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Quarterly Economic Commentary Summer 2025

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

QUARTERLY ECONOMIC COMMENTARY

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Summer 2025

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ABBREVIATIONS

CJEU	Court of Justice of the European Union
CPI	Consumer Price Index
CSO	Central Statistics Office
FDI	Foreign direct investment
GDP	Gross domestic product
GNI*	Modified gross national income
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MDD	Modified domestic demand
NDP	National Development Plan
OECD	Organisation for Economic Co-operation and Development
Y-O-Y	Year-on-year

Summary Table

	2023	2024	2025	2026
Output (Real Annual Growth %)				
Private consumer expenditure	4.9	2.3	2.8	2.4
Public net current expenditure	4.3	4.3	2.6	2.5
Investment	2.8	-25.7	20.9	2.2
Modified investment	-4.4	2.3	0.6	4.4
Exports	-6.0	11.9	5.4	3.3
Imports	1.3	6.5	6.2	3.1
Gross domestic product (GDP)	-5.7	1.3	4.6	2.9
Modified domestic demand	2.7	2.6	2.3	2.8
Labour market				
Employment levels (thousands)	2,705	2,762	2,813	2,853
Unemployment levels (thousands)	121	123	122	130
Unemployment rate (% of labour force)	4.3	4.3	4.2	4.4
Prices				
Inflation (CPI)	6.3	2.1	2.0	2.1
Public finances				
General government balance (Euro, bn)	7.9	23.2	8.7	6.3
General government balance (per cent of GDP)	1.5	4.3	1.5	1.1

Forecast Overview

Key points from summer 2025 Commentary

- Most of the key indicators for the Irish economy continue to point to its ongoing strength and expansion. However, the uncertainty generated by the Trump administration's changing stance on tariffs is dampening sentiment internationally, and has prompted many downward revisions to global growth forecasts.
- In the current Commentary, we make the technical assumption that tariffs and global growth follow the 'reference forecast' from the recent International Monetary Fund (IMF) World Economic Outlook, April 2025. This is based on information from mid-April 2025 globally, and for Ireland implies a 10 per cent tariff on goods exports to the US with an exemption for pharmaceuticals. We recognise discussions around EU–US trade are ongoing, and that the situation is extremely fluid and uncertain. The IMF, and other forecasters, have downgraded their growth outlook generally and we have reflected this in our forecasts since March 2025.
- Under these assumptions, we expect modified domestic demand (MDD, our preferred measure of economic activity) to grow by 2.3 per cent in 2025, a lower rate than that envisaged in our spring Commentary (3 per cent) due to the deteriorating international outlook. We expect MDD growth of 2.8 per cent in 2026. Clearly, if the trade wars between the US and its trading partners intensify, this forecast will need to be revisited.
- We still expect exports to grow in 2025 under our baseline, given the structure of Ireland's exports. With both trade in services and in pharmaceuticals currently outside the scope of the Trump announcements, Ireland is insulated to some degree in the short run. This could change, however, and longer term US policy shifts could threaten the Irish foreign direct investment (FDI) led economic model if both tariff and non-tariff measures act to re-shore activity by US firms back to the US.
- Based on the anticipated growth, we see employment increasing again in 2025 (+66,000) and 2026 (+45,000). Unemployment is expected to

remain low at just over 4 per cent across the forecast horizon. Nominal wage growth is expected to exceed price inflation in both 2025 and 2026, resulting in real wage growth of 3.5 per cent in 2025 and 2.3 per cent in 2026.

- The number of housing completions in 2024, at just over 30,000, was disappointing and we remain somewhat pessimistic about the scope for substantial growth in 2025 and 2026. We have reduced our forecast from our previous Commentary for the present year, and now expect 33,000 completions in 2025 and just under 37,000 completions in 2026, but there are considerable downside risks.
- Total tax revenues continue to perform well, reflecting the strength of the economy. Looking ahead to 2026, there are suggestions that corporate tax revenues could climb again, due in part to the ongoing rollout of the Organisation for Economic Co-operation and Development's (OECD) base erosion and profit shifting (BEPS) reforms. However, corporate tax revenues are lower in the first five months of this year compared to January to May 2024. It is too early to draw a strong conclusion on the likely corporate tax take for the year, but the dip in May served as a reminder of the potential vulnerability in the public finances arising from the windfall element.
- In our overall assessment, while reflecting on the current strengths of the economy, we also look at three concerns – the Trump tariffs, the outsized impact of windfall corporate revenues on the headline public finance numbers and housing completions. On housing completions, we discuss how labour constraints in a full employment economy might require strict prioritisation in a revised National Development Plan (NDP) if labour resources are to be available to meet housing targets.
- Finally, given the importance of exports at this time for the Irish economy, in Box A we use Central Statistics Office (CSO)/Eurostat data to look at the characteristics of Ireland's exporting firms. This research further highlights the issue of concentration risk in terms of Ireland exports, with a relatively small group of firms accounting for a high proportion of exports. This risk is higher than in other small-open economies.

CHAPTER 1

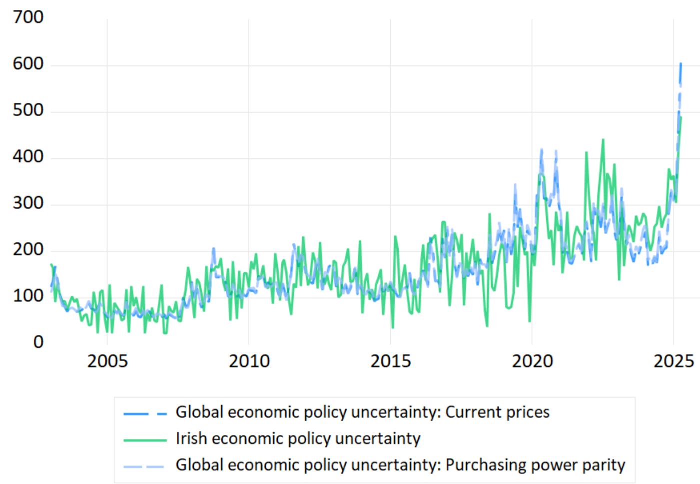
Overall Outlook

Global conditions deteriorating on Trump trade policy and rising uncertainty

Over the past 40 or more years, the Irish economy has been a major beneficiary of trade openness and globalisation. This is particularly the case through the attraction of foreign direct investment from large, highly productive US multinationals. For the first time in many years, the changing international policy landscape is threatening the sustainability of this economic model in an unprecedented fashion. The current US administration is embarking on a seismic policy shift through the deployment of goods trade tariffs at levels not seen since the early 1900s (IMF, 2025). This changing trade policy environment is disrupting global supply chains, impacting business and consumer confidence, and lowering economic activity. Uncertainty, which acts as a major drag on business investment and consumer expenditure, is noted by international commentators as being at extremely high levels. This is driven by both the trade disruptions as well as the ongoing geopolitical tensions in Ukraine and the Middle East. The extent to which uncertainty has risen can be clearly seen in Figure 1.1 which presents the Irish and global measures of economic policy uncertainty developed by Baker et al. (2016). These indicators are developed using newspaper coverage of policy-related economic uncertainty, and in recent months have risen to their highest level ever recorded. The current level of uncertainty far outweighs previous highs, such as during COVID-19 and the global financial crisis.

Taking the deteriorating international picture into account, Figure 1.2 outlines the most recent global forecasts from the IMF's World Economic Outlook. These figures are lower than previous estimates on the back of the aforementioned factors. Economic activity for advanced economies is projected to grow by less than 1.5 per cent this year and by approximately 1.5 per cent next year. The downturn is most evident in the lower growth in the US economy, the projections for which have been cut by various forecasting bodies (IMF, 2025; OECD, 2025).

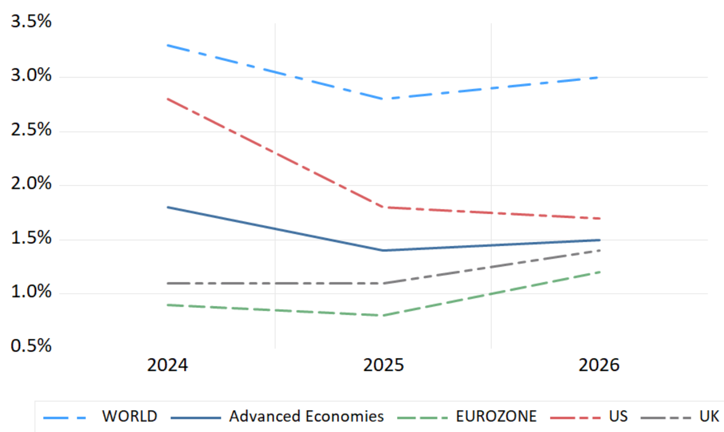
FIGURE 1.1: ECONOMIC POLICY UNCERTAINTY - IRELAND AND GLOBAL INDICATORS



Source: Baker et al. (2016).

In an Irish context, these developments point towards a weakening of external demand for our output and increased uncertainty relating to the investment outlook. Furthermore, for Ireland, the US administration's stated policy objective of re-shoring US capital, in particular in manufacturing sectors like pharmaceuticals, poses notable risks to the future investment and growth of these sectors in Ireland in the medium to longer term. A detailed analysis of the economic impacts of changing US tariffs and trade policy on Ireland has been undertaken by Egan and Roche (2025). This research formed the basis for estimates presented in the previous *Commentary* for spring 2025, which contained a detailed discussion of the channels through which the negative effects of tariffs could propagate. In the present Commentary, we build on this analysis given the outturn of data for the first quarter of 2025 and the political developments internationally over the intervening period.

FIGURE 1.2: INTERNATIONAL OUTLOOK - MAJOR ECONOMIES - (%, Y-O-Y)



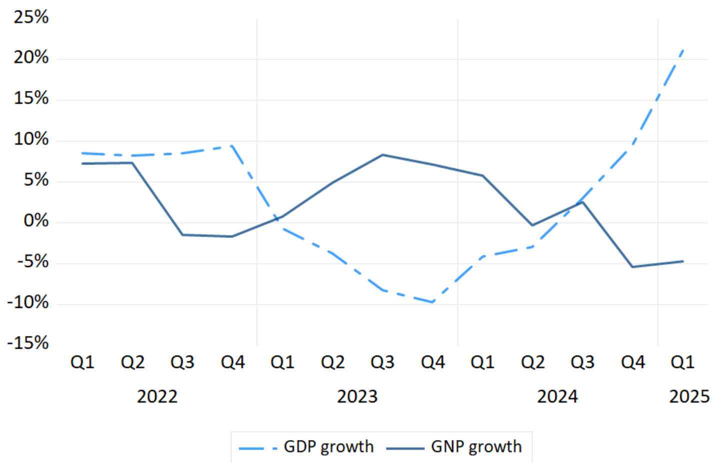
Source: IMF, World Economic Outlook, April 2025

Dual economy trends very evident in Q1 2025

While the broad international outlook is deteriorating, aggregate Irish data for the first quarter of 2025 pointed towards a substantial increase in gross domestic product (GDP).[1] Figure 1.3 presents year-on-year growth in GDP and gross national product (GNP), on a quarterly basis. For Q1 2025, GDP expanded at a very rapid rate, growing over 20 per cent year-on-year. GNP declined in the final quarter of 2024 and the first quarter of 2025 on large profit outflows by the multinational sector.

[1] This rise was driven by multinationals moving product to the US in anticipation of the tariffs, as discussed in detail below.

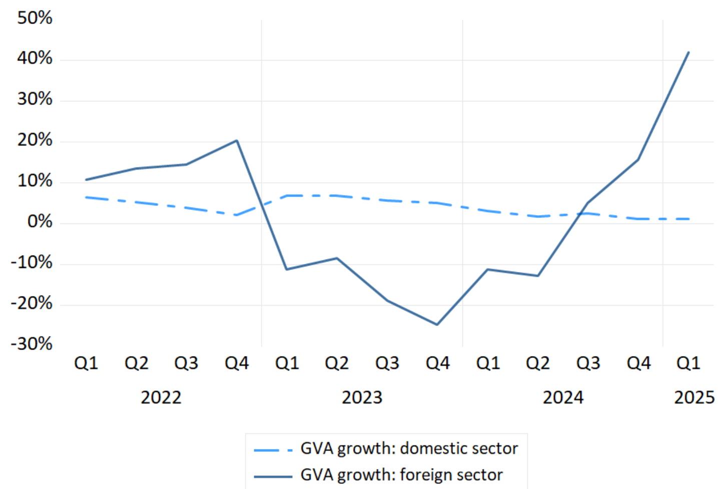
FIGURE 1.3: GDP AND GNP GROWTH - YOY - CONSTANT PRICES (SA)



Source: CSO, National accounts data.

To understand the drivers behind the increase in GDP for Q1 2025, Figure 1.4 presents the breakdown of growth in gross value added (GVA) into two groups of sectors defined by the CSO: foreign-dominated and domestic-oriented. The increase in the growth rate in Q1 2025 is solely determined by foreign-dominated sectors. Domestic-oriented sectors grew by a rate of 1.2 per cent year-on-year in Q1 2025, which is down from over 3 per cent in Q1 2024. Foreign-dominated sectors grew by over 42 per cent on a year-on-year basis. These data again highlight the two-tier nature of the Irish economy that has been frequently documented in 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 1.4: GVA GROWTH BY SECTOR - YOY - CONSTANT PRICES (SA)



Source: CSO, National accounts data.

