

# Macroeconomic Context for Budget 2026

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Budget Perspectives Conference 2025

11<sup>th</sup> June 2025

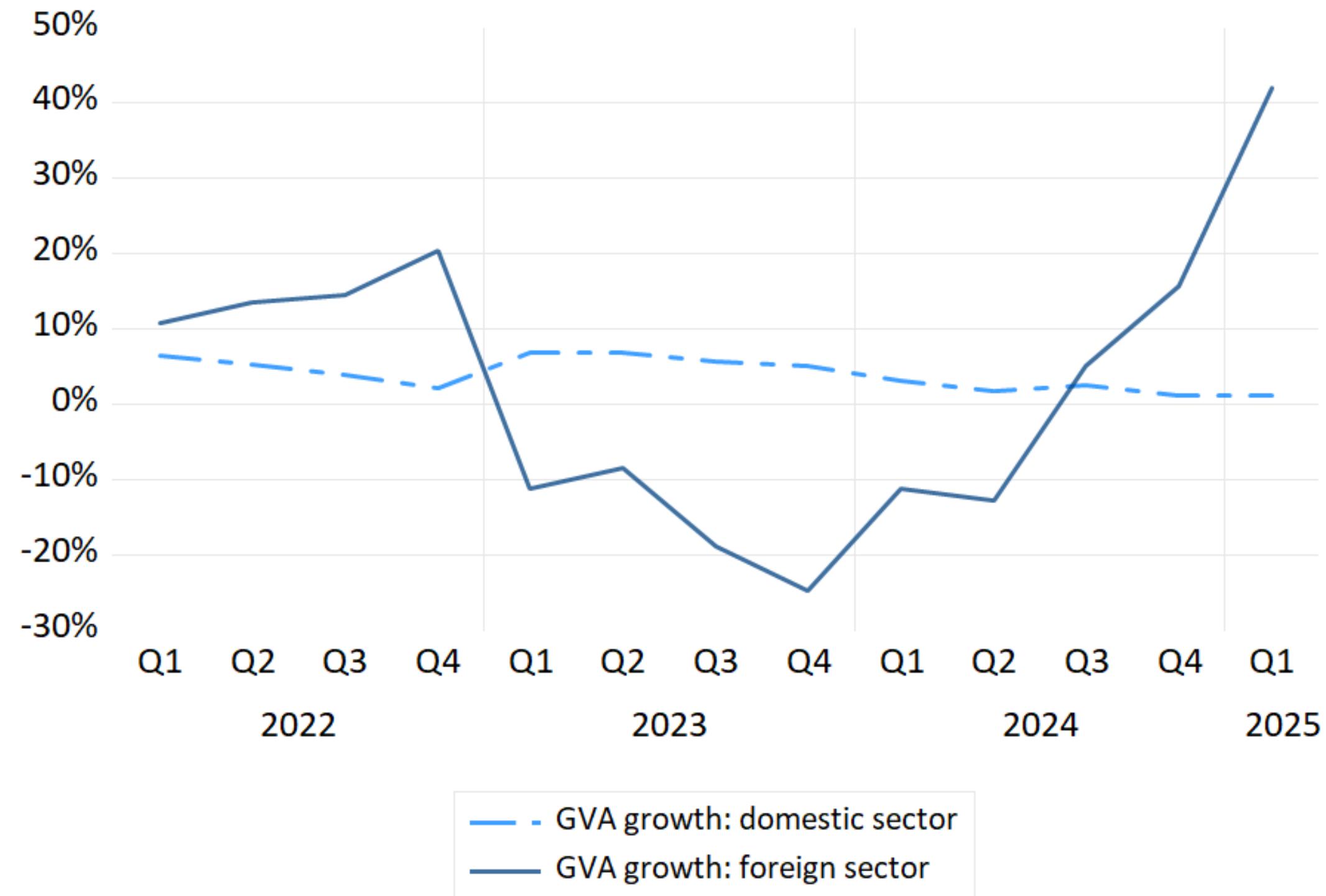
Forecasts taken from Spring 2025 Quarterly Economic Commentary

# Outline of discussion

1. Macroeconomic developments and external environment
2. Inflation and labour market developments
3. Public finances outlook
4. Assessment

# Stable domestic sector, volatility in foreign sector

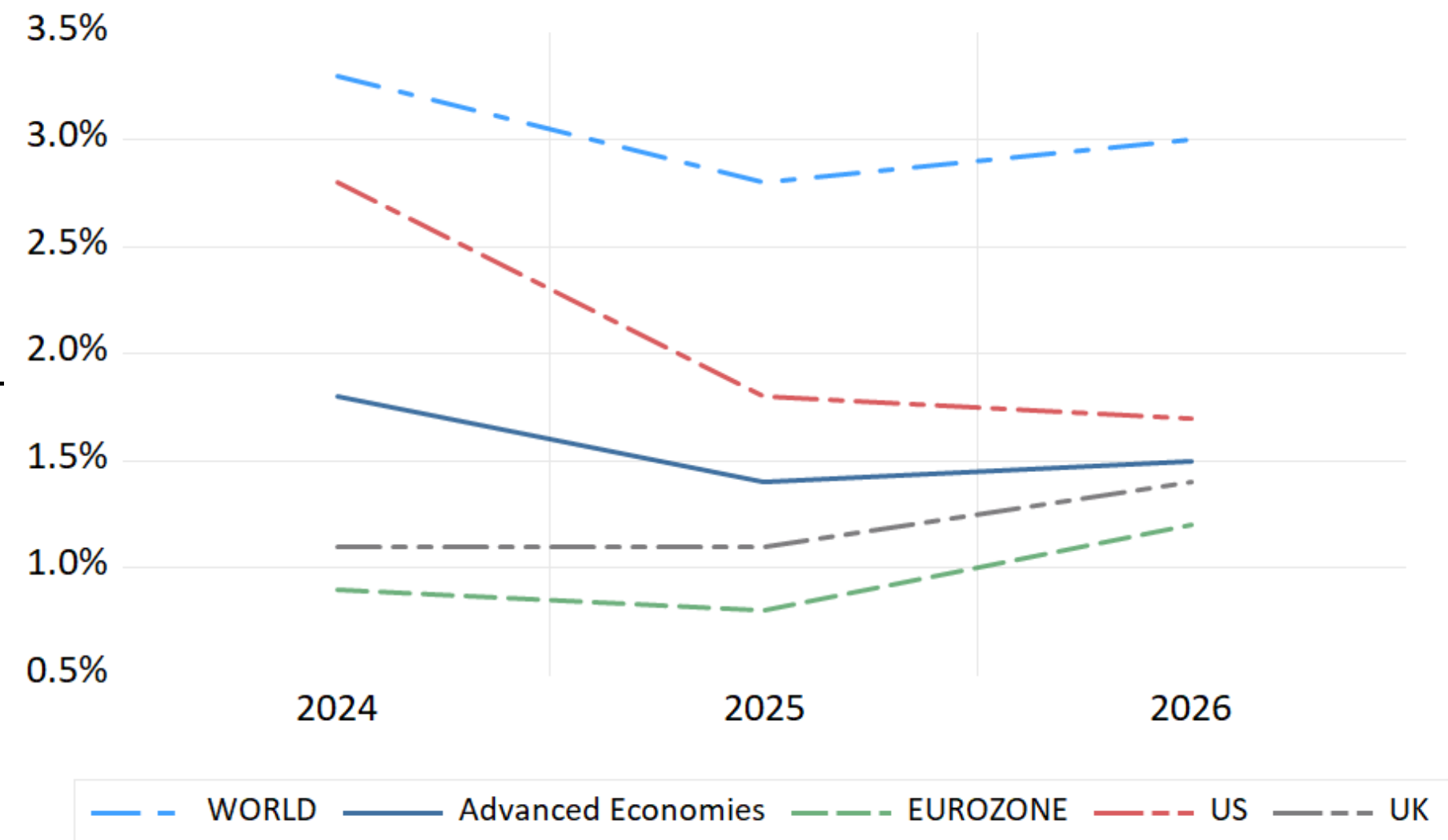
GVA growth – year-on-year – domestic vs foreign-dominated sectors (Constant prices, seasonally adjusted)



# Global outlook

- Range of forecasters (IMF, OECD) downgrading economic prospects for 2025 onwards
- Risks increasingly on the downside with swiftly changing policy positions, deteriorating sentiment
- Ratcheting up a trade war and heightened trade policy uncertainty may further hinder both short-term and long-term growth prospects. Scaling back international cooperation could jeopardize progress toward a more resilient global economy
- Overall, lower growth due to barriers to trade, tighter financial conditions (risk premia), weaker business and consumer confidence, heightened policy uncertainty, higher trade costs.

Output Growth (y-o-y) in Key Economic Groups – IMF WEO, April 2025 (% growth)

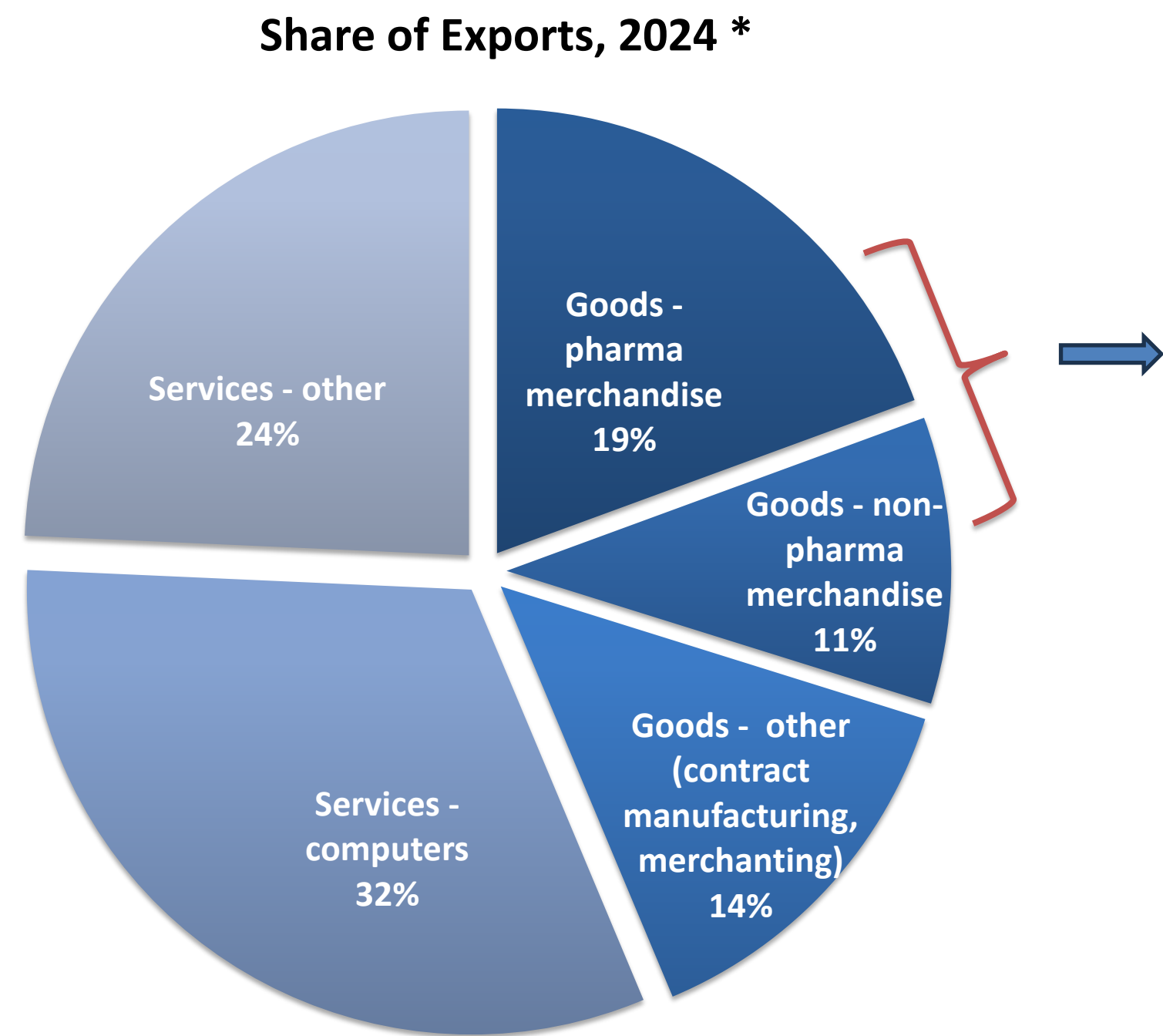


- How will US tariffs impact the Irish economy?
- Direct effects
  - Sector specific impacts – Exposed sectors likely lower output, investment and employment
- Indirect effects
  - Second round impacts of lower output and employment in traded sectors on domestic sectors
- Price impacts
  - Imported goods, ECB could react raising interest rates
- International trade impacts
  - Slower international trade and higher uncertainty - deter investment flows, export demand
- Detailed analysis of these issues in Egan and Roche (2025)
  - Other long-term impacts such as import quality, variation, competition, innovation and productivity

