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Rising global uncertainty leads to more muted growth outlook for domestic Irish economy - AIB Economic Outlook Report

- **Middle East conflict and rising energy prices expected to dampen global and Irish economies**
 - **Modified domestic demand growth of 2.7% expected this year, slowing to 2.6% in 2027**
- **Labour market will continue expanding, but jobs growth to ease and unemployment will tick-up**
- **Special article analyses Ireland's economic resilience in the context of current energy crisis and base case inflation forecast of 4%**

Ireland's domestic economy looks positioned for growth, albeit at a weaker rate than previously forecast due to increased global uncertainty according to **AIB's Economic Outlook Report** for May 2026. It comes as data signalled a resilient global picture at the start of 2026, despite building geopolitical risks. US tariffs haven't escalated as much as expected, and a surge in AI-related investment, particularly in the US, has boosted economic growth globally. The escalation of the conflict in the Middle East and closure of the key trade channel through the Strait of Hormuz is testing this resilience, leading to a weaker than previously expected outlook for the Irish economy.

Given heightened geopolitical uncertainty and rising inflation, consumer spending and business investment growth in Ireland are expected to cool. Nevertheless, Irish modified domestic demand is forecast to grow by 2.7% this year, 2.6% in 2027 and 3.2% in 2028, a slight downgrade on our November 2025 report.

Irish households are expected to ease spending growth while some business sectors may delay planned investments, particularly those in price-sensitive sectors. Despite these risks, recent consumer spending has been robust, with Government supports expected to soften some of the inflationary shock. Public and private sector balance sheets have low debt levels and high savings on aggregate. While economic risks are tilted to the downside, balance sheet resilience has continued to strengthen.

Labour market growth

The labour market will continue to grow but given the expected easing in economic growth, we expect a more modest expansion in employment. Following a 2.2% rise in 2025 we see employment growth slowing to 1.8% in 2026, 1.9% in 2027 and 2% in 2028.

Risks tilted to the downside

A prolonged closure of the Strait of Hormuz and disruption to global commodity markets, alongside further shifts in US trade policy, are among the main downside risks to the Irish economy. Some indigenous Irish sectors which are exposed to international commodity prices may be impacted more than others.

In terms of upside risks, an easing in global uncertainty could underpin stronger domestic spending and investment in the coming years. Our central assumption is that Irish households continue to edge savings rates higher. However, a brightening geopolitical outlook might spur even stronger spending than we anticipate in the coming years.

Inflation back in focus

Each AIB Economic Forecast Report has a theme in focus, and this one is: *“Are we facing another 2022-style inflation shock?”*. Our base case assumptions are for oil prices to peak in the second quarter of 2026 and fall steadily thereafter as the Strait of Hormuz slowly reopens in the coming months. We assume some modest second-round effects on core inflation and wages. However, in a scenario of a further surge in commodity prices from a longer lasting blockade on the Strait of Hormuz throughout the remainder of 2026, Irish inflation could peak at a much higher rate of at least 6-7% compared to our base case forecast of 4%.

Nevertheless, the Government has built up substantial fiscal buffers to offset some of the impact. Longer term, the Irish economy has slowly weaned itself off fossil fuels but remains highly exposed to price shocks, with a renewed focus on decarbonisation required alongside short-term energy supports.

AIB Chief Economist David McNamara said: “The global macro backdrop has dimmed since our last Economic Outlook in November 2025. The uncertainty created by the dramatic shift in US trade policy has eased for now, but the Middle East conflict threatens what has been a resilient growth picture. Amid this volatility, the Irish economy has been robust, but we expect some cooling in growth in 2026 and 2027.”

“For the domestic economy we expect an easing in growth next year, as ongoing uncertainty dampens both consumer spending and business investment growth. While the risks remain tilted to the downside, the Irish economy has shown remarkable resilience to global shocks in recent years, and the economy is still set to continue to outperform European peers.”

AIB’s Economic Outlook Report is produced by AIB’s Economic Research Unit, consisting of David McNamara, John Fahey and Daniel Noonan and is published bi-annually.

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