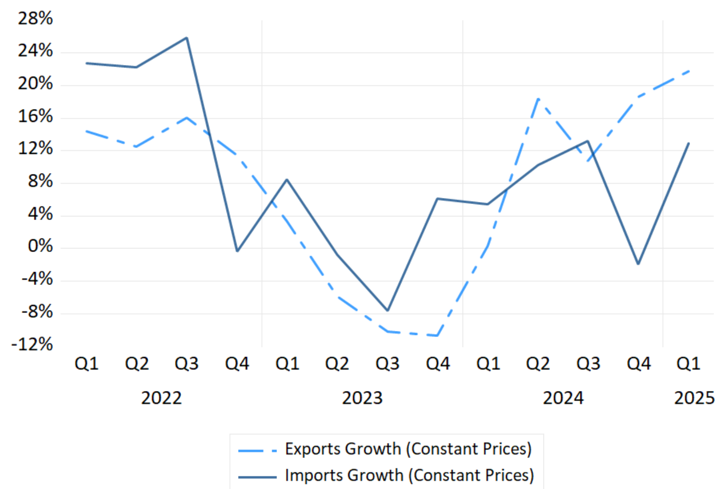
Tariff anticipation led to early year export spike

The major rise in output by foreign-dominated sectors in Q1 2025 can be directly linked to multinational firms shifting inventories out of Ireland in anticipation of the introduction of the US trade tariffs. Figure 1.5:A presents the overall year-on-year growth trend in imports and exports for Ireland on a quarterly basis. Overall, exports declined in 2023, then rebounded strongly throughout 2024. A further increase in the first quarter of 2025 is evident, with year-on-year growth of approximately 21 per cent. Imports also strongly increased in the first quarter of 2025, growing by over 12 per cent year-on-year. This represents a rebound following the decline in Q4 2024.

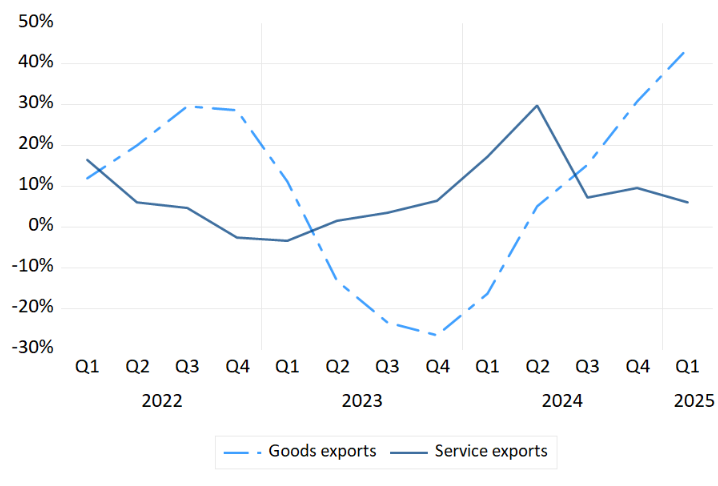
Exploring the trend in exports in more detail, Figure 1.5:B presents the year-on-year growth in exports split out by goods and services. The major export spike seen in Q1 2025 is driven by goods exports, which increased by over 40 per cent year-on-year. This represents an acceleration relative to the previous quarters. Service exports also grew strongly by over 6 per cent year-on-year in Q1 2025; however, this represents a slowdown from the final quarter of 2024.

FIGURE 1.5: 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 subsectors within exports, Figure 1.6 presents the growth rate of goods and services, as well as the level of exports (in million euro values).[2] The groups presented aim to deconstruct

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

overall exports into high-level groupings which 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 which 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]

The data in panel (A) of Figure 1.6 indicate the growth in goods exports in Q1 2025 was driven by a sharp increase in pharmaceuticals exports. 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. Indeed, in the previous Commentary, we highlighted these goods as particularly vulnerable to the effects of changing US trade policy due to the proportion of exports to the US and the domination of US-ownership in this sector.

Given events since Q1 2025, the current exemption to pharmaceuticals from announced tariffs, and the fact that the surge in Q1 2025 exports is likely driven by inventory management strategies, our expectation is that a major drop off in pharma exports will occur in the second quarter of 2025, to counterbalance the increase seen in Q1. We then follow the technical assumption that pharmaceuticals will continue to be exempt from current tariffs (of which discussions are ongoing between US and EU officials and are planned to be announced in early July), and that the growth rate for the full year of 2025 will be positive and in low single digits (moderate by recent historical standards). This represents a decline in the growth rate from 2024, and is driven by the ongoing uncertainty in the sector and the general deterioration in global trade.

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[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 this Commentary for more details on the definitions of the groups presented in this figure.

The growth rate for non-pharmaceutical goods in Q1 2025 was just under 5 per cent, representing a slowdown from Q4 2024. This downward trend is likely to be influenced by the general slowdown in global demand and the uncertainty around tariff policy. 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.

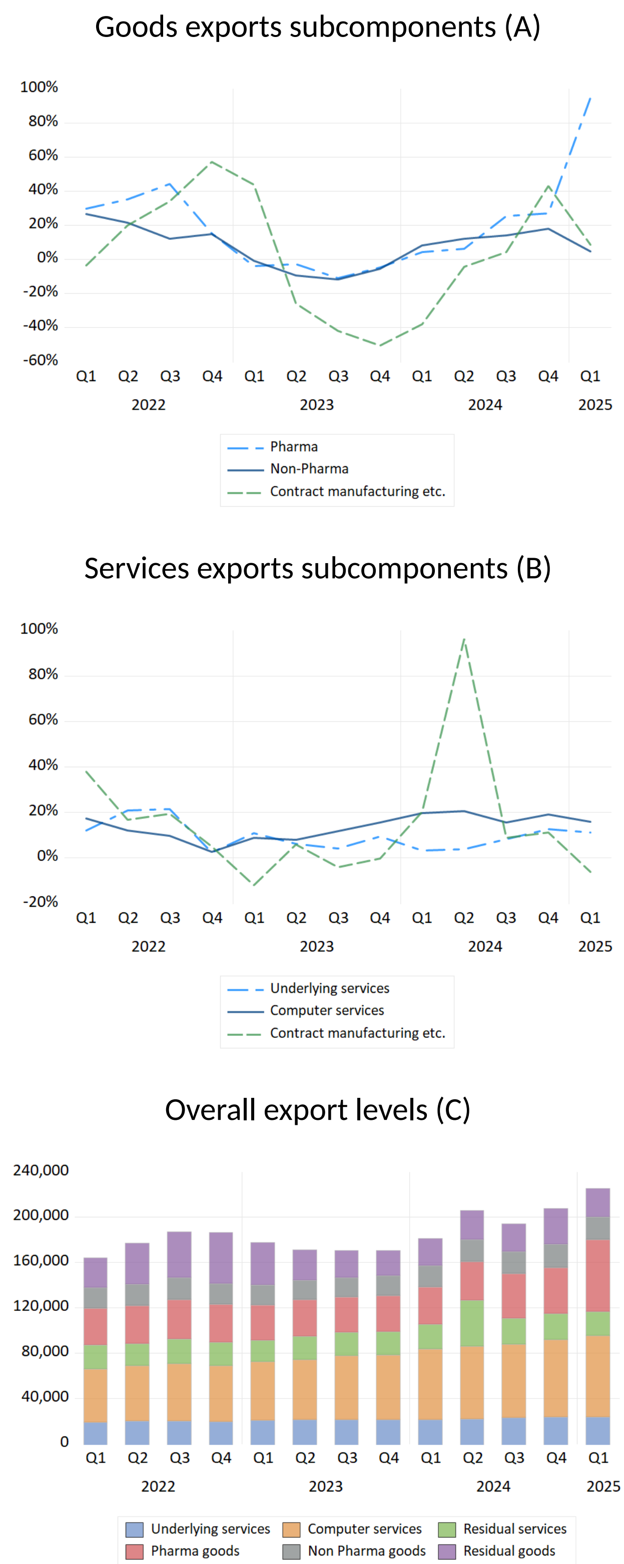
Given the current focus on goods trade tariffs, it is important to note that Irish exports are heavily oriented towards services (as can be seen in panel (c) of Figure 1.6). Services are currently not directly part of the US trade policy plans. However, this does not mean services exports are completely insulated; they could be impacted indirectly through second round economic effects or through targeting of reciprocal measures. In terms of the trend in services trade, growth in computer services and underlying services continued to be strong in the first quarter of 2025. For the seventh consecutive quarter, computer services exports have grown in nominal terms in double digits. The growth rate in Q1 2025 was 16 per cent. We expect that strong growth will continue this year and next for computer services, but that the growth rate will moderate in line with global conditions. For underlying service exports, we also expect growth this year and next.

The share of non-pharma goods in total exports was circa 11 per cent in 2024 (see the dark red dashed slice in 1.7). Therefore, at present, the majority of Irish exports are outside the direct scope of the proposed tariffs. However, this could change rapidly if pharma is included and non-tariff barriers on services are imposed.

Coupling these factors, we continue to expect export growth in the Irish economy in 2025 and 2026, by 5.4 per cent and 3.3 per cent respectively. These forecasts assume that service exports will continue to be free of direct non-tariff barriers and to grow strongly. We make the technical assumption that pharmaceuticals continue to be exempt in the near term. We will revisit this assumption following the outcome of any US–EU trade discussions. While a detailed discussion of the magnitude of trade tariffs on Ireland and the channels through which these tariffs operate can be found in Egan and

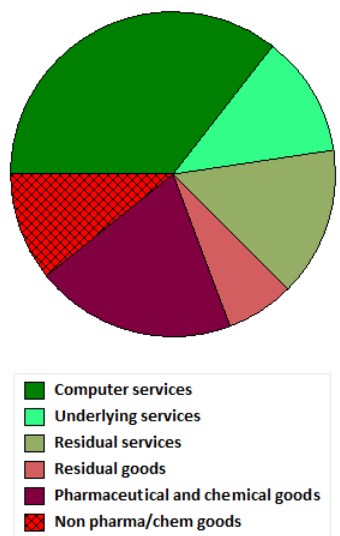
Roche (2025), a further point is worth highlighting given the announced direction of trade discussions. While pharmaceuticals are currently outside the scope of the planned tariffs, there are many other sectors in the Irish economy that export to the US. Firms in these sectors, such as agri-food, may be materially affected in terms of the demand for their goods. This may have a knock on negative effect on profitability, employment and investment in these firms, many of which are likely to be indigenous Irish enterprises. Therefore, while the current export forecasts point to continued overall growth, there may be considerable challenges for some firms and sectors directly exposed to the current tariffs. We expect imports to grow by 6.2 and 3.1 per cent in 2025 and 2026 respectively.

FIGURE 1.6: EXPORTS - GOODS AND SERVICES - YOY - CURRENT PRICES (SA)



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

FIGURE 1.7: EXPORTS BY TYPE OF EXPORTS - 2024 CURRENT PRICES



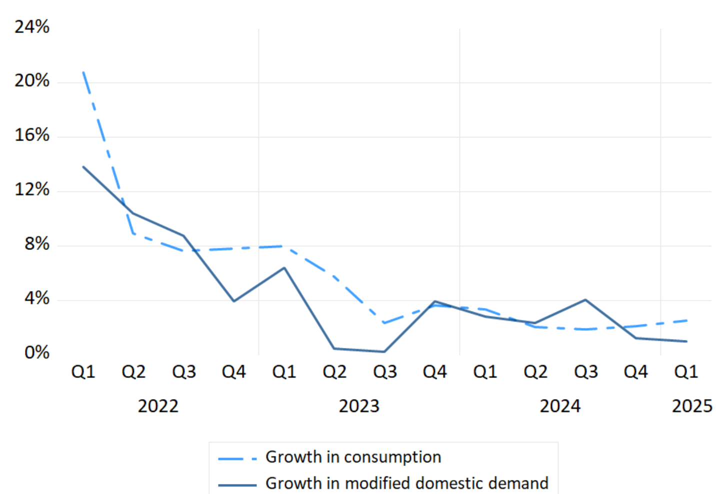
Sources: CSO, National accounts data, montly trade data and international accounts.

Domestic economic growth robust but downside risks remain

While the international environment has been a source of heightened uncertainty, the Irish domestic economy appeared to enter 2025 in a robust state. Low unemployment, strong domestic consumer expenditure and falling inflation all provided a supportive backdrop for domestic activity. However, despite this apparent health, risks are weighted to the downside as the international economic outlook deteriorates.

Figure 1.8 presents growth in MDD and personal consumption. The growth in MDD was relatively flat in the first quarter of 2025, down from growth of just under 3 per cent in the corresponding quarter of the previous year. This decline in the growth rate is driven by slower investment expenditure, which will be discussed in more detail below. Domestic consumption expenditure has been growing in a more rapid fashion; the growth rate in Q1 2025 was just over 2.5 per cent year on year, which represents an increase relative to the previous three quarters.

FIGURE 1.8: GROWTH IN CONSUMPTION AND MDD - YOY - CONSTANT PRICES (SA)



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

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, albeit at a slightly slower pace than in the previous Commentary (spring 2025), reflecting the international uncertainties and notable headwinds. First, the rise in international uncertainty could lead to higher precautionary savings as households attempt to build up buffers. Additionally, there is a risk of inflation rising above expectations; this is due to domestic capacity pressures and potentially due to the impacts of international tariffs. In our base forecasts, we expect consumption to grow by 2.8 per cent in 2025, before falling back to 2.4 per cent growth in 2026.

