



# Irish Economy

## Key Messages

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### 1. Economic recovery underway

- GDP rose by 1.6% in Q2 bringing the annual growth for the quarter to 2.3%
- We expect GDP to expand in 2011 by 1.5% which will be driven by export growth and some positive movement in stock building although investment will continue to be weighed down by a further decline in building and construction this year
- Positive GDP growth in 2011 would represent the first annual expansion since 2007 and add to the momentum differentiating Ireland from other countries under Troika programs

#### Irish Economy Forecasts (%)

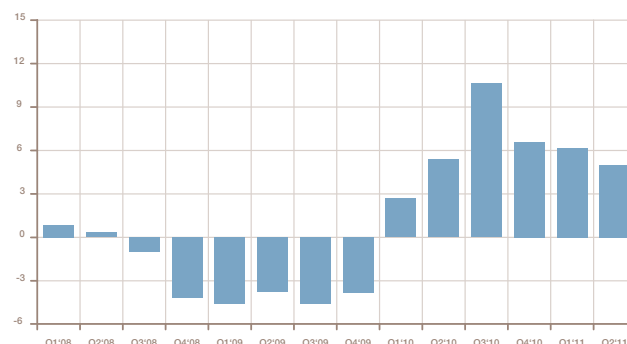
	2010	2011 (e)	2012 (f)
Personal Consumption	-0.8	-2.5	-1
Government Consumption	-3.8	-3.5	-2
Capital Formation	-24.9	-10.5	2.5
Exports	6.3	5	4
Imports	2.7	2	2
GDP	-0.4	1.5	2.2
GNP	0.3	1	1.5

Source: CSO, Bol ERU forecasts

### 2. Exports continue to outperform

- External demand continues to drive growth. Exports rose by 1% in Q2 while imports fell by 0.6%, hence net exports contributed 1.5% to GDP growth for the quarter
- Risks to the Irish economy lie more on the external front, given the recent slowdown in major developed economies
- However, our expectation is that the global economy will continue to expand and the IMF are expecting global growth to average 4% this year and next
- On that basis we forecast exports to grow by 5% in 2011
- Ireland continues to maintain a strong mix of high value merchandise and service exports, which have proven resilient in the past as the global economy has weakened

#### Exports remain resilient

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

### 3. Challenging domestic environment

- The domestic economy is showing tentative signs of recovery due to a surprise increase in domestic demand in Q2 but the consumer environment remains weak
- Overall domestic demand is forecast to decline by 3.9% in 2011 and 0.7% in 2012
- Unemployment appears to be stabilising from a peak of 14.8% in November 2010. However, significant employment growth can only happen once the export orientated recovery becomes broad based
- Inflation is expected to fall back to below 2% in 2012 and to average 1.7% for the year as a whole, given the weakness in consumer spending

#### Irish GDP component weighting

GDP component	2008	2009	2010
Personal Consumption	53%	53%	53%
Government Consumption	17%	17%	17%
Investment	20%	15%	12%
Exports	88%	91%	97%
Imports	-78%	-76%	-79%

Graph shows: GDP component weighting in real terms  
Source: Bank of Ireland ERU

## 4. Property prices have not yet stabilised

- A bottom to the residential property market does not appear to be imminent. Prices in Q3 fell by 3.8% and we expect the average house price to decline by 10.5% for 2011
- Consensus forecasts suggest that the trough in the housing market will come next year
- Demand for house purchases remains weak, however according to the CSO, rents have stabilised implying the demand for housing as a whole may be picking up
- While the bottom of the housing market may come next year, the uncertainty about the economic outlook in general and unemployment in particular, is likely to remain a key factor in dampening demand

### Housing market remains weak

	Peak	Change from peak	Last Quarter
CSO House Price Index	Q3 '07	-44.2%	-3.8% Q3 '11
Daft.ie	Q2 '07	-47%	-3.5% Q3 '11
Dept. of Environment	Q3 '06	-30%	-2.7% Q4 '10
Private Rents (CSO)	Apr '08	-23.8%	0.4% Q3 '11

Graph shows: % change in house prices  
 Source: ESRI, Daft.ie, Department of Environment Heritage and Local Government, CSO  
 PTSB/ESRI change in national average house price  
 Daft.ie change in national average asking price  
 Dept. Environ change in national average second hand house price  
 Private rents, change in private rents in CPI index

## 5. Budget 2011 broadly on track

- The General Government deficit was 32.6% of GDP in 2010 which reflected extraordinary banking sector support measures. Underlying deficit for the year was c.11.5% of GDP
- The Government is on track to post a General Government deficit of 10.3% of GDP for 2011, which is lower than the 10.6% target set by the ECOFIN council last December
- Tax receipts are just 0.7% short of their target for the first 10 months of the year with spending also behind profile for the same period
- Further austerity measures of €12.4bn planned over the next 4 years in order to reduce the General Government deficit to <3% of GDP by 2015

### Irish Government Deficit as a % of GDP

	General	Current	Capital
2010	-32	-8.1	-4.0
2011	-10.3	-7.5	-8.9
2012	-8.6	-7	-3.9
2013	-7.5	-5.1	-3.2
2014	-5	-2.7	-3.0
2015	-2.9	-0.9	-3.0

Excluding bank support measures in '09 and '10 reduces the GGD to 11.8% and 11.5% respectively  
 Source: Department of Finance Medium Term Fiscal Statement  
 General based on general government debt standards, Current and Capital based on Exchequer standards (i.e. totals will not sum)

## 6. Ireland's implementation of EU/IMF Programme on track

- The Government is determined to ensure continued progress on Programme implementation with a view to ultimately restoring Ireland's fiscal sovereignty
- The review teams from the EC, ECB and IMF evaluated performance against set targets for the fourth quarter of the Programme
- The review team concluded that the Programme was on track and all measures contained within have been fully implemented
- The team particularly identified the following developments made in each of the key areas on review:
  - **Macro-economic environment** - economic growth in H1 stronger than expected
  - **Financial sector reforms** - key initial phase as announced in March 2011 has been implemented
    - Recapitalisation completed at lower costs than expected
    - Deleveraging of banking sector progressing as planned
  - **Fiscal consolidation** - authorities committed to reducing Ireland's General Government Deficit to <3% GDP in 2015
  - **Structural reforms** to support job creation and growth are being implemented

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