

Vasileios Madouros: Opening statement - Oireachtas Select Committee on Budgetary Oversight

Opening statement by Mr Vasileios Madouros, Deputy Governor of the Central Bank of Ireland, at the Oireachtas Select Committee on Budgetary Oversight, Dublin, 8 July 2025.

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Good afternoon Chair and Members of the Committee. Thank you for inviting us to appear before the Committee today.

I am joined by my colleagues Martin O'Brien, Head of our Irish Economic Analysis Division and Thomas Conefrey, Deputy Head in the same Division. We very much welcome the opportunity to engage with you on the outlook for the economy and the public finances.

In my opening statement, I will cover briefly our latest assessment of the economic outlook, as outlined in our June [Quarterly Bulletin](#), as well as our latest economic advice to the Government, as outlined in the [Governor's pre-Budget letter \(PDF 3.04MB\)](#), published last week.

The economic outlook

Let me start with the global context, because the key factors shaping the domestic outlook stem from developments abroad, but with important implications for Ireland.

Since the start of the year, we have seen a material shift in trade policy, with rising tariffs between the US and its trading partners, as well as a sharp increase in policy uncertainty.

In light of these developments, the global growth outlook has weakened. Short-term forecasts for world trade and economic activity have been revised downwards. And uncertainty around these forecasts is particularly elevated, given the range of potential outcomes around trade policy.

The openness of the Irish economy and the prominent role that FDI and multinational firms play domestically mean that Ireland is particularly exposed to changes in the global economic outlook as well as shifts in trade policy, and broader economic policy, in the US.

Given uncertainty over the future direction of US trade policy, our June Quarterly Bulletin presented projections for the economy under a baseline and a more adverse scenario.

These were based on different assumptions around the level and coverage of tariffs, the level and persistence of uncertainty and the future path of financing conditions.

In the baseline scenario, we expected Modified Domestic Demand to grow by 2.0 per cent in 2025 and by 2.1 per cent per annum on average in 2026 and 2027.

This is a downward revision to the growth outlook relative to our previous projections – but the central outlook is still consistent with a full-employment economy.

The adverse scenario assumed persistently higher and broader tariffs, including due to retaliation from the EU. It also assumed that policy uncertainty would remain higher for longer and that financing conditions would be tighter.

In this scenario, annual average MDD growth would almost halve compared to the baseline, illustrating the sensitivity of economic activity to an escalation of trade tensions.

The trade-offs facing the public finances

The economy and public finances are entering this period of heightened uncertainty from a strong position. But there are also underlying vulnerabilities that need to be managed carefully.

The exceptional growth in corporation tax receipts since 2015 and the strong pace of economic expansion in recent years have resulted in a marked increase in government revenues.

As a result, even with the substantial rise in government spending and some tax cuts, the headline budget balance has run substantial surpluses in recent years.

However, external developments mean that this benign combination of factors, namely, a rapidly growing economy and exceptional corporate tax receipts, could be at risk in the coming years.

In particular, risks to the fiscal position from lower corporate taxes and other MNE-dependent taxes have increased given recent international developments.

And, excluding estimated "excess" corporation tax (and the impact of the Apple State Aid case), the budget balance has been in a persistent deficit position for 17 consecutive years.

At the same time, in the current juncture, an important public policy priority is the need for higher investment, both to address infrastructure deficits and to support the transition to net zero.

Indeed, these infrastructure deficits have become an increasingly significant factor constraining the supply side of the economy.

Addressing infrastructure deficits will not only help meet important societal and economic needs today, but also enable our economy to remain competitive amid a shifting geopolitical landscape.

Finally, looking further into the future, there are known future funding needs that the State needs to prepare for today.

Given demographic trends, Ireland is expected to see the largest increase in age-related spending, on areas such as pensions, healthcare and long-term care, amongst the EU by 2050.

And we know already that the Future Ireland Fund, the establishment of which has been a very positive public policy intervention, will not be sufficient, on its own, to finance the higher level of public expenditure that will be required to meet the needs of an older population.

Overall, the current environment presents important trade-offs for fiscal policy. Between investing in infrastructure, but not adding excessively to demand in a capacity-constrained economy. Between addressing the funding needs of today, but also preparing for the funding needs of the future.

Managing those trade-offs

While undoubtedly this presents a difficult balancing act, careful management of the public finances can contribute to achieving these multiple aims. So let me finish off by summarising our economic policy advice outlined in the Governor's pre-budget letter, in light of those trade-offs.

I will focus on three areas in particular.

First, it is important that the Government commits, and adheres to, a credible fiscal anchor that results in sustainable increases in net government expenditure over time. In the current context of the economy operating at capacity, it is important, from a macro-stabilisation perspective, that the overall fiscal policy stance does not add excessively to demand.

Second, within that overall fiscal envelope, the public finances need to prioritise investment. Sustainably achieving the necessary rise in public investment requires creating sufficient economic and fiscal space, through offsetting choices in terms of current spending or taxation. Beyond demand management considerations, broadening the tax base is also important for addressing future funding needs and mitigating the reliance of the public finances on corporate tax receipts.

Third, public investment alone will not be sufficient to address the economy's infrastructure gaps. Measures that reduce delays, and, therefore, the ultimate costs, in the planning and building of infrastructure are needed to help ensure that the benefits of public investment for long-term growth are realised fully. Measures that incentivise scale and investment in new machinery, equipment and technologies in the construction sector can also help enhance productivity and enable more sustainable delivery of housing and infrastructure. These structural policies can have an outsized impact on strengthening the supply side of the economy, complementing, and adding to the effectiveness of, additional public investment in infrastructure.

Thank you for your attention and we look forward to your questions.

