

## They did it!

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## Executive summary

BB2

- EH expects that economic outlook will improve with GDP growth of +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 trend

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 achieved

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	points	2012	2013	2014	2015
<b>GDP</b>	100%	0.2	-0.3	1.6	2.0
<b>Consumer Spending</b>	5%	-0.3	-1.1	1.4	1.8
<b>Public Spending</b>	16%	-3.8	-0.6	0.4	0.4
<b>Investment</b>	1%	-1.2	4.9	4.7	4.2
<b>Stocks</b>	*	-0.6	0.4	0.4	0.4
<b>Exports</b>	103%	1.6	0.1	3.7	3.4
<b>Imports</b>	8%	0.0	1.0	4.8	4.0
<b>Net exports</b>	*	1.6	-0.6	-0.1	0.3
<b>Current account</b>	**	7	11	12	14
<i>Current account (% of GDP)</i>		4.4	6.6	7.4	8.3
<b>Employment</b>		-0.7	2.4	1.8	1.8
<b>Unemployment rate</b>		14.7	13.1	11.7	10.8
<b>Wages</b>		-0.6	0.9	0.7	0.8
<b>Inflation</b>		1.9	0.5	0.6	0.9
<b>General government balance</b>	**	-13	-11	-9	-8
<i>General government balance (% of GDP)</i>		-8.1	-7.0	-5.5	-4.5
<b>Public debt (% of GDP)</b>		117.4	123.7	122.0	121.0
<b>Nominal GDP</b>	**	164	164	167	173

Change over the period, unless otherwise indicated:

\*contribution to GDP growth

\*\*EUR bn

Sources: IHS Global Insight, Euler Hermes forecasts

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, %

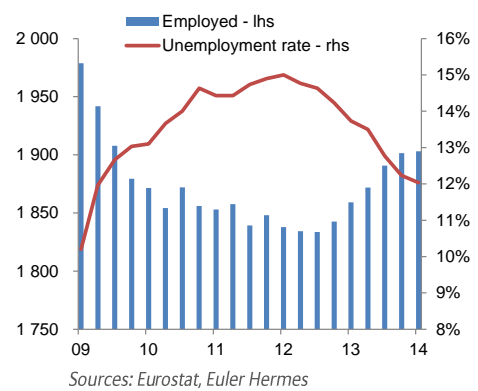


Chart 2: Non-financial corporations' margins and investment rate, % of value added

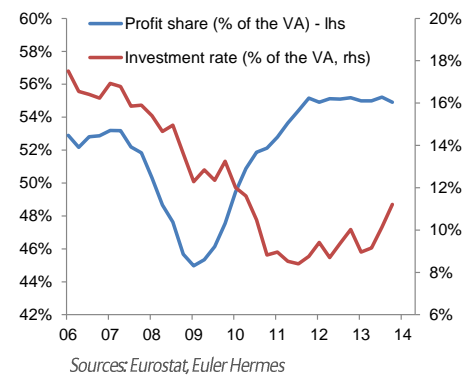


Chart 3: 10-year government bond yields, %

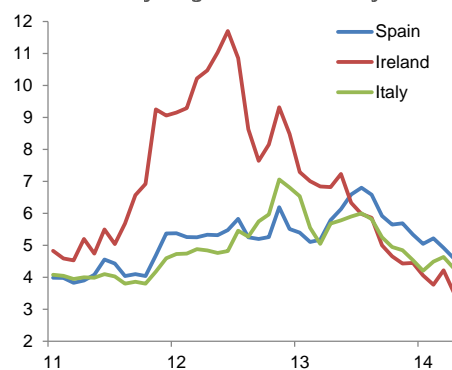
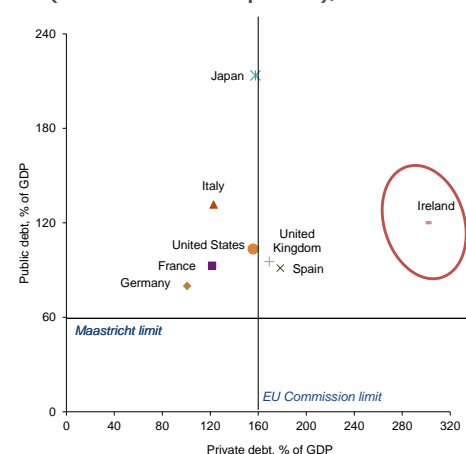


Chart 4: Private and public debt (households and corporates), % of GDP



## General Information

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

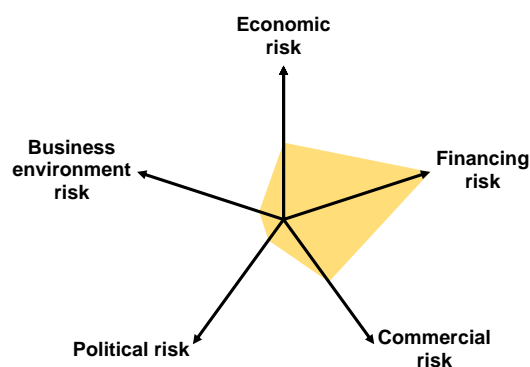
By product

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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