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Quarterly Economic Commentary Winter 2025

ALAN BARRETT, CONOR O'TOOLE AND DÓNAL O'SHEA

QUARTERLY ECONOMIC COMMENTARY

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Winter 2025

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The Quarterly Economic Commentary has been accepted for publication by the Institute, which does not itself take institutional policy positions. It has been peer-reviewed by ESRI research colleagues prior to publication. The authors are solely responsible for the content and the views expressed.

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	2023	2024	2025	2026
Output (real annual growth %)				
Private consumer expenditure	5.1	3.0	2.9	2.5
Public net current expenditure	0.8	7.1	3.1	3.5
Investment	13.5	-28.6	38.9	-11.0
Modified investment	10.2	-4.2	7.7	-0.4
Exports	-4.1	8.9	9.7	-1.4
Imports	2.3	2.9	7.1	3.1
Gross domestic product (GDP)	-2.6	2.5	13.1	-5.7
Modified domestic demand (MDD)	6.2	1.7	4.0	2.1
Labour market				
Employment levels (thousands)	2,685	2,757	2,813	2,844
Employment growth (per cent)	3.4	2.7	2.0	1.1
Unemployment levels (thousands)	120	123	140	155
Unemployment rate (% of labour force)	4.3	4.3	4.8	5.2
Prices				
Inflation (CPI)	6.3	2.1	2.2	2.1
Public finances				
General government balance (euro, bn)	7.9	23.2	10.2	5.1
General government balance (per cent of GDP)	1.5	4.3	1.6	0.8

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ABBREVIATIONS

AI	Artificial intelligence
CPI	Consumer Price Index
CJEU	Court of Justice of the European Union
CSO	Central Statistics Office
CSP	Child Support Payment
EPA	Environmental Protection Agency
ESRI	Economic and Social Research Institute
GDP	Gross domestic product
GNI*	Modified gross national income
GNP	Gross national product
GVA	Gross value added
HICP	Harmonised Indices of Consumer Prices
IFAC	Irish Fiscal Advisory Council
IP	Intellectual property
IQA	Increase for a Qualified Adult
IMF	International Monetary Fund
LFS	Labour Force Survey
MDD	Modified domestic demand
NCPC	National Competitiveness and Productivity Council
PRSI	Pay-Related Social Insurance
QEC	Quarterly Economic Commentary
RPZ	Rent Pressure Zone
SA	Seasonally adjusted
SEAI	Sustainable Energy Authority of Ireland
SILC	Survey of Income and Living Conditions
USC	Universal Social Charge
YOY	Year on year

Forecast Overview

Generally, the economy continues to perform well. The most recent data show strong growth in consumption expenditure (+2.8% in Q3) and in exports (+12.9% in Q3). Tax receipts also point to strong economic growth. For example, VAT receipts were 5% higher at the end of November compared to the same period in 2024, while income tax receipts were 4.6% higher. Taking a broad measure of economic activity, modified domestic demand was 5.3% higher in the 12 months ending Q3 2025 compared to the previous 12 months. Ireland's strong economic performance has been supported by an international trading environment, which has remained robust in 2025 in spite of the uncertainties created by the Trump administration.

While employment continues to grow, the rate of increase has moderated. Employment was 1.1% higher in Q3 2025 compared to Q3 2024 but the corresponding figure in Q2 was 2.3%. The rate of unemployment has also increased marginally and is now 4.9%. A slight weakening in the labour market is also evident in the latest weekly earnings data – weekly earnings are growing by 5% but this is a fall from the 6% recorded in late 2024.

We now expect modified domestic demand to grow by 4.0% in 2025 and by 2.1% in 2026. The balance between 2025 and 2026 is related to a large increase in modified investment in 2025 and hence a base effect for 2026 rather than an underlying slowdown in 2026. We expect modest growth in employment this year of 2% falling to just over 1% next year. This relatively low rate of employment growth is expected to lead to a small increase in the rate of unemployment, from 4.8% in 2025 to 5.2% in 2026.

While Q2 2025 saw a jump in housing completions to over 9,000 units, the number of completions levelled off in Q3. Based on three-quarters of data, it now seems likely that completions will be in the region of 35,000 for 2025. We expect a similar level of output in 2026 – if realised, this will mean another year when housing output will lag estimates of need.

This Quarterly Economic Commentary (QEC) contains two boxes and a Special Article. In their box, Banahan and Slaymaker use data from the Residential Tenancies Board to show how trends in rents differ when viewed by tracking

properties over time as opposed to tenancies. For example, property-level rents rose by an average of just 2.2% in the year ending Q1 2025, considerably lower than headline rental inflation.

In a separate box, the ESRI climate team introduce a methodology for monitoring trends in economic output, energy consumption and emissions collectively. They find that decoupling between output and emissions is occurring in the industry sector but there is limited evidence of it occurring in the transport sector. From time to time, future QECs will include updates on these trends in an effort to track links between economic growth and greenhouse gas emissions. Our primary aim will be to assess whether the nature of growth in Ireland's economy is compatible with climate goals. We will also track performance relative to targets as missing targets could have implications for the public finances if this results in fines for the Irish State.

Bercholz et al. provide the annual distributional analysis of Budget 2026, using the ESRI tax–welfare microsimulation model SWITCH. Among their findings, they show how average household income is estimated to be 1.3% lower as a result of the budget compared to a situation where all parameters of the tax and welfare systems were indexed by price growth.

In our assessment, we reflect on Budget 2026 and draw attention to concerns over the fiscal stance adopted. The loosening of the fiscal stance is at odds with the current state of the business cycle. In addition, there appears to be an increasing over-reliance on potentially volatile corporate tax revenues, which is also counter to recommendations in previous QECs. In contrast to the fiscal stance in Budget 2026, two further policy documents point to more encouraging policy formation – *Future Forty* and *Accelerating Infrastructure – Report and Action Plan*.

Overall Outlook

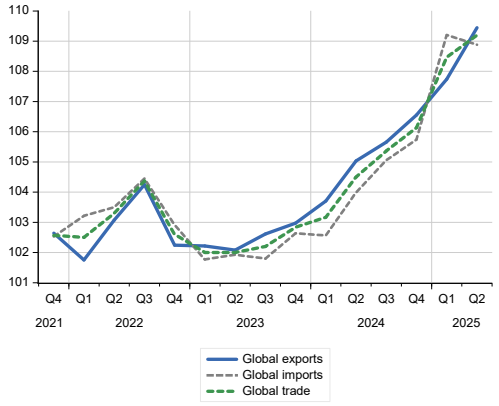
Global growth resilient despite policy uncertainty and trade fragmentation

Despite the challenges in the international economy in 2025, global economic conditions have remained resilient. While the early part of 2025 was dominated by considerable policy uncertainty regarding US trade tariffs, underlying trade activity levels have remained relatively robust in the face of these policy changes. Figure 1 presents the World Trade Index from the Netherlands Bureau for Economic Policy Analysis (CPB) for the period up to Q2 2025. Growth has continued regardless of the disruptions caused by the US tariff uncertainty and the potential retaliatory measures by China, Canada and other large economies. Recent research by (Gern, 2025) and (Van der Wahl, 2025) has noted that part of this may be due to the re-routing of trade to third party countries to avoid tariffs.

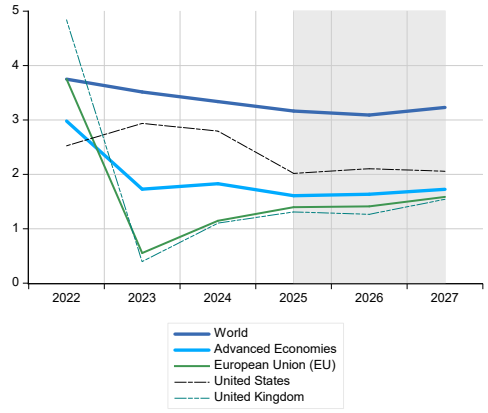
This resilience is feeding through into global growth forecasts, which are remaining relatively stable over the period ahead. Figure 1 presents GDP forecasts for a range of large economics and the world economy from the IMF's recent World Economic Outlook (IMF, 2025). The forecast horizon suggests continued but modest growth for Ireland's major trading partners (EU, US, UK) over the forecast horizon. As a small, and extremely open, economy, the external sector in Ireland is likely to grow in line with growth prospects in our main trading partners.

FIGURE 1: TRADE INDEX AND GROWTH FORECAST

A: World Trade Index



B: Global growth forecasts



Source: CPB World Trade Index; IMF GDP Forecasts

While the short-term outlook does appear to have remained robust to the changes to international trading relationships, the recent developments heighten a number of potential risks for the Irish economy. First, it is likely that tariffs will begin to have an impact over time once they have bedded in, and any adjustment (inventory management) period is over. Thus global trade growth is likely to be slower than it otherwise would have been, absent the US protectionist trade policy choices. Second, the patterns observed in policy choices at present are pointing towards a potential inward re-alignment of industrial and trade policy towards supporting domestic industries.

Indeed, in a European context, both China and the US are becoming more protectionist with the EU remaining committed to more outward orientation on trade and industrial policy. This policy position may not continue to be viable if protectionist policies begin to challenge industrial structures in the European economy (Alcidi, 2025). For Ireland, which relies on external trade and investment, this process of global protectionism and geopolitical fragmentation may present structural changes to our globalised economic model, which has prevailed for a number of decades, and lower the potential future growth rate of the economy.

Indeed, the potential impacts on Ireland of a shock to external demand is one key scenario explored in the ESRI's recent Economic Outlook (Yakut et al., 2025). This research explores the impact of a reduction in exports from Ireland of 5%, leading to a reduction in output of 3.2%. This research, and previous research on the impact of trade tariffs on the Irish economy by Egan and Roche (2025), highlight the considerable vulnerability of a small open economy like Ireland to developments in the international economy.

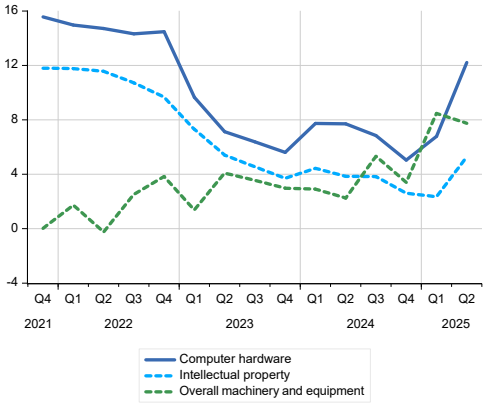
US economy buoyed by AI investment but bubble-type dynamics are evident

Part of the broader resilience in economic growth specifically in the US, despite the impact of tariffs and changing international trade policies, has been surging levels of investment focusing on artificial intelligence (AI) expenditures. These investment expenditures relate to both the physical hardware around computer machinery (such as micro chips) as well as the infrastructure around processing and storing data (such as data centres). These surging expenditures have supported the US growth rate and compensated for any downturn related to tariff impacts on consumption and trade. Figure 2: A presents the growth rate of investment in AI-related activities in the US, and shows a very notable increase in the period through early 2025.

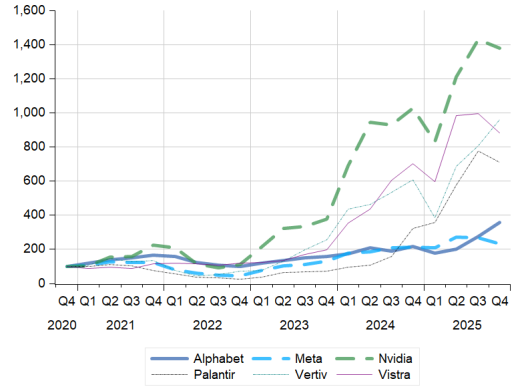
Corresponding to the increase in capital formation, there has been an extremely large increase in share prices for firms operating in the AI space (see Figure 2: B). This relates not only to those producing AI models (such as Alphabet), producing micro chips (Nvidia) and related activities, but also to those firms who are producing energy and other physical infrastructure to support the data and computing infrastructure (Vertiv, Vistra). This extremely large increase in share prices has led to concerns around the sustainability of these increases and the potential for an AI bubble in stock markets (Danielsson and Macrae, 2025).

FIGURE 2: INVESTMENT IN US AND AI-STOCKS SHARE PERFORMANCE

A: Growth rate of AI-related investment in US



B: Share prices for firms involved in AI



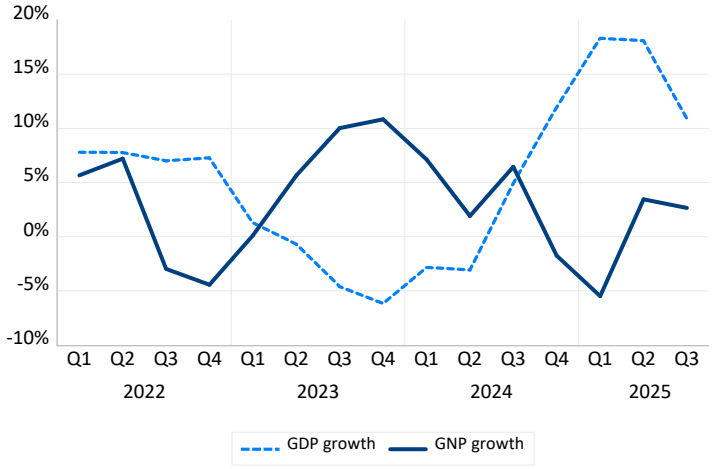
Source: OECD National Accounts Database; NASDAQ.

From the perspective of the Irish economy, there are a number of short and long-term implications of this potential 'bubble' in AI expenditures. First, while AI is expected to deliver a broad-based economic boost through higher productivity, Ireland faces a risk due to the significant exposure of large ICT firms to AI, many of which have substantial employment and output activities located in the country. If these investments do not yield the expected return, then this could notably hit the profitability of these enterprises and thus their employment and corporation tax payments in Ireland. Any financial fragility for these firms could therefore pass through to their Irish activities. Second, for those firms in the ICT sector who deploy notable amounts of AI capital, this may lead to employment changes that reduce the headcount in Irish subsidiaries.

Irish headline indicators surge on back of pre-tariff exports

Figure 3 presents year-on-year growth in gross domestic product (GDP) and gross national product (GNP), on a quarterly basis. It is very clear that GDP in Ireland in 2025 has increased notably in the three quarters of 2025 for which data are available. GDP growth, on a year-on-year basis, was well above 10% in each of the three quarters.

FIGURE 3: GDP AND GNP GROWTH – YOY – CONSTANT PRICES (SA)

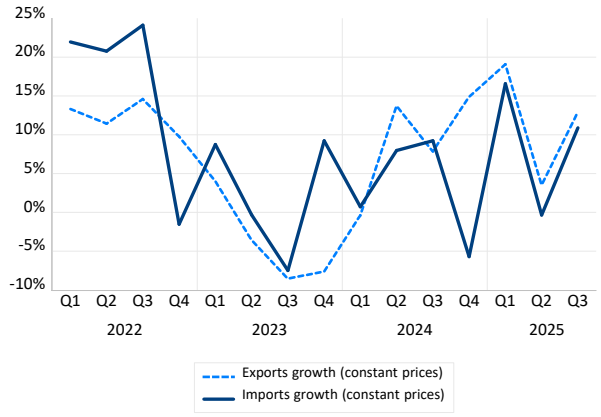


Source: CSO, National Accounts data

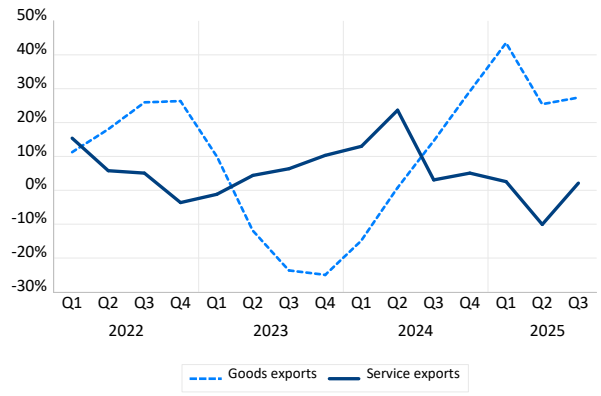
Behind this trend has been a substantial surge in goods exports, in particular those related to pharmaceuticals. Figure 4:A presents the overall year-on-year growth trend in imports and exports for Ireland on a quarterly basis. Considering panel B, we can see that goods exports have rapidly increased from the final quarter of 2024 into 2025, in anticipation of the introduction of tariffs in the US.

FIGURE 4: OVERALL IMPORTS, EXPORTS, AND EXPORT SUB-GROUPS – YOY – CONSTANT PRICES (SA)

A: Overall trend in exports and imports



B: Trend in goods and services exports



Source: CSO, National Accounts data

To explore this trend in more detail, we decompose the impacts by specific sub-sectors within exports. These are presented in Figure 5, which contains the growth rate of goods and services. For goods, the data are decomposed into three groups: a) pharmaceuticals goods; b) non-pharmaceuticals international trade; and c) residual goods trade, which includes contract manufacturing etc.[1] On the services side, the data are decomposed into three groups: a) computer services; b) underlying services; and c) other services, which consist primarily of royalties and aircraft leasing.[2]

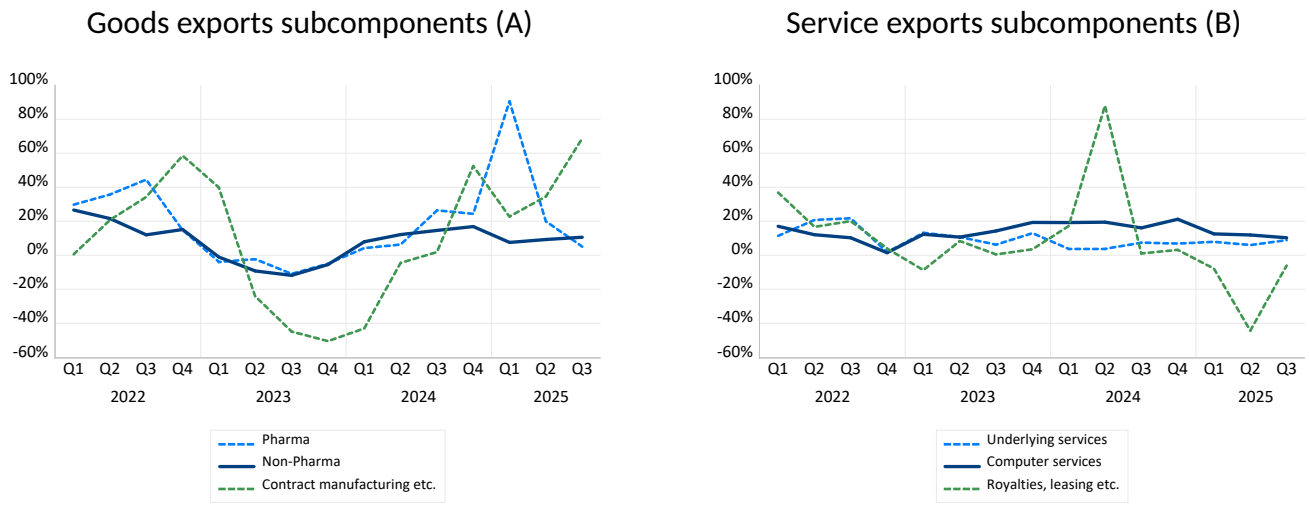
It can clearly be seen that the major increase in the first quarter of 2025 was driven by pharmaceuticals as firms moved goods to the US ahead of the introduction of tariffs in April 2025. This surge has fallen back in each of the subsequent quarters as we anticipated in our previous *Commentaries*. Goods exports would have dropped back even further overall in the second and third quarters of 2025, were it not for a large increase in contract

[1] Non-pharmaceuticals are calculated as total cross border international trade minus pharmaceuticals. Residual goods trade is calculated as total exports from the national accounts minus total international cross border trade. More details can be provide by the authors on request.

[2] Please see Box A in the summer 2025 *Commentary* for more details on the definitions of the groups presented in this figure.

manufacturing, which occurred in both Q2 and Q3 2026. These activities, by not drawing on domestic resources such as physical capital and labour, are inherently unstable and a source of particular vulnerability for Ireland. Where these exports contribute to firm profitability in Ireland, they are likely contributors to the corporation tax take, and thus can have a material impact on the economy through the taxation system.

