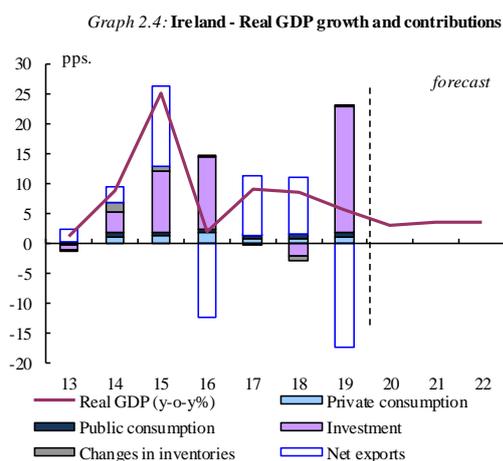


2.4. IRELAND

Real GDP is estimated to have grown by 3.0% in 2020, the only positive growth rate in the EU, boosted by exports from multinational companies specialising in medical equipment, pharmaceuticals and computer services. In the third quarter, growth was very strong as, in addition, private consumption and domestic investment rebounded after the lifting of pandemic-related restrictions. Movement restrictions for the public were reintroduced again in the fourth quarter, dampening domestic activity, but the lifting of restrictions in the run-up to Christmas helped retail trade. Confidence indicators and very strong production data for November suggest that the impact of the pandemic on GDP growth should be relatively benign in 2020-Q4.



Ireland started 2021 under a strict lockdown that includes a ban on non-essential construction that is set to last until 5 March. This, and the UK's departure from the Single Market and Customs Union on 1 January 2021, which has led to inevitable trade frictions, are expected to dampen growth in the first quarter. Thanks to the EU-UK Free Trade Agreement, the loss of trade and GDP growth for Ireland is expected to be smaller compared to what was projected in the Commission's Autumn Forecast, which assumed EU-UK trade based on WTO terms.

The government extended income subsidy schemes until end-March to continue cushioning the economic impact of the pandemic. Limited possibilities to spend, combined with income support imply that household savings will continue to accumulate at a historically brisk pace, which should boost consumption once restrictions are lifted. The expected global recovery should also support strong growth in Ireland from the second half of 2021. Overall GDP growth is projected at 3.4% in 2021. In 2022, growth is projected to reach 3.5% on the back of strong private consumption, exports, and a recovery in investment.

HICP inflation was negative in 2020 when it was dragged down by low energy and non-energy industrial goods' prices. Services' inflation subsided to nearly zero in 2020-Q4. After dropping to -0.5% in 2020, HICP inflation is forecast to rise to 0.7% in 2021, when it is expected to be moderated by economic weakness early in the year but fuelled by higher non-tariff-related trade costs with the UK. Inflation is projected to increase to 1.6% in 2022 as the economic recovery stabilises.

Risks specific to Ireland's economic outlook are linked to changes in the international taxation environment and the activities of multinationals registered in Ireland, which could shift GDP growth in either direction. Future spending related to the Recovery and Resilience Facility the Brexit Adjustment Reserve are not included in this forecast and constitute an upside risk.