

ADVANCING NORTHERN IRELAND'S ECONOMIC FUTURE



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FOREWORD

Trade NI is an alliance representing three of Northern Ireland's largest industry bodies— Hospitality Ulster, Manufacturing NI, and Retail NI. Together, our members account for a significant proportion of the region's businesses and private sector workforce, giving Trade NI a strong, representative voice for Northern Ireland's real economy.

Our shared ambition is clear: to ensure Northern Ireland is the most competitive and attractive location across the UK and Ireland in which to start, invest in, and scale a business. Realising that ambition will require sustained collaboration between government and industry, underpinned by clear, long-term policy direction and strategic vision for the economy.

This report comes at a critical juncture. As the second year of the current UK Parliamentary term concludes and as the Northern Ireland Assembly enters the final year of its present mandate, attention is increasingly turning to the policy choices that will shape the next electoral cycle. The elections scheduled for May 2027 will be pivotal in determining the economic framework for the next five years. Trade NI intends this report to make a constructive contribution to that agenda-setting process.

The environment for economic decision-making has, however, become more complex. Global economic volatility, particularly in energy, commodity and supply-chain markets, has materially increased the cost of doing business and introduced greater uncertainty into investment planning. These pressures are being felt acutely across Northern Ireland's key sectors and must be factored into policy responses.

Against this backdrop, this report focuses on three priority areas identified by our members **Costs of Doing Business, Skills and Entrepreneurship**. These are not abstract policy issues; they are immediate constraints on competitiveness, productivity, investment and growth. Equally with the right interventions, they present a significant opportunity to strengthen the region's economic performance and unlock long-term prosperity.



Northern Ireland occupies a uniquely advantageous position, with dual-market access to both the UK and the European Union. This presents a significant opportunity to attract investment and drive export-led growth. However, this advantage will only be realised through deliberate policy choices that address structural barriers and enhance the region's competitiveness.

Trade NI therefore advocates for a set of targeted, regionally responsive fiscal and economic interventions. Such measures would not only address the specific challenges facing Northern Ireland but also align with the UK Government's stated objective of empowering regions with greater autonomy to shape their own economic futures.

In developing this report, we have once again partnered with BDO Northern Ireland, whose analytical expertise and insight have further strengthened the evidence base underpinning our recommendations. We also acknowledge and thank our key sponsor, Danske Bank, for its continued support of this publication and the forthcoming Trade NI keynote event in London.

We look forward to continued engagement in shaping a more competitive, resilient and prosperous region and in doing so, Advancing Northern Ireland's Economic Future.

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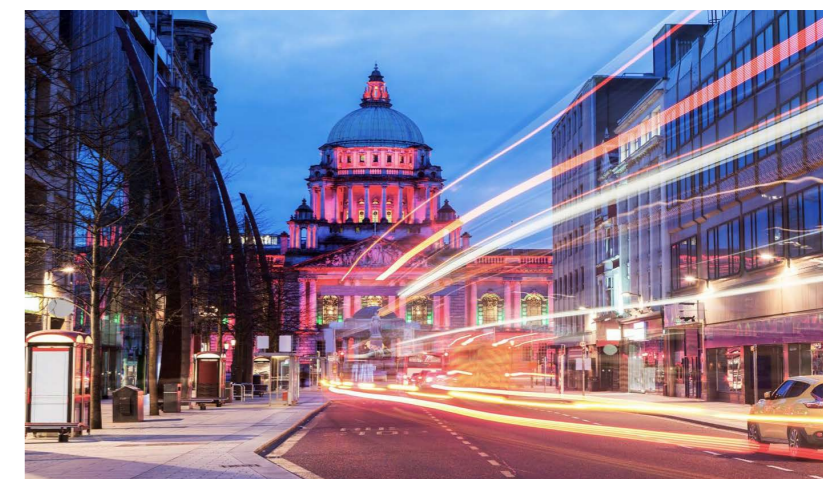
THE ECONOMIC BACKDROP

Northern Ireland enters 2026 in a position of economic resilience. The region has shown underlying strength, with continued output growth, low unemployment, a young and skilled workforce, and sustained business activity, even as the wider United Kingdom economy remains subdued.

At the same time, renewed inflationary pressures, softer consumer confidence, and ongoing global uncertainty pose clear challenges to growth. However, Northern Ireland's business community is no stranger to navigating periods of disruption. The resilience built over time will, once again, prove crucial in sustaining momentum.

