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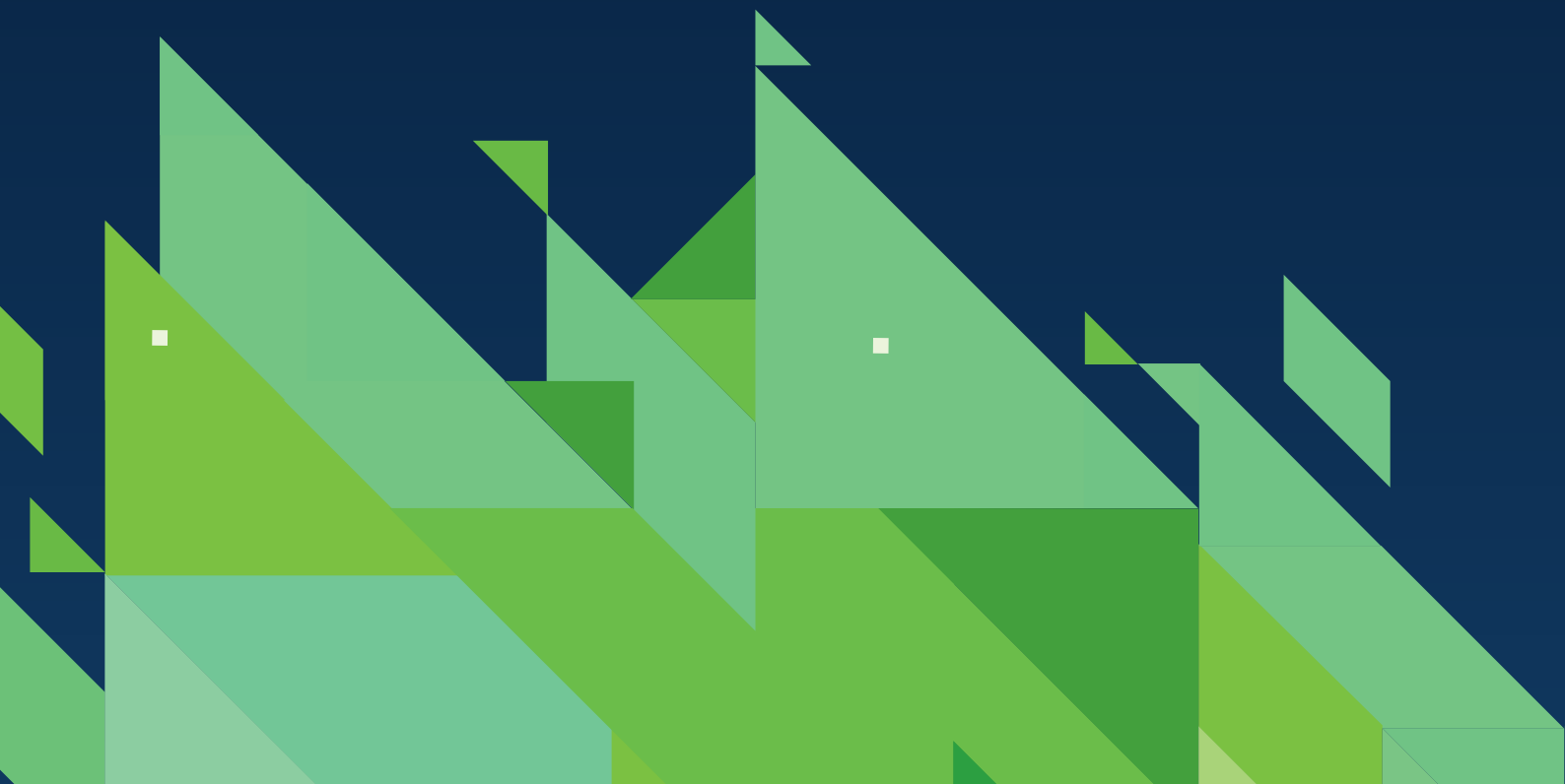


September 2026



Quarterly Economic Commentary, Autumn 2026

ALAN BARRETT, CONOR O'TOOLE AND DÓNAL O'SHEA



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This report has been accepted for publication by the Institute, which does not itself take institutional policy positions. It has been peer reviewed by ESRI research colleagues prior to publication. The authors are solely responsible for the content and the views expressed.

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Abbreviations

AI	Artificial intelligence
CPI	Consumer Price Index
CSO	Central Statistics Office
ECB	European Central Bank
GDP	Gross domestic product
GNI*	Modified gross national income
GVA	Gross value added
IMF	International Monetary Fund
MDD	Modified domestic demand
NTMA	National Treasury Management Agency
NIESR	National Institute for Economic and Social Research
PLC	Public limited company
SITC	Standard International Trade Classification

Summary table

	2024	2025	2026	2027
Output (real annual growth %)				
Private consumer expenditure	2.4	2.6	2.4	2.5
Public net current expenditure	5.0	3.2	1.9	3.0
Investment	-25.6	38.4	-8.5	3.2
Modified investment	-2.3	11.3	3.9	5.6
Exports	10.2	7.5	-0.6	7.1
Imports	4.8	9.6	2.5	4.4
Gross domestic product (GDP)	3.6	8.0	-4.1	6.9
Modified domestic demand (MDD)	1.8	4.7	2.6	3.4
Labour market				
Employment levels (thousands)	2,757	2,818	2,839	2,886
Unemployment levels (thousands)	123	137	149	154
Unemployment rate (% of labour force)	4.3	4.7	5.0	5.1
Prices				
Inflation (CPI)	2.1	2.2	3.6	3.3
Public finances				
General government balance (Euro, bn)	23.2	11.2	9.2	9.0
General government balance (per cent of GDP)	4.1	1.8	1.5	1.3

Forecast overview

- The Irish economy continues to grow steadily despite the uncertainties in the global economy. On the domestic side, unemployment remains low, household spending continues to increase and taxation revenues are rising across the board. This relatively strong domestic performance continues the robust trend seen since the COVID-19 pandemic.
- On the international front, the global influences on the Irish economy are affected in two broad cross currents. On the one hand, the conflict in the Middle East appears to have escalated and has widened to include not only the Strait of Hormuz but now the Strait of Bab el-Mandeb. The damage to energy production infrastructure has continued and recently both gas and oil price futures have sharply increased.
- Given Ireland's reliance on fossil fuels, we are very exposed to the pass through of international price pressures to domestic households and firms. As in the previous *Commentary*, we draw on analysis by the National Institute for Economic and Social Research (NIESR) in the UK to inform the path of energy prices across the forecast horizon.
- On the other hand, global expenditures on AI-related infrastructure have risen sharply, and have acted as a counterweight to the downside impacts of conflict internationally. Investments globally in the software, hardware and energy production necessary to drive the AI-economy are likely to benefit open, globally connected economies like Ireland. We are seeing the early signs of this in both investment and export data, and we expect this to contribute to growth over the period ahead.
- This also increases Ireland's exposure to downside risks that relate to the very rapid rollout of the new technology and the potential for return expectations on these capital outlays to underperform. This could have serious downside risks if some large corporates

experience negative shocks. It also further heightens Ireland's vulnerability to a small number of very large multinational firms, and highlights the concentrated, and correlated nature of risks to economic output, employment and the public finances.

- Balancing these factors leads us to believe that economic growth in Ireland, as measured by modified domestic demand (MDD) in 2026 and 2027 will remain positive at 2.6 per cent and 3.4 per cent respectively. For Consumer Price Index (CPI) inflation, we now expect a rate of 3.6 per cent in 2026 and 3.3 in 2027.
- A further dynamic that has developed internationally is a generalised rise in sovereign borrowing costs on the back of increasing fiscal deficits and indebtedness. For Ireland, despite its apparent healthy surpluses, borrowing costs have risen. This reinforces the requirement to build up fiscal buffers and manage the increasing vulnerability of the tax take from FDI-related revenues.
- As noted for an extended period, housing output and infrastructure investment remain core concerns. We are forecasting housing output of 39,200 for 2026 and just under 40,500 for 2027. The absence of a sufficiently large, and sustained, increase in planning permissions highlights a potential weakness in the medium term.
- The pass through of second-round price pressures to the construction supply chain is also a near term risk, which could add to downside pressure on housing. A recent research paper by Egan and O'Shea (2026) highlights that Irish house prices have deviated from fundamentals by up to 17 per cent. The main catalysts noted for this development are affordability pressures rather than credit-driven dynamics; incomes have risen at a slower pace than house prices and chronic supply shortages have not been addressed. This research reinforces the requirement to support additional expenditures on investment in housing, in particular targeted at low and middle income households.

International outlook and external trade

Global uncertainties offset by strong technology investments

Despite the current conflicts in Ukraine and the Middle East, and the ongoing geopolitical deployment of protectionist policies by the US administration and others, the global economy has remained relatively resilient. This resilience has been backed in the past year by strong technology-led investment activity which has gained momentum on the back of the role out and broader adoption of artificial intelligence (AI).

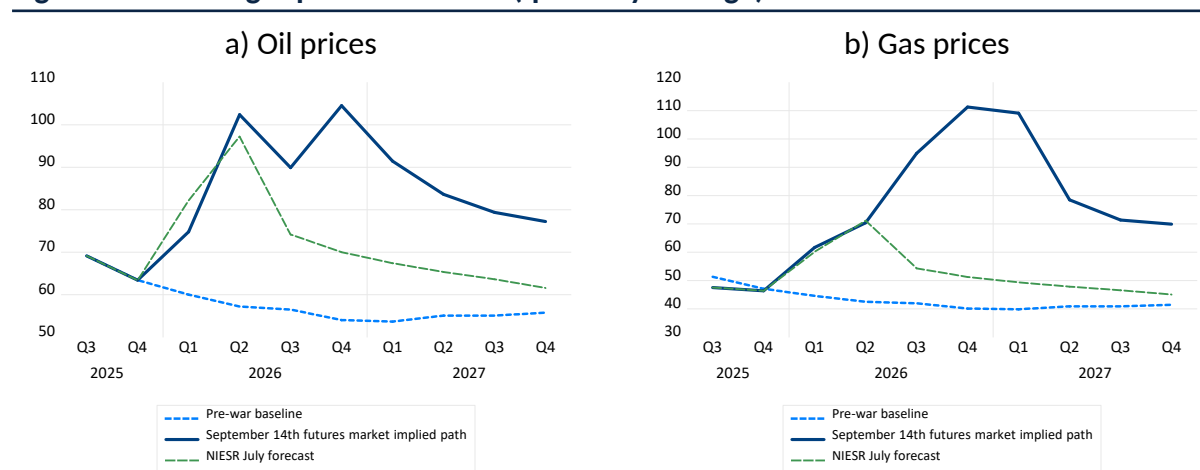
In its most recent World Economic Outlook update, the International Monetary Fund (IMF) characterised the global economy as caught in the cross currents of war and technology investments. These cross currents are creating an uneven set of impacts with energy importers and vulnerable countries suffering downside effects while technology-led investment is raising the outlook in countries integrated in global production (International Monetary Fund, 2026). Generally, they note that risks remain tilted to the downside given the potential ongoing energy market disruptions from protracted conflicts in the Middle East and Ukraine, as well as an acceleration of trade fragmentation. However, the strengthening AI investment boom has emerged as a counterweight to these downside effects, offering a pathway to higher-than-anticipated global economic activity.

As a backdrop to these tensions, many advanced economies (such as France, the US, the UK and others) are showing signs of fiscal weakness, which has limited the ability of governments to react to external shocks. These fiscal vulnerabilities are feeding through into broader concerns about longer term growth prospects in certain advanced economies. This is leading to a repricing of financial conditions for government borrowing, and further highlights the need for fiscal buffers to be rebuilt and fiscal tools to be used in a temporary and targeted way (International Monetary Fund, 2026).

Participants in financial markets also appear to have revised upward their expectations for energy prices. The forecasts in this *Commentary* are based on Irish oil and gas price forecasts contained in the National Institute's July

forecast. Figure 1 shows that the increase relative to the pre-war baseline has been higher for oil than for gas due to the nature of the disruption to energy supply. Prices in oil and gas futures markets have increased notably in recent weeks, such that the market's expectations for energy prices in 2027 is substantially higher than our baseline forecast.

Figure 1 Oil and gas prices scenarios (quarterly average)



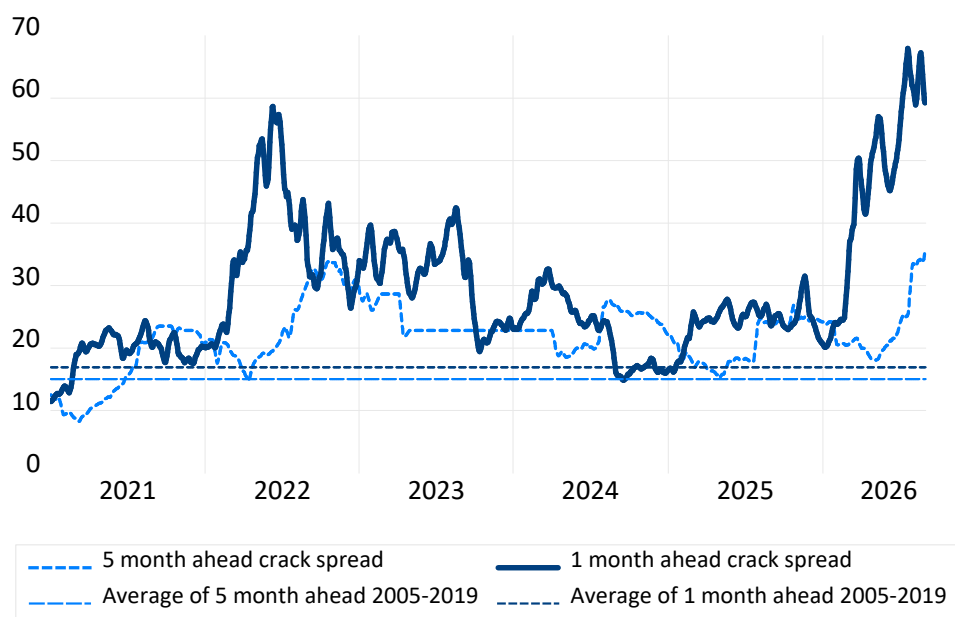
Source: FRED WTI oil prices, IMF commodity price database, ICE Dutch TTF gas futures, Yahoo Finance oil futures, NIESR (2026).

Notes: Oil prices given in US dollars per barrel, gas prices in equivalised dollars per barrel.
 FRED=Federal Reserve Bank of St Louis;
 WTI=West Texas Intermediate;
 IMF=International Monetary Fund;
 ICE=Intercontinental Exchange;
 TTF=Title transfer facility;
 NIGEM=National Institute Global Econometric Model.

As well as increased crude oil prices, the cost of refining oil into diesel has increased. The so-called '3:2:1 crack spread' estimates the margin captured by refinement firms from processing three units of crude oil into two units of gasoline (petrol) and one unit of distillate fuel (diesel or heating oil). The effect of the war in Iran on global refinement capacity is clear in Figure 2.¹ The Figure shows that the one month ahead crack spread has spiked significantly in recent months. Indeed, the spike is larger than the equivalent increase in 2022. Due in large part to the occurrence of two shocks this decade, the value of the spread has been far greater than its average in the preceding 15 years, indicated by the dashed horizontal lines.

However, there appears to be an expectation among market participants that some of the momentum behind this spike in the refinement margin will be temporary – as indicated by the more modest movement in the five month ahead crack spread. In other words, participants are not pricing in such a large margin in five months' time.

¹ The timeline of the impact on global refinement capacity is described in more detail in Kuik et al. (2026).

