ESRI Forecasting Series

September 2025

AN INSTITIÚID UM THAIGHDE EACNAMAÍOCHTA AGUS SÓISIALTA
ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

Quarterly Economic Commentary Autumn 2025

ALAN BARRETT, CONOR O'TOOLE AND DÓNAL O'SHEA

QUARTERLY ECONOMIC COMMENTARY

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Autumn 2025

Available to download from www.esri.ie

https://doi.org/10.26504/QEC2025AUT

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The Quarterly Economic Commentary has been accepted for publication by the Institute, which does not itself take institutional policy positions. It has been peer-reviewed by ESRI research colleagues prior to publication. The authors are solely responsible for the content and the views expressed.

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	2023	2024	2025	2026
Output (real annual growth %)				
Private consumer expenditure	5.1	3.0	2.9	2.5
Public net current expenditure	0.8	7.1	4.5	3.5
Investment	13.5	-28.6	37.4	1.6
Modified investment	10.2	-4.2	5.9	3.3
Exports	-4.1	8.9	6.1	0.9
Imports	2.3	2.9	6.5	0.8
Gross domestic product (GDP)	-2.6	2.5	8.0	2.0
Modified domestic demand	6.2	1.7	3.8	2.9
Labour market				
Employment levels (thousands)	2,685	2,757	2,813	2,858
Employment growth (per cent)	3.4	2.7	2.0	1.6
Unemployment levels (thousands)	120	123	137	139
Unemployment rate (% of labour force)	4.3	4.3	4.6	4.6
Prices				
Inflation (CPI)	6.3	2.1	2.0	2.2
Public finances				
General government balance (Euro, bn)	7.9	23.2	7.0	6.4
General government balance (per cent of GDP)	1.5	4.3	1.2	1.1

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ABBREVIATIONS

CPI	Consumer Price Index
CJEU	Court of Justice of the European Union
CSO	Central Statistics Office
ESRI	Economic and Social Research Institute
GDP	Gross domestic product
GNP	Gross national product
GVA	Gross value added
HICP	Harmonised Indices of Consumer Prices
IMF	International Monetary Fund
LFS	Labour Force Survey
MDD	Modified domestic demand
MFN	Most favoured nation
NCPC	National Competitiveness and Productivity Council
SILC	Survey of Income and Living Conditions
YOY	Year on year

Forecast Overview

- The economy continues to perform robustly. The most recent data show strong growth in consumption expenditure (+3% in Q2), in employment (+2.3% in Q2) and in tax receipts (+4.4% to end August). We expect this positive situation to continue over the forecast horizon and see modified domestic demand (MDD) growing by 3.8% in 2025 and by 2.9% in 2026.

- Since our last *Commentary*, the US and the EU reached an agreement on tariffs, which has removed a considerable amount of uncertainty from the economic landscape. While this agreement reduces uncertainty in the short term, the new situation of a 15% tariff represents a deterioration in our trading environment, and will likely be impactful for many firms and sectors. It is also important to be mindful of continuing uncertainties. Geopolitics continue to be volatile. The US is making threatening noises about the EU's regulation of the digital space, with ongoing suggestions of retaliatory actions. While the most immediate threat of punitive US tariffs has been removed for now, the longer-term trend against continued trade liberalisation remains a threat to Ireland's economic model. Finally, the odds on a recession in the US are now 50/50 according to Moody's forecast model, with potential consequences for Ireland.

- In Q1 2025, there was a large increase in exports, which most commentators interpreted as being a pre-emptive reaction to threatened tariffs, particularly with regard to pharmaceutical exports. While Q2 saw a significant scaling back on this growth rate, pharmaceutical exports continued to grow strongly year on year in Q2. Data for July 2025 point towards a drop off in pharma exports relative to the same month in 2024, and assume a fall back will continue through 2025. We expect exports to grow by 6.1% in 2025 and by 0.9% in 2026.

- In Q2 2025, there was a welcome rise in housing output to 9,200 completions in the quarter, bringing completions for the first half of the

year to over 15,000. For 2025, we have revised our forecast for housing completions up to over 35,000 but our forecast for 2026 is reduced to just under 36,000, based in part on a notable slowdown in commencements this year following the policy-related spike in 2024. We also note an increase in construction sector earnings relative to other sectors. While this might partly explain the marked increased in construction employment over the last 12 months (which is to be welcomed), it also points to increased construction costs, which could have implications for the delivery of the National Development Plan and achieving housing targets.

- Looking to other issues, inflation remains relatively low and this will contribute to both real wage growth and consumption growth in the months ahead. However, we discuss the notable increase in grocery inflation and differential impacts across the income distribution. On employment, growth remains positive but some tentative signs of a softening in the labour market is evident in the most recent data. The rate of employment growth is easing, the rate of unemployment is nudging higher, earnings are increasing at a decreasing rate and the number of employment permits being issued for roles outside of the public sector is slowing. On the public finances, while tax revenues remain strong, higher-than-planned rates of expenditure growth suggest that the budget surplus will be lower in 2025 compared to that projected at the time of the Budget.

- In our assessment, we discuss the ongoing strong economic performance and the reduction in immediate tariff-related risks following the US–EU agreement. However, we point to the continuing risks such as tensions between the US and EU on digital regulation and possible actions on the part of the US. In the context of efforts by the US to hinder international trade, we discuss the Government's stance on the Mercosur trade deal and question whether opposition is an optimal position at a time when the promotion of free trade is important for Ireland. We also discuss the upcoming Budget. We explain why a tighter fiscal stance may be appropriate compared to that of recent years based in part on concerns about overheating and

consequences for successful delivery under the National Development Plan and housing targets.

- The *Commentary* includes two additional pieces of analysis. The first by John FitzGerald examines the pharmaceutical industry in Ireland and assesses the likely impact of the 15% rate. The second, by Paul Redmond and Luke Brosnan, introduces a new data series that draws on information provided by LinkedIn, and which will allow us to look at changes in hiring rates across sectors with a much shorter time lag than has been possible to date.

Overall Outlook

Domestic growth continues but international outlook clouded

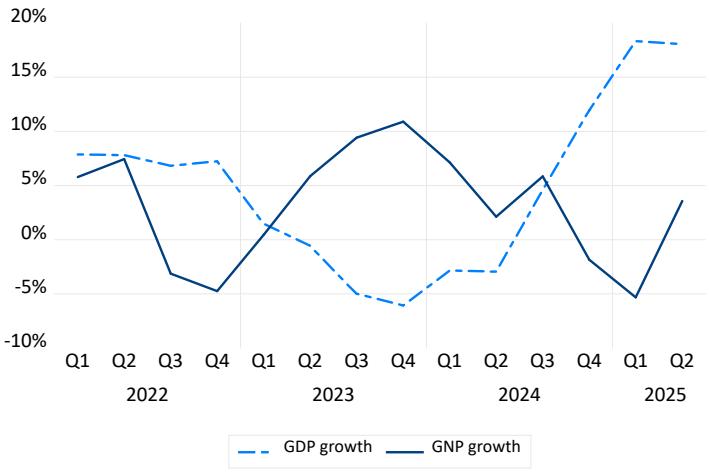
Since the last *Commentary*, there have been a number of broad-based developments, which are likely to impact the outlook for the Irish economy. First, while international uncertainties remain elevated and geopolitical tensions are extremely high, the agreement of a trade deal between the EU and US provides more certainty for Ireland in terms of a critical trading partner. In its recent global economic outlook update[1], the International Monetary Fund (IMF) noted an improvement in the international economy relative to its April forecasts on the back of tariff-front loading, improving financial conditions, fiscal expansion in some major economies and lower than anticipated effective tariff rates. These developments suggest that some of the near term uncertainty may have lifted marginally. However for Ireland, in a period of deglobalisation and shifting international relations, the risks to our highly internationalised economy remain extremely elevated.

At present for Ireland, the first half of the year saw a major increase in economic output as multinational enterprises, in particular in the pharmaceuticals sector, increased exports very substantially in an attempt to frontload activity ahead of new US tariffs. Figure 1 presents year-on-year growth in gross domestic product (GDP) and gross national product (GNP), on a quarterly basis. For Q2 2025, GDP expanded at approximately 18% on a year-on-year basis; this follows the extremely rapid rate of growth of over 18% year on year in Q1. GNP declined in the final quarter of 2024 and first quarter of 2025 on large profit outflows by the multinational sector; this trend was reversed in Q2 2025.

To understand the drivers behind the increase in GDP for Q2 2025, Figure 2 presents the breakdown of growth in gross value added (GVA) into two groups of sectors defined by the Central Statistics Office (CSO) as foreign-dominated or domestic-oriented. As was the case in Q1 2025, the increase in the growth rate in Q2 2025 is solely determined by foreign-dominated sectors. Domestic-oriented sectors grew by a rate of 1.3% year on year in Q2 2025, which is down

[1] https://www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025

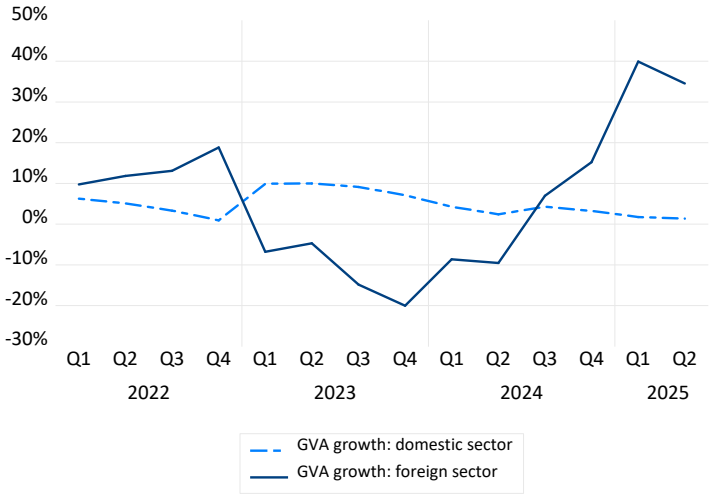
FIGURE 1: GDP AND GNP GROWTH – YOY – CONSTANT PRICES (SA)



Source: CSO, National Accounts data.

from over 2.3% in Q2 2024. Foreign-dominated sectors grew by over 34% on a year-on-year basis in the second quarter. These data again highlight the two-tier nature of the Irish economy that has been frequently documented in many previous *Commentaries*. The growth rate for the domestic sectors has been gradually declining over time since the COVID-19 bounceback and repeated shocks such as the cost of living crisis and the related snapback in interest rates.

FIGURE 2: GVA GROWTH BY SECTOR – YOY – CONSTANT PRICES (SA)



Source: CSO, National Accounts data.

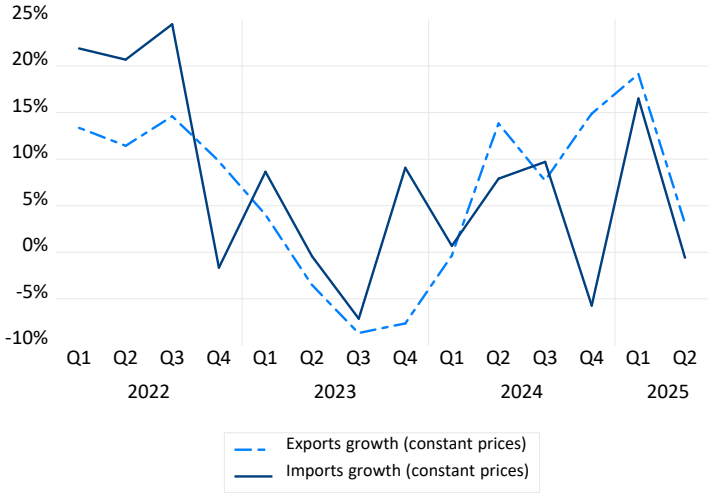
Pre-tariff export rise is clear but sectoral trends are volatile

The major rise in output by foreign-dominated sectors in the first half of 2025 can be directly linked to multinational firms in specific sub-sectors such as pharmaceuticals shifting product out of Ireland in anticipation of the introduction of the US trade tariffs. Figure 3:A presents the overall year-on-year growth trend in imports and exports for Ireland on a quarterly basis. It is very clear that, in early 2025, trade increased notably with growth in both imports and exports. This elevated trade growth dropped back in the second quarter of 2025 after the initial boost in activity to pre-empt the introduction of tariffs.

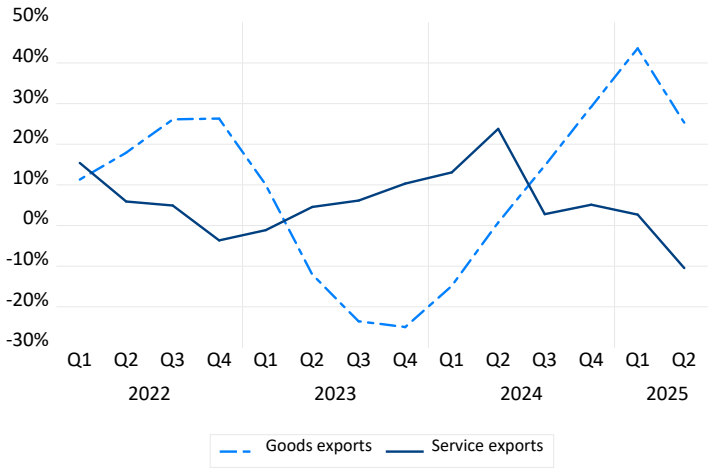
Exploring the trend in exports in more detail, Figure 3:B presents the year-on-year growth in exports split out by goods and services. The major export spike seen in Q1 2025 was driven by goods exports, which increased by over 40% year on year. The growth rate dropped back in the second quarter of the year as the pre-tariff boost waned. Service exports also grew strongly by over 6% year on year in Q1 2025, but fell in the second quarter of the year.

FIGURE 3: OVERALL IMPORTS, EXPORTS, AND EXPORT SUB-GROUPS – YOY – CONSTANT PRICES (SA)

A: Overall trend in exports and imports



B: Trend in goods and services exports



Source: CSO, National Accounts data.

Decomposing the impacts by specific sub-sectors within exports, Figure 4 presents the growth rate of goods and services as well as the level of exports (in mn euro values[2]). The groups presented aim to deconstruct overall

[2] Volumes data are not available from the international accounts or monthly trade data for specific sub-sectors.

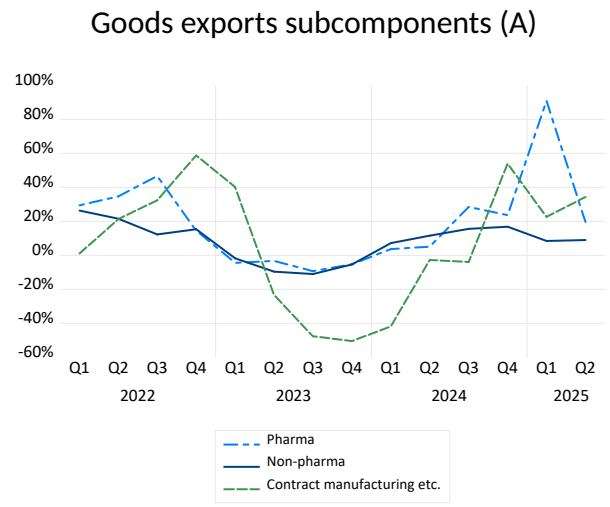
exports into high-level categories that identify the major export sectors dominated by multinationals, the other export groups which are likely to be affected by global demand, and then the categories of exports that are impacted by corporate globalisation effects and company-specific factors such as contract manufacturing.

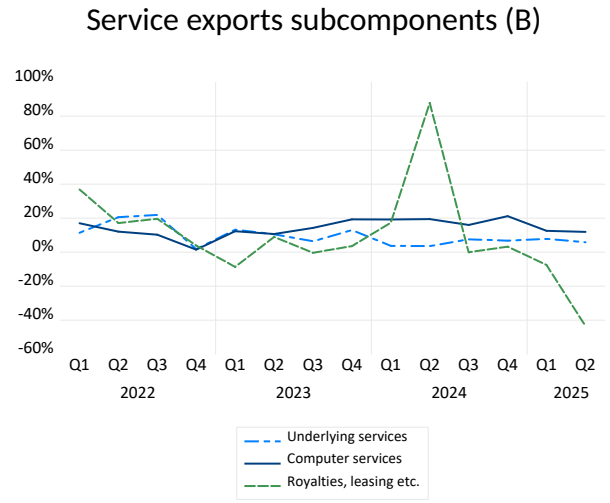
For goods, the data are decomposed into three groups: a) pharmaceuticals goods; b) non-pharmaceuticals international trade; and c) residual goods trade, which includes contract manufacturing etc.[3] On the services side, the data are decomposed into three groups: a) computer services; b) underlying services; and c) other services.[4]

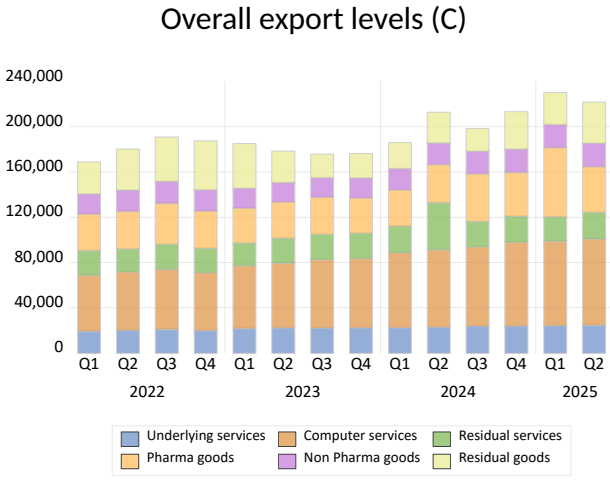
[3] Non-pharmaceuticals are calculated as total cross border international trade minus pharmaceuticals. Residual goods trade is calculated as total exports from the national accounts minus total international cross border trade. More details can be provide by the authors on request.

[4] Please see Box A in the summer 2025 *Commentary* for more details on the definitions of the groups presented in this figure.

FIGURE 4: EXPORTS – GOODS AND SERVICES – YOY – CURRENT PRICES (SA)







Source: CSO, National Accounts data; authors' calculations.

The data in panel (A) of Figure 4 indicate the growth in goods exports in Q1 2025 was driven by a sharp increase in pharmaceuticals exports. This elevated growth rate dropped back in Q2 but still remained well above the levels seen in the same period in 2024. As we noted in the previous *Commentary*, these trends are likely to be explained by large pharmaceutical firms in Ireland moving inventories back to the US in the first quarter, given the anticipation of tariffs and the uncertainty around whether pharma goods would be included in any tariff package. Production at pharmaceutical plants in Ireland may also have risen to support these flows in advance of any tariffs. These trends are highlighted in more detail in a research note published with this *Commentary* by FitzGerald (2025).

