Bank of Ireland Economic Forecasts

July 2026

Summary

We expect a contraction in GDP (-3%) in 2026 due to the surge in pharmaceutical exports last year, driven by fears of US tariffs, which has now unwound. Modified domestic demand is forecast to grow by 3.5% in 2026 and 2.5% in 2027, revised slightly upwards. Our lower forecast for CPI inflation of 3.1%, based on oil prices of $86/bbl, will support consumer spending growth at a slightly faster pace of 2% in 2026. Investment has been boosted by housing completions (39,000 expected in 2026) and a 17% increase in machinery and equipment spending in Q1, related to the AI investment cycle. We expect job creation to bounce back, with employment growing by 1.1% in 2025 and the unemployment rate remaining at 5%.

Middle East remains the key risk and uncertainty

The US-Iran ceasefire and the fall in oil prices to close to $70/bbl led to projections for CPI inflation, and increases in official central bank policy rates, being scaled back. However, the resumption of military action clearly poses a risk to our forecasts, which are predicated on oil prices of $86/bbl and the futures curve still implying only a temporary disruption to supply. So far, both the Irish and global economies have proved resilient to uncertainty, supported by the AI investment cycle, buoyant financial markets, and the limited response from central banks. This relatively benign outlook could, however, change rapidly.

Statistical noise paints a blurry picture, Irish GDP to contract 3% in 2026

We have revised our forecast for Irish GDP growth (-3%) into negative territory, reflecting the impact of a small number of multinational companies that brought forward production ahead of feared US tariffs, but whose output has declined sharply in 2026. The domestic economy has performed ahead of our expectations. Consumer spending rose by 0.8% in Q1, and our slightly lower forecast for CPI inflation (3.1% in 2026) should support a 2% increase this year. Modified domestic demand is now forecast to grow by 3.5% in 2026, helped by a rise in housing completions to 39,600 and a 17% increase in machinery and equipment spending in Q1 2026, related to the AI investment cycle. Multinational sector output is forecast to contract 6.5% in 2026, but indigenous sectors to see a 2.5% expansion.

Bounce back in official measure of employment is a key judgment in our forecast

The official CSO measure of job creation, the Labour Force Survey (LFS) measure of employment, fell by 0.6% in Q1 2026 and was flat year-on-year. At face value, this reflects a 5% contraction in part-time work, although full-time employment was still up 1.5% year-on-year. As such, any weakness in Irish job creation does not appear to reflect the impact of Artificial Intelligence (AI) or the challenging conditions in the information and communications technology (ICT) sector. Moreover, the LFS is at odds with a range of other indicators, including income tax receipts, payroll employment measures, and work permits. We therefore expect that the Q1 survey reflects sampling error and that employment will rebound in Q2, resulting in employment growth of 1.1% in 2026 and 1.5% in 2027.

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Forecasts	2025	2026	2027
Consumer Spending	2.6%	2.0%	1.9%
Government Expenditure	3.2%	4.0%	3.1%
Investment	38.4%	-19%	3.0%
Building & Construction	8.0%	6.2%	5.8%
Machinery & Equipment (Core)	11.2%	10.0%	0.2%
Modified Investment	11.3%	6.4%	3.5%
Exports	7.5%	-1.7%	5.0%
Imports	9.6%	-1.7%	4.7%
Modified Domestic Demand	**4.8%**	**3.5%**	**2.5%**
GDP	**8.0%**	**-3.0%**	**3.6%**
Multinational Sector	14.7%	-6.5%	4.0%
Indigenous Sector	2.2%	2.5%	2.8%
Government Balance, % GDP	1.8%	1.5%	0.5%
Government Debt, % GDP	33.8%	33.6%	30.1%
Employment Growth	2.2%	1.1%	1.5%
Unemployment Rate	4.7%	5.0%	5.0%
CPI Inflation	2.2%	3.1%	2.7%

Source: Bank of Ireland, Central Statistics Office.

