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KIERAN MCQUINN, CONOR O'TOOLE AND DÓNAL O'SHEA

QUARTERLY ECONOMIC COMMENTARY

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Spring 2025

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SUMMARY TABLE

	2023	2024	2025	2026
Output (real annual growth %)				
Private consumer expenditure	4.9	2.3	2.9	2.6
Public net current expenditure	4.2	4.3	3.2	2.8
Investment	2.8	-25.8	20.9	1.8
Modified investment	-4.3	2.2	3.3	3.5
Exports	-6.0	11.9	3.0	4.8
Imports	1.3	6.5	4.4	3.9
Gross domestic product (GDP)	-5.6	1.2	4.1	3.9
Modified domestic demand (MDD)	2.7	2.6	3.0	2.8
Prices (annual growth %)				
Consumer Price Index (CPI)	6.3	2.1	2.0	2.2
Labour market				
Employment levels ('000)	2,705	2,762	2,819	2,875
Unemployment levels ('000)	121	123	117	109
Unemployment rate (as % of labour force)	4.3	4.2	4.2	4.4
Public finance				
General government balance (€bn)	7.5	25.0	10.8	8.3
General government balance (% of GDP)	1.5	4.8	2.0	1.5

The Irish economy – Forecast overview

- At the start of 2025, the Irish economy is in a strong position. Unemployment stands at 3.9 per cent, while real income growth is set to exceed 3.5 per cent in the current year. Exchequer returns continue to increase quite significantly for the opening period of the present year.
- Therefore, as a baseline, we expect modified domestic demand (MDD) to increase by 3.0 per cent in 2025 and 2.8 per cent in 2026. These forecasts are conducted on the assumption of no trade tariffs being imposed between the United States (US) and the European Union (EU).
- However, the international climate is particularly fraught at the present time, with the new US administration outlining a series of tariffs on certain countries.
- The likely deterioration in global trading conditions, which will almost certainly ensue from any trade war, will have adverse implications for the domestic economy. Furthermore, the general uncertainty caused by a changing US economic policy is likely to subdue global activity, lower investment and consumption. We build this into our base case forecasts regardless of the final tariff position.
- The overall impact of a tariff war on the Irish economy will be compounded if the US specifically targets pharmaceutical products as part of any proposed tariff strategy.
- We provide an alternative series of forecasts for the traded sector of the Irish economy, highlighting the potential implications of the imposition of a 25 per cent bilateral tariffs on goods. In this alternative scenario, drawing on Egan and Roche (2025), MDD growth is forecast to be 2.8 in 2025 and 2.1 per cent in 2026.
- Housing supply in 2024 was somewhat disappointing, with completions coming in at 30,330 units, heightening fears that housing costs will continue to escalate in the domestic economy.
- While numerous factors are likely to be affecting housing supply, in two text boxes in this *Commentary*, we address the 'funding gap' and the policy around rent controls, both of which are likely to weigh on supply.[1]
- A further text box to the *Commentary* by O'Shea assesses the contribution to domestic output growth of increasing participation rates among the older cohorts of the Irish labour market.

[1] The funding gap is the difference between existing levels of credit extended by the traditional financial sector and that required to supply the target level of housing.

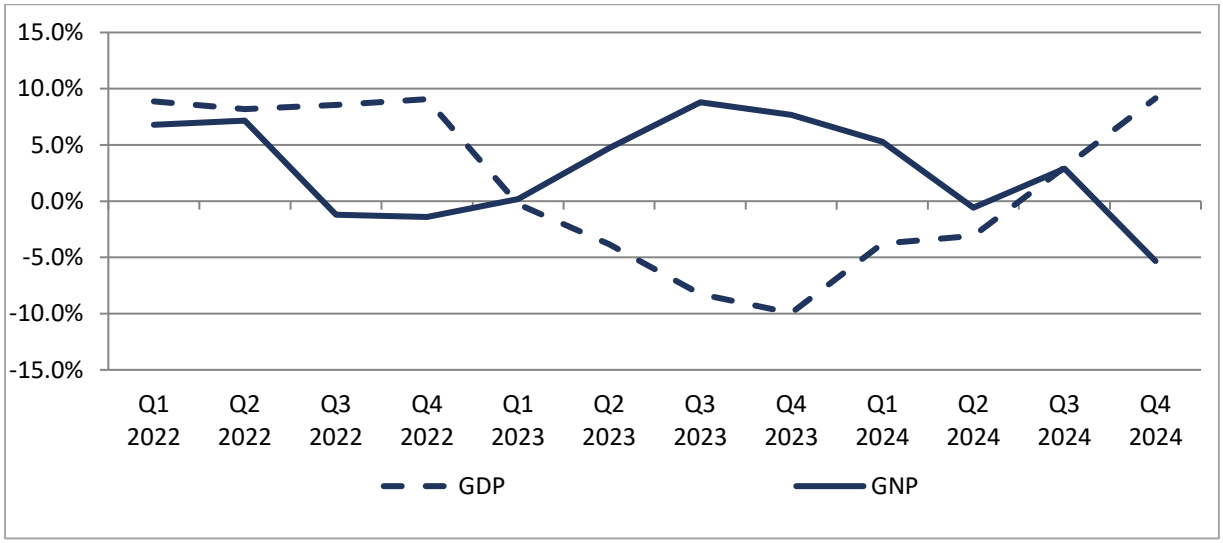
Domestic and international outlook

OVERALL OUTLOOK

International economic outlook extremely uncertain with major downside risks

In recent years, in the context of an increasingly uncertain global economic environment, with a trend towards deglobalisation following repeated shocks, the Irish economy has appeared extremely resilient. Following the contraction in 2023, Irish gross domestic product (GDP) bounced back in 2024, driven by a rapid rebound in exports and a robust domestic performance. Figure 1 below highlights the recovery in GDP, with the growth rate moving into positive territory from Q3 2024 onwards. This growth was particularly strong in the last quarter of 2024. Gross national product (GNP) did not fall in 2023 due to changes in factor income flows from the multinational sector, but it did drop back in the second and fourth quarters of 2024. Given the open and internationalised nature of the Irish economy, while the latest growth rates are strong, considerable downside risks weigh on the outlook, in particular in relation to the Trump administration's use of tariff and non-tariff trade policies and their potential impact on global activity.

FIGURE 1 GDP AND GNP GROWTH – YEAR-ON-YEAR (CONSTANT PRICES, SA)

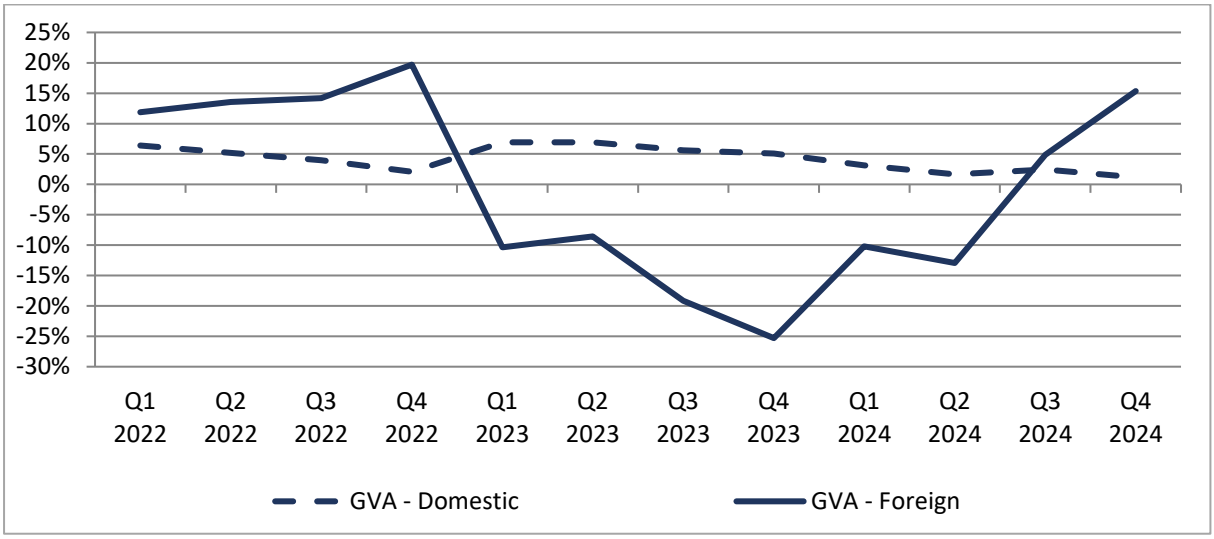


Sources: CSO's quarterly national accounts.
Note: SA=Seasonally adjusted.

Given the dual nature of activity in Ireland (between foreign direct investment led exports and domestic activity), it is important to understand the factors contributing to the contraction in 2023 and the rapid rebound in 2024. Figure 2 presents the breakdown of the growth in gross value added (GVA) by foreign-dominated sectors as well as domestic-oriented sectors (as defined by the Central Statistics Office (CSO)). It can be clearly seen that the major downward pressure in terms of GVA in 2023, and the rapid rebound, came through the foreign-dominated

sectors. Having grown at considerable double-digit rates in the period 2020 through 2022, the sharp downturn continued throughout 2023 and into 2024. The final two quarters of 2024 show a rapid and accelerating trend in foreign-firm sector growth. On the other hand, the domestic-oriented sectors are experiencing a steadying of the growth rate following the volatility of the COVID-19 period. This steadying of growth in the domestic economy, albeit at a lower rate, points towards a degree of resilience despite international uncertainties, and repeated shocks such as the cost of living crisis and the related snapback in interest rates.

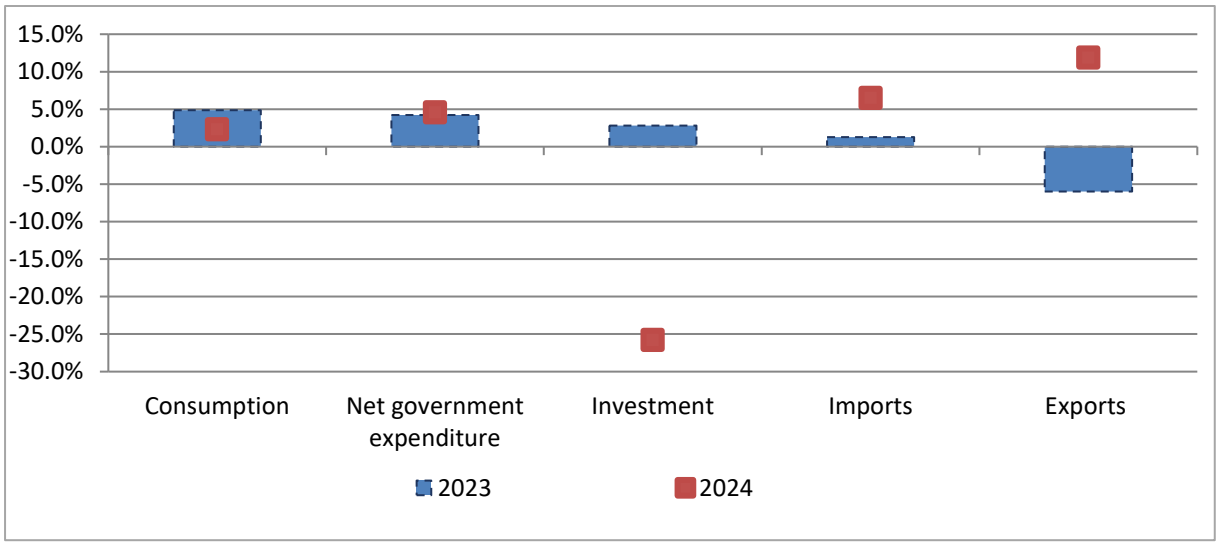
FIGURE 2 GVA GROWTH – YEAR-ON-YEAR – DOMESTIC VS FOREIGN DOMINATED SECTORS (CONSTANT PRICES, SA)



Sources: CSO's quarterly national accounts.
Note: SA=Seasonally adjusted.

This divergence can be seen more clearly in Figure 3, which presents data for the expenditure components of GDP: consumption, government spending, investment, exports and imports. The data are presented as the year-on-year growth for 2024 (in red) compared to 2023 (in blue). Household consumption grew moderately in 2024, by approximately 2.3 per cent. This level of expenditure was lower than anticipated and suggests a hesitancy among households to increase expenditure, despite a robust labour market and high savings rates. Investment expenditure was down significantly in 2024 relative to 2023 on the back of considerable outflows of intellectual property assets. The rebound in exports was the most notable reversal; overall export growth was nearly 11.9 per cent in 2024. Part of this can be explained by one-off exports of intellectual capital assets, which nets out in GDP terms due to the corresponding fall in investment. Imports also rose strongly in 2024.

FIGURE 3 COMPONENTS OF GDP GROWTH – YEAR-ON-YEAR – CONSTANT PRICES (SA)

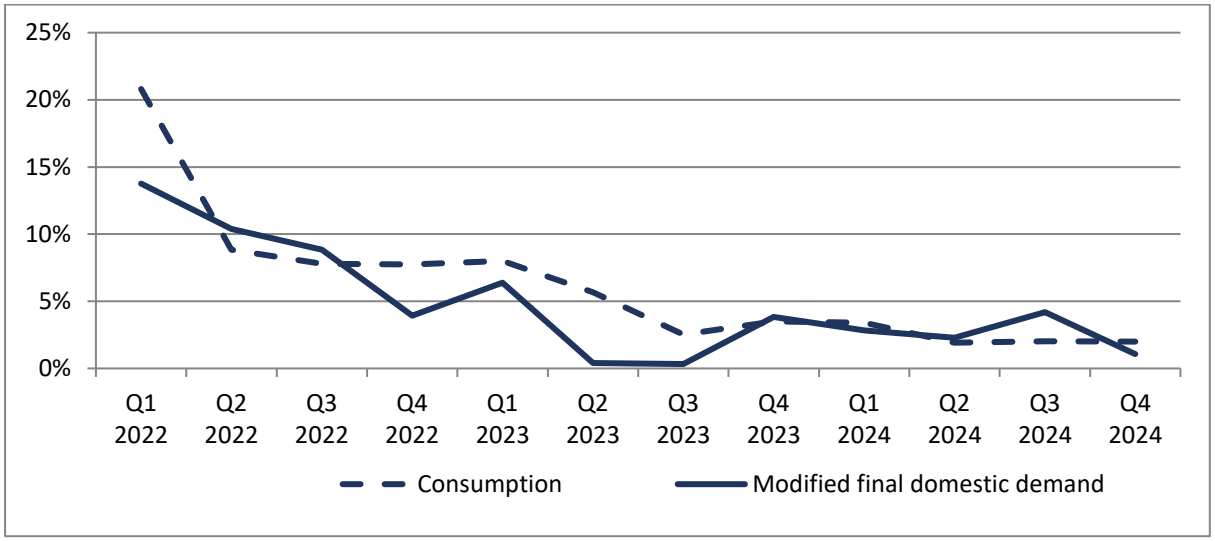


Sources: CSO's quarterly national accounts.
Note: SA=Seasonally adjusted.

Household spending growth to continue on robust domestic economy

As noted above, the domestic economy continued to grow robustly in 2023 and into 2024. Figure 4 presents the growth rate in personal household consumption and modified domestic demand (MDD – the adjusted domestic demand calculation that replaces overall investment with the modified series, removing aircraft leasing and R&D intellectual property). The growth in both MDD and consumption moderated throughout 2023, with a clear downward trend evident in the series. This stabilised in the first quarter of 2024, with both indicators posting faster growth than was evident at the end of 2023. While the early period of 2024 was characterised by a slowdown in MDD, Q3 saw a rebound. MDD slowed again towards the end of the year, mainly driven by slower housing investment, which will be discussed in more detail in the coming sections. Government net spending was also higher throughout 2024 as the increased expenditure levels following the COVID-19 pandemic continued.

FIGURE 4 CONSUMPTION AND MODIFIED FINAL DOMESTIC DEMAND – YEAR-ON-YEAR – CONSTANT PRICES (SA)



Sources: CSO's quarterly national accounts.
Note: SA=Seasonally adjusted.

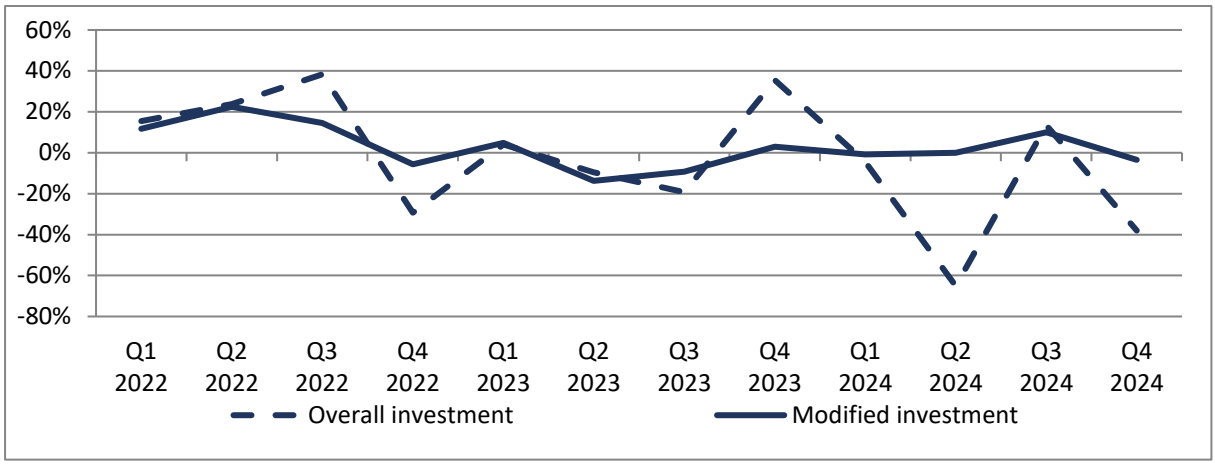
While consumption has grown in 2024, the expectation throughout the year was that a stronger outturn would materialise, as noted above. This was due to both an increase in real incomes (through moderating inflation and rising nominal incomes) and the very high levels of savings accumulations, which have carried over from the pandemic. Given that we expect the labour market to continue to perform relatively well in our baseline forecasts, with further increases in real incomes, and the high savings ratios, we expect consumption expenditure to grow strongly this year. In our base forecasts, we expect consumption to grow by 2.9 per cent in 2025, before falling back to 2.6 per cent growth in 2026.

There are however notable headwinds. First, the rise in international uncertainty could lead to higher precautionary savings as households attempt to build up buffers. Additionally, there is a risk of inflation rising above expectations; this is due to domestic capacity pressures and potentially due to the impacts of international tariffs.

Divergent trends explain a subdued investment outturn

Following a decline of 4.3 per cent in 2023, underlying investment (as measured by modified investment) in the Irish economy continued to be subdued in 2024. Figure 5 presents the year-on-year growth rate in overall investment and modified investment (which removes the aircraft leasing and R&D intellectual property assets). Overall in 2024, modified investment increased by approximately 1.3 per cent, while total investment fell by 25.8 per cent, driven by intellectual property exports.

FIGURE 5 OVERALL INVESTMENT AND MODIFIED INVESTMENT – CONSTANT PRICES (SA)

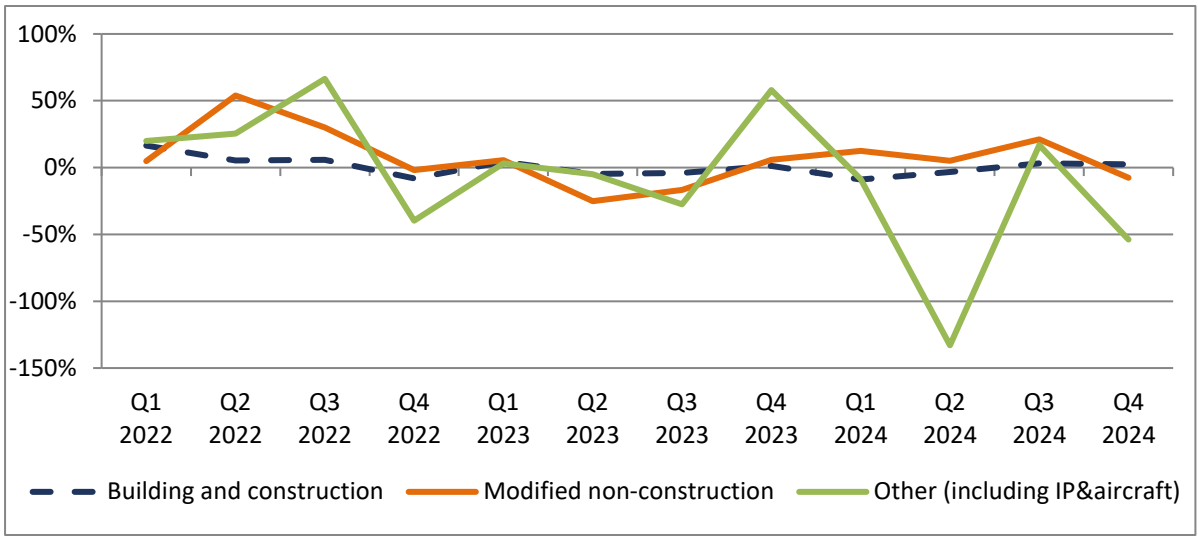


Sources: CSO's quarterly national accounts.
Note: SA=Seasonally adjusted.

To unpick the trends in the investment subcomponents, Figure 6 presents the year-on-year growth rate on a quarterly basis for the following sub-series: building and construction investment; modified investment excluding construction; and other investment. Other investment is calculated as total investment minus modified to capture distortionary investments from intellectual property and aircraft leasing.[2] Modified non-construction investment rebounded in 2024 and grew at a rate of 7.6 per cent for the year. This represents a recovery from 2023, during which investment in this category declined by 9.4 per cent. This volatility in part represents the base effect of large one-off investments in 2022, which led to a considerable increase in that year.

[2] These calculations are undertaken due to redactions in the underlying data.

FIGURE 6 COMPONENTS OF INVESTMENT – CONSTANT PRICES (SA) – YEAR-ON-YEAR CHANGE (%)

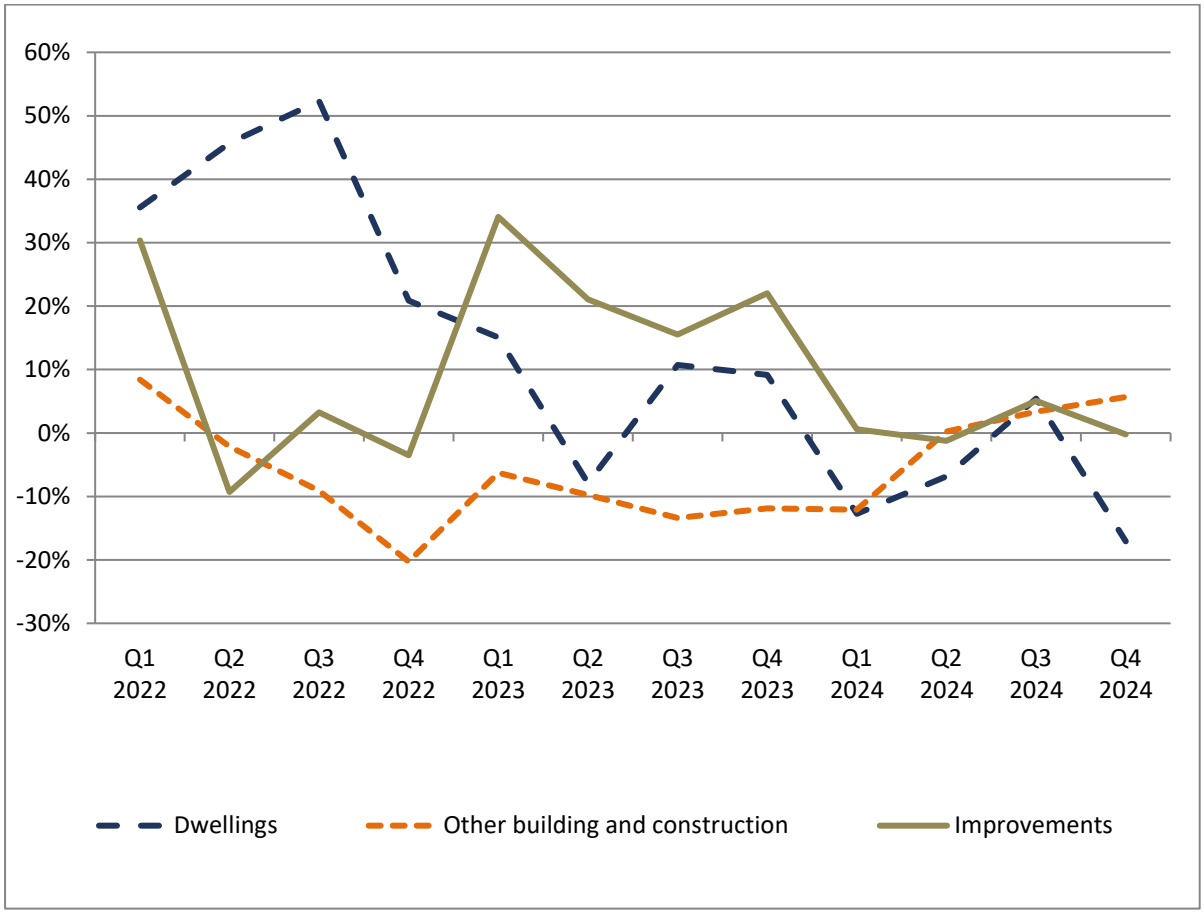


Sources: CSO's quarterly national accounts.
Note: Modified non-construction series is calculated to subtracting building and construction for total modified. Other investment is calculated by removing modified investment from total investment. SA=Seasonally adjusted. IP=Intellectual property.