FIGURE 5: EXPORTS – GOODS AND SERVICES – YOY – CURRENT PRICES (SA)



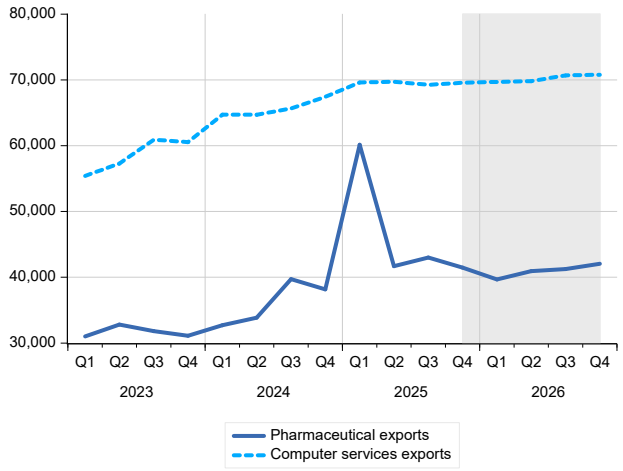
Source: CSO, National Accounts data; authors' calculations.

In addition to both pharmaceuticals and contract manufacturing activities, underlying exports have continued to grow modestly despite uncertainty around international trading conditions. This is likely linked to the resilience in global markets noted in the previous section.

Moving to services exports, we can see a slowdown in the growth rate in computers service exports. This is a particularly important development as computer services exports have been a very strong contributor to the Irish economy's performance since the onset of the COVID-19 pandemic. Indeed, computer services is the largest export category for Ireland and overall trends in this sector will have strong knock on effects on the traded side of the economy. Underlying service exports, which are much smaller in volume terms, have also continued to grow at more modest but robust levels

throughout 2025. Given these developments, we expect exports to grow by 9.7% overall in 2025 and to fall by -1.4% in 2026. For imports, we expect strong growth of 7.1% in 2025 and 3.1% in 2026.

FIGURE 6: QUARTERLY LEVELS OF PHARMA AND COMPUTER SERVICES EXPORTS AND FORECAST PATH (CURRENT PRICES)



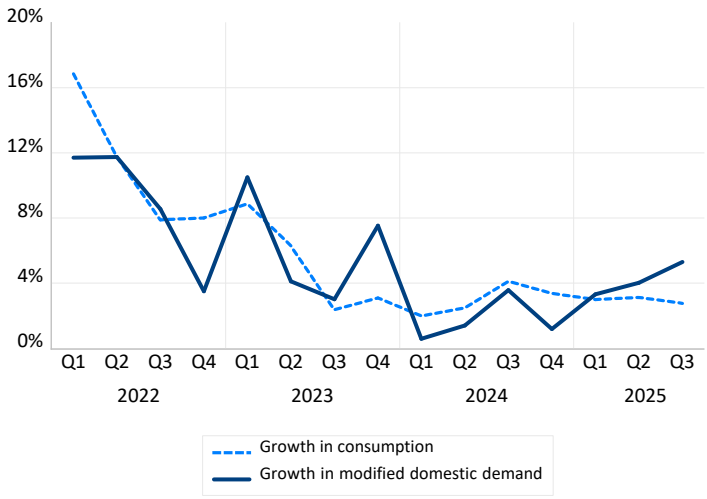
Source: CSO, National accounts data; authors' calculations.

For 2026, our expectation of a fall in exports is driven by our expectation that pharmaceuticals exports will continue to be more modest than seen in 2025 and the large spike in Q1 will not be repeated. The forecast path for pharmaceuticals and computer services can be seen in Figure 6. However, there is huge uncertainty in forecasting pharmaceutical output in Ireland given the possibility of individual company specific trends impacting the data. For computer services, we expect a much more modest rate of growth in 2026 than seen in recent years. This follows the recent trend of slower growth as well as the trend towards falling numbers of employees in the ICT sector, which is documented later in the *Commentary*. For both underlying goods and services, we expect these to grow at more modest rates of growth, in line with world demand.

Domestic economic growth robust but downside risks remain

Despite the volatile nature of the internationally traded sectors in Ireland, the domestic economy has grown in a more stable and robust manner. Figure 7 presents growth in modified domestic demand (MDD) and personal consumption. Throughout 2025 consumption expenditure, which is the best lens into the domestic economy from a national accounting perspective, has continued to grow but at slower rates. Given the continued growth in incomes in the economy on the back of the robust labour market performance, we expect consumption expenditure to remain relatively strong in 2026. In our base forecasts, we expect consumption to grow by 2.9% in 2025, before falling back to 2.5% growth in 2026.

FIGURE 7: GROWTH IN CONSUMPTION AND MDD – YOY – CONSTANT PRICES (SA)



Source: CSO, National accounts data; authors' calculations.

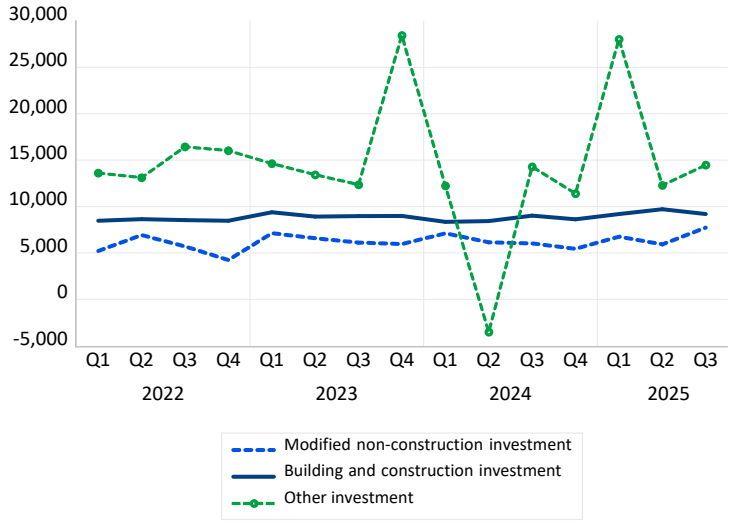
For MDD, the growth rate has increased in the past two quarters due to increases in investment activity, which we discuss in the next section. We expect MDD to grow by 4.0% in 2025 and by 2.1% in 2026.

Investment rises driven by construction and R&D assets

Investment flows in Ireland are often considerably volatile and dominated by large multinationals. To disentangle the developments across investment types, we split investment into three categories: modified non-construction investment; building and construction investment; and other investment. The difference between modified and headline investment is 'other investment'. This category contains investment relating to intellectual property and aircraft leasing, and is extremely volatile in nature. The quarterly trend in these data are presented in Figure 8.

It is very clear from the investment trends that major fluctuations in intangible assets have occurred again in 2025, leading to an extremely large increase in overall investment levels in the present year. For modified non-construction investment (which relates to machinery and equipment but also to intangible assets that are not specifically related to R&D and aircraft leasing), we have seen a rise in the third quarter of 2025. This has been classified as having occurred through the importation of computer software intellectual property (IP) that is not R&D related, and thus is likely to be a company-specific, non-repeatable transaction. We therefore do not expect this investment flow to be repeated. For building and investment expenditure, the level has risen in 2025 relative to 2024.

FIGURE 8: COMPONENTS OF INVESTMENT – LEVELS (EURO MN) – CONSTANT PRICES (SA)



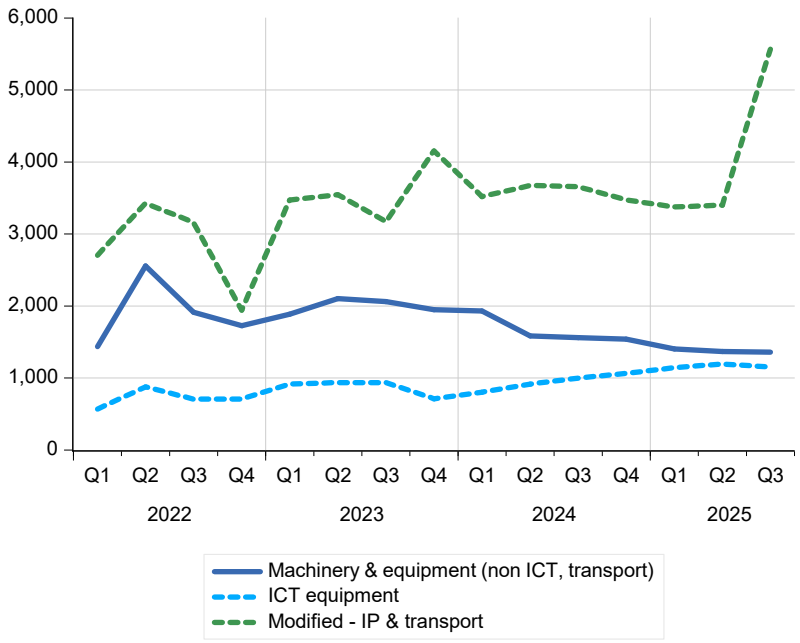
Source: CSO, National accounts data; authors' calculations.

This can be seen more clearly if we break down the non-construction modified investment data. From this series, investment in computer equipment and machinery and equipment (excluding transport) can be stripped out leaving the remainder of modified investment, which contains intellectual property (not related to R&D assets) and transport equipment.[3]

From these data, it can clearly be seen that the large increase in modified investment in the third quarter of 2025 was driven by these IP-related investments (transport equipment did not change). It is also notable to see an upward trend in ICT equipment investment, which may be linked to the adoption of digitalisation assets and AI-related expenditures. The downward trend for general machinery and equipment is also noteworthy and potentially captures the uncertainties companies are experiencing in deploying general capital given the current operating climate.

[3] To strip out these series, seasonally adjusted data from Eurostat are used to obtain these data as a proportion of overall fixed capital formation. These shares are then applied to total gross fixed capital formation seasonally adjusted from the CSO. These data in levels are then removed from modified investment to obtain the residual investment. More details are available from the authors on request.

FIGURE 9: COMPONENTS OF MODIFIED INVESTMENT EXCLUDING CONSTRUCTION – LEVELS (EURO MN) – CONSTANT PRICES (SA)



Source: Eurostat, CSO, National accounts data; authors' calculations.

Ireland faces considerable investment needs to cater for a growing population and to deal with bottlenecks in infrastructure and housing. Furthermore, to meet Ireland's climate targets and avoid EU level fines that could amount to hundreds of millions of euros annually (IFAC, 2023), substantial increases in capital investment will be needed to decouple the economy from greenhouse gas emissions. In this *Commentary*, Box A considers the relationship between economic activity, energy use and emissions in Ireland with the aim to monitoring over time the links between economic output and carbon production. This research highlights that while some decoupling has been evident, considerable work must be done on a cross sectoral basis to further accelerate decarbonisation.

Box A: Beyond GDP: Decoupling growth and emissions

Introduction

Energy is central to Ireland's economy, supporting households and the production process. As Ireland's economy grows, energy demand rises (SEAI, 2024). Under the *Climate Action and Low Carbon Development (Amendment) Act 2021*, Ireland is committed to reducing greenhouse gas emissions by 51% by 2030 (relative to 2018 levels) and achieving climate neutrality by 2050 (Government of Ireland, 2024). These targets align with the EU's 'Fit for 55' package, and the European Climate Law objective of net-zero emissions by 2050 (European Commission, n.d.). Despite these commitments, the Environmental Protection Agency (EPA) projects that Ireland is on track for only a 23% reduction by 2030 (EPA, 2025a). This can be explained by being heavily reliant on fossil fuels – 81% of primary energy in 2024 came from non-renewable sources – posing a major challenge to meeting Ireland's legally binding climate targets (CSO, 2024).

Recent studies estimate that, under a moderate warming scenario, climate impacts could cost Ireland €2 billion annually by 2050, driven by sea-level rise, flooding, reduced labour productivity and health impacts (de Bruin et al., 2024; EEA, 2025). Without additional adaptation and mitigation measures, GDP losses could reach 2–3% by mid-century (CCAC, 2024b). Meeting Ireland's climate targets while sustaining economic growth requires decoupling growth from emissions. Two complementary strategies are central to this effort: resource decoupling, which focuses on improving energy efficiency, and impact decoupling, which involves reducing the greenhouse gas emission intensity of energy supply (UNEP, 2011; Haberl et al., 2020). This section examines whether ongoing efforts – such as renewable energy expansion, electrification and efficiency improvements – have reduced the reliance of economic growth on emissions.

Understanding this dynamic is critical for designing policies that balance environmental imperatives with economic priorities and ensure Ireland meets its national and international obligations.

Economy, energy, emissions

Economy

The evolution of Ireland's sectoral gross value added (GVA) between Q4 2023 and Q3 2025 highlights an increase in industry GVA, as shown in the top panel of Figure 10. Industry (excluding construction) increased its share from 31.2% in Q4 2023 to 37.5% in Q3 2025. This expansion reflects the strong performance of multinational-dominated sectors such as pharmaceuticals and advanced manufacturing likely driven by increasing exports (CSO, 2025). In contrast, 'other services' activities – which encompasses arts, entertainment, distribution, transport, hotels and restaurants, financial and insurance activities, professional, administrative and support services, and real estate – declined from 34.3% in Q4 2023 to 30.3% in Q3 2025, suggesting slower growth in domestic-facing activities relative to tradable sectors. Information and communication remained stable, fluctuating around 20–21%, underscoring Ireland's continued role as a hub for global ICT firms.

Energy

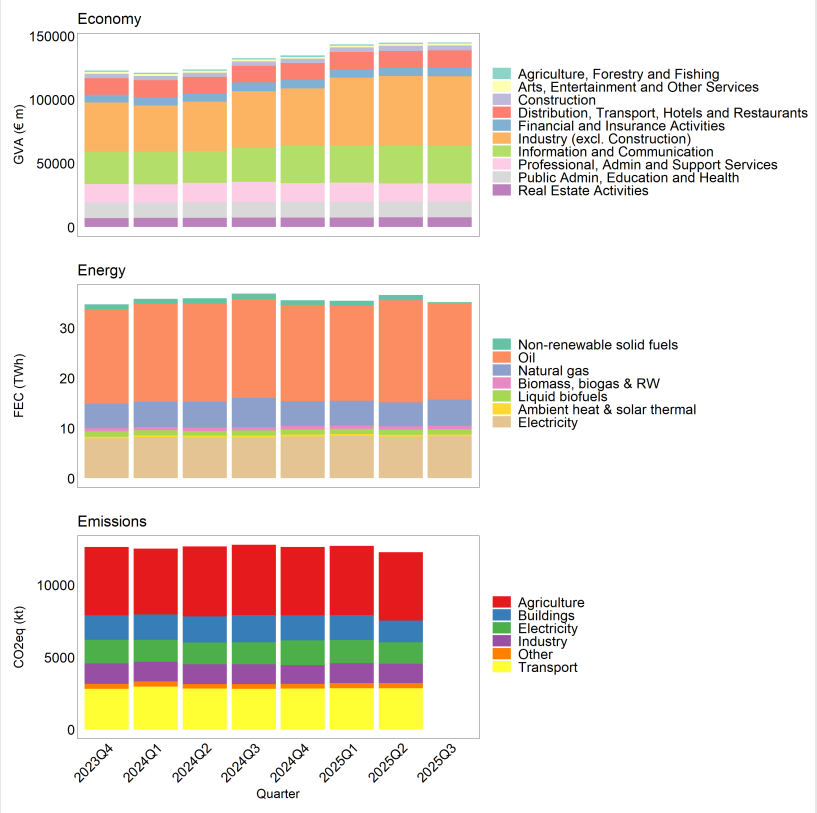
The middle panel of Figure 10 shows little change in Ireland's energy consumption from Q4 2023 to Q3 2025. In Q3 2025, most energy (53%) came from oil. Electricity is the next largest share at 22%, followed by gas at 14%. Electricity, however, is a secondary energy source –generated by converting primary energy sources, such as gas and wind, to electrical power. In October 2025, over 40% of electricity came from renewables, 83.3% of which came from wind (EirGrid, 2025).

Emissions

Over this period, Ireland's greenhouse gas emissions profile (see the bottom panel of Figure 10) shows modest declines across most sectors with total emissions declining by 3.2% in Q2 2025 relative to the same quarter of the previous year. Agricultural emissions fell slightly from 4,808 to 4,713 kilotonnes CO_2-equivalent ($ktCO_2eq$), consistently accounting for nearly 40% of the total, highlighting the challenge of reducing methane and nitrous oxide emissions (CCAC, 2025). Energy-related emissions showed gradual improvement: electricity emissions declined from 1,689 to 1,480 $ktCO_2eq$, reflecting renewable expansion, while industry emissions

slightly declined from 1,387 to 1,337 $ktCO_2eq$ (SEAI, 2025). For buildings, which reflects the heating of residential (homes) and commercial buildings emissions fell from 1,719 to 1,507 $ktCO_2eq$. These reductions reflects the combined effects of electrification, energy-efficiency retrofits, and reduced reliance on high-carbon fuels in the residential and commercial sectors.

FIGURE 10: RECENT TRENDS IN ECONOMIC ACTIVITY, ENERGY, AND EMISSIONS

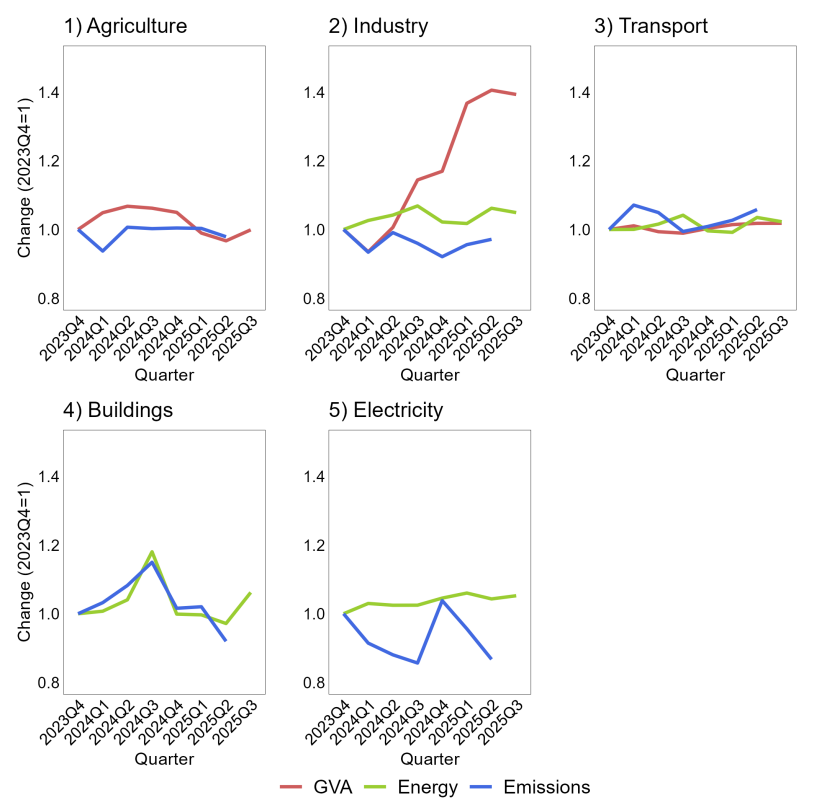


Source: Authors' own using data from CSO (2025), SEAI (unpublished), and EPA (2025b)
Note: GVA is at constant market prices, chain linked annually and referenced to year 2023. All series are seasonally adjusted. 2025Q2 represents the latest emissions data available.

Decoupling

In this section, we take a closer look at the extent to which economic activity, energy consumption and emissions are decoupling for aggregate sectors where comparison is feasible.

FIGURE 11: SECTORAL RESOURCE/IMPACT DECOUPLING



Source: Authors' own using data from CSO (2025), SEAI (unpublished), and EPA (2025b)

Note: GVA is at constant market prices, chain linked annually and referenced to year 2023. All variables are seasonally adjusted. Industry GVA includes construction. Transport GVA includes distribution, hotels and restaurants. Except for electricity, sectoral energy is calculated using annual energy balance shares and applying them to quarterly total energy use (as 2025 isn't available we assume the same shares as 2024). Buildings energy use is only that from natural gas as emissions data are only heat-related. Electricity energy measures consumption of electrical energy, not production. 2025Q2 represents the latest emissions data available.

Panel 1) of Figure 11 indicates modest fluctuations in Gross value added (GVA) for agriculture, peaking in Q2 2024 before contracting in 2025, while emissions remain relatively stable around baseline values. As agriculture emissions are predominantly driven by herd size, agriculture's economic output and emissions remain relatively proportional where changes in prices likely drive short-term fluctuation in GVA.

The second panel in Figure 11 shows that industry GVA expanded markedly by Q2 2025, likely driven by exports, while energy consumption remained close to its level in Q4 2023 and emissions declined by approximately 5%. This indicates efficiency gains and potential evidence of relative decoupling between economic growth and emissions in the sector. In contrast, the third panel shows that transportation GVA, energy use and emissions experienced limited growth. This aligns with literature on sectoral decoupling, which finds that industrial activity often benefits from technological improvements and cleaner inputs, enabling growth with reduced emissions intensity, whereas transport remains structurally dependent on fossil fuels and exhibits weaker decoupling potential, due to its continued dependence on fossil fuels (EPA, 2025c; CCAC, 2024a).

