



Revised path for interest rates

The conflict in the Middle East has triggered a sharp rise in energy prices. Inflation will be higher and economic growth lower as a result, though to what extent will ultimately depend on how long energy supplies through the Strait of Hormuz remain disrupted. While this leaves central banks facing a difficult balancing act, the path for interest rates will be higher than previously expected. We now see the ECB nudging rates up by 25bps in the next few months and expect the Fed and the Bank of England to keep policy on hold for the remainder of this year. The dollar benefited from a 'safe haven' bid in the initial stages of the war but has since given up most of its gains. With EURUSD remaining within our previously projected range of \$1.14-\$1.21, we are leaving our forecast for the pair unchanged. We are also keeping our forecasts for GBPUSD and EURGBP largely intact at \$1.32-\$1.38 and £0.84-£0.89 respectively.

War in Iran triggers spike in energy prices

The war in Iran, now well into its second month, has resulted in severe disruption to energy supplies through the Strait of Hormuz, triggering a sharp rise in oil and gas prices. Higher energy prices will raise inflation and dampen economic growth, to what extent ultimately depending on the duration of the conflict and how quickly energy supplies come back on stream. The futures market points to a decline in both oil and gas prices over the coming months (returning close to pre-war levels in a year's time), though the risk is they remain elevated for longer.

Higher inflation and lower growth

The first-round effects of higher energy prices are already evident in the available CPI readings for March, with inflation rising notably in the US and the Euro area last month. Forecasts for this year have been revised a good deal higher, but less so for 2027 with inflation seen falling back next year as second-round effects on prices more broadly are expected to be limited. At the same time, growth forecasts have been revised lower. The Euro area and UK economies - both net energy importers - are generally seen expanding at below-potential growth rates of around 1% or so this year, before the pace of activity picks up next year. Though a net energy exporter, the US economy is not expected to be immune from the impact of higher energy prices, albeit revisions to the growth outlook have been relatively modest.

Revised path for interest rates

While central banks face a dilemma as they attempt to balance upside risks to inflation and downside risks to growth, the market now expects the path of interest rates to be higher than it was pricing before the war. This has contributed to a notable increase in government bond yields/swap rates, albeit both have fallen back from their highs in late March. For our part, we see the ECB nudging rates up by 25bps in the next few months, having previously expected it to stay on hold throughout 2026, though clearly uncertainty is such that it could do less or more than we expect. Taking into account their still slightly restrictive stance of monetary policy and ongoing concerns about the labour market, we expect both the Fed and Bank of England to keep rates unchanged for the remainder of this year, though at this juncture we still see them resuming policy easing in 2027.

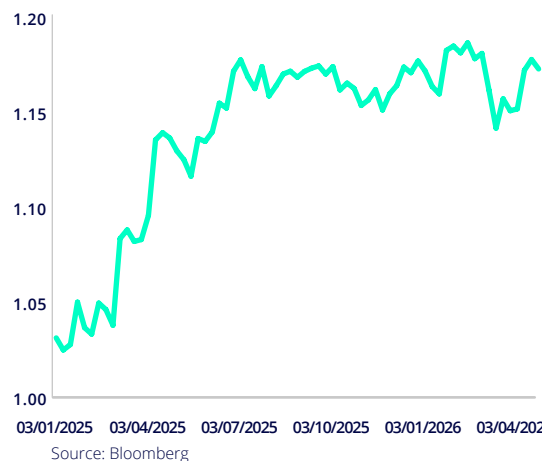
EURUSD forecast largely unchanged

The dollar benefited from a 'flight to safety' bid during the initial weeks of the war, strengthening by around 3% on a trade-weighted basis in March, though it has given up a good chunk of this since the start of April. EURUSD has followed a similar pattern, falling from \$1.18 pre-war to a 2026-to-date low of \$1.14 before reversing most of its losses. It is currently in the middle of the range (\$1.14 to \$1.21) we expected to prevail in 2026 when we published our January Global Watch, and while we certainly hadn't factored in a war in the Middle East, we are inclined to leave our existing forecast intact. A re-escalation of the conflict would likely see EURUSD fall back toward its 2026 lows. On the other hand, further de-escalation leading to a permanent end to the war would probably see the single currency gain further ground, all the more so if expectations for a resumption of Fed rate cuts harden later this year. We are also leaving our forecast ranges for GBPUSD and EURGBP unchanged, at \$1.32 to \$1.38 and £0.84-£0.89 respectively.