An area of ongoing weakness for Ireland has been investment in building and construction. Given the well documented capacity constraints faced by the domestic economy, continued underinvestment in housing and infrastructure is a growing constraint on economic growth as well as on society. In 2024, construction investment continued to remain weak. Overall for the full year of 2024, investment in building and construction declined by just under 3 per cent. Within construction, countervailing trends were evident for residential investment and non-residential activity. Following a number of years of lower investment, likely driven by higher interest rates, changing work practices and excess supply of office space, investment in commercial construction began to recover towards the tail end of 2024. This represents the first evidence of recovery and growth in this sector since 2022.

However, the ongoing weakness in housing supply was characterised by a drop in residential investment in 2024 of 7.8 per cent for the full year relative to 2023. These trends are clearly evident in Figure 7, which highlights the continued weakness throughout 2024 of residential investment. Indeed, the year-on-year growth rate in residential investment for the fourth quarter of 2024 was -17 per cent.

FIGURE 7 COMPONENTS OF BUILDING AND CONSTRUCTION INVESTMENT – CONSTANT PRICES – YEAR-ON-YEAR CHANGE (%)



Sources: CSO's quarterly national accounts.

This generalised weakness in housing output can be clearly seen in the reduction in housing completions to just over 30,000 in 2024 from 32,500 in 2023. These delivery levels lie well below estimates of structural household formation, which have been documented by Bergin and Egan (2024) and others to be in the range of 50,000 to 60,000 units annually (including pent up demand).[3]

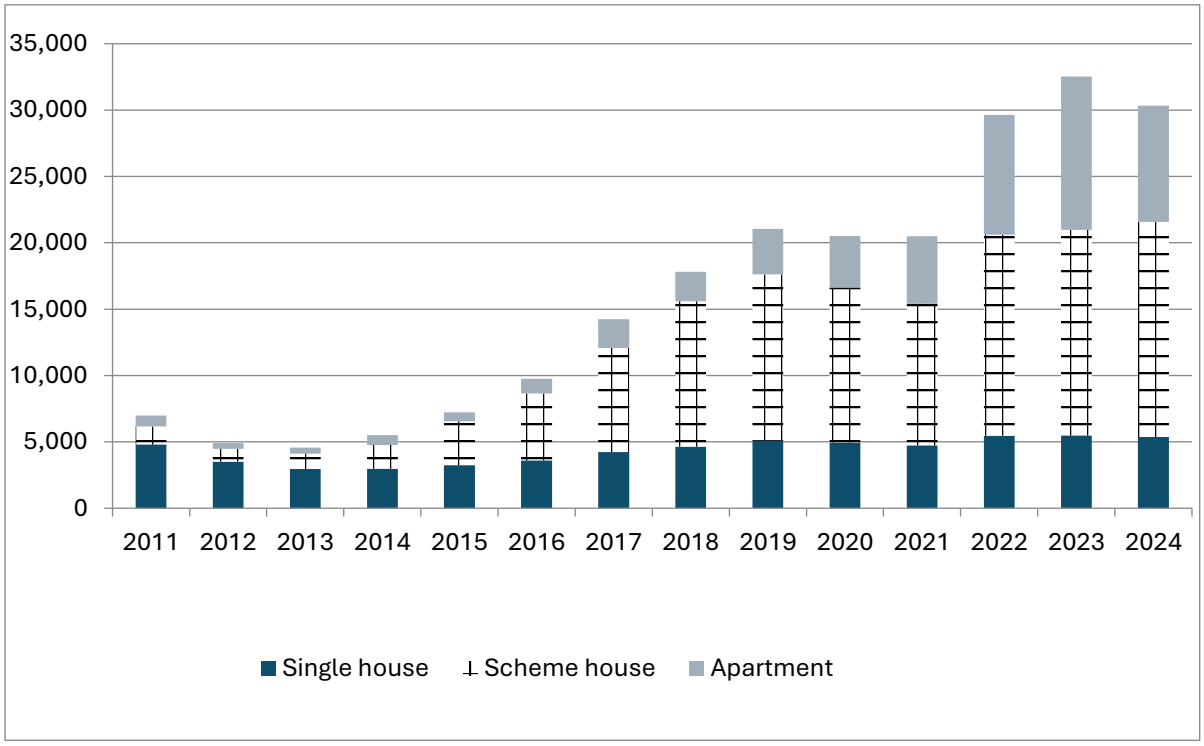
To provide more insight into the determinants of housing supply, we explore trends across the type of housing completions. Figure 8 below presents the completions over time by housing type. These data distinguish between single houses, scheme houses and apartments. Typical drivers of housing production include land costs and availability, labour costs, other materials and inputs costs, the cost of financing, and price developments. However, the impact of these factors is likely to differ depending on whether the type of development is a single house, scheme housing or apartment. It is therefore useful to consider trend variation in the sub-types of housing output. It is clear from Figure 8 that, since

[3] Bergin A. and P. Egan (2024). *Population projections, the flow of new households and structural housing demand*, Research Series 190, Dublin: ESRI.

2016, scheme housing has been the main driver of an increase in housing output. This has remained static but with moderate growth through recent years.

Single house building has also remained relatively static. However, for 2024, the big decline came in relation to the number of apartments being built, which fell from 11,500 in 2023 to 8,700. It is likely that a range of factors can impact apartment production to a greater extent than other types. For example, the cost of producing high rise, high density housing, the cost of financing, availability of international funding, issues such as policy uncertainty and rent controls in the private rental sector (PRS) are all likely to impact output. Box A below by Slaymaker (2025) considers the impact of rent controls in Ireland and outlines some policy options to consider. Box B by McQuinn (2025) below considers the issue of the funding gap in the housing market and notes that considerable additional funding is required to achieve higher supply targets

FIGURE 8 ANNUAL COMPLETIONS BY HOUSING TYPE



Source: CSO data.

BOX A POLICY OPTIONS FOR RENT CONTROL MEASURES IN IRELAND

Introduction

With the current Rent Pressure Zone (RPZ) legislation due to expire at the end of 2025 and a review of RPZs under way, there is a renewed focus on the future of rent controls in Ireland. It is therefore timely to examine the empirical evidence on RPZs and key findings on rent controls from the international literature, and to assess the advantages and challenges associated with potential policy options. The aim is not to come down in favour of any specific policy, as any choice will need to be cognisant of broader aims across the housing sector, but rather to lay out the evidence and consider the aims and trade-offs associated with different policy measures.

RPZs aim to stabilise rental inflation in areas experiencing both high rent levels and rapid price growth. Rental inflation caps apply both within and between tenancies, i.e. at the property level. These caps were initially set at 4 per cent per annum. Since 2021, permitted annual rent increases have been capped at the lower of either 2 per cent or Harmonised Index of Consumer Prices (HICP) inflation. At the end of Q4 2024, 82.6 per cent of private rental sector (PRS) tenancies were in RPZs.[4]

Evidence to date

What impact have RPZs had on the price increases faced by tenants? The recent introduction of the Residential Tenancies Board (RTB) annual tenancy registration requirement allows far more comprehensive insights into this question. In a study tracking more than 180,000 properties over a two-year period (Q2 2022 – Q1 2024), Slaymaker et al. (2024) find that, at the property level, rents grew by an average of 2.6 per cent nationally,[5] with 60 per cent seeing no increase in the rent from one year to the next.

In RPZs, ongoing tenants experienced annual rent increases of 1.3–1.5 per cent on average in Dublin and 1.4–1.7 per cent in other RPZs, compared to 3.5–4 per cent in non-RPZs (Figure 9). Rent increases between tenancies were also lower in RPZs, especially in Dublin (2.8–3.2 per cent) but also in other RPZs (5.1–6.2 per cent), compared to non-RPZs (14–16.4 per cent). These findings, along with those of O'Toole et al. (2021) and Coffey et al. (2022) studying the then 4 per cent price inflation caps, highlight that RPZs have had a clear impact in limiting the rental inflation households have faced, despite some pricing above the caps. Slaymaker et al. (2024) find a higher incidence of larger rent increases[6] in more newly established RPZs relative to Dublin and Cork, particularly at the point of turnover.[7] Nevertheless, the empirical evidence shows RPZs

4 See https://www.rtb.ie/about-rtb/news/residential-tenancies-board-releases-directors-quarterly-update.

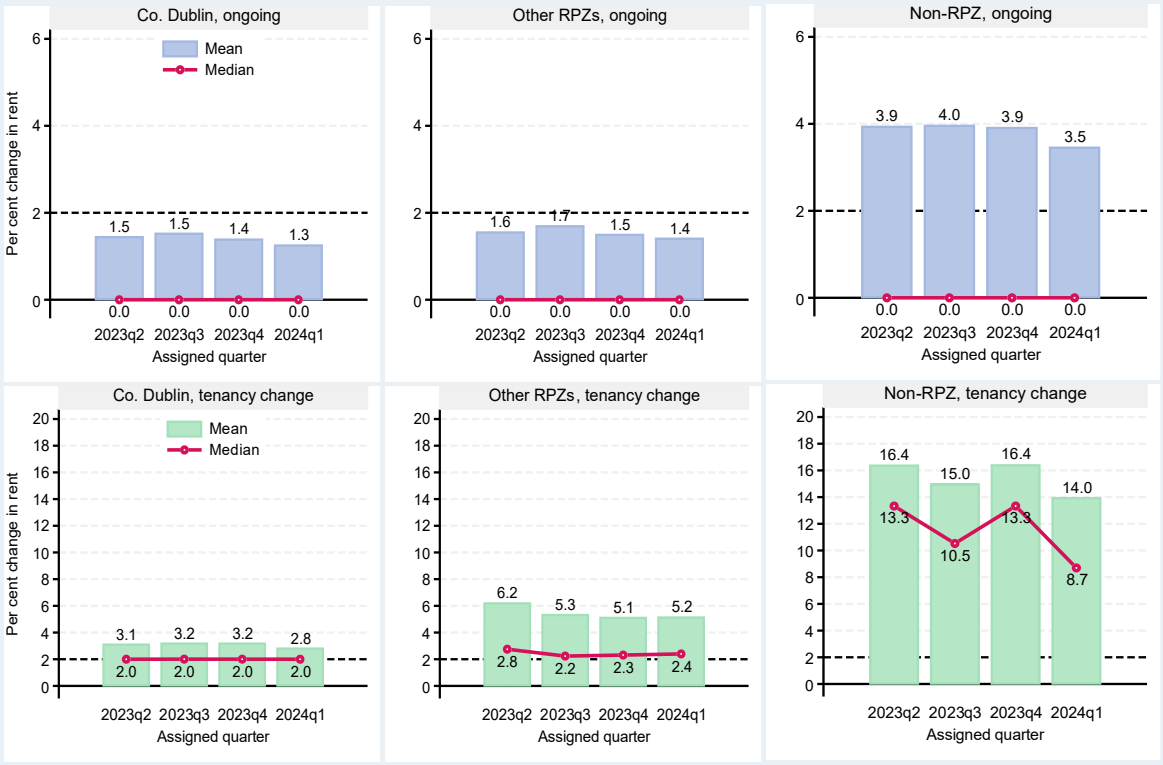
5 This figure is notably lower than RTB/ESRI Rent Index estimates over the same period, which are often erroneously cited as evidence that 'RPZs are not working'. While Rent Index figures are crucial market level indicators, the developments of average rent levels over time are impacted by both individual properties' rent changes and churn in the market (property entry and exit plus movement between the new and existing tenancy segments). As Rent Index indicators do not track the same properties over time, they are therefore not the appropriate tool with which to assess the impacts of RPZ measures, which are applied at the individual property level.

6 An increase above 2 per cent at a single point in time does not necessarily indicate non-compliance with RPZ rules as cumulative rent increases are permitted where a landlord has not increased the rent in previous years.

7 Turnover is defined as the point where one tenancy ends and a new tenancy with different tenant(s) commences.

have been broadly effective in relation to their aim of limiting rent increases for properties in designated areas. Given the well-documented affordability challenges in Ireland's PRS (Corrigan et al., 2019; Disch and Slaymaker, 2023), these findings are significant.

FIGURE 9 MEAN AND MEDIAN ANNUAL PERCENTAGE RENT CHANGE BY RPZ STATUS AND TENANCY TYPE



Sources: Slaymaker et al. (2024). Figure 4.8 – Analysis of RTB tenancy level microdata Q2 2022–Q1 2024.

Note: Graph split by RPZ status in 2022. Dublin (RPZ) presented separately from other RPZs due to its size and importance for national figures. Ongoing refers to properties with the same tenant(s) in both years. Tenancy change refers to properties that saw a change in tenants. Q2 2023 measures the change in rent between Q2 2022 and Q2 2023 for properties whose tenancies commenced or were due an annual registration in Q2. Bars represent mean rent changes and red lines represent median rent changes.

However, rent control measures are not costless. Kholodilin (2024) reviewed 206 global studies and found that while rent controls are typically effective in limiting rent levels or increases for dwellings subject to the controls, they also lead to reductions in mobility, new construction, supply and maintenance. Older and stricter forms of rent control (e.g. rent freezes or minimal increases) are associated with stronger negative side effects (Coffey et al., 2022). Some of these factors appear to be present in the Irish market.

In terms of favouring existing tenants over new ones, the two-tier nature of Ireland's PRS is apparent in the large gaps between the average rents paid by new and sitting tenants (Slaymaker and Shiel, 2023). Regarding mobility, the number of new tenancy commencements has broadly been trending downwards since 2010, with greater falls in recent years (RTB, 2024). Note this does not measure the overall size of the rental stock (which we know from Census data increased between 2016 and 2022), but instead shows reduced turnover and a

lack of fluidity in the market. Gillespie et al. (2024) show that the introduction of RPZs increased the supply of homes for sale and reduced both rental listings and registrations at the local electoral area level. These findings are driven by individual rather than corporate landlords and by the period since the caps were tightened in July 2021. This highlights the importance of how RPZ measures are calibrated in terms of outcomes, rather than necessarily the measures themselves.

Attracting investment into the sector to increase new construction is an important consideration. The focus on this has been heightened in light of the 24 per cent fall in apartment completions between 2023 and 2024.[8] The current calibration of the RPZs likely acts as a barrier to this. However, RPZs are only one factor, and Ireland faces other notable challenges in this regard. High construction costs (and rapid inflation in recent years), high interest rates, planning system delays and a lack of policy stability are all factors likely to deter investment.

Potential policy options

The calibration of the current RPZ inflation caps is a long way from what was originally introduced, and the PRS has seen substantial change in that time. There is a clear need for reform. Notable current issues include the following.

- **Linking rental inflation caps to monthly HICP inflation** causes frequent fluctuation in, and confusion around, allowable rent increases. This does not provide the stability, for either tenants or landlords, intended by the original RPZ system. The intended benefits of linking the caps to HICP (allowing rents to rise in line with costs and to reduce the issue of rents falling below market levels) are negated with the addition of a maximum 2 per cent cap.

- **Rents now cannot rise in real terms**. This is a much more severe form of control than the original RPZ calibration. From international research, the more severe the control, the greater the unintended consequences regarding reductions in new construction, mobility, supply and maintenance.

- **Originally targeted at areas with high and rapidly rising rents**, the design of the classification criteria prevents many non-urban, smaller areas with the highest inflation levels in recent years from ever qualifying. As well as rapid inflation, to qualify, the rent level must be above the average for the relevant comparison region, but some areas will always be below the average so cannot qualify.

8 See https://www.cso.ie/en/releasesandpublications/ep/p-ndc/newdwellingcompletionsq42024/#:~:text=There%20was%20a%2035.3%25%20decrease,to%204%2C672%20in%20Q4%202024.

We outline three potential options to replace the current system.

i) Apply revised property level caps on rent increases nationally, set at an appropriately calibrated level that aims to balance the trade-off between stability for tenants and encouraging landlords to remain, as well as new investment.

ii) Cap rent increases within tenancies but allow rents to reset on turnover.

iii) Introduce a system of reference rents 'that pegs rent increases to a reference rent for local dwellings of similar quality' (Housing Commission, 2024). This proposed system would operate both within and between tenancies.

All three options have both advantages and significant downsides. Option 1 is closest to the current system but would loosen the current caps and remove the monthly HICP fluctuations element to provide stability for tenants, landlords and potential investors. It would apply nationally to remove the complexity around local areas qualifying at different times and the rules that effectively prevent many smaller areas with the highest inflation rates in recent years from doing so. The choice of how to calibrate the inflation cap is crucial. While a fixed nominal cap is appealing in its simplicity, there is a trade-off between the certainty provided and allowing for increasing maintenance costs over longer periods of time by linking to inflation. Coffey et al. (2022) argue for the use of an annual inflation anchor (less prone to short-term fluctuations) set centrally at the start of each year. This could be in the form of Consumer Price Index (CPI) + X per cent, with X determined by the housing market context and the balance of objectives between tenant affordability and landlord returns. The main drawback of option 1 is that it does not address the issue that, over long periods, some rents may fall below market levels and cannot be reset.

Option 2 would both provide tenants with stability and allow rents to be reset at turnover. This aims to prevent rents falling a long way below market rates and to continue to cover the cost of maintenance. The market-wide affordability benefits would likely be lessened while demand remains much higher than supply, if rents are regularly resetting to market rates. However, the major concern is that it would favour landlords with frequent turnover of tenants, which may create an incentive for some landlords to try to evict longer term tenants. In the longer term this type of system may be desirable in trying to create a more fluid and flexible sector. However, in the immediate term, this risk may make it unpalatable for policymakers, given the already high levels of homelessness and insufficient availability in alternative options (e.g. approved housing bodies and cost rental tenancies) for lower income PRS tenants who are likely to be most vulnerable in this regard. Ensuring adequate security of tenure protections to safeguard existing tenants and enforcement of such would be essential.

With option 3, rents would not be permitted to increase more than a certain percentage above the reference rent over a specified period. Regulating both rent levels and rent increases would represent a fundamental change in the form of rent control from options 1 and 2. This approach aims to prevent rents from being increased far beyond the average rent level, while allowing rents to come back in line with others. It avoids incentivising landlords to have a frequent

turnover of tenants as per option 2. As with options 1 and 2, a decision around allowable rent increase caps and how often they are revised would still be required. Unlike options 1 and 2, which limit rent increases, it is unclear how a reference rent system that also limits rent levels would deal with new supply, which would typically be above average prices, particularly given Ireland's high construction costs at present. If new supply was initially exempted for a period, it is unclear what would happen at the end of the exemption period if these prices were still above the reference rent.

An important question regarding reference rents is whether this type of complex system could feasibly be implemented successfully in Ireland at present. There are four points of concern:

- the complexity for tenants and landlords around permitted rents and for the regulator in assessing compliance;
- how to calculate appropriate reference rents in a market that has been subject to rent controls for a sustained period;
- the way in which Ireland's small, local rental markets are quite different from the larger, urban markets where these have typically been implemented – identifying local dwellings of similar quality is therefore likely to be much harder in practice; and
- the data requirements that put a lot of emphasis on characteristics like BER rating (self-reported and poorly filled in (Kren et al., 2025)), property age (not currently collected) and prices per square metre (common in other European countries with this system but not widely known/used in Ireland).

In addition to the above, there are other factors affecting rent levels that the market is likely to price in, but that are hard to measure and are not captured in the current data. Examples include the view from a property, local amenities, the quality of furnishings, noise levels and apartment floor within a building.

Concluding comments

The empirical evidence clearly shows limited rental inflation for properties within RPZs, especially within tenancies. However, international studies show rent controls are not costless; they often reduce mobility, new construction, supply and maintenance, particularly when rent inflation caps are tight, as they currently are in Ireland.

The need to reform the current RPZ system is clear. However, with all the available options, policymakers will face a trade-off between protecting current tenants' affordability and the need to increase rental supply by retaining landlords, and encouraging investment and new construction into the sector. We have outlined the pros and cons of three possible options. While each option has merits and drawbacks, it is not clear that a system of reference rents would be optimal for Ireland, or that it could feasibly be implemented successfully at present. Alongside the expansion of affordable housing and cost rental, there is a clear need to attract

greater investment into the PRS. The complexity around that type of approach may not create the policy and regulatory clarity and stability required to do so.

In choosing between property-level rental inflation controls and tenancy-level controls that allow rents to reset between tenancies, cognisance should be taken of both the trade-offs associated with each option and interactions between these and other policies across the wider housing sector. One point often lost in the debate around different systems is the importance of how schemes are calibrated to achieve key outcomes and minimise unintended consequences. The importance of doing so is evidenced by the greater levels of unintended consequences seen since the tightening of the RPZ inflation caps relative to the original 4 per cent calibration. This must be a key consideration in any reforms to the current system, regardless of the type of controls implemented.

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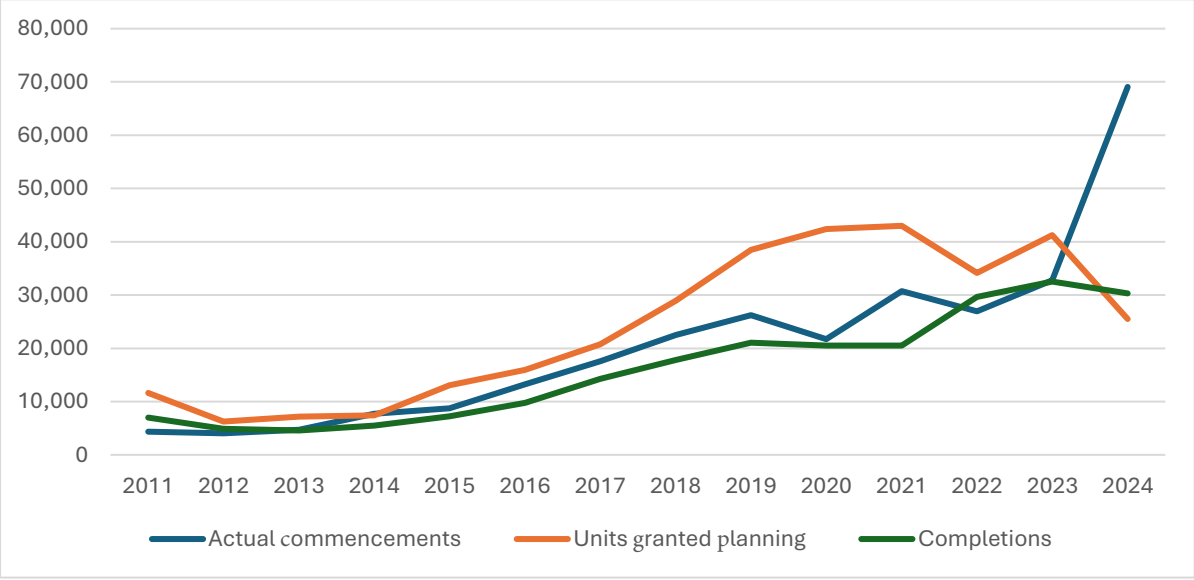
This text box was prepared by Rachel Slaymaker.

In outlining the future path for housing completions, a number of variables have been used historically to inform the forecasts. In particular, planning permissions and housing commencements have typically been useful leading indicators of completions (with a typical 1.5 to 3 year lag). However, since the onset of the COVID-19 pandemic, the traditional relationship between these series has weakened, and it is more difficult to infer forecast paths using their historical correlations.

Figure 10 below presents the trends in these series over the period 2011 to 2024 (Q1 to Q3 only for 2024). A couple of points are notable. First, the number of commencements closely tracked the planning permissions up to 2019, when permission rates increased to a greater extent than commencements. Second, completions began to overtake commencements in the period 2022–2023, which likely picks up the COVID-19 related disruptions.

Finally, the major increase in commencements in 2024 (just under 70,000 units) is likely to be artificially high as producers commenced activities to avail of policy supports (such as the development levy waiver). This therefore does not necessarily suggest a major uptick in completions in 2025, as would have been historically implied by the relationship between commencements and completions.

FIGURE 10 ANNUAL LEVEL OF DWELLING COMPLETIONS, COMMENCEMENTS AND UNITS GRANTED PLANNING

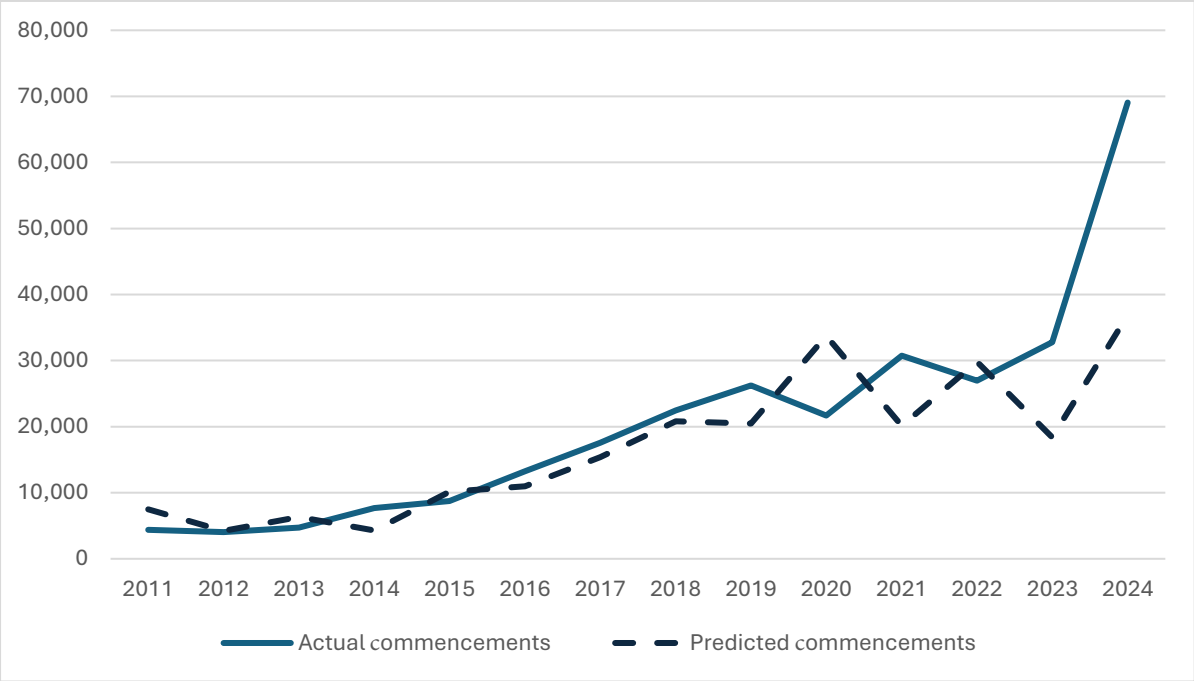


Sources: CSO data.