Summary

Domestic economy ahead of expectations despite Middle East uncertainty

At the time of our last Irish economic forecast in April, Brent crude oil prices were trading slightly above $100 per barrel, with traffic through the Strait of Hormuz (representing 20% of global supply) indefinitely disrupted. The US-Iran 'peace deal' in June was well received by commodity markets, with oil falling close to $70/bbl. This also led to forecasts for HICP inflation in 2027 being revised down towards 2%, alongside speculation that central banks such as the BoE, ECB and Fed might be able to avoid further monetary tightening. However, at the time of writing, the resumption of military hostilities has seen prices jump back to $86/bbl, putting this benign outlook in jeopardy.

Nonetheless, our forecasts for Irish CPI inflation are now based on a lower oil price of $86 per barrel and have been revised down to 3.1% in 2026, although revised up marginally to 2.7% in 2027. This may seem surprising. Part of the explanation is the phased withdrawal of government excise duty cuts on petrol. Remarkably, such is the scale of support that retail petrol and diesel prices in July, at close to €1.70 per litre, are close to the lowest levels recorded over the past five years. As the cuts to excise duty and the NORA levy are gradually withdrawn by December, CPI inflation will pick up again. We also assume that recent electricity and gas price increases, effective from 1 July, will only be gradually reversed from Q2 2027.

Our forecasts therefore still imply an unwelcome squeeze on households' real incomes from elevated CPI inflation this year and next. That said, consumer spending has remained resilient, rising by 2.9% in the year to Q1 2026, and has been driven primarily by strong household income growth. Aggregate wages and salaries totalled €37bn in Q1, up 5.9% year-on-year.

Nonetheless, Irish households still appear to be cautious in their spending. The initial estimate of the household savings ratio in Q1 2026 was 12.5%, still elevated and likely to be revised upwards in line with incomes. Household deposits in May stood at €175bn, up 5.8% year-on-year. Finally, average weekly earnings in Q1 2026 were up 4.4% year-on-year, ahead of recent CPI inflation rates of around 3.5%. The Irish household sector therefore appears well insulated against a further rise in oil prices.

However, a key feature of our new forecasts is a further upward revision to the pace of investment spending in the Irish economy.

First, given recent outturns, we have revised up our forecast for homebuilding to 39,600 completions in 2026 and 42,000 in 2027. A key point here is that the Dublin Housing Supply Pipeline figures showed the number of apartments under construction in the capital rising to 20,000 in Q1 2026, suggesting that recent encouraging apartment completion figures will be sustained.

Second, we also expect that the rollout of the National Development Plan (NDP) and related infrastructure investment will support activity. Euroconstruct forecasts that Ireland will have the fastest-growing construction sector among 19 European countries over 2026–2028, including the fourth-fastest growth in both non-residential construction output and civil engineering activity. Notably, employment in construction rose to 196,000 in Q1 2026, up 10% year-on-year and from 163,000 just three years earlier.

Finally, it is underappreciated that FDI into Ireland is benefiting on two fronts: both the enormous demand for weight-loss drugs and the AI-driven investment cycle. Eli Lilly and Novo Nordisk have both recently invested to expand their facilities in Ireland. Notably, machinery and equipment spending in Q1 2026 was up 17% year-on-year, likely in part due to AI-related investment in data centres. More recently, Intel announced a €5bn investment in its Irish plant in response to ongoing demand for semiconductors.

Nonetheless, we expect Irish GDP to contract by 3% in 2026, following growth of 8% in 2025, due to a contraction in multinational sector output this year. The front-running of feared US tariffs clearly led to a surge in pharmaceutical exports last year, which has now unwound. While demand for weight-loss drugs will surely grow, exports and Irish GDP nevertheless appear set to contract in 2026.

Summary

A key judgment underpinning our forecasts is that recent weak Labour Force Survey (LFS) figures, showing job creation slowing to zero and employment falling by 0.6% in Q1 2026, largely reflect sampling error and data volatility. A range of other indicators – including income tax receipts, up 6.7% year-on-year in H1, 2.5% annual growth in payrolled employees, a 26% rise in work permits, and positive readings from Ireland's PMI surveys – continue to point to sustained job creation. We therefore expect the LFS to rebound in Q2 2026, with employment growing by 1.1% this year and 1.5% in 2027.

Nonetheless, concerns about the labour market are likely to persist, given the high-profile job cuts in the ICT sector and the potential impact of Artificial Intelligence (AI). It is worth noting, however, that the flattening in job creation indicated by the LFS was driven by a 5% year-on-year decline in part-time employment, while full-time employment was still up 1.5%. Taking the LFS at face value suggests that weak conditions in retail and hospitality are the primary explanation for the recent soft figures.

