Ireland as a place to do business

July 2010

- Ireland is an English speaking country close to the European market. Over 500 million people live within a three-hour flight from Dublin.

- Ireland is ranked third in Europe (seventh in the world) by the World Bank in terms of ease of doing business. Ease of paying taxes and starting a business, as well as investor protection, are some areas where Ireland scores particularly well.

- Ireland is committed to maintaining its competitive 12.5% corporation tax rate. The corporation tax system is simple and transparent, and income taxes are relatively low.

- The Irish labour force is among the best educated in the world; the share of population aged 25-34 with a third level qualification is higher than in the US or the UK, and is above the OECD average. Ireland ranks third in the euro area in terms of mathematics, science and computing graduates aged 20-29.

- In the 2010 IMD World Competitiveness Yearbook, Ireland was ranked fourth in the world in terms of availability of skilled labour and openness to new ideas, sixth on labour productivity and seventh for the flexibility and adaptability of people.

- The European Commission forecasts that the cumulative fall in Irish unit labour costs will be 9% in the period 2008-2011. Relative to the EU average, this represents an improvement of 13 percentage points. Public sector pay has fallen by 14% on average over the past two years and a major public sector transformation programme is underway.

- Energy costs have fallen by nearly 30% relative to the EU average. The cost of commercial property and business-to-business services fell considerably in 2009. The completion of the inter-urban motorway network in 2010 will reduce travel times between the major cities by up to 50%.

- Large falls in house prices (up to 50%) and rents (25%) have dramatically improved Ireland's attractiveness as a destination for young, mobile workers.

- Though Ireland's debt burden has increased dramatically, Ireland started from a very low level of debt. Consequently, Ireland's debt-to-GDP ratio is not out of line internationally. There is a general public acceptance of the necessity to stabilise and begin reducing the deficit.

- Ireland's decisive and credible action in curbing its deficit and the flexible reaction of the labour market have gained recognition in the international markets. A June 2010 bond auction was oversubscribed three-fold and the Irish Exchequer is now fully funded through to the end of 2010.

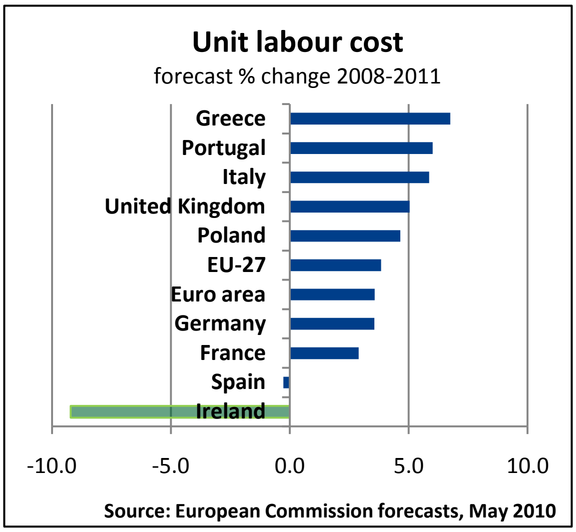
- Although the economic crisis has been severe, Ireland has demonstrated resolve and flexibility in addressing its challenges. At the same time, the qualities that make Ireland a great place to do business remain unchanged.

IBEC | the Irish Business and Employers Confederation www.ibec.ie
For information contact Brendan Butler, Director of International Affairs (brendan.butler@ibec.ie) or Reetta Suonperä, Economist (reetta.suonpera@ibec.ie).

Ireland's labour market is flexible

The quality of Ireland's labour market ranks highly in international comparisons. **In the 2010 IMD World Competitiveness Yearbook, Ireland was ranked fourth in terms of availability of skilled labour and seventh for the flexibility and adaptability of people.**

Moreover, Ireland has been able to bring down unit labour costs substantially from 2008. Labour costs remain a significant component of overall competitiveness; international benchmark data from KPMG show that labour costs account for 50% of location-specific costs in manufacturing and over 80% in services and R&D.



According to European Commission estimates, Ireland's unit labour costs fell by nearly 3% in 2009. Given that in the EU-27 labour costs increased in the same period, this represents an improvement of nearly 7% relative to the EU average. **The Commission forecasts that the cumulative fall in Irish unit labour costs will be 9% in the period 2008-2011. Relative to the EU average, this is an improvement of 13 percentage points**, achieved through a combination of productivity improvements delivered by innovative workplace change and some reductions in wage costs.

