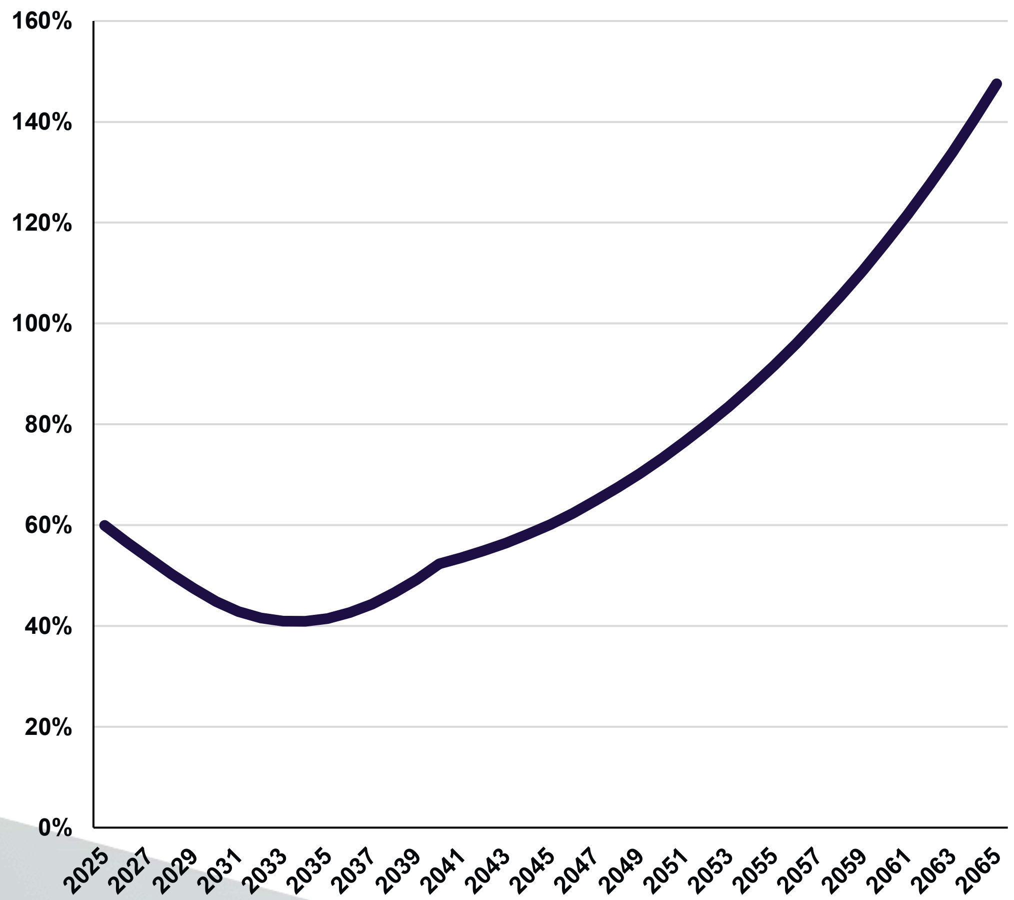


General Government Balance (% of GNI)*

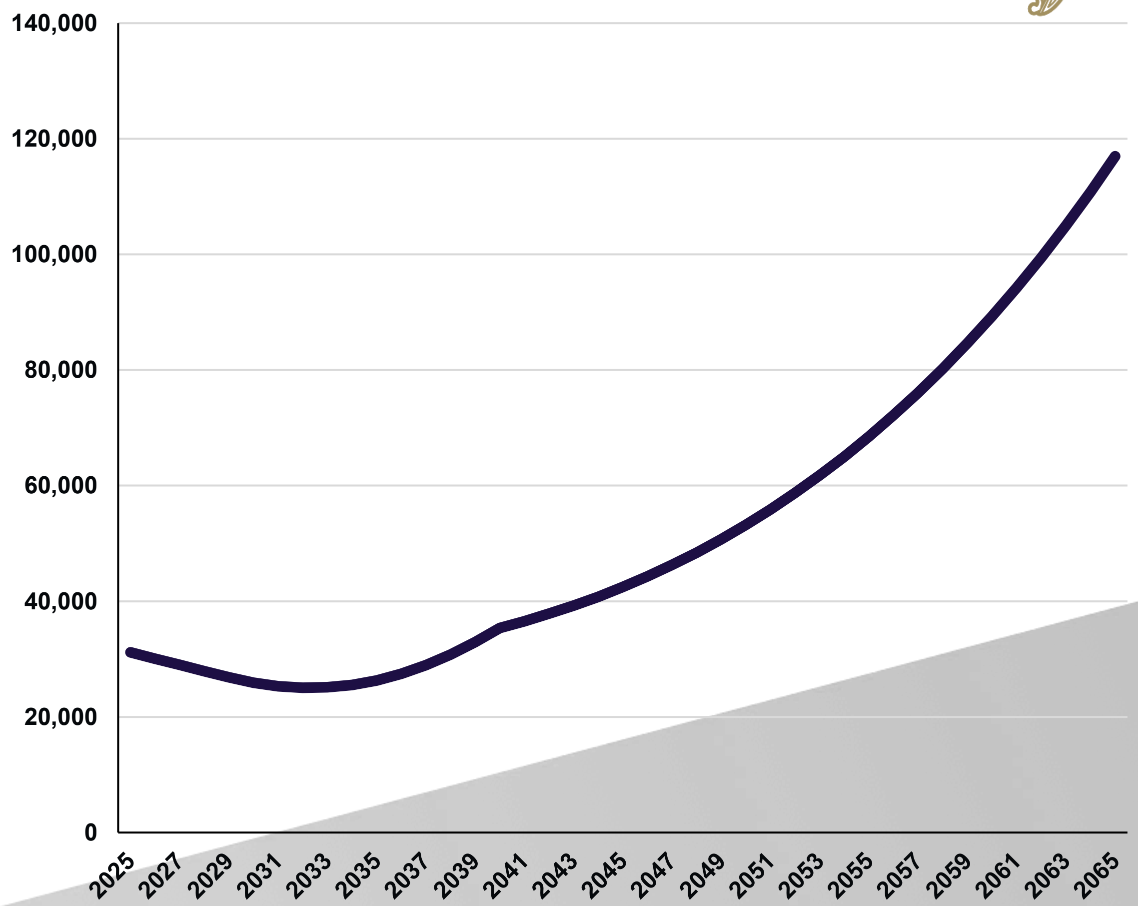


…the resulting deficits would drive debt to very high levels

Debt-to-GNI Central Scenario*

