AVIVA

Budget 2027 Commentary

with Jim Power, Economist



Introduction to Budget 2027

Coming into any budget, there are always constraints, challenges and uncertainties. Budget 2027 was presented against a background of a resilient economic performance; strong growth in tax revenues in the first 9 months of the year, which raised expectations; high and rising inflation; significantly elevated energy costs; rising interest rates; and significant global geo-political turmoil and uncertainty.

In framing the budget, there was a commitment to restrain growth in overall spending to 6%, but most, if not all departments were looking for allocations more than that growth rate. The elevated level of energy costs posed a major challenge for the Government earlier in the year, with a series of national protests that caused serious disruption. Energy prices have continued to rise since those protests, as the war in Iran and the Gulf region continues. The public sector unions have initiated industrial action in their quest for significant wage increases. These factors and more combined to create a challenging task for both ministers. It was never going to happen that everyone would be pleased with the offering.

The Summer Economic Statement (July 22nd, 2026) committed to a total budget package of €8.5 billion, with a spending package of €7 billion and a taxation package of €1.5 billion. Of the €7 billion spending package, which is equivalent to growth of 6% in public spending, current expenditure was pencilled in to increase by €5.9 billion, and capital expenditure to increase by €1.1 billion. On Budget Day, the tax package was lifted by €150 million to €1.65 billion and expenditure to €7.1 billion. This increase in tax package is to take account of measures to address the cost of energy.

In framing Budget 2027, the Government laid out several priorities that it sought to address. These include:

- Addressing the cost-of-living pressures and providing energy security as we move into the winter with energy prices still very elevated.
- The housing challenge.
- The childcare challenge.
- Support for those with disability.
- Making work pay - In Budget 2026, tax credits and allowances were not adjusted for inflation, which did not land well. Coming into this year's budget, the Government had committed to addressing take-home pay for workers.

It was never possible that a single budget would address all these issues in a meaningful way, and that is exactly how it turned out.

Key measures in budget 2027

Taxation

- The standard rate threshold at which all workers enter the higher tax rate bracket has been increased by €2,500 to €46,500 and from €53,000 to €55,500 for a couple where one is working.
- Personal, employee and earned income tax credits have been increased by €125 to €2,125; and the home carer tax credit has been increased by €100 from €1,950 to €2,050.
- The ceiling for the 2% rate of USC has been lifted by €1,600 or 5.6% to €30,300 to prevent minimum wage earners from moving into the higher rate bracket following the 5.6% increase in the minimum wage.

- The employer PRSI threshold increased from €552 to €600 per week for 2027.
- The Category A tax-free threshold for inheritance tax from parents to children increased by €20,000 to €420,000; the Category B threshold increased by €4,000 to €44,000; and the Category C threshold increased by €2,000 to €22,000.
- The amount of tax-free income that can be earned by those who mind children in the home increased from €15,000 to €20,000. In addition, the limit on the number of children who may be cared for while a qualifying childminder claims the relief is being removed, subject to compliance with prevailing regulatory requirements.
- The restoration of excise on petrol and diesel, due to begin on November 1st, is postponed until March 1st, 2027.
- The carbon tax rate per tonne for home heating oil and gas has been cut to €48.50 per tonne. There will not be any further increase in the carbon tax on gas and home heating oil during the lifetime of this government.
- A 7% derelict property tax, to replace the current derelict sites levy will be introduced.
- The renter's tax credit is being increased to €1,150 for a single person and €2,300 for a couple. The increased value applies to 2027 and 2028 tax years.
- The help-to-buy scheme to increase by €5,000 to €35,000.
- The tax-free sum of €14,000 under the rent-a-room scheme is being lifted to €16,000.
- The bank levy has been rolled over for another year, which will raise €200 million.
- The tax on cigarettes increased by €1 per pack of 20, and vapes increased by 20c per ml.
- The standard rate of Capital Gains Tax (CGT) in Section 28(3) of the TCA 1997 is being reduced from 33% to 31%. This reduction applies in respect of disposals made on or after 7th October 2026. There will be no change to the 33% rate which applies to the disposal of development land in Section 649A of the TCA 1997.
- Following the review of the Research and Development (R&D) tax credit undertaken last year and continuing work undertaken in line with plans set out in the Research & Development Tax Credit and Innovation Compass, a number of enhancements to the R&D tax credit are being introduced in Budget 2027.
- Knowledge Development Box (KDB) relief to be extended to 1st January 2032 with an option for existing claimant companies to elect out of the KDB regime. The option to opt out of the regime will be available for a limited time subject to specific conditions being met.
- The Relief from Tax for certain Start-Up Companies (Section 486C start-up relief) is being extended by four years to 31st December 2030. It provides new start-up companies with relief from corporation tax on trading income (and certain capital gains) in respect of their first five years of trading. The relief is available in full where a company's corporation tax liability is less than €40,000, with marginal relief available in respect of liabilities up to €60,000. It is also capped by reference to certain PRSI paid by the company, to ensure a link to the generation of employment.
- The Relief for Investment in Corporate Trades comprises the Employment Investment Incentive (EII), the Start-Up Capital Incentive (SCI), and the Start-Up Relief for Entrepreneurs (SURE) provide income tax relief for risk capital investments in qualifying small and medium enterprises. The reliefs are State aid that operate under the General Block Exemption Regulation (GBER). The GBER is currently being revised and the adoption of the new GBER is planned for the end of 2026, with entry into force scheduled for 1st January 2027. Subject to the adoption of the new GBER, it is intended to extend the reliefs in their current format.
- The Capital Gains Tax Relief for Investment in Innovative Enterprises, also known as Angel Investor Relief, is targeted at encouraging business angel investment in innovative start-ups. The relief operates in compliance with the GBER. A new GBER is expected to be adopted by the end of 2026 with entry into force scheduled for 1st January 2027. Subject to the adoption of the new GBER, it is intended to extend the relief in its current format.
- Budget 2027 will provide for the following administrative changes to preliminary corporation tax requirements, to reduce uncertainty and improve flexibility for companies: An extension to the current limited top-up mechanism, to provide that preliminary tax requirements are satisfied where at least 80% of the current year liability has been paid by the final preliminary tax instalment date and a top-up payment to reach 100% of the liability is made within four months of the end of the accounting period.

