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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Ireland

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2025) 207 final.

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COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Ireland

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to 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[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

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Whereas:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

[2] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

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(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Ireland added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

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3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

4 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

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(4) On 28 May 2021, Ireland submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 8 September 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Ireland[5], which was amended under Article 18(2) on 8 December 2023 to update the maximum financial contribution for non-repayable financial support[6], as well as on 21 June 2024 to include the REPowerEU chapter[7]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Ireland has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

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[5] Council Implementing Decision of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Ireland (ST 11046/2021).

[6] Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Ireland (ST 15965/2023).

[7] Council Implementing Decision of 21 June 2024 amending the Implementing Decision of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Ireland (ST 10262/2024).

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(5) On 21 January 2025 the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Ireland[8]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2029 and sets a budgetary constraint in the form of a maximum net expenditure growth rate over four years.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of Ireland. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it did not identify Ireland as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[9] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

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[8] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Ireland, OJ C/2025/667, 10.2.2025.

[9] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj).

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(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth:
(i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

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(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019−2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Ireland. It assessed Ireland's progress in addressing the relevant country-specific recommendations and took stock of Ireland's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Ireland is facing. It also assessed Ireland's progress in implementing the European Pillar of Social Rights and in achieving the Union's 2030 headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

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Assessment of the Annual Progress Report

(11) On 21 January 2025 the Council recommended the following maximum growth rates of net expenditure for Ireland: 5.1% in 2025, 6.5% in 2026, 4.9% in 2027, 5.4% in 2028 and 4.7% in 2029, which correspond to the maximum cumulative growth rates calculated by reference to 2023 of 15.4% in 2025, 22.8% in 2026, 28.9% in 2027, 35.8% in 2028 and 42.3% in 2029. On 6 May 2025, Ireland submitted its Annual Progress Report[10], on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Ireland's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause (NEC) of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025.

[10] The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

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(13) Based on data validated by Eurostat [11], Ireland's general government surplus increased from a surplus of 1.5% of GDP in 2023 to a surplus of 4.3% in 2024, while the general government debt fell from 43.3% of GDP at the end of 2023 to 40.9% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 8.2% in 2024. In the Annual Progress Report, Ireland estimates the net expenditure growth in 2024 at 8.0%. Based on the Commission's estimates, the fiscal stance[12], which includes both nationally and EU financed expenditure, was broadly neutral in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Ireland expects real GDP growth at 4.1% in 2025 and 3.4% in 2026, while HICP inflation is projected at 2.1% in both 2025 and 2026. The Commission Spring 2025 Forecast projects real GDP to grow by 3.4% in 2025 and 2.5% in 2026, and HICP inflation to stand at 1.6% in 2025 and 1.4% in 2026.

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[11] Eurostat-Euro Indicators, 22.4.2025.

[12] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

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(15) In the Annual Progress Report, the general government surplus is expected to decrease to 1.5% of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 37.7% by the end of 2025. These developments correspond to net expenditure growth of 5.3% in 2025. The Commission Spring 2025 Forecast projects a general government surplus of 0.7% of GDP in 2025. The decrease of the surplus in 2025 mainly reflects a slowdown in revenue growth amid heightened levels of consumer and business uncertainty, as well as the absence of the high one-off revenue seen in 2024. According to the Commission's calculations, these developments correspond to net expenditure growth of 6.7% in 2025. These higher projections of net expenditure growth than in the Annual Progress Report are due to stronger current expenditure growth estimated by the Commission, including diverging assumptions on the permanent impact beyond 2024 of the 'cost of living' package announced in Budget 2025. The difference between the general government balance projected by the Commission and Ireland is due to differences in the underlying macroeconomic assumptions, as well as stronger current expenditure growth estimated by the Commission. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be neutral in 2025. The general government debt-to-GDP ratio is projected by the Commission to decrease to 38.6% by the end of 2025. The decrease of the debt-to-GDP ratio in 2025 mainly reflects the projected government surplus and the favourable interest rate-growth differential, corrected for significant stock flow adjustments.

(16) General government expenditure amounting to less than 0.1% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to less than 0.1% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Ireland.

(17) General government defence expenditure in Ireland remained stable at 0.2% of GDP between 2021 and 2023[13]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected to remain stable at 0.2% of GDP in both 2024 and 2025. This corresponds to no change compared to 2021.

(18) According to the Commission Spring 2025 Forecast, net expenditure in Ireland is projected to grow by 6.7% in 2025 and 15.5% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Ireland in 2025 is projected to be above the recommended maximum growth rate, corresponding to a deviation[14] of 0.3% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also projected to be above the recommended maximum growth rate, corresponding to a deviation of less than 0.1% of GDP. The projected deviation slightly exceeds the 0.3% of GDP threshold for the annual deviation but does not exceed the 0.6% of GDP threshold for the cumulative deviation. Overall, this means there is a risk of deviation from the recommended maximum net expenditure growth, when outturn data for 2025 will be available next spring.

