

Economic Brief

January 2009

Economy

Indicator	2003	2004	2005	2006	2007	2008*
Real GDP Growth (annual per cent change)	4.5	4.7	6.4	5.7	6.0	-1.4
Consumer Prices (annual per cent change)	3.5	2.2	2.5	4.0	4.9	4.1
Unemployment (annual average rate)	4.6	4.4	4.4	4.4	4.5	6.3
General Government Debt (per cent of GDP)	31.1	29.4	27.3	24.7	24.8	40.6

Source: Department of Finance; Central Statistics Office

* estimate

Ireland 2008 GDP €185,649m GNP €158,343m GDP per capita € 42,000

Government Debt

Ireland's Government Debt to GDP ratio was in the 90%'s in the early to mid 1990's
From 1995 it has continuously fallen to 25% in 2007.

It has increased to 41% in 2008 and is projected to rise to 54% in 2009.

Taking account of assets of the National Pension Reserve Fund (market value at 30 December 2008 was €16.4 billion) and the significant cash balances held by the NTMA, the end-2008 figure would be approximately 20 per cent of GDP.

International Comparison of Government Debt to GDP ratio in 2008

Ireland 41%, EU average 60%, Euro area 68.7%

UK 50%, Portugal, France and Germany c.63%,

Greece 93% and Italy 104%

Govt Cost of borrowing

Cost of borrowing is much lower than in the 1990's

We were paying €2.7b per annum in interest in 1990's to service the national debt.

Interest bill in 2008 was €1.5b, down from €1.6b in 2007 (down 7%) and €1.9b in 2006

Cost of borrowing has fallen from 8.5% in early 1990 to 3.5% in 2008

Credit Ratings

Fitch Ratings—20 January 2009: Fitch Ratings has affirmed the Republic of Ireland's 'AAA' and 'F1+'. These are the top rating a country can get.

Standard and Poor's and Moody's under review

Irish Government Budget Deficit (General Government Balance)

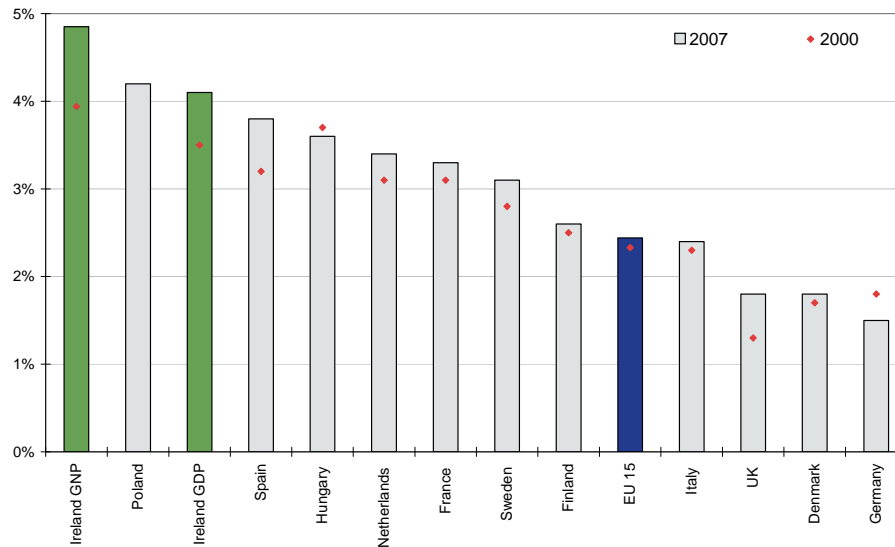
-€12.7 bn (-6.25% of GDP) in 2008 versus -€1.6 bn (<1% of GDP) in 2007.

Forecast for 2009: -€17bn (-9.5% of GDP) and for 2010: -€16bn (-9% of GDP) for 2011:

-€12 bn (-6.4% of GDP) (Dep of Finance).

Fixed Capital Formation

General Government Gross Fixed Capital Formation (as a % of GDP), 2007



The current National Development Plan (2007-2013) commits to sustained levels of investment in gross fixed capital formation (as a percentage of GNP). Ireland's ranks well above the EU-15 average in both GDP and GNP terms on this measure. Budget 2009 committed the Government to maintain capital spending at 5.2 percent of GNP over the period 2008-2012.