To explore this in more detail, Figure 11 presents a simple prediction for commencements based on the historical values of planning permissions. It can be seen that up to the pandemic, the model provides an accurate prediction of commencements using planning permission data. For 2024, the predicted level is

much lower than the actual level, which points towards the impact of the policy supports.

FIGURE 11 PREDICTED AND ACTUAL COMMENCEMENTS



Sources: CSO data and QEC calculations.
Note: Predicted commencements taken from a regression of the form: ln(Commence_t) = a + b1 ln(PP_t-2)) + b2 ln(PP_t-3)) + b3 ln(PP_t-4)) + b4 ln(PP_t-5)) + b5 ln(PP_t-6)).

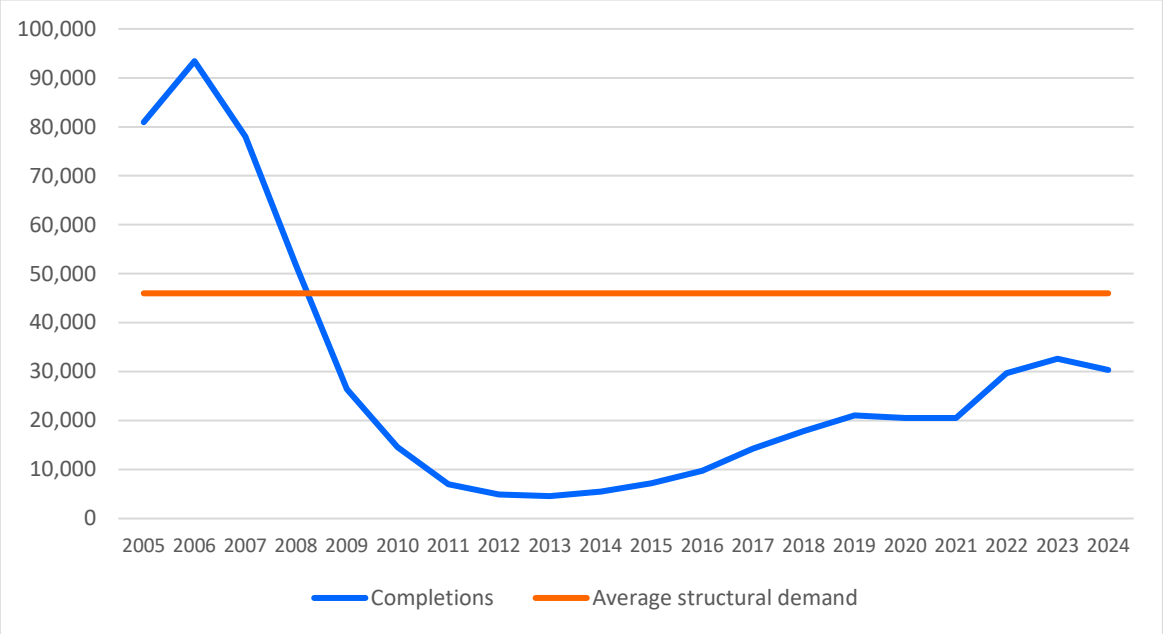
BOX B UNDERSTANDING THE 'FUNDING GAP' IN THE IRISH HOUSING AND BANKING MARKET

Introduction

With new housing completions only reaching 30,330 units in 2024, down 6.7 per cent from 2023, there is renewed focus on the relative lack of housing supply in the Irish residential market at present. This fallback in supply is particularly accentuated by revised estimates of the structural demand for housing published in 2024: as a baseline case, Bergin and Egan (2024) estimate that approximately 46,000 units a year are required to keep with the additional demand, due to trends in population and household formation.[9] Figure 12 below plots the actual level of housing completions in the Irish market since 2005 along with a line denoting the average structural demand estimate.

[9] This structural demand figure does not incorporate unmet demand, which would suggest that the number of units required is actually significantly higher. The Housing Commission (2024) suggests that allowing for unmet demand results in 60,000 units per annum to be built between 2024 and 2030.

FIGURE 12 IRISH HOUSING SUPPLY (UNITS) 2005–2024



Source: CSO and QEC calculations.

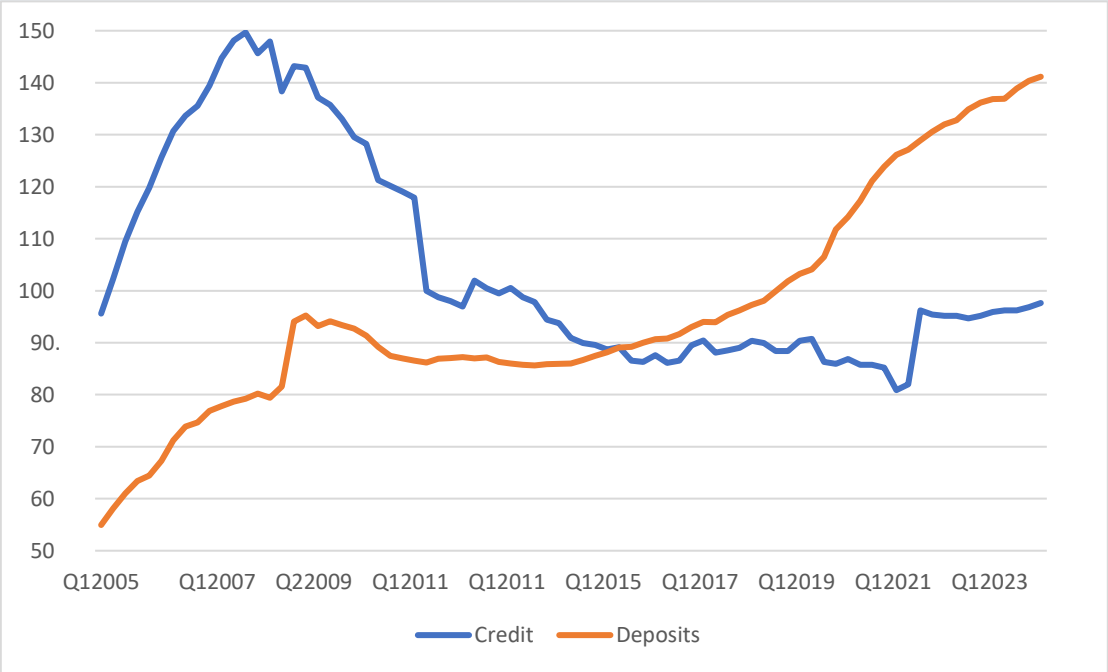
The graph clearly demonstrates the significant gap between actual housing supply and the demand for housing in the Irish economy. While the actual supply level has been gradually increasing since the end of the global financial crisis, it is apparent that the rate of increase has slowed down somewhat in recent years. At present, therefore, housing output would need to increase by at least 20,000 units per annum.

One of the reasons cited for the slowdown in supply is the 'funding gap'. One of the first reports to identify this was Duffy et al. (2016). The funding gap is the difference between the actual amount of credit required to fund the construction of the required number of housing units and the actual amount of credit in the financial system at a point in time.[10] Disch et al. (2024) also note the financing gap in their evaluation of housing supply across British and Irish housing markets.

One of the many impacts of the global financial crisis on the Irish financial system was an increase in regulation both at a European Union (EU) and Irish level (see Egan and McQuinn (2023) and Egan et al. (2024) for more on this). Bank lending standards across the EU became significantly stricter as regulators and financial institutions sought to mitigate risk and strengthen the stability of the banking sector. In the Irish case, the significant distress experienced by domestic financial institutions required them to maintain higher capital levels compared to those in other euro area nations. As a result, these institutions face relatively higher funding costs, limiting their ability to transmit reductions in the euro area policy rate. For instance, as highlighted by Baudino et al. (2020), non-performing loans, particularly mortgage arrears, remain a challenge for Irish financial institutions, further impacting their funding costs and their capacity to lend. Therefore, lending levels into the domestic economy have been much more modest in recent years.

Figure 13 plots the amount of total credit extended to Irish households along with the total deposit base among Irish households. This provides an idea as to the funding capacity of the domestic financial system.

FIGURE 13 TOTAL PRIVATE SECTOR CREDIT AND DEPOSITS AMONGST IRISH HOUSEHOLDS (€BN): 2005Q1 – 2024Q3



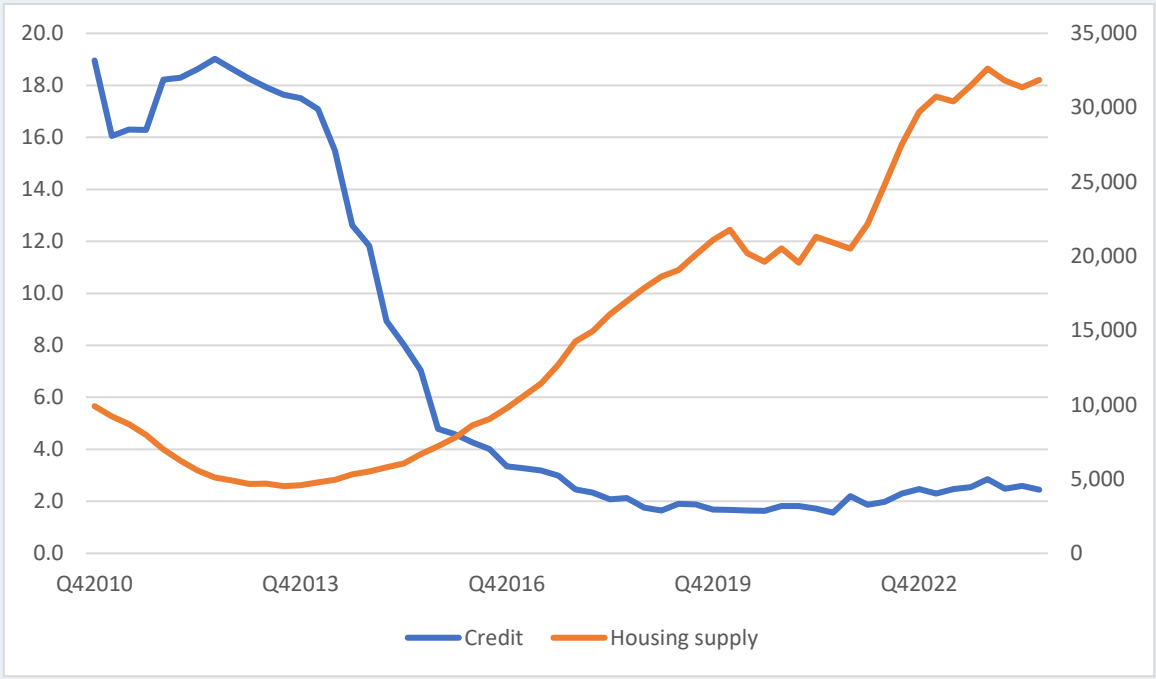
Source: Central Bank of Ireland.

From Figure 13, it can clearly be seen that in the period leading up to the global financial crisis, the Irish financial system was lending out significantly more funds than it was taking in in traditional deposits. This 'gap' was plugged by Irish institutions being able to borrow from other financial institutions abroad (see McCarthy and McQuinn (2017) for more on this). However, since the global financial crisis, the total stock of lending has fallen sharply and from 2016 onwards, total deposits now significantly exceed the amount of credit extended to Irish households. At present the gap is in the order of €43.5bn.

Focusing on the housing market, the amount of credit extended for construction over time can be compared with the number of housing completions. This provides an indication of how much more additional credit from the traditional banking sector is required to increase housing supply levels to the required amount. Figure 14 compares total credit for property investment/development of residential real estate with total housing completions over the period 2010 – 2024.[11]

[10] Required in this context would mean both the structural demand amount and the 'unmet' demand as per footnote 1.
[11] The housing completions figure is calculated as a four-quarter moving average to smooth the series.

FIGURE 14 TOTAL RESIDENTIAL CREDIT (€BN) AND HOUSING COMPLETIONS (UNITS): Q1 1995–Q3 2024



Source: Central Bank of Ireland and QEC calculations.

The large build up in residential credit during the Celtic Tiger era is apparent, with the stock standing at about €18bn in 2010. Thereafter, a significant amount of deleveraging took place in the financial sector and credit levels fell dramatically, flatlining at approximately €2bn since 2017, a substantial decline on the Celtic Tiger era level.

The financing of an additional 20,000 housing units solely through the domestic financial system would require existing levels of credit to more than double. Conefrey et al. (2024), for example, estimate such an addition in terms of units would require approximately €5bn in funding. However, this assumes that the Government would increase its direct provision of housing as part of this increase. If the amount were to be totally funded by the private sector, the additional credit required would be in excess of this.[12]

Recently, the State has increased considerably its expenditure on the direct provision of social and affordable housing. Such state funding can arise in a number of different ways: through funding for approved housing bodies; through the direct provision of housing by the local authorities; and through the Land Development Agency (LDA). This partly explains why the number of housing units has increased in recent years even while traditional domestic lending has flatlined since 2017.

Another source of funds comes through non-bank lenders, which are now present in the Irish development finance market. Many of these lenders have direct lending relationships with local developers and property investors. While non-bank lenders still play a relatively small role relative to traditional financial institutions, their presence is increasing. For a sample of

12 If the housing were provided by the State, a profit level would not be required and VAT payments would be exempt.

Irish commercial real estate companies, Lambert et al. (2024) estimate that the total share of loan balances owed to non-bank lenders is approximately 35 per cent.

Concluding comments

It is clear that in the traditional domestic financial sector the current level of credit being extended to the Irish residential market is at present significantly lower than that required to meet the level of both the structural demand for housing and the unmet demand. Bridging this gap will clearly require additional funding from a number of sources, potentially increased funding by the State, increased lending from the traditional banking sector and continued growth of the non-bank lending sector. Sourcing funding from international sources of capital is important in this context.

Given this heterogenous source of funding and in the interests of efficiency, as previous Commentaries have highlighted, the importance of public sector funding 'crowding in' private sector funding in the housing market is important. For example, Project Tosaigh is an initiative by the LDA aimed at accelerating the delivery of affordable housing by unlocking privately owned lands with full planning permission that have remained undeveloped due to certain constraints. Policies such as these should be strongly considered as a means of maximising the return to the State on its capital investment in housing.

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This text box was prepared by Kieran McQuinn.

Cost increases for materials and labour are also likely to represent major challenges for housing supply. These factors have seen major inflation since the COVID-19 period, as well as the onset of the war in Ukraine, as evidenced by Figure 15 below, which presents the levels of materials and labour costs for construction activity. While the inflation rate for these inputs has moderated, the levels have remained elevated, which is likely to be weighing on activity.

FIGURE 15 MATERIALS COSTS AND LABOUR COSTS IN CONSTRUCTION

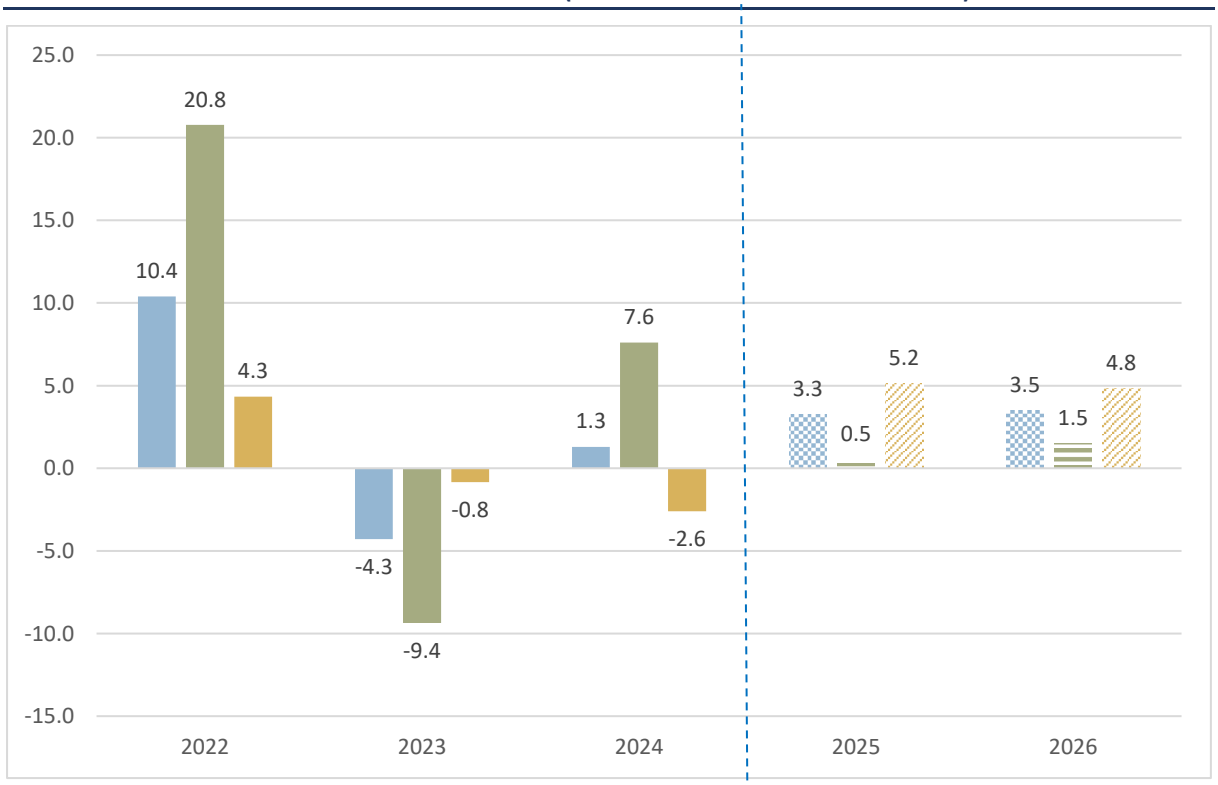
Sources: CSO data.

Taking these factors together, coupled with the funding challenges and international uncertainties, we do not see any major uptick in 2025 and 2026 in housing supply. We forecast 34,295 units in 2025 and 37,413 units in 2026. There are numerous factors that are likely to weigh on the forecasts over and above the funding structures and rent price policy discussed above. House prices and rents are likely to continue to increase, which, coupled with falling interest rates, should be supportive to market supply. However, ongoing structural challenges such as high input costs, planning and regulatory bottlenecks, and difficulties in providing

supporting infrastructure and utilities (such as water, waste water and road access) are all likely to weight on the outlook. We also expect a modest rebound in non-residential construction in both years following the contractionary period 2022 to 2024.

Our investment forecasts for the period 2025–2026 are contained in Figure 16 below for the modified series. We expect overall modified investment growth of 3.3 per cent in 2025 and 3.5 per cent in 2026. Underlying this upward trajectory is a divergence between the non-construction and construction related activities. We expect non-construction investment to grow only moderately in 2025 and 2026 on the back of the international uncertainties that are likely to weigh heavily on companies' capital outlays. For all of these forecasts, it must be noted that there are considerable risks to the downside if the ongoing trade disruptions from changing United States (US) policy lead to broader contractions in global trade and economic activity in our largest trading partners. For headline investment, in 2025, we forecast a sharp rebound by making the technical assumption that the major export of intellectual property in Q2 2024 is not repeated and intellectual property investment returns to recent average historical levels. We expect overall investment to grow by 20.9 per cent this year and 1.8 per cent in 2026.

FIGURE 16 MODIFIED INVESTMENT FORECASTS (PER CENT YEAR-ON-YEAR GROWTH)



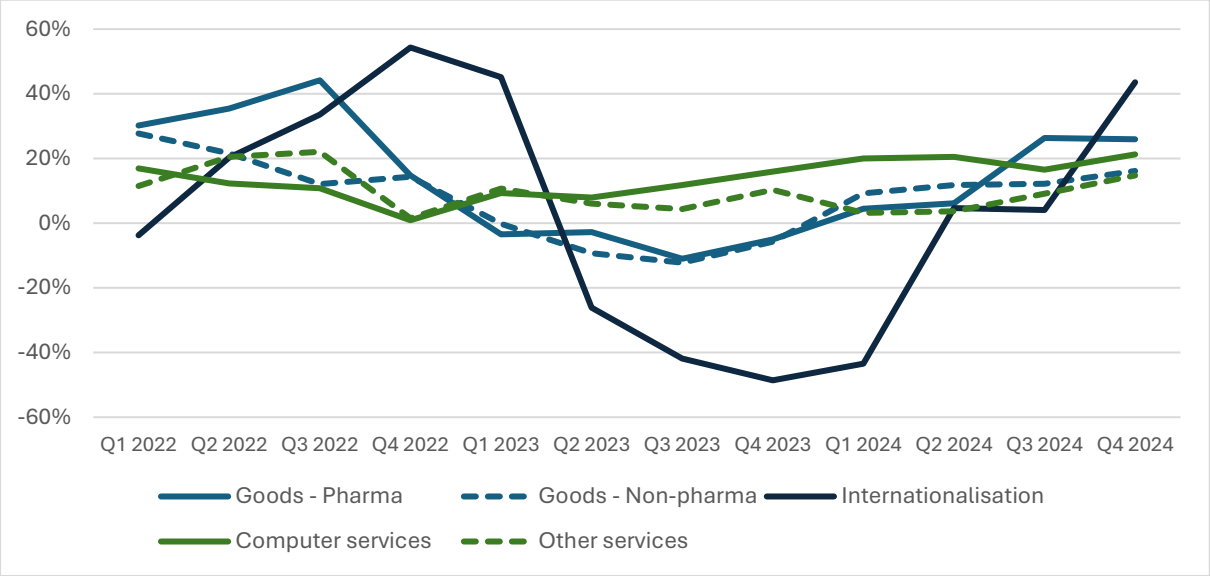
Sources: CSO data and QEC forecast.

World trade slowdown likely following seismic US trade policy shift

The ongoing geopolitical fragmentation and potential imposition of protectionist trade policies following the US policy shift are likely to weigh heavily on the global

trade outlook. For a small, extremely open economy like Ireland, any major disruption to world trade is likely to pass directly through to our export activities. Indeed, export growth from multinational activities (in particular in pharmaceuticals and computer services) has been the cornerstone of the extremely high headline growth rates seen in Ireland in recent years. Figure 17 below presents the year-on-year change in exports (in value terms) on a quarterly basis. The grouping of the categories splits exports between pharmaceuticals goods, other goods trade, internationalisation goods activities, computer services and other services. For 2024, pharmaceutical exports rebounded strongly following the contraction in 2023. Computer services have continued to grow strongly, and other services returned to robust growth in 2024. Internationalisation goods exports (which relates to contract manufacturing, merchanting, etc.) rebounded strongly in the final quarters of 2024 but remained approximately 5 per cent lower on average for the year.

FIGURE 17 COMPONENTS OF EXPORTS – VALUE (YEAR-ON-YEAR CHANGE)



Sources: CSO's quarterly national accounts and QEC calculations.
Notes: Internationalisation data series corresponds to the subseries as presented in the quarterly balance of payments data.

The outlook for Ireland's traded sectors, in particular pharmaceuticals and computer services, is affected by both sector-specific trends as well as the general world trade developments. In the previous *Commentary*, we highlighted the risks associated with changes in US policy in particular given the extensive trading relationship with Ireland, as well as the potential for tariffs and other non-tariff barriers to undermine the well-developed supply chains in sectors like pharmaceuticals.

About turn in US trade protectionism leaves Ireland at considerable risk

At this juncture, while the Trump administration has made a plethora of announcements on tariffs between the US and other partners, it is difficult to understand the extent to which the recent announcements, such as a 25 per cent EU goods tariff, will become policy or are just part of a negotiating process.

Undoubtedly, these policies are likely to lower economic activity even if the introduction of any tariffs are delayed given the heightened uncertainty they create. In this regard, we have lowered our external assumptions around the global demand for Irish goods and services in our baseline forecasts. Our forecasts are now closer to the general advanced economy economic outlook presented in the International Monetary Fund's (IMF) January 2025 World Economic Outlook. In the previous *Commentary*, our forecasts were higher, reflecting the global demand for Irelands' exports historically outperforming advanced economic aggregates.

To determine the specific extent to which Ireland is exposed, it is important to understand the patterns of trade between Ireland and the US. These tariff instruments at present refer to goods trade activity only; considering the concentration of activity in the US as a destination can provide insights into where the exposures can lie.

