



IRELAND

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2017

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Ireland, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 23, 2017 consideration of the staff report that concluded the Article IV consultation with Ireland.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 23, 2017, following discussions that ended on May 12, 2017, with the officials of Ireland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 7, 2017.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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June 26, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with Ireland

On June 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Ireland.

Ireland continues to be among the euro area's top growth performers. Real GDP expanded by 5.2 percent in 2016, supported by a healthy expansion of private consumption and buoyant investment, including construction. Strong broad-based job creation brought unemployment down to 6.4 percent in May, its lowest level in a decade, while inflation remained low as the recent pickup in energy prices and upward pressure from services were partly offset by the impact of the Sterling weakness. Higher-than-projected revenues, particularly corporate income tax receipts, supported a decline in the 2016 fiscal deficit to 0.6 percent of GDP, below the target of 0.9 percent of GDP, thus contributing to a further moderation of public debt.

Banks have strengthened their balance sheet further and remain profitable. While still high, non-performing loans have declined. Large redemptions continue to drive overall credit down, albeit at a slowing pace, as new lending has picked up in both corporate and household segments. Improved labor market conditions, rising incomes, and recent policy measures have contributed to increased pressures on house prices and rents in the face of a lagged supply response following the deep property-driven crisis.

The outlook remains positive, but with substantial, mainly externally-driven downside risks. Real GDP is projected to grow at 3.9 percent in 2017, propelled by strong domestic demand. Over the medium-term, growth is projected to decelerate and converge towards its potential of about 3 percent, narrowing the positive output gap gradually, and inflation is set to stabilize at just below 2 percent. Public finances are projected to improve further, allowing the government to attain its Medium-Term Objective of a structural deficit of ½ percent of GDP next year, while healthy export growth will keep the current account surplus broadly unchanged.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

(continued...)

Executive Board Assessment²

Executive Directors commended Ireland's strong economic performance, including broad-based job creation and continued balance sheet repair. The medium-term outlook also remains favorable. However, lingering crisis legacies, rising housing market pressures, and externally-driven uncertainties, mainly from Brexit, pose challenges. Against this background, Directors recommended that policies should focus on rebuilding fiscal buffers, strengthening economic resilience, guarding against a re-emergence of boom-bust dynamics, and fostering sustainable, inclusive growth.

Directors recommended growth-friendly fiscal consolidation to further reduce the public debt-to-GDP ratio, enhance resilience to shocks and build buffers. In this context, they emphasized the need to broaden the tax base and save temporary revenue windfalls, including from volatile corporate taxes. Given continued spending pressures, Directors called for maintaining sufficient room for social expenditures and growth-enhancing capital spending within the envisaged deficit-reduction strategy. They welcomed Fund technical assistance for public investment management assessment and ongoing expenditure reviews to enhance capital planning and expenditure prioritization.

Directors noted that banking system recovery is progressing. While the outlook is positive, Brexit-related uncertainties, international regulatory changes, and elevated NPL levels pose challenges. Directors stressed the importance of the macro-prudential framework, given the recent pick up in lending. In addition, they underlined the need to accelerate arrears resolution, including through intensified supervisory oversight, support greater creditor-borrower engagement, and improve the efficiency of legal proceedings.

Directors stressed that the strong momentum in the housing market requires close monitoring and noted that persistent pressures may lead to imbalances. They welcomed efforts to expand housing supply and assist the homeless. Directors noted that additional measures to reduce building costs, free up land for development, and accelerate loan restructuring for distressed, but viable, firms in the construction sector would help unlock housing supply. Measures to improve housing affordability should be well-targeted.

Directors noted that measures to strengthen human capital and reinforce competitiveness, particularly for domestic enterprises, are key to supporting sustained growth² and reducing income and regional disparities. They called for continued efforts to upgrade labor force skills and raise female labor force participation. Directors also emphasized the need to enhance competitiveness through greater support for SME innovation and improved infrastructure.

While Ireland's economic statistics conform to international norms, Directors underscored the need for indicators of underlying economic activity which suitably account for the operations of foreign-owned multinationals to allow a more accurate assessment of economic developments and policymaking. Directors welcomed the authorities' plans to publish the new indicators.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Ireland: Selected Economic Indicators, 2015–22

Population (millions):	4.7		Per capita income (euros):		56,558			
Quota (as of Apr. 30, 2017; millions of SDRs):	3,449.9		At-risk-of-poverty rate 1/		16.3			
			Projections					
	2015	2016	2017	2018	2019	2020	2021	2022
	(Annual percentage change, constant prices, unless noted otherwise)							
Output/Demand								
Real GDP	26.3	5.2	3.9	3.3	3.0	2.9	2.8	2.8
Domestic demand	10.0	15.9	4.7	3.5	3.2	3.0	2.8	2.8
Public consumption	1.1	5.3	2.3	2.1	1.8	1.7	1.6	1.5
Private consumption	4.5	2.9	3.2	3.0	2.7	2.5	2.2	2.2
Gross fixed capital formation	33.7	37.6	7.8	4.8	4.4	4.1	4.0	4.0
Exports of goods and services	34.5	2.4	4.4	4.3	4.3	4.3	4.1	4.1
Imports of goods and services	21.7	10.4	5.1	4.7	4.7	4.6	4.4	4.3
Potential Growth	24.6	4.1	3.5	3.4	3.3	3.1	3.0	3.0
Output Gap	-0.4	0.7	1.0	0.9	0.7	0.4	0.2	0.1
Contribution to growth								
Domestic demand	8.2	10.0	3.6	2.7	2.5	2.3	2.2	2.2
Public consumption	0.2	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Private consumption	2.1	1.0	1.1	1.1	1.0	0.9	0.8	0.8
Gross fixed capital formation	6.9	8.0	2.2	1.4	1.3	1.2	1.2	1.2
Inventories	-0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	18.3	-6.6	0.3	0.6	0.6	0.6	0.7	0.7
Residual	-0.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Prices								
Inflation (HICP)	0.0	-0.2	0.9	1.5	1.7	1.8	1.9	1.9
Inflation (HICP, end of period)	0.3	-0.2	1.4	1.6	1.7	1.8	1.9	1.9
GDP deflator	4.9	-1.3	0.8	1.4	1.5	1.6	1.7	1.7
Terms-of-trade 2/	2.6	-0.3	-0.5	0.0	0.1	0.1	0.0	0.0
Employment and wages								
Employment (ILO definition)	2.6	2.9	2.8	1.6	1.2	1.1	1.0	1.0
Unemployment rate (percent)	9.4	7.9	6.2	5.7	5.5	5.5	5.5	5.5
Average nominal wage	0.9	0.8	2.0	2.6	2.7	2.8	2.9	2.9
	(In percent of GDP)							
Public Finance, General Government 3/								
Revenue	27.6	27.5	27.0	26.8	26.4	26.2	26.1	26.1
Expenditure	29.6	28.1	27.6	26.9	26.4	26.0	25.5	25.1
Overall balance	-2.0	-0.6	-0.5	-0.2	0.0	0.2	0.6	1.0
Overall balance (excl. support to fin.inst.)	-1.1	-0.6	-0.5	-0.2	0.0	0.2	0.6	1.0
Primary balance	0.7	1.8	1.7	1.9	1.9	2.1	2.4	2.7
Structural balance (percent of potential GDP)	-1.2	-1.1	-0.9	-0.5	-0.3	0.1	0.5	0.9
General government gross debt	78.8	75.6	73.7	72.3	70.8	66.7	64.4	60.9
General government net debt	72.1	69.6	67.7	65.7	63.6	61.7	59.4	55.8
	(In percent)							
Monetary and financial indicators								
Bank credit to private sector (growth rate)	-13.2	-7.8	...	...	...	...	...	...
Deposit rates	1.3	0.7	...	...	...	...	...	...
Government 10-year bond yield	1.1	0.7	...	...	...	...	...	...
	(In percent of GDP)							
Balance of payments								
Trade balance (goods)	43.3	38.8	38.7	39.2	39.4	39.5	39.5	39.5
Current account balance	10.2	4.7	4.9	4.8	4.7	4.7	4.6	4.5
Gross external debt (excl. IFC)	315.0	277.4	256.6	236.9	218.5	201.0	184.2	168.3
Saving and investment balance								
Gross national savings	32.0	33.6	35.7	36.0	36.3	36.5	36.8	36.9
Private sector	31.1	32.2	34.4	34.4	34.6	34.7	34.6	34.5
Public sector	0.9	1.4	1.3	1.6	1.6	1.9	2.1	2.4
Gross capital formation	21.8	28.9	30.8	31.2	31.5	31.8	32.2	32.5
Memorandum item:								
Nominal GDP (€ billions)	255.6	265.4	278.0	291.0	304.3	318.3	332.9	348.3
Population	0.7	0.8	1.0	0.9	0.9	0.9	0.9	0.9

Sources: Central Statistics Office; Department of Finance; Eurostat; and IMF staff.

1/ Share of population with an equivalised disposable income (including social transfers) below the threshold of 60 percent of the national median equivalised disposable income after social transfers. Data is as of 2015.

2/ Goods and services.

3/ See notes to Table 2.



IRELAND

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

June 7, 2016

KEY ISSUES

Context: Ireland continues to be among the euro area's top growth performers. Real GDP expanded by 5.2 percent in 2016, aided by favorable labor market dynamics and improved balance sheets. Foreign-owned multinational enterprises (MNEs) play an important role in the economy, although their large scale and complex operations complicate assessment of underlying activity. While a steady reduction in crisis legacies is underway, continuity in recovery efforts will be key to ensuring that gains are sustainable and broadly shared.

Outlook and risks: The outlook is expected to remain positive, but external risks predominate, including from the forthcoming Brexit and related exchange rate movements. Potential changes in international corporate taxation may affect MNE operations in Ireland, with uncertain implications for underlying output, employment, and public finances.

Challenges and policy priorities: Key challenges are to address remaining crisis legacies, enhance the economy's resilience to shocks, and strengthen the foundations for a sustainable and inclusive long-term growth. Priorities include:

- **Fiscal policy.** Continue prudent fiscal adjustment to build buffers and reduce public debt further. Protect public finances by broadening the tax base, enforcing expenditure ceilings, and saving temporary revenue gains. Allocate expenditure with a view to giving greater priority to investment to foster growth and job creation over the medium term.
- **Financial and housing market policies.** Retain prudent lending policies, and strengthen private sector balance sheets through a sustained reduction in nonperforming loans, particularly deep mortgage arrears. Assist the homeless and support new housing supply. Reduce administrative building costs, while ensuring that recent measures to increase housing affordability do not amplify pressures in the property market.
- **Structural policy.** Complement targeted social protection with reforms that tackle roots of regional and income inequality. Continue expanding technical and vocational training to upgrade skills and strengthen childcare support to increase labor force participation among women. Enhance support for SME innovation through greater direct public sector support for R&D and knowledge transfer, and improve infrastructure quality to support sectoral and regional development.

Approved By
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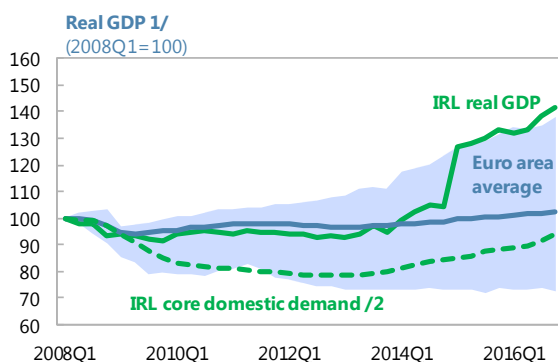
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CONTEXT

1. Robust growth in recent years has supported steady, albeit incomplete, reduction in Ireland’s crisis legacies. Growth—among the strongest in the euro area—has been broad-based and job-rich. That said, public and private debt, as well as unresolved distressed loans, remain elevated. In the fall 2016 [Eurobarometer](#) survey, two-thirds of the Irish population described Irish economic conditions as good, well above the EU average of 40 percent. However, crisis legacies, including lagged recovery in construction, were reflected in concerns about housing affordability, health and social security, and unemployment. More broadly, adjustment fatigue and a challenging political context complicate policymaking for the minority government.

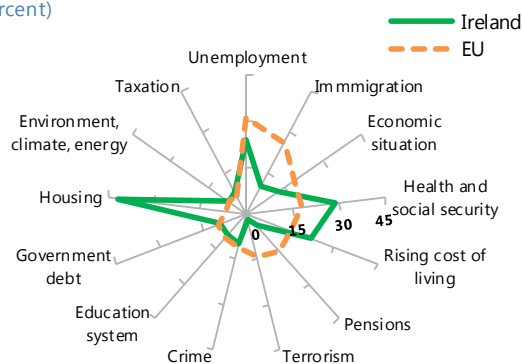


Sources: Haver and IMF staff.

1/ The shaded area reflects the range between the high and low growth countries in the euro area, excluding Ireland.

2/ Domestic demand, less investment in intangibles and aircraft.

Survey Question: Most Important Issues Facing the Country?
(Percent)



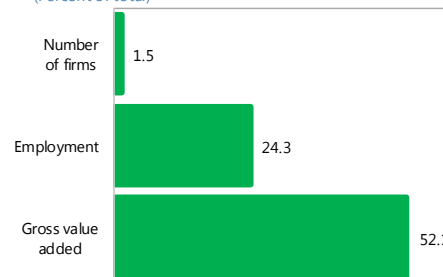
Source: Eurobarometer.

2. As anticipated, Taoiseach (Prime Minister) Enda Kenny recently resigned as Fine Gael leader, with a new leader, Leo Varadkar, selected on June 2. Selection of the new Taoiseach and minority government cabinet is underway. It is not expected to result in a material policy shift.

3. Two broader challenges merit special attention in the Irish context:

- **Role of MNEs:** The strong and growing presence of MNEs has been central to Ireland’s growth model, but also presents challenges (Box 1).¹
- **Income distribution:** Ireland’s flexible economy and strong social safety net helped mitigate the adverse effects of the crisis, but ongoing efforts are needed to address the lingering impact on those hardest hit, and the long-recognized challenges of market-income inequality and regional disparities require ongoing attention (Annex I).²

Multinational Enterprises in the Business Economy, 2014
(Percent of total)



Source: Central Statistics Office.

¹ See also Selected Issues Paper (SIP), “Ireland: The Role of Foreign-owned Multinational Enterprises”.

² See also SIP, “Income Inequality and the Welfare System in Ireland: An Overview”.

Box 1. Role of Foreign-owned MNEs

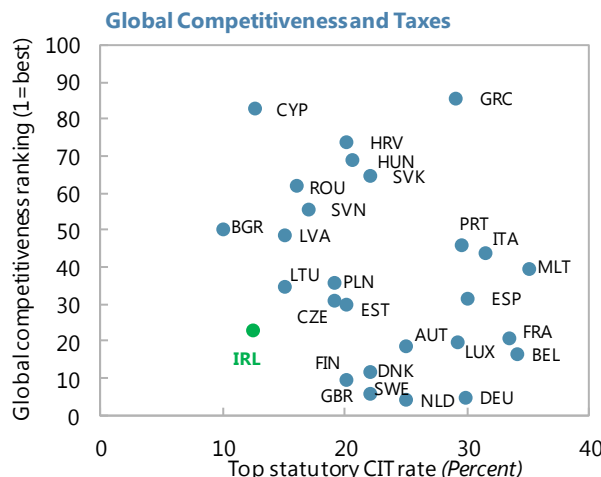
MNE’s key role in Ireland’s growth model. Ireland is an attractive destination for foreign investment, ranking well in various indicators of global competitiveness, based on a sound legal and regulatory system, a strong workforce and flexible labor market, and low corporate income taxes. EU membership and the native English environment are also relevant to the mainly US-based MNEs, which have invested in high productivity industries such as pharmaceuticals and information technology and accounted for about 50 percent of measured gross value added as of 2014. They have been a key source of high-skilled employment, R&D, and taxes that support growth-enhancing investment and social spending.

Challenges. The dramatic revision of 2015 GDP highlights the difficulties resulting from the impact of MNEs on traditional statistical measures (see Box 2). In addition:

- **Leveraging MNE presence to support indigenous growth:** Multipliers for MNEs are relatively low, suggesting additional potential for productivity spillovers to the indigenous economy.
- **International tax risks:** Recognizing that Ireland’s favorable tax environment has played an important role in attracting MNEs, potential tax changes in key partners, including the US, and uncertainty related to broader international tax reform discussions may affect MNE operations in Ireland, with potential impact on output, employment, and fiscal revenues. This impact, including location decisions, will depend on the specific reforms undertaken, though the issue may be most relevant for MNEs with limited physical operations in Ireland and those with substantial profits deriving from intellectual property (IP) held in Ireland, thus limiting the possible impact on the underlying economy. Destination-based systems, and more broadly those with less favorable treatment of imports, would have the largest impact.

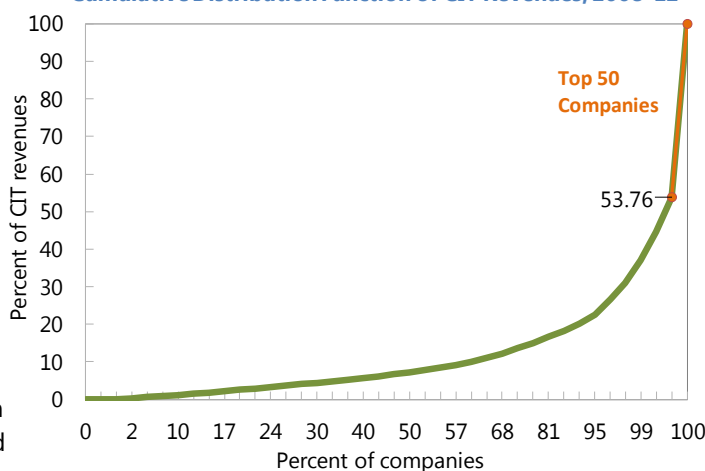
Tax concentration.

- Corporate tax accounts for almost 10 percent of total revenue, double the EU average, with the top 50 companies representing about half of CIT revenues. US-headquartered companies contribute about 60 percent of this total.
- MNEs also pose a potentially large indirect risk to taxes, accounting for about a fifth of the total compensation of employees, social contributions, and income taxes.



Sources: Eurostat; and Global Competitiveness Report 2016-17.

Cumulative Distribution Function of CIT Revenues, 2008-12



Sources: Office of the Revenue Commissioners; and IMF staff.

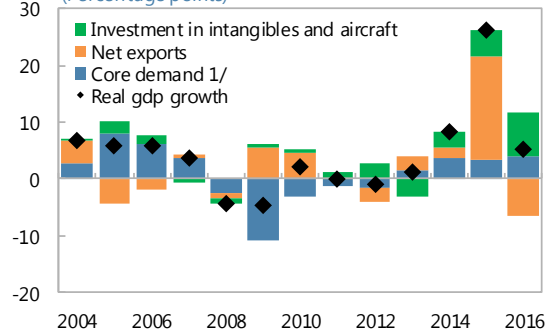
RECENT DEVELOPMENTS AND POLICY PRIORITIES

4. The Irish economy has grown rapidly, supported by domestic demand.

Activity expanded by a headline 5.2 percent in 2016. The strong performance was propelled by healthy expansion of private consumption and buoyant investment, including in construction. The contribution of net exports was negative. These headline figures also reflect substantial MNE activity, a portion of which is not linked to underlying activity, thereby complicating assessment of economic developments (Box 2).

Staff estimate that the growth contribution of underlying core demand increased to 4 percent in 2016 from 3½ percent in 2015. High frequency indicators suggest strong momentum has continued into 2017.

Contribution to GDP Growth
(Percentage points)



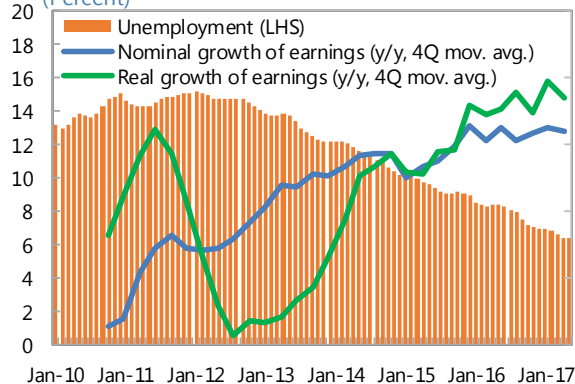
Sources: Central Statistics Office and IMF staff.

1/ Excludes investment in intangibles and aircrafts.

5. The labor market is recovering rapidly, but inflation remains low.

Broad-based job creation reduced unemployment to 6.4 percent in May 2017 from about 9 percent at end-2015, despite positive recent net migration. Still, participation remains low relative to EU comparators at around 60 percent, reflecting both structural and cyclical factors.³ Wage increases remained moderate across most sectors in 2016. Inflation remained low as the recent pickup in energy prices and upward pressure from services were partly offset by the impact of the Sterling weakness.

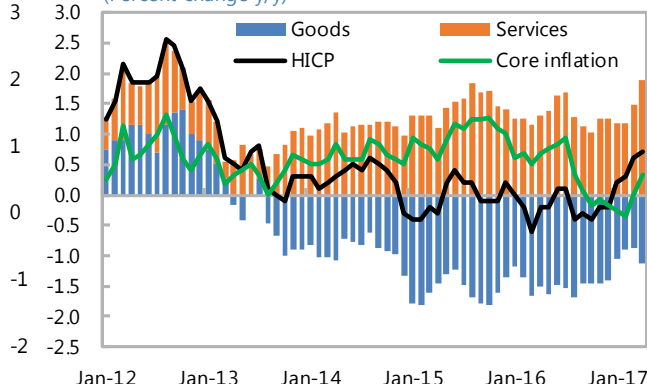
Unemployment and Private Sector's Wage Growth 1/
(Percent)



Sources: Haver Analytics and IMF staff.

1/ Earnings are weekly; real terms are deflated by HICP.

Contribution to Annual HICP Inflation
(Percent change y/y)



Sources: Eurostat and IMF staff.

³ Cyclical factors include still recovering construction activity and cyclically-driven migration.

Box 2. Statistical Challenges in Ireland¹

The issue: MNEs in Ireland invest in substantial physical production, provide significant employment, and are an important part of the tax base, with a direct bearing on the underlying economy. However, sizable investment in (or relocation of) intangible and internationally mobile capital assets (including aircraft leasing), as well as often-related “offshore” contract manufacturing, have a large statistical impact not in line with their relevance to underlying domestic activity. As such, while Ireland’s national accounts statistics are fully consistent with international norms, they provide an inflated and excessively volatile picture of Ireland’s economic performance. These issues are not unique to Ireland, but the scale of MNE operations relative to the overall economy present special challenges.

Importance: MNE activities can mask trends in underlying growth, as well as trade and investment developments, making it more difficult to gauge the cyclical position and appropriate policy setting. Volatility or lumpiness in income flows or investment further complicate assessment. Standard metrics, often based on GDP or headline BOP figures, can distort analysis of labor productivity and economic well-being, fiscal sustainability, and external competitiveness, masking important risks or misrepresenting performance. Headline data also limits meaningful cross-country comparisons.

The challenge: Stripping out these effects to derive a “GDP*” and related-component data is difficult. Doing so requires additional data separating MNE offshore/IP-related activities, including within single companies. These complexities make derivation using an expenditure or production approach particularly difficult.

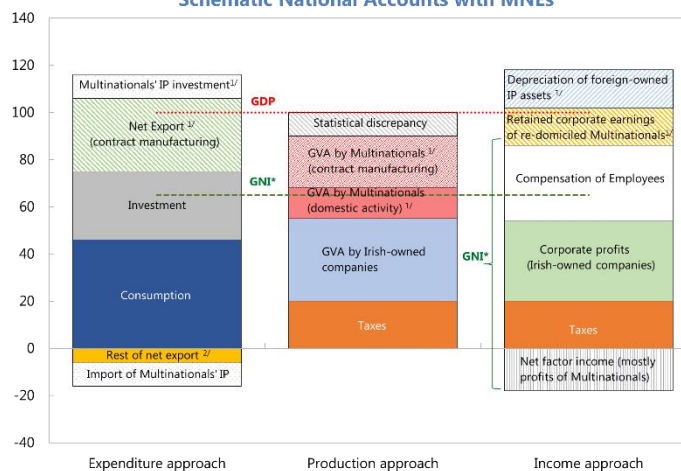
Response: As part of a [staged response](#), the CSO will begin to publish new metrics beginning in July, based on the recommendations of a working group led by the central bank governor:

- **GNI***, adjusting national income for the effects of retained earnings of MNEs domiciled in Ireland and depreciation of foreign-owned IP assets. Corresponding BOP/NIIP presentations are also envisaged. GNI* will provide a more stable and prudent measure for analyses of public finances and external sustainability. However, it also strips out MNE operations relevant to underlying activity, therefore representing a lower bound. Central bank analysis suggests 2015 nominal GNI* is about 30 percent below nominal GDP.
- **Additional structural and cyclical indicators** to be published and further developed through next year will help decode some parts of MNEs’ activities in the expenditure and production approaches. IP investment, GVA, and income of all MNE activities, to be reported separately, will allow for separate analysis of the dynamics of MNE-based activities and the rest of the economy. Ongoing analysis of productivity measures and related consideration of a capital-stock adjustment for IP assets, should also be helpful, including for analysis of potential output and the cyclical position.

Remaining challenges: The absence of a breakdown of royalty flows prevents removal of the effects of IP assets on net export in the expenditure approach. In the production approach, the GVA of MNEs does not separate domestic and offshore IP-related activities. Understanding underlying trends in the BOP would require more granularity in trade data on financial services and royalties, MNE income (on- versus off-shore) and portfolio flows, and related-party financial flows, with NIIP calculations calling for a breakdown of IP assets and liabilities and associated dividends and profits.

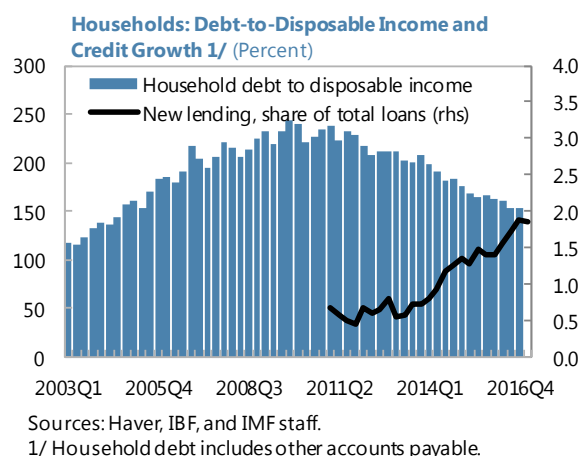
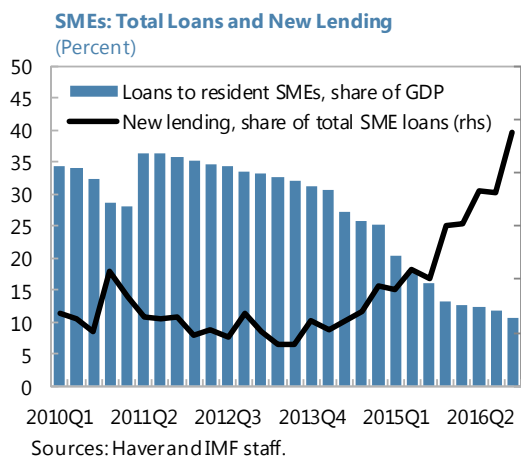
¹ See also the Appendix to the SIP entitled: “Ireland: The Role of Foreign-Owned Multinational Enterprises.”

Schematic National Accounts with MNEs

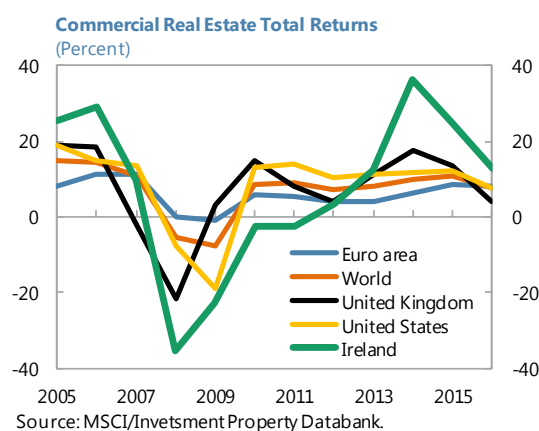
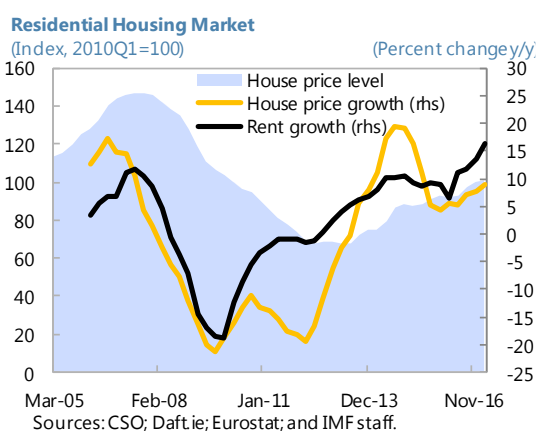


Notes: ^{1/} Items currently not reported separately; ^{2/} Includes net export of royalties, not reported separately.

6. New lending is picking up as private-sector balance sheets improve. Mortgage arrears declined to 13.4 percent of total mortgages at end-2016 from 14.7 percent at end-2015. New lending for house purchases has risen from low levels, but strong income growth and repayments resulted in a further reduction in household debt-to-disposable income (Annex II).⁴ The financial position of SMEs continued to improve across all sectors, and the default rate has halved to 14.3 percent in 2016Q4 since its 2013 peak.⁵ While new lending is trending upwards, mainly to firms in the real estate and manufacturing sectors, large redemptions continue to drive overall credit down.



7. Rising demand and limited supply continue to boost property prices and rents. After years of crisis-driven underinvestment, residential construction is gradually recovering, but housing completions remains insufficient to meet demand.⁶ Consequently, while housing prices remain below pre-crisis levels, they increased by about 10½ percent y/y in April. Tight market conditions have driven an increase in rental demand, pushing rents above pre-crisis levels. Demand for commercial real estate (CRE) remains strong. New construction is underway, but office vacancy rates



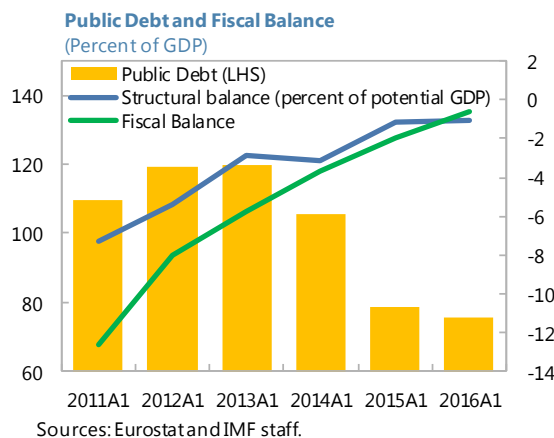
⁴ See also SIP, "Household Deleveraging in Ireland."

⁵ The default rate varies across sectors. Recent [work](#) points to pockets of vulnerability among corporates.