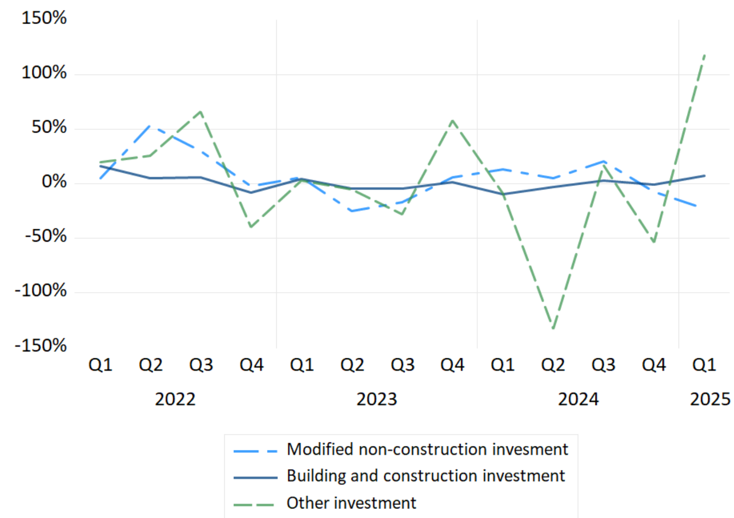
Investment weakens on clouded outlook and sluggish housing output

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 1.9.

In the first quarter 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. While part of the weakness is this variable in Q1 2025 represents base effects,[5] we believe the downward trajectory to be driven in part by weaker economic conditions and we expect this to continue throughout 2025. A moderate pick up is expected in 2026 as the global economy adjusts to the new international trading arrangements.

[5] This comes from a large investment outlay one year previously.

FIGURE 1.9: GROWTH IN COMPONENTS OF INVESTMENT - YOY - CONSTANT PRICES (SA)



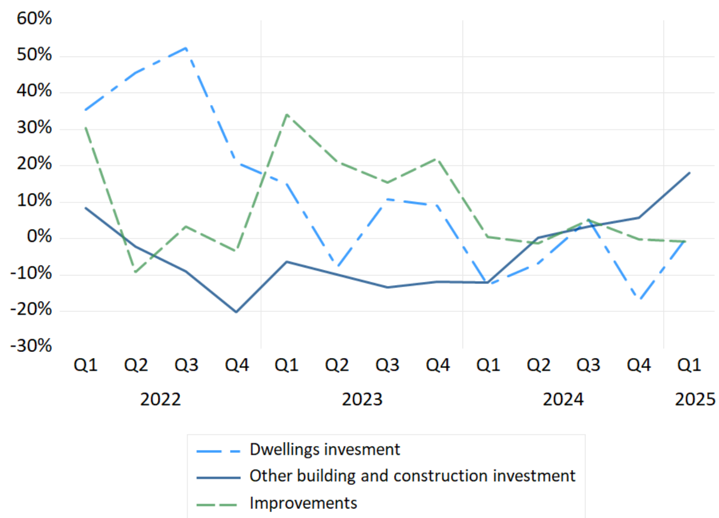
Source: CSO, National accounts data; authors' calculations.

The data on building and construction investment point towards a slight uptick in the first quarter of 2025. To understand this in more detail, Figure 1.10 presents the growth rates of the subcomponents: a) dwellings; b) improvements; and c) other building and construction. It is clear the upward momentum is coming from other building and construction investment, which has begun to recover following a period of considerable downward adjustment, likely driven by the post COVID-19 adjustment in commercial property activity.

Dwelling investment has continued to underperform relative to both expectations and the underlying housing need of the Irish population.[6] While dwelling investment increased marginally on a year-on-year basis in Q1 2025, housing completions for the quarter amounted to just 6,000 units. This can be seen in Figure 1.11. Recently, a range of commentators have

[6] We use the phrase housing need rather than housing demand to capture the underlying number of housing units that would be needed to cater for population trends (plus any pent up demand from past under-provision) regardless of the price of housing services in the economy. As demand can be impacted by prices, the concept of need relates to this underlying structural requirement.

FIGURE 1.10: GROWTH IN COMPONENTS OF BUILDING AND CONSTRUCTION INVESTMENT - YOY - CONSTANT PRICES (NON-SA)

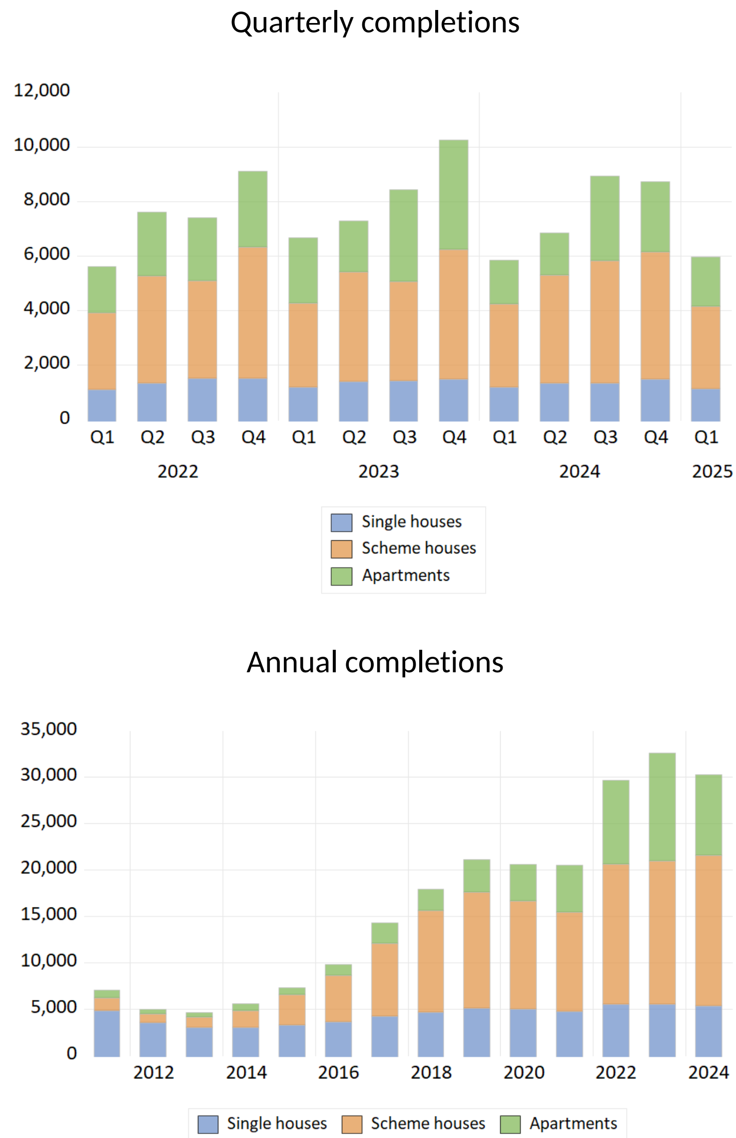


Source: CSO, National accounts data; authors' calculations.

estimated that the required level of housing need in Ireland falls between 50,000 and 60,000 units per annum (Conefrey et al., 2024; Bergin and Egan, 2024; Housing Commission, 2024). The outturn of approximately 30,000 in 2024 was a notable slowdown on 2023 and sits well below the required annual need. The slowdown is likely to be driven by multiple factors. Typical drivers of housing production include land costs and availability, labour costs, materials and inputs costs, the cost of financing, and price developments. The policy environment also has a major impact on production by targeting both the demand and supply sides.

However, a major increase in housing production will be needed in the coming years to address the growing gap between supply and demand, and to alleviate the economic and social pressures that the under-supply of housing is giving rise to. Taking the aforementioned factors together, coupled with current international uncertainties, we do not foresee any major uptick in 2025 or 2026 in housing supply. We have reduced our forecast from our previous Commentary for the present year, and now

FIGURE 1.11: HOUSING COMPLETIONS BY TYPE OF DWELLING (NON-SA)

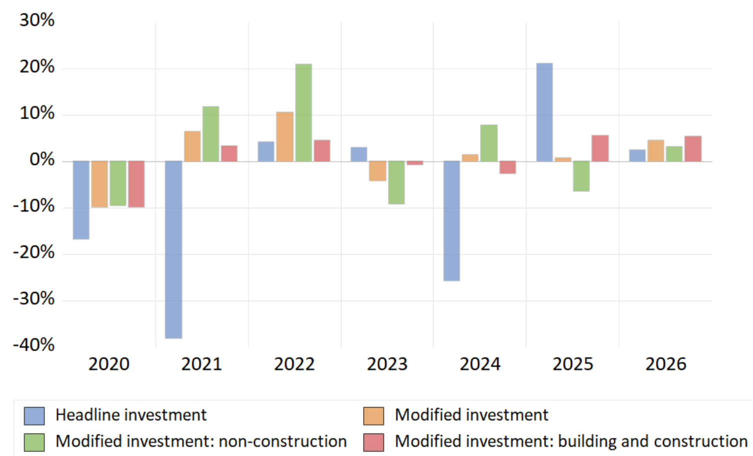


Source: CSO.

expect 33,000 units in 2025 and 37,000 units in 2026. However, most of the risks weigh on the downside and the early data for 2025 suggest a considerable pick up in the final three quarters of 2025 would be needed to achieve the current forecast.

To summarise our investment forecasts, overall we expect modified investment to grow by 0.6 per cent in 2025 and by 4.4 per cent in 2026. Total overall investment is expected to grow by 20.9 per cent in 2025 and by 2.2 per cent in 2026. These forecasts can be seen in Figure 1.12. The lower growth in modified investment in 2025 is driven by a downturn in modified non-construction investment, which is expected to bounce back in 2026. Construction investment is expected to grow in both periods. These developments explain the profile of modified investment over the forecast horizon.

FIGURE 1.12: ANNUAL INVESTMENT FORECASTS AND HISTORICAL OUTTURN - YOY - CONSTANT PRICES



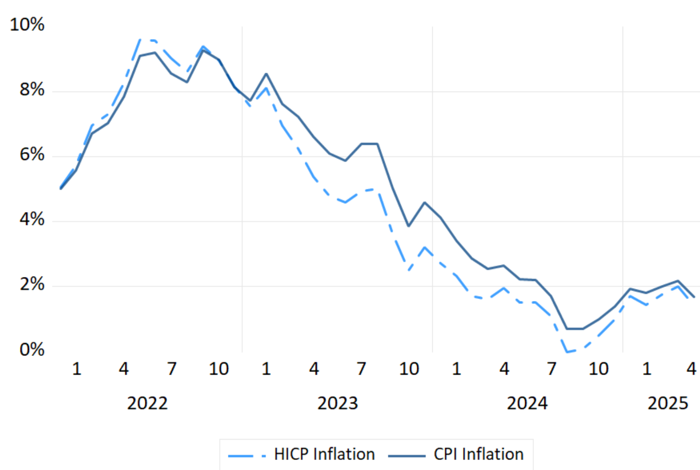
Source: CSO, National accounts data; authors' calculations.

CHAPTER 2

Inflation

Following a period of externally driven inflationary pressures, the rapid increases in consumer prices began to abate throughout 2023 and 2024. Until October 2024, a sustained moderation in the pace of price increases had been evident, as seen in Figure 2.1 which shows both changes in the Consumer Price Index (CPI) and the Harmonised Index of Consumer Prices (HICP) indicators.[7] However, since October 2024, that downward pressure has abated and inflation has begun to stabilise at around 2 per cent. The CPI inflation rate was 1.7 per cent in May, with HICP inflation of 1.4 per cent in May. Understanding the factors that are likely to be driving these trends is critical to determining the potential path for inflation. In addition to domestic pressures on inflation, recent events in the Middle East raise the possibility of upward pressure on inflation through an oil price shock.

FIGURE 2.1: CPI AND HICP INFLATION, 2022-2025

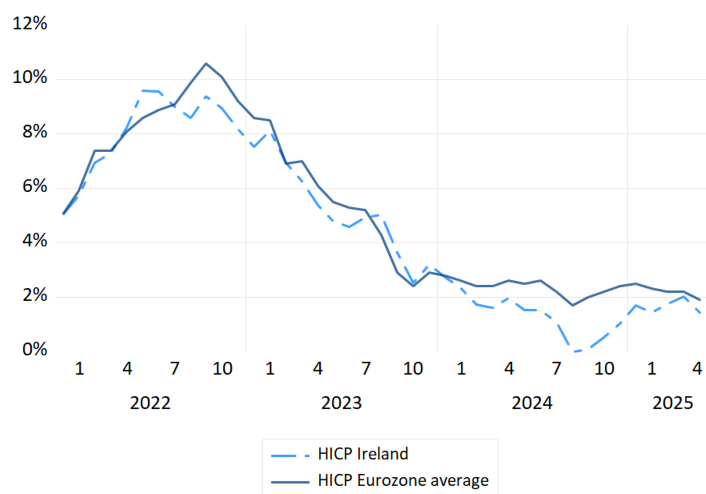


Source: CSO.

[7] HICP is the inflation figure that can be compared with other European countries.

These inflationary dynamics observed in Ireland have been mirrored across the eurozone, as externally driven price pressures moderated and consumer price growth declined in line with these influences. This follows a period in which inflation was considerably lower in Ireland than in Europe. Figure 2.2 shows developments in the two jurisdictions in HICP inflation.

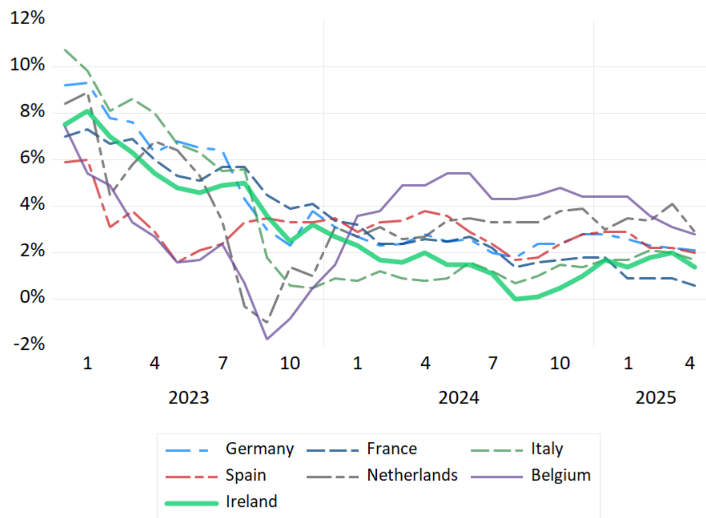
FIGURE 2.2: HICP INFLATION IRELAND AND EUROZONE, 2022-2025



Sources: CSO, European Central Bank.

