

ECONOMIC PERFORMANCE OF THE REPUBLIC OF IRELAND OVER THE LAST TWO
YEARS

by Student's Name

Course Code + Name

Professor's Name

University Name

City, State

Date of Submission

Introduction

The economy of the Republic of Ireland has recorded tremendous growth for the last three decades. Ireland was one of the poorest nations in Europe in 1980s with its economy recording poor performance. However, this trend was reversed from year 1990 through 2001, when the Irish economy recorded rapid growth and this turned Irish economy to be one of the best performing economies in the world at that period. It was during this period that Ireland experienced boom in the economy popularly known as ‘Celtic Tiger’. Many economists have attributed this boom to the free market policies that were adopted by Irish government through the usage of corporate taxation, European Union membership, huge investments in education, especially in the area of higher education, low labour cost and finally restricted government expenditure (Burke 2008).

The Irish economy experienced a slowdown in the year 2001, but it managed to pick again two years later. Irish economy recorded a slow growth rate in 2006, but measures have been put in place to ensure that the economy has fully recovered. This paper focuses on the Irish economy performance for the last two years. In order to successfully achieve the objective of this paper, the paper will first focus on the role of Irish government as well as the European Central Bank in enhancing successful running of the economy for the last two years. The paper will also focus on the macroeconomic policies that have been employed by Irish government to enhance economic growth for the last two years.

The Role of Irish Government and European Central Bank in Running the Irish Economy for the Last Two Years

In the period between the year 2005 and 2006, the Irish government managed to maintain successfully economic growth. However, due to economic crisis in the EURO zone, the Irish

economy was greatly affected by the economic crisis that followed, especially in the financial sector. There is a number of factors that leads to these reduction as well as increase within these years. The main reason behind increase in economic growth for the period between 2005 and 2006 is an attribute to the governmental measures that helped in dealing with some of the earlier problems that had contributed to downward trend in economic growth. The government initially managed to eradicate problems, such as foot disease as well as mouth disease that were disturbing the economy and this helped to surge the economy on an upward trend before the governmental efforts were boosted by other external factors.

Another notable factor that led to an increase in economic growth in this period was the increase in values of properties in Ireland. The increment in values of properties resulted in increase in employment levels, especially in areas, such as construction sector of the economy. Some of the external factors that contributed to the upward trend in economic growth included recovery of information technology sector globally (O'Hearn 2007). The information technology sector had been adversely affected by the fall in demand for products from this sector globally, thereby affecting economic growth. Given that Ireland hosts a number of information technology related firms, such as HP and IBM, this fall in demand would have automatically translated to slow economic growth rate. Ireland was at the time one of the strongest economic partners with U.S.A, any factors that affected U.S. economy directly affected the Irish economy. The upward trend of the American economy at that time was also directly felt in the Irish economy.

The Irish government at that time encouraged investment in the industrial, technology and science sectors of the economy. The government implemented policies that encouraged direct foreign investment and this saw a number of firms opening up branches in Ireland. For example, the government investment economic polices saw many companies, such as Google,

Bell Labs among others that opened up subsidiaries in the Irish economy. In order to enhance more growth in the industrial science as well as technological sectors of the economy, the government established a body that was mandated with the task of assisting scientific institutions in Ireland. This body was given the name Science Foundation of Ireland. The Irish government at this time has established a saving scheme and funds from this scheme have matured. On the other hand, consumers increased their spending and this boosted economic growth in the country, especially in the retail segment of the economy.

The Irish Economy experienced a downward trend from year 2006 through year 2010. The main factor that can be attributed to this downward trend in economic growth is said to be the economic recession that was experienced during this period in the values of properties. Due to the availability of cheap labour as well as the higher demand for homes in the economy, Irish economy experienced a tremendous growth in the number of homes that were then built. The increment in number of homes that were being built led to excess homes in the economy than their demand. From an economic point of view, when the supply increases, the prices of goods go down, the same trend was recorded in the housing sector, whereby the rents declined.

According to O'Grada (2006), the decline in rents resulted in a decrease in the income that was being collected from that sector of the economy. Another major external factor that contributed to the decline in economic growth was the spreading out of the European Union. The expansion in membership of the European Union put the Irish economy at a disadvantage because the new member states of EU were accessing the same export market, which the Irish economy had previously been monopolizing. This trend affected the industrial sector of Ireland and led to the country's losing a substantial part of its market and new competitors in the EU economic block. This caused some firms' relocation to other countries resulting in a great loss of

employment in the economy. An increment in unemployment levels led to the governmental expenditure on unemployment benefits increase and this was not sound at all since the funds used to cater for the unemployment benefits would have been used in other sectors of the economy to trigger the growth. Another factor that led to downward trend in economic growth is overdependence of the Irish economy on foreign energy. This did greatly raise the cost of production making the Irish goods not competitive in the market, thereby resulting in a decrease in exports and this in turn created a deficit in balance of trade and balance of payment.

