



Ireland seen as a safe have through European debt tensions

Tensions in European bond markets have intensified this week, rioting in France underlining the political difficulty of implementing measures to rein in the budget deficit, expected to equal 5.4% of GDP this year. The yield on 10yr French OATs has now pushed through 5%, the spread against Germany widening to 173bps this morning. Speculation the ECB might intervene has reflected the apparent contagion spreading into other European countries.

In this context, the performance of Irish government bond yields has been encouraging, the 13bp spread against Germany actually narrowing over the past 3 months. Ireland is now perceived as a relative safe haven, reflecting the robust performance of the public finances - one of only a few European countries expected to run a budget surplus in 2026.

That said, there is no room for complacency. The era of country-by-country corporate tax reporting has begun - revealing that just three companies - Apple, Microsoft and Eli Lilly - likely accounted for close to half of Ireland's corporate tax take of €35bn in 2025 and well in excess of the expected government surplus of €6.7bn in 2026.

Tensions in European bond markets continue: Yields on 10-year French OATs pushed through 5% this week, exacerbating concerns on a fresh European debt crisis. The spread against the German bund yield (3.33%) is 173bps this morning (*see chart below*) - the highest level since 2011. Fears of contagion and a re-run of the 2013-2014 European debt crisis have been evident in rising spreads for other European countries; Belgium (111bps), Italy (125bps), Greece (107bps), Portugal (57bps) and Spain (72bps).

Budget process key, ahead of 2027 Presidential election: While recent protests have underlined the political difficulties in passing the draft budget, targeting a modest reduction in the deficit from 5.4% of GDP in 2026 to 5.0% in 2027, the French government has reiterated its commitment to do so. Finance Minister Lescure has suggested the government might take the unprecedented step of using ordinances to bypass the National Assembly entirely to pass the budget. However, even should the budget pass – with 10-year yields close to 5% - and amid subdued GDP growth – markets will continue to question how France will stabilise its debt ratio.

Tightening of financial market conditions will be a consideration for the ECB: This morning options are fully pricing two 25bp ECB rate hikes to 3% by April - with an 63% probability of a third hike to 3.25% by September 2027. However, some prominent investment banks have recently argued the tightening of financial market conditions may be sufficient so that the ECB raises the deposit rate just once more to 2.75% but then leaves policy unchanged. That said, these predictions were made before the fresh rises in Brent oil prices to \$110pb and natural gas to €90mg/hr this week - that threaten to push up HICP inflation even higher still this winter.

Ireland seen as a safe haven through the volatility: Irish 10-year government bond yields were trading at 3.5% this morning (October 23rd) up from 3.0% at the beginning of 2026. However, the spread against German bunds is now just 13bps, becoming more compressed over the past 3 months as concerns on European debt have grown. Ireland's spread vs Germany is now trading at a similar level to the Netherlands (11bps) and well below traditional safe havens such as Austria (29bps) and Finland (40bps).

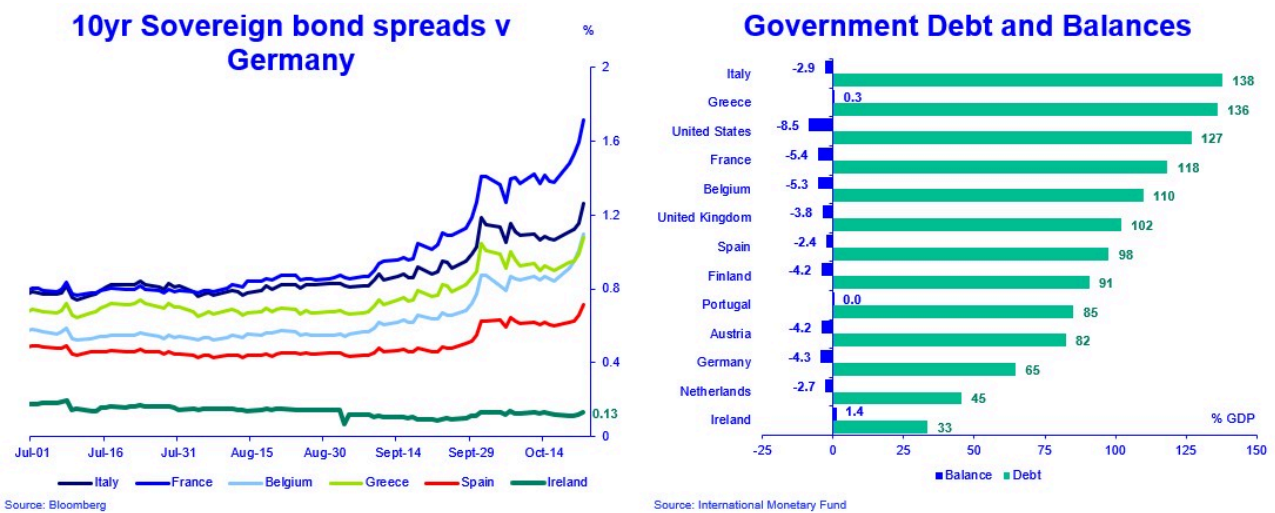
Ireland's debt, deficit metrics still screen well: The performance of Irish government bonds over the past month mirrors that of the public finances. Ireland is one of only a handful of European countries the IMF expects will run a government surplus in 2026, worth 1.4% of GDP (*see chart below*). Similarly, the debt/GDP ratio is expected to fall to 33% by end-2026. Of course, these metrics may be flattered by measurement distortions that artificially inflate Irish GDP. However, our forecast for Ireland's debt/GNI* ratio to fall to 58% at end-2026 will still leave it below Germany and most European peers.

However, the view that many European countries require substantial fiscal adjustments to achieve primary surpluses has reflected the growing gap between market interest rates and forecasts for GDP growth – making it more difficult to stabilise debt/GDP ratios exceeding 100%. Here, Ireland is insulated by forecasts for GDP growth to return to 3-4% in 2027. Also, the average interest rate on Ireland's debt is expected to be just 1.5% in 2026 rising only gradually to 2.7% by 2030. This reflects that the weighted average maturity of Ireland's debt is currently 11 years, well above the European average of 8 years. So low interest rates have been locked in for some time.

But the risks to Ireland are from the narrow tax base: It has been well known for some time that just ten companies accounted for over half of Ireland's corporate tax take. However, new country-by-country reporting requirements have revealed that just three companies accounted for close to 50% of the €35bn corporate tax take in 2025. Apple (\$4.8bn), Eli Lilly (\$6.6bn) and Microsoft (\$5.6bn) made substantial corporate tax payments to the Irish Revenue in 2025.

These substantial payments may receive scrutiny over time. A recent key development in global corporate tax reform was the January 2026 OECD 'side-by-side' agreement, carving out US headquartered multinationals from major parts of the 15% global minimum tax (Pillar Two) framework. However, on Wednesday October 21st, the OECD announced it will now investigate new alternative ways to tax the digital economy. Specifically, the OECD will look to move beyond the previously agreed Pillar One framework to allocate a new taxing right based on the location of sales.

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