Ireland's economy: A solid recovery

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The recovery in the Irish economy is well under way. Determined policy responses to the fiscal, economic and financial sector challenges Ireland faced are now bearing fruit, with Ireland expected to be among the fastest-growing economies in the OECD this year and next.

The recovery has gained momentum over the last two years, with GDP expanding by over 5% in 2014, and by 7% in the first three quarters of 2015. GDP per capita is now above the pre-crisis peak recorded in 2007.

The expansion in economic activity, initially led by the exporting sectors, has become more sustained, with domestic demand now making a strong positive contribution to growth. Companies are once again investing in the real economy, and household consumption is expanding thanks to growing employment and rising household incomes.

I have always regarded the labour market as the best barometer of trends in the Irish economy and am particularly pleased that the latest figures show broad-based employment growth across the Irish economy, with increases recorded throughout the country and in virtually all economic sectors. The latest figures show that 140 000 net jobs have been created since the low point of the crisis, representing an 8% increase in the level of employment. As a result, the unemployment rate fell to 8.8% by December, representing a decline of over 6 percentage points from its peak in 2012. This however is not the end point; policy efforts will continue to focus on further reducing the unemployment rate.

These are significant achievements and are testament to the continued success of the whole-of-government approach we have taken in addressing the challenges in the labour market. Our approach, which has focused on both the supply and demand sides of the market, is based on reactivating the unemployed through education, training and mentoring, and creating the right conditions for the private sector to create employment.

Putting the public finances on a sound and sustainable footing has been another key priority of the Irish government. Put simply, stable public finances are a prerequisite for economic growth. To that end, the government set out a series of fiscal targets to bring down the deficit on a phased basis, which I am pleased to say we overachieved each and every year. The underlying deficit fell from 8.6% of GDP in 2011 to an estimated 1.5% of GDP in 2015, with Ireland set to exit the Excessive Deficit Procedure as a result.

We were careful to ensure that consolidation measures were strategically implemented in a manner that was least damaging to economic growth. In line with OECD research and recommendations, we have broadened the tax base through curtailment and elimination of tax expenditures, and reduced revenue volatility by focusing on more sustainable tax bases.

This is but one example of the great assistance the OECD's expertise and independent advice has been to Irish policy makers throughout the crisis. More recently, I would like to thank the OECD for its work on the 2015 *Economic Survey of Ireland*, which provides a prescient analysis of the challenges now facing Ireland. The survey, along with previous OECD research, has highlighted the need to improve the tax and welfare system to remove potential disincentives to work. The government has sought to address these problems by lowering marginal tax rates faced by middle earners, a group that, as the OECD has shown, faces high marginal rates.

I also welcome the OECD's focus on the theme of inclusive growth in the survey. The economic recovery has not yet filtered through to all; ensuring an inclusive recovery where the economic benefits are widely spread is a key objective for us, and the best way to achieve that is to ensure a return to full employment.

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Ireland is moving further along the road to recovery. We have regained our competitiveness and stabilised our public finances, and are making significant progress in bringing the economy back to full employment. We have laid the foundations for a solid and sustained recovery. The task now is to build upon the gains we have made in recent years and to keep the recovery going.

Visit www.finance.gov.ie

References

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