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Irish Economy Health Check

Dodging Bullets - Impact of Trump 2.0

January 2025

Risks skewed to downside from US policy pivots

Tax changes biggest threat to Ireland

Fiscal buffers and infrastructure should be domestic priorities

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Irish Economy

Health Check

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Dodging bullets – Impact of Trump 2.0

Risks skewed to downside for Ireland from Trump policies

Given its economic exposure to the United States, proposed policy reforms under the second term of President Donald Trump could have very significant implications for Ireland's prospects and the Irish economic model in the coming years. Risks are skewed to the downside, including tariffs and corporate tax changes, but there are upside risks too from better US dynamism and increased profitability from US firms based in Ireland. We lay out upside and downside risks.

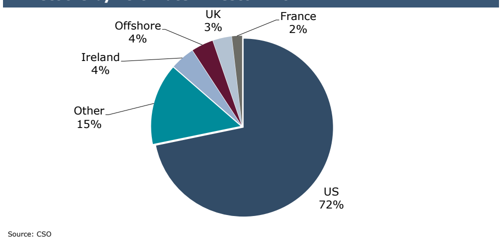
Ireland is the 51st State from an investment perspective

Ireland acts as a base for some of the largest US multinationals in the technology and healthcare sectors. Ireland has the largest share of workers employed by US firms in the EU as result. This presence, along with changes to international and domestic tax rules, supportive policies for Intellectual Property (IP) and growing profitability has resulted in record corporation tax receipts in Ireland. Corporate tax changes in the US bring the greatest risks for Ireland in our view. In the absence of reforms, corporate tax receipts in Ireland are expected to grow further.

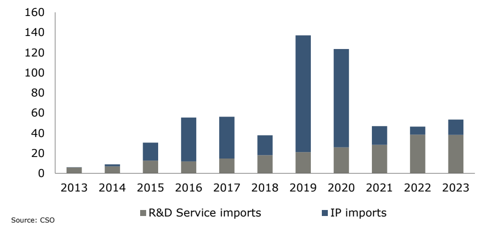
Fiscal buffers & capital spending commitments should be priorities

There is significant uncertainty about the extent of policy change in the US, like the Brexit uncertainty post-2016. Irish policy efforts should focus on increasing fiscal buffers by diverting greater resources to sovereign savings funds and maintaining capital spending at 5% of GNI* to address infrastructure shortages.

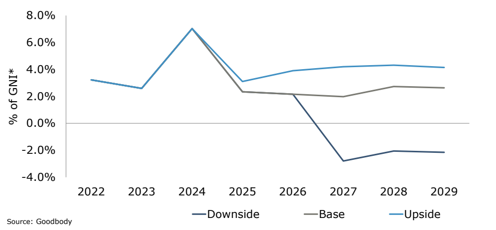
FDI stocks by "Ultimate Investor" 2022



IP-related flows have risen dramatically



Budget deficit under different scenarios for corporation tax



Economic Indicators

	2023	2024f	2025f	2026f
Growth Components				
Consumption	4.8%	2.4%	3.1%	3.0%
Government	4.3%	4.0%	3.2%	2.0%
Investment	2.8%	-18.0%	9.0%	2.6%
- Modified Investment	17.8%	12.3%	5.5%	3.4%
Domestic Demand (DD)	4.0%	-4.9%	5.0%	2.7%
- Modified DD	2.6%	2.8%	3.0%	2.8%
Exports	-5.8%	8.3%	3.8%	3.5%
Imports	1.2%	9.2%	4.8%	4.2%
GDP	-5.5%	-2.9%	3.3%	2.1%
GNP	5.5%	-0.8%	3.1%	1.5%
Prices				
Consumer Price Inflation	6.3%	2.1%	1.9%	2.1%
House Price Inflation (end-year)	4.1%	8.3%	5.3%	4.3%
Wage Inflation (GBS)	4.0%	5.2%	4.8%	4.3%
Fiscal				
GGB / GDP	1.5%	4.3%	1.4%	1.3%
Debt/GDP	43%	43%	39%	37%
Consumer Profile				
Employment Growth (end year)	3.4%	3.1%	1.4%	1.3%
Unemployment Rate (end-year)	4.5%	4.4%	4.8%	5.0%
Exchange Rates (Avg for the year)				
€/$	1.08	1.09	1.03	1.05
€/£	0.87	0.85	0.82	0.85

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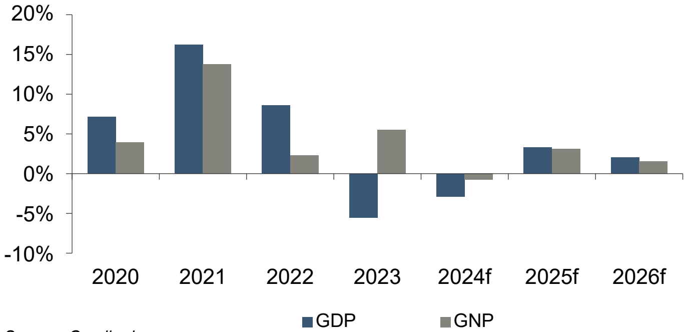
DOMESTIC MACRO DATA	2022a	2023a	2024f	2025f	2026f
Growth Components					
Consumption	10.7%	4.8%	2.4%	3.1%	3.0%
Government	3.0%	4.3%	4.0%	3.2%	2.0%
Investment	3.7%	2.8%	-18.0%	9.0%	2.6%
- Modified Investment	12.2%	17.8%	12.3%	5.5%	3.4%
Domestic Demand (DD)	6.7%	4.0%	-4.9%	5.0%	2.7%
- Modified DD	8.7%	2.6%	2.8%	3.0%	2.8%
Exports	13.5%	-5.8%	8.3%	3.8%	3.5%
Imports	16.0%	1.2%	9.2%	4.8%	4.2%
GDP	8.6%	-5.5%	-2.9%	3.3%	2.1%
GNP	2.3%	5.5%	-0.8%	3.1%	1.5%
Housing Statistics					
Completions	29,644	32,525	30,330	34,250	39,930
Average House Price (€k)	344,818	358,913	388,695	409,132	426,703
House Price Inflation (end-year)	7.7%	4.1%	8.3%	5.3%	4.3%
Mortgage Credit Growth (end-year)	-0.9%	1.8%	2.4%	3.1%	3.5%
Prices					
Consumer Price Inflation	7.8%	6.3%	2.1%	1.9%	2.1%
Wage Inflation (GBS)	3.4%	4.0%	5.2%	4.8%	4.3%
Fiscal					
Exchequer Balance	4,984	2,851	12,756	2,826	-1,769
Exchequer Balance / GNP	1.4%	0.7%	3.2%	0.7%	-0.4%
General Government Balance	8,596	7,541	21,861	7,641	7,401
GGB/GDP	1.7%	1.5%	4.3%	1.4%	1.3%
GGB/GDP - ex banking costs	1.7%	1.5%	4.3%	1.4%	1.3%
Debt/GDP	43%	43%	43%	39%	37%
Consumer Profile					
Employment Growth (end year)	2.6%	3.4%	3.1%	1.4%	1.3%
Employment Growth (Full-year aver	6.9%	3.4%	2.8%	1.8%	1.4%
Unemployment Rate (end-year)	4.4%	4.5%	4.4%	4.8%	5.0%
Debt/Disp. Income	99%	92%	90%	88%	88%
Interest Rates (At year end)					
ECB	2.50%	4.50%	3.15%	1.90%	1.90%
BoE	3.50%	5.25%	4.75%	4.00%	3.25%
Fed	4.50%	5.50%	4.50%	3.00%	3.00%
Trade					
Current Account (€m)	50,635	48,129	69,454	71,272	73,897
CA as a % of GDP	9.7%	9.4%	13.6%	13.2%	13.1%
Exchange Rates (Average for the year)					
€/$	1.06	1.08	1.09	1.03	1.05
€/£	0.85	0.87	0.85	0.82	0.85

SOVEREIGN ANALYSIS	2022a	2023a	2024f	2025f	2026f
Debt/GDP					
Austria	78%	78%	78%	78%	82%
Belgium	104%	105%	105%	107%	107%
Cyprus	86%	77%	71%	65%	57%
Finland	74%	76%	81%	82%	85%
France	112%	111%	112%	114%	117%
Germany	66%	64%	63%	62%	63%
Greece	173%	162%	154%	149%	143%
Ireland	43%	43%	43%	39%	37%
Italy	141%	137%	139%	142%	139%
Luxembourg	25%	26%	27%	29%	28%
Malta	52%	50%	52%	53%	50%
Netherlands	50%	47%	47%	48%	47%
Portugal	112%	99%	96%	92%	91%
Slovakia	58%	56%	59%	60%	62%
Slovenia	73%	69%	68%	66%	63%
Spain	112%	108%	106%	105%	101%
Eurozone avg.	93%	90%	90%	91%	90%
GGB/GDP					
Austria	-3.3%	-2.6%	-3.6%	-3.7%	-3.5%
Belgium	-3.6%	-4.2%	-4.6%	-4.9%	-5.3%
Cyprus	2.6%	2.0%	3.5%	2.7%	2.7%
Finland	-0.2%	-3.0%	-3.7%	-3.0%	-2.5%
France	-4.7%	-5.5%	-6.2%	-5.3%	-5.4%
Germany	-2.1%	-2.6%	-2.2%	-2.0%	-1.8%
Greece	-2.5%	-1.3%	-0.6%	-0.1%	0.2%
Ireland	1.7%	1.5%	4.3%	1.4%	1.3%
Italy	-8.1%	-7.2%	-3.8%	-3.4%	-2.9%
Luxembourg	0.2%	-0.7%	-0.6%	-0.8%	-0.6%
Malta	-5.2%	-4.5%	-4.0%	-3.5%	-3.1%
Netherlands	-	-0.4%	-0.2%	-1.9%	-2.4%
Portugal	-0.3%	1.2%	0.6%	0.4%	0.3%
Slovakia	-1.7%	-5.2%	-5.8%	-4.7%	-4.1%
Slovenia	-3.0%	-2.6%	-2.4%	-2.1%	-2.1%
Spain	-4.6%	-3.5%	-3.0%	-2.6%	-2.7%
Eurozone avg.	-3.5%	-3.6%	-3.0%	-2.9%	-2.8%

10Y Spread to Germany	2021a	2022a	2023a	2024a	Current
Austria	0.25	0.63	0.58	0.41	0.36
Finland	0.26	0.56	0.56	0.46	0.39
France	0.38	0.54	0.53	0.83	0.76
Netherlands	0.15	0.32	0.31	0.23	0.21
Belgium	0.36	0.64	0.57	0.61	0.56
Spain	0.75	1.08	0.95	0.69	0.64
Italy	1.35	2.10	1.74	1.16	1.11
Portugal	0.64	1.04	0.61	0.49	0.42
Greece	1.50	2.05	1.10	0.88	0.76
Ireland	0.43	0.53	0.34	0.28	0.28

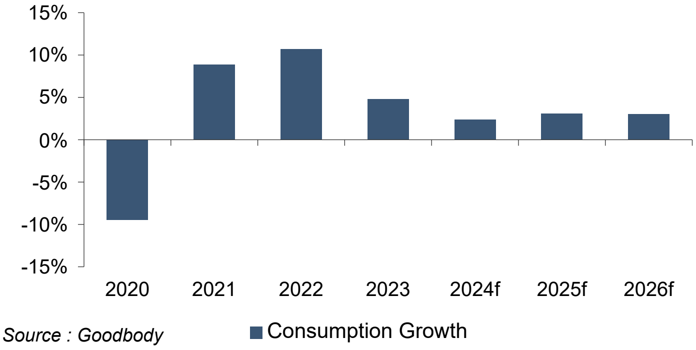
Source: FactSet & European Commission

Irish economic growth



Source : Goodbody

Consumption Growth



Source : Goodbody

Key themes

Impact of Trump's policies on Ireland

- The election of Donald Trump as US President has introduced several external policy risks for Ireland. These include potential protectionist policies like tariffs, changes to US corporation tax rates, and incentives for onshoring industries, which could affect Ireland's tax competitiveness and investment attractiveness. The pharmaceutical industry might be targeted due to its significant exports to the US. While stronger US economic growth could benefit Ireland through increased trade and investment, the overall risks are skewed to the downside.

Ireland as the "51st State"

- Ireland's exposure to the US is large, with 72% of its foreign direct investment (FDI) coming from the US. US companies account for 10% of private sector employment, compared to an EU average of 2%. These companies make a significant contribution to Ireland's corporate tax revenue (83% of total corporation tax). Changes to corporate tax laws in the US thus provide the biggest vulnerability in our view, especially with regard to the taxation of Intellectual Property (IP). Wholesale reshoring of physical activities and jobs is less likely due to the need for a presence in the EU, Ireland's attractiveness and long track record of hosting US FDI and the fact that is an ally of the US.

Ireland runs a goods surplus and a services trade deficit with the US

- Ireland runs a large goods trade surplus and a significant services trade deficit with the US. The goods surplus is primarily due to pharmaceutical exports, while the services deficit is driven by imports of business services, royalties, licenses, and R&D. These flows have gone through significant changes over recent years.

Pharma and ICT sectors the biggest corporation tax payers in Ireland

- Ireland's corporate tax receipts are highly concentrated, with the top ten companies accounting for 56% of total corporate tax revenue. A breakdown of corporate tax receipts by sector shows ICT manufacturing, ICT services, and pharmaceuticals as the largest contributors. Comparing Ireland's corporate tax concentration to other countries highlights the risks of relying on a small number of large taxpayers.

Treatment of Intellectual Property (IP) crucial to corporation tax debate

- The role of intellectual property (IP) in Ireland's economy has grown significantly, with large investments in IP by multinational companies. This has impacted various economic aggregates, including exports, imports, GDP, and corporate profits. Changes in corporate tax policies and international tax regulations, such as the end of the "Double-Irish" tax regime and the introduction of OECD BEPS recommendations, have influenced these developments. US tax policy changes in 2017 also played a significant role, especially in relation to the headline tax rate and the treatment of IP (FDII & GILTI). These 2017 measures are due to roll off, but the Trump administration wants to extend broaden these policies. The outcome will have crucial implications for Ireland's corporate tax base and the evolution of the public finances overall.

Mitigating risks through domestic policy actions

- Irish policymakers have limited control over US policy decisions, but they can prudently manage the public finances to mitigate risks. Our suggested measures include maintaining high levels of capital spending, linking payments into savings funds with estimates of "windfall" corporate tax receipts, and targeting a balanced budget excluding windfalls. These steps aim to ensure fiscal stability, maintain competitiveness in infrastructure and address long-term pressures on public finances.

Consumer drivers remain positive

- Consumer spending in Ireland has remained strong, supported by low unemployment, rising wages, and falling inflation. Various economic indicators, such as employment growth, wage increases, and consumer confidence, show positive trends. Recent ECB rate cuts are expected to help consumer spending further by improving purchasing power and lending affordability.

Migration trends boosting labour force growth

- Ireland's labour market is robust, with near full employment and strong employment growth across sectors. Migration has enhanced labour supply and dampened wage pressures. The increase in female labour force participation, driven by the shift towards remote working, has also contributed to labour market strength, despite challenges posed by rising wage costs and labour shortages.

Falling inflation boosting real incomes

- Inflation in Ireland has decreased significantly, with headline HICP standing at 1% in December 2024, among the lowest in the euro area. Factors contributing to this decline include lower energy and goods prices. Falling inflation has improved consumer purchasing power, and recent ECB rate cuts have benefited mortgage affordability and consumer lending. One should not be complacent about inflationary pressures though given the tight labour market and price increase in some service sector activities.

Challenges to meeting higher housing targets under new Minister

- The Irish housing market continues to experience strong demand, driven by population growth and limited supply. A surge in housing commencements due to government incentives is expected to increase housing completions over the next few years, despite a disappointing outturn for completions in 2024 (30K). Mortgage approvals have remained strong, supported by high demand and eased central bank loan-to-income requirements and this has led mortgage credit growth to rise at its fastest pace since 2009 (2.9% yoy). A new Minister for Housing will have the responsibility for addressing obstacles such as planning, land availability and utilities to achieve sharply higher housing supply targets. We expect completions to grow to 40K in 2026, with price growth to continue at a more moderate pace.

Period of deleveraging has ended

- Following a protracted period of deleveraging post the GFC, the Irish banking system is now seeing a broad-based recovery in lending across the household and business segments. Given macro-prudential rules and relatively high risk-weightings, we do not expect a rapid expansion in lending growth, with steady growth in line with nominal growth in the economy over the next two years as our central forecast. Deposits also continue to grow overall, reflecting growth in household incomes.

Direction of public finances heavily reliant on direction of corporate tax

- On a headline level, the Irish public finances are in very good shape, with large budget surpluses, falling debt levels and high cash balances. This has been reflected in strong demand for Irish debt at the first NTMA bond issue of the year this month, positive ratings actions and relatively low sovereign spreads. There is, however, a large margin of error around the prospects for the public finances over the coming years due to corporation tax in particular. Our forecasts are laid out on the basis of a benign outcome for policy change on this front over the coming year. A focus on achieving a balanced budget, excluding "windfall" gains, would be welcomed.

Contents

Introduction & outlook

A swathe of metrics show the Irish economy is in good shape at the start of 2025. Domestic spending growth remains robust, with modified domestic demand (the preferred measure of growth) expected to increase by 3% this year after a similar estimated outturn in 2024. Domestic spending is being propelled by a robust household sector where employment and earnings are growing at a strong pace and real incomes are now being aided by a significant fall in inflation after the shock of 2022/2023.

Government is also making a significant, likely oversized, contribution to growth. This is being facilitated by an "embarrassment of riches" on the revenue front, most prominently from the ongoing surge in corporation tax revenues and the one-off payment of €14bn from the European Court of Justice ruling on the Apple case. This has allowed the government to maintain high levels of expenditure growth in current and capital spending yet run a budget surplus and reduce its sovereign debt burden.