Central Bank Rates (%)	Current	End-Q2'26	End-Q3'26	End-Q4'26	End-Q1'27
Fed	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.25-3.50
ECB	2.00	2.25	2.25	2.25	2.25
BoE	3.75	3.75	3.75	3.75	3.50

Exchange Rates	Current	Q2'26	Q3'26	Q4'26	Q1'27
€/€	1.170	1.14-1.19	1.15-1.20	1.16-1.21	1.16-1.21
€/£	0.867	0.84-0.89	0.84-0.89	0.84-0.89	0.84-0.89
£/\$	1.350	1.32-1.37	1.33-1.38	1.33-1.38	1.33-1.38

Euro-Dollar Exchange Rate



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Middle East conflict triggers sharp rise in energy prices



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Marked repricing of rate expectations



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Bond yields spike higher



Forecasts

GDP

GDP Growth*	2025(e)	2026(f)	2027(f)
Global	3.4%	3.1%	3.2%
US	2.1%	2.3%	2.1%
Euro area	1.4%	1.1%	1.2%
UK	1.3%	0.8%	1.3%

*Annual % change, constant prices
Source: IMF WEO, April 2026)

Interest Rates

Central Bank Rates (%)	Current	End-Q2'26	End-Q3'26	End-Q4'26	End-Q1'27
Fed	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.25-3.50
ECB	2.00	2.25	2.25	2.25	2.25
BoE	3.75	3.75	3.75	3.75	3.50

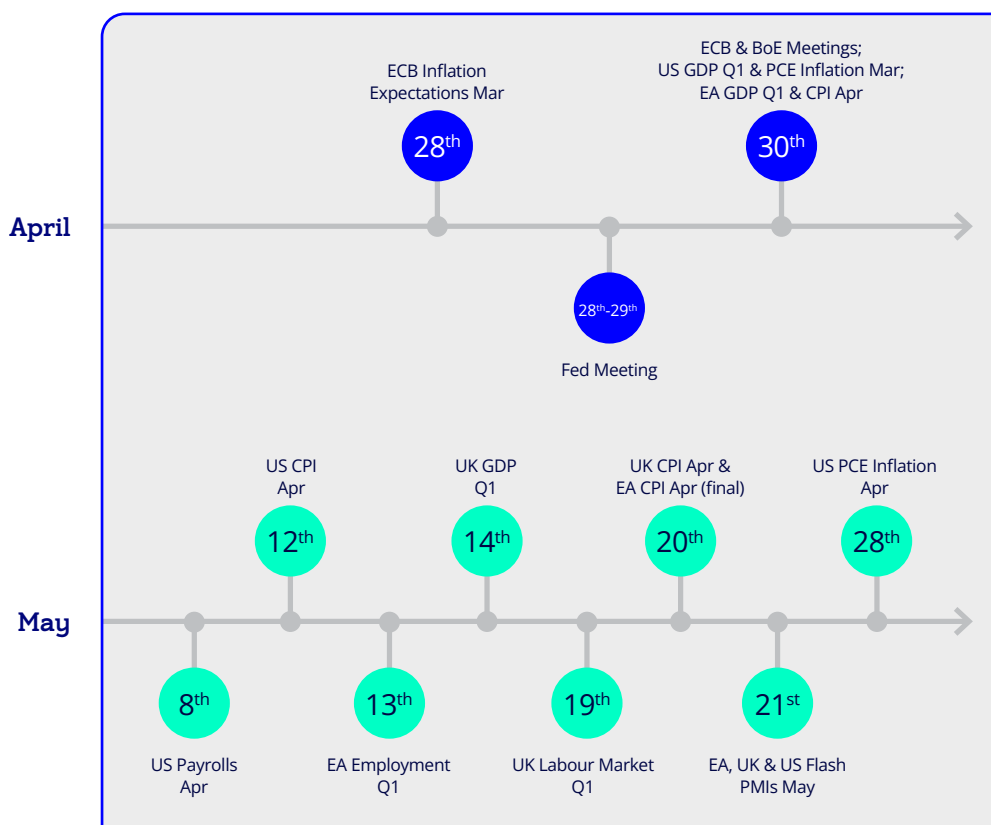
Source: Bloomberg, Bank of Ireland Forecasts

Exchange Rates

Exchange Rates	Current	Q2'26	Q3'26	Q4'26	Q1'27
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£/\$	1.350	1.32-1.37	1.33-1.38	1.33-1.38	1.33-1.38

