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Economic Update

Courtesy of Jim Power, Economist

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JIM POWER, ECONOMIST

Jim Power has worked as an economist in the private sector for over 35 years. He is owner manager of Jim Power Economics, an economic and financial consultancy, which he set up in 2009. He was previously Treasury Economist at AIB (1987-1991), Chief Economist at Bank of Ireland Group (1992-2000) and Chief Economist Friends First Group (2000 to 2018). He is a board director of Love Irish Food, BMW Financial Services, and Arboretum Garden Centre.

Jim is a member of the Institute of Directors Ireland. He successfully completed the Institute of Directors Diploma examinations in Company Direction in 2022. He teaches on the Executive MBA and the Full-Time MBA at Smurfit Business School, UCD. In February 2021, Jim and Chris Johns launched their own Podcast 'The Other Hand', which is available on Apple Podcasts, Spotify and other podcasts hosts. He lives in Dublin and is a native of Waterford. He comes from a farming background.

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OVERVIEW

2025 was a chaotic year from a geo-political and geo-economic perspective. 2026 has started off on a similar vein, with Venezuela, Greenland, Ukraine and Iran dominating the geo-political headlines in the early weeks of the year. President Trump continues to use the threat of tariffs as negotiating tactic. While his threats are generally turning out to be worse than his actions, they are generating massive uncertainty for business. Despite this uncertainty, the global economic backdrop is still reasonably stable, although growth almost everywhere is below trend.

For business, uncertainty is not good and indeed the risk register too well populated now. Despite all of this, the resilience of business in the face of such volatility and uncertainty is very impressive, particularly in Ireland. Looking forward, there is a sense that everything has changed in terms of global politics and trade, and the future is looking quite different as we move into the second year of the Trump presidency.

The key trends and challenges in 2026 are likely to be very similar to 2025. Intense global geoeconomic and geopolitical uncertainty. The situation in Greenland and the tariff threats of President Trump (which have now been discarded) show that the unpredictability of the US administration is intensifying rather than easing as we pass the first anniversary of President Trump's inauguration. For any business engaged in international trade, the risks posed by future tariffs and supply chain vulnerabilities are likely to remain intense. If President Trump had followed through with the Greenland-related tariff threats, the EU response would have had to be aggressive, prompting fears of a serious global trade war, which would be bad for the European and US economies. The situation appears to have been resolved, although there are doubts about the Greenland framework that has been agreed. The events relating to Greenland clearly demonstrate the unpredictability of the Trump administration. The big opportunity in 2026 will be presented by the benefits of AI developments. Interest rates in the US and UK are likely to fall further, but the ECB is very much on hold for the foreseeable future.

In an environment of such uncertainty, managing costs carefully will be essential. The vulnerability posed by uncertain supply chains will also have to be manged very carefully. Despite the dissipation ofc the Greenland tariff threat, managing risk, uncertainty and volatility will keep business managers busy for the foreseeable future.

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TARIFF SITUATION

From an economic perspective, the tariff situation has been of most consequence over the past year. The policy of the US administration in relation to trade engendered an unprecedented level of uncertainty and volatility. To date, he has not delivered to the extent that he threatened, but the reality is that global trade is now subject to the highest level of tariffs in a long time. He uses the threat of tariffs as a negotiating tactic, with the most recent, being the threat to impose 10 per cent tariffs from 1st February on France, Germany, the UK, the Netherlands, Denmark, Norway, Sweden and Finland. If Denmark does not agree to hand over Greenland, he is threatening a further 15 per cent from 1st June. The EU is threatening to retaliate with its 'Anti-Coercion Instrument', which could see significant tariffs on US exports to the EU and other restrictions on trade in goods and services.

If the situation regarding Greenland escalates into an all-out trade war between the US and the EU, the economic consequences would be very negative for both regions.

GLOBAL GEO-POLITICAL SITUATION IN 2025

On the global geo-political front, 2025 was a difficult and worrisome year.

- The situation in Gaza and Ukraine was intense and dangerous.
- The relationship between the US and the EU was seriously fractured.
- The US intervention in Venezuela has given rise to serious uncertainty about future US policy towards Greenland and other Latin American countries; and the role of Russia, China, and India and the future relationship between those three powers has become very complicated and dangerous.

In summary, the world has become much more fractured, polarised, and dangerous.

GLOBAL ECONOMIC SITUATION

Despite the heightened uncertainty, the global economic performance turned out better than expected in 2025.

Growth in the Euro Zone and the UK has been reasonable, although growth rates was still well below potential. The US economy out-performed Europe once again, but there were increasing signs of slowdown towards the end of the year, particularly in the labour market.

The main factors behind the more resilient global economic performance in 2025 include:

- Strong AI-related investment.
- Stable financial market conditions.
- Lower official interest rates.
- A front-loading of exports ahead of threatened tariffs.
- Significant fiscal stimulus in several countries, but particularly in China, Germany and the US.

Inflation eased in the first half of the year but edged up modestly in most countries in the second half. Strong service sector inflation; higher food prices; and higher energy prices have all contributed. Labour markets softened somewhat, but labour markets everywhere are still quite tight, which is feeding into ongoing upward pressure on wages. This is a particular issue in the service sector.

