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IRELAND

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP	78,771	85,050	90,536
Real GDP Growth (pct) 2/	10.7	8.9	8.2
GDP By Sector 3/:			
Agriculture	4,338	3,990	N/A
Industry	26,624	29,590	N/A
Services	35,677	38,368	N/A
Government	3,099	3,123	N/A
Per Capita GDP (US$)	21,519	22,956	24,177
Labor Force (000's)	1,538	1,622	1,688
Unemployment Rate (pct) 4/	10.3	7.8	5.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M3e) 5/	19.1	18.1	21.0
Consumer Price Inflation	1.5	2.4	1.8
Exchange Rate (IP/US$)			
Official	0.66	0.70	0.74
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB 6/	53,711	64,032	71,584
Exports to U.S.	6,045	8,743	10,500
Total Imports CIF 6/	39,341	44,468	47,300
Imports from U.S.	5,893	7,167	7,600
Trade Balance	14,370	19,564	24,284
Balance with U.S.	152	1,576	2,900
External Public Debt 7/	18,886	15,559	13,000
Fiscal Deficit/GDP (Pct) 8/	1.1	2.3	3.2
Current Account Balance/GDP (pct)	2.5	0.9	-0.2
Debt Service Payments/GDP (pct)	5.3	4.3	3.8
Gold and Foreign Exchange Reserves	7,047	9,220	9,000
Aid from U.S. 9/	5	5	5
Aid from Other Sources 10/	1,497	1,574	1,530

1/ U.S. Embassy forecasts.

2/ GDP at constant market prices (local currency).
3/ GDP at factor cost.
4/ ILO definition.
5/ Broad money. Irish monetary aggregates were redefined as part of entry into EMU from January 1, 1999.
6/ Merchandise trade.
7/ Foreign currency denominated debt plus non-resident holdings of Irish Pound denominated debt; end year.
8/ General government.
9/ Each year the United States contributes 19.6 million dollars to the International Fund to Ireland (IFI). A quarter of this amount is estimated to be spent in the Republic of Ireland's border counties.
10/ These figures include transfers from the EU's European social fund, regional development fund, cohesion fund and special programme for Northern Ireland and the border counties of the Republic of Ireland.

Sources: Central Bank Of Ireland (CBI); Central Statistics Office (CSO); Irish Trade Board (ITB); National Treasury Management Agency (NTMA).

1. General Policy Framework

In 1999, Ireland will have the fastest growing economy in the industrialized world for the sixth consecutive year. Most commentators trace the origins of Ireland's "Celtic Tiger" economy to the economic policy mix put in place in the late 1980s and maintained by successive governments since then. This included:

1) Tight control of public spending in order to reduce government borrowing and taxation on corporate and personal incomes;

2) A de facto incomes policy, operated through national wage agreements agreed by the government, employers and trade unions, in order to limit wage growth and boost employment creation;

3) The ten percent corporate tax rate for international manufacturing and service companies;

4) High levels of investment in education, training and physical infrastructure, much of it funded by generous transfers from the European Union; and

5) Reform of the tax and welfare system to improve work incentives. In contrast to the economic policies of the 1970s and early 1980s, the policy mix in the last decade has centered on supply-side reforms to the economy, aimed at improving the attractiveness of Ireland as a location for overseas investment and increasing competitiveness of Irish-made goods in the international marketplace.

This policy mix produced impressive economic results in the 1990s. Real Irish GDP growth has averaged almost nine percent since 1994, and real Irish incomes have increased by over two-thirds since the beginning of the decade. In 1998, per capita output overtook both the EU and the OECD average. Unemployment fell below six percent in 1999, down from 16 percent in 1993. Traditional migration patterns have been reversed, as thousands of former Irish émigrés, and other nationals, arrive in Ireland to take up employment. Fast growth has been accompanied by increasing openness to the world economy. In 1998, total imports and exports were equivalent to over 157 percent of GDP, making Ireland one of the most trade-dependent economies in the world. Thanks in large part to the special 10 percent tax rate for manufacturing activities, industry accounts for almost 40 percent of total economic activity, compared with an average of 20 percent in the European Union (EU). Correspondingly, the share of services in Irish output is small by the standards of other industrialized countries. This unusual economic structure in also reflected in Ireland's trade relationship with the rest of the world. Reflecting the heavy presence of Irish-based U.S. and other multinational manufacturing firms (mostly in the high-tech sector), Ireland now enjoys a huge surplus in merchandise trade (equivalent to 27 percent in GDP in 1998), which is mirrored by large deficits in services trade.