Since the publication of the summer 2025 *Commentary*, the broad framework of a trade deal between the EU and the US has been agreed, with a maximum 15% tariff applying including on pharmaceuticals. At present, for pharmaceuticals, the exact tariff has not yet been agreed given the ongoing section 232 investigation in the US, and at present the pre-April 2025 most favoured nation (MFN) tariff position on pharmaceuticals still applies.[5]

Given these developments, and the trade data for July which point towards a year-on-year reduction in chemicals exports, we make the technical assumption that pharmaceutical exports will fall back from their elevated level for the remainder of the present year. We then assume moderate growth in 2026 as the early 2025 spike will not be repeated in the data. We will update these technical assumptions in the coming *Commentaries* as the policy positions become known. Research by FitzGerald (2025) suggests that the impact of the tariffs on pharma output and employment is likely to be manageable in the short run, given the profitability of the sector. However, if profits absorb the economic adjustment from tariffs, this may impact taxation received from the sector.

The growth rate for non-pharmaceutical goods in Q2 2025 was also strong at over 10%. Our expectation is that exports in this category will grow in both 2025 and 2026 in line with international conditions, and that the growth rate will be lower than previously anticipated.

[5] https://ec.europa.eu/commission/presscorner/detail/en

Given the current focus on goods trade tariffs, it is important to note that Irish exports are heavily oriented towards services (as can be seen in panel (c) of Figure 4). Services are currently not directly part of the US trade policy plans. However, this does not mean services exports are completely insulated; they could be impacted indirectly through second round economic effects or through targeting of reciprocal measures, for example related to the EU regulation of US digital firms. In terms of the trend in services trade, growth in computer services and underlying services continued to be strong in the second quarter of 2025, and we expect this to continue through the forecast horizon.

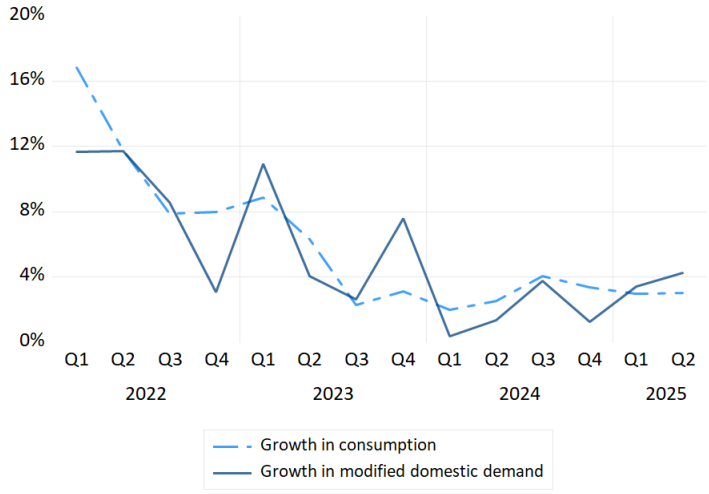
Given these developments, we expect exports to grow by 6.1% overall in 2025 and by 0.9% in 2026. For imports, we expect strong growth of 6.5% in 2025 and 0.8% in 2026.

Domestic economic growth robust but downside risks remain

While the international environment has been a source of heightened uncertainty, the Irish domestic economy has continued to perform in a robust manner throughout 2025. Low unemployment, strong domestic consumer expenditure and falling inflation all provided a supportive backdrop for domestic activity. Figure 5 presents growth in MDD and personal consumption. The growth in MDD remained strong in the first and second quarters of the year, at over 3%. This increase is driven by strong consumption, rapidly growing government expenditure and rising modified investment in construction. Domestic consumption expenditure has been growing in a rapid fashion; the growth rate in Q2 2025 was just over 3% year on year.

The upward trajectory in consumption was anticipated on the back of high savings ratios, rising nominal incomes and falling levels of inflation. We anticipate strong consumption growth to continue this year as the labour market continues to perform well. In our base forecasts, we expect consumption to grow by 2.9% in 2025, before falling back to 2.5% growth in 2026. One particular risk to the domestic economy comes from the rapidly growing level of government expenditure, which appears to be growing

FIGURE 5: GROWTH IN CONSUMPTION AND MDD – YOY – CONSTANT PRICES (SA)



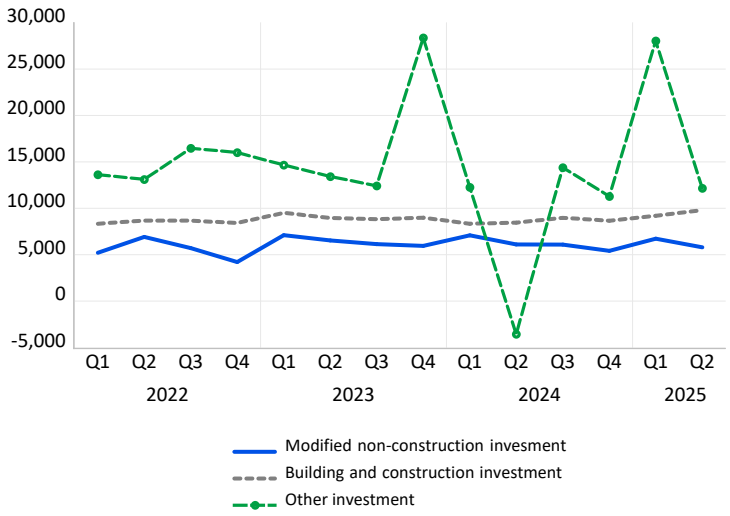
Source: CSO, National accounts data; authors' calculations.

faster than is needed for this point in the cycle, and risks heating the domestic economy unnecessarily.

Investment rises driven by construction and R&D assets

Despite the agreement between the EU and US on trade tariffs, the ongoing international uncertainties are likely to be weighing on global investment trends, as business sentiment weakens. Investment flows in Ireland are often considerably volatile and dominated by large multinationals. To disentangle the developments across investment types, we split investment into three categories: modified non-construction investment; building and construction investment; and other investment. The difference between modified and headline investment is 'other investment'. This category contains investment relating to intellectual property and aircraft leasing, and is extremely volatile in nature. The quarterly trend in these data are presented in Figure 6.

FIGURE 6: COMPONENTS OF INVESTMENT – LEVELS (EURO MN) – CONSTANT PRICES (SA)



Source: CSO, National accounts data; authors' calculations.

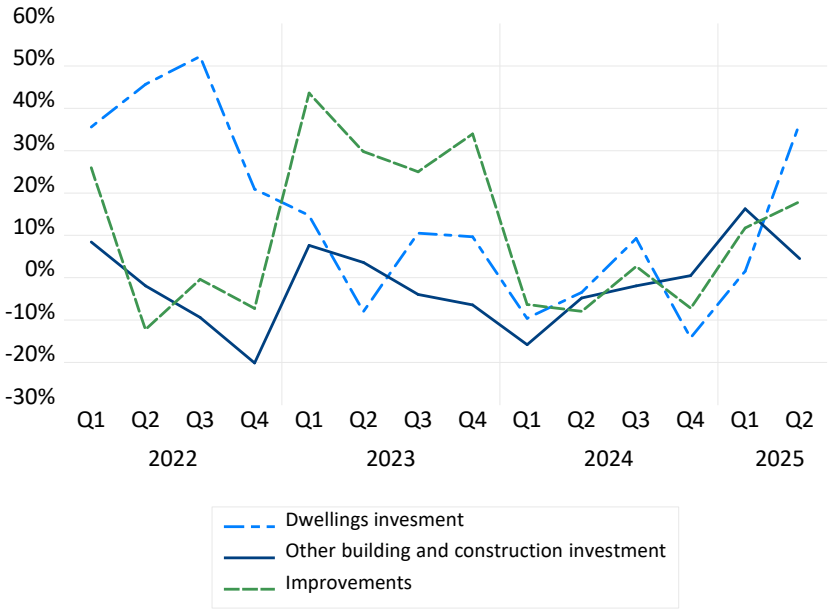
In the first half of 2025, other investment increased strongly on inward flows of research and development-related assets. Modified non-construction investment captures general machinery and equipment, and is the investment category most likely to respond to changes in global conditions, reflecting business' views on the trading environment. This series has been

trending downwards for the past two quarters. We believe the downward trajectory to be driven in part by international business sentiment and uncertainty, and expect this to continue throughout 2025. A moderate recovery is expected in 2026 as the global economy adjusts to the new international trading arrangements. Construction investment appears to have rebounded strongly in the second quarter of 2025.

Housing output rises – Green shoots or false dawn?

As noted above, the rise in total construction output seen in the second quarter of 2025 is extremely welcome given the well documented challenges of both housing shortages and infrastructure bottlenecks that are present in Ireland. To understand the trends in construction activity in more detail, Figure 7 presents the growth rates of the sub-components: a) dwellings; b) improvements; and c) other building and construction. While throughout 2024, a clear upward trend was evident in other building and construction investment (capturing commercial property activity and infrastructure), the rise in the second quarter of 2025 is clearly driven by residential output, with both dwelling output and improvements (which includes extensions, renovations and retrofits) both rising strongly on a year-on-year basis. More specifically, within building and construction investment, investment in dwellings grew at a rate of 19% on a year-on-year basis in Q2 2025; investment in improvements grew at a rate of just under 15% year on year, while other building and construction investment grew at approximately 10% in Q2 2025.

FIGURE 7: GROWTH IN COMPONENTS OF BUILDING AND CONSTRUCTION INVESTMENT – YOY – CONSTANT PRICES (NON-SA)



Source: CSO, National Accounts data.

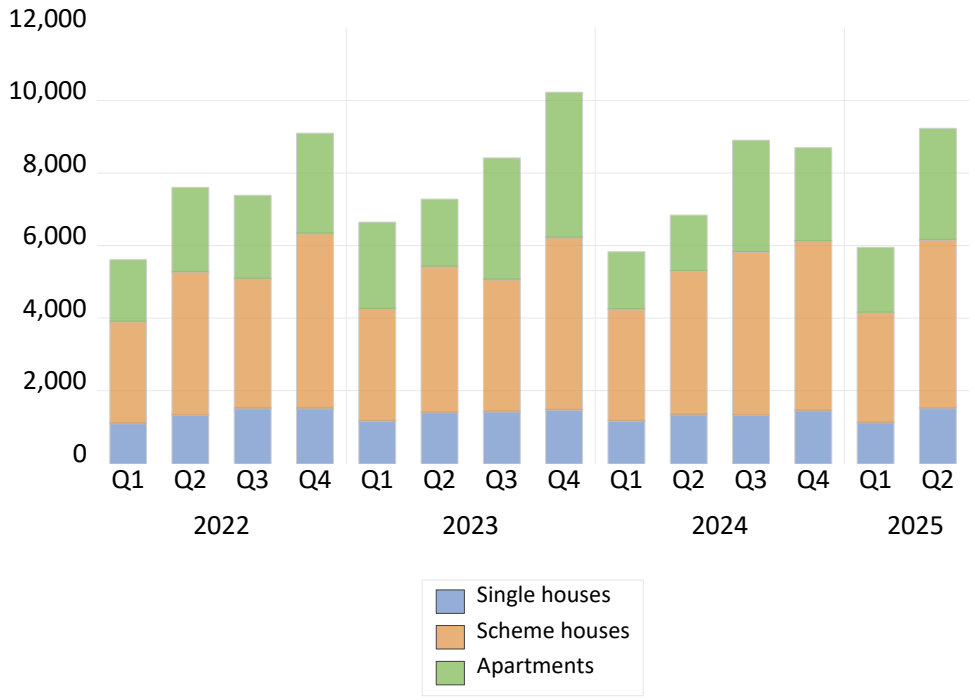
As noted in the previous *Commentary*, dwelling investment has continued to underperform relative to both expectations and the underlying housing need of the Irish population, which is estimated to be in the range of between 50,000 and 60,000 units per annum.[6]

In the second quarter of 2025, a notable and welcome increase in housing output was evident. Housing completions for the quarter, Figure 8, increased to just over 9,200 units with increases in both scheme housing as well as apartment completions. For the first half of 2025, this brings the total number of completions to over 15,000. On average for the years 2019 through 2024 (excluding 2020 due to COVID-19), the first half of any calendar year has equated to just over 43% of total output. If this relativity was to be maintained for 2025, the total output for the year could exceed

[6] See summer *Commentary* 2025 for discussion.

35,000 units for the first time since the financial crisis; this represents an increase relative to our full year expectations in the previous *Commentary*.

FIGURE 8: HOUSING COMPLETIONS BY TYPE OF DWELLING (NON-SA)



Source: CSO

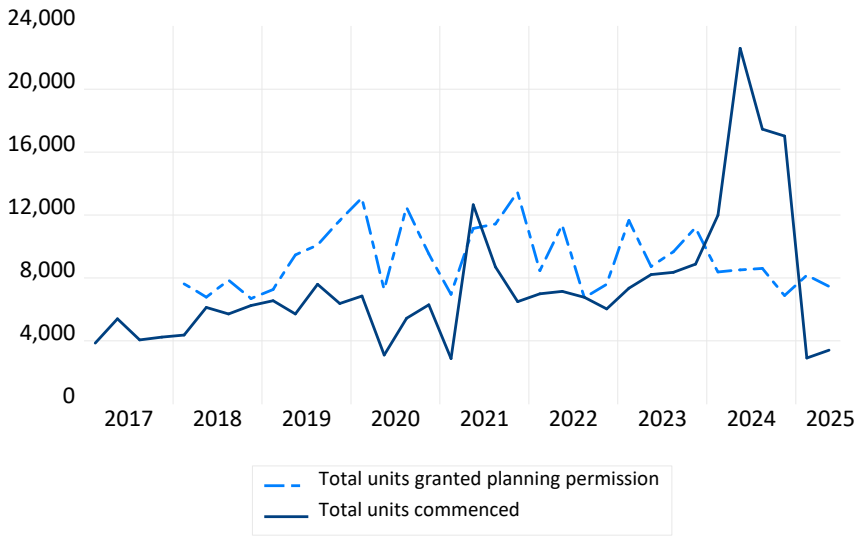
Understanding the factors that explain this increase is critically important in terms of diagnosing whether a turning point has been reached in housing production or whether this represents a temporary increase. To understand this in more detail, we explore the recent trends in leading indicators for housing completions: a) housing commencements; and b) units granted planning permission.

The trend in both of these series is presented in Figure 9. A number of points are worth noting. First, as documented in previous *Commentaries*, a major increase in housing commencements took place in 2024. However, rather than being driven by economic factors leading to a sustained increase in

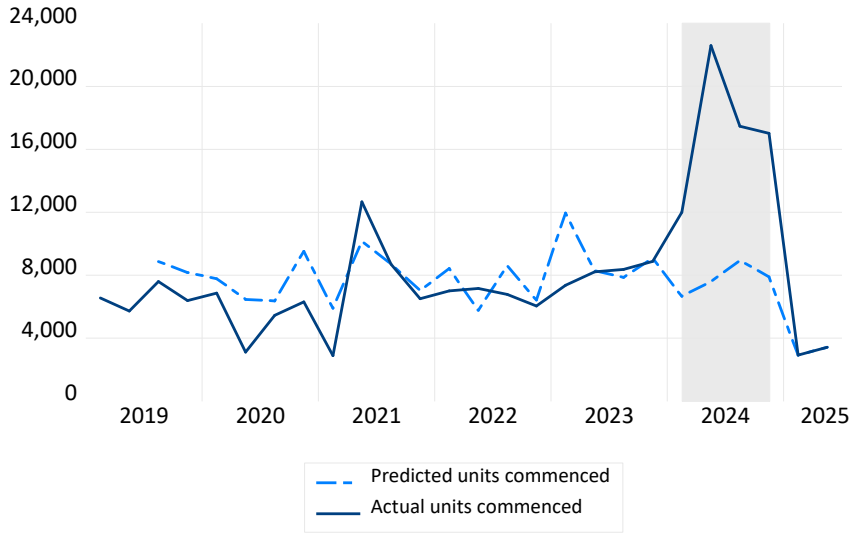
output, it is clear that this increase related solely to the policy supports in place, more specifically the development and water levy waivers that were offered for commenced activity by end 2024. What appears to come through the comparison of trends between planning permissions and commencements in recent years is that commencements were running below permissions for a number of years, until the policy shock in 2024, which brought forward a very large number of commencements. This is further evidenced by the major drop off in commencements in 2025, which is down over 80% year on year. Indeed, looking at the bottom panel of Figure 9, this shows the actual level of commencements as compared to a predicted level based on a model using planning permissions as an explanatory variable. This increase in 2024 is unexplained by the underlying level of planning permissions.

FIGURE 9: PLANNING PERMISSIONS AND COMMENCEMENTS

Trend in units given planning permission versus commencements



Predicted versus actual commencements



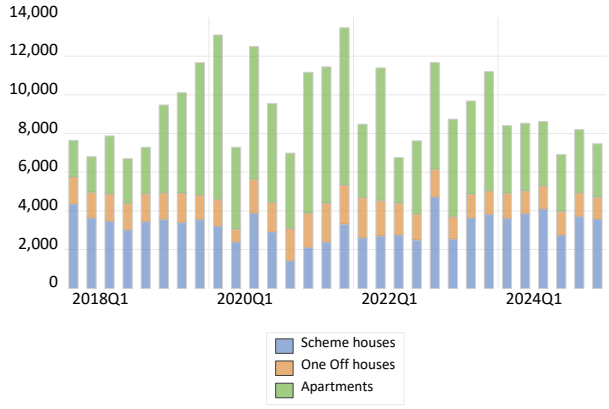
Source: CSO, National Accounts data.

In terms of the outlook going forward, the level of planning permissions would indicate that, in the medium term, no sustained increase in the

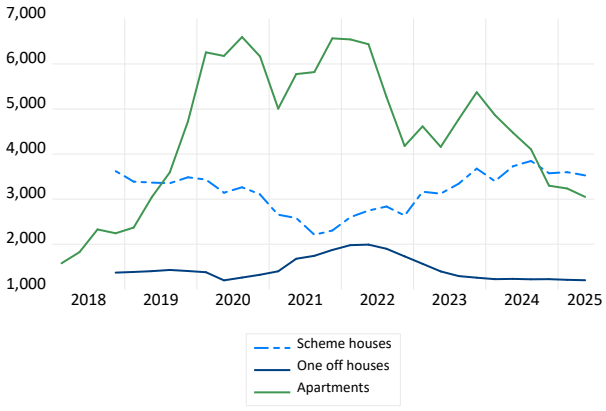
trajectory is evident. Indeed, Figure 10 shows the level of units provided planning permission over time by housing type (scheme housing, apartments and one-off housing). It is very clear that the number of units given planning has not been rising overall. However, looking across the types of housing, the general weakness has been driven by a rapid fall off in apartment units. Scheme housing had increased through 2022 to 2024 but appears to have stalled in 2025.

FIGURE 10: LEVEL AND TREND IN UNITS RECEIVING PLANNING PERMISSION BY DWELLING TYPE

Level of units given planning permission



Moving average trend in units given planning permission (4 quarter average)



Source: CSO, National Accounts data.

