Bank of Ireland Economic Forecasts

January 2026

Summary

We have revised up slightly our forecast for Irish GDP growth to 11.2% in 2025, slowing to 2.8% in 2026. This reflects the surge in exports that occurred last year, which we believe mainly reflected new pharmaceutical facilities coming online. However, a key risk is that exports fall back as 'front-running' of US tariffs unwinds, potentially pushing GDP growth into negative territory. Stepping back from Ireland's volatile GDP data, the bigger picture is that the economy is slowing towards a more sustainable, but robust pace. We expect modified domestic demand to grow by 2.3% in 2026, helped by consumer spending (2.3%), government spending (4%) and construction (6.6%). Employment is forecast to grow by 1.5% this year, unemployment gradually rising towards 5%, with house prices up 4%.

Double-digit GDP growth to slow in 2026 as export surge slows

Irish exports surged in 2025, driven both by new pharmaceutical production facilities coming online, but also *'front-running'* of US tariffs. Hence, our forecast for 11.2% GDP growth in 2025 and 2.8% is especially uncertain. Negative GDP growth can't be ruled out this year, if exports fall back sharply. However, underlying conditions in the export sector are reasonably positive. Firms expectations for 2026 are for further expansion. Services trade has continued to expand. IDA Ireland's results showed employment in the multinational sector rising by 1.5% to 312,000 in 2025, despite heighted geo-political uncertainties.

Domestic demand to grow by 2.3% in 2026

Reflecting buoyant income growth, Irish consumer spending has remained robust, despite weak sentiment and the savings ratio rising to 14.75%. We expect 2.3% growth in 2026, driven by a 1.5% rise in employment and pay growth at 4%. A welcome development in 2025 was the first expansion of non-residential construction in 5-years, which we expect to continue in 2026, helped by rising public investment. Budget 2026 plans an 8% rise in public expenditure to €118bn, which we expect will contribute one-third (0.8pp) to the 2.3% growth of modified domestic demand in 2026. We expect the unemployment rate to rise gradually towards 5% in 2027.

House price inflation to slow to 4% in 2026

Our forecast is for Residential Property Price Inflation (RPPI) of 4% in 2026. Stretched affordability, and that the process of rising leverage amongst first-time-buyers has played out, have contributed to signs of softer price gains, closer to the current pace of pay growth. MyHome asking price inflation was 5.4% in Q4 2025 and the average mortgage approval in November was €337,600, up just 3.5% yoy. That said, the lack of supply remains acute. So there are clear upside risks to our forecast for house price inflation.

Elevated risks to Irish economy

The plethora of external risks facing the Irish economy now include, geo-political uncertainty, US tariff policy, the fragility of the US Treasury market given unsustainable fiscal policies and threats to Federal Reserve independence and that the current AI-related investment cycle could stall if equity market valuations correct. Domestically, a key uncertainty is the extent of the slowdown in job creation, focused on consumer facing sectors, which may itself reflect cost pressures. Also, failure to deliver the National Development Plan, may add to constraints on economic expansion and contribute to growing inflationary and competitiveness pressures.

Bank of Ireland Economic Forecasts

Forecasts	2024	2025	2026	2027
Consumer Spending	2.9%	2.7%	2.3%	2.0%
Government Expenditure	5.3%	4.0%	4.0%	3.1%
Investment	-28.5%	38.3%	-19.4%	3.0%
Building & Construction	-4.8%	8.5%	6.6%	6.0%
Machinery & Equipment (Core)	-7.5%	-1.4%	-3.5%	3.0%
Modified Investment	-4.2%	7.6%	0.7%	3.0%
Exports	8.6%	10.0%	4.5%	5.0%
Imports	2.7%	9.8%	1.2%	4.8%
Modified Domestic Demand	**1.8%**	**4.1%**	**2.3%**	**2.4%**
GDP	**2.6%**	**11.2%**	**2.8%**	**3.5%**
Multinational Sector	1.5%	24.1%	4.1%	4.0%
Indigenous Sector	3.6%	0.8%	2.5%	2.4%
Government Balance, % GDP	4.0%	1.8%	0.9%	0.5%
Government Debt, % GDP	38.3%	32.7%	31.4%	30.1%
Employment Growth	2.7%	2.1%	1.5%	1.5%
Unemployment Rate	4.3%	4.7%	4.9%	5.0%
CPI Inflation	2.1%	2.2%	2.3%	2.0%

Source: Bank of Ireland, Central Statistics Office.

