

# Topic: Government Policy and Irish Budget

## Additional Resources:

- Class [website](#)
- Class [podcast](#)

## Irish Fiscal Policy – News Headlines (2026)

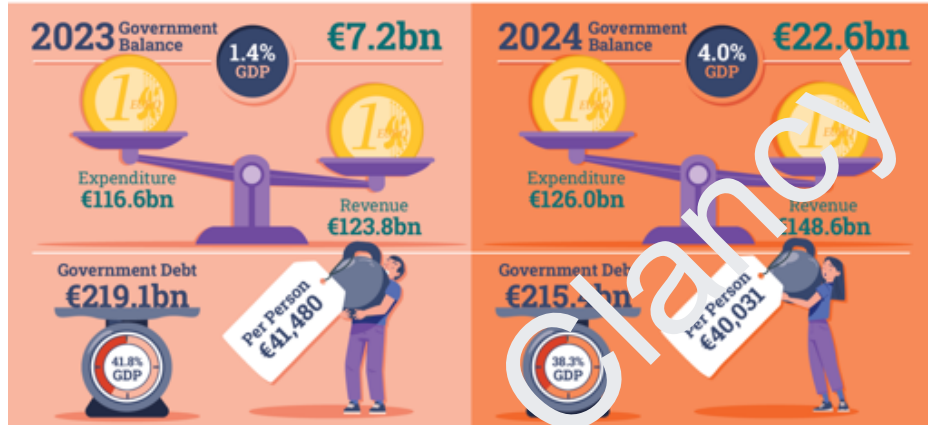
1. [Irish Public Spending Data](#)



2. 505m Euro Fuel Relief Package: Government Responds to nationwide Blockades
3. Excise Duty Slashed Again: Petrol and Diesel Prices Cut at the Pump
4. 100m Euro Support Scheme Launched for Farmers and Fishers Facing High Fuel Costs
5. Fuel Allowance Season Extended by Four Weeks to Help Vulnerable Households
6. New Transport Support Scheme Offers Direct Payments to Hauliers and Bus Operators
7. Carbon Tax Hike Delayed: Planned May Increase Pushed Back to October
8. Record 22.6bn Euro Collected in Q1 as Income Tax and VAT Receipts Rise
9. Exchequer Surplus Hits 9bn Euro: Debates Grow Over How to Spend the Extra Cash
10. Billions Transferred to New Future Ireland Fund to Save for the Long Term
11. Opposition Demands Mini-Budget to Protect Families from Cost of Living Crisis
12. Ireland is using Apple's €16bn tax payment to spend more on roads, housing, and

## Government Finances (CSO)

## Government Finance Statistics 2024 (October 2025)



Analyse government expenditure

<b>Trend:</b>	<b>Time(line):</b>
<b>Figures:</b>	
<b>Difference:</b>	
<b>Cause/Reason:</b>	

## Fiscal Policy

- Fiscal policy is any action taken by the government which influences the timing, magnitude and structure of current revenue and expenditure. (tax / expenditure)
  - Fiscal policy video [here](#).

### Types of Fiscal Policy

Expansionary / inflationary fiscal policy	Contractionary / Deflationary fiscal policy
<p><b>Encourages Consumption:</b></p> <ul style="list-style-type: none"> <li>Lowering income taxes increases disposable income, boosting consumer spending and aggregate demand (GDP).</li> </ul>	<p><b>Discourages Consumption:</b></p> <ul style="list-style-type: none"> <li>Raising income taxes reduces disposable income, decreasing consumer spending, aggregate demand (GDP), and inflation.</li> </ul>
<p><b>Stimulates Investment:</b></p> <ul style="list-style-type: none"> <li>Reducing corporate taxes on profits encourages businesses to invest more, raising aggregate demand (GDP).</li> </ul>	<p><b>Reduces Investment:</b></p> <ul style="list-style-type: none"> <li>Increasing corporate taxes on profits discourages business investment, lowering aggregate demand (GDP).</li> </ul>
<p><b>Government Spending on Projects:</b></p> <ul style="list-style-type: none"> <li>Increased public spending on services like hospitals, schools, and infrastructure directly raises aggregate demand (GDP).</li> </ul>	<p><b>Cutting Government Spending:</b></p> <ul style="list-style-type: none"> <li>Reducing public spending on services like hospitals, schools, and infrastructure directly decreases aggregate demand (GDP).</li> </ul>

