

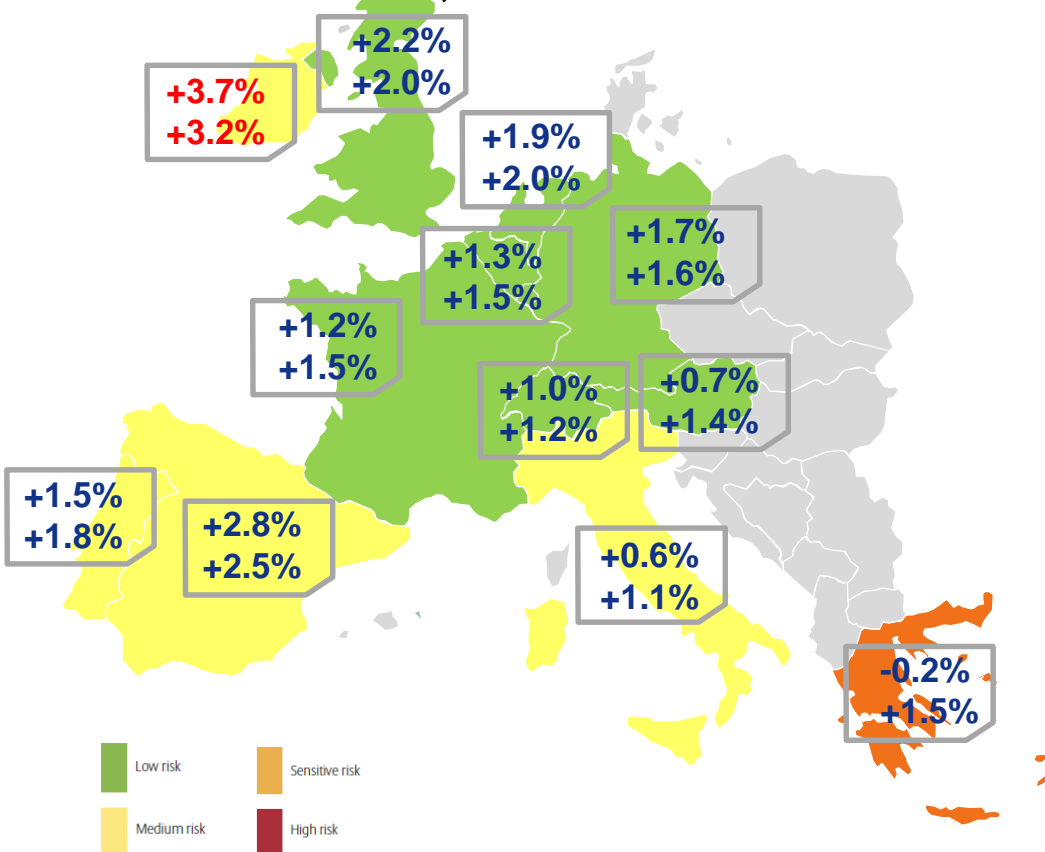
Brexit: What are the pressure points on Ireland?

Ana Boata, European Economist
Dublin, 23 June 2015

2015: Could this finally be Europe's year?

