

Country Insight Snapshot Ireland

January 2019





OVERVIEW

OVERALL COUNTRY RISK RATING: DB3a

Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Improving ↗

CORE OUTLOOK

- + The Irish economy is growing much faster than the EU average given both its concentration on cutting-edge sectors and its ability to attract American investment.
- + Ireland's rate of corporation tax (12.5%) compares very favourably with other European countries such as the UK and Germany.
- + There are few legal or bureaucratic barriers to investors entering the Irish market.
- Long-term economic potential could be undermined by Brexit.

KEY DEVELOPMENT

Data for Q3 indicate that growth is slowing as the external environment deteriorates, supporting our forecast of 4.2% growth in 2019 and 3.8% in 2020.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable →

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

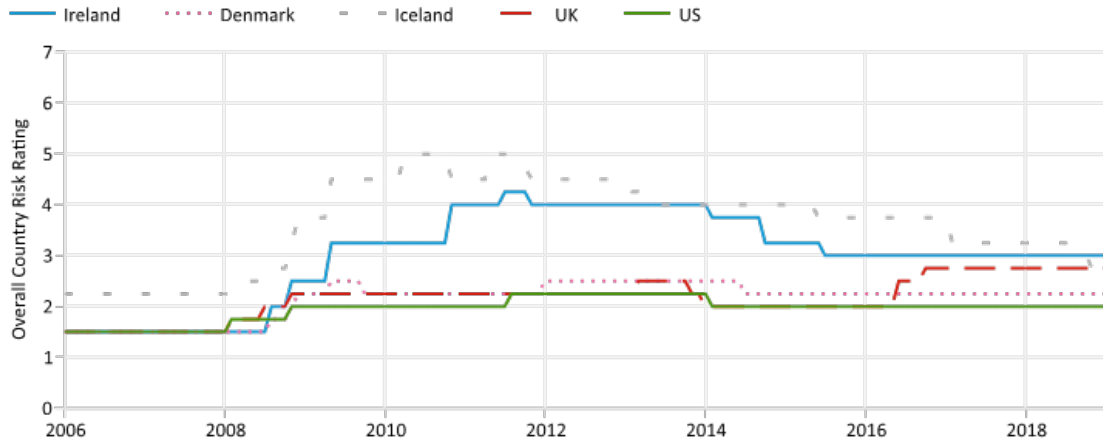
Trend: Stable →

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

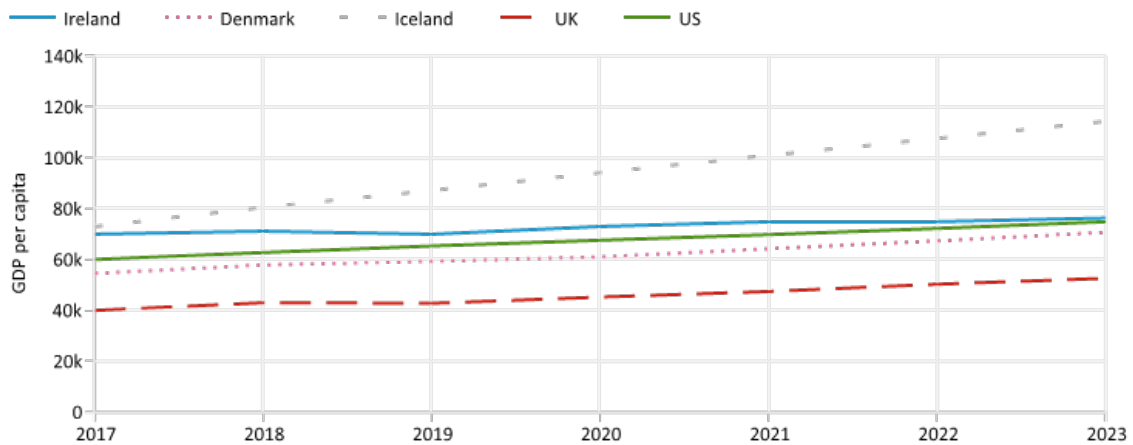
Rating History and Comparison



Source : Dun & Bradstreet

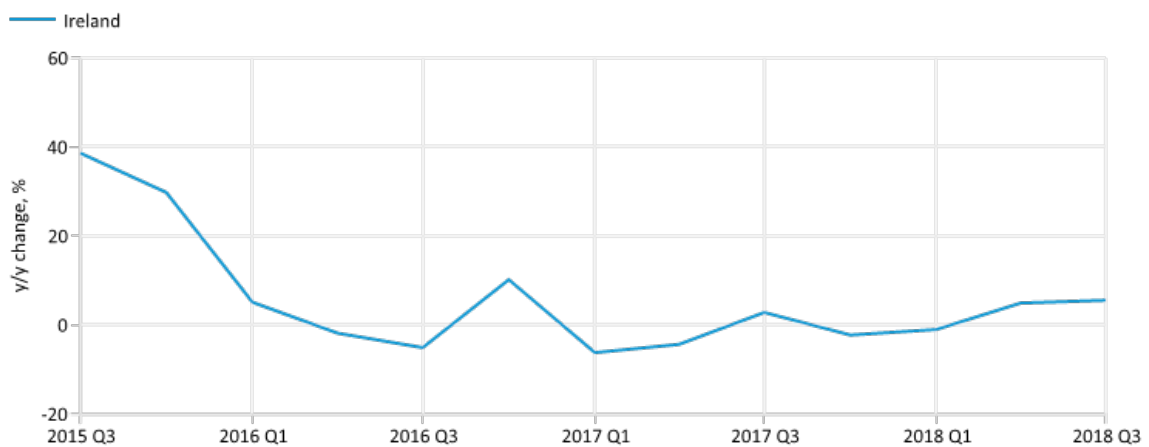
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	4.7	8.7	7.0	4.7	4.6	4.6	4.8	4.8
Govt balance, % GDP	-0.5	-0.2	-0.2	0.5	1.0	1.5	1.5	1.5
Inflation, annual avge %	0.0	0.3	0.4	0.8	1.0	1.2	1.3	1.3
