2.4. IRELAND

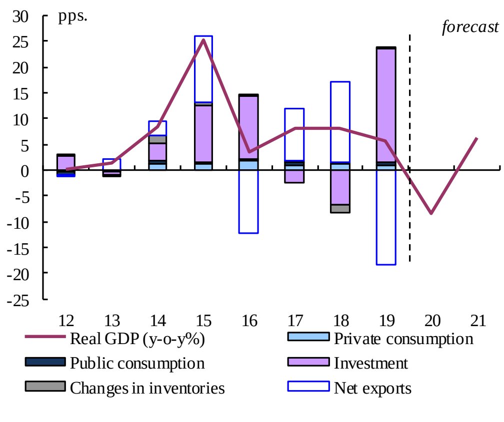
Real GDP in Ireland grew by 1.2% (q-o-q) in the first quarter of 2020, despite a decline in private consumption. Growth was supported by strong exports of goods, particularly pharmaceuticals, as well construction investment. Manufacturing and the information and communication sectors performed particularly well, while distribution, transport, accommodation and food services already contracted.

Economic activity is expected to have plunged in the second quarter of the year due to the COVID-19 pandemic and its associated lockdown. Private consumption is set to be particularly hit, since Ireland's quarantine measures were long and wide-ranging. High frequency indicators as well as business and consumer sentiment suggest that activity collapsed in April and has been recovering only gradually since then with levels in June still lower than they were before the pandemic. On the production side, some economic activities resumed earlier than initially envisaged, limiting somewhat the domestic economic fallout. Official unemployment remained low at about 5.3% in the second quarter of 2020, while COVID-adjusted unemployment (i.e. including persons who are receiving unemployment payments for losing their job because of the pandemic) surged to 28.2% in April, before declining to 26.6% in May and 22.5% in June. Fiscal stimulus released in the second quarter to support households and businesses is expected to have dampened the decline in real GDP. Fiscal policy is set to remain supportive in the second half of the year. However, the spread of the global pandemic, which caused a marked decline in exports in April, has also weakened the prospects of exports for the second half of the year.

All in all, real GDP is projected to contract by 8½ % in 2020, while the economy is expected to grow by 6¼ % in 2021, on the back of the pent-up domestic demand release and the global post-crisis recovery.

HICP inflation has been gradually decreasing since the beginning of the year, turning negative in April and May. Falling oil prices had a particularly negative impact. Services inflation remains positive but has fallen and is likely to continue moderating over the coming months as social distancing measures continue. Processed food prices on average have risen by less than 0.5% since the start of the year. HICP inflation is forecast to remain very low in 2020 at -0.2%, and to increase to 0.8% in 2021, amid a gradual restoration of economic activity.

Graph 2.4: **Ireland - Real GDP growth and contributions**



Ireland's economic outlook remains affected by specific uncertainty concerning the future relationship between the EU and the UK, potential changes in the international taxation environment and the activities of multinationals registered in Ireland.