

The all-island economy: growth in uncertain times

Economic Eye

Spring 2025 forecast



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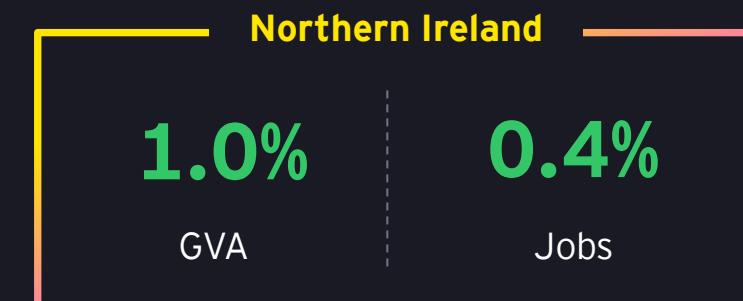
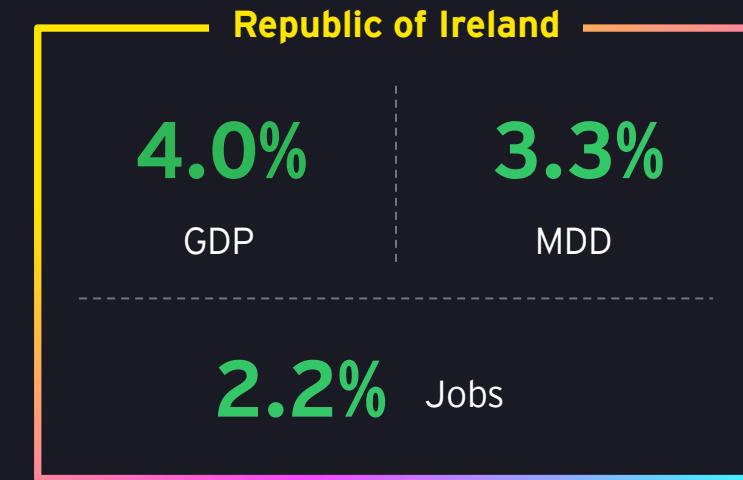
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Growth is in prospect for the two economies on the island of Ireland in 2025, alongside more jobs and lower interest rates as the European Central Bank and Bank of England's easing cycles continue. Policy shifts in the US are making for an unsettled external environment though. As we step into spring, navigating global trade uncertainty is on the agenda. So is investment in innovation and infrastructure, which is important now more than ever.

Dr. Loretta O'Sullivan

Chief Economist and Partner, EY Ireland

2025 Growth Outlook



Chief Economist Comment



Dr. Loretta O'Sullivan

Chief Economist and Partner, EY Ireland



A new broom sweeps clean, but
an old broom knows the corners

If 2024 was the year of elections, then 2025 is the year of policymaking. On this score, it's been a busy couple of weeks.

The new broom in the White House has been sweeping clean, removing the US from the Paris climate accords and the OECD global tax deal, among other things. Executive orders and actions on trade have also been coming thick and fast. US trade policy is expected to be transactional during President Trump's term in office, with protectionist measures used to extract trade, immigration and other concessions from partners including China, Canada, Mexico and the EU.

The renewal of the European institutions means there are new brooms in Brussels too, and with the EU in the tariff firing line, the transatlantic relationship is on the agenda of the Commission, Council and Parliament. So is competitiveness. This is a tricky concept to pin down but in essence it is about ensuring firms can compete in markets and the enterprise base in Europe can compete internationally.

To assess this, the economics profession has traditionally focussed on indicators like prices and unit labour costs which relate wages to productivity. Policy inputs such as education and training, infrastructure and the regulatory framework have gained traction over time, and now feature in global competitiveness scorecards. Research indicates investment in R&D and quality improvements are important as well.

In EY, competitiveness is something we ask international decision-makers about in our annual Attractiveness Surveys. For businesses, the priorities are clear; Europe needs to do more to create a fertile environment for innovation, unlock private investment, and find the right regulatory balance. Likewise, supporting high-tech industries and innovation is a recommendation for Ireland, and for the UK.

Another priority for the Irish government as the new Dáil term gets going is infrastructure. The old brooms in Leinster House don't need a middling ranking in the Management Development's World Competitiveness Yearbook to tell them further progress is needed in areas like housing, energy, water and transport. They heard all about it on the campaign trail. But they will be pleased that Ireland places 4th in the world in overall competitiveness.

Policy developments in Washington are also on the radar given strong Ireland-US trade and investment linkages. While the

dust hasn't settled on the many orders and actions, they lay bare the new reality for the Irish economy. The global landscape has materially changed over the past few years, with increased protectionism, the re-emergence of interventionist industrial policy, and the intensification of competition for FDI.

This makes for a challenging environment and reinforces the importance of examining options to enhance the R&D tax credit scheme, while also doubling down on infrastructure delivery, training and upskilling the workforce, accelerating the green transition, and harnessing transformative technologies like artificial intelligence.

A good spring clean will help Ireland maintain its competitiveness on the world stage. Trade fragmentation stands in contrast to Ireland's open economic model, however. If it were to materialise in full, less Marie Kondo and more T.K. Whitaker will be needed. Time will tell.



