



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Investment, Growth and the Public Finances

Irish Fiscal Advisory Council, *Annual Path for the Public Finances* Conference 2025, 20 February 2025

Thomas Conefrey, Central Bank of Ireland

# Investment as a driver of growth and living standards

- Investment and capital stock – key factor of production that influences long-run potential growth and living standards (Solow)

- For a small open economy, infrastructure is particularly important for competitiveness, FDI and facilitating international trade and inward migration.
- Important for living standards: to ensure clean water, deliver the transition to net zero, adequate housing, health and education.

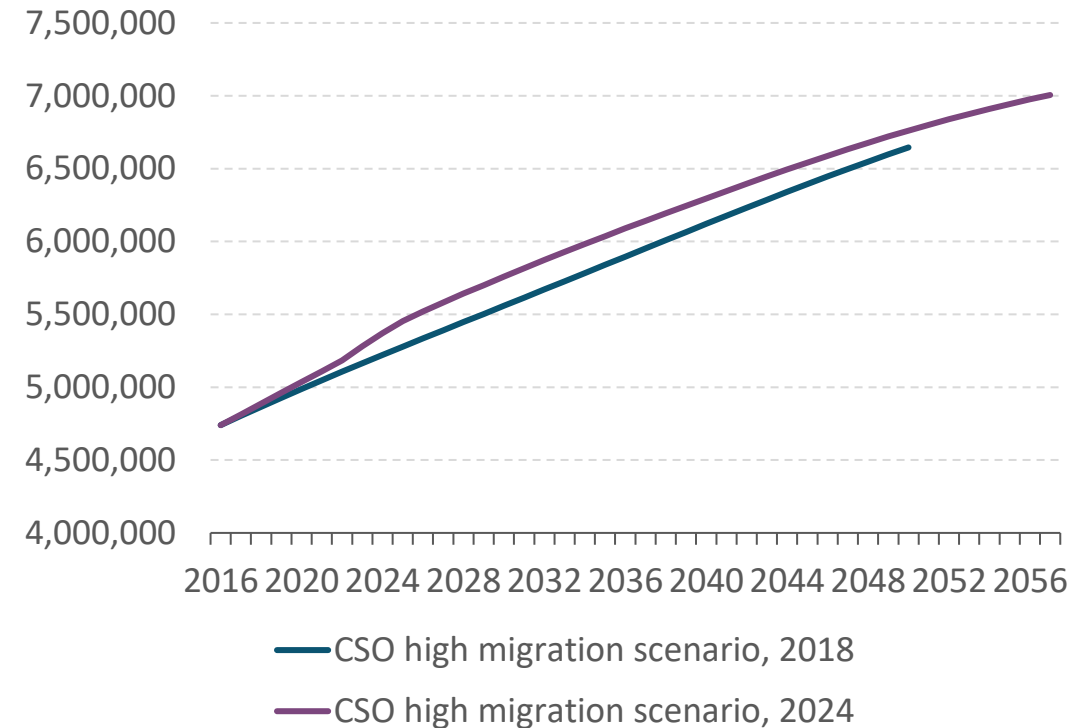
- Role of investment is central to current policy debate in Ireland and the EU

- Ireland's economy and population has grown rapidly but investment and the capital stock haven't kept pace - ESRI (2024), NCPC (2024), Conroy and Timoney (2024), OECD (2025). Investment has also been more volatile.
- Known infrastructure deficits in housing, energy, water, waste water.
- EU: Letta and Draghi Reports.
- EC Competitiveness Compass.

- Today:**

- Investment and growth: a long-run perspective
- Public investment and focus on housing
- Increasing investment in a full-employment economy
- Delivering investment efficiently

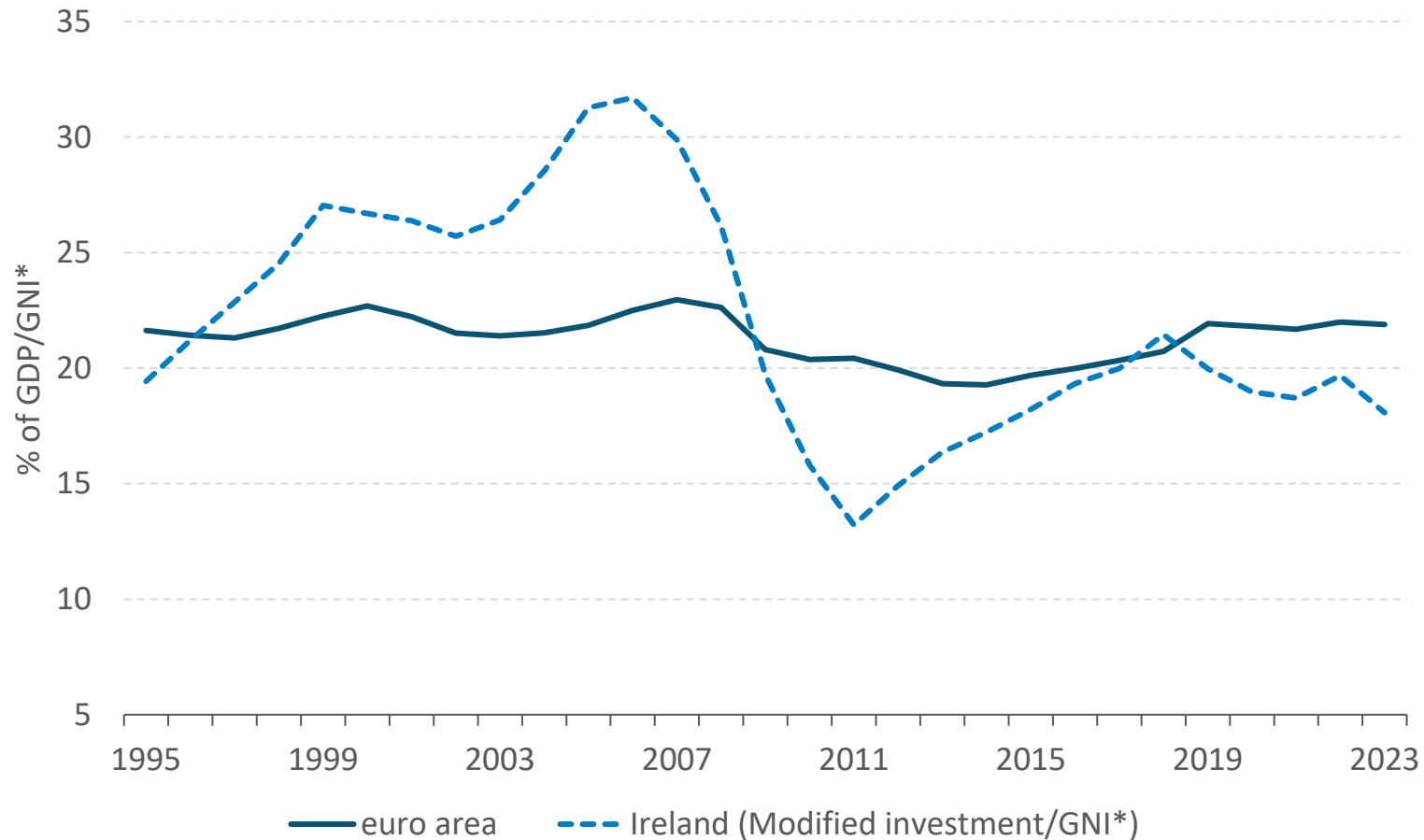
*Projected population in latest forecasts revised up compared to earlier (2018) vintage*



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Investment significantly more volatile in Ireland than euro area



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Disclaimer

- Own views and not those of the Central Bank or Eurosystem.



