

New Ireland Economic Forecasts

We have revised down our forecasts for Irish GDP growth to 3.5% in 2025 and 3.7% in 2026. This forecast entails softer, but still robust growth, due to the negative impact of uncertainty on consumer and investment spending. Also, the 10% baseline tariffs that now apply to 2-3% of Irish trade will weigh on export growth in 2026, alongside the weaker outlook for the global economy. Of course, the economic outlook is now uncertain. First, trade tensions could still escalate. Second, tariffs have already added enormous volatility to Irish GDP data via a surge in exports to the United States, which will likely unwind later in 2025.

Global trade tensions weigh on economic outlook

Since our last Irish economic forecasts in January, the United States has imposed a range of tariffs on its trading partners. For now, the bulk of Irish exports are exempt, with just 2-3% of total exports affected due to Ireland's concentration in services and pharmaceuticals trade. This means the immediate 1st round negative impact onto Irish GDP from tariffs will be limited. However, the more uncertain economic outlook may weigh on consumer spending and investment. It is still relatively early to judge to final impact, but our current forecast is for a softer, but still robust expansion in the Irish economy in 2025 and 2026.

Irish GDP to expand by 3.5% in 2025 and 3.7% in 2026

Our new forecast is for Irish GDP to expand by 3.5% and 3.7% and modified domestic demand by 2.8% and 2.6%, in 2025 and 2026 respectively. This reflects a weaker outlook for consumer spending, now expected to see 2.4% growth in 2025, with households maintaining higher savings. Similarly, we now expect core investment spending of 3% in 2025 (vs 7% previously) due to uncertainty, but also that we have revised down our projection for housing completions to 36,000 units in 2025. The 10% baseline tariff that applies to some Irish goods exports, and weaker outlook for world trade have led us to revise down our export forecast to 4.5% in 2026.

Softer employment growth, robust housing market

We have also revised down our forecast for employment growth to a 1.8% expansion in 2025 and 1.3% in 2026. This means the unemployment rate is expected to rise gradually from 4% currently to 4.5% on average next year. Average wages are expected to grow by 4.3% this year, supporting consumer spending. Housing market conditions have remained exceptionally tight, prices driven up by rising wages. In March, the average mortgage approval was €336,000 up 10% on the year. Hence, we have left our forecast for 5% residential property price inflation in 2025 unchanged, although uncertainty could weigh on pricing slightly this year.

An uncertain economic outlook

We have made modest downward revisions to our projections, but only taken on board tariff policies enacted so far. A key risk is that the current US Department of Commerce 'Section 232' investigation into the pharmaceutical sector leads to additional tariffs. The current 90-day delay to US reciprocal tariffs will expire, potentially leading to escalating trade tensions perhaps focused on the ICT services sector. Tariffs have already added volatility to Irish GDP, leading to a surge in exports to the US in Q1, but which will likely unwind later in 2025. These uncertainties mean our forecasts could be revised again substantially in the near future.

Forecasts	2024	2025(f)	2026(f)
Consumer spending	2.3%	2.4%	2.5%
Government expenditure	4.3%	3.5%	3.5%
Investment	-25.4%	14.4%	1.2%
Building & construction	-1.8%	6.4%	4.8%
Machinery & equipment (core)	4.1%	-4.5%	-5.0%
Modified investment	2.2%	3.1%	2.1%
Exports	11.7%	3.4%	4.5%
Imports	6.5%	4.8%	4.3%
Modified Domestic Demand	2.7%	2.8%	2.6%
GDP	1.2%	3.5%	3.7%
Multinational Sector	-0.9%	3.9%	4.5%
Indigenous Sector	2.1%	2.5%	2.6%
Government balance, % GDP	4.3%	1.6%	1.5%
Government debt, % GDP	40.9%	37.9%	36.0%
Employment Growth	2.7%	1.8%	1.3%
Unemployment Rate	4.3%	4.2%	4.5%
CPI Inflation	2.1%	2.3%	2.0%

