

Bank of Ireland Economic Forecasts

September 2026



Summary

We have revised up our forecast for Irish GDP to a shallower 1.2% fall in 2026 – still contracting as the surge in exports last year has unwound, but followed by 3.1% growth in 2027. HICP inflation is now expected to rise to 4% in the final months of 2026, averaging 3.2% next year. However, pay growth of 3.5%, job creation of 2% and €1.5bn of tax cuts planned in Budget 2027 should still allow consumer spending to expand by 1.8% in 2027. Ireland is also benefitting from the AI-related investment cycle so we have revised up our forecast for modified domestic demand to 3.8% growth in 2026 and 2.8% in 2027. We still expect house price inflation of 4% through 2026 and 3.5% in 2027, with housing completions of 39,600 this year, rising to 42,000 next year.

A shallower 1.2% contraction for Irish GDP in 2026, followed by 3% growth in 2027

We have revised up our forecast for Irish GDP, but mainly due to the performance of volatile export categories such as contract manufacturing. The shallower contraction in GDP expected in 2026 still reflects the surge in exports last year, ahead of feared tariffs, which has now unwound. However, the key development has been the rise in oil prices back above \$100pb. We now expect HICP inflation to rise to 4% at the turn of the year, averaging 3.2% in 2027 – pushed up by energy prices. A key risk here is that the our assumption oil prices follow the downward sloping futures curve (to \$80pb by end-2027) could prove too optimistic.

Modified Domestic Demand (MDD) to grow 3.8% in 2026, 2.8% in 2027

We have revised up our forecasts for MDD. First, consumer spending has proven far more resilient than expected, now forecast to grow 2.4% in 2026 and 1.8% in 2027. Household real incomes should still grow next year, despite HICP inflation of 3.2%, due to pay growth (3.5%), job creation (1.5%) and the planned €1.5bn of tax cuts planned in Budget 2027. Ireland is also benefitting from the AI investment cycle – evident in the sharp 37% rise in investment in ICT and other machinery & equipment spending to €8bn in H1 2026. We still expect public spending add 0.6pp to MDD growth next year, based on €7bn of additional expenditure in Budget 2027. Employment is forecast to grow by 1.5% in 2027 with the unemployment rate averaging 5.1%.

Housing market projections unchanged, disappointing fall in non-residential construction.

We still expect the Residential Property Price Index (RPPI) will see a 4% rise through 2026 before slowing to 3.5% growth in 2027. Similarly, we have left our forecast for 39,600 housing completions in 2026, rising to 42,000 in 2027, unchanged. However, the 12% fall in non-residential construction output in H1 2026 is disappointing. We still expect a gradual recovery in 2027 (+6%) but there is a risk that build cost inflation could prove to be a headwind to the construction sector hurting delivery of infrastructure and the National Development Plan (NDP).

Bank of Ireland Economic Forecasts

Forecasts	2025	2026	2027
Consumer Spending	2.6%	2.4%	1.8%
Government Expenditure	3.2%	3.5%	3.2%
Investment	38.4%	-19.0%	3.0%
Building & Construction	8.0%	6.2%	5.8%
Machinery & Equipment (Core)	11.2%	13.0%	2.0%
Modified Investment	11.3%	7.4%	4.0%
Exports	7.5%	3.8%	5.0%
Imports	9.6%	4.0%	4.7%
Modified Domestic Demand	4.8%	3.8%	2.7%
GDP	8.0%	-1.2%	3.1%
Multinational Sector	14.7%	-2.3%	3.6%
Indigenous Sector	2.2%	1.8%	2.5%
Government Balance, % GDP	1.8%	1.5%	0.5%
Government Debt, % GDP	33.8%	33.0%	30.1%
Employment Growth	2.2%	1.0%	2.0%
Unemployment Rate	4.7%	5.0%	5.1%
CPI Inflation	2.2%	3.5%	3.2%

Source: Bank of Ireland, Central Statistics Office.

