Ireland: In structurally strong shape

Recent Irish data looks feeble under the hood, but structural developments remain favourable for a higher rate environment

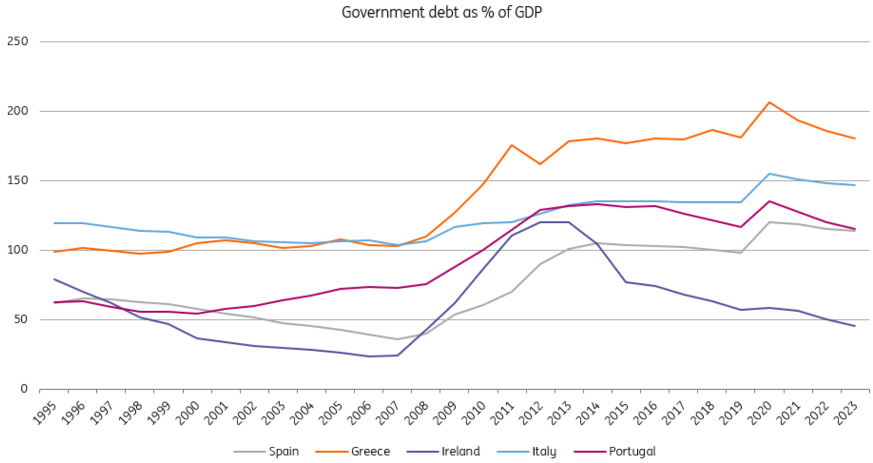
Micheál Martin, the Taoiseach of Ireland

But how are you really doing?

The Irish economy grew by a whopping 10.8% quarter-on-quarter non-annualised in the first quarter of 2022, which is not an exception these days. The large swings in Irish GDP caused by multinational activity paint a thoroughly confusing picture of the economy, that overall seems to be showing more signs of slowing at this point. Modified domestic demand actually shrank in the first quarter, indicating that the domestic economy in Ireland was struggling with high inflation, the coronavirus, and concerns about the Ukraine war – like the rest of the eurozone.

The second quarter did get off to a solid start though and there are few signs that the Irish economy is set for an imminent recession in the short run. Retail sales remained strong at the start of the quarter and unemployment dropped to the lowest level since 2006 at 4.7% in May. The strong labour market underpins solid economic recovery for the time being, although high inflation is clearly eating into Irish domestic purchasing power. Expect decent economic growth to continue in the coming months, but weakness later in the year – spurred by global forces – is set to cause a material slowdown in growth.

Government debt has come down sharply in recent years



Source: European Commission AMECO, ING Research

Debt concerns are small as ECB takes away support

While concerns about a euro crisis are mounting again – which we deem largely overdrawn – Ireland is no longer part of the discussion. In fact, since early 2021, Irish 10-year bonds have been priced similarly to the French, which indicates that it is considered to be among the safer assets in the eurozone. The stress in the bond market seen in the leadup to the ad hoc ECB meeting has therefore largely passed Ireland, as countries like Italy, Spain and Portugal saw spreads with Germany widen much more substantially.

Clearly, much has changed since the euro crisis when it was en vogue to lump Ireland in with the other larger 'eurozone periphery' economies. In fairness, Ireland had always been materially different from the others. Its government debt crisis then was largely caused by the government taking on the debt of its failing banks on the back of a real estate crisis. The economy had always had a strong growth profile and that potential has resulted in a fairly quick economic recovery. Government debt was just 56% of GDP in the fourth quarter of 2021, which is among the lowest in the eurozone. Of course, the radical Irish moves in GDP also related to multinational accounting activity have worked out very favourably for debt sustainability indicators, but all in all, Ireland clearly looks different from the rest of the old periphery now that new debt concerns prevail.

The Irish economy in a nutshell

	2021	2022F	2023F	2024F
GDP (%)	13.5	9	1.3	1.8
Private consumption (%)	5.7	4.8	1.2	2.2
Investment (%)	-37.6	-20.7	3.8	5.1
Government consumption (%)	5.4	1.7	0.1	0
Net trade contribution (%)	25.8	14.5	-0.5	-1
Headline CPI (%)	2.4	8.3	3.5	2.1

Source: ING Research

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