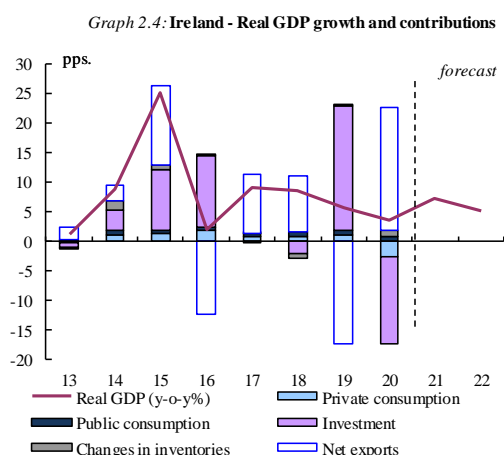


2.4. IRELAND

Real GDP in Ireland grew by 7.8% (q-o-q) in the first quarter of 2021, driven by strong export volumes from multinational companies. The performance of the domestic economy, however, was much weaker due to strict containment measures, with private consumption declining by 5%. Construction contracted by nearly a fifth from the fourth quarter of 2020, weighing on total investment. The fall in consumption and investment was accompanied by lower imports.

On the back of the strong first quarter reading, Ireland's real GDP growth projections has been revised up to 7.2% in 2021. Progress in vaccination in the second quarter resulted in a gradual relaxation of the restrictions in contact-intensive sectors, paving the way for an expected pick-up in domestic demand. Early indicators, such as retail sales, industrial production and construction volumes, jumped in April. Most confidence indicators also improved in May, with particular optimism in services, both concerning the current situation and demand expectations. Domestic sectors are expected to perform even better in the second half of the year. More moderate, though still strong GDP growth of 5.1% is expected in 2022, on the back of the partial unwinding of the very large household savings accumulated during the long and very strict lockdowns and the continuously improving external environment.

The official unemployment rate was 7.8% in May (Eurostat recently revised upward these series), while the COVID-adjusted unemployment rate (i.e. including people receiving Ireland's Pandemic Unemployment Payment) stood at 21.9%. The labour market recovery is expected to gather momentum once labour-intensive services sectors fully reopen, a trend already well visible in the observable weeks of June. The government has extended income support schemes until the end of the year, though their take-up is likely to be smaller than during the height of pandemic.



HICP inflation increased substantially in April and May, mainly as a result of higher oil prices. Service price inflation also rose, particularly in May, as the services sector opened up gradually amid some remaining constraints and demand pressures. Inflation of unprocessed food and industrial goods was negative, though for the latter much less than in previous years because of increased supply bottlenecks, trade frictions and freight costs. HICP inflation is projected to rise to 1.5% in 2021 before declining to 1.2% in 2022.

Ireland's economic outlook is subject to downside risks related to potential changes in the international taxation environment and the impact on trade of developments in the implementation of the Protocol on Ireland/Northern Ireland. On the upside, the performance of multinational corporations could again exceed expectations.