The Leadership Exchange

PwC Quarterly Economic Digest - Q2 2025

May 2025

pwc

Contents

1. The Rundown

The Irish economy is projected to maintain a growth trajectory over the medium term, despite global uncertainties. After recovering in 2024 with a 1.2% increase in GDP, PwC's projections point to continued growth through to 2027. The Central Bank forecasts steady export growth, driven by pharmaceuticals, although tariff policies pose potential risks. Modified domestic demand, generally a more appropriate indicator of Ireland's economic health than GDP, grew by 2.7% in 2024 and is expected to remain above 2% per annum through to 2027. Household consumption is the main driver of this MDD growth. General economic uncertainty is a risk to domestic demand. Consumer sentiment, which influences demand, appears to have fallen sharply in March and may lead to lower levels of consumption and discretionary spending.

Inflation in Ireland slowed to 2.1% by the end of 2024 and is expected to remain close to the target rate through to 2027. Services sector inflation remains the main contributor to inflation in Ireland, driven by demand for restaurants and cafes. Globally, inflation rates continue to moderate across Ireland's major trading partners and monetary policy has continued to loosen in response. However, there is an overarching challenge posed by the current unpredictability in international trade policy, which puts central bankers in a difficult position as they guide monetary policy in response to these developments.

The unemployment rate in Ireland has declined to 4.1% as of April 2025, down from 4.4% a year earlier. This marks three years in which the unemployment rate has been consistently below 5%. There has been significant growth in employment in key sectors over that period, including the tech sector and construction. Although there is growth in the construction sector employment, achieving national housing targets remains challenging due to labour shortages. Coordinated efforts in reskilling and promoting apprenticeships are essential to meet the long-term demands of the construction industry.

The Economy at a Glance

Economic Output

Ireland's GDP is expected to grow by around 3% this year but global uncertainty weighs on the outlook. Modified domestic demand remains strong, growing by 2.7% in 2024, with a similar rate of growth projected this year.

Inflation

Inflation slowed to 2.1% in Ireland by the end of 2024 and is forecast to remain close to the target rate through to 2027. Uncertainty over the evolution of international trade policy poses a challenge for central bankers.

Labour Market

Ireland's unemployment rate was 4.1% in April, down from 4.4% in April 2024. Employment across the construction sector has continued to grow but the sector is struggling to meet housing targets.

Fiscal Outlook

Total interest payments on government debt are expected to increase in the coming years but at a slower pace than government revenues. Those government revenues are increasingly reliant on corporation taxes, which now account for over a third of all tax receipts.

Ireland's fiscal outlook remains positive but is vulnerable to shocks. Corporation and income taxes account for 70% of all tax receipts. Corporation tax has trebled in significance when compared with its long run average, and much of this is paid by a handful of firms. A further concern is the extent to which this tax revenue is related to economic activity that is not located in Ireland. Meanwhile, government spending commitments continue to increase. Interest payments on government debt are also anticipated to rise gradually out to 2030, but government revenues—greatly influenced by corporation taxes—are expected to continue to grow at a faster pace over the same period.

Our Topic in Focus in this Digest is the pharma sector, which is an important source of high-quality jobs across Ireland and a major contributor to corporation tax receipts. Ireland is the third largest exporter of pharma products in the world and pharma represents a growing share of Ireland's goods exports, coming in at 44% in 2024. Ireland's pharma exports to the US are particularly significant. In 2024, 44% of all pharma exports went to the US. It is currently unclear what tariffs the sector may face, if any, and what impact this may have on investment and production by the sector in Ireland. However, there are several factors which may work in Ireland's favour including established supply chains, labour force, and access to the EU market, as discussed in Section 6.

As Ireland braces for what may unfold over the coming months, the headline economic indicators give comfort that the country is operating from a position of strength. However, vulnerabilities remain, including sectoral concentration, geographic concentration, and a long running infrastructure deficit.

Ciarán Nevin
Senior Economist

2. Economic Output

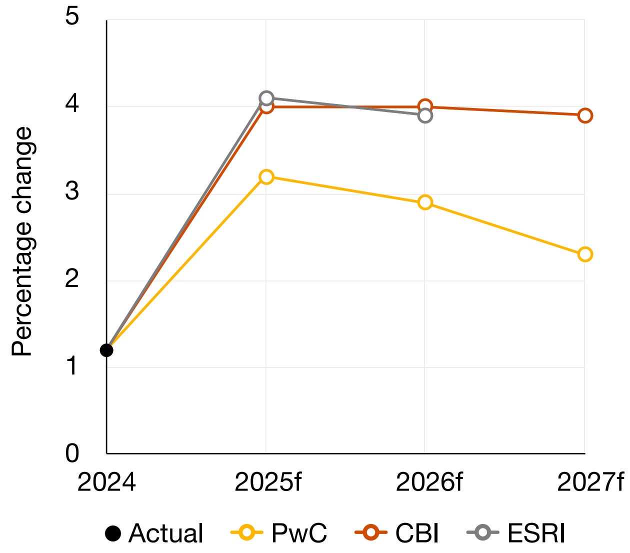
Ireland's economy is expected to continue to grow but global uncertainty weighs on the outlook.