Real GDP Growth, %	5.1	7.2	6.8	4.2	3.8	3.5	3.0	2.9
Unemployment, %	8.4	6.7	5.6	5.4	5.2	5.0	5.0	5.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The government's budget for 2019 contains a number of significant fiscal changes, including: (i) the immediate introduction of a 12.5% 'exit tax' on unrealised capital gains for multinational companies which move assets offshore or cease to be Irish tax residents - as American multinationals respond to tax cuts in the US by repatriating their European earnings; (ii) an increase in employers' share of pay related social insurance in 2019 and 2020 to 10.95% and 11.05%, respectively; and (iii) an extension of the relief on corporation tax for start-ups until the end of 2021. The budget contains a de facto cut in income tax by raising the upper threshold for the standard rate of income tax by EUR750 to EUR35,300 and cutting the universal social charge rate from 4.75% to 4.5%. The government has also introduced a cluster of smaller fiscal changes, including a rise in VAT on tourist and hospitality services from 9% to 13.5% and a cut in VAT on online publications to 9%.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: OA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 1-3 months

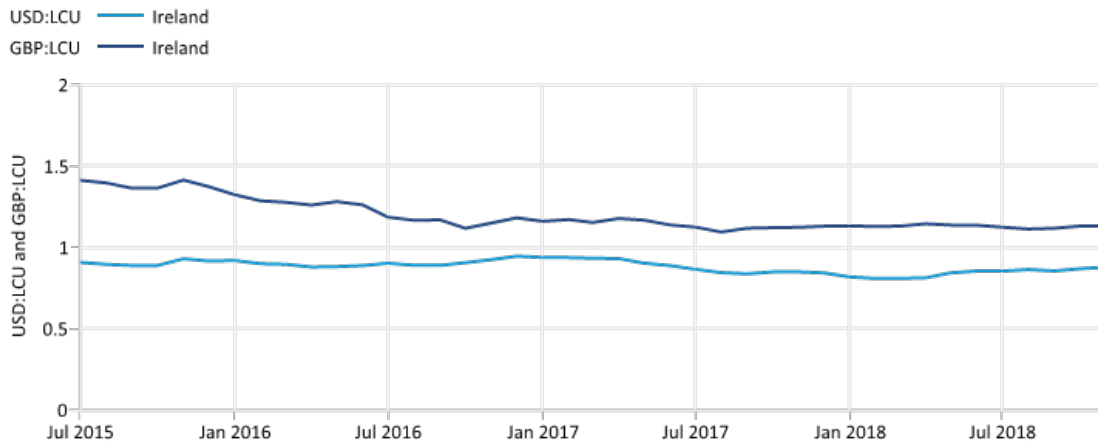
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