# Existing forecasts (March 2025)

- *How do we deal with US trade policy changes in the March Commentary?*
  - Two forecasts
    - **Baseline** – existing trade policy but higher uncertainty, lower world demand
    - **Tariff scenario** – Egan and Roche (2025) - 25% tariff bilateral on goods
- Caveats on tariff scenario
  - Uniform across sectors and only apply to goods
  - Shocks assume smooth adjustment from the existing tariff policy
  - Do not capture other impacts (such as to contract manufacturing)
  - Further risks from other US policy changes not captured (taxation or other industrial policies)

# Export composition – where do the direct tariff risks lie?



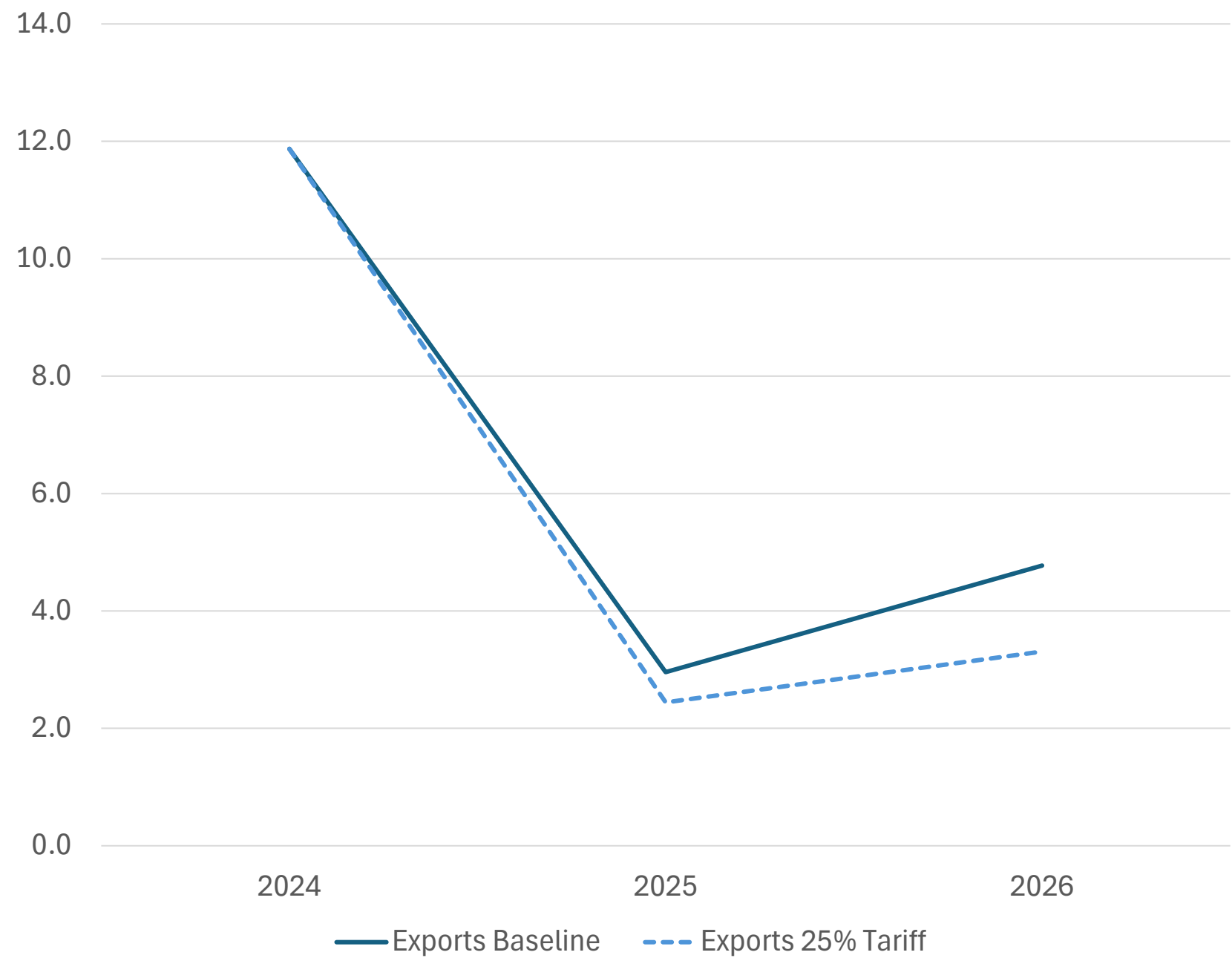
**Total Merchandise Exports (Value) by Share of Merch Exports and Share of Sector Exports to US**

Commodity Group	Share to US	Commodity Share of Total Goods Exports
Medicinal and pharmaceutical products (54)	44.4%	44.6%
Organic chemicals (51)	36.1%	11.6%
Electrical machinery, appliances etc., n.e.s. (77)	11.3%	5.3%
Essential oils, perfume materials, toilet preparations etc. (55)	33.8%	5.2%
Professional, scientific and controlling apparatus (87)	40.4%	4.7%

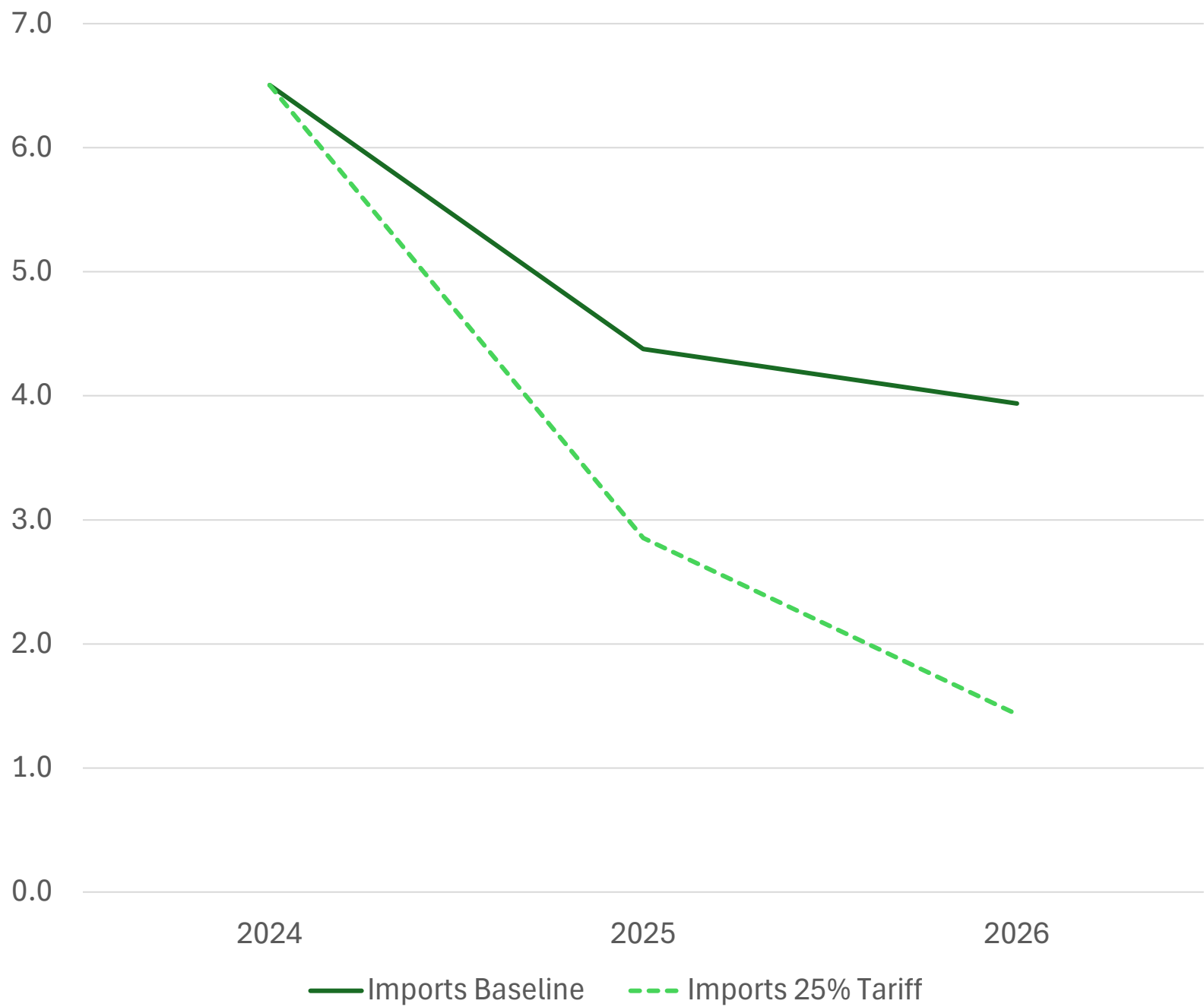
\* Note: Export shares for 2024 are in volume terms, implied using sub-group deflators. For more info, please contact authors.

