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AIB Irish Economic Outlook

May 2025

AIB Group Plc

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What's the outlook for the economy?

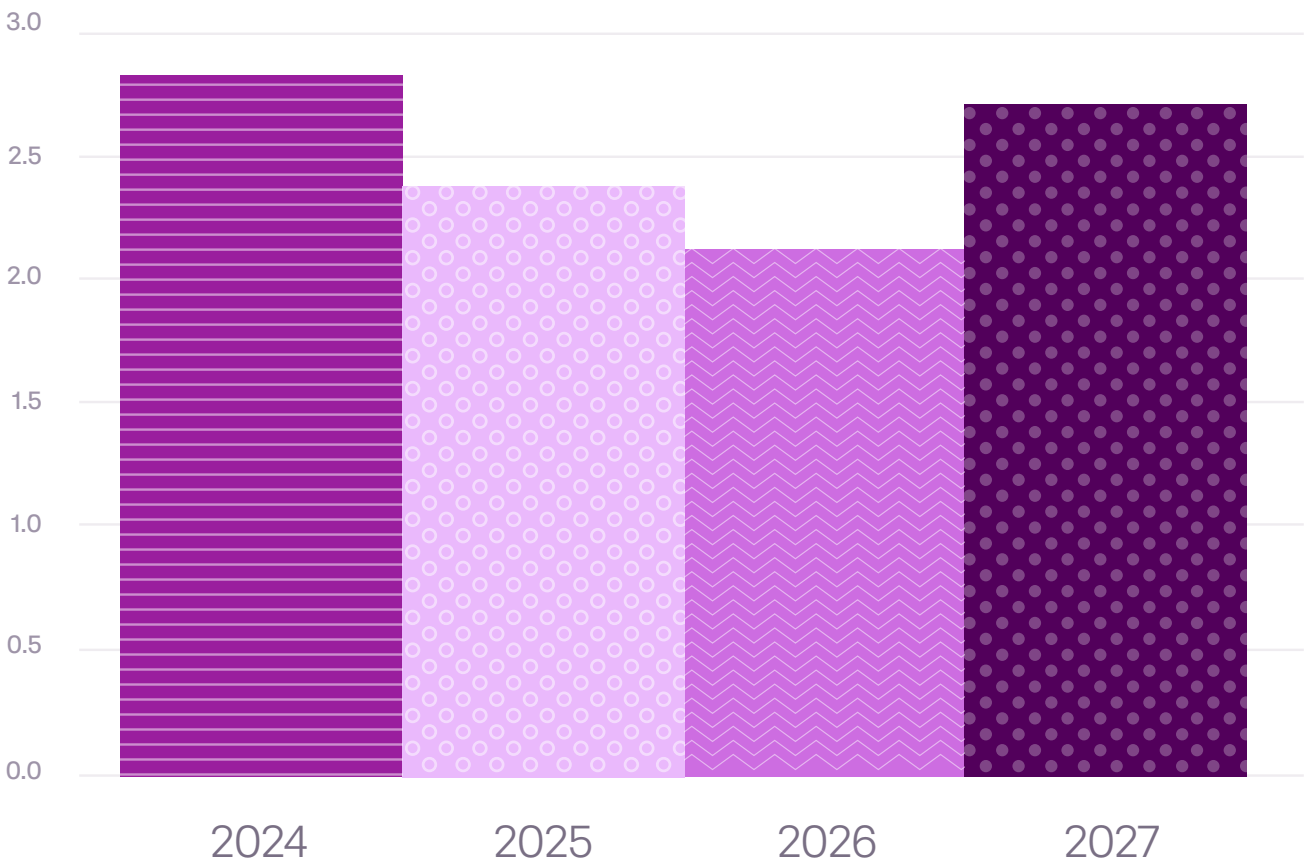
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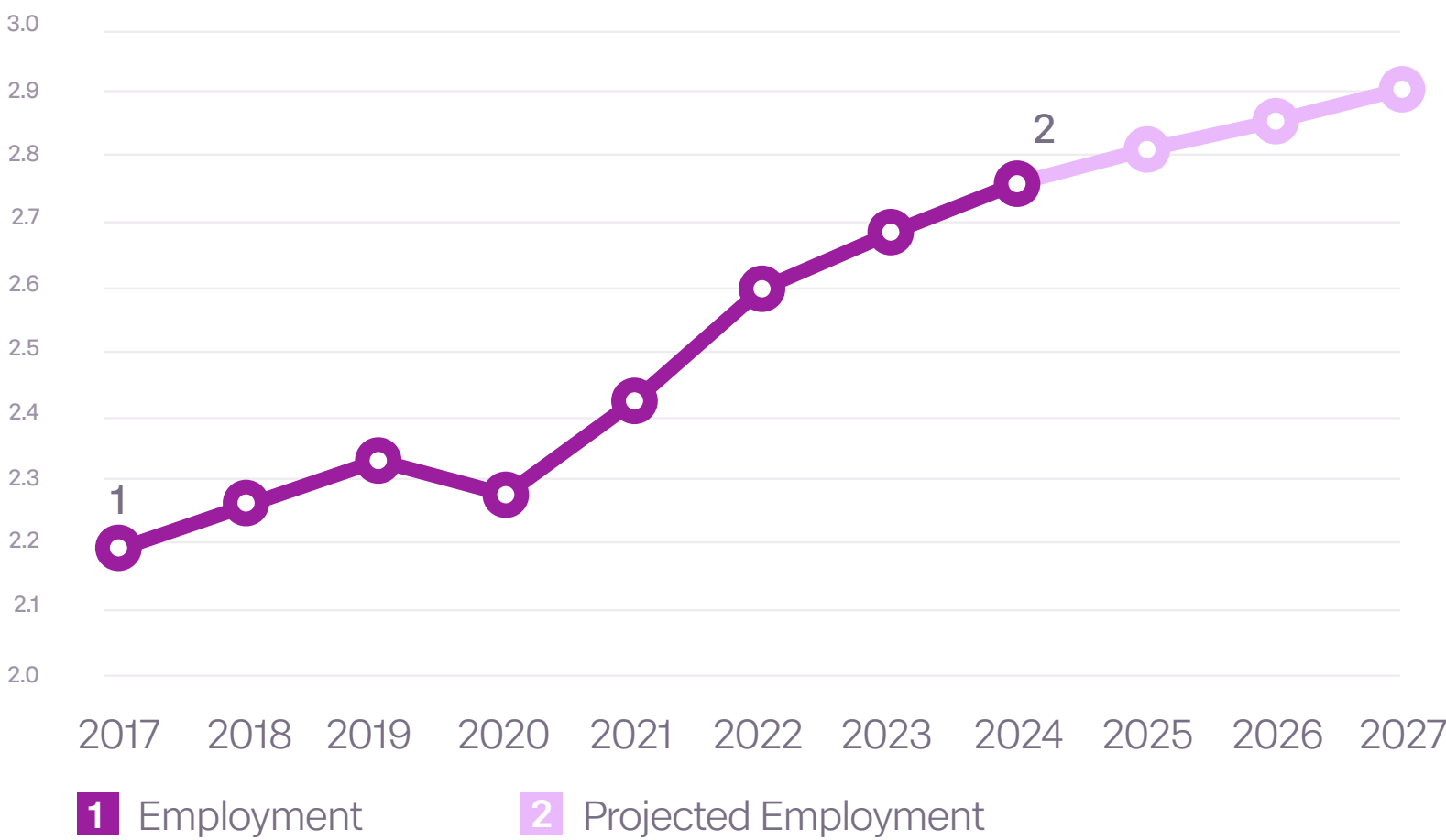
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Growth Forecasts (%)*

