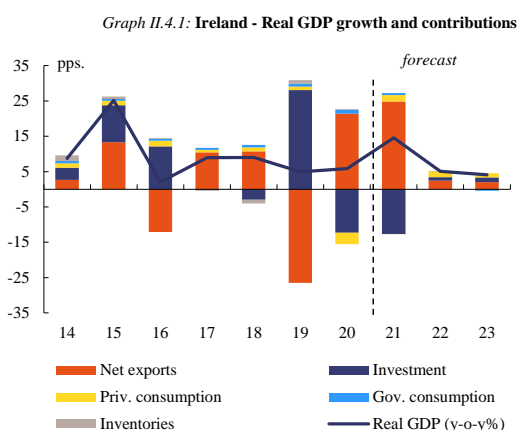


4. IRELAND

GDP is expected to grow very strongly this year, driven by the activities of multinational companies and supported by a domestic recovery. Private consumption is rebounding as households' saving patterns normalise, while domestic investment — particularly in construction — is expected to register robust growth over the forecast horizon. Inflation has picked up and is projected to increase further in 2022. The fiscal outlook is set to improve from 2021 onwards, with the headline deficit ratio reaching 0.3% in 2023.

Multinational companies' exports and a domestic recovery spur growth

Ireland's real GDP grew very fast in the first half of 2021, led by exports of multinational corporations, but also increasingly supported by the recovery in domestic demand. Private consumption is rebounding, having nearly reached pre-pandemic levels in the second quarter of 2021, while construction activity is also resuming strongly. Leading indicators for the second half of the year point to a continuation of the domestic recovery, with consumer spending increasing and business sentiment for both manufacturing and services indicating a considerable revival of activity. Very high vaccination rates allowed the government to further ease COVID-19 restrictions in late October. This is likely to spur private consumption, particularly of contact-intensive services. Multinationals' exports are expected to continue performing well in the second half of the year, while exports of indigenous companies are also picking up strongly.



The very high household saving rates driven up by curtailed spending opportunities and precautionary motives are set to normalise over the forecast horizon as pent-up demand — particularly for services — is released. This will provide support to private consumption, which is forecast to grow

by 7.4% in 2021 and 6.7% in 2022 before moderating to 4.8% in 2023. Surveys suggest that part of these savings will be channelled into the housing market, for new investment and renovation. Construction activity has already regained ground but shows further scope to grow in view of excess demand for housing in Ireland. Furthermore, the government intends to significantly expand the pool of affordable housing, adding to the need for new construction. Other domestic investment is set to benefit from lower uncertainty, and supportive economic and financial conditions.

While investment activities of multinational companies remain volatile, they are assumed to follow a much more subdued trend compared to their surge in previous years, which will also lower imports in 2021. Meanwhile exports are expected to remain strong, with multinational corporations' export sales being lifted by past investments, including into new production capacities for pharmaceuticals. Equally, domestic exporters are benefitting from an improving external environment.

Overall, Ireland's economy is projected to grow by 14.6% in 2021, 5.1% in 2022 and 4.1% in 2023. Modified domestic demand, which better reflects underlying domestic economic activity, has returned to pre-pandemic levels in the second quarter of 2021. It is expected to expand by 7.3% this year, 5.3% in 2022 and 3.2% in 2023.

Higher inflation, albeit transitory

HICP inflation increased in summer, driven by rapidly rising energy prices, recovering demand and cost pressures from supply bottlenecks. While energy was by far the largest driver, services inflation has also picked up amidst re-opening and simultaneous hiring in the sector. These drivers are expected to persist well into 2022, thereby temporarily accelerating inflation, before price pressures gradually dissipate in 2023. HICP is

projected at 2.3% in 2021, 3.1% in 2022 and 1.5% in 2023.

Labour market recovers

The Irish labour market still benefits from public support, though the schemes are being gradually wound down via tightened eligibility and reduced payment rates. The reopening of the labour-intensive services sector helped to reignite employment, with October's ending of most pandemic restrictions providing another boost. Employment expectations are positive overall. However, the unemployment rate remains above pre-crisis levels and is expected to decline moderately over the forecast horizon. This reflects the uneven impact of the pandemic on different sectors, with some sectors now needing less employees and others running into capacity constraints due to the lack of workers with the right skills and a reduced net inflow of foreign workers.

income tax receipts as of September 2021. On the expenditure side, an undershoot in government investment in 2021 is projected to also contribute to a lower deficit. A positive denominator effect from strong nominal GDP growth also supports the reduction in the deficit ratio.