Summary

Page 2

Ireland displaying resilience to higher energy prices



Labour Market

Page 4

Employment growth of 1% forecast for 2026, 2% in 2027



Export Sector

Page 5

Smoke and mirrors cloud the underlying picture



Consumer Spending

Page 6

Consumer spending to slow on higher energy prices



Housing market

Page 7

Leaving our forecast for 4% inflation through 2026 unchanged



Public Finances

Page 9

Expenditure continues to grow rapidly



Contacts

Page 10



Summary

Ireland displaying resilience to higher energy prices

Events in the Middle East and energy prices are the key risk

The key development since our last forecast in July has been the deterioration in the US/ Iran 'peace deal' with Brent oil prices rising back above \$100 per barrel. Hence, we have revised up our forecast for Irish HICP inflation to 3.5% on average in 2026 and to 3.2% in 2027. We expect Ireland's HICP inflation rate will peak close to 4% at the turn of the year, as the direct impact of higher energy prices is felt.

Also, government action on excise duties on petrol/diesel has reduced Irish HICP inflation by circa 0.6 percentage points. HICP Inflation would already be 4% without these measures. We assume this support is gradually withdrawn through Q2 2027 – so there is a very limited decline in petrol / diesel prices next year. Our forecasts are also built on a 15% rise in household electricity and gas bills over the next 12-months – also reflecting recent pressure on European gas prices.

In our forecast we assume Brent oil prices follow the futures curve, falling from \$107pb currently towards \$80pb by end-2027 and \$75pb by end-2028. A key risk here is that financial markets are taking too benign a view – and the lack of supply through the Strait of Hormuz will lead to far higher oil prices this winter, or persistently higher oil prices through 2027.

There is a clear risk that elevated oil prices could squeeze Irish household incomes more than we have built into our new projections.

Consumer spending has been resilient to elevated inflation so far

However, we have been surprised by the resilience of household spending. Consumption rose by 1% in Q2 2026, up 2.9% on the year. Retail sales and credit card spending data point to this momentum being maintained into Q3. This is despite the household savings ratio now estimated to have increased to 20%. Clearly, higher energy prices will be a challenge for many lower income Irish households. However, in aggregate the Irish household sector looks to have a large buffer of saving to smooth real consumption.

Looking ahead to 2027 we expect pay growth of 2.5%, which together with job creation of 2% and the €1.5bn of income tax cuts planned in Budget 2027 to sustain consumer spending 1.8%. Our forecast is for nominal household disposable incomes to grow by 5% to €215bn in 2027. This means real household incomes will grow, despite 3.2% inflation.

Ireland exposed to the AI-investment cycle

We have also revised up our forecasts for Modified Domestic Demand (MDD) growth to 3.8% in 2026 and 2.7% in 2027. Here, it is becoming increasingly clear that Ireland is benefitting from the artificial intelligence investment cycle. In H1 2026 capital expenditure on ICT and other machinery and equipment rose by 37% to €8bn, almost certainly related to data centre developments.

In H1 2026 results IDA Ireland announced 190 fresh investments that are expected to yield 10,400 jobs. These include a range of AI-related names including Anthropic and Open AI – the latter opening its EU headquarters in Dublin. In July, Intel announced a €5bn investment in its Leixlip plant – to expand chip production.

The early data on non-residential construction output have been disappointing

House price inflation continues to slow towards our forecast for a 4% rise through 2026. The Q2 out-turn for completions was in line with our forecast – we still expect 39,600 in 2026 and picking up to 42,000 in 2027.

We have been disappointed by the 12% contraction in non-residential construction output – including a 7% fall in civil engineering (infrastructure) delivery. We still expect a gradual 6% recovery in 2027. The August Construction PMI pointed to a pick-up in sentiment and orders. However, there is a risk build cost inflation could hinder infrastructure and National Development Plan (NDP) delivery – with non-residential output failing to pick-up as expected.

Summary

The broad parameters of Budget 2027 look to be broadly as expected

The Summer Economic Statement (SES) set out the broad parameters of Budget 2027, an €8.5bn package split between €7bn of additional spending and €1.5bn of tax cuts. This is expected to support a 6% rise in gross voted expenditure in 2027. Hence, we still expect government consumption to grow by 3.2% in 2027, making a solid 0.6pp contribution to the growth of modified domestic demand of 2.7% in 2027.

Indigenous exporters have had a tough year, as services exports continue to grow

Remarkably, Irish exports hit a fresh record high of €242bn in Q2 2026. This was despite goods exports still down 12% on the year, instead reflecting ‘black box’ items such as contract manufacturing and merchanting. Underlying conditions appear mixed. Traditional manufacturing output was down 4% in the first seven months of 2026, with small contractions in food and beverage exports.