The bottom left panel in Figure 11 shows a volatile trend in natural gas energy use and emissions from the heating of buildings – both peaking simultaneously in Q3 2024, followed by a sharp decline and a sign of possible decoupling in Q2 2025. The large fluctuations in demand in this sector are due to the weather dependence of heating. The possible emissions decoupling may be the result of increased energy efficiency or heat pump adoption. In contrast, the electricity sector on the bottom right exhibits a steady increase in its consumption in line with continued electrification. Emissions from electricity generation are largely shaped by the share of renewable energy, particularly wind power, in the generation mix. Wind energy is inherently variable and fluctuates with meteorological conditions and seasonal patterns. The variations in emissions seen here reflect changes in wind output relative to typical levels for that time of year.

Sectoral ceilings

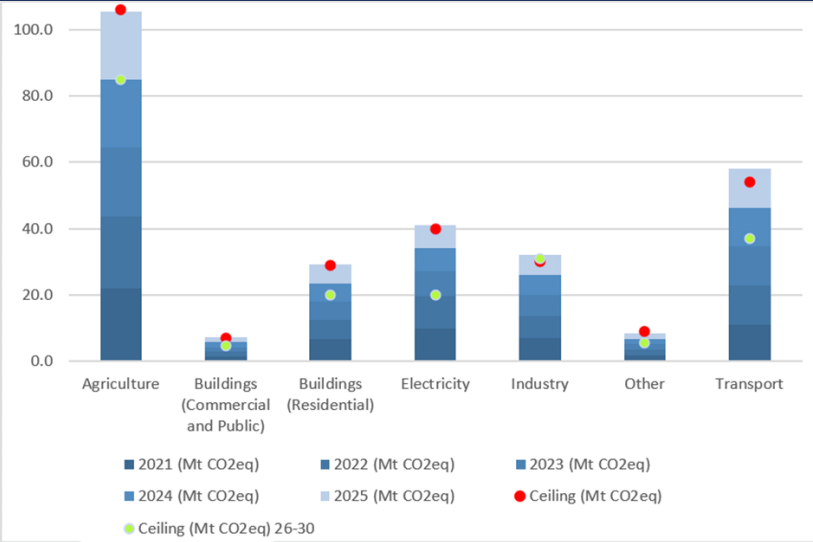
Sectoral emissions ceilings (SECs) are legally binding limits on greenhouse gas emissions for specific sectors of the Irish economy, introduced under the *Climate Action and Low Carbon Development (Amendment) Act 2021* to ensure compliance with Ireland's national climate targets (Government of Ireland, 2024). These ceilings operationalise the country's commitment to reduce emissions by 51% by 2030 relative to 2018 levels and achieve climate

neutrality by 2050, as outlined in the Climate Action Plan 2024 (Government of Ireland, 2024).

The ceilings are aligned with Ireland's carbon budgets, which cap total national emissions for five-year periods: 295 $MtCO_2eq$ for 2021–2025, 200 $MtCO_2eq$ for 2026–2030, and a provisional 151 $MtCO_2eq$ for 2031–2035 (EPA, 2025a). Each sector is allocated a share of these budgets, covering electricity, transport, buildings, industry, agriculture, and land use, land-use change and forestry (LULUCF) (Government of Ireland, 2024). For example, the electricity sector must reduce emissions by 62–81% by 2030, primarily through achieving 80% renewable electricity generation, while transport faces a 42–50% reduction, requiring electrification and modal shifts (Government of Ireland, 2024). Agriculture, which accounts for over one-third of Ireland's emissions, has a more modest target of 22–30%, reflecting the sector's unique challenges (EPA, 2025a).

These ceilings are designed to drive deep decarbonisation across all sectors, requiring transformative changes in technology, infrastructure and behaviour. However, recent projections indicate that Ireland is significantly off track, with current measures likely to deliver only a 23% reduction by 2030, far short of the legally binding 51% target (EPA, 2025a). This underscores the urgency of additional policy and the need to address sector-specific challenges, particularly in agriculture and transport.

FIGURE 12: SECTORAL EMISSIONS AND CEILINGS



Source: Authors' own using emissions data from EPA (2025b) and ceilings information from the Government of Ireland (2024)

Note: Without all data for 2025, we assumed 2025 emissions equals that of 2024.

Figure 12 illustrates sectoral emissions relative to their assigned ceilings for the current and upcoming carbon budget periods. The red marker represents the ceiling for the first carbon budget (2021–2025), while the green marker indicates the ceiling for the second period (2026–2030) as set out in the Climate Action Plan 2024 (Government of Ireland, 2024). The data show that most sectors are broadly on track to remain within their current ceilings, with the notable exceptions of transport and industry, both of which have exceeded their allocated limits (EPA, 2025a). This underperformance highlights the challenge of achieving compliance in sectors where emissions reductions are heavily dependent on structural changes, such as electrification and industrial process innovation.

It is important to note that the relatively better performance in the early years of the first carbon budget was partly due to the temporary reduction in emissions during the COVID-19 pandemic. In 2020, Ireland's total greenhouse gas emissions fell by approximately 5.9% compared to 2019, primarily driven by a 17% reduction in transport emissions as mobility restrictions curtailed travel (CSO, 2021). While this decline provided

short-term relief, emissions rebounded as economic activity resumed, underscoring that structural and sustained measures – not temporary shocks – are required to meet long-term targets.

Looking ahead, all sectoral ceilings decline significantly in the second carbon budget period (2026–2030), meaning that incremental improvements or 'more of the same' will not suffice to meet Ireland's legally binding target of a 51% reduction in emissions by 2030 (Government of Ireland, 2024). Staying within these ceilings is not only critical for climate objectives but also for economic stability, as non-compliance carries substantial financial and reputational risks. The Irish Fiscal Advisory Council (IFAC) has warned that failure to meet targets could result in EU fines and increased costs for purchasing compliance credits, placing additional strain on public finances (IFAC, 2025). This underscores the urgency of accelerating mitigation measures across all sectors to avoid both environmental and economic penalties.

Conclusion

This analysis provides an initial step toward monitoring trends in economic activity, energy consumption and emissions collectively. Quarterly data from the Central Statistics Office (CSO), the Sustainable Energy Authority of Ireland (SEAI) and the EPA enable an assessment of whether these indicators have decoupled over the past two years. Findings vary by sector: in industry, GVA and emissions show signs of decoupling, whereas in transport, decoupling remains limited. Continued monitoring will be essential to identify long-term patterns and distinguish these from short-term fluctuations.

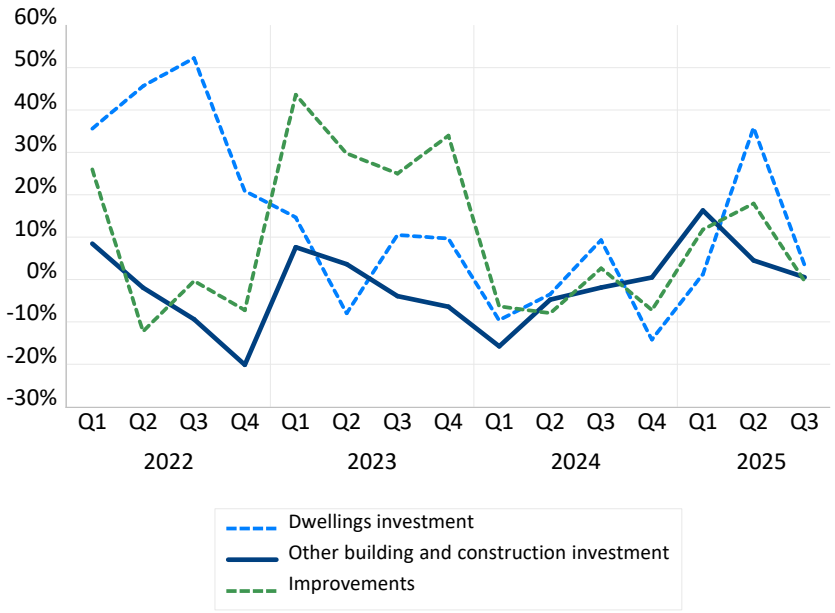
This box was prepared by Kelly de Bruin, Samuel McArdle, City Eldeep and Kirsten Everett.

Construction output increasing through 2025

Focusing in on activity in the housing market, Figure 13 presents the growth rates of the investment sub-components: a) dwellings; b) improvements; and c) other building and construction. For investment in dwellings, growth slowed in the third quarter relative to the extremely strong second quarter of the year but remained positive on a year-on-year basis. Improvements also slowed in Q3 2025 as did other building and construction activity.

However, the later is still growing at a much more rapid rate relative to the previous years, likely on the back of expanded state capital investment and a marginal recovery in commercial activity.

FIGURE 13: GROWTH IN COMPONENTS OF BUILDING AND CONSTRUCTION INVESTMENT – YOY – CONSTANT PRICES (NON-SA)



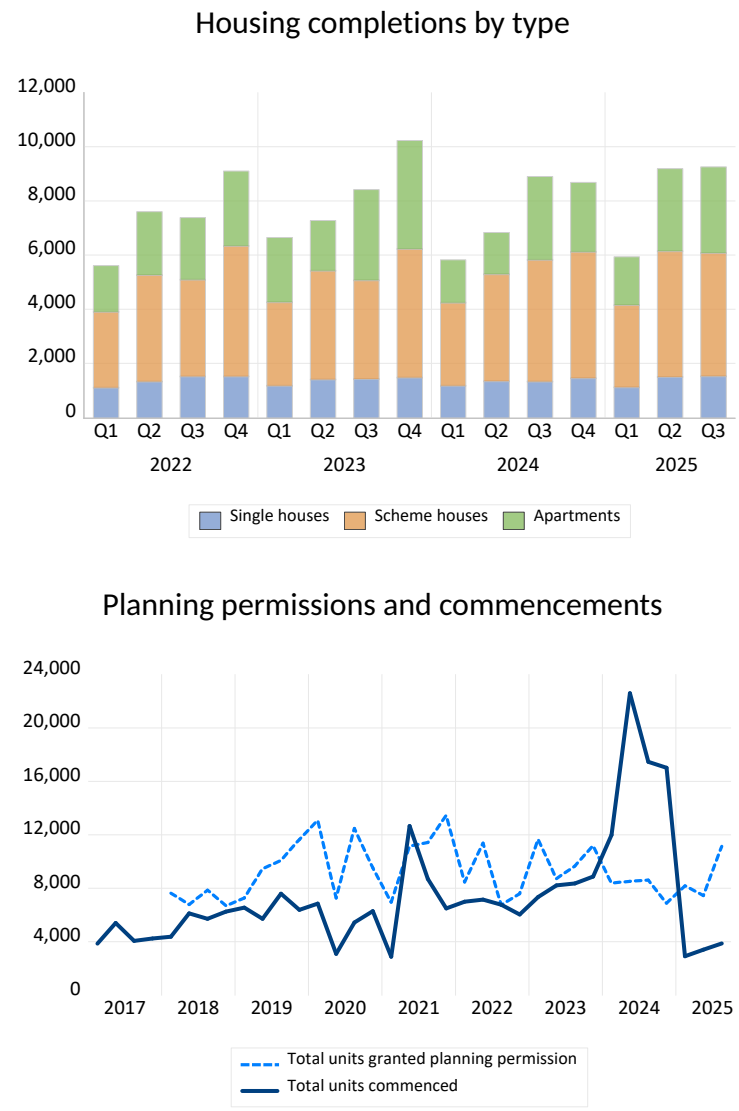
Source: CSO, National Accounts data.

Housing completions for the quarter, Figure 14, increased to just over 9,200 units with increases in both scheme housing as well as apartment completions. For the full year, we anticipate that housing completions will likely amount to just over 35,000 units with a similar level in 2026. These levels remain below that which is required to meet underlying housing demand. The most recent data on planning permissions indicate an uptick in the third quarter of 2025. However, it is too early to extrapolate these data towards a more sustained upwards trend.

In recent times, many commentators have pointed to the blockages to housing production from infrastructure bottlenecks and administrative processes including the planning system and judicial reviews. Indeed, in the

previous *Commentary*, we discussed this in more detail. To deal with these challenges, meaningful structural change is required as well as enhanced capital investment on supporting infrastructure such as water, waste water and the electricity grid. The recent publication of the Government's Accelerating Infrastructure Taskforce report provides 30 actionable reform points to move the dial on infrastructure provision, including reforming and removing administrative blockages to infrastructure completion. The reforms suggested in this report are of the scale and magnitude needed to have meaningful structural change and remove administrative barriers to activity. Implementation of these reforms should be prioritised as a matter of urgency.

FIGURE 14: HOUSING COMPLETIONS BY TYPE OF DWELLING (NON-SA)



Source: CSO

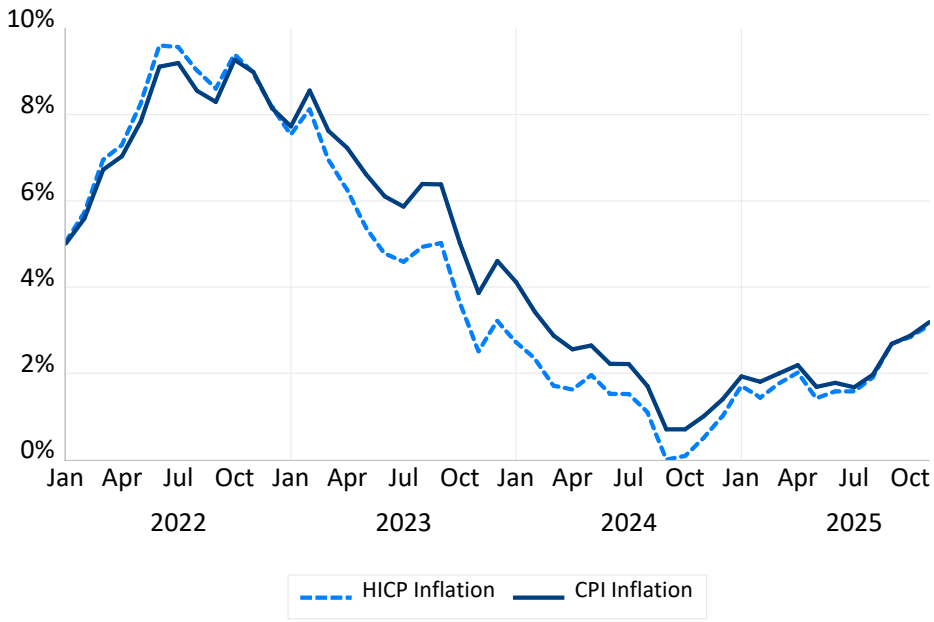
To summarise our investment forecasts, overall we expect modified investment to grow by 7.7% in 2025 and -0.4% in 2026. The decline in 2026 for modified investment is due to the technical assumption that high levels of IP experienced in 2025 are not repeated in 2026. Thus 2026 is lower mainly due to base effects rather than an underlying deterioration in

investment sentiment. Total overall investment is expected to grow by 38.9% in 2025 and -11.0% in 2026.

Inflation

The Consumer Price Index (CPI) inflation rate was 3.2% in November. This figure is higher than the average figure for inflation in the year to date, which is just over 2%. The inflation figure that can be compared with other European countries, the Harmonised Indices of Consumer Prices (HICP), showed inflation of 3.2% in November. Figure 15 shows developments in both measures of inflation.[4]

FIGURE 15: CPI AND HICP INFLATION



Source: CSO

There is a predictable base effect for inflation in September and in November. The price level fell in these months in 2024. As such, even if the price level in 2025 for these months was in line with the average price level in 2025, it

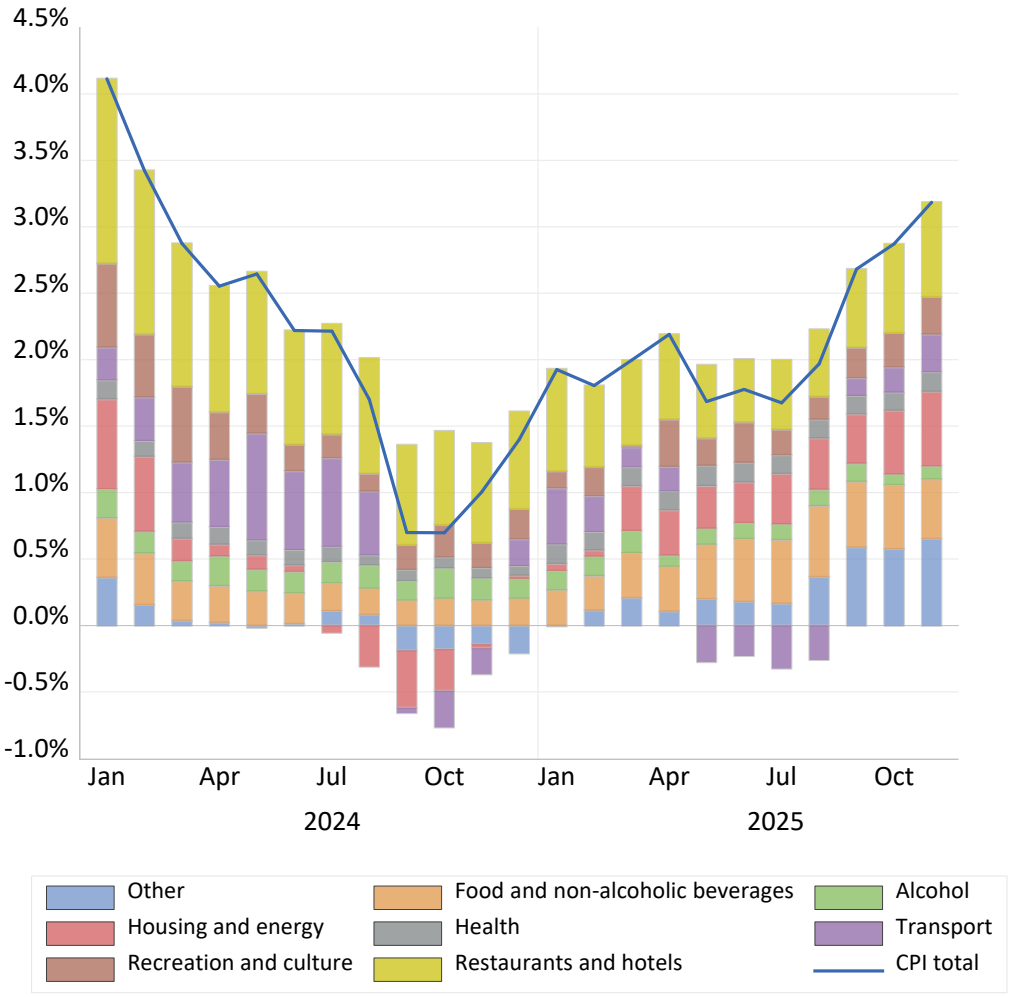
[4] The difference between the two measures is largely to do with the inclusion of mortgage interest payments in the CPI measure (Zekaite, 2023). As inflation is concerned with percentage changes and mortgage interest payments vary with interest rates, the difference between the two measures will be larger during periods of changes in interest rates.

would mechanically have a higher annual percentage change associated with it.

Figure 16 shows the weighted contribution of individual sectors to the headline rate. Three trends emerged over the course of 2024 and 2025:

- Inflation in the 'restaurants and hotels' sector has contributed an average of 0.6% of the annual inflation in any given month (yellow bar in Figure 16).
- 'Food and non-alcoholic beverages' has become a larger contributor to total inflation as 2025 progressed (orange bar in Figure 16).
- Negative contributions to inflation from the 'housing and energy' and 'transport' sectors proved short-lived, with both ultimately returning to positive price growth (red and purple bars in Figure 16).

FIGURE 16: CPI INFLATION BY SECTOR



Source: CSO

Note: The bars refer to the contribution to total inflation made by price changes in each sector. This contribution is a combination of the weight attached to each sector in the overall index and the magnitude of the price change. The line shows total CPI price inflation on a monthly basis and is equivalent to the sum of the values of the bars, both negative and positive values.

From a housing perspective, a major driver of the cost of living in Ireland over the past 15 years has been the increase in rents and house prices. In

terms of the rental sector, a framework of 'Rent Pressure Zone' (RPZ) policies had been introduced in late 2016 to stabilise rental inflation by introducing an annual cap on rental inflation. The cap is currently set at the lower of 2% or HICP annualised changes. A number of research papers have shown that RPZs have been effective in stabilising price inflation (O'Toole (2023); O'Toole et al. (2021)).

Recent work by Slaymaker et al. (2025) has provided further details into this process; Box B in this *Commentary* explores the trend in rental price inflation using micro-data on new and existing tenancies from the Residential Tenancies Board (RTB). These data very clearly show that RPZs have been effective in curbing inflation levels for sitting tenants who do not change properties. Indeed, this research shows that the rate of inflation in rents at the median for tenants who do not change property is zero. With income growth of approximately 4 to 5% in the economy at present, this indicates that rent to income ratios are likely to be falling for these households on average. That is not to suggest that affordability through high rent levels is not an issue. However, affordability does not appear to be worsening for sitting tenants on average through rents rising faster than incomes.