# Tariff scenario affects Irish traded sector

Export growth under 25% tariff scenario



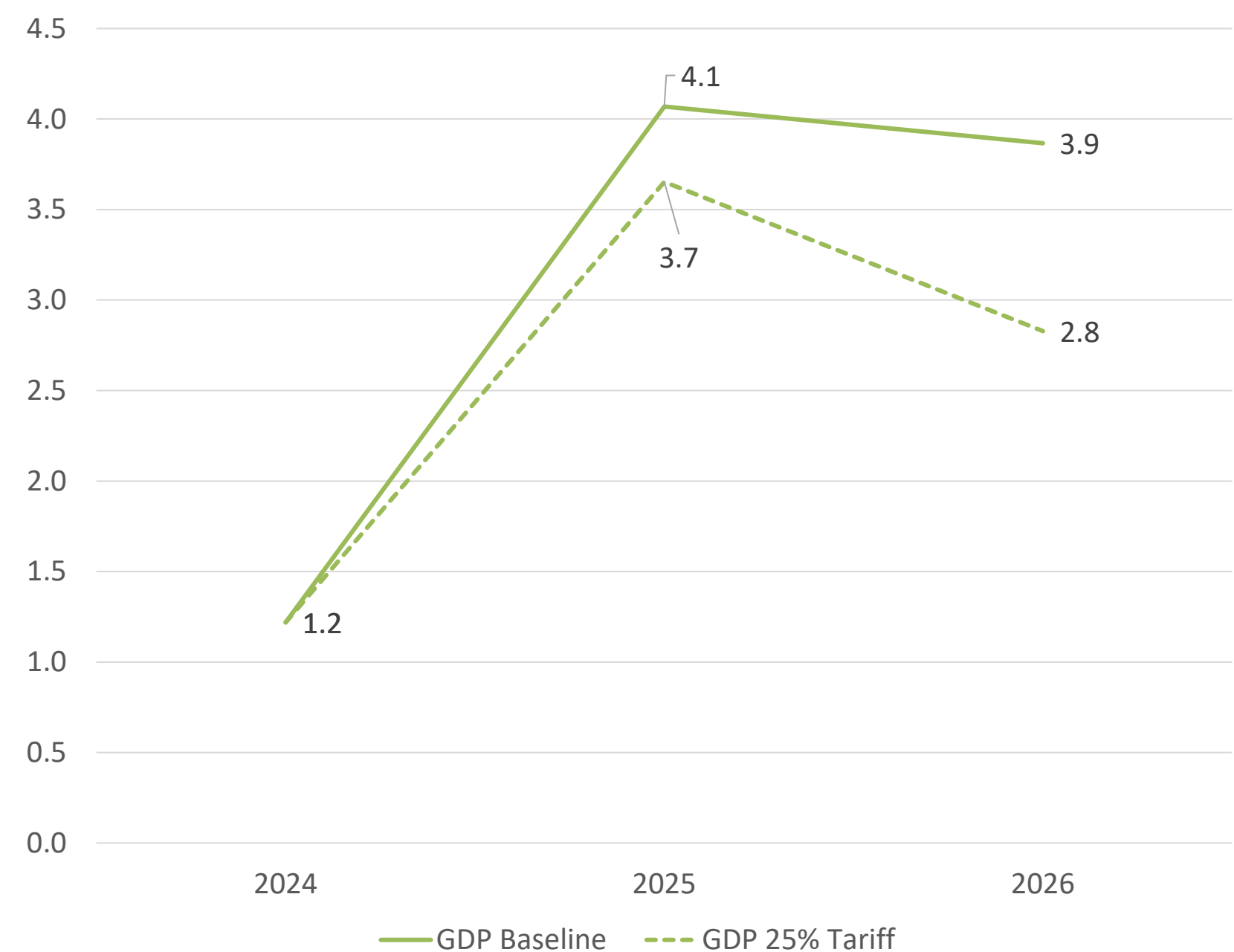
Import growth under 25% tariff scenario



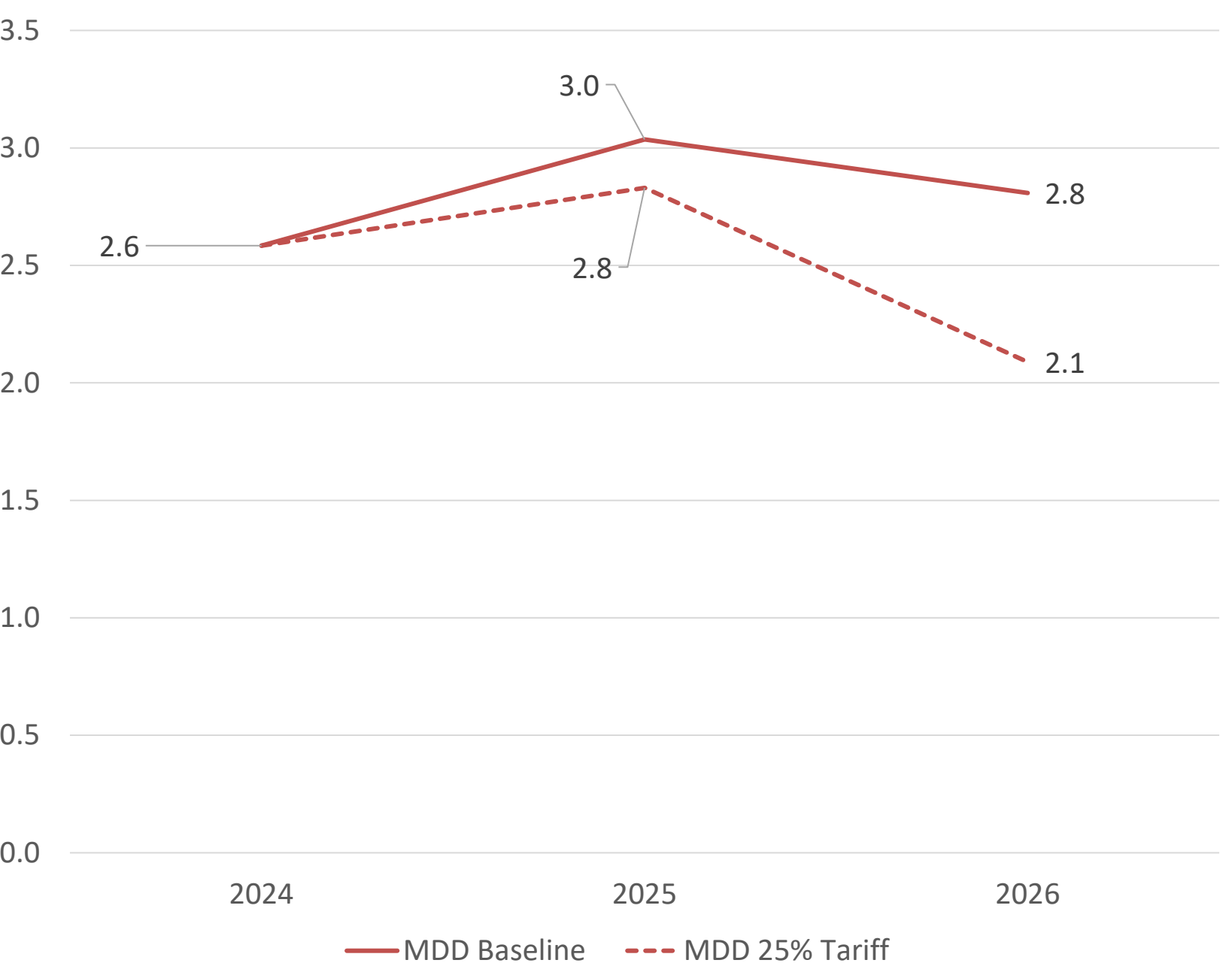


# Impact on output growth of tariff scenario

GDP growth under 25% tariff scenario

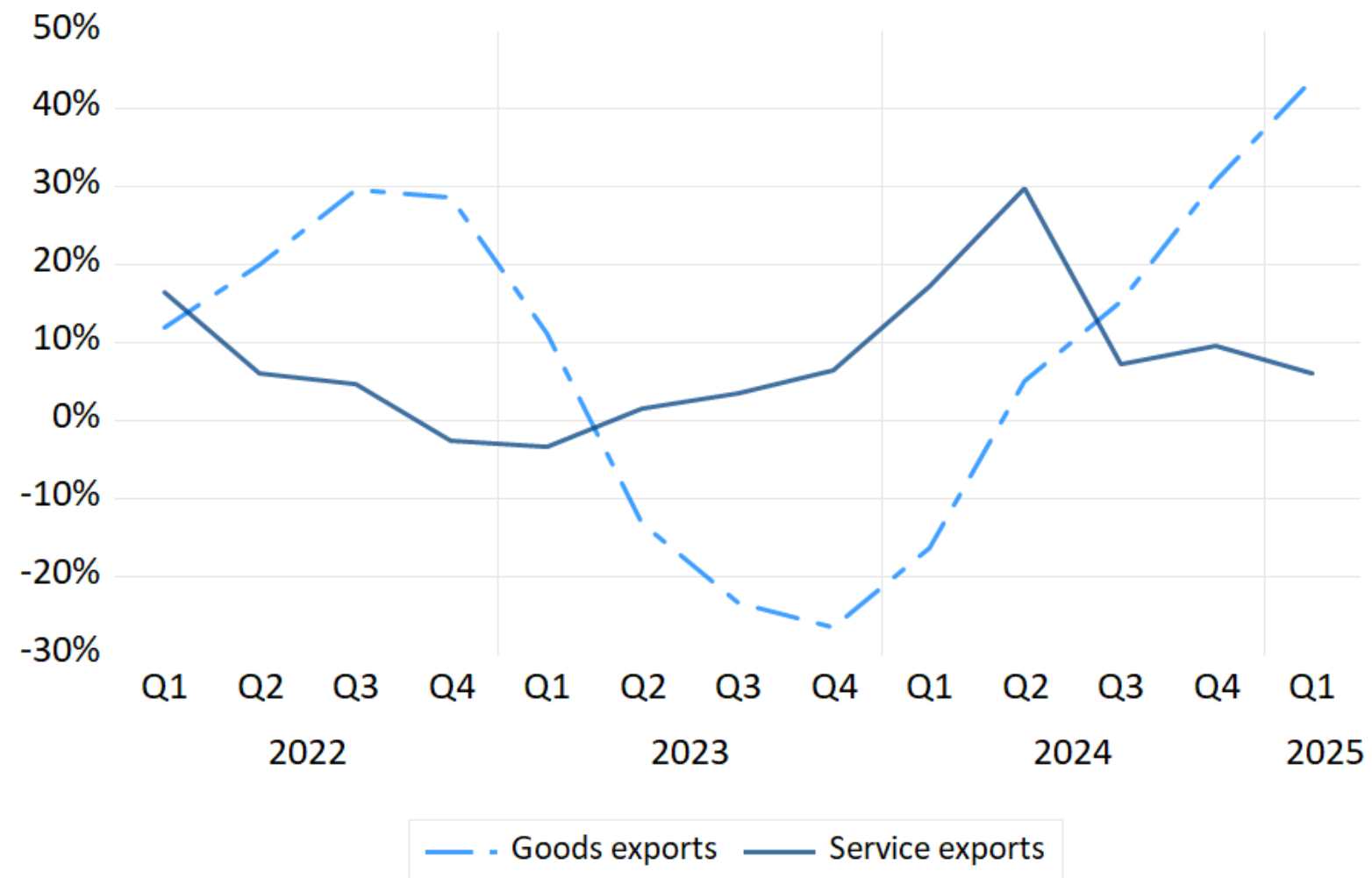


Modified Domestic Demand growth under 25% tariff scenario

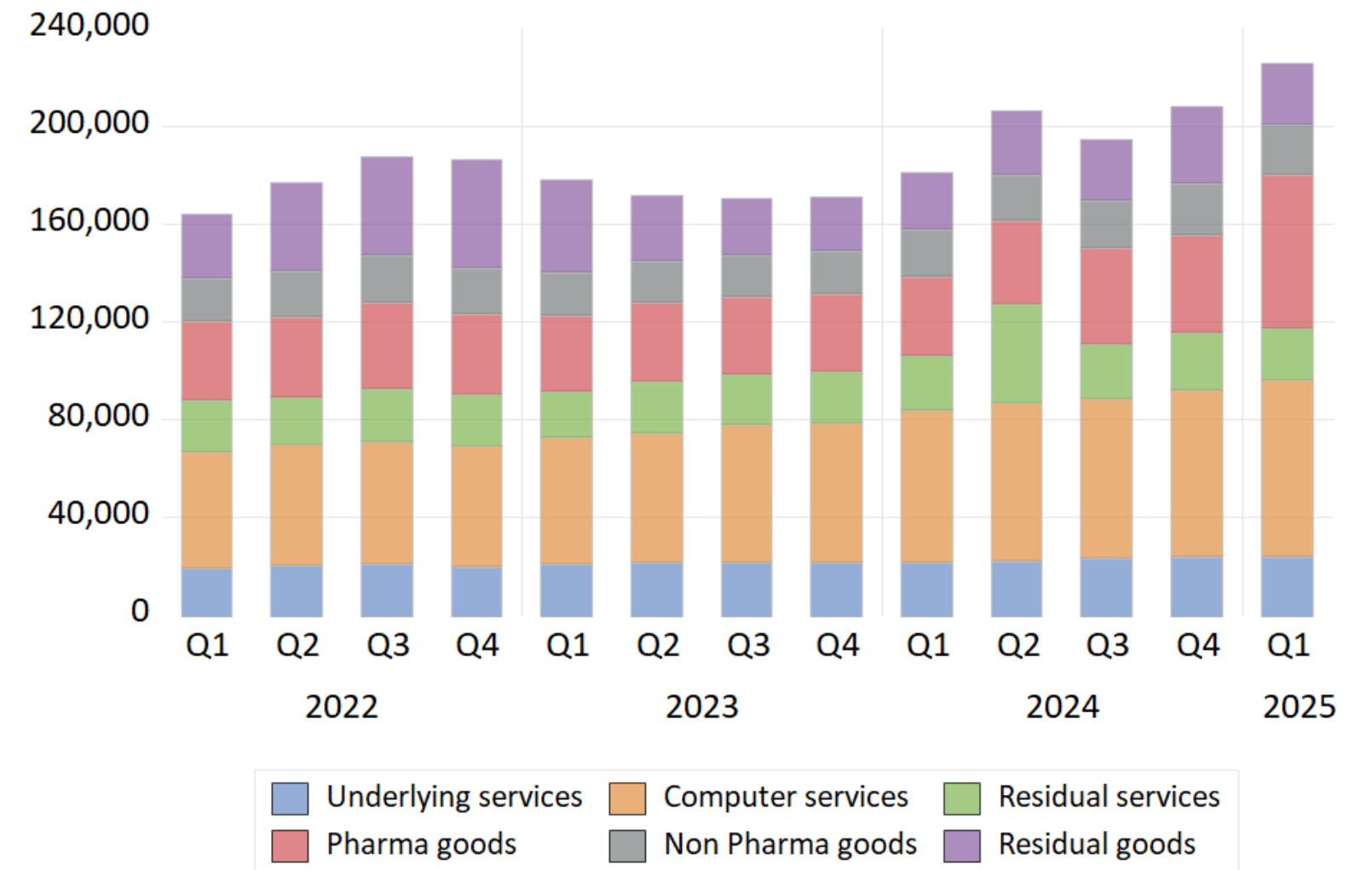


# What happened in Q1 2025?

Overall Export Growth by Component (% growth)

