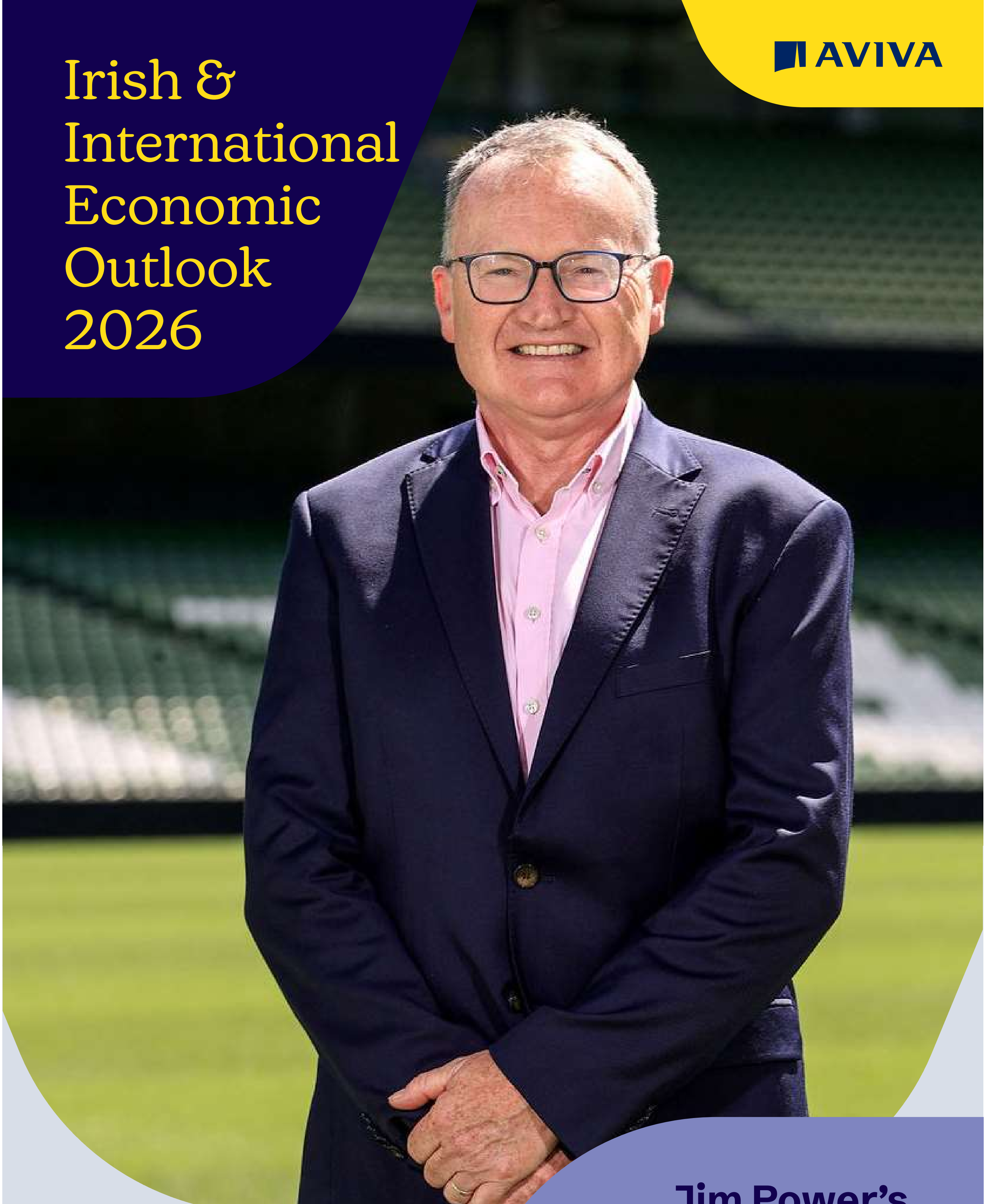
Irish & International Economic Outlook 2026



