Irish Economic Update

AIB Economic Research Unit

7th October 2025

Budget 2026

Pivot from household to business supports

Today's budget, the first of the current Government, contained a package of measures totalling €9.4bn. The Government is providing an additional €8.1bn in spending increases and €1.3bn in tax cuts for next year. In addition, spending overruns across many departments have been absorbed into the base for next year, with voted spending in 2025 nearly €3.7bn higher (+3.4%) than was projected in last year's budget. This adds up to a significant boost to the economy in line with recent budgets of 2022-24. The headline measures include VAT cuts for the hospitality and construction sectors, at the expense of income tax cuts. On the spending side, welfare payments are set to rise, and capital spending on infrastructure projects will also increase sharply.

The public finances remain in a strong state, enabling the Budget day package. Indeed, the Dept. of Finance is still able to project budget surpluses of €10.2bn (3% of GNI) for 2025 and €5.1bn (1.4% of GNI*) in 2026. The gross debt-GNI* ratio is also projected to fall from 61.7% in 2025 to 58.6% by 2026. However, excluding windfall corporate tax receipts, the Government will run a large deficit of €13.6bn in 2026. While the rise in infrastructure spending is welcome, the Budget lacks a clear plan to close the underlying fiscal deficit, despite the external risks facing the Irish economy, primarily from US tariffs.*

Key Points - Budget 2026	
Budget 2026 is set against exceptional budget surpluses	Budget 2026 is set against continued budget surpluses. The starting point is a nearly €10.2bn surplus (3% of GNI*) in 2025. The budget surplus is forecast to be €5.1bn in 2026 (1.4% of GNI*). However, excluding windfall corporation tax receipts, the Government will run significant deficits of €7.4bn (-2.2% of GNI*) in 2025, and €13.6bn in 2026 (-3.8% of GNI*). It is also notable that the Government has refused to publish forecasts beyond 2026 for these key fiscal metrics.
Dept. of Finance macro projection point to continued growth but risks apparent	Dept. of Finance (DoF) macro projections point to continued growth in the near term with GDP and Modified Domestic demand (MDD) forecasts broadly revised higher compared with the Spring 2025 forecasts. However, DoF highlights the numerous risks to the outlook, including global geopolitical risks, primarily emanating from new US tariffs.
A substantial Budget-day package of €9.4bn announced	The budget also provided for the usual broad array of increased spending across Government departments and taxes. This includes €8.1bn in new spending measures, and €1.3bn in tax measures. The key departure this year is the lack of income tax cuts, in favour of VAT cuts for hospitality and construction. Cost of living measures have also been phased out.
Substantial increase in infrastructure spending	As already flagged in the National Development Plan Review in the summer, this Budget allocates substantial capital investment towards infrastructure projects. Overall voted capital expenditure will rise to €19.1bn in 2026 (+€2bn vs. 2025), with the majority of this funding going into housing, transport and energy infrastructure.
A budget at risk of overheating the economy	Given the substantial size of the Budget measures, the Fiscal Advisory Council and Central Bank have warned that the Government risks overheating an economy already operating at full capacity. While the rise in infrastructure spending is welcome, the Budget lacks a clear plan to close the underlying fiscal deficit, despite the clear external risks facing the Irish economy.

David McNamara
Chief Economist
david.g.mcnamara@aib.ie

John Fahey
Senior Economist
john.j.fahey@aib.ie

Daniel Noonan
Economist
daniel.x.noonan@aib.ie

Irish economy continues to grow at robust pace, but risks to the downside

- **Economic data continue to signal modest global growth.** At a regional level, there are signs of a cooling in US growth, reflected in slower jobs growth in recent months. Eurozone and UK growth remains weak, although exports have been temporarily boosted by tariff front-running by European exporters. Global growth is expected at a modest c.3% in 2025 & 2026 (IMF & OECD), with **significant downside risks to the outlook,** including the **increase in US tariffs to a 100-year high in recent months**.

- The full impact of US tariffs is as yet unclear, but most forecasters expect the trade barriers to slow global trade growth, and could risk a retrenchment in globalisation. These "deglobalisation" trends are the context in which the Government sets its budget policy.

- **In Ireland, the growth picture was robust in the first half of 2025, boosted by a surge in exports to the US ahead of the imposition of tariffs.** This drove a sharp increase in GDP of 18% y/y, while MDD rose by 4% y/y in H1 2025. Other domestic indicators show jobs growth of c.2% and wage growth of 5% at present, reflecting a tight labour market. Looking ahead, **lead indicators suggest Irish growth could moderate in the coming years.** Surveys suggest Irish firms and households have become gloomier in their outlook for next year, due to the tariff uncertainty. However, hard macro data suggest consumer spending continues to grow at a solid pace of c.3%.

- For firms, the trends are more muted. The AIB PMIs and Indeed.ie tracker suggest hiring activity has softened in 2025. This is reflected in official labour force data, with employment growth slowing to 2% y/y in Q2 2025 from a near-3% pace in Q4 2024. Business investment trends have also been weaker, with machinery & equipment (ex -aircraft) spending rising a modest 1% y/y in Q2 2025.