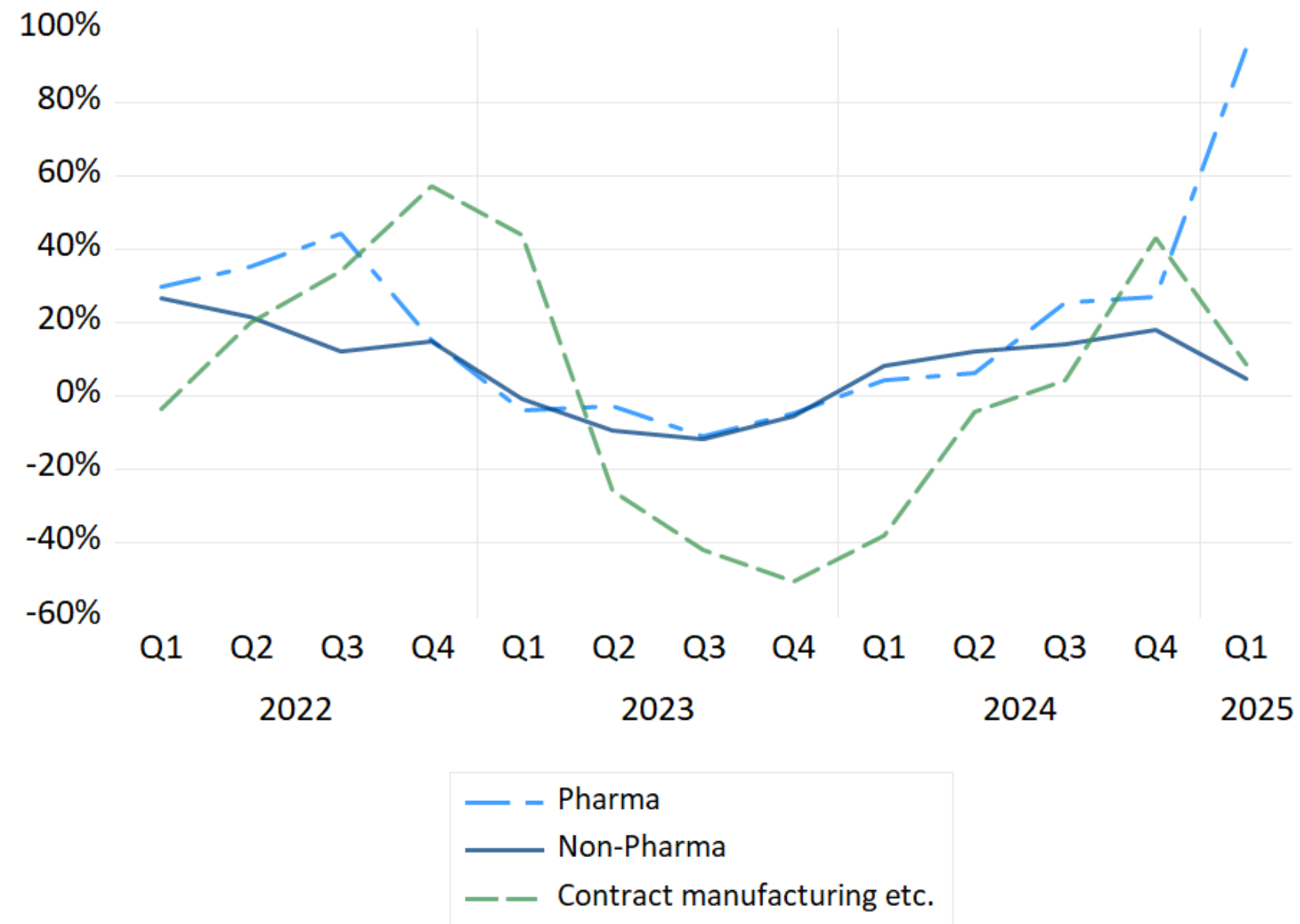


Export Levels by Subcomponent, €mn

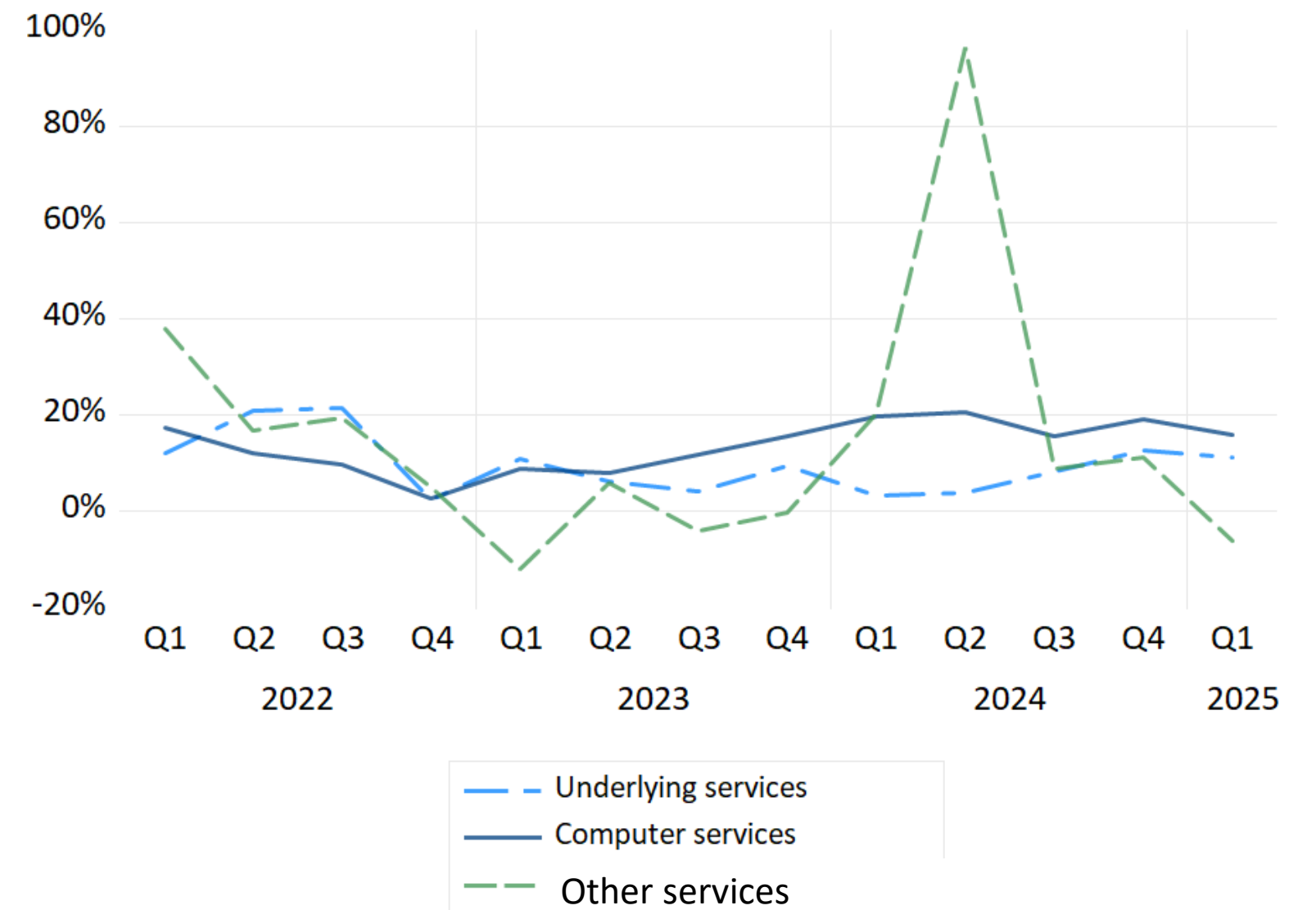


# What happened in Q1 2025?

Goods Export Growth by subcomponent, (Y-o-Y, %)



Service Export Growth by subcomponent, (Y-o-Y, %)



# Domestic Spending

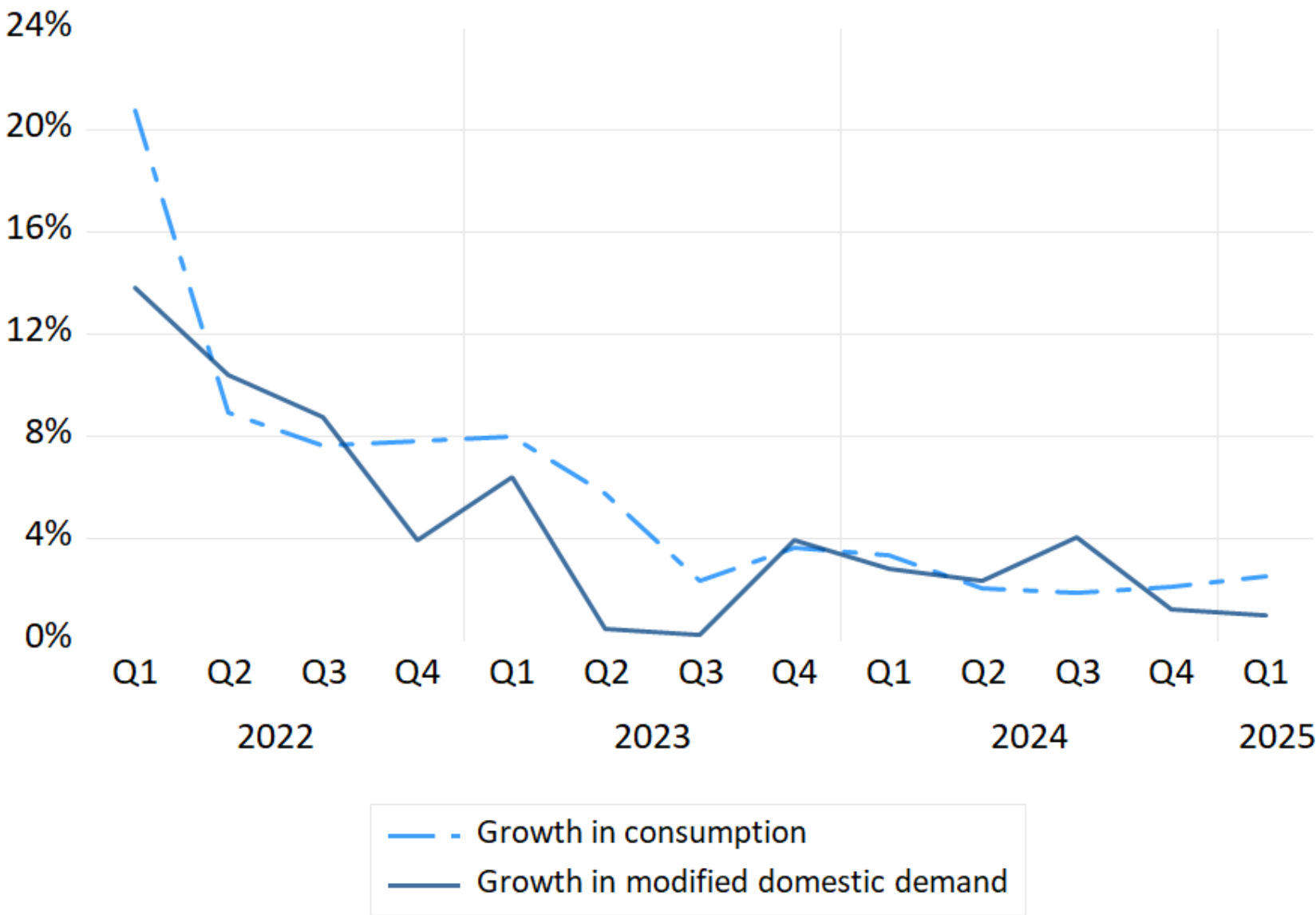
Consumption growth in 2024 slower than 2023 (2.3% vs 4.9%).

Real wage increases and accumulated savings likely to drive slight increase in growth in 2025.

However, international uncertainty could lead to higher precautionary savings.

Domestic Spending (%)	2024	2025	2026
Consumption - Baseline	2.3	2.9	2.6
Modified domestic demand - Baseline	2.6	3.0	2.8

Growth in Consumption and MDD – year-on-year (Constant prices, seasonally adjusted)