Ireland's economic output recovered in 2024, growing by 1.2%. Growth is expected to continue through to 2027 (see Figure 1). March forecasts from the Central Bank and ESRI estimate annual growth rates of close to 4% over the next three years. PwC's most recent projections are more subdued, reflecting uncertainty over trade policy. We anticipate GDP growth of around 3% this year and again in 2026, with further moderation to 2.3% in 2027. It is reasonable to expect that increased barriers to trade between major trading partners will negatively impact export growth, while an increase in general uncertainty will dampen domestic demand. The Central Bank forecasts overall export growth of around 5% per year from 2025 to 2027 – a moderate downward revision. This growth is driven by a continued expansion in pharmaceutical exports, particularly to the US. Changes to tariff policy with respect to the pharma sector pose a risk to Irish export growth.

Domestic demand remains strong, driven by resilient household consumption.

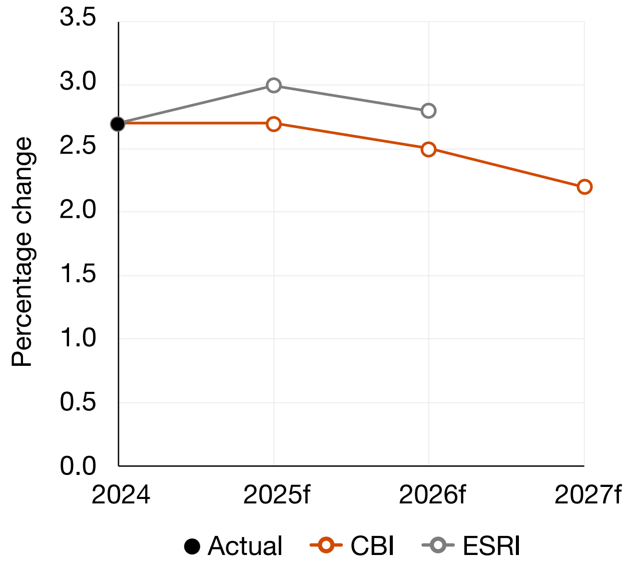
Modified domestic demand (MDD), generally a more appropriate indicator of Ireland's economic health than GDP, grew by 2.7% in 2024. According to forecasts made prior to the US Administration's tariff announcements on 2 April, MDD is projected to increase by 2.7% to 3% in 2025. Growth is expected to moderate somewhat in 2026 and 2027, with household consumption the main driver of MDD growth over the period. General economic uncertainty is a downside risk to domestic demand. Consumer sentiment, which influences demand, appears to have fallen sharply in March, with the index dropping from 74.8 to 67.5 – the largest fall in sentiment in over two years (see Figure 3). This fall in sentiment may lead to lower levels of consumption and discretionary spending in the future and may be evident in future forecasts.

Figure 1. GDP growth forecasts



Source: PwC, CBI, CSO, ESRI

Figure 2. MDD growth forecasts

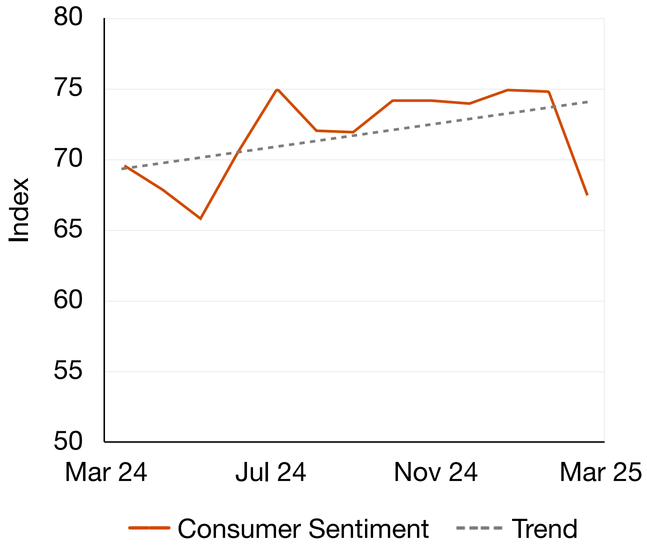


Source: CBI, CSO, ESRI

The global trade war is impeding growth across the major economies, with forecasts being revised downward.

