Euler Hermes Economic Research

Country Report

Ireland

Higher and faster

General Information

GDP	USD238.0204bn (World ranking 43, World Bank 2015)
Population	4.64mn (World ranking 121, World Bank 2015)
Form of state	Parliamentary Republic
Head of government	Enda KENNY (Fine Gael)
Next elections	2021, legislative

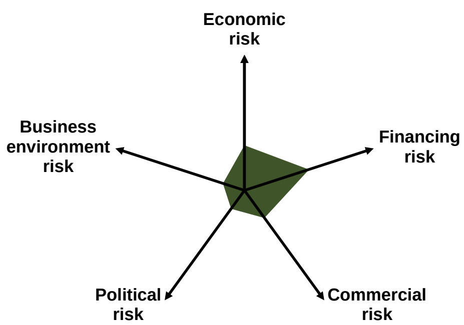
Strengths

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

Weaknesses

- Sensitive to external shocks due to high openness to trade
- High dependency on foreign investment
- Excessive private and public debt

Country Rating A1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
United States	22%	1	36%	United Kingdom
United Kingdom	14%	2	9%	United States
Belgium	12%	3	9%	Germany
Germany	7%	4	6%	Netherlands
Switzerland	6%	5	5%	China

By product (% of total)

Exports		Rank		Imports
Pharmaceuticals	26%	1	8%	Pharmaceuticals
Basic Organic Chemicals	21%	2	6%	Refined Petroleum Products
Toiletries	9%	3	5%	N.E.S. Products
Miscellaneous Manuf. Articles	6%	4	5%	Computer Equipment
Precision Instruments	5%	5	5%	Basic Organic Chemicals

Sources: Chelem (2014), Euler Hermes

Economic Overview

Strong economic momentum, mainly thanks to foreign investments

The successful implementation of policy reforms by the Irish authorities has borne fruit. Ireland has positioned itself as the fastest-growing European economy since 2014. In 2015, GDP growth exceeded expectations and reached a staggering +26.3%. In fact, this rate is three times higher than that of the previous year (+8.4% in 2014). The stunning figure reflects a massive assets reallocation. Its source is the influx of big foreign companies' headquarters which moved to Ireland in search of a low taxation environment. Company restructuring activities undertaken by these multinationals resulted in a jump in exports (see Figure 2). It also drove up external sector's contribution to growth to +18.4pp in 2015, up from +1.7pp in the previous year. Thanks to this strong performance the current account balance improved markedly in 2015, reaching +10.2% of GDP (+1.7% in 2014).

Domestic demand is also dynamic. Companies are expanding their investments in the real economy: +32.6% in 2015 and +18.1% in 2014. Consumption is expanding further and was up +4.5% in 2015 after +1.7% in 2014. This is due to a rise in household real incomes and growing employment. The record high consumer confidence, buoyed by the improving economic environment and low energy prices, supports the increase in retail sales (see Figure 3).

The Irish economy might cool down a bit over the next period. GDP growth is forecast to reach +4.5% in 2016 and +3.4% in 2017.

Corporate turnover and profits on the rise

Economic momentum and regained competitiveness entail an expansion in firms' output and a rise in corporate profits. These should reach 70.3% of value added in Q1 2016 (see Figure 4). Irish firms' turnovers record the highest growth in the Eurozone and have been on an upward trend since 2014. Insolvencies should decrease at a slower pace compared to the past three years: -7% in 2016 and -4% in 2017. They will remain 2.6 times above 2007 levels.