Figure 2 3:2:1 Crack spread 1 and 5 months ahead

Source: Datastream

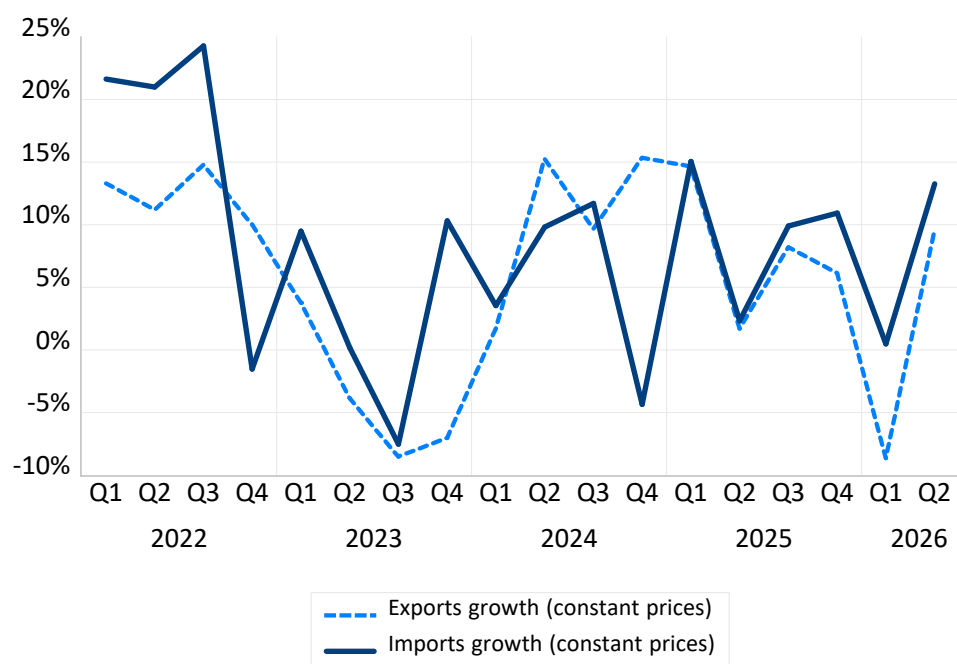
Notes: The crack spread is measured in dollars per barrel of crude oil.

In summary, although the crack spread is likely to decrease, crude oil prices are expected to remain high. In addition, the increase in market expectations for gas prices is concerning.

Export performance varies as composition of goods exports adjusts

Ireland is very exposed to the cross currents internationally noted by the International Monetary Fund (2026). As a highly interconnected globalised economy with a strong presence in computer services and IT, the Irish economy is likely to be at the coalface of developments in AI activities and therefore particularly exposed to decisions by large firms operating in this area. This includes both the export side but also the investment side as firms attempt to increase capital expenditure on AI-related infrastructures.

In terms of the present trends in traded activity in Ireland, Figure 3 presents the growth rate in overall exports and imports. A common feature of Irish aggregate trade data is extreme volatility, and this is clearly evident in the first half of 2026. Following a drop off in exports in the first quarter of 2026, there has been a rapid rebound in Q2. Imports also grew strongly in the second quarter of 2026.

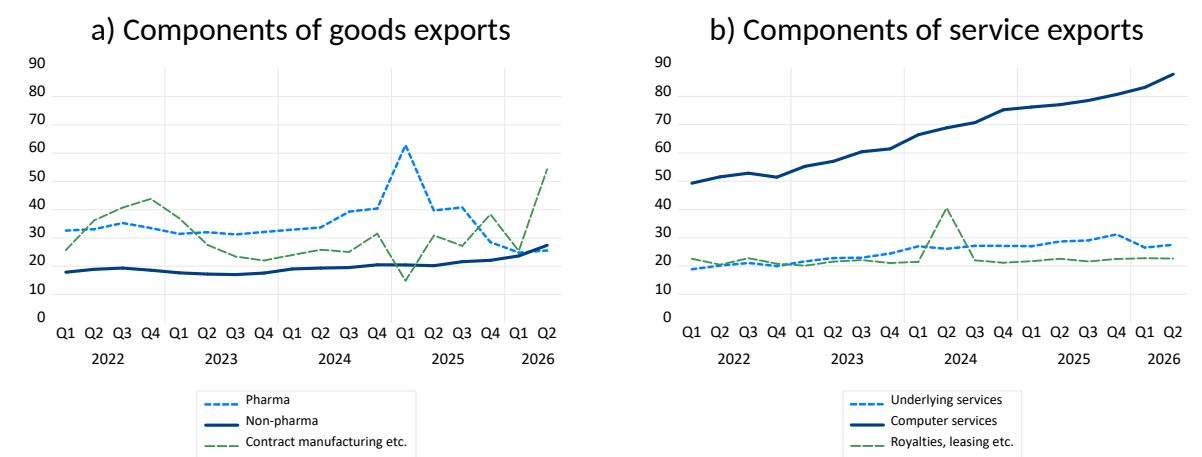
Figure 3 Growth rate in imports and exports

Source: CSO Quarterly National Accounts.

Diving deeper under the heading export statistics, there are notable divergent trends across the subcomponents. These are presented in Figure 4, which presents data for both goods exports (Panel A) and service exports (Panel B). In Panel B, it is clear that the major increase in pharmaceutical exports that occurred in anticipation of the Trump administration tariffs in April 2025 has dropped off; exports of pharmaceutical goods are down at levels last seen during in the pre-pandemic period. There has also been a major rebound in the internationalisation exports with a sharp expansion of contract manufacturing in Q2 2026. This is one of the main reasons for the very substantial rebound in overall exports in the second quarter of the present year. Of particular note however is the steady expansion of non-pharmaceuticals cross border goods trade. This component of goods export activity has been expanding steadily over the past number of quarters, and has risen above pharmaceuticals in volume terms in Q2 2026.

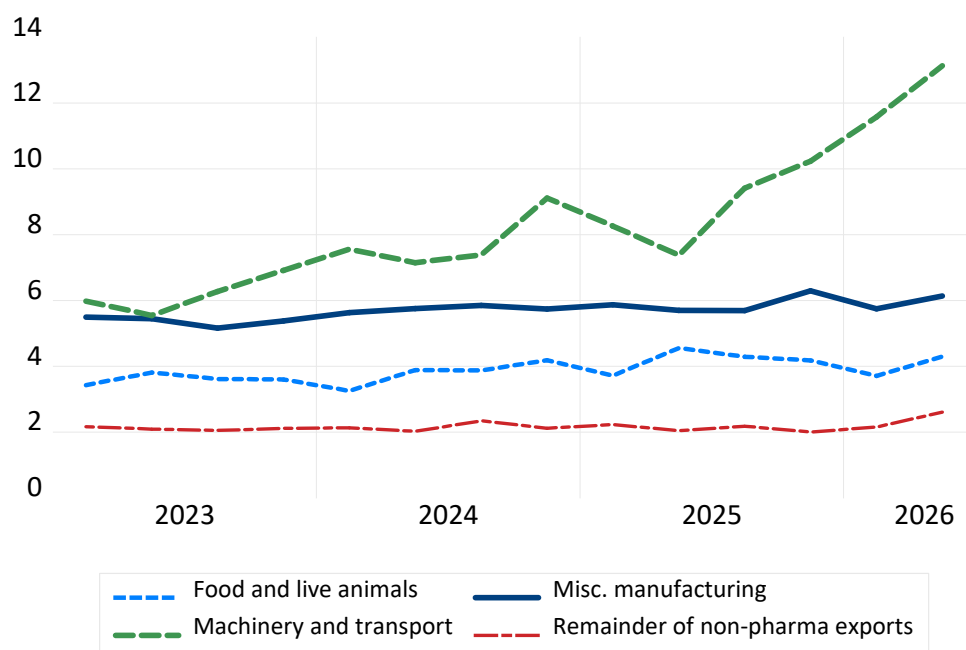
Service exports are presented in Panel B. Two features are noteworthy from this figure. First, exports of computer services have continued their apparently relentless rise; levels are continuing to increase and the rate of growth on an annual basis rose in Q2 2026. Exports of underlying services declined somewhat on a year-on-year basis², which is a rare sign of weakness given the performance of Ireland's overall service export basket.

² -3.8 per cent decline in the second quarter of 2026 relative to the same quarter in 2025.

Figure 4 Trends in the components of exports (€, bn, current prices)

Source: CSO Quarterly National Accounts.

As outlined above, non-pharmaceutical goods exports have shown strong growth in the past year. It is informative to explore the trends underlying these developments in more detail. Figure 5 shows that this growth is almost entirely concentrated in the category 'Machinery and other transport equipment'.

Figure 5 Non-pharmaceutical exports by category (€, bn, current prices)

Source: CSO Monthly trade statistics.

Notes: Exports in current prices.

'Chemicals and related products, n.e.s. (5)' is excluded following the *Commentary's* standard definition of non-pharma exports.

'Remainder of non-pharma exports' consists of Standard International Trade Classification (SITC) one digit categories 1-4, 6, 9.

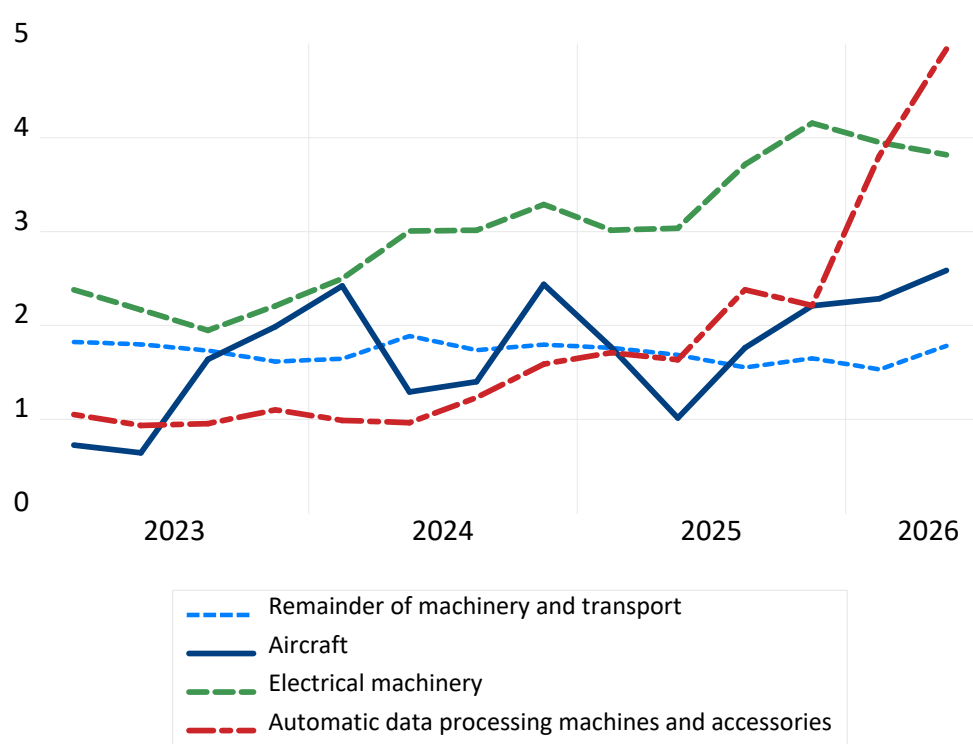
Within 'Machinery and other transport equipment', three sub-categories account for this substantial growth:

- The scale of the operations of aircraft leasing firms means that export statistics can be distorted by a particularly large quarter of exports of aircraft. This activity is generally related to inventory management as imports tend to follow a similar pattern, suggesting this pattern is unrelated to economic activity in Ireland.
- Electrical machinery exports rose substantially in the past year. This export category consists primarily of data processors and controllers although exports of medical diagnostic equipment and switches/fuses/relays are substantial in some quarters.
- Exports of automatic data processing machines and accessories grew steadily in 2025 before accelerating further in 2026.

The increase in total non-pharmaceutical exports in the first half of this year relative to the first half of 2025 is c. €10 billion. While c. €2 billion of this is an increase in aircraft exports, more than €7 billion of this increase

comes from growth in exports in the electrical machinery and automatic data processing categories described above. This suggests that exporting firms in Ireland may be well positioned to capitalise on opportunities arising as a result of continued investment in data centres. However, there is a proportionate rise in imports of automatic data processing machines and accessories. A significant amount of these exports may relate to the logistical operations of large multinational firms, as suggested by the Department of Finance (2026a).

Figure 6 Machinery and other transport equipment exports by sub-category (€, bn, current prices)



Source: CSO Monthly trade statistics, Eurostat Comext database.

Notes: Exports in current prices.

'Aircraft' refers to 3-digit SITC category 793 'Aircraft and associated equipment; spacecraft (including satellites) and spacecraft launch vehicles; parts thereof'.

'Electrical machinery' refers to 2-digit SITC category 77 'Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof (including non-electrical counterparts, n.e.s., of electrical household-type equipment)'.

'Automatic data processing machines and accessories' consist of the sum of SITC 3-digit categories 752 and 759.

Overall, in terms of the external demand for Ireland's goods and services, we appear to be favourably positioned to gain from the AI-related activities while also continuing to maintain a relatively robust export level in pharmaceuticals in the short term. On the back of these factors, we expect exports to contract marginally this year, due to the unwinding of the

pre-tariff pharma spike but we expect levels to rebound strongly next year with growth coming from a broad base of well performing multinational activities.

Domestic developments

Continued resilient Irish domestic growth despite energy-related cost pressures

For Ireland, the international context creates a set of tensions that further highlights the dual nature of economic activity. As an extremely open, globally integrated economy with an thriving and important technology sector, Ireland appears well placed to benefit from the current investment-led AI-related developments. Furthermore, as the parameterisation around tariffs between the EU and US has become clearer and other export categories rise, Ireland's export outlook appears to remain positive in the short term.

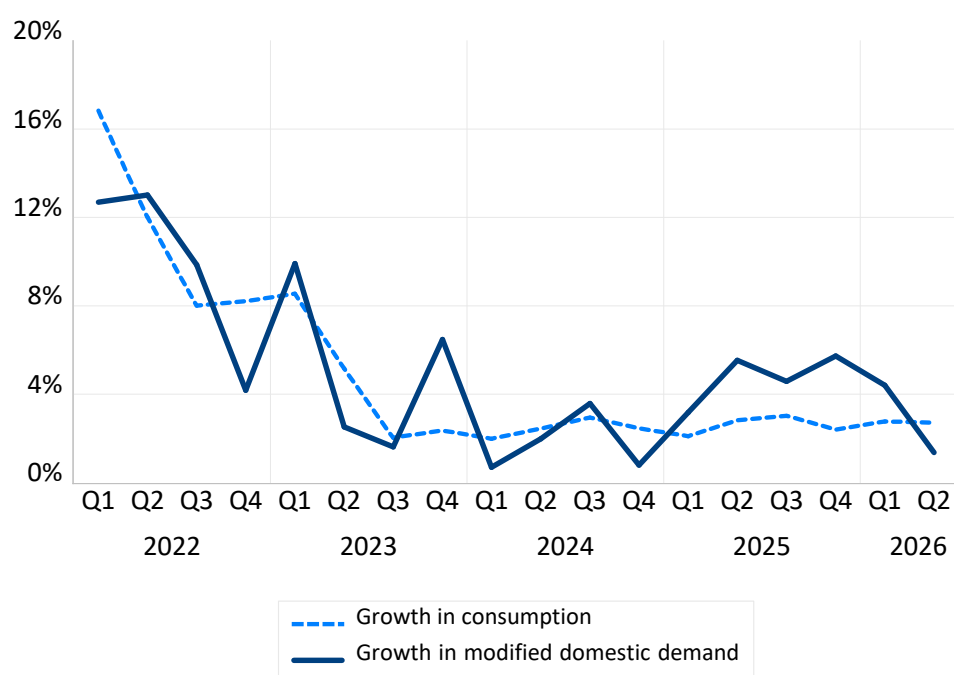
However, as an energy importer, fossil fuel price increases have reversed the process of disinflation, which had become embedded throughout 2024 and 2025. The reliance on imported fossil fuels has thus put further pressure on firms and households by raising the cost of energy and increasing broader inflation levels. Given its available fiscal resources, the Government has reacted by introducing measures to address energy price pressures, a topic we will return to in the public finances section of the *Commentary*.

Furthermore, while the global economy is currently benefiting from the investment-led phase of the AI rollout, there is the potential for considerable downside risks if investments do not meet return expectations and a correction occurs. Additionally, for a service-oriented economy like Ireland with a reliance on technology firms for considerable volumes of government revenue, there are two further downside risks: 1) the possibility of labour market disruptions from AI-related changes to capital-labour ratios; and 2) the impact of any AI-related downturn on the public finances. These effects alone would support policy actions to aggressively build up fiscal buffers and ensure excess government revenues from technology-related sources are saved rather than consumed.

Despite recent global developments, the Irish domestic economy has continued to grow in a robust fashion, with continued increases in

employment and strong household consumption. Modified domestic demand (MDD) has been growing rapidly in recent years as both investment has increased with higher construction activity and household expenditure has been buoyed by the well performing labour market. These trends are highlighted below in Figure 7.

