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AIB Irish Economic Outlook

November 2025

AIB Group Plc

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What's the outlook for the economy?

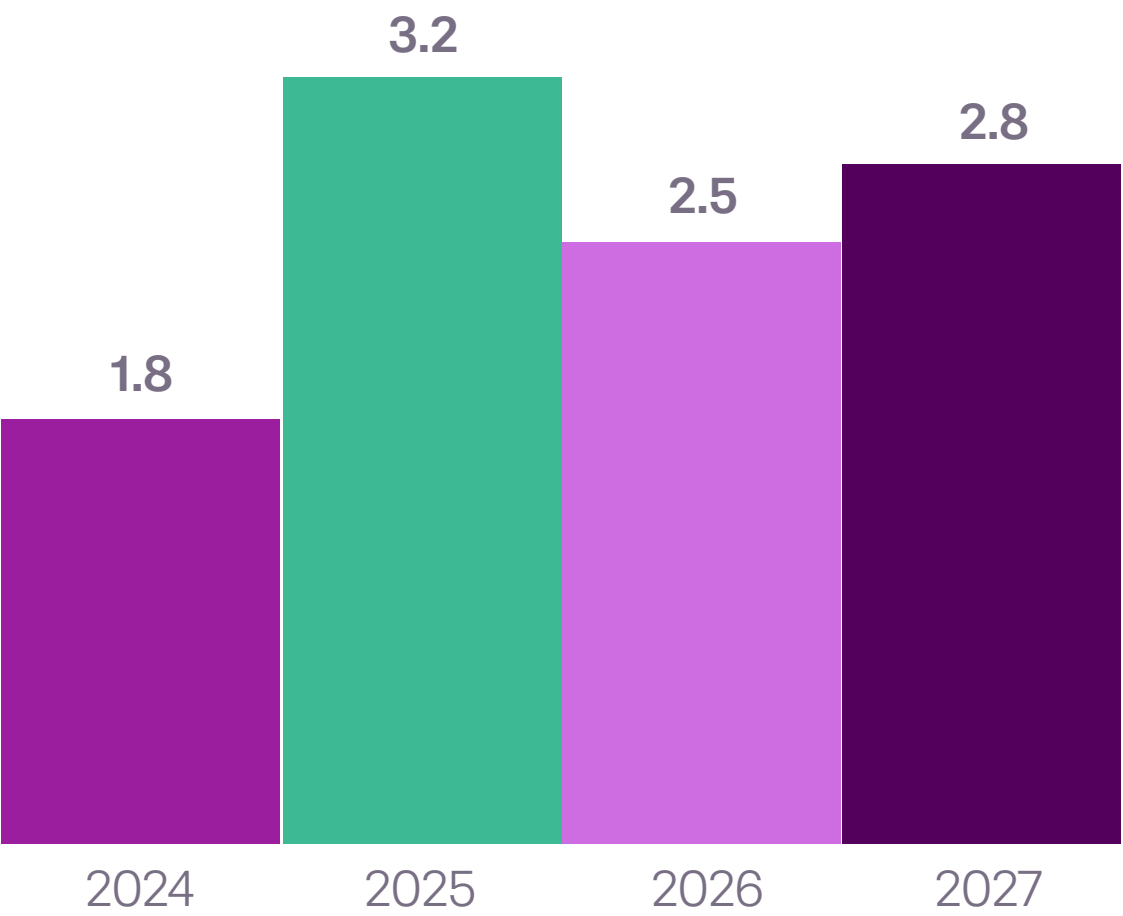
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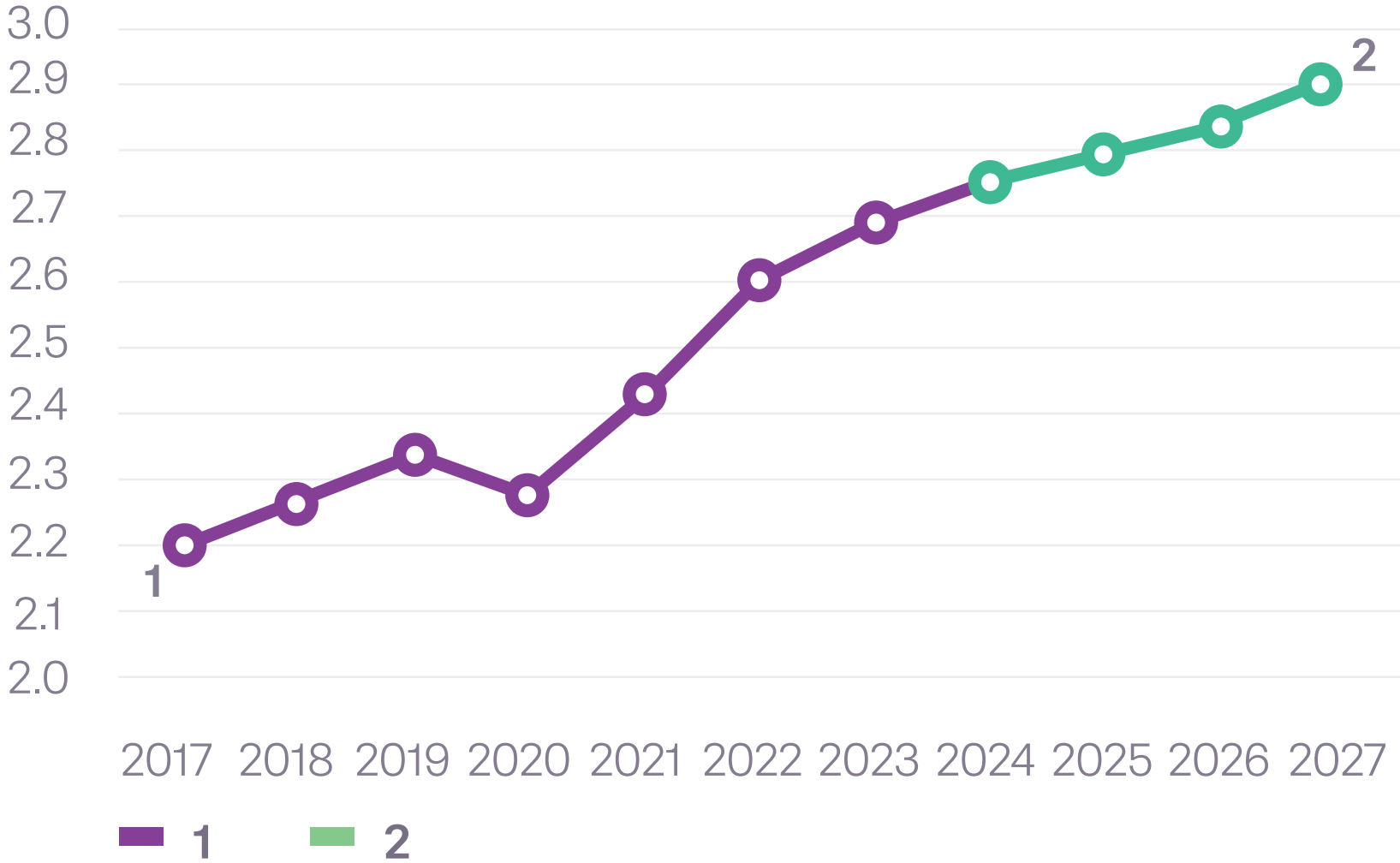
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Economic Growth Forecasts*