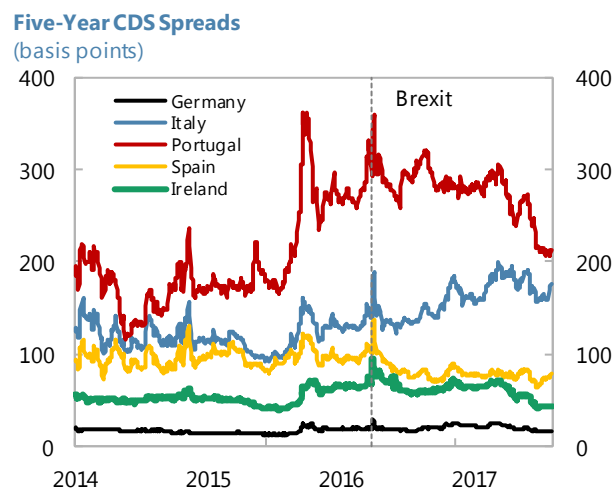
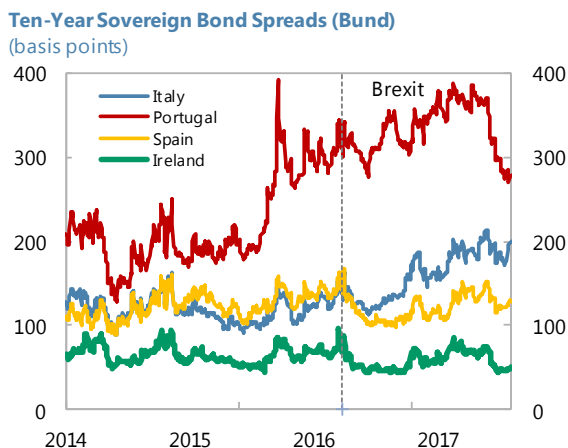
⁶ See, "[Ireland's Economic Outlook: Perspectives and Policy Challenges.](#)"

are at record lows. The government has taken substantial measures to tackle housing shortages and address homelessness under the July 2016 [Action Plan for Housing and Homelessness](#).⁷ Additional legislation passed last year capped annual rent increases at 4 percent for three years in designated Rent Pressure Zones, now covering more than half of Irish tenancies.

8. The 2016 fiscal deficit was lower than targeted, and public debt declined modestly. The headline deficit narrowed to 0.6 percent of GDP versus a target of 0.9 percent of GDP, mainly reflecting one-off revenues of about 0.2 percent of GDP. Higher-than-projected revenues, particularly corporate income tax (CIT) receipts, offset in-year expenditure increases, particularly in the health sector. In structural terms, the deficit remained broadly unchanged.



9. Financial conditions remain supportive. Ten-year government bond yields have decreased modestly in recent months, in line with peers, and remain low from a historical perspective. Spreads over German bunds continue to fluctuate in a narrow range, despite a slow-down in Eurosystem Irish-bond purchases due to limit restrictions. As of end-April, the debt management agency had issued €8.4 billion in Government bonds (out of a planned €9–13 billion during 2017). Irish equities have gained in recent months, more than recovering losses following the Brexit referendum.



Source: Bloomberg Financial Market L.P.

⁷ The Action Plan includes a range of measures to assist the homeless, with a focus on reducing the level of families in emergency accommodation, delivering inter-agency support for those currently homeless, and enhancing support to keep people in their own home. The plan also focuses on increasing the availability of social housing and other state-supported housing.

10. Ireland's current account remains in surplus, albeit subject to MNE-related volatility.

The surplus declined to below 5 percent of GDP last year from about 10 percent of GDP in 2015. This volatility reflects in part contract manufacturing and IP-related imports.⁸ The 2016 current account reflects a large positive goods trade balance, more than offsetting large deficits in services and income. The real effective exchange rate remained broadly stable in the last two years, but has depreciated significantly versus the pre-crisis period, driven by significant MNE-driven productivity gains. The external balance assessment, though complicated by MNE operations, does not suggest a deviation from fundamentals (Annex III).

OUTLOOK AND RISKS

11. The Irish economy is on a strong growth path, though uncertainties around the forecast are elevated. Real GDP is projected to grow at 3.9 percent in 2017, reflecting buoyant investment, including in construction, and continued expansion of private consumption. Over the medium-term, growth is projected to decelerate and converge towards its potential of 3 percent, narrowing the positive output gap gradually, with inflation stabilizing at just below 2 percent, reflecting tighter labor market conditions. Further improvement in private sector balance sheets will support a steady expansion of private consumption and investment, keeping domestic demand as the main contributor to growth. The baseline assumes continued strong export performance, in line with growth in trading partners, and some import moderation, reflecting a deceleration in domestic demand growth. The current account surplus is projected to remain roughly unchanged.

Ireland: Macroeconomic Projections, 2015–22								
(Percentage change unless indicated otherwise)								
	2015	2016	<i>Projections</i>					
			2017	2018	2019	2020	2021	2022
Real GDP	26.3	5.2	3.9	3.3	3.0	2.9	2.8	2.8
Final domestic demand	11.3	15.1	4.7	3.6	3.2	3.0	2.8	2.8
Private consumption	4.5	2.9	3.2	3.0	2.7	2.5	2.2	2.2
Public consumption	1.1	5.3	2.3	2.1	1.8	1.7	1.6	1.5
Fixed investment	33.7	37.6	7.8	4.8	4.4	4.1	4.0	4.0
Change in stocks (contribution to growth)	-0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth)	18.3	-6.6	0.3	0.6	0.6	0.6	0.7	0.7
Exports	34.5	2.4	4.4	4.3	4.3	4.3	4.1	4.1
Imports	21.7	10.4	5.1	4.7	4.7	4.6	4.4	4.3
Current account (percent of GDP)	10.2	4.7	4.9	4.8	4.7	4.7	4.6	4.5
Unemployment rate (percent)	9.4	7.9	6.2	5.7	5.5	5.5	5.5	5.5
Output gap	-0.4	0.7	1.0	0.9	0.7	0.4	0.2	0.1
Consumer prices (HICP)	0.0	-0.2	0.9	1.5	1.7	1.8	1.9	1.9

Sources: Central Statistics Office and IMF staff projections.

⁸ In previous years, aircraft leasing and pharmaceutical-related trade have also contributed to volatility.

12. Externally-driven risks continue to dominate (Annex IV, Risk Assessment Matrix). As a small and open economy, Ireland is exposed to adverse shifts in the external environment. Two risks predominate:

- **Brexit:** While subject to large uncertainties, the impact of the Brexit on Ireland is expected to be negative and significant. A possible slowdown in the UK, accompanied by sustained weakness in Sterling, would affect the Irish economy through labor, trade and financial channels (Annex V). The authorities estimate the impact could be as high as 3.8 percentage points of GDP after 10 years, with the largest impact on traditional sectors and regions where these activities dominate. Possible relocation of UK-based companies to Ireland could mitigate some of these effects.
- **International tax changes:** Uncertainty around possible corporate tax reforms in the US and EU may affect MNE operations in Ireland, with potentially adverse repercussions for output, employment and the fiscal position (Box 1).

In addition, an increase in inward-looking policies, including by key trading partners, could reduce global and regional policy collaboration and undermine cross-border trade, confidence, and growth. Domestically, faster-than-expected repair of private sector balance sheets and stronger-than-anticipated job creation could lift private consumption, investment, and growth above the baseline. However, adjustment fatigue, coupled with a challenging policymaking environment, could complicate reform efforts, thus weakening the economy's resilience to shocks. Housing supply and demand imbalances could negatively affect the well-being of the population and increase financial stability risks unless they are well managed. MNE-related activities represent a two-sided risk, with potential upside to measured GDP, including in 2017, from recent and potential MNE operations.

Authorities' views

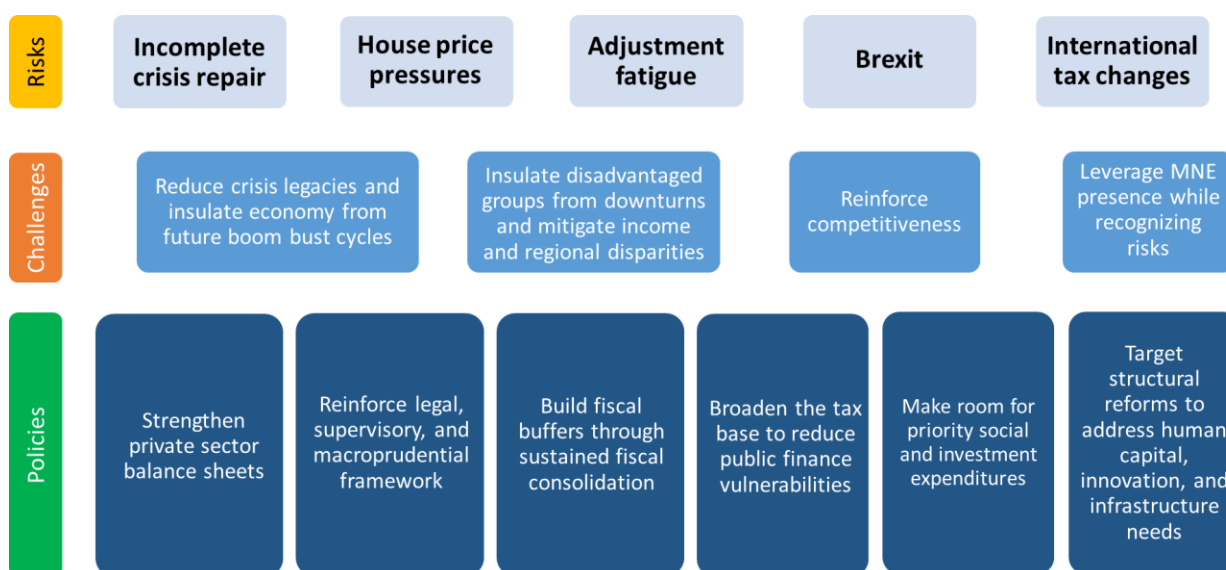
13. The authorities broadly agreed with staff on the outlook, projecting strong performance in the period ahead with modest deceleration over the medium term. They also stressed the importance of the upcoming publication of alternative metrics related to Ireland's national accounts, which they agree are needed to support better understanding of underlying activity in Ireland, critical to policymaking.

14. They viewed key risks as reflecting external factors, particularly Brexit and trade-related uncertainty. On Brexit, preparations have been ongoing since before the June 2016 vote, through consultation and engagement at EU level and work to anticipate potential spillovers to Ireland. The authorities reiterated the commitment made in the [2017 Budget](#) to build fiscal buffers against Brexit and other risks and to introduce Brexit-related measures targeting SMEs, the agri-food sector, and other exporters. Steps to facilitate diversified trade and lower the cost of business were also identified as priorities. Following the May 2 publication of a comprehensive Government [position paper](#) setting out the political and economic challenges of Brexit for Ireland, the Government is now intensifying its focus on the economic implications of Brexit and has committed to publish a further paper on the associated economic challenges. While recognizing that uncertainty related to

discussions of international tax changes may affect investment flows, they noted the still tentative nature of some of these discussions and stressed that access to the EU single market, the competitive business environment, and the strong workforce and flexible labor market remain key facets of Ireland's attractiveness for investment. Domestically, they recognized the concentration risk in the corporate tax base, the importance of addressing remaining crisis legacies, and the need to unlock supply to mitigate housing market pressures.

ENHANCING RESILIENCE WHILE FOSTERING SUSTAINABLE AND INCLUSIVE GROWTH

With the recovery well-established, policy priorities include steps to address remaining crisis legacies, monitor housing pressures, and enhance the economy's resilience to future shocks, including those associated with Brexit and potential international tax changes. This requires continued work to rebuild fiscal buffers, strengthen private sector balance sheets, and reinforce policies that focus on further strengthening competitiveness and supporting inclusive growth.⁹



A. Fiscal Policy: Continuing with Prudent Fiscal Adjustment

15. The 2017 budget calls for steady fiscal consolidation.¹⁰ The structural deficit is budgeted to decline to 1.2 percent of GDP this year (0.4 percent in headline terms), reach Ireland's medium-term objective (MTO) under EC procedures of a 0.5 percent structural deficit in 2018, and rise

⁹ See Annex VI on follow-up to past policy advice.

¹⁰ See details in PPM6.

steadily to a 1 percent structural surplus by 2021.¹¹ Recognizing statistical challenges and risks to the outlook (particularly as a small, open economy without an independent monetary policy), the government is targeting a reduction of debt-to-GDP to 45 percent within the decade. Shock-absorption capacity will also be strengthened by a “rainy day” fund, to be established in 2019, following achievement of the MTO. Work is underway to define transparent criteria and procedures for the fund. Staff views the fiscal objectives as appropriate and within reach. Still, revenue developments need to be monitored given tax underperformance in early 2017. Should the path deviate significantly from budget, measures to contain the deficit will be needed.

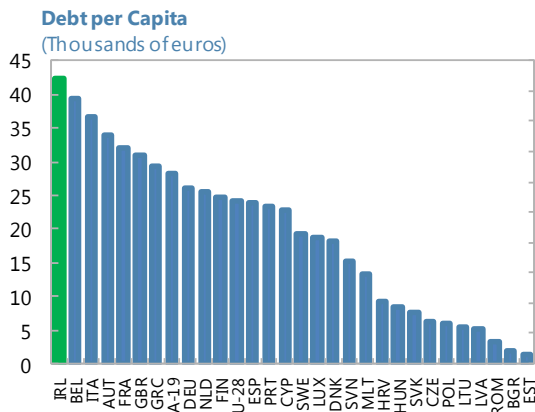
Fiscal Projections Comparison (in percent of GDP)						
	2016	2017	2018	2019	2020	2021
Department of Finance						
Growth	5.2	4.3	3.7	3.1	2.7	2.5
Output gap	1.2	1.4	0.8	0.5	0.3	0.0
Overall balance	-0.6	-0.4	-0.1	0.1	0.6	1.0
Structural balance (percent of potential GDP)	-1.4	-1.2	-0.5	-0.2	0.4	1.0
Structural effort (pp)	...	0.2	0.7	0.3	0.6	0.6
Public debt 1/	75.4	72.9	71.2	69.5	65.2	62.9
Staff						
Growth	5.2	3.9	3.3	3.0	2.9	2.8
Output gap	0.7	1.0	0.9	0.7	0.4	0.2
Overall balance	-0.6	-0.5	-0.2	0.0	0.2	0.6
Structural balance (percent of potential GDP)	-1.1	-0.9	-0.5	-0.3	0.1	0.5
Structural effort (pp)	0.1	0.2	0.4	0.2	0.4	0.4
Public debt 1/	75.6	73.7	72.3	70.8	66.7	64.4

Sources: Department of Finance; and IMF staff.
1/ Taking into account the accumulation of a Rainy Day Fund of €1 billion starting in 2019.

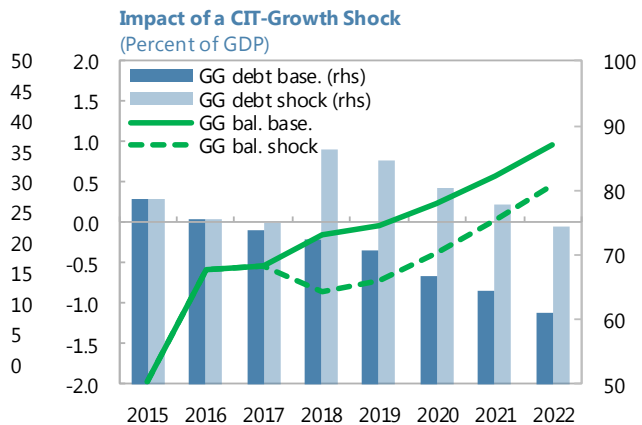
16. Prudent fiscal policy is needed to reduce debt to safe levels and guard against risks:

- While **debt dynamics** have improved and gross financing needs are expected to remain modest, debt remains high. When expressed on a per capita basis or in terms of government revenues, which more accurately reflects Ireland’s underlying circumstances than traditional GDP-based metrics, the debt burden remains elevated compared to EU peers and sensitive to macro-fiscal shocks (Annex VII). The rapid rise in MNE operations contributed to an increase in CIT from 7 to 10 percent of total revenue in 2014-16. Adverse profit developments or a reversal of inward investment, potentially driven by international tax developments, could lead to a revenue shock and GDP level shift that would drive a sharp one-off debt increase followed by a slower decline.

¹¹ Staff estimates the structural deficit at 0.9 in 2017, due to different estimates for the output gap.

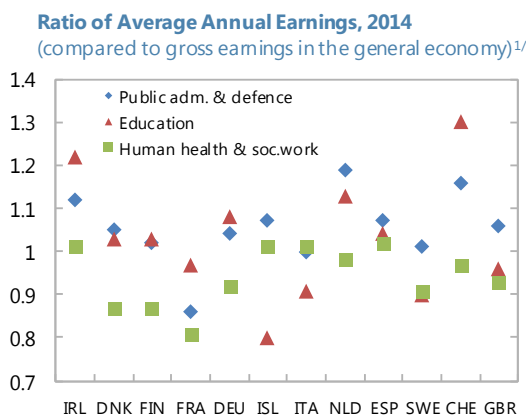


Sources: Department of Finance, Eurostat, and IMF staff.

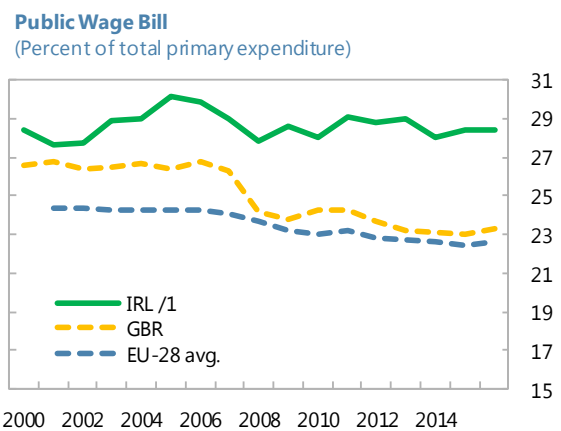


Sources: Eurostat and IMF staff.

- Expenditure pressures** are also relevant. Public sector unions are seeking rapid restoration of wages to pre-crisis levels under a new wage and benefits agreement. Public sector wages have not risen substantially in the post-crisis period, but they remain, on average, above private sector levels. Controlling for differences in employee and employer characteristics (e.g., skills, education, sector, and firm size), public-private earnings differentials have closed, although a premium remains at the lower end of the earning distribution ([Public Service Pay Commission](#)). Nonetheless, the overall wage bill remains comparatively high as a share of both revenues and expenditures. In May, the government initiated negotiations on a new pay agreement ahead of 2018 budget preparations. Demographic changes are also estimated to entail a considerable increase in total aging-related expenditure over the long-term, although recovery-driven immigration should mitigate these pressures.¹² Additional space is also required to support further investment in infrastructure and human capital.



Source: Report of the Public Service Pay Commission, May 2017.
^{1/} As measured by earnings in the industry, construction and services sector.

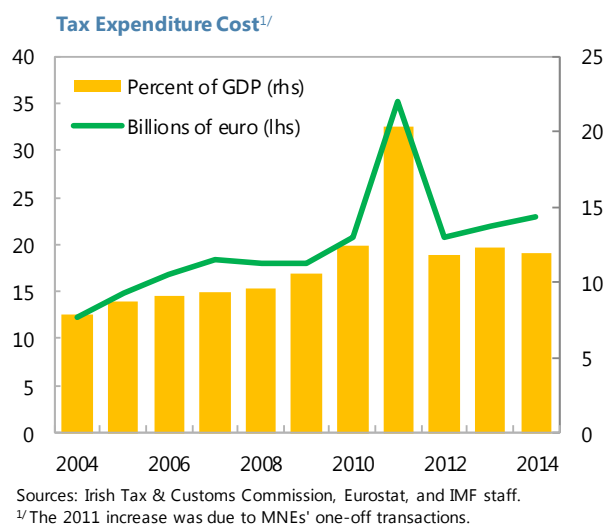


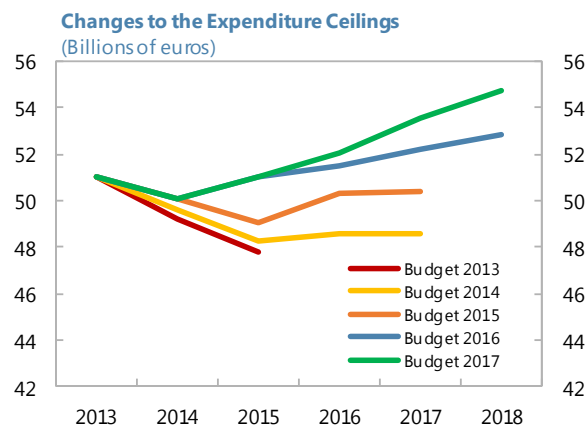
^{1/} Ratio was adjusted to remove financial sector-related spending
 Sources: Eurostat, and IMF staff.

¹² The April 2017 draft [Stability Program Update](#) also highlights potentially large expenditures that could result from the need to purchase emissions allowances given Ireland's obligations to reduce greenhouse gas emissions by 2020.

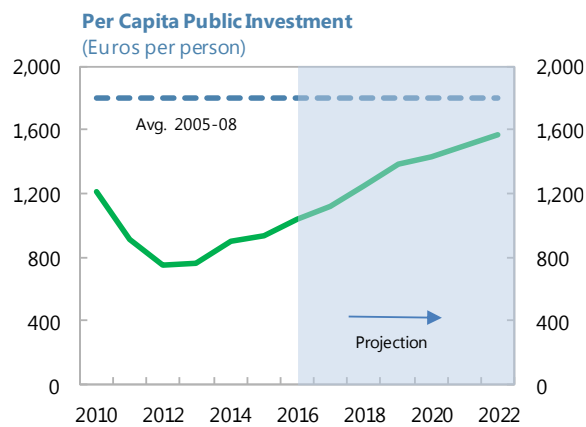
17. Against this background, key fiscal priorities include:

- **Broadening the tax base** – A broad and stable revenue base is needed to mitigate vulnerabilities and support priority expenditures.
 - The **personal income tax** (PIT) base remains narrow and complex, including in comparison with that under the Universal Social Charge (USC) introduced during the crisis, which the government has indicated it will phase out as conditions allow. Entry to the second income bracket of the PIT occurs at a low level, placing a heavy tax burden on middle-income households and undermining efforts to support female labor force participation. Reforms to the PIT framework should be undertaken to address these concerns. Consideration could be given to merging the USC into a more comprehensive PIT, with a broader base and lower rates for below-median wage earners to reinforce work incentives, perhaps through a third income bracket, as suggested by the [OECD](#). Potential revenue losses could be compensated by decreasing VAT exemptions and by aligning self-assessed property values, from which local property taxes are calculated, to market values. Concerns about regressivity could be mitigated by means-tested allowances.
 - Likewise, the system of **tax expenditures** could be reviewed. Tax expenditures rose to about 12 percent of GDP in 2014 from less than 8 percent of GDP in 2004. The 2017 budget introduced additional measures, including a rebate for first-time buyers (FTB) of new properties. Moreover, despite recent cuts, a large share of income tax allowances are enjoyed by top income groups ([OECD](#)).
- **Avoiding use of potentially temporary revenue gains to fund permanent measures** – The volatility of MNE operations makes it difficult to differentiate between temporary and permanent CIT developments. It is, therefore, crucial to avoid using potentially temporary revenue gains to fund permanent budget measures and to save tax windfalls.
- **Enforcing budgeted expenditure levels, while making space for priority social spending and growth-enhancing capital expenditure** – Periodic revisions of expenditure targets to accommodate overruns undermines their credibility and reduce incentives to seek efficiency gains. The current expenditure review is therefore welcome. Steady progress in health sector reforms would generate spending efficiency gains. Further savings could be achieved through better pricing arrangements with pharmaceutical industry and increased provision of primary care ([IMF, 2016](#)). At the same time, any increases in the wage bill should be compensated with reductions in other current expenditures.





Source: Department of Finance.



Sources: Eurostat and IMF staff.

- **Continuing active engagement in international tax cooperation initiatives** (Box 3). Complementing these efforts, the government has launched an independent review of its tax code, which should prompt a set of recommendations by mid-2017.

Box 3. Ireland: International Taxation Issues

Ireland has been actively participating to the ongoing international initiatives against aggressive and harmful international taxation planning. In particular:

- Ireland has been actively engaged in the [Base Erosion and Profit Shifting](#) (BEPS) initiative.^{1/} [Country-by-country reporting](#) for Irish-parented MNEs was enacted with the Finance Act 2015, while Ireland's [transfer pricing legislation](#) effectively endorses the OECD Transfer Pricing Guidelines. The Irish government has also taken measures to address tax evasion and avoidance.
- Ireland is committed to transpose the EU's [Anti-Tax Avoidance Directive](#), which implements a number of important recommendations from the OECD/G-20 BEPS, according to the agreed schedule.
- Ireland is one of the 22 jurisdictions out of 113 that has been assessed "fully compliant" with the agreed international standards on [Transparency and Exchange of Information for Tax Purposes](#).

^{1/} In 2015, Ireland introduced a new [Knowledge Development Box](#) that aligns with OECD and EU-endorsed requirements. It offers a 6.25 percent rate on qualifying income.

Authorities' views

18. The authorities reaffirmed their commitment to implement a prudent fiscal policy and restore buffers, recognizing the significant risks to the outlook. Regarding 2017, they agreed on the importance of monitoring revenue developments, but noted that early assessment of tax performance is difficult due to the volatility of some taxes, while indicating that expenditure have been contained within the monthly profile. They acknowledged the importance of preserving a broad tax base and will continue to consider the adequacy of the current framework within the budget process. They recognized the need for prioritization of expenditures in the context of substantial spending pressures and highlighted the need to address emerging infrastructure bottlenecks after a period of crisis-related underinvestment. A three-year 'rolling' system of selective

reviews is underway to support expenditure effectiveness and efficiency and an evaluation of the Capital Plan will inform capital allocations for the period up to 2021, which will be finalized in Budget 2018. At the same time, they stressed that the recently published [Public Service Pay Commission](#) report provides a strong foundation for a fair, balanced and sustainable outcome to upcoming pay discussions with unions.

B. Financial and Housing Market Policies

19. The financial health of domestic banks further improved, but crisis legacies remain a source of vulnerability. Domestic bank capital and liquidity positions strengthened further in 2016, and profitability is now above the average of EU peers. While still high, nonperforming loans (NPLs) have declined as a share of total loans, reflecting improvement in all categories. Recent stress tests showed a significant decline in capital ratios in response to adverse shocks as the elevated level of NPLs and deferred tax assets weigh on banks' loss-absorption capacity. These vulnerabilities pose a challenge to banks, particularly given the uncertain impact of Brexit, future international regulatory changes, continued cost pressures, and ongoing public pressure to reduce variable rates on mortgages.

Irish Banks: Key Financial Indicators 1/
(Percent)

	2012	2013	2014	2015	2016
Credit growth	-7.0	-7.0	-5.4	-5.3	-9.4
Return on assets	-2.0	-0.8	0.5	0.7	0.8
Pre-provision profits 2/	-0.5	0.4	0.6	0.9	1.1
Net interest margin	0.8	1.2	1.3	1.8	2.0
Cost-to-income ratio	166.0	72.8	64.1	63.2	60.2
NPL ratio 3/	24.8	27.1	23.9	18.7	15.7
Coverage ratio 3/	48.4	51.4	42.6	38.4	35.6
CT1 ratio	14.7	13.3	15.5	14.9	16.3
Net loan to deposit	124.0	110.7	108.2	105.9	102.4

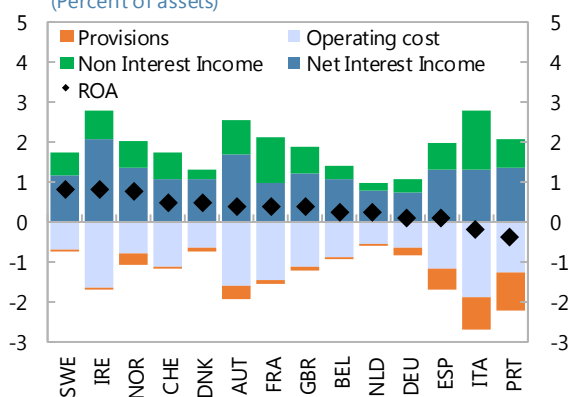
Sources: Central Bank of Ireland; and IMF staff.

1/ Indicators cover the three main domestic banks: Allied Irish Banks, Bank of Ireland, and Permanent TSB. Figures are based on Q4 data.

2/ Excluding nonrecurrent items, as a share of average total assets.

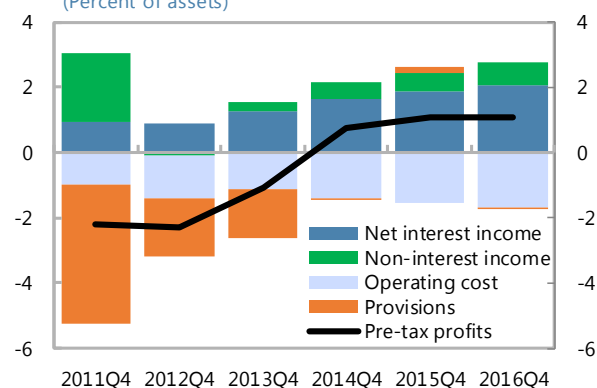
3/ Figures for 2014 onwards are based on the EBA definition and are not comparable with earlier years or figures for all banks in paragraph 5.

Domestic Bank Return on Assets, 2016
(Percent of assets)



Sources: SNL Financial and IMF staff.

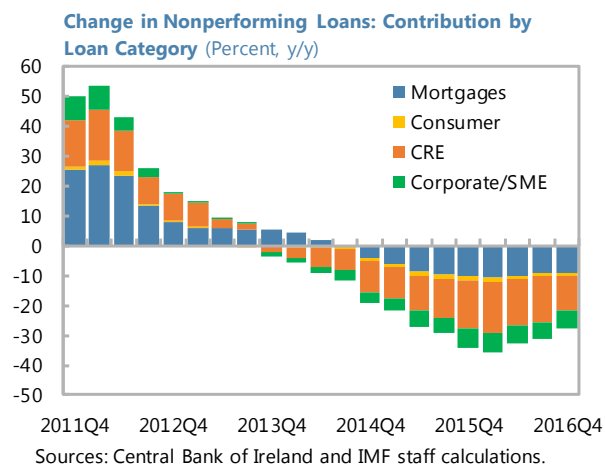
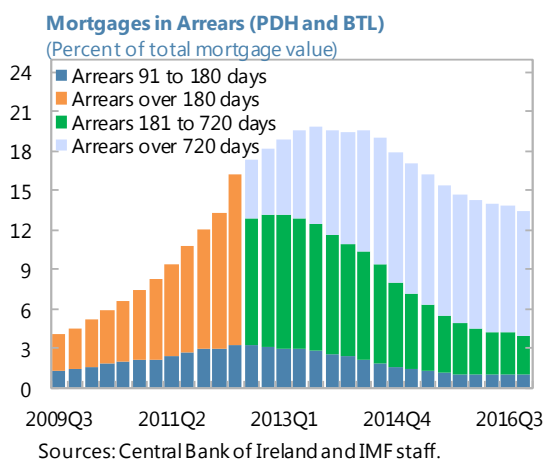
Irish Domestic Banks: Profits and Losses
(Percent of assets)



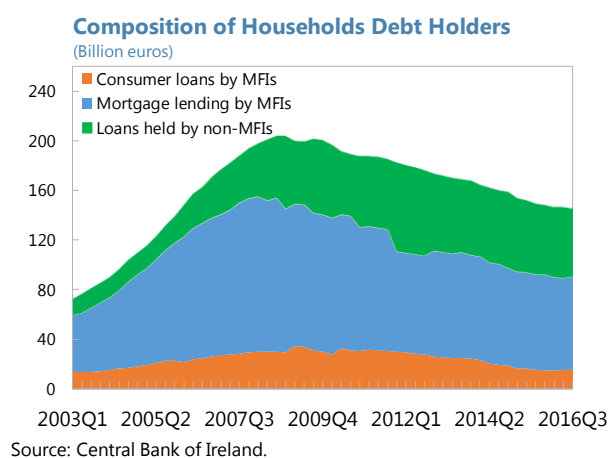
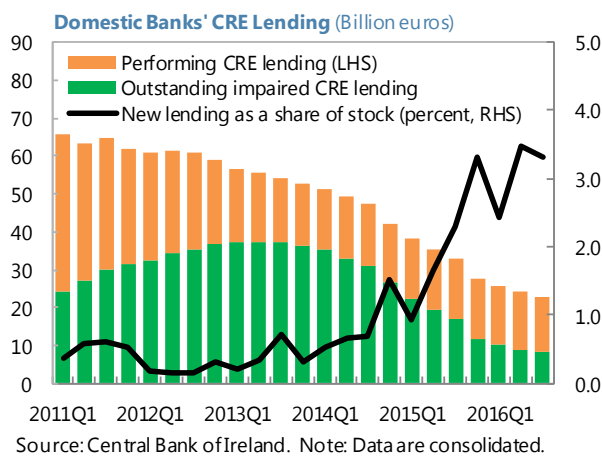
Sources: Central Bank of Ireland and IMF staff.