At the end of the 1990s, Ireland's policy makers face a much-changed economic landscape. Now that Ireland's traditional economic ailments--unemployment and emigration--have largely been solved, policy makers are now faced with the challenges brought about by five years of exceptional economic growth. Of greatest concern is how to sustain rapid economic growth in the face of shortages of skilled and unskilled labor, worsening transport congestion and chronic housing shortages. Irish policy makers fear that "excessive" economic growth in the short-term could result in a hard landing for the Irish economy down the road. In a society wedded to the concept of "social cohesion," sharing the benefits of rapid economic growth with those social groups and regions that have so far been left behind by the "Celtic tiger" economy has become another top priority.

Secondly, the economic policy tools available to Irish policy makers to pursue national economic and social goals has been severely limited by Irish participation in European economic and monetary (EMU) from the beginning of 1999. With both monetary and exchange rate policy now out of the control of national authorities, the government now depends on more effective use of fiscal, structural and incomes policies to bring the Irish economy onto a more sustainable growth path. Since 1987, Irish governments have exchanged cuts in income tax for pay restraint by trade unions, thereby boosting competitiveness and employment. In late 1999, the government, trade unions and industry will attempt to negotiate a new national wage agreement to replace "partnership 2000," which expires next year. As the economy moves rapidly towards full employment, pay "flexibility" rather than pay restraint has become the new goal of income policy. The government also believes further income tax cuts for low- and medium-income earners will increase labor supply, thereby more than offsetting the stimulative effects of looser fiscal policy. This highly unorthodox approach to economic policy has been endorsed by the OECD, but not by the IMF, who have called on Irish authorities to tighten fiscal policy to combat overheating. In the highly open Irish economy, however, fiscal policy is of limited use as a tool of demand management.

Since the beginning of 1999, monetary policy in Ireland, as in the other ten EU states that adopted the single European currency, has been formulated by the European central bank (ECB) in Frankfurt. The Irish central bank continues to exist as a constituent member of the European System of Central Banks (ESCB) and is responsible for implementing a common European monetary policy in Ireland (i.e. providing and withdrawing liquidity from the Irish inter-bank market at an interest rate set by the ECB.) The governor of the Irish central bank (currently Maurice O'Connell) has, ex officio, one vote in the ECB's 17-member monetary policy committee, although each national central bank governor is expected to disregard the individual performances of their own national economies in formulating a common monetary policy for the Euro area.

The 1992 treaty on European Union identifies price stability as the primary objective of monetary policy under EMU. Price stability is defined by the ECB as a year-on-year increase in the harmonized index of consumer prices for the Euro area in the range of zero to two percent. In making its assessment of future consumer price movements, the ECB will take account of trends in money supply, private sector credit, and a range of intermediate price indicators. The primary instrument of monetary policy is refinancing operations by the ECB and the national central banks (purchases and repurchases of government securities at a discount rate announced weekly.) Ireland accounts for just over one percent of total economic activity in the Euro zone, and less than two percent of the broad money stock. Fast economic and monetary growth in Ireland alone, therefore, has little impact on monetary policy formulation at the European level, highlighting the difficulties that Ireland, and other small Euro nations, may have with a "one-size-fits-all" single European monetary policy.

