



IRELAND

SELECTED ISSUES

December 2023

This paper on Ireland was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on November 22, 2023.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



IRELAND

SELECTED ISSUES

November 22, 2023

Approved By
European Department

Prepared By Kamil Dybczak, Karina Garcia and Yang Yang (EUR), and Kika Alex-Okoh, Karla Vasquez Suarez and Alissa Ashcroft (all LEG).

CONTENTS

SAFEGUARDING FISCAL SUSTAINABILITY AND MODERNIZING JUDICIAL

REVIEW OF INVESTMENT PLANNING: AN INTERNATIONAL PERSPECTIVE	3
A. Savings Funds in Ireland	4
B. Judicial Review of Investment and Planning Decisions	14

TABLES

1. Key Features of Selected Sovereign Wealth Funds	11
2. Comparison between Planning and Development Act 2000 and Draft Planning Development Bill 2022	16
3. Cross Jurisdictional Comparison of Key Elements of Judicial Review Procedure	18
References	19

BOOM WITHOUT DISEASE? IMPACT OF MULTINATIONAL ENTERPRISES IN

IRELAND	21
A. Introduction	21
B. Stylized Facts	23
C. Empirical Analysis	26
D. Concluding Remarks	29

FIGURES

1. The Footprint of MNEs in Ireland	22
2. Employment Growth by Sector	24
3. Weekly Wages and the Real Exchange Rate	25
4. Total Factor Productivity Dynamics	26

5. Impulse Responses of Employment	28
6. Impulse Responses of REER and Wages	28
7. Impulse Responses of Labor Productivity	29

TABLE

1. Summary Statistics of Key Variables	27
--	----

References	31
------------	----

HOUSING AFFORDABILITY IN IRELAND 33

A. Introduction	33
-----------------	----

B. Housing Affordability Assessment	35
-------------------------------------	----

C. Factors Impacting Housing Affordability	36
--	----

D. Policy Options and Recommendations	40
---------------------------------------	----

References	44
------------	----

SAFEGUARDING FISCAL SUSTAINABILITY AND MODERNIZING JUDICIAL REVIEW OF INVESTMENT PLANNING: AN INTERNATIONAL PERSPECTIVE¹

Public finances in Ireland have done well through the recent consecutive shocks, thanks to prudent management and supported by strong revenue growth from corporate income tax (CIT). However, CIT revenues are a fragile source of funding due to its high concentration on a few companies and weak links to the domestic economy. With large fiscal surpluses forecasted over the medium term, the authorities are rightly proposing to save a portion of the CIT-driven surpluses in a savings and a counter cyclical and climate infrastructure fund. At the same time, Ireland faces large and growing investment needs to boost housing supply and address infrastructure, social, and green investment gaps. Aiming to maintain public investment at above 5 percent of GNI through 2030, the 2021 National Development Plan (NDP) implies an ambitious program with a total allocation of €165 billion focusing on supporting housing, climate goals, transportation, healthcare, and jobs growth. In this context, the authorities have introduced measures to reduce hurdles with the investment planning and permitting process, including notably judicial reviews.*

This paper provides an international perspective to the authorities' two recent policy measures: setting up new savings and counter cyclical and climate infrastructure funds and reforming the judicial review of planning decisions. It consists of two essays.

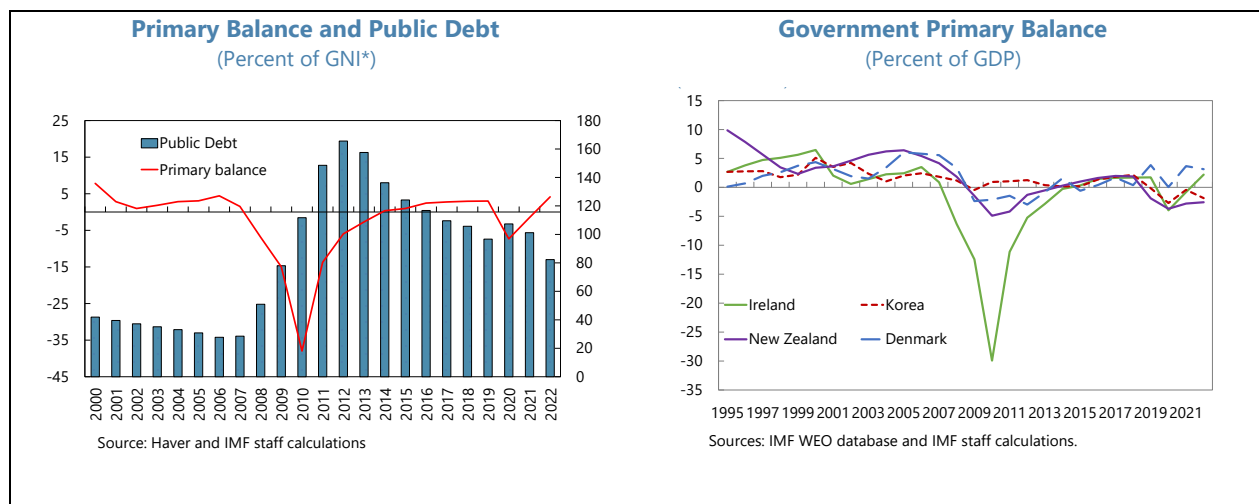
- *The first essay presents international best practices in the design and operation of sovereign wealth funds that could inform the setup of the two new funds in Ireland. It highlights the importance of operating the funds within a strong fiscal policy framework. With the EU fiscal rules unlikely to be binding for Ireland, the authorities should reflect on an appropriate anchor for their medium- to long-term fiscal framework, beyond the current spending rule for 2022–26, and how the operation of the new funds can be integrated within this framework.*
- *The second essay reviews Ireland's planning and permitting system, underscoring the key elements that have hindered public investment. It also looks into the government's proposed Bill to reform the planning system and contrasts its key features with those of other international jurisdictions. It finds that several issues may contribute to the inefficiencies in the planning and judicial review system, such as the loose standing requirements and lack of mandatory timelines related to judicial review, as well as institutional governance issues within the planning board, which the newly proposed reforms and legislative measures seek to address.*

¹ Prepared by Karina Garcia (EUR) and Kika Alex-Okoh, Karla Vasquez Suarez, and Alissa Ashcroft (all LEG). This paper has benefitted from helpful comments and suggestions from the authorities and the participants of staff's presentations at the Ministry of Finance on November 1 in Dublin.

A. Savings Funds in Ireland

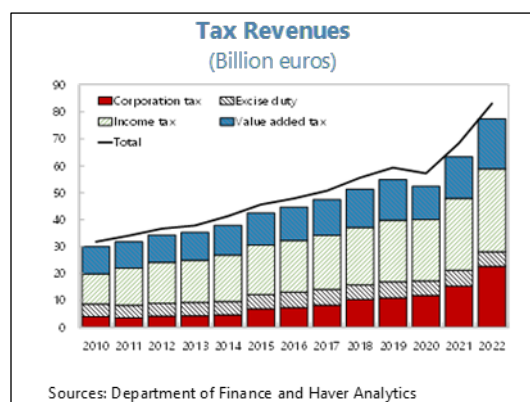
Evolution of Public Finances

1. Sound fiscal policies have contributed to healthy public finances and put Ireland in a good position to weather shocks. The solid fiscal position of recent years has enabled the authorities to conduct countercyclical fiscal policy in the face of the Covid and energy price shocks and contributed to a fast decline in public debt. Ireland’s path of primary surpluses, except for during the GFC, is not out of line with that in some peer countries. Some countries, like Korea and New Zealand, have also established sovereign wealth funds (SWF).



2. Ireland’s healthy fiscal position has been supported in recent years by a fast increase in CIT revenues, which have grown beyond what would be implied by economic fundamentals.

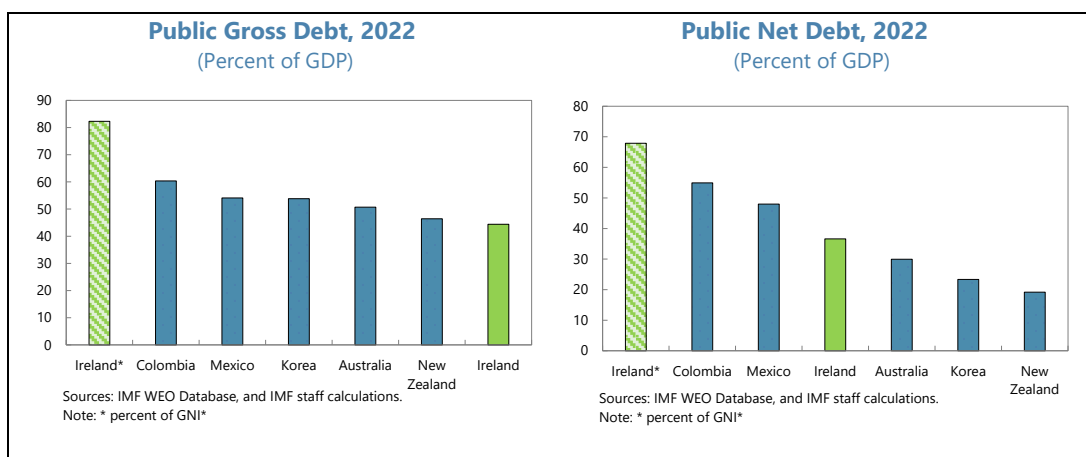
Ireland’s share of CIT in total revenue (almost 1/3) is much larger than the average of European countries in the OECD (about 6 percent) and CIT has become the second largest source of tax revenues. While some increase in profits and taxes was brought by the post-GFC economic recovery, a sizable share is attributable to the global activities of multinational enterprises (MNEs) and is therefore inherently fragile due to their high concentration and weak links to the domestic economy.² CIT revenues are also vulnerable to profit shifting risks from the ongoing reforms under the OECD’s BEPS. There is therefore uncertainty about how long this revenue source will last.



² Over half of CIT revenues are being paid by the top-10 taxpayers, many of which are MNEs affiliates of U.S. companies. The revenue base is also affected through indirect effects on tax revenues from MNEs; it is estimated that MNEs are responsible for about 30 percent of total income tax receipts which are also significantly concentrated. They also affect VAT receipts through wage-linked consumption.

3. The authorities recently announced plans to save part of the estimated excess CIT revenue to pre-fund future liabilities and to protect infrastructure investment. These resources are intended to be channeled through a savings fund and a counter-cyclical infrastructure, climate and nature fund. The Future Ireland Fund (FIF) intends to contribute to the government’s future recognized expenditures including aging, climate, and digitalization with no limit on its potential size. Contributions will be made to the FIF until 2035 after which a decision will be made on further contributions. The Infrastructure, Climate and Nature Fund (ICNF) has the mandate to protect infrastructure spending even during downturns and contributes to achieving carbon budget targets through capital projects. Both funds share an overarching objective of managing the uncertainty surrounding Ireland’s CIT base. Each fund has separate resource allocations, with an annual allocation of 0.8 percent of GDP for the FIF, and a fixed €2 billion annual allocation to be transferred to the ICNF starting in 2024 until the fund reaches a total contribution of €14 billion by 2030.

4. In establishing the appropriate saving vehicle, the authorities have weighed the difficult decision between saving resources for future spending and using them to reduce public debt. In general, this decision depends on a country’s fiscal risk profile, including the assessment of the optimal level of public debt³, and considerations about the appropriate design of and compliance with fiscal rules that may affect a fund’s operation (e.g., rules on how the fund’s resources can be spent). While Ireland’s public debt is relatively high by international standards under some metrics, it is still comparable to that of peer economies with sizeable SWFs. Favoring the saving of excess CIT revenues is supported by Ireland’s relatively strong fiscal position, favorable public debt structure and debt dynamics, sound credit rating, ample access to capital markets in favorable terms, and relatively good track record of sound fiscal policies.⁴



³ This typically entails setting a medium-term anchor (often expressed in terms of the prudent level of government debt) that would allow for appropriate fiscal space to respond to shocks, thereby ensuring macro and fiscal sustainability. This assessment is beyond the scope of this paper.

⁴ See Housing Affordability section of this paper.

Operational Considerations for Sovereign Wealth Funds: International Experience

5. SWFs have been established for a variety of reasons. In general, SWFs have been created with the purpose of saving and effectively managing a substantial amount of a country's financial assets beyond what the government deems needed for immediate purposes. A large share of the SWFs today have been established by commodity exporting countries for either macroeconomic stabilization and/or saving purposes. At the same time, a growing number of funds are being financed by trade or fiscal surpluses not tied to specific commodity-related revenues. In some countries, SWFs have multiple objectives (e.g., Norway's Government Pension Fund (GPF)⁵). Some countries have more than one SWF, each with different objectives (e.g., Chile has two funds: a stabilization fund, the Economic and Social Stabilization Fund -ESSF-, and the Pension Reserve Fund). Objectives may also change over time along with changes in economic conditions. For example, a fund can be established to smooth fiscal revenues; as the fund's assets continue to grow beyond the level needed for the purpose of stabilization, the structure of the fund may be revisited to broaden its objective.

6. The operation of SWFs can have important macroeconomic and fiscal implications.⁶ Saving-investment decisions in the operation of SWFs can affect monetary conditions, exchange rate, and financial markets as they impact how much resources are being injected to or withdrawn from the economy. These decisions therefore directly affect aggregate demand and, to some extent, the fiscal policy stance. Given the procyclicality of returns on domestic investments, SWFs that invest resources domestically can create macroeconomic imbalances if poorly coordinated with overall economic policy objectives. Their operation can also affect monetary policy when used as a tool to reduce the carry cost of foreign reserves (a usual objective of reserve investment funds).

7. Distinguishing SWFs by their stated objectives, five broad types can be identified:⁷

- *Stabilization funds*, typically established as a budget stabilization tool to facilitate the government's response to shocks. They are very common in resource rich countries to smooth the impact of volatile revenues sources on government spending (e.g., Chile's ESSF)⁸. Some funds are also used to cover budgetary shortfalls from a sudden fall in revenues to protect specific public services.

⁵ The [GPF's](#) stated objective is to facilitate government savings to finance rising public pension expenditures and support long-term considerations in the spending of government petroleum revenues. The operational management of the GPS is carried through two separate investment funds: the Government Pension Fund Global (GPFGL) and the Government Pension Fund Norway (GPFNL), both with distinctively different investment strategies.

⁶ See IMF f (2011).

⁷ See IMF G (2007). As noted here, some specialized funds can be considered a subset of funds with more general objectives. For example, development or pension reserve funds can be considered a subset of saving funds linked to longer term fiscal commitments.

⁸ Countries that are resource dependent (deriving more than 20 percent of their revenue from natural resources) typically benefit the most from these funds, by countering the cyclical component of their underlying commodity's cycle. See Das et al. 2010.

- *Saving funds*, usually focus on intergenerational equity objectives. Countries rich in natural resources use saving funds to transfer nonrenewable assets into a diversified portfolio of international financial assets to provide for future generations or other long-term objectives (e.g., the Alberta Heritage Saving Trust Fund⁹).
- *Strategic Investment or Development funds*, established with the purpose of allocating resources for funding priority socio-economic projects, such as infrastructure. They are distinguished from other SWFs in that they have a “dual bottom-line objective”: to achieve financial returns coupled with an additional or multiple socio-economic returns (defined by each country). Examples include Singapore’s Temasek and Ireland’s Strategic Investment Fund.
- *Public pension funds* (or pension reserve funds) are designed explicitly to set aside resources to cover future pension and social welfare liabilities. Examples include Australia’s Future Fund and Chile’s Pension Reserve Fund.
- *Reserve investment corporations*, usually established as a separate entity from the government with the objective to reduce the negative carry cost of foreign reserves or pursue investment policies with higher returns (e.g., the Government of Singapore Investment Corporation (GIC))

8. Cross-country experience suggests that SWFs are most successful in managing resources efficiently when they have well-designed operational rules that are consistent with their stated policy objectives. These operational rules generally include guidelines for the accumulation, withdrawal, and spending of resources. These operational rules also help guide the appropriate investment policy and strategic asset allocation (SAA) to achieve stated policy objectives. For instance, accumulation and withdrawal rules for pension reserve funds would typically be tied to the resources needed to meet future pension expenditure obligations. For commodity-based stabilization funds a typical formulation would call for operational formulations based on the movement of the commodity price relative to a specific benchmark.

