Irish Economic Update

AIB Economic Research Unit

6th October 2026

Budget 2027

A 'cost of living' budget delivers a big giveaway

Today's budget contained a package of measures totalling c.€9bn, and adds up to a significant boost to the economy in line with recent budgets. 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. Voted current spending in 2026 is expected to be c.€2bn higher (+2%) than was projected in last year's budget, with a significant slowdown in growth pencilled in for 2027. 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 by €10/week, and funding gaps in education, health and other departments have been plugged with increased allocations. Capital spending will also rise next year, in line with revised NDP targets.

The public finances remain in a strong state, enabling the Budget day package. Indeed, the Dept. of Finance is projecting budget surpluses of €6.7bn (1.9% of GNI) for 2026 and €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 large fiscal deficits. Indeed, the Budget lacks a clear path to close the underlying fiscal deficit, despite the external risks facing the Irish economy at present.*

Key Points - Budget 2027

Budget 2027 is set against exceptional budget surpluses	Budget 2027 is set against heightened geopolitical uncertainty, but exceptional fiscal surpluses. The starting point is a nearly €6.7bn surplus (1.9% of GNI*) in 2026. The budget surplus is forecast to be €9.5bn in 2027 (2.5% of GNI*). However, excluding windfall corporation tax receipts, the Government will run a significant underlying deficits of €13.4bn in 2027 (-3.5% of GNI*).
Dept. of Finance macro projection point to continued growth but risks apparent	Dept. of Finance (DoF) macro projections point to continued growth in the near term with GDP and Modified Domestic Demand (MDD) forecasts broadly revised higher compared with the Spring 2026 forecasts. However, DoF highlights the numerous risks to the outlook, including global geopolitical risks, primarily emanating from military conflicts around the world and the current energy price shock.
A substantial Budget-day package of €9bn announced	The budget provided for a broad array of increased spending across departments and tax cuts. This includes c.€7bn in spending measures, and €2bn in tax measures. The key theme this year is the 'cost of living', with measures to offset the impact of higher fuel prices, and a return to income tax cuts following a pause in last year's budget. Other measures such as capital gain tax cuts, childcare supports and the new personal investment account will also garner significant attention, albeit the fiscal outlay is more modest for these measures.
Substantial spending increases, on top of overruns baked into the base	The Government already announced tax cuts and spending earlier this year to offset the fuel price shock, and these have been extended into 2027 - at significant cost. Department spending overruns have grown throughout 2026, with voted current spending in 2026 expected to be c.€2bn higher (+2%) than was projected in last year's budget. Indeed, overruns have accounted for a significant share of the overall rise in Government spending in recent years.
A budget at risk of overheating the economy	Today's budget is another large fiscal stimulus, with the Fiscal Advisory Council and others warning that the Government risks overheating an economy already operating at full capacity. While the continued commitment to infrastructure spending is welcome, the Budget lacks a clear plan to close the underlying fiscal deficit, despite the clear external risks facing the Irish economy. The underlying deficit is expected to grow to nearly €21bn by 2029.

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Irish economy continues to grow at robust pace, but risks to the downside

- **Economic data continue to signal solid global growth.** While higher energy prices have reverberated through the economy, this is being offset to a large extent by the surge in AI-related spending, particularly in the US and Asian economies. Eurozone and UK growth remains modest, although both are seeing AI-related growth in business investment. Global growth is expected at a modest c.3% in 2026 & 2027 (OECD, Sept 2026), with **significant downside risks to the outlook,** including the ongoing global energy price shock.
- These global geopolitical trends are the context in which the Government set fiscal policy for Budget 2027. In particular, the energy shock has driven the majority of the 'cost of living' measures announced today.
- **In Ireland, the growth picture was robust in the first half of 2026, with MDD expanding by 3.1% y/y.** Other domestic indicators show payroll jobs growth of c.0.4%, unemployment near 5%, and wage growth of 3.5% at present, reflecting a still-tight labour market. Looking ahead, **lead indicators suggest Irish growth could moderate in the coming years.** Surveys suggest Irish firms and households have become gloomier in their outlook for next year due to the geopolitical uncertainty, while there are signs of a softening in hiring in the labour market.
- There are also signs that Irish growth is also being boosted by AI. This is manifesting across three channels. First, in the fit-out of data centres to support higher compute demand; second, in the investment in AI software by firms; and third, in the rising exports of firms in the semiconductor sector (e.g. Intel). This suggests a near term structural uplift in capex, although its remains uncertain how sustainable the global surge in AI investment will be in the context of 'frothy' financial market valuations.
- In terms of the budget fundamentals, Ireland continues to have a large general government surplus, while private sector balance sheets are characterised by low levels of debt and high savings. Nonetheless, this resilience is being tested by the current inflation shock. The HICP rate stood at just 3.9% in September, up from 2.5% in February 2026, ahead of the US-Iran war.
- Despite the global risks, **the latest Dept. of Finance macro forecasts predict strong growth. GDP growth is projected at –0.7% in 2026, 3.8% in 2027 and 3.4% in 2028, respectively.** Meanwhile, MDD is forecast to grow by 3.7% in 2026, 3.0% 2027 and 3.3% in 2028. The labour market is expected to remain tight. The unemployment rate is projected to remain very low at 5.0% in 2027 and 2028.

