

AIB Irish Economic Outlook

October 2026

AIB Group Plc

AIB

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What's the outlook for the economy?

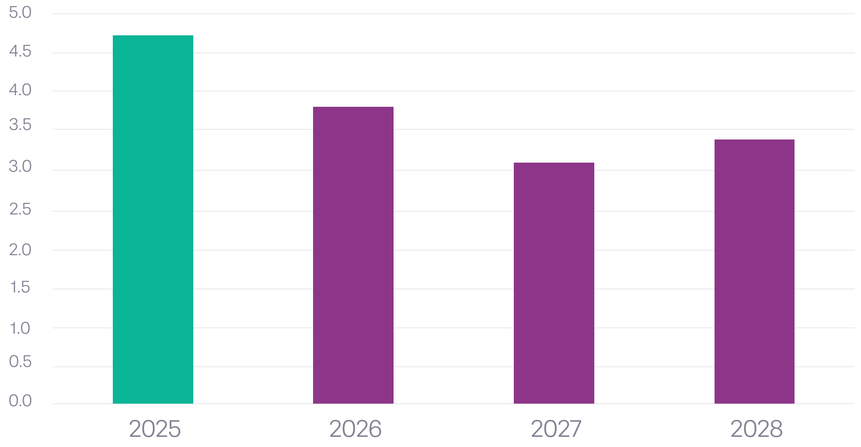
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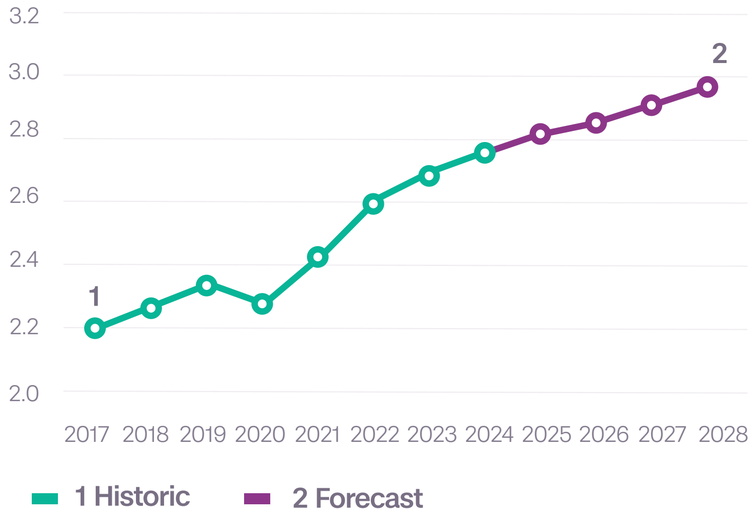
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Economic Growth Forecasts (% change)*

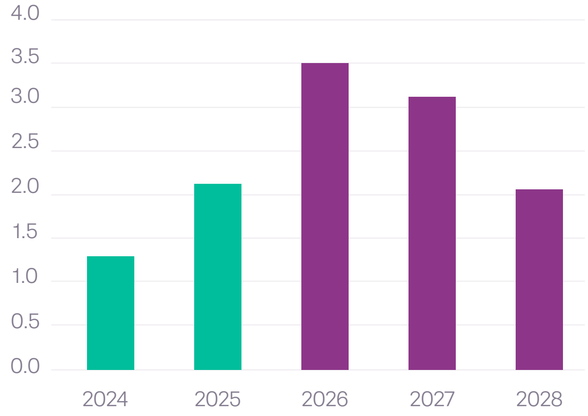


*Based on Modified Final Domestic Demand

Employment Forecast (Thousands)



Inflation (Annual Average, %)



Macro Outlook

Global Backdrop – Economy faces a fresh inflation shock

Irish Outlook – Inflation shock expected to dampen growth in 2027

Risks to the Outlook – Geopolitics and inflation remain to the fore

Global Backdrop – Economy faces a fresh inflation shock

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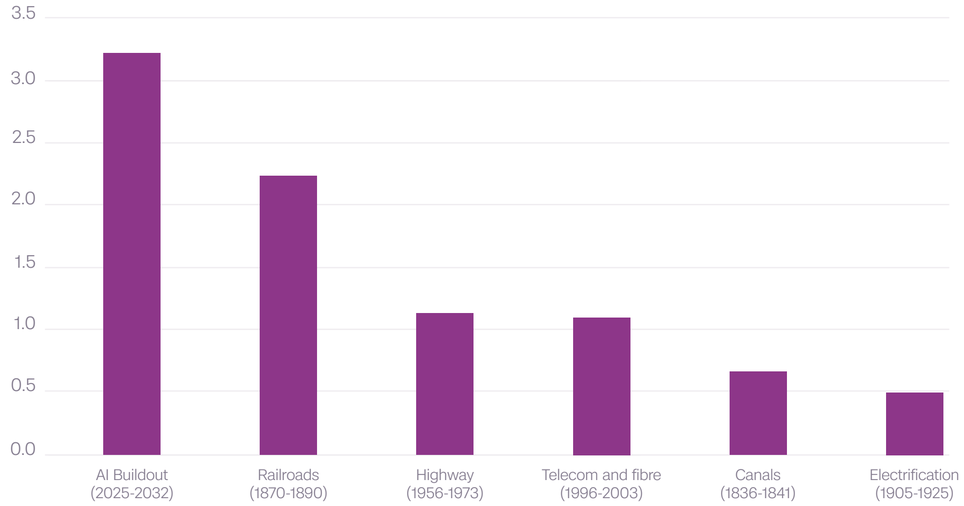
The global economy has shown resilience amid geopolitical shocks. Energy price rises are dampening activity, but this is being offset to a large extent by the boom in AI-related investment.