Jim Power's review of 2025 and 2026 outlook

January 2026

Executive Summary

- Despite the intense economic and political uncertainties that dominated the global agenda in 2025, global economic performance turned out better than expected and proved quite resilient in the face of so much uncertainty. The main factors behind the more resilient global performance include strong AI-related investment, improved financial conditions, lower official interest rates, a front-loading of exports ahead of threatened tariffs and significant fiscal stimulus in several countries but particularly in China and the US.
- 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. At this juncture, it appears that the key issues to watch over the coming year include:
    - The sustainability of the AI investment boom
    - Bond market volatility driven by fiscal deficits in countries such as the US, Italy, France and the UK and the appointment of the next Head of the Federal Reserve in May
    - The relationship between China and Taiwan
    - The Russian reaction to ongoing EU support for Ukraine
    - The requirement to increase defence spending everywhere
    - The possibility that inflation could edge higher
    - Growing anti-immigrant sentiment around the world
    - The relationship between the US and Venezuela and the possible implications for other Latin American countries and Greenland
    - The increasing sophistication of cyber terrorism
    - More extreme weather events and the increasing move away from climate change policies
    - Several important elections in 2026.
- 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 Irish economy delivered another solid performance in 2025 as evidenced by a strong labour market, strong growth in tax revenues, a strong export performance and solid consumer spending.
- Official growth data for the first nine months of the year 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.
- 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 outcome.

The Global Backdrop

2025 will be remembered as a dramatic year for global politics and the global economy. President Trump took office in January and did not delay in pursuing a very aggressive policy agenda. From an economic perspective, the tariff policy platform was of most consequence. The policy of the US administration in relation to trade engendered an unprecedented level of uncertainty and volatility. It really all began at the beginning of April when President Trump announced a series of reciprocal tariffs that would be applied to a significant number of countries. Following a very negative bond market reaction, he backed down a week later and announced a moratorium. Since then there have been several different tariff announcements and threats, but so far, he has not delivered to the extent that he threatened. President Trump is using the threat of tariffs as a negotiating tactic but this has given rise to significant business uncertainty.

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

- The situation in Gaza and Ukraine has been very intense and dangerous
- The relationship between the US and the EU has been 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.

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

Despite these uncertainties, the global economic performance turned out better than expected and has proven quite resilient in the face of so much uncertainty.

Table 1 shows the quarterly growth profile over the first three quarters of 2025, expressed on a quarter-on-quarter and a year-on-year basis. Growth in the Euro Zone and the UK has been reasonable, although these growth rates are well below potential. The US economy has out-performed Europe once again, but there were increasing signs of slowdown towards the end of the year, particularly in the labour market. The US unemployment rate increased to 4.6 per cent in November which is the highest rate since 2021.

The main factors behind the more resilient global performance include:

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

Table 1: Global Growth Trends

COUNTRY/REGION	Q1 2025	Q2 2025	Q3 2025	Q1 2025	Q2 2025	Q3 2025
	(QoQ%)	(QoQ%)	(QoQ%)	(YoY%)	(YoY%)	(YoY%)
Euro Zone	+0.6%	+0.1%	+0.3%	+1.6%	+1.6%	+1.4%
Germany	+0.3%	-0.2%	0.0%	+0.3%	+0.3%	+0.3%
France	+0.1%	+0.3%	+0.5%	+0.6%	+0.7%	+0.9%
Italy	+0.3%	-0.1%	+0.1%	+0.7%	+0.4%	+0.6%
Spain	+0.6%	+0.8%	+0.6%	+3.2%	+3.1%	+2.8%
Ireland	+7.4%	+0.3%	-0.3%	+20.0%	+17.2%	+10.8%
United Kingdom	+0.7%	+0.3%	+0.1%	+1.8%	+1.4%	+1.3%
United States	-0.6%	+3.8%	+4.3%	+2.0%	+2.1%	+2.3%
Japan	+0.4%	+0.5%	-0.6%	+1.8%	+2.0%	+1.1%
Canada	+0.5%	-0.5%	+0.6%	+2.9%	+1.6%	+1.4%
Australia	+0.4%	+0.7%	+0.4%	+1.4%	+1.8%	+2.1%
China	+1.2%	+1.0%	+1.1%	+5.4%	+5.2%	+4.8%