Global perspective

Steady world growth

Global Growth Outlook

| | 2024e | 2025f | 2026f |
|-----------|-------|-------|-------|
| World | 3.2% | 3.3% | 3.3% |
| US | 2.8% | 2.2% | 1.7% |
| Japan | -0.2% | 1.1% | 0.8% |
| China | 4.8% | 4.6% | 4.5% |
| India | 6.5% | 6.5% | 6.5% |
| Euro area | 0.8% | 1.0% | 1.4% |
| Germany | -0.2% | 0.3% | 1.1% |
| France | 1.1% | 0.8% | 1.1% |
| Italy | 0.6% | 0.7% | 0.9% |
| Spain | 3.1% | 2.3% | 1.8% |
| UK | 0.8% | 1.0% | 1.6% |

(Gross Domestic Product, annual change, constant prices)

Fiscal year for India

Source: IMF, EY ITEM Club, EY Parthenon



Confidence on the one hand

EY's [CEO Confidence Index](#) points to measured positivity heading into 2025. The global reading came in at 73.5 (on a scale of 50 neutral to 100 optimistic), with executives cautiously optimistic about sectoral growth prospects, access to talent and investment opportunities.

For the world economy, the IMF is projecting steady GDP growth, albeit with some divergence at the country-level.

Activity in the US is expected to remain solid in 2025, underpinned by strong domestic demand. The new administration favours deregulation and extending personal and business tax cuts, offering a stimulus to growth, whereas lower immigration and tariff plans are headwinds. The resilience of the economy and the inflationary potential of the policy agenda mean the Federal Reserve is leaning towards caution, however. At best, it will cut its benchmark interest rate by 0.5 percentage points this year, after a 1-point reduction in the second half of 2024.

The European Central Bank also lowered interest rates last year, with a further quarter-point cut in January and at least three more likely in 2025. While annual headline inflation in the Euro area has edged higher of late, underlying inflation has been better behaved and a return to the 2% target is envisaged in the coming months. The economic outlook for the zone is not overly stellar though; growth is forecast to pick up but political fragmentation in some large Member States and global trade friction are concerns.

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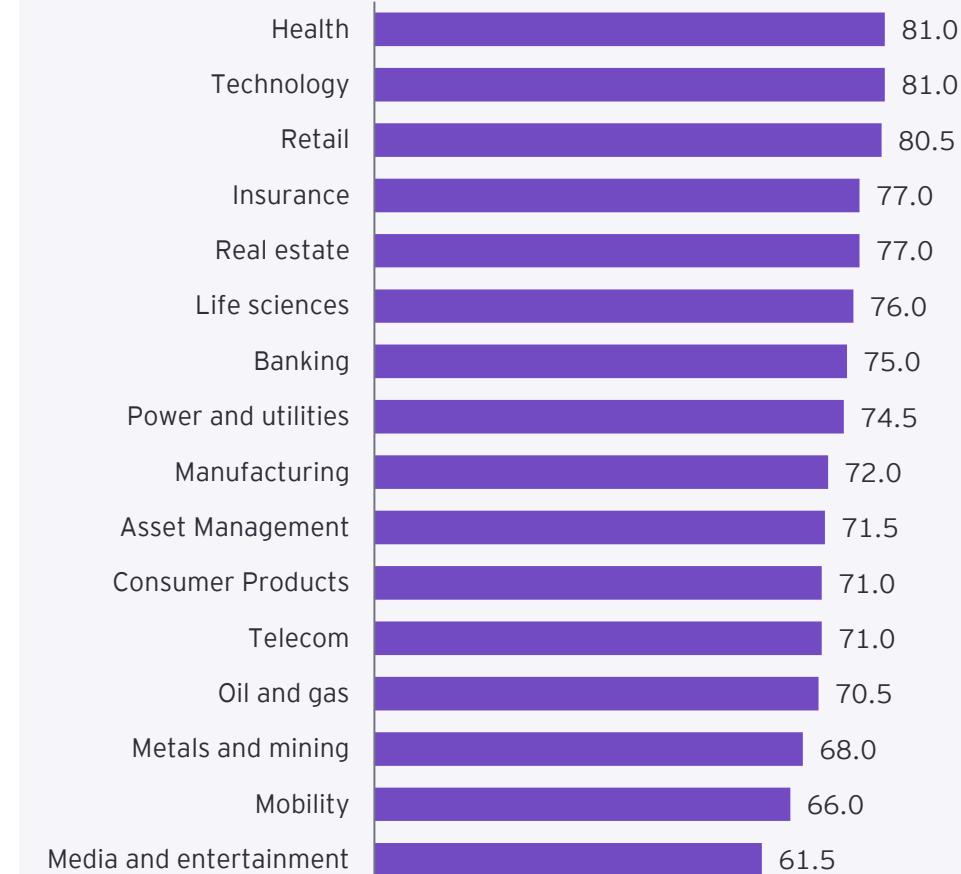
Our latest survey of global CEOs finds that they are generally confident about their business performance. Over half are planning to pursue mergers and acquisitions in the next 12 months, with an eye to driving innovation and building resilience. In a changing world, adaptability is key for organisations.



Carol Murphy

Partner and Head of Markets

CEO Confidence Index



(Neutral = 50, optimistic = 100)

Source: EY CEO Outlook Survey January 2025

Uncertainty on the other

The global economic policy uncertainty index is now at an all-time high. President Trump has moved swiftly on tariffs since taking office, imposing some, suspending others and threatening more.