20. Resolution of mortgage arrears remains sluggish due to limited creditor-borrower engagement and lengthy legal proceedings. The share of deep mortgage arrears (over 720 days) in total mortgage arrears has continued to increase to about 70 percent, while the proportion of mortgage arrears in total NPLs reached 55 percent in 2016Q4 from 38 percent in 2013Q4. Continued implementation of the Distressed Credit Strategy, which sets out bank-by-bank supervisory expectations regarding NPL reduction, should support further progress. Efforts to ensure that

provisions remain adequate, including in the context of the upcoming IFRS9 implementation, as well as steps to make the legal proceedings more efficient, are also important to support faster portfolio cleanup. The recently introduced “Abhaile” scheme, which allows distressed borrowers access to free legal and financial advice, has shown an increasing participation and may improve borrowers’ engagement with banks.



21. Prudent lending should be maintained as credit demand picks up. With deleveraging slowing, it is important to ensure that lending standards remain adequate. The central bank plan to review mortgage lending limits periodically is therefore appropriate, particularly given pressures in the housing market.¹³ A conversion of the loan-to-income limit to debt-to-income limit, which better captures the household repayment capacity, should be considered after the Central Credit Register commences operations and comprehensive data on households’ debt becomes available. The increasing share of household loans held by non-bank financial institutions—partly reflecting loan securitization—also calls for close monitoring. While the role of domestic banks in the recent recovery of the CRE market has been limited so far, the pickup of new lending requires attention to ensure continued proper underwriting standards and property valuation practices.

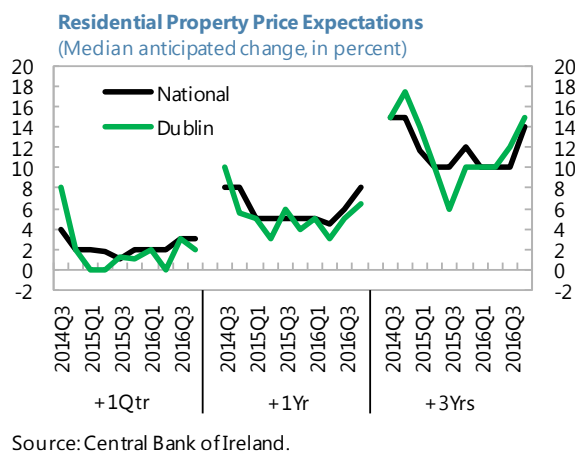
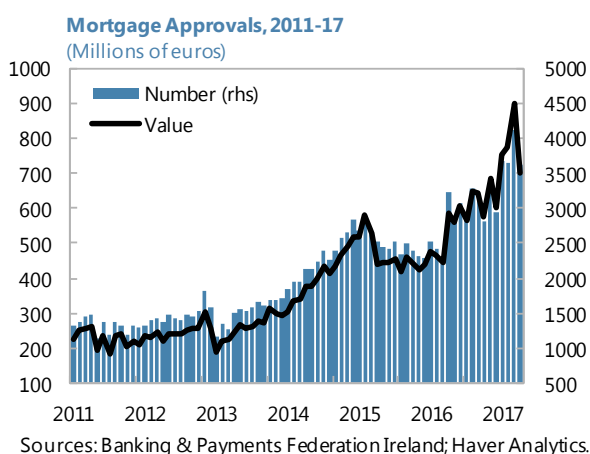


¹³ The first annual [review](#) was completed in November 2016, leading to recalibration of some measures to simplify the framework and increase its effectiveness. See Box 3 in the [2016 Sixth Post Program Monitoring Discussions](#).

22. The authorities are addressing FSAP recommendations (Annex VIII). The central bank has increased transparency and accountability regarding its policy decisions and operations, implemented steps to retain experienced staff, enhanced its stress-testing capacity, and made progress in addressing data gaps. Actions are being taken, in coordination with European institutions, to improve financial sector oversight.

23. Preparations for AIB’s initial public offering (IPO) are ongoing. The government reconfirmed its intention to reduce its stakes in the banking system further, and announced the sale of 25 percent of AIB shares (about €3 billion, equivalent to one percent of GDP) by end-June. Staff supported the government’s plans, stressing that the disposal of state shareholding in the banking system should continue to further reduce the public debt and contain contingent liabilities.

24. Strong momentum in the housing market requires close monitoring. Recent policy actions to address homelessness, improve housing affordability and the recalibration of macroprudential measures may have added impetus to the market, which also has seen an increase in price expectations and a surge in mortgage approvals. This suggests that strong demand is likely to be sustained in the period ahead, particularly given the positive momentum in the labor market and improved household balance sheets. Staff analysis—though subject to uncertainty—finds no clear evidence of a significant price misalignment in the residential property market (Box 4), yet persistent pressures could lead to imbalances, particularly given the lagged supply response.



25. Efforts to increase the supply of housing are therefore welcome, but measures to improve housing affordability should be well-targeted. In this context, the authorities should:

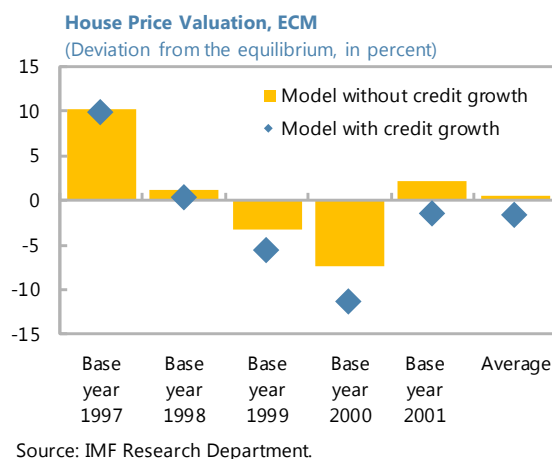
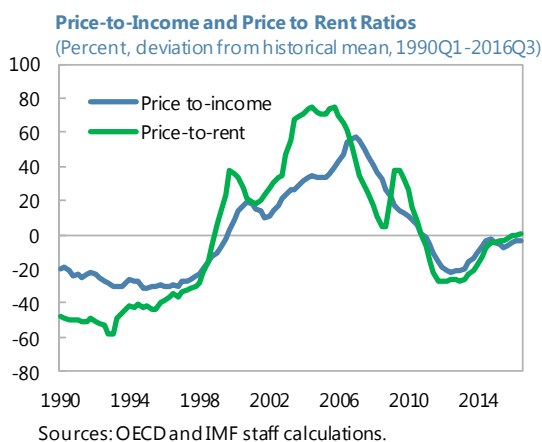
- *Address housing supply constraints.* Implement the measures outlined in the Action Plan for Housing and Homelessness and complement these efforts by introducing a well-structured vacant site levy in 2019 to reduce land hoarding. Actions to reduce administrative costs and streamline the planning process also require attention.

- *Speed up loan restructuring of distressed, but viable, firms in the construction sector.* A stronger financial position for firms would improve the responsiveness of supply to price signals, especially given more stringent bank financing requirements.
- *Review the recent administrative measures to stabilize rents.* Rent controls may deter new construction, particularly given their wide coverage, and prove ineffective as landlords could pass on costs to tenants through other fees.
- *Better target the recently implemented Help-to-Buy (HTB) scheme,* which provides first time buyers (FTBs) of new properties a tax rebate until 2019. While limited in scope and time-bound, the relatively high property value threshold suggests that it also benefits FTBs that do not need government's support.

Box 4. Residential Property Prices

Residential real estate prices have recovered from the trough in early 2013. While prices remained well below pre-crisis levels, their rapid increase has raised questions about possible emergence of imbalances. Alternative methods to assess house valuation provide mixed results, reflecting in part the high volatility of the Irish property market in recent years, and structural factors such as the integration into the euro area and increased access to cheap funding, and the economy's structural transformation, which resulted in significantly increased household financial wealth.

Non-parametric methods. Ireland's house price-to-income and price-to-rent ratios in 2016Q3 were close to their long-term average (1990–2016), and 40 percent below their peaks, thus not suggesting current misalignment. Furthermore, strong house price appreciation was broadly in line with income growth and rent increases over the last two years.



Parametric methods. Two models are used to assess house valuation: A reduced form model, including demand-side factors such as population at the household formation age (25–44), real mortgage rates, and employment; and an Error Correction Model (ECM, above) based on a cross-country sample and reflecting both supply and demand factors. While the results should be treated with caution, given model limitations in capturing supply-side dynamics important in the Irish context (first model) and Ireland-specific dynamics (second model), they do not suggest evidence of a price misalignment. Specifically, the first model estimates that, following a significant undervaluation (around 30 percent in 2013), prices remain undervalued by about 10 percent. The second model suggests prices in mid-2016 were close to their equilibrium level, though the results differ significantly based on model specification (with or without credit growth) and base year for which the estimated growth rates are applied.

Authorities' views

26. The authorities affirmed their commitment to advance bank balance sheet repair and safeguard against financial stability risks. They agreed that Brexit poses a challenge due to both direct and indirect exposures and recognized that the regulatory change may weigh on profitability going forward. They agreed that NPL resolution remains a key supervisory priority and noted that bank resolution strategies are consistently challenged to ensure that they are realistic and ambitious. Regarding housing, they were alert to the strong pressures on prices and rents, but noted that financial stability risks appear to be contained at this stage. They agreed that supply constraints are central, highlighted initial [progress](#) under the Action Plan for Housing and Homelessness, and recognized the need for a continued push to support vulnerable groups and expand housing supply. Finally, the authorities noted their plans to review the Help-to-Buy scheme in the period ahead to ensure its effectiveness, and continue to monitor the rental market for the potential impact of recently introduced rent controls on supply.

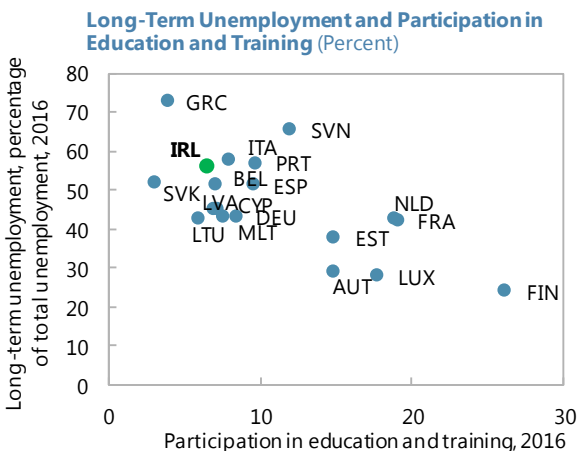
C. Sustaining High and Inclusive Growth

27. Structural reforms should be directed at mitigating income and regional disparities and supporting the competitiveness of the indigenous economy. While Ireland's social safety net has been effective in reducing at-risk-of-poverty levels, further efforts are needed to address underlying market-income and regional disparities (Annex I). The growing presence of MNEs increases the reward for high-skilled workers, presenting opportunities, but also contributing to wage differentials. Key challenges include the need to build skills to meet the labor-market demand and structurally low participation, particularly among women. Infrastructure gaps and impediments for SME growth also undermine job creation and investment in disadvantaged areas.

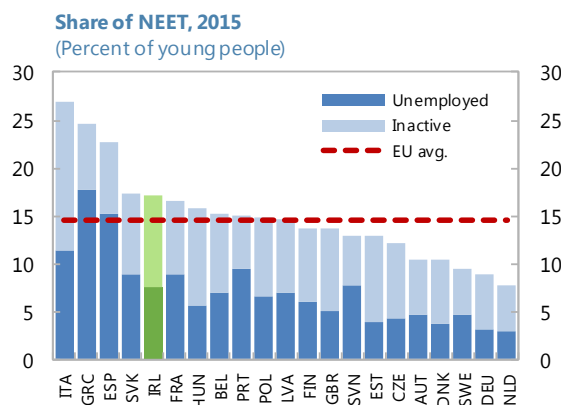
28. Continued investment in human capital and further efforts to increase female labor participation are key to address these gaps. Priorities include:

- **Upskilling and reskilling to get more people back to work.** Ireland's work force ranks well in terms of basic skills and tertiary attainment; however, the 2016 [National Skill Bulletin](#) suggests that skill shortages have emerged in fast-growing sectors, resulting in rising vacancy rates and increased flows of skilled migrants, including in sectors dominated by MNEs. Youth and long-term unemployment—although moderating—remains elevated, and the participation in lifelong learning is lagging peers. Moreover, education enrollment varies significantly across regions, leading to variation in skills, employment and income. As such, continued efforts to align education path with business needs and improve access to and effectiveness of active labor market policies can help reduce labor market disparities and mitigate the impact of economic changes on the most vulnerable. Recent government's initiatives, including a new apprenticeship

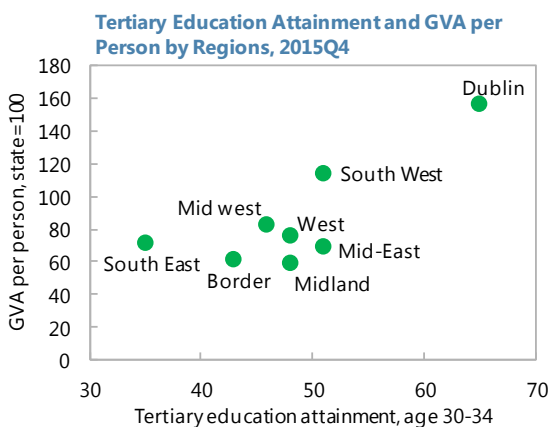
program and the creation of Regional Skill Fora can help enhance vocational education and step up the skill supply across regions.¹⁴



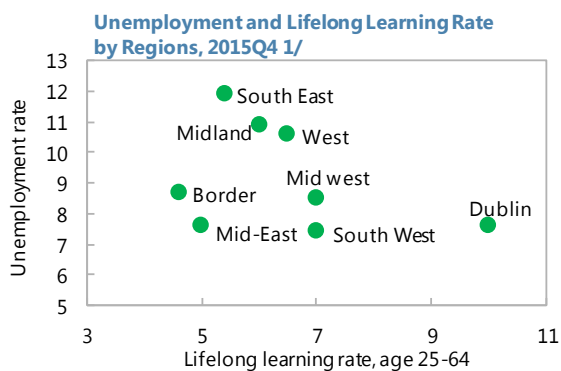
Sources: Eurostat and IMF staff.



Source: OECD. NEET: Young people not in employment, education, and training.

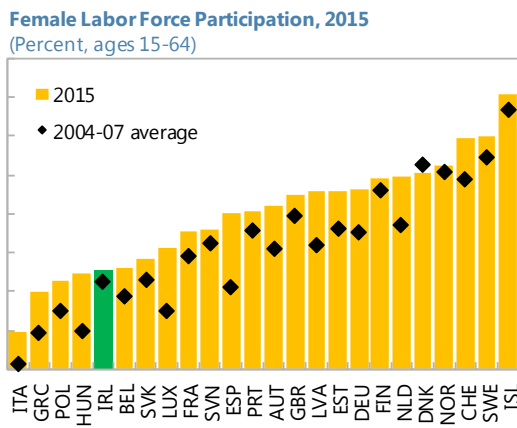


Source: Regional Labor Market Bulletin, 2016.



Source: Regional Labor Market Bulletin, 2016. 1/ Lifelong learning measures participation in formal and nonformal education and training in a period (last 4 weeks).

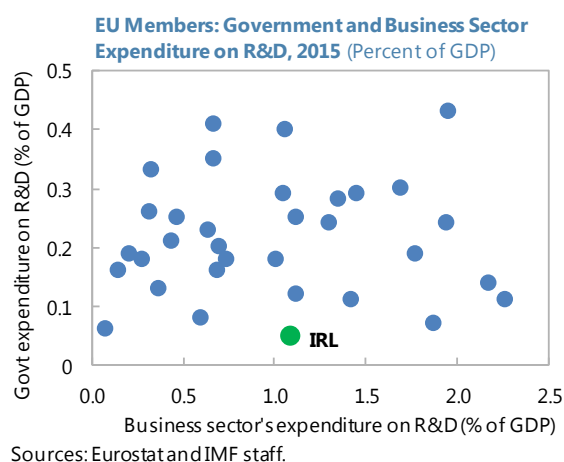
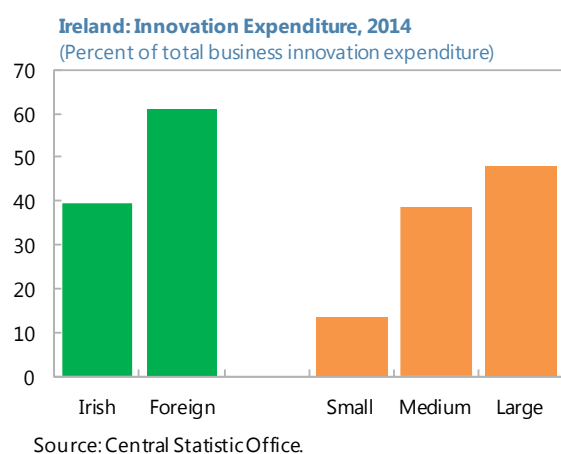
- Lifting female labor-force participation**, which remains well below the EU average, largely reflecting insufficient access to affordable childcare. The government will replace existing programs with the generally means-tested Single Affordable Childcare Scheme in September, with a strong focus on low-income, disadvantaged families. Further efforts to strengthen incentives to work, including by reducing high marginal income taxes for second earners, would also help increase female labor force participation ([European Commission, 2015](#)).



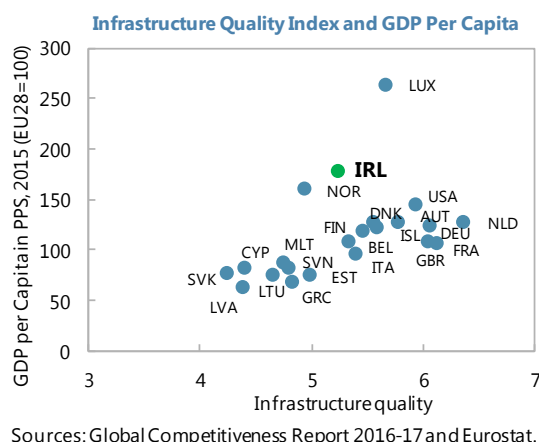
Source: OECD

¹⁴ See [National Skills Strategy 2025](#) and the [Regional Action Plans for Jobs](#).

29. Enhancing innovation among small domestic enterprises would enhance their growth prospects. While Ireland is considered as a top innovator, a large part of R&D activities are carried out by large enterprises, mostly foreign-owned. The share of innovation expenditures by small firms in business innovation expenditures remains just above 13 percent, and spillovers from MNEs are relatively limited. Furthermore, public sector support for business innovation is mainly in the form of tax credits, which may be less effective in helping start-up firms. Promoting innovation through expansion of government support for SME-driven R&D, including direct funding measures, will help increase dynamism in the domestic economy. Continued efforts to strengthen links between MNEs and domestic SMEs can help overcome knowledge barriers and increase linkages to foreign markets. Consistent with the government's [Action Plan for Jobs 2017](#), greater collaboration with research centers and broader non-bank financing options are also important.



30. Improving infrastructure quality is critical to safeguard competitiveness. A sustained period of underinvestment, including by the public sector, rising population, and increased economic activity have resulted in growing infrastructure gaps, particularly compared to peers with the same income level and openness. The recent [Global Competitiveness Report](#) indicates that the most problematic factor for doing business in Ireland is inadequate supply of infrastructure, with the quality of roads and railways as key impediments. The government's long-term [National Planning Framework](#), expected to be completed by end-2017, and the ongoing capital expenditure review would provide an opportunity to prioritize infrastructure investments, support regional development, and enhance labor flexibility and productivity.



Authorities' views

31. The authorities agreed on the need to address structural challenges to inclusive growth and competitiveness. In this context, they are continuing to review and expand access to labor activation programs, pointing to the [National Skill Strategy](#), which provides a framework for skills development over the next decade. They also highlighted the current initiatives to expand childcare as key to supporting female labor participation. Regarding support to SMEs, they noted plans to restore higher levels of R&D support targeting this group and pointed to recent initiatives such as the Small Business Innovation Research projects and establishment of research centers as platforms to enhance SME innovation. Finally, the authorities noted that the [National Planning Framework](#) will provide a strategic basis for capital planning and prioritization in areas including housing, jobs, transport, education, health, environment, energy and communications.

STAFF APPRAISAL

32. Ireland's economic performance is strong, but remaining crisis legacies and mainly externally driven uncertainties pose challenges. The recovery is well-established with robust and broad-based growth, unemployment at levels not seen in almost a decade, and continuation of balance sheet repair. The outlook is also favorable, yet subject to significant downside risks, particularly from the Brexit, the uncertain implications of ongoing international corporate tax reforms, and calls for a retreat from global integration. Domestically, housing pressures have risen. These challenges further reinforce the importance of strengthening economic resiliency, including by guarding against the reemergence of boom-bust dynamics, and building a new foundation for sustainable and inclusive growth.

33. The availability of reliable indicators of underlying economic activity is critical to support informed economic analysis and policymaking. Although Ireland's economic statistics conform to international norms, they provide an increasingly unclear picture of underlying activity given the large and expanding impact of global activities by MNEs. The authorities' plans to publish new metrics that filter out such activities are therefore welcome.

34. Growth-friendly fiscal consolidation is needed to further enhance the economy's shock absorption capacity. The government's budgetary plans, including reducing debt-to-GDP to 45 percent in the next decade and establishing a rainy-day fund, strikes an appropriate balance between addressing public expectation for a recovery dividend and building fiscal buffers. These efforts should be supported by saving temporary revenue windfalls, including from highly volatile corporate tax. A review of the PIT framework, reduction in VAT exemptions, and aligning property assessment to increasing market value should be considered to help insulate the economy from emerging risks and ensure Ireland has the broad and stable tax base needed to address priority needs in a sustainable manner. With strong spending pressures, it is critical to maintain sufficient room for social expenditures and growth-enhancing capital spending. The ongoing current expenditure and capital reviews will be instrumental to prioritize resource allocation. Finally, the

Public Sector Pay Commission report should support a transparent and evidence-based process for discussions of public sector compensation within this broader context.

35. Banking system recovery is progressing, but challenges persist. Domestic banks continue to strengthen their balance sheets, improve asset quality, and register profits. While the outlook is positive, Brexit-related uncertainties, international regulatory changes, and elevated NPLs, most of which are long lasting arrears, pose challenges. Prudent lending should be maintained as credit demand picks up, while continuation of intensified supervisory oversight, measures to support greater creditor-borrower engagement, and more efficient legal proceedings are key to accelerate arrears resolution.

36. Durable expansion of housing supply is needed to reduce imbalances and improve affordability. The government's efforts to assist the homeless and jump-start expansion in housing supply are appropriate, though a more robust supply response will take time. Additional measures aimed at reducing building costs, streamlining the planning process, freeing up land for development, and accelerating loan restructuring of distressed, but viable, firms in the construction sector would further help unlock housing supply. The planned review of the recently introduced Help-to-Buy scheme to ensure it is well-targeted is welcome, while the administrative caps on rent increases should be monitored, given the potentially negative implications for the rental market.

37. Building consensus on priorities to sustain high and inclusive long-term growth is key. In addition to addressing key infrastructure gaps, priorities include upskilling and reskilling the labor force to align educational paths with enterprise needs and reduction of childcare cost for low-income families to foster higher female labor participation. Enhancing domestic SMEs' innovation through greater direct government support, expansion of nonbank financing, and greater collaboration of SMEs with MNEs and research centers, will also help reinvigorate the domestic economy.

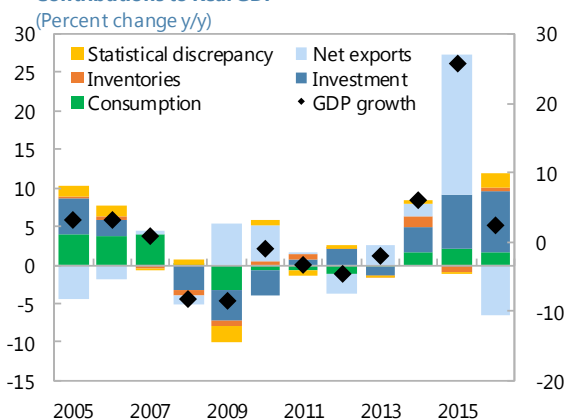
38. Staff proposes that the next Article IV consultation with Ireland take place on the standard 12-month cycle.

Figure 1. Ireland: Real Sector and Inflation Indicators

GDP grew by 5.2 percent in 2016 reflecting strong domestic demand.

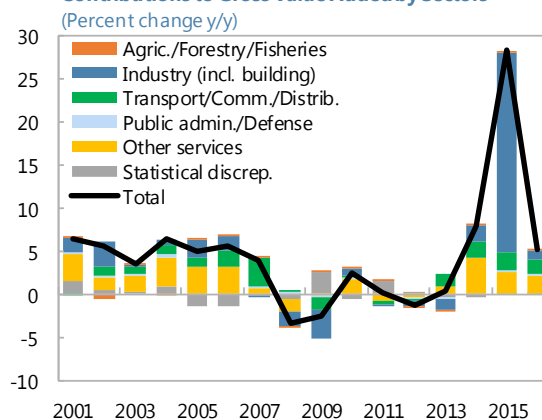
Growth was mainly driven by service sectors

Contributions to Real GDP



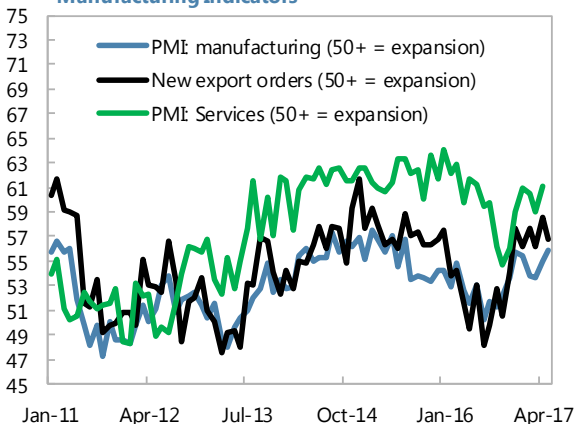
Activity in both manufacturing and services recovered strongly from the immediate effects of the Brexit vote...

Contributions to Gross Value Added by Sectors

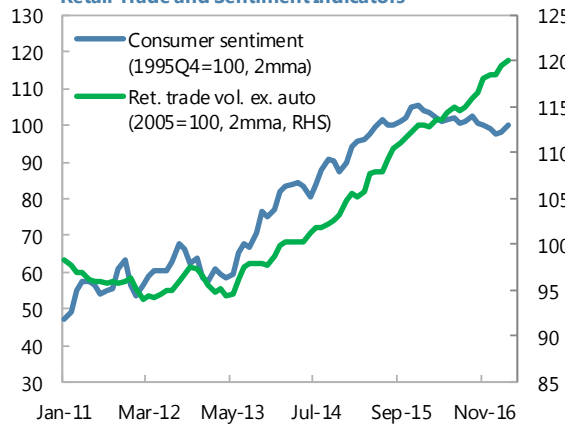


While consumer confidence somewhat weakened, retail sales continued to increase rapidly

Manufacturing Indicators



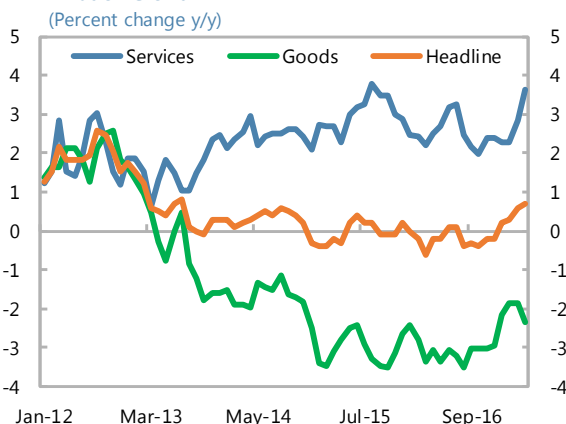
Retail Trade and Sentiment Indicators



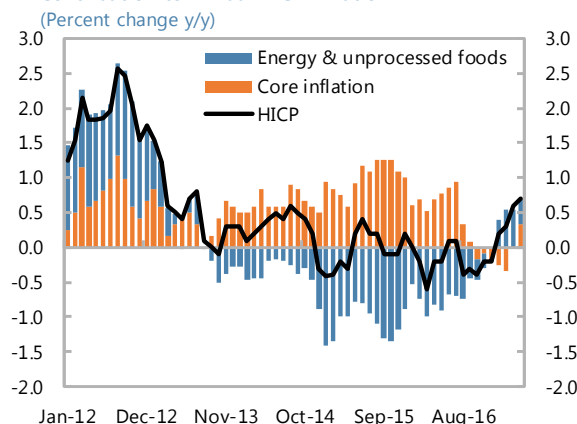
Headline inflation edged up in recent months ...

...largely due to higher energy prices

Inflation Growth



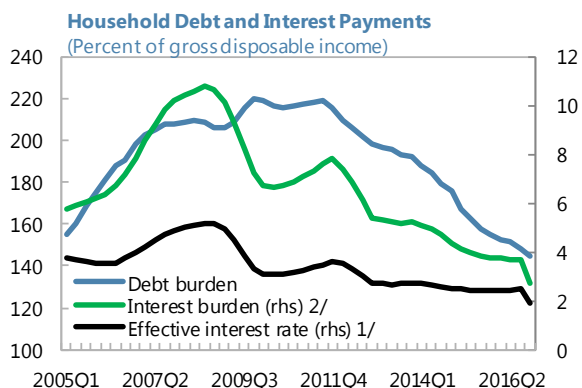
Contribution to Annual HICP Inflation



Sources: Central Statistics Office, European Commission, Haver Analytics, and IMF staff.

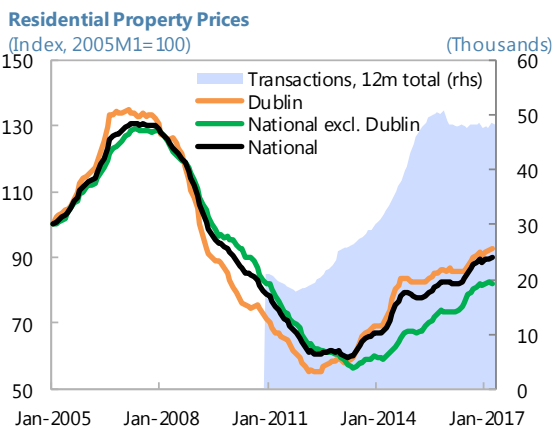
Figure 2. Ireland: Household Finance and Property Market Developments

Household debt and interest payment continued to fall...