# Investment: Divergent trends in 2024

## Modified nonconstruction investment

Grew by 7.6% in 2024

Large fall in Q1 2025

- Base effect
- uncertainty

## Building and construction investment

Declined by just under 3% in 2024

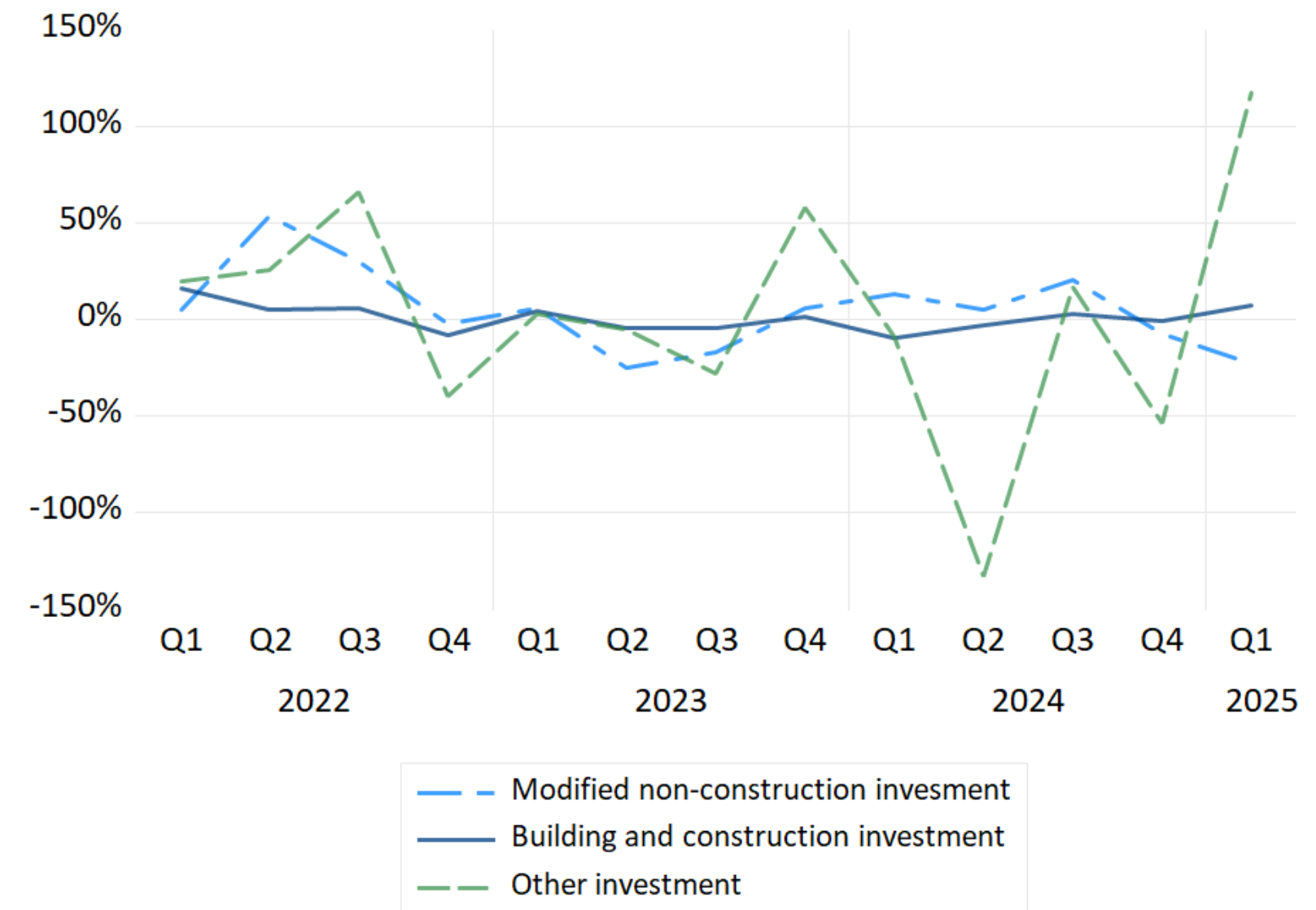
Increase in Q1 2025

## ‘Other (including IP and aircraft)’

Large IP outflow in Q2 2024 impacted on headline investment through this sector

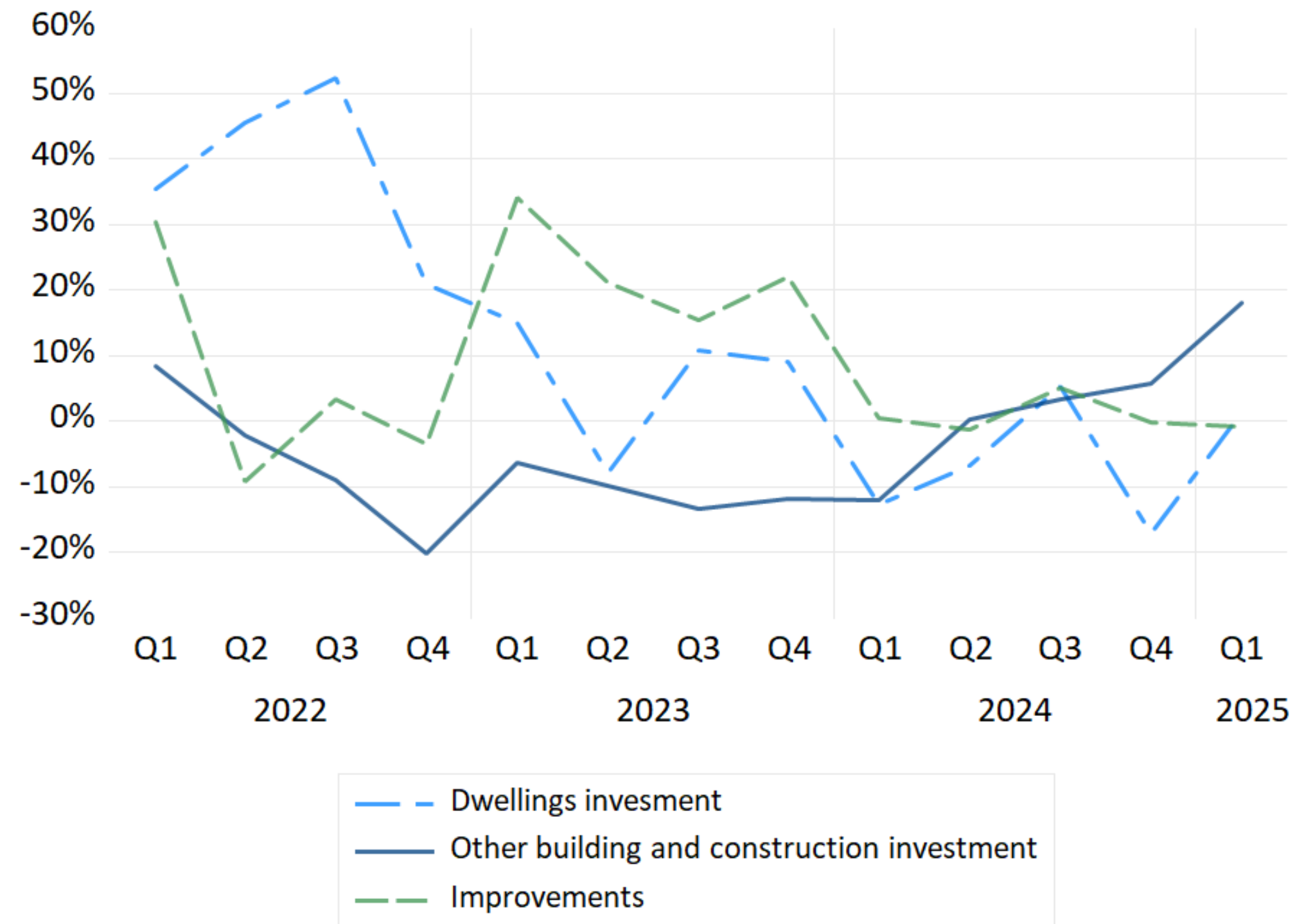
Knockon impact on GDP growth in 2024

Growth sub-components of Investment – Year-on-Year



# Commercial construction recovers, residential investment declines

Components of building and construction investment – year-on-year growth – Constant prices



# Continued low unemployment

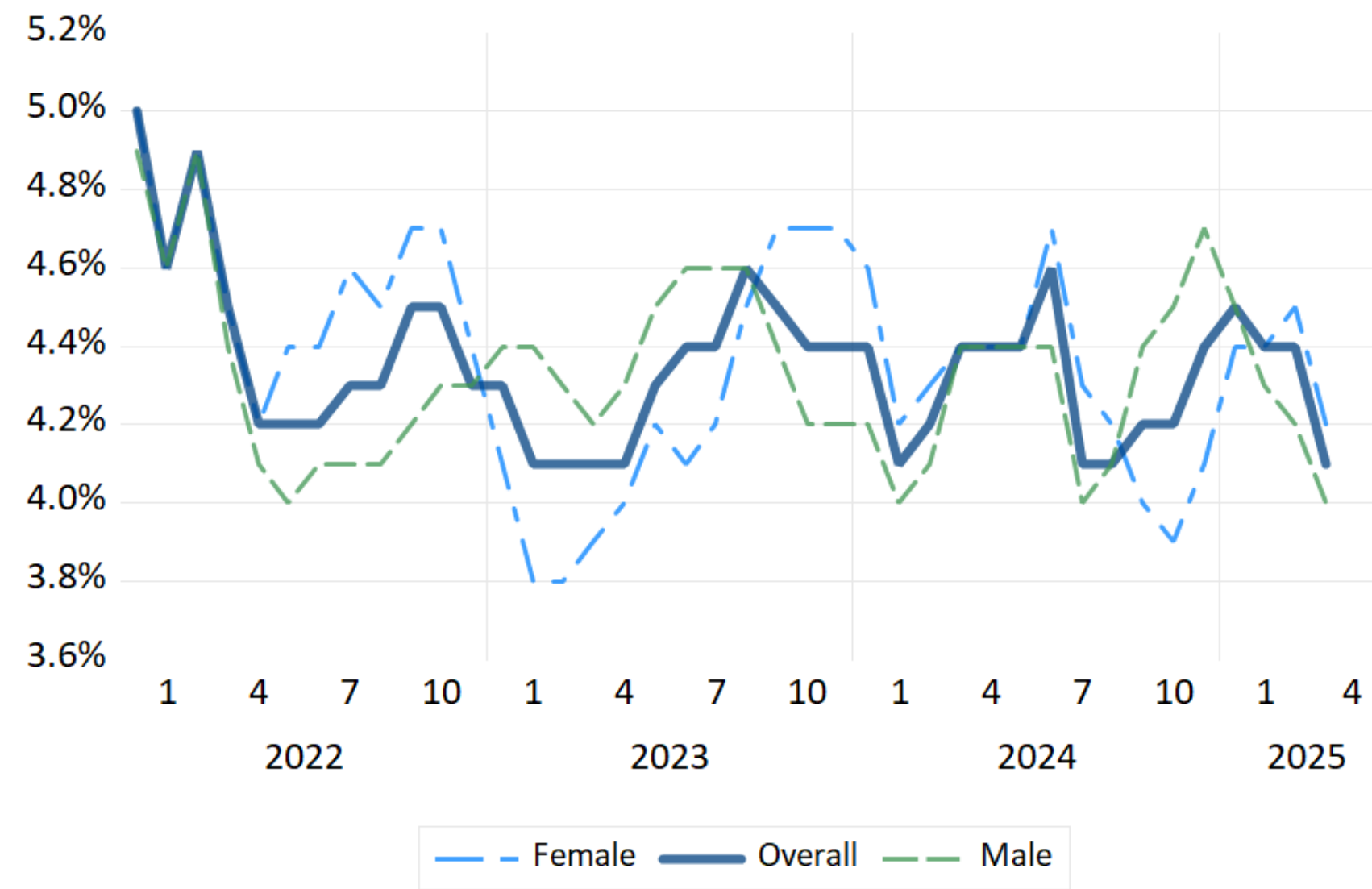
Unemployment remains low employment increase substantial in recent years

Labour force participation rate remains high.

Low unemployment, combined with real wage growth 2025 likely to boost consumption

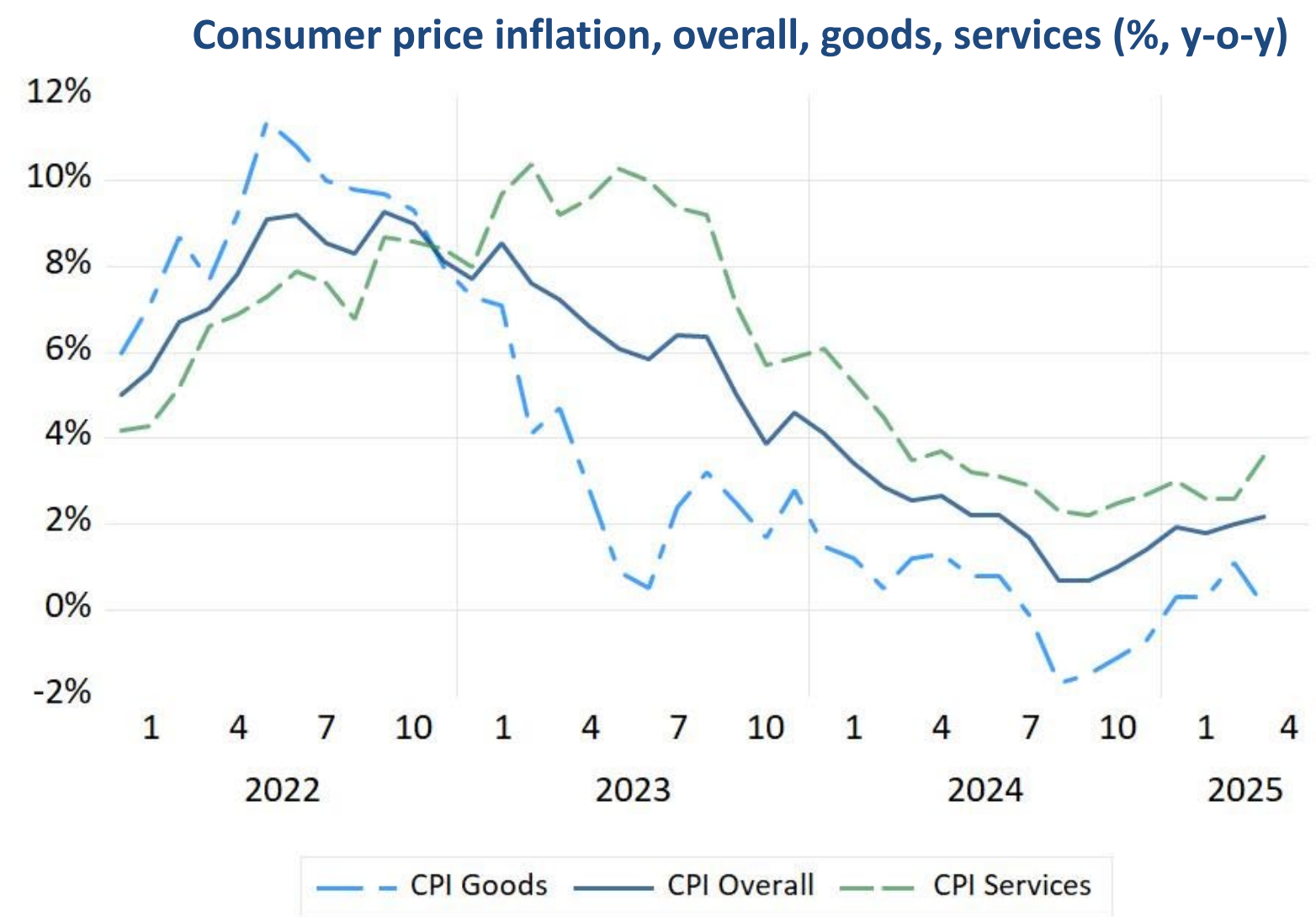
Labour Market Forecast	2024	2025	2026
Unemployment rate (%)	4.3	4.2	4.4

Monthly unemployment rate (%)