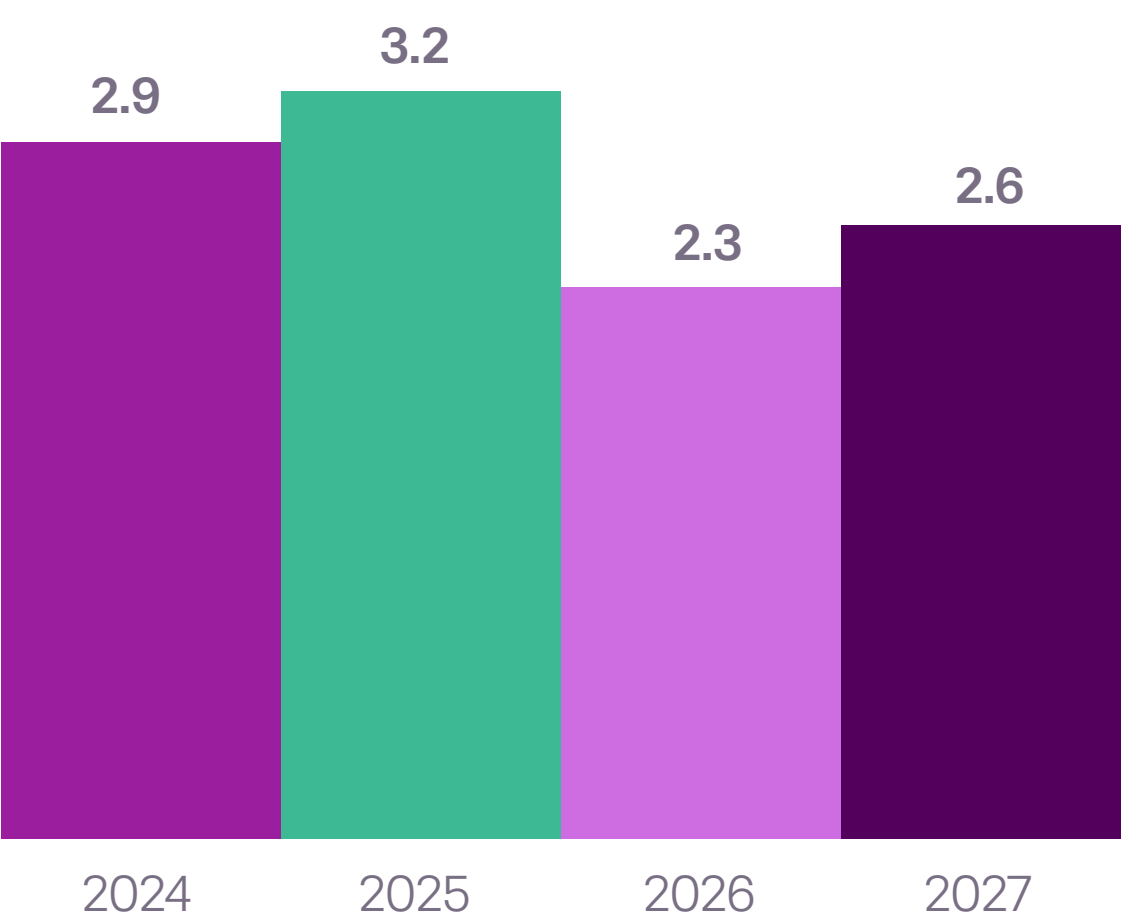


*Based on Modified Final Domestic Demand

Employment Forecast (Millions)



Consumer Spending Growth Forecast



Macro Outlook



Global Backdrop –
Tariff uncertainty
beginning to
dissipate



Irish Outlook –
Robust growth
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Risks to the
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Still tilted to
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Global Backdrop – Tariff uncertainty beginning to dissipate



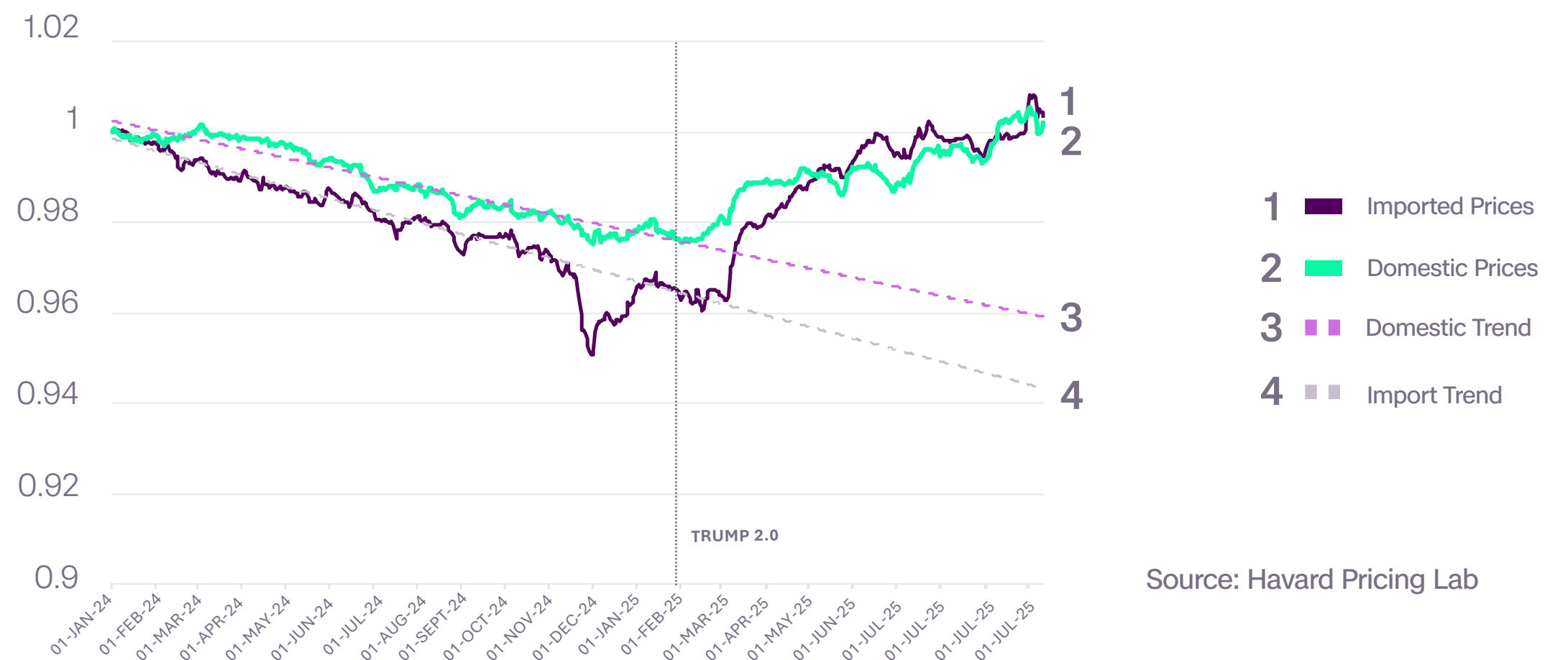
The macro-outlook is still clouded by uncertainty. However, the threat of stringent US tariffs has begun to dissipate as a succession of trade deals have brought some certainty.

The year of 2025 will be remembered as a tumultuous one for the global economy and financial markets. However, the uncertainty created by the imposition of US tariffs from April has begun to dissipate in recent months. President Trump has walked back the more outlandish threats to trade partners and agreed to a succession of trade deals, including the 15% baseline on EU exports and an ongoing reproachment with China. Amidst these tentative moves towards trade settlements, international forecasters such as the IMF have been revising up expectations for global GDP growth, following downgrades to forecasts in the immediate aftermath of “Liberation Day” in April.

Nonetheless, US tariffs have still reached the highest level in nearly 100 years, now estimated

at c.16% on a global basis by Yale Budget Lab. With some tariffs yet to be fully phased in, the most immediate impact has been a surge in imports to the US from key trade partners, including Ireland. This created something of a “sugar rush” in manufacturing output and exports to the US in H1 2025, which will distort global GDP growth this year and next. So far, the impact on prices is muted, as US firms have dipped into stockpiles and held back on price rises. However, US trade and inflation data suggest US consumers are largely eating the tariff-related price hikes so far, with exporters selling into the US, being hit to a lesser extent to-date. Analysis by the Harvard Pricing Lab, based on daily prices posted by major retailers, suggests US consumer prices are 3-6% higher than the pre-tariff trend, with sharper increases observed for imported goods.

US consumer prices are rising post tariffs



Source: Harvard Pricing Lab

Other major geopolitical events will also have a bearing on the outlook. Fiscal policy has the potential to underpin stronger growth in the medium term in Europe. In particular, the moves at an EU level to ramp up defence spending, and boost European single market competitiveness, could offset some of the negative effects of US tariffs in the medium term. Secondly, 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).

Alongside geopolitical events, the rapid adoption of AI technologies is already having a material impact on the global economy and has the potential to boost productivity and GDP significantly in the coming years. We analyse the potential impact of AI on the economy in our “Theme in focus” analysis later in this report.