Irish growth forecasts

	2022	2023	2024f	2025f	2026f
Consumption	10.7%	4.8%	2.4%	3.1%	3.0%
Investment	3.7%	2.8%	-18.0%	9.0%	2.6%
Modified investment	9.3%	-4.4%	2.6%	2.6%	3.1%
Government	3.0%	4.3%	4.0%	3.2%	2.0%
Domestic Demand	6.7%	4.0%	-4.9%	5.0%	2.7%
Modified domestic demand	**8.7%**	**2.6%**	**2.8%**	**3.0%**	**2.8%**
Exports	13.5%	-5.8%	8.3%	3.8%	3.5%
Imports	16.0%	1.2%	9.2%	4.8%	4.2%
GDP	8.6%	-5.5%	-2.9%	3.3%	2.1%
GNP	2.3%	5.5%	-0.8%	3.1%	1.5%

Source: Goodbody

Primary risks are now external

Ireland's external sector continues to grow, evidenced by increased employment, earnings, profits and exports. It is the external sector though that faces the most prominent risks stemming from potential policy changes in the United States under the new Trump administration. Ireland's economic model has heavily relied on attracting investment into the country. It has been exceptionally successful at doing so, with most of the largest companies in technology, pharmaceuticals and medical devices having a large presence in the country. The importance of the US cannot be understated here, with 72% of FDI coming from the US, and Ireland having the highest share of workers employed by US companies in the EU.

Policy pledges to implement tariffs, reduce corporation taxes and reshore activities are a direct threat to this model. Ireland is therefore more than a passive bystander as these deliberations play out over the coming months in Washington DC. This main section of this report aims to set out some of the context around Ireland's economic relationship with the US, setting out some of the main risks – downside and upside – to potential developments in the coming months. There is a large range of outcomes possible, but the biggest threat in our views comes on the corporation tax due to scale and concentration.

From a policy perspective, there are similarities here between the Brexit challenges faced by Irish policymakers after the 2016 referendum in the UK. There were significant ranges on the possible outcomes which had to be worked through using a whole-of-government approach and significant amounts of international diplomacy. A similar approach is needed this time out too.

How might Trump's policies impact on Ireland?

The election of Donald Trump as US President has increased external policy risks for Ireland in a number of respects. While there are both downside and upside risks to Ireland of policies that may be introduced under a Trump presidency, they are skewed to the downside in our view. We have summarised the main risks as we see them in the table below, but they include:

(i) More protectionist policies such as tariffs would have damaging impacts on trade volumes globally.

(ii) Changes to corporation tax rates in the US would result in lost tax competitiveness in Ireland for the location of mobile investment.

(iii) President Trump has articulated a preference for policies that would incentivise onshoring of certain industries. This may include "critical" industries, with the pharmaceutical industry being highlighted by some within Trump's appointees in recent months (Commerce Secretary Howard Lutnik). However, given Ireland's strong historical, economic, political and cultural links with the US, there is a potential for "friend-shoring" where activity is moved from perceived adversaries to allies.

(iv) Even if no legislative changes are made that would incentivise US companies to move production, jobs or intellectual property back to the US, there is a risk that political pressure, perceived or otherwise, will play a role in the decisions that corporates make over the coming years on the location of new investments.

(v) Stronger growth in certain industries and in the US economy overall would benefit Ireland through increased trade and investment flows broadly, but particularly in sectors that Ireland has a strong presence of large multinationals, such as in technology.

Our analysis here seeks to put context around these potential risks. How these risks play out is outside the control of domestic policymakers in Ireland but could have far-reaching consequences for the future direction of the Irish economy. Moving companies and industries wholesale is difficult and drawn-out task that would take more than one term. Legislative changes in tax could impact more quickly.

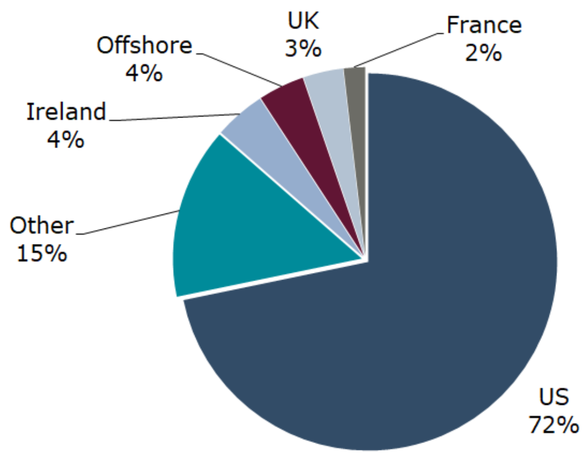
Trump 2.0 – Key risks & the impact on Ireland

	Risk	Irish Impact	Comment
Downside	Broad-based trade tariffs on Irish exports to US	Negative for global trade flows & the very open Irish economy	Broad-based tariffs threatened but potentially a negotiating tactic
Downside	Tariffs on specified Irish exports to the US	Targeted measures may impact certain industries (e.g. butter/whiskey)	Specific industries were targeted during first term so more likely
Downside	Reduction in US Corporate Tax rate to 15%	Reduces Irish competitiveness vis-à-vis its tax rate	Significant debate about the LT fiscal implications in the US
Downside	Tax measures: incentivise activity to reshore to the US	Key FDI industries (e.g. pharma) may be affected given scale of exports to US	Difficult to implement measures to incentivise this, outside of tariffs
Downside	Tax measures: incentivise IP reshoring to the US	Damaging impact on profits generated in Ireland and on corporate taxes paid	Would be influenced by scale of change in headline corporation tax rate. Possible
Downside	Political pressure on firms to invest domestically in the US	Negatively impact on the flow of new FDI into the country	Likely to play a role
Upside	'Friend-shoring' increases Ireland's attractiveness for FDI	Ireland is a long-term ally of the US, so could lead to increased investment	May be more relevant to industrial goods, but relevant for services too
Upside	Fiscal easing & deregulation promote global growth	As an open economy with big exposure to the US, investment & exports benefit	Faster growth is projected due to proposed policies
Upside	Faster growth in certain industries, such as tech & AI	Higher activity & profits in firms with large operations in Ireland	Structural growth story that Ireland should be well-positioned for
Upside	Immigration restrictions in US make other jurisdictions more attractive	Benefit to Irish operations of US companies given Irish migration regime	Was a feature of first Trump Presidency and likely to feature in 2nd term

Ireland as the "51st State"

We have long described Ireland as the "51st State" from an economic perspective (well before talk of Greenland, Panama or Canada!), given its long and large exposure to US trade and investment flows. This has resulted in Ireland being home to some of the most successful US companies, particularly in the ICT and Pharmaceutical sectors. The pie chart below shows the stock of FDI in Ireland by "ultimate investor" for 2022, showing 72% of it emanated from the US. Here we describe some of the key relationships with the US to assess the potential vulnerabilities to the Irish economy over the coming years.

Stock of FDI in Ireland by source country*

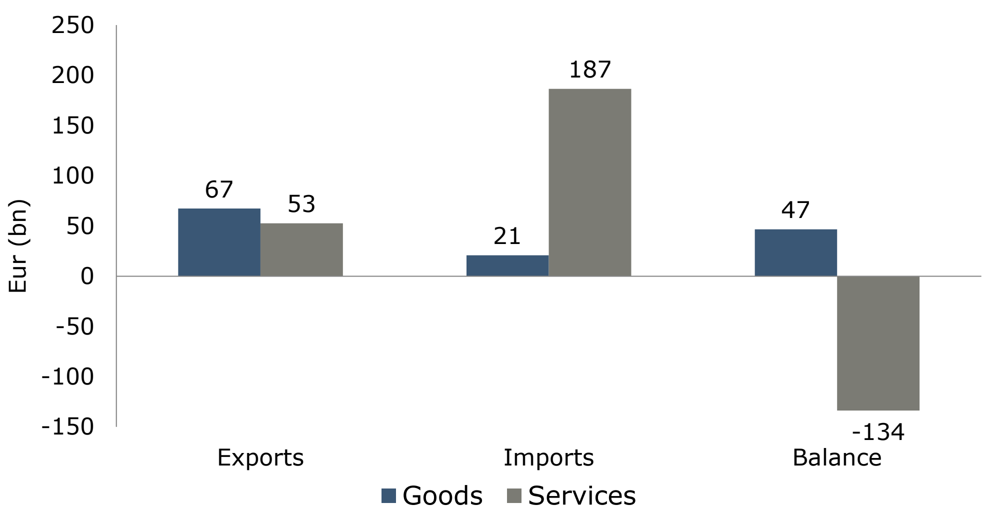


Source: CSO *The country relates to the "Ultimate Investor" as calculated by the CSO

Ireland's trade with the US

Ireland currently runs a large goods trade surplus, and an even larger services trade deficit, with the United States. Merchandise export data to November 2024 show a surplus of €47bn over the previous eleven months. Services trade data is reported with a significant lag, with the most recent country breakdown for 2023. It shows that Ireland ran a deficit of €134bn with the US in that year.

Trade flows between Ireland and the US



Source: CSO *Services data for 2023, Goods data for 11 months to November 2024

A summary of trade flows between Ireland and the US is shown in the table below. In terms of goods, all of the trade surplus is due to pharmaceutical products (Chemicals & related products). In the most recent eleven months, Ireland exported €54bn of pharmaceutical and medical goods to the US. The biggest sub-component here is "medicinal and pharmaceutical products", followed by "organic chemicals". The largest import from the US to Ireland is Machinery & Transport Equipment, which includes aircraft.

The large services deficit is predominately due to imports of business services, royalties, licenses and R&D. These activities are heavily linked to multinational activities in the ICT and pharmaceutical sectors that we detail later in this piece.

Summary of trade flows between Ireland & the US

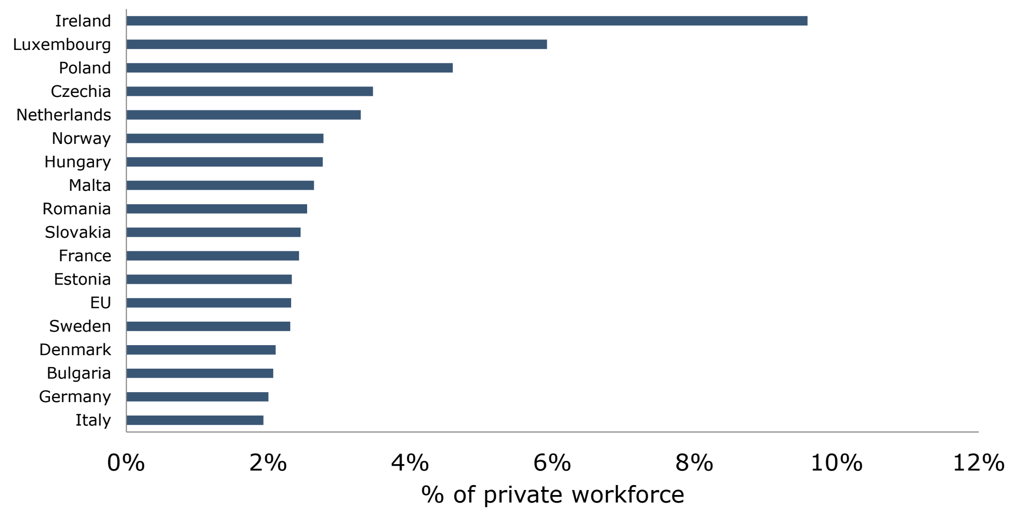
	Exports (% of total)	Imports (% of total)
Goods		
Chemicals & related products	80%	27%
Miscellaneous manufactured articles	11%	11%
Machinery & transport equipment	6%	50%
Food & live animals	1%	2%
Other goods	2%	10%
Services		
Computer services	35%	4%
Royalties/Licences	7%	62%
Business services (incl. R&D)	30%	27%
Other services nes	13%	0%
Travel & tourism	3%	1%
Financial services	3%	4%
Other services	9%	3%

Source: CSO *Services data relates to 2023, Goods data relates to Jan-Nov 2024

The role of US multinationals in the Irish economy

US companies play an outsized role in the Irish economy in a number of different respects. As shown in the next chart, 10% of private sector employment in Ireland is directly in US-owned companies, compared to an EU average of 2%. Although Ireland accounted for 1.3% of total employment across the EU in 2021, it accounted for 2.5% of employment by multinationals and 5.5% of total US multinational employment in the EU (*ESRI Quarterly Economic Commentary, Winter 2024*). Given the higher average wages paid in these firms, Ireland accounted for 3.2% of wages paid by foreign multinationals in the EU. There is particularly large shares in the financial and ICT sectors, as per the table below. Separate data are not available for the pharmaceutical sector.

Share of private workers in US-owned companies across the EU



Source: Eurostat

Ireland's share of FDI in the EU

	Employment		Wage bill	
	All FDI	US FDI	All FDI	US FDI
Economy	2.5	5.5	5.5	6.7
Manufacturing	1.6	5.5	2.2	
Food manufacturing	2.8		3.5	
Wholesale/Retail	2.3	2.5	2.4	2.4
Info & comm	4.5	11.1	6.6	
Computer programming	4.7	11.4	7.1	14.2
Finance	6.5	20.2	6.8	18
Professional, scientific	3.1	5.1	3.6	
Admin & support	2.5		3.2	

Source: ESRI

The exposure to US multinationals is most evident in Finance, computer programming and ICT. The ESRI estimates that US multinationals account for 83% of all corporation taxes paid by multinationals in Ireland. It is the concentration of this corporate tax revenue that has been a perennial source of concern over recent years. The Revenue Commissioners calculate that 56% of corporate tax revenue comes from just ten company groups. Stemming from the analysis above most, if not all, of these companies are from the US.

Viewed from a wider perspective, the share of corporation tax paid by these small number of companies is stark when compared to other tax categories. As shown below, the largest ten groups accounted for just 1% of total employment, 3-4% of income tax, USC or PRSI and less than 1% of VAT. Taking all these taxes together, the top ten companies account for 16% of the total. While this is large, the focus should be very much on the prospects for corporation tax.

Receipts from top company groups in Ireland 2023

	Net CT	Employed	PAYE Earnings	Income tax	USC	PRSI	VAT	CT, Income, VAT
Top 10	13,324	36,800	3,904	1,072	216	489	73	15,174
% of Total	56%	1%	3%	4%	4%	3%	0%	16%
Top 100	18,627	185,400	12,958	3,143	636	1,721	1,579	25,706
% of Total	78%	7%	10%	11%	12%	11%	8%	28%

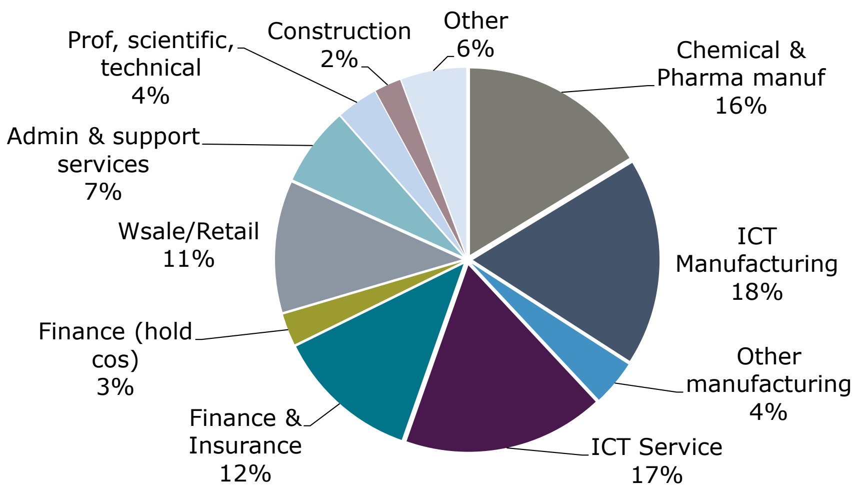
Source: Revenue, CSO

Who is paying the corporation tax in Ireland?

The latest breakdown of corporation tax receipts by sector is for 2023 when c.€24bn was paid on a net basis (i.e. inclusive of refunds). Corporation tax receipts rose by a further 18% in 2024 (excluding the €11bn in one-off receipts as a result of the Apple CJEU ruling).

The pie chart below shows that ICT manufacturing was the biggest single source of corporation tax receipts at €4.2bn (18% of the total). ICT Services and Chemicals and Pharmaceuticals accounted for a similar proportion (17% each). These three sectors thus accounted for over 51% of corporation taxes in 2023.

Breakdown of corporation tax receipts by sector 2023

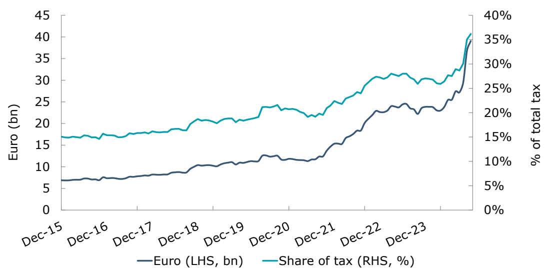


Source: Revenue

How does this concentration risk compare internationally?

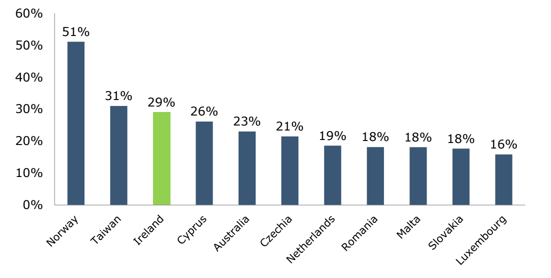
As a proportion of the total tax take, corporation tax receipts (excluding the Apple CJEU ruling) were 29% in 2024 (36% with the one-off Apple monies). In an EU context, this is among the highest shares. Most recent data shows that corporate tax receipts were 26% of total taxes in Cyprus and 21% of total in the Czech Republic. The EU average stands at 11%. The chart below compares a selection of countries inside and outside the euro area (using data from Eurostat and a paper published by the *Parliamentary Budget Office* last year). Norway has the largest share of tax receipts coming from corporation tax receipts at 42%, likely boosted in recent years by high energy prices. In Taiwan, it is estimated that corporation taxes represent 31% of the total tax take.

Corporation tax share in Ireland...