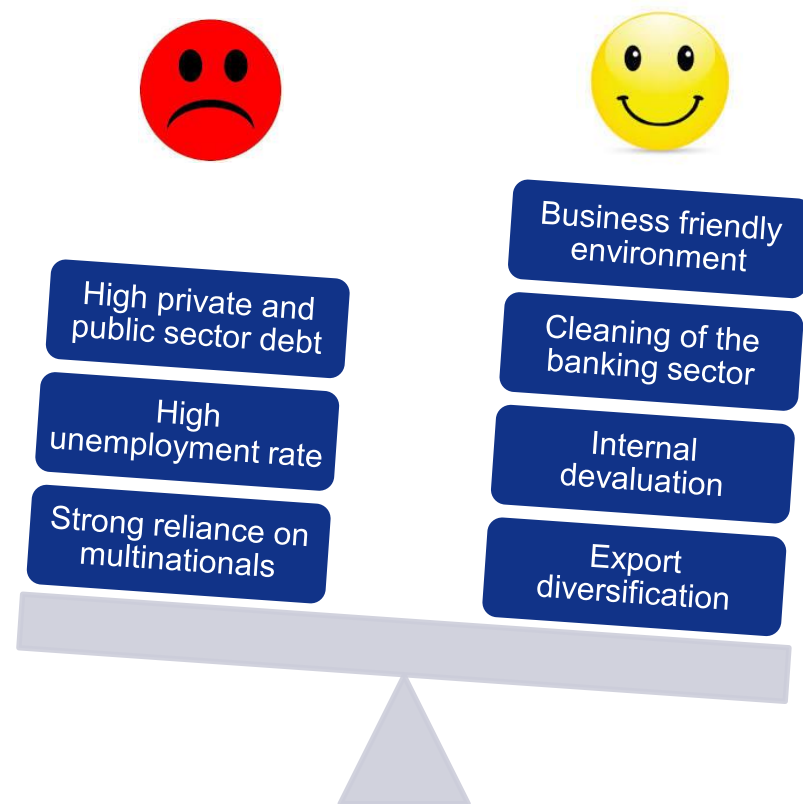
Ireland to remain an outperformer following aggressive reforms

Selected economies: Real GDP growth forecasts, 2015-16



Source: Euler Hermes (Short-term country risk rating as of March 2015)

Ireland: What went well and what didn't?



Source: Euler Hermes

Brexit: A tail risk, but still a risk

What does a Brexit mean?



Trade: EU is the UK's largest trading partner and the EU accounts for 45% of the UK's total exports and 50% of UK total imports while the UK accounts for only 5% of EU total exports.



Investment: The EU and the US are the main investors in the UK, notably in services and manufacturing (foreign-owned car industry).



Financing: To become more expensive and tougher for British companies.



Migration flows: Notably in the services sector. Immigrants support UK demographics as they are relatively young as well as public finances.



Sectors: Automotive, chemicals, machinery, agri-food, financial services are likely to be strongly impacted.

What would trade relationships look like?

Options by degree of integration

EFTA agreement

- as for Norway, Iceland and Liechtenstein

EU FTA plus bilateral treaties on specific issues

- as for Switzerland

Custom union with EU

- as with Turkey (Ankara agreement, 1963)

Free Trade Agreements

- as CETA with Canada
- as TTIP with U.S.