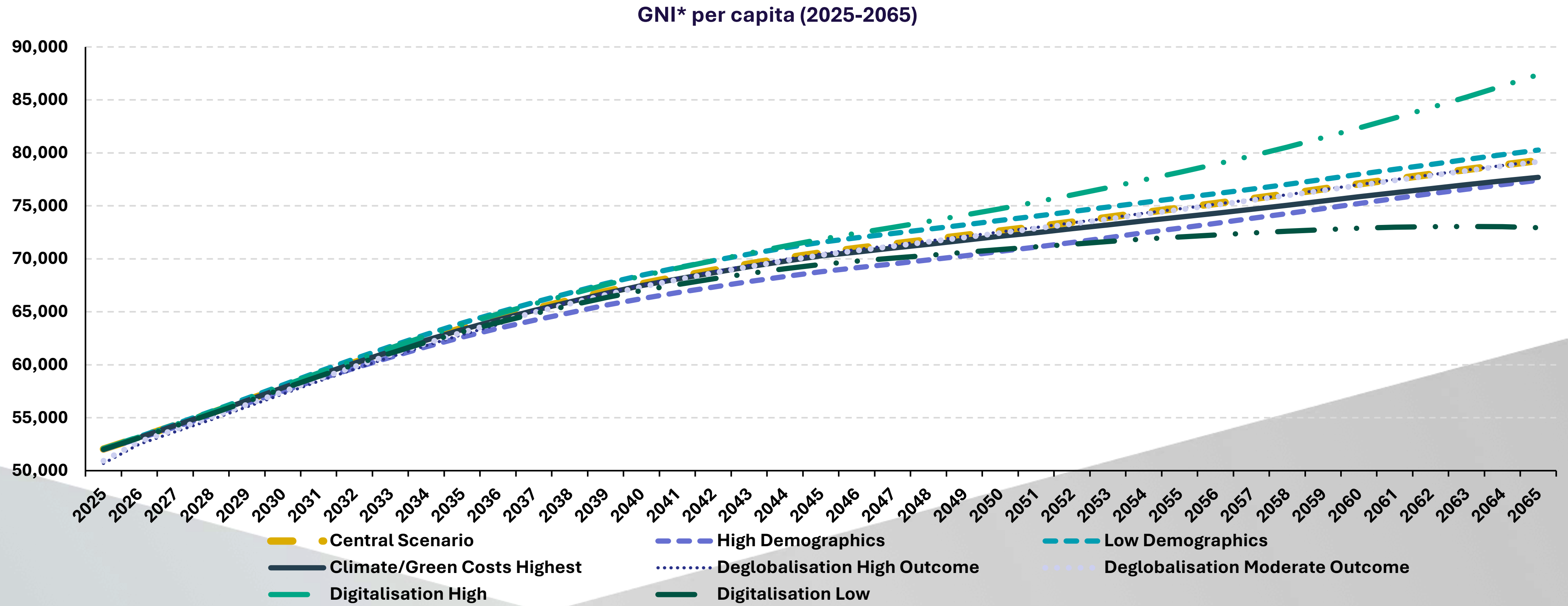


National Debt Per-Capita (2020 Prices) Central Scenario



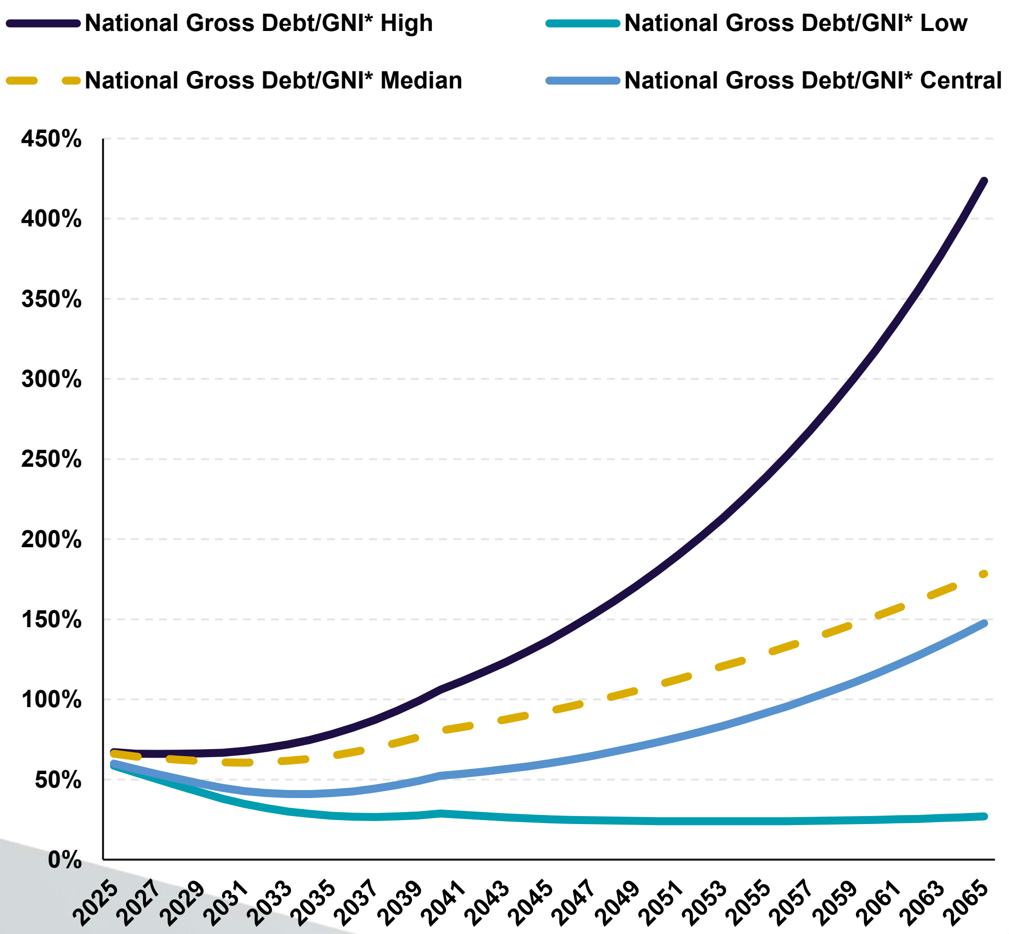
Overall, 2,187 outcomes are examined, with a wide range of possible trajectories