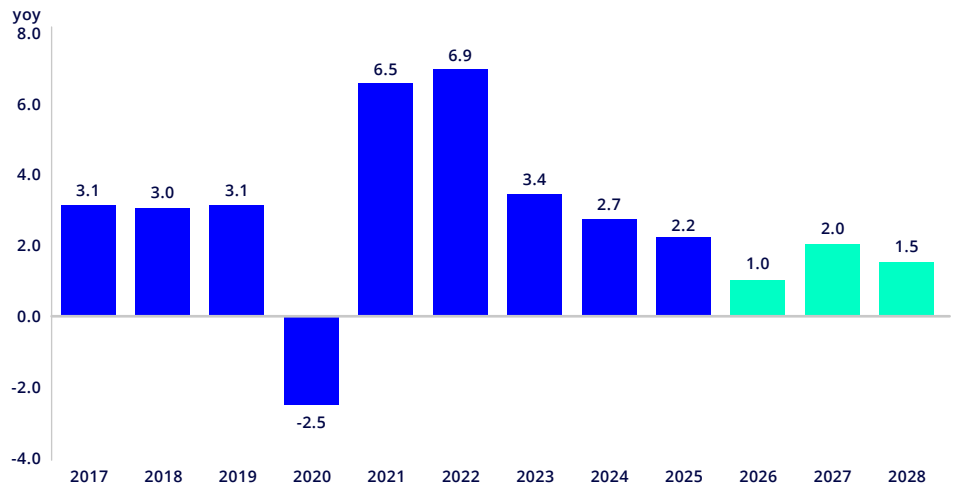
In contrast, services exports saw another robust 8% rise to €137bn in Q2. Of late, both manufacturing and services PMI surveys have painted a more upbeat picture of prospects for 2026. Hence, we expect growth to accelerate to 5% in 2027.

Labour Market

Employment growth of 1% forecast for 2026, 2% in 2027

The Labour Force Survey (LFS) for Q2 2026 indicated employment bounced back by 0.7% to 2.8 million, following the surprise 0.7% decline in Q1 2026. This was a softer rebound than we had forecast. However, the LFS continues to point to weaker job creation than the alternative pay-rolls measure, up 2.3% yoy in Q2 2026 to 2.6 million. Hence, we expect the LFS will recover further in H2 2026, so employment grows 1% this year, 2% in 2027 and settles at 1.5% in 2028.

Employment growth forecasts



Source: Bank of Ireland, Central Statistics Office

Recent survey indicators have been encouraging. The European Commission (EC) survey of service sector employment intentions through July/August was at the highest level since early 2025. Irish Purchasing Manager Index (PMI) readings also pointed to acceleration in job creation through the summer. The number of work permits granted has also accelerated during the summer, the 26,600 in the first eight months of 2026 up 33% on 2025.

The seasonally adjusted unemployment rate fell to 4.9% in Q2 2026, but the initial estimate based off social welfare claims, for August was 5%. Our forecasts entail a slight rise in the unemployment rate to 5.1% in 2027 and to 5.2% by end-2028.

Labour Market Projections	2025	2026	2027	2028
Employment	2.2%	1.0%	2.0%	1.5%
Unemployment Rate	4.7%	5.0%	5.1%	5.1%

