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Irish growth to moderate amid global uncertainty - AIB Economic Outlook Report May 2025

- Global uncertainty over trade tensions and tariffs expected to slow 2025 and 2026 growth
- Modified domestic demand growth of 2.3% expected this year
- Labour market will continue to expand, but jobs growth to ease
- Consumer spending robust but growth set to moderate as households build savings in uncertain macro environment

Global uncertainty and an escalation in trade tariffs could lead to a slowdown in global and Irish growth in 2025 and 2026 according to **AIB's Economic Outlook Report** for May 2025. International volatility remains high and because of that consumer spending and business investment growth in Ireland are expected to cool this year. However, the Irish economy has built up resilience to withstand a potential trade shock in the short term. Nonetheless Irish modified domestic demand is forecast to grow by 2.3% this year, 2% in 2026 and 2.6% in 2027.

Irish households are expected to pare back spending growth while some business sectors may delay planned investments, particularly those in export-orientated sectors. Recent consumer spending has been robust. 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 remains a mitigant.

US tariffs and future US tax policy are the main downside risks to the Irish economy. Some exporting indigenous Irish sectors such as agri-food are exposed to US tariffs, but the key risk centres on Ireland's multinational-dominated sectors. These sectors, which account for c.12% of total employment, are responsible for 50% of GDP and c.80% of exports generated in the economy. There is a heightened risk of tariffs on the Irish pharma sector, which, along with technology services, dominates multinational sector output. Any negative spillovers from the multinational sector could hit domestic sector output and employment. However, the key medium-term risk to the Irish economy is the concentration of our taxation base in corporation and income taxes sourced from the multinational sector.

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 2.7% rise in 2024 we see employment growth slowing to 2% in 2025, 1.5% in 2026 and 1.8% in 2027. Although supply chain spillovers from the multinational sector to the domestic economy are significant, the employment footprint of the sector is relatively small, and generally focused on urban centres.

Each AIB Economic Forecast Report has a theme in focus, and this one is "**Could Ireland weather a tariff and Foreign Direct Investment (FDI) shock? – A balance sheet perspective**". It finds the Irish economy has built up resilience to withstand potential trade and FDI shocks in the short run. However, permanent tariffs or changes to the US tax code which would reduce Ireland's FDI

attractiveness, would pose a greater longer-term challenge. The latter scenario would require diversifying Ireland's FDI and export base to non-US markets, a review of our industrial model, further fostering of indigenous enterprises, and a focus on boosting competitiveness.

AIB Chief Economist David McNamara said "The global macro backdrop has shifted considerably since our last Economic Outlook in Autumn 2024. The uncertainty created by the dramatic shift in US trade policy and the responses of other key trading blocs, is expected to dampen global growth in 2025 and 2026. Given the globalised nature of the Irish economy, we expect significant volatility in GDP as exporters seek to get ahead of potential trade restrictions this year. For the domestic economy we expect a cooling in growth this year, as ongoing uncertainty dampens both consumer spending and business investment growth. Nonetheless, Ireland enters this period of uncertainty from a position of strength, with the economy growing at a robust pace in recent months, while both the public and private sectors have built up material financial buffers in recent years."

AIB's Economic Outlook Report is produced by AIB's Economic Research Unit, consisting of David McNamara, John Fahey and Daniel Noonan is published bi-annually. The Report is published [here](#).

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