Table 1: Inflation and Unemployment

	Annual Inflation	Unemployment Rate
Euro Zone	1.7% (Jan 26)	6.2% (Dec)
Germany	2.1% (Jan 26)	6.3% (Jan 26)
France	0.3% (Jan 26)	7.7% (Sep)
Italy	1.0% (Jan 26)	5.6% (Dec)
Spain	2.4% (Jan 26)	9.9% (Dec)
Ireland	2.8% (Dec)	4.7% (Jan 26)
United Kingdom	3.4% (Dec)	5.1% (Nov)
United States	2.7% (Dec)	4.4% (Dec)
Japan	2.1% (Dec)	2.6% (Dec)
Canada	2.4% (Dec)	6.8% (Dec)
Australia	3.8% (Dec)	4.1% (Dec)
China	0.8% (Dec)	5.1% (Dec)

Source: National Statistical Agencies

Looking ahead to 2026, the outlook for global growth is still shrouded in intense uncertainty. Table 2 shows the latest global outlook from the International Monetary Fund IMF). The IMF revised up its growth forecast for 2026 marginally. It recognised that the risks to the growth forecast are tilted to the downside. These risks include:

- A revaluation of productivity growth expectations driven by the AI investment boom. This would result in a sharp decline in AI investment and an abrupt financial market correction.
- A flare up of trade tensions.
- Geopolitical tensions impacting on financial markets, supply chains and commodity prices.
- Concerns over fiscal deficits and high debt leading to a surge in bond yields.

On the upside risks, it cited a stronger AI investment performance, impacting positively on productivity and business dynamism, and an easing of global trade tensions.

The IMF forecast was published just prior to President Trump threatened to apply 10 per cent tariffs on imports from France, Germany, the UK, the Netherlands, Denmark, Norway, Sweden and Finland from February 1st and a further 15 per cent from 1st June if Greenland is not handed over. Trump backed down from this threat, but the future of Greenland is still far from clear. The EU would have had to retaliate if the US delivered on its threats, up to and including the use of the Anti-Coercion Instrument (ACI).

The ACI Regulation was formulated in 2023 to protect the EU and its member states from economic coercion. Economic coercion is said to exist when a third country 'applies or threatens to apply measures affecting trade or investment in order to prevent or obtain the cessation, modification or adoption of a particular act by the EU or a member state.' The regulation enables the EU to act and would effectively shut off the US from large swathes of the single European market.

Thankfully, President Trump backed away from these threatened tariffs, but there is still a lack of certainty about what might happen next. An all-out trade war between the US and Europe would have very negative consequences for both regions, but this threat has dissipated for the moment.

Table 2: Global Economic Forecast (IMF)

Region	2025 (Est)	2026f	2027f
World	3.3%	3.3%	3.2%
Advanced Economies	1.7%	1.8%	1.7%
Euro Area	1.4%	1.3%	1.4%
Germany	0.2%	1.1%	1.5%
France	0.8%	1.0%	1.2%
Italy	0.5%	0.7%	0.7%
Spain	2.9%	2.3%	1.9%
Japan	1.1%	0.7%	0.6%
China	5.0%	4.5%	4.0%
India	7.3%	6.4%	6.4%
United Kingdom	1.4%	1.3%	1.5%
United States	2.1%	2.4%	2.0%

Source: IMF World Economic Outlook Update, 19th January 2026

INTEREST RATES

The global downward trend in interest rates continued in 2025, although the ECB left its rates on hold in the second half, while the Federal Reserve cut rates by 0.25 per cent at each of the last three meetings of the year.

At the December 10th meeting, the Federal Reserve cut rates by 0.25 per cent to a target range of between 3.5 per cent and 3.75 per cent. At that meeting, the Trump appointee voted for a cut of 0.5 per cent, while two regional Federal Reserve governors – Chicago and Kansas – voted for no change. President Trump has continued to be very critical of the Federal Reserve, and particularly its Chairman Jay Powell. At the January 28th meeting, rates were left on hold, but the two Trump allies voted for a cut of 0.25 per cent. President Trump wants to see rates at 1 per cent, but the Federal Reserve now believes that 'economic activity is expanding at a solid pace' and unemployment is 'showing some signs of stabilisation.' The Federal Reserve is now happy to keep rates on hold for the moment, but the Administration will continue to put pressure on.

Powell's tenure as Chairman ends in May, but his term as a Fed Governor does not end until 2028, so he may decide to hang on after May. President Trump has announced the appointment of Kevin Warsh as the next Chairman. He has a strong background in economics and was a Fed Governor between 2006 and 2011. He was previously a strong inflation 'hawk' but has changed his position in recent times. He explains this dramatic change in his attitude towards inflation as driven by the 'deregulatory genius of the President's policymaking and the prospect of a productivity enhancing boom in AI.' He believes these two forces will wipe away whatever inflation lingers in the economy. In the face of some inflation pressures and a somewhat softer labour market the Federal Reserve faces a difficult balancing act now. However, if Warsh decided to cut rates aggressively, financial market stability could be tested. The markets have reacted positively to the appointment.

The Bank of England cut rates 4 times during 2025, from 4.75 per cent to 3.75 per cent, with the last 0.25 per cent rate cut delivered on 18th December. This has taken rates down to the lowest level since 2022. The Bank of England left rates unchanged at the February 5th meeting, but the risk bias is still to the downside as the UK economy is still fundamentally weak.

The ECB left rates unchanged at its February 5th meeting, and rates have now been on hold since the last cut in June. It appears likely that the ECB is now happy that it has rates at an appropriate level and is in no mind to alter rates in either direction for the foreseeable future. It will just monitor growth and inflation over the coming months before making any further interest rate decisions. An escalation of the trade situation between the EU and the US would likely prompt the ECB to cut rates further to support growth. This threat has been alleviated for the moment.

Section 2: The Irish Economic Background

ECONOMIC ACTIVITY

Official growth data for the first nine months of 2025 show that GDP expanded by a very strong 15.8 per cent. However, GDP is not a reliable indicator of economic activity in an Irish context as it is grossly exaggerated by factors such as IP investment, repatriated profits, and aircraft leasing. Modified domestic demand is a more realistic indicator and it expanded by 4.1 per cent in the first nine months, with consumer spending on goods and services growing by 2.9 per cent.

