Executive summary

- Main findings
- Key recommendations
Strong economic growth has returned to Ireland

Determined policy efforts have boosted confidence and underpinned the robust, broad-based recovery now underway in Ireland. Unemployment is falling steadily, the budget deficit is declining, public debt has peaked and continues to fall and international credibility has been strengthened. These propitious circumstances are the opportunity to resolve the legacies of the crisis, including remaining unemployment and banking system weaknesses.

There is also a chance to carry out structural reforms to ensure the recovery is sustained. Real estate prices, especially in commercial and residential property in Dublin, are rising rapidly once again, and pressures to narrow the tax base and increase spending are growing.

Welfare transfers have narrowed income gaps but more needs to be done to get people into work

During the crisis, Ireland’s comprehensive welfare system supported demand, underpinned social cohesion and provided a sense of fairness that made needed reforms possible. However, highly targeted benefits including housing benefit result in high replacement rates and marginal effective tax rates for some households at the low end of the income distribution, discouraging work. The solution is to intensify activation policies to get people into jobs, improve training and enforce obligations on benefit recipients to seek a job or take training.

Productivity growth remains modest, hindering long-term prospects

Productivity growth has been falling for some time. Although Ireland’s multinational sector thrived through the crisis, the domestic SME sector is still lagging behind despite the shift away from the low productivity construction sector, with much lower levels of competitiveness, productivity and R&D spending. Strengthening competition in sectors including legal services and ports, further improving the regulatory environment for business and encouraging innovation are all policy priorities.
## MAIN FINDINGS

<table>
<thead>
<tr>
<th>Fiscal sustainability</th>
<th>KEY RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The fiscal position has improved and public debt is on a declining path. However, the budget deficit remains too large and spending pressures are rising.</td>
<td>Improve the structural fiscal balance by greater than 0.5% of GDP per annum until it reaches balance. Allow the automatic stabilisers to work around this path. Improve health spending efficiency including by fully implementing “money follows the patient” in health spending and publishing improved indicators of financial and operational performances of hospitals. Broaden and protect the tax base by shifting the burden of taxation to immovable assets, reducing allowances for capital income and continue aligning the corporate income tax system, including its transfer pricing rules, with recommendations from the OECD/G20 BEPS project.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Financial stability</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>The repossession of collateral on non-performing loans is inefficient.</td>
<td>Accelerate through the court system the resolution of non-performing loans that require repossessions.</td>
</tr>
<tr>
<td>Recent rises in property prices pose risks.</td>
<td>Continue to improve the responsiveness of housing supply including in the rental market and avoid home buyer subsidies.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inclusive growth</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Skill mismatches are high. Reducing them would lower unemployment and increase both participation and productivity significantly.</td>
<td>Step up efforts to develop and implement a more agile, relevant, and gender inclusive apprenticeship system. Ensure that students receive information on education options after schooling, notably vocational and technical options.</td>
</tr>
<tr>
<td>Education outcomes depend on social background and concentration of immigrants in primary schools is increasing. The DEIS (Delivering Equality of opportunity In Schools) programme has experienced significant budget cuts in recent years.</td>
<td>Provide additional support to disadvantaged schools, for example by attracting better teachers and providing additional tutoring to students.</td>
</tr>
<tr>
<td>Long-term unemployment is high and labour-market participation is low among those with low levels of education, and among women over 30.</td>
<td>Upskill long-term unemployed by improving both the quantity and quality of training via public employment services or via private providers. Fully enforce the obligations of the unemployed and improve the enforcement framework by defining more objectively the suitable job offer that the benefit recipient has to accept in terms of wages and contract types. Improve access and affordability of quality childcare, particularly for low income families.</td>
</tr>
</tbody>
</table>
### MAIN FINDINGS

Rapid withdrawal of housing assistance payments and the family income supplement result in very high replacement and marginal effective tax rates for particular low-paid households.

### KEY RECOMMENDATIONS

To reduce welfare traps, more gradually reduce housing assistance payments and family income supplement as income increases.

<table>
<thead>
<tr>
<th>Productivity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public support for business R&amp;D is increasingly skewed towards R&amp;D tax credits</td>
<td>Rebalance innovation support towards direct grants.</td>
</tr>
<tr>
<td>Ireland relies on highly skilled workers with specific abilities. Migrants can play an important role in that respect.</td>
<td>Make better use of international students as a channel for high-skill immigration by increasing post-graduation job search periods and exempting graduates from employment permit fees in highly demanded areas where there are significant skills shortages.</td>
</tr>
<tr>
<td>Many government agencies devise policies to improve business sector performance, but without the proper research capacity and independence to advocate reforms and engage in a dialogue with stakeholders.</td>
<td>Develop a stronger whole-of-government productivity agenda. Consider expanding the remit of the National Competitiveness Council into a more productivity-focussed body.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Environmental sustainability</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Household water quality fails Environmental Protection Agency standards in some areas and there are excessive water leakages.</td>
<td>Increase investment to improve water quality and reduce leakages.</td>
</tr>
<tr>
<td>Increasing housing energy efficiency is a cheap way to reduce GHG emissions.</td>
<td>Increase support to improve the energy efficiency of housing, especially for low-income households.</td>
</tr>
</tbody>
</table>
Assessment and recommendations

- Macroeconomic performance and risks
- Further strengthening the fiscal position
- Ensuring financial stability
- Making growth more inclusive
- Fostering productivity
- Improving environmental sustainability
Following a property-led boom, Ireland was hit by a severe banking and fiscal crisis in 2008. Determined policy implementation has restored confidence and underpinned the strong cyclical recovery now underway (Figure 1).

Ireland has come a long way in the past 5 years since it entered the EU-IMF financial assistance programme. Determined reform efforts by the government, both under the auspices of the programme and subsequently, have paid off. Ireland has emerged from the crisis with a much reduced and still declining fiscal deficit, public debt on a downward path, a stronger fiscal framework, a more sustainable fiscal revenue base, a restructured and recapitalised banking sector, a strengthened and more efficient public administration, and a much improved labour market activation regime (Table 1, Annex). This has been rewarded by renewed access to financial market borrowing for both banks and the sovereign.

Ireland successfully exited the financial assistance programme in December 2013. An important contributor to the success of the programme was strong ownership by Ireland itself. The government had already undertaken significant consolidation action in 2009-10. In addition, the programme was largely based on the 2010 Irish government’s National Recovery Plan 2011-2014, with modifications introduced by the current government in 2011. Other factors were a committed public administration capable of delivering a large number of complex reforms quickly, supported by the Croke Park agreement, which contributed to industrial peace in the public sector. Also important was the underlying structural strengths of Ireland that continued to attract and benefit from foreign investment throughout the crisis.

Figure 1. **Strong growth is returning to Ireland**

![Real GDP crisis period peak index = 100](http://dx.doi.org/10.1787/888933275027)

**Note:** Peak date for Ireland and Spain is 2007, 2008 for Italy and Portugal.

**Source:** OECD, Analytical Database and OECD calculations.
Key structural reforms have also been rolled out. The government’s Action Plan for Jobs provides momentum for designing and implementing a coherent set of labour-market reforms and should continue. Ireland has also strengthened its institutional framework, with a new independent fiscal council, fiscal rules, reformed public employment service and activation policies, a vocational training authority, a stronger competition authority, a new agency to facilitate knowledge transfer, and increased transparency and openness in government. These welcome reforms will have long-lasting pay-offs but Ireland should be careful to avoid complacency.

Ireland now faces three main challenges:

- enhancing its economic resilience by moving towards a balanced budget in structural terms to reduce the high public debt, and by strengthening the banking system;
- making growth more inclusive by increasing labour market participation while further reducing unemployment, particularly long-term unemployment; and
- improving long-term growth prospects by making the Irish-owned business sector more dynamic, productive and innovative, while maintaining attractiveness to foreign investment.

### Macroeconomic performance and risks

The Irish economy is strongly rebounding from the crisis, with GDP growth of 5.2% in 2014, the fastest in the OECD. In part, this reflected temporary factors such as the fading of the patent cliff (the expiry of a number of drug patents), which weighed on exports in 2013. The initial stages of the recovery was largely driven by multi-national companies (MNCs) that account for a large share of production in sectors that are less sensitive to cyclical fluctuations, such as pharmaceuticals and medical devices.