- Removal of a 45% deeming provision, such that an underpayment of the second instalment of preliminary tax does not result in a deemed underpayment of the first instalment, where the first instalment payment was not of an amount at least equal to 50% of the prior year liability.
- An increase in the small company threshold from €200,000 to €350,000. This is the threshold, referring to corporation tax liability of the prior year, up to which a company is considered to be a 'small company' and therefore subject to less onerous preliminary tax requirements.
- The Farmer's Flat Rate Payment compensates farmers who opt not to register for the VAT incurred on their purchases. It is revised every Budget and is derived from a calculated average of VAT costs based on macroeconomic data collected from the CSO and Revenue over the preceding three years. The rate for 2027 will be 4.8% (4.5% in 2025).
- The Vehicle Registration Tax (VRT) relief for electric vehicles (EVs), which was due to end on 31st December 2026, is being extended for two years to end 2028.
- From 1st January 2027, the Category A Vehicle Registration Tax percentage rates, used to calculate the CO2 component of the charge, are being increased. The percentage rates applicable to bands 3 to 20 inclusive (cars with CO2 emissions of more than 80g/km and upwards) are being increased by 1%. The rates applicable to bands 1 and 2 will remain unchanged.
- Finance (No. 2) Bill 2026 will legislate to revise the current age-related valuation factors which are applied to value Defined Benefit pension entitlements for the purposes of the Standard Fund Threshold. This change will apply from 1 January 2027 and will result in the application of a range of revised factors.
- The Government introduced a VAT Compensation Scheme for Charities in Budget 2018 to reduce the VAT burden on charities through a partial compensation for VAT paid. Under the Scheme, Charities are entitled to claim a refund of a proportion of their VAT costs based on their level of non-public funding. The total annual capped fund was €5 million initially, and was raised to €10 million in Budget 2024, for payment under the Scheme. Where the total amount of eligible claims from all Charities in a year exceeds the capped amount, claims are paid on a pro-rata basis. This is being increased to €15 million for 2027.
- The time period for returning information under ERR is being amended to provide an option whereby taxpayers may choose to continue to report 'on or before' certain tax-free payments are made, or alternatively they may report the information by the 14th of the month following the income tax month in which the reportable benefit is provided to the employee. This change follows recommendations of the Cost of Doing Business Advisory Forum and will give more flexibility to these employers. The change will apply from 1st January 2027.

Savings and Investment

A number of changes were introduced in the savings and investment space, including details of the new account.

Taxation of Investments

- The rates of taxation that apply to investments in Irish domiciled funds and life assurance policies, other than those applying to companies, personal portfolio investment undertakings and personal portfolio life assurance policies are being reduced, as are the rates that apply to equivalent offshore funds and certain foreign life assurance policies.
- The rate of Investment Undertaking Tax (IUT), which applies to Irish domiciled Irish Collective Asset Management Vehicles (ICAVs), Authorised Investment Companies and Unit Trusts, is being reduced from 38% to 35%.
- The rate of Life Assurance Exit Tax (LAET), which applies to policies contracted since 2001 with Irish-domiciled life assurance companies is being reduced from 38% to 35%.
- The rate of tax that applies to investments in offshore funds located in the EU or EEA, or in a member state of the OECD with which Ireland has a double taxation agreement, and which are considered equivalent to Irish domiciled funds, is being reduced from 38% to 35%. The rate change will apply to equivalent offshore exchange-traded funds (ETFs) that are subject to tax under this regime.
- In addition, Finance (No. 2) Bill 2026 will introduce a new section specifically dealing with the taxation of investors in Irish domiciled investment funds whose units are held in a recognised clearing system (including Irish domiciled exchange-traded funds). This new section will align with the existing rules which apply to other Irish domiciled investment funds and the 35% rate of tax will apply.

- The rate of tax which applies to life assurance policies commenced after 2001 by a life assurance company, agency or branch operating in an EU, EEA or an OECD member state with which Ireland has a double taxation treaty is being reduced from 38% to 35%.
- A new Investment Account is being introduced and will be available from 1st July 2027. The account is designed to simplify retail investment by creating a new framework for investing in capital markets. The account will be available to Irish resident individuals, aged 18 and over, who hold a PPSN. The account will include a flat rate 1% tax applied to the value of the account above the €50,000 tax free threshold, with an annual contribution limit of €12,000. The value of the account will be calculated daily, with the average of the daily values being used for the purpose of calculating the tax due, if any. On launch, only one account will be allowed per person, with consideration being given in future years to whether provision can be made for multiple accounts. Eligible providers will be MiFID-authorised service providers, regulated fund managers, and insurance companies. On introduction, the eligible products allowed to be held in the account are limited to shares, bonds, investment funds and insurance-based investment products. Existing regimes in place for taxation of retail investment, including the deemed disposal rule, will not apply to the new account. All tax reporting, tax administration and payment of any tax due to Revenue will be managed by the provider, thereby removing the requirement for the individual investor to calculate or return any tax due. Further details will be set out in Finance (No. 2) Bill 2026.

Expenditure

- Primary welfare payments and the State pension will be increased by €10 per week.
- There will be an increase of €5 per week in the fuel allowance. The income threshold for single pensioners increased from €534 to €641 per week.
- The Carer's Allowance Disregard will be increased to €1,150 for a single person and €2,300 for a couple.
- The child support payment to increase by €6.
- A cost of disability payment of €500 per year.
- The living alone allowance increased by €3 per week
- Maximum childcare fees paid by parents to be reduced from €735 to €550 per month for children up to senior infants.

Other measures

- The minimum wage is being increased by 79c from €14.15 to €14.94, equivalent to an increase of 5.6%. There is a move away from having a Living wage in place by 2029, as the Government believes that such a target is too binding in such uncertain economic times. The 2% USC threshold lifted to prevent those on minimum wage from entering that band.
- The student contribution fee is being cut by €150.
- The income disregard for carer's allowance to rise by €150.
- €16 million is being allocated to extend the SUSI grant eligibility to families with 2 or more children in higher education.

Economic and fiscal assumptions in Budget 2027

Estimates of receipts & expenditure prior to budget 2027 changes (published 2nd October 2026)

The Estimates of Receipts and Expenditure (the 'White Paper') is published on the Friday immediately preceding the Budget. The White Paper sets out the pre-Budget position for this year and next, which will change as more data become available in the final quarter of the year; and due to spending and taxation measures that are announced on budget day.

Before any Budget-day changes, a General Government surplus of €6.9 billion is projected for 2026, equivalent to 1.1% of GDP; and a surplus of €13.5 billion is projected for 2027, equivalent to 2.1% of GDP.

Before any budget day changes to taxation, total tax revenues of €110.6 billion are projected for 2026 and €119.9 billion for 2027, which is equivalent to growth of 8.4%. Corporation tax is projected at €34.1 billion in 2026 and €39 billion in 2027, which is equivalent to growth of 14.4%; and income tax is projected to grow by 7.2% from €39.3 billion to €42.1 billion.

Before any budget day changes to expenditure, total current expenditure is projected to grow by 2.4%, and total capital expenditure to grow by 6.4%. This will change significantly following the budget expenditure changes.

[Note: The General Government balance measures the fiscal performance of the whole general government sector, which includes the Exchequer, the Social Insurance Fund, the non-commercial state-sponsored bodies, the Ireland Strategic Investment Fund, the Future Ireland Fund, the Infrastructure, Climate & nature fund, other extra-budgetary funds, and the local authorities.]

What the Department of Finance is projecting after Budget 2027

The following are the economic assumptions underlying Budget 2027. The Department is forecasting reasonable levels of real domestic growth out to 2030; increasing employment; and low levels of unemployment. These forecasts look realistic.