Source: DoF

...high in an international context

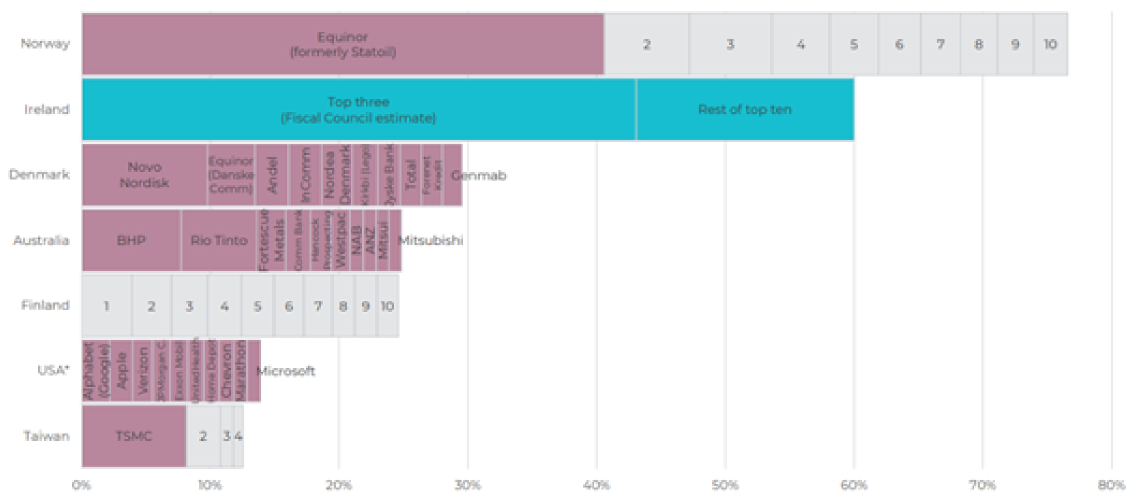


Source: Eurostat, PBO

The PBO estimates the share of corporation tax coming from the ten biggest payers in a selection of countries. This is shown in the chart below for 2022. Norway has the largest concentration coming from the top ten due to the presence of Equinor, the State-owned energy company. Using estimates from a report from the Irish Fiscal Advisory Council (IFAC), the top three taxpayers in Ireland accounted for over 40% of corporation tax payments. This implies that three groups represent c.12% of total tax revenues in Ireland.

The Currency, an online business publication, has stated that these companies are Apple, Microsoft and Pfizer. Apart from Norway, the top three taxpayers represent 10%-15% at most of the total in the sample provided below, with the top ten between 12%-30%.

Estimated share of corporation tax paid by top ten groups in seven countries



Source: Parliamentary Budget Office – An analysis of corporation tax revenue growth

Who are the top corporate taxpayers in Ireland and what are their prospects?

Identifying the top ten corporate taxpayers in Ireland is difficult. Indeed, the top ten changes each year. We know that the top ten groups in 2023, paying 56% of the total, paid just 33% of the total in 2019. The top ten in 2022 paid 60% of the total in that year, but the same groups paid 49% of the total in 2023.

With these caveats in mind, the list below provides a guide of the largest foreign groups with operations in Ireland. The list is generated using a combination of information on revenues, profits and employees in Ireland. Sources include the *Irish Times Top 1000* companies list and the IDA. Given the lack of information on profit splits by geography, it is not possible to accurately estimate the correct ranking of this list. It should therefore be viewed as indicative.

Indicative list of largest foreign groups operating in Ireland – The Big 20

Company	Sector	Employees
Apple	ICT Manufacturing	6,000
Microsoft	ICT Service	5,006
Google	ICT Service	4,832
Pfizer	Chemical & Pharma Manuf.	5,000
MedTronic	Chemical & Pharma Manuf.	4,000
Dell Ireland	ICT Manufacturing	5,000
Meta	ICT Service	2,662
Cisco	ICT Manufacturing	3,505
Merck	Chemical & Pharma Manuf.	3,000
Trane Technologies	Industrials	771
Johnson Controls	Other Manufacturing	98
Regeneron	Chemical & Pharma Manuf.	1,666
Eaton Corp	Other Manufacturing	90
Oracle	ICT Service	1,049
Citibank	Finance/Insurance	2,900
IBM	ICT Manufacturing	1,283
Analog Devices	ICT Manufacturing	1,626
Bank of America Europe	Finance/Insurance	2,548
Gilead Sciences	Chemical & Pharma Manuf.	577
Aercap	Finance/Insurance	679

Source: Goodbody, Irish Times

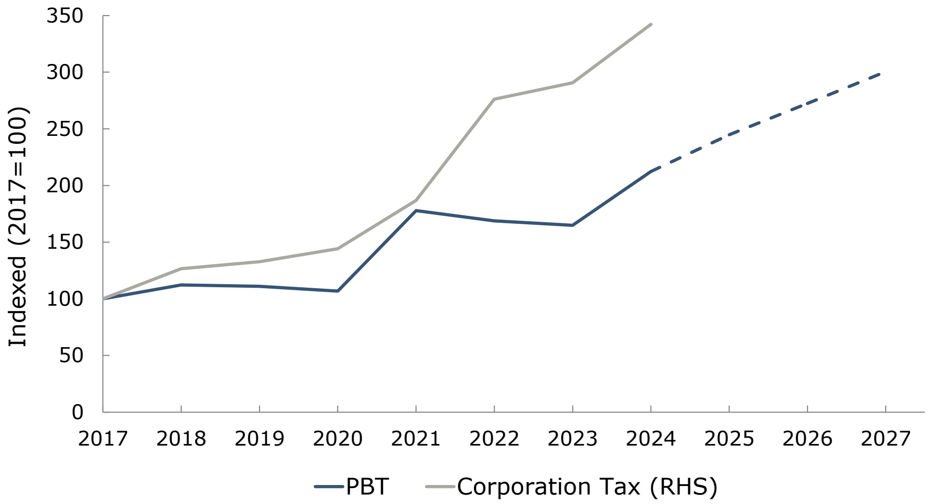
The list shows that some of the largest, most successful and fastest growing companies in the world have significant operations in Ireland. The presence of global leaders in the ICT manufacturing, ICT services and pharmaceutical and medical device sectors is particularly apparent. In most cases, Ireland acts as their European headquarters.

Significant profits growth expected in these large companies in coming years

To gauge the evolution of profitability in recent years and the prospects to 2027, we have aggregated the profits (before tax) of the companies in the table above. We have used bottom-up analyst consensus estimates out to 2027. We use global profits as a gauge of the trend in profitability for these companies. We do not split out profits by geography. The comparison with Irish corporate tax revenues shown in the next chart should therefore be viewed as an indicative gauge. Internal changes to corporate structures and changes to tax rules will impact on the amount of corporate tax paid in various geographies.

The chart below shows the trends from 2017 until 2027. In the pre-2020 period, aggregated profits were relatively flat for this group of companies, with differing performances from each of the companies. Profits then grew sharply during the pandemic period, reflecting demand for IT and pharmaceutical goods (vaccines for example). Irish corporate tax receipts grew at a faster pace, possibly due to the transfers of IP.

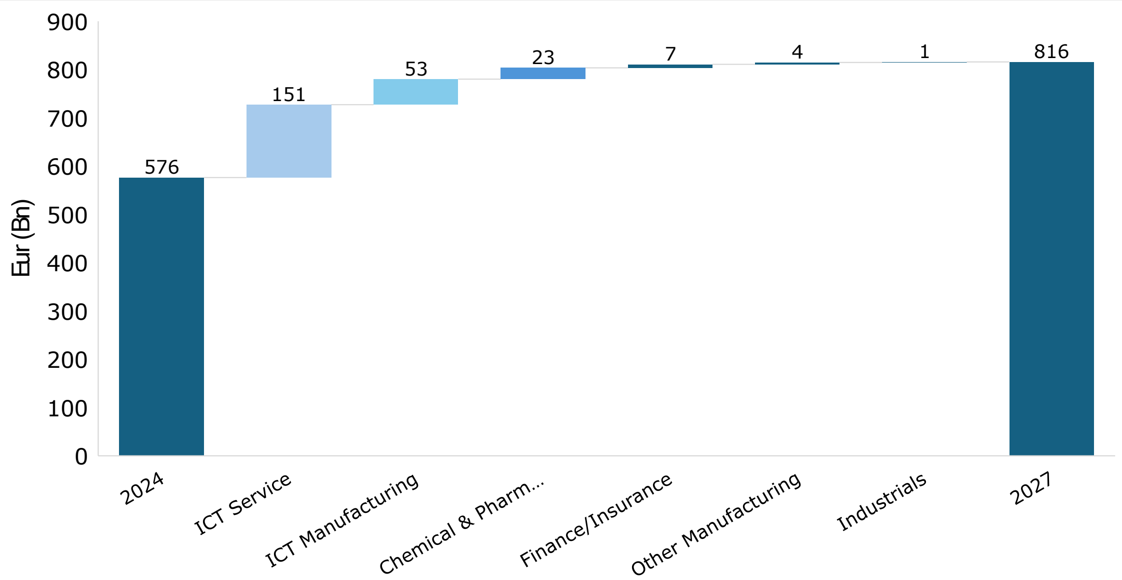
Irish corporate tax receipts compared to global profits of the Big 20



Source: Goodbody, Factset, DoF

Looking forward, analysts expect the collective profits of these companies to grow strongly over the period to 2027. These estimates are of course subject to change but the consensus currently expects cumulative global profits at these companies to grow by c.40% over the next three years. The biggest contributor to this growth is forecast to come from the ICT Services sector according to current analyst estimates.

Forecasts for PBT of Big 20 from 2024-2027 by sector



Source: Goodbody, Factset

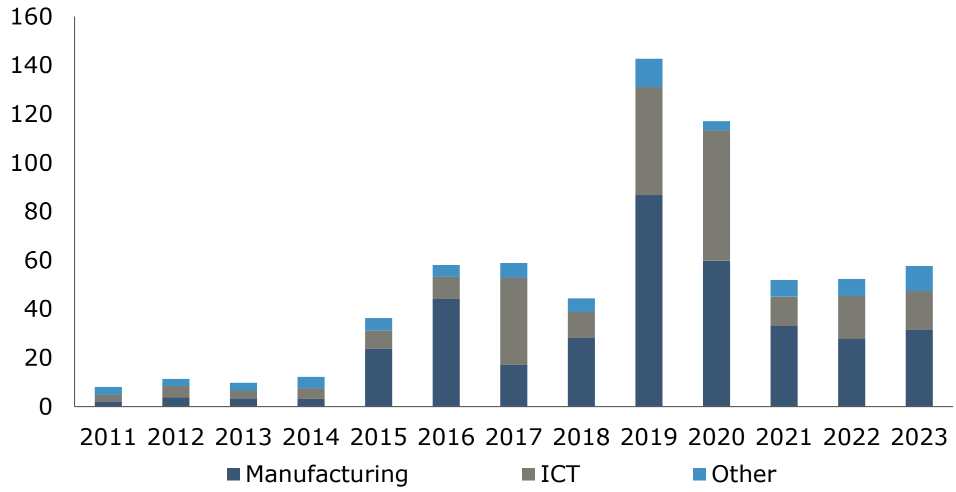
If Irish corporate tax grew at a similar pace, this would suggest that corporate tax receipts could grow to c.€40bn over that period. There are a number of other factors that will influence the trend in corporate tax receipts in Ireland, both positively and negatively, over the coming years. These include the potential for corporate tax changes, protectionist policies, the introduction (or not) of Pillar I and II OECD recommendations and digital services taxes. As such, the analysis here serves to illustrate the record scale of uncertainty about the future direction of this important tax receipt.

The role of Intellectual Property

The role of intellectual property (IP) in the relationship of these large companies with Ireland in recent years is worth highlighting. These corporate transactions have had a large impact on Irish economic aggregates since 2015 in particular. These include impacts on exports, imports, GDP, GNP, the current account position and corporate profits.

As shown below, there was a step-change in investment of IP by corporates in Ireland in the post-2014 period, with particularly large investment in 2019 (€143bn) and 2020 (€117bn). Investment in IP has remained large in recent years, averaging €54bn per annum. Manufacturing (including pharma & ICT manufacturing) and ICT account for the vast majority of these investments. Full data for 2024 is not yet available.

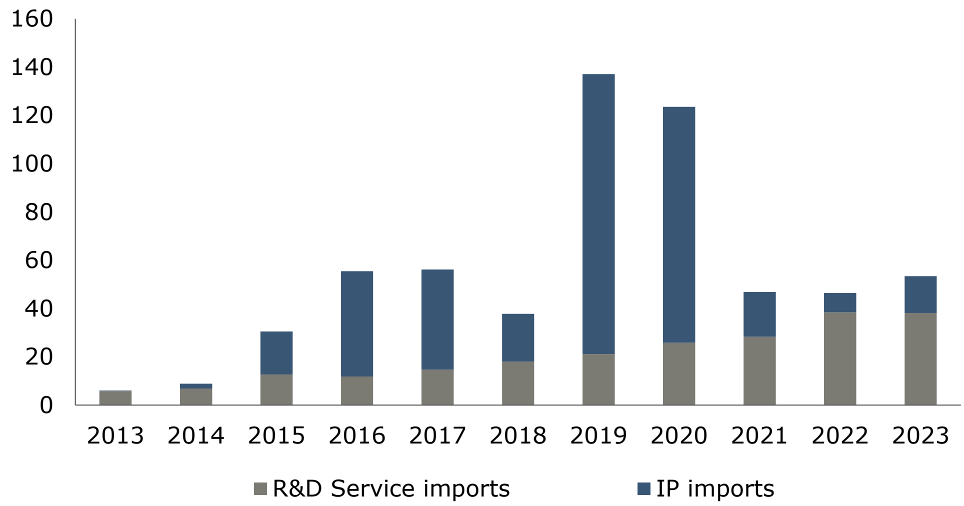
Investment in intellectual property (IP) in Ireland by sector



Source: CSO

Sharply higher IP imports have been accompanied by a substantial increase in payments for "R&D" services. These appear as an import in the Irish Balance of Payments data. These would take the form of license agreements for the use of IP that may be located in the US, for example. These grew from €18bn in 2018 to €38bn in 2023.

IP-related flows have increased dramatically in recent years



Source: CSO

There are a number of factors that have influenced these developments.

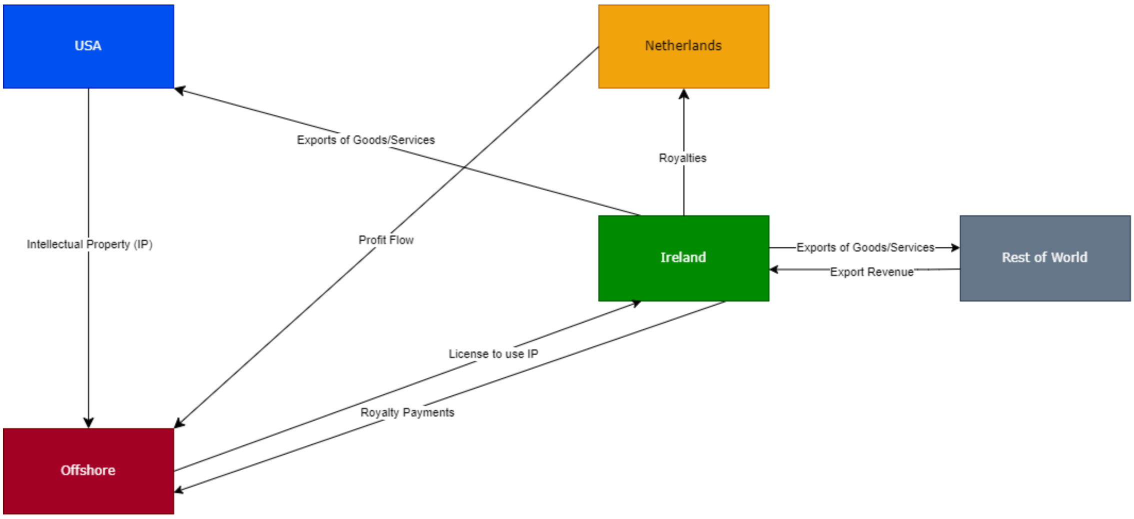
1. **End of "Double-Irish" tax regime** – In 2015, the Irish authorities announced that it would end corporates' ability to minimise their tax liabilities through the use of so-called "stateless" companies whereby profits flowed between subsidiaries, some of which were tax-resident in zero-tax locations such as Bermuda. This was commonly known as the "Double-Irish" tax regime. A gradual withdrawal of that scheme was introduced, ending in 2020.
2. **OECD BEPS recommendations** – A number of recommendations of the OECD process on Base Erosion and Profit Shifting (BEPS) had the effect of ensuring that activities and profits occur in legitimate tax locations such as Ireland. The most prominent of these related to so-called Pillar 1 (allocation of profits) and Pillar II (Global minimum rate). However, there were also material recommendations in relation to transfer pricing and management control that impacted on corporate decisions on location of IP, activities and profits.
3. **2017 US tax changes** – A number of tax changes were introduced under the first Trump presidency that were relevant. These included a once-off opportunity for US corporates holding cash overseas (as corporate taxes were only paid in the US when the cash was it was returned to the US) at a lower tax rate. Concessionary rates on IP were also introduced. These are called Global Intangible Low-Taxed Income (GILTI) and Foreign-Derived Intangible Income (FDII). The headline corporate tax was also reduced to 21% (from 35%). The 21% rate is now permanent, but the effective rates on GILTI (10.5%) and FDII (13.1%) are due to increase in 2026 if there are no policy changes this year. Policy developments here are very relevant to Ireland.
4. **Capital allowances & R&D tax credits** – Ireland operates a generous system of capital allowances on IP that allows companies to write off the cost of their purchase against taxable income. These reliefs have been in place since 2009 but the list of eligible assets was extended in 2014. In 2017, the level of relief was restricted to 80% of trading income of the relevant trade. Companies can also use an R&D tax credit to reduce its tax liabilities.

What did corporates do in reaction to these changes?