In summary, uncertainty remains high, but these risks have become more balanced in recent months.

GDP forecasts for Ireland’s key trading partners

	2023	2024	2025 (f)	2026 (f)
US	2.9	2.8	2.0	2.1
Eurozone	0.4	0.9	1.2	1.1
UK	0.4	1.1	1.3	1.3
China	5.4	5.0	4.8	4.2

Source: IMF World Economic Outlook, October 2025



Irish Outlook - Robust growth expected in the coming years

→ In Ireland, we expect a robust pace of economic growth in the near term, with modified domestic demand rising by 3.2% in 2025 and by 2.5% in 2026.

Underpinning our Irish forecast is the assumption that US tariffs will remain, in effective terms, below the US-EU agreement of 15%, given the opt-outs for specific sectors such as generic pharmaceuticals, aircraft parts, and others.

Irish GDP remains a volatile gauge of activity, as evidenced by the sharp swings in growth in recent quarters, but the globalised nature of Ireland’s GDP also reveals the impact of tariff front-running in the global economy. In the first half of 2025, GDP grew by an enormous 18% year-on-year, driven almost entirely by activity and exports from Ireland’s multinational sector.

Irish trade data for August show exports were up 28% year-to-date, driven largely by pharma exports to the US. While this surge in exports is now starting to ebb, there are also signs of structural factors driving the recent growth in Irish manufacturing. As outlined in a recent Wall Street Journal article, Ireland has become a production hub for the weight-loss drug market, from which a specific hormone derivative product accounted for 56%, by value, of all Irish pharma export to the US in H1 2025, compared to just 8% in H1 2024.

The surge in global demand for weight-loss drugs is likely to underpin Irish pharma exports in the near term, although this highlights the increasing importance of a small number of firms for Irish GDP, and the growing reliance of the Exchequer on associated tax receipts, as analysed in our last AIB Economic Outlook in May 2025. Therefore, we expect to see a sharp rise in Irish GDP in 2025 of c.9%, followed by a 3.8% rise in 2026.

A more useful 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 growth of 3.2% in 2025, slowing to 2.5% in 2026 and 2.8% in 2027, reflecting the expected cooling in both consumer spending and domestic business investment growth. While growth is expected to ease in the coming years, our MDD forecasts represent a material upgrade to our May 2025 Economic Outlook, due to the fact the economy has been more resilient in the face of geopolitical uncertainty.

Irish Growth Forecasts

	2024	2025	2026	2027
GDP	2.6	9.1	3.8	3.5
MDD	1.8	3.2	2.5	2.8

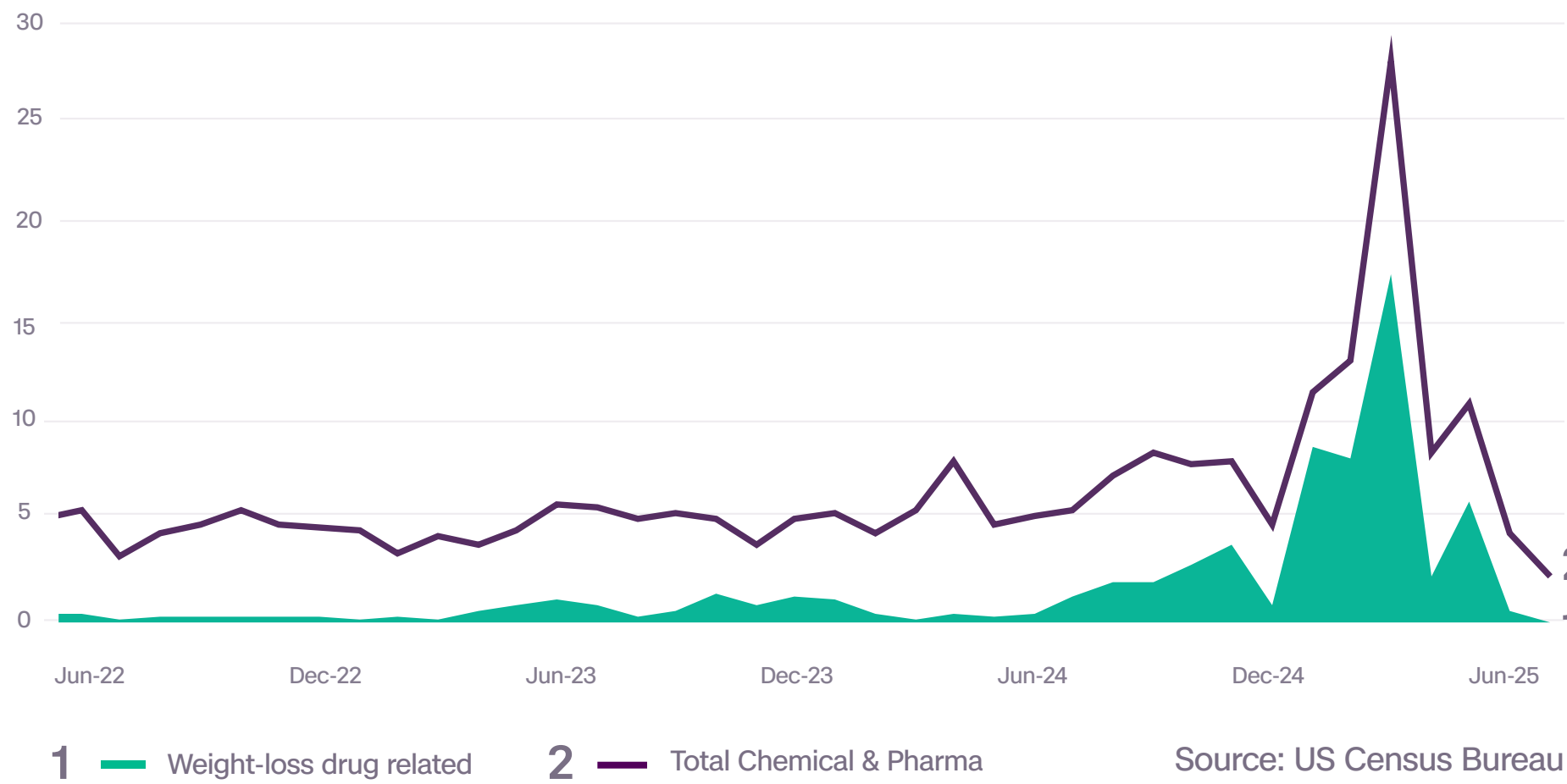
Source: CSO, AIB ERU

Our forecast is underpinned by our expectation that lingering geopolitical uncertainty will mean households will pare back spending growth, 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. The performance of the domestic sector is expected to be sluggish, owing to a modest rise in housing completions, and relatively subdued activity in the non-residential sector. We see housing completions rising modestly to 33,000 in 2025, and 35,000 in 2026. While recent policy changes to stimulate the supply side of the housing market may yet yield results, the time lag between planning, initiation and completion of housing schemes means any uplift is likely to be felt in the latter half of the decade. On the foreign direct investment (FDI) side, the current geopolitical uncertainty is likely to lead to some cooling in capital investment for large MNCs. Overall, we expect modified investment to expand by 2% in 2025 and 2.3% in 2026, before accelerating back to 4% in the following years, as housing output and infrastructure delivery gather pace.

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 some emerging evidence that some construction capacity has pivoted from commercial real estate to residential delivery in recent times.

**Irish pharma exports to US boosted by tariff
frontrunning and weight-loss drugs (\$bn)**



Annual inflation has trended between 2-3% in recent months. We expect inflation to average slightly below 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 1.9% in 2025, 2.1% in 2026 and 2% 2027.





Risks to the Outlook – Geopolitics to the fore, but tariff uncertainty has eased



Geopolitical and tariff risks remain front and centre and could dampen the outlook for the Irish economy. However, the conclusion of an EU-US trade deal brings some certainty on tariffs going forward.

While the risks to the economic outlook remain tilted to the downside, some of the potentially severe tail risks we identified in our last outlook in May have diminished. Firstly, the US and EU have concluded a framework trade deal, with most EU goods now facing a 15% US tariff, with exemptions at the lower ‘most-favoured-nation’ rate for generic pharmaceuticals, aircraft parts and other sectors. It is likely that Ireland’s effective rate for its exports will be lower than the headline 15% rate, given these exceptions. While exporters are now facing higher tariffs in many sectors, the risk of a more damaging rate mooted in the Liberation Day announcement has lessened.