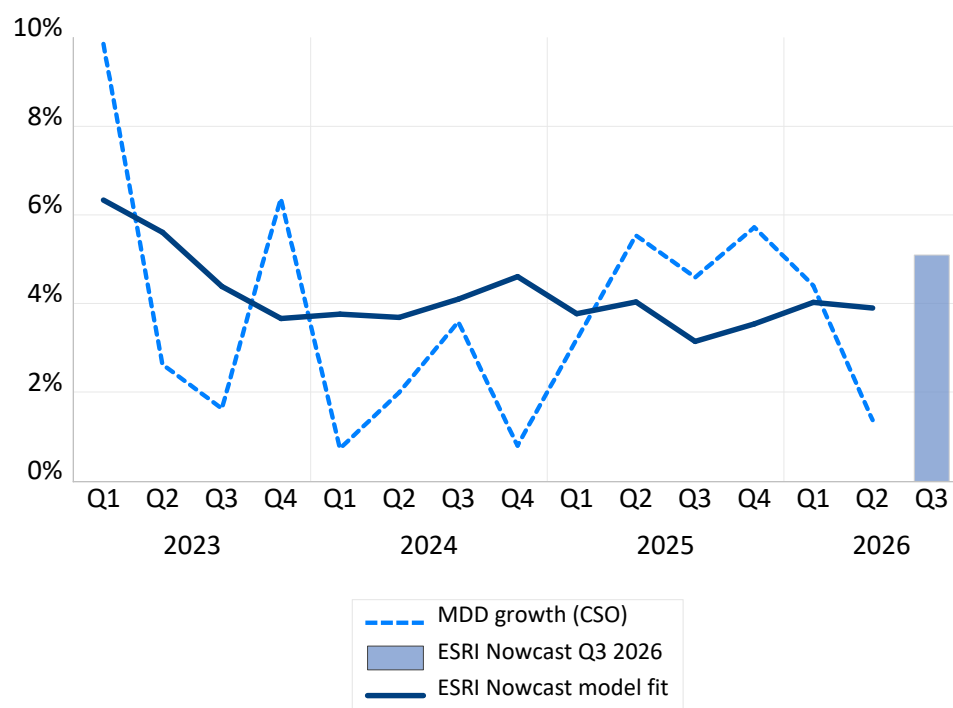
Figure 7 Household consumption and modified domestic demand



Source: CSO Quarterly National Accounts.

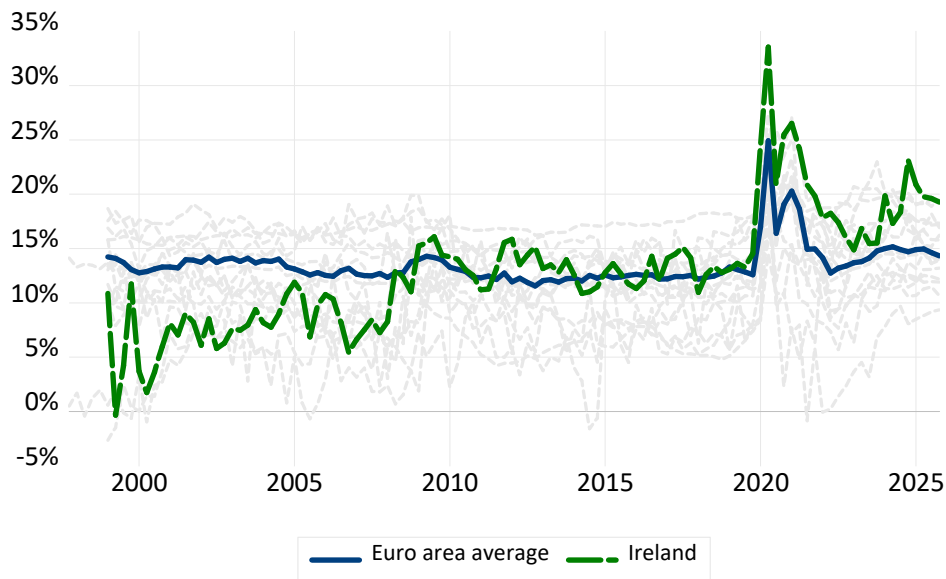
The ESRI's Nowcast model suggests that strong growth in MDD will continue into the third quarter of 2026. Early indications from data in July 2026, including measures of consumption, industrial production, fiscal revenue and sentiment, support the expectation for growth in Q3 2026, though caution should be applied in interpreting this result as it includes only one month of data from the third quarter. Figure 8 shows that the Nowcast model prediction for MDD growth has remained consistently strong throughout 2026. Indeed, the Nowcast estimates provide a broad measure of how the domestic economy is operating in real time and can be seen as an insightful lens into the economic trajectory. However, given the volatility in the Irish data, the actual outturn may differ from the model's prediction.³

³ Our forecasts for MDD build on the actual data, there may be observed differences between the real time Nowcast estimates and the forecast in any *Commentary*.

Figure 8 ESRI Nowcast and modified domestic demand growth

Source: CSO Quarterly National Accounts, ESRI Nowcast model.

One feature of the Irish macroeconomy that has shown a notably different path to other European economies is the savings ratio: the proportion of disposable income that is saved by households. The savings ratio typically provides a good guide as to the ability of households to manage shocks and provide households with additional expenditure power in the event of any downturn. At the onset of the COVID-19 pandemic, the savings ratio increased notably as households consumption opportunities were curtailed. However, while most economies returned to more normal levels after the pandemic, Ireland's savings ratio has remained well above its historical average and it is currently the highest household savings rate in Europe. Figure 9 shows the Irish rate alongside the average for the euro area. The individual countries' rates are provided in grey, showing that a wide range of savings rates, between 5 and 20 per cent, is typical with some movement over time for individual countries to be expected.

Figure 9 Household savings rate

Source: Eurostat Table NASQ_10_ki

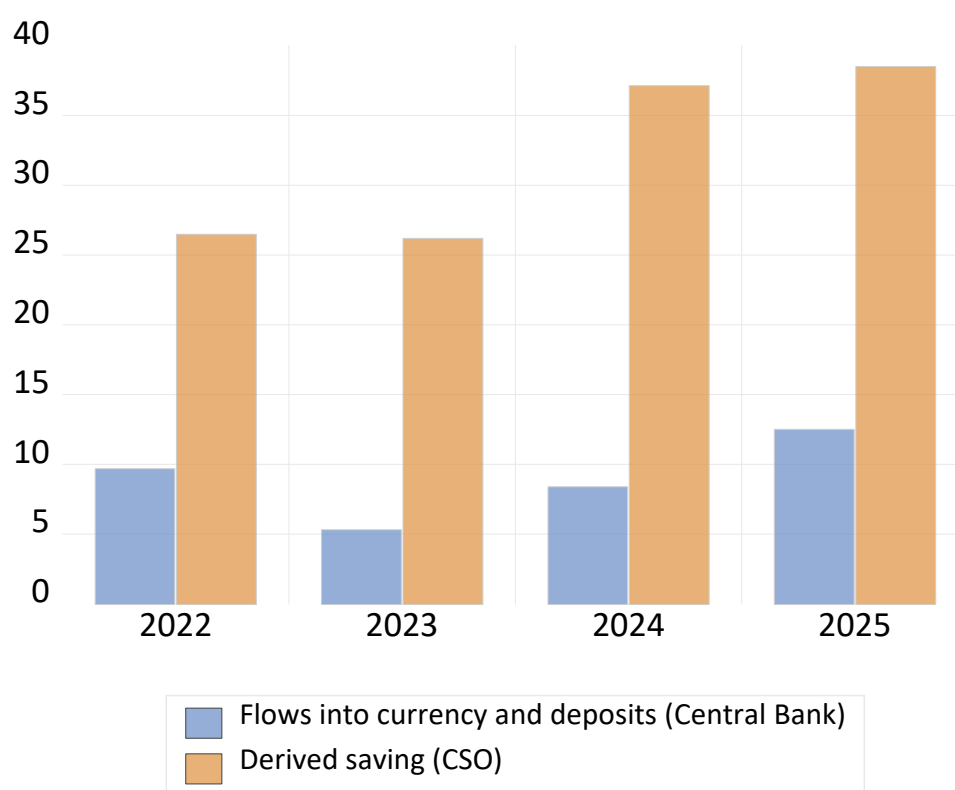
Notes: Countries in grey consist of Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Spain, Hungary, Italy, Netherlands, Poland, Portugal, Romania and Sweden.

More interesting is the fact that, following a downward adjustment after the pandemic, the savings ratio rose again in Ireland, a feature not seen in many other European economies. Recent research (Timoney, 2022) has highlighted that a proportion of this higher-than-average savings ratio may be due to measurement issues and thus not represent actual accrued resources. Further research by Carroll (2024) also revises upwards potential consumption measures, which would naturally lower the savings ratio. In a longer term context, recent work by Boyd et al. (2025) indicates that the increase in the savings ratio is a longer term secular trend driven by demographics, retirement preparation, housing constraints and precautionary motives. However, especially given the more recent rises in the savings ratio in 2024 and 2025, from a macroeconomic perspective, it does suggest that households have some accumulated financial resources than can be deployed to smooth consumption in any downturn.

The extent to which households can rely on savings to smooth consumption depends on the liquidity of those savings and on how wealth is distributed across households. Data from the Distributional Wealth Accounts shows that housing assets remain the largest component of wealth across the wealth distribution. In the event of a shock to the economy or to an individual household's income level, housing assets cannot easily be liquidated to support current consumption. Further, financial assets and business wealth account for less than 10 per cent of wealth for the bottom three-quarters

of the distribution. In that context, it is savings, in the form of currency and deposits, that capture most of the potential buffer that households are building up. Figure 10 combines data from the Central Bank's Quarterly Financial Accounts with the Central Statistics Office's (CSO) derived savings data.⁴ It shows that the increase in savings in recent years has been accompanied by an increase in flows into holdings of currency and deposits. However, the distribution of wealth and the nature of the assets held by different cohorts across the wealth distribution means that the underlying liquid buffer held by households is not necessarily reflected by the high savings rate.

Figure 10 Household saving and flows into currency and deposits (€, billion)



Source: Central Bank of Ireland Quarterly Financial Accounts and CSO Quarterly Institutional Sector Accounts

International and domestic influences evident as investment rises

In Ireland, given the dual nature of the economy (which contrasts domestic developments with the multinational activity), investment expenditure has been affected by multiple competing influences. Ongoing policy uncertainty, geopolitical fragmentation and shifting trade policy are likely to disrupt global capital allocation by international firms (IMF ref.). In turn, these

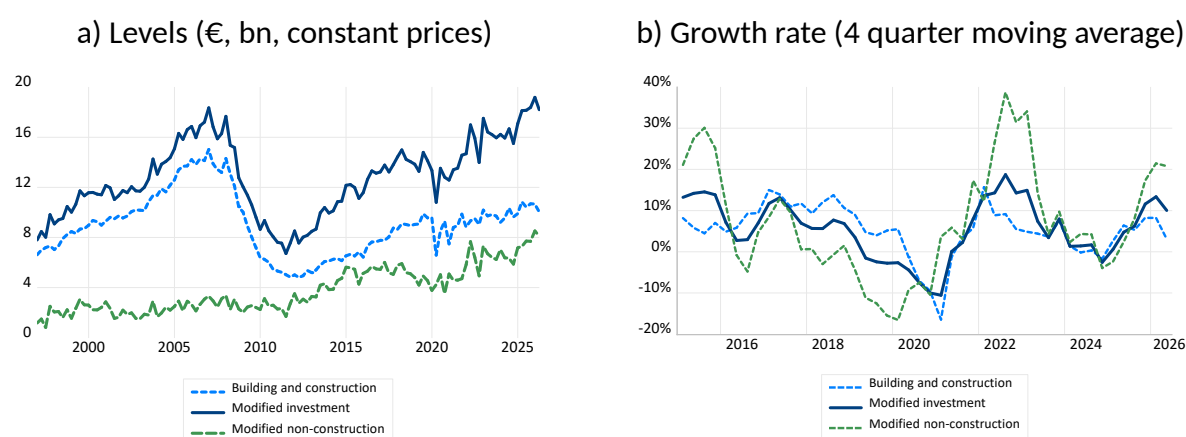
⁴ The CSO calculate the savings rate based on income less consumption, or derived savings, divided by income. The Central Bank data offers a more granular perspective on the counterpart and asset class of savings.

developments will influence the medium-term investment decisions of multinational enterprises located in Ireland. However, in contrast and as noted above, Ireland is likely to be well positioned in the short term to benefit from the aforementioned increase in AI-related activity globally in investment terms given the existing high proportion of leading technology firms present in the economy and the high level of activity in the sector.

In contrast to the multinational sector, the main domestic investment focus is on addressing well known bottlenecks in housing, infrastructure and investing to address the challenges of climate change. These activities differ substantially in nature from the type of investments noted above given their reliance on building and construction, a sector with a high requirement for labour inputs. However, these are likely to be major catalysts for longer term growth by increasing the productive capacity of the economy and building the framework conditions for broad-based growth.

In terms of the short-term trends, Figure presents the developments in modified investment over the period from 2000 to 2026. It splits modified investment into building and construction (which is likely dominated by the domestic factors discussed above) and other investments (which would include plant, machinery, vehicles, computer hardware and other intangibles not related to research and development related intellectual property). While modified investment was dominated by building and construction activity during the early part of this time frame, in recent years, non-construction activity has risen rapidly, in particularly since the onset of the COVID-19 pandemic. This can be seen more clearly in Panel B, which presents a four quarter moving average growth rate of these series. In recent years the growth rate of non-building and construction has increased much more rapidly, a theme that will be discussed in more detail below.

Figure 11 Trends in the components of modified investment

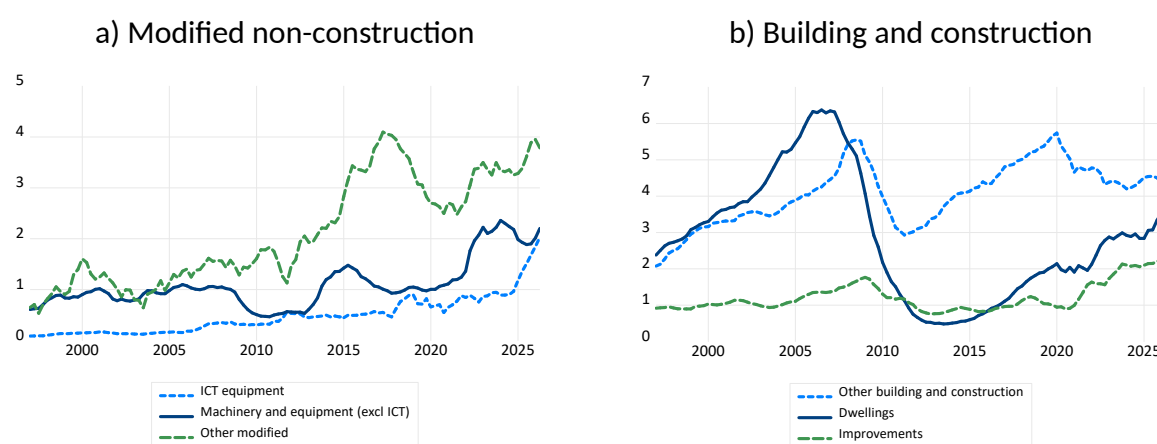


Source: CSO Quarterly National Accounts.

To provide more context as to changes in specific assets, Figure 12 splits out modified non-construction activity between ICT equipment, other machinery and equipment excluding ICT and other modified investment (including transport and intangibles).⁵ It is clear that since the end of 2024, when AI began to emerge as a widely accessible technology, there has been a major ramp up in investments relating to ICT equipment. While other modified investments are also increasing, the sharp increase in the trend in ICT expenditures can be clearly linked to AI activities and is likely to continue as the rollout of these technologies expands economy-wide in Ireland and internationally.

For building and construction, the post financial crisis period has seen a recovery across the board, but that recovery was initially more rapid in the non-residential areas. However, since COVID-19 the level of investment in other building and construction (which includes commercial property) has dropped notably. Residential dwelling construction has continued to increase over the period but still remains below levels seen in the early 2000s.