However, what is also clear is that the market has features of an insider/outsider market as the inflation rate for those who move properties (for properties in which there is a turnover in tenants) is considerably higher and the supply of available rental properties is low. These supply side effects are related to the aforementioned general undersupply of housing more generally but research has also linked these to RPZ policies as an inevitable consequence of strict price controls (Gillespie et al., 2025).

Box B: Using property-level data to understand rental price trends in Ireland

Introduction

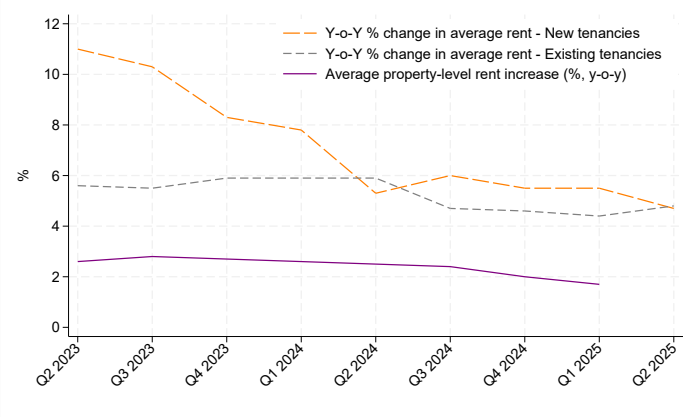
Understanding trends in Ireland's private rental sector is critical given well-documented affordability challenges (Corrigan et al., 2019). Evidence shows that middle-income renters in Ireland, those most reliant on the private rental sector, face worse affordability outcomes than their European counterparts (Disch and Slaymaker, 2023). Rent index measures reveal a sustained upward trajectory, with average rents accelerating sharply since the COVID-19 pandemic (RTB, 2025). This growth has occurred despite the presence of RPZs[a] and the tightening of rent caps in late 2021, which limited permitted annual increases to the lower of 2% or HICP inflation. This apparent contradiction raises an important question: how has rental inflation persisted under these regulatory constraints? Addressing this question is critical to understanding the underlying dynamics of Ireland's rental market, and to do so, we draw on recent analysis using new RTB annual registration data to track individual properties over time.

Empirical evidence

The introduction of the RTB annual tenancy registration requirement in 2022 permits more comprehensive insights into the private rental sector. In a study tracking properties seen at least twice in RTB registration data from Q2 2022 to Q1 2025, creating more than 375,000 matched property pairs, Slaymaker et al. (2025) find annual property-level rent increases were modest. Figure 17 shows that nationally, property-level rents rose by an average of just 2.15% in the latest year (Q2 2024-Q1 2025), down from 2.7% the previous year.

In contrast, Figure 17 also highlights the higher growth seen in the RTB/ESRI Rent Index, which measures changes in the average rent level paid. In the same period (Q2 2024–Q1 2025) the average rent for new (existing) tenancies rose annually by 5.3%–6% (4.4%–5.9%) depending on the quarter.

FIGURE 17: ANNUAL RENTAL INFLATION: RENT INDEX VS PROPERTY LEVEL



Source: RTB (2025); Slaymaker et al. (2025)

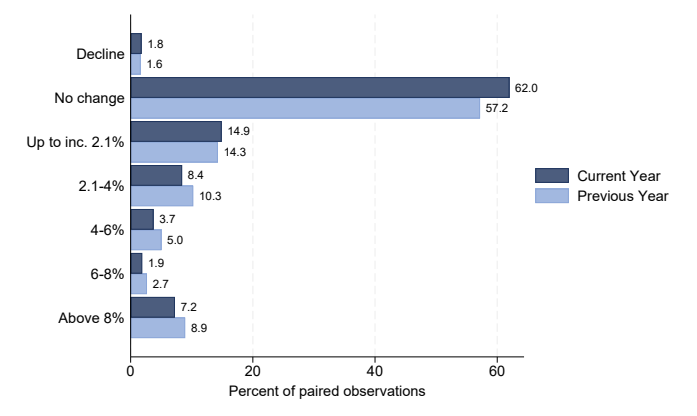
Notes: Property level includes both properties with sitting tenants and those which saw a change in tenants.

This distinction is crucial. Hedonic rent indices measure changes in the average rent level paid, they do not track individual property trajectories. Because the underlying samples vary over time (for both the new and existing tenancy indices), they are impacted by both property-level rent increases, but also by property churn (entry/exit). Where properties enter the sector (new tenancies), or subsequently the sample of existing tenancies, at higher price levels than the existing stock, this drives up the average rent level in the market. Factors currently present in Ireland, such as strong population growth, robust economic growth, limited rental supply, high construction costs, high interest rates and financing challenges, will therefore be reflected in rising average rent levels even where tracking individual properties shows modest within-property rental inflation.

The slowdown in property-level rental inflation in the latest year reflects both a reduced frequency of large rent hikes and a marked increase in properties with unchanged rents. Figure 18, drawn from Slaymaker et al. (2025), shows that 62% of properties recorded no change in rent year-on-year, an increase of 4.8 percentage points compared to the previous year. Another notable feature of Figure 18 is the shift in the

distribution of rent adjustments: the share of substantial increases has declined, while more moderate adjustments have become slightly more common. These trends are likely linked to HICP remaining below 2%, which has limited permitted rent increases in RPZs.

FIGURE 18: ANNUAL PROPERTY-LEVEL CHANGES IN RENT – BANDS

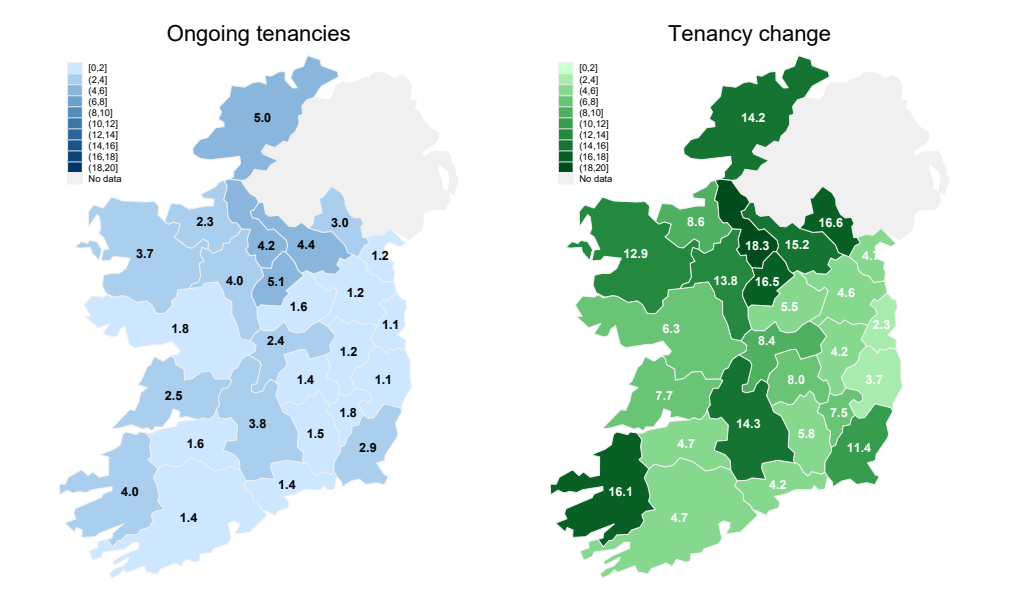


Source: Slaymaker et al. (2025) Figure 4.2

Note: Current year: Q2 2024–Q1 2025. Previous year: Q2 2023–Q1 2024.

Although property-level rental inflation has fallen and remains low nationally, rates are still elevated in counties in the north and north-west, as well as in selected other counties (Figure 19). These areas had little or no coverage by RPZs prior to the nationwide expansion in June 2025. For sitting tenants, average increases ranged from 4% to 5.1% in counties Kerry, Roscommon, Leitrim, Longford, Cavan and Donegal, compared with just 1.1% in Dublin. At turnover, properties in Kerry, Leitrim, Longford, Cavan, Monaghan, Donegal and Tipperary recorded hikes of 14% to 18.3%, versus 2.3% in Dublin.

FIGURE 19: AVERAGE ANNUAL PROPERTY-LEVEL RENT CHANGE BY COUNTY



Source: Slaymaker et al. (2025) Figure 4.11

Conclusion

RTB annual registrations data make it possible to track property-specific rental price trajectories, complementing long-standing Rent Index metrics. These richer data enable a more nuanced understanding of rental sector dynamics and highlight the importance of distinguishing between market-wide indicators and property-level measures that reflect household-level experiences. Both perspectives are crucial and complementary. Currently, they highlight the insider/outsider nature of the sector. Most sitting tenants face minimal rent inflation; while affordability challenges remain due to high rent levels, they are not generally worsening for these households. In contrast, those seeking new tenancies or facing eviction face limited supply and significantly higher rents, with sharper increases at tenant turnover. Structural challenges such as supply shortages and cost pressures continue to drive overall price appreciation in the sector. As rental policy will evolve significantly in 2026,

these richer, property-level data will be critical for understanding nuanced developments and informing evidence-based responses that aim to balance short-term protections with long-term market sustainability.

References

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Disch, W. and R. Slaymaker (2023). *Housing affordability: Ireland in a cross-country context*, ESRI Research Series 164, Dublin: ESRI.

RTB (2025). *Rent Index Q2 2025*, Dublin: Residential Tenancies Board.

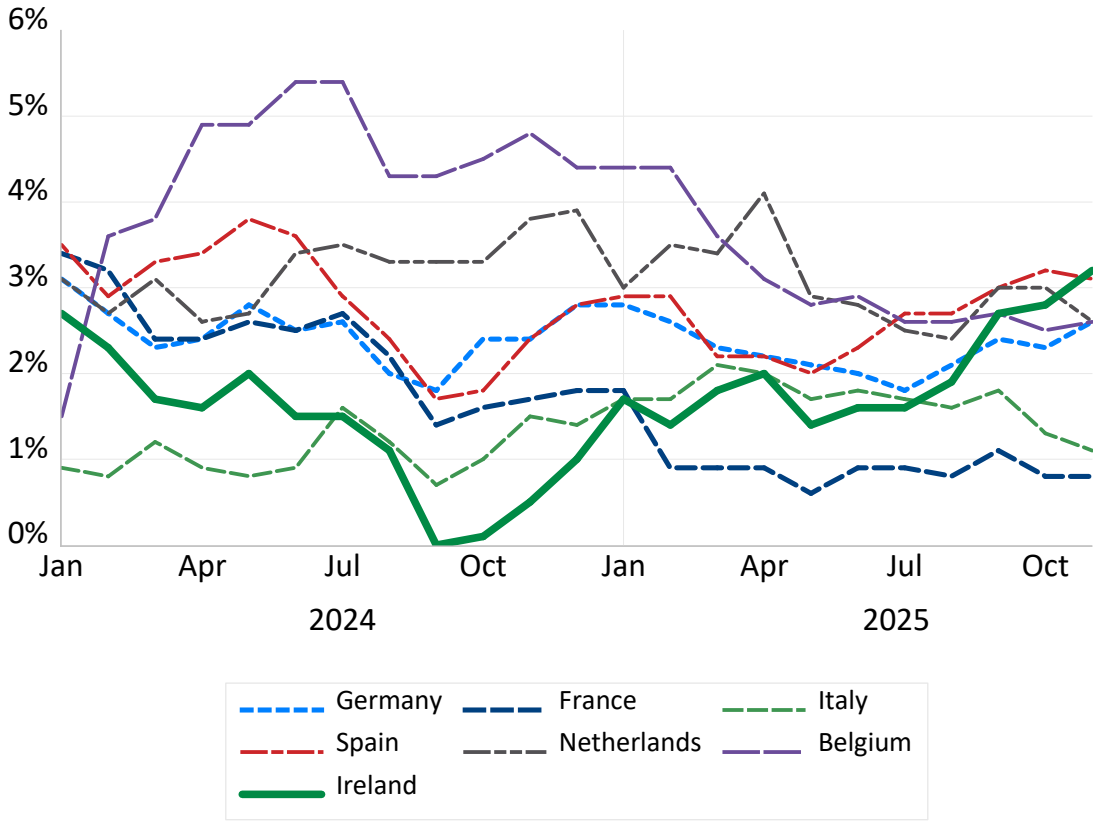
Slaymaker, R., C. Banahan and J. Kren (2025). *Understanding trends in property-level rent inflation*, ESRI Survey and Statistical Report Series 133, Dublin: ESRI.

This box was prepared by Conor Banahan and Rachel Slaymaker.

[a] By Q1 2025 83% of tenancies were located in RPZs. On 20 June 2025 all remaining parts of the country were designated as RPZs.

Figure 20 shows developments in HICP in Ireland and a group of western European countries. The recent uptick in inflation in Ireland leaves price growth in Ireland at the upper end of the distribution of price growth among this group of countries.

FIGURE 20: HICP INFLATION IRELAND AND OTHER EUROZONE COUNTRIES

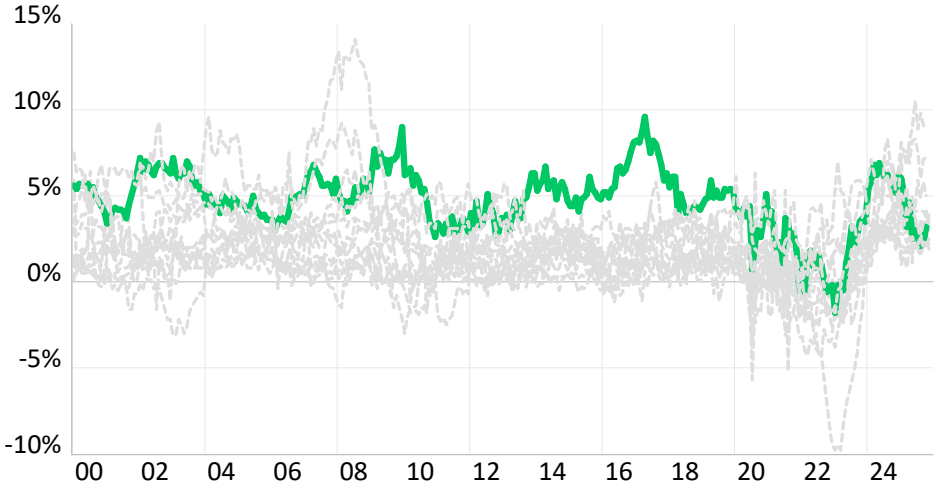


Source: CSO and Eurostat

Services inflation remains slightly higher than goods inflation, though the spread between the two is narrower now than since the beginning of 2023.

This has been a long-run trend in Ireland and across Europe. Figure 21 shows the spread between services and goods inflation in a group of European countries, as measured by the HICP index. Interestingly, the size of the spread between services and goods inflation in Ireland has tended to be larger than in other countries. The period immediately following the pandemic stands out as an outlier when goods inflation exceeded services inflation because of supply chain disruptions.

FIGURE 21: DIFFERENCE BETWEEN SERVICES AND GOODS INFLATION

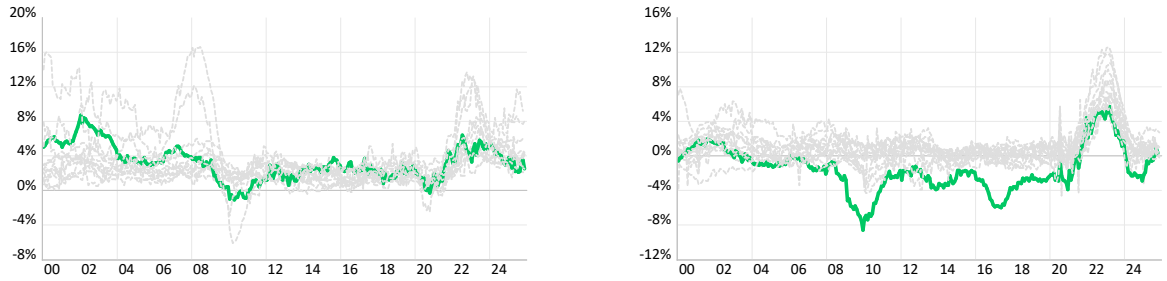


Source: ECB database

Note: Spread captures the outcome of 'HICP services' annual inflation less 'HICP industrial doods excluding energy' annual inflation. The green line shows Ireland while the dashed grey lines show 14 other euro area countries

The mechanical cause of this greater spread in Ireland varies by period. Figure 22 shows that it has predominately been caused by lower goods inflation, although the 2000s contained several periods where services inflation was higher than in most other countries.

FIGURE 22: SERVICES AND GOODS INFLATION



(a) Services inflation **(b) Goods inflation**

Source: ECB database
Note: The green line shows Ireland while the dashed grey lines show 14 other euro area countries

The ultimate causes of the greater spread in Ireland are unclear. At the euro area level, two primary causes are discussed by Lane (2022), namely the degree to which price pressures are domestic or international and the difference in capacity for technological progress.

First, services markets tend to be more domestically-oriented than goods markets. This limits the capacity for global competition to lower prices in services.

Second, goods production benefits more from technological improvement than services production, which tends to be more labour intensive. As such, following a similar mechanism to that described by Baumol's cost disease, there is upward price pressure in the sector that has not benefitted from the productivity increase.

In the Irish case, the impact of these two factors may be augmented by the highly globalised nature of the economy and the relatively limited domestic manufacturing capacity, allowing competition in the goods market to have a stronger effect. This may explain the existence of a spread between services and goods inflation that is larger than the peer group presented above.

A further cause could also be a lack of competition, and/or a lack of scale, in the domestically non-traded services sectors in Ireland. Recent research by

the Competition and Consumer Protection Commission (2025)[5] has indicated that concentration and mark-ups have risen across multiple service sectors in Ireland. These dynamics coupled with the small market size, which may deter new entrants, can all be factors supporting upward price pressure on services relative to goods. Supporting structural reform policies that support competition in service and attempt to boost new entry can lower these prices pressures over time.

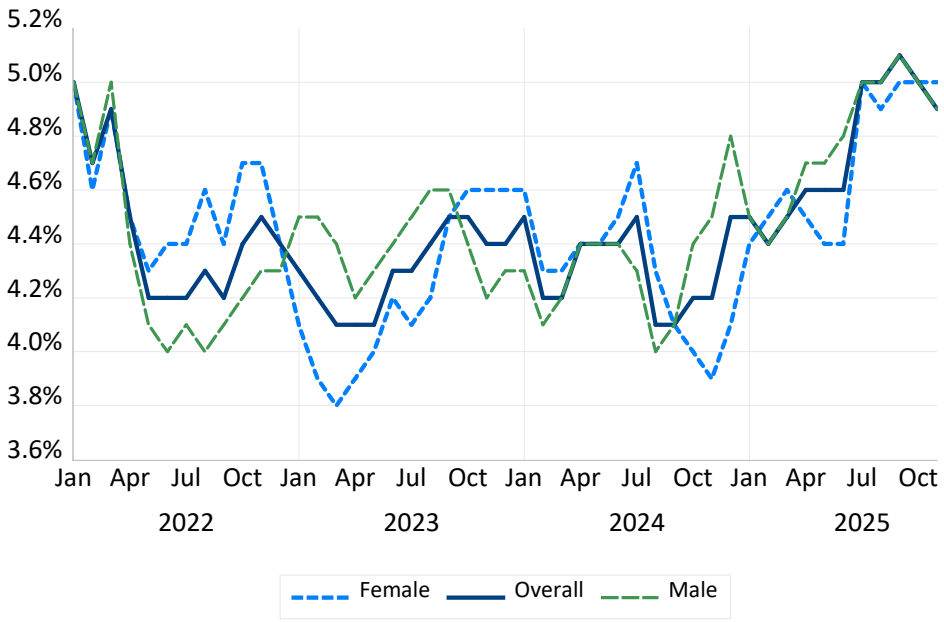
To summarise, it is our expectation that inflation will remain in or around 2% across the forecast horizon. Our forecast for inflation for 2025 is approximately 2.2%, and 2.1% in 2026.

[5] State of Competition Report 2025, https://www.ccpc.ie/business/research/market-studies/the-state-of-competition

Labour market

There has been a general upward trend in unemployment in 2025. The latest monthly estimate of the unemployment rate is 4.9% for November. Figure 23 shows the development of the monthly unemployment rate.

FIGURE 23: MONTHLY UNEMPLOYMENT RATE (SEASONALLY ADJUSTED)



Source: CSO Monthly unemployment estimate

The unemployment rate for youths (aged 15–24) has increased to 13.4%, up from 11.2% in November 2024. However, youth unemployment is increasing at a rate similar to the prevailing youth share before the recent increases. Table 1 shows that youths account for approximately one-third of the additional estimated unemployed persons in November 2025 compared with November 2024. This is similar to the youth share of unemployed persons in November 2024.