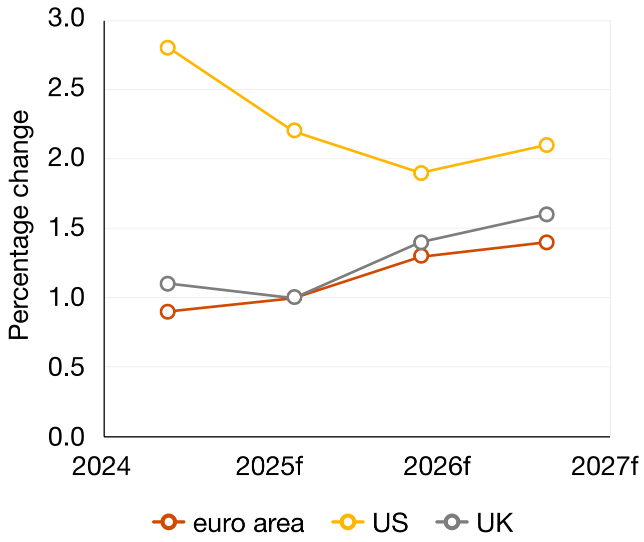
As a small, open economy, Ireland's economic output is highly dependent on global demand. As the trade war continues, economists are revising global growth projections downward. The US economy grew strongly by 2.8% in 2024 but is showing possible signs of weakening (see Figure 4). Early estimates by the US Department of Commerce suggest US output shrank by 0.3% in the first quarter of 2025. It is worth noting that this is prior to the announcement of additional tariffs. PwC's most recent projections suggest that the US growth rate will slow to 2.2% this year and will remain close to 2% in 2026 and 2027. Economic growth in the euro area and the UK was relatively subdued in 2024 at 0.9% and 1.1%, respectively. We anticipate the euro area and UK economies to grow by 1.0% in 2025, with growth rates of close to 1.5% in each subsequent year.

Figure 3. Irish consumer sentiment



Source: Irish League of Credit Unions

Figure 4. Global GDP growth forecasts



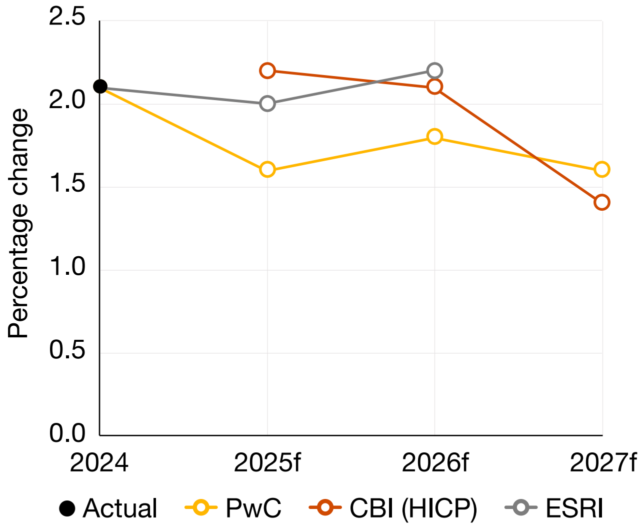
Source: PwC, Eurostat, BEA, ONS

3. Inflation

Inflation slowed to 2.1% in Ireland by the end of 2024 and is forecast to remain close to the target rate through to 2027.

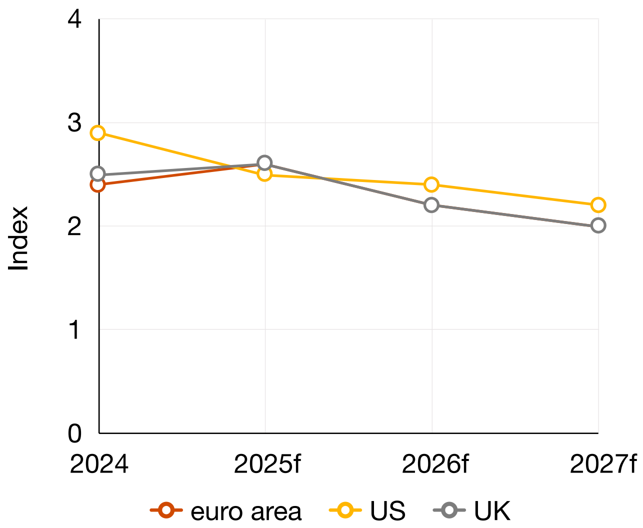
Ireland's inflation rate has continued to moderate, with PwC's most recent projections estimating annual inflation of 1.6% in 2025, 1.8% in 2026 and 1.6% in 2027 (see Figure 5). The services sector continues to be the main contributor to inflation in Ireland and is forecast to place continued upward pressure on inflation in the coming years. Demand for restaurants and cafes is the main driver of this services inflation.

Figure 5. Inflation forecasts for Ireland



Source: PwC, CBI, CSO, ESRI

Figure 6. Global inflation forecasts



Source: PwC

Inflation projections for Ireland's main trading partners show continued long-run moderation towards the target rate of 2%

Inflation is projected to continue to moderate across the euro area, the US and the UK over the forecast horizon (see Figure 6). PwC's most recent projections suggest that inflation will be close to 2.5% across the three economies in 2025 and will fall close to 2% by 2027. However, the impact of recent trade policy announcements by the US and the responses of other major economies remains to be seen. Increased barriers to trade will have an inflationary impact, but this may also be offset by fall off in demand for goods and services.

