



# Irish Economy

## Key Messages

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### 1. Growth - a tale of two halves

- GDP growth in the first two quarters of 2011 was very encouraging at 1.8% in Q1 and 1.4% in Q2
- However, the second half of the year was a more difficult environment given signs of a slowdown in some of Ireland's key markets and the continuing debt crisis troubles in the Euro Area
- Growth in Q3 disappointed declining by 1.9% in the quarter
- It is now expected that GDP growth for 2011 as a whole will be 1%. Growth for 2012 is also forecast to be 1% reflecting the impact of slower export growth

#### Irish Economy Forecasts (%)

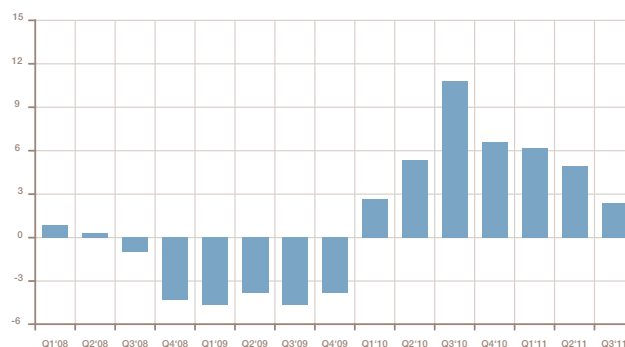
	2010	2011(e)	2012(f)
Personal Consumption	-0.8	-3.0	-1.0
Government Consumption	-3.8	-3.5	-2.0
Capital Formation	-24.9	-16.5	-4.5
Exports	6.3	3.6	3.0
Imports	2.7	-0.2	1.0
GDP	-0.4	1.0	1.0
GNP	0.3	-2.2	1.0

Source: CSO, Bol Economic Research Unit forecasts

### 2. Export demand slows but continues to drive growth

- External demand has dropped due to slowing growth in key markets but export growth is still positive
- Exports rose by 0.8% in Q3 2011 vs 1.1% in Q2 and 3.3% in Q3 2010 (q-on-q). The annual rate of export growth has fallen to 2.4% in Q3 2011 from 10.4% in the same quarter in 2010
- Risks to the Irish economy lie in the slowdown in the major developed economies. However, the global economy is still forecast to grow this year and next, albeit at a slower rate than in 2010
- That said, exports are forecast to grow by 3.6% for 2011, slowing to 3% in 2012

#### Exports slow but remain resilient



Graph shows: Export growth year-on-year (volume terms)

Source: CSO

### 3. Domestic demand struggling

- The domestic economy signalled a hint of recovery in Q2 2011 when personal consumption rose unexpectedly. However, this optimism proved to be short lived as domestic demand fell back sharply once again in Q3
- Overall domestic demand is expected to fall by 5.1% in 2011 and 1.6% in 2012
- Unemployment is likely to average 14.3% for 2011 up from 13.7% in 2010
- CPI inflation averaged 2.6% for 2011 as a whole. Inflation is forecast to fall sharply in H1 2012 and to move below 2% sometime in H2 2012, leaving the annual average at 1.8% for the year as a whole

#### Irish GDP component weighting

	2009	2010	2011
Personal Consumption	53	52	51
Government Spending	17	17	16
Investment	15	12	10
Exports	90	97	100
Imports	-75	-78	-77

Graph shows: GDP component weighting in real terms

Source: Bol Economic Research Unit

## 4. Property market downturn continues

- Property prices in Q4 2011 declined by 5.4% resulting in an annual decline of 16.7% for the year
- The demand for house purchases is influenced by price expectations and the recent price data is not indicative of any near-term change in trend
- There is an underlying demand for housing that is pushing up rents modestly. Rents rose at a quarterly rate of 1.6% in December 2011
- A long term recovery in the housing market is very much dependent on an improvement in the unemployment rate over time

### House prices continue to fall

	Peak	Change from peak	Last Quarter
CSO House Price Index	Q3 '07	-47%	-5.4% Q4 '11
Daft.ie	Q2 '07	-51%	-7.7% Q4 '11
Private Rents (CSO)	Apr '08	-23%	1.6% Q4 '11

Graph shows: % change in house prices  
Source: Daft.ie, CSO change in national average house price  
Daft.ie change in national average asking price  
Private rents, change in private rents in CPI index

## 5. Government deficit starts to decline

- General Government deficit for 2011 was c.€15.2bn or 10.1% of GDP, successfully coming in short of the 10.6% Troika target
- Despite total tax receipts being 2.5% short of the Budget target, total revenue came in broadly on target due to a substantial overshoot in non-tax receipts, primarily in fees from the bank guarantee scheme
- In order to achieve a General Government deficit of 8.6% in 2012 a further €3.2bn was required in fiscal adjustments for the year
- General Government debt was 107% of GDP for 2011. Under the current plan, it will peak at 119% of GDP in 2013, before declining to 115% by 2015

### Irish Government Deficit as a % of GDP

	General	Current	Capital
2011	-10.1	-7.3	-8.9
2012	-8.6	-7.0	-4.8
2013	-7.5	-5.3	-3.3
2014	-5	-2.9	-3.0
2015	-2.9	-0.9	-3.0

Source: Budget 2012, Irish Department of Finance  
General based on general government debt standards, Current and Capital based on Exchequer standards (i.e. totals will not sum)

## 6. Ireland's successful implementation of EU/IMF Programme continues

- Staff teams from the Troika recently concluded that Ireland's EU/IMF Programme of Financial Support is on track highlighting that Ireland has consistently achieved all the targets set out under the Programme since its inception
- Preparations are continuing for Ireland to regain market access in 2012
- The following developments were identified for the purposes of this review:
  - Fiscal consolidation - target achieved in 2011
  - Financial sector reforms - major progress in strengthening and downsizing the banking system made in 2011
  - Challenging macroeconomic environment - Troika's projected GDP growth for 2012 revised down to 0.5% from c.1% in 2011
  - Structural reforms across many sectors - being put in place

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