Macroeconomic Context for Budget 2027

Conor O'Toole, Dónal O'Shea

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Forecasts taken from Spring 2026 Quarterly Economic Commentary

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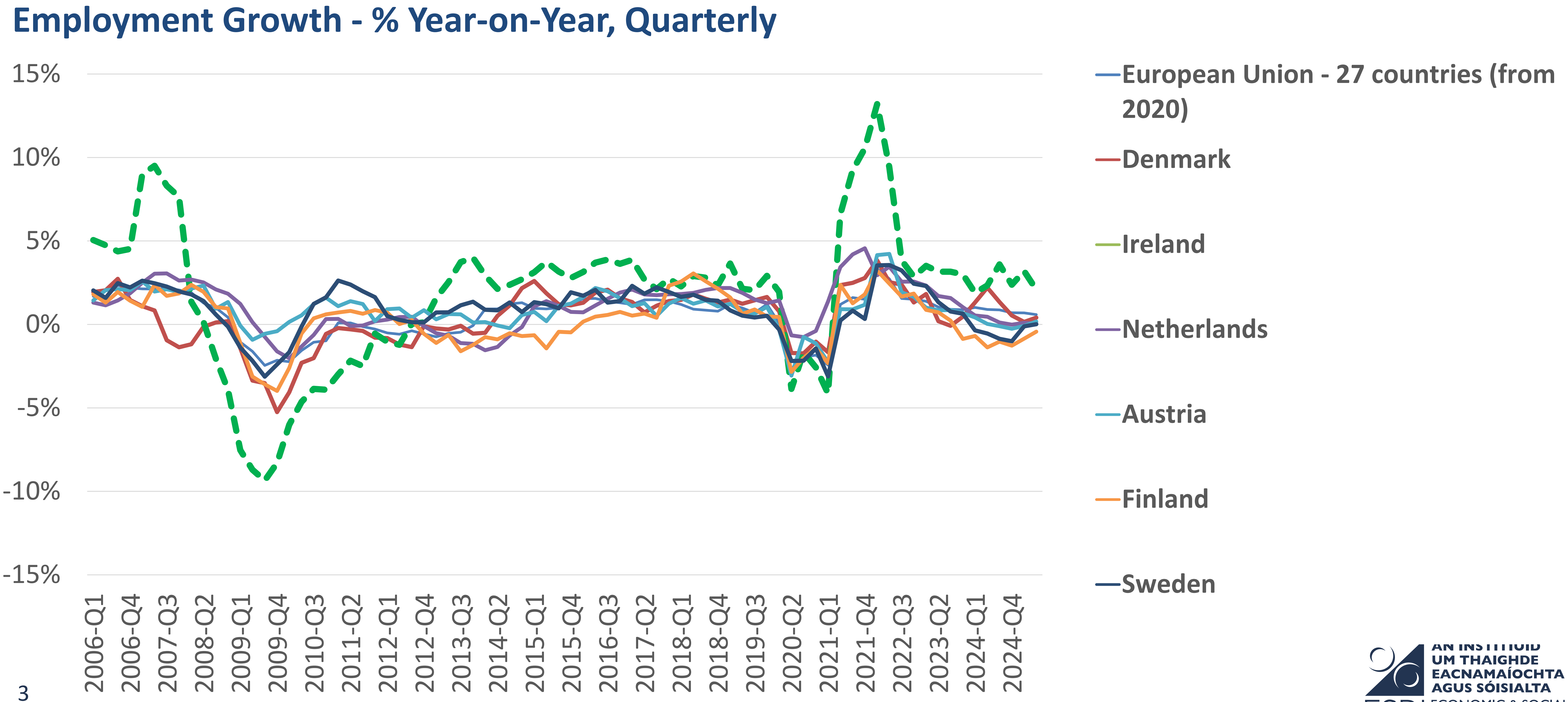
Recent Macroeconomic Context

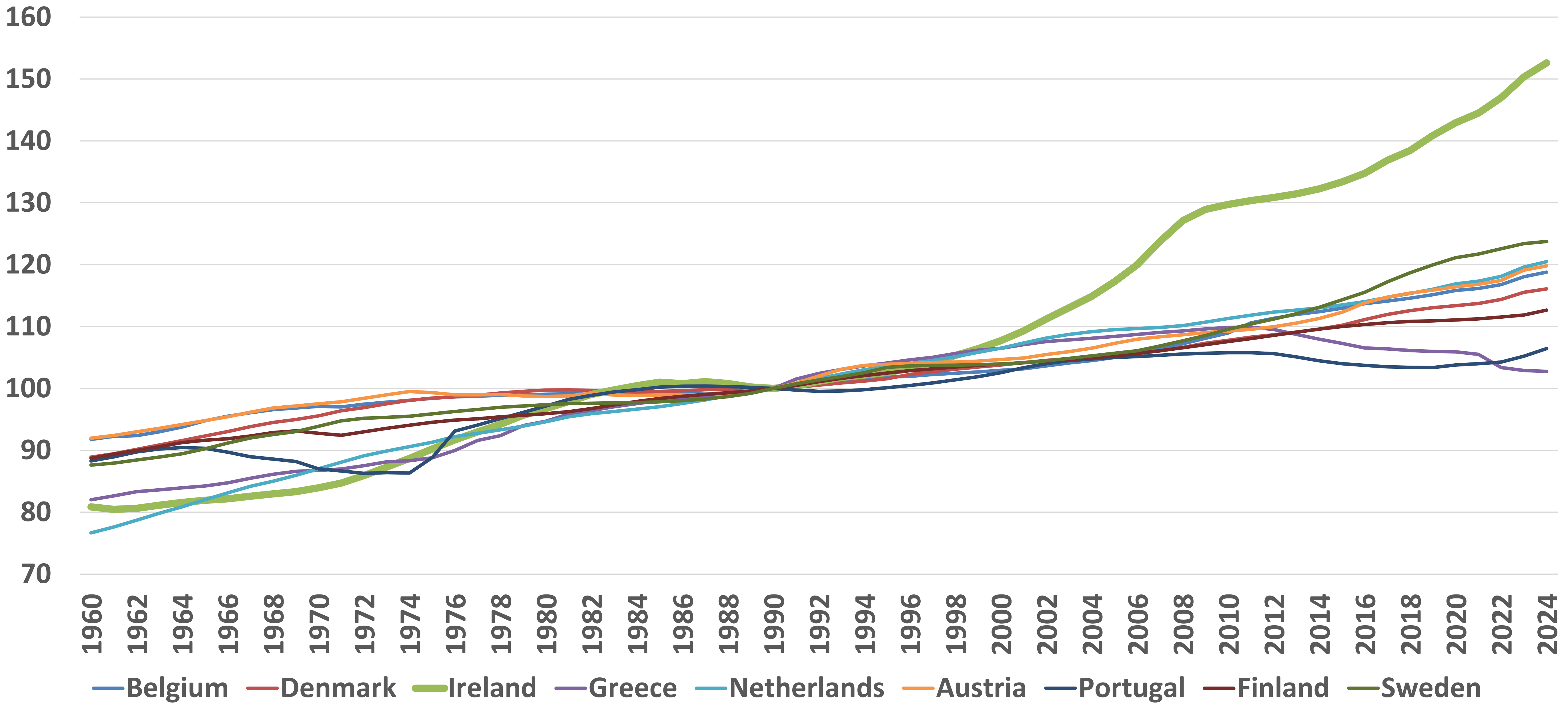
Fast growing economy,
Apparent Capacity to Absorb Shocks

Irelands economy has grown robustly despite shocks



Population increase, expanded labour market capacity

Population Growth- Index, 1990=100



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Short Term Outlook

Middle-East Conflict Continues, Global Economy Likely To Suffer

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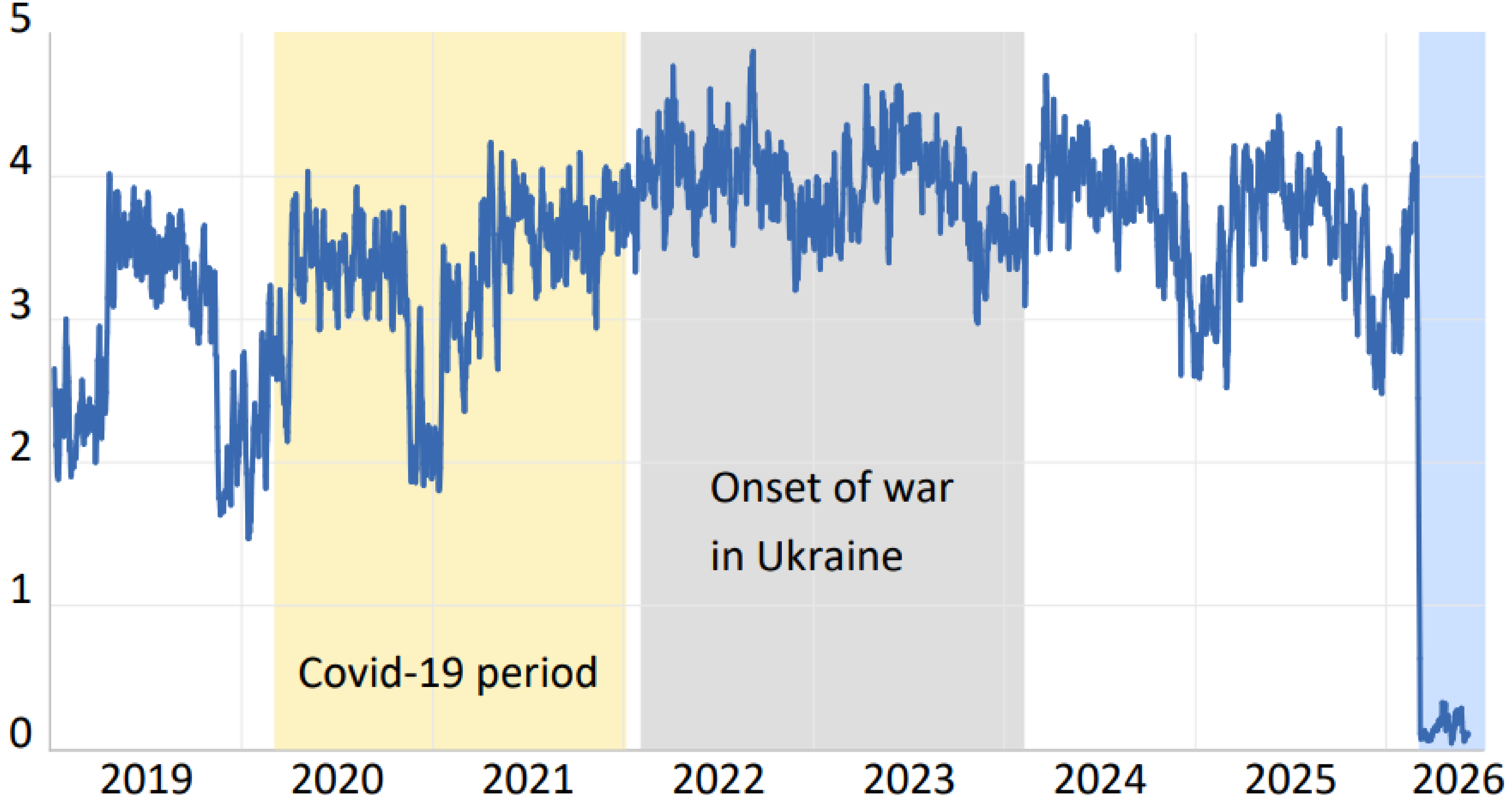
Significant disruption to global trade through closure of Strait of Hormuz



