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Economic Research Unit

Economics Weekly

Bank of Ireland

Irish economy supported by buoyant government spending

Yesterday's exchequer returns show tax revenues remained robust in H1 2025, up 10.5% on the year to €45.9bn. Income taxes (4.3%), VAT (5.8%) and corporation taxes (7.4%) all exhibited substantial gains - and indicative of further growth in consumer spending and employment. Of course, corporate taxes remain potentially volatile with ten firms accounting for 57% of receipts in 2024. However, the implementation of the 15% effective rate in 2026 and depreciating capital allowances on past investments will likely boost corporate tax revenues next year.

Gross voted public spending in H1 2025 was €51bn, up 8.2% on 2024, a rapid pace and including sharp rises in key spending departments such as education (8.2%) and health (8.8%). This is far faster growth in public expenditure than the 1.7% growth the Department of Finance had forecast in May for spending to rise to €105bn in calendar year 2025. Indeed, gross voted spending was €107.5bn in the twelve months to June, already exceeding this figure. So the risk to our forecast for real public spending on goods and services to expand by 3.5% in 2025, making a 0.7pp contribution to modified domestic demand growth in 2025, lies to the upside.

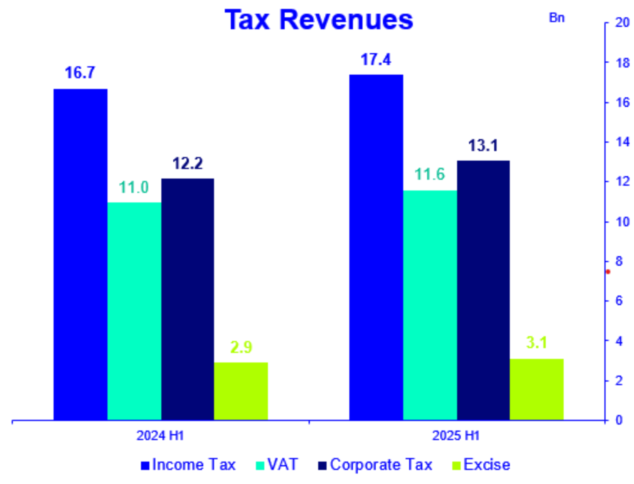
Broad based tax revenue growth through H1 2025: Tax revenues of €49.5bn were collected in H1 2025, up 10.5% on the year. Even excluding the €1.7bn relating to the EU Court of Justice ruling on the Apple tax case, revenues were still up 6.7%. This growth reflected a broad range of categories; income taxes (4.3% to €17.4bn), value-added-tax (5.8% to €11.6bn) and corporation taxes (7.4% to €13.1bn). Notably, corporate taxes bounced back in June, more than unwinding the 9.4% contraction in the first five months of 2025, due to a timing effect related to specific payments. Tax revenues in H1 at €49.5bn, were slightly, just €0.5bn or 1%, ahead of the Department of Finance's forecast.

Corporate taxes could still benefit from two tailwinds: In the May 2025 Annual Progress Report the Department of Finance forecast underlying corporate tax revenues will be broadly flat at €28bn in 2025 and 2026. The 7.4% rise in H1 2025 means this projection now looks conservative. Whilst the corporate tax base is clearly potentially unstable, given just 10 companies accounted for 57% of receipts in 2024, two tailwinds may help receipts next year. First, Ireland is implementing the minimum 15% effective rate, in line with OECD Pillar II reforms. Second, capital allowances on the €260bn of investments in intellectual property assets by multinationals through 2019-2020 are now depreciating.

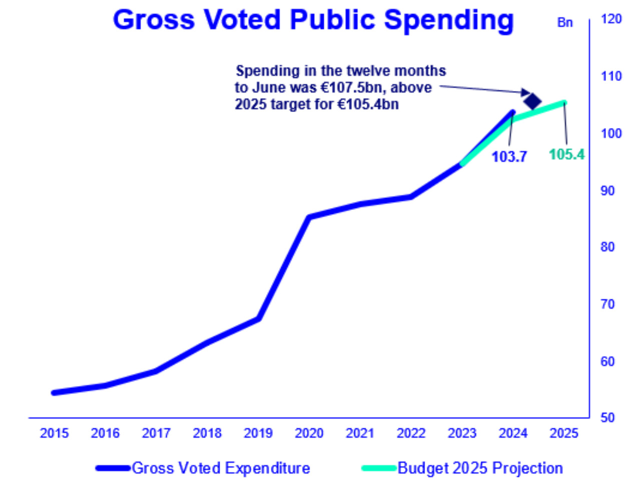
Government expenditure growing rapidly, ahead of official forecasts : Gross voted expenditure was €51bn in H1 2025 up 8.2% on the year, including education up 8.2% to €5.9bn and health up 8.8% to €12.6bn. As recently as May the Department of Finance forecast that gross voted spending would grow by just 1.7% to €105bn in calendar year 2025. This is not likely. Spending would have to contact in H2 2025 to meet the official forecast. The Irish Fiscal Advisory Council (IFAC) has highlighted spending overruns in 2024 were not incorporated into the Budget 2025 expenditure projections. Also, the public sector pay bill continues to expand at a pace well ahead of official forecasts.

Public spending making strong contribution to domestic demand: Within modified domestic demand (MDD) public spending accounted for around one in every four euro spent in 2024. Government spending rose 4.5% in inflation adjusted, real terms in the year to Q1 2025, making a 1.0 percentage point (pp) contribution to MDD growth. Notably, the Central Bank of Ireland (3%), Department of Finance (2.3%) and ESRI (2.6%) are all currently projecting a marked slowdown in real public spending growth in 2025, to almost half the 4.3% pace in 2024. We don't believe this is likely.

Risk to our forecast for public spending lies to the upside: We are more comfortable with our forecast for 3.5% real growth in public spending on goods and services in 2025, making a 0.7pp contribution to the growth of modified domestic demand. The risk to this projection likely lies to the upside given the 8% rise in nominal public spending in H1 2025. The key message here is that public spending is supporting domestic demand in the Irish economy and will help to compensate for any negative impact from US tariff related uncertainty onto consumer or investment spending.



Source: Department of Finance



Source: Department of Finance

Contact Us at economics@boi.com