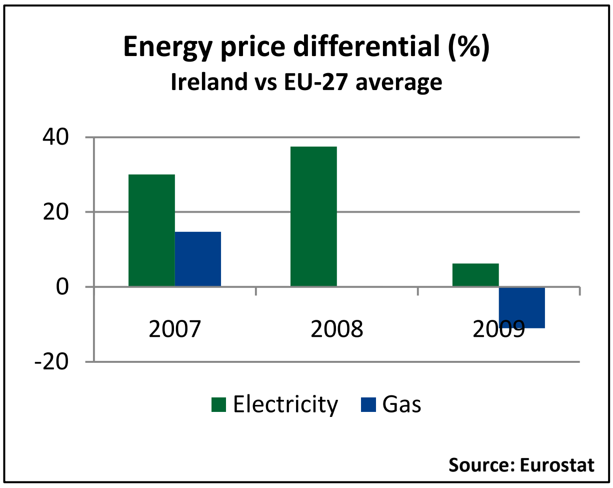
Employment and pay outlook – IBEC quarterly survey	
Basic pay rates in 2009	-2.4%
Change to pay bill	-9.8%
Share of firms that cut basic pay	25%
Outlook for 2010	
Expected change in pay rates	-1%
Change to pay bill	-3%
Share of firms to cut basic pay	15%
Outlook for 2011	
Expected change in pay rates	0.2%
Change to pay bill	0.3%
Share of firms to increase basic pay	22%

The Quarterly Business Sentiment Survey by employers' body IBEC has tracked pay bills and pay levels throughout 2009 and 2010. In 2009, a quarter of companies cut basic pay rates and the average decrease was 12%. Across all companies, average pay rates declined by 2.4%. The situation looks set to stabilise in 2010, with the vast majority, 73%, planning on freezing pay. The average projected change in pay rates is -1%. In 2011, 22% of companies are planning on implementing pay increases, but with 65% planning on a pay freeze, the average expected change to pay rates is just 0.2%. **Apart from outright reductions in nominal pay rates, companies have been able to reduce pay bills in a number of ways. These include reductions in bonus and shift and over-time premia, short-time working arrangements and decreases in employee numbers.**

Public sector wage costs have also fallen with the introduction of a public sector pension levy in March 2009 and outright pay cuts announced in Budget 2010. **The cumulative reduction in public sector pay is about 14% on average. In a deal with Government, demonstrating national resolve in finding a solution to the crisis, trade unions have agreed to a major transformation programme.**

Non-pay business costs are falling

Irish energy costs have come down substantially. In the second half of 2008, the cost of electricity for large energy users was 38% more in Ireland that in the EU-27. A year later, this gap had narrowed to 6%. The price of natural gas had moved from 15% above the EU-27 average in 2007 to 11% below by the second half of 2009.



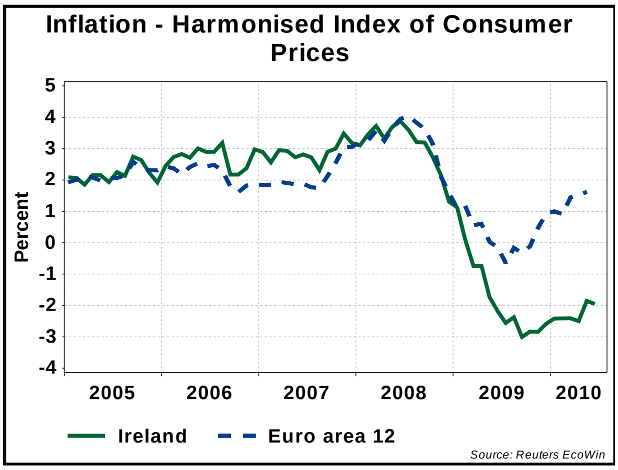
The reduction in energy prices is a result of falling global commodity prices and a rebate for all energy users implemented in 2008 to mitigate the impact of the high fossil fuel prices at that time.