Secondly, potential harm to Ireland’s FDI attractiveness from US tax reform has also diminished with the passage of the so-called ‘One Big Beautiful Bill’ through the US Congress during Summer 2025. This bill retained much of the corporate tax provisions from President Trump’s first term, which combined with other factors, has made Ireland an attractive destination for FDI investment in both physical and intellectual capital in recent years, driving the surge in corporation taxes for the Exchequer.

Elsewhere, geopolitical risks remain heightened, including the ongoing conflicts in Ukraine and the Middle East, which have the potential to spill over to the real economy, as was evident during the energy price shock in 2022. While these downside risks have diminished, the effects of the recent bout of uncertainty are still to play out on the economy.

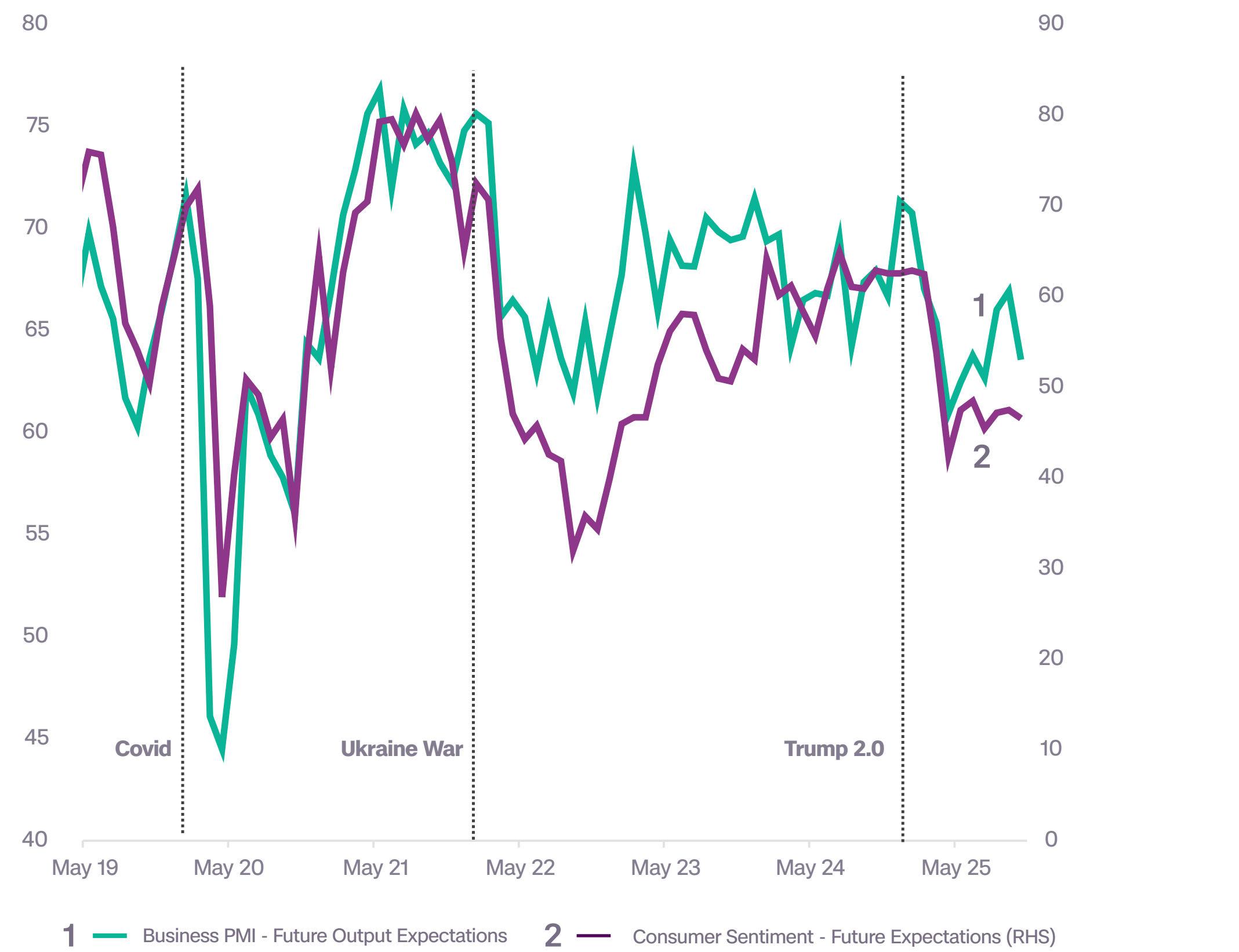
As already discussed, tariff frontrunning has boosted GDP growth in H1, but uncertainty could also dampen consumer spending and business investment. So far, the only evidence of this is in confidence surveys. Forward-looking questions in AIB’s PMI survey of businesses and in the Irish League of Credit Unions Consumer Sentiment Index suggest both parts of the economy have become gloomier on the immediate outlook for the future. While not a perfect guide to actual spending decisions, these indicators are worth observing in the current context.

Given these ongoing risks, the build-up of sovereign wealth funds by the State is a welcome additional buffer within total liquid assets of c.€72bn at present. Households and firms also retain relatively healthy balance sheet positions. 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.

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 as uncertainty abates. Our central assumption is that Irish households continue to edge savings rates higher in the coming years, 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.

Another emerging upside risk is the rapid development and deployment of AI technologies. This has the potential to significantly boost private sector investment in the short term, and productivity growth in the long term. We discuss the impact of AI in further detail in in our “Theme in Focus” later in this report.

