



Ireland General Election 2016 Preview

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- Ireland is broadly considered to be the success story of the euro debt crisis. Yet following elections on Friday 26 February, Ireland could be the latest of the peripheral euro area members to be left with a fragmented parliament and minority government.
- The opinion polls and focus groups say that centre-right Fine Gael, the senior party in the outgoing coalition government with Labour, has the momentum. Voters have far more trust in Fine Gael's economic management than the second placed party (Fianna Fail). Yet despite the economic recovery, polls say the outgoing coalition is short of a majority. Moreover, if Labour underperforms, the party may choose a period of recuperation on the opposition benches, complicating Fine Gael's government formation task further still.
- We view the risk of radical elements making their way into government in Ireland and having significant policy influence as relatively low. Pro-European policy continuity is highly likely, even with minority government. Nevertheless, Portugal shows that nothing should be taken for granted. There is a reasonable chance that populist Sinn Fein becomes the main opposition party in Dublin. That in combination with a Fine Gael-led minority government could cause a rise in risk premia and volatility.
- A minority government or parliament with a large populist bloc in opposition may be less threatening in Ireland than in the other peripherals. The economy may not yet have fully rebalanced post-crisis, but unlike its peripheral peers, Ireland has already implemented the difficult policies required to put the economy on a path to sustainability. Benefits are in the pipeline. For example, the banks are being rehabilitated and AIB is being prepared for sale. Separately, Fine Gael says there is 'fiscal space' worth EUR12bn (6% of GDP) by 2020 while still respecting all the European fiscal rules. Whereas Ireland's periphery peers face questions about the sustainability of policy in the baseline scenario, the question for Ireland is how well it copes with an unanticipated economic shock.
- The main risk to Ireland in 2016 is if the UK votes to leave the EU. There is considerable economic integration between the two economies. The ESRI, an Irish think tank, calculates that Brexit could reduce Irish exports by 20%. Ireland demonstrated a deep capacity for economic policy adjustment during the dual banking and sovereign crises, with a strong pro-EU policy consensus. Given its strong readings on economic policy credibility, fear of Brexit may benefit Fine Gael in the election. Reacting to Brexit, were it to occur, could be the litmus test for a minority government.

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