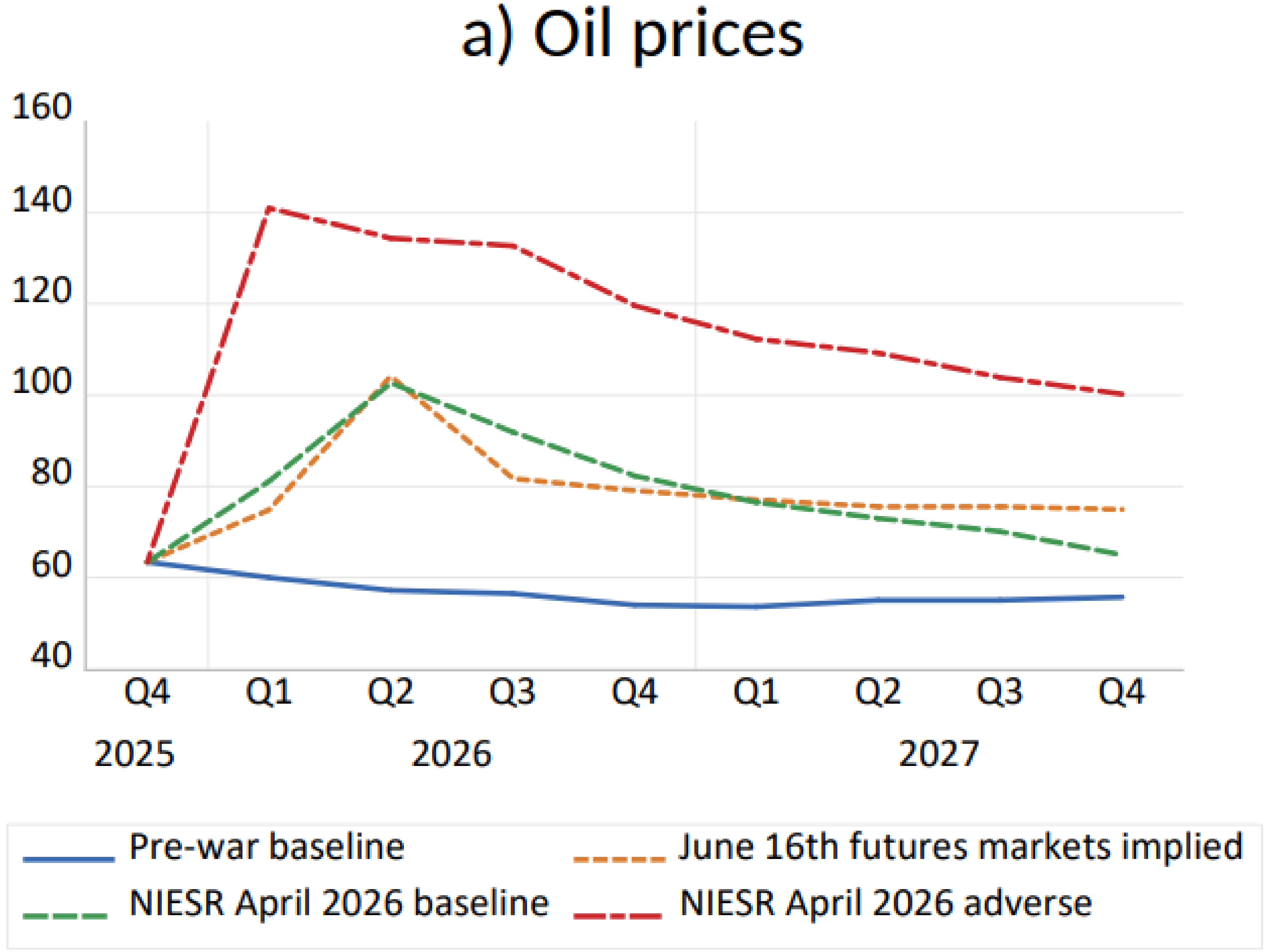
Trade volumes through Strait of Hormuz (millions of metric tonne equivalents per day, 7-day moving average)

Immediate impact on energy prices in Ireland (a)

Our forecast for energy prices is based on the National Institute for Economic and Social Research baseline forecast April 2026

Assumes reopening of the Strait of Hormuz over the summer and consequent reconstruction of refinement infrastructure through 2026 and 2027

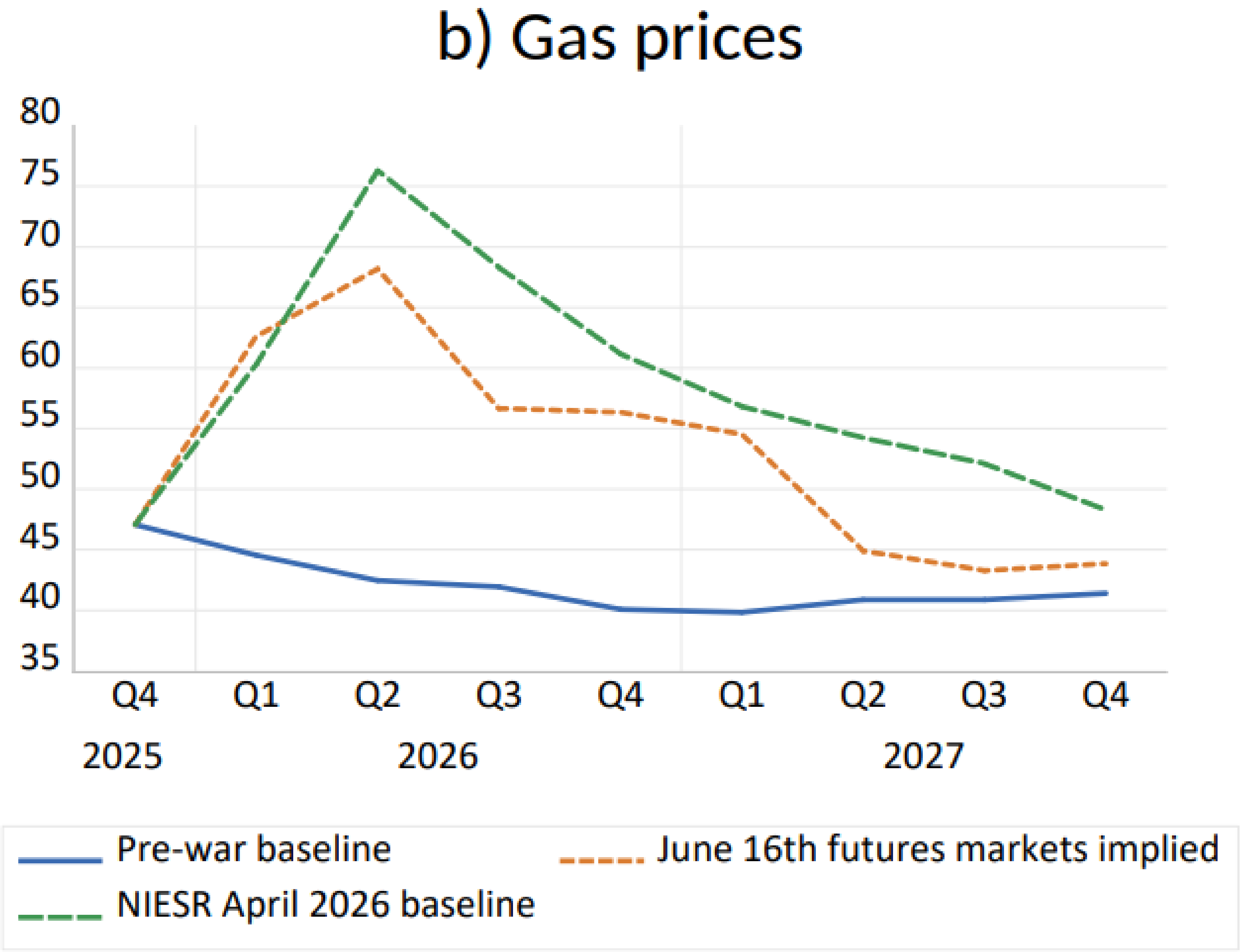
Oil prices expected to remain well above what would have been anticipated before the war



Immediate impact on energy prices in Ireland (b)

Gas prices also affected with knock-on impact for electricity generation

Higher energy prices affect the economy through:
- Increase in domestic prices
- Lower domestic demand, both consumption and investment
- Lower demand for Irish exports



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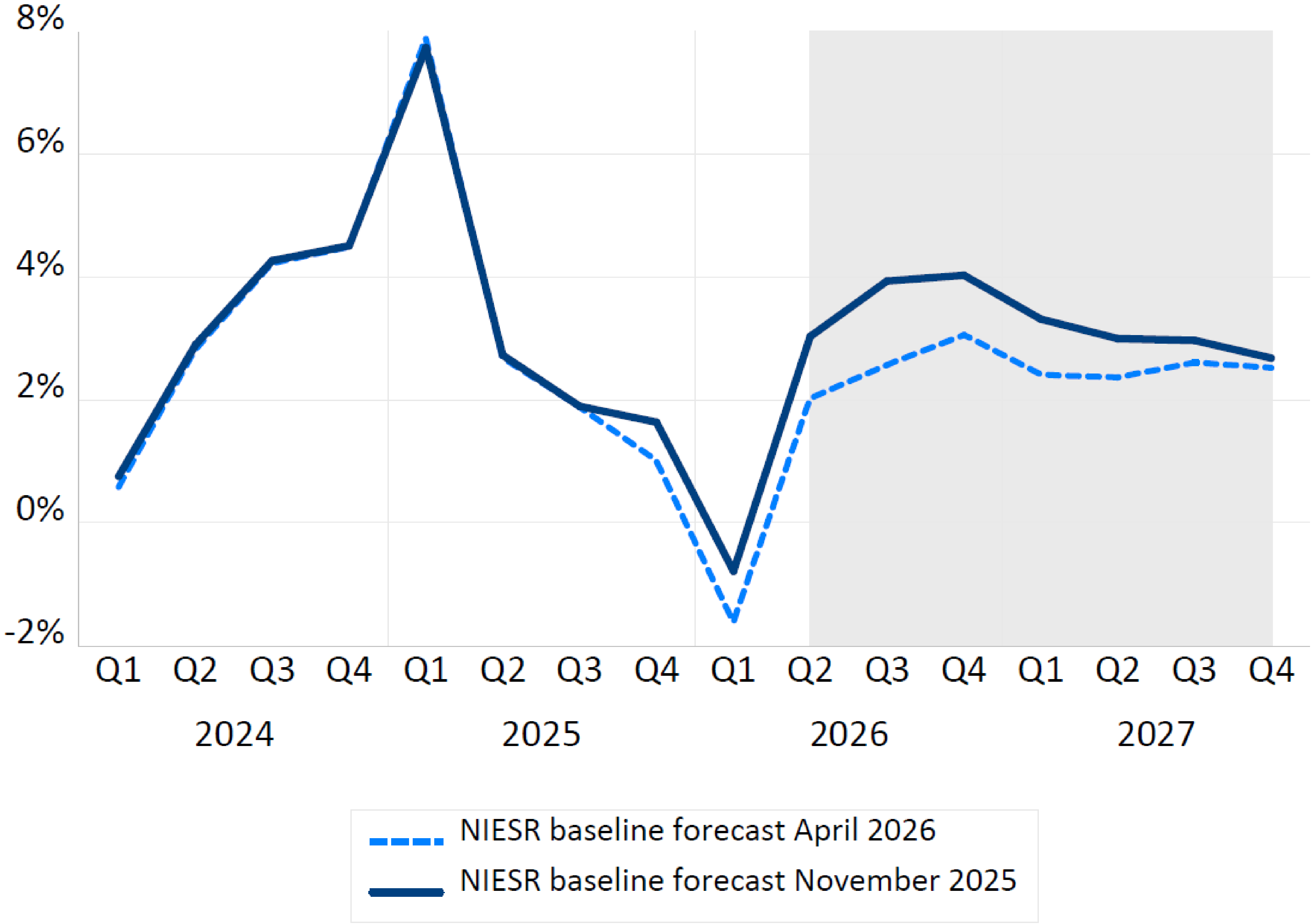
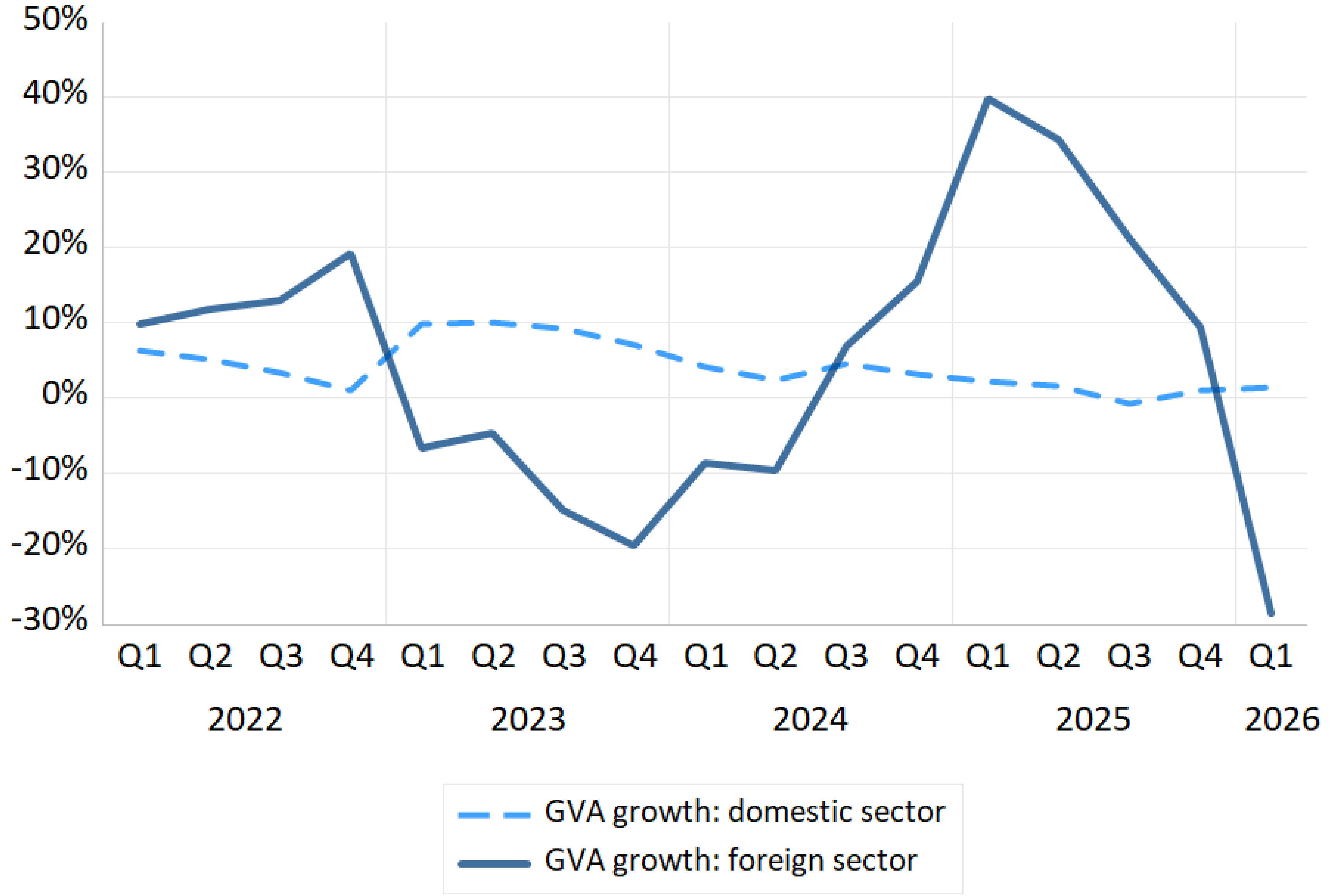
Lower global demand for Irish goods and services