Economic data signalled a resilient global picture so far in 2026, despite heightened geopolitical risks. The rise in the price of oil and other commodities amid the Middle East conflict has dampened economic growth, particularly in energy import-reliant countries in Asia. The result has been an erosion of spending power via higher inflation, and outright demand destruction in countries which have been forced to introduce energy restrictions.

There are clear parallels with the energy crisis of 2022, particularly in the trends in oil and fertiliser prices. However, current European natural gas prices remain at a fraction of the peaks reached in 2022. This is one of the factors which should mean inflation does not reach the double-digit ranges seen in 2022, alongside weaker second-round price pressures in many economies where labour markets are weaker, and interest rates are higher than they were in 2022. Indeed, the International Monetary Fund (IMF), while noting the many downside risks, revised up its global economic forecasts for this year in October compared to its previous editions in July and April 2026. A key driver of this resilience has been the surge in AI-related investment, particularly in the US and Asian economies.

The AI boom is emerging in two forms – tangible and intangible. Those countries investing in the tangible hardware in semiconductors, data centres, and energy; and those importing and investing in the intangible AI software solutions downstream.

Chart: The investment AI boom is historic in size (Capex as % of US GDP)



Source: Van Nieuwerburgh, 2026

Europe is very much in the latter camp, although Ireland has carved out a place in both camps given the presence of an established semiconductor industry which is now boosting our exports.

Nevertheless, the current investment boom is not without its risks, particularly the lofty expectations of future profits and productivity gains embedded in current financial market valuations and the increasing share of debt-financing[1]. If these expectations are revised lower or missed, this could result in a sharp slowdown in physical investment. This physical investment in the US - in particular - is expected to surpass even the railroad boom of the 1800s. A recent academic paper shows the AI buildout (2025-2032) is expected to total c.3.2% of US GDP, compared to the Telecoms boom (1996-2003) at 1.1% and the railroad boom (1870-1890) at 2.2% of GDP.

These vulnerabilities in financial markets could also negatively feedback quickly to sovereign debt markets, which are already experiencing strains in the current inflationary environment. We assess this topic in further detail in our "Theme in Focus" analysis later in this report.

GDP forecasts for Ireland's key trading partners

	2025	2026(f)	2027 (f)
US	2.0	2.5	2.1
Eurozone	1.1	1.4	1.2
UK	0.8	1.4	1.5
China	4.6	4.3	4.0

Source: IMF World Economic Outlook, October 2026



1. See "Financing the AI Buildout" NBER Working Paper 35865, October 2026

Irish Outlook – Inflation shock expected to dampen growth in 2027

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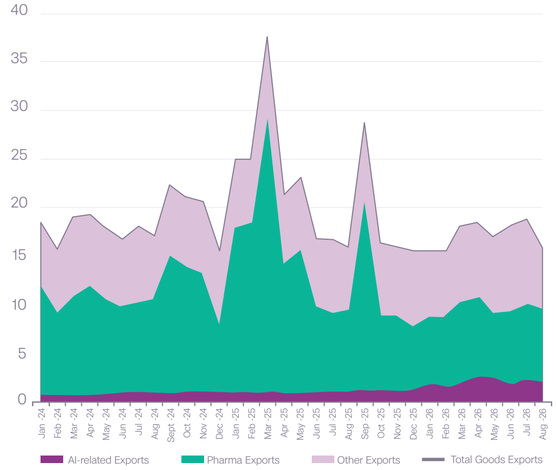
In Ireland, we expect a solid pace of economic growth in the near term, with modified domestic demand rising by 3.8% in 2026 and by 3.1% in 2027, with risks tilted to the downside in the current inflationary environment

Underpinning our Irish forecast is the assumption that the current geopolitical uncertainty and the shock to global energy prices begins to dissipate in the coming months. This would imply prices falling from the current elevated levels of around $100 per barrel towards $70-80 by end-2027.

Irish GDP remains a volatile gauge of activity, as evidenced by the sharp swings in growth in recent quarters. However, the make-up of Ireland's GDP also reveals the impact of global megatrends. In 2025, GDP grew by an enormous 8%, driven almost entirely by a surge in exports ahead of expected US tariffs. As we outlined in previous AIB Economic Outlooks, Ireland has also become a production hub for the weight-loss drug market, turbocharging goods exports in recent years. This surge in goods exports began to unwind towards the end of 2025; but has bounced back during 2026, driven not only by pharmaceuticals, but also by the rise in AI-related exports in the semiconductor industry and continued robust trends in IT services exports. Indeed, AI-related exports are now growing quickly off a low base, accounting for nearly 13% of all customs goods exports so far in 2026, versus just 6% in 2025.

Therefore, we assume this recent volatility will depress GDP growth in 2026, before bouncing back in 2027. Export growth is expected to slow from the 7.5% gain in 2025, to 2.8% in 2026, before rebounding to 5.2% in 2027 and 4.7% in 2028.