Summary

Irish economy slowing to more sustainable pace

Our new January 2026 projections still envisage a gradual slowdown towards a more sustainable, but robust, pace of expansion for the Irish economy. We have revised up our forecast for GDP growth to 11.2% in 2025, slowing to 2.8% growth in 2026. Modified domestic demand is expected to expand by 2.3% in 2026 and 2.4% in 2027. Employment growth is forecast to slow to 1.5% this year and next, with the unemployment rate rising to 5%.

A key uncertainty is gauging the underlying health of the Irish export sector. Irish exports to the United States surged in 2025. To some extent this reflects *'front-running'* of US tariffs, evident in spikes in goods exports in both March and September. However, new pharmaceutical production facilities, associated with new weight loss drugs, have also contributed. In Q4, modern sector manufacturing output was still up 8% yoy. This suggests US tariffs affected the timing of export shipments, but there has also been a structural shift upwards in Irish exports. Of course, this is still uncertain and negative GDP growth in 2026 can't be ruled out.

At the time of writing, the US appears to reversed the threat of 10% tariffs on six EU countries from February 1st. Though Ireland was not amongst these countries, it would have been obliged to participate in any EU retaliatory measures, included mooted tariffs on €93bn of US imports and the potential use of the 'Anti-coercion instrument' (ACI) that might have been used to target US big tech firms, including those with subsidiaries operating here. Given volatile US policy making, there is still a clear risk of further trade disruption. For Ireland, the key consideration is that pharmaceuticals remain exempt from US tariffs, following 'deals' between large multinationals such as Pfizer, Elli Lily and Novo Nordisk and the White House, concluded during the autumn.

Stepping back from the volatile macroeconomic data, other indicators are reasonably encouraging. IDA Ireland's results' showed employment in the multinational sector rose by 1.5% to 312,500 in 2025. This was split between a 3% rise amongst industrial firms, but with multinational services employment up just 0.3%. The 1.5% gain is still relatively subdued growth by historical standards, but an improvement from the 0.9% rise in 2024 and 0.1% contraction in 2023. A retrenchment in buoyant ICT multinational sector employment has weighed on the figures for some time. Ireland's manufacturing (52.2) and services (54.8) PMI readings in December, showed further improvement, firms expecting better conditions in 2026.

Another key uncertainty is the extent of the slowdown in job creation. We believe recent data are consistent with our view that the pace of job creation is slowing from rapid 3% rates, to our forecast for 1.5% growth in 2026 and 2027, due to labour shortages, flatlining participation rates and reduced net inward migration.

However, the Q3 Labour Force Survey (LFS) indicated employment was flat on the quarter, up just 1.1% on the year. The alternative *'payrolled employees'* measure paints a mixed picture, pointing to annual jobs growth of 2.4% in October, but only 0.6% in November. We are conscious the initial estimate for November, will likely be revised up towards at least 1% annual growth. Nonetheless, both measures indicate flatlining, or falling employment, in consumer facing sectors; wholesale, retail, accommodation and restaurants. The concern here is that both uncertainty, and rising costs are weighing on job creation.

Consumer spending is forecast to grow at a 2.3% pace in 2026, robust but reflecting the moderation in employment growth and that the household savings ratio rose to 14.75% in Q3 2025. Irish consumer sentiment fell back in 2025, hurt by geo-political uncertainties and remaining weak at the turn of the year. Hence, we expect the savings ratio to remain elevated in 2026.

