Euler Hermes Economic Research

Country Report

Ireland

Fastest growing country in the Eurozone since 2014

General Information

GDP	USD245.921bn (World ranking 44, World Bank 2014)
Population	4.61mn (World ranking 120, World Bank 2014)
Form of state	Parliamentary Republic
Head of government	Enda KENNY (Fine Gael)
Next elections	2016, legislative

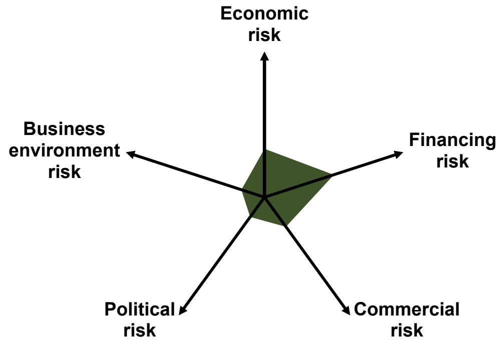
Strengths

- 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
- 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	21%	1	37%	United Kingdom
United Kingdom	15%	2	9%	Germany
Belgium	13%	3	8%	United States
Germany	8%	4	6%	Netherlands
France	6%	5	5%	China

By product (% of total)

Exports		Rank		Imports
Pharmaceuticals	25%	1	9%	Pharmaceuticals
Basic Organic Chemicals	22%	2	6%	Refined Petroleum Products
Toiletries	9%	3	5%	Computer Equipment
Miscellaneous Manuf. Articles	6%	4	5%	Basic Organic Chemicals
Precision Instruments	4%	5	4%	Plastic Articles

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Fastest growing country in the Eurozone since 2014

After a severe economic crisis, Ireland experienced the fastest economic growth within the Eurozone in 2014: +5.2% - see Figure 1. Growth was mainly driven by strong export growth (+12.1%) and for the first time since 2007, positive domestic demand growth. This performance came from significant competitiveness adjustments over the past years thanks to ambitious labour market reforms and the EUR depreciation and was boosted by the recovery in Ireland's main trade partners: the United States, the United Kingdom and Germany, accounting for almost half of total Irish exports. Domestic demand improved thanks to a gradual recovery in real disposable income growth and the labour market that supported consumer confidence increasing close to record highs. Firms' investment continued to grow strongly in 2015 (+18% in H1 2015 compared to the same period of 2014), supported by significant inward foreign investment (accounting for two times the GDP in 2014) and expansion of the producing capacity given the strong external demand. The construction sector has also proved to be back in the game, with housing starts increasing at a strong pace and completions of pre-crisis projects.

Going forward, the expansion in both manufacturing and services sectors should remain strong, the consumer is likely to continue to benefit from a better economic outlook (and supports strong retail sales growth) and external demand for Irish products should remain dynamic thanks to the improved price competitiveness (the EUR/USD is expected at 1.05 on average next year).

Euler Hermes expects Ireland's GDP growth to remain the strongest in the Eurozone in the coming years, at +5.0% in 2016 and +4.0% in 2017.

The pass-through of the positive economic momentum to companies is visible

The strong volume growth is offsetting the negative price pressures on firms' selling prices. Irish industrial firms' turnover seems to be the Eurozone's exception as they are on the rise since 2014 and stand +25% above the 2008 peaks (see Figure 3). The significant competitiveness adjustments since the crisis helped improve firms' profitability which has markedly increased since 2014 and stands at 63% of the value added (vs. 40% for the Eurozone as a whole).

High nominal GDP growth helped improve debt sustainability

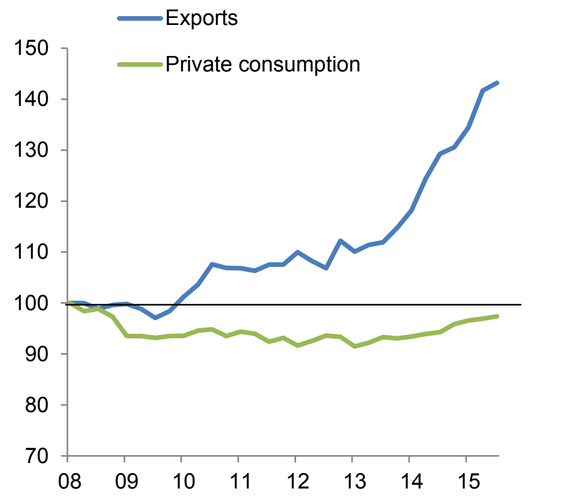
Several factors helped public debt decrease by 13pps to 107.5% of GDP in 2014: high nominal GDP growth (above +5% annually), the sale of the Irish Bank Resolution Corporation (IBRC) and the better-than-expected fiscal revenues that helped achieve a primary fiscal surplus (+0.1% of GDP in 2014) that should increase further (to +1% in 2015).

