Euler Hermes Economic Research

Country Report

Ireland

They did it!

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Executive summary

- EH expects the economic outlook tol improve with GDP growth at +1.6% in 2014 and +2.0% in 2015.
- Business insolvencies are expected to continue to decline (-13% in 2014 and -5% in 2015), but the levels remain 3 times higher than in 2007.
- Financial independence has been achieved and Irish long-term bond yields stand below the ones in Spain and Italy.
- The restructuring of the banking sector has been completed, but vulnerabilities remain.
- The excessive stock of debt is the main medium-term challenge.

Growth is expected to pick-up

EH expects that economic outlook will continue to improve with GDP growth of +1.6% in 2014 and +2.0% in 2015. The labour market shows most visible signs of economic recovery (see Chart 1): ambitious labour market reforms aiming at improving skills of the unemployed and increasing flexibility of the wage-setting in certain sectors helped employment to return into positive territory in 2013. Thus, consumer spending is expected to rebound (+1.4% in 2014) while investment is likely to remain dynamic (+4.7%). Exports, accounting for 103% of GDP will remain the highest contributor to GDP growth. Strong economic momentum in the UK (+2.6% in 2014 and +2.5% in 2015), Ireland's second largest export market, will certainly support the economic recovery.

Corporates enter a positive era

Business insolvencies are expected to continue to decline (-13% in 2014 and -5% in 2015), but the levels remain 3 times higher than in 2007. Firms' gross operating surplus is growing and margins remain high (see Chart 2). The sectors on the 'watch list' that should see an improvement this year are the construction sector, which still suffers from the housing market crisis, and the consumer-driven sectors: retail and household equipment.

Financial independence: completed

Back in December 2010, Ireland entered an economic adjustment programme in the midst of a deep banking and fiscal crisis. At that time, the

Table 1: Key economic forecasts

Ireland		poids	2012	2013	2014	2015
GDP		100%	0.2	-0.3	1.6	2.0
Consumer Spending		51%	-0.3	-1.1	1.4	1.8
Public Spending		16%	-3.8	-0.6	0.4	0.4
Investment		11%	-1.2	4.9	4.7	4.2
Stocks	*	1%	-0.6	0.4	0.4	0.4
Exports		103%	1.6	0.1	3.7	3.4
Imports		81%	0.0	1.0	4.8	4.0
Net exports	*	22%	1.6	-0.6	-0.1	0.3
Current account	**		7	11	12	14
Current account (% of GDP)			*4.4*	*6.6*	*7.4*	*8.3*
Employment			-0.7	2.4	1.8	1.8
Unemployment rate			14.7	13.1	11.7	10.8
Wages			-0.6	0.9	0.7	0.8
Inflation			1.9	0.5	0.6	0.9
General government balance	**		-13	-11	-9	-8
General government balance (% of GDP)			*-8.1*	*-7.0*	*-5.5*	*-4.5*
Public debt (% of GDP)			*117.4*	*123.7*	*122.0*	*121.0*
Nominal GDP	**		164	164	167	173

Change over the period, unless otherwise indicated:
*contribution to GDP growth
**EUR bn

Sources: IHS Global Insight, Euler Hermes forecasts

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economy had already suffered two years of deep recession and the unemployment rate had tripled from pre-crisis level (to almost 15%). Ireland exited the EUR85bn assistance programme successfully in December 2013 (EUR67.5bn coming from the EU and the IMF). Implemented labour reforms have allowed a significant improvement in the current account balance, which has been in surplus since 2011 after a decade of negative performance. The current account is expected to reach +7.4% of GDP in 2014. The country has gained back confidence on the financial markets and managed to conduct several successful long-term bond issuances since 2013. Irish long-term bond yields fell significantly over the past months and now stand below the Spanish and Italian bond yields (see Chart 3). Debt repayments in 2014-15 remain low (at EUR1bn, 0.6% of GDP). Austerity (EUR2bn public spending cuts planned for 2015) could be eased according to recent announcements by Irish Finance Minister Michael Noonan due to higher-than-expected income tax and VAT receipts. This could support domestic demand recovery.

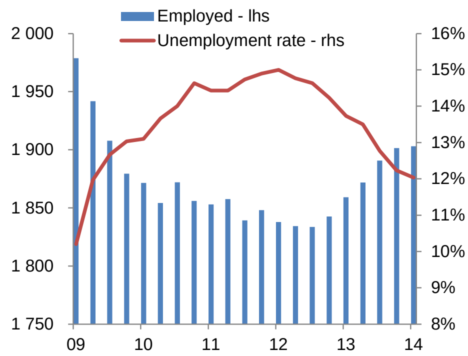
The restructuring of the banking sector has been completed, but vulnerabilities remain

Bank mergers have been completed ahead of schedule and the recapitalization of the domestic banks was completed in 2012. Financial stability indicators improved but vulnerabilities remain high given the elevated mortgage arrears and the high level of non-performing loans. The restructuring of the banking sector and the need to improve profitability have not been neutral for credit to the private sector. A deeper analysis of the strength of the Irish banks post restructuring will be given by the ECB Asset Quality Review and the EBA stress tests expected to be published in October 2014.

