INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/34

IRELAND

2016 SIXTH POST-PROGRAM MONITORING DISCUSSIONS—PRESS RELEASE; AND STAFF REPORT FOR IRELAND

February 2017

In the context of the 2016 Sixth Post-Program Monitoring Discussions, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on December 2, 2016, 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 January 13, 2017.

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February 3, 2017

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Washington, D. C. 20431 USA

IMF Executive Board Concludes Sixth Post-Program Monitoring Discussion with Ireland

On February 2, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Post-Program Monitoring Discussion[1] with Ireland and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Despite risks to the outlook, Ireland's capacity to repay the Fund is strong, given robust economic and fiscal performance, large cash buffers, manageable financing needs, and favorable market financing conditions.

Ireland continued to grow at a healthy pace in 2016, mainly driven by domestic demand. In the first three quarters of 2016, output expanded by 4.8 percent y/y with private consumption and investment, excluding the most volatile components, providing the largest contribution to growth. Broad-based employment gains brought the unemployment rate down to 7.2 percent in December. Despite strong domestic demand, headline inflation hovered in negative territory during most of the year, reflecting declining energy prices. The current account surplus widened somewhat in the first three quarters of 2016. Exchequer data for December confirmed the positive trend in public finances. The headline general government deficit is expected to end the year on target at 0.9 percent of GDP, while the debt burden is on a steady downward path. Credit to the private sector has continued to fall but at a declining rate. Balance sheet repair of domestic banks has continued but profitability remains weak. Property market conditions have tightened further, mainly due to a limited supply response.

Executive Board Assessment

The economic outlook remains broadly positive, notwithstanding risks, and the capacity to repay the Fund is strong. Robust domestic demand is projected to drive continued healthy growth, supporting further moderation in unemployment. Inflation, which turned slightly negative this year, is expected to edge up gradually. Brexit-related risks, a sustained low growth-low inflation environment in Europe, external political uncertainties and rising anti-globalization sentiment, as

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[1] The central objective of PPM is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PPM, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

well as ongoing developments in corporate tax treatment at the international level add to uncertainty. The political context for the new minority government is challenging, but agreement on the 2017 budget represents an important milestone. Despite these risks, Ireland's capacity to repay the Fund is strong, given robust economic and fiscal performance, manageable financing needs, and favorable market financing conditions.

The impact of operations by multinationals on headline GDP complicates the assessment of domestic activity essential to economic decision making. Staff welcomes the work underway, with support from the IMF and other outside experts, on alternative measures for domestic activity.

The government's fiscal targets are broadly appropriate. Given Ireland's strong track record of fiscal discipline, the moderate adjustment planned in 2017 strikes a reasonable balance between advancing deficit reduction and addressing public expectations for a growth dividend. Expenditure increases beyond those already programmed would need to be offset by tax increases or cuts in other spending to meet the deficit target, requiring difficult trade-offs. More broadly, still high public debt and risks to the outlook and to the revenue base, including from the concentrated corporate tax base, call for maintaining moderate growth in expenditures, saving any revenue windfalls, and ensuring that potentially temporary revenue gains are not used to fund permanent expenditure increases. In this context, staff welcomes the authorities' commitment to reach their medium-term deficit target of 0.5 percent of GDP by 2018, establish a "rainy-day" fund beginning in 2019, and reduce debt-to-GDP to 45 percent within a decade.

Within a tight envelope, fiscal policy could be more supportive of growth. With capital expenditure already well below peers, well-targeted increases are needed to buttress Ireland's competitiveness and support the population's welfare, including through investments in economic and social infrastructure. The Housing Action Plan and related efforts to address the acute problem of housing shortages, high rents, and homelessness are welcome, but fiscal incentives related to housing should be limited and closely monitored to ensure they are well-targeted to assist those most in need and to reduce risks of fueling demand and price pressures. Plans for a phased elimination of the Universal Social Charge should not come at the expense of the breadth and stability of the tax base.

Irish banks continue to operate in a challenging environment. The capital and liquidity positions of domestic banks have improved, but, with low underlying profitability, they remain vulnerable to shocks. The UK's decision to leave the EU could put further pressure domestic banks' profitability. In the context of pending legislation on variable rate mortgages, loan pricing should adequately reflect market conditions to allow banks to build up capital and return to normal business profitability. The disposal of the government's stakes in Irish banks, which would support public debt reduction, should continue once market conditions are supportive.

Nonperforming loans are declining overall, but resolution of deep mortgage arrears should be accelerated. Intensified supervisory oversight of banks' internal management of NPL resolution should continue to ensure that prolonged mortgage arrears are tackled through loan restructuring where feasible. The "advice and arrears" scheme recently introduced by the government shows

promise in improving borrower-creditor engagement, but further steps to make the legal proceedings more efficient are also critical to accelerate the resolution process.

Continued vigilance is needed to safeguard macro-financial stability, especially relating to the property market. The macroprudential measures introduced in 2015 serve an important role in strengthening the resilience of banks and household to adverse shocks. The recalibration of the macroprudential framework is reasonable given early experience with the framework and current dynamics in the housing market. Steadfast progress toward full implementation of the CCR and replacing the LTI limit with a DTI limit, which better captures the borrowers' repayment capacity, remain key to ensure prudent lending.

Ireland: Selected Economic Indicators, 2014–18

			Est.	Projections	
	2014	2015	2016	2017	2018
	(Annual percentage change, constant prices, unless noted otherwise)				
Output/Demand					
Real GDP	8.4	26.3	4.6	3.2	3.2
Domestic demand	7.7	9.9	6.8	3.4	3.4
Public consumption	5.4	1.1	5.8	2.5	2.0
Private consumption	1.7	4.5	3.1	3.1	2.9
Gross fixed capital formation	18.1	32.5	11.7	6.2	5.0
Exports of goods and services	14.4	34.5	2.1	4.1	4.5
Imports of goods and services	15.3	21.7	2.9	4.6	5.1
Potential Growth	3.7	24.6	3.5	3.3	3.3
Output Gap	-1.7	-0.4	0.6	0.5	0.4
Prices					
Inflation (HICP)	0.3	0.0	-0.2	0.8	1.4
GDP deflator	-1.2	4.9	-0.9	0.8	1.4
Employment and wages					
Employment (ILO definition)	1.7	2.6	2.9	2.1	1.5
Unemployment rate (percent)	11.3	9.5	7.9	7.1	6.9
Nominal wages	0.1	0.9	0.6	1.5	2.3
		(In percent of GDP)			
Public Finance, General Government					
Revenue	34.1	27.6	27.2	27.4	26.9
Expenditure	37.8	29.5	28.2	27.9	27.2
Overall balance	-3.7	-1.9	-0.9	-0.5	-0.3
Primary balance	0.1	0.7	1.4	1.8	1.7
Structural balance (percent of potential GDP)	-3.2	-1.1	-1.2	-0.7	-0.5
General government gross debt	105.4	78.7	76.4	75.0	73.6
		(In percent)			
Monetary and financial indicators					
Bank credit to private sector (growth rate)	-16.8	-13.2	...	...	...
Deposit rates	1.9	1.3	...	...	...
Government 10-year bond yield	2.3	1.1	...	...	...
		(In percent of GDP)			
Balance of payments					
Trade balance (goods)	21.1	43.2	41.6	42.2	42.0
Current account balance	1.7	10.2	7.8	6.0	5.7
Gross external debt	926.4	870.8	830.5	788.6	744.1

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

INTERNATIONAL MONETARY FUND

IRELAND

January 13, 2017

SIXTH POST-PROGRAM MONITORING DISCUSSIONS

KEY ISSUES

Context

Despite risks to the outlook, Ireland's capacity to repay the Fund is strong, given robust economic and fiscal performance, large cash buffers, manageable financing needs, and favorable market financing conditions.

Ireland has continued to grow at a healthy pace in 2016, mainly driven by domestic demand, with broad-based employment gains and a declining unemployment rate. Fiscal consolidation continues, and the debt burden is on a steady downward path. The baseline outlook remains broadly positive, but risks are tilted to the downside. Brexit-related risks, a sustained low-growth low-inflation environment in Europe, external political uncertainties, rising anti-globalization sentiment, ongoing developments in corporate tax treatment at the international level, and a challenging domestic political context add to uncertainty. The impact of operations by multinationals on headline GDP also complicates the assessment of domestic activity essential to economic decision making.

Challenges

Given the still high level of public debt relative to fiscal revenue and substantial risks to activity, continued progress in both public and private-sector balance sheet repair is necessary to rebuild buffers and increase resilience to shocks. In this context, fiscal prudence remains crucial, including through well-targeted use of available space under the government's budgetary plans, while recognizing the Irish people's expectations of a "recovery dividend." Sustained efforts are also needed to reduce the elevated stock of nonperforming loans and ensure that boom-bust episodes in the real estate market do not re-occur.

Staff views

The government's overall budget stance remains prudent. Nonetheless, fiscal support for job-rich growth could be strengthened by widening the tax base, enhancing spending efficiency, and increasing capital expenditure, especially in infrastructure.

Banks' balance sheet repair needs to be sustained through loan restructuring, where feasible, and measures to ensure more efficient legal proceedings. Macroprudential limits are playing an important role; their effectiveness would be enhanced by the full implementation of the Central Credit Register.

Approved By
Jorg Decressin (EUR) and Alfred Kammer (SPR)

Discussions took place in Dublin, during November 29–December 2, 2016. The staff team comprised Michele Shannon (head), Alessandro Giustiniani, Nir Klein, and Jiri Podpiera (all EUR) and Aleksandra Zdzienicka (SPR). The team was supported from headquarters by Vizhdan Boranova and Nomelie Veluz (both EUR).

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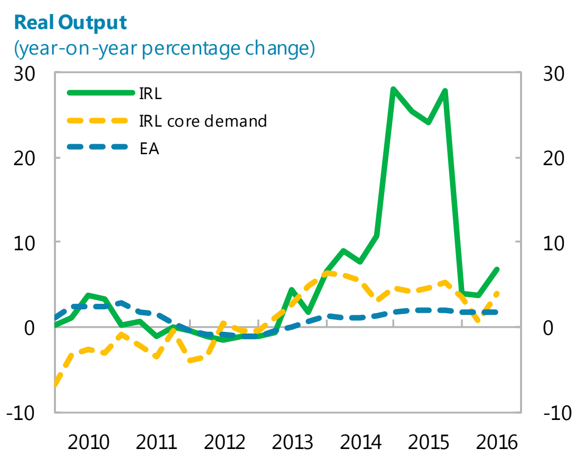
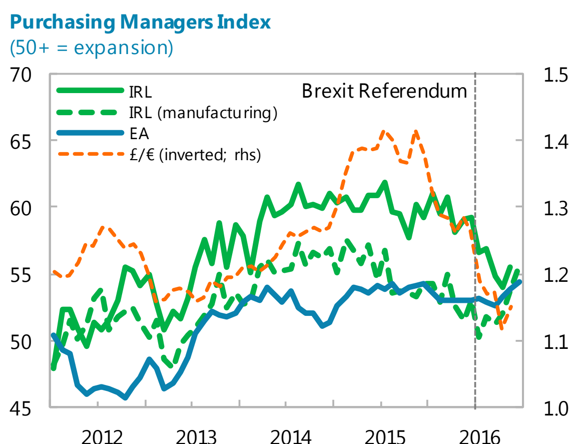
HEALTHY DEMAND-DRIVEN GROWTH

1. **Ireland's economy continues to grow at a healthy pace, mainly driven by domestic demand.** In the first three quarters of 2016, output expanded by 4.8 percent y/y. Stripping out the impact of volatile intellectual property investment and airplane leasing from domestic demand ("core demand") that led to sharp jump in 2015 GDP (see Annex I for discussion of measurement challenges in Ireland), growth is estimated at about 3 percent y/y, almost twice the pace across the euro area. Private consumption grew by 2.8 percent y/y on the back of positive labor market developments, and improving household income and financial conditions. Investment, excluding the most volatile components, increased by almost 10 percent, driven by a pickup in building and construction. The growth contribution of net exports was marginally negative.

