



## Summary

We have revised down our forecast for Irish GDP growth to 1.6% in 2026, followed by 3.6% in 2027. A key reason is that recent data suggest temporary front-running of US tariffs last year (now unwinding) played a stronger role in the 9.7% growth of exports in 2025. However, events in the Middle East and surge in oil prices to \$100pb also play a role. We now expect Irish CPI inflation to average 3.3% in 2026, restraining consumer spending to 1.8% growth (vs 2.3% previously). Here, Ireland's strong labour market performance provides some protection, job creation of 1.8% expected in 2026 with pay growth of 4% and unemployment averaging 4.8%. AI-related spending on machinery and equipment has also led us to revise up our forecasts for investment.

### Surge in oil prices to \$100 per barrel not sufficient to cause recession

As in recent IMF and OECD projections, the pick-up in CPI inflation to 3.6% in March is not likely to cause a recession for the Irish economy, albeit an unwelcome squeeze on households' real incomes and consumer spending. Recent government action on excise duties has reduced the impact of higher petrol/diesel prices onto CPI inflation by circa 0.6pp, albeit at a cost of €750m. Given a government balance of €9bn (2.5% of GNI\*) is now expected in 2026, there is scope for further support, on top of existing plans to raise public spending rapidly this year. Ireland's robust labour market will provide some protection, the pace of job creation and pay growth sufficient to generate positive growth in real incomes. Despite elevated uncertainty, expanding construction activity will provide a tailwind to investment.

### Revising down our projections for GDP growth to 1.6% in 2026

We now expect 1.6% GDP growth in 2026 (2.8% previously). This is largely due to softer export growth (3.6%) because the enormous 9.7% surge in 2025 now looks to have reflected temporary front-running of US tariffs to a greater extent. Also, CPI inflation is expected to average 3.3% in 2025, restraining consumer spending to 1.8% growth. Recent strong data on job creation have led us to revise up our forecast for employment growth to 1.8% in 2026 with the unemployment rate remaining low at 4.8%. We expect homebuilding to rise to 37,500 units in 2026, alongside a 6% rise in non-residential construction output. House price inflation is still forecast to slow to 4% through 2026. The government balance is still expected to be in a €8.9bn surplus (2.5% of GNI\*) this year, despite recent energy support measures, with debt/GNI\* falling to 59%.

### Events in the Middle East pose enormous uncertainty and risk

Our forecast is based on current oil prices close to \$100pb, following downward sloping futures curves to \$75-80pb in early 2027. Clearly there are enormous risks to the view embedded in commodity markets that the blockage to 20% of global oil supply through the Strait of Hormuz will prove temporary. ECB President Christine Lagarde has warned of a 'cliff-edge' as the last ships that left the Middle East prior to the outbreak of the war finally reach their destination. The International Energy Association (IEA) has also warned current energy prices do not reflect current realities. If so, Ireland should be well placed to exhibit the same resilience it displayed through Brexit, the Covid19 pandemic and period following Russia's invasion of Ukraine. The export sector remains concentrated in less cyclical sectors, savings remain high, with domestic household and corporate balance sheets conservatively positioned with low debt.

## Bank of Ireland Economic Forecasts

Forecasts	2024	2025	2026	2027
Consumer Spending	2.9%	2.9%	1.8%	1.9%
Government Expenditure	5.3%	4.1%	4.0%	3.1%
Investment	-28.5%	42.6%	-20.6%	3.0%
Building & Construction	-4.8%	9.3%	4.5%	5.9%
Machinery & Equipment (Core)	-7.5%	8.6%	2.0%	2.0%
Modified Investment	-4.2%	10.9%	3.6%	3.0%
Exports	8.6%	9.7%	3.6%	5.0%
Imports	2.7%	9.5%	0.1%	4.8%
<b>Modified Domestic Demand</b>	<b>1.7%</b>	<b>4.9%</b>	<b>2.7%</b>	<b>2.4%</b>
<b>GDP</b>	<b>2.6%</b>	<b>12.3%</b>	<b>1.6%</b>	<b>3.6%</b>
Multinational Sector	0.8%	25.2%	1.5%	4.2%
Indigenous Sector	3.5%	0.9%	2.0%	2.5%
Government Balance, % GDP	4.0%	1.7%	1.3%	0.5%
Government Debt, % GDP	38.3%	32.5%	30.9%	30.1%
Employment Growth	2.7%	2.2%	1.8%	1.5%
Unemployment Rate	4.3%	4.7%	4.8%	4.9%
CPI Inflation	2.1%	2.2%	3.3%	2.6%

Source: Bank of Ireland, Central Statistics Office.