Growth in world demand for Irish goods and services

Stable domestic sector, volatility in foreign sector

GVA growth – year-on-year – domestic vs foreign-dominated sectors (Constant prices, seasonally adjusted)



Pharma exports to normalise, other exports to grow

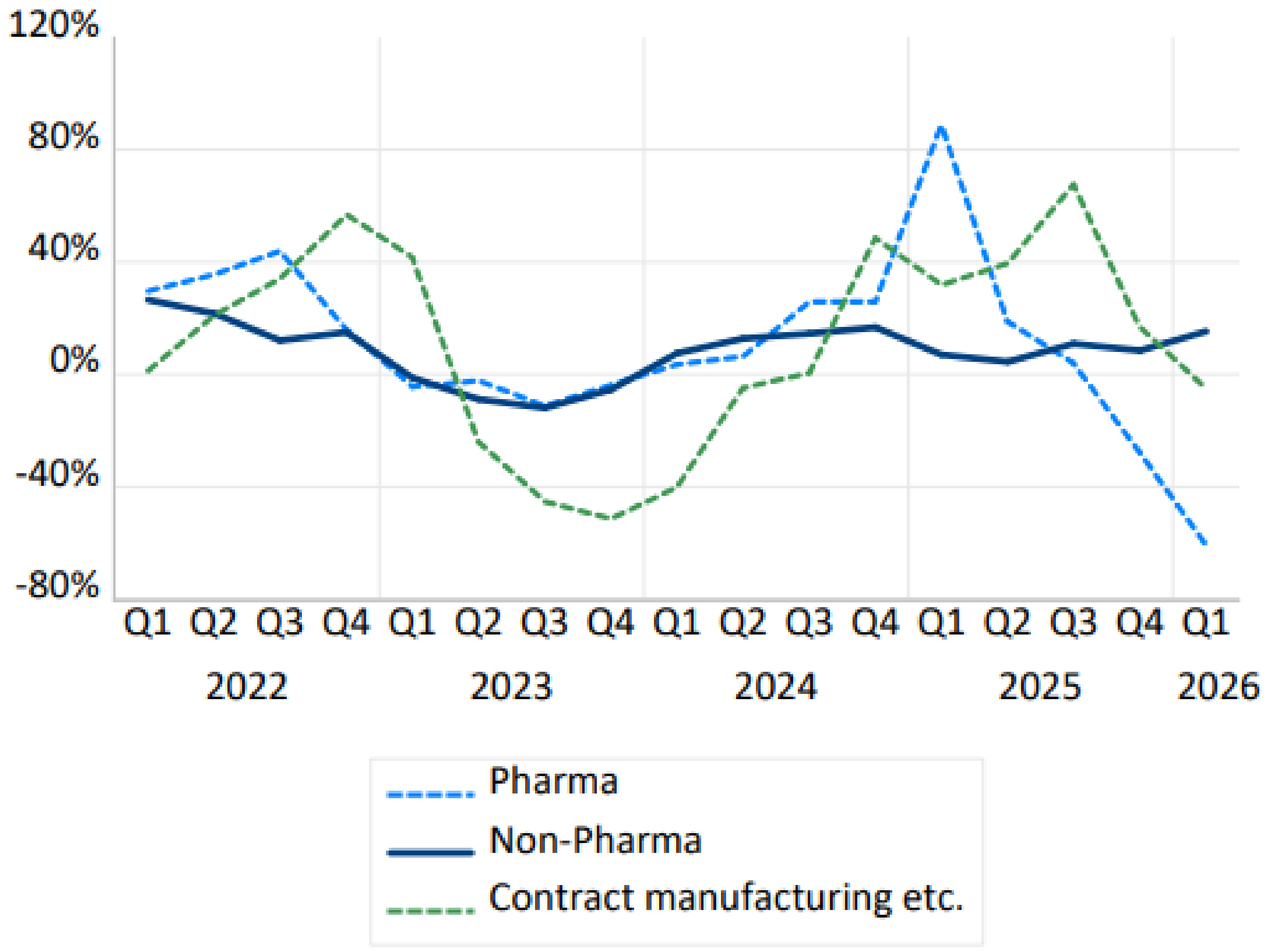
Pharmaceuticals exports expected to continue to decline through 2026 from the extraordinary highs of 2025

Decline in 2026 is related to 2025 tariff-anticipatory behaviour rather than a decline in the underlying industry

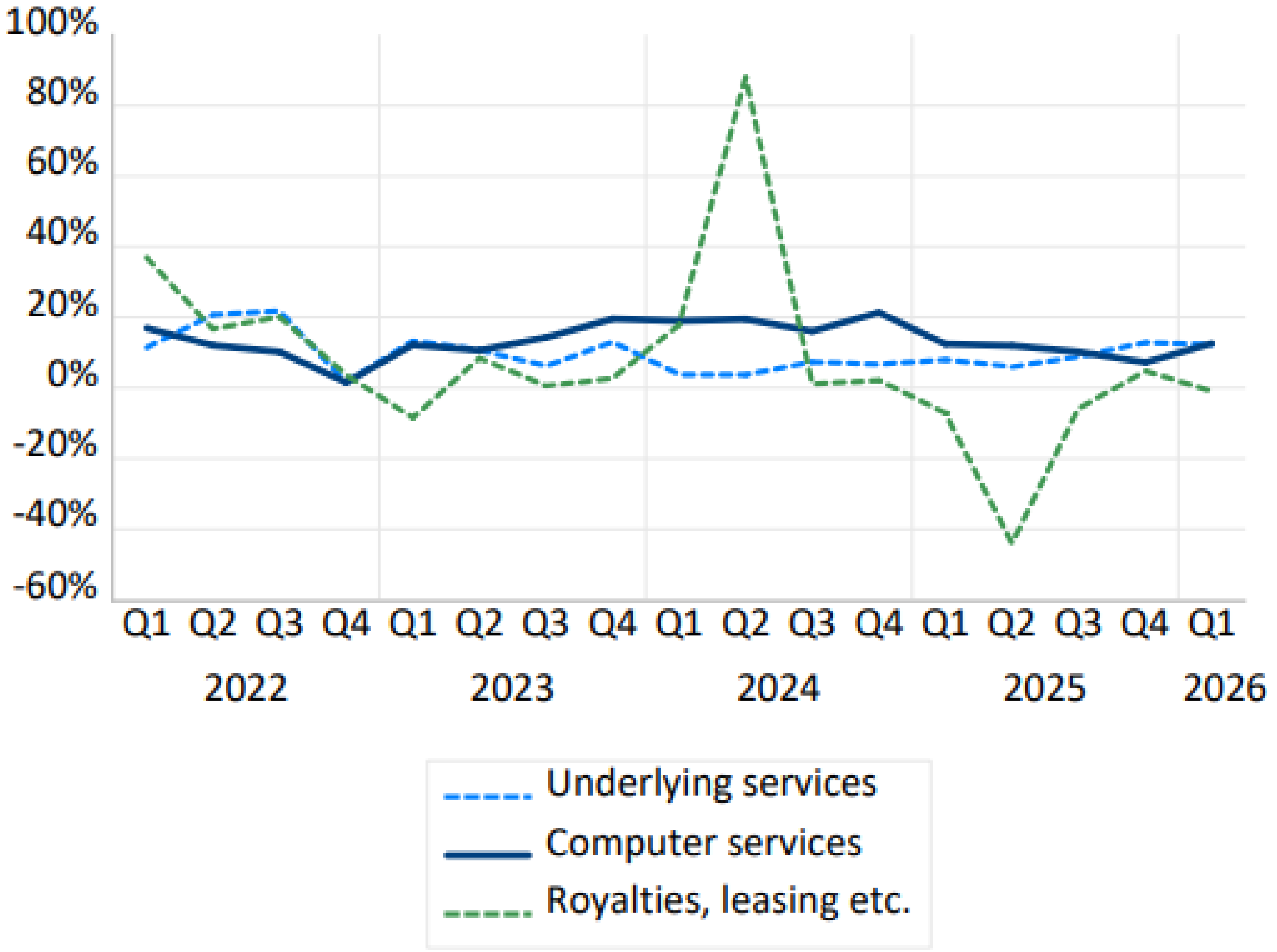
Computer services exports show signs of rebounding to 7-9% growth in 2026 and 2027

Other underlying service exports continue to grow strongly

a) Goods exports



b) Services exports



Domestic Spending

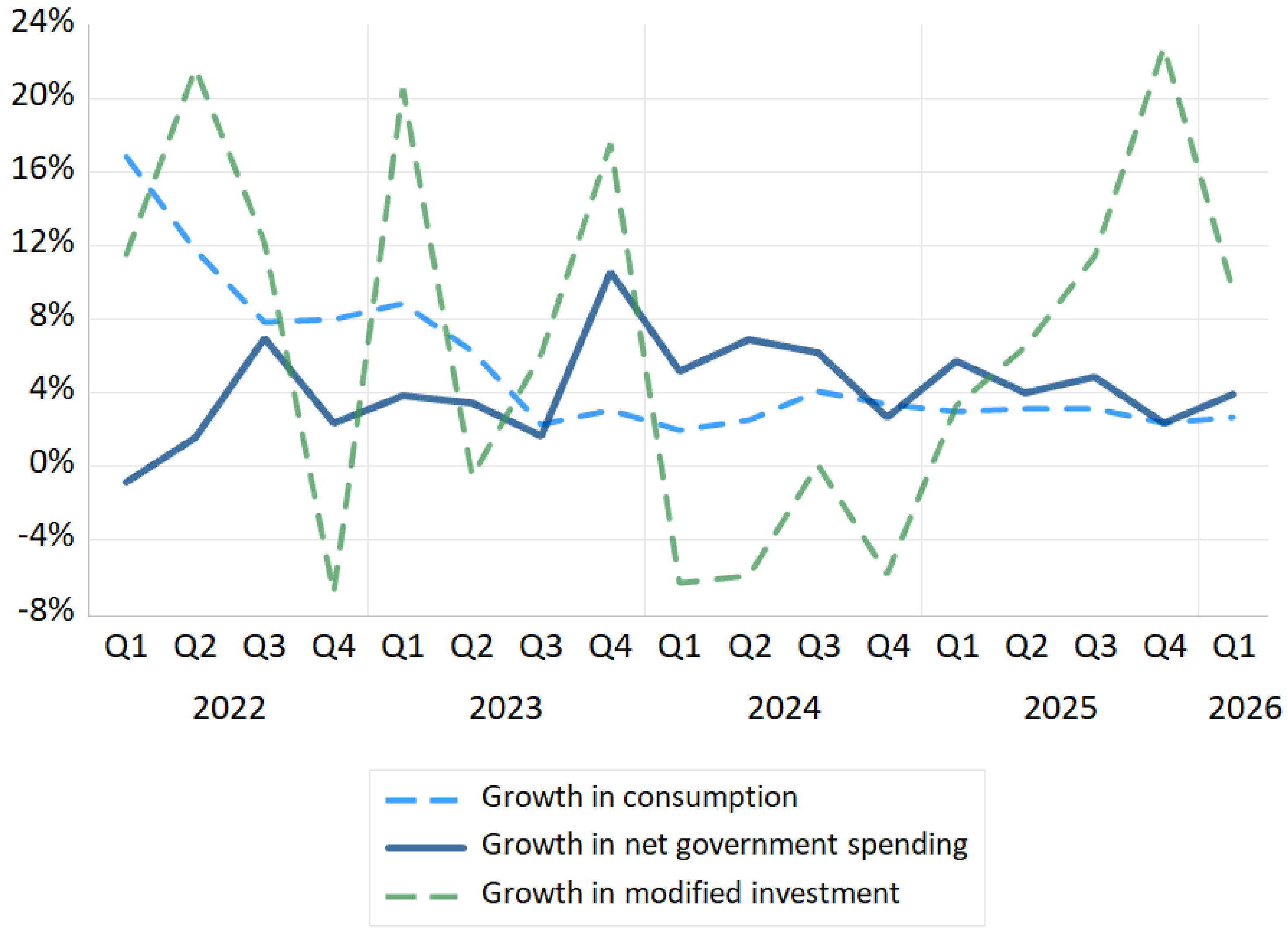
Domestic economy growing on strong investment expenditures and rising government spending.

