

# Current economic situation in ireland

[Parts of the World](#), [European Union](#)



Project 2 Olga Jusupova D12124279 For this project I have chosen to compare Irish Economy with Sweden and Spain economies. Irish economy enjoyed the "Celtic Tiger" times from 1995 until 2008. In these times Irish property developers started to build infrastructure and property fast. A lot of housing estates and other buildings were built. Banks were willing to lend money to developers and nearly everyone who asked for it. Now Ireland in major debt of Billions of Euros because of banks giving loans so easily, especially Anglo Irish Bank. Banks believed that property prices will keep rising, but they started to fall rapidly leaving Banks with huge debts. When the economy began to decline with Global Economy Crisis. Property prices began to fall. Now there are about 600 empty housing estates in Ireland. Houses were never sold. A lot of them were unfinished. Unemployment doubled in 1 year. The jobs in construction were hit the most. Mortgage holders are unable to pay their mortgage, but the loans taken by mortgage holders and developers now must be repaid by taxpayer. Irish government made a decision to bail out the Banks and seek a loan from EU. During the Celtic Tiger Irish economy expanded at rate 9.4% and continued to grow at rate 5.8% until 2008. Then Irish economy started to decline rapidly and recession has started. The GDP fell by 14% and unemployment rose by 11% in 2011. The difference between gross domestic product (GDP) and gross national product (GNP) is that the first one is a good or service produced by residents within the country, second one produced by residents of the country, even if they are not living in it. The best indicator of the Health of the Economy would be GDP; because it is produced within the country and money are circulating in the economy. If it is GNP, the money is going out of the

economy. | Country Name | GDP - real growth rate (%) | Year of Estimate | |  
 Turkey | 9 | 2011 | | Estonia | 8 | 2011 | | Moldova | 6 | 2011 | | Lithuania | 6 |  
 2011 | | Latvia | 6 | 2011 | | Belarus | 5 | 2011 | | Ukraine | 5 | 2011 | | Poland  
 | 4 | 2011 | | Sweden | 4 | 2011 | | Slovakia | 3 | 2011 | | Iceland | 3 | 2011 | |  
 Austria | 3 | 2011 | | Germany | 3 | 2011 | | Macedonia | 3 | 2011 | | Finland |  
 3 | 2011 | | Monaco | 3 | 2010 | | Montenegro | 3 | 2011 | | Romania | 3 | 2011  
 | | Malta | 2 | 2011 | | Albania | 2 | 2011 | | Belgium | 2 | 2011 | | Switzerland |  
 2 | 2011 | | Serbia | 2 | 2011 | | Norway | 2 | 2011 | | Bosnia and Herzegovina  
 | 2 | 2011 | | Bulgaria | 2 | 2011 | | France | 2 | 2011 | | Czech Republic | 2 |  
 2011 | | Hungary | 2 | 2011 | | Netherlands | 1 | 2011 | | Denmark | 1 | 2011 |  
 | Luxembourg | 1 | 2011 | | San Marino | 1 | 2011 | | Spain | 1 | 2011 | | United  
 Kingdom | 1 | 2011 | | Ireland | 1 | 2011 | | Italy | 0 | 2011 | | Croatia | 0 |  
 2011 | | Slovenia | 0 | 2011 | | Liechtenstein | -1 | 2009 | | Portugal | -2 | 2011 |  
 | Andorra | -2 | 2011 | | Greece | -7 | 2011 | Here are GDP of all European

Union countries as estimated in 2011. We can see that Ireland and Spain are at approx. the same growth rate, but Sweden has gone forward. Here we will examine Irish, Spanish, Swedish GNP over the past 5 years. [pic] [pic] [pic]