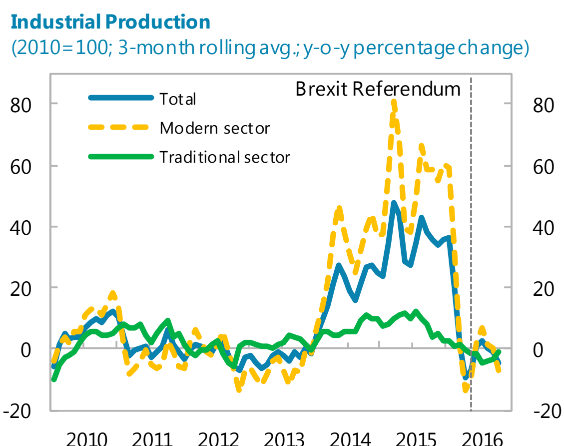


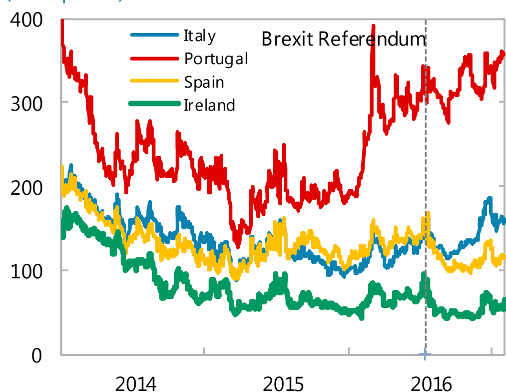
Sources: Central Statistics Office; Eurostat; Haver; and IMF staff.

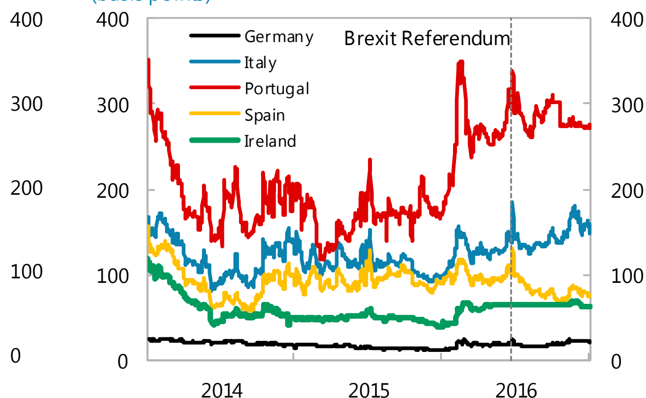
2. **Fallout from the UK vote to leave the EU appears relatively mild to date**. Depreciation of the pound, which started toward the end of 2015, and uncertainty regarding future relations between the UK and EU contributed to a softening of sentiment indicators, which nonetheless remain more positive than in the euro area as a whole. Yet, high frequency data for the traditional manufacturing sector suggests that economic activity may have weakened. After a small widening in the aftermath of the vote, bond yields and CDS spreads returned to their downward trend, reflecting a continued accommodative monetary policy stance by the ECB and the Bank of England. Stock prices partially recovered, although share prices of banks remained depressed, reflecting their exposure to the UK economy, especially the real estate sector. Unsettled markets following the US Presidential election led to a temporary uptick in Irish bond spread.



Sources: Central Statistics Office; Eurostat; Haver; and IMF staff.

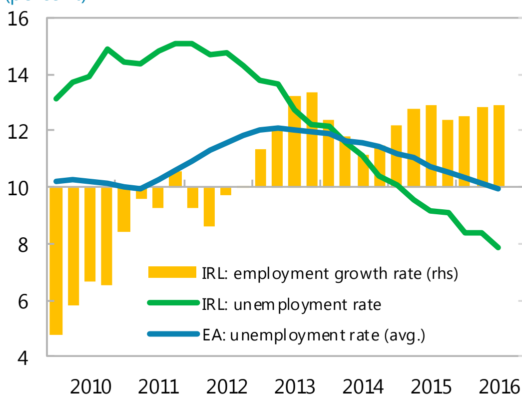


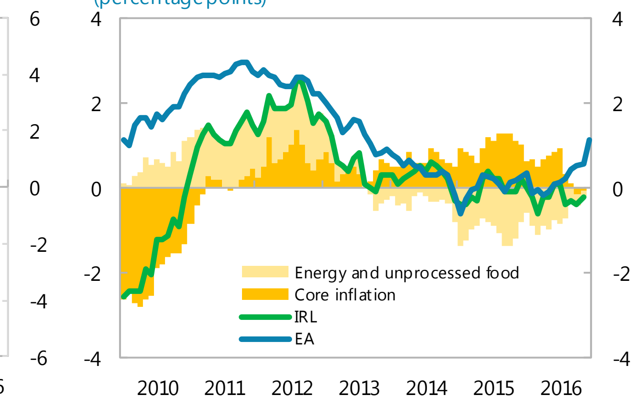




Sources: Bloomberg; and IMF staff.

3. The labor market is on the mend, while inflation remains subdued. Broad-based employment gains brought the unemployment rate down to 7.2 percent in December 2016 from 8.9 percent at end-2015, while net migration turned positive for the first time since 2009, and labor force participation edged up. Despite strong domestic demand, headline inflation hovered in negative territory during most of the year, reflecting declining energy prices. Core inflation averaged about ½ percent, driven by services prices.

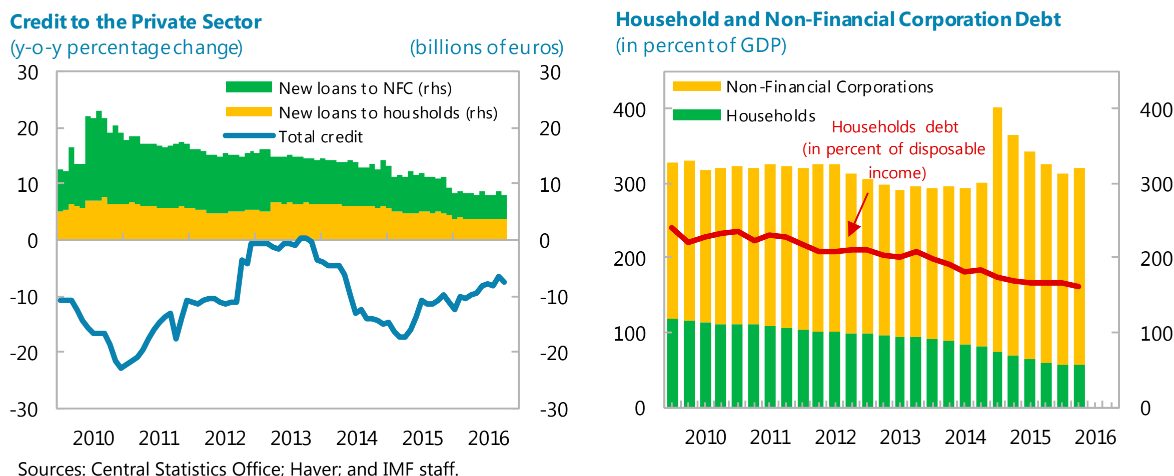




Sources: Bloomberg; and IMF staff.

4. Public finances are in line with target. In 2016H1, the headline general government deficit almost halved to 1 percent of GDP compared to the same period a year ago. This decline was driven by a 3.4 percent y/y increase in revenue, mainly reflecting a higher-than-expected corporate income tax (CIT) intake. This positive trend has been confirmed by end-December returns. However, within-year expenditure increases over the course of 2016, mainly in the health sector, absorbed most of the tax over-performance. As a result, staff estimates the headline general government budget deficit at 0.9 percent of GDP in 2016, as targeted, which entails a broadly unchanged overall structural balance. Gross general government debt is estimated to decline to 76.4 percent of GDP in 2016 from 78.7 percent of GDP in 2015.

5. Credit to the private sector continued to decline, although at a slower pace. With loan repayments continuing to outstrip new lending, banks' credit to the non-financial private sector contracted by almost 6.5 percent y/y in November 2016. Household debt declined to a 10-year low of about 161 percent of gross disposable income in Q2 2016 from an average of about 170 percent in 2015. New bank lending to SMEs increased from a very low base, but the overall stock of credit extended to non-financial corporates continued to decline. Corporate-sector debt registered an upward level shift in 2015 to about 267 percent of GDP from 219 percent of GDP in 2014, driven by corporate restructuring by large multinationals.



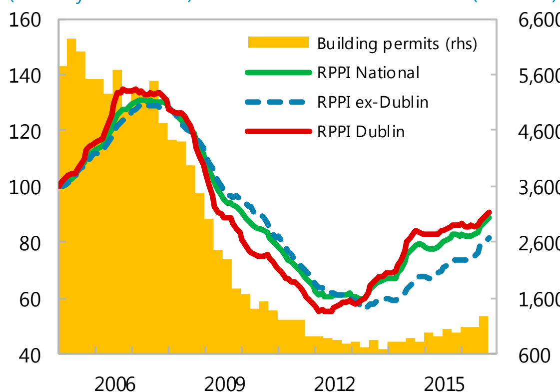
Sources: Central Statistics Office; Haver; and IMF staff.

6. Property market conditions tightened further, mainly due to a limited supply response. Current conditions have supported robust demand recovery, but housing completions have picked up only moderately, continuing to fall well short of the underlying requirement in the economy.[1] With the stock of properties listed for sale at a nine-year low, house price increases accelerated to 7.1 percent y/y in October 2016. The value of mortgage approvals surged by 43 percent as of November compared to a year earlier, albeit from a relatively low base and in the context of a continued contraction in the stock of outstanding mortgages. Tight housing market conditions have also led to a sharp rise in residential rents, which have now exceeded their pre-crisis peak. In response, the government introduced rental growth caps of 4 percent in Rent Pressure Zones (RPZ) starting in 2017.[2] To ease supply constraints, the government introduced a multi-pronged Housing Action Plan in July to be implemented over 2017-21 (Annex II). Pressures in the commercial real estate (CRE) market remained strong, and prices increased further, particularly in the office segment. As demand is mostly funded by foreign investors and domestic equity, the exposure of the domestic banking system to the CRE market continued to decline. Despite these pressures, analysis at the time of the 2016 Article IV discussion suggested that current prices are broadly in line with fundamentals in both residential and commercial segments (see staff report, Annex VIII).

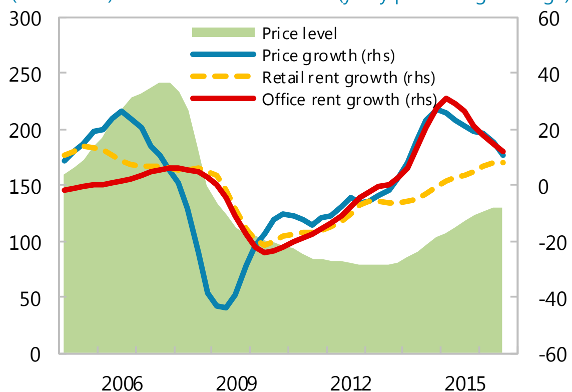
[1] See, "Ireland's Economic Outlook: Perspectives and Policy Challenges."

[2] The RPZs will be based on measurable criteria, i.e. where annual rent increases have been at or above 7 percent in four of the last six quarters and where rents are above the national average (see, "Strategy for the Rental Sector").

Housing Market; 2005-16
(January 2005 = 100) (Number)



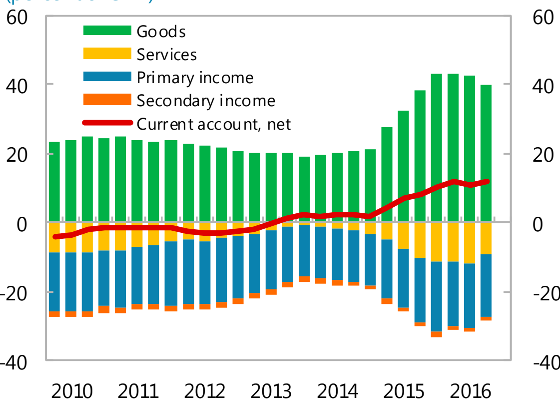
Commercial Real Estate Market; 2005-16
(2010=100) (y-o-y percentage change)



Sources: CBRE (Ireland); Central Statistics Office; Daft.ie; Haver; OECD; and IMF staff.
RPPI = Residential Property Price Index.