Irish Exports, by category (€bn)



Source: Eurostat

A more useful gauge of the domestic economy - modified domestic demand (MDD) - will continue to expand, but at a more moderate pace than recent years as inflation erodes household incomes and consumer spending. Real disposable income growth (adjusted for inflation) is expected to be broadly flat in 2026, before picking up somewhat next year, which alongside softer trends in the labour market will see a lower growth profile for consumer spending. We analyse these trends in further detail later in the report. However, AI-related spending will offset these inflationary impacts to a degree, with modified investment expected to be strong due to the fit-out of data centres and general investment by Irish-based firms in the technology sector.

In terms of the growth outlook, we see MDD growth slowing from 4.7% in 2025 to 3.8% in 2026 and 3.1% in 2027.

On the investment side, the picture is clouded by geopolitical uncertainty, but there have been positive signs in both survey and hard data in recent months. As referenced above, in 2025 MDD grew by 4.7%, with this figure boosted by a surge in investment in machinery, equipment and software in the second half of the year. This has continued into 2026, with the Central Statistics Office noting that much of this surge in investment related to fit-out of data centres and related software, suggesting some structural uplift in capex in the FDI sector, likely related to the AI investment cycle. Business investment is also being boosted by the deployment of AI technology by firms in Ireland, a trend which is now emerging clearly across the European economy.

Irish Growth Forecasts

	2025	2026	2027	2028
GDP	8.0	-3.7	4.2	3.3
MDD	4.7	3.8	3.1	3.4

Source: CSO, AIB ERU

In the domestic economy, we see housing completions rising, alongside a growing contribution from public infrastructure spending. In Budget 2027, the Government allocated in excess of €20bn towards capital spending in 2026 – largely flowing into large projects such as Metrolink, and a sustained rise in funding towards enabling infrastructure for housing. 2025 saw an improvement in residential construction levels. Housing completions rose to 36,000 units. The latest data, which covers the first half of this year shows completions up 11% in year-on-year terms. The four-quarter total is running at just under 38,000 as of Q2 2026. Lead indicators of activity offer some encouraging signs for a further uplift in supply. Planning permissions totalled just under 35,000 units in 2025, an increase of 8% when compared to 2024, with a further 28% rise in H1 2026.

Overall, considering the positive signs from recent activity indicators, we see new housing completions rising to 39,000 units this year. For 2027 and 2028, we envisage supply of 41,000 and 45,000, respectively, underpinned by a sustained uplift in the apartments category. Delivery on key infrastructure in relation to water, sewage and energy will be vital to the sector being able to deliver over 45,000 units on a sustained basis.

However, the Middle East conflict also poses some downside risk to supply expectations for 2027 and 2028, with the possibility of projects being put on hold amid a more prolonged conflict and the associated elevated levels of uncertainty. Indeed, the latest Construction PMI for September 2026 shows residential activity remaining in contraction territory. Assessing the outlook for prices, the construction PMI Selling Prices index implies more modest gains in house prices. As more supply comes onto the market, the rate of house price inflation should moderate further.

Overall, we expect modified investment to expand by 6.8% in 2026, 5.6% in 2027, and 5.7% in 2028, as housing output and infrastructure delivery gather pace.



Inflation expected to peak around 4.5%, with risks to the upside

The persistence of an increasing number of domestic capacity constraints have spurred inflationary pressures, before the impact of the Middle East crisis is factored in. Annual inflation reached 4% in September, and may rise further if oil and gas prices remain elevated.

We now expect a sharp uplift in inflation as oil and gas price pressures feed through to consumers. Our base case assumptions are for oil prices to peak in the coming months and fall towards $70-80 by end-2027, as oil supply from the Middle East normalises in the coming months. We assume some modest second-round effects on core inflation and wages, although our assumption is that these pressures will be more modest than occurred post the energy shock in 2022. This is primarily due to softer trends in the labour market, with less wage bargaining power at present in the economy. The economy is also in a relatively more balanced position compared to 2022, when demand was surging post the re-opening of all economic sectors after the pandemic. Therefore, we expect HICP inflation to peak around 4.5% in Q4 2026, before falling steadily thereafter, but remaining well above 2% for most of 2027. There is clearly a high degree of uncertainty in relation to this inflation forecast, with risks to the upside.



Risks to the Outlook – Geopolitics and inflation remain to the fore

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Geopolitical and inflation risks remain front and centre and could dampen the outlook for the domestic economy.

The risks to the economic outlook remain tilted to the downside, with clear immediate term risks in the current geopolitical environment. The impact of the current energy price shock on the global economy could be more acute and longer lasting, amid continued heightened geopolitical uncertainty. This scenario could see the global and Irish economies experiencing a sharp slowdown in growth, or even a modest recession in 2027.

The effects of the Middle East conflict are still to play out on the economy beyond inflation. So far, the only evidence of this is in confidence surveys. Forward-looking questions in AIB's PMI survey of businesses and in the Irish League of Credit Unions Consumer Sentiment Index suggest both parts of the economy have bounced back from the initial confidence shock in early 2026 but remain below the pre-war baseline. While not a perfect guide to actual spending and investment decisions, these confidence indicators are worth observing in the current context.

Government borrowing costs are surging (30-year bond yield %)



Source: LSEG

Given these ongoing risks, the build-up of sovereign wealth funds by the Government is a welcome additional buffer for the economy, with total liquid assets of around €70bn at present. Households and business also retain relatively healthy balance sheet positions with high savings and low debt levels. As a result, while more moderate growth is expected in the near term, with risks tilted to the downside, the public and private sectors have built up significant resilience.

