Economist's Weekly Market View

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Irish budget threads a narrow path in an uncertain world

Amid growing focus on global geopolitical and fiscal risks, the Irish Budget retained the expansionary stance evident in recent years. These risks crystallised in the latest trade salvos between the US and China late last week, and the ongoing political uncertainty in France. While Ireland is somewhat removed from the escalating US-China trade tensions, it is notable that the US has recently lobbied for the EU to increase tariffs on China to punitive levels, invoking its support of Russia in the Ukraine conflict.

In France, another resignation (and subsequent reinstatement) of a Prime Minister brought to light the near untenable governing situation in one of Europe's largest economies. With three blocks in Parliament at odds with each other on economic policy, the Government has yet to pass its Budget for 2026, which was initially mooted to cut €64bn from via spending reductions and tax hikes, reducing the deficit from the current 6% of GDP to 3% in the coming years. While markets have been sanguine so far on the political fallout, it's unlikely a new Government will get anywhere close to this level of consolidation. The latest resignation saw a widening in French bond spreads to the German equivalents this week towards 90 bps, before retracing back to the 80bp level it has traded around in recent months.

The fiscal situation in Ireland could not be further removed from that in France, with the Government set to run a large budget surplus of 3% of GNI* in 2025, falling to 1.5% in 2026. The debt ratio is also projected to fall to 59% in 2026. However, excluding windfall corporate tax receipts, the Government will run a large deficit of €13.6bn in 2026, worth nearly 4% of GNI*. This yawning underlying deficit belies the exceptionally strong headline data. While the Government deserves credit for marshalling some of these excess corporation tax receipts into two new sovereign wealth funds, the total capital value of these funds is expected to be €24bn by end-2026. This is a fraction of the excess receipts received in recent years, with the €6.5bn expected transfer to the funds in 2026 just over a third of the estimated windfall tax of €18.7bn next year.

Nonetheless, there are wider liquid financial buffers that the Government has built up, which are expected to total over €70bn by end. 2025. The NTMA continues to hold large cash balances and has a relatively light maturity profile for Irish sovereign debt. So, the public finances are in a much stronger position today than at any point in recent in recent history. However, history also shows the volatility of the economic cycles in Ireland. In that context, the current exceptional tax receipts should be treated as a one-off that may not be repeated, akin to striking an oil and gas reserve that rapidly depletes over time. The Norwegian experience is instructive, with its sovereign wealth fund, established 35 years ago, now worth over €1.8trn, based on a frugal transfer policy by the government, alongside strong returns by its fund managers.

Chief Economist
David McNamara

AIB Customer Treasury Services
DUBLIN / CORK
aib.ie/fxcentre

Customer Treasury Services NI
BELFAST
aibni.co.uk/fxcentre

Customer Treasury Services GB
LONDON
aibgb.co.uk/fxcentre

Economic Research Unit
AIBeconomics.unit@aib.ie
Tel: 353-1-6600311