- Future Forty's **Central Scenario =** the combined Central Scenarios from each Deep Dive.
- 2,187 outcomes generated, with majority relatively negative compared to overall Central Scenario
- Central Scenario allows us to identify how different assumptions affect key indicators; GNI*, Debt, etc.

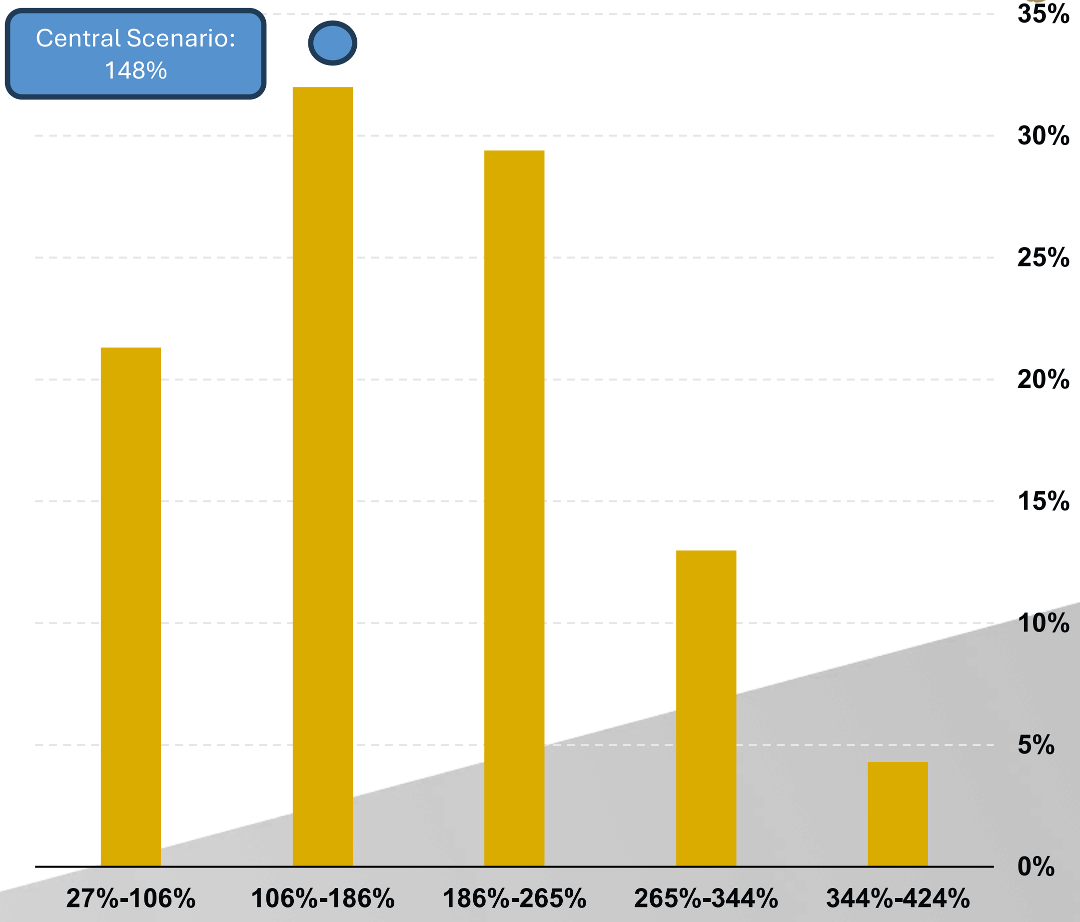


Based on this range, the risks are clearly tilted to the downside

Debt-to-GNI Range*

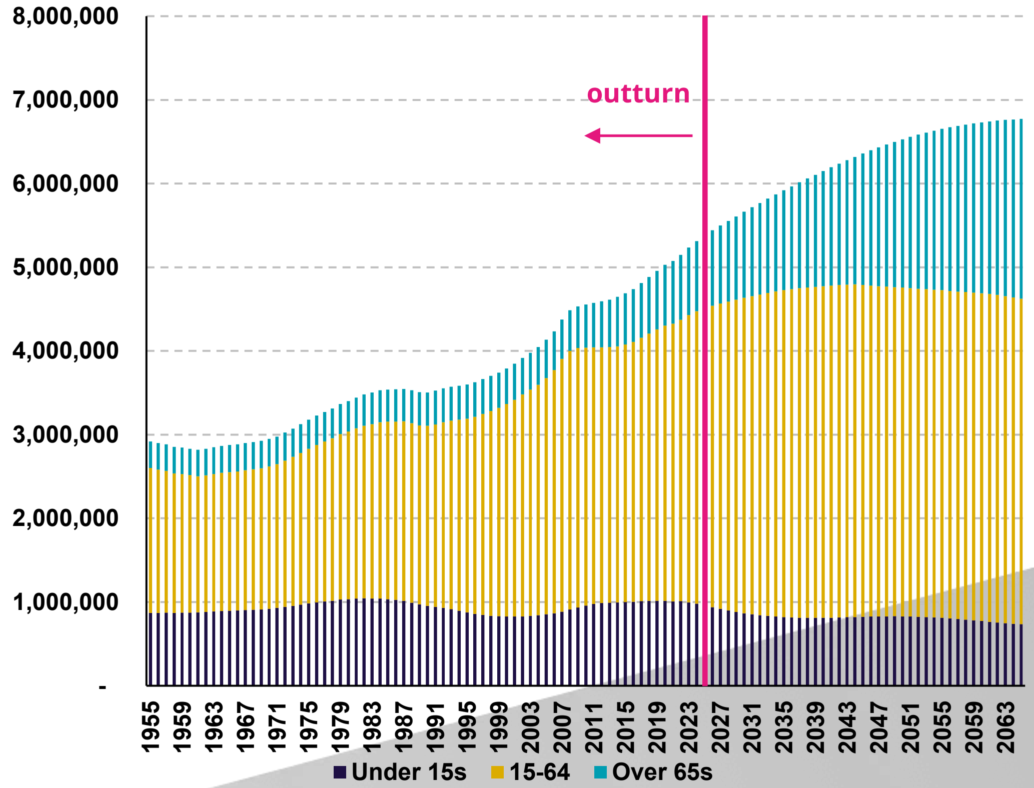


Gross National Debt in 2065 – Distribution of Outcomes



Policy Considerations

There are now 116 people in the labour force for every 100 non-workers, this will reduce to 98-to-100 by 2065

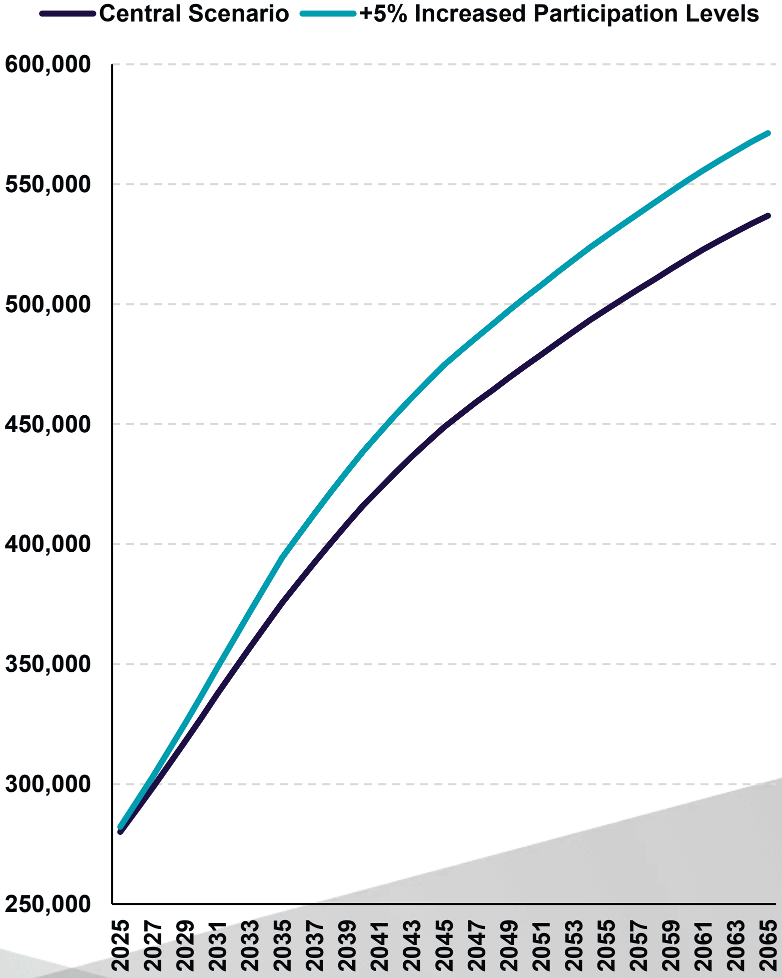


- Growth will be impacted by a stagnating labour force from the mid-2030s.
