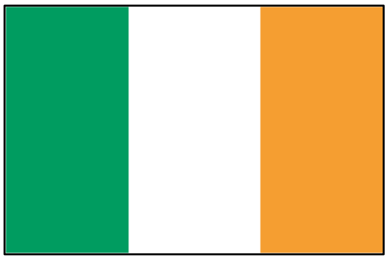
February 2009

Country Report *Ireland*

1. Structural data:



Geographical extension:	70,283 km²
Population size:	4.3 million
Population density:	61 inhabitants / km²
Capital:	Dublin
Per-capita GDP (2008):	EUR 43,600
Currency:	euro (EUR)
Exchange rate (Feb 09):	USD/EUR 1.29

Extensive structural change began to take hold in the 1970s. Nowadays, the agricultural sector provides work for just 5.5% of the workforce and accounts for only 2% of GDP. Meanwhile, the producing sector and the services sector employ 27% and 67% of Irish workers, respectively, while generating 36% and 62% of GDP. Ireland has evolved into one of the centres of the European computer industry, not least due to the arrival of high-tech companies from abroad. Vigorous infrastructure investment is being planned to keep the business location attractive and competitive in the eyes of foreign investors. The measures in question include the transport-network plan “Transport 21“, which provides for capital spending to the tune of EUR 34 billion in the transportation sphere in the period to 2015. This is being complemented by the National Development Plan, which involves expenditure on the improvement of environmental infrastructure worth a shade over EUR 180 billion over a period of seven years. It is true that cuts in investment have been projected, due to mounting budgetary problems, in the 2009 budget which has now been presented; however, these will only impair infrastructure projects in the sense that the implementation of individual projects is going to be delayed.

2. Political situation:

It is the tradition that the two major parties - Fianna Fáil (national, republican and conservative in orientation - the party headed by Prime Minister Brian Cowen) and Fine Gael (which has a liberal-conservative bias) - play the leading role in parliament. The contrasts between these two conservative parties occupying the middle ground have historical roots and persist to this day. Since the last two elections, the balance of power has shifted in favour of Fianna Fáil, which once again emerged as the strongest grouping from the most recent parliamentary elections, held in May 2007, gaining 78 of the 166 seats in the lower house of parliament (three less than previously).

On that occasion, the then-premier, Bertie Ahern, who was standing for re-election, just managed to clinch victory, but was then forced to co-opt the Green Party as a coalition partner; this was because his previous coalition partner, the liberal Progressive Democrats, had forfeited six of their eight seats. The Greens thus attained government (co-)responsibility for the first time; the Progressive Democrats have also remained in the coalition, which therefore commands a total of 86 seats. It can likewise count on the support of four independent members of parliament. However, Mr. Ahern, who had been in office since 1997, tendered his resignation in May of last year, one year after the parliamentary elections, having come under increasing pressure on account of a financial scandal and of accusations of corruption. His successor as Taoiseach (the Gaelic designation for the office of Ireland's head of government) is Brian Cowen, who had formerly served under Mr. Ahern as Minister for Finance. Given that an election to the lower chamber of parliament has to take place at least every five years according to the constitution, the next general election must officially be called by the end of May 2012 at the latest. The next local elections are due to be held together with the European elections on 5th June of this year. Domestic policy is currently being overshadowed by the economic and financial crisis. The Cowen government has made infrastructure development, the fight against climate change and the modernisation of the health-care system the main domestic-policy items on its agenda for 2007-2012. The reform of the educational system and its financing, integration, and immigration are further topical issues.

At present, the failure of the referendum on the Treaty of Lisbon held on 12th June last year is dominating the country's policy vis-à-vis Europe. Although the vast majority of parties represented in parliament had come out in favour of the treaty, 53.4% of the electorate voted against it. The question whether - and, if so, how - Ireland can still ratify the treaty and the question of the country's future in the EU remain unclarified and are causing perplexity in Brussels. This is because the EU's enlargement plan has been in abeyance since the "thumbs-down" from the Irish - meaning, for example, that Croatia has not so far received any option of joining the Community. The way-out of the dilemma preferred by the EU is for the Irish to vote again, with Brussels apparently betting that Irish voters will "back down" on account of the drastic deterioration in the country's economic situation. After all, Ireland has unreservedly advocated the European Union's previous enlargement rounds. Moreover, it is only through immigration, especially from the new EU member states, that industry's demand for new workers has been (to some extent) covered in recent years and that the economy's growth trajectory has been underpinned. In view of the bursting of the real-estate bubble and of the turbulence affecting depository institutions, the Irish government itself is calling for a "pragmatic approach" based on the EU's absorption capacity and on what the electorate is prepared to approve.

3. Macroeconomic development:

The economy has been racking up impressive rates of expansion since the 1990s. The high real growth rates exhibited for a long time by the Celtic Tiger (1990-1995: an average of 4.7%; 1996-2000: 9.6%; 2001-2007: 5.5%) are the result of an industrial-development policy (above all involving high-tech companies) fuelled by low taxes, but they are also attributable to multinational corporations shifting profits for accounting purposes to the Emerald Isle, a tax haven. While nominal per-capita GDP (2008: EUR 43,600) is among the highest in the EU and the cost of living is the highest in the euro zone, there is still some catching-up to do in a number of areas in the infrastructure sphere. The government is therefore opting above all for projects designed to overcome the partitioning of the island (in the first instance in the energy-supply, road- and rail-transportation, and tourism domains).