Source: National Statistical Agencies

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 2: Inflation and Unemployment

	ANNUAL INFLATION	UNEMPLOYMENT RATE
Euro Zone	2.0% (Dec)	6.4% (Oct)
Germany	1.8% (Dec)	6.3% (Dec)
France	0.8% (Dec)	7.7% (Sep)
Italy	1.1% (Nov)	6.0% (Oct)
Spain	2.9% (Dec)	10.5% (Sep)
Ireland	3.2% (Nov)	5.0% (Dec)
United Kingdom	3.2% (Nov)	5.1% (Oct)
United States	2.7% (Dec)	4.6% (Nov)
Japan	2.9% (Nov)	2.6% (Nov)
Canada	2.2% (Nov)	6.5% (Nov)
Australia	3.4% (Nov)	4.3% (Nov)
China	0.7% (Nov)	5.1% (Nov)

Source: National Statistical Agencies.

Looking ahead to 2026, the outlook for global growth is still shrouded in uncertainty. Table 3 shows the latest global outlook from the OECD. It is projecting that near-term economic activity in 2026 is expected to soften as higher effective tariff rates gradually feed through weighing on investment and trade amid persistent geopolitical and policy uncertainty. Growth is expected to firm again later in 2026 as the impact of tariffs fades as financial conditions improve and as lower inflation supports demand with emerging Asian economies remaining the key contributors to global growth.

Table 3: Global Economic Forecast (OECD - Dec 2025)

REGION	2024	2025f	2026f
World	3.3%	3.2%	2.9%
G20	3.4%	3.2%	2.9%
Euro Area	0.8%	1.3%	1.2%
Germany	-0.2%	0.3%	1.0%
France	1.1%	0.8%	1.0%
Italy	0.7%	0.5%	0.6%
Spain	3.5%	2.9%	2.2%
Japan	-0.2%	1.3%	0.9%
China	5.0%	5.0%	4.4%
India	6.5%	6.7%	6.2%
United Kingdom	1.1%	1.4%	1.2%
United States	2.8%	2.0%	1.7%

Source: OECD, December 2025

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. Trump stated that rates should have been cut by at least 0.5 per cent in December.

Powell's tenure ends in May and it seems likely that his successor will be a Trump loyalist. In the face of inflation that is still too high and a weakening labour market the Federal Reserve faces a difficult balancing act now. However, if a Trump-appointed Chairman (Kevin Hassett is currently the favourite, but not the markets' favourite) decided to cut rates aggressively, financial market stability could be seriously tested.

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 is set to adopt a very cautious approach to further monetary easing but the risk bias is still to the downside as the UK economy is still fundamentally weak.

The ECB left rates unchanged at its December 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.

EQUITY & OTHER MARKETS

Despite the intense uncertainty that dominated 2025, global equity markets once again delivered a very solid performance. One of the interesting features of the market was the fact that non-US equity markets outperformed US markets. The S&P 500 increased by 16.6 per cent and the NASDAQ was up by 20.4 per cent. The German DAX was up by 23 per cent, the FTSE 100 was up by 21.5 per cent, the NIKKEI was up by 26.2 per cent and the ISEQ was up by 36.9 per cent.

Brent Crude oil prices ended 2025 at $61.30 per barrel, which was 17.9 per cent down on a year earlier.

The Domestic Backdrop

ECONOMIC ACTIVITY

Official growth data for the first nine months of the year 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.