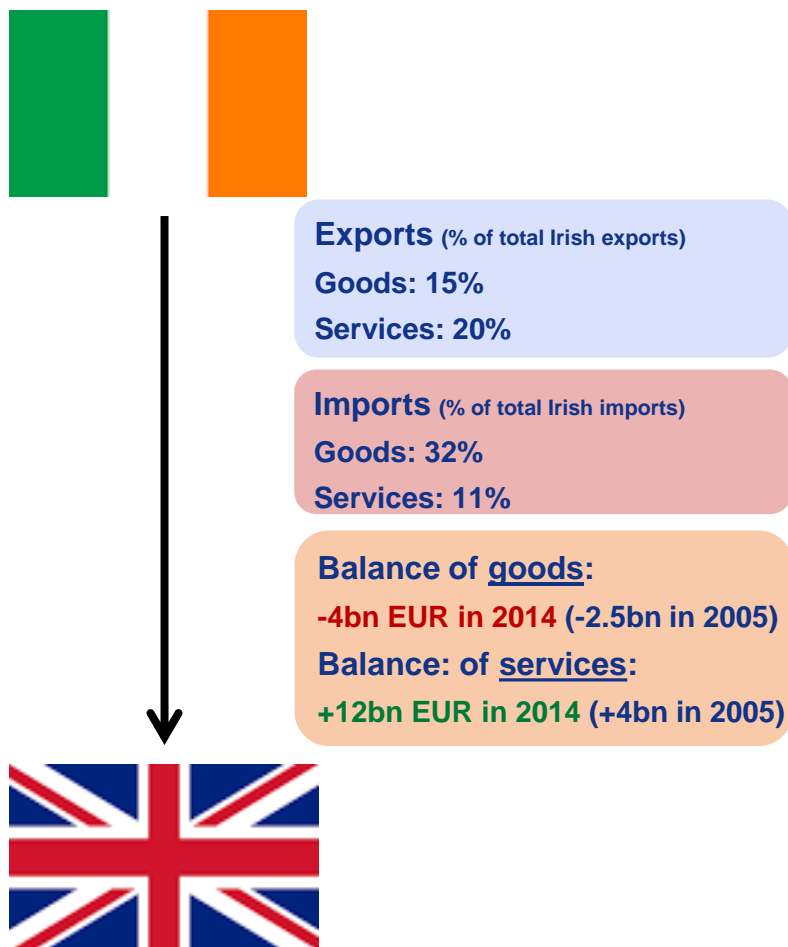
NO FTAs → WTO tariffs

- Most Favored Nation tariffs will apply to exports from both partners

Increasing trade costs

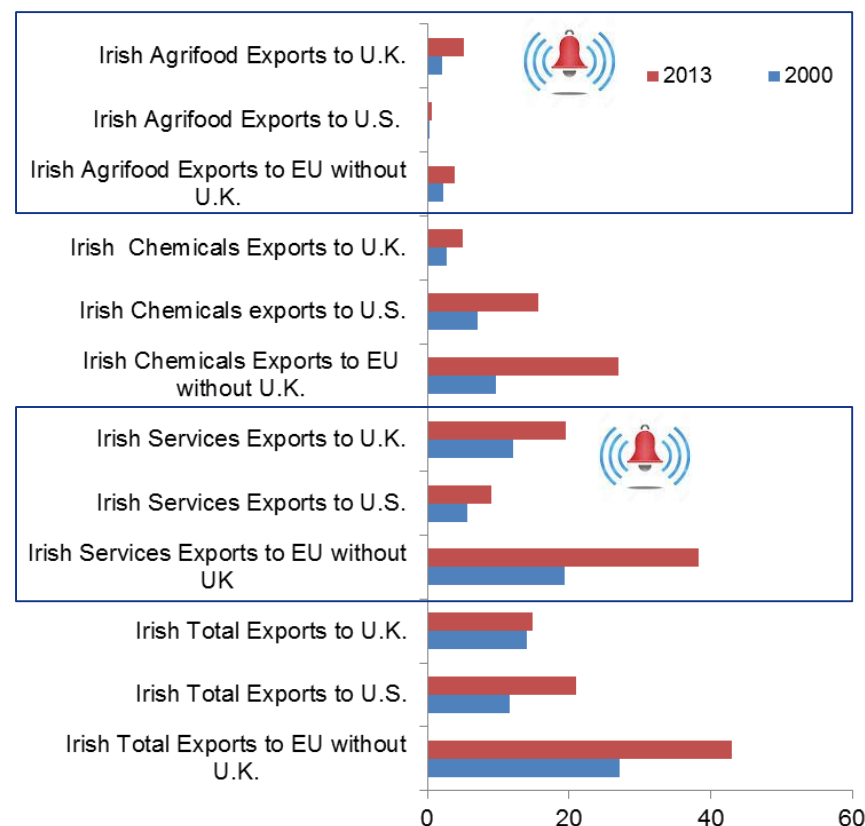
Pressure point #1: Redefining the trade relationship with a *major* partner

The UK remains a key export destination for Ireland...