In terms of Budget 2027, the package of measures of over €9bn adds up to a significant boost to the economy. The Government is providing an additional €7.1bn in spending increases and €2bn in net tax cuts. However, recent history suggests maintaining spending restraint could prove challenging. The headline tax measures include income and capital gains tax cuts, a freeze in carbon tax increases, as well as new personal investment incentives. On the spending side, welfare payments are set to rise, and funding gaps in education, health and other departments have been plugged with increased allocations. Capital spending will also rise sharply next year, in line with revised NDP targets.

The public finances remain in a positive state. Indeed, the Dept. of Finance is projecting budget surpluses of €9.5bn (2.5% of GNI*) in 2027. The gross debt-GNI* ratio is also projected to fall from 58.5% in 2026 to 56.3% by 2028. However, excluding windfall corporate tax receipts, the Government will run increasing fiscal deficits of up to €20bn by the end of the decade. Indeed, the Budget lacks a clear path to close the underlying fiscal deficit, despite the external risks facing the Irish economy at present.

A more favourable outcome to current geopolitical conflicts than currently expected could be a catalyst for stronger economic sentiment and in turn growth. Our central assumption is that Irish households maintain exceptionally high savings rates conflict of around 20% in the current environment, but as explained in our consumer and labour market outlook, this should not hold back spending growth to a great extent. However, a brightening global outlook might spur even stronger consumer spending than we anticipate in the coming years.

Another upside risk is the rapid development and deployment of AI technologies. This has the potential to significantly boost private sector investment in the short term, and productivity growth in the long term. As described earlier, AI is impacting the Irish economy through three separate channels: physical investment in data centres and related capital equipment, exports of the semiconductor industry (e.g. Intel), and the investment in AI software and technology by Irish-based firms.

Labour Market & Consumer Outlook

Labour Market
– Signs of easing jobs growth

Consumer
– Households remain cautious, spending growth to moderate

Labour Market – Signs of easing jobs growth



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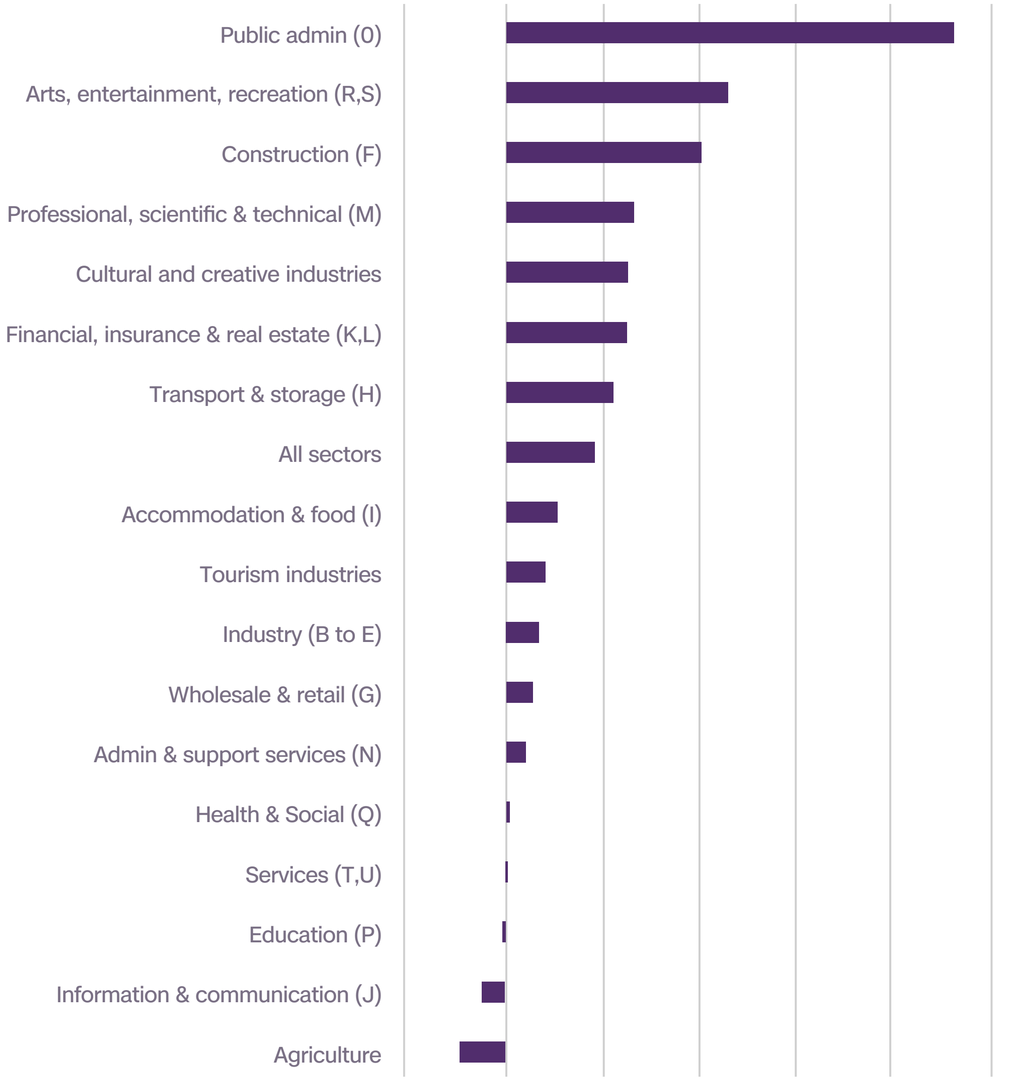
We expect continued job gains in the labour market, but growth will ease, and unemployment is expected to tick higher in the coming years.