[http://www.scb.se/Pages/TableAndChart\\_\\_\\_219312.aspx](http://www.scb.se/Pages/TableAndChart___219312.aspx) From this data we can see that all three countries experience economic decline in 2008 because of the Global Financial Crisis. But the Swedish economy has recovered quickly from this; in 2010 it has GDP at 8%. Spanish and Irish economies are staying at GDP less than 1% in 2010. Why has Sweden recovered so quickly and Spain and Ireland could not. Sweden has elected new government in 2006 and has cut taxes and social welfare payments, increased exports. The cut backs on social payments were motivating people

to work. Swedish government is well known to turn the crisis into growth. The same happened in times of great depression in 1930-1933. Sweden were surviving this recession through business and entrepreneurship. After 1930s a lot of famous companies have started to emerge and still now employ a lot of employees. (Volvo Aero, SAAB, Boliden). Another crisis happened in Sweden in 1990-1993 where employment fell by 12%. In 2008 " Swedish politicians amongst both the right and the left have realized the importance of moving towards greater share of economic freedom and following a generally fiscally conservative path In this time of worldwide crisis, this has helped Sweden's economy to perform better than many others. " Nima Sanandaji (2010) ENTREPRENEURSHIP FUELS RECESSION RECOVERY IN SWEDEN 3 Ireland and Spain are struggling to recover from recession since 2008 because of the same reason. Spain experienced a property boom from 1997-2007 and facing huge debts now. Spanish banking system is very reliable and were not giving mortgages so easily as Ireland. Both Ireland and Spain have unemployment levels at around 20% now. Spanish debt: GDP 81% before bank bailout - 91% today Irish debt: GDP 80% plus 40% for the bank bailout. Spain's economy is too big for the bail out. The European Banks do not have sufficient funds to bail out their banks. If Spanish economy will collapse European Union will have to write off the debts of Spain; this will make Spain not to be able to borrow money again. The GDP per capita shows an average performance of the country and compares one to another. A rise in GDP per capita means rise in the economy. To find Per Capita GDP we have to:  $\text{Per Capita GDP} = \frac{\text{Real GDP}}{\text{Population}}$  GDP per capita is often an indicator of standard of living.

Sweden is in around 10th place in the world and its GDP per capita is around \$57,134, Ireland around 15th place in the world and its GDP per capita is around \$48,836, Spain is around 31st place and its GDP per capita is around \$31,820. Sweden's standard of living was always known as good standard of living. " The Swedish welfare system - often referred to internationally as The Swedish Model - can be described as providing lifetime benefits for all citizens. It is a social and economic system whose guiding principles are full employment, equal pay for equal work and the collective welfare of society as a whole. Salaries are comparable with other industrialized countries and Swedish residents enjoy a very high quality of life, consistently placing Sweden near the top of the United Nations Human Development Index. " (<http://www.sweden.se/eng/Home/Work/Labor-market/Salary-and-standard-of-living/>) Ireland's standard of living is not too far away from Sweden, but it is starting to decline rapidly. For example the wages of the Retail Manager 4 years ago was around €35,000 and now in 2012 it is only €25,000. Inflation is growing, but wages are not getting any bigger, therefore standard of living in Ireland is declining. Now people are not able to pay off their mortgages, which they have taken before 2008 crisis. They are also swapping bigger cars for the smaller cars to avoid high insurance, tax and petrol bills. There are many examples which can show that the standard of living in Ireland is declining every year from 2008 onwards. Current Ireland's employment situation. [pic] Ireland has 4th highest unemployment rate in Europe. These figures show that it was at its highest 15% in January 2012 and now it is gradually moving down which are good news for Ireland. But on the other side the emigration is rising and this

is why unemployment figures are falling. Dr Sean Healy, director of Social Justice Ireland, said it is clear austerity is not working. " Despite taking almost €28bn out of the economy in tax increases and expenditure cuts since July 2008 Ireland still has 700, 000 people at risk of poverty, falling domestic demand, record levels of long-term unemployment, rising emigration and 100, 000 households on waiting lists for accommodation." (Independent Sarah Stack — 08 JANUARY 2013 ) The unemployment is a big problem for the economy. There is simply not enough jobs in Ireland anymore. The young people were affected the most and its unemployment rate increased from 9% to 30% in 2012. The immigration to Ireland has also declined dramatically. The construction sector was first hit by unemployment and since then unemployment in other sectors began to increase. The fall in the participation rate on the labour market was higher for men than for women. A higher participation rate of women in the service sector and a higher participation rate of men within the construction sector can be a possible explanation of this situation. Here we can see employment by sector. Construction industry and Public Sector were hit the most. In some of the Industries employment has increased , such as service industries.

