غرفة التجارة العربية الايرلندية
Arab-Irish Chamber of Commerce

Q3

Ireland Economic Update

October 2014

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Brought to you by the AICC this quarterly economic report will provide a summary of the significant sector trends evident in Ireland and the Arab region alongside key insights and fresh thinking from our experts.

1. Is the Tiger pouncing back?

In Germany there is gloom as confidence and forecasts fall. On global stock markets slower US growth is causing concern. But in Ireland something different is happening: a return to growth rates unseen since the so-called "Celtic Tiger". Can it last?

As recently as September, Ireland's Central Statistics Agency reported something no-one ever thought possible: the economy grew by 7.7 per cent in the second quarter of 2014, making Ireland, officially for now, the fastest growing economy in Europe. Once thought extinct, is the Celtic Tiger alive once again?

Government Growth forecasts

	2014	2015	2016
GDP	4.7	3.9	3.4
GNP	4.1	3.6	3.1
Deficit (% GDP)	3.7	2.7	1.8

Source: Department of Finance Budget 2015 projections

As the world's most open economy, worries about Ireland's vulnerability persist.

Last year the so-called "Patent Cliff" – the ending of patents held by large pharmaceutical firms in Ireland – was a major concern. But this has not stopped exports rising 6 per cent annually.

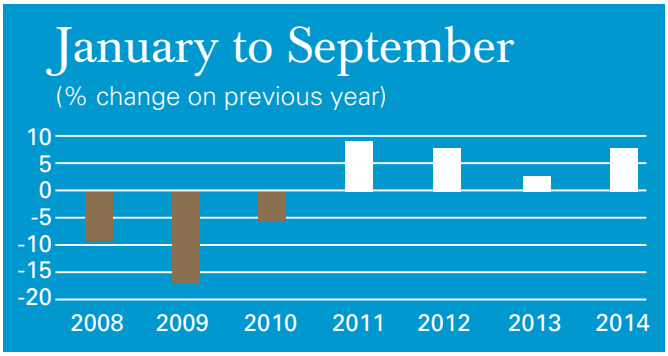
Now the disappearance of the so-called "Double Irish" is causing some concern (see sections 2 and 3 below).

But somehow, Ireland has so far shrugged off these concerns to produce impressive growth, beating fiscal targets laid down by the EU/IMF/ECB "troika" and – most importantly of all – reducing unemployment and beginning to reverse austerity tax increases (see section 3).

1. Is the Tiger pouncing back? (contd.)

1.2 The tax take rises

For four straight years in a row, Ireland's tax revenues are growing, following steep falls during the crisis. The government began cutting taxes in 2013 with a €500 million package to stimulate investment. The result has been the creation of 30,000 new businesses in the year to June 2014[1].

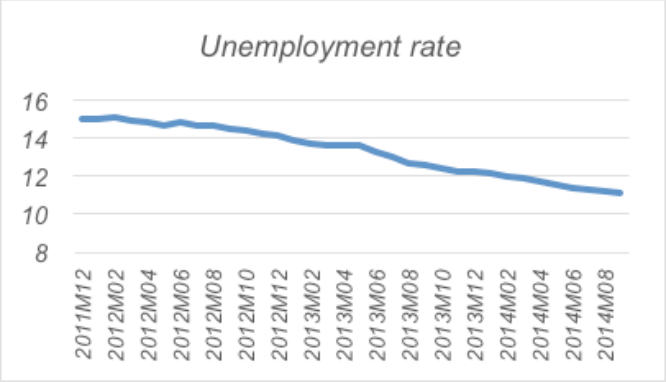


Source: Department of Finance Exchequer returns

This news is not just evidence of further progress; it is crucial in enabling the government to begin cutting taxes in a way that will recognise the patience of the electorate and win support for sustainable policy in the future. Falling unemployment is also helpful in this regard.

1.3 Unemployment continues to fall

Irish unemployment has fallen steadily since 2011 and is now below the Euro area average. The government's job activation strategy, 'Jobs Initiative', and creation of 70,000 jobs has been the key cause of this development.



Source: CSO Live Register

Dubai international airport surpassed Heathrow to become the world's busiest airport in the first quarter of 2014

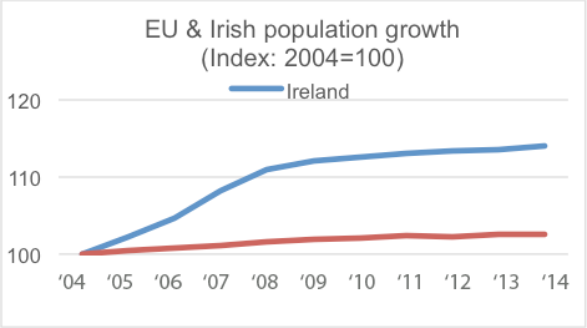
1 Source: Global Entrepreneurship Monitor (GEM) report, June 17 2014.

2. Internally dynamic, externally open

2.1 Ireland's internal dynamism

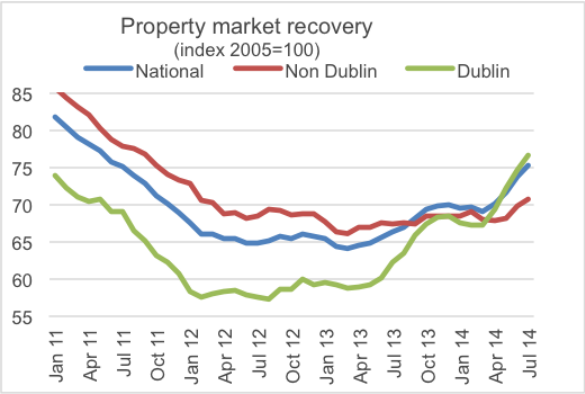
A remarkable fact about Ireland is how its population grows despite adversity. Here Ireland resembles more an Arabic than a European country. The creation of 30,000 new firms in the last year underlines this dynamism.

