



## *Last Man Standing*

There has been a major scaling back of growth forecasts for the main world economies in 2022-2023. The exact opposite is happening in Ireland, though, with big upgrades to Irish GDP and domestic demand forecasts this year. The latest forecast upgrades have come from the Dept. of Finance at the end of September, and the Central Bank and ESRI in early October. These forecasters now see Irish GDP rising very strongly by between 8-12% this year, with modified domestic demand growing by 6.5-7.5%.

This will be the second successive year of very robust growth by the Irish economy, driven in particular by a marked pick-up in foreign direct investment. Ireland enjoyed a record year for inflows of FDI in 2021. The IDA reports that this was exceeded in the first half of 2022, while the pipeline remains positive for the second half of the year, despite a difficult global backdrop. It may well be that Brexit is resulting in increased flows of FDI into Ireland, with the UK, which is our main competitor for such investment, no longer a member of the EU and Single Market.

Having grown strongly in 2021, GDP rose by 11% year-on-year in the opening half of 2022. Exports continued to perform strongly, rising by 14%. Modified domestic demand rose by 11.7%, with very strong growth in investment in particular.

The buoyant level of FDI is resulting in not just very strong growth in exports and investment, but also employment and tax revenues. Employment at mid-2022 was 11% higher than its pre-COVID levels three years earlier. Meanwhile, a large budget surplus has emerged this year driven by growth of over 25% in tax receipts.

Turning to next year, the combination of emerging capacity constraints, a very weak global economic backdrop with Europe likely to be in recession, rising interest rates and tightening financial conditions, as well as the negative impact on real household incomes from high inflation, is expected to see a significant slowdown in the pace of growth in the Irish economy.

Indeed, we are already seeing signs of a softening in activity in the second half of 2022, as evidenced by declines in PMI survey data for manufacturing, services and construction as well as a slowdown in retail sales. Nonetheless, the economy is still expected to perform relatively well next year, on continued



inflows of FDI and thus further strong export growth, as well as an expansionary fiscal policy and support from high levels of private sector savings.

In their recent forecast updates, the Central Bank projected GDP growth of over 5% in both 2023 and 2024, while the Dept. of Finance sees GDP increasing by 4.7% in 2023 and a more modest 3.5% in 2024-25. The ESRI sees GDP rising by 4.4% next year. Growth in modified domestic demand, though, is forecast to slow more sharply next year, to a 1.5-2.5% range on the back of higher inflation, rising interest rates and weaker investment, before recovering to around 3.3% in 2024. Overall though, Ireland is very much bucking the global trend of weak growth.

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