



An Roinn Airgeadais
Department of Finance

Structural reforms – Ireland as a case-study

Presentation (virtual) to joint OECD/IMF conference 'Structural Reforms in Latin America'

By John McCarthy

Chief Economist, Department of Finance

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Birds eye view



- Starting point: how does Ireland compare?
- Macro-economics of micro-economic reform
- The current regulatory landscape and priorities
- Summary and conclusion

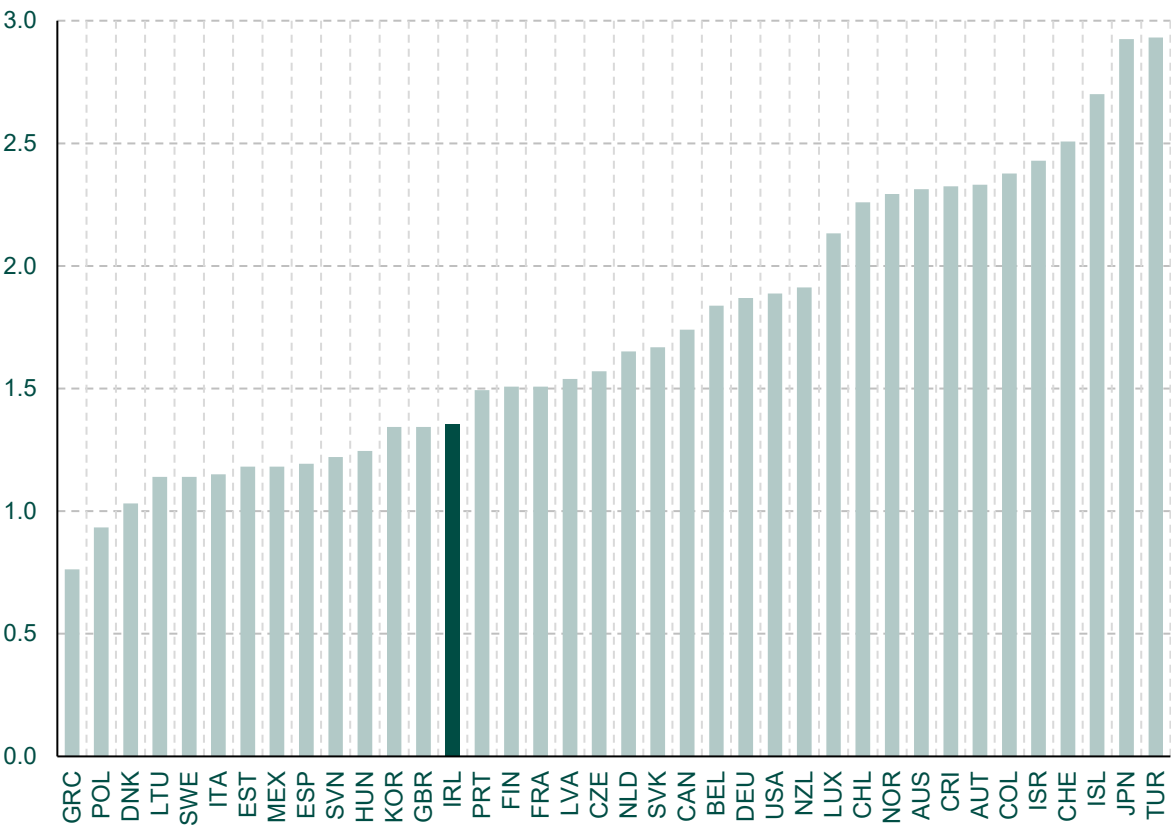


Starting point: how does Ireland compare?

Product Market Regulation indicators, 2023 (lower score = more competition friendly)