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Investment has accounted for just under half the potential growth rate of the economy from 1970-2023

Contributions of labour, capital and productivity to GNI\* growth

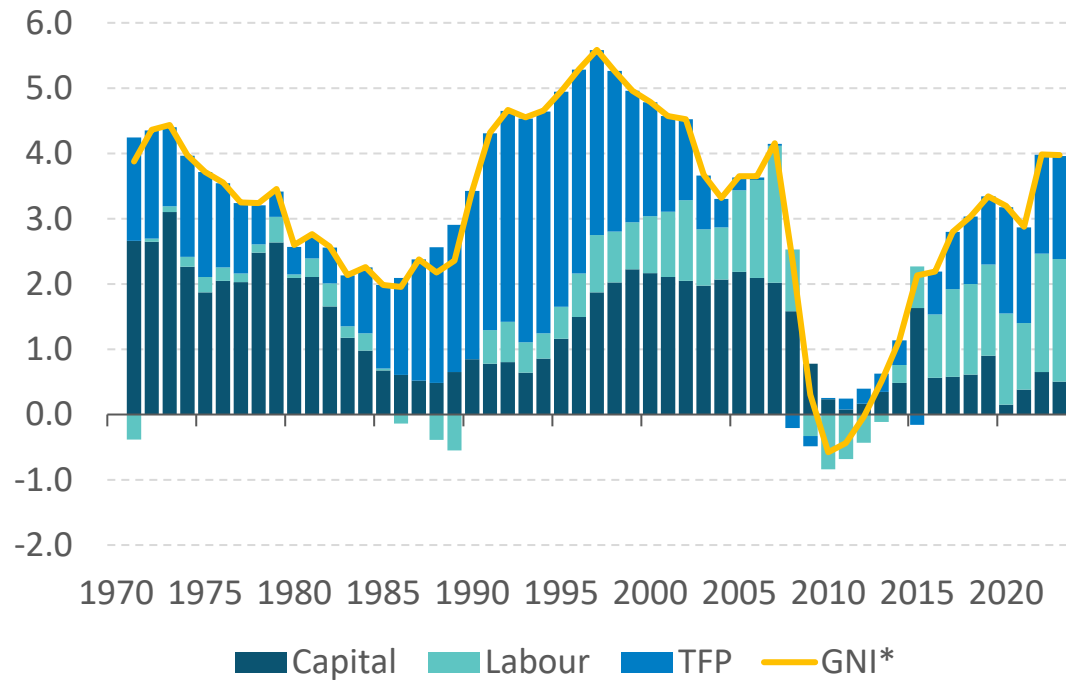


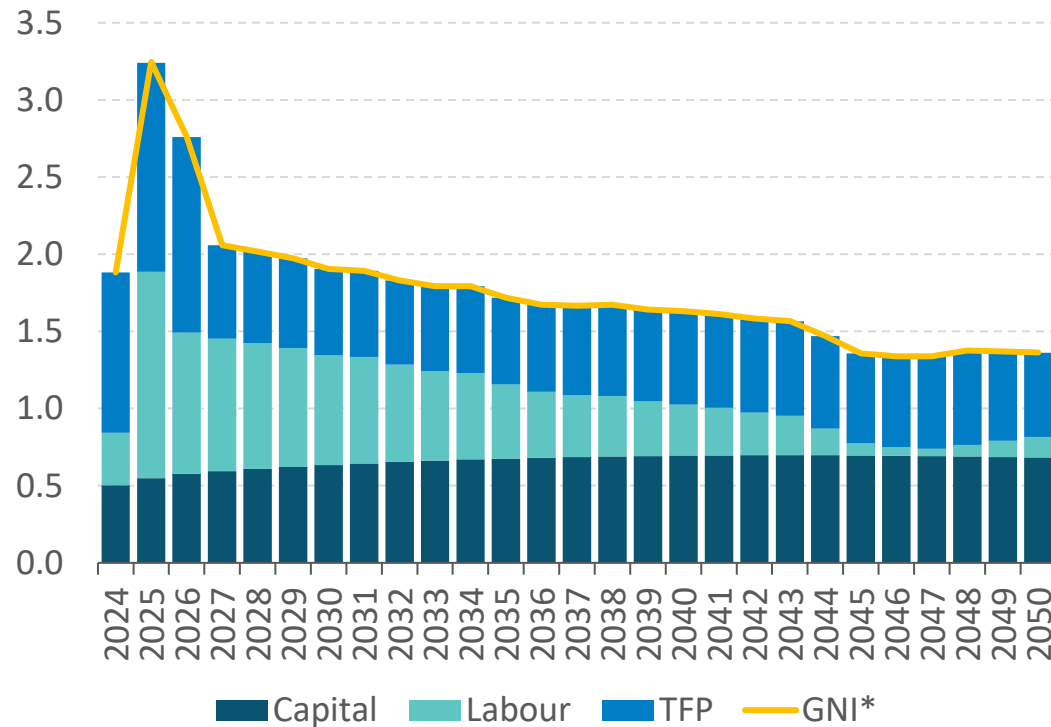
Table 1: Historical decomposition of potential GNI\* growth

| Period             | GNI*       | TFP        | Capital    | Labour     |
|--------------------|------------|------------|------------|------------|
| 1971 - 1980        | 3.6        | 1.1        | 2.4        | 0.1        |
| 1981 - 1994        | 3.0        | 1.9        | 0.9        | 0.1        |
| 1995 - 2001        | 5.1        | 2.4        | 1.9        | 0.8        |
| 2002 - 2007        | 3.8        | 0.5        | 2.1        | 1.3        |
| 2008 - 2012        | 0.3        | 0.0        | 0.6        | -0.3       |
| 2013 - 2019        | 2.2        | 0.6        | 0.7        | 0.8        |
| 2020 - 2023        | 3.5        | 1.5        | 0.4        | 1.5        |
| <b>1971 - 2023</b> | <b>3.2</b> | <b>1.3</b> | <b>1.4</b> | <b>0.5</b> |