**Current Rate as of 21 April 2026
Source: Bloomberg, Bank of Ireland forecasts

Upcoming Events

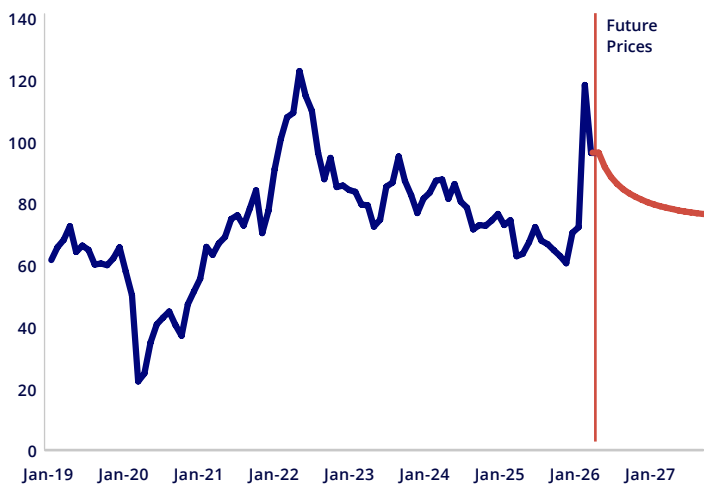


Economy

Middle East conflict triggers sharp rise in energy prices

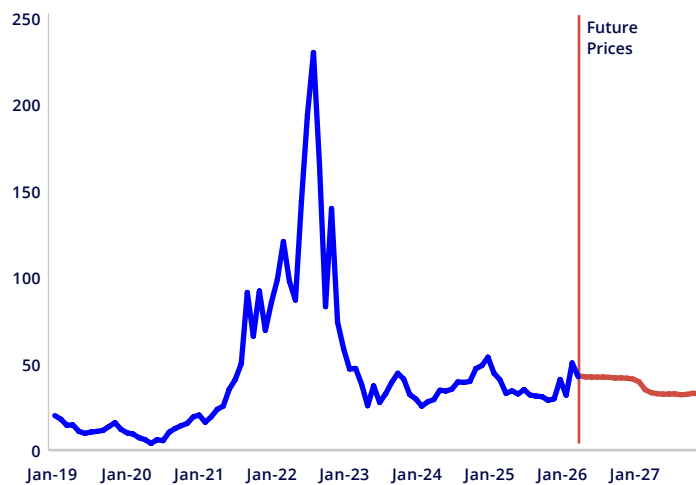
The conflict in the Middle East, which broke out at the end of February following US-Israeli attacks on Iran, has resulted in severe disruption to energy supplies through the Strait of Hormuz, triggering a sharp rise in oil and gas (and other commodity) prices. Though both have come back since the April 7 announcement of a temporary ceasefire, Brent crude oil (at circa \$100 per barrel) is still up some 40% since the war began while European wholesale gas prices are also around 40% higher (at €42 per MWh). Higher energy prices will raise inflation and dampen economic growth, with the extent of these effects depending on the duration of the conflict, how quickly energy supplies come back on stream, and (relatedly) the scale of damage to energy infrastructure in the Middle East. While the futures market points to a further fall in both oil and gas prices over the coming months (to around \$78 p/b and €35 per MWh respectively by this time next year), there is clearly a risk that prices remain elevated for longer.

Brent Crude Oil Price (\$ per barrel)



Source: Bloomberg

European Natural Gas (EUR per MWh)



Source: Bloomberg

Prevailing conditions now different than during 2021-2022 inflation surge

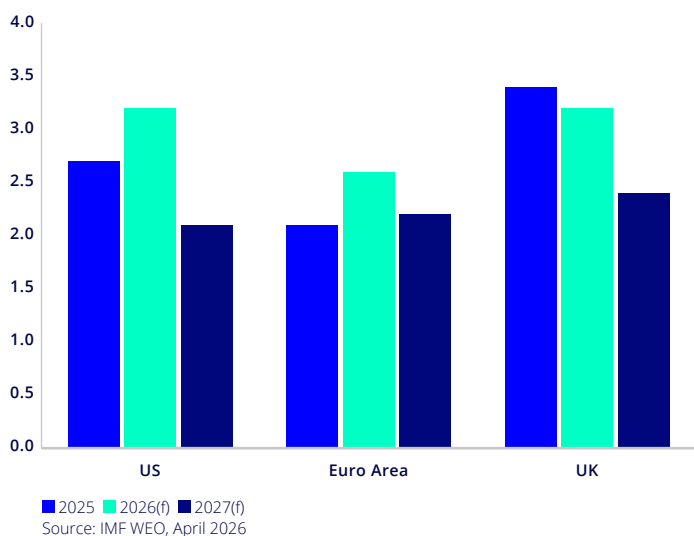
The current energy price 'shock' has drawn some comparisons with the energy price-driven increase in inflation that followed Russia's invasion of Ukraine in February 2022. However, the current situation is quite different in many respects. For a start, while the rise in oil prices to date is similar to the one that occurred in 2022, European gas prices (which briefly peaked at €340 per MWh in 2022) have risen by considerably less as a result of the current conflict. In addition, inflation had already risen sharply before the war in the Ukraine erupted, as a surge in demand interacted with broad-based supply constraints when economies reopened following the COVID-19 pandemic. In contrast, inflation was considerably lower at the onset of the latest crisis, having fallen steadily since peaking in 2022. Moreover, monetary and fiscal policy were both extremely accommodative in 2020-2021, as central banks and governments acted to support their economies in response to the pandemic, further boosting demand and hence contributing to the increase in inflation. Interest rates are currently in neutral to restrictive territory, while fiscal policy is also less supportive of demand.