International trade relations are consequently fraught and there is a non-negligible risk that the US and its trading partners - *inter alia* China, Canada, Mexico and the EU - enter into a tit-for-tat escalation of tariffs. The situation is fluid but even if a full-blown trade dispute is avoided, increasing protectionism is a challenge for the world economy.

Conversely, artificial intelligence could unlock a new era of innovation and add to global growth, especially if the technology is widely adopted as [EY research](#) shows.

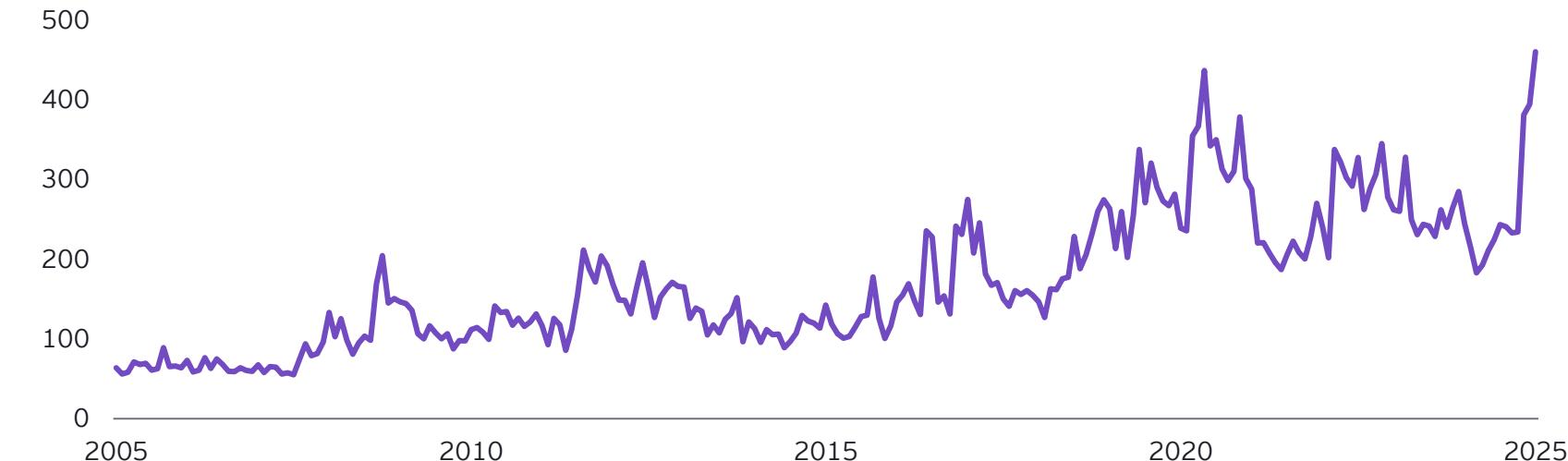
Interest Rate Outlook

| | 2024 | 2025f | 2026f |
|-----|------------|------------|------------|
| ECB | 3.15% | 1.9% | 1.9% |
| Fed | 4.25%-4.5% | 4.0%-4.25% | 3.0%-3.25% |

(End year, ECB Refi, Fed Funds)

Source: Oxford Economics

Global Economic Policy Uncertainty Index



Source: Baker, Bloom and Davis

All-island outlook



All-Island economic forecasts



Republic of Ireland (ROI)

The ROI economy has entered 2025 in good shape. Employment is healthy and the unemployment rate is at a near-historic low. Wages are rising faster than consumer prices, boosting households' purchasing power, and the European Central Bank is cutting interest rates, lending support to business investment. Exports have rebounded and the growth outlook for key markets is decent, if unspectacular. The fiscal position is also strong, enabling large-scale public capital spending.

As the conditions and drivers are in place for activity to expand, we are forecasting GDP growth of 4.0% (helped by subsiding volatility in the multinational sector) and Modified Domestic Demand growth of 3.3% this year.

There is some apprehension about trade and tax policy shifts in the US, however. These are adding to global uncertainty and are especially relevant for ROI as the US is a main destination for goods exports and an important source of Foreign Direct Investment. While a lot remains to be seen, tariffs are a drag on growth and *ceteris paribus* pose a downside risk to our spring forecasts. The extent to which depends on the breadth and depth of any measures imposed, assuming they come into force.

Domestically, it will be important to make further progress in delivering infrastructure. Fiscal buffers like the State's savings funds will also be of value in cushioning the impact of a potential shock to the economy.

“

The Irish economy is in good shape, with a strong labour market and domestic momentum. Growth is forecast for 2025 as consumers spend on goods and services, the government invests in infrastructure, and businesses put resources into technology and other transformation levers. But while there is much to be positive about, heightened global trade tensions are a worry.



Dr. Loretta O'Sullivan

Chief Economist and Partner, EY Ireland

Consumers

2025 Consumption Forecast, ROI: 3.0%

Job creation and rising real wages supported consumer spending in ROI last year and are expected to do so again in 2025. The taxation and welfare packages set out in the recent Budget will further underpin household incomes this year, while ECB interest rate cuts are gradually making borrowing less expensive. The uptick in the Credit Union's sentiment index in January also suggests that consumers' concerns about the cost-of-living are easing somewhat.