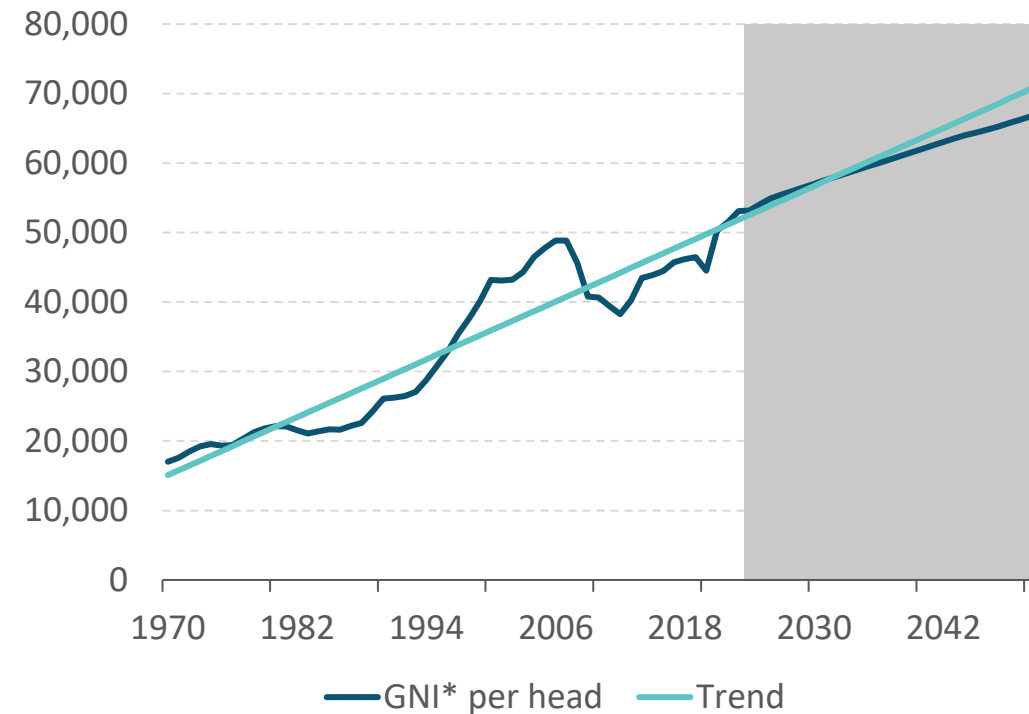


# Population ageing will slow projected economic growth – key role for capital and TFP

Projected GNI\* growth



Projected GNI\* per head relative to trend

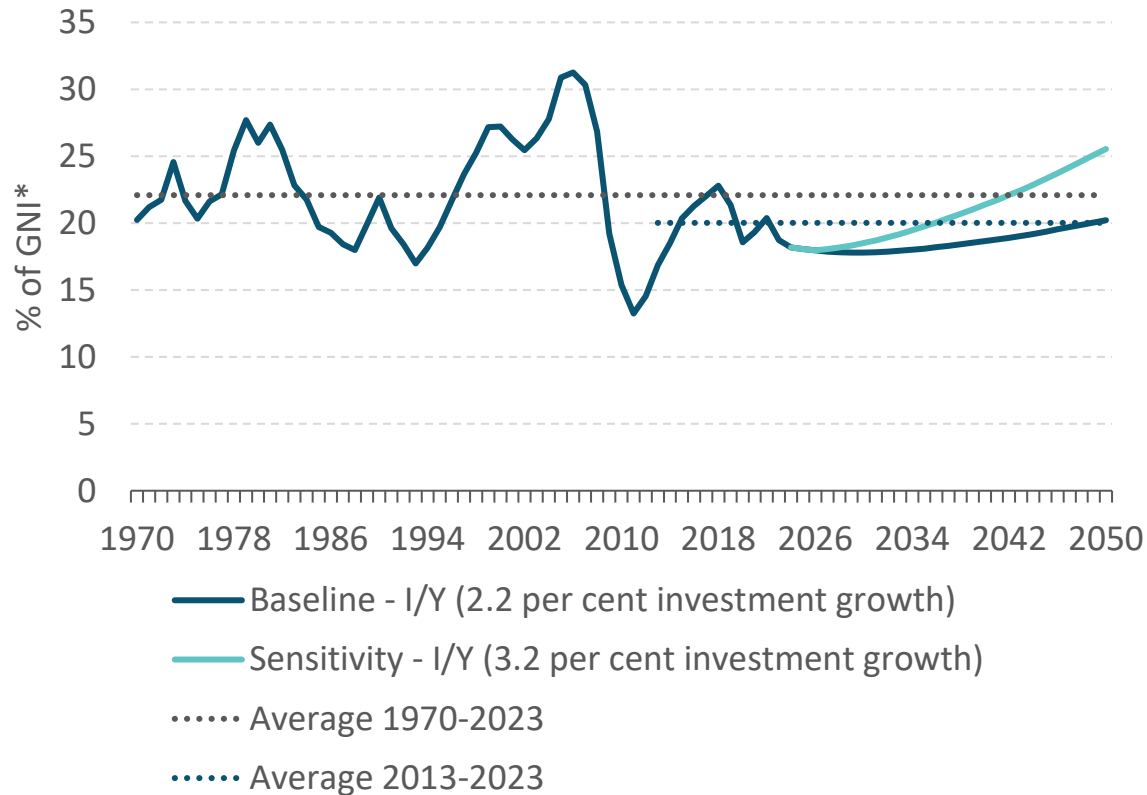


Banc Ceannais na hÉireann  
Central Bank of Ireland

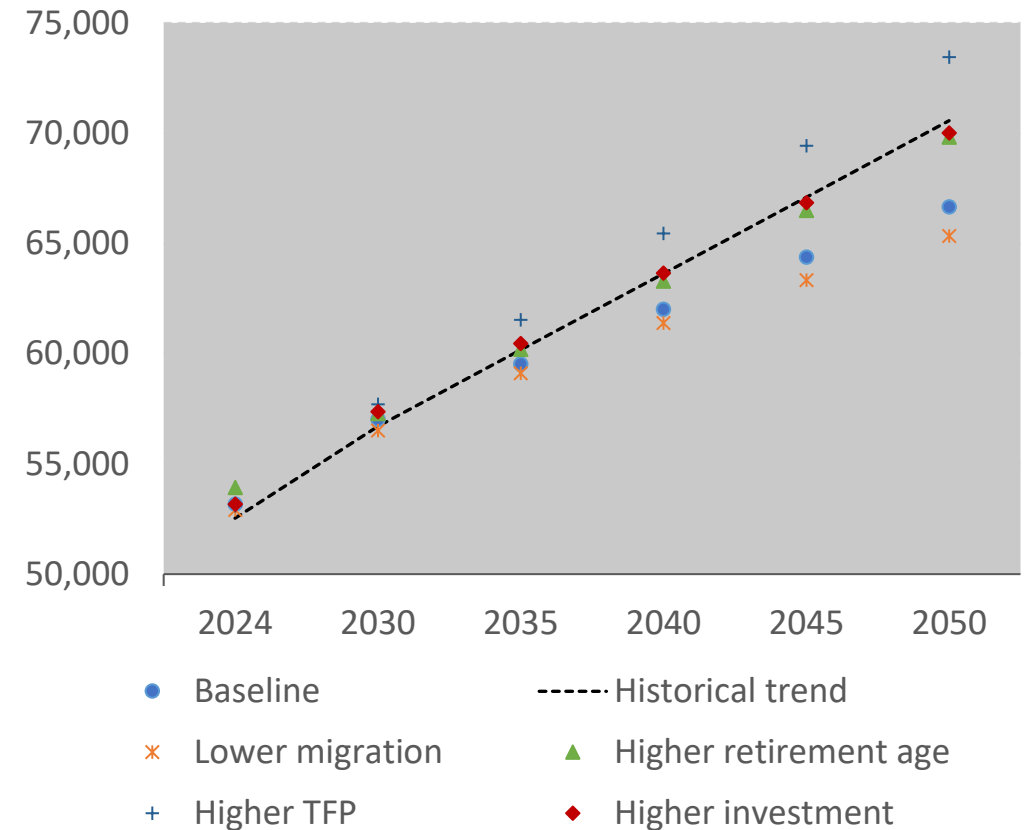
Eurosystem

# Higher investment could boost potential growth and lift incomes per head back to trend

Alternative investment assumptions

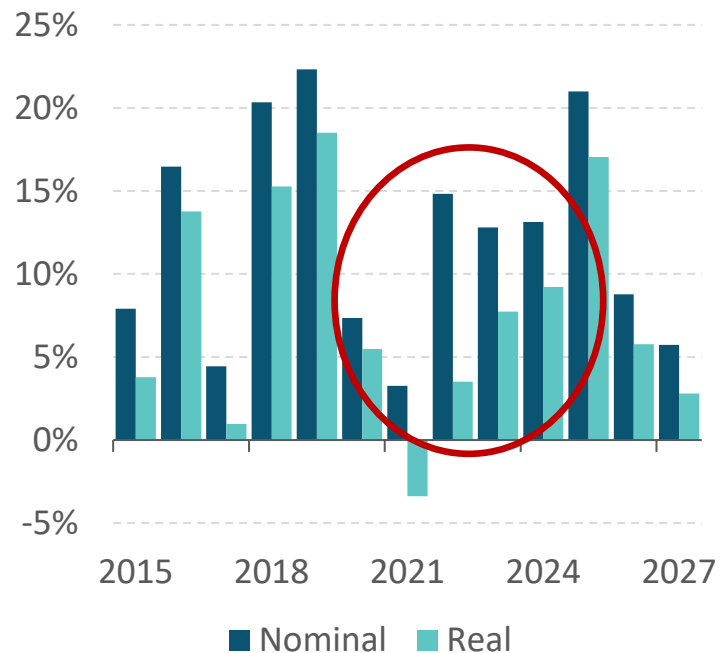


Projected GNI\* per head in baseline and with sensitivity analysis (investment)