Overall, the growth data suggest an economy that experienced solid growth in the first three quarters of the year. The preliminary estimate of growth in the fourth quarter showed GDP declining by 0.6 per cent on the previous quarter, largely reflecting a weaker multi-national performance, likely driven by weaker exports after an unsustainable tariff-driven boom in the first half of the year. The detailed estimate will be available in early March.

Table 3: Economic Growth (Q1 - Q3 2025)

Economic Metric	Q1-Q3 2025 (YoY%)
Gross Domestic Product	+15.8%
Consumer Expenditure	+2.9%
Modified Final Domestic Demand	+4.1%
Government Expenditure	+3.9%
Investment	+54.1%
Exports Goods & Services	+11.8%
Imports Goods & Services	+11.7%

Source: CSO PxStat

THE LABOUR MARKET

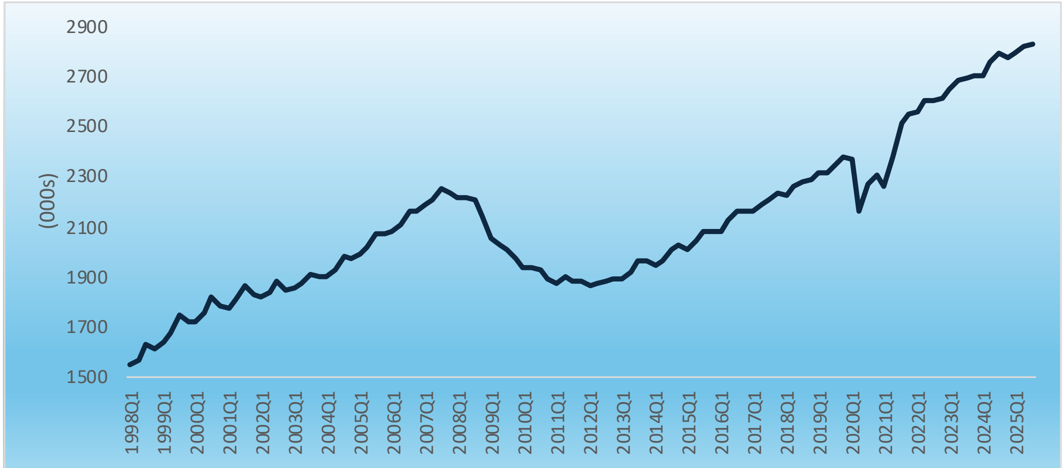
The Irish labour market continued to perform strongly in 2025. In the year to the third quarter employment increased by 30,600 to reach a new high of 2.825 million. From quarter to quarter the sectoral employment levels can be quite volatile. In the third quarter, the ICT sector saw employment decline by 8,000, and accommodation & food services decline by 8,700. Both trends will need to be watched carefully going forward.

Table 4: Employment Changes

(000s)	Q3 2024	Q3 2025	Change
Total Employment	2794.8	2825.5	30.6
Agriculture, forestry and fishing	112.9	108.5	-4.4
Construction	176.3	177.6	1.3
Wholesale & retail trade	323.5	329.3	5.8
Transportation and storage	118.4	137.1	18.7
Accommodation and food service activities	200	191.3	-8.7
Information and communication	188.6	180.6	-8
Professional, scientific and technical activities	202.2	204.9	2.7
Administrative and support service activities	103.4	104.4	1
Public administration & defence, compulsory social security	153.6	143.2	-10.4
Education	228.2	234.6	6.4
Human health and social work activities	379.2	387.2	8
Industry	343.1	353.8	10.7
Financial, insurance and real estate activities	137	143.6	6.6
Other NACE activities	124.1	121	-3.1
Not stated	0	8.3	8.3

Source: CSO PxStat

Figure 1: Employment



Source: CSO PxStat

Despite the continued strength of the labour market, the growth in employment moderated as the year progressed, and the unemployment rate edged up modestly. In January the unemployment rate stood at 4.7 per cent of the labour force, up from a rate of 4.5 per cent a year earlier. In January 2026, 138,400 people were officially unemployed, which is up 8,600 from a year earlier.

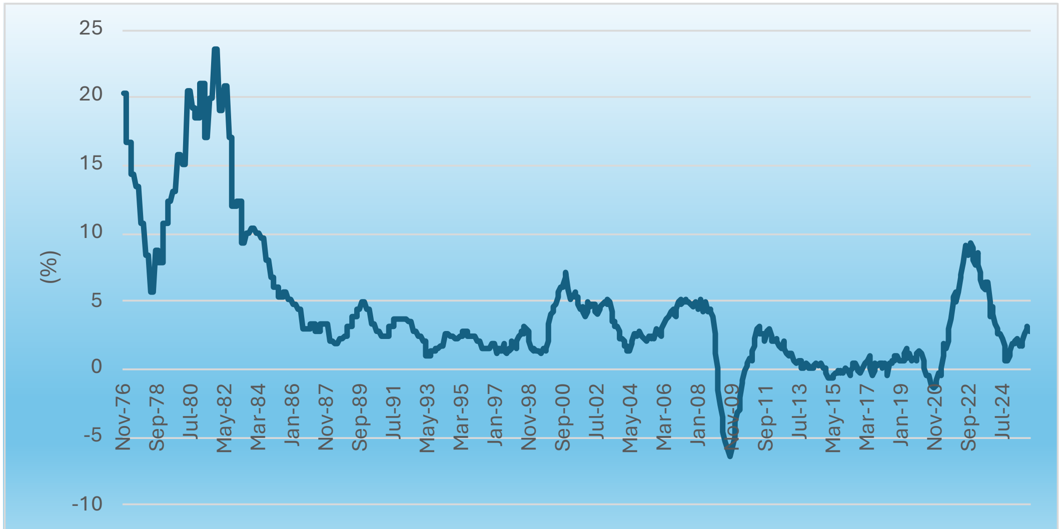
FOREIGN DIRECT INVESTMENT

In December the IDA reported its results for 2025. A record number of new investments were approved at 323, which is 14 per cent higher than in 2024. At the end of 2025, employment at IDA-supported companies reached 312,400, which is an increase of 1.5 per cent on 2024.