The strength of (in aggregate) balance sheets is noteworthy too. Households are continuing to hold a large stock of deposits, and the savings ratio remains high. It stood at 14.3% on a seasonally adjusted basis in the third quarter of 2024, above its long-run average of c.12%.

Greater use of the savings accumulated during the pandemic, and a lower propensity to put money aside over the coming period, could boost consumption by more than projected.

Investment

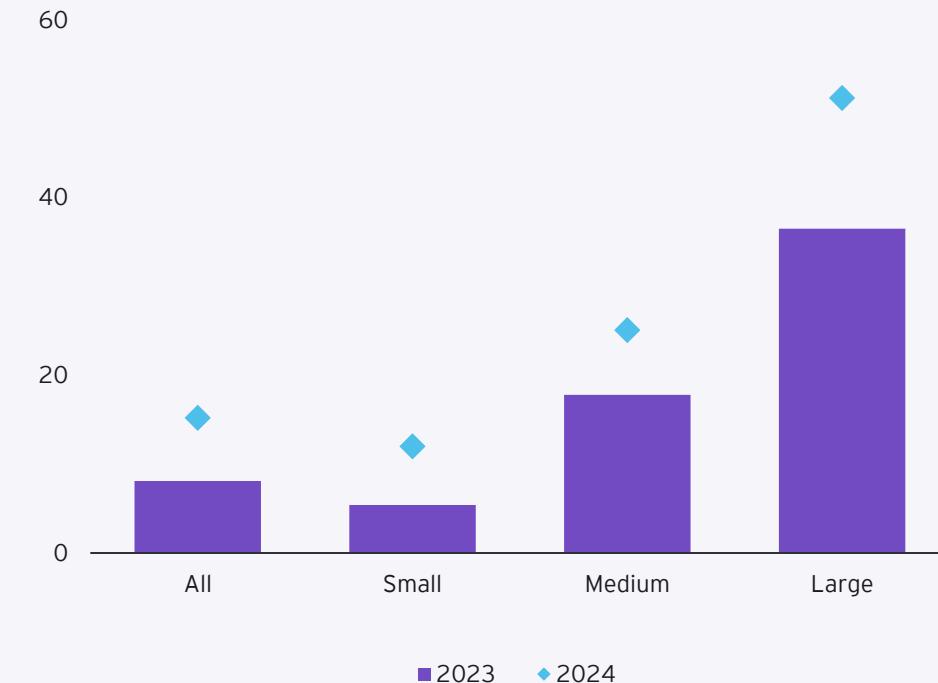
2025 Modified Investment Forecast, ROI: 4.5%

Modified investment (which excludes Intellectual Property Products and aircraft leasing) rose in 2024, and growth is in store this year too.

Expected improvements in demand are contributing to positive business sentiment in ROI. More favourable financing conditions as monetary policy is loosened, and structural considerations like sustainability, digitalisation and AI adoption by firms of all sizes, should further bolster spending. As the latest EY CEO Outlook Survey highlights, transformation levers including technology investment are on executives' agendas everywhere and 2025 is set to be a big deal for mergers and acquisitions. That said, uncertainty about prospective US policy changes may lead some American multinationals to pause plans for a time.

On the construction front, adverse weather conditions in January dampened activity. The public capital spending programme will offer support to non-residential building in the months ahead though. Meanwhile, a renewed focus on addressing housing bottlenecks and the T&Cs of the development levy waiver scheme suggest a pick up in new dwelling completions, particularly in 2026.

ROI enterprises using AI



(%)
Source: CSO

Government

Budget surplus projected for ROI in 2025

At €10.5 billion, Budget 2025 was bigger than initially signalled. It comprised a range of spending initiatives, taxation measures and cost-of-living supports including energy credits, some of which will add to demand in the economy. Supply-wise, housing and energy needs are on the agenda of the new Irish government. It has also committed to using the once-off proceeds from the Court of Justice of the European Union ruling to improve the country's stock of infrastructure.

As in 2024, a general government surplus is projected for this year. But the headline fiscal position masks underlying vulnerabilities, chief among them being the concentrated nature of corporation tax receipts. The so-called 'four Ds' – demographic change, decarbonisation, digitalisation and the risk of de-globalisation – are additional challenges, with the latter in sharp focus at present. All of which underscores the importance of soundly managing the public finances and strengthening economic resilience.

Key Programme for Government Infrastructure Initiatives

01. Housing

Build over 300,000 new homes by the end of 2030.

02. Public Transport

Advance key projects in the National Development Plan.

03. Rail

Act on the All-Island Strategic Rail Review recommendations.

04. Airport

Work to lift the passenger cap at Dublin Airport.

05. Ports

Invest in commercial and passenger ports infrastructure.

06. Water

Increase capital investment in Uisce Éireann.

07. Electricity Grid

Update power generation systems for better security and affordability.

08. Interconnectors

Develop and accelerate the roll-out of new electricity interconnectors.

09. Renewable Energy

Achieve 9GW of onshore wind, 8GW of solar, and 5GW of offshore wind by 2030.

“

The Programme for Government set out by the new coalition is ambitious in many areas, including infrastructure. Ireland now has a once-in-a-generation opportunity to go all-in, supporting competitiveness and future proofing the economy through strategic capital spending.