A welcome development has been the rebound in construction output. Homebuilding (12.7%), repair and maintenance (9.3%) and non-residential construction (6.6%) all bounced back in 2025. This performance has been far better than indicated by surveys such as the Construction PMI, which pointed to stagnant activity, albeit with expectations for expansion in 2026.

Summary

Our forecast is for Residential Property Price Inflation (RPPI) to slow to 4% in 2026. MyHome asking price inflation fell to 5.4% in Q4 2025. Also, the average mortgage approval was €337,600 in November, up just 3.5% yoy. The process of rising leverage amongst first-time-buyers (FTBs) now appears to be playing out, so a *'mid-single digit'* rise in house prices now seems likely in 2026. That said, the lack of housing remains acute, so there are clear upside risks to our forecast. We expect housing completions increased to 34,000 in 2025 and will rise to 37,500 in 2026. This forecast is unusually uncertain as the housing starts data continue to be distorted.

We also expect non-residential construction to expand by a further 6% in 2026. Notably, construction saw the fastest pace of job creation (7.3%) of any sector in 2025. So activity should continue to expand in 2026. One tailwind is that the CSO's measure of construction materials inflation was just 1% in November 2025, indicating some expansion of profit margins in the sector.

Public spending rose by a relatively subdued 5.5% in 2025, relative to previous years, as *'one-off'* payments were finally phased out. However, Budget 2026 plans a more aggressive 8% rise in public spending to €118bn this year. Government expenditure on goods and services accounts for circa €1 in every four spent within domestic demand, which we expect to contribution 0.8 percentage points (pp), or one-third, of the growth of modified domestic demand in 2025. The planned 12% rise in capital expenditure to €19bn, will also help the rebound in construction and investment spending in the Irish economy.

On this point, it is easy to focus on external risks facing the Irish economy. Perhaps as important is that the delivery of the National Development Plan (NDP) is successful to address growing evidence of bottlenecks, capacity and competitiveness pressures. On an optimistic note, the planned €106bn of investment under the NDP will help sustain the rebound in domestic (rather than FDI) investment, that began in 2025.

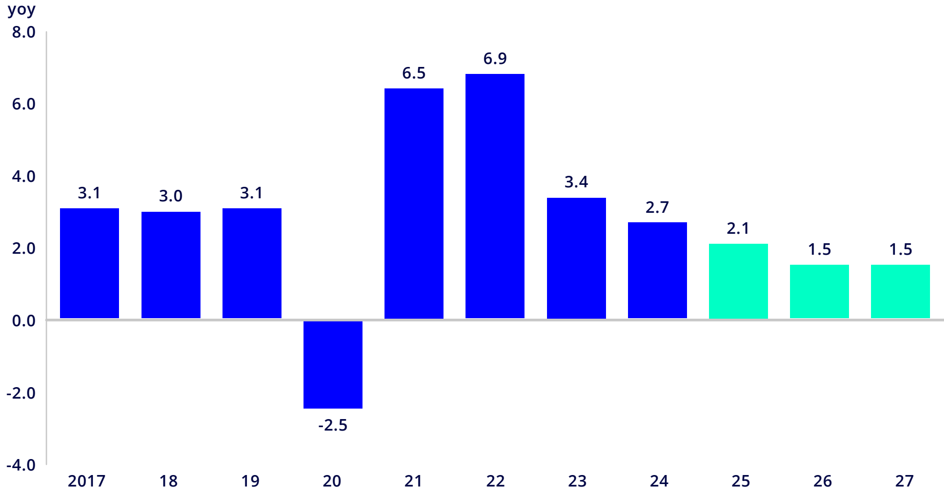
Labour Market

Job creation slowing to more sustainable pace

A key issue in our forecasts is the extent to which job creation is slowing. The official Labour Force Survey (LFS) indicated employment was flat in Q3, up just 1.1% on the year, accompanied by a rise in the unemployment rate to 5%. However, the alternative *'payrolled-employees'* measure, based off income tax returns, was 2.55 million in October, up 2.4% on the year.