Employment and Unemployment (ILO) '000s Economic Sector (NACE Rev. 2)

|  | Apr - Jun 06 | Apr - Jun 07 | Apr - Jun 08 | Apr - Jun 09 | Apr - Jun 10 | Apr - Jun 11 | Apr - Jun 12 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agriculture, Forestry & Fishing                                    | 109. 0       | 108. 7       | 116. 0       | 97. 5        | 85. 1        | 85. 7        | 87. 1        |
| Industry   | 294. 0       | 301. 7       | 291. 4       | 263. 1       | 244. 7       | 239. 5       | 231. 7       |
| Construction   | 251. 7       | 273. 9       | 246. 1       | 158. 2       | 126. 5       | 106. 4       | 99. 6        |
| Wholesale & Retail Trade; repair of motor vehicles and motorcycles | 282. 2       | 301. 8       | 314. 8       | 285. 9       | 278. 4       | 274. 5       | 268. 2       |

| Transportation and storage | 94. 2 | 94. 2 | 94. 0 | 96. 0 | 90. 8 | 95. 7 | 90. 9 | | Accommodation and food service activities | 124. 7 | 133. 1 | 128. 7 | 127. 0 | 127. 2 | 114. 4 | 120. 0 | | Information and communication | 69. 8 | 71. 2 | 72. 3 | 74. 5 | 76. 6 | 77. 9 | 81. 2 | | Financial, insurance and real estate activities | 94. 3 | 107. 1 | 107. 1 | 109. 8 | 104. 2 | 105. 1 | 99. 3 | | Professional, scientific and technical activities | 101. 9 | 110. 9 | 118. 3 | 103. 6 | 101. 9 | 103. 8 | 102. 6 | | Administrative and support service activities | 70. 3 | 79. 2 | 77. 8 | 68. 2 | 63. 8 | 69. 3 | 63. 0 | | Public administration and defence; compulsory social security | 102. 4 | 102. 7 | 103. 5 | 107. 5 | 106. 7 | 99. 1 | 99. 6 | | Education | 136. 3 | 142. 1 | 147. 4 | 151. 0 | 149. 4 | 146. 1 | 146. 3 | | Human health and social work activities | 200. 4 | 211. 7 | 222. 8 | 230. 5 | 237. 1 | 243. 3 | 244. 4 | | Other NACE activities | 93. 6 | 98. 2 | 99. 6 | 95. 2 | 92. 4 | 96. 3 | 100. 62 | | Total in Employment | 2, 035. 1 | 2, 136. 1 | 2, 147. 3 | 1, 974. 0 | 1, 893. 6 | 1, 861. 3 | 1, 836. 2 | | Total Unemployed | 99. 0 | 107. 5 | 131. 0 | 275. 0 | 305. 1 | 317. 4 | 323. 0 | | Total Labour Force | 2, 134. 1 | 2, 243. 6 | 2, 278. 3 | 2, 248. 9 | 2, 198. 7 | 2, 178. 7 | 2, 159. 1 | | Not in Labour Force | 1, 242. 0 | 1, 254. 6 | 1, 296. 6 | 1, 351. 3 | 1, 399. 5 | 1, 420. 4 | 1, 431. 9 | | Population 15 Years & Over | 3, 376. 1 | 3, 498. 2 | 3, 575. 0 | 3, 600. 2 | 3, 598. 2 | 3, 599. 1 | 3, 591. 0 | | The most sectors which have suffered during the recession are Construction (Decreased by 152%) and Public Sector. People employed in Public Sector had to take substantial pay cuts, lower amount of hours and redundancy. Construction has slowed down in the country. When banks stopped giving out loans , many buildings have left unfinished, because developers did not have money to continue building. There is also substantial increase in some sectors , such as