Table 4: 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

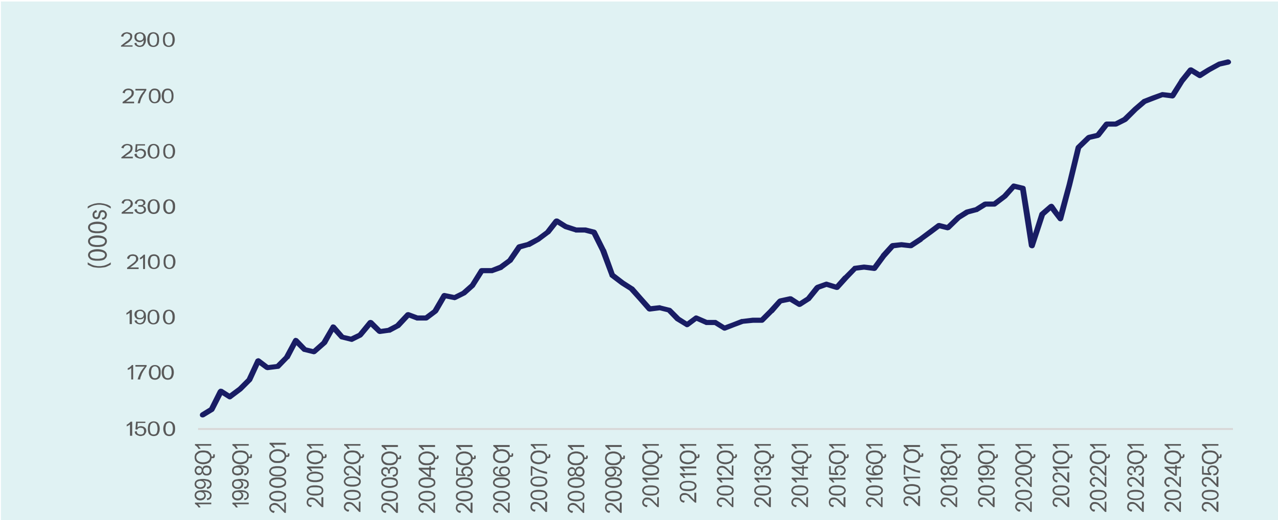
The Irish labour market continued to perform strongly in 2025. In the year to the third quarter employment increased by 30,600 to reach a new high of 2.825 million. From quarter to quarter the sectoral employment levels can be quite volatile. In the third quarter, the ICT sector saw employment decline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

Table 5: 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 upwards. In December the unemployment rate stood at 5 per cent of the labour force, up from a rate of 4.5 per cent a year earlier. In December 2025, 148,700 people were officially unemployed which is up 19,700 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.