The Irish labour market has been on an exceptional trajectory, with employment rising by 20% (+461k) since the beginning of the decade to over 2.8 million people. However, there are signs of cooling, including relatively weak employment gains in the first half of 2026 in the official Labour Force Survey (LFS).

The Latest Q2 2026 LFS indicated employment was up by a muted 1% year-on-year. Labour force participation also declined, dipping below 66% for the first time in two years. The fall in participation has limited increases in the unemployment rate, currently at 5%, but there are pockets of weakness in younger cohorts, with employment down 1.3% y/y in the 16 to 24-year age group; and a marked contraction in the number of people working in Tech (-2% y/y). Other indicators also point to cooling, including a fall in the number of job vacancies and an easing in the Churn Rate (the number of people who changed jobs).

However, latest official wage data for Q2 shows that economy-wide earnings growth is still running at a 4% annual pace, with solid gains even in sectors which have shed jobs. While widely publicised layoffs at some tech companies heightened fears that AI may already be replacing jobs, it is too early to say conclusively that this is the case, over a general 'rightsizing' in these companies following rapid post-Covid growth. While employment-searching platforms such as Indeed.ie show job postings have dipped over the past year, the number of roles mentioning AI terms has also surged to nearly 15%, well ahead of other markets, and suggests that AI may be complementary to, rather than destructive of jobs so far. However, these benign trends merit close attention given the rapid development of AI technology.

Payroll employment growth uneven across sectors (Aug 2026, Annual % change)



Source: CSO, AIB ERU

Indeed, the LFS might be overstating the recent softness in the labour market. Increasingly, administrative data are gaining prominence, as survey-based measures such as the LFS see lower response rates. Payroll jobs data from actual PAYE records shows employee jobs rising by 2% y/y in Q2 (vs. a LFS rate of 1%), although this survey also corroborates the weakness in jobs growth for younger and Tech workers in the LFS. Looking ahead, other lead indicators such as AIB's PMI surveys suggest decent demand for workers across the private sector, as does the number of work permits issued to foreign nationals so far in 2026, across a variety of sectors.

Therefore, following a 2.2% rise in 2025, we see employment growth slowing to 1.2% in 2026, before rising to 2% in 2027 and 2028.

On the supply side, solid population gains are expected to continue to boost the labour force, albeit the recent rapid gains in participation rates look to have levelled off. The number of work permits issued to foreign nationals has picked up over the past year, suggestive of solid employer demand in many sectors. However, overall, we expect slower inflows into the labour force from here.

Following a 2.6% rise in the labour force in 2025, we expect a moderation to 1.7% in 2026 and 2.3% in 2027, as both supply factors (population growth) and demand factors (employer demand) begin to dampen the supply of new workers into the labour force.

Nonetheless, driven by still strong labour force growth, alongside slower jobs growth - the unemployment rate will rise modestly from 4.6% in 2025 to 5.1% in 2026, 5.3% in 2027, and 5.2% in 2028. This rate will be highly sensitive to the pace of labour force growth and participation rates, with new inflows to the labour force pushing up the unemployment rate, rather than outright falls in employment.

Unemployment Rate



Source: CSO, AIB ERU



Consumer – Households remain cautious, spending growth to moderate

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Consumer spending growth is expected to ease slightly as household's spending power is eroded by inflation.

Recent consumer spending growth has been solid, reflecting the strong growth in nominal household incomes, running at a c.4-5% annual rate over the past years. Precautionary savings remain elevated, with households retaining high cash balances on deposit. Indeed, recent revisions by the Central Statistics Office has seen the household savings rate revised up to 20% from around 12%, reflecting slightly weaker trends in consumer spending, alongside upward revisions to income growth. Irish households are now among the most frugal in the Europe, saving €1 of every €5 earned at an aggregate level. We expect this trend to continue as factors such as global uncertainty and ageing demographics boost savings behaviour.

Consumer surveys suggest Irish households remain cautious in their outlook for the future. For example, the Credit Union Consumer Sentiment survey points to a sharp drop in consumer spending expectations following the escalation of the conflict in the Middle East, with a slight recovery in recent months failing to bring the survey back to its pre-war levels. It remains to be seen if these trends translate to actual spending decisions in the near term, with actual hard spending data pointing to solid growth so far in 2026.

Year-to-date, AIB's Card Spend data point to robust trends. The AIB data provide a close-to-real time view of consumer spending behaviour on a month-to-month basis across a large proportion of debit and credit card transactions. The latest data for September 2026 shows nominal spending was up 4% in the year to date compared to the same period in 2025. Adjusted for inflation, this would imply real spending growth of around 1-2%. The AIB data show broad-based growth across sectors, including a surge in service station spending, implying more spending towards fuel purchases as the prices rose. More recent softness in spending on discretionary goods and service such as leisure and hospitality may also reflect the dip in consumer confidence in recent months.

Despite the continued caution in the consumer surveys, there is clearly good momentum in spending in recent months. Consumer spending should continue to expand at a decent, if slower pace in 2026 and 2027, as the impact of softer jobs and real wage growth dampens spending. We also expect households to gradually maintain relatively high savings rates 20%.