TABLE 1: YOUTH SHARE OF SEASONALLY ADJUSTED UNEMPLOYMENT

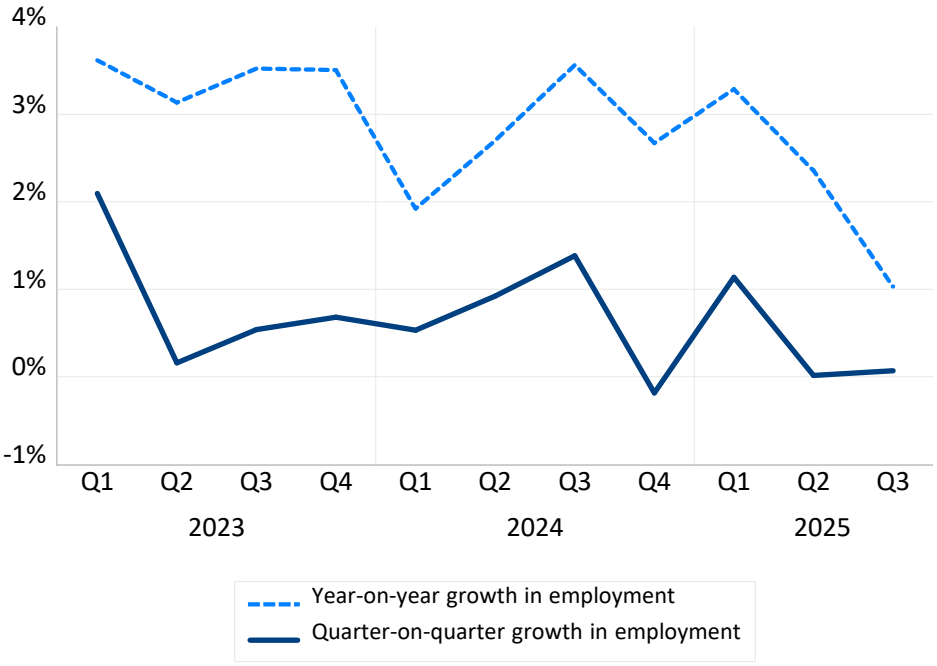
	November 2024	November 2025	YOY change
Youth unemployment (000's workers)	40.6	48.2	7.6
Total unemployment (000's workers)	121.2	144.4	23.2
Youth share of total (%)	33.5%	33.4%	32.8%

Source: CSO Monthly unemployment estimate

Despite the increase in unemployment, employment numbers have continued to increase, though the rate of growth has slowed notably. This marks a continuation of the trend identified in the autumn *Commentary* and we expect growth in employment to continue to moderate in 2026.

The year-on-year growth rate for employment in the third quarter of 2025 on a seasonally adjusted basis is 1%. Figure 24 shows that this represents a clear slowdown in the annual rate of employment growth. Indeed, it is also the case that quarter-on-quarter growth in seasonally adjusted employment has been estimated to be near zero in three of the last four quarters.

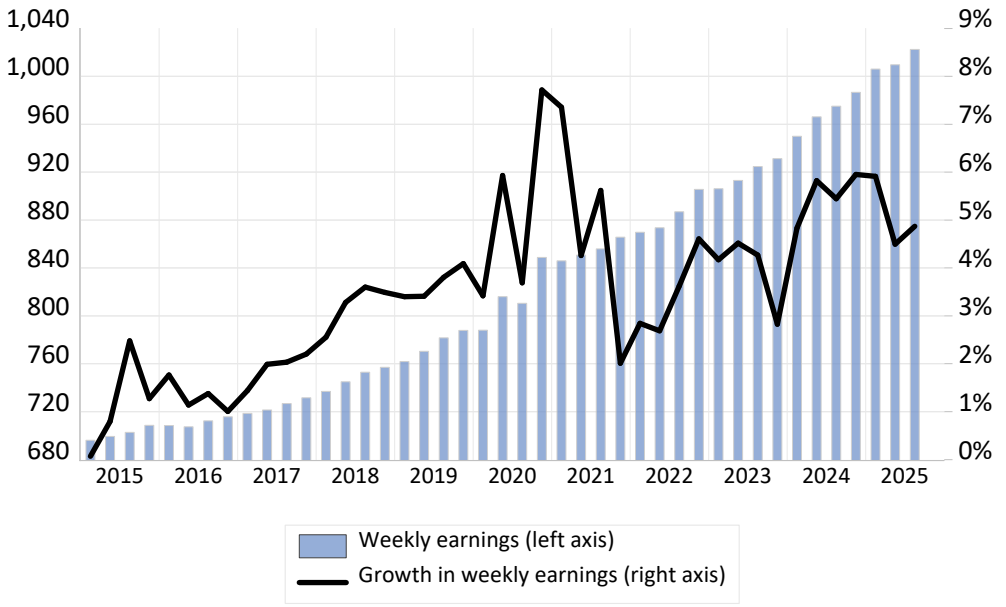
FIGURE 24: GROWTH RATES IN SEASONALLY ADJUSTED EMPLOYMENT



Source: CSO Labour force survey data

Weekly earnings growth has also moderated slightly. Figure 25 presents average weekly earnings on a seasonally adjusted basis. Although the year-on-year growth rate has decreased in 2025 to its current rate of just under 5%, this still represents wage growth that is considerably higher than price growth.

FIGURE 25: AVERAGE WEEKLY EARNINGS IN € (SEASONALLY ADJUSTED) AND YEAR-ON-YEAR GROWTH RATE



Source: CSO Earnings and labour costs data

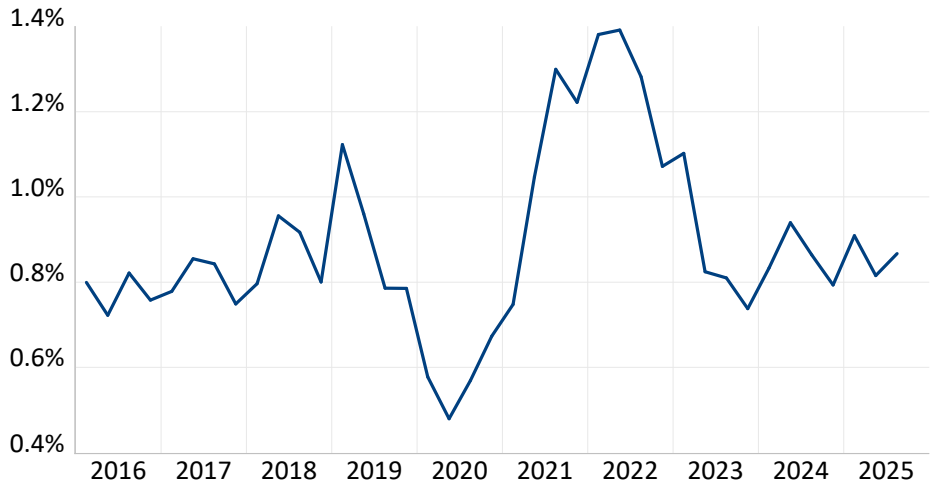
Other labour market indicators that have been discussed in the *Commentary* in the past year are holding steady. The seasonally adjusted participation rate has remained flat at 66% in the third quarter. Indicators of labour market tightness remain at an elevated level compared with the 2010s, though they indicate a slight loosening from the peak of tightness in 2022 and 2023.

However, headline indicators of labour market tightness should be interpreted with caution, as outlined in the autumn *Commentary*. This is because the share of vacancies in public-dominated sectors has averaged 44% in the period 2023–2025, an unusually high share by historical standards.

Figure 26 presents the vacancy rate if a public-dominated group of sectors is excluded. This consists of education, health and public administration, where the State is the primary decision maker in terms of hiring choices.[6]

The market-oriented group presented here is the more relevant group for examining the tightness of the private labour market and understanding the stage of the business cycle. Figure 26 shows that the vacancy rate has returned to the level that prevailed in the period 2016–2020. Headline indicators of labour market show a tighter labour market because of public sector hiring.

FIGURE 26: VACANCY RATE IN MARKET-ORIENTED SECTORS

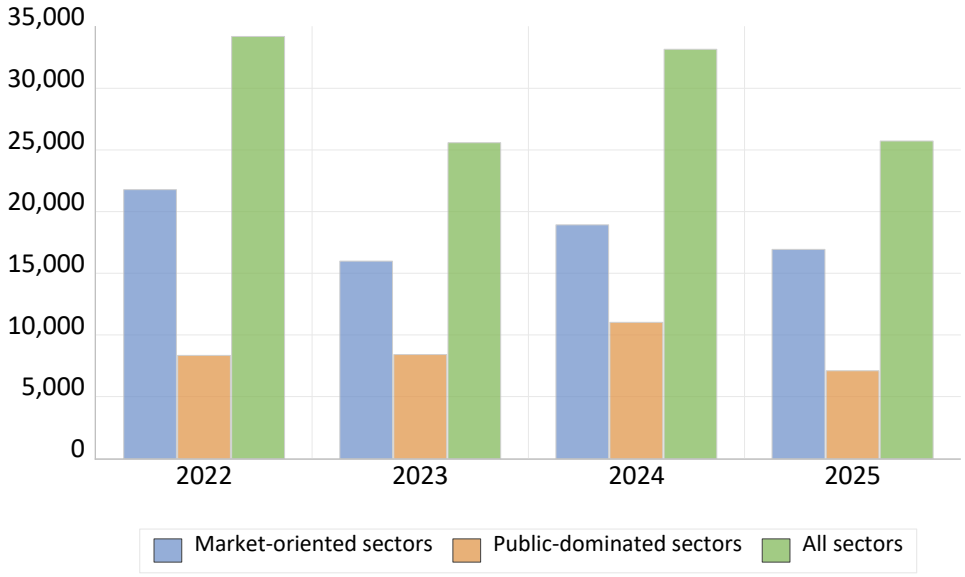


Source: CSO Labour Force Survey and Earnings and Employment Survey
Note: The vacancy rate is equal to vacancies divided by the sum of vacancies and employment. To calculate the vacancy rate in market-oriented sectors, we use vacancy and employment data relating to those sectors.

[6] The remaining sectors are: industry; construction; wholesale and retail trade; transport and storage; accommodation and food; ICT; financial and real estate activities; professional, scientific and technical activities; admin and support; arts and recreation; and other services. As employment in sectors dominated by the public sector is likely to vary with policy choices, it is unlikely to capture the trends in the business economy as determined by market forces.

The autumn *Commentary* noted that employment permits issued in the market-oriented sectors had declined sharply in the second quarter of the year. This has reversed to some extent with a stronger third quarter, though the year-on-year figure for total permits issued in the year to October has declined by 22.5%. Figure 27 shows the number of permits issued in the year to October separated into market-oriented and public-dominated sectors, using the same breakdown of sectors as above.

FIGURE 27: EMPLOYMENT PERMITS, YEAR TO OCTOBER



Source: Department of Enterprise, Trade and Employment employment permit data

Sectoral employment trends

A particularly high figure for employment in the construction sector was published in the Q2 Labour Force Survey (190,000 on a seasonally adjusted basis). However, the Q3 release has seen the figure return to just under 173,000 workers.

The volatility in the quarterly series for employment in construction highlighted in Table 2 makes it difficult to evaluate the trend in employment in the sector. It is difficult to imagine that true seasonally adjusted

employment in the construction sector fell by over 9% quarter-on-quarter in Q3. This suggests that averages should be used if construction employment is being examined, whether as a share of total employment or to show trends in labour productivity in the sector.

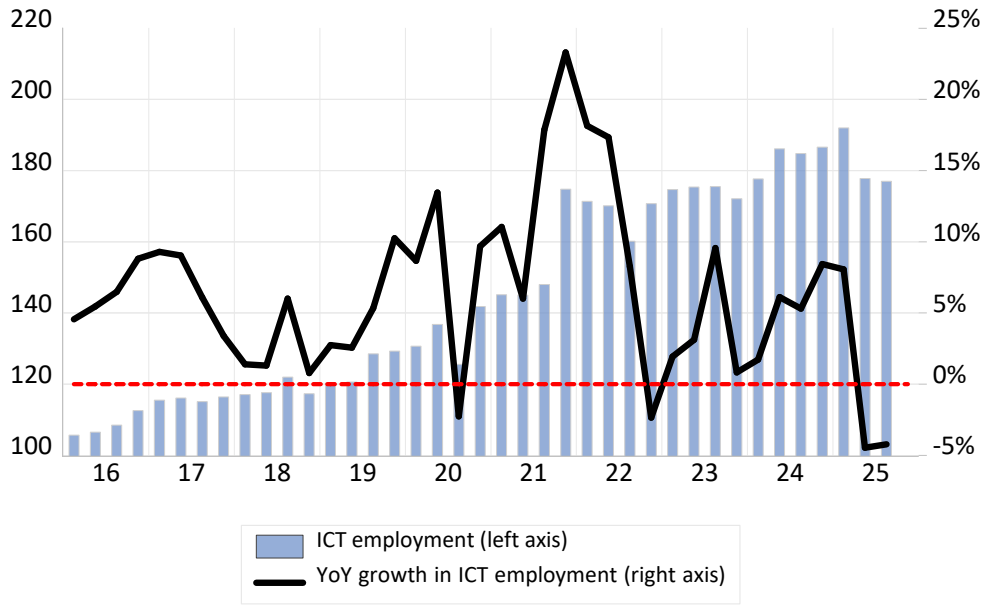
TABLE 2: SEASONALLY ADJUSTED EMPLOYMENT IN CONSTRUCTION

	2024Q2	2024Q3	2024Q4	2025Q1	2025Q2	2025Q3
Employment (000's workers)	160.6	171.6	176.6	182.4	190	172.8
Q-on-Q change (%)	-9%	7%	3%	3%	4%	-9%

Source: CSO Labour Force Survey

In the 'information and communication' sector, the picture for 2025 is clearer. Employment in the sector peaked in late 2024 and declined in Q2 and Q3 of 2025. However, Figure 28 shows that similar declines have occurred in the recent past, and have been followed by continued strong growth. As discussed above, employment in this highly globalised industry will be sensitive to developments in the artificial intelligence sector.

FIGURE 28: EMPLOYMENT IN INFORMATION AND COMMUNICATION SECTOR, THOUSANDS OF WORKERS (QUARTERLY, SEASONALLY ADJUSTED)

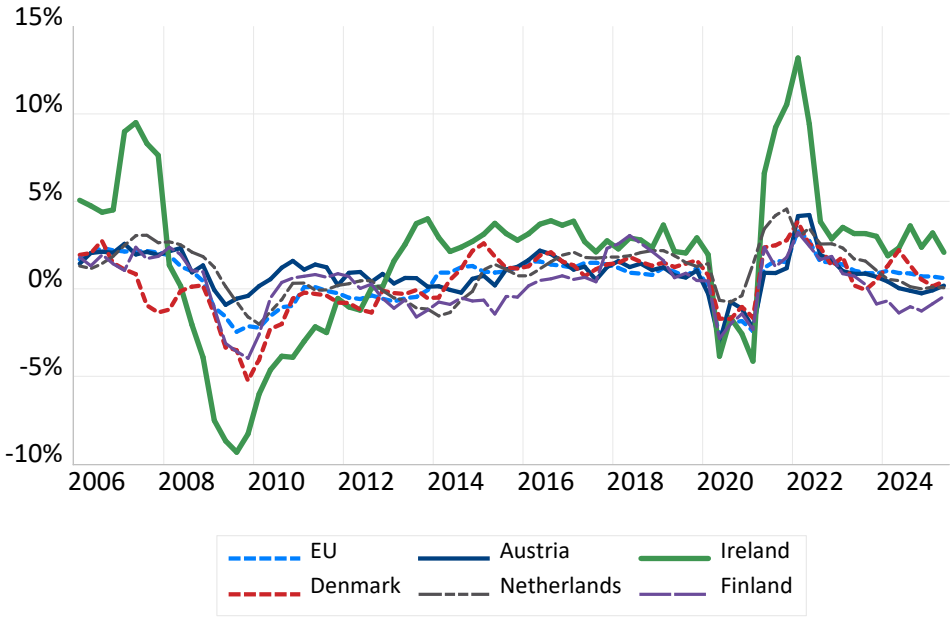


Source: CSO Labour Force Survey

Long-term perspective

Irish employment and population growth has been unusual in a European context. Figure 29 shows employment growth in Ireland, the EU and several small open economies. Irish economic growth has been more extreme than in other countries, with lower troughs and much higher peaks.

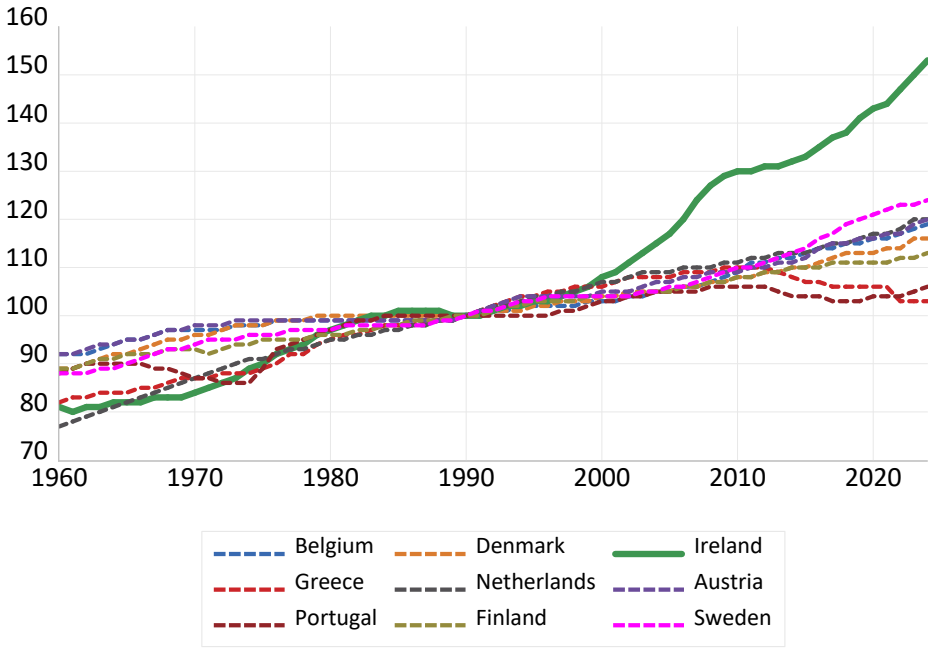
FIGURE 29: EMPLOYMENT GROWTH BY COUNTRY (ANNUAL % CHANGE)



Source: Eurostat

The strong employment growth since 2012 has been facilitated by population growth. Over the very long run, Irish population dynamics have been unique in a Western European context. In the past 30 years, this has manifested itself in sustained strong population growth relative to other countries. Figure 30 presents these dynamics and shows that Ireland was much closer to the average in the 1970s and 1980s than it is today.

FIGURE 30: POPULATION BY COUNTRY (INDEX, 100 = 1990)



Source: Eurostat

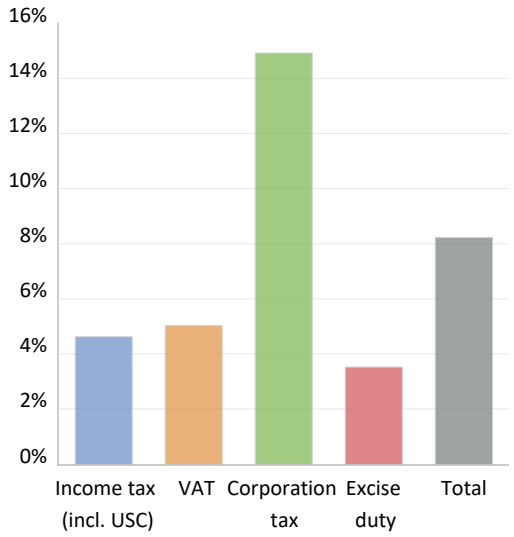
Overall, we expect unemployment of 4.8% and 5.2% in 2025 and 2026 respectively, with employment growth of 2.0% and 1.1%.

Public finances

The public finances continue to show strength in terms of the headline indicators while at the same time containing one of the extreme vulnerabilities for the Irish economy. In Figure 31, we show the growth in the major tax heads up to the end of November 2025, compared to the same period in 2024. Total tax revenue, excluding revenue related to the decision of the Court of Justice of the European Union (CJEU) in the Apple case, amounted to €97 billion. This was €7.3 billion ahead of the 2024 figure for the same period, also adjusting for the CJEU-related revenues (an increase of 8.2%).