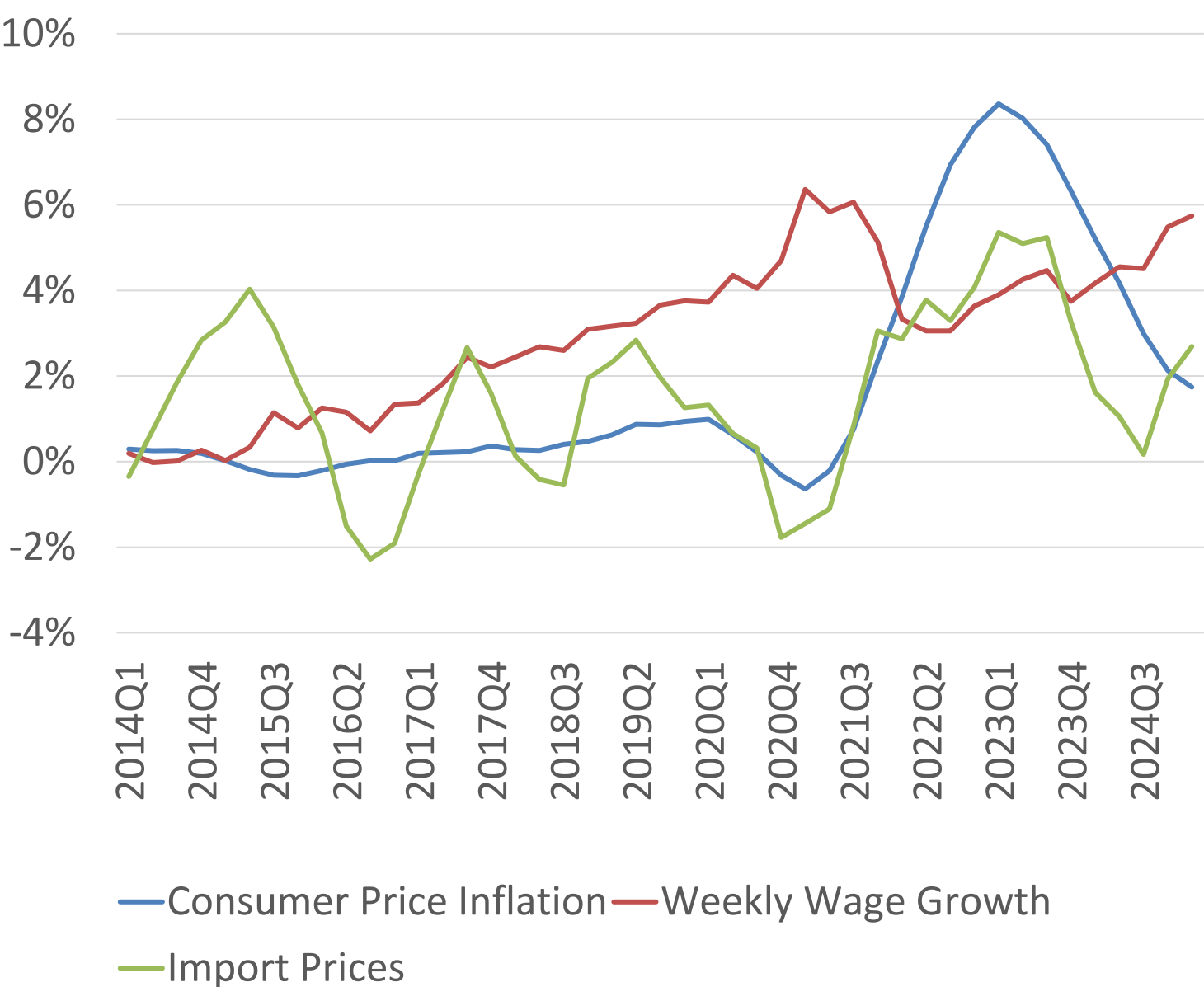




# Inflation increases to nearly 2 per cent – driven by services



Consumer price inflation, weekly wage growth, import price growth (4 quarter rolling average, y-o-y, %)



## Inflation Forecast

Consumer price inflation

2024

2025

2026

2.1

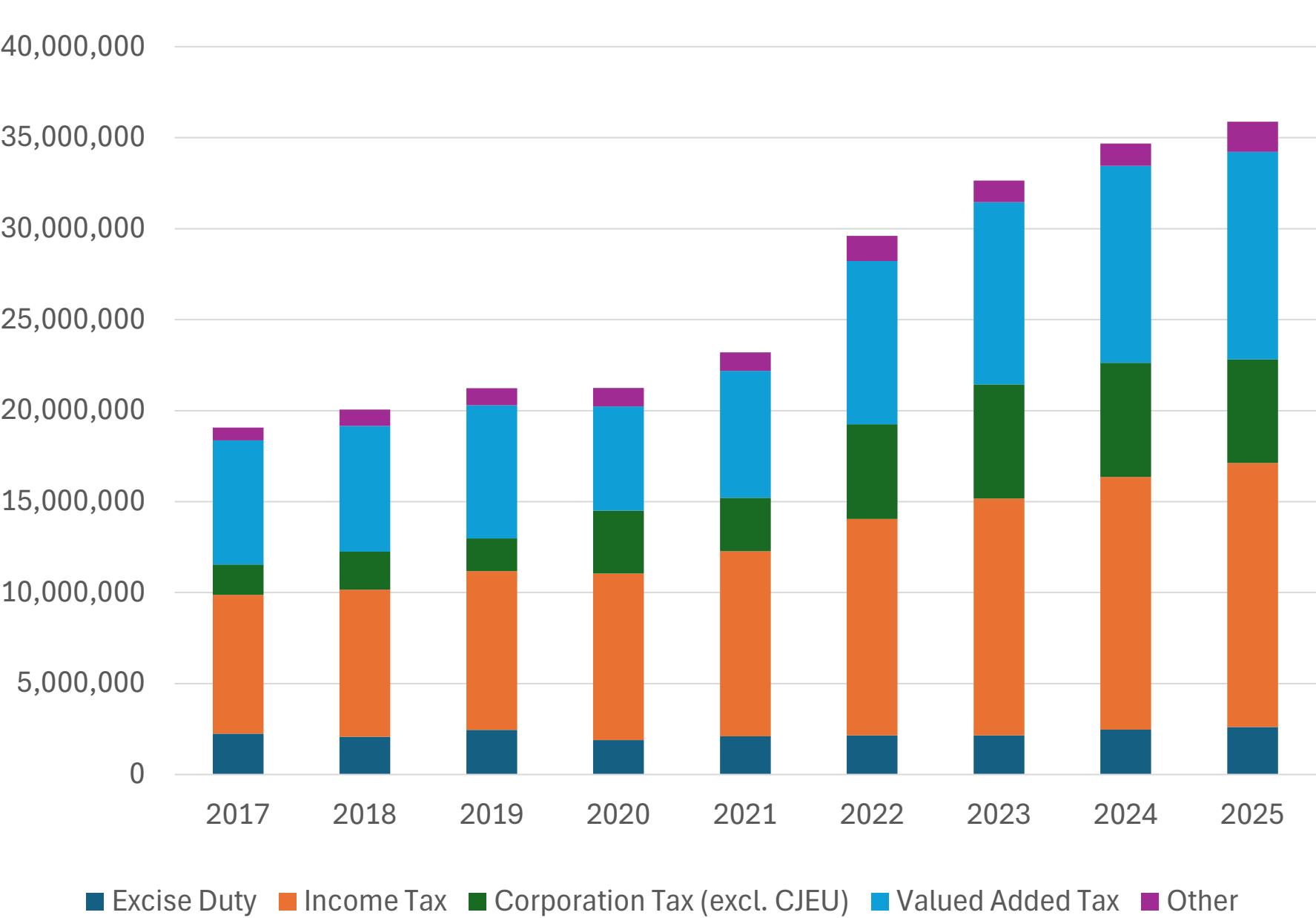
2.0

2.2

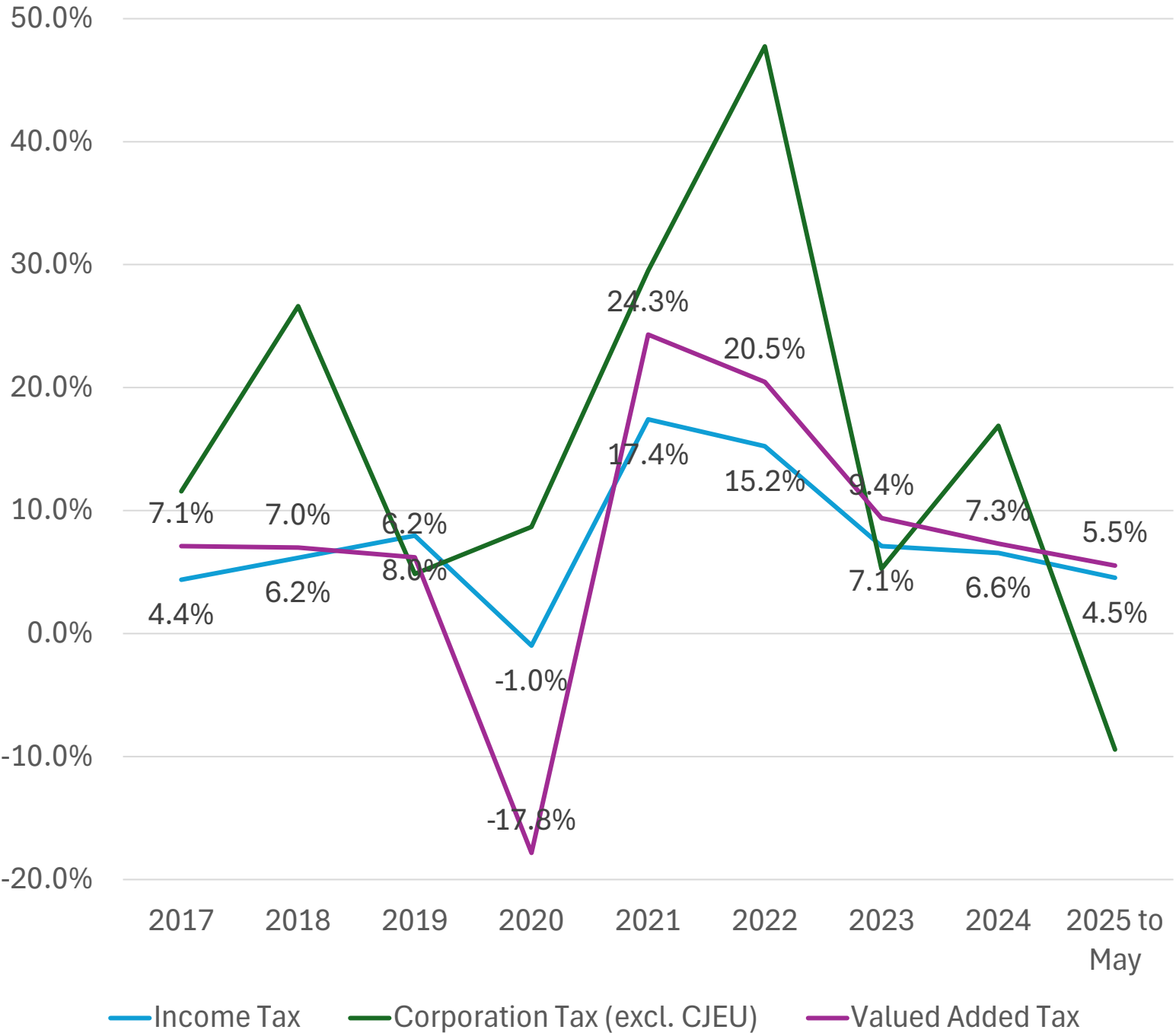


# Tax Receipts

Tax receipts in Year to May (€, '000)



Growth in tax receipts by heading, %, full year 2017-2024, year to May 2025

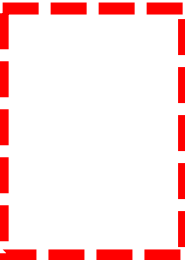
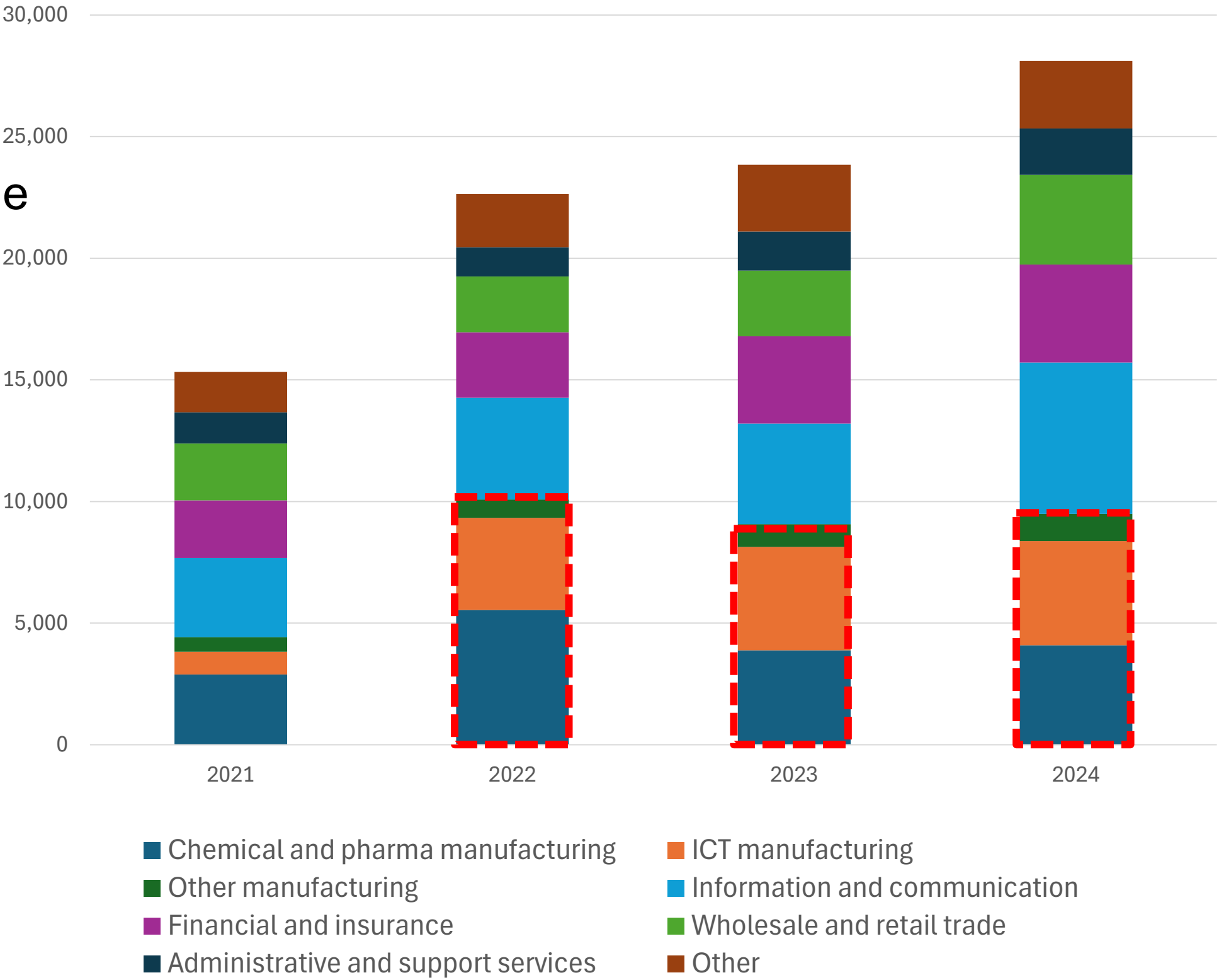


