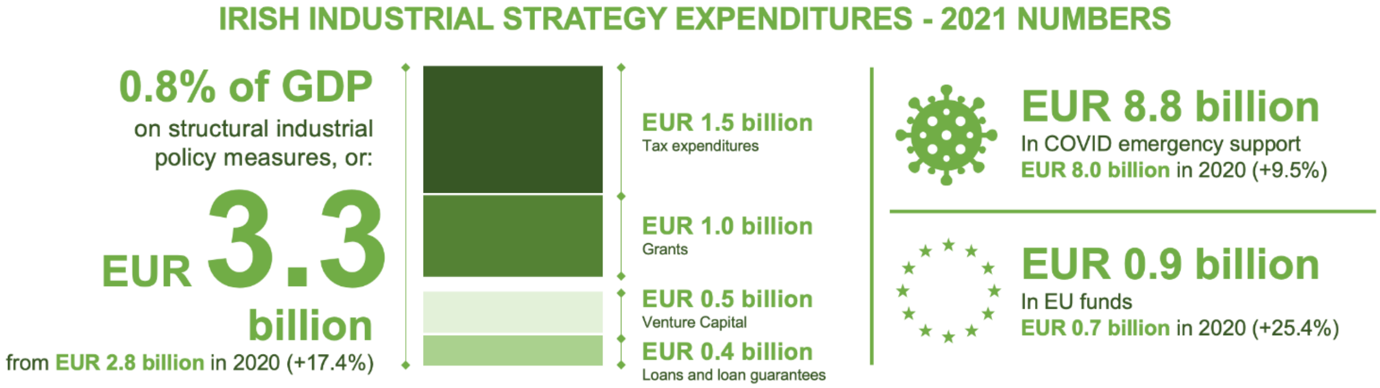
Quantifying Industrial Strategy: Ireland Factsheet

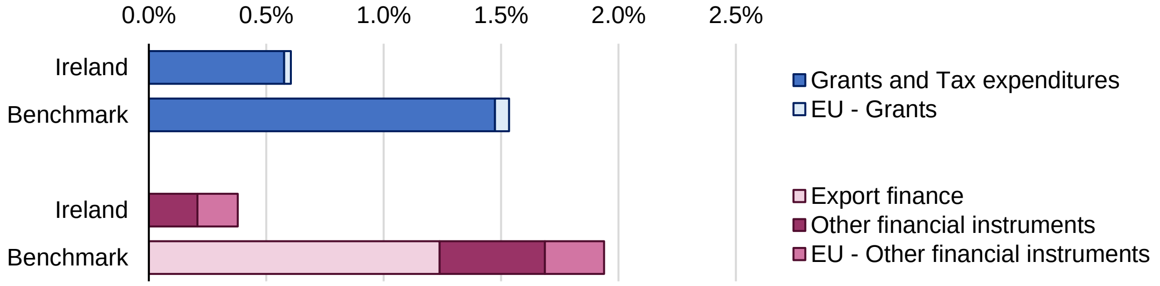
Highlights

- Irish industrial policy expenditures are significantly lower than in the benchmark, both for financial instruments and for grants and tax expenditures.
- Regarding financial instruments, this is driven by the absence of an export finance agency and lower levels of loans provided to SMEs.
- Regarding grants and tax expenditures, this is driven by lower tax expenditures, which can be explained by the Irish tax system, characterised by lower corporate tax rates than in the benchmark.
- Ireland also has lower industrial policy spending on jobs and skills and lower spending on green industrial policy, although the new Renewable Electricity Support Scheme has the potential to significantly narrow the gap with the benchmark in the future.



Industrial policy expenditures are significantly lower in Ireland than in the other countries in the benchmark (**Figure 1**), both for grants and tax expenditures (0.60% vs 1.53% of GDP) and for financial instruments (0.38% vs 1.94% of GDP). For grants and tax expenditures, this is attributable to lower tax expenditures, which can be explained by the smaller margin to provide tax incentives given the lower corporate tax rates in Ireland compared to the benchmark. In terms of eligibility criteria, this difference comes from the fact that Ireland spends significantly less than other countries on industrial policies focused on SMEs and young firms, jobs and skills and the green transition. For financial instruments, this is due to the lack of an export credit agency and lower lending to SMEs compared to other countries such as France or Canada.

Figure 1. Irish industrial policy expenditures by instrument type in 2021, % of GDP



Note: Includes EU support. Source: OECD calculations based on the QuIS database.

The 'Quantifying Industrial Strategies(QuIS)' project measures industrial strategies across OECD countries through harmonised data on industrial policy expenditures, their composition, their mode of delivery, and the characteristics of their beneficiaries. This allows participating countries to benchmark their industrial strategies expenditures, priorities, instruments and recipients.