Source: Central Statistics Office

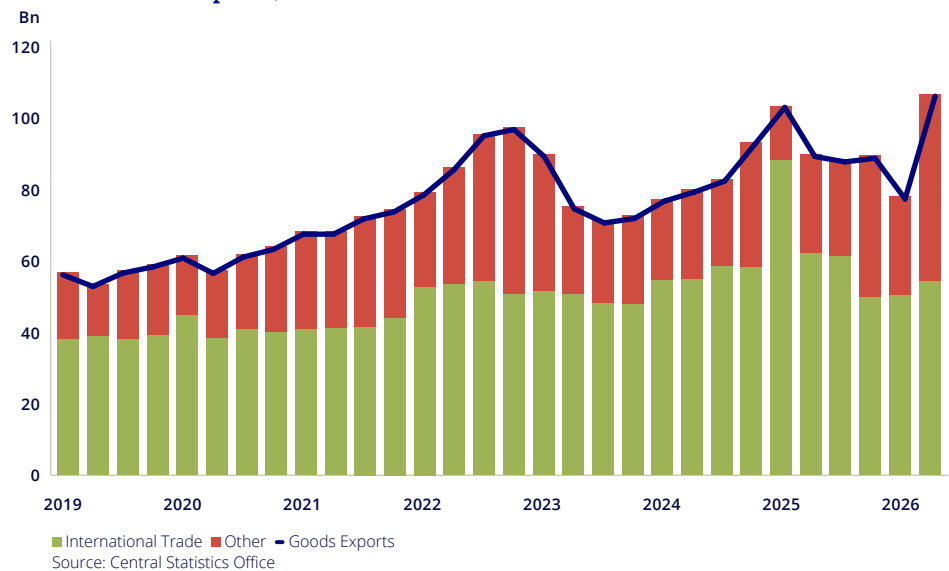
Export Sector

Smoke and mirrors cloud the underlying picture

Irish exports rose to a fresh record high of €242bn in Q2 2026, up 12% on the year. This was despite a 12% contraction in internationally traded good exports to €54bn, reflecting the correction after the surge in exports (especially pharmaceuticals) that occurred last year in as firms front-loaded activity, concerned by potential US tariffs.

Nominal services were up 8% on the year to €137bn, helped by buoyant computer services (+14% to €87bn) and with business services up 2% to €18bn. However, the record level of exports in Q2 2026 reflected the 'black-box' items relating to contract manufacturing, merchanting and conceptual adjustments – which are impossible to predict.

Irish Goods Exports, €Bn



The underlying picture is mixed. Traditional manufacturing output was down 4.4% in the first seven months of 2026. Similarly, food (-1.7%) and beverage (-1.9%) exports saw declines in nominal terms, despite price pressures in these sectors. In contrast, Ireland's manufacturing PMI has pointed to relatively buoyant conditions in Q2 2026 albeit some orders temporarily boosted by customers attempting to get ahead of expected price increases.

Nonetheless, our forecast is for Irish export to grow by 3.8% in 2026 in real terms, but mainly due to the 'black box' items, with services exports up 3.4% but internationally traded goods still down 14.5%. Looking ahead to 2027 new pharmaceutical production facilities are still coming on stream, with demand for new weight-loss drugs clearly buoyant. Hence, we expect export growth to accelerate slightly to 5%.

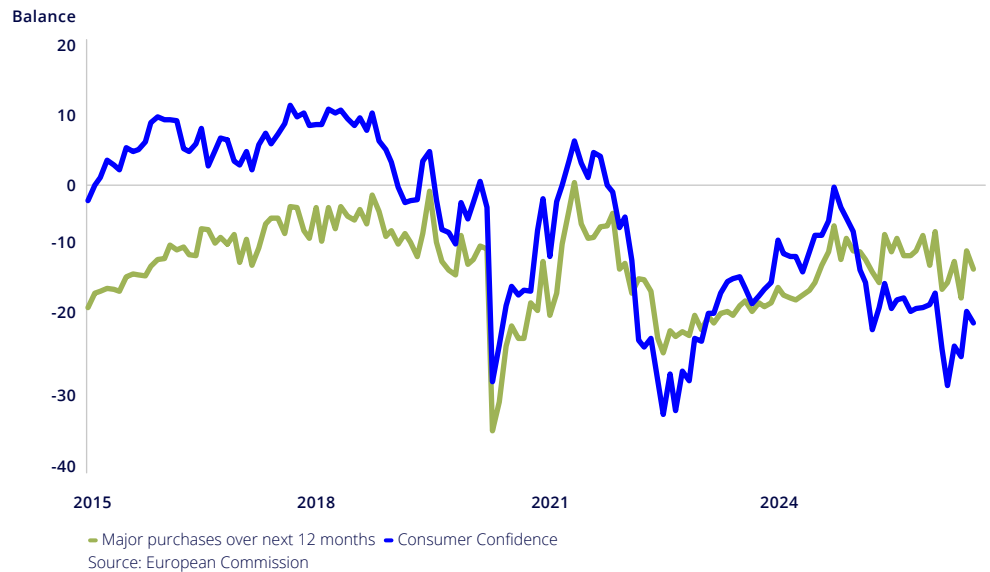
Consumer Spending

Consumer spending to slow on higher energy prices

Household spending has continued to expand at a robust pace, up 1% in Q2 2026 in real terms on the quarter and by 2.9% year-on-year. This is despite the pressure from energy prices and CPI inflation. The consumer expenditure deflator rose by 1%, up 3.8% on the year. However, the CSO's suggests that aggregate household disposable incomes grew by 6.7% over the same period to €52.25bn in Q2 2026 – so that household savings ratio increased slightly to 19.9%.