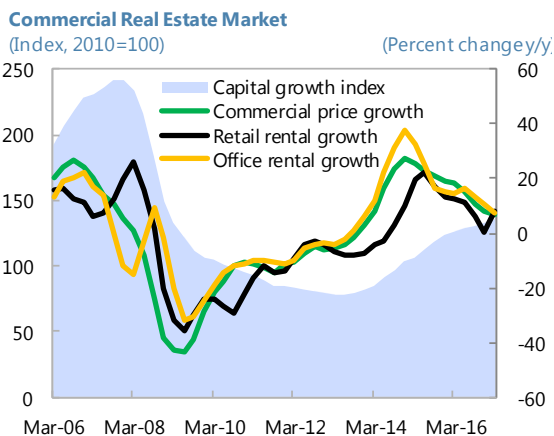


1/ Total household loans, percent of 4Q gross disposable income
2/ 4-quarter interest payments excluding FISIM adjustment.

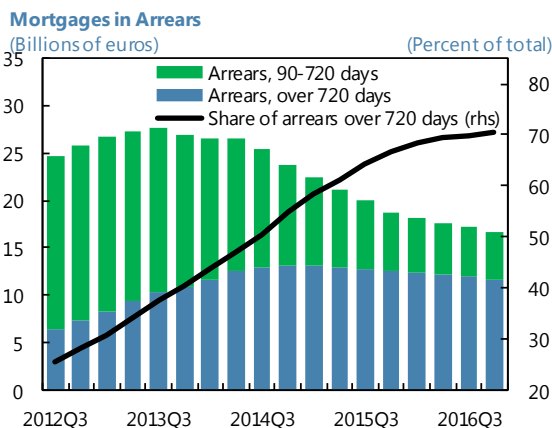
The residential property market is reviving, particularly in Dublin...



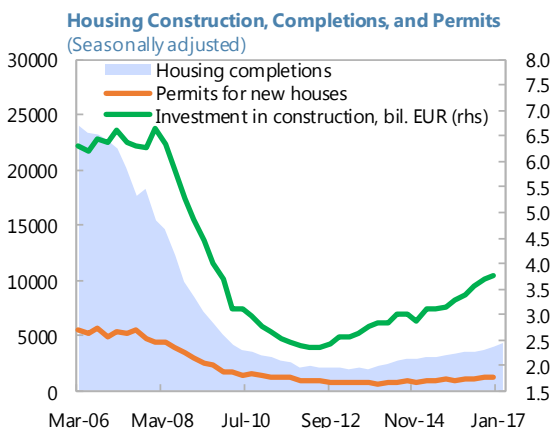
Commercial property prices and office rental growth moderated recently, but remained strong



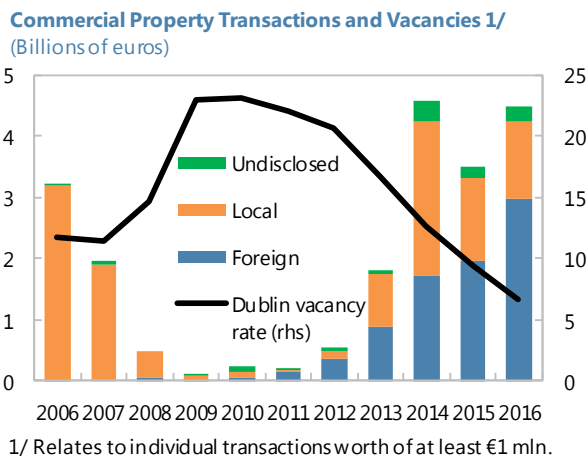
...and balance sheets improved, though the decline in deep arrears continued to be sluggish



...and construction activity is picking up, albeit from low levels.



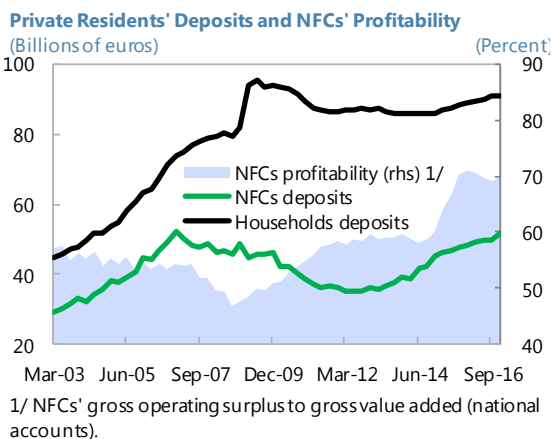
Vacancy rate in Dublin declined further in 2016, with more than half of the transactions made by non-residents.



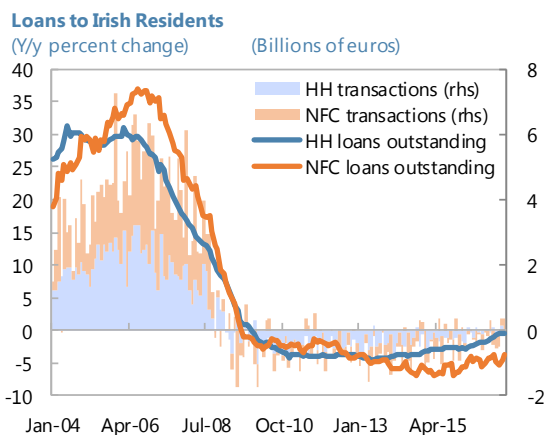
Sources: Central Statistics Office, Central Bank of Ireland, CBRE Research, IPD, Property Services Regulatory Authority, Department of Environment, Heritage and Local Government, Haver Analytics, and IMF staff.

Figure 3. Ireland: Credit Developments

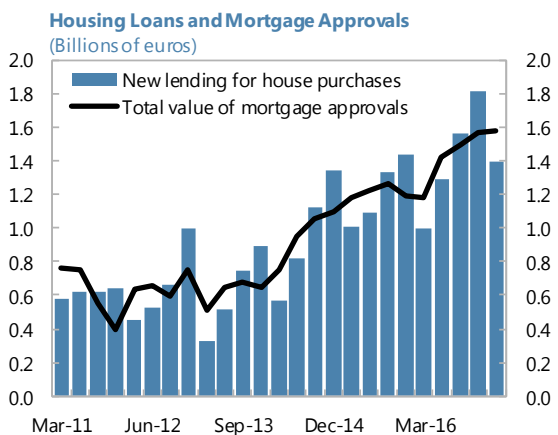
Deposits continue to increase reflecting strong non-financial corporate profitability.



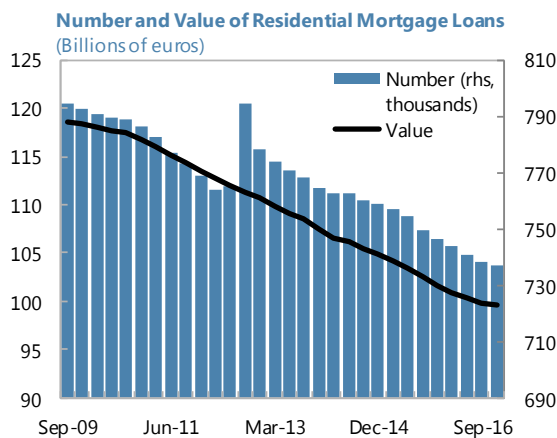
Credit growth continued to contract due to both non-financial corporate and household deleveraging.



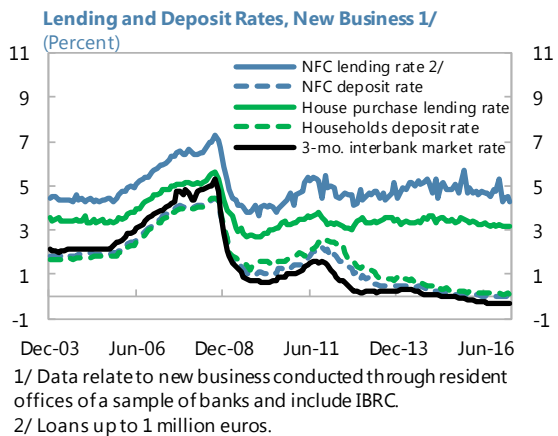
New lending for house purchases is picking up from a low level...



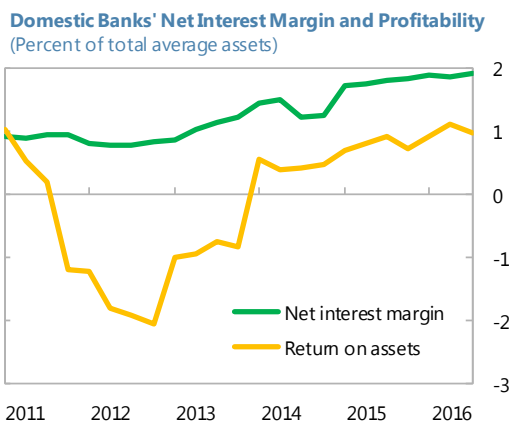
...but strong redemptions continue to drive outstanding mortgage loans down



Low deposit rates and broadly stable lending rates...



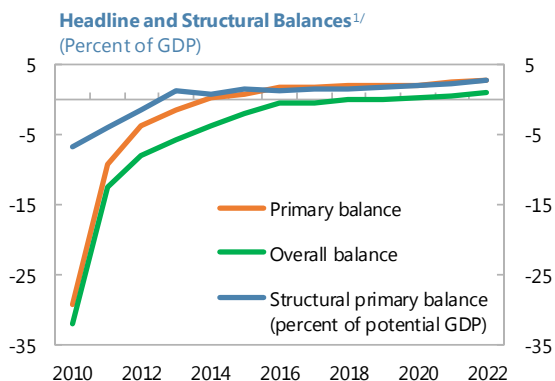
...continue to boost banks' interest margins and profitability.



Sources: Central Bank of Ireland, Central Statistics Office, Banking and Payments Federation, Haver Analytics, and IMF staff.

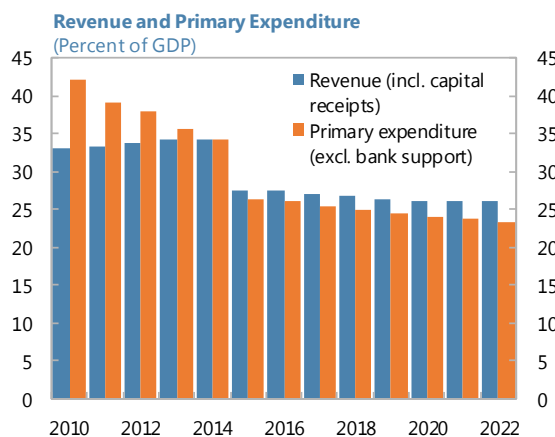
Figure 4. Ireland: Fiscal Developments

Consolidation is projected to continue over the medium term

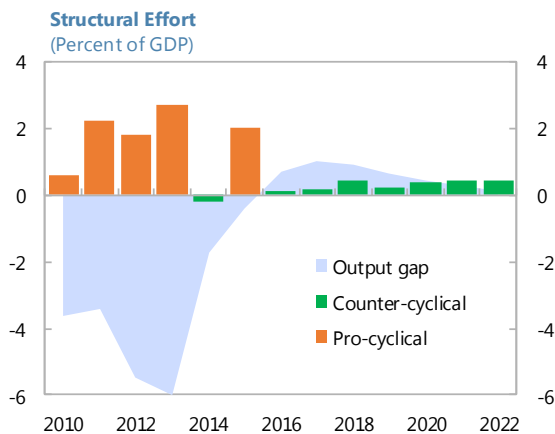


1/ Excl. bank support costs. Structural primary balance also excludes one-off revenue and expenditure items.

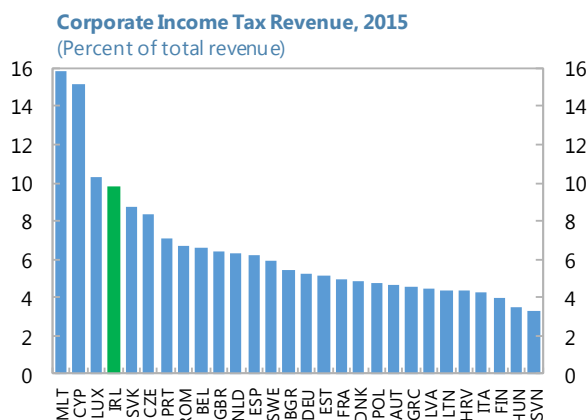
...with further declines in spending to GDP, although at a more moderate pace than before....



...and fiscal stance will turn counter-cyclical.

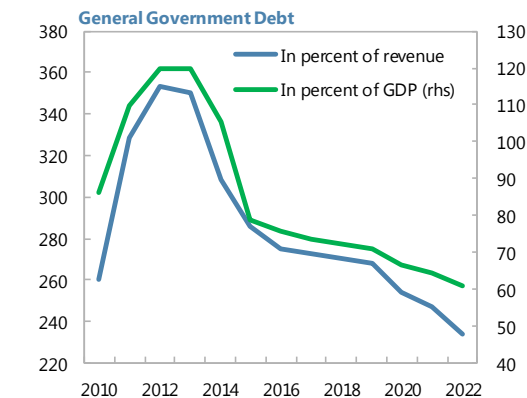


CIT, while high versus comparators, is volatile..



Sources: Eurostat and IMF staff.

Although declining, the debt burden remains high in proportion to government revenue....



Sources: Department of Finance, Eurostat, and IMF staff.

...while gross financing needs are projected to be limited.

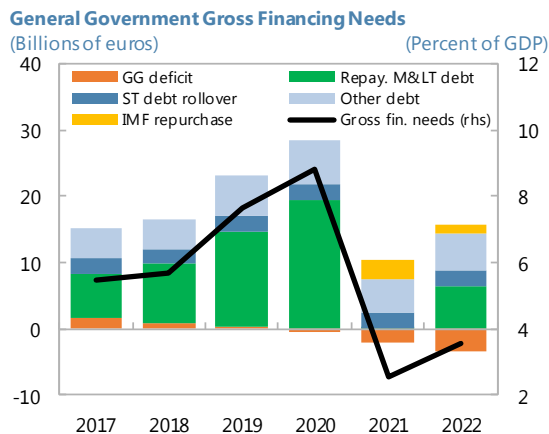
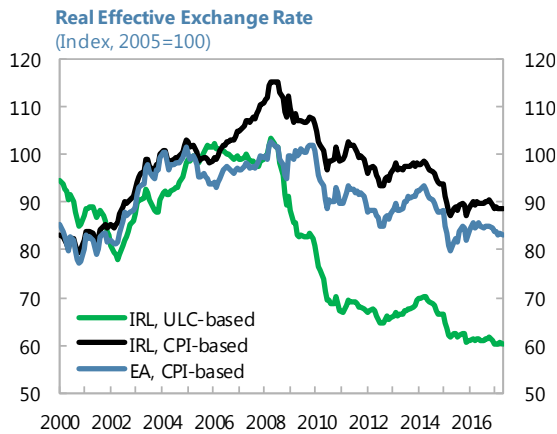
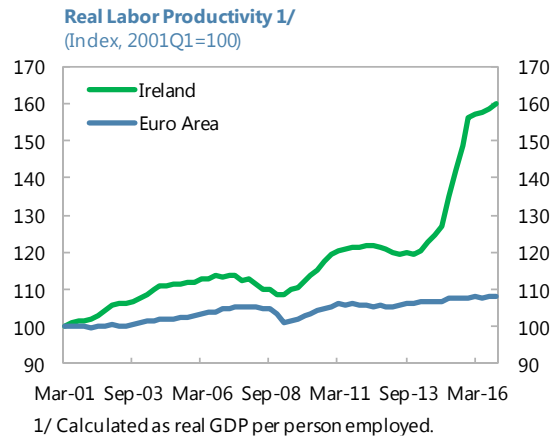


Figure 5. Ireland: External Sector

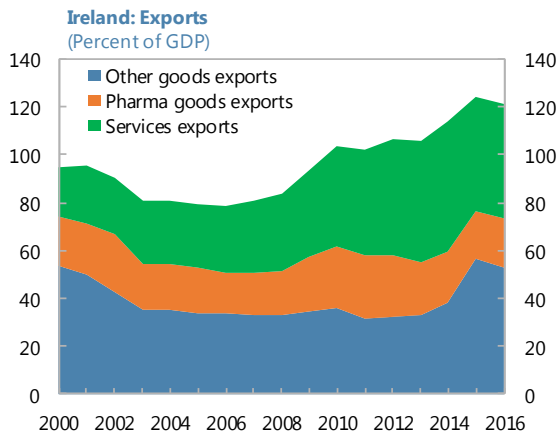
Competitiveness has improved since 2008, with REER remaining broadly stable over the last two years



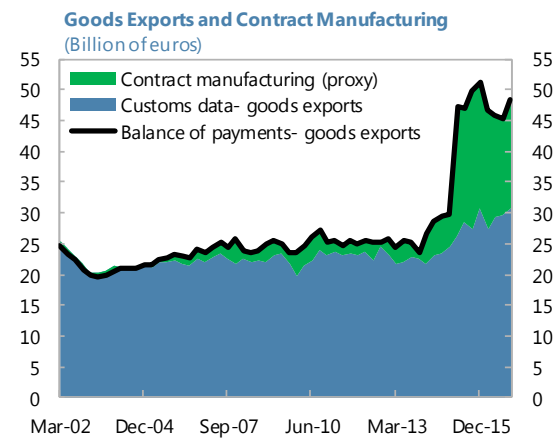
The labor productivity, concentrated in higher value-added sectors, has outpaced again that of the euro zone.



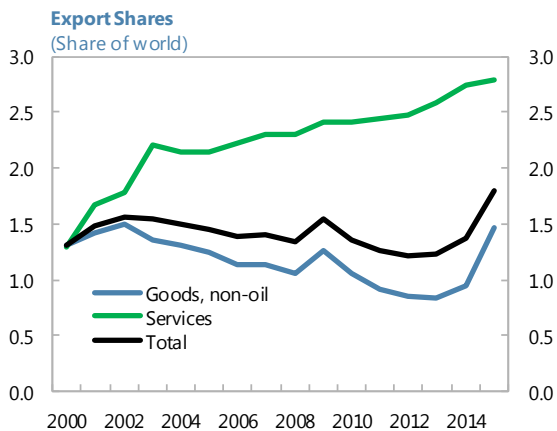
Export performance has been strong, particularly in the service sector...



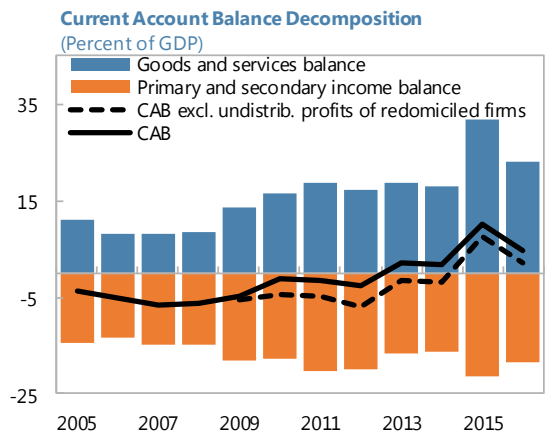
and, more recently, also due to contract manufacturing activities of MNEs...



Both translate into an increase in Ireland's share in world's services and goods exports



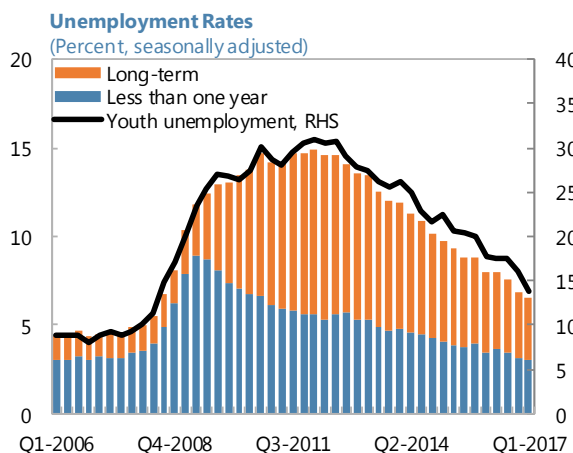
The current account surplus moderated in 2016 due to a lower goods and services balance



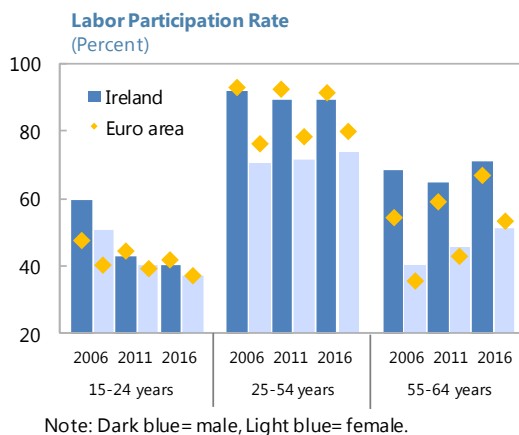
Sources: Central Statistics Office, ECB, Eurostat, IMF World Economic Outlook, UN Comtrade, and IMF staff.

Figure 6. Ireland: Labor Market and Inequality

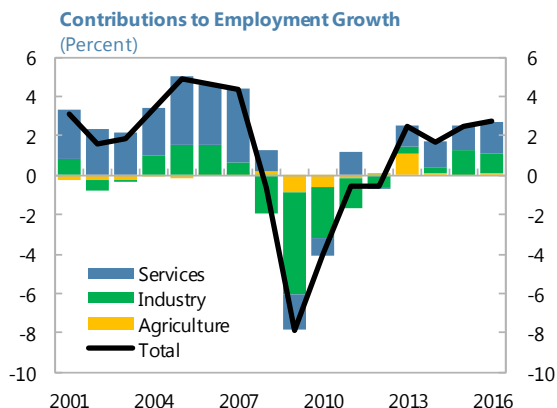
While overall unemployment has declined substantially, long-term and youth unemployment remain elevated.



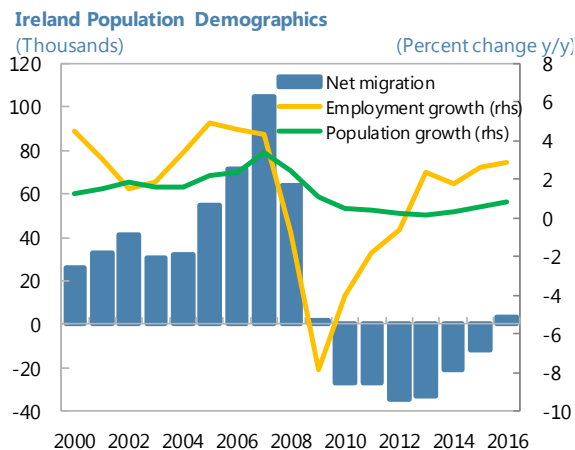
Labor force participation is slightly below euro area average, particularly in the 25-54 age group



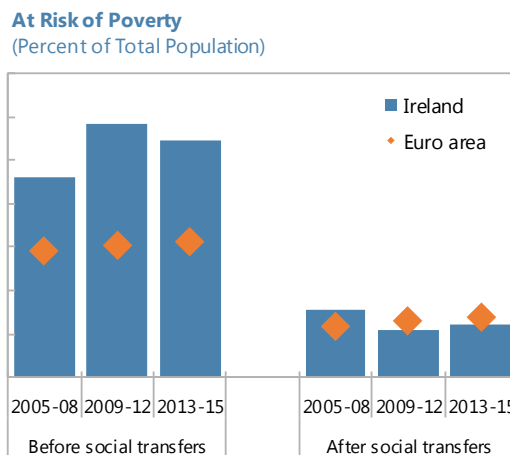
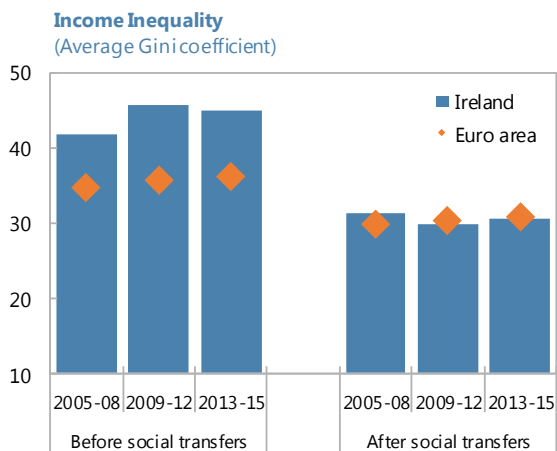
Job creation was driven by both service and industry sectors...



...and was accompanied by a positive net migration for the first time since 2009.



Market inequality remains high, but, following taxes and transfers inequality is in line with the euro area's average.



Sources: Central Statistics Office, Eurostat, and IMF staff.

Table 1. Ireland: Selected Economic Indicators, 2015–22

Population (millions):	4.7				Per capita income (euros):		56,558	
Quota (as of Apr. 30, 2017; millions of SDRs):	3,449.9				At-risk-of-poverty rate 1/		16.3	
			Projections					
	2015	2016	2017	2018	2019	2020	2021	2022
	(Annual percentage change, constant prices, unless noted otherwise)							
Output/Demand								
Real GDP	26.3	5.2	3.9	3.3	3.0	2.9	2.8	2.8
Domestic demand	10.0	15.9	4.7	3.5	3.2	3.0	2.8	2.8
Public consumption	1.1	5.3	2.3	2.1	1.8	1.7	1.6	1.5
Private consumption	4.5	2.9	3.2	3.0	2.7	2.5	2.2	2.2
Gross fixed capital formation	33.7	37.6	7.8	4.8	4.4	4.1	4.0	4.0
Exports of goods and services	34.5	2.4	4.4	4.3	4.3	4.3	4.1	4.1
Imports of goods and services	21.7	10.4	5.1	4.7	4.7	4.6	4.4	4.3
Potential Growth	24.6	4.1	3.5	3.4	3.3	3.1	3.0	3.0
Output Gap	-0.4	0.7	1.0	0.9	0.7	0.4	0.2	0.1
Contribution to growth								
Domestic demand	8.2	10.0	3.6	2.7	2.5	2.3	2.2	2.2
Public consumption	0.2	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Private consumption	2.1	1.0	1.1	1.1	1.0	0.9	0.8	0.8
Gross fixed capital formation	6.9	8.0	2.2	1.4	1.3	1.2	1.2	1.2
Inventories	-0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	18.3	-6.6	0.3	0.6	0.6	0.6	0.7	0.7
Residual	-0.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Prices								
Inflation (HICP)	0.0	-0.2	0.9	1.5	1.7	1.8	1.9	1.9
Inflation (HICP, end of period)	0.3	-0.2	1.4	1.6	1.7	1.8	1.9	1.9
GDP deflator	4.9	-1.3	0.8	1.4	1.5	1.6	1.7	1.7
Terms-of-trade 2/	2.6	-0.3	-0.5	0.0	0.1	0.1	0.0	0.0
Employment and wages								
Employment (ILO definition)	2.6	2.9	2.8	1.6	1.2	1.1	1.0	1.0
Unemployment rate (percent)	9.4	7.9	6.2	5.7	5.5	5.5	5.5	5.5
Average nominal wage	0.9	0.8	2.0	2.6	2.7	2.8	2.9	2.9
	(In percent of GDP)							
Public Finance, General Government 3/								
Revenue	27.6	27.5	27.0	26.8	26.4	26.2	26.1	26.1
Expenditure	29.6	28.1	27.6	26.9	26.4	26.0	25.5	25.1
Overall balance	-2.0	-0.6	-0.5	-0.2	0.0	0.2	0.6	1.0
Overall balance (excl. support to fin.inst.)	-1.1	-0.6	-0.5	-0.2	0.0	0.2	0.6	1.0
Primary balance	0.7	1.8	1.7	1.9	1.9	2.1	2.4	2.7
Structural balance (percent of potential GDP)	-1.2	-1.1	-0.9	-0.5	-0.3	0.1	0.5	0.9
General government gross debt	78.8	75.6	73.7	72.3	70.8	66.7	64.4	60.9
General government net debt	72.1	69.6	67.7	65.7	63.6	61.7	59.4	55.8
	(In percent)							
Monetary and financial indicators								
Bank credit to private sector (growth rate)	-13.2	-7.8	...	...	...	...	...	...
Deposit rates	1.3	0.7	...	...	...	...	...	...
Government 10-year bond yield	1.1	0.7	...	...	...	...	...	...
	(In percent of GDP)							
Balance of payments								
Trade balance (goods)	43.3	38.8	38.7	39.2	39.4	39.5	39.5	39.5
Current account balance	10.2	4.7	4.9	4.8	4.7	4.7	4.6	4.5
Gross external debt (excl. IFC)	315.0	277.4	256.6	236.9	218.5	201.0	184.2	168.3
Saving and investment balance								
Gross national savings	32.0	33.6	35.7	36.0	36.3	36.5	36.8	36.9
Private sector	31.1	32.2	34.4	34.4	34.6	34.7	34.6	34.5
Public sector	0.9	1.4	1.3	1.6	1.6	1.9	2.1	2.4
Gross capital formation	21.8	28.9	30.8	31.2	31.5	31.8	32.2	32.5
Memorandum item:								
Nominal GDP (€ billions)	255.6	265.4	278.0	291.0	304.3	318.3	332.9	348.3
Population growth (percent)	0.7	0.8	1.0	0.9	0.9	0.9	0.9	0.9

Sources: Central Statistics Office; Department of Finance; Eurostat; and IMF staff.

1/ Share of population with an equivalised disposable income (including social transfers) below the threshold of 60 percent of the national median equivalised disposable income after social transfers. Data is as of 2015.

2/ Goods and services.

3/ See notes to Table 2.

Table 2a. Ireland: Statement of Operations of the General Government, 2015–22
(Billions of euros)

	2015	2016	Projections 1/					
			2017	2018	2019	2020	2021	2022
Revenue	70.5	73.0	75.1	77.9	80.4	83.4	86.9	90.9
Taxes	50.7	53.1	55.6	58.0	60.3	62.7	65.5	68.3
Personal income tax	19.7	20.0	21.0	22.1	23.0	23.8	24.8	25.8
Corporate income tax	6.9	7.4	7.8	8.2	8.5	8.8	9.1	9.5
VAT	12.0	12.8	13.4	14.1	14.7	15.4	16.1	16.8
Excises	4.0	4.2	4.4	4.5	4.8	5.0	5.2	5.5
Other taxes	8.2	8.7	8.9	9.1	9.4	9.7	10.3	10.8
Social contributions	11.4	12.1	12.7	13.4	13.8	14.2	14.7	15.4
Other revenue	8.4	7.8	6.8	6.6	6.2	6.5	6.7	7.1
Expenditure	75.6	74.6	76.6	78.4	80.5	82.6	84.9	87.5
Expense	71.2	69.7	71.3	72.4	73.8	75.7	77.5	79.7
Compensation of employees	18.9	19.4	20.3	20.9	21.5	22.1	22.6	23.2
Use of goods and services	9.2	9.7	10.1	10.3	10.5	10.7	10.9	11.2
Interest	6.8	6.2	6.3	5.9	5.9	5.9	6.1	6.2
Subsidies	1.8	1.7	1.6	1.6	1.6	1.6	1.7	1.7
Social benefits	28.3	28.5	28.8	28.9	29.5	30.5	31.4	32.5
Other expense	6.1	4.2	4.2	4.7	4.8	4.9	4.9	5.0
Net acquisition of nonfinancial assets	4.4	4.9	5.3	6.0	6.7	7.0	7.4	7.8
Net lending(+)/borrowing(-) (overall balance)	-5.0	-1.5	-1.5	-0.4	-0.1	0.8	1.9	3.3
Net financial transactions	-5.1	-1.4	-1.5	-0.4	-0.1	0.8	1.9	3.3
Net acquisition of financial assets	-7.5	-3.9	2.8	5.0	4.9	-2.5	4.4	1.0
Currency and deposits	0.0	-3.1	0.8	2.7	1.5	-7.1	0.0	0.0
Debt securities	-5.8	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-1.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.2	-0.4	-1.1	-0.6	-0.9	-0.6	-0.7	0.0
Other financial assets	-0.9	0.9	3.1	3.0	4.3	5.2	5.0	1.0
Net incurrence of liabilities	-2.4	-2.5	4.3	5.5	5.1	-3.3	2.4	-2.3
Currency and deposits	-0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	5.6	-2.4	4.3	5.5	6.9	-0.9	6.1	0.3
Loans	-8.1	-0.6	0.0	0.0	-1.9	-2.4	-3.7	-2.6
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
<i>Statistical discrepancy (nonfin. vs. fin. accounts)</i>	<i>0.1</i>	<i>-0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Memorandum items:								
One-off measures	1.7	-0.7	-0.1	-0.1	0.0	0.0	0.0	0.0
of which support to financial institutions	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. support to fin.inst.)	-2.9	-1.5	-1.5	-0.4	-0.1	0.8	1.9	3.3
Primary balance	1.8	4.7	4.8	5.5	5.7	6.6	8.0	9.5
Primary balance (excl. support to fin.inst.)	3.9	4.7	4.8	5.5	5.7	6.6	8.0	9.5
Structural balance	-3.0	-2.8	-2.5	-1.4	-0.8	0.3	1.7	3.2
Structural primary balance	3.8	3.4	3.8	4.6	5.1	6.2	7.8	9.4
Gross public debt 2/	201.4	200.6	204.9	210.4	215.4	212.1	214.5	212.2
Net public debt 3/	184.1	184.8	188.3	191.1	193.6	196.4	197.8	194.5
Currency and deposits	17.3	15.8	16.6	19.3	21.8	15.7	16.7	17.7

Sources: Eurostat; Department of Finance; and IMF staff.