- The labour force will be outsized by the non-working population by the 2060s, causing considerable fiscal impacts, with less returns from labour coupled with continued increases in age-related expenditure.

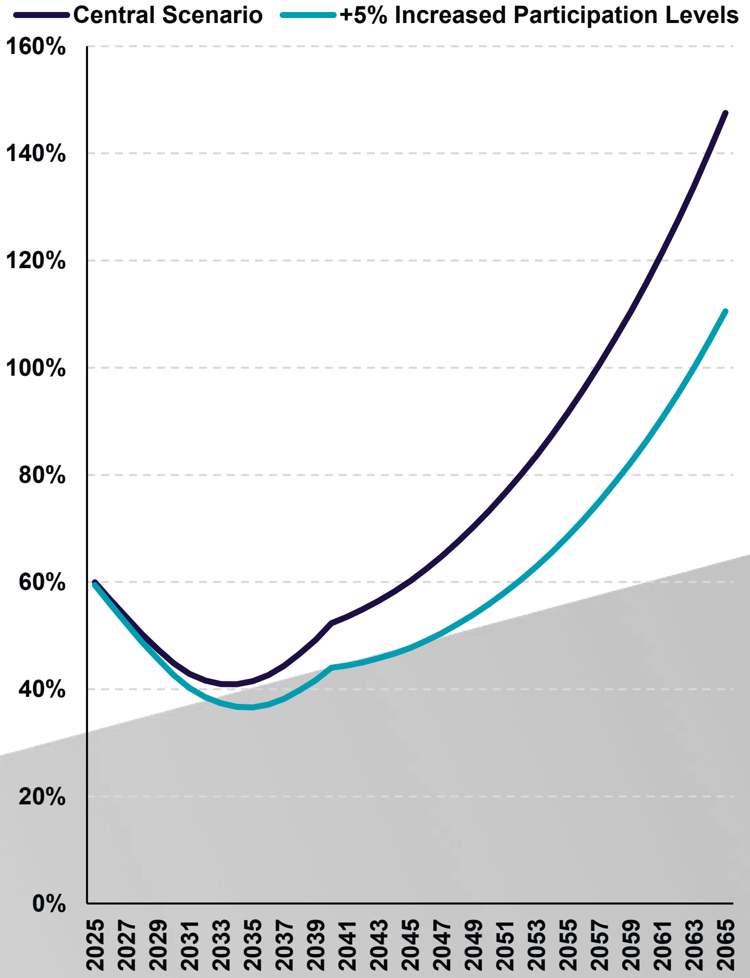
Sustained increases in labour participation would have a significant impact on the economy and public finances

- Participation rates increase gradually over time, as more highly educated cohorts age.
- However, should additional factors push participation higher, it would have a notable impact on economic growth and fiscal outcomes.
- Targeted ALMPs to increase participation in harder-to-reach cohorts including less educated cohorts and over-65s may alleviate the fall-off in the availability of labour.