The Q3 data may have been affected by seasonal volatility the CSO struggles to compensate for. We will have to wait until the Q4 2025 Labour Force survey to gauge this issue. Notably, November's Services PMI indicated employment rose at the sharpest pace since March. At a sectoral level, the slowdown in job creation has been concentrated amongst consumer facing sectors (retail, hotels, restaurants) but offset by robust gains in manufacturing, the public sectors and construction.

Irish Employment growth



Source: Bank of Ireland, Central Statistics Office

On balance, we believe our view that the pace of job creation is slowing to a more sustainable pace is becoming apparent. We are forecasting 1.5% employment growth in both 2026 and 2027, accompanied by a slight rise in the unemployment rate to 5%. A key judgment here is that labour force growth will also moderate. This is consistent with the participation rate levelling off at 66% and the slowdown in net migration continuing into 2026. Notably, job permits (for non-EU nationals) fell by 22% in 2025 to 30,000.

Labour Market Projections	2024	2025	2026	2027
Employment	2.7%	2.1%	1.5%	1.5%
Unemployment Rate	4.3%	4.7%	4.9%	5.0%

Source: Bank of Ireland, Central Statistics Office

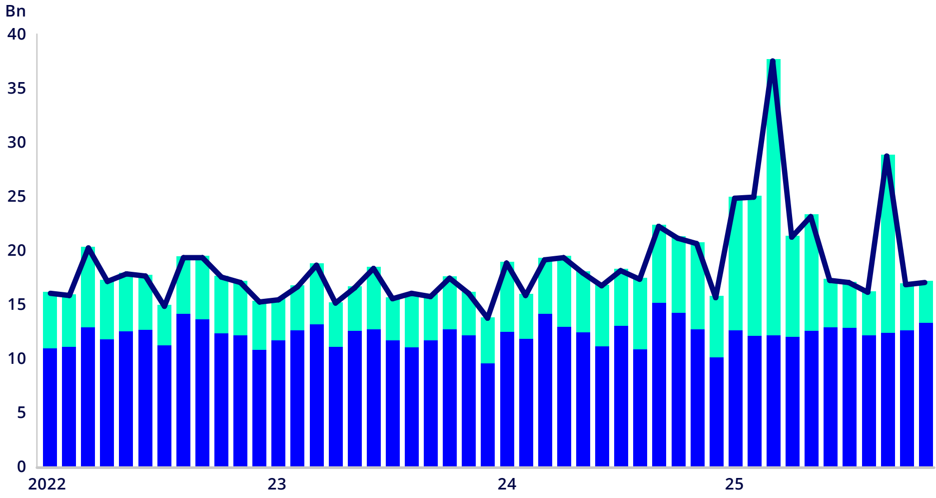
Trade

Surge in Irish exports in 2025 adds uncertainty to forecasts for 2026

Irish goods exports surged by 18% to €245bn in the first eleven months of 2025, mainly driven by a 60% rise to the United States, with noticeable spikes in both March and September, ahead of threatened US tariffs. However, goods exports fell back in October and November, down 21% on the year. At face value this suggests 'front-running' of US tariffs is now unwinding, potentially pushing both export and GDP growth into negative territory in 2026.

However, the extent of any slowdown is far from clear. Industrial production in the modern manufacturing sector (dominated by pharmaceuticals) through October and November was still up 8% yoy. This suggests US tariff threats have affected the timing of exports, but that production remains strong, associated with new pharmaceutical production facilities coming online, leading to a structural shift upwards in Irish exports.

Irish goods exports



Source: Central Statistics Office

We expect Irish exports will see a contraction in Q4, reversing some of the previous surge, but will still be up 10% in 2025 and by a relatively subdued 4.5% in 2026, before rising by 5% in 2027. This is consistent with both the IMF and OECD's recent forecasts that Irish export markets (1.7%) and world trade (2.3%) will see soft growth this year.