The strong macroeconomic recovery helps private and public sector deleverage

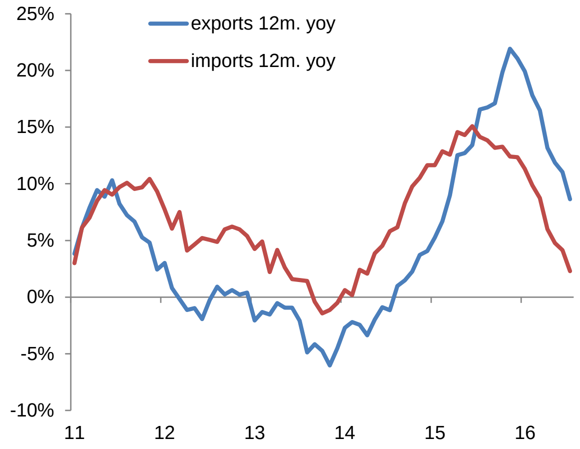
The Irish economy's rebound supports the deleveraging of non-financial corporations due to the increase in corporate margins. Mainly driven by multinationals which account for 2/3 of total corporate debt, corporate indebtedness remains high at 257.3% of GDP (Q1 2016). Yet compared to Q1 2015 level of 327.5%, this is a major decline. It represents a low financial stability risk for the economy as these companies finance their operations on the global capital markets. Moreover, it reflects exchange rate movements which impact valuation. Despite remaining deleveraging needs for some Irish SMEs, overall the corporate sector has stayed at a recovery phase since 2015. Debt reduction has been faster for households. In Q1 2016 household debt declined for the 30th consecutive quarter falling to 149.4% of GDP, the lowest level since 2004.

Figure 1 – Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	8.5	26.3	4.5	3.4
Inflation (%, average)	-0.1	0.0	0.4	1.1
Fiscal balance (% of GDP)	-3.8	-2.3	-1.5	-1.0
Public debt (% of GDP)	107.5	93.8	89.1	86.6
Current account (% of GDP)	1.7	10.2	7.0	5.0

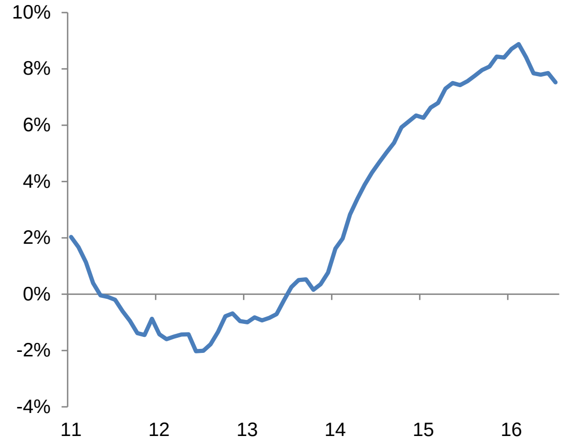
Sources: National sources, IHS, Euler Hermes

Figure 2 – Total goods' exports and imports



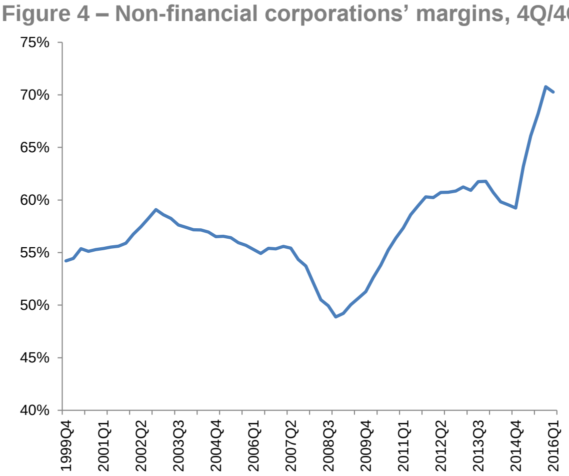
Sources: IHS, Euler Hermes

Figure 3 – Retail sales (volume), y/y



Sources: IHS, Euler Hermes

Figure 4 – Non-financial corporations' margins, 4Q/4Q



Sources: IHS, Euler Hermes

The increase in household disposable income and employment means it is easier to repay debt – and faster, too.

Overall, the private sector - corporates and households - is showing clear signs of recovery. Total debt has significantly declined. Private sector debt accounts for 315.2% of GDP (Q1 2016), 85.5pps less than its 2015 peak of 400.7% of GDP.

Non-performing loans remain a downside risk for the Irish banking sector. NPL's stood at 15.8% of total bank loans in March 2016. Although this figure has moderated since the crisis, it is still twice higher than The Eurozone average which stands at 7%. SMEs are most impacted as they experience the highest NPL ratio: 40% of total vs. 25% for large corporates and 15% for households.

Overall, the Irish banking sector's vital signs have picked up since the 2011 crisis. Higher solvency ratios and positive return on assets and return on equity ratios are all signs of improvement.