Figure 12 Subcomponents of modified investment (€, bn, 4 quarter moving average)



Source: CSO and Authors calculations

As well as tracking its magnitude, a recent release by the CSO facilitates analysis of where the investment in infrastructure was directed.⁶ Table 1 shows the level of investment in selected categories of infrastructure in current prices for 2024 and 2025. Investment in the energy grid will continue to be important to support decarbonisation while investment in water supply and sanitation is necessary to enable further housing development.

⁵ These assets are grouped as they are a residual category, rather than for reasons of economic comparison.

⁶ CSO information note investment in infrastructure 2025 published in July 2026 as part of the Frontier Output series and available at [this link](#).

Table 1 Investment in infrastructure by category (€ mn, current prices)

Category	2024	2025	YoY growth rate
Roads	1898	1918	1.1%
Other transport	786	505	-35.8%
Energy generation, distribution and transmission	1837	2314	26.0%
Water supply and sanitation	1010	993	-1.7%
Education	887	884	-0.3%
Health	1669	1740	4.3%
Public buildings, culture, recreation and other social infrastructure	990	1063	7.4%
Agriculture and forest development	474	476	0.4%

Source: CSO.

To provide more granular detail on investment across institutional sectors within the economy, we combine data from the government finance accounts and the Institutional Sector Accounts. We group the institutional sectors into four groups:

- ‘Households’, consisting of households and non-profit institutions serving households
- Government
- ‘Domestic corporations’, consisting of both financial and non-financial domestic corporations
- ‘Other’, consisting of the remaining institutional sectors, namely foreign-owned corporations and redomiciled public limited companies (PLCs).

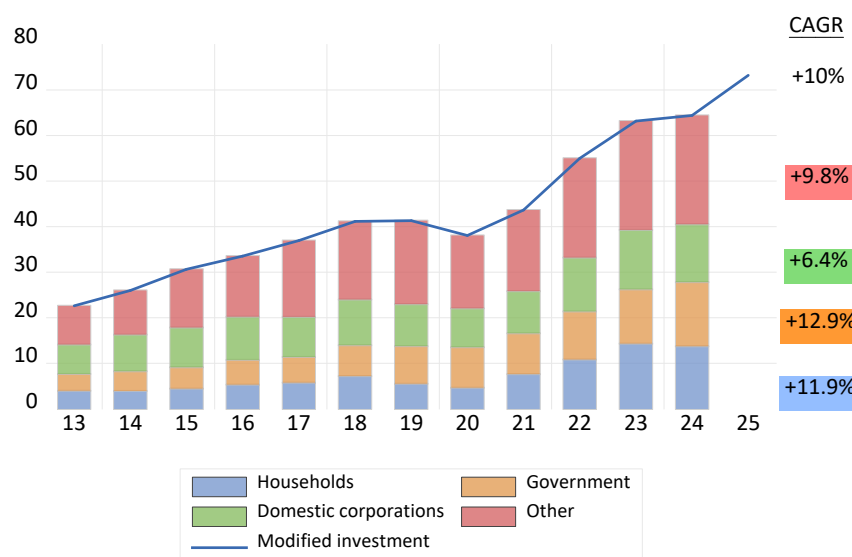
In grouping the sectors in this way, we can assume that investment by households and the Government falls entirely into the modified investment category provided by the CSO.⁷ We further assume that the majority of investment by domestically-owned firms falls into modified investment. We then attribute the remainder of modified investment to the ‘Other’ institutional sector, which consists of foreign-owned firms and redomiciled PLCs.

Figure 13 shows that each of the categories above has increased their level of investment. The compound annual growth rate for each category is presented on the right hand side of the chart. Government expenditure on investment is the fastest growing of the four categories. Of concern is the relatively slower growth in investment by domestic firms. This lack of

⁷ Modified investment excludes investment in Intellectual Property and in aircraft for leasing. The majority of these transactions are associated with large foreign-owned firms.

investment by domestic firms has been highlighted in recent research by Gargan et al. (2024) and is likely to be acting as a drag on productivity in that sector. It is also clear that the 'Other' sector, which is where multinational investment sits in these categories, is also dominant in terms of the modified investment activity.

Figure 13 Breakdown of sources of modified investment (€, bn)



Source: CSO Institutional Sector Accounts and National Accounts.

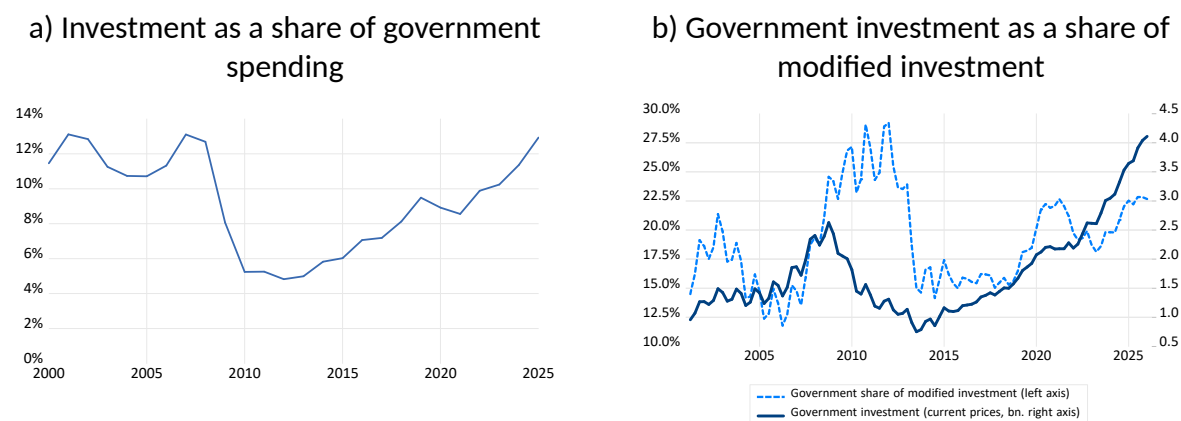
Notes: The 'Other' category consists of a residual figure of modified investment less investment in the other three named institutional sectors. The Institutional Sector Accounts are available up to 2024, while modified investment is also available for 2025.

In the context of the increase in domestic investment requirements, we consider in more detail the extent to which Government is deploying capital in the economy. Recent Budgets and the current National Development Plan have seen an increased emphasis placed on capital expenditure. The aim is to address well established infrastructure bottlenecks across the economy. Given the scale of commitments, the challenge is deploying this expenditure in an economy at full capacity. It is therefore informative to explore the measured investment that has occurred to date by the government sector. Figure 14 a) shows government expenditure on investment as reported by the CSO⁸ as a share of total government expenditure. There is a clear upward trend in this share since the period of economic recovery began in the 2010s, with a further marked increase in this decade. In Panel B, this investment is presented in current price levels (euro millions) but then is also scaled as a proportion of modified investment. This highlights that the increase in levels has also fed through into an increase in the proportion of modified investment, especially in the pre and post COVID-19 period.

8 Gross fixed capital formation (P.51) in Table GFA04 on the CSO PxStat database.

The current share is approximately 22.5 per cent of modified investment accounted for by government sector investments.

Figure 14 Government capital investment expenditure



Source: CSO Quarterly National Accounts, Government Finance Statistics, and Department of Finance.

Note: Panel B shows a six quarter moving average of government investment on a quarterly basis and its share of modified investment.

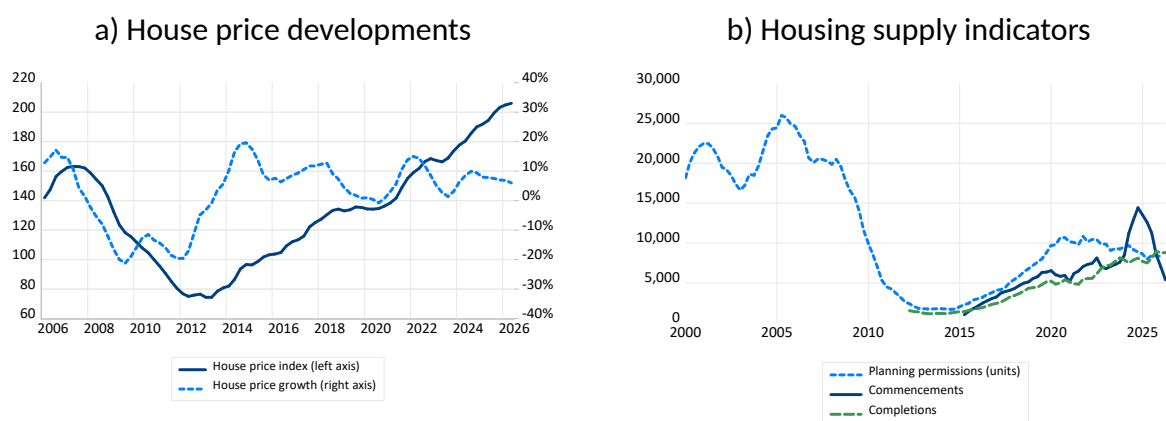
This analysis reinforces two features of the Irish economy that are recurring themes in the *Commentary*: first, the difficulties of increasing government expenditure on investment at a sufficient scale to meet the needs of a growing population and to support one of the fastest growing economies in Europe; and second, the challenge of over-reliance on large foreign-owned firms on the domestic economy.

Housing market imbalances continue as demand outstrips supply

Irish house prices have continued to rise in recent quarters as strong demand-side pressures have continued to outstrip supply. Figure 15 presents indicators for house price developments as well as housing supply indicators for the Irish economy. In Panel A, the developments in house prices are presented between the period 2006 and 2026. Since the recovery from the financial crisis there has been a notable and persistent upward trend in house prices and strong house price growth. The upward pressure on prices has been driven by a range of factors (Egan, McQuinn, & O'Toole, 2024; Egan, McQuinn, & O'Toole, 2024; McQuinn, 2017) but the underlying excess demand for housing has been a core feature of the market. Recent research by Egan and O'Shea (2026) indicates that house prices in Ireland are currently above the level that can be explained by fundamental economic variables such as incomes, interest rates, demographics and supply; the average measure of deviation from fundamentals is approximately 17 per cent. However, in contrast to the period during the credit boom in the mid 2000s, the current deviation from fundamentals is likely to reflect

affordability challenges as purchasing activity is concentrated at the higher end of the income distribution. Thus, rather than highlighting the build up of financial risks as was evident in the previous crash, this research further demonstrates the underlying challenge of housing a population when house prices are rising faster than incomes and supply is constrained.

Figure 15 House prices and housing supply indicators (quarterly)



Source: CSO and Housing Agency

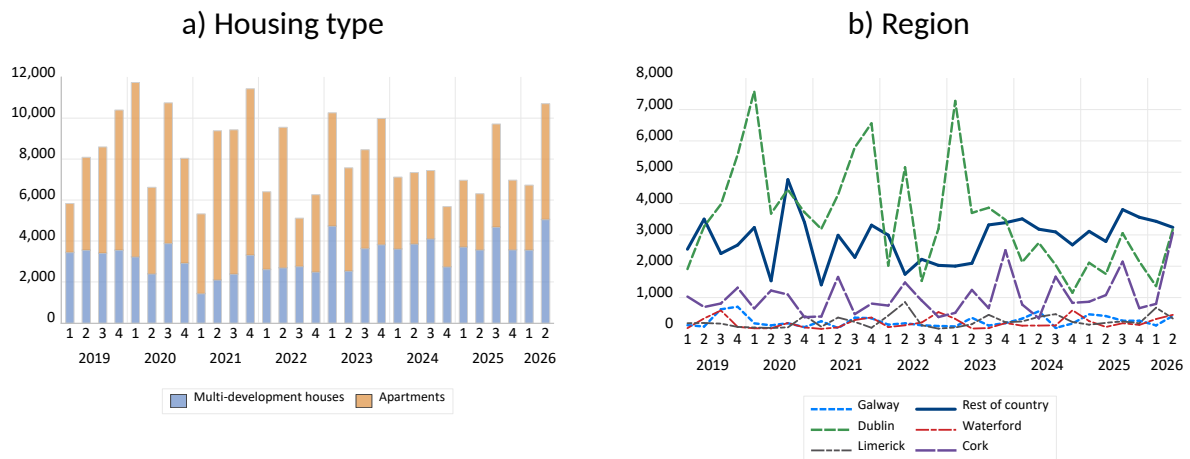
Note: Housing indicators presented as a six quarter moving average

Focusing in on the supply side, Panel B in Figure 15 presents trends in planning permissions, housing commencements and housing completions (using a four quarter moving average to extract a smoother trend). Housing completions rose in the first quarter of 2026 relative to the same period of the previous year but were down marginally year-on-year in the second quarter. Overall, considering the level of housing produced in the first half of the year, and applying typical seasonal patterns for this period historically, we estimate that approximately 39,200 housing units will be produced in 2026, rising to approximate 40,500 units in 2027. There is a degree of near term uncertainty in these trends due to the recent breakdown in the long standing relationship between planning permissions, commencements and completions, which had historically provided an important forecast pathway calculation.

However, as noted in the previous *Commentary*, a clear weakness is the downward trend in planning permissions, which has been evident for a number of years. This variable provides a leading indicator to the volume of residential output beginning to move through the system. Figure 16 shows the trend in planning permissions by housing type and by region. The figures for the second quarter of 2026 showed a significant increase, driven by both multi-development houses and by apartments with a notable increase in Dublin and Cork. To get close to the sustained production of

50,000 to 60,000 units per annum, it would be comforting to see planning permissions rise towards these levels over a sustained period. While near term production could deviate from present planning numbers through increases in the activation of existing permissions, once any backlog is used up, new permissions would be required. Therefore, this is an important bellwether for medium-term housing output.

Figure 16 Breakdown of planning permissions (quarterly)

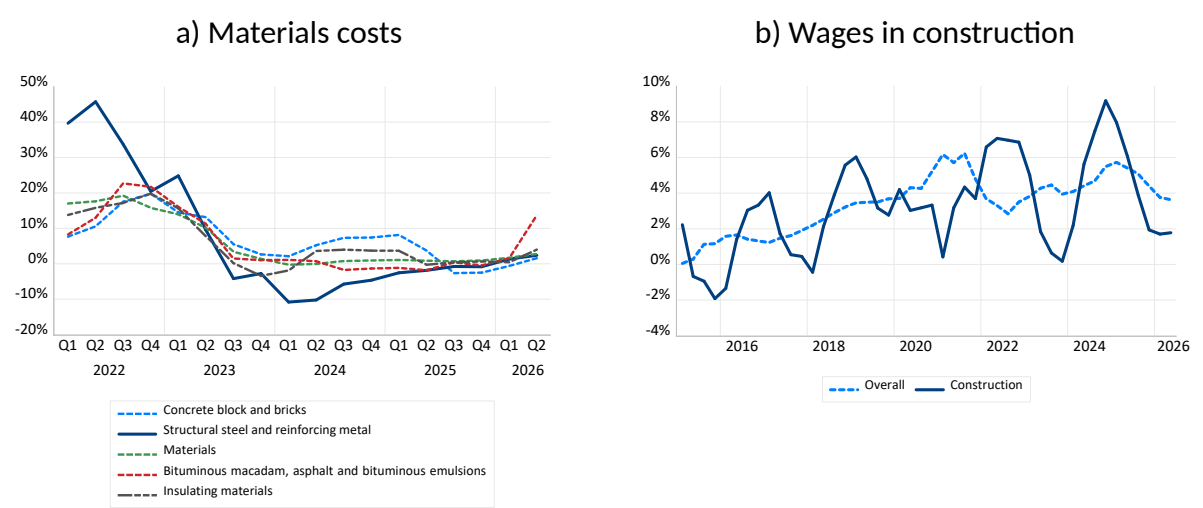


Source: CSO

In terms of increasing housing supply, the cost of labour and materials are key production-side variables that can put downward pressure on housing output. A key risk that we outlined in a previous *Commentary* was a feedback loop between energy market disruptions and the cost of building materials. Figure 17 presents trends in key materials costs. It is clear that some spillover from the recent Iranian conflict has passed through but, at present, it is observed mainly in those products that are high in petroleum content. This does not preclude a broader price escalation if fuel price increases have second-round effects, and typically any broader effects would occur with a time lag. Therefore the downward effects of potential further cost pressures remains a material risk over the forecast horizon.

In terms of wage pressures in the construction sector, we see in Figure 17 that wage costs have moderated from a recent spike and are now growing slower than broader wage pressures in the economy.