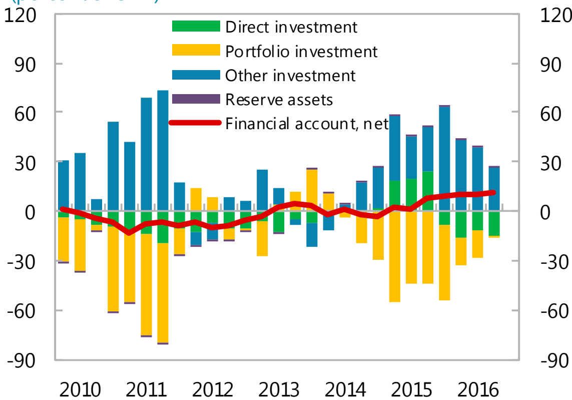
7. **Positive external imbalances widened somewhat.** The large current account surplus, driven by multinational-related activities, increased in the first three quarters of 2016, mainly due to a narrower primary income deficit. Exports associated with contract manufacturing decelerated on the back of the global trade slowdown, while underlying exports remained strong. Sustained domestic demand supported import growth. These developments, as well as a deterioration in the terms of trade, led to a narrowing of Ireland's merchandise trade surplus. The services deficit declined mainly due to higher computer and business service exports. Gross external debt declined on the back of lower external liabilities of the general government and monetary financial institutions.

Current Account Balance
(percent of GDP)



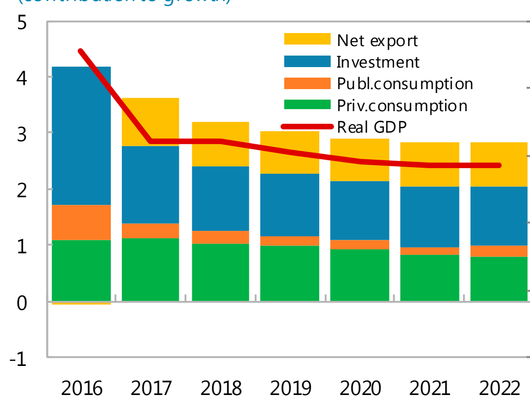
Source: Central Statistics Office.

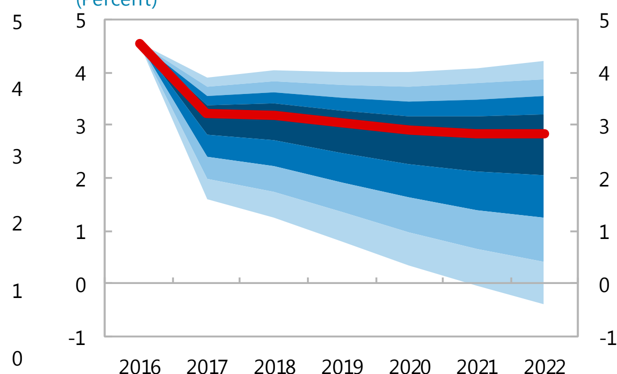
Financial Account Balance
(percent of GDP)



THE OUTLOOK IS FAVORABLE

8. The baseline outlook remains broadly positive. Recent softening of sentiment indicators and the persistent weakening of the traditional industrial sector, which is not influenced by multinational corporations, point to some slowdown in economic activity. Although quarterly data show some volatility, staff estimates real GDP growth at 4½ percent in 2016, 0.4 percentage point lower than expected at the time of the July Article IV, largely due to a weaker net export contribution. A growth slowdown to 3.2 percent continues to be forecast in 2017, as negative Brexit-adjustment takes effect and the fiscal policy stance turns counter-cyclical. Over the medium term, growth is projected to decelerate gradually to just below 3 percent, broadly in line with potential output growth, with a more balanced contribution between domestic and foreign demand. The modest positive output gap would close from above over the projection period. Employment is expected to grow broadly in line with core domestic activity, thus bringing down the unemployment rate to around 6½ percent by the end of the forecast period, while the labor force participation rate is assumed to recover marginally. As energy prices rebound, headline inflation is projected to edge up next year and gradually converge towards 2 percent over the medium-term. Although narrowing, the trade and current account balances will remain in surplus. However, as the 2015 revision of the national account shows, the uncertainty surrounding these forecast is particularly elevated.





Source: IMF staff.

1/ Upper and lower bounds of the fans are based on staff judgement, taking into account risks to the forecasts.

AND CAPACITY TO REPAY IS STRONG, DESPITE SUBSTANTIAL DOWNSIDE RISKS

9. Ireland's capacity to repay the Fund is strong on the back of robust economic and fiscal performance, as well as favorable market financing conditions. In 2016, the National Treasury Management Agency (NTMA) raised €8.4 billion in long-term bonds, including the issuance of

Ireland's first 100-year note, at a weighted average yield of 0.8 percent.[3] As of end-2016, the Exchequer's cash balance stood at €8.4 billion, which rises to €8.6 billion if other liquid financial assets are added. This liquidity buffer is equivalent to about two-times the outstanding obligations to the Fund, and covers about 6 months of average annual financing needs over 2017–22. Market conditions remain favorable with low bond yields, also reflecting the ECB's quantitative easing (QE), which is proceeding as planned with secondary market purchases of about €1 billion a month in Irish paper (broadly equivalent to staff estimates of average monthly gross financing needs in 2017).

10. However, risks remain tilted to the downside. A small, highly open economy like Ireland, with a highly concentrated industrial base, is particularly vulnerable to shocks, the impact of which would be amplified by Ireland's legacy of high public and private sector debt levels. Key risks continue to focus on those issues highlighted in the July Article IV report (see Annex III: Risk Assessment Matrix). In this context:

- *Brexit* - The UK vote to leave the EU has introduced significant risk and uncertainty to the outlook for the Irish economy and contributed to weakening confidence indicators, given the important trade and financial linkages with the British economy. This is particularly relevant for sectors such as agri-food, clothing and footwear, and tourism, which are likely to be affected substantially.[4] While the full effects of Brexit are expected to be negative, their ultimate scale will depend on the future UK-EU relationship. In addition, Brexit may create a significant drag on euro area growth with second-round effects on the Irish economy. Domestic consumption and investment decision could be further held back by continued uncertainty. Brexit could also strengthen anti-EU sentiment across EU member states, further complicating policy making at the European level. The possible relocation of EU-oriented firms from the UK to Ireland, particularly in the financial sector, represents a potential upside, although the effect on output is likely to be relatively limited.

- *Political context* - A challenging political environment and adjustment fatigue may complicate policymaking for the new minority government. In this context, the agreement on the budget for 2017 represents an important milestone. The thorny question of how the border with Northern Ireland functions—a central issue in the peace process—has returned in the context of Brexit.

- *Taxation issues* (Box 1) – The recent ruling of the European Commission (EC), currently under appeal, that Ireland granted undue tax benefits to Apple Inc. highlighted the important and complex nature of multinational operations in Ireland and contributed to concerns around the potential impact of tax uncertainty for future investment. At the same time, implementation of the OECD's Base Erosion and Profit Shifting (BEPS) initiative and the recent proposal by the EC to relaunch discussion of a Common Consolidated Corporate Tax Base (CCCTB) are particularly relevant for Ireland. Potential changes to the U.S. corporate income taxes, which have been

[3] On January 4, 2017, the NTMA raised €4 billion through a new 20-year benchmark bond.

[4] Highly exposed goods sectors include pharma-chemical, food and beverage, electrical, material and traditional manufacturing which have a disproportional share of employment in rural and regional labor markets. Highly exposed service sectors are transport, insurance, financial and computer services.

under discussion for some time but may receive new impetus in a new administration, could also have a bearing given the strong presence of US-based multinationals in Ireland. The timing and ultimate impact of these and other related initiatives on foreign direct investment—a critical element in Ireland's growth model—is uncertain, as in turn is the potential impact on tax revenue and employment.

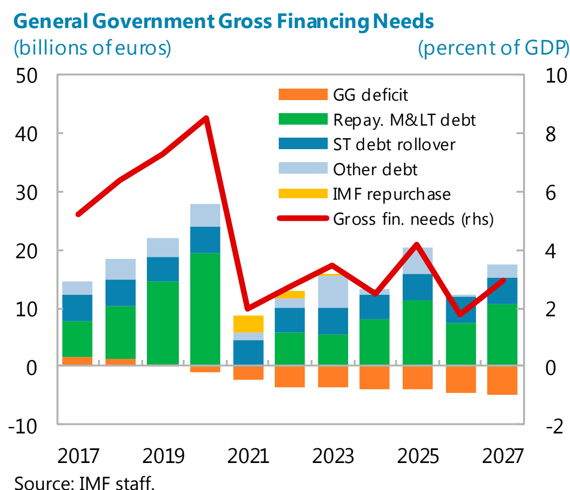
Box 1. International Taxation Issues

EC State-Aid Ruling – On August 30, the EC issued a ruling that Ireland granted up to €13 billion (equivalent to almost 5 percent of GDP) in illegal state aid to Apple Inc. in the form of unjustified tax benefits over 2003-14. Under the decision, Ireland was required to recover this amount, plus interest, from Apple. The Irish government has appealed the decision, with money recovered from Apple Inc. to be kept in an escrow account pending the outcome of the legal proceedings. The ultimate availability of this tax revenue is highly uncertain given both the pending appeal and, should the ruling hold, the potential for competing claims from other jurisdictions. Following the ruling, the government appointed an independent expert to provide a review of Ireland's corporation tax code, expected by mid-2017.

OECD Base Erosion and Profit Shifting (BEPS) – Under the BEPS, over 100 jurisdictions are collaborating on a framework to reduce tax avoidance and strengthen tax certainty and transparency. Agreement on key principles was reached in 2015, with implementation now underway in participating jurisdictions.

Common Consolidated Corporate Tax Base (CCCTB) – In October, the EC relaunched the proposal for a CCCTB with a view to having a single rulebook for calculating cross-border companies' taxable profits throughout the EU and, among other things, addressing loopholes currently associated with profit-shifting for tax purposes. The EC proposes a two-stage process, which would be mandatory for multinational groups with global revenues exceeding €750 million a year. The first stage would focus on establishing a common base, incentives for R&D, and measures to neutralize debt bias in taxation. The second stage would seek to consolidate profit and losses for a group's operations within the EU and establish a formula for apportionment across member states. The proposal does not cover tax rates, which are set at the national level.

11. A number of factors mitigate the potential impact of these risks on Ireland's capacity to repay the Fund. As detailed below, the government is committed to a prudent budgetary strategy over the medium term and contingent fiscal risks from the financial sector have declined substantially. Sound fiscal performance, as incorporated in staff's forecast, is projected to bring gross public debt close to 60 percent of GDP by 2022. Gross financing needs for the 2021–23 period—when the remaining liabilities to the IMF fall due—are relatively modest. These obligations are also manageable when measured against a range of metrics. Furthermore, Ireland's funding strategy has significantly smoothed medium-term gross financing requirements, and it is likely that the projected hump in 2020 will be dealt with well in advance through debt management operations. Ireland has regained strong market access, as demonstrated by one of the longest



Source: IMF staff.

average debt maturities among the EU countries and a constantly high bid-to-cover ratio. Finally, privatization proceeds and a settlement of the EC ruling on Apple Inc. may provide additional resources for debt reduction not incorporated into current projections.

Ireland: Indicators of Fund Credit, 2017-23

	2017	2018	2019	2020	2021	2022	2023
Obligations to the Fund							
In percent of quota 3/	1.4	1.4	1.4	1.4	69.3	31.5	10.2
In percent of GDP	0.0	0.0	0.0	0.0	0.9	0.4	0.1
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.7	0.3	0.1
In percent of government revenue	0.1	0.1	0.1	0.1	3.5	1.5	0.5

Source: IMF staff.

Authorities' views

12. The authorities broadly concur with the staff's view on the outlook and the direction of risks. Despite a modest slowdown, they project that economic activity will continue to grow at a healthy pace supported by domestic demand and a recovery in net export contribution. They agree that risks stem mainly from external factors, including Brexit-related uncertainty (Box 2), sustained slow-growth in Ireland's main trading partners, and external political uncertainties. They also noted the risks associated with the highly concentrated contributions of a small number of companies (largely multinational corporates) to value-added and fiscal revenues, and recognize possible uncertainty arising from tax developments at an international level. Despite these risks, the authorities agree that the capacity to repay the Fund remains strong.

