Budget 2026: Macro Outlook

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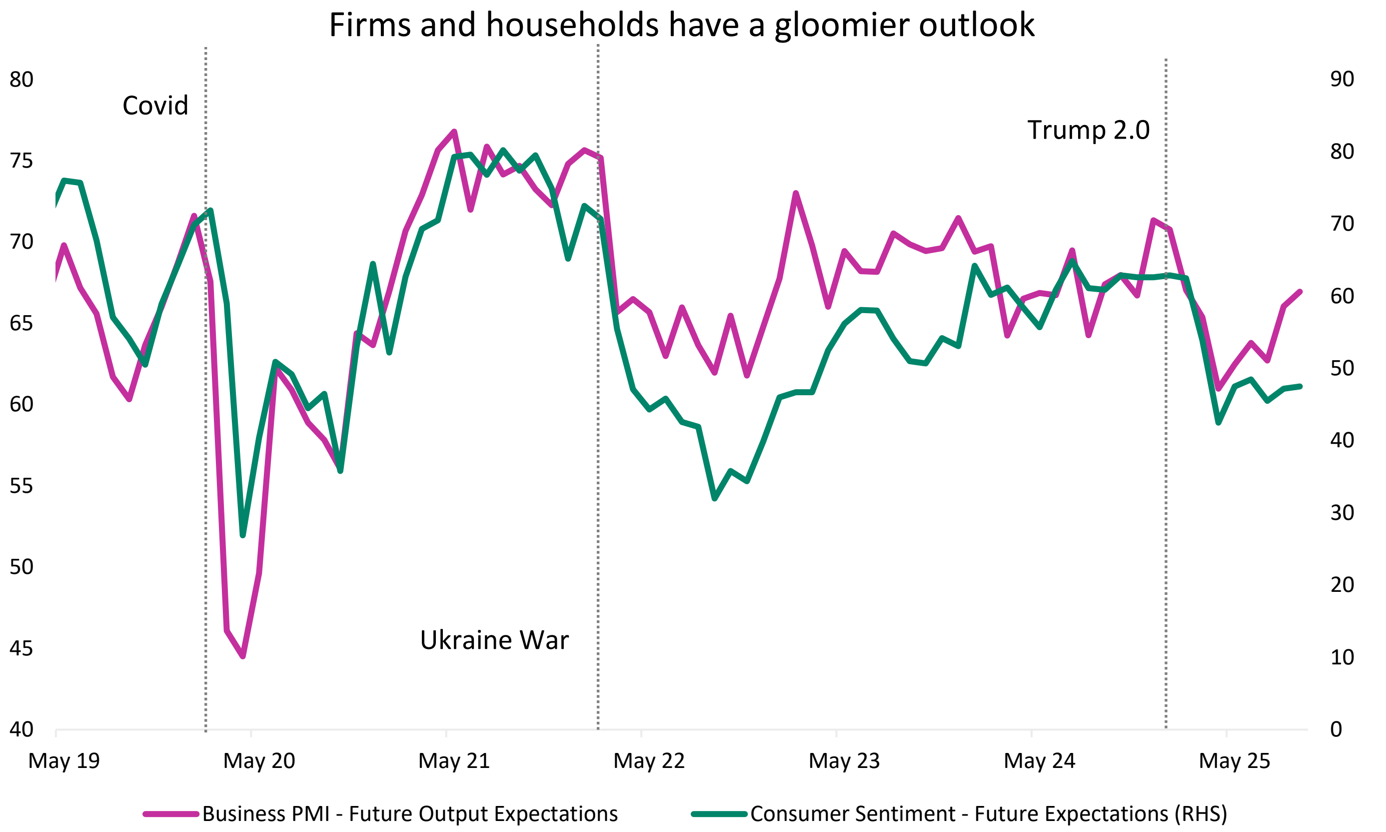
Three themes today

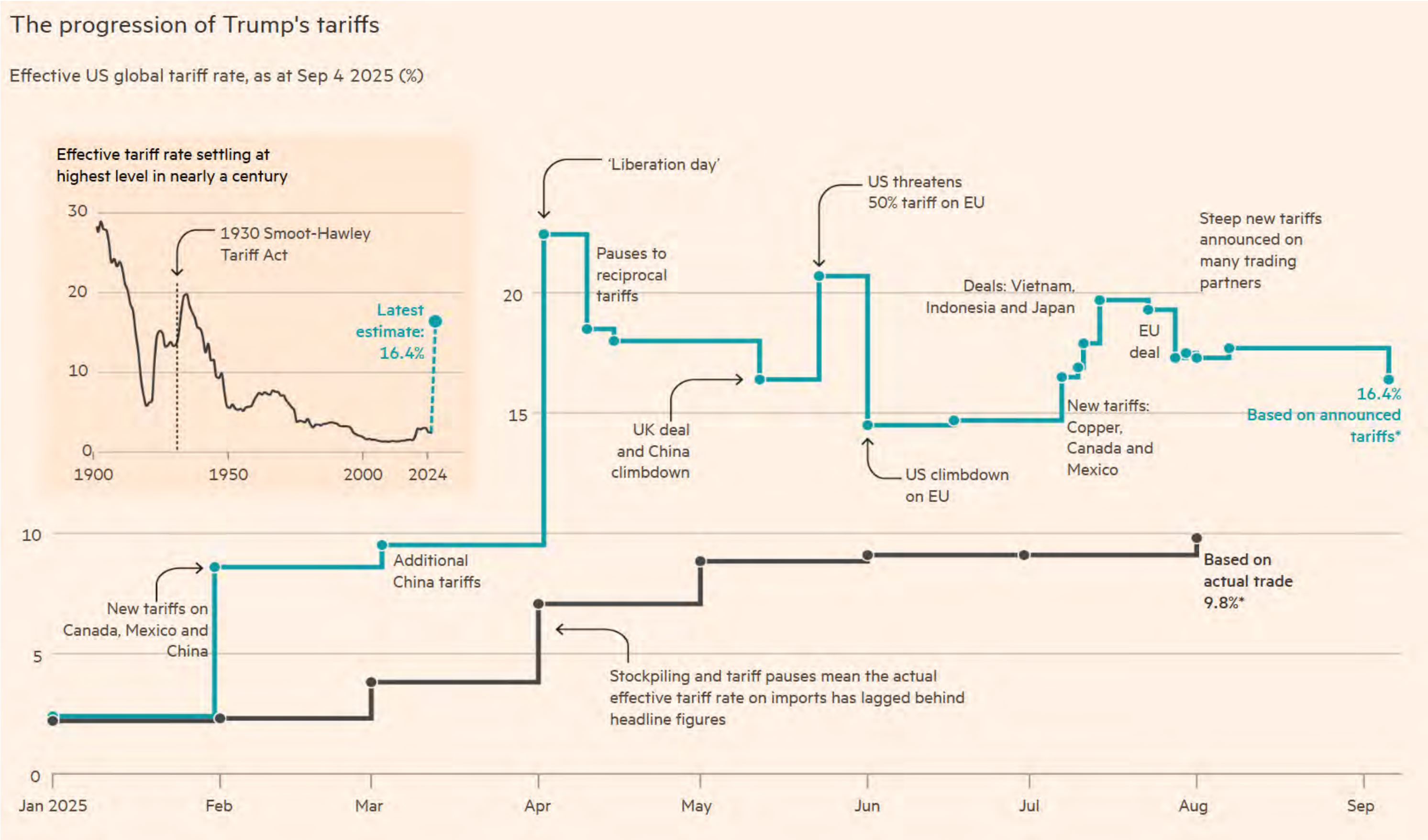
1. Global Macro backdrop - **uncertain**
2. Irish economy – **resilience**
3. Budget 2026 – **prudence?**