INFLATION

The annual rate of inflation bottomed out at 1.7 per cent in July 2025 and subsequently accelerated to reach 3.2 per cent in November. It eased back to 2.8 per cent in December. The inflation rate averaged 2.2 per cent in 2025.

Figure 2: Annual Rate of Consumer Price Inflation



Source: CSO PxStat

Table 5 shows the evolution of consumer prices since December 2020. The average cost-of-living has increased sharply over the past 5 years, with average prices going up by 24.5 per cent. Food, rents, mortgages, electricity, gas, motor fuels, health insurance, and food & accommodation have seen significant increases over the period. This is the visible manifestation of the cost-of-living crisis that has become a hot political topic in Ireland and in most international economies over the past couple of years. Food was a major driver of price pressures during 2025. Food price inflation may ease during 2026, as the UN's FAO global food price index fell for the 5th consecutive month in January to reach the lowest level since August 2024. This decline in January largely driven by lower sugar, butter, cheese and meat prices.

Table 5: Evolution of Consumer Prices December 2020 to December 2025

	Annual % Change (Dec 25)	% Change Dec 20 to Dec 25
All items	2.8%	24.5%
Food	4.1%	26.6%
Clothing and footwear	5.7%	5.2%
Private rents	2.7%	37.7%
Mortgage interest	3.3%	86.2%
Electricity	4.7%	62.2%
Gas	1.2%	95.2%
Health	2.7%	10.2%
Motor cars	-0.4%	24.4%
Petrol	0.3%	36.9%
Diesel	2.3%	48.4%
Restaurants, cafes and the like	3.6%	25.2%
Accommodation services	2.1%	42.6%
Hairdressing	4.6%	25.9%
Insurance connected with health	8.3%	34.0%
Motor car insurance	1.4%	-5.0%

Source: CSO PxStat

RETAIL SALES

2025 was, in general, a reasonably challenging year for the retail sector. Consumer confidence weakened during the year in the face of cost-of-living pressures, tariff-related concerns, and the failure to deliver any tax concessions for workers in Budget 2026. In December, the volume of retail sales was down 0.4 per cent in the month and by 0.1 per cent year-on-year. For 2025 in total, the volume of retail sales was 1.9 per cent ahead of 2024, and the value of sales expanded by 2.7 per cent. When the motor trade is excluded, the volume of sales increased by 1.1 per cent and the value of sales expanded by 2.0 per cent. This describes a modest retail sales environment.

MERCHANDISE EXPORTS

In the first 11 months of 2025, merchandise exports were 18 per cent higher than the equivalent period in 2024. Food exports were 10.8 per cent higher, and pharmaceutical exports were 23.2 per cent higher. Exports to Great Britain were down by 6 per cent; exports to the EU-27 were down by 2.8 per cent; but exports to the US were up by 59.7 per cent, with pharmaceutical exports to the US up by 71.9 per cent.

A front-loading of exports has resulted in an easing of growth in the second half of the year, with pharmaceutical exports to Great Britain and the EU-27 weakening significantly. Pharmaceutical exports to Great Britain were down by 22 per cent; and pharmaceutical exports to the EU-27 were down by 7.7 per cent.

Exports in November were 17per cent lower than November 2024. Overall exports to the US in November were down by 51 per cent, with pharmaceutical exports down by 61.3 per cent.

In the first 11 months of the year pharmaceutical exports accounted for 68.6 per cent of total Irish merchandise exports, with pharmaceutical exports to the US accounting for 55.2 per cent of this total. This is a significant concentration risk for Ireland and is the reason why the US approach to the pharmaceutical industry and corporation tax really does matter to Ireland.

PUBLIC FINANCES

In 2025, an Exchequer surplus of €7.1 billion was recorded. This compares to a surplus of €12.8 billion in 2024. When receipts arising from the Court of Justice of the European Union (CJEU) Apple tax ruling are excluded, the underlying Exchequer position in 2025 was a surplus of €3.8 billion, compared to €1.8 billion in 2024. In 2025, €1.7 billion was received from the CJEU ruling, compared to €10.9 billion in 2024.

Tax revenues totalled €107.4 billion in 2025, which was €628 million (0.6 per cent) lower than in 2024. However, when once-off tax revenues arising from the CJEU ruling are excluded from 2024 and 2025, underlying tax receipts of €105.7 billion were up by €8.6 billion or 8.9 per cent compared to 2024.

- Income tax receipts totalled €36.6 billion, which is €1.5 billion or 4.3 per cent higher than in 2024. This reflects the ongoing strength of employment and solid growth in wages.
- VAT receipts totalled €22.9 billion, which is €1.1 billion, or 5.1 per cent higher than in 2024. This reflects solid growth in consumer spending.
- Excluding the CJEU receipts, corporation tax receipts of €32.9 billion were collected in 2025, which was €4.8 billion or 17.2 per cent ahead of 2024. €1.7 billion was collected from the CJEU ruling in 2024.

Gross voted government expenditure totalled €109.4 billion in 2025, which was €5.7 billion or 5.5 per cent higher than in 2024. Of this total, gross voted current expenditure was €92.9 billion, which was 4.3 per cent or €3.8 billion ahead of 2024. Gross voted capital expenditure totalled €16.5 billion, which was 12.7 per cent or €1.9 billion ahead of 2024.