Income tax, VAT and excise duties showed growth rates of 4.6%, 5% and 3.5% respectively but the growth in corporation tax revenues is most noteworthy. Excluding the CJEU revenue, corporation receipts were €3.8 billion higher in the 11 months to end-November in 2025 compared to the same period in 2024 (an increase of 14.9%). As a result of these relative rates of growth across the tax heads, corporation tax made up almost 30 % of total revenue in these 11 months compared to almost 26% in the same period in 2024.

FIGURE 31: GROWTH IN MAJOR TAX HEADS, 2024 TO 2025, BASED ON CUMULATIVE TOTAL TO END NOVEMBER



Source: DoF (2025b)

Turning to expenditure, Table 3 illustrates another feature of the public finances – spending overruns relative to plans. There are a number of points in the fiscal year at which plans can be identified but in Table 3, we look at expenditure plans for 2025 contained in Budget 2025, announced in October 2024. As can be seen in the table, total voted expenditure was set to increase from €102.4 billion in 2024 to €105.4 billion in 2025, an increase of 3%. However, the figures up to end November 2025 show total voted expenditure running at 5.7% ahead of the same period in 2024. The acceleration in capital expenditure relative to plans can be seen in positive terms given Ireland's infrastructural needs. However, the overrun on current spending is less welcome, especially as this comes after a number of years of high spending growth and overruns, as discussed most recently by IFAC (2025).

TABLE 3: SPENDING PLANS AND OUTTURNS, 2024 AND 2025

	2024 outturn projected in Budget 2025	Budget 2025 plans	Planned projected growth in Budget 2025	Actual growth in 2025 to end-Nov
Gross voted current expenditure	88,415	90,520	2.4%	4%
Gross voted capital expenditure	13,995	14,925	6.6%	17%
Total voted expenditure	102,410	105,445	3.0%	5.7%

Source: DoF (2024) and DoF (2025b)

All else being equal, the spending overruns shown in Table 3 would suggest a deterioration in the overall budget balance but this is not the case due to the buoyant tax revenues, discussed above. Adjusting for the CJEU-related revenues, an Exchequer surplus of €7.1 billion was recorded in the 11 months to end-November 2025, substantially higher than the €2.8 billion surplus recorded in the same period of 2024.

Budget 2026 was announced on 7 October. In Table 4, we show some of the main fiscal indicators and a striking picture emerges. Tax revenue is projected to increase by 4.4%, adjusting for the CJEU-related revenues. The projected increases for expenditure are greater; 7.3% for gross voted current and 11.7% for gross voted capital. Combined, these changes lead to a projected fall in the general government surplus from €10.2 billion in 2025 to €5.1 billion in 2026. A fall in the surplus can be viewed as an indicator of a fiscal expansion and at a time of high economic growth and low unemployment, such an expansion is inadvisable. But perhaps of greater concern is the projected value for the General Government Balance having adjusted for the windfall element of corporation taxes.[7] For 2026, an underlying general government deficit of €13.6 billion is projected, which would be equivalent to 3.8% of modified gross national income (GNI*). We return to this issue in the general assessment below.

[7] This is the part of corporate tax receipts that cannot be explained by economic activity within Ireland and which, thereby, could be temporary.

TABLE 4: MAIN FISCAL INDICATORS FROM BUDGET 2026

	2025	2026	change
Gross voted current expenditure	91,980	98,700	7.3%
Gross voted capital expenditure	17,100	19,100	11.7%
Tax revenue (excl. CJEU)	104,570	109,180	4.4%
General government balance	10,245	5,120	-5,125
Estimated windfall corporation tax	17,600	18,700	1,100
Underlying General Government Balance	-7,355	-13,580	-6,225

Source: DoF (2025a)

In Table 5, we provide another set of figures from Budget 2026 – the projected increase in revenue across tax heads between 2025 and 2026. As noted above, total tax revenue is projected to grow by 4.4% but there is variation across the heads. The largest increase in both absolute and percentage terms is for income tax. Income tax revenues are projected to grow by €2.3 billion (6.3%) and this is half of the total tax revenue increase of €4.6 billion. According to the Department of Finance (DoF, 2025a), the forecast is 'broadly in line with the projected growth in the national pay-bill (employment plus earnings per employee)'. The decision not to increase bands and allowances in line with wage inflation means that the projected increase in income tax revenues is higher than otherwise, due to fiscal drag.

The next largest increase – again in both absolute and percentage terms – is corporation tax. Its projected increase is €1.9 billion, or 5.8%. At that rate, corporation tax revenue will continue to increase as a proportion of total tax revenue and will reach 31.1% in 2026. VAT is projected to increase by a lower amount: €475 million or 2.1%. These figures reflect in part the decision to reduce VAT for the hospitality industry from 13.5% to 9%, effective from 1 July, at a cost of €232 million (€681 million in a full year).

TABLE 5: PROJECTED REVENUE ACROSS TAX HEADS 2025 AND 2026

	2025	2026	€ mn change	% change
Tax revenue (excl. CJEU)	104570	109180	4610	4.4%
Income tax	36,500	38,795	2295	6.3%
VAT	22,810	23,285	475	2.1%
Corporation tax	32,125	33,975	1850	5.8%
Excise duties	6,450	6,680	230	3.6%
Stamp duties	1,970	1,955	-15	-0.8%
Motor tax	900	840	-60	-6.7%
Customs	615	630	15	2.4%
Capital Gains Tax	2,050	2,090	40	2.0%
Capital Acquisitions Tax	1,150	930	-220	-19.1%

Source: DoF (2025a)

General assessment

The year 2025 will be another one of strong economic growth. We expect modified domestic demand to grow by 4.0%, supported by growth in private consumption (2.9%), government consumption (3.1%) and modified investment (7.7%). We expect that exports will grow by 9.7% in 2025, driven in part by the surge in exports prior to the Trump tariff announcements. This surge has now levelled off and we expect 2026 to see a fall in exports relative to 2025. This, combined with weaker investment in 2026 compared to 2025, will contribute to a weakening of MDD growth in 2026.

We noted above that the international trading climate has provided a positive platform for Ireland in 2025. In the context of the fears that existed earlier in the year about the potential impacts of the Trump tariffs and trade wars, the resilience of the world economy is noteworthy. As we look ahead into 2026, there are some concerns and we will mention just two. First, the EU is facing changing geopolitical circumstances, including a rise in protectionism in both the US and China. This will put the EU's own commitment to free trade under pressure as it might be forced to protect its own industries. Second, the US economy has outperformed expectations which were lowered partly by the Trump tariff announcements. However, much of the growth in the US has been driven by AI-related investments in computing technology and supporting infrastructure. While these investments in AI could lead to widespread productivity increases, there are risks if the expected returns to do not materialise.

The potential impacts of negative external shocks on the Irish economy were quantified recently in Yakut et al (2025) and it is useful to note some of their results. Simulating the impact of a global recession, they estimate that a 5% reduction in demand for exports from Ireland could result in a fall in GNI* of 3.2% by 2030, relative to a baseline where no economic shocks occur. In another scenario, they ask how the Irish economy might react if Ireland's competitiveness declined whereby relative wages and prices declined by 5% in our trading partners. The results suggest that GNI* could be 3.2% lower by 2030 relative to the baseline. These results serve as a reminder of the scale of Ireland's vulnerability to plausible external shocks.

Domestically, the announcement of Budget 2026 was a key event in the quarter. From a macro-fiscal perspective, it was disappointing that concerns voiced by the ESRI and others seemed to be largely unheeded. It is well understood that Ireland needs to tighten its budgetary stance, given that the economy is operating close to capacity. It is also well understood that the current reliance on windfall corporate tax revenues creates a vulnerability for Ireland's public finances. In the case of both, Budget 2026 exacerbated the situation. The fiscal stance was loosened and a higher level of vulnerability with respect to windfall revenues was achieved. Possibly the most noteworthy figure in the budgetary documentation was the projected general government deficit, adjusting for windfall revenues, of €13.6 billion (3.8% of GNI*).

While Budget 2026 could be criticised for not taking due account of future risks, the Department of Finance's *Future Forty* report can be welcomed for highlighting future risks to the public finances. In a thoroughly comprehensive analysis of the factors that are most likely to impact the economy and the public finance out to 2065 – including climate and ageing – the authors present a wide range of scenarios that generally point towards increased pressure on the public finances in the years ahead. This report should prompt policy action so that measures can be taken now to ease the predictable fiscal pressures of the future. The establishment of the Future Ireland Fund and the Infrastructure, Climate and Nature Fund are positive developments, but the analysis in Future Forty shows that these funds can only be part of the solution to the longer run challenges. Increasing the productive capacity of the economy through investment in the coming decade when resources are available is important. Similarly, curtailing pressures related to population ageing might also be needed, such as through increasing the retirement age.

Another valuable report which was published in recent weeks is the *Accelerating Infrastructure* report and action plan. The report provides a roadmap for major reforms of the legal and regulatory systems, which appear to be hampering the speedy rollout of public capital investment. If the implementation plan that is part of the report is successful, the potential exists to remove obstacles and bottlenecks that have acted to slow or prevent the provision of critical national infrastructure. In addition to

quantifying the impact of negative external shocks, Yakut et al. (2025) quantify the impacts of reducing the productivity gap between Irish-dominated and foreign-dominated sectors. The results suggest that the pay-off to productivity-enhancing investments and policies can be large. The successful roll-out of the National Development Plan is a key component in this drive, hence the importance of the successful implementation of *Accelerating Infrastructure*.

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ESRI SPECIAL ARTICLE

Distributional Impact of Tax and Welfare Policies: Budget 2026

Maxime Bercholz, Karina Doorley, Claire Keane, Cian Mowlds, Richard O'Shea, Agathe Simon

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ABSTRACT

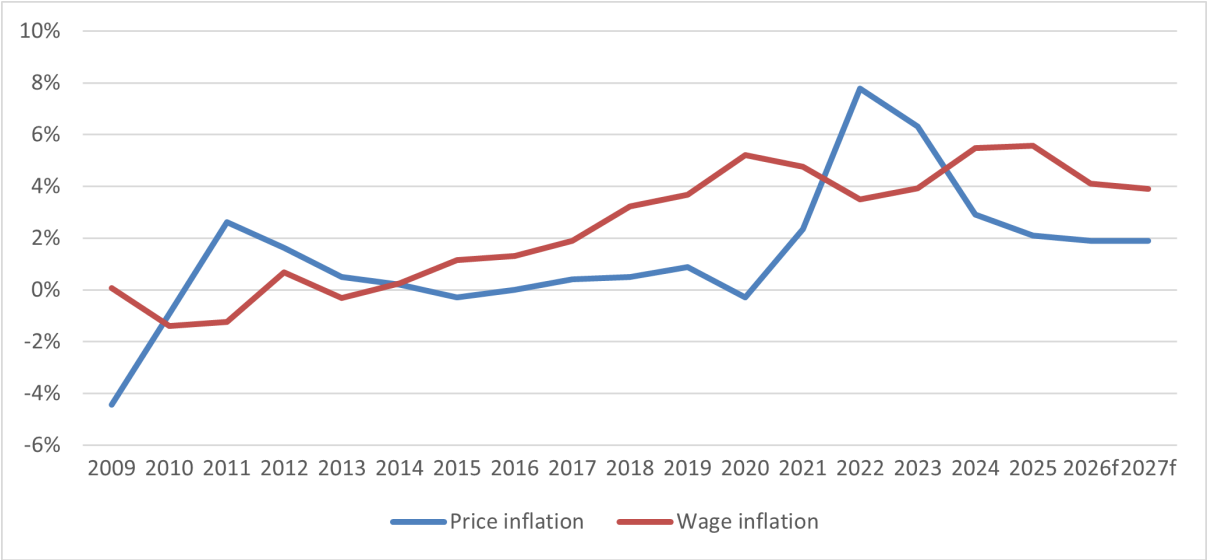
In this Special Article we analyse the distributional impact of Budget 2026. In 2026, average household income is estimated to be 1.3% lower than it would be under a tax–welfare system indexed to price growth, and 1.9% lower than it would be under a system indexed to anticipated wage growth. While increases to welfare rates ahead of price inflation had a positive impact on lower income families, these were offset by the withdrawal of temporary cost-of-living supports, resulting in a loss overall. Middle- and higher-income households were negatively affected by the freezing of income tax credits and bands, as well as the withdrawal of these temporary cost-of-living supports. Overall losses are relatively flat across income groups and family types but are slightly larger for the lowest income 10% compared to the highest 10%. Examining the tax–welfare changes between 2020 and 2026, an interesting pattern emerges. Compared to a 2025 tax–welfare system indexed in line with either price or wage growth over this time period, households, on average, experienced a slight reduction in disposable income due to tax–welfare policy changes since 2020, with middle- and higher-income groups seeing small losses. However, the lowest income decile saw income gains compared to price or wage growth, due partly to welfare for children increasing about three times faster than prices or wages.

1. Introduction

Budget 2026 set out an expenditure package of €9.4 billion. The Irish Fiscal Advisory Council (IFAC, 2025) was critical of the size of the expenditure package, while Barrett et al. (2025) warned that recurrent expenditure is being financed by potentially transitory revenues. IFAC (2025) also pointed out that government spending is regularly surpassing Budget Day projections – for example, Budget 2025 projected a €3 billion increase in spending but the true increase is likely to be over double this, at €7.4 billion.

Between 2020 and 2022, price inflation grew rapidly in Ireland, outpacing wage growth (see Figure 32) and creating affordability issues for consumers. Recent budgets have been characterised by temporary cost-of-living packages seeking to address these inflationary pressures. These measures included credits to assist with energy bills, double payments and lump sums for welfare recipients, and reduced student contribution fees. Doorley et al. (2025) pointed to the importance of these measures in protecting vulnerable groups such as individuals over retirement age and those with a disability – these groups would have seen significant rises in their at-risk-of-poverty rates in recent years were it not for these measures. Budget 2026 sees the withdrawal of temporary cost-of-living policies, with implications for the distribution of income.

FIGURE 32: WAGE AND PRICE INFLATION 2009 TO 2027



In this Special Article, we examine the tax and welfare measures announced in Budget 2026. We begin by outlining the taxation and welfare measures in Section 2. Section 3 presents our analysis of the distributional impact of the combined measures using SWITCH – the Economic and Social Research Institute's (ESRI) tax and benefit microsimulation model. It also estimates the cumulative impact of tax and welfare reforms announced since 2020. Section 4 concludes.

2. Taxation measures

Table A1 in the appendix lists the main taxation measures announced in Budget 2026, alongside the full year cost estimated by the Department of Finance.[8]

2.1 Income tax

The income tax standard rate cut off – the threshold at which the higher rate of 40% begins to be charged on income – remained unchanged in this year's budget. The cut off remains at €44,000 for a single person. In the context of

[8] As our focus is on the distributional impact, we focus on the tax measures that will have an effect on individual/household incomes.

increasing average earnings, this represents an effective tax increase, as a higher proportion of taxpayers' income will be subject to the higher rate. Consequently, even without adjustments to tax bands, Exchequer revenue from income tax is expected to increase. This scenario, known as fiscal drag, occurs when wage growth is accompanied by a corresponding change to income tax structures, causing more of an individual's income to be taxed at a higher rate.

The Universal Social Charge (USC) has seen small changes in Budget 2026. The 2% ceiling has been increased by €1,318 to €28,700. This change was enacted to ensure that the 65c increase to the minimum wage would not put a full-time minimum wage worker into the higher USC band. Additionally, the USC concession has been extended to medical card holders, ensuring that individuals who hold a medical card and receive an annual income of less than €60,000 will have their highest USC rate capped at 2%. Overall, these changes will result in a reduction in liability for all those who pay USC, as higher earners will also benefit from the widening of the 2% band.

2.2 Housing

Budget 2026 included a number of measures aimed at addressing ongoing issues in the housing market. The Rent Tax Credit, which was first introduced in 2023 as a relief for private renters, has been extended to 2028. Eligible renters living in private, non-supported rental accommodation will be entitled to €1,000 per person per year. This will primarily benefit middle income households who are not eligible for housing assistance schemes and earn enough income to incur a tax liability to benefit from the credit.

The Mortgage Interest Tax Credit, originally introduced on a temporary basis in Budget 2024, is being extended by one further year to the end of 2026. This tax credit is available for homeowners with an outstanding mortgage balance of between €80,000 and €500,000 at 31 December 2022. The credit is only accessible to people who hold variable and tracker rate mortgages, and amounts to 20% of the increased interest paid in 2024 compared to 2022. This relief is capped at €1,250. Like the Rent Tax Credit, this relief will mainly benefit middle- and higher-income households, as

there are very few households in the lowest two-fifths of the income distribution with a tracker or variable rate mortgage (Byrne et al., 2023).

To address a recent fall in the number of new apartments being built, the Government has introduced a reduced VAT rate of 9% (previously 13.5%) on the sale of new apartments. This measure is aimed at addressing viability issues and increasing the supply of apartments in the housing market.

The Minister of Finance also announced that a new Derelict Property Tax is to be introduced, to replace the Derelict Sites Levy. This tax will be charged at 7% of a property's market value, and is aimed at reducing the volume of vacant and derelict properties around the country. This tax will not be administered until 2027.

Other housing measures announced in the budget include the exemption of rental profits from homes in the Cost Rental Scheme from corporation tax, the expansion of the Living City Initiative and the extension of the Residential Development Stamp Duty Refund Scheme to 2030.

2.3 Indirect tax

The indirect tax measure in this year's budget that has attracted most attention is the reduced VAT rate applied to sections of the hospitality and services sector. Businesses in the food, catering and hairdressing sectors will be subject to a 9% VAT rate from 1 July 2026. This much debated change to VAT rates is aimed at addressing ongoing pressures faced by these industries as a result of rising operating costs. Little evidence has been provided on the necessity or effectiveness of such a cut, however. The measure is projected to cost €681 million on an annual basis, equivalent to 60% of the total cost of welfare measures enacted in Budget 2026.

Additionally, the reduced VAT rate of 9% on the supply of gas and electricity will be maintained until the end of 2030. This was first introduced as a temporary measure in response to the energy crisis following the Russian invasion of Ukraine. The continuation of the reduction is intended to ease the burden of energy costs borne by households, which remain at an elevated level.

In line with commitments made under the Finance Act 2020, there was a pre-announced increase in carbon tax of €7.50 per tonne. This brings the carbon tax per tonne of CO2 emitted to €71. This is the latest of successive planned annual increases until 2030. The €5,000 VRT relief for electric vehicles was also extended to the end of 2026.

Excise duties on tobacco increased, this year by 50c per pack of 20 cigarettes, a smaller increase than the previous year's €1 increase. Excise duties on alcohol and other nicotine-based products remained unchanged.

The 20% reduction in public transport fares, which was first put in place in 2022 as a temporary measure and as part of a broader effort to increase the viability and accessibility of public, was extended, as was the 50% reduction in fares for young adults.

3. Social welfare measures

A defining feature of this year's budget was the rollback of temporary cost-of-living measures which had been a core element of Budget Day announcements in recent years. In response to rising prices of energy, groceries and other goods, previous budgets had focused on increasing incomes through double or one-off lump-sum welfare payments and direct cost reduction mechanisms such as the energy credit. This year's approach marked a shift away from such measures with no universal energy credits, double Child Benefit payments or one-off lump sum payments awarded.

There was a €10 increase in the maximum rate of core social welfare payments. There will be proportional increases for people on reduced or partial payments. These include benefits for jobseekers, pensioners and people with disabilities. The usual 'Christmas Bonus' double payment will be paid to people in receipt of the old age pension and other long term social welfare payments.

For most social welfare recipients, these increases are larger than either the forecast price growth[9] of 2.2% or the wage growth[10] of 3.7% in 2025 – for example the €10 increase in the personal rate of working age payments

[9] Taken from Barrett et al. (2025).
[10] Taken from Central Bank (2025). 'Compensation per employee' series.

represents an increase of 4.1%. However, since retirement age payments tend to be higher than working age payments in nominal terms, the undifferentiated €10 rise results in a lower percentage increase for this group – an increase of 3.5% for the personal rate of the State Pension (Contributory) and 3.6% for the State Pension (Non-Contributory). Both are ahead of anticipated price growth but below anticipated wage growth. This issue is further exacerbated by the Living Alone Increase,[11] mainly received by those over state pension age and which remains unchanged since 2022.

The Child Support Payment (CSP, previously known as Increase for a Qualified Child) increases by €8 (16%) for children under the age of 12 and €16 (26%) for children 12 and over, significantly ahead of price and wage growth forecasts. The income threshold for the Working Family Payment, an in-work support for low-income families, increases by €60 per week. For families with young children, the Back-to-School Allowance, a programme that assists in the expenses of schooling, was extended to include two and three year olds. The universal Child Benefit remains unchanged, falling in real terms.

