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## Ireland's Economic Recovery: An Analysis and Exploration

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**MEDIA RELEASE**

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**NESC Secretariat Paper Launched:  
Ireland's Economic Recovery —  
An Analysis and Exploration**

- **Focus on 'working the (EU/IMF) deal' rather than debating whether it can work;**
- **Continue fiscal adjustment and reform;**
- **Work relentlessly to revive sustainable growth;**
- **Make social solidarity a core concern to ensure fairness;**
- **Address developmental constraints by taking forward the Government's Strategic Investment Bank proposal;**
- **Work to promote a more comprehensive EU and international financial resolution.**

*Dublin, Wednesday July 27<sup>th</sup>* —The NESC Secretariat today argues that there are signs of economic recovery. However, to sustain and deepen recovery Ireland must continue to improve its underlying debt dynamics.

In broad terms, the debt-dynamics depend on the relationship between the balance of tax and spending, interest rates and growth. The Secretariat notes that the question of how Ireland might stabilise its debt—and, in this context, the relationship between Ireland and Europe— has naturally been the subject of intense debate.

Over the past three years, that debate has included a range of issues such as the speed of fiscal correction, the incidence of expenditure reductions and tax increases, and the nature and role of the European Union. While underlying views still differ on these issues, the Secretariat note that events have undoubtedly narrowed the range of feasible positions: Ireland is not able at present to access bond markets for finance and is now part of an

EU/IMF programme. The Secretariat emphasise that there is now very limited space for manoeuvre and that the space is becoming more constrained by developments in Europe.

The Secretariat believes that these events are creating a degree of convergence captured by the idea of 'working the EU/IMF deal' which is more relevant than debating whether the deal can work. It outlines five connected elements necessary for 'working the deal':

- **First**, continue fiscal adjustment and reform. Achieving a balance between revenue and expenditure is a target and intermediate step towards stabilising debt.
- **Second**, work relentlessly to revive sustainable growth. This is necessary if Ireland is to create a positive debt-dynamic. There needs to be a concerted focus on exports. Exports have performed strongly, growing by 8 per cent in value terms and 6 per cent in volume terms in 2010, but it is possible to achieve higher growth rates; for example, the value of German exports of goods increased by almost 16 per cent in 2010. In addition, domestic demand requires fresh analysis and innovative responses and the paper suggests an agenda for further work on domestic demand. Finally, Ireland needs to rebuild the tax base. However, taxes should not constrain economic growth and activity. More revenue should be generated through taxes such as well-designed property tax and water charges.
- **Third**, make social solidarity a core concern to ensure fairness and unity of purpose. In adjusting public expenditure it is necessary to identify innovative ways of cutting costs and maintaining standards. This requires engagement of local problem-solving to ensure that expenditure is reduced in a way that does not undermine the services provided to citizens.
- **Fourth**, address developmental constraints which have the potential to undermine the long term recovery of the economy and society. One such constraint is the availability of finance to support business investment. Taking forward the idea of Strategic Investment Bank as mentioned in the Programme for Government, is a key step in this regard. It could support projects that deepen and strengthen Ireland's economic and social development in a sustainable way.
- **Fifth**, work to promote a more comprehensive EU and international financial resolution. The Irish Government and the policy community need to be active contributors to the ongoing analysis of policy developments in the European Union and the euro area. This is increasingly recognised as necessary to stabilise the euro and provide a context for Irish recovery.

In addition, the Secretariat reviews the dramatic reversal that has taken place since the recession. Examined on any measure there has been unprecedented change. In most cases, indicators have returned to levels last seen in the early to middle part of the previous decade. For example:

- Income measures per head are down almost 15 per cent, though household incomes have fallen less;
- Domestic demand is down in volume terms by over one-fifth;

- Ireland experienced the largest fall in employment in the OECD, with numbers employed down over 13 per cent between 2007 and 2010;
- Prior to the crisis, government debt was 25 per cent of GDP. It is projected to peak at 118 per cent of GDP in 2013 when its nominal value will be close to €200 billion.

The Secretariat highlights that economies do recover from these types of set backs. International research shows that while there are long term negative impacts—in particular on the level of output, employment and house prices— growth does recover. Advanced economies—such as Finland and Sweden in the 1990s have experienced similar deep crisis extending over a number of years. In those countries, in the decade after the crisis, real growth of GDP per capita was lower by just 1 per cent than prior to the crisis.

The Secretariat also emphasises that four years into this crisis there are signs that the Irish economy is recovering. Growth is taking place fuelled by exports—particularly pharmaceuticals, medical equipment, food, computer services and business services—inward investment and improvements in cost competitiveness. There are also signs that the public finances are improving.

#### **Note to Editors**

The National Economic & Social Council (NESC) was established in 1973. Its function is to analyse and report to the Taoiseach on strategic issues relating to the efficient development of the economy, the achievement of social justice and the development of a strategic framework for the conduct of relations and negotiation of agreements between the government and the social partners.

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