These issues meant that certain US corporates had to make decisions as to where their IP would be located. Some decided to shift the IP back to the US, while others decided to shift it to other jurisdictions. CSO data shows that investment in R&D service imports and trade in IP amounted to a cumulative €395bn over the period from 2019-2023. In this case, these companies would then have been able to take advantage of the capital allowances regime for the purchase of that IP. In a US context, they may be liable for taxes in the US, but only if foreign tax paid was less than the GILTI rate of 10.5%. For those companies who decided to move IP back to the US, the FDII regime is the relevant tax instrument.

The following schematics explains the financial flows prior to the recent changes as well as two potential new relationships in the post-2020 period following the numerous policy changes.

Corporate arrangements prior to recent policy changes – Example schematic



Source: Goodbody

Corporate arrangements when IP transferred to Ireland

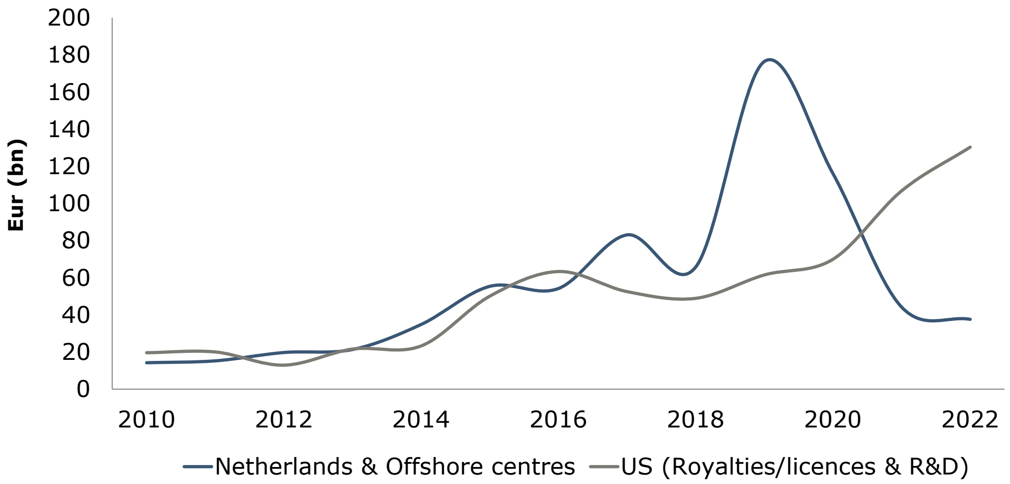
Source: Goodbody

Corporate arrangements when IP moved to US, but Irish entity pays for use of IP rights

Source: Goodbody

The changing nature of the financial flows and the impact of IP is visible in the location of the payments for Royalties & Licenses and R&D business services. There has been a sharp fall of in payments (service imports) to "offshore centres" in particular over recent years. To a lesser extent, service imports from the Netherlands have also declined (data suppression does not allow us to break down the drivers for this any further). At the same time, there has been a sharp increase in payments for royalties, licenses and R&D business services to the US over the same time period. This is consistent with the ending of corporate transactions that allowed revenues to flow through zero-tax locations. Instead, some US companies chose to return IP to the US and licence the use of that IP abroad, receiving royalites or fees in return for their use outside of the US.

Service imports* – Change in geographic flows reflect decisions of US corporates



Source: CSO *Total service imports for Netherlands and Offshore, Royalties/Licenses and R&D for the US

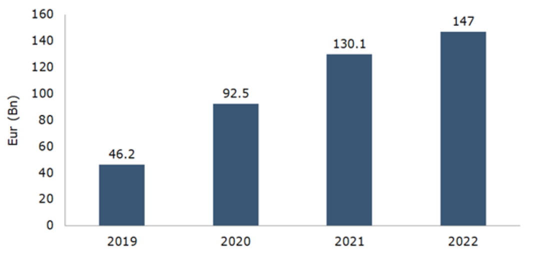
The role of capital allowances

Companies in Ireland can claim capital allowances on specified intangible assets, including patents, copyrights and trademarks. The scale of relief is firm and product specific, but the relief can last anything up to 15 years, depending on the practices employed to depreciate the IP. Since 2017, the aggregate amount of capital allowances, plus any deductions for interest on borrowings in respect of specified intangible assets, must not exceed 80% of the trading income of the relevant trade.

Revenue data to 2022 show the sharp increase in the claims for capital allowances since 2019. The total amount of intangible asset capital allowance claims rose from €46bn in 2019 to €147bn in 2022. Manufacturing (€65bn) accounted for the biggest share, followed by Wholesale & Retail (€24bn) and ICT (€21bn). In terms of the breadth of use of the capital allowances regime across the multinationals based in Ireland, Revenue state that the claimants of capital allowances in 2022 represented companies which paid €10.2bn of the €22.6bn in corporate tax receipts that year. Given the majority of the use is by multinationals, this suggest that capital allowances are being utilised by companies that pay about half of the corporation tax receipts by multinationals in Ireland.

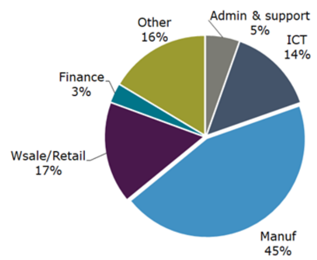
The scale of capital allowances is relevant as there are penalties involved if a company decides to move IP from Ireland in the future.

Capital allowances for intangible assets…



Source: Revenue

…broken down by sector



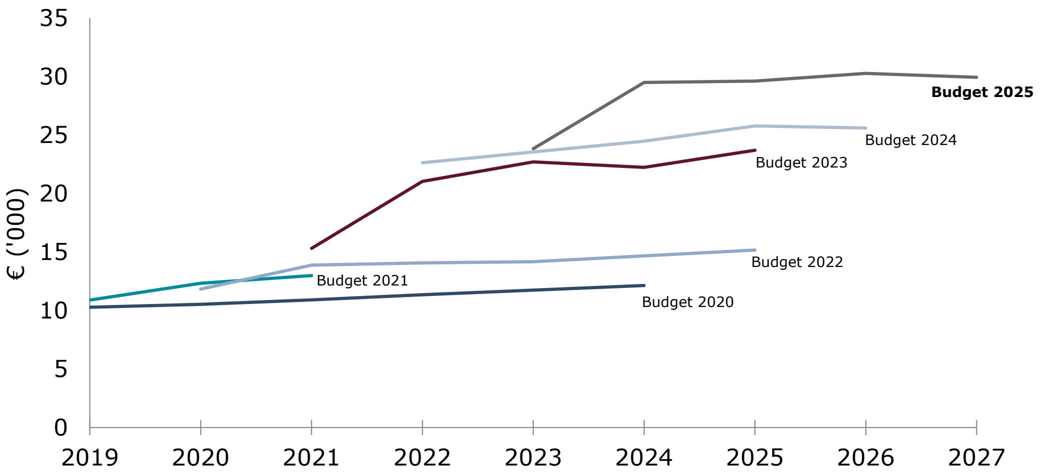
Source: Revenue

What can, and should, Ireland do to mitigate the risks?

Policy decisions in the US are clearly outside the control of Irish policymakers, even if some lobbying may take place over the coming months in Washington DC by Irish diplomats. The biggest risks and potential mitigant in our view is the way in which the government decides to manage the public finances. As outlined in our section on the public finances, Ireland is expected to run another large budget surplus. This is helped by ongoing buoyancy in corporate tax receipts. The "windfall" element of these tax receipts is estimated by the Department of Finance at €15.9bn and €15.4bn in 2024 and 2025 (although this is likely to be revised downwards given the lower outturn for corporate tax receipts in 2024 relative to Budget 2025 expectations). The DoF estimate that corporate taxes will continue to grow over the coming years. It sees corporate tax growing to €35bn by 2029, with €18.1bn of this estimated to be "windfall" in nature.

The forecast errors around corporate tax have been very large over recent years. For example, corporation tax receipts are estimated at €34.3bn in 2025 (including c.€6bn from the Apple ruling). The earliest published estimate of 2025 corporate tax receipts was in the Stability Programme Update (SPU) in April 2021, when it was expected to be €12.5bn. This implies that 90% of the increase in the estimate for tax revenue since April 2021 has been due to corporation tax revenues.

Evolution of corporate tax revenue forecasts



Source: DoF

As noted earlier, there are upside as well as downside risks to the trajectory of corporate tax revenues over the coming years. Downside risks include a reduction in profitability, firm-level risks given the concentration of tax receipts and international tax policy changes. Upside risks stem from a possible increase in profitability of the largest taxpayers in Ireland over the coming years.

To gauge potential upside and downside risks, the analysis below lays out scenarios for corporate tax revenues over the period to 2029. Given that any tax policy changes in the US will not be implemented until 2026, thus impacting tax payments in 2027, we assume any impact will not be felt until that year. This is static analysis that focuses on the impact of different corporate tax revenue assumptions. The assumptions for corporate taxes are shown below.

Assumptions for corporate tax for scenario analysis

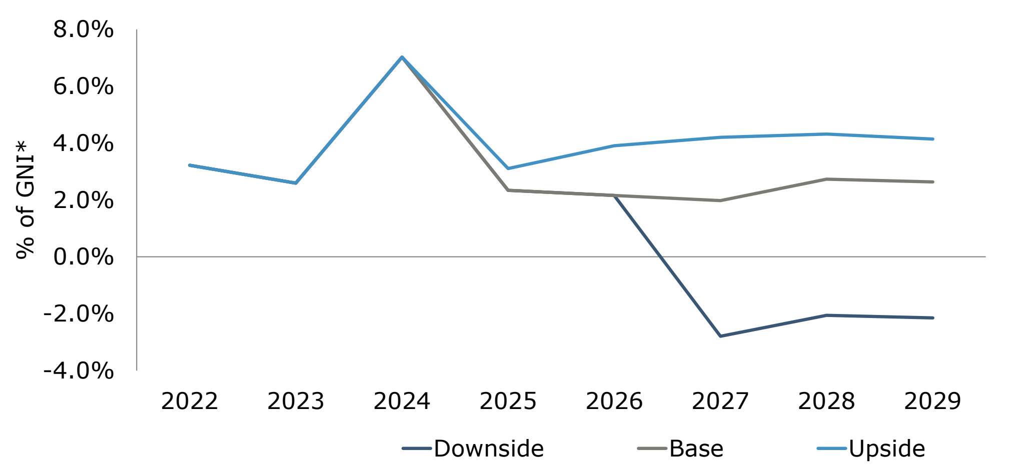
	2025	2026	2027	2028	2029
Downside	31,065	28,065	12,750	15,560	16,350
Base	31,065	28,065	29,950	33,660	35,350
Upside	33,565	34,065	37,950	39,660	41,350

Source: Goodbody, DoF

Move to a 2%-3% deficit if "windfall" corporation taxes cease

Given the large range of potential outcomes due to the uncertainties involved, these assumptions have material impacts on the Irish fiscal aggregates. The chart below shows the evolution of the general government balance under the three scenarios. In the base case, Ireland runs budget surpluses of 2%-3% of GNI* over the coming years (all else being equal). In the upside scenario, these surpluses grow to c.4% of GNI*. In the downside scenario, whereby the "windfall" element of corporate tax receipts falls to zero, Ireland moves to a deficit position of 2%-3% of GNI*. This is a sizable difference but would mean that the deficit in Ireland would move close to the euro area average.

Budget deficit under different scenarios for corporation tax

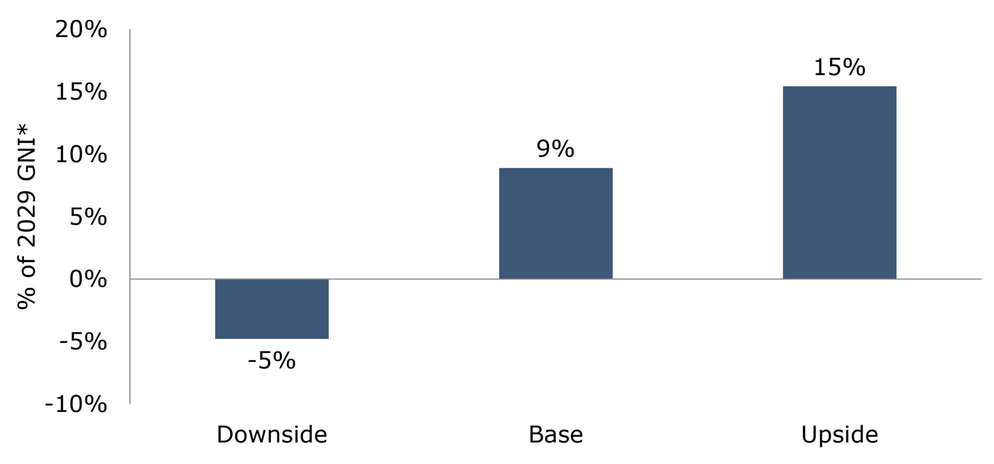


Source: Goodbody

Cumulative difference of 20% of GNI* from 2026-2029 of different scenarios

Given the sums involved, we estimate that the cumulative difference in corporate tax revenues, the exchequer borrowing requirement and the general government balance amounts to €80bn, 20% of GNI*, over the 2026-2029 period between the upside and downside scenarios. There is an estimated difference of €54bn (14% of GNI*) between the *Downside* and *Base* scenarios. This is unlikely to lead to rise in borrowing to this extent as the government would likely, at that stage, reduce payments into the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF). However, it could trigger an increase in borrowing, all else equal, equivalent to c.10% of GNI*.

Cumulative budget* deficit/surplus under different scenarios for corporate tax revenues

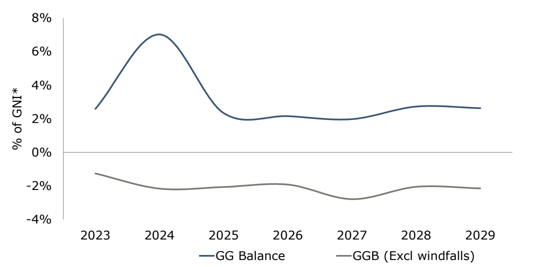


Source: Goodbody *General Government

How to best position public finances to corporation tax risks

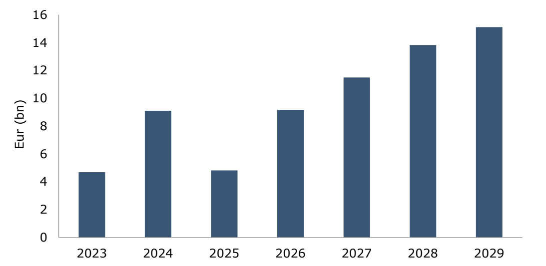
The government plans to run significant general government surpluses over the coming years of between 2%-3%. Monies diverted to the two new savings funds are included in this surplus, as is the expected surpluses accumulating in the Social Insurance Fund (SIF). Payments into the savings funds are included in Exchequer capital spending but are not included in the GG balance. Similar adjustments occur for the surplus on the Social Insurance Fund (SIF). This results in a large gap between the Exchequer balance and the GG balance over the coming years. This is an important distinction due to the impact on cash borrowing.

Surpluses due to "windfall" corp tax receipts



Source: DoF, Goodbody

Gap between Exchequer & GGB*



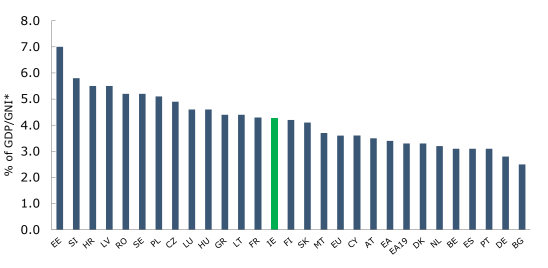
*General Government Balance

We believe that the following principles should be adhered to in the formulation of fiscal policy in Ireland over the period to the end of the decade:

1. Maintain a high and stable level of capital spending

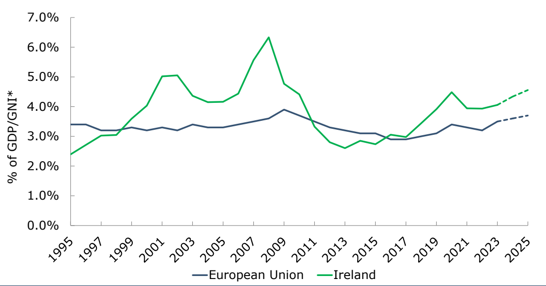
Capital spending has grown strongly in Ireland in recent years. It is expected to reach a record €15bn this year. This represents a doubling in nominal terms since 2019. It amounts to 4.6% of GNI*, high in an international comparison. Ireland has a history of volatile capital spending, with spending tending to fall during economic downturns. The new programme for government has committed to maintain capital spending at a high level in the event of a downturn. We believe that the government should target a level of 5% of GNI* over the period to 2030 to help address ongoing infrastructure deficits in the areas of housing, transport and energy in particular.

Capital spending in the EU 2024



Source: Ameco, CSO, DoF, Goodbody

Volatile capital spending in Ireland over time



% of GNI used for Ireland

2. Link scale of payments into savings funds with estimate of "windfall" gains

The Irish government set up two savings funds – the Future Ireland Fund (FIF) and the Infrastructure, Climate and Nature Fund (ICNF) – to deal with longer term pressures on the public finances and in recognition of the potentially temporary nature of "windfall" corporation tax receipts. The main aspects of the two funds are as follows:

(i) FIF – Currently €8bn AUM (€4bn initial injection from National Reserve Fund, €4bn in 2024), with legislation setting out that 0.8% of GDP would be transferred every year out to 2035. Intended to be ultimately used for spending pressures such as aging, digitalisation and climate)

(ii) ICNF – Currently €2bn, with €2bn to be transferred from 2025 to 2030. To be used to meet infrastructure and green climate requirements. Act as a reserve to be drawn down if a downturn arises.

The diversion of monies into these longer-term savings vehicles is welcome, but the scale of funds transferred should be directly related to the estimate of the "windfall" element of corporation tax receipts. For example, for 2025 the estimate of the windfall is €15.4bn, yet transfers to the FIF and ICNF amount to €6.1bn.

3. Target a budget balance excluding "windfalls"

Healthy headline budget surpluses have hidden a deterioration in the underlying (i.e. excl. windfalls) over recent years. An underlying budget deficit of 2% of GNI* is expected for this year. Given the stage of the economic cycle in Ireland, one could legitimately argue that Ireland should be running an underlying budget surplus at this point. However, given the need for high levels of capital investment, we believe a target of a balanced budget, excluding windfalls, is an appropriate fiscal target.