### Summary

Page 2

**Irish economy well placed to weather storm of Middle East uncertainty**



### Labour Market

Page 4

**Job creation retains strong momentum**



### Consumer Spending

Page 5

**Consumers face renewed headwind of elevated CPI inflation**



### Investment Spending

Page 6

**Construction and AI-related spending to drive further growth in investment**



### Housing

Page 7

**Sticking with our forecast for 4% house price inflation through 2026**



### Public Finances

Page 8

**Public finances set to record larger surplus in 2026 despite energy supports**



### Trade

Page 9

**Ireland's defensive export sector should provide protection from any global downturn**



### Contacts

Page 10



## Summary

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### **Irish economy well placed to weather storm of Middle East uncertainty**

Ireland now faces a fresh geopolitical uncertainty: the challenge posed by recent events in the Middle East and elevated \$100-per-barrel oil prices. In our newly published forecasts, we have revised down our forecast for Irish GDP growth to 1.6% in 2026 (2.8% previously), rebounding to 3.6% in 2027. However, this largely reflects our view that a higher proportion of the 9.7% surge in Irish exports in 2025 reflected temporary 'front-running' of US tariffs, which will unwind in 2026.

The bigger picture is that we believe Ireland's economy is well placed to display the same resilience it exhibited through Brexit, the Covid-19 pandemic, and the period of elevated natural gas prices and close-to-double-digit CPI inflation that followed Russia's invasion of Ukraine. The recent surge in oil and energy prices to \$100pb represents a fresh, unwelcome squeeze on households' real incomes and consumer spending, but should not be sufficient to push Ireland, or the broader global economy, into recession.

However, the risk of extended disruption to traffic through the Strait of Hormuz, and far higher energy prices, should not be understated. ECB President Christine Lagarde has recently warned of a 'cliff edge' as the last ships that left the Middle East prior to the war finally reach their ports. Bank of England Governor Andrew Bailey, in his role as Chair of the Financial Stability Board (FSB), has highlighted the risk of a loss of investor confidence reminiscent of the global financial crisis (GFC). Specifically, substantially higher oil prices could put upward pressure on expected central bank policy rates, sovereign yields, stretched equity market valuations, and potentially expose vulnerabilities in private credit.

However, our baseline projections are based on \$100pb oil prices and downward-sloping futures curves towards \$75pb by end-2027. Hence, our forecast is for 3.3% average CPI inflation in 2026, falling to 2.6% in 2027. Here, Ireland has been particularly exposed, recording the fifth-highest HICP inflation rate in the euro area, due to its exposure to home-heating oil prices, which rose by 63% in March. Looking forward, the expiry of excise duty cuts to petrol and diesel could push up HICP inflation by 0.6pp in August, albeit hopefully accompanied by falling pre-tax prices.

Another uncertainty is the timing and magnitude of any increase in retail electricity and gas bills. These may be delayed as Irish energy companies hedge forward their exposure to wholesale gas prices, but they do not publicly disclose their positions. We have conditioned our forecast for 2.6% HICP inflation in 2027 on a 10% rise in household energy bills, adding 0.4pp to HICP inflation.

In aggregate, the Irish household sector should be well positioned to cope with higher inflation. The savings ratio remained at 14% in 2025, with household debt on a firm downward trajectory. For example, household deposits in the banking system were €172bn in February, up 6.3% on the year. We have assumed that roughly half of the squeeze on households' real incomes from the rise in consumer prices is offset by lower savings. Nonetheless, this means we have revised down our forecast for Irish consumer spending to 1.8% growth in 2026.

This should not be seen as overly optimistic. The pace of job creation has been better than expected. The number of payrolled employees in February was 2.57 million, up 2.4% year on year, with initial estimates consistently revised upwards. We expect pay growth of 4% in 2026. While individual households will no doubt be under pressure from energy prices, in aggregate household incomes should grow in real terms this year.