Shane MacSweeney

EY Ireland Head of Strategy and Transactions; EY Global and EMEIA Infrastructure Leader

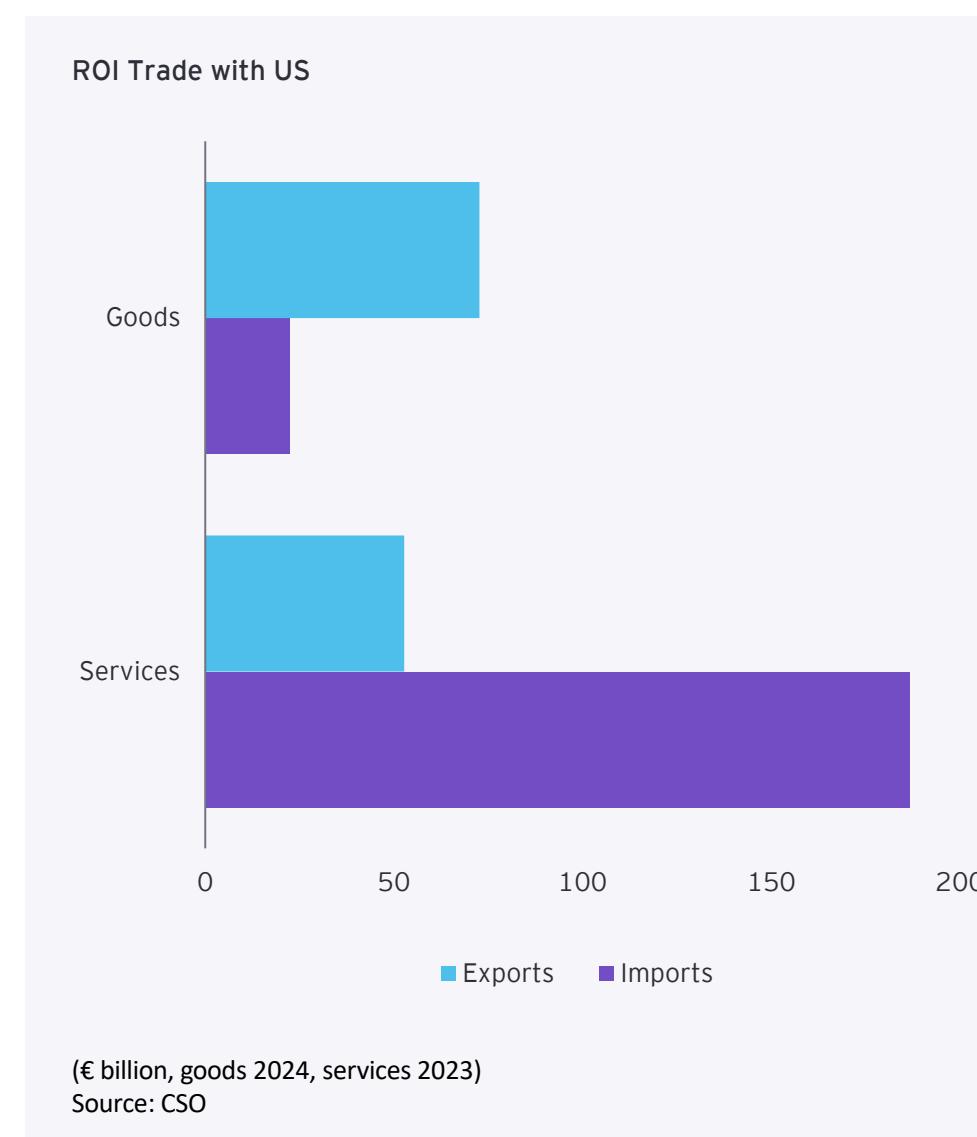
Exports

2025 Exports Forecast, ROI: 4.5%

After a robust 2024 performance driven by computer services and a rebound in pharmaceutical sales, exports are projected to expand at a more moderate pace this year.

Demand from trading partners will lend support, albeit the outlook for key markets is mixed. While growth is expected in the US, Euro area and UK in 2025, forecasts for the latter two economies have been downgraded. Prospects for key multinational sectors are positive though, and the large-scale investments made in ROI in recent years will generate returns into the future.

Heightened global trade tensions pose a risk to the outlook for exports. ROI has substantial trade links with the US - a surplus in goods which is outweighed by a deficit in services - with some two-fifths of the pharmaceutical sector's output going state-side, meaning it is particularly exposed to potential US trade barriers. Then again, the activities of multinationals might beat expectations as they have done in the past.



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MNEs are closely monitoring potential changes in the global trade and tax environment and evaluating strategic responses. Ireland continues to have a strong offering based on talent, location and track record. Maintaining competitiveness is key. The Government's upcoming review of the existing Irish 30% R&D credit is timely where incentives can have an important impact on investment decisions.