Irish firms and households have a gloomier outlook



Source: S&P Global, AIB, Irish League of Credit Unions

Labour Market & Consumer Outlook



Labour Market
– Signs of easing
jobs growth



Consumer Outlook –
Households remain
cautious, but spending
growth robust

Labour Market – Signs of easing jobs growth

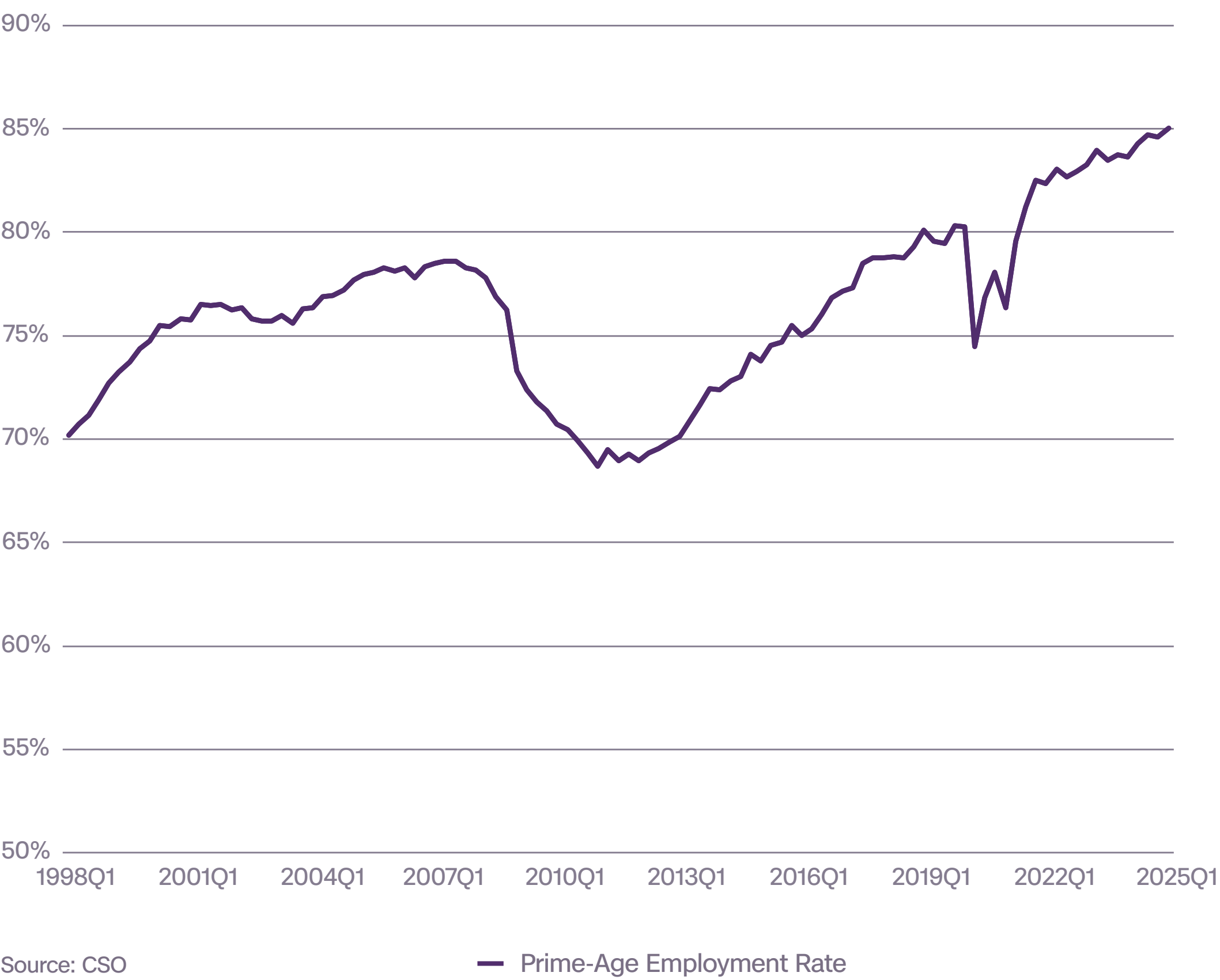


We expect continued gains in the labour market, but jobs growth will ease, and the unemployment rate could rise due to continued strong population growth.



Since the beginning of the decade, employment has grown by over 440,000, or 19% to 2.8 million people. We expect this growth to continue, but at a more modest pace as the economy hits capacity constraints and firms slow the rate of hiring in the current uncertain geopolitical environment.

Irish prime-age (25-54) employment at record high



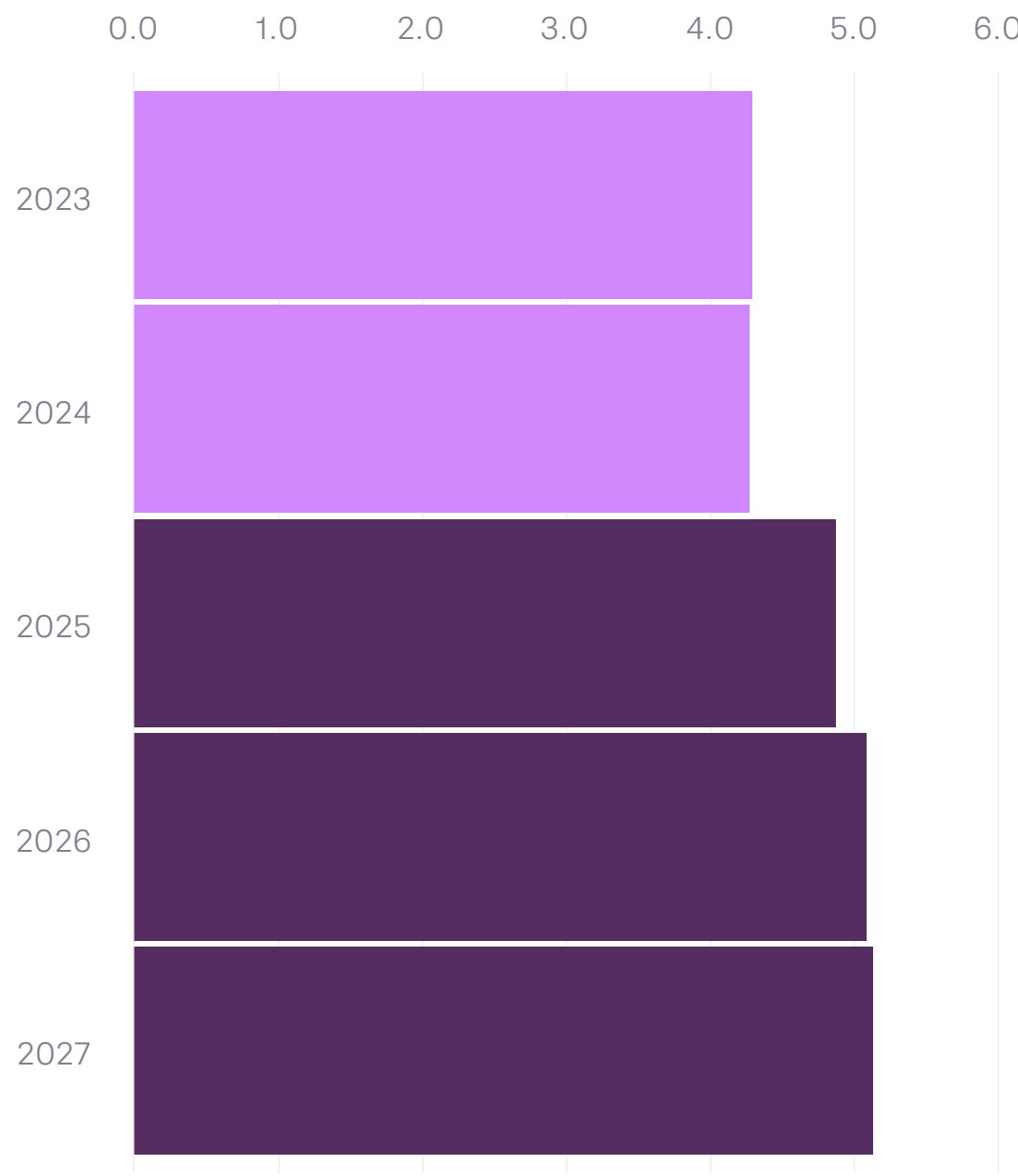
There have been some signs of a cooling in the labour market. The latest job opening data from recruitment website Indeed.ie suggests waning employer demand, with new job postings falling 7% year-on-year in October 2025, reflecting a broad-based slowdown in hiring activity across sectors. The AIB PMI employment surveys point to still-solid hiring activity in the manufacturing, services and construction sectors; but signs of employer caution, with some sectors - such as Tech - signalling headcount reductions despite continued strong activity levels. Payroll 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 1.8% in August 2025.

Therefore, following a 2.7% rise in 2024, we see employment growth slowing to 2.2% in 2025, 1.7% in 2026, and 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. In particular, the number of work permits issued to foreign nationals has fallen sharply in 2025, suggestive of weaker employer demand. 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 2% in 2026, as both supply factors (population growth) and demand factors (employer demand) 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, 5.1% in 2026 and 5.2% in 2027. 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.

AIB Unemployment rate forecast



Source: CSO, AIB ERU

Consumer Outlook – Households remain cautious, but spending growth robust



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

Recent consumer spending growth has been solid, reflecting the strong growth in household incomes, running at a c.5% annual pace at present. Precautionary savings remain elevated, with households retaining high cash balances on deposit since the pandemic. Consumer surveys suggest Irish households have become more cautious recently. For example, the European Central Bank's Consumer

Expectations Survey shows that Irish households have become less optimistic about their near-term income expectations and planned spending in the next 12 months. This is also reflected elsewhere in weaker consumer sentiment surveys. It remains to be seen if these trends translate to actual spending decisions in the near term, with actual hard spending data pointing to solid growth in 2025.



Year-to-date, AIB’s Card Spend data point to robust trends. The AIB data provide a close-to-real time view of consumer spending behaviour on a month-to-month basis across a large proportion of debit and credit card transactions. The latest data for October 2025 show that the number of transactions were up by 5% year-to-date in the first ten months of 2025. This means nominal spending was up 9% in the year to October compared to the same period in 2024.

The AIB Retail Spend Report provides further sectoral insights, suggesting broad-based growth across in-store and online retailers.