Box 2. Authorities' Estimates of Brexit Impact

Both the government and central bank estimate that Brexit could have potentially significant and long-lasting effects on Ireland. The authorities' initial "rule of thumb" estimates indicate that a one percent reduction in UK GDP would reduce the level of Irish GDP by about 0.2–0.3 percent, relative to the baseline, over two years. Studies by the Department of Finance together with the ESRI, a local think tank, indicate a general negative and permanent impact of Brexit on Irish economy.[1/] For instance, under an adverse scenario, which assumes UK tariffs to the EU return to most-favored-nation status under WTO rules, the level of Irish output could decline up to 3¾ percent in the long term, beyond the 0.5 percent of GDP reduction in 2017 already incorporated into the Summer Economic Statement. This estimate reflects a decline of about 30 percent in exports to the UK and 4 percent in total exports. Under this scenario, the unemployment rate could increase by up to two percentage points overall in the long run. The studies point to important variations in exposure across sectors and regions, with traditional sectors most exposed. These adverse scenario findings are in line with initial estimates by the central bank, as well.

[1/] See "Modelling the Medium to Long Term Potential Macroeconomic Impact of Brexit on Ireland," "Modelling the Impact of Global Shocks on the Irish economy," and "The Impact of Brexit on the Short-term Outlook." For a sectoral analysis, see "UK EU Exit- An Exposure Analysis of Sector of the Irish Economy" and "The Product and Sector Level Impact of a Hard Brexit across the EU."

BUT CONTINUED FISCAL PRUDENCE IS CRUCIAL

13. The 2017 budget foresees steady fiscal consolidation at a moderate pace.

- In 2017, the government targets a headline deficit of 0.4 percent of GDP, an improvement of 0.5 percent of GDP versus the likely outturn for 2016. Given a positive output gap, fiscal policy assumes a counter-cyclical stance, with a structural adjustment of about 0.8 percent of GDP under the authorities' framework. Staff projects a slightly smaller overall and structural adjustment (0.4 percent of GDP and 0.5 percent of GDP, respectively), due to uncertain yields from revenue-enhancing measures and more conservative growth projections.[5]

Fiscal Projections, 2016-21

	2016	2017	2018	2019	2020	2021
Department of Finance						
Growth	4.2	3.5	3.8	3.6	3.0	2.8
Output gap	1.8	1.1	0.5	0.3	0.2	0.0
Overall balance	-0.9	-0.4	-0.3	0.2	0.7	1.1
Structural balance	-1.9	-1.1	-0.5	0.0	0.6	1.1
Strutural effort (pp)	0.3	0.8	0.6	0.5	0.6	0.5
Public debt 1/	76.0	74.3	72.7	70.2	65.8	63.0
Staff						
Growth	4.6	3.2	3.2	3.0	2.9	2.8
Output gap	0.6	0.5	0.4	0.3	0.1	0.1
Overall balance	-0.9	-0.5	-0.3	0.0	0.4	0.7
Structural balance	-1.2	-0.7	-0.5	-0.1	0.3	0.6
Structural effort (pp)	-0.1	0.5	0.2	0.4	0.4	0.3
Public debt 1/	76.4	75.0	73.6	71.5	67.2	64.8

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

- The government confirmed its medium-term objective (MTO) of a structural deficit of 0.5 percent of GDP in 2018 and a counter-cyclical stance thereafter to help rebuild buffers depleted in the crisis, with an estimated positive overall structural balance of about 1 percent of GDP by 2021. In this context, the government intends to establish a contingency reserve ("rainy-day" fund) by allocating €1 billion of available space to this purpose from 2019 onwards. Finally, the government announced it will aim to reduce the debt-to-GDP ratio to 45 percent within a decade to further reinforce resiliency. Based on announced policies, staff projects that these targets are achievable. That said, staff's baseline foresees slower deficit reduction in the outer years of the projection period, reflecting lower growth and different assumptions regarding demand composition.

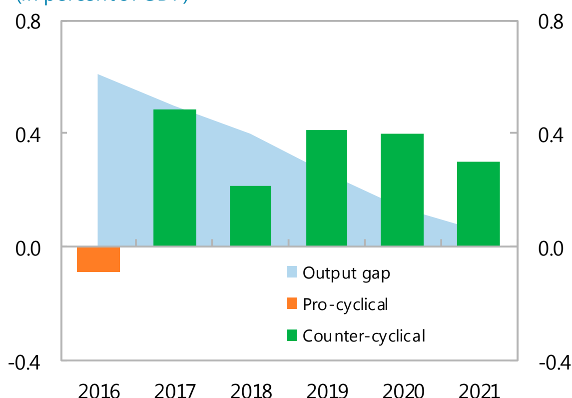
[5] The lower structural adjustment under staff's framework also reflects a smaller estimated change in the output gap.

14. Staff views the government's overall fiscal targets as broadly appropriate in light of substantial risks.

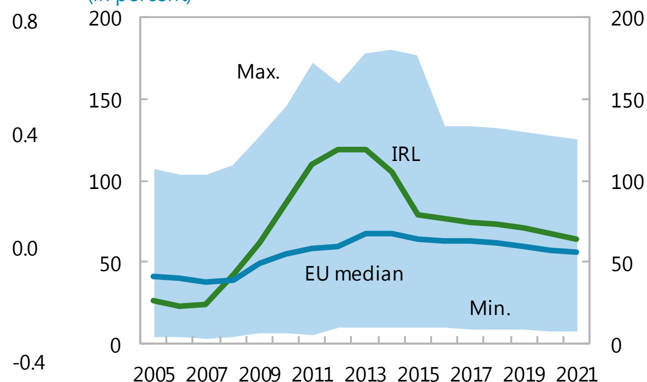
- While a more ambitious structural adjustment may have been feasible in 2017, the authorities' budget strikes a reasonable balance, particularly in light of a track record of fiscal discipline, between continued progress in reducing deficits and addressing Irish people's expectations for a modest "recovery dividend."

- Nonetheless, maintaining steady progress in restoring fiscal buffers is essential. Public debt and interest payments remain elevated, particularly when expressed in terms of general government revenue. These measures better reflect underlying fiscal conditions in the Irish case than traditional GDP measures given the statistical challenge highlighted in Annex I. As discussed above, Ireland's highly open economy is also vulnerable to a broad range of external shocks, and risks to the economic outlook tilted to downside. The potential volatility associated with the operations of multinationals also makes it difficult to differentiate between temporary and permanent revenue developments. In this context, CIT proceeds are highly concentrated, with ten mainly multinational companies accounting for about 40 percent of the tax intake. Against this background, it is crucial to avoid using potentially temporary revenue gains to fund

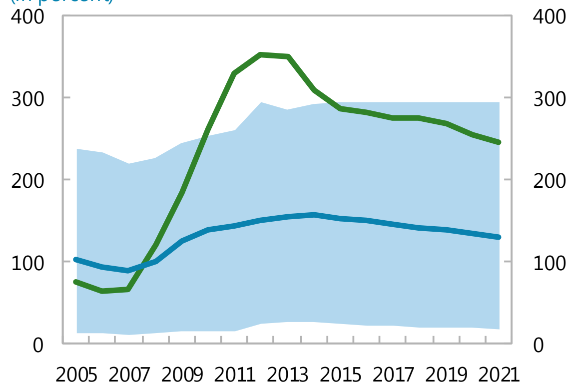
Structural Effort
(in percent of GDP)



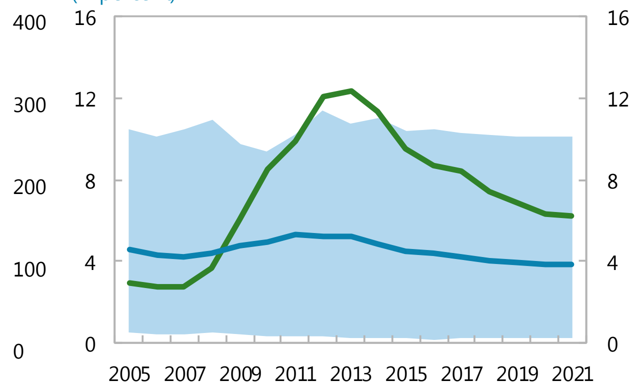
Debt to GDP
(in percent)



Debt to Total Revenue
(in percent)



Interest Payments to Total Revenue
(in percent)



Sources: Eurostat; World Economic Outlook; and IMF staff.

permanent expenditure increases or tax cuts and to save potential tax windfalls. At the same time, staff welcomes the government announcement that it will pursue an ambitious reduction in the debt-to-GDP ratio within the coming decade.

15. For 2017, fiscal measures have been distributed between spending increases and tax cuts on a 3 to 1 basis, with an estimated cost totaling some €1.3 billion (½ percent of GDP). The main revenue-reducing measures comprise a reduction of the three lowest Universal Social Contribution (USC) rates and a tax-rebate for first-time buyers (FTBs) for new construction only (Help-to-Buy—HTB—scheme), the impact of which is expected to be mitigated by an increase in excise tax on cigarettes and measures to enhance tax compliance, including a voluntary disclosure of offshore income and assets. On the expenditure side, about 80 percent of the €1 billion increase falls on current spending, mainly related to health, social housing, state pension and other social protections, education, and the introduction of universal childcare subsidies.

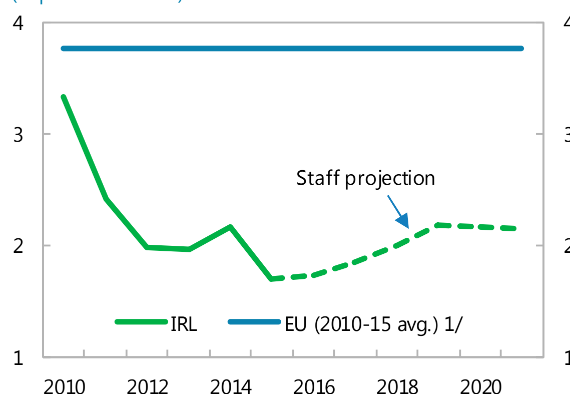
New Measures Announced in Budget 2017 [1/]

Measures	Yield/Cost	
	(€ millions)	(in percent of GDP)
Revenue measures	**-309**	**-0.1**
• Reduction of the three lowest USC rates by 0.5 percent (from 1 percent to 0.5 percent; from 3 percent to 2.5 percent; from 5.5 percent to 5 percent)	-335	-0.1
• Help-to-Buy Scheme for first-time buyers: Personal income tax (PAYE) rebate for home first-time buyers up to 5 percent of the purchase price of new properties valued up to €400,000. For new homes valued between €400,000 and €500,000 the maximum relief of €20,000 will continue to be available. The house must be a new build and applicants must take out a mortgage of at least 70 percent of the purchase price and paid sufficient income tax over the previous four years. The tax rebate is set to expire in 2019.	-50	0.0
• A €100 increase in the Home Carer Tax Credit (from €1,000 to €1,100)	-7	0.0
• A €400 increase in the Earned Income Credit for self-employed (from €550 to €950)	-33	0.0
• Increase by 50 cents per cigarette pack	65	0.0
• Increase in threshold which applies to gifts and inheritance from €280,000 to €310,000	-22	0.0
• Tax compliance measures	130	0.0
• Other revenue measures	-57	0.0
Expenditure measures	**-1,031**	**-0.4**
• Health	-266	-0.1
• Housing	-257	-0.1
• Education	-170	-0.1
• Social protection	-178	-0.1
• Childcare	-85	0.0
• Other expenditure measures	-75	0.0
Total	**-1,340**	**-0.5**

Sources: Department of Finance; and IMF staff.
1/ Reduction in tax/increase in cost is denoted with a minus as they are deficit-increasing measures.

16. Within a tight envelope, fiscal policy could be more supportive of growth. As highlighted in the 2016 Article IV, key priorities include further improvement in spending efficiency to support infrastructure and social needs, including in context of demographic shifts, and enhancing the breadth and stability of the tax base. While the budget broadly reflects these priorities, challenges remain:

- *Strengthening investment spending* – Although increasing, public spending on investment is projected to lag behind the EU average. While it is paramount that investment projects be evaluated on a case-by-case basis, increasing well-targeted capital expenditure would buttress Ireland's competitiveness and support the population's well-being. Consideration should be given to redirect potential savings stemming from further improvement in current spending efficiency to fund capital investment within the relatively tight expenditure envelope.