GNI* Projections

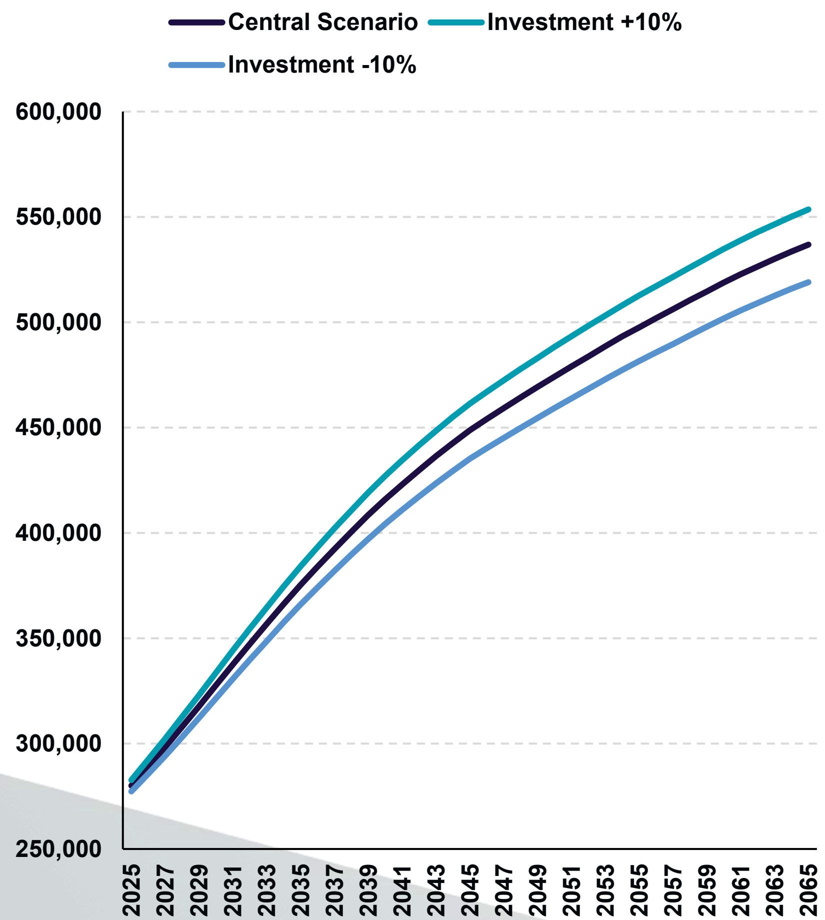


National Debt as a % of GNI* Projections

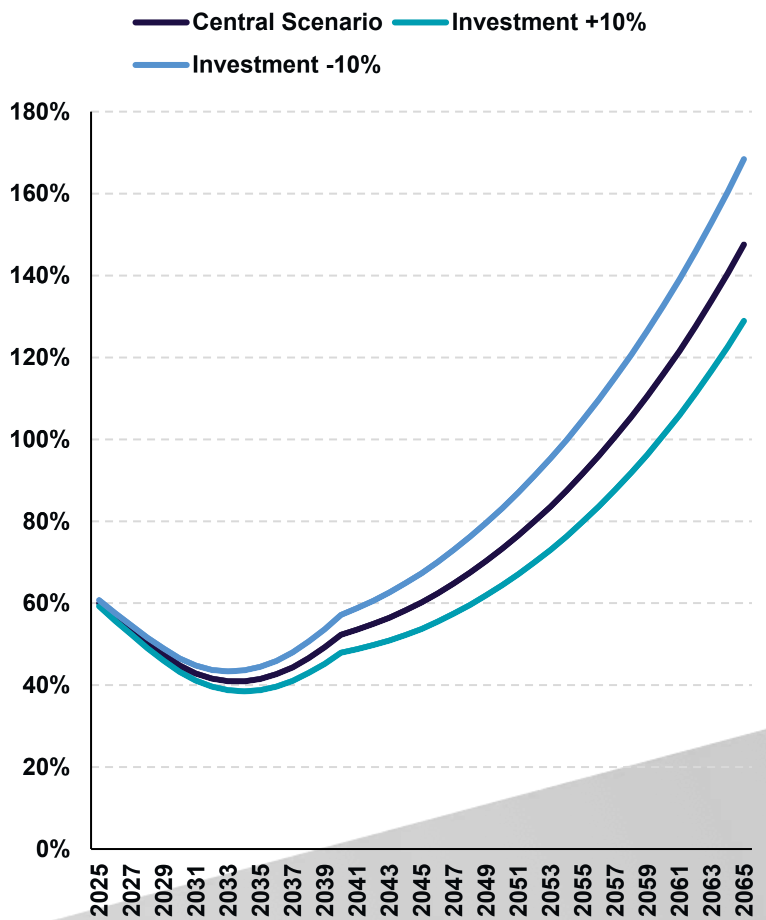


Increasing investment can also stimulate additional growth and uplift for public finances