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[13] Eurostat, government expenditure by classification of functions of government (COFOG). Due to methodological differences between the COFOG and NATO definitions, expenditure based on the COFOG definition may differ from the expenditure based on the NATO definition.

[14] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

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(19) In the Annual Progress Report, the general government surplus is projected to decrease to 1.0% of GDP in 2026, while the general government debt-to-GDP ratio is projected to decrease to 35.9% by the end of 2026. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government surplus of 0.1% of GDP in 2026. The decrease of the surplus in 2026 mainly reflects the assumption of modest revenue growth and continued strong growth in expenditure. These developments correspond to net expenditure growth of 6.2% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be broadly neutral in 2026. The general government debt-to-GDP ratio is projected by the Commission to decrease to 38.2% by the end of 2026. The decrease of the debt-to-GDP ratio in 2026 mainly reflects the favourable interest rate-growth differential, corrected for significant stock flow adjustments.

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Key policy challenges

(20) Ireland's public finances are subject to significant risks due to its tax revenues being highly concentrated on relatively few foreign-owned multinational companies. Corporate tax receipts, which have more than doubled since 2019 and amounted to EUR 28.1 billion (19% of government revenue) in 2024, are particularly exposed. In 2023, over half of these receipts were paid by just 10 large companies. Moreover, the authorities estimate that half of corporate tax revenues are 'windfall' and highly uncertain in nature. As a result, international developments such as changes in the US trade and tax policy or the global tax environment could have a significant impact on the stability of Ireland's revenue. The establishment of the Future Ireland Fund and the Infrastructure, Climate and Nature Fund serves to channel windfall revenue to longer-term spending objectives. Ireland would benefit from increasing the resilience of its public finances by diversifying its revenue sources. To this end, Ireland could increase the yield from taxes on capital and wealth, review tax expenditures that do not effectively achieve the desired level of redistribution or other objectives, or improve the way the tax system supports environmental objectives. On the spending side, concerns remain related to the impact of the healthcare system's cost-effectiveness on fiscal sustainability. Population ageing is projected to lead to Ireland's spending on public healthcare to increase by 1.5 percentage points by 2070 as a percentage of GDP, well above the projected EU-average increase of 0.4 percentage points. As the healthcare system is overly reliant on costly hospital care, exacerbated by the lack of universal primary care coverage, there is scope for reform to alleviate the strain on hospitals.

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(21) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Ireland's long-term competitiveness through the green and digital transitions, while ensuring social fairness. The Commission Communication NextGenerationEU – The road to 2026, adopted on 4 June 2025, clarifies the applicable timeline for the end of the Facility and provides guidance to Member States to maximise implementation by 31 August 2026, including on how to further streamline their RRPs, lays out key options to consider when revising them, and stresses the importance of careful joint planning ahead for the submission of the last payment requests in 2026. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

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(22) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+), has accelerated in Ireland. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Ireland is already taking action under its cohesion policy programmes to boost competitiveness and growth while enhancing social cohesion. At the same time, Ireland continues to face challenges, including the need to boost competitiveness, especially in the North West region, which is lagging behind in economic performance, as well as social disparities in the labour market integration of disadvantaged groups. In accordance with Article 18 of Regulation (EU) 2021/1060, Ireland is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[15] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. They also provide flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition, and to investments in skills in priority sectors while maintaining the focus on persons in most vulnerable situations in ESF+ programmes.

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15 Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review − COM(2025) 123 final.

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(23) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Ireland could make optimal use of these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Ireland should effectively address the remaining challenges related to research and innovation, renewable energy, energy infrastructure and networks, energy efficiency, sustainable transport, water management, circular economy, social and affordable housing, and the inclusion of disadvantaged groups in the labour market.

(25) Productivity growth in Ireland is predominantly driven by multinational companies, while productivity among domestic businesses – mostly small and medium sized enterprises – is comparatively lower than their EU counterparts. This highlights the need to boost domestic innovation capacity. Heightened geopolitical uncertainty emphasises the urgent need to build a more resilient, innovation-driven domestic economy. Public R&D spending in Ireland is one of the lowest in the EU, accounting for just 0.2% of GDP (0.4% of GNI*). Expanding public investment in R&D would not only strengthen Ireland's innovation system but also foster scientific excellence, boost economic resilience and support long-term, sustainable growth. Furthermore, a significant portion of government support for business R&D takes the form of the R&D tax credit. While this is an important instrument for stimulating private-sector R&D investment, increasing direct funding for research and innovation would provide more targeted support for SMEs and boost their capacity to innovate and contribute meaningfully to the wider economic ecosystem.