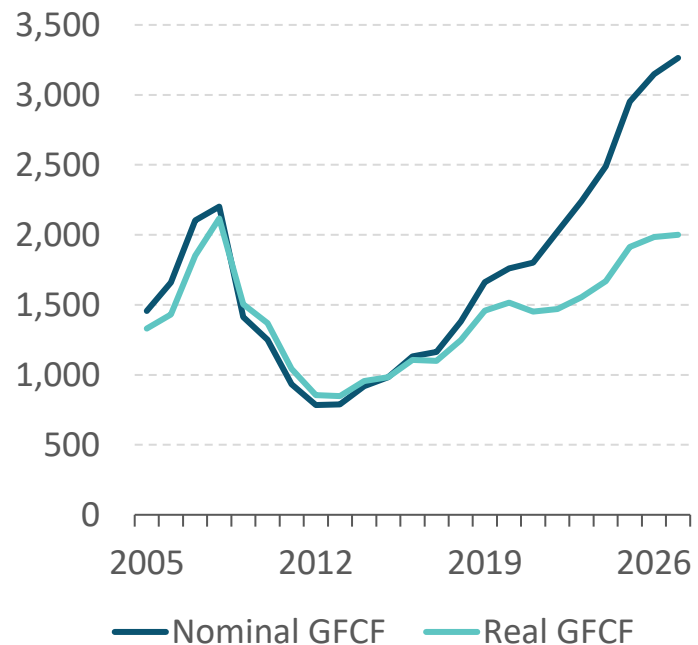


# Nominal public investment has risen sharply but inflation has partially eroded real increase

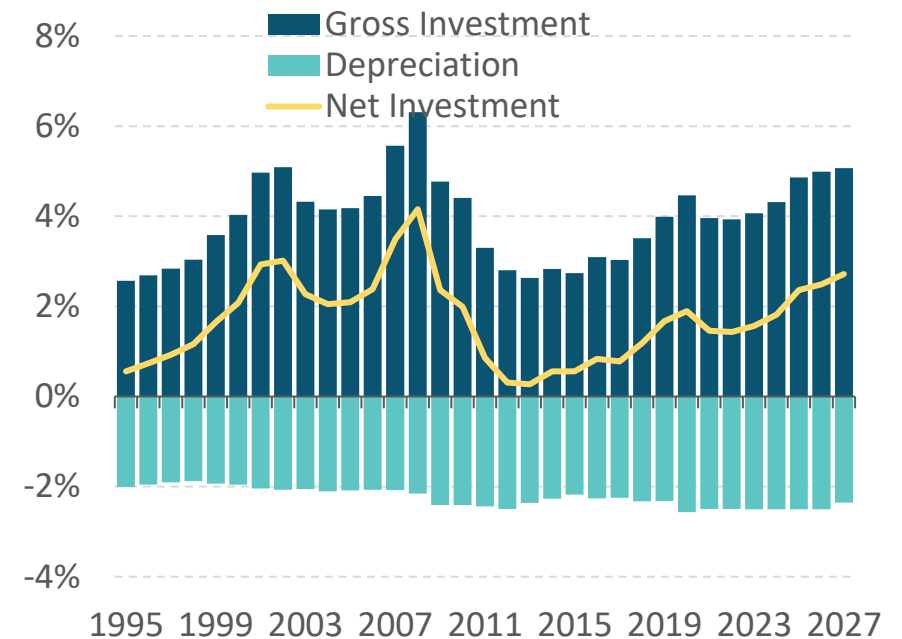
Real investment well below nominal and lower than 2021 (SPU) projections



Real investment per head projected to reach close to 2008 peak in 2026



Net public investment increasing gradually from post-financial crisis lows



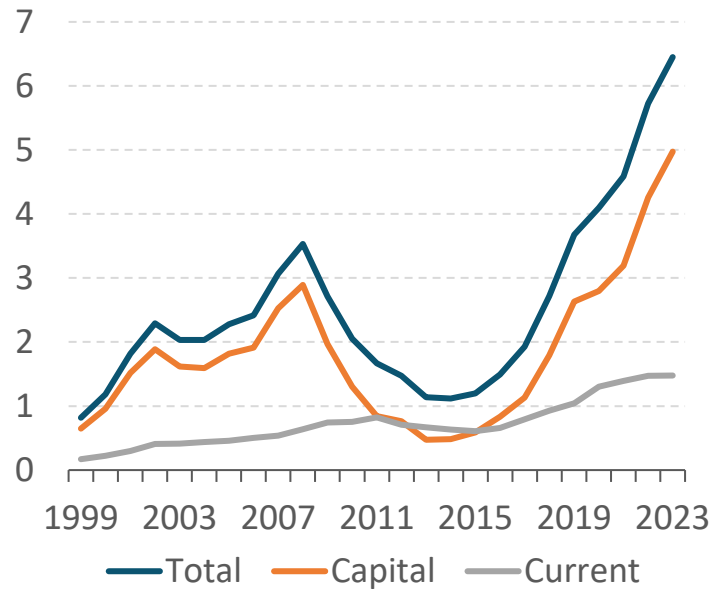
Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

