

# Ireland Business Forecast Report Q2 2014

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## Abstracts

### Core Views

We expect Ireland's economic recovery to finally begin gathering momentum in 2014, with above-consensus growth of 2.1% pencilled in for the year.

Although Ireland's sizeable export industry will continue driving growth, our core view is for consumption to start playing a bigger role in the recovery, as we believe unemployment and house prices have bottomed, wages are recovering, and confidence is returning to the private sector.

Fixed investment, which collapsed in the aftermath of the property crash, looks set to enjoy a modest recovery, as the construction sector is buoyed by rising prices and confidence in the property sector.

Although Ireland has successfully exited its EUR85bn bailout with the EU/IMF, we expect the Fine Gael/Labour coalition to remain broadly committed to fiscal consolidation, with both parties having staked a large part of their reputation on stabilising the country's finances.

Despite Ireland's improving economic outlook, we do not expect support for the coalition to recover significantly over the coming quarters, with Irish citizens likely to continue feeling the pain as household incomes remain well-below pre-crisis levels for some time to come.

### Major Forecast Changes

We have revised our forecast for real GDP growth to come in at 2.4% in 2015, from 2.2% previously, with improving high-frequency data and leading indicators leading us

to expect the recovery in consumption to gather more traction over the next few quarters.

### **Key Risks To Outlook**

A key risk to our outlook is for a slower recovery in Ireland's main trading partners in 2014, particularly in Europe. We would be tempted to downgrade our real GDP forecasts for Ireland if leading indicators point towards subdued external demand in H114, as lower exports would narrow the trade surplus and feed through into a slower recovery in private consumption.

Although we expect Ireland's fiscal deficit to continue shrinking in 2014, we caution that the decision not to seek a precautionary credit line with the EU/IMF upon exiting its bailout poses its own risks. A slower-than-expected recovery in 2014 or a deterioration in Ireland's sovereign credit risk profile could push up borrowing costs in the country more significantly than had a credit line been agreed, putting pressure on the country's already shaky finances.

## Contents

Executive Summary  
Core Views  
Major Forecast Changes  
Key Risks To Outlook

### **CHAPTER 1: POLITICAL OUTLOOK**

SWOT Analysis  
BMI Political Risk Ratings  
Domestic Politics  
Bailout Exit To Help Coalition,  
Amidst Risks

Although Ireland's recent bailout exit and improving growth figures will add weight to the view that the Irish economy is recovering, we believe the government will remain under public pressure in 2014. We expect the ruling Fine Gael/Labour coalition to suffer losses in local and EU elections in May 2014, but believe the perception that Fine Gael is playing a more important role in the recovery will strengthen the party's position relative to Labour over the coming quarters.

Table: Political overview

### **CHAPTER 2: ECONOMIC OUTLOOK**

SWOT Analysis  
BMI Economic Risk Ratings  
Economic Activity  
Moving Towards A Consumption-Driven Recovery

Our above-consensus forecast for 2.1% real GDP growth in Ireland in 2014 is underpinned by our view that consumption will begin playing a more central role in the country's economic recovery over the coming quarters. While growth will also be supported by a modest recovery in the construction sector, budgetary tightening will ensure that the recovery remains sluggish over the next few years.

Table: ECONOMIC ACTIVITY

### **CHAPTER 3: KEY SECTORS**

Pharmaceuticals  
Table: Pharmaceutical Sales , Historical Data And Forecasts

Table: Prescription Drug Market Indicators, Historical Data And Forecasts

Table: Over-The-Counter (OTC) Medicine Market Indicators, Historical Data And Forecasts

Other Key Sectors

Table: Telecoms Sector Key Indicators

Table: Infrastructure Sector Key Indicators

Table: Food & Drink Sector Key Indicators

Table: Autos Sector Key Indicators

## **CHAPTER 4: BMI GLOBAL ASSUMPTIONS**

Global Outlook

Momentum To Continue In H114

Table : Global Assumptions

Table : Developed States , Real GDP Growth , %

Table : Emerging Markets , Real GDP Growth , %

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