...notably in the agrifood and services sectors

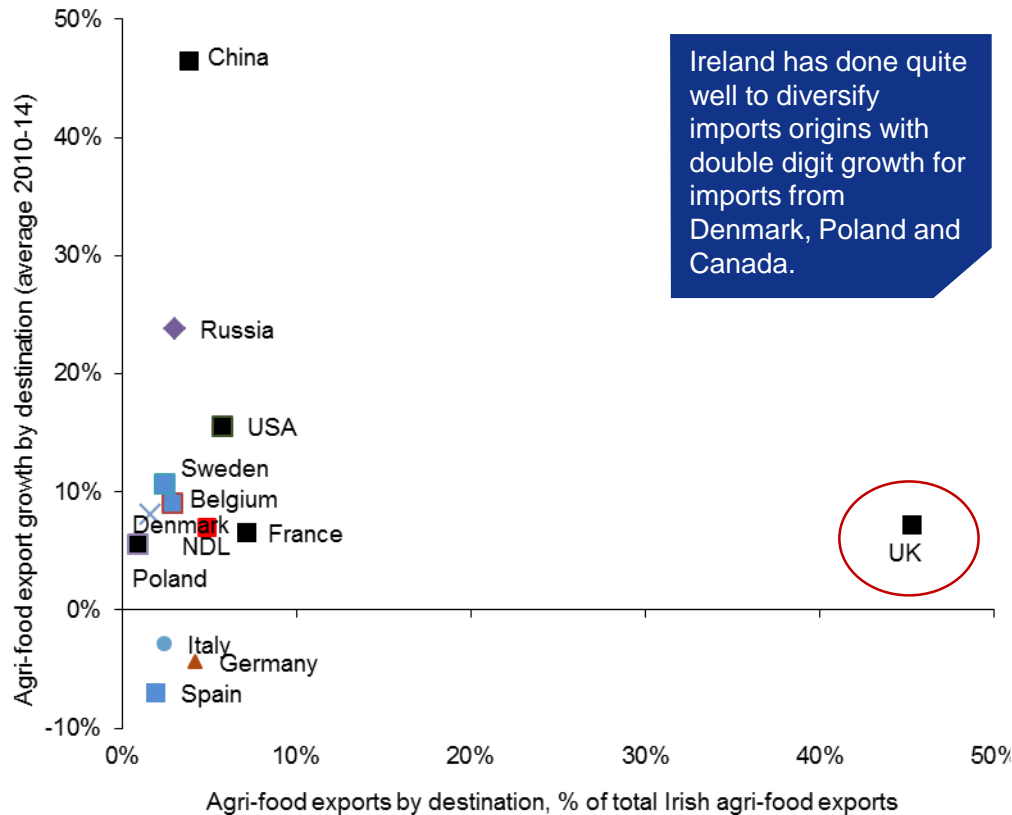
Irish total exports (EUR bn)



Pressure point #2: Getting the agri-food sector prices right

While new and fast-growing markets emerge, UK still leads volume and supply chain

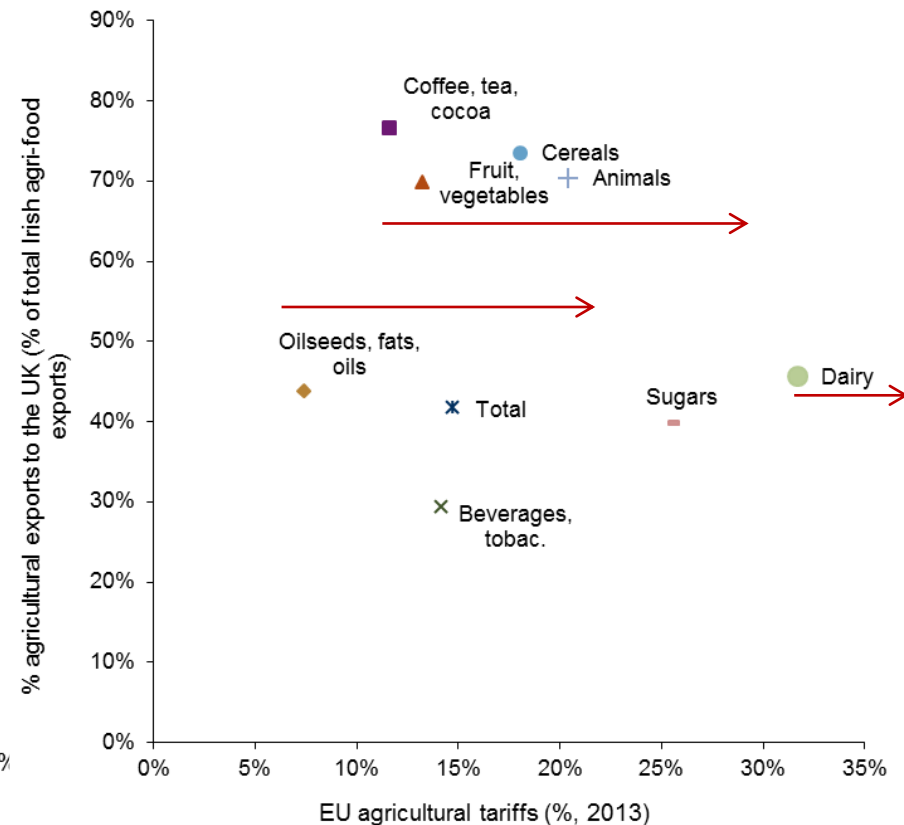
Irish agri-food exports by country and exports growth for the agri-food sector in the last five years