Household spending likely to moderate on rising inflation and squeezed real incomes

Furthermore, international uncertainty could lead to higher precautionary savings.

Domestic Spending (%)	2025	2026	2027
Consumption - Baseline	2.9	2.4	2.6
Modified domestic demand - Baseline	4.9	2.1	2.8

Growth in Components of MDD – year-on-year (Constant prices, seasonally adjusted)



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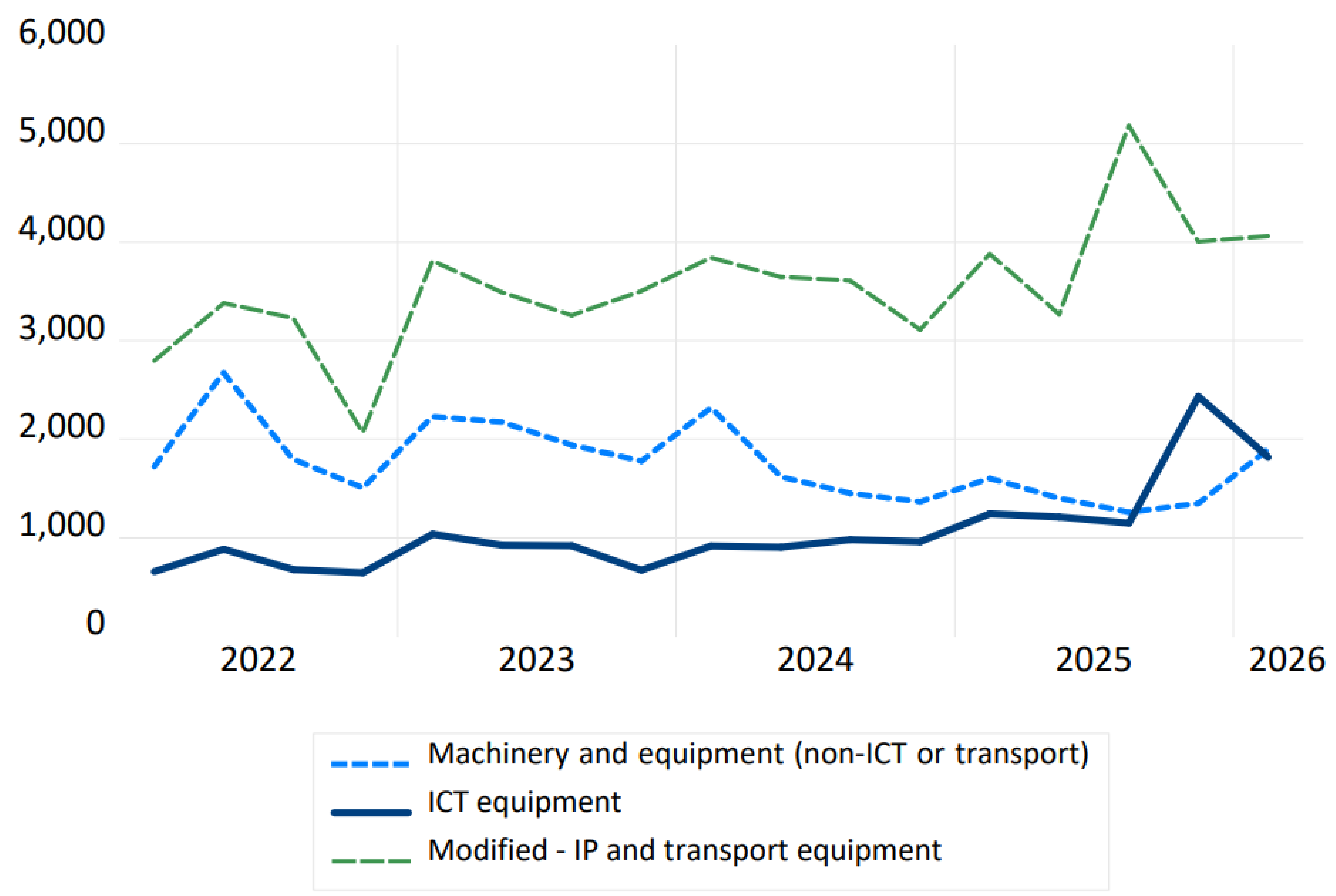
AI-related investment to continue

Spikes in ICT equipment investment expected to persist to some degree as AI-related investment continues **(navy line)**

Short half-lives for particular IT equipment product categories used to power Artificial Intelligence suggests ongoing investment in data centres

Spike in non-R&D intellectual property investment in Q3 considered to be more idiosyncratic and less likely to be repeated **(dashed green line)**

Categories of modified non-construction investment (€, mn per quarter)



Housing

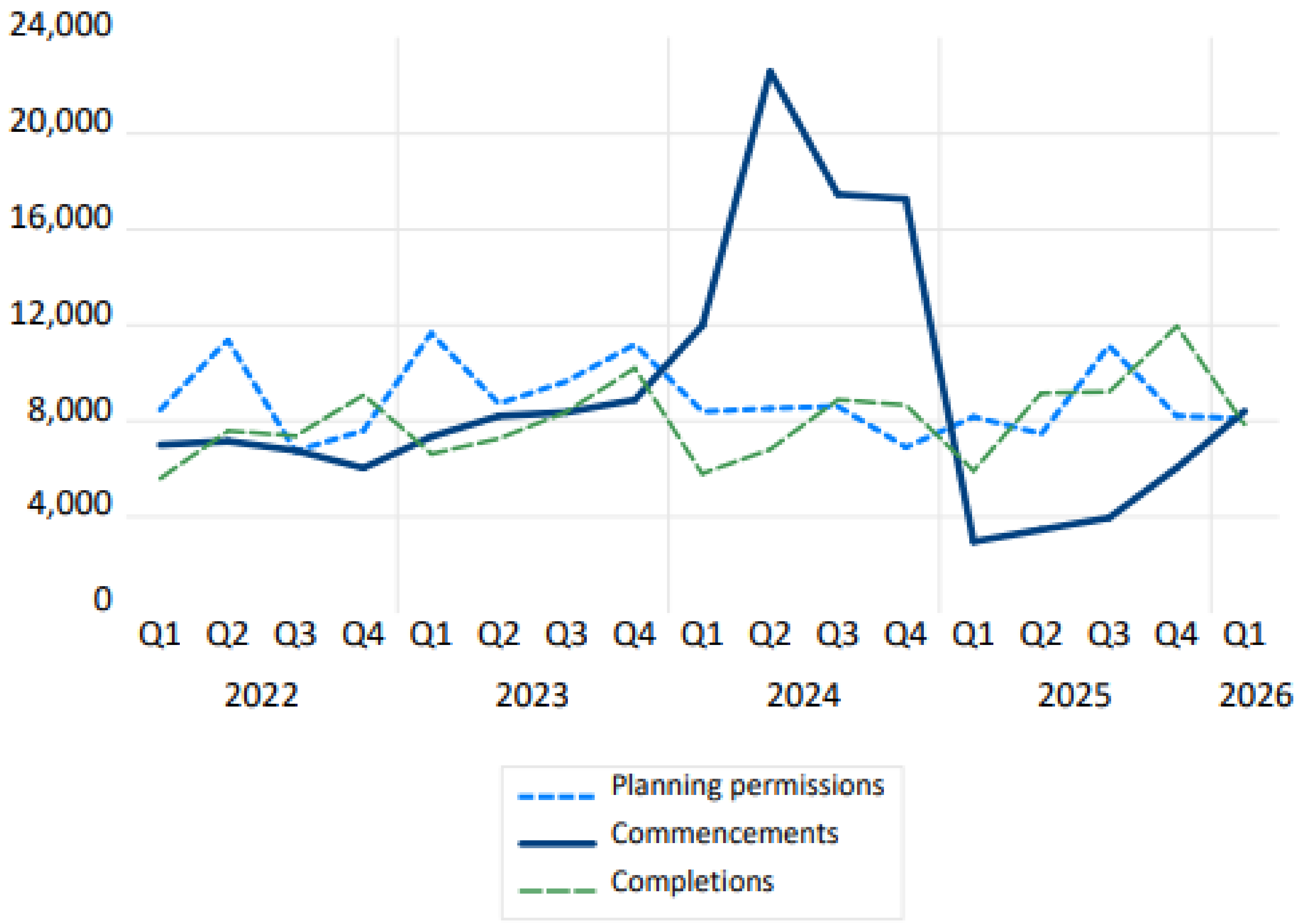
Housing completion figures were promising in last two quarters **(dashed green line)**

Quarterly pattern of output disrupted after two year period of policy-related peak and trough in commencements **(navy line)** but stock of commenced units is considerable

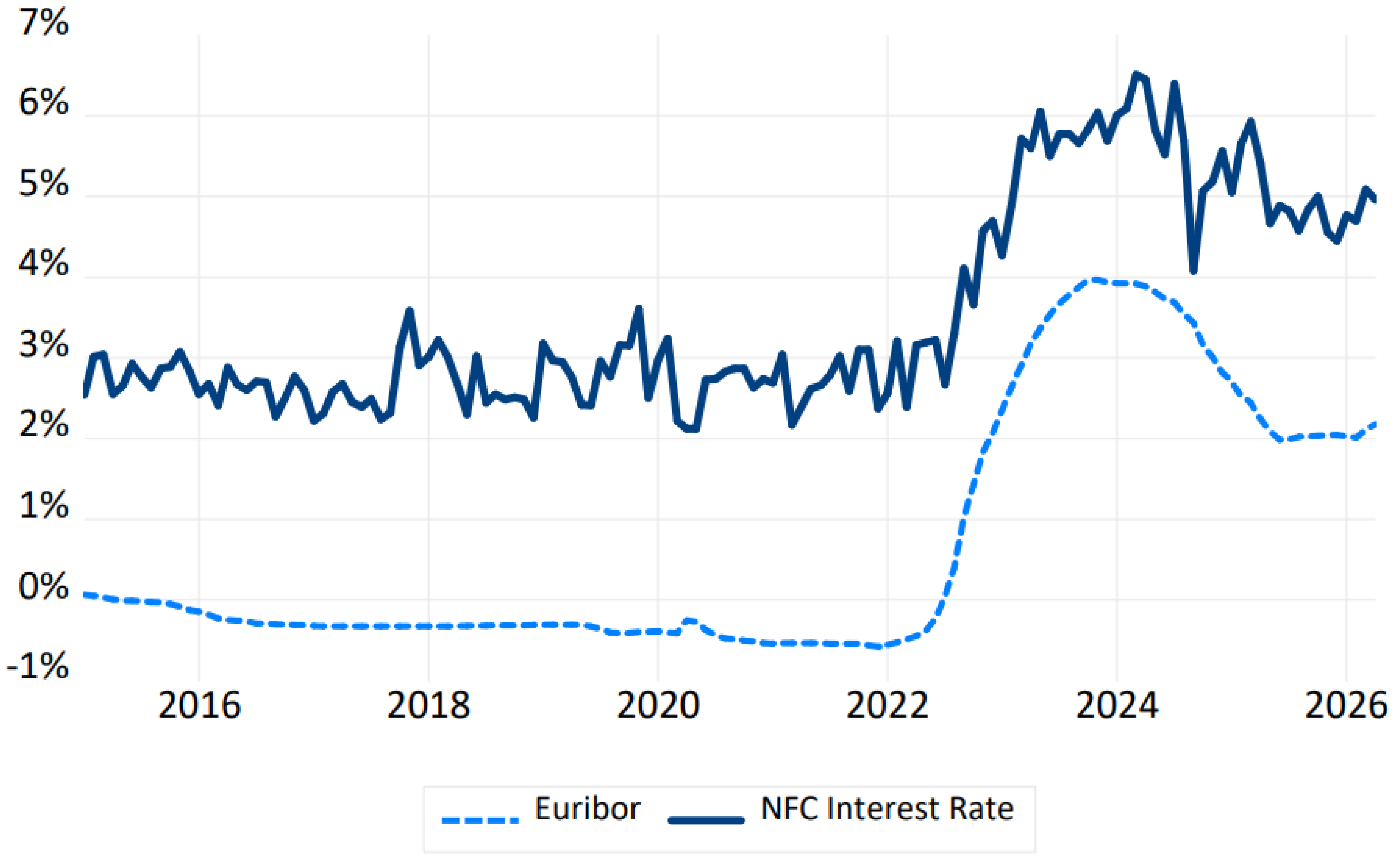
Housing completions rising in 2026 and 2027 but headwinds remain