9. Operational rules should allow some degree of flexibility to achieve optimal borrowing-saving decisions.¹⁰ International experience suggest that rigid rules interfere with optimal risk and liquidity management and are not particularly effective when governments have easy access to borrowing, because governments can circumvent rigid spending rules by borrowing resources elsewhere.¹¹ Furthermore, accumulation rules based on the transfer of a predetermined share of revenues or specific nominal amounts could interfere with the purpose of smoothing the fiscal position during a downturn, limiting a government’s ability to respond quickly to a crisis and potentially forcing governments to resort to borrowing in a situation in which it may not be optimal

⁹ [The Heritage Fund](#) was established in 1976 to collect a portion of Alberta’s non-renewable resource revenue for future generations.

¹⁰ IMF f. 2011

¹¹ IMF CR No 23/249.

from a cost-benefit perspective.¹² Over time, policy priorities also change, including from changes in the type of spending pressures or the relevance of funding sources. Flexible operational frameworks are better at withstanding these changes while remaining consistent with broader fiscal policy objectives. At the same time, it is important to prevent flexibility from being misused for short-term spending needs. A way to mitigate this risk would be to establish a link between the operational rules of a SWF and the country's fiscal policy framework as done in countries like Chile and Norway.¹³

10. Investment decisions are usually guided by SWFs' policy objectives. Generally, investment horizons are determined by the SWFs' objectives, which, together with investment conditions and risk tolerance determine the dynamic process of setting the SAA.¹⁴ For instance, saving or development funds are expected to have longer investment horizons, while the investment horizon of a pension reserve fund is usually determined by the timing of future anticipated liabilities falling due. These funds can invest in more illiquid, higher yield- asset classes like real estate, and private equity, as it may take a long time and a lot of planning to exit the investment without unduly affecting an asset's price. Their longer time horizon also allows them to benefit from broader diversification and higher expected returns. More recently, investing in alternative asset classes such as infrastructure, private equity or environmentally and socially driven investments has been common among strategic investment funds, driven in part by their expanded investment mandates and new initiatives focused on climate change and sustainability.^{15,16} On the other hand, stabilization funds typically have shorter and uncertain time horizons. Therefore, they would generally be expected to have a more conservative SAA, with a larger share of their portfolio in cash and highly liquid assets (e.g., sovereign bonds) to be able to meet unexpected outflow demands.

11. To some extent, a SWF's funding sources would also play a role in determining the SAA.¹⁷ This is more evident in SWFs whose resources come from a commodity, where investing in assets negatively correlated to the revenue source would help offset risks from the underlying commodity. Furthermore, investing abroad would also ensure economic diversification, which can help shield the domestic economy from commodity-specific shocks. For instance, Norway's [Government Pension Fund Global](#) invests only abroad. In contrast, the Government Pension Fund Norway (GPFN), invests domestically and in the Nordic region. A key difference between the two funds is that the

¹² This has been a common problem in many oil stabilization funds with rigid rules, and has ultimately resulted in countries changing, bypassing, or eliminating them. See Ossowski et al (2008) for examples.

¹³ Chile and Norway stabilization funds receive transfers based fiscal surpluses in excess of their fiscal structural target. This mechanism allows them to appropriately achieve their operational objectives by accumulating resources during good times and using them to insulate the budget during difficult times.

¹⁴ The SAA is expressed in strategic benchmarks allowing for the measurement, attribution, and assessment of returns. See IMF c and IMF b for detailed exposition of the determinants of the optimal SAA.

¹⁵ Barbary et al. 2023.

¹⁶ In 2016 the [New Zealand Superannuation Fund](#) adopted a "climate change investment strategy" to enhance the resilience of the fund to climate change. Similarly, the [Qatar Investment Authority](#) investment strategy has made emphasis on sustainable strategies with emphasis in reducing its carbon footprint.

¹⁷ IMF e (2010).

GPFN derives its funding from profits for its investment activities, whereas the GPFG's funding source is oil revenues. From a fiscal perspective, domestic investments could raise governance concerns if those investments were government spending operations that should take place within the budget.

12. Given the macro-fiscal implications of SWFs, international best practices suggest they should be well integrated in a country's overall policy framework.¹⁸ Operating within a strong and credible fiscal framework ensures consistency between the SWF's objectives and the country's overall fiscal and macroeconomic policy strategy. A lack of coordination could have unintended consequences, such as fragmentation of public spending (e.g., appearance of parallel budgets), or poorly timed saving-investment decisions. Transparency and clear accountability procedures also play a key role in order to prevent misuse of public resources. In practice, some countries have their SWFs fully integrated in the budget. For instance, in Norway the net allocation to the GPFG forms part of an integrated budgetary process, with income to and from the fund flowing directly through the central government budget.¹⁹

Considerations for Ireland

13. The likely temporary nature of excess CIT revenues highlights the importance of saving resources today to help smooth public finances in the face of vulnerabilities and upcoming spending pressures. A savings fund and a counter-cyclical infrastructure, climate and nature fund would also have an important role in mitigating the impact that large swings in CIT revenues could have on the fiscal position and the potential procyclical implication on aggregate demand.

14. The uncertainty about the "exhaustibility" of CIT revenues presents an important challenge to the optimal design of the proposed funds in Ireland. Unlike funds that are funded by a commodity with a relatively certain life horizon, there is no defined way to estimate when the excess CIT revenues could be depleted. Even in the short term, there is no certainty of the amount of CIT that will be collected. Risks from a sudden reversal of CIT revenues and its impact on future surpluses should be considered in defining the optimal operational framework of the funds. To the extent CIT revenues are the main source of fiscal surpluses, a key question would be whether the time horizon for the availability of excess CIT revenues is large enough to sustain a long-term saving fund. Furthermore, clear provisions in the event of a significant shortfall of CIT revenues would need to be spelled out to ensure that the funds remain appropriately funded. In this vein, consideration for flexible mechanisms for the transferring of resources into the funds anchored within the fiscal framework (as done in Chile and Norway) would help lessen the negative impact on the budget during downturns. Similarly, clear provisions need to be specified in case of larger windfalls of CIT revenues.

¹⁸ [The Santiago Principles](#) consists of 24 generally accepted principles and practices voluntarily endorsed by members of the International Working Group of SWFs (35 SWFs, including Ireland's Strategic Investment Fund) to promote transparency, good governance, accountability, and prudent investment practices.

¹⁹ See [Santiago Principles: 15 Case Studies. 2014.](#)

15. It is important to operate the funds within a strong fiscal framework. Operational rules are critical in determining the two new funds' ability to make a positive impact in the economy, and should be consistent with Ireland's fiscal policy framework. In this respect, with the EU fiscal rules unlikely to be binding for Ireland, the authorities should reflect on an appropriate anchor for their medium- to long-term fiscal framework, beyond the current spending rule for 2022–26, and how the operation of the new funds can be integrated within this framework in line with international best practices (namely, the Santiago Principles). Furthermore, with some features of the two new funds akin to those of a strategic investment/development fund, a clear delineation of purposes and objectives would be important to avoid overlapping within each other and with Ireland's existing Strategic Investment Fund.²⁰ Coordinating their operations closely within the budgetary process will therefore be important to avoid spending fragmentation.

16. The new funds can help strengthen public finances but are not a substitute for reforms. The concentration risk associated with CIT revenues is an important structural vulnerability in Ireland's public finances and reinforces the need of pursuing reforms to broaden the tax base to reduce vulnerabilities. Furthermore, upcoming spending pressures could be significantly large, and relying only on future savings might not be enough to cover future needs. The authorities' recent simulations of the impact of a fund in addressing future costs from aging suggest that, while helpful, it will not be enough to fully cover the estimated funding shortfall by 2035.²¹ This exercise did not yet consider costs from green and digital transitions. Therefore, the authorities need to continue pushing for decisive reforms today to ensure the sustainability of the pension system and safeguard fiscal sustainability.

²⁰ Both funds have the mandate to contribute to infrastructure spending and other strategic areas like climate and digitalization. Some of these areas also seem to overlap with the overall mandate of the [Strategic Investment Fund](#).

²¹ Future-proofing the Public Finances –the Next Steps. DoF, May 2023.

Table 1. Ireland: Key Features of Selected Sovereign Wealth Funds						
Fund	Type	Purpose	Source of Funds	Accumulation rules	Withdrawal rules	Investments
Australia						
Future Fund	Pension Reserve Fund	Strengthen the Australian Government's long-term financial position by making provisions for superannuation liabilities.	Budget surpluses.	Established with an initial contribution of \$60.5 billion. There have not been any further cash inflows. Transfers can be made as long as they do not exceed the Fund's target asset level.	Funds can be used to cover unfunded superannuation liabilities. Government determined that drawdowns from the Future Fund will be made until at least 2026-27.	No specific investment mandate. The Fund's task is to maximize long-term risk adjusted returns. Invests globally.
Chile						
Economic and Social Stabilization Fund	Stabilization Fund	Protect public finances from low growth/low copper prices to stabilize primary expenditures	Fiscal surpluses from copper revenues	Any remaining fiscal surplus after deducting contributions to the PRF, public debt amortization, and advances made in previous years.	Resources can be used at any time to help finance public expenditures, debt amortization or finance contributions to the Pension reserve Fund	Low risk portfolio, mostly foreign sovereign bonds.
Pension Reserve Fund	Saving Fund	Back the state guarantee for pensions and disability benefits. And funding obligations for Universal Guaranteed pension and disability.	Fiscal surpluses	Min. annual contribution of 0.2 % of previous year GDP. If budget surpluses are above 0.2% of GDP a higher contribution can be made, up to 0.5% of GDP.	Withdrawals allowed up to a max. of 0.1 % of previous year's GDP.	Diversified portfolio

Fund	Type	Purpose	Source of Funds	Accumulation rules	Withdrawal rules	Investments
Norway						
Government Pension Fund Global	Saving Fund	Intergenerational fund to build financial wealth for future generations and facilitate long-term management of oil revenues.	Net cash flow from oil activities, net financial transactions relating to oil activities and net return on the Fund's investment.	Fiscal budget surpluses automatically transferred.	Funds can be used for budget deficit financing. Fiscal discipline is enforced through a structural balance fiscal rule. Rules are flexible, allowing for government spending to be contingent upon prevailing economic conditions	Exclusively foreign investments, mostly equity.
Government Pension Fund Norway	Saving Fund	Finance pension expenditures of the National Insurance Scheme and facilitate spending of the government's oil revenues.	Initial capital derived from surpluses of the National Insurance scheme. Profit from investment activities.	Currently no government automatic transfers	Allowed to finance deficits from national insurance scheme. Currently no withdrawals have been made.	Mostly equity and fixed income in Norway and Scandinavian countries. Objective to maximize returns in Norwegian Kroner.
New Zealand						
Superannuation fund	Pension Reserve Fund	Partially pre-fund the future cost of the New Zealand Superannuation pension,	Government contributions and net rerun on investments	Nominal amount as a share of GDP calculated as a function of the current and future expected size of the Fund. Calculated and published prior to the start of each financial year.	May only be used to pay for superannuation up to the amount determined by the contribution formula. None foreseen until 2035/36. The Fund will continue to grow until it peaks in size in 2070s.	Investment decisions are commercially oriented and made independently of the stance of prevailing fiscal and monetary policy.

Fund	Type	Purpose	Source of Funds	Accumulation rules	Withdrawal rules	Investments
Singapore						
Temasek ¹	Strategic Investment Fund	Focus on four investment themes: transforming economies; growing middle income populations; deepening comparative advantages; and emerging champions.	Divestments, dividends and investment returns Also allowed to borrow.	Operated commercially	Operated commercially	Primarily equity mostly in Singapore and Asia in a broad spectrum of industries. Objective to maximize shareholder value over the long term.
Global Investment Corporation	Reserve Investment Fund	Preserve and enhance the international purchasing power of Singapore's foreign reserves.	Reserves (total net assets)	Excess reserves over a safe threshold, defined as Official Foreign Reserves (OFR) not needed by the Monetary Authority to conduct monetary policy and support financial stability.	Under the Constitution, the government is allowed to take into the budget up to 50% of the long-term expected real return on the reserves managed by GIC and those owned by the Monetary Authority of Singapore, after deducting Government liabilities	Only foreign investments
Mexico						
Mexican Petroleum Fund	Reserve Fund	Save excess oil revenues in good times for spending in difficult years	Government oil revenues	Receives oil revenues and channels funds to the budget and other funds. If inflows are higher than outflows, the difference is kept in the oil reserve fund.	Funds can be used to complete required outflows when oil revenues are not sufficient.	Mostly foreign sovereign bonds
¹ Technically considered a Public Wealth Fund (managing the government's operational/real estate assets) rather than a Sovereign Wealth Fund (usually managing the government's liquid assets). Temasek began as a holding company of state-owned enterprises. Many of these holdings have been, in part, privatized and the fund is now focused on making strategic investments at home and abroad that are seen to improve the long-term competitiveness of the economy. Sources: Government authorities', Fund's websites, and Santiago Principles country self-assessments .						

B. Judicial Review of Investment and Planning Decisions ²²

The Judicial Review Process in Ireland ²³

17. A slow planning and permitting system has become a key bottleneck to the public investment process. The planning and review process of investment projects in Ireland is complex and slow, and many developments can be subject to lengthy judicial reviews. This has introduced a significant degree of uncertainty to public investment as lead times to obtain planning permissions and overcoming judicial reviews even before construction work begins are often unpredictable. This has also become a pressing constraint for housing development, which is stymied by the high number of permissions to build that fail to materialize. Although the number of applications subject to judicial review relative to the total number of applications is small, larger scale development applications have predominantly been subject to judicial review, particularly after the planning board, An Bord Pleanála (ABP) has made its decision. The sole threat of judicial review and the potential of a subsequent delay and uncertainty associated with the process affects all significant development proposals.²⁴

18. Reforms and policy measures are being introduced to improve the planning process. The Government has adopted a broad reform agenda which includes the revision of the National Planning Framework (due to conclude in April 2024). A Ministerial action plan is also being prepared by the Department of Housing, Local Government and Heritage to enhance planning resource capacity through recruitment and retention of staff as well as education and training initiatives to increase the availability of personnel with the necessary skills and expertise in planning and related professions across the public and private sectors. In addition, to reduce the backlog of cases which has built up over the previous years and restore timely decision making in ABP, more Board members were appointed to the ABP, bringing the total number to the statutory limit of fifteen.²⁵ This increase in resources improved ABP’s decision making capacity, with the aim to restore more ‘normal’ levels of operation by early 2024. Progress has already been made with the ABP disposing of 369 cases in September 2023, an increase of 148% from cases disposed by the end of September 2022. However additional legal reform is needed to improve the efficiency of the judicial review process and address institutional governance issues within the planning board to strengthen its decision-making processes.

²² Analysis is based solely on a review of the Planning and Development Act 2000 and the Planning Development Bill 2023.

²³ This analysis will focus on the elements of the judicial review process for planning and investment decisions in Ireland proposed to be reformed by the Planning and Development Bill of 2023. Some elements of the broader reform strategy being developed by the authorities for strengthening the planning system are included as background information, and this analysis does not assess the merits of those proposals.

²⁴ See IMF Selected Issues Paper “Housing Affordability in Ireland”.

²⁵ The Planning and Development and Foreshore (Amendment) Act 2022 amended the Planning and Development Act 2000, increasing the number of ABP Board members from ten to fifteen. See ABP Annual Report and Accounts 2022.