It is true that the LFS indicates that full-time employment in the ICT sector contracted by 1.5% in 2025, making it one of the weakest-performing sectors. However, ICT multinational service companies accounted for only 77,000 jobs in 2025. Having expanded employment in Ireland by around 30% between 2018 and 2023 to approximately 80,000 jobs, these firms have since pared back staffing levels. These decisions almost certainly pre-dated the release of ChatGPT and the widespread adoption of generative AI. It remains far too early, and is not yet apparent from the aggregate data, to identify any clear impact of AI on overall job creation.

Labour Market

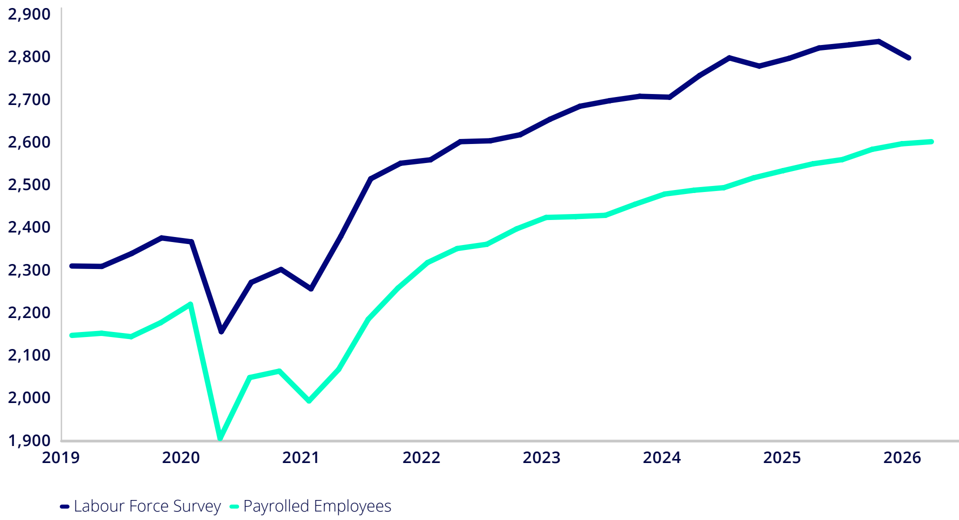
A key judgment is that job creation will bounce back in 2026

According to the CSO's Labour Force Survey (LFS) employment fell by 0.6% in Q1 2026, flat over the past year at 2.8 million. At face value this is a worrying development. However, the alternative 'payrolled employees' measure, based off income-tax returns indicates job creation continued at a healthy 0.5% pace in Q1 2026, up 2.5% on the year to 2.6 million. A caveat here is that this alternative measure excludes the self-employed.

However, other indicators point to a healthier picture than that painted by the LFS survey. Income tax receipts of €18.6bn in H1 2026 were up 6.7% on the year. The number of work permits granted in H1 was up 26% yoy to 19,000. Ireland's Purchasing Manager Indices (PMIs) have consistently pointed to job creation.

Drilling down into the LFS survey shows that flat job creation over the past year was starkly split between a 1.5% rise in full-time work to 2.25 million but 5% fall in part time work to 562,000 – hurt be declines in the retail and hospitality sectors.

Alternative measures of Irish Employment



Source: Central Statistics Office

A key judgement in our forecasts is that the exceptionally poor Q1 2026 LFS figures reflect sampling error in the survey and should bounce back in Q2. Hence, LFS employment is forecast to grow by 1.1% in 2026 before 1.5% growth in 2027. This is still a substantial slowdown from the 3%+ rates of job creation seen in previous year, leaving the unemployment rate steady at 5%.