Given this context, it is our working assumption that our current forecast horizon (2025 and 2026) is going to be dominated by the policy-induced

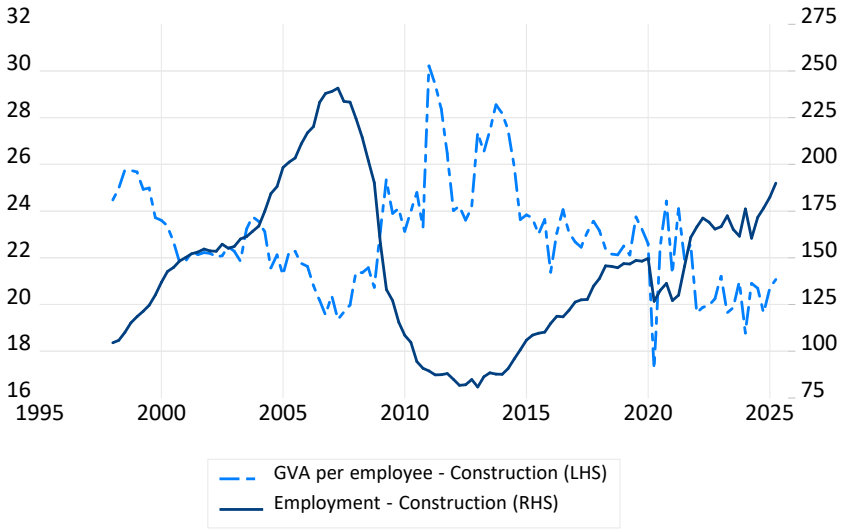
commenced units. Across these two years, output is likely to increase above 70,000 units for both years combined. In this regard, we are raising our forecast to over 35,500 units for 2025, but lowering our forecast for 2026 to just under 36,000.

The outlook outside this forecast horizon is extremely uncertain due to how the impacts of this policy shock are going to abate and the low level of planning permissions coming through. The ability to expand construction output is also likely to be hampered by capacity constraints in the overall economy and in the construction sector specifically. As the Irish economy is operating relatively close to, or at, full capacity, spare labour is not readily available to help increase output in construction. While we have seen some increase in construction employment in recent quarters, there is a potential challenge to the sector to increase output notably at full employment; doing so will require productivity increases. Indeed, increasing housing output is coming at a time of ongoing increases in other non-dwelling construction activity, such as retrofits and infrastructure expenditure. A risk is that any major increase in expenditure in a capacity constrained economy will have a knock-on effect on wages. Indeed, it can be seen that construction wage inflation has been rising rapidly in recent months, to a much greater extent than the economy as a whole. This points to a potential overheating of the construction sector, which is trying to deal with the competing demands of dwelling production, retrofitting and infrastructure. This labour inflation in construction needs to be monitored closely. A recent report by the National Competitiveness and Productivity Council (NCPC) highlighted the competing nature of activity in the construction sector given it is operating at capacity (for example retrofitting versus housing and infrastructure), and suggested construction should be rebalanced towards dwellings and infrastructure and away from energy efficiency upgrades in the shorter term (NCPC, 2025). It is becoming clear from these data that capacity constraints are beginning to bind (wage rises as expenditure increases); thus trade offs will be needed in the construction sector between the competing demands being placed on it.

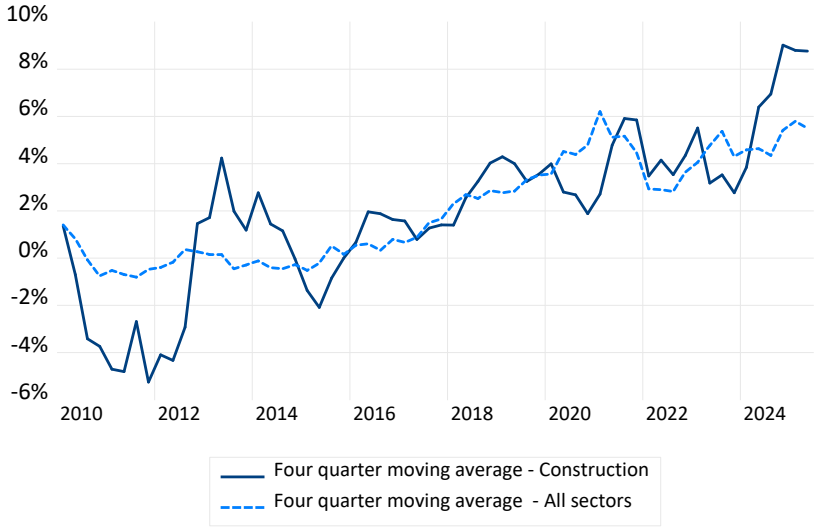
Given employment constraints and the policy changes in recent years, it is also useful to consider other cost factors that can impact production. First, in recent years, part of the downward pressure on construction activity has been the sustained increase in construction costs, which occurred following

FIGURE 11: EMPLOYMENT IN CONSTRUCTION, GVA PER WORKER AND WAGE INFLATION

Construction employment (000s) and output per worker (€, 000 per worker)



Construction wage inflation (%, YoY growth)

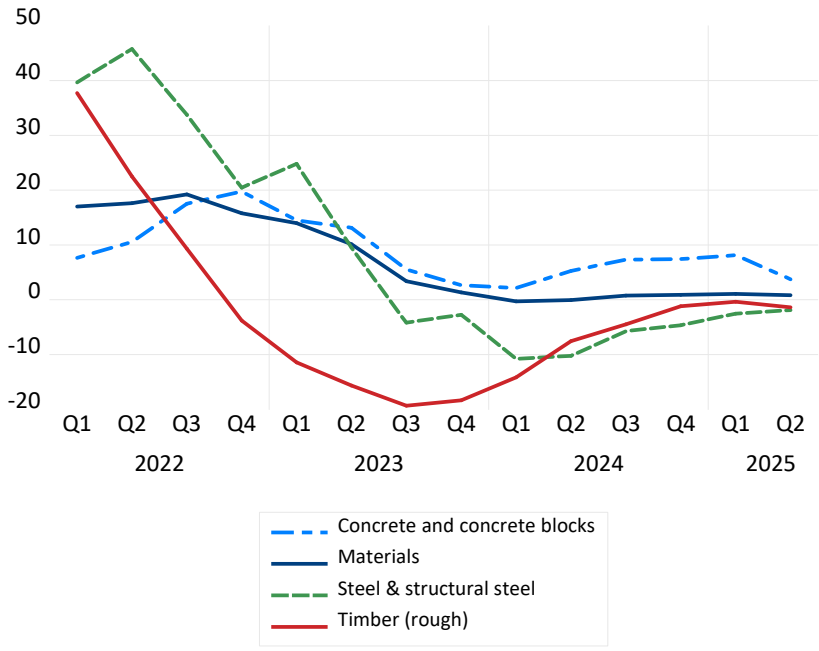


Source: CSO, Labour Force Survey.

the outbreak of war in Ukraine. Figure 12 presents the trend in a range of materials costs over recent years overall and for selected sub-series (steel,

timber, concrete). It is clear that the major inflationary pressure is waning, and that for some items prices are declining. This moderation of inflation in cost inputs is welcome and should be supportive to increased production.

FIGURE 12: COST INFLATION IN CONSTRUCTION (YOY GROWTH, %)



Source: CSO

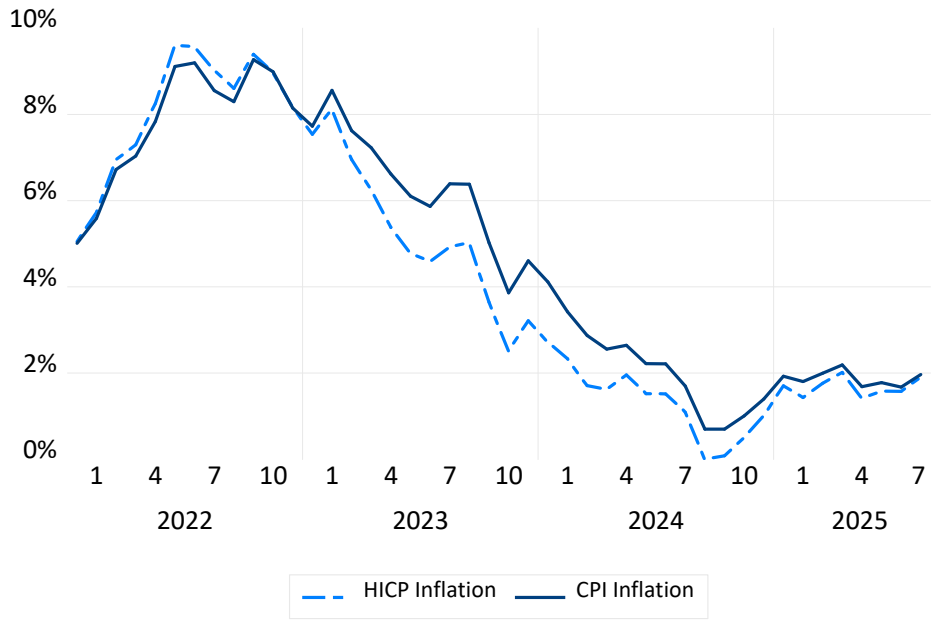
To summarise our investment forecasts, overall we expect modified investment to grow by 5.9% in 2025 and 3.3% in 2026. Total overall investment is expected to grow by 37.4% in 2025 and 2.4% in 2026.

Inflation

The Consumer Price Index (CPI) inflation rate was 2% in August. This represents a continuation of the trend throughout 2025, with the year-on-year inflation rate remaining close to the target rate of 2%.

The inflation figure that can be compared with other European countries, the Harmonised Indices of Consumer Prices (HICP), showed inflation of 1.8% in August. Figure 13 shows developments in both measures of inflation.

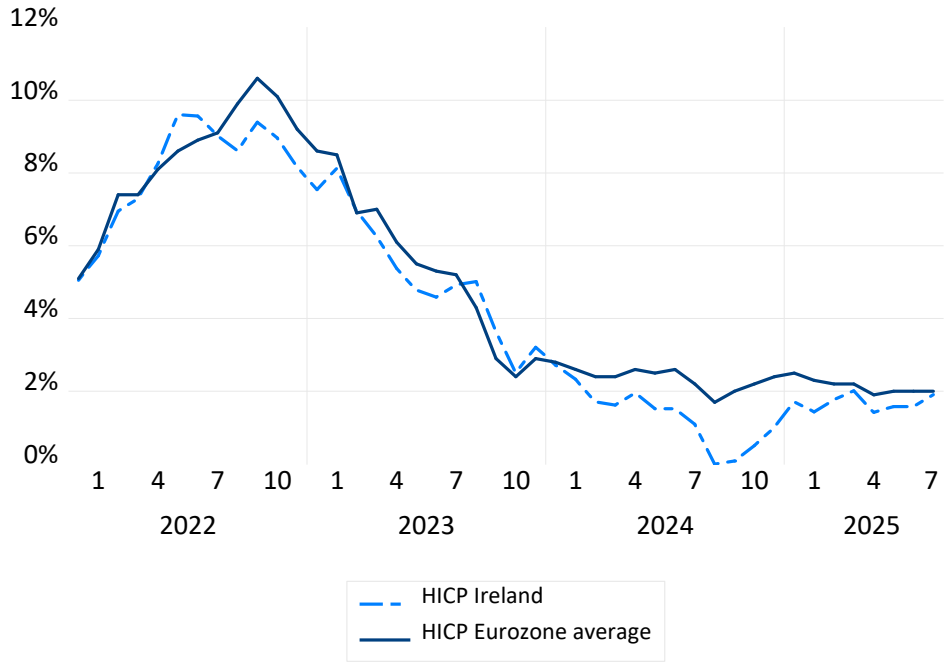
FIGURE 13: CPI AND HICP INFLATION



Source: CSO

HICP inflation in Ireland is lower than HICP inflation in Europe, which stands at 2.1%. Figure 14 shows developments in HICP in the two jurisdictions. Among the larger Eurozone economies, inflation is higher than the average in the Netherlands and Belgium, while France and Italy are below average.

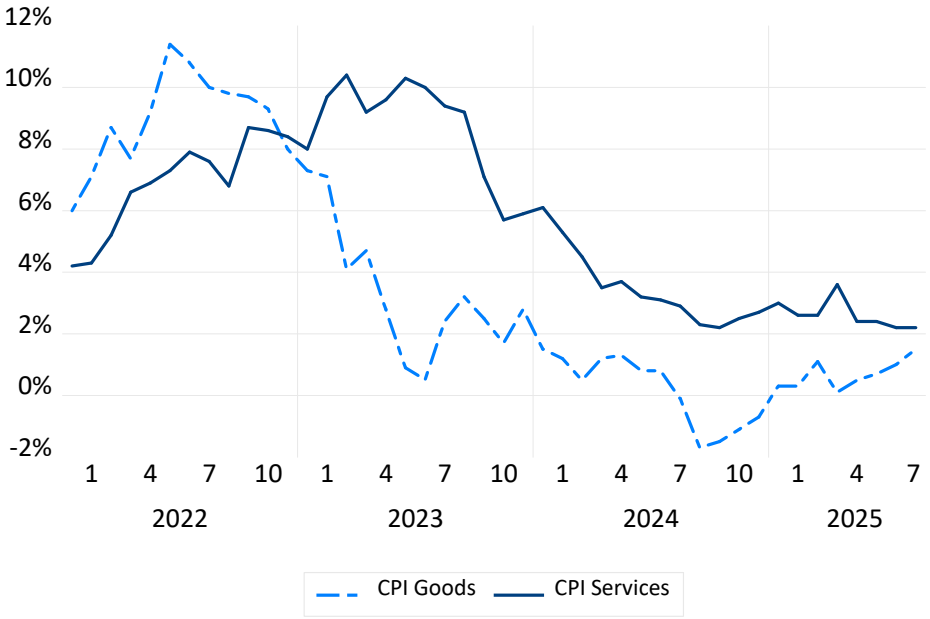
FIGURE 14: HICP INFLATION IRELAND AND EUROZONE



Source: CSO and Eurostat

Previous editions of the *Commentary* remarked on the relative importance of services inflation over goods inflation. This gap has narrowed substantially through the summer, with goods inflation increasing to 1.5% in August.

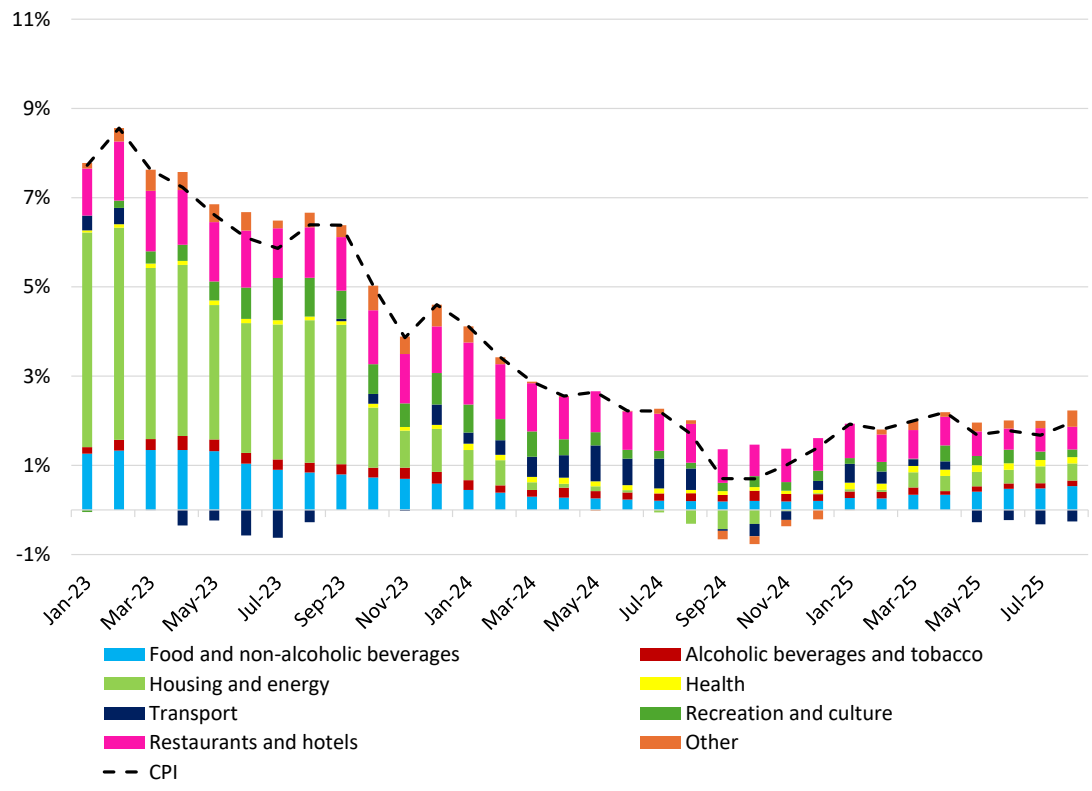
FIGURE 15: GOODS AND SERVICES INFLATION



Source: CSO

Figure 16 shows the weighted contribution of individual sectors to the headline rate. Contributions from 'housing, water, electricity, gas and other fuels' remain modest. This contrasts with the behaviour of this sector during 2022 and 2023, when rapid increases in both energy costs and housing costs combined to bring inflation in this sector to a peak of over 25%. Transport prices are weighing negatively on the headline rate, primarily driven by cheaper air fares in the summer of 2025.

FIGURE 16: CPI INFLATION BY SECTOR



Source: CSO

Inflation in the 'restaurants and hotels' sector has been a consistent theme in the *Commentary* in recent years. Its weighted contribution to the headline rate has accounted for approximately one-third of CPI inflation in 2025. However, the contribution of the different sub-sectors in 'restaurants and hotels' has shifted. Price increases in this sector are almost entirely driven by the 'restaurants, cafes, fast food and take-away food' sub-sector. The role of 'licensed premises' and 'accommodation services' has reduced considerably since the period of high inflation in 2022–2023.

In contrast to 2023 and 2024, it is currently the size of the weight of the sector rather than the pace of price increases that is contributing to the significant role of the 'restaurants and hotels' sector in the CPI basket of goods and services. Inflation in the sector has moderated to c. 2.5% in the last quarter but it accounts for 20% of the CPI basket of goods and services. This weight has fluctuated in recent years, likely due to shifting patterns in expenditure as a result of the COVID-19 pandemic. However, the process for updating the weights of the CPI has led to year-on-year changes in the weights that are difficult to interpret.[7]

For instance, in 2020, the sector accounted for 20% of the total weight, despite facing lockdown restrictions for much of the year. However, in 2023, when restrictions had long been lifted, the weight was below 16%. Indeed, the scale of the increase, up to 20%, in 2024 and 2025 partly explains the continued importance of this sector in explaining the headline rate. This anomaly means that the contribution to headline inflation would likely have been even higher during 2023 if the weights had reflected spending patterns in that year.