Consistent with the performance of the MNCs, export growth has been strong, as Ireland has gained market share thanks partly to improved cost-competitiveness since 2009 (Figure 2). Labour costs adjusted swiftly after the onset of the crisis. Relative unit labour costs (labour costs adjusted for productivity and compared with Ireland’s trading partners) declined by around 15% by end-2010. Part of this reflected a shift to higher

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Table 1. **Progress on structural reforms**

<table>
<thead>
<tr>
<th>Reform</th>
<th>Main Legislation Enacted</th>
<th>New or empowered regulator</th>
<th>Remaining steps to be taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal</td>
<td>December 2012</td>
<td>Yes</td>
<td>…</td>
</tr>
<tr>
<td>Financial and banking</td>
<td>October 2010 and August 2013</td>
<td>Yes</td>
<td>…</td>
</tr>
<tr>
<td>Personal insolvency</td>
<td>December 2013</td>
<td>Yes</td>
<td>…</td>
</tr>
<tr>
<td>Competition</td>
<td>July 2014</td>
<td>Yes</td>
<td>…</td>
</tr>
<tr>
<td>Legal profession</td>
<td>No</td>
<td>Intended</td>
<td>…</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>December 2014</td>
<td>No</td>
<td>…</td>
</tr>
<tr>
<td>Water</td>
<td>March 2013</td>
<td>Yes</td>
<td>Complete the roll-out of household water meters</td>
</tr>
<tr>
<td>Labour market activation</td>
<td>No legislation. Pathways to Work Reforms start February 2012</td>
<td>Yes</td>
<td>Full roll-out of contracting out of job-search services</td>
</tr>
<tr>
<td>Further education and training</td>
<td>October 2013</td>
<td>Yes</td>
<td>Design and implement new apprenticeships and vocational training.</td>
</tr>
<tr>
<td>Government accountability and transparency</td>
<td>July 2013. July and October 2014</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Health (pharmaceuticals pricing)</td>
<td>May 2013</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD and Irish Statute Book.
productivity sectors (O’Farrell, 2015), but controlling for this relative unit labour costs still fell by 8.4% over the same period (O’Brien and Scally, 2012). The current account balance has reversed significantly from -5.7% of GDP in 2008 to 6.1% of GDP in 2014, although partly because of the profits of foreign companies with activities elsewhere but headquartered in Ireland (Fitzgerald, 2013).

Employment has expanded steadily since 2012 (Figure 3) and unemployment has declined substantially. As a consequence, wage growth has more recently regained some strength. Together with lower inflation, this has led to the growth of household disposable real income turning positive in 2014 for the first time in several years. However, the long-term unemployed and those outside the labour market still account for a larger share of the working-age population than before the crisis or in other OECD countries.

Balance-sheet repair in the banking sector has progressed in recent years and the overall financial situation has improved. The banking sector returned to profitability in 2014, after making losses for several years, mainly due to a reduction in impairment charges. Nevertheless, private-sector (households and non-financial corporations) debt is still high at 290% of GDP, well above the euro area average of about 165% (Figure 4). In addition, non-performing loans still account for just under a fifth of the value of outstanding loans (Figure 4), although this includes some restructured loans. The value of non-performing loans (NPL) peaked at just under EUR 100 billion in mid-2013 but the NPL ratio continued to rise through to 2013Q4 due to the declining loan stock, peaking at 25.7%. The share of very long-term mortgage arrears (720 days and over) in total arrears is still increasing albeit at a much slower rate.

The economy is projected to grow by around 5% in 2015 and 4% in 2016. Growth is projected to broaden with more balanced contributions from exports and domestic demand (Table 2). Macroeconomic policy is becoming more stimulatory owing to less fiscal consolidation and the ECB’s quantitative easing policy. Exports will continue to be strong due to increasing demand in trading partners, notably the United States and the United
Figure 3. The recovery is well underway and becoming more broad-based

A. Employed population and participation rates

B. Unemployment rates (15 y.o and over)

C. Wages

D. Inflation

E. Household income and consumption

F. GDP growth and domestic demand

Source: OECD, OECD Economic Outlook and Analytical Database, Central Statistics Office, Central Bank of Ireland and OECD calculations.
Kingdom, and to the weaker euro. Investment will grow solidly as the investment-to-GDP ratio picks up supported by an improvement in profitability prospects. Although the transmission mechanism to the euro area periphery is still impaired, lower financing costs owing to accommodative monetary policy will also help to lift investment. Household consumption will gather pace, with stronger wage growth and higher employment; and lower energy prices will boost purchasing power in the short run. Banks, weighed down by a large stock of unprofitable tracker mortgages, are likely to cross-subsidise them by maintaining variable mortgage interest rates for new mortgages far above ECB policy rates in a bid to stay profitable. This may impede new credit growth and household mobility.

Risks to the outlook are balanced. On the one hand, the recovery of the euro area economy may provide a further boost to Irish exports and business investment. Pent-up demand after a long crisis may result in stronger household consumption than projected. Housing investment may accelerate faster than expected if property prices continue to rise rapidly, although higher prices would also increase vulnerabilities, especially if it were associated with further indebtedness. On the other hand, still elevated joblessness and indebtedness may weigh on household spending and constrained credit may limit investment by smaller firms. A possible increase in financial turmoil in the euro area or the beginning of monetary policy normalisation in the United States could be harmful for Ireland since public debt remains over 100% of GDP, of which two-thirds are held abroad.

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**Figure 4. Debt and non-performing loans are high**

**A. Private sector debt**

- **Households: IRL**
- **Non-financial corporations: IRL**
- **Households: Euro Area**
- **Non-financial corporations: Euro Area**

**B. Non-performing loans**

- **2014Q4¹**
- **2013Q1**

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1. 2014Q4 or latest data available.

Source: Central Statistics Office; Central Bank of Ireland, and IMF, Financial Soundness Indicators. 

StatLink  | http://dx.doi.org/10.1787/888933275057
Further strengthening the fiscal position

Ireland needs to keep improving the fiscal position to face the next downturn in the world economy. A more robust fiscal position is particularly important because monetary policy is not independent, and private and public sector indebtedness remains high, making Ireland more vulnerable to negative shocks. Ireland has steadily ameliorated its fiscal position in recent years, and this is projected to continue (Table 3). Between 2009 and 2014, the fiscal deficit (excluding bank-related financial measures) fell from 11.5% to 4.0% of GDP, while gross public debt fell from 120.1% of GDP in 2013 to 107.6% in 2014, mainly due to the winding up of IBRC (formerly Anglo-Irish Bank) and as a result net debt did not decline. Ireland’s high public debt pushed gross interest costs up from 1% in 2007 to 4% of GDP in 2014. Debt payments would have been greater had Ireland not negotiated improvements in the structure of its sovereign debt.

To keep improving the fiscal position debt needs to be maintained on a firmly declining path over the medium-term. Simulations using the OECD’s long-term baseline projections for growth show that eliminating the budget deficit in line with EU fiscal rules would be consistent with a sustainable fiscal position.

Table 2. Macroeconomic indicators and projections

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<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>173.9</td>
<td>0.1</td>
<td>1.4</td>
<td>5.2</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Private consumption</td>
<td>79.6</td>
<td>-1.0</td>
<td>0.1</td>
<td>2.1</td>
<td>2.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Government consumption</td>
<td>31.1</td>
<td>-1.3</td>
<td>-0.1</td>
<td>4.0</td>
<td>4.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>29.8</td>
<td>8.6</td>
<td>-6.2</td>
<td>14.0</td>
<td>15.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Housing</td>
<td>3.5</td>
<td>-20.6</td>
<td>5.0</td>
<td>-3.5</td>
<td>9.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Business</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Final domestic demand</td>
<td>140.5</td>
<td>0.8</td>
<td>-1.5</td>
<td>5.1</td>
<td>6.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Stockbuilding1</td>
<td>2.0</td>
<td>-0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total domestic demand</td>
<td>142.6</td>
<td>1.0</td>
<td>-1.2</td>
<td>5.6</td>
<td>5.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>176.1</td>
<td>2.1</td>
<td>2.5</td>
<td>12.1</td>
<td>11.9</td>
<td>4.6</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>144.8</td>
<td>2.9</td>
<td>0.0</td>
<td>14.7</td>
<td>13.3</td>
<td>4.4</td>
</tr>
<tr>
<td>Net exports1</td>
<td>31.3</td>
<td>-0.3</td>
<td>2.7</td>
<td>0.1</td>
<td>0.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Other indicators (growth rates, unless specified)

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Potential GDP</td>
<td>..</td>
<td>1.2</td>
<td>0.9</td>
<td>1.3</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Output gap2</td>
<td>..</td>
<td>-5.9</td>
<td>-5.4</td>
<td>-1.8</td>
<td>1.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Employment</td>
<td>..</td>
<td>-0.6</td>
<td>2.3</td>
<td>1.8</td>
<td>2.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>..</td>
<td>14.7</td>
<td>13.0</td>
<td>11.3</td>
<td>9.6</td>
<td>8.4</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>..</td>
<td>0.4</td>
<td>1.2</td>
<td>0.1</td>
<td>3.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Consumer price index (harmonised)</td>
<td>..</td>
<td>1.9</td>
<td>0.5</td>
<td>0.3</td>
<td>0.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Core consumer prices (harmonised)</td>
<td>..</td>
<td>0.7</td>
<td>0.1</td>
<td>0.7</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Household saving ratio, net3</td>
<td>..</td>
<td>7.8</td>
<td>7.1</td>
<td>6.3</td>
<td>6.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Trade balance4</td>
<td>..</td>
<td>-1.6</td>
<td>-14.7</td>
<td>28.8</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Current account balance4</td>
<td>..</td>
<td>1.5</td>
<td>4.3</td>
<td>6.1</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Three-month money market rate, average</td>
<td>..</td>
<td>0.6</td>
<td>0.2</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Ten-year government bond yield, average</td>
<td>..</td>
<td>6.0</td>
<td>3.8</td>
<td>2.3</td>
<td>1.1</td>
<td>1.3</td>
</tr>
</tbody>
</table>

1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.