Labour Market Projections	2024	2025	2026	2027
Employment	2.7%	2.2%	1.1%	1.5%
Unemployment Rate	4.3%	4.7%	5.0%	5.0%

Source: Bank of Ireland, Central Statistics Office

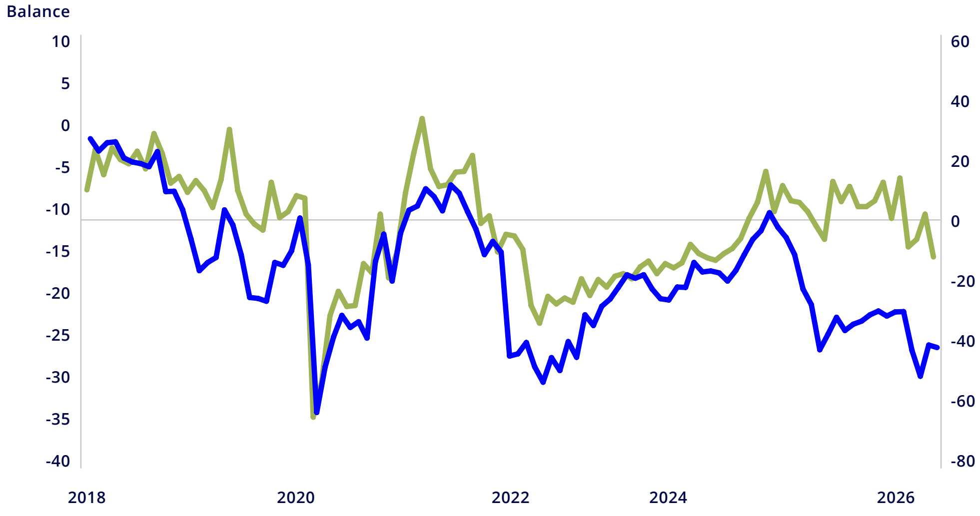
Consumer Spending

Consumer spending to soften slightly on inflation hit, but still remain robust

Consumer spending rose by a sharp 0.8% in Q1 2026, the annual pace of growth accelerating to 2.9%. The early data suggest this has been driven by rising household incomes, the wage bill rising 5.9% on the year to €37bn in Q1 2026 and accompanied by a modest decline the household savings ratio to 12.5%.

Looking ahead to Q2 2026 there is little sign that the renewed deterioration in consumer confidence following the outbreak of the US/Iran war has had a material impact on actual spending. Core retail sales volumes rose by 0.4% in the three-months to May. Central Bank of Ireland data show card spending in May was still up 7.7% yoy to €10bn.

Irish Consumer Confidence



Source: European Commission

However, despite the recent fall in Brent crude oil prices to $86pb at the time of writing, we still expect CPI inflation to average 3.1% in 2026 and 2.8% in 2027. So we still expect consumer spending to grow by 2% in 2026 and 1.9% in 2027, revised up slightly since our last forecast in April. Of course, the outlook for consumer spending is highly uncertain, depending on events in the Middle East and for how long energy prices will remain elevated.

Forecasts for Household Incomes and Spending	2024	2025	2026	2027
Compensation	9.9%	4.3%	5.1%	5.2%
Gross Disposable Income	9.0%	4.2%	4.8%	4.9%
Savings Ratio	13.3%	13.0%	12.8%	12.9%
Nominal Spending	7.3%	4.5%	5.1%	4.7%
Consumer Expenditure Deflator	3.0%	1.7%	3.1%	2.8%
Real Spending	2.5%	2.7%	2.0%	1.9%