EU-15 Ranking:
GDP: 3 (↑1)
GNP: 1 (--)

Source: Eurostat, *Economy and Finance Indicators*

IDA impact on the Economy

FDI impact

Ireland has a high level of FDI as a percentage of GDP. c.75%, (GNP c.85%) compared to OECD average of 25%, Italy 20%, Spain 35%

Thus our economy is fundamentally different make-up to these countries.

Traditional FDI host countries e.g. Netherlands 85% and Switzerland 65%

Exports

IDA supported FDI account for 60% of national Exports (€92b out of €153b);

IDA supported exports have grown by c.50% since 2000;

Total national exports grew by half that rate c. 28%;

Exports to UK account for 16% thus our clients are not overly exposed to weakness in Sterling;

Based on OECD projections of growth (Euro area 1.2%, UK 0.9% and US 1.6%) in our main trading partners in 2010 this will have a positive impact on our exports and general economic activity.

Expenditure in Irish Economy

In 2007 spend in Irish economy by IDA supported FDI is €15.9b of which salaries €6.8b, Irish raw materials €2.5b and Irish services €6.6b

Above figures have grown marginally since 2000.

Employment

Employment in the economy has increased from 1.1m in 1990, to 1998 1.5m and currently to 2.1m in mid 2008 (latest data)

IDA supported clients created 8,800 jobs in 2008, now employing circa 136,000 full time
This equates to c.6.5% of total numbers employed.

Tax Wedge

(difference between the total labour cost to an employer and the corresponding disposable income of an employee.)

- The Irish tax wedge (22.3%) is one of the lowest in all 30 OECD countries;
- Based on the average worker, Ireland has the 4th lowest tax wedge;
- Only Mexico, Korea and New Zealand score better;
- It is significantly below the OECD average (37.7%);
- This has benefits for both employers and employees;
- Arising from the lower tax wedge the Irish employees have one of the highest levels (4th) of disposable income compared to their OECD area country counterparts;
- Irish employers have the 9th lowest labour cost on a PPP basis in the OECD. It costs an Irish based employer less money to offer the same amount of take-home pay.

IDA Highlights from 2008 performance

Summary of IDA Activities 2008	
Total Number of New Jobs Created	8,837
Total Number of New Investments	130
Total Number of Investments from new clients	35
Total number of Investments from Existing Clients, of which	95
Total R&D Investments	56
Total number of Expansions	39
Total Investments Secured	c.€2 billion
Percentage of Investments from non-US corporations	35%
Percentage of Investments to locate outside of Dublin	60%
Average Approved Salary	€45,000

IDA supported FDI has played, and continues to play, a critical role in the development of the Irish economy. Currently the IDA supported FDI sector accounts for 136,000 jobs, €2.075bn in Corporate Tax receipts (40% of total tax take of €5.066bn), and they spend €15.8bn in direct expenditure in the Economy of which €6.7bn is on Payroll, €2.5bn is on Irish Materials and €6.5bn is on Irish Services. The new jobs being created are in high value activities with average salaries of €45,000.

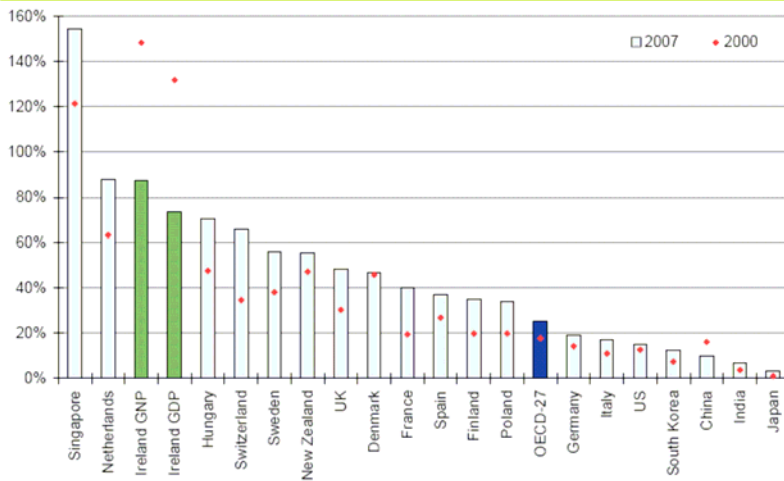
Appendix Supporting Charts

The Importance of FDI to Ireland

FDI has played, and continues to play, a critical role in the development of the Irish Economy