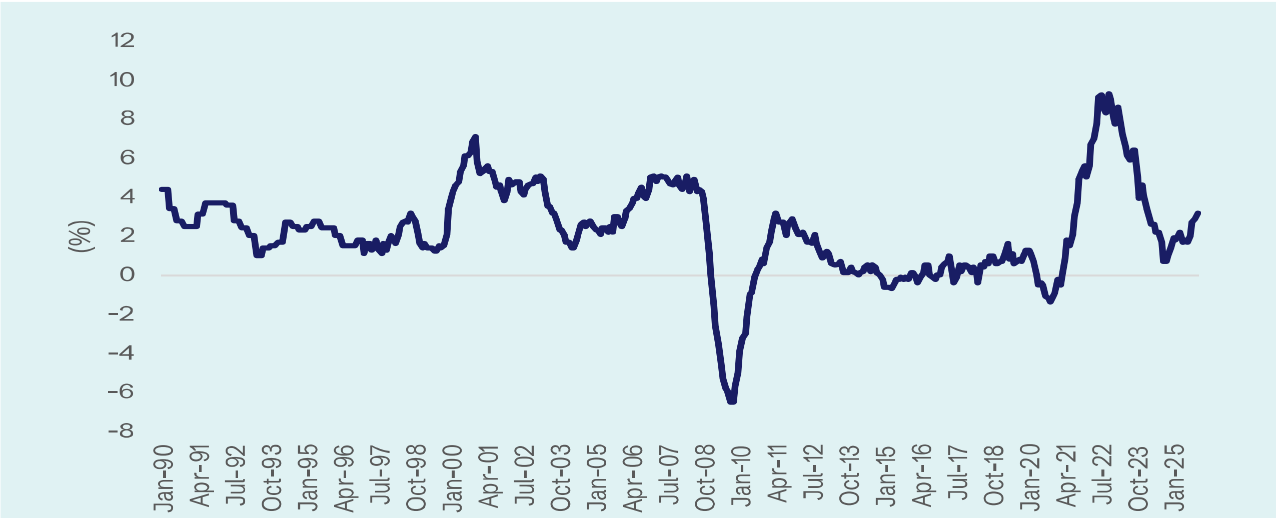
INFLATION

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. This is the highest annual rate since February 2024. In the first 11 months of the year inflation averaged 2.2 per cent. In the year to November:

- Food prices increased by 4.3 per cent
- Clothing & footwear prices increased by 4.4 per cent and
- The cost of education increased by 8.9 per cent due to an increase in third-level fees in October.

The flash estimate of the EU measure of inflation Harmonised Index of Consumer Prices (HICP) fell to 2.7 per cent in December from 3.1 per cent in November.

Figure 2: Annual Rate of Consumer Price Inflation



Source: CSO PxStat

Table 6 shows the evolution of consumer prices since November 2019 just before the Covid-19 pandemic struck. The average cost-of-living has increased sharply over the past 6 years with average prices going up by 22.9 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.

Table 6: Evolution of Consumer Prices Since November 2019

	Annual % Change (Nov 25)	% Change Nov-19 to Nov-25
All items	3.2%	22.9%
Food	4.2%	25.3%
Clothing and footwear	4.4%	-5.9%
Private rents	3.0%	33.5%
Mortgage interest	3.4%	89.8%
Electricity	5.0%	68.9%
Gas	1.2%	84.7%
Health	2.7%	14.3%
Motor cars	-0.1%	28.3%
Petrol	1.8%	22.8%
Diesel	4.0%	30.2%
Restaurants, cafes and the like	3.8%	29.1%
Accommodation services	2.3%	36.9%
Hairdressing	4.7%	35.3%
Insurance connected with health	8.3%	37.7%
Motor car insurance	2.6%	-9.6%

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 the first ten months of the year, the volume of retail sales was 2.3 per cent ahead of the same period in 2024 and the value of sales expanded by 2.8 per cent. When the motor trade is excluded, the volume of sales increased by 1.5 per cent and the value of sales expanded by 2.1 per cent. This describes a modest retail sales environment.

MERCHANDISE TRADE

In the first ten months of 2025, merchandise exports were 22 per cent higher than the equivalent period in 2024. Food exports were 11.8 per cent higher and pharmaceutical exports were 29 per cent higher. Exports to Great Britain were down by 6.4 per cent, exports to the EU-27 were down by 3.4 per cent but exports to the US were up by a strong 74.6 per cent with pharmaceutical exports to the US up by 91.4 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 are down by 24.5 per cent and pharmaceutical exports to the EU-27 are down by 8.4 per cent.

In the first ten months of the year pharmaceutical exports accounted for 69.5 per cent of total Irish merchandise exports with pharmaceutical exports to the US accounting for 58.7 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.