Sources: Chelem, Euler Hermes

Tariffs could be introduced/increase for primary agri-food products

EU agricultural tariffs impact on Irish exports to UK



Sources: WTO, ITC, Euler Hermes

Pressure point #3: How much additional investment would Ireland attract or lose?

The UK has increased its investments in the Irish market over the past few years, notably in services

Inward Foreign Direct Investments (% of total)

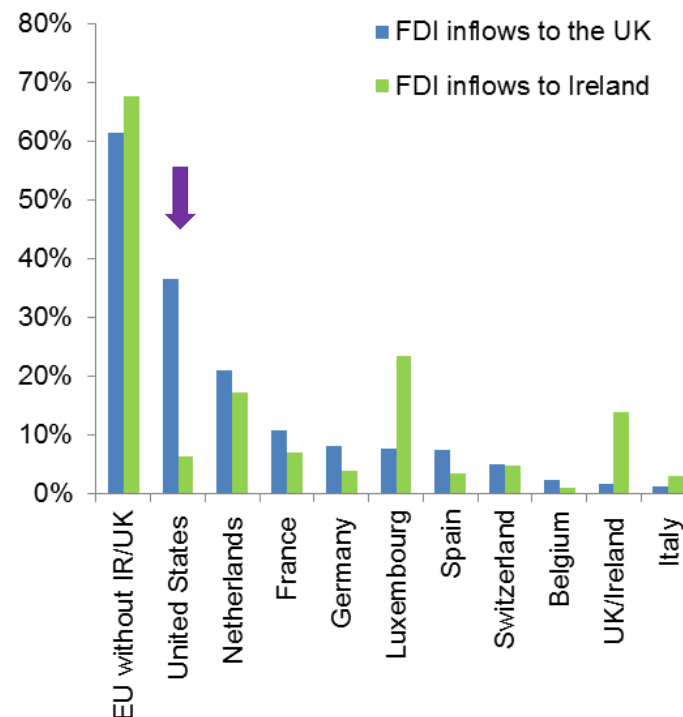
From UK to Ireland	Chemicals (incl Pharma)	Retail and wholesale trade	Financial services	Total (EURbn)
2010	1.9%	4.0%	39.0%	55
2013	4.8%	9.8%	54.8%	60

From Ireland to UK	Chemicals (incl Pharma)	Agrifood	Financial services	Retail and wholesale trade	Total (EURbn)
2010	3.8%	13.5%	40.4%	23.1%	13
2013	5.9%	9.6%	16.8%	22.5%	15

Sources: CSO, ONS, Euler Hermes

European and U.S. investors show a preference for the UK, but Ireland has a high potential to attract even more investments

Foreign Direct Investments (% of total)