will put public debt on a declining path and is therefore an appropriate strategy (Figure 5). While the Irish Fiscal Advisory Council (IFAC) suggests that the government’s plan for 2016 in the Stability Programme Update 2015 falls short of the requirements of the Preventive Arm of the EU Stability and Growth Pact (IFAC, 2015), the European Commission has assessed the Stability programme as fully compliant with the Pact. The pace of debt reduction is sensitive to the amount of deficit reduction and GDP growth, and the Irish economy is subject to several medium-term uncertainties (Box 1). The government should ensure that Budget 2016 is fully in line with its own rules and EU obligations. It should also

<table>
<thead>
<tr>
<th>Table 3. Fiscal indicators</th>
<th>General government, as a percentage of GDP or potential GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal balance</td>
<td>-12.5</td>
</tr>
<tr>
<td>Total revenue</td>
<td>33.0</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>45.5</td>
</tr>
<tr>
<td>Underlying primary fiscal balance</td>
<td>-3.8</td>
</tr>
<tr>
<td>Underlying fiscal balance</td>
<td>-6.3</td>
</tr>
<tr>
<td>Fiscal one-offs</td>
<td>-3.5</td>
</tr>
<tr>
<td>Gross interest payments</td>
<td>3.4</td>
</tr>
<tr>
<td>Gross debt (Maastricht)</td>
<td>109.3</td>
</tr>
<tr>
<td>Net debt</td>
<td>60.1</td>
</tr>
</tbody>
</table>

1. Projections.
2. Net of cyclical effects and one-offs.

Figure 5. Balancing the budget would put debt on a downward trend
General government gross debt, percentage of GDP

Note: All scenarios use the projections in the Economic Outlook Database No. 97 for the years 2015 and 2016. In the baseline scenario, trend GDP growth averages 1.8% per annum from 2017 to 2040 and the fiscal balance reaches 0% of GDP in 2021 and stays there. In the no deficit adjustment scenario trend GDP growth averages 1.8% per annum from 2017 to 2040 and the fiscal balance remains at -2.8% of GDP in 2017 and beyond. In the trend growth 2% lower scenario, trend GDP growth averages -0.2% from 2017 to 2040 and the fiscal deficit moves to 0% by 2022, where it remains.
Source: OECD Economic Outlook Database No. 97; OECD calculations.

StatLink                        http://dx.doi.org/10.1787/888933275066
adhere to its obligations to have a robust medium-term fiscal framework including more detailed projections that incorporate demographic and other spending pressures.

To strengthen the fiscal position the government should: allow the automatic stabilisers to operate and put extra revenue from growth above trend into debt reduction; put all the gains of the fall in interest rates to well below the long-run average towards reducing the debt burden faster; increase the robustness of revenue by broadening the tax base; and continue to improve the expenditure control framework, especially for big ticket items including health spending and public sector wage costs, which have grown too quickly in the past. As discussed below broadening the tax base should be accompanied by lowering of high effective marginal tax rates on labour that impede the incentive to work. These marginal rates could be lowered at the bottom end of the income distribution in a broadly fiscally neutral way by introducing a third lower income tax band, lowering the bottom rates of the universal social charge and reducing large tax credits (Chapter 1).

The government in a welcome move introduced a local property tax in 2013 but revenue from property taxes remains low by international standards. The base broadening should include further increasing recurrent property taxation, which is less growth distorting than other taxes (Johansson et al., 2008). Home ownership is widespread across all the income deciles in Ireland and therefore raising property taxes would be regressive. However, it can be done in a way that protects those on lower incomes, albeit at the cost of some increase in administrative complexity and very mildly increasing marginal effective tax rates on labour (O’Connor et al., 2015).

The government could also broaden the tax base by further reducing tax allowances and exemptions. Capital income allowances and exemptions mainly benefit higher income households, which receive the majority of this income (Kennedy et al., 2015). The reduction

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**Box 1. Uncertainties about the Irish economy’s prospects**

<table>
<thead>
<tr>
<th>Uncertainty</th>
<th>Possible outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium-term growth</td>
<td>The world economy may experience lower trend growth over the medium term that would affect Ireland strongly given its openness in trade and financial transactions. As a result, the Irish economy may stagnate given still high joblessness, high indebtedness and large amount of non-performing loans. Should inflation remain very low, these problems would become more difficult to be resolved. However, productivity growth could surprise on the upside given its recent modest pace.</td>
</tr>
<tr>
<td>Property boom and bust</td>
<td>House prices, though well below their peak level, have increased strongly since their trough in early 2013 and commercial property prices are climbing sharply. Such strong price rises may again spark a reinforcing spiral of higher property prices and credit leading to another misalignment of property prices and eventual burst that causes large losses in the banking sector.</td>
</tr>
<tr>
<td>Changes in the international tax regime</td>
<td>Fiscal harmonisation or other changes at EU or OECD level on Ireland’s corporation tax regime could have a significant economy-wide impact¹</td>
</tr>
<tr>
<td>Contagion from euro area turmoil</td>
<td>Notwithstanding the institutional improvements in the euro area, any re-emergence of the banking and sovereign crisis could have negative implications for Ireland.</td>
</tr>
<tr>
<td>Uncertainty regarding the nature of the economic relationship between the United Kingdom and the European Union</td>
<td>Trade and investment links are very strong, especially for more labour intensive domestic exporters. This presents both opportunities and challenges.</td>
</tr>
</tbody>
</table>

¹. Department of the Taoiseach, 2015.
of taxation related to superannuation is among the more expensive tax expenditures. Reduced VAT rates are costly and inefficient way to address inequality challenges.

There has also been over reliance on bulk grants to cover hospital costs, resulting in overruns in hospitals where activity levels rise and resources wasted in areas with declining demand. In a welcome move, the government began to introduce activity-based funding for the health sector (money follows the patient) in 2014. The moratorium on hiring has now been appropriately replaced with a ceiling on personnel expenditure, which allows hospitals greater flexibility to manage human resources. This should reduce the practice of hiring expensive temps to get around headcount restrictions. To better assess spending efficiency, the government should follow through on its plans to create, and publish, data on the financial and operational performance of hospitals.

After extremely strong wage growth in the boom years, wages and pensions for public servants were cut, and strong public sector wage control secured, under the Financial Emergency Measures in the Public Interest Acts 2009-2013. These were underpinned by industrial relations agreements with public service unions covering the years 2010-14 (Croke Park), 2013-16 (Haddington Road) and 2015-18 (Lansdowne Road) under which, in exchange for public sector efficiency improvements, the government agreed with unions to no further comprehensive wage cuts or compulsory redundancies. The government has recently agreed to begin the process of gradually reducing the cuts applied during this period from 2016. While the agreement is within budgetary parameters, the move raises a concern that, in the absence of appropriate structures for wage determination that take into account issues such as competitiveness, pressure for excessive public sector wage increases could return.

Ensuring financial stability

In response to the 2008 banking crisis and the burst of the housing bubble, the authorities consolidated financial regulation in the central bank, adopting more risk-based and intrusive supervision, transferred large bad property loans to NAMA (a “bad bank”), and undertook capital injections, liquidity support and government guarantees (see the 2011 OECD Economic Survey). In addition, Ireland introduced a special resolution regime for banks, strengthened the deposit insurance scheme, issued a code of conduct to address mortgage arrears, and reformed the personal bankruptcy regime (see the 2013 OECD Economic Survey). Since November 2014, the EU Single Supervisor Mechanism (SSM) has had the main responsibility for regulatory and supervision issues, but implementation remains mostly in the hands of the national regulators.

Banks are now well capitalised by international standards and, at 14.5% in March 2015 the average core Tier 1 capital ratio of domestic banks is high. The European Central Bank’s Comprehensive Assessment in late 2014 confirmed a small capital shortfall in only one bank, which has since been addressed. The financial supervisor should continue to monitor banks’ progress in meeting the forthcoming Capital Requirements Regulation (CRR), which along with the Capital Requirements Directive (CRD) IV implements Basel III rules in the EU, as some instruments now included in capital, such as deferred tax assets and preference shares, will be excluded. A recent review found that excluding these instruments would reduce the aggregate core Tier 1 capital ratio for domestic banks from 15.3% to 7.9% although all banks would remain above the 4.5% minimum requirements under CRD IV (Central Bank of Ireland, 2015). Banks also returned to profitability in the first
half of 2014, mainly due to a reduction in the flow of new provisions. However, profitability remains relatively low and low levels of new lending and limited scope to increase lending margins will restrict the ability of banks to increase their income.

While market funding has improved, over half of the funding of the domestic banking system has a maturity of less than one month. While the share of on-demand deposits of non-financial corporations is just below the euro area average, it’s above the euro area average for households and the central bank should encourage the banks to increase the maturity of household deposits. Banks will have to improve their funding structure to meet the forthcoming liquidity requirements of the CRR, which may present some challenges (Central Bank of Ireland, 2014). In a welcome move, the authorities now report liquidity positions of large individual banks in financial stability reports, as is the case in other OECD countries, enhancing transparency.

Non-performing loans (NPLs) are high in an international context (18.7% of loans at end-2014; Figure 4), although banks hold provisions against around 50% of them. In April 2015, the Central Bank introduced new requirements to conclude sustainable solutions for a majority of distressed mortgages by the end of 2015. However, resolving some mortgages in long-term arrears will require repossessions if they cannot be restructured in a way that would be acceptable to both debtor and creditor. Repossession proceedings can take a considerable amount of time mainly due to requests from parties for adjournments – in 2015 to date the average time taken from the issue of proceedings to the granting of a Possession Order is approximately 53 weeks. New Rules of Court (which are due to be put in place shortly) are intended to improve case management and reduce the need for adjournments in repossession cases. The authorities should continue to accelerate the court process for repossessions, and if necessary take further action to reduce NPLs, allocate losses and make progress to resolving the problem.

