# D&B Country RiskLine Report

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| ***IRELAND*** | Region : WESTERN EUROPE |

November 2002

## D&B COUNTRY RISK INDICATOR

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|---|---|
| **DB1c** | This "DB" Rating Indicates:<br>Lowest risk<br>Lowest degree of uncertainty associated with expected returns, such as export payments, and foreign debt and equity servicing.<br><br>Trend:<br>Stable - The country's overall risk outlook has not changed appreciably, even though some minor changes to its political, commercial, macroeconomic, and/or external risk environment may have occurred. |

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country. Essentially, the indicator seeks to encapsulate the risk that country-wide factors pose to the predictability of export payments and investment returns over a time horizon of two years. The 'DB' risk indicator comprises a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth and a commensurate expansion in business opportunities;

*External risk* - the current account balance, capital flows, foreign exchange reserves, size of external debt and all such factors that determine whether a country can generate enough foreign exchange to meet its trade and foreign investment liabilities.

*The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an a designation representing slightly less risk than a b designation and so on. Only the DB7 indicator is not divided into quartiles*

## USUAL TERMS

Minimum Terms: OA

The minimum advisable form of documentation or trading method under which D&B advise customers to pursue any form of export trade with stated country.

Recommended Terms: SD

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 60-90 days

Normal period of credit associated with transactions with companies in the stated country.

Although comparatively robust domestic demand continues to provide ample opportunities for business, failures are expected to have increased in H1 '02 owing to Ireland's acute exposure to developments in the US. D&B recommends using SDs, although OA trading terms are also in use. Greater investment in roads and transport is gradually improving the country's business infrastructure.

## TRANSFER SITUATION

Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on foreign exchange controls, foreign exchange availability and the efficiency of the local banking system.

Import Cover: 0.8 months

The amount of foreign exchange a country has in relation to the average monthly value of imported goods and services. Only liquid foreign exchange reserves from which a country can service its import requirements are included in this calculation.

According to Forfás, Ireland's Advisory Board on Enterprise and Trade, FDI inflows in '01 fell by 58% to US$10bn. The deteriorating climate for international business helps to explain the drop. In addition, Ireland has a high exposure to global demand for information technology products and services: Intel, Dell and Microsoft - the top 3 exporters - account for almost 25% of total manufacturing exports.

**Economic Indicators***

| | **1999** | **2000** | **2001** | **2002f** | **2003f** |
|---|---|---|---|---|---|
| Real GDP growth, % | 10.8 | 11.5 | 6.6 | 3.2 | 5.0 |
| Inflation, annual ave % | 2.5 | 5.3 | 4.0 | 3.6 | 3.2 |
| Govt balance, % GDP | 2.3 | 4.5 | 1.4 | 0.0 | -0.2 |
| Unemployment, % | 5.6 | 4.3 | 3.9 | 5.0 | 5.0 |
| C/A balance, % GDP | 0.4 | -0.7 | -1.3 | -1.2 | -0.9 |

**The long-term interest rate chart tracks 10-year government bond yields.

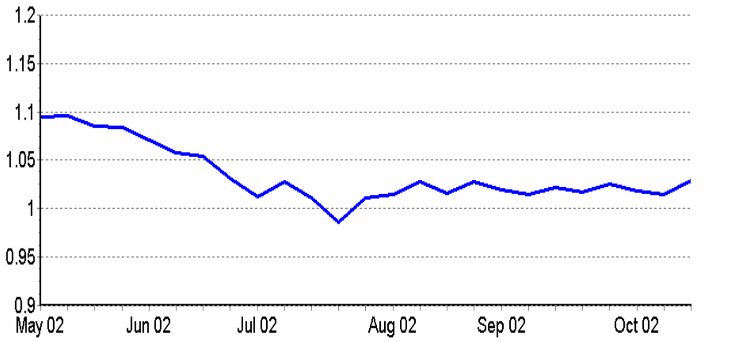
**LOCAL CURRENCY**

**Local Currency**
(Euro [€]: US$)

| | |
|---|---|
| May 02 | 1.0954 |
| | 1.0956 |
| | 1.0858 |
| | 1.0837 |
| Jun 02 | 1.0704 |
| | 1.0580 |
| | 1.0545 |
| | 1.0319 |
| Jul 02 | 1.0126 |
| | 1.0274 |
| | 1.0112 |
| | 0.9857 |
| | 1.0114 |
| Aug 02 | 1.0151 |
| | 1.0284 |
| | 1.0164 |
| | 1.0281 |
| Sep 02 | 1.0197 |
| | 1.0153 |

| | |
|---|---|
| | 1.0219 |
| | 1.0168 |
| | 1.0251 |
| Oct 02 | 1.0180 |
| | 1.0144 |
| | 1.0291 |