Economy

Higher energy prices will raise inflation....

Higher energy prices are already feeding through into increased consumer price inflation, as reported in data for March, the first month of the conflict in the Middle East. The IMF in its latest forecasts (which are predicated among things on oil prices averaging \$82 and \$76 barrel in 2026 and 2027 respectively) expects global inflation to increase temporarily this year before falling back again in 2027, with limited indirect/second-round effects on prices more broadly. For the US and Euro area, inflation is forecast to average 3.2% and 2.6% respectively in 2026, both revised up by circa 0.75 percentage points (pp) relative to the IMF's previous projections, before declining to 2.1% and 2.2% respectively in 2027. UK inflation is projected to average 3.2% this year, revised up from 2.5%, falling to 2.4% next year (revised up from 2.1%)

Annual Inflation (%)



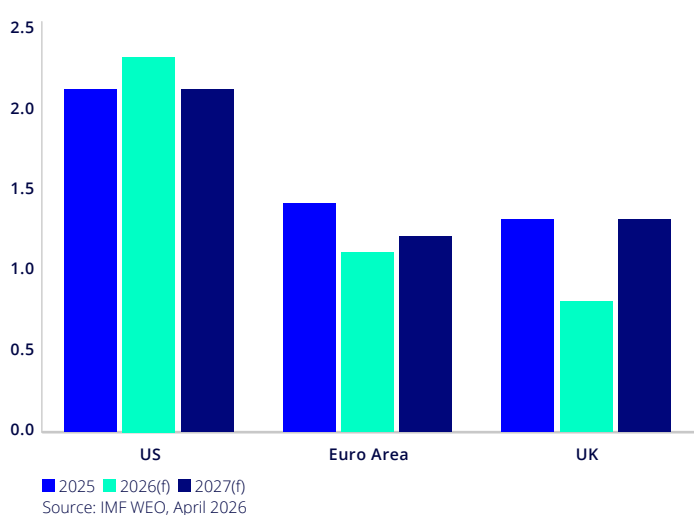
Annual Inflation, Forecast Revisions (% points)



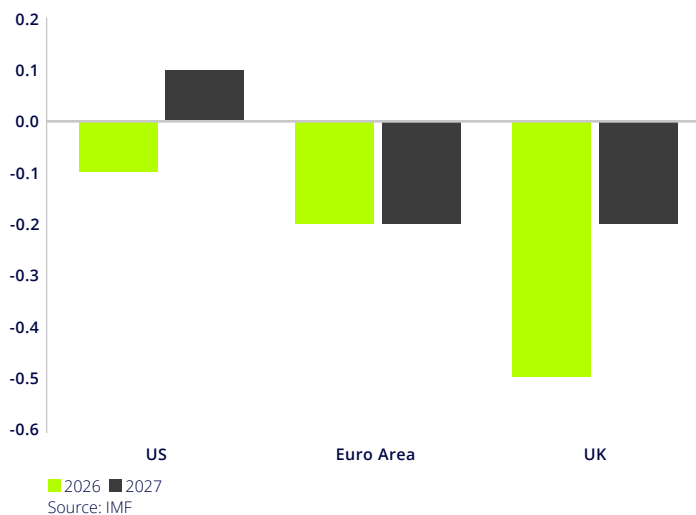
...and dampen growth

The IMF sees global GDP growth easing to 3.1% in 2026 from 3.4% in 2025, picking up to 3.2% in 2027. The 2026 forecast has been revised down by 0.2pp while the 2027 projection is unchanged. Growth in the US is expected to average 2.3% in 2026, a downward revision of just 0.1 pp partly reflecting its position as a net energy-exporter, easing to 2.1% next year. Forecasts for growth this year in the Euro area and UK - both net energy importers - have been lowered by 0.2pp and 0.5pp to 1.1% and 0.8% respectively, as higher energy prices weigh on economic activity. Growth is seen recovering to 1.2% and 1.3% respectively in 2027 as war effects wane. The IMF believes the risks to the economic outlook are "firmly on the downside". These include a more protracted conflict in the Middle East, which in a 'severe scenario' could see the global economy flirting with recession.