Although credit growth remains subdued, recent developments in residential and, especially, commercial property markets may be creating risks of another damaging property cycle. Property prices, especially in Dublin, have been rising rapidly albeit from low levels (Figure 6, Panels A-C). In this context, the recent macro-prudential measures (comprising caps on loan-to-value and loan-to-income ratios in residential property market lending) to build resilience among banks and borrowers and to reduce the chance of future credit and house price spirals, are welcome. It will be important that authorities monitor these measures closely to ensure they are effective. Furthermore, developments in the commercial property sector should be monitored on an ongoing basis and appropriate action taken if needed.

Regarding the housing market, the government should avoid subsidies for first-time home buyers, as these will be capitalised into prices, aggravating a potential price spiral and making it even harder for those with lower incomes to purchase homes. A more developed rental market would help moderate the property cycle, reduce household exposure to house price fluctuations, especially poorer ones that will be hardest hit if prices and rents continue to rise strongly. Construction 2020 initiatives, including professionalised private rental markets, are thus welcome. Greater liberalisation of planning requirements including on building heights in Dublin would make supply more flexible to meet changing housing demand.

Easy monetary policy and search for yield by international investors has led to large increases in commercial property investment spending (Figure 6, Panel D) and rapid
growth rates of capital values in commercial properties and office rents (CBI, 2014). Moreover, a particularly high percentage of commercial real estate loans are already impaired. NAMA has also become a large player in many large commercial property development projects such as the Dublin Docklands Special Development Zone adopted in 2014, which raises its risk profile, making it critical that NAMAs operates in an arms-length commercial way, with strict government oversight of its activities to ensure it does so.

A variety of policies can help address the developing potential property market risks, as credit and housing cycles can reinforce each other. The credit register, which was recommended by the 2011 OECD Economic Survey, is set to come into effect in 2016. The authorities should extend it to all types of lenders as quickly as possible to enhance its effectiveness. In addition, macro-prudential policies can stabilise credit cycles as well as limit the probability and cost of systemic crises (Claessens, 2014; Jin et al., 2014). The role of macro-prudential policies are especially important for Ireland as it cannot use monetary...
policy to address the business cycle and the counter-cyclicality of fiscal policy is constrained by the need to reduce public debt. Furthermore, the post-crisis banking system, which is highly concentrated and includes three partly publicly-owned banks, creates the risk of “too big to fail” banks with potential fiscal implications.

The role of macro-prudential policies are especially important for Ireland as it cannot use monetary policy to address the business cycle and the counter-cyclicality of fiscal policy is constrained by high public debt. As recommended in the 2011 OECD Survey of Ireland, loan-to-value (LTV) and loan-to-income ratios came into effect in February 2015. The high levels of private debt (Figure 4; Table 3) and the recent history of the property market bubble suggest Ireland should make full use of all available macro-prudential tools. In this context, it is welcome that the authorities will operationalise counter-cyclical capital buffers (CCB) framework in Ireland from January 2016, as is required by the Capital Requirements Directive (CRD) IV. The central bank should also closely monitor the composition of bank lending so as to avoid concentration risk in particular asset classes.

Enhanced supervision of traditional financial institutions and instruments might be circumvented by new financial products resulting from technological changes as well as the engineering of products that, in a low interest environment, respond to the appetite for high yields by investors. In this environment, designing and implementing effective regulation, which balances financial stability, investors’ protection and the opening of new financing channels for SMEs, represents a challenge for regulatory authorities (OECD, 2015).

In order to address investment financing constraints new sources of funding, including the Strategic Banking Corporation of Ireland (SBCI), (a wholesale lender to frontline SME lenders) and the Ireland Strategic Investment Fund (ISIF) have been established. By mid-2015, the SBCI had secured funding of EUR 800 million from the European Investment Bank, Germany’s KfW and the National Pension Reserve Fund (now the ISIF). The ISIF has EUR 7.4 billion or around 4% of GDP from the former National Pension Reserve Fund with the dual mandate to invest on a commercial basis in a manner that supports economic activity and employment in Ireland. Both the SBCI and the ISIF should be monitored closely given the implied fiscal risks. The SBCI’s operating model is to foster competition in the provision of credit rather than to compete directly with private operators. It is important to ensure that the SBCI and the ISIF do not crowd out private financing.

Making growth more inclusive

Looking across a broad range of indicators, Ireland delivers a high quality of life in many dimensions (Figure 7). Compared to the OECD average, the air is cleaner, more time is devoted to leisure, schools perform well for most students and the gender wage gap is smaller (Figure 8). Nonetheless, Ireland faces the challenge of having a very high share of its population being unemployed or inactive, and thus receiving no labour earnings. The unemployment rate among the poorly educated is significantly higher than the rate for those with tertiary education. This situation prevailed before the crisis, suggesting that it is a long-standing structural problem.

The Irish welfare system succeeds generally well in protecting the long-term unemployed and inactive from poverty, thus keeping income inequality near the OECD average. The transfer system is generous, as shown by Ireland providing the highest net replacement rate for long-term periods of unemployment (Figure 9). In addition to
Figure 7. **Wellbeing indicators are mixed**

Note: Indicators are normalised to range between 10 (best) and 0 (worst) according to the following formula: \((\text{indicator value} - \text{minimum value}) / (\text{maximum value} - \text{minimum value}) \times 10\).

Source: OECD, Better Life Index indicators 2015. [StatLink](http://dx.doi.org/10.1787/888933275089)

Figure 8. **Ireland performs well in some inclusiveness dimensions**¹

Notes: A green bar indicates that Ireland value is better than OECD average. A red bar indicates that Ireland value is worse than OECD average.

1. OECD average is for countries where data is available
2. And after taxes and transfers

Source: OECD various databases and the Paris School of Economics, World Top Income Database. [StatLink](http://dx.doi.org/10.1787/888933275090)
allowances for jobseekers, Ireland provides a variety of welfare benefits related to housing, children and incentives to return to work. Active labour-market policies, which have been deeply reformed, play a key role in helping jobseekers return to work, including training.

Support to access affordable housing is an important policy to reduce poverty. A high percentage of low-income households benefits from subsidised rents in social housing or via rent supplement payments (OECD, 2014). Social housing accounts for about 8% of the total housing stock, with 70% of these units being occupied by families in the bottom two income quintiles. However, public investment in housing was cut dramatically in the wake of the crisis. At the same time, the rise in unemployment sharply lengthened the waiting list for social housing, although half of those on waiting lists receive government support via a rent supplement. The government has announced large increases in expenditure on social housing and rental subsidies (DECLG, 2014), which is appropriate.

In order to contain the fiscal cost of welfare programmes, Ireland targets them toward low-income households. A downside of this targeting, however, is that marginal effective tax rates - the combined effect on a person’s earnings of income tax and the withdrawal of means-tested welfare benefits - can be very high (Figure 10). This reduces the financial incentives for the unemployed to seek re-employment. How these problems should be dealt with is a central issue to inclusive growth.

The cyclical recovery has been accompanied by robust employment gains and falling unemployment, but long-term unemployment has stayed very high (Figure 11). Many have been unemployed for more than 3 years and a significant share of families are headed by jobless parents. Getting more people back into work is the best way to spread the gains from the recovery, utilise people’s potential talent and efficiently reduce income inequality. Some important policy levers for achieving this are: well-designed tax and welfare system; efficient activation policy; and better education and skills policies.
Improving the tax and welfare system

Tax and welfare systems often create disincentives to work. High replacement rates discourage the decision to work (unemployment traps) and/or high marginal effective tax rates (METRs) discourage working more hours (low-income traps). Solving these problems involves unavoidable trade-offs between fiscal costs, work disincentive effects and social protection. As discussed above, Ireland combines high replacement rates for low-income individuals with a sharp reduction of welfare or in-work benefits and higher taxes as

Figure 10. Marginal effective tax rates are high for low income families
67% of the average wage, single, two children, percent, 2014

Figure 11. Long-term unemployment is high
Share of unemployed, %

Note: Countries are shown in ascending order of the incidence of long-term unemployment in Q4 2014.
1. Data are not seasonally adjusted but smoothed using three-quarter moving averages. OECD is the weighted average of 33 OECD countries excluding Chile.
2. 2013 for Israel.
income rises, creating high effective replacement rates and strong disincentives for some households shifting from welfare to work.

There is evidence that unemployment traps exists in Ireland for some groups, and particularly those with a non-working partner and children. To improve work incentives without increasing poverty, the government has put in place an in-work payment, the Family Income Supplement (FIS), for lower-income working families with children, which partially compensate for the withdrawal of welfare upon return to work. However, as the FIS payment falls rapidly with income, those with low income face high marginal effective tax rates of over 60%. The government should reduce more gradually the FIS as income increases. Simulations undertaken by the Department of Finance with the ESRI Tax-benefit model show that, if combined with substantial increases in the FIS income limits, this would raise the disposable income of deciles 1 to 6, while also providing a greater incentive to work for the low-paid (O’Connor et al., 2015).