Sources: Eurostat; Haver; and IMF staff.
1/ Excludes Greece and Ireland.

- *Mitigating housing market imbalances* – Efforts to expand and expedite the delivery of housing and rental properties under the Housing Action Plan—a central focus of the current budget—are welcome, particularly those measures directed at mitigating supply constraints. On the contrary, the "Help-to-Buy" (HTB) scheme, set to run through 2019, raises some concerns. While temporary and relatively limited, the program provides only indirect support for supply and carries a relatively high threshold for mortgage value, suggesting scope for better targeting. At the same time, it risks exacerbating demand and pricing pressures. Plans for a phased increase in interest relief for buy-to-let landlords from the current 75 percent to 100 percent by 2021 raise similar concerns. An early review of these fiscal incentives would be warranted to ensure they are well-targeted to assist those most in need and to reduce risks of fueling demand and price pressures. To help address supply bottlenecks, consideration should be given to fast-tracking the implementation of a locally levied vacant lot tax, currently expected in 2018, which aims to create incentives to increase land utilization. Administrative measures on rents, however, could dissuade construction and may prove ineffective as landlords could pass on additional costs to tenants through other fees.

- *Reforming personal income taxation* – The government intends to phase out the Universal Social Charge (USC) gradually over the next five years. However, this should not come at the expenses of the breadth and stability of the tax base. Both are essential to minimize the impact of potential shocks and to withstand the upcoming demographics-driven expenditure pressure on the health of public finances, as well as to safeguard the current welfare system. As indicated in the July Article IV, merging the USC charge into a broader income tax with lower rates for

below-median wage earners would help reduce the tax burden on middle-income households. Potential costs of this reform could be offset by reducing the number of products with reduced and zero VAT rates and by scaling up the property tax.

- *Addressing Expenditure Pressures* – Expenditure increases beyond those already programmed would need to be offset by tax increases or cuts in other spending to meet the deficit target, requiring difficult trade-offs.

Authorities' views

17. The authorities reiterated their commitment to continue a prudent fiscal stance. They noted that under the 2017 budget, revenue is projected to increase broadly in line with nominal GDP, while expenditure is set to expand at a more moderate pace, consistent with the expenditure benchmark established by the EU fiscal framework. Moreover, they also highlighted the government plan to reduce the debt-to-GDP ratio to 45 percent within a decade and the establishment of a rainy day fund as key fiscal developments which should help underpin the sustainability of the public finances. The authorities emphasized that the 2017 budget has a significant positive social impact, with the largest gains for the bottom quintile of the income distribution. As a result, the population at-risk-of-poverty would fall by almost one percentage point, confirming the redistributive role of the budgetary policy. As for the fiscal incentives regarding the housing market, the authorites underscored that their scope is limited and support the array of supply-side measures envisaged in the Housing Action Plan. Mindful of the need to preserve the tax base, the Government's intention to continue to phase out the USC over time was reaffirmed, but only if resources are available to meet the deficit targets, for example, through the elimination of tax credits for higher income earners and non-indexation of tax brackets within the personal income tax framework.

AS IS SUSTAINED BALANCE SHEET REPAIR

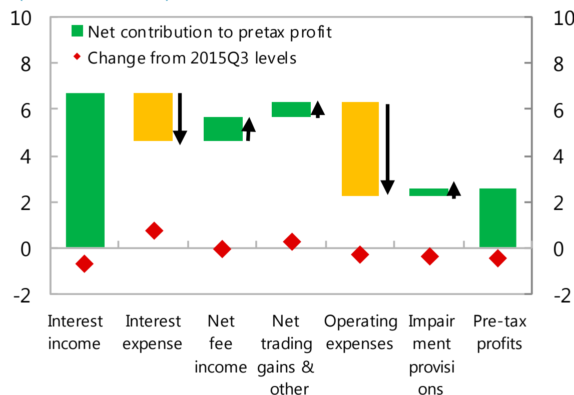
18. Balance sheet repair of domestic banks continues, but risks remain, and the operating environment is still difficult. While domestic banks have continued to strengthen their capital and liquidity buffers, the results of the recent Europe-wide and FSAP stress tests indicate that domestic banks remain vulnerable to adverse macroeconomic shocks (Annex IV). The risks for Ireland's budget, and hence for its capacity to repay, have declined substantially, however. Bank profitability has recovered somewhat on the back of higher net interest margins and improved asset quality, yet it remains relatively low, particularly when provision write-backs are excluded. Unfavorable recent developments have weakened the already limited prospects for a material improvement. In particular:

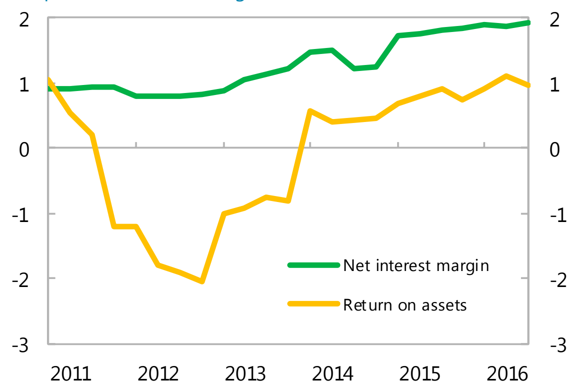
Irish Banks: Key Financial Indicators 1/

(Percent)

	2012	2013	2014	2015	2016Q3
Credit growth	-10.2	-10.8	-4.3	-8.6	-5.3
Return on assets	-2.0	-0.8	0.6	0.7	1.0
Pre-provision profits 2/	-0.2	0.4	0.5	0.7	0.6
Net interest margin	0.8	1.2	1.6	1.8	1.9
Cost-to-income ratio	166.0	72.7	64.1	62.5	58.2
NPL ratio	24.8	27.1	23.2	16.1	14.2
Coverage ratio	48.5	51.4	51.7	51.8	52.0
Texas ratio 3/	115.0	120.0	106.0	93.4	79.7
CT1 ratio	14.7	13.3	15.5	14.9	15.0
Net loan to deposit	124.0	111.0	108.0	106.0	105.4
Net stable funding ratio	82.3	96.1	110.5	112.9	116.0
Liquidity coverage ratio	92.3	107.7	109.9	107.8	118.7

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/ Based on quarterly data and excluding nonrecurrent items, as a share of average total assets.
3/ NPLs to sum of provision stock and CT1 capital.





Source: Central Bank of Ireland.

- The UK's decision to leave the EU is likely to affect domestic banks' capacity to generate capital organically, given both direct exposure to the UK and indirect exposure through Irish entities that themselves face UK-linked risks.[6] It is therefore welcome that Permanent TSB (the smallest of Ireland's main domestic banks) succeeded in selling its UK mortgage portfolio to a US-based private investment firm in October, thereby concluding the last stage of its €8.4 billion deleveraging plan.[7] Negative market sentiment, however, has delayed government plans to further dispose of its stakes in the banking sector; this divestment should nonetheless continue once market conditions are supportive in order to further reduce the public debt and contain contingent liabilities.

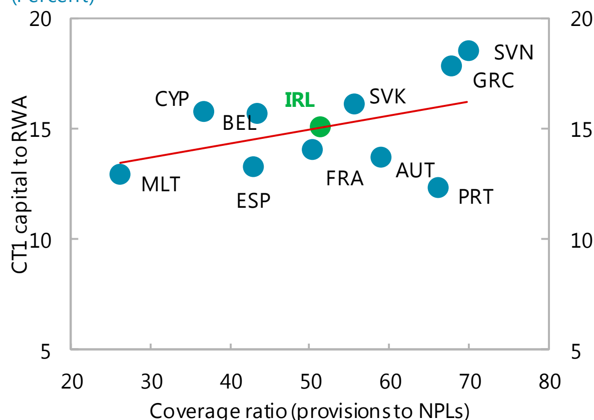
- A legislative proposal under discussion in the legislature on variable rate mortgages, which would empower the central bank to cap rates if a "market failure" is identified, has reportedly heightened investor uncertainty. Pricing should adequately reflect market conditions and profitability considerations. Moreover, undue interference in banks' price setting would undermine the prospects for increased competition in the Irish banking system, which over the medium-term could help narrow the mortgage rate spread between Ireland and its European peers.

[6] The UK accounts for about 20 percent of domestic banks' aggregate revenues.

[7] The sale is reported to involve a 15 percent haircut on the £2.29 billion face value of the PTSB's Capital Home Loans portfolio, which comprises mostly buy-to-let loans.

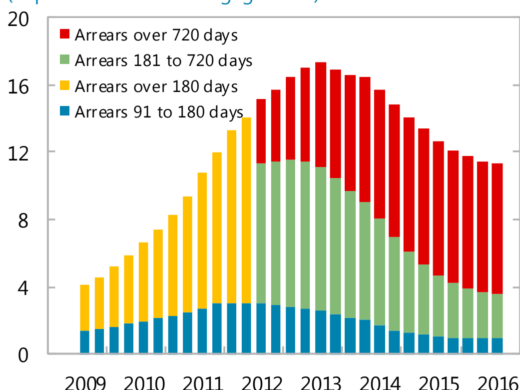
19. Distressed loan resolution continues, but progress across loan categories is uneven. NPLs of domestic banks declined to 14.2 percent in 2016Q3 from 16.1 percent in 2015Q4 with significant headway in the resolution of distressed SMEs and CRE loans, particularly through restructuring and loan disposals. Resolution of distressed mortgages, which account for around 50 percent of banks' nonperforming book, remains slow on the back of lengthy legal proceedings, and weak creditor-borrower engagement, particularly in the deep arrears segment (720 days and above). As further reduction in NPLs would free up banks' capital and help restore the credit channel, sustained efforts are needed to advance the cleanup of banks' balance sheets through loan restructuring, where feasible, and measures to ensure more efficient legal proceedings. The recently introduced state-funded "Advice-and-Arrears" scheme, which allows distressed mortgage borrowers access to free legal and financial advice for owner-occupied properties, has already showed promise in improving borrower-creditor engagement. However, further steps to make the legal proceedings more efficient are also critical to accelerate the resolution process, including plans by the government to establish a special court to handle mortgage arrears and other personal insolvency matters.

Financial Sector Health; 2016Q2 or latest available[1/]
(Percent)

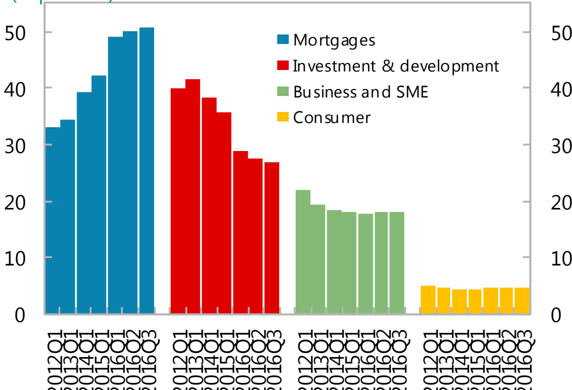


Sources: IMF FSI database; and IMF staff.
1/ Ireland data refers to three main banks (BoI, AIB, and Permanent TSB). Data for Belgium, Cyprus, Greece, Estonia, and Portugal is as of 2016Q1.

Primary Dwelling Mortgages in Arrears
(in percent of total mortgage value)



Domestic Banks' Share of Total NPLs by Sector
(in percent)



Source: Central Bank of Ireland.

20. Efforts to ensure prudent lending continue. The macroprudential measures introduced in 2015 serve an important role in strengthening the resilience of banks and household to adverse shocks. In its first comprehensive review of the measures in November, the central bank modified several parameters under the framework (Box 3), providing a reasonable recalibration given early experience with the framework and current dynamics in the housing market. Following significant delays, the Central Bank of Ireland announced that the first phase of the Central Credit Register

(CCR), which includes the collection of information on individual borrowers, is expected to become operational in early 2018. Steadfast headway toward full implementation of the CCR, including the second phase that covers businesses, remains key. This will also support conversion of the current Loan-to-Income (LTI) limit into a Debt-to-Income (DTI) limit, which better capture the borrowers' repayment capacity, once the CCR becomes fully operational.

