Bank of Ireland Economic Forecasts

July 2025

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Our new forecast is for 8.1% GDP growth in 2025, slowing to 3.2% in 2026. These upward revisions reflect the surge in exports and multinational output over the past 12-months, but also buoyant consumer and public spending. Our forecast for modified domestic demand has been revised up slightly to 2.9% growth in 2025, held back by weak homebuilding and investment. We still expect the unemployment rate to remain low, averaging 4.2% in 2025, with house prices to rise by 5% this year. Of course, the outlook is especially uncertain. We have assumed US tariffs on Irish exports remain at 10%, with pharmaceuticals exempt. Any change to current US policy on August 1st, or thereafter, would lead us to revise down our Irish GDP projections somewhat.

Revising up our projections for Irish GDP growth in 2025

Front-loading of exports ahead of US tariffs, new pharmaceutical production facilities and investment in intellectual property assets combined to raise GDP by 7.4% in Q1 2025, up 20% on the year. Some, but not all, of this rise in GDP will unwind through 2025. Hence, we have raised our forecast for Irish GDP growth to 8.1% in 2025 (3.5% previously) following the surge in exports and multinational sector output over the past 12-months.

Modest upgrade to modified domestic demand growth to 2.9% in 2025

Revised CSO data show consumer spending rose 3% in the year to Q1 2025, more momentum than previously thought. Similarly, public expenditure was also up 8.2% in H1 to €51bn, a faster pace of expansion than assumed in Budget 2025. Notably, investment in homebuilding (-4%) and non-residential construction (-5%) contracted sharply in 2024, but we expect a 5% rebound this year. Hence, our forecast for modified domestic demand is revised up slightly to 2.9%.

Labour market continuing to expand at rapid pace

LFS employment was 2.8 million in Q1 2025, up 3.3% on the year, with the preliminary estimate of the unemployment rate still low at 4% in June. We still expect a gradual softening of job creation to 2.6% in calendar year 2025 and 1.4% in 2026, so the unemployment rate rises gradually to average 4.4% next year.

US tariffs remain the key risk for the Irish economy

Our forecasts are based on US tariff's remaining at 10%, with pharmaceuticals remaining exempt. Should the US administration follow through on threats to raise tariffs to 30% on August 1st, or impose them on pharmaceuticals we will need to revise down our projections. That said, Ireland's direct exposure is limited. Goods trade with the US accounted for 9% of Irish exports in 2024, of which three-quarters were pharmaceuticals. The more uncertain issue is the negative impact of uncertainty on FDI and investment. However, our forecasts embody only a gradual pick-up in investment spending from current subdued levels.

Still expect 5% house price inflation through 2025

There is little evidence of Trump-tariff related uncertainty having any impact on the housing market. We are sticking with our forecast for 5% residential property price inflation in 2025. Recent indicators clearly point to a 'mid-single-digit' rise in Irish house prices this year, close to the current pace of pay growth at 5.6%. For example, MyHome asking price inflation slowed to 7% in Q2 2025. Also, the average mortgage approval was €337,000 in May, up 6.7% on the year.

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Forecasts	2024	2025(f)	2026(f)
Consumer spending	2.9%	2.7%	2.4%
Government expenditure	5.3%	3.9%	3.5%
Investment	-28.5%	8.1%	1.6%
Building & construction	-4.8%	5.6%	5.5%
Machinery & equipment (core)	-7.5%	-4.5%	-5.0%
Modified Investment	-4.2%	2.2%	2.2%
Exports	8.6%	9.6%	4.5%
Imports	2.7%	7.6%	4.3%
Modified Domestic Demand	**1.8%**	**2.9%**	**2.6%**
GDP	**2.6%**	**8.1%**	**3.2%**
Multinational Sector	1.5%	12.5%	4.0%
Indigenous Sector	3.6%	2.5%	2.6%
Government balance, % GDP	4.3%	1.2%	1.1%
Government debt, % GDP	40.9%	36.2%	34.6%
Employment Growth	2.7%	2.6%	1.4%
Unemployment Rate	4.3%	4.2%	4.4%
CPI Inflation	2.1%	2.0%	2.0%

Source: Bank of Ireland, Central Statistics Office.