The excessive stock of debt is the main medium-term challenge

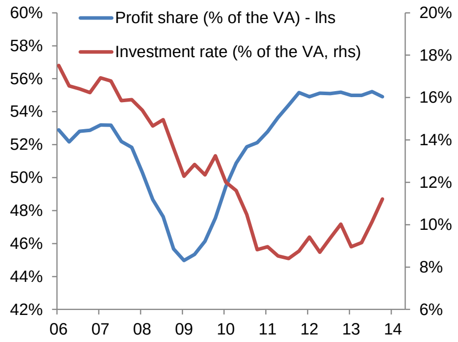
The excessive stock of debt and the ongoing deleveraging process remains a drag on domestic demand. Public debt is expected to reach 122% of GDP in 2014 while private debt is close to 300% of GDP (far above the EU limit of 160%), the highest stock of debt within the eurozone countries – see Chart 4.

Chart 1: Unemployment rate, %



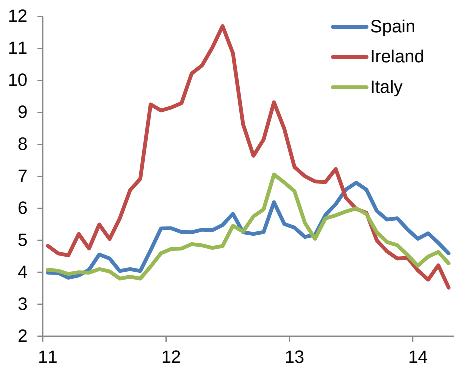
Sources: Eurostat, Euler Hermes

Chart 2: Non-financial corporations' margins and investment rate, % of value added



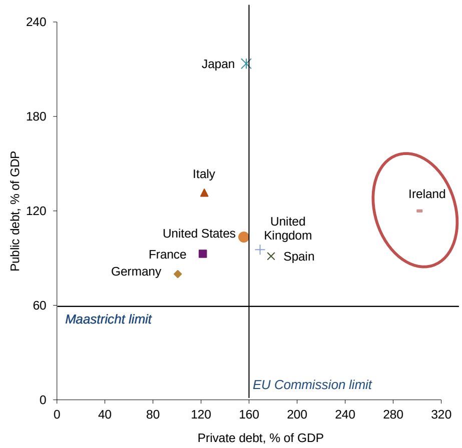
Sources: Eurostat, Euler Hermes

Chart 3: 10-year government bond yields, %



Sources: Bloomberg, Euler Hermes

Chart 4: Private and public debt (households and corporates), % of GDP



Sources: Eurostat, national sources Euler Hermes

General Information

GDP	USD210.331bn (World ranking 46, World Bank 2012)
Population	4.59 million (World ranking 119, World Bank 2012)
Form of state	Parliamentary Republic
Head of government	Enda KENNY (Fine Gael)
Next elections	2016, legislative

Strengths

- Strong business environment
- Lowest corporate rate within the eurozone
- Exports oriented towards sectors with high value added
- Strong current account surplus
- Pro-European
- Strong education system
- English speaking business location

Weaknesses

- Sensible to external shocks due to high openness
- Excessive private and public debt
- Housing crisis still ongoing due to the property housing bubble
- Low and long-lasting inflation

Trade structure

By destination / origin

Exports		Rank		Imports
United States	23%	1	37%	United Kingdom
United Kingdom	14%	2	10%	United States
Belgium	13%	3	9%	Germany
Germany	9%	4	6%	Netherlands
France	5%	5	4%	France

Source: Chelem

By product

Exports		Rank		Imports
Pharmaceuticals	30%	1	9%	Pharmaceuticals
Basic Organic Chemicals	22%	2	7%	Refined Petroleum Products
Toiletries	7%	3	5%	Computer Equipment
Miscellaneous Manuf. Article	6%	4	5%	Basic Organic Chemicals
Computer Equipment	4%	5	4%	Plastic Articles

Source: Chelem

Risk Dimensions

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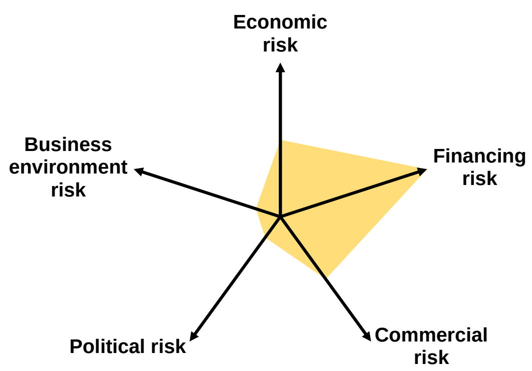

Source: Euler Hermes

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