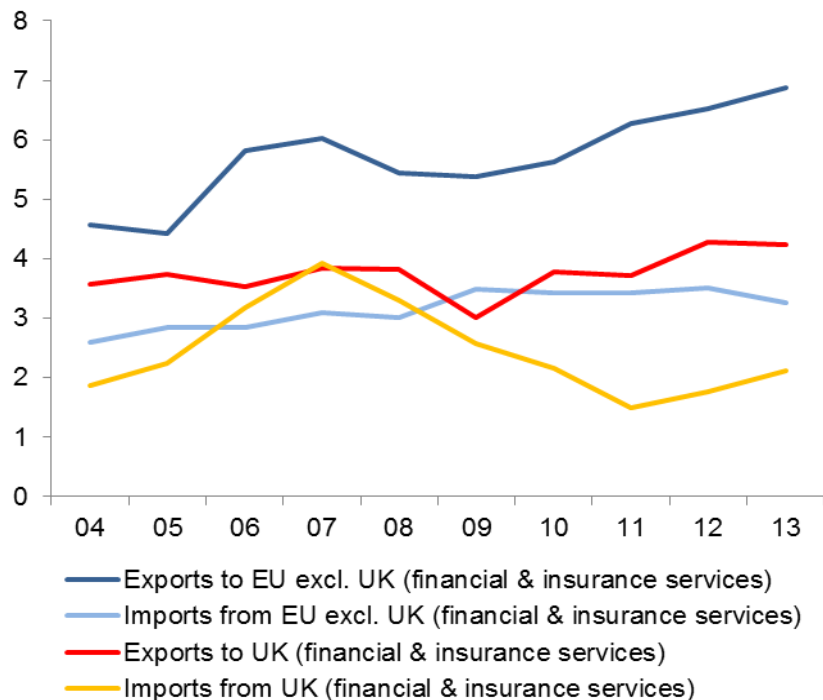


Sources: CSO, ONS Euler Hermes

Pressure point #4: A reorganization of the finance sector?

Ireland is a net exporter of financial and insurance services to Europe and to the UK

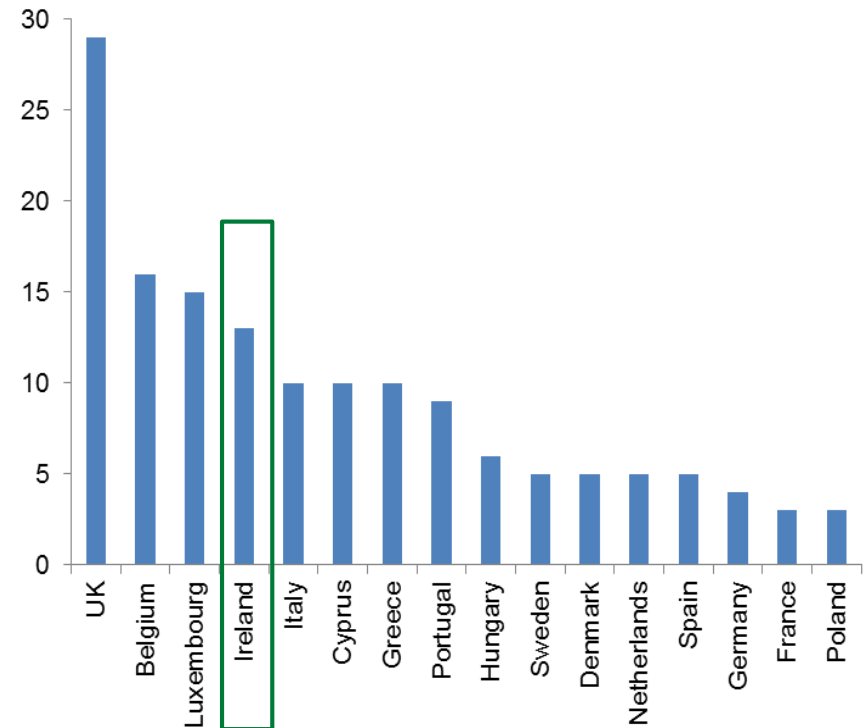
Irish imports and exports of financial services (EUR bn)