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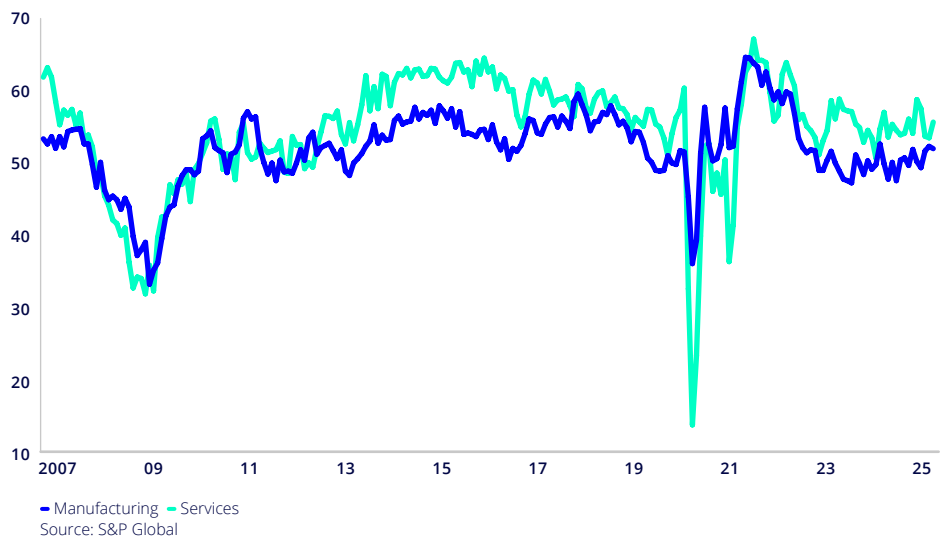
Irish GDP receives temporary boost from tariffs

US exports surge in Q1...

The preliminary estimate of Irish GDP rose by 3.2% in Q1 2025, up an enormous 13.3% on the year, mainly reflecting buoyant multinational sector output. Specifically, Irish goods exports surged to €66.5bn in three months to February, but reflecting a 103% rise in those destined for the United States, heavily concentrated in pharmaceuticals. In our forecast, we assume these export and GDP gains are temporary, reflecting front running of tariffs and will unwind in 2025.

Most indicators suggest the domestic economy had a lot of momentum early in 2025. The unemployment rate fell to 4.1% in April. Core retail sales were flat in March, but up 1.4% on the year. Exchequer returns for Q1 showed tax revenue growth still buoyant. Also, Ireland's PMI surveys were all above the 50 no-change level in March; construction (53.9) manufacturing (51.6), services (55.3).

Irish PMIs



...and limited impact from uncertainty so far

There is limited evidence of tariff related uncertainty hurting activity so far. The Irish consumer confidence index fell to a 10-month low in March, but remains well above levels seen in 2022 at the height of the real wage squeeze from inflation. Despite some evidence of tariff fears hurting sentiment Ireland's March PMI surveys showed on balance a net 30% majority of firms still expected output to expand over the next year.

Labour Market

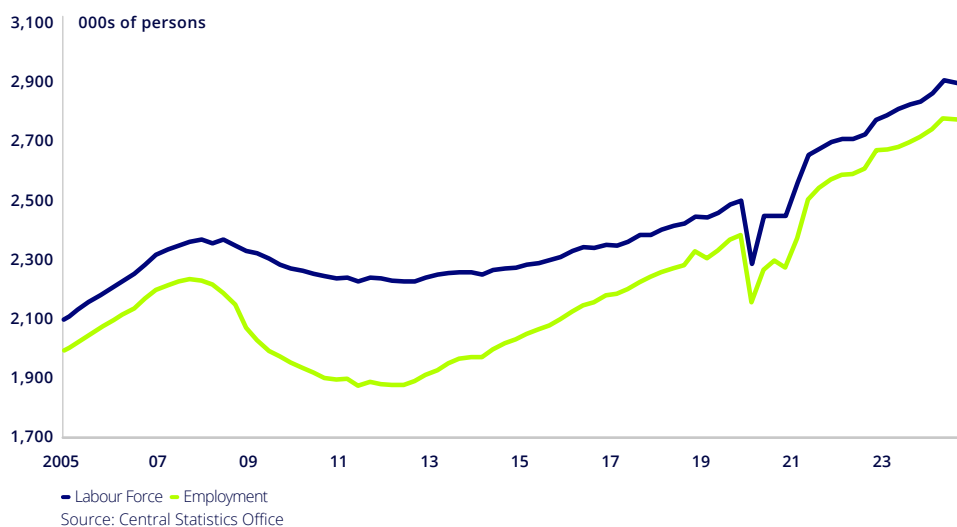
Employment growth to slow to more sustainable pace