Thus far, the impact of uncertainty in the Middle East on Irish business confidence surveys has been relatively muted. Events would have to deteriorate materially to derail investment plans already put in place. We expect housing completions to rise to 37,500 in 2026 and 40,000 in 2027. In addition, the recovery in non-residential construction should continue, helped by the planned 17% rise in public capital expenditure to €19bn in 2026. Finally, recent data have shown buoyant imports of machinery and equipment related to the AI investment cycle and the construction of data centres in Ireland.

## Summary

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Notably, the Department of Finance has recently revised up its projection for the general government surplus to €9.2bn in 2026, from the €5.1bn forecast in December. This reflects lower borrowing (or stronger surpluses) from extra-budgetary funds, local government, and semi-state bodies. The substantially better-than-expected fiscal position also comes despite the €750m of energy supports already announced and a further €665m increase in the government expenditure ceiling for 2026. The larger €9bn surplus represents an additional safety buffer should further spending on energy supports be required.

The export sector should once again weather the storm of any global downturn that may emerge. Ireland is concentrated in less cyclical sectors such as agri-food, ICT services, pharmaceuticals, and medical technology. There is less exposure to heavy engineering and the production of machinery and equipment, which would be hurt by investment plans being put off or delayed due to geopolitical uncertainty. New pharmaceutical production facilities for weight-loss drugs are likely to boost GDP growth in the fullness of time, albeit our forecast for a relatively subdued 1.6% rise in 2026 reflects the unwinding of front-running of US tariffs this year.

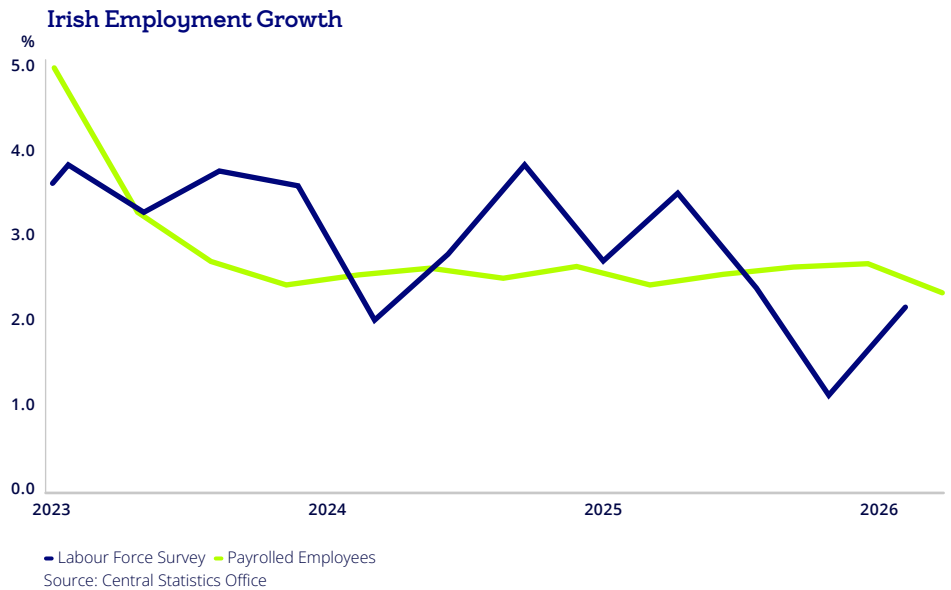
Turning to the housing market, our view that a slowdown in house-price inflation would emerge this year appears to be playing out. Both the MyHome (4.7%) and Daft (3.7%) asking-price inflation measures fell back in Q1 2026. In addition, the average mortgage approval in February was €336,500, up just 1.4% year on year — the softest pace since 2020. Hence, we are sticking with our forecast for 4% house-price inflation through 2026. Events in the Middle East are unlikely to have any material impact on Ireland's housing market unless a far more malign macroeconomic backdrop materialises.

**Labour Market**

**Job creation retains strong momentum**

The Labour Force Survey (LFS) showed employment rising by 0.5% in Q4 2025, with annual job creation running at 2%, to 2.83 million. The alternative ‘payrolled employees’ measure based off income tax returns has pointed to stronger momentum in early 2026. Total employee numbers in January and February averaged 2.57 million, up 2.4% on the year. We are also mindful the early estimates of employee numbers tend to be revised up significantly.