Sources: ITC, Euler Hermes

Low taxation could support installment of foreign banks to Ireland as already the 4th biggest financial market in the eurozone

% of foreign branch assets to total assets



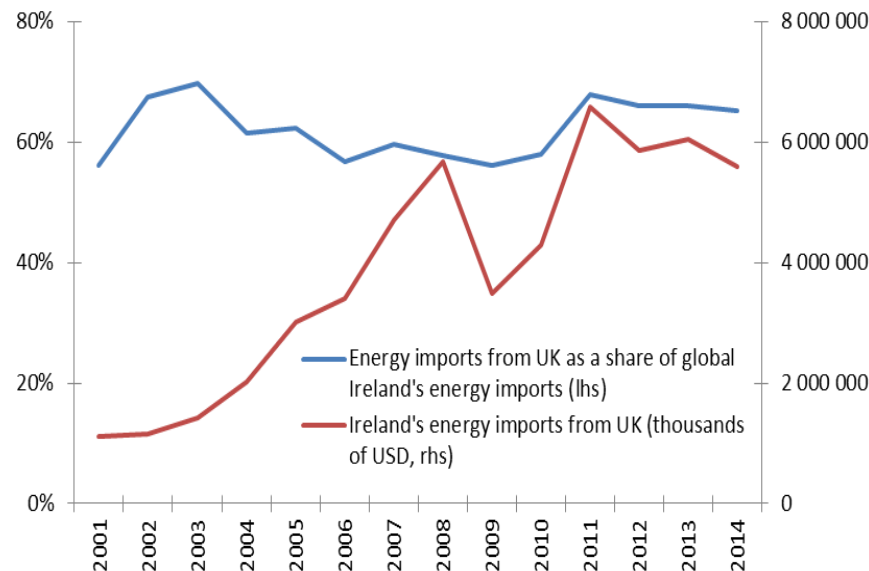
Sources: Markit, Euler Hermes

Pressure point #5: Finding new energy sources

There are two sub-sea gas pipelines between Ireland and the UK; Scotland provides Ireland with 95% of its gas supply

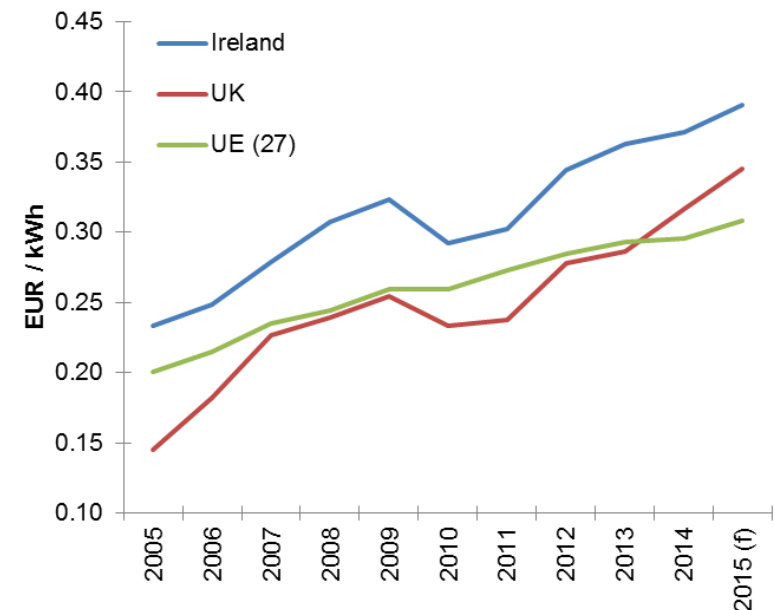
Electricity prices in Ireland remain high but benefit from the UK cheaper access (with a 20% markup)