If the government were to reduce the FIS more gradually it would be important to bear in mind that its cost would have to be funded within the existing budgetary parameters. Preliminary estimates where the withdrawal rate is reduced from 60 to 32% and for a family with two children the income limit is increased from EUR 602 to 865 per week (other income limits rise by a similar ratio) suggest a cost of approximately EUR 200 million (0.1% of GDP) at current take-up rates of 33%. If the take-up rate increased to 100%, the reform would cost approximately EUR 700 million (0.4% of GDP).

In 2015, the government is also reforming the system of for housing benefits with a new Housing Assistance Payment that will depend on income whether from welfare or work, helping to reduce work disincentives. This is a welcome move and should be rolled out to all beneficiaries of payments to cover housing costs. This will reduce unemployment and low-income traps by removing the large spike in the marginal effective tax rate that occurred when someone crossed the threshold of 30 working hours per week when they lost their entire housing related benefits.

Efficient activation policy with strict implementation of conditionality

An important part of best practice active labour market policies is effectively implementing mutual obligations. This is also an efficient way to encouraging people to return to work while maintaining the generous transfer system. As the economy recovers and jobs availability increase job seeker obligations in return for the training and other support provided by the public employment services can be strictly enforced. In the 2000s, the sanction rate for refusal of active job search in Ireland was close to the lowest among OECD countries (OECD, 2013). McGuiness et al. (2011) show, with Irish data on unemployment benefit recipients, that those who do not actively commit to such activities, without effective control, encounter lower chances of entering employment.

Conditionality for unemployment benefits was tightened under “Pathways to Work” labour market reforms introduced in the early 2010s (OECD, 2013a). The percentage of beneficiaries penalised for non-compliance has increased since then. The sanction is applied gradually, beginning with a temporary reduction in benefits (around 25%) to a suspension up to 9 weeks. The sanction rate for those who failed to attend two initial interviews with the public employment service was 3.2% (of the inflow to the recipients) in 2014, which seems to be comparable with other OECD countries. The sanction for those
who refuse to commit to active job search amounted to some 9200 cases, which is estimated to be around 3% of those who are registered as unemployed.

The conditionality approach can be even more enhanced in setting some objective criteria, as currently the sanction for non-compliance seems to be decided at the caseworker's discretion. For instance, the job seeker can be sanctioned when refusing a suitable job offer, against such criteria as wages, working hours, contract types, location, etc. However, it is not entirely clear how the job seeker is judged to have declined a "suitable" job offer. Some objective criteria would help to motivate the job seeker/recipient of benefits to accept a job, for example, defining the circumstances the job seeker has to accept a temporary contract, or defining the maximum reduction in wage relative to the previous job that can be considered as suitable.

The provision of social benefits (other than unemployment benefits) is currently not subject to conditionality in Ireland, even though many of beneficiaries could be considered fit for work. While such conditionality is not appropriate for all benefits, the authorities should consider the extent to which it could be extended.

**Providing the right kinds of skills**

Although much of the workforce is well qualified, many have insufficient skills to obtain sustainable employment. The OECD Survey of Adult Skills (PIAAC) signals that, despite improvements in recent years, adults in Ireland have lower skills than other OECD countries, especially regarding numeracy (Figure 12) and literacy skills. This relatively poor performance is partly explained by those aged 45-54 and 55-65, who also have relatively low levels of educational attainment. However, according to PIAAC, younger people in

![Figure 12. Numeracy skills are lacking](image-url)

Note: Average numeracy score. Scores are on a 500 point scale and have been divided into 6 proficiency levels from below 1 through to 5. For example, someone with the average score in Ireland of 256 is level 2. This means that most of the time (67%) they can carry out a 2 or more step calculation involving whole numbers and percentages and interpret simple data in tables and charts.

Ireland also compare unfavourably with their peers in other OECD countries. To address these needs, SOLAS, the agency overseeing the delivery of training to the unemployed, launched its *Further Education and Training Strategy 2014-2019* to embed literacy and numeracy within further education and training provision. The Strategy has a literacy and numeracy plan for increasing participation of priority cohort groups such as older adults in literacy and numeracy programmes offered through the Education and Training Boards.

The situation for youth has improved but the unemployment rate and the rate of those not in employment, education or training remain above OECD and EU averages. Involuntary part-time employment is also high. The government informed by OECD advice (OECD, 2014a) developed a youth guarantee plan to transpose the EU Youth Guarantee to Ireland and implementing it should remain a priority.

There is also evidence of social inequalities in higher education participation. The social mix of students in school has a strong effect on educational outcomes (McCoy et al., 2014). The concentration of immigrant’s in certain primary schools is increasing, with about 80% of children from immigrant backgrounds concentrated in 23% of schools. Providing disadvantaged schools with additional support, for example by attracting better teachers and providing additional tutoring, and avoiding excessive concentration of immigrants in disadvantaged schools would make Irish educational system more socially inclusive. Providing more information on educational options once they have left school, including vocational and technical options, would facilitate transitions to work. The government, in consultation with the youth work sector, should fine-tune the sector’s learning programmes to further support youth transition through education and into work for students from as wide a set of backgrounds as possible.

The education and training system is also being reformed, including with new programmes aimed at providing skills relevant to the more knowledge-intensive economy that Ireland is becoming (e.g. Momentum and Springboard). Three-quarters of those who completed a *Springboard* course over the period 2011-2014 are no longer registered as unemployed. The apprenticeship system, narrowly geared towards the construction sector and hardly used at all by women, is also being reformed. Nevertheless, the pace of reform is very slow.

A new apprenticeship system is being developed. The Apprenticeship Council, established in November 2014, issued a call for new apprenticeship proposals, as recommended in previous *Economic Surveys* (e.g. OECD, 2013a). More progress has been made in the delivery of training to the unemployed. A Further Education and Training Services Plan was prepared by SOLAS in 2014, taking into account identified skills needs of employers. Some progress has been made in setting up the infrastructure to collect and link information on participants and outcomes. This information should be used to undertake timely statistical evaluation of training programmes. Based on that evaluation, resources should be reallocated to those schemes and providers that are effective in providing the skills needed to increase employability.

**Better family policy: Encouraging voluntary participation of women**

Low labour-market participation for women after the age of 30 and single parents can be explained by the high cost (Figure 13) and variable quality (Start Strong, 2014 and Hanafin, 2014) of childcare services. In the medium- to long- run, the family benefit system
should be revamped so that spending on cash benefits and childcare services are more balanced. In Ireland cash benefits and childcare services account for 3% and 1% of GDP respectively versus 1.3% and 1% of GDP on average in the OECD. Such a spending neutral reform would both encourage more female labour force participation and, in some case, correct distortions to incentives to supply labour (see above).

**Fostering productivity**

The Irish economy has many structural features that have facilitated the development of a vibrant business sector and attracted a high level of foreign investment, even in the aftermath of the crisis. These include it being English speaking and in the EU, its skilled workforce, a capacity to attract skilled migrants (Chapter 2), low corporate taxes, flexible labour and product market regulations, the capacity of Ireland’s universities to generate...
the talent firms need, a highly effective foreign investment support agency, and a pragmatic and responsive public administration.

Productivity growth, however, has been falling for some time, reflecting both cyclical and structural factors (Figure 14). The boom resulted in a misallocation of resources, contributing to a decline in productivity. The slowdown in trend growth may also be related to a recent slowdown of investment in knowledge-based capital (a broad investment in knowledge including computerised information, innovative intellectual property (e.g. patents) and economic competencies, such as organisational capabilities) (Figure 15).

**Figure 14. Ireland’s trend GDP growth rate has declined**

![Graph showing Ireland's trend GDP growth rate](http://dx.doi.org/10.1787/888933275152)

Source: OECD Economic Outlook, Long-Term Database.

**Figure 15. Investment in Knowledge Based Capital has slowed**

Investment in KBC, annual average growth

![Graph showing investment in KBC](http://dx.doi.org/10.1787/888933275168)

Source: Corrado et al. (2014).
Maintaining FDI attractiveness

Foreign investment has been the source of whole new sectors, such as medical devices, and contributes significantly to jobs, innovation and exports. The foreign investment support agency, IDA Ireland, should continue to target key foreign firms, as the presence of one multinational tends to attract others (Barry, et al., 2003; Worrall, 2014). To ensure better linkages of multinationals to the wider economy, the government should continue to support business accelerators and incubators, which have a proven record of fostering a company start-up environment in the IT sector (Connolly, 2014).

A low and stable corporate tax rate is also important for attracting investment. Increasingly significant in the context of growing general concern about tax avoidance by multinationals worldwide is the reputation of the Irish system as fair and transparent. The move to abolish the so-called “double Irish” from 2020 is welcome - the legislative change came into effect for new companies from 1 January 2015, while a transition period will apply until 2020 for existing companies. Given the strong presence of intellectual property intensive IT and pharmaceutical companies in Ireland, preventing artificial profit shifting through the payment of non-market-priced royalties on intellectual property owned by companies in zero or low tax rate jurisdictions is crucial. Ireland should continue to keep its transfer pricing rules up to date with the OECD/G20’s Base Erosion and Profit Shifting (BEPS) project. Although changes to tax rules elsewhere may have a significant economy wide impact (Box 1), the closing of tax loopholes in other countries may also increase the importance of the corporate tax rate as a determinant of investment. As Ireland is relatively competitive in this domain this may help it to attract greater foreign investment.