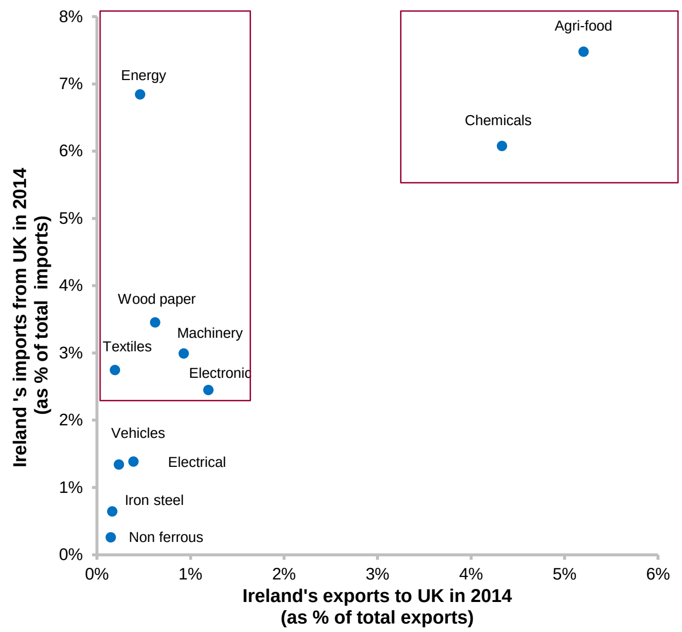
Risks will arise from the Brexit vote in the medium-term

Ireland is highly exposed to the British economy: the UK is the second biggest market for Irish exporters and it is also positioned as the first import market for Irish companies. Ireland is one of the few EU countries to have goods' trade balance deficit with the UK (-EUR2.3bn).

A UK recession and further strong GBP depreciation would negatively impact Irish goods traded with UK, which account for 14% of Ireland total goods export and 20% of total services exports. However, at least in the short-term, the UK is proving resilient so the currency depreciation remains the main concern for exporters. On the opposite, the currency depreciation should benefit to Irish importers. In total, around EUR18bn are of goods are imported (27% of total Irish imports) and around EUR12bn of services (9% of total Irish imports). Sectors like agri-food, energy, chemicals, machinery and equipment, wood/paper, and textile (see Figure 5) are expected to benefit in the short-term from lower import costs.

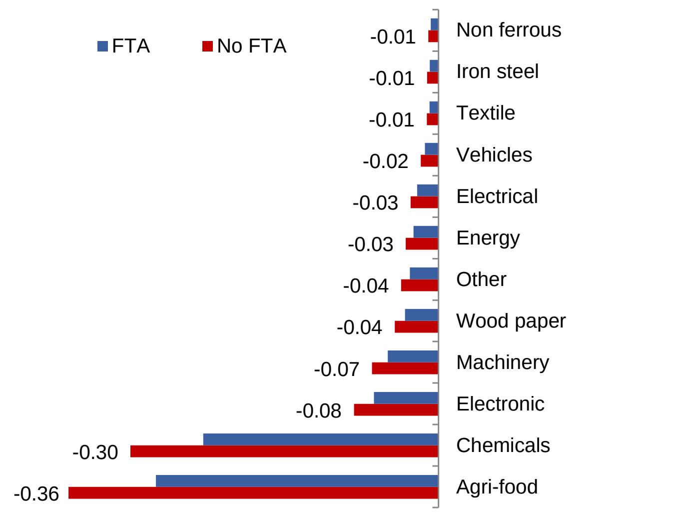
However, in the medium-term, given the domestic demand slowdown and the deteriorating purchasing power in the UK, Irish exports-oriented sectors such as agri-food, chemicals, and electronics might be severely affected (see Figure 5 & 6). The total cumulative impact by 2019 is estimated at -0.9pp for GDP growth and will trigger an additional increase in business insolvencies. We estimate +1.5pp in the *soft leave* scenario, in which the UK signs a Free Trade Agreement with the EU. In a *hard leave* scenario, with no FTA, the fall in GDP growth will be bigger (-1.4pp) and weigh more on business insolvencies (+2.0pp).

Figure 5 – Ireland's trade in goods to the UK



Sources: National sources, IHS, Euler Hermes

Figure 6 – Expected export losses by sector (2017-19), EURbn



Sources: Chelem, Euler Hermes

Last review: 2016-09-19
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