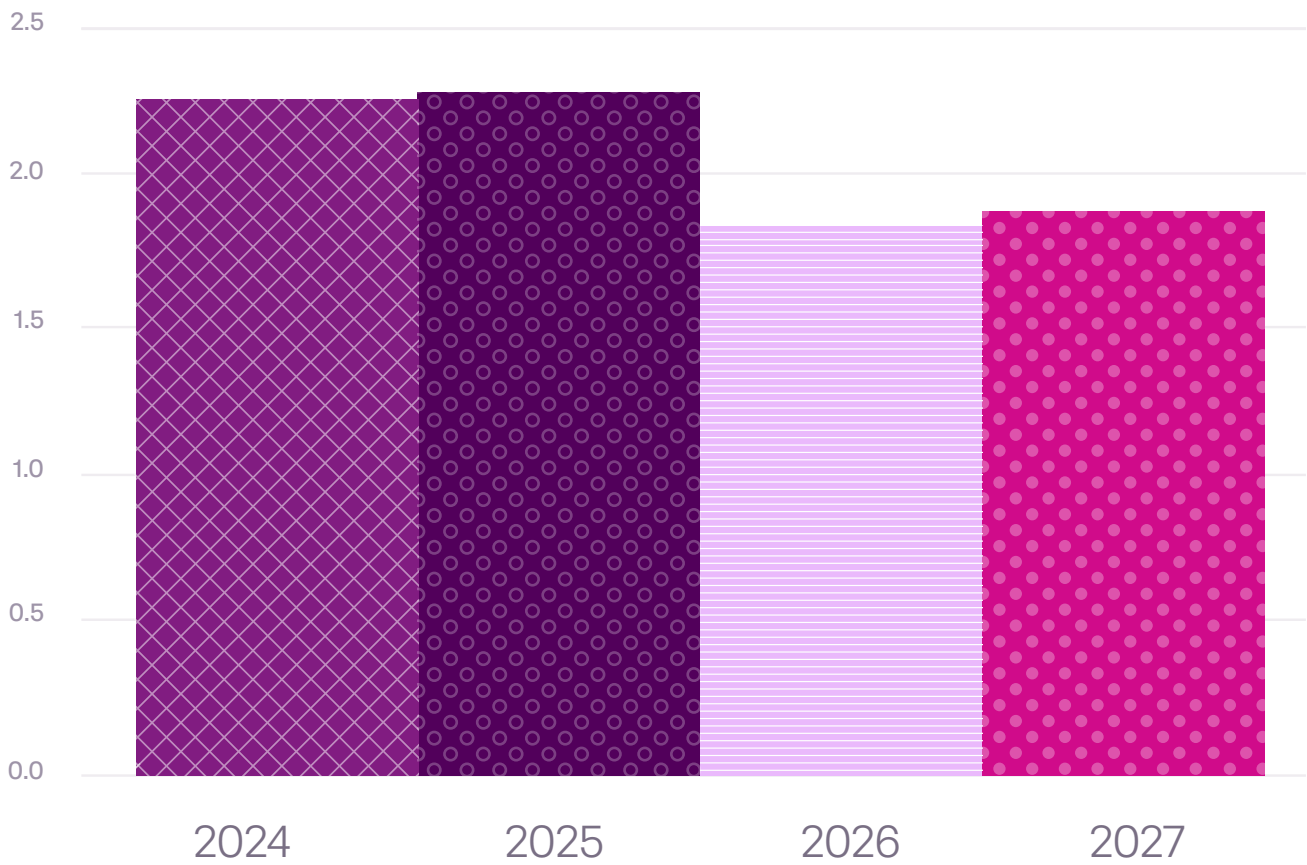


*Based on Modified Final Domestic Demand

Employment (millions)



Consumer spending forecasts (% change)



Macro Outlook



Global Backdrop –
Tariff uncertainty
expected to
blunt growth



Irish Outlook
- Growth will
moderate in 2025
and 2026



Risks to the
Outlook – US
trade links the key
downside risk

Global Backdrop – Tariff uncertainty expected to blunt growth



The macro outlook is clouded by uncertainty at present. An escalation in trade tensions and tariffs could lead to a slowdown in global and Irish growth in 2025 and 2026.

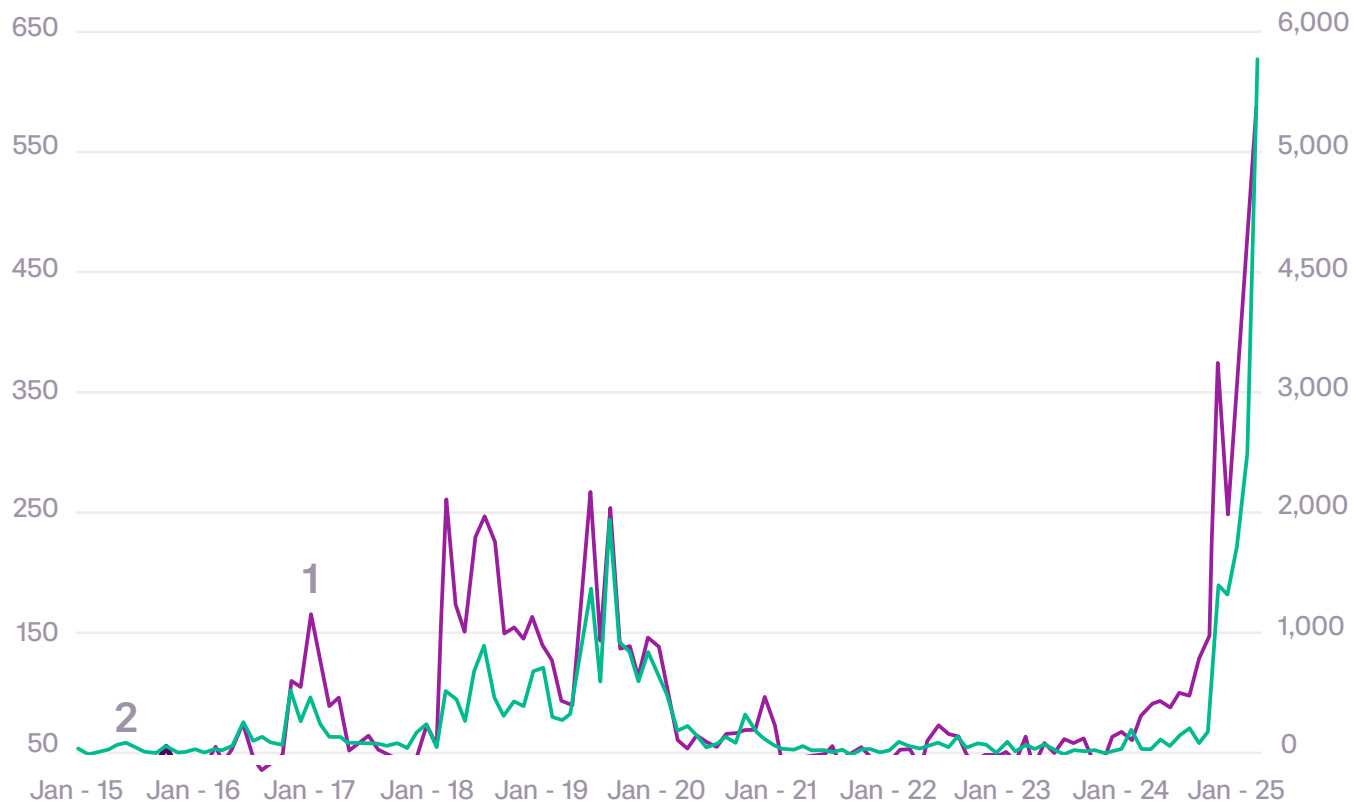
The global economy entered 2025 in good shape, with indicators pointing to stronger growth in the Eurozone and UK, and continued robust, yet moderating growth in the US. However, the uncertainty created by the imposition of US trade tariffs, followed by partial 90-day delays, has created volatility in financial markets and concern in the real

economy. In the absence of firm forward guidance on trade policy, international forecasters such as the IMF have been revising down expectations for global GDP growth in 2025 and 2026.

While recent US moves to complete trade agreements and de-escalate the damaging trade war with China have boosted market sentiment, the level of uncertainty remains heightened. This is expected to dampen both consumer spending and business investment in the near term. The most immediate impact of the US tariffs has been a surge in imports to the US from key trade partners, including Ireland. This has created something of a “sugar rush” spike in manufacturing output in Ireland and exports to the US, which will distort Irish GDP growth in 2025 and 2026.