Source: Eurostat, Structural Indicators

Figure 3.02 Stock of Inward Direct Investment (FDI, as a % of GDP), 2007



UNIT: % GDP

FDI remains critically important to the Irish economy. While the stock of inward investment in Ireland as a percentage of both GDP and GNP has declined since 2000, inward investment levels remain among the highest in the OECD. Employment among foreign-owned agency assisted Irish companies has remained high since 2000, employing 153,508 people in 2007²¹.

OECD-27 Ranking²²:
GDP: 3 (↓1)
GNP: 3 (↓1)

Source: Forfás Calculations; UNCTAD World Investment Report 2008

Total Irish Exports (Goods & Services)

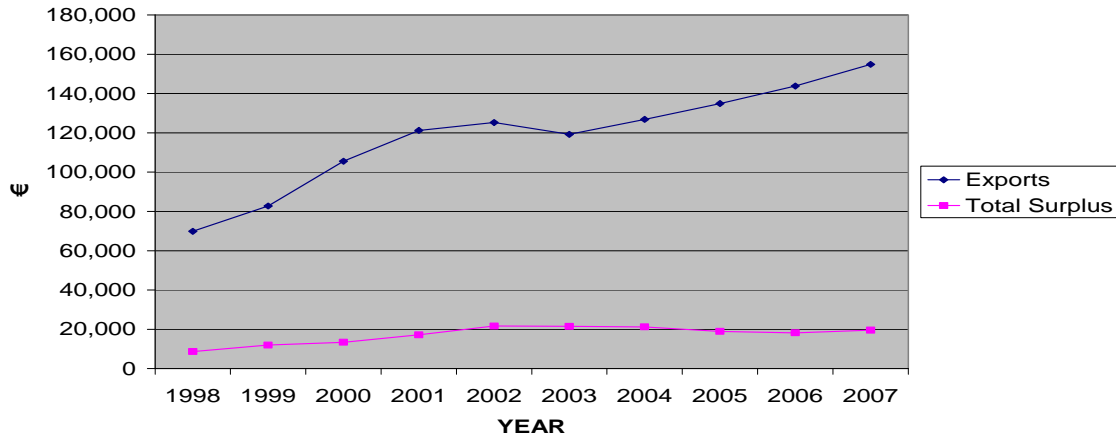


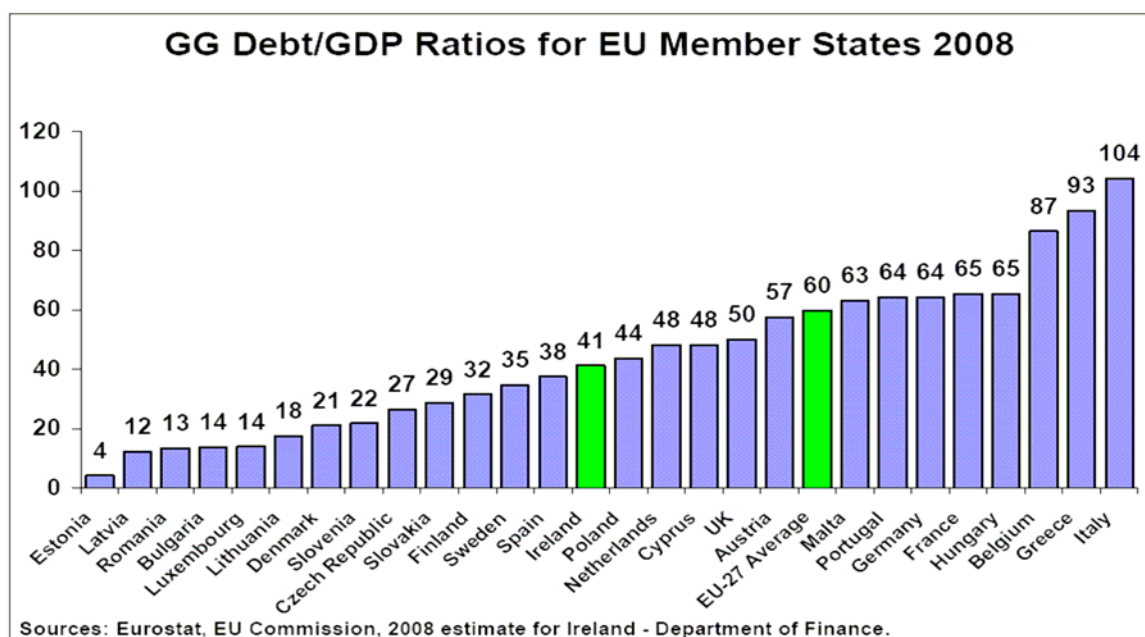
Table 1 – GDP Growth in Ireland’s Main Trading Partners