Global Macro – Tariff uncertainty

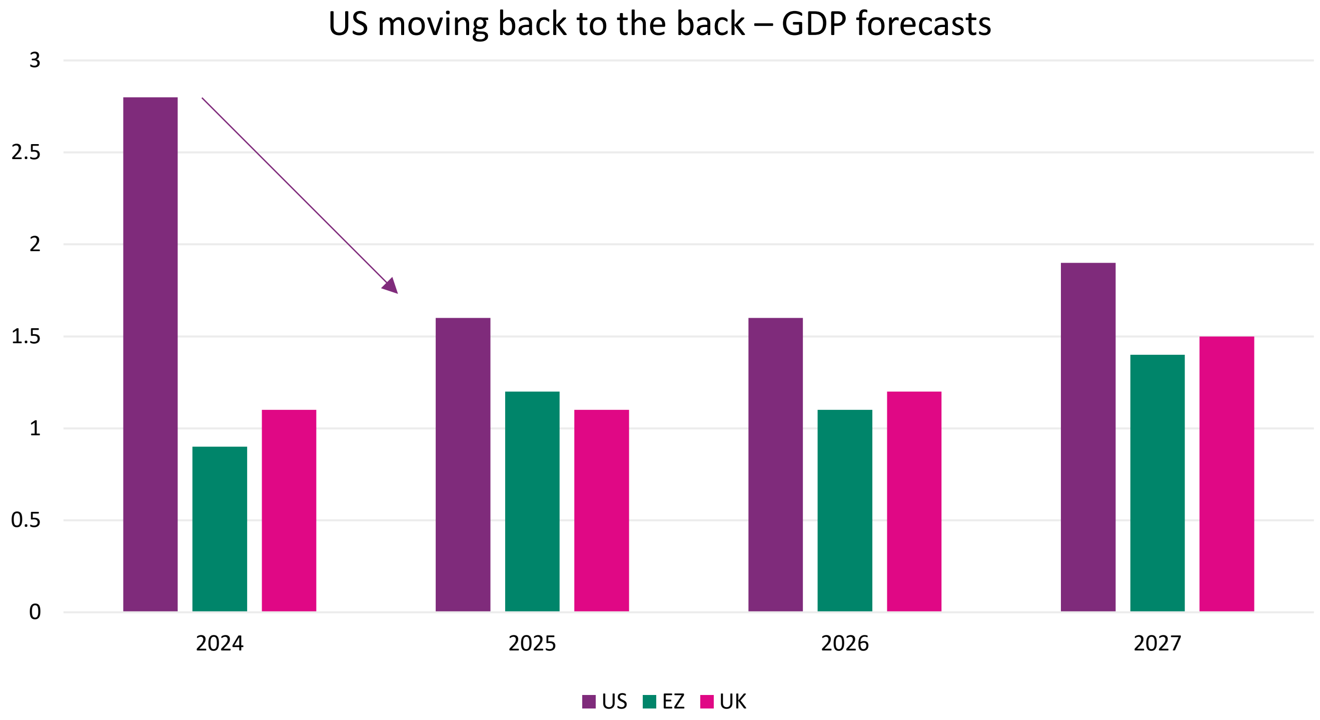
Uncertainty has dampened our collective mood..



..Because US tariffs have reached a 100-year high



..This will slow US economic growth in 2025-26



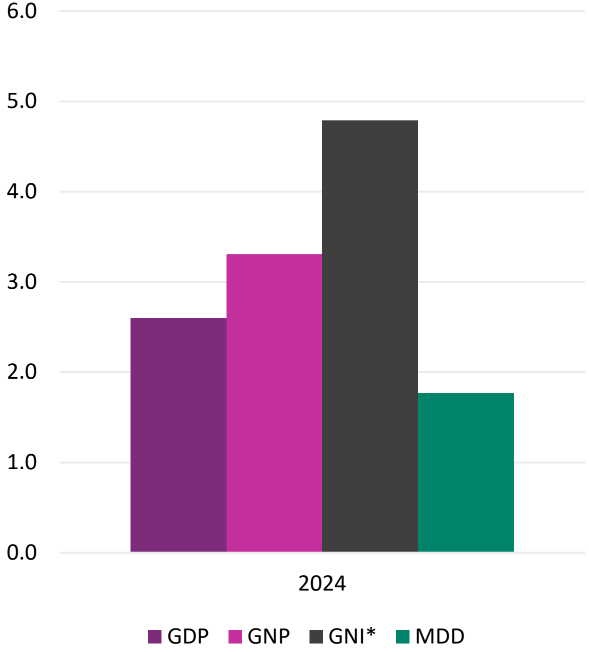
Source: Reuters consensus (Sept 2025)

Irish Economy – slower growth ahead

The Irish economy has shown resilient growth

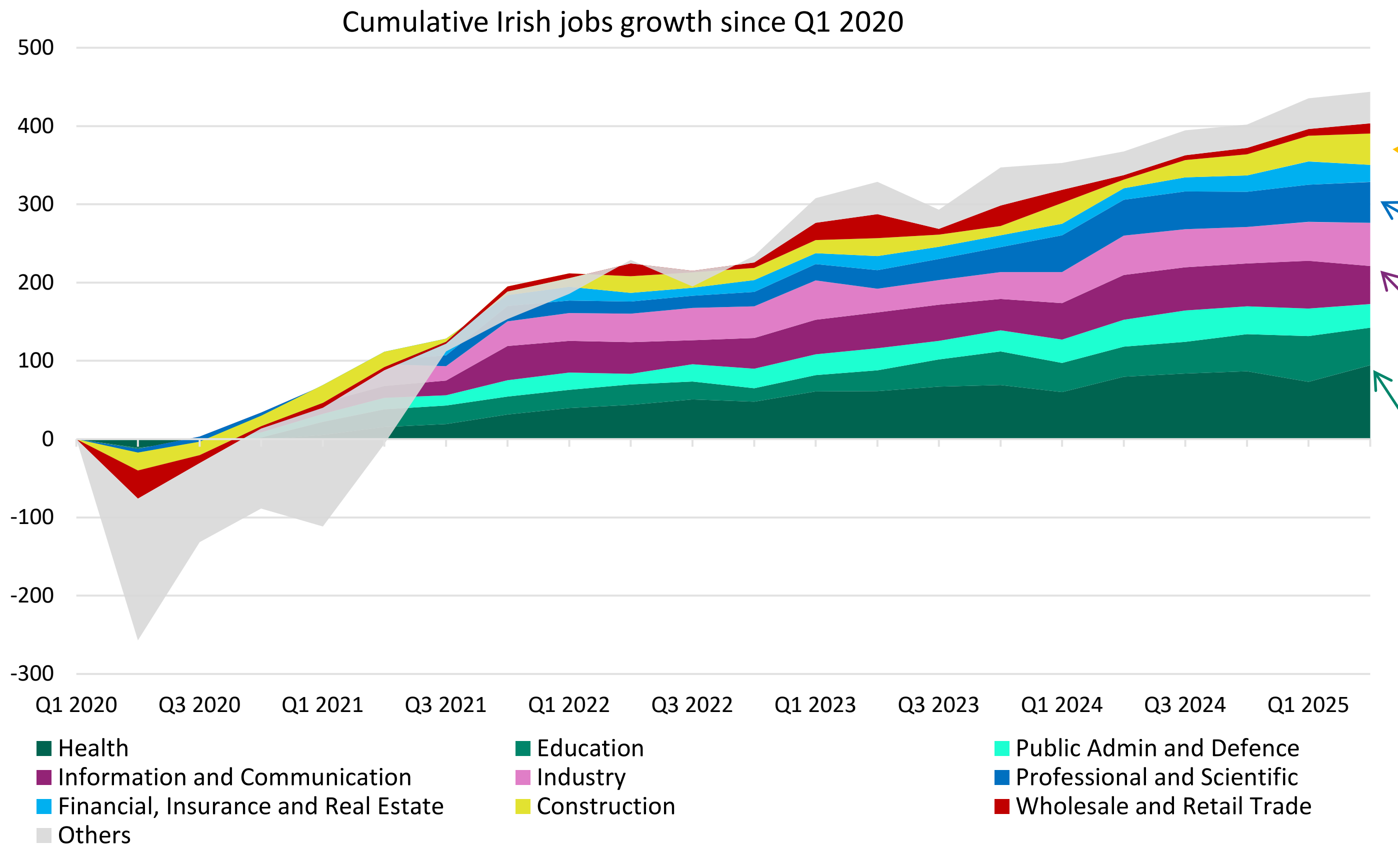
Irish Economy Metrics (nominal, €bn)

Irish Economy Metrics - 2024 Growth (real)



