

# **A BACKDROP TO IRISH ECONOMIC AND SOCIAL DEVELOPMENT**

Dr David Begg

# **SCOPE OF THE PRESENTATION**

- Ireland's recent economic history
- The Irish case in a comparative context
- Ireland, Brexit and Europe – contemporary challenges

International Political Economy Series

# Ireland, Small Open Economies and European Integration

Lost in Transition

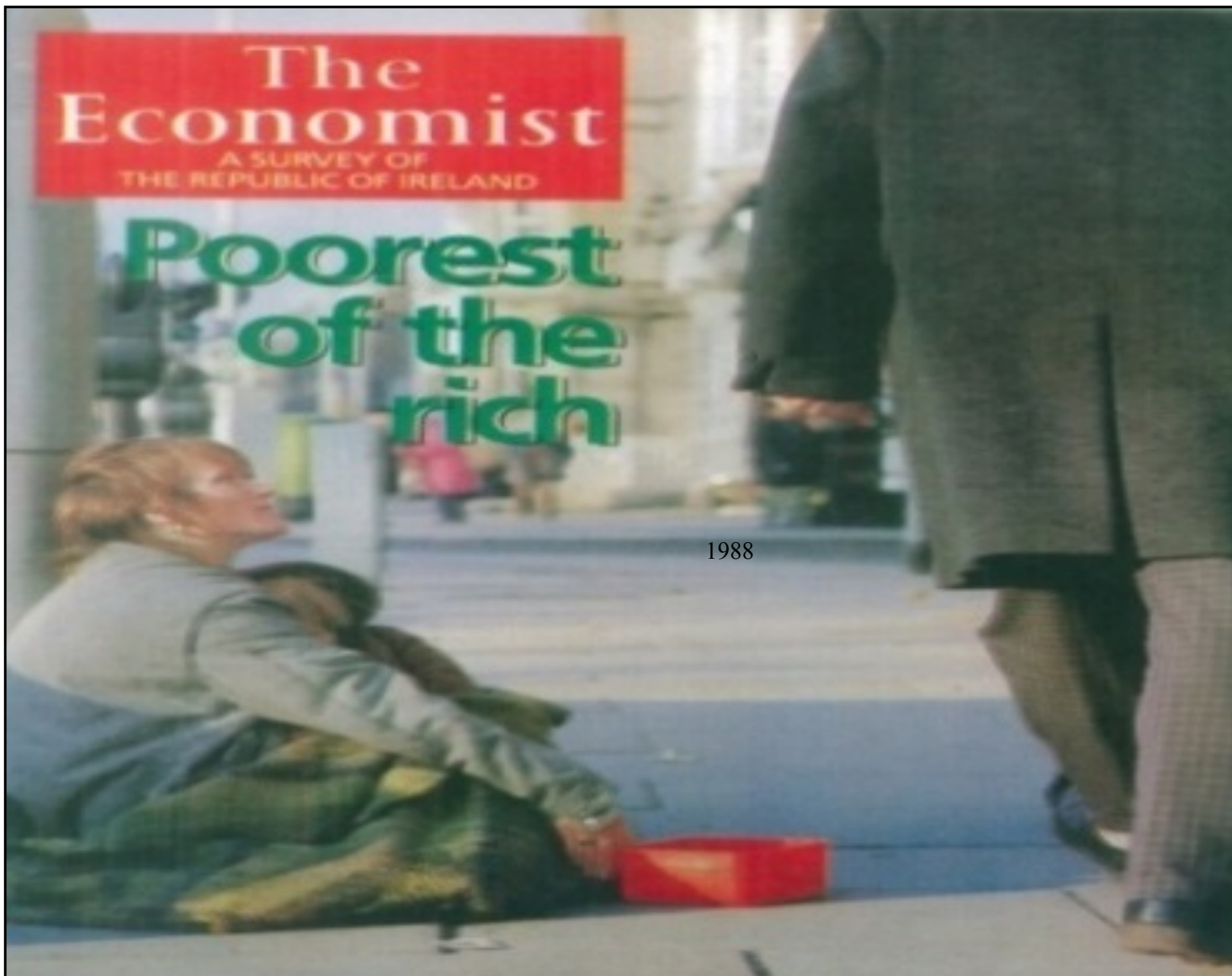
David Begg



The  
Economist  
A SURVEY OF  
THE REPUBLIC OF IRELAND

Poorest  
of the  
rich

1988



BOOKS &  
MULTIMEDIA  
page 50

# The Economist

MAY 17TH - 23RD 1997