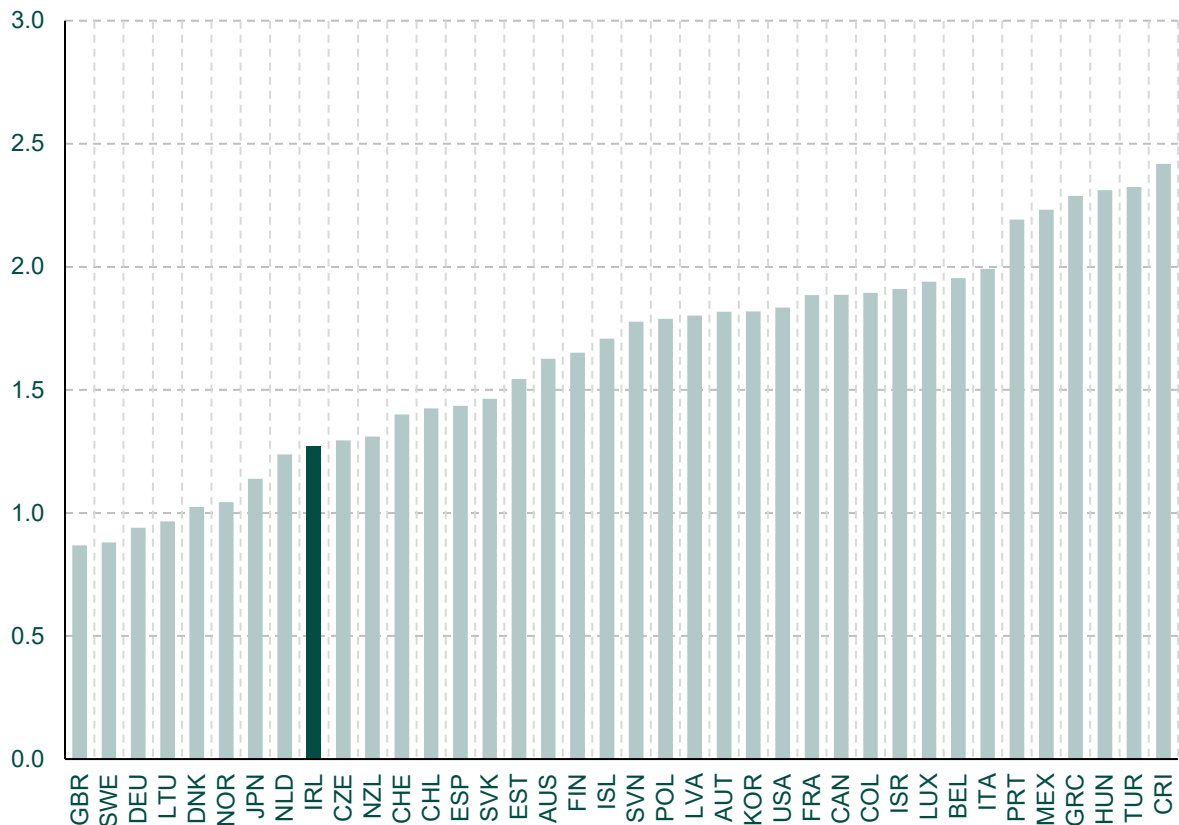


Administrative and regulatory burden



note: 0 = most competition-friendly regulatory set-up; 6 = least competition-friendly regulatory set-up