However, planning permissions remain below what would be required to meet housing targets in 2-3 years time **(dashed blue line)**

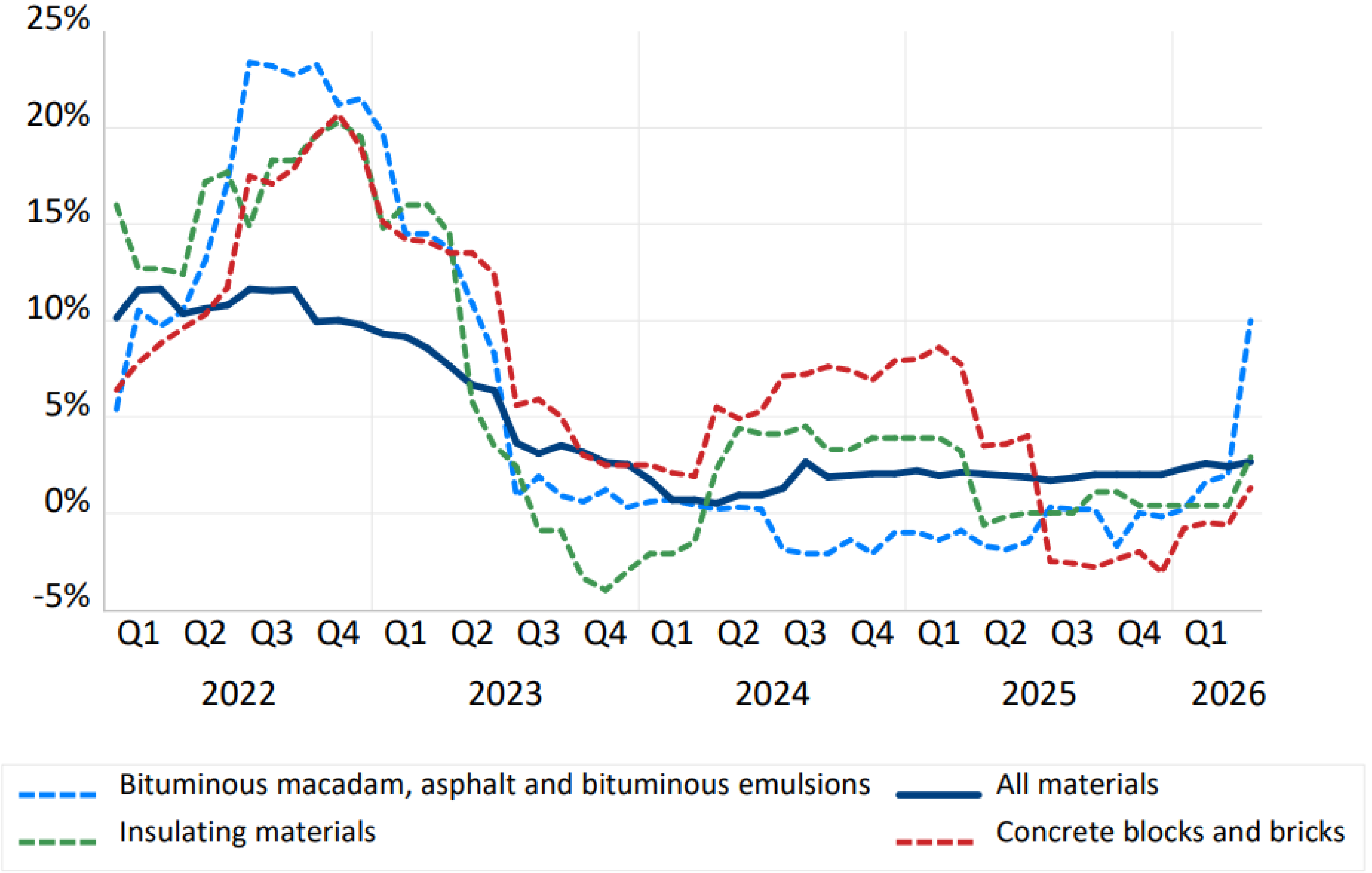
Housing completions, commencements and planning permissions



Higher interest rates and building costs weigh on outlook for construction investment



Euribor and Irish NFC lending rate



Buildings materials cost (annual inflation rate)

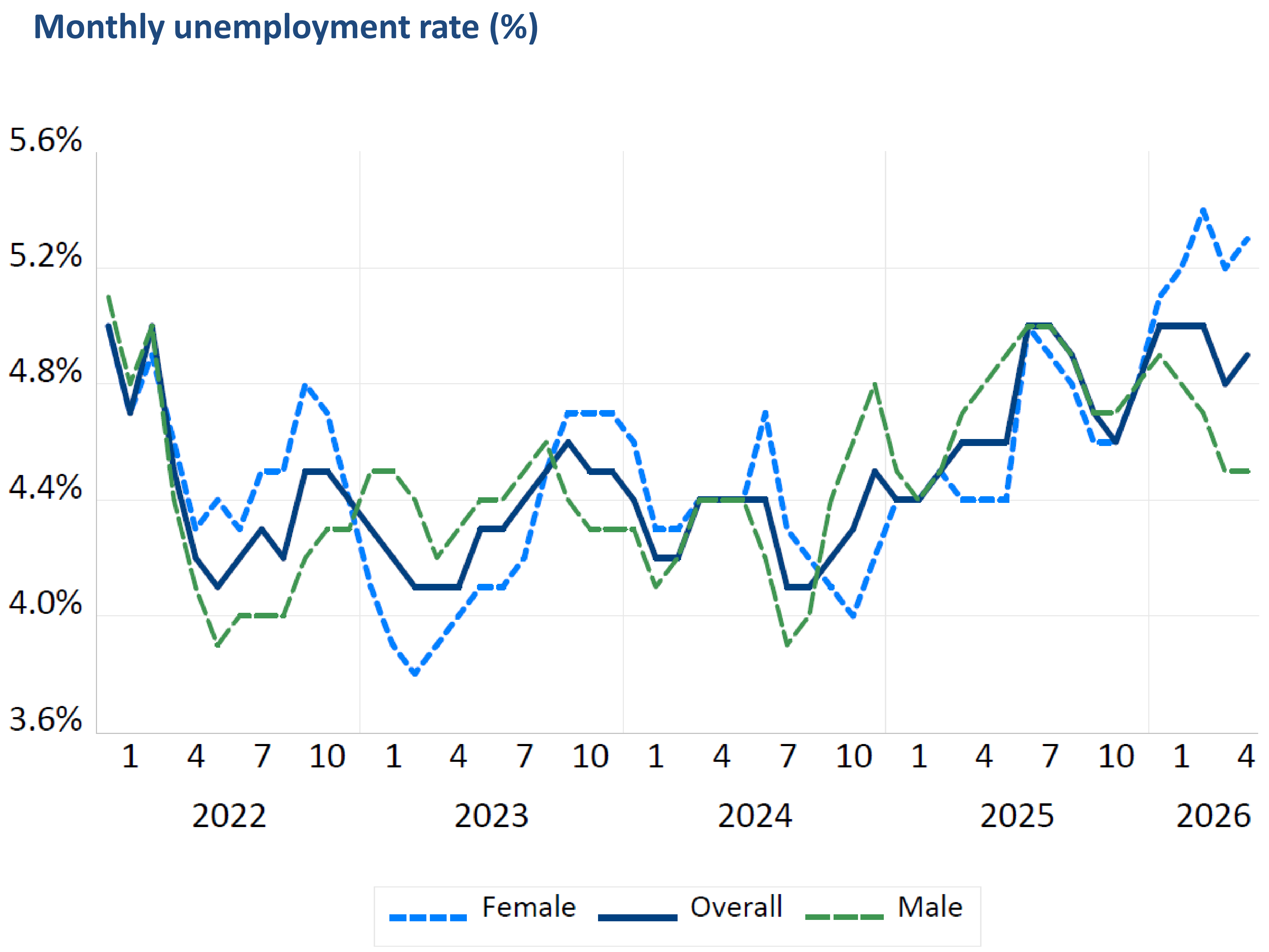
Continued low unemployment, modest rise in rate

Unemployment remains low but expected to rise moderately

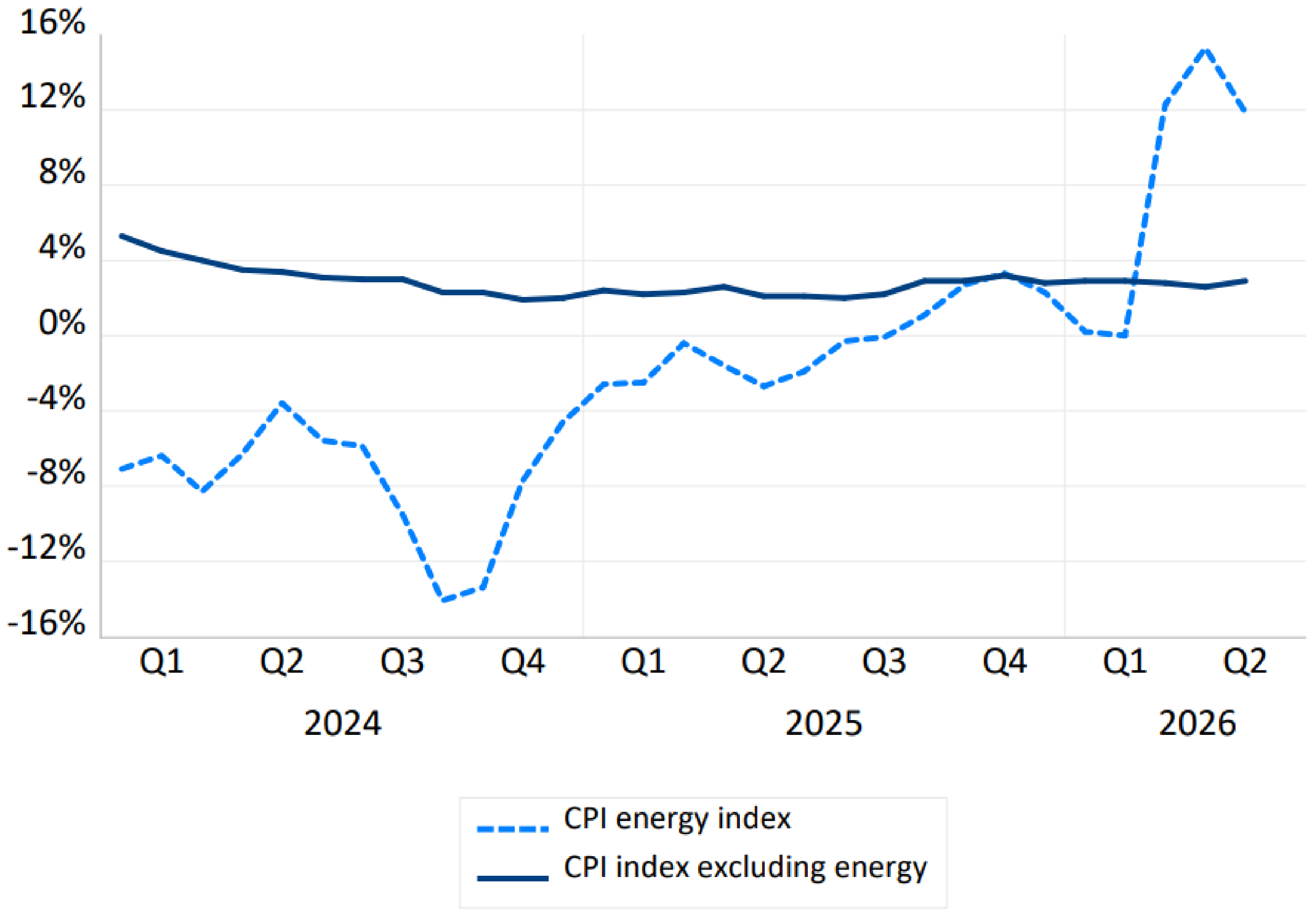
Labour force participation rate remains high.