Maintaining a favourable regulatory environment for business is also important to help foster a return to higher productivity growth, especially amongst home-grown firms, whose performance lags significantly behind the foreign owned sector (Haugh, 2013). For this purpose, Ireland needs to maintain a strong focus on policies to raise productivity. One option is an independent agency that would pull together on a whole-of-government basis the many of strands of policy needed to raise productivity. For example, this could be achieved by expanding the role of the National Competitiveness Council to deal with productivity in the broad sense. The renewed Council should continue to maintain a permanent research staff of sufficient size to fulfil a mandate of identifying obstacles to productivity growth, advocating the necessary reforms, and engage in a dialogue with stakeholders regarding the appropriate design of micro-economic and industry regulation measures. The Australia Productivity Commission was a forerunner in this area, and has compiled a proven track record of developing and advocating structural reforms to raise productivity. More recently, other countries (such as Chile, Mexico, Norway and New Zealand) have implemented similar bodies.

Tuning-up innovation support for new firms

Encouraging more innovation among new firms is a key lever for boosting productivity growth and jobs (Lawless, 2013) In comparison with other countries, Ireland has fewer young patenting firms, less public spending on R&D, and less industry financed public R&D (OECD, 2014b). Policy is going in the right direction to address these weaknesses but there is scope for improvement.

Ireland’s total public support to business R&D is not especially high in relation to its GDP and is skewed towards R&D tax credits. R&D tax credits have the advantage that they
avoid the “picking winners” problem associated with direct grants. They also should
require fewer administrative resources to operate than direct grants. However, R&D tax
incentives can protect incumbents to the detriment of new entrants (Bravo-Biosca et al.,
2013). Direct support makes SMEs more likely to carry out R&D (Czarnitski and Ebersberger,
2010). Even if R&D tax incentives contain carry-over provisions and refunds as in Ireland,
young firms may not fully benefit from the schemes if they lack the upfront funds to start
an innovative project, and in these cases public funding may be more beneficial (Busom
et al., 2014). Given that both types of support have advantages, a more balanced mix should
be used and the mix of support should be shifted towards direct grants.

Young firms and SMEs would also benefit from research networks due to their limited
in-house R&D resources, but they engage in less collaboration because they lack absorptive
capacity. Research staff and student placements can play a role in lifting absorptive
capacity. The steady expansion of employment based research programme for graduate
students should continue. Increasing absorptive capacity also requires improving smaller
firm management knowledge of open innovation networks, which could be facilitated by
expanding Enterprise Ireland’s mentoring programmes to include a component on
innovation collaboration, intellectual property protection as well as international sales.

Effective collaboration also requires tuning public research institutes so they can
better meet smaller firm needs. Young firms and SMEs have fewer resources and therefore
need faster direct pay-offs from innovation (Mina et al., 2008) and projects that focus on
improving product quality and production processes (Novero, 2008). Enterprise Ireland
should ensure its new Technology Centres are demand driven, and that they encompass
consulting, research, technology advisory and testing (Mina et al., 2009). The total budget
of the 15 centres under development is only one third of that of the budget of Ireland’s
successful agri-food Research Technology Organisation, Teagasc (DJEI, 2014). The large
stock of foreign investment in Ireland could be further leveraged by introducing a
procurement database/market where large firms place orders for services or products that
smaller firms could bid to produce.

Constraints on finance can be a major obstacle for new, innovative firms. The
provision of venture capital in Ireland is above the EU average. The government has
introduced a variety of new tools to address financing needs of firms not suited for
traditional bank lending (OECD, 2013a). It will be important to maintain private sector
involvement in these arrangements and monitor the performance of the various venture
capital funds.

**Getting more from competition**

Increasing competition reduces monopoly rents, which are a source of income
inequality, inefficiency and less inclusive growth. In a welcome move, the government
overhauled the Competition Law Framework in 2014. The Competition Authority and the
National Consumer Agency were merged into the Competition and Consumer Protection
Commission (CCPC) and the CCPC has been given new powers.

There is room to intensify competition in Ireland in less trade exposed sectors. Ireland
is ranked worst in the OECD for restrictive regulation on forms of legal professional
cooperation in the OECD’s PMR Index. The Legal Services Bill 2011 meets many of the
CCPC’s recommendations to enhance competition in the legal sector. The government
should also introduce a separate conveyancing profession, which has lowered the cost of these services in the United Kingdom (OECD, 2013a).

The Government partly implemented the CCPC’s recommendations to increase competition in the port sector by issuing some new self-handling cargo licences. However, general cargo handling licences have an automatic renewal clause, protecting incumbents. The state-owned port companies should require a tender or other competitive process for renewal of licences.

In the electricity sector, the transmission grid is independently operated by Eirgrid, but is owned by the incumbent generator, the Electricity Supply Board (ESB). The government should work towards the fuller separation of transmission and generation activities so as enhance competition in the sector. In addition, generation remains concentrated and competition should be further enhanced by the sale of some of ESB’s current capacity.

**Migration contributes to reducing skill mismatches**

Migration plays an important role in the Irish labour market. The economic crisis triggered a rapid increase in emigration, in large part among highly-skilled and people in employment. More recent data shows that while total emigration has started to decline, emigration by individuals with tertiary education continues to increase. Despite the general improvement in the Irish economy and its labour market, the outflow of university graduates exceeds the inflow. Productivity prospects of domestic companies, whose ability to hire workers abroad is limited, are more likely to be affected by this net outflow of qualified workers than multinationals, which are more successful in international recruitment. This risks that the already large productivity gap between domestic firms and multinationals will widen further; it also highlights the need for Ireland to optimise policies to retain and attract qualified workers, and to facilitate that all companies can take full advantage of these policies.

A high proportion of immigrants are also highly-skilled. This pattern of “brains exchange” reduces skill mismatches but also raises the challenge of integrating immigrants. As the economy recovers, the gap between immigrants and Irish workers in terms of employment probabilities is receding to pre-crisis levels (González Pandiella et al., 2015). Ireland is also starting to experience challenges associated with the integration of second generation immigrants. In that respect, providing students of foreign language background English language training is crucial.

Ireland will continue to need skilled immigrants. That challenge will become more acute, as wages in traditional source countries catch up (Westmore, 2014) and more countries join the global competition for skills. Ireland has responded by more regular (bi-annual) evidence-based reviews of occupations eligible for the Critical Skills Employment Permit. Ireland has also made good progress in reducing processing times for employment permits, from 36 days in January 2013 to 23 days in April 2015. This is among the lower processing times in the OECD (OECD, 2014c). Given the importance of migration to Ireland it should continue to optimise its migration selection system by making further use of IT in employment permits processes.

Ireland has introduced self-declaration and the Trusted Partner Initiative, whereby the submission of documentation is replaced by a declaration by the employer that the requisites are met. The Initiative will reduce administration significantly. Ireland should
encourage and fine tune such schemes and monitor the system to make sure it works for SMEs.

Better use could be made of international students as a channel for high-skill immigration. After graduation the job-search period allowed in Ireland ranges from six to twelve months. Countries with a higher share of international students allow for longer job-search periods, (OECD, 2014c). It can reach up to 30 months in Australia. Another avenue to make Ireland more attractive is post-study employment permits. Exempting international students from the employment permit fee in highly demanded areas where there are significant skills shortages in Ireland (provided they meet the criteria for obtaining the permit) would contribute to smoothing the transition to work.

Improving environmental sustainability

Ensuring an environmental sustainable pattern of growth is also a critical part of improving well-being in the medium-term. Clean water and air, less waste and its efficient disposal and uncongested cities are key elements of high standards of living and better quality of life. Fostering clean technologies, products and services by the business sector can help make Ireland more resilient to volatility in the price of fossil fuels. Developing green technologies, especially in areas of comparative advantage such as agriculture, can contribute to higher productivity growth and employment opportunities at a variety of skill levels in rural areas.

The Irish Environmental Protection Agency (EPA) estimates that without new initiatives Ireland’s greenhouse gas emissions will exceed its EU mandated target for non-ETS (Emission Trading System) emissions for the period 2013-2020 (Table 4; EPA, 2015). The government is developing new energy and low-carbon initiative policies as part of the development of a National Climate Change Mitigation Plan and the establishment of cross-sectoral coordination processes and commitments through the soon-to-be-enacted Climate Action and Low Carbon Development Bill 2015. Achieving sustainability goals will

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Target</th>
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<tbody>
<tr>
<td>1990</td>
<td>55 246</td>
<td>…</td>
</tr>
<tr>
<td>2000</td>
<td>68 216</td>
<td>…</td>
</tr>
<tr>
<td>2008-12</td>
<td>308 509</td>
<td>314 200</td>
</tr>
<tr>
<td>2020</td>
<td>…</td>
<td>Single EU-wide cap of 20% below 1990 emissions</td>
</tr>
<tr>
<td>2008-12</td>
<td>…</td>
<td>Single EU-wide cap of 21% below 2005 emissions</td>
</tr>
<tr>
<td>2013-20</td>
<td>…</td>
<td>Reduce emissions 20% below 2005 emissions</td>
</tr>
<tr>
<td>2008-12</td>
<td>219 000</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>…</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>…</td>
<td>37 500</td>
</tr>
<tr>
<td>2002</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>…</td>
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</tbody>
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1. Excluding land-use, land-use change and forestry (LULUCF).
necessarily involve public support, but it is important that realisation of these goals is supported and promoted on the basis of least cost interventions, and market-based tools. A promising low-cost route is to step up programmes to improve energy efficiency of housing (Ameli et al., 2015), which can help not only reduce GHG emissions but also improve health and equity outcomes.