	2008	2009	2010
Euro area	1.0	-0.6	1.2
Germany	1.4	-0.8	1.2
France	0.9	-0.4	1.5
Italy	-0.4	-1.0	0.8
UK	0.8	-1.1	0.9
US	1.4	-0.9	1.6

Source: OECD Economic Outlook, November 2008.

General Government Gross Debt (as a % of GDP)

	2007	2008	2009
Ireland	24.8	estimates 40.8	forecasts 54.8
Euro area	66.1	68.7	72.7
EU	58.7	60.6	67.4



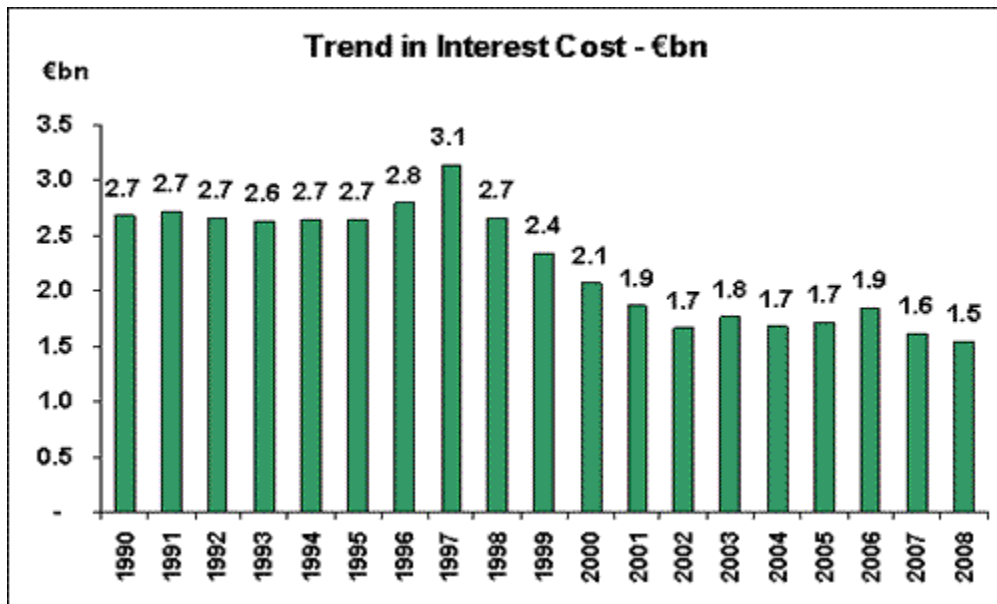
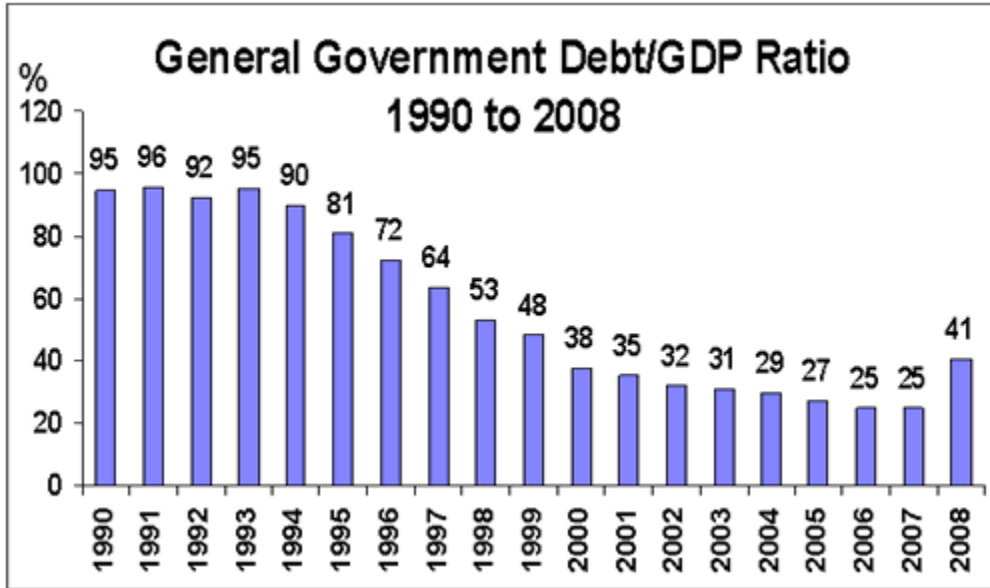


