# IRELAND

**Economic activity in Ireland is projected to remain robust, but to ease gradually. Abstracting from volatile activities of multinational enterprises (MNEs), underlying domestic demand will remain strong, underpinned by solid employment growth and consumption. As the economy approaches full employment, job growth will moderate while wage pressures will be significant, feeding into higher inflation. Property prices will remain very high, spurring strong construction investment.**

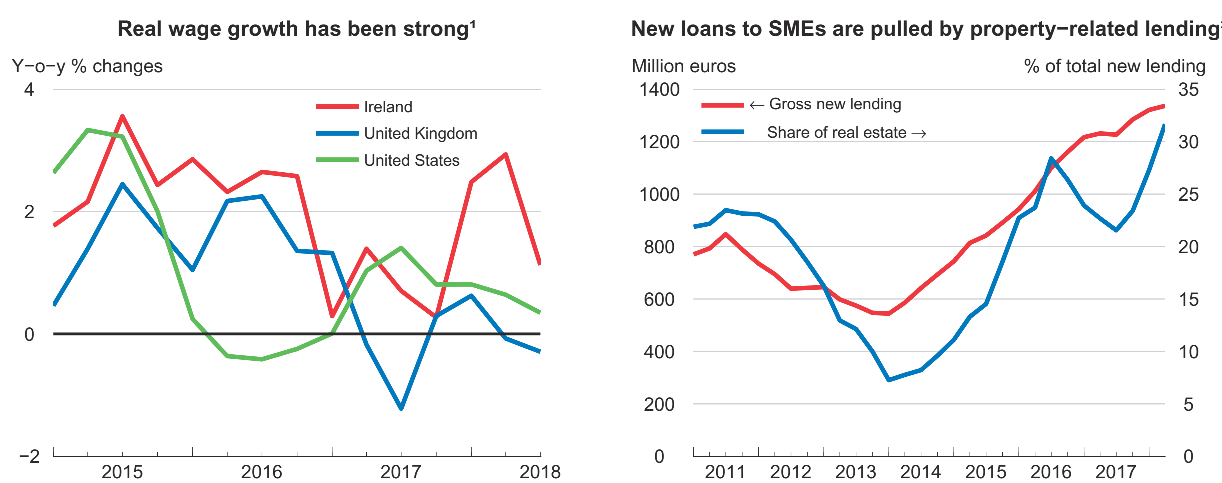
**The fiscal position will not improve much over the next two years. The government should remain committed to improving the fiscal position, but be ready to ease the fiscal stance to mitigate the impact of a potentially disorderly conclusion to Brexit negotiations. Ireland would be one of the most negatively impacted EU countries of such an outcome. The implementation of a new development plan aimed at economic, environmental and social progress should be conditional on improving the fiscal position, and the authorities should ensure that the associated projects are carefully prioritised.**

### *The strong expansion continues*

Underlying domestic demand has been growing by more than 5% at an annual rate over the past few quarters. Solid consumption has been driven by strong gains in employment and income, and more generally improved consumer confidence. With the unemployment rate having declined rapidly, wage growth has risen markedly. Business confidence remains at high levels in all sectors. Yet inflation remains low largely due to the appreciation of the euro against the pound sterling, although it has been stronger in the non-tradable sector, running at or above 2%.

The property market remains buoyant and has been driving strong credit growth. House prices continue to rise strongly, driven by strong income growth and a shortage of

**Ireland**




1. Real wages are nominal wages adjusted for headline inflation.
2. 4-quarter average of gross new lending by banks to Irish resident SMEs.

*Source:* OECD Economic Outlook 104 database; and Central Bank of Ireland.