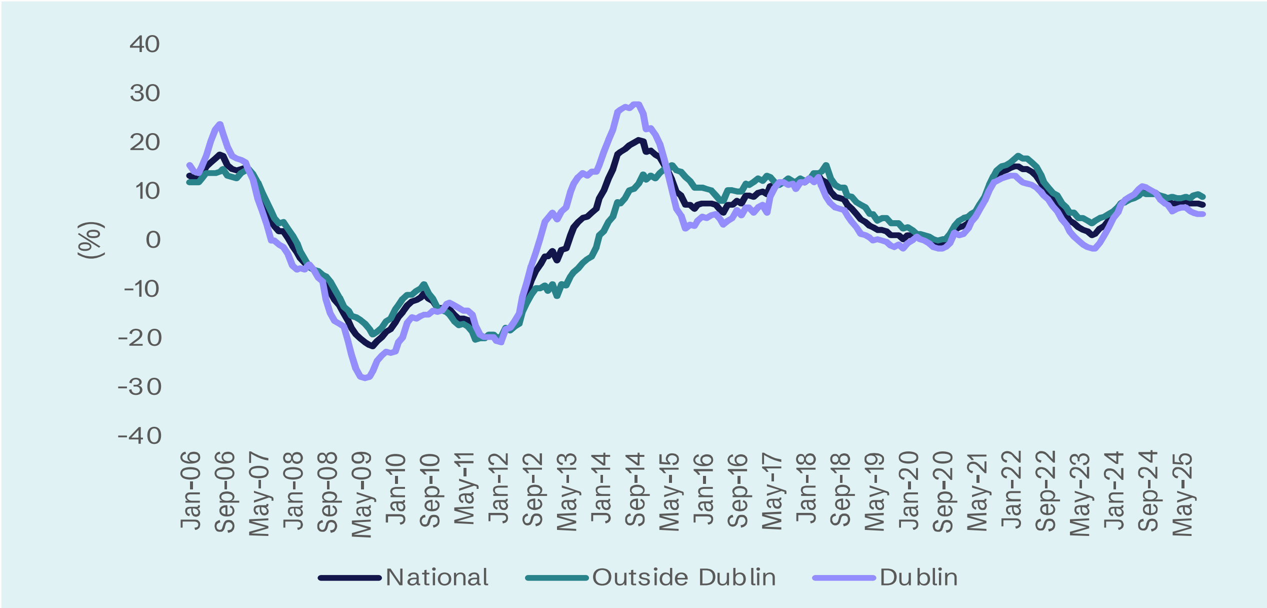
THE HOUSING MARKET

The housing market remained strong in the first 10 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 October:

- National average residential property prices increased by 0.6 per cent compared to the previous month and increased by 7.3 per cent on an annual basis.
- Average residential property prices outside of Dublin increased by 0.6 per cent compared to the previous month and increased by 8.9 per cent on an annual basis.
- Average residential property prices in Dublin increased by 0.6 per cent compared to the previous month and increased by 5.4 per cent on an annual basis.
- The national residential property price index in October 2025 was 23.7 per cent above its highest level at the peak of the property boom in April 2007. Dublin prices are 8.9 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 3 per cent in the year to November 2025. Between June 2012 and November 2025, average private rents increased by 128.8 per cent.

Figure 3: National Residential Property Price Index (Annual % Change)



Source: CSO

In the first nine months of 2025, new dwelling completions totalled 24,325 which was 13.1 per cent ahead of the same period in 2024. Completions for the full year are likely to be around 34,000 which would be 12.7 per cent ahead of 2024. 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.

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.

THE MORTGAGE MARKET

In the first nine months of 2025 the value of the mortgage market reached €10.1 billion which was 17.9 per cent higher than the equivalent period in 2024. Lending to first-time buyers accounted for 60.3 per cent of the market in value terms. The average loan for first-time buyers was €317,930 and the average loan for mover-purchasers was €379,517.

The number of mortgages drawn down reached 32,765 in the first nine months of the year which was 9.1 per cent higher than the equivalent period in 2024. First-time buyers accounted for 58 per cent of the market in volume terms.

Table 7: Mortgage Market Drawdowns (Value & Volume)

VALUE	First-Time Buyer	Mover Purchaser	Investor	Re-mortgage	Top-Up	Total
(€mln)	6,130	2,405	104	1,195	325	10,159
% of Market	60.3%	23.7%	1.0%	11.8%	3.2%	100.0%
VOLUME						
Number	19,281	6,337	527	4,234	2,386	32,765
% of Market	58.0%	19.3%	1.6%	12.9%	7.3%	100.0%

Source: BPFI

THE 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.