Labour market continues to operate with capacity constraints, rising wages and low unemployment rate

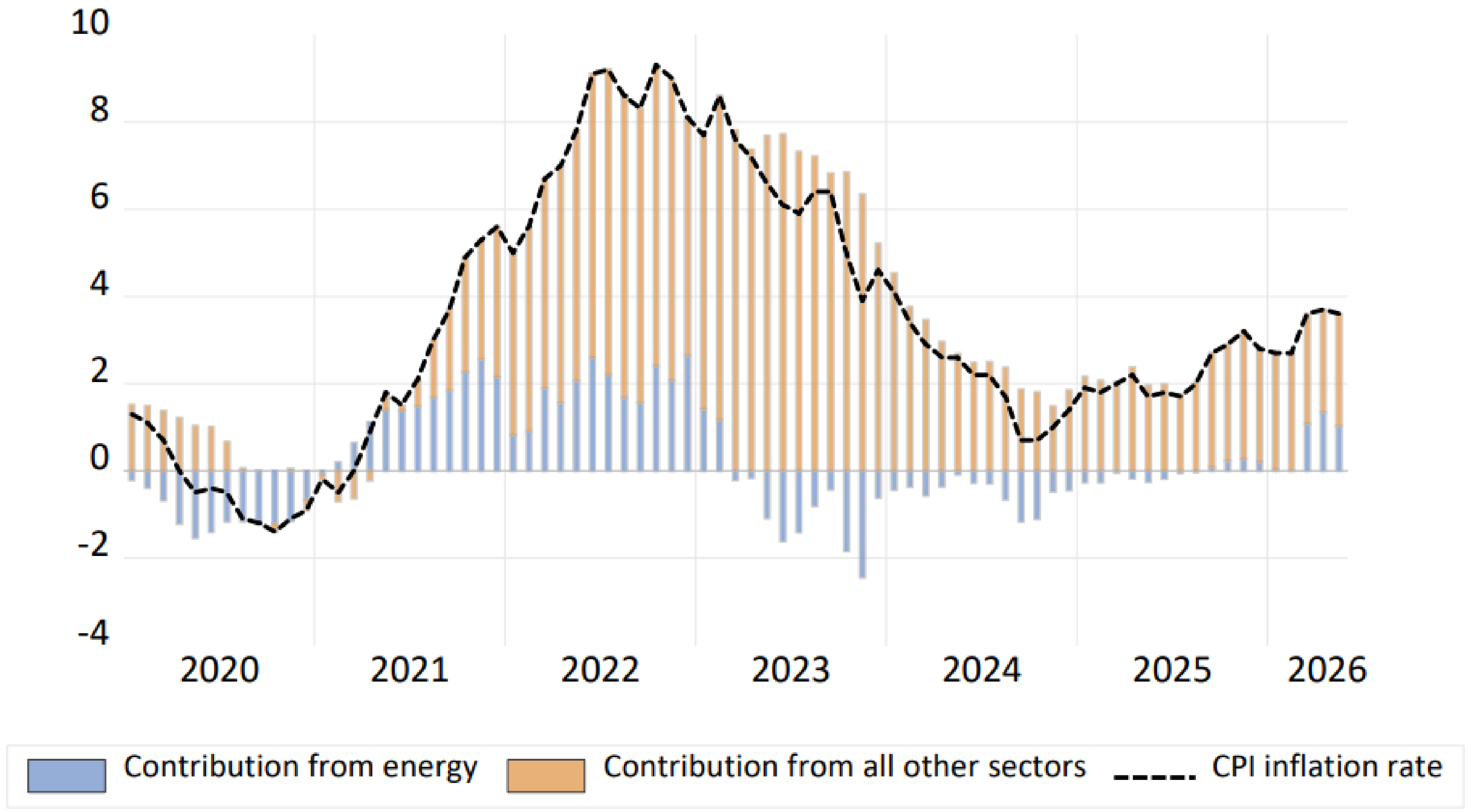
Labour Market Forecast	2025	2026	2027
Unemployment rate (%)	4.7	4.8	4.9



Price increases to date concentrated in energy



Annual rate of inflation, CPI energy index and CPI index excluding energy



Contribution to recent inflation by selected sectors

Inflation Forecast	2025	2026	2027
Consumer prices (%)	2.2	3.2	2.7

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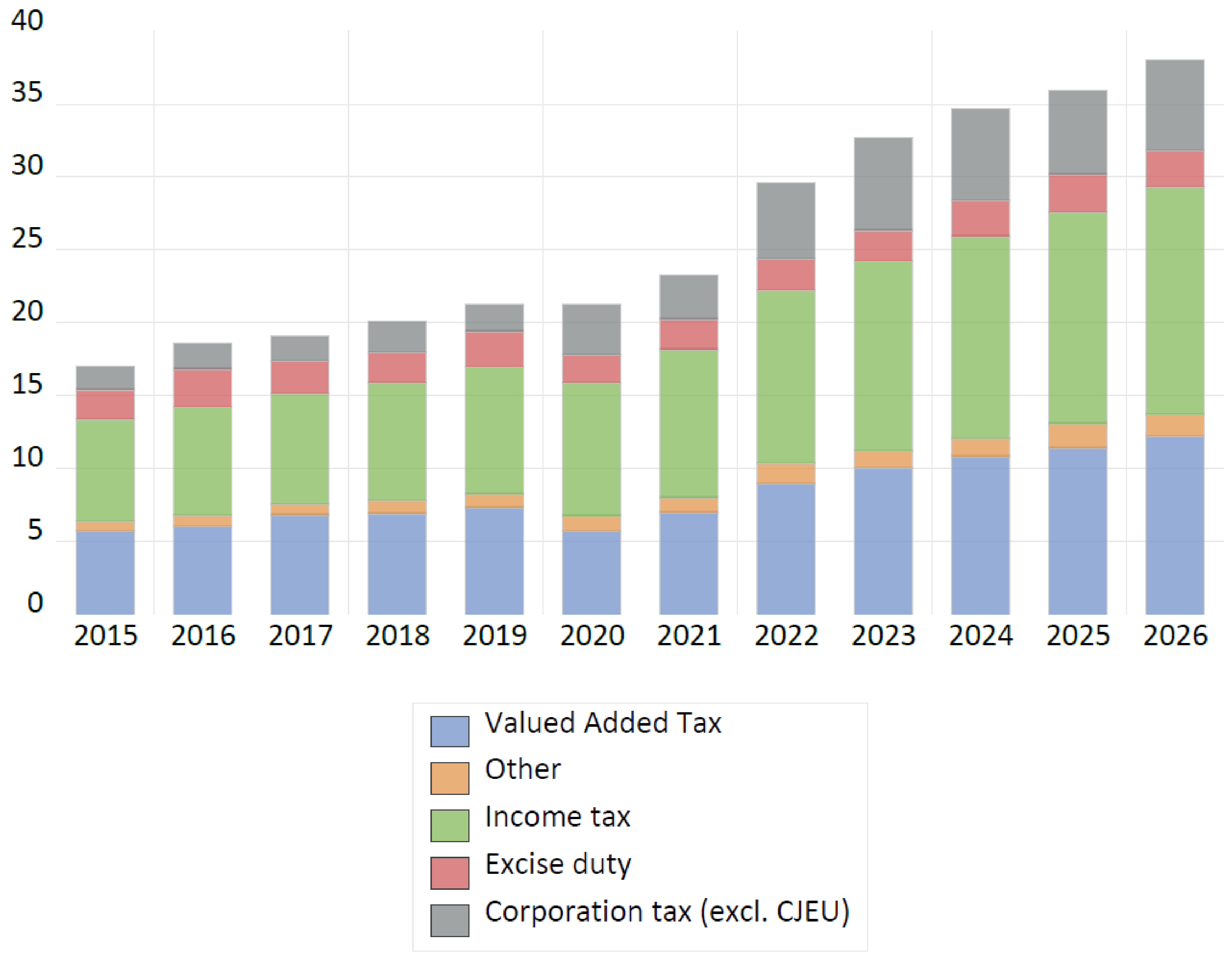
PUBLIC FINANCES OUTLOOK

CONCENTRATION RISKS BUILDING, SPENDING RISING ABSENT BINDING FISCAL CONSTRAINTS

Public finances

- Public finances continue to appear in a healthy state with headline surpluses
- But increasing vulnerabilities from a number of sources
- Well documented concentration risk stemming from corporation taxation and income tax receipts from high earners in multi-nationals
- Extremely high net spending growth with multiple within year revisions
- Lack of budgetary constraints raising spending/tax expectations

Tax receipts in Year to May (€, '000)