Source: CSO

425k jobs since Covid: skewed towards higher wage sectors



Construction: 9% of net new jobs created since 2020

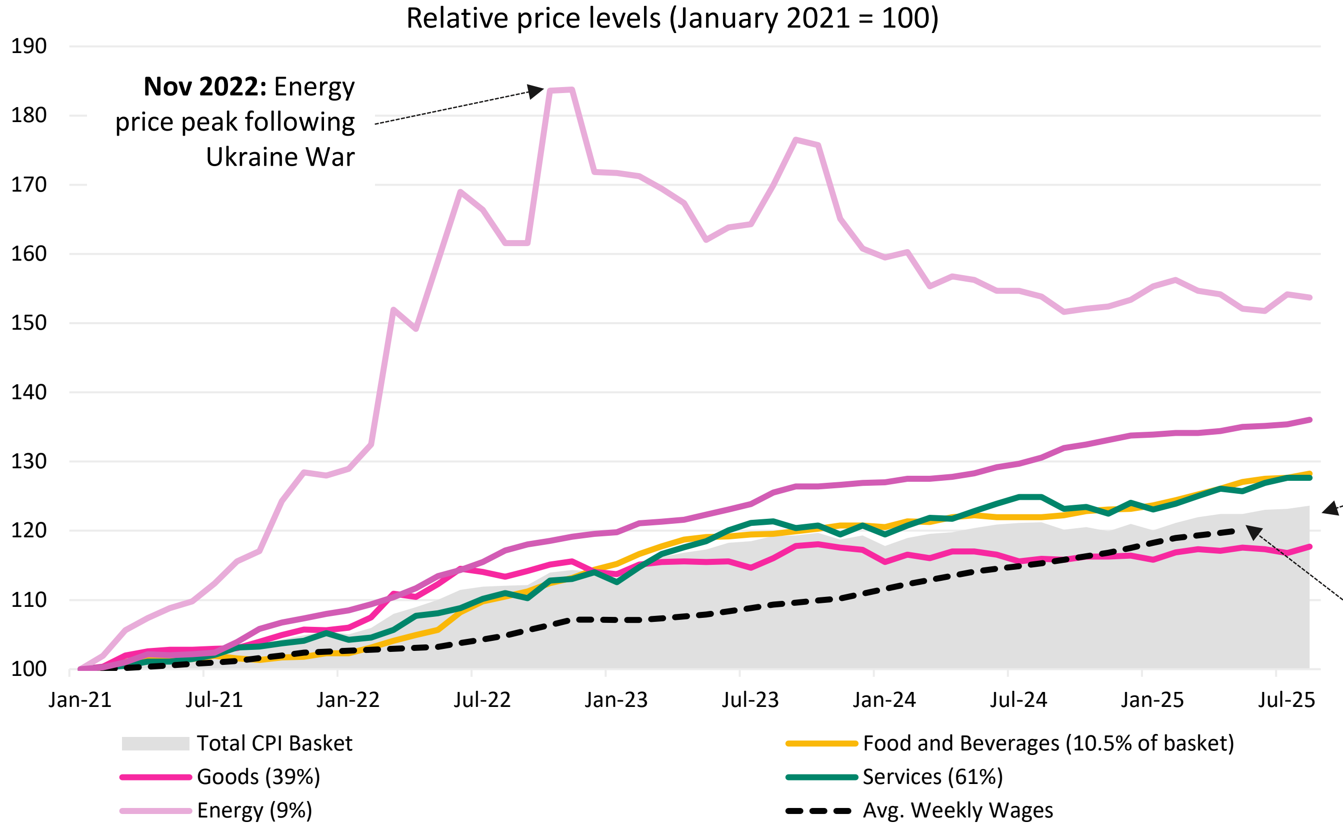
"White Collar": 17% of jobs

FDI-dominated sectors: 24% of jobs (Tech & Pharma)

Gov-dominated sectors: 40% of jobs, predominately in healthcare and education.