Employment at a record high

Irish employment grew by 2.7% through 2024 to a fresh record high of 2.78 million. This robust pace of jobs growth appears to have continued into early 2025. The unemployment rate fell to 4.1% in April, down from 4.2% in Q4 2024. The CSO's estimate of employee numbers was 2.52 million in February, up 1.8% on the year, pointing to a robust if softer pace of growth.

The services PMI for March pointed to the strongest pace of job creation in thirteen months. Nonetheless, we have revised down our projection for employment growth slightly to 1.8% in 2025 (2.2% previously) followed by a further 1.3% gain in 2026. This means the unemployment rate will rise gradually, averaging 4.2% this year and 4.5% in 2026.

Labour Force & Employment



One feature of the Irish labour market has been an acceleration in pay growth. Average weekly earnings grew by 5.4% through 2024, but total compensation by 3.9%. Our forecast is for 4.5% earnings per head in 2025 as labour shortages put further upward pressure on wages.

Labour Market Projections	2024	2025(f)	2026(f)
Employment	2.7%	1.8%	1.3%
Unemployment Rate	4.3%	4.2%	4.5%

Source: Bank of Ireland, Central Statistics Office

Consumer

Cautious consumers to maintain high savings

Elevated household savings...

Consumer spending expanded by 2.3% in 2024. This is a robust pace, but was softer than the expansion in employment or real household incomes, reflecting that the savings ratio rose to 15.3% in Q4 2024, up from 12.7% twelve months before. Early figures for 2025 point to a similar pace. For example, core retail sales volumes in March were up 1.4% on the year. We expect consumer spending to expand at a similar 2.4% pace in 2025. This reflects that CPI inflation, now at 2%, will provide a smaller drag on households' real incomes and vis-à-vis nominal wage growth of 4.5%. The tax cuts in Budget 2025, worth close to 2% of disposable incomes at the average wage, will also support spending.

Household Savings Ratio



Source: Central Statistics Office

...moderating spending growth

However, in March, consumer confidence slipped to a 10-month low and likely fell further following the US tariff announcements on April 2nd. So we expect the savings ratio to remain elevated at 14.5% moderating the real growth of consumer spending in 2025 to 2.4%, beneath our previous forecast for a 3% expansion.

Consumer Spending Projections	2024	2025(f)	2026(f)
Compensation	6.7%	6.1%	5.4%
Gross Disposable Income	7.5%	5.0%	4.5%
Savings Ratio	14.2%	14.5%	14.5%
Nominal Spending	6.3%	4.7%	4.5%
Consumer Expenditure Deflator	3.9%	2.3%	2.0%
Real Spending	2.3%	2.4%	2.5%

Source: Bank of Ireland, Central Statistics Office

Investment

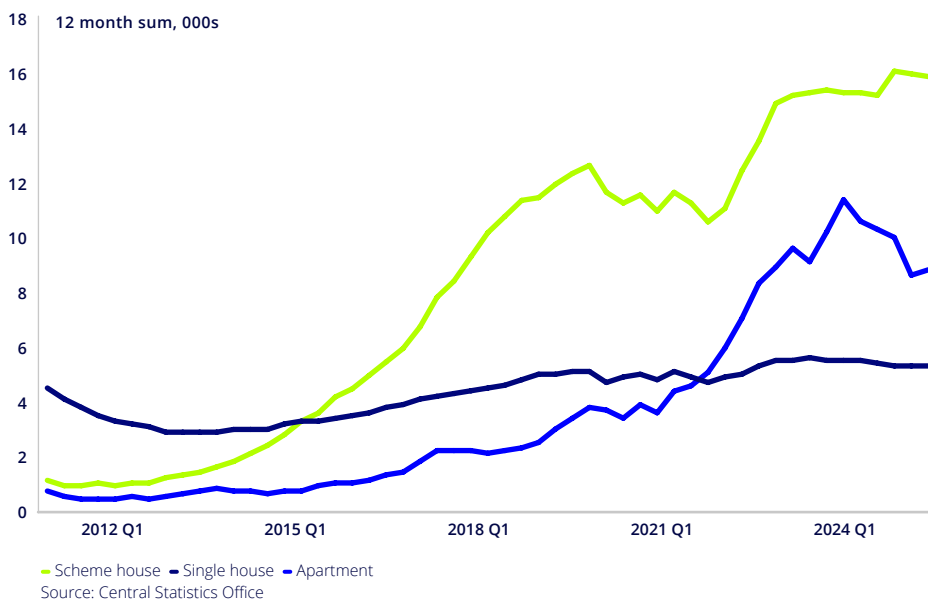
Investment spending revised down on uncertainty, housing completions