To explore this issue, Table 1 below considers total Irish merchandise trade by major product areas and the extent to which these areas export to the US. For the table we have included only those product areas that account for more than approximately 2 per cent of total Irish merchandise exports.[13] These data indicate that a number of product groups are at considerable risk from US tariffs, and that these areas make up a considerable proportion of our overall trade in goods. For example, among the six sectors with greatest importance to Irish total goods trade (i.e. with the highest share of total goods exports), five have over 30 per cent of their activity exported to the US. These are: pharmaceuticals; organic chemicals; essential oils etc.; professional, scientific and controlling apparatus; and miscellaneous manufacturing. This indicates a high level of exports at risk in any tariff shock scenario.

[13] The total value of merchandise represented by these product groupings is approximately 88 per cent of total 2024 values.

TABLE 1 TOTAL MERCHANDISE EXPORTS BY SHARE OF TOTAL AND SHARE OF EXPORTS TO US, 2024

Total merchandise exports by share of total and share of exports to US				
Commodity group	Total goods exports (€, M.)	Goods exports to US (€, M.)	Share to US	Commodity share of total goods exports
Medicinal and pharmaceutical products (54)	99,889.2	44,382.0	44.4%	44.6%
Organic chemicals (51)	26,035.9	9,405.1	36.1%	11.6%
Electrical machinery, appliances etc., n.e.s. (77)	11,954.1	1,347.5	11.3%	5.3%
Essential oils, perfume materials, toilet preparations etc. (55)	11,605.8	3,923.3	33.8%	5.2%
Professional, scientific and controlling apparatus (87)	10,624.7	4,296.9	40.4%	4.7%
Miscellaneous manufactured articles, n.e.s. (89)	9,948.7	3,114.8	31.3%	4.4%
Other transport equipment (79)	6,645.2	1,085.8	16.3%	3.0%
Office machines and automatic data processing equipment (75)	5,200.7	563.3	10.8%	2.3%
Chemical materials and products, n.e.s. (59)	5,101.3	252.2	4.9%	2.3%
Meat and meat preparations (01)	4,709.5	43.0	0.9%	2.1%
Dairy products and birds eggs (02)	4,293.0	612.8	14.3%	1.9%

Source: Authors' analysis of CSO external trade data.
Note: n.e.s.= not elsewhere specified.

This does not mean that these are the only commodity groups at risk of potential trade disruptions. A number of other sectors rely on the US as a major market but their total exports are less as a proportion of the total. The table below presents the commodity groups whose US exports account for over 10 per cent of their total, but who are not represented in the above table.

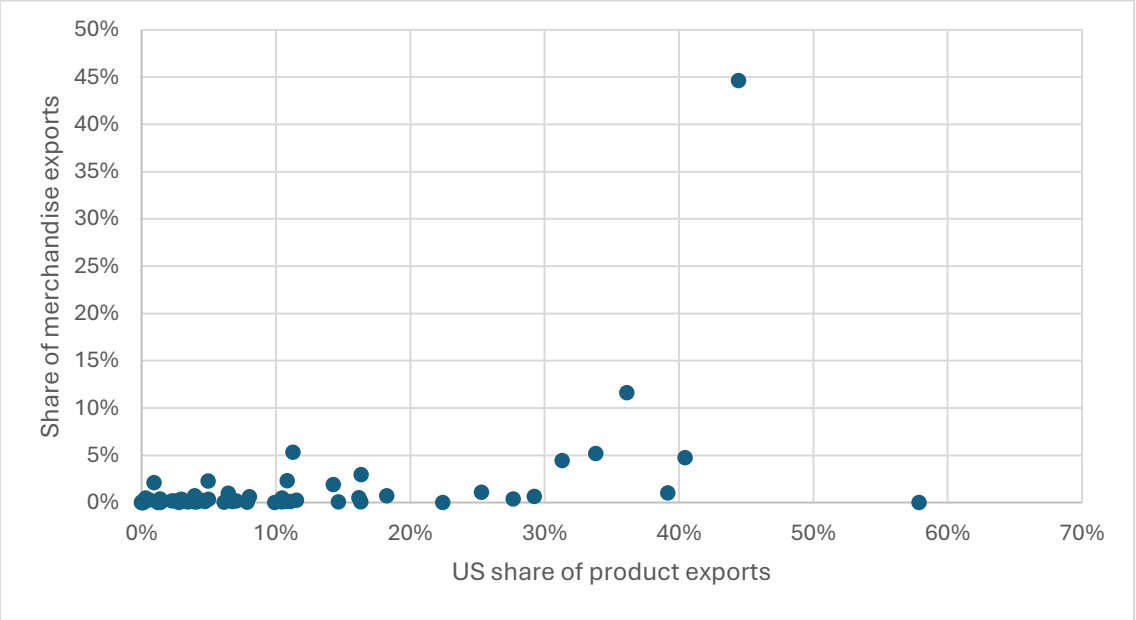
TABLE 2 ADDITIONAL EXPORT AREAS WITH HIGH RELIANCE ON US MARKET

Commodity group	Total goods exports (€, M.)	Goods exports to US (€, M.)	Share to US	Commodity share of total goods exports
Tobacco and tobacco manufactures (12)	0.42	0.24	57.9%	0.0%
Beverages (11)	2,308.71	904.14	39.2%	1.0%
Power generating machinery and equipment (71)	1,494.37	436.93	29.2%	0.7%
Plastics in non-primary forms (58)	879.34	243.12	27.6%	0.4%
General industrial machinery and parts, n.e.s. (74)	2,463.94	623.44	25.3%	1.1%
Metalworking machinery (73)	35.88	8.05	22.4%	0.0%
Photographic apparatus, optical goods, watches and clocks (88)	1,616.41	294.94	18.2%	0.7%
Non-ferrous metals (68)	162.78	26.57	16.3%	0.1%
Machinery specialised for particular industries (72)	1,145.78	185.34	16.2%	0.5%
Dyeing, tanning and colouring materials (53)	184.75	27.04	14.6%	0.1%
Coffee, tea, cocoa, spices and manufactures thereof (07)	547.26	63.12	11.5%	0.2%
Iron and steel (67)	274.51	30.42	11.1%	0.1%
Rubber manufactures, n.e.s. (62)	244.45	26.28	10.8%	0.1%
Manufactures of metal, n.e.s. (69)	1,096.66	114.62	10.5%	0.5%
Textile yarn, fabrics, made-up articles and related products (65)	198.15	20.66	10.4%	0.1%

Source: Authors' analysis of CSO external trade data.
Note: n.e.s.=not elsewhere specified.

There is a high likelihood that these sectors could be impacted on a notable basis if tariffs are introduced. However, while impacts could be felt in those firms operating in these sectors, these are unlikely to lead to a major deterioration in overall exports. Overall, the cross commodity breakdown of the US as a destination for Irish export suggests a concentrated exposure for some of our largest sectors. This can be very clearly seen in the scatterplot below, which cross-tabulates the share of total exports by commodity with the share of US exports within each commodity's total. On the vertical axis, we present the share of each commodity in total exports. It measures the importance to Irish trade. On the horizontal axis, we present the proportion of each commodity's exports that go to the US. The higher this share, the greater the risk posed to the sector by US tariff developments. It can be clearly seen that a number of sectors are extremely important to Irish exports and are exposed to the US. However, a large number of commodities do not face a major exposure to the US market.

FIGURE 18 SCATTER PLOT OF COMMODITY IMPORTANCE TO OVERALL GOODS EXPORTS AND EXPOSURE TO US MARKET



Sources: CSO data.

Given the aforementioned exposure of Irish goods exports to US tariff policy, it is worth therefore considering the channels through which the changing US policy can impact the Irish economy. A detailed analysis of this has been conducted by Egan and Roche (2025), who explore the impacts of international tariffs on the Irish economy. The effects are likely to materialise in both direct and indirect ways: higher tariffs will lead to lower exports and higher prices on imported goods. Investment flows are also likely to be impacted through a lower demand for Irish exports but also by general uncertainty. These effects are likely to lower overall aggregate demand in the Irish economy. These Irish-specific effects are likely to be coupled with lower trade activity in the global economy, which will have a further second-round impact on Ireland. Other channels such as those on international commodities markets, exchange rates and the reaction of international policy rates are further taken into consideration in Egan and Roche (2025),[14] and are thus incorporated into our scenarios.

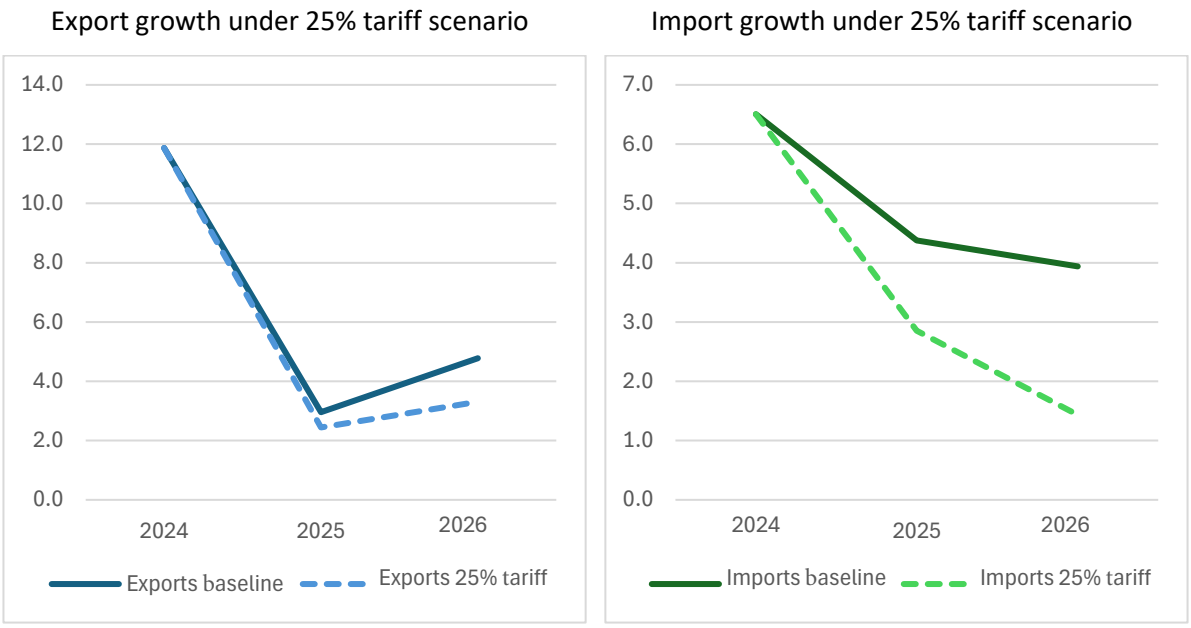
To address these issues in the current *Commentary*, we follow a two-staged approach. First, in our base forecasts, we assume current tariff policy continues to be in place across the forecast horizon. We therefore expect to see continued growth in exports coming from multinational activities, though at a slower pace than previously expected due to the impact of uncertainty and lower global trade. We expect these effects to be occurring regardless of the final tariff situation. Given

[14] Egan P. and F. Roche (2025). *The impact of de-globalisation and protectionism on a small open economy – The case of Ireland*, working paper, Dublin: ESRI, https://www.esri.ie/publications/the-impact-of-deglobalisation-and-protectionism-on-a-small-open-economy-the-case-of.
In particular, we use the results from Table 5 on p. 26.

these considerations, we forecast exports to grow by 3.0 per cent in 2025 and 4.8 per cent in 2026. The increase from 2025 to 2026 can be explained by the fall off in exports of intellectual property in 2025, as we make the technical assumption that the outflow of these capital assets in 2024 does not continue into 2025 and 2026.

Second, we present a set of forecasts for key aggregates that use the deviations from baseline in Egan et al. (2025), and apply these to our benchmark forecasts. In this case we use the scenario that applies a 25 per cent bilateral tariff between the US and the EU for goods trade. Under this scenario, exports growth falls to 2.4 per cent in 2025 and 3.3 per cent in 2026. It must be noted that these stylised-model-based scenarios provide a forecast on the basis of a smooth transition to tariffs and no sudden stops in activity. Furthermore, they cannot capture any firm-specific changes that, given the highly concentrated nature of the Irish export sector in a small number of firms, could affect these aggregates. For example, if very large individual firms adjusted production activity rapidly, in such a manner as to re-route activity away from Ireland, this is not captured in these data.

FIGURE 19 EXPORT AND IMPORT FORECAST – BASELINE AND 25% TARIFF SCENARIO



Sources: CSO data.
Note: Scenario is based on 25% bilateral EU/US tariff.

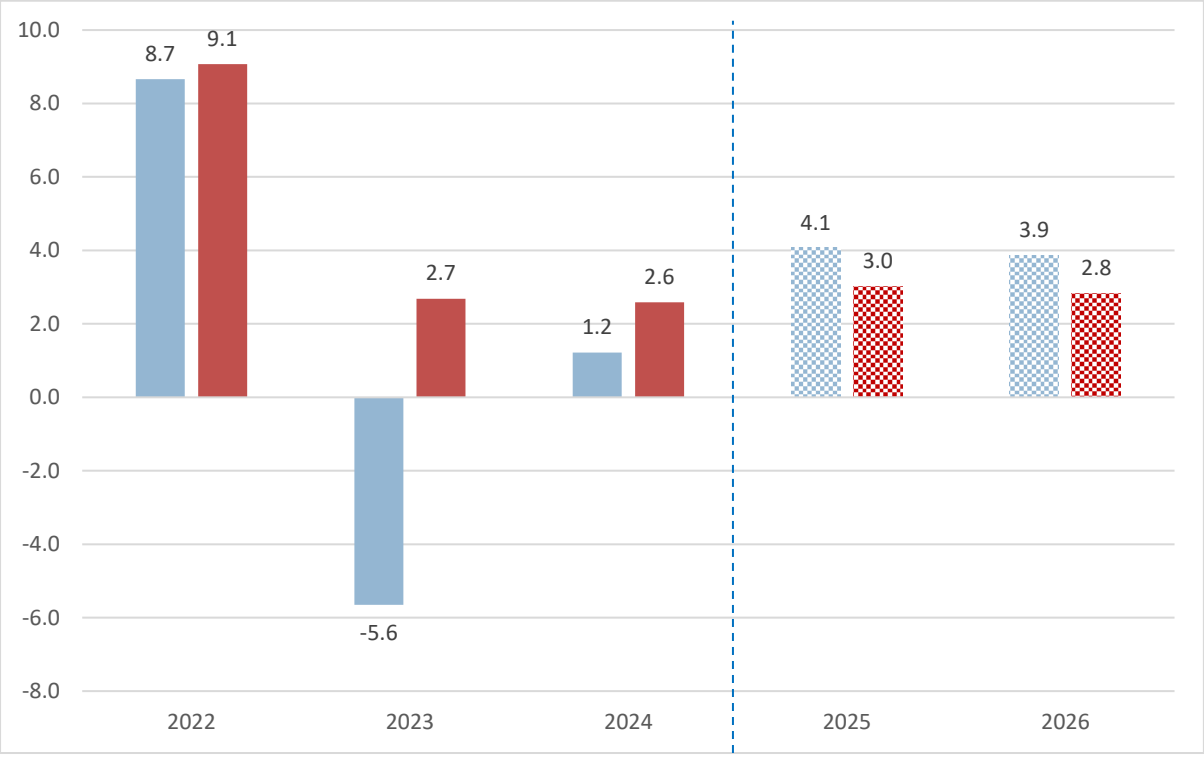
A number of caveats must be noted regarding the above trade shocks. First, these effects assume a uniform tariff strategy across all commodities. The effects therefore assume an orderly transition to tariffs that impact all areas equally. Given Ireland's trade concentration in a limited number of areas such as pharmaceuticals, if measures were to disproportionately impact these areas, the above effects would be magnified. Indeed, given the stated position of the US administration to re-shore pharma activity, any further use of non-tariff measures, industrial policy instruments or soft pressure to move activity back to the US could affect Ireland over and above these effects.

Furthermore, the complexity of international supply chains within which Ireland's computer services and manufacturing sectors operate, and the importance of activities such as contract manufacturing to the total export level, mean that developments between third countries and the US could impact Ireland, over and above any developments within the EU–US bilateral trading relationship. These developments are not considered in the above effects and thus should be seen as a lower bound to adverse developments in these areas.

Overall outlook reflects continued growth but with major downside risks

Under the baseline scenario of no tariffs, given the developments in each of the components discussed above, we expect GDP to grow by 4.1 per cent in 2025 and 3.9 per cent in 2026. Factors weighing on the outlook include the geopolitical tensions, the US trade and tariff policy changes and their impact on global trade, and the ongoing risk of second round inflationary effects from a domestic economy close to capacity. Focusing on the domestic economy, we expect MDD to grow by 3.0 per cent in 2025 and 2.8 per cent in 2026 on the back of a continued robust performance in the labour market, higher household spending and a rebound in construction investment. These forecasts do assume a lower growth path than envisioned in the previous *Commentary*; this is due to the general uncertainty in the global economy at present.

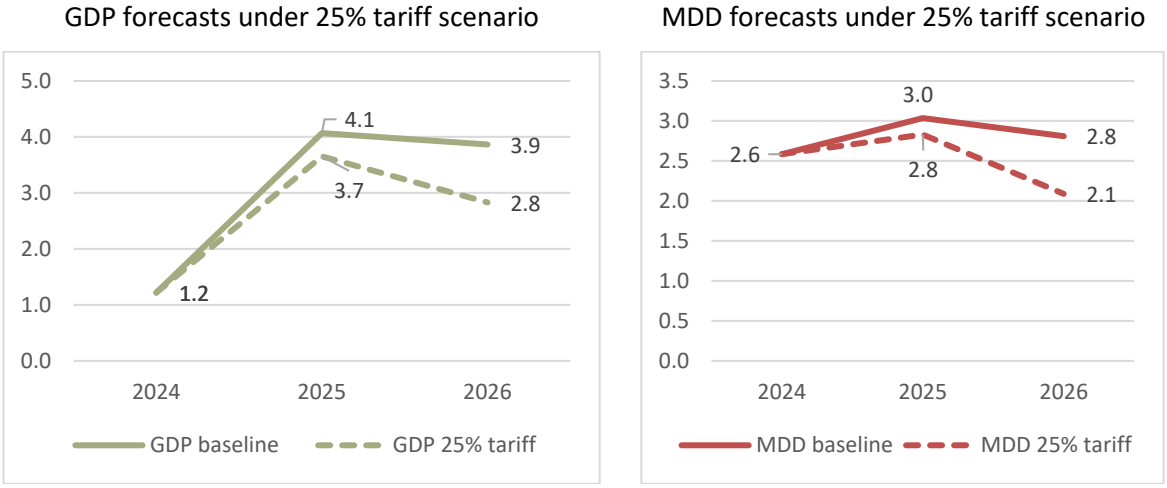
FIGURE 20 HEADLINE FORECASTS



Sources: CSO's quarterly national accounts and QEC forecast.

As noted above, the potential impact of US tariffs could have a notable effect on the Irish economy. As was the case with the imports and exports, we provide an alterative scenario below, which adjusts our baseline forecasts in line with Egan and Roche (2025). These are presented in Figure 21. Under this scenario, MDD slows to 2.8 per cent in 2025 and 2.1 per cent in 2026. GDP growth slows to 3.7 per cent in the present year and to 2.8 per cent in 2026.

FIGURE 21 HEADLINE FORECASTS – BASELINE AND 25% BILATERAL TARIFF



Sources: CSO's quarterly national accounts and QEC forecast.

Under this scenario, MDD slows to 2.8 per cent in 2025 and 2.1 per cent in 2026. GDP growth slows to 3.7 per cent in the present year and to 2.8 per cent in 2026.

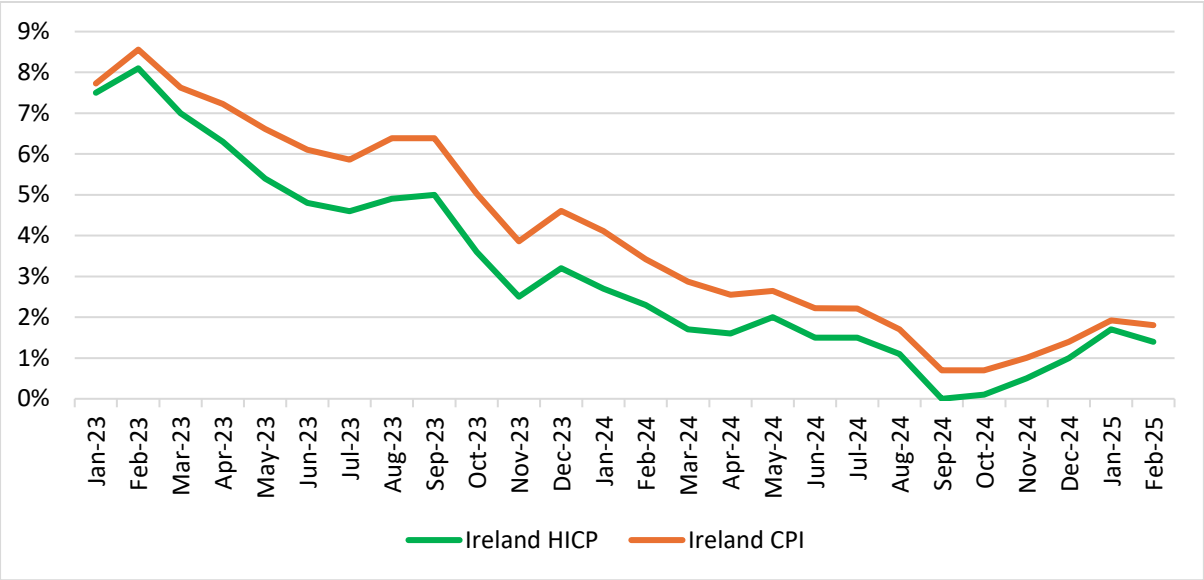
INFLATION

While the rate of inflation in Ireland picked up towards the end of 2024, it still remains below the target rate of 2 per cent. The CPI inflation rate was 1.8 per cent in February.

The inflation figure that can be compared with other European countries, the HICP, showed inflation of 1.4 per cent in February.[15] Figure 22 shows recent developments in both measures of inflation.

[15] HICP is slightly lower than the CPI because it excludes approximately 6 per cent of the items in the CPI, most significantly owner-occupied housing costs.

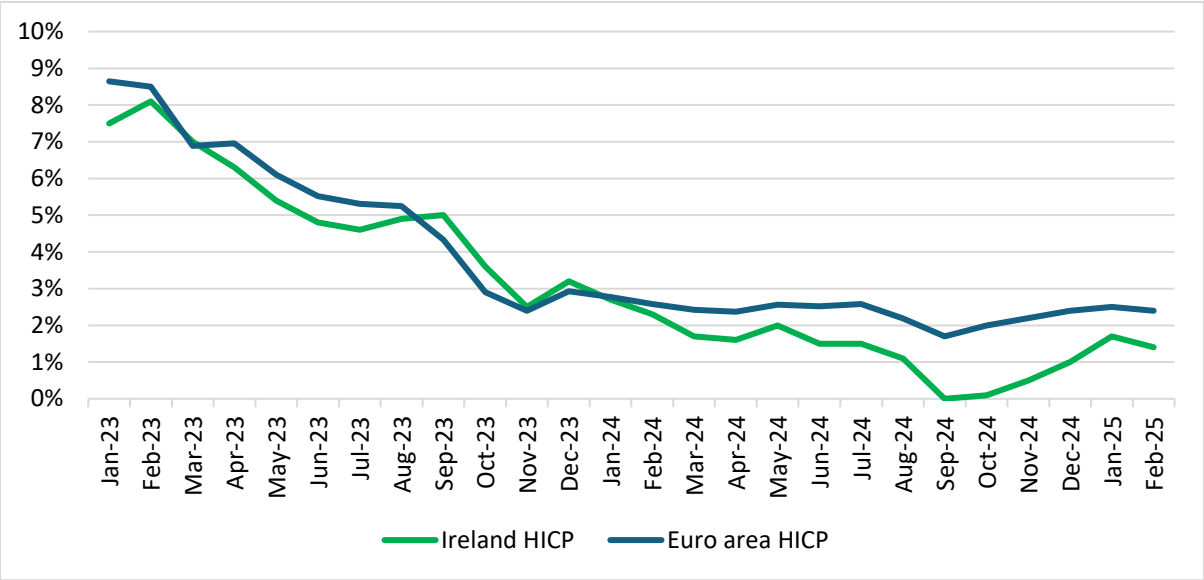
FIGURE 22 IRISH CPI AND HICP



Source: CSO data.

HICP inflation in Ireland is lower than the euro area average. Figure 23 outlines the gap between the two, which opened over the course of 2024. This is in line with the trend of the past ten years, a period in which euro area inflation averaged 0.6 per cent higher than Irish inflation. This trend could reverse in the coming years, with the EU economy set to experience slower growth. Ireland's domestic economy is expected to continue to grow, suggesting that we may experience higher inflation than other euro area countries over the medium term.