Consumer drivers largely positive

Most consumer spending drivers have remained positive over recent quarters, as shown in our *Consumer Checklist* below.

Eight of the twelve indictors that we track are currently trending positively. Employment growth has remained strong, with unemployment at record lows. This has led to upward wage pressures emerging. Inflation has continued its downward trajectory since the start of the year and looks set to continue this trend over the short term. The two recent 25bps rate cuts from the ECB, and expected further fall in interest rates, will provide a welcome boost to purchasing power and the affordability of lending for both consumer lending and mortgages, in addition to helping reduce the interest burden for Irish consumers. We expect the ECB's refinancing rate to fall to below 2% by the end of this year, given the weakness of the core euro area economy.

Irish Consumer Checklist

	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2024Q3	Trend
Consumption	7.4%	6.5%	1.7%	4.0%	3.0%	2.4%	1.7%	Negative
Retail sales*	7.4%	4.7%	4.6%	1.7%	2.6%	-0.9%	-0.1%	Neutral
Card spending	-	-	-	28%	23%	11%	13%	Positive
Employment	3.6%	3.1%	3.6%	3.4%	2.0%	2.7%	3.6%	Positive
Unemployment	4.2%	4.2%	4.4%	4.5%	4.3%	4.4%	4.5%	Neutral
Avg. weekly earnings**	3.8%	4.3%	4.5%	3.9%	4.1%	4.4%	4.7%	Positive
Disposable income**	10.4%	10.6%	10.8%	11.0%	9.9%	8.6%	7.7%	Neutral
Savings ratio** (NSA)	15.7%	14.9%	14.6%	14.0%	14.0%	13.6%	14.0%	Positive
Interest burden***	4.2%	4.2%	4.4%	4.6%	4.7%	4.3%	4.4%	Positive
Inflation	7.6%	6.1%	6.4%	4.6%	2.9%	2.2%	0.7%	Positive
VAT	15.9%	13.5%	9.7%	9.4%	5.4%	6.2%	7.0%	Positive
Consumer Confidence*	54.9	61.8	61.8	61.6	71.3	68.0	72.9	Positive

Note: Year-over-Year unless stated otherwise

*3 Month Moving Average (3MA)

**Four Quarter Moving Average (4QMA)

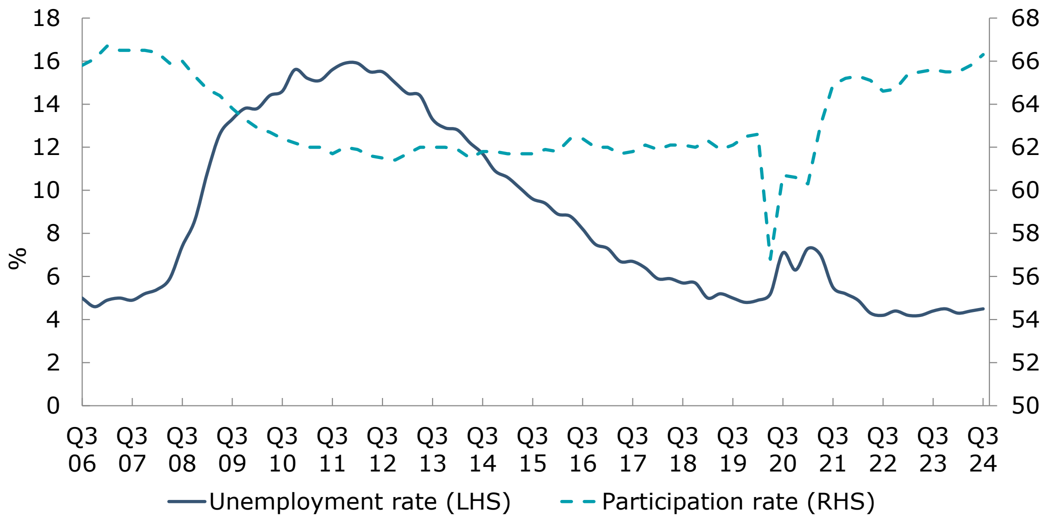
***As a % of disposable income

Source: CSO, Central Bank, Factset, Goodbody

A full-employment economy

Employment growth has remained strong and widespread across the sectors, with the economy running at near full employment. The latest data for Q3 2024 shows the unemployment rate at 4.3%, close to a 20-year low. This comes amid rapid growth in the population. In the year to April 2024, the population grew by close to 100K people (1.9%) for the second consecutive year. The maintenance of full employment levels amidst this recent population surge underscores the strength of the Irish labour market and the demand for labour that exists.

Unemployment rate versus participation rate

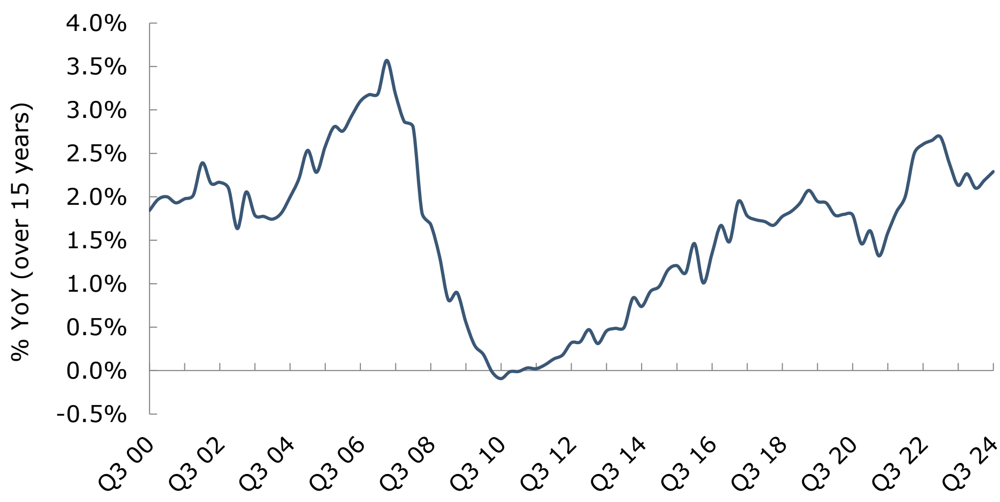


Source: CSO

Migration playing a large role in labour force growth

The previously mentioned record growth in population and corresponding positive net migration has acted as a counterweight to the tightness in the labour market and wage growth, with the supply of new migrants enhancing labour supply and dampening inflationary pressures. Despite this, underlying labour shortages and wage pressures have begun to re-emerge, with average weekly earnings up 5.3% yoy in Q3 2024. This tightness in the labour market has led firms to boost their offerings, while there was also a notable increase in the minimum wage in Budget 2025 from €12.70 to €13.80 per hour (+6.3%). The recent PMIs has also reflected this trend of rising wages, with labour increasingly being cited as a key pressure on the cost front.

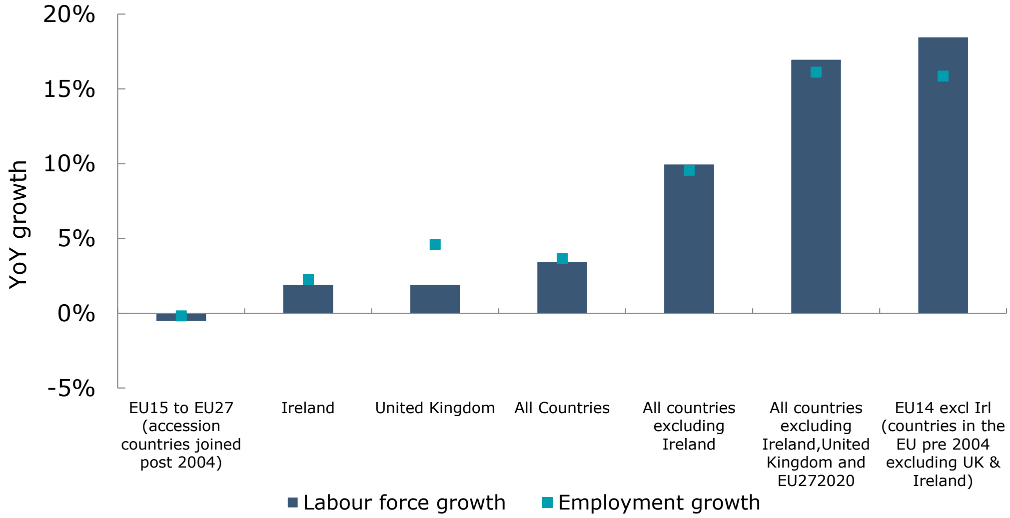
Annual population growth



Source: CSO

This absorption of workers from abroad into the labour market can be seen best in the latest Labour Force Survey (LFS) data from the CSO. The data for Q3 2024 shows employment and labour force growth running at c. 2% for Irish citizens in contrast to 16% and 17% growth respectively for 'Non-UK and Non-EU' (*Rest-of-World*) workers and 16% and 18% respectively for 'EU14' workers.

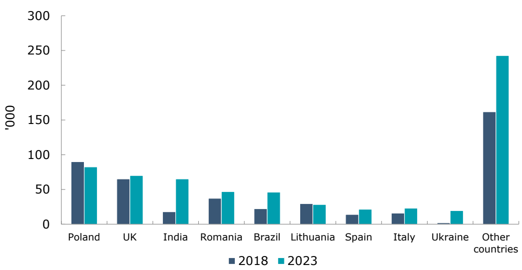
Labour market gains led by workers from EU14 and Rest-of-World



Source: CSO

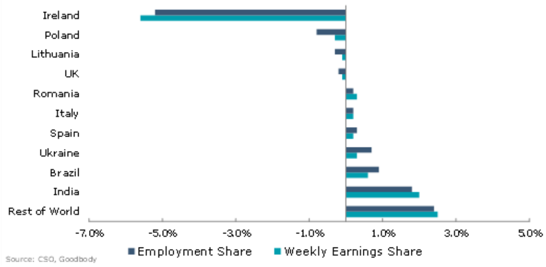
While migrants from Eastern Europe played a prominent role in the large-scale migration in the 2000s, other regions have been playing a more important recently. As shown below, India, Brazil and Ukraine have been the largest sources of migrant workers since 2018.

Non-Irish national employment compared



Source: CSO

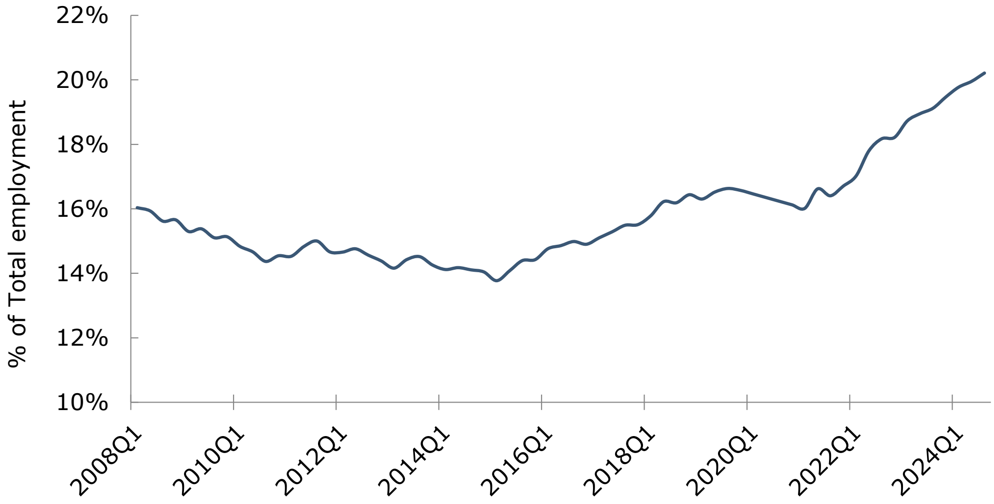
Share of employment & earnings



Source: CSO

This analysis underscores the diverging trends among domestic and international workers. This trend has accelerated in the post-pandemic period with non-Irish nationals now making up over 20% of the workforce.

Share of non-Irish nationals in employment in Ireland

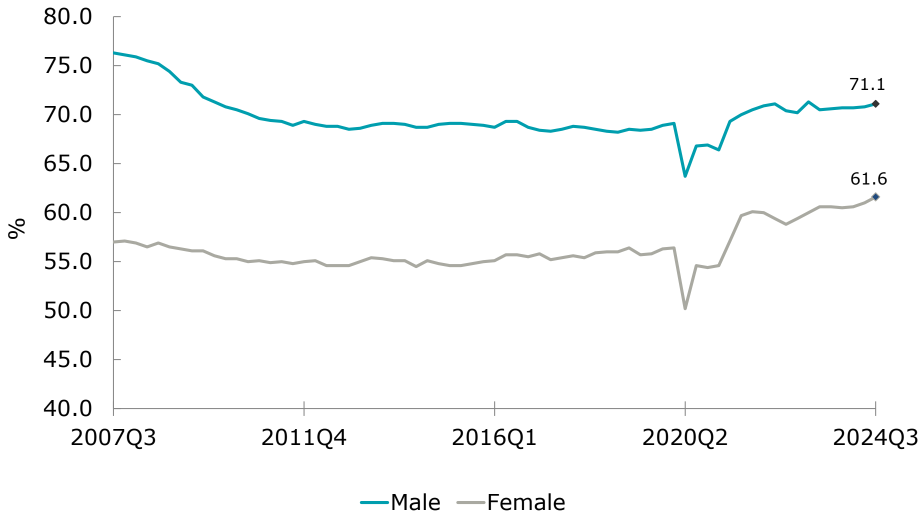


Source: CSO

Female labour force participation at record highs

Another factor which has helped drive increased labour supply in recent years is the participation rate of women. Since the early 1980s there has been a steady increase in the number of women participating in the labour force. Indeed, the surge in female participation was a key driver of the State's economic growth in the Celtic Tiger era of the early 2000s. In the post-GFC era and up to the pandemic female participation was largely stable, however the post-pandemic period has seen a renewed surge in female participation, helped by the shift toward remote working that emerged during the pandemic. This change in working habits has benefitted women in particular due to their higher representation in carer roles in the family unit, which is better suited to the increased flexibility offered by work-from-home (WFH) and hybrid working dynamics. Consequently, female participation has risen 5.2% since the pre-pandemic period to a record (seasonally adjusted) high of 61.6% in Q3 2024.

Rise in female labour force participation rate



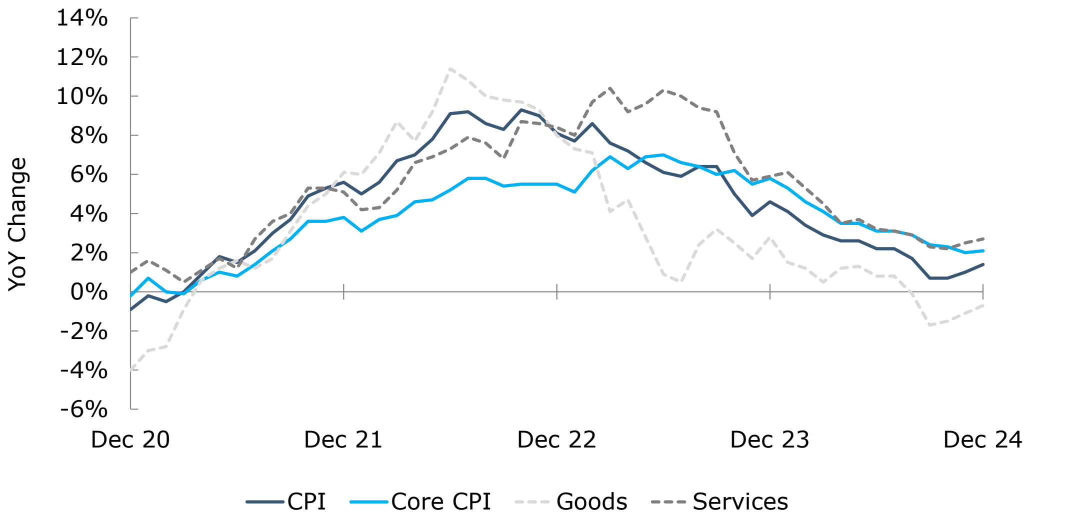
Source: CSO

As with positive net migration, this increased participation has helped to alleviate the tightness in the labour market and temper wage pressures. However, stabilisation in this growth is expected - with the WFH trend largely played out and, in some cases, reversing, with high profile firms like Dell, Amazon, JP Morgan and others scrapping WFH and returning to the office full-time. This reversion in working habits is also reflected in the outlook of domestic firms with KPMG's 2024 CEO Outlook survey finding 90% of Irish CEOs expect a return to pre-pandemic office dynamics over the next three years.

Falling inflation helping consumer

Inflation has come down sharply over the course of 2024, with headline CPI, which started the year at 4.1%, now standing at just 1.4% yoy in December. Similar progress has been made over the same period on the two key sub-indices; Core CPI (CPI ex. food & Energy) and Services inflation. With these underlying measures, which are viewed as 'stickier', falling from 5.3% to 2.1% and from 6.1% to 2.7% from the beginning of the year respectively.