19. An overhaul of the Planning and Development Act aims to address the remaining bottlenecks in the planning system and the judicial review process. Within the broader set of reforms discussed above, the Planning and Development Bill approved by Cabinet in 2023 (hereafter the Bill) aims to i) bring greater clarity and improve consistency and confidence in the planning system, ii) enhance the ABP governance structure, and iii) introduce a range of reforms to the judicial review process. The Bill also seeks to introduce an important governance restructure to the ABP.²⁶ First, to improve its decision-making functions; the governing executive will be responsible for day-to-day organization and governance, whilst the decision-making functions on planning permissions would be led by planning commissioners.²⁷ Second, the Bill provides mandatory timelines for the ACP planning consent processes in order to bring greater certainty for stakeholders involved in the delivery of key infrastructure projects, including housing. The headline time periods proposed by the Bill range from 18 weeks for appeals of decisions of planning authorities to 48 weeks for Strategic Infrastructure Developments. The varying timelines reflect the differing complexities of applications that will be dealt with by the ACP. Finally, the Bill also sets forth a system of proportionately escalating measures which outline the obligations in place if the ACP does not make decisions within the mandatory time limits.

20. A wide range of reforms to the judicial review process are also proposed by the Bill. Ireland's legal obligations under the Aarhus Convention²⁸ as well as its long-and-well-established record of public participation in planning require that the ability to challenge public administrative decisions and access to justice more broadly be respected. The tension between the EU's civil law, rules-based system embodied in EU Directives on environmental matters and the Irish common law system must be acknowledged given one consequence is greater opportunity for judicial review in planning cases. This said, the Bill proposes changes to some key elements of the judicial review process in Ireland to potentially increase the efficiency in the system including , removing the application to leave stage, clarifying the provisions on standing to bring judicial review cases, grounds for review, procedural aspects -including a stay of proceedings allowing the ACP to correct errors in its decision-making, and the introduction of an environmental legal costs scheme. These are elaborated below and a comparison with the current status is presented in table 1. Additionally, a dedicated Planning and Environment division of the High Court with specialized judges has been established by the Department of Justice to address the large number of existing judicial review cases. This measure will enhance efficiency in the management and determination of planning and environmental judicial review cases and minimize future delays.

²⁶ To be renamed An Coimisiun Pleanala (ACP).

²⁷ The rise in the number of successful legal challenges to the ABP's decisions, and associated costs of estimated €8 million (45% of the ABP's budget) has increased scrutiny over the way these decisions are made.

²⁸ The Aarhus Convention grants citizens the right of public participation in decision-making that may affect the environment. This includes the right of access to justice and the right to review procedures on decision-making with respect to the environment.

- *Setting timelines for judicial review.* A timeline to bring cases for judicial review is set at 8 weeks and can only be extended for exceptional reasons. However, there is no defined timeline for the duration of the judicial review process.
- *Tightening the locus standi requirement* (ability of an individual or group to bring legal proceedings before a court). The Bill seeks to introduce a more stringent threshold requiring that the applicant has a “sufficient interest”- defined as being or potentially being “directly or indirectly materially affected” by the matter seeking judicial review. Additionally, except in the case of specified bodies, the Bill requires all applicants to have exhausted any available appeal or administrative procedures regarding the decision being challenged.²⁹
- *Stay of Proceedings while correcting errors.* The Bill also seeks to allow time for the planning board or authority to address identified errors in its decision, and to apply to the court for a stay on the determination of the judicial review proceedings while doing so.
- *Introducing a costs regime.* As determined by its obligations under the Aarhus Convention, costs associated with judicial reviews of planning decisions cannot be prohibitively expensive. The Bill proposes an administrative environmental legal costs scheme to deal with costs in judicial review proceedings. This scheme is to be established by the Minister for the Environment, Climate and Communications, or a body authorized to do so on his behalf, having consulted the Minister for Housing, Local Government and Heritage, the Minister for Justice, and with the consent of the Minister for Public Expenditure, National Development Plan Delivery and Reform.³⁰ Frivolous or vexatious applicants are deterred with denial of cost recovery.

Table 2. Ireland: Comparison Between Planning and Development Act 2000 and Planning Development Bill 2023

Key Elements of Judicial Review Process	2000 Act	2022 Bill
Timeline to Bring Action	8 weeks	8 weeks
Timeline From Initial Application for Leave	No specified timelines. The High Court is required to act expeditiously in determining judicial review proceedings.	The Rules of Court contain specified timelines for various stages of the proceedings. ^{2/}
Standing	Substantial interest	Sufficient interest + directly or indirectly materially affected
Scope of Review ^{1/}	Question of law	Question of law
Costs	Costs protection for litigants challenging planning permissions in judicial review proceedings	An administrative scheme for costs in judicial review proceedings is to be established

¹Scope of the review refers to the specific trial court or administrative agency actions that are subject to review by a higher court on appeal. Usually, the court will not look at the merit of the trial court or administrative agency's decision being challenged but will consider whether the decision was made in accordance with the law. In Ireland, the court will consider the lawfulness of the planning authority's decision-making process.

² The revised Bill leaves these specified timelines to the Court due to consideration of the separation of powers between the judiciary and the legislative.

²⁹ Environmental NGOs (ENGOS) are exempt from the requirement to exhaust all alternative remedies. Additionally, ENGOS still enjoy special status under the Bill, aligned to Ireland's commitments under the Aarhus Convention, subject to certain criteria.

³⁰ The details of the costs scheme are yet to be determined. The Government has said that the scheme may involve scale of fees for all applications and, intended to provide a contribution to the applicant's costs where the applicant is unsuccessful.

Cross-Jurisdictional Analysis

21. Ireland’s judicial review of planning decisions is similar to that of other jurisdictions surveyed. Differences are often due to different systems of government, statutory definitions, international obligations, or judicial construction. See Table 2 for comparative analysis on these elements.

- *Federal/local frameworks.* In Canada, Australia, and the United States, all of which have a federal system of government, local government legislation governs land use and planning. In Ontario, the provincial land tribunal may hear and determine disputes or challenges to planning decisions before or at the same time as the divisional court. The state of New South Wales in Australia has also established a special Land and Environment Court which has the jurisdiction to hear challenges to planning decisions. However, in New South Wales, there is a separate avenue within the courts to challenge a planning decision via a merit appeal.
- *Scope of review.* In all jurisdictions surveyed, the courts will generally review questions of law regarding the planning authority’s decision rather than questions of fact in judicial review proceedings.³¹ Under the Ontario Planning Act in Canada, which enables bringing an application to the Division Court under the general Judicial Review Procedure Act, the court will also look to the lawfulness, the fairness, and reasonableness of administrative decisions. In the US, the Administrative Procedure Act lays out the specific cases that could be considered as unlawful agency action and therefore set aside.³² In Ireland, the court will consider whether the planning board’s decision was made in accordance with the law, but it will not review the merit of the decision.
- *Timelines.* In the U.S., the National Environmental Policy Act mandates time limits for various forms of environmental reviews. Additionally, if federal agencies ignore their deadlines, the law provides project developers with the right to seek a court order to enforce compliance within 90 days.
- *Standing.* In the U.S., the Supreme Court has articulated several legal doctrines to limit the circumstances under which the federal courts will adjudicate disputes respecting federal agencies, such as standing, ripeness, and mootness. In particular, federal courts have construed the constitutional requirement of standing to require that a plaintiff must “demonstrate that he has suffered “injury in fact”, that the injury is “fairly traceable” to the actions of the defendant, and that the injury will likely be redressed by a favorable decision of the courts.

³¹ A question of law is one that usually involves statutory interpretation or the application of law to a set of facts. A question of fact, by contrast, involves the specific details of a case.

³² For example, arbitrary, capricious, an abuse of discretion; contrary to constitutional right, power, privilege, or immunity; in excess of statutory jurisdiction, authority, or limitations, or short of statutory right; without observance of procedure required by law; unsupported by substantial evidence; or unwarranted by the facts to the extent that the facts are subject to trial de novo by the reviewing court (5 USC § 706).

- *Costs.* Generally, in court proceedings, the successful party is often entitled to have legal costs paid by the losing party. This serves to deter frivolous cases. In Ireland, judicial review proceedings benefit from costs protection.³³ In New South Wales, Australia, the Land and Environment Court Act permits the court to make an order for costs at its discretion. However, it is difficult to assess the impact of costs protections or lack thereof in judicial review cases across jurisdictions.
- *Finally,* in all jurisdictions surveyed, the courts are intended to decide planning review cases expediently because of the time conscious nature of these cases and the need to reduce delay.

22. Despite the differences across jurisdictions, the proposed reforms in the Bill appear to be in line with judicial review regimes in other comparable jurisdictions. The provisions of the Bill seek to clarify key elements of the judicial review process of planning decisions in Ireland, including requirements for standing and the costs regime. To address delays, the Bill provides specific timelines for the determination of cases. The impact of these reforms, as well as the restructuring of the ACP may help address bottlenecks in the judicial review process, and ultimately in the delivery of housing infrastructure and public investment schemes that require ACP approval.³⁴

Table 3. Ireland: Cross Jurisdictional Comparison of Key Elements of Judicial Review Procedure

Country	Key Elements of Judicial Review Procedure		
	Timeline to Bring Action for Judicial Review	Standing	Scope of Review
Ireland	8 weeks	A person with sufficient interest ¹	Question of law
Australia (New South Wales)	3 months	Any person ²	Question of law
Canada (Ontario)	30 days	Any person	Question of law
US	Absent a specific statutory deadline, actions can be brought within 6 years	Any person who has suffered a personal, legal wrong or adversely affected or aggrieved	Questions of law and questions of fact (to extent facts are subject to trial). Cases are spelled out in statute.

Sources: Ireland: Planning and Development Act; Australia: NSW Environmental Planning and Assessment Act; NSW Land and Environment Court Act; Canada: Ontario Land Tribunal Act; Ontario Planning Act; US: Administrative Procedure Act

¹ This may include ENGOs, which enjoy special status under the Bill, and other unincorporated organizations.

² Courts in Canada and Australia construe "any person" according to common law doctrines which effectively limit standing to those persons who are aggrieved or otherwise harmed by the decision.

³³ As a signatory to the Aarhus Convention and under EU law, Ireland is required to provide these cost protections in domestic law. Under this mandate, the public must be able to challenge environmental decision making without prohibitively expensive financial costs attached.

³⁴ In common law jurisdictions, court decisions determine how provisions are interpreted and applied. Given that, it is possible that similar statutory language may be construed differently by the relevant domestic court.

References

- Barbary et al. 2023. "The Evolving Landscape of Sovereign Wealth Funds in a Changing World Economy: How Resilient Are the Santiago Principles?" In *Weaponizing Investments*, Springer Studies in Law & Geoeconomics.
- Divakaran et al. The World Bank Group. 2022. "Strategic Investment Funds Establishment and Operations".
- Ireland Department of Finance. 2023. *Future-proofing the Public Finances –the Next Steps*.
- IMF a (2010) Working Paper No. 2010/009. Brown, Papaioannou, and Petrova. *Macrofinancial Linkages of the Strategic Asset Allocation of Commodity-Based Sovereign Wealth Funds*.
- IMF b (2023). Country Report No. 23/249. Chile Technical Assistance Report- Fiscal Considerations in Managing Stabilization Funds.
- IMF c. Das, Lu, Mulder, and Sy. 2009. *Setting up a Sovereign Wealth Fund: Some Policy and Operational Considerations*. WP/09/179.
- IMF d. Das, Mazarei, and Stuart. 2009. *Sovereign Wealth Funds and the Santiago Principles*
- IMF e. Kunzel, et al. 2011. *Investment Objectives of Sovereign Wealth Funds—A Shifting Paradigm*. IMF WP/11/19
- IMF f. 2011. Shields and Villafuerte. "Sovereign Wealth Funds and Economic Policy at Home". *Economics of Sovereign Wealth Funds*. Chapter 4.
- IMF g. 2007. *Global Financial Stability Report*, October 2007. Annex 1.2.
- The International Working Group of Sovereign Wealth Funds. 2008. *Sovereign Wealth Funds Generally accepted principles and practices- "Santiago Principles"*.
- OECD a. 2016. "Strategic Investment Funds: Comparative Analysis and Lessons Learned". Report prepared by the OECD Development Centre submitted for discussion under session 6C of the Seventh Plenary Meeting of the Policy Dialogue on Natural Resource-Based Development.
- OECD b. 2019. *Using Extractive revenues for Sustainable Development. Guide for Resource Rich Countries*.
- Ossowski, R., et al, 2008. "The Role of Fiscal institutions in managing the Oil Boom". IMF Occasional paper 260.

IRELAND

Shields and Villafuerte. Sovereign wealth funds and economic policy at home. IMF. 2011

Department of Finance. 2023. "Economic Insights – Summer July 2023." [gov.ie](https://www.gov.ie)

Government of Ireland. 2022. "Minister of State James Browne Welcomes Government Decision to Establish Dedicated Planning and Environment Division of the High Court." [gov.ie](https://www.gov.ie)

Government of Ireland. 2022. "Improved Planning Regime Takes Step Closer with Publication of Draft Planning and Development Bill 2022." [gov.ie](https://www.gov.ie)

An Bord Pleanála. 2023. "Judicial Review Notice". [pleanala.ie](https://www.pleanala.ie)

Ireland Fiscal Advisory Council. 2021. Ireland's next ramp-up in public investment.

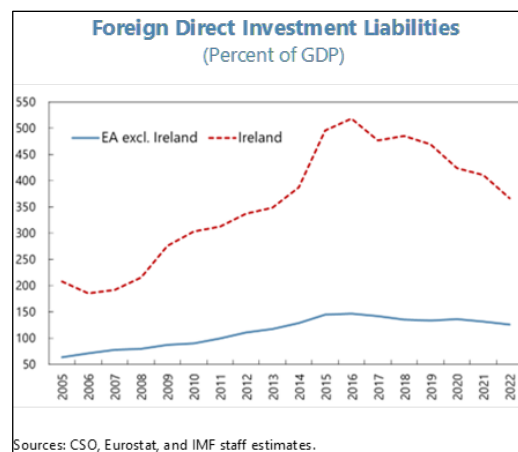
Mcperson-Smith, O. 2023. "Revisiting Judicial Review: The next Step for Permitting Reform." America First Policy Institute Center for Energy & Environment

BOOM WITHOUT DISEASE? IMPACT OF MULTINATIONAL ENTERPRISES IN IRELAND¹

Multinational enterprises (MNEs) have played a dominant role in creating high-paying jobs and boosting corporate income tax revenues in Ireland. However, analogous to discoveries of natural resources, a sudden FDI boom, if not prudently managed, could give rise to adverse effects associated with the so-called “Dutch disease”. Using stylized facts and regression-based empirical analysis, this paper finds little evidence of adverse resource movement effect or spending effect from the FDI and MNE boom, while productivity spillovers from foreign investments to the indigenous economy are found to have been limited. Policies should continue pursuing fiscal prudence to reduce domestic spending pressure and fostering linkages between MNEs and domestic firms.

A. Introduction

1. Ireland has attracted large foreign direct investment (FDI) and built an outsized multinational sector over the past few decades. In 2022, the stock of FDI totaled more than 300 percent of GDP, well above the euro area’s (EA) median of about 60 percent. This positions Ireland ahead of most of its EA peers, trailing behind only Luxembourg, Malta, Cyprus, and the Netherlands. The majority of foreign investment was directed towards pharmaceuticals, financial services, and information and communication (Figure 1). Large multinational enterprises (MNEs) in these sectors established significant production bases and/or global headquarters in Ireland. Their presence has significantly contributed to the country’s employment, gross value added, and tax revenues. Studies suggested over one third of employee compensations and more than 80 percent of corporate income taxes in Ireland are generated in the multinational sector.² MNEs have also accelerated relocation of their intellectual properties and global profits to Ireland, leading to substantial distortions in the country’s national accounts statistics.