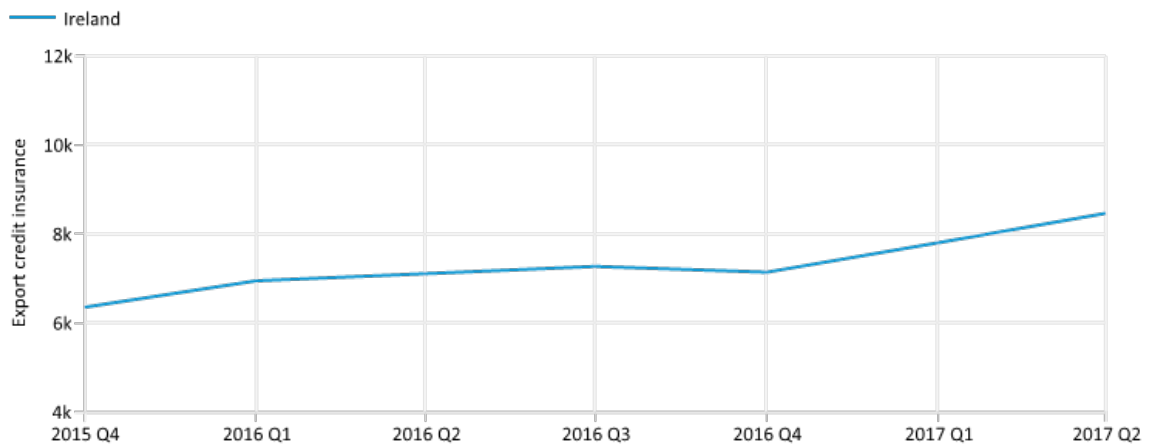
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = euro

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; part of the increase going into 2017 is due to methodology changes.



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Economic slowdown in Q3

Data for Q3 2018 indicate that economic growth is slowing, albeit from a high base, supporting our forecast of 4.2% growth in 2019 and 3.8% in 2020. In unadjusted annual terms, growth in Q3 amounted to 4.9% y/y and 0.9% in quarterly terms - a sharp slowdown from the 8.9% annual growth registered in H1. The main driver of growth was private consumption, which rose by 1.0% over the quarter, supported by a raft of factors including falling unemployment, rising real wages, rising house prices and cuts in taxation. Public spending was also positive as the government loosened fiscal policy. Investment grew by a massive 23.2% compared to Q2, helped by extensive housebuilding, rising public investment and strong inflows of FDI. In contrast, the one component of growth to make a negative contribution in Q3 was net exports, as growth in exports of 1.5% y/y was outpaced by growth in imports of 7.1% y/y, due mainly to increased activity in aviation leasing. As the economy slows, previous fears of overheating are diminishing, to be replaced by the danger of a sharper-than-expected downturn. Ireland faces a multitude of risks, above all the prospect of a sharp slowdown in its main trading partners and political/financial risks in the euro zone. This is reflected in indicators on sentiment for Q4 that saw consumer confidence fall to an average of 95.0 (as of October and November), down from 102.1 in Q3, and the Purchasing Managers Index fall to 54.5 in December, down from 57.5 in August.

Long-Term Economic Potential

Boost to corporate tax revenues

Fears that American multinationals could move their HQ out of Ireland after cuts in corporation tax by the Trump administration have not been fulfilled. On the contrary, new figures suggest that corporate tax revenues rose by 32.0% in 2018 compared to 2017, or EUR3bn in monetary terms. The key reason is a provision in the new tax laws which states that American corporations are exempt from corporation tax in the US on profits from intellectual property held abroad if this is paid in another jurisdiction at a rate of at least 10%. This prompted several firms to move their companies out of tax havens and into Ireland, where the 12.5% tax rate exceeds the minimum threshold. As a consequence of the rise in revenues, the government can accelerate repayment of public debt which, at 68% of GDP, is a major long-term risk to financial stability. The boost in registered corporate activity could also raise GDP growth in statistical terms by around 5 percentage points.