To provide more granular detail in terms of the trends relative to other economies, Figure 2.3 compares Irish HICP inflation with inflation in the six largest eurozone countries. Inflation in Belgium and the Netherlands remains above target (of 2 per cent), while French inflation was 0.6 per cent in May. The dynamics in other large European markets matters for Ireland in a number of ways. First, changes in competitor prices will impact Irish competitiveness; second, these developments in large European economies are likely to directly feed into European Central Bank monetary policy choices. This will in turn impact the cost of credit in Ireland, determining investment and consumption decisions.

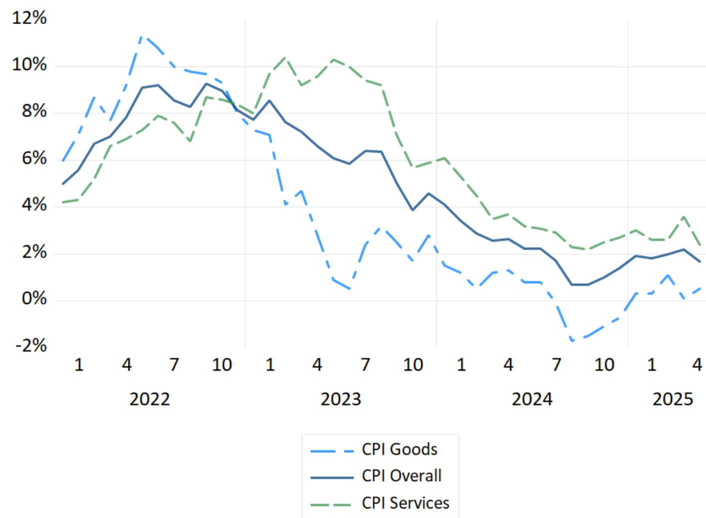
FIGURE 2.3: HICP INFLATION IN EUROPEAN COUNTRIES, 2023-2025



Sources: CSO, European Central Bank.

Recent inflation in Europe has been concentrated in services rather than in goods. Throughout 2022 in Ireland, goods inflation was higher than services inflation, as global supply chains recovered from the disruption of the COVID-19 pandemic. However, in the years following 2022, goods inflation has declined faster (and remains lower) than services inflation.

FIGURE 2.4: GOODS AND SERVICES INFLATION, 2022-2025

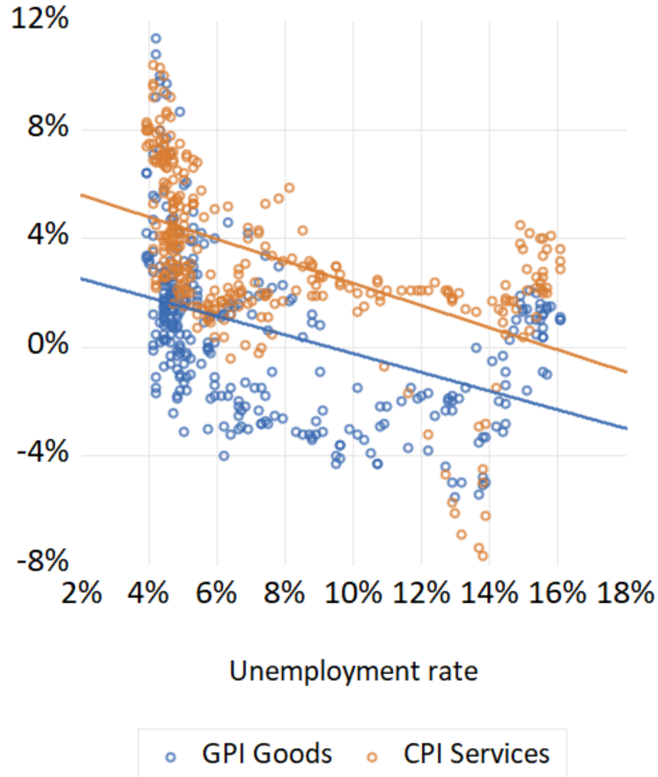


Source: CSO.

Both labour market developments as well as cost pressures from international prices matter when it comes to factors that influence inflationary pressures. For Ireland, while the downward trend in inflation has been welcome, a number of factors could potentially put upward pressure on prices. First, Ireland has a very tight labour market, characterised by low unemployment and rising nominal wages. The combination of a tight labour market, rapidly rising nominal wages and inflation that is driven primarily by services raises concerns about the future path of inflation and the possibility of upwards wage-price dynamics. Furthermore, international factors such as increased trade disruptions or international conflicts could risk inflation being imported into Ireland through the price of international goods and services, as was seen during the outbreak of the Ukrainian war and the post COVID-19 supply chain disruptions.

To focus back in on the domestic capacity pressures and their impact on inflation, and taking a long-run perspective, Figure 2.5 shows that there is a negative relationship between the unemployment rate and inflation in both goods and services. The slope of the two trend lines are relatively similar, although inflation in services has been higher across the period.

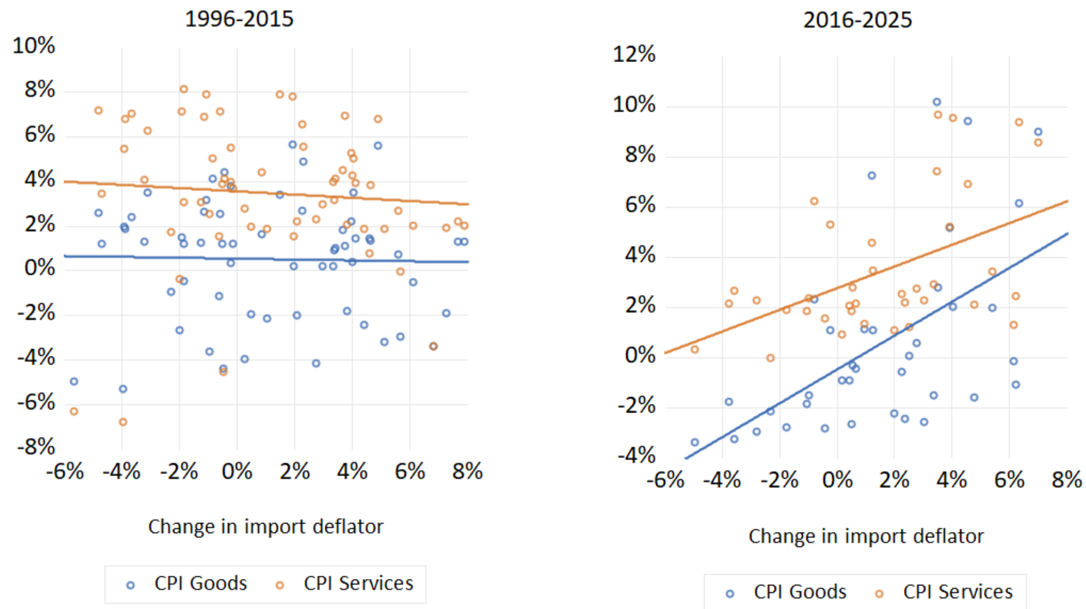
FIGURE 2.5: GOODS AND SERVICES INFLATION VS UNEMPLOYMENT RATE (MONTHLY, 1998-2025)



Source: CSO.

Fig 2.6 plots the annual change in the import deflator against CPI inflation in goods and services in two distinct periods. In the period 1998–2015, there was no clear relationship between import prices and inflation in either goods or services. However, over the last ten years there has been evidence of co-variation. Higher import prices have been associated with higher inflation in both goods and services, as discussed above.

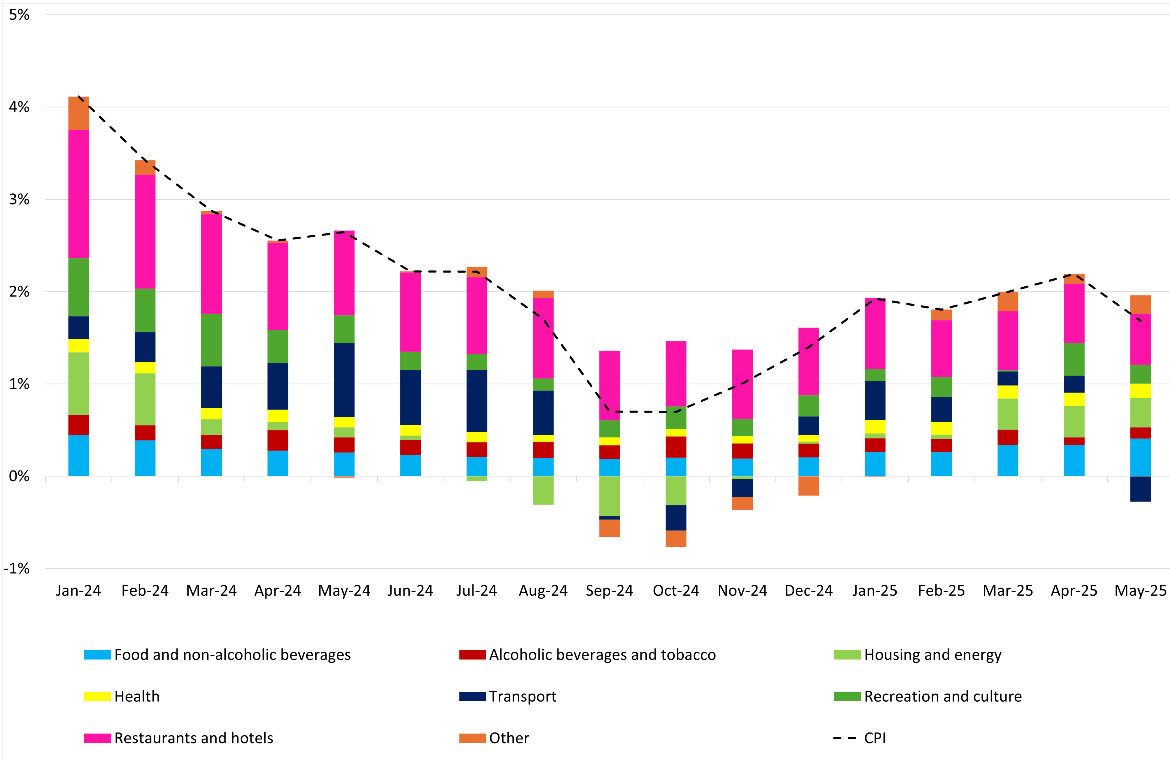
FIGURE 2.6: GOODS AND SERVICES INFLATION VS IMPORT DEFLATOR (QUARTERLY)



Source: CSO.

While recent inflation has been higher in services than in goods, a range of sectors have contributed to the overall increase in prices. Fig 2.7 shows the weighted contribution of each sector to overall contribution. Therefore, the figures represented in the chart represent the contribution of each sector to the headline CPI rate, rather than actual rates of inflation in each sector. The concentration of inflation in the restaurants and hotels sector has eased somewhat in 2025, although inflation remains persistently high.

FIGURE 2.7: CPI INFLATION BY SECTOR



Source: CSO.

Summary

In light of the tight labour market and recent inflation figures, we expect CPI inflation for 2025 to average 2.0 per cent, rising to 2.1 per cent in 2026. However, we note the potential upside risk to inflation given the capacity constraints in the labour market and the possibility of imported inflation from international developments.

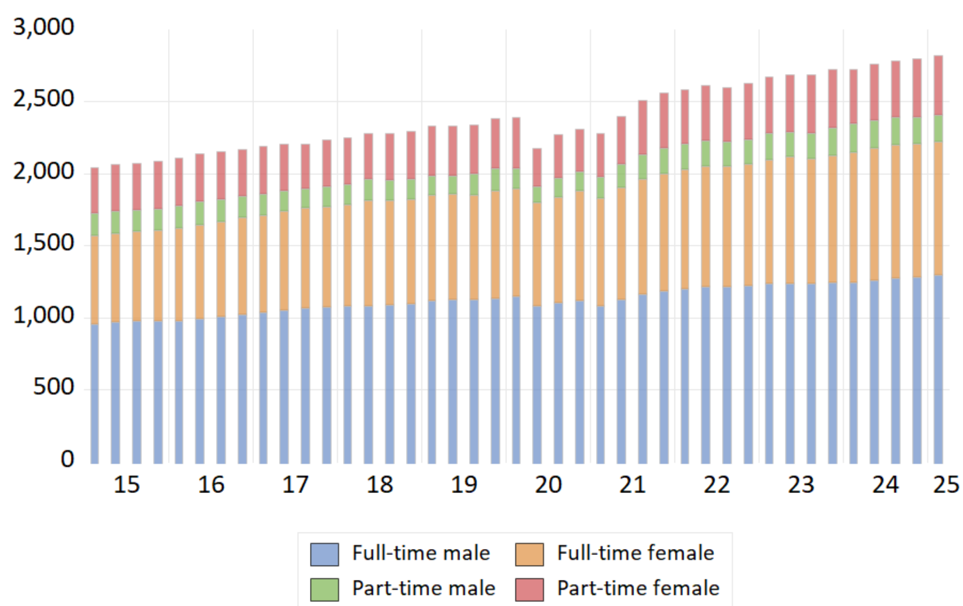
CHAPTER 3

Labour market

Labour market continues to perform robustly

The labour market has displayed considerable resilience in Ireland in recent years and is a notable source of strength. Unemployment has remained low, despite recent economic shocks and the economy has generated continued employment growth in recent years. This growth paused somewhat in the fourth quarter of 2024, but recovered in early 2025 to reach 2.795 million, a historic high. Increases in both part-time and full-time employment have contributed to the overall growth, with the proportion of those in employment who are working full-time remaining close to 79 per cent. Figure 3.1 shows growth in full-time and part-time work in the past ten years by gender, showing that female workers account for a higher share of part-time workers.