**Decide if the following is expansionary or contractionary**

	Expansionary	Contractionary
1. A multinational company opens a new factory in Ireland and creates 500 jobs.		
2. The government increases income tax rates to reduce consumer spending.		
3. Consumers become more confident and begin spending more on goods and services.		
4. Irish exports increase due to strong economic growth in the United States.		
5. A large technology company cuts investment plans because of rising business costs.		
6. The government launches a major programme of public spending on housing and transport.		
7. Consumers begin saving more money because they are worried about the economy.		
8. Foreign direct investment into Ireland falls because corporations choose lower-cost countries.		
9. Irish firms increase production and hire more workers due to rising demand.		
10. Imports increase significantly as consumers buy more foreign goods and holidays abroad.		

**Irish Government Budget**

- Each year, the Irish government issues a budget on income and public spending in October.
- We will revisit this in October and watch it on the news.

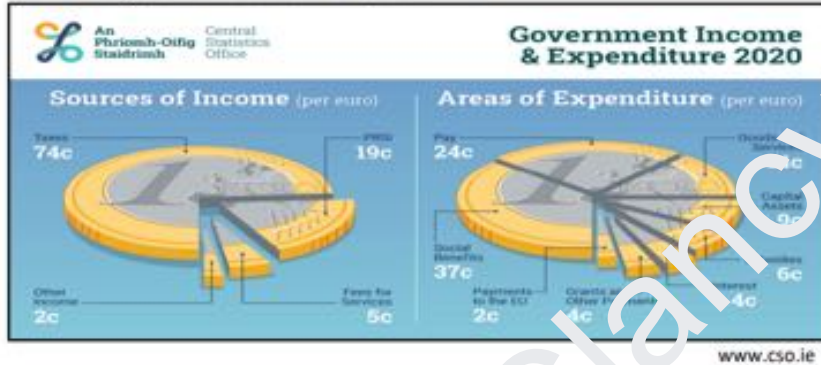
**Income and Expenditure for Government Budget**

Category	Explanation
Revenue /Income	<p><b>Current Income</b> (<a href="#">see CSO tax</a>)</p> <ul style="list-style-type: none"> <li>• <b>Direct taxes</b> Taxes that are levied on income, wealth or profit, for example:                             <ul style="list-style-type: none"> <li>○ USC</li> <li>○ PAYE</li> <li>○ Corporation tax</li> <li>○ Capital acquisitions tax (CAT)</li> <li>○ Capital gains tax (CGT)</li> <li>○ Deposit interest retention tax (DIRT)</li> </ul> </li> <li>• <b>Indirect tax</b> (tax on goods/services (consumption)). They are paid indirectly to the government by final consumers.                             <ul style="list-style-type: none"> <li>○ Value Added Tax (VAT)</li> <li>○ Excise duty</li> <li>○ Carbon tax</li> <li>○ Sugar-sweetened drinks tax (SSDT)</li> <li>○ Plastic bag levy</li> </ul> </li> </ul>
	<p><b>Capital Income</b></p> <ul style="list-style-type: none"> <li>• Privatization of state assets (Aer Lingus)</li> <li>• EU grants</li> </ul>
Government Expenditure /CSO	<ul style="list-style-type: none"> <li>• <b>Capital spending</b> is on capital stock of the economy, such as building schools, the National Children's Hospital, the Cork-Limerick motorway, and the Galway bypass.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Current expenditure</b> is ongoing, such as wages to public services employees (teacher wages), <a href="#">social welfare payments</a> or maintenance costs of government buildings</li> </ul>
	<ul style="list-style-type: none"> <li>• The last category refers to <b>transfer payments</b>, such as unemployment benefits, disability payments and pensions.</li> </ul>

We need to be able to define VAT, Excise duty, USC, PRSI, PAYE, SSDT, carbon tax, DIRT, stamp duty, CGT, CAT, Corporation tax, motor tax, tax evasion, tax avoidance

Exam Question 2022

The infographic below shows the sources of income and expenditure as a proportion of every euro the Irish government receives and spends in 2020.



(a) (i) Using the infographic above, explain why social benefits represent such a high proportion of government expenditure. Use an example of a social benefit to support your answer.


(ii) The Irish Government uses both **direct** and **indirect** tax to raise government revenue. Distinguish between these two types of taxes. Use an example of each to support your answer.