Uncertainty over the evolution of international trade policy poses a challenge for central bankers.

As noted above, the potential impact of increased trade barriers on inflation is unclear, as the precise nature of the changes to trade policy is not yet known. Central banks will be monitoring events closely as they plot their policy responses to the unfolding data. The policy rates for the euro area, the US and the UK are shown in Table 1. Many analysts expect that the three central banks will cut their rates once more before the midpoint of the year. This represents a significant loosening of monetary policy over the past 12 months.

Table 1. Interest rate outlook for major economies

	Current Rate	Last Change	Next meeting
European Central Bank	2.40%	April 2025	June 04-05
Federal Reserve	4.25% - 4.50%	December 2024	June 17-18
Bank of England	4.25%	May 2025	June 19

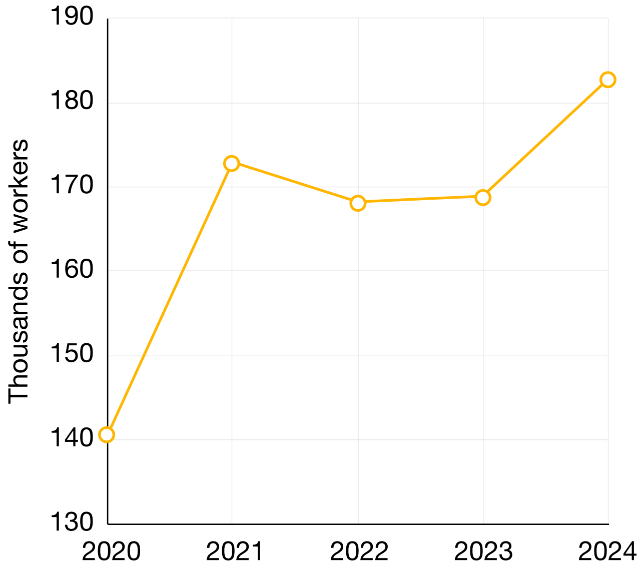
Source: PwC, ECB, FRB, BoE

4. Labour Market

Ireland's unemployment rate was 4.1% in April, down from 4.4% in April 2024.

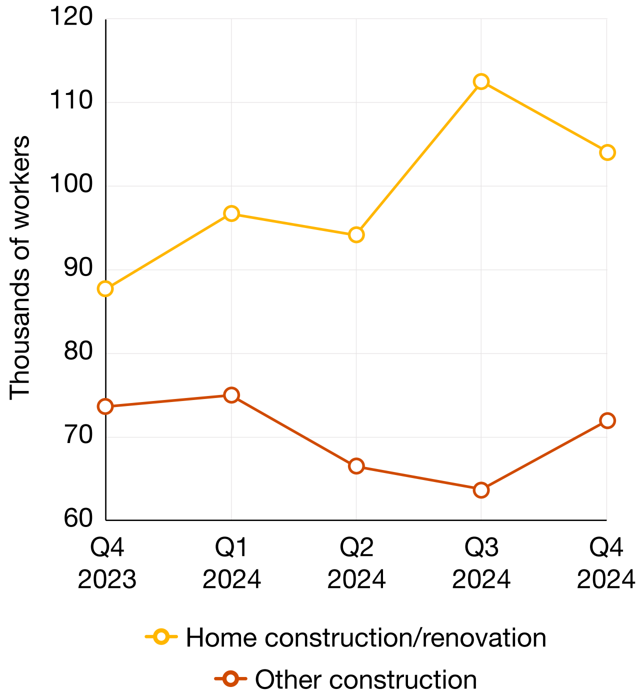
Ireland's job market remains very tight, sustaining a rate close to what is considered full employment for several years now. The last time that the seasonally adjusted unemployment rate was 5% or higher was in January 2022. It is from this position of strength that concern over potential job losses resulting from a general economic slowdown or escalating global trade war has been growing. Analysis by Indeed's Hiring Lab shows that job postings have continued to fall from post-pandemic highs but remain 15% above the pre-pandemic baseline. The decline in job postings has been most pronounced in Dublin. The most recent data on job vacancy rates (Q4 2024) shows a slight decline on the previous quarter to 1.1%.

Figure 7. Number of tech workers



Source: CSO

Figure 8. Construction employment



Source: CSO

Ireland's tech sector employment has grown by 30% in the last five years.

As shown in Figure 7, the number of workers in the Information and Communications (ICT) sector has increased by 30% over the past five years, from 141,000 in 2020 to 183,000 in 2024. Due to the significant presence of MNEs in Ireland's ICT sector, employment trends are more heavily influenced by global business and investment decisions compared to other sectors. In their latest commentary the ESRI highlighted that if global demand for the services provided by this sector declines, workforces may shrink. Alternatively, if firms consider the downturn to be temporary or the costs of adjustment too high, they might let output per worker decline. This implies that any short-term changes in exports could affect output more significantly than employment. In such a scenario, even if output decreases due to weaker export demand, employment might not decrease to the same extent.