Other major geo-political events will also have a bearing on the outlook for Ireland. Fiscal policy has the potential to underpin stronger growth in the medium term in Europe. In particular, the moves by the German Government and at an EU level to ramp up defence and infrastructure spending could

Trade Policy Uncertainty Index



GDP forecasts for Ireland’s key trading partners

	2023	2024	2025 (f)	2026 (f)
US	2.9	2.8	1.8	1.7
Eurozone	0.4	0.9	0.8	1.2
UK	0.4	1.1	1.1	1.4
China	5.4	5.0	4.0	4.0

Source: IMF World Economic Outlook, April 2025

offset some of the negative effects of US tariffs. Secondly, a more favourable outcome to current global trade disputes than currently expected could be a catalyst for stronger economic sentiment and growth in the US and Europe. Finally, a resolution or cessation to current geopolitical conflicts in Ukraine and the Middle East could also provide a similar boost to economic confidence and potentially reduce inflationary tail risks (energy, supply chain resilience).

In summary, uncertainty remains extremely high, but there are both upside and downside risks to the global outlook at present.

- 1 Global
- 2 US

Source: David & Steven; Caldera et al.

Irish Outlook – growth will moderate in 2025 and 2026

➔ In Ireland, we expect a slower pace of economic growth in the near term, with modified domestic demand easing to 2% by 2026 from 2.7% in 2024.

Underpinning our Irish forecast is the assumption that US tariffs are likely to settle at a higher rate of c.10% in the coming years, well above the prevailing January 2025 rate. We assume the higher reciprocal tariffs introduced in April, and subsequently paused, are not re-applied. There are obviously material risks to the upside and downside of these assumptions. A comprehensive trade deal between the EU and US could see tariff barriers move closer to January 2025 levels. A more negative outcome, such as the reversion to reciprocal tariffs of 20% on the EU, or higher sector-specific tariffs on pharmaceuticals which impact Irish exports, could dampen Irish economic growth further than we expect in our baseline forecasts. We discuss the Irish exposure to the US economy in more detail in our “Risks to the Outlook” section.

Irish GDP remains a volatile gauge of activity, as evident in the sharp swings in growth in recent quarters, but the globalised nature of Ireland’s GDP also reveals emerging post-tariff trends in the global economy. In Q1 2025, provisional data show a 13% year-on-year rise in Irish GDP, driven by a surge in pharmaceutical exports to the US. Irish trade data show exports were up 60% year-on-year in Q1 2025, almost entirely driven by pharma exports to the US. While the duration of this surge in exports is uncertain and will be determined by emerging US tariff policy, it will inevitably peter out, most likely from the second half of 2025. Therefore, we expect to see a sharp rise in Irish GDP in 2025 of c.5.5%, followed

by a similar fall next year, leaving the level of GDP lower by end-2026.

A less volatile gauge of the domestic economy - modified domestic demand (MDD) - will continue to expand, but at a more moderate pace. In terms of the growth outlook, we see MDD slowing to 2.3% in 2025 and 2% in 2026, reflecting the expected cooling in both consumer spending and business investment growth, before bouncing back to 2.6% in 2027.

Irish Growth Forecasts

	2024	2025	2026	2027
MDD	2.7	2.3	2.0	2.6
GDP	1.2	5.7	-6.8	1.1

Source: CSO, AIB ERU

Our forecast is underpinned by our expectation that households will pare back spending growth (discussed in detail later in this report), while some business sectors may delay or mothball planned investments, particularly those in export-orientated sectors. Lead indicators, such as AIB’s Purchasing Manager Indices (PMIs) suggest domestic growth has sustained a robust pace of expansion in recent months, albeit firms have been indicating concerns for future growth prospects. On the investment side, the picture is clouded by trade uncertainty.

Domestic investment is expected to be sluggish, owing to a modest rise in housing completions in 2025 and 2026, and relatively subdued activity in the non-residential sector. We see housing completions rising modestly to 31,000 in 2025, and 35,000 in 2026. On the foreign direct investment (FDI) side, the current tariff uncertainty is likely to lead to a further cooling in capital investment for large MNCs in 2025 and 2026.

Overall, we expect modified investment to slow from 2.3% in 2024, to 2% in 2025 and 1.9% in 2026, before bouncing back to 4% in 2027.

The persistence of an increasing number of domestic capacity constraints is expected to have a restraining impact on the economy. These constraints are primarily in relation to housing, transport, social and utilities infrastructure. However, given the expected slowdown in private sector investment growth, this may free up capacity for continued growth in public capital investment to address these infrastructure shortfalls, particularly in housing. Indeed, there is already emerging evidence that some construction capacity has pivoted from commercial real estate to residential delivery in recent times.

It is also notable that both public and private sector balance sheets are characterised by low debt levels and high savings on aggregate. As a result, while more moderate growth is expected in the near term,

with risks tilted to the downside, the public and private sectors have built up resilience. We discuss the resilience of the “national balance sheet” later in this report.

The annual HICP inflation rate declined to 0% in September 2024, and due to base effects has since bounced back. We expect inflation to average slightly above 2% this year, but ultimately settle at 2% in the medium term. While lower energy prices should dampen inflation in the short run, the capacity constraints in the domestic economy, particularly in housing, mean the risks to our inflation forecast remain tilted to the upside. We see HICP inflation averaging to 2.2% in 2025, 2.1% in 2026 and 2% 2027.





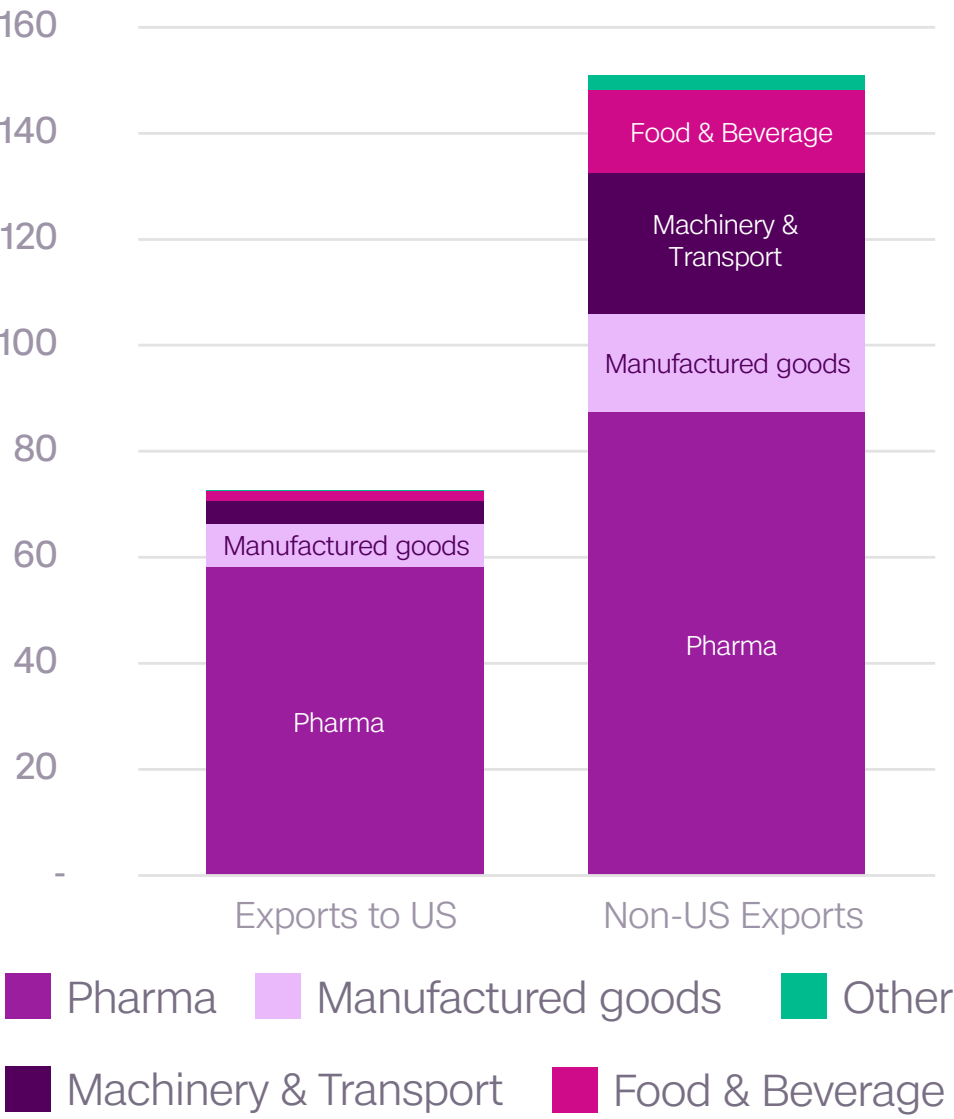
Risks to the Outlook – US trade links the key downside risk



Geopolitical and tariff risks remain front and centre and could dampen the outlook for the Irish economy in the short term. Ireland could also face other sector-specific risks, given the deep links with the US economy.