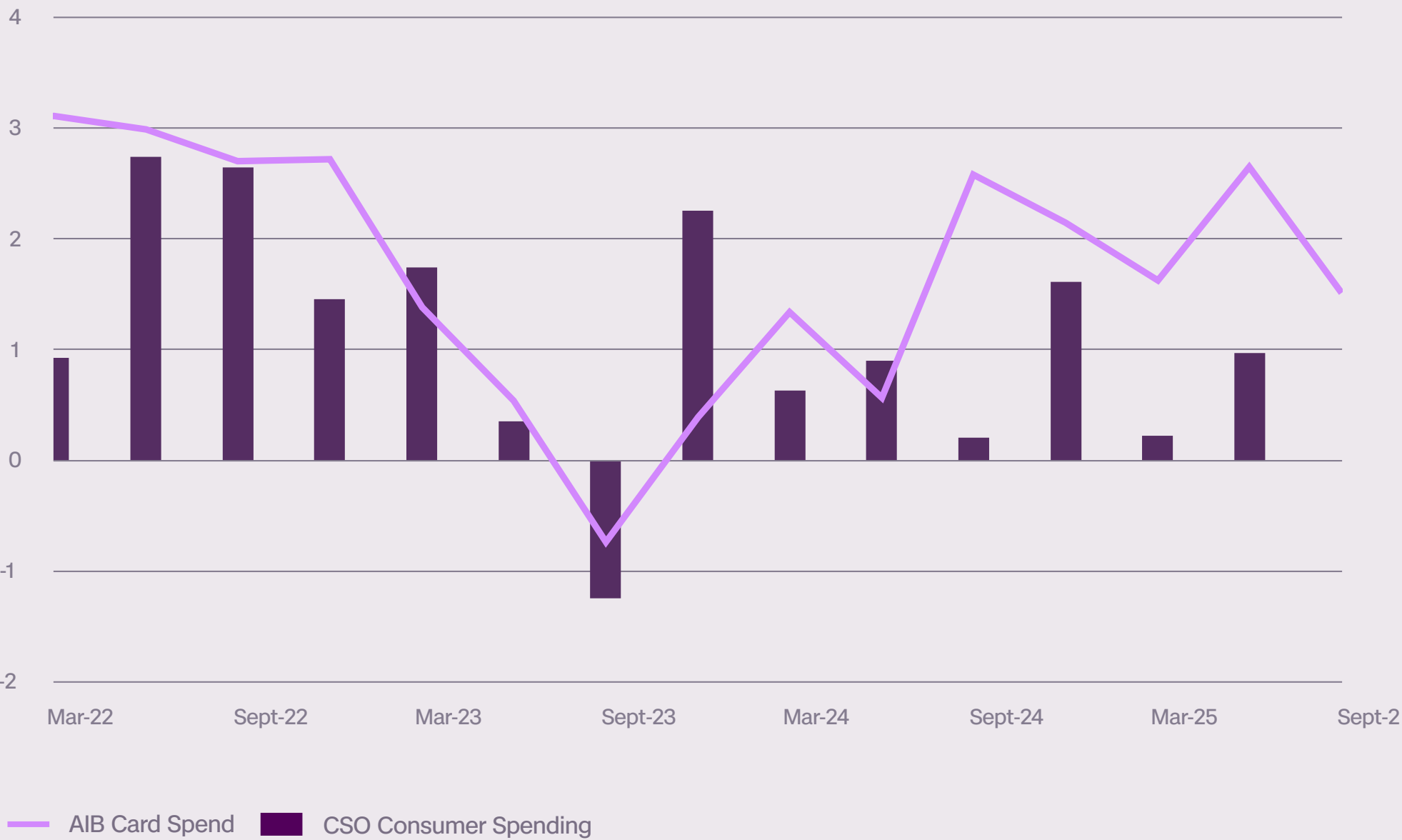
We further adjust the AIB card data to create an inflation and seasonally-adjusted series which is comparable with Irish consumer spending. The adjusted card spend series suggests continued strong growth so far in 2025, despite a dip in

consumer sentiment surveys recently. In Q3 2025, seasonally adjusted AIB card spending was up 1.5% on the quarter, a similar pace of growth observed through much of the past two years. This signals continued strong consumer spending growth, and informs our relatively strong forecasts for consumption and modified domestic demand in the years ahead.

Despite the growing caution in the consumer surveys, there is clearly good momentum in spending in recent months. Consumer spending should continue to expand at a decent, if slower pace in 2026 and 2027, for several reasons. First, Ireland’s population gains remain robust, which will underpin aggregate consumer spending. Second, wage growth will remain solid due to tight labour market conditions. Third, wages and disposable income are outstripping inflation consistently since the beginning of 2024. These real wage gains will continue to underpin consumer spending, offsetting the expected higher household savings rates, which we expect to gradually increase to around 15% in by 2028, from the current 13% rate.

We expect consumer spending to grow by 3.2% in 2025, slowing to 2.3% in 2026 and 2.6% in 2027.

AIB card data signal robust Irish Consumer Spending (quarterly % change)



Source: AIB, CSO



Theme in Focus



Theme in Focus

– AI has rapidly reshaped markets, is the economy next?



The development and deployment of AI is moving at a rapid pace, boosting equity markets and driving an exceptional investment surge by technology companies.

While this cycle is now boosting GDP, particularly in the US, the long-term productivity growth benefits remain uncertain. However, the pace of AI adoption by firms and consumers is far outstripping previous technologies, suggesting evidence will soon emerge to corroborate or contradict predictions of a potential productivity boom.

AI has turbo-charged stock market growth

Artificial Intelligence has become a larger part of day-to-day public discourse over the last two years. While its real-world application is still in its infancy, AI has been very much to the fore on equity markets. On Wall Street, AI-related stocks have been the key driver of the performance of the global benchmark S&P 500 index, which has registered record highs

over recent months. Indeed, since the end of 2022, the index has posted over 80 fresh all-time highs. More recently, the chipmaker, Nvidia has become the world’s first \$5tn company, aided by strong sales of its AI-related systems.

Given the tech sector’s dominant role, there is concern around the risk of the impact of a sudden

reversal in the performance of these AI stocks. Some metrics indicate that valuations have become more stretched over the last year. The IMF Chief Economist, Pierre-Oliver Gourinchas commented recently that equity markets are at risk of a sudden correction, if sentiment in relation to AI turns negative. He noted that while “we’re not yet at the level of stretched valuations” seen during the dot-com period, “we’re maybe half, or two-thirds of the way there”. More latterly, price-earnings metrics have been flashing amber, including the much-watched cyclically adjusted price-earning (CAPE) ratio developed by economist Robert Shiller. That index has recently passed the level of 40 for the first time since the 1999/2000 period around the dot-com bubble.

Looking at the concentration aspect of these concerns, the top five companies of the S&P 500 are all in tech, accounting for around 30% of the index. In terms of earnings concentration, it is estimated that overall, tech stocks now account for around a 30% share of S&P 500 profits, compared to a less than 20% share in late 2022 (around the time of the release of Chat GPT).