However, the scale of revisions to Irish household incomes and savings have been exceptionally large. These revision combined with uncertainty on the pace of job creation makes judging momentum in Irish household spending more difficult, but if anything suggests underlying employment growth has been strong. Average weekly earnings in Q2 2026 were up 3.9% to an €54,587 annualised figure.

Irish Consumer Confidence



The European Commission's survey of Irish consumer confidence recovered markedly in July and August – close to similar levels one year ago. Similarly, there has been no clear deterioration in households' expectations for major purchases. That said, the consumer confidence survey came before the recent surge in oil prices above \$100 per barrel.

Forecasts for Household Incomes and Consumer Spending	2024	2025	2026	2027
Compensation	9.9%	4.3%	6.0%	5.7%
Gross Disposable Income	11.2%	4.2%	5.6%	5.1%
Savings Ratio	20.0%	19.9%	19.8%	19.8%
Nominal Spending	5.5%	4.3%	5.8%	5.2%
Consumer Expenditure Deflator	3.0%	1.7%	3.3%	3.0%
Real Spending	2.4%	2.5%	2.4%	1.8%

Source: Bank of Ireland and Central Statistics Office

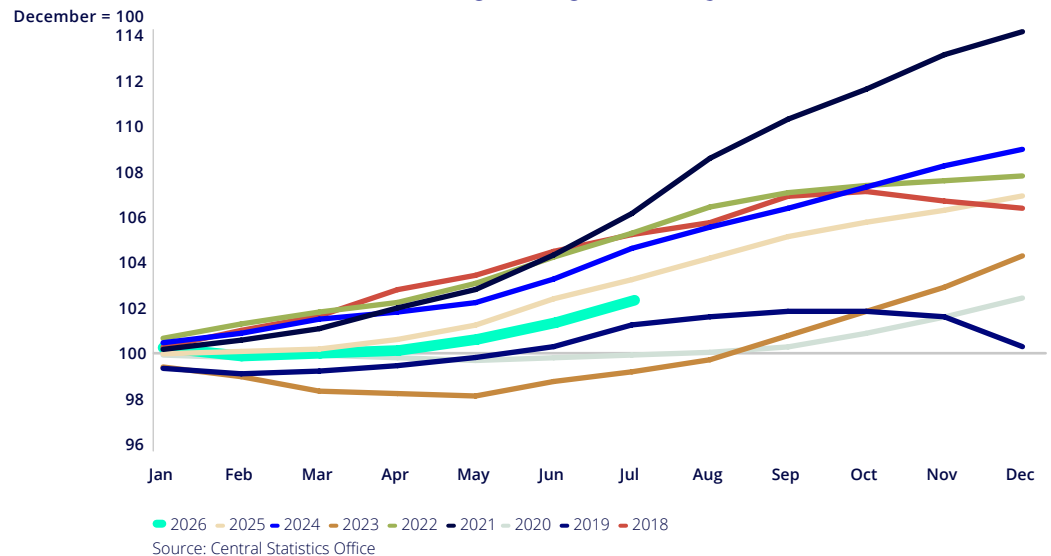
Housing market

Leaving our forecast for 4% inflation through 2026 unchanged

The Residential Property Price Index (RPPI) has thus far increased by 2.1% in 2026, through January to July. This leaves it on track to hit our forecast for 4% RPPI inflation through the year December 2026 over December 2025. We expect substantial price gains will occur in August and September, petering out as the end of the year approaches. My Home asking price inflation was 5% in Q2 2025. Also, the median transaction was being settled 8% above asking through July and August. Give gives us confidence in our view the RPPI will continue to rise in the coming months after a soft start to 2026.

That said, other indicators point to the pace of RPPI inflation moderating. The average mortgage approval for house purchase was €346,000 in August, up only 2.8% on the year. Looking ahead to 2027 we expect RPPI inflation will moderate to 3.5%.

RPPI Index, Cumulative change through calendar year



Housing market transactions in the first seven months of 2026 were up by 1.8% yoy to 33,570, but starkly split between buoyant new build (+16%) and another contraction in existing home sales (-3.9%). We expect four-year decline in existing home sales should soon end, given new listings for sale on MyHome have picked-up in 2026, accelerating during the summer, up 5% yoy. That should leave total transaction volume up marginally by 2.5% to 65,000 in 2026.

