# 7. IRELAND

## Strong labour market and investment supporting domestic growth

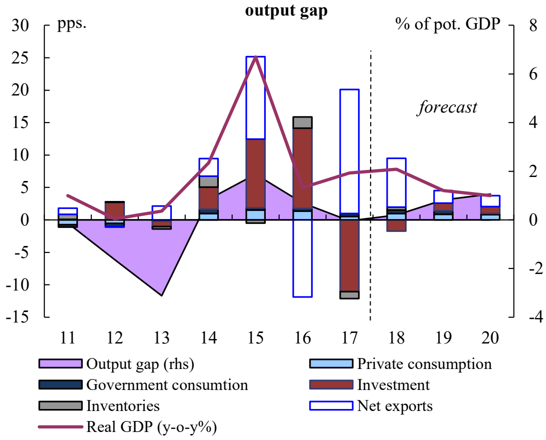
*GDP growth in Ireland is expected to be strong this year, driven largely by the activities of multinational companies, but the pace is projected to moderate. The positive performance of the labour market and construction investment are expected to support the domestic economy in the near term. The government deficit is projected to turn slowly into a surplus, but risks to the fiscal outlook remain.*

### Domestic economy expected to grow at a solid pace...

Ireland reported 9.1% GDP growth in the first half of the year, a level well above the euro area average but distorted by the activities of multinational companies. The economy is forecast to expand by 7.8% this year but growth should moderate to 4.5% in 2019 and 3.8% in 2020.

*Modified domestic demand*, a measure of domestic activity that strips out some of the effects of multinationals, grew by 6.3% (y-o-y) in the first half of 2018. It is projected to expand at an average rate of over 4.0% between 2018 and 2020.

Graph II.7.1: **Ireland - Real GDP growth and contributions, output gap**




### ...supported by employment and investment

Employment, in particular full-time employment, increased strongly in the first half of 2018. Both the employment rate and participation rates, which remain below pre-crisis peaks, are expected to continue trending upward. The unemployment rate stood at 5.4% in September 2018 and is forecast to drop below 5% in 2020. Household earnings also grew, driven by robust job creation and moderate increases in hourly wages. The tightening of the labour market is expected to put upward pressure on wages and thus support household disposable income over the forecast horizon.

Construction activity was strong in the first half of 2018 and is expected to maintain momentum, driven by persistent supply shortages. Over the same period, investment in machinery and equipment picked up, partly matched by an associated increase in imports in this category, and is projected to expand by 15.7% in this year. However, headline investment declined by 16.5% (y-o-y) mostly due to a slowdown in imports of intellectual property, with a neutral effect on GDP.

### Moderate inflation to support consumption

HICP inflation remained subdued in the first half of 2018 but accelerated in the third quarter as global oil prices rose. HICP inflation is projected to increase by 0.7% in 2018, driven by higher energy and services prices and is forecast to reach 1.2% in 2019 and 1.4% in 2020, as service prices rise in line with strong domestic demand. The modest inflation outlook is expected to remain favourable to the purchasing power of households.

### Trade developments remain highly volatile

Through the first half of 2018, total exports increased by 8.7% (y-o-y), driven largely by trade in pharmaceutical goods while exports of services grew only modestly. Over the same period, total imports declined by 3.7% (y-o-y) mainly due to a strong fall in imports of services related to research and development by multinationals. By contrast, imports of goods increased by 7.2%. Consequently, net exports are expected to contribute considerably to GDP growth in 2018. In 2019 and 2020, net exports are expected to contribute positively to GDP growth, although significantly less than in 2018. However, headline trade figures will likely continue to be influenced by the activities of multinationals.

### External risks to the outlook on the downside

Ireland's economic outlook is subject to significant uncertainties related, inter alia, to changes in the international taxation and trade environment. A large degree of unpredictability remains linked to the activities of multinationals, which could drive headline growth either up or down.

### Public finances supported by buoyant tax revenues

The headline government balance is projected to improve to -0.1% of GDP in 2018. Cash returns for the first three quarters of 2018 were broadly in line with government projections, notwithstanding some expenditure slippages, particularly in the health area. Tax revenues increased by 6.6% over the twelve months to September, partly compensating for strong expenditure growth.

Ireland's 2019 Draft Budgetary Plan includes new spending measures and reductions of personal income tax of around 0.5% of GDP. These expansionary measures are partly financed by revenue raising measures of 0.2% of GDP.

Including the pre-committed expenditure increases, the balance is expected to stay unchanged in 2019 and, based on a no-policy change assumption, register a surplus of 0.2% of GDP in 2020. The main risks to the fiscal outlook remain on the downside, reflecting uncertainty as regards the economic outlook, the sustainability of the current level of some sources of government revenue (notably corporate income taxes) and over-spending within the health sector.