2. Exchange Rate Policies

At the beginning of 1999, the Irish pound ceased to exist as Ireland's national currency, and the new single European currency, the Euro, became the official unit of exchange. Although Irish currency will continue to circulate until the introduction of Euro notes and coins in 2002, it will be no more than a "denomination" of the Euro, with an irrevocably fixed exchange rate to the Euro and the nine other participating currencies. The conversion rate between the Irish pound and the Euro was Euro 1.2697:ip 1.

The Euro and the pound are freely convertible for both capital and current account transactions. Under 1992 treaty on European Union, the European central bank has operational responsibility for the exchange rate of the Euro and conducts foreign exchange market transactions in relation to the currency on a day-to-day basis. However, the treaty provides that the council of ministers may formulate "general orientations" for exchange rate policy in relation to the Euro, without prejudice to the ECB's primary objective to maintain price stability. These general orientations will only be agreed in exceptional circumstances. Unlike any other Euro participant, Ireland's two largest trading partners, the UK and the United States, are outside the Euro zone. Ireland's loss of control over its exchange rate with UK sterling and the dollar makes Irish exports more vulnerable to swings in the external value of the Euro than any other Euro country, and places pressure on Irish exporters to increase the flexibility of their cost base, particularly labor costs. The Irish pound averaged US$ 1:ip 0.70 in 1998, and is likely to average in the region of US$ 1:ip 0.74 in 1999.

3. Structural Policies

In Ireland, as in other EU states, a considerable degree of structural reform of capital, labor and product markets has been undertaken in recent years through various "processes" coordinated by the European commission. Irish authorities recognize that fostering greater competition in product and labor markets will be necessary for Ireland to sustain a rapid rate of economic growth in a supply-constrained economy over the coming years. Policy makers also recognize that flexible and well-functioning markets will be necessary to buffer the Irish economy from unexpected asymmetric shocks in the context of EMU without losses of output and employment. Ireland's high degree of openness to trade means that product markets in Ireland are highly competitive. EU liberalization in energy and telecommunications markets has opened up Irish sectors traditionally dominated by state-owned enterprises to private sector competition. Regulation of Irish labor markets is light compared with continental European economies. Labor market reform efforts have concentrated on removing distortions in the tax and welfare system in order to improve work incentives for the unemployed and other non-labor force participants. There is little doubt that effective structural reform of the Irish economy over the last decade has increased the ability of the Irish economy to sustain fast rates of economic growth without spurring inflation. Fast Irish economic growth has in turn fueled Irish demand for U.S. imports. Other important structural economic policies over the last decade include:

a) The development of a social consensus on economic policy through national wage agreements negotiated by the government, employers and trade unions. The latest agreement, partnership 2000, took effect at the beginning of 1997 and trades off continued moderation by trade unions in wage demands against substantial cuts in personal taxation;

b) The availability of a special ten percent rate of corporate taxation and generous grants to attract foreign investment;

c) A commitment to the single European market and to Irish participation in EMU;

d) High levels of investment in education and training -- of all OECD countries only the Japanese workforce has a higher proportion of trained engineers and scientists;

e) And improvements in physical infrastructure -- structural investment between 1993 and 1999 are expected to total around 16 billion dollars (almost 4,500 dollars per head). Generous EU transfers have funded much of this.

The success of the above policies in attracting foreign investors and raising incomes has also boosted U.S. exports to Ireland. Over 500 U.S. firms are now located in Ireland. These companies import a large proportion of their capital equipment and operating inputs from parent companies and other suppliers in the United States. Accordingly, the largest component of U.S. exports to Ireland is office machinery and equipment, followed by electrical machinery and organic chemicals. Furthermore, as U.S. firms in Ireland become increasingly integrated with the local economy, sales by U.S. parent companies to local Irish enterprises are believed to have increased dramatically in recent years, although the data on this remains sketchy. The combination of the above two effects has helped increase U.S. exports to Ireland by a factor of six between 1983 to 1998. As a result, the United States has become Ireland’s second largest trading partner, behind only the UK.