Table 0.1. Comparison of total tax wedge
As percentage of labour costs¹

Country	Total tax wedge 2007	Annual change 2007/06 (In percentage points)			
		Tax wedge	Income tax	Employee SSC	Employer SSC
	(1)	(2)	(3)	(4)	(5)
Belgium	55.5	0.0	0.042	0.006	-0.029
Hungary	54.4	2.5	0.550	1.988	-0.045
Germany	52.2	-1.1	0.159	-0.611	-0.613
France	49.2	-1.0	-0.966	0.092	-0.126
Austria	48.5	0.3	0.278	0.000	0.000
Italy	45.9	0.3	0.118	0.227	0.000
Sweden	45.4	-2.4	-2.471	-0.004	0.080
Netherlands	44.0	-0.4	0.601	-1.207	0.250
Finland	43.7	-0.5	-0.431	-0.027	0.000
Czech Republic	42.9	0.3	0.316	0.000	0.000
Poland	42.8	-0.9	0.109	-0.965	0.000
Turkey	42.7	0.0	-0.020	0.000	0.000
Greece	42.3	0.4	0.401	0.000	0.000
Denmark	41.3	0.1	0.134	-0.047	-0.022
Spain	38.9	-0.2	0.014	0.017	-0.265
Slovak Republic	38.5	0.0	0.018	0.000	0.000
Luxembourg	37.5	1.0	0.663	0.315	0.001
Norway	37.5	0.1	0.478	0.031	-0.391
Portugal	37.4	0.0	-0.004	0.000	0.000
United Kingdom	34.1	0.1	0.023	0.019	0.022
Canada	31.3	-0.5	-0.363	-0.090	-0.091
United States	30.0	0.1	0.108	0.000	-0.005
Switzerland	29.6	0.1	0.107	0.000	0.000
Japan	29.3	0.5	0.794	-0.156	-0.174
Iceland	28.3	-1.2	-0.829	-0.009	-0.404
Australia	27.7	-0.8	-0.578	0.000	0.000
Ireland	22.3	-0.7	-0.740	0.035	0.000
New Zealand	21.5	0.5	0.470	0.000	0.000
Korea	19.6	1.4	1.022	0.113	0.263
Mexico	15.3	0.3	0.293	-0.039	0.021

StatLink  <http://dx.doi.org/10.1787/187648078686>

1. Figures of the average worker single without children.
Source: Country submissions.

Table 0.2. Income tax plus employees' and employers' social security contributions

