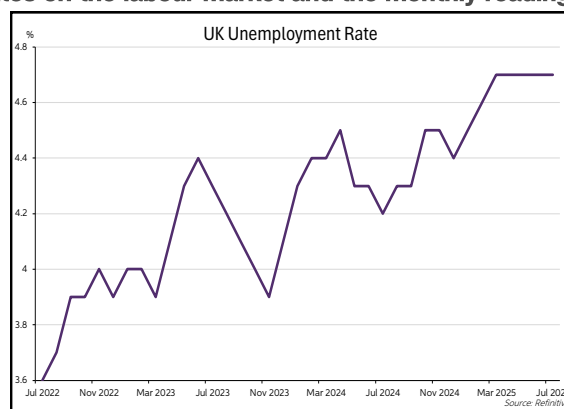


Don't fear the (fiscal) reaper

- **Amid growing focus on political and fiscal risks in Europe, the Irish Budget retained the expansionary stance evident in recent years.** In France, another resignation 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 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 Prime Minister 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 from 61.7% in 2025 to 58.6% 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 receipts 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 in the coming years. 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 economic cycles in Ireland. In that context, the current exceptional corporation tax receipts should be treated as a one-off windfall 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 investment returns by its fund managers.
- **Turning to the week ahead, a busy UK data calendar includes updates on the labour market and the monthly reading of GDP for August.** Starting with the labour market, conditions have softened this year. The unemployment rate increased steadily to 4.7% in May (its highest level since June 2021), and has remained at that level in June and July, up from 4.4% at the beginning of the year. Worryingly, payrolls have contracted in eleven of the past thirteen months to August, albeit the rate of retraction has eased recently. Against this backdrop, wage inflation has slowed, but it is still elevated, running at +4.7% y/y in the three months to July. The consensus is for the unemployment rate to stay at 4.7% in August, while average earnings growth is also projected to be unchanged at +4.7% y/y. Meantime, the monthly reading of GDP stagnated in July, having expanded sharply by 0.4% m/m in June. A slight 0.1% expansion is pencilled in for August. Industrial production - which has been quite volatile recently - is forecast to increase by a modest 0.2% in the month, following a 0.9% contraction in July.
- **Industrial production data will also feature in the Eurozone this week.** In July, industrial output rose by 0.3%, despite a very sharp fall in energy production of 2.9% m/m. Indeed, all other categories (consumer, capital and intermediate goods) increased in the month. More recently, the manufacturing PMI and industrial sector sentiment have improved. However, notwithstanding this, the consensus is for a 1.6% rise fall in August.
- **In the US, as it currently stands, with the government still in 'shutdown' mode a number of important releases that were originally due, including CPI inflation, retail sales and industrial production (all September) are likely to be postponed.** However, if a deal between Republicans and Democrats is reached over the coming days then some of this data, along with the already delayed September payrolls report may be released. In terms of the data that will feature this week, there are a slew of smaller surveys, including the NFIB small business optimism and the NAHB homebuilder sentiment report (both October).



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2025	2026	2026
Fed Funds	4.125	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	4.00	3.75	3.50
BoJ OCR	0.50	0.75	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2025	2026	2026
EUR/USD	1.1565	1.19	1.20	1.20
EUR/GBP	0.8713	0.88	0.88	0.87
EUR/JPY	176.54	174	174	174
GBP/USD	1.3269	1.35	1.36	1.38
USD/JPY	152.64	146	145	145

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Buch (Mon); Lagarde , Cipollone (Tue); Lagarde , Cipollone, deGuindo, Buch (Wed) Lane, Lagarde (Thu)		
	BoE Speakers:		Taylor (Tue); Breeden (Wed); Pill (Fri)		
	Fed Speakers:		Paulson (Mon); Bowman, Collins, Powell (Tue); Bostic, Miran, Waller (Wed); Barkin, Waller, Barr, Miran, Bowman, Kashkari (Thu); Musalem (Fri)		
Mon 13th					
Tue 14th	IRE:	01:01	AIB Construction PMI (September)	45.9	
	GER:	07:00	Final HICP Inflation (September)	+0.2% (+2.4%)	+0.2% (+2.4%)
	UK:	07:00	Unemployment Rate (August)	4.7%	4.7%
	UK:	07:00	Employment Change (August)	+232,000	
	UK:	07:00	HMRC Payrolls Change (September)	-8,000	
	UK:	07:00	Average Earnings (August)	(+4.7%)	(+4.7%)
			- Ex-Bonus	(+4.8%)	(+4.7%)
	GER:	10:00	ZEW Economic Sentiment (October)	37.3	40.5
Wed 15th	US:	11:00	NFIB Small Business Optimism (September)	100.8	
	FRA:	07:45	Final HICP Inflation (September)	-1.1% (+1.1%)	-1.1% (+1.1%)
	SPA:	08:00	Final HICP Inflation (September)		
	EU-20:	10:00	Industrial Production (August)	+0.3% (+1.8%)	-1.6% (-0.2%)
	IRE:	11:00	Residential Property Price Index (August)	+0.8% (+7.5%)	
	US:	13:30	CPI Inflation (September)	+0.4% (+2.9%)	+0.3% (+3.1%)
			- Core-CPI	+0.3% (+3.1%)	+0.3% (+3.2%)
Thu 16th	US:	13:30	NY Fed / Empire State Index (October)	-8.70	0.00
	JPN:	00:50	Machinery Orders (August)	-4.6% (+4.9%)	+0.4% (+4.8%)
	UK:	07:00	GDP (August)	+0.0% (+1.4%)	+0.1% (+1.3%)
			- 3 months / 3 months	+0.2%	+0.3%
	UK:	07:00	Industrial Output (August)	-0.9% (+0.1%)	+0.2% (-0.6%)
			- Manufacturing Output	-1.3% (+0.2%)	+0.2% (-1.0%)
	UK:	07:00	Goods Trade Balance (August)	-£22.2bn	
			- Non-EU Trade Balance	-£10.2bn	
	ITA:	09:00	Final HICP Inflation (September)	+1.3% (+1.8%)	+1.3% (+1.8%)
	EU-20:	10:00	Total Trade Balance (August)	+€5.3bn	
			- EuroStat Trade	+€12.4bn	
	US:	13:30	Philly Fed Business Index (October)	23.2	+8.0
	US:	13:30	PPI Final Demand Inflation (September)	-0.1% (+2.6%)	+0.3% (+2.6%)
			- Ex-Food & Energy	-0.1% (+2.8%)	+0.3% (+2.7%)
	US:	13:30	Retail Sales (September)	+0.6% (+5.0%)	+0.4%
			- Ex-Autos	+0.7%	+0.3%
			- Control Group	+0.7%	+0.4%
	US:	15:00	NAHB Homebuilder Sentiment (October)	32.0	33.0
Fri 17th	EU-20:	10:00	Final HICP Inflation (September)	+0.1% (+2.2%)	+0.1% (+2.2%)
			- Ex-Food & Energy	+0.3% (+2.4%)	+0.3% (+2.4%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.1% (+2.3%)	+0.1% (+2.3%)
	US:	13:30	Building Permits (September)	+1.330m / -2.3%	+1.330m
			- Housing Starts	+1.307m / -8.5%	+1.332m
	US:	14:15	Industrial Production (September)	+0.1% (+0.9%)	+0.0%
			- Manufacturing Output	+0.2%	
			- Capacity Utilisation	77.4%	77.3%

♦ Month-on-month changes (year-on-year shown in brackets)

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