4. Debt Management Policies

The National Treasury Management Agency (NTMA) is the state agency responsible for the management of the government debt. At the end of 1998, Ireland’s general government debt amounted to 45.9 billion dollars (using average 1998 exchange rates), equivalent to 52 percent of GDP. This is down from 102% of GDP in 1989, reflecting strong fiscal rectitude in the 1990s and the fast pace of economic growth over this period. The bulk of the national debt was accumulated in the 1970's and early 1980's, partly as a result of high oil prices, but more generally as a result of expanding social welfare programs and public-sector employment. Foreign currency debt at the end of 1998 made up approximately 25 percent of the total. This is down from just over 40 percent at the end of 1993, reflecting the government's strong financial position and Ireland’s substantial balance of payments surplus, and a deliberate policy to reduce foreign currency debt as much as possible.

Most new government borrowing, generally used to roll-over maturing debt, is financed through the issuance of Irish pound securities, although a substantial proportion of these are purchased by non-resident investors. The total debt servicing cost in 1998 was 3.7 billion dollars, equivalent to 4.3 percent of GDP. Lower interest rates, falling nominal debt levels and fast Irish income growth have reduced debt servicing costs as a proportion of total government revenue significantly in recent years, providing scope for reform of the personal taxation system, thus increasing consumer demand for U.S. exports of goods and services. In May 1999 the NTMA completed a re-denomination of Euro 16 billion ($16.5 billion) worth of Irish government bonds into four giant issues, whose maturity ranges from three to 17 years. The re-denomination replaced high-coupon government debt with a relatively low nominal value, issued over the last decade, with low coupon debt with a high nominal value and which carries conditions closer to European norms. The move gives Ireland, the second smallest borrower in the Euro zone, the largest single Euro bond issue, with Euro 5.5 billion ($5.7 billion) in its 2010 treasury stock. Irish authorities hopes that the re-denomination will, over time, increase the liquidity of the Irish debt market and make holding Irish debt more attractive to foreign investors, thus lowering yields.

5. Aid

In 1998, the United States contributed 19.6 million dollars to the international fund for Ireland (IFI), of which around five million is estimated to have been spent in the border constituencies of the republic of Ireland, with the balance being spent in the UK province of northern Ireland. The IFI funds business/community development programs intended to build cross-border (north-south) trade and economic ties

6. Significant Barriers to U.S. Exports

The United States is Ireland's second largest source of imports, behind only the UK. Total exports from the United States into Ireland in 1998 were valued at US$ 7.2 billion (16.1 percent of total Irish imports), up from just over US$ 3 billion in 1990. Irish exports to the United States have, however, increased at an even faster rate over the same period. Total Irish exports to the United States in 1998 were valued at US$ 8.7 billion (13.7 percent of total Irish exports.) Accordingly, the trade balance between the two countries in 1998 favored Ireland by almost US$ 1.6 billion. Before 1997, the trade balance between the two countries favored the United States for several decades. The changed U.S.-Irish trade relationship in recent years in large part reflects high levels of direct investment by U.S. companies in Ireland in recent years, many of which use Ireland as a base for exporting not only into European markets, but also back into the United States.

As a member of the EU, Ireland administers tariff and non-tariff barriers in accordance with applicable EU policies. With regard to trade in services, Ireland maintains some barriers in the aviation industry: airlines serving Ireland may provide their own ground handling services, but are prohibited from providing similar services to other airlines. The bilateral U.S.-Ireland aviation agreement also places some restrictions on aviation services between the United States and Ireland. Under the agreement, any carrier providing North Atlantic services to Dublin airport, must also provide service to Shannon airport on Ireland's west coast, which makes additional Dublin service unprofitable for some U.S. airlines at this time.

Ireland has consistently complied with the provisions of the 1989 EU "television without frontiers" broadcasting directive. This requires that EU member states reserve a majority of television transmission time for European works. Irish television industry sources are skeptical, however, whether Irish compliance with the directive has impacted negatively on U.S. programming exports to Ireland over this period.