Figure 1 – Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	5.2	6.0	5.0	4.0
Inflation (%, average)	-0.1	0.0	0.7	1.1
Fiscal balance (% of GDP)	-3.9	-2.7	-2.2	-1.0
Public debt (% of GDP)	107.5	105.0	102.5	100.0
Current account (% of GDP)	3.6	4.7	5.0	4.8

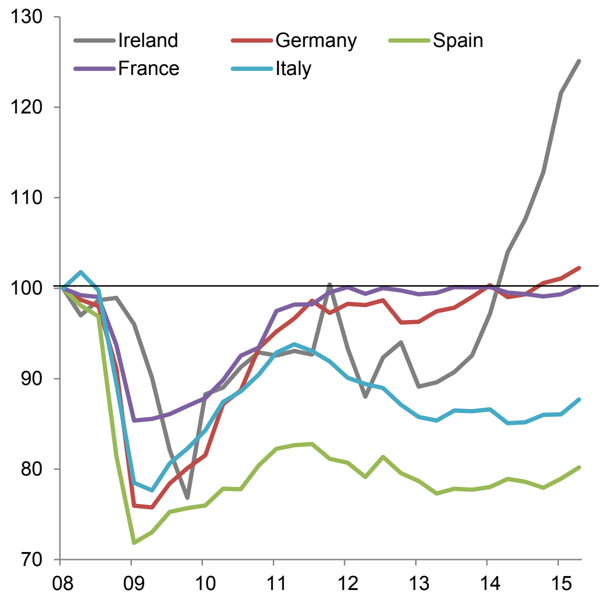
Sources: National sources, IHS, Euler Hermes

Figure 2 – Export and private consumption, Q1 2008 = 100



Sources: Sources nationales, IHS, Euler Hermes

Figure 3 – Industrial firms' turnover, Q1 2008 = 100



Sources: Eurostat, Euler Hermes

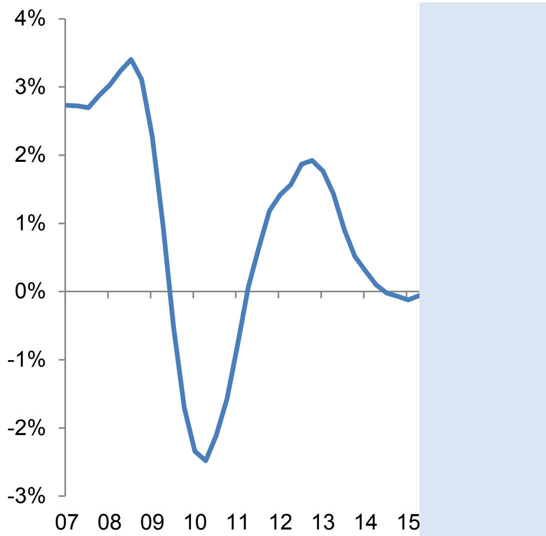
The health of the financial sector is improving

The banking sector has been almost entirely restructured and the results of the ECB Asset Quality Review (AQR) and the EBA stress test brought the necessary investor confidence following broadly positive results. All Irish based institutions passed the AQR and stress tests under the baseline scenario, and all but one passed under their adverse stress scenario. However, the implementation of new capital requirements will prove challenging, as bank profitability remains low. Further weighing on bank profitability, the share of non-performing loans and incidence of mortgage arrears remains high: (1) non-performing loans still represent about 21% of the total, down from 25% in 2013, but still third highest in the Eurozone. It is also an impediment to the capacity of banks to support the economic recovery; (2) mortgage arrears (above 90 days) are decreasing but stood at a high 9.3% in Q2 2015, against 3.3% in Q3 of 2009.

2015 will mark a third consecutive year of a double-digit fall in business insolvencies, but they remain 3 times higher than in 2007

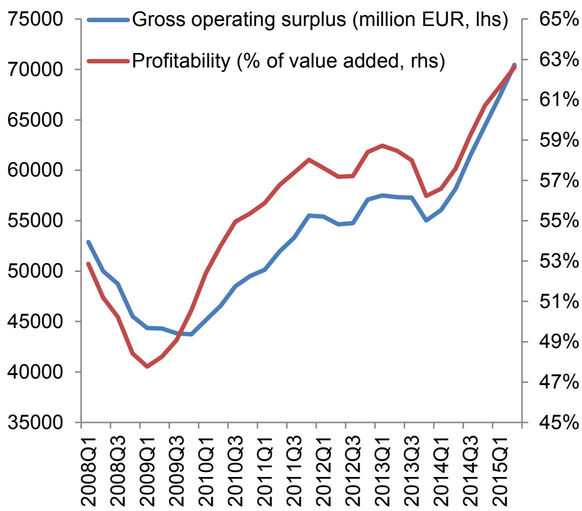
Business insolvencies have registered double-digit annual falls since 2013 and are expected to decline further in 2015-2016 on the back of a strong economic momentum. We expect a -20% fall in business insolvencies in 2015 and -10% in 2016. However, despite this fall the total level of insolvencies in 2015 will remain three times higher than in 2007, especially in the construction sector which suffered from the housing market crisis and accounted for 24% of total insolvencies in 2014.

Figure 4 – Inflation (y/y, %)



Sources: National sources, IHS, Euler Hermes

Figure 5 – Non-financial corporations' profitability



Sources: Eurostat, Euler Hermes

Last review: 2015-12-07
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