TABLE 1: CPI WEIGHT FOR 'RESTAURANTS AND HOTELS'

2017	2018	2019	2020	2021	2022	2023	2024	2025
17.5%	18.8%	18.4%	20.5%	13.0%	15.1%	15.8%	19.6%	20.0%

Source: CSO

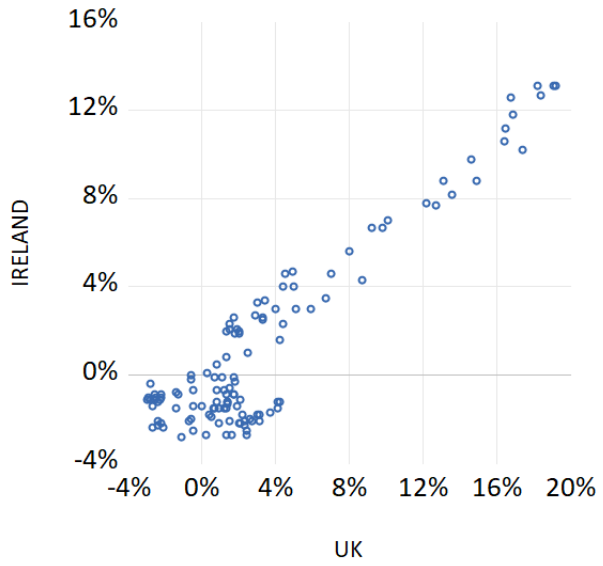
The other sector contributing to current inflation is 'food and non-alcoholic beverages'. Prices in the 'food and non-alcoholic beverage' sector increased by 5.1% in the year to August.

This is significantly higher than the rates of inflation in continental Europe. However, it is similar to food price inflation in the UK. Indeed, price increases in the two jurisdictions have been notably similar for a long period of time. Figure 17 presents a scatter plot of monthly inflation rates for food and non-alcoholic beverages in the last ten years. The correlation coefficient of

[7] Sector weights are adjusted each year (CSO, 2016). However, the rates are based on survey data from either one or two years prior. During periods of rapid change in consumer behaviour like the COVID-19 pandemic, this time lag can create inconsistencies in the weighting of the basket of goods and services.

0.92 suggests that the two markets are relatively highly integrated, and this appears to be particularly true during periods of higher inflation.

FIGURE 17: UK AND IRISH FOOD AND NON-ALCOHOLIC BEVERAGE PRICE INFLATION, 2015–2025 (%)



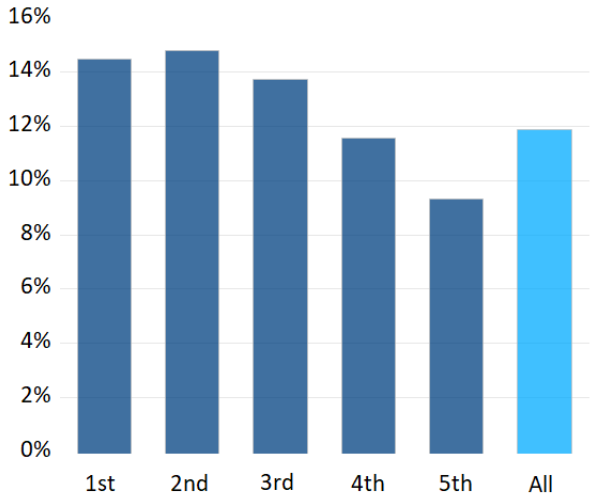
Source: CSO and UK Office for National Statistics

In contrast to 'restaurants and hotels', the sectoral weight for 'food and beverage' has been consistent, at around 10%. It has been remarked on in previous editions of the *Commentary* and elsewhere that lower-income households face higher rates of inflation than higher income households because a larger share of their expenditure is on non-substitutable items.[8] This is true for expenditure on food and beverages. Interestingly, the analysis presented in the chart below shows that this phenomenon is true for each of the bottom three quintiles of the income distribution.

Food price increases have a material impact on a majority of the population; the impact is not restricted to the bottom quintile of the income distribution.

[8] The non-substitutability of expenditure on food and non-alcoholic contrasts with expenditure on restaurants and hotels, which is largely discretionary. The distributional impact of food price increases is more pronounced.

FIGURE 18: SHARE OF EXPENDITURE ON FOOD AND BEVERAGES (LESS RESTAURANT AND TAKEWAYS) BY INCOME QUINTILE



Source: CSO Household Budget Survey
Note: Household Budget Survey data for average weekly expenditure is used. We subtract expenditure on 'takeaway food brought/delivered to home'(category 01.01.16) and on 'meals away from home (including takeout tea/coffee)' (category 01.02) from total weekly expenditure on food and divide by total weekly expenditure.

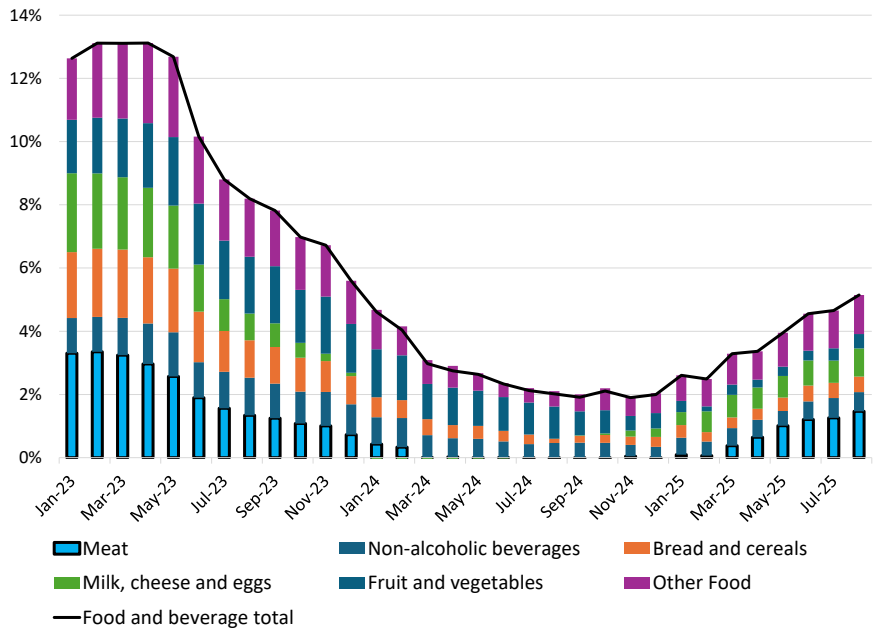
The following table presents the current rates of inflation of the most important sub-groups while Figure 19 shows their contribution over time to overall inflation in the sector. Quite clearly, most of the difference in food price inflation between the beginning of the year and now is attributable to the 'meat' sub-sector. Prices for consumer staples like dairy, bread and cereals are also increasing, although at a slightly slower pace than that of the increase for smaller items like 'oils and fats' and 'sugar, jam and honey'.

TABLE 2: SUB-SECTOR INFLATION WITHIN 'FOOD AND BEVERAGE'

Sub-sector	August 2024	February 2025	August 2025
Bread and cereals	1.0%	1.9%	2.8%
Meat	-0.2%	0.7%	10.7%
Fish	-0.4%	1.2%	3.9%
Milk, cheese and eggs	0.2%	5.5%	7.3%
Oils and fats	0.5%	5.5%	9.0%
Fruit	1.8%	0.7%	4.3%
Vegetables	6.6%	1.1%	1.0%
Sugar, jam and honey	5.0%	6.4%	8.9%
Other food products	2.5%	2.2%	1.6%
Coffee, tea and cocoa	2.1%	4.5%	8.4%
Mineral waters, soft drinks etc.	4.3%	4.1%	4.8%

Source: CSO

FIGURE 19: CPI INFLATION BY SUB-SECTOR WITHIN 'FOOD AND BEVERAGE'



Source: CSO

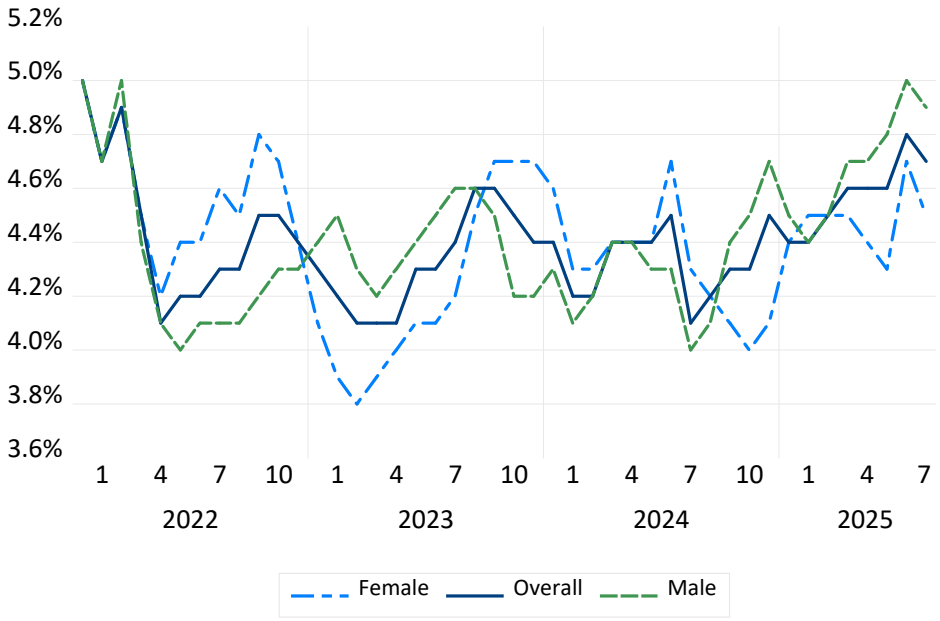
To summarise, it is our expectation that inflation will remain in or around 2% across the forecast horizon. Our forecast for inflation for 2025 is approximately 2%, rising to 2.2% in 2026. There are potential upside risks and inflationary pressures, in particular from the rising food and beverage prices as well as the increased government spending in a capacity constrained economy. These need to be monitored carefully across the period ahead.

Labour market

Across a number of metrics, there has been a modest softening in the labour market since the last quarter. Unemployment has increased slightly while the rate of earnings and employment growth has slowed.

Figure 20 shows the development of the monthly unemployment rate. Since the summer *Commentary* the unemployment figures for the year to date have been revised up. The rate now stands at 4.7%, and our current understanding is that it has been between 4.5% and 5% throughout 2025.

FIGURE 20: MONTHLY UNEMPLOYMENT RATE (SEASONALLY ADJUSTED)



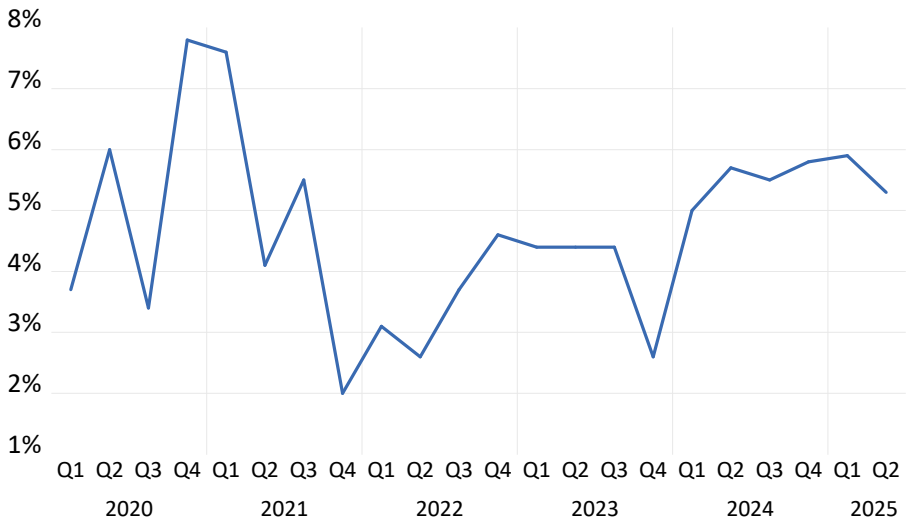
Source: CSO Monthly unemployment estimate

Employment numbers now exceed 2.8 million. However, the growth rate of employment has slowed somewhat, and the number of unemployed persons has increased.

Weekly earnings growth on an annual basis remains between 5% and 6% for the sixth consecutive quarter. However, it slowed slightly in Q2 2025, with

the rate now standing at 5.3%. Figure 21 shows this pattern and highlights the strength of earnings growth since the beginning of 2024, a period where inflation averaged 2%.

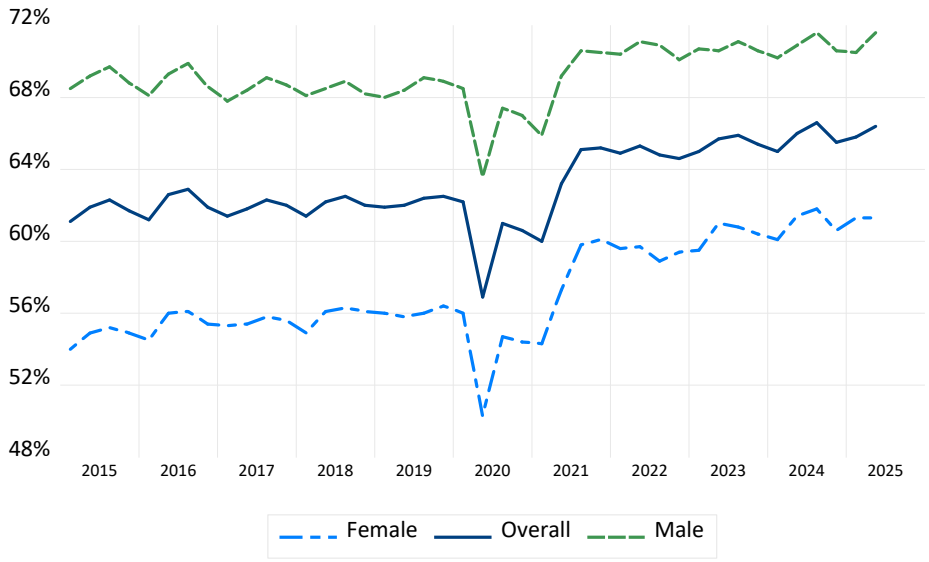
FIGURE 21: AVERAGE WEEKLY EARNINGS YEAR-ON-YEAR GROWTH RATE



Source: CSO Earnings and labour costs data

Figure 22 shows the development of the labour force participation rate. Participation remains consistently high, with approximately 66% of the working-age population available for work.

FIGURE 22: QUARTERLY PARTICIPATION RATE



Source: CSO Labour Force Survey

Recent editions of the *Commentary* have noted that, despite the labour market remaining tight by historical standards (high vacancies and low unemployment), there are some emerging signs of a change in the picture. In addition to the measures presented here, a box accompanying the *Commentary* by Brosnan and Redmond presents a novel method for measuring hiring trends using real-time online data. In particular, it is possible to examine a sectoral breakdown of hiring trends that is not possible using survey data alone.

Box A: Using real-time LinkedIn data to track hiring trends in Ireland

Online hiring data as a real-time labour market indicator

Modern labour markets are increasingly organised online, through job postings, applications and online employee profiles. As such, online digital platforms offer unique opportunities for timely labour market monitoring. One such source is LinkedIn's hiring rate, shared under its *Data for Impact* initiative. Through this initiative, LinkedIn collaborates with global institutions such as the Organisation for Economic Co-operation and Development (OECD) and the World Bank. Recently, the ESRI has also partnered with LinkedIn to explore how these data can support policy-relevant labour market analysis for Ireland.[a]

The hiring rate is defined as the share of individuals starting a new job in a given period, relative to the total number of people employed in the same period. It captures flows into employment and serves as an early indicator of labour market momentum. Increasing hiring rates, particularly at a sectoral level, could indicate strong employer demand, while declining rates may reflect economic uncertainty.

Large-scale surveys, such as the Irish Labour Force Survey (LFS) or Survey of Income and Living Conditions (SILC), provide the official benchmark for many labour market statistics in Ireland. However, the relatively small survey sample sizes mean that it is generally not possible to examine sectoral level hiring rates in detail. Furthermore, the time lag between data collection and data availability means that existing surveys are limited in terms of producing contemporaneous labour market statistics. This underpins the value of high-frequency, online sources, such as LinkedIn's hiring rate.

A 'hire' is defined as a member who updates their profile to reflect a new employer in the same month they start a new job. The hiring rate is then the number of hires in a given month over the total number of LinkedIn members. While these data are specific to LinkedIn members, and therefore not directly equivalent to population-level survey data, they can

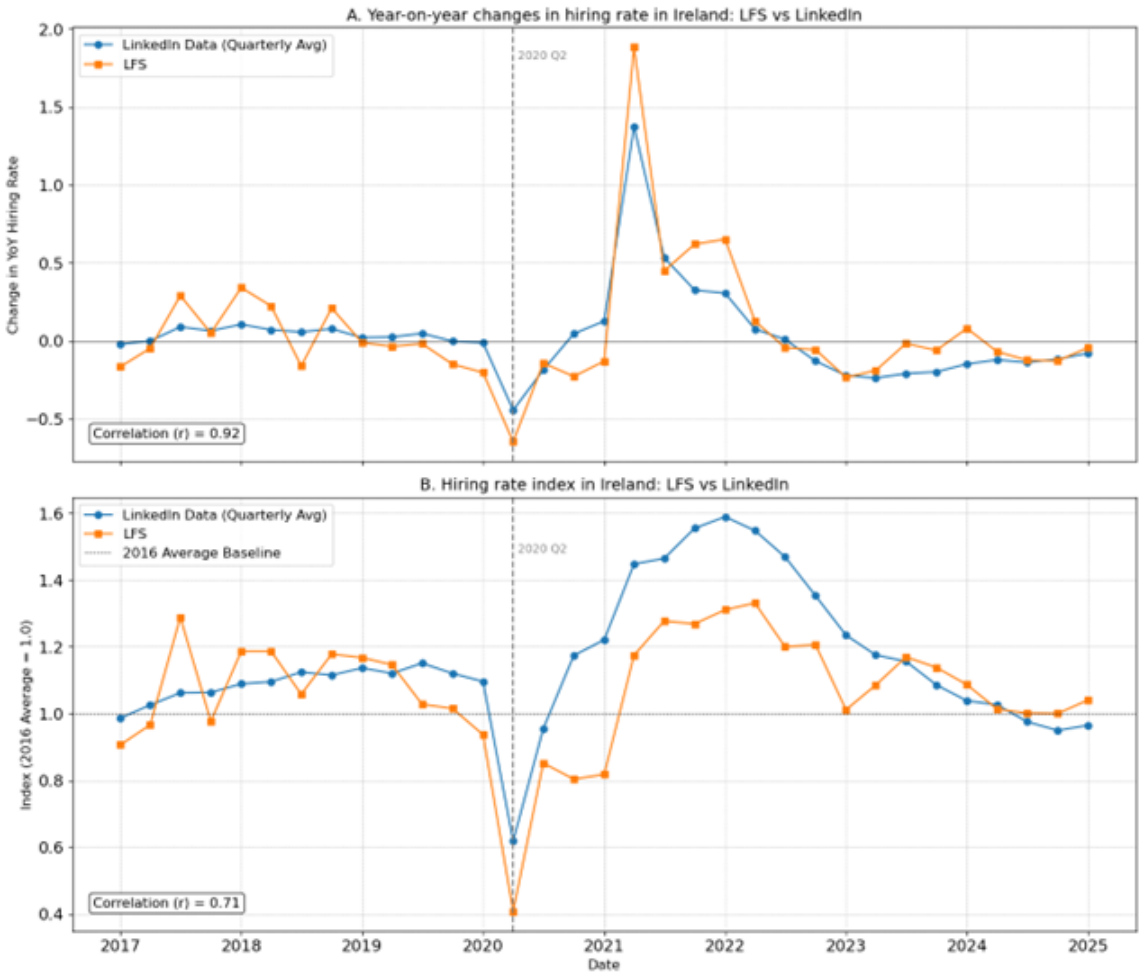
provide monthly, industry-level hiring insights, which can complement official statistics and serve as an early warning sign for sectoral-level changes within the Irish labour market.

