

غرفة التجارة العربية الاليرلندية  
Arab-Irish Chamber of Commerce



Q1

# Ireland Economic Update

January 2015



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.

## Europe's fastest growing economy

Ireland was not just the first troubled Euro zone economy to exit the crisis. It has now become Europe's fastest growing economy and the only one to post a growth rate of over 4 per cent in 2014.

### Latest EU Commission Forecasts\*

	2014	2015	2016
Ireland	4.6	3.6	3.7
Euro area	0.8	1.1	1.7
Germany	1.3	1.1	1.8
United Kingdom	3.1	2.7	2.5
Latvia	2.6	2.9	3.6

\* The latest available forecasts date from November 2014 and will be updated in February 2015 but the update is unlikely to significantly alter Ireland's growth performance relative to the EU average.

Besides Ireland, the only countries that come close are the United Kingdom – which is outside the Euro – and Latvia – which joined the Euro last year. In the case of the UK, growth has been assisted by the Bank of England's policy of quantitative easing.

Until January 2015, no such policy applied in the Euro zone. Which goes to make Ireland's top performance even more impressive. Ireland's economy is expected to grow three times faster than that of Germany in 2014/15 and twice as fast in 2016.

There are many questions about whether the ECB's new policy of quantitative easing will revive the Euro zone. But one thing is already clear: whether it does or not, Ireland has shown it can achieve impressive growth.

## Healthcare: From Dublin to Dubai



Last month, Minister for Business and Employment Gerard Nash led a four-day Enterprise Ireland trade mission to the United Arab Emirates, which was aimed at building links and boosting trade in the region.

The Minister was accompanied by Enterprise Ireland CEO Julie Sinnamon, underlining the strong commitment of government to fostering business links with the region.

On the third day of the visit, the Minister was joined by UK Parliamentary Under Secretary of State for Quality Lord Howe, and Northern Ireland Minister for Enterprise, Trade and Investment Arlene Foster as guests of Arab Health in a joint reception in Dubai which showcased the healthcare industries in Ireland and Britain.

In a range of sectors from pharmaceutical products to medical instruments and life sciences, companies based in Ireland are now world leaders and, in collaboration with firms in the UK, are well placed to serve the healthcare needs of the Arab world's growing and vibrant population.



## Tax cuts on the way

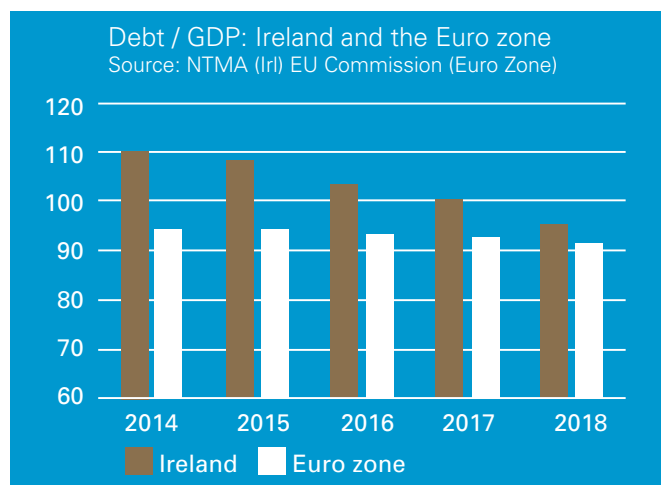
While in Greece the talk is of ending austerity, in Ireland the talk is that austerity has ended. In a strong signal to voters and the economy, the government has announced its intention to unveil a programme of tax cuts in April. After a year of strong growth in tax revenues, and thanks to a containment of public spending, Ireland's deficit is set to fall below the critical 3 per cent barrier next year. International experts and the Irish Fiscal Advisory Council have cautioned the government to avoid tax cuts and focus on debt reduction.

However, the strong evidence so far (see below) is that Ireland's debt burden is, relative to its economy, benefiting from strong growth which, in turn, was brought about by tax reductions.

With such evidence mounting – and with an election due in 18 months – the likely policy outcome in the year ahead will be more of the same.

## Ireland's debt falling dramatically

Falling unemployment and the hope of falling taxes are one of the main benefits of Ireland's growth performance (see below).



An equally important benefit is that higher growth makes Ireland's debt burden easier to manage into the future. As data from the National Treasury Management and EU Commission show, Ireland's ratio of government debt to GDP is set to fall significantly in the coming four years and fall below 100 per cent by 2018. By then Ireland's debt / GDP will be nearly identical to the Euro zone average, despite the fact that, like many Arab countries, it has a much younger population and a better reason for indebtedness.