Table 8: Tax Revenues (2025)

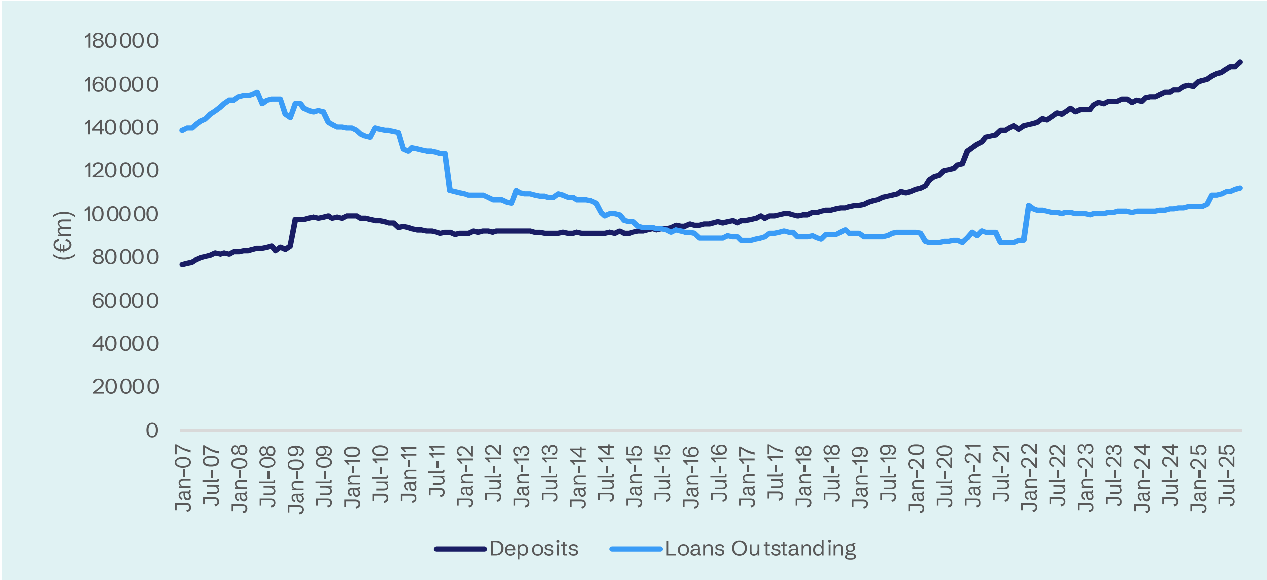
	€m	YEAR-ON-YEAR CHANGE (%)	YEAR-ON-YEAR CHANGE (€m)	% TOTAL
Income Tax	36,573	+4.3%	1,502	34.0%
VAT	22,942	+5.1%	1,107	21.4%
Corporation Tax	32,942	+17.2%	4,827	30.7%
CJEU Ruling (Apple Tax)	1,726	-	-	1.6%
Excise	6,464	+3.0%	189	6.0%
Stamps	1,898	+12.0%	203	1.8%
Capital Gains Tax	2,138	+25.3%	432	2.0%
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.