DEPT OF FINANCE ECONOMIC FORECASTS

(%)	2025	2026(f)	2027(f)	2028(f)
GDP	**8.0**	**-0.7**	**3.8**	**3.4**
GNI*	**4.7**	**3.1**	**3.5**	**2.4**
MDD	**4.7**	**3.7**	**3.0**	**3.3**
Private Cons	2.6	2.9	2.4	2.4
Gov Expd.	3.2	4.2	2.9	2.4
Mod. Invest.	11.3	5.1	4.4	5.8
Mod. Imports	8.0	7.8	4.1	3.3
Exports	7.5	2.9	4.3	3.4
HICP Inflation	2.1	3.3	3.0	2.1
Employment	2.2	0.8	1.8	1.2
Unemp. Rate	4.7	5.0	5.0	5.0

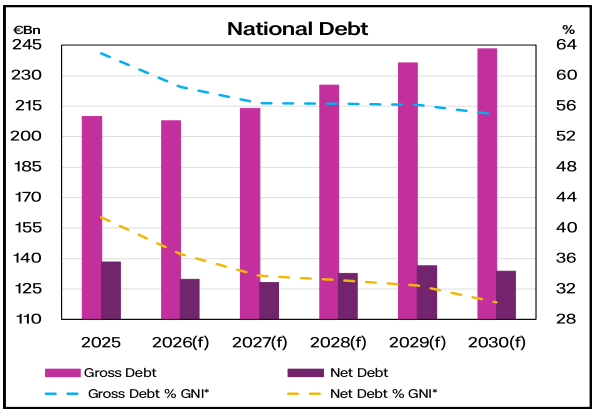
Source: Dept. of Finance, October 2027

Corporation tax surge continues to boost the budget surplus

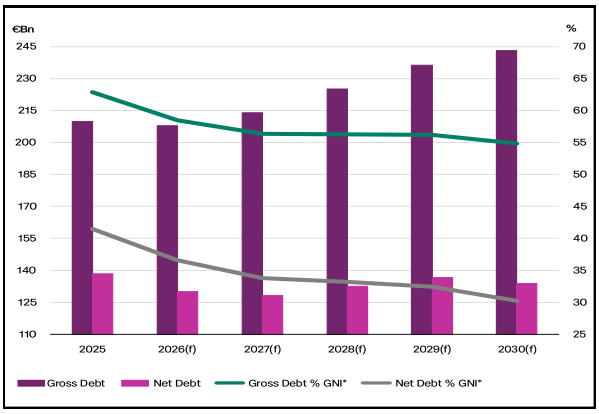
- A General Government surplus target of €5.1bn was initially projected for this year in Budget 2026 (Oct 2025). This was revised up to €9.1bn in the Annual Progress Report in April 2026. The past six months, have seen a further acceleration in tax revenues, especially corporation tax receipts. However, this has been offset by the extension of temporary measures to combat higher energy prices. Thus, the Dept. of Finance now expects the budget surplus to be in the region of €6.7bn in 2026 (1.9% of GNI*).
- **General Government Balance is also expected to remain in significant surplus in the coming years. The Government is projecting surpluses of €9.4bn (2.5% of GNI*) in 2027 and €4.7bn (1.2% of GNI*) in 2028.** However, at an underlying level, Ireland will actually run a large deficits excluding windfall corporate taxes (CT). This deficit will be €12bn (-3.4% of GNI*) in 2026, €13.4bn (-3.5% of GNI*) in 2027, and €18.1bn (-4.5% of GNI*) in 2028. On the other hand, the windfall CT identified by the Government could also prove more durable, while recent tax revenue forecasts have proved overly conservative. It should also be noted that the government plans to transfer €14.3bn to the two sovereign wealth funds its established in 2024, bringing the total seeded value of the funds up to €30.8bn by the end of 2027. The big picture though, is that the Budget lacks a clear medium-term strategy to reduce our reliance on windfall taxes and to close this underlying deficit, given current global risks.

Income tax cuts, day-to-day spending increases in health and social protection

- **Of the €9bn policy measures announced today**, €7bn is allocated to spending and €2bn on taxation measures.
- **The spending commitments are broken down into new measures and pre-committed spending** from prior Budgets. The usual increases in Christmas welfare payments in 2026 were announced. For 2027, regular welfare payments will be increased by €10 per week, alongside increases in big-spending departments such as health and education. The capital budget will be boosted further by €1.2bn to a record high of €20.2bn in 2027. Monies have also been set aside for upcoming public pay negotiations.