FIGURE 23 IRISH HICP COMPARED WITH EURO AVERAGE

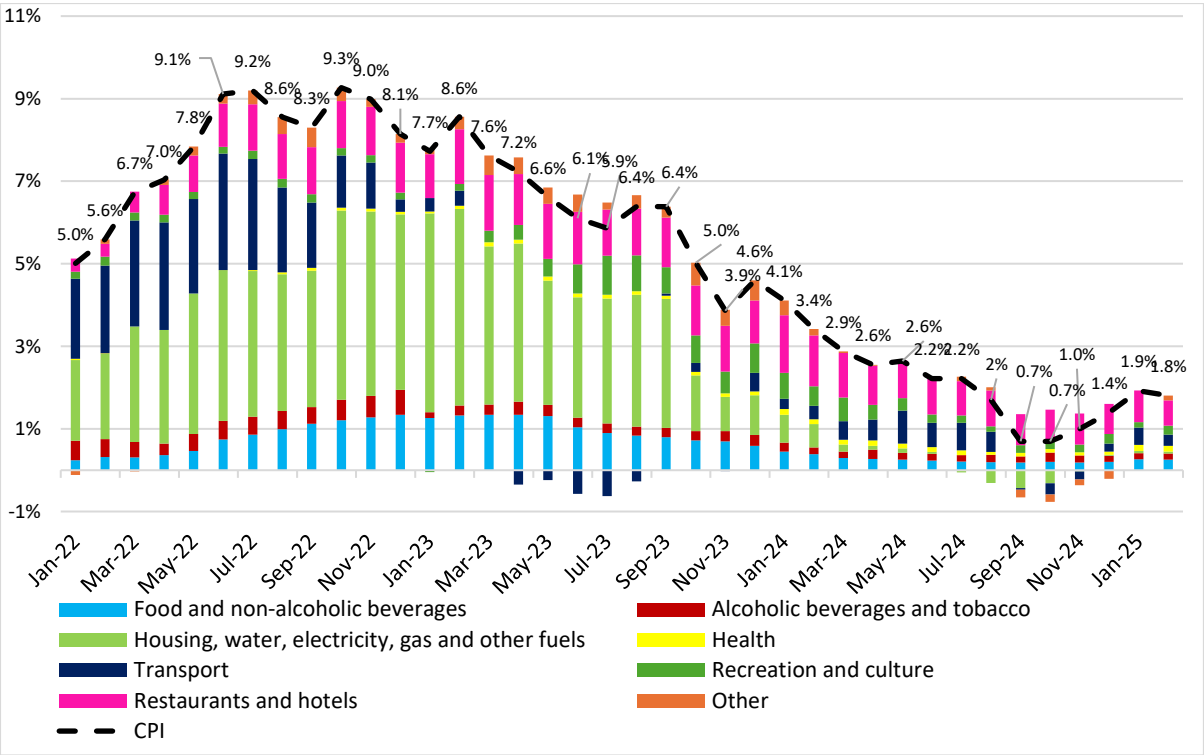


Source: CSO and Eurostat data.

Drivers of CPI inflation in Ireland

Figure 24 shows developments in the contributions to CPI inflation by key sectors. In addition to observing the recent increase in inflation back towards the 2 per cent target, we make two additional observations.

FIGURE 24 WEIGHTED CPI BY SECTOR



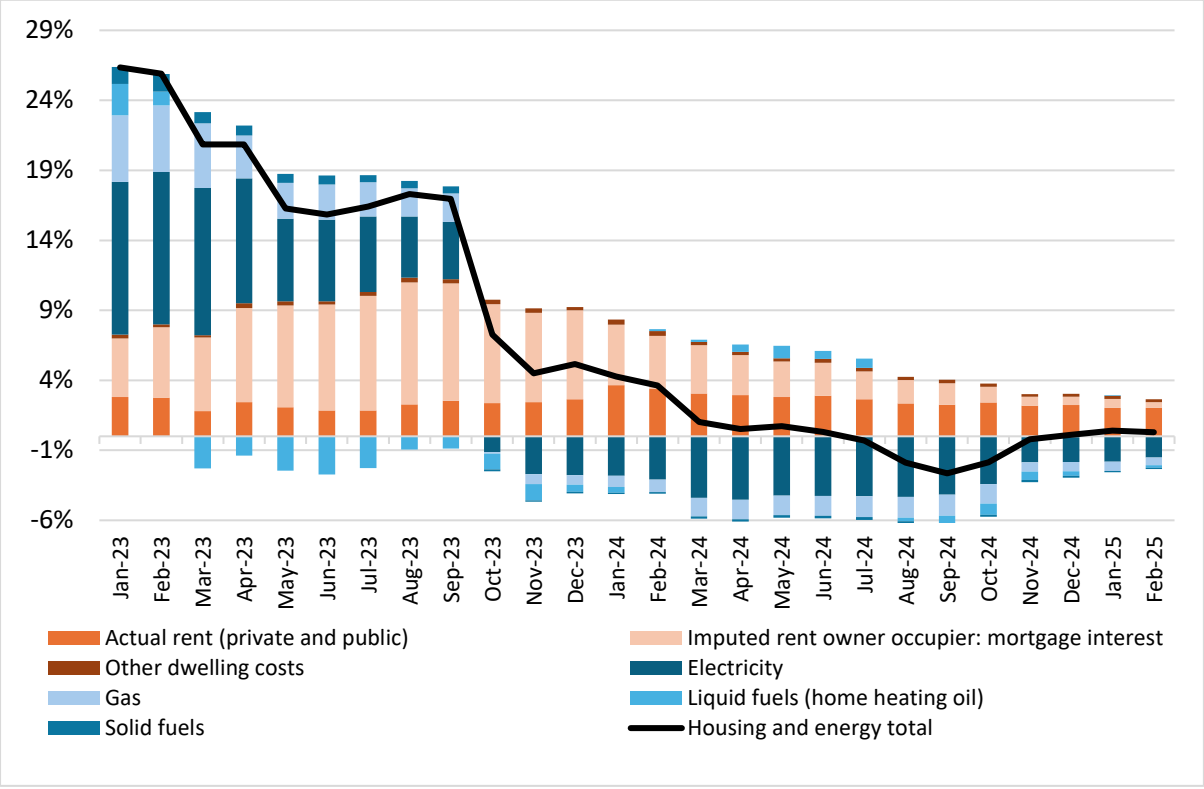
Source: CSO data and QEC calculations.
Note: The contribution to the overall rate is equal to the inflation rate in each sector multiplied by the weight attached to each sector. The weights are updated annually based on CSO Household Final Monetary Consumption Expenditure data. As such, each bar above represents the contribution of a sector, not the actual rate of inflation in the sector.

First, we echo previous editions of the *Commentary* by noting the importance of the 'housing, water, electricity, gas and other fuels' sector during the period of high inflation and its contribution to decreases in inflation since then. When the overall CPI rate peaked at more than 8 per cent, this sector accounted for half of the overall increase. As inflation slowed through 2024, this sector experienced zero or negative price growth.

Although grouped together in this subsector of the index, housing costs and energy costs have different drivers. With that in mind, Figure 25 separates the components of this sector into those associated with housing (shades of orange) and those associated with energy (shades of blue). In housing, rental costs continued to increase through 2024, although inflation in imputed rents for owner occupiers has slowed with the easing of interest rates.

This also allows us to isolate some of the impact of energy prices, which fell throughout 2024 relative to the same month in 2023.

FIGURE 25 HOUSING AND ENERGY

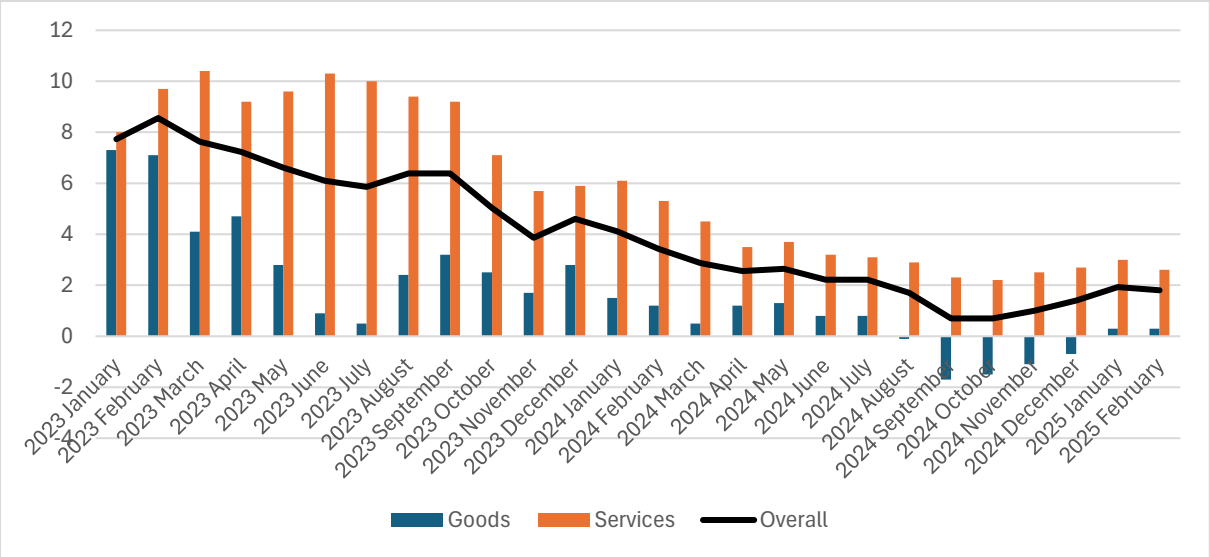


Source: CSO data and QEC calculations.

Indeed, this sub-sector is not the only channel through which energy costs affect consumer prices. Petrol and diesel inflation, which enters the CPI through the 'transport' sub-sector, has averaged around 4 per cent in the last year. In addition, the second order effects of energy costs used as inputs in the production of other goods and services were clear during the recent period of high inflation.

Second, Figure 26 presents the inflation in goods and services alongside overall inflation. Services inflation has been considerably higher than goods inflation since 2023.

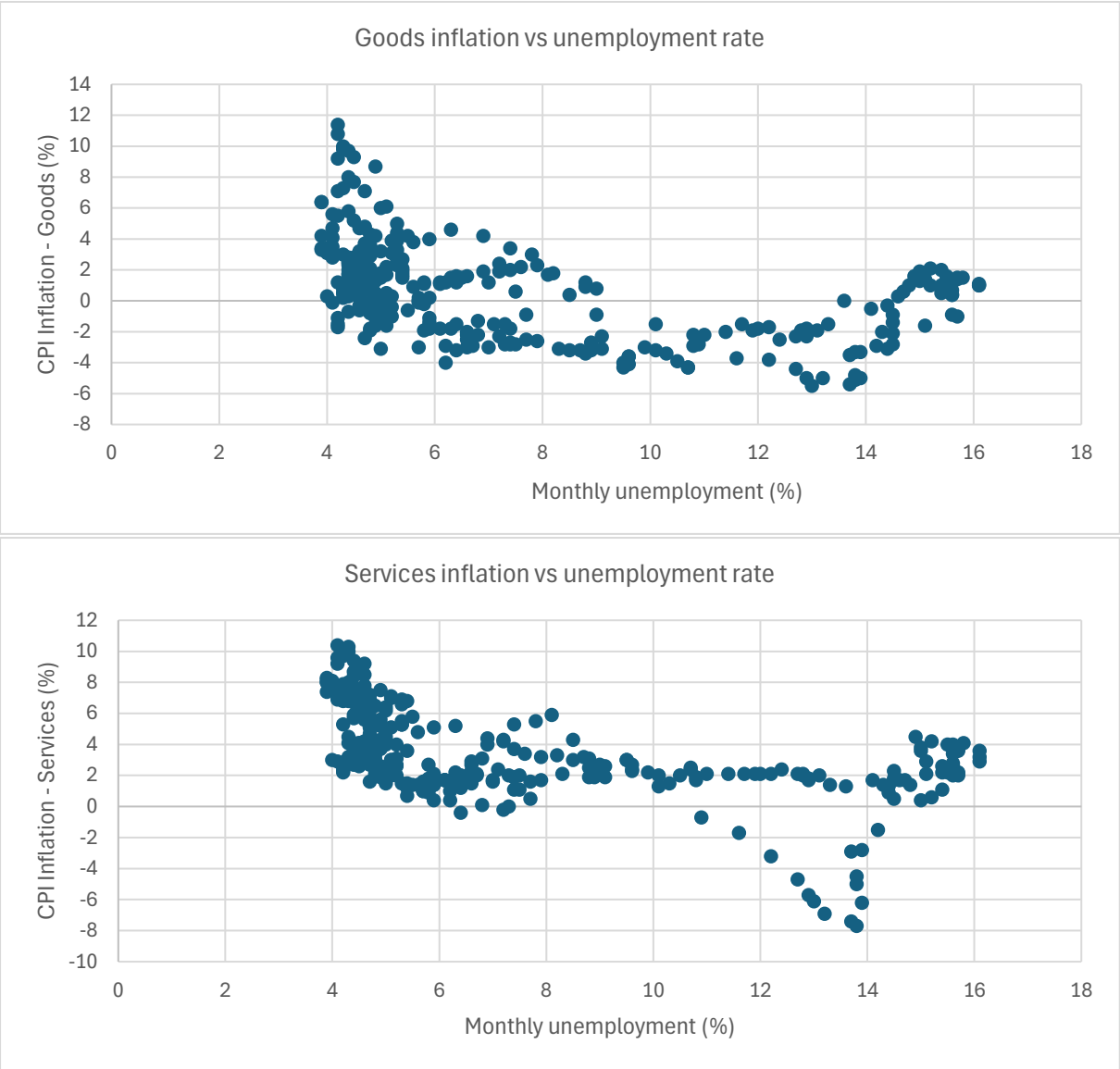
FIGURE 26 GOODS AND SERVICES INFLATION



Source: CSO data and QEC calculations.

Although inflation in services has eased during 2024, pressure on domestic prices will persist in light of the current tight labour market. Unemployment rates have remained in the region of 4–5 per cent for over 30 consecutive months. Figure 27 plots the monthly unemployment rate against goods and services inflation rates each month since 1998. Historically, unemployment rates close to 4 per cent have been associated with higher goods and services inflation.

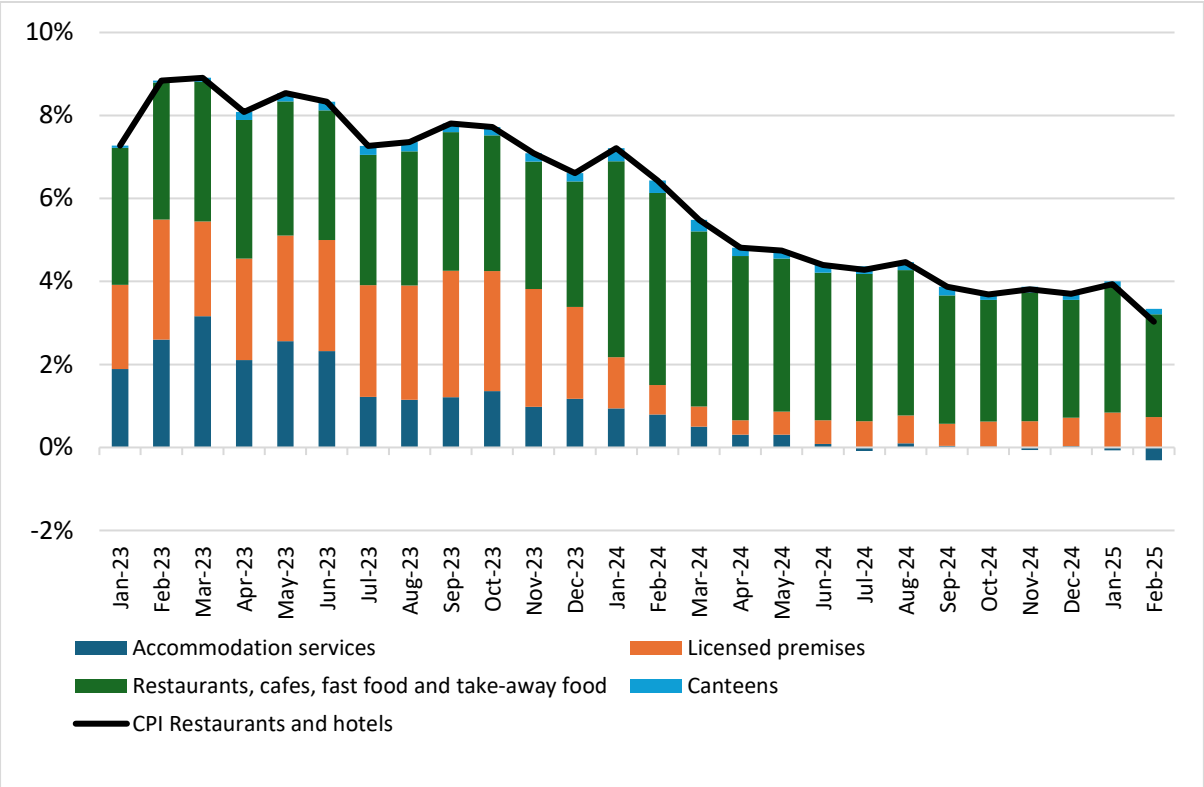
FIGURE 27 GOODS AND SERVICES INFLATION VS UNEMPLOYMENT



Source: CSO data and QEC calculations.

Domestic non-traded services currently comprise the largest contributor to Irish inflation. For instance, the 'restaurants and hotels' sector has been the largest driver of overall price growth in 2024. Figure 28 shows that price increases in this sector have been concentrated in restaurants and cafes since summer 2024, with accommodation services experiencing slower price growth. Prices in the 'restaurants, cafes, fast food and take-away food' sub-sector have been increasing at a rate of 6 per cent over the last two quarters.

FIGURE 28 INFLATION BY 'RESTAURANTS AND HOTELS' SUBSECTORS



Source: CSO data and QEC calculations.

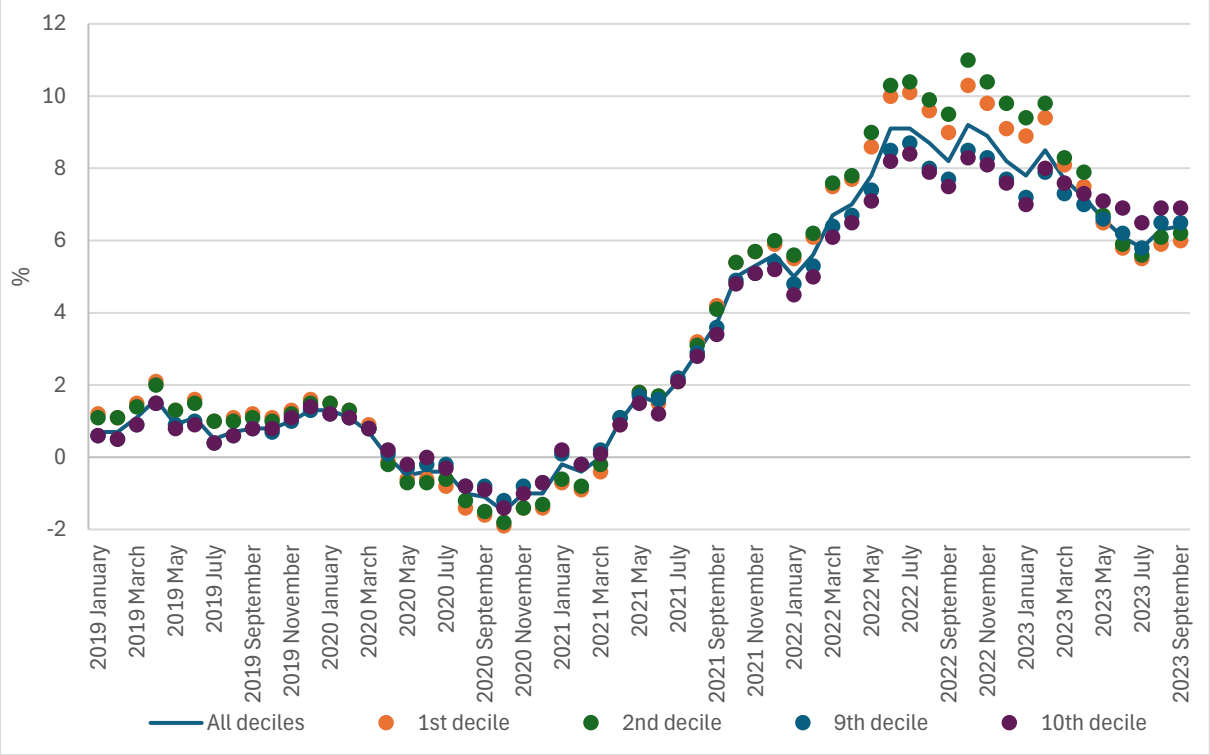
Domestic non-traded services are particularly sensitive to developments in the Irish economy, including growth in real wages and government expenditure supports. As pressure increases on prices in this sector, supports for businesses and consumers should be targeted to ensure they achieve their intended goals.

Estimated inflation by income decile

Price changes do not impact all consumers equally. The CPI measures prices for a representative basket of goods. However, consumers at different income levels have different baskets of goods. Figure 29 presents the CSO series for 'estimated inflation by household characteristics'. This series uses Household Budget Survey data to estimate the inflation faced by consumers in each income decile. The figure presents the overall CPI rate along with estimates for the two lowest and highest income deciles.

While the series is only available until September 2023, it is sufficient to draw the following conclusions. During the period 2019–2021, the estimated inflation rate for the two lowest income deciles was close to the overall rate. During the period of high inflation, 2022–2023, however, lower income consumers faced faster price increases because of the composition of their representative basket of goods. In fact, these groups saw price increases that averaged 1 per cent more than the overall rate in 2022.

FIGURE 29 CPI ESTIMATED INFLATION BY HOUSEHOLD DECILE OF INCOME (1ST, 2ND, 9TH AND 10TH)



Source: CSO's 'Estimated Inflation by Household Characteristics' and authors' calculation.

As outlined above, housing and energy saw rapid price growth during the period of high inflation. Lower income households pay a higher share of their overall weekly expenditure towards housing and energy. This evidence further supports the case for targeting policy interventions.

Disch and Slaymaker (2023) emphasise the difference between lower-income homeowners and lower-income renters.[16] Fifty-four per cent of those in the bottom income quintile own their home outright and have no housing payment costs as a result. Low-income renters in Ireland, however, have less affordable rents than their European counterparts.[17]

During future periods of high inflation, cost-of-living supports should be targeted at lower-income groups, in particular if the supports are aimed at alleviating the costs of housing and energy.

Summary

While the moderation of inflation observed in 2024 had external factors as its catalyst, we may not be able to rely on falling energy prices to reduce the overall

16 Disch and Slaymaker (2023). *Housing affordability: Ireland in a cross-country context*, Research Series Number 164, Dublin: ESRI, https://www.esri.ie/system/files/publications/RS164.pdf.

17 Disch and Slaymaker (2023) find that rent-to-income ratios for the bottom two income quintiles in Ireland are 2–3 percentage points higher than a peer group of 14 European countries, despite average Irish rents having higher relative affordability.

rate of inflation as domestic price pressures increase, particularly in services. With that in mind, risks to the inflationary outlook may be weighted more toward the upside.

Inflation has returned to close to the target level of 2 per cent. We forecast 2.1 per cent for 2025. With nominal earnings growth in excess of 5 per cent likely to continue into 2025, real wage growth will have a substantial impact on domestic growth.

The inflation outlook is sensitive to the current uncertainty surrounding international trade. If reciprocal tariffs are imposed on imported goods from the US, Irish consumers will likely face price increases. Tariff-driven inflation could also have implications for the path of interest rates.

However, the US accounts for just 16 per cent of total goods imports. Imports from the EU, by contrast, account for 35 per cent of total goods imports.[18] In that context, reducing trade barriers within the Single Market could have a larger impact on Irish import prices. Recent IMF analysis found that existing barriers to trade between EU states were equivalent to a 45 per cent tariff on manufacturing.[19] Indeed, the Letta report on the Single Market calls for a comprehensive strategy to reduce barriers to trade between Member States.[20]

LABOUR MARKET

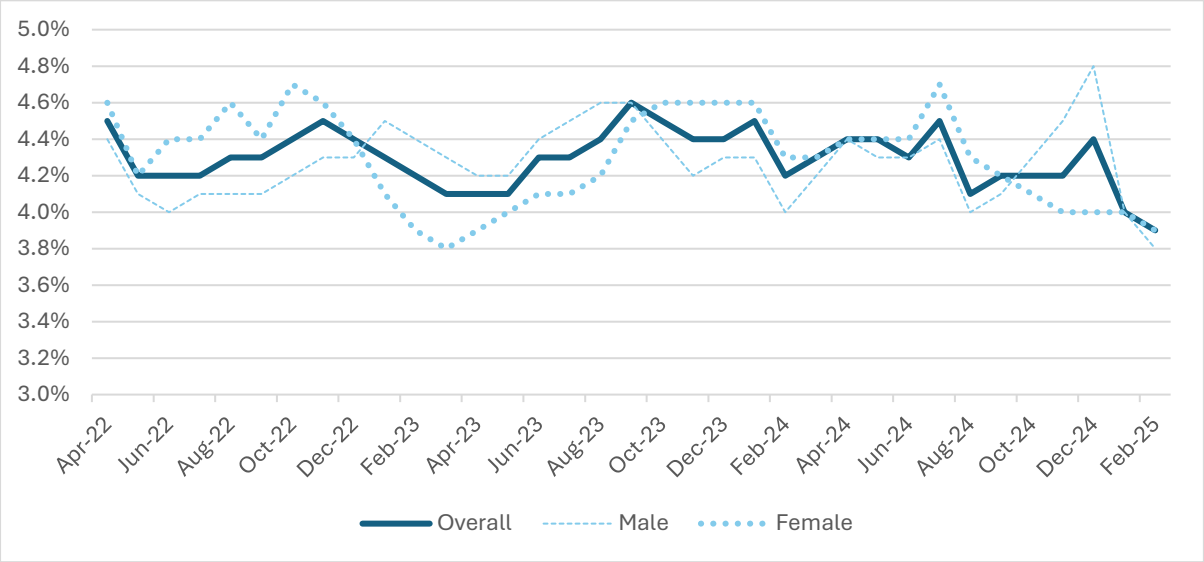
Unemployment continues to remains low within the Irish economy, with the rate for February standing at 3.9 per cent – the first time it has fallen below 4 per cent since April 2001. Employment levels have grown to 2.8mn at the end of 2024, which is the highest on record within the domestic economy.