House completions disappoint

Housing completions have continued to disappoint. Following the 30,237 in 2024, there were 5,938 completions in Q1 2025, up just 2% on the year. Clearly, homebuilding hasn't picked-up as sharply as the 69,000 housing starts in 2024, artificially inflated by developers rushing to take advantage of expiring waivers on local authority and water infrastructure charges.

That said, the '4Dublin Housing Supply Pipeline' survey of 188 active sites, conducted by the four local authorities in the capital, indicates 19,445 units under construction in Dublin at end-2024, up 23% on the year. So some pick-up in homebuilding activity has occurred. Whilst we revised down our forecasts, we still expect 36,000 housing completions in 2025, rising to 39,000 in 2026.

House Completions



Investment growing at subdued rate

Uncertainty will also weigh on investment in non-residential construction. We have pencilled in a slower, 2.5% rebound in non-residential activity in 2025 and a 4.5% fall in core machinery and equipment spending, albeit from exceptionally elevated levels. Overall, modified investment is expect to grow at a subdued 3% pace in 2025.

Exports

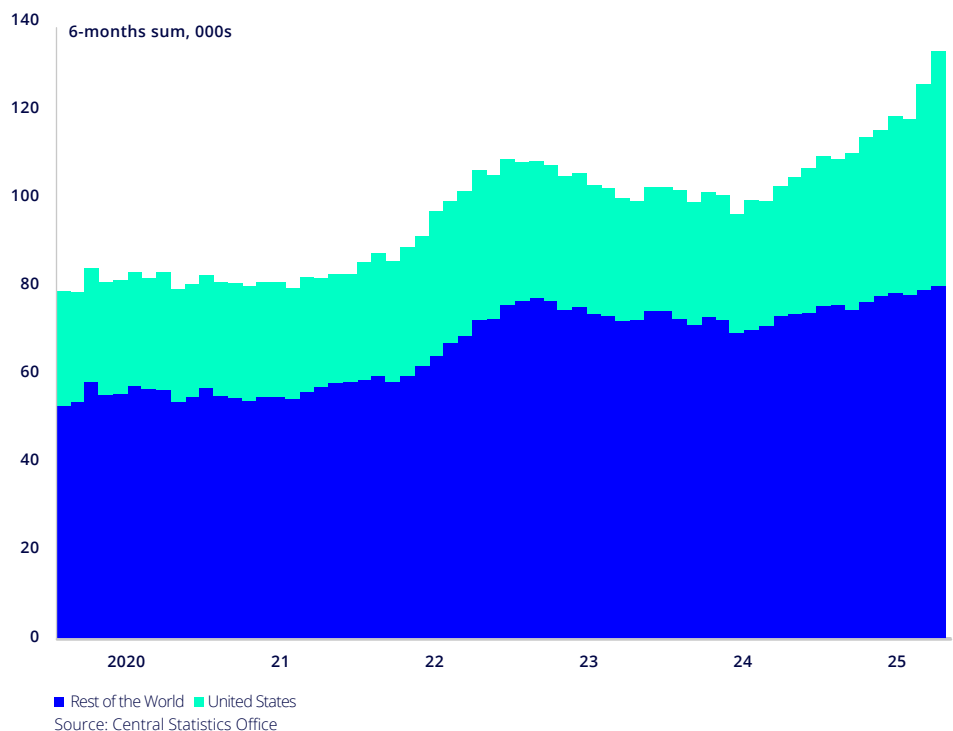
Export performance held back by tariffs, weaker global demand

Front-running tariffs temporarily boosts exports

Both Irish GDP and goods exports have been temporarily boosted by inflated trade flows ahead of the expected imposition of tariffs. In the three months to February 2025, nominal goods exports were €67bn, up 37% on the year, but starkly split between a 103% rise in those to United States to €30bn, but only 7.5% rise to the rest of the world to €36bn.