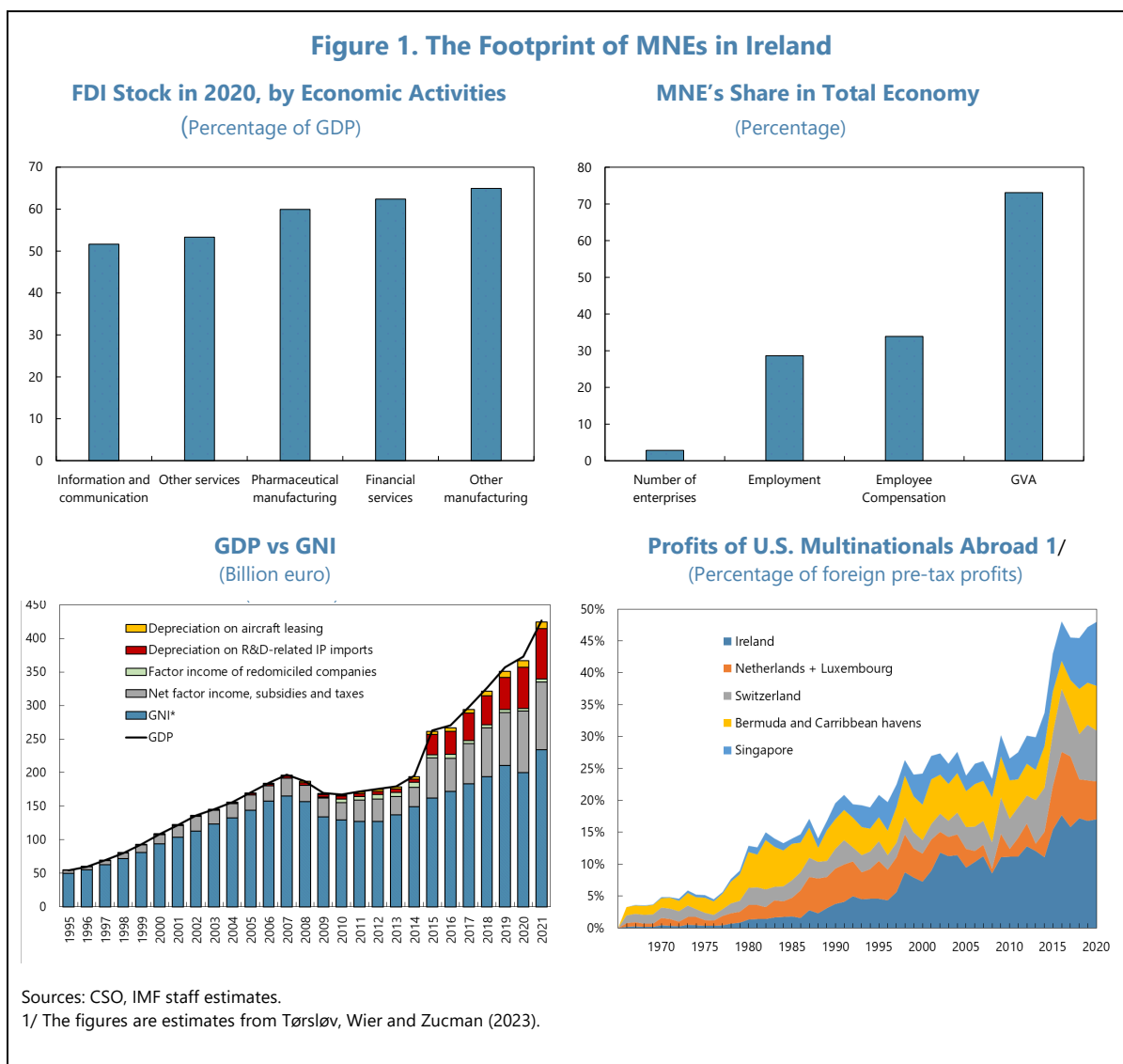
2. Ireland’s FDI-driven model has created a two-tiered economy, exposing the country to potential risks associated with the “Dutch disease”. Several important risks associated with MNEs have been pointed out, including MNE relocation, revenue concentration, and volatile business cycles of the MNE sector³. The large FDI inflows into pharmaceutical manufacturing and more

¹ Prepared by Yang Yang. This paper has benefitted from helpful comments and suggestions from the authorities and the participants of staff’s presentations at the Ministry of Finance on November 1 in Dublin.

² See <https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2023.pdf>

³ The MNEs concentrate in high-growth, high-volatility sectors that are highly integrated to the global supply chain that is increasingly susceptible to external shocks.

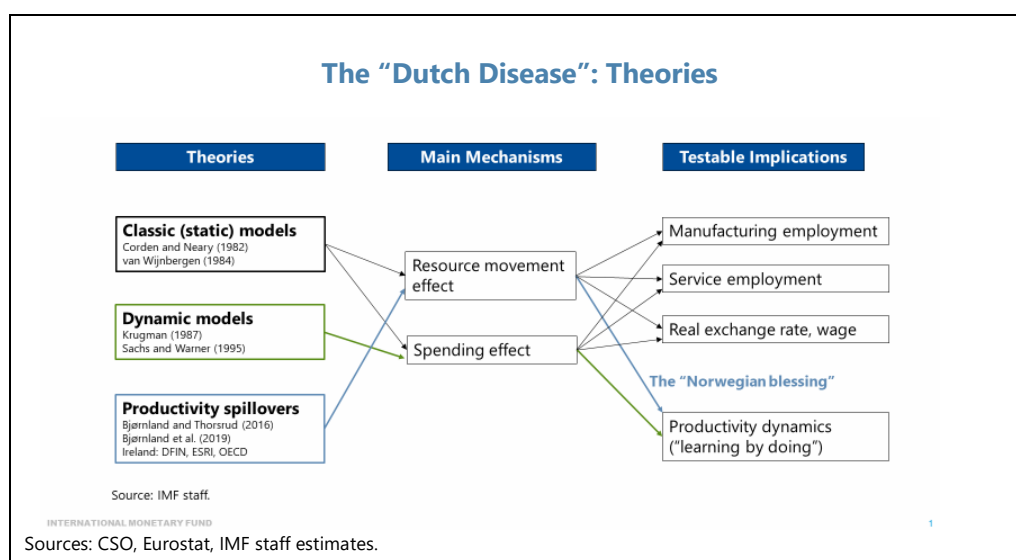
recently, intangible assets in the tech sector, and MNEs’ surging global profits shifted to Ireland, beg the question of whether the Irish economy is developing symptoms of the so-called “Dutch disease”, i.e., de-industrialization outside the booming MNE sector. Even if large MNEs do not crowd out domestic firms, they may not establish close connections with smaller domestic firms as observed in large corporations in other countries (e.g., the automobile industry in Germany and Japan with deep supply-chain linkages between big automakers and small local suppliers). While not a conventional symptom of the Dutch disease, a simultaneous absence of large domestic firms and spillovers from large MNEs could potentially hinder the growth of Ireland’s indigenous economy.



3. Influential theories have been developed to explain the “Dutch disease” for countries experiencing booms in foreign exchange inflows. The literature introduces models that illustrate two key transmission channels of a “resource boom” (FDI boom in Ireland’s case)—a resource movement effect and a spending effect (Corden and Neary, 1982; Neary and Purvis, 1983; Neary and van Wijnbergen, 1986). In these models, other tradable sectors tend to shrink while non-tradable sector (mainly services) tend to expand due to both effects, leading to de-industrialization. The real exchange rate tends to appreciate and wages in the services sector are likely to increase due to the

spending effect. A complementary strand of theoretical literature focuses on growth models with productivity dynamics (van Wijnbergen, 1984; Krugman, 1987; Sachs and Warner, 1995; Gylfason et al., 1999; Torvik, 2001). These models underscore dynamic productivity losses resulting from the spending effect after a “natural resource boom”. In these models, labor reallocations from tradable sectors, characterized by strong learning-by-doing or economies of scale, to the services sector, resulting in lower overall economic growth.

4. Recent studies, including those focused on Ireland, aim to uncover spillovers from the booming sector to the broader economy. Recent studies found positive spillover effects from booming natural resources sector in Norway, Australia and the US (Bjørnland and Thorsrud, 2016; Allcott and Keniston 2018, Bjørnland et al., 2019) and negative spillovers in Angola and Venezuela (Mehlum et al., 2006). While this strand of literature associates itself with the classic “Dutch disease” literature, it emphasizes the “Norwegian blessing” rather than the “Dutch disease” after a resource or FDI boom, thanks to the positive productivity spillovers from the booming tradable sector to other tradable sectors through the resource movement effect. However, empirical research on Ireland has predominantly found limited spillovers of MNEs to the indigenous economy (Department of Finance, 2014; Papa, Rehill and O’Connor 2018; Di Ubaldo, Lawless and Siedschlag 2018; Di Ubaldo and Siedschlag 2022).

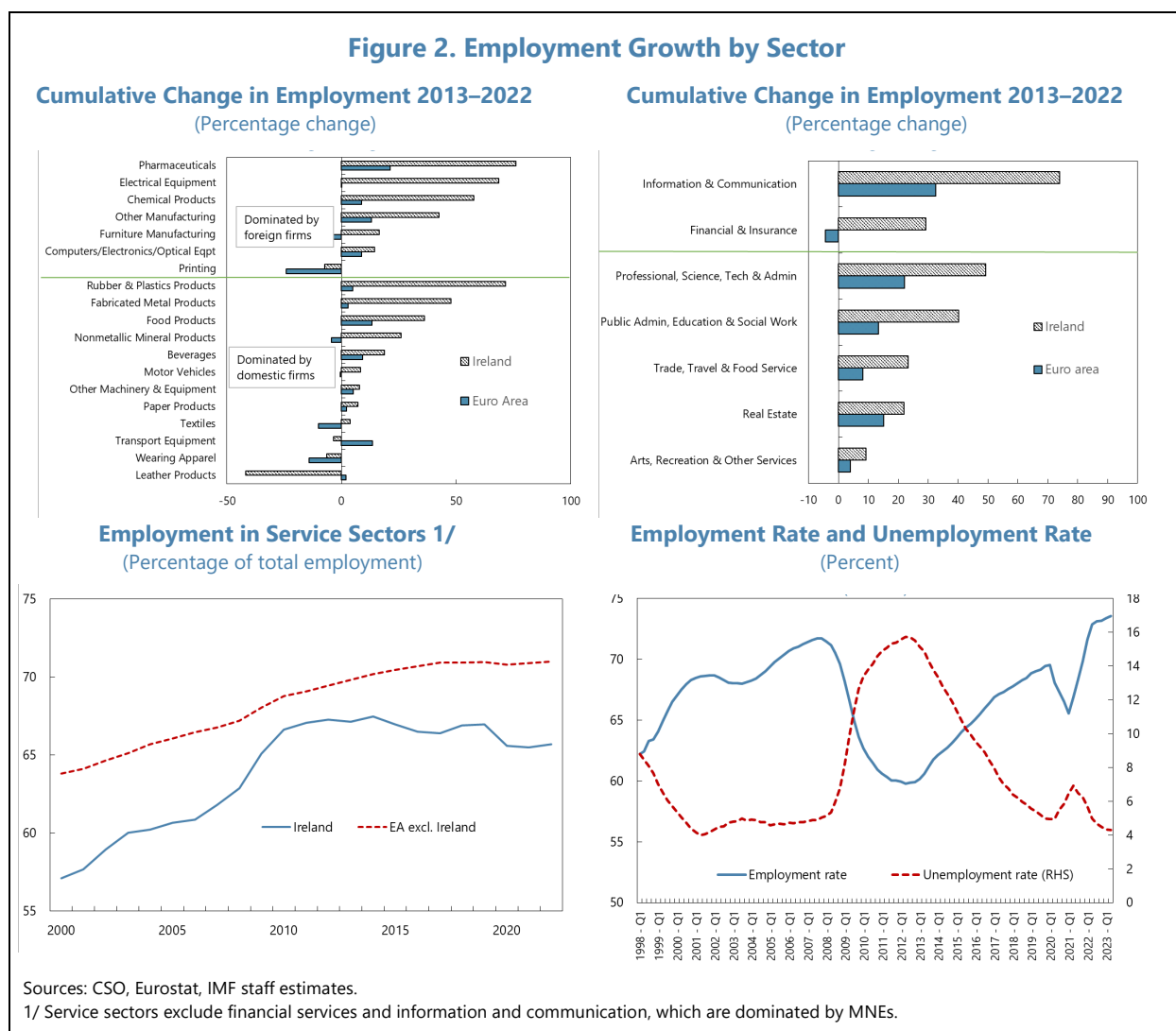


5. In the context of booming FDI inflows and MNE activities in Ireland, this paper aims to test key implications drawn from the “Dutch disease” literature. More specifically, this paper documents key cross-country stylized facts and conducts formal empirical analysis to examine the dynamics of employment, wage, real exchange rate, and productivity in Ireland amid the country’s boom episodes. The primary objective is to assess whether Ireland has manifested symptoms of the “Dutch Disease” or signs of the “Norwegian blessing” across the two pivotal channels—namely, the resource movement effect and the spending effect.

B. Stylized Facts

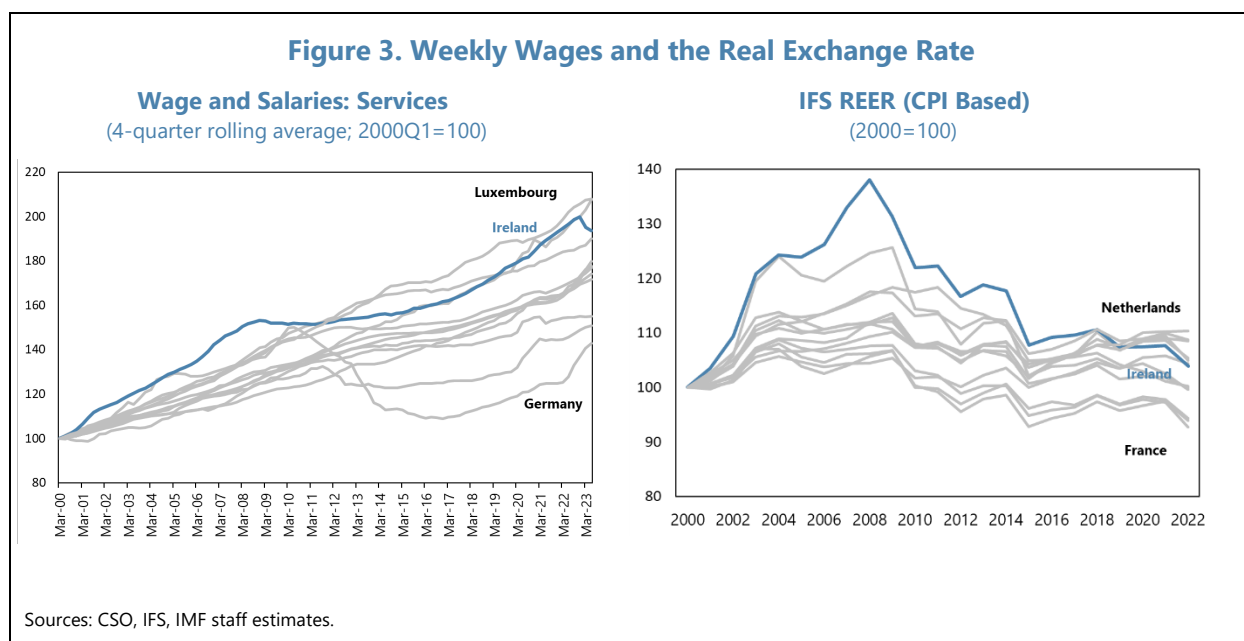
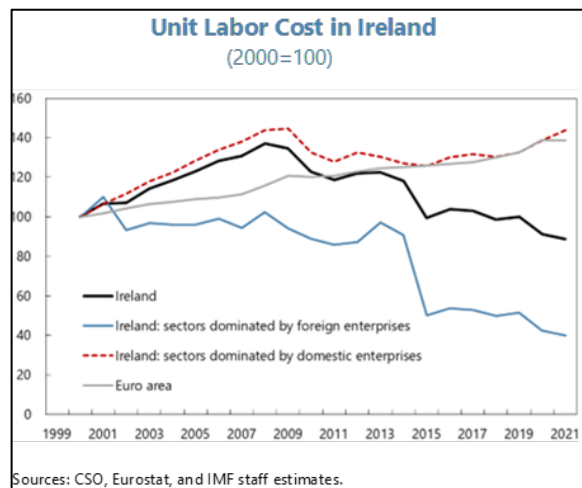
6. Employment growth in recent years has been broad-based. Employment data suggest that employment growth in the manufacturing sector in Ireland has been largely driven by the MNEs. The pace of expansion of manufacturing sectors dominated by domestic firms, however, did

not underperform the euro area. In fact, employment growth in consumer goods manufacturing such as food and beverage has been very strong, supported by steady increases in population and income. The recent boom in services employment has been broad-based, with both foreign-dominated information and communication (IC) sector and financial services and domestic services outgrowing those in the euro area. During the boom preceding the global financial crisis (GFC), domestic services grew much faster than manufacturing did, indicative of a trend toward de-industrialization—a symptom of the “Dutch disease”. Since the crisis, however, the share of services employment (excluding the foreign-dominated IC sector and financial services) in total employment has not yet recovered fully to the pre-crisis level and is below the level in the euro area (Figure 2). Given the robust employment growth in both manufacturing and services, there has been no obvious sign of “de-industrialization” through the “resource movement” channel in the recent boom.