Figure 17 Construction cost inputs: Materials and wages



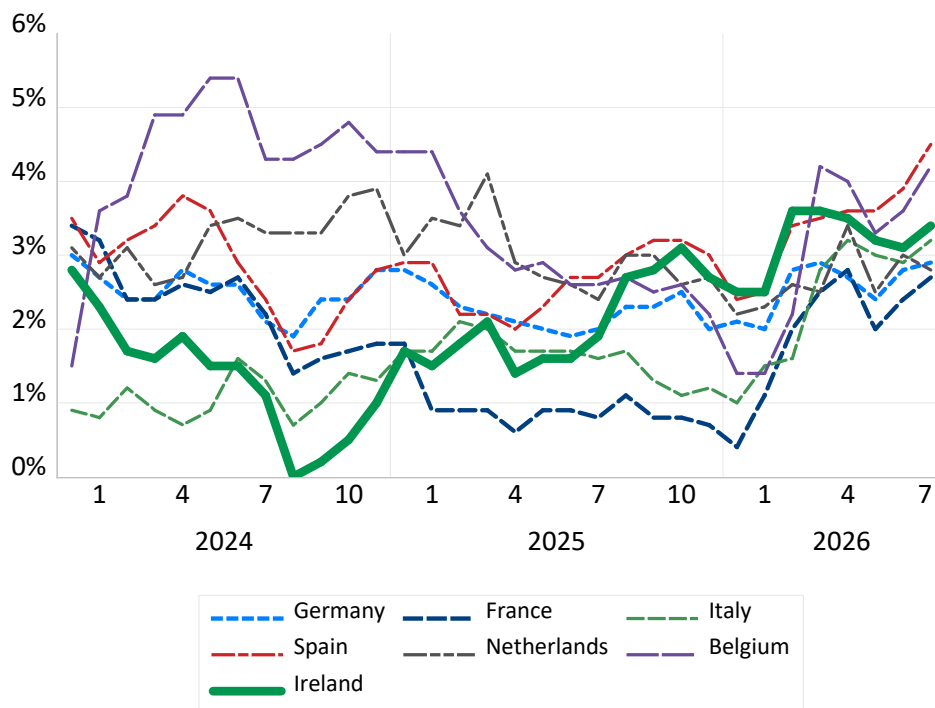
Source: CSO

Inflation

Consumer Price Index (CPI) inflation stood at 3.7 per cent in August, while the Harmonised Index of Consumer Prices inflation rate was 3.4 per cent in July.⁹

The recent trend in Irish inflation is in line with trends elsewhere in Europe. Figure 18 shows that similar spikes in the inflation rate have been observed in the larger Western European countries. Inflation rates vary across this group of countries from 2.7 per cent in France to 4.5 per cent in Spain.

Figure 18 Harmonised Index of Consumer Prices inflation by country



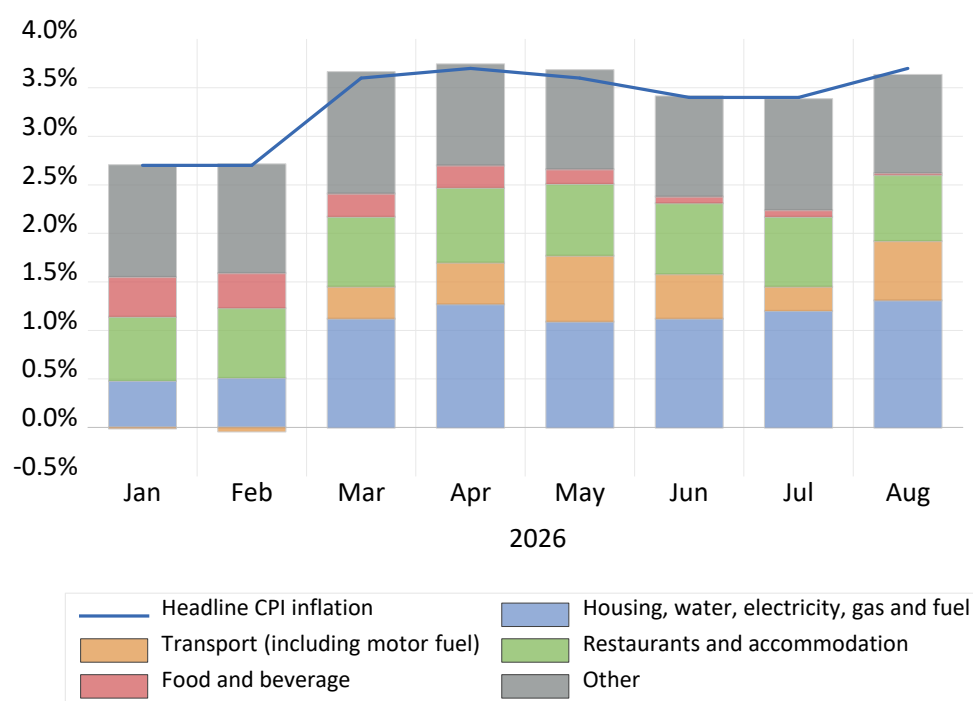
Source: ECB

⁹ The Harmonised Index of Consumer Prices is directly comparable with other European countries. It differs from the CPI in the composition of the basket of goods, most notably in its treatment of housing costs. As such, the two rates tend to diverge during periods of changing interest rates as they affect imputed mortgage costs.

Inflation dynamics this year have been shaped to a large degree by the significant increase in energy prices as a result of the conflict in the Middle East. In the period following an energy price shock, spillovers into price increases in other areas is cause for concern. Lane (2026) summarises the channels through which this can occur beyond the direct impact on consumer energy prices:

- Indirect cost effects: Higher energy prices being to impact the cost base of other goods and services.
- Expectations: Higher prices can lead to an upward adjustment of consumer and firm expectations for future inflation.
- Wage/price dynamics: Higher expectations influence wage demands which can lead to more persistent inflation.

The second-round impacts have not appeared yet in the data as six months is a relatively short period of time for these mechanisms to translate into higher prices. The inflation rate for the overall CPI basket of goods and services excluding energy is 3.1 per cent, only slightly higher than the average for that measure of 2.9 per cent in the six months up to February. In addition, Figure 19 shows that the majority of the increase in the rate of inflation has come from the 'Housing, water, electricity, gas and fuel' category and the 'Transport' category. The 'Transport' category includes motor fuel.

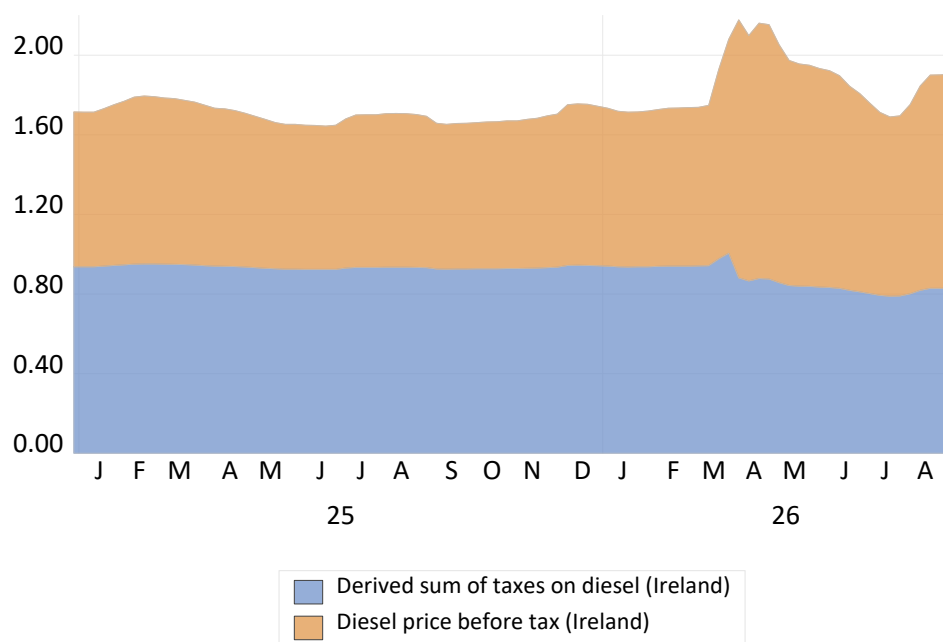
Figure 19 Contribution by category to CPI inflation

Source: CSO

In light of the contribution of energy to recent inflation, we consider the role of fiscal policy. Consumer prices reflect the increases in crude oil prices and in the refinement margin this year detailed in the 'International Outlook and external trade' section, but they also incorporate a combination of ad valorem and specific taxes.¹⁰ Policy changes in the form of cuts to excise duty on motor fuel have shielded consumers from the full impact of higher oil prices. However, the scale of the energy price shock and the short-term inelasticity of heating and transport technology to rising prices limit the impact of fiscal policy changes in the short term.

Figure 20 divides the final consumer price for diesel in Ireland into the taxation component and the final price before tax. The effect of the decrease in excise duty and in the NORA levy is clear in March of 2026, but its effect on the final consumer price is small in comparison with movements in the price before tax.

¹⁰ Specific taxes like excise duty or the National Oil Reserves Agency levy are applied per litre of fuel whereas an ad valorem tax like VAT is applied as a percentage of the price before tax.

Figure 20 Composition of final diesel price (€ per litre)

Source: European Commission: Weekly oil bulletin.

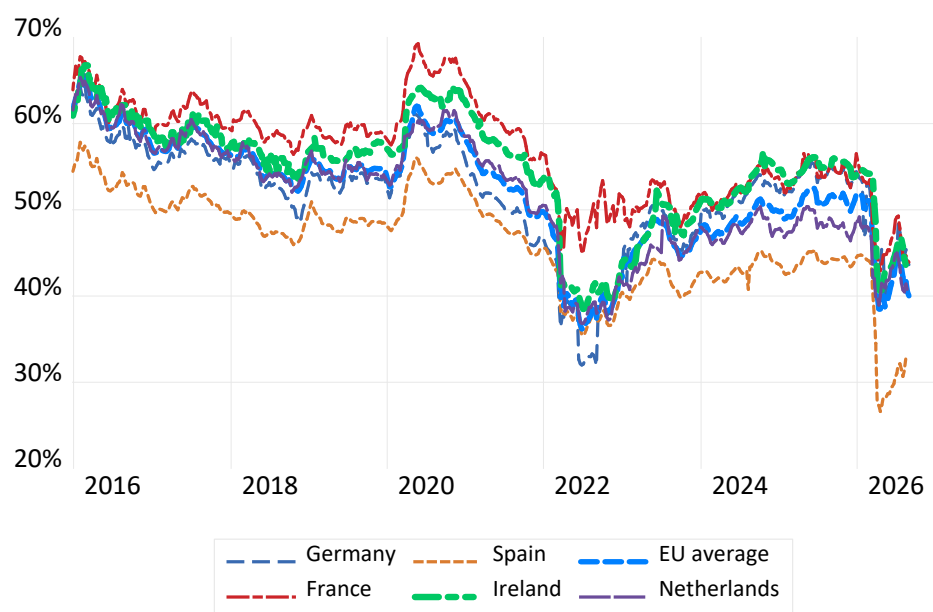
Notes: The sum of the two areas is equal to the consumer price for diesel. The derived sum of taxes is calculated from the European Commission data by subtracting the price before tax from the price after tax.

The nature of taxation on fuel means that the share of taxation in consumer prices varies depending on the level of prices. This can be true even without a direct policy change; simply because specific taxes do not vary with prices. For example, if the excise duty levied on a litre of diesel is 45.3 cents in Ireland, this will be a smaller share of the price if the final price is 190 cents rather than 160 cents.¹¹

Data from the European Commission's weekly oil bulletin shows a significant decrease in the share of tax in the final price across European countries in 2026. Some of this decrease reflects changes to tax rates or excise amounts, while a portion of it reflects the mechanical decrease to the share of taxes in the total if the price before tax is increasing and specific taxes are applied.

Figure 21 shows the share of taxes in the final price of diesel across five countries. The price spike in 2022 and 2023 illustrates the phenomenon described above. Although the share of taxes in the final price has typically been slightly higher in Ireland than the EU average, it behaves similarly over time. The decrease this year is in line with the other countries shown, though Spain is something of an outlier.

¹¹ In addition, VAT is levied on the purchase price inclusive of excise duty, so although it is an ad valorem tax, the base on which it is calculated contains a fixed component.

Figure 21 Share of tax in consumer price of diesel

Source: EU Weekly oil bulletin

The summer *Commentary* raised concerns around possible higher food prices towards the end of the year because of higher fuel prices. The current inflation rate for food and non-alcoholic beverages remains low at 0.7 per cent, in line with our expectations around the lagged effect of increased fuel prices.

In the intervening period, concerns have also been raised about the impact of global weather patterns in 2026 on food prices into 2027. Work published by the Bank of England in recent weeks traces the impact of unexpected weather shocks on UK food price inflation. This issue is particularly relevant in the context of the current strong El Nino weather phenomenon. Although food prices are influenced by a variety of factors, they find evidence of a meaningful impact of weather on food prices and that the impact is lagged by about 12 months (Rimmer et al., 2026).

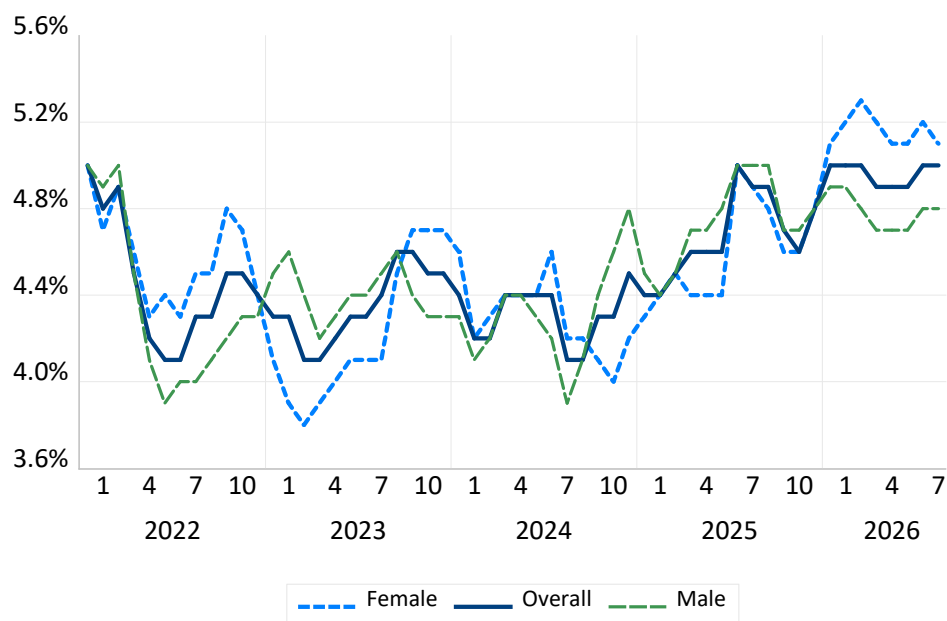
One of the key questions around weather-related shocks to food prices is whether they persist beyond the duration of the weather event. Prior analysis published by the Banque de France, which focused on floods, droughts and storms as well as high temperature events, suggests that most of the effects materialise within 1–2 years of the weather event. However, they raise concerns about the impact of more repeated or prolonged weather events on food prices (Wegner et al., 2025). Ireland's status as an importer of much of its food means that global food price shocks can be expected to pass through meaningfully to Irish consumer prices.

Overall, we expect inflation of 3.6 per cent in 2026 and 3.3 per cent in 2027.

Labour market

The unemployment rate is 5 per cent. Figure 22 shows that it has been trending upwards gradually over the past two years in a range between 4 and 5 per cent. In 2026, the female unemployment rate has been higher than the male rate.