The key features of the current economic backdrop are outlined below:

- Northern Ireland recorded positive economic growth in both Q3 and Q4 of 2025, outperforming the wider United Kingdom on a quarterly basis. According to the Northern Ireland Statistics and Research Agency Composite Economic Index (NICEI), economic output increased by 1.0% in Q3 2025, driven primarily by the services sector, and rose by a further 0.2% in Q4 2025. Over the year to Q4 2025, output was 1.6% higher, indicating continued resilience despite a subdued wider UK economy.
- Despite wider economic challenges, the Northern Ireland labour market remains relatively resilient, with unemployment at a low level of around 2.1%, indicating continued underlying strength.
- The previously anticipated disinflationary trend in early 2026 has been disrupted by the escalation of the US-Israel conflict with Iran. CPI inflation rose to 3.3% in March, reflecting renewed upward pressure on energy and input costs. This outturn is consistent with revised forecasts indicating a peak in inflation of approximately 3.5% to 4.0% during 2026, implying a more prolonged period of inflation remaining above the Bank of England's 2% target.
- Consumer confidence has weakened, reflecting the ongoing impact of higher prices and broader economic uncertainty on household sentiment.
- Looking ahead, economic growth of approximately 1.1% is forecast for 2026 across both the UK and Northern Ireland, suggesting a gradual recovery rather than a strong rebound.
- Key risks to the outlook include geopolitical uncertainty, fiscal policy changes, inflation volatility, and skills shortages, all of which may influence economic performance over the coming year.
- The mixed economic backdrop for Northern Ireland underlines the importance of targeted economic interventions to leverage the regions strengths, while recognising the challenges posed by global headwinds.



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THE 3 KEY PRIORITIES

COSTS OF DOING BUSINESS

The costs of doing business in Northern Ireland has risen sharply over recent years, reflecting a combination of global inflationary pressures and long-standing structural disadvantages. Whilst all economies have been impacted by inflation, Northern Ireland businesses have had to absorb higher post-Brexit trading and logistics costs linked to the Windsor Framework, particularly those importing goods from Great Britain.

Businesses have faced significant increases in energy, raw materials, transport, insurance and borrowing costs, while wage pressures have intensified through rises in the National Living Wage and tighter labour market conditions. These cost pressures are particularly acute in the retail, manufacturing, and hospitality sectors, placing additional strain on competitiveness, investment, and growth potential.

The following targeted recommendations are intended to mitigate these cost pressures, enhance business viability, and support the long-term resilience of the regional economy:

- Introduce targeted energy cost relief schemes for Northern Ireland businesses equivalent to those available in Great Britain, including exemptions or compensation for policy levies.
- Reform electricity pricing within the Single Electricity Market to ensure the fair allocation of policy and network costs.
- Redirect Windsor Framework tariff revenues to directly support Northern Ireland businesses through measures such as rates relief and infrastructure investment.
- Reduce VAT for hospitality and tourism through a proposed 5-year pilot aligned with rates in the Republic of Ireland.
- Provide targeted rates relief for SMEs, in the retail, tourism, and hospitality sectors.
- Address the disproportionate cost burdens from increases in Employers' National Insurance Contributions and the National Minimum Wage, particularly for smaller businesses.
- Reform the business rates system to reduce high non-domestic cost multipliers.
- Mitigate supply chain and post-Brexit cost pressures, including certification and logistics burdens.



SKILLS

Northern Ireland faces a persistent skills deficit that is constraining productivity, innovation, and economic growth. Gaps between education provision and employer needs, particularly for SMEs, are limiting workforce readiness in a rapidly changing economy.

The following recommendations set out targeted interventions to build a more agile, demand-led skills system:

- Return Apprenticeship Levy funding more directly to employers to close the gap between training costs and productivity.
- Introduce a Skills Tax Credit, similar to R&D tax credits, to incentivise investment in training and reskilling.
- Increase investment in lifelong learning to improve productivity and workforce mobility.
- Reform skills systems to better align provision with employer needs, particularly those of SMEs.
- Reduce administrative barriers that prevent small firms from accessing apprenticeship and training schemes.
- Shift the focus from qualifications alone towards practical capability development, including digital, leadership and innovation skills.
- Strengthen collaboration between education providers and industry to support technological and economic transitions, including AI and the green economy.