As % of labour costs, 2007¹

Country ²	Total tax wedge ³	Income tax	Social security contributions		Labour costs ⁴
			Employee	Employer	
	(1)	(2)	(3)	(4)	(5)
Germany	52.2	18.4	17.4	16.4	59 526
Belgium	55.5	21.5	10.7	23.3	57 141
Austria	48.5	12.0	14.0	22.6	56 630
United Kingdom	34.1	16.0	8.4	9.7	56 612
Luxembourg	37.5	13.0	12.6	11.9	54 000
Norway	37.5	19.3	6.9	11.3	52 048
Netherlands	44.0	12.1	18.6	13.3	51 828
France	49.2	9.9	9.6	29.6	50 260
Sweden	45.4	15.6	5.3	24.5	48 763
Switzerland	29.6	9.7	10.0	10.0	48 489
Japan	29.3	7.2	10.6	11.4	46 916
Korea	19.6	4.2	6.7	8.7	46 604
Finland	43.7	18.9	5.4	19.4	45 302
United States	30.0	15.7	7.1	7.2	44 347
Greece	42.3	7.9	12.5	21.9	44 304
Australia	27.7	22.1	0.0	5.7	42 579
Denmark	41.3	30.2	10.6	0.6	41 252
Canada	31.3	14.4	6.6	10.4	38 627
Iceland	28.3	23.0	0.2	5.1	38 232
Italy	45.9	14.4	7.2	24.3	36 692
Spain	38.9	10.8	4.9	23.2	36 329
Ireland	22.3	7.9	4.7	9.7	34 379
New Zealand	24.5	21.5	0.0	0.0	29 037
Portugal	37.4	9.3	8.9	19.2	27 453
Czech Republic	42.9	7.7	9.3	25.9	23 604
Hungary	54.4	16.1	12.6	25.7	21 552
Turkey	42.7	12.6	12.3	17.7	20 182
Poland	42.8	5.4	20.5	17.0	19 847
Slovak Republic	38.5	7.1	10.6	20.8	18 215
Mexico	15.3	3.4	1.3	10.6	11 766

StatLink  <http://dx.doi.org/10.1787/187687606251>

1. Single individual without children at the income level of the average worker.
2. Countries ranked by decreasing labour costs.
3. Due to rounding total may differ one percentage point from aggregate of columns for income tax and social security contributions.
4. Dollars with equal purchasing power.

Source: Country submissions; OECD Economic Outlook 81 (June 2007).

Economic Impact of IDA supported FDI in 2007

Category	€m
Total Exports	91,844
Direct Expenditure in the Irish Economy,	15,840
of which Total Payroll Costs	6,784
Total Cost of Materials Produced in Ireland	2,496
Total Cost of Services Sourced in Ireland	6,560

Dept Of Finance

End-2008 Exchequer Returns 5 January 2009

The following statement was issued today (Monday, 5th January, 2009) by the Minister for Finance, Mr. Brian Lenihan, T.D.

An **Exchequer deficit of €12,714 million** was recorded in 2008. Tax revenue was €8,133 million below profile in 2008. Total net voted expenditure was €351 million or 0.7 per cent above profile.

Noting the end-year Exchequer Returns the Minister for Finance, Mr. Brian Lenihan, T.D. commented that:

The Exchequer Returns published today are in line with the projections outlined at the start of December. These figures reflect the fact that, both domestically and internationally, economic conditions are poor.

Tax Revenues at €40,777 million were €8.1 billion below profile. The further deterioration in tax receipts since Budget day reflects the worsening economic circumstances over the last number of months.

Expenditure pressures emerged during 2008 mainly due to increased unemployment-related spending. However, total expenditure, excluding social welfare spending, was close to target, reflecting the impact of the Government's mid-year action to address the emerging spending pressures.

There was an Exchequer Borrowing Requirement of €12.7 billion in 2008. This is substantially higher than we had planned for and as a result the national debt rose by this magnitude. At end-2008 the General Government Debt to GDP ratio was just over 41 per cent, up from just under 25 per cent at end 2007. Net of the assets of the National Pension Reserve Fund and the significant cash balances held by the NTMA, the end-2008 figure would be approximately 20 per cent of GDP.