Joe Bolland

EY Ireland Tax Partner and Head of International Tax Services | EY - Ireland

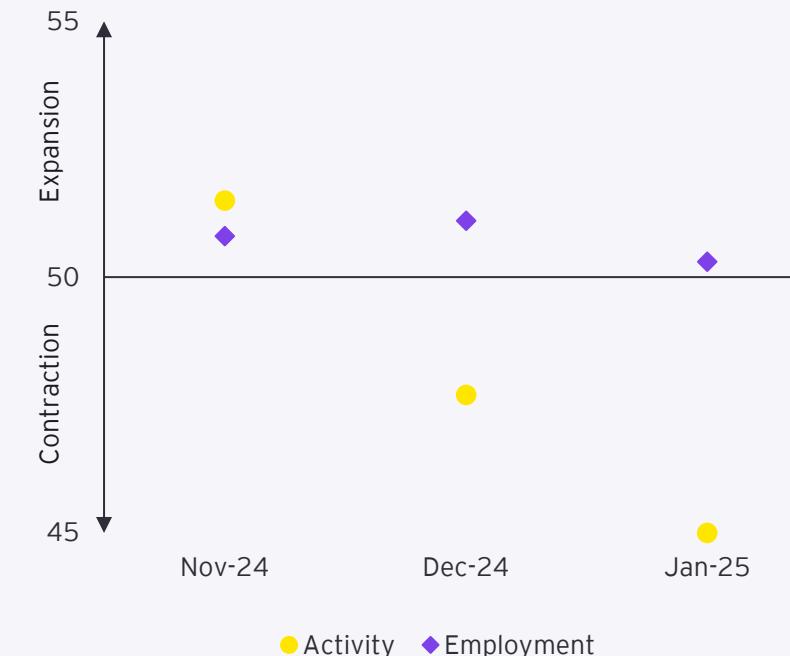
Northern Ireland (NI)

The Northern Ireland economy and labour market did reasonably well in 2024, albeit the Purchasing Managers' Index (PMI) points to a loss of momentum in private sector activity around the turn of the year.

In her Autumn Budget, the Chancellor of Exchequer announced increases in day-to-day spending to support public services and increases in capital investment to help unlock economic growth across the UK, to be funded by raising taxes - largely on employers' payrolls - and more government borrowing. For NI, there was an additional £1.5 billion and a green light for the Mid South West and Causeway Coast and Glens Growth Deals.

While the increases to National Insurance contributions represent a challenge for local businesses, financing conditions should improve as the Bank of England reduces interest rates further and consumers are expected to maintain a steady pace of spending. Thus, our spring forecast has the economy expanding by 1.0% in 2025, a touch below last year's print (1.2%).

NI Composite Purchasing Managers' Index



Source: S&P Global

“

A key strength of Northern Ireland's economy is its labour market which, amongst other factors, is benefitting from a growing professional services sector. EY has established a new office in Derry/Londonderry and is creating jobs in the northwest, demonstrating our commitment to fostering talent and innovation to support regional development and prosperity.