Irish exports and export market growth	2024	2025	2026	2027
Irish Exports	8.9%	10.0%	4.5%	5.0%
Irish Exports Markets	2.6%	3.6%	1.7%	2.5%

Source: Bank of Ireland, Central Statistics Office, OECD

Consumer Spending

Consumer spending to grow despite high savings

Our forecast for 2025 is that consumer spending rose by 2.7% in real terms, supported by the still strong pace of employment (2.1%), pay growth (4%), income tax cuts and fall in CPI inflation closer to the ECB's 2% target.

Nonetheless, Irish consumers remain cautious. Consumer spending was flat in Q3 2025, albeit still up 2.4% but accompanied by a rise in the household savings ratio to 14.75%. Excluding the pandemic period, this is the highest level of savings in eight years. Hence, household deposits in the banking system were €170bn in November, up by 6.4% on the year.

It may well be that spending was depressed by concerns around US tariffs and the broad economic outlook. Chart 3 shows that after a marked deterioration in early 2025, there has been little rebound in Irish consumer confidence measures. That said, there are some positive signs spending rebounded in Q4.

Irish Consumer Confidence

Source: Irish League of Credit Unions

Looking ahead to 2026 we expect consumer spending will grow by 2.3% in real-terms. This will be supported by a still robust 1.5% rise in employment with pay growth still at 4%. However, we have conditioned our forecast on to savings ratio remaining broadly flat at 14.9% in 2026. Our forecasts are marginally weaker than our last forecast, reflecting out-turns and some small upward revisions to HICP inflation.

Household Income and Spending projections	2023	2024	2025	2026
Compensation	10.8%	7.5%	6.4%	5.5%
Gross Disposable Income	10.1%	9.2%	5.3%	5.1%
Savings Ratio	12.0%	13.5%	14.4%	14.9%
Nominal Spending	13.5%	7.3%	4.2%	4.5%
Consumer Expenditure Deflator	8.2%	4.0%	1.5%	2.1%
Real Spending	5.1%	3.0%	2.7%	2.3%

Source: Bank of Ireland, Central Statistics Office

Public Finances

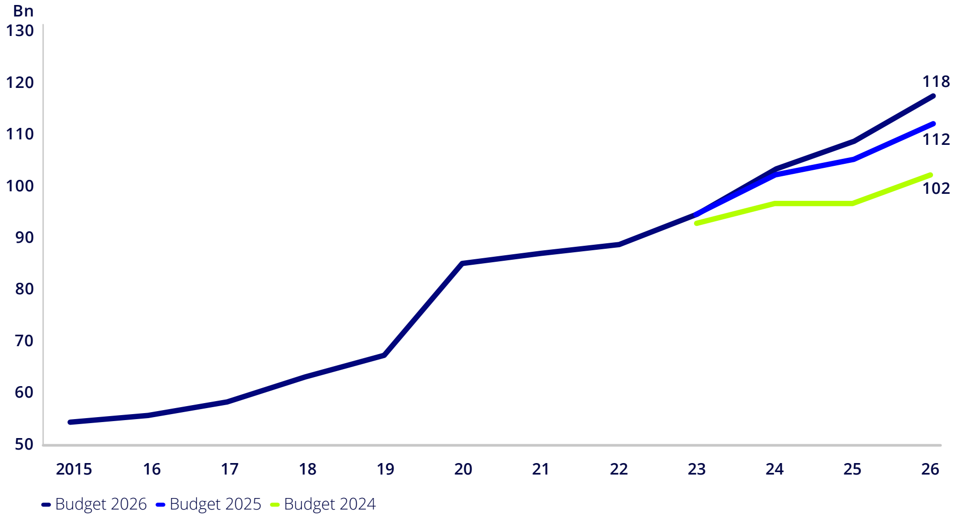
Public spending will support demand in 2026

Exchequer returns show that gross voted public spending grew by 5.5% in 2025 to €109bn, split between an 4.3% rise in current expenditure to €93bn and 12.7% for capital expenditure to €16.5bn. This contributed to real government consumption of goods and services in Q3 2025 being up 4.9% on the year, making a substantial 0.5pp contribution to GDP growth (and 1pp to modified domestic demand).