Validating the LinkedIn hiring rate against the LFS

We validate the reliability of the LinkedIn data by comparing the historical LinkedIn hiring rates (for the total labour market) to an equivalent measure generated using Irish Labour Force Survey (LFS) data. As mentioned above, when it comes to analysing job changes, sample sizes within the LFS are small, making sectoral analysis difficult. However, sample sizes are sufficient to construct a measure of the overall hiring rate for the entire labour market.

In Panel A of Figure 23, we show the year-on-year changes to hiring rates for the LinkedIn and LFS series. For the LinkedIn data, this is constructed by calculating the percentage change in the hiring rate in a given quarter compared to the same quarter in the previous year.[b] We construct an analogous measure using the LFS data. Specifically, we utilise the question in the LFS that asks employees when they started working for their current employer. Using this, we can ascertain whether an employee changed jobs within a given quarter. We then calculate a quarterly hiring rate based on the number of employees that change jobs in a given quarter divided by the total number of employees in the LFS in the same quarter. Finally, we calculate year-on-year changes to the LFS hiring rate, making it comparable to the LinkedIn hiring rate. The comparison between the LinkedIn and LFS data in Panel A of Figure 23 shows that they are strongly correlated ($r = 0.92$). This suggest that the LinkedIn data represent a good approximation to the population-level hiring activity observed in the LFS data.

FIGURE 23: HIRING RATE IN IRELAND: LFS VS LINKEDIN



Source: CSO Labour Force Survey and LinkedIn

Note: LFS series based on author's calculations. Plot B is indexed to the average month in 2016 and is seasonally adjusted using the US Census' X13-ARIMA-SEATS software based on quarterly frequency. In both series, Monthly LinkedIn hiring rate data are resampled to Quarterly data to match the LFS. This is done by taking the average value for the three months in each quarter.

LinkedIn have recently started to use an alternative method for seasonally adjusting their data. Specifically, this uses the well-established X-13ARIMA-SEATS adjustment model, developed by the US Census Bureau.

This removes predictable, seasonal changes from a time series. The ARIMA seasonally adjusted data are shown in Panel B of Figure 23. We can create a comparable seasonally adjusted series for the LFS by applying the same X-13ARIMA-SEATS adjustment to the LFS series.[c] Notably, both plots in Figure 23 show a sharp contraction in hiring in Q2 2020, aligned with the initial COVID-19 lockdown, followed by a strong rebound in Q2 2021. Activity then normalises, returning to more typical seasonal fluctuations. This pattern is consistently captured by both data sources, suggesting the LinkedIn data comprise a useful approximate to population-level measures.

Sector-specific shocks and the value of timely data

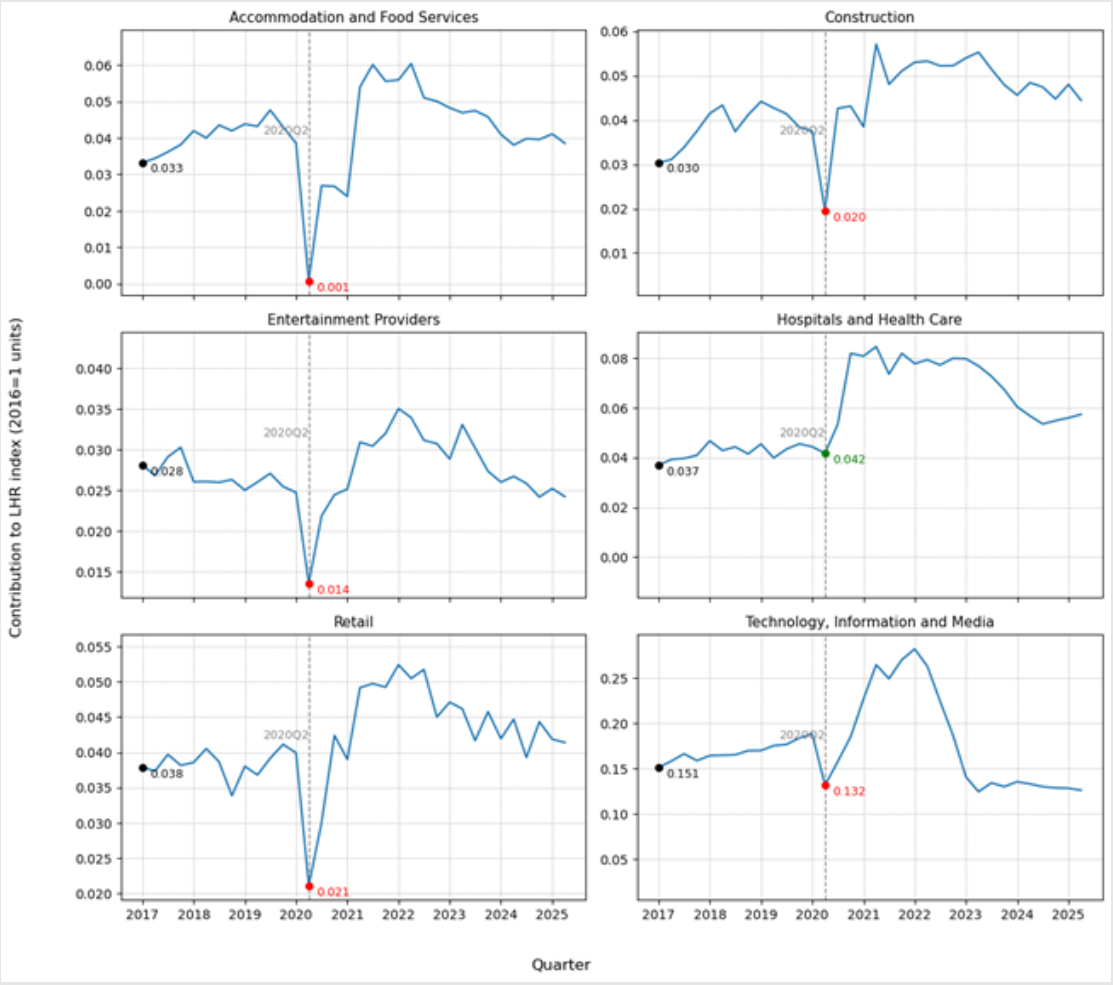
A key strength of the LinkedIn data is their ability to produce industry-specific statistics. This is illustrated in Figure 24, which shows the year-on-year change in hiring rates for selected industries from January 2017 to May 2025, a period which includes the COVID-19 pandemic. In Q2 2020, the first full quarter of lockdown, hiring rates collapsed across accommodation and food, construction, entertainment, retail and technology. The trend for the accommodation and food sector was particularly striking. LinkedIn data show four consecutive quarters of depressed hiring rates for the industry (Q2 2020–Q1 2021), consistent with prolonged capacity limits on restaurants and hotels (Eurostat, 2022; Fáilte Ireland 2021). When the tourism economy reopened, the rebound was strong: accommodation and food registered the largest year-on-year rise of any sector in Q2 2021, and maintained above-trend levels for the next four quarters, reflecting catch-up recruitment and the seasonal ramp-up to the 2022 summer season (LinkedIn Economic Graph 2024, 2023b).

From Q2 2021, there was a strong recovery across other sectors, with surges in the hiring rates as public health restrictions were lifted. An exception to this pattern is the 'hospitals and healthcare' sector, which followed a distinct trajectory. It did not experience any hiring decline in 2020, owing to continued operations during lockdown, pre-existing staff shortages, and newly created demand for ICU care, testing and vaccination services (Department of Health, 2020; HSE, 2021; HSE, 2022). This led to a

period of double-digit hiring growth across 2020 and 2021, supported by emergency health budgets (Department of Public Expenditure, 2021). Unlike other sectors, healthcare hiring never fell below its pre-COVID-19 baseline.

The pattern observed for the hiring rate in the technology sector is also notable. After mid-2022 there was a slowdown in hiring in the technology sector, with Irish ICT hiring falling below pre-pandemic levels. Factors such as higher interest rates, cost-cutting and a reversal in pandemic hiring among large tech employers may have contributed to this trend, which was also observed in other European labour markets (LinkedIn Economic Graph, 2023a; ECB, 2023). The trends shown above highlight the importance of having real-time, high frequency data for identifying movements in the Irish labour market. Shocks that affect the labour market, such as the COVID-19 pandemic, can have significant sectoral impacts. Identifying these is important for timely policy action.

FIGURE 24: Y-O-Y CHANGES IN INDUSTRY HIRING RATE (LINKEDIN DATA)



Source: CSO Labour Force Survey and LinkedIn

Note: Monthly LinkedIn hiring rate data is resampled to quarterly data to match the LFS. This is done by taking the average value for the three months in each quarter.

Conclusion

LinkedIn hiring rate data make it possible to identify sector-specific shocks and turning points in real time, thereby complementing official statistics from long-standing survey data. This is particularly valuable during periods of economic disruption, when timely policy action may be required. The COVID-19 experience demonstrates how such alternative data sources can

offer policymakers earlier warning signals and more granular sectoral insights than traditional surveys alone. As such, LinkedIn's hiring figures could become a useful part of Ireland's real-time economic monitoring, helping to inform quicker, more targeted labour market policies. The ESRI has a data partnership with LinkedIn and we will continue to explore how such real-time data can be integrated into Ireland's broader labour market monitoring and future QEC analyses.

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This box was prepared by Luke Brosnan and Paul Redmond.

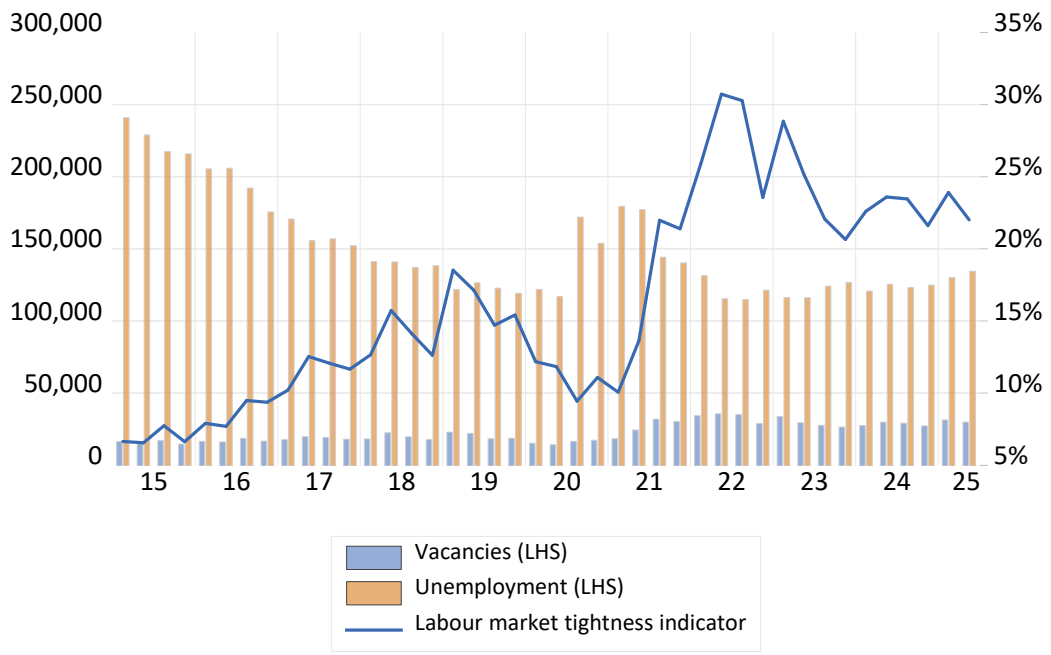
[a] For more information, see https://economicgraph.linkedin.com/data-for-impact

[b] The frequency of the LinkedIn data is monthly. We convert it to quarterly to facilitate comparisons with the quarterly LFS data. This is done by taking simple averages of the three months within a given quarter in the LinkedIn data.

[c] Seasonal adjustment using the X-13ARIMA-SEATS method was performed in Python using the 'statsmodels' package, which provides an interface to the U.S. Census Bureau's X-13ARIMA-SEATS software

As noted above, Ireland's labour market has been operating at (or close to) capacity for a considerable period. This is evidenced by low unemployment and high job vacancy rates. However, there are some early signs of a change, both in the detailed job vacancy data and in employment permit data. This is in contrast with the headline indicators. For instance, we present a measure for labour market tightness in Figure 25; the ratio of job vacancies to unemployed individuals. This metric suggests that the labour market remains tighter than the long-run average.

FIGURE 25: LABOUR MARKET TIGHTNESS INDICATOR



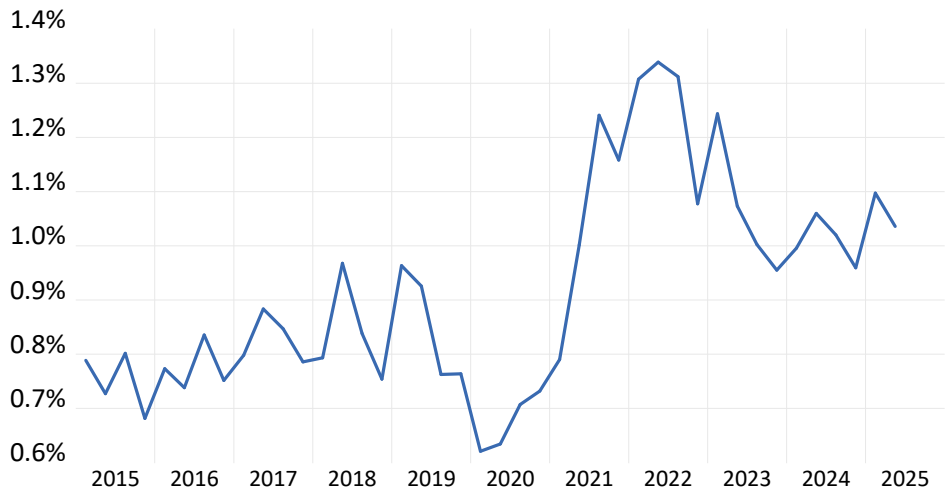
Source: CSO

Second, the job vacancy rate measures the proportion of total posts that are vacant.

$$\text{Job vacancy rate} = \left(\frac{\text{Vacant posts}}{\text{Vacant posts} + \text{Filled posts}} \right) \times 100$$

Figure 26 shows that the headline job vacancy rate remains above 1% in the second quarter of 2025, notably higher than the pre-COVID-19 trend.

FIGURE 26: JOB VACANCY RATE (NON-SEASONALLY ADJUSTED)



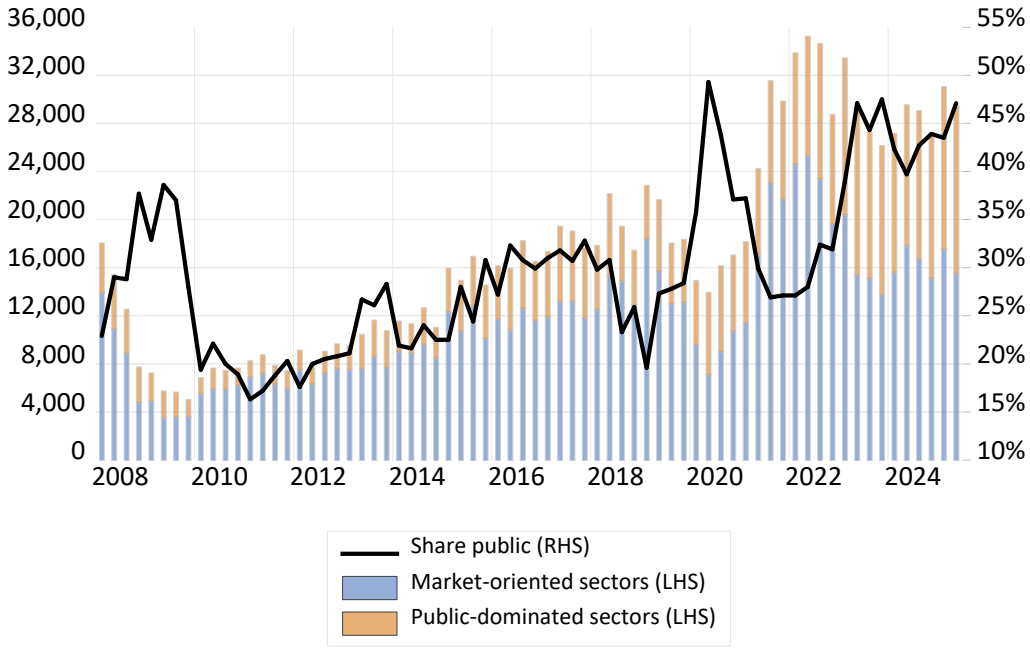
Source: CSO

Moving beyond the headline vacancy data, the balance between job vacancies in the public and private sector has shifted substantially. Figure 27 groups NACE Rev 2 sectors into two categories. The public-dominated group of sectors consists of education, health and public administration, where the State is the primary decision-maker in terms of hiring choices.

The market-oriented group is the more relevant group for examining the tightness of the private labour market and understanding the stage of the business cycle.[9] The figure shows that vacancies in the public-dominated sectors are at elevated levels, both in absolute value and as a share of total vacancies.

[9] The sectors are: industry; construction; wholesale and retail trade; transport and storage; accommodation and food; ICT; financial and real estate activities; professional, scientific and technical activities; admin and support; arts and recreation; and other services. As employment in sectors dominated by the public sector is likely to vary with policy choices, it is unlikely to capture the trends in the business economy as determined by market forces.