GDP Growth (%)



GDP Growth, Forecast Revisions (% points)

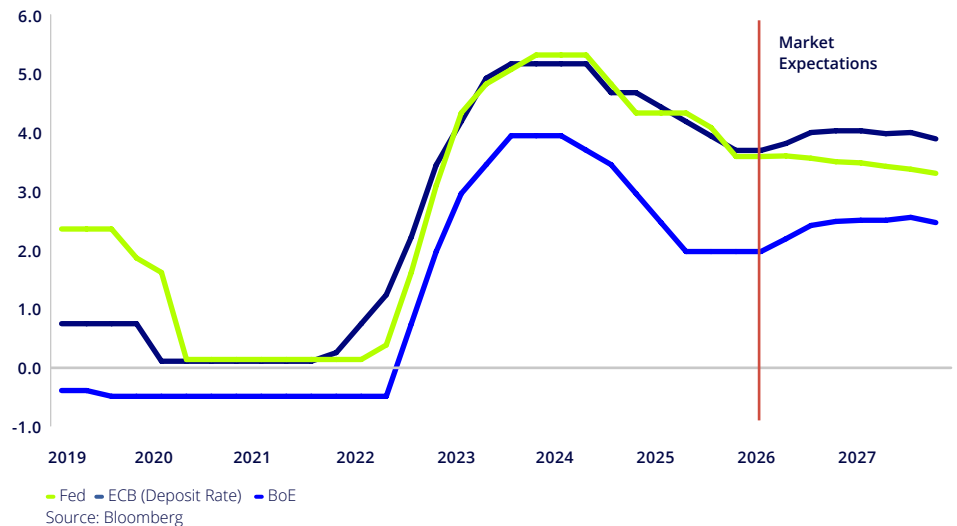


Central Banks

Marked repricing of rate expectations

There has been a marked repricing of the expected path for interest rates following the outbreak of the war in Iran, as markets attempt to factor in the likely response of central banks to the energy price-driven jump in headline inflation and the potential for persistently higher inflation via indirect/second-round effects and an increase in inflation expectations. Having previously expected policy rates to be cut further in the case of the Fed and Bank of England (BoE), and to essentially remain on hold in the case of the ECB, the market is now pricing in a much reduced chance of rate cuts by the Fed this year and expects the BoE and ECB to hike rates over the coming months. That said, rate expectations have been very volatile, ebbing and flowing on an almost daily basis in line with movements in oil prices.

Central Bank Policy Rates (%), End-Quarter



Fed in 'wait and see' mode

The Fed left interest rates on hold (3.5%-3.75%) for a second consecutive meeting in March and adopted a 'wait and see' stance regarding the fall-out from developments in the Middle East. Higher energy prices have increased upside risks to inflation, which continues to run above the Fed's 2% target, but potentially softer economic growth poses a downside risk to employment. While the Fed's concerns in relation to the labour market seem to have been assuaged by a stabilisation in the unemployment rate recently, it also expects some moderation in tariff-related goods inflation during the course of this year, which would help to offset the impact on core inflation from any indirect/second-round price effects. In this regard, the minutes of the Fed's March meeting noted that 'many participants judged that, in time, it would likely become appropriate to lower' rates as inflation moves down towards 2% 'after the effect of increased tariffs and higher oil prices had faded.' In our January Global Watch, we expected rates to be cut by 25bps in both Q2 and Q3 this year. We now see the Fed staying on hold for the remainder of this year, before it resumes lowering rates early next year.

Modest increase in ECB rates

The ECB left the deposit rate unchanged in March, saying the war in Iran 'will have a material impact on near-term inflation through higher energy prices (but) its medium-term implications will depend both on the intensity and duration of the conflict and on how energy prices affect consumer prices and the economy.' In terms of the possible interest rate response to recent developments, ECB President Christine Lagarde has noted that small, short-lived supply shocks can be 'looked through', but a shock that gives rise to a large though not-too-persistent inflation overshoot could warrant a 'measured adjustment of monetary policy', while one that leads to persistently above-target inflation would demand a 'forceful' policy response. At the present juncture, we see the ECB as somewhere between 'looking through' the energy price shock and considering making a measured adjustment to monetary policy. On balance, we think a modest increase in rates is likely and so are pencilling in a 25bps rate hike at the next but one meeting in June, with rates on hold thereafter. Clearly though, the situation is highly uncertain, and the ECB could do less (stay on hold) or hike by more than we expect.