Construction sector employment is growing strongly but there are signs of a possible reallocation of workers away from homebuilding.

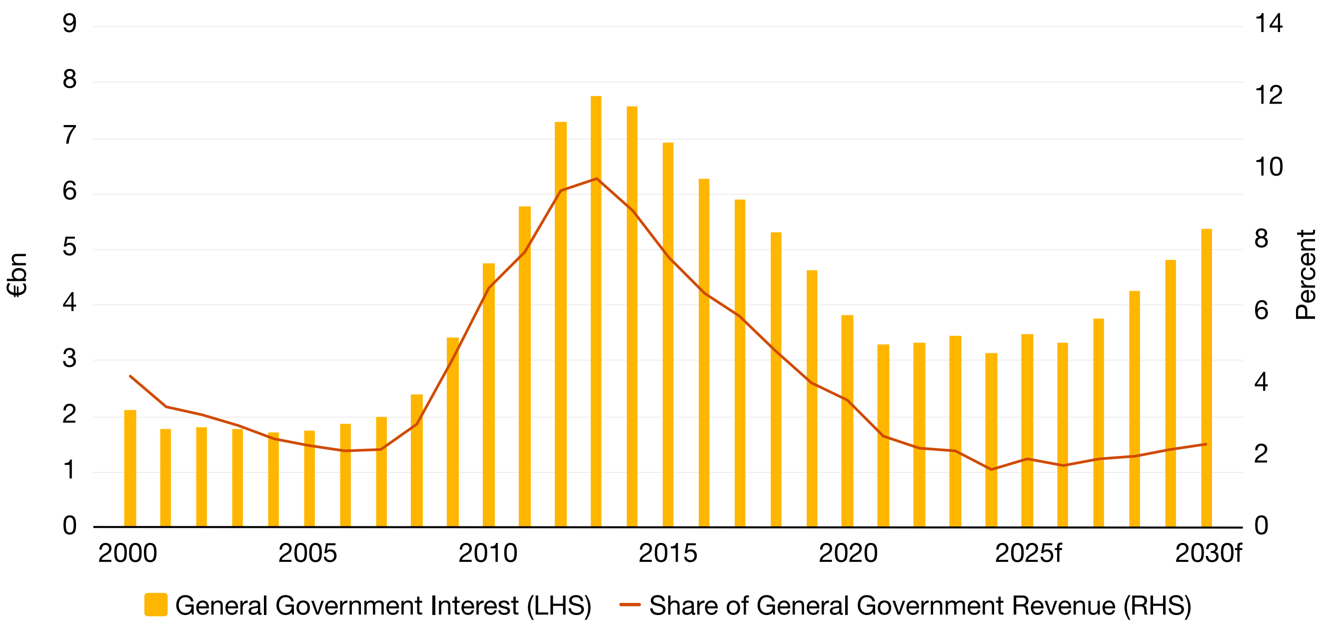
Overall construction sector employment has increased by 9% over the past year, standing at 176,000 in Q4 2024. Over the same period, the number of construction workers allocated to homebuilding increased by 19%, as shown in Figure 8. The chart suggests that while the overall number of construction workers has been increasing, there is also reallocation between homebuilding and other construction types. The data for Q4 2024 shows that the number of people engaged in homebuilding fell by 8,500 when compared to the previous quarter, while the number of people working in other construction areas increased by a similar amount. Were this to become a trend it would significantly inhibit the sector's ability to meet national housing delivery targets. Data from the CSO shows that 30,330 homes were completed in 2024, against a target of 33,450. The target for 2025 is 41,000 homes. A 2024 Construction Industry Federation (CIF) survey found that construction firms' biggest challenge is access to skilled labour. Increasing the inflow of workers into this industry, through reskilling programmes, promoting apprentices after secondary school and incentivising innovation can all help combat these employment constraints while providing a long-term steady pipeline of construction projects throughout the economy will retain construction workers.

5. Fiscal Outlook

Total interest payments on government debt are expected to increase in the coming years but at a slower pace than government revenues.

The State paid €3.1bn in interest on government debt in 2024, less than half of the €7.6bn that was paid out a decade previously (see Figure 9). Forecasts suggest that interest payments will increase to around €5.4bn by 2030. It is worth noting that Ireland's economy is now significantly bigger than in 2014, with modified gross national income up by 40%. The State's ability to service debt is also much stronger, with total annual tax revenues up by 162% in a decade. As a result, it is expected that interest payments as a share of general government revenue will not increase markedly by the end of the decade, climbing from 2.5% in 2025 to 3% in 2030. Nonetheless, this does highlight the importance of key tax categories in funding government expenditure and interest payments. We look at the growing importance of corporation tax below.