The risks to the global and domestic outlook remain tilted to the downside, with US tariffs and future US tax policy the main downside risks to the Irish economy. While some exporting indigenous Irish sectors, such as agri-food, are exposed to US tariffs, the key risks centre on Ireland’s foreign multinational (MNC) sector. The MNC sector in Ireland, accounts for c.10% of total employment, but is responsible for 50% of GDP and c.80% of exports generated in the economy. Output in these MNC sectors is dominated by US firms in pharmaceuticals and technology services. While there are no US tariffs on the Irish pharma sector yet (late May 2025), the risk remains heightened given current US Dept. of Commerce

Irish Goods Exports in 2024 (€Bn)



Source: CSO

trade investigations into the sector and statements by President Trump and other officials indicating a preference for sectoral tariffs. In 2024, Ireland’s merchandise goods exports to the US were €73bn, or 32% of all goods exports. Of these US exports, 80% were in the pharma sector. In total, 40% of Irish pharma output which was exported, went to the US in 2024.

Alongside tariffs, the key medium-term risk could also be a change in US tax laws which makes Ireland a less attractive investment destination for US FDI. While spillovers from the MNC sector to the domestic economy are significant in terms of supply chains, the employment footprint of these MNCs is relatively small, and focused on the main urban centres. Latest data from the Dept. of Enterprise Business Survey shows MNC firms spent €41bn (8% of GDP) directly in the Irish economy in 2023. This comprised of €24.5bn on wages, €11.8bn on services, and €4.6bn on goods from Irish firms in their supply chains.

Therefore, while negative spillovers from the MNC sector could hit domestic sector output and employment, the key medium-term risk to the Irish economy is in the concentration of our taxation base in corporation and incomes taxes derived from the MNC sector. The surge in corporation taxes in recent years to €28bn in 2024 from just €4.6bn in 2014, has seen the proportion of corporation tax as a percentage of total taxes rise to 29%. The Dept of Finance has indicated that up to half of these tax



receipts could be “windfall” in nature and at risk of quickly unwinding. On the income tax side, Revenue Commissioner data show that the top 5% of earners are expected to account for 47% of all income taxes and USC collected by the Exchequer in 2025.

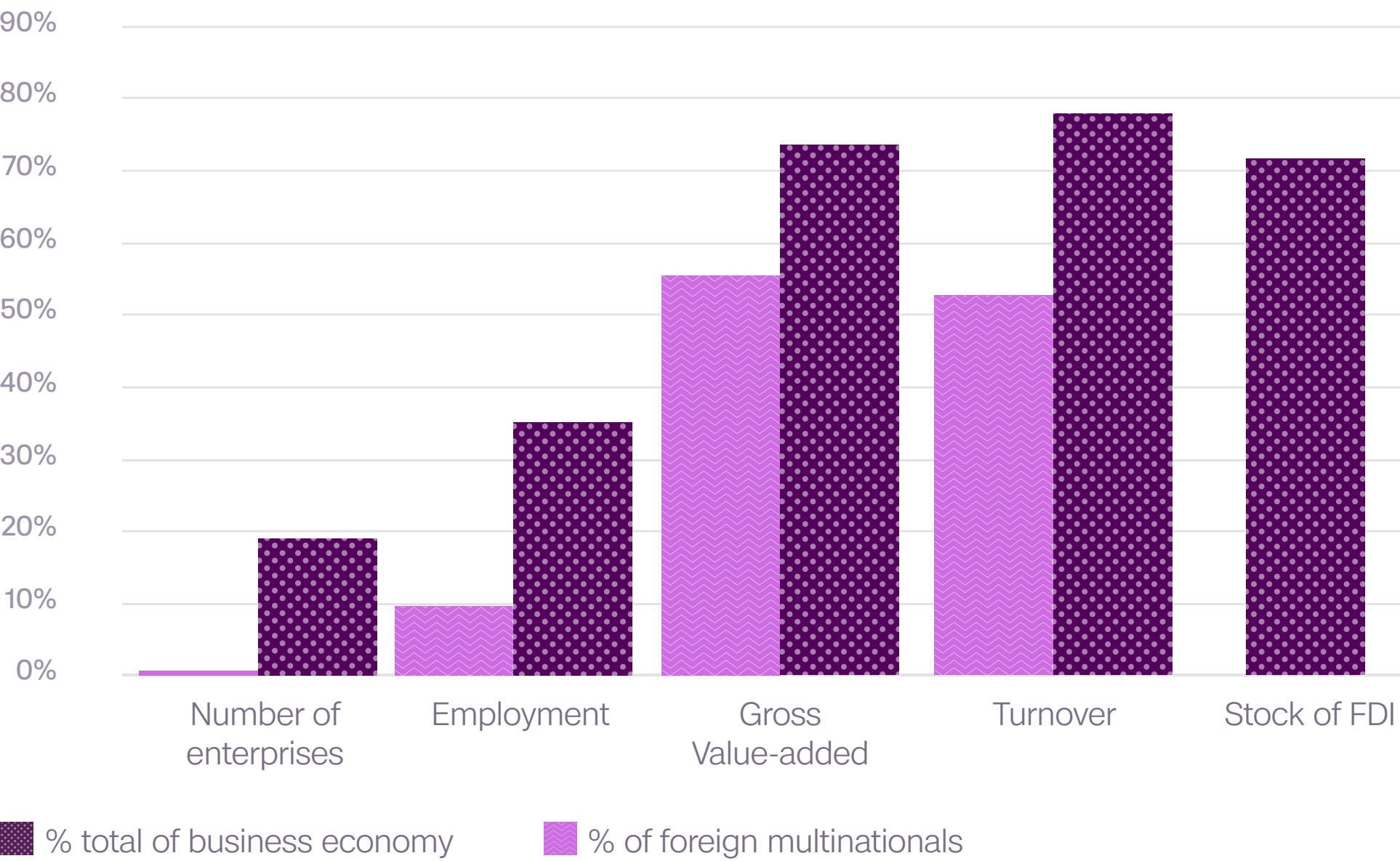
These higher income brackets have a larger proportion of workers in the MNC sector, with CSO data for 2023 showing foreign MNCs accounted for almost two-fifths (38.1%) of employment among the top 10% of earners. Given this concentration, the build-up of sovereign wealth funds by the State in recent years is a welcome additional fiscal buffer to these downside risks. We discuss the fiscal resilience built up over the past decade in the final section of this report.

In terms of upside risks, precautionary savings remain at relatively high levels in many economies, particularly Ireland, and could underpin stronger domestic spending in 2025 and 2026, if tariff risks do not fully materialise. Our central assumption is that Irish households continue to maintain savings close to current historically high levels, but as explained in our consumer and labour market outlook in this report, this should not hold back spending growth to a great extent.

However, a brightening economic outlook might spur even stronger consumer spending than we anticipate in the coming years.

In conclusion, given the openness of the Irish economy and its strong ties to the US, the risks remain tilted to the downside of our outlook.