18 CSO's 'value of merchandise trade data' for 2023.

19 IMF (2024). 'Europe's declining productivity growth: diagnoses and remedies', *Regional Economic Outlook*.

20 Letta, E. (2024). *Much more than a market*, European Commission, https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf.

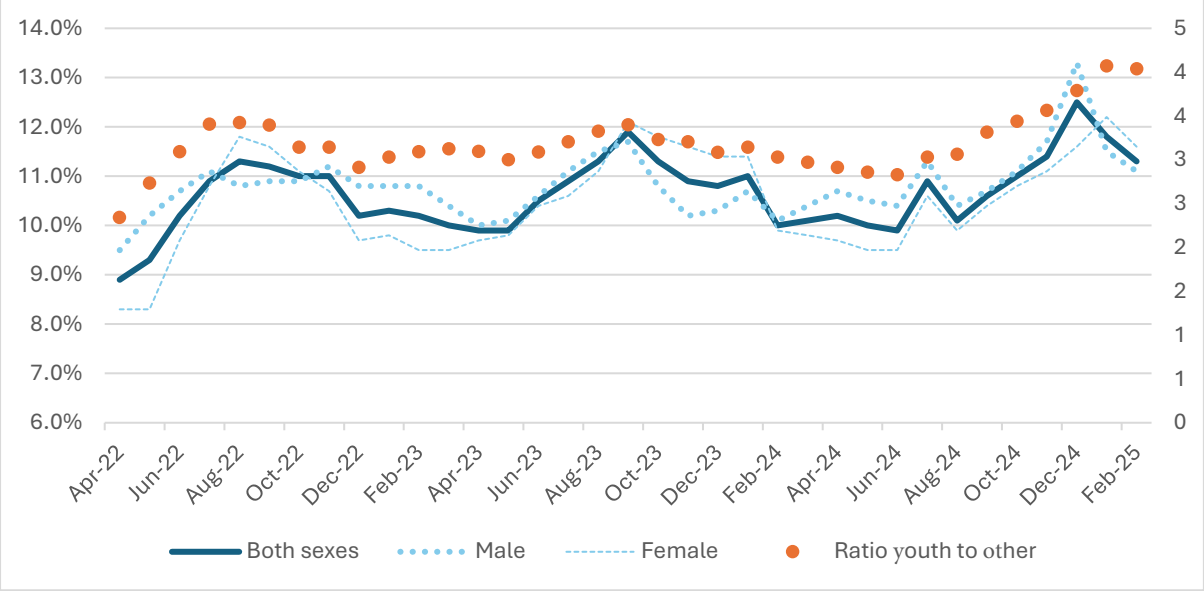
FIGURE 30 MONTHLY UNEMPLOYMENT RATE



Source: CSO Labour Force Survey.

Figure 30 highlights the continuing trend of low unemployment. Male and female unemployment rates have remained below 5 per cent since early 2022. Youth unemployment has increased slightly over the same period. Figure 31 captures this increase, as well as the increase in the ratio of youth unemployment to non-youth unemployment. This ratio has increased from three to four in the last three years.

FIGURE 31 YOUTH UNEMPLOYMENT RATE BY SEX AND RATIO OF YOUTH TO NON-YOUTH UNEMPLOYMENT



Source: CSO Labour Force Survey.

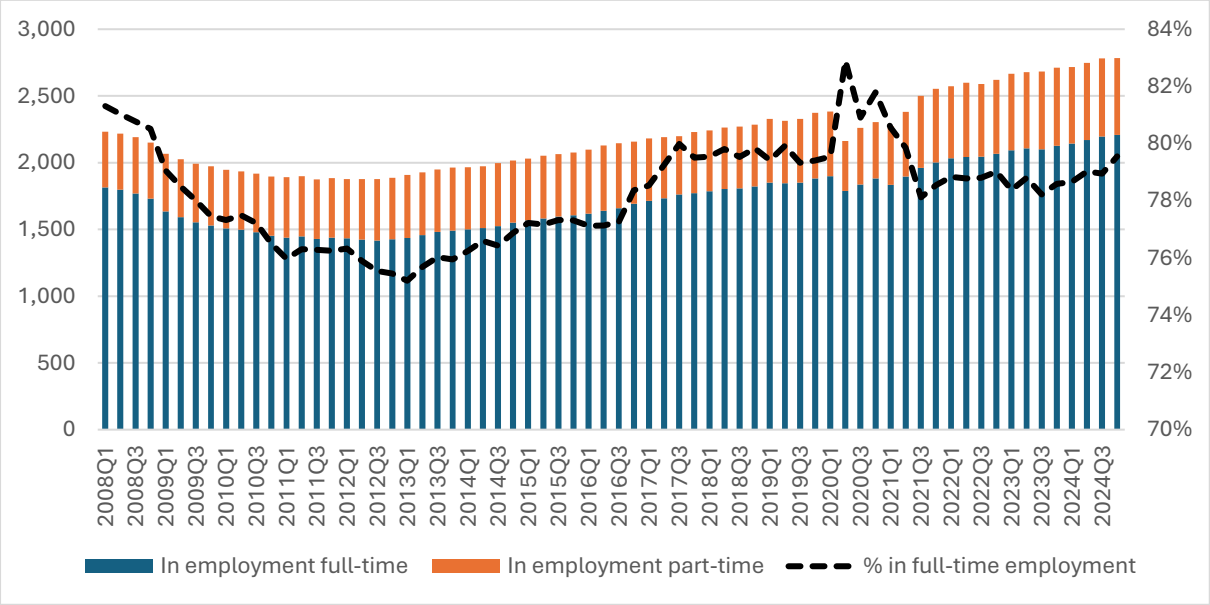
Growth in employment pauses in Q4 2024

The Irish economy has benefitted in recent years from continued employment growth. This growth paused somewhat in the fourth quarter of 2024, with almost 2.8mn people in employment at that time. Previous editions of the *Commentary*

have pointed out the role of migration in increased higher employment in recent years. Although total employment remained constant, there was a slight shift in the Q4 figures from part-time employment to full-time employment.

Increases in both part-time and full-time employment have contributed to the overall growth. Figure 32 divides those in employment into part-time and full-time workers. It shows that the share of those in employment who work full-time is currently around 80 per cent. It also highlights the difference between the global financial crisis period and the COVID-19 downturn. During that financial crisis, the share of workers in full-time employment decreased. During 2020, the sector-specific impact of the pandemic saw a sharp fall in part-time employment.

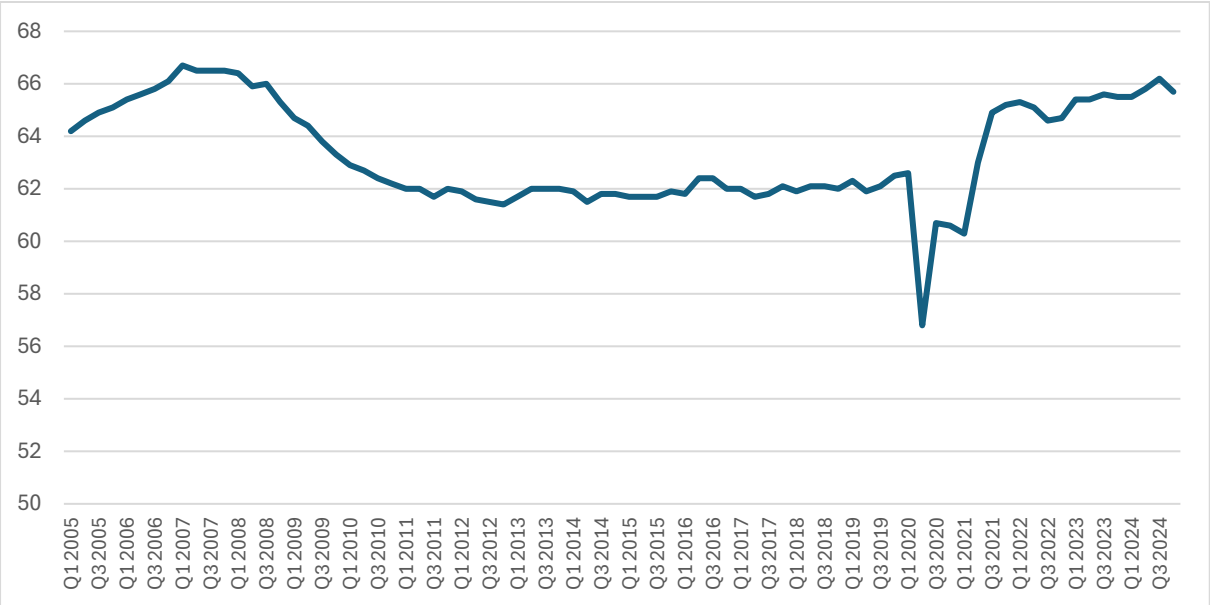
FIGURE 32 EMPLOYMENT: FULL-TIME, PART-TIME AND SHARE OF FULL-TIME IN TOTAL



Source: CSO Labour Force Survey.

A key factor in higher employment is increased labour force participation. Figure 33 shows that the labour force participation rate has stabilised around 65 per cent in 2023 and 2024, close to its record high level. In a Box to the *Commentary* (Box C), O'Shea models the impact on output growth of continued increases in participation rates for workers aged 45–64.

FIGURE 33 LABOUR FORCE PARTICIPATION RATE (%)



Source: CSO Labour Force Survey.
Notes: The labour force participation rate measures the proportion of those in the age group 15–74 who are available for work (either in employment or unemployed).

BOX C PARTICIPATION RATES FOR OLDER WORKERS

Egan et al. (2025) employ a traditional growth accounting approach to forecast Irish output growth rates. They model labour supply in an age cohort i, measured in hours worked, as a function of the population, the participation rate, average hours worked and the unemployment rate.

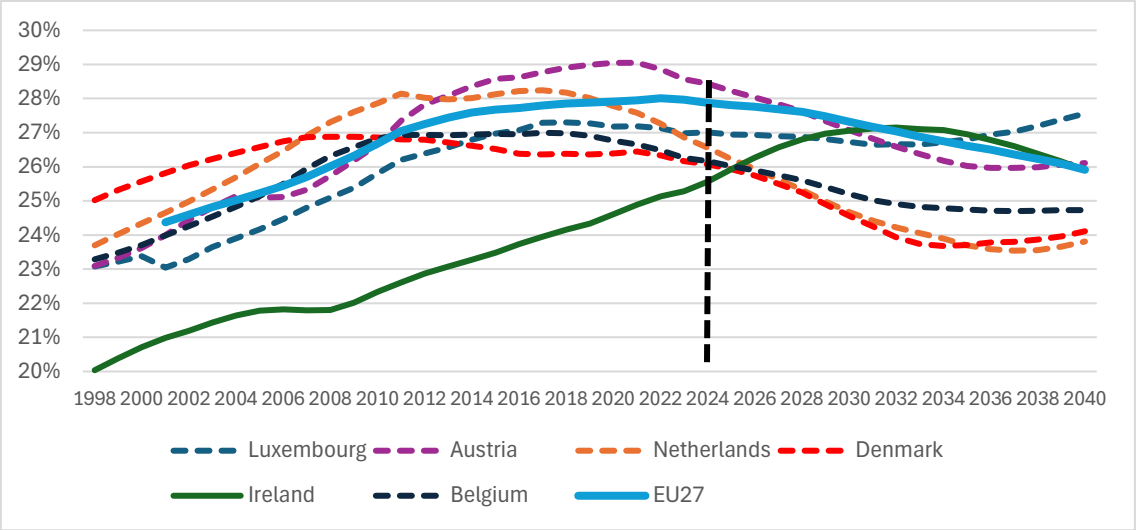
$$L_i = Pop_i * P.rate_i * (1 - U) * H$$

This structure allows the decomposition of growth in hours worked into its constituent parts. Egan et al. (2025) highlight increases in the working-age population and the participation rate as the drivers of growth in labour supply, particularly during the fastest periods of growth. This Box employs CSO Labour Force Survey data to further analyse demographic factors and participation rates with a focus on older workers. We then model the impact on future output growth of continued increases in participation by older workers.

Older workers: Demographics and participation rates

McCarthy and McQuinn (2008) highlight the impact of Ireland's baby boom having occurred later than in other European countries. Figure 34 presents the share of the population aged between 45 and 64 in Ireland and in a peer group of European countries. The relative size of this cohort has grown in Ireland from 20 per cent in 1998 to its current level of 25 per cent. It is projected to grow further and exceed the EU average by 2030. The path of demographic change has important implications for labour supply, particularly when combined with increasing participation rates for older workers.

FIGURE 34 POPULATION DYNAMICS: SHARE OF POPULATION AGED 45–64



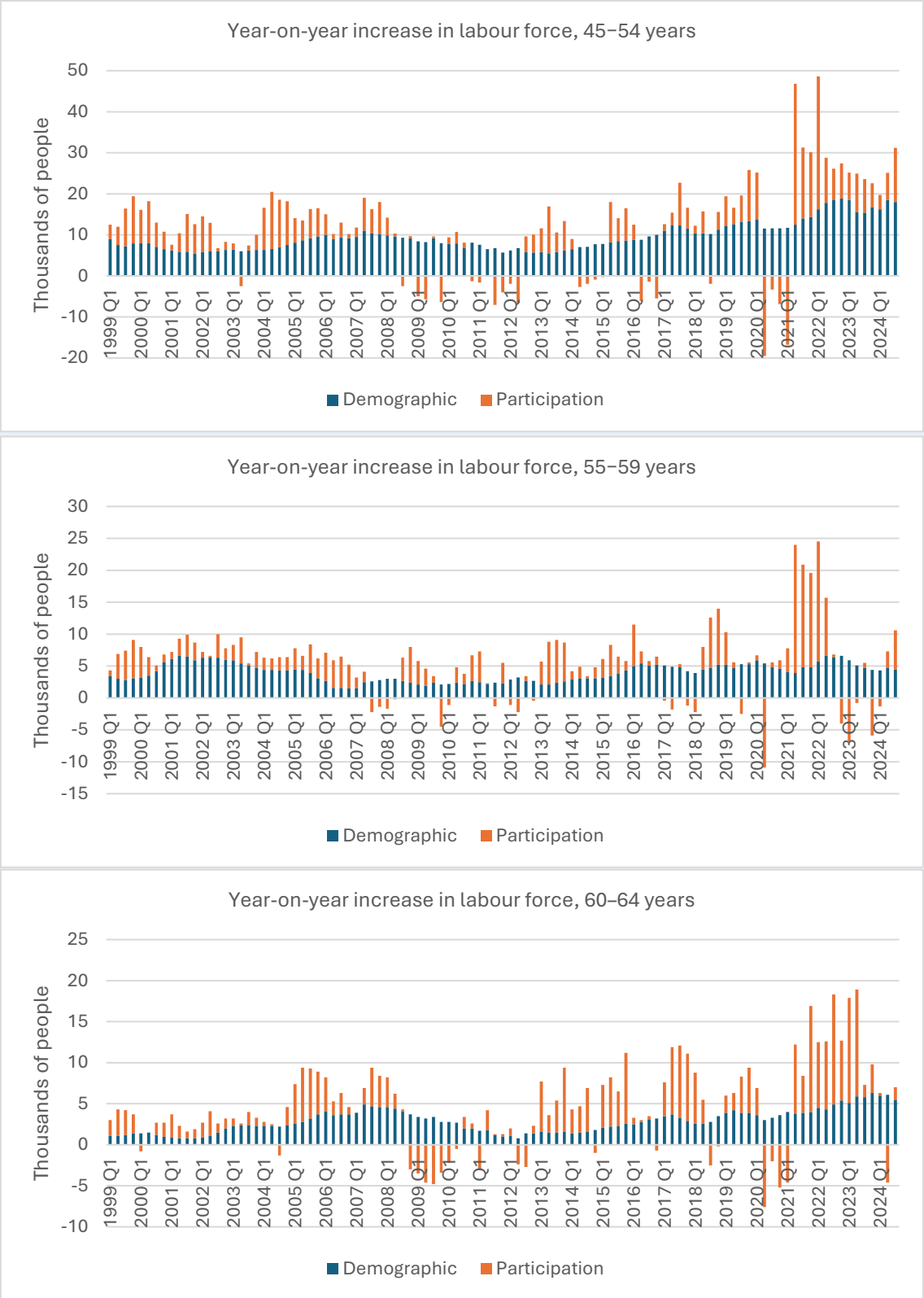
Source: Eurostat.

We further divide older workers into three cohorts to align with the breakdown presented in the Labour Force Survey data: those aged 45–54, 55–59 and 60–64. Figure 35 considers increases in the size of the labour force in these age categories, and divides growth into two subcategories: that resulting from demographic changes and that resulting from increased participation.[21]

This decomposition shows that demographic change is consistently contributing positively to the labour force for these age cohorts and that the size of these contributions has increased in recent years. However, changes in participation rates are more volatile.

21 These can be considered as a type of partial derivative, where the 'demographic' figure captures the number of additional workers resulting from changes in the population if the participation rate had been held constant. The 'participation' figure captures the number of additional workers resulting from increased participation if the population had remained constant.

FIGURE 35 DECOMPOSITION OF INCREASED PARTICIPATION BY OLDER WORKERS



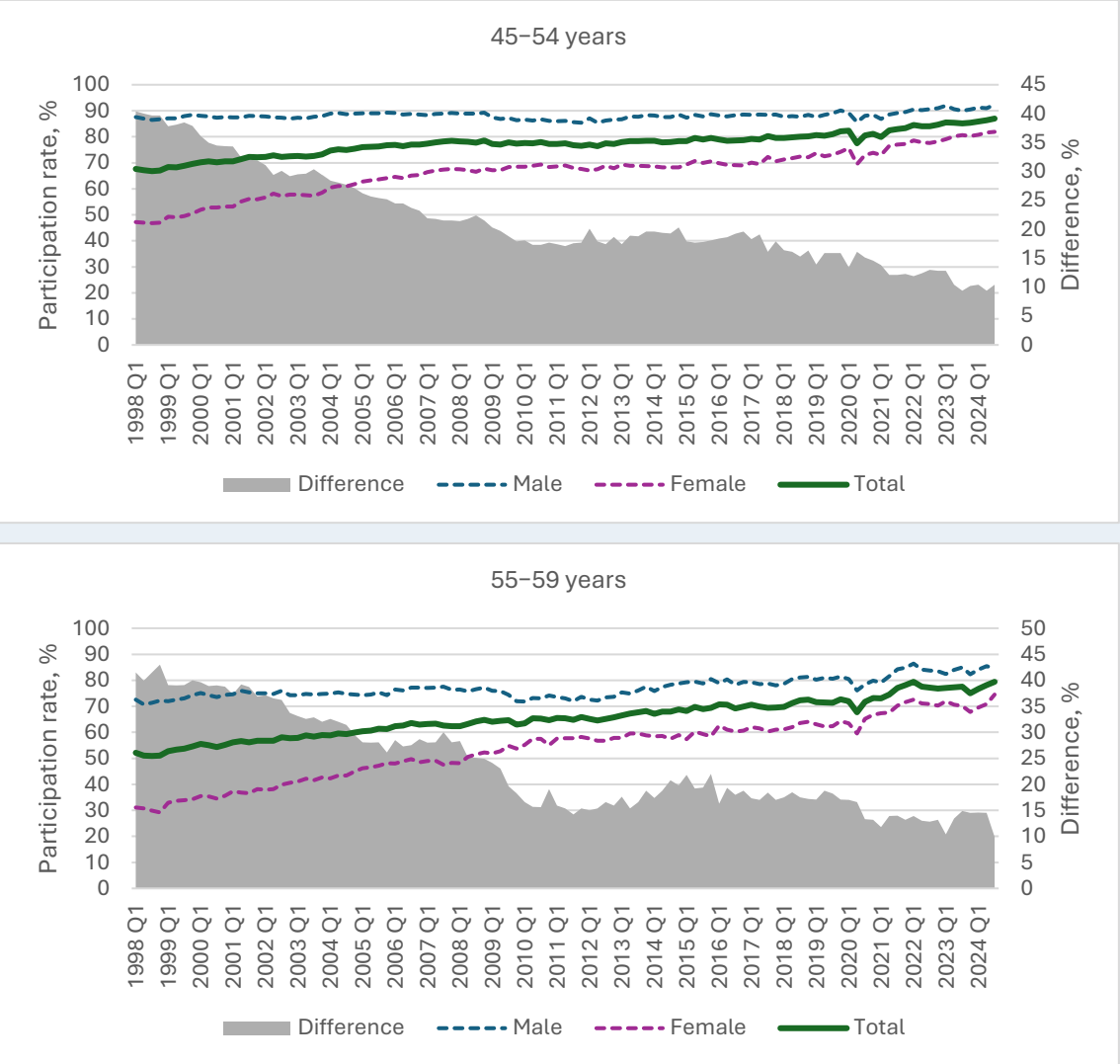
Source: CSO Labour Force Survey.

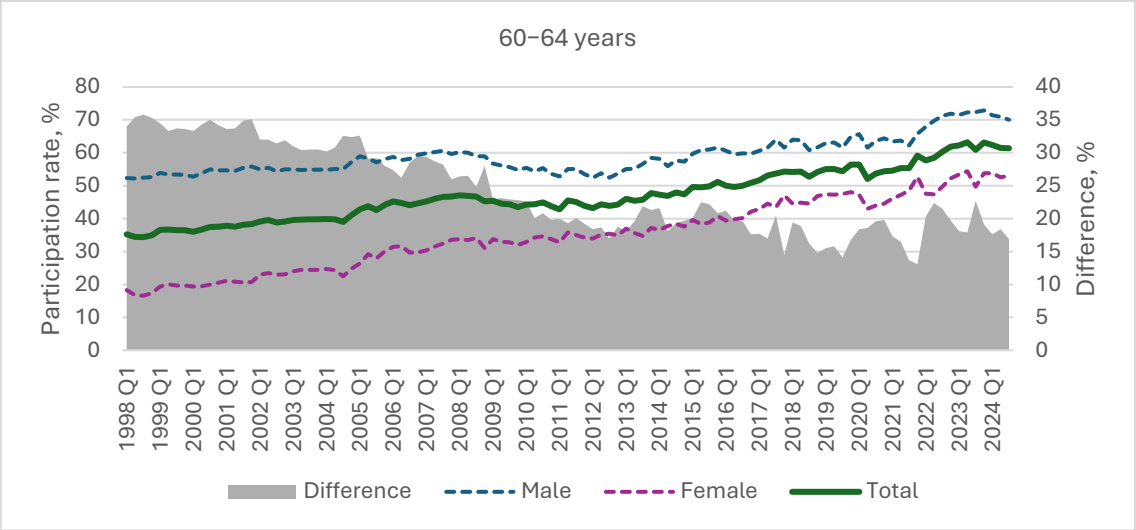
The figure above quantifies the effect of increased participation in terms of thousands of workers. The participation rate is defined as the proportion of the population in an age cohort who are in the labour force. Figure 36 presents participation rates by sex along with the difference between the male and female rate. Although male participation has increased over

time, the upward trend in the overall rate has historically been largely due to greater female participation. A variety of legal, administrative, cultural and educational factors have contributed to this increase (Berchoz and Fitzgerald, 2016).

The speed of the decline in the difference between the male and female participation rates has varied by age group, as indicated by the shaded area. The 45–54 years cohort has shown higher levels of convergence between male and female participation rates. This greater convergence is expected to extend to the older age groups in future, as a result of a 'cohort effect' (Boyd et al., 2022). Cohort effects 'reflect the fundamental attachment of a given cohort to the labour force depending on the social norms and institutions prevailing as people in that cohort progress through their lives' (Byrne and O'Brien, 2017).