Box 3. The Central Bank's Review of Mortgage-Market Measures

In November, the central bank completed the first review of the macroprudential mortgage market regulations introduced February 2015. The central bank found that the macroprudential measures have supported their intended objectives of enhancing households and banks resilience, including by contributing to the reduction of borrowers' probability of default and lowering banks' loss in event of income and interest rate shocks.

However, when considering the overall calibration of the measures, the central bank identified changes to simplify the framework and improve its effectiveness. These changes, which also include extension of the valuation period to four months from two months and exclusion of commercial landlords and developers from the scope of regulations came into force from January 1, 2017.

LTV and LTI measures

		First time buyers (FTBs)	Second and subsequent buyers (SSBs)
Loan-to-Value (LTV) limits	**Primary dwelling homes**	**Until January 1, 2017:** 90 percent on the first 222,000 of the value of residential property and 80 percent limit thereafter. 15 percent of all new lending allowed above limits.	**Until January 1, 2017:** 80 percent limit. 15 percent of all new lending allowed above limits.
		From January 1, 2017: 90 percent limit. 5 percent of all new lending allowed above limits.	**From January 1, 2017:** 80 percent limit. 20 percent of all new lending allowed above limits.
	Buy-to-let	**Current (not revised):** 70 percent limit; 10 percent of all new lending allowed above limits.	
Loan-to-Income (LTI) limit	**Primary dwelling homes**	**Current (not revised):** 3.5 times; 20 percent of all new lending allowed above limits.	

Authorities' views

21. The authorities broadly agreed with staff on challenges to the banking system. They confirmed that while strong progress has been made, banks' profitability has not reached sustainable levels such that higher levels of required capital are being adequately remunerated. It was also acknowledged that in the absence of rising interest rates or a return of loan growth, near-term prospects for further improvement are limited. The authorities stressed that supervisory efforts continue to center on achieving sustainable reduction in NPLs. They agreed that the proposed bill on variable rate mortgages will need to be considered in depth to see how it may function in the market and to minimize the risk of unintended consequences; in that context, it was noted that the

bill is currently the subject of "pre-legislative consideration" by the Irish legislature (Oireachtas). Preparations for an initial public offering of 25 percent of the government's AIB stakes continue, with timing as soon as this year if conditions allow. Regarding the establishment of the CCR, the authorities noted that the main issues concerning data protection have been addressed, and that work is underway to ensure that the first phase will commence on time. They also noted that the second phase of the CCR implementation is expected to become operational in late-2018, though lenders' capacity to deliver adequate data within the timelines is an important dependency for implementation.

STAFF APPRAISAL

22. The economic outlook remains broadly positive, notwithstanding risks, and capacity to repay the Fund is strong. Robust domestic demand is projected to drive continued healthy growth, supporting further moderation in unemployment. Inflation, which turned slightly negative this year, is expected to edge up gradually. Brexit-related risks, a sustained low-growth low-inflation environment in Europe, external political uncertainties and rising anti-globalization sentiment, as well as ongoing developments in corporate tax treatment at the international level add to uncertainty. The political context for the new minority government is challenging, but agreement on the 2017 budget represents an important milestone. Despite these risks, Ireland's capacity to repay the Fund is strong, given robust economic and fiscal performance, manageable financing needs, and favorable market financing conditions.

23. The impact of operations by multinationals on headline GDP complicates the assessment of domestic activity essential to economic decision making. Staff welcomes the work underway, with support from the IMF and other outside experts, on alternative measures for domestic activity.

24. The government's fiscal targets are broadly appropriate. Given Ireland's strong track record of fiscal discipline, the moderate adjustment planned in 2017 strikes a reasonable balance between advancing deficit reduction and addressing public expectations for a growth dividend. Expenditure increases beyond those already programmed would need to be offset by tax increases or cuts in other spending to meet the deficit target, requiring difficult trade-offs. More broadly, still high public debt and risks to the outlook and to the revenue base, including from the concentrated corporate tax base, call for maintaining moderate growth in expenditures, saving any revenue windfalls, and ensuring that potentially temporary revenue gains are not used to fund permanent expenditure increases. In this context, staff welcomes the authorities' commitment to reach their medium-term deficit target of 0.5 percent of GDP by 2018, establish a "rainy-day" fund beginning in 2019, and reduce debt-to-GDP to 45 percent within a decade.

25. Within a tight envelope, fiscal policy could be more supportive of growth. With capital expenditure already well below peers, well-targeted increases are needed to buttress Ireland's competitiveness and support the population's welfare, including through investments in economic and social infrastructure. The Housing Action Plan and related efforts to address the acute problem

of housing shortages, high rents, and homelessness are welcome, but fiscal incentives related to housing should be limited and closely monitored to ensure they are well-targeted to assist those most in need and to reduce risks of fueling demand and price pressures. Plans for a phased elimination of the Universal Social Charge should not come at the expense of the breadth and stability of the tax base.

26. Irish banks continue to operate in a challenging environment. The capital and liquidity positions of domestic banks have improved, but, with low underlying profitability, they remain vulnerable to shocks. The UK's decision to leave the EU could put further pressure domestic banks' profitability. In the context of pending legislation on variable rate mortgages, loan pricing should adequately reflect market conditions to allow banks to build up capital and return to normal business profitability. The disposal of the government's stakes in Irish banks, which would support public debt reduction, should continue once market conditions are supportive.

27. Nonperforming loans are declining overall, but resolution of deep mortgage arrears should be accelerated. Intensified supervisory oversight of banks' internal management of NPL resolution should continue to ensure that prolonged mortgage arrears are tackled through loan restructuring where feasible. The Advice-and-Arrears scheme recently introduced by the government shows promise in improving borrower-creditor engagement, but further steps to make the legal proceedings more efficient are also critical to accelerate the resolution process.

28. Continued vigilance is needed to safeguard macro-financial stability, especially relating to the property market. The macroprudential measures introduced in 2015 serve an important role in strengthening the resilience of banks and household to adverse shocks. The recalibration of the macroprudential framework is reasonable given early experience with the framework and current dynamics in the housing market. Steadfast progress toward full implementation of the CCR and replacing the LTI limit with a DTI limit, which better captures the borrowers' repayment capacity, remain key to ensure prudent lending.

Table 1. Ireland: Selected Economic Indicators, 2014-22

	2014	2015	Est. 2016	Projections 2017	2018	2019	2020	2021	2022
	(Annual percentage change, constant prices, unless noted otherwise)								
Output/Demand									
Real GDP	8.4	26.3	4.6	3.2	3.2	3.0	2.9	2.8	2.8
Domestic demand	7.7	9.9	6.8	3.4	3.4	3.2	3.0	2.9	2.9
Public consumption	5.4	1.1	5.8	2.5	2.0	1.6	1.6	1.5	1.5
Private consumption	1.7	4.5	3.1	3.1	2.9	2.8	2.6	2.3	2.2
Gross fixed capital formation	18.1	32.5	11.7	6.2	5.0	4.7	4.4	4.3	4.3
Exports of goods and services	14.4	34.5	2.1	4.1	4.5	4.4	4.3	4.2	4.2
Imports of goods and services	15.3	21.7	2.9	4.6	5.1	5.0	4.8	4.7	4.7
Potential Growth	3.7	24.6	3.5	3.3	3.3	3.2	3.0	2.9	2.9
Output Gap	-1.7	-0.4	0.6	0.5	0.4	0.3	0.1	0.1	0.0
Contribution to growth									
Domestic demand	6.2	8.0	4.6	2.4	2.4	2.3	2.1	2.0	2.0
Public consumption	0.8	0.2	0.6	0.3	0.2	0.2	0.2	0.2	0.2
Private consumption	0.8	2.1	1.1	1.1	1.0	1.0	0.9	0.8	0.8
Gross fixed capital formation	3.3	6.7	2.5	1.4	1.2	1.1	1.1	1.1	1.1
Inventories	1.3	-0.8	0.4	-0.4	0.0	0.0	0.0	0.0	0.0
Net exports	1.8	18.4	-0.1	0.8	0.8	0.8	0.8	0.8	0.8
Residual	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prices									
Inflation (HICP)	0.3	0.0	-0.2	0.8	1.4	1.6	1.7	1.9	1.9
Inflation (HICP, end of period)	-0.3	0.2	-0.4	1.3	1.5	1.7	1.8	1.9	1.9
GDP deflator	-1.2	4.9	-0.9	0.8	1.4	1.5	1.6	1.7	1.7
Terms-of-trade 1/	-1.6	2.6	-0.1	-0.4	0.1	0.1	0.1	0.2	0.2
Employment and wages									
Employment (NA definition)	1.7	2.5	2.9	2.0	1.5	1.4	1.2	1.0	1.0
Employment (ILO definition)	1.7	2.6	2.9	2.1	1.5	1.4	1.2	1.0	1.0
Unemployment rate (percent)	11.3	9.5	7.9	7.1	6.9	6.6	6.6	6.6	6.5
Nominal wages	0.1	0.9	0.6	1.5	2.3	2.8	2.9	2.9	2.9
	(In percent of GDP)								
Public Finance, General Government 2/									
Revenue	34.1	27.6	27.2	27.4	26.9	26.8	26.5	26.3	26.2
Expenditure	37.8	29.5	28.2	27.9	27.2	26.7	26.1	25.7	25.2
Overall balance	-3.7	-1.9	-0.9	-0.5	-0.3	0.0	0.4	0.7	1.0
Overall balance (excl. support to fin.inst.)	-3.7	-1.0	-0.9	-0.5	-0.3	0.0	0.4	0.7	1.0
Primary balance	0.1	0.7	1.4	1.8	1.7	1.9	2.1	2.3	2.6
Structural balance (percent of potential GDP)	-3.2	-1.1	-1.2	-0.7	-0.5	-0.1	0.3	0.6	1.0
General government gross debt	105.4	78.7	76.4	75.0	73.6	71.5	67.2	64.8	60.9
General government net debt	96.1	71.8	70.0	68.2	66.2	63.8	61.3	58.7	55.2
	(In percent)								
Monetary and financial indicators									
Bank credit to private sector (growth rate)	-16.8	-13.2	...	...	...	...	...	...	...
Deposit rates	1.9	1.3	...	...	...	...	...	...	...
Government 10-year bond yield	2.3	1.1	...	...	...	...	...	...	...
	(In percent of GDP)								
Balance of payments									
Trade balance (goods)	21.1	43.2	41.6	42.2	42.0	41.7	41.2	40.7	40.1
Current account balance	1.7	10.2	7.8	6.0	5.7	5.2	4.7	4.5	4.4
Gross external debt	926.4	870.8	830.5	788.6	744.1	702.3	662.6	624.7	588.5
Saving and investment balance									
Gross national savings	23.6	31.8	31.4	29.8	29.8	29.7	29.5	29.6	29.9
Private sector	24.9	30.8	30.3	28.4	28.3	27.9	27.5	27.4	27.4
Public sector	-1.3	1.0	1.0	1.4	1.5	1.8	2.0	2.2	2.5
Gross capital formation	21.9	21.6	23.5	23.8	24.1	24.5	24.8	25.2	25.6

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

1/ Goods and services.

2/ See notes to Table 2.