Source: Bank of Ireland, Central Statistics Office

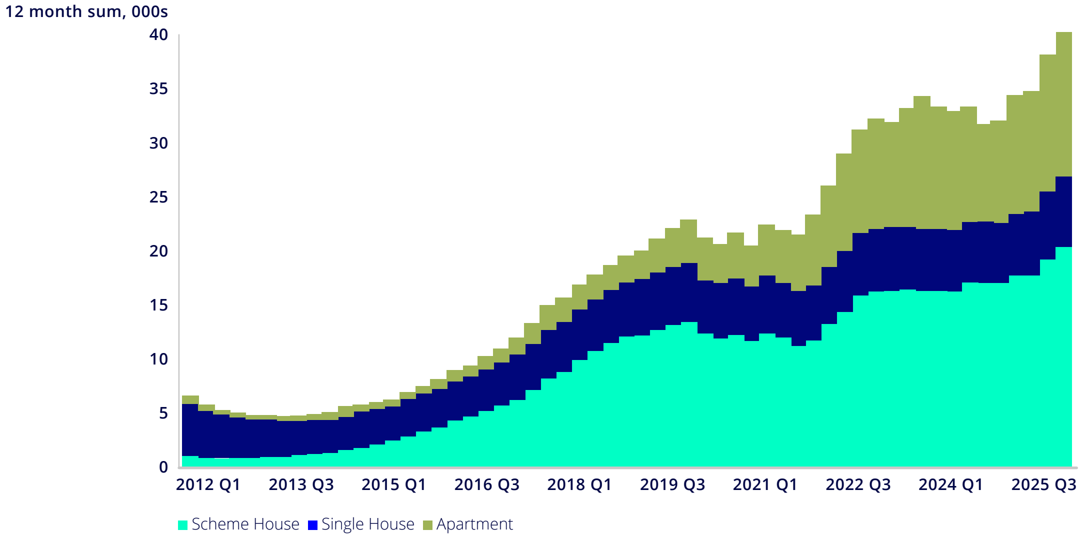
Investment Spending

Investment spurred on expanding construction sector and AI-related spending

We have revised up our forecast for residential completions to 39,600 in 2026, rising to 42,000 in 2027. This follows the encouraging Q1 2026 out-turn for completions at 7,856 (+33% yoy) but also the news there were 13,000 starts in the first five months of the year. Also, the 4Dublin Housing Supply Pipeline figures show the number of apartments currently under construction rising to 20,255 – pointing for sustained high levels of completions going forward.

Recent data on repair & maintenance (+14.6% yoy) and non-residential construction (-9.6% yoy) in Q1 2026 have been volatile. However, we not that EuroConstruct expect Ireland to see the fastest growing construction sector through 2026-2028 across 19 European countries, including the 4th fastest pace of expansion for civil engineering. This no doubt reflects the funding allocated for the National Development Plan. Also, employment in construction has increased by 10% over the past year to a fresh high of 196,000.

Irish Housing Completions



Source: Central Statistics Office

Spending on machinery & equipment (excluding aircraft related to leasing) rose by 17.7% in the year to Q1 2026, illustrating the strong contribution from the AI-related investment cycle and data centres. Of course, this spending has a very high import context so does not necessarily boost GDP or activity in Ireland. Also, we expect this spending to plateau at exceptionally high levels in 2027. Nonetheless, modified investment spending is still forecast to grow at a sharp 6.4% pace this year and 3% in 2027.

Forecasts for Investment Spending	2025	2026	2027
Homebuilding	17.5%	9.3%	6.1%
Non-Residential Construction	2.5%	3.0%	6.0%
Machinery and Equipment	20.6%	10.0%	0.2%
Intangible Assets	11.0%	2.0%	1.0%
Modified Investment	11.3%	6.4%	3.5%