GNI* Projections

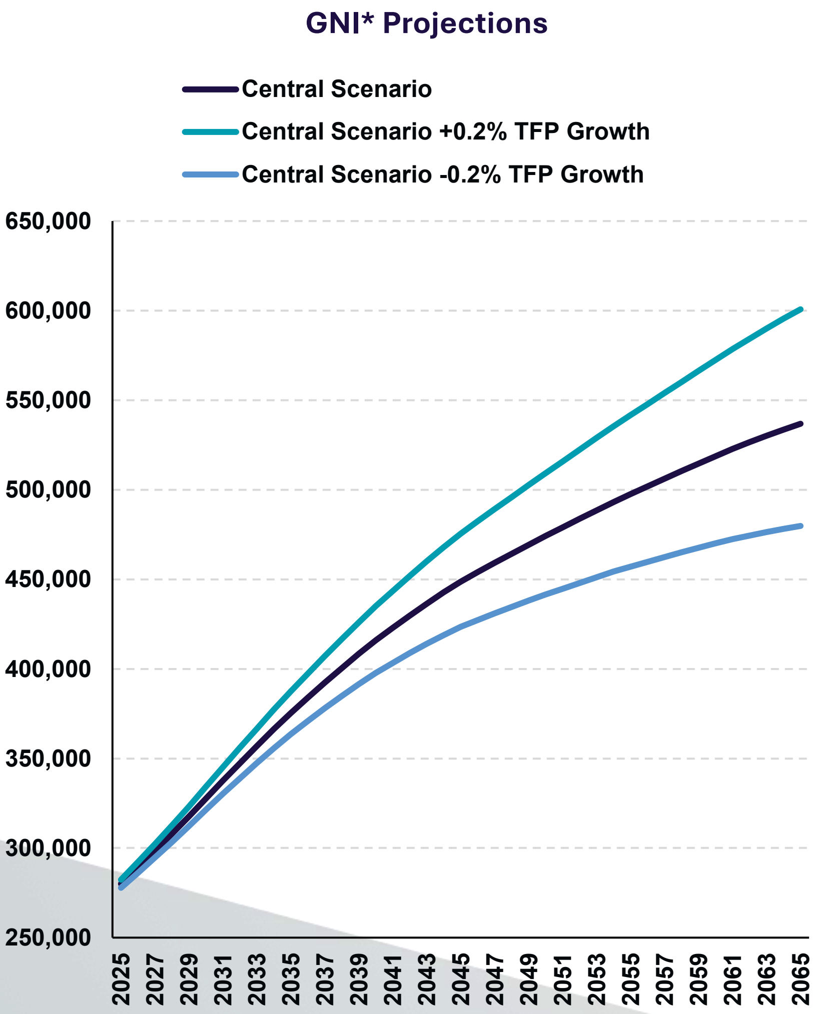


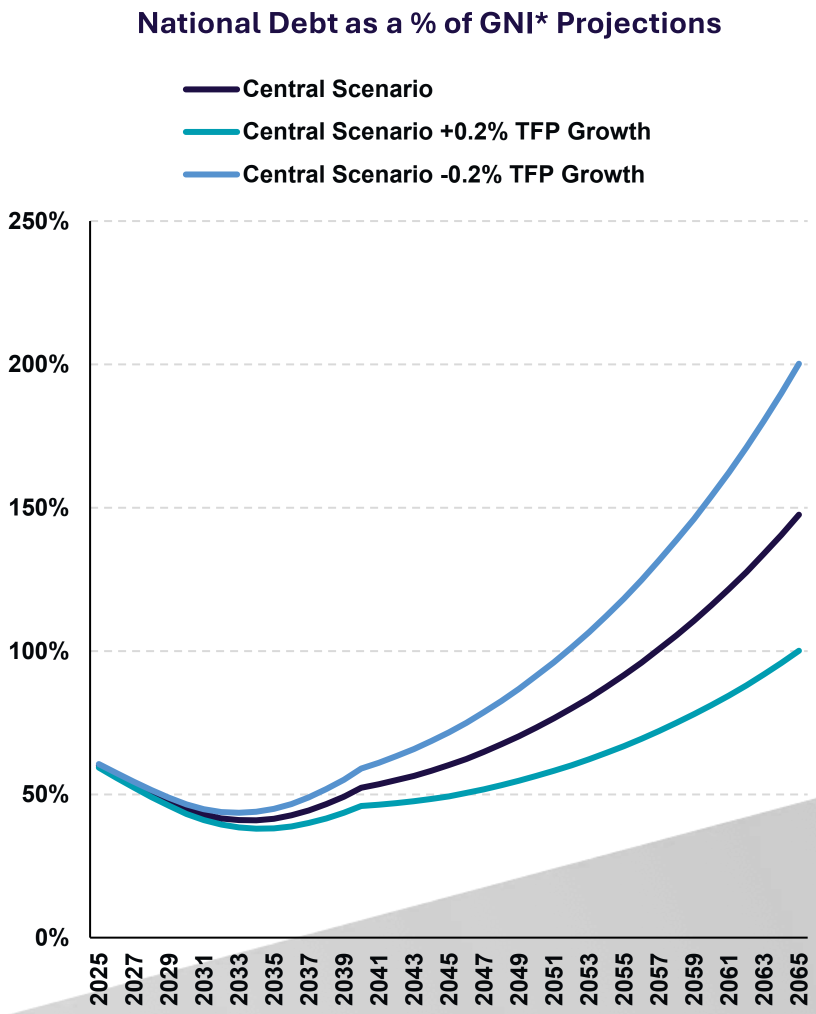
National Debt as a % of GNI* Projections



- Higher levels of investment, both public and private, would have a positive, but not transformative, economic and fiscal impact.
- Strategic public investment in infrastructure is required, even in the Central Scenario.
- Should investment fail to reach expectations it may generate further economic limitations due to second round effects including on competitiveness

However, increasing productivity will ultimately prove to be the key driver of long-term growth





- TFP growth is projected to decrease to 0.4% per annum by the 2040s, similar to other advanced & ageing economies such as Italy.
- Even modest changes to TFP has a transformative impact on projections over four decades.
- Continuing to generate productivity gains, enabling labour and capital to "do more with less" is the most impactful opportunities to generate continued growth.