Canons of taxation: Adam Smith

Canon	Explanation
Equity	<ul style="list-style-type: none"> <li>Taxes should be equitable or <b>fair</b>. In Ireland, PAYE is considered a progressive tax as those who earn more pay more.</li> </ul>
Certainty	<ul style="list-style-type: none"> <li>The amount of tax which a person must pay (the state collects) should be <b>certain and clear</b>. Changes to tax made in the budget in October each year.</li> </ul>
Convenience	<ul style="list-style-type: none"> <li>Tax should be collected in a manner that is <b>easy</b> for the taxpayer to pay. eg. online, by phone, deducted directly from wages.</li> </ul>
Economy	<ul style="list-style-type: none"> <li>Tax should be <b>cheap to collect</b>. It should not cost the taxpayer more to collect the tax than the amount being collected.</li> </ul>

Other characteristics to consider of a good tax system

- **Taxes should not act as a disincentive:** The marginal rates of tax should not discourage workers from working or earning, tax rates on profits should not discourage investment by entrepreneurs / savings should not be discouraged.
- **Taxes should aid the redistribution of income:** A good tax system should help the government redistribute income from the rich to the poor / progressive taxes allow the government to do this.
- **Tax rates should be consistent with national economic objectives:** The taxes levied should help the government achieve other economic/social objectives. E.g. raising excise rates on cigarettes will help discourage smoking.
- **Evasion should be impossible:** A good tax should be impossible to evade, otherwise the tax is not fair.

Tax terms

- **Taxation revenues:** Monies/incomes received by the government in the form of direct & indirect taxes, and used in the running of the country.
- **Broaden the tax base:** Increasing the number of people / areas on which tax is levied / in the tax net.











## Government Current Budget

- **Current Budget Deficit:** government current revenue is less than government current expenditure
- **Current Budget Surplus:** government current revenue is greater than government current expenditure
- **Balanced budget:** government current revenue is equal to government current expenditure

### Consequences of Current Budget deficit

Consequence	Explanation
<b>Rising Debt</b>	<ul style="list-style-type: none"> <li>• The national debt rises as the government spends more than it takes in. This money has to be paid back with interest for the future. See next section.</li> </ul>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>• A deficit can cause the economy to overheat, as governments spend more money (inject more than is leaked). This causes <b>inflation</b>.</li> </ul>
<b>Vulnerability to Economic Shock</b>	<ul style="list-style-type: none"> <li>• The economy is more vulnerable to economic shocks as there is no surplus set aside in the event of such a shock in the future.</li> <li>• Can cause higher economic growth if the government is injecting more than it withdraws.</li> </ul>

- **Have a think:** How can a government reduce the current account deficit?

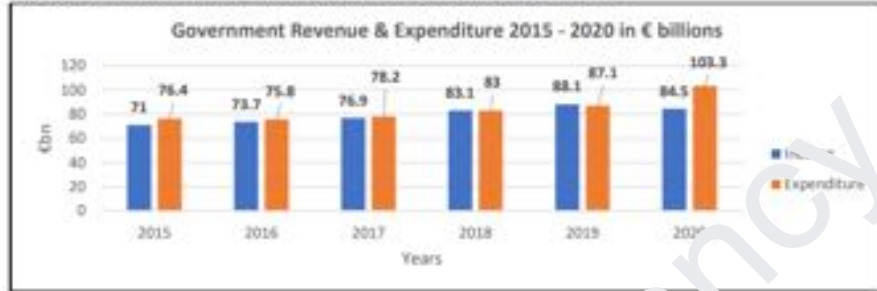
## Consequences of Current Account Surplus

\*May be important this year, as we are experiencing a surplus

Consequence	Explanation
<b>Debt Reduction</b>	<ul style="list-style-type: none"> <li>• A surplus can be used to lower general government debt, reducing future interest payment obligations.</li> </ul>
<b>Lower Economic Growth</b>	<ul style="list-style-type: none"> <li>• Withdrawing more money than is injected can lead to lower economic growth compared to potential levels.</li> </ul>
<b>Inflation Control</b>	<ul style="list-style-type: none"> <li>• A surplus reduces demand, helping to ease pressure on prices and control inflation.</li> </ul>
<b>Preparation for Future Shocks</b>	<ul style="list-style-type: none"> <li>• Surpluses can be saved to address future crises, such as the COVID-19 pandemic.</li> </ul>

**Exam Question 2022 Deferred Paper**

The chart below shows Ireland's fiscal data between 2015 and 2020.