Table 1: Economic Forecasts Underlying Budget 2027

	2026f	2027f	2028f	2029f	2030f
GDP	-0.7%	3.8%	3.4%	3.3%	3.2%
Modified Domestic Demand	3.7%	3.0%	3.3%	3.1%	2.9%
Modified Gross National Income (GNI*)	3.1%	3.5%	2.4%	2.4%	2.4%
Inflation (HICP)	3.3%	3.0%	2.1%	2.0%	2.1%
Personal Consumption	2.9%	2.4%	2.4%	2.3%	2.3%
Government Consumption	4.2%	2.9%	2.4%	2.3%	2.0%
Modified Investment	5.1%	4.4%	5.8%	5.5%	4.8%
Exports Goods & Services	2.9%	4.3%	3.4%	3.2%	3.1%
Employment (000s)	2,839	2,892	2,927	2,958	2,987
Unemployment Rate	5.0%	5.0%	5.0%	5.1%	5.1%
Compensation of Employees	5.9%	5.7%	5.0%	4.8%	4.6%

Source: Department of Finance, Budget 2027, 6th October 2026

The medium-term fiscal projections underlying the budget, project strong surpluses out to 2030, apart from a blip in 2029, and a steady decline in the government debt/GNI* ratio. The vulnerability of the public finances to what the Department of Finance regards as windfall corporation tax receipts should be noted.

Despite the concerns about the vulnerability of corporation tax receipts, the take under this heading is anticipated to remain strong out to 2030.

Table 2: Fiscal Projections Underlying Budget 2027

	2026f	2027f	2028f	2029f	2030f
General Gov. Balance (€m)	€6,725	€9,470	€4,695	€935	€5,730
General Gov. Balance (% GNI*)	1.9%	2.5%	1.2%	0.2%	1.3%
Gen Gov Debt (€ bln)	€207.9	€214.0	€225.3	€236.4	€243.2
Gen Gov Debt (% GNI*)	58.5%	56.4%	56.3%	56.2%	54.9%
Tax Revenues (€bln)	€110.5	€119.1	€123.8	€127.6	€136.8
Corporation Tax (€bln)	€34.1	€39.1	€39.8	€39.6	€44.7
Estimated Windfall CT	€18.8	€22.9	€22.8	€21.7	€26.0

Source: Department of Finance, Budget 2027, 6th October 2026.

International backdrop to Budget 2027

Despite the intense global disturbances and uncertainties over past couple of years, particularly tariffs, higher energy costs, inflation, and intense global geo-political uncertainty, the global economy has proven to be quite resilient in 2026, as was the case in 2025.

The AI investment boom is continuing, and business confidence surveys are quite upbeat. The Euro Zone Composite PMI (Purchasing Manager Index) hit a 9-month high of 52.1 in August; the UK reading was 52.5; the German PMI hit 54.1; and the US PMI hit 54.6. With PMIs, a reading above 50 signals more businesses are expanding than contracting, and a reading below 50 means more businesses are contracting than expanding. The latest PMI readings are relatively upbeat about the current economic situation and the outlook.

Quarterly GDP growth in the Euro Zone in Q2 2026 was revised up from 0.4% to 0.6%, which is the strongest growth reading since the second quarter of 2022, and the annual growth rate increased to 1.2%. This describes an economy that is growing at a reasonable, albeit not dramatic pace. The US economy had an annual growth rate of 2.1% in the second quarter, and the UK economy grew at an annual rate of 1.2%. All in all, growth rates almost everywhere are suggesting a global economy that is growing at a reasonable/ modest pace. It could have been so much worse.

Table 3: Global Growth Profiles

	2025 (YoY)	Q1 2026 (YOY)	Q2 2026 (YoY)	Q1 2026 (QoQ)	Q2 2026 (QoQ)
Euro Zone	+1.4%	+0.6%	+1.2%	+0.0%	+0.6%
Germany	+0.2%	+0.7%	+1.0%	+0.4%	+0.3%
France	+0.9%	+0.8%	+0.7%	-0.2%	+0.0%
Italy	+0.5%	+0.8%	+1.0%	+0.3%	+0.2%
Spain	+2.8%	+2.6%	+2.6%	+0.6%	+0.7%
United Kingdom	+1.2%	+0.8%	+1.4%	+0.6%	+0.5%
Ireland	+12.3%	-13.2%	-0.4%	-7.8%	+10.2%
United States	+2.1%	+2.6%	+2.2%	+2.5%	+2.1%
Australia	+2.6%	+2.5%	+2.1%	+0.3%	+0.4%
Canada	+1.7%	+0.1%	+1.1%	+0.1%	+0.8%
China	+5.0%	+5.0%	+4.3%	+1.3%	+0.9%
Japan	+1.1%	+0.5%	+0.7%	+0.5%	+0.4%
India	+7.6%	+7.8%	+7.8%	2.1%	+1.8%

Source: Various Statistical Agencies.

Inflation has picked up almost everywhere in recent months, largely due to energy and food prices. The concern is that as we move into the winter in the northern hemisphere, oil and natural gas prices are elevated. At the time of writing, Brent Crude is trading at $102 per barrel, which is up 68% year to date; and European natural gas is up 165% year to date. There are international efforts underway to release diesel from reserves. Food prices also look set to rise over the coming months due to higher energy and fertiliser costs, and climate-related disruption to food production. The outlook for inflation is a concern for central bankers. Labour markets remain quite healthy, albeit with some softening as global geo-political uncertainty and AI concerns are resulting in a more cautious approach from employers. Such caution looks justified.

Table 4: Inflation & Unemployment

Country/Region	Inflation Rate (%)	Unemployment Rate (%)
Euro Zone	3.8% (Sept)	6.4% (August)
Germany	3.3% (Sept)	6.4% (Sept)
France	3.0% (Sept)	8.3% (June)
Italy	4.2% (Sept)	5.8% (July)
Spain	4.9% (Sept)	9.8% (June)
United Kingdom	3.1% (August)	4.9% (July)
Ireland	3.7% (August)	5.0% (Sept)
United States	3.4% (August)	4.2% (Sept)
Australia	3.5% (July)	4.6% (August)
Canada	3.0% (August)	6.4% (August)
China	0.8% (August)	5.3% (August)
Japan	1.9% (August)	2.4% (July)
India	4.8% (August)	5.0% (August)

Source: National Statistical Agencies.

The latest global economic outlook from the OECD (September 2026) points out that global growth moderated somewhat in the first half of 2026 but remained resilient in many countries despite the adverse effects from the conflict in the Middle East. Sizeable oil inventories, additional supply from outside the Gulf economies and discretionary government support measures all helped to cushion the impact on the global economy. In addition, continued strong AI investment has bolstered growth.