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(26) Ireland continues to rely on fossil-based energy sources. This dependence poses a significant challenge to reducing overall GHG emissions and to meeting Ireland's target under the Effort Sharing Regulation to reduce non-ETS emissions by 42% by 2030 compared to 2005. The latest emission projections indicate that Ireland is not on track to meet this target.

(27) Ireland's electricity system continued to show signs of stress in 2024, as retail prices remained significantly above the EU average. This entails that Irish businesses and consumers pay a premium on their consumption of electricity, which in turn impacts production costs and competitiveness and therefore the ability to attract and retain companies. As high energy costs can be a direct obstacle to growth, it is crucial to tackle the cost drivers for the retail energy prices. Increased deployment of renewable energy, particularly offshore wind, can reduce retail electricity prices and the dependency on fossil fuels, which is subject to volatile markets. Streamlining the planning and permitting framework for renewables, storage facilities and electricity grid investments could help speed up and incentivise further investments in the deployment of renewables.

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(28) An indispensable element to leverage the energy cost reduction benefits deriving from further deployment of renewables is increased efforts to improve the flexibility of the electricity system and modernise and expand grid capacity, including internal reinforcements and cross-border projects, to reduce curtailment. In 2023, nearly a tenth of wind and solar power had to be curtailed due to capacity constraints, and this trend has been increasing in recent years. This keeps prices high and delays the transition towards cleaner sources of energy. The anticipated additional deployment of renewable energy, increasing electricity demand from continued electrification of heating and transport, and the growing number of data centres will put further strain on the electricity system. This highlights the need to construct infrastructure to link increasing demand centres with the supply of renewables generation and to update existing network infrastructure to increase its capacity. A related element concerns demand-side response, including consumer empowerment measures such as ensuring that private consumers have access to dynamic price markets, which can be an important means to provide flexibility in the energy system.

(29) The residential sector is a significant source of Ireland's greenhouse gas emissions, generating 9.7% of domestic emissions in 2023, with the building stock being one of the most carbon-intensive stocks in the EU. Accelerating energy efficiency measures across the building stock would help meet sectoral emission ceilings and strengthen Ireland's energy security. Carrying out deep building retrofits and extending the roll-out of low-emission technologies, including district heating, would reduce exposure to energy price volatility while supporting competitiveness and environmental sustainability.

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(30) A major challenge for Ireland concerns balancing the rising demand for energy due to economic growth, including the expansion of digital infrastructure. Despite marked progress on reducing the energy consumption of the built environment, final energy consumption increased by 0.7% in 2023. This is primarily the result of service-sector buildings offsetting the efficiency gains from investments in improving the energy efficiency of public and other private buildings. Service-sector buildings account for around half of all electricity demand, with data centres representing 21% of Ireland's metered electricity demand in 2023. To meet climate targets, this requires sufficient renewable energy generation to avoid monopolisation of available renewable energy capacity and it requires measures to increase energy efficiency, appropriate infrastructure and flexibility.

(31) Sustainable mobility requires an integrated approach that tackles both the expansion of sustainable transport networks and the development of efficient charging infrastructure for zero-emission vehicles, ensuring equitable access across regions and fostering long-term economic competitiveness. Enhancing public transport infrastructure, including the expansion of electrified rail, is essential for decarbonisation and economic efficiency. A more integrated transport network could alleviate urban congestion, boost labour mobility and support sustainable urban growth. Improving connectivity between rural and urban areas is also crucial for inclusive economic development, ensuring that all regions benefit from the transition to a low-carbon economy. With a ratio of one charging point for every 21 vehicles–well below the EU average of one charging point for every 7 vehicles – regional disparities, particularly in rural areas, remain a barrier to the uptake of zero-emission vehicles.

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(32) Increased investment is essential to tackle the persistent deficiencies in supply and wastewater treatment systems, particularly in urban areas. These gaps risk undermining environmental compliance and limiting the potential for sustainable, cross-sectoral development, including housing and water-dependent sectors. High leakage rates – at 37% in 2023 – remain well above the EU average of 25%, while several key wastewater treatment plants could benefit from improved performance. Despite efforts to extend coverage and reduce discharges of untreated wastewater, ageing infrastructure and limited treatment capacity continue to impede progress on water quality and environmental objectives. Ireland is experiencing more frequent extreme weather events due to climate change such as floods, droughts and storms, which risks straining water supply networks and damaging infrastructure. Despite the sectoral adaptation plans developed under the national adaptation framework, effective and coordinated implementation remains important. Discussions on bringing in a water-pricing mechanism have taken place in recent years, but implementation has not yet advanced. A water-pricing mechanism that better reflects the cost of water use could foster a stable and transparent framework for long-term investment and planning in water infrastructure, while also promoting a more efficient and sustainable consumption across sectors.

