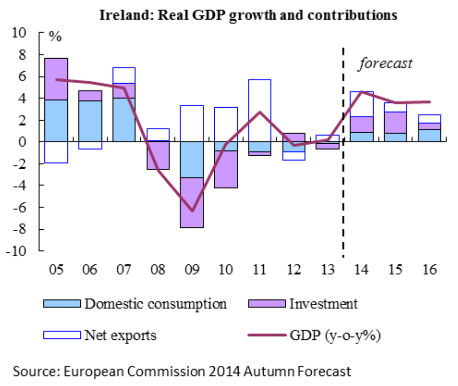
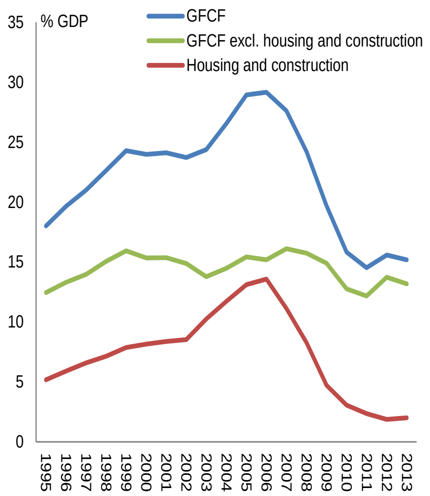
INVESTMENT IN IRELAND

What is the situation in Ireland?



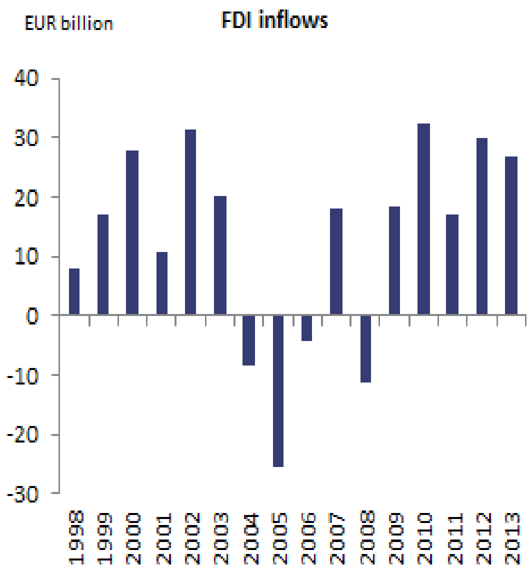
Investment rose through the 1990s to around 25% of GDP in the latter part of the decade and in the early 2000s, in part due to strong foreign direct investment (FDI) into the country. Housing investment also increased steadily before surging to more than 13% of GDP at the peak of the housing market bubble in 2006-2007. The housing bust and the financial crisis that followed caused a sharp fall in investment to around 15% of GDP in 2010–2013. Investment, excluding housing and construction, held up relatively well despite sharp cuts in public investment and by SMEs, mainly because of Ireland's continued ability to attract strong foreign direct investment (FDI) into the country.

What is the main challenge?



Ireland's favourable investment climate has enabled it to attract large amounts of FDI, even in the midst of the EU-IMF programme and macroeconomic rebalancing process. However, investment by SMEs and the public sector suffered a lot and remains low. Contrary to foreign multinationals, SMEs rely on domestic sources of financing for investment, mostly from the banking sector. The full restoration of credit channels, diversification of sources of financing and increased degree of competition is therefore critical for SME investment. In addition, a key challenge is to make more room in public finances for renewed public investment in the face of a continued need for fiscal stability.

Opportunities for Investment



Investment was up 11.3% (year-on-year) in the first half of 2014, indicating a strong pick-up in business sentiment and economic outlook. The prospects for investment growth in Ireland are strong overall. FDI in pharmaceuticals and in services sectors (e.g. IT, financial services, back-office operations, leasing) is likely to remain strong as long as Ireland maintains its international competitiveness. The construction sector (residential and commercial real estate) has the potential to grow strongly in the near future as it has been depressed for years and there is strong pent-up demand, in particular from households. Years of under-investment by the public sector also means that there is a need for renewed funding for infrastructure, including transport, water services and renewable energies. Renewed economic growth and strengthening domestic demand also imply a broad range of investment opportunities for SMEs in a variety of sectors as long as financing constraints are resolved.

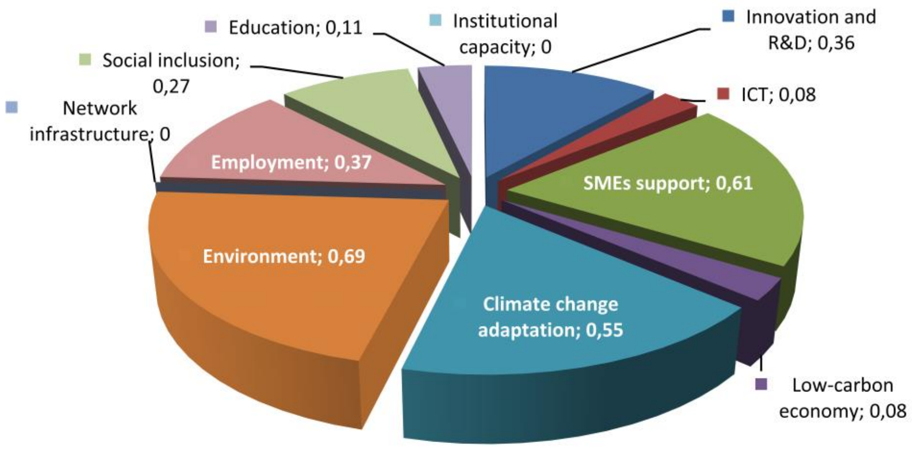
Reforms for investment

In the Country Specific Recommendations for Ireland, the European Union recommended

Underpin the budgetary strategy with additional structural measures to correct the excessive deficit	Tackle low work intensity of households
Enhance the growth friendliness of the tax system	Advance policies for the SME sector including initiatives to address the availability of financing
Advance the reform of the healthcare sector	Monitor banks' performance against the mortgage arrears restructuring targets
Improve active labour market policies	Reduce the cost of legal proceedings and services and foster competition
Labour-market relevance of education and training	

EU funding for investment

2014 - 2020
in billion EUR

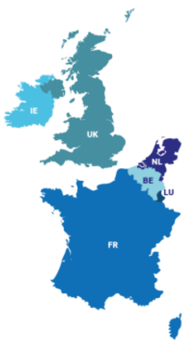


Source: Draft Partnership Agreement: http://ec.europa.eu/contracts_grants/agreements/index_ga.htm
**excluding European Maritime and Fisheries Fund (EMFF)*

Past or ongoing projects for investment

Electricity interconnections

Commissioning date: 2017 (**Ireland, UK**)



Transport interconnections

Connecting Europe Facility:
"North Sea - Mediterranean" core network corridor
(**Ireland, UK, Netherlands, Belgium, Luxembourg, France**)