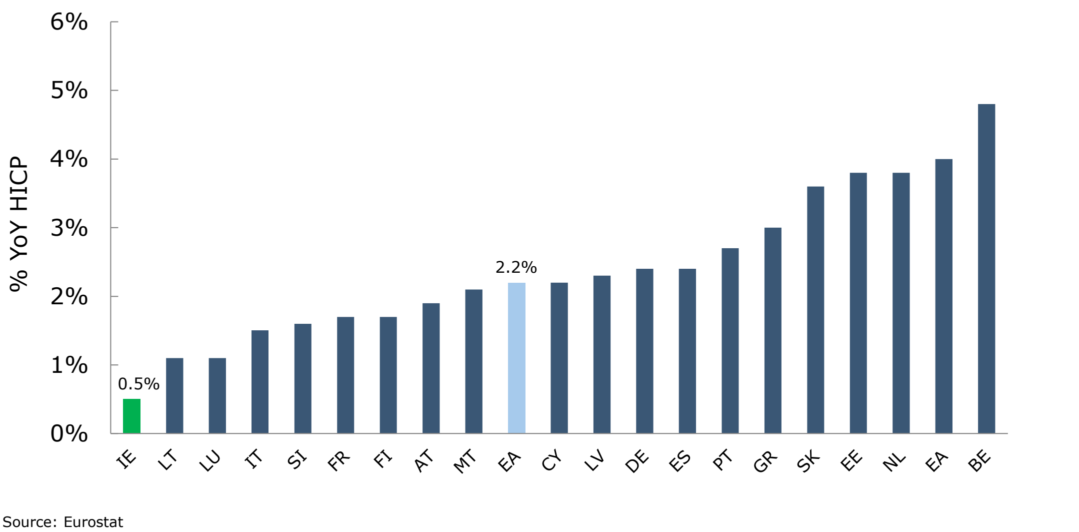
Domestic inflation metrics



Source: CSO

This inflation picture compares favourably with the rest of the Euro Area despite Ireland's superior growth dynamics. Ireland's HICP has fallen from 2.7% yoy in January 2024 to 0.5% in November 2024, the lowest rate in the Euro Area. It should be noted however that HICP measures a slightly different basket of goods (*notably excluding mortgage interest*) to the CPI. The positive news on the inflation front is a welcome relief for consumers and their purchasing power which has been eroded significantly over the past two years amidst record levels of inflation.

Ireland has lowest annual HICP in the Euro Area



Source: Eurostat

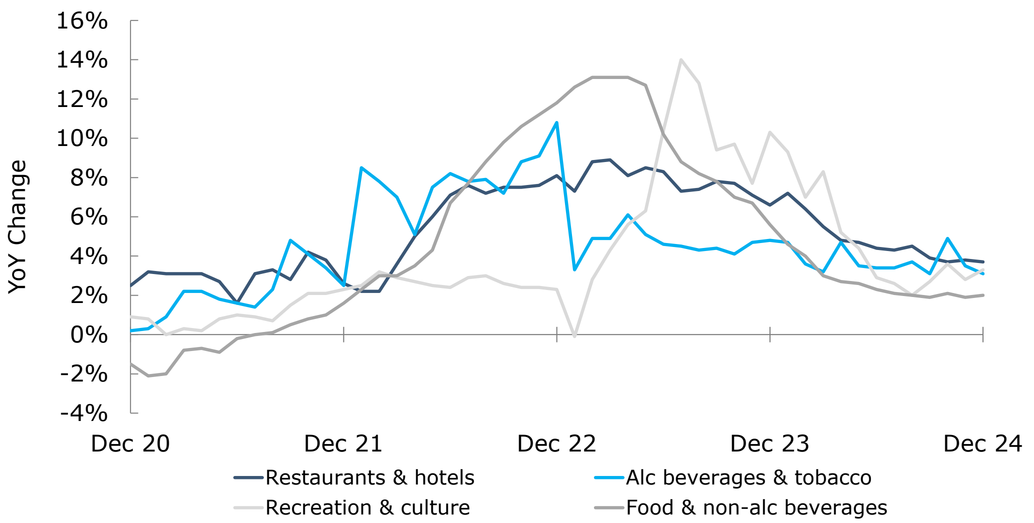
Rate cuts from the ECB, as disinflation and economic weakness take hold, will also provide a further benefit, lowering variable rate mortgage payments and improving mortgage affordability. These reductions in borrowing costs will also translate to consumer lending, increasing the availability and affordability of credit, helping consumer spending. It should be noted that the most recent 'flash' estimates for the December HICP see it rising to 1.0% yoy in Ireland and 2.4% for the Euro Area – suggesting that the 'last mile' of inflation may be stickier than previously expected. The relative performance of Ireland is still of note, with its 1.0% expected HICP value the lowest of all EU member states. Despite this recent uptick the ECB and its decision makers have been vocal about continuing their easing of rates, with a 25bps cut all but guaranteed at January's meeting.

Are recent trends in the hospitality sector a cause for concern?

On the back of high-profile campaigns and closures in the sector, concerns have been expressed recently about the health of the hospitality industry. A combination of a 6.3% increase in the minimum wage and a 4.5% increase in the VAT rate has contributed to cost pressures in the sector. The industry and the Restaurants Association of Ireland (RAI) in particular, have been outspoken about these challenges, with the latter warning 1,000 business could close over the next 12 months as the industry reverts to a 13.5% VAT rate. There were some support measures announced in Budget 2025, such as an Energy Subsidy Scheme worth €170m for hospitality and retail businesses. This is expected to provide €4,300 worth of support for 39,000 firms.

The hospitality sector remains the most inflationary sector of the economy with the four key commodity groups that correlate to the sector driving the upward pressure in CPI, albeit this is largely offset by falls in other groups. The four key hospitality commodity groups are: (i) Food & Non-Alcoholic Beverages, (ii) Alcoholic Beverages & Tobacco, (iii) Recreation & Culture and; (iv) Restaurants & Hotels, with the lowest of these, Food & Non-Alc. Beverages, coming in at 2.0% yoy in December 2024:

Stubborn inflation in the hospitality sector...



Source: CSO

Employment in hospitality

With respect to employment there are two key datasets we look at to determine trends and historical performance. These are the quarterly *Labour Force Survey* and the *Monthly Estimates of Payroll Employees using Administrative Data*.

Drilling into the details of the Labour Force Survey we can focus on the 'Accommodation & Food Sector' which acts as the best proxy for hospitality sector. Looking at the latest data, from Q3 2024, we find that employment in this category rose +9.6% yoy, compared to an overall increase of +3.6% yoy. This suggests employment growth in hospitality has in fact outperformed the average and contrasts the challenges to the sector posited above.

Irish Employment – Labour Force Survey Q3 2024

	Employed ('000)	QoQ (Seasonally Adjusted)			Annual Change		
		Q3 24	Q2 24	Q1 24	Q3 24	Q2 24	Q1 24
Agriculture, forestry and fishing	107	1.2%	-2.3%	-1.7%	-2.2%	3.0%	6.7%
Construction	160	6.8%	-8.0%	8.9%	4.0%	-6.9%	5.6%
Wholesale & retail trade; motor vehicles	319	-0.2%	-3.0%	-3.1%	-0.2%	-7.2%	-1.7%
Transportation and storage	119	-0.9%	6.0%	2.4%	1.5%	2.6%	-1.4%
Accommodation & food service activity	**182**	**5.8%**	**2.0%**	**-3.1%**	**9.6%**	**3.6%**	**0.7%**
Information and communication	188	-0.9%	5.7%	5.1%	5.3%	6.3%	1.8%
Financial, insurance & real estate activities	134	2.6%	-1.6%	1.0%	1.7%	-2.7%	0.9%
Professional, scientific & technical activities	200	1.8%	0.4%	8.5%	11.9%	12.7%	15.1%
Administrative & support service activities	111	-7.4%	-0.8%	0.6%	-7.3%	-0.1%	-2.8%
Public administration & defence	148	5.5%	2.8%	2.0%	12.1%	4.2%	1.9%
Education	231	0.6%	-0.1%	-1.5%	2.3%	5.3%	8.0%
Human health and social work activities	376	0.9%	5.7%	-2.5%	4.5%	5.2%	-0.3%
Other NACE activities	123	-0.3%	-3.2%	0.0%	-0.2%	1.2%	4.9%
All NACE economic sectors	**2,743**	**1.4%**	**0.9%**	**0.7%**	**3.6%**	**2.7%**	**2.0%**

Source: CSO

However, if we look at employment using the more frequent *Monthly Estimates of Payroll Employees using Administrative Data* the picture changes. This dataset reports on a monthly basis and consequently this increased frequency allows us to examine more recent trends.

Irish Employment - Monthly Payroll Estimates

	Employed ('000)	MoM (seasonally-adjusted)			YoY (seasonally-adjusted)		
		Nov-24	Oct-24	Sep-24	Nov-24	Oct-24	Sep-24
Agriculture, forestry and fishing	29	0.0%	1.1%	-0.8%	1.6%	1.7%	0.7%
Construction	145	0.3%	0.3%	-0.3%	4.3%	4.6%	4.8%
Wholesale & retail trade; motor vehicles	392	0.2%	0.5%	-0.4%	0.8%	0.8%	0.5%
Transportation and storage	97	0.4%	0.7%	-0.4%	3.6%	3.6%	3.0%
Accommodation & food service activity	**207**	**0.3%**	**0.3%**	**-0.2%**	**0.1%**	**-0.1%**	**-0.2%**
Information and communication	121	0.0%	0.7%	-0.3%	-0.3%	-0.4%	-1.6%
Professional, scientific & technical activities	166	0.9%	1.1%	-0.5%	4.0%	2.9%	2.1%
Administrative & support service activities	160	0.4%	0.8%	-1.2%	1.2%	0.7%	-0.1%
Public administration & defence	211	1.0%	-0.9%	-1.2%	2.7%	2.0%	3.3%
Education	178	0.2%	2.0%	-1.5%	4.6%	4.0%	1.8%
Human health and social work activities	301	0.1%	1.6%	-1.7%	4.9%	5.3%	4.2%
Industry	271	0.2%	0.3%	-0.1%	2.0%	2.1%	2.0%
Financial, insurance & real estate	130	0.1%	0.7%	-0.1%	2.0%	2.0%	1.4%
Arts, entertainment, recreation and other	100	0.0%	1.0%	-0.9%	2.7%	3.1%	2.3%
Services	4	-0.2%	-1.2%	-0.5%	0.9%	2.4%	4.6%
Total	**2,513**	**0.2%**	**1.0%**	**-0.8%**	**2.4%**	**2.4%**	**0.7%**

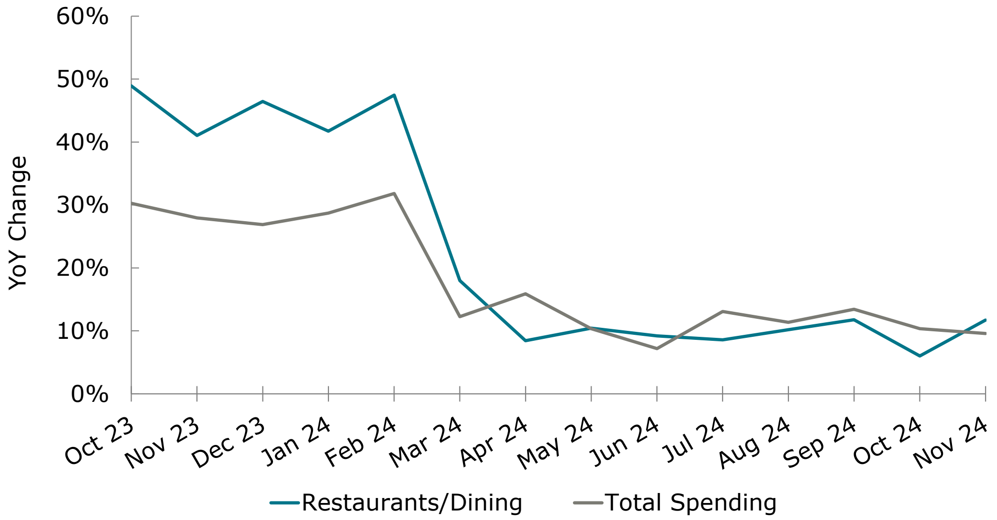
Source: CSO

From the monthly payroll data, we can see that both the monthly and annual seasonally adjusted change in the employee Index for '*Accommodation and Food Services Activity*' (the closest proxy for the hospitality sector) has been negative for two of the last three months, with November's figure just barely positive at 0.1% yoy. Digging into the seasonally adjusted employment numbers we can see that the latest figures for this category, 206,600 employees, represents a -0.3% fall from the 207,200 recorded in January 2024, compared to growth across almost every other NACE sector.

Card payment trends suggest ongoing spending growth in the sector

Next, we examine the performance of hospitality using the Central Bank's monthly card payment statistics. As this series is relatively new, established in October 2023, the number of datapoints is limited and the reference period is impacted by the post-covid recovery, as such it should be viewed in the context of the metrics outlined in the prior sections.

Relative performance of hospitality



Source: Central Bank

From this limited series we can see that on an annual basis spending has been growing comfortably in the double digits since October 2023, however there is a notable change in the performance of Restaurants/Dining relative to Total Spending. Following the post-Covid bounce hospitality (as measured using restaurants/dining as a proxy) fell sharply, with the hospitality portion of spending underperforming the aggregate in Q2 and Q3 of 2024, albeit while posting strong double-digit growth.

Warehouse debt issues /pandemic impact

Another factor which is weighing on the sector is the end of the debt warehousing scheme introduced during the pandemic to support businesses and, in particular, hospitality which came to an effective standstill during the lockdowns. This scheme enabled firms to 'warehouse' or defer the payments of certain taxes (e.g. VAT, PAYE) to Revenue without incurring any interest or late payment penalties. Ultimately these debts still had to be repaid and following the pandemic a deadline of January 2023 was introduced for repayment but this was ultimately extended to May 2024. Upon reaching this deadline firms had two choices:

i) Repay their warehoused debt in full

or

ii) Engage with Revenue to agree a payment plan

Despite the willingness of Revenue to engage with firms, the hospitality sector suffered a number of losses with number of long-standing firms shuttering their doors recently. The most recent report from Revenue states "€3 billion (94%) of the €3.2 billion included in the warehouse at its peak in January

2022 has now been either settled or secured under a Phased Payment Arrangement (PPA)." Of the remaining €200M, €100M of the warehoused debt has been deemed "unrecoverable" due to a number of factors such as liquidation, examinership and bankruptcy. The further €100M was owed by 7,000 firms that failed to meaningfully engage with Revenue in advance of the deadline and was consequently removed from the warehousing scheme – leaving it subject to an interest rate between 8-10% and regular enforcement procedures.

PWC's Insolvency Barometer for Q3 2024 found that hospitality accounted for almost 1 in 5 insolvencies in the 9 months to September (with 49 in Q1, 30 in Q2 and 31 in Q3) – leaving the rate of insolvency in the sector almost double that of the retail sector. Despite the weakness in these numbers the full picture may still be yet to unfold, with PWC warning hospitality insolvencies are expected to rise sharply in Q1 2025. This is due to many firms banking on Q4 or the so called 'Golden Quarter' to boost sales before sitting down to evaluate the viability of their business in the new year.

Costs and warehouse debt the main issues in hospitality sector concerns

The hospitality sector remains under considerable pressure with an increase in the VAT rate, a rising minimum wage, elevated inflation and the repayment of warehoused debt. These factors have combined to make a particularly tough trading environment for businesses with the level of insolvencies expected to rise considerably in 2025. However, it is not all bad news for the sector with the Irish consumer in good health supported by particularly strong income growth and a solid stock of savings, in addition to the prospective rate cuts that will help reduced the burden of existing debt on consumers while also encouraging new consumer lending, helping drive consumer spending.

Irish Housing Market

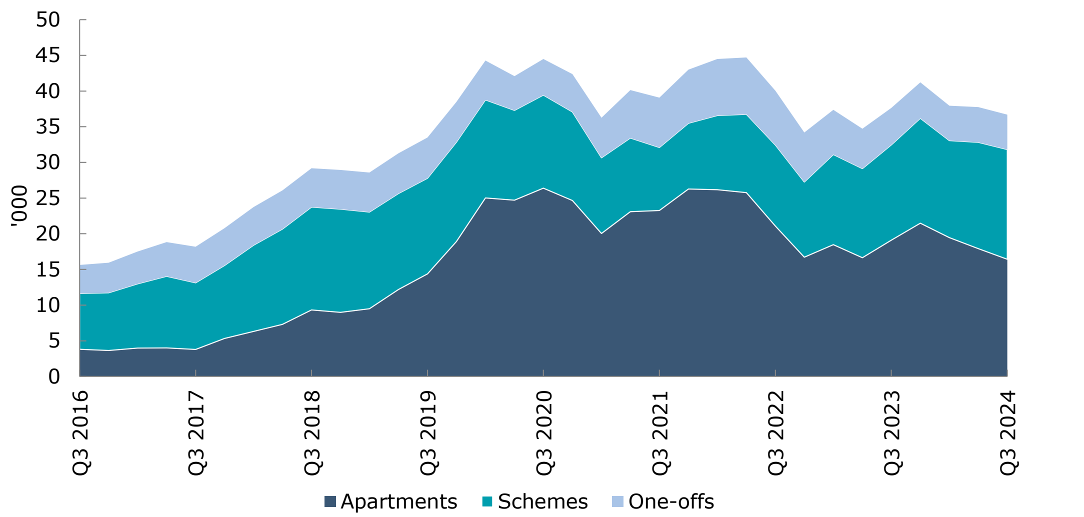
- Completion targets to rise to 50K+ per annum to 2030
- Commencements surge to over 60K, driven by government supply-side subventions
- Price growth close to double-digit territory, driven by second-hand market and FTB strength

Demand continues to outstrip supply in the Irish housing market. The exceptional levels of demand have driven significant price appreciation, which has been further compounded by a record low in the level of second-hand homes for sale - ultimately driving almost double-digit price growth in Irish homes in 2024. On the supply side continued inefficiency in the planning system and deterioration of the PRS market has constrained the level of completions. However, the recent commencement data provides a more positive outlook with 2024 seeing a meteoric surge in the number of commencements filed with BCMS - to over 60K units. We caution that this data may be inflated to some degree due to the ending of the development levy waiver and the water charges rebate scheme (i.e. by encouraging developers to bring forward future commencements to avail of these government schemes).

Constraints on supply still evident despite growth in housing commencements

The latest CSO data shows the number of residential units granted planning permission in Ireland fell by -10.9% yoy in Q3 2024, with 8,166 units approved (prev. 9,662 in Q3 2023). The fall in the headline number was driven by a -31% yoy fall in apartment approvals which contrasts with an increase of 9% yoy for houses - reflecting the challenged viability of the Private Rental Sector (PRS) for apartments. This brings the cumulative total permissions granted over the past twelve months to 36.7K units, down -3% on the previous year. Consequently, despite improvements in the planning process it remains a significant blockage to new supply.