Long years of upswing have enabled the government to generate budget surpluses and to push down the public-debt ratio to an unproblematic level. The population is benefiting from high employment rates and strong income growth. However, the petering-out of the real-estate boom and waning competitiveness vis-à-vis foreign countries are detracting from growth prospects and are necessitating extensive retrenchment measures. In the past, this open economy has profited more than any other European country from globalisation. But a radical trend reversal has now materialised in the wake of the high growth rates and the sharp reduction in unemployment which shaped the trend in earlier years: having expanded by 6.0% in 2007, the gross domestic product fell by 2.0% last year. The outlook for 2009 is looking even more gloomy because the real-estate crisis has not yet been defused and because the state has had to go heavily into debt in order to be able to fund the necessary support measures for banks and for the broader economy.

With the assistance of a plethora of factors – in particular high income growth, low interest rates, a liberal lending policy, tax advantages for home owners and favourable demographic trends – heavy demand for residential property led over the past decade to an explosive rise in real-estate prices. The latter leapt by approximately 300% in the period starting in 1996 – i.e. by more than in any other industrialised nation. The upward trend only came to an end at the beginning of last year, with prices subsequently beating a retreat. At the same time, there has been a decline in the number of housing completions and new registrations. The slump in the real-estate market is taking a heavy toll on the economy because the construction sector was benefiting to a great extent from the housing rally over the past few years. This sector contributes 10% to gross value added in the Emerald Isle and has, to date, provided jobs for 12% of the workforce. The government's attempt to stabilise the market by offering tax relief to first-time buyers has not had much effect. Instead, uncertainty about the future trend in interest rates and the turmoil on the US mortgage market have been crimping the propensity to invest. In parallel to the waning pace of cyclical activity, the unemployment rate – which already moved up from 4.6% to 6.5% last year – should climb to around 10% in 2009 and 2010 according to recent estimates. This will probably bring to a halt the substantial influx of foreign workers, especially from Poland and the Baltic states, which has been witnessed in recent years. The inflation rate weighed in at 3.1% in 2008 but ought to dip to below 1% over the course of the present year.

4. Foreign trade:

For many years, Ireland was a much-sought destination for foreign direct investment. The main focuses on this score were the pharma and medical industry, the communications industry, the software industry, and service centres, along with research and development. In recent years, the United States has been easily the most import foreign investor, responsible for some 70% of all jobs created within the framework of foreign direct investment. The reason that the USA has shown such interest is, in the first instance, Ireland's prominent status as a "gateway" to the EU. By choosing the Emerald Isle as a production location, US enterprises gain free access to the EU single market; on top of this, US employees do not face any language barrier. On the other hand, there are now indications that Ireland is losing its sparkle as a business location. This is certainly revealed by the net figures: although inward investment into Ireland has continued to take place, foreign investors have withdrawn more capital from the country over the past four years (with the exception of 2007) than they have committed in the form of new investment. What is more, the sharp appreciation in the euro relative to the US dollar has made Irish exports more expensive. This has also fed through into a persistently deficit-ridden trade account in recent years. Due to the deficits on the balance of services and the income account, the current account as a whole closed with a clear deficit of EUR 8.5 billion, or 4.5% of GDP, in 2007. The deficit amounted to approximately EUR 8.0 billion in the year which ended recently.

Since the founding of the International Financial Services Centre (IFSC) in 1986, more than 400 companies from the banking and insurance industries (including 40 from Germany) have located in Dublin to take advantage of the favourable tax regime (the corporation tax comes to 12.5%). 15 of the 35 largest banks are subsidiaries of German companies, and one German bank has its headquarters in Ireland in the interim. Many investments were rode roughshod over by the global financial-market crisis which came increasingly into the ascendant over the course of last year, and this has had corresponding repercussions on Ireland's position as an investment location.

5. Financial status:

Up to now, Ireland has been a "star pupil" with respect to public debt, which had been scaled back to 25% of GDP (2006/2007). By way of comparison, the 1993 figure was 95%. So as to be able to carry out necessary investment in the country's infrastructure and to correct the imbalances in the banking and housing sectors, the government is setting its sights on significantly higher new borrowing in the coming years: a budget deficit of no less than 11% is being expected for 2009. As a result, the public debt ought to move up again to well above the 50% mark, as a proportion of GDP, over the next three years. This notwithstanding, the latest Country Credit Rating published by the magazine "Institutional Investor" testifies to the fact that Ireland's financial standing is still, in principle, favourable. The Emerald Isle came 15th in a field of 177 countries which received ratings in the September 2008 survey, gathering 91.6 out of a possible total of 100 points.

6. Assessment:

Growth rates well in excess of the EU average earned Ireland the nickname Celtic Tiger. An upswing which lasted for many years enabled the government to generate budget surpluses and to reduce the pubic-debt ratio to an unproblematic level. The population too has been the beneficiary of high employment rates and of robust income growth. However, the tiger is going to be roaring rather more quietly in the foreseeable future. The petering-out of the real-estate boom and declining competitiveness are dimming the growth outlook and making retrenchment measures imperative.

Completed on 10th February 2009

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