In a similar vein, industrial production in the 'modern' sector in the first two months of 2025 was up 30% on the year, but down 3% amongst traditional manufacturers. This isn't surprising given nominal pharmaceutical exports to the US were €26bn during this period, up 125% on the year.

Irish Goods Exports



Weaker outlook for global growth

The front running of US tariffs will dilute the immediate impact of the 10% baseline tariff on Irish goods trade, and likely unwind through 2025. However, the IMF has also revised down its forecast for world trade to 1.7% and 2.5% growth in 2025 and 2026. Hence, we have reduced our forecast for Irish export growth to 4.5% in 2026, from 5% previously.

This downward revision only reflects tariffs enacted so far. The US Department of Commerce has announced a 'Section 232' investigation into the pharmaceutical sector. A clear risk to our forecast is that additional measures on pharmaceuticals, or should EU-US negotiations fail to bear fruit during the 90-day delay, could lead to additional tariffs being imposed.

Public Finances

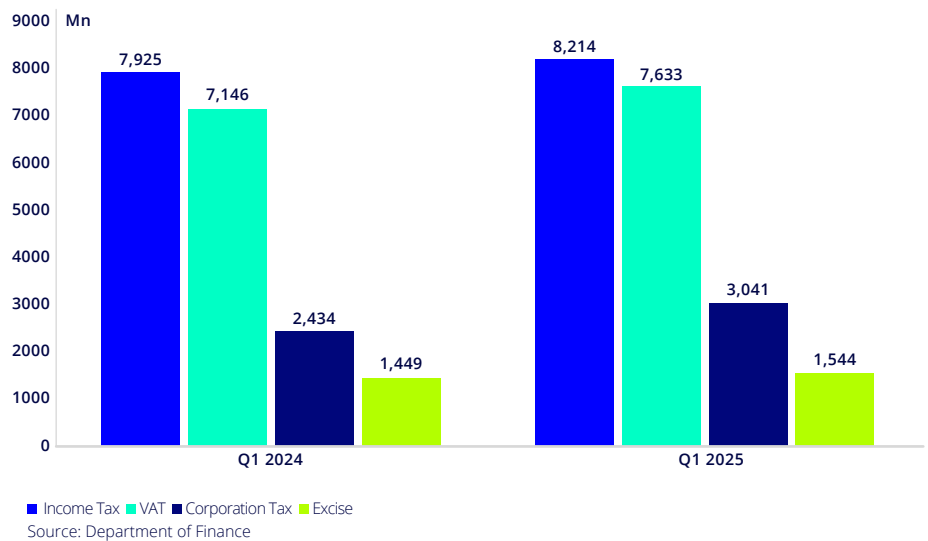
Robust tax revenue growth in early 2025

Broad-based tax revenue gains in Q1

Exchequer returns for the first quarter of 2025 still point to buoyant revenue growth. Tax revenues of €23.6bn were collected in the first three months of the year, up 17.5% on the year. Once again buoyant corporate tax revenues (+25%) largely explained the sharp rise, but key items such as income taxes (3.6%), value-added-taxes (6.8%) and excise (6.6%) all also registered strong gains.

Public spending continues to grow rapidly. Total gross voted expenditure was €25bn in Q1 2025, up 8.8% on the year and current spending was €22.3bn, also up 6.1%. This is a substantially faster pace than the 3% growth assumed in Budget 2025.

Tax Revenue



We have left our forecasts for the general government balance relatively unchanged, at €8.8bn in both 2025 and 2026, or 1.6% of GDP this year and 1.5% in 2026.

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