7. Wage growth in services regained momentum in recent years, while real exchange rate appreciation was significant only in the pre-crisis period (Figure 3). Weekly wage growth in the services sector was very strong before the crisis, and accelerated again recently after stagnating for several years, indicating a potential sign of “Dutch disease, but it could also just reflect high

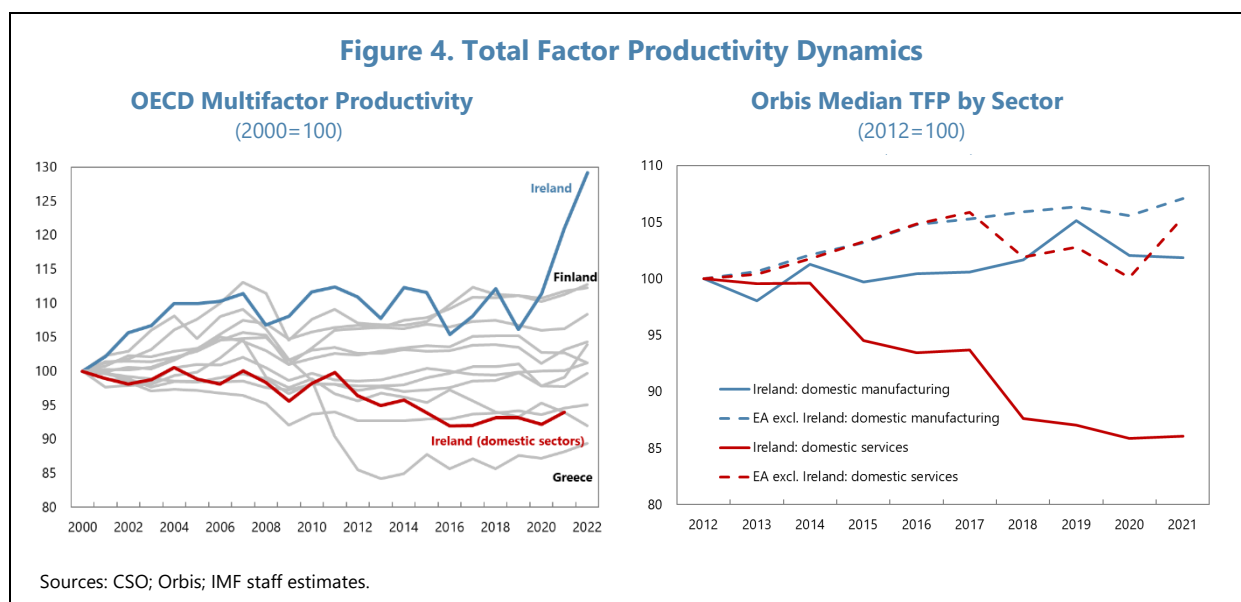
productivity growth of MNEs in both the manufacturing sector and the service sector. There were excessive real exchange rate appreciations before the crisis, a potential symptom of the “Dutch disease”. However, almost all the pre-crisis appreciation has been corrected after the crisis. Indeed, the decline of unit labor cost (ULC) has been mainly driven MNE dominated sectors. Unit labor cost, another measure of competitiveness, exhibits divergent trends between MNE-dominated and domestic-oriented sectors, with almost all the competitiveness gains driven by the former. The trend of ULC in domestic-oriented sectors in recent years has been broadly in line with that in the euro area. Overall, it does not appear that cost pressures have weakened the overall competitiveness of the Irish economy via the “spending effect”.



8. Productivity growth has been entirely driven by MNEs. Ireland’s growth of multifactor productivity, a measure of total factor productivity, outpaced that of its EA peers in recent years. However, this is mainly driven by the rapid growth in sectors dominated by foreign firms. The indigenous economy is dominated by small and medium enterprises (SMEs) in the traditional sectors that might be far away from technology frontiers and have limited economies of scale. Indeed, the multifactor productivity in the sectors dominated by indigenous firms has lagged that of Ireland’s EA peers and has been on a declining path since the GFC (Figure 4). In addition, TFP estimates at the firm level from the Orbis database confirms this finding and shows that the decline was mainly driven by firms in domestic-oriented services.⁴ While many factors could explain the

⁴ Firm TFP is estimated by the control function approach pioneered by Olley and Pakes (1996) and Levinsohn and Petrin (2003), and recently updated by Akerberg et al. (2015). Please see Díez et al. (2021) for details.

diverging trends, it is nevertheless concerning that productivity of the indigenous economy has not grown in the past two decades despite the presence of MNEs' strong knowledge base, talent pool, and R&D capacity in Ireland.



C. Empirical Analysis

9. The empirical analysis examines the dynamic responses of domestic sectors to a shock from the MNE sector. First, it assesses whether Ireland has experienced any potential symptoms of the “Dutch disease” through the three mechanisms underpinned by economic theories; Second, it sheds light on any signs of the “Norwegian blessing” i.e., the strength of MNEs' linkages with the domestic economy. To do so, staff constructs a dataset consisting of sectoral gross value added (GVA), employment, wage, and labor productivity from 1995Q1 to 2023Q1 and follows the Central Statistical Office (CSO)'s method to classify sectors into those dominated by foreign firms and those dominated by domestic firms (Table 1).⁵ The baseline uses local projection (Jorda 2005) to evaluate the impact of a shock in manufacturing sectors dominated by MNEs on variables of interest (employment in domestic manufacturing and services, wages, and labor productivity).⁶ Specifically, for the baseline model we run a series of regressions over different horizons of the following form:

$$Y_{t+h} - Y_{t-1} = \beta_h F_t + \sum_{n=1}^m \gamma'_{hn} X_{t-n} + \epsilon_{t+h}$$

in which Y_t is the dependent variable at time t ; F_t is the quarterly change in the “shock” variable, i.e., change in gross value added of foreign MNEs at time t ; X_t is a vector of lagged control variables at

⁵ For details of sector classification by the CSO, see <https://www.cso.ie/en/releasesandpublications/ep/p-pii/productivityinireland2021/backgroundnotes>.

⁶ The same exercise can be done for shocks in the information and communication sector and financial services, and results will be included in a forthcoming IMF Working Paper on this topic.

time t , including lags of the MNE shock, the dependent variable, the domestic economy measured by real GNI* growth, and external demand (weighted average of trading partners' GDP growth). The impulse responses are constructed based on the estimated β_h coefficients at each horizon. A similar formulation with levels instead of growth rates of the same variables, different sample periods, and a structural VAR approach were also implemented as robustness checks.⁷ The main conclusions still hold under different specifications, sample periods, and alternative approaches.

Table 1. Ireland: Summary Statistics of Key Variables

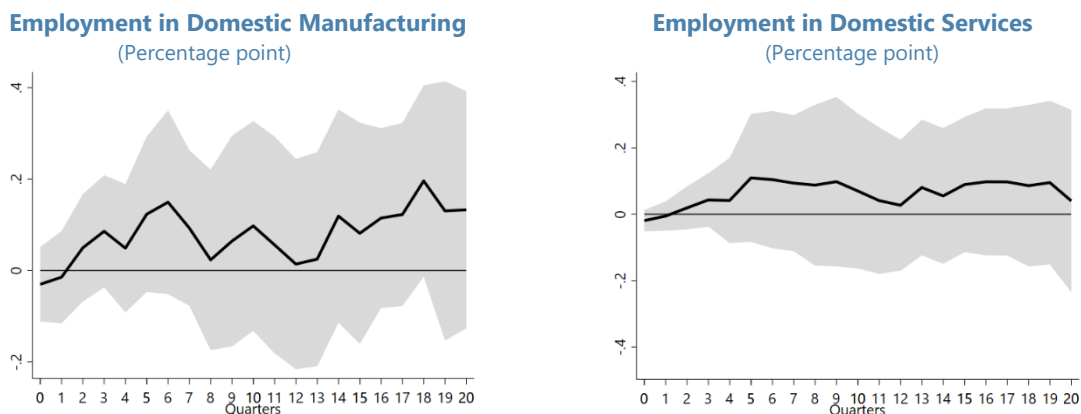
Variable (y-o-y percentage change)	Sample	Mean	SD	Min	Max
GVA of foreign manufacturing	1996Q1 to 2023Q1	7.6	13.2	-34.4	45.4
GVA of domestic manufacturing	1996Q1 to 2023Q1	2.8	11.2	-30.0	42.1
GVA of information communication	1996Q1 to 2023Q1	10.9	9.8	-14.6	30.7
GVA of domestic services	1996Q1 to 2023Q1	3.3	4.0	-12.4	12.0
Employment of foreign manufacturing	1996Q1 to 2023Q1	-0.5	13.2	-38.1	62.5
Employment of domestic manufacturing	1996Q1 to 2023Q1	-0.5	18.3	-48.9	93.8
Employment of information communication	1996Q1 to 2023Q1	5.1	7.4	-6.4	36.3
Employment of domestic services	1996Q1 to 2023Q1	3.2	4.2	-11.0	16.1
Labor productivity of foreign manufacturing	1996Q1 to 2023Q1	14.8	26.0	-44.0	150.4
Labor productivity of domestic manufacturing	1996Q1 to 2023Q1	6.3	19.3	-46.0	80.1
Labor productivity of information communication	1996Q1 to 2023Q1	7.2	12.2	-18.3	43.4
Labor productivity of domestic services	1996Q1 to 2023Q1	0.3	2.5	-7.9	5.4
Modified Gross National Income (GNI*)	1996Q1 to 2023Q1	3.7	5.6	-13.0	17.2
Trading partner GDP	1996Q1 to 2023Q1	1.9	2.6	-11.7	15.4
Real Effective Exchange Rate	1996Q1 to 2023Q1	-0.4	4.8	-11.2	12.7
Relative wage of domestic services	1996Q1 to 2023Q1	-1.1	7.8	-26.7	28.1

Sources: CSO; IFS; WEO; IMF staff estimates.

10. Increased MNE manufacturing activities are found to have led to expansions in both domestic manufacturing and services (Figure 5). A one-percentage-point increase in gross value added of manufacturing sectors dominated by foreign firms has a positive but modest impact on employment in manufacturing and service sectors dominated by domestic firms over a five-year horizon. MNEs appeared to have some crowding-in effect on certain service sectors such as catering, transportation, and professional services, although the evidence is not very strong. However, any positive effect of MNEs on domestic services does not seem to have come at the expense of domestic manufacturing through the “resource movement effect”. In fact, domestic manufacturing employment experienced growth over the sample horizon after a positive MNE shock. However, the small impulse responses confirmed previous studies that the MNE-dominated sector only has limited supply-chain linkages with domestic manufacturing firms. This finding, however, does not rule out intra-sector linkages in sectors dominated by MNEs but still with a significant presence of domestic firms.

⁷ Plagborg-Moller and Wolf (2021) shows local projection and structural VAR estimate the same impulse response functions in population but have different finite sample properties (also Li et al., 2023). The empirical analysis was conducted with both the full sample (1995:Q1 to 2023:Q1) and sub-samples that exclude the two crisis periods (GFC and Covid-19), as well as the period of 2014–2016, for which changes in statistical methodology led to substantial data revisions and structural breaks.

Figure 5. Impulse Responses of Employment 1/

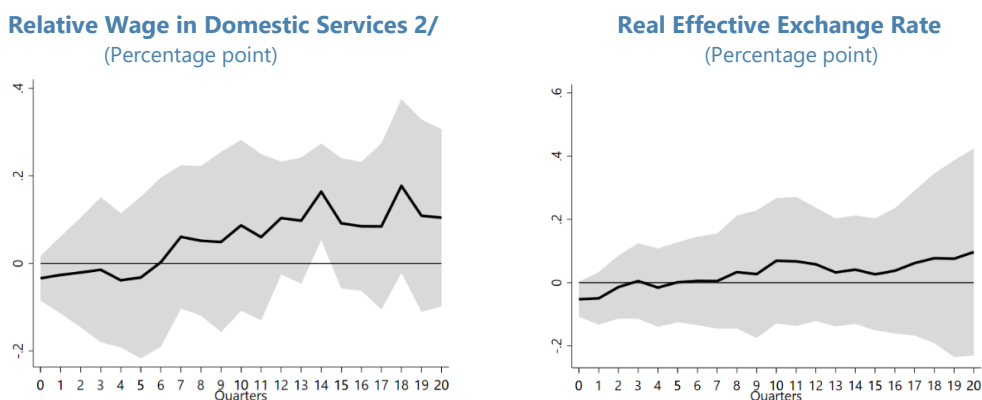


Sources: CSO; IMF staff estimates.

1/ The figures show impulse responses to a one percentage point shock of gross value added of manufacturing sectors dominated by MNEs, with a two standard deviation band around the point estimates.

11. The MNEs appear to have fueled some wage pressures in services but little real exchange rate appreciation (Figure 6). Point estimates suggest some upward pressure on relative wages in the services sector (relative to wages in the domestic manufacturing sector) and the REER over time. However, the effects are small and statistically insignificant, especially concerning the REER. Therefore, the analysis did not find strong evidence that increased MNE manufacturing activities have led to cost pressures. This is consistent with the stylized facts, implying that erosion of Ireland’s cost competitiveness due to the spending effect has so far been somewhat muted. Nevertheless, the analysis does point to the risk of rising cost pressures over time if the MNE boom sustains its momentum.