Table 5 summarises the OECD's outlook for growth and inflation in 2026 and 2027. Global growth of 2.9% is forecast for 2026 and 3.0% in 2027. Inflation is anticipated to be higher in 2027. However, growth prospects remain heavily dependent on whether a durable solution to the Middle Eastern conflict is achieved.

Table 5: Global Economic Outlook (OECD)

	GDP	GDP	GDP	INFLATION	INFLATION	INFLATION
	2025	2026f	2027f	2025	2026f	2027f
World	3.4%	2.9%	3.0%	3.4%	4.1%	3.6%
Euro Zone	1.3%	1.0%	1.0%	2.1%	3.0%	2.9%
Germany	0.3%	1.1%	1.1%	2.3%	2.9%	3.3%
France	0.9%	0.4%	0.7%	0.9%	2.5%	2.1%
Italy	0.5%	0.9%	0.6%	1.6%	3.0%	2.6%
Spain	2.8%	2.6%	1.8%	2.7%	3.7%	3.4%
UK	1.3%	1.1%	1.0%	3.4%	3.1%	2.6%
US	2.1%	2.2%	2.7%	2.6%	3.6%	2.6%
Australia	2.0%	1.9%	1.7%	2.8%	4.5%	2.8%
Canada	+1.9%	+0.9%	1.3%	2.1%	2.8%	2.5%
China	+5.0%	+4.5%	+4.2%	-0.1%	+1.4%	1.9%
Japan	+1.2%	+0.8%	+0.7%	3.2%	1.8%	2.6%
India	7.8%	+7.1%	+6.5%	2.1%	4.7%	4.2%

Source: OECD Economic Outlook, Interim Report, September 2026.

Bond market volatility

Despite the continued economic resilience, bond markets are under significant pressure, with yields rising strongly. Concerns about elevated government debt levels in many countries, persistent inflation and the response of central bankers are causing bond yields to rise. 10-year yields in the US and elsewhere have hit multi-year highs. This bond market weakness is a cause for concern and will feed through to general borrowing costs. Unfortunately, the concerns about debt and inflation are not about to go away anytime soon.

The outlook

The risks to the global outlook into 2027 include:

- Higher energy costs due to a failure to end the Middle East conflict.
- Geopolitical volatility.
- Weather related supply shocks, including a very strong El Nino, that could disrupt agricultural production and push up food prices.
- Further increases in bond yields, due mainly to concerns about the sustainability of debt levels.
- A repricing of financial markets due to a failure of AI investment returns to meet expectations. Global equity markets are at very elevated levels, and there is certainly a sense that the AI driven equity market valuations, have resonances of the dot.com bubble in the early 2000s.
- The far-right AfD party in Germany has secured two very strong results in the Saxony-Anhalt and Mecklenburg-Vorpommern regional elections. These election results are causing deep concern in the EU. A Federal election will be held in Germany on or before 25th March 2029. The French presidential election will be held in April 2027, and the performance of Marine Le Pen will be watched with deep interest. These are worrying times for the EU, and it is good news for Russia in its ambitions to destabilise the EU.

Irish economic background to Budget 2027

Economic activity

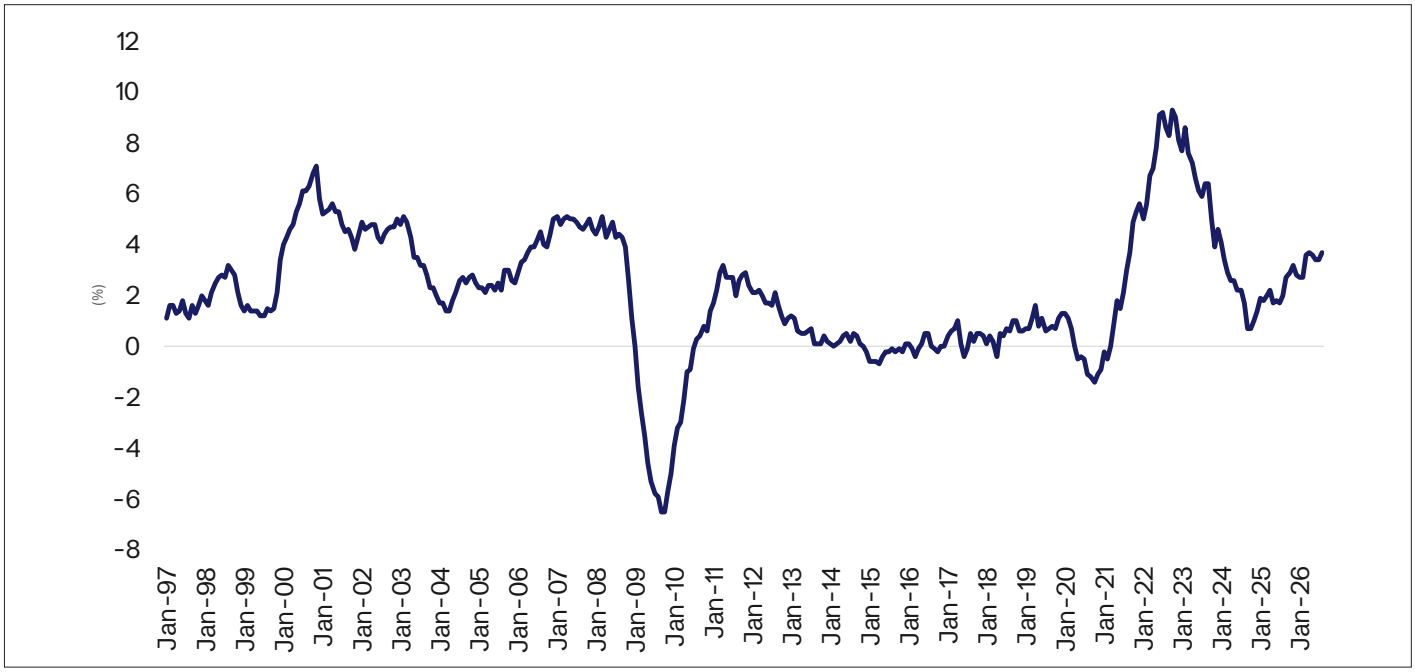
The domestic economic backdrop against which Budget 2027 was prepared and presented is solid. The economy continues to be characterised by resilience, with most economic indicators still solid despite the global uncertainties and elevated energy prices.

In the first half of the year, GDP was 7% lower than the first half of 2025. However, the more representative measure of real economic activity, Modified Final Domestic Demand was 3.1% higher than the first half of 2025. This is indicative of an economy growing at a steady pace. Consumer expenditure expanded by 2.8%; exports of goods & services expanded by 0.2%; and imports expanded by 6.5%.

Inflation

Inflation has increased during 2026, largely due to the impact of the Iran war on energy prices. It started the year at 2.7% and has accelerated to 3.7% in August. The inflation rate has averaged 3.4% in the first 8 months of the year.

Figure 1: Consumer Price Inflation (Annual % Change)



Source: CSO.