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### Ireland: **Demand, output and prices**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| | Current prices EUR billion | Percentage changes, volume (2016 prices) | | | | |
| **GDP at market prices** | 262.1 | 4.9 | 7.2 | 5.9 | 4.1 | 3.4 |
| Private consumption | 86.9 | 3.8 | 1.8 | 3.2 | 2.6 | 2.2 |
| Government consumption | 32.2 | 3.4 | 3.7 | 3.5 | 2.6 | 1.9 |
| Gross fixed capital formation | 62.5 | 52.8 | -30.5 | -8.3 | 6.7 | 5.2 |
| Final domestic demand | 181.7 | 20.4 | -12.3 | -0.6 | 4.0 | 3.2 |
| Stockbuilding[1] | 5.4 | 2.3 | -1.3 | 0.9 | -0.2 | 0.0 |
| Total domestic demand | 187.1 | 22.0 | -16.0 | 1.4 | 3.7 | 3.1 |
| Exports of goods and services[2] | 320.1 | 4.4 | 7.7 | 5.3 | 5.6 | 4.8 |
| Imports of goods and services | 245.0 | 18.5 | -9.3 | -0.9 | 6.1 | 5.1 |
| Net exports[1] | 75.0 | -11.9 | 19.0 | 7.2 | 1.6 | 1.4 |
| *Memorandum items* | | | | | | |
| GVA[3], excluding sectors dominated by foreign-owned multinational enterprises | _ | 4.9 | 7.2 | 4.8 | 3.9 | 3.4 |
| GDP deflator | _ | -0.8 | 0.4 | 0.2 | 1.1 | 2.3 |
| Harmonised index of consumer prices | _ | -0.2 | 0.3 | 0.8 | 1.9 | 2.2 |
| Harmonised index of core inflation[4] | _ | 0.7 | 0.2 | 0.3 | 1.5 | 2.2 |
| Unemployment rate (% of labour force) | _ | 8.4 | 6.7 | 5.6 | 5.2 | 5.1 |
| Household saving ratio, net (% of disposable income) | _ | 3.8 | 6.6 | 5.6 | 5.2 | 5.1 |
| General government financial balance[5] (% of GDP) | _ | -0.5 | -0.2 | -0.4 | -0.2 | 0.1 |
| General government gross debt (% of GDP) | _ | 85.3 | 78.2 | 75.7 | 73.4 | 70.7 |
| General government debt, Maastricht definition (% of GDP) | _ | 73.5 | 68.5 | 66.0 | 63.8 | 61.1 |
| Current account balance (% of GDP) | _ | -4.2 | 8.5 | 11.5 | 10.5 | 9.5 |

1. Contributions to changes in real GDP, actual amount in the first column.
2. So called "contract manufacturing" (exports of goods produced abroad under contract from an Irish-based entity) by multinational enterprises is assumed to remain at the 2017 level in 2018 and 2019.
3. Gross value added. Data for 2016-2020 are OECD 's estimates.
4. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
5. Includes the one-off impact of recapitalisations in the banking sector.

*Source:* OECD Economic Outlook 104 database.

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supply, though they are currently at well below pre-crisis levels. New housing completions have been catching up with demand, but there will continue to be shortages in the dwelling stock for some time. Rising property prices are becoming a concern for competitiveness and for housing affordability for low-income households. The construction sector has been increasingly contributing to employment and investment.

### *Policies should aim at ensuring sustainability*

Macro-prudential policy tools that are currently in place, such as loan-to-value caps, have reduced the share of risky loans in the financial system. Given the risk of overheating in the property market, the Central Bank of Ireland will impose an extra capital buffer equivalent to 1% of banks' risk-weighted assets from July 2019, and additional buffers should be added swiftly if needed.

The improvement in the fiscal position will slow over the next two years. Given uncertainties to the outlook, the government should remain committed to improving the fiscal position, but be ready to ease the fiscal stance to mitigate the impact in the event of a disorderly conclusion to Brexit negotiations. The authorities are planning to increase public investment further by EUR 116 billion (39.5% of 2017 GDP) in the National Development Plan over the next ten years, with a focus on education, public transport and housing. The plan should be implemented conditional on pursuing the target of further reducing public debt and only projects with the highest social returns should be implemented.

### *The economy will face capacity constraints and uncertainties*

The economy is projected to grow robustly in the coming two years. Output will however expand at a somewhat more moderate pace due to increasing capacity constraints and high external uncertainty. As the unemployment rate will reach historically low levels, wage pressures will be significant and push up inflation strongly even as the effects from the depreciation of the pound sterling dissipate.

Risks to the outlook are elevated, the most immediate one being a disorderly conclusion to Brexit negotiations. Changes in the international tax regime could affect FDI decisions by multinationals, posing a significant risk for Ireland. Property prices may increase more strongly than projected, which would further boost construction activity in the near term but may lay the foundation for another boom-and-bust cycle if associated with another surge in credit growth. Persistently high private indebtedness also poses a downside risk, as it leaves the economy sensitive to rising interest rates.