Source: CSO

Inflation shock persists with prices still ahead of incomes

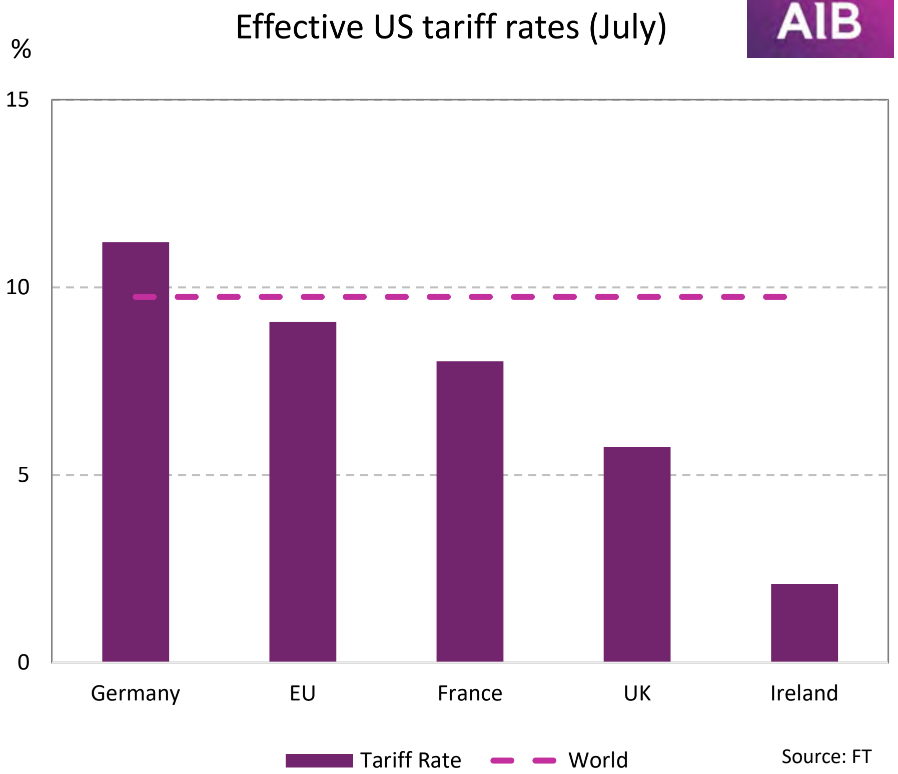


Average prices **up 24%** since Jan 2021

But average wages **up 20%** over the same period

Source: CSO

US tariffs will bite, but services sector insulated

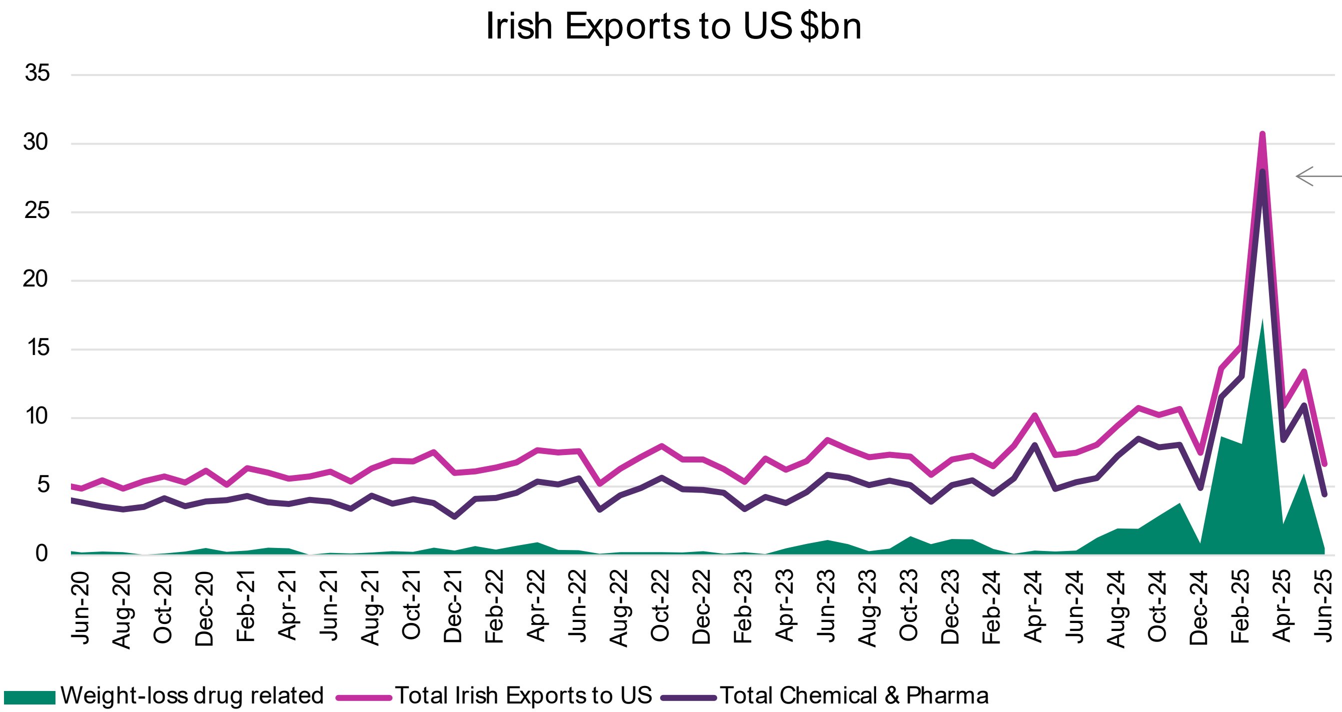


Source: FT

Source: CSO

* Goods produced and sold abroad by Irish-registered firms which are not sourced or moved through Ireland

Weight loss drugs are expanding our exports



Overall surge in goods exports to US driven in part by tariff front running

Also seeing the emergence of new weight loss drug production

Source: US Census Bureau

AIB Irish Economic Forecasts – slower growth ahead

% change in real terms unless stated	2024	2025 (f)	2026 (f)	2027 (f)	2028 (f)
GDP	1.2	7.0	3.0	3.8	2.8
GNP	0.4	4.1	3.1	4.5	4.2
Modified Final Domestic Demand	2.7	2.1	2.1	2.2	2.9
Personal Consumption	2.3	2.7	2.0	1.7	2.6
Government Spending	4.3	3.3	2.8	1.9	2.0
Fixed Investment	-25.4	15.6	-11.4	7.8	7.6
Exports	11.7	7.6	2.8	5.8	4.0
Imports	6.5	6.3	0.4	6.4	5.0
Employment (%)	2.7	2.2	2.0	1.7	2.6
Unemployment Rate (%)	4.3	4.4	4.6	5.0	5.0
HICP Inflation (%)	1.3	1.7	1.9	2.1	2.0

Source: CSO, AIB ERU Forecasts

Budget 2026 – Dear prudence?

Overall Budget 2026 Package – Tax & Spend

- In total - **€9.4bn** in new measures
  - This includes **€8.1bn in spending** measures, **€1.3bn in tax**
  - Also €3.7bn spending overruns in 2025 which increases the expenditure base
  - Big boost to capital spending in coming years expected - **€19bn next year**

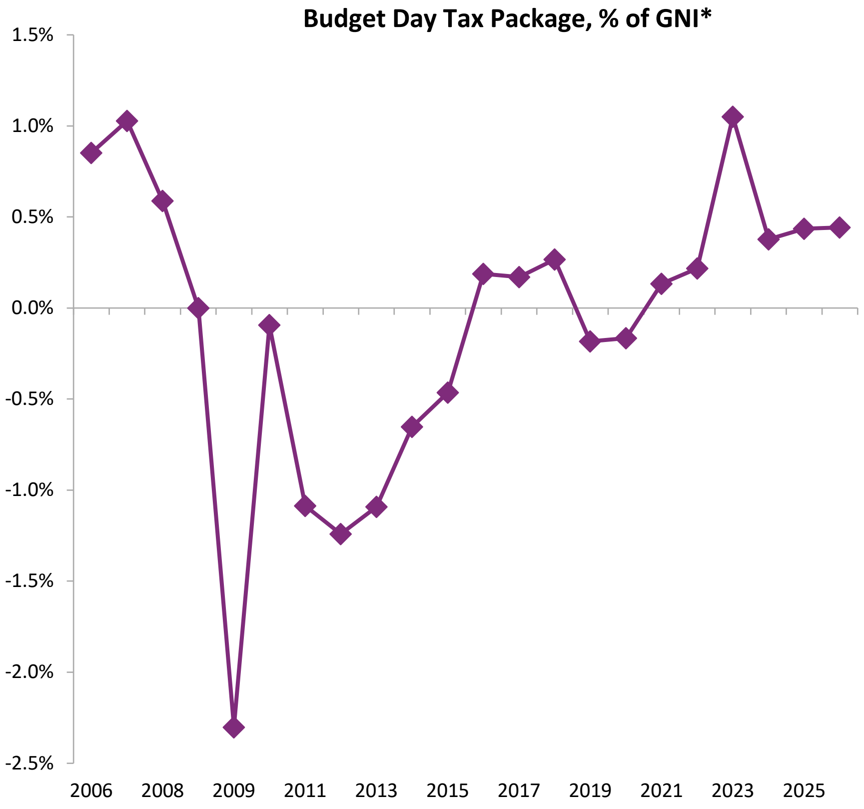
- Focus on business supports over workers in this Budget – VAT cuts, R&D credits etc.

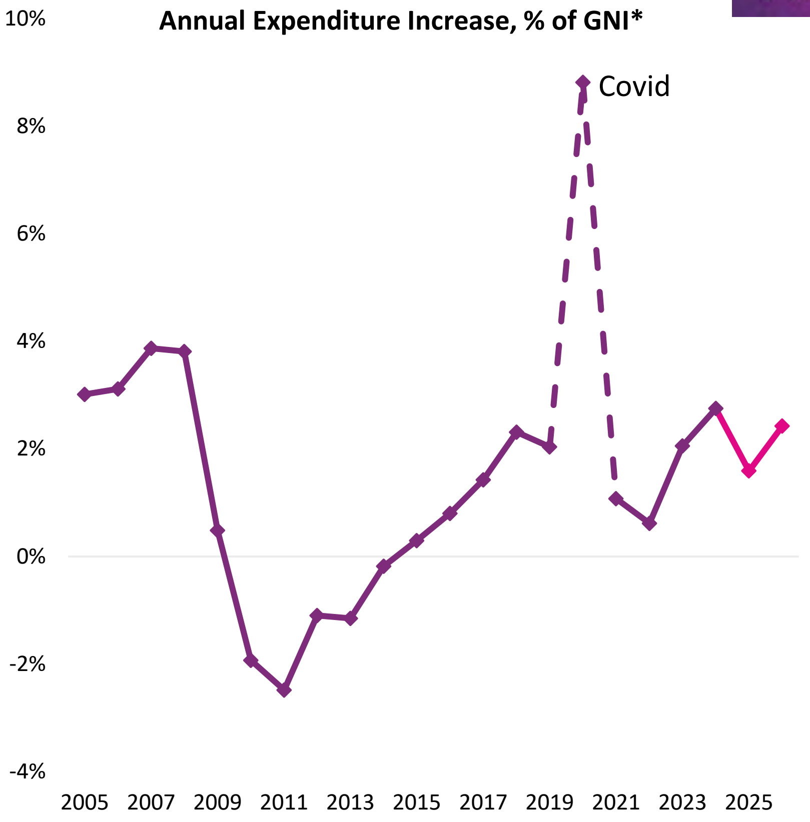
- This still marks one of the largest Budget day packages ever, and does not come without risks of overheating the economy

- Spending increases enabled by surge in corporate tax receipts – c.€32bn in 2025

- The Government is contributing to sovereign wealth funds (€22bn by end 2026), with other monies also sitting with NTMA adding up to **€72bn in liquid assets.**