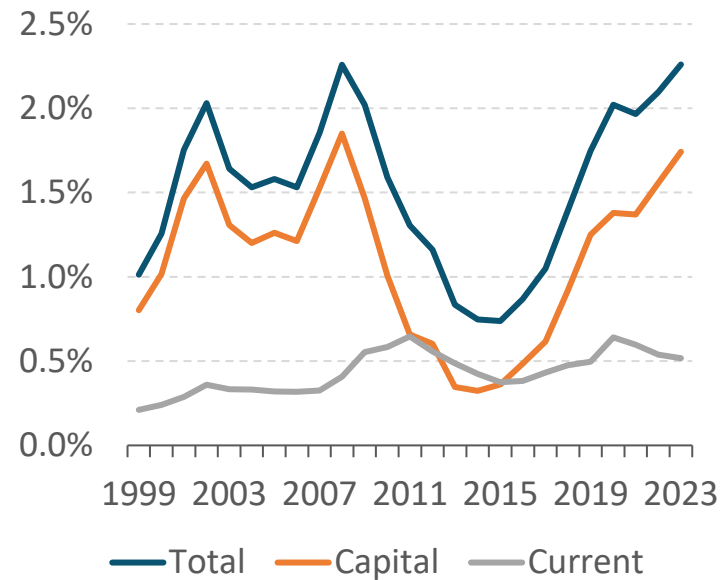


# Public spending on housing has risen sharply – both current and capital

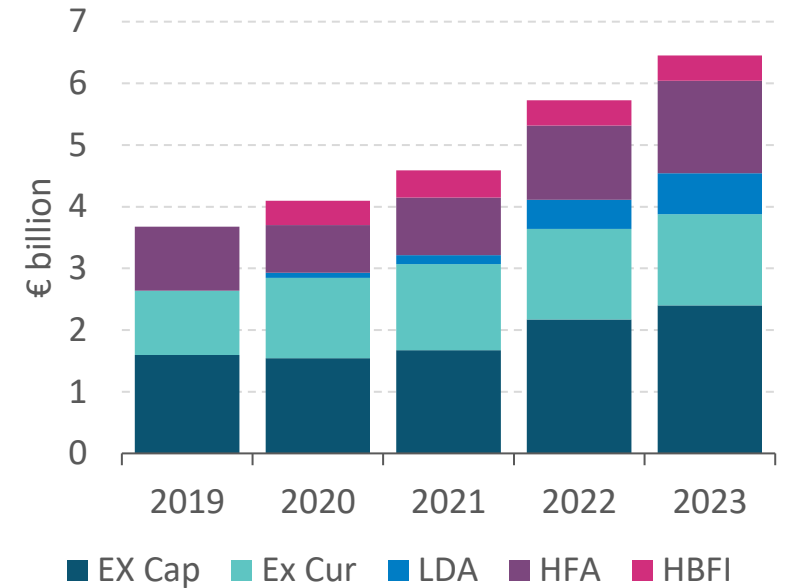
Housing expenditure, € billions



Housing expenditure, % of GNI\*



Composition of housing expenditure, € billion

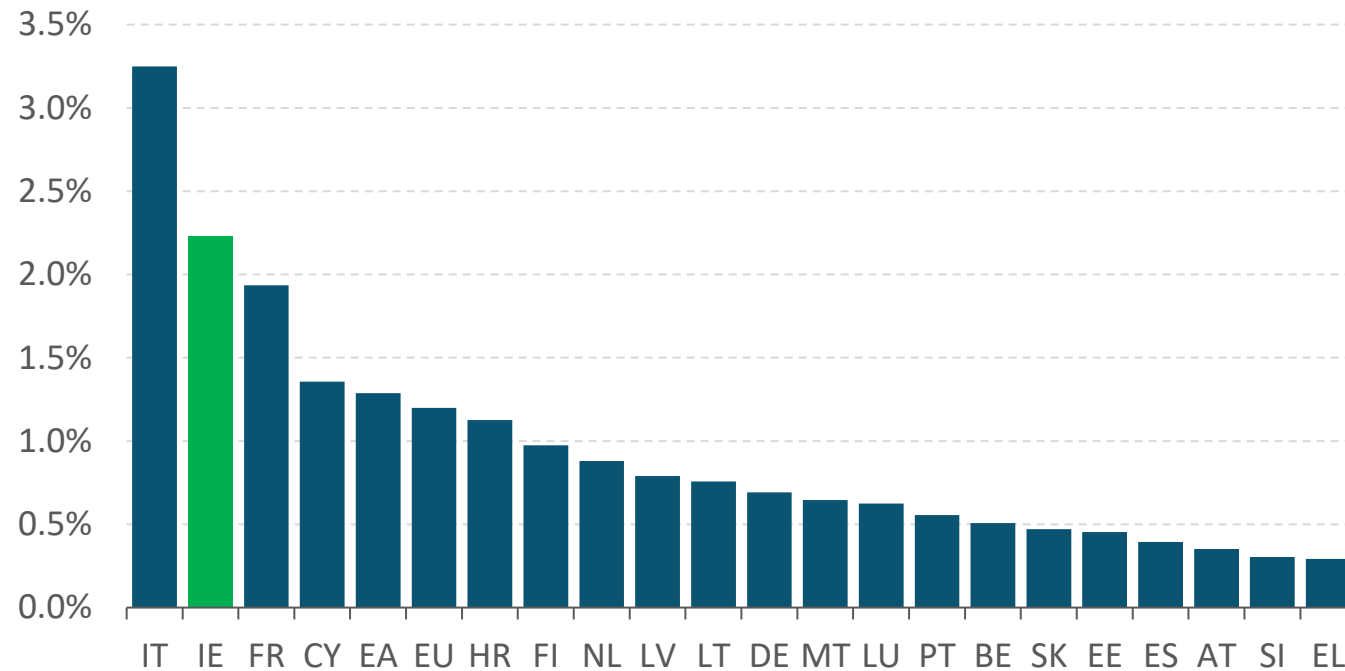


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Irish Government housing expenditure high relative to euro area

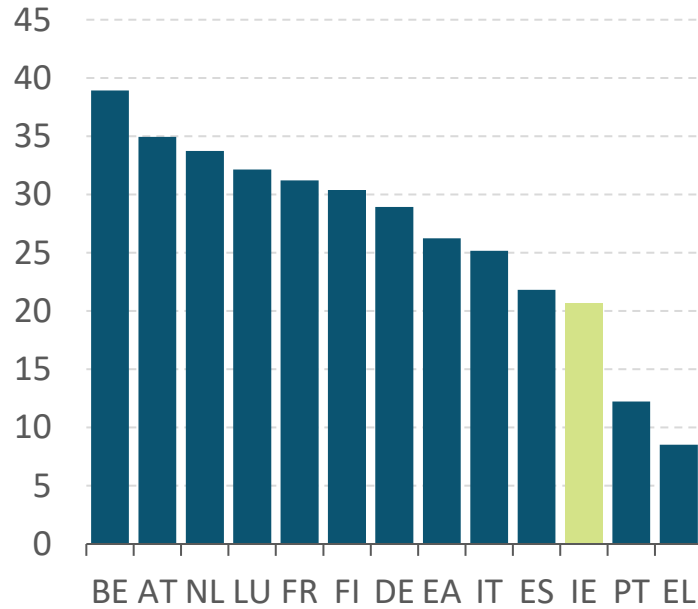
Government housing expenditure (2022), % of GDP (GNI\* for Ireland)



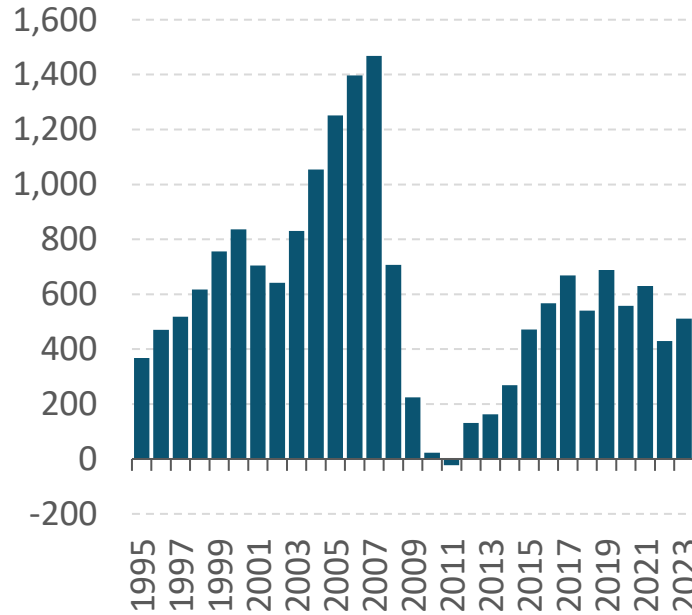
# Structural issues constraining housing supply

Construction sector productivity in Ireland below euro area average, and amongst lowest of EA12.

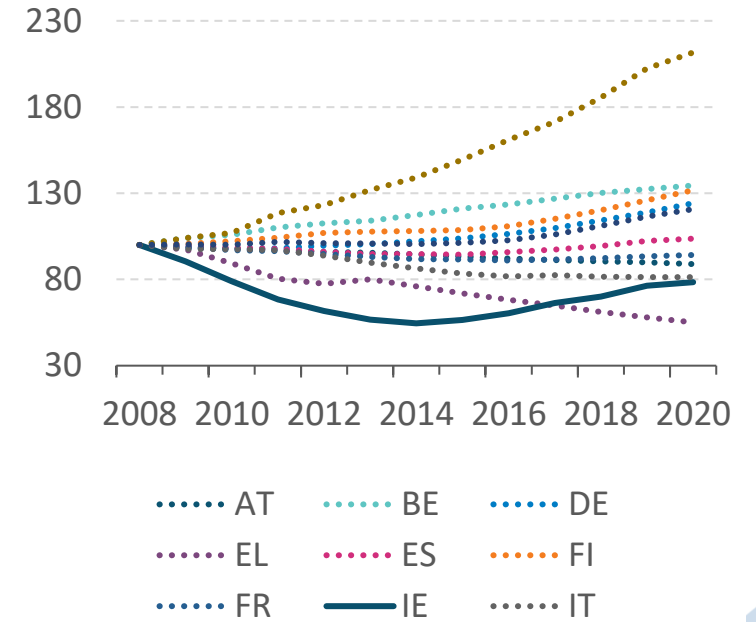
Gross value added per hour worked, 2022



Low levels of investment within the construction sector since financial crisis...