Central Banks

BoE to stay on hold

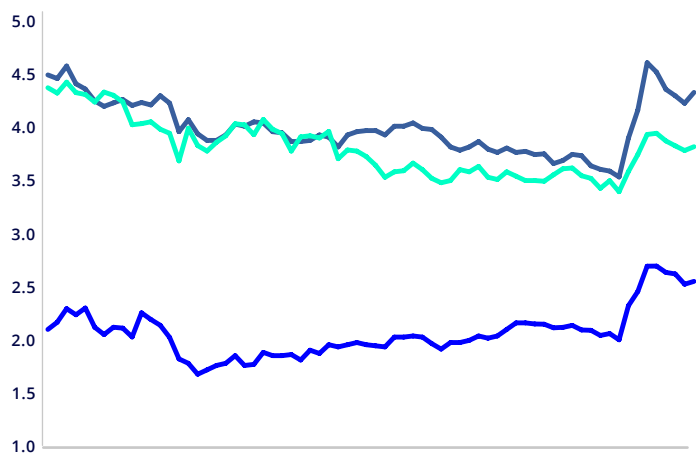
The Bank of England MPC decided unanimously to leave policy on hold in March, saying it 'would continue to monitor closely the situation in the Middle East' and 'is ready to act as necessary to ensure that CPI inflation remains on track to meet the 2% target.' This initially saw the market price in a circa-100% chance of a 25bps rate hike at the April meeting. However, the BoE Governor, Andrew Bailey, subsequently said that markets 'are getting ahead of themselves in pricing us to raise rates,' noting that the MPC has to respond to the energy price shock 'in a way that causes the least damage in terms of activity in the economy and in terms of jobs'. Higher energy prices will disrupt the recent decline in headline inflation, which the MPC thinks will pick up to around 3.5% in Q3 this year from a recent low of 3% in February. However, higher energy prices will also dampen economic growth and contribute to some further increase in the unemployment rate (which has already risen by almost 1 percentage point over the past year), in turn suggesting indirect/second-round inflation effects should be limited. With monetary policy still in restrictive territory, this should persuade the majority of MPC members to keep policy on hold. Having previously expected 50bps of cuts this year, we now see rates remaining unchanged over the remainder of 2026. We do though expect a resumption of policy easing in 2027.

Markets

Bond yields spike higher

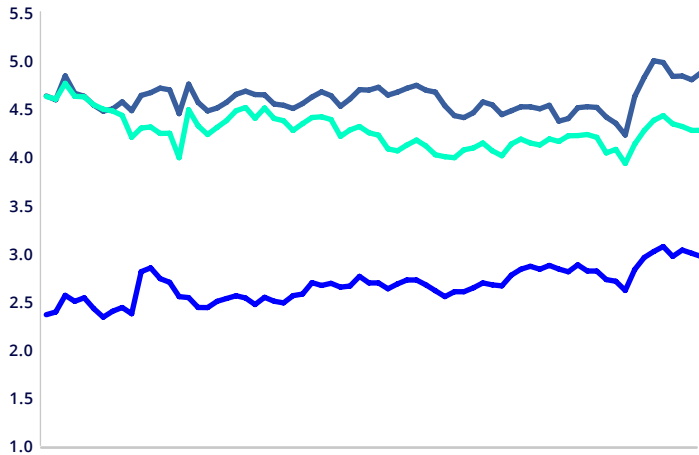
The re-pricing of central bank interest rate expectations and rising risk premia have triggered a notable increase in government bond yields. Short-dated yields have risen the most, contributing to a pronounced flattening of yield curves. UK bonds have underperformed US and German bonds, as tends to be the case during bouts of increased volatility in financial markets. While yields generally have fallen back since late March, helped by the decline in oil prices from their recent highs, they are still up some 25-50bps on pre-war levels in the case of US and German bonds and some 50-75bps higher in the case of UK gilts. If the current ceasefire leads to a permanent end to the war, allowing energy prices to fall back, then there is scope for yields to decline further. Clearly though, any resumption/intensification of the conflict could see yields spike to new fresh highs.