Increased supports for carers were also included in this year's budget package. The income disregard for the Carer's Allowance was increased by €375 to €1,000 for single individuals (€2,000 for couples). A €20 monthly increase to the Domiciliary Care Allowance was also introduced.

The temporary reductions in the student contribution fee for third-level students, introduced in Budgets 2023, 2024 and 2025, were not continued in 2026. Instead, a permanent reduction in the student contribution fee was introduced, setting the maximum annual fee at €2,500. While this represents an increase relative to the temporary reductions of recent years, it remains below the previous level of €3,000.

Finally, supports to mitigate against the elevated cost of home energy were introduced. The weekly Fuel Allowance was increased by €5 per week. This payment was also extended to recipients of the Working Family Payment.

[11] The Living Alone Increase is an extra payment paid to certain welfare recipients who live alone.

4. Distributional impact analysis

We use SWITCH – the ESRI's tax benefit microsimulation model – to assess the combined impact of taxation and welfare policy changes on household income.[12] The appendix details the range of policy reforms modelled. SWITCH is linked to data from the 2022 Survey of Income and Living Conditions (SILC), the primary source of information on household incomes collected annually by the Central Statistics Office (CSO). The data are reweighted to be representative of the 2022 population (in terms of demographics, employment, income and social welfare), and uprated to reflect price and income growth between 2022 and 2026. Thanks to the scale, depth and diversity of this survey, its data can be used to provide an overall picture of the impact of the policy changes on Irish households, something that cannot be gained from selected example cases. The model includes expenditure estimates by sub-category collected by the CSO's nationally representative Household Budget Survey in 2015–2016,[13] which also allows for the analysis of indirect taxes.[14]

While not part of Budget 2026, it was announced in 2023 that Pay-Related Social Insurance (PRSI) rates will rise from October 2024 onwards to help fund the introduction of the Jobseeker's Pay-Related Benefit and tackle state pension funding pressures.[15] Our analysis therefore includes the planned 0.15% PRSI rise for 2026.

As temporary measures have been a substantial feature of recent budgets, some households may have depended on such measures to meet cost-of-living pressures. In addition, while price growth has slowed (see Figure 32) prices remain at a permanently higher level than before the large growth in inflation. It is therefore important that the analysis accounts for the distributional impacts of the withdrawal or reduction of such measures in Budget 2026. We therefore separate the impact of 'permanent' changes

[12] See Keane et al. (2023) for a description and validation of the SWITCH model.

[13] The SWITCH model uses the EUROMOD platform and uses EUROMOD's consumption microdata estimates. A full description of the imputation and validation of expenditure microdata is available here

[14] Income rates are uprated to 2026 levels using earnings indices. Expenditures are uprated to 2026 levels using price growth indices.

[15] All employee PRSI rates increased by 0.1 percentage points in 2024 and 2025, and will increase 0.15 percentage points in 2026 and 2027, and to 0.2 percentage points in 2028. See Department of Social Protection (2023). 'Minister Humphreys secures Cabinet approval for major Social Welfare reforms', press release, 21 November.

to the tax and welfare system from the impact of the withdrawal of temporary measures.

Two factors make it seem unlikely that relevant cuts will be passed on to the consumer: the fact that the food industry lobbied for the VAT cut, with the aim of 'securing long-term viability' for businesses in the sector; and the Minister for Enterprise's statement that the measure was to 'inject viability' into the hospitality sector rather than to be passed through to workers (in the form of higher wages) or consumers (through lower prices).[16] This is supported by research from IFAC (Carroll, 2025), which found evidence of an asymmetric VAT pass-through – i.e. VAT increases tend to be passed through from companies to consumers more than VAT cuts. We therefore assume in our analysis that none of the VAT reduction in the food, catering and hairdressing sector is passed through to the consumer.[17]

We begin by presenting results for the impact of Budget 2026 in isolation. To assess the medium-term picture – and to understand how the tax and welfare system has evolved independent of the cost-of-living crisis – we also estimate the impact of permanent direct tax and welfare policy changes between 2020 and 2026.

For both the 2025–2026 comparison and the 2020–2026 comparison, we compare to a scenario in which policy parameters of the direct tax and welfare system are indexed in line with actual and/or forecast price or wage growth.[18] Examining whether the tax and welfare system has kept pace with price inflation allows us to see if increases allow individuals maintain their standard of living. As argued by Bargain and Callan (2010) and Callan et al. (2019), comparing to a baseline scenario pegged to wage growth provides a distributionally neutral benchmark against which to assess policy reforms. Tax and welfare adjustments in line with wage growth would prevent fiscal drag and ensure that social welfare incomes would not fall behind those of employment incomes. This would help prevent poverty rates and inequality rising. We then use SWITCH to calculate households' social welfare

[16] Curran, I.(2025). 'Hospitality VAT cut about sector's viability, Burke says', *Irish Times*, 8 October.

[17] Table A1 in the appendix shows the impact of indirect tax changes in Budget 2026, including a full pass-through of this VAT reduction. Effects are very small compared to the impact of direct tax and welfare measures.

[18] For the analysis of indirect tax changes (2025–2026 analysis), we index our baseline scenario in line with price growth, which is a more appropriate indexation factor for expenditure.

entitlements, tax liabilities (both direct and indirect) and net incomes under each system.

Indexation of the tax and welfare system would help provide certainty to welfare recipients and workers but would also, of course, come at a cost. For Budget 2026, this cost is estimated to be €1.2 billion for price indexation and €2 billion for indexation in line with wage growth; significantly ahead of the actual costs of the tax–welfare measures analysed here.

4.1 The distributional effect of Budget 2026

Figure 33 shows the distributional effect of tax and welfare changes announced as part of Budget 2026, compared to a price-indexed 2025 policy system. Figure 3 shows the results compared to a wage-indexed 2025 policy system. Households are ranked by their equivalised disposable income, from lowest to highest, and split into ten equally sized groups (income deciles).[19] Overall, Budget 2026 results in a small reduction in disposable income (-1.3% under price indexation or -1.9% under wage indexation). The 'permanent' Budget 2026 measures are progressive, resulting in real increases in income for those at the lower end of the income distribution and losses for those on middle–high incomes. This result is driven by the increases in social welfare (discussed in Section 3) that were ahead of both price and wage inflation. For those higher up the income distribution, where social welfare makes up a smaller (or nil) proportion of income, the freezing of the standard rate income tax band and tax credits,[20] along with no increase in the universal Child Benefit payment (reflecting a reduction compared to price or wage growth), results in a fall in disposable income.

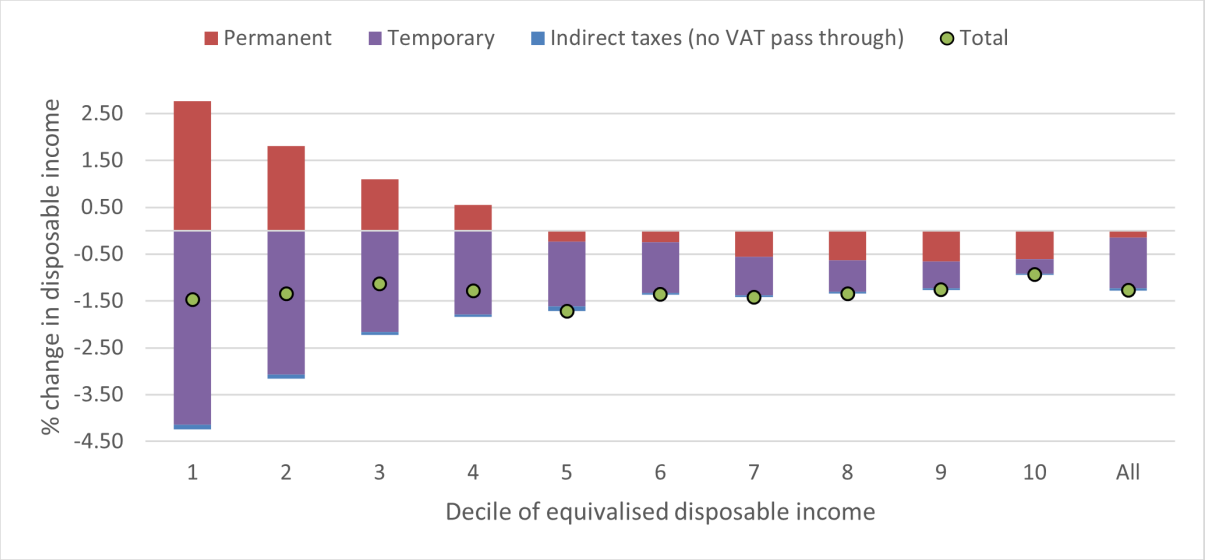
Despite the positive impact of the permanent tax and welfare system for those in lower income families, the withdrawal of the temporary cost-of-living supports (along with small negative impacts of indirect tax reforms) results in an overall loss, right across the income distribution. These temporary measures were playing an important role in supporting the

[19] Equivalisation adjusts total household income to take account of the number of adults and children in the household.

[20] We estimate that it would have cost €521 million in 2026 to increase the standard rate band and tax credits in line with the 2.2% price growth forecast, or €870 million to increase the standard rate band and tax credits in line with the 3.7% forecast wage growth for 2026.

income levels of lower-income families; therefore, their withdrawal is more strongly felt at the lower end of the income distribution. This results in a larger negative impact of Budget 2026 for the lowest income group (-1.5%/-2.6% under price/wage indexation) compared to the highest income group (-0.9%/-1.3% under price/wage indexation).

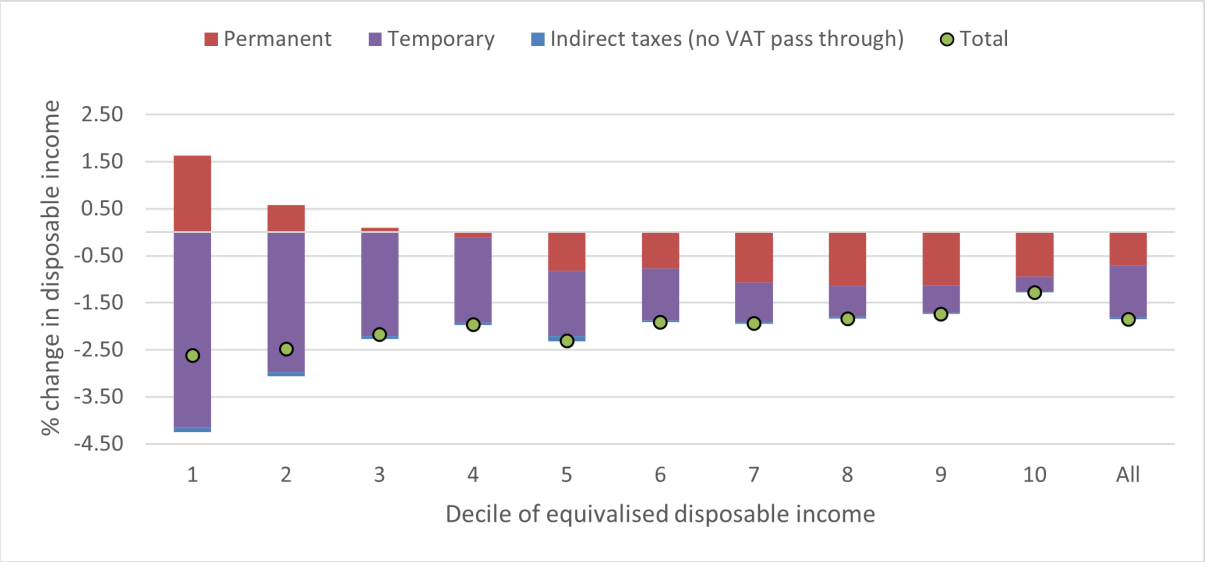
FIGURE 33: DISTRIBUTIONAL IMPACT OF BUDGET 2026 COMPARED TO PRICE INDEXED 2025 POLICIES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels. Expenditure shares are imputed using the 2015/16 Household Budget Survey.

Note: Deciles are based on equivalised household income, using CSO national equivalence scales.

FIGURE 34: DISTRIBUTIONAL IMPACT OF BUDGET 2026 COMPARED TO WAGE INDEXED 2025 POLICIES



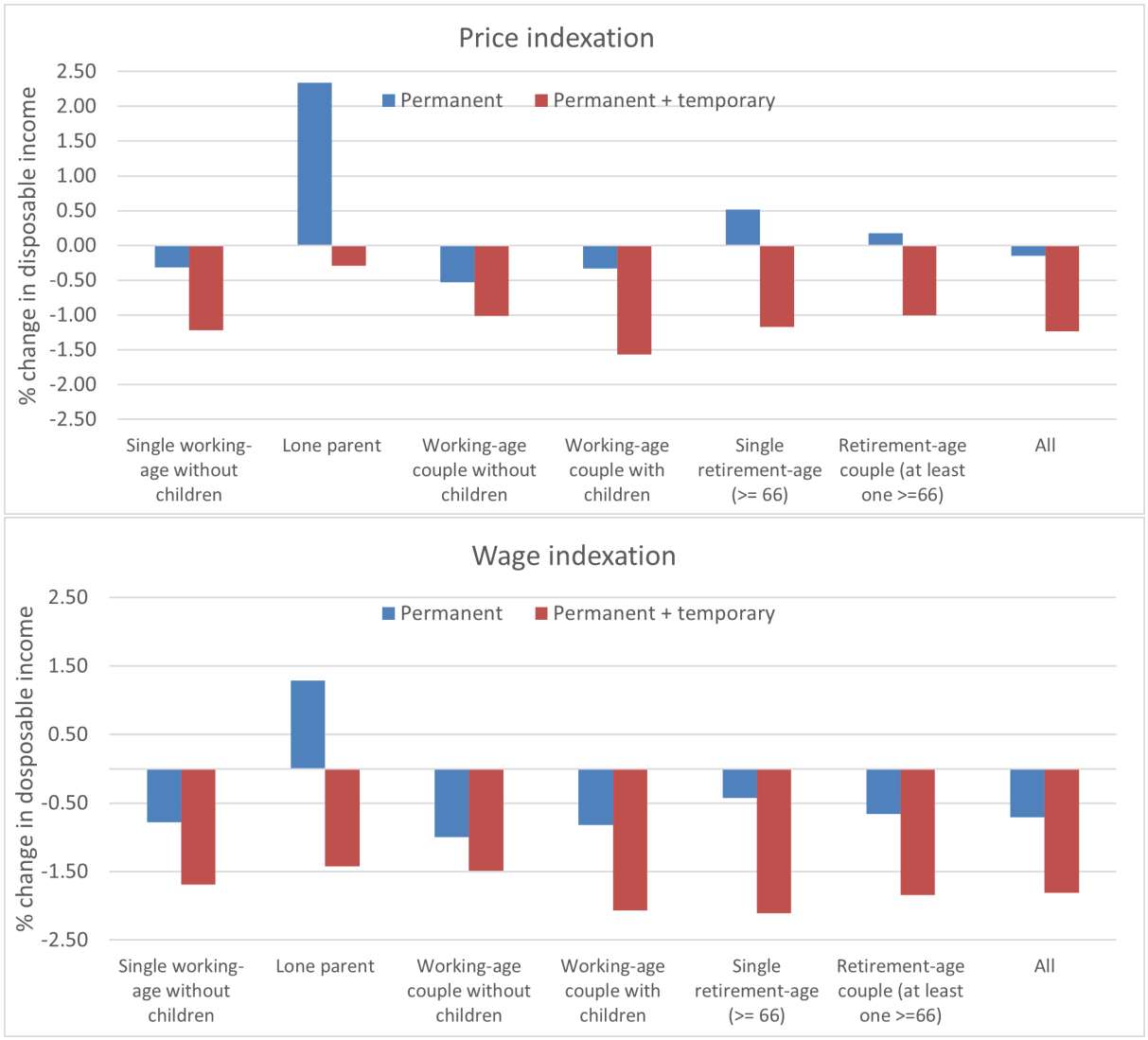
Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels. Expenditure shares are imputed using the 2015/16 Household Budget Survey.
Note: Deciles are based on equivalised household income, using CSO national equivalence scales.

4.2 The effect of Budget 2026 by household type, gender and disability status

We further examine the distributional impact of Budget 2026 by family type, gender and disability status.[21] Figure 35 displays the impact of direct tax and welfare measures of Budget 2026 by household type compared to both a price-indexed and wage-indexed 2025 tax–benefit system. While lone parent families see some gains from the permanent Budget 2026 tax and benefit measures (as well as families headed by those aged 65+ under price indexation), these revert to overall losses once the withdrawal of temporary measures are implemented.

[21] It is not possible to estimate the impact of indirect tax changes for these groups as expenditure data are collected at the household level. As can be seen from Figures 33 and 34, indirect tax changes account for a very small part of the overall distributional impact of Budget 2026.

FIGURE 35: DISTRIBUTIONAL IMPACT OF BUDGET 2026 BY HOUSEHOLD TYPE COMPARED TO PRICE AND WAGE GROWTH INDEXED 2025 POLICIES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: Excludes indirect tax changes.

Figure 36 shows the estimated effects of direct tax and welfare policy changes, both permanent and temporary, from Budget 2026 by gender. For this analysis, we assume that income is split evenly between individuals in a couple. On average, men experience sharper losses than women (-1.8%

compared to -1.2% for women, under wage indexation), reflecting their higher wages and higher labour supply, which increase their exposure to fiscal drag.

FIGURE 36: DISTRIBUTIONAL IMPACT OF BUDGET 2026 BY GENDER

Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

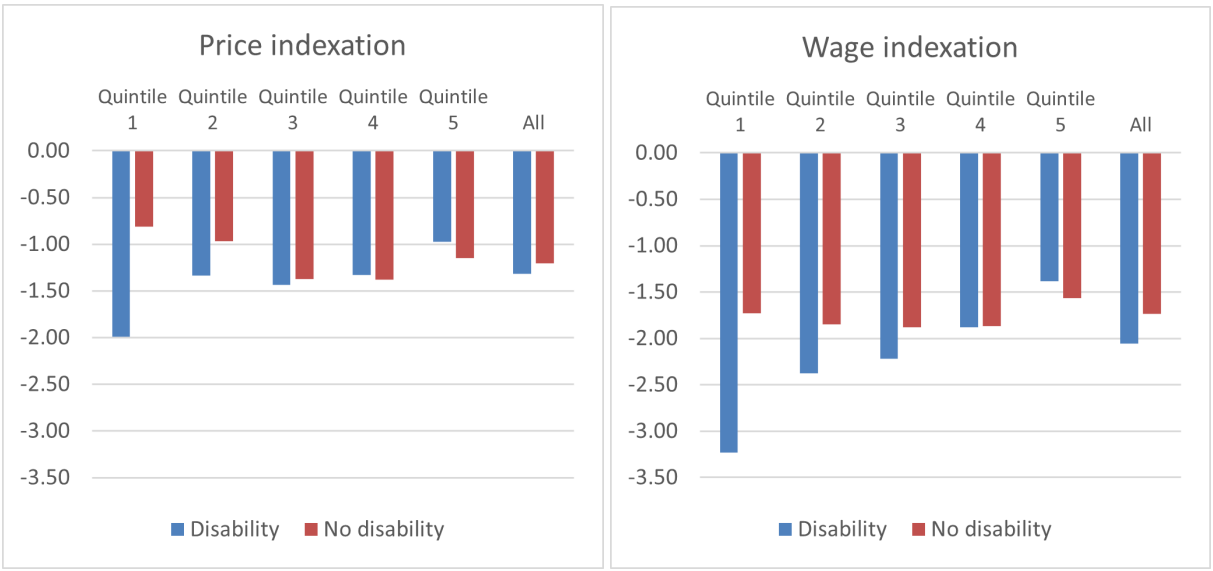
Note: Income is assumed to be fully shared between members of a couple. Quintiles are based on equivalised household income, using CSO national equivalence scales. Excludes indirect tax changes.

Figure 37 shows the estimated effects of Budget 2026's direct tax and welfare policy changes, both permanent and temporary, by disability status. We identify households with disabilities as those in which there is at least one member who self-declares to have a medical condition that limits them in their daily activities.[22] Households affected by disability experience sharper losses in income, particularly those in lower income groups. Doorley et al. (2025) highlighted the importance of the temporary cost-of-living measures in protecting the income of vulnerable groups such as those with a

[22] The precise definition we employ in the SILC data is to identify as having a disability those who respond positively to the following two questions:
Do you have any chronic physical or mental health problem, illness or disability?
Are you hampered [limited] in your daily activities by this physical or mental health problem, illness or disability?

disability – therefore, it is unsurprising that households containing a person with a disability are more negatively impacted by their withdrawal.

FIGURE 37: DISTRIBUTIONAL IMPACT OF BUDGET 2026 BY DISABILITY STATUS



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: We identify people with a disability as those who respond positively to the following two questions: 'Do you have any chronic physical or mental health problem, illness, or disability?' and 'Are you hampered [limited] in your daily activities by this physical or mental health problem, illness or disability?' Quintiles are based on equivalised household income, using CSO national equivalence scales. Excludes indirect tax changes.