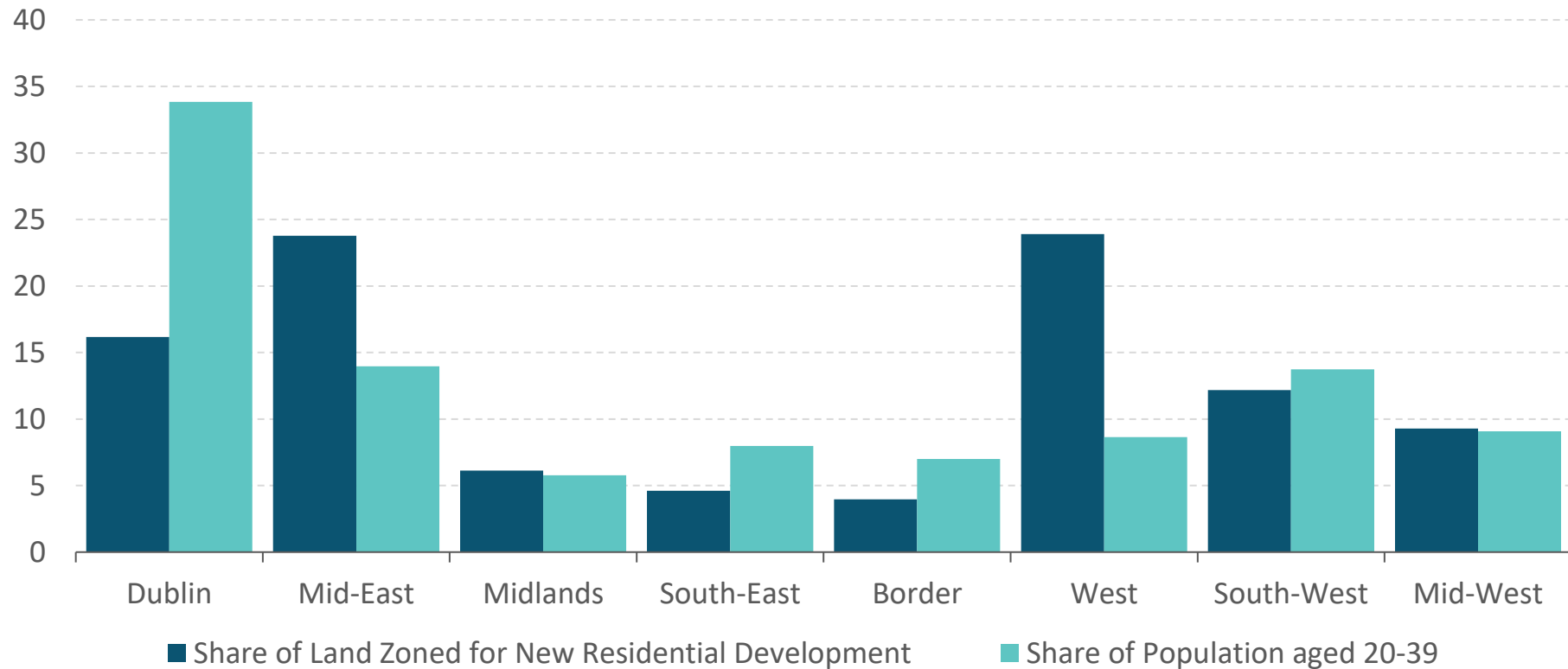


Leading to the capital stock being further below pre-crisis levels than peers



# Mismatch between the availability and demand for zoned and serviced land

*Mismatch between the distribution of zoned land and distribution of demand*



Banc Ceannais na hÉireann  
Central Bank of Ireland

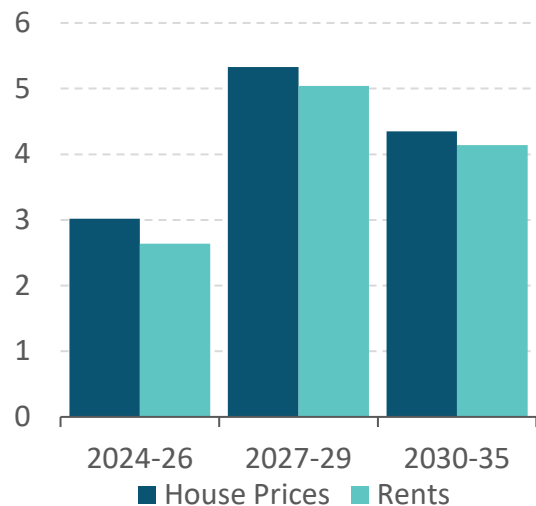
Eurosystem

# Inaction bears a high cost for households but delivering requires careful management of economic capacity

*With no supply response, cost of living increases through higher rents*

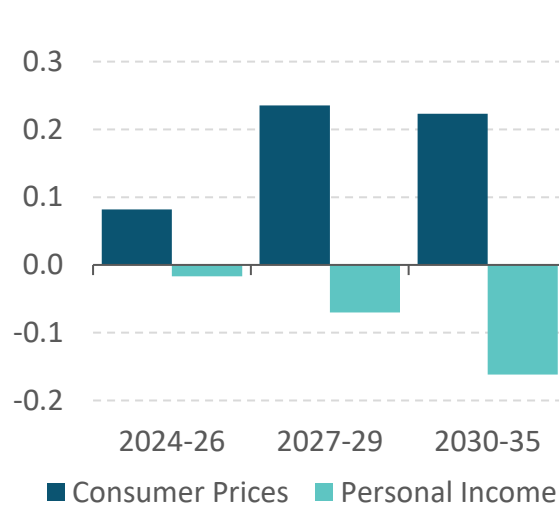
## House Prices & Rents

Deviation from baseline (Percent)



## Inflation & Real Income

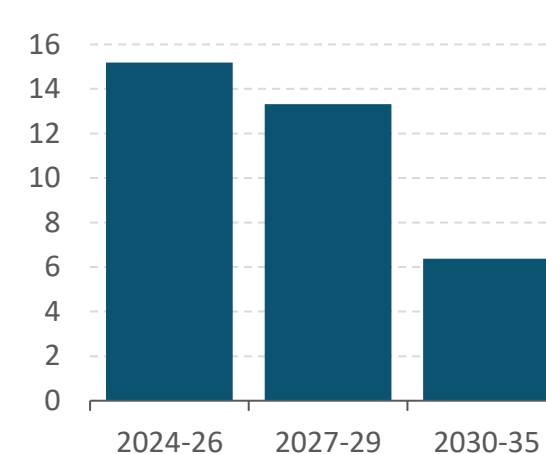
Deviation from baseline (Percent)



*With a supply response, the large increase in demand for construction workers creates competitiveness pressures.*

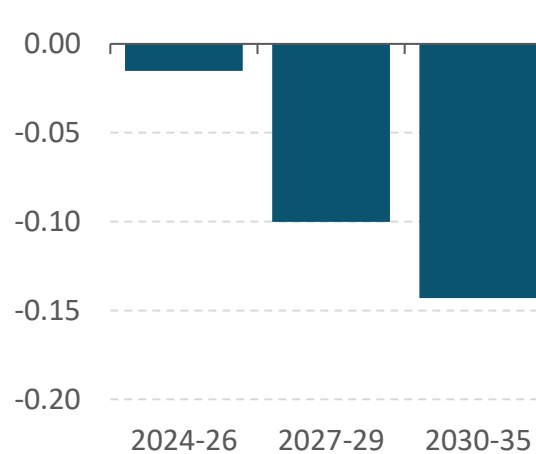
## Construction employment

Deviation from baseline (Percent)



## Traded Sector Output

Deviation from baseline (Percent)



Source: Central Bank of Ireland

Note: Scenario showing per cent deviations from the benchmark using the Central Bank's semi structural model. To illustrate the economic effects of persistent unmet housing demand, we impose an increase in the share of 25 to 39 year olds in the population to match the higher levels of structural demand on slide 8 (M1 headship convergence (by 2050)) but holding housing completions at their baseline level.

Source: Central Bank of Ireland

Note: Scenario showing per cent deviations from the benchmark using the Central Bank's semi structural model. This scenario includes both an increase in demand based on slide 8 and a fully supply response - 'M1-UK\_Supply' or an additional 19,000 new houses.