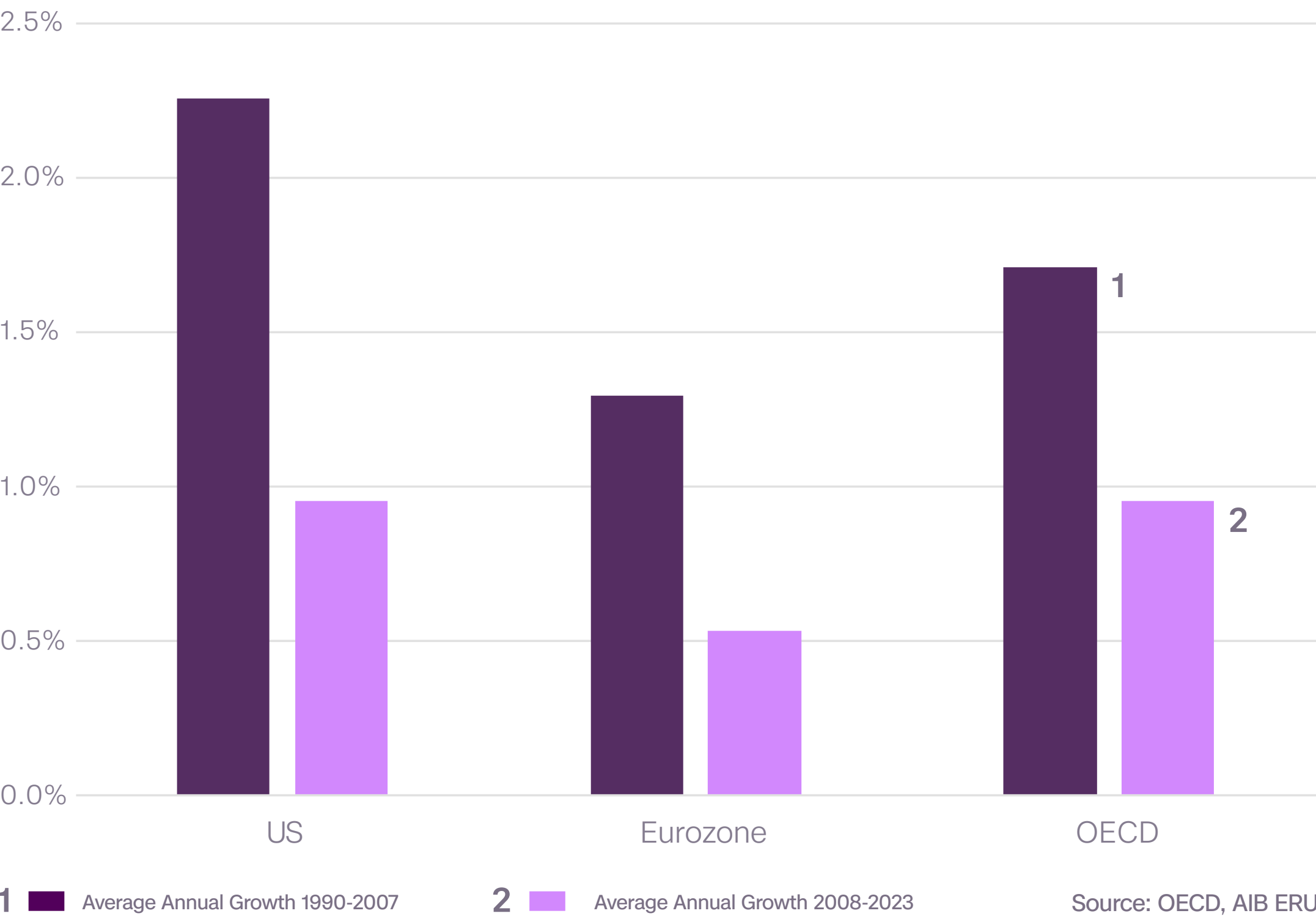
Aside from the concentration aspect, there is also increasing focus on the ‘circularity’ of AI deals. This is in relation to the interdependence of funding and purchases of goods and services between these AI firms. These types of intertwined relationships between companies can be very profitable when

markets are growing but can be quite damaging and contagious on the downside.

We saw a brief glimpse of the potential volatility and sudden reversal that could arise from the AI concentration in equity markets during the first half of October 2025. This occurred on the back of the announcement from Chinese authorities that they were imposing severe restrictions on exports of ‘rare earth’ minerals, which are a critical component of AI infrastructure. The S&P 500 fell sharply, by over 2% on this news, led by steep falls in tech stocks. It must be noted though that these falls proved to be temporary.

If the investment surge in AI starts to drive productivity gains in the real economy, then this could help to sustain the positive sentiment and momentum this sector has on equity markets. On the other hand, if the real economic impact and benefits are slower to materialise or remain niche, then it could create a more challenging and volatile market outlook.

Productivity growth has been weak since the 2008 crash (GDP per hour worked)



Evidence of emerging growth impact from AI adoption

While the most material impact of the generative-AI boom, initiated by the release of the first Chat GPT model in 2022, has been on financial markets, there is also growing evidence of macro-economic effects. In this section we focus on two areas: economic growth and labour markets.

The key channel of impact from AI adoption in the long term is expected to be via productivity gains, which will in turn boost GDP and living standards. The global economy, while performing robustly in recent years, has seen persistently sluggish growth in productivity since the global financial crisis. On average, GDP per hour worked has risen by just 1% per annum in the US since 2008, with a 0.5% annual gain in the Eurozone. This compares to 2% growth in the US and 1.3% in the Eurozone between 1990 and 2007, as the global economy surged on the back of technological gains such as the internet, low and stable inflation, and global trade and economic integration.

The productivity puzzle since the global financial crisis has been multifaceted, with the acute demand shock of the 2008 crisis leading to structurally lower investment rates thereafter, despite lower interest rates. These lower interest rates also created resource misallocations towards unproductive sectors, sustaining incumbent firms rather than innovative new entrants.

Construction boom in the short run, productivity boom in the long run?

Research from a variety of academic and private sector sources suggests AI could boost productivity and GDP back towards these pre-GFC rates, although the range of outcomes remains wide and highly uncertain, as highlighted in the summary table. While the ultimate productivity benefits remain uncertain, emerging evidence suggests the use of AI is far surpassing the trajectory of PCs, the internet and smartphones in the early phases of those technologies.

GDP impacts from AI adoption – selected studies

Source	Region	GDP Impact	Time Horizon
Penn Wharton (2025)	Global	+1.5%	2035
Acemoglu (2024)	Global	+1-2%	10 years
ECB (2024)	US	+7%	10 years
Goldman Sachs (2023)	Global	+7%	10 years

In the first wave of AI adoption since 2022, the clearest impact has been on investment by firms deploying the technology (e.g. Nvidia, Meta, Open AI etc.), and those purchasing the software at a user level. Construction spending on data centres and related power infrastructure has surged in recent years and now accounts for 25% of all non-residential construction investment in the US. This capital investment, alongside the deployment of AI software by firms, has begun to boost US GDP materially in recent quarters. In Q2 2025, AI-related investment and spending contributed to over a third of total GDP growth.

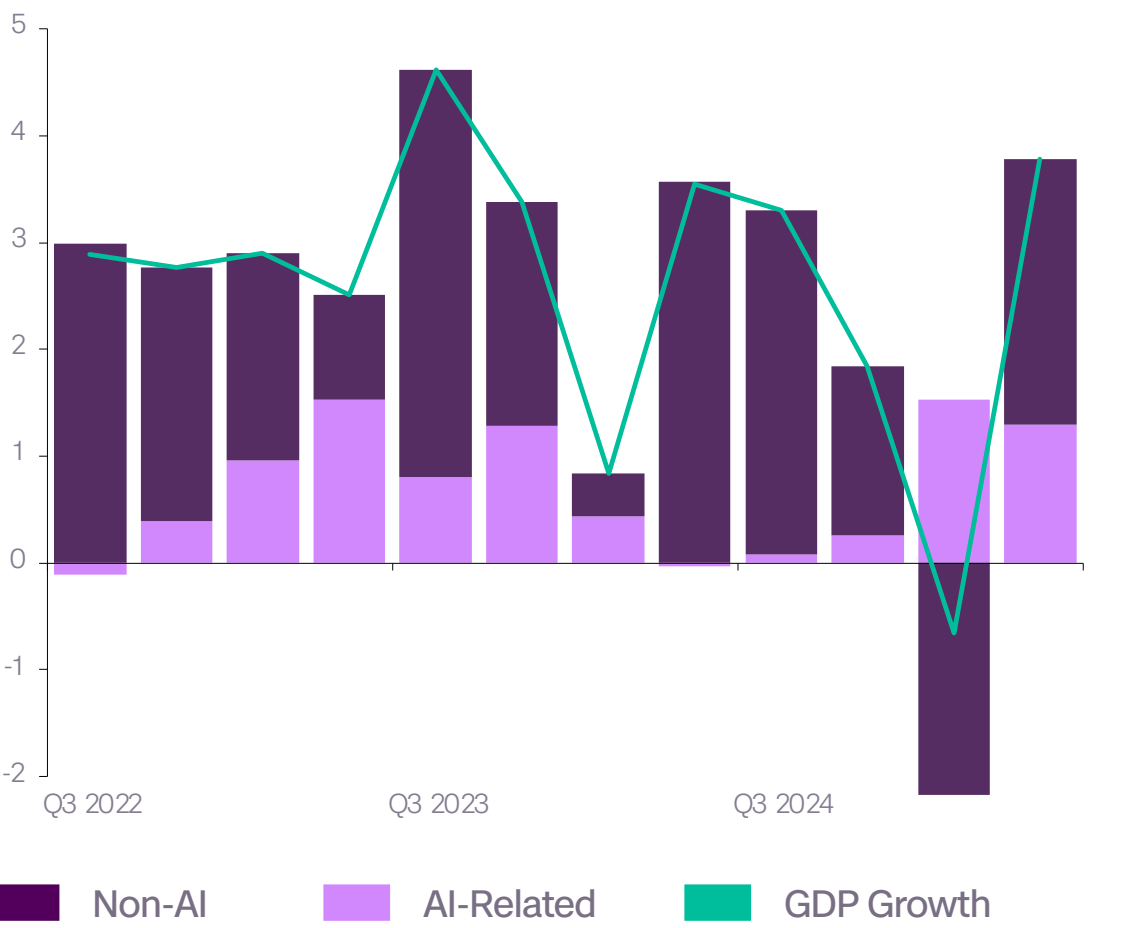
The effects are less pronounced in Ireland and Europe thus far, particularly as the continent lacks a large technology firm developing AI technology at the scale of the ‘Magnificent 7’ firms in the US. However, capital investment by the private sector has been rising steadily over the past year, which might reflect adoption of AI technologies at the firm level.

