Economic Commentary

OECD survey on Ireland 12 September 2013

The latest OECD Survey on Ireland reiterates the received official view that Ireland is showing ‘ encouraging signs of recovery from the financial crisis’ but that’ more must be done to reinvigorate growth and create the jobs that will get the country back to full health’. The former is somewhat at odds with the organization's actual forecast for the economy, which envisages zero growth this year, following a similar outcome in 2012.The forecast fall in domestic demand is actually steeper in 2013, at 1.5%, and exports are also now projected to decline, by 1.7%, which sits uneasily with the statement that ’service exports are growing robustly’. Indeed the scale of the negative contribution from net exports and the fall in domestic demand implies a sharp fall in overall GDP, despite a strong boost from inventory accumulation, which suggests a very high statistical adjustment figure is coming into play.

The recent Irish GDP figures are very much at odds with the buoyant employment data it has to said and the OECD flags the possibility of upward revisions to the national accounts, which may indeed materialize. For 2014, the forecast is in line with the conventional view- domestic demand returns to growth, driven by a recovery in investment, while exports rebound strongly to generate a 1.9% increase in GDP. That sub-2% growth in the Irish economy over two years compares with a Department of Finance forecast of over 3.5%, yet the OECD envisage the fiscal deficits emerging broadly in line with official targets. This has also become a standard feature of most Irish forecasts of late; the consensus is revising down GDP but leaving fiscal forecasts unchanged, although in that regard it is interesting that the OECD recommends that Ireland should allow automatic stabilizers to come into play should growth disappoint i.e no additional austerity would be called for above and beyond that already projected.

> ..the tone of the report is somewhat at odds with the actual forecasts. …

The Survey makes a list of other policy recommendations, including considering a precautionary credit line in the event of bond market disruption and reiterates the need for structural reforms, particularly in the legal profession. Research supports the view that a residential property tax is less harmful to growth than other forms of taxation and so it is supportive of the Local property Tax. Finally the OECD is keen on official intervention in the labour market, although it does call for a strict evaluation of the various policy measures and the closure of those proving ineffective