- In terms of the financial fundamentals, Ireland continues to have a large balance of payments surplus, the general government budget remains in strong surplus, while **private sector balance sheets are characterised by low levels of debt and high savings. Inflation has also fallen sharply from recent peaks.** The HICP rate stood at just 2.7% in September, down from a peak of 9.6% in 2022.

- This is reflected in **the latest Dept. of Finance macro economic forecasts. GDP growth is projected at 10.8% in 2025, 1.0% in 2026 and 4.2% in 2027, respectively.** Meanwhile, MDD is forecast to grow by 3.3% in 2025, 2.3% 2026 and 2.9% in 2027. The labour market is expected to remain tight. The unemployment rate is projected to remain very low at 4.8% in 2026 and 4.9% in 2027.

DEPT OF FINANCE ECONOMIC FORECASTS

(%)	2024	2025(f)	2026(f)	2027f)
GDP	**2.6**	**10.8**	**1.0**	**4.2**
GNI*	**4.8**	**3.3**	**2.5**	**2.4**
MDD	**1.8**	**3.3**	**2.3**	**2.9**
Private Cons	2.9	2.9	2.3	2.4
Gov Expd.	5.3	3.0	3.0	2.7
Mod. Fixed Inv.	-4.2	4.7	1.7	4.4
Mod. Imports	6.5	4.6	3.6	3.9
Exports	8.6	7.5	1.5	4.5
HICP	1.3	1.8	1.9	1.9
Employment	2.7	2.2	1.5	1.2
Unemploy. Rate	4.3	4.6	4.8	4.9

Source: Dept. of Finance, October 2025

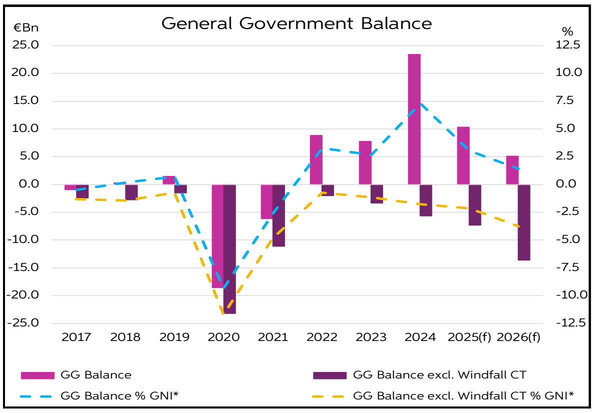
Corporation tax surge continues to boost the budget surplus

- A General Government surplus target of €9.7bn was initially projected for this year in Budget 2025 (Oct 2024). This was revised down to €8.7bn in the Annual Progress Report in May 2025 amid heightened uncertainty around US tariffs. The past six months, though, have seen an acceleration in tax revenues and macro forecasts, especially corporation tax receipts. Thus, the Dept. of Finance now expects the budget surplus to be in the region of €10.2bn in 2025 (3% of GNI*).

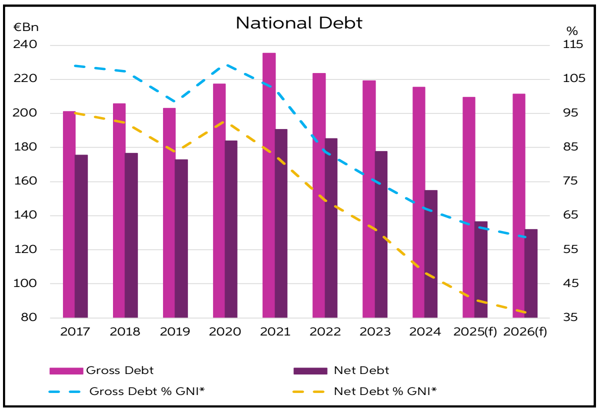
- **The General Government budget balance is also expected to remain in significant surplus in the coming years. The Government is projecting surpluses of €5.1bn (1.4% of GNI*) in 2026.** However, at an underlying level, Ireland will actually run a large budget deficit, excluding both ongoing excess corporate tax receipts. This deficit will be €7.4bn (2.2% of GNI*) in 2025 and €13.6bn (3.8% of GNI*) in 2026. The overarching point is the Budget lacks a clear medium-term strategy to reduce our reliance on windfall taxes and to close this underlying deficit. The documents also excludes medium term fiscal forecast beyond next year, in a departure from the conventional fiscal projections provided on Budget day.

Business supports on the tax side, social and infrastructure the spending priorities

- **Of the €9.4bn policy measures announced today** , €8.1bn is allocated to spending and €1.3bn on taxation measures.
- **The spending commitments are broken down into new measures and pre-committed spending** from prior Budgets and public sector pay deals. The usual increases in Christmas welfare payment in 2025 were announced. For 2026, regular welfare payments will be increased by €10 per week, alongside increases in health and education, amongst other departments spending ceilings. The capital budget will be significantly boosted by €2bn to a record high of €19bn in 2026. Further increases will see capital spending peak at €21.4bn in 2029.