Source: Department of Finance Monthly Fiscal Monitors

# Corporation Tax by Sector

2024 figures show notable increase in revenue from Information and Communication (excluding manufacturing) sector (blue)

Corporation Tax Receipts by sector, (€, million)

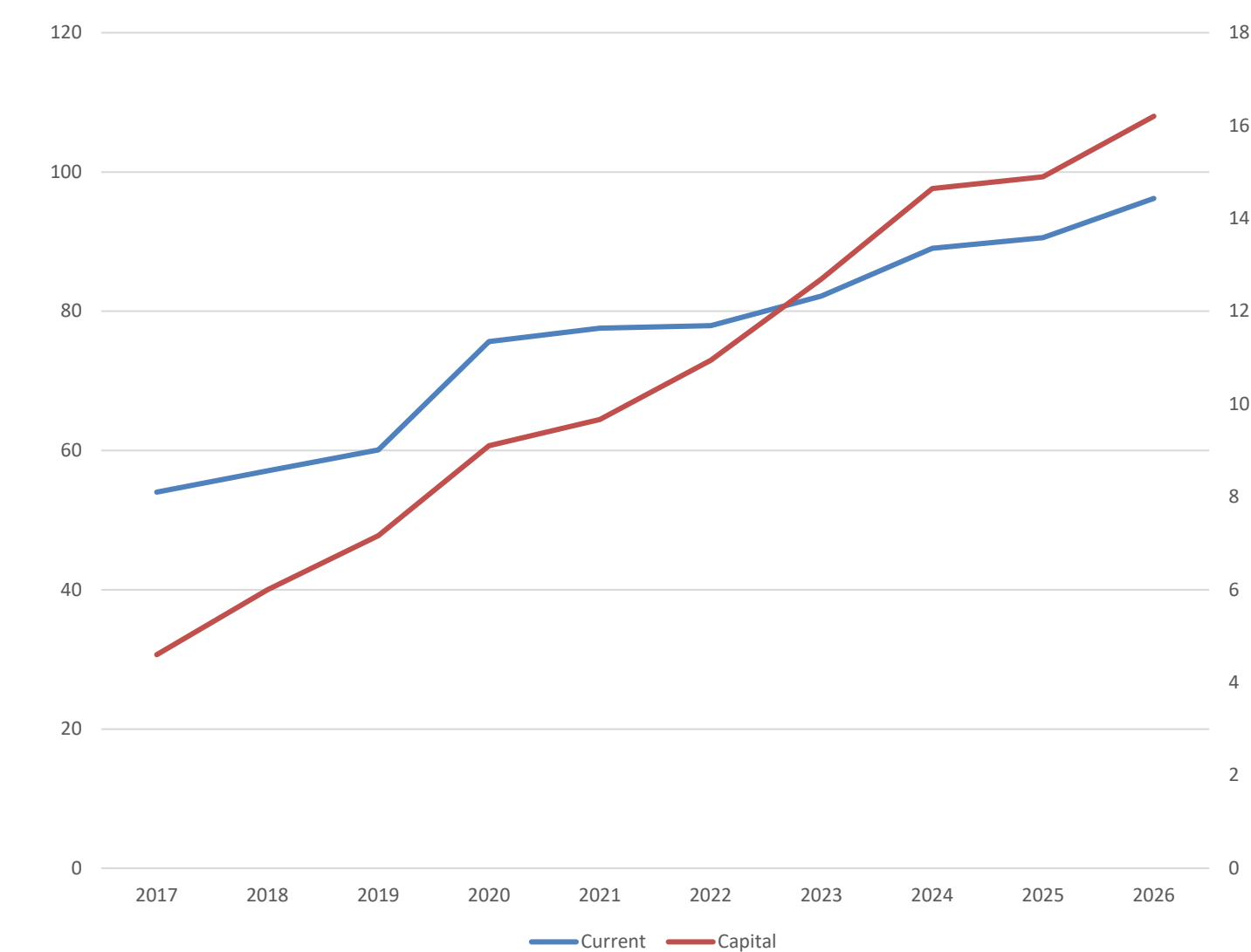


Corporation tax receipts from manufacturing sector as a whole flat since 2022

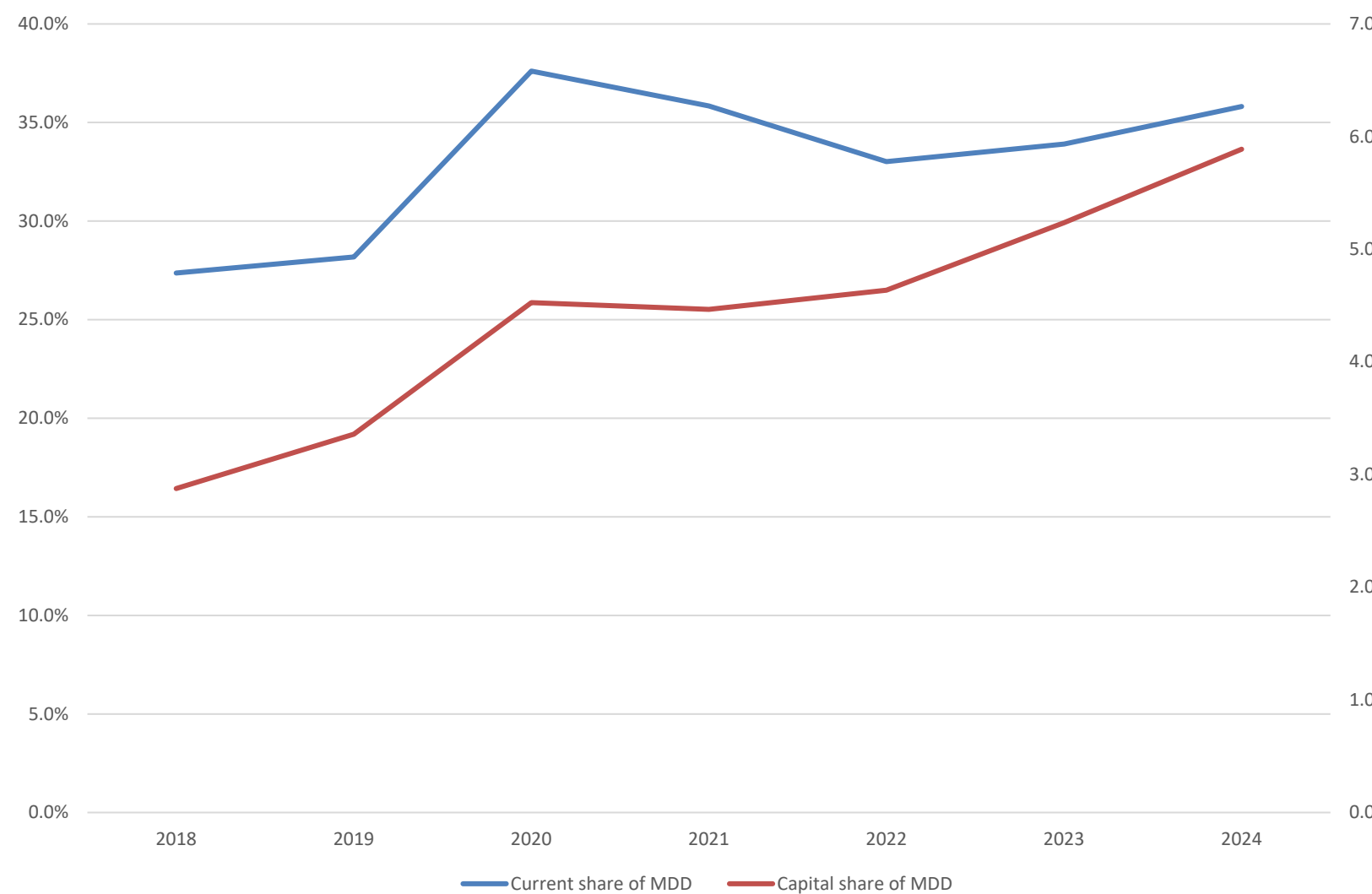
Source: Revenue Commission Corporation Tax Payments and Returns, 2021-2024

# Government expenditure growing faster than domestic economy

Current and capital expenditure, gross voted, 2017 – 2026 (€, bn)



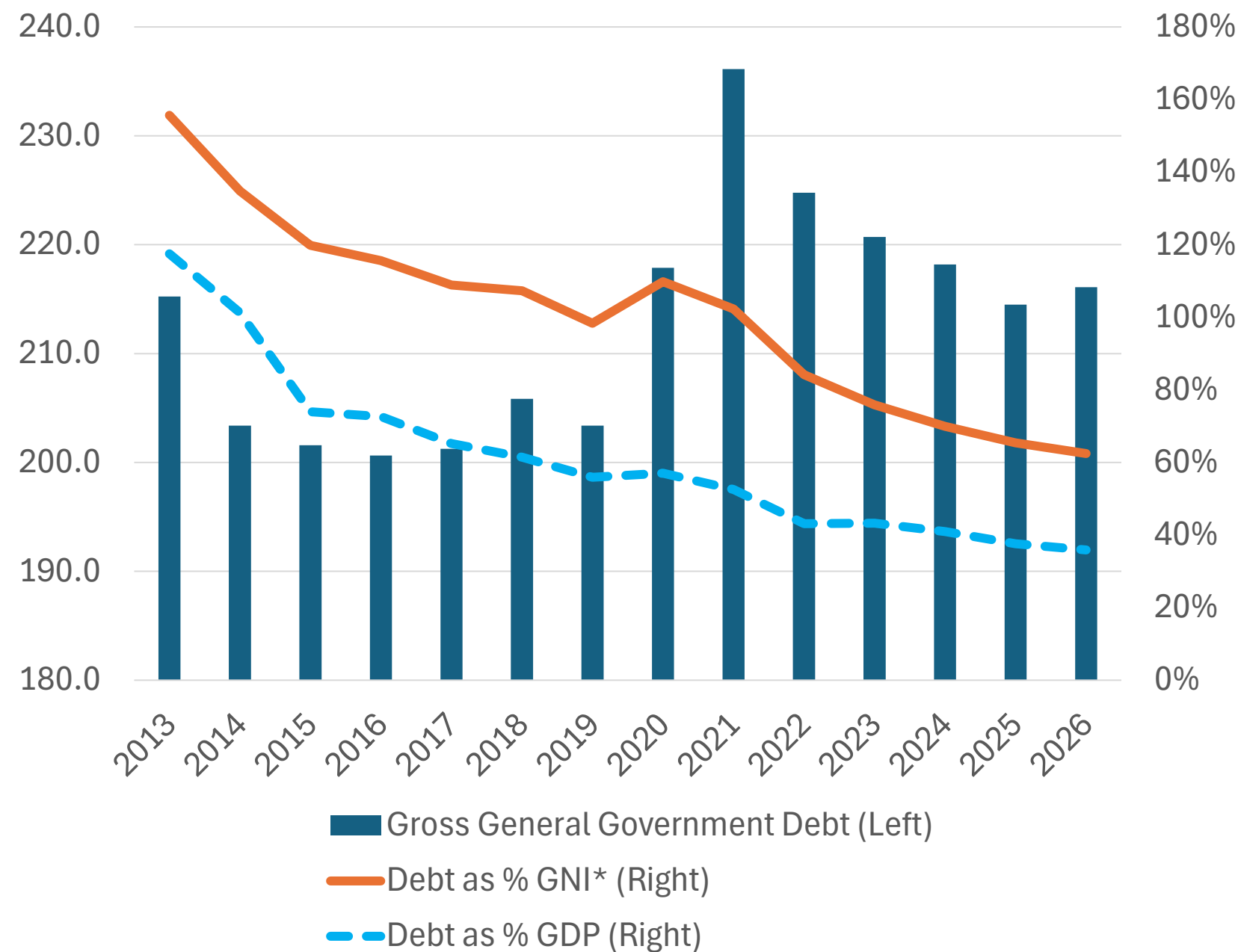
Current and capital expenditure as a share of Modified Domestic Demand