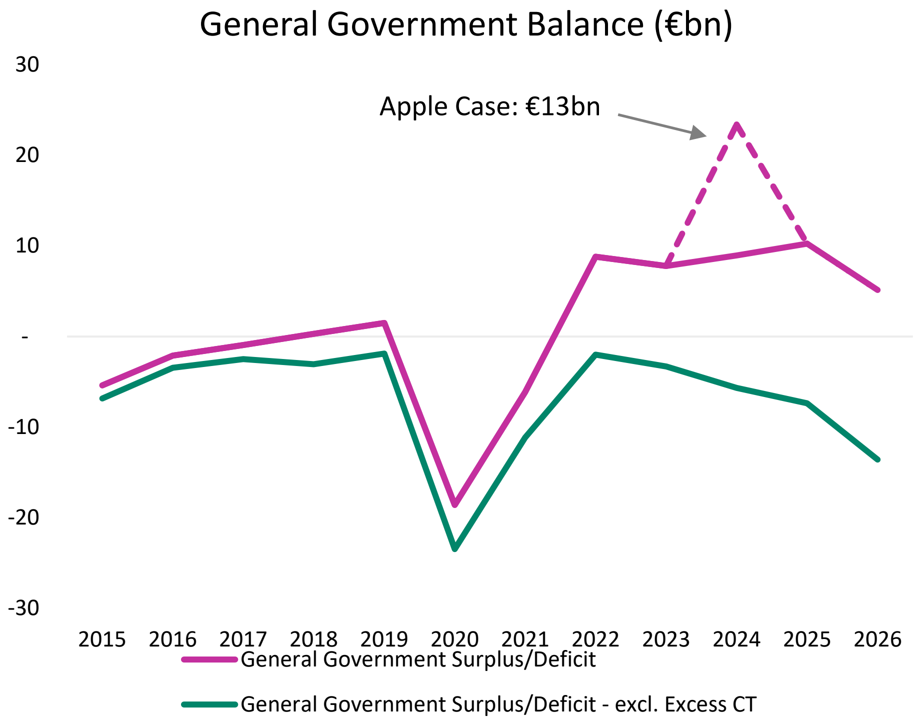
A big budget giveaway relative to recent history

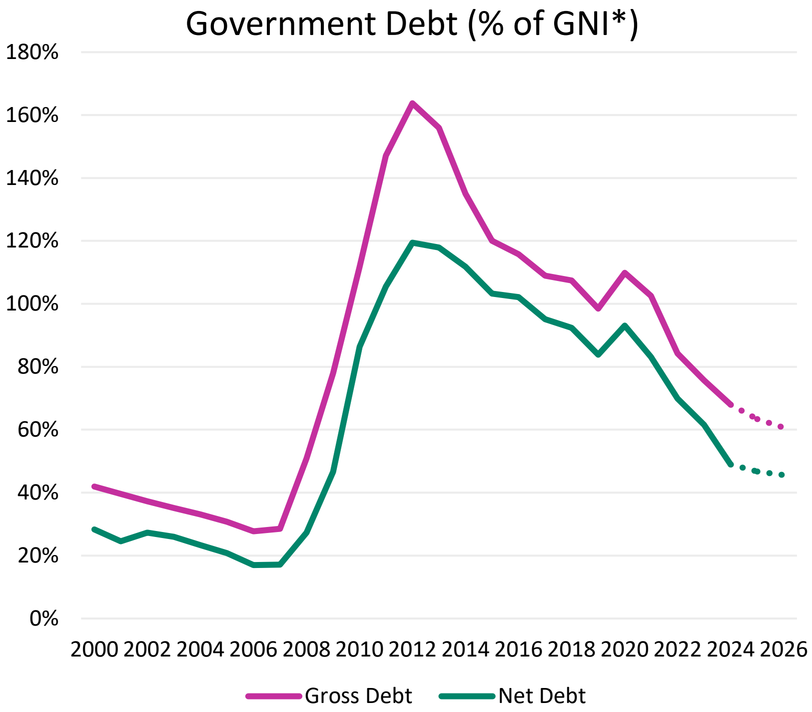




Sources: Dept of Finance

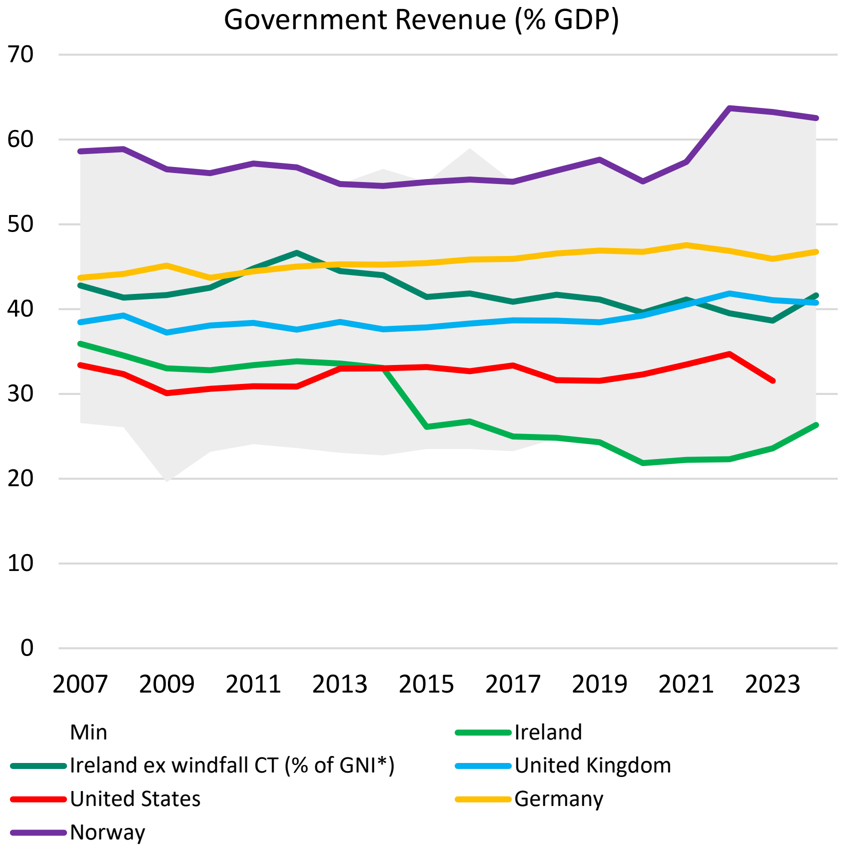
Strong Corp tax masks underlying deficit, but debt falling