While the annual inflation rate stood at 3.7% in August, the longer-term trend has been in an upward direction. Over the past 6 years the overall cost of living has increased significantly. Table 6 shows the annual rate of inflation for a range of goods and services in August 2026 and the increase in prices over the past 6 years. Between August 2020 and August 2026, average consumer prices increased by 27.9%. This is feeding into business costs and is pressuring consumer spending power. The impact of the Iranian war is feeding through strongly, and this would be more pronounced but for the intervention of Government in cutting excise duties on motor fuels. This table is the manifestation of the cost-of-living crisis that was so influential in the framing of Budget 2027.

Table 6: Evolution of Consumer Prices

	Annual % Change (August 26)	% Change August 20 to August 26
All items	3.7%	27.9%
Food	0.1%	26.2%
Clothing and footwear	3.1%	0.8%
Private rents	4.0%	42.6%
Mortgage interest	10.2%	99.7%
Electricity	8.1%	80.6%
Gas	2.3%	100.6%
Health	1.8%	11.4%
Motor cars	-0.1%	26.1%
Petrol	8.9%	36.1%
Diesel	15.1%	54.3%
Home Heating Oil	44.6%	174.7%
Restaurants, cafes and the like	3.5%	36.1%
Accommodation services	1.7%	48.1%
Hairdressing	4.0%	29.9%
Insurance connected with health	8.7%	41.6%
Motor car insurance	-7.6%	-11.2%

Source: CSO PxStat.

Merchandise exports

In 2025, Irish merchandise exports expanded by 16.4%. Exports to the US were up by 52%. Exports of Chemicals & Pharmaceuticals expanded by 21% and accounted for 67.5% of total exports. This magnitude of growth gave a major boost to GDP but was driven by the front-loading ahead of tariffs and was not sustainable. As expected, the export performance has weakened significantly so far in 2026.

In the first 7 months of the year exports of goods were 26.2% down on the first 7 months of 2025. Exports to the US were down by 60.7%, exports to the EU were down by 8.9%, and exports to the UK increased by 30.7%.

In the first 7 months, exports of Food & Live Animals declined by 16%, exports of Machinery & Transport Equipment increased by 59.5%, and exports of Chemicals & Related Products declined by 47.2%.

It was inevitable that export growth would slow substantially in 2026, and this will impact on the GDP growth rate in a significant way. However, the underlying export performance is still solid.

Public finances

An Exchequer surplus of €2.4 billion was recorded in the first 9 months of the year. This compares to a surplus of €1.4 billion in the same period in 2025. Last year's revenues were impacted by the Apple Tax receipts, which totalled €1.7 billion. In the first 9 months of 2026, the Government paid €4.9 billion into the Future Ireland Fund and the Infrastructure, Climate & Nature Fund, this is down from €6 billion in the same period in 2025.

In the first 9 months of the year:

- Tax receipts of €78.9 billion were collected, which was 8.1% or €5.9 billion higher than last year. When the once-off receipts of the Apple Tax are excluded from 2025, tax revenues so far this year were €7.6 billion or 10.7% ahead of the equivalent period in 2025.
- Income tax receipts were 7.8% or €2 billion ahead of last year. This is indicative of the ongoing strength and health of the labour market.
- VAT receipts were 8.9% or €1.7 billion ahead of last year. This is indicative of a solid level of consumer spending.
- Excluding the Apple Tax receipts in the first nine months, corporation tax was €4.4 billion or 24.2% ahead of last year. In September, €4.9 billion was collected in corporation tax, which was 15.9% or €3.1 billion ahead of September 2025.
- Excise duties were 8.4% or €400 million behind the first 9 months of last year. This reflected the excise duty reductions introduced by Government as part of the energy package earlier in the year.

In relation to expenditure:

- Total gross voted expenditure was €5.9 billion or 7.7% ahead of last year. Gross voted current expenditure was 7.8% ahead of last year. Gross voted capital expenditure was 6.8% ahead.

The overall Exchequer returns are indicative of an economy that is still generating considerable tax revenues, and where Government expenditure is still growing strongly. Corporation tax is the star performer. On the expenditure side, spending is growing strongly, and the pressures are intensifying as Government is being pressurised to provide further aid as energy prices remain very elevated.

Table 7: Tax Revenues (Jan-Sep 2026)

	€m	YEAR-ON-YEAR CHANGE (%)	YEAR-ON-YEAR CHANGE (€m)	% TOTAL
Income Tax	27,764	+7.8%	2,012	35.2%
VAT	20,483	+8.9%	1,679	26.0%
Corporation Tax	22,666	+24.2%	4,420	28.7%
CJEU Ruling (Apple Tax)	0	-	-1,726	-
Excise	4,371	-8.4%	-400	5.5%
Stamps	1,243	-0.3%	-3	1.6%
Capital Gains Tax	586	-2.8%	-17	0.7%
Capital Acquisitions Tax	286	-40.6%	-196	0.4%
Customs	501	+11.1%	50	0.6%
Motor Tax	737	+0.8%	6	0.9%
Unallocated Tax Deposits	212	-	49	0.3%
Other Property Taxes	59	-	14	0.1%
Total	78,908	+8.1%	5,888	100.0%

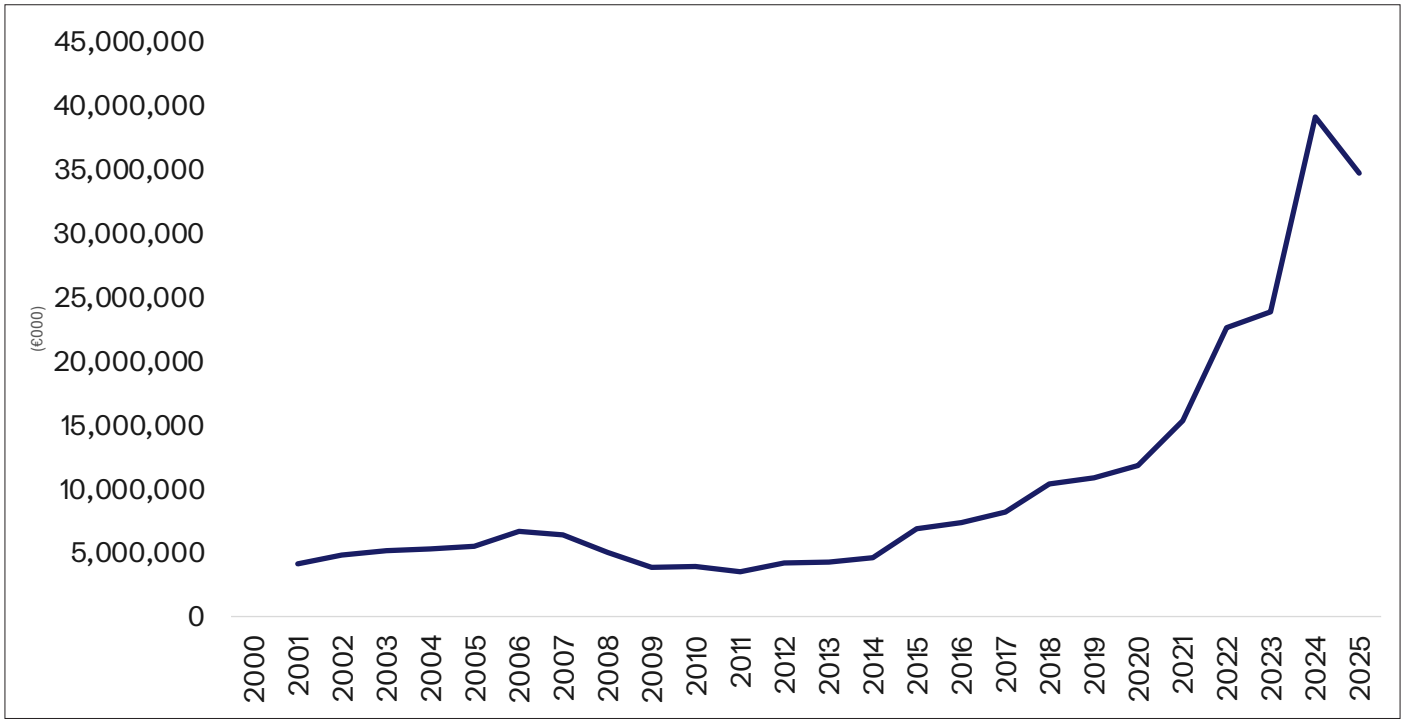
Source : Department of Finance Fiscal Monitor, October 3rd, 2026