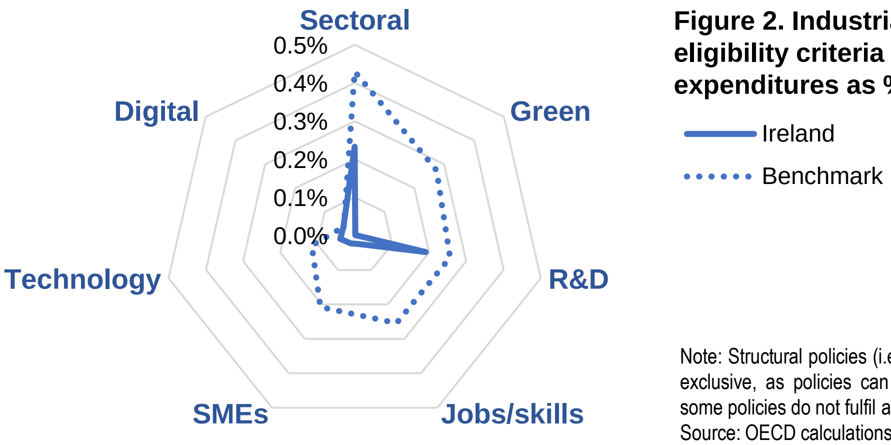


Figure 2. Industrial policy expenditures by eligibility criteria in 2021, grants and tax expenditures as % of GDP

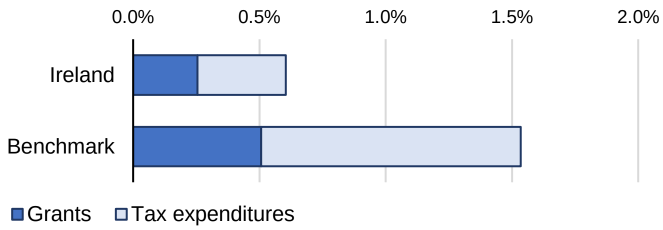
Note: Structural policies (i.e. excluding Covid). Categories are not mutually exclusive, as policies can be tagged in several categories. Additionally, some policies do not fulfil any of these eligibility criteria.
Source: OECD calculations based on the QuIS database.

Regarding grants and tax expenditures, Ireland spends less as a percentage of GDP on each eligibility criteria with the only exception being support to digitalisation. In particular, it spends less on sectoral (0.23% vs 0.47% of GDP), jobs/skills (0.002% vs 0.250% of GDP), SME-focused (0.02% vs 0.25% of GDP) and green support (0.002% vs 0.280% of GDP). Green industrial policy expenditures, although lower than in the benchmark in 2021 might significantly increase in upcoming years due to the new 'Renewable Electricity Support Scheme (RESS)', which provides a price-premium to renewable electricity producers if the strike price settled in auctions is consistently higher than the market price and generates an obligation to pay if the opposite holds.

Lower support is driven by lower tax expenditure levels

Ireland spends significantly less on tax expenditures than the benchmark (0.35% vs 1.03% of GDP). The low-spending on-tax expenditures are coherent with the Irish tax system. In particular, Ireland has less leeway than other countries to provide tax incentives given the already low Irish corporate income tax (**See the dedicated box**).

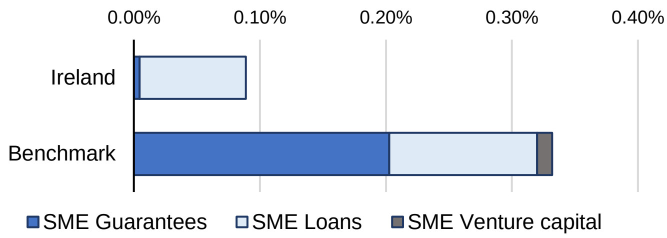
Figure 3. Distribution of industrial policy grants and tax expenditures by instrument type, 2021, % of GDP



Low levels of non-export financial instrument support

Lower support in the form of non-export financial instruments in Ireland is mainly driven by its low SME-focused guarantees. Specifically, in 2021, they represented 0.2% of GDP in the benchmark and 0.004% of GDP in Ireland. In 2021, the only SME-focused Irish guarantee scheme was the EU's EIF-COSME (0.004% of GDP).

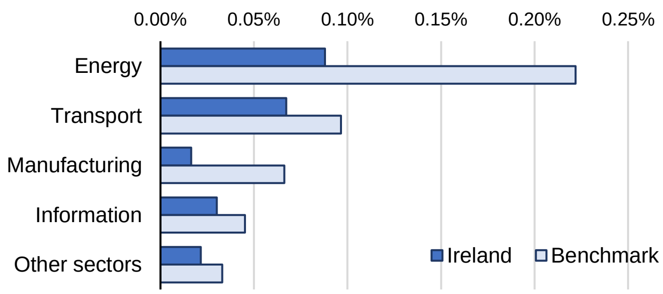
Figure 4. Distribution of SME non-export financial instruments by instrument type in 2021, % of GDP



Sectoral support is mostly aimed at energy and transport

Sectoral industrial policy in Ireland is focused on two sectors, namely energy (0.09% of GDP) and transport (0.07% of GDP).

Figure 5. Sectoral support by sector as a percentage of total GDP - Grants and tax expenditures, 2021[1]



Highlight: the baseline tax system in Ireland

To understand the low amount of industrial policy tax expenditures used in Ireland (as a percentage of GDP and relative to the benchmark), it is useful to compare them with the Irish *Combined Corporate Income Tax Rate*[2].

While Ireland, as a percentage of GDP, spends significantly less on tax expenditures compared to the benchmark (0.35% of GDP vs 1.0% of GDP), it also has a *Combined Corporate Income Tax Rate* that is almost half the one in the benchmark (13% vs 24%). This might reflect two main features:

1) countries with lower taxes have less leeway to provide tax expenditures, and
2) Ireland focuses on low corporate income taxes to support the competitiveness of its business sector.

1: Reading example: the amount of Irish grants and tax expenditures support specifically directed to the energy sector represents 0.08% of total GDP, vs 0.22% in the benchmark. Note: Includes EU support. Instruments targeting agricultural firms are excluded from QuIS. Source: OECD calculations based on the QuIS database.
2: This indicator represents the headline tax faced by corporations and can be used to compare the standard tax rate on corporations across jurisdictions and over time