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Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Ireland

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure[2], and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure[4]

[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[2] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

[3] Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

[4] Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of

path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan should explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(4) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF IRELAND

(5) On 15 October 2024, Ireland submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Ireland.

Process prior to the submission of the plan

(6) Ireland was eligible for receiving technical information, but did not request it. The Commission provided to Ireland on 21 June 2024 the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework[5], as referred to in Recital (25) of Regulation (EU) 2024/1263, and published them on 15 October 2024[6].

(7) In line with Article 12 of Regulation (EU) 2024/1263, Ireland and the Commission engaged in a technical dialogue in September 2024. The dialogue centred on the net expenditure path envisaged by Ireland and its underlying assumptions (in particular potential GDP growth and stock-flow adjustments), as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and

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programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

5 The main initial conditions and underlying assumptions are in line with the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). They are based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

6 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#ireland

digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(8) In May 2024, in line with Article 11(3) and 36(1), point (c) of Regulation (EU) 2024/1263, according to the information provided by Ireland in the plan, Ireland engaged in a consultation process with civil society, social partners, regional authorities and other relevant stakeholders. According to the information provided by Ireland in its plan, the Government hosted the National Economic Dialogue (NED), an annual event that provides a forum for stakeholders to exchange with the Government on economic and social priorities. Discussions at the NED 2024 included a medium-term focus in the context of the Government's obligations under the revised EU fiscal framework.

(9) The Irish Fiscal Advisory Council (IFAC) delivered an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the multi-annual net expenditure path[7]. The macroeconomic forecasts underpinning the national budget for 2025 were endorsed by the IFAC on 23 September 2024, as the IFAC was satisfied the forecasts are within an endorsable range. The IFAC considers its endorsement comes at a time when the economy is performing above its potential and with risks related to capacity constraints domestically.

Other related processes

(10) On 15 October 2024, Ireland submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on [26 November 2024][8].

(11) On 21 October 2024, the Council addressed to Ireland a series of country-specific recommendations (CSRs) in the context of the European Semester[9].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(12) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

(13) Economic activity in Ireland contracted by 5.5% in 2023, driven by a decline in net exports, mainly in specific multinational-dominated sectors, while the domestic economy remained strong. According to the European Commission Autumn 2024 Forecast, the economy is expected to decline by 0.5% in 2024, on the back of ongoing volatility in multinational-dominated sectors. In 2025, real GDP is set to increase by 4.0%, supported by a strong domestic economy and continued growth in exports. In 2026, real GDP is expected to increase by 3.6%, as domestic demand and exports continue to positively contribute to growth. Over the forecast horizon (i.e., 2024-2026), potential GDP growth in Ireland is expected to increase marginally from 2.6% in 2024 to 2.9% in 2025, followed by a slight decline in 2026 to 2.7%. This is driven by a gradual decline in labour contribution and an uptick in capital accumulation contribution following a decline in 2024. The unemployment rate stood at 4.3% in 2023 and is projected by the Commission to amount to 4.4% in 2024, 4.4% in 2025

7 The macroeconomic projections in Budget 2025 cover the years from 2024 to 2030.

8 Commission Opinion on the Draft Budgetary Plan of Ireland, 26.11.2024, C(2024)9056 final.

9 Council Recommendation on economic, budgetary, employment and structural policies of Ireland, not yet published.

and 4.5% in 2026. Inflation (GDP deflator) is projected to decrease from 3.6% in 2023 to 3.3% in 2024, and to reach 2.1% in 2025 and 1.7% in 2026.

(14) Regarding fiscal developments, in 2023 Ireland's general government surplus amounted to 1.5% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 4.4% of GDP in 2024 and to decline to 1.4% of GDP in 2025 and, on a no-policy change basis, to 1.3% in 2026. The European Commission Autumn 2024 Forecast includes Ireland's draft budget for 2025 that the government proposed to the national parliament in October. General government debt was 43.3% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to decline to 41.6% of GDP at end-2024. It is projected to decline to 38.3% of GDP at end-2025 and 36.8% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(15) Ireland's national medium-term fiscal-structural plan covers the period 2025-2029 and presents a fiscal adjustment over four years.