The overall Exchequer returns are suggestive of an economy that is still generating considerable tax revenues, and where Government expenditure is still growing strongly.

One of the key features of the Irish public finances over the past decade has been the surge in corporation tax revenues.

- In 2015, €6.9 billion was collected in corporation tax, equivalent to 15.1% of taxes collected.
- In 2024, €34.7 billion was collected in corporation tax, equivalent to 36.2% of total taxes collected, but €11 billion was due to the Apple CJEU ruling, and when this is excluded, corporation tax accounted for €28.1 billion or 26.3% of total taxes collected.
- In 2025, €34.7 billion was collected in corporation tax, equivalent to 32.3% of total tax revenues collected, but €1.73 billion was due to the CJEU ruling. When this is excluded, €32.9 billion was collected in corporation tax, equivalent to 31.2% of total taxes collected.
- Between 2015 and 2025, income tax has increased from €14.9 billion to €36.6 billion.

Figure 2: Corporation Tax Receipts



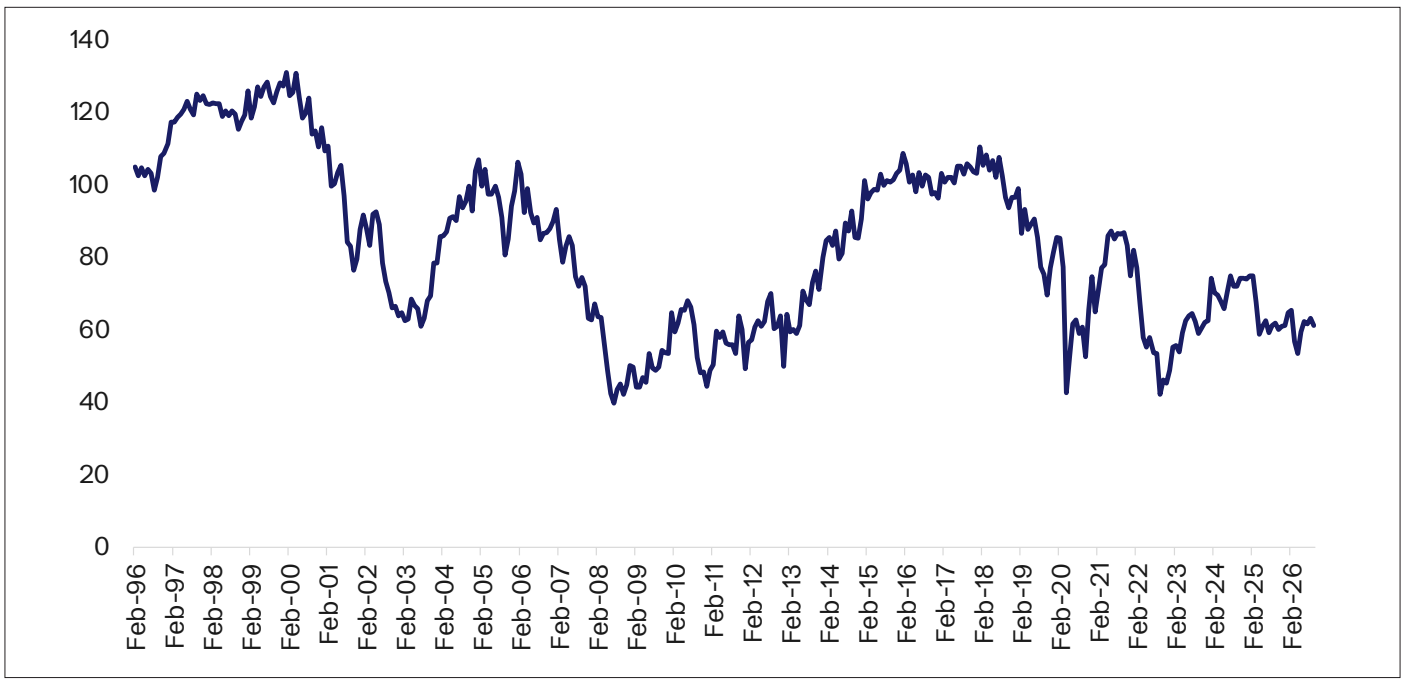
Source: Department of Finance.

Consumer behaviour

While consumer activity is holding up reasonably well, the consumer dynamics are under some pressure, mainly due to the escalation in the cost of living, particularly energy prices. Consumer confidence slipped to 61.1 in September from 63.2 in August.

This is the lowest reading since May and compares to a long-term average reading of 83. Economic uncertainty, financial pressures, cooling growth in employment, layoffs by technology companies, and higher energy and food prices are cited as the key factors leaning on consumer confidence.