Revenue is the amount of money collected from revenue.ie

(a) (i) Using the data above name the years in which Ireland had a budget surplus.

Year 1:
Year 2:

(ii) Using the information provided in the program above calculate Ireland's fiscal position in 2020. Show all your workings. State clearly the budget outcome.

Workings:
Answer:

(iii) In your opinion, in 2020 which policy was the Irish government pursuing?  
 Tick (✓) your choice: Expansionary:  Contractionary:   
 Explain your choice using a relevant example to illustrate your understanding.

Explanation:

**National Debt**

- Have a look at the [Debt Clock](#) and the [Irish Debt projections](#)
- National debt is the total amount of government debt outstanding. NTMA (National Treasury management agency) borrows money on behalf of the state ie. It manages debt.

**Problems with having National Debt**

- **Opportunity costs involved:** With more funds being used to meet our annual interest repayments the government has less funds available for other purposes.
- **Increased burden on taxpayers:** The increase will mean that the government will have to consider increasing future taxes for taxpayers.
- **Increased annual interest repayments:** An increasing national debt means that the annual cost of repaying our national debt is rising.
- **Diminished international credit-rating:** The fact that Ireland is seen to have an increasing national debt means that our credit-rating is deteriorating.
- **Provision of Public Services / pressure on government to cut spending:** Due to an increase in the national debt the government has cut back spending on certain public services, thereby affecting the provision of some services e.g. the health service; education service.

Exam Question 2024

- (ii) It is essential that the government uses budget surpluses wisely. Adapted from gov.ie

Explain the term **government current budget surplus**.

Explanation:

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- (iii) Outline one possible positive and one possible negative economic consequence of having a government budget surplus.

One possible positive:

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One possible negative:

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Exam Question 2022

Question 2

The infographic below shows the Quarterly National Accounts for Quarter 2, 2021.



- (a) Using the data above, explain whether the Balance of Payments is likely to have an overall expansionary or contractionary effect. Refer to relevant figures in the diagram above to explain your answer. Indicate by means of a tick (✓) whether it is expansionary or contractionary.
- Expansionary:       Contractionary:

Explanation:

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- (b) Outline one factor which could have influenced the above trend in Personal Consumption in Quarter 2, 2021.

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The diagram below shows Government Finance Statistics for 2019.



(a) Compare the level of Gross Debt per Person from 2007 to 2019 and outline one possible reason for this increase in the gross debt per person.


Answer (b) or (c)

(b) Explain the economic disadvantages for a government in achieving a budget surplus.


(c) Servicing the national debt creates opportunity costs, explain how this occurs.


**Student workpoint:**

- Watch the following [video](#) on Ireland's bail out.
1. Why did Ireland and Greece need a bail out?
  2. What are some of the implications of Ireland being bailed out?
  3. Visit NTMA website and find out Ireland's current national debt.

## Privatisation

- The selling of a state-owned company / asset in whole or in part to the private sector
- Eg., Eircom, Aer Lingus, Irish Sugar, Irish Life, Great Southern hotels, Bord Gáis energy,

### Arguments for Privatisation

Argument	Explanation
<b>State Revenue</b>	<ul style="list-style-type: none"> <li>• The government could use the revenue from the sale of the asset to reduce its level of borrowings into the future.</li> </ul>
<b>More Competition</b>	<ul style="list-style-type: none"> <li>• Competition in the industry could improve services offered to customers and lead to more competitive prices for goods and services</li> <li>• E.g., air travel in Ireland/Aer Lingus, Energia due to ESB infrastructure being privatised</li> </ul>
<b>Employment opportunities</b>	<ul style="list-style-type: none"> <li>• In the case of a new firm, if it increases its market share, then this may result in a growth in employment together with additional job security for existing employees. International Airlines Group (IAG) purchase of Aer Lingus.</li> </ul>
<b>Enterprise Culture</b>	<ul style="list-style-type: none"> <li>• Increased share ownership may lead to growth in an enterprise culture within the country and so help employment.</li> <li>• Access to finance/overseas markets Through the sale of additional shares on the stock exchange, private companies have access to extra finance. Companies can expand overseas and compete for business abroad.</li> </ul>
<b>Innovation</b>	<p>Employees may have more <b>incentive to innovate</b> and improve productivity as they may reap greater rewards for their innovations within the privatised sector, e.g., higher bonuses.</p>
<b>Less pressure on the government finances</b>	<ul style="list-style-type: none"> <li>• There is no further requirement for ongoing government investment in the company, and the government can still have some control through regulation.</li> </ul>