1/ Starting in 2018, staff assumes that the resources available for additional spending but not allocated by the Budget 2017 (see Table A2.2 of the Budget 2017) are distributed among compensation of employees and social benefits.

2/ Includes the accumulation of a Rainy Day Fund of €1 billion starting in 2019.

3/ Net of "Currency and deposits" (F2) and Rainy Day Fund.

Table 2b. Ireland: Statement of Operations of the General Government, 2015–22
(Percent of GDP, unless otherwise indicated)

	2015	2016	Projections 1/					
			2017	2018	2019	2020	2021	2022
Revenue	27.6	27.5	27.0	26.8	26.4	26.2	26.1	26.1
Taxes	19.9	20.0	20.0	19.9	19.8	19.7	19.7	19.6
Personal income tax	7.7	7.5	7.6	7.6	7.5	7.5	7.5	7.4
Corporate income tax	2.7	2.8	2.8	2.8	2.8	2.8	2.7	2.7
VAT	4.7	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Excises	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Other taxes	3.2	3.3	3.2	3.1	3.1	3.1	3.1	3.1
Social contributions	4.5	4.6	4.6	4.6	4.5	4.5	4.4	4.4
Other revenue	3.3	3.0	2.5	2.3	2.0	2.0	2.0	2.0
Expenditure	29.6	28.1	27.6	26.9	26.4	26.0	25.5	25.1
Expense	27.9	26.2	25.6	24.9	24.3	23.8	23.3	22.9
Compensation of employees	7.4	7.3	7.3	7.2	7.1	6.9	6.8	6.7
Use of goods and services	3.6	3.7	3.6	3.5	3.5	3.4	3.3	3.2
Interest	2.7	2.3	2.3	2.0	1.9	1.8	1.8	1.8
Subsidies	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Social benefits	11.1	10.7	10.4	9.9	9.7	9.6	9.4	9.3
Other expense	2.4	1.6	1.5	1.6	1.6	1.5	1.5	1.4
Net acquisition of nonfinancial assets	1.7	1.8	1.9	2.0	2.2	2.2	2.2	2.2
Net lending(+)/borrowing(-) (overall balance)	-2.0	-0.6	-0.5	-0.2	0.0	0.2	0.6	1.0
Net financial transactions	-2.0	-0.5	-0.5	-0.2	0.0	0.2	0.6	1.0
Net acquisition of financial assets	-2.9	-1.5	1.0	1.7	1.6	-0.8	1.3	0.3
Currency and deposits	0.0	-1.2	0.3	0.9	0.5	-2.2	0.0	0.0
Debt securities	-2.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.1	-0.1	-0.4	-0.2	-0.3	-0.2	-0.2	0.0
Other financial assets	-0.4	0.3	1.1	1.0	1.4	1.6	1.5	0.3
Net incurrence of liabilities	-0.9	-1.0	1.6	1.9	1.7	-1.0	0.7	-0.7
Currency and deposits	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	2.2	-0.9	1.6	1.9	2.3	-0.3	1.8	0.1
Loans	-3.2	-0.2	0.0	0.0	-0.6	-0.8	-1.1	-0.8
Other liabilities	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
<i>Statistical discrepancy (nonfin. vs. fin. accounts)</i>	<i>0.0</i>	<i>-0.1</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Memorandum items:								
One-off measures	0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
of which support to financial institutions	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. support to fin.inst.)	-1.1	-0.6	-0.5	-0.2	0.0	0.2	0.6	1.0
Primary balance	0.7	1.8	1.7	1.9	1.9	2.1	2.4	2.7
Primary balance (excl. support to fin.inst.)	1.5	1.8	1.7	1.9	1.9	2.1	2.4	2.7
Structural balance (in percent of potential GDP)	-1.2	-1.1	-0.9	-0.5	-0.3	0.1	0.5	0.9
Structural primary balance (in percent of potential GDP)	1.5	1.3	1.4	1.6	1.7	2.0	2.3	2.7
Gross public debt 2/	78.8	75.6	73.7	72.3	70.8	66.7	64.4	60.9
in percent of Revenue	285.5	274.6	272.6	270.0	268.1	254.3	247.0	233.6
Net public debt 3/	72.1	69.6	67.7	65.7	63.6	61.7	59.4	55.8
Interest in percent of Revenue	9.7	8.5	8.3	7.6	7.3	7.0	7.0	6.8
Currency and deposits 4/	6.8	5.9	6.0	6.6	7.2	4.9	5.0	5.1
GDP at current market prices (in billions of euros)	255.6	265.4	278.0	291.0	304.3	318.3	332.9	348.3

Sources: Eurostat; Department of Finance; and IMF staff.

1/ Starting in 2018, staff assumes that the resources available for additional spending but not allocated by the Budget 2017 (see Table A2.2 of the Budget 2017) are distributed among compensation of employees and social benefits.

2/ Includes the accumulation of a Rainy Day Fund of €1 billion starting in 2019.

3/ Net of "Currency and deposits" (F2) and Rainy Day Fund.

4/ Includes Rainy Day Fund.

Table 3. Ireland: Summary of Balance of Payments, 2015–22

	2015	2016	Projections					
			2017	2018	2019	2020	2021	2022
	(Billions of euros)							
Current account balance	26.2	12.5	13.6	14.0	14.4	14.9	15.3	15.5
Balance of goods and services	81.2	61.7	62.5	64.8	67.2	70.0	73.1	76.3
Trade balance	110.6	103.0	107.7	113.9	119.8	125.6	131.6	137.6
Exports of goods	195.6	186.3	203.2	215.3	226.8	238.3	250.9	263.8
Imports of goods	85.0	83.3	95.5	101.4	106.9	112.7	119.2	126.1
Services balance	-29.4	-41.3	-45.3	-49.2	-52.6	-55.6	-58.6	-61.4
Credit	121.6	132.6	135.5	141.7	149.2	157.6	166.4	176.4
Debit	151.0	173.9	180.7	190.8	201.9	213.2	225.0	237.8
Primary income balance	-51.9	-46.4	-46.3	-47.8	-49.5	-51.2	-53.3	-55.8
Credit	61.7	68.3	73.5	77.7	81.7	85.9	90.1	94.3
Debit	113.6	114.7	119.8	125.4	131.2	137.2	143.5	150.1
Secondary income balance	-3.1	-2.7	-2.6	-3.0	-3.4	-3.9	-4.4	-4.9
Capital account balance	-1.3	-5.6	-1.4	-1.4	-1.5	-1.6	-1.6	-1.7
Financial account balance	22.8	5.1	12.3	12.6	12.9	13.3	13.7	13.8
Direct investment	-19.9	20.1	-8.2	-8.3	-8.3	-8.4	-8.5	-8.5
Portfolio investment	-119.7	26.8	26.8	26.8	26.9	26.9	26.9	26.9
Other investment	161.9	-43.1	-6.3	-5.9	-5.7	-5.2	-4.7	-4.6
Change in reserve assets 1/	0.5	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-2.1	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP)							
Current account balance	10.2	4.7	4.9	4.8	4.7	4.7	4.6	4.5
Balance of goods and services	31.8	23.2	22.5	22.3	22.1	22.0	22.0	21.9
Trade balance	43.3	38.8	38.7	39.2	39.4	39.5	39.5	39.5
Services balance	-11.5	-15.6	-16.3	-16.9	-17.3	-17.5	-17.6	-17.6
Income balance	-20.3	-17.5	-16.7	-16.4	-16.3	-16.1	-16.0	-16.0
Current transfers (net)	-1.2	-1.0	-0.9	-1.0	-1.1	-1.2	-1.3	-1.4
Capital account balance	-0.5	-2.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Financial account balance	8.9	1.9	4.4	4.3	4.2	4.2	4.1	4.0
<i>Of which:</i>								
Direct investment	-7.8	7.6	-3.0	-2.8	-2.7	-2.6	-2.5	-2.4
Portfolio investment	-46.9	10.1	9.6	9.2	8.8	8.4	8.1	7.7
Other investment	63.4	-16.2	-2.3	-2.0	-1.9	-1.6	-1.4	-1.3
Change in reserve assets 1/	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.8	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Current account balance excluding undistributed profits 2/ 3/	7.5	2.1	2.5	2.5	2.5	2.6	2.7	2.7
Net international investment position 3/	-207.9	-198.2	-184.8	-172.2	-160.5	-149.3	-138.6	-128.5
Non-IFSC external debt 3/	315.0	277.4	256.6	236.9	218.5	201.0	184.2	168.3

Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff.

1/ Includes financing need to build reserves for bank support.

2/ Undistributed profits of redomiciled firms, as estimated by FitzGerald (2016).

3/ As percent of GDP.

Table 4. Ireland: Monetary Survey, 2013–17 1/
(Billions of euros, unless otherwise specified, end of period)

	2013	2014	2015	2016	2017 1/
Aggregate balance sheet of domestic market credit institutions					
Assets	476.6	423.4	377.6	356.2	352.8
Claims on Central Bank of Ireland	2.0	3.3	5.5	10.4	11.5
Claims on Irish resident Other MFIs	48.6	47.3	46.1	41.5	41.6
Claims on Irish resident non MFIs	280.5	236.5	205.8	190.4	188.1
General government	20.5	20.1	18.4	17.3	18.1
Private sector	260.0	216.4	187.4	173.2	170.1
Households	107.7	96.9	92.0	88.2	89.0
Non-Financial Corporations	78.0	58.0	44.2	39.5	39.2
Non-Bank Financial Intermediaries	74.3	61.5	51.2	45.5	41.8
Claims on non-residents	105.5	94.0	83.5	72.6	68.0
Other assets	40.1	42.3	36.7	41.2	40.3
Liabilities	476.6	423.4	377.6	356.2	349.5
Liabilities to Eurosystem 2/	30.5	13.6	10.0	7.0	7.7
Liabilities to Irish resident Other MFIs	52.1	49.8	46.3	39.4	39.4
Deposits of Irish resident non MFIs	175.3	163.1	166.6	169.1	171.2
General government	13.7	8.6	4.2	3.7	3.9
Private sector	161.6	154.6	162.3	165.4	167.3
Households	91.1	91.4	94.7	97.1	99.1
Non-Financial Corporations	32.4	37.5	40.1	42.5	43.4
Non-Bank Financial Intermediaries	38.1	25.6	27.5	25.8	24.7
Deposits of non-residents	72.2	63.7	42.8	38.5	30.5
Debt securities	26.9	27.4	25.2	23.1	24.0
Capital and reserves	96.6	80.2	67.2	61.3	61.4
Other liabilities (incl. Central Bank of Ireland)	22.9	25.5	19.5	17.8	15.4

Table 4. Ireland: Monetary Survey, 2013–17 (Concluded)
(Billions of euros, unless otherwise specified, end of period)

	2013	2014	2015	2016	2017 1/
Money and credit 3/					
Net foreign assets	1.7	19.8	42.5	41.0	...
Central Bank of Ireland 4/	-37.2	-18.0	1.7	5.9	...
Commercial banks	38.9	37.8	40.8	35.1	49.8
Net domestic assets	199.1	155.1	156.6	177.8	...
Public sector credit	20.7	20.8	19.4	18.3	19.2
Private sector credit	278.3	226.7	199.9	185.8	181.8
Other	-99.8	-92.4	-62.6	-26.3	...
Irish Resident Broad money (M3) 5/	200.8	174.9	199.1	218.7	224.5
Irish Resident Intermediate money (M2) 5/	182.7	171.8	184.0	191.7	193.5
Irish Resident Narrow money (M1)	113.4	115.9	132.9	146.5	149.3
	(Percent of GDP)				
Public sector credit 6/	46.0	40.5	27.3	24.6	...
Private sector credit 6/	582.5	435.8	277.5	247.2	...
	(Percentage change y/y)				
Broad money - Irish contribution to euro area M3 7/	11.5	-0.6	5.1	7.0	7.7
Irish Public sector credit 7/ 8/	-57.8	-3.0	-9.3	-5.1	9.5
Irish Household and non-financial corporations credit 7/ 8/	-4.9	-4.4	-4.2	-1.8	-1.4
Memorandum items: 9/					
Credit to deposits (in percent) 10/	160.9	140.0	115.4	104.7	101.7
Deposits from Irish Private Sector (y-o-y percent change)	8.8	-2.9	4.4	0.7	1.6
Wholesale funding (billions of euros)	135.8	126.9	105.4	92.8	86.4
Deposits from MFIs	109.0	99.5	80.2	69.8	62.4
Debt securities	26.9	27.4	25.2	23.1	24.0
Wholesale funding (y-o-y percent change) 11/	-12.5	-6.7	-17.7	-7.6	-11.1
Wholesale funding (percent of assets) 11/	28.5	30.0	27.9	26.1	24.7

Sources: Central Bank of Ireland; and IMF staff.

1/ As of April 2017.

2/ Relating to Eurosystem monetary policy operations.

3/ Including banks in the International Financial Service Centre.

4/ Sourced from quarterly IIP statistics.

5/ Differs from the M3 (M2) Irish contribution to euro area as only liabilities vis-a-vis Irish residents are used.

6/ Refers to credit advanced by domestic market credit institutions.

7/ Includes IFSC.

8/ Growth rates adjusted for valuation, reclassification, derecognition/loan transfer to non-MFIs, and exchange rates.

9/ Excludes IFSC.

10/ Domestic market credit institutions' private sector credit to deposits.

11/ Includes resident and non-resident MFI deposits, and debt securities issued.

Table 5. Ireland: Main Domestic Banks' Aggregated Summary Financial Statements, 2015Q4–2016Q4 1/

(Billions of euros, unless otherwise indicated)

Balance Sheet	2015Q4	2016Q4	Y/Y change		Profit and Loss Account	2015Q4		2016Q4	
	€ bn.	€ bn.	€ bn.	%		€ bn.	% of TAA	€ bn.	% of TAA
Cash & due from Eurosystem	13.2	12.9	-0.2	-1.9	Interest income	7.3	2.9	6.5	2.7
Net loans	171.3	158.3	-13.0	-7.6	Interest expense	-2.6	-1.0	-1.8	-0.8
Due from banks	6.8	4.6	-2.1	-31.7	Net interest margin	4.7	1.8	4.6	2.0
Securities & derivatives	48.4	42.6	-5.9	-12.1	Net fee income	1.0	0.4	1.0	0.4
Other assets	9.2	8.6	-0.6	-6.4	Net trading gains	0.0	0.0	0.1	0.0
Total assets	248.9	227.0	-21.9	-8.8	Other nonrecurrent items	0.4	0.1	0.5	0.2
Total average assets (TAA)	256.0	236.6	-19.3	-7.6	Gross operating income	6.1	2.4	6.3	2.7
Due to Eurosystem	7.8	5.8	-2.0	-25.9	Operating expenses	-3.9	-1.5	-3.8	-1.6
Due to banks	17.0	11.7	-5.3	-31.1	o/w: administration & other	-2.1	-0.8	-2.1	-0.9
Deposits	161.4	154.3	-7.1	-4.4	o/w: staff	-1.8	-0.7	-1.7	-0.7
Debt & derivatives	32.1	25.9	-6.2	-19.3	Preprovision profits (PPP)	2.2	0.9	2.5	1.1
Other liabilities	6.9	5.5	-1.4	-20.6	Loan loss & NAMA provisions	0.6	0.2	0.2	0.1
Total liabilities	225.2	203.2	-22.0	-9.8	Loss on derecognized assets	-0.2	-0.1	-0.2	-0.1
Net equity	23.7	23.8	0.1	0.6	Net income before tax	2.7	1.1	2.5	1.0
Total liabilities & equity	248.9	227.0	-21.9	-8.8	Tax effects & other	-0.8	-0.3	-0.6	-0.2
					Net income	1.9	0.7	1.9	0.8
<i>Memorandum items:</i>									
Gross loans 2/	186.5	169.0	-17.5	-9.4	PPP net of other nonrecurrent items	1.9	0.7	2.0	0.8
Loan loss provisions	15.5	11.0	-4.5	-29.3	Return on equity		8.0		7.9
Gross NPLs	30.1	21.8	-8.3	-27.5	Provisions to gross loans		0.3		0.1
Gross NPLs to gross loans (%)	16.1	12.9		-20.0	Risk weighted assets (RWA)	124.1	48.5	115.7	48.9
Provisions to gross NPLs (%)	51.6	50.3		-2.5	Core tier 1 capital (CT1) and CT1 to RWA (%)	18.5	14.9	18.8	16.3
Net NPLs to net equity (%)	61.6	45.5		-26.0	CT1 to total assets = leverage ratio (%)		7.4		8.3

Sources: Central Bank of Ireland; and IMF staff.

1/ Bank of Ireland, Allied Irish Banks, and Permanent tsb.

2/ Includes loans held for sale, classified on balance sheet as other assets.

Table 6. Ireland: Indicators of Fund Credit, 2011–23
(Millions of SDR)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund credit													
Disbursement	11,050	5,493	2,922	–	–	–	–	–	–	–	–	–	–
Stock 1/	11,050	16,543	19,466	11,822	3,773	3,773	3,773	3,773	3,773	3,773	1,420	349	–
Obligations	109	332	456	8,292	8,234	40	54	58	58	58	2,400	1,089	353
Repurchase 2/	–	–	–	7,644	8,049	–	–	–	–	–	2,353	1,071	349
Charges	109	332	456	648	185	40	54	58	58	58	47	17	4
Stock of Fund credit													
In percent of quota 3/	879	1,315	1,548	940	300	109	109	109	109	109	41	10	–
In percent of GDP	7.2	11.2	12.4	7.0	1.9	1.8	1.7	1.7	1.6	1.5	0.5	0.1	–
In percent of exports of goods and services	7.1	10.5	11.7	6.2	1.5	1.5	1.4	1.3	1.3	1.2	0.4	0.1	–
In percent of government revenue	21.7	33.1	36.2	20.5	6.7	6.5	6.4	6.2	6.0	5.8	2.1	0.5	–
Obligations to the Fund													
In percent of quota 3/	8.7	26.4	36.3	659.3	654.8	1.2	1.6	1.7	1.7	1.7	69.6	31.6	10.2
In percent of GDP	0.1	0.2	0.3	4.9	4.1	–	–	–	–	–	0.9	0.4	0.1
In percent of exports of goods and services	0.1	0.2	0.3	4.3	3.3	–	–	–	–	–	0.7	0.3	0.1
In percent of government revenue	0.2	0.7	0.8	14.4	14.7	0.1	0.1	0.1	0.1	0.1	3.5	1.5	0.5

Source: IMF staff.

1/ End of period.

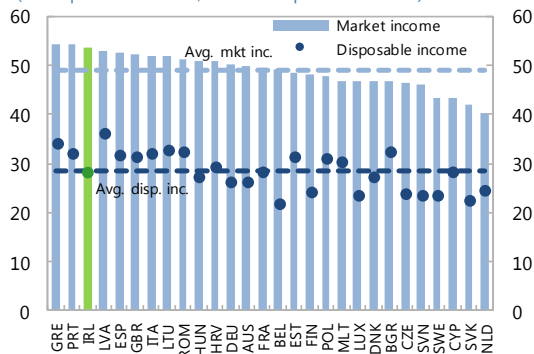
2/ Reflects early repurchases to date.

3/ Quota raised from SDR 1257.6 million to SDR 3449.9 million as of February 2016.

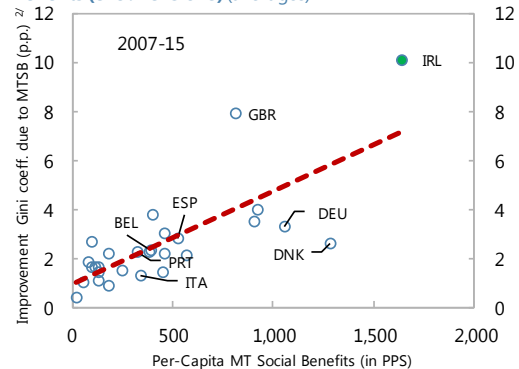
Annex I. Income Inequality and Regional Disparities¹

1. While market-income inequality in Ireland is high compared to EU peers, the tax-benefit system is effective in redistributing income. In 2007–15, the welfare system reduced inequality, measured by the difference between market and disposable income Gini coefficients, by almost 25 points. While about one-fourth of the improvement is due to direct taxation, most is carried out through social benefits, a relatively-high 30 percent of which is means-tested. Pensions play a more limited role than in other EU countries, since the Irish system emphasizes privately managed occupational pensions.

Market and Disposable Income Gini Coefficient; 2015
(0 = equal distribution; 100 = unequal distribution)



Improvement in Income Distribution due to Means-Tested Benefits (excl. Pensions) (averages)

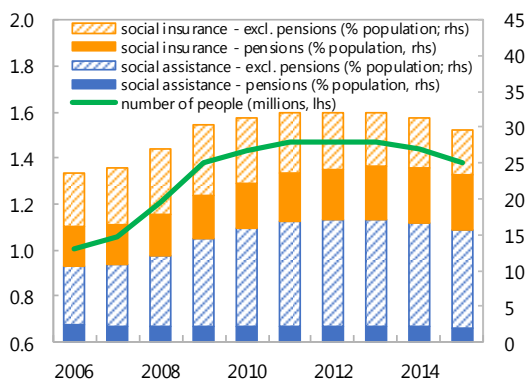


Sources: Euromod; Eurostat; and IMF staff.

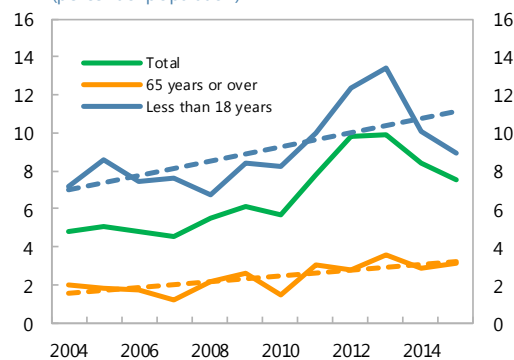
1/ Changes in the Gini coefficient have an inverted sign, such that an improvement in income distribution implies that the Gini coefficient declines.

2. Nonetheless, substantial challenges remain. The number of social assistance recipients, while declining, remains elevated. Social transfers make up about 70 percent of income for those in the bottom two deciles. An intergenerational divide, evident in material deprivation rates, grew sharply during the crisis, and, though declining, remains prominent.

Recipients of Social Benefits; 2006-15



Material Deprivation Rate^{1/}
(percent of population)



Sources: Euromod; Eurostat; and IMF staff.

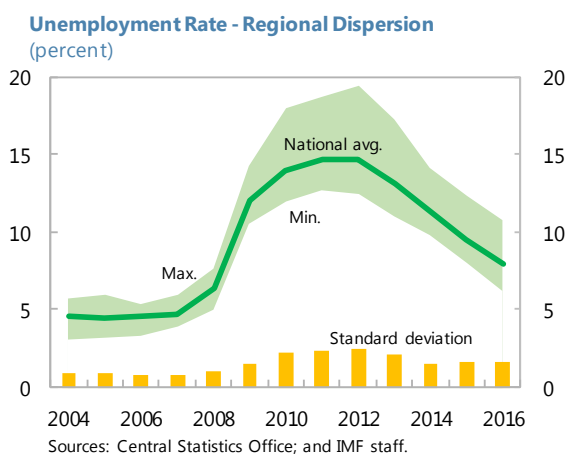
1/ Changes in the Gini coefficient have an inverted sign, such that an improvement in income distribution implies that the Gini coefficient declines.

¹ See SIP, "Income Inequality and Welfare in Ireland: An Overview"

Regional Disparities

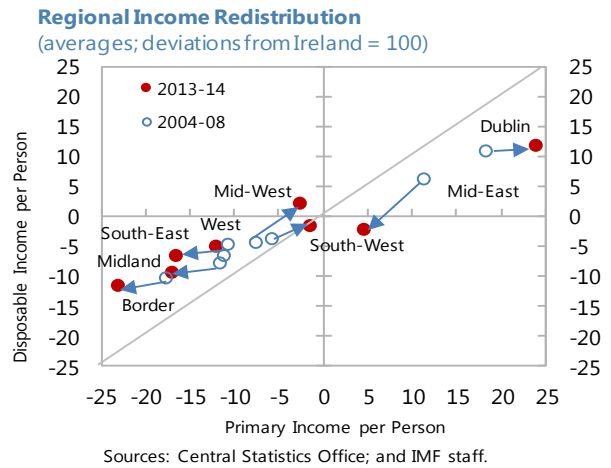
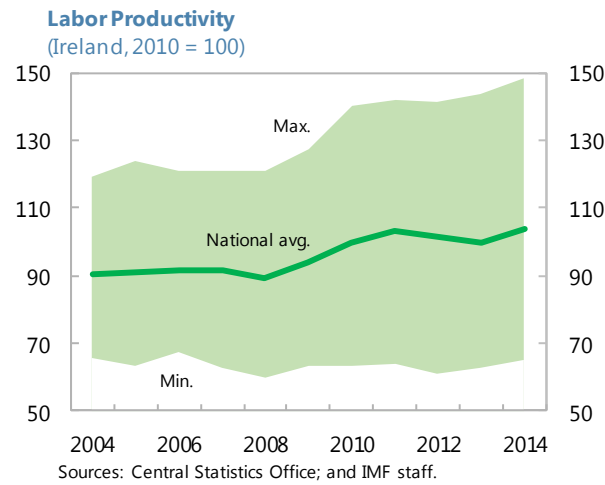
3. Ireland is also characterized by differences across regions. About 40 percent of the population (and 50 percent of gross value added) is concentrated in Dublin (a service hub) and the South-West (a manufacturing center). Agriculture is key in the South-West, South-East and Border region. Variations also exist in labor market, with only Dublin and the Mid-East consistently recording employment and labor-force participation rates above average. The Border region has a tradition of working age people migrating to work.

4. With the ongoing recovery, regional differences in unemployment have receded but remain above pre-crisis levels. During the crisis, unemployment peaked at 18–19 percent in the Midland and South-East but declined to around 10 percent in 2016. Nonetheless, standard measures of dispersion indicate that the labor market recovery has been uneven. Regions with higher unemployment at the onset of the crisis have continued to be affected by high joblessness, suggesting underlying structural differences. Job vacancies are low where unemployment is high (South-East, Midland, and West), suggesting structural frictions, e.g., infrastructure, housing constraints, and skills stymie the cross-regional flow of capital and labor.



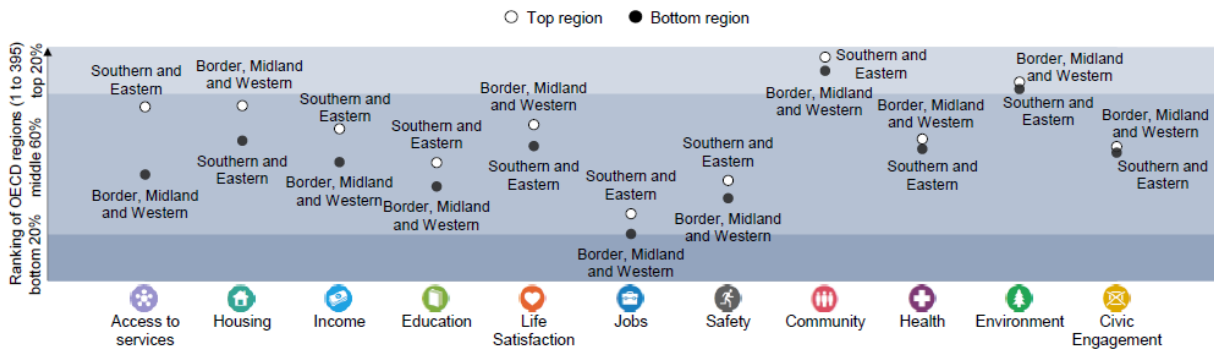
5. Regional productivity variance has widened. The productivity gap, as measured by the real Gross Value Added per employed person, between the lowest (Midland) and highest (Dublin) regions increased by almost 60 percent between 2004 and 2014. These figures need to be considered with caution, given the impact of MNEs' operations on Ireland's national accounts.

6. The tax-benefit system has mitigated uneven income distribution across regions. Between the pre- and post-crisis periods, the per-capita primary income gap between the lowest and highest regions rose 30 percent, while the disposable income gap remained broadly stable. In terms of consistent poverty, recent improvement at the national level were accompanied by narrowing disparities among regions.



7. Irish regions compare relatively well to OECD averages across a broad range of well-being indicators. Irish regions rank among the top 20 percent in civic engagement and governance (community) as well as environment. While Ireland’s regions differ in service accessibility, they enjoy the lowest life expectancy gap among regions in the OECD.

Relative Performance of Irish Regions by Well-Being Dimension^{1/}



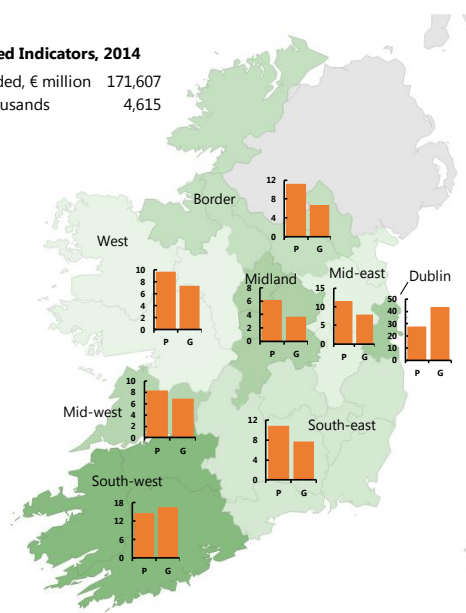
Source: OECD Regional Well-Being Database.

1/ Relative ranking of the regions with the best and the worst outcomes in the 11 well-being dimensions, with respect to 395 OECD regions. The eleven dimensions are ordered by decreasing regional disparities in the country. For variable definitions see www.oecdregionalwellbeing.org.