- **All in, Government voted spending will increase by 5.2% in 2025 and 8% in 2026,** well ahead of what was projected in the Summer Economic Statement in July. There are few signs of moderation in current spending, despite the risks to the economy at present.
- On the tax side, the **Government has eschewed cuts to income tax in favour of business supports.** The key tax measures include a cut in VAT from 13.5% to 9% for some hospitality businesses and for newly constructed apartments. Further business-friendly measures include a cut in corporation taxes for providers of cost rental housing, and other supports aimed at boosting R&D and innovation. This comes alongside some small revenue-raising measures including a new derelict building tax, excise duty on tobacco, and a hike in carbon tax.



- **DoF sees tax receipts rising by a further 2.7%, or €2.9bn, to €109bn in 2026.** Of the main tax heads, income tax, VAT and excise duties are forecast to register solid growth in 2026. Meanwhile, corporation tax is expected to surge further to €34bn, due to the collection of top-up corporate tax of 2.5% from large multinationals stemming from OECD tax reforms introduced in recent years.
- There are also concerns that the sharp rise in revenues from this tax head in recent years will not be sustained. **The Dept. estimates that up to €17.6bn of the €32bn in corporation tax receipts in 2025 could be 'windfall' in nature.** Furthermore, Ireland remains vulnerable to potential global tax changes, and sector-specific risks emanating from the imposition of US tariffs. Thus, forecasting corporation tax receipts is challenging over the medium term.

An expansionary budget, not without risks in the current environment

- The spending plans as set out in the Department's Summer Economic Statement in July have drawn strong criticism from the Irish Fiscal Advisory Council and the Central Bank, saying it adds to the pro-cyclical stance of fiscal policy and could lead to more persistent inflationary pressures. In their view, there will now be an overly expansionary stance to fiscal policy in the coming years.
- Certainly, given the current strength of the Irish economy and the low rate of unemployment, a more cautious approach to the Budget would have been merited. Thankfully, IFAC has noted that "there are no obvious signs of a decline in corporation tax receipts in the short run", although they warn that the medium term outlook in "much less clear".
- With the Government **set to run an underlying deficit**, excluding tax windfalls, and structural deficits; a firm commitment to closing this deficit in the coming years while the economy is running at capacity would have been a prudent feature of this budget. This strategy of running large underlying deficits is not without risks in the current uncertain global macro environment.

Compiled by

AIB Economic Research Unit

Tax & Spend Policy Measures

Budget 2026

Total Revenue & Spend

	€ millions	2025	2026	Growth (Year-on Year)
A	**Revenues**	**112,320**	**113,345**	**0.9%**
	of which			
	Income Tax	36,500	38,795	6%
	Corp Tax	32,125	33,975	6%
	VAT	22,810	23,285	2%
	Others	20,885	17,290	-17%
B	**Expenditure**	**111,430**	**115,190**	**3.4%**
	of which			
	Net Current	80,720	88,195	9%
	Net Capital	30,710	26,995	-12%
	-transfer to Wealth Funds	6,080	6,500	7%
C (A-B)	**Exchequer Balance**	**890**	**(1,845)**	
	Gen Gov Balance (GGB)	**10,245**	**5,122**	**-50%**
	% GNI*	**3.0%**	**1.4%**	
	GGB ex windfall tax^	**(7,355)**	**(13,578)**	**-85%**
	% GNI*	**-2.2%**	**-3.8%**	

New Measures

	Tax - Yield / Cost				Spend - Cost		
	€ millions	**2026**	**Full Year**		€ millions	**2026**	**Full Year**
A	**Tax Cuts**	**1,695**	**2,545**	D	**Current**	**6,100**	**6,100**
	VAT Cuts (Hospitality, Aparts)	736	1,325		Social Protect	2,496	2,496
	Income & USC	83	87		Health	1,350	1,350
	Business Supports	336	471		Education	968	968
	Rent Tax Credit	350	350		Housing	600	600
	Other Housing supports	50	184		Others	686	686
	Others	140	128				
B	**Tax Rises**	**435**	**256**	E	**Capital**	**2,001**	**2,000**
	Excise	2	37		Housing	1,275	1,275
	Carbon Tax	121	157		Health	100	100
	Bank Levy	200	-		Transport	553	553
	Other	112	62		Climate	97	97
					Other	(24)	(25)
C (A-B)	**Total Tax**	**1,261**	**2,289**	F (D+E)	**Total Spend**	**8,101**	**8,100**
G (C+F)	**Total Budget Package**	**9,362**	**10,389**				
	% of GDP	**1.4%**	**1.6%**				
	% of GNI*	**2.6%**	**2.9%**				

Source: Dept. of Finance, Budget 2026