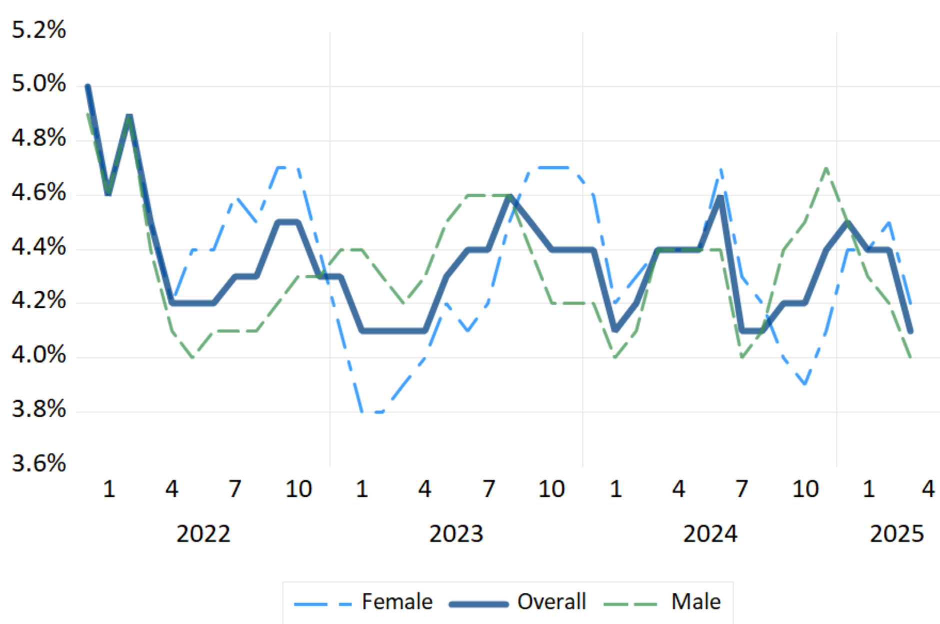
FIGURE 3.1: EMPLOYMENT



Source: CSO.

Unemployment remains low, with the rate for May standing at 4.1 per cent. Figure 3.2 shows the development of the monthly unemployment rate. At close to 4 per cent, it is likely the Irish economy is operating at full capacity, with little to no spare labour resources domestically.

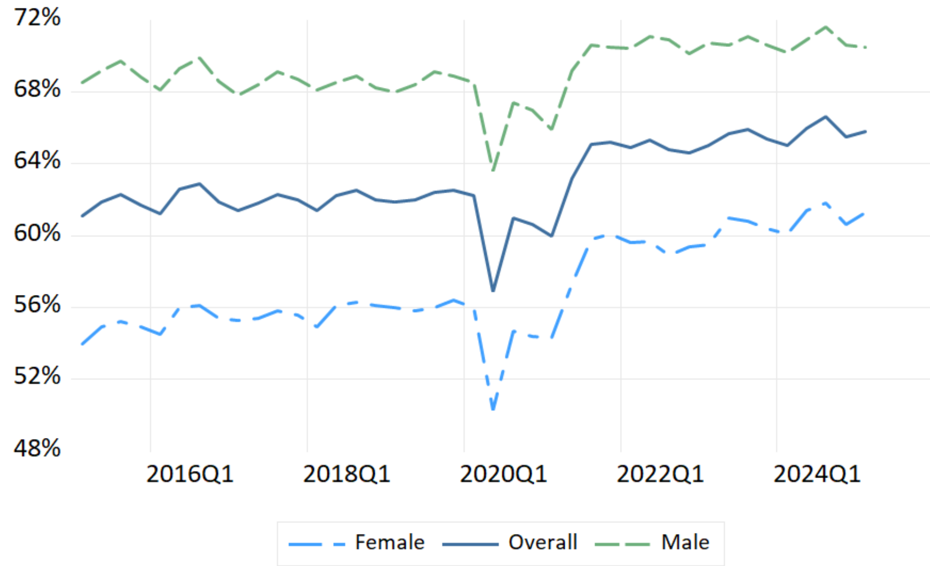
FIGURE 3.2: MONTHLY UNEMPLOYMENT RATE (SEASONALLY ADJUSTED)



Source: CSO.

Figure 3.3 shows the development of the labour force participation rate. There is evidence of a clear level shift between the period before the COVID-19 pandemic and the period since. While much of the discussion regarding increased participation rates has focused on female participation, it can be seen that male participation has also experienced a level shift, albeit one that is less pronounced than that for women. The labour force participation rate has stabilised around 65 per cent.

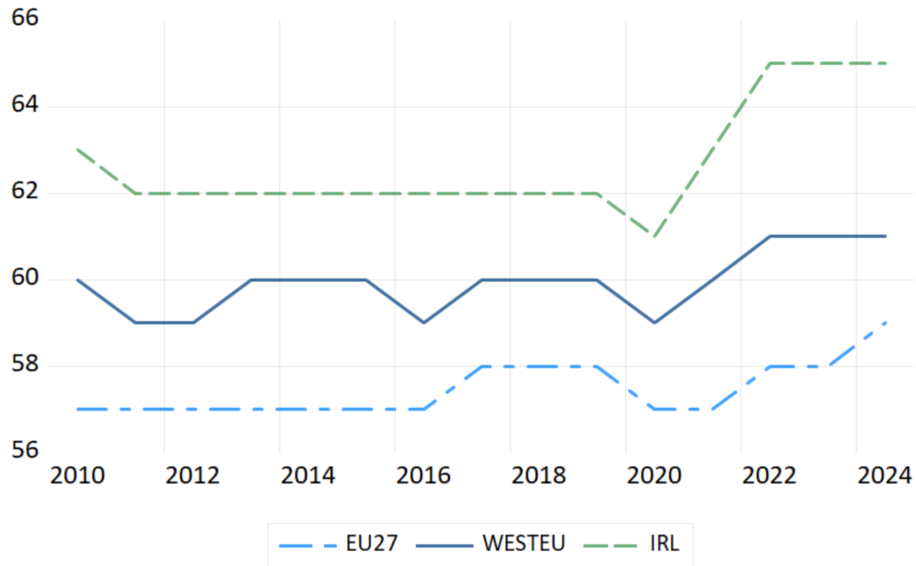
FIGURE 3.3: QUARTERLY PARTICIPATION RATE (AGE 15+)



Source: CSO.

Ireland's participation rate is high by European standards. Figure 3.4 shows that there is significant variation in participation rates across Europe. The current Irish rate of 65.8 per cent is above both the EU average (59 per cent) and the average of western European countries (62 per cent). Such a high participation rate suggests that there may be limited scope in the domestic labour market for future increases to the labour force.

FIGURE 3.4: ANNUAL PARTICIPATION RATES ACROSS EUROPE (AGE 15+)

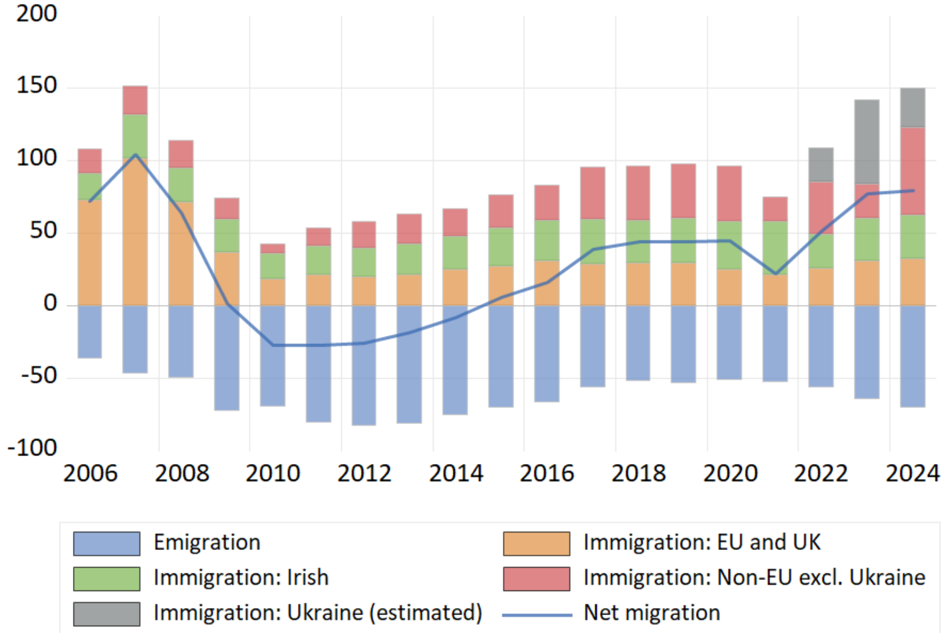


Sources: CSO, OECD.

In the context of continuing high participation rates, positive net migration has been an important factor in Ireland's recent employment growth. Fifty per cent of the growth in employment in the past 12 months came from non-Irish citizens. Figure 3.5 shows inward migration to Ireland by citizenship along with total outward migration. Headline net migration has remained positive since 2015, even after accounting for the arrival of a large number of Ukrainian citizens in the period 2022–2024.[8] Consistent positive net migration is notable from a labour market perspective.

[8] Data from the Department of Social Protection on issuances of PPSN numbers can be used to estimate gross inward migration of Ukrainian citizens. Note that population estimates are calculated on the year up to April.

FIGURE 3.5: INWARD, OUTWARD, AND NET MIGRATION

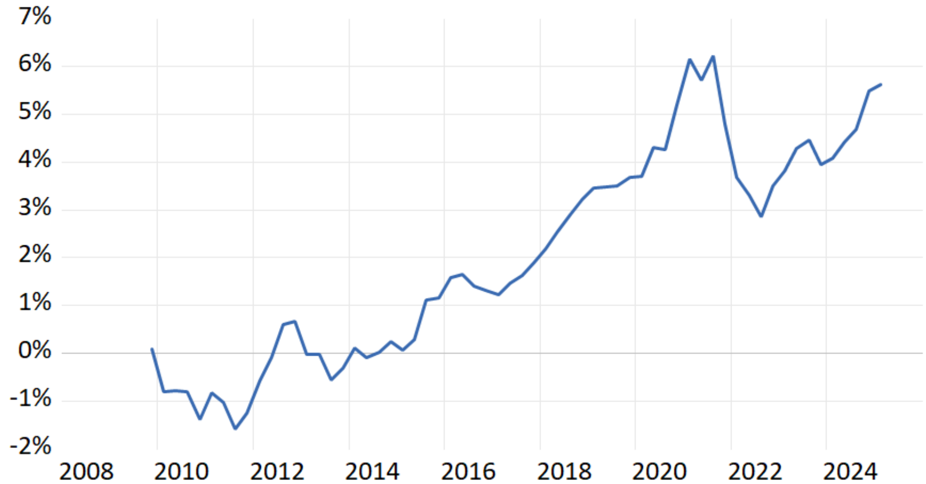


Source: CSO, Department of Social Protection.

Earnings growth is high and rising

Year-on-year growth in nominal wages was 5.5 per cent in the first quarter of 2025. This followed similarly high growth rates in 2024. Figure 3.6 shows an upward trend in the pace of growth in weekly earnings and highlights that sustained nominal earnings growth in the region of five per cent is high by historical standards.

FIGURE 3.6: GROWTH IN WEEKLY EARNINGS (4-QUARTER MOVING AVERAGE)



Source: CSO.

Labour market tightness

Labour market tightness captures the extent to which demand for labour exceeds the supply of labour. It is characterised by low unemployment rates, high vacancy rates and rising wages. As outlined above, Ireland is experiencing continuing low unemployment and growth in wages. The job vacancy rate measures the proportion of total posts that are vacant. The vacancy rate has increased above 1 per cent in the first quarter of 2025.

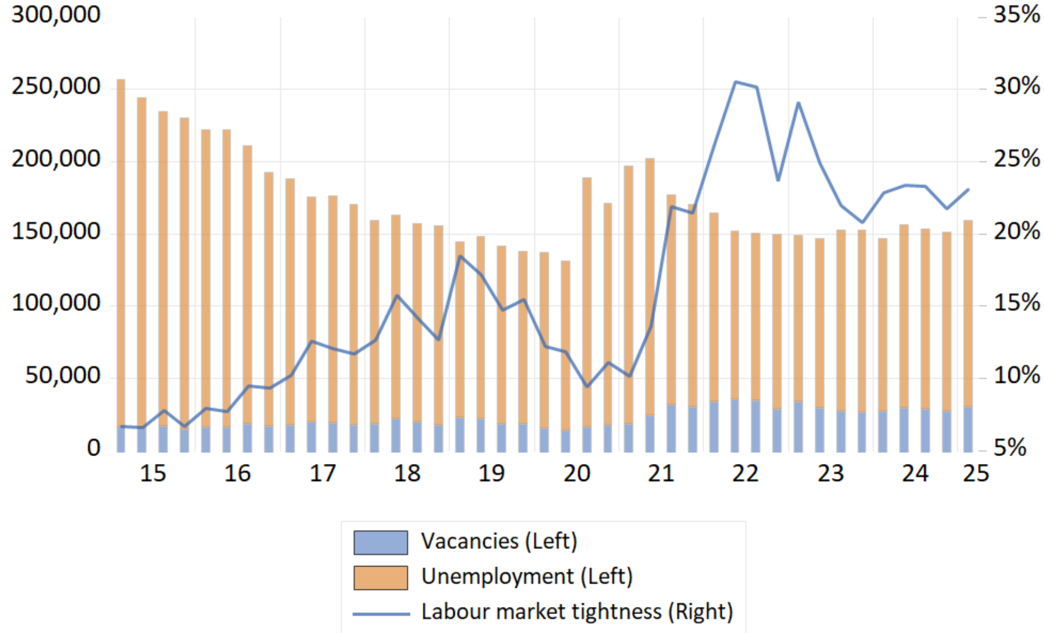
$$\text{Job vacancy rate} = \left(\frac{\text{Vacant posts}}{\text{Vacant posts} + \text{Filled posts}}\right) \times 100$$

FIGURE 3.7: JOB VACANCY RATE (NON-SEASONALLY ADJUSTED)

Source: CSO.

