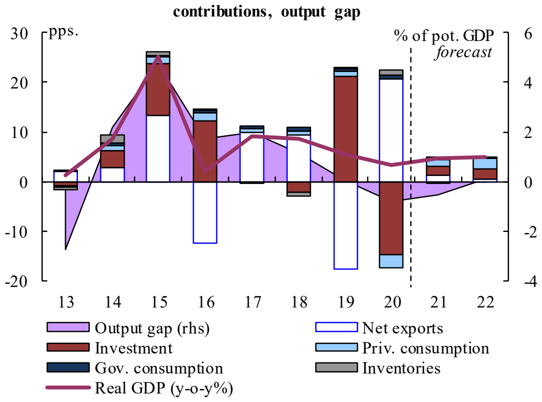
4. IRELAND

Ireland was the only country to register positive growth in 2020 but its domestic economy still felt the impact of pandemic restrictions in early 2021. It is expected to rebound in the second half of the year. Exports are increasingly benefitting from an improving external environment. In the first half of 2021, household incomes will remain shielded from the crisis by state income support. The budget deficit is expected to decrease from 2022 onwards, but risks to the macro-fiscal outlook remain high.

Restrictions weigh on the domestic economy

Ireland's real GDP grew by 3.4% in 2020, driven by performance of multinational corporations, while modified domestic demand, a broad measure that reflects the underlying domestic economy, fell by 5.4%. The year 2021 started with a new strict lockdown and slowing domestic economic activity. Early indicators, such as debit and credit card spending, suggest that private consumption contracted in the first quarter, although less than at the beginning of the pandemic. Highest-level restrictions continued in April, implying some further weakness in household spending. The vaccination rollout should change the economic outlook and release pent-up demand after a period of constrained mobility and historically unprecedented savings. Private consumption is, therefore, forecast to grow by 5.5% in 2021 and to accelerate to 8.6% in 2022.

Graph II.4.1: **Ireland - Real GDP growth and contributions, output gap**



After a dip in January, business confidence improved in February and March, which could herald a recovery in investment. On the other hand, construction investment was halted during the first quarter, and leading indicators, such as permits and commencements, signal a relatively weak construction outlook for 2021. Gross fixed capital formation is projected to rise by 6.5% in 2021 before picking up slightly more in 2022. In line with the rebound in consumption and investment, imports are set to pick up in the second half of 2021.

Government measures are expected to positively contribute to growth in 2021, with support to employment and businesses extended until mid-year. Exports are expected to continue to be a strong driver of GDP growth, led by multinational corporations, particularly those producing medical devices and pharmaceuticals as well as those providing information and communication services. Improvements in the external environment, including in the US with which Ireland trades significantly, will benefit the economy.

Overall, Ireland's economy is projected to grow by 4.6% in 2021 and by 5.0% in 2022. Modified domestic demand, which better reflects the underlying domestic economy, is expected to expand by 4.3% in 2021 and 7.0% in 2022.

The labour market still relies on public support

The labour market in 2020 stalled to a larger extent than shown by the headline numbers. As of the fourth quarter of 2020, hours worked were 8.5% below the fourth quarter of 2019. While the official unemployment rate was 5.8% in the first three months of 2021, the COVID-19-adjusted unemployment rate – a measure that adds the recipient of the pandemic unemployment payment – was much higher, at about one quarter of the labour force. With pandemic restrictions continuing, income support schemes have been extended until end-June. The re-opening of the hospitality and retail sectors should lead to an increase in employment in the second half of 2021. Nevertheless, for the year as a whole, employment is set to contract by 3.5%, mostly reflecting the transition of part of the people who were on income support to unemployment or inactivity. In 2022, employment is projected to grow by 5.0% and the unemployment rate is forecast to remain above its pre-pandemic levels. There is a risk of 'scarring effects' due to long-term unemployment and increased skill mismatches. The unemployment rate is forecast to reach 10.7% in 2021 and decline to 8.1% in 2022, still well above 2019's rate of 5.0%.

HICP inflation was negative in 2020 and through the first quarter of 2021, amid low oil prices, weak demand and a 2% VAT cut from 1 September 2020 to 28 February 2021. Inflation is projected to reach 0.9% in 2021 and increase to 1.3% in 2022 on the back of an expected recovery in domestic demand.