In January, tax revenues were down 16.6 per cent on a year earlier, but when the €1.7 billion in Apple Tax received in January 2025 is excluded, tax revenues were up 0.6 per cent. Income tax was up 1 per cent and VAT was up 3.3 per cent. In January, the Exchequer paid €1.6 billion into the Future Ireland Fund and the Infrastructure, Climate & Nature Fund.

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Table 6: Tax Revenues (2025)

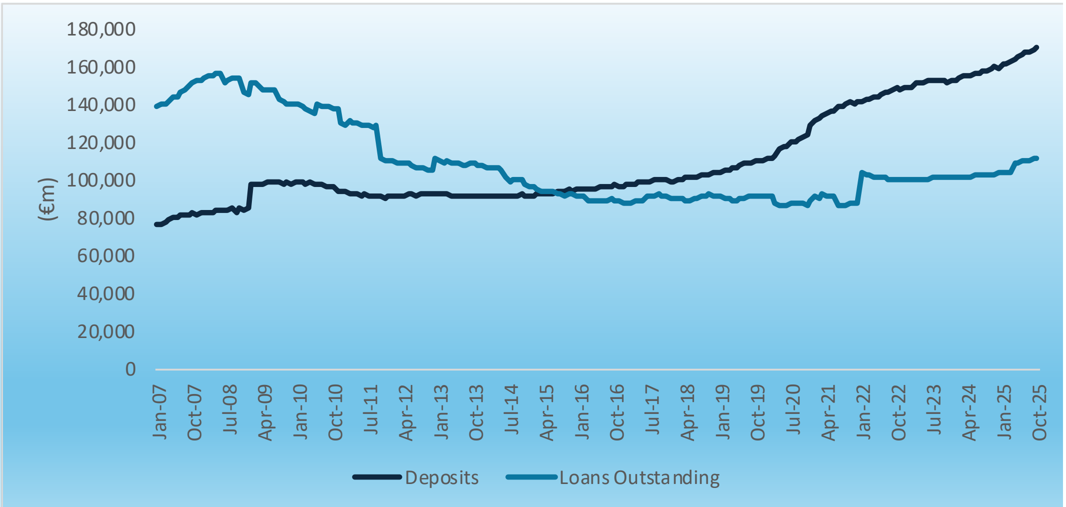
	€m	Year-on-Year Change (%)	Year-on-Year Change (€m)	% Total
Income Tax	36,573	+4.3%	1,502	34.0%
VAT	22,942	+5.1%	1,107	21.4%
Corporation Tax	32,942	+17.2%	4,827	30.7%
CJEU Ruling (Apple Tax)	1,726	-	-	1.6%
Excise	6,464	+3.0%	189	6.0%
Stamps	1,898	+12.0%	203	1.8%
Capital Gains Tax	2,138	+25.3%	432	2.0%
Capital Acquisitions Tax	1,121	+31.2%	267	1.0%
Customs	616	+3.8%	23	0.6%
Motor Tax	926	-0.2%	0	0.9%
Other Property Taxes	51	-	49	0.0%
Total	107,397	-0.6%	-628	100.0%

Source: Department of Finance Fiscal Monitor, January 6th, 2026

HOUSEHOLD FINANCES

The household balance sheet is in a very healthy situation. Central bank data show that at the end of October, household deposits in the banking system stood at €170.1 billion, and household loans outstanding stood at €112.3 billion. The household balance sheet has been dramatically deleveraged since the economic and financial crash in 2008. From the perspective of savers, the opportunity cost of having so much money on extremely low yielding deposits in the banking system is very significant. It reflects a significant level of risk aversion. This is a legacy of the crash in 2008.

Figure 3: Household Balance Sheet



Source: Central Bank of Ireland

NEW CAR REGISTRATIONS

The new car market performed reasonably well in 2025, but the main story was the strong rebound in EV sales and the ongoing decline of petrol and diesel sales.

New car registrations at 124,954 were 3 per cent higher than in 2024. Petrol cars were down by 14.6 per cent; Diesel cars were down by 23 per cent; Petrol-Electric Hybrid cars were up by 10.8 per cent; Petrol Plug-in Electric Hybrid cars were up by 52.5 per cent; and Electric Vehicles were up by 35.2 per cent and accounted for 18.9 per cent of the new car market.

In January 2026, new car registrations were 3.3 per cent ahead of January 2025. Petrol was down by 22.1 per cent; diesel was down by 21.4 per cent; BEVs were up by 48.7 per cent; petrol-electric hybrid was up by 15.4 per cent; and petrol plug-in electric hybrid was up by 6.3 per cent. In January, BEV registrations at 7,319 compared to petrol at 7,245 and diesel at 4,317. The motor market is undergoing a fundamental change.

Table 7: New Car Registrations by Engine Type (2025)

Engine Type	Number	% Year-on-Year	% Market
Petrol	31,376	-14.6%	25.1%
Diesel	21,351	-23.0%	17.1%
Petrol-Electric (Hybrid)	28,095	+10.8%	22.5%
Electric	23,601	+35.2%	18.9%
Petrol Plug-In Electric Hybrid	18,521	+52.5%	14.8%
Diesel-Electric (Hybrid)	1,597	+7.5%	1.3%
Diesel Plug-In Electric Hybrid	413	+5.4%	0.3%
Total	124,954	+3.0%	100.0%

Source: SIMI Motorstat

At the beginning of the year, it is difficult to predict what the market might look like in 2026 but based on the assumption of another stable year for the Irish economy, new car registrations are projected to increase by around 3 per cent to reach 128,700 in 2026. Such an outcome would still be 12.2 per cent lower than the level achieved in 2016.