Political/Insecurity Risk

Government secure for another year

On the political front, the government remains stable following an agreement in December between the minority coalition (led by Fine Gael) and the opposition Fianna Fail on extending their confidence-and-supply arrangement for a year. The stated reason is the need for political stability during the UK's exit from the EU, which could cause a shock to the Irish economy. Both sides are also calculating their political advantage, especially Fianna Fail, which is behind in opinion polls and needs time to catch up. The main question now is whether elections will take place in 2020 or 2021, when the current parliamentary term expires, which in turn will depend on the mode and impact of Brexit.



COUNTRY PROFILE AND STATISTICS

Overview

The Republic of Ireland is located on an island to the west of the UK. It shares the island with Northern Ireland, which is a constituent country of the UK; the Republic of Ireland was founded in 1922 after gaining independence from the UK.

In recent years, the economy has transformed from having an agricultural focus and is now becoming dominated by trade, industry and investment. Ireland has an investor-friendly business environment. Strong economic growth in 2004-08 was driven by a buoyant construction sector, but the mid-2007 housing market downturn, coupled with the financial crisis, brought investment activity and economic growth to a halt, exposing large imbalances in the public sector.

The political environment is reasonably stable. One long-standing feature of Irish politics is the relationship with Northern Ireland and the conflict that took place there in the twentieth century. However, the advent of the Good Friday Agreement in 1998, and the return of devolved power to Northern Ireland in 2007, mean that peace has returned and the issue has become less potent; this could change in the wake of the UK's Brexit vote.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Leo VARADKAR
Capital	Dublin
Timezone	GMT
Official languages	Irish, English
Population (millions)	4.8
GDP (USD billions)	342.0
GDP per capita (USD)	71,193
Life expectancy (years)	81.4
Literacy (% of adult pop.)	99.9
Surface area (sq km)	70,280

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	8.3	25.5	5.1	7.2	6.8
Nominal GDP in USDbn	258	290	304	333	342
Nominal GDP in local currency (bn)	194	262	275	296	290
GDP per Capita in USD	54,984	61,745	64,396	70,020	71,193
Population (year-end, m)	4.7	4.7	4.7	4.8	4.8
Exchange rate (yr avge, USD-LCU)	0.8	0.9	0.9	0.9	0.8
Current Account in USDbn	8.9	31.7	14.3	29.1	23.8
Current Account (% of GDP)	3.5	10.9	4.7	8.7	7.0
FX reserves (year-end, USDbn)	327.6	333.9	344.4	353.2	374.6
Import Cover (months)	1.3	1.4	1.5	1.4	1.4
Inflation (annual avge, %)	0.3	0.0	0.0	0.3	0.4
Govt Balance (% GDP)	-3.6	-1.9	-0.5	-0.2	-0.2

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	4.2	3.8	3.5	3.0	2.9
Nominal GDP in USDbn	339	357	369	372	382
Nominal GDP in local currency (bn)	295	300	305	310	318
GDP per Capita in USD	69,990	73,036	74,921	74,969	76,368
Population (year-end, m)	4.8	4.9	4.9	5.0	5.0
Exchange rate (yr avge, USD-LCU)	0.9	0.8	0.8	0.8	0.8
Current Account in USDbn	15.9	16.4	17.1	17.8	18.5
Current Account (% of GDP)	4.7	4.6	4.6	4.8	4.8
FX reserves (year-end, USDbn)	393.6	413.7	430.5	448.0	470.8
Import Cover (months)	1.4	1.3	1.3	1.3	1.2
Inflation (annual avge, %)	0.8	1.0	1.2	1.3	1.3
Govt Balance (% GDP)	0.5	1.0	1.5	1.5	1.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Ireland	Denmark	Iceland	UK	US
Income per Capita (USD)	69,990	59,373	87,173	42,827	65,380
Country Population (m)	4.8	5.8	0.3	67.0	329.1
Internet users (% of population)	82.2	97.0	98.2	94.8	76.2
Real GDP Growth (% p.a., 2019 - 2028)	2.0 - 4.5	1.4 - 2.3	1.5 - 3.2	1.8 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

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