Overall, these Exchequer Returns, combined with economic data published since the Budget, confirm that the outlook for next year has deteriorated. I recently indicated that economic activity in 2009 will contract by significantly more than generally anticipated at Budget time last October. Contraction in economic activity in 2009 of

somewhere in the region of 4 per cent is now likely. When the Government meets later this week it will consider the revised economic and fiscal assessment from the Department of Finance. I plan to publish these revised forecasts shortly thereafter.

Borrowing for day-to-day expenditure is not sustainable. Our first priority is to stabilise the public finances and to restore sustainability to them.

There is no doubt that this will be very challenging. With proper handling, however, we can position ourselves so as to benefit from the global economy recovery when it happens. This requires decisive and sustained action over and the Government is committed to take the necessary and proportionate actions in that context.

Revenue

Total current receipts in 2008 amounted to €41,624 million compared to €47,887 million in 2007.

Tax revenue, at €40,777 million was €8,133 million below profile in 2008. Year-on-year, tax receipts were down 13.7 per cent. All tax heads were below target - VAT at €2,120 million, Capital Gains Tax at €1,780 million, Corporation Tax at €1,634 million, Stamp Duty at €1,204 million, Income Tax at €723 million, Excises at €547 million, Capital Acquisitions Tax at €73 million and Customs at €52 million.

Non-tax revenue in 2008 was €847 million. This compares to €638 million last year.

Capital receipts in 2008 amounted to €1,398 million. In 2007 the Exchequer recorded capital receipts of €1,408 million.

Expenditure

Total net voted spending was €49,313 million in 2008 compared to €44,609 million in 2007, an increase of 10.5 per cent. Net voted expenditure in 2008 is 0.7 per cent or €351 million above the Revised Estimates Volume (REV) figures.

Net voted current spending in 2008 was €40,757 million compared to €36,959 million in 2007, an increase of 10.3 per cent. This was €356 million or 0.9 per cent above the REV figures.

Net voted capital spending in 2008 amounted to €8,556 million compared to €7,650 million in 2007, an increase of 11.8 per cent. This was in line with the REV figures.

Non-voted current (Central Fund) expenditure totalled €3,936 million in 2008. This compares with €3,937 million in 2007.

Non-voted capital expenditure totalled €2,487 million in 2008. This compares to €2,368 million in 2007.

ENDS

5 January 2009

EXCHEQUER STATEMENT

[click here](#) for PDF version

STATEMENT OF EXCHEQUER SURPLUS/(DEFICIT) IN THE PERIOD ENDED 31 DECEMBER 2008

		1 January 2007	1 January 2008
		to	to
		31 December 2007	31 December 2008
		€000	€000
Receipts and Expenditure - Current			
Receipts			
Tax Revenue	Note 1	47,249,352	40,777,196
Non-Tax Revenue	Note 2	637,651	846,902
Total		47,887,003	41,624,098
Expenditure			
Voted (Departmental Expenditure Voted Annually by the Dail)	Note 4	36,958,658	40,756,518
Non-Voted (Non-discretionary Expenditure charged directly on the Central Fund)			

Sinking Fund *	Note 5	465,571	487,977
Other Non-Voted Current Expenditure	Note 5	3,471,211	3,448,308
Total		40,895,440	44,692,803

Surplus/(Deficit) on Current Account 6,991,563 (3,068,705)

Receipts and Expenditure - Capital

Receipts

Sinking Fund *		465,571	487,977
Other Capital Receipts	Note 3	942,806	909,703
Total		1,408,377	1,397,680

Expenditure

Voted (Departmental Expenditure Voted Annually by the Dail)	Note 4	7,650,077	8,556,276
Non-Voted (Expenditure charged directly under particular legislation)	Note 6	2,368,459	2,486,519
Total		10,018,536	11,042,795

Surplus/(Deficit) on Capital Account (8,610,159) (9,645,115)

Exchequer Surplus/(Deficit) (1,618,596) (12,713,820)

Source and Application of Funds

Total (Borrowing)/Repayment	Note 7	(2,274,772)	(30,310,525)
Total Increase/(Decrease) in Exchequer Deposits and Other Balances	Note 8	656,176	17,596,705

Exchequer Surplus/(Deficit) (1,618,596) (12,713,820)