- **All in, Government voted current spending will increase by 8.5% in 2026 to €101bn,** well ahead of what was projected in last year's budget. An expectation for growth to slow to just 4.5% in 2027 looks implausible given the current spending pressures, with further overruns likely again in 2027.
- On the tax side, the **measures are centred on personal tax cuts.** The key tax measures include an income tax cut via increased tax credits, higher rate threshold and USC changes. Carbon tax has been frozen for the entirety of this parliament until 2029. Personal Investment Accounts will also be introduced in 2027, with a tax-free threshold at 50k and tax-at-source features aimed at spurring retail investment. Business-friendly measures include a cut in Capital Gains Tax to 31% from 33% among other measures aimed at multinationals. This comes alongside some small revenue-raising measures including increases in Vehicle Registration Tax and excise on tobacco products.
- **DoF sees tax receipts rising by a further 7.8%, or €8.6bn, to €119.1bn in 2027.** Of the main tax heads, income tax, VAT and excise duties are forecast to register solid growth in 2027. Meanwhile, corporation tax is expected to surge further to €39bn, due to the collection of the top-up corporate tax rate of 2.5% from large multinationals, stemming from OECD tax reforms introduced in recent years.



- There are concerns that the sharp rise in revenues from this tax head in recent years will not be sustained. **The Dept. estimates that up to €18.8bn of the €34bn in corporation tax receipts in 2026 could be 'windfall' in nature.** Furthermore, Ireland remains vulnerable to potential global tax changes, and sector-specific risks, given our reliance on a handful of large US firms to underpin the tax base. Thus, forecasting corporation tax receipts is challenging over the medium term, with risks on both sides of the DoF forecast.

An expansionary budget, not without risks in the current environment

- The spending plans as set out in the Department's Summer Economic Statement in July have drawn strong criticism from the Irish Fiscal Advisory Council, saying it adds to the pro-cyclical stance of fiscal policy and could lead to more persistent inflationary pressures, a view we concur with. Indeed, the government is set to surpass its own medium net spending growth rule of 6% per annum in 2026 and 2027, making a clawback in later years all the more difficult.
- Certainly, given the current strength of the Irish economy and the low rate of unemployment, a more cautious approach to the Budget would have been merited. Nonetheless, the continued commitment to expand the capital budget should help to tackle capacity constraints in infrastructure and housing; and ongoing contributions to the sovereign wealth funds is a welcome diversion of some of the windfall tax receipts. These funds will reach c.€30bn by end-2027
- With the Government **set to run an underlying deficit**, excluding tax windfalls; a firm commitment to closing this deficit in the coming years while the economy is running at capacity could have been a prudent feature of this budget. This strategy of running large underlying deficits is not without risks in the current uncertain global macro environment.

Compiled by

AIB Economic Research Unit

Tax & Spend Policy Measures

Budget 2027

Total Revenue & Spend

	€ millions	2026	2027	Growth (Year-on Year)
A	**Revenues**	**115,125**	**124,140**	**7.8%**
	of which			
	Income Tax	39,275	41,445	6%
	Corp Tax	34,090	39,055	15%
	VAT	24,475	25,250	3%
	Others	17,285	18,390	6%
B	**Expenditure**	**116,855**	**124,860**	**6.9%**
	of which			
	Net Current	89,435	94,685	6%
	Net Capital	27,420	30,175	10%
	-of which transfer to Wealth Funds	*6,500*	*7,820*	*20%*
C (A-B)	**Exchequer Balance**	**(1,730)**	**(1,260)**	
	Gen Gov Balance (GGB)	**6,725**	**9,470**	**41%**
	% GNI*	**1.9%**	**2.5%**	
	GGB ex windfall tax^	**(12,075)**	**(13,430)**	**-11%**
	% GNI*	**-3.4%**	**-3.5%**	

New Measures

	Tax - Yield / Cost				Voted Spend - Cost		
	€ millions	2027	Full Year		€ millions	2027	Full Year
A	**Tax Cuts**	**2,202**	**2,387**	D	**Current**	**6,000**	**6,000**
	Income & USC	1,318	1,512		Social Protect	2,000	2,000
	Carbon Tax	25	177		Health	1,600	1,600
	Capital Gains	47	186		Education	393	393
	Housing Taxes	54	85		Housing	442	442
	Investment Incentives	25	31		Others	85	85
	Mineral Oil Tax	450	-				
	Others	284	396				
B	**Tax Rises**	**263**	**325**	E	**Capital**	**1,100**	**1,100**
	Tobacco/Vapes	26	87		Housing	175	175
	VRT	37	37		Health	160	160
	Bank Levy	200	200		Transport	745	745
	Other	0.1	0.5		Other	20	20
C (A-B)	**Total Tax**	**1,939**	**2,062**	F (D+E)	**Total Spend**	**7,100**	**7,100**
G (C+F)	**Total Budget Package**	**9,039**	**9,162**				
	% of GDP	**1.4%**	**1.4%**				
	% of GNI*	**2.4%**	**2.4%**				

Source: Dept. of Finance, Budget 2027

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