



Ireland: Key messages

Tax

- Ireland fully supports anti-tax haven measures put in place at OECD and EU level.
 - Ireland is not a tax haven;
 - Ireland's taxation system is fully transparent and Ireland engages in full exchange of information;
 - Ireland currently has 50 double tax treaties in place and this figure is set to grow significantly;
 - Ireland has a Double Taxation Agreement with the U.S. which is working well – a view shared by the U.S.;
 - These agreements are periodically updated but the updating of the US/IRL agreement is not seen as a priority for the US.
- The current US debate on their system of taxing foreign income (known as deferral), while important to Ireland, must be viewed in a balanced way.
 - It is positive that it is changes to the existing system of deferral that are being considered rather than an ending of deferral itself;
 - The changes proposed will affect all countries that trade with the US - not just Ireland;
 - This is simply the beginning of a detailed discussion on these issues which will involve both Congress and US business;
 - Any issues that may have implications for Ireland are subject to ongoing focussed discussion with US policymakers.
- Ireland's commitment to its low 12½ % rate of corporation tax was recently restated in the Budget. Recent changes to business taxation have included:
 - increase in the Research and Development tax credit from 20% to 25% ;
 - application of the general 12.5% corporation tax rate to foreign dividends from trading activities (received from an EU or treaty partner);
 - a new Intangible Assets regime – details are contained in Finance Bill 2009.



Ireland: Key messages

Economy

- 2009 is proving to be an extremely challenging year for all countries, including Ireland.
 - Domestic pressures in the Irish economy, in particular the ongoing contraction in the construction sector and its effect on the wider economy, are compounding the deterioration in international economic conditions;
 - GDP is now forecast to contract by about 7¼ % this year. As a result unemployment will increase significantly and is forecast to average 12.6% this year rising to 15½% next year;
 - In overall terms, a loss in activity of some 13% over the period 2008 to 2010 is now likely. That said, activity is expected to pick up after world growth resumes and for the period 2011 to 2013, GDP in Ireland is expected to grow on average by 3½% - driven mainly by more sustainable export orientated growth.
- Ireland has a track record of adjusting and showing its flexibility; asset prices, wage levels and price levels are all adjusting rapidly to the new circumstances improving Ireland's competitiveness.
- Relative to other countries, Ireland's exports appear to be holding up reasonably well. The current account of the Balance of Payments is forecast to move from the deficit position which pertained over the past few years into broad balance over the next year or so due to an expected higher private sector savings and a lower investment ratio.
- Ireland has made significant strides in the development of modern 21st Century infrastructure while positioning itself for its next stage of development as a knowledge economy.
- While there are obvious difficulties, it is important to state that key factors which facilitated Ireland economic success in recent years still remain. These include:
 - stable political system,
 - part of the EU and the eurozone,
 - access to the Internal Market,
 - young, highly educated, English speaking, flexible, mobile workforce,
 - export orientated, open economy,
 - relatively low corporation tax rate,
 - pro-enterprise focus.



Ireland: Key messages

Public Finances

- The Government has been clear in its strategy to address the difficulties in the public finances and has already taken a number of very significant steps in this regard:
 - In July 2008, expenditure adjustments were introduced to save €440 million in 2008 and up to €1 billion in 2009;
 - Last October in Budget 2009, expenditure for 2009 was strictly contained and significant tax measures were brought forward to secure close to €2 billion in additional revenue in 2009;
 - In early January, the Government set a five year framework to 2013, with ambitious targets, to restore order to the public finances over the five years;
 - In February, in line with the framework, a series of measures were announced to secure further savings of up to €2 billion on a full year basis primarily through the introduction of a pension levy for public servants;
 - On 7 April, the Government introduced a supplementary Budget for 2009 which sets out further taxation and spending measures for this year amounting to some €3.3 billion in 2009 and over €5 billion in a full year. Government also signalled that there will be additional spending adjustments of €2¼ billion in 2010 and €2½ billion in 2011 with taxation increases of €1¾ billion in 2010 and €1½ billion in 2011;
 - Government is committed to stabilising and restoring sustainability to the public finances over the medium term, including reducing the General Government Deficit below 3% of GDP by end-2013;
 - Ireland's approach to addressing its budgetary difficulties has met with the approval of the European Commission and has also been complimented by the ECB President, Mr. Trichet and Chair of the Eurogroup, Mr. Juncker.
- Ireland will need to borrow some €25 billion in 2009 which it is well on the road to achieving but Ireland has a relatively low debt level to begin with.
 - The gross General Government Debt/GDP ratio was 43% at end 2008 and was around 23% of GDP when account was taken of the cash balances and other funds held and controlled by the National Treasury Management Agency (NTMA) including the National Pensions Reserve Fund;
 - In the first five months of 2009, the NTMA successfully raised some €13 billion in medium and long term funding. They also launched a new Treasury Bill Programme and raised €5 billion in March and April in short term funding.



Ireland: Key messages

Financial Regulation and Supervision

- Key to Ireland's economic recovery is a fully functioning, well regulated banking system enjoying confidence and credibility inside and outside of the country.
 - Government action has focussed on a set of measured responses:-
 - Guarantee of liabilities (i.e. deposits and certain debt) in domestic retail banking institutions
 - Nationalisation of Anglo Irish Bank
 - Recapitalisation Programme for systemically important financial institutions
 - Announcement to establish the National Asset Management Agency to cleanse the major source of risk for banks from their balance sheets
 - Key objective is to promote a stable and active banking system which supports the real economy;
 - The perception of 'contingent liability' under the guarantee is hugely exaggerated - the amount guaranteed by the Irish Government is about €375 billion (c. 200% of GDP) while other countries have also issued both explicit and implicit guarantees;
 - Unlike the situation in other countries, 'toxic' structured assets are not a feature in the Irish banking system;
 - While very significant land, development and property investment loans will be acquired by NAMA, these loans are secured on real property and investment assets;
 - €7 billion recapitalisation of AIB and BOI linked to increased credit flows for SMEs and first time buyers as well as safeguards for mortgage holders in arrears.
- A greater integration of the Central Bank responsibilities with the regulatory and supervisory functions of the Financial Regulator is being considered.
 - The objective is to deliver robust standards of banking and financial regulation and corporate governance;
 - This will help restore the reputation of Ireland's regulatory regime and rebuild confidence;
 - It will ensure that best EU and international practice is applied to Ireland's regulatory system and it is appropriately aligned with new developments in international supervisory architecture.