(16) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.

(17) The plan commits to the net expenditure path indicated in Table 1, corresponding to average net expenditure growth of 5.3% over the years 2025-2029. The net expenditure path committed to in the plan is reported to lead to a structural primary balance of 2.3% of GDP at the end of the adjustment period (2028). The plan assumes potential GDP growth to gradually decline from 3.1% in 2024 to 2.8% by 2027 before an uptick to 3.6% in 2028. In addition, the plan expects the growth rate of the GDP deflator to decrease from 3.2% in 2024 to 2.1% in 2025 and remain at that level until 2028.

Table 1: Net expenditure path and main assumptions in Ireland's plan

	2024	2025	2026	2027	2028	2029	Average over the period of validity of the plan 2025-2029	Average over the adjustment period 2025 – 2028
Net expenditure growth (annual, %)	9.8	5.1	6.5	4.9	5.4	4.7	5.3	5.5
Net expenditure growth (cumulative, from base year 2023, %)	9.8	15.4	22.8	28.9	35.8	42.2	n.a.	n.a.
Potential GDP growth (%)	3.1	3.2	2.9	2.8	3.6	3.5	3.2	3.1
Inflation (GDP deflator growth) (%)	3.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1

Source: Medium-term fiscal-structural plan of Ireland and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

(18) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, gradually decrease from 41.4% in 2024 to 34.0% of GDP at the end of the adjustment period (2028), as per the following table. After the adjustment, over the medium term (i.e. until 2038), the debt ratio is expected to continue to continue decreasing well below 60% of GDP to reach 18.8% of GDP by 2038.

Table 2: General government debt and balance developments in Ireland's plan

	2023	2024	2025	2026	2027	2028	2029	2038
Government debt (% of GDP)	43.4	41.4	37.9	36	34.8	34	33.1	18.8
Government balance (% of GDP)	1.6	4.5	1.7	1.4	1.1	1.6	1.5	0.6

Source: Medium-term fiscal-structural plan of Ireland

Thus, according to the plan, general government debt would stay below the Treaty reference value of 60% of GDP over the medium term. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Article 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for the general government balance

(19) Based on the plan's net expenditure path and assumptions, the general government surplus would be 1.7% of GDP in 2025, decrease to 1.4% in 2026 and 1.1% in 2027 and grow to 1.6% in 2028. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Article 16(2) of Regulation (EU) 2024/1263.

Macroeconomic assumptions of the plan

(20) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Ireland on 21 June 2024. In particular, the plan uses different assumptions for eight variables, namely: the starting point (the structural primary balance in 2024), potential GDP growth, GDP deflator growth, real GDP growth, nominal implicit interest rate, stock-flow adjustments, one-offs, and output gap closure. Moreover, the plan deviates from the 'no-fiscal-policy-change' assumption beyond the adjustment period by assuming further fiscal deconsolidation over the years 2029 and 2030. An assessment of these differences in assumptions is provided below. The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

(21) The plan assumes a higher structural primary balance for 2024, namely a surplus of 3.7% of GDP, while the Commission expected a surplus of 2.5% of GDP in spring 2024. This revised initial fiscal position and the accompanying updated macroeconomic conditions for 2024 in the plan reflect more recent information available since spring. This is in line with the Commission Autumn 2024 Forecast. Consequently, this difference is deemed to be duly justified. Taken in isolation, it increases the average net expenditure growth ceiling over the adjustment period compared with the Commission's assumptions.

- In the plan, potential GDP growth over the plan period is lower by 0.3 pp. on average compared to the Commission's assumptions shared on 21 June 2024. This reflects more recent outturn data than in spring 2024, using the EU commonly agreed methodology. Moreover, the plan also assumes real GDP growth to be lower and the output gap to close earlier than in the Commission's assumptions. Indeed, according to the Commission's methodology, the fiscal expansion in the Irish plan would lead to higher multiplier effects on real GDP growth and the output gap would close by 2033, while it already closes in 2030 in the plan. Consequently, these assumptions are deemed to be prudent and therefore duly justified. Together, they contribute to lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions.