Barriers in service & network sectors



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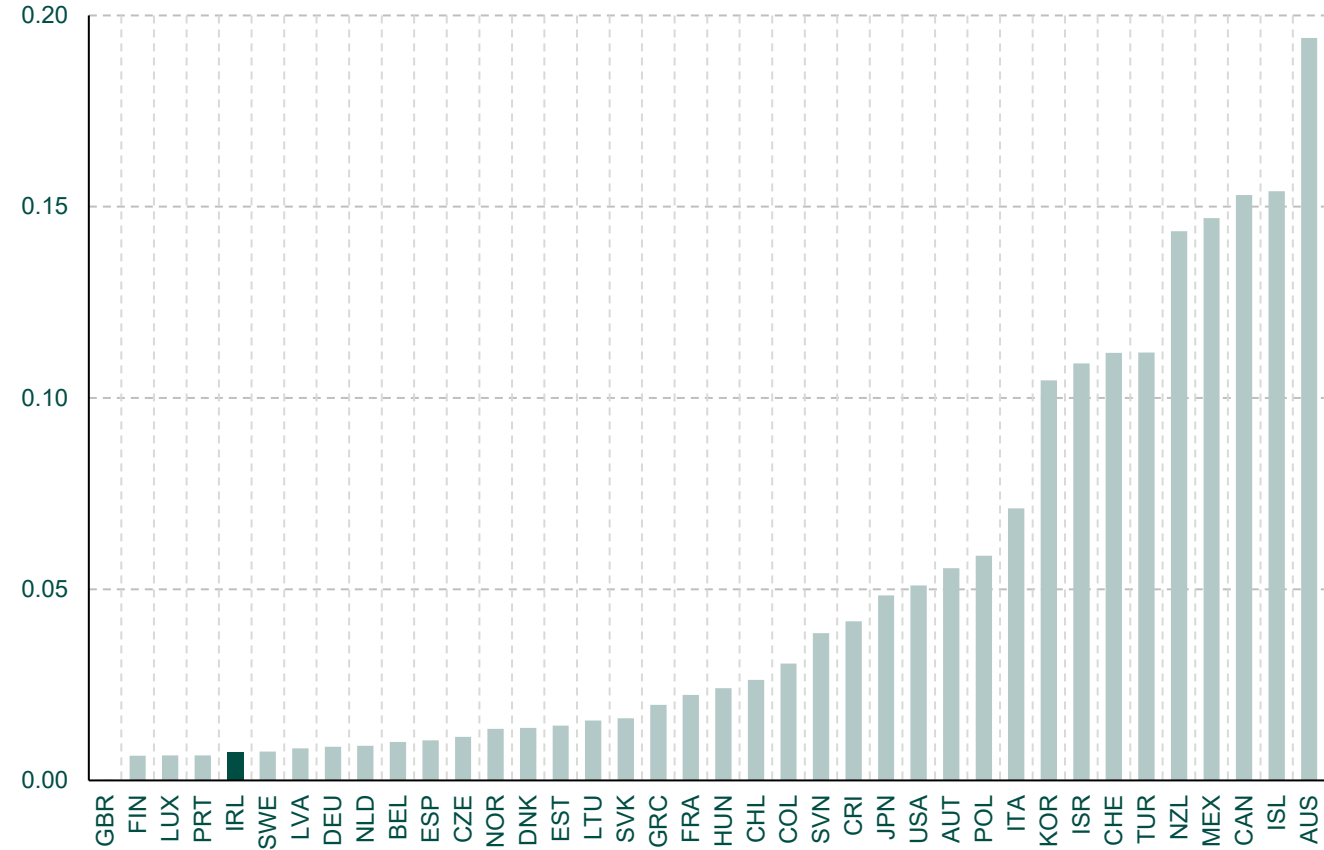
Factor markets: regulatory burden is relatively low



Employment protection legislation, higher = stricter protection



FDI Regulatory Restrictiveness Index 2024 (lower = less restrictive)



Index=weighted average of sectoral scores, with individual policy measures evaluated on a 0 (fully open to FDI) to 1 (fully closed)



Macroeconomics of microeconomic reform

“Micro” – why does a finance ministry care?



- Several channels through which structural reforms boost per capita growth
 - Allocative efficiency
 - channel resources to most productive use
 - Ageing population === unlocking productivity
 - market entry/exit dynamics
 - supporting innovation
 - Enhance shock absorption capacity
- Supporting fiscal sustainability
 - Macro-level
 - fiscal architecture
 - Micro-level
 - incentives within the taxation system
 - VfM in expenditure system

Ireland's 2010-2013 adjustment programme



- Structural reforms = third leg of stool
- Not the main focus – unlike other EA peripheral economies
- Main focus areas:
 - Físal adjustment
 - correct underlying structural deficit
 - put debt/GDP on sustainable path
 - Financial sector adjustment
 - recapitalise and right-size
- Some successes and some failures