Economy

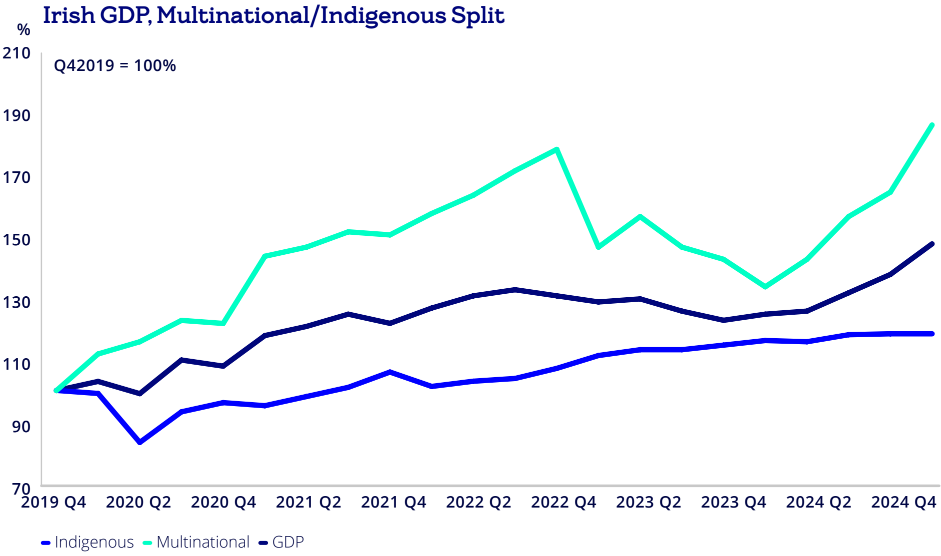
We have revised up our projections for Irish GDP growth

Since our April 2025 economic forecast most Irish macroeconomic data have been well ahead of expectations. A combination of front loading of exports, new pharmaceutical production facilities coming online and investment in intellectual property assets led to GDP rising by 7.4% in Q1 2025, up 20% on the year. We expect only some of this rise is temporary, and will unwind later this year. Hence, our new forecast is for 8.1% GDP growth in 2025 and 3.2% in 2026.

Modified domestic demand growth in 2025 revised up to 2.9%

A range of indicators; employment (3.3%), consumer spending (3%) and government consumption (5.2%) grew at faster pace than expected in the year to Q1 2025. This partially reflected CSO data revisions, doubling the measured GDP growth rate in 2024 to 2.6%. Modified investment in Q1 2025 was up only 0.6% in the year to Q1 2025, but largely reflected an erratic 12% year-on-year decline in investment in intellectual property assets – which is unlikely to persist.

Irish GDP, Multinational/Indigenous Split



Source: Central Statistics Office

Labour Market

Labour market expansion beats expectations

LFS employment bounced back by 1.3% in Q1 2025 (after a 0.2% decline in Q4 2024) to 2.8 million, up 3.3% on the year. The unemployment rate has remained low, at 4% in June. For now the labour market continues to beat expectations. We have revised up our forecast for employment growth to 2.6% in 2025 (vs 1.8% previously). However, the CSO's measures of employees grew at a softer pace, 2.1% yoy, to 2.53 million in April. Also, the public sector has made a substantial contribution that may slow. Hence, we still expect job creation to slow to 1.4% in 2026, and the unemployment rate to rise to 4.4% in 2026.

Consumer

Consumer spending buoyant, despite high savings

Ireland's robust labour market expansion has driven robust growth in real household spending, even as savings have remained elevated. Consumer spending grew by 3% in real terms in the year to Q1 2025 (revised up from 2.5% initially) with the household savings ratio at 14%.