- The plan assumes GDP deflator growth to be higher by 0.1 pp. on average over the plan period compared to the Commission's assumptions. It reflects more recent outturn data than in spring 2024. Consequently, this assumption is deemed to be duly justified. Taken in isolation, this contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions.

- The plan assumes stock-flow adjustments to be higher than according to the Commission's assumptions because of the establishment of new savings funds. The less favourable assumption in the plan can be explained by the plan's reliance on more recent data. Consequently, this assumption is deemed to be duly justified.

The remaining differences do not have a significant impact on average net expenditure growth compared to the Commission's assumptions. Overall, all the differences in assumptions taken together lead to a theoretical average net expenditure growth ceiling that is higher than what would be required to comply with the applicable fiscal rules based on the Commission's assumptions of spring 2024. However, in its plan, Ireland commits to a net expenditure path that is lower than this theoretical ceiling and also lower than what would be necessary to comply with the fiscal rules under the Commission's assumptions. The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy of the plan

(22) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through providing additional public services to meet the needs of a rapidly expanding population. Moreover, Ireland will finance additions to the public capital stock by ramping up the public sector investment rate. Finally, Ireland has established two longer-term savings vehicles as a large share of corporate tax is estimated to be 'windfall' in nature. While the projections for general government balances show persistent general government surpluses, the strategy focuses on the expenditure side due to the significant impact of 'windfall' revenues on the headline balance. The specification of the policy measures to be adopted is to be confirmed or adjusted and quantified in the annual budgets. In addition, the Draft Budgetary Plan for 2025 specifies the policy measures through which the net expenditure commitment for 2025 will be achieved[10].

Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(23) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, and to address the common priorities of the EU. The plan includes around 40 measures, of which 12 are financially supported by the Recovery and Resilience Fund (RRF).

(24) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan outlines a consistent set of reforms and investments. Measures on climate change mitigation (CSRs in 2019, 2020, 2022 and 2023) ref include an increase in the carbon tax rate and the Climate Action and Low Carbon Development (amendment) Bill, which are both included in the recovery and resilience plan (RRP) and the National Energy and Climate Plan. The bill establishes a legally binding framework, with targets and commitments, putting the climate neutrality objective by 2050 on a statutory basis, including the adoption of 5-yearly carbon budgets and Climate Action Plans. Measures on water and wastewater (CSR in 2019, 2020, 2022, 2023 and 2024) refer to Ireland's

[10] See Commission Opinion on the Draft Budgetary Plan of Ireland, 26.11.2024, C(2024)9056 final.

third River Basin Management Plan. The plan does not outline measures to improve waste management and boost the circular economy (CSR in 2022 and 2023) as well as measures related to public transport (CSR in 2019 and 2020) and the electrification of transport (CSR in 2022 and 2023). The plan outlines measures to enable the digital transition (CSR in 2019 and 2020) as reflected in the National Digital Strategy, Harnessing Digital and achieve digital targets as reflected in the Strategic Roadmap for the Digital Decade. This includes investments in digital skills (some included in the RRP) access and use of digital public services (some included in the RRP), especially through grants and assistance to SMEs, support for companies to digitalise (some included in the RRP), cyber-security through increased resources for the National Cyber Security Centre, and connectivity through the implementation of a National Broadband Plan with a target of having all Irish households and businesses covered by Gigabit network no later than 2028 and all populated areas covered by 5G no later than 2030.