Ireland's imports of Energy



Sources: ITC, Euler Hermes

Electricity prices, EUR/kWh



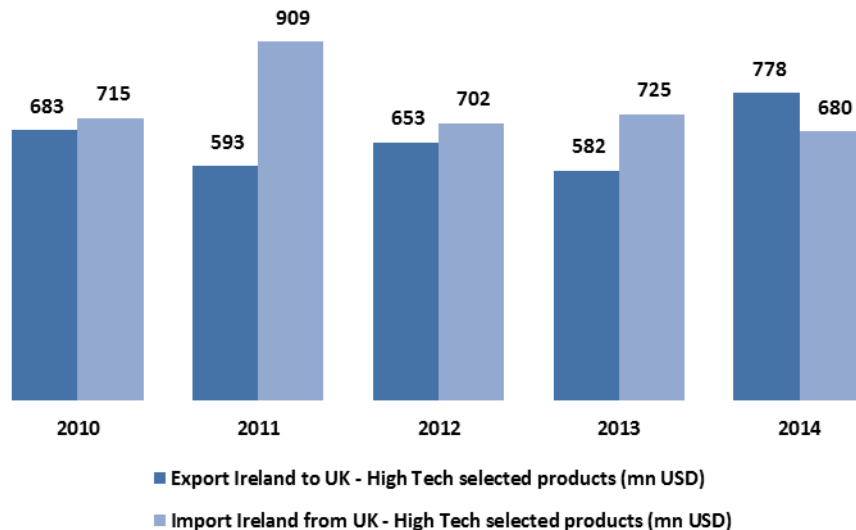
Sources: Eurostat, Euler Hermes

Pressure point #6: Keeping the tech advantage

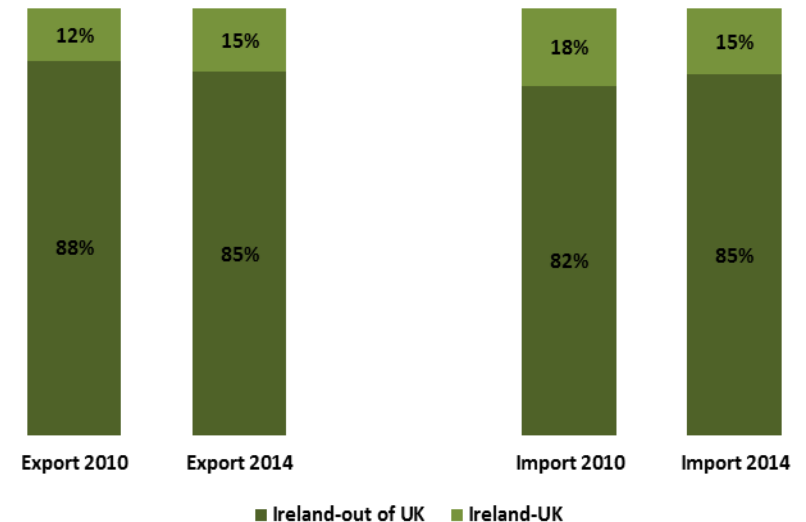
Rebound of High Tech exports is linked to UK growth

But the UK represent a small share (15%) and further diversification is sought

Irish export & import in High Tech products (USD mn)



Irish export and import market share of High Tech products in 2010 and 2015

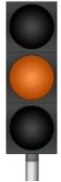


High Tech products : Automatic data processing machines, optical reader, electric app for line telephony, television, camera, printed circuits, electronic integrated circuits, etc

Sources: ITC, Euler Hermes

Sources: ITC, Euler Hermes

What does Brexit mean for Ireland?



Increased uncertainty and thus delayed investments
→ Slowing down GDP growth



Higher export and import prices
→ Higher inflation and lower volumes?



Higher energy prices/possible supply disruption
→ Industrial sector to suffer, chemicals the most?



The financial services sector to benefit from foreign investments?
→ How many of the 250 foreign banks in London will move to Dublin?



The US gateway to Europe to become Ireland instead of the UK?
→ Ireland to attract additional investments? How many?

Thank you for your attention!

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