Urban sprawl is a problem, especially in Dublin. It creates air pollution and congestion, which are becoming apparent again with the return to robust economic growth. Sustainable urban and housing planning, now focused on increasing density of the metropolitan area, will help to increase the viability of public transport that can not only help reduce emissions but also increase the welfare of all citizens, especially those on lower-incomes. A return to healthier public finances should facilitate greater public investment in public transport, infrastructure and services, which was heavily cut during the crisis. However, projects should be evaluated on an ex-ante basis. The coverage of the public transport network and the extent of bike lanes are below European city averages (EIU, 2009). A priority for public capital spending, and complementary to the government's expansion of social housing policy, should be increasing urban public transport, especially to more deprived parts of the metropolitan area. The Dublin bike scheme has been significantly expanded since 2009 and cycling trips into Dublin City have doubled since 2006. Further dedicated cycling lanes and expansion of the Dublin bike scheme would also help to cheaply reduce carbon emissions as well as improve labour market access and social inclusion of those on lower incomes.

Water stress is among the lowest in the OECD, but in some areas household water quality is an issue due to under-investment (EPA, 2015a) and dairy sector expansion poses new challenges. In a welcome move the government introduced household water charges, which are still among the lowest in the OECD. This new funding mechanism has been introduced in tandem with significant reforms of the water sector in Ireland, to improve the overall governance from a Water Framework Directive implementation perspective, and to bring a greater strategic approach and increased efficiency to investment through the establishment of a national public water utility, Irish Water. The introduction of household water charges should be accompanied by a well-communicated programme of infrastructure renewal. This can help to improve public acceptance of the charges and Irish Water's programme to fix leaks is promising in this regard. The expansion of dairying following the removal of EU quotas should be accompanied by more innovation to mitigate negative air and water quality side-effects. Although slowly improving, the development of environmental technologies appears to be modest by OECD standards. One avenue to boost this quickly would be to target foreign investment by an “anchor” multinational leader in dairy related environmental technologies, coupled with greater funding to the public research organisation, Teagasc, from a levy on the dairy industry.

Household waste per capita has been one of the highest in the OECD but new policies are now reducing it. Landfill levy charges have been increased significantly to discourage landfill use, which is now declining: for the first time, the amount of waste recycled nationally in 2014 exceeded the total waste landfilled. A new "3-bin" household waste separation system is being progressively introduced and from July 2016 households will pay by weight for waste, thereby incentivising further reduction in waste generation. In addition, a new thermal waste treatment plant is due to come on stream in 2017. These efforts could be complemented with greater incentives for firms via taxation and direct
support to innovate to reduce the amount of packaging material and increase the recyclability of packaging material.

Bibliography


Department of Taoiseach (2014), Draft National Risk Assessment.


Annex

Structural reform

The objective of this Annex is to review action taken since the previous Survey (October 2013) on the main recommendations from previous Surveys, which are not reviewed and assessed in the current Survey.
Rebalancing the economy

<table>
<thead>
<tr>
<th>Recommendations from previous Survey</th>
<th>Action taken since the October 2013 Survey</th>
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<tbody>
<tr>
<td>To retain access to financial markets under sustainable and affordable terms, further reduce the public debt-to-GDP ratio. If growth projections are not met and if financial markets conditions are appropriate, the automatic stabilisers should be allowed to operate around the structural consolidation path.</td>
<td>Fiscal policy, strong economic growth and positive stock-flow adjustments have contributed to reducing the public debt-to-GDP ratio. It is projected to decline from 123% in 2013 to 105% of GDP at end 2015, according to the national authorities.</td>
</tr>
<tr>
<td>Fully implement the strategy to reduce non-performing loans taking account of the steps taken to date, so as to sustain on-going balance sheet adjustments, improve bank health and foster the gradual recovery of domestic demand.</td>
<td>NPLs are reducing as banks’ implement restructuring strategies. These include a re-underwriting of new but reduced exposures to challenged customers, deleveraging, and pursuing legal options to generate recoveries in cases where no other solution is viable. The Mortgage Arrears Resolution Process, in place since 2011, was strengthened to accelerate debt restructuring: performance targets for borrowers in arrears over 90 days for main mortgage lenders were introduced. In April 2015, new rules replacing quarterly targets with new requirements to conclude sustainable solutions for a majority of distressed loans by the end of 2015 came into effect. The Central Bank has written to banks setting out new requirements that concluded sustainable solutions are in place for most distressed borrowers by the end of 2015 (the Mortgage Arrears Resolution Targets process).</td>
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<td>After exit from the current EU-IMF programme, consider international backstop options to provide support in the event of an unexpected shock.</td>
<td>Following exit from the programme, Ireland returned successfully to the long-term bond markets, without a pre-arranged precautionary credit facility. Ireland’s bond yields are trading at historically low levels. Ireland also completed early repayment of 81% of its IMF programme loans in March 2015.</td>
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Reinvigorating growth

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<th>Recommendations from previous Survey</th>
<th>Action taken since the October 2013 Survey</th>
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<tr>
<td>While Ireland is generally business friendly, there is a need to prioritise further structural reforms. To ease doing business, increase competition in legal services and reduce licence and permit fees and waiting times.</td>
<td>The Legal Services Regulation Bill is under discussion in Parliament. The Bill aims to operationalise the new Legal Services Regulatory Authority without delay in 2015.</td>
</tr>
<tr>
<td>Continue to emphasise fiscal measures that minimise harm to growth and equity, such as the residential property tax. Review existing tax and welfare structures to address better labour force participation of low-wage workers.</td>
<td>In the 2015 Budget; income tax was reduced (the threshold at which income tax is due was raised and the higher rate of income tax was reduced from 41% to 40%); the Universal Social Charge, income tax-like social security contribution, was also reduced. The Back To Work Family Dividend was introduced. The benefit aims to help families to move from social welfare into employment: people with qualified children, taking up employment and becoming no longer eligible to certain benefits, obtain a weekly payment for up to 2 years.</td>
</tr>
<tr>
<td>Address long-term spending pressures in the pension system. Place environmental protection more at the centre of the tax, charges and subsidy policy choices.</td>
<td>The pensionable age was increased to 66 in State Pension (Contributory) in January 2014. The payment to 65-66 years olds was abolished in State Pension (Transition) in January 2014. A new Single Public Service Pension Scheme has been in place since January 2013: in the scheme, benefits are based on career average earnings, not final salary. The Finance Act 2014 lists natural gas and biogas as transport fuels and sets the rate of excise at the EU minimum rate for a period of 8 years.</td>
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Labour market activation policies

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<tr>
<th>Recommendations from previous Survey</th>
<th>Action taken since the October 2013 Survey</th>
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<tbody>
<tr>
<td>To improve public trust in Government, increase transparency and accountability of Government institutions.</td>
<td>The Freedom of Information (FOI) Act 2014 extends FOI to almost all public bodies. The Open Data Initiative makes data held by public bodies available and easily accessible online for reuse and redistribution. Ireland became a full member of the Open Government Partnership in July 2014. The Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013 introduced a comprehensive legislative framework for parliamentary inquiries. A comprehensive review on accountability of the Civil Service was conducted, including through public consultation. The review's recommendations are being implemented. The Government introduced a new system for State Board Appointments in 2014.</td>
</tr>
</tbody>
</table>

To avoid rising structural unemployment and a drift into social exclusion, prioritise engagement with the long-term unemployed and increase the number of caseworkers supporting them, through internal redeployment.

To reduce mismatches between supply and demand of skills, better align the content of education and training schemes so that they provide skills required in the expanding sectors.

Focus limited fiscal resources on policies empirically-proven to improve employability; this will require systematic evaluation of labour-market programmes through consistent tracking and randomised trials, followed by decisions to close down ineffective schemes while strengthening successful ones.

To minimise the detrimental and enduring impact of long-term unemployment, establish a youth compact whereby those in unemployment will receive a compulsory offer of training, work or a combination.

To avoid the perpetuation of social exclusion and risk of poverty, put a stronger emphasis on encouraging and facilitating the return to work of those more detached from the labour market.

To provide job-search assistance and activate the current cohort of long-term young unemployed, increase the number of caseworkers in the public employment service through internal redeployment.

Establish specific youth tracks in those schemes where youth are having access difficulties.

SOLAS, the agency overseeing the delivery of further education and training to the unemployed, published the first annual Further Education and Training Service Plan in 2014. The Expert Group on Future Skills Needs (EGFSN) and the Strategic Labour Market Research Unit identify such required skills. The Higher Education Authority performance compacts with Higher Education Institutions 2014-2016 require them to report on how they are responding to labour market needs including the recommendations of EGFSN. The ICT Skills Action Plan 2014-2018 was launched aimed at addressing the 44 000 job openings expected to arise over that period for ICT graduates across all sectors of the economy.

Some evidence on effectiveness has been found for the Momentum programme (vocational training for the long-term unemployed); the TUS programme (community work placement scheme to which referral was based on random assignment from among the long-term unemployed); and the JobBridge internship programme. Resources have been increased in internships and training.

Programmes for young people are being adapted as part of the response to the EU Youth Guarantee programme. Conditionality for young job seekers is the same as that for all the other job seekers.