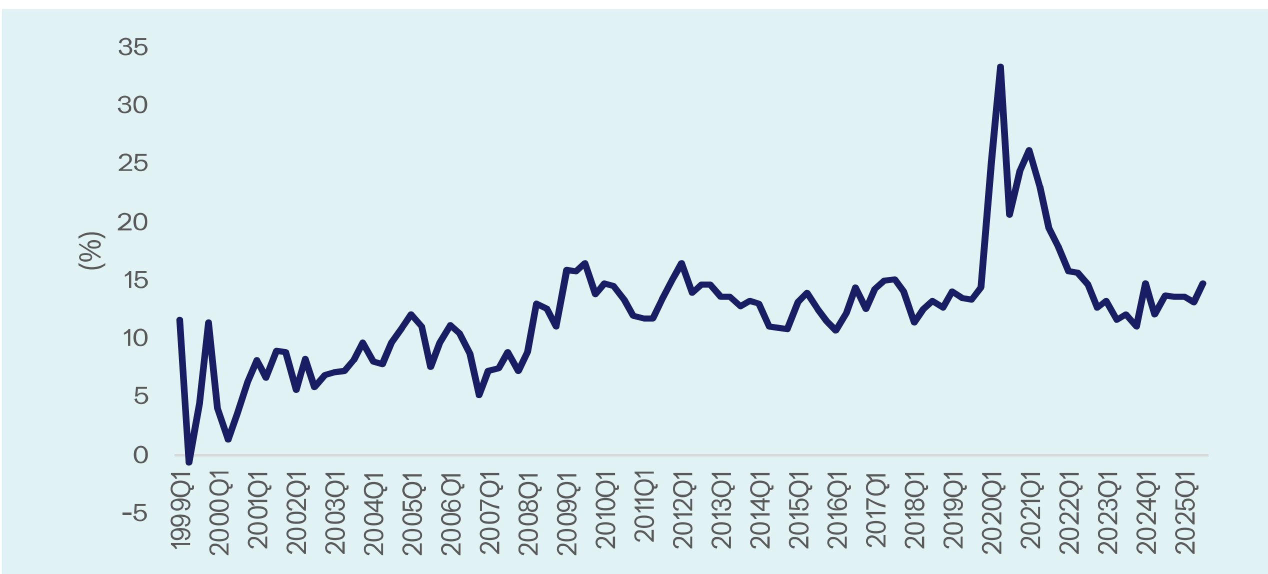
Figure 4: Household Balance Sheet



Source: Central Bank of Ireland.

The CSO publishes data on the household savings rate, which is household savings expressed as % of household disposable income. In the third quarter of 2025, the savings rate stood at 14.8 per cent.

Figure 5: Household Savings Rate (Seasonally Adjusted)



Source: CSO PxStat.

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.

Table 9: 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.

AGRICULTURE

2025 was generally a good year for the farming sector. 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.

The Outlook for 2026

THE INTERNATIONAL CONTEXT

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 is the nature of shocks that we can rarely predict them with any degree of certainty but based on what we know now, 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. Watch this space.
- 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.
- The possibility that inflation could edge higher which would cause a major dilemma for central bankers as tightening monetary policy in an environment where growth is below potential is never easy.
- 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.
- 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 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 CONTEXT

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.*

ESRI MEDIUM TERM OUTLOOK

In December the ESRI published its latest medium-term outlook[2] which outlines possible growth scenarios out to 2035. The ESRI specified that it is not a forecasting exercise but rather projections of what might happen subject to a broad range of underlying assumptions.

The central baseline scenario projects an annual average economic growth rate of 2.3 per cent in modified gross national income (GNI) out to 2030 and 2.1 per cent from 2031 to 2035. Such an outcome would describe a mature economy delivering solid levels of growth. If things were to turn out like this, then we will be able to look back in ten years' time on a good decade for the economy.

The ESRI authors then build in different scenarios based on risks that include a global slowdown, a further loss of competitiveness relative to our trading partners and a contraction of the multinational sector. It then considers a domestic issue. It looks at the more numerous domestically owned firms which are characterised by significantly lower average productivity than the multinational sector. It advises that improving productivity within the indigenous sector could improve their share of economic activity significantly. In the face of the concentration risks associated with the multinational sector, it is essential to devote considerable time and effort to the indigenous economy. The recently published Action Plan on Competitiveness and Productivity identifies much of what needs to be done to enhance the performance of SMEs and make them more sustainable. It is vital that the Action Plan does not gather dust and must be acted upon.

THE 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.

2. ESRI, 'Ireland's medium-term economic outlook: Risks and opportunities,' December 2025.

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THIS PUBLICATION IS BASED ON DATA AVAILABLE UP TO AND INCLUDING 7 JANUARY 2026.

The views expressed in this article reflect those of Jim Power and are for informational purposes only. They do not represent the views of Aviva. Jim Power's views may change.

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