AI complementary to workers so far, but some roles more highly exposed to replacement

The rapid adoption of AI tools in recent years means it is already starting to impact on the workplace. A recent study between OpenAI and Harvard University found that the average number of work-related messages handled by ChatGPT stood at 213 million per day in June 2024. Just a year later, that number had increased to 716 million per day. Meanwhile,

employees who use generative AI (gen-AI) have reported early productivity gains. Around 20% of respondents to a recent Federal Reserve Bank of St. Louis survey in the US said that Gen-AI had saved them four hours or more in completing tasks, 46% stated it had saved them 2-3 hours, and 34% of employees reported that it had saved them an hour or less.

AI Investment* is already boosting US GDP (Annualised, % change)



Source: Refinitiv, AIB ERU

*Net Trade & Investment in Software & Computers

However, even in the US – one of two frontier economies, alongside China, in terms of development and adoption - there is little evidence that gen-AI is currently causing broad disruptions in the labour market. A report from the Yale Budget lab indicates that gen-AI is having a limited effect at most on the overall occupational mix (i.e. the distribution of workers amongst jobs). For certain segments of the labour market though, the impact may be more pronounced. A study from Stanford University reports a 13% drop in the employment level of early-career workers (aged between 22-25) in the most AI-exposed sectors. The same study also found that more experienced workers in the same field had not seen a drop in employment. Intuitively, these findings make sense. AI-models are adept at performing routine tasks often assigned to newer employees, but they are generally less skilled at performing tasks

which require more tacit knowledge and intuition, which are often developed through experience. It should be noted though, that gen-AI systems are learning fast.

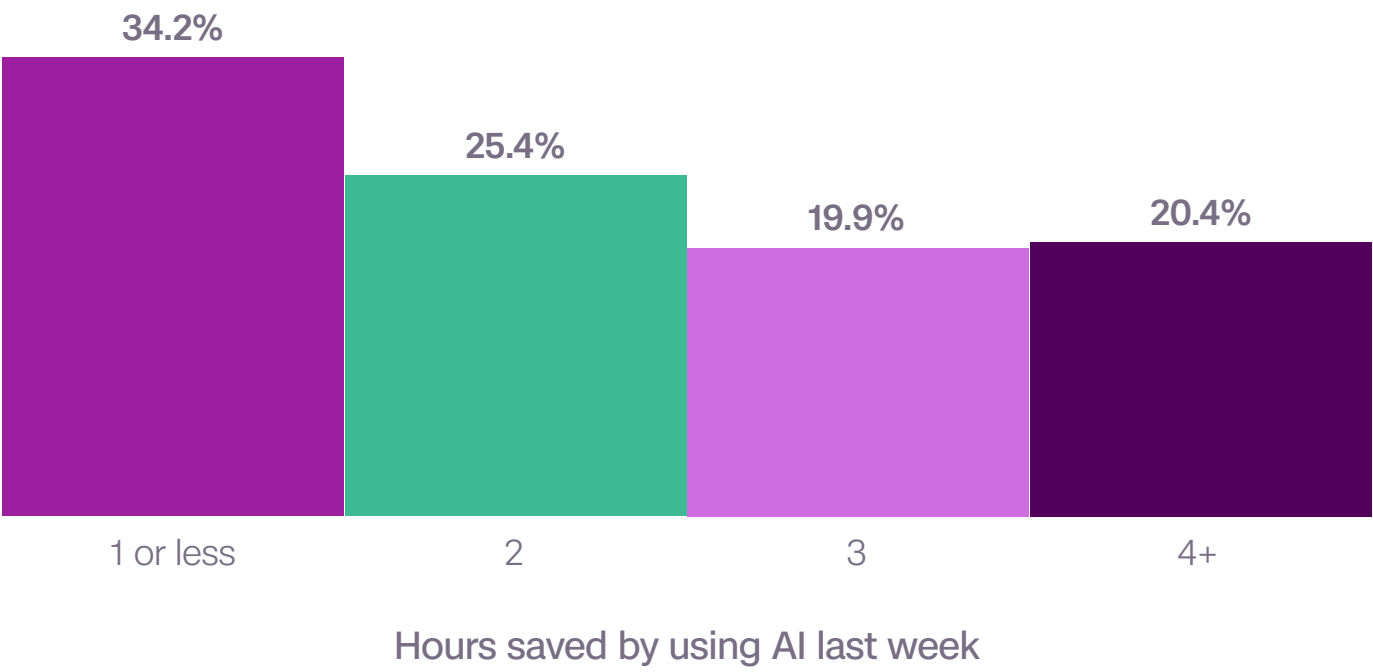
METR (Model Evaluation and Threat Research), a non-profit research institute that evaluates frontier AI models, tracks how long it takes them to complete tasks currently performed by software engineers. Their research shows that 50% of the time, cutting edge AI can perform tasks that take humans two hours to do. Their research also indicates that the tasks that frontier models can complete autonomously with a 50% success rate, has been doubling every seven months for the past six years. If this rate of development were to continue for another 2-3 years, AI agents will be capable of performing a range of tasks that currently take a

human a week to complete. It is no surprise then, that “AI anxiety” in the workforce is prominent. In 2023, an EY survey showed three in four US employees were concerned that certain jobs will be made obsolete by AI, with 65% also saying that they were worried that AI could take their job.

The IMF estimates that 60% of workers in advanced economies are in jobs with high exposure to AI. Using the same methodology, the Department of Finance found that 63% of Irish workers face high exposure to AI. Occupations which are heavily exposed to AI, where tasks can be performed autonomously may see a decline in demand in the years ahead. However, many of these roles are also deemed to be “highly complementary” to AI. As such, if workers develop the skills to leverage AI, it could lead to an increase in demand for their labour, given the potential enhancement in productivity.

In the longer term, the emergence of advanced AI technologies may not be as disruptive as some fear, as global population peaks and declines in many regions. As workforces shrink, the productivity gains of AI adoption could replace that lost labour, and enable economies to continue to churn out growth and higher living standards long into the future.

Reported Time Savings due to Generative AI



Source: Bick, Blandin & Deming, 2025



Appendix

Detailed Forecast Tables

Irish macroeconomic forecasts (% change)

	2024	2025	2026	2027
Consumer Spending	2.9	3.2	2.3	2.6
Government Spending	5.3	4.5	3.2	2.3
Investment	-28.5	23.4	1.0	0.7
Exports	8.6	7.1	3.7	5.5
Imports	2.7	5.6	2.3	5.9
GDP	2.6	9.1	3.8	3.5
Modified Investment	-4.2	2.0	2.3	3.9
Modified Domestic Demand	1.8	3.2	2.5	2.8
HICP Inflation	1.4	1.9	2.1	2.0

Irish labour market forecasts (% change)

	2024	2025	2026	2027
Unemployment rate	4.3	4.9	5.1	5.1
Employment Growth	2.7	2.1	1.7	1.9
Employment ('000)	2,757	2,815	2,863	2,918
Earnings Growth	5.5	5.0	3.8	3.2

Source: CSO, AIB Economic Research Unit



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



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