The focus on the long-term unemployed was renewed, and more resources are spent on the unemployed at most risk of becoming long-term unemployed identified through profiling.

300 staff were redeployed from other activities to activation duties.

Such youth tracks have been introduced: for example: internships for disadvantaged youth in the JobBridge programme; access to recruitment subsidies eligible at shorter unemployment spells than for older unemployed in the JobsPlus programme.
Recommendations from previous Survey | Action taken since the October 2013 Survey
---|---
To respond to the demand for specialised skills, concentrate training efforts in those schemes providing high level skills such as Momentum, Springboard or ICT conversion courses. Progression pathways between different education levels should be stepped-up. | The Momentum programme is delivered in line with the Action Plan for Jobs and Pathways to Work. The 2nd phase of Momentum launched in 2014 aims to provide up to 6,000 education and training places for the long term unemployed, designed to tackle the skill shortages identified by the Expert Group on Future Skills Needs (EGFSN). Springboard+ 2015, which incorporates the ICT skills conversion programme was launched in May providing for a total of 9,000 free part-time and full time higher education reskilling and upskilling opportunities for jobseekers. 285 Springboard+ courses will be delivered in 42 colleges throughout Ireland. In 2014 Springboard provided over 6,700 places on 212 courses on part-time and full-time courses, including ICT Conversion courses.

To provide skilled workers to emerging sectors, expand the apprenticeship beyond craft-related areas involving the SME sector, better align curricula of vocational training to unemployed profiles and to employers demands and increase its workplace component. | The Apprenticeship Council was launched in November 2014. The council consists of representatives from business, trade unions, further education bodies and the Department of Education and Skills. It formally invited proposals for new apprenticeship programmes from consortia of enterprise, professional bodies and education and training providers. Over 80 separate proposals were received by the deadline. A series of programme/process evaluations has been launched.

Establish a systematic and rigorous evaluation of all policies and schemes including sunset clauses to review at regular intervals the need for extensions. Based on the evaluation, reallocate resources to those schemes which are found to be effective in increasing employability. | The profiling model was reassessed, using administrative data, in 2013-14. There was little difference from the original model in terms of the factors predicting the severest difficulties in returning to employment. The re-assessed model has been used to estimate “distance from the labour market” scores for the existing long-term unemployed.

To adapt Pathways to Work to the changing structure of the Irish economy, establish a regular review and evaluation of the profiling model. Enlarge the model to encompass those more detached from the labour market. | The Back to Work Enterprise Allowance was implemented, which provides technical assistance grants for training/mentoring. See also other youth related actions above.

Establish a strategy to provide youth with relevant training and support. Introduce mentoring and coaching in the existing programme supporting self-entrepreneurship among unemployed. To reduce poverty risk and social exclusion, put a stronger emphasis on encouraging and facilitating the return to education or employment of those more unattached from the labour market by increasing mutual obligation approaches. | Reforms to lone parents’ benefits are increasing conditionality of these payments where children are over 7 years of age.

Step-up the role and the capacity of psychological services to assist employment services in supporting young people and increase early childhood education as a preventive way to better integrate disfavoured youth. | Since the beginning of 2013 the number of educational psychologist staff within the National Educational Psychological Service (NEPS) has increased from 173 to 183. NEPS provides educational psychological service directly to all first and second level schools with schools in disadvantaged areas afforded priority service.

To realise its potential in the social inclusion of disadvantaged people, the social enterprise sector, including non-profits organisations, should be able to access the same kinds of government support as conventional enterprises. | No action.

Foster innovation and entrepreneurship

Recommendations from previous Survey | Action taken since the October 2013 Survey
---|---
Reflecting significant uncertainties about the effectiveness of various innovation policy tools, independently and regularly evaluate all actions in this area, strengthen programmes with proven higher returns, and wind down the others. To promote effective evaluation, ensure all innovation and enterprise supports have sunset clauses. | The Research and Development Tax Credit underwent an evaluation in 2013, while a review of enterprise supports for Research, Development and Innovation (RD&I) was completed in 2014. Regular independent evaluations of all RD&I programmes are undertaken. The recent mid-term review of the Enterprise Ireland/IDA Ireland Technology Centre programme recommended the sun-setting of two of the Technology Centres, and was actioned. Science Foundation Ireland (SFI) monitors its investments post-award.
To increase the effectiveness and cost-efficiency of the innovation and research policies, and make it easier for businesses to access support, consolidate innovation funding and actions into a smaller number of Government agencies.

A National Directory of Research Centres was published with details of all centres of scale and their key areas of research.

To increase capital supply and encourage entrepreneurship, lower costs for small-cap IPOs, centralise legal processes for intellectual property rights (IPR) transfers with the new central technology transfer office and introduce changes to the examinership process without delay.

Knowledge Transfer Ireland (KTI), established in 2013, aims to make it easier for companies to access and use ideas developed through publicly-funded research. KTI provides a catalogue of practical guides including on License Agreements and Options Agreements to ensure a coherent approach across the system.

To improve Higher Education Institution (HEIs) quality, make a significant portion of their funding performance related, provide multi-year funding envelopes for HEIs, adjust their funding to reflect different student growth patterns across institutions and give them autonomy over staff salaries.

An expert group was established in 2014 to examine the current funding arrangements for higher education. In addition, a system of performance funding within core public funding of higher education was introduced in 2014.

To encourage MNCs to move advanced R&D functions to Ireland and build HEI-firm linkages, continue the strategy of building up fewer, larger academic research centres. Increase Masters and PhD graduates with significant firm placement components in order to provide firms, and particularly SMEs, with the innovation capacity to engage with HEIs. Further enhance SME-HEI links by setting up Research Technology Organisation/s targeting SME needs.

The Irish Research Council continues to develop its two enterprise scholarship schemes: the Employment Based Postgraduate and the Enterprise Partnership Scheme. Around 300 companies have engaged with the Council on these initiatives. SMEs account for more than 70% of the Partners engaging on the Employment-Based Programme.

Twelve large scale research centres have been established. Some 300 industry partners are collaborating with the Centres and have committed funding.

SFI funds the SFI Industry Fellowships, which facilitate the placement of researchers in industry or academia to stimulate knowledge transfer and training.

A study has been undertaken on strengthening the market-focussed element of the research landscape in Ireland, including examination of establishing Research Technology Organisation/s.
Chapter 1. Growing together: Towards a more inclusive Ireland

The Irish economy is growing strongly, but there is a risk many households will be left behind despite robust growth. High joblessness especially among the low-educated and skill-biased wage differentials have induced high market income inequality, among the highest in the OECD. Ireland’s comprehensive welfare system provides a broad range of social benefits, which keeps jobless households out of poverty, but this reduces the financial incentives to work, especially for families with children. Structural unemployment is also explained by the lack of skills required to find employment in the Irish labour market, where the presence of multinational enterprises increases the reward for high skills and the penalty for poor skills. With the unemployed pool lacking the right skills and financial incentives, employers tend to resort to foreign workers, a practice facilitated by the well-functioning migration system. Getting more people into work is important to share the benefits of the recovery as widely as possible. This requires building up work capacity, especially by improving jobseekers’ training, and ensuring welfare recipients honour their Job Path commitments in return. More needs to be done to increase incentive to work by reducing welfare and low-income traps. This should be done by shifting the tax burden from labour to indirect taxes in a progressive way that does not harm the lowest income groups.

Chapter 2. Migration in Ireland: Challenges, opportunities and policies

The Irish labour market is exceptionally open to international migration flows, thus making labour supply highly responsive to changes in cyclical conditions. Immigration also provides the skills that the Irish economy needs. Prior to the recession, it provided labour for the construction sector. The crisis triggered a sharp reversal in migration flows, with immigration suddenly halting and emigration increasing. A large proportion of emigration is highly qualified, as is a high proportion of immigration. This pattern of "brain exchange" can contribute to reducing skills mismatches, but also raises the challenge of remaining attractive for skilled workers. This chapter examines how the crisis has affected migration, how related policies have evolved and proposes avenues to spread the benefits of migration beyond the scope of multinational enterprises, in particular to Irish SMEs. The proportion of Irish-born population living abroad is very large and the chapter also analyses what role return migration could play, what policies are in place to maintain links with emigrant’s communities abroad and how they can be strengthened. Ireland has recently experienced, for the first time in its history, large-scale immigration. As a result, it currently hosts a large and very heterogeneous immigrant community, with diverging challenges and needs. Getting integration policies right is therefore a complex, but crucial task. The chapter identifies what are the key challenges in this area and proposes some avenues to foster the labour market integration of immigrants. Ireland is also starting to experience challenges associated with the integration of second generation immigrants. To respond to those challenges, the chapter recommends early action in education and social domains.
This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The Economic situation and policies of Ireland were reviewed by the Committee on 9 July 2015. The draft was revised in the light of the discussion and given final approval as the agreed report of the whole Committee on 28 July 2015.

The Secretariat’s draft report was prepared for the Committee by David Haugh, Youseke Jin, Alberto Gonzales Paniella and Muge Adalet McGowan under the supervision of Patrick Lenain. Damien Azzopardi, Penelope Silice and Elka Athari provided the statistical research assistance, and Brigitte Beyeler, Mikel Irarri and Anthony Bolton provided the administrative support.

The previous Survey of Ireland was issued in September 2013.

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