In 2022, the deficit is forecast to further decrease to 1.7% of GDP as the effect of pandemic response measures fades. According to Budget 2022, income support measures have been extended until April 2022. An almost-balanced budget is expected by 2023, at 0.3% of GDP, under the assumption that support measures to fight the pandemic are withdrawn as planned.

The general government debt-to-GDP ratio is projected to decrease to 55.6% in 2021, 52.3% in 2022 and 51.1% in 2023. Risks to the fiscal outlook include the actual impact of upcoming changes in international corporate taxation.

Deficit starts decreasing as of 2021

Ireland's general government deficit is forecast to decrease to 3.2% of GDP in 2021 from 4.9% in 2020. Revenue growth is expected to be broad-based amidst a positive surprise in corporate

Table II.4.1:

Main features of country forecast - IRELAND

	2020		02-17	Annual percentage change						
	bn EUR	Curr. prices		% GDP	2018	2019	2020	2021	2022	2023
GDP	372.9	100.0	4.2	9.0	4.9	5.9	14.6	5.1	4.1	
Private Consumption	93.4	25.1	2.3	3.7	3.2	-11.1	7.4	6.7	4.8	
Public Consumption	47.2	12.6	2.1	5.3	6.8	9.4	4.2	0.0	-3.9	
Gross fixed capital formation	147.9	39.7	6.9	-8.9	99.5	-22.9	-31.8	4.1	5.4	
of which: equipment	17.8	4.8	7.7	19.1	-5.8	-28.3	15.2	10.3	7.4	
Exports (goods and services)	488.9	131.1	6.6	11.5	10.4	9.5	15.2	5.9	5.1	
Imports (goods and services)	405.8	108.8	6.0	3.3	41.7	-7.4	-4.5	5.8	5.0	
GNI (GDP deflator)	283.4	76.0	3.8	8.0	3.2	4.0	15.5	3.8	4.1	
Contribution to GDP growth:										
Domestic demand			3.1	-1.1	29.9	-14.4	-10.3	2.6	2.1	
Inventories			0.2	-1.1	1.0	0.2	0.0	0.0	0.0	
Net exports			1.7	10.7	-26.5	21.4	24.8	2.5	2.0	
Employment			1.3	3.2	2.9	-1.5	3.0	1.7	1.7	
Unemployment rate (a)			9.0	5.8	5.0	5.7	7.5	6.8	6.2	
Compensation of employees / head			2.5	2.5	3.4	2.4	4.2	5.0	6.1	
Unit labour costs whole economy			-0.4	-3.0	1.4	-4.7	-6.3	1.6	3.7	
Real unit labour cost			-1.8	-3.7	-2.8	-3.5	-6.1	-0.4	2.2	
Saving rate of households (b)			10.0	11.6	12.2	25.2	18.5	14.6	13.9	
GDP deflator			1.4	0.7	4.2	-1.2	-0.2	2.0	1.4	
Harmonised index of consumer prices			1.4	0.7	0.9	-0.5	2.3	3.1	1.5	
Terms of trade goods			-0.1	-6.4	4.9	-1.8	-1.6	-0.5	-0.1	
Trade balance (goods) (c)			24.3	33.6	33.1	38.9	40.0	39.8	39.6	
Current-account balance (c)			-1.8	6.0	-11.3	-2.8	15.4	14.4	14.6	
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-2.6	-9.9	-21.2	-6.9	11.1	9.9	9.9	
General government balance (c)			-5.2	0.1	0.5	-4.9	-3.2	-1.7	-0.3	
Cyclically-adjusted budget balance (d)			-5.2	0.0	2.3	-2.4	-4.7	-3.1	-1.2	
Structural budget balance (d)			-3.0	0.0	2.3	-2.4	-4.7	-3.1	-1.2	
General government gross debt (c)			64.1	63.1	57.2	58.4	55.6	52.3	51.1	

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.