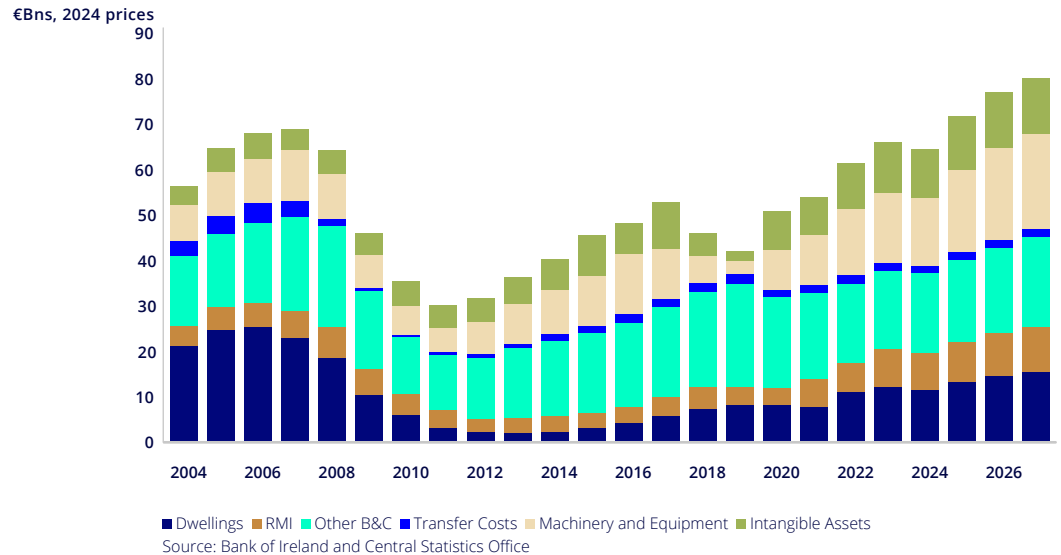
Housing market

Construction sector and AI continue to drive investment

The 8,823 residential completions in Q2 2026 were down 3.6% on the year, but mainly due to volatile apartments. Dublin Housing Taskforce returns show that over 20,000 apartment units were still under construction in the capital in June – equivalent to 2-2.5 years supply still in the pipeline. So the slightly weak Q2 figures are likely down to timing.

Other indicators have been more positive. In the year to August 2026 there 30,555 housing starts, despite the overhang from the 69,311 recorded in 2026. Hence, we have left our forecast for housing completions unchanged at 39,600 in 2026 rising to 42,600 in 2027.

Modified Investment Spending



One area that has been disappointing has been non-residential construction investment, down 12% in H1 2026. Similarly, the CSO's index of construction output indicated both non-residential construction (-10%) and civil engineering (-7%) had contracted in H1 2026. However, we are conscious the early estimates can be revised upwards. So we are sticking with our forecast for a gradual recovery in this sector, helped by the implementation on the NDP.

We have revised up our forecast for machinery and equipment spending. Imports of AI related goods continue to surge. Intel's announcement of a €5bn investment will also have a positive impact. Hence, our forecast for core M&E investment is for 13% growth in 2026 and 2% in 2027.

Forecasts for Modified Investment	2025	2026	2027
Homebuilding	17.5%	9.3%	6.1%
Non-Residential Construction	2.5%	3.0%	6.0%
Machinery and Equipment	20.6%	13.0%	2.0%
Intangible Assets	11.0%	4.0%	1.0%
Modified Investment	11.3%	7.4%	4.0%