US multinationals - share of total activity in Ireland



Source: Central Bank of Ireland



Labour Market & Consumer Outlook



Labour Market
Outlook – signs of
easing jobs growth



Consumer Outlook
– Households
increasingly cautious,
but spending
growth robust



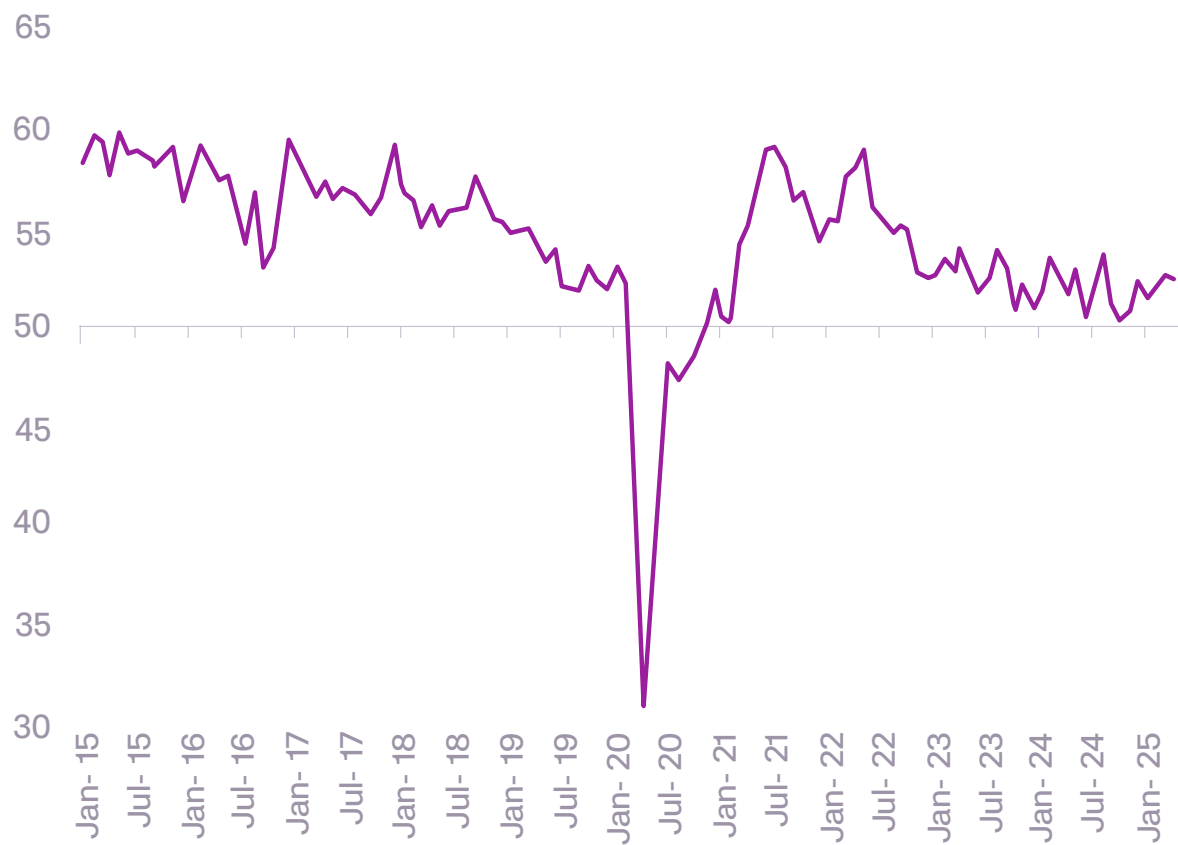
Labour Market Outlook – signs of easing jobs growth



We expect continued gains in the labour market, but jobs growth will ease, and the unemployment rate could rise due to continued strong population gains.

Over the past five years, employment has grown by over 425,000, or 19%, to 2.8 million people. This compares to a trough of 1.87 million in 2012 post the global financial crisis. Given the general easing in economic growth expected in 2025 and 2026, we expect this to be reflected in more modest jobs growth in the Irish labour market.

Irish Composite PMI - Employment Index
(50 = no change)



Source: S&P Global, AIB

There have been signs of a cooling in the labour market of late. The latest job opening data from recruitment website Indeed.ie suggest waning employer demand, with new job postings falling 18% year-on-year in May 2025, reflecting a broad-based slowdown in hiring activity across sectors. The AIB PMI employment surveys point to still-solid hiring activity in the manufacturing, services and

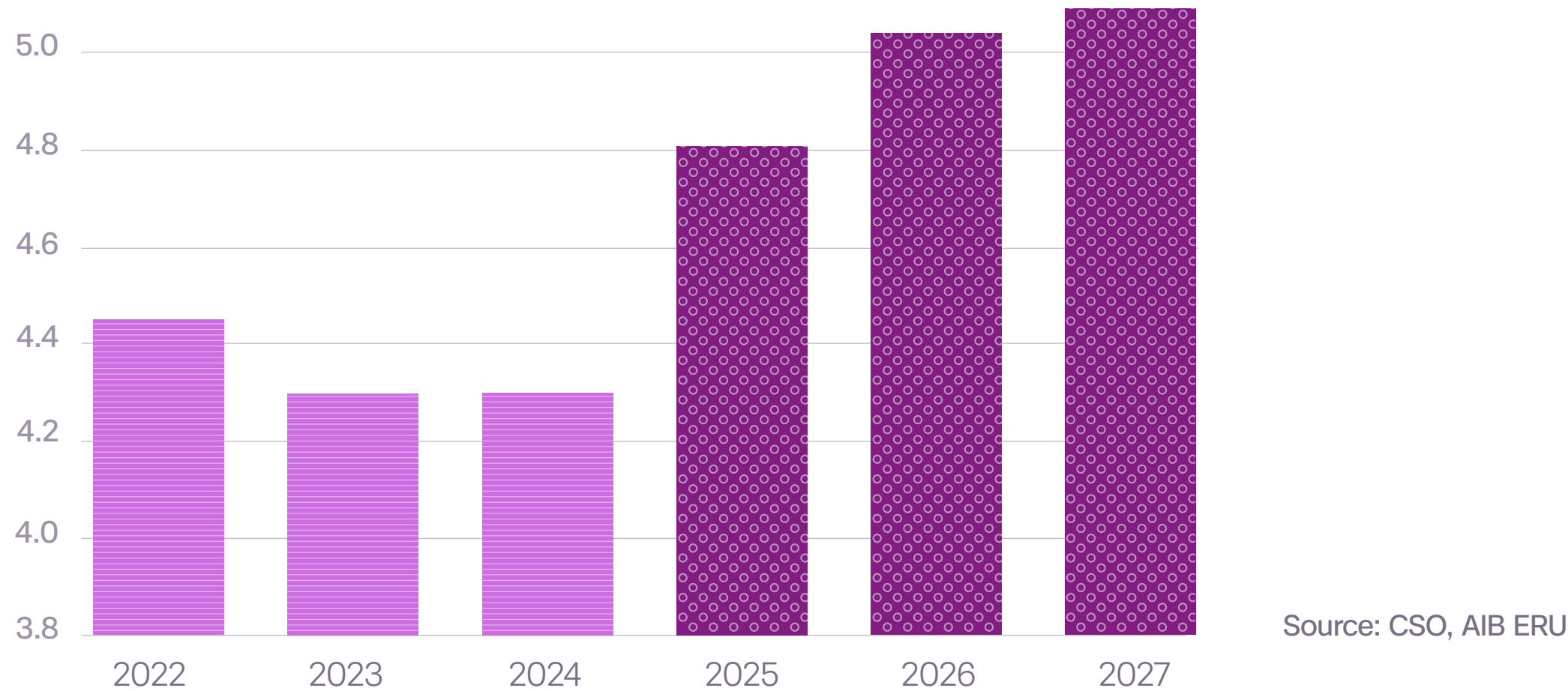
construction sectors; but signs of employer caution, with some firms noting “non-replacement of voluntary leavers”. Payrolls data from the Central Statistics Office (CSO) suggest jobs growth has also slowed of late from the near 3% annual pace of recent years to 1.5-2% in Q1 2025.