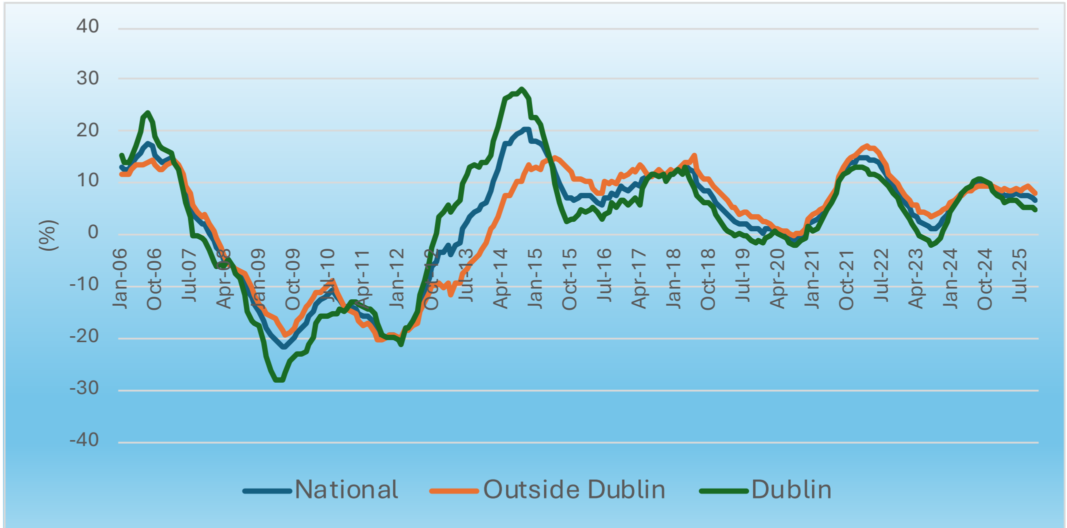
THE RESIDENTIAL MARKET

The housing market remained strong in the first 11 months of 2025, with prices and rents continuing to rise strongly. Residential property price growth is easing in Dublin as affordability issues are impacting, while price growth remains more buoyant outside of Dublin.

In November:

- National average residential property prices increased by 0.3 per cent compared to the previous month and increased by 6.6 per cent on an annual basis.
- Average residential property prices outside of Dublin increased by 0.2 per cent compared to the previous month and increased by 7.9 per cent on an annual basis.
- Average residential property prices in Dublin increased by 0.3 per cent compared to the previous month and increased by 5 per cent on an annual basis.
- The national residential property price index in November 2025 was 23.9 per cent above its highest level at the peak of the property boom in April 2007. Dublin prices are 9.3 per cent higher than their February 2007 peak, and prices outside of Dublin are 26.2 per cent above their May 2007 peak.
- CSO data show that private rents increased by 2.7 per cent in the year to December 2025. Between June 2012 and December 2025, average private rents increased by 129.2 per cent.

Figure 4: National Residential Property Price Index (Annual % Change)



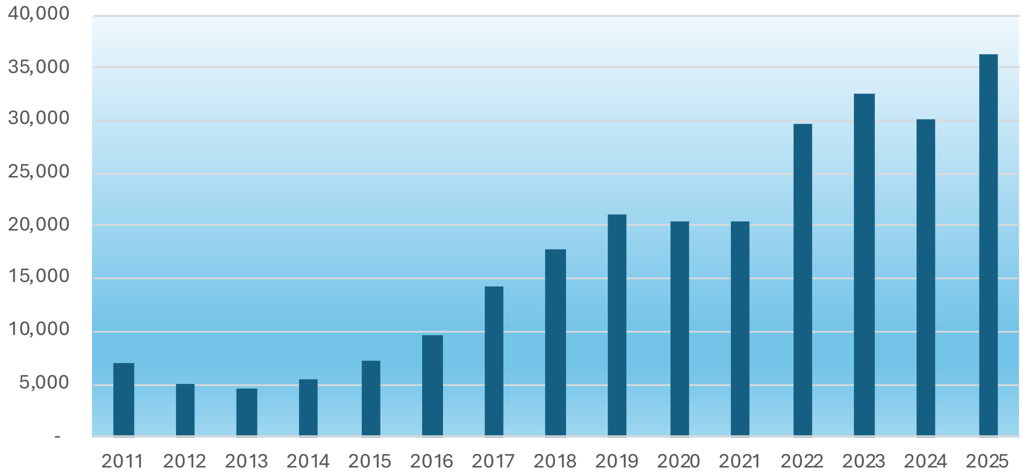
Source: CSO

Having an adequate supply of suitable residential accommodation to buy or to rent is the most crucial element of Ireland's economic competitiveness. It is currently undermining national competitiveness as prices and rents are at very elevated levels.

New dwelling completions totalled 36,284 units in 2025, which was 20.4 per cent ahead of 2024. Apartments accounted for 33.2 per cent; single dwellings for 16.3 cent; and housing schemes for 50.5 per cent of the market. Ireland needs to be building at least 60,000 new units every year for at least a decade to bring the market back to equilibrium. However, gradual progress is being made.

In the first nine months of 2025, planning permissions totalled 26,766 and were 4.9 per cent per cent ahead of the same period in 2024. In the first nine months of the year, houses accounted for 59 per cent of total planning permissions, and apartments accounted for 41 per cent.

Figure 5: New Dwelling Completions



Source: CSO

The failure to deliver adequate supply is attributed to several factors. These include:

Inadequate water & sewerage infrastructure. Uisce Éireann has warned that there will be no capacity for any new homes to be connected to the wastewater infrastructure by 2028 if a key wastewater treatment plant is not delivered.

- Utility connection delays.
- Planning delays and objections.
- A shortage of zoned and serviced land.
- Financing of development.