LABOUR'S PLANS  
FOR BRITAIN


page 31

REDISCOVERING  
THE AMERICAS

page 18

## Europe's shining light





The  
Economist

# The luck of the Irish

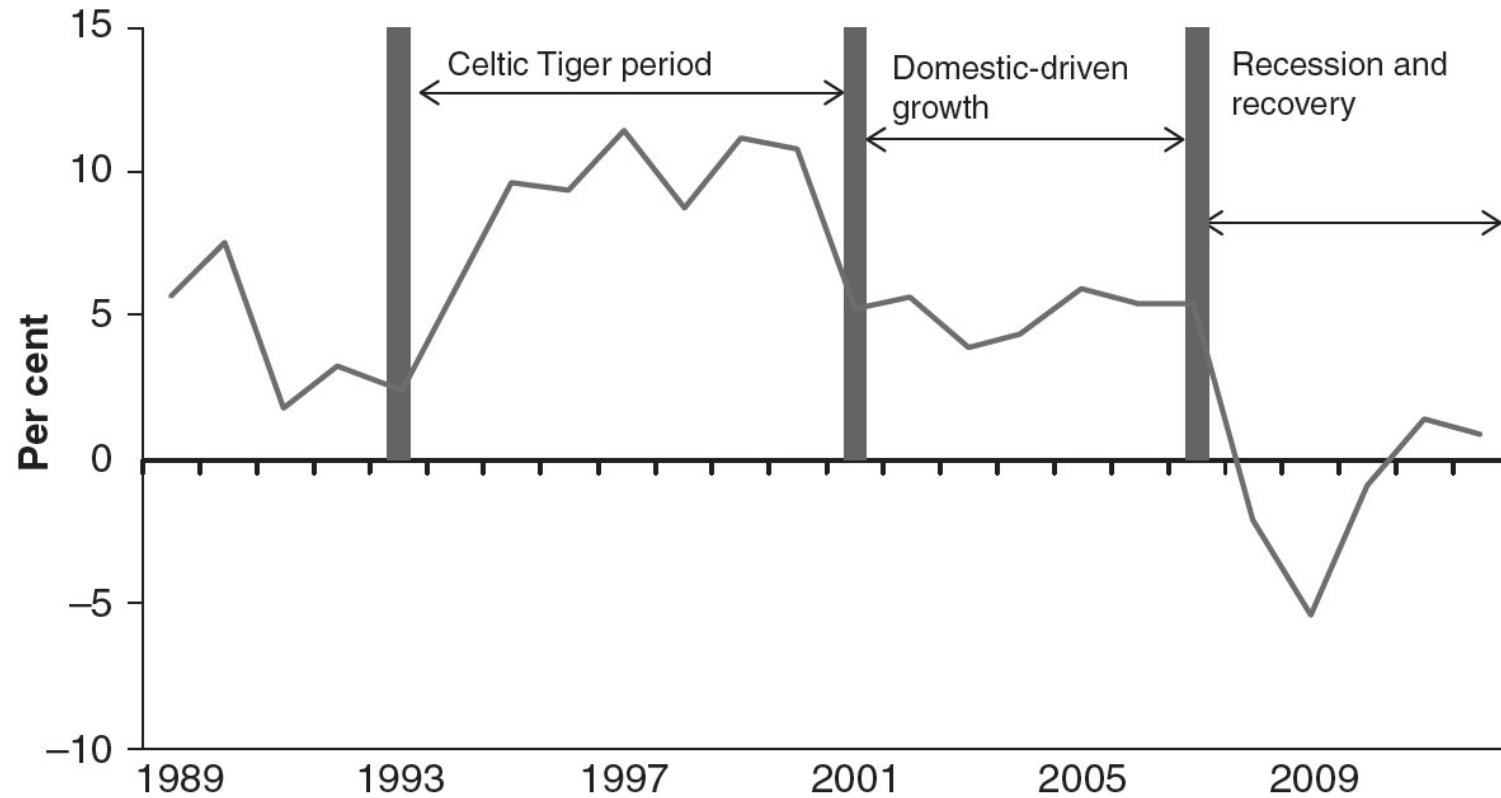
A survey of Ireland | October 16th 2004

# THE IMF COMES TO TOWN



Ajai Chopra, deputy director of the European department of the International Monetary Fund, and an unidentified colleague pass a beggar as they make their way to the Central Bank of Ireland for crucial talks with the Government in Dublin yesterday. Photograph: Peter Morrison/AP

# Irish Economic Growth, 1989-2009



Source: Fitzgerald & Kearney (2013:5) ESRI

# IRELAND AND THE 2008 FINANCIAL CRISIS

- Ireland had a plain vanilla property and banking crisis
- 'Soft Landing' hypothesis blown away by Lehman's crash
- Ireland did not have a crisis of its public finances ... debt/GDP Ratio = 25%
- Tax base too dependent on property = 13%

# Banking Crisis



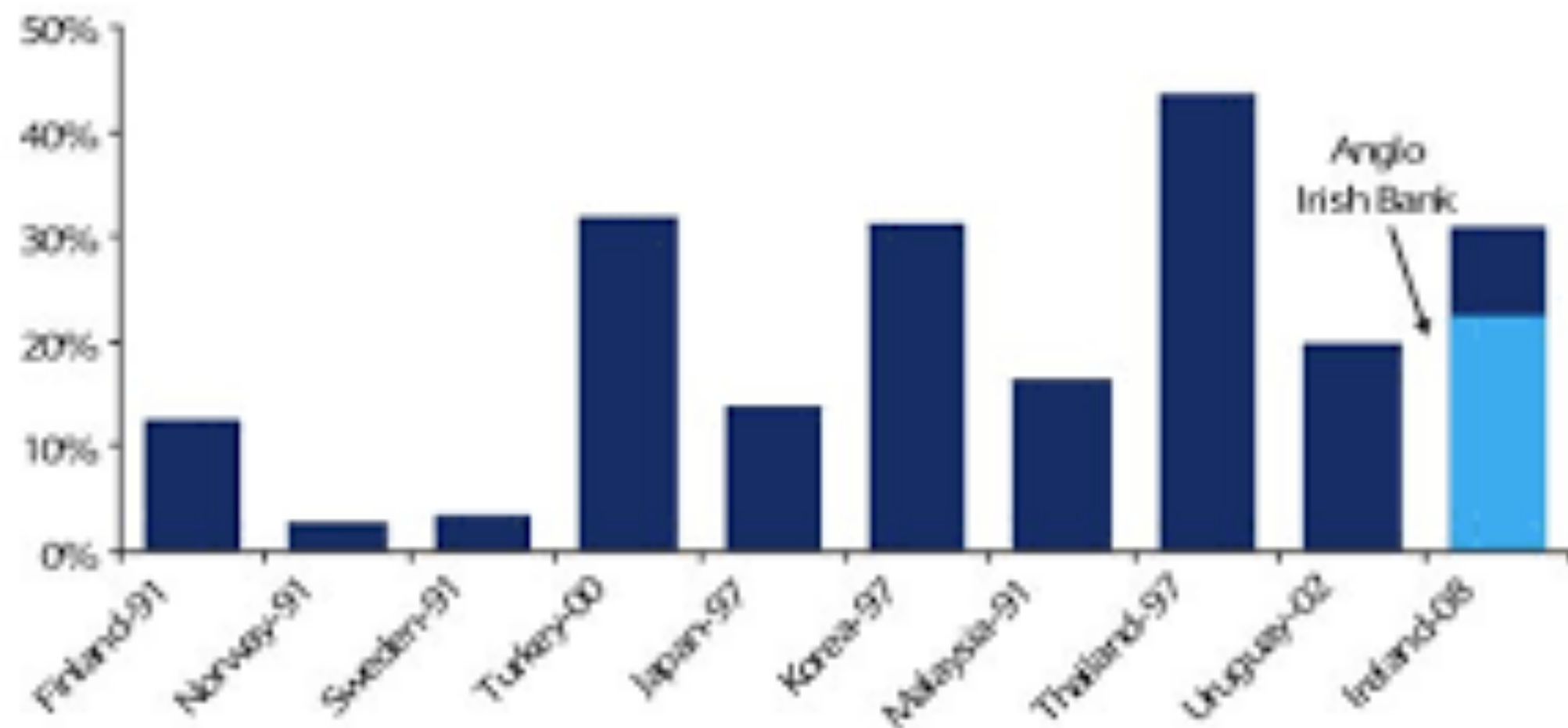


## Bank bailouts – total cost to State €63bn

	AIB/EBS	Bol	ILP	Anglo/INBS	Total
Preference Shares (2009)	3.5	3.5 *			7.0
Cash - Capital Contribution (2009)				4.0	4.0
Promissory Notes/Special Investment Shares (2010)	0.9			30.7	31.6
Ordinary Share Capital (2010)	3.7				3.7
<b>Total pre-PCAR/PLAR 2011</b>	<b>8.1</b>	<b>3.5</b>	<b>0.0</b>	<b>34.7</b>	<b>46.3</b>
PCAR / PLAR 2011					
Cash - Capital Contribution From Exchequer	2.3		2.3		4.6
Contingent Capital	1.6	1.0	0.4		3.0
NPRF Capital	8.8	0.2 **			9.0
Total PLAR	12.7	1.2	2.7	0.0	16.6
<b>Total Cost of Recap</b>	<b>20.8</b>	<b>4.7</b>	<b>2.7</b>	<b>34.7</b>	<b>62.9</b>

Source: Department of Finance, NTMA

Figure 1: Gross fiscal costs of banking crises (in % of GDP)



Source: IMF Working Paper No. 08/224, Barclays Capital



# ECONOMIC RECOVERY

The position of the Irish economy in Spring 2017 as summarised by ESRI:

- GDP growth forecast at 3.8% in 2017 and 3.6% in 2018
- Growth will be driven by consumption and investment
- Unemployment continues to fall and is forecast to reach 5.6% by end 2018.

# SOCIAL POLICY ISSUES

- Significant deficits in healthcare and housing provision arising from austerity
- Demographic change will impact (but less than in other EU countries)
- Unaddressed issues of childcare and pensions
- Need for large scale capital investment in infrastructure

# IRELAND IS CHANGING

- Influence of Catholic Church has waned
- Referendum on abortion in 2018
- Gay marriage now legal following referendum in 2016