FIGURE 36 PARTICIPATION RATES FOR WORKERS AGED 45–64 BY GENDER



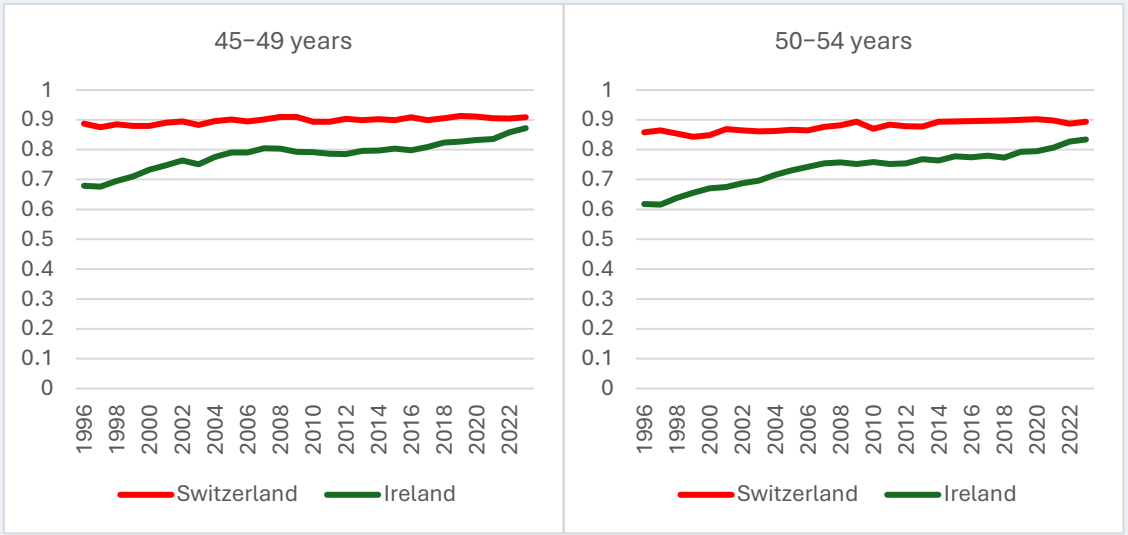


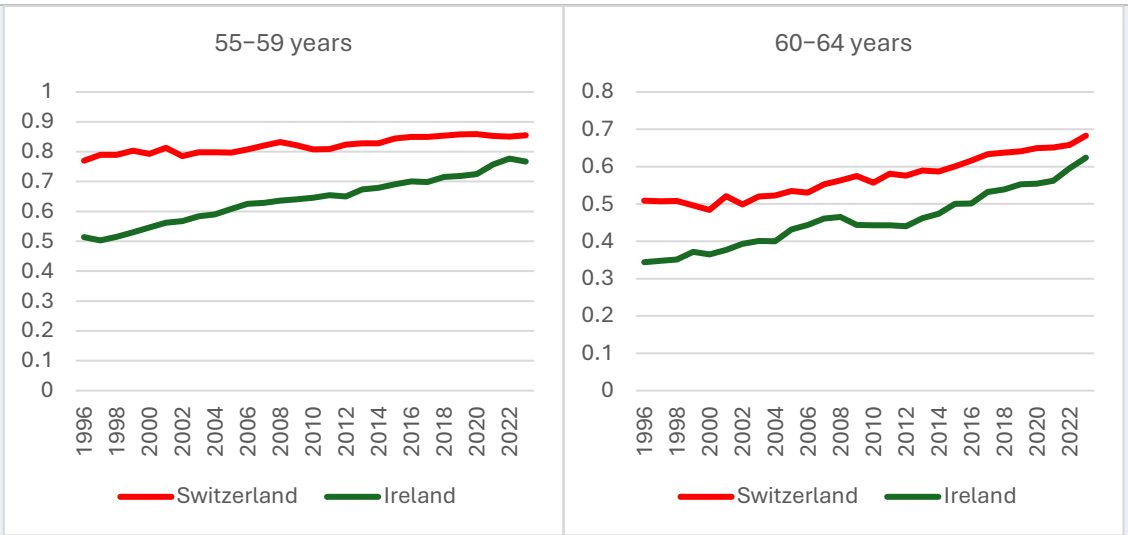
Source: CSO Labour Force Survey.

Comparison with Switzerland

In considering the future level of participation rates for older workers, we compare Ireland with Switzerland. The Swiss economy is an example of a well-developed economy with high participation rates for older age cohorts (Whelan and McQuinn, 2016). Figure 37 presents participation rates for Ireland and Switzerland. In each of the age groups, there is clear evidence of convergence between the Irish and Swiss rates for these age cohorts. Again, the presence of a cohort effect in Ireland is suggested by the fact that the 45–54 years group has converged more than the older age groups.

FIGURE 37 IRISH AND SWISS PARTICIPATION RATES (WORKERS AGED 45–64)





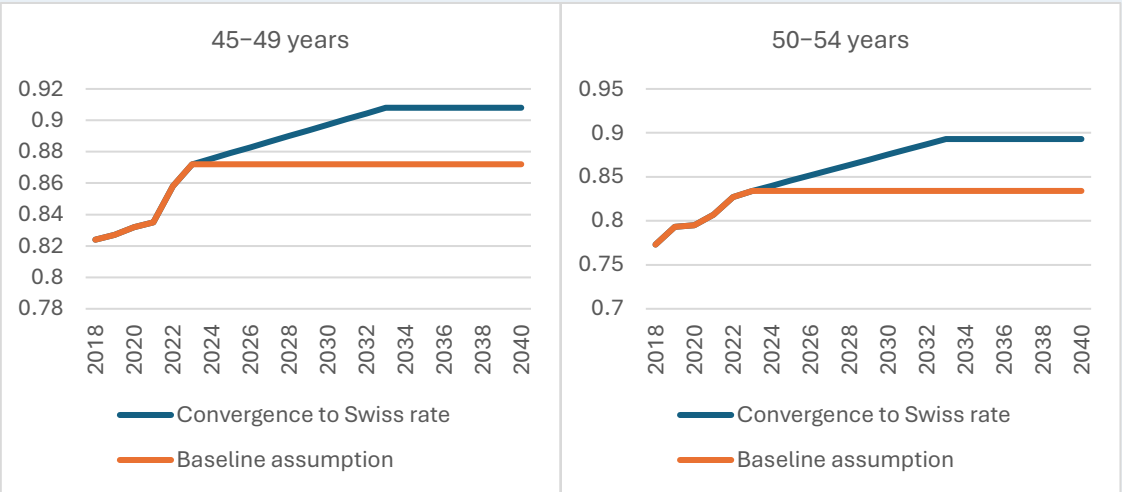
Source: Eurostat.

Impact on output growth

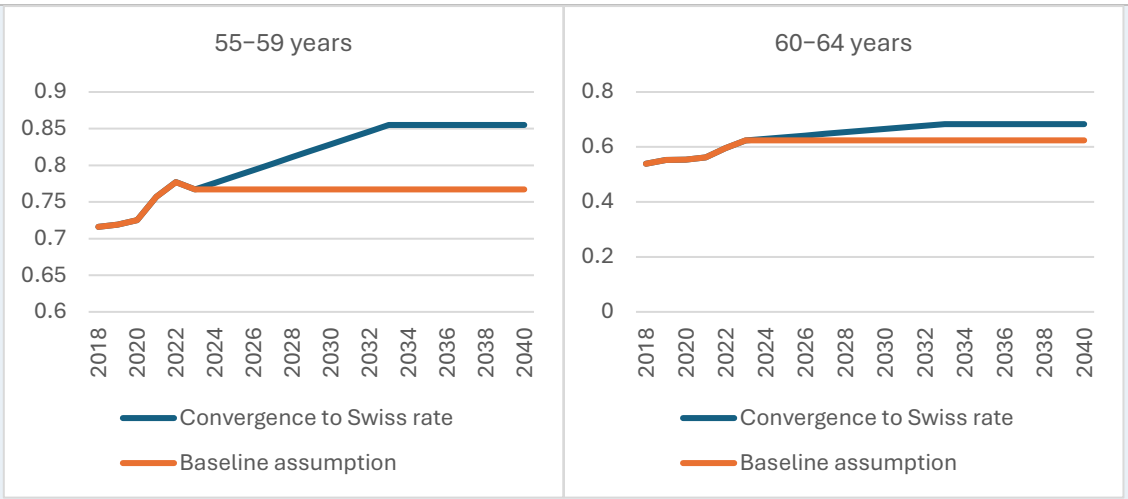
In this analysis, we adjust the baseline participation rate assumptions for older age cohorts in the growth accounting framework outlined in Section 1 (Egan et al., 2025).[22] As participation rates for older workers have tended to grow quite gradually, the adjustment is modelled to occur over ten years.

We model continued convergence between the Irish and Swiss rates for workers aged between 50 and 65 years. Figure 38 presents the updated assumption alongside the baseline assumption of a continuation of the prevailing rates in 2023. Figure B6 shows that there is a modest increase in real output over the period, culminating in a 2.4 per cent cumulative impact by 2040.

FIGURE 38 CONVERGENCE TO SWISS PARTICIPATION RATES



[22] The model also projects population growth for each age cohort in line with Bergin and Egan (2024); we do not vary those assumptions here.



Source: Author's calculations.

FIGURE 39 OUTPUT FORECAST UNDER HIGHER PARTICIPATION RATE SCENARIO

Source: Author's calculations based on Egan et al. (2025).
Note: The method used here retains the assumption of a constant average workweek and a constant unemployment rate. The measure of real output used is net national product at factor prices.

Additional comments

In the scenario above, there may be productivity-related effects of adding additional workers that are not captured in the growth accounting framework, i.e. diminishing marginal returns to labour.

Additionally, evidence appears to be mixed on the productivity impacts of workforce ageing. Aiyar et al. (2016) find that workforce ageing in Europe is negatively affecting total factor productivity. However, Feyrer (2007) suggests a positive link between the share of workers aged 40–49 and higher productivity growth, while Goebel et al. (2009) reach a similar conclusion using a firm-level analysis.

Conclusion

Demographic trends suggest that participation rates of people aged 45–65 (both male and female) will help shape the future growth prospects of the Irish economy. The modelling exercise above quantifies the impact of continued growth in participation rates for this age cohort.

Developments in participation of older workers in recent years are encouraging from a growth perspective, particularly in the context of an ageing population.

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This text box was prepared by Dónal O'Shea.

Sectoral employment trends

Overall employment increased by 2.6 per cent in Q4 2024 compared with Q4 2023. Employment numbers in 'agriculture, forestry, and fishing' and 'wholesale and retail trade; repair of motor vehicles and motorcycles' fell in 2024. Employment

growth continues to be strong in 'professional, scientific and technical activities' and in 'information and communication'.

Employment in construction grew by 9.2 per cent in Q4 2024 relative to the same quarter in 2023. Table 3 presents a new CSO series based on the Labour Force Survey that details whether an employee working in construction mainly works on new housing developments or not. The figures suggest a shift towards construction of new housing developments in 2024.

TABLE 3 EMPLOYMENT IN CONSTRUCTION, THOUSANDS

Thousands of workers	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Mainly works on new housing developments/renovations	87.7	96.7	94.2	112.5	104.1
Does not mainly work on new housing developments/renovations	73.6	75	66.5	63.7	71.9

Source: CSO Labour Force Survey, Table QLF52.

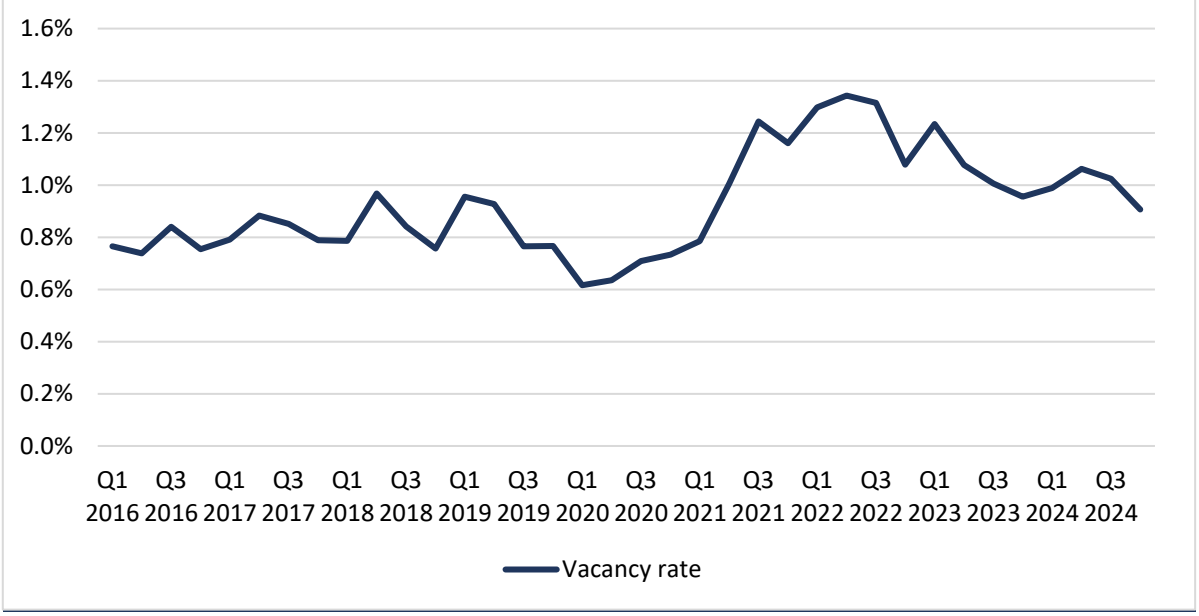
Vacancies

The job vacancy rate measures the proportion of total posts that are vacant.

$$Job\ vacancy\ rate = \frac{Vacant\ Posts}{(Vacant\ Posts + Occupied\ Jobs)} * 100$$

The vacancy rate fell below 1 per cent in the final quarter of 2024.

FIGURE 40 VACANCY RATE



Source: CSO and QEC calculations.

Labour market tightness

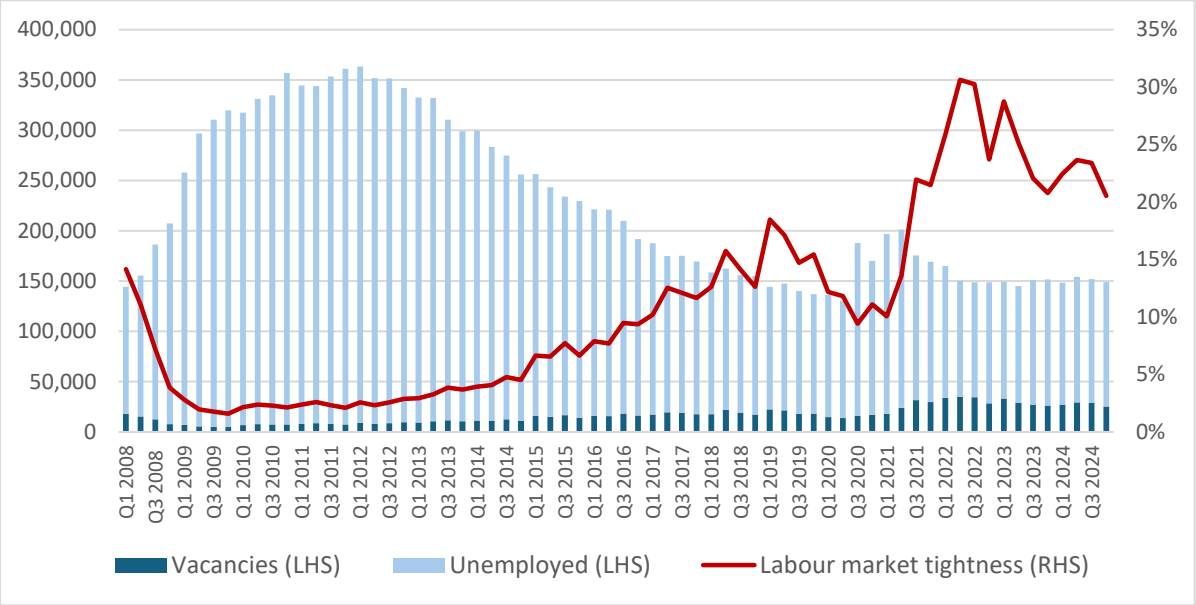
Labour market tightness captures the extent to which demand for labour exceeds the supply of labour. It is characterised by low unemployment rates, high vacancy rates and rising wages. Ireland is experiencing continuing low unemployment and growth in wages. However, a decline in the vacancy rate suggests that labour market tightness has eased slightly.

Figure 41 presents an indicator of labour market tightness, namely the ratio of job vacancies to unemployed individuals. A higher ratio signifies a tighter labour market. This indicator has decreased to 20.5 per cent, though it remains above the long-run average.

The *Commentary* has previously noted that this traditional measure of labour market tightness should be interpreted with caution in Ireland because of the potential for inward migration. In addition, recent work conducted by the Bank of England shows that this ratio has been trending upward in the UK over the last 40 years.[23] That study shows that lower costs of advertising vacancies allow firms to post more vacancies and to keep vacancies open for longer, suggesting that higher vacancies are attributable to a behavioural shift in recruitment patterns rather than a change in underlying labour market tightness.

[23] Stelmach, M., J. Kensett and P. Schnattinger (2025). 'What can 40 years of data on vacancy advertising costs tell us about labour market equilibrium?', *Bank Underground*, https://bankunderground.co.uk/2025/03/06/what-can-40-years-of-data-on-vacancy-advertising-costs-tell-us-about-labour-market-equilibrium/.

FIGURE 41 LABOUR MARKET TIGHTNESS IN IRELAND

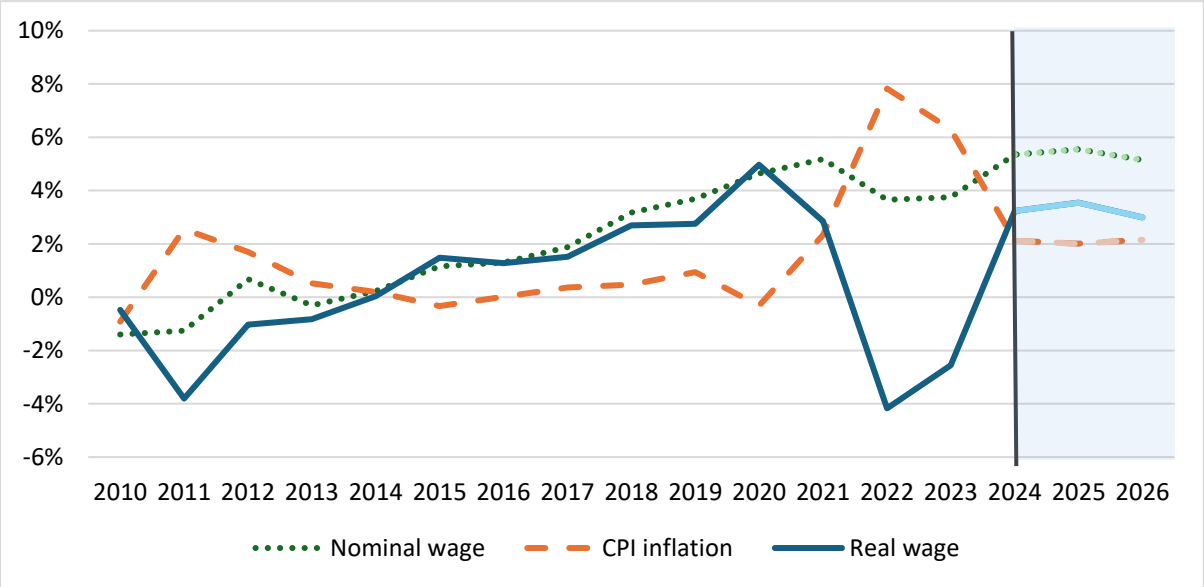


Source: CSO and QEC calculations.

Real wages to grow into 2025

Nominal weekly earnings grew by 5.4 per cent on average in 2024. This is the fastest non-COVID-19 rate of growth in earnings since the global financial crisis. Figure 42 presents nominal wages, inflation and real wages. We forecast continued increase in real wages in 2025, although this is sensitive to movements in inflation.

FIGURE 42 NOMINAL AND REAL WAGE GROWTH FORECAST



Source: CSO and QEC calculations.

Labour market exposure to tariffs?

As highlighted in the discussion on trade above, the Irish economy is exposed to any potential trade war with the US. From an employment perspective, it is important to consider the sectoral impact of a slowdown in exports. Table 4 presents the share of total employment, output and output per worker for each of 12 sectors.

TABLE 4 EMPLOYMENT AND GVA BY SECTOR, 2024

Sector	Employment	Share of total employment	GVA (Euro, bn)	Share of total GVA	GVA per worker (euro per worker)
Agriculture, forestry and fishing	108,842	4%	6.3	1%	58,241
Industry (excl. construction)	336,047	12%	147.7	31%	439,439
Construction	171,676	6%	11.7	2%	68,140
Distribution, transport, hotels and restaurants	628,646	23%	48.2	10%	76,703
Information and communication	184,020	7%	100.9	21%	548,245
Real estate activities	12,490	0%	29.1	6%	2,326,455
Financial and insurance activities	125,349	5%	18.2	4%	145,418
Professional, admin and support services	307,132	11%	56.8	12%	184,930
Public admin, education and health	758,825	28%	47.0	10%	61,921
Arts, entertainment and other services	123,340	4%	6.0	1%	48,241
All sectors	2,756,367	100%	470.0	100%	170,517

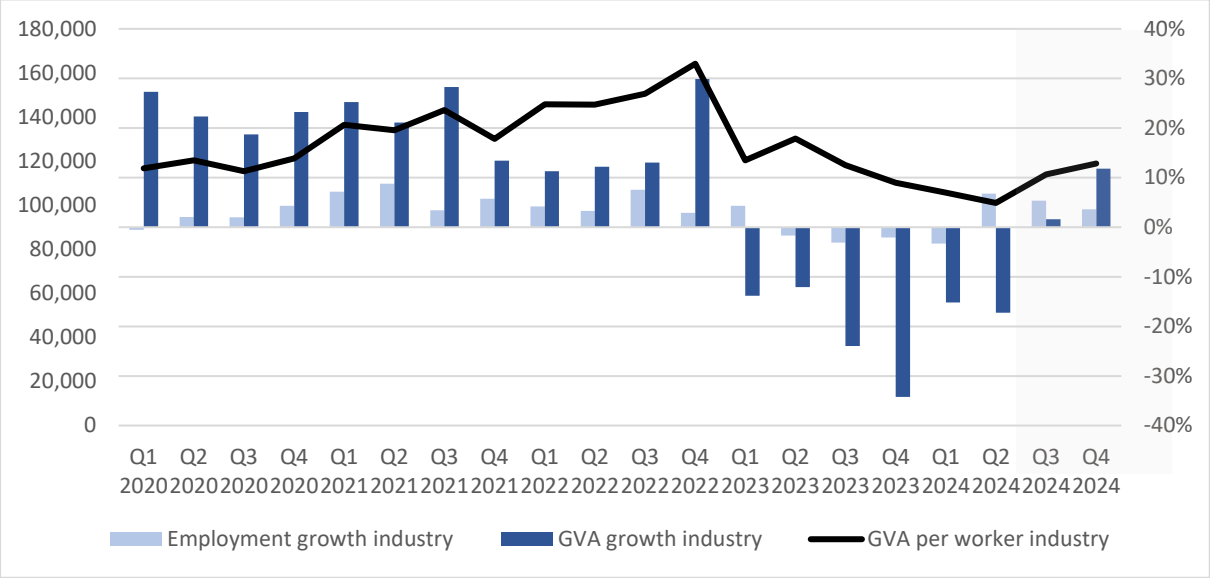
Source: CSO's quarterly national accounts.

'Information and communication' and 'industry (excl. construction)' are the two sectors most dependent on exports and therefore most at risk of any reduction in global trade activity. These sectors make up a far larger share of GVA than employment. It is therefore worth considering the channels through which any adjustment in output from these sectors could pass through to labour inputs here in Ireland. If demand from these sectors drops, they may either shed labour, or if they believe the shock to be temporary or adjustment costs too high, they may allow output per worker to adjust. This suggests that any short-term adjustment in exports may have a greater impact on output than on employment; thus, even if output falls in these sectors as a result of weaker demand for exports, employment may not necessarily adjust to the same magnitude.

For example, output in the industrial sector slowed in 2023, but this was accompanied by a much smaller fall in employment. Instead, labour productivity fell. This likely reflects the complexity of global supply chains in manufacturing, particularly in pharmaceuticals. During the 2023 slowdown, employment in firms

in this sector was stickier than labour productivity, resulting in very few job losses relative to the scale of the reduction in output.

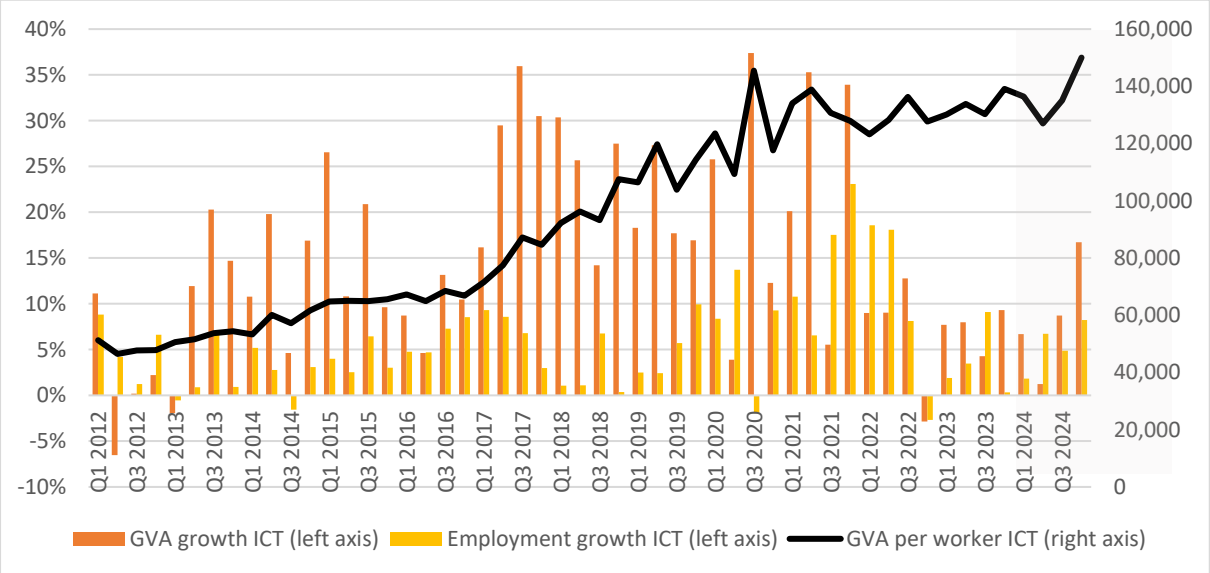
FIGURE 43 GROWTH IN EMPLOYMENT AND GVA IN 'INDUSTRY (EXCL. CONSTRUCTION)' WITH GVA PER WORKER



Source: CSO's quarterly national accounts and QEC calculations.