Source: Bank of Ireland, Central Statistics Office

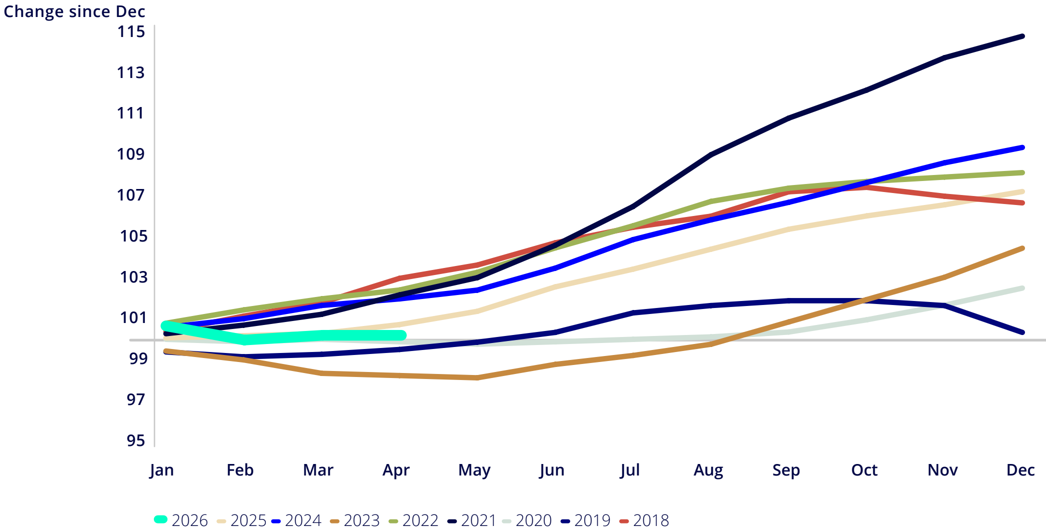
Housing

House price inflation still slowing towards our forecast for 4% rise in 2026

The CSO's Residential Property Price Index (RPPI) has had a soft start to 2026. Although, the annual rate of inflation was 6.2% in April, these price gains occurred last year. Through December-April the RPPI has been broadly flat. In Dublin, prices have fallen for three of the first four months of the year – fuelling concerns that a correction may be likely.

However, MyHome Asking prices rose by 4% in Q2 2026, with annual asking price inflation accelerating to 5%. At face value this suggests some momentum has returned to the market during the summer. Indeed, our analysis shows that transactions in May/June were being settled 8% above asking (at the median) vs 6-7% in previous months – again indicative of more intense competition.

The RPPI index has had a soft start to 2026



Source: Central Statistics Office

However, we still think our broad view that a slowdown in house price inflation towards our forecast for a mid-single digit rise of 4% through 2026 is likely. Notably, the average mortgage approval in May was 348,700, up 3.5% on the year. This is broadly in line with the 4.4% growth in average weekly earnings to €1,075 in Q1 2026 (or €56,000 annualised). Following a number of years when leverage was gradually rising in the mortgage market, house prices and pay are now likely to be more closely aligned in 2026.

We also expect a modest rise in transactional activity above the 63,440 sales recorded in 2025. Transactions in the first four months of 2026 were up 2.9% on the year, but starkly split between a 17% rise for new build transactions and a further 2.7% fall in existing home sales. Remarkably, existing home sales now look set for a fourth consecutive year, to their lowest level since 2018.

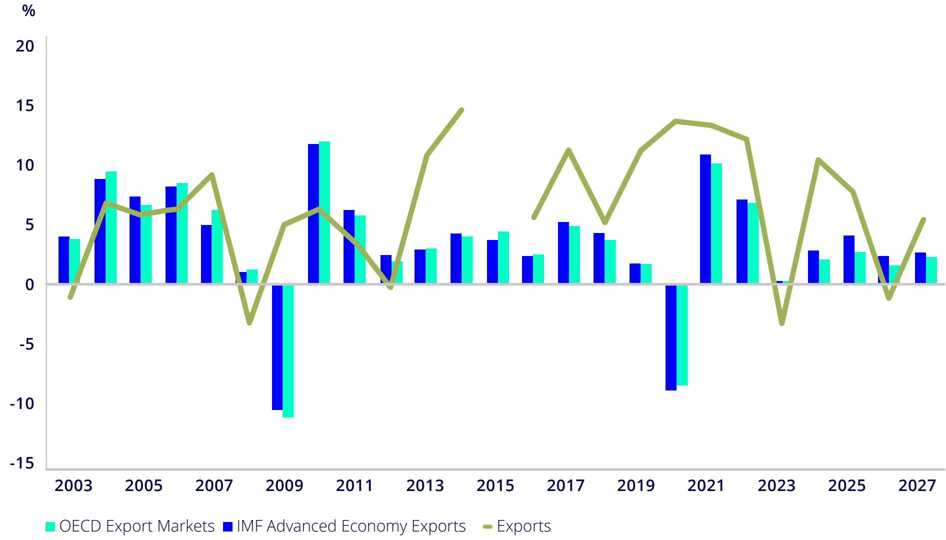
Trade

Volatile data masks buoyant export sector

The revised National Income and Expenditure (NIE) accounts now show Irish exports grew by 7.5% in 2026, driven by 15% rise in goods exports. Specifically, pharmaceuticals exports such as weight loss drugs surged ahead of threatened tariffs in 2025. However, in Q1 2026 pharmaceutical exports were down 84% on the year, driving the 7% quarterly fall in Irish GDP.

We expect that Irish exports will continue to recover through 2026, albeit still seeing a 1.7% contraction in the calendar year. First, new weight loss drug facilities are coming online and demand for these products is growing rapidly. Second, revenues in the key ICT services sector are likely to continue growing. Third, despite the uncertain geo-political climate the OECD still expects demand in Irish export markets to grow by 2.3% in 2026 and 2.5% in 2027.