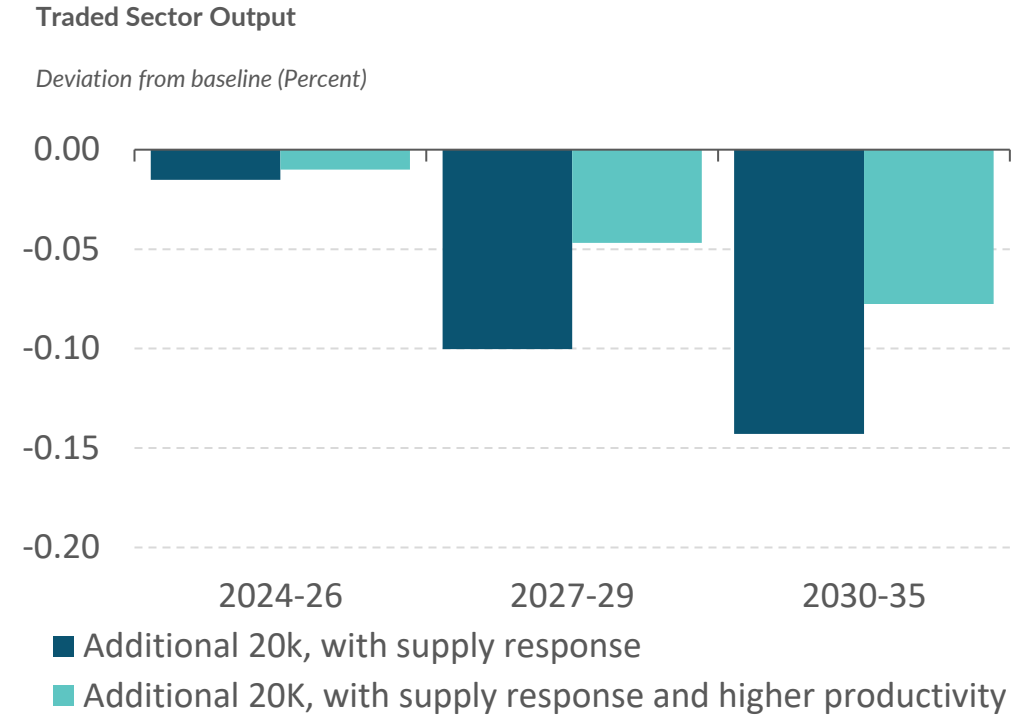
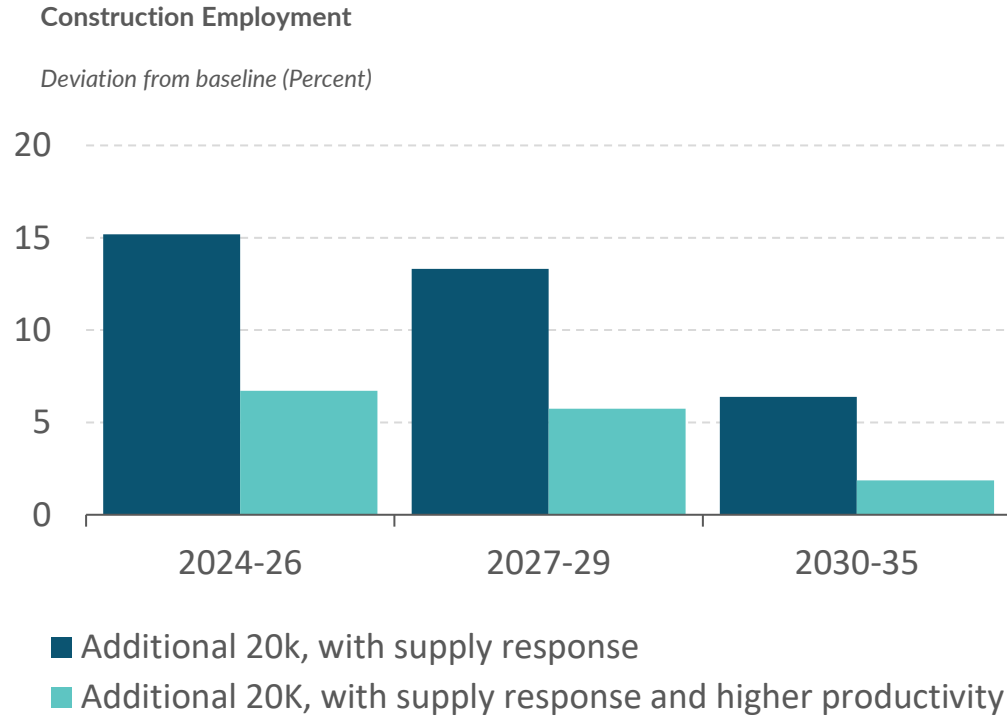


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Enhancing scale and productivity in the construction sector materially reduces the competitiveness risks of higher housing output

*Raising productivity in the construction sector reduces labour demand and can mitigate loss in competitiveness by ameliorating cost pressures*



Source: Central Bank of Ireland

Note: Scenario showing per cent deviations from the benchmark using the Central Bank's semi structural model. The shock is calibrated as a permanent 10 per cent increase in labour-augmenting technology.

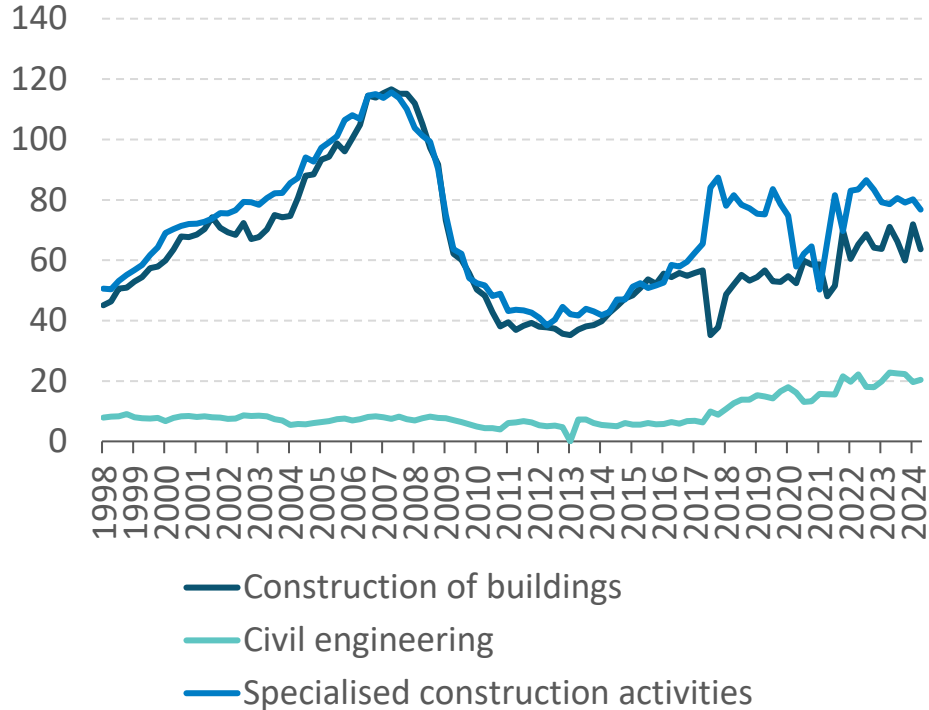


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Available construction labour supply is low

Construction employment has increased slowly..