Figure 22 Monthly unemployment rate, seasonally adjusted



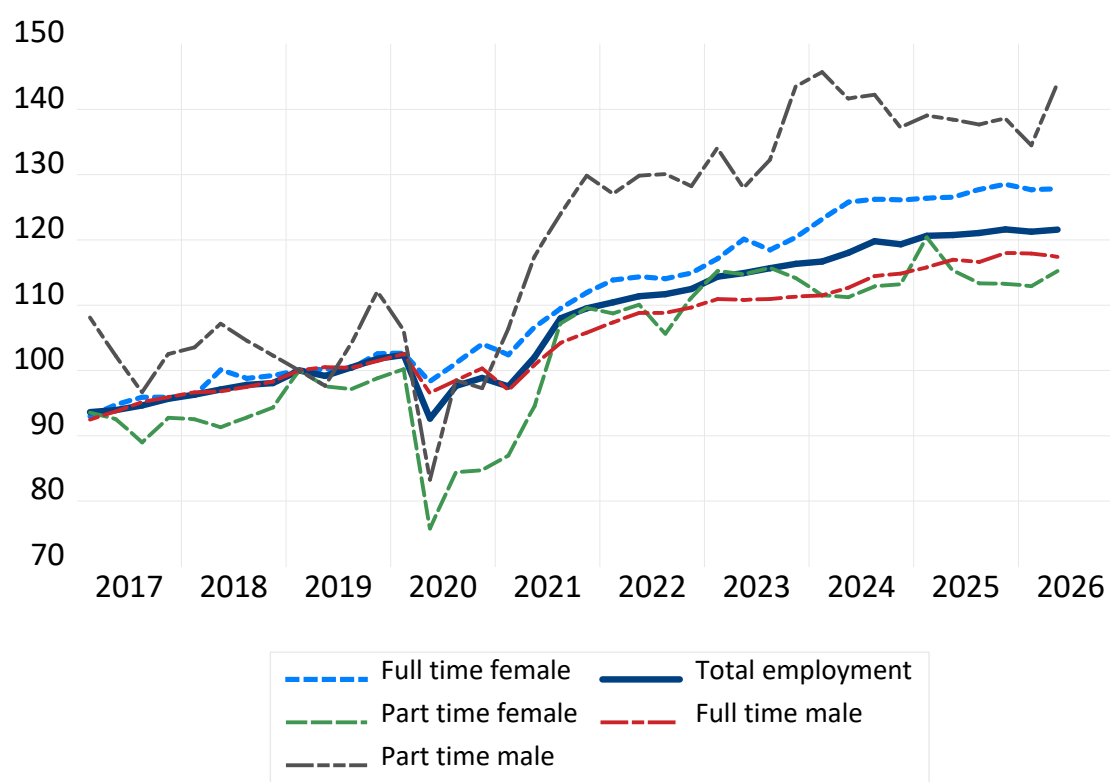
Source: CSO

Employment growth has slowed substantially after a period of robust growth since 2019. Comparing figures from the Labour Force Survey (LFS) for the first half of 2026 with the first half of 2025, employment growth has been 0.4 per cent. Analysis of the LFS microdata conducted by the Department of Finance showed that the slowdown in employment growth has been more pronounced among younger age cohorts and those with lower levels of education (Department of Finance, 2026b)

Figure 23 presents an index relative to 2019 of male and female workers by full-time and part-time status. Male part-time employment remains lower

than female part-time employment, though it has grown faster since 2019. As a result, the ratio of female part-time workers to male part-time workers has fallen from 2.5:1 to 2:1 since 2019. The opposite is true for full-time workers. There are fewer females in full-time employment than males, though the former category is growing faster, particularly since 2023.

Figure 23 Growth in employment (index, 2019 = 100)



Source: CSO Labour Force Survey.

Notes: The index chart allows for comparisons of each category with its own value in 2019. The chart does not show the current level of employment in each category. For context, the following table shows the values in 2019Q1 and 2026Q2:

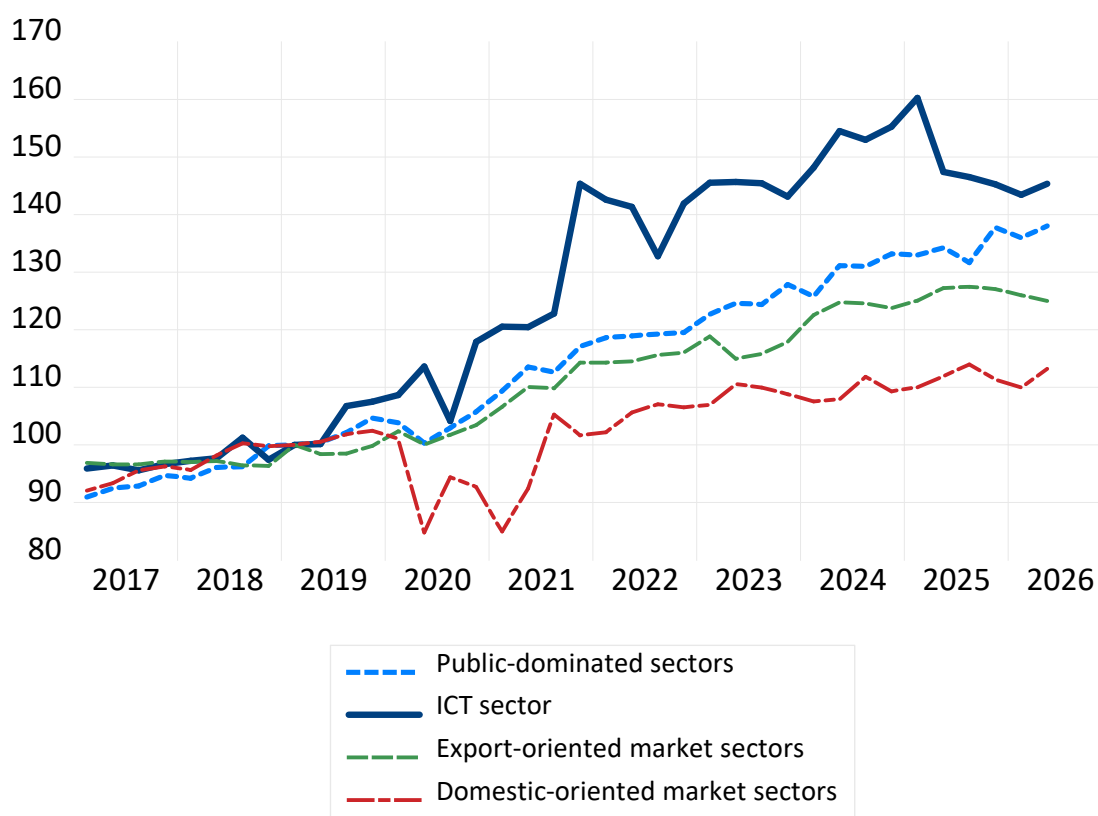
	Employment	Full time male	Full time female	Part time male	Part time female
2019, Q1	2,328	1,115	731	136	344
2026, Q2	2,831	1,309	934	195	396

Figure 24 shows how employment growth has differed across groups of NACE sectors. We distinguish between sectors where the public sector dominates employment and those that are market-oriented. We then break the market-oriented sectors down into those that are primarily export-oriented and the remainder that are more focused on the domestic market. We rely on the 2022 input-output tables to make this distinction, judging sectors with more than half of their output exported to be export-oriented. Firms operating in these sectors will respond to demand in overseas markets more

than firms in the domestic-oriented market sectors. The export-oriented sectors account for 20 per cent of total employment, but they account for 60 per cent of growth in net national income since 2013 (Fitzgerald and O'Shea, 2026). Within the export-oriented sectors, we further separate out the ICT sector to show the rapid increase in employment in the past decade and the subsequent decline in the last 12–18 months. Employment in this sector in Ireland is not easily explained by trends in demand for Irish exports as a whole, nor indeed by exports in the sector, which continue to grow strongly.

Employment growth in the public-dominated sectors saw eight years of growth rates typically in excess of 4 per cent per annum. However, there is evidence of a slowdown in employment growth in these sectors over the past 12 months. Growth in employment in health and education has remained strong; the slowdown in the group as a whole is driven by the public administration sector.

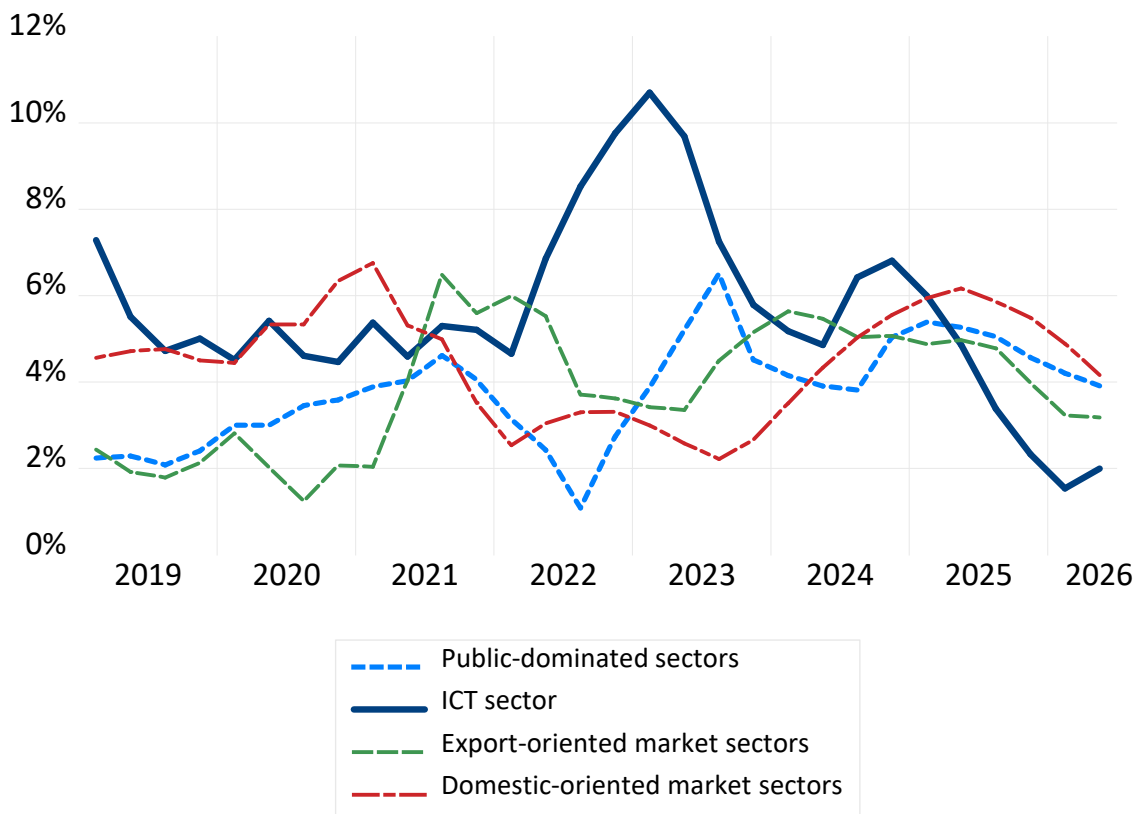
Overall, employment growth in the public-dominated sectors and in the sectors with active multinational firms has been strong, while employment growth in the domestic-oriented firms has been slower. Three sectors in this group have seen little to no growth in employment since 2019: wholesale and retail employment has been close to its current level since 2017, while accommodation and food, and admin and support, saw significant declines during the pandemic but rebounded only as far as their pre-pandemic level.

Figure 24 Employment by group of sectors, (index, 2019 = 100)

Source: CSO Labour Force Survey.

Notes: Public-dominated sectors consists of 'human health and social work activities'; 'education'; 'public administration and defence'; and 'compulsory social security'. Export-oriented market sectors consist of 'industry' and 'professional, scientific and technical activities'. Domestic-oriented market sectors consist of 'construction', 'accommodation and food service activities', 'financial and insurance activities', 'real estate activities', 'wholesale and retail trade'; 'repair of motor vehicles and motorcycles', 'transportation and storage', 'administrative and support service activities' and 'arts, entertainment and recreation'.

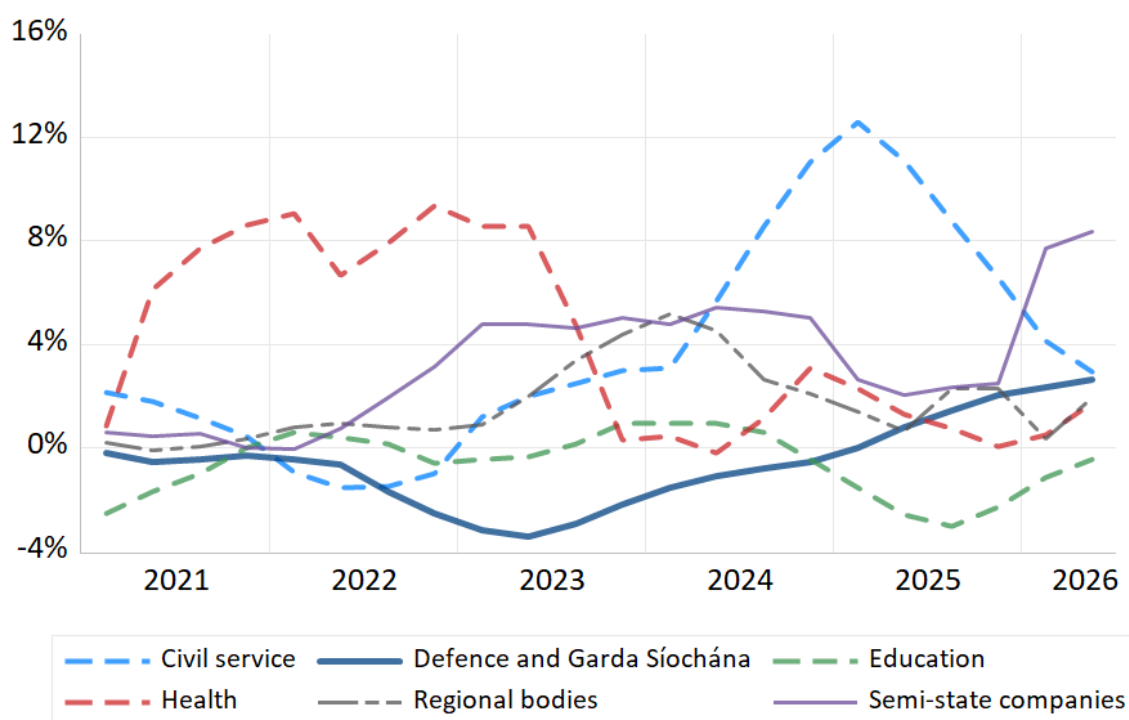
Figure 25 examines earnings growth among the same groups of sectors. It shows that nominal earnings growth for workers in the public-dominated sectors has been between 4 and 6 per cent in recent years. In the ICT sector, the recent falloff in employment discussed above now appears to have been accompanied by a slowdown in wage growth in the sector, with the latest data indicating earnings growth of c. 2 per cent in the past year. Earnings growth in the export-oriented sectors remains positive but shows signs of moderating. Earnings growth remains in the domestic-oriented sectors is close to 5 per cent.

Figure 25 Earnings growth by group of sectors, 4 quarter moving average

Source: CSO Earnings, Hours and Employment Costs Survey.

Notes: Public-dominated sectors consists of 'human health and social work activities'; 'education'; and 'public administration and defence' and 'compulsory social security'. Export-oriented market sectors consists of 'industry'; and 'professional, scientific and technical activities'. Domestic-oriented market sectors consists of 'construction'; 'accommodation and food service activities'; 'financial and insurance activities'; 'real estate activities'; 'wholesale and retail trade'; 'repair of motor vehicles and motorcycles'; 'transportation and storage'; 'administrative and support service activities'; and 'arts, entertainment and recreation'.

Department of Finance (2026b) outline differences in measures of public sector employment across various sources, pointing to the growing share of private sector employment in the public-dominated sectors of education and health. Data from the Earnings, Hours and Employment Costs Survey can provide additional insight on the nature of the growth in employment in the public sector. Figure 26 shows that employment growth was strongest in 'health' during the pandemic period, while growth in civil service employment was highest in 2024–2025. Growth in employment in An Garda Síochána and the Defence Forces has followed a recruitment effort in 2025.

Figure 26 Breakdown of growth in public sector employment, 4 quarter moving average

Source: CSO Earnings, Hours and Employment Costs Survey.

The labour force participation rate in Ireland has remained consistently high, averaging 66 per cent since 2022.¹² In this context, expansionary fiscal policy on a sustained basis during a period of robust economic growth could have been expected *ex ante* to lead to higher inflation. This period has also seen conflict-driven shocks to energy prices and, prior to that, supply-chain pressures following the pandemic period.¹³ In the Irish case, one mechanism that likely countered domestic inflationary pressures was the continued elasticity of labour supply through the inward migration channel.