Figure 9. Interest paid on general government debt

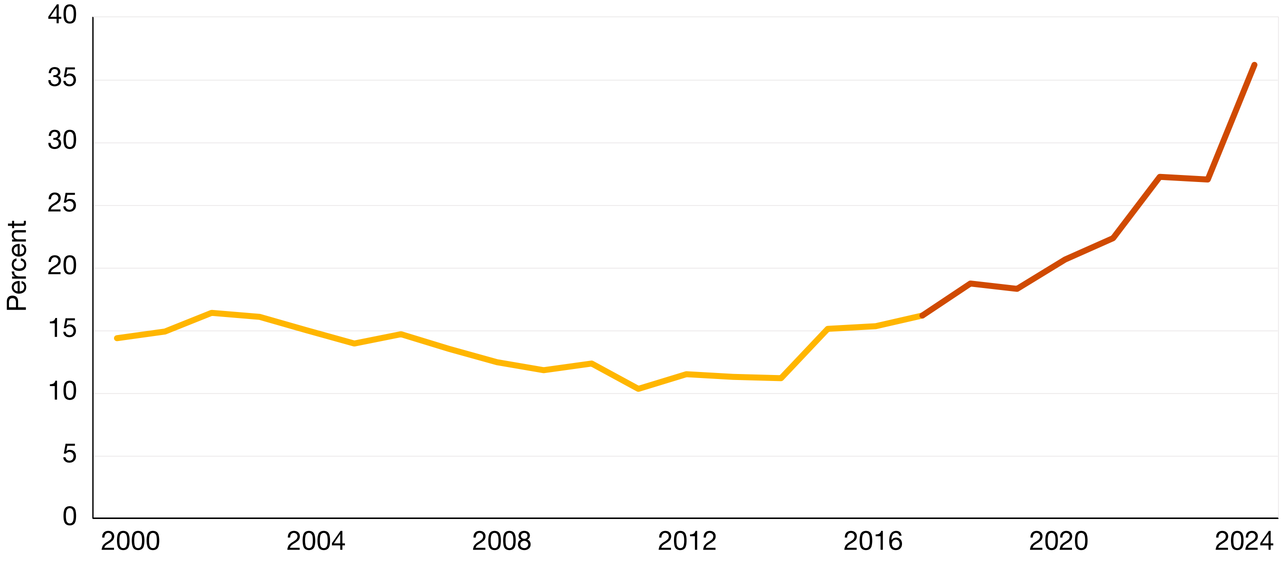


Source: NTMA

Corporation tax now represents over a third of all tax revenues.

Corporation tax, which historically represented an average of 14% of total tax receipts, has grown in importance in recent years and now stands at 36% of all tax revenues. Much of this tax income is related to the international activities of a small number of multinational firms based in Ireland and is also concentrated by sector. There is concern that major changes to global trade patterns, resulting from an escalating trade war, would reduce the profits of these firms and ultimately reduce the corporation taxes that they pay. The Central Bank recently noted that a loss of market share or a prolonged downturn of one or more individual firms poses a risk to trade growth with negative consequences for tax revenues.

Figure 10. Corporation tax share of total tax receipts



Source: DoF

6. Topic in Focus: Pharmaceuticals

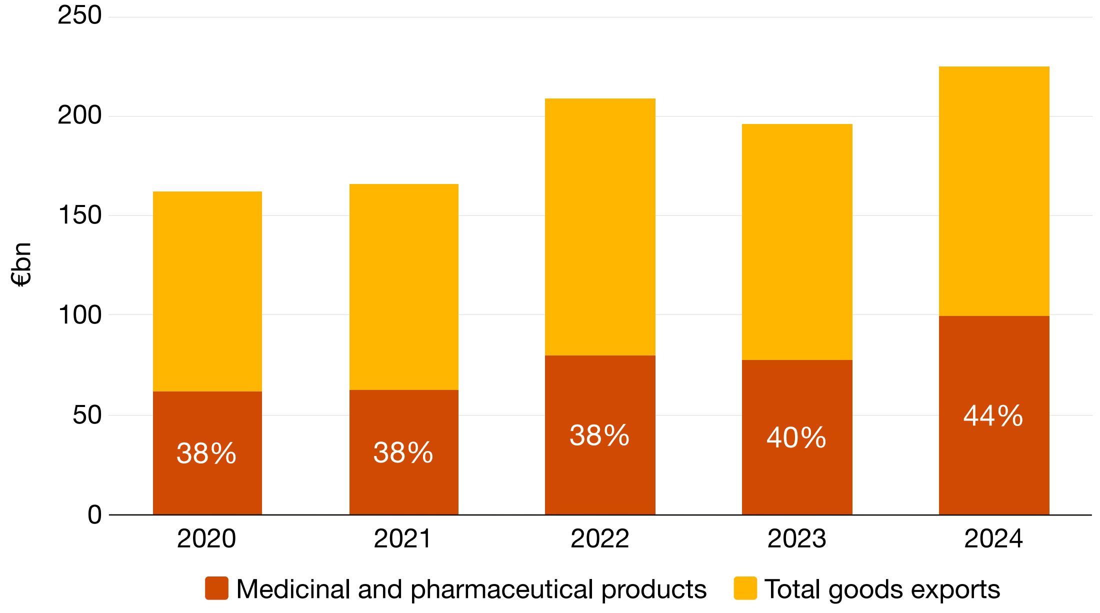
As the third largest exporter of pharmaceutical products in the world, Ireland plays a critical role in global supply chains.

