European Commission

Ireland's Economic Future

an EU perspective

ADDRESSING THE CRISIS

Thanks to steadfast efforts made by the Irish people, as well as support from its EU partners, Ireland has emerged from a deep crisis to become one of the Union's fastest growing economies. Now the challenge is to translate this growth into smart investment, and avoid the mistakes of the past.

By 2010, Ireland was faced with an unsustainable budget deficit and rapidly growing public debt. Unable to borrow from the markets, it turned to its EU partners for financial assistance. The ensuing EU/IMF Programme helped to address the most dangerous imbalances and restore competitiveness to the economy, while ensuring that the delivery of vital public services was not interrupted.

Ireland regained the confidence of the markets and emerged from the Programme successfully in 2013. Quickly, it became one of the fastest growing economies in Europe.

The unemployment rate, which had peaked at 15% in 2012, has now fallen to almost half that figure, well under the Euro Area average. This is, in part, due to key measures agreed under the Programme to help the unemployed get back to work. The economy is now generating new jobs in many different sectors, including in areas such as information technology, financial services and agri-business.

THE CRISIS IN IRELAND: HOW EUROPE HELPED

The EU stood by Ireland as it made the difficult reforms needed under the Programme. The financial assistance was used, inter alia, to maintain funding to public services. A total envelope of about EUR 64 billion was loaned to Ireland at the lowest possible interest rates. An ambitious economic reform was drawn up by Ireland and agreed with the EU and the IMF.

NEW CHALLENGES

A return to economic growth means more opportunities for Irish people. But it also brings with it a new set of challenges for Ireland's economy.

As the population continues to grow, it will put new demands on essential services, such as healthcare and education. And while some reforms under the Programme have been completed, there is scope for creating more efficiency in how these services are delivered. Reforms which increase value-for-money – particularly in the health sector – will be the key to ensuring Ireland's hard-won economic success is not put in jeopardy by new spending pressures.

Sustainable economic growth means being able to stimulate the economy in bad times, but also being able to apply the brakes when things start to overheat. As Ireland returns to economic growth, it is important that the mistakes of the past are not repeated. When an economy is growing fast, there is a need for restraint in how the budget is managed. Increasing spending too fast will add to costs in the economy and lead to problems down the road.

Therefore, public spending should continue to be managed carefully to address the most urgent needs and ensure investment for the future.

The EU stands ready to help, by encouraging a rules-based approach to how the budget is managed and by providing policy guidance under the European Semester - an annual process of economic co-ordination among the EU countries (see box on next page). The EU's budget rules, under the "Preventive Arm" of the Stability and Growth Pact, are designed to be 'countercyclical'. This means that when the economy is growing very fast, the rules require additional budgetary restraint. Conversely, when the economy slows down, there's room for some more stimulus, in order to get things going again.

As a small, open economy, Ireland is well positioned to benefit from the European Union's Single Market. Yet being open also brings risks and that means planning for bad times as well as good.

PROVIDING HOUSING FOR IRELAND'S RECOVERY

Decent, affordable housing can be the starting point for social well-being and durable economic growth.

The Irish construction sector, which collapsed in the wake of the crisis, now needs to grow again, as Ireland is facing an acute shortage of new housing, particularly in the Greater Dublin Area. Increasing the housing supply is important for many reasons, including for social inclusion, keeping Irish businesses competitive and making sure Ireland remains an attractive destination for foreign investment. Policies which encourage a supply response in the market will be key to making this happen. Making sure the construction industry has a skilled workforce is also important.

The way Irish people live is also changing, with more and more residents living in rented accommodation. It is important that housing policies take this into account – from planning, to building regulations, right through to tenancy law.

THE EUROPEAN SEMESTER

One of the instruments of policy coordination is the European Semester, an annual process for all Member States, including Ireland.

The Semester involves inputs from the Irish authorities, the Oireachtas, the European Parliament, and also the European Commission.

Taking all these inputs on board, the Commission produces a set of recommendations for each country – called Country Specific Recommendations – that are in harmony with the policy priorities for the EU as a whole.

The Recommendations will address the specific challenges that the country faces and can include issues as wide ranging as public finances, labour market issues, the environment, or how to open up the economy to more competition.

The goal is to foster policy making that brings about growth and prosperity for Europe and its citizens.

PRUDENT BANKING IS THE WAY FORWARD

The European Union's new banking rules are designed to ensure a repeat of the financial crisis can't happen. Much has been done to address legacy issues in Ireland, but the level of bad loans is still too high.

The financial crisis hit Ireland hard. The European Union has responded, by helping countries like Ireland to downsize and repair their banking sectors. The EU now also has a set of new rules under the new Banking Union, in order to avoid a repeat of the mistakes of the past, not least reckless lending by banks and insufficient regulation of financial institutions. New rules are there to ensure banks hold enough capital in case things go wrong. Also if a bank gets into trouble, there is an orderly procedure for winding it down.

But in Ireland the issue of non-performing loans – mostly mortgages – remains a challenge. While much progress has been made in getting the lenders and the troubled borrowers to find solutions, it is important that in all cases, these solutions are durable. This means finding agreements which will hold even if economic conditions worsen.

A new Central Credit Register will help make lending less risky for the economy, protecting taxpayers and savers.

INVESTING IN INFRASTRUCTURE

Ireland was faced with hard budget constraints during the crisis, leading to reduced spending on infrastructure. As a result, little has been built with public money in recent years. The quality and adequacy of infrastructure was hit.

In particular, the level of spending for public transport, roads, social housing or energy infrastructure has been low in Ireland, ever since the crisis. Construction of new social housing units is at historically low levels, while traffic congestion in the Greater Dublin Area is now a serious issue.

Ensuring the provision of services such as water and wastewater also plays a vital part of supporting the housing market. Without these vital services, Ireland will not be able to accommodate its burgeoning population.

AFFORDABLE AND QUALITY CHILDCARE

Ireland suffers from a lack of quality, affordable childcare. The cost of childcare in Ireland is among the highest in the EU, and this is one of the factors which make it tough for so many Irish parents to access the labour market. Making sure childcare and early childhood education is affordable and of high quality is important not only for achieving gender equality, but also for addressing social inequalities.

THE INVESTMENT PLAN FOR EUROPE

All over Europe, a lack of investment is holding back the economic recovery. This is why the European Commission has prioritised increasing the level of investment.

Europe needs new roads, railways, bridges, but also more research and development as well as investment in renewable technologies and digital infrastructure.

The EU's new Investment Plan for Europe is about overcoming barriers and harnessing the power of the private sector to get investment moving again.

One of the pillars of the plan is a guarantee fund – called the **European Fund for Strategic Investment** – which will help bring investors on board for projects such as building new ports, hospitals and hi-tech research facilities.

The first project approved for Ireland is for the creation of 14 new primary healthcare centres across the country; and many more Irish projects are in the pipeline.

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