The demand for housing will only strengthen as the population continues to expand and as the demand backlog continues to build up.

THE MORTGAGE MARKET

In 2025 the value of the mortgage market reached €14.48 billion, which was 15.2 per cent higher than 2024. Lending to first-time buyers accounted for 61.1 per cent of the market in value terms. The average loan for first-time buyers was €319,723, and the average loan for mover-purchasers was €379,754.

The number of mortgages drawn down reached 46,358 in 2025, which was 7.7 per cent higher than in 2024. First-time buyers accounted for 59.6 per cent of the market in volume terms.

Table 8: Mortgage Market Drawdowns (Value & Volume)

	First-Time Buyer	Mover Purchaser	Investor	Re-mortgage	Top-Up	Total
Value						
(€mln)	8,841	3,335	145	1,699	463	14,483
% of Market	61.1%	23.0%	1.0%	11.7%	3.2%	100.0%
Volume						
Number	27,652	8,782	731	5,913	3,280	46,358
% of Market	59.6%	18.9%	1.6%	12.8%	7.1%	100.0%

Source: BPFI

INPUT COSTS FOR CONSTRUCTION SECTOR

Input costs for the construction sector have stabilised over the past couple of years. However, in November 2025, wholesale cement prices were 64 per cent higher than January 2021; wholesale prices for structural steel were 93.8 per cent higher; and wholesale prices for Structural Steel & Fabricated Metal were 102.3 per cent higher.

Figure 6: Wholesale Prices - Construction Sector

Source: CSO PxStat

AGRICULTURE

2025 was generally a good year for the farming sector. Favourable weather and higher output prices for much of the year contributed. The advanced estimates from the CSO (subject to revision) suggest that the Agricultural Operating Surplus increased by 19.2 per cent in 2025, taking it to €5.1 billion. This follows an increase of 58.1 per cent in 2024 and a decline of 43.1 per cent in 2023. The value of agricultural output increased by 9.3 per cent in 2025. Cattle prices increased by 43 per cent; milk prices increased by 4 per cent; and lamb prices increased by 9 per cent.

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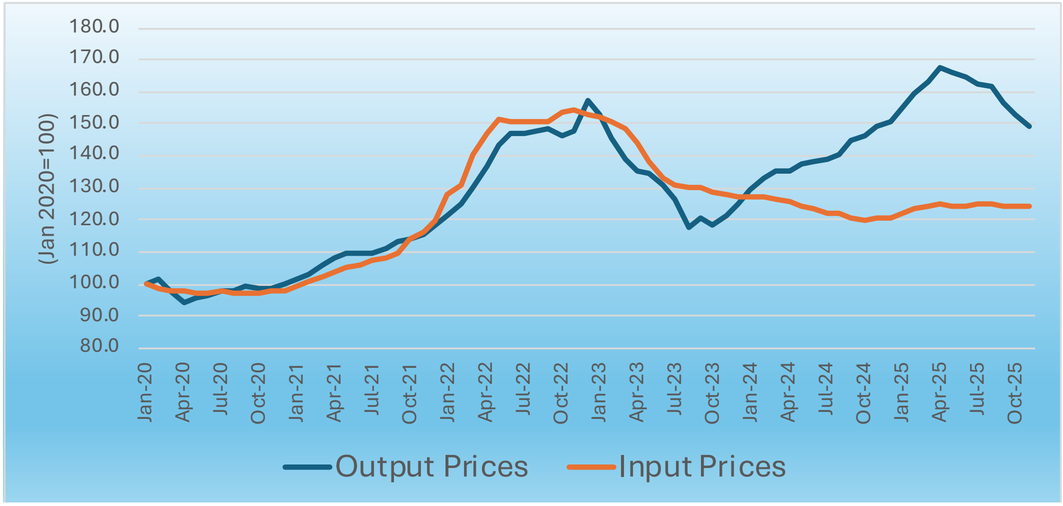
Input prices stabilised during 2025, while output prices rose strongly in the first 8 months of the year, but then declined, largely due to milk prices.

The farming environment is positive currently, but output prices and incomes have become much more volatile in recent years. Dairy farmers are under some pressure due to a sharp decline in milk prices in the final quarter. The extension to the derogation on the Nitrates Directive has brought greater certainty and farmers are likely to continue to invest in farm machinery and buildings. Blue Tongue now poses a significant threat to the beef sector.

Figure 7: Agriculture Input & Output Prices



Source: CSO

Farm incomes are becoming more volatile due to volatile input and output prices, and more extreme and unpredictable weather conditions. Farmers are also challenged by environmental obligations and pressure to cut back output. However, there is still strong investment occurring at farm level caused by the need to keep cattle indoors longer, environmental obligations, and expansion by dairy farmers.

PENSION AUTO-ENROLMENT

Pension Auto-Enrolment (AE) commenced on 1st January 2026.

Table 9: Main Features of Auto-Enrolment - Contributions

Year	Employee	Employer	Bonus Incentive	Total Contribution	Applied To
2026-2028	1.5%	1.5%	0.5%	3.5%	Full Gross pay
2029-2031	3.0%	3.0%	1.0%	7.0%	Full gross pay
2032-2034	4.5%	4.5%	1.5%	10.5%	Full gross pay
2035+	6.0%	6.0%	2.0%	14.0%	Full gross pay

Employees aged between 23 and 60 who are earning more than €20,000 per annum are included in the scheme, unless they are making ongoing PRSA or occupational pension contributions via payroll. Employees not in a PRSA or occupation pension who are outside the age and earnings parameters can opt in to AE.

Employees who are Class S PRSI contributors, typically company owners or directors; and employees who have pension contributions to a PRSA or occupational scheme recorded via their payroll software or payslip, whether the contribution is from employee, employer or both; and the self-employed and unemployed are not included in the AE scheme.