Figure 3.8 presents an indicator of labour market tightness, namely the ratio of job vacancies to unemployed individuals. A higher ratio signifies a tighter labour market. This indicator has increased once again to 23.1 per cent, and remains above the long-run average.

FIGURE 3.8: LABOUR MARKET TIGHTNESS INDICATOR



Source: CSO.

Summary

We expect the labour market to continue to be strong in 2025, and expect an unemployment rate of 4.2 per cent on average for the year. Further, we anticipate continuing growth in real wages of 3.6 per cent in 2025.

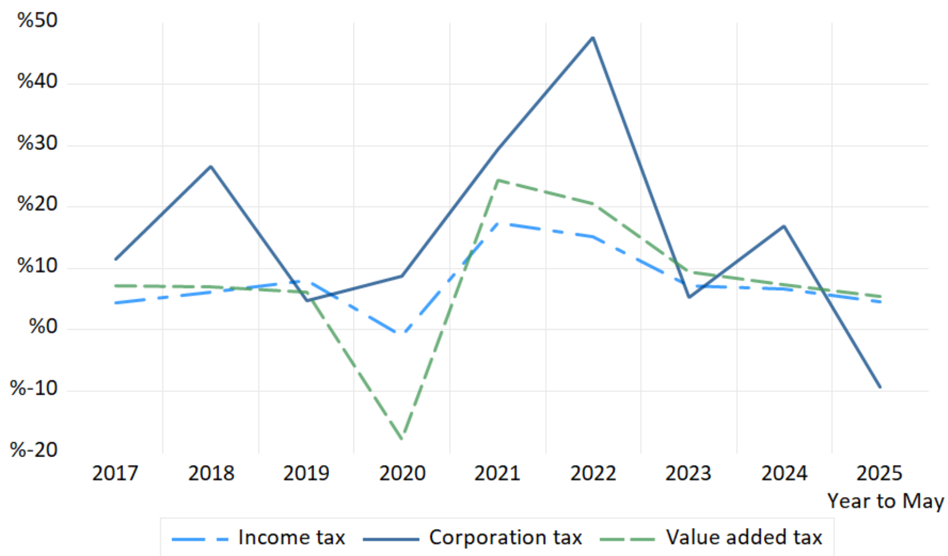
CHAPTER 4

Public finances

The latest information on the public finances point to ongoing strength in tax revenues. Total tax revenue to the end of May was €38.2 billion, an increase of 8.5 percent on the same period last year. As is well-known, the underlying profile of tax revenues is currently being distorted by the exceptional revenues arising from the judgement of the Court of Justice of the European Union (CJEU). Adjusting for this, total tax revenue was €36.4 billion, an increase of 3.6 percent.

Within this overall positive picture, the pattern of growth across some of the major tax heads varied, as shown in Figure 4.1. On a cumulative basis, income tax receipts were up by 4.5 per cent for the five months to the end of May and VAT receipts were up by 5.5 per cent. The amounts collected were €14.5 billion for income tax, an increase of €0.6 billion, and €11.4 billion for VAT, an increase of €0.6 billion. These rates of increase reflect the underlying strength in both the labour market and in consumption and other VAT-related activities.

FIGURE 4.1: GROWTH IN TAX RECEIPTS BY HEADING, %, FULL YEAR 2017-2024, YEAR TO MAY 2025



Source: Department of Finance Fiscal Monitors, 2017 - 2025 (monthly).

However, the observed fall in corporation tax receipts was noteworthy. Corporation tax revenues, excluding the CJEU-related revenues, were €5.7 billion for the period ending in May, which was a fall of €0.6 billion (9.4 per cent) on the same period in 2024. This reflects a particularly large month-on-month fall in May of over 30 per cent, which the Department of Finance described as resulting from 'once-off factors that boosted May 2024 receipts' (DoF, 2025). While it is too early to draw firm conclusions on the likelihood outcome for corporation tax receipts for the year as a whole, the fall serves as a reminder of the increasing importance of corporation tax receipts in the overall revenue numbers.[9]

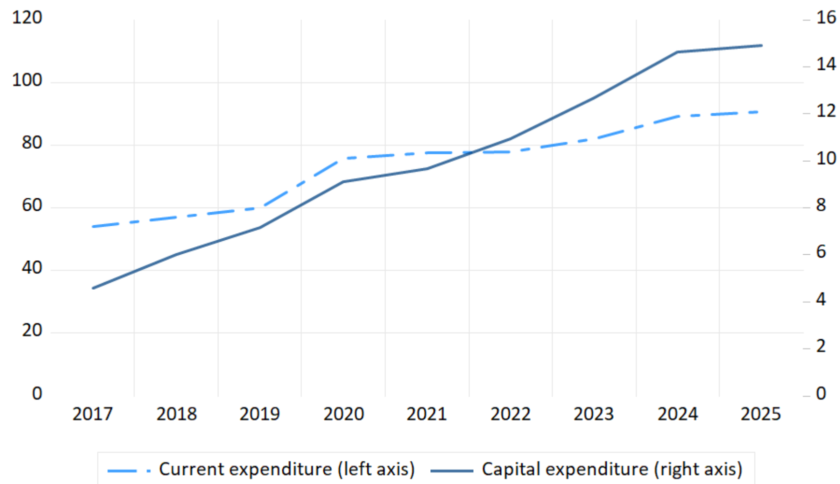
With regard to expenditure, the Irish Fiscal Advisory Council IFAC (2025) noted how gross voted current spending grew by 5.9 per cent in the five

[9] We should also note that IFAC (2025) have suggested that corporation tax revenues could grow in 2026, partly as a result of the ongoing roll-out of the OECD BEPS reforms. However, this does not take away from the overall potential fragility.

months ending in May. When set against a revenue increase of 8.5 per cent over the same period, this growth in expenditure might appear reasonable, but such a view misses some important considerations. First, IFAC have pointed out that the increase in gross voted current expenditure of 5.9 per cent exceeds what was planned in Budget 2025 (2.4 per cent). The drifting of expenditure relative to plans typically raises concerns about budgetary management and fiscal discipline. Second, to the extent that robust revenue growth reflects an economy that is operating at or above potential output, allowing spending to grow in line with revenues might not be optimal from a macro-fiscal perspective. Third, to the extent that recurrent expenditure is being financed by potentially transitory revenues, a risk to fiscal sustainability arises. We will return to some of these issues in our assessment below.

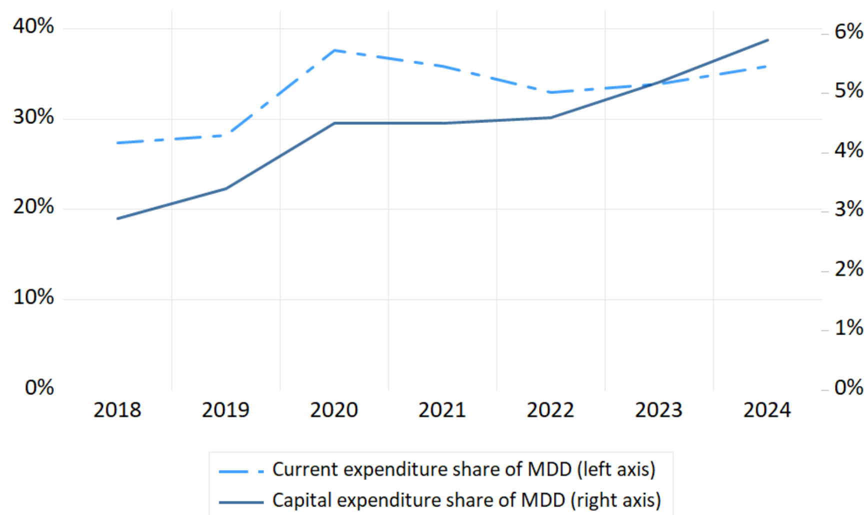
The increases in expenditure observed in 2025 come on top of a decade or more of expenditure increases, as can be seen in Figure 4.2 below. As shown in Figure 4.2, gross voted current expenditure was €57 billion in 2017, and is expected to continue to grow to €92.6 billion in 2026, based on stated plans, an increase of almost 62 percent. While at first glance this appears to be a fast rate of growth, the increase appears more modest when viewed relative to the size of the economy – see Figure 4.3. Relative to MDD, gross voted current expenditure has grown from 27.4 per cent of MDD in 2018 to 35.8 per cent in 2024. Even if more modest, a rise in current expenditure equal to eight percentage points of MDD over six years is sizeable. The COVID-19 pandemic and the response to the war in Ukraine account for some of this rise, so a fall after 2025 might have been expected. The level of government spending as a percentage of the economy is, of course, a choice for Government and should reflect societal choice. We show the trend here for the purpose of illustration only.

FIGURE 4.2: CURRENT AND CAPITAL EXPENDITURE, GROSS VOTED, 2017 – 2026 (€, BN)



Sources: Department of Public Expenditure databank (years 2017-2023), Annual progress report 2025 (years 2024-2026).

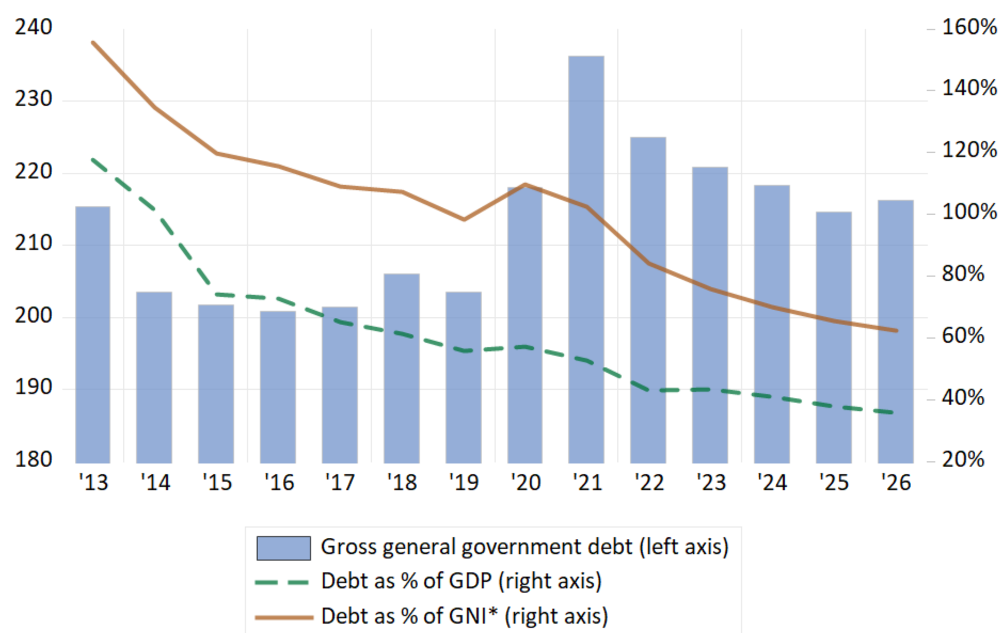
FIGURE 4.3: CURRENT AND CAPITAL EXPENDITURE AS A SHARE OF MODIFIED DOMESTIC DEMAND



Sources: Department of Public Expenditure databank (years 2017-2023), Annual progress report 2025 (years 2024-2026), CSO.

In the *Annual progress report 2025*, published in May, the Department of Finance projected that the general government balance will show a surplus in 2025 and 2026, with nominal values of €8.7 billion and €6.3 billion respectively. We have no reason to believe at this point that these values will prove incorrect, so we have adopted them as part of our forecasts. As shown in Figure 4.4, these surpluses and the recent positive outcomes for the public finances are resulting in a decline in national public indebtedness.

FIGURE 4.4: GROSS GENERAL GOVERNMENT DEBT (€, BN) ALONGSIDE DEBT TO GNI* RATIO AND DEBT TO GDP RATIO

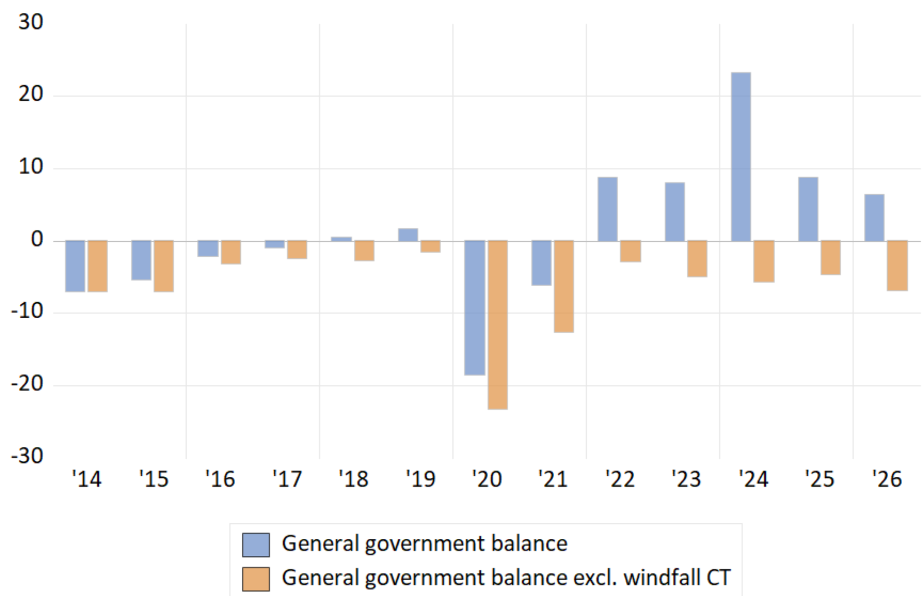


Sources: Department of Public Expenditure databank (years 2017-2023), Annual progress report 2025 (years 2024-2026), CSO.