Additional measures to support the recovery in 2021

Ireland recorded a general government deficit of 5.0% of GDP in 2020, deteriorating from a surplus of 0.5% of GDP in 2019, due to the operation of automatic stabilisers and discretionary fiscal measures. Overall, revenues were resilient. Some tax returns decreased in line with the fall in modified domestic demand. Corporate income tax receipts, however, increased, as the ICT and pharmaceutical sectors performed strongly amid the pandemic. Personal income tax receipts were more resilient than other items, while taxes on products contracted due to the lockdowns.

The deficit is forecast to remain stable at 5.0% of GDP in 2021. The Irish authorities expect to extend income support measures until the end of the first half of the year. In the absence of sufficiently detailed information about the national RRP at the time of the cut-off date, this forecast assumes a simplified and linear integration of RRF-financed expenditure, as explained in Box I.2.3 in Chapter I.2.7. Revenues are expected to grow in tandem with GDP, with a minor negative impact from temporary VAT measures. The deficit is forecast to fall to almost 3% of GDP in 2022 under a set of assumptions that includes the discontinuation of measures adopted to fight the pandemic.

Gross general government debt is projected to rise to 61.4% of GDP in 2021 and to decrease to 59.7% of GDP in 2022 thanks to nominal GDP growth and a planned decrease in cash reserves. Risks to the fiscal outlook reflect potential changes to the international taxation environment.

Table II.4.1:

Main features of country forecast - IRELAND

		2019			Annual percentage change					
	bn EUR	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		356.1	100.0	4.0	9.1	8.5	5.6	**3.4**	**4.6**	**5.0**
Private Consumption		104.2	29.3	2.4	2.2	2.6	3.2	**-9.0**	**5.5**	**8.6**
Public Consumption		42.3	11.9	2.3	3.9	5.7	5.8	**6.6**	**2.3**	**2.0**
Gross fixed capital formation		162.4	45.6	7.3	0.0	-6.3	74.9	**-32.3**	**6.5**	**6.6**
of which: equipment		25.5	7.2	6.3	11.5	15.5	-1.2	**-25.2**	**2.2**	**8.1**
Exports (goods and services)		448.9	126.1	6.9	9.2	11.1	10.5	**6.2**	**6.8**	**4.9**
Imports (goods and services)		405.1	113.8	6.7	1.1	4.0	32.4	**-11.3**	**7.7**	**5.8**
GNI (GDP deflator)		275.5	77.4	3.6	6.6	7.3	3.7	**1.2**	**4.4**	**6.0**
Contribution to GDP growth:	Domestic demand			3.3	1.3	-0.6	22.9	**-16.6**	**3.7**	**4.5**
	Inventories			0.1	-0.2	-0.9	0.1	**1.0**	**-0.2**	**0.0**
	Net exports			1.2	10.0	9.4	-17.5	**20.7**	**1.1**	**0.5**
Employment				1.3	3.0	3.2	2.9	**-1.5**	**-3.5**	**5.0**
Unemployment rate (a)				8.9	6.7	5.8	5.0	**5.7**	**10.7**	**8.1**
Compensation of employees / head				2.8	2.9	2.6	3.5	**1.6**	**2.0**	**1.8**
Unit labour costs whole economy				0.1	-2.8	-2.4	0.9	**-3.2**	**-5.9**	**1.8**
Real unit labour cost				-1.7	-4.4	-2.8	-2.2	**-2.8**	**-7.3**	**0.6**
Saving rate of households (b)				9.7	11.5	11.6	12.2	**23.8**	**15.5**	**12.6**
GDP deflator				1.8	1.6	0.3	3.1	**-0.5**	**1.5**	**1.2**
Harmonised index of consumer prices				1.6	0.3	0.7	0.9	**-0.5**	**0.9**	**1.3**
Terms of trade goods				0.3	-4.1	-6.3	2.2	**-3.7**	**-0.8**	**-0.5**
Trade balance (goods) (c)				23.6	36.3	33.4	33.5	**37.9**	**38.6**	**37.3**
Current-account balance (c)				-1.8	0.5	6.0	-11.3	**4.6**	**4.5**	**4.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.0	-8.1	-9.9	-21.2	**-0.3**	**2.0**	**3.9**
General government balance (c)				-5.0	-0.3	0.1	0.5	**-5.0**	**-5.0**	**-2.9**
Cyclically-adjusted budget balance (d)				-5.0	-1.4	-0.5	0.5	**-4.6**	**-4.7**	**-2.9**
Structural budget balance (d)				-3.3	-1.4	-0.4	0.5	**-4.6**	**-4.7**	**-2.9**
General government gross debt (c)				62.0	67.0	63.0	57.4	**59.5**	**61.4**	**59.7**

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