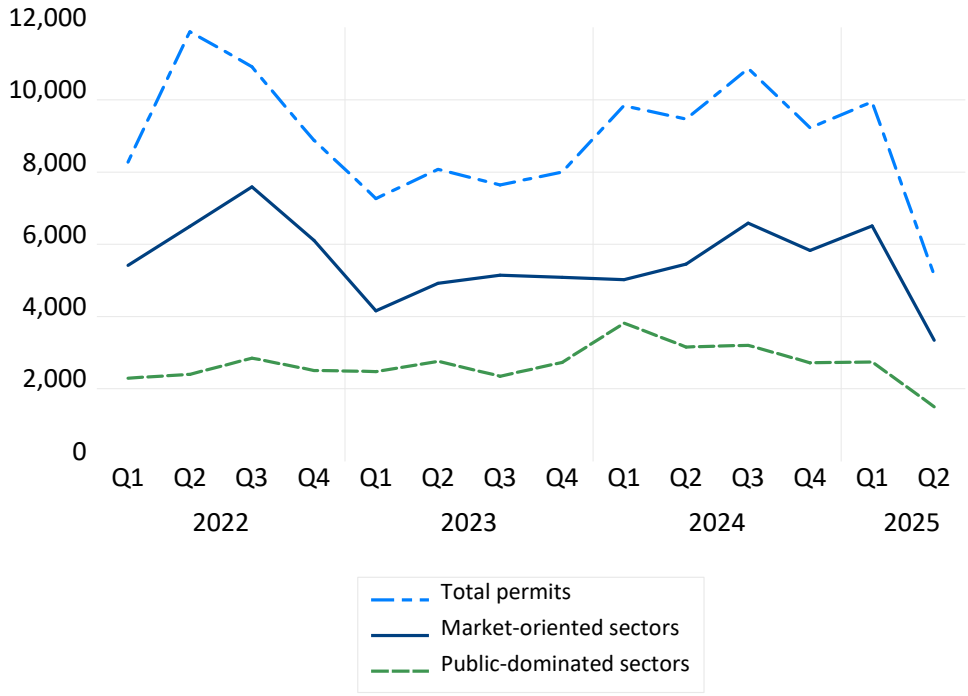
FIGURE 27: VACANCIES IN PUBLIC AND ADMINISTRATION SECTOR AND SHARE OF TOTAL



Source: CSO

Employment permit data published by the Department of Enterprise, Trade and Employment show a notable slowdown in new permits issued in the second quarter of 2025, particularly in the market-oriented sectors. While further data will be needed to ascertain whether a sustained downward trend emerges, this channel could potentially point towards a downward shift in labour demand as the global uncertainties persist.

FIGURE 28: EMPLOYMENT PERMITS (TOTAL AND BY SECTOR GROUP)



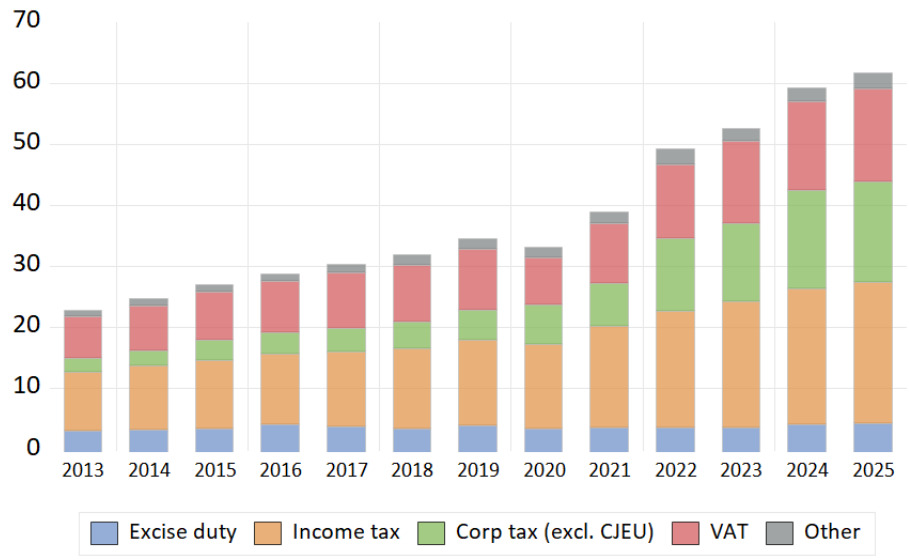
Source: Department of Enterprise, Trade and Employment

Public finances

The latest figures from the Department of Finance show ongoing strength in revenue flows across all the major headings. The total tax revenue collected in the first eight months of the year amounted to €64.1 billion, which was an increase of €4.4 billion on the same period of 2024 (7.3%). This includes €1.7 billion related to the Court of Justice of the European Union (CJEU) ruling – adjusting for this amount, revenues were €2.6 billion ahead of the same period last year (4.4%).

Figure 29 shows the trend in the overall revenue flow and in some sub-components for the first eight months of each year going back to 2013. Focusing on 2025 relative to 2024, income tax receipts rose by 4.7%, VAT grew by 4.8% and excise duty rose by 4%. The large increases in corporation tax over the period can be seen in the green bars in the figure. Comparing 2024 and 2025, corporation tax receipts have increased by a relatively modest rate of 1.1% (excluding the CJEU funds). Given the volatility in this heading across the year, it is difficult to project for the full year outturn, but there is little to suggest in official commentary that the outturn will differ significantly from projections.

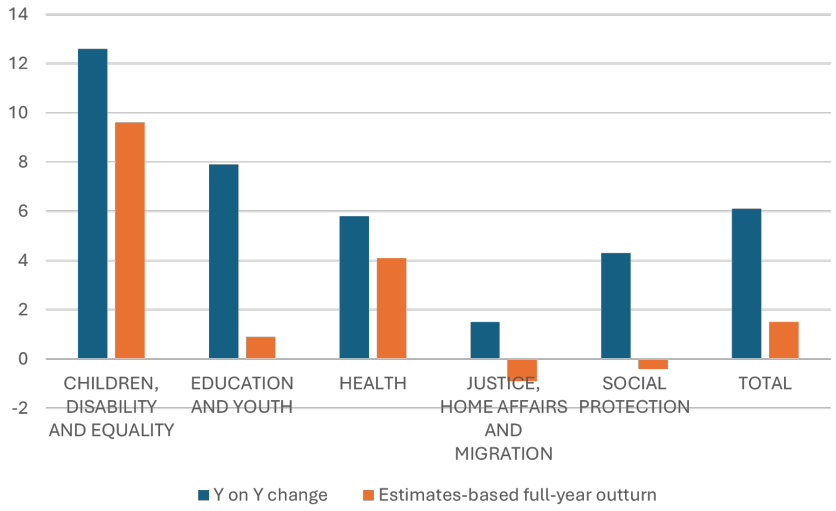
FIGURE 29: GROWTH RATE OF THE MAIN TAXATION HEADINGS, JAN-AUGUST (€, BN)



Source: Department of Finance

Turning to expenditure, the latest figures suggest once again that spending is running ahead of what was planned in Budget 2025 and in the associated Revised Estimates. For the purposes of illustration, we will focus on gross voted current expenditure. In Figure 30, we have selected the five largest spending departments and have presented the data from the Department of Finance's Fiscal Monitor from August. The orange bars show the rate of growth in spending, comparing the first eight months of 2025 to the corresponding period in 2024. The blue bars are the projected outturns for the year based on the Revised Estimates.

FIGURE 30: GROSS CURRENT EXPENDITURE GROWTH %, YOY TO AUGUST AND ESTIMATES-BASED PROJECTIONS FOR FULL YEAR, 2025 RELATIVE TO 2024



Source: Department of Finance Fiscal Monitor August 2025

Total gross current expenditure increased by 6.1% in the eight months to August. The projected growth for the year was for an increase of 1.5% but this seems somewhat implausible. The required slowing in spending in the remaining four months of the year would be sharp and there is unlikely to be much political will to bring about such a turnaround.

Looking across the selected departments, all are exceeding projected rates of growth in gross current expenditure for the year. The growth rate for the Department of Social Protection (which includes spending from the Social Insurance Fund) is running at 4.3% but the expected growth for the year was to be close to zero. For the Department of Health, spending growth is running at 5.8% but the expected outturn was 4.1%. The Fiscal Monitor does not include commentary explaining how spending might evolve in the latter part of the year, so it is difficult to assess whether the overruns can be scaled back by year end. But based on recent experience, it seems more likely that the rate of spending growth will not ease to an extent that the overall outturn from the Revised Estimates will be realised.

Capital expenditure is growing more rapidly, relative to both current expenditure and to planned expenditure. Such overruns do not lead to the same concerns as overruns on current expenditure, if additional projects have sufficiently high returns, but it is still important to track spending relative to plans. Gross voted capital expenditure rose by 21.8% in the eight month to end January. Housing has seen an increase of 30% while the corresponding figure for transport is also 30%. The estimates-based expected outturn for the year is 9.5% – it seems unlikely that the outturn will be that low.

These rates of expenditure increase, if maintained for the remainder of the year, would see spending around €5 billion higher for the full year compared to earlier estimates. If tax receipts for the year match expectations – and to date this year, total receipts across income tax, VAT and excise duties are broadly in line with expectations – it seems inevitable that the general government surplus will be lower than previously anticipated. A general government balance of €9.7 billion was projected in Budget 2025, so a spending overrun of €5 billion would see this halved. Assuming that some of the overrun is curtailed, we expect a general government surplus of €7 billion.

As discussed in previous *Commentaries*, the headline general government balance overstates the true state of the public finances. When the Department of Finance adjusts the headline figure for the windfall elements in the corporation tax revenues, the surplus of €9.7 billion becomes a deficit of €5.7 billion. This figure also overstates the underlying fiscal position; it has not been adjusted to account for the stage of the economic cycle – Ireland's economy is likely operating above potential output and so the cyclically adjusted position is weaker.

In its summer Economic Statement, published in July, the Government has provided for a budgetary package worth €9.4 billion, comprised of a tax package of €1.5 billion and additional spending of €7.9 billion (a 7.5% increase on total gross expenditure of €105 billion in the Revised Estimates for 2025) . This package will amount to another significant fiscal stimulus. The Government has indicated that the Budget will focus on investment rather than consumption and there is merit in that position. However,

coming on top of a series of stimulatory Budgets, risks of fiscally-induced overheating increase. We return to this issue in the assessment below.

General assessment

Domestic strength in the midst of global upheaval

Our summer *Commentary* was characterised by two main themes – the ongoing strength in the economy and the looming uncertainty around US tariffs. The first of these themes is still very much part of this *Commentary*. Looking across the various measures of economic activity – for example, employment growth, tax revenue receipts, consumer spending – it is clear that the economy continues to perform robustly. The economic data for the first quarter of the year were swelled to a great degree by a surge in pharmaceutical exports in advance of the expected US tariffs, and exports continue to remain high at present. Based on this level of buoyancy in the economy, we expected modified domestic demand (MDD) to grow by 3.8% in 2025 and by 2.9% in 2026. We also expect employment to grow by 2.0% in 2025 and by 1.6% in 2026. With the exception of some components of the consumption basket, inflation is expected to remain relatively low over the forecast horizon. When combined with expected rates of nominal wage growth, this should lead to further increases in real wages.

While the second main theme of the last *Commentary* – US tariffs – is now less pressing, it should still be noted that the move to a 15% tariff is a negative outcome relative to the situation that held prior to the US moves. In addition, it is difficult to say that all uncertainty has been removed given the nature of the US administration.

US–EU trade deal reduces uncertainty on trade activity but risks remain

The uncertainty around US tariffs may have ended for now and the final figure of 15% can be viewed as manageable in a broad macroeconomic sense. However, some issues remain. As discussed by John FitzGerald in the Research Note on the pharmaceutical industry published along with this *Commentary*, the effects on employment and output of the 15% tariff for that industry are likely to be limited. The more likely path of adjustment would see profits of the pharmaceutical manufacturers in Ireland softening, with consequences for the levels of corporation tax paid. In the context of

concerns about the sustainability of Ireland's corporate tax receipts, this is a noteworthy finding.

As discussed by FitzGerald, the pharmaceutical industry in Ireland has the capacity to absorb the US import tariffs at a level that is not shared by other industries with tighter margins. So while the macroeconomic effect of the tariffs might be limited, we are conscious of the pressures that have now been placed on other industries, including food and beverages. A case can be made for supporting these industries but it is important that any support is directed towards finding new markets and not simply compensating for losses incurred. The Enterprise Ireland schemes – the Market Research Grant and the New Markets Validation Grant – were in line with this and should be welcomed.

The agreement between the US and the EU, and the resulting 15% tariff, ended one strand of uncertainty but other risks and uncertainties remain. The US administration's ongoing threats in respect of tech companies, based on perceptions by the US administration that the EU is using non-tariff barriers to disadvantage US tech companies, leave open the possibility of retaliatory actions on the part of the US. It is difficult to assess the likelihood of such measures being implemented but a simple risk-based analysis – addressing both the probability of negative outcomes and the scale of those outcomes should they arise – highlights concerns for Ireland given the importance of US tech firms in terms of both high-wage employment and corporate tax payments. While the Trump administration's domestic policies should have a less direct impact on Ireland, spillover effects are possible. For example, if US public debt levels rise as a result of the One Big Beautiful Bill, and the independence of the Federal Reserve is compromised in an effort to reduce debt servicing costs, considerable scope for economic instability could result. In the context of risks, we should also mention the increasingly volatile situations in Ukraine and Gaza.

Trade diversification and competitiveness are critical to future economic success

The threats to international trade arising from the US actions have placed a renewed focus on policies such as trade diversification and competitiveness.

The publication of the National Development Plan and the Action Plan for Competitiveness represent potentially important steps, assuming comprehensive delivery and implementation. Against these positive policy developments and recognising that Ireland has benefited enormously from free trade, a question arises over whether a major policy contradiction exists in the form of opposition to the Mercosur–EU trade agreement.

In 2021, the Department of Enterprise, Trade and Employment commissioned Implement Economics to produce a study assessing the impacts of the Mercosur trade deal, covering economics and sustainability in addition to other issues. According to the analysis, exports from Ireland to the Mercosur countries were projected to grow by €1,115 million out to 2035. The corresponding figure for imports was a projected increase of €750 million. Overall, the agreement was projected to increase GDP by 0.13% out to 2035. The study also estimated the possible impacts on beef production in Ireland. Their upper bound estimate was for a fall in beef production of 0.08%.

This study of the Mercosur deal shows positive economic outcomes for Ireland at the macro level, but the opposition to the deal is unsurprising. In many settings where the gains from a policy are dispersed but the losses are concentrated, opposition will form and a policy (or deal) that has benefits on aggregate can be defeated by the concentrated group who foresees losses. In the case of the Mercosur deal, we would urge the Government to reflect carefully on its reservations. As just discussed, the estimated outcomes that have been provided to the Government show net positive outcomes. In such cases, those who lose as a result of the deal can be compensated and supported (and should be). There might be good reasons why the losses of one group should be weighted disproportionately compared to the gains for others, but it is important to be transparent on this. More broadly, at a time when economic policy should be directed towards protecting and enhancing free trade, it seems counterproductive to be opposing free trade agreements.

Government expenditure is rising rapidly and in a pro-cyclical manner

We will conclude by looking ahead to Budget 2026 which will be announced on 7 October. In our summer *Commentary* and in the discussion of the public finances above, we have signalled concerns about the fiscal stance whereby deficits – once account is taken of windfall corporate tax receipts – have been run for the last number of years. Our concerns are twofold. First, counter-cyclical fiscal policy requires that fiscal policy reduce demand pressures in the economy towards the peak of the economic cycle. Ireland's fiscal policy is doing the opposite. The implications of this can be damaging in the long-term; for example, if capacity constraints or cost inflation prevent the full delivery of the National Development Plan. Second, the windfall nature of a large proportion of Ireland's corporate tax receipts means that they could vanish quickly. The parallels to the collapse in building-related taxes at the outset of the economic crisis of 2007–2008 are clear.

Based on these concerns, we would urge the Government to move towards a surplus, adjusting for the windfall taxes. This would imply a much tighter envelop than envisaged in the Summer Economic Statement. The imposition of stricter fiscal discipline should be accompanied by more focused resource allocation in terms of groups to be supported. One such case is the proposal made on a number of occasions over the last number of years by ESRI colleagues for additional Child Benefit payments to be directed at those in greatest need.

As mentioned above, a major consideration for the appropriate level of government expenditure is the extent to which the economy has capacity to absorb further activity, especially with the well-documented bottlenecks in housing and infrastructure. The most recent data indicate a welcome increase in housing output but also sustained increases in other construction activity. As evidenced by the recent rise in construction wages, the sector is unlikely to have the capacity to simultaneously increase housing output substantially, invest in critical infrastructure, and retrofit and renovate the existing housing stock at full employment. Trade-offs will have to be made and certain activities given priority to meaningfully address these bottlenecks.

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Appendix: Revisions to data

The data presented in the *Commentary* for 2025 are provisional quarterly estimates provided by the CSO. The final figures will be confirmed in June/July 2026 with the release of the Annual National Accounts for 2025.

The recent annual release for 2024 revealed a final figure of 1.8% growth in MDD. This was a downward revision from the preliminary estimate of 2.7%. MDD consists of consumption, modified investment and government expenditure. The overall downward revision for 2024 was the balance of a substantial negative revision in modified investment and a moderate upward revision in consumption.

Modified investment growth was revised down from +2.2% to -4.2%. This was driven by negative revisions in both building and construction investment, and in modified non-construction investment. In recent years, revisions to modified investment have been positive and negative while revisions to consumption have tended to be positive (DoF, 2025).

The revision for growth in personal consumption expenditure in 2024 was just over half of 1%, from 2.3% up to 2.9%. The Irish Fiscal Advisory Council have closely examined the issue of revisions to statistics on personal consumption expenditure, finding that revisions in Ireland tend to be higher than in comparable EU or OECD countries (IFAC, 2023), and that the incorporation of other high-frequency consumption data in the form of VAT returns or credit card data may be able improve the accuracy of the initial estimate (Carroll, 2024).

Interestingly, an assessment of revisions in the period 1997–2004 found that revisions to consumption were smaller on average compared with revisions to exports, imports and GDP data (Bermingham, 2006). The relatively small average revision to personal consumption expenditure during this period (0.3%) contrasts with the scale of recent revisions. This suggests that there is a greater level of complexity associated with collating accurate initial estimates of consumption statistics in today's economy.

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ESRI RESEARCH NOTE

The Irish pharmaceutical sector

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Available to download from www.esri.ie
https://doi.org/10.26504/rn20250301

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This Note has been accepted for publication by the Institute, which does not itself take institutional policy positions. Research Notes are subject to refereeing prior to publication. The author is solely responsible for the content and the views expressed.

1. Introduction

Foreign multinational enterprises (MNEs) have played an important role in the development of the Irish economy in recent decades. Since the economic recovery began in 2014 after the financial crash, approximately half of the growth in the economy has come from the expansion in output of these MNEs (FitzGerald, 2023).