While the headline general government values are positive, it is well understood that a key vulnerability underlies these values. As discussed by the Department of Finance and IFAC, the general government surplus in recent years has been boosted by both the CJEU-related funds and by a 'windfall' element in corporation tax revenues. The term 'windfall' refers to the component of corporate tax revenue that cannot be explained by changes in domestic economic factors and that is viewed as potentially volatile.

The effect of the CJEU and windfall revenues can be seen in Figure 4.5. Since 2022, general government surpluses would have been deficits (all else equal) without the CJEU/windfall revenues, and for 2025 and 2026 only the windfall revenues apply. This gives a very different picture of the macro-fiscal situation and illustrates the potential vulnerability. We will return to this issue in the assessment.

FIGURE 4.5: GENERAL GOVERNMENT SURPLUS/DEFICIT (€, BILLION)



Sources: Annual progress report 2025 (years 2024-2026), IFAC (years 2014-2023).

CHAPTER 5

Assessment

Domestic economy appears robust but international headwinds rise

Ireland's economic performance continues to be strong, as evidenced by a range of indicators. Employment has almost reached 2.8 million people and unemployment remains low, at just 4 per cent. Nominal wage growth is now higher than price inflation and so real wages are rising. The public finances remain strong with general government surpluses expected this year and next, thereby contributing to falling debt ratios.

While we expect these strengths to persist, we have followed most other forecasters in scaling back our expectations for growth for 2025. Given the various announcements on tariffs by President Trump, the subsequent reversals and the ongoing discussion between the US and others (including the EU), it is unclear what levels of tariff will ultimately apply, and what goods (and services) they may apply to. But even in advance of a final comprehensive picture, it is likely that economic activity internationally has been impacted, for example, with investment decisions being postponed. For the present Commentary, we make the technical assumption that tariffs and global growth follow the 'reference forecast' from the recent IMF World Economic Outlook. This is based on the announcements up to mid-April 2025 and, for Ireland, implies a carve out for pharmaceuticals. The outbreak of hostilities between Israel and Iran occurred after our forecasts had been prepared and so have not been factored into our analysis. However, this situation could well have economic implications for Ireland, including through the price of oil.

Our forecast for growth in MDD was 3 per cent in our spring Commentary – this is now 2.3 per cent. For 2026, we have adopted a technical assumption that tariffs settle at moderate levels, in line with the IMF forecasts; this would lead to a possible growth rate of MDD of 2.8 per cent.

While Ireland will be impacted by any general global downturn, we noted earlier how Ireland is being partly insulated from the worst of the current uncertainty due to the nature of our exports. So far, services trade has not featured in President Trump's announcements. As over 50 per cent of Ireland's export are in services, this focus on goods trade has shielded Ireland, for now at least. In addition, pharmaceuticals have also remained outside of the current package of announced tariffs. These accounted for 19 per cent of total exports in 2024; with a high proportion being exported to the US (44.4 per cent in 2024), the importance to Ireland of the exclusion of pharmaceuticals for tariff increases is clear.

All of the above reflect the positive dimensions of the Irish economy at present, but there are weaknesses and vulnerabilities, which need to be highlighted. We will focus on three below.

Ongoing tariff and trade uncertainty weighing on international growth

Our first concern relates to the ongoing moves by the US administration regarding tariffs. Although Ireland has been insulated to a great degree up to now, there is still a high level of uncertainty over the level and structure of tariffs that will apply internationally once various talks and negotiations have concluded. While the US has so far focused on trade in goods as opposed to services, concerns remain that retaliatory actions on the part of the EU could widen the scope of the trade disputes. This would be very serious for Ireland and so the Government's engagement with the EU authorities is critical. The application of sizeable tariffs on pharmaceuticals would also be damaging for the Irish economy. If trade restrictions of any type were applied to services, the implications for Ireland would be severe.

The public finances are less strong than the headline numbers might suggest and the fiscal stance is likely to be inappropriate

A second area of concern concerns the public finances and the outsized contribution of corporate tax revenues to the aggregate figures. This feature of the Irish public finances is well known and well understood, but it is still important to highlight that this is a source of considerable vulnerability. As shown in Figure 4.5 above, when the headline budget surpluses since 2022 are adjusted for both the CJEU and windfall revenues, the underlying profile is of general government deficits. It is also the case that the scale of the COVID-19-related deficits in 2020 and 2021 were partly disguised by the windfall revenues.

This situation is concerning for two reasons. First, almost by definition the windfall revenues could evaporate quickly in response to factors such as legislative changes. History – in particular the economic collapse – provides a stark reminder that a vulnerability in the tax base can become a major problem if something arises to test the vulnerability. Potential instability is magnified by the fact that so few companies are responsible for such a large proportion of tax revenue. As reported by IFAC (2025), just three companies account for most of the windfall revenues. Payments into the Future Ireland Fund and the Infrastructure, Climate and Nature Fund are to be welcomed, but a case can be made for higher payments.

A second reason for voicing concern on the public finances relates to the fiscal stance. As pointed out over many years by the ESRI and others such as IFAC and the Central Bank, running underlying deficits is generally inadvisable when the economy is performing so well (and possibly above potential output, according to IFAC calculations). A fundamental principle of fiscal management is that the fiscal stance should be counter-cyclical. Ireland's fiscal policy looks pro-cyclical right now, which creates immediate risks such as overheating and longer term risks such as the need to continue with a pro-cyclical fiscal stance in any downturn, thereby magnifying the downturn. The challenge here is heightened by the need to fund a substantial level of capital expenditure.

Housing output to remain below requirements across forecast horizon

The third area of concern we highlight here relates to housing completions. As discussed above, following the disappointing outturn in 2024, we do not see housing completions rising above the mid 30,000s in 2025 and 2026. The data for the first quarter of 2025 show that 5,938 new dwellings were completed in the quarter. Based in part on past trends in completions across the year, it is difficult to see a pathway towards considerable growth at present. Currently, we expect 33,000 units to be completed in 2025, rising to just under 37,000 units in 2026. However, there are notable downside risks to the achievement of these forecasts in the near term and we closely watching upcoming data releases to determine the direction of travel in terms of housing output.

The under-provision of new housing is both an economic and a societal concern. The factors impacting housing supply are multifaceted and complex. Typically, the cost of production, availability of labour, financing, regulation and infrastructure provision, and other policy supports, all feed in to determine housing output. These factors are also likely to differ depending on whether housing production is related to apartments, scheme housing or one-off units. In 2024, a decline in apartment production has been evident and recent policy changes (such as a reform of rent pressure zones) have attempted to provide a more supportive environment towards increasing apartment supply. However, multiple challenges remain, in particular around production costs, supporting infrastructure, financing and labour.

Indeed, linking to our earlier discussion on capacity constraints, we return to an ESRI report published last year that raised questions about the feasibility of large-scale infrastructural development in the context of full employment (Barrett and Curtis, 2024). Data were presented in that report which suggested that an extra 40,000 employees are required to produce an extra 20,000 housing units. In 2024, rates of activity in non-housing construction were declining, and so the prospect existed of construction employees moving out of non-housing construction and into housing construction. This has now halted, with non-housing construction growing again at a rate close to 20 per cent in the first quarter of 2025.

We raise this issue of labour constraint on housing provision in part as a reminder of just how challenging it will be to reach a target of 50,000 housing completions or more in the current context of full employment. Of course, full employment is to be welcomed and celebrated, but it gives rise to different forms of public policy choices. Even though an ambitious re-write of the NDP might be affordable in a financial sense, it could be that elements of the NDP will have to be staged in a way that creates sufficient capacity to deliver vital housing supply. Productivity enhancing changes in the construction sector, such as the deployment of modern methods of construction and increasing economies of scale in the industry, can help alleviate the labour constraints.

Box A: Understanding Irish goods exporters

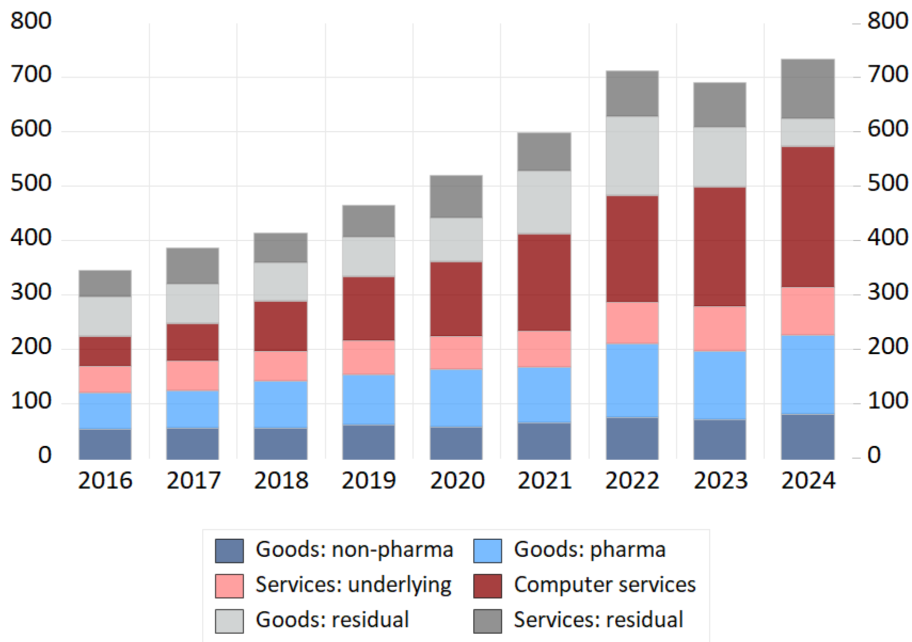
Exports have formed an important part of Ireland's economic growth since the late 1980s (Honohan and Walsh, 2002). In more recent years, McQuinn and Varthalitis (2018) showed how export growth, rather than structural reforms, was the primary cause of Ireland's recovery from the global financial crisis. This box examines the export sector, with a particular focus on the characteristics of firms that export goods.

Figure 5.1 divides Irish exports into six categories that capture the approach adopted in recent editions of the Commentary. First, we separate goods exports into pharmaceutical goods, non-pharmaceutical goods and a goods residual.[10] Second, we separate services exports into computer services, underlying services and a services residual.[11] This structure allows us to separate recent growth in exports into underlying growth, growth due to two particularly strong sectors, and growth in the residual categories that is not associated with underlying economic activity in Ireland.

[10] The goods residual is calculated as the difference between the headline export figure and the sum of monthly cross-border trade. It consists largely of contract manufacturing and merchanting. Contract manufacturing is a process whereby one company hires another to manufacture a good or component. In Ireland, this typically involves a multinational contracting a producer abroad to produce goods that are then sold abroad. Such transactions are recorded as a net export from Ireland, despite the economic activity occurring abroad. Merchanting is a method of intermediate trade whereby an Irish company purchases a good abroad and re-sells it abroad. The mark-up on this good is recorded as an export, despite the goods never entering Ireland.

[11] The underlying services category consists of services exports in communications, insurance, finance and travel. As a result, the residual services category captures activities related to research and development, royalties, operational leasing and other business services.

FIGURE 5.1: IRISH EXPORTS BY CATEGORY (€, BILLION)



Source: CSO, authors' calculations.

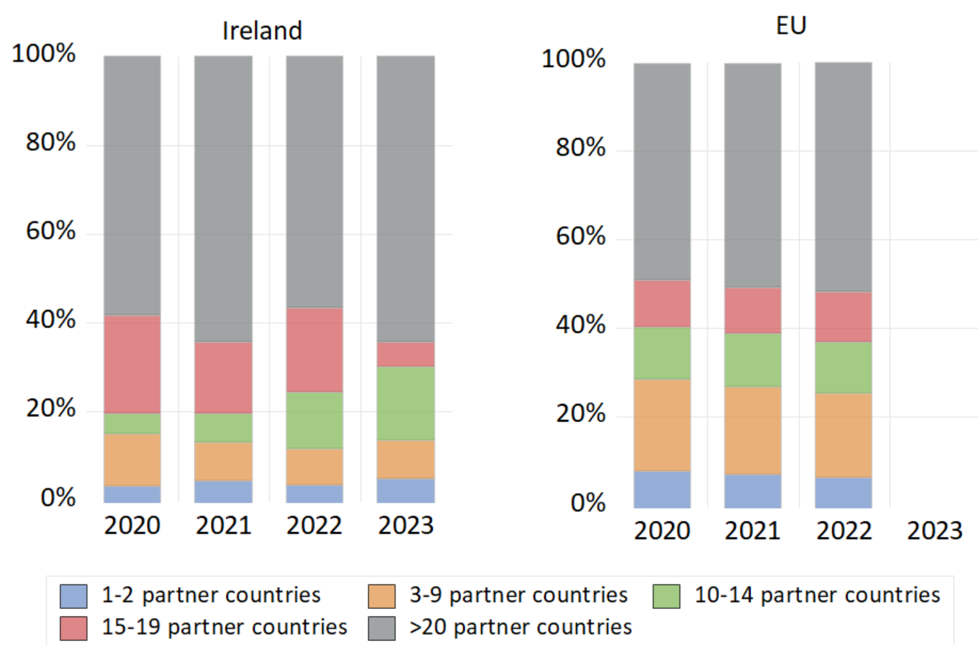
This box uses CSO and Eurostat data on goods exports from the 'trade by enterprise characteristics' publication. Relating these his data to Figure 1 above, they capture exports in pharma and non-pharma goods exports, and exclude the goods residual.[12]

The data reveal an export sector that is (1) highly global in nature, (2) concentrated in a small number of firms who are themselves highly focused on exports, and (3) concentrated in foreign-owned firms. However, goods exports from European countries in general are highly global. It is the concentration of Ireland's goods exports within a small number of firms, and foreign-owned firms in particular, that differentiates it from European peers.

