

# THE EVOLUTION OF THE IRISH ECONOMY



**1960s**  
Large expansion of third level  
Universal secondary education

**1970s**  
1979: switch currency link from £ to Deutsch Marke - unstable European Monetary System  
1973: EU membership  
Increase in productivity levels

Move away from protectionist economic policies

**1980s**  
Debt crisis (1970s fiscal crises)  
Debt: GDP >110%

Oil crisis late 70s large fiscal deficits  
Baby boom  
EMS stabilised  
Interest on debt 10% of GDP

**1990s**  
Only 30% of population at work - baby boom peaks  
1987: Unity fiscal strategy  
1985: Unemployment peaked >17%

1997-Onward: Taxes increasingly come from stamp/cap gains not income tax  
Mid 1990s: economic growth increases  
Increasing female workplace participation

**2000s**  
Population/Income growth + cheap mortgages via EMU = Increasing housing demand  
House completions 93,000 pa in 2006: (Vs. 19,000 in 1990) - 4x US levels  
House prices skyrocket  
2007: low debt - well prepared for slowdown?

**2007-2010s**  
2007: Debt: GDP ratio 25%  
2008: Housing 'Shuddering halt'  
2008: GDP -3.5%  
2009: -7.6%2011: House prices fallen 40% and continue

**2003-07** Irish bank international borrowing increases from €15bn to €100bn (worth 50% of Irish GDP)  
2003 rapid increases lending to developers (> exposure)  
Anglo Irish Bank main culprit, expanded at 20% pa, encouraged AIB and BOI to speculate on developers too

**THE BANKING CRISIS**  
2007/8: Collapse in construction  
Increases in Unemployment, Increases in Social Welfare

**THE FISCAL CRISIS**  
Late 2008: Austerity budget €20.8bn, 13% of 2010 GDP (largest budget adjustment in any modern advanced economy)

**2010 Banks Need Help**  
Early 2009 Bank losses escalate  
Highly controversial  
2010 Nominal GDP increases

**Bank Guarantee**  
SEPTEMBER 30th, 2008  
Irish banks couldn't raise funds on bond markets - need government help or face ruin

**2010**  
Government uses taxpayers money to recapitalise the guaranteed bonds  
Senior civil servants and Merrill Lynch (government advisors) against it

**EU-IMF Bailout**  
Cost of government borrowing increase as 'bond yields' increases  
Oct 2010 - Deauville declaration by Sarkozy and Merkel - new crisis fund EFSF set up  
Involves: Stress tests of banks to see further funding needs. Happened in March 2011 (+€24bn)  
Return to bond markets late 2012?

**Endgame**  
European Commission projects Ireland will run out of money mid-2013 without return to private bond markets  
Need to hit austerity targets  
Might tap new European Stability Mechanism (ESM) Post 2013

Return to 3% deficit by 2014  
Govt now relying on export led growth

PAY ATTENTION to events elsewhere  
It might change Europe's attitude to Ireland - i.e. Greece

**1990s**  
Irish economy = 'Holy Grail economy'  
Late 1990s: increasing demand for housing  
Young population  
Employment friendly demographics

**2000s**  
Economy built on sand - Housing and construction (13.3% employment in 2007, highest in OECD)  
2007: low debt - well prepared for slowdown?

**2007-2010s**  
2007: Debt: GDP ratio 25%  
2008: Housing 'Shuddering halt'  
2008: GDP -3.5%  
2009: -7.6%2011: House prices fallen 40% and continue

**2010**  
Banks Need Help  
Early 2009 Bank losses escalate  
Highly controversial

**2010**  
Banks Need Help  
Early 2009 Bank losses escalate  
Highly controversial

**Bank Guarantee**  
SEPTEMBER 30th, 2008  
Irish banks couldn't raise funds on bond markets - need government help or face ruin

**EU-IMF Bailout**  
Cost of government borrowing increase as 'bond yields' increases  
Oct 2010 - Deauville declaration by Sarkozy and Merkel - new crisis fund EFSF set up  
Involves: Stress tests of banks to see further funding needs. Happened in March 2011 (+€24bn)  
Return to bond markets late 2012?

**Endgame**  
European Commission projects Ireland will run out of money mid-2013 without return to private bond markets  
Need to hit austerity targets  
Might tap new European Stability Mechanism (ESM) Post 2013

PAY ATTENTION to events elsewhere  
It might change Europe's attitude to Ireland - i.e. Greece