IRELAND

Ireland returned to growth last year and the economic recovery is projected to gain further momentum, despite ongoing budgetary consolidation. A recovery in Europe and North America should boost exports in 2013. With activity improving gradually, the labour market situation will slowly turn around and unemployment will stabilise. Inflation is projected to remain low, apart from a temporary energy and VAT-related spike in prices.

Progress in narrowing macroeconomic and financial imbalances is being made and needs to continue. It is the only way to gain further confidence of financial markets. Adjustment would be aided by a rapid resolution of growing mortgage arrears. Given the risk that high unemployment might become structural, reforms to public employment services and job training should be fully implemented to help job seekers return to work.

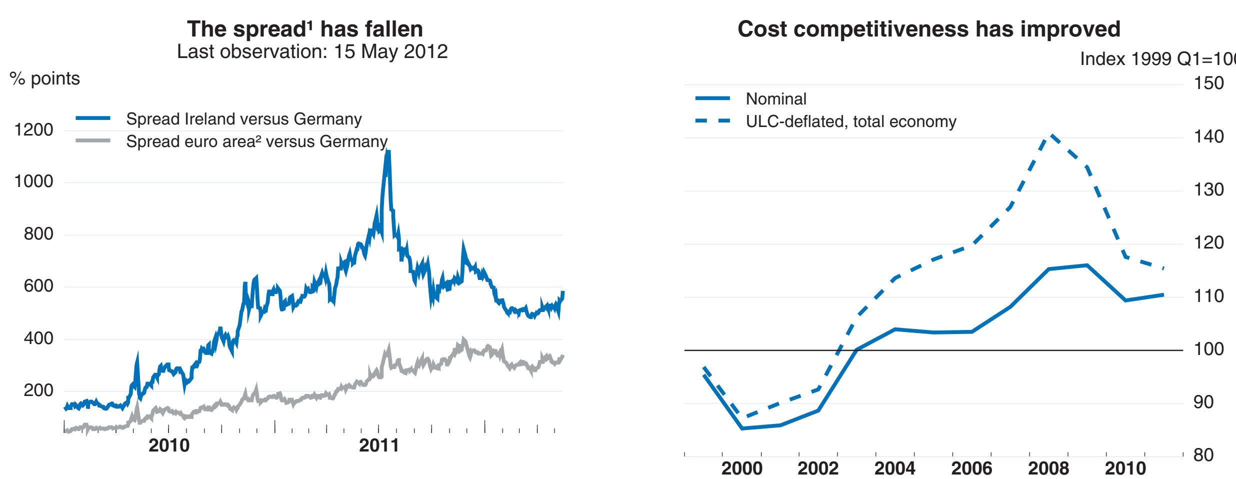
A slow recovery is underway

The economy has embarked on a gradual recovery, despite weak growth in trading partners and ongoing fiscal consolidation. Improvements in cost competitiveness have helped exports, which have in turn been the factor behind positive growth. Encouragingly, employment expanded at the end of 2011 for the first time since the crisis began more than four years ago. The narrowing of macroeconomic imbalances nevertheless continues to generate headwinds, with house prices and construction activity still falling and household debt remaining high.

Lending conditions are stable but banks have not fully returned to health

Reflecting low ECB policy rates and declining market spreads, lending conditions are steady. The two main remaining domestic banks are well capitalised and operationally profitable but continue to make overall losses due to large debt write-offs. Reforms underway to speed up the

Ireland



1. 10-year sovereign bond spread.
2. Simple average. Excluding Greece, Luxembourg, Slovenia and the Slovak Republic.

Source: OECD Economic Outlook 91 database; European Central Bank (ECB); Central Statistics Office Ireland and Datastream.

StatLink http://dx.doi.org/10.1787/888932608810

Ireland: **Demand, output and prices**

	2008	2009	2010	2011	2012	2013
	Current prices € billion	Percentage changes, volume (2009 prices)				
GDP at market prices	180.0	-7.0	-0.4	0.7	0.6	2.1
Private consumption	92.1	-7.3	-0.9	-2.7	-1.5	0.0
Government consumption	33.5	-3.7	-3.1	-3.5	-2.9	-2.2
Gross fixed capital formation	39.3	-28.7	-25.0	-10.6	-2.1	1.3
Final domestic demand	164.9	-11.6	-5.7	-4.0	-1.9	-0.4
Stockbuilding[1]	- 1.3	-0.9	1.0	0.9	-0.9	0.0
Total domestic demand	163.6	-12.6	-4.7	-3.0	-3.0	-0.3
Exports of goods and services	150.3	-4.2	6.3	4.1	2.1	5.3
Imports of goods and services	133.9	-9.3	2.7	-0.6	-0.6	4.0
Net exports[1]	16.4	3.4	3.7	4.7	2.7	2.3
Memorandum items						
GDP deflator	_	-4.1	-2.4	-0.4	0.6	0.9
Harmonised index of consumer prices	_	-1.7	-1.6	1.2	2.0	1.2
Private consumption deflator	_	-4.2	-2.2	1.0	1.5	1.0
Unemployment rate	_	11.8	13.6	14.5	14.5	14.4
General government financial balance[2,3]	_	-14.0	-31.2	-13.0	-8.4	-7.6
General government gross debt[2]	_	71.1	98.4	114.1	121.6	126.9
General government debt, Maastricht definition[2]	_	65.1	92.5	108.2	115.7	120.9
Current account balance[2]	_	-2.9	0.5	0.1	1.3	2.0

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.
3. Includes the one-off impact of recapitalisations in the banking sector.

Source: OECD Economic Outlook 91 database.

StatLink http://dx.doi.org/10.1787/888932610349

process of mortgage loan resolution should help to clean up banks' balance sheets, boost investor confidence and make it easier for the banks to raise funding and therefore supply credit when demand picks up.

Fiscal consolidation is making steady progress

Staying the course of deficit reduction is important because the public debt outlook remains vulnerable to downside risks. The projection assumes the government will continue implementing fully its announced consolidation measures, steadily reducing the fiscal deficit from 9.4% of GDP in 2011 (excluding bank support measures) to 7.6% in 2013. Budgetary consolidation in 2012 is taking the form of durable savings in health, social protection, education and capital spending. Indirect taxes have been raised while, at the same time, tax relief is providing a shield from austerity to low-income and part-time workers, small businesses, homeowners and mortgage borrowers.

The economy should gather more pace in 2013

Continued low euro-area interest rates will help to offset the effects of fiscal consolidation on private domestic demand. Combined with a pick-up in international conditions, including in Europe and North America, this will strengthen the momentum of output growth in 2013.

Risks are both on the downside and upside

Households face substantial headwinds and private consumption may take longer to strengthen than projected. Weaker growth abroad and contagion from ongoing sovereign debt problems elsewhere could also derail the recovery. On the other hand, exports may strengthen more than expected given cost competitiveness gains which may lead to an improved export market performance. In addition, recent structural reforms and continued strong programme performance may help to boost growth more than anticipated.

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