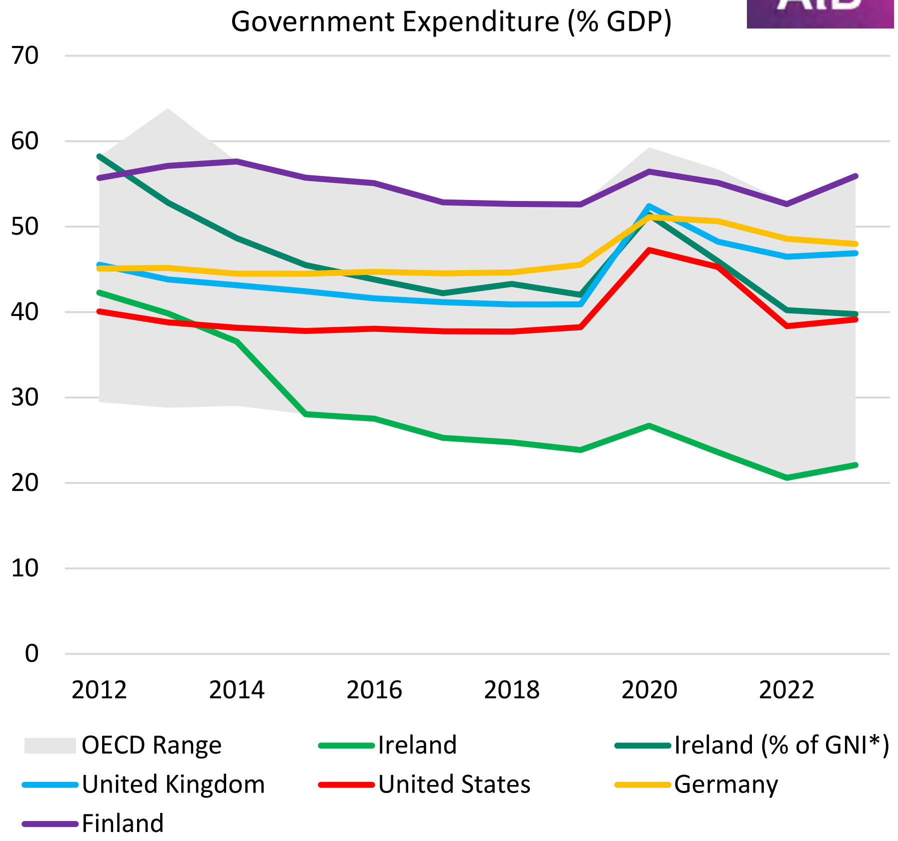




Sources: OECD, CSO

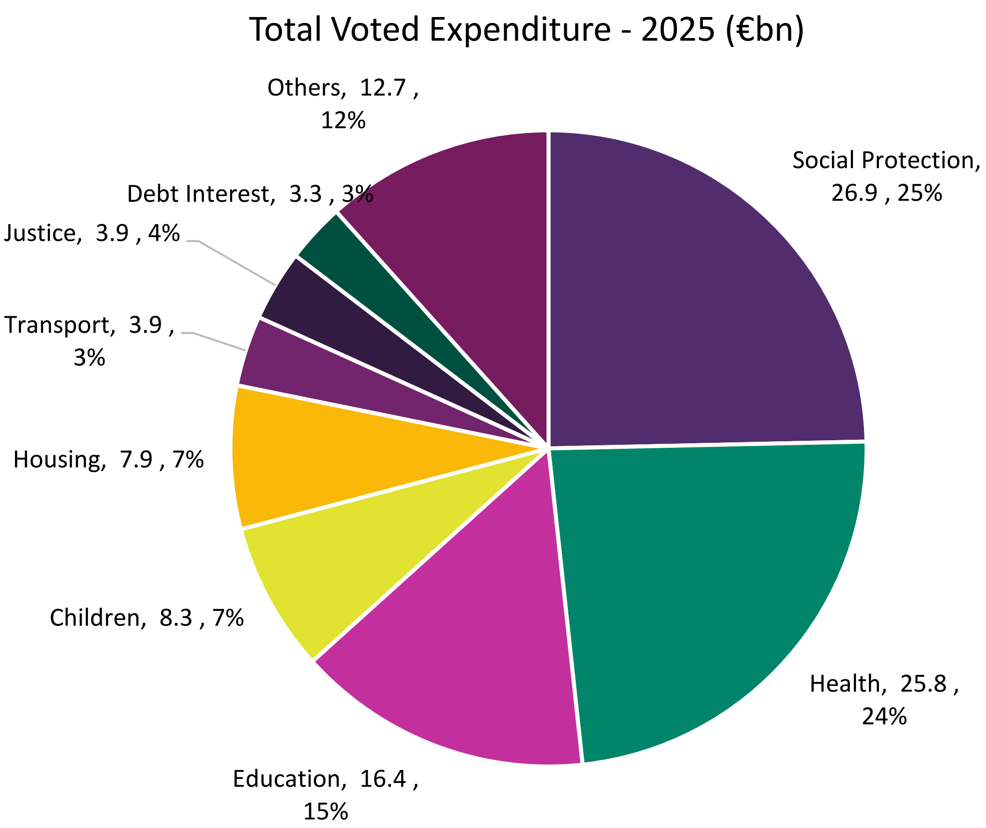
Government tax and spending ≈ 40% of the economy





Sources: OECD, CSO

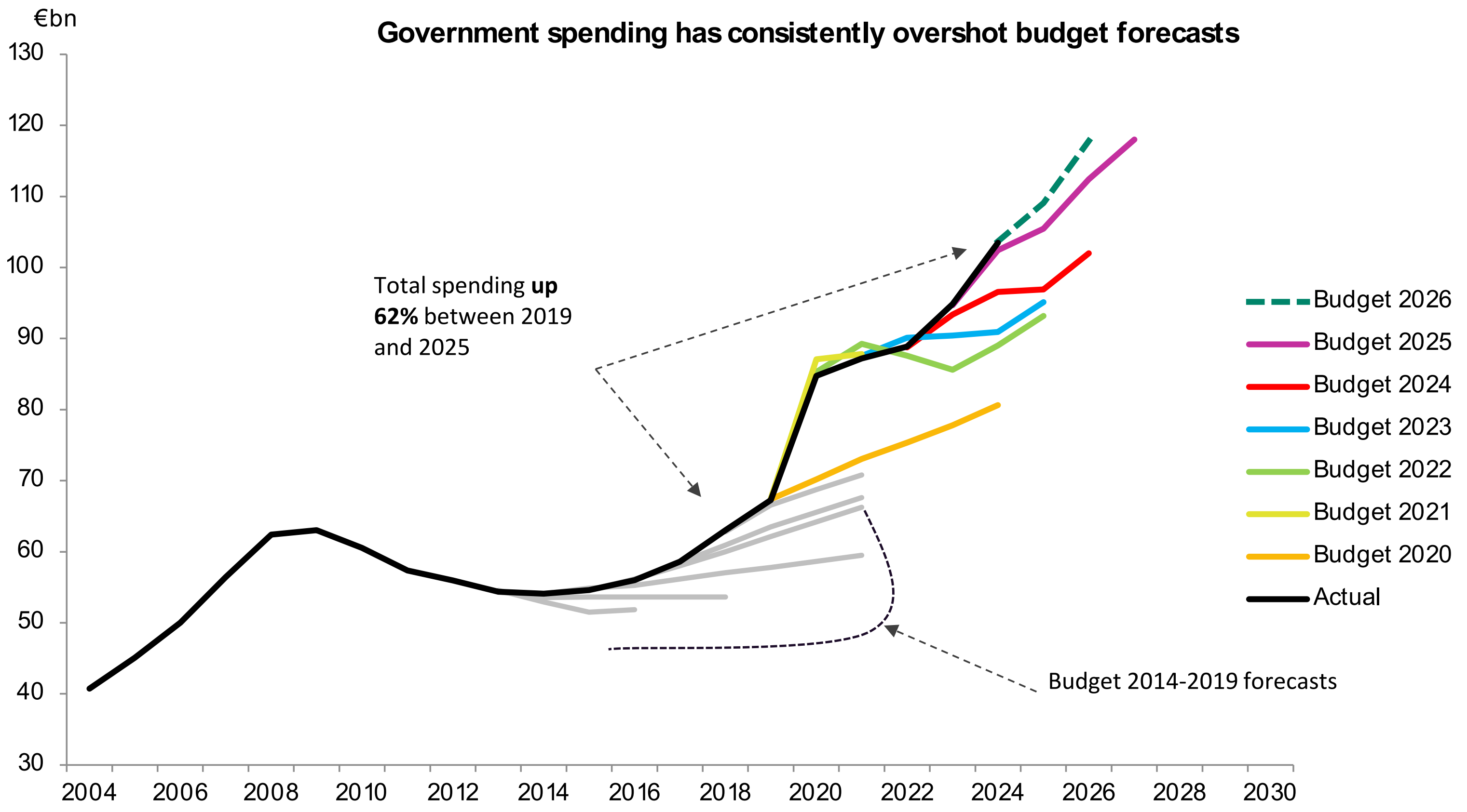
Where is our money spent? – two-thirds in three areas



- The Government planned to **spend €105bn** across all departments in 2025
- Social Protection, Health and Education **account for nearly two-thirds** of that spending