[12] The Irish data exclude enterprises whose exports do not exceed =C5,000 per annum. In addition, there is a slight technical difference in measurement between this data source and the CSO's monthly trade statistics. For more information, see: https://www.cso.ie/en/releasesandpublications/ep/p-tec/tec2017/bgn/.

First, Irish goods exports are concentrated in firms with a large number of trade partner countries. Figure 5.2 details this concentration. Approximately 60 per cent of total exports in value terms are drawn from firms with over 20 partner countries. This is somewhat higher than the EU average, though the overall distributions are broadly similar.

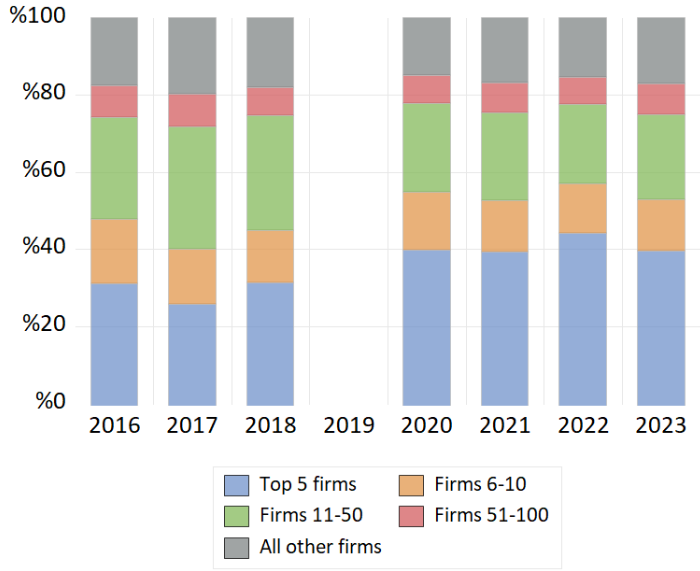
FIGURE 5.2: SHARE OF GOODS EXPORTS BY NUMBER OF PARTNER COUNTRIES OF EXPORTING FIRM



Source: CSO, authors' calculations Note: The EU average is figure not available for 2023

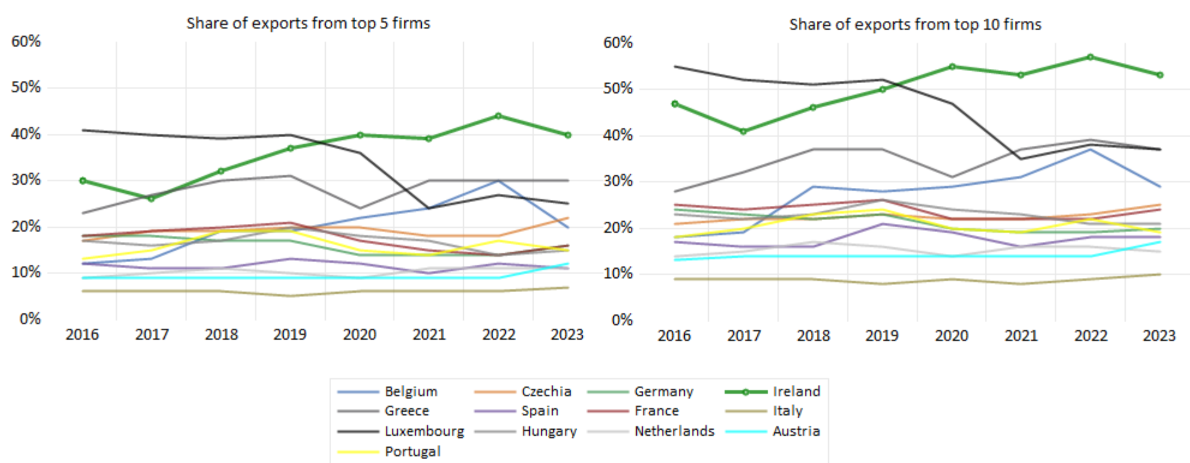
Second, Irish exports in value terms are concentrated in a small number of firms. Figure 5.3 shows that since 2020 the five largest exporting firms have accounted for approximately 40 per cent of goods exports. The post-COVID-19 trend represents a marked increase in concentration compared with the 2016–2018 period. Such a high concentration of exports in a small number of firms characterises Ireland as an outlier among European countries. Figure 5.4 shows the proportion of exports from the top 5 and top 10 firms for Ireland and other European countries.

FIGURE 5.3: SHARE OF GOODS EXPORTS BY LARGEST FIRMS



Source: CSO, authors' calculations. Note: No data available for 2019

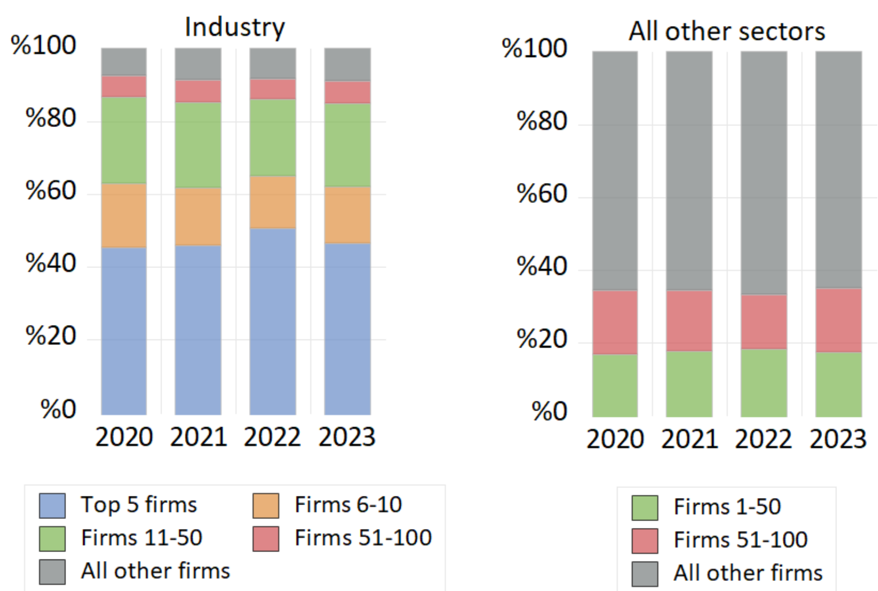
FIGURE 5.4: SHARE OF GOODS EXPORTS BY LARGEST FIRMS ACROSS EUROPE, 2016-2023



Source: CSO, authors' calculations

In Ireland, the broadly categorised industry sector has accounted for circa 86 per cent of goods exports since 2020. Figure 5.5 compares the concentration of exports by firm size in industry with the concentration in all other sectors. Non-industry exports are far more diversified, showing that the concentration in overall exports is driven by large firms in the industry sector.

FIGURE 5.5: SHARE OF EXPORTS BY LARGEST FIRMS, INDUSTRY AND ALL OTHER SECTORS

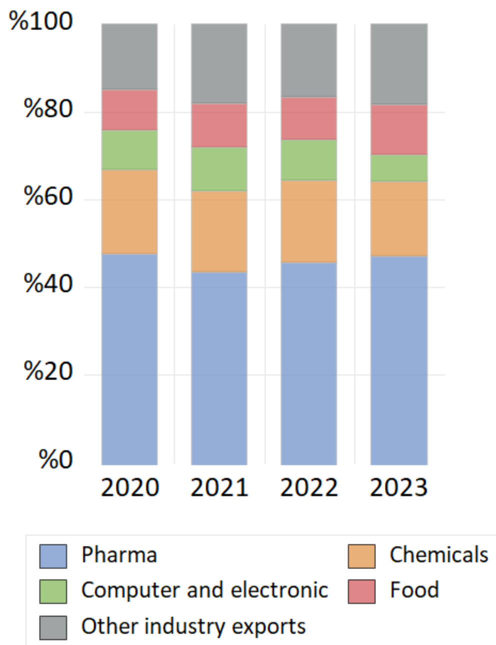


Source: CSO, authors' calculations

The above sectoral breakdown of exports by largest firms is available only for broad categories of sector. However, we can understand more about the top exporting firms by examining exports from the industry sector.

Within the industry sector (sectors B to E in the NACE Rev.2 classification system), the majority of exports come from just two sub-sectors. Figure 5.6 shows the share of industry exports across a number of key sub-sectors. The importance of exports in pharmaceutical products and in chemicals is clear (sub-sectors C20 and C21 in the NACE Rev.2 classification system). Again, that concentration has been consistent across the 2020–2023 period.

FIGURE 5.6: SHARE OF INDUSTRY EXPORTS BY SUB-SECTOR



Source: CSO, authors' calculations

A breakdown of exports by largest firms is not available at the sub-sector level. However, given that the majority of goods exports in the industry sector are in the sub-sectors of pharmaceuticals goods exports and chemicals exports, it is highly likely that the majority of the top five firms operate in pharmaceuticals and/or chemicals.

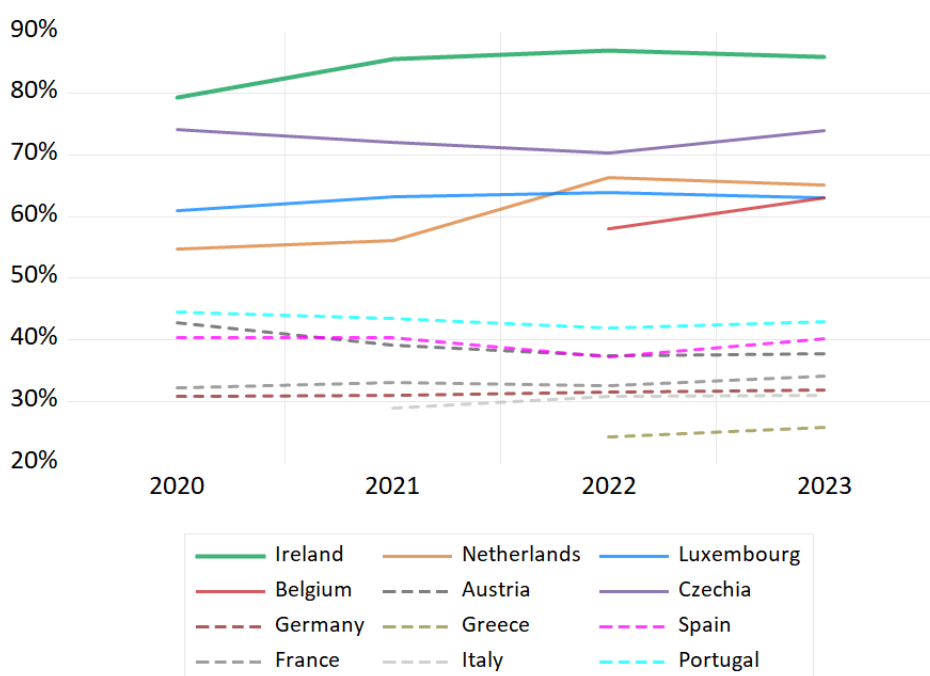
The pharmaceuticals and chemicals sub-sectors are dominated by firms that are highly export-focused. The majority of Irish goods exports come from firms whose turnover is concentrated in exports, but firms in these two sectors are particularly focused on exports. Using the 2022 data, it is possible to identify, by sector, the proportion of goods exports, in value terms, that comes from export-focused firms. Table 5.1 below shows that exports in pharma and chemicals are particularly concentrated in firms for whom exports make up greater than 75 per cent of their turnover.

TABLE 5.1: SHARE OF EXPORTS FROM FIRMS WITH >75% OF TURNOVER FROM EXPORTS 2022

Pharma	Chemicals	All other sectors
84.4%	97.9%	67%

Third, Irish exports are concentrated in value terms in foreign-owned firms. Figure 5.7 compares the share of total exports that are attributable to foreign-owned firms. While there is a clear difference between larger and smaller European economies, Ireland has the highest share even among the subset of small open economies that make up the upper half of the chart.

FIGURE 5.7: SHARE OF EXPORTS FROM FOREIGN-OWNED FIRMS



Sources: CSO, Eurostat, authors' calculations

Concentration of Irish export activity in large, foreign-owned firms within specific sectors has advantages and disadvantages. Economies of scale at the firm level can allow firms to achieve productivity gains. Indeed, the spring 2025 Commentary highlighted the higher labour productivity in industry and

ICT, relative to other sectors of the economy. The top exporting firms described above are also likely to be large employers and to contribute to Ireland's corporation tax receipts.

However, concentration raises concerns about the wider impact of sector-specific or firm-specific shocks. This analysis shows that there are larger concentration risks in the Irish export sector than there are for other European countries.

Finally, up to this point pharmaceuticals have not been subject to tariffs. Their significance in terms of Irish exports underlines the importance of upcoming trade policy decisions by the US administration relating to pharmaceuticals and chemicals, as well as any subsequent EU–US negotiations.

This box was prepared by Dónal O'Shea

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