Budget 2026 has planned for a more rapid 8% rise in gross voted spending in 2026 (7.3% current and 11.7% capital) to €118bn. So the rapid growth of public spending will add to demand this year. The Budget included substantial increases in current expenditure in Health (5.5%), Education (4.9%), Housing (14.2%), Children (8.5%)) and Social Protection (7.6%).

The Department of Finance does not disclose projections for public sector employment. However, public sector pay is expected to grow by 8.4% in 2026 to €40bn, which will help meet two further 1% increases due in H1 2026 under the current public sector pay agreement. Hence, our forecast is that government consumption will rise by 4% in 2026, contributing 0.8pp to the 2.3% growth of modified domestic demand.

Gross Voted Public Expenditure



Source: Department of Finance

For now, the rapid growth of public expenditure (ahead of previous budgetary forecasts) is being matched by income tax receipts. Tax revenues in 2025 were €107.4bn, up 9% on the year (excluding once-off receipts related to the Apple tax-case) . This included €32.9bn of corporate tax revenues in 2025, up by 17%. Hence, despite rapid spending growth, our forecast is for a surplus of €6bn, or 1.7% of GNI* in 2026.

Public Finance Projections	2024	2025	2026	2027
General Government Balance	€22,605mn	€11,450mn	€5,935mn	€7,180mn
% GNI*	7.0%	3.4%	1.7%	1.9%
Debt	€215bn	€209bn	€211bn	€219bn
% GNI*	67.1%	61.9%	59.4%	58.8%

Source: Bank of Ireland, Department of Finance

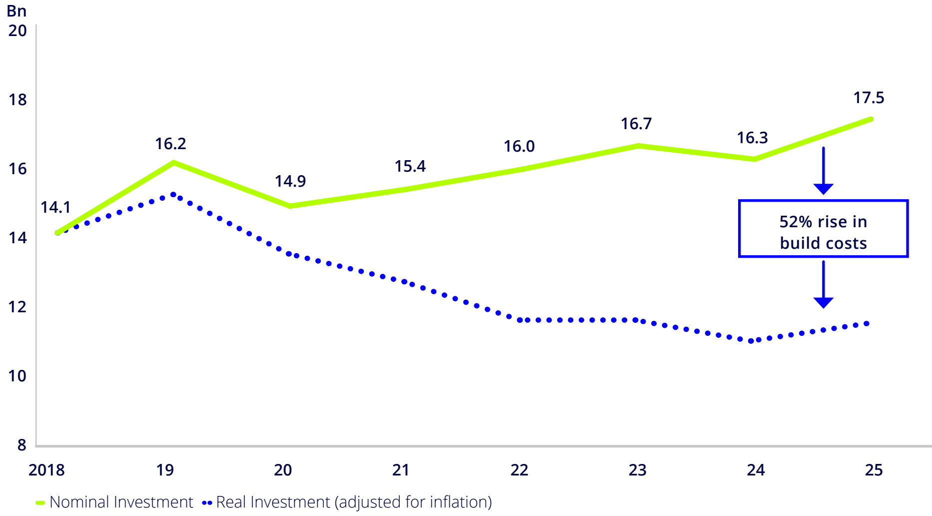
Investment Spending

Homebuilding and Infrastructure to support investment

We have left our forecast for housing completions broadly unchanged, 34,000 in 2025, 37,500 in 2026 and 40,500 in 2027. As in previous quarter's the risks around our projections for homebuilding are unusually uncertain, due to the surge in commencements to 69,000 in 2024 due to expiring waivers on development levies and water infrastructure charges. A welcome development in 2025 has been the rebound in non-residential construction.

Real non-residential investment is forecast to have expended by 6% in 2025, after five consecutive years of contraction – reflecting the impact of build cost inflation and delays to implementation of the National Development Plan (NDP). The CSO's Index of Construction output paints a more favourable picture; non-residential construction up 26% and civil-engineering by 17% in 2025.