Therefore, following a 2.7% rise in 2024, we see employment growth slowing 2% in 2025, 1.5% in 2026, before accelerating to 1.8% in 2027.

On the supply side, solid population gains are expected to continue to boost the labour force, albeit the recent rapid gains in both participation rates and inward migration look to have peaked and levelled off. This implies slower inflows into the labour force from here. Following a 2.7% rise in the labour force in 2024, we expect a moderation to 2.6% in 2025 and 1.7% in 2026, as supply factors (population growth) and demand factors (employer demand) both begin to dampen the supply of new workers.

Nonetheless, driven by still strong population growth and labour force inflows, alongside slower jobs growth - the unemployment rate will rise modestly from 4.3% in 2024 to 4.8% in 2025 and 5% in 2026. This rate will be highly sensitive to the pace of labour force growth and participation rates, with new inflows to the labour force pushing up the unemployment rate, rather than net outflows from employment.

Unemployment rate forecast (%)



Consumer Outlook – Households increasingly cautious, but spending growth robust

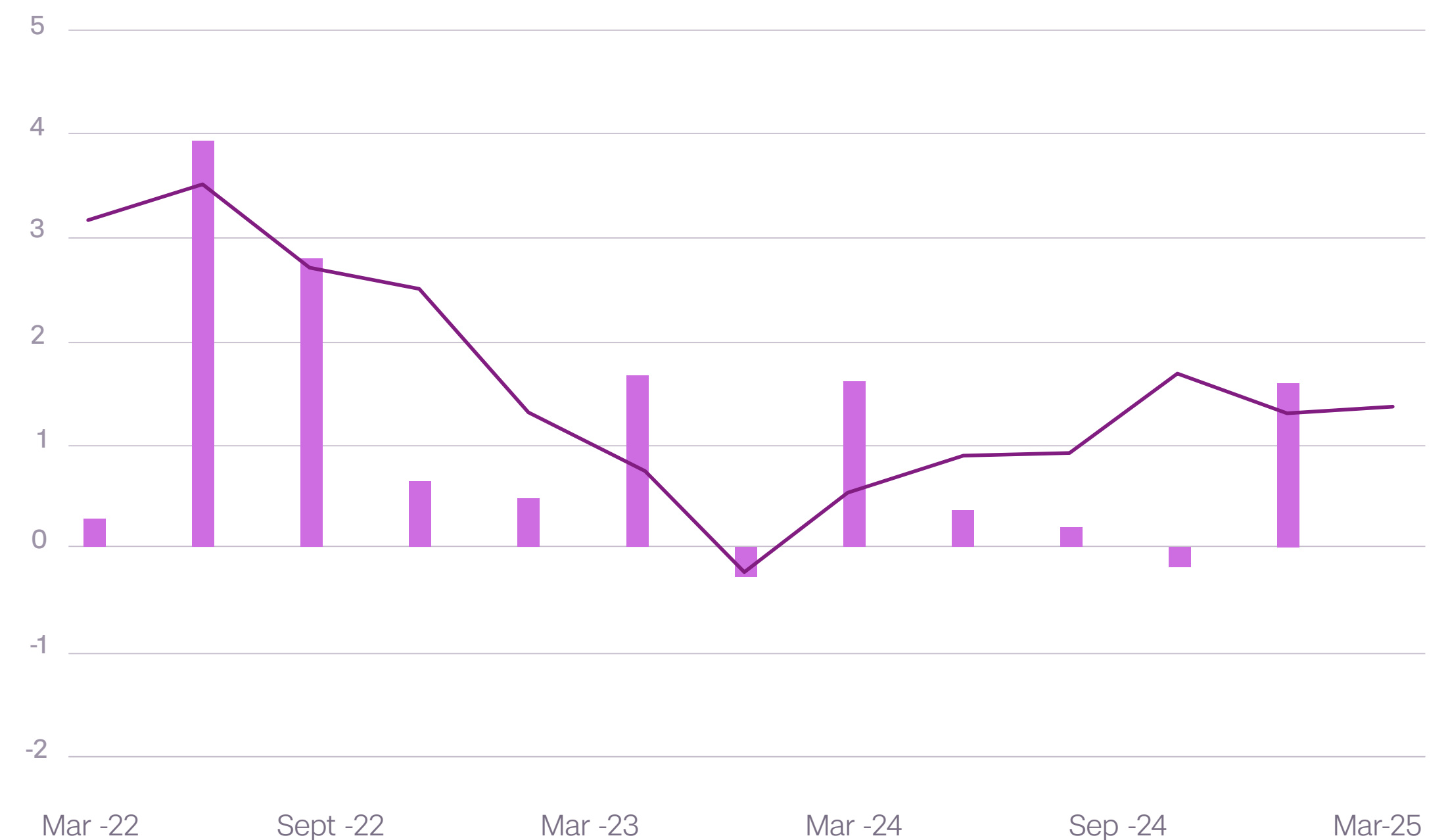


Consumer spending growth is expected to ease as households build up further precautionary savings in the current uncertain macro environment.

Recent consumer spending growth has been solid, if unspectacular, considering the strong growth in household income. Precautionary savings remain elevated, with households retaining high cash balances on deposit since the pandemic. Indeed, since the beginning of 2023, the household sector has, on average, saved nearly 14% of its disposable income each quarter, compared to a pre-pandemic average of 12.5% between 2013 and 2019. We expect this trend to persist as consumers factor in growing macro-economic risks.

Consumer surveys suggest Irish households have become more cautious recently. For example, the ECB's Consumer Expectations Survey shows that Irish households have become less optimistic about their near-term financial situation and spending expectations. This is also reflected in weaker consumer sentiment surveys during the period of heightened uncertainty around tariffs in March and April 2025. It remains to be seen if these red flags translate to actual spending decisions in the near term.

AIB card spend data vs. Irish consumer spending (q/q%)



Source: AIB, CSO

■ Real Consumption

— AIB Card Spend

Year-to-date, actual spending, borne out in AIB's Card Spend data¹ point to robust trends. The data provide a close-to-real time view of consumer spending behaviour on a month-to-month basis. The latest AIB Retail Spend Report shows that the number of transactions are up by 3.6% year-to-date in the first four months of 2025, with an average transaction of €47, up slightly on the same period in 2024. This means nominal spending was up 9.3% in the year to end-April compared to the same period in 2024. The report provides further sectoral insights, but the headline statistics suggest broad-based growth across in-store and online retailers.

We further adjust the AIB card data to create an inflation and seasonally-adjusted series which is comparable with Irish consumer spending. The adjusted card spend series suggests continued strong growth so far in 2025, despite a dip in consumer sentiment surveys recently. In Q1 2025, adjusted AIB card spending was up 1.3% on the quarter, a similar pace of growth to that observed in 2024. Indeed, the relative strength of the card spend series is something of a puzzle compared to weaker consumer spending during the past year. This suggests we may see upward revisions to the provisional consumer spending and GDP growth rates for 2024, a common occurrence in recent years. Despite the growing caution in the consumer surveys,

there is clearly strong momentum in spending in the early months of 2025. Consumer spending should continue to expand at a decent, if slower pace in 2025 and 2026, for several reasons. First, Ireland's population should continue to grow strongly, which will underpin aggregate consumer spending. Second, wage growth will remain solid due to tight labour market conditions. Third, overall wages gains are outstripping inflation. These real wage gains will boost household disposable income and consumer spending, offsetting the expected higher household savings rates.

We expect consumer spending to grow by 2.3% in 2025, a similar pace to last year, slowing to 1.8% in 2026 and 1.9% in 2027.