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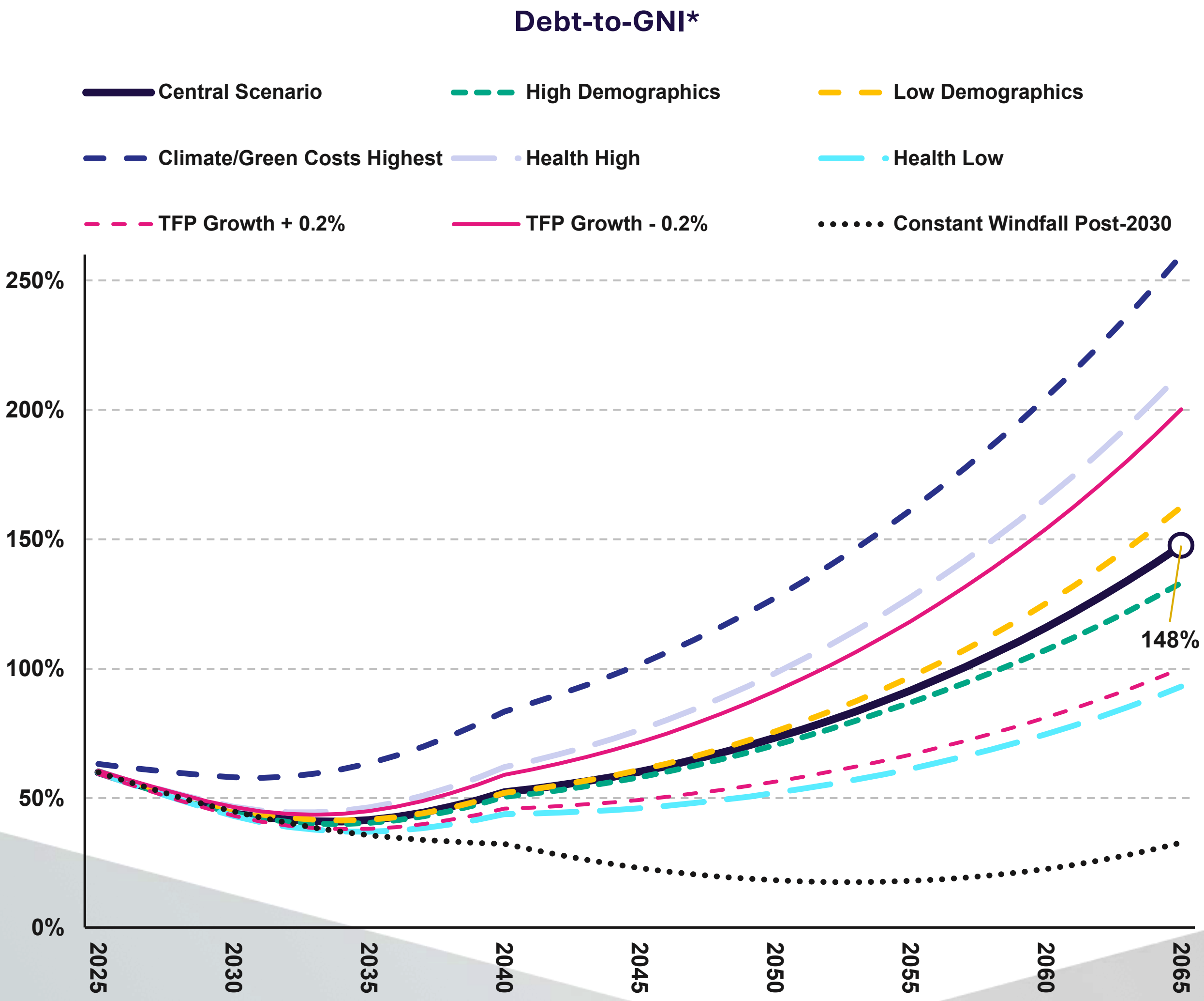
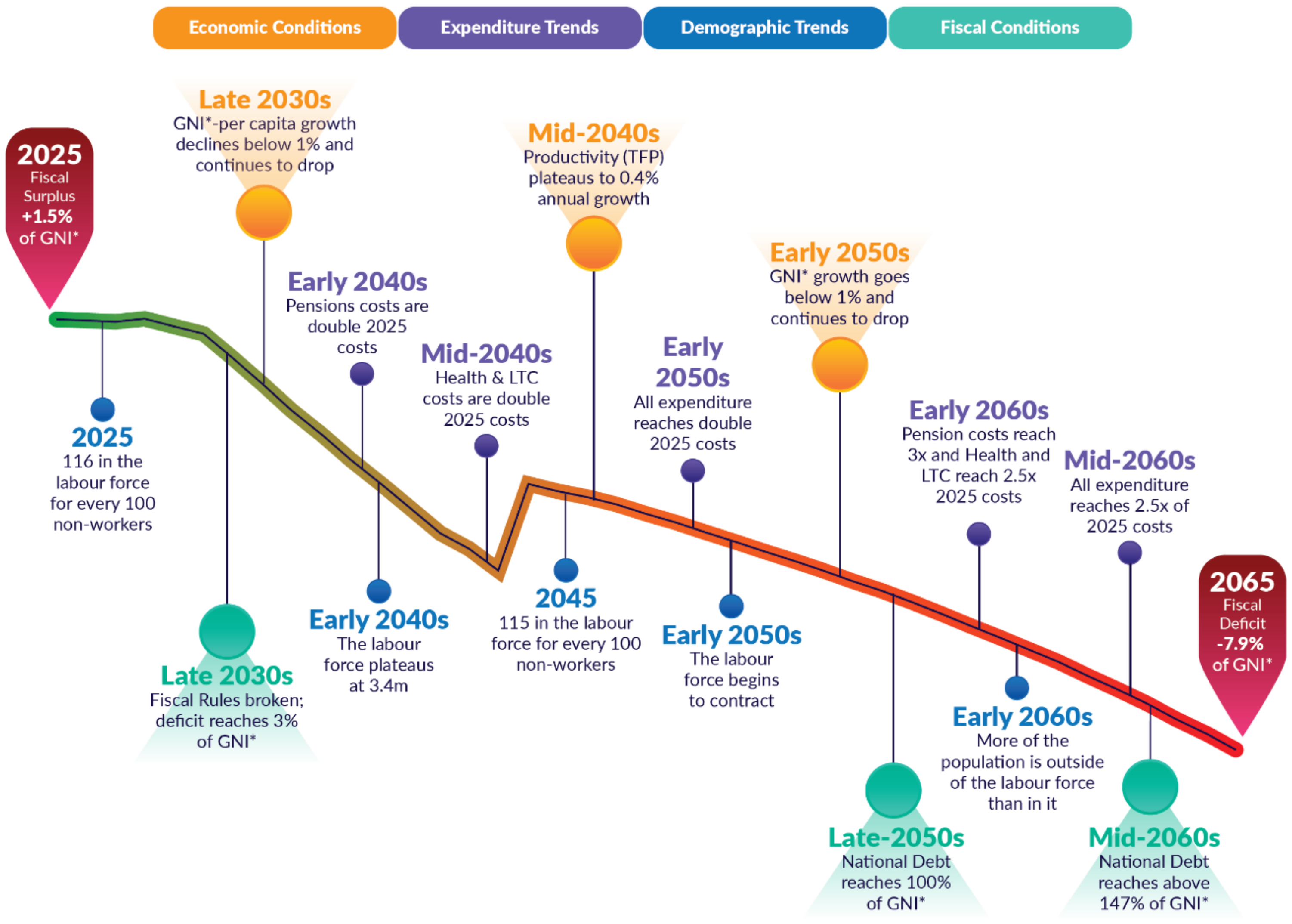
In the analysis, five forces emerge as the most impactful