Figure 6. Impulse Responses of REER and Wages 1/

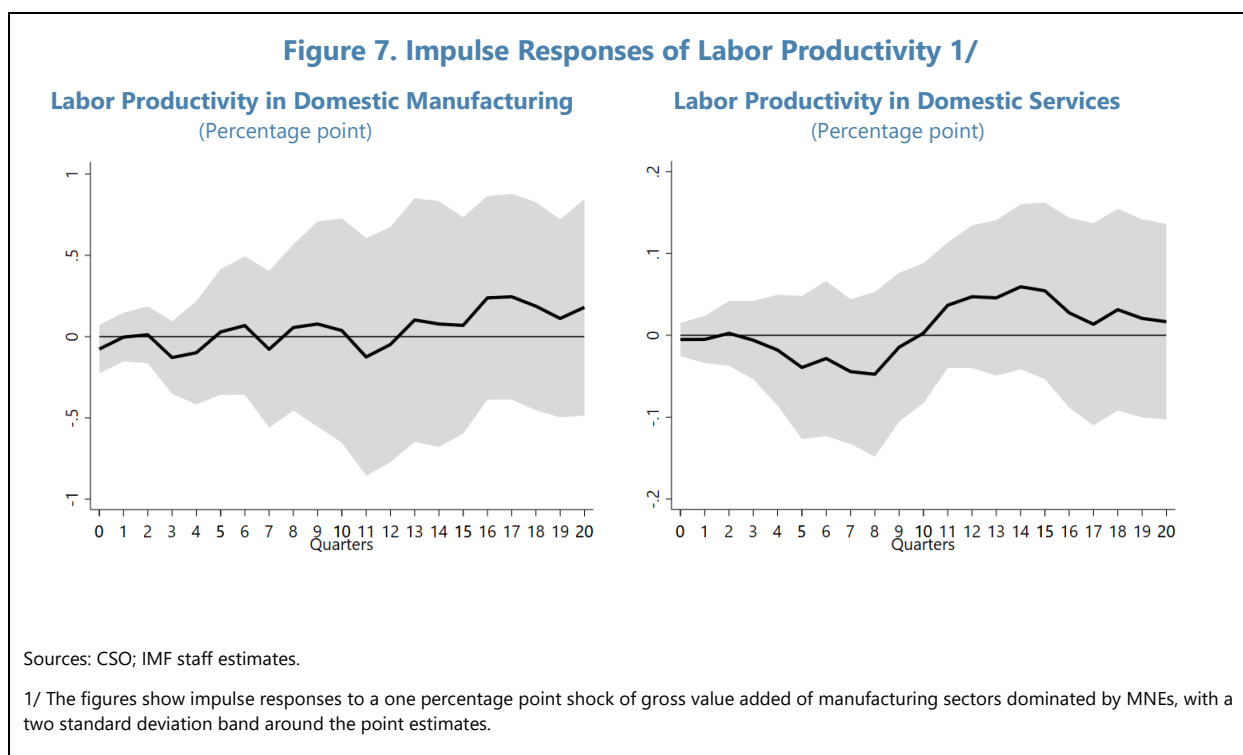


Sources: CSO; IMF staff estimates.

1/ The figures show impulse responses to a one percentage point shock of gross value added of manufacturing sectors dominated by MNEs, with a two standard deviation band around the point estimates.

2/ Relative wage growth in domestic services is the difference in wage growth between domestic-oriented services sector and the manufacturing sector.

12. MNEs are found to have limited productivity spillovers to domestic firms (Figure 7). Increased MNE manufacturing activities do not appear to have improved labor productivity in the domestic manufacturing sector. While point estimates imply some positive effect after the third year, the effect is small and statistically weak. Increases in MNE manufacturing activities seem to have had some negative spillovers to labor productivity in domestic services initially, but the cumulative effect becomes somewhat positive over time. Overall, the dynamic responses of labor productivity to MNE activities suggest the MNE sector has only had very weak productivity spillovers to the domestic manufacturing sector and the services sector. While the limited economies of scale and productivity growth of domestic sectors may not be attributable to the presence of the MNE sector, the muted spillovers should still beg the question why this is the case and what can be done to facilitate talent mobility and knowledge diffusion from large MNEs to domestic firms.



D. Concluding Remarks

13. Overall, Ireland has not shown clear symptoms of the “Dutch disease” in its post-crisis period. While more analysis will be needed to thoroughly explain limited resource movement and spending effects, there could be multiple reasons for this outcome. First, although Ireland’s FDI boom shares some similarities with natural resource booms, the nature and scale of Ireland’s boom may be quite different. Second, Ireland has exercised fiscal prudence since its crisis, which might have prevented excessive wage pressures in the public sector and more broadly domestic demand pressures. Third, Ireland’s flexible and inclusive labor market might have absorbed some wage and price pressures, as exemplified by the influx of foreign labor in recent years.

14. The empirical analysis confirms that MNEs have had limited linkages with domestic firms despite being a pivotal player in the Irish economy. In some countries, large domestic corporations have deep supply-chain, labor, and other linkages with smaller firms. Ireland does not have many large domestic firms but is home to many MNEs with deep know-how and cutting-edge technology. The weak “crowding-in” or “Norwegian blessing” effect of MNEs suggests that the indigenous economy may be missing out an important growth engine and calls for policy response. Facilitating links between MNEs and domestic firms via supply-chain linkages, labor mobility, and innovation cooperation could help raise productivity of domestic firms and the overall resilience of the economy.

References

- Akerberg, D.A., Caves, K. and Frazer, G., 2015. Identification properties of recent production function estimators. *Econometrica*, 83(6), pp.2411-2451.
- Allcott, H. and Keniston, D., 2018. Dutch disease or agglomeration? The local economic effects of natural resource booms in modern America. *The Review of Economic Studies*, 85(2), pp.695-731.
- Bjørnland, H.C. and Thorsrud, L.A., 2016. Boom or gloom? Examining the Dutch disease in two - speed economies. *The Economic Journal*, 126(598), pp.2219-2256.
- Bjørnland, H.C., Thorsrud, L.A. and Torvik, R., 2019. Dutch disease dynamics reconsidered. *European Economic Review*, 119, pp.411-433.
- Corden, W.M. and Neary, J.P., 1982. Booming sector and de-industrialisation in a small open economy. *The Economic Journal*, 92(368), pp.825-848.
- Department of Finance., 2014. Economic Impact of the Foreign-owned Sector in Ireland.
- Di Ubaldo, M., Lawless, M. and Siedschlag, I., 2018. Productivity spillovers from multinational activity to indigenous firms in Ireland (No. 587). ESRI Working Paper.
- Di Ubaldo, M. and Siedschlag, I., 2022. Could spillovers from multinationals affect the trade activities of local firms?. *Economics Letters*, 221, p.110899.
- Díez, F.J., Fan, J. and Villegas-Sánchez, C., 2021. Global declining competition?. *Journal of International Economics*, 132, p.103492.
- Gylfason, T., Herbertsson, T.T. and Zoega, G., 1999. A mixed blessing: natural resources and economic growth. *Macroeconomic dynamics*, 3(2), pp.204-225.
- Jordà, Ò., 2005. Estimation and inference of impulse responses by local projections. *American economic review*, 95(1), pp.161-182.
- Krugman, P., 1987. The narrow moving band, the Dutch disease, and the competitive consequences of Mrs. Thatcher: Notes on trade in the presence of dynamic scale economies. *Journal of development Economics*, 27(1-2), pp.41-55.
- Levinsohn, J. and Petrin, A., 2003. Estimating production functions using inputs to control for unobservables. *The Review of Economic Studies*, 70(2), pp.317-341.
- Li, D., Plagborg-Møller, M. and Wolf, C.K., 2022. Local projections vs. vars: Lessons from thousands of dgps (No. w30207). NBER Working Paper 30207.

- Mehlum, H. , Moene, K. , Torvik, R. , 2006. Institutions and the resource curse. *Econ. J.* 116 (508), 1–20.
- Neary, J.P. and Van Wijnbergen, S., 1986. Natural resources and the macroeconomy.
- Neary, J.P. and Purvis, D.D., 1983. Sectoral shocks in a dependent economy: long-run adjustment and short-run accommodation. In *Long-Run Effects of Short-Run Stabilization Policy* (pp. 97-121). London: Palgrave Macmillan UK.
- Olley, S. and Pakes, A., 1996. The dynamics of productivity in the telecommunications equipment industry. *Econometrica*, 64(6), 1263-1297.
- Papa, J., Rehill, L. and O’Connor, B., 2018. Patterns of firm level productivity in Ireland. OECD WP.
- Plagborg - Møller, M. and Wolf, C.K., 2021. Local projections and VARs estimate the same impulse responses. *Econometrica*, 89(2), pp.955-980.
- Sachs, J.D. and Warner, A., 1995. Natural resource abundance and economic growth. NBER Working Paper 5398.
- Torvik, R., 2001. Learning by doing and the Dutch disease. *European economic review*, 45(2), pp.285-306.
- Tørsløv, T., Wier, L. and Zucman, G., 2023. The missing profits of nations. *The Review of Economic Studies*, 90(3), pp.1499-1534.
- Van Wijnbergen, S., 1984. Inflation, employment, and the Dutch Disease in oil-exporting countries: A short-run disequilibrium analysis. *The Quarterly Journal of Economics*, 99(2), pp.233-250.

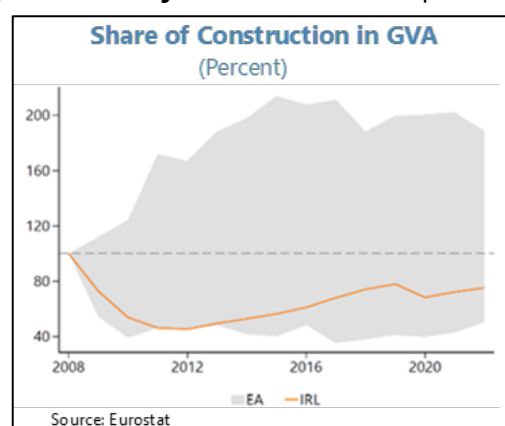
HOUSING AFFORDABILITY IN IRELAND¹

Driven by strong demand, past under-investment, and constrained supply, house prices in Ireland have recovered significantly since 2011. However, contrary to the 2000s, financial stability risks from the housing market seem contained, partly reflecting the implementation of macroprudential measures. Instead, housing affordability has become a more pressing issue, potentially impacting household saving-investment behavior, allocation of resources, and income inequality both in the short and long term. The authorities have responded with ambitious measures, but further action is likely warranted. Notably, policies to increase housing density, replace rent controls with well-targeted budget support for housing for poor households, and reduce construction cost and uncertainty are crucial for boosting housing supply, which is key to sustainably addressing housing affordability.

A. Introduction

1. Following a period of underinvestment after the GFC, the stock of housing declined, resulting in increased price pressures and worsening affordability in Ireland.² House prices

plummeted, and housing supply contracted sharply in the aftermath of the GFC, with only 11,000 new homes built in 2014 compared to 90,000 in 2006.³ Driven by the post-GFC economic recovery, improving labor market conditions, low interest rates, and relatively strong population growth, property prices and rents have rebounded faster than household income, resulting in worsening housing affordability, especially for low-income tenants and homebuyers. Contrary to the early 2000s construction boom, the post-GFC recovery in house prices was not driven by rapid credit growth, but rather by limited housing supply.



2. Housing affordability has further worsened in recent years. Despite the pandemic, house prices resumed their pre-pandemic trend in 2021, driven by strong demand and sluggish supply. Covid-related mobility restrictions impacted construction activity, further exacerbating the supply shortage. However, housing demand remained strong, driven mainly by household savings and greater preferences toward more spacious dwellings. As a result, house prices increased by around 8 percent y/y in 2021. Construction activity picked up strongly after the re-opening of the economy in 2022, with both completed and commenced units increasing substantially. Still, the housing stock has hardly kept pace with significant population growth, including as a result of Russia's invasion of

¹ The paper benefited from comments received by the Irish authorities during a seminar organized by the Department of Finance during the 2023 Article IV consultation.

² One of the most common definitions states that housing is considered affordable when a household spends no more than 30 percent of its gross income on housing costs, including rent or mortgage payments, property taxes, and utilities.

³ The delivery of 90,000 units in 2006 seemed unsustainable given the housing market crash that followed.

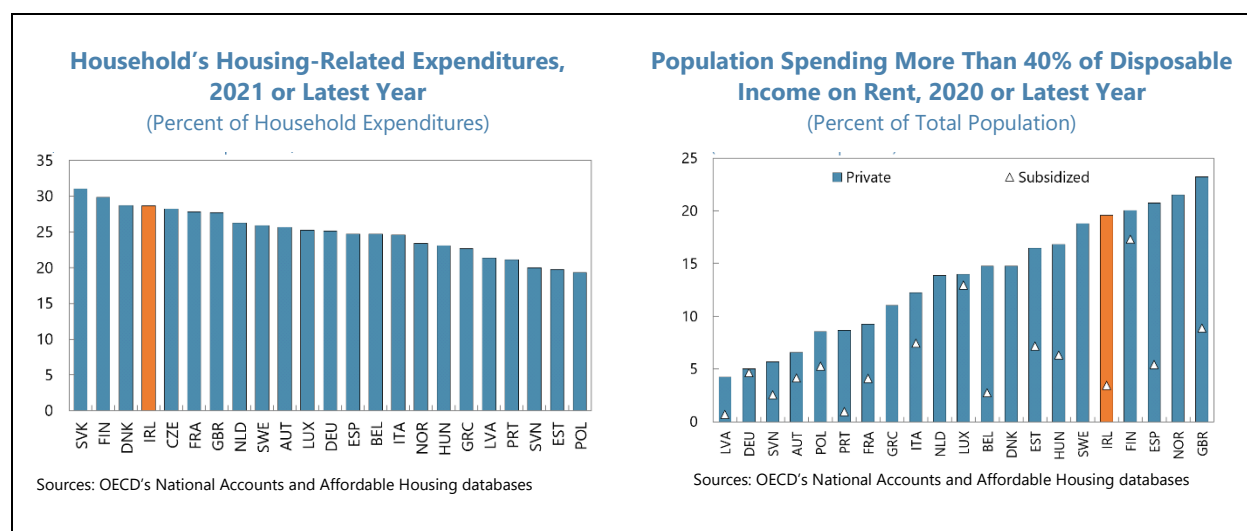
Ukraine, and remains low. In parallel, construction input prices accelerated sharply, further adding to the pressure on house prices. Recently, higher interest rates and inflation have dented households' purchasing power and capacity to borrow.

3. Housing affordability has far-reaching consequences for an economy and society. It can influence households' decision-making, potentially leading to more precautionary savings and misallocation of resources away from productive investment, weakening aggregate demand both in the short and long-term. Worsening access to housing may also limit firms' ability to attract skilled workers and put pressure on wages, potentially hampering a country's competitiveness. Furthermore, high house prices may impact wealth distribution, particularly for those at the lower end of the income distribution. Deteriorating affordability combined with overvaluation may also amplify financial stability risk impacting both lenders and borrowers. However, Ireland's large households' savings, stronger bank capital positions, implementation of macroprudential measures, and constrained housing supply limit financial stability risks despite higher interest rates.

4. The Irish authorities have introduced measures to improve affordability, but more is likely to be required. In particular, measures protecting buyers and tenants tend to improve affordability only temporarily, at the expense of further exacerbating existing pressures by fueling real estate prices over the medium term. As such, while noting time lag challenges, policies facilitating faster housing supply, either public or private, will be critical to address affordability in a sustainable manner.

5. The rest of the paper is organized as follows. Section B assesses housing affordability in Ireland over time and in comparison, to other European countries. Section C discusses the main drivers, including policies, affecting house prices and affordability. Section D discusses policy options and provides examples of measures to address housing affordability in Australia, Canada, and New Zealand.