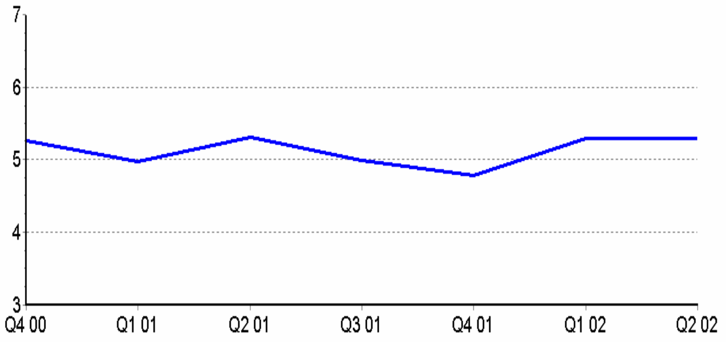
Local Currency
(Euro [€]: US$)




**Exchange Rates**
(London, 21 Oct 02)

| | |
|---|---|
| UK£ | 1.5928 |
| US$ | 1.0291 |
| Yen (x 100) | 0.8208 |

Long-Term Interest Rate*
(quarterly average, %)



| Long-Term Interest Rate* (quarterly average, %) | | | | | | |
|---|---|---|---|---|---|---|
| **Q4 00** | **Q1 01** | **Q2 01** | **Q3 01** | **Q4 01** | **Q1 02** | **Q2 02** |
| 5.3 | 5.0 | 5.3 | 5.0 | 4.8 | 5.3 | 5.3 |

## Export Credit Agencies

| | |
|---|---|
| **US Eximbank** | Full cover available |
| **NCM** | Full cover available |
| **ECGD** | All facilities available, cover may be limited |
| **Euler TI** | Full ST cover available |

## RISK FACTOR

Ireland's 2nd referendum on the Nice Treaty resulted in an emphatic 'yes' vote. Unlike the 1st plebiscite on the issue, the Irish government put its full weight behind the 'yes' campaign and engaged the public in the debate over EU enlargement. A key reason behind the 'no' vote in Jun. '01 was poor voter turnout owing to complacency on behalf of those in favour of the treaty. The split in Jun. '01 was 54% against and 46% in favour; in contrast, the 2nd vote on 19 Oct. '02 went 63% in favour and only 37% against. This result is a victory for the government, which has been criticised recently over the weakening economy. In addition, by voting in favour of the treaty, Irish voters implicitly accept that subsidies from Brussels for infrastructure and rural development will now be diverted to other countries in Central and Southern Europe. Previously, the government had always been able to point to the financial benefits of membership in any vote on EU matters. The country's decision to support enlargement despite losing financial support has not only helped maintain positive relations with Brussels and existing EU member states, but has cemented positive relations with accession candidates. This augurs well for increased trade and investment linkages with that region over the MT/LT.

Developments in the north of Ireland have not been quite so positive. The British government has restored direct rule from London and suspended devolved government at Stormont following alleged covert spying operations conducted by the Irish Republican Army (IRA). The condition for the return to devolved government demanded by UK Prime Minister Tony Blair (and by unionist parties) is for the IRA to disband. This demand has been rejected by Sinn Fein and the IRA, and so the gap between the 2 political groupings at the time of writing appears unbridgeable. Although faith in the Good Friday Peace Agreement (the political framework for peace in the region) remains strong, devolved government is unlikely to be restored for many months. This may foment tensions between Protestant and Catholic communities causing violence to spread. However, the impact of this on Ireland's risk rating will be minimal and regionally concentrated. Looking forward, US pressure on the IRA to disband may also increase, making the eventual revival of the peace process the most likely outcome.

Turning to the economy, real GDP growth this year will be constrained by weakness in the external sector. The Irish economy's success in recent years has been built on its openness to foreign trade. However, although activity in the key pharmaceutical and information technology sectors will be weaker, aggregate economic activity, at 3.2% this year, will still be stronger than in almost any other EU country.

## GLOSSARY

*Key:*

| | |
|---|---|
| C L/C | Confirmed Letter of Credit |
| CWP | Claims Waiting Period |
| FX | Foreign Exchange |
| L/C | Letter of Credit |
| LT | Long-term |
| MT | Medium-term |
| OA | Open Account |
| SD | Sight Draft |
| ST | Short-term |

## DEFINITONS:

*C/A (current account) balance, % GDP:*
A measure of a country's net trade, service, and other non-capital flows.

*DSR (debt service ratio), %:*
The total of a country's debt interest and principal payments in relation to annual export revenues.

*Govt balance, % GDP:*
The public sector balance expressed as a proportion of total domestic economic output.

*Real GDP growth, %:*
The growth in the total goods and services produced within a country, taking account of inflation.

*Inflation, %:*
The increase in consumer prices reported as an end-year or annual average figure.

*Investment, % GDP:*
The proportion of total output directed toward investment.

*Manufactures, % GDP:*
A measure of the importance of industry within an economy.

*Non-oil sector, % GDP:*
The degree of dependency of an economy on oil.

*Oil, US$ p/b:*
Oil price per barrel.

*Oil output, '000 bpd*
Average daily output of oil.

*Public debt, % GDP:*
The total public sector debt in relation to the size of the domestic economy.

*Trade balance, % GDP:*
A measure of a country's net import and export flows.

*Unemployment, %:*
The percentage of the registered labour force that is unemployed.

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