Table 2A. Ireland: General Government Revenue and Expenditure, 2014-22
(in billions of euros)

	2014	2015	Est. 2016	Projections 1/ 2017	2018	2019	2020	2021	2022
Revenue	**65.8**	**70.5**	**72.2**	**75.4**	**77.5**	**80.8**	**83.7**	**86.9**	**90.3**
Taxes	46.4	50.7	52.8	55.5	57.9	60.4	63.0	65.6	68.6
Personal income tax	18.3	19.7	19.9	20.7	21.6	22.6	23.6	24.5	25.8
Corporate income tax	4.7	6.9	7.5	7.8	8.0	8.3	8.5	8.8	9.1
VAT	11.5	12.0	12.6	13.1	13.7	14.4	15.0	15.7	16.4
Excises	3.4	4.0	4.1	4.4	4.6	4.8	5.0	5.3	5.5
Other taxes	8.5	8.2	8.7	9.5	9.9	10.3	10.9	11.3	11.9
Social contributions	11.0	11.4	12.0	12.6	13.0	13.5	13.7	14.3	14.9
Other revenue	8.4	8.4	7.4	7.4	6.6	6.9	6.9	7.0	6.8
Expenditure	**73.0**	**75.3**	**74.6**	**76.8**	**78.4**	**80.7**	**82.5**	**84.7**	**86.9**
Expense	68.8	70.9	70.0	71.7	72.7	74.1	75.7	77.6	79.4
Compensation of employees	18.3	18.9	19.7	20.5	21.1	21.6	22.1	22.6	23.2
Use of goods and services	8.9	9.2	9.9	9.7	10.1	10.4	10.9	11.3	11.8
Interest	7.4	6.7	6.3	6.3	5.7	5.6	5.3	5.4	5.4
Subsidies	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Social benefits	28.2	28.2	28.1	28.8	29.3	30.0	30.6	31.4	32.1
Other expense	4.0	6.1	4.4	4.7	4.8	4.9	5.0	5.1	5.2
Net acquisition of nonfinancial assets	4.2	4.4	4.6	5.1	5.8	6.6	6.8	7.1	7.4
Net lending(+)/borrowing(-) (overall balance)	**-7.2**	**-4.8**	**-2.5**	**-1.4**	**-0.9**	**0.1**	**1.2**	**2.2**	**3.4**
Net financial transactions	-7.2	-4.8	-2.5	-1.4	-0.9	0.1	1.2	2.2	3.4
Net acquisition of financial assets	-18.8	-7.3	-1.1	3.0	4.6	3.6	-2.5	3.9	0.0
Currency and deposits	0.0	0.0	-0.6	1.9	2.6	0.9	-5.7	0.3	0.0
Debt securities	-1.4	-5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-11.8	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	-0.1	0.2	-2.6	-1.1	-0.9	-1.2	-0.9	-1.0	0.0
Other financial assets	-5.5	-0.7	2.1	2.1	2.9	3.9	4.1	4.6	0.0
Net incurrence of liabilities	-11.7	-2.5	1.3	4.3	5.5	3.5	-3.7	1.7	-3.4
Currency and deposits	-10.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	6.4	5.7	1.3	4.3	5.5	5.5	-1.3	5.3	-0.8
Loans	-8.2	-8.4	0.0	0.0	0.0	-1.9	-2.5	-3.6	-2.6
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy (nonfin. vs. fin. accounts)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum items:									
One-off measures	-0.5	1.7	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
of which support to financial institutions	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. support to fin.inst.)	-7.2	-2.7	-2.5	-1.4	-0.9	0.1	1.2	2.2	3.4
Primary balance	0.3	1.9	3.8	5.0	4.8	5.6	6.5	7.6	8.8
Primary balance (excl. support to fin.inst.)	0.3	4.0	3.8	5.0	4.8	5.6	6.5	7.6	8.8
Structural balance	-6.2	-2.8	-3.1	-1.9	-1.4	-0.2	1.1	2.1	3.4
Structural primary balance	1.2	3.9	3.2	4.4	4.4	5.4	6.4	7.5	8.8
Gross public debt 2/	203.3	201.1	202.5	206.8	212.3	215.9	212.1	213.9	210.4
Net public debt 3/	185.5	183.6	185.5	187.9	190.9	192.5	193.5	193.9	190.4
Currency and deposits	17.8	17.6	16.9	18.9	21.5	23.4	18.7	20.0	20.0

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 during 2019-21.

3/ Net of "Currency and deposits" (F1) and Rainy Day Fund.

Table 2B. Ireland: General Government Revenue and Expenditure, 2014-22
(in percent of GDP)

			Est.	Projections 1/					
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	**34.1**	**27.6**	**27.2**	**27.4**	**26.9**	**26.8**	**26.5**	**26.3**	**26.2**
Taxes	24.1	19.8	19.9	20.1	20.1	20.0	20.0	19.9	19.9
Personal income tax	9.5	7.7	7.5	7.5	7.5	7.5	7.5	7.4	7.5
Corporate income tax	2.4	2.7	2.8	2.8	2.8	2.7	2.7	2.7	2.6
VAT	6.0	4.7	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Excises	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Other taxes	4.4	3.2	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Social contributions	5.7	4.5	4.5	4.6	4.5	4.5	4.4	4.3	4.3
Other revenue	4.3	3.3	2.8	2.7	2.3	2.3	2.2	2.1	2.0
Expenditure	**37.8**	**29.5**	**28.2**	**27.9**	**27.2**	**26.7**	**26.1**	**25.7**	**25.2**
Expense	35.6	27.7	26.4	26.0	25.2	24.6	24.0	23.5	23.0
Compensation of employees	9.5	7.4	7.4	7.5	7.3	7.1	7.0	6.9	6.7
Use of goods and services	4.6	3.6	3.7	3.5	3.5	3.5	3.4	3.4	3.4
Interest	3.9	2.6	2.4	2.3	2.0	1.8	1.7	1.6	1.6
Subsidies	1.0	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Social benefits	14.6	11.0	10.6	10.4	10.2	9.9	9.7	9.5	9.3
Other expense	2.1	2.4	1.7	1.7	1.7	1.6	1.6	1.5	1.5
Net acquisition of nonfinancial assets	2.2	1.7	1.7	1.8	2.0	2.2	2.2	2.2	2.2
Net lending(+)/borrowing(-) (overall balance)	**-3.7**	**-1.9**	**-0.9**	**-0.5**	**-0.3**	**0.0**	**0.4**	**0.7**	**1.0**
Net financial transactions	-3.7	-1.9	-0.9	-0.5	-0.3	0.0	0.4	0.7	1.0
Net acquisition of financial assets	-9.8	-2.8	-0.4	1.1	1.6	1.2	-0.8	1.2	0.0
Currency and deposits	0.0	0.0	-0.2	0.7	0.9	0.3	-1.8	0.1	0.0
Debt securities	-0.7	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-6.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.0	0.1	-1.0	-0.4	-0.3	-0.4	-0.3	-0.3	0.0
Other financial assets	-2.8	-0.3	0.8	0.8	1.0	1.3	1.3	1.4	0.0
Net incurrence of liabilities	-6.0	-1.0	0.5	1.6	1.9	1.2	-1.2	0.5	-1.0
Currency and deposits	-5.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	3.3	2.2	0.5	1.6	1.9	1.8	-0.4	1.6	-0.2
Loans	-4.3	-3.3	0.0	0.0	0.0	-0.6	-0.8	-1.1	-0.8
Other liabilities	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy (nonfin. vs. fin. accounts)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum items:									
One-off measures	-0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which support to financial institutions	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. support to fin.inst.)	-3.7	-1.0	-0.9	-0.5	-0.3	0.0	0.4	0.7	1.0
Primary balance	0.1	0.7	1.4	1.8	1.7	1.9	2.1	2.3	2.6
Primary balance (excl. support to fin.inst.)	0.1	1.6	1.4	1.8	1.7	1.9	2.1	2.3	2.6
Structural balance (in percent of potential GDP)	-3.2	-1.1	-1.2	-0.7	-0.5	-0.1	0.3	0.6	1.0
Structural primary balance (in percent of potential GDP)	0.6	1.5	1.2	1.6	1.5	1.8	2.0	2.3	2.6
Gross public debt 2/	105.4	78.7	76.4	75.0	73.6	71.5	67.2	64.8	60.9
in percent of Revenue	309.0	285.2	280.6	274.2	273.9	267.2	253.4	246.1	233.0
Net public debt 3/	96.1	71.8	70.0	68.2	66.2	63.8	61.3	58.7	55.2
Interest in percent of Revenue	11.3	9.5	8.7	8.4	7.4	6.9	6.4	6.3	6.0
Currency and deposits 4/	9.2	6.9	6.4	6.8	7.4	7.7	5.9	6.1	5.8
GDP at current market prices (in billions of euros)	192.9	255.7	264.9	275.7	288.5	301.8	315.6	330.1	345.3

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 during 2019-21.

3/ Net of "Currency and deposits" (F1) and Rainy Day Fund.

4/ Includes Rainy Day Fund.

Table 3. Ireland: Summary of Balance of Payments, 2014-22

	2014	2015	Est. 2016	Projections 2017	2018	2019	2020	2021	2022
				(Billions of euros)					
Current account balance	**3.2**	**26.2**	**20.8**	**16.6**	**16.3**	**15.6**	**14.9**	**14.7**	**15.0**
Balance of goods and services	34.6	81.2	78.1	80.3	83.6	86.8	90.3	94.1	98.0
Trade balance	40.7	110.6	110.3	116.2	121.3	125.9	130.1	134.2	138.6
Exports of goods	114.5	195.6	193.9	204.4	214.5	224.0	233.2	242.4	252.2
Imports of goods	-73.7	-85.0	-83.5	-88.2	-93.2	-98.1	-103.1	-108.2	-113.6
Services balance	-6.1	-29.4	-32.3	-35.9	-37.7	-39.1	-39.8	-40.1	-40.6
Credit	105.3	121.6	128.2	137.2	147.1	156.9	167.9	178.8	190.4
Debit	-111.5	-151.0	-160.5	-173.2	-184.8	-196.0	-207.7	-218.9	-230.9
Primary income balance	-28.7	-51.9	-54.0	-60.3	-63.5	-66.9	-70.6	-74.0	-77.0
Credit	62.7	61.7	63.3	61.8	64.3	66.7	69.1	72.2	75.9
Debit	-91.4	-113.6	-117.3	-122.1	-127.8	-133.6	-139.7	-146.2	-152.9
Secondary income balance	-2.8	-3.1	-3.3	-3.4	-3.8	-4.3	-4.8	-5.4	-6.0
Capital and financial account balance	**-11.4**	**21.5**	**18.2**	**13.9**	**13.5**	**12.6**	**11.8**	**11.5**	**11.6**
Capital account balance	-6.8	-1.3	-1.3	-1.4	-1.4	-1.5	-1.5	-1.6	-1.7
Financial account	-4.6	22.8	19.5	15.2	14.9	14.1	13.3	13.1	13.3
Direct investment	3.0	-19.9	-23.0	-23.8	-23.7	-23.7	-23.6	-23.4	-23.2
Portfolio investment	-56.7	-119.7	-119.7	-119.7	-119.7	-119.5	-119.5	-119.5	-119.5
Other investment	48.9	161.9	162.2	158.8	158.3	157.3	156.4	156.0	156.0
Change in reserve assets 1/	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-1.8	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.8	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	0.0
EU	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent of GDP)					
Current account balance	**1.7**	**10.2**	**7.9**	**6.0**	**5.7**	**5.2**	**4.7**	**4.5**	**4.4**
Balance of goods and services	17.9	31.8	29.5	29.1	29.0	28.8	28.6	28.5	28.4
Trade balance	21.1	43.3	41.7	42.2	42.1	41.8	41.3	40.7	40.2
Services balance	-3.2	-11.5	-12.2	-13.0	-13.1	-13.0	-12.6	-12.2	-11.8
Income balance	-14.9	-20.3	-20.4	-21.9	-22.0	-22.2	-22.4	-22.4	-22.3
Current transfers (net)	-1.4	-1.2	-1.2	-1.2	-1.3	-1.4	-1.5	-1.6	-1.7
Capital and financial account balance	**-5.9**	**8.4**	**6.9**	**5.0**	**4.7**	**4.2**	**3.7**	**3.5**	**3.4**
Of which:									
Direct investment	1.6	-7.8	-8.7	-8.6	-8.2	-7.9	-7.5	-7.1	-6.7
Portfolio investment	-29.4	-46.8	-45.2	-43.5	-41.5	-39.6	-37.9	-36.2	-34.6
Other investment	25.3	63.3	61.3	57.6	54.9	52.2	49.6	47.3	45.2
Change in reserve assets 1/	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-1.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.4	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	0.0
EU	0.4	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/	-2.1	7.4	5.1	3.4	3.1	2.7	2.4	2.2	2.2
Net international investment position 3/	-162.0	-207.9	-193.3	-180.2	-167.0	-155.1	-144.1	-133.7	-124.0
External debt 3/	270.2	314.9	293.9	272.9	251.4	231.3	212.2	194.1	176.8

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 (2013).