Ireland's pharmaceutical sector is home to some of the world's largest pharma companies with nine of the world's top ten pharmaceutical companies headquartered here. This is due in part to Ireland's comparatively low corporate tax rate, access to a highly educated workforce and Ireland's membership of the European Union. Ireland's path to becoming a global pharma hub began in the 1960s with a focus on active pharmaceutical ingredients. Substantial investment occurred in the 1990s with a shift toward secondary manufacturing and the sector was one of the strongest performing through the Celtic Tiger. The pharmaceutical sector is now one of Ireland's main export sectors, with Ireland being the third largest pharma exporter in the world, according to the UN's international trade statistics. The sector employs more than 50,000 people across the State.

Pharma products represent a growing share of Ireland's goods exports.

In 2024, medicinal and pharmaceutical products made up 44% of all Irish goods exports (see Figure 11). Data for the first two months of 2025 show that the share surged to 62%, which may be due to anticipation of new tariffs on the sector. While the 2025 data may represent a temporary outlier, the proportion of exports that are pharma products has been increasing over time. Given this trend, the imposition of tariffs on the pharma sector could have a significant impact on Ireland's economic output. Furthermore, as we show below, Irish pharma exports are very geographically concentrated.

Figure 11. Pharma products as a share of total goods exports



Source: CSO

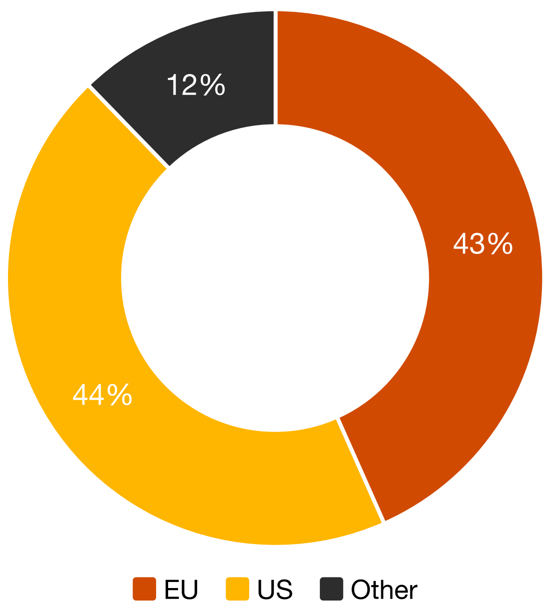
Tariffs and trade wars… what's going on?

A tariff is a tax on the import of merchandise goods which is typically a percentage of the value of imports or a specific tariff (e.g., currently finished pharmaceutical products attract a 0% tariff on import into both the US and EU). Tariffs raise revenue for the government imposing the tariff, but they also increase the price of the good in that country, with implications for consumers. Tariffs give domestically produced products a price advantage relative to foreign goods, but consumers also consider other factors such as quality when making purchasing decisions. A trade war can ensue when economic disputes are raised between two countries, with the consequences being retaliatory restrictions on trade such as tariffs, which may continue to ratchet up as the trade war escalates. On 2 April, the US imposed a minimum tariff of 10% on all countries, with higher rates applied to countries with which the US has a trade deficit in goods. A revision to US trade policy followed one week later, with a baseline rate of 10% applied to all countries on a concessionary basis for 90 days and a much higher rate applied to China. Uncertainty continues to weigh on markets and consumer sentiment.

The overwhelming majority of Irish pharma exports are to the US and the EU, with 44% and 43% shares, respectively.

In 2024, 44% of all Irish pharma exports went to the US, 43% went to EU member states and the remaining 12% went to the rest of the world. The dominance of the US in Irish pharma exports has given rise to concern over the possibility of tariffs being imposed on the sector. President Trump singled out Ireland's pharma sector for comment when meeting the Taoiseach on St. Patrick's Day. The pharmaceutical industry has highlighted that tariffs would raise drug costs for Americans and limit patient access. The initial round of tariffs imposed by the US Administration on 2 April exempted pharma products, but this was quickly followed by an announcement that the sector would face major tariffs very shortly. The US Department of Commerce launched an investigation into the national security implications of pharma imports on 1 April, which may ultimately inform the nature of the tariffs, if any, imposed on the sector. In the meantime, several pharma companies have written to the European Commission seeking help to maintain operations in the EU.

Figure 12. Ireland's major pharma export markets



Source: CSO

While tariffs would pose a significant challenge for Ireland's pharma sector, there are a number of factors that influence investment and production.