Source: Department of Finance Monthly Fiscal Monitors

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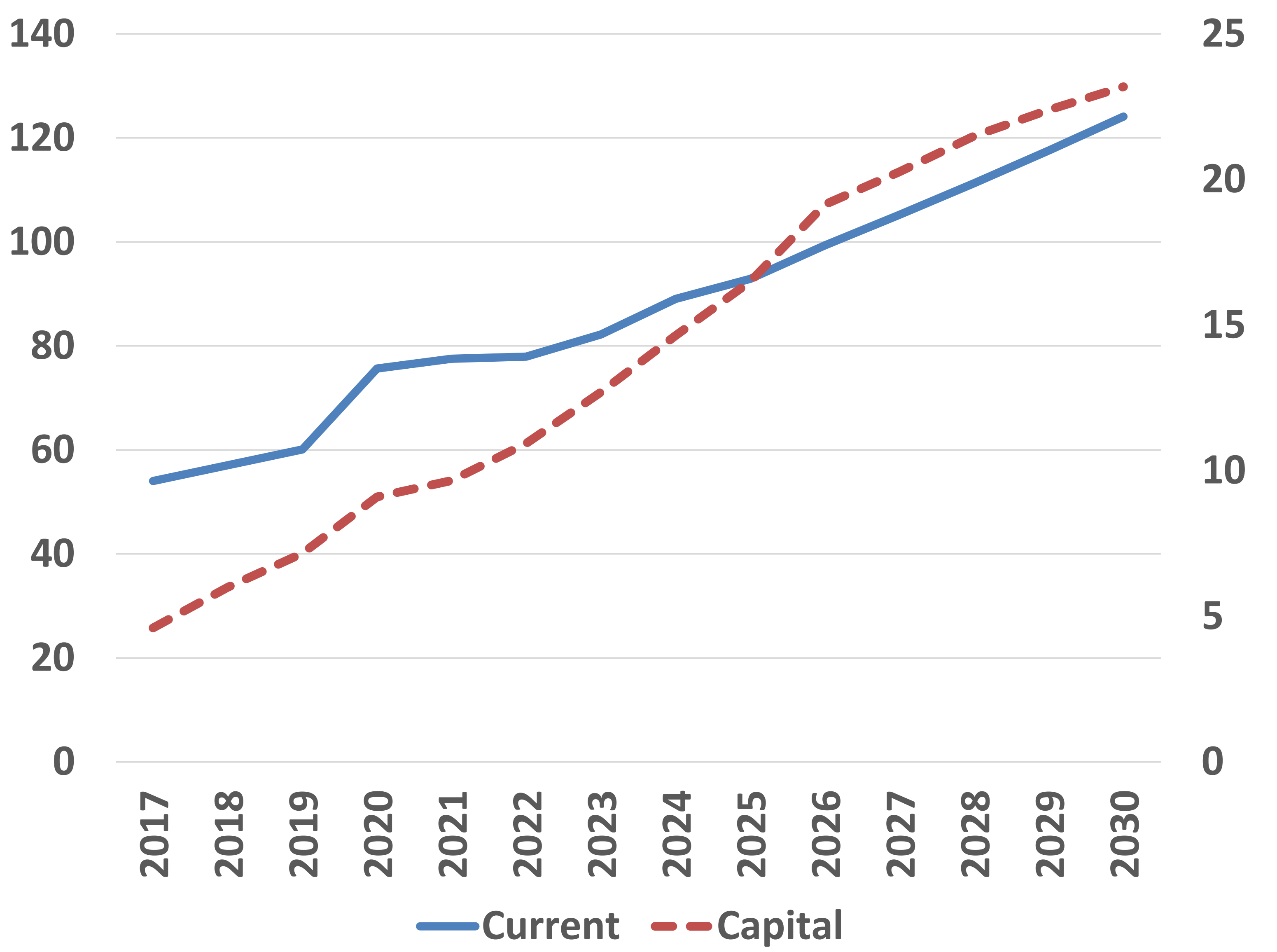
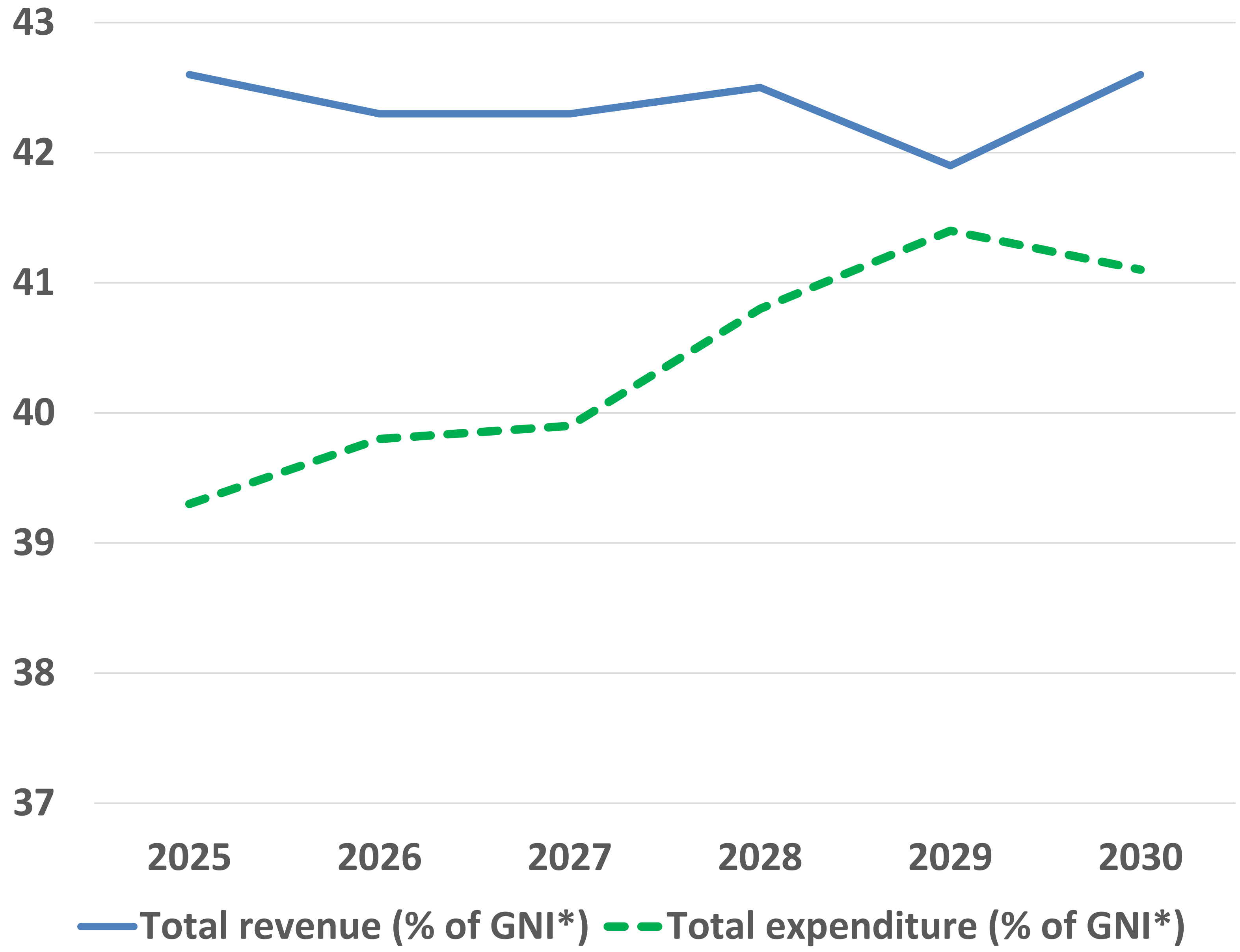
Government expenditure growing faster than domestic economy

Current and capital expenditure, gross voted, 2017 – 2030 (€, bn)



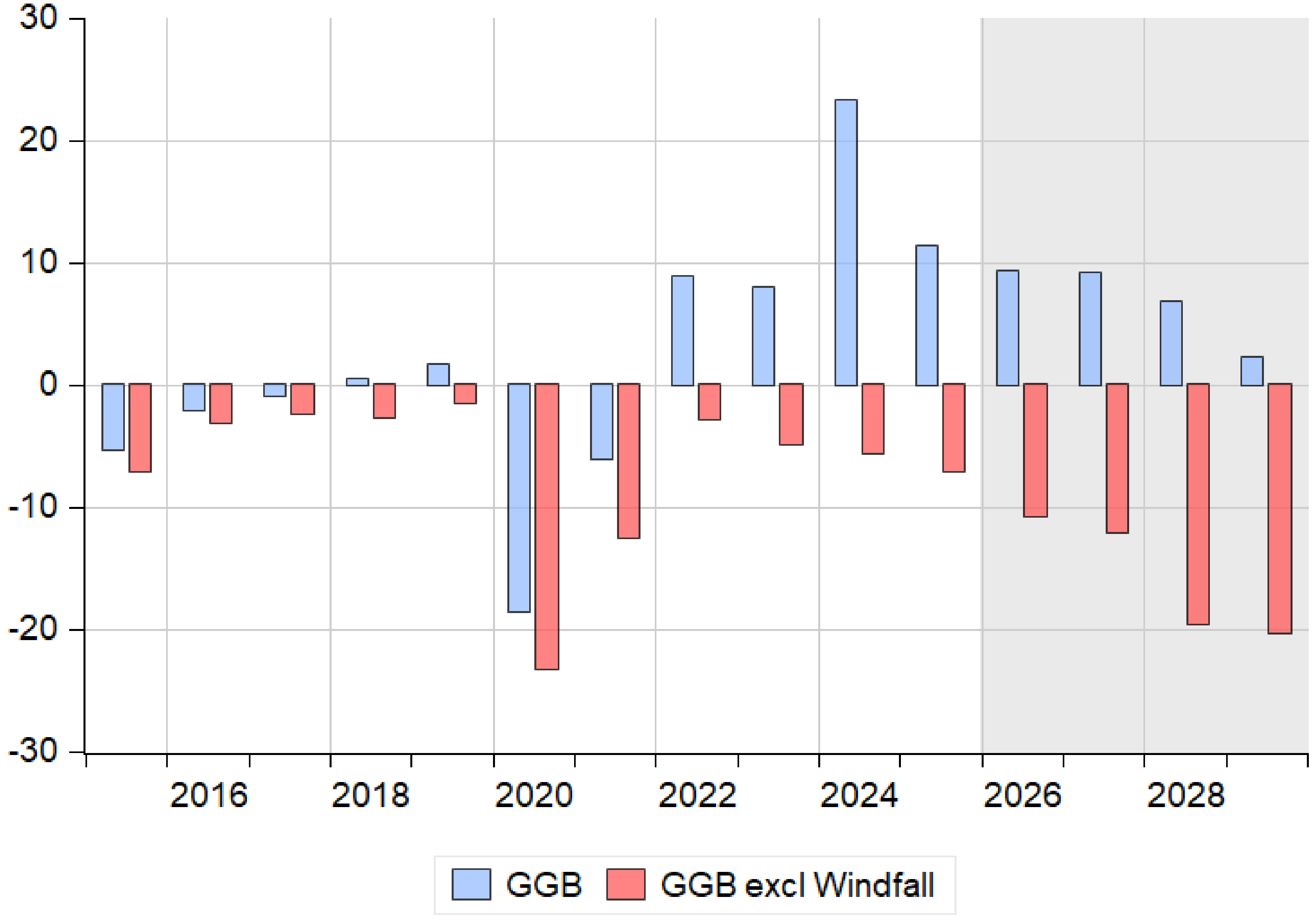
Spending and Revenue as percent of GNI*



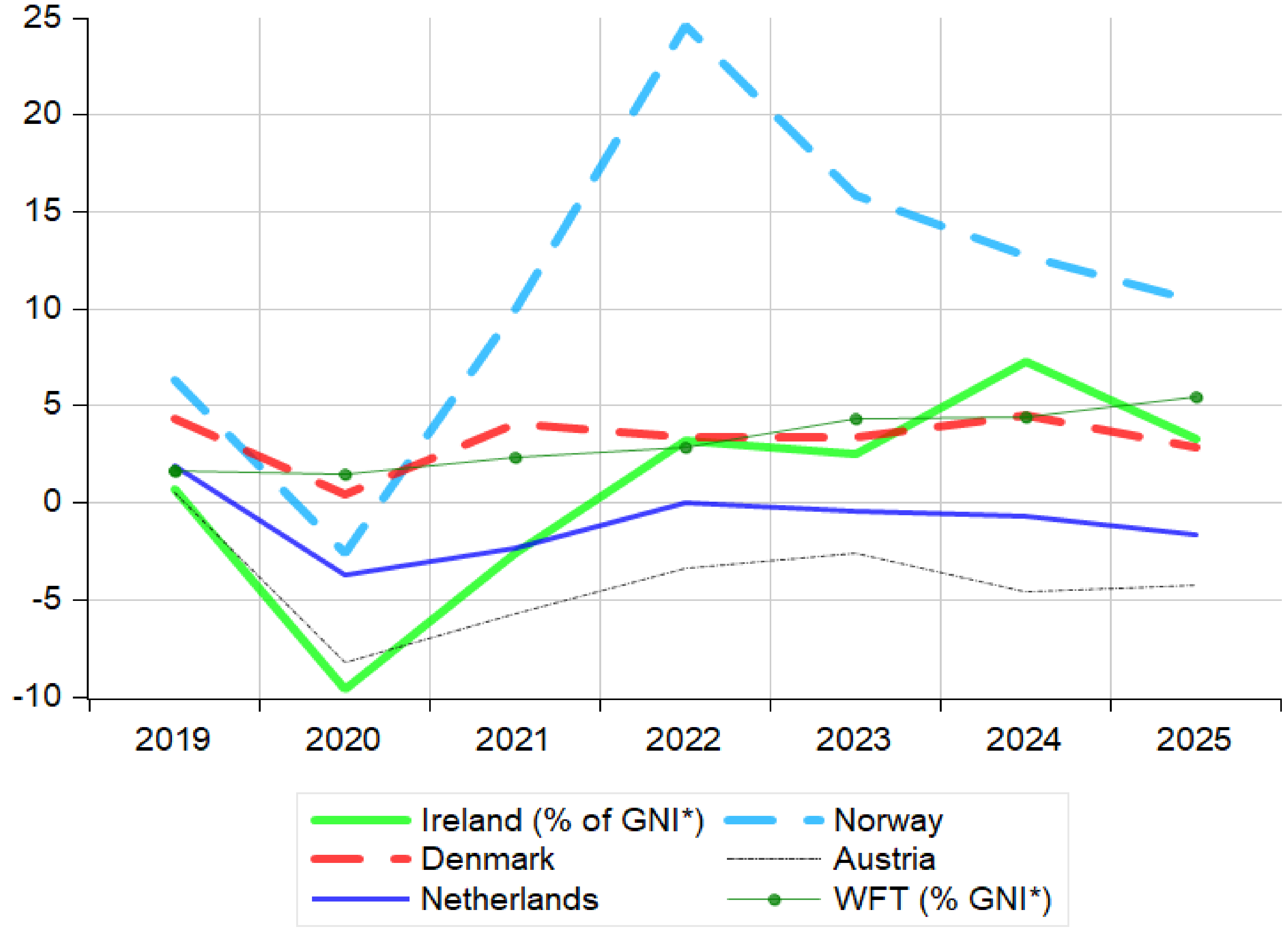
Source: Department of Public Expenditure databank (expenditure years 2018 – 2023), Annual Progress Report 2025 (expenditure years 2024 – 2026), Central Statistics Office (MDD years 2018 – 2024), ESRI Quarterly Economic Commentary forecasts (MDD years 2025 and 2026)

Recent large General Government Surpluses driven by windfall CT

General Government Surplus/Deficit (€, billion)



Cross Country Comparison (% GDP; IE % of GNI*)