Given the trends we observe in both surveys and card spending data, we expect consumer spending to slow from the 2.6% gain in 2025, to 2.3% in 2026 and 2.1% in 2027, before bouncing back to 2.5% in 2028.

Theme in Focus



Bond markets - the long and short of it

A key feature of financial markets in 2026 has been the sustained, and at times rapid, increase in bond yields across advanced economies. Several factors are contributing to the synchronised rise in government borrowing costs. Most notably, yields have been propelled higher by concerns regarding inflation, higher interest rate expectations, changes in the structure of the bond market, and yawning fiscal deficits. This ‘Theme in Focus’ explains just what is happening in the key bond markets across the world, and why it matters.

Bond yields have risen sharply in 2026

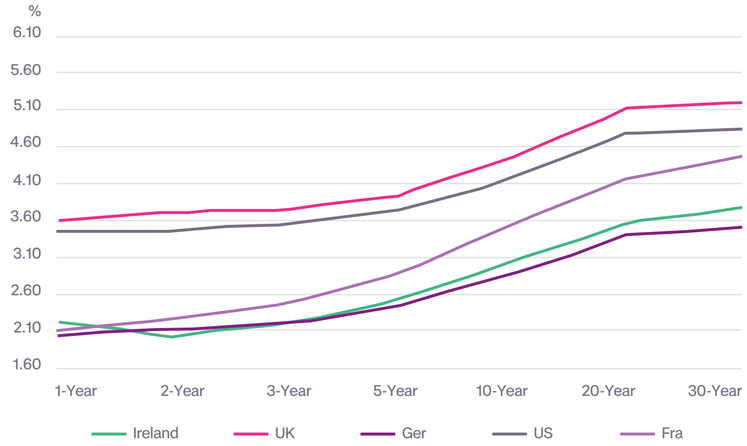
Yields move inversely with prices. Therefore, as the price of a bond falls, its yield rises. A sustained increase in yields means that when a government comes to refinance its debt, it needs to offer a higher interest rate to offset the rise in yields. Since the start of this year, sovereign bond yields have moved markedly higher. Crucially, US Treasury yields rose by 80-145bps across the curve in the first three quarters of the year. As a result, the 10-year Treasury yield rose to its highest level in more than two decades, to circa 5.30%. In Europe, we have seen similar moves for some of the larger economies, with the UK and France seeing the sharpest increase in borrowing costs.

Inflation and interest rate expectations drive the short-end of the curve.

At the start of this year, interest rate futures pricing indicated that investors were expecting a further easing in monetary policy as inflation continued to normalise. Rate cuts worth between 50-75bps were expected in the UK and the US. In the Eurozone, where inflation had already moved back to target, investors were contemplating a potential 25bps cut. However, this all changed at the end of February, as military conflict in the Middle East escalated. The resulting disruption to energy exports - particularly oil – means that the global economy is now grappling with a renewed energy price shock. Inflation has re-accelerated sharply, peaking above 4% in the US,

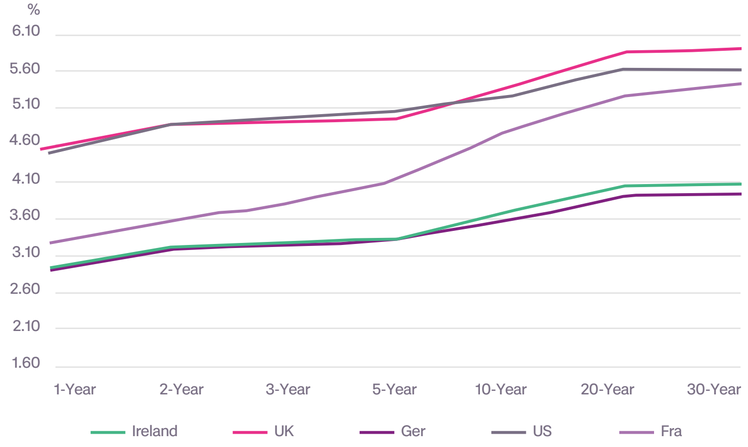


Soveriegn Yield Curves, as of end 2025



Source: CSO, AIB ERU

Sovereign Yield Curves, as of end Q3'26



and well north of 3% in the EU and UK. The IMF now expects inflation to average between 3.1-3.6% this year across all three regions, albeit it should be noted that the inflation shock is forecast to be much smaller than the last surge seen in 2022-23.

As inflation has accelerated and forecasts have been revised higher, central banks have turned more 'hawkish'. The ECB has hiked rates twice this year by a total of 50bps, bringing the deposit rate up to 2.50%. More recently, the US Federal Reserve (Fed) has hiked rates by 25bps, while the Bank of England (BoE) has laid the groundwork for raising rates this quarter. The market is also pricing in further rate hikes across the board, as central banks attempt to keep underlying price pressures in check.