...but available domestic labour supply is low

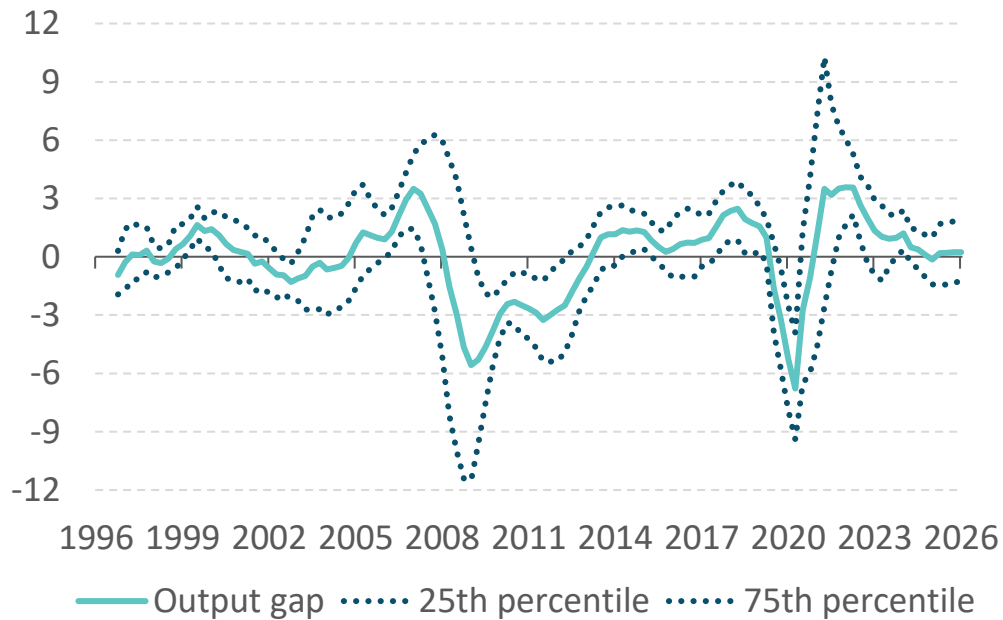


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# 'Too much, too fast' risks pushing the economy into overheating dynamics and offsetting the gains to spending

The economy is expected to operate near to capacity over the coming years..

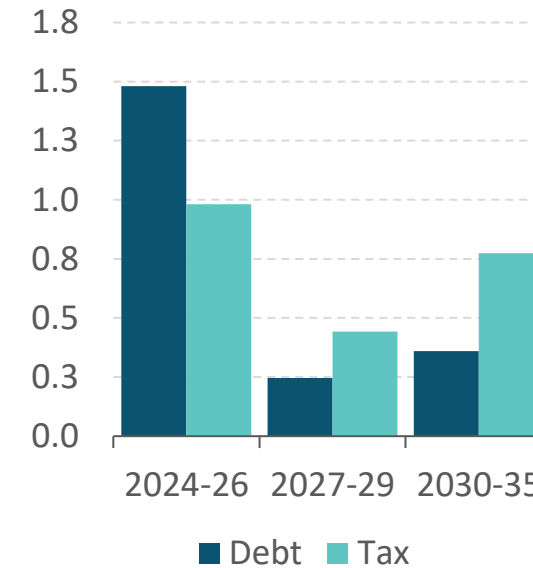


Source: Central Bank of Ireland

Note: Output gap estimated and averaged across a range of models. See Conefrey, Staunton & Walsh, forthcoming (2024)

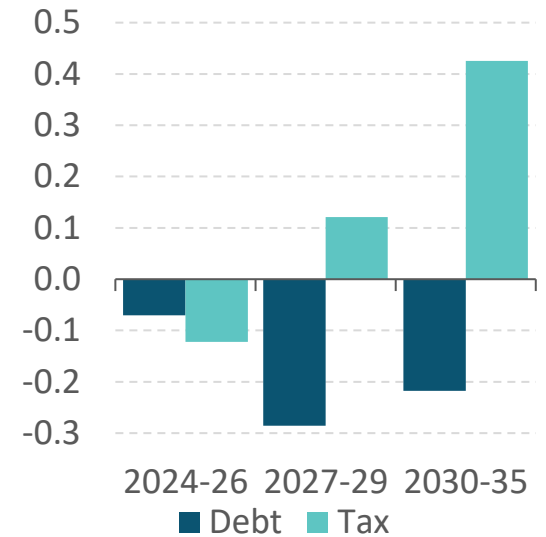
.....as investment increases, offsetting revenue-raising measures could help to partially mitigate overheating and competitiveness risks..

**Total output**  
Deviation from baseline (Per cent)



Source: Central Bank of Ireland

**Traded sector output**  
Deviation from baseline (Per cent)



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem



# Spending needs to be supported by enablers to realise full gains

- Delays in the delivery of public infrastructure have been highlighted as constraints on economic activity (NCPC, 2023)

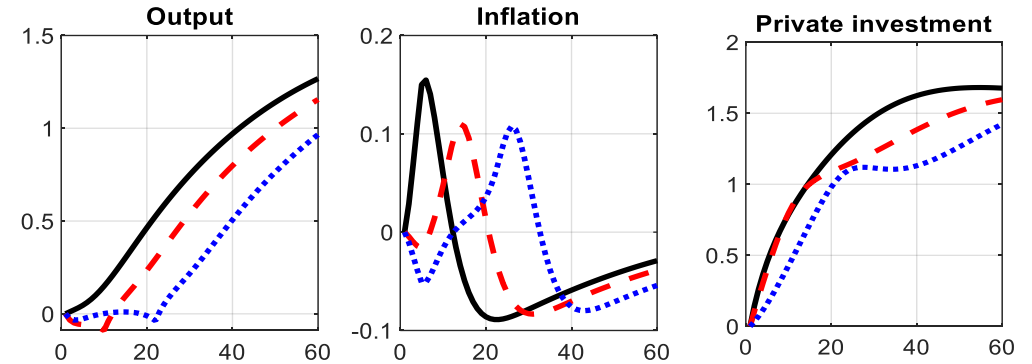
- Projects can be slowed by:

- planning approval process - 'time to plan'
- Complexity and scale - 'time to build'

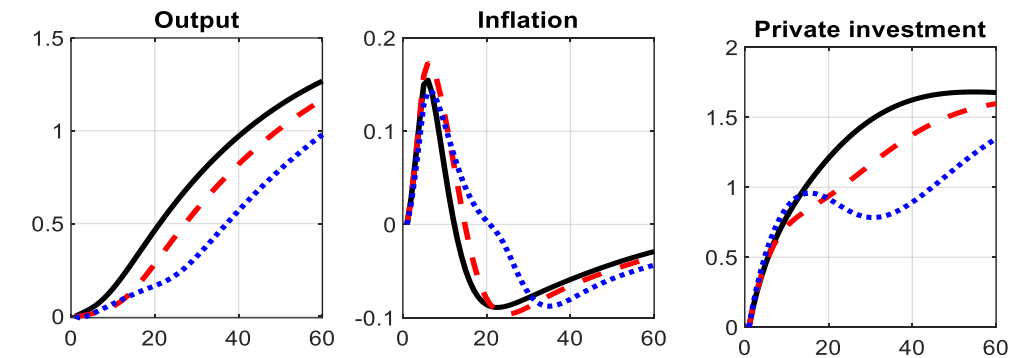
- Delays in either planning phase or construction phase cause:

- A delay in reaping the full benefits from higher public infrastructure (output increases later, inflation is higher for longer and declines later)
- External competitiveness is initially worsened before it improves when the public capital is finally delivered
- Private investment increases by less and with a delay

## 'Time to plan'



## 'Time to build'



Gov. inv. increase
  2-year time to build
  5-year time to build

Source: Central Bank of Ireland

Note: Illustrative scenario showing per cent deviations from the benchmark using the Central Bank's DSGE model. The benchmark represents the ideal scenario of no planning or building delay for 1 % of GDP increase in capital spending (infrastructure). Delays of 2 and 5 years are considered for both planning and construction delays.



# Policy considerations

- Important role for investment to address known infrastructure deficits, enable the net zero transition, boost long-run growth in the face of demographic headwinds and maintain living standards
  - Inward migration important for labour supply, competitiveness and productivity.
  - Increase in investment at EU level could have positive spillovers to Irish economy.
- Delivering higher level of investment efficiently requires careful policy coordination
  - Role for public and private sectors
  - As a SOE, key role for fiscal policy to ensure macro stability & fiscal sustainability. Adhering to a fiscal anchor would help.
  - Prominent role for productivity enhancement in policy design.
  - Efficient planning system to enable delivery and avoid cost of delays.
  - Policy certainty relating to future investment levels and the broad planning and regulatory environment would support higher and less volatile activity.
- Focus on physical investment – vital role for investment in human capital to underpin future growth.