Ireland: Selected Regional Economic Indicators

Ireland: Selected Indicators, 2014

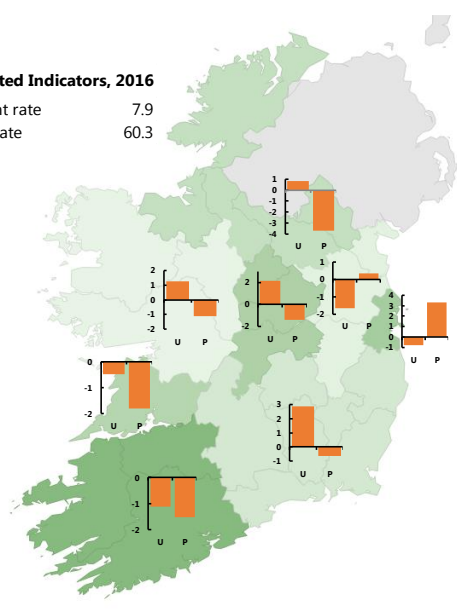
Gross value added, € million 171,607
 Population, thousands 4,615



P= share of population, G= share of gross value added

Ireland: Selected Indicators, 2016

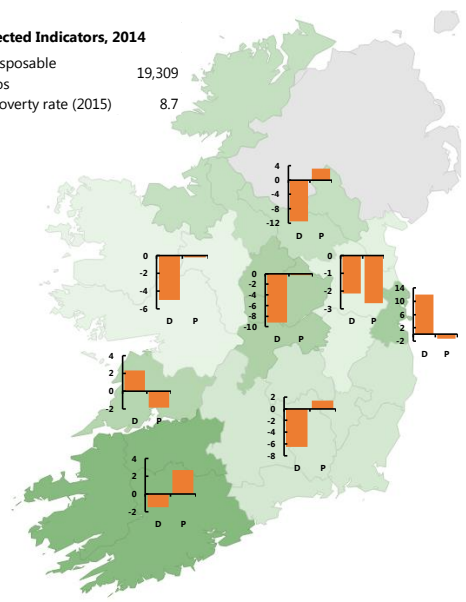
Unemployment rate 7.9
 Participation rate 60.3



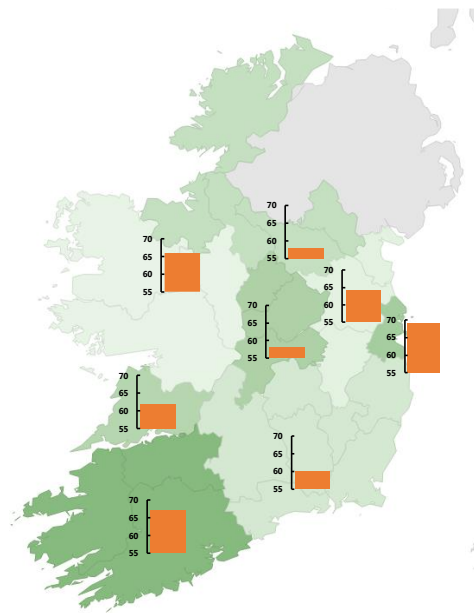
Deviations from national rate
 U= unemployment rate, P= participation rate

Ireland: Selected Indicators, 2014

Per capita disposable income, euros 19,309
 Consistent poverty rate (2015) 8.7



Deviations from national level
 D= per capita disposable income, P= consistent poverty



Percent of region's population aged 30-34 years with tertiary or equivalent education

Sources: Central Statistics Office and IMF staff.

8. The Irish government has put in place several initiatives to address skills gaps, support employment and promote balanced regional development.

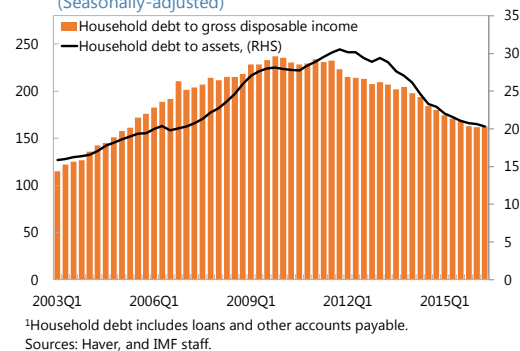
- Substantial investment was made in active labor market policies during the crisis, with mixed success. The authorities have recognized the need for continued review of these programs to reinforce effectiveness. More broadly, the government's skills strategy seeks to better align education paths with market needs, while providing equal opportunities for disadvantaged children. Reforms to the PIT and enhancement of child-care and in-work benefits can also support incentives for transition to work.
- Between June 2015 and January 2016, the Department of Jobs, Enterprise, and Innovation published eight [Regional Action Plans for Jobs](#), aimed at supporting regional growth, insulating against risks (including Brexit), and reducing unemployment in each region to within one percent of the Irish average by 2020. Fostering start-ups and the scaling-up of enterprises, promoting trade diversification and innovation, ensuring finance to SMEs, and strengthening the delivery of the needed skills are key elements of the strategy. Each plan will be overseen by a Regional Implementation Committee, with semi-annual progress reports. A recently launched [Rural Development Action Plan](#) aims at coordinating and implementing initiatives across Government to improve economic and social conditions in rural Ireland.

Annex II. Household Deleveraging¹

Steady deleveraging in recent years. After peaking at nearly 240 percent of disposable income in 2010, household debt moderated to about 150 percent in 2016Q4, its lowest level in a decade.

Household debt-to-total assets demonstrates a similar pattern. Despite prolonged deleveraging, among the sharpest in Europe, household debt remains high by international standards, with about 57 percent of Irish households held debt in 2013/14—well above the euro area average of 42 percent. Young households are also significantly more indebted than other Irish borrowers and other EU households in the same age group. Additionally, more than one-fifth of young Irish borrowers had negative equity.

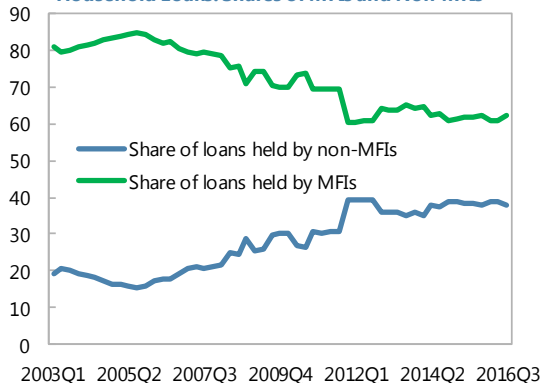
Ireland: Household Debt¹
(Seasonally-adjusted)



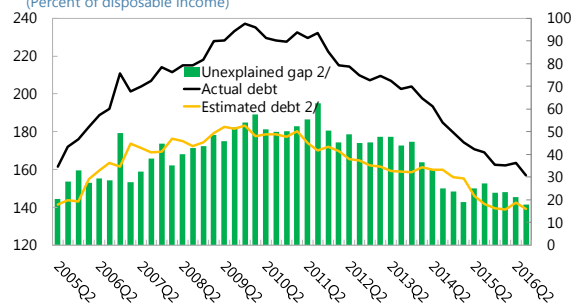
Changing composition. Households loans held by monetary financial institutions (MFIs) receded to just above 60 percent of total household liabilities in 2016Q3 versus about 80 percent pre-crisis, while household loans held by non-MFIs increased by about 50 percent in nominal terms compared to 2007, thus bringing the proportion of household loans held by these institutions to around 38 percent of total. This largely reflects securitization of loans, sale of distressed assets by banks to nonbanks, and new lending outside the banking system.

Cross-country analysis. Although subject to uncertainty, model-based analysis suggests that deleveraging in Ireland in recent years was partly driven by a lower share of young population, lower house prices (compared to peak) and home ownership, lower access to credit, and reduction of unemployment, which reflects improved debt repayment capacity. Moreover, the unexplained gap between actual and predicted household debt in Ireland has been relatively large, but has moderated in recent years. At 2016Q3, the predicted household debt stood at just below 140 percent of disposable income, about 15 percentage points below its actual level (seasonally adjusted, including loans and other accounts payable). All else equal, continued reduction in the unexplained gap would be consistent with further deleveraging in the near term.

Household Loans: Shares of MFIs and Non-MFIs



Ireland's Household Debt: Actual and Estimated 1/
(Percent of disposable income)



¹ See SIP, "Household Deleveraging in Ireland"

Annex III. External Stability Assessment

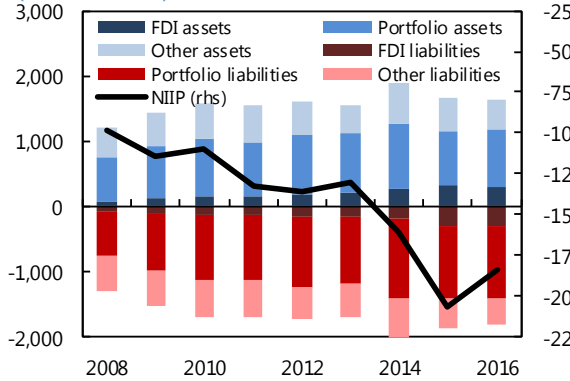
	Ireland	Overall Assessment
Foreign asset and liability position and trajectory	<p>Background. Ireland’s net international investment position (NIIP) declined from -131 percent of GDP in 2013 to -208 percent of GDP in 2015, driven by MNE-related restructuring operations (Figure 1), and recovered to -185 percent of GDP in 2016.¹ The NIIP of International Financial Services Centers (IFSC) improved by 5 percentage points to -41 percent of GDP, as increasing net portfolio investment offset declining net direct and other investment. Non-IFSC NIIP increased from -159 percent of GDP in 2015 to -144 percent of GDP, driven by net portfolio investment. The central bank’s NIIP became slightly positive in 2015 while that of monetary financial institutions turned positive in 2016 with continued deleveraging and greater reliance on domestic funding.² The NIIP of the general government improved slightly to –€128 billion at end-2016, reflecting investor appetite for Irish sovereign bonds. Non-financial NIIP recovered by 5 percentage points to -171 percent of GDP in 2016, driven by lower FDI and portfolio investment. Non-IFSC gross external debt, which jumped to 315 percent of GDP in 2015, fell to 277 percent in 2016 and is projected at 168 percent by 2022, reflecting a stable current account balance, real growth, and non-debt creating capital inflows.</p> <p>Assessment. Recent NIIP deterioration has not affected the external sustainability of core domestic sectors. Large gross IFSC positions do not affect domestic entities and a large stock of IFSC intra-company and intra-group debt is regularly rolled over, mitigating risks. Non-IFSC external debt shows limited sensitivity to standardized shocks that—if they materialized—would result in more gradually declining debt ratios (Figure 2).</p>	<p>Overall Assessment:</p> <p><i>Staff’s assessment indicates that Ireland’s external position in 2016 is broadly consistent with medium-term fundamentals and a desirable policy setting. However, the significant presence of MNEs complicates the overall assessment.</i></p> <p>Ireland’s competitiveness has further improved in recent years, as demonstrated by an increasing share of Irish exports in world exports.</p> <p>External balance sheets have strengthened with the banking sector recovery and stable external liabilities of the general government. FDI inflows continue to be strong, supported by a favorable business climate and economic performance.</p> <p>However, productivity growth varies sharply across sectors and is concentrated in large foreign-owned firms.</p> <p>Potential policy responses:</p> <p>Policies to support sustainable and inclusive medium-term growth and job creation should focus on continued balance sheet repair and restoration of fiscal buffers utilized during the crisis, broadening access to finance for indigenous SMEs, increasing direct public support of innovation, continuing targeted ALMPs, expanding technical and vocational training, and improving infrastructure (including transport, housing).</p>
Current account	<p>Background. The current account (CA) surplus, while volatile, has averaged just below 5 percent of GDP (1.5 percent without undistributed profits) since the 2013 recovery, driven mainly by a large goods trade surplus.³ Ireland’s share of world exports has been increasing, driven by strong export performance in the goods (pharmaceutical) and services (business and financial services, IT) sectors. Exports of goods manufactured abroad by Irish-domiciled firms—about 60 percent of goods exports—complicates the assessment. Increasing private and public saving accounted for ⅔ of the CA improvement. After the upward shift to 10.2 percent of GDP in 2015, the CA surplus fell to 4.7 percent in 2016.</p> <p>Assessment. The 2016 cyclically-adjusted CA was at 5.1 percent compared to the 5.8 percent norm, with lagged productivity as its largest contributor. The model suggests a CA gap of between -2.3 and 0.9, implying an external position broadly in line with fundamentals and a desirable policy setting. However, for the reasons outlined in Box 2, the significant MNE presence obscures the assessment.</p>	
Real exchange rate (REER)	<p>Background. In 2016, the CPI-based REER has shown a 1-percent appreciation relative to 2015 average as the nominal exchange rate remained stable vis-à-vis the U.S. dollar, but appreciated relative to the British pound. The ULC-based REER has shown a similar depreciation. Until May, the REER has depreciated by about 1 percent related to 2016 average. From a longer-term perspective, Ireland has been regaining competitiveness, with the ULC-based REER depreciating since end-2008 with increasing productivity and declining labor costs. However, productivity growth is concentrated in large foreign-owned firms and again obscures the assessment.⁴</p> <p>Assessment. The EBA REER index indicates an overvaluation between 5.1 and 17.5 percent. Staff’s estimates, in line with its CA approach, does not indicate REER misalignment, with a REER gap of -1 to 2.4 percent.⁵</p>	
Capital and financial accounts: flows and policy measures	<p>Background. Ireland is a large recipient of FDI, but its net position is positive due, partially, to the positive valuation effect associated with redomiciled firms. In 2016, direct investment in Ireland declined mainly due to higher “other capital” outflows. Similarly, larger portfolio equity inflows have been only partially offset larger net outflows of debt instruments. Other investment assets have declined.</p> <p>Assessment. Ireland’s share in EU and world inward FDI—as well as foreign demand for Irish sovereign bonds—has been supported by strong economic performance and a supportive business climate, including a favorable tax environment.</p>	
FX intervention and reserves	<p>Background. The euro has the status of a global reserve currency.</p> <p>Assessment. Reserves held by the euro area are typically low relative to standard metrics. The currency is free floating.</p>	
Technical Background Notes	<p>1/ See SIP, “The Role of Foreign-owned Multinational Enterprises in Ireland” for more details on 2015 data revision; 2/ Target 2 liabilities have declined as banks reduced reliance on Eurosystem funding. 3/ Retained earnings of “redomiciled firms”—that establish their headquarters in Ireland—contribute to the current account surplus (FitzGerald, 2013, 2016). 4/ IMF Country report 16/257 “Firm-level productivity and its determinants: The Irish case.” 5/ EBA estimates from April 2017. EBA REER Level and Index models provide a poor fit for Ireland, and their total gap is mostly driven by residuals. The high degree of trade openness explains the large trade elasticity.</p>	

Annex III. Figure 1. Ireland: International Investment Position and External Debt

Ireland's NIIP deteriorated substantially in 2015, due to MNE-related balance-sheet restructuring.

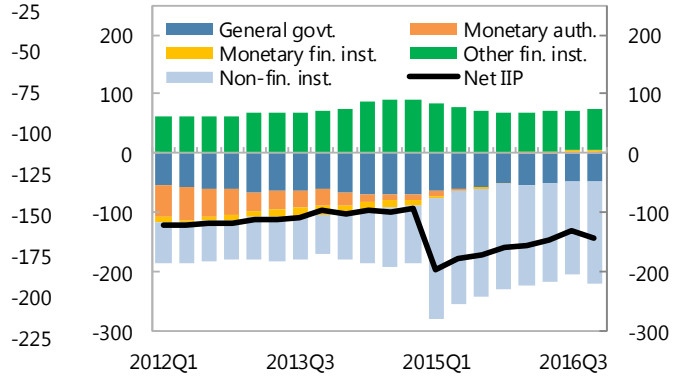
NIIP of the CBI and banks turned slightly positive while NIIP of the general government stabilized.

Overall IIP (IFSC and non-IFSC)
(Percent of GDP)



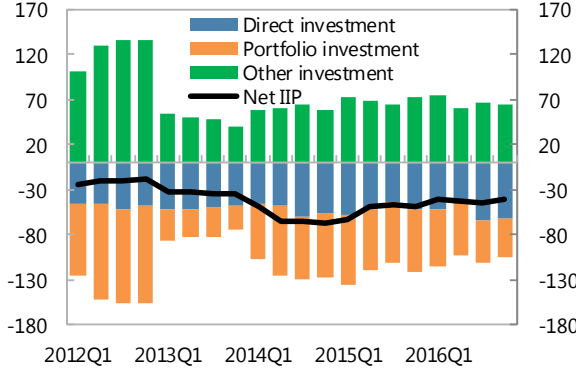
The NIIP of IFSC improved slightly and remained low...

Non-IFSC IIP by Sector
(Percent of GDP)

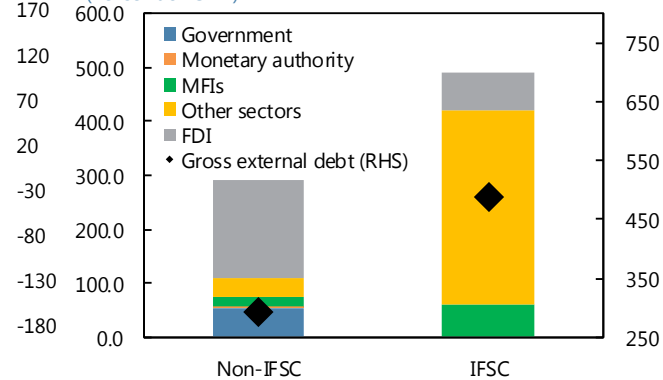


...despite traditionally large gross external positions.

IFSC IIP by Instrument
(Percent of GDP)



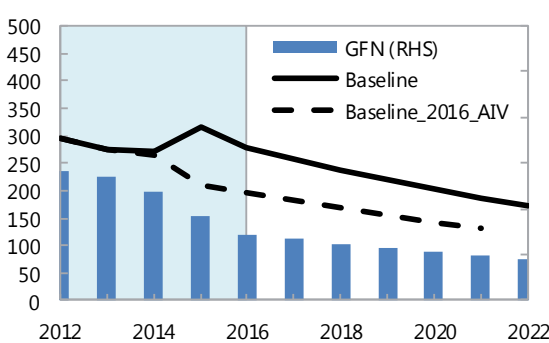
External Debt Composition, 2016Q4
(Percent of GDP)



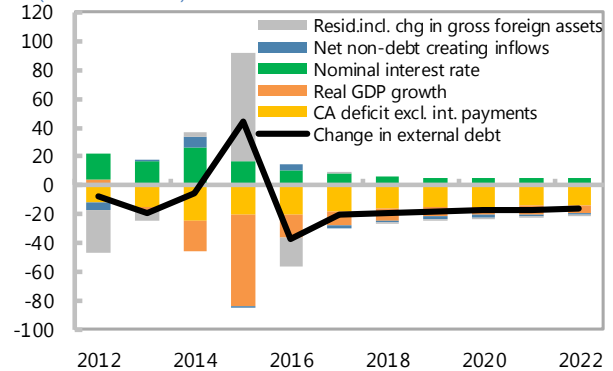
The 2015 level shift has not affected the external sustainability of core domestic sectors.

and non-IFSC external debt is projected to decline, due to a stable current account balance, growth, and FDI inflows.^{1/}

Non-IFSC Gross External Debt and Financing Needs, 2012-2022
(Percent of GDP)



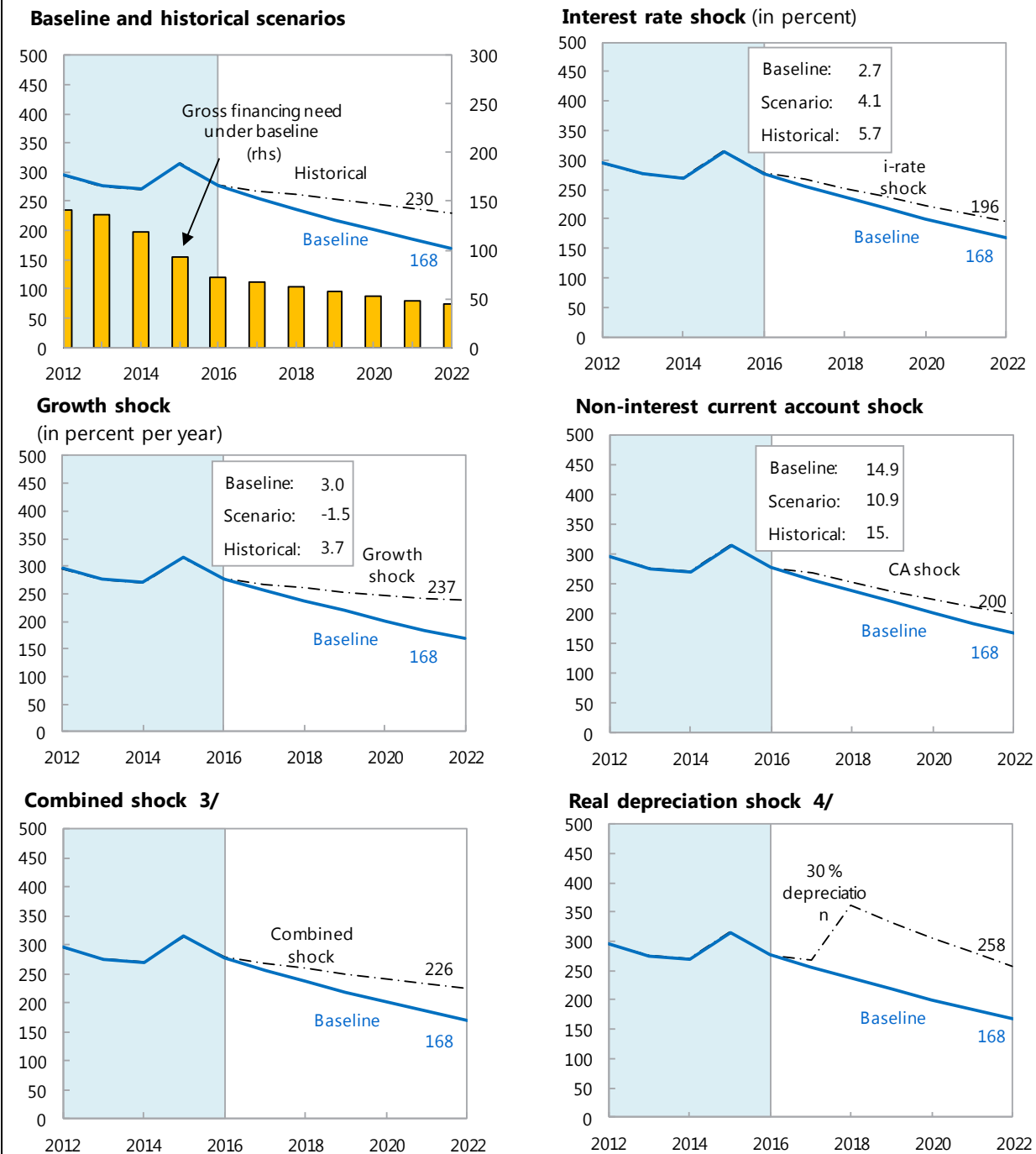
External Debt-Creating Flows
(Percent of GDP)



Sources: Central Statistics Office; Haver Analytics; and IMF staff calculations.

1/ For projection, the residual line includes the impact of price and exchange rate changes. Real GDP growth and nominal interest rate illustrate their contribution to the autonomous debt dynamics. For more details on external debt credit flows, see Table 1 below.

Annex III. Figure 2. Ireland: External Debt Sustainability: Bound Tests 1/ 2/
 (Non-IFSC external debt in percent of GDP, unless otherwise indicated)



1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
 4/ One-time real depreciation of 30 percent occurs in 2018

Annex III. Table 1. Ireland: Non-IFSC External Debt Sustainability Framework, 2012–22
(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -2.8	
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
Baseline: External debt	295.4	275.6	270.2	315.0	277.4	256.6	236.9	218.5	201.0	184.2	168.3		
Change in external debt	-7.9	-19.8	-5.4	44.8	-37.6	-20.8	-19.6	-18.4	-17.5	-16.7	-15.9		
Identified external debt-creating flows (4+8+9)	21.2	-13.1	-9.3	-30.0	-17.1	-21.5	-19.1	-17.7	-16.7	-15.9	-15.3		
Current account deficit, excluding interest payments	-12.0	-14.6	-24.0	-20.2	-20.4	-18.0	-16.2	-14.7	-14.5	-14.5	-14.4		
Deficit in balance of goods and services	-11.8	-13.0	-11.7	-25.7	-24.6	-24.0	-23.9	-23.8	-23.8	-23.7	-23.7		
Exports	93.4	92.7	99.6	111.3	108.9	110.9	111.7	112.5	113.2	114.1	115.0		
Imports	81.6	79.7	88.0	85.6	84.3	86.8	87.8	88.7	89.5	90.4	91.3		
Net non-debt creating capital inflows (negative)	-5.4	1.3	6.9	-0.7	3.8	-1.5	-1.4	-1.4	-1.3	-1.3	-1.2		
Automatic debt dynamics 1/	38.6	0.2	7.9	-9.1	-0.5	-2.0	-1.4	-1.6	-0.9	-0.2	0.4		
Contribution from nominal interest rate	18.6	16.6	26.4	16.9	10.4	8.2	6.6	5.3	5.2	5.3	5.4		
Contribution from real GDP growth	3.5	-3.0	-21.7	-64.1	-15.9	-10.2	-8.0	-6.9	-6.1	-5.4	-5.0		
Contribution from price and exchange rate changes 2/	16.5	-13.4	3.2	38.2	5.0	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-29.1	-6.7	3.9	74.8	-20.5	0.7	-0.6	-0.7	-0.8	-0.8	-0.6		
External debt-to-exports ratio (in percent)	316.3	297.4	271.1	283.0	254.7	231.4	212.1	194.2	177.5	161.4	146.3		
Gross external financing need (in billions of US dollars) 4/	247.9	244.5	227.5	238.0	191.3	184.5	178.9	173.2	167.2	161.0	154.7		
in percent of GDP	141.1	135.8	117.9	93.2	72.1	10-Year	10-Year	66.4	61.5	56.9	52.5	48.4	44.4
Scenario with key variables at their historical averages 5/						268.0	260.9	253.6	246.1	238.4	230.5	5.0	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Real GDP growth (in percent)	-1.1	1.1	8.4	26.3	5.2	3.7	8.9	3.9	3.3	3.0	2.9	2.8	2.8
GDP deflator in US dollars (change in percent)	-5.2	4.8	-1.1	-12.4	-1.6	0.4	3.3	-3.2	1.1	1.5	1.7	1.4	1.2
Nominal external interest rate (in percent)	5.7	5.9	10.3	6.9	3.4	5.7	2.8	3.1	2.7	2.3	2.5	2.8	3.1
Growth of exports (US dollar terms, in percent)	2.3	1.7	15.2	48.0	1.6	9.9	14.2	6.7	5.5	5.3	5.3	5.4	5.4
Growth of imports (US dollar terms, in percent)	11.4	0.1	18.3	28.9	2.3	7.8	9.9	7.9	5.8	5.7	5.5	5.7	5.7
Current account balance, excluding interest payments	12.0	14.6	24.0	20.2	20.4	15.7	7.9	18.0	16.2	14.7	14.5	14.5	14.4
Net non-debt creating capital inflows	5.4	-1.3	-6.9	0.7	-3.8	-1.3	3.6	1.5	1.4	1.4	1.3	1.3	1.2

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV. Risk Assessment Matrix¹

Source of Risk and Likelihood (G-RAM)	Impact if Realized	Policy Recommendations Mitigation/Response
<p style="text-align: center;">H</p> <p style="text-align: center;"><i>Short- to medium-term</i></p> <p>Policy uncertainty and divergence. Two-sided risks to US growth with difficult to predict policies and global spillovers. In Europe, uncertainty associated with negotiating post-Brexit arrangements and with upcoming major elections. Policy divergence could lead to rising global imbalances and exacerbate exchange rate and capital flow volatility.</p>	<p style="text-align: center;">H</p> <p>A fiscal stimulus in the US could generate positive spillovers to Ireland and its key trading partners, though a lower corporate tax in the US may lead to a relocation of Ireland-based MNEs, with adverse effect on employment, fiscal revenues, and the external position. Lower US growth and increased uncertainty would create negative global spillovers, with adverse effect on consumer and investor confidence, and sovereign spreads.</p> <p>Ireland's significant trade and financial links with the UK makes it vulnerable to a possible slowdown in the British economy, a sustained fall in the £/€ rate or an increase in trade barriers. Irish banks would be adversely affected given their direct and indirect exposures, and the burden of impaired assets may increase further.</p> <p>Sensitivities related to the Irish border question due to Brexit also present special challenges.</p>	<p>In the short run, allow automatic stabilizer to work. In the medium term, fiscal policy, within the current envelope, should support growth. Expenditure savings could be redirected to pro-growth initiatives.</p> <p>Strengthen potential through structural reforms, including incentives for labor force participation, enhancing labor activation policies, better targeting benefits, improving SME access to financing, and easing impediments to productivity growth.</p> <p>Continue close monitoring of Brexit related risks and update contingency plans. Rebuilding fiscal buffers. On the banking side, continue close supervision and accelerate balance-sheet repair. Ensure that banks would be able to withstand negative shocks. Central bank should stand ready to provide liquidity support to banks if needed.</p>
<p style="text-align: center;">H</p> <p style="text-align: center;"><i>Short- to medium-term</i></p> <p>Retreat from cross-border integration. A fraying consensus about the benefits of globalization could lead to protectionism and economic isolationism, leading to reduced global and regional policy collaboration with negative consequences for trade, capital and labor flows, sentiment, and growth.</p>	<p style="text-align: center;">H</p> <p>As a small open economy, Ireland is extremely vulnerable to external shocks. Depending on the nature of the shock, the role of MNEs could mitigate or exacerbate the impact on the economy.</p> <p>While populist and/or anti-EU movements have not had a major impact in Ireland to date, increased disenchantment with globalization may spur political fragmentation.</p>	<p>Participate in coordinated policy response at the European level.</p> <p>In the short run, let automatic stabilizers work. Smooth out debt issuance through use of cash buffers.</p> <p>Strengthening growth potential through reforms, as noted above.</p> <p>Accelerate NPL reduction and more broadly work to strengthen bank resiliency to negative shocks.</p>

¹The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risk and Likelihood (G-RAM)	Impact if Realized	Policy Recommendations Mitigation/Response
<p style="text-align: center;">H <i>Medium-term</i></p> <p>Structurally weak growth in key advanced economies: Low productivity growth (US, the Euro area, and Japan), failure to fully address crisis legacies and undertake structural reforms, and persistently low inflation (the Euro area and Japan) undermine medium-term growth in advanced economies.</p>	<p style="text-align: center;">M/H</p> <p>Structurally weak growth in key export markets (US, Europe) would significantly affect the Irish economy through the trade channel, thereby undermining domestic confidence, investment, and FDI inflows.</p>	<p>Strengthen growth potential through reforms, as noted above. Tax and spending policies should be more growth-friendly, within the existing fiscal envelope. ECB policy actions should contribute revive growth and could also aid competitiveness.</p>
<p style="text-align: center;">M <i>Short- to medium-term</i></p> <p>Changes in corporate taxation in the US and the EU. The adoption of the proposed Common Consolidated Corporate Tax Base (CCCTB) and changes in corporate tax regime in the US could make Ireland less attractive location for future FDIs and adversely affect government revenues.</p>	<p style="text-align: center;">M</p> <p>High concentration of the industrial base in a small number of high-tech sectors makes the Irish economy vulnerable to sectoral and firm-specific shocks. The impact of changes in operations by these corporates on gross value added and employment may vary depending on the nature of their links with the Irish economy. Budget repercussions might be material as 40 percent of corporate tax (equivalent to about 4 percent of revenues) is paid by 10 MNEs.</p>	<p>Facilitate diversification through structural reforms to strengthen productivity and competitiveness; invest in education and training to create necessary skills; maintain a flexible and competitive labor market. Ensure sound public finances and durable debt reduction to rebuild fiscal buffers</p>
<p style="text-align: center;">M <i>Short- to medium-term</i></p> <p>Domestic adjustment fatigue coupled with a challenging political context. The minority government is facing increasing public expectations to reap the fruits of the recovery.</p>	<p style="text-align: center;">M</p> <p>These factors complicate domestic policy making. While the government is committed to prudent policies, public pressure to reverse some measures implemented in recent years may slow fiscal consolidation, detract from medium-term fiscal priorities and increase the economy's vulnerabilities to adverse shocks.</p>	<p>Ensure sound public finances and a durable debt reduction to rebuild fiscal buffers. Enhance communication strategy regarding policy and reform plans.</p>
<p style="text-align: center;">L <i>Medium-term</i></p> <p>A sharp correction in housing prices. Continued strong pressures in the housing market, together with limited supply response could develop into large imbalances, and potential lead to a boom-bust cycle.</p>	<p style="text-align: center;">M</p> <p>Domestic banks are exposed to property market shocks. A sharp future housing price correction could weaken bank and household balance sheets, with adverse effects on financial stability and growth.</p>	<p>Monitor risks, and review macro-prudential limits periodically. Continue to expand housing supply and ensure that the recently introduced measures to improve housing affordability are well-targeted.</p>

Annex V. Impact of UK Exit from the EU on Ireland

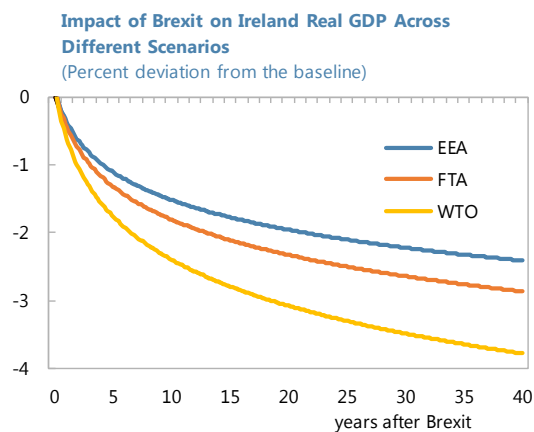
The overall impact of the Brexit referendum has been limited so far. But Brexit is expected to have a negative and significant effect on Ireland given close trade, labor, financial and investment ties between two countries. The authorities are actively engaging at EU level and working domestically to develop measures to respond. Special issues related to the border with Northern Ireland have also been recognized.