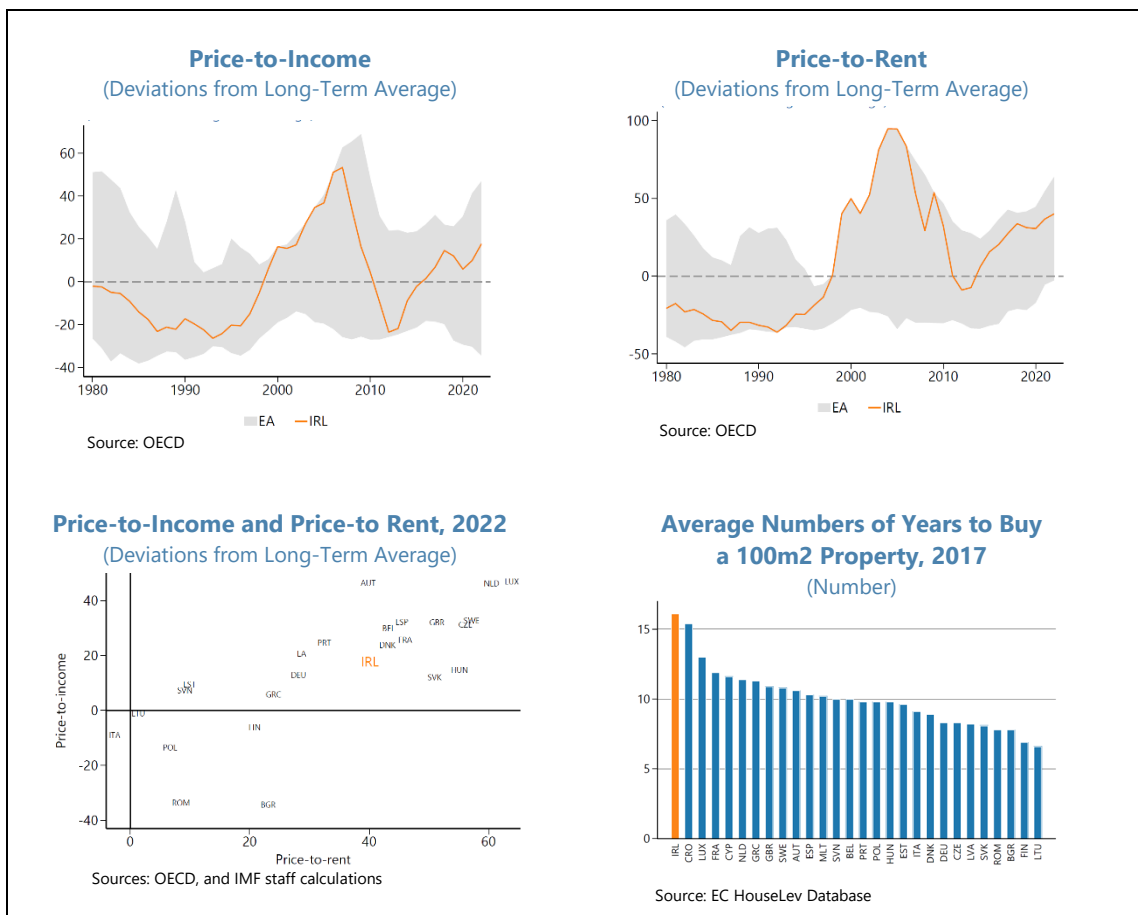
B. Housing Affordability Assessment

6. Several measures of house price misalignment point to growing affordability concerns in Ireland.

- **House price-to-income (PTI) and price-to-rent (PTR) ratios**, expressed as deviations from its long-term averages or trend values, are the most common indicators of buyer and tenant affordability, while ignoring the role of other factors beyond price (rent) and income. Assuming PTI and PTR ratios have tendency to revert to its mean (trend), positive deviations indicate overvaluation and vice versa. While the affordability for buyers, measured by the housing price to income ratio, is about 1/3 of its pre-crisis peak, the rental price to income ratio is already about 50 percent of its pre-crisis peak, signaling that prices are increasing at a faster rate than rents and buying a home is relatively expensive compared to renting.⁴
- **Econometric analysis** allows to reflect the role of additional factors driving real estate prices, such as disposable income, cost of financing, etc., and quantify their contributions to house price dynamics. Recent estimates suggest housing prices in Ireland are not significantly overvalued, with ESRB estimates within a range of 15 percent undervaluation and 5 percent overvaluation (ESRB, 2023) and the IMF staff estimates as of 2022:Q4 about 5 percent below the equilibrium value.
- **Affordability indices** aggregate information contained in other measures of housing affordability such as household income and mortgage interest rates, as well as the parameters of the regulatory macroprudential framework, such as LTI, LTV or DSTI or term-to-maturity and proxy households' ability to qualify for a mortgage loan on an average-priced home, such as in Biljanovska (2023). Recently, indicators derived from micro datasets, EU-SILC for example, such as Average Required Downpayment or Average Number of Years to Repay a Mortgage have become increasingly popular for their intuitive interpretation and availability for different income or household groups.

⁴ In the Irish context, the results based on PTI and PRT deviations from their long-term averages might be distorted by the fact that the time series were impacted by a number of shocks from 1980 onward—a massive recession in the 80s, followed by a period of slow growth and restructuring of the economy, the pre-GFC boom, and a subsequent crash.

- Housing in Ireland seems less affordable than in most of its EA peers.** After dropping significantly during the post-GFC adjustment period, both PTI and PTR have been growing, exceeding their long-term averages. The rebound of the price-to-rent ratio has been particularly noticeable, among the most pronounced in the group of the EA countries, reflecting fast growing real estate prices but only slowly adjusting rents capped by regulations. Moreover, an estimate of the number of years of income needed to buy a 100 square meters dwelling (EC, 2017 and OECD, 2022) suggests that an average Irish household would need to save for more than 15 years to purchase a 100 square meter unit, the highest value among the EU countries. Moreover, the affordability index by Biljanska et al. (2023) also suggests that Ireland scores among the worst performing EA countries, with the index value at about 75.⁵



C. Factors Impacting Housing Affordability

7. Demand for housing has been growing and is expected to continue strengthening due to several factors. The Irish economy has been growing above the EA average, with its income per capita now among the highest in the group. The continued interest by multinational companies in the Irish

⁵ A value of 100 indicates that a median-income household has exactly enough income to qualify for a mortgage loan on an average-priced home. A value below 100 indicates that a household does not have the sufficient income to qualify for a mortgage on an average-priced house.

economy will require additional labor, contributing to dynamic population growth. In addition, the declining household size is likely contributing to growing demand for housing. The size of a typical Irish household has declined from approximately 4 persons in 1980 to 2.7 persons in 2022. While this is a significant decline, the size of Irish household remains above the EU average of 2.2 persons and there is no reason to assume that this declining trend will not continue.⁶ Consequently, demand for housing may increase even if the size of population remains fixed. Finally, measure and schemes such as Help-to-Buy and First Home will continue to drive the demand for housing among first time buyers.

8. A range of factors have contributed to a growing housing supply gap in Ireland. The independent 2021 spending review of housing policies and several others⁷ have identified the main barriers to housing supply, including:

- *Regulations, and complex and slow permission and planning systems.* While significantly impacted by international obligations, including relevant EU Directives and Regulations (e.g., the Aarhus Convention), strict urban planning, high quality standards required for new constructions, and inefficient issuance of building permits limit the supply of housing (ESRB, 2022 and OECD, 2023). Furthermore, frequent judicial reviews impact the investment environment and slow down housing developments.
- *Constrained viability.* High-density apartments face significant viability challenges due to higher uncertainty and risks than traditional houses, partly reflecting the Irish society's preference for standard houses with low densification. Domestic banks seem less willing to finance residential projects than before the GFC, and dependence on international investors and non-bank lending have increased.⁸
- *Construction sector remains dominated by small, low-productivity firms.*⁹ Increasing margins may indicate insufficient competition, translating into a low pick up of new technologies and high reliance on labor. The high cost of residential construction further reduces viability.
- *Skills and labor shortages contribute to higher construction costs and limit housing supply.* The construction sector has not recovered from the GFC crash. Employment in the construction sector represents a modest part of total employment (6.5 percent in 2022, against 11 percent in 2007).¹⁰

⁶ The Economic and Social Research Institute (ESRI) is commissioned by Department of Housing, Local Government and Heritage (DHLGH) to update previous modelling and projections in response to the Census 2022 results, as part of the current revision of the National Planning Framework, which is due to be completed by April 2024. This analysis will include consideration of "headship" or household formation, in order to inform structural housing demand methodology used to inform spatial planning policies relating to housing supply, and in turn, Housing for All targets.

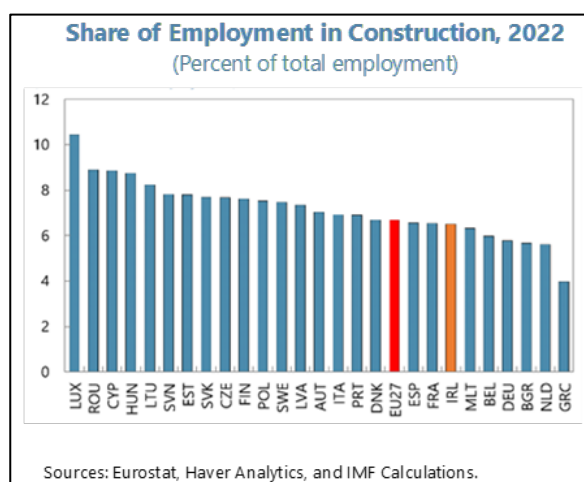
⁷ Doval Tedin M. J., and Fauber V. (2020), Lyons, R., C. (2021), Norris, M. (2023), and OECD (2023).

⁸ According to the authorities, some €14bn will be required annually to deliver current housing supply targets. Two thirds of this will be required from private sources, with reduced reliance on banking finance to comply with macro-prudential rules. To meet the ongoing need for development capital, Ireland is actively seeking to increase access to broader capital market for housing development.

⁹ 97 percent of construction firms employ less than 10 people (Norris, 2023).

¹⁰ Employment levels in 2007 do not necessarily reflect optimal levels, given the likely unsustainability of the housing market at the time.

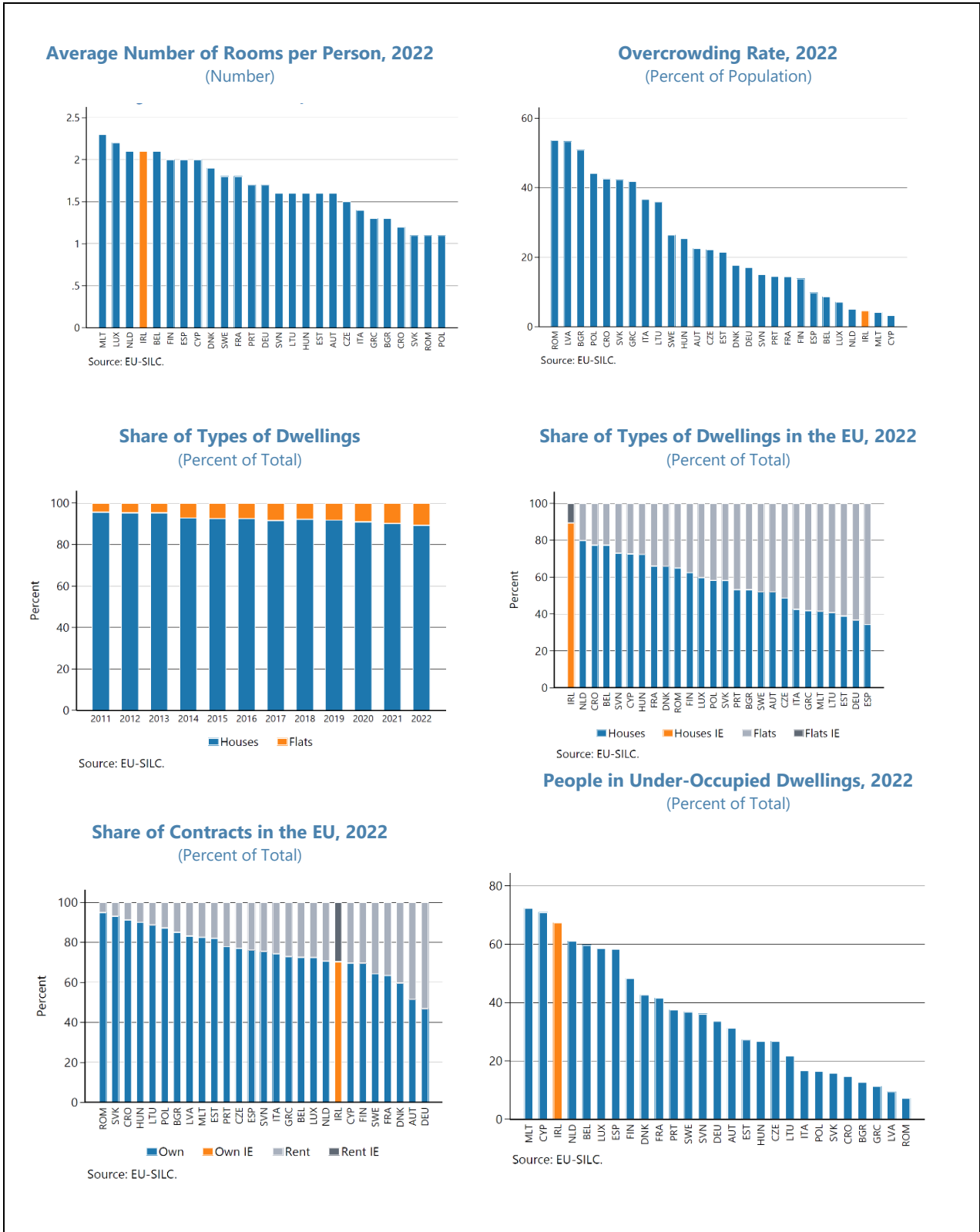
- *Land availability.* The limited availability of land has contributed to rising property prices, especially in urban areas. While the majority of land in Ireland is privately-owned, the state remains a significant landowner. Against this backdrop, the National Planning Framework aims to deliver sustainable and compact development over the coming decades. The focus for the zoning of land is to consolidate settlements and to increase density in these locations rather than continuing the previous patterns of urban sprawl that have resulted in unsustainable development patterns that are costly for the State to service.
- *Overregulated rental market.* While providing short-term protection against rent increases, rent caps have had unintended effects on investment dynamics and thus the quality and quantity of housing supply over the longer term. They have also incentivized tenants to extend their existing contracts, reducing domestic labor mobility and adding to labor shortages (Causa and Pichelmann, 2020).



9. The authorities have deployed a range of measures to address affordability pressures in the housing market.

- *The “Housing for All” program* aims to increase the supply of housing by about 300,000 new units by 2030 (an average about 33,000 units each year), including 54,000 affordable homes. The plan contains measures to improve zoning, planning, land availability, funding, productivity of the construction sector, and higher investment in social housing. It also includes programs facilitating access to financing by first-time buyers (*First Home* and *Local Authority Home Loan*) and tax refunds (*Help-to-buy*).
- Temporary measures improving viability. i) *Croí Cónaithe* subsidises projects with building costs exceeding the market price, particularly in relation to build-to-sell apartments; ii) *Tosaigh* supports approved projects facing viability issues; and iii) *Temporary waiver on development levies* reduces the overall cost and improves project viability.
- State-provided development finance. *Building Finance Ireland (HBFI)*, the *National Asset Management Agency (NAMA)*, the *Irish Strategic Investment Fund (ISIF)*, and the *LDA* provide various forms of development financing, including for apartment developments and social and affordable housing schemes.
- *Residential Zoned Land Tax* (3 percent rate) aims at improving land availability and activation of unused sites.
- *Build Digital* and *Future Building* projects support adoption of digital skills and search-matching between employers and jobseekers in the construction sector.
- *Rental market measures.* Rent controls from 2016 and 2021 capped the rate of rent increases at 4 and 2 percent per year, respectively.

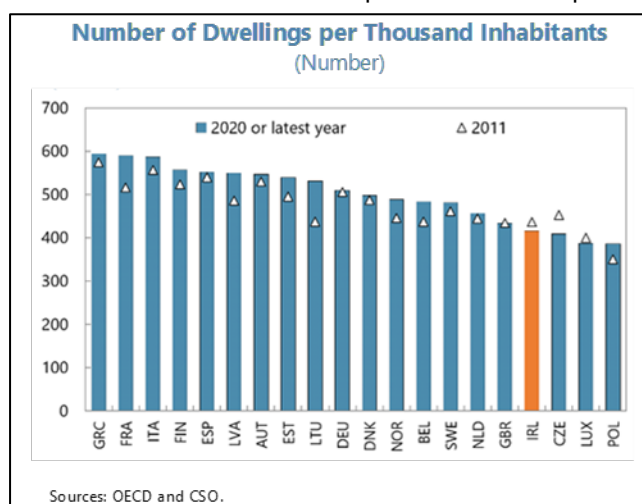
- *Vacancy Reduction efforts.* Measures have also been taken, which tackle vacancy and dereliction through grant funding with the overall goal of bringing underutilised units back into the housing supply.