Addressing the skills deficit requires coordinated reform that empowers employers, reduces barriers and prioritises practical capability development. A more responsive and accessible system will improve workforce adaptability in the face of technological and economic change. Collectively, these measures will strengthen productivity, competitiveness, and the long-term resilience of the Northern Ireland Economy.

ENTREPRENEURSHIP

Entrepreneurship in Northern Ireland remains constrained, with start-ups and SMEs requiring a more coherent and accessible support ecosystem to unlock growth and innovation.

The following recommendations outline practical reforms to create a streamlined, ambitious and scalable enterprise environment:

- Develop a single, unified enterprise support platform as a gateway for funding, advice, and resources.
- Simplify and reduce fragmentation across existing enterprise support systems.
- Reform the Local Growth Fund structure to increase revenue funding for start-up support rather than just focussing predominantly on capital.
- Invest in enterprise hubs and local business infrastructure to support regional growth and innovation.
- Upskill business advisers to support AI adoption, innovation, and business scaling.
- Provide targeted support for SMEs adopting AI and pursuing wider digital transformation.
- Strengthen sales capability and route-to-market development through tailored business support.
- Pilot an integrated enterprise support ecosystem in Northern Ireland with the potential for wider UK scalability.
- Focus policy on helping start-ups scale into SMEs, recognising the critical role smaller businesses play within the regional economy.

Creating a unified and capability-driven support system will enable entrepreneurs to start, grow, and scale more effectively. By aligning funding, advisory services, and digital adoption support, Northern Ireland can strengthen its SME base and enhance innovation capacity. Collectively, these measures would help build a more competitive, scalable, and future-ready enterprise economy.

FISCAL & ECONOMIC INTERVENTIONS

VAT PARITY

The hospitality and tourism sector is a cornerstone of Northern Ireland's economy, yet it faces a growing competitive disadvantage arising from significantly higher VAT rates than those in the Republic of Ireland. Against a backdrop of escalating operating costs and widening VAT divergence, business viability, employment and investment are increasingly at risk. Targeted VAT parity would represent a practical and proportionate intervention to restore competitiveness, protect jobs and strengthen Northern Ireland as a destination for tourism, investment and long-term growth.

VAT in Line with Europe

Hospitality and Tourism is a major contributor to the Northern Ireland economy, supporting almost one in ten jobs and contributing close to £2 billion annually. Together the industry accounts for approximately 5% of regional GVA, a higher share than in the Republic of Ireland (4.4%) and is central to regional prosperity and balanced economic development.

An Uneven Playing Field: The VAT Gap

Northern Ireland's 20% VAT rate on hospitality and tourism compares unfavourably with the 13.5% rate in the Republic of Ireland. This gap is expected to widen further when VAT on food and broader hospitality services in the Republic reduces to 9% in July 2026. This creates an immediate pricing disadvantage of between 6.5% and 11% before businesses even begin to compete.

International competitiveness

The United Kingdom's standard VAT rate on hospitality and tourism is also an outlier relative to many European

competitors, placing business in Northern Ireland at a further disadvantage in attracting visitors and investment.

A Changing Market - Escalating Costs, Reduced Competitiveness

Businesses in Northern Ireland face higher structural costs than many counterparts elsewhere in the UK or on the island of Ireland, including elevated electricity prices and 20% VAT on energy compared with 9% in the Republic. Brexit related supply chain pressures and more complex logistics have also added up to 2% to foodservice costs, further eroding margins.

Policy Gap

The Republic of Ireland's 2026 Budget demonstrates a clear, long-term strategy through lower VAT, border & rural tourism support, and infrastructure investment. Northern Ireland currently lacks a comparable policy response tailored to its unique competitive environment.

A Practical Solution

The Northern Ireland Protocol permits the UK Government to apply reduced VAT rates locally where necessary to prevent competitive imbalance. Aligning VAT with the Republic would therefore be both feasible and justified.

Economic Impact

A targeted VAT reduction would help stabilise businesses, protect employment - particularly entry-level opportunities for younger workers —and enhance price competitiveness. Increased demand would support higher sales, more stable employment and, over time, stronger tax receipts to offset part of the initial fiscal cost.