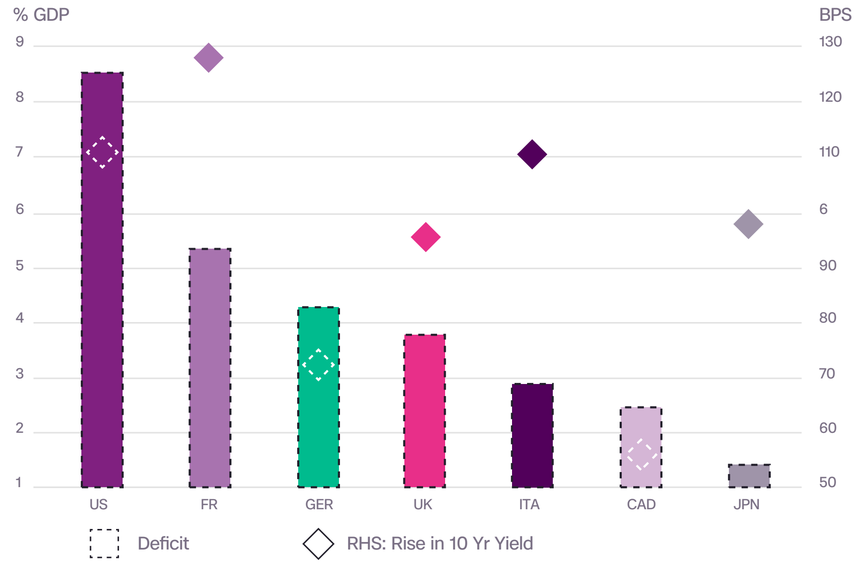
While rising energy prices have been the catalyst for the rise in bond yields, inflation expectations and interest rates have also contributed to the surge in bond yields this year. The 'front' end of the yield curve is the most policy/rate sensitive part of the curve. It is not surprising then, that 2-year yields have led the way higher, rising by 105-145bps in Europe and the US.

Government debt and deficits drive the long end

While the move at the front-end of the curve has been significant, increases at the long-end have also been dramatic. Both 10 and 30-year yields have reached multi-decade highs across many advanced economies, including the US, UK, Germany and Japan, rising by 45-130bps. The recent increase in inflation and the higher interest rate environment have contributed to the rise in long-dated yields. However, countries with larger public debt levels and wider fiscal deficits have experienced the most rapid increase in yields. For example, the US is expected to run the largest budget deficit (8.5% of GDP[2]) this year and has experienced the joint second-fastest increase in its 10-year borrowing costs (+111bps). France has experienced the sharpest rise in its long-term borrowing costs (up circa 130bps), as a combination of high debt levels (115.5% of GDP), a large deficit (5.4% of GDP), as well as broader political uncertainty test the government's fiscal credibility.

Higher borrowing costs add to fiscal pressures and can limit governments ability to manoeuvre. Furthermore, higher interest payments have become a more significant driver of government debt-to-GDP ratios since 2021. Indeed, last year in the OECD, only Ireland and Japan registered economic growth strong enough to negate the 'snowball effect' of higher interest rate payments leading to a deterioration in the debt-to-GDP ratio. Overall, the OECD estimates that the G7 countries spent around 2.1% of GDP on interest payments in 2025. This was forecast to rise to 2.3% on average this year but it will now be higher following the surge in government bond yields. This will have real economic consequences, particularly as populations continue to age at time when many countries are spending more on defence, energy and other areas.

G7 Government Deficits vs. Rise in 10Yr Yield



Source: IMF, Refinitiv



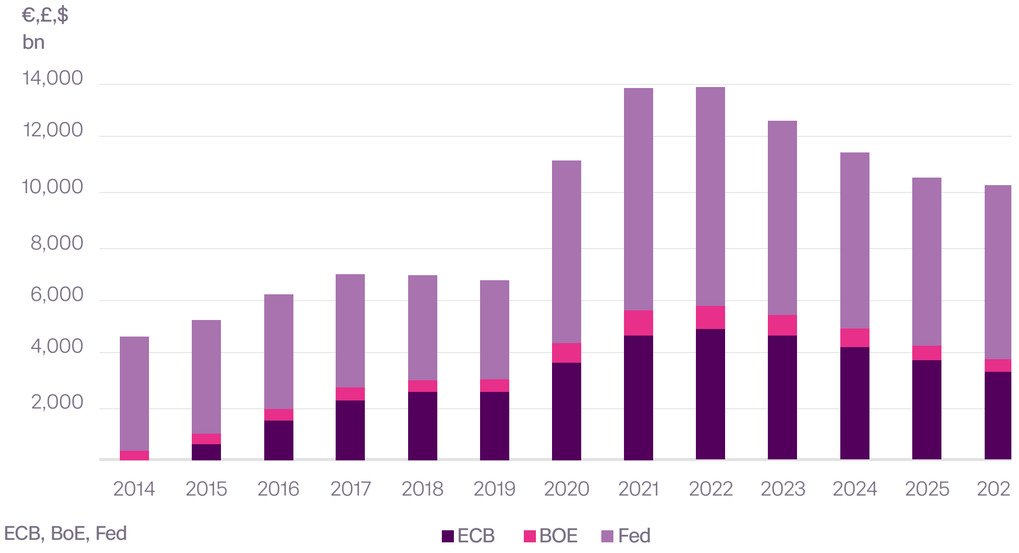
2. IMF standardised measure of borrowing. US CBO forecast a deficit of 6.2% of GDP using their own accounting framework

Central banks have been replaced as bond buyers by price-sensitive investors

Perhaps a key overlooked factor that is impacting the rise in yields is the changing composition of buyers of government debt. In particular, the move away from quantitative easing by central banks (buying government bonds) towards quantitative tightening (reducing their bond holdings), has likely contributed to the rise in yields. Since 2023, the ECB, Fed and BoE have all embarked on programmes to reduce the level of bonds accumulated on their balance sheets in the aftermath of the Global Financial Crisis, and more recently after the pandemic. At the end of 2022, the ECB had bond holdings worth €4.9trn, the Fed had holdings worth $8.2trn and the BoE owned a portfolio of bonds valued at £844bn. However, by the end of 2025 those positions had reduced to €3.7bn, $6.3bn and £553bn, respectively. The reduction in central bank balance sheets has occurred amid increased issuance of sovereign debt, as governments across advanced economies seek to fund their deficits. More importantly, the removal of central banks as non-price sensitive buyers of government bonds means that an increasing share of purchases has to be made from price-sensitive buyers, such as hedge funds.