Figure 3: Consumer Confidence



Source: ILCU

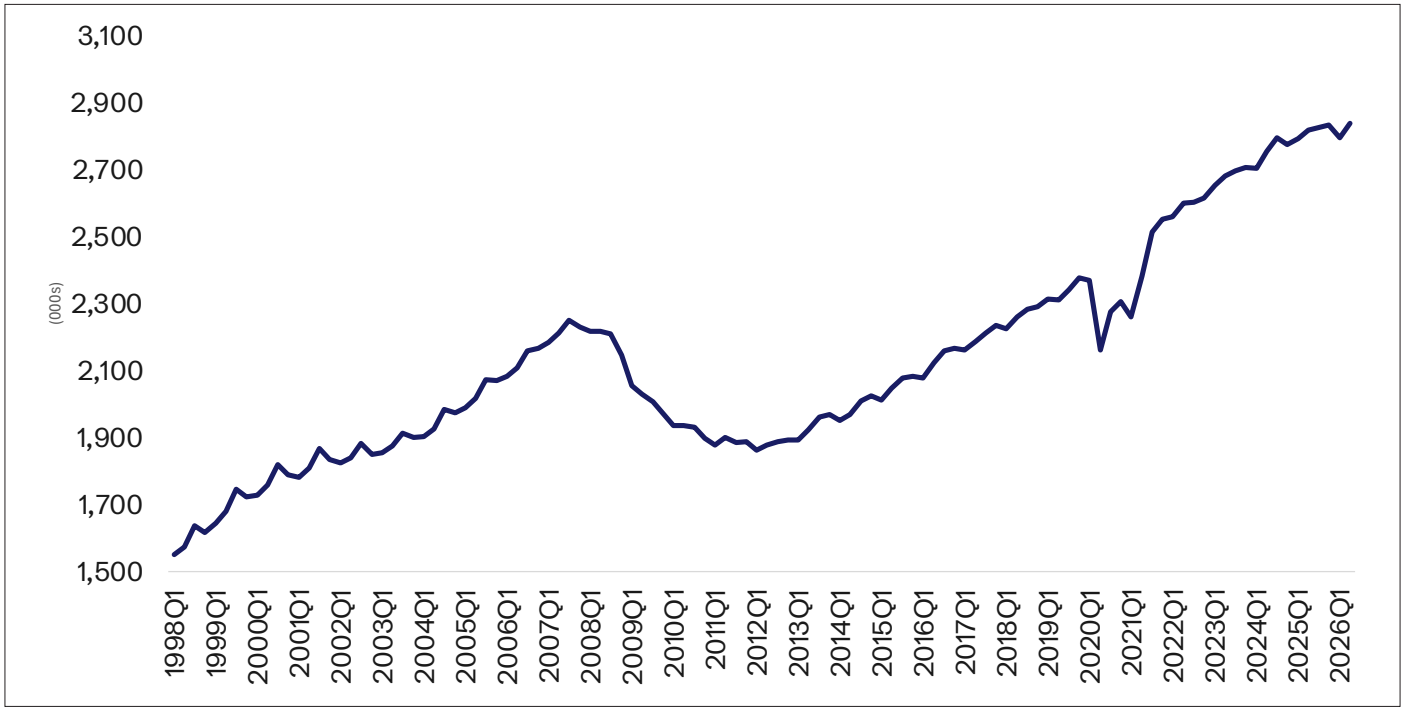
In the first 8 months of 2026, the volume of retail sales was 1.4% higher than in the first 8 months of 2025 and was 1.7% higher when the motor trade is excluded.

This is indicative of a modest level of growth in the retail sector.

The labour market

The labour market situation remains solid, but there are definite and non-surprising signs of a slower market. The number of 15-to 89-year-olds in employment reached a record high of 2.839 million at the end of June. This represents an increase of 21,200 or 0.8% on a year earlier.

Figure 4: Employment



Source: CSO

At a sectoral level, 2,100 jobs were lost in ICT and 17,800 in Professional, scientific & technical activities in the year to the second quarter.

The unemployment rate in September stood at 5% of the labour force, which compares to 4.9% a year ago. The youth unemployment rate has increased to 12.5% of the labour force.

Table 8: Annual Change in Employment by Sector (Q2 2026)

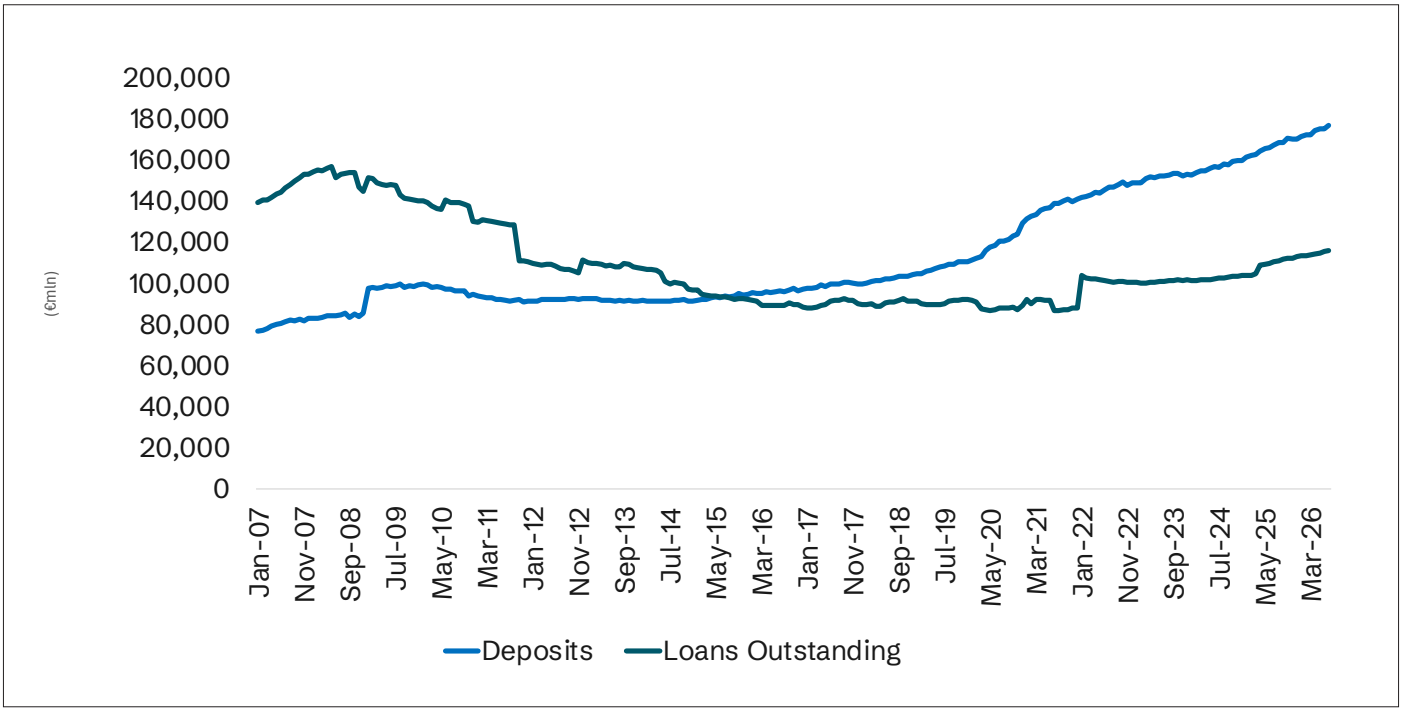
Sector	Q2 2025 (000)	Q2 2026 (000)	Change
Agriculture, forestry & fishing	109.7	105.8	-3,900
Construction	190.3	188.6	-1,700
Wholesale & retail trade	321.4	310.6	-10,800
Transportation & storage	124.9	133.9	+9,000
Accommodation & food service activities	181	188.5	+7,500
Information & communication	179.5	177.4	-2,100
Professional, scientific & technical activities	207.4	189.6	-17,800
Administrative & support service activities	112.6	109.9	-2,700
Public administration & defence; compulsory social security	146.3	150.2	+3,900
Education	242.7	257.2	+14,500
Human health & social work activities	391.1	394.7	+3,600
Industry	347.2	355.6	+8,400
Financial, insurance & real estate activities	141.8	147.7	+5,900
Other NACE activities	116	121.9	+5,900
Not stated		7.5	+7,500
Total	2,818	2,839	+21,200

Source: CSO.