Among the key sectors, that are dominated by foreign MNEs, is the pharmaceutical sector.[10] It has grown in importance over the last 20 years and is now a substantial employer and a major generator of Irish corporation tax revenue. Its continuing success is of considerable importance to the Irish economy.

A number of US multinationals, such as Pfizer, Eli Lilly, MSD, Abbvie and Johnson & Johnson are key players in the pharmaceutical sector in Ireland, and quite a high proportion of the sector's output by value goes to the US. There are a number of multinationals from other countries, such as France and Switzerland, that are also significant players in the sector, with substantial sales in the US.

This paper analyses how recent policy changes in the US, in particular an imposition of a 15% tariff on exports to the US, will affect the Irish pharmaceutical sector and, through it, the wider economy. It also considers how further US policy changes might add to the costs for the pharmaceutical sector in Ireland, and the wider economy.

Section 2 outlines the pharmaceutical sector's significance in the Irish economy. Section 3 then looks at the trade in pharmaceuticals, considering the destination of exports separately by value and volume. Section 4 considers the implications of evolving US policy for the sector in Ireland. Section 5 analyses the recent surge in pharmaceutical exports to the US, driven by US policy changes, and how the effects are reflected in the Irish national accounts for the first quarter of 2025. Section 6 concludes.

[10] Throughout this paper, for simplicity, the sector is referred to as "pharmaceuticals" though it produces what are classified as organic chemicals as well as pharmaceutical products. The primary organic chemicals produced and exported from Ireland are treatments for diabetes and obesity.

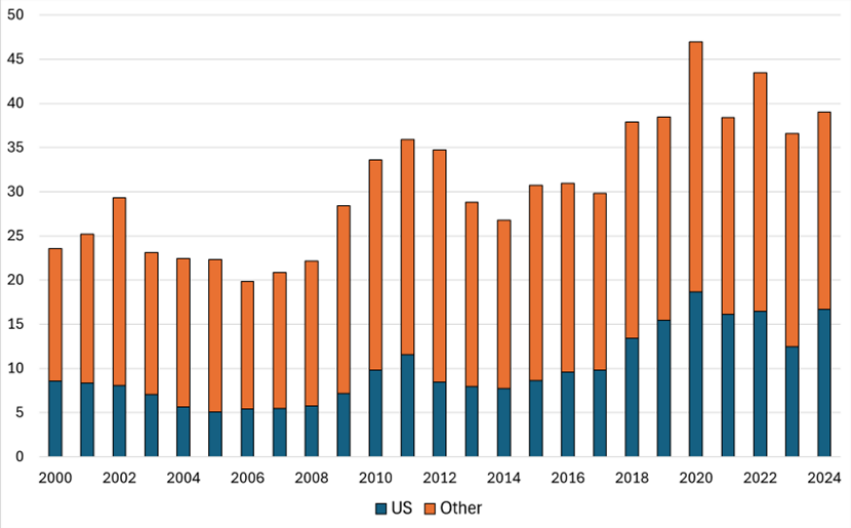
2. The pharmaceutical sector in the Irish economy

The significance of the sector for the Irish economy can be assessed firstly in terms of the exports of pharmaceuticals, secondly in terms of employment in the sector and, thirdly, by estimating the contribution of the sector to national income (GNI*).

Exports

In 2000, Irish exports of pharmaceuticals accounted for around one-quarter of all Irish goods exports. Their share increased substantially over the 2000s and, since 2010, they have accounted for around half of all goods exported. The significance of these exports for the economy is illustrated in Figure 31, which shows exports of pharmaceuticals to the US and to all other destinations as a share of GNI*.

FIGURE 31: IRISH EXPORTS OF PHARMACEUTICALS BY DESTINATION, % OF GNI*



Source: Central Statistics Office and Eurostat trade statistics

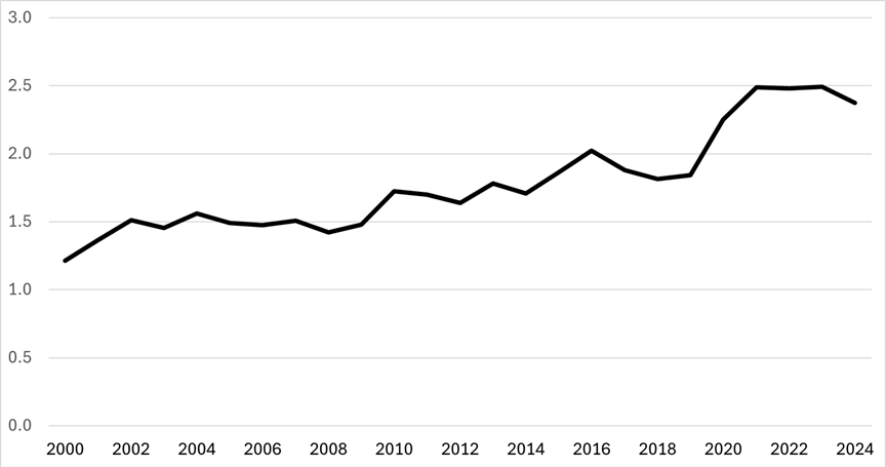
As can be seen from the figure, in 2000 exports of pharmaceuticals amounted to around one-quarter of GNI*. Today they amount to around 35% of GNI*. For most of the period since 2000, exports to the US accounted for around 30% of all pharmaceutical exports, but the US share has increased in recent years. In 2024, exports to the US amounted to 43% of all such exports, or over

15% of GNI*. This highlights the exposure of the sector, and of the economy as a whole, to US policy changes, including the imposition of tariffs.

Employment

The pharmaceutical sector's significance for the economy has grown over time, as reflected in the numbers employed (Figure 32). In 2000 it accounted for about 1.25% of employment in the economy. Over the period to 2017, employment grew fairly steadily, taking numbers employed to 2% of all employment in the economy. Since 2020 there has been a further significant increase, so that today it accounts for around 2.5% of employment.

FIGURE 32: EMPLOYMENT IN PHARMACEUTICALS AS A SHARE OF TOTAL EMPLOYMENT, %



Source: Central Statistics Office Quarterly Labour Force Survey

TABLE 3: EMPLOYMENT IN IRELAND BY FOREIGN PHARMACEUTICAL COMPANIES

	Employment	HQ country
Eli Lilly	3,500	US
Novartis	900	Switzerland
Johnson & Johnson	6,000	US
Pfizer	4,500	US
MSD	3,000	US
Abbvie	2,900	US
Sanofi	1,000	France
AstraZeneca	100	UK
Amgen	1,250	US
Total	23,150	

Source: Information from each company's website

Substantial numbers are employed by the US-owned multinationals operating in the sector. Table 3 shows employment for nine of the top pharmaceutical multinationals operating in Ireland today. Between them, Johnson & Johnson and Pfizer employ over 10,000 people across the country. Sanofi, a major French company, is also a significant employer.

The 2022 Census shows that those working in the sector are highly qualified, with almost three-quarters of the workforce having third-level qualifications. For the labour force as a whole, in 2022 the figure was just under 50%. Many of those working in the sector have developed specific skills that are vital for their work and the sector's success. Thus, the potential earnings of those working in the sector is probably above the average for the economy.

Value added

Unfortunately, for confidentiality reasons, data on the value added and the wage bill of the pharmaceutical sector are not available for Ireland after 2014, though they are available for other EU countries from Eurostat. Nonetheless, by drawing on a range of different sources it is possible to provide an estimate of the contribution of the sector to GNI* for 2014 and 2024. The methodology used in arriving at these estimates is set out in Appendix 1.

The Eurostat data for 2014 show that domestic gross value added (GVA) in the sector constituted almost one-third of gross output (Table 4). The average for

the period 2008–2013 was significantly higher at 40%. Also, for the sector as a whole in the EU, GVA was just under half of gross output.

As described in Appendix 1, the corporation tax paid by the sector in 2014 is an estimated figure. Because of the dominance of foreign MNEs in the sector, the contribution of the sector to GNI* consists of the wage bill plus the corporation tax paid. Most of the rest of the profits flowed back out of the economy to the largely foreign-owned companies that accounted for the bulk of the sector's production in Ireland. In 2014, the estimated contribution of the sector to GNI* was 1.3%.

TABLE 4: ESTIMATE OF PHARMACEUTICAL SECTOR CONTRIBUTION TO GNI*

	2014		2024	
	€M	% of total	€M	% of total
Gross output	44,863	100.0	125,227	100.0
GVA	14,337	32.0	53,208	42.5
Wages	1,159	2.6	4,197.6	3.4
Depreciation	2,215	4.9	6,184	4.9
Profits	10,900	24.3	30,427	24.3
Corporation tax	872		4,100	
Contribution to GNI* €M	2,031		8,298	
Contribution to GNI* %	1.3		2.6	

Source: The sources for the data and the way the numbers for 2024 are estimated are given in Appendix 1

For 2024, the output of the sector is taken to be total exports, as sales to the domestic market were quite limited. The derivation of the figures for 2024 for wages, depreciation and profits is described in Appendix 1. The data on corporation tax come from the Revenue Commissioners. However, this could be an underestimate of the tax generated by the sector, as some of the tax payments by the sector may be classified by the Revenue Commissioners as coming from the financial sector.

On this basis it is estimated that the sector contributed around 2.6 percentage points to GNI*, double the figure for 2014. Between 2014 and 2024, growth in the economy (GNI*) averaged 3.8% a year. The estimates in Table 4 would suggest that around 0.2 percentage points a year of this growth came from the pharmaceutical sector. Much of the contribution to

growth from the sector came from an increase in corporation tax payments, which benefitted, in particular, the government sector.

Because wage rates were probably above the economy average in the sector, and also because there may have been some corporation tax payable by the sector that was attributed by the Revenue Commissioners to the financial sector, the estimated contribution of the sector to GNI* in 2024 could be an underestimate. Thus a possible range for the sectoral contribution to GNI* would lie between 2.5% and 3.0% for 2024.

In addition to the direct impact on national income, there are also indirect benefits for the Irish economy from the multinationals operating in the sector in Ireland. For example, Di Ubaldo et al. (2018) show that supplying inputs to multinationals is an important channel for knowledge and technology transfers to domestic firms.

3. Irish exports of pharmaceuticals

To understand the likely impact on the pharmaceutical sector in Ireland of changes in US policy, including tariffs, it is important to distinguish between the value and the volume of sales by destination.

The volume of drugs produced in factories is closely related to employment. The value, reflecting the price charged for the drugs, is vital in determining the profitability of the sector. Pharmaceutical products sell for a much higher price in the US than that commanded (by the same products) in other markets. Thus, the value of US sales are particularly profitable and important for corporation tax receipts.

The data on exports (sales) by different broad categories of pharmaceuticals are readily available, and the value and destination of exports are considered first in this section. The data on prices, needed to determine the volume of sales on different markets, are more difficult to establish. The second part of this section discusses the evidence on prices and the volume of sales on different markets of pharmaceuticals.

Value of sales

Data are available on Irish exports of pharmaceuticals and related products broken down by the destination of the exports. The data are published at a detailed product level – using a six-digit code. They are available for each product in value and weight terms, where the weight is in kilograms.

As illustrated in Figure 31, the share of pharmaceutical exports, by value, going to the US has increased in recent years. Table 5 shows that by 2024 the US market accounted for 43% of the value of pharmaceutical exports, with 45% going to the EU and 12% going to other countries. In the first four months of 2025, the US accounted for 68% of the value of Irish exports of pharmaceuticals.

TABLE 5: SHARE OF ORGANIC CHEMICALS AND PHARMACEUTICAL EXPORTS BY DESTINATION, 2024

	€ million	% of Total	% of GNI*
EU	56,203	45	18
US	53,647	43	17
UK	3,079	2	1
Other	12,544	10	4
Total	125,474	100	40

Source: Eurostat trade statistics

Table 6 shows the value of the top 13 categories of exports of pharmaceutical products, ranked in terms of their importance. This list also includes the top ten exports to the US. The slight difference in rankings between the products exported worldwide and to the US is primarily due to the fact that more of the pharmaceuticals destined for the rest of the world are prepackaged in 'measured doses' than for the US. Nonetheless, at this level of disaggregation, there is a broad overlap between the products going to the US and to other markets.

TABLE 6: TOP 13 CATEGORIES OF IRISH EXPORTS OF PHARMACEUTICALS, 2024, € MILLION

Rank	Code	Product	World	US
1	300490	Medicaments in measured doses	22,078	8,661
2	300215	Immunological products, in measured doses	18,361	5,986
3	300214	Immunological products, not in measured doses	17,718	11,148
4	293719	Hormones	16,683	13,807
5	300241	Vaccines	7,646	195
6	293359	Heterocyclic compounds	7,417	5,886
7	293499	Nucleic acids and their salts	6,418	1,302
8	293379	Lactams	5,510	392
9	300249	Toxins, cultures of micro-organisms and similar	4,739	3,392
10	300339	Medicaments containing hormones or steroids	4,282	0
11	300212	Antisera	3,723	248
12	293590	Sulphonamides	2,207	1,144
13	300432	Medicaments containing corticosteroid hormones	1,037	465

Source: Eurostat trade statistics

Price and volume of sales

A detailed study for the Rand Corporation by Mulcahy et al. (2024) estimated that prescription drugs in the US are around 2.8 times the price of similar drugs in other countries. However, depending on the product, there was quite a wide dispersion in price differences. For brand-name drugs, the US price was 4.2 times that of other countries, whereas for generics, prices in the US were generally lower than elsewhere, at under 70% of the price in other countries.

For US firms producing pharmaceuticals in Ireland for the US market, the biggest advantage to the firm from an Irish production location will accrue from brand-name drugs, as they will have the highest profits, profits which benefit from the low Irish corporation tax rate. Generic drugs, with low profit margins, are less likely to be produced in Ireland because of relatively high production costs. Thus the price differential (US price relative to rest of world price) for drugs produced in Ireland is likely to be closer to the higher differential that the Rand Corporation study found for brand-name drugs.

In principle, by dividing the value by the weight of each detailed category of pharmaceuticals, one can derive unit values (prices) for each category of export. However, even at the level of detail used here, there is major

diversity in the products covered within each category. In addition, exports to the US of many products have different brand names from those used in the EU for identical formulations. This means that the unit values for exports to the US and the rest of the world are only a crude measure of the actual differences in price for identical products.

Despite these drawbacks, here we use the unit price data to compare the prices for the different categories of goods at the six-digit level in the trade statistics. On average, the unit price of goods exported to the US in 2024 was 3.4 times that of similar categories of goods exported to the rest of the world. This is broadly consistent with the results from the Rand Corporation study.

Using the unit value data estimated here for each category of Irish pharmaceutical products, the exports to the rest of the world (excluding the US) were revalued at the US price. This allows a comparison of the relative volumes of pharmaceutical products exported to the US and other destinations. The analysis shows that, while 43% of Irish exports by value of pharmaceuticals in 2024 went to the US, the US share of the physical volume of exports was closer to 10%.

4. Implications of US policy changes for the pharmaceutical sector

The US imposition of tariffs on imports of goods from the EU has serious implications for the Irish economy. Egan and Roche (2025) and Central Bank of Ireland (2025) both provide quantification of the possible significant negative impacts on the economy. However, as Egan and Roche note, 'the nature of Ireland's corporation tax means that idiosyncratic developments within a small number of firms often dominate economic fundamentals in explaining yearly fluctuations in corporation tax receipts'. The pharmaceutical sector is, as they note, rather different from the rest of the economy in that it has some crucial 'idiosyncratic' elements.

While tariffs of up to 15% are expected to apply to pharmaceutical exports to the US, there remains the threat of further US policy action to either cut US pharmaceutical prices or to force firms to source a greater share of their sales in the US from production located in the US.

As discussed earlier, the pharmaceutical sector accounts for a major share of Irish goods exports to the US, and it is also a major source of corporation tax revenue for the government. The difference between the value and the volume shares of goods going to the US and other markets has significant implications for the impact of US policy changes on the sector. The potential employment effects are first considered, and then the potential impact on corporation tax revenue is analysed.

Employment effects

As shown in the previous section, because the bulk of the Irish industry's output by quantity goes to countries other than the US, the impact on employment and the wage bill of US policy changes will depend on Ireland continuing to produce for the rest of the world, even if some of the production for the US market is eventually moved to new plants in the US.

In the short term, because many of the products produced in Ireland are essential to treat specific diseases, the higher price due to tariffs will not prevent sales in the US. Given that the producers are, in many cases, the monopoly provider of particular drugs, much of the cost of the tariffs is initially likely to be paid by US households, either directly or by their healthcare providers. The rest of the cost of the tariffs will be absorbed by the pharmaceutical firms, resulting in a small reduction in profits.

Unless there is major spare capacity in the US pharmaceutical sector, which seems unlikely, relocating production from Ireland to the US would also take time, requiring substantial new investment by pharmaceutical firms.

Because of the importance of regulation in protecting consumers of pharmaceuticals, any new plant in the US would need to get Federal Drugs Administration (FDA) authorisation before going into production. Currently, getting FDA approval is a lengthy process, something that producers in Ireland are very experienced in dealing with. However, the current US administration may simplify the process of obtaining FDA approval in the future, speeding the process of building new plants. Nonetheless, the companies themselves would be concerned, for reputational reasons, to ensure continuing high production standards.

A further obstacle to relocating production from Ireland to the US concerns the consequent need to recruit substantial numbers of people with the necessary very specific skills. The sector in Ireland has built up a skilled workforce from all over the world over the last 25 years; while the US is a huge labour market, it may find difficulty in the future recruiting people with the necessary specific skills for the pharmaceutical sector, especially if they have to come from outside the US. Currently, the US labour market is quite tight.

If the US takes further action to force production of pharmaceuticals to move to the US, it would be important for the EU to take retaliatory action to ensure that production for the EU, and the rest of the world, remains in the EU.

Even the possibility of retaliatory tariffs by countries other than the US would make it commercially very unwise to make major investment in moving production to the US of goods ultimately destined for EU or other world markets. Countervailing tariffs could even result in some production for the EU market moving from the US to Ireland and the rest of the EU.

Thus, any immediate impact of US tariffs on production volumes in Ireland, and hence on employment, is initially likely to be small. The possibility of retaliatory action by the EU should ensure that, even in the longer term, employment losses are minimised.

Implications for Corporation tax revenue

There are two additional ways in which the US government could take action that would have a big impact on the Irish economy through reducing corporation tax receipts. The Trump administration could introduce measures to reduce the price of the drugs sold in the US, narrowing the gap between the US and the EU price.[11] or they could force production for the US market to take place in the US. In both cases there could be a serious impact on corporation tax receipts in Ireland.

In the immediate future, if the US government forced a major reduction in the price of brand-name drugs sold in the US, even without a relocation of

[11] The argument that US prices are too high, given that prices are much lower in the rest of the world, is hard to resist.

production to the US, the profitability of the many US firms operating in the sector in Ireland would be greatly reduced. In turn, a big fall in the sector's profits would impact heavily on their corporation tax payments in Ireland.