The market for telecommunications services in Ireland was fully liberalized in December 1998--more than one year ahead of the timetable agreed with the European commission in 1996.

Until then, Eircom, the former state-owned telecommunications company, was the monopoly provider of voice telephony services to the general public, although the market for leased lines, mobile telephony and other data transmission services was progressively liberalized earlier in the 1990s. Regulatory confusion and legal battles over interconnection rates between Eircom and new market entrants have, however, hampered the development of effective competition in this sector, and may prove a barrier to U.S. service providers.

As a member of the EU, Ireland applies a community-wide product certification process and community-wide product standards. With only minor exceptions, there are no requirements for marking imported goods. Packaged goods must carry labels that conform to Irish labeling requirements. The information on the labels must include details on ingredients, net weight, "best before" date and general usage instructions. Unlike many other EU countries, Irish labeling requirements also require that the name and EU address of the manufacturer, distributor or packer appear on the label. This has often caused difficulties for U.S. exporters, although the financial cost has probably been small.

Although some liberalization has taken place in recent years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EU. These together with EU import duties, effectively exclude many meat-based foods, fresh vegetables and other agricultural exports from the United States. Restrictions also apply to foods containing genetically modified organisms, bananas from outside the Caribbean area, cosmetics containing specified risk materials, and some wines, although as with other goods, these policies are determined at EU level.

Ireland has been a member of the world trade organization (WTO) since it came into effect on January 1, 1995. The WTO agreement was ratified by the Irish parliament in November 1994. As member of the EU, however, Ireland participates in a large number of EU regional trade agreements, which may distort trade away from countries with whom Ireland trades purely on a MFN, non-preferential WTO basis.

7. Export Subsidies Policies

The government generally does not provide direct or indirect support for local exports. However, companies located in designated industrial zones, namely the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy port, receive exemption from taxes and duties on imported inputs used in the manufacture of goods destined for non-EU countries. Furthermore, Ireland applies a special 10 percent rate of corporation tax (the standard rate is 28 percent) to companies producing internationally-traded manufactures and services and to companies operating out of the SDFPZ and the international financial services center in Dublin. Under pressure from the European commission, which viewed the tax as a subsidy to industry, the Irish government is committed to eliminating the special 10 percent rate of tax by harmonizing the special and standard rates of tax at 12.5 percent by 2003, thereby abolishing the differential treatment.

Other activities that qualify for the special ten percent rate of corporate of taxation include design and planning services rendered in Ireland in connection with specified engineering works outside the European Union. This applied mainly to services provided by engineers, architects and quantity surveyors. Profits from the provision of identical services in connection with works inside the EU are taxed at the standard 28 percent rate.

Since January 1992, the government has provided export credit insurance for political risk and medium-term commercial risk in accordance with OECD guidelines. As a participant in the EU's common agricultural policy, the Irish department of agriculture and food administers cap export refund and other subsidy programs on behalf of the EU commission.

8. Protection of U.S. Intellectual Property

Ireland is a member of the world intellectual property organization and a party to the international convention for the protection of intellectual property. The Irish government is currently in the process of enacting new copyright legislation to bring Ireland's laws into line with its obligations under the WTO TRIPs agreement. Examples of existing TRIPs inconsistencies in current Irish law, which the government is committed to addressing, include absence of a rental right for sound recordings, no "anti-bootlegging" provision, and low criminal penalties which fail to deter piracy, all of which have contributed to high levels of piracy in Ireland (industry sources estimate that up to 57 percent of PC software used in Ireland is pirated.) To address several of the most glaring discrepancies between Irish law and Dublin's obligations under TRIPs, a "break-out" copyright bill was enacted in June 1998, which strengthens the presumption of copyright ownership and increases penalties for copyright violation. The Irish Seanad (upper house) passed more comprehensive copyright legislation in October 1999, and the Irish government has pledged to complete passage in the Dail (lower house) before the end of the year. When enacted, the legislation will give Ireland one of the most comprehensive IPR legal regimes in Europe. In light of government commitments to enact new copyright legislation, USTR suspended WTO dispute settlement proceedings against Ireland, though Ireland remains on the USTR's section 301 "watchlist" pending enactment of this IPR reform legislation.