¹ AIB Retail Spending Report, Q1 2025

Theme in focus



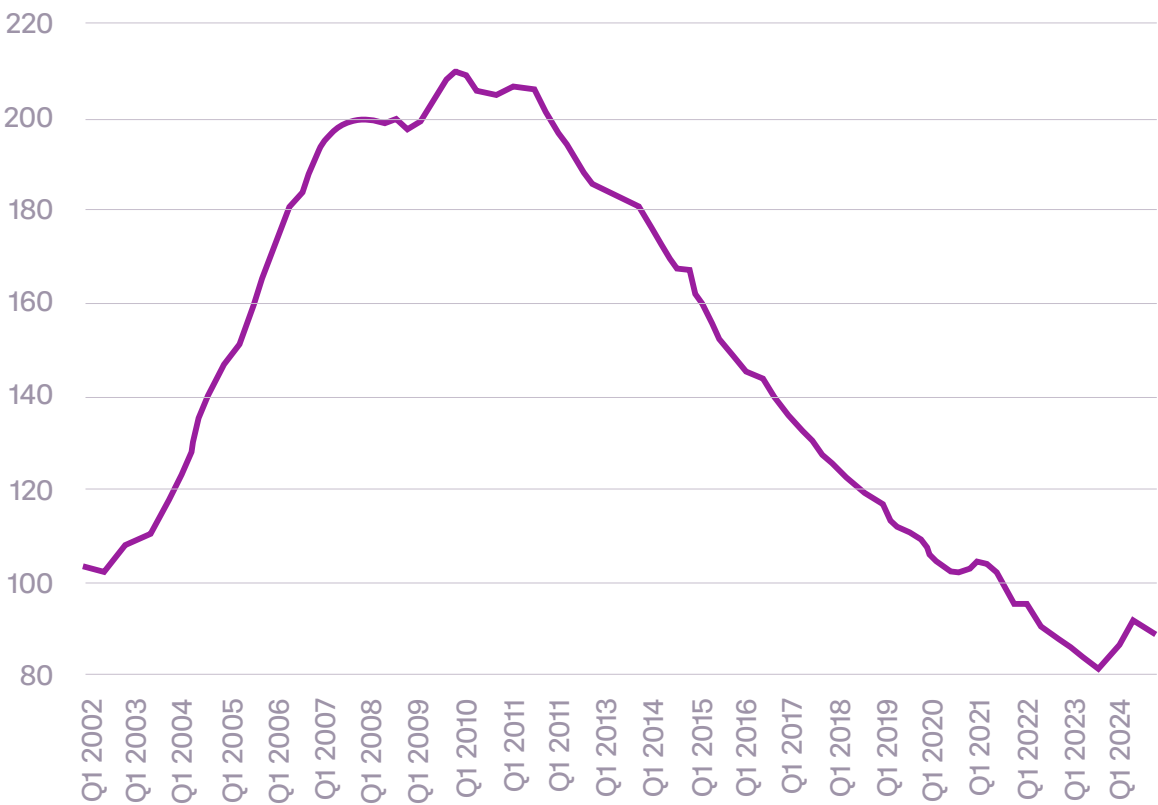
Theme in Focus – Could Ireland weather a tariff & FDI shock?



Ireland's globalised economy has been a boon to growth in recent years, which raises the question of our exposure to US policy changes. If a downside shock does materialise, while exposed, the public and private sectors have built up significant resilience.

Ireland’s attractiveness to foreign direct investment (FDI), alongside our integration into the European Union were key catalysts for the rapid catch-up in the economy and living standards during the Celtic Tiger period. Following the global financial crisis (GFC), the Irish economy also recovered more rapidly than peers such as Spain, Greece and Portugal, as the substantial base of US MNCs expanded its footprint, and Irish exports, in the post-GFC period. The additional windfall of corporation taxes in recent years, discussed earlier in the report, has also enabled the State to repair its balance sheet more swiftly in the post-GFC period and fund increases in current and capital expenditure in recent years. While the spillovers from the MNC sector to the domestic economy are significant, the sector is something of an “island within an island” with a relatively small jobs

Household Debt to disposable Income



Source: CSO, Central Bank of Ireland

base (c.10% of total employment) compared to the size of its output and exports, at c.50% and c.80% of the total, respectively.

However, the increased concentration of output and taxes in the MNC sector from a small number of very large firms in technology and pharmaceuticals, raises the question of the Irish economy’s resilience to a potential US trade and FDI shock, and whether we face this new risk in a stronger position than we entered the GFC in 2008 or the pandemic in 2020. To gauge this resilience, we look at the national balance sheet – the assets and liabilities of both the public and private sectors.

Starting with the household sector, the turnaround in its financial position since the GFC has been remarkable. Despite a decade of strong economic growth, this has been a “credit-less recovery”, with households putting more income aside for precautionary savings and consistently deleveraging over the past 15 years. As referenced earlier, the household sector has become increasingly spend-thrift in the post-pandemic period, with savings rates more elevated. This caution is reflected in the aggregate debt-to-income statistics, compiled by the Central Bank of Ireland (CBI). This shows household debt has fallen from a peak of over 210% of income in 2009 to 90% by end-2024. Other leverage ratios such as the debt-to-asset ratio also shows a significant fall, from 30% to 12% over the same period. On the asset side of the balance sheet, physical housing wealth

predominates, accounting for 59% of gross assets in Q4 2024, but this has fallen from a peak of 67% in 2007, with households in 2025 holding a more diversified portfolio of financial assets in bank deposits, pensions and other investments, alongside the sharply reduced debt holdings against housing assets.

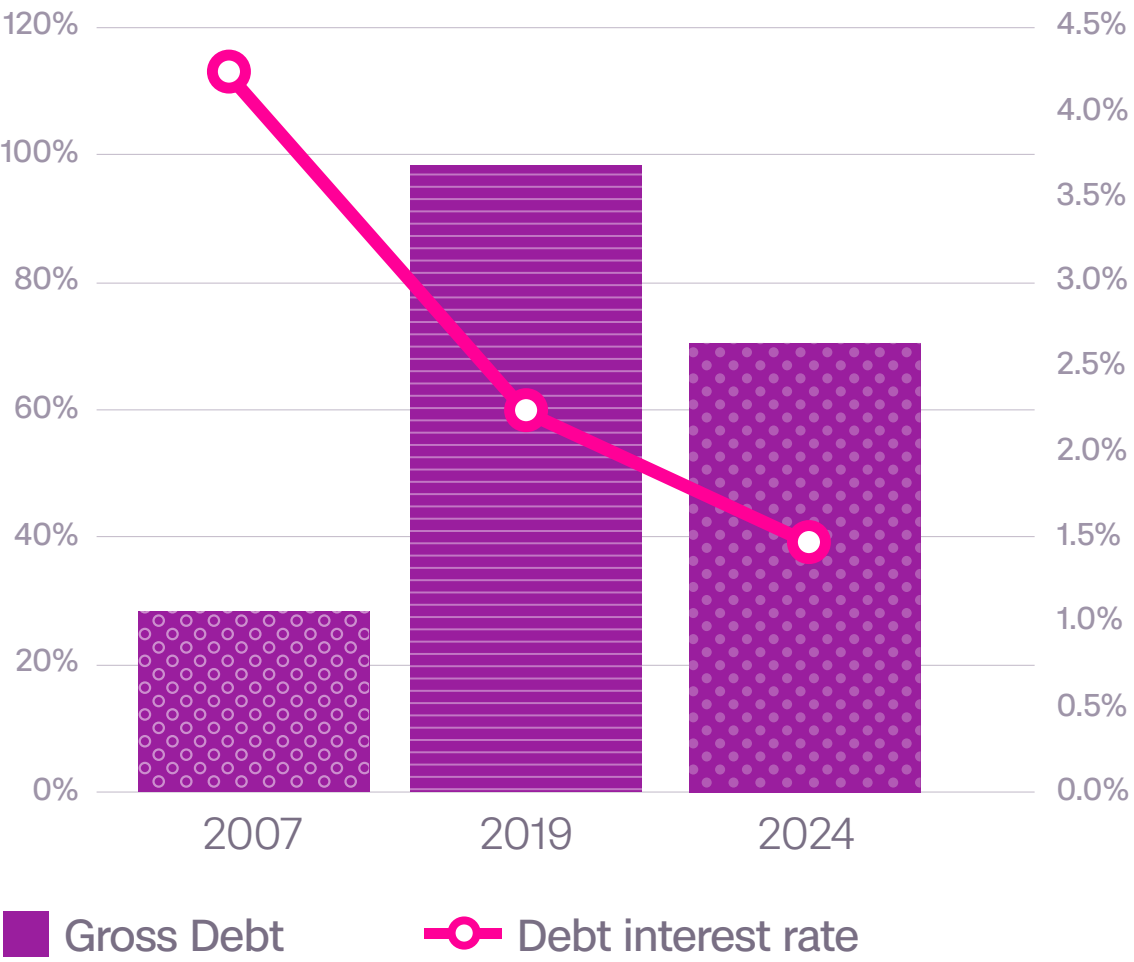
The corporate sector is harder to gauge, given the presence of large multinationals in the Irish economy, which skew official statistics. CBI data show net liabilities of €824bn for the sector at the end of 2024, but much of these liabilities are linked to foreign MNCs which are ultimately held by external investors in debt and equity instruments. The underlying picture for Irish firms is much healthier. Total loans outstanding to Irish SMEs was just €17bn in Q4 2024, down from a peak of €62bn in 2011. On the deposit side, in the absence of SME-only statistics, the total stock of deposits held by Irish-resident firms was €181bn in Q4 2024, with deposits rising sharply during the pandemic across most corporate sectors and remaining elevated since that time. The puzzle in this sector has been the lack of credit demand amid a rapidly growing economy over the past decade. However, as in the household sector, the deleveraging cycle amongst SMEs demonstrates the long-lasting impact of the GFC crash on Irish debt-dynamics.