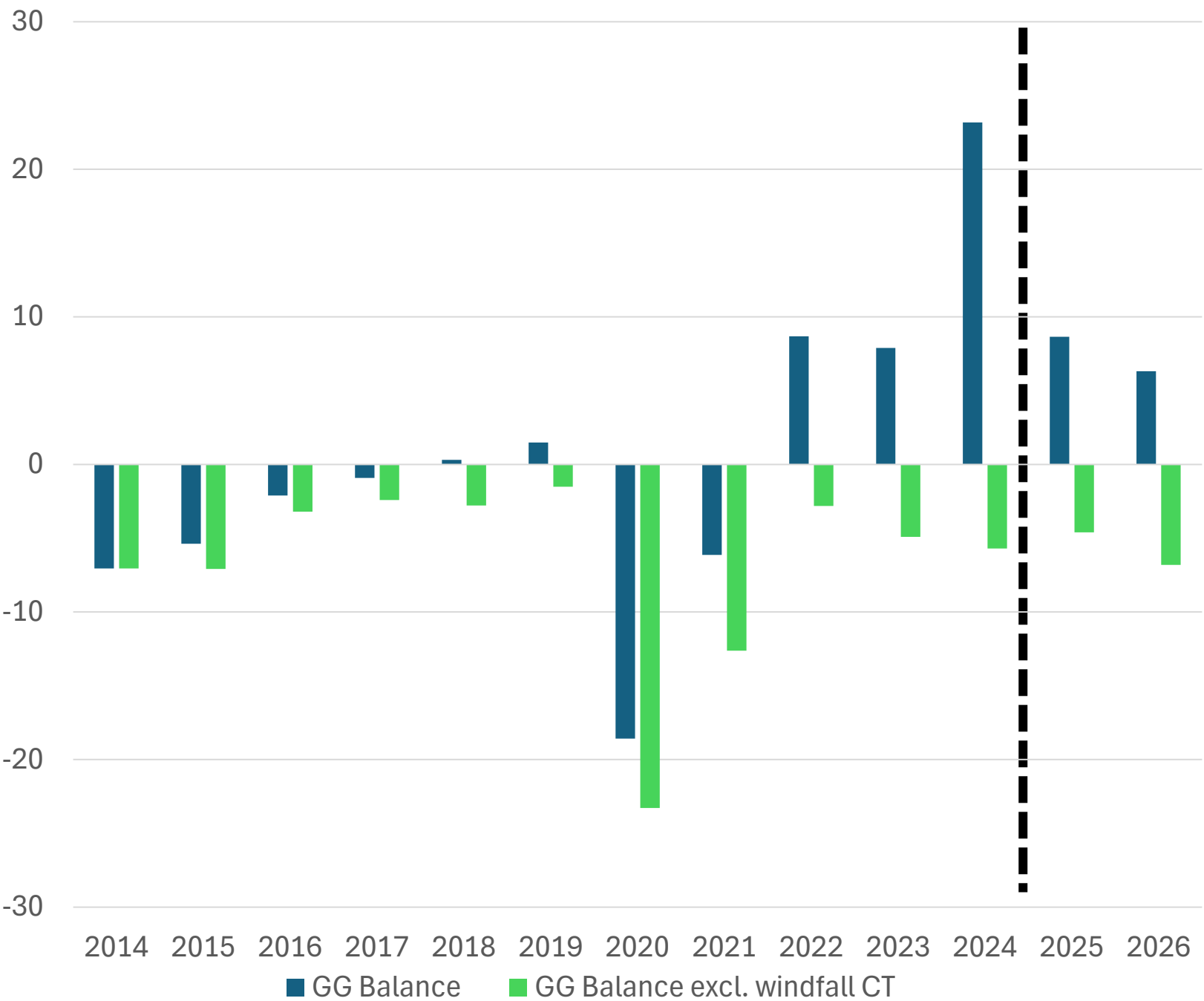
Source: Department of Public Expenditure databank (expenditure years 2018 – 2023), Annual Progress Report 2025 (expenditure years 2024 – 2026), Central Statistics Office (MDD years 2018 – 2024), ESRI Quarterly Economic Commentary forecasts (MDD years 2025 and 2026)

# Recent large General Government Surpluses driven by windfall CT

Gross General Government debt (€, bn) alongside  
Debt to GNI\* ratio and Debt to GDP ratio



General Government Surplus/Deficit (€, billion)



Source: Department Finance Annual Progress Report 2025 (2024-2026), Irish Fiscal Advisory Council 'Fiscal Assessment Report June 2023' Box D:  
Windfall corporation tax receipts flattering the public finances (20

# Assessment

- **Economic outlook**

- Prospect of a real and significant change in global trading conditions has increased
- Implications for the traded sector of the Irish economy, particularly if pharmaceuticals get included in tariff mix
- Domestic economy appears to be performing well but with downside risks

- **Budgetary policy**

- Risks extremely high in terms of exposure to excess corporation tax (in particular pharma)
- Short term—domestic economy does not need additional fiscal stimulus, risk to inflation in capacityconstrained economy with low unemployment and rising wages
- Longer term—very clear investment needs and infrastructure bottlenecks (housing, water, wastewater, healthcareetc), need to create space in economy to deal with these
- Balance between required investment in capital and potential for overheating risks
- Also, in an era of repeated shocks, important to build up buffers

# Thank you



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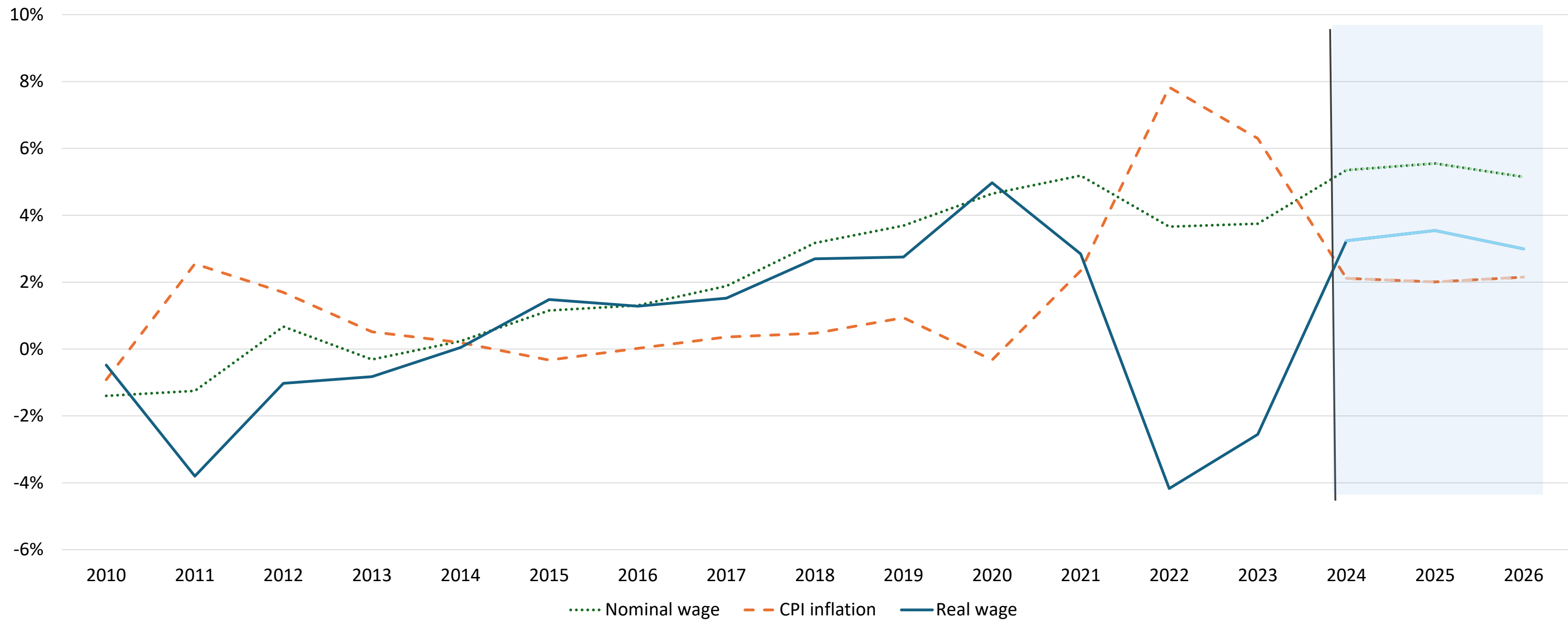
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**ANNEX**

# Anticipated Growth in Real Wages

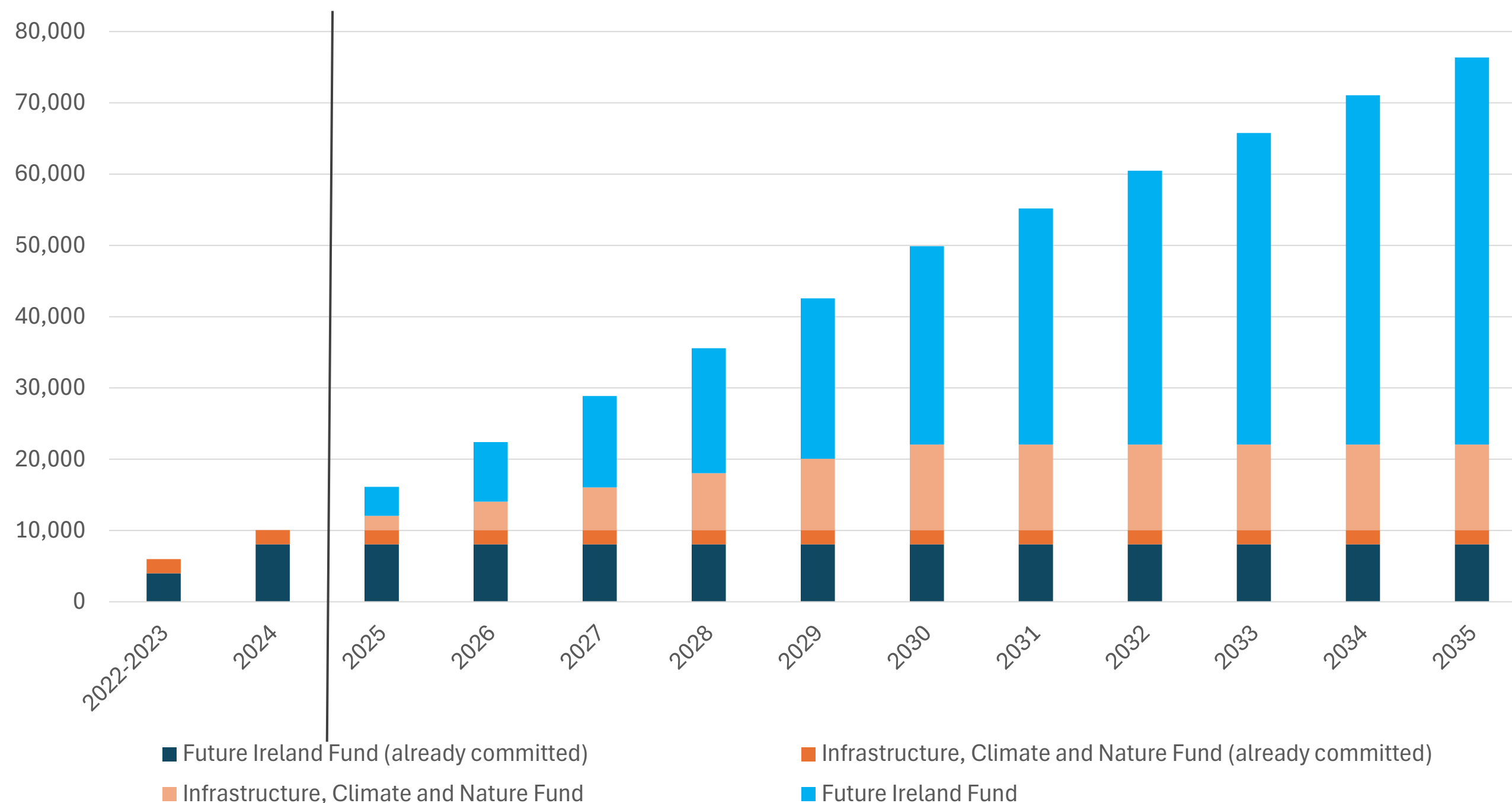
Inflation close to the target rate and strong nominal wage growth to lead to real wage growth





# Investment vehicles have potential but are in early stages

Actual and projected contributions to two established state investment funds (€, million)



Contributions to date of approx. €10bn

Projected contributions of approx. €70bn over lifetime of funds

Annual capital expenditure in 2025: €14.9bn