The cost of renting and constructing commercial property in Ireland has fallen significantly. Following a 14% fall in 2009 in the cost of constructing a prime industrial unit, Ireland is now on a par with countries such as Germany and France. For prime office space, the rental cost fell by 13% in 2009. The cost of renting an industrial unit fell by 18% from 2008 to 2009, while office rental costs fell by 18% in 2009 on top of a 25% fall in 2008. **A ban on upward-only rent reviews for all new rental contracts came into effect in February 2010; this should make the commercial rental market more flexible in the future.**

A new, experimental data series from the Central Statistics Offices indicates that **the cost of business-to-business services fell substantially in 2009**. Overall, the index shows a 4.3% drop in 2009.

Cost of living is falling

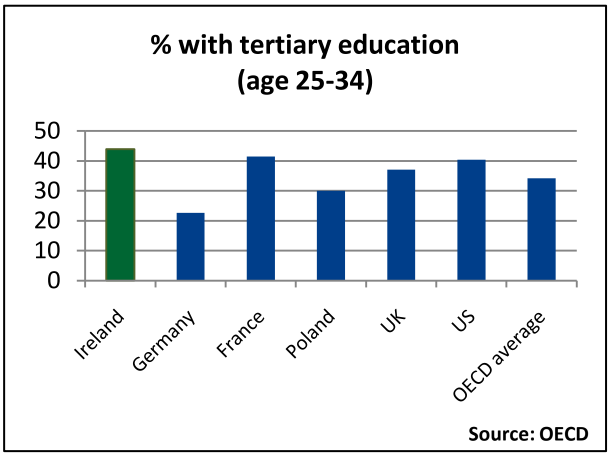
Ireland is making up ground relative to the EU average price level. According to Eurostat figures, Irish consumer prices were 17% above the euro area 12 level in 2008. However, Irish prices on the EU harmonised index have fallen by 4% from the mid-2008 peak, while prices in the euro area 12 have increased by 1.3% **- the gap relative to the euro area 12 has narrowed by over 30%.** Prices are likely to fall further during 2010, with a return to modest inflation in 2011.



Another factor bringing down the cost of living is the falling cost of housing. The cost of accommodation was a significant influence on wage demands during the boom. **Large falls in house prices (up to 50%) and rents (25%) have dramatically improved Ireland's attractiveness as a destination for young, mobile workers.**

Ireland's fundamental strengths remain

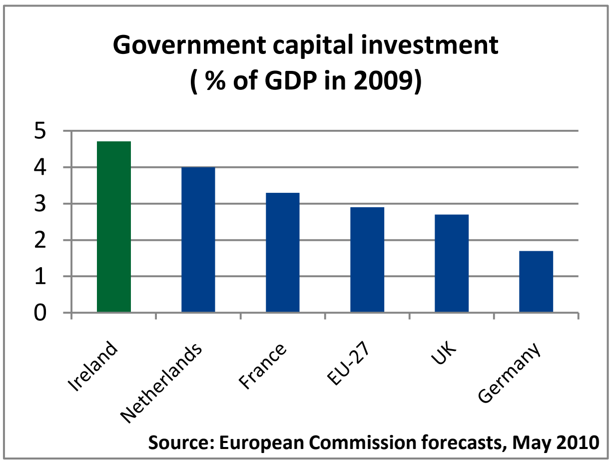
The labour force is among the best educated in the world; **the share of population aged 25-34 with a third level qualification is higher than in the US and the UK, or the OECD average.** The Government is committed to further developing and improving third level education.



And let's not forget, **Ireland is an English speaking country close to the European market**. **Over 500 million people live within a three-hour flight from Dublin**; when the expansion of the airport is completed later in 2010, it will have a capacity of 35 million passengers per year.

Ireland is ranked third in Europe (seventh in the world) by the World Bank in terms of ease of doing business. Ease of paying taxes and starting a business and investor protection are some areas where Ireland scores particularly well.

Throughout the last decade, Ireland invested substantially in infrastructure and achieved major improvements, particularly in the quality of road, rail, air and sea transportation. The completion of the inter-urban motorway network in 2010 will reduce travel times between the major cities by up to 50%. Shipping costs to and from Ireland are competitive; the large volume of trade makes the Irish market attractive and engenders competition.