- Demographic change
- Climate change / green transition
- Productivity gains
- Health and long-term care
- Windfall tax reduction

Future Forty's approach allows us to consider a timeline of challenges



Three periods identified:

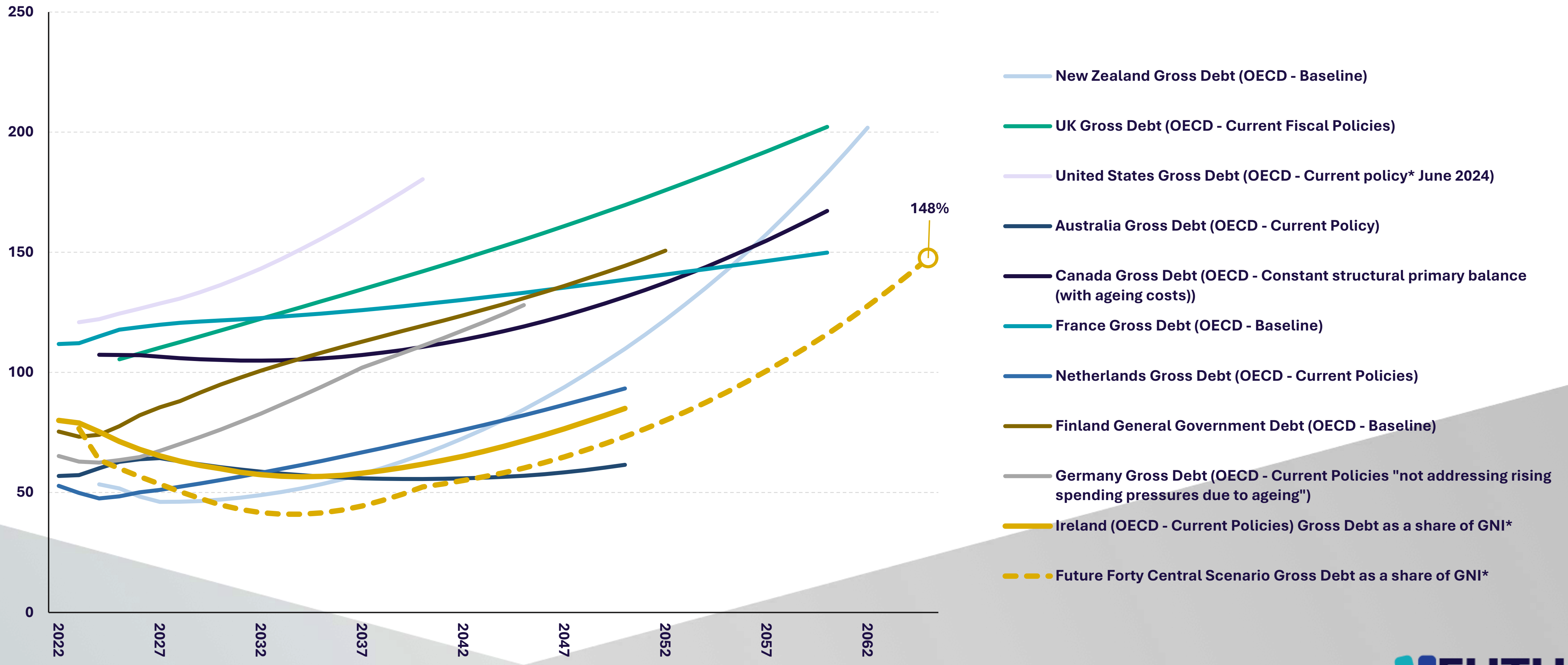
An **early period** between 2025-2037, where the deficit remains below -3% of GNI*, economic growth remains above 1% and National Debt remains below 50% of GNI*.

A **middle period between 2038-2054** where the deficit lowers toward -5% of GNI*, economic growth stagnates below 1% and National Debt nears 100% of GNI*.

A late period between 2055-2065 where the deficit grows toward -8% of GNI*, economic growth falls toward 0.5% and National Debt remains reaches 148% of GNI*.

These are consistent findings & Ireland is not an outlier

Ratio of public debt to national income, per cent



Short-term challenges must be fully aligned with long-term objectives

Prepare for Demographic Change

- Target higher participation rates through labour market activation policies
- Drive cost and productivity efficiencies in the healthcare system before costs rapidly increase

Drive Productivity Growth

- Support reallocation of resources across sectors if necessary
- Drive productivity growth across indigenous sectors, diffuse innovation from MNE to SMEs
- Continue investment in life-long upskilling and the R&D system to boost innovation & productivity

Invest in Infrastructure

- Address challenges in housing, energy, transport and water before resources tighten in later decades
- Climate-proof systems to minimise the later cost of damages
- Continue to invest in digital-infrastructure to better facilitate digital adoption and make possible future productivity growth

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Q&A

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