At 4.6 million, the Republic's population (the island's population is 6.5 million) is over 10 per cent higher than a decade ago and 50 per cent above 1970 levels.



Source: CSO Population Estimates

A significant implication of this is the recovery in house prices. Following sharp falls in house prices, Ireland now faces rapid price increases and a need to build housing.



Source: CSO Residential Property Price Index

2.2 Ireland: Still a leader in FDI

Undaunted by the challenges and changes of global economic upheaval, the IDA continues to be a source of strength stability and success and has been central to underpinning Ireland's impressive recovery. In the last few weeks alone, the agency has announced the following:

- LinkedIn are to invest in a new international headquarters in Dublin
- 140 new jobs (Optel Vision) in Limerick
- 100 new jobs (Solar Winds) in Cork
- 50 new jobs (Citrix) in Dublin
- 20 new jobs (Color Communications) in Castlerea

2.3 Ireland and the Arab world

As its high technology sectors grow, Ireland's traditional sectors are thriving too, most notably the food sector.

Forecasted economic and import growth in Arab world

	2014	2015	2016	2017	2018	2019
GDP	3.2	4.5	4.7	4.4	4.5	4.4
Imports	6.9	7.6	7.7	7.5	7.8	8.0

Source: IMF World Economic Outlook, April 2014

Despite extensive media coverage of difficulties in the region, what is less known about the Middle East and North Africa is how growth there is outperforming the US and Europe (see table above). Irish exports to the region reached €3.7 billion in 2013 and the IMF is forecasting further strong growth as Irish exporters have great potential in the region.

As well as food, tourism is an industry with huge potential for Arab consumers: tourist guide Lonely Planet has ranked Ireland as the world's 5th best tourist destination.

An excellent example of Irish success in the Arab World is Botany Weaving, supplier to Etihad Airways. As well as employing 176 Irish nationals in the Gulf region, Etihad sources the high-quality fabrics from the Donegal firm, thereby providing indirect employment in rural Ireland. It is just one of many examples of current and future success in the Irish-Arab business relationship.

3. Budget 2015: Analysis

3.1 End of Austerity

Between 2008 and last year, several "austerity budgets" raised a combined total of €11.7 billion in tax increases, while some decreases took place in public spending. Unveiled on Tuesday 14 October, Budget 2015 is, therefore, the first "non-austerity" budget in seven years.

Headline measures of Budget 2015 include:

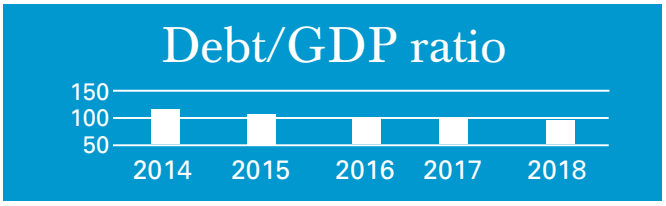
On the tax side

- A cut in the top rate of income tax from 41 per cent to 40 per cent
- A phasing out by next year of the so-called "pensions levy" on private sector pensions
- A widening in the standard tax band by €1,000 for single people and single-income couples
- A cut in Universal Social Charge rates for lower earners but increases for higher earners

On the spending side

- A plan to build 10,000 "social housing" homes for Ireland's growing population
- An extra €5 per child per month in child benefit
- The hiring of an additional 1,700 school staff and 200 Gardaí

Despite this package, Ireland's Debt to GDP ratio is expected to fall steadily to below 100 by 2018, i.e. close to the Euro Area average.



The budget also contained several initiatives on business and property taxation:

- A lower 9 per cent VAT rate was extended for the tourism sector
- The abolition of an 80 per cent 'windfall tax' on land disposals attributable to planning decisions (which should help home building)
- Raising company limits on the Employment and Investment Incentive scheme
- An extension of Special Assignee Relief Programme by 3 years and an abolition of upper income limits
- An extension of relief from corporation tax for start-ups

3.2 Goodbye, "double Irish"; Hello, "knowledge box"

Ireland's corporation tax regime has been in the international news recently. Thankfully, and despite much pressure, Ireland's corporation tax rate will remain at an a highly internationally competitive rate of 12.5 per cent but some other changes are in train.

Until now, non-Irish firms could be incorporated in Ireland but tax-resident elsewhere. By having two companies incorporated in Ireland – one tax resident and the other not – multinational companies could, until now, locate their profits here (via the tax resident company) and to then shift them (via the other company) by paying royalties on intellectual property which, under Irish tax law, are deductible as an expense. This so-called "double Irish" arrangement enables tax reduction in a manner which, although entirely legal, has raised concerns in the EU Commission and OECD, amongst others.

Moving swiftly to ensure that Ireland's corporation tax continues to provide certainty and adherence to best international practice, Budget 2015 has brought an end to the "double Irish". All companies incorporated in Ireland will henceforth have to be tax-resident as well. But companies already incorporated but not tax-resident in Ireland have until 2020 to adjust to the new regime.

Furthermore, Finance Minister Michael Noonan announced the creation of a "Knowledge Box", which will reward companies developing new technologies in Ireland with lower effective rates of corporation tax for new technologies patented in Ireland. Michael Noonan has announced that he wants Ireland's Knowledge Development Box to be "the best in its class". Once again, Ireland is doing what it has always done best: adapting to new challenges with a will to win.

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