Job creation in 2025 was broad based; construction (6% to 151,500), education (+4.0% to 182,000), health (3.5% to 308,000), industry (2.9% to 277,000) and finance/real estate (+4.3% to 135,000) all seeing substantial gains. However, retail/wholesale (+0.6% to 392,000) and accommodation and food services (0.7% to 208,000) clearly lagged behind. Weak labour demand in these sectors may help explain the gradual rise in youth unemployment in recent years. However, the aggregate unemployment rate was revised down markedly from the 5% initially estimated for Q4 2025, to 4.6%, remaining low at 4.7% in March.



It is still too early to gauge how the uncertainty of recent events in the Middle East will affect job creation. The initial PMI and European Commission surveys for March did not reveal a marked change in firms employment intentions. Hence, we still expect a robust 1.8% rise in employment in 2026, slowing to 1.5% in 2027 – reflecting the view that labour shortages and capacity constraints will gradually hold back job creation.

Labour Market Projections	2024	2025	2026	2027
Employment	2.7%	2.2%	1.8%	1.5%
Unemployment Rate	4.3%	4.7%	4.8%	4.9%

Source: Bank of Ireland, Central Statistics Office

## Consumer Spending

### Consumers face renewed headwind of elevated CPI inflation

Irish consumer spending expanded by 2.9% in 2025. This included a sharp 0.9% quarter-on-quarter gain in Q4 2025. Early indicators suggest this momentum continued in early 2026. Retail sales volumes in the first two months were up 2.1% yoy. Value added tax receipts in Q1 2026 were €8bn, up by 5.3% in nominal terms. Similarly, card spending (including cash withdrawals) was €19.9bn in the first two months, up 7.3% on the same period of 2025.

However, the immediate headwind is the pick-up in HICP inflation to 3.6% in March - the fifth highest rate in the euro area, due to Ireland's high exposure to home heating oil prices. Our forecast for CPI inflation is based on downward sloping oil/gas futures curves - but these could prove optimistic. Also, the timing of when government cuts to excise duties will be removed and potential for substantial rises in household electricity and gas bills pose further uncertainty. We expect CPI inflation fall back, but only to 2.6% in 2027.

### Irish Consumer Confidence



The European Commission survey of Irish consumer confidence fell to a three-and-a-half year low in March. However, households' responses on whether they would make a major purchase fell less markedly than the headline measure - remaining in the ranges seen in 2025. Our assumption is that roughly half of the hit to household real incomes from CPI inflation will be offset by lower savings, rather than cuts to spending.

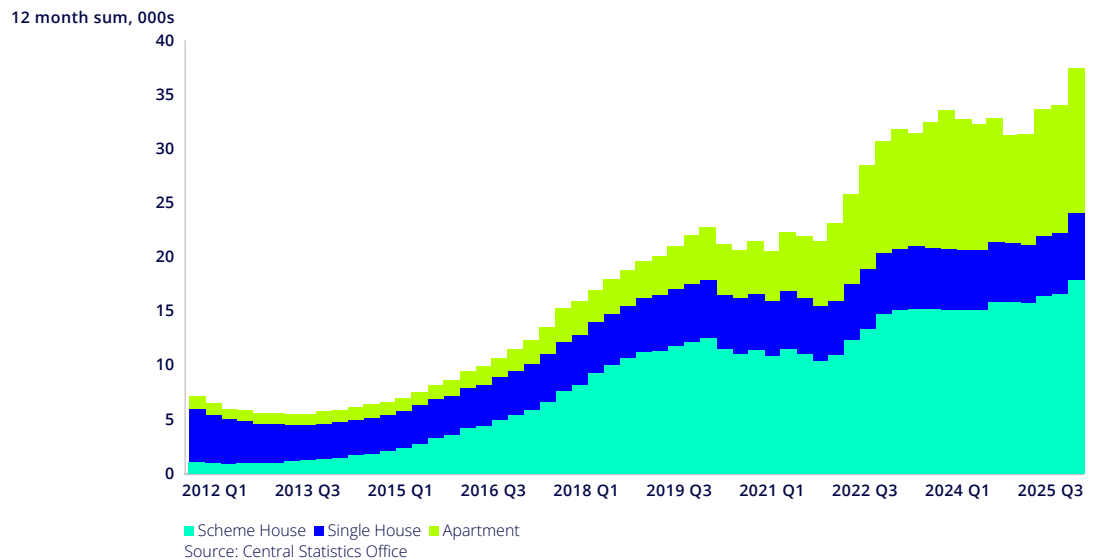
Ireland's strong pace of both employment (1.8%) and pay growth (4%) are expected to drive a 6% rise in the wage bill to €170bn in 2026. Whilst individual households may be under pressure, the aggregate wage bill should rise faster than CPI inflation. Hence, our forecast is for 1.8% growth in real Irish consumer spending in 2025 (vs 2.3% previously) and 1.9% in 2027.