(25) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan outlines measures to increase the supply of social and affordable housing (CSR in 2019 and 2020) through the implementation of the Housing for All plan (some actions included in the RRP), and the planning reform. Measures to support the business environment of enterprises, particularly domestic SMEs (CSR in 2019 and 2020), include actions set in the White Paper on Enterprise. Measures to support research and innovation (CSR in 2019 and 2020) include the creation of a new competitive research and innovation funding agency, the strengthening of technological universities (some actions included in the RRP and ERDF programmes) and other investments published in the Impact 2030 strategy. In line with the European Pillar of Social rights, the plan also outlines a range of initiatives on equal opportunities and access to the labour market. Measures on skills (CSR in 2020 and 2023) include the establishment of a new National Skills Council, unlocking funds from the National Skills Fund, increased current and capital investment (some actions included in the RRP), the development of a single national apprenticeship model and reforms in the tertiary education sector. The plan does not outline measures to facilitate upskilling, in particular for vulnerable groups and people living in households with low work intensity (CSR in 2019). The plan outlines a range of initiatives on fair working conditions, including the introduction of National living wages at 60% of hourly median wages by January 2026. The plan also outlines initiatives on social protection and inclusion, including labour market activation investments (CSR in 2019) targeting vulnerable groups as set in the Pathways to Work strategy. This is complemented by reforms in the childcare sector (CSR in 2019), which include universal and income-related subsidies under the National Childcare Scheme, and poverty reduction commitments set under the Roadmap for Social Inclusion. With regards to priority cohorts mentioned in the context of the European Semester, the plan refers to the National Disability Strategy and the second National Traveller and Roma Inclusion Strategy.

(26) Concerning the common priority of energy security, the plan outlines measures which aim at to reducing the overall reliance on fossil fuels, notably though investments in offshore renewable energy (CSR in 2022 and 2023) (some actions included in the RRP) and grid connectors (CSR in 2022, 2023 and 2024) with Northern Ireland and France. Measures to reinforce the resilience of the energy system include funding for poorer households to improve the energy performance of private buildings (CSR in 2022, 2023 and 2024) (some actions included in the RRP and ERDF programmes) as

well as actions on energy storage and demand-side response (CSR in 2022, 2023 and 2024) included in the Energy Security in Ireland strategy.

(27) Concerning the common priority of defence capabilities, the plan includes no measures.

(28) In addition, the plan outlines policy measures to address long-term fiscal sustainability. Measures on the cost-effectiveness and accessibility of the healthcare system (CSR in 2019 and 2024) outlined in the Digital Health Strategic Framework includes 48 strategic initiatives on digital health solutions, establishing an independent Commission on Care for Older People, as well as the establishment of four new elective hospitals, developing better primary and community care and restructuring of the health service executive under the Sláintecare reform (some actions included in the RRP). Measures to improve the sustainability of the pension system (CSR in 2019, 2022 and 2023) include the introduction of pay-related social benefits, an auto-enrolment pensions scheme for selected employees, the establishment of two long-term savings vehicles (Future Ireland Fund and the Infrastructure, Climate and Nature Fund) as well as an agreed roadmap of social security contributions increases. The plan states that Ireland will continue to address aggressive tax planning (CSR in 2019 and 2020) through the implementation of its Corporation Tax Roadmap (some actions included in the RRP) but does not include tax base broadening measures (CSR in 2019 and 2020). While the plan does not outline measures on anti-money laundering (CSR in 2020) some reforms are being undertaken within Ireland's RRP.

(29) The plan provides information on the consistency and, where appropriate, complementarity, with the cohesion policy funds and Ireland`s RRP. The plan includes information on the size and objectives of the different cohesion policy funds. The plan includes a table outlining which structural reforms and investment priorities will be in part addressed through measures included in Ireland's RRP and/or cohesion policy funds.

(30) The plan aims to contribute to meet the public investment needs of Ireland related to the common priorities of the EU. Concerning the common priority of a fair green and digital transition, the plan gives a general outline on ongoing investments to reducing greenhouse gas emissions, improve water and wastewater management and support the digital transformation. Concerning the common priority of social and economic resilience, the plan gives a general outline on ongoing investments related to supporting enterprises, research and innovation, skills, labour market activation, childcare and housing. Concerning the common priority energy security, the plan gives a general outline on investments related to retrofitting, offshore renewable energy and grid connectors.

Conclusion of the Commission's assessment

(31) Overall, the Commission is of the view that Ireland's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(32) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Ireland.

HEREBY RECOMMENDS that Ireland

(1) Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

In addition, the Council invites Ireland to ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)

IRELAND

Years		2025	2026	2027	2028	2029
Growth rates (%)	Annual	5.1	6.5	4.9	5.4	4.7
	Cumulative (*)	15.4	22.8	28.9	35.8	42.3

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

Done at Strasbourg,

For the Council
The President