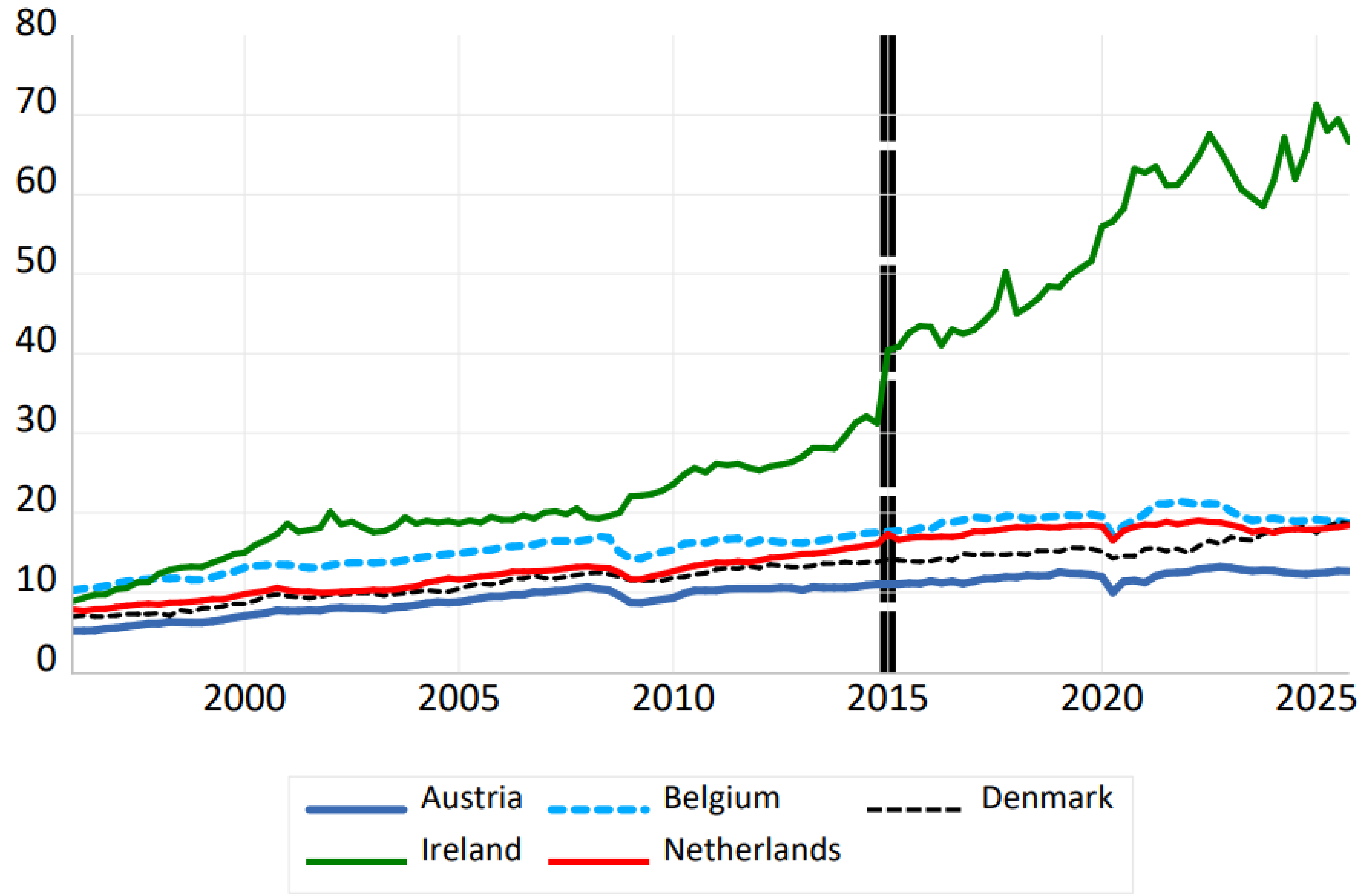
Source: Department Finance Annual Progress Report 2025/2026 (2024-2026), Irish Fiscal Advisory Council 'Fiscal Assessment Report June 2023' *Box, Eurostat D: Windfall* *corporation tax receipts flattering the public finances* (20

Ireland in perspective : Risky exports - sustainable?

Exports per capita have always been high in Ireland even relative to other small open economies with export-led growth models

Vast difference has opened since 2015

Concentration of these exports in computer services and in contract manufacturing has implications for public finances, which depend on tax revenues charged on profits arising from these exports



Total exports per capita at constant prices

Assessment

- **Economic outlook**
  - Prospect of increase in inflationary pressures as fossil fuel prices feed through to domestic economy wit risk of wage-price spiral if pressures become engrained
  - Any sustained cessation of hostilities that allows a reopening of trade in Hormuz should moderate these pressures but challenges towards normalizing activity continue
  - Domestic economy appears to be performing well but with downside risks. Household spending likely to moderate on higher inflation but investment remains robust

- **Budgetary policy**
  - Risks extremely high in terms of exposure to excess corporation tax
  - Short term – domestic economy does not need additional fiscal stimulus, risk to inflation in capacity-constrained economy with low unemployment and rising wages
  - Longer term – very clear investment needs and infrastructure bottlenecks (housing, water, wastewater, healthcare etc)
  - Unconstrained fiscal policy likely raising expectations
  - Also, in an era of repeated shocks and long-term pressures (aging), important to build up buffers

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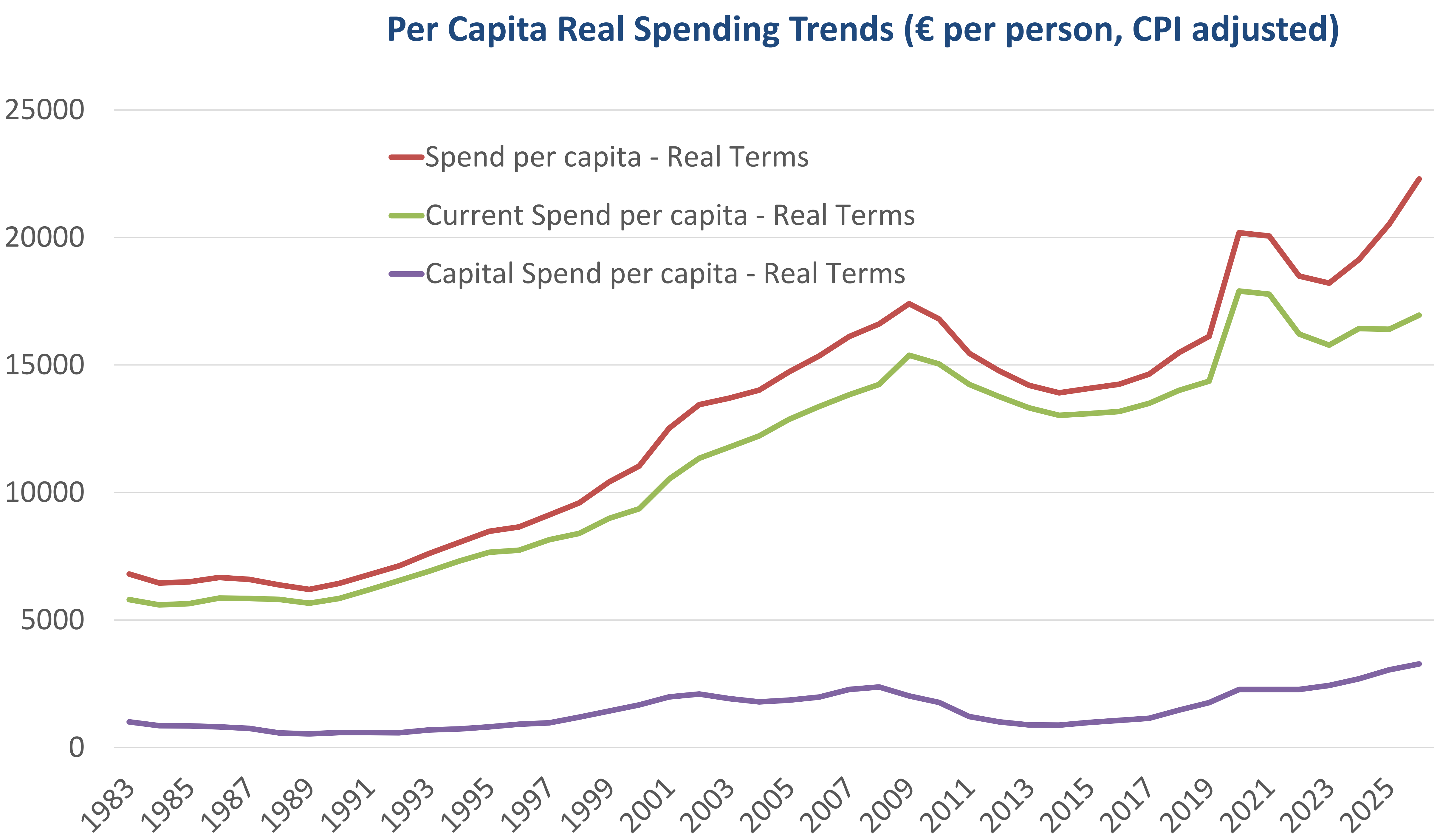
Compensating for inflation and a growing population?



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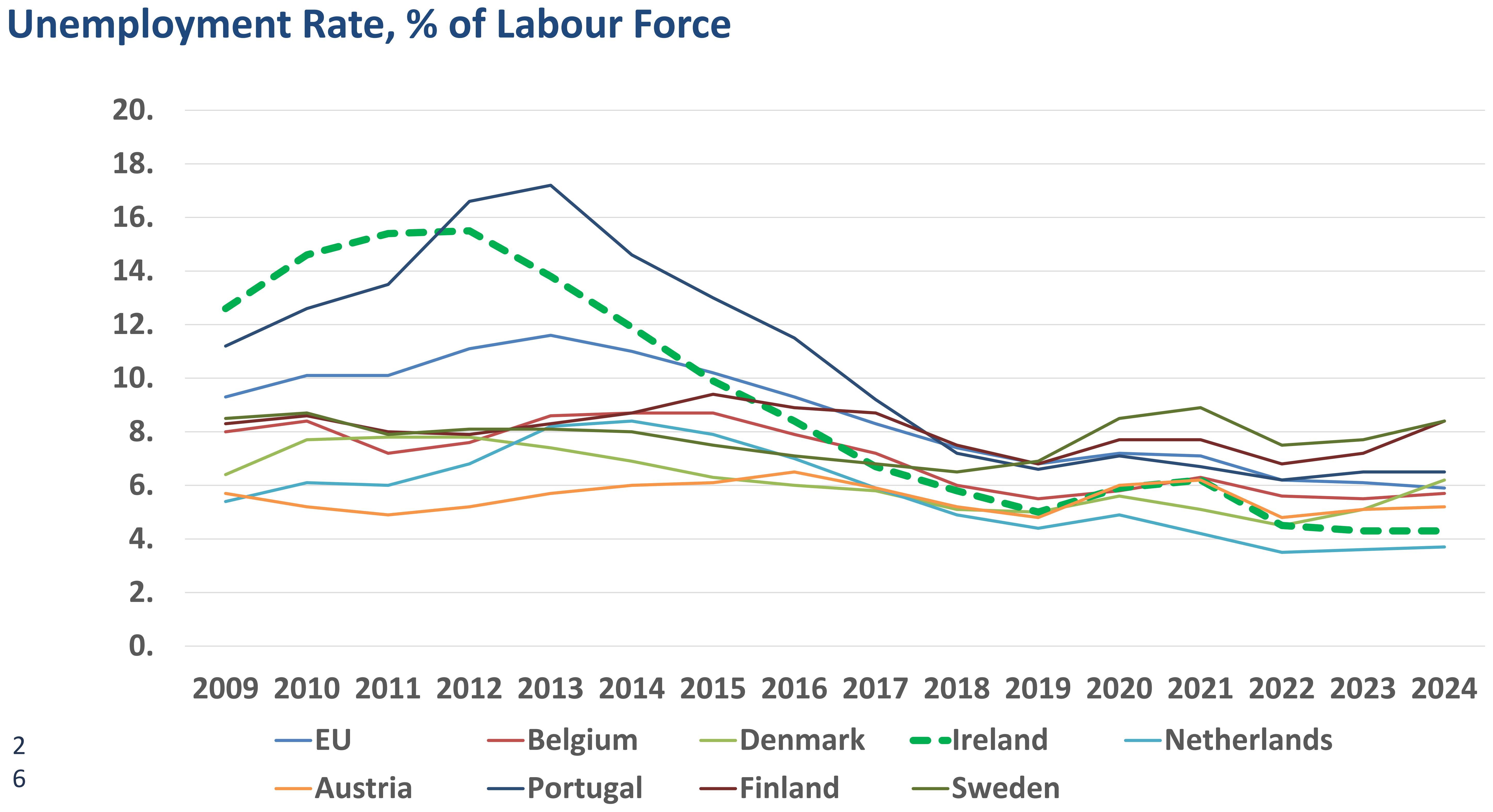
Capacity constraints binding for economy with low unemployment



Shock to multinational profitability – undermine sustainability of public finances

Export revenues leading to high levels of operating surplus for multinational firms

Corporation tax receipts high on firm profits

Concentration is extremely high – small number of firms and small number of products

Considerable risk to sustainability of public finances