Rob Heron

Managing Partner,
EY Northern Ireland

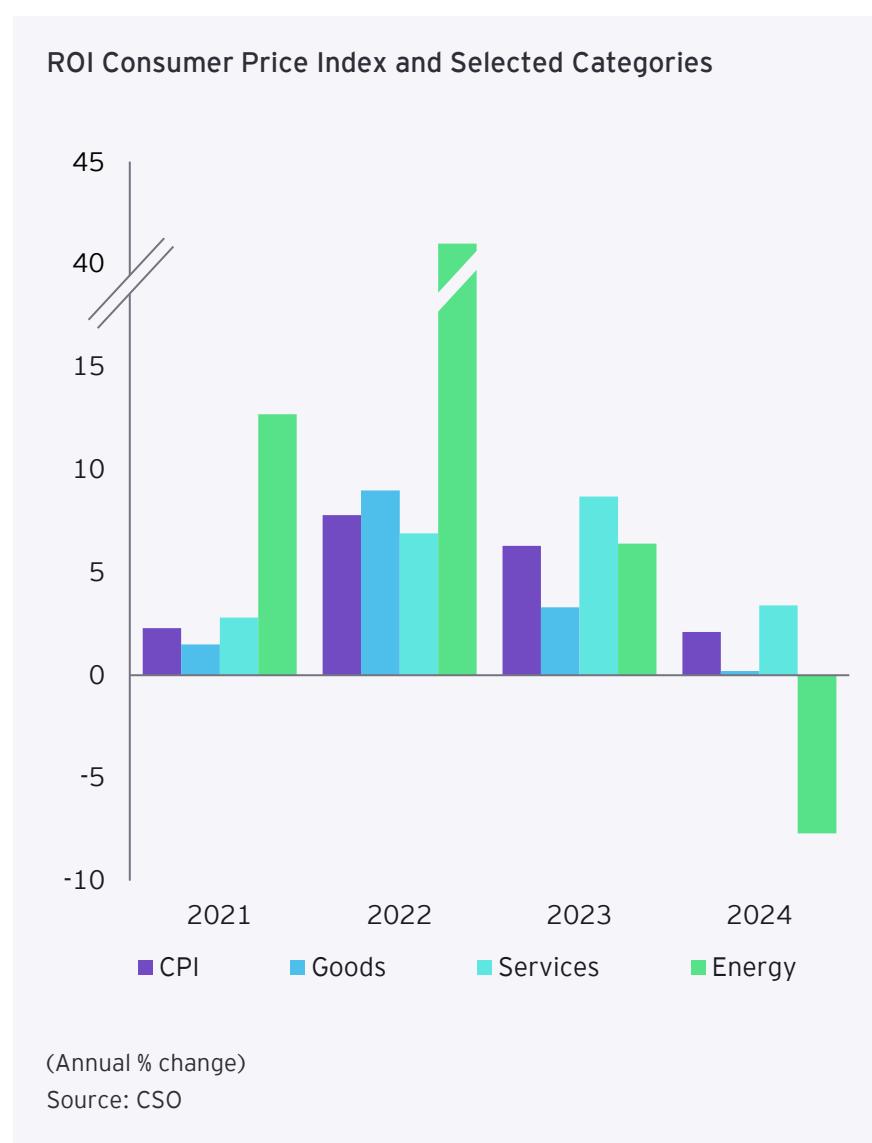
Inflation prospects

Inflation hits and misses

The disinflation process in ROI is both well advanced and broad-based. The annual headline rate of inflation averaged 2.1% in 2024 - down from 6.3% in 2023 and 7.8% in 2022 - and is projected to settle around 2% over the forecast horizon. Goods inflation has slowed as energy and other external price pressures have waned; with domestically driven services inflation easing too, although to a lesser extent (the restaurants and hotels sector is proving particularly sticky).

Progress towards price stability has stalled in the UK, however. Inflation is now projected to remain above the 2% target through 2025 and much of 2026. But concerns about economic growth should see the Bank of England maintain its gradual approach to monetary policy loosening. After a 0.5 percentage point reduction last year and a quarter-point cut in February, the EY ITEM Club expects the Bank Rate to fall from 4.5% currently to 3.75% by the end of the year. This will be welcomed by borrowers in NI as well.

Turning to risks, greater friction in global trade would make the outlook for inflation more uncertain. Other factors still at play are geopolitical tensions which could push up energy prices, while skill shortages in some areas could lead to higher-than-assumed wage growth in ROI.



Inflation Outlook

| | 2024 | 2025f | 2026f |
|-----|------|-------|-------|
| ROI | 2.1% | 2.0% | 2.0% |
| UK | 2.5% | 2.8% | 2.3% |

(CPI, annual change)

Source: EY Economic Eye, EY ITEM Club

Interest Rate Outlook

| | 2024 | 2025f | 2026f |
|-----|-------|-------|-------|
| BoE | 4.75% | 3.75% | 3.5% |

(End year, BoE Bank Rate)