Household balance sheet

The household balance sheet continues to be very healthy. In July, household deposits reached a record high of €176.4 billion, and household credit outstanding stood at €115.9 billion. This provides a good anchor for the economy, but the amount of money sitting on deposit in the banking system earning negative real returns is a missed opportunity.

Figure 5: Household Balance Sheet



Source: Central Bank of Ireland

The housing market

There are clear signs of moderation in house price inflation. In the year to July, national average residential property prices increased by 5.5%, which is down from 7.1% in January; residential property prices outside of Dublin increased by 6.4%, which is down from 7.9% in January; and prices in Dublin increased by 4.4%, which is down from 6.1% in January.

In the first half of 2026, the value of mortgages drawn down reached €6.78 billion, which is 9.6% higher than the first half of 2025. First-time buyers accounted for 60.6% of the market in value terms.

In the second quarter of 2026, the average mortgage for first-time buyers was €325,698 and €390,870 for mover-purchasers.

In the first half of 2026, 21,232 mortgages were drawn down, which was 5.1% higher than the first half of 2025. First-time buyers accounted for 59.3% of the market in volume terms.

Table 9: Mortgage Market Drawdowns (Jan-June 2026)

VALUE	First-Time Buyer	Mover Purchaser	Investor	Re-mortgage	Top-Up	Total
(€mln)	4,100	1,486	62	891	240	6,781
% of Market	60.6%	21.9%	0.9%	13.1%	3.5%	100.0%
VOLUME						
Number	12,567	3,785	301	2,917	1,662	21,232
% of Market	59.3%	17.8%	1.4%	13.7%	7.8%	100.0%

Source: BPFI.

The motor industry

In the first 9 months of 2026, new car registrations increased by 5.4% to reach 128,282. Petrol cars were down by 18.7%; Diesel cars were down by 24%; Petrol-Electric Hybrid cars were up by 10.4 %; Petrol Plug-in Electric Hybrid cars were up by 6.3%; and Electric Vehicles were up by 57.3% and accounted for 27.4% of the new car market. EV sales are now higher than petrol and diesel sales.

In addition to 128,282 new car registrations, used imports increased by 34.4% to total 72,140 vehicles.

Of the used imports, Petrol cars accounted for 38.2%; Diesel accounted for 18.5%; Petrol Electric (Hybrid) accounted for 18.3%; Petrol/Plug-in Electric Hybrid accounted for 13.4%; and Electric accounted for 11.1%. Of the used imports, 34.3% were 6 to 9 years old, and 27.8% were 10 years or older. 55.9% of the used imports came from Japan and 14% from the UK.

In the first 9 months, registrations of new Light Commercial Vehicles increased by 7.4% to reach 31,914. Of these, Diesel accounted for 89.6% of the market, and EVs accounted for 5.3%.

Table 10: New Car Registrations by Engine Type (Jan-September 2026)

ENGINE TYPE	NUMBER	% YEAR-ON-YEAR	% MARKET 2026
Petrol Electric (Hybrid)	30,375	+10.4%	23.7%
Electric	35,192	+57.3%	27.4%
Petrol	25,136	-18.7%	19.6%
Petrol Plug-In Electric Hybrid	19,153	+6.3%	14.9%
Diesel	15,854	-24.0%	12.4%
Diesel-Electric (Hybrid)	2,042	+31.6%	1.6%
Diesel Plug-In Electric Hybrid	530	+29.9%	0.4%
Total	128,282	+5.4%	100.0%

Source : SIMI Motorstat

Conclusions

Budget 2027 was set against a background of intense global geo-political uncertainty; elevated energy prices; higher inflation; global economic resilience; a reasonably robust domestic economy; and buoyant tax revenues, particularly corporation taxes. However, there are justifiable concerns about the concentration risk emanating from the fact that 10 multi-nationals pay 57% of corporation tax and the multi-national sector pays around 87% of corporation tax. In addition, there are concerns about the inflationary impact of pumping €8.75 billion into an economy that is growing quite strongly. Government would argue that some of the indirect taxation measures will help reduce the rate of inflation. The reality is that external factors are largely responsible for Ireland's elevated level of inflation, rather than domestic demand factors.

The other reality is that every budget is heavily driven by political considerations. The alternative budgets presented by opposition parties are also very expansionary and inevitably Government will be accused of not doing enough to alleviate cost-of-living pressures. It will also be criticised by some for cutting taxes, but last year's budget resulted in a real increase in tax rates due to the failure to widen the bands and income tax credits, so it is appropriate that middle-income workers should see some reduction in what is a heavy income tax burden.

The budget was constrained by the commitment to limit growth in Government expenditure to 6%, and the commitment given in the Summer Economic Statement in July to deliver a budget-day package of €8.5 billion, comprising an expenditure package of €7 billion and a tax package of €1.5 billion. On Budget Day the tax package was lifted by €150 million to €1.65 billion, and spending was lifted slightly to €7.1 billion.

The key pressures on Government included the cost-of-living pressures after more than 5 years of elevated inflation; the high level of energy costs heading into the winter; the cost of childcare; the cost of disability; reductions in the personal tax burden, following no concessions in Budget 2026; the ongoing housing challenge; public sector wage disruption; and the usual pressures on social welfare spending.

While the overall budget package is significant, it is spread thinly across the economy and society. For the SME sector, there was not a lot in the budget, and the 5.6% increase in the minimum wage will further increase costs in hospitality and retail particularly. Increasing the minimum wage is socially progressive, but it does increase the cost of labour. When positive Government measures such as the minimum wage and Auto-Enrolment are introduced, Government needs to do more to alleviate the cost pressures on business.

Overall, Budget 2027 is expansionary and will help support economic activity in 2027. While the domestic outlook remains positive for 2027, the ongoing war in Iran, high energy prices, and a generally high level of geo-political and geo-economic uncertainty will need to be watched closely.

THIS PUBLICATION IS BASED ON DATA AND INFORMATION AVAILABLE UP TO AND INCLUDING 6th OCTOBER 2026.

The views expressed in this article reflect those of Jim Power and are for informational purposes only. They do not represent the views of Aviva. Jim Power's views may change.

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