Conversely, the recent increases in GVA in the 'information and communication' sector were not accompanied by increased employment of the same magnitude. Instead, labour productivity adjusted upwards, as shown in Figure 44, which shows developments over a longer period of time.

FIGURE 44 GROWTH IN EMPLOYMENT AND GVA IN 'INFORMATION AND COMMUNICATION' WITH GVA PER WORKER



Source: CSO's quarterly national accounts and QEC calculations.

Summary

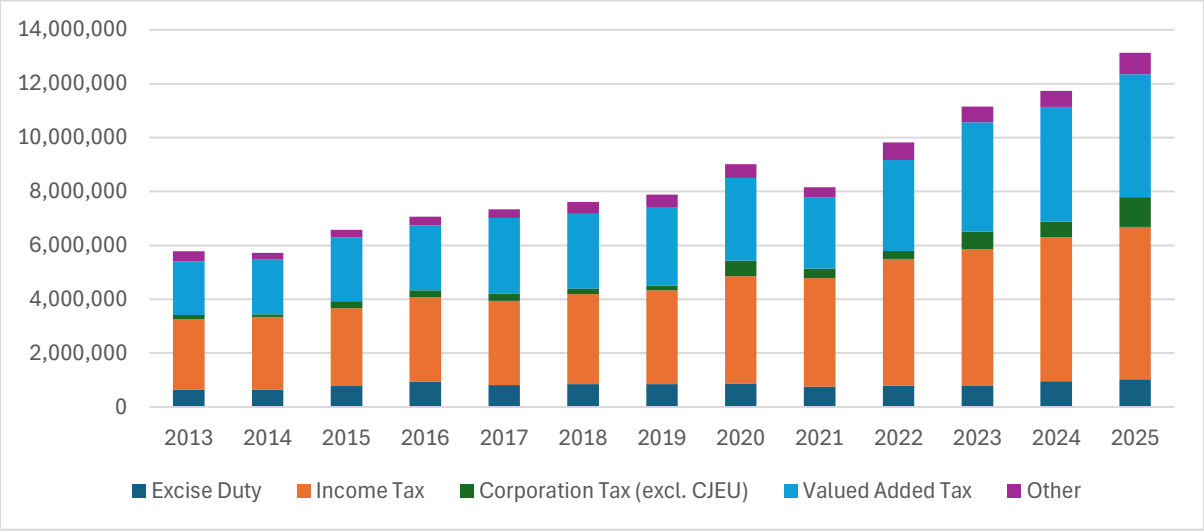
We expect the labour market to continue to be strong in 2025. We expect an unemployment rate of 4.2 per cent on average in 2025. Further, we anticipate continuing growth in real wages of 3.5 per cent in 2025.

The Irish labour market is sensitive to a slowdown in export activity, such as that which could arise from a trade war. The portion of the workforce that primarily serves the export market would be adversely affected by a slowdown in trade, but, as discussed above, not necessarily in a 1:1 pattern with output changes. In addition, employees in firms focused on the export market have salary levels that are higher than the average level.[24] Any fall in their employment could have a secondary effect on employment in other more domestically-oriented sectors.

PUBLIC FINANCES

Tax receipts have continued to grow in early 2025. Receipts in January and February have grown compared with the equivalent period in 2024 in all of the major tax headings. In Figure 45 below, tax receipts are presented on a year-to-date basis.

FIGURE 45 RECEIPTS FROM MAIN TAXATION HEADINGS, JAN–FEB (€, 000'S)



Source: Department of Finance and authors' calculations.
Notes: 'Other' includes customs, capital gains tax, capital acquisitions tax and stamps.

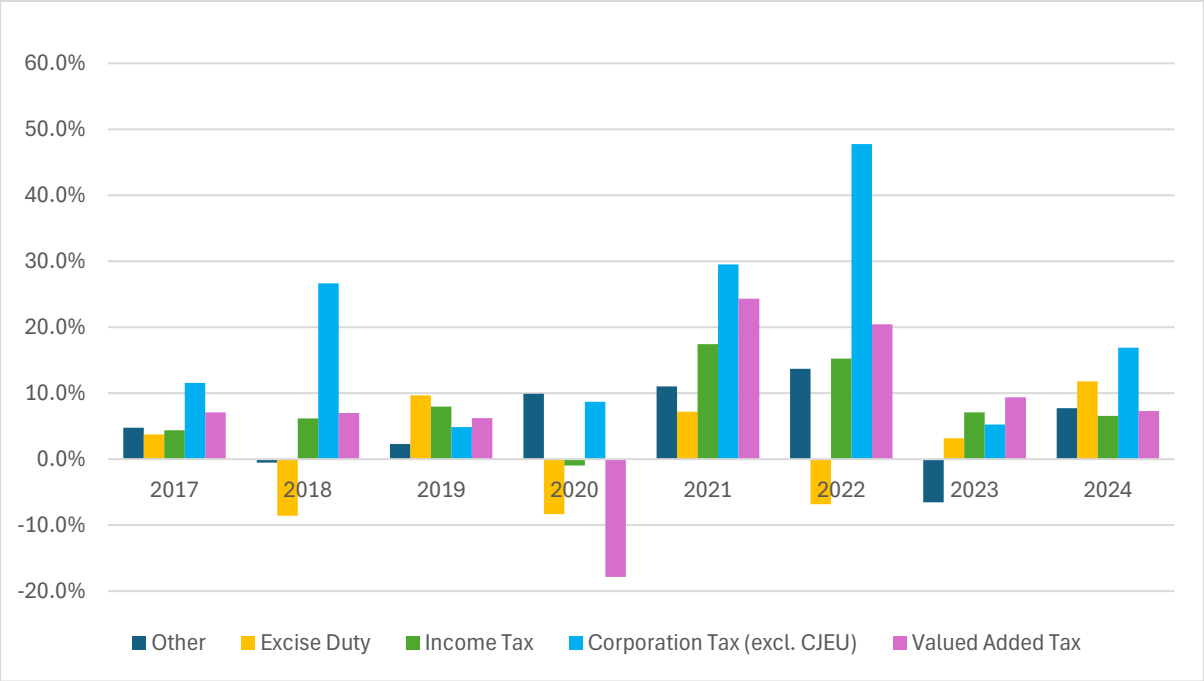
Review of recent taxation trends

Total tax receipts have doubled in the last eight years, even excluding the receipts in 2024, which came as a result of the judgement made by the Court of Justice of the European Union and related to the years 1991–2014. Figure 46 presents the

[24] CSO 'earnings and labour costs' data show that earnings in the ICT and manufacturing sectors are consistently above average.

annual growth rate in tax receipts from the major headings. The last eight years have seen an upward trend in all major tax headings.

FIGURE 46 ANNUAL GROWTH RATES (%) IN MAIN TAXATION HEADINGS, 2017–2024



Source: Department of Finance and author's calculations.

Corporation tax receipts and Apple payments

Corporation tax receipts since October should be interpreted with caution. In addition to receipts of €28bn, approximately €11bn of the one-off receipts arising from the judgement of the Court of Justice of the European Union concerning the period 1991–2014 are also included. A further €1.7bn has been received to date in 2025, with the remainder expected in the coming months.[25]

In a separate development, Pillar II of the Organisation for Economic Co-Operation and Development's Base Erosion and Profit Shifting corporation tax agreement has come into effect in the EU. A minimum corporation tax rate of 15 per cent will apply to companies with annual turnover exceeding $750mn for fiscal years ending after 31 December 2024. Increased corporation tax will take the form of a top-up payment if an effective tax rate of 15 per cent has not been achieved, initially payable 18 months after the fiscal year end. As a result, top-up payments will commence in June 2026. This change will not affect our forecast for 2025.

Overall, the outlook for corporation tax receipts remains uncertain. By European standards, Irish tax revenue is highly concentrated in corporation tax, particularly

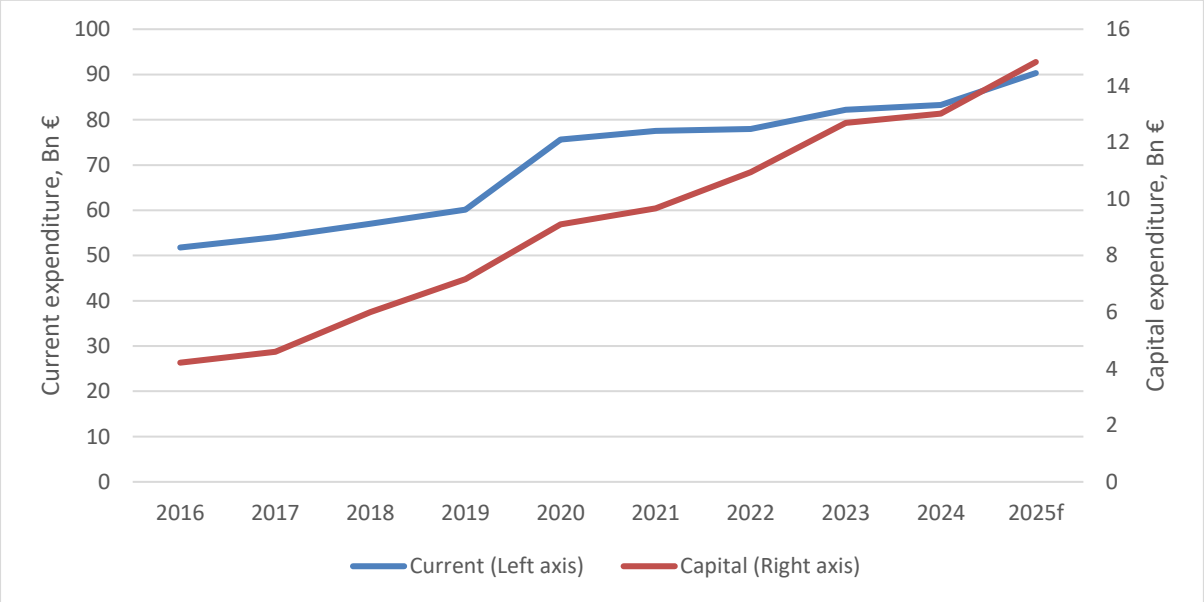
25 For the purposes of the general government balance, all of the Court of Justice of the European Union receipts are allocated to 2024. As a result, there will be a discrepancy between Exchequer receipts of corporation tax in 2024 and 2025 and the general government impact of corporation tax.

in corporation tax from foreign-owned multinational enterprises. Further, revenue is highly concentrated in a handful of foreign-owned multinationals.[26] There have been concerns for a number of years about the potential 'windfall nature' of these corporation receipts, and the presence of the new administration in the US amplifies those concerns somewhat. This is particularly true as members of the administration have talked about targeting the trade imbalance between Ireland and the US, and recently specifically referenced the use of taxation policy. If, as part of this new trade strategy, there is a significant reshoring of pharmaceutical activity back to the US, this would materially affect Irish public finances.

Expenditure

The scale of recent increases in public expenditure is apparent in Figure 47, which shows current and capital gross voted expenditure in the last decade. Voted capital expenditure has been prioritised to a certain degree, having grown at an average rate of 15 per cent compared with 6.5 per cent for voted current spending.

FIGURE 47 CURRENT AND CAPITAL EXPENDITURE (€, BN)



Source: Department of Public Expenditure Databank.

Table 5 highlights developments in current and capital expenditure in recent years by expenditure area. The increased capital expenditure has been concentrated in housing and in education. In light of the lack of investment in the Irish economy since the global financial crisis, this prioritisation of capital expenditure is to be

26 Recent work published by the Parliamentary Budget Office shows that the concentration of government revenues in corporation tax receipts in Ireland is high, even compared to a peer group of other European 'coordination centres' (jurisdictions with low corporation tax rates aimed at multinational enterprises). Further, it describes the concentration of corporation tax receipts in the top ten companies as 'significantly above average'. O'Connor, P. (2024). 'An analysis of corporation tax revenue growth', *Analytical note*, Dublin: Parliamentary Budget Office, https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2024/2024-03-25_an-analysis-of-corporation-tax-revenue-growth_en.pdf.

welcomed.[27] However, public investment alone will not be sufficient, as outlined in Box B regarding the funding gap in the housing sector.

TABLE 5 CURRENT AND CAPITAL EXPENDITURE BY EXPENDITURE AREA

Bn (euro)	2021	2022	2023	2024	2025	Growth 2021–2025
Education	**12.87**	**14.14**	**15.04**	**15.12**	**16.52**	**28%**
Current	11.40	12.49	13.17	13.52	14.41	26%
Capital	1.47	1.65	1.87	1.59	2.11	44%
Housing	**5.19**	**5.68**	**6.74**	**7.01**	**7.99**	**54%**
Current	2.93	2.79	3.06	3.12	3.43	17%
Capital	2.25	2.89	3.68	3.89	4.56	102%
Health	**21.75**	**23.66**	**22.32**	**22.82**	**25.75**	**18%**
Current	20.74	22.40	21.21	21.59	24.29	17%
Capital	1.00	1.26	1.11	1.23	1.46	45%
Transport	**3.46**	**3.53**	**3.56**	**3.57**	**3.92**	**13%**
Current	1.00	0.97	0.95	0.89	1.04	4%
Capital	2.46	2.56	2.61	2.68	2.88	17%
Total	**87.22**	**88.86**	**94.86**	**96.29**	**105.15**	**21%**
Current	77.55	77.92	82.17	83.27	90.31	16%
Capital	9.67	10.94	12.69	13.02	14.84	54%

Source: Department of Public Expenditure Databank and authors' calculations.
Note: The figures above refer to gross voted expenditure, which is broken down by department. The category 'education' captures expenditure in the Department of Education and the Department of Further and Higher Education, Research Innovation and Science.

The increases in expenditure in Table 5 are significant; however, they must be seen in the context of a persistent disinvestment in capital expenditure post 2012. As with any significant increase in expenditure, value for money is essential. Therefore, there must be a continual focus on improving productivity in key areas of the public sector, such as housing and healthcare provision.

Investment funds

Previous editions of the *Commentary* have welcomed the establishment of two new state investment funds. The Infrastructure, Climate and Nature Fund will help to address the pro-cyclicality of capital spending and facilitate improvements in infrastructure during periods when overheating is less of a concern. Meanwhile, the larger, more long-term Future Ireland Fund will help address recognised fiscal challenges in the future, such as demographic change, digitalisation and decarbonisation.

27 Egan et al. (2025) show that the modified investment rate – that is, modified investment to modified output – is around 20 per cent.

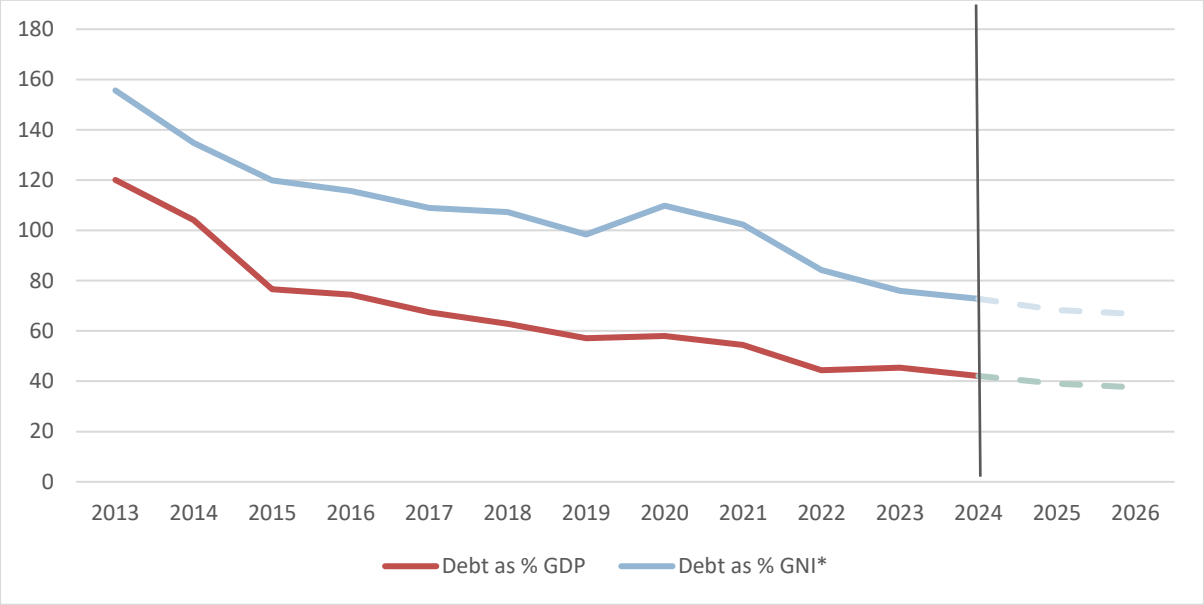
The contributions to the Future Ireland Fund are set at 0.8 per cent of the value of GDP in the previous year. Perhaps GNI* would be a more appropriate base on which to calculate the annual contribution to the fund as it more accurately measures the domestic economy. Recent experience suggests that it is possible that GDP will not grow in line with the domestic economy because of distortions from multinational enterprises.

Debt-to-output ratios declining

As illustrated in Figure 48, the debt-to-output ratio has decreased when measured against both GDP and GNI*. The gross general government debt is forecast to continue to decrease into 2025.

In addition, the general government balance will be in surplus in both 2025 and 2026. While the existence of this surplus is attributable to windfall corporation tax receipts, the effect on the debt-to-output ratio is evident.

FIGURE 48 DEBT-TO-OUTPUT RATIO TREND AND FORECAST



Source: CSO, Department of Finance and QEC calculations.
Note: Output figures for 2013–2023 are based on CSO national accounts. Output figures for 2024–2026 are based on QEC forecasts. National debt forecast is based on the Department of Finance's *Economic and fiscal outlook 2024*.

Summary

We expect a general government balance of 3.5 per cent of GNI* in 2025 and 2.6 per cent in 2026. We expect this to contribute to a reduction in the total debt-to-GNI* ratio to 68.4 and 66.8 per cent by the end of 2025 and 2026 respectively.

It is worth noting, however, that a significant deterioration in international trading conditions, along with the specific targeting of pharmaceutical activity in the domestic economy, would have significant implications for Irish corporation tax receipts.

General assessment

Current expected outlook

At the start of 2025, the Irish economy appears in a robust state. With nominal wage growth exceeding expectations and inflation continuing to fall, albeit at a slower pace, real incomes, in particular, are set to register strong growth in the present year. Indicators for the labour market and the public finances are all demonstrating a continuation of their respective strong performances from 2024 into the present year.

Given the pace of real income growth and the further easing of monetary conditions expected throughout this year and the next, we expect modified domestic demand (MDD) to increase by 3.0 per cent in 2025 and by a further 2.8 per cent in 2026. The unemployment rate is expected to remain at historically low rates, while we now forecast the general government balance to be 2.0 and 1.5 per cent of GDP respectively for 2025 and 2026.

Notwithstanding this positive outlook, there are significant challenges both from an international and domestic perspective to the domestic economy. The prospect of a real and significant change in global trading conditions has increased dramatically with the new political administration in the United States (US), while 2024 saw a disappointingly modest level of residential investment, which led to an increase in concerns both about the current availability of housing and consequential increases in housing costs in the future.

The uncertainty about the global economy has obvious implications for the traded sector of the Irish economy. To gauge the impact of potential tariffs we produce two different forecasts for the *Commentary*: a baseline outlook where no tariffs are introduced and a scenario where a 25 per cent bilateral tariff is introduced by the US on imports from the European Union (EU).[28] The results are drawn directly from the work of Egan and Roche (2025).

The variation in the results highlights the vulnerability of the domestic economic to fluctuations in global trading conditions. For example, under a baseline no tariff scenario, we expect exports to increase by 3.0 in 2025 and 4.8 in 2026. Under scenario 1, where tariffs of 25 per cent on goods are introduced, exports are now forecast to grow by 2.4 and 3.3 per cent respectively for 2025 and 2026. One

[28] A bilateral tariff is one where the EU responds to the initial tariff levied by the US with reciprocal or 'tit-for-tat' tariffs.

reason for the continued growth is the ongoing strong growth in computer services exports, which are currently outside the tariff discussions.

Change of administration in the US

The rather chaotic start to the new US administration has heightened concerns that the domestic economy may be adversely impacted by the likely deterioration in international trading conditions that may ensue. Having started by outlining significant tariffs of 25 per cent on Mexico and Canada, the new US administration has also identified China and the EU as other trading blocs likely to face significant tariffs.

The US administration has pledged to outline a series of 'reciprocal' tariffs by April of this year, while announcing a blanket 25 per cent tariff on steel and aluminium, which entered into force on 12 March last.[29] The tariffs are aimed at matching the import levies of other countries, and could come into effect by 2 April.[30]

From an Irish perspective, there has been some mention also of a possible tariff being placed on imports of pharmaceutical products into the US from the EU, which would have direct implications for the domestic economy given the prominent role played by pharmaceuticals in Ireland. A related concern from the domestic economy's perspective is the possibility of US retaliation for European regulation of the big digital services companies like Meta. Given the prominence of both ICT and pharma in the Irish economy, any scenario where these sectors are targeted in a possible trade conflict between the US and the EU would be of significant concern.

As noted in the previous *Commentary*, any changes to US tax policy that incentivise the repatriation of intellectual-property-related profits currently held in Ireland could significantly impact Irish corporate tax revenues. Given the central role these revenues play in the public finances, any serious correction would have significant implications for the public finances. Previous analyses have highlighted the risks associated with the 'windfall' nature of corporate tax receipts, emphasising the potential instability of over-reliance on this revenue stream. In particular, during the Celtic Tiger era, the strength of Irish public finances was considerably overstated by the returns from the credit bubble in the residential and commercial property market (see Addison-Smyth and McQuinn (2010; 2016))[31]. The resulting

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29 See https://www.euractiv.com/section/economy-jobs/news/eu-pledges-firm-and-proportionate-response-to-trump-steel-and-aluminium-tariffs/.

30 See https://www.euractiv.com/section/economy-jobs/news/trump-condemns-absolutely-brutal-eu-in-new-tariff-announcement/.

31 Addison-Smyth, D. and K. McQuinn (2016). 'Assessing the sustainable nature of housing-related taxation receipts: The case of Ireland', *Journal of European Real Estate Research*, article first published online: http://www.emeraldinsight.com/doi/pdfplus/10.1108/JERER-01-2016-0004. Addison-Smyth, D. and K. McQuinn (2010). 'Quantifying revenue windfalls from the Irish housing market', *Economic and Social Review*, Vol. 41, No. 2, pp. 201–223.

deterioration in the public finances after these sources of revenue dried up was one of the contributing factors to Ireland entering a programme of support with the International Monetary Fund (IMF), European Commission and the European Central Bank (commonly referred to as the Troika) in October 2010.

More generally, the trade policies pursued so far by the new US administration have seen a marked increase in volatility among consumers and investors, particularly in the US. Concerns are now emerging that the US could enter into a recession due to this uncertainty and the related fall-off in consumer spending and investment decisions by firms. This would also compound the difficulties experienced by the global economy, particularly if it was coming to terms with the imposition of new tariffs.

These trade policies, such as tariffs, and the uncertainty itself could have implications for global inflationary trends, which had been declining in recent quarters. This will likely influence the monetary policy stance adopted by the European Central Bank, the Federal Reserve and other leading central banks. Consequently, official interest rates may not decline as quickly as had originally been expected, with negative implications for both consumption and investment decisions both globally and in the domestic economy.

Housing issues

In 2024, 30,330 housing units were built; this constituted a 7 per cent decline on the 2023 figure. This fallback in supply levels is somewhat disappointing, given that the most recent estimates of the structural demand for housing, by Bergin and Egan (2024), suggest that, due to population and household formation trends, at least 46,000 units are required per annum to meet additional demand.[32] A Box to the *Commentary* by McQuinn (Box B) explores one possible impediment to increased housing supply: the 'funding gap'.

The funding gap in this context may be defined as the difference between the actual level of credit extended by the domestic financial sector for residential construction and the amount required to meet housing demand. The Box asserts that at least €5bn in additional funding is required for housing output to increase by 20,000 units. At present, the domestic financial sector lends approximately €1.8bn for residential construction. Consequently, there is a significant difference between that which is required and current credit levels. This difference does indicate that if additional housing supply is to be provided on the scale required, it will require a mix of additional public funding and private sector funding, both from the traditional banking sector and other non-bank lenders. Furthermore, policies

32 Additionally, there is the 'unmet' demand, which arises from actual supply levels being well below the structural demand estimate for a number of years.

that crowd in private investment should be prioritised as a means of improving the efficiency of the State's involvement in the sector.[33]

Another Box to the *Commentary*, by Slaymaker (Box A), assesses the evidence on rent controls to date in the Irish residential market. In light of some speculation about alternative policy proposals to the present one, the Box also considers other possible rental control measures. Overall, it indicates that Rent Pressure Zones (RPZs) have succeeded in their basic aim, which is to limit rent inflation. In particular, research by Slaymaker et al. (2024) illustrates that rents grew by an average of 2.6 per cent nationally over the period 2022–2024.[34] This research is especially important as it tracks rental increases in the same rental property over time. In terms of alternative proposals, the note suggests that a system of reference rents would be quite difficult to parameterise effectively in an Irish context given the size of the market. It concludes that revising rent level caps or allowing rents to reset when a tenancy comes to an end may be more viable alternatives.

33 Such policies include Project Tosaigh, for example, which is an initiative by the LDA aimed at accelerating the delivery of affordable housing by unlocking privately owned lands.

34 Slaymaker R., J. Kren and K. Devane (2024). *An assessment of property level rental price growth in Ireland*, Jointly-published report, Dublin: ESRI and RTB.

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