After remaining steady in 2018, the structural balance is expected to deteriorate in 2019 before improving in 2020. The general government debt ratio is projected to decline to 63.9% of GDP in 2018 and to fall further to 61.1% and 56.0% of GDP in 2019 and 2020 respectively. This is contingent on continued stable medium-term economic growth and positive primary balances.

*Table II.7.1:*

**Main features of country forecast - IRELAND**

| | 2017 | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | bn EUR Curr. prices | % GDP | 99-14 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| GDP | 294.1 | 100.0 | 3.9 | 25.1 | 5.0 | 7.2 | **7.8** | **4.5** | **3.8** |
| Private Consumption | 93.8 | 31.9 | 3.0 | 3.6 | 4.1 | 1.6 | **3.1** | **2.9** | **2.7** |
| Public Consumption | 35.6 | 12.1 | 2.7 | 1.9 | 3.5 | 3.7 | **4.3** | **4.3** | **1.4** |
| Gross fixed capital formation | 69.0 | 23.5 | 3.1 | 51.1 | 51.4 | -31.0 | **-7.3** | **5.7** | **5.1** |
| of which: equipment | 17.5 | 6.0 | 6.3 | -2.9 | 24.2 | -11.2 | **15.7** | **3.4** | **4.1** |
| Exports (goods and services) | 352.6 | 119.9 | 6.6 | 39.3 | 4.4 | 7.8 | **6.1** | **4.5** | **4.1** |
| Imports (goods and services) | 263.3 | 89.5 | 5.8 | 33.2 | 18.5 | -9.4 | **-0.3** | **4.1** | **3.8** |
| GNI (GDP deflator) | 234.2 | 79.6 | 3.5 | 13.8 | 11.6 | 4.6 | **6.0** | **4.1** | **3.1** |
| Contribution to GDP growth: Domestic demand | | | 2.6 | 12.3 | 14.3 | -10.1 | **-0.2** | **2.6** | **2.0** |
| Inventories | | | 0.1 | -0.4 | 1.7 | -1.1 | **0.5** | **0.0** | **0.0** |
| Net exports | | | 1.6 | 12.7 | -11.9 | 19.1 | **7.5** | **1.9** | **1.7** |
| Employment | | | 1.5 | 3.5 | 3.8 | 2.9 | **3.1** | **2.6** | **2.0** |
| Unemployment rate (a) | | | 8.4 | 10.0 | 8.4 | 6.7 | **5.6** | **5.1** | **4.9** |
| Compensation of employees / head | | | 3.4 | 2.6 | 2.1 | 0.9 | **2.7** | **3.0** | **3.4** |
| Unit labour costs whole economy | | | 1.0 | -15.2 | 0.9 | -3.2 | **-1.8** | **1.1** | **1.6** |
| Real unit labour cost | | | -0.7 | -21.0 | 1.7 | -3.6 | **-3.5** | **-0.7** | **-0.4** |
| Saving rate of households (b) | | | 7.9 | 6.8 | 6.7 | 8.6 | **8.4** | **8.3** | **8.2** |
| GDP deflator | | | 1.8 | 7.4 | -0.8 | 0.4 | **1.7** | **1.9** | **2.1** |
| Harmonised index of consumer prices | | | 2.1 | 0.0 | -0.2 | 0.3 | **0.7** | **1.2** | **1.4** |
| Terms of trade goods | | | -0.5 | 8.0 | 2.3 | -5.3 | **0.1** | **0.0** | **0.0** |
| Trade balance (goods) (c) | | | 21.5 | 43.2 | 38.8 | 36.6 | **36.4** | **35.7** | **35.0** |
| Current-account balance (c) | | | -1.8 | 4.4 | -4.2 | 8.5 | **11.7** | **11.6** | **11.4** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | -1.8 | 3.9 | -5.7 | -1.1 | **3.5** | **3.8** | **4.1** |
| General government balance (c) | | | -4.3 | -1.9 | -0.5 | -0.2 | **-0.1** | **-0.1** | **0.2** |
| Cyclically-adjusted budget balance (d) | | | -4.5 | -2.9 | -0.9 | -0.2 | **-0.2** | **-0.5** | **-0.3** |
| Structural budget balance (d) | | | - | -2.1 | -1.0 | -0.2 | **-0.2** | **-0.5** | **-0.3** |
| General government gross debt (c) | | | 57.7 | 76.8 | 73.4 | 68.4 | **63.9** | **61.1** | **56.0** |

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.