For the last two years, both Irish government and European Central Bank have played a great role in restoring the Irish economy to the path of recovery after a long spell of decrease in economic growth. They have helped to restore competitiveness of the Irish exports, thereby increasing the exports for the last two years. This restoration has been achieved through structural reforms that have been carried out by the Irish government with an aim of restoring flexibility as well as competitiveness in the economy. A good example of these reforms is in the health sector, whereby the market for medical services has been deregulated for the last two years making it more competitive. This has lowered the prices for medical services for the Irish consumers and, consequently, resulted in high demand for goods and services, thereby leading to an increased production activities and increase in employment levels within the economy.

For the last two years, the government has been able to reduce fiscal deficit and it is predicted that by 2015 the Irish government will reduce fiscal deficit to 3%. During the economic crisis period, both public and private sectors' spendings were higher than the economy could sustain in the long run. This resulted in a shrunk in demand, which led to one of the worst fiscal deficits in the Irish economy. Through the help of the ECB, the Irish government has been able to reduce the fiscal deficit in the economy, thereby putting the economy to the path of

recovery. ECB did provide a loan of about 65 million Euros to help the Irish government to correct its fiscal deficits and these efforts have been successful in ensuring that the deficit has been reduced by a great margin. This has resulted to a favourable balance of trade and balance of payments.

The government with the help of ECB has been able to ensure that there has been an economic growth in Ireland for the last two years by restructuring the financial sector, especially the banking sector. The Irish banks can now access loans directly from ECB instead of always depending on the Irish Central Bank for such a financial assistance. These reforms in the banking sector have been instrumental in increasing the Irish banks' capacity to lend to various sectors of the economy. This has increased credit availability to larger portion of the economy and this has resulted in a rise in production and levels of employment in the economy.

Macroeconomic Policies

In order to attain the current economic growth, both the Irish government and the ECB are using various macroeconomic policies aimed at enhancing sustainable economic growth both in the short run and in the long run. Fiscal as well as monetary macroeconomic policies have been widely used in restoring the Irish economy for the last two years.

The usage of fiscal policies involves introducing changes in governmental spending and taxes with an aim of contracting or expanding the levels of total demand in the economy. The Irish economy was on recession since the year 2006 and, therefore, urgent measures to restore the economy to the path of recovery were needed. For the last two years, the Irish government has been employing expansionary fiscal policies with an aim of restoring economic growth. The government has for the last two years lowered taxes as well as increased its expenditures. These measures have been successful as they have helped the economy to stay on the path of recovery.

Increased governmental spendings as well as tax cut has increased the flow of money in the economy, thereby increasing economic activities, such as production and consumption of goods and services that led to creation of high levels of employment opportunities (Larch & Martins 2009).

Another macroeconomic policy that has been instrumental in increasing economic growth in Ireland is the use of monetary policy. The Central Bank of Ireland and ECB has been instrumental in the implementation of the monetary policies. The usage of interest rates as well as money supply strategies has helped the Irish economy to recover for the last two years. In order to expand the economic growth, the two monetary authorities have lowered lending base to various commercial banks. This has resulted in decrease in interest rates charged by banks to borrowers, thereby making the cost of borrowing cheap for firms and consumers in the economy (Friedman 1960). The decrease in cost of borrowing has also lowered the cost of running businesses in Ireland due to low costs of production. This has attracted many foreign firms to set up production plants in Ireland for the last two years. The increase in investment in Ireland has been instrumental in the increase in economic growth that has been recorded for the last two years.

The two monetary authorities have been crucial in increasing money supply in the economy with an aim of enhancing economic growth for the last two years. For instance, ECB has pumped around 160 million Euros in the Irish economy with an aim of enhancing credit availability in the country. The increase in money supply has been useful in lowering interest rates in the economy, therefore, making borrowing cheaper in Ireland compared to other countries in Europe.

Conclusion

Governmental efforts as well as help from the ECB have been instrumental in increasing economic growth in Ireland for the last two years. Structural reforms, such as the reduction in fiscal deficit, have played a major role in transforming the Ireland economy, despite the current economic crisis being experienced in Europe. Usage of expansionary monetary and fiscal policies by both the Irish government and the ECB has encouraged economic growth that has been experienced in Ireland for the last the last two years. In order to sustain the current economic growth in Ireland, measures should be taken to ensure that all Irish citizens benefit from national wealth equally.

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