## Guest article on the Irish property market

By Ann Power, Property Asset Manager at Halcyon



The Irish housing market is not only recovering but recovering so fast that the Central Bank has been concerned about its stability. On 27 January, 2015 the Central Bank announced rules requiring mortgage borrowers to have deposits worth 20 per cent of the price of the house they want to buy. One day later, Central Statistics Office data showed

residential property prices up 16.3 per cent nationally and 22.5% in Dublin.

While recovery is widening geographically across the country, Dublin remains the key driver. Despite that, however, Dublin house prices remain 35.6% lower than their highest level in early 2007, while, nationally, prices are 37.6% down on this peak.

Supply remains limited while demand continues to strengthen. As the previous Bulletin highlighted, Ireland's population growth has defied the recession and stands 0.25 million higher than when the recession began.

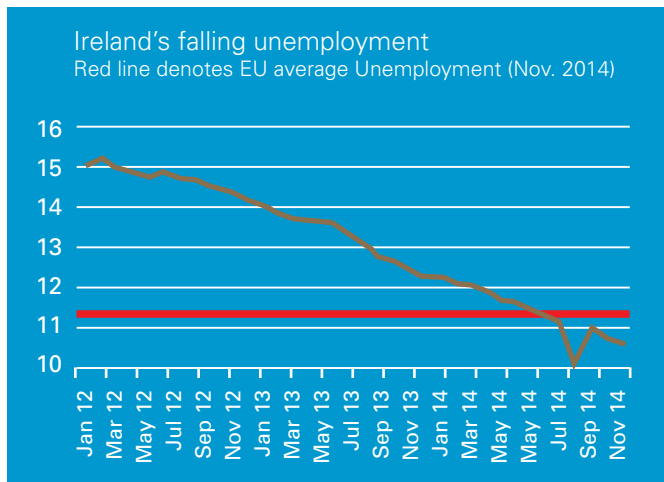
While house prices have dropped significantly, so too has the percentage of income required to service the average mortgage. Renting is now more expensive than servicing a mortgage. And while the new mortgage rules may dampen demand, it is unlikely to be as bad as initially feared due to strong jobs growth, stronger than anticipated recovery and low interest rates. Furthermore, cash sales are still significant accounting for roughly one in three transactions.

Furthermore, with yields on government bonds at historically low levels and central banks pursuing policies of near zero money market returns, investors are now looking for alternatives. After steep falls in property values, Ireland is now one of the highest yielding markets in the developed world. We expect the high yields on offer to trigger a sustained increase in investor demand and transaction activity. In our opinion, certain Irish residential property looks attractive for long-term investors with a moderate risk appetite. We continue to focus our attention on specific areas of the Dublin market as we believe it will continue to lead the recovery and will provide attractive returns for owners and investors alike.



## Unemployment now below EU average

The success of Ireland's war against unemployment has been remarkable. From just over 15 per cent in 2012, the rate of unemployment has fallen by almost one-third in less than three years.



Currently at 10.6 per cent (based on Live Register estimates), Ireland's unemployment rate has fallen steadily due to government economic policies, especially avoiding rises in income taxation, and, therefore, now stands nearly a full percentage point below the EU average.

Irish unemployment is highly likely to fall below the psychologically critical barrier of 10 per cent on centenary of the 1916 Rising, cause for a double celebration. A return to "full employment" – a situation most economists regard as prevailing when unemployment is 4 per cent or less – is possible by 2020. Quite a turnaround for a country that in 2010 was the subject of the largest bail out in European history.

## Apprenticeship initiative launched

Ireland's successful labour market policies have been key to achieving its remarkable progress in job creation. Now those policies are being further developed to help job creation for young people. In November, 2014, the Apprenticeship Council was established, while in January, 2015 it invited companies to submit proposals to the council for new apprenticeships which will attract financial and administrative support from government.

## The Knowledge Development Box: Tell government what you think



In our last Bulletin we reported on government proposals to create a "Knowledge Development Box" in response to the end of the so-called "Double Irish" (under which non-Irish firms could be incorporated in Ireland but tax-resident elsewhere).

To ensure this change – which is in line with best practice – does not prejudice Ireland's competitive corporation tax environment, the government proposes to reward companies who develop new technologies here by giving them tax exemption on new patent or patent related expenditure.

As we reported last October, Finance Minister Michael Noonan wants Ireland's regime in this area to be "the best in its class".

Now the government is launching a consultative process to ascertain the views of business on the design of the new regime: Precisely what expenditures will be subject to relief? What measure of income will benefit from the relief in terms of lower taxation? How will the policy be administered?

These are all questions that you can help to answer by joining the Department of Finance's public consultation process by the deadline of 8 April, 2015.

Click here for more information [http://www.finance.gov.ie/sites/default/files/Knowledge\\_Development\\_Box\\_%20DFinance\\_consultation\\_finalweb%20cover.pdf](http://www.finance.gov.ie/sites/default/files/Knowledge_Development_Box_%20DFinance_consultation_finalweb%20cover.pdf)

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