Take the US Treasury market for example - the deepest and most liquid bond market in the world. At the end of last year, the share of US Treasuries held by price-sensitive buyers stood at 57%, up from 40% in 2022. A similar trend can be seen across other advanced economies. The OECD estimates that since 2023, the majority of government bond purchases in the US, Eurozone and Japan have been by price sensitive buyers, and that their share of total government debt stood at close to 60% in 2025. The increased reliance on price-sensitive buyers of government debt has also occurred at a time of increased demand for capital investment, particularly in relation to the AI-build out. A recent paper from Columbia Business School estimates that US capital expenditure on the AI Buildout will total $10.3 trillion between 2025 and 2032, or an average of 3.2% of GDP per annum, far exceeding previous capital booms such as the development of railroads in the 1880's (2.2% of GDP per annum) or the dot-com investment cycle at the turn of this century (1.1% of GDP per annum). Increasingly, many of the companies associated with the AI buildout are issuing debt to fund these investments. The four large "hyperscalers" – Alphabet, Amazon, Microsoft and Meta have issued $214bn in debt so far this year, up from $83bn throughout the whole of 2025. Furthermore, around $80bn of debt has been issued by SPVs in relation to data centres, while chipmakers such as Nvidia have tapped the market for around $84bn in 2026. All of this comes on top of bond issuances from a myriad of other firms associated with the AI buildout, including neo-cloud and software companies. In total, it is estimated that around $850bn of debt linked to the AI boom has been issued in 2026. A significant portion of this debt has been bought by large asset managers, private-sector credit providers and hedge funds – the exact same price-sensitive buyers tasked with buying a larger share of government debt. The combination of increased supply of public and private-sector debt, at a time of reduced "price-insensitive" demand, has also likely contributed to the rise in government yields this year.

Central bank bond holdings (Home Currency)



Source: ECB, BoE, Fed





Ireland in a relatively strong position, but also impacted by higher yields

As mentioned previously, borrowing costs in Ireland have also increased this year. However, the yields on Irish sovereign debt have not risen to the same extent as elsewhere, as the Irish Government is set to run a large Budget surplus once again in 2026. As a result of this, the spread between Irish and German 10-year yields has actually narrowed slightly to just 13bps. This implies Ireland is very firmly within the 'core' group of European countries alongside Germany, Netherlands, and Luxembourg.

Nevertheless, Irish Government debt still needs to offer a higher yield. Indeed, the most recent 10-year auction in October saw it achieve an average yield of 3.50%, up from 3.21% for the same instrument in March. In total, around 64% of the gross national debt is made up of Government bonds (€141.4bn). The current weighted average maturity of the debt is around 8.8 years, and it carries a weighted average interest rate of roughly 2.0%. Recent issuance from the NTMA has extended the length of the maturity profile. However, we estimate that a 50bps increase in the cost of Ireland's debt across the yield curve, similar to the widening in Italian 10-year yields this year would push the average interest rate up to 2.7%, increasing Ireland's interest expenses by 6.4% to circa €5.4bn per annum (p.a.) between 2027-2030. A larger 70bps jump (in-line with the widening in France) would raise the average interest rate up to 2.9%, increasing the average interest expense by 9.6%, to €5.6bn p.a over the same period.

A move like that seems unlikely at present, given the Government is set to register a surplus out to 2030. However, this surplus is highly dependent on windfall corporation tax receipts remaining in place. The Department of Finance forecasts that the surplus would turn to a deficit of €12.1bn (3.4% of GNI*) in 2026 if windfall corporation tax receipts are excluded, and that this would rise to €20.3bn (4.6% of GNI*) by 2030.

The lesson is Ireland cannot take its success for granted, and the recent memory of bond markets souring on our debt highlights how quickly sovereigns can lose credibility.

Appendix

Detailed Forecast Tables

Irish macroeconomic forecasts (% change)

	2025	2026	2027	2028
Consumer Spending	2.6	2.3	2.1	2.5
Government Spending	3.2	4.5	2.7	2.8
Investment	38.4	-10.2	8.0	4.6
Exports	7.5	2.8	5.2	4.7
Imports	9.5	6.6	5.5	5.0
GDP	8.0	-3.6	4.2	3.3
Modified Investment	11.3	6.8	5.6	5.7
Modified Domestic Demand	**4.7**	**3.8**	**3.1**	**3.4**
HICP Inflation	2.1	3.5	3.1	2.0

Source: CSO, AIB Economic Research Unit

Irish labour market forecasts (% change)

	2025	2026	2027	2028
Unemployment rate	4.6	5.1	5.3	5.2
Employment Growth	2.2	1.2	2.0	2.0
Employment ('000)	2,818	2,851	2,908	2,967
Earnings Growth	4.4	4.0	4.1	3.7

Source: CSO, AIB Economic Research Unit



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