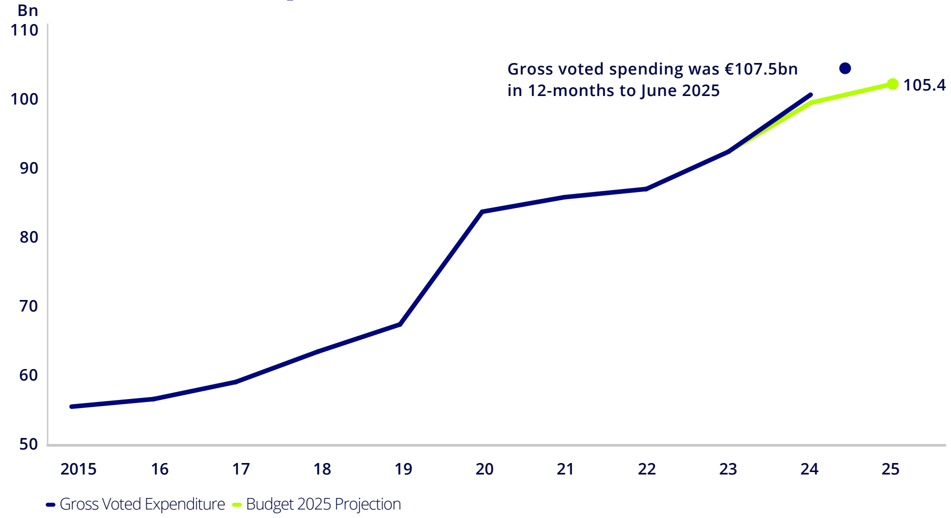
This pattern has continued into Q2, demonstrated by buoyant credit-debit card spending but with household deposits growing by 6.5% in the year to May to €165bn. This was despite a fall in Irish consumer confidence to a 2-year low in April, before sentiment bounced back in May. Hence, we are now forecasting a stronger pace of consumer spending growth in 2025, at 2.7%.

Public Finances

Public spending making strong contribution to domestic demand

Gross voted public expenditure was €51bn in H1 2025, up 8% on the year. This is well ahead of the 1.7% pace the Department of Finance had forecast in it's May 2025 Annual Progress Report. Hence, we have raised our projection for real public consumption of goods and services to 3.9% in 2025. We expect gross spending will grow by 7% in 2025. This means the government surplus will still equal 1.2% of GDP in 2025, with the debt/GDP ratio falling to 36%.

Gross Voted Public Expenditure



Source: Central Statistics Office

Investment

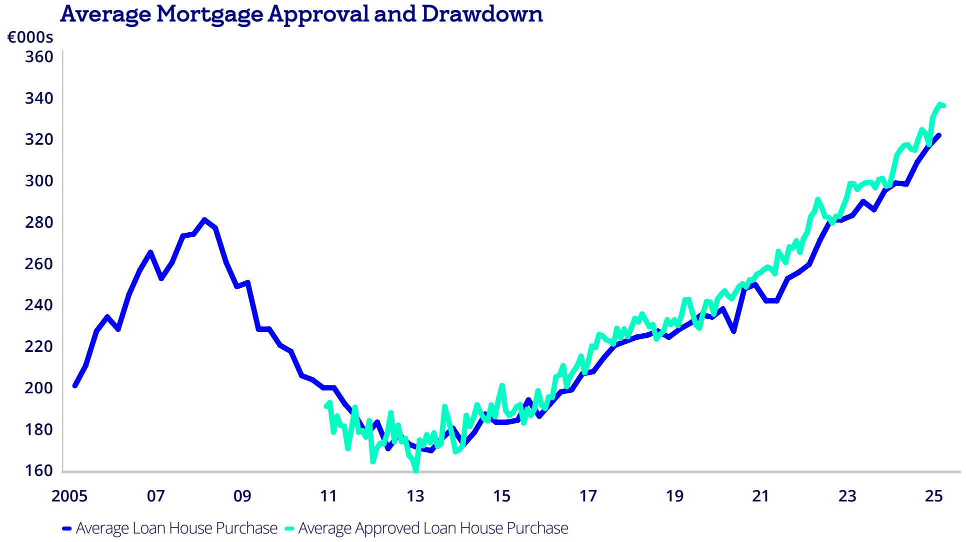
Concerning weakness in investment should gradually rebound in 2025

Modified investment fell 4% in 2024 – reflecting the fall in house completions to 30,300 but also a 5% contraction in non-residential construction. This is concerning, indicative of slow rollout of infrastructure and delayed delivery of the National Development Plan (NDP). Our forecast, is for a gradual rebound in 2025, housing completions rising to 34,500 and non-residential construction rising by 2.5%.