Some key reforms under the adjustment programme

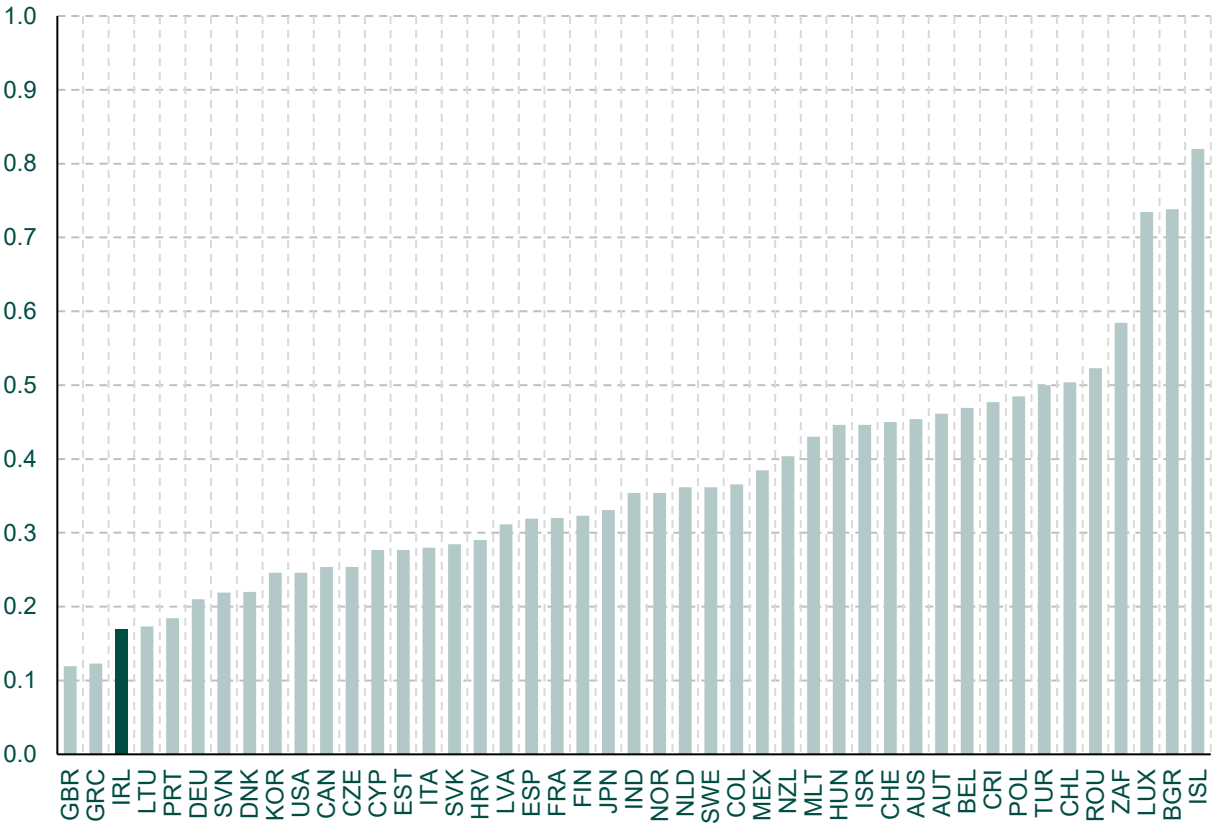


- Reform fiscal architecture:
 - OBJECTIVE: support sustainable medium-term budgetary policy + promote counter-cyclical policy
 - establish IFI (=Irish Fiscal Advisory Council)
- Increase retirement age
 - OBJECTIVE: ensure sustainability of social security system
 - partly reversed
- Reform of personal insolvency framework
 - Make fit-for-purpose
 - reduce bankruptcy discharge term
 - new institutions to address personal debt restructuring
- Address barriers to entry / competition in some professional services
 - Unsuccessful !

Insolvency indicators (lower value = more favourable framework)