1. While Ireland has substantially diversified its external linkages, economic ties to the UK remain substantial. The UK is now Ireland's second-largest trading partner accounting for 17 percent of both Irish exports and imports, not including significant intermediate goods.¹ The UK also provides 90 percent of electricity and gas to Ireland and [connects](#) Ireland's digital and transports infrastructure to the rest of the world.

2. The overall impact of the Brexit referendum has been limited thus far. Volatility in the financial markets around the referendum was short-lived, although the impact on business and consumer confidence has been more sustained. The weakening of Sterling vis-à-vis the euro has been significant, albeit coming on the heels of sizable appreciation since 2013. In 2016, exports to and imports from Great Britain and Northern Ireland decreased by 4 and 8 percent, respectively, while those to the rest of the world increased by 5 percent each.² Tourism flows from the UK have declined by about [6 percent](#) in Q12017 compared to last year, while those from other countries increased by 3 percent. Softening of output is evident in traditional manufacturing sectors significantly exposed to the UK. A direct link to Brexit is hard to establish, particularly given the absence of a weakening of the UK economy. The referendum occurred in the context of a robust domestic recovery, which may have mitigated its immediate impact and, in the short term, may reduce the possibility of overheating in the context of Ireland's positive output gap.

3. However, adverse effects on longer-term growth could be significant and sustained.

According to [recent estimates](#) by the Department of Finance and ESRI, an Irish think tank, Brexit could reduce Ireland's output up to 2½ percent over the next ten years and up to 3¾ percent in the long run.³

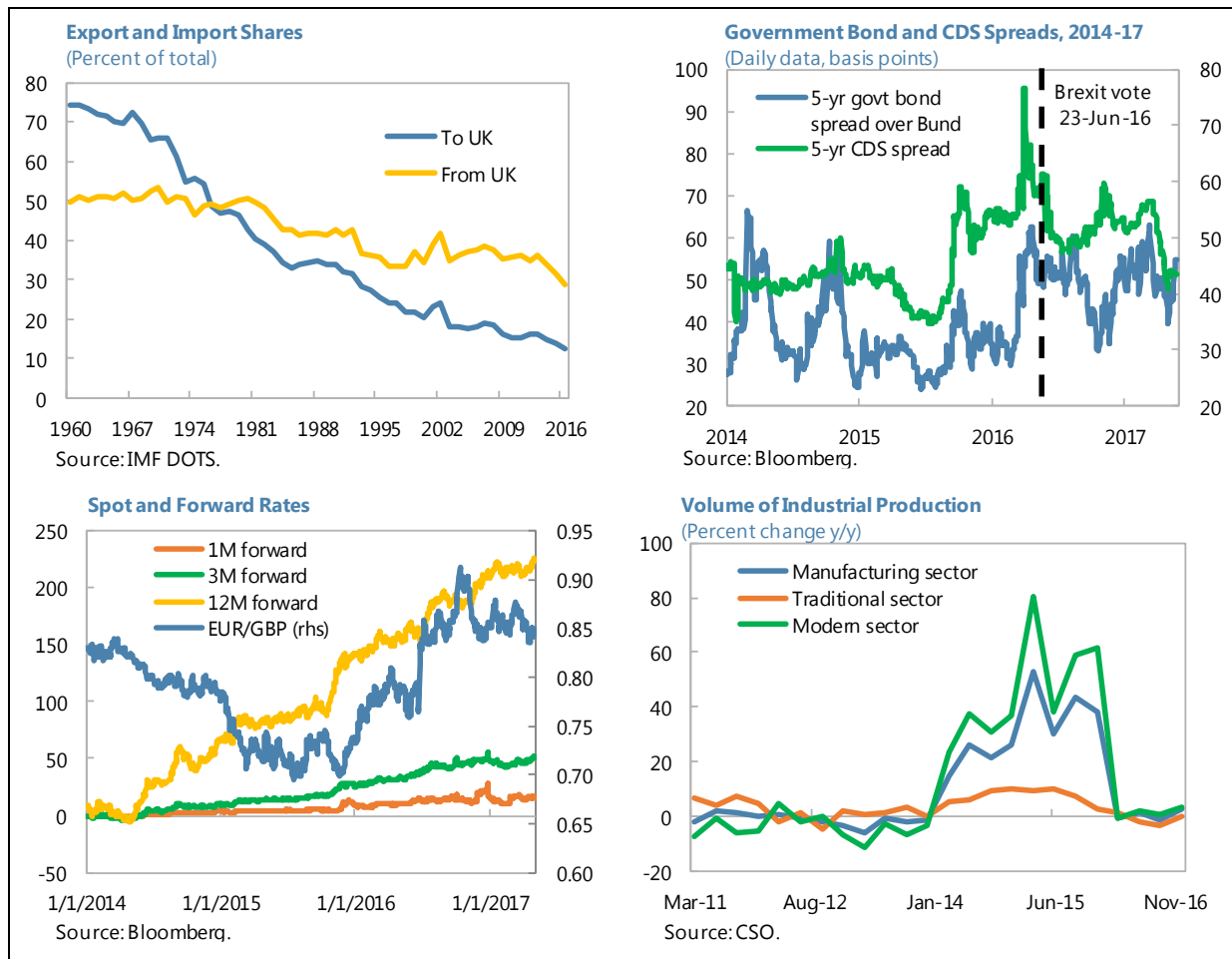


Source: Bergin and others (2016)

¹ About 57 percent of transportation service exports and 41 percent of food exports go to the UK. See supra, for more details on sectoral risks.

² Only 27 percent of Irish firms—and 15 percent of small firms—exposed to the GBP have a hedging strategy ([IBEC](#)).

³ Three scenarios are envisaged: EEA; EU/Swiss FTA; the Most Favored Nation clause of the WTO.

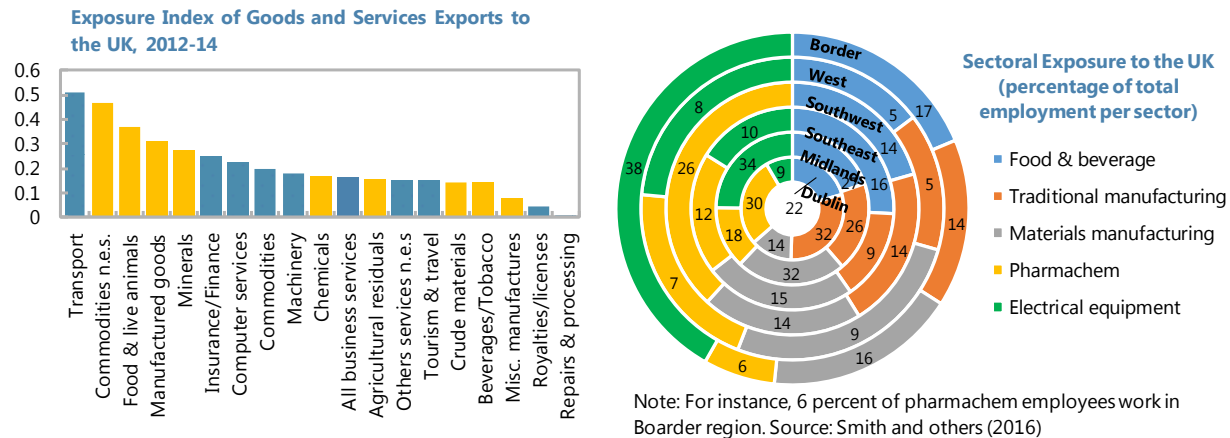


Impact of Brexit After 10 Years Under Different Scenarios 1/
(Percent change compared to the baseline)

	EEA	FTA	WTO
Total exports	-3.0	-3.5	-4.9
GVA at basic prices	-2.3	-2.7	-3.8
Unemployment rate (pp)	1.2	1.4	1.9
Average wages	-2.2	-2.5	-3.6
Private consumption	-2.2	-2.5	-3.4
General government balance (pp of GDP)	-0.6	-0.8	-1.0

Source: Bergin and others (2016).
1/ Three scenarios: EEA; EU/Swiss FTA; the Most Favored Nation clause of the WTO.

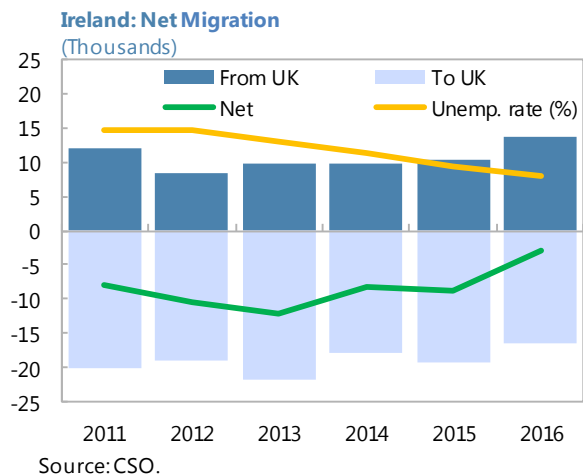
4. Brexit’s impact will vary by sector and region. An [index](#) developed by the Department of Finance indicates that the overall Brexit effect will be driven by both traditional and MNE-dominated sectors (such as pharmaceuticals and chemicals).⁴ Key service sectors are not as exposed to changes in tariffs, but may be affected by exchange rate fluctuations.



Source: Smith and others (2016). Blue bars indicate services.

5. Traditional exporters and importers are expected to be hardest hit. While larger MNEs can likely absorb the Brexit impact relatively easily, smaller operators with strong UK ties will likely have more difficulty. The impact is expected to be particularly hard for regions dominated by traditional sectors, including the Border and Midlands. A redirection of exports from the UK within the EU may help to absorb the adverse impact on domestic firms, with possible exceptions for smaller firms.

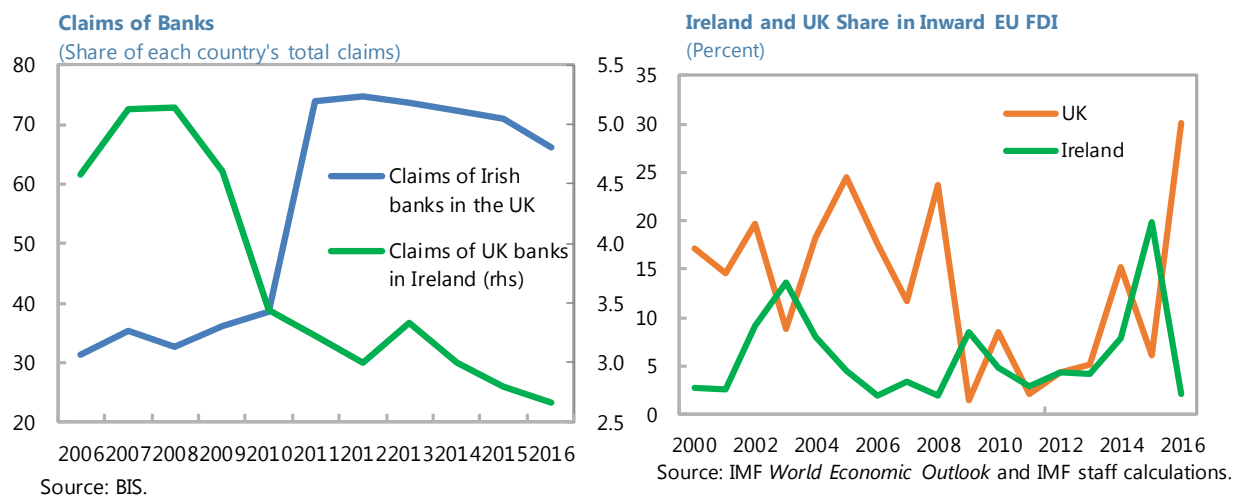
6. Given close labor market integration, Ireland can also be affected through migration flows. As noted by [Honohan and FitzGerald](#), Irish migration to the UK contributed to faster reduction in unemployment since 2012. More limited labor movement could introduce new rigidities in the economy, particularly during downturns.



7. Brexit also creates uncertainty around cross-border services and programs. In the [recent publication](#), the authorities stressed the importance of EU-funded cooperation with institutions in Great Britain and Northern Ireland in common research and education programs, and the health sector.

⁴ For sectoral impact of Brexit, see also [Lawless and Morgenroth](#) (2016) and [Matthews](#) (2015).

8. The financial sector may also be negatively affected. The UK slowdown could adversely affect bank profitability given the high portion of loans to UK-based clients for Irish banks (about 30 percent), and indirectly through the impact on Irish exporters that are dependent on the UK market.⁵



9. Brexit may boost already strong FDI flows to Ireland. The UK and Ireland have both seen strong and sustained inward FDI. [Davies and others \(2016\)](#) suggest Ireland as a natural alternative to the UK for investors seeking to maintain EU access, given the common language and similarities in the legal context and business environment.⁶ Issues related to passporting and equivalence will have implications for reallocation and expansion of financial services.⁷

10. The authorities have regularly updated contingency plans. A key element of these plans is prudent fiscal policies to reinforce buffers against negative outcomes. The plans also include measures to reinforce the competitiveness of the domestic economy, including through investment in infrastructure, direct working capital and bridge financing support tax measures for businesses affected by Brexit, and measures to reinforce ALMPs and broader training. In a recent [speech](#), the Taoiseach indicated Ireland could also seek support from European institutions for these efforts. The Central Bank of Ireland monitors the exposure of Irish banks to the UK (including specific stress tests). The central bank has [stressed](#) the importance of an efficient, open and rigorous process and the common European framework for regulation and supervision, and has been closely involved in the work of the SSM and European supervisory authorities in developing a common approach to emerging issues in authorization discussions such as substantive presence, back-to-back booking, intra group exposures, or outsourcing.

⁵ CBI ([2015](#), [2016](#)), IMF (2016 [a](#), [b](#)). While fully hedged, UK consumer loans of some Irish banks decreased in 2016 due to FX movements. In a few cases, new retail and corporate lending to the UK has flattened.

⁶ UK-based companies announcing relocation to Ireland have been limited to date. The magnitude of the net gains will depend on the impact of the reallocated firms on Irish value-added. For instance, [Barrett and others \(2015\)](#) find the impact of additional FDI inflows will be marginal.

⁷ Authorization-related queries have continued to increase. See [Lane \(2017\)](#)

Annex VI. Progress Against IMF Recommendations

Several policy recommendations in the [2016 Article IV consultation](#) have been taken on board.

Key recommendations

Continued public debt reduction to rebuild room for countercyclical fiscal policies, improve spending efficiency, widening the tax base, and rebalance the tax mix away from direct taxes.

Further reduce nonperforming loans.

Maintain macroprudential measures on mortgage lending, periodically assess the effectiveness of these measures, and alleviate housing supply shortages.

Broadening financing options for SMEs, enhance labor activation policies and technical and vocational programs to reduce skills mismatches, and strengthen female labor force participation.

Implemented policies

Public debt further declined in 2016, and the [2017 budget](#) aims for further consolidation. The government is undertaking comprehensive expenditure review to improve spending efficiency in key areas (to be completed ahead of the 2018 Budget preparations). The 2017 budget includes tax expenditure measures which, together with the planned phasing out of the Universal Social Charge (USC), are likely to reduce the tax base.

Nonperforming loans continued to moderate supported by intensified supervisory efforts and measures to enhance borrower-creditor engagement. Repossessions remain low and the legal proceedings are lengthy.

The first comprehensive [review](#) of the macroprudential measures was completed in November 2016. The government introduced the [Action Plan for Housing and Homelessness](#), which includes measures to relieve critical impediments for construction, and accelerate social housing.

The Strategic Banking Corporation of Ireland (SBCI), which provides cheap financing for SMEs via commercial banks and nonbank finance providers and lenders, further expanded its balance sheet. Labor activation programs have been rolled out, and measures to increase female labor participation, including by making childcare more affordable, have been introduced.

Annex VII. Public Debt Sustainability Analysis (DSA)

A. Summary

1. Ireland’s public debt sustainability has continued to improve from crisis-driven highs, but vulnerabilities remain. Traditional headline debt metrics are distorted by the impact on nominal GDP of certain MNE-operations that are disconnected from underlying economic activity (Box 2). When assessed based on alternative yardsticks, such as general government revenue, public debt and interest payments have declined but they remain elevated compared to EU peers.

- Numerous factors bode well for debt sustainability. Gross financing needs are projected to be limited, reflecting the government’s prudent fiscal stance and the relatively long maturity of public debt. Bond and CDS spreads are low, owing to the ECB’s policy of quantitative easing. Contingent risks associated with the banking sector are receding, as the domestic banks’ financial soundness has strengthened and the National Asset Management Agency has redeemed over 98 percent of the senior debt originally issued, while asset sales still present an upside risk.
- Against this background, debt dynamics are vulnerable to macro-fiscal and contingent liability shocks, although debt metrics remain within the tolerance limits. The impact of an interest rate shock is limited, as most public debt is at fixed rates and with medium-term tenure. Although the relatively high share of debt held by non-residents poses potential vulnerabilities, a sudden-stop scenario represents a tail risk since non-resident holders are mainly real-money investors with long-term investment plans.

B. Baseline Scenario

2. Ireland’s public debt burden is projected to decline steadily over the medium term. Sound fiscal performance, as incorporated in staff’s forecast¹ and the positive real growth-interest rate differential would bring the gross public debt close to 60 percent of GDP (56 percent of GDP in net terms) by 2022 from about 76 percent (70 percent in net terms) in 2016 and 120 (105 percent in net terms) in 2012. However, the well-known problems with Ireland’s headline GDP figures mean that the conventional debt metrics provide a distorted picture of the debt improvement.²

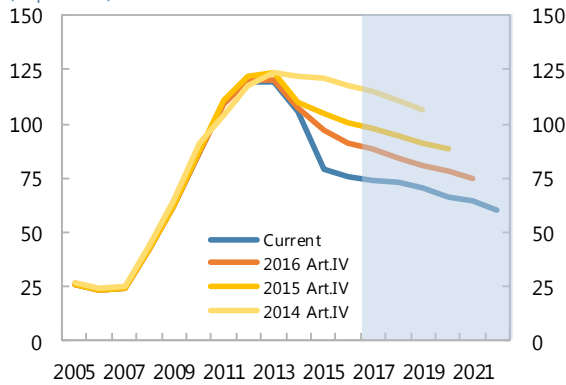
3. Expressed in terms of general government revenue, the improvement path would be smoother. Over the medium term, the debt burden is projected to remain on a downward path, broadly in line with most recent staff forecasts, but it would continue to compare unfavorably with EU peers. However, privatization proceeds and any potential funds related to a settlement of the EC ruling on Apple Inc., which have not been incorporated into current projections, may provide additional resources for debt reduction.

¹ Over 2007–15, there is no evidence of a systematic bias in the staff projections of the main macroeconomic and fiscal variables except during the crisis period and at the time of the large revision of national accounts.

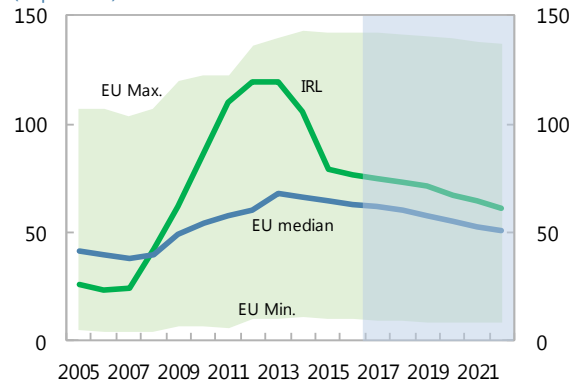
² Because of the one-time shift in nominal GDP in 2015, the results of the current DSA cannot be properly compared with those of previous analyses.

Ireland: Public Debt and Interest Payments

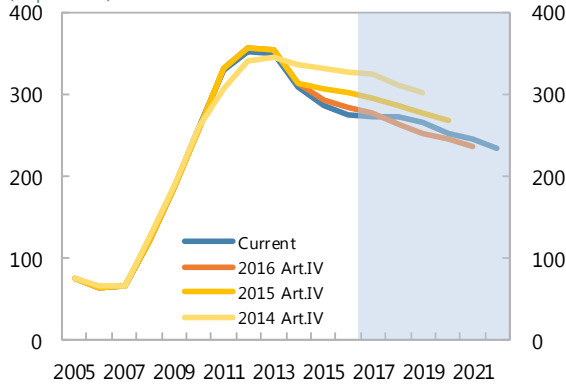
Debt to GDP
(in percent)



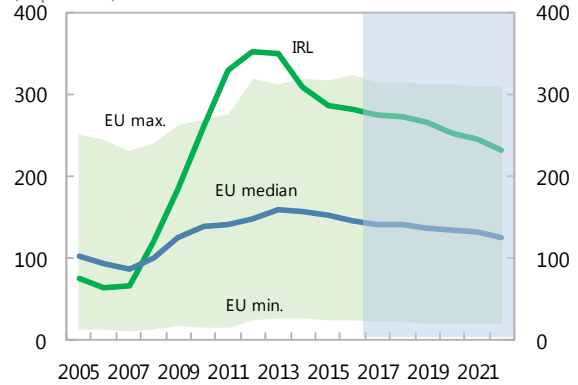
Debt to GDP^{1/}
(in percent)



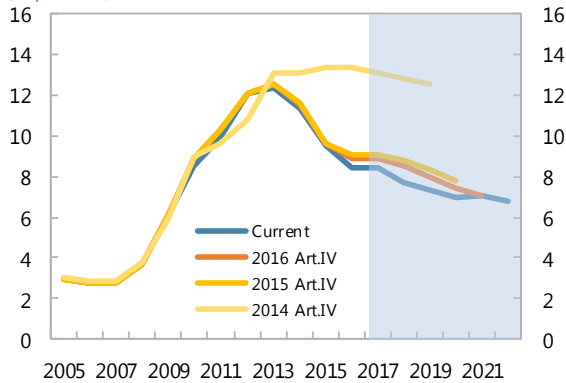
Debt to Total Revenue
(in percent)



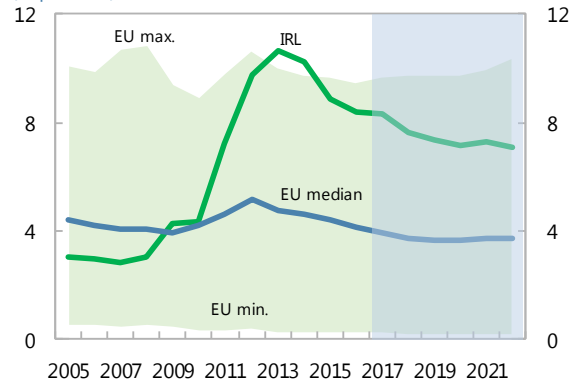
Debt to Total Revenue^{1/}
(in percent)



Interest Payments to Total Revenue
(in percent)



Interest Payments to Total Expenditure
(in percent)



Sources: Central Statistics Office; Eurostat; Haver Analytics; WEO; and IMF staff.
1/ EU indicators were calculated excluding Greece and Ireland.

4. Gross financing needs (GFNs) are estimated to remain modest. As result of the government's prudent fiscal stance and the relatively long maturity of the public debt,³ Ireland's GFNs are estimated to average about 5½ percent of GDP over the period considered, with a peak at just below 9 percent of GDP in 2020. However, about one-fourth of the estimated GFNs (equivalent to 1½ percent of GDP) is represented by stable liabilities (see Box), which have historically been fully renewed, thus reducing the government's needs to tap financial markets.

Annex Box. Main Assumptions

In carrying out the public DSA, the following working assumptions have been made:

1. Since the share of debt denominated in foreign currency (mainly, the remaining part of IMF and the UK bilateral loan granted during the crisis) is small (less than 5 percent of the outstanding stock) and fully hedged, it has been treated as if it were denominated in euros.
2. About 10 percent of Ireland's public debt is represented by the State Savings Scheme, including Post Office Savings bank deposits, that, although redeemable on demand, have been a stable source of medium-term funding, even during the crisis period. For the calculation of the GFNs, it is assumed that 20 percent of the stock of these liabilities falls due each year of the projection period and is fully rolled-over with a medium-term maturity beyond the projection period. Similar assumptions were made for another small portion of Ireland's public debt (2 percent of the total), which is due to local authorities and other central government entities. As a result, both these components of the public debt are kept constant over the projection period at their (estimated) 2016 level.
3. With the phasing out of the ECB's QE policy, the 10-year bond spread between Ireland and Germany is projected to gradually widen over the medium-term to 150 basis points from the current 40–50 basis points. As a result, the real interest rate on new issuances is closer to real output growth.

5. However, the situation continues to be vulnerable. The Irish economy is highly integrated into the world economy and concentrated in a small number of sectors. This leaves the Irish economy, and hence the public finances, vulnerable to a broad range of common and idiosyncratic shocks. In addition, the proceeds of the corporate income tax (CIT), which account for about 10 percent of total revenue, are highly concentrated, with ten MNEs accounting for about 40 percent of the tax intake.

C. Risk Assessment

6. In the stress scenarios, shocks were calibrated to take into account Ireland-specific features. In particular:

- *The growth shock* is normally assumed to be one standard deviation of the historical growth rate calculated over a 10-year period (2007–16). However, the 2015 revision of national accounts had a substantial effect on both 2014 and 2015 growth rates. If applied, the standard approach would result in a recession (growth would contract by almost 6 percent in 2018–19) more severe than that experienced during the crisis (–4½ percent). Therefore, the standard deviation for

³ The National Treasury Management Agency estimates that the weighted average maturity on outstanding Irish Government bonds and program funding was 11.7 years at end-2016.

growth was calculated over the 2004–13 period. The shock remains substantial with growth contracting by around 1 percent in 2018–19; this could represent the outcome of a very disruptive Brexit scenario.

- *The primary balance shock* is usually modeled as half of the historical standard deviation of the primary balance in percent of GDP. However, the DSA template uses as an input variable the general government total non-interest expenditure, which, in the case of Ireland, include also the financial support granted to the banking sector during the crisis. The standard deviation was therefore recalculated excluding those expenditures to provide a more accurate picture of underlying developments. This, nonetheless, implies a significant worsening of the primary balance, which shifts from a surplus of almost 2 percent of GDP to a deficit of around 0.3 percent in 2018–19.
- *The interest rate shock* is by default equal to the difference between the average effective (real) interest rate on government debt in the projection period (2017–22) and the maximum value of that variable in the previous 10 years. Given the high interest rates on government debt during the financial crisis, this standard methodology would result in an interest rate shock of over 800 basis points (bp); more than ten times the current spread for Irish government bonds. The shock was therefore scaled down to 200bp, which would imply issuing government bonds at an interest rate almost three times the current one.
- *A combined macro-fiscal shock* estimates the impact of the above-described shocks together.
- *A contingent financial liability shock (CFL)*, combines a growth shock like the one described above with a one-time increase in public expenditure equal to 10 percent of banks' assets.
- *A customized shock* assumed a permanent decline in CIT revenue by 20 percent, reflecting the volatility of MNEs' operations. This is equivalent to about two-thirds of the difference between actual and expected CIT revenue in 2015 and about half of the CIT proceeds from the ten largest companies. In the scenario, lower MNE profits is accompanied by a severe one-time drop in headline GDP, calculated to be about 12 percent based on the relationship between GDP, profits, wages, and taxes.⁴ Assuming the consequences for the underlying domestic economy are limited, non-CIT revenues are kept unchanged in nominal terms compared to the baseline. Similar assumption is made regarding public expenditure.

7. Although vulnerable to macro-fiscal shocks, debt dynamics appears to be resilient to shocks. As shown in the heat map, all the debt metrics expressed in terms of GDP would remain within the risk assessment benchmarks, with the exception of the customized shock and financial contingent liability shocks.

⁴ It was assumed that $NGDP_t^{post-shock} = Profit_t^{post-shock} + Wage\ Bill_t^{post-shock} = (CIT_t^{post-shock} / \pi_t^{pre-shock}) + Wage\ Bill_t^{baseline}$; where $\pi_t^{pre-shock} = \frac{CIT_t^{pre-shock}}{Profit_t^{pre-shock}}$. Assuming the GDP deflator remains unaffected, the real GDP and hence growth were derived accordingly.

- In the customized and CFL shock scenarios, the debt-to-GDP ratio would temporarily exceed the 85 percent threshold reaching almost the 90 percent level. While in the customized shock the breach of the debt limit is mainly due to the one-time downward shift in the output level, in the CFL shock the main driver is the deterioration in the primary balance triggered by an increase in expenditure equivalent to 10 percent of bank assets. However, this is likely a tail risk as domestic banks have significantly strengthened their capital buffers.
- In the CFL scenarios, the debt ratio, while returning to a downward path in the aftermath of the shock, would remain close to 80 percent of GDP by 2022; 20 percentage points higher than in the baseline and five percentage points above the starting point. In the customized, growth, and combined macro shocks, the debt burden would return approximately to same level at the beginning of the scenario analysis; but still about 15 percentage point above the baseline. In these circumstances, the government's goal of achieving a debt ratio of 45 percent of GDP within the next decade would require substantial additional fiscal measures.
- In proportion to government revenue, the debt paths would be broadly similar except in the case of the customized shock scenario. In fact, despite the large one-time drop in output, non-CIT revenues are assumed to remain unchanged in nominal terms (see above).
- The interest rate and primary balance shocks would have a modest impact on debt dynamics. In the former case, this is due to the relatively long maturity of Ireland's public debt and limited GFNs. In the latter case, the impact would be even smaller if the increase in spending, which drives the primary balance shock, were to translate into higher growth.^{5 6}
- In all scenarios, GFNs in percent of GDP remain well below the 20 percent ceiling. Only in the CFL shock would GFN record a spike to almost 16 percent of GDP in the year the shock materializes.

