

## Ireland: maintains strong growth trend

Ireland's economy boomed in 2022 and the same is expected this year. The country has been relatively unscathed by the energy crisis, but high inflation will weigh on household consumption



Leo Varadkar, Ireland's Taoiseach

### Structural outperformance

The Irish economy continued to outperform the rest of the eurozone in 2022 and is likely to do the same in 2023. We're currently expecting the Irish economy to have grown by just under 12% in 2022. It is well known that this is in part due to multinational accounting activity, which inflates the Irish GDP growth figure. This is causing volatility in the data, which has become worse in recent times. But this is not the only reason for Ireland's strong performance. Modified domestic demand, the preferred measure for economic activity from the Irish statistical office, is expected to have grown in the double-digits last year as a sign of an economy that is booming beyond accounting statistics.

The Irish economy is set up incredibly well to handle the aftermath of the Covid-19 pandemic and energy shock. Its main growth engines ahead of the crises were already the pharmaceutical and ICT sectors, which both profited from the pandemic and have been relatively unscathed by the energy crisis. Having comparatively few energy-intensive industries, Ireland has been able to maintain a dizzying growth pace. This has shown in the domestic labour market as unemployment has bottomed out at just above 4% at the moment and more people than ever are in work.

## But 2023 will see moderation

For 2023, some correction can be expected as high inflation will continue to weigh on household consumption with reopening effects fading and real wages likely to remain negative for some time. Besides that, higher interest rates are set to cool off business investment, which has also been growing at a stellar pace. These factors should lead to a normalisation of economic activity after the abnormally strong 2022. Still, we expect the GDP growth rate to drop only to 3.8%, which is still far higher than the eurozone average.

The housing market remains a key concern in the Irish economy. Housing supply continues to be a problem and even though interest rates rose dramatically over 2022, house prices have yet to show a peak while other European countries are cautiously experiencing a turning point for prices. With interest rates rising, housing affordability is reducing, adding to the problem. Still, some cooling in prices is not unimaginable as the ECB raises interest rates further in 2023.

## Healthy government finances continue

From a government debt perspective, Ireland will go through an unexciting year. The government reshuffle has brought Leo Varadkar back into the position of Taoiseach but won't see a landslide change in government spending as a result. Last year saw a huge increase in tax income, which – together with inflation – will boost government debt levels further into safe territory. For 2023 and 2024, Ireland is expected to run a budget surplus which further solidifies its already very stable fiscal position.

## Ireland in a nutshell

	2021	2022F	2023F	2024F
GDP	13.6	11.8	3.8	3.0
Private consumption	4.7	5.3	1.3	2.8
Investment	-39	5.5	3.5	1.6
Government consumption	6.1	1.8	0.1	2.7
Net trade contribution	28.3	7.3	2.4	1.8
Headline CPI	2.4	8.1	5.2	2.2
Unemployment rate (%)	6.2	4.5	4.7	4.7
Budget balance as % of GDP	-1.7	0.2	0.7	1.1
Government debt as % of GDP	55.4	44.2	41.0	39.8

Source: Macrobond, all forecasts ING estimates

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