The comprehensive copyright bill currently before parliament also addresses non-TRIPs conforming provisions of Irish patent law. Ireland's patent law, as it currently stands, fails to meet TRIPs obligations in at least two respects:

1) The compulsory licensing provisions of the 1992 patent law are inconsistent with the "working" requirement prohibition of TRIPs articles 27.1 and the general compulsory licensing provisions of article 31; and

2) Applications processed after December 20, 1991 do not conform to the non-discrimination requirement of TRIPs article 27.1.

-- Trademarks: in accordance with EU council directive 89/104/European economic community (the harmonization of trademark laws), and EU council regulation number 40/94 (community trademark and the registration of trademarks in services industries), new legislation was required to replace the trademarks act of 1963. The trademarks act of 1996 was signed into law in July of that year. There appear to be no problems with the new law.

9. Worker Rights

a. The Right of Association: The right to join a union is guaranteed by law, as is the right to refrain from joining. The industrial relations act of 1990 prohibits retribution against strikers and union leaders. Embassy calculates that approximately 45 percent of workers in the private sector are trade union members. Police and military personnel are prohibited from joining unions or striking, but they may form associations to represent them in matters of pay, working conditions, and general welfare. The right to strike is freely exercised in both the public and private sectors. The Irish Congress of Trade Unions (ICTU), which represents unions in both the republic and Northern Ireland, has 64 member-unions with 699,190 members.

b. The Right to Organize and Bargain Collectively: Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits anti-union discrimination. In recent years, most terms and conditions of employment in Ireland have been determined through collective bargaining in the context of a national economic pact. Under the current three-year agreement, partnership 2000, which expires in 2000, trade unions traded off moderation in wage demands for cuts in personal taxation by the government. The Irish Business and Employers Confederation (IBEC) generally represent employer interests in labor matters.

The labor relations commission, established by the industrial relations act of 1990, provides advice and conciliation services in industrial disputes. The commission may refer unresolved disputes to the labor court. The labor court, consisting of an employer representative, a trade union representative, and an independent chairman, may investigate labor disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited by law and does not exist in Ireland.

d. Minimum Age for Employment of Children: New legislation introduced in 1997 prohibits the full-time employment of children under the age of 16, although employers may hire 14 or 15 year olds for light work on school holidays, or on a part-time basis during the school year. The law also limits the number of hours which children under age 18 may work. These provisions are enforced effectively by the Irish department of enterprise, trade and employment.

e. Acceptable Conditions of Work: After persistent lobbying by trade unions, in April 1998, the Irish government announced proposals for the introduction of a national hourly minimum wage of IP 4.40 (around US$ 6.70) beginning in April 2000. Although minimum wages already exist in certain low-paid industries, such as textiles and cleaning, these only apply to a relatively small proportion of the workforce. The full minimum wage will not apply to trainees or workers under 18 years of age.

The standard workweek is 39 hours. In May 1997, a European commission directive on working time was transposed into Irish law, through the "organization of working time act, 1997." The act sets a maximum of 48 working hours per week, requires that workers be given breaks after they work certain periods of time, sets limits to shift work, and mandates four weeks annual holidays for all employees by 1999.

f. Rights in sectors with U.S. investment: Worker rights described above are applicable in all sectors of the economy, including those with significant U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		8,090
Food & Kindred Products	669	
Chemicals & Allied Products	3,184	
Primary & Fabricated Metals	177	
Industrial Machinery and Equipment	185	
Electric & Electronic Equipment	1,529	
Transportation Equipment	15	
Other Manufacturing	2,332	
Wholesale Trade		332
Banking		(1)
Finance/Insurance/Real Estate		6,638
Services		305
Other Industries		(1)
TOTAL ALL INDUSTRIES		15,936

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.