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(33) Enhanced investment in circular economy initiatives, including advanced waste treatment infrastructure, is essential for Ireland to move up the waste hierarchy, foster resource efficiency, and support decarbonisation, competitiveness and long-term economic security. Ireland remains below EU circular economy benchmarks, with municipal waste recycling at 41% in 2020 and a circular material use rate of just 2.3% in 2023, both significantly below EU averages. Ireland is at risk of missing the municipal waste target for 2025. To meet environmental objectives, estimates suggest that EUR 749 million per year are needed to address circular economy investments. By reducing dependency on imported raw materials and increasing the value derived from domestic waste streams, the circular economy contributes to Ireland's long-term economic security, making its economy more sustainable and resilient to global supply chain disruptions and price volatility.

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(34) The number of persons in emergency accommodation has increased significantly over the last three years, reaching a record of 15 000 people. Current homelessness prevention schemes, while effective, have been unable to stop this increase, due to the scale of the problem. In addition, there are 59 000 households on waiting lists for social housing and a further 84 000 households on other rent supplement schemes. Rent pressure zones have been successful in decreasing rental price inflation, but they have likely contributed to a slowdown of private investment in rental stock. The construction of affordable and social housing is scaling up but is still behind current needs and the targets set in the Irish 2021-2030 Housing for all Plan. This affects Ireland's competitiveness by putting pressure on wages and limiting the ability of businesses, particularly SMEs, to attract skilled workers. The public sector struggles to maintain sufficient workforce levels in sectors such as education, healthcare services and construction. This highlights the need for continued action to address capacity constraints in the residential construction sector. This includes lack of enabling infrastructure such as water and utilities, insufficient land availability, planning uncertainties, insufficient financing options, lack of construction workers and the slow uptake of modern methods of construction.

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(35) Ireland's labour market remains robust and shows low unemployment rates, but it remains a challenge to achieve inclusive growth that benefits all groups. Efforts have been made to tackle social exclusion and barriers to employment; however traditionally underrepresented groups, such as people with a disability and single parents, continue to have employment rates below the EU average. Consequently, they also face disproportionately high poverty risks. At the same time, skills shortages and mismatches persist in key sectors, highlighting the need for more outreach to inactive groups and to invest in people's skills to promote greater social inclusion, help disadvantaged groups exit poverty and meet labour market needs.

(36) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Ireland, recommendations (2), (3) and (4) help implement the first euro-area recommendation on competitiveness, while recommendations (4), (5) and (6) help implement the second euro-area recommendation on resilience, and recommendation (1) helps implement the third euro-area recommendation on macroeconomic and financial stability set out in the 2025 Recommendation.

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HEREBY RECOMMENDS that Ireland take action in 2025 and 2026 to:

1. Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025. Ensure that net expenditure respects the path recommended by the Council on 21 January 2025. Reduce the risks related to the high degree of concentration in Ireland's tax revenue, including by broadening the tax base and reviewing the scope and impact of tax expenditures. Address the expected increase in age-related spending by making the healthcare system more cost-effective.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, ensure the effective implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the opportunities provided by the InvestEU programme and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Improve the business environment by increasing public R&D investment and supporting the increase of business R&D investment − including through more direct funding instruments − to improve the productivity of domestic businesses, in particular of small and medium enterprises.

4. Reduce overall reliance on fossil fuels and accelerate the deployment of renewables, including by streamlining the planning and permitting framework. Increase efforts to improve the flexibility of the electricity grid and modernise and expand capacity to reduce curtailment. Develop and implement a strategy to promote demand-side response. Implement additional measures that support energy efficiency in private and public buildings to reduce energy bills and energy system costs. Ensure that the connection of large energy users to the electricity grid is linked to additional renewable capacity and system flexibility. Support investment in and strengthen sustainable transport, including public transport, taking into account regional disparities. Accelerate the installation of public charging points for zero-emission vehicles.

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5. Increase investment in water infrastructure, to improve water quality and reduce leakages. Accelerate investments to speed up the circular economy. Further develop both waste treatment infrastructure associated with the higher steps of the waste hierarchy and economic instruments to prevent waste and increase reused, remanufactured and recycled content.

6. Further increase the supply of social and affordable housing. Tackle capacity constraints in the residential construction sector by improving enabling infrastructure, land management and planning, financing conditions, labour supply and productivity. Strengthen the labour market and social inclusion of disadvantaged groups, in particular persons with disabilities and single parents, by putting in place better targeted outreach and upskilling.

Done at Brussels,

For the Council
The President

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