Ireland's public investment in infrastructure is, and will remain, well above the EU average. The Government is fully committed to maintaining infrastructure spend at a high level. Falling tender prices enable the Government to maintain a high volume of capital investment, while at the same time achieving better value for money.

Ireland has a favourable business taxation regime

The Minister for Finance restated Ireland's commitment to the competitive 12.5% corporation tax rate in his Budget 2010 speech. The recent report from the Commission on Taxation stressed that positioning the tax system to support economic activity is of central importance.

Ireland has a comparatively simple and transparent corporation tax system and relatively low income taxes, and remains a very attractive location to do business. The 2010 IMD World Competitiveness Yearbook ranked Ireland first for real corporation taxes.

Recent improvements to the business taxation regime include:

- An increase in the research and development tax credit from 20% to 25% and other enhancements to the scheme including the introduction of a payable credit.
- A new scheme of tax relief for capital expenditure on intangible assets.
- The recent changes to the taxation treatment for the acquisition of intangible assets will greatly enhance Ireland's attractiveness for a range of knowledge based activities and as a location for company headquarters.
- Ireland has also recently improved the taxation benefits offered to international senior executives and high skilled workers who relocate to Ireland to work for a period of time.

Ireland has critical mass in high-tech sectors

Thanks to clusters and networks of multinational companies, Ireland has achieved critical mass in a number of high-tech sectors. Eight of the top ten global medical technologies companies have a manufacturing base in Ireland and employment in the sector on a per capita basis is the highest in Europe. Eight of the top ten pharmaceutical companies have operations in Ireland. ICT is another strong sector; many well-known software and hardware companies have operations in Ireland and the cluster of internet-based companies is growing as Ireland is the location of choice The international financial services sector continues to expand. More than 50% of world leading financial services firms have a presence in Ireland and the operations located here survived the global turmoil comparatively well.

Ireland is not low-cost location. However, with its educated and flexible labour force, Ireland has increasingly attracted higher value activities. **The business functions located in Ireland are shifting to higher value added activities and are in many cases becoming increasingly R&D-driven.**

Science, technology & innovation: strategic priorities

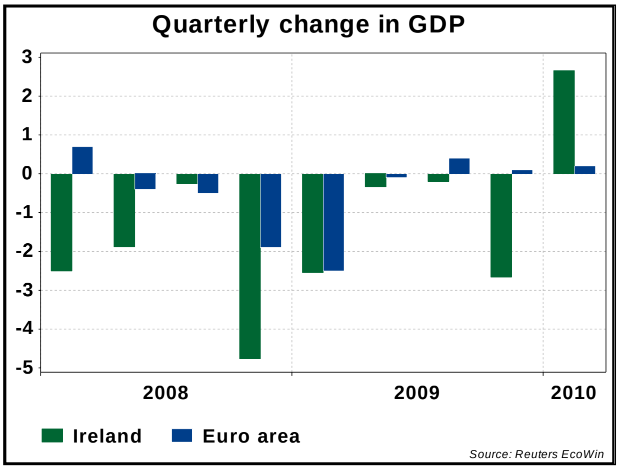
The Government's strategy for economic recovery is centred on investment in science, technology and innovation. Ireland is already beginning to see the returns of R&D investment, and business investment in R&D has increased substantially. **In 2006-2008, 45% of all enterprises in Ireland and 86% of large industrial enterprises were engaged in innovative activities. Nearly 30% of Ireland's exports are from the high-tech sector; this is among the highest in the world.** Ireland also places well in terms of availability and quality of human resources, ranking third in the euro area in terms of mathematics, science and computing graduates aged 20-29. **The IMD Competitiveness Yearbook 2010 placed Ireland fourth in the world on openness to new ideas and sixth on labour productivity.**

In 2008, 43% of FDI investments won were in R&D, almost a third of which involved collaboration with third level and other research institutes. Ireland has substantial strengths in a number of niche sectors, including green technologies and biometrics; all of these offer significant future potential. Moreover, Ireland is ahead of many other countries in broadening out the concept of innovation from the traditional technology-led view to include the services sector. Enhancing productivity in both internationally traded and domestic services offers substantial potential productivity gains.