Since 2022, 63 per cent of additional employment has been accounted for by non-Irish workers. At the outset of this period of employment growth coupled with expansionary fiscal policy, it would have been difficult to foresee the extent to which such an expansion of labour supply through

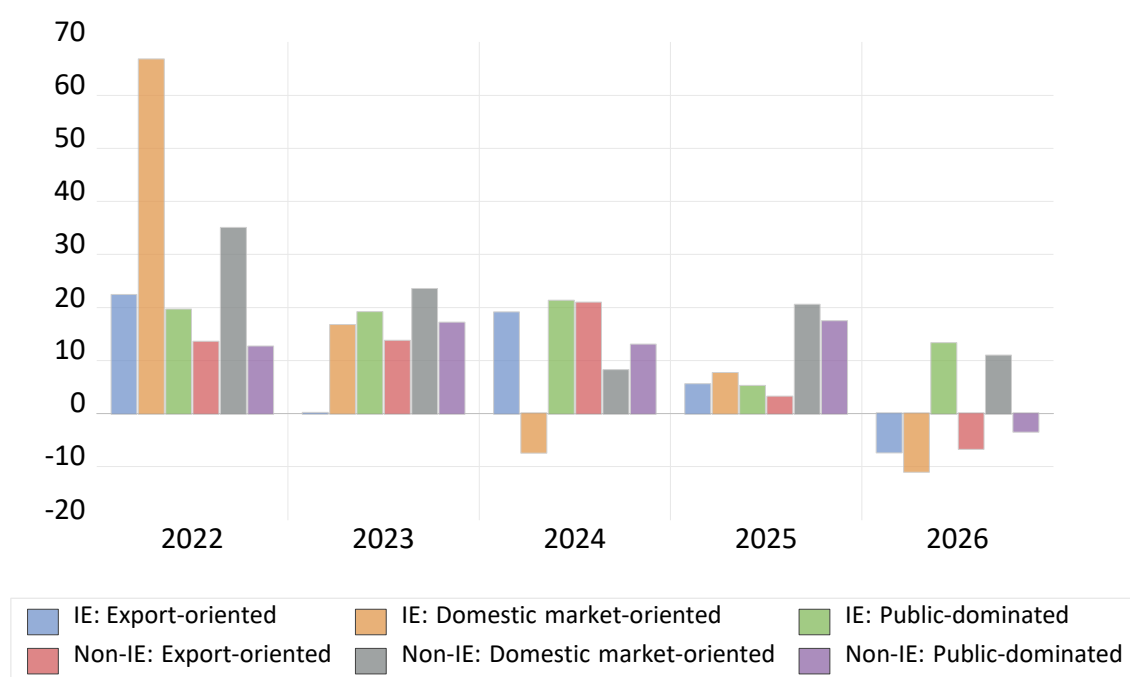
¹² Indeed, the participation rate across males and females and by age category is similarly stable. The two exceptions are seasonal variation displayed by younger workers and some evidence of an age cohort effect displayed by older female workers. Younger workers tend to be available for work more during the summer and less during the winter, while their participation rates for older female workers continue to rise as cohorts with greater labour force attachment reach these age groups. The latter phenomenon was explored in more detail in the spring 2025 *Commentary*.

¹³ Disentangling the supply- and demand-side drivers of inflation in this decade has attracted much attention, both in the US (Arias et al., 2026) and in the euro area (Ascari et al., 2026).

that channel was possible. In the five years up to 2019, non-Irish workers accounted for 28.2 per cent of additional jobs.

This phenomenon is not limited to the Irish case, though it is particularly evident here. The ECB describes how increases in non-EU employment is a function of both 'substantial inflows of workers from non-EU countries and their increased participation in the labour force'. (Consolo et al., 2026) Figure 27 shows significant variation over time in the sectors in which Irish and non-Irish additional employment occurred.

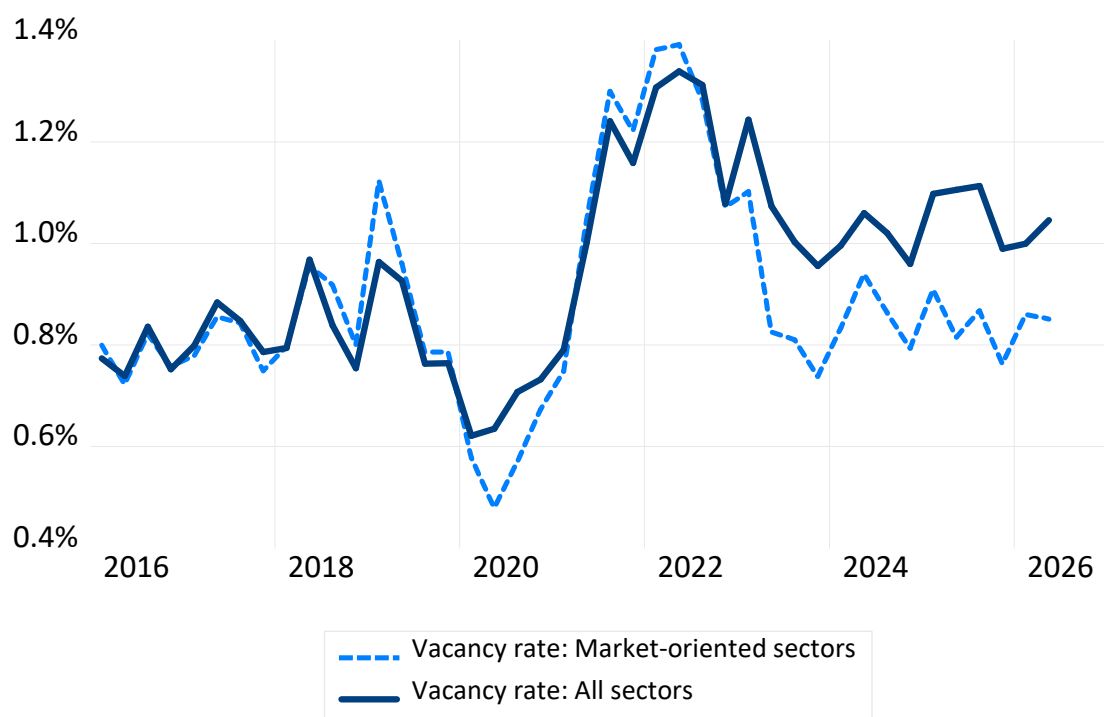
Figure 27 Additional employment (thousands) by group of sectors and citizenship



Source: CSO Labour force Survey.

Notes: Groups of sectors are described in the text above and in the notes to Figure 24. In the current figure, the ICT sector is not separated out from the other export-oriented sectors. Annual average of quarterly data. 2026 includes first two quarters only.

The job vacancy rate is equal to the ratio of vacancies to the sum of employment and vacancies. The headline job vacancy rate is above 1 per cent but it remains close to its pre-pandemic level when the focus is placed on market-oriented sectors.

Figure 28 Job vacancy rate

Source: CSO Earnings, Hours and Employment Costs Survey and Labour Force Survey.

Our forecast for the unemployment rate is 5.0 per cent and 5.1 per cent in 2026 and 2027 respectively. We expect employment growth of 0.8 per cent and 1.7 per cent in 2026 and 2027.

Public finances

The Department of Finance's Fiscal Monitor August 2026 provides valuable insights into the recent trajectory of the public finances, so we present some of its key points here. In Table 2, we consider the changes across the major tax headings for the eight months up to the end of August 2026 relative to the same period in 2025, and compare the percentage changes with what was forecast in Budget 2026.¹⁴

Table 2 Changes in major tax categories

Tax head	Amount collected	Change (€)	Change (%)	Forecast change
Income Tax	24990	1782	7.7%	6.3%
Value Added Tax	16341	1110	7.3%	2.1%
Excise Duty	3944	-302	-7.1%	3.6%
Corporation Tax	17804	1382	8.4%	5.8%
Stamps	1122	-25	-2.2%	-0.8%
Total tax revenue	66278	3900	6.3%	4.4%

Source: Department of Finance Fiscal Monitor August 2026.

In Budget 2026, total tax revenues were forecast to increase by 4.4 per cent this year relative to 2025, and it can be seen in the table that the current pace of growth at 6.3 per cent is exceeding that forecast. This growth appears to be broadly based in that the three largest heads (which make up almost 90 per cent of all tax revenue) are each growing strongly and at rates that exceed the Budget 2026 forecast. The growth figures for income tax (+7.7 per cent) and VAT (+7.3 per cent) point to buoyancy in the labour market and in spending across the economy. The corporation tax increase (+8.4 per cent) follows the trend of recent years with the strong performance this year to date also reflecting the top-up payments under Pillar 2 of international corporate tax rule changes.

A notable point in the table is the fall in excise duty receipts. This is related to the changes in fuel duties that were introduced and extended over the course of the year. Excise duties are €300 million lower compared to the first

¹⁴ The figures exclude payments related to the Court of Justice of the European Union decision in the Apple case.

eight months of 2025. Based on the anticipated growth rate from Budget 2026 (3.6 per cent), expected excise revenues would have been €4.4 billion, suggesting a shortfall in excise revenues of €454 million in the year to date. If we assume that excise duties, all else equal, would have outperformed the Budget 2026 forecast at a rate similar to income tax and VAT, then the reduction in revenue would be greater again.

Despite the revenue loss due to the cost-of-living measures, it is clear that tax yields remain strong, at least at a headline level. The points that we, and others, have been making for some time on the possible fragility of the tax base remain valid. First, we remain concerned about the heavy reliance on corporate taxes, half of which is windfall in nature and much of which is paid by a narrow base of companies. A second strand of potential fragility relates to the high concentration of high-paid employees in the foreign-owned sectors and hence the high levels of income tax paid. A third issue, less often discussed, is the possibility that although the strong growth in income taxes and VAT suggest a broader base of tax-yielding activity, it could be that the spending of corporate taxes by the Government is boosting employment, wages and spending. In essence, the spending of the corporate tax revenues could be producing second-round and multiplier effects on employment and spending; hence the associated revenues. In this way, the growth in income tax and VAT revenues are not necessarily independent of the corporate tax yield and so the apparent breadth of revenue growth could be more concentrated, thereby compounding concerns about tax base fragility.

In Table 3, we turn to the expenditure side of the public finances and show how spending (net voted) has been trending across departments over the first eight months of the year.

Table 3 Current expenditure by Vote group, spend to end August 2026

Vote group	Spend to end August	Year-on-Year % growth	Projected full year growth from the Estimates
Health	17,598	8.9%	5.0%
Social Protection	9,458	7.4%	6.0%
Education	7,679	7.6%	12.0%
Children, Disability, Equality	4,449	11.2%	11.1%
Justice	3,486	-3.5%	5.0%
Housing	2,401	14.0%	8.6%
Further and Higher Education	1,955	12.6%	5.6%
Public Expenditure	996	116.2%	135.3%
Transport	878	8.7%	17.7%
Foreign Affairs	852	12.5%	-7.0%
Agriculture	743	19.9%	7.6%
Defence	731	4.8%	8.0%
Finance	418	13.6%	13.6%
Culture, Communications	368	9.8%	10.1%
Enterprise	333	4.7%	10.5%
Rural and Community	204	3.1%	22.5%
Taoiseach's	204	11.0%	17.3%
Climate, Energy	140	-8.3%	11.7%
Total current	52,805	9.1%	8.4%
Total capital	8,790	3.8%	17.4%

Source: Department of Finance Fiscal Monitor August 2026.

Focusing initially on the last two rows of the table, a contrasting trajectory between current and capital spending is evident. Current expenditure is 9.1 per cent higher in the first eight months of 2026 compared to 2025. When set against the projection in the Estimates that current spending would rise by 8.4 per cent, this suggests that the State is on track to record spending overruns again this year. Based on recent experience whereby spending is not brought back to target in the closing months of the year, the overrun will have implications for the base on which spending increases in Budget 2027 are predicated.

Looking across the largest spending departments, it can be seen that health expenditure is 8.9 per cent higher in the first eight months of this year compared to last. This is substantially higher than the full-year estimate of 5 per cent. The Department of Social Protection is also showing an increase which exceeds the full-year estimate (7.4 per cent versus 6 per cent). In the case of education, the rate of increase is below that for the full year

but spending overruns in this department have been flagged previously so the underspend to date will, we assume, be eliminated. Although the Department of Climate has a proportionately large underspend, its current budget allocation is small relative to its capital allocation and relative to other departments so the impact of the underspend on the overall figures is limited.

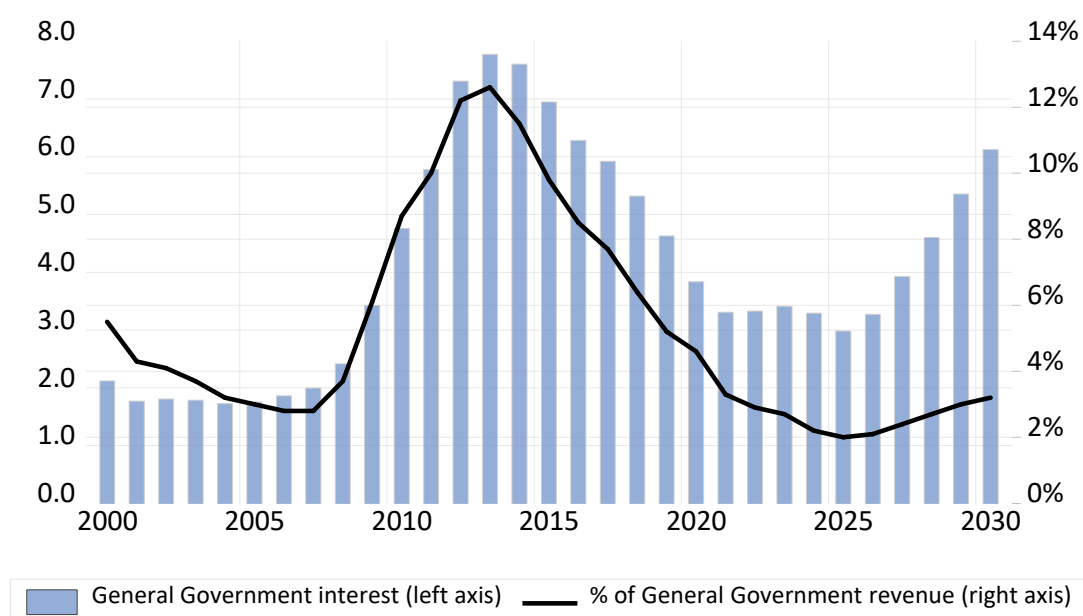
Capital spending is 3.8 per cent higher to date in 2026 compared to the same period in 2025, and this rate of increase is substantially below the full-year projection of 17.4 per cent. It is always important to stress that capital expenditure can be 'lumpy' in nature and that spending can ramp up quickly when large-scale projects are commenced. But having said that, in the context of efforts to accelerate infrastructural delivery, this underspend so far in 2026 is concerning. Data presented in the Fiscal Monitor (but not presented in the table above) show that capital spending in the Department of Housing grew by 3.2 per cent in the first eight months of 2026 compared to 2025. This is low relative to the full-year estimate of an increase of 23.7 per cent. The data in the Fiscal Monitor also show capital spending in the Department of Housing running behind the projected profile for the year (€608 million below, or 15.8 per cent).

In recent weeks, the yields on government bonds in a number of major economies have been increasing. We will discuss this in the General Assessment below but it is useful here to present data from the National Treasury Management Agency (NTMA) on trends in debt interest, including projections. It can be seen in the figure that debt interest payments have fallen from the highs of the crisis/post-crisis period in both euros and as a share of general government revenue. The payments peaked in 2013 at 12.6 per cent of general government revenue and fell to 2 per cent last year, 2025.

Based on the NTMA/Department of Finance projections from April last, 2025 will have been the low point in debt interest payments, and we are likely to see an upward drift for the remainder of the decade. This projected trend is largely due to a change in the structure of Ireland's debt. As older, lower interest debt is redeemed and newer, higher interest debt is added to the stock on debt, there is a rise in the effective interest rate. According to the Department of Finance's *Annual progress report* (2026), the effective interest rate will rise from 1.4 per cent in 2025 to 2.6 per cent in 2030. The debt ratio is projected to fall from 61.4 per cent of modified gross national income (GNI*) in 2025 to 54 per cent in 2030 but this fall will not be sufficient to counteract the interest rate effect and interest payments are projected to

rise in euros and as a percentage of general government revenue, reaching 3.2 per cent in 2030.