The public sector is the final key piece of the national balance sheet. Here, significant improvements have



also been made in recent years, as the surge in corporation taxes has boosted the Government's budget surpluses and enabled the build-up of fiscal buffers. The headline debt statistics bear this out. Gross government debt-to-GDP has fallen from a peak of 119% in 2012 to 41% in 2024. With GDP inflated by MNC activity, a more conservative metric using Modified Gross National Income (GNI*) shows a fall in debt from 163% in 2012 to 70% in 2024. The National Treasury Management Agency has also termed out government debt, locking in relatively low interest rates over the past decade. The average interest rate on the stock of government debt was just 1.5% in 2024, while the weighted average maturity of the debt was 10.5 years compared to the eurozone average of c.7.5 years.

Gov Debt Dynamics (% of GNI*)



Source: CSO, Dept. of Finance (GNI* 2024 estimate)

At the same time, the NTMA has pursued a policy of holding large cash balances, which reduces the immediate funding pressure on the public balance sheet in times of stress. These cash balances stood at €34bn at the end of 2024.

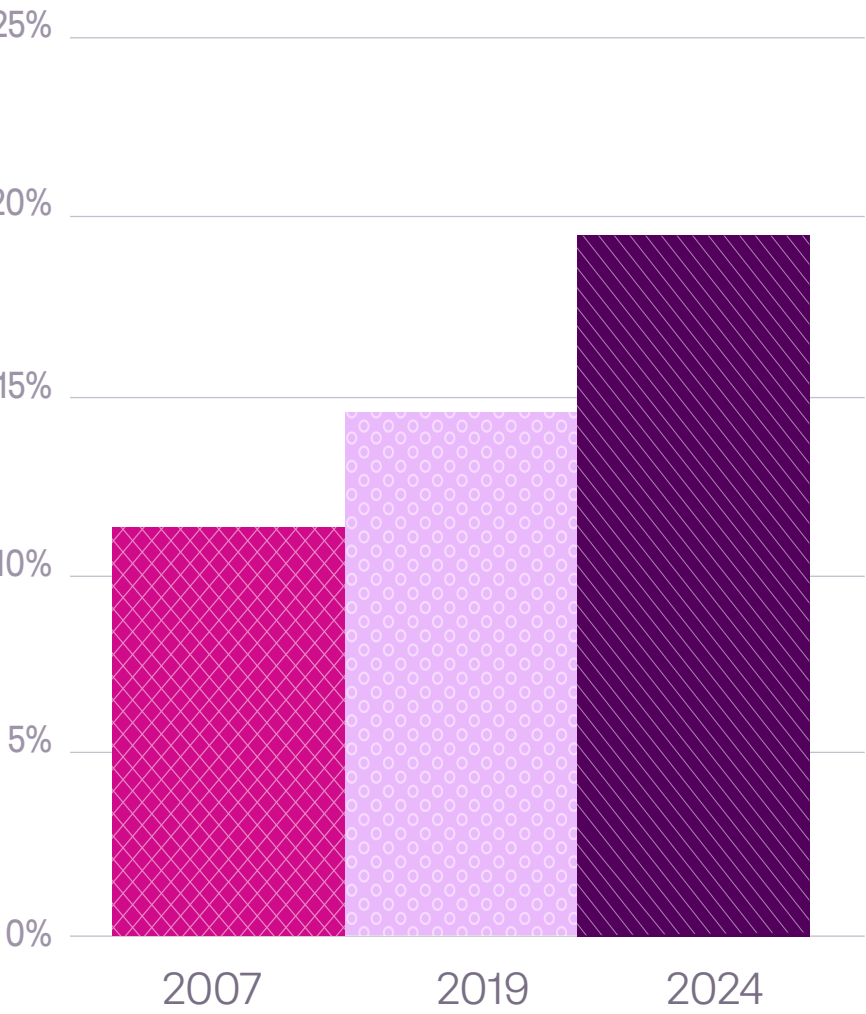
In terms of financial assets more broadly, the successive budget surpluses in recent years have enabled the Government to build up significant fiscal buffers, including an expected €16bn in the newly instituted sovereign wealth funds by end-2025. One-off windfalls, including the receipt of €13bn following the conclusion of the Apple case in the European courts and the sale of legacy banking sector equity holdings, have also boosted financial assets further. At end-2024, these assets stood at over €60bn, meaning Ireland's net debt-to-GNI* was 50% compared to gross debt of 70%. That €60bn buffer is equivalent to about c.3-4 years of windfall corporation taxes and is well in excess of the Government's financial assets in 2019 and 2007, ahead of previous economic shocks.

Taken together, the national balance sheet statistics suggest both public and private sectors have “fixed the roof while the sun is shining”. However there remain some vulnerabilities. The Irish Fiscal Advisory Council has highlighted that much of the windfall corporation tax receipts have flowed into spending commitments in recent years, and that the Government could have built up fiscal buffers at a faster pace.

Its analysis of Budget 2025 shows just over one-third of the forecasted windfall receipts are set to be saved after next year. Given the heightened risks to the Irish FDI model, the more cautious approach to fiscal policy advocated by the Fiscal Advisory Council could be merited in upcoming budgets.

In summary, the Irish economy has built up resilience to withstand a potential trade and FDI shock in the short run. However, the question remains whether a shock would prove short-lived, such as temporary tariffs, or more structural in nature, such as a permanent change to the US tax code which reduces our attractiveness to FDI. In the latter scenario, a more fundamental assessment of our industrial model would be required, including a focus on fostering indigenous enterprises, boosting competitiveness, and diversifying our export base to non-US markets.

Fiscal buffers rising (Gov financial assets, % of GNI*)



Source: CSO



Appendix

Detailed Forecast Tables

Irish macroeconomic forecasts (% change)

	2024	2025	2026	2027
Modified Domestic Demand	2.7	2.3	2.0	2.6
Consumer Spending	2.3	2.3	1.8	1.9
Government Spending	4.3	2.4	2.5	3.1
Investment	-25.4	-9.7	-2.5	0.2
Exports	11.7	7.0	-5.1	3.9
Imports	6.5	3.5	-0.2	5.1
GDP	1.2	5.7	-6.8	1.2
Modified Investment	-2.3	2.0	1.9	4.0
HICP Inflation	1.3	2.2	2.1	2.0

Irish labour market forecasts (% change)

	2024	2025	2026	2027
Unemployment rate	4.3	4.8	5.0	5.1
Employment Growth	2.7	2.0	1.5	1.8
Employment ('000)	2,757	2,812	2,855	2,906
Earnings Growth	5.4	3.8	2.7	3.0

Source: CSO AIB Economic Research Unit



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Research available at: <https://aib.ie/investorrelations/economic-research-unit>



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