Planning permissions by type



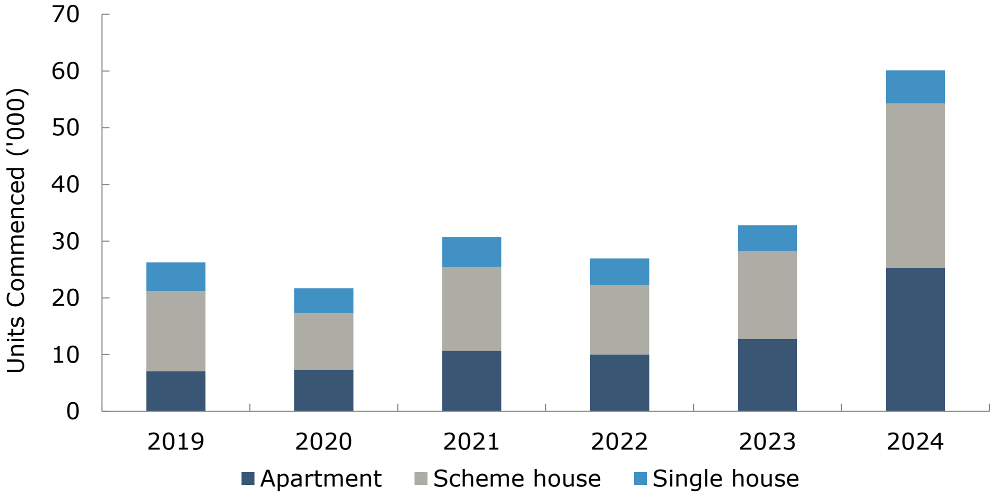
Source: CSO, Goodbody

Commencements surge in 2024

- Record housing starts in 2024 due to government supply-side subventions
- Land availability, finance & viability remain issues

Residential commencement notices surged to above 60K in 2024, according to *Goodbody Analytics* analysis of the Building Control Management System (BCMS) data. This shows December was another strong month, with over 5K units "commenced". This takes the total for the year to an estimated 60K, relative to c. 33K, in 2023.

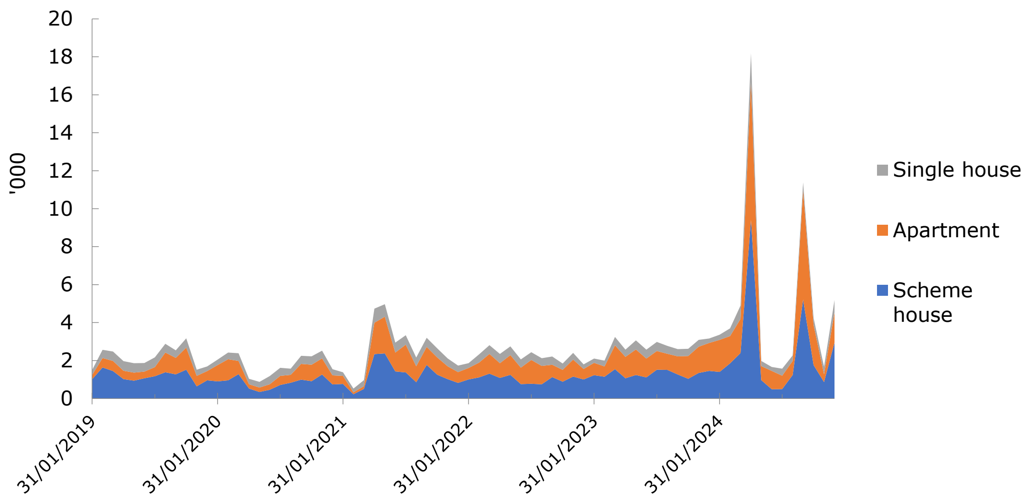
Total commencement notices by year



Source: Goodbody Analytics, BCMS

The surge in commencement notices this year was aided by waivers on development levies and rebates on water charges. These were originally due to expire in April and September respectively (causing a surge in commencement notices at that time) but were later extended. Projects needed to be commenced by the end of this year to be able to take advantage of the development levy waiver and must be completed by the end of 2026. The effect of these various deadlines is clearly seen in this chart of daily commencements below

Housing commencements – Clear spikes due to development levy waiver and water rebates

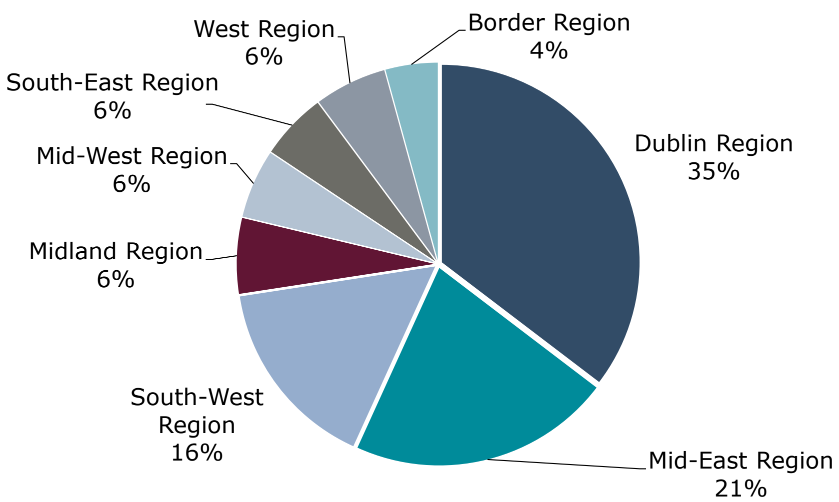


Source: Goodbody Analytics, nbco.gov

While it is not clear whether all of these projects will eventually lead to completions over the next two years, it is clear that these supply-side incentives have been effective in mobilising activity. We estimate 34K completions for 2025, rising to 40K in 2026, but accept there is greater degree of uncertainty about these estimates given the potential distortions in commencements this year due to the policy measures.

The surge in commencements was broad-based by both geography and type. There were an estimated 25K apartments commenced (42% of the total), up from 13K in 2023. 29K scheme houses were commenced in 2024, up from 15.5K last year. Every region of Ireland experienced an increase in commencements this year, but the biggest contributor to the expansion was Dublin where there was 21K units commenced. Dublin's commuter counties (Mid-East) accounted for a further 21% of commencements this year. Commencements in the South-West more than doubled in 2024 to 9.5K units (16% of total). As we highlighted in our note on land availability in September (see our website for the full report), more zoned and serviced land, as well as changes to the regional targets, will be required to meet increased housing need over the coming years.

Residential commencements year to date share



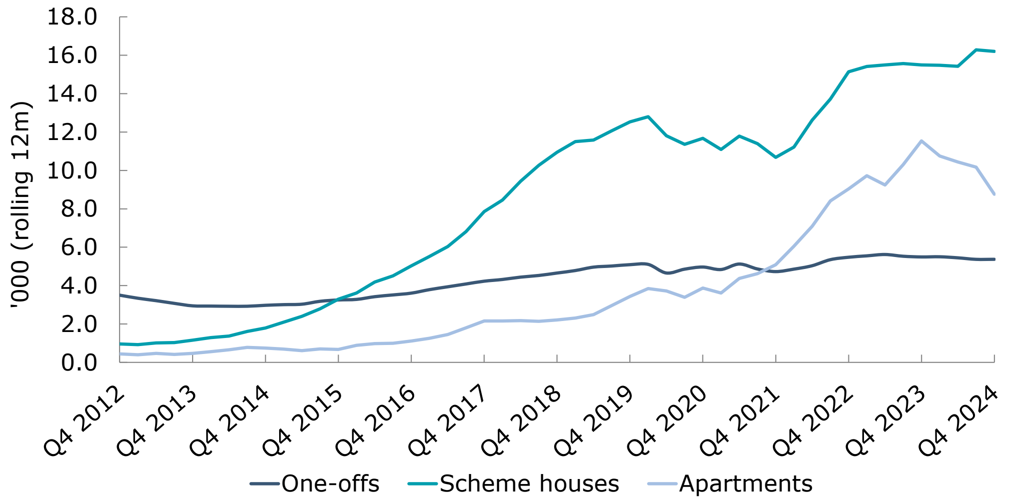
Source: Goodbody

Weak outcome for housing completions in 2024

- Completions ended down 7% in 2024, with apartment sector dragging
- Dublin was the weakest region last year
- Public housing playing an important role as PRS demand remains subdued

While home completions amounted to 30.3K units in 2024, only about a third of these homes were available to owner-occupiers. The remainder are being taken up by the government for social and affordable housing and by the private-rental sector. This is due to record government intervention in the housing market alongside strong rental demand that has attracted investors towards PRS block sales, up until relatively recently. This underscores, once again, the mismatch between supply and demand in Ireland's housing market

Completions by type – Fall in 2024 due to apartments

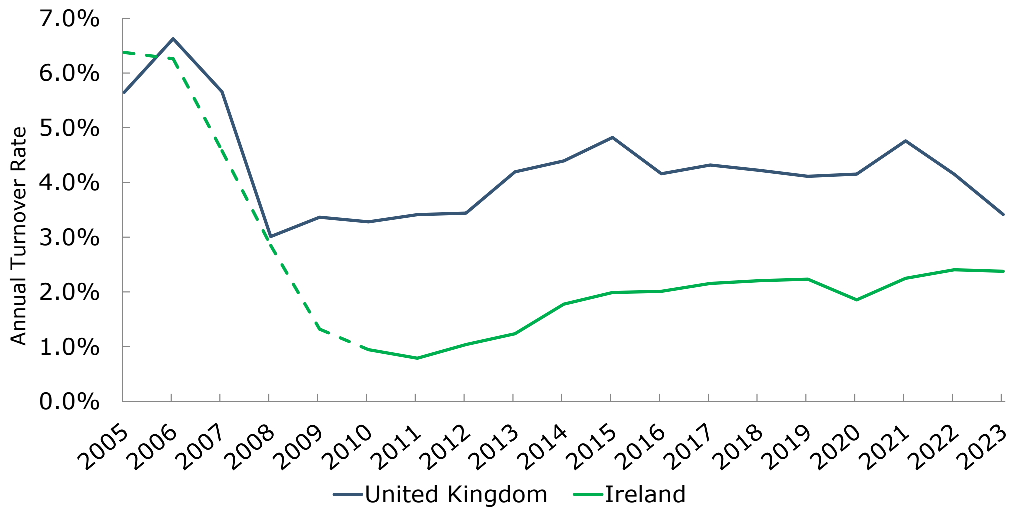


Source: CSO

Availability of second-hand homes at record low

Data from the latest Daft.ie report shows the number of existing homes being listed for sale is at a record low – constraining supply and leaving a greater number of buyers chasing fewer homes, ultimately causing significant upward pressure on house prices. In its Q4 2024 report, Daft.ie found that the number of second-hand homes available for purchase in December 2024 was just 10,500 – down 15% yoy and the lowest number on record since the series began in 2007. For context the pre-pandemic (2015-2019) average of second-hand homes for sale was 24,700 units. This is driven in part by the lack of turnover in existing homes, which has failed to return to the levels seen in the early 2000s or recover to the level seen in our nearest trading partner, the UK.

Turnover of the existing housing stock



**Mortgaged transactions used for Ireland <2010*

Source: BPFI, ONS, BoE, Goodbody

Housing demand remains strong

The value of mortgage approvals remained strong throughout 2024, boosted by exceptional demand and the uptake of eased central bank Loan-to-Income (LTI) borrowing requirements. The most recent data from the Banking & Payments Federation Ireland (BPFI) shows approvals grew by 13% yoy in November 2024, taking the rate of growth in the most recent three months (Sep-Nov) to 16% yoy. This represents the fastest rate of growth since November 2022.

The increase in the value of approvals is split evenly between volumes (+8% yoy) and average loan values (+8% yoy). Within mortgage approvals for home purchase, First-Time Buyers (FTBs) continue to account for the vast majority (63% over past twelve months). The value of FTB approvals grew by 13% yoy in the latest three-month period. The increase took the annual FTB approvals to a record high of 31K. Approvals for movers increased at a faster pace, continuing an upward trend that began in the summer. Re-mortgage approvals also continue to recover strongly (up 34% yoy). Lower mortgage interest rates are likely to be playing a role in this trend, with several banks cutting fixed mortgage rates to c. 3% in recent months.

Net lending growth at 15-year high

While we do not yet have data on drawdowns for Q4, recent Central Bank data (see table) on net mortgage lending suggests that the upward trend in approvals is translating into drawdowns. Net mortgage lending grew by 2.9% yoy in November, the fastest pace in 15 years. Our forecast for gross lending in 2025 is 8%, translating into net lending growth of 3.1%. The recent momentum appears stronger than this, but low availability of stock remains an issue.

Irish banking trends (yoy %)

	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24
Credit	3.5%	3.1%	3.0%	1.8%	1.8%	0.8%	0.8%
Households	2.9%	2.8%	2.6%	2.3%	2.4%	2.2%	2.0%
Mortgage	*2.9%*	*2.6%*	*2.3%*	*2.0%*	*2.1%*	*2.0%*	*1.7%*
Consumer	*7.2%*	*7.5%*	*8.1%*	*7.7%*	*8.2%*	*8.2%*	*8.2%*
Other	*-6.4%*	*-5.4%*	*-6.2%*	*-6.4%*	*-5.3%*	*-6.8%*	*-7.1%*
NFC	1.4%	2.9%	3.9%	1.9%	2.3%	-0.1%	1.4%
Deposits	5.1%	5.8%	3.8%	3.7%	3.1%	2.1%	3.2%
Households	5.3%	4.1%	3.1%	3.4%	2.9%	3.0%	3.0%
Overnight	*-0.1%*	*-1.6%*	*-3.1%*	*-2.8%*	*-3.1%*	*-2.6%*	*-2.3%*
<2 Year	*131.2%*	*162.5%*	*211.9%*	*253.2%*	*273.7%*	*295.5%*	*303.3%*
>2 Year	*96.7%*	*157.0%*	*271.8%*	*306.8%*	*320.7%*	*289.9%*	*293.0%*
Other	*0.8%*	*0.6%*	*0.1%*	*0.0%*	*-0.3%*	*-0.6%*	*-0.5%*
NFC	2.0%	6.0%	5.4%	6.1%	6.0%	1.5%	5.4%

Source: Central Bank, Goodbody

Price growth remains strong, albeit in line with incomes overall

- Price growth close to double-digit territory, driven by second-hand market.
- Inflation highest in the capital
- Price/income metrics above long-term average

House prices continued to climb at a steady pace in November 2024, with the most recent Residential Property Price Index (RPPI) from the CSO showing prices rose by 0.8% in the month, while the annual rate of growth eased only modestly to 9.4% (from 9.7%). There is only a small difference in price growth in Dublin (9.9% yoy) versus outside of Dublin (9.2% yoy). Indeed, annual price inflation is in a relatively narrow range across most of the country. Overall home prices eased for the third successive month in November from a two-year high of 10.1% in August 2024, however prices remain well underpinned by resilient first-time buyers (FTBs) and robust non-household presence supported by the government – with further price growth of c. 5% expected in 2025.

Residential Property Price Index (RPPI) – November 2024

	YoY	MoM	3m avg. YoY
All residential properties			
National	9.4%	0.7%	8.8%
Dublin	9.6%	0.6%	9.3%
National ex. Dublin	9.2%	0.8%	8.4%
Houses			
National	9.6%	0.7%	9.0%
Dublin	9.9%	0.5%	9.7%
National ex. Dublin	9.5%	0.9%	8.6%
Apartments			
National	7.6%	0.6%	7.3%
Dublin	8.3%	0.9%	7.7%
National ex. Dublin	5.8%	-0.1%	6.4%

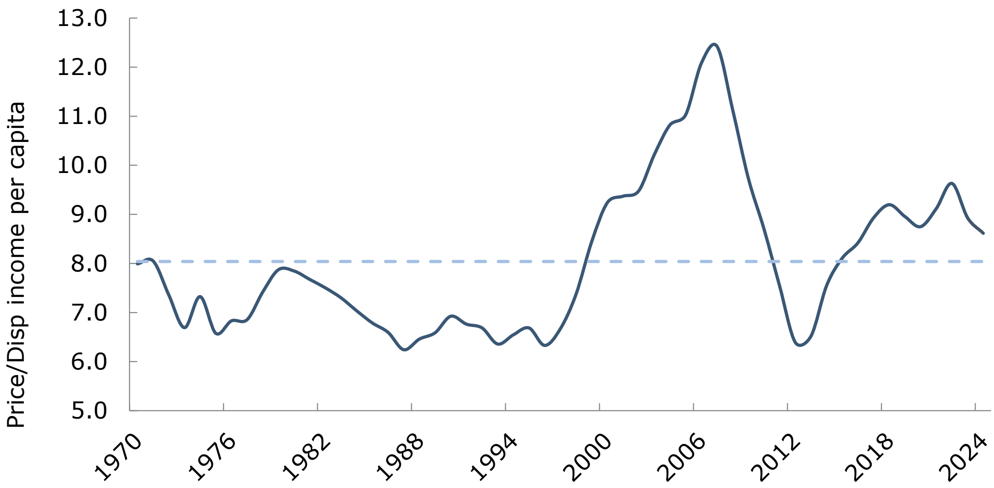
Source: CSO

Affordability metrics above long-term average but stable in recent years

With respect to affordability, the latest report from MyHome.ie for Q4-2024 found that the age of First-Time Buyers is increasing, with the average age rising from 34 in 2020 to 36 years old in H1 2024 – this also puts FTBs in Ireland 2 years older than their UK counterparts (36 vs 34). Furthermore, the size of loans being taken on by these FTBs is also growing, with the Central Bank of Ireland finding the average purchase price for FTBs was €375K in H1 2024, an increase of €21,000 (+5.9%) relative to 2023 – with larger deposit amounts making up 1/3rd of this increase and the remainder covered by increased loan sizes. Adding to the evidence of affordability constraints in the Irish housing market.