Ireland's pharma sector has a very strong connection to the US economy, with several large US firms operating here, and almost half of all pharma products exported to the US. Tariffs imposed on the pharma sector by the US administration would impact Ireland's pharma sector output.

However, the pharma industry has several compelling reasons to continue to produce and invest in Ireland, including:

- Significant investment: Many companies have already invested heavily in specialised and complex manufacturing facilities in Ireland, making relocation costly and impractical.
- Skilled workforce: Ireland has a highly skilled workforce with expertise in the pharmaceutical sector, which is difficult to replicate elsewhere in a timely manner.
- Stable environment: Ireland offers a stable political and economic environment, which is crucial for long-term investments.
- Infrastructure and supply chains: The existing infrastructure, including logistics and supply chain networks, supports efficient operations.
- Regulatory framework: The country has a robust regulatory framework that aligns well with international standards, ensuring smooth operations.
- Proximity to markets: Ireland's location provides easy access to European and other international markets.

7. Behavioural Issues

Each quarter we take the opportunity to keep our biases in check

Cognitive biases are systematic errors in the way individuals reason with the world around them due to subjective perceptions of reality. In this section we explore the what, where, when and why of a different bias each quarter.

Confirmation bias

Confirmation bias is the subconscious tendency to search for information that confirms or supports one's prior beliefs or values, while dismissing contradictory information. From political beliefs to personal relationships, people tend to surround themselves with others who hold similar views of the world and seek out information which confirms rather than challenges their own beliefs.

Us vs. them

A common occurrence in human nature is to adopt an 'us vs. them' mentality. People tend to socially categorise themselves and others into groups. Those within your group will likely share similar characteristics, views and beliefs, while those outside your group will hold differing ideas. The 'us vs. them' mentality occurs when people tend to favour those within their own social group and alienate those outside their group, often causing tension and conflict between social groups. Some common 'us vs. them' groups stem from religious views, political beliefs, or social class.

Groupthink

It can be challenging to find contradictory opinions when individuals surround themselves with likeminded people. Often when engaging with those within your own social group, information circulated within the group will confirm rather than contradict any beliefs held. This mentality, known as groupthink, can potentially lead to suboptimal decision-making as the absence of contradictory or diverse views means that critical assessment is not carried out. To combat this potential downfall, the sixteenth US President, Abraham Lincoln, appointed political rivals to his cabinet, allowing him to access a wider range of opinions and thus improve his own critical thinking.

Confirmation bias confirmed

1. Supporters of differing political parties will often have contrasting views on societal issues and a key difference that can be seen between these groups (and how they engage confirmation bias) is the choice of news and media they consume. Different groups tend to consume media that is ideologically aligned with their personal views, with each group unlikely to engage with or trust the opposition's preferred media, claiming "misinformation" or "fake news". This becomes a breeding ground for confirmation bias as both groups are only consuming media which they believe to be trustworthy while not engaging with contradictory views.

2. Due to the subconscious nature of this bias, people often don't notice how bias is framed in language. This can become evident when individuals use search engines for topics that are surrounded by debate. The way in which a person frames their search, whether positively or negatively can indicate to the search engine the type of information the person will want to see. This information that search engines produce may not necessarily be the most beneficial information to the user, but it will match the frame in which it was searched, thus providing confirming information to the user.

3. Confirmation bias can also be evident in decision-making settings, whether in government or around the boardroom table, depending on the sort of expertise decision makers are surrounded by. Where decision makers appoint their own advisors, they are more likely to fall foul of confirmation bias than those with independently appointed advisors.

Beat the bias

To overcome confirmation bias, ensure diversity in the workplace, through both staff and information sources and seek out challenging and contradictory views to establish robust decision making which stands up to scrutiny.

Authors

Robert Costello
Partner
robert.costello@pwc.com

Ciarán Nevin
Senior Economist
ciaran.nevin@pwc.com

Ria Smyth
Senior Associate Economist
ria.smyth@pwc.com

With contributions from Senior Associates Brendan Connor and Marcus Rafferty

Appendix

Sources

Bank of England
Central Bank of Ireland
Central Statistics Office
Construction Industry Federation
Economic and Social Research Institute
European Central Bank
Eurostat
Federal Reserve Bank
Indeed Hiring Lab
Irish League of Credit Unions
National Treasury Management Agency
PwC Global Economy Watch - Projections

Glossary

BoE	Bank of England
CBI	Central Bank of Ireland
CSO	Central Statistics Office
DoF	Department of Finance
ECB	European Central Bank
ESRI	Economic and Social Research Institute
FRB	Federal Reserve Bank
GDP	Gross domestic product
GVA	Gross value added
HICP	Harmonized Index of Consumer Prices
IDA	Industrial Development Agency
IFAC	Irish Fiscal Advisory Council
ILCU	Irish League of Credit Unions
MDD	Modified domestic demand
NTMA	National Treasury Management Agency

Notes

The data cut-off is 8 May 2025.