## Investment Spending

### Construction and AI-related spending to drive further growth in investment

Housing completions rose to 36,300 in 2025, ahead of expectations. This reflected a sharp 40% increase in apartment completions to 12,000, 'catch-up' after the 25% drop to 8,700 units in 2024. The 4Dublin Housing Supply Pipeline figures show apartments under construction in Q4 2025 fell back to 19,659 from above 21,500 in Q3. Hence, we have taken a conservative view housing completions will rise only slightly to 37,500 in 2026 and then to 40,000 in 2027.

### Irish Housing Completions



We still expect non-residential construction output to rise by 6% in 2026, after the 2.8% gain in 2025, the first rise after five consecutive years of contraction, or 28% fall peak-to-trough. Notably, March's Construction PMI reading for commercial activity was 54.9, indicating the fastest pace of expansion in a year. Also, the planned 17% rise in public capital expenditure to €19.1bn will help activity in civil engineering.

Finally, a key reason our forecast for modified investment to rise by 3.6% in 2026 is that we expect the current elevated level of machinery and equipment spending to persist this year. Trade data point to imports of AI-related items, no doubt related to on-going expansion of data centres that should show up in capital investment in 2026.

Investment Spending Forecasts	2025	2026	2027
Homebuilding	19.4%	3.4%	8.0%
Non-Residential Construction	2.8%	6.0%	6.0%
Machinery and Equipment	13.0%	2.0%	-2.0%
Intangible Assets	13.8%	3.0%	0.0%
Modified Investment	10.9%	3.6%	3.0%

Source: Bank of Ireland, Central Statistics Office

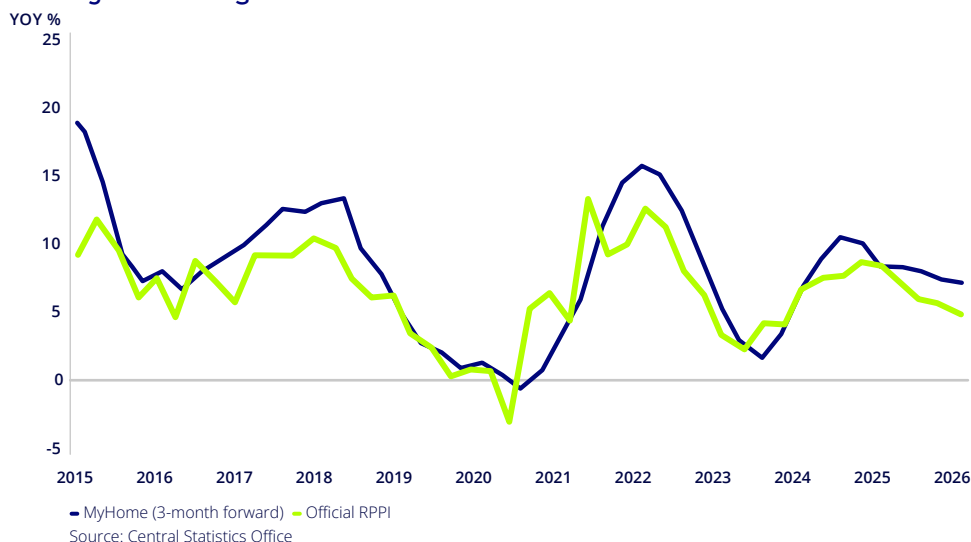
## Housing

### Sticking with our forecast for 4% house price inflation through 2026

Residential Property Price Index (RPPI) inflation is currently running at 6.8%. However, the RPPI index fell by 0.1% in February, the first month-on-month fall in three years. We believe this is consistent with our view that stretched affordability will lead to a more modest 4% rise in Irish house prices in 2026.