Ireland continues to actively develop its innovation strategy: in a rapidly changing global environment standing still is not an option. **The tax offering is competitive and continues to evolve to meet companies' needs and support new areas of growth.**

The economy has exited recession

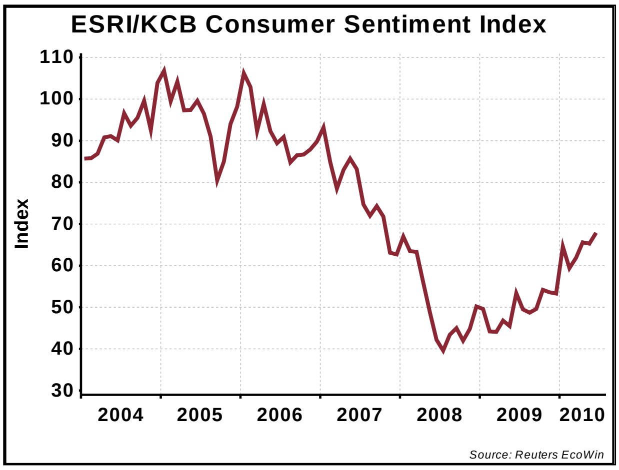
After falling sharply in 2008 and 2009 **GDP returned to growth in the first quarter of 2010,** thanks to strong exports**.** GDP expanded by 2.7% relative to Q4 2009, while exports grew by 6.9%. Net trade is now making a substantial contribution, boding well for a sustained export-led recovery.



However, GNP, a measure of the Irish economy excluding the multinational sector, still contracted slightly in Q1 2010. The continuing decrease demonstrates the extent of the adjustment the domestic economy is undergoing.

Other data sources also indicate that the worst is over for the Irish economy. The Q2 2010 IBEC business sentiment survey indicates that **companies are now more positive about both the general business environment and their own prospects than previously.** Perceptions around companies own business has improved for three consecutive quarters and is substantially stronger than last year. Companies' expectations on export sales have been positive for five consecutive quarters, and expectations on order books and customer base are also in positive territory.

Consumer sentiment reached an all-time low in 2008. The trend since then has been improving, and **the index in June 2010 was at a three-year high**. Improved sentiment is likely due to the Budget in December 2009, which concentrated on reductions and brought no tax hikes.



The labour market is showing signs of stabilisation. The unemployment rate in Q1 2010 stood at 12.9% and is now close to peaking. Though unemployment has increased rapidly, it is important to note that job losses have not happened uniformly across all sectors of the economy. Construction accounts for 50% of job losses, with manufacturing and retail the other sectors that have been heavily hit.

Although the recession has been severe, it has not undone the progress that Ireland has made. For instance, **in the 2009 UN Human Development Index, Ireland was ranked 5th**, up from 28th in 1990. **Ireland now ranks above countries such as the Netherlands, Sweden, France, Switzerland and the US.**

Resolute action on public finances

Following adjustments amounting to around 5% of GDP already, Budget 2010 set out a realistic path for bringing down the budget deficit to 3% of GDP by 2014 and delivered expenditure cuts of €4 bn. While banking recapitalisation commitments will push the headline deficit higher in 2010, tax receipts for the first half of the year are broadly in line with budgetary estimates and Government is on track to achieve its targeted underlying deficit of 11.6% of GDP. While substantial, the cost of the banking crisis in manageable.

International evidence shows that a successful fiscal correction must focus on current expenditure reductions; accordingly, cuts in public sector pay and social welfare were large components of the adjustment.

The worst of the crisis is now behind us. Further adjustments (comprising expenditure and taxation) are necessary to meet the deficit target by 2014, but they will be smaller in magnitude than those delivered in previous budgets. **The Minister for Finance has repeatedly stated that there is no scope to further increase income taxes at the top end**, though the tax base is likely to be broadened.