Nominal and Real, Non-Residential Construction Investment



Source: Central Statistics Office

Our overall forecast is for modified investment spending to expand by 7.6% in 2025, before soft 0.7% growth in 2026. However, this projection reflects the volatile machinery & equipment and intellectual property elements of modified investment where revisions add to the uncertainty. The bigger picture is that further gains in homebuilding and in non-residential construction will add to investment spending in 2026. On this point, we are mindful that Budget 2026 provides for a 11.7% rise in public capital expenditure in 2026.

Investment Spending Projections	2024	2025	2026	2027
Residential	-4.2%	12.5%	10.2%	8.0%
Non-Residential Construction	-5.1%	6.0%	6.0%	6.0%
Machinery and Equipment (Core)	-7.5%	-1.4%	-3.5%	3.0%
Intangible Assets	-47.9%	97.6%	-40.5%	3.0%
Total Investment	-28.5%	38.3%	-19.4%	3.0%
Modified Investment	-4.2%	7.6%	0.7%	3.0%

Source: Bank of Ireland, Central Statistics Office

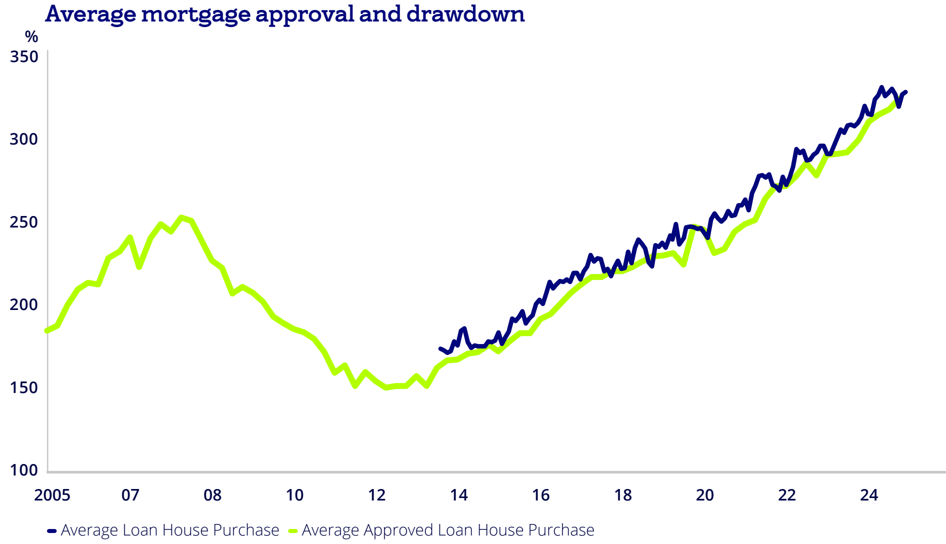
Housing

Housing market prospects for 2026

The Residential Property Price Index (RPPI) rose by 6.6% in the twelve months to November. This is almost exactly in line with our forecast for 6% growth through 2025. We expect price inflation to slow to 4% in 2026. MyHome asking prices were effectively flat in Q4 2025, up just 0.1%, with annual inflation slowing to 5.4%. Also, transactions are now being settled a slightly less elevated premia, 7.5% at the median in Q4 2025, than the 8.1% recorded during the summer of 2025.

The latest mortgage market data point to slower house price inflation in 2026. The average mortgage drawdown was €336,600 in Q3 2025, up 8.1% on the year, clearly contributing to house price inflation. However, in November the average approval was still €337,000, up only 3.5% yoy, the slowest pace of increase in almost two years. For first-time-buyers (FTBs) the average approval was €327,000 in November, up just 2.5% yoy.

Average mortgage approval and drawdown



Source: Banking Payments Federation Ireland

Housing market liquidity in 2025 was disappointing. The Property Price Register indicates transaction volumes in the first eleven months were up just 0.5% on the year, but only partially unwinding the 2.9% decline in 2024 to 61,500. Furthermore, all of this rise was due to newly built homes being sold, with liquidity in the existing homes market still contracting. In the first nine months of 2025 new build transactions were up 18.8%, but on existing homes down 1.1%.

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