Recent forward looking indicators point to softer house price growth in 2026. Both the MyHome (4.7%) and Daft (3.7%) asking price inflation measures slowed in Q1 2026. We can also see that the median premium that transactions were settled at, over the original asking price, was steady just below 7% in early 2026. Also, the average mortgage approval in February was €336,500, up just 1.4% yoy – the weakest pace since 2020.

**MyHome Asking Prices and RPPI Inflation**



Residential transactional activity in the first two months of 2026, was up by 3.9% on the year to 8,700 transactions. However, this was starkly split between a 35% in newly built home transactions to 2,900 and 7% fall for existing homes to 5,800. New listings for sale on MyHome also tracking close to 2025 levels, exhibiting little improvement.

The big picture remains that existing homeowners, especially with mortgage debt, remain reluctant to move, for fear of failing to secure a new home once they sell their own. This points to at best only a modest improvement in housing market liquidity in 2026. However, we are mindful that the number of ‘notices for termination’ rose by 38% to 10,600 in H2 2025. This suggests exiting landlords from the private rented sector (PRS) could add substantially to the 43,700 transactions for existing homes recorded in 2025.

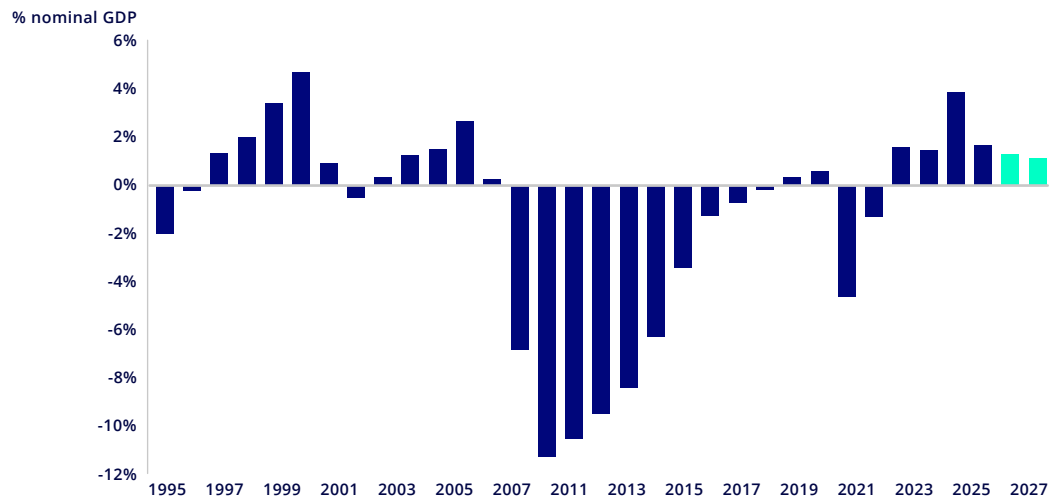
## Public Finances

### Public finances set to record larger surplus in 2026 despite energy supports

Exchequer returns for Q1 showed healthy growth in key categories such as income taxes (6.1%) and VAT (+5.3%). Corporate tax receipts were down 3.1% on the year, to €2.95bn, but the bulk of these are collected in the second half of the calendar year. Meanwhile, the Budget 2026 plans to raise spending aggressively were evident. Gross voted current (+6.2%) and capital (8%) expenditure were both up sharply compared with the same period of 2025.

However, the government has now announced a €750m package of supports in response to higher energy prices – primarily via cuts to excise duties on petrol and diesel. In addition, April's Annual Progress Report announced the government had decided to raise its expenditure ceiling by €665m to €118.5bn in 2026 – reflecting the package of measures to support the transport, farming and fisheries sectors, but also additional funding for the Department of Education.

### General Government Balance



Source: Central Statistics Office

Somewhat counter-intuitively, and despite the recent package of tax cuts and spending, the Department of Finance has revised up substantially the projection for the general government surplus in 2026, from €5.1bn, now to €9.2bn. The apparent explanation are previously unidentified surpluses worth €4.4bn, outside of central government, in semi-state bodies, extra budgetary funds and local government.