Information and Communication, Education and Human health and social work activities. Inflation Definition: Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used. Most economists agree that 2% or 3% inflation increase annually is a natural function of growing economy. [pic] [pic] [pic] In Ireland the most notable changes this year were increase in the prices of alcoholic beverages, tobacco and education. Decrease in Communications, Furnishing and Household Equipment and Maintenance, Clothing and footwear. By comparing Irish, Swedish and Spanish inflation rate we can see that Sweden now is at its lowest inflation rate at -0.2%, Ireland at 1.1% and Spain at 2.4%. It is important to keep inflation in between 2% and -1%. The biggest difficulty of too high inflation is reduction of purchasing power of money and people are not able to afford to spend too much money. The low inflation is good for customers, because they are able to purchase more for their money. "Deflation benefits low debt consumers and those on fixed incomes, because they receive a fixed number of dollars but can buy more with each dollar" Balance of payments- Current Account Deposits are: Merchandise Exports, Net Gold Exports, Service Receipts, Income receipts Withdrawals: Imports, Payments for services, Income payments, Current transfers. Balance of Payments account is all the transactions between a country and the rest of the world. These transactions include payments for the country's exports and imports of goods, services, financial capital, and financial transfers. A country with a balance of payments shortage is importing more



goods, services and capital than exporting. This is not good for the economy, because it may borrow from other countries to pay for their imports. It is beneficial in short term as this can stimulate the economic growth. But in the long run it can be bad for the country, because imports costs are more expensive than producing its own products and services. If the country is exporting a lot and has a surplus it is good to boost economic growth, in the short term. But in the long run if the country has big surplus it has to lower prices of exports. [pic] From this Data We can see that Exports of Ireland decreased in 2008, but increased more than in half in 2012. These are good news for the economy. During the Celtic Tiger Ireland experienced rapid economic growth. The unemployment was low and income was rising. The property prices were rising up and the construction boom took off. This graph shows how fast property prices began to fall since 2008. [pic] The main reason of economic collapse in Ireland was Irish banking system. Anglo Irish bank played the main part in the hidden loans controversy. They have admitted they have hidden 87 million in loans from the bank. The loans were given so easily that this has caused Ireland to fall in major debt later in recession. " Irish banks' foreign borrowings rose from €15bn to €110bn in 2004-08.[11] Much of this was borrowed on a three-month rollover basis to fund building projects that would not be sold for several years. When the properties could not be sold due to oversupply, the result was a classic asset—liability mismatch. At the time of the 2008 government bank guarantee the banks were said to be illiquid (but not insolvent) by €4bn, which turned out to be a huge underestimate. "(Wikipedia) To encourage economic growth Ireland has to: Increase Employment. This can be done by educating people.

Education leads to more knowledge, entrepreneurship and professionalism. At the moment Irish government are implementing training and educational programs such as FAS. More and more people now started to realise that the situation in Ireland is not good and therefore more and more people choosing education to increase their chances of work. People are afraid of losing their jobs or being made redundant. There is no security now. To increase employment government has to increase their spending. To boost the construction sector Irish government have to invest money in building; for example building more roads. There is few high-profile projects which were supposed to be done, but were not done. Such as New Lightrail system from Dublin City to the Airport. Dublin is one of the only European Cities which has no direct rail link to the airport. Also building plan for New Children's Hospital in Dublin. Another big problem in Ireland is emigration of young people. Young graduates after college are unable to find a job, because positions are already secured by more experienced workers. If Ireland will not introduce schemes of how to help this situation it can be very damaging for the economy as young professionals will be pursuing their careers in another country. Another country means money are staying in another country, not in Ireland. Complete the building of Ghost Estates which will generate jobs for construction sector and use them to take people off housing waiting lists. Stimulate Enterprise Businesses provide jobs. Small businesses now have a hard time to survive and many start-up businesses are closing down because of the lack of finances. Irish government can introduce schemes on how to increase enterprise. The Banks have to start lending to small businesses. The Budget of 2012 has increased VAT from

21% to 23%, retailers are struggling to sell their goods with such high Value Added Tax. Produce more local products and services Ireland is rich in natural resources and was also known by producing its local products such as fishing, agriculture and many other food products. Government can look at those more closely and put in plan how to increase exports. Retailers and Marketers can promote Irish produce to Irish consumers. Export electricity (Wind Energy). Boosting tourism in Ireland Make other countries more aware of Ireland with advertising campaigns. Provide good deals for tourists.

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