Irish Exports and Export Markets



Source: Central Statistics Office and OECD

Standing back from the data Ireland's export sector looks to benefitting from a fresh wave of FDI related to the AI-investment cycle, production of semi-conductors and also weight loss drugs, that should continue to support growth in the coming years.

That said, some of the recent indicators on indigenous manufacturing are less encouraging, output down 2.1% in 2025 and by a further 5.8% in the first five months of 2026. However, this is at odds with Ireland's recent strong Manufacturing PMI readings (54.9 in June) with companies signalling buoyant new orders and export orders and citing improved demand from both Europe and the UK.

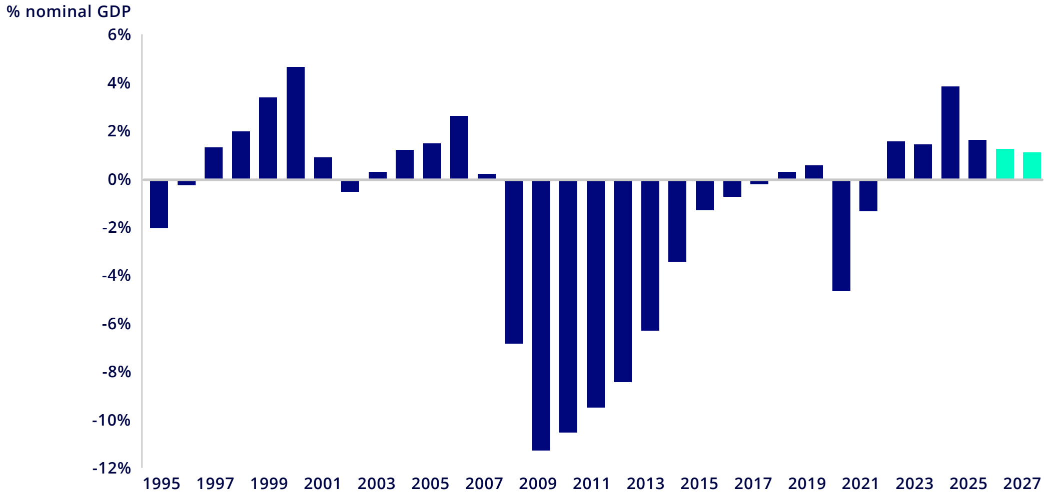
Public Finances

Government spending continuing to support demand

Exchequer returns for H1 2026 paint a healthy picture. Tax revenues of €50bn were up 4.8% on the year, including strong gains across; income taxes (6.7%), value-added-tax (7.5%) and corporation tax (4.7%). Gross voted spending was up 6.9% to €54.4bn, split between a 6.8% rise in current expenditure to €48bn and 8% increase in capital expenditure to €6.3bn.

Here, the pace of public capital expenditure growth is behind the full 17% rise to €19.1bn set out in October's Budget 2026. However, capital spending often lags behind planned increases early in the calendar, before accelerating in H2. So we still expect total gross spending will grow by 8.5% in 2026, with tax revenues up 5.5%, so the government balance is in surplus of €9.4bn (1.5% of GDP) in 2026, narrowing slightly to €8.9bn (1.4% of GDP) in 2027.

Government balance to GDP ratio



Source: Bank of Ireland and Central Statistics Office

A key issue is how much of additional government spending delivers additional public services and infrastructure, contributing to GDP growth, or is eaten up by cost pressures. The National Income & Expenditure (NIE) revisions indicate nominal public spending on goods and services expanded by 6.8% to €61bn in 2025, but was split between a 3.5% rise in costs and 3.2% increase in output. We expect nominal spending will rise by 7.4% in 2026, with output up 4%, making a substantial 0.8pp contribution to the 3.5% growth of modified domestic demand this year.

Government Balance and Debt forecasts	2025	2026	2027
General Government Balance	€11,200mn	€9,400mn	€8,900mn
% GNI*	3.3%	2.6%	2.4%
Debt	€210bn	€208bn	€214bn
% GNI*	61.9%	58.5%	57.5%

Source: Bank of Ireland and Central Statistics Office

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