Government 2-Year Bond Yields (%)



— US — Germany — UK
Source: Bloomberg

Government 10-Year Bond Yields (%)



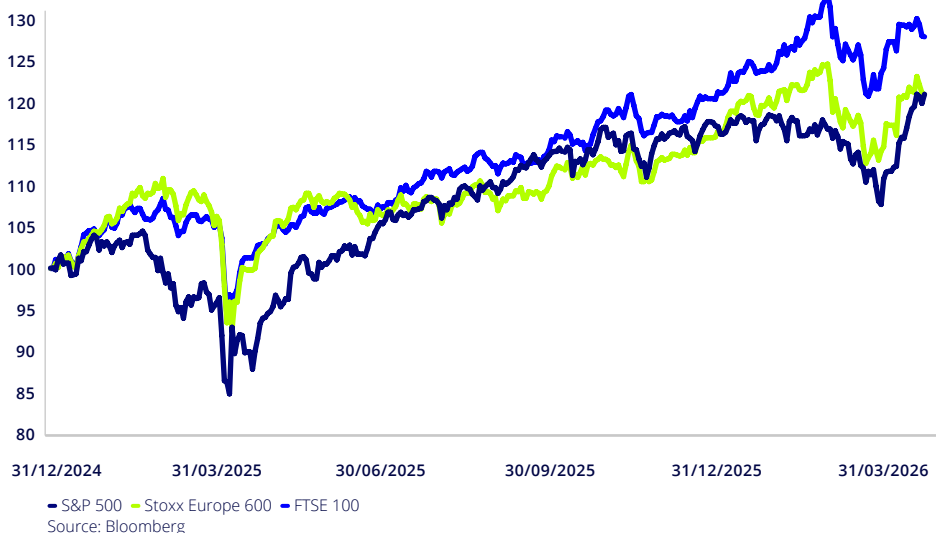
— US — Germany — UK
Source: Bloomberg

Markets

Stocks rebound from conflict lows

Equity markets fell quite sharply in March, the first full month of the Middle East conflict. European stocks underperformed during this period with the STOXX Europe 600 falling by about 8% versus a circa 5% decline for the S&P 500. April has seen a decent rebound in stocks generally though. The Nasdaq has led the recovery in US indices, which are now above pre-war levels, while European stocks still remain 3-4% below pre-war levels albeit rallying by 5-6% in April to date. Meanwhile, the Q1 earnings season in the US (which commenced in mid-April) has got off to a solid start, while earnings growth forecasts for this year and next year have been little impacted by the war in Iran. Hence stocks may extend their rally on any positive developments in relation to the conflict.

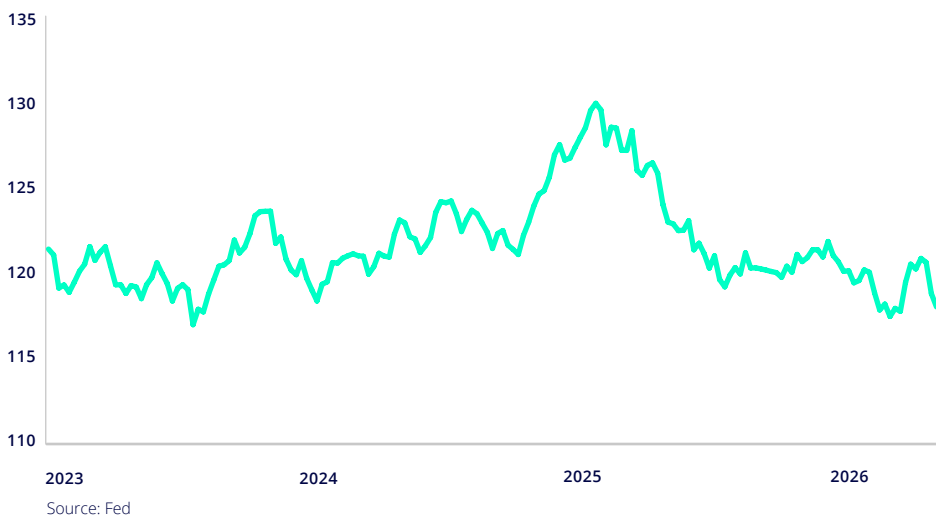
Equity Indices (End-2024=100)



Dollar's 'safe haven' bid wanes

The dollar benefited from a 'safe haven' bid and the spike in oil prices during the initial stages of the war. Its gains were relatively modest though, strengthening by around 3% on a trade-weighted basis in March. Moreover, it has given up a good chunk of this in April, declining by around 2% since the beginning of the month. In a broader context, the dollar is down around 9% since peaking at an all-time high in early 2025. Medium-term, the risks seem weighted against the currency, not least relating to the large budget deficit and rising public debt in the US.