Alternatively, if the US government forced relocation of production for the US market to the US, the profits of the US firms concerned would also be largely relocated to the US, where they would be subject to the higher US tax regime, with a resulting big loss of tax revenue for the Irish government. The US could well also require the intellectual property associated with the production of the drugs in the US to also be returned to the US from Ireland, further affecting tax receipts in Ireland.[12] Remaining production in Ireland for the rest of the world would have much lower profitability, and the corporation tax paid in Ireland by the sector would fall dramatically.

Action on drug prices in the near future could rapidly affect the profitability of the US firms operating in the sector in Ireland. As corporation tax is paid a year in arrears, this could affect corporation revenue from 2027 onwards.

The most likely outcome of current US pressure is that some production for the US will eventually be reshored to the US, along with some of the profits. However, relocation of production will not happen overnight for the reasons adduced above. It could be a number of years before the full impact of such changes would be felt on corporation tax receipts.

Summary

Further substantive action by the US, affecting the profitability of the US-owned pharmaceutical sector in Ireland, could have a major impact on corporation tax revenue. The full effects of this would take a number of years to play out.

Because such a high proportion of the volume of production of pharmaceuticals produced in Ireland is sold outside the US, the short-term impact of tariffs on employment in the sector is likely to be limited. In the longer term, if production for the non-US market was relocated from Ireland to the US, this could eventually seriously impact on employment. However,

[12] Some of the intellectual property could be held by separate subsidiaries that are classified by the Revenue Commissioners as being in the financial sector.

the EU could prevent such a wholesale relocation of activity by taking retaliatory action.

TABLE 7: EXPORTS OF PHARMACEUTICALS, € MILLION

	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	Change 2025Q1 on 2024Q4
World						
Polypeptide etc.	1,953	1,748	5,930	7,053	32,559	25,507
Organic chemicals – Other	8,210	6,773	7,387	3,544	8,051	4,507
Pharmaceuticals	20,019	21,492	19,953	21,413	23,308	1,894
Total	30,182	30,013	33,269	32,010	63,918	31,908
US						
Polypeptide etc.	1,248	893	5,098	6,568	31,358	24,790
Organic chemicals – Other	3,032	3,486	1,821	948	5,717	4,769
Pharmaceuticals	6,782	8,789	7,160	7,824	7,787	-37
Total	11,062	13,168	14,078	15,339	44,862	29,523
Rest of world						
Polypeptide etc.	705	855	832	485	1201	716
Organic chemicals – Other	5,178	3,287	5,566	2,596	2,334	-262
Pharmaceuticals	13,238	12,703	12,793	13,590	15,521	1,931
Total	19,120	16,845	19,191	16,671	19,056	2,385

Source: Eurostat trade statistics

Note: Poypeptide etc. refers to the category 'Polypeptide, protein and glycoprotein proteins'

5. First quarter figures for 2025

The prospect of the US imposition of tariffs had a big impact on the headline numbers for the Irish economy (and the US economy) in the first quarter of 2025. It is clear from the data that the Irish pharmaceutical sector sought to avoid the initial impact of tariffs by building up stocks of product in the US. Many other exporters to the US did so too. De Soyres et al. (2025) note that in Germany and Taiwan strong export gains were also partly offset by steep inventory drawdowns in the first quarter.

The actual introduction of tariffs is likely to lead to further effects in the future. The cheaper tariff-free stocks within the US will likely be run down after the introduction of tariffs, leading to a temporary reduction in exports to the US.

This section explains some of the changes in trade, sales and the national accounts figures for gross value added (GVA) and gross domestic product

(GDP), which took place in the first quarter of 2025. On the basis of this analysis, it seems likely that some of the increase in exports was offset by a run down in stocks, as firms sought to move the stocks to the US to avoid tariffs. However, there was also likely to have been a temporary surge in output.

Trade and sales data

There was a €30 billion increase in all goods exports from Ireland to the US in the first quarter of 2025 compared to the last quarter of 2024. The increase in exports to the rest of the world in the same period was only €2.4 billion. As shown in Table 7, the increase in exports of organic chemicals and pharmaceuticals to the US over the same period was also around €30 billion, accounting for all of the increased exports to the US. Most of this was concentrated in the pharmaceutical category 'polypeptide hormones, protein hormones and glycoprotein hormones', which includes drugs for treatment of diabetes and obesity.

In 2024, Ireland accounted for 85% of the EU's total exports of this category of pharmaceuticals, and for the first four months of 2025 the figure was 98%. The other significant producer of this category of pharmaceuticals in the EU is Denmark.

TABLE 8: SALES IN THE US OF DRUGS FOR TREATING OBESITY, € BILLION

	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Eli Lilly:					
Mounjaro	1.405	2.230	2.203	2.431	2.528
Zepbound	0.478	1.149	1.162	1.762	2.195
Novo Nordisk:					
Wegovy	1.104	1.328	1.674	2.030	1.589
Saxenda	0.000	0.053	0.012	0.040	0.011
Total	2.986	4.759	5.051	6.263	6.323

Source: Company financial reports

The Central Bank, in their summer Quarterly Bulletin, suggested that part of the reason for the surge in exports was the increased production of new weight-loss drugs, which fall into the 'polypeptide etc.' category. These new weight-loss drugs are being produced in the EU by Eli Lilly, at a plant in

Ireland (Cork), and by the Danish company Novo Nordisk in Denmark. Table 8 shows the sales of these new drugs in the US over the course of 2024 and the first quarter of 2025.

As can be seen from the table, there was a significant ramp up of sales of these drugs in the US over the course of 2024. However, sales in the first quarter of 2025 were very similar to the last quarter of 2024, so it seems unlikely that an increase in the sales of these particular pharmaceutical products accounted for the increased exports in the first quarter of 2025. Nonetheless, they could account for some of the exports aimed at building up stocks in the US ahead of possible tariffs.

Thus it seems probable that it was not just weight-loss drugs that were involved. The particular code for 'polypeptide etc.' showed the massive increase in exports also includes products for treatment of diabetes. Some other pharmaceutical companies operating in Ireland also produce products that fall into the same category as the weight-loss and diabetes drugs.

Table 9 shows total sales of pharmaceuticals in the US last year and in the first quarter of this year by eight companies that already have a presence in Ireland, along with Novo Nordisk. The figures are for total sales by the firms in the US, not just for sales of products produced in Ireland.[13] What these data demonstrate is that pharmaceutical sales in the US in the first quarter of this year were not exceptional compared to the four quarters of 2024.

[13] Data are not available for each company for production in Ireland.

TABLE 9: PHARMACEUTICAL COMPANY SALES IN THE US, € BILLION

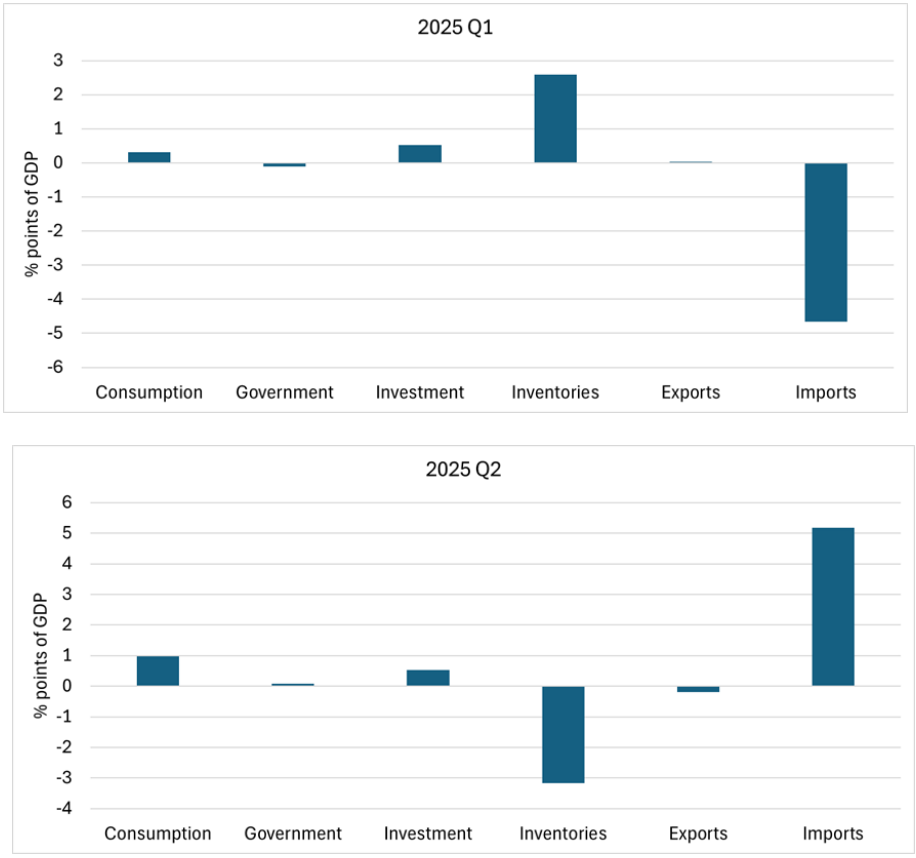
	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Eli Lilly	5.7	7.8	7.8	9.0	8.5
Johnson & Johnson	10.7	11.6	11.9	12.2	11.7
Pfizer	8.8	7.3	11.1	8.5	8.0
MSD	6.9	7.3	8.1	7.6	8.1
Abbvie	3.0	10.3	10.3	10.8	9.5
Novartis	4.4	4.8	5.0	5.5	5.4
Sanofi	4.0	4.4	6.4	4.8	4.4
AstraZeneca	4.7	5.1	5.6	6.0	5.4
Total	48.3	58.6	66.2	64.5	60.9
Novo Nordisk	5.3	5.5	5.7	7.4	5.9

Source: Financial results for individual companies

This shows that the unusual increase in Irish exports occurred in anticipation of future tariffs, and that it resulted in a temporary build-up of stocks in the US, rather than immediate sales.

The build-up of stocks in the US in the first quarter of 2025 was not confined to pharmaceuticals from Ireland. As shown in Figure 33, US data show a surge in imports in that quarter, substantially offset by an increase in stocks. The data for the second quarter show a reversal of this process. However, for Irish pharmaceuticals tariffs have yet to impact. Thus, stocks of pharmaceuticals, produced in Ireland and held in the US, probably remained high in the second quarter of the year with continuing substantial exports. However, with the imposition of tariffs these stocks will probably be run down in the third quarter and, as a counterpart to this stock change, exports from Ireland may temporarily fall.

FIGURE 33: CONTRIBUTION TO US GDP GROWTH



Source: US Bureau of Economic Analysis

Effects on Irish growth rate

The increased exports from Ireland in the first quarter came from a combination of increased production in Ireland and the transfer of stocks of finished pharmaceuticals held in Ireland to be held in the US. While it could also have come from production in Ireland being diverted as exports to the US, from non-US markets, there is no evidence of such a change.

Depending on the explanation, it has different implications for the interpretation of the national accounts figures for Ireland in the first quarter of 2025.

Increase in output

The Quarterly National Accounts for Ireland for the first quarter of 2025 show a truly exceptional rise in Irish constant price GDP of 7.4%. It is clear that the very high Irish growth rate in the first quarter was related in some way to the sudden very large increase in pharmaceutical exports in that quarter, discussed above.

Given the weight of Irish GDP in euro area GDP, this contributed 0.21 percentage points to the growth in GDP in the euro area in the same period. The actual outturn for growth in GDP in the euro area in the first quarter was 0.6%. Without the Irish contribution it would have been 0.4%. The International Monetary Fund (IMF), in their recent World Economic Outlook, draws attention to the impact of the Irish figure on the EU aggregate, despite Ireland's very small weight within the EU. The exceptional impact of the Irish first quarter growth on the EU aggregate is also noted by de Soyres et al. (2025), who go on to say that the Irish figure 'should be interpreted with caution' because of the activities of foreign MNEs.

The employment data for Ireland show no real change in numbers employed in the pharmaceutical sector in the first quarter of 2025, while the national accounts show a 15% increase in the volume of output (GVA) in the manufacturing sector and an increase in GVA at current prices of €7.8 billion (18%). The bulk of this was probably attributable to the pharmaceutical sector. With no major increase in labour input, this would suggest an exceptionally profitable quarter.

The estimated inputs used in production are almost 50% greater than GVA (Table 4), which would suggest an increase in gross output that would account for almost two-thirds of the exceptional increase in exports. However, there is limited evidence of a big increase in inputs into the sector necessary to underpin such a surge in production.

Instead, some of the necessary inputs probably came from a run down in stocks of inputs. In the first quarter, the national accounts show an exceptional fall in stocks in the economy of €4.6 billion.

Thus it seems likely that some of the increased exports in the first quarter reflected an exceptional level of output by the sector, aimed at avoiding the possible imposition of tariffs later in the year.

Possible relocation of stocks

As mentioned above, there was an unusual fall in stocks in the economy in the first quarter of €4.6 billion. While this could have represented a fall in the stock of inputs, it could also have been due to a reduction in the stock of finished product held by the sector in Ireland, which was moved to the US.

While this reduction in stocks, reported in the national accounts, is worth much less than the increase in exports, due to national accounting rules the reduction in stocks could be valued at much less than their value when exported, generating an artificial increase in GVA and GDP.

A convention of national accounting is that where an identical physical product is sold under two different brand names (also to different markets) they are considered different products.[14] If a pharmaceutical product had been produced last year and held in stocks, because the final brand name or destination of the product was unknown, the increase in stocks would have been valued at the average expected sale price. But, as explained above, the average sale price is made up of a very high price obtained for a product in the US and a much lower price in the rest of the world.

Thus if stocks that had originally been intended to supply all world markets were all redirected just to the US in the first quarter of 2025, the value of the exports would have been much greater than the run down in stocks valued at the world average price. This would mean that, even though there was no increase in physical output, it would show up as an increase in GVA, GDP and GNI*.

If all of the reduction in stocks was in finished product, then the difference in valuation could have added an artificial increase in output of at least €10

[14] When a pharmaceutical product called Lipitor, produced by Pfizer in Ireland, fell out of patent in the US in 2011, sales revenue from the drug worldwide fell in 2012 by $5.6 billion. The same compound continued to be produced in Ireland as a generic drug, but at a much lower price than the original brand-name product. Because of national accounting conventions, this showed up as a big fall in the volume of production in Ireland rather than a fall in price (FitzGerald, 2013.)

billion, on top of the roughly €5 billion reduction in stocks, accounting for at least half of the surge in exports related to exports of €15 billion. This artificial increase in output would be reflected on the output side of the national accounts as an increase in GVA in the sector.

While this could have distorted the national accounts figure for growth in the first quarter, as production in subsequent quarters replaces the stocks sent to the US, the artificial output effect would be reversed so that, for the year 2025, the growth rate would be left unaffected by these unusual circumstances.

Summary

While the output and exports of the pharmaceutical sector have been on an upward trend over the last 18 months, the surge in exports in the first quarter of 2025 came from a combination of increased output and a run down in stocks in Ireland, as firms sought to beat the imposition of US tariffs. US data show that the Irish pharmaceutical sector was not alone in trying to beat the tariffs.

The impact of the movement of stocks from Ireland to the US probably resulted in some exaggeration of the growth in GVA and GDP in the first quarter of this year.

Profits in the pharmaceutical sector this year, and hence the tax liability, will also be up on 2024. Because a substantial share of the profits on US sales have already been locked in, changes in US rules and regulations will have limited effect on the final tax revenue figures for 2025 and 2026[15]. However, as discussed above, changes in US policies could have a big effect on tax revenue in subsequent years.

6. Conclusions

This article has examined the structure of the pharmaceutical sector in Ireland, and the implications for it of major policy changes in the US. It would appear that, despite the policy changes to date, the substantial well-paid employment in the sector will not be greatly affected in the short run.

[15] Corporation tax is paid the year after profits were earned.

However, depending on the nature of additional US policy changes, yet to be announced, future years could see a big impact on corporation tax paid by the sector. This finding confirms the concerns already expressed by the Department of Finance, the Irish Fiscal Advisory Council, the Central Bank and the ESRI.

The exceptional growth recorded for the first quarter of 2025 reflects the fact that pharmaceutical companies pre-emptively accelerated exports to the US to avoid possible tariffs. Some of the exceptional growth recorded in GDP may be an artifact of national accounting rules. After tariffs have been introduced, exports to the US in 2025 will probably be temporarily reduced, as exceptional stocks of pharmaceuticals in the US are run down. Overall, the increased corporation tax liability of the sector for 2025 (payable in 2026) has been locked in, whatever changes are made in US policy over the rest of the year.

The Irish pharmaceutical sector today probably contributes between 2.5% and 3% of national income (GNI*). Around half of this value added comes in the form of corporation tax revenue. In a worst case scenario, policy changes in the US could put at risk much of the tax revenue accruing to the government from the sector in the years after 2026. Provided that the EU is prepared to retaliate against any attempt by the US to force production of pharmaceuticals for the EU to move to the US, possible long-term employment effects would be more limited.

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Appendix 1: Estimate of value added of phamaceutical sector, 2024

This appendix provides a crude estimate of the contribution of the pharmaceutical sector to national income (GNI*) in 2024 using a range of data, including detailed data from Eurostat for the sector between 1995 and 2014. After 2014 the Eurostat data are not available for confidentiality reasons.

The Eurostat national accounts give figures for the composition of gross output in the pharmaceutical sector for 2014 (and earlier years). These are summarised for 2014 in Table 4. They show the share of value added in gross output in that year as 32%. Between 2008 and 2013, it averaged 40%. The table also gives figures for GVA, labour costs (wage bill), profits and depreciation in the sector in that year.

For 2024 the value of gross output is taken to be equal to exports of pharmaceuticals. This will be a limited underestimate of gross output, as a small share of the output of the sector was sold domestically.

The wage bill for the economy from the national accounts for 2024 is divided by the number of employees in the economy. This gives average labour costs per employee in the economy in 2024 at €63,600. This average is multiplied by the numbers employed in the pharmaceutical sector in 2024 to give labour costs (wages). This is probably an underestimate, given the superior qualifications of those employed in the sector.

Depreciation is assumed to be the same share of gross output as in 2014.

The corporation tax paid by the sector for 2014 is estimated by applying the average rate of tax paid by all MNEs in the economy for 2014 (from the Institutional Sector Accounts) to the net operating surplus of the pharmaceutical sector. The corporation tax paid by the pharmaceutical sector in 2024 is given in the Revenue Commissioners' accounts. The share of profits in gross output (exports) is assumed to be the same as in 2014. The average corporation tax rate (tax / profits) that this implies was very similar to the average for all MNEs shown for 2023 in the Institutional Sector Accounts, suggesting that this estimate of profits is broadly appropriate.

When the wage bill, profits and depreciation are added to give GVA it is 42.5% of gross output compared to 32% in 2014. The average for the sector in Ireland for the period 2008 and 2013 was 40%, and for the EU as a whole (excluding Ireland) it averaged 47% between 2015 and 2023.

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