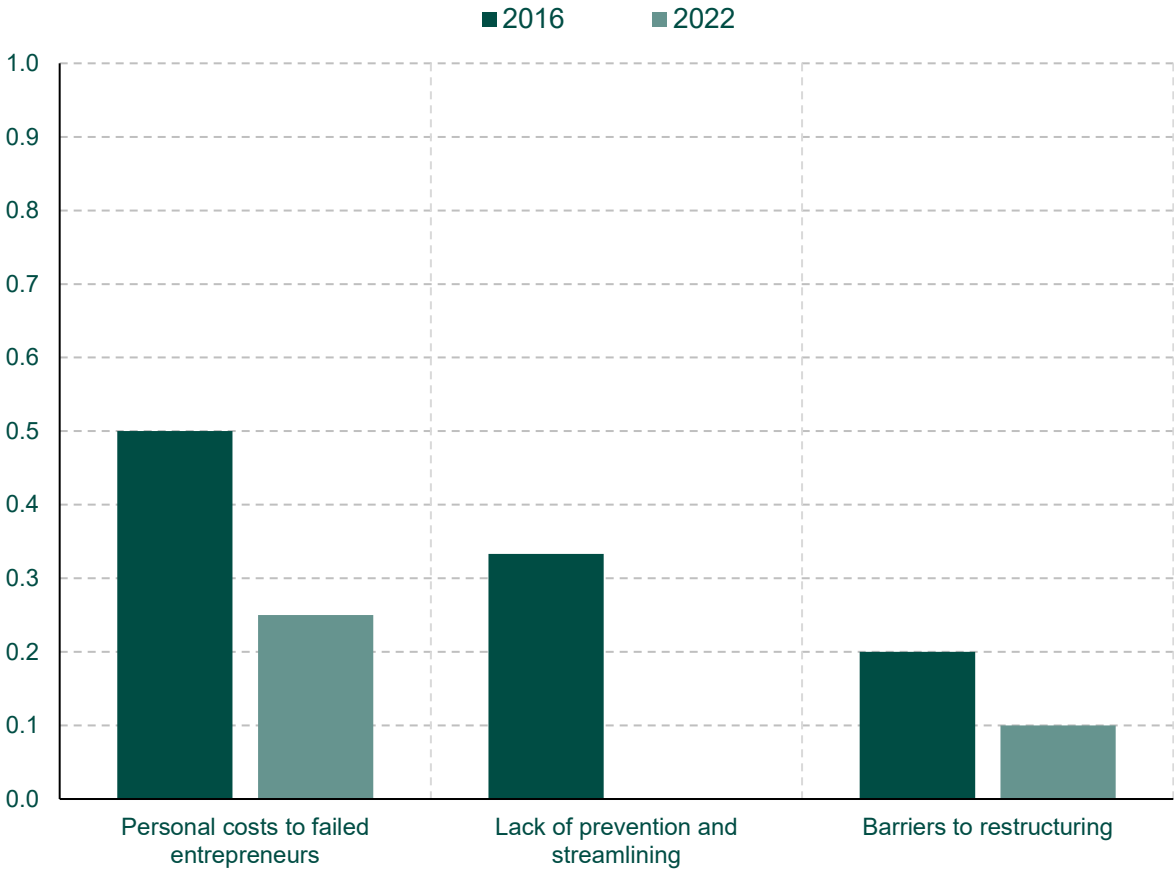


Aggregate insolvency indicator, 2022



note: indicator ranges from 0 to 1, increasing in the extent to which the insolvency regime feature may delay the initiation and resolution of proceedings

Main sub-components for Ireland





The current regulatory landscape and priorities

Regulatory landscape – some observations



- c. 80 bodies / organisations with regulatory remit
 - Narrow focus / lens = ‘partial equilibrium’
 - Over-lap and inconsistency issues
- Trade-off: market efficiency with public policy objectives
 - Pendulum swung too far ?
- Role of European Union
 - But ‘gold-plating’
 - Excess costs
 - especially for SMEs (compliance costs = ‘fixed’ costs)
- ‘Set-and-forget’
 - little *ex post* evaluation

'Real world' implications – imbalance in housing market



- Irish housing market imbalance
 - $S < D$ (c. 10% of housing stock)
- Inelastic supply = $f(\text{planning regulations, other})$
 - 3*layers
 - Third-party, no-cost objections = permitted
- Key reform: *Planning and Development (Amendment) Act 2024*
- Objectives of reform
 - To align local and regional planning with national strategic objectives
 - Reform of 'Judicial Review'
 - Enhanced strategic development plans

‘Real world’ implications – long-term fiscal imbalances



Sustainability of social security fund

- Actuarial review of Social Insurance Fund (every 5 years)
 - Long-term sustainability of social insurance system faces
 - incremental increase social insurance contributions (2024-2028)

Sustainability of pensions

- Introduction of ‘auto-enrolment’ (January 2026)
 - Address gaps in pension coverage and adequacy

Sustainability of wider public finances

- Establishment of ‘Future Ireland Fund’
 - Transfer ‘excess’ corporation taxes to long-term savings vehicle



Summary and conclusion

Some lessons from Irish experience



- Starting point = reasonably good
 - but ‘regulatory creep’ in recent years
- Macroeconomic costs can be significant
 - inc. ‘rent seeking’ behaviour
 - symmetrically: benefits of reform = large
- Unlocking productivity growth = key for future
- Political economy:
 - Intertemporal balancing act
 - upfront costs can be large (including fiscal costs of supporting adjustment)
 - benefits can take time