Ireland: Defying gravity?

While GDP increased by 1.2% in the first quarter, it is set to plunge in the second quarter as the Irish domestic economy struggles with Covid-19 like every other eurozone country

Irish PM Varadkar (L) with Health minister at coronavirus briefing, Dublin, Ireland

Source: Shutterstock

Bucking the trend

GDP plunged in pretty much every advanced economy in the first quarter of 2020. Every advanced economy? No, one (relatively) small country has managed to resist the enormous drag of the global lockdown.

The Irish economy grew by 1.2% QoQ in the first quarter of 2020. Growth of 1.2% was dominated by net export growth, also helped by shrinking imports as the domestic economy suffered like everywhere else. Especially pharma and IT kept Irish exports growth positive, which wiped out the large decline of -4.7% in personal consumption. GNP, which excludes multinational profit flows, increased by 0.1% on the quarter, a smaller but still positive growth figure.

The Irish economy grew by 1.2% in the first quarter of 2020, but this doesn't mean Ireland has manged to avoid the crisis *altogether*

However, this does not mean that Ireland managed to avoid this crisis altogether. The lockdowns have had such a huge impact on the economy that the second quarter will no doubt show a large contraction. To counter this, the Irish government has come up with a sizable emergency support package amounting to about 4% of GDP at the moment, which is among the larger fiscal injections for the eurozone.

An initial 2% of GDP was mainly focused on the labour market, with a short-time work scheme and income support for households that have become unemployed as a result of the crisis. The unemployment rate has so far increased from 4.8% in February to 5.6% in May, but the Statistics Office also tracks an alternative unemployment rate which includes everyone on the pandemic unemployment payment scheme. This rate stood at a massive 26.1% in May but was already down from 28.2% in April. It is hard to say what accurately tracks unemployment at the moment. The CSO considers the official rate to be the lower bound and the alternative measure to be the upper bound.

The other 2% of GDP in terms of fiscal stimulus has been allocated to business support, which includes a 2 billion euro recovery fund for medium-and large enterprises, 2 billion euros worth of guarantees for small-medium-enterprises measures and a 10 thousand euro restart grant for the smallest businesses. This package is more focused on the restart of the economy once lockdown measures have been lifted, which is happening somewhat more slowly in Ireland than in other eurozone economies.

The Irish economy has been relatively slow to restart compared to other countries and has had a relatively strict lockdown with “stay-at-home” order in place, making the second-quarter contraction quite likely to be deep.

The economy started to re-open on 18 May only, when outdoor workers were allowed to get back to work. Retailers were allowed to reopen on 8 June, larger shopping malls on 15 June and hotels, cafes and restaurants on 29 June.

Further easing of measures will take place towards the end of July under the current plan, which has already been faster than initially anticipated as containment of the virus was better than initially expected by PM Varadkar.

The Irish economy in a nutshell (%YoY)

	2019	2020F	2021F	2022F
GDP (%)	5.5	-6.2	4	2.3
Private consumption (%)	2.8	-7.3	4.1	2
Investment (%)	94.2	-40	12	3.8
Government consumption (%)	5.1	7.7	-3	1.8
Net trade contribution (%)	-18.2	9	0.4	0.3
Headline CPI (%)	0.9	0.3	1.3	1.5

Source: Macrobond, ING Research

Author

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

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