### Arguments Against Privatisation

Argument	Explanation
<b>Increased Prices</b>	<ul style="list-style-type: none"> <li>• The quality of services provided by the new company may deteriorate in an effort to save costs.</li> <li>• Prices may be increased to increase revenue.</li> </ul>
<b>Loss of jobs</b>	<ul style="list-style-type: none"> <li>• Jobs may be lost through rationalisation of services and this may lead to higher social welfare costs.</li> </ul>
<b>Loss of a State Resource</b>	<ul style="list-style-type: none"> <li>• Taxpayers lose critical infrastructure, which was once owned by the state. The state will lose profits made by profitable state firms.</li> <li>• Loss of control, e.g., Bord Gáis (maintain the pipeline network).</li> </ul>
<b>Foreign Ownership</b>	<ul style="list-style-type: none"> <li>• With the sale of a state-owned asset, overseas buyers may become the owners of an Irish company, and so control of the asset may go outside the state.</li> <li>• E.g., National Lottery and Aer Lingus.</li> </ul>
<b>Cost of the Sale</b>	<ul style="list-style-type: none"> <li>• During the privatisation process, all costs in preparation for such a sale, legal work, etc. must be paid for by the taxpayer.</li> </ul>
<b>Loss of essential public services</b>	<ul style="list-style-type: none"> <li>• The newly privatised firm may cut those services which are non-profit making, and this may affect lower-income groups in particular.</li> <li>• Eg. Buses may not be provided in rural areas or hospital closures if they don't have enough patients</li> </ul>
<b>Possible abuse of monopoly power</b>	<ul style="list-style-type: none"> <li>• If the newly privatised company is in a monopoly position, it could abuse its power and increase prices</li> </ul>

**Newspaper**

## The high price of privatising Aer Lingus

Source: The Irish Times

In the absence of private investors willing to fund certain services, early governments stepped in to fill the gaps through state action. As a result, many young people preferred employment in these enterprises over private-sector jobs. For railways, there was a strong case for state involvement to maintain inter-city and commuter services, though perhaps not branch lines.

However, did we really need state-owned factories producing goods like industrial alcohol, processed foods, sugar, limestone, and even toys and toffee—often inefficiently and at taxpayers' expense? And what about state-operated hotels? Almost all of these ventures have rightly been privatised since the 1960s.

Some services, such as electricity and landline telephones, are natural monopolies. Privatisation in such cases can merely replace a public monopoly with a private one, potentially exploiting customers unless strictly regulated—a difficult task, as shown by Eircom. The privatisation of Eircom was poorly handled, driven by ideology and the government's aim to maximise revenue. Many members of the public suffered financial losses after purchasing overvalued shares in a competitive market.

Aer Lingus provides a contrasting story. Initially a monopoly, it faced competition from Ryanair in 1986, resulting in two efficient airlines. While Aer Lingus almost failed due to its high costs, it successfully restructured and remains a state-owned company operating profitably in an open market. With no longer any need for subsidies, the government still retains the right to invest in the airline under EU rules to support its growth.

Given its current success, the continued push for Aer Lingus privatisation seems questionable.

### Exam Question 2022

(iii) Explain the term privatisation.

Explanation:

(i) A government could choose **privatisation** of a semi-state body over deregulation. Outline one reason **why** a government may choose to privatise a semi-state body instead of deregulation.

Explanation:

### Exam Question 2022 Deferred Paper

In 2022, €313m in tax revenues was overpaid by 481,000 taxpayers in Ireland.

Adapted from the Irish Independent

(a) (i) The principle of certainty is one of the canons of taxation, i.e. tax payers should be aware of their tax liability. Explain two **other** canons/principles of taxation.

1.
2.

(ii) Revenue actively challenges all forms of hidden economic activity.

Adapted from Revenue Annual Report 2021

Outline two effects on the Irish economy of an increase in activities in the hidden economy.

1.
2.

(iii) A new 30% tax rate for middle-income earners (lower than the current 40% tax rate) has not been ruled out, according to Taoiseach Leo Varadkar. Adapted from RTÉ.ie

Outline one economic consequence for either the tax payer or the government if this new tax rate was introduced. Tick (✓) which one you are answering.

Tax payer       Government

Economic consequence:

