

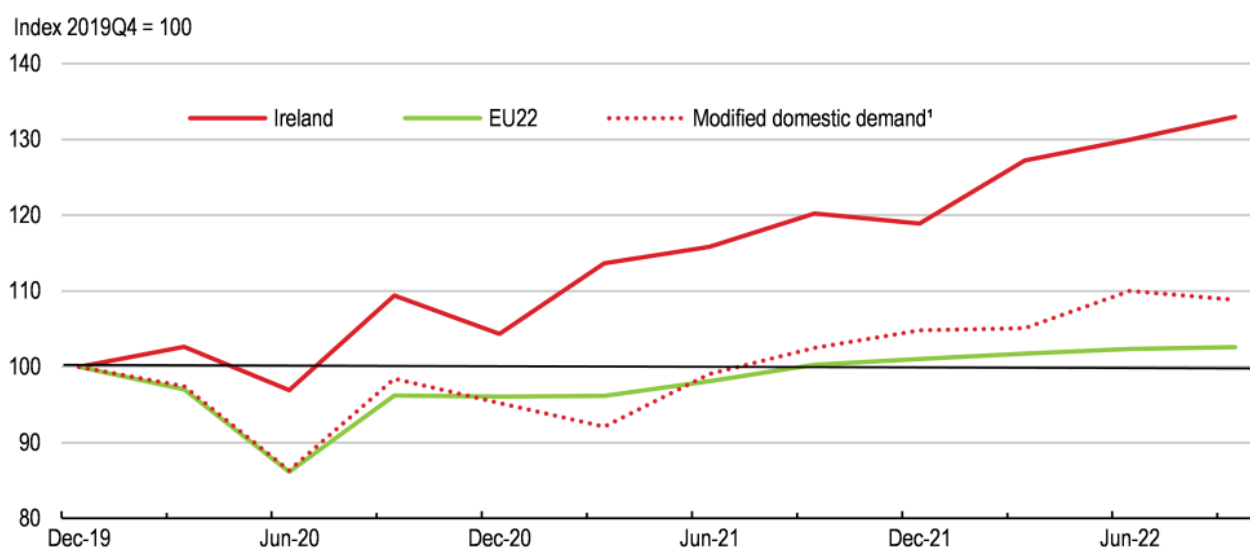
Securing the health of Ireland's future

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In recent decades, Ireland made impressive strides in developing its economy and raising living standards. This progress has allowed it to weather the COVID-19 pandemic and cope effectively with the repercussions from Russia's war of aggression against Ukraine. Exports from the multinational part of the economy, benefiting from strong demand for medical and information communication technology goods and services, continue to support growth (Figure 1). The domestic economy, while moderating, also remains relatively resilient, despite strong headwinds from high inflation.

Figure 1. Exports continue to support growth

Gross domestic product, volume



1. Excludes those large transactions of foreign corporations that do not have a big impact on the domestic economy.

Source: OECD, National Accounts database and Central Statistics Office.

The 2022 OECD Economic Survey shows that the current Irish

fiscal situation is favourable, with budget balance expected in 2022, in contrast to many European countries. This is partly driven by high tax revenues, especially corporate tax receipts, which have provided room for government support to households and businesses in the face of rising energy prices. As part of these tax receipts are potentially transitory, there is a need to ensure that expenditure policy is decoupled from windfall tax revenues, rather than facilitating an upward creep of permanent spending.

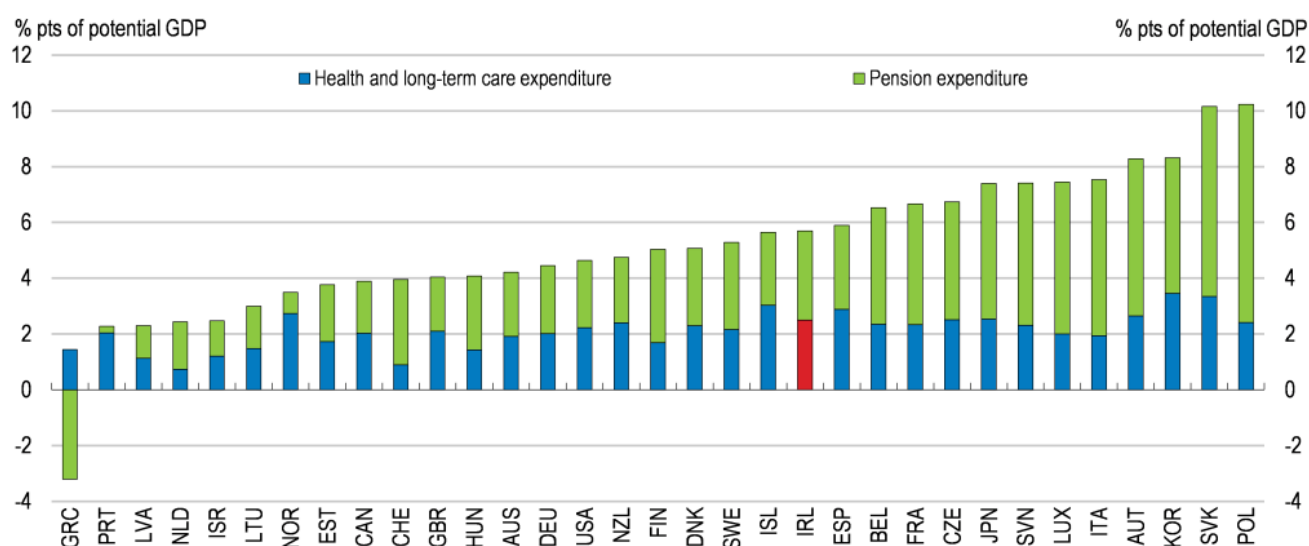
Two recent measures have improved the fiscal framework. First, EUR 6 billion of the windfall corporate tax gains have been put in the National Reserve Fund in 2022-23. Upside revenue surprises should continue to be saved in this Fund to help prepare for future shocks and long-term fiscal challenges, such as ageing. Second, a spending rule setting an annual cap of 5% on increases in the value of permanent spending (broadly the sum of trend growth of an underlying measure of economic activity assumed to be 3% and the 2% inflation target) over the medium term was introduced in 2021. However, the planned increase in spending to cushion households from high inflation is temporarily pushing outlays above the new rule. Ensuring adherence to the 5% rule as soon as possible will be important to move fiscal policy onto a more stable spending path and enable greater resilience to future shocks.

Ireland faces a number of challenges to sustain growth, improve well-being and ensure fiscal sustainability over the longer term. The 2022 OECD Economic Survey assesses the government's plans to reform the pension system, overhaul the health system to improve quality of care and value for money, ensure affordable housing and achieve a just carbon transition. As various spending pressures materialise, reforms are needed to ensure debt sustainability. For example, the Irish population is expected to age more rapidly than in most OECD member countries. OECD simulations suggest that public health, including long-term care, and pension costs could rise

by 5.7 percentage points of potential GDP by 2060 (Figure 2).

Figure 2. Population ageing will increase pressures on the government budget

Projected change in expenditures from 2021 to 2060



Source: Simulations based on the OECD Economics Department Long-term Model.

The government is investing to boost housing supply and reduce greenhouse gas emissions, but regulatory and legal hurdles should also be tackled to reduce uncertainty and high transaction costs. Planning and permitting delays coupled with judicial review concerning major investments constrain housing supply and slow the development of renewable energy capacity. Increased uncertainty deters investment and raises prices. The availability of construction workers may present an additional constraint on progress, given competing demands from residential construction, including for retrofitting the existing housing stock, and infrastructure projects. In this regard, working to lift supply by increasing the inflow of workers will be important.

The government has initiated a far-reaching overhaul of the health sector, which suffers from legacy issues, such as past underinvestment, centralised decision-making and long waiting lists. The latter, in particular, contributed to a de facto

two-tier system, in which buyers of voluntary private health insurance enjoy a faster access to several public hospital services than low-income patients eligible for free care. In this context, Sláintecare reforms will reconfigure the sector by moving away from an expensive largely hospital-based system, which does not offer universal coverage of primary care, towards a better integrated primary, community and long-term care system to enhance access and efficiency. The plans to increase decentralisation, with the creation of Regional Health Areas, and improve data availability and governance as well as financial reporting and management should be prioritised. Effective implementation should remove the burden on expensive hospital care and create the conditions for streamlining the complex interactions between the private and public elements of the system.

References

OECD (2022), *OECD Economic Surveys: Ireland 2022*, OECD Publishing, Paris, <https://doi.org/10.1787/19990324>.