8. However, these results reflect the relatively high debt threshold considered in the DSA.

If the thresholds were scaled down to take into the upward revision to 2015 nominal GDP data (by roughly 20 percent), say to 60 percent of GDP, the results would be broadly in line with those reported in last year's Article IV; specifically, the heat map would red-flag the vulnerability of Ireland's debt level, while the risks associated with the GFNs would continue to be assessed as low.

9. A few considerations mitigate the assessment of the risks associated with the large share of public debt held by non-residents and the substantial external financing requirements. Since non-resident holders are mainly real-money investors with long-term

⁵ A separate scenario was run allowing the expansionary expenditure shock to translate into higher growth under the assumption of a 0.5 fiscal multiplier.

⁶ The impact of an interest rate shock on Ireland's real output is [reported](#) to be rather small. In a separate scenario, the permanent increase of 200 bp in interest rate is assumed to translate into a slower growth of 0.4 percent in the first year. The deviation of growth from the baseline was assumed to taper off over the scenario period. The results do not differ significantly from what reported in the text.

investment plans, the likelihood of a sudden stop likely represents a tail risk. Exchequer's cash balances also provide a buffer to cover 6–10 months of GFNs.⁷ The substantial external financing requirements mostly reflect intra-company and intra-group operations of large MNEs, which also hold large financial assets.

Authorities' views

10. The authorities were in broad agreement with the staff's analysis. They agreed that headline GDP overstates underlying activity and, consequently, saw benefit in considering metrics beyond the traditional debt-to-GDP ratio for Ireland. They highlighted the importance of considering net debt, given their well-established policy of pre-funding. They noted that, although public debt is still high, several factors mitigate risks: debt maturity has been extended to more than 11 years (one of the longest among EU countries); most of the debt is at fixed rates and consequently the benefits of ECB QE have been locked in; the investor base is wide and varied; the liquidity position is strong; and contingent liabilities have been reduced substantially as the financial soundness of the banking sector has improved and the National Asset Management Agency has redeemed over 98 percent of the senior bonds originally issued.

⁷ As of end-January, total Exchequer cash and other liquid short-term assets amounted to almost €16 billion, equivalent to about 10 months of the average GFN in 2017–18.

Annex VII. Figure 1. Ireland: Public Sustainability Analysis (DSA) – Baseline Scenario

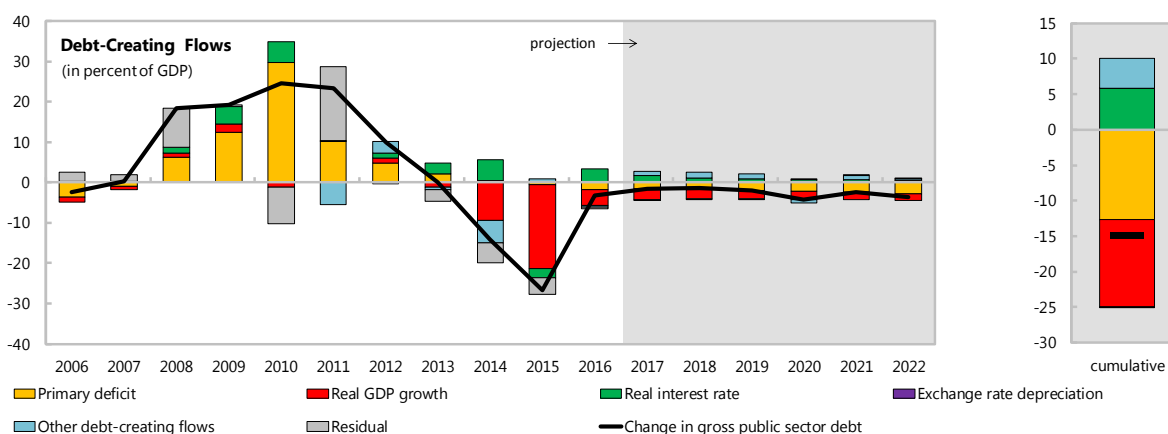
(Percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of May 12, 2017		
	2006-2014 ^{2/}	2015	2016	2017	2018	2019	2020	2021	2022	Sovereign Spreads		
Nominal gross public debt	76.9	78.7	75.6	73.7	72.3	70.8	66.7	64.4	60.9	EMBIG (bp) ^{3/}		
Public gross financing needs	12.7	9.0	6.8	5.5	5.7	7.6	8.8	2.5	3.3	5Y CDS (bp)		
Real GDP growth (in percent)	1.2	26.3	5.2	3.9	3.3	3.0	2.9	2.8	2.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	0.3	4.9	-1.3	0.8	1.4	1.5	1.6	1.7	1.7	Moody's	A3	A3
Nominal GDP growth (in percent)	1.6	32.5	3.9	4.7	4.7	4.6	4.6	4.6	4.6	S&Ps	A+	A+
Effective interest rate (in percent) ^{4/}	4.2	3.4	3.1	3.3	3.0	2.9	2.8	2.7	2.7	Fitch	A	A

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022		
Change in gross public sector debt	8.8	-26.6	-3.2	-1.9	-1.4	-1.5	-4.1	-2.2	-3.5	-14.6	
Identified debt-creating flows	7.2	-22.7	-3.8	-1.8	-1.4	-1.5	-4.1	-2.2	-3.6	-14.5	
Primary deficit	6.8	-0.4	-1.7	-1.6	-1.8	-1.8	-2.0	-2.4	-2.7	-12.4	-0.9
Primary (noninterest) revenue and grants	33.8	27.3	27.4	26.9	26.7	26.4	26.2	26.1	26.0	158.3	
Primary (noninterest) expenditure	40.6	26.9	25.8	25.3	24.9	24.5	24.1	23.7	23.4	145.9	
Automatic debt dynamics ^{5/}	1.3	-23.2	-0.6	-1.0	-1.2	-1.1	-1.2	-1.2	-1.2	-6.9	
Interest rate/growth differential ^{6/}	1.3	-23.2	-0.6	-1.0	-1.2	-1.1	-1.2	-1.2	-1.2	-6.9	
Of which: real interest rate	2.3	-2.3	3.4	1.7	1.1	1.0	0.8	0.6	0.6	5.9	
Of which: real GDP growth	-1.1	-20.9	-4.0	-2.8	-2.3	-2.1	-2.0	-1.8	-1.8	-12.7	
Exchange rate depreciation ^{7/}	0.0	0.0	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows	-0.9	0.9	-1.6	0.9	1.6	1.5	-0.9	1.3	0.3	4.7	
Privatization/Drawdown of Deposits (+ reduces financing need)	-0.9	0.9	-1.6	-0.1	0.7	0.5	-2.1	0.1	0.3	-0.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Stock/flow adjustment	0.0	0.0	0.0	1.0	0.9	1.0	1.2	1.2	0.0	5.3	
Residual, including asset changes ^{8/}	1.6	-3.9	0.6	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;

a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

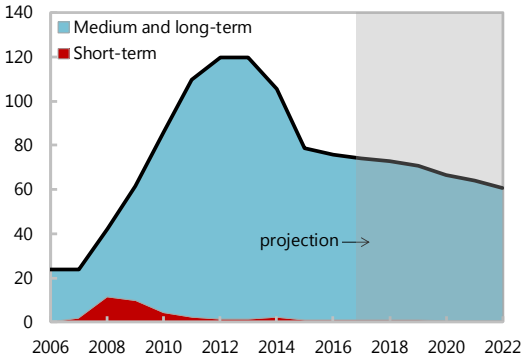
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex VII. Figure 2. Ireland: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

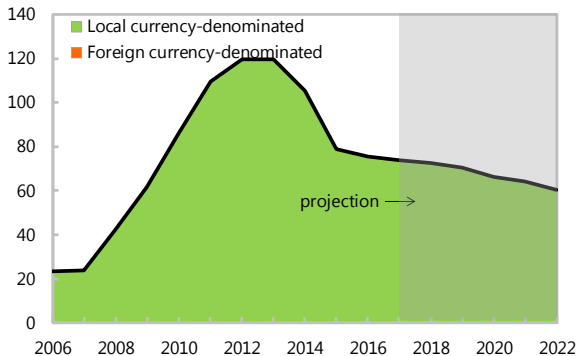
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

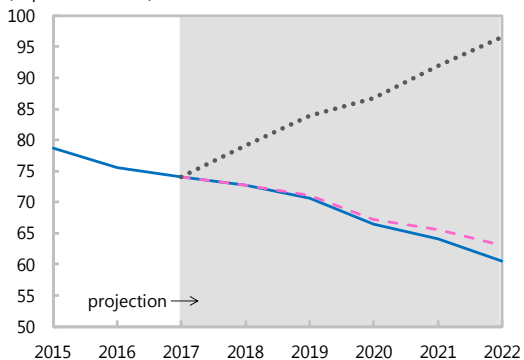
— Baseline

..... Historical

- - - Constant Primary Balance

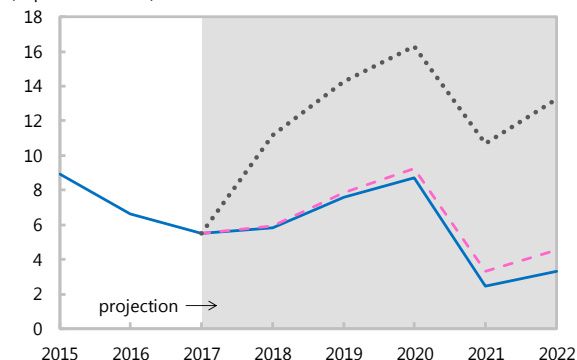
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

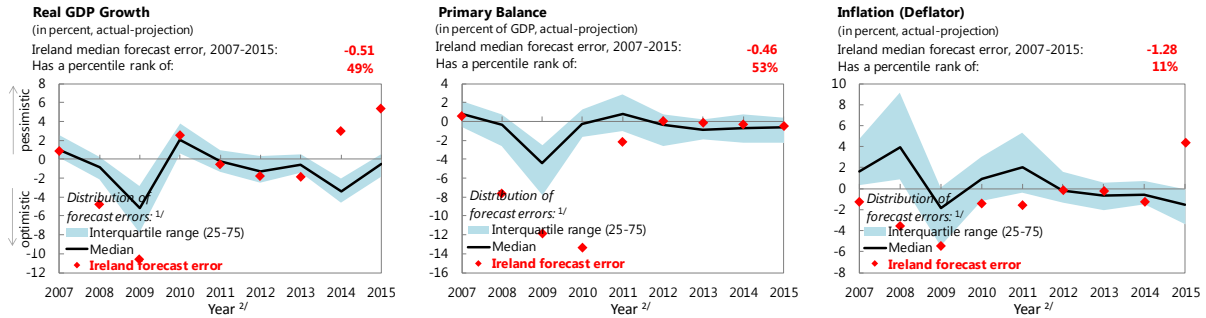
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.9	3.3	3.0	2.9	2.8	2.8
Inflation	0.8	1.4	1.5	1.6	1.7	1.7
Primary Balance	1.6	1.8	1.8	2.0	2.4	2.7
Effective interest rate	3.3	3.0	2.9	2.8	2.8	2.7
Constant Primary Balance Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.9	3.3	3.0	2.9	2.8	2.8
Inflation	0.8	1.4	1.5	1.6	1.7	1.7
Primary Balance	1.6	1.6	1.6	1.6	1.6	1.6
Effective interest rate	3.3	3.0	2.9	2.8	2.8	2.8

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	3.9	1.5	1.5	1.5	1.5	1.5
Inflation	0.8	1.4	1.5	1.6	1.7	1.7
Primary Balance	1.6	-3.5	-3.5	-3.5	-3.5	-3.5
Effective interest rate	3.3	3.0	3.2	3.5	3.8	4.1

Source: IMF staff.

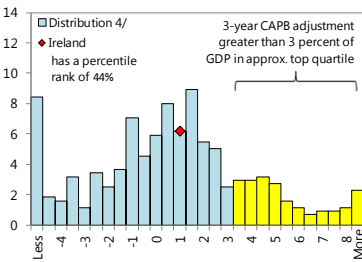
Annex VII. Figure 3. Ireland: Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries

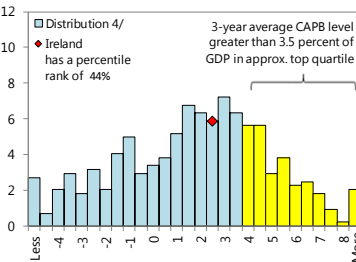


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB) (Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB) (Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth (in percent)



Source: IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

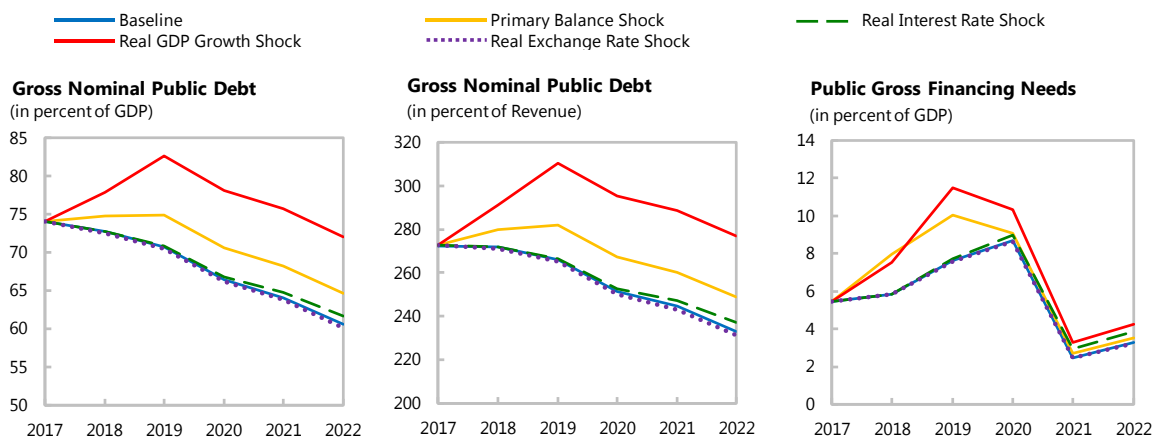
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Ireland, as it meets neither the positive output gap criterion nor the private credit growth criterion.

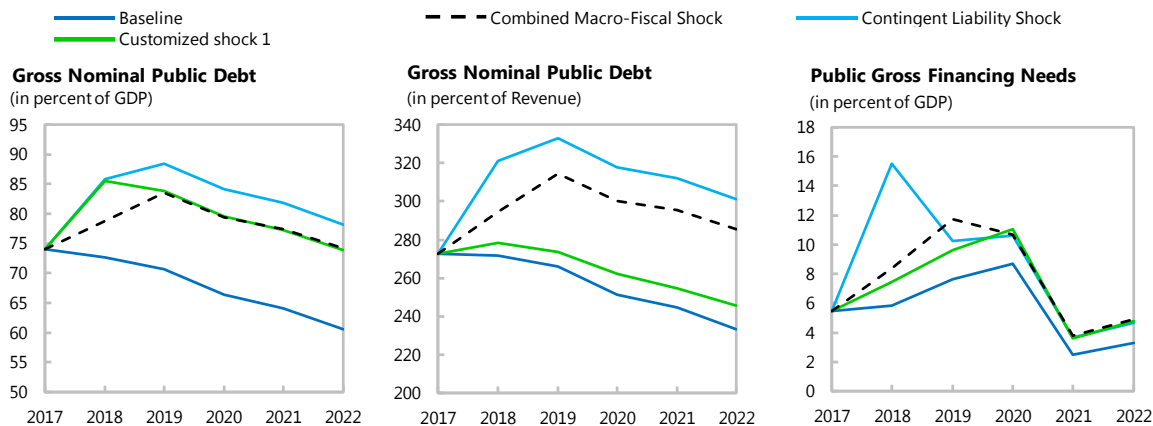
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex VII. Figure 4. Ireland: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions (in percent)

	2017	2018	2019	2020	2021	2022		2017	2018	2019	2020	2021	2022
Primary Balance Shock							Real GDP Growth Shock						
Real GDP growth	3.9	3.3	3.0	2.9	2.8	2.8	Real GDP growth	3.9	-0.8	-1.1	2.9	2.8	2.8
Inflation	0.8	1.4	1.5	1.6	1.7	1.7	Inflation	0.8	0.3	0.5	1.6	1.7	1.7
Primary balance	1.6	-0.3	-0.3	2.0	2.4	2.7	Primary balance	1.6	0.5	-0.8	2.0	2.4	2.7
Effective interest rate	3.3	3.0	3.0	2.9	2.9	2.9	Effective interest rate	3.3	3.0	2.9	2.9	2.9	2.9
Real Interest Rate Shock							Real Exchange Rate Shock						
Real GDP growth	3.9	3.3	3.0	2.9	2.8	2.8	Real GDP growth	3.9	3.3	3.0	2.9	2.8	2.8
Inflation	0.8	1.4	1.5	1.6	1.7	1.7	Inflation	0.8	1.7	1.5	1.6	1.7	1.7
Primary balance	1.6	1.8	1.8	2.0	2.4	2.7	Primary balance	1.6	1.8	1.8	2.0	2.4	2.7
Effective interest rate	3.3	3.0	3.1	3.2	3.4	3.5	Effective interest rate	3.3	3.0	2.9	2.8	2.7	2.7
Combined Shock							Contingent Liability Shock						
Real GDP growth	3.9	-0.8	-1.1	2.9	2.8	2.8	Real GDP growth	3.9	-0.8	-1.1	2.9	2.8	2.8
Inflation	0.8	0.3	0.5	1.6	1.7	1.7	Inflation	0.8	0.3	0.5	1.6	1.7	1.7
Primary balance	1.6	-0.3	-0.8	2.0	2.4	2.7	Primary balance	1.6	-7.3	1.8	2.0	2.4	2.7
Effective interest rate	3.3	3.0	3.1	3.3	3.5	3.6	Effective interest rate	3.3	3.2	3.3	3.2	3.1	3.1
Customized shock 1													
Real GDP growth	3.9	-11.7	3.0	2.9	2.8	2.8							
Inflation	0.8	1.4	1.5	1.6	1.7	1.7							
Primary balance	1.6	1.4	1.6	1.8	2.3	2.5							
Effective interest rate	3.3	3.0	2.9	2.9	2.8	2.9							

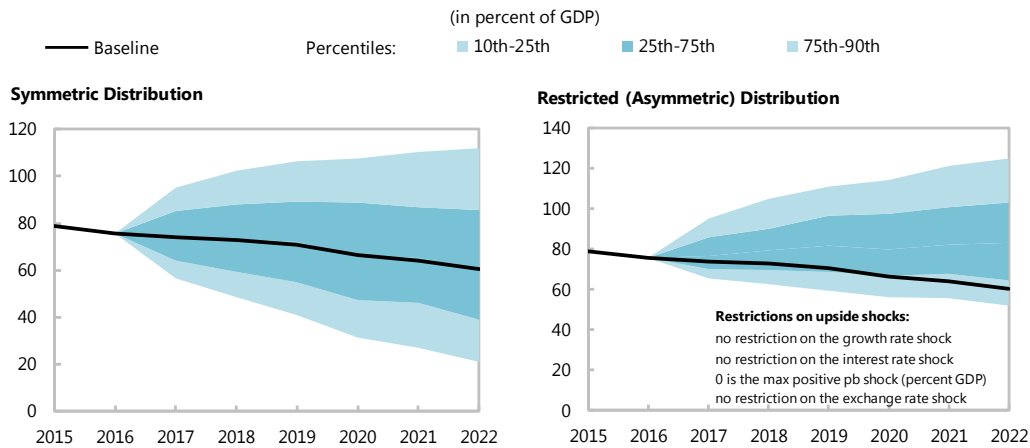
Source: IMF staff.

Annex VII. Figure 5. Ireland: Public DSA – Risk Assessment

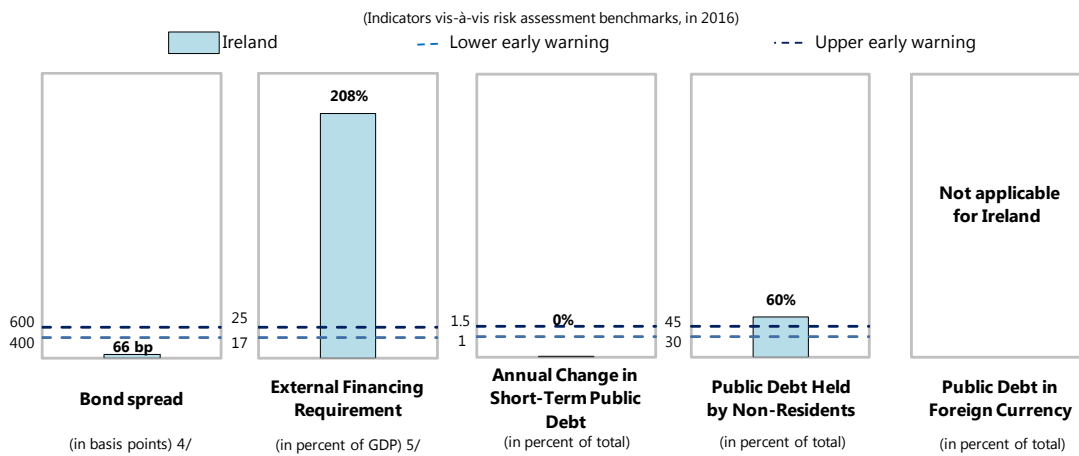
Heat Map

Debt level ^{1/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Gross financing needs ^{2/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile ^{3/}	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt



Debt Profile Vulnerabilities



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 17-Jan-17 through 17-Apr-17.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex VIII: Status of FSAP Recommendations

Recommendations	Time ¹	Status
Cross-cutting		
Support independence of the central bank by continuing to demonstrate accountability to the Oireachtas (Parliament) and enhancing public transparency	On-going	Ongoing. "Communications and Accountability" was identified as a strategic enabler in the Central Bank of Ireland's 2016-18 Strategic Plan, and actions to increase transparency have been taken, including the publication of the discussions and decisions of the Central Bank Commission and the Macprudential Measures Committee on the central bank website; committee appearances at the Oireachtas; and publication of the Annual Performance Statement, which provides granular detail on the performance of the statutory regulatory functions.
Revise personnel policies to attract and retain experienced staff	NT	Ongoing. The organization review has concluded with actions taken to restructure divisions, size, roles, etc. Several actions have either concluded or are underway to enhance the central bank as a place to work.
Stability Analysis		
Further develop bank stress testing, including risks in UK operations	NT	Ongoing. Loan-loss forecasting models are being recalibrated and top-down stress test models will be operationalized. Supervisory Stress Testing at the end of 2016 and 2017 have focused on the UK.
Close data gaps on cross-border exposures, the nonbank financial sector, the commercial real estate market, and the non-financial corporate sector	NT	Ongoing. Data quality issues are being addressed, with substantial progress made. Balance sheet data and P&L information for Irish non-financial corporate sector was obtained. Agreement between the central bank, NAMA, and the CSO on establishment of commercial property statistical system will support the analysis of the potential vulnerabilities in this area.
Build internal capacity that allows for regular stress testing of MMFs	NT	Ongoing. High quality third party data for debt securities was procured, and survey of the investment funds activity has been received and being processed in the coming months. Risk model and stress testing framework for investment and money market funds are being developed.
Improve data coverage and monitoring of all special purpose vehicles	NT	Done. Non-securitization data was improved and significant reclassifications undertaken within securitization data on foot of data quality checks carried out with reference to company accounts.
Develop better understanding of the use of investment fund portfolio leverage	NT	Ongoing. Next Macro Financial Review to include an analysis of financial leverage of investment funds, MMFs, FVCs and SPVs. Off-balance sheet leverage measures to be developed following improvements in EMIR data base.

Recommendations	Time ¹	Status
Macprudential Policy		
Maintain, and in due course review, LTV and LTI limits	NT	Done. The results of the first annual review of the mortgage measures was announced in November, 2016. The commitment for an annual review was reiterated at the announcement of the results of the review.
Operationalize the Central Credit Register as soon as possible, and, once operational, transform the LTI limit into a more comprehensive DTI limit	MT	Ongoing. The CCR is scheduled to commence the collection of loan data in relation to consumer lending from 30 June 2017. Lenders have a six-month window from that date in which initial submissions should be made. The CCR is expected to commence collection of non-consumer lending in the course of 2018.
Financial Sector Oversight		
Continue to streamline options under national discretion and regulations in bank supervision	MT	Ongoing. Supervisory discretions for SIs and LSIs are addressed by the ECB to the extent possible. Member States' discretions as well as divergent national transpositions and national powers remain.
Further enhance the effectiveness and enforceability of the supervision of credit risk in banks with respect to loan classification and provisioning	NT	Ongoing. Implementation of the ECB guidance to banks on tackling non-performing loans is ongoing.
Remain vigilant that harmonization of the SSM supervisory processes is balanced by the application of the principle of proportionality	NT	Ongoing.
Enhance assessment of credit risk in insurers' portfolios	NT	Ongoing. A point in time view on credit quality is now available. Work is underway to add a time series dimension to capture the evolution of credit quality.
Enhance analysis of unusual reinsurance transactions to ensure that any capital relief is warranted by true risk transfer	NT	Ongoing. Work is underway to formalize the analysis of unusual reinsurance transactions as part of supervisory review process.
Coordinate among insurance supervisors to ensure due scrutiny of license application and limit improper "jurisdiction shopping"	NT	Done. EIOPA revised the General Protocol now called EIOPA Decision on the collaboration of the insurance supervisory authorities. The new Decision specifically addresses this recommendation and is effective from 1 May 2017.
Require MMFs to report liquid assets and characteristics of the investor base	NT	Ongoing. Survey on the characteristics of the MMF investor base was received and is being processed. Key risk indicators related to funds liquidity are being developed.
Encourage existing MMFs to graduate away from the CNAV convention to one better reflecting the variability in underlying prices, and ensure appropriate risk management safeguards are in place; discourage CNAV valuation in new MMFs	NT	Ongoing. The EU Regulation on Money Market Funds was agreed in November 2016. Existing MMFs must transition to the new European regime for MMFs within 18 months after the date the EU MMF Regulation enters into force.

Recommendations	Time ¹	Status
Financial Safety Net		
Continue to identify and address impediments to resolvability	On-going	Ongoing. Engagement with the banks on the removal of identified impediments to resolvability continues.
Streamline the process for court approval of resolution measures	NT	Not addressed. The authorities argued that imposition of a specific fixed timeframe on the Court to give its decision would risk imposing an unconstitutional fetter on judicial discretion and independence in dealing with an individual case contrary to the Irish constitutional right to fair procedures and judicial independence. The authorities also noted that, based on the experience from the crisis and since, resolution was not delayed by court approval.
Streamline the process of SRM decision making	MT	Recommendations addressed to the EU authorities. The Resolution Division will input into the discussions at the EU level regarding the process as appropriate.
¹ "NT-near-term" denotes up to 2 years; "MT-medium-term" denotes 2–5 years.		



IRELAND

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 7, 2017

Prepared By

European Department

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STATISTICAL ISSUES	4

FUND RELATIONS

(As of May 31, 2017)

Membership Status: Joined August 8, 1957; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	3,449.90	100.00
Fund holdings of currency	6,415.96	185.98
Reserve position in Fund	806.78	23.39

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	775.42	100.00
Holdings	652.17	84.11

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Extended Arrangement	3,772.80	109.36

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	12/16/10	12/18/13	19,465.80	19,465.80

Projected Payments to the Fund (SDR million; based on existing use of resources and present holdings of SDRs, as of May 31, 2017):

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Principal					2,353.09
Charges/Interest	29.75	59.29	59.29	59.32	47.95
Total	29.75	59.29	59.29	56.32	2,401.04

Exchange Rate Arrangement and Exchange Restrictions:

Ireland's currency is the euro, which floats freely and independently against other currencies. Ireland has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions, other than restrictions notified to the Fund under Decision No. 144 (52/51).

Article IV Consultations:

The last Article IV consultation was concluded on July 27, 2016 (IMF Country Report No. 16/256).

Resident Representative:

The resident representative office in Ireland closed in June 2014.

Safeguard Assessment:

The safeguards assessment of the Central Bank of Ireland (CBI) was finalized in March 2011. The assessment found that the CBI has a relatively strong safeguards framework in place. Its financial statements are audited in accordance with international standards and timely published. Governance and control systems adhere to good practices. Recommendations were made to strengthen the de-jure autonomy of the central bank.

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance.

National accounts and real sector data. Quarterly national accounts are currently published within three months of its reference period. Other real sector data are relatively timely, with industrial production and retail sales data published within six weeks and employment data within 3 months of the reference period, but some non-SDDS series are published one and a half years later (e.g., household disposable income). Employment and unit labor costs, and national income and expenditure data are usually available with a three-month lag.

Wages and earnings statistics. The quarterly Earnings, Hours and Employment Costs Survey has replaced the four-yearly Labor Cost Survey, and also replaces all other existing short-term earnings surveys. The results are comparable across sectors and include more detail on components of earnings and labor costs than was available before. However, data are only available with more than a six-month lag.

Government finance statistics. The authorities publish Exchequer returns and indicative estimates of the general government balance on a monthly basis. The definitive general government balance is reported quarterly and annually. Ireland reports these data to STA through a conversion of the datasets reported to Eurostat under the "ESA Transmission Programme".

Monetary and financial statistics: The ECB reporting framework is used for monetary statistics and data are reported to the IMF through a "gateway" arrangement with the ECB. The arrangement provides an efficient transmission of monetary statistics to the IMF and for publication in the IMF's *International Financial Statistics (IFS)*.

Financial sector surveillance: Ireland reports FSIs for deposit takers, other financial corporations, and real estate markets on a regular basis for posting on the IMF's FSI website.

External sector statistics. Quarterly balance of payments (BOP) and international investment position (IIP) data are compiled by the Central Statistics Office. The authorities implemented the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The most recent BOP and IIP data reported to STA and disseminated in the *IFS* are for Q4/2015. Ireland reports data for the Coordinated Portfolio Investment Survey (CPIS), the Coordinated Direct Investment Survey (CDIS), and the Data Template on International Reserves and Foreign Currency Liquidity.

B. Data Standards and Quality

Ireland is subject to the statistical requirements and timeliness and reporting standards of Eurostat and the European Central Bank (ECB). Ireland subscribes to the Fund's Special Data Dissemination Standard and uses SDDS flexibility options on the timeliness of wages and earnings, and central government debt data.

No data ROSC is available.

Ireland: Table of Common Indicators Required for Surveillance

(as of May 17, 2016)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	May 17, 2017	5/17/2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	April 2017	5/16/2017	M	M	M
Reserve/Base Money	May 2017	4/30/2017	M	M	M
Broad Money	May 2017	4/30/2017	M	M	M
Central Bank Balance Sheet	March 2017	5/3/2017	M	M	M
Consolidated Balance Sheet of the Banking System	March 2017	4/28/2017	M	M	M
Interest Rates ²	March 2017	5/8/2017	M	M	M
Consumer Price Index	April 2017	5/11/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2016:Q4	4/11/2017	Q	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	April 2017	5/3/2017	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2016:Q4	4/11/2017	Q	Q	Q
External Current Account Balance	2016:Q4	3/9/2017	Q	Q	Q
Exports and Imports of Goods and Services	2016:Q4	3/9/2017	Q	Q	Q
GDP/GNP	2016:Q4	3/9/2017	Q	Q	Q
Gross External Debt	2016:Q4	3/16/2017	Q	Q	Q
International Investment Position ⁶	2016:Q4	3/16/2017	Q	Q	Q

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Not Available (NA).