Source: Bank of Ireland and Central Statistics Office

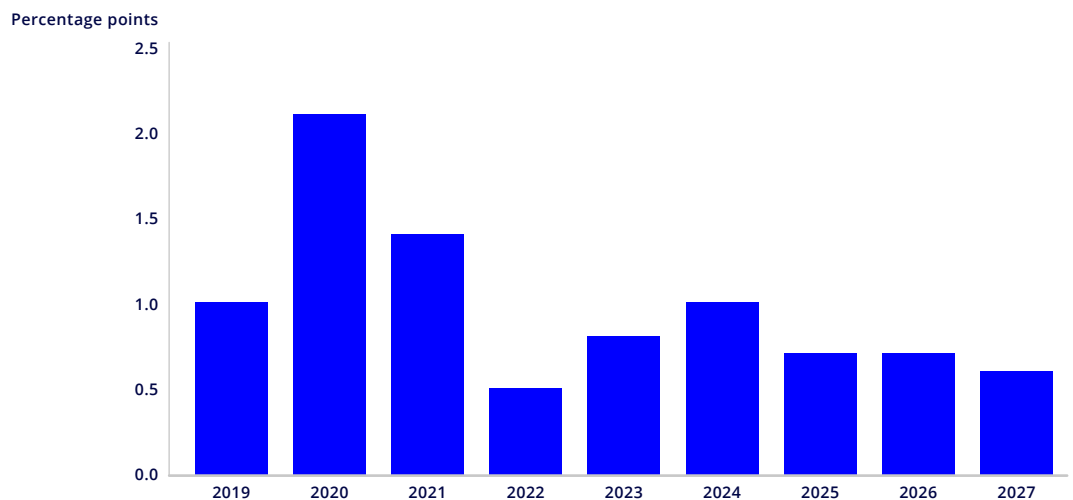
Public Finances

Expenditure continues to grow rapidly

Exchequer returns for the first eight months of 2026 paint a healthy picture; broad based tax revenue growth across income taxes (7.7%), value-added-tax (7.3%) and corporation taxes (8.3%). Overall, tax revenues were up only 3.5% but artificially depressed by €1.1bn payments related to the Apple tax ruling last year, but up 5.2% excluding them. Revenue from excise was €3.9bn, down by 7% (or €302m) reflecting government actions on petrol and diesel prices.

Meanwhile, spending has grown broadly in line with Budgetary targets. Gross voted expenditure was €74.6bn in the first eight months of 2026, up 7.5% yoy, vs the 8% planned in last year's Budget. The Summer Economic Statement (SES) set out the broad parameters of Budget 2027; an €8.5bn package split between a modest €1.5bn of tax cuts and €7bn the additional spending – implying that gross voted expenditure will rise by 5.9% in 2027 to €125.5bn.

Contribution of government consumption to domestic demand



Source: Bank of Ireland and Central Statistics Office

Hence, our forecasts for the general government balance are little changed since July. We expect a surplus of €9.4bn (2.7% of GNI*) in 2026, falling to €8.9bn (2.1% of GNI*) in 2027. This means the government debt/GNI* ratio will fall from 63% in 2026 to 59% in 2027. Recent data on the contribution of government consumption to domestic demand have been surprisingly weak – up only 2.4% in nominal terms. We continue to expect government consumption will robustly in real terms, up 3.5% in 2026 and 3.2% in 2027.



Contact Us

economics@boi.com

Conall Mac Coille

Group Chief Economist
+353 87 788 4264

Patrick Mullane

Senior Economist
+353 87 682 5130

Mark Leech

Head of External
Communications
+353 87 905 3679

Disclaimer

This document has been prepared by the Economic Research Unit at The Governor and Company of the Bank of Ireland ("BOI") for information purposes only and BOI is not soliciting any action based upon it. BOI believes the information contained herein to be accurate but does not warrant its accuracy nor accepts or assumes any responsibility or liability for such information other than any responsibility it may owe to any party under the European Union (Markets in Financial Instruments) Regulations 2017 as may be amended from time to time, and under the Financial Conduct Authority rules (where the client is resident in the UK), for any loss or damage caused by any act or omission taken as a result of the information contained in this document. Any decision made by a party after reading this document shall be on the basis of its own research and not be influenced or based on any view or opinion expressed by BOI either in this document or otherwise. This document does not address all risks and cannot be relied on for any investment contract or decision. A party should obtain independent professional advice before making any investment decision. Expressions of opinion contained in this document reflect current opinion as at 01 October 2026 and is based on information available to BOI before that date. This document is the property of BOI and its contents may not be reproduced, either in whole or in part, without the express written consent of a suitably authorised member of BOI. Bank of Ireland is regulated by the Central Bank of Ireland. In the UK, Bank of Ireland is regulated by the Central Bank of Ireland and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Governor and Company of the Bank of Ireland is incorporated in Ireland with limited liability. Registered Office 2 College Green, Dublin, D02 VR66. Registered Number C1.