- Ireland has just elected a 38 year old gay man who is a second generation immigrant as Prime Minister



## EXISTENTIAL CHALLENGES


- High level of uncertainty surrounding Brexit and US protectionist policies
- A small open economy particularly reliant on international trade is highly vulnerable to significant changes in international trading conditions.

# IRELAND AS AN OUTLIER IN EUROPE

- Most geographically isolated.
- Foreign policy based on 'Multi-interface Peripheral Economy' concept. (Ruane, 2010).
- Economy cycles out of phase with the rest of Europe (Smith, 2005).
- A liberal market economy with counter tendencies (O'Riain, 2004).
- Neither a pure consensus nor a majoritarian political system (Lijphart, 1999).
- Limited political interest in European integration.

# BREXIT AND ITS DANGERS

- The impact of a hard Brexit on trade with Britain (estimated at 3-4% of GDP over 10 years)
- Impact on the common travel area and single labour market
- Concern re. Northern Ireland:
  - Fragility of the peace settlement
  - Possibility of a 'Frictionless' land border between EU and Britain?
  - The continued viability of Ireland's multi-interface periphery (MIP) development model?



## Ireland is far more open than other non-cores

	Exports (%GDP)	Imports (%GDP)	Openness proxy ( $K+M$ )/GDP)
Ireland	106	84	1.90
Spain	30	31	0.61
Italy	29	30	0.59
Portugal	35	39	0.75
Greece	21	29	0.50

Source: Datastream

Note: Based on 2011 data

# THE AGE OF RADICAL UNCERTAINTY

“The financial crisis turned what outwardly seemed a stable political and financial environment into what mathematicians and physicists would call a “dynamical” system. The main characteristic of such systems is radical uncertainty. Such systems are not necessarily chaotic – though some may be – but they are certainly unpredictable. You cannot model them with a few equations. The best you can do is to identify spots of instability and stay away from them, muddle through and keep your eyes wide open”.

Wolfgang Munchau – FT 19/6/2017