Dollar Trade-Weighted Exchange Rate

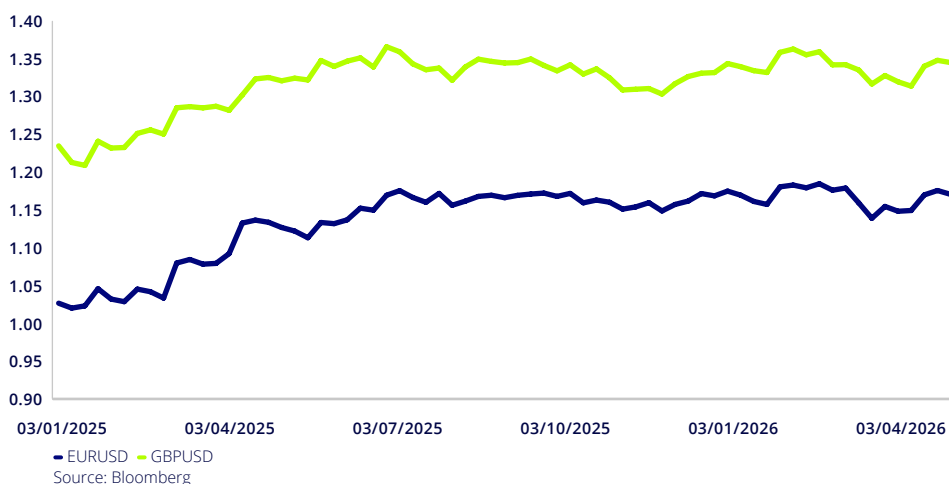


Markets

EURUSD back near pre-war levels

The euro fell from \$1.18 against the dollar on the eve of the war to a 2026-to-date low of \$1.14 in mid-March. It has since reversed most of these losses to trade close to pre-war levels, with most of its gains coming in April as the situation in the Middle East de-escalated. EURUSD is now in the middle of the \$1.14 to \$1.21 range that we expected to prevail in 2026 when we published our January Global Watch. While we certainly hadn't factored in a war in the Middle East, we are inclined to leave our existing forecast largely intact. A re-escalation of the conflict would likely see EURUSD fall back to its 2026 lows (and possibly below if "stagflation" risks mount in the Euro area). On the other hand, further de-escalation leading to a permanent end to the war would probably see the single currency gain further ground, all the more so if expectations for a resumption of Fed rate cuts build later this year.

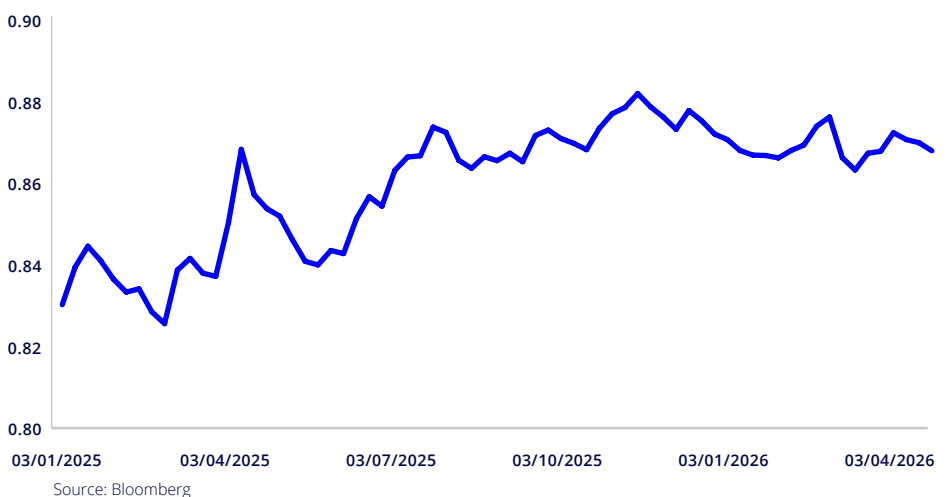
Euro and Sterling versus Dollar



EURGBP trading in very tight range

While the re-pricing of BoE rate expectations provided some support to sterling in the initial stages of the war, it subsequently gave up ground as the conflict intensified, falling to a new 2026 to date low against the dollar of just under \$1.32 in late March. It has since rebounded though, as the ceasefire raised hopes for an end to the war, and is now above pre-war levels at over \$1.35, leaving it in the middle of the \$1.32-\$1.38 trading range we had expected for 2026. Like for EURUSD, we are inclined to leave our forecast for GBPUSD unchanged. An end to the conflict might propel the pound towards the top of the \$1.32-\$1.38 range, though any resulting paring back of UK rate hike expectations could limit its gains. With sterling and the euro continuing to move broadly in lockstep against the dollar in 2026 to date, EURGBP has remained in a very tight range of £0.86 to £0.88 since the start of the year. This is a subset of the £0.84 to £0.89 range we had forecast for 2026, which we are also leaving unchanged.

Euro-Sterling Exchange Rate





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