Hence, our forecast is for slightly faster growth in both tax revenues and spending in 2026, delivering a surplus worth €8.9bn, or 2.5% of GNI\* in 2026, falling to €8.4bn, 2.3% of GNI\* in 2027. The debt/GNI\* ratio falls to 58.6% this year and 57.6% in 2027.

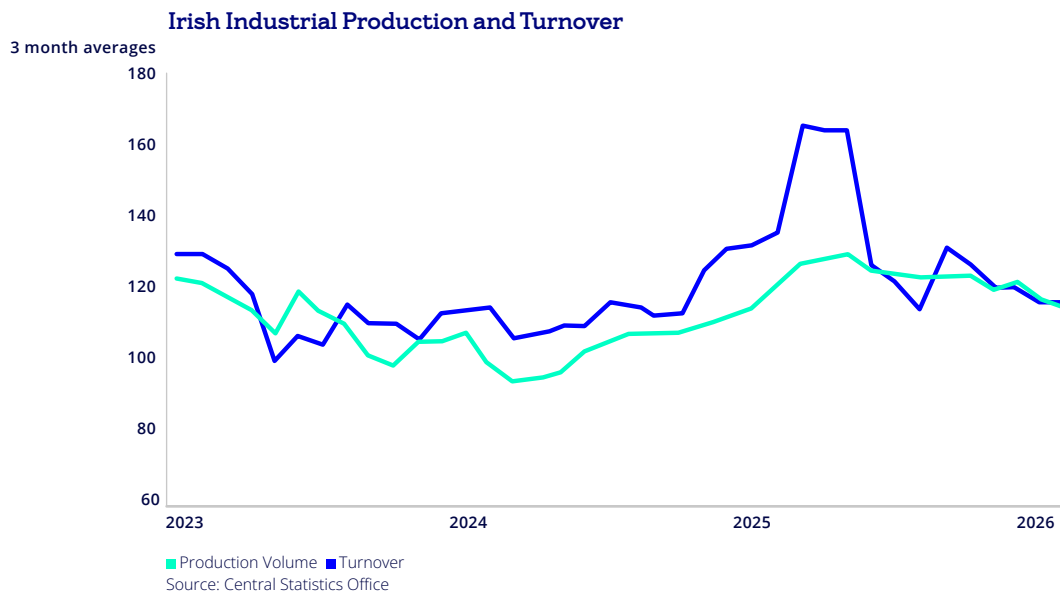
Public Finance Projections	2025	2026	2027
General Government Balance	€11,200mn	€8,900mn	€8,400mn
% GNI*	3.3%	2.5%	2.3%
Debt	€210bn	€208bn	€219bn
% GNI*	62.0%	58.6%	57.6%

Source: Bank of Ireland, Department of Finance

## Trade

### Ireland's defensive export sector should provide protection from any global downturn

Exports surged 9.7% in 2025, a combination of front-running of US tariffs but also new pharmaceutical production facilities coming online. Spikes in manufacturing turnover, occurred in March and September, when tariffs on the pharmaceutical sector were threatened. However, production was more stable. Also, demand for new weight loss drugs will continue to grow, with new production facilities due to open in 2026. Nonetheless, we have pared back our forecast for export growth to 3.6% in 2026, due to recent weaker trade and industrial production data.



Notably, Ireland's manufacturing PMI rose to 53.7 in March, a nine-month high, attributed to sustained gains in output, orders and employment and despite signs of rising input costs. The European Commission survey of industrial sector confidence also picked-up in March. Service sector exports also registered strong growth last year, up 5.7% yoy in Q4 2025. This growth was led by the dominant ICT sector (up 7% to €84bn) but there was also substantial gains in business, financial and insurance services.

Looking forward, the defensive character of Irish exports should continue to provide protection in the event of any global downturn. That is, Ireland's concentration in less cyclical sectors such as agri-food, ICT services, pharmaceuticals and medical technology. Specifically, Ireland is less exposed to highly cyclical, heavy engineering and production of machinery and equipment which may suffer if firms' investment plans are delayed or put-off due to the uncertainty created by the events in the Middle East.



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