IRELAND

Economic growth is projected to moderate gradually. The economy, particularly exports and investment, is already being slowed by the prospect of Brexit. Nonetheless, the Irish economy will continue to expand on the back of solid domestic demand and strong employment and wage growth.

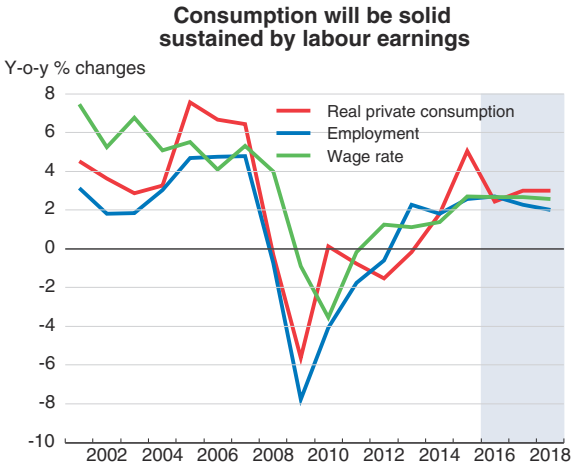
The fiscal stance is expected to be broadly neutral, exerting a smaller drag on activity than in past years. The government is nevertheless on track to attain its medium-term goal of balancing the budget. Financial conditions will remain supportive overall. Structural reforms should prioritise making economic growth more inclusive by getting more people back into work and revamping the tax and benefit system.

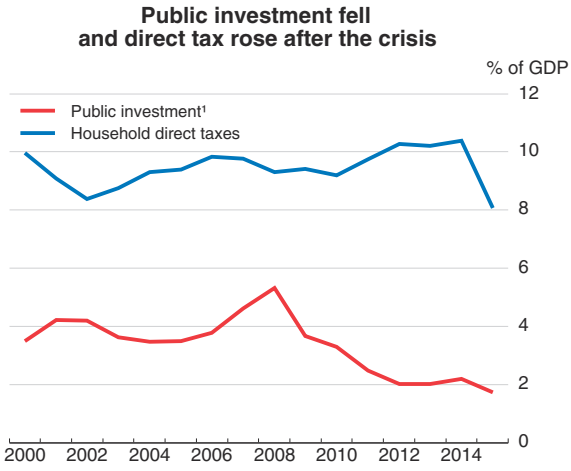
Public investment remains low and direct taxes rose following the crisis. Ireland has gained fiscal space through strong growth and low interest costs, providing room to roll back some of the measures taken after the crisis. The welcome six-year plan on infrastructure investment for 2016-21 will raise public investment back towards its pre-crisis level. The universal social charge, an income levy introduced after the crisis, should be reduced as planned.

The expansion has been broad-based

GDP is estimated to have grown at just under 4½ per cent in 2015, excluding one-off factors due to multinational enterprises (MNEs), and this rate of expansion has continued through 2016. The domestic sector has gained ground and its activity remains strong, sustaining solid employment growth. The unemployment rate has declined, while labour force participation remains somewhat subdued. Wage growth is strong, but inflationary pressures are contained due to the global low inflation environment. Strong labour earnings growth has supported household consumption. Overall investment was boosted thanks to intangibles investment by MNEs, while business investment in the domestic sector has risen steadily albeit at a moderate pace.

Ireland





1. Government fixed capital formation.
Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933437728

Ireland: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2014 prices)				
GDP at market prices	180.0	8.5	26.3	4.3	3.2	2.3
Private consumption	79.9	1.8	5.1	2.4	3.0	3.0
Government consumption	30.6	4.6	0.2	4.0	2.1	2.0
Gross fixed capital formation	32.9	18.0	32.5	11.7	7.1	3.8
Final domestic demand	143.4	6.2	11.1	5.0	4.1	3.1
Stockbuilding[1]	2.9	1.5	-0.6	0.3	0.0	0.0
Total domestic demand	146.3	7.8	9.8	4.8	3.8	3.0
Exports of goods and services	191.0	14.4	34.5	2.8	2.8	2.9
Imports of goods and services	157.3	15.3	21.7	3.6	3.4	3.7
Net exports[1]	33.7	1.9	18.4	0.1	0.3	0.2
Memorandum items						
GVA[2], excluding sectors dominated by foreign-owned multinational enterprises	_	8.7	4.4	..	..	..
GDP deflator	_	-1.2	4.9	0.1	3.6	3.0
Harmonised index of consumer prices	_	0.3	0.0	0.0	1.5	2.0
Private consumption deflator	_	1.5	0.6	1.3	1.6	2.2
Unemployment rate	_	11.3	9.4	7.9	7.1	6.7
General government financial balance[3,4]	_	-3.7	-1.9	-0.9	-0.5	0.0
General government gross debt[3]	_	124.1	92.7	91.0	88.9	86.1
General government debt, Maastricht definition[3]	_	105.4	78.7	77.1	75.0	72.2
Current account balance[3]	_	1.7	10.2	9.5	9.7	9.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Gross value added.
3. As a percentage of GDP.
4. Includes the one-off impact of recapitalisations in the banking sector.

Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933439085

Fiscal policy should stand ready to stabilise growth in the case of Brexit-related turbulence

The Brexit referendum result is already affecting the Irish economy; for example business confidence has declined. Indeed, Ireland is the country that could be the most affected by the Brexit negotiations and the outcome of the process. The United Kingdom accounts for 15% of Irish exports, and slowing growth there plus the sharp depreciation of sterling will be a major challenge for Irish firms, particularly in the agriculture, food, textile and metal sectors.

Financial conditions will remain favourable, thanks to accommodative euro-area monetary policy. However, remaining high corporate indebtedness and non-performing loans will weigh on bank lending, squeezing Irish firms, especially SMEs, which face among the highest lending rates in the euro area.

Fiscal policy is projected to be broadly neutral in 2017 and 2018. Due to past fiscal efforts and strong growth, the fiscal deficit has diminished sharply and public debt is on a downward path. This improved fiscal position provides room to use fiscal policy to support

growth in the face of shocks from Brexit or some other source that threaten to derail the economic expansion.

After the crisis, Ireland had to curtail public investment and raise direct taxes to the largest extent of any OECD country. Improved fiscal trends allow some unwinding of these measures, including a tax cut in 2017 for low-paid households, which should support their incomes and encourage people to join the labour market. Both effects will increase the inclusiveness of growth. The six-year plan on infrastructure for 2016-21 will raise public investment as a ratio of GDP by 0.5 percentage point over the next six years, reversing the past declines. This should enhance growth. If more fiscal room becomes available, this plan should be scaled up.

The economy will continue to grow but risks are significant

The Irish economy is projected to slow. Strong labour earnings will support consumption and exports will expand steadily along with export markets. However, investment will fall significantly without strong impetus by MNEs, as business investment in the domestic sector is expected to lose steam. Nevertheless, the labour market is tight, and as a result both wage and price inflation will gather pace.

A downside risk to the outlook is that the Irish economy might be affected by Brexit more negatively than projected, although some firms could relocate to Ireland. Property prices might rise more strongly than projected, which would support construction activity in the near term. This would possibly come at the cost of increasing private sector indebtedness further, leaving Ireland vulnerable to any re-emergence of financial turmoil.