House prices set for substantial 5% gain through 2025

We have left our forecast for residential property price inflation (RPPI) unchanged at 5%. There is no sign of any Trump related uncertainty holding back transactions or pricing. MyHome asking prices rose by 4% in Q2 2025, ahead of the busy summer trading season, up 7% on the year. Similarly, the average mortgage approval in May was €337,000, up 6.7% on the year. Residential transaction volumes in Q2 were up 3% on the year, with no sign of any decline in new listings for sale.

Average Mortgage Approval and Drawdown



Source: Banking Payments Federation Ireland

Exports

Underling export performance resilient to trade uncertainty

Ireland's national accounts data indicates exports rose by 9.6% in Q1 2025, up 22% on the year. This exceptional growth was split between a 46% rise in goods exports and more sedate 3.6% rise in services trade. Looking ahead, front running of US tariffs will likely unwind in Q2 and Q3 2025. However, there also appears to have been a structural upward shift in exports reflecting new pharmaceutical production facilities coming online and fresh investments in intellectual property assets. Hence, we have revised up our forecast for Irish exports to 9.6% growth in 2025.

Peering through the statistical fog, underlying export performance looks to have remained robust. Ireland's manufacturing PMI was 53.7 in June, a 3-year high, remaining above the 50 no-change level. Traditional manufacturing output in May was up 2.2% on the year. The defensive character of Irish exports, concentrated in pharmaceuticals, med-tech and ICT is still evident.

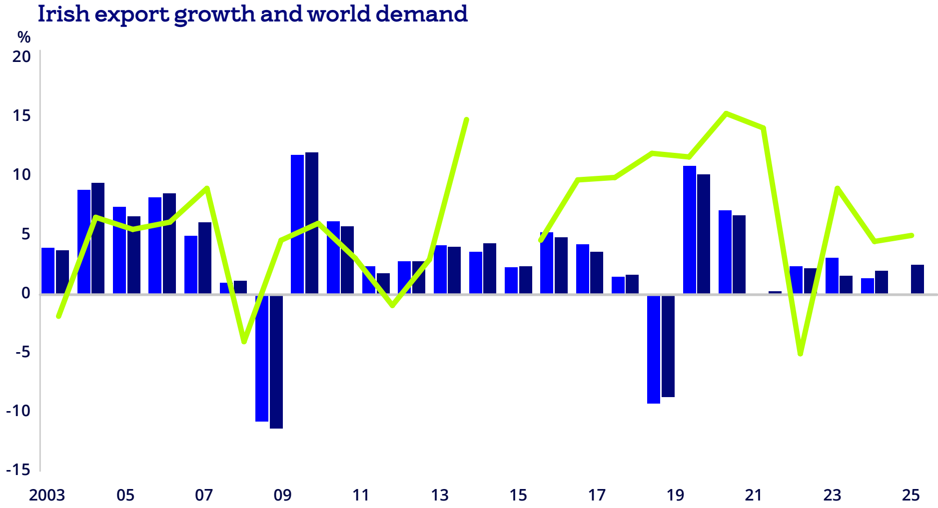
Trade uncertainty a clear risk for Ireland:

We have assumed existing 10% baseline tariffs on EU exports continues indefinitely. Should on August 1st this tariff rate increase, or the exemption for pharmaceuticals end we would need to revise down our projections. However, Ireland's direct expose to US trade is limited. Goods trade with the US accounted for 9% of Irish exports in 2024, of which three-quarters were pharmaceuticals.

Uncertainty could hold back FDI and investment spending. However, housing completions are falling well short of demand and the ratio of non-residential construction to GNI* at a 30-year low. We are encouraged by a recent American Chamber of Commerce survey – indicating 60% of respondents still expected to expand employment.

There is also the risk of escalation. The EU could impose retaliatory measures on the US, tariffs raising Irish import prices. Retaliation could also include utilising the 'anti-coercion' instrument, targeting US big-tech firms, and potentially hurting Irish services trade.

Irish export growth and world demand



Source: Central Statistics Office, IMF, OECD

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