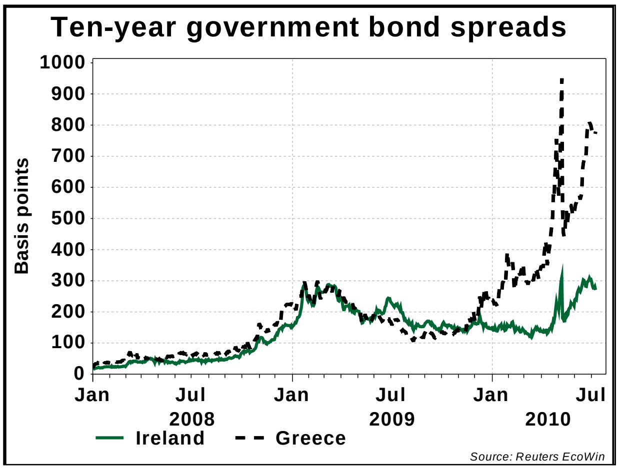
Adjustments in public finances to date	
July 2008 – April 2009	€8 bn
Budget 2010	€4 bn
Adjustments planned	
Budget 2011	€3 bn
Budget 2012	€3 bn
Budget 2013	€1.5 bn
Budget 2014	€1 bn

Though Ireland's debt burden has increased dramatically, Ireland started from a very low level of debt. Consequently, **Ireland's debt-to-GDP ratio is not out of line internationally.** The forecast debt-to-GDP ratio of 78% in 2010 is high but not out of line with the EU average (80%), UK (79%) or the US (94%).

Though the expenditure cuts have had a significant impact, particularly for those employed in the public sector and those in receipt of social welfare, **there is general public acceptance of the necessity to stabilise and begin reducing the deficit.**

International confidence is returning

Ireland's decisive and credible action in curbing its deficit has gained recognition in the international markets. This has differentiated Ireland from Greece, Spain and Portugal in financial commentaries.



The strongest demonstration of the credibility Ireland's austerity measures is the Government's continued ability to raise money on international markets. A June 2010 bond auction was oversubscribed three-fold. The Irish Exchequer is now fully funded through to the end of 2010. **The ability to sell long-term debt is a clear indication of international investors' confidence in Ireland's long-term sustainability.**

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Recent international commentary on Ireland

"Economists are starting to feel less dismal about Ireland's prospects because of the unique nature of its export economy . . . Economists and investors say Ireland has moved quickly to fix its banking woes and that unemployment may be peaking . . . Key manufacturing and services sectors have started to expand, while retail sales have held up reasonably well . . . The export picture looks encouraging, with demand rising in the U.S. and China. Prices and wages in Ireland, meanwhile, are falling, making Irish companies more competitive and encouraging foreign direct investment."
Wall Street Journal – Weaker Euro Set to Spur Irish Turnaround – June 2010

"I'm more optimistic about Ireland for a number of reasons. One, the country has been willing to do fiscal adjustment in a more credible way sooner than Greece or other countries. Two, Ireland is a more flexible economy, more dynamic, more entrepreneurial, loss of competitiveness was less than Spain, Portugal, Greece and Italy. It has been a destination for foreign direct investment by tech firms and manufacturing and therefore while times are difficult if the Government sticks with fiscal austerity and structural reform we can see light at the end of the tunnel for Ireland."
Nouriel Roubini, Professor of Economics at New York's Stern School of Business, in interview with Morning Ireland radio programme, May 2010

"There seems to me a determination [in Ireland] to do something about the situation, reflected not just in the words of the political leaders but in support for action among the public. And there is a sense of what is at stake, that the gains they made in recent years have been placed in jeopardy. The urgent need to get back on a sustainable budgetary and economic track is well understood."
Paul Volcker, chief economic advisor to President Obama, in the New York Review of Books, June 2010

"Dublin is showing other indebted governments how to cut spending . . . Both the OECD and the EU's statistics agency predict that Irish growth will pick up to 3% in 2011, well above their average forecasts for the overall euro zone. What a difference credibility makes . . . So what makes Ireland special? Its political leaders are doing it – and have been since October 2008 . . . Politicians around Europe could do worse than to look at Ireland's cuts as a model."
Wall Street Journal – The Irish Example, June 2010

"The Irish has proved on numerous occasions that they can free themselves from crises under their own strength."
Tomas Mayer, Deutsche Bank chief economist, in interview with Börse online news service, May 2010

"Ireland's economy grew by 2.7 per cent in the first quarter compared with the immediate preceding three months. This was well above analysts' forecasts and marked the first positive change GDP since the final three months of 2007 . . . The Irish experience calls into question the Keynesian critique that harsh budget measures would prove self-defeating, catapulting the economy deeper into recession. The signs are more encouraging than we had dared hope a year ago"
The Scotsman – Why Germany and Ireland are two lights in the gloom, July 2010