Country Report Ireland 2019
PBO Publication 15 of 2019 - European Semester Series

Key Messages
The Country Report notes that:
• Substantial progress has been made in reducing the number of non-performing loans (NPLs) held by Irish banks;
• The Debt-to-GDP ratio has decreased entirely due to the denominator effect rather than using windfall gains to reduce national debt;
• Healthcare expenditure grew by €1.7 billion between 2018 and 2019;
• The productivity growth of Irish firms requires substantial development;
• House prices appear to be driven by underlying market conditions (e.g. a lack of supply relative to demand).

That the Commission has highlighted many of the same reform priorities this year that generated the Country Specific Recommendations 2018 suggests that this year’s will be very similar.

Introduction
This Note provides the PBO’s analysis of the Country Report Ireland 2019, presented by the European Commission on 27 February as part of the 2019 European Semester Process. Ireland will publish its National Reform Programme and Stability Programme updates in April, before the Commission proposes the Country Specific Recommendations 2019 (CSRs) in May. The CSRs will ultimately be adopted by the Council of the European Union in July. At present, there is no direct enforcement mechanism for implementing the CSRs.

The PBO previously published a Note addressing last year’s Country Report.


As the first section addresses details about Ireland’s economy that domestic analysis has covered in detail (e.g. IFAC, the Central Bank and the PBO’s own commentaries), this Note will address the remaining three sections.

Ireland’s progress towards the CSRs
In 2018, Ireland received three Country Specific Recommendations (CSRs). This Note will focus on CSRs 1 and 3 as these include the areas where the European Commission has identified ‘Limited Progress’. However, CSR 3 notes that substantial progress has been made in reducing the number of non-performing loans (NPLs) held by Irish banks.

CSR 1 is fiscal in nature and contains a range of recommendations, including achievement of the MTO in 2019, using any windfall gains to reduce the national debt, limiting tax expenditures, broadening the tax base and increasing the cost effectiveness of the health sector.

The European Commission found that Ireland has made ‘Limited progress’ towards CSR 1, as:
• Debt-to-GDP ratio decreased entirely due to the denominator effect (i.e. growth in GDP);
• No measures have been implemented to use windfall gains to reduce national debt; and
• Healthcare expenditure grew by €1.7 billion between 2018 and 2019.

The Parliamentary Budget Office has previously provided analysis on Ireland’s general government debt, budget management in the health sector, expenditure growth in the health sector and has discussed the usage of windfall gains in Budget 2019 in several publications.

CSRs 1 and 2 have been subject to some progress, with some measures being implemented to bring the debt-to-GDP ratio closer to the MTO in Ireland.

1 When assessing progress towards a CSR, the Commission can give one of five conclusions; four of these describe the amount of progress made and the fifth of which is ‘Full implementation’. For the definitions see Country Report Ireland 2019, pp.63-64.
2 Within CSR 2, some progress has been made towards increasing capital investment and funding upskilling of the working age population.
4 For example, see page 2 of the PBO’s Note, Budget 2019 – Issues for Members of the Houses of the Oireachtas.
CSR 3 relates to productivity and credit. Under CSR3, ‘Limited progress’ has been made towards fostering the productivity growth of Irish firms. The European Commission acknowledges measures that have been introduced, but concludes that “the R&D efforts of most domestic firms continue to be moderate, tax credits remain the main instrument of public R&D support”. Multinationals account for 99% of tax credit claims for investments in intangible capital and 45% of claims for physical capital.  

### Macroeconomic Imbalances

**Private sector debt** and the **Net International Investment Position** are closely related, as both are ways of expressing the level of debt held by private entities. The conclusion of both is broadly similar – Ireland’s headline statistics are overstated because of the impact of large multinational firms, but underlying indications are that Irish debt levels are elevated but reducing.

The Department of Finance has recently estimated a modified measure of private sector debt that estimates the combined Irish household and private sector debt as 166% of GNI*. Non-performing loans relate primarily to private sector debt, and the historically high level is primarily a result of the economic and financial crisis.

**Public sector debt** is also impacted by distortions in headline statistics (see the PBO’s note on **general government debt**, which includes detailed discussion of the measurement of Ireland’s government debt burden).

The Commission also notes that while **house price inflation** is above the threshold that triggers a macroeconomic imbalance, house prices appear to be driven by underlying market conditions (i.e. a lack of supply relative to demand). This conclusion is similar to that which has been arrived at by domestic analysis of the housing market. This finding does not mean that there is not a problem with housing supply, but that the current price dynamics are driven by fundamental market forces rather than a credit bubble.

---

6 Ibid, p. 46.  
8 Ibid, p. 18.  
9 Irish house prices: Déjà vu all over again?, Kieran McQuinn (2017).  

---

Reform Priorities

The Country Report 2019 includes in-depth analyses of the following areas:

- **Public finances and taxation**;
- **The financial sector**;
- **Labour market, education and social policies**; and
- **Competitiveness reforms and investment**.

In these reform priorities, the Commission has highlighted many of the same issues that generated the Country Specific Recommendations 2018:

- Management of the public debt;
- Expenditure overruns in health are making future age-related expenditure an issue of concern;
- Ireland’s financial sector is suffering from low demand for loans, and the pace of at which non-performing loans are de-leveraging is decreasing;
- The Irish government could work to broaden the tax base, while also contributing to environmental goals, by raising taxes on carbon and/or diesel;
- The Irish economy is concentrated, especially in terms of regional (Border, Midland, and Western vs. Southern and Eastern), sectoral, and demographic imbalances; and
- Among Ireland’s working age population, the Commission also notes that basic digital skills are low.

Together, all of these priorities suggest that this year’s Country Specific Recommendations will be similar to last year’s.