FAIR FUNDING FOR NORTHERN IRELAND

Fair and sustainable funding is essential if Northern Ireland is to realise its full economic potential. Public investment must be structured to address regional need, support long-term growth and ensure that dedicated economic funding delivers measurable outcomes.

The following reforms would help create a more transparent, equitable and growth-focused funding framework:

Ring-Fence Funding

UK Government funding for economic development, high street regeneration and infrastructure investment should be ring-fenced to ensure it is directed to these priorities, rather than being absorbed into funding shortfalls within the devolved budget.

Regional Inequality

A statutory duty should be placed on the UK Government to assess all major economic policies against their likely impact on reducing regional inequality, with the objective of accelerating the levelling up agenda.

Consideration for a New Funding Model

Consideration should be given to a review of the Barnett Formula for Northern Ireland and whether an alternative funding model is appropriate, recognising the specific economic challenges faced across the region.

ELECTRICITY COSTS AND INDUSTRIAL COMPETITIVENESS

High electricity costs remain one of the most significant barriers to competitiveness for businesses in Northern Ireland, particularly for manufacturers and other energy-intensive sectors. Compared with competitors elsewhere in the United Kingdom and across Europe, many businesses in the region face structurally higher energy costs that undermine productivity, deter investment and place pressure on margins. Addressing these challenges will require a coordinated policy response that delivers fairer pricing, targeted relief and market reform tailored to Northern Ireland's unique energy landscape.

Provide Equivalent Electricity Cost Relief for industry

Ensure Northern Ireland manufacturers have access to support mechanisms equivalent to, and introduced in line with, those available to Energy Intensive Industries and eligible sectors in Great Britain.

Address Structural Disparities in Policy Cost Allocation

Recognise that current arrangements do not provide direct or transparent compensation to businesses in Northern Ireland. New mechanisms should be developed to deliver relief at the point of consumption, reducing costs more effectively and efficiently.

Mitigate Competitiveness Risks Within the UK Internal Market

Take action to reduce structurally higher electricity costs that risk discouraging investment, weakening productivity, and displacing industrial activity from Northern Ireland to other parts of the UK and Ireland.

Develop Tailored Solutions Reflecting the All-Island Electricity Market

Consider bespoke policy approaches that reflect Northern Ireland's participation in the Single Electricity Market, rather than relying solely on schemes designed for Great Britain.

Protect Consumers from Energy Price Shocks

Work to decouple electricity prices from the current marginal pricing model, where wholesale prices are largely set by gas generation. Consider models such as the "Iberian Exception" introduced in Spain and Portugal in 2022, which helped shield consumers and businesses from volatility.

Review Electricity Charging and Policy Cost Structures

Work with regulators and market operators to ensure network and policy costs are allocated in a way that protects industrial competitiveness and avoids disproportionate burdens on Northern Ireland businesses.

CONCLUSION

Northern Ireland's economic trajectory since the Belfast Good Friday Agreement has been one of clear and measurable progress. This report, produced by BDO NI in partnership with Trade NI, highlights a region that has transformed its economy and strengthened its global positioning over the last two decades. That progress, however, now sits alongside a more complex operating environment shaped by both domestic pressures and global uncertainty—conditions that demand deliberate and targeted policy responses.

The core investment proposition remains compelling. Northern Ireland continues to offer a unique combination of dual market access, a highly skilled and youthful workforce, a competitive cost base, and a formidable reputation for innovation. These structural advantages are not only intact, but represent underutilised levers for accelerated growth if effectively supported.

Our findings set out a focused programme of fiscal and economic interventions aligned with broader government ambitions for regional prosperity. It identifies three priority areas; costs of doing business, entrepreneurship, and skills development, as critical to sustaining competitiveness. These key priorities must be supported by targeted interventions, including strategic VAT measures, energy cost reform, fair

funding arrangements and measures, with policies responsive to the region's specific economic circumstances.

Addressing these areas is essential to enabling businesses of all sizes to navigate current pressures, scale effectively, and unlock long-term productivity gains. Equally, it is vital that young people can clearly see and access viable economic opportunities within Northern Ireland.

The pathway forward is both realistic and achievable. With the right policy framework and timely intervention, Northern Ireland can strengthen its competitiveness, enhance resilience, and deliver inclusive economic growth. The opportunity is clear and the imperative now is to act decisively.



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