10. Record investment and a growing number of new home completions this year will not be enough to close the housing gap. Some 22,400 homes have been completed to end-September

2023, while Q3 2023 was the third successive quarter where rolling 12 month completions exceeded 30,000. Combined with the highest number of units commenced in any first quarter (above 7,000) and a very high level of permissions within the system (about 100,000 units), delivery this year is forecast to exceed Housing for All targets and may be close to 32,000 units. At the same time, more recent forecasts suggest delivery for 2024 will also exceed target and potentially reach 35,000 or so units. Nonetheless, while there has been a substantial uplift in housing delivery,

housing construction has hardly kept up with population growth over the last decade, resulting in a large housing gap and growing affordability concerns that may require a substantially higher number of houses than envisaged in the *Housing for All*.¹¹ Specifically, assuming the Irish population will continue to grow by 0.87 percent each year, staff estimates that meeting the target of completing about 30,000 units each year would be just enough to increase the number of dwellings per thousand of inhabitants from the current 415 to its 2011 level of 437 by 2030. To reach the EU's 2020 average of 495 units per thousand of inhabitants by 2030, the average annual completion of units would need to double to reach at least 60,000 units per year.¹²



D. Policy Options and Recommendations

11. Public policy, if properly designed and implemented, can have a significant impact on housing market dynamics, improving the efficiency and equity. In the short-term, demand-side measures can be effective in supporting affordability by reducing the cost of housing, especially if targeted to the most vulnerable groups of tenants and buyers. Nonetheless, even if well targeted, these subsidies aiming to reduce the cost of housing seem to be effective only in the short term, as they at least partially contribute to demand pressures and translate to higher house prices or rental cost over the medium term.¹³ On the other hand, structural supply-side policies and regulations tend to have more sustainable impact on housing affordability, by addressing the shortage that translates demand into high prices. Other policies, such as macroprudential policies, can impact house prices and affordability too. This section describes experiences with measures adopted in selected countries, while the list is not exhaustive.

¹¹ Doval Tedin and Faubert (2020), OECD (2018, 2022), Frayne et al. (2023)

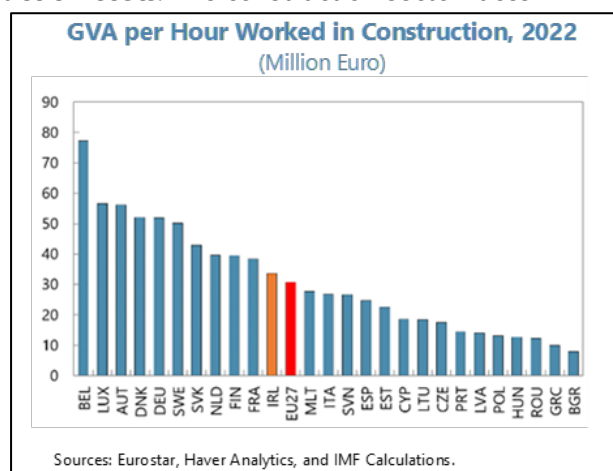
¹² Lyons (2021) estimated that close to 50,000 homes per year need to be constructed until at least mid-century to reflect on the country's demographics.

¹³ Gibb et al (2022) provide a review of theoretical and empirical literature on rent controls.

12. To close the existing housing gap and restore housing affordability in a sustainable manner, structural supply-side policies need to play a dominant role. These policies focus on promoting productive use of land, planning, and zoning. To address affordability, the supply-side policies need to be supported by well-integrated urban planning that consider proximity to jobs, accessibility to transportation networks, and access to social and health services. Furthermore, policy coordination on multiple levels (state and municipal) and participation of private sector stakeholders (industry and developers) will be required. Not surprisingly, supply-side measures tend to take significant time to take effect.

13. Reducing complexity and improving the transparency and predictability of the policy environment remains key to unleash the construction sector’s potential and attract investors. Changes to housing policy, including rental regulations or taxation, can impact investment activity and viability of housing projects.¹⁴ Moreover, as housing developments can be subject to judicial review, reforming Ireland’s slow and complex judicial review system is required.¹⁵ Strengthening processes—more efficient licencing, time-limited development planning, and modernized approval system—would also help reduce construction delays.¹⁶

14. Removing barriers to entry, attracting skilled labour, and facilitating access to financing would increase competition and reduce construction costs. The construction sector faces challenges in recruiting and retaining skilled labour, including architects, engineers, and construction workers. Addressing labor shortages involves attracting and training workers, including from abroad. Moreover, challenges in accessing adequate funding can hinder construction activity, especially for small builders and developers. Creating mechanisms to provide affordable, accessible, and timely financing for construction projects would improve competitiveness of small builders and avoid unnecessary delays. Furthermore, incentivising adoption of digital technology and advance automation would reduce reliance on labour and improve productivity in the construction sector, which is at the EU average but well below the level of the EA peers.



15. Land use regulations are important determinants of housing supply, with stricter land use regulations being associated with less construction and lower housing supply and affordability. Reforming land use regulations becomes imperative in local jurisdictions where tight zoning and usage regulations may prevent high-density housing. It would allow for more efficient use

¹⁴ Housing-related policies in Ireland have experienced notable changes over the last decade, in particular those responding to the consequences of the real estate market crash.

¹⁵ Department of Finance (2022) indicates that of the 249 planning permissions granted for Strategic Housing Developments to January 2022, 74 were subject to judicial review.

¹⁶ The authorities aim to address many of these issues in The Planning and Development Bill 2023, due shortly before the Houses of the Oireachtas, which provides for a range of reforms including in relation to the processes and parameters of the planning judicial reviews.

of land, reduced urban sprawl, preservation of green spaces and natural habitats, as well as lower infrastructure costs on roads, utilities, and public transportation. When incentives of local government are not aligned with national housing policy priorities, central government may need to take policy action¹⁷. For example, in 2021, New Zealand amended its Resource Management Act to allow for higher-density housing construction without requiring local government consents and put in place a Housing Acceleration Fund with significant resources to provide funding at the local level for the development of enabling infrastructure for housing developments. The government recently passed sweeping zoning reform legislation to permit medium-density housing in all the country's major cities. This policy builds on the earlier success of upzoning in the country's largest city, Auckland, to redress housing shortages by encouraging higher-density housing.¹⁸

16. Reducing the complexity and restrictiveness of rent legislation may increase the number of buy-to-let properties coming onto the market. In response to upward pressure on rents, caps on rent increases were introduced in 2016 and further tightened in 2021. The result of these controls was a reduction in available rental housing stock and quality of rental housing.¹⁹ In 2018, about one third of respondents identified the complexity and restrictiveness of rent legislation as a primary factor hampering buy-to-let investments (Residential Property Price Survey SCS/CBI, 2018). International experience suggests that increasing supply has proven to be a far more effective way of providing affordable rents than implementing rent controls (OECD, 2022). However, as the costs of building rental accommodation are prohibitively high for the foreseeable future, policy interventions will likely be needed for years to come (Daft, 2023). It is important to replace rent controls with well-targeted budget support for housing for poor households. Anecdotal and international evidence also suggest that excessive regulation may contribute to non-compliance and can create dual market in the hope of evading reduced rates of return due to rent regulations.

17. Investment in social housing can contribute to easing supply bottlenecks while improving affordability for low-income households. Despite recent achievements and ambitious plans, Ireland is among the countries where provision of social housing needs to be increased and improved (OECD, 2021b).²⁰ In contrast to housing allowances, the provision of social housing expands

¹⁷ The Draft Sustainable and Compact Settlements Guidelines published in August 2023 provide direction and guidance in relation to density and housing standards that should and may be applied locally, with the aim of ensuring that policy considerations reflect the particular context but allow for increased densities in appropriate locations. The Guidelines will, when finalized, be required to be incorporated into local plan-making and decision making.

¹⁸ Upzoning refers to a change in the zoning regulations or land use policies of an area to allow for higher-density or more intensive land development than was previously permitted. In essence, it involves increasing the allowed density or building heights in a particular zone or area, often with the goal of accommodating more people, businesses, or development within a given space.

¹⁹ For example, the Irish Residential Market Review (Summer 2023) by Sherry FitzGerald notes that there was a net loss of 6,000 tenancies in the first half of 2023 and the number of landlords exiting the private rental market continues to be one of the most significant issues for the Irish housing market.

²⁰ Social and Affordable housing delivery seems well supported under Housing for All. The Plan includes the delivery out to 2030 of 90,000 social homes, 36,000 affordable purchase homes and 18,000 cost rental homes. Housing for All is supported by an investment package of over €4bn per annum, through an overall combination of €12bn in direct Central Government Exchequer funding, €3.5bn in funding through the Land Development Agency and €5bn funding through the Housing Finance Agency. Across 2021 and 2002, approximately 19,500 social homes were delivered through build, acquisition and long-term leasing programs in Ireland. With strong delivery expected also in 2023, this will see overall delivery across the 2021 to 2023 of approximately 30,000 social homes.

the supply without fuelling demand, as documented for example in Canada, where at least 6000 new affordable housing units are expected to be built within the Rapid Housing Initiative.

18. Ireland’s local property tax rate could be further increased to help secure stable revenue and discourage speculative demand. Since its introduction in 2013, the local property tax has become a stable and noticeable source of local government. To reflect on dynamically evolving house prices, the 2021 amendment of the Local Property Tax established that property valuations will be reviewed every four years.²¹ At the same time, the income threshold for tax deferrals was increased and the interest rate on deferred taxes reduced to shield adversely impacted low-income households. Nonetheless, Ireland’s property tax revenue remains substantially smaller than in the EU peers and tax rate could be gradually increased while ensuring adequate social protection. More broadly, tax policy can play an important role in affecting housing market dynamics. For example, the Australian state of New South Wales plans to give first home buyers the option to pay recurrent annual land taxation in lieu of the regular stamp duty at the time of purchase, lowering the up-front costs of home purchases with the aim of boosting home ownership (Deb et al., 2022). In Canada, the 2022 Budget proposed to fully tax person who sells a property held for less than 12 months on their profits as business income.

19. Although not its prime objective, macroprudential policy may impact housing affordability through access to credit. The goal of macroprudential policy is to mitigate systemic risk and safeguard financial stability. Macroprudential tools can indirectly impact real estate prices and affordability. For example, LTV and DTI ratios can limit the amount of credit that households can borrow for housing purchases, thus affect affordability.²² At the same time, macroprudential measures can be targeted to limit affordability repercussions for certain groups, such as lower-income households. For example, the LTV ratio can be tightened only for targeted types of borrowers that are likely to pose significant financial risks or purchases for investment and speculation. Nonetheless, macroprudential policies are not a silver bullet for addressing housing affordability (Valderrama, 2023 and Arena et. al, 2020). They should be used predominantly to contain systemic risks rather than trying to address affordability concerns of specific groups of buyers, as such efforts will only contribute to demand pressures and higher prices over time.

20. Although structural measures to increase housing supply take time to yield results, the case for demand-side measures comes with important caveats. These demand-side interventions need to be limited in size and narrowly targeted at specific disadvantaged groups, as they tend to fuel demand for housing and potentially exacerbate existing housing market imbalances. Housing-related benefits take diverse forms and are primarily used to support low-income households. Options include housing vouchers or housing subsidies to low-income households to make housing more affordable, and grants, tax relief, or accommodative financing terms to first-time homeowners.

²¹ Since its introduction, the tax was based on 2013 values and all homes bought since 2013 by first-time buyers and newly built homes were excluded until the reform of the system in 2021.

²² Over the longer-term, tighter macro-prudential measures can ease affordability by containing credit-driven price inflation. The ESRI estimates that house prices would have been up to 9 percent higher in Ireland in recent if not for the Central Bank of Ireland’s macro-prudential rules.

References

- Arena, M., Chen, T., Choi M. S., Geng N., Gueye C. A., Lybek T., Papageorgiou E., Zhang Y. S. (2020), "Macroprudential Policies and House Prices in Europe", IMF Departmental Paper, Volume 2020: Issue 004, ISBN: 9781513512259.
- Biljanovska N., Chenxu F., and Igan D. (2023) "*Housing Affordability: A New Dataset*", IMF WP, forthcoming.
- Bricongne J., Turrini A., and Pontuch P. (2019) "*Assessing House Prices: Insights from 'Houselev, a Dataset of Price Level Estimates*", Discussion Paper 101, July 2019, ISSN 2443-8022
- Causa, O., Pichelmann J., "Should I stay or should I go? Housing and residential mobility across OECD cspendingountries", OECD Economics Department Working Papers No. 1626
- CBI (2022) "The Central Bank's framework for the macroprudential mortgage measures", October 2022.
- Daft (2023) "*The Daft.ie Rental Price Report*", 2023Q2.
- Deb P., Finger H., Kashiwase K., Kido Y., Kothari S., and Evan Papageorgiou (2022) "Housing Market Stability and Affordability in Asia-Pacific", Asia and Pacific Departmental Paper, DP/2022/020, IMF.
- Department of Finance (2022) "Evaluating the trajectory of rising construction costs in the Irish housing sector", Economic Insights, Department of Finance, Economics Division, Summer 2022.
- Department of Finance (2023) "Assessing the implications of rising interest rates on the Irish housing sector", Economic Insights, Department of Finance, Economics Division, February 2023.
- Doval Tedin M. J., and Fauber V. (2020) ""Housing affordability in Ireland:" European Economy, Economic Brief 061, December 2020, ISSN 2443-8030
- European Systemic Risk Board (2022) "Vulnerabilities in the residential real estate sectors of the EEA countries", February 2022
- European Systemic Risk Board (2023) "ESRB risk dashboard", June 2023.
- Frayne, C., Szczypińska A., Vašíček, B., and Zeugner, S. (2022) "*Housing Market Developments in the Euro Area: Focus on Housing Affordability*", European Economy, Discussion Paper 171, September 2022, ISSN 2443-8022
- Gibb, K., Soaita, A., Marsh, A. (2022) "*Rent control: A review of the evidence base*", UK collaborative Centre for Housing Evidence, February 2022.

- Government of Ireland (2021) "Spending Review 2021- An Overview of the Irish Housing Market and Policy", Department of Public Expenditure and Reform", November 2021.
- Lyons, R., C. (2021) "*Institutional Investment and the Private Rental Sector in Ireland*", Irish Institutional Property, June 2021.
- Norris, M. (2023) "Delivering Housing for All: Long-term Trends and Challenges", National Economic Dialogue 2023
- OECD (2021a), "*Building for a better tomorrow: Policies to make housing more affordable*", Employment, Labour and Social Affairs Policy Briefs, OECD, Paris, <http://oe.cd/affordable-housing-2021>.
- OECD (2021b) "Housing Policy Objectives and Obstacles", OECD Directorate of Employment, Labour and Social Affairs - Social Policy Division
- OECD (2022) "Housing Taxation in OECD Countries", OECD Tax Policy Studies, July 2022.
- OECD (2023), "Overview of Affordable Housing Indicators", Affordable Housing Database, OECD Directorate of Employment, Labour and Social Affairs - Social Policy Division
- Philipponnet, N., Turrini A. (2017) "*Assessing House Price Developments in the EU*", European Economy, Discussion Paper 048, May 2017
- Schuetz, J. (2018) "*Nine rules for better housing policy*", Brookings commentary, May 2018
- Sherry FitzGerald (2023) "*Irish Residential Market Review*", Summer 2023.
- Valderrama, L. (2023) "*Calibrating Macroprudential Policies in Europe Amid Rising Housing Market Vulnerability*", IMF Working Paper, WP/23/75.