

## Ireland: The engines stuttered in 2023 but the potential remains strong

Ireland underperformed last year, but mainly due to one-off factors. The underlying potential remains strong. But don't expect a barnstorming performance as higher rates continue to weigh on the economy



Ireland's Prime Minister or Taoiseach, Leo Varadkar

### A weak 2023...

The Irish economy has seen spectacular growth figures over recent years, often inflated by multinational (accounting) activity, but last year underwhelmed. So far, Ireland has seen three quarters of very negative growth - marking a technical recession - and is expected to have rounded out the year with a negative annual growth rate of -1.8%. This shows that the multinational activity in Ireland doesn't just have an inflating effect on GDP growth; it can also work the other way around.

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*Ireland's pharmaceutical sector is huge*

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This correction to GDP is not the familiar statistical noise related to accounting. It can also, in part, be derived from the pharmaceutical sector, which is huge in Ireland as it represents about 2% of total employment. It has seen a large correction this year, which came after an extraordinary boom during the pandemic years, from which the Irish economy profited. The current moderation of production has also resulted in a decline in pharmaceutical exports for Ireland, as most production is for external demand.

However, the decline is not fully explained by multinational activity. The domestic economy has also performed much more sluggishly than in recent years. The Irish preferred measure for looking at economic activity is modified domestic demand (MDD), which grew by 7.7 and 11.6% in 2021 and 2022; it's expected to have grown by just 1.5% in 2023, according to the Central Bank of Ireland. While there are no signs of recession, it does show much more moderation in the country's domestic growth.

## The underlying economy remains very healthy

But while the growth engine stuttered a bit over the course of 2023, there is no sign of broader weakness. Employment growth was strong in the first three quarters for which information is available. The unemployment rate did creep up a bit over the course of the year, but it was coming from historical lows and having returned to 4.9% in December, similar to pre-pandemic levels. Overall, the labour market still seems to be in good shape.

And public finances continue to look very healthy. Ireland was running a budget surplus of 2.4% in the second quarter of last year, the largest surplus in the EU. As a result, government debt-to-GDP is coming down rapidly. In 2Q 2022, it was still 50.5%, but it has dropped to just 43.1% in 2Q 2023. The main worries are whether public finances are still too stimulating in nature for inflation to fall or not. That does not seem to be the case, given how rapidly inflation has also been coming down. In December, Irish HICP was at 3.2%, down from 8.2% a year earlier.

## 2024 is likely to be muted

For 2024, expectations are on the modest side. While the pharma sector is expected to do better than last year, concerns about the impact of higher rates weigh on the economy. Investment will, therefore, continue to be under pressure. The sluggish global economic environment makes significant export growth challenging, and a recovery in domestic consumption is the most promising path for decent economic activity. With real wage growth recovering quickly, this is not a farfetched prospect for the Irish economy.

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