



Fit for Purpose

The first signs of the marked slowdown in the pace of global growth impacting the Irish economy have become apparent recently, with announcements of imminent job losses in a number of high profile tech companies. This is part of a worldwide retrenchment plan by these companies, who acknowledge that they expanded their workforces too rapidly in the past couple of years, given we are now facing into a period of much weaker global demand. Social media companies, in particular, appear vulnerable to a downturn in advertising revenues.

However, the IDA reported last week that it continues to see a strong flow of inward investment and the pipeline of new foreign direct investment remains “healthy” for the first half of next year. Ireland has a well-diversified pool of FDI in sectors such as life sciences, financial services, pharma, as well as technology and media, with new capacity coming on stream all the time.

It should be noted that the very open Irish economy was never expected to escape the impact of the global downturn. Recent forecasts from the CBI, ESRI and Dept. of Finance are for Irish GDP growth to slow sharply to 4.5-5.25% in 2023 from circa 10% this year. Meanwhile modified domestic demand is projected to grow by around 2% next year, down from a 6.5-7.5% range in 2022.

Further out, the DoF sees Irish growth slowing to 3.3% in 2024, with the IMF at 4% and the CBI at 5%. Most forecasts see the unemployment rate rising somewhat to around 5% next year, up from 4.4% at present. Thus, a marked slowdown is expected in the pace of growth in the Irish economy in the next two years, though, activity is projected to remain considerably stronger than in most other advanced economies.

It is generally recognised that the risks to the global economy are skewed to the downside and the weakening in activity may prove more severe than currently

anticipated. While the pipeline looks healthy for 2023, the flow of inward investment into Ireland could take a bigger hit in 2024-25 if there is a sharp downturn in the global economy next year.

Regardless, a key focus for Ireland should be that it remains an attractive destination for FDI. Brexit has certainly helped in this regard, as the UK has been the main competitor for Ireland in relation to FDI. However, the UK is now handicapped by being outside the EU and Single Market. It is notable that there has been a marked pickup in FDI into Ireland in 2021-22, i.e. post Brexit.

There are important issues to be addressed by Ireland, though, to maintain its attractiveness and competitiveness. Severe capacity constraints have emerged in the labour market, housing, electricity grid, water, infrastructure and planning, as has been called out by the IDA and others. Actions to ease these constraints are being taken. However, they need to be on a scale that is large enough to prove successful in maintaining Ireland's attractiveness for FDI relative to other locations. The recent marked fall in house building commencements is a worrying trend in this regard.

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