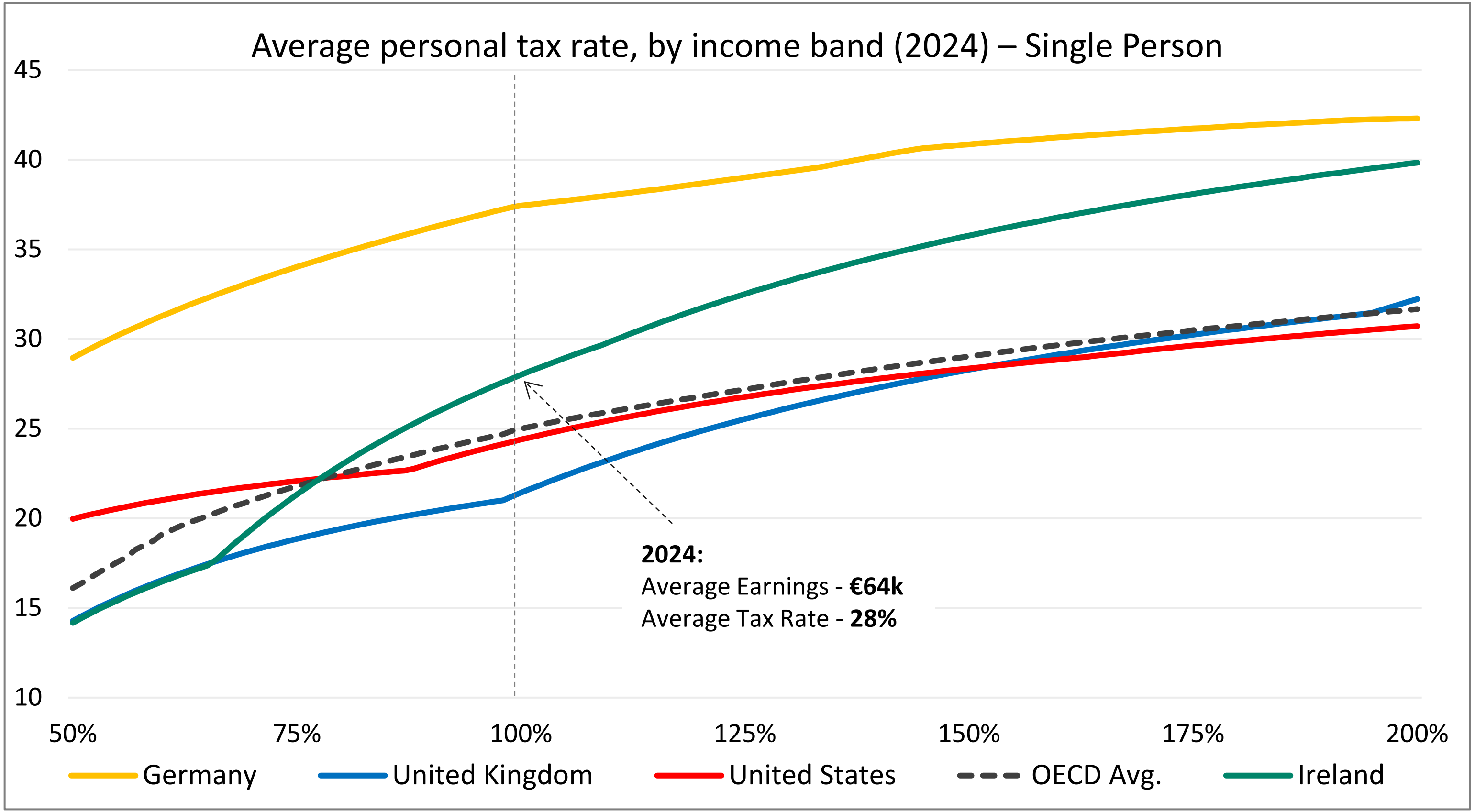
Source: Dept. of Finance

Recent budgets: “Everything everywhere all at once”