Looking at the current state of play relative to historical averages we focus in on the ratio of Price-to-Income to evaluate housing affordability. Using this measure, we can see that prices stand above their long-term average multiple, with 2023 seeing a price/income multiple of 8.9x (using disposable income per capita as a measure of income) compared to a long-term average of 8.0x. Based on our 2024 estimates we see this easing to 8.6x over the last year, bolstered by strong income growth.

Irish house prices/income ratio since 1970



Source: CSO, DoF, Goodbody

Goodbody housing forecasts

This table shows our latest forecasts for 2024-2026. With respect to New Dwelling Completions, the latest CSO data shows 30,330 units were completed in 2024, notably below the government's target of 33,450 - published in its most recent progress report under the 'Housing for All' programme. Looking into the new year we see further growth in the number of completions (c.34 in 2025f), but still considerably below the estimated requirement of 55K+ new homes per annum.

Key Housing Metrics – Goodbody Forecast

	2021	2022	2023	2024f	2025f	2026f
New dwellings (units)	20,495	29,662	32,548	30,330	34,250	39,930
Average house price (€)	320,101	344,818	358,913	386,984	407,331	424,825
Price inflation (% yoy)	14.2%	7.7%	4.1%	7.8%	5.3%	4.3%
- Dublin	*12.8%*	*5.9%*	*2.5%*	*8.9%*	*5.3%*	*4.7%*
- Non-Dublin	*15.2%*	*9.1%*	*5.3%*	*7.2%*	*5.2%*	*4.1%*
Gross mortgage lending (€m)	10,467	14,057	12,089	12,171	13,152	14,259
Growth in gross lending	25%	34%	-14%	1%	8%	8%
Net mortgage lending growth	1.2%	-0.9%	1.8%	2.4%	3.1%	3.5%
Rental growth	8.1%	11.0%	6.2%	4.6%	2.6%	4.5%
Gross rental yield	5.1%	5.2%	5.3%	5.2%	5.0%	5.1%

Source: CSO, BPFI, DoHLGH, Goodbody

Credit & Banking Trends

Credit growth picking up

The table below summarizes the latest trends in credits and deposits in Ireland:

Irish banking trends – November 2024

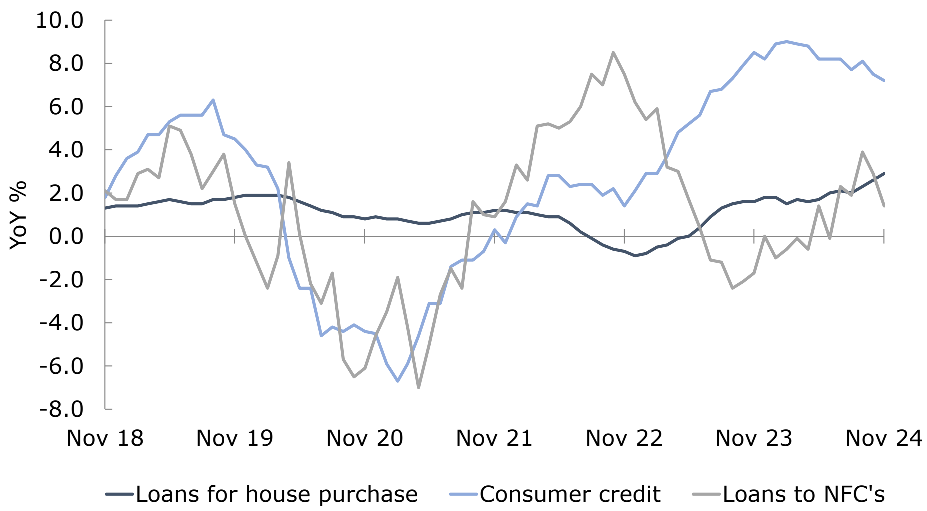
	Outstanding (€m)	MoM (€m)	YoY (%)
Credit	150,327	958	3.5%
Households	103,351	351	2.9%
Mortgage	*85,379*	*295*	*2.9%*
Consumer	*12,953*	*9*	*7.2%*
Other	*5,019*	*47*	*-6.4%*
NFC	29,296	-481	1.4%
Deposits	316,826	-4,576	5.1%
Households	159,587	471	5.3%
Overnight	*138,475*	*-10*	*-0.1%*
<2 Year	*13,225*	*496*	*131.2%*
>2 Year	*1,169*	*4*	*96.7%*
Other	*6,718*	*312*	*0.8%*
NFC	81,929	-3,828	2.0%

**Figures may not sum to total due to exclusion of: Insurance corporations and pension funds/Other financial intermediaries/Non-MMF investment funds*

Source: Central Bank, Goodbody

There has been a broad-based pick up in lending activity across mortgages, consumer lending and non-financial corporates over recent quarters. Mortgages are the biggest part of the loan books for Irish banks, and have seen annual growth of 2.9% in November 2024. This is the fastest rate of growth since 2009. Consumer credit grew by 7.2% yoy in November, reflecting home refurbishment in particular.

Lending annual growth rates by segment

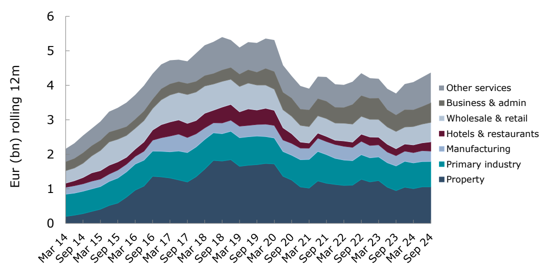


Source: Central Bank

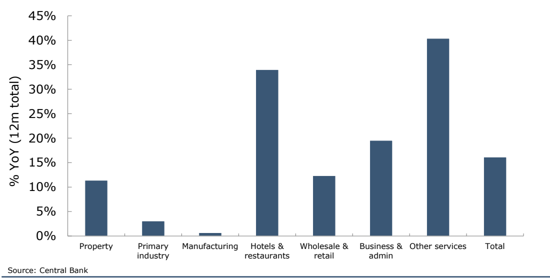
Broad-based pick up in SME lending flow

The pickup in lending to non-financial corporates (NFC) in 2024 is also broad-based across different sub-sectors of the Irish economy. In November 2024, NFC credit grew by 1.4%, with longer-term lending (>5 years) growing fastest (+3.6% yoy), likely reflecting higher levels of investment. The sectoral breakdown for SME new lending is only available to Q3 2024 and is shown below.

New SME lending hovering close to €4bn p.a.



Broad-based new lending growth

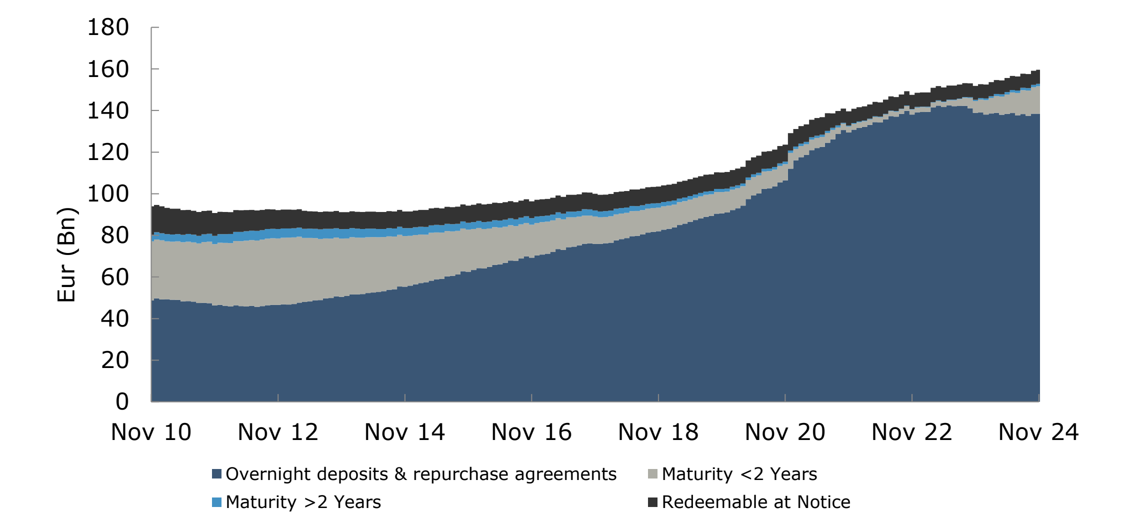


Source: Central Bank of Ireland

Deposits still on an upward trend

The trend in total household deposits remains positive with a €7.8bn (+*5.3%*) yoy increase to November, up from 4.1% in October. Deposit migration continues amidst the elevated rate environment, with a slight decrease in overnights deposits (*-0.1% yoy*) being more than offset by an increase in agreed maturity products - particularly products with a maturity <2 years which have seen a surge in the past year with net inflows of €7.5bn yoy (*131.2% yoy*). This trend has seen overnight deposits fall from their peak of 94% of total deposits in May 2023 to 87% in November 2024 (*total household deposits of €159.6bn vs overnight deposits of €138.5bn*). Meanwhile the share of term deposits with maturity <2 years has risen from 1% of total deposits in March 2023 to 8% in November 2024 (*from €3.3bn to €13.2bn*), accounting for almost all of the migration (*products with maturities >2 years saw just 0.5% increase in share of total deposits over the same period, to 0.7%*).

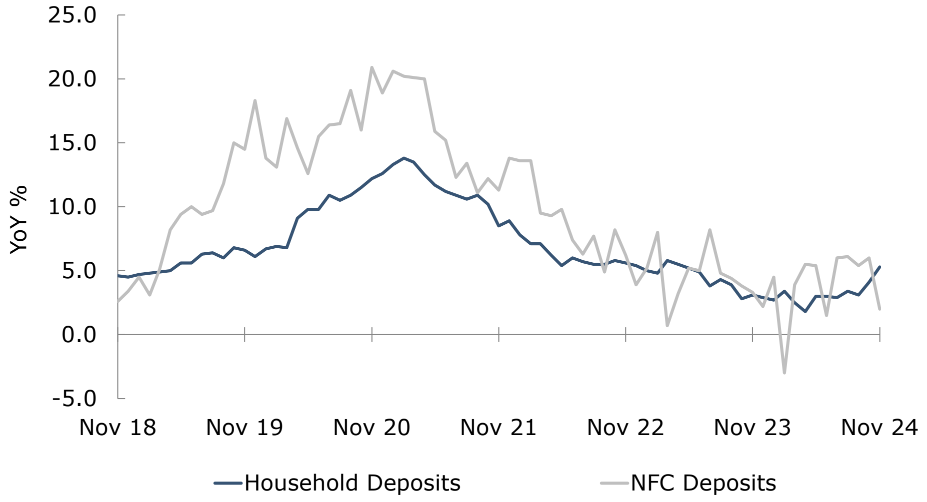
Household deposits see migration towards term products



Source: Central Bank

NFC deposits fell €3.5bn in November but remain positive on annual basis with growth of 2.0% yoy to €82.0bn. Once again, a decrease in overnight deposits (*-€0.6bn yoy*) and a shift to term deposits can be seen (*+€1.0bn yoy*) with this migration again dominated by shorter term <2yr products which accounted for +€0.9Bn yoy.

Bank deposit growth rates



Source: Central Bank

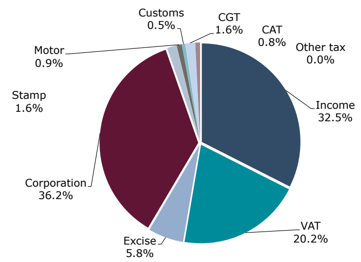
Period of deleveraging has ended

Following a protracted period of deleveraging post the GFC, the Irish banking system is now seeing a broad-based recovery in lending across the household and business segments. Given macro-prudential rules and relatively high risk-weightings, we do not expect a rapid expansion in lending growth, with steady growth in line with nominal growth in the economy over the next two years as our central forecast.

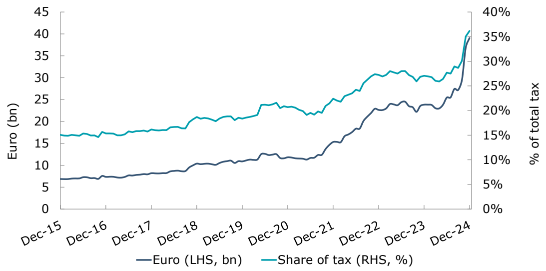
Public finances buffeted by corporate tax windfalls

Ireland recorded a general government budget surplus estimated at c.7% of GNI* (€22bn) in 2024, based on the final Exchequer returns. While clearly exceptional in an international context, it is helped by the accrual of €14bn of monies due as a result of the Apple case at the CJEU (c.€11bn of which has been paid to date). Excluding this, a budget surplus of 2.5% of GNI* was recorded. This is also flattered by ongoing robust underlying corporate tax receipts. It is estimated that underlying corporate tax receipts were c.€28bn in 2024, up 18% yoy. This is lower than that forecast (€29.5bn) in Budget 2025 in October, so there was a significant slowing in the growth rate in this tax heading in Q4.

Irish tax revenue share - 2024



Corporation tax trends



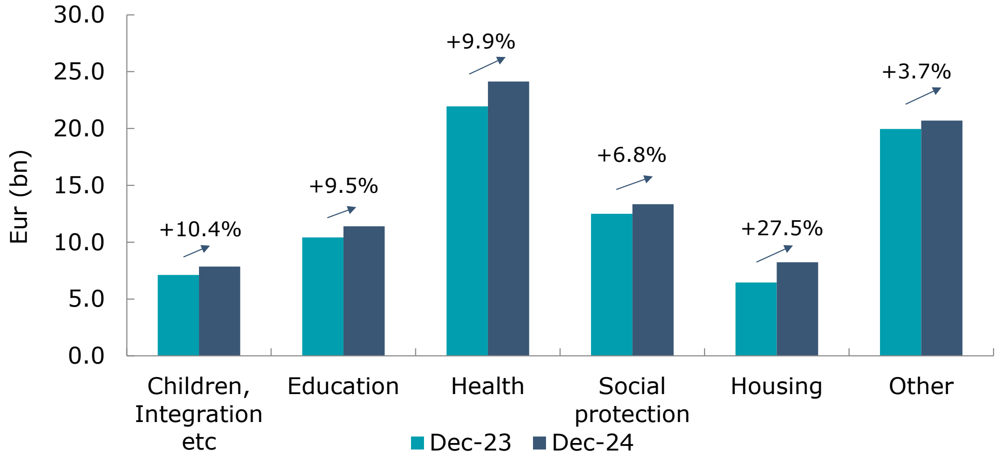
Source: DoF

We estimate that underlying growth slowed to 9% yoy in Q4, relative to 23% yoy in the first nine months. This is hardly disastrous but does illustrate the difficulty in forecasting this tax heading. As noted earlier in this report, the Irish Government has estimated that the "windfall" element of underlying corporate tax receipts was €15.9bn (under the assumption that receipts were €29.5bn in 2024). That "windfall" element is now likely estimated at c.€14.5bn (given the miss calculated above), implying an "underlying" general government deficit of c.€6.5bn, or 2.1% of GNI*. This reinforces the case to only use these one-offs either for additional capital spending or to boost the size of the savings funds set up in 2024.

The other major tax headings showed relative stability in growth throughout 2024. Income tax grew by 7%, reflecting ongoing growth in employment and earnings. VAT also grew by 7%, pointing to ongoing consumer spending growth. Overall tax revenue grew 10% to €108bn (€97bn excluding the Apple payments). For context, tax revenues were €59bn in 2019 (+63%). The c.€38bn reflects a combination of impressive growth in the domestic economy and the booming corporation tax receipts.

Gross voted expenditure increased by 9.5% in 2024, reflecting hefty increases in both current (+8.4% yoy) and capital (16.8% yoy) expenditure. The biggest single contributor to this growth was Health, which grew by 10% yoy to €24.6bn. Social Protection spending grew by 8% yoy, increasing by €2bn to €27bn. The biggest contributor to growth in capital spending was in Housing (+41% yoy), reflecting a significant acceleration in the government housing delivery plan.

Spending growth by government department



Source: DoF

Comfortable funding position

As a result of the large surplus, Ireland finished 2024 with total cash and liquid short-term investments of €34.3bn, up from €24.8bn a year earlier. This was further boosted by a €3bn sale of a new 30-year bond in January. The sale was done at a yield of 3.154%. While this is above the average interest rate of debt raised since 2022 (2.3%), it is double the average maturity over that period, guaranteeing lower funding costs well into the future. In addition, it is noteworthy that the bond will partly replace the €11.5bn 2025 bond maturing in March, which has a coupon of 5.4%. The transaction is thus positive for the average interest rate on the stock of Irish sovereign debt.

A comparison with the yield on the last occasion when Ireland sold a 30-year bond is instructive. In May 2019, Ireland sold a new 2050 benchmark bond at a yield of 1.53%. This represented a spread of 93bps over the German 30-year and 14bps over France. Today's sale was done at just a 37bps spread to Germany and was 73bps lower than a French bond of a similar maturity. The movements reflect the improved fiscal position, reflected in a series of actions by the ratings agencies over recent years.

As shown earlier, there is a large margin of error around the prospects for the public finances over the coming years due to corporation tax in particular. Our forecasts here are laid out on the basis of a benign outcome for policy change on this front over the coming year.

Goodbody Fiscal Forecasts

	2022	2023	2024f	2025f	2026f
Budget balance (Eur m)	8,635	8,328	21,861	7,641	7,401
Budget Balance (% of GDP)	1.7%	1.6%	4.3%	1.4%	1.3%
Budget Balance (% of GNI*)	**3.2%**	**2.9%**	**7.0%**	**2.3%**	**2.2%**
Underlying* budget balance (% of GNI*)	-0.2%	-1.3%	-2.2%	-1.9%	-1.9%
General Government Debt (Euro m)	224,700	220,700	217,944	211,118	210,887
General Government Debt (% of GDP)	43%	43%	43%	39%	37%
Debt/GNI*	**84%**	**76%**	**70%**	**65%**	**61%**
Interest/GDP	1.7%	1.3%	1.2%	1.2%	0.9%
Primary balance	3.3%	2.9%	5.5%	2.6%	2.2%

Source: CSO, DoF, Goodbody *excludes estimate of "windfall" corporation tax

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