Figure 29 Interest payments (€, bn) and as percentage of general government revenue



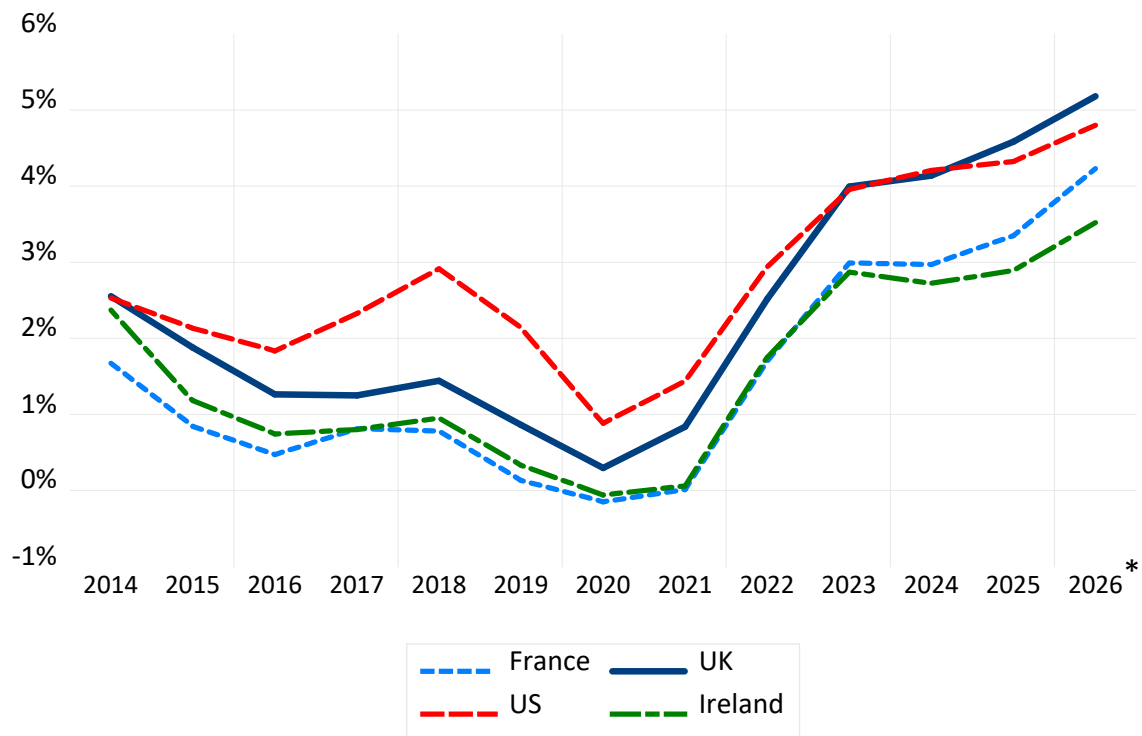
Source: National Treasury Management Agency

This projected increase in interest payments – from close to €3 billion in 2025 to just over €6 billion in 2030 – is not insubstantial. Ireland has experienced rate increases since these figures were produced – the 10-year yield on Irish government debt was 3.27 per cent on 1 April and 3.48 per cent on 1 September. Hence, the projections in Figure 29 might understate the interest rate payments rise. If recent rises in bond yields across countries becomes more entrenched and spreads to Irish yields, the projection might prove to be an even greater underestimate. The key issue is not one of debt sustainability and immediate financing pressures but rather the gradual erosion of fiscal space as higher borrowing costs feed through over time. With the debt ratio on a downward path for some time (with the exception of the COVID period), this element of the public finances has received less attention in recent times, but past experience has shown how a positive debt position can be reversed quickly.

Uncertainties heighten pressure on governments with public finance weaknesses

In recent weeks, more attention has been drawn to another potentially destabilising trend for the global economy: increasing yields on government bonds (and hence the cost of government borrowing) for some major economies and the factors underpinning these increases. The increase in attention was partly due to actions on the part of the US Treasury in August when they engaged in a buy-back programme for long-dated debt in an effort to dampen yields.¹⁵ In Figure 30, we show the 10-year bond yields for the US, the UK and France (along with Ireland) from 2014 to the present. We should note that the values for 2014 to 2025 are annual averages and the figure for 2026 is the yield on 9 September. It can be seen in the figure that yields had been increasing since the pandemic period but seemed to plateau between 2023 and 2025. For France, the yield hovered between 3 and 3.5 per cent between 2023 and 2025; for the UK and the US, the yield was in a 4–4.5 per cent range over this period. But these economies have seen yields increase to 4.23 (France), 4.8 (US) and 5.18 (UK) in 2026.

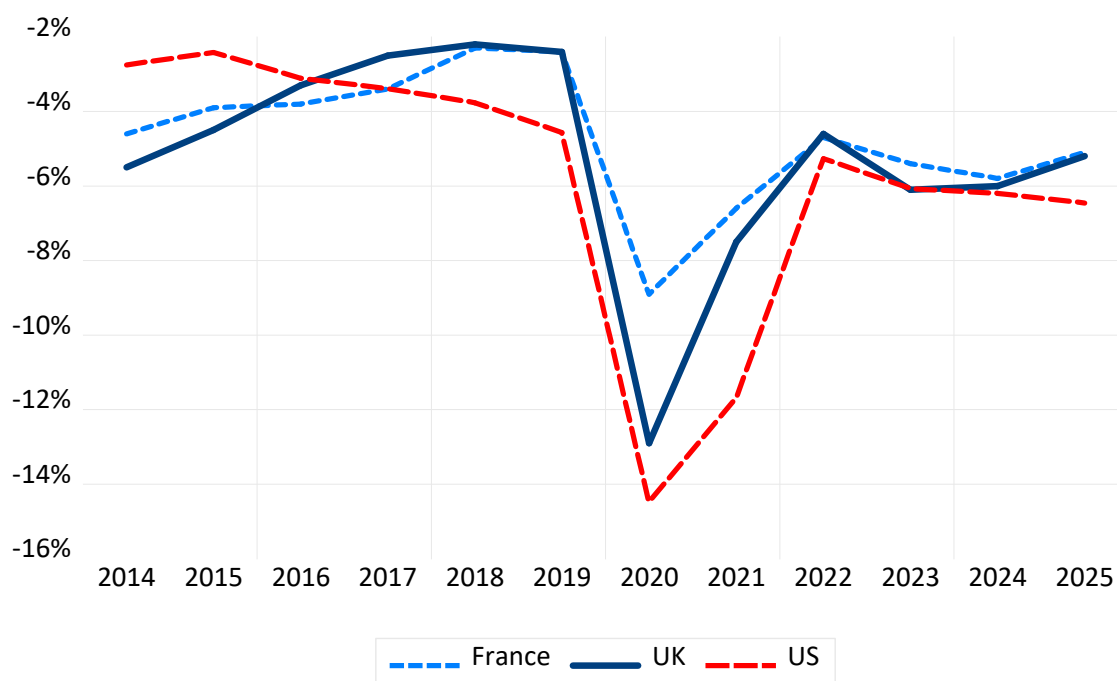
¹⁵ Also in August, the US Treasury assisted the Japanese authorities in supporting the yen by selling euro, thereby avoiding the need for a sale of US Treasuries by Japan.

Figure 30 10-year bond yields for selected economies

* 2026 figure shows yields as of 9th September

Source: Eurostat, Bank of England, Federal Reserve, TradingEconomics.

A number of reasons have been advanced in order to explain these rises. One reason is the perceived looseness of fiscal policy across the three countries shown in Figure 30 and, perhaps more importantly, a lack of confidence on the part of investors in the capacity of governments to reverse this fiscal stance. In Figure 31, we show the fiscal positions across these countries since 2014. It can be seen that none of the three countries has run a balanced budget or surplus over the period in the figure and that deficits since 2022 have been relatively large, in the region of 5 per cent of GDP.

Figure 31 Fiscal deficits as a percentage of GDP for the UK, US and France 2014 to 2025

Source: Eurostat, ONS, Federal Reserve.

As expected, the run of fiscal deficits on the part of the UK, the US and France has led to increases in their debt to GDP ratios. For France, the ratio rose from 96 in 2014 to 116 in 2025. The corresponding figures for the UK are 87 and 102; for the US, the figures are 101 and 120. The US national debt moved over the \$40 trillion mark in August and that month also saw the US Treasury purchasing back long-term debt in an effort to reduce yields.

Other factors are likely to lie behind the bond yield increase. Investors appear to hold elevated inflation expectations for which they seek compensation. As with fiscal policy and the capacity of governments to change course, concerns are sometimes expressed about the capacity of central banks to tighten monetary policy in the face of inflation if government debt is high and interest rate increases add to fiscal pressures.¹⁶ The demand for funds to finance massive AI investments has introduced a competitor for funds.

¹⁶ The term 'fiscal dominance' is sometimes used to describe this situation.

General assessment

Steady domestic growth but Ireland caught in global cross currents

It has been a recurring theme in recent *Commentaries* that our narrative contains elements of both optimism and caution. The optimism is based on the continued good performance of the economy, in spite of the headwinds such as elevated rates of inflation, expectations of interest rate increases and geopolitical uncertainty. Employment grew by 0.8 per cent in the year to Q2 2026 and now stands at 2,839,300. While the rate of unemployment has increased in the last 12 months, rising from 4.8 per cent in Q2 2025 to 5.1 per cent in Q2 2026, this is still a low rate by international and historic standards. Strong VAT returns (+7.3 per cent) and consumption growth in the first half of the year (+0.8 per cent in Q1 and 1 per cent in Q2) also indicate positive underlying momentum in the economy.

As regards caution, our views on the likely future path of the economy continue to be tempered by the potential fragility of the public finances and some concerning features of the global economy. The headline public finance figures disguise vulnerabilities, namely, the unusually high share of corporate taxes in total revenues, the high proportion of corporate taxes that are windfall in nature and the low number of companies paying a high share of the corporate taxes. These issues have been discussed at length by ourselves and others, and so are well known and well understood.

These vulnerabilities in the public finances would always be concerning but in the context of some troubling features of the global economy, the concerns become elevated. The global economy is being presently pulled between two major cross currents. First, the conflict involving the US, Israel and Iran has re-escalated in recent days, which has led in turn to oil prices increasing, with Brent crude reaching €100 per barrel at the time of writing. This brings back the prospect of higher inflation rates for a prolonged period and the near certainty of interest rates rises. Trade wars have also re-surfaced in the form of a dispute between the US and Canada, serving as a reminder of the willingness of the US administration to disrupt existing trade agreements.

Second, the major increase in capital expenditures globally on AI-related technology and hardware has provided a timely upside boost for global fortunes (IMF, 2026). As countries continue to expand the use of AI, capital expenditures on the infrastructure needed to run the AI economy, such as data centres, chips and energy production, have increased considerably. As a globally integrated economy, with a large technology sector, Ireland is well placed to experience upside effects from this AI rollout, impacting investment and exports in particular.

However, notable downside risks remain and these reinforce the existing vulnerabilities to the public finances and wider economy from the reliance on multinational corporations. These risks are threefold. First, on the broadest scale, the investments in AI-related activities may not generate returns that meet expectations and this may have knock-on effects on corporate earnings and employment in the related sectors. Second, technology-related employment may be more sensitive to AI replacement in a knowledge-based economy like Ireland; thus near term displacement could occur to jobs. Third, the interaction of heightened geopolitical tensions and a further disruption to energy markets could put additional pressures on households and firms. This could lead to increased short-term demands for policy protection, which is likely reliant on the uncertain and windfall revenues of multinationals.

International borrowing costs rise strengthening need for fiscal buffers

As noted in the public finances section of this *Commentary*, international borrowing costs are rising, in particular for those economies with pre-existing fiscal vulnerabilities – high debt levels, large and persistent deficits, and low growth out-turns. The potential implications for Ireland of this mix of large fiscal deficits, growing national indebtedness and increasing bond yields across a number of countries are not necessarily all known and understood. It will be recalled that the first signs of the global financial crisis occurred in US private debt markets, exposing international credit market vulnerabilities and showing how high indebtedness among euro members compounded the difficulties. While we are not drawing such a conclusion here at the present time, the high level of public debt in the US is raising concerns in markets and at the Treasury. Of more immediate concern for Ireland is the possibility that a generalised increase in bond yields will include Ireland. To some extent, this is already visible: while Irish rates remain below those of the other countries shown, they are also on an upward path.

Given the concerns noted above about the fragility of Ireland's public finances and the prominence of these issues in the public debate, it is perhaps surprising that Ireland's longer term debt is priced so favourably compared to other countries. If investors internationally interrogate public debt more forensically in the coming months and years, the vulnerabilities built into our economy and government revenues may require a higher risk premium.

Budget decisions must trade off domestic challenges and international risks

Budget 2027 will be announced on 6 October 2027 but some of the key parameters have already been announced in the Summer Economic Statement.¹⁷ The overall budget package is set out at €8.5 billion, with €7 billion in increased expenditure and €1.5 billion in tax reductions. The expenditure increase amounts to 5.9 per cent over the revised 2026 ceiling. At one level, these figures seem reasonable in terms of prudent fiscal management, but we would add some notes of caution. First, although a package of €8.5 billion will be consistent with maintaining a general government surplus, when account is taken of the windfall corporation tax a deficit emerges. As argued previously, this strikes us as being at odds with prudent fiscal management, especially where windfall revenues are used to fund recurrent expenditures. Second, an increase of 5.9 per cent on the 2026 expenditure base loses meaning if spending overruns in 2026 become part of the actual opening position in 2027; this is compounded if there are spending overruns in 2027. The important point here is to have credible fiscal plans and to adhere to them, in line with the thinking set out in the Medium-Term Fiscal and Structural Plan, which was published in December 2025.¹⁸ Third, fiscal policy should always aim to be counter-cyclical. The fiscal stance should be set so that fiscal buffers are built up in good times, dampening demand in the economy in the process and alleviating inflationary pressures. The fiscal buffers can then be released in bad times, adding to aggregate demand in a way that supports jobs and incomes. Irish fiscal policy has rarely (if ever) been operated in this manner and policy currently is highly pro-cyclical. We would recommend that Budget 2027 be characterised by caution whereby a larger headline surplus is targeted this year and a path set for a reduction in the windfall-adjusted deficit over time. The Budget also needs to maintain a buffer to accommodate pay increases under the next national pay agreement. Raising expenditure ceilings to accommodate any agreement would continue a pattern of

¹⁷ See <https://assets.gov.ie/static/documents/965beb0a/Summer>

¹⁸ See <https://www.gov.ie/en/department-of-finance/publications/medium-term-fiscal-and-structural-plan-december-2025/>.

overspending relative to announced plans, undermining prudent fiscal management.

While we urge a high degree of caution in managing the public finances, this does not mean that specific needs cannot be addressed. But sound fiscal management does imply targeted approaches should be employed where possible. In that context, we would highlight a long-standing proposal from colleagues aimed at reducing child-poverty. Roantree and Doorley (2023) estimated that a second, mean-tested tier of child benefit could lift 40,000 children out of poverty at a cost of just under €700 million. When set against the benefit which higher income households are currently experiencing from reduced rate of excise on fuel, the value of targeted measures as set out by Roantree and Doorley seem clear.

We have previously written about the disadvantages of reduced excise taxes as a cost-of-living measure, mainly due to the untargeted nature of this approach. A second disadvantage arises from the reduced incentive to move away from fossil fuels, which the price signal provides. In the long run, the best way to protect businesses and households from swings in fossil fuel prices is to assist in decarbonising. Such switching is prohibitively costly for many smaller businesses and lower income households so the importance of targeting also holds in the case of this policy lever.

Focus on capital expenditure to address underlying deficits and boost productive capacity

A long-standing theme of the *Commentary* has been the requirement to deploy capital to address well known challenges in housing, healthcare, energy production and broader infrastructure. Sustaining capital expenditure throughout the economic cycle will be critical to supporting long-term growth prospects. The investment data explored in this *Commentary* lay bare the continued dominance of multinationals in investment activities and the continued challenge in increasing capital outlays by Government. Indeed, domestic firms are also shown to have lower growth in capital expenditures, which is likely to limit their productivity in the medium term Gargan et al. (2024). Thus the vulnerability in the Irish economy of the over-reliance on multinationals appears to be continuing based on capital expenditure trends. Ensuring the deployment of capital by Government and domestic firms is critical to building a resilient economic structure and will help position Ireland to battle shifting global sands.

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