Dept. of Finance

Boston or Berlin? Increasingly the later for income tax

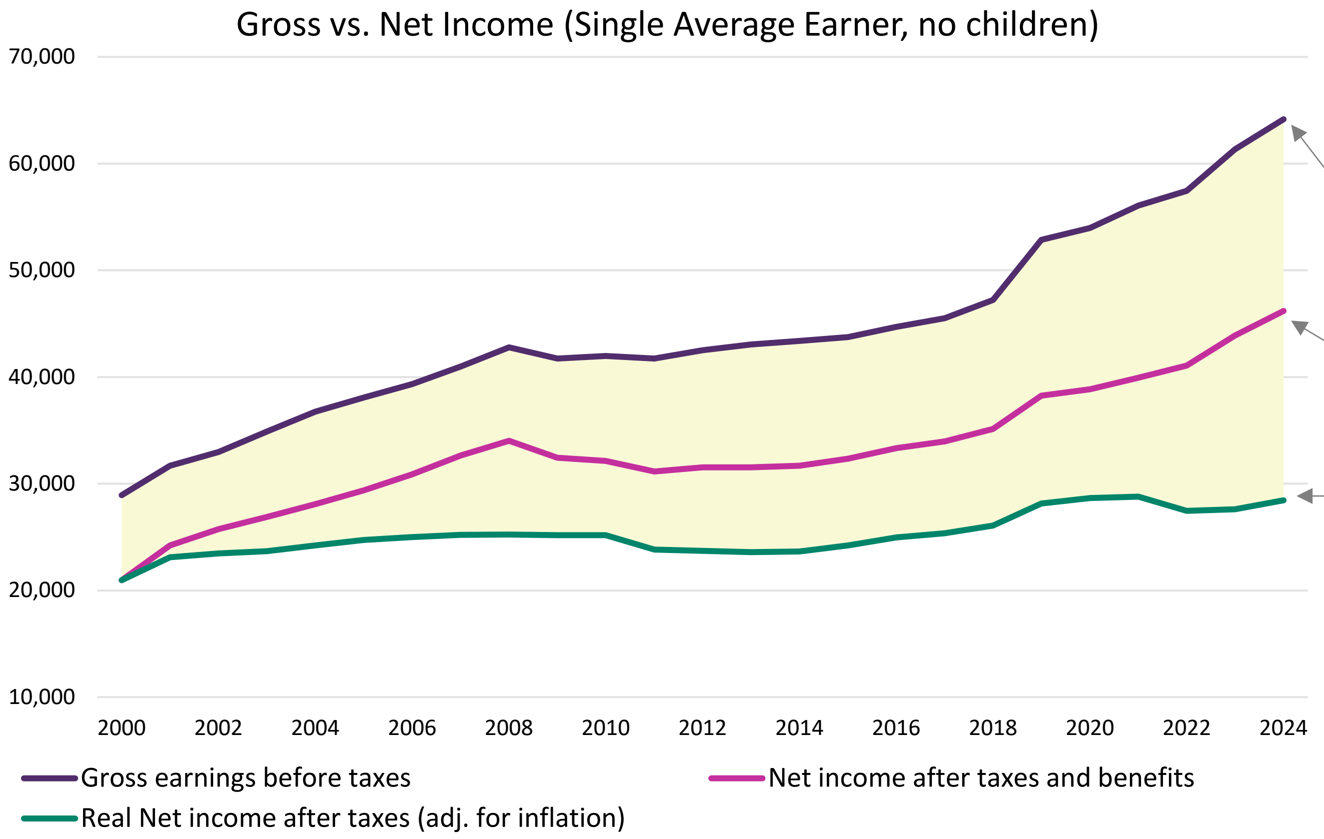


Source: Dept. of Finance

Personal tax rates at highest level in 25 years, will rise further

Source: OECD

Personal tax rates at highest level in 25 years



Income Growth 2007-2024

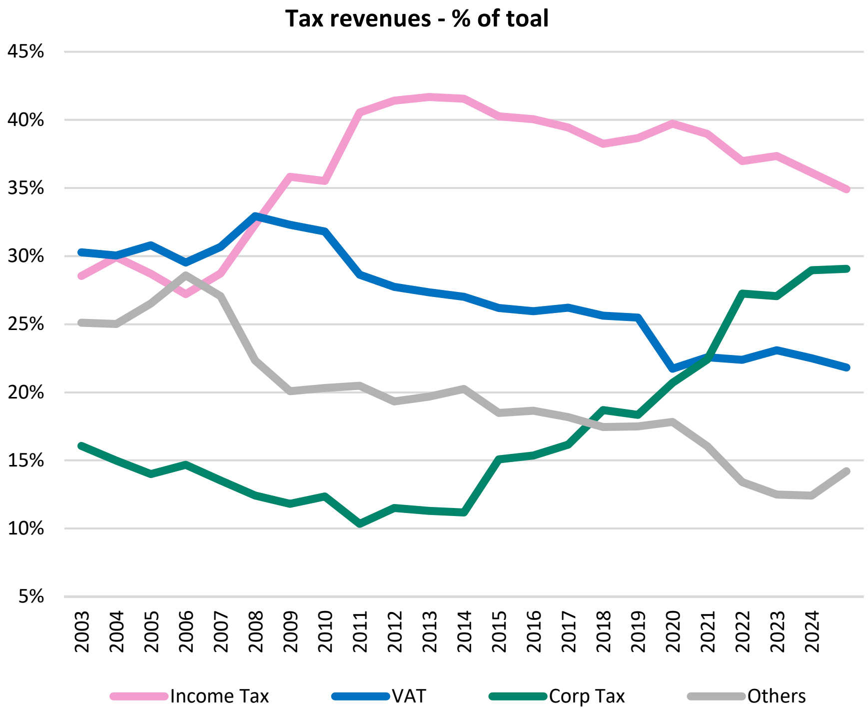
Gross Earnings: **+50%**

Net Earnings: **+34%**

Real Net Earnings: **+13%**

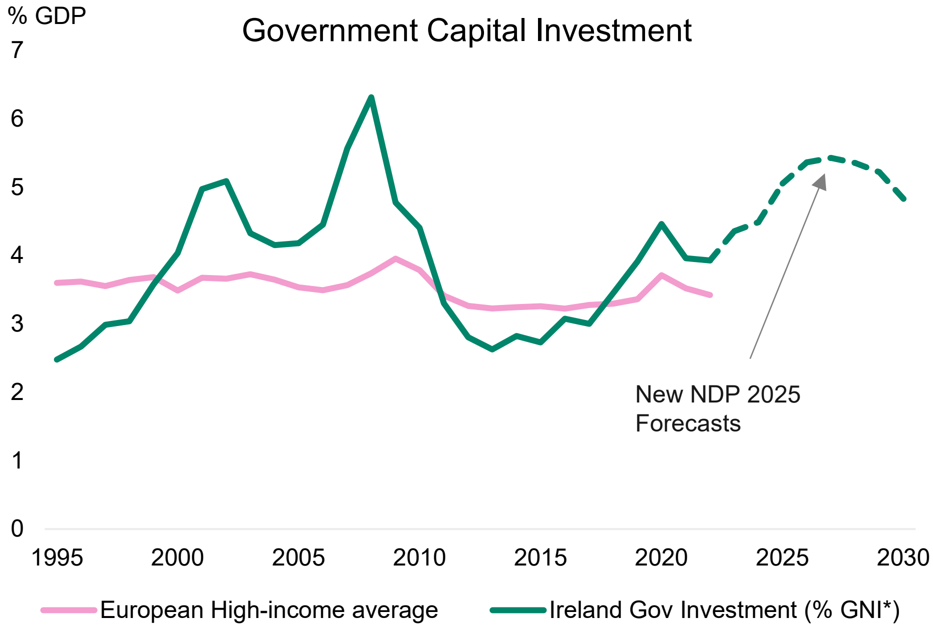
Source: OECD, CSP, AIB ERU

Corp. tax highly concentrated among three US firms



Source: LSEG Datastream, ERU

Budget & NDP boost infrastructure – time to deliver

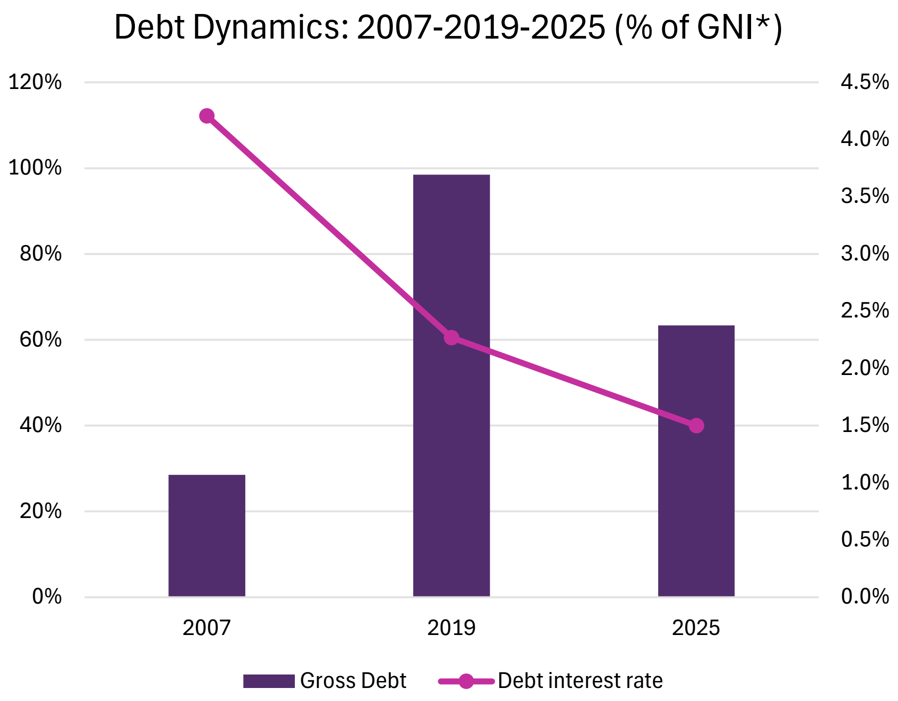


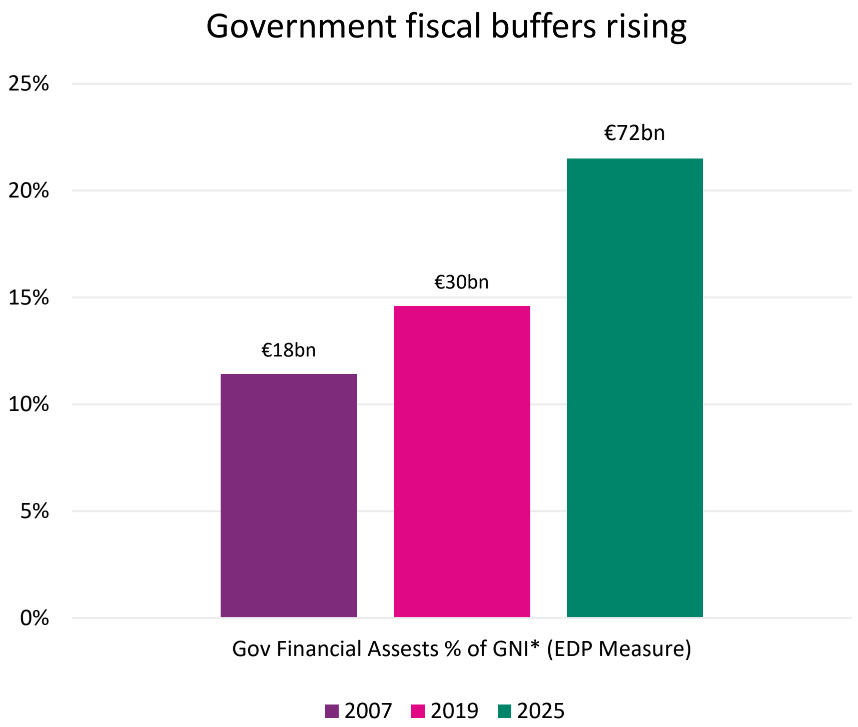
billions	National Development Plan Allocation (2026-2030)
Ministerial Vote Groups	**2026-2030**
Housing, Local Government and Heritage	36.0
of which: Housing and Other	*28.3*
of which: Water	*7.7*
Transport	22.3
Health	9.3
Education	7.6
Climate Envroment and Energy	5.6
Further and Higher Education, Research, Innovation and Science	4.6
Others	17.1
Total Exchequer	**102.4**
Non-Exchequer funding	**29.7**
Total NDP Funding	**132.1**

- Big ramp up in capital spending planned over the next five years – 40% will go to housing and transport
- Expected Budget day package of €9.4bn includes €7.9bn in spending increases and €1.5bn in tax.

Source: DoF

But Ireland has built up a large piggy bank





Source: LSEG Datastream, ERU

Key Takeaways

- Global economy had been performing robustly, despite tariff **uncertainty**
- Irish economy has been **resilient** – but some signs of softness
- We're expecting a slowdown in Irish growth 2026, but still a top performer in Europe
- Trump 2.0 could be a material risk to Ireland's FDI model – but we've built up fiscal buffers
- Hold our nerve on infrastructure spending – spend through the cycle, while being **prudent** on current expenditure