Section 3:
The Economic Outlook for 2026

2026 is likely to be dominated by global geo-political uncertainty and volatility, as was the case in 2025. The challenge in trying to forecast now is that personality politics is dominating and we are being subjected to the mostly irrational actions and statements of a small number of leaders.

THE INTERNATIONAL

Looking ahead to 2026, the general expectation from forecasting agencies is that global growth will be slightly weaker than 2025, largely reflecting the impact of tariffs.

It appears that the key issues to watch over the coming year include:

- The AI investment boom that is propelling the ‘magnificent seven’ stocks to new highs might run out of steam. In other words, if there was to be a re-evaluation of the return on investment in AI, this could lead to a significant correction in equity markets. Many analysts believe that AI has generated a bubble in markets, but few have any confidence about when or if it might burst. In the first week of February, technology stocks had their worst week since April. The markets are questioning the return on investment from the surge in AI spending.
- The tariff threat has not gone away as evidenced by the Greenland-related threats, and the most recent threat to increase tariffs on some goods from South Korea from 15 per cent to 25 per cent.
- Bond market volatility driven by fiscal deficits in countries such as the US, France, and the UK. The bond market is the most important and influential market of all. The appointment of the next Head of the Federal Reserve in May will be interesting. A poor choice could generate considerable financial market volatility. In countries with high fiscal deficits such as France, Italy, the UK, and the US, domestic politics are rendering it virtually impossible to tackle those deficits. This could generate periodic bouts of nervousness in bond markets.
- The relationship between China and Taiwan and the strategic importance of Taiwan as a global supplier of chips.
- The Russian reaction to ongoing EU support for Ukraine.
- The requirement to increase defence spending everywhere, but the EU in particular.
- Growing anti-immigrant sentiment around the world. From an economic and business perspective immigration is essential for many countries, but it does complicate the provision of housing and is increasingly eliciting a negative backlash in many countries.
- The relationship between the US and Venezuela, and the possible implications for other Latin American countries and Greenland.

- The increasing sophistication of cyber terrorism, which AI is driving. Underseas cables represent a serious threat.
- More extreme weather events and the increasing move away from climate change policies.
- There are several important elections in 2026, but the US mid-term elections on November 3rd will attract most attention. In other countries where important elections are being held, such as Portugal, Japan, Sweden, Israel, Brazil, Colombia, Hungary, and local elections in the UK, the performance of more extreme political actors will be watched with interest.

As was the case in 2025, most of the risks to the global economy in 2026 revolve around global politics. The AI bubble looks like the most significant financial/economic risk.

THE DOMESTIC

As we move into 2026, the momentum in the Irish economy is still solid, but there are several relevant considerations for the year ahead and beyond.

Fiscal Vulnerabilities

At the end of 2025, the Department of Finance published a report[1] outlining Ireland's fiscal vulnerabilities. In 2024:

- 88 per cent of tax revenues flowed from VAT, Income Tax and Corporation Tax.
- 57 per cent of corporation tax derived from 10 multinationals.
- Manufacturing accounted for one third of corporation tax and is 97.6 per cent multinational.
- ICT accounted for one fifth of corporation tax and is 99.7 per cent multinational.
- Finance accounted for one seventh of corporation tax and is 84.2 per cent multinational.
- The top 10 per cent of income earners contributed 40 per cent of income tax and 60 per cent of USC.

Ireland has an inordinate dependence on foreign-owned companies in terms of corporation and income tax receipts. This is why what President Trump says and does really does matter; why investment in all forms of infrastructure is essential; and why Ireland needs to preserve its status as a good country in which to do business. That is now under considerable pressure.

1 'Fiscal Vulnerabilities', Department of Finance, December 2025.

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The Irish Consumer

For the Irish consumer, the key economic and financial trends that impacted on their lives in 2025 included a further decline in interest rates; a continuation of the savings habit as demonstrated by the €170 billion sitting on deposit in the banking system earning negative real returns; very modest tax reliefs for workers stemming from Budget 2025; a further deterioration in the cost-of living situation, as demonstrated by inflation hitting 3.2 per cent in November, having hit a low of 1.7 per cent in July; and another very strong year for equity market investors.

Looking out to 2026, some of these trends will still be evident. The savings habit and risk averse behaviour should continue to characterise savers, and inflation will continue to eat away at real purchasing power. On the other hand, interest rates may fall modestly in 2026, but the ECB appears more likely to keep rates on hold. The real burden of tax for income tax- payers will increase following Budget 2026, which the ESRI estimates will reduce disposable incomes by 1.5 per cent in 2026. The cost of housing to buy or rent is likely to rise further, although the pace of increase should logically moderate. Around 800,000 employees are likely to be enrolled in the new pension scheme, which will increase costs for SMEs and undermine disposable incomes for those enrolled. Services such as health insurance, hairdressing, and eating out are likely to become even more expensive, despite the 9 per cent VAT rate in July.

The SME Sector

The operating environment for the SME sector is very challenging. In 2026, their cost environment will deteriorate further due to the increase in the minimum wage; the PRSI increase; auto-enrolment; and further energy cost rises are likely. Budget 2026 did little to provide support to the sector, with the reduced 9 per cent VAT rate not applicable until July 1st. It is essential that more support is given to the SME sector and that its real contribution to regional economic activity is fully appreciated.

THE OUTLOOK

The economy looks set to deliver another solid year in 2026, although some modest weakening of the labour market is likely. Growth of around 2.5 per cent in the real economy looks achievable, which would represent a solid outturn.

THIS PUBLICATION IS BASED ON DATA AVAILABLE UP TO AND INCLUDING 6th February 2026.

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