4.3 The effect of Budget 2026 on income inequality and at-risk-of-poverty rates

Table 6 shows the impact of Budget 2026 on income inequality, as measured by the Gini index, and at-risk-of-poverty (AROP) rates. Compared to an indexed 2025 policy, we estimate no real change in inequality as a result of Budget 2026, with the Gini index hovering around 27.

Neither are there any large changes in poverty rates attributable to Budget 2026 compared to the poverty rates that would have prevailed if the 2025 system had just adjusted in line with price or wage growth. These results

reflect the fact that losses relating to Budget 2026 are relatively flat across income groups. Doorley et al. (2024) pointed to the protective effect the temporary cost-of-living measures had on the incomes of certain groups. These results show that while the withdrawal of these temporary measures is having a stronger negative impact on lower income groups, the countervailing positive effects of the permanent tax–welfare system (specifically the increases in social welfare rates) for lower income groups is helping ensure no significant rises in poverty rates.

TABLE 6: IMPACT OF BUDGET 2026 ON INCOME INEQUALITY AND POVERTY COMPARED TO WAGE-INDEXED 2025 POLICIES

	2025 price indexation	2025 wage indexation	Budget 2026
Gini index	27.0%	26.9%	27.1%
Poverty rate			
Working age	11.5%	11.3%	11.3%
65+	20.7%	19.6%	20.4%
Child	14.8%	14.5%	14.3%
Population affected by disability	25.2%	24.4%	24.8%

Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: The poverty rate is calculated based on a poverty line equal to 60% of median equivalised disposable income. The CSO equivalence scale is used. Working age is defined as aged 18–65, and children as those under age 18. People with disabilities are identified as those who self-report to having an illness or disability that limits them in their daily activities.

Although poverty rates are expected to change little, if at all, as a result of Budget 2026, this reflects the budget's relatively even distributional impact, given that poverty is a relative measure. For example, during the Great Recession households saw average income losses of about 10%, yet poverty rates actually fell. This occurred because incomes declined across the entire distribution, even though deprivation rates rose sharply.[23] It is therefore worth noting that the withdrawal of temporary measures may have

[23] As shown in Callan et al. (2014) the at-risk-of-poverty rate fell for the population overall from 19.4% in 2004 to 16% in 2011. Meanwhile, the deprivation rate (the proportion of the population experiencing enforced deprivation of 2 or more items from a set of 11 basic deprivation indicators) rose from 14.1% of the population to 24.5% over the same time period.

knock-on effects on deprivation rates;[24] the permanent tax–welfare changes are not fully compensating for their withdrawal. It is not possible to use SWITCH to estimate the impact on deprivation rates, as we do for poverty rates; this is because poverty rates depend solely on relative incomes while, as discussed in Maître and Alamir (2024), deprivation levels will depend not just on current income but also on savings and potential debt accumulation. Therefore, while actual reported deprivation levels should be monitored, they are inevitably published with a time lag.[25]

4.4 The effect of permanent policy reform, 2020–2026

We next consider the distributional impact of budgetary policy since 2020. To do so, we compare a 2026 policy system to an indexed 2020 system, examining indexation in line with both price growth and wage growth. This shows how changes to the permanent tax and welfare system have affected real income since the initial sharp rise in inflation. Direct tax and welfare policy parameters in the baseline are indexed by the 25% price inflation or 28% wage growth that occurred over this time period.[26][27]

Figure 38 shows the effects of policy changes in Budget 2026 compared to an indexed 2020 policy scenario. On average, households lost 0.2% of disposable income compared to price growth, or 1.2% of disposable income compared to a wage indexed 2020 tax–welfare system. The pattern differs by income decile however – the middle- and higher-income deciles have all experienced a small income reduction due to tax–welfare policy compared to price or wage growth (the average reduction for deciles 5–10 is -0.8% for price indexation and -1.8% compared to wage indexation). The lowest income decile gained most relative to a system pegged to wage growth (+9% compared to price growth and +7% compared to wage growth). This reflects the fact that while welfare payments for those over 65 have slightly lagged behind the price and wage inflation seen since 2020 – for example, the personal rate and Increase for a Qualified Adult (IQA) for recipients of the State Pension (Contributory) rose by 21% between

[24] The material deprivation rate is defined as a household's inability to afford at least 2 out of 11 basic items considered essential for a typical standard of living, such as a warm coat etc.

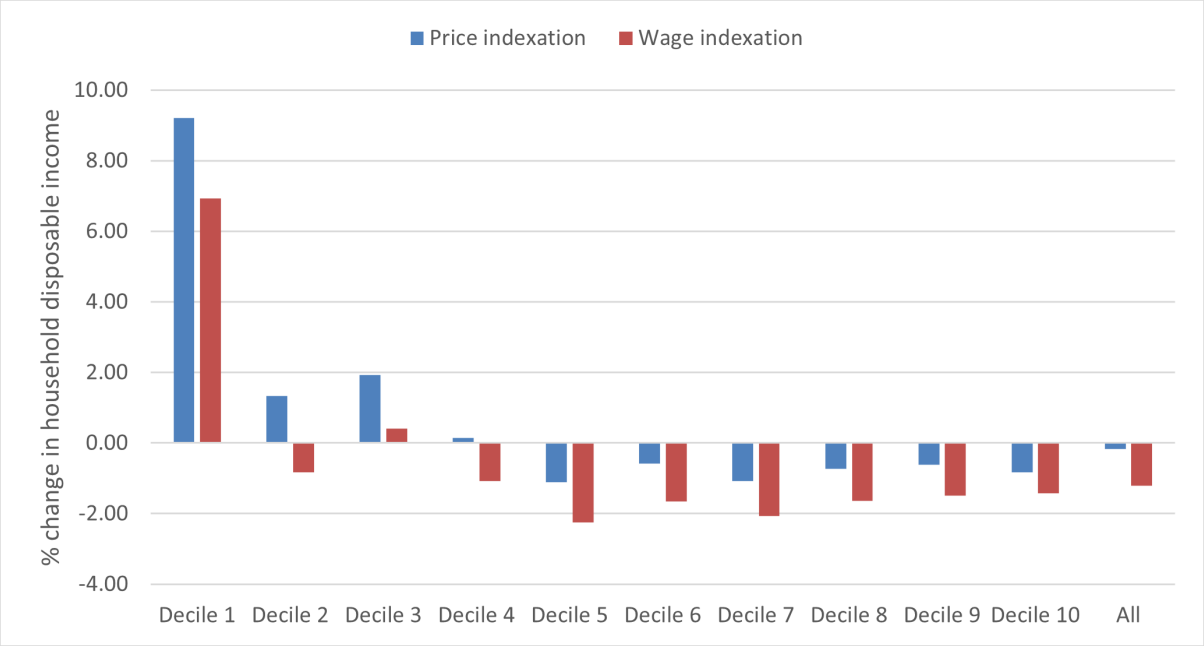
[25] The latest available statistics on deprivation are from SILC data for 2024.

[26] Capacity to model indirect tax changes was only incorporated into SWITCH in 2025; therefore, analysis of indirect tax changes between 2020 and 2026 is not currently possible.

[27] Price inflation is taken from the CSO up to 2024 and the 2025-26 value is as in footnote 9. Wage inflation is taken from the CSO up to 2024 and the 2025-26 value is as in footnote 10.

2020 and 2026 – the personal rate and IQA for those receiving working-age payments kept pace with price inflation. The most notable change in welfare rates over this time period is the rise in increases paid for children (CSPs). These increased by 61% for children under 12, and nearly doubled (95% rise) for children over 12 between 2020 and 2026 – significantly ahead of price and wage inflation over the same time period.

FIGURE 38: DISTRIBUTIONAL ANALYSIS 2020–2026 – PERMANENT MEASURES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: Deciles are based on equivalised household income, using CSO national equivalence scales.

These welfare changes also help to explain the impact of tax and welfare policy on inequality and poverty rates between 2020 and 2026; relative to a 2020 tax–benefit system indexed either by price or wage growth, policy changes have had a slight downward impact on inequality as well as the overall poverty rate (-0.9 percentage points for price indexation or -0.1 percentage points for wage indexation). Tax–benefit policy has tended to

increase poverty rates for those over 65:[28] a 1.7 percentage point increase compared to price indexation and a 4.4 percentage point increase compared to wage indexation. It has reduced it slightly for adults of working age: a 1 percentage point decrease compared to price indexation and a 0.7 percentage point decrease compared to wage indexation. It has reduced it more substantially for children: a 2.4 percentage point decrease compared to price indexation and a 1.3 percentage point decrease compared to wage indexation. The latter is due, in part, to the large increases in CSPs.

TABLE 7: CHANGE IN POVERTY RATES DUE TO TAX-WELFARE POLICY, 2020–2026

	Price indexation	Wage indexation
Gini index change (pp)	-0.6	-0.4
Poverty change (pp)		
Whole population	-0.9	-0.1
Working age	-1.0	-0.7
65+	1.7	4.4
Child	-2.4	-1.3
Population affected by disability	0.5	2.2

Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels.

Note: The poverty rate is calculated based on a poverty line equal to 60% of median equivalised disposable income. The CSO equivalence scale is used. Working age is defined as aged 18–65; 65+ are households with at least one individual aged 65 or more, and children as those under age 18. People with disabilities are identified as those who self-report to having an illness or disability that limits them in their daily activities.

5. Conclusion

Budget 2026 saw a total expenditure package of €9.4 billion: €8.1 billion in spending measures and €1.3 billion in taxation measures. One key feature of Budget 2026 was the cessation of most of the temporary measures introduced in the previous budgets to assist with cost-of-living pressures. Only the student contribution fee reduction for third level students has

[28] This partially explains the recent rise in the 65+ poverty rate, as shown in Roantree at al. (2025). It is worth noting that we isolate the impact of changes to the tax–welfare system only – actual poverty rates as shown in Roantree at al. (2025) and from the CSO (see Figure A2 in the appendix) will depend on other factors such as demographic changes, changes in occupational pension coverage etc.

become a permanent measure, although the permanent reduction is lower than the temporary reduction in last year's budget.

This article focuses on the distributional impact of Budget 2026 on the incomes of households in Ireland. As anticipated, the withdrawal of the cost-of-living measures has had a negative impact on disposable income across all income groups, one that is larger for those at the bottom of the income distribution. Permanent changes to the tax–welfare system – notably increases in welfare rates ahead of price growth along with the freezing of the standard rate tax band and tax credits – resulted in a progressive pattern for permanent Budget 2026 measures, increasing income in lower deciles and reducing it in middle to higher deciles.

Overall, changes to the mainstream tax–benefit system were not sufficient to fully compensate for the withdrawal of temporary measures, resulting in average losses of between 1.3% and 1.9%. These losses are larger for the lowest income decile compared to the highest, but overall income losses are relatively flat across the income distribution. Impacts of indirect tax changes are very small overall.

Examining the impact of Budget 2026 by family types shows no large differences across different families, though lone parents have been slightly more protected than other family types; this is in part due to increases in CSPs that are significantly above price and wage growth. They still remain as one of the family types with the highest rate of income poverty and material deprivation however (Roantree et al., 2025).

Households affected by disability experience sharper losses in income. This reflects the fact that the temporary cost-of-living measures had a stronger protective effect on the incomes of households containing someone with a disability; their withdrawal is thus more strongly felt here, particularly for households affected by disability that are in the lowest income quintile.

In terms of inequality and poverty risk, no significant impacts of Budget 2026 are found. This reflects the fact that poverty measures are relative and losses are relatively flat across the income distribution. The withdrawal of temporary measures may well have an impact on deprivation rates, however, and these should be monitored closely as data become available.

Finally, when examining the cumulative impact of budgetary tax–welfare policy since 2020, an interesting pattern emerges. On average, households experienced a slight reduction in disposable income due to tax–welfare policy changes since 2020, with middle- and higher-income groups seeing small losses. The lowest income decile gained significantly however — with CSPs increasing much more sharply than either price or wage inflation over this time period. Meanwhile, increases in welfare payments to those over retirement age have tended to lag slightly behind price or wage growth. Overall, this results in tax–benefit policy having an upward impact on poverty rates of those over 65, and a downward effect on the child poverty rate since 2020.

Indexation of the tax and welfare system – i.e. automatically increasing welfare rates, tax credits and bands in line with either price or wage growth – would help provide certainty to welfare recipients and workers. However, it would also, of course, come at a cost. For Budget 2026, this cost is estimated to be €1.2 billion for price indexation and €2 billion for indexation in line with wage growth, significantly ahead of the actual costs of the tax–welfare measures analysed here.

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Appendix

TABLE A1: REFORMS IMPACTING ON HOUSEHOLD INCOMES

Taxation	Full year cost/yield, €m	Modelled
Universal Social Charge		
Increase the 2% rate ceiling by €1,318	-26	✓
Extension of the USC concession for medical card holders	-50	✓
Housing		
Extend the Rent Tax Credit to 31 December 2028	-350	✓
Extend the Mortgage Interest Tax Relief to December 2026	-13	
Reduce the VAT rate on the sale of new apartments to 9% from 8 October 2025 to 31 December 2030	-390	
Pensions		
Amend tax treatment of the Auto Enrolment Retirement Savings Scheme	-56	✓
VAT		
Extend the 9% VAT rate on the supply of gas and electricity to 31 December 2030	-254	✓
Reduce the VAT rate on food and catering and hairdressing to 9% from 1 July 2026	-681	✓
Climate		
Carbon tax: +€7.50 per tonne of carbon	121	✓
Extend VRT relief for electric vehicles to 31 December 2026	-40	
Excise duties		
+50c on a packet of 20 cigarettes	36.9	✓
Pay Related Social Insurance (PRSI)		
0.15 pp increase in employer and employee PRSI	-	✓

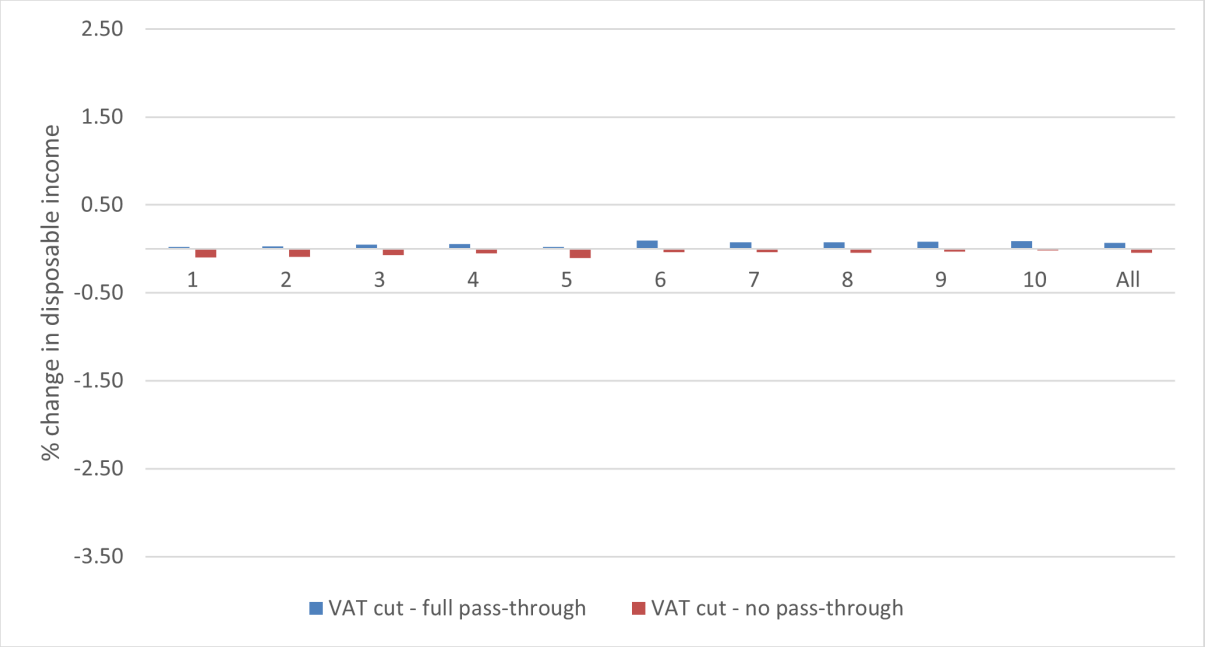
TABLE A1 (CONTINUED): REFORMS IMPACTING ON HOUSEHOLD INCOMES

Welfare	Full year cost/yield, €m	Modelled
General		
+€10 increase to social protection payments	-	✓
Double 'Christmas Bonus' social welfare payment	-	✓
Child Support Payment		
+€8 increase for qualified child <12 years old +€6 for qualified child >12 years old	-	✓
Working Family Payment		
+€60 increase in weekly threshold	-	✓
Fuel Allowance		
+€5 per week	-	✓
Extension of Fuel Allowance to Working Family Payment recipients	-	✓
Carers		
+€375 increase of the income disregard of Carer's Allowance to €1,000 for single people (€2,000 for couples)	-	✓
+€20 monthly increase to Domiciliary Care Allowance	-	
Back to School Allowance		
Back to School Clothing and Footwear Allowance extended to 2- and 3-year-olds	-	✓
Total cost of welfare measures (above)	-1,152	

Source: Department of Finance's Budget 2026 expenditure report (Welfare measures) and Budget 2026 (Taxation measures).

Note: Costs are in millions of euros per annum and are mostly full year costs. Some small schemes are excluded. No individual cost is provided, rather the total cost estimate is shown.

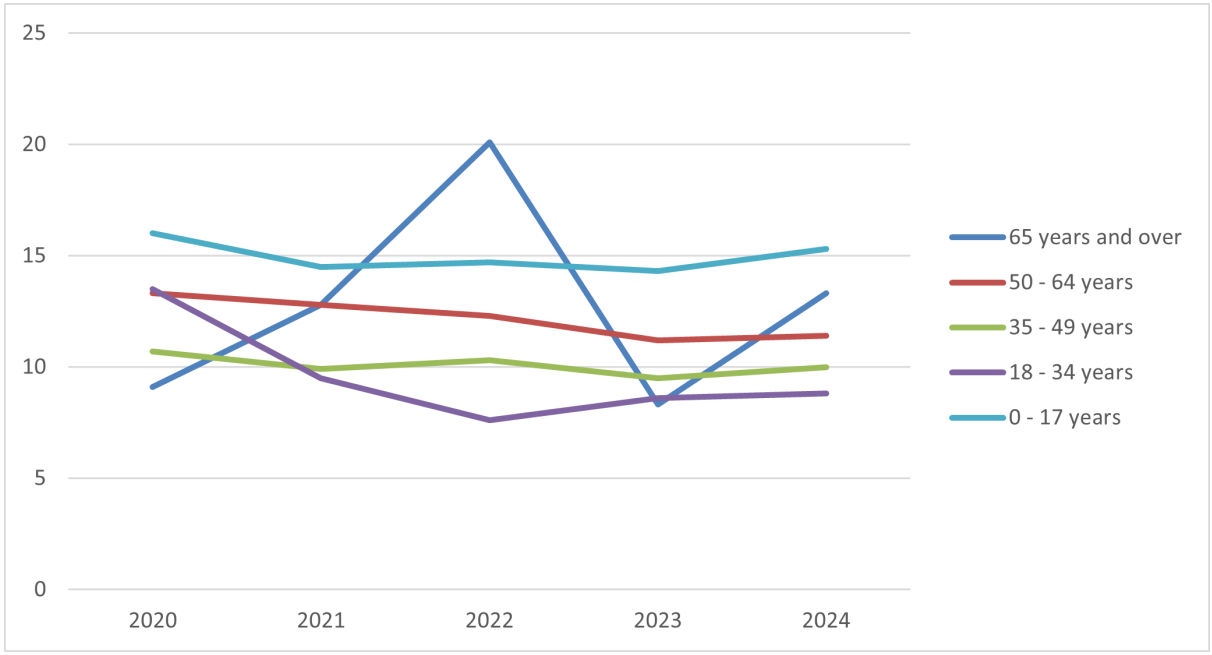
FIGURE A1: DISTRIBUTIONAL IMPACT OF INDIRECT TAX CHANGES



Source: Authors' calculations using SWITCH run on 2022 SILC data, uprated to 2026 income levels. Expenditure shares are imputed using the 2015–2016 Household Budget Survey.

Note: Deciles are based on equivalised household income, using CSO national equivalence scales. The y-axis is deliberately set to the same scale as that in Figures 33 and 34 for comparability purposes.

FIGURE A2: AT RISK OF POVERTY RATES BY AGE GROUP, 2020–2024



Source: CSO's PxStat Open Data Platform; https://data.cso.ie/table/SIA101

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