Source: EY ITEM Club

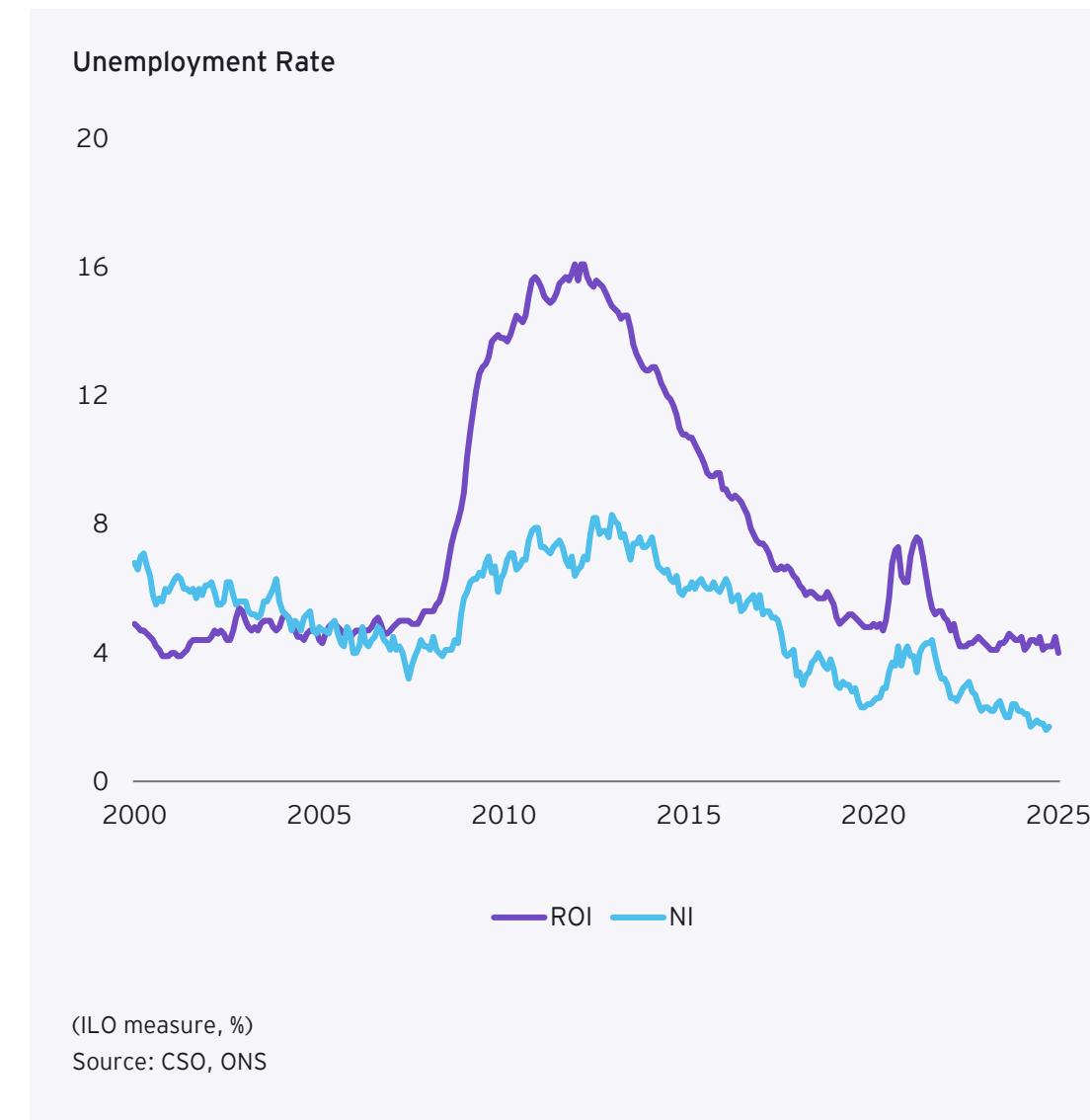
Labour matters

Jobs growth easing

While the island's two labour markets are doing well, some cooling is in prospect for the period ahead.

The number of people at work in ROI stood at almost 2.78 million in the fourth quarter of 2024, an impressive count. Most sectors recorded annual gains, notably construction and information and communications. Net inward migration and the participation rate increased last year too, helping labour supply to draw closer to labour demand. Looking forward, growth in employment and wages should continue but at a moderating pace, with the unemployment rate projected to edge up to 4.4% in 2025-2026.

Our spring forecast also envisages a slowdown in job gains in NI this year. This follows a good performance last year - construction and professional services were among the fastest growing sectors - and reflects softening economic conditions and the increase in employers' National Insurance contributions that comes into force in April.

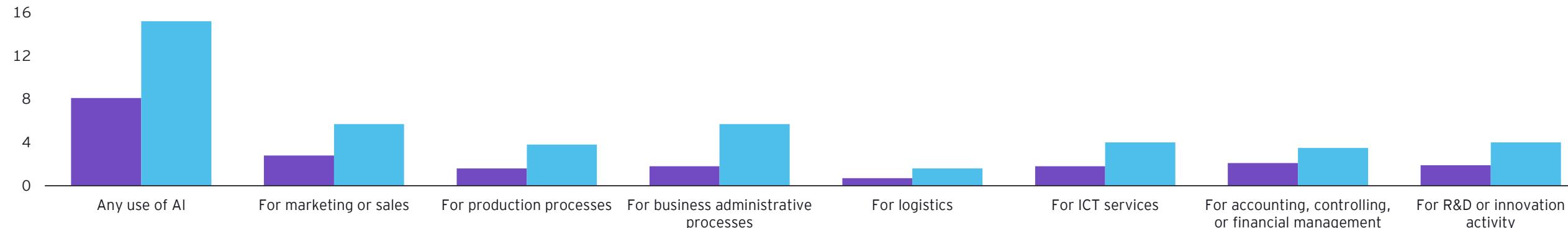


The future of work

If the pandemic significantly altered the world of work this decade, then artificial intelligence has the potential to do so into the next. Technological innovation typically impacts labour via (1) job creation, where new roles and opportunities emerge, (2) job displacement where functions become obsolete due to automation, and (3) job transformation where the nature of tasks is augmented. EY research finds that 59% of occupations globally have high to moderate exposure to GenAI, with 85% of CEOs saying that the industry leaders of the future will be the businesses who successfully upskill their workforce in AI.

As automation and digitalisation accelerate in ROI and NI, it will be important to ensure that enterprise and education policies are responsive, promoting training and lifelong learning and continuing to cultivate skills such as innovativeness and problem solving. Indicative of an entrepreneurial mindset and human intelligence, the latter can enhance complementarities between workers and machines and together with the former, sustain talent competitiveness and attractiveness for FDI.

ROI enterprises using AI by purpose



(%)
Source: CSO

Compared to other countries, how does your workforce in ROI perform with regard to the following factors?



Source: EY Ireland Attractiveness Survey 2024

Forecasts

Republic of Ireland

| | 2024e | 2025f | 2026f |
|--------------------------|--------|-------|-------|
| Consumption | 2.4% | 3.0% | 2.7% |
| Government Spending | 4.0% | 3.0% | 2.0% |
| Investment | -23.8% | 2.7% | 3.8% |
| Modified Investment | 3.5% | 4.5% | 6.0% |
| Exports | 11.0% | 4.5% | 5.0% |
| Imports | 7.3% | 4.4% | 4.9% |
| GDP | 0.3% | 4.0% | 3.8% |
| Modified Domestic Demand | 3.0% | 3.3% | 3.2% |
| Jobs | 2.7% | 2.2% | 2.0% |

(Annual change, GDP, MDD and components in constant prices)

Modified investment excludes Intellectual Property Products and aircraft leasing

Source: EY Economic Eye, CSO



Northern Ireland

| | 2024e | 2025f | 2026f |
|------|-------|-------|-------|
| GVA | 1.2% | 1.0% | 1.7% |
| Jobs | 1.6% | 0.4% | 0.8% |

(Annual change, GVA in constant prices)

Source: EY ITEM Club



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