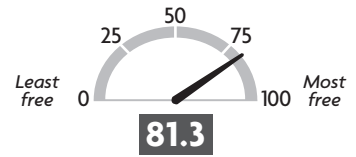


IRELAND

Economic Freedom Score



World Rank: **5**

Regional Rank: **1**

Ireland's economic freedom score is 81.3, making its economy the 5th freest in the 2010 *Index*. Its score has decreased by 0.9 point from last year, reflecting lower scores in monetary freedom, government spending, and financial freedom. The Irish economy was able to maintain its status as freest economy in the Europe region in the 2010 *Index*.

Though Ireland's dynamic economy has benefited substantially from its openness and flexibility in recent years, the financial sector was affected by the global financial turmoil, and the economy has suffered sharp economic adjustments since late 2008. The budget deficit has been on the rise, putting greater pressure on balancing the government budget. Despite the government's efforts at stabilization, the banking system's health remains precarious. The government plans to buy up non-performing loans, estimated to be equivalent to about 45 percent of GDP.

Despite the crisis, Ireland's overall levels of economic freedom remain high, sustained by such institutional strengths as strong protection of property rights, a low level of corruption, efficient business regulations, and competitive tax rates. These strengths provide solid foundations on which to build recovery and curb long-term unemployment.

BACKGROUND: The Anglo-Irish Treaty of 1921 formally partitioned the Irish Free State, roughly along Catholic-Protestant lines, into Ireland, which in 1948 became the Republic of Ireland, and Northern Ireland, which remained under British rule. Sectarian violence declined in the 1990s, and the Irish Republican Army formally renounced armed struggle in 2005. Ireland's modern, highly industrialized economy performed extraordinarily well throughout the 1990s, but the burst of a speculative housing bubble in 2008 sent the economy into a tailspin. Reversing the outcome of an earlier referendum, Irish voters approved the Lisbon treaty in 2009.

Country's Score Over Time



Quick Facts

Population: 4.5 million

GDP (PPP): \$197.1 billion

–2.3% growth in 2007

3.9% 5-year compound annual growth

\$44,200 per capita

Unemployment: 6%

Inflation (CPI): 3.1%

FDI Inflow: –\$20 billion

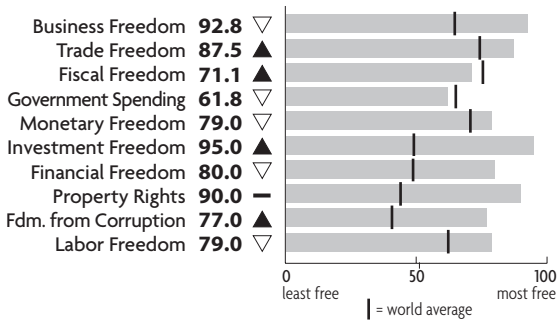
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

IRELAND'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 92.8

The overall freedom to conduct a business is well protected under Ireland's regulatory environment. Starting a business takes an average of 13 days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 18 procedures and 218 days. Bankruptcy procedures are straightforward.

TRADE FREEDOM — 87.5

Ireland's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Irish policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Government procurement rules are restrictive. Ten points were deducted from Ireland's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 71.1

Ireland has a relatively high income tax rate but a relatively low corporate tax rate. The top income tax rate is 41 percent, and the top corporate tax rate is 12.5 percent. Other taxes include a value-added tax (VAT) and a tax on interest. In the most recent year, overall tax revenue as a percentage of GDP was 32.5 percent.

GOVERNMENT SPENDING — 61.8

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 35.7 percent of GDP. Public expenditures on an aging population and the slowdown in overall economic activity have contributed to a growing fiscal deficit.

MONETARY FREEDOM — 79

Ireland is a member of the euro zone. Inflation has been relatively low, averaging 3.0 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production,

distorting the prices of agricultural products. It also influences prices through state-owned enterprises. Ten points were deducted from Ireland's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 95

Ireland welcomes foreign investment, and domestic and foreign firms incorporated in Ireland receive equal treatment. There is no approval process for foreign investment or capital inflows unless the company is applying for incentives. The regulatory regime is generally transparent and efficient. There are no restrictions or barriers with respect to current transfers, repatriation of profits, or access to foreign exchange. Residents and non-residents may own land.

FINANCIAL FREEDOM — 80

Ireland has suffered severe economic and financial challenges as a result of the recent financial and banking crisis. Its competitive financial system was compromised by the collapse of a property bubble in which banks were highly exposed. Government action in response to the financial crisis included the establishment of a single fully integrated regulatory institution. The government also restructured the financial sector, creating the National Asset Management Agency to stabilize the banking sector and restore liquidity. The government nationalized the Anglo Irish bank in early 2009. The country's two largest banks, Bank of Ireland and Allied Irish Bank, have received capital injections, and the government has taken a 25 percent stake in the Bank of Ireland.

PROPERTY RIGHTS — 90

Secured interests in property, both chattel and real estate, are recognized and enforced. An efficient, non-discriminatory legal system is accessible to foreign investors to protect and facilitate acquisition and disposition of all property rights. Expropriation is highly unlikely. The courts protect property, and contracts are secure. Ireland has one of Europe's most comprehensive legal frameworks for the protection of intellectual property rights.

FREEDOM FROM CORRUPTION — 77

Corruption is perceived as minimal. Ireland ranks 16th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption is not a serious problem for foreign investors in Ireland. It is illegal for public servants to accept bribes, and the police investigate allegations of corruption. Ireland has ratified the OECD Anti-Bribery Convention and is a member of the OECD Working Group on Bribery and the Group of States Against Corruption.

LABOR FREEDOM — 79

Labor regulations are flexible. The non-salary cost of employing a worker is low, and dismissing an employee is relatively easy. Restrictions on work hours are flexible.