3/ As percent of GDP.

Table 4. Ireland: Indicators of External and Financial Vulnerabilities 2012-16

	2012	2013	2014	2015	2016 1/
External indicators:					
Exports (annual percent change, value in euros)	5.8	1.9	15.0	44.3	19.2
Imports (annual percent change, value in euros)	8.5	-0.1	17.7	27.4	14.0
Terms of trade (goods, annual percent change)	0.7	-0.3	-1.6	2.7	1.6
Current account balance (in percent of GDP)	-2.6	2.1	1.7	10.2	10.7
Capital and financial account balance (in percent of GDP)	-4.9	2.9	-6.3	8.4	8.5
Inward portfolio investment	42.9	29.4	111.3	96.8	59.9
Inward foreign direct investment	42.4	54.7	82.0	49.9	43.0
Other investment liabilities	-57.5	-12.7	17.6	-29.2	-33.5
U.S. dollar per euro (period average)	1.29	1.33	1.32	1.10	1.11
U.K. pound per euro (period average)	0.81	0.85	0.80	0.72	0.83
Financial markets indicators:					
General government debt (in percent of GDP)	119.5	119.6	105.4	78.7	77.7
Government bond yield (in percent, 10-year, end-period)	4.5	3.5	1.2	1.2	0.5
Spread of government bond yield with Germany (in percent, end of period)	3.2	1.4	0.6	0.5	0.7
Real government bond yield (in percent, 10-year, period average, based on HICP)	4.1	3.3	2.0	1.1	0.4
Annual change in ISEQ index (in percent, end of period)	16.3	30.3	15.1	33.5	-2.8
Personal lending interest rate (in percent)	9.6	8.0	8.2	11.2	11.3
Standard variable mortgage interest rate (in percent)	3.6	3.4	3.8	3.4	3.3
Financial sector risk indicators:					
Annual credit growth rates (to Irish resident private sector, in percent) 2/	-4.0	-4.9	-4.5	-4.6	-3.2
Personal lending as a share of total Irish resident credit (in percent) 3/	36.8	38.7	42.7	46.0	46.2
Loans for house purchase	28.1	29.9	34.5	38.5	38.2
Consumer credit	4.7	4.6	5.1	5.6	6.1
Other loans	3.9	4.1	3.1	1.9	1.8
Irish resident household mortgage debt annual growth rates (in percent) 4/	5.7	-1.9	-6.0	-1.6	-4.5
Foreign-currency denominated assets (in percent of total assets)	28.4	27.5	27.2	28.2	27.2
Foreign-currency denominated liabilities (in percent of total liabilities)	25.4	25.3	26.2	27.1	26.9
Non-performing loans (in percent of total loans) 5/	25.0	25.7	0.2	0.1	0.2
Total provisions for loan losses (in percent of total loans) 6/	9.8	10.4	8.0	4.8	5.3
Regulatory Tier 1 capital to risk-weighted assets of domestic banks (in percent) 6/	16.7	17.3	0.2	0.2	0.2
Bank return on assets (percent) 6/	-0.8	-0.4	0.4	1.0	1.2
Bank return on equity (percent) 6/	-7.8	-6.8	5.3	5.7	9.5
Deposits to M3 ratio 7/	1.3	1.4	1.1	1.1	1.0
Loan-to-deposit ratio vis-à-vis Irish residents 8/	1.9	1.6	1.4	1.2	1.2
Loan-to-deposit ratio vis-à-vis total	1.9	1.7	1.5	1.2	1.2
Concentration ratios in the banking sector					
Number of banks accounting for 25 percent of total assets	2.0	2.0	2.0	2.0	2.0
Number of banks accounting for 75 percent of total assets	14.0	13.0	13.0	14.0	13.0

Sources: Bloomberg; Central Bank of Ireland; and IMF staff.

1/ As of June 2016.

2/ Adjusted growth rate of credit to households and non-financial corporations.

3/ Data is based on Table A.1 published by Central Bank of Ireland.

4/ Data is based on Table A.6 published by Central Bank of Ireland; includes securitizations.

5/ Refers to domestic and foreign subsidiaries, and includes lending for construction and real estate activities.

6/ Based on IMF's Financial Soundness Indicators data.

7/ Credit equivalent values. Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been amended in line with Eurosystem requirements.

8/ Nongovernment credit/nongovernment deposits ratio.

Table 5. Ireland: Monetary Survey, 2012-16
(Billions of euros, unless otherwise indicated; end of period)

	2012	2013	2014	2015	2016 1/
Aggregate balance sheet of domestic market credit institutions					
Assets	555.1	476.6	423.4	377.6	359.5
Claims on Central Bank of Ireland	1.9	2.0	3.3	5.5	8.7
Claims on Irish resident Other MFIs	52.9	48.6	47.3	46.1	41.2
Claims on Irish resident non MFIs	326.0	280.5	236.5	205.8	194.1
General government	47.2	20.5	20.1	18.4	17.3
Private sector	278.8	260.0	216.4	187.4	176.9
Households	111.1	107.7	96.9	92.0	89.5
Non-Financial Corporations	82.9	78.0	58.0	44.2	41.2
Non-Bank Financial Intermediaries	84.8	74.3	61.5	51.2	46.2
Claims on non-residents	126.8	105.5	94.0	83.5	75.3
Other assets	47.5	40.1	42.3	36.7	40.2
Liabilities	555.1	476.6	423.4	377.6	359.5
Liabilities to Eurosystem 2/	60.5	30.5	13.6	10.0	7.6
Liabilities to Irish resident Other MFIs	59.2	52.1	49.8	46.3	39.5
Deposits of Irish resident non MFIs	153.8	175.3	163.1	166.6	168.1
General government	6.0	13.7	8.6	4.2	4.1
Private sector	147.8	161.6	154.6	162.3	163.9
Households	92.3	91.1	91.4	94.7	96.3
Non-Financial Corporations	29.8	32.4	37.5	40.1	41.0
Non-Bank Financial Intermediaries	25.8	38.1	25.6	27.5	26.6
Deposits of non-residents	78.8	72.2	63.7	42.8	40.7
Debt securities	38.2	26.9	27.4	25.2	23.2
Capital and reserves	98.7	96.6	80.2	67.2	62.2
Other liabilities (incl. Central Bank of Ireland)	65.8	22.9	25.5	19.5	18.2
Money and credit 3/					
Net foreign assets	-13.7	1.7	19.8	42.5	…
Central Bank of Ireland 4/	-61.6	-37.2	-18.0	1.7	…
Commercial banks	47.9	38.9	37.8	40.8	36.3
Net domestic assets	194.2	199.1	155.1	147.0	…
Public sector credit	47.6	20.7	20.8	19.4	18.4
Private sector credit	302.2	278.3	226.7	199.9	189.6
Other	-155.6	-99.8	-92.4	-72.2	…
Irish Resident Broad money (M3) 5/	180.4	200.8	174.9	189.5	198.7
Irish Resident Intermediate money (M2) 5/	168.2	182.7	171.8	184.0	189.0
Irish Resident Narrow money (M1)	92.3	113.4	115.9	132.9	142.9
			(Percent of GDP)		
Public sector credit 6/	108.0	46.0	40.5	27.3	…
Private sector credit 6/	637.4	582.5	435.8	277.5	…
			(Percentage change y/y)		
Broad money - Irish contribution to euro area M3 7/	-7.8	11.5	-0.6	5.1	4.5
Irish Public sector credit 7/ 8/	8.5	-57.8	-3.0	-9.3	-5.6
Irish Household and non-financial corporations credit 7/ 8/	-4.0	-4.9	-4.5	-4.7	-2.6
Memorandum items: 9/					
Credit to deposits (in percent) 10/	188.6	160.9	140.0	115.4	107.9
Deposits from Irish Private Sector (y-o-y percent change)	2.5	8.8	-2.9	4.4	0.6
Wholesale funding (billions of euros)	161.1	135.8	126.9	105.4	95.8
Deposits from MFIs	122.9	109.0	99.5	80.2	72.5
Debt securities	38.2	26.9	27.4	25.2	23.2
Wholesale funding (y-o-y percent change) 11/	-32.7	-12.5	-6.7	-17.7	-7.6
Wholesale funding (percent of assets) 11/	29.0	28.5	30.0	27.9	26.6

Source: Central Bank of Ireland; and IMF staff.
1/ As of November.
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 6. Main Domestic Banks[1/]

(Billions of euros, unless otherwise indicated)

Balance Sheet	2015Q3	2016Q3	Y/Y change	
	€ bn.	€ bn.	€ bn.	%
Cash & due from Eurosystem	10.7	10.9	0.3	2.3
Net loans	170.7	160.8	-10.0	-5.8
Due from banks	7.1	5.3	-1.8	-25.5
Securities & derivatives	50.9	44.6	-6.3	-12.4
Other assets	10.3	8.7	-1.6	-15.5
Total assets	249.6	230.2	-19.4	-7.8
Total average assets (TAA)	257.7	239.0	-18.7	-7.3
Due to Eurosystem	7.2	5.3	-1.9	-26.1
Due to banks	19.1	15.1	-4.0	-21.1
Deposits	158.9	152.5	-6.4	-4.0
Debt & derivatives	32.2	27.0	-5.3	-16.3
Other liabilities	6.7	7.0	0.3	4.4
Total liabilities	224.2	206.9	-17.3	-7.7
Net equity	25.5	23.3	-2.1	-8.4
Total liabilities & equity	249.6	230.2	-19.4	-7.8

Profit and Loss Account	2015Q3		2016Q3	
	€ bn.	% of TAA	€ bn.	% of TAA
Interest income	5.5	2.1	4.9	2.1
Interest expense	-2.0	-0.8	-1.5	-0.6
Net interest margin	3.5	1.4	3.4	1.4
Net fee income	0.7	0.3	0.8	0.3
Net trading gains	0.0	0.0	0.0	0.0
Other nonrecurrent items	0.3	0.1	0.5	0.2
Gross operating income	4.6	1.8	4.7	2.0
Operating expenses	-2.6	-1.0	-2.8	-1.2
o/w: administration & other	-1.3	-0.5	-1.5	-0.6
o/w: staff	-1.3	-0.5	-1.3	-0.5
Preprovision profits (PPP)	2.0	0.8	2.0	0.8
Loan loss & NAMA provisions	0.6	0.2	0.2	0.1
Loss on derecognized assets	-0.2	-0.1	0.1	0.1
Net income before tax	2.4	0.9	2.3	0.9
Tax effects & other	-0.6	-0.2	-0.5	-0.2
Net income	1.8	0.7	1.7	0.7

Memorandum items:

	2015Q3 € bn.	2016Q3 € bn.	Y/Y change € bn.	Y/Y change %
Gross loans 2/	189.9	173.6	-16.3	-8.6
Loan loss provisions	18.6	12.8	-5.8	-31.0
Gross NPLs	35.9	24.7	-11.2	-31.2
Gross NPLs to gross loans (%)	18.9	14.2		-24.7
Provisions to gross NPLs (%)	51.9	52.0		0.3
Net NPLs to net equity (%)	67.8	50.8		-25.1

	2015Q3 € bn.	2015Q3 % of TAA	2016Q3 € bn.	2016Q3 % of TAA
PPP net of other nonrecurrent items	1.7	0.6	1.5	0.6
Return on equity		7.0		7.4
Provisions to gross loans		0.4		0.1
Risk weighted assets (RWA)	123.6	47.9	120.5	50.4
Core tier 1 capital (CT1) and CT1 to RWA (%)	20.5	16.6	18.1	15.0
CT1 to total assets = leverage ratio (%)		8.2		7.9

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 7. Ireland: Indicators of Fund Credit, 2012-23

(Millions of SDR)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund credit												
Disbursement	5,493	2,922	0	0	0	0	0	0	0	0	0	0
Stock 1/	16,543	19,466	11,822	3,773	3,773	3,773	3,773	3,773	3,773	1,420	349	0
Obligations	332	456	8,292	8,234	40	47	47	47	47	2,391	1,085	352
Repurchase 2/	0	0	7,644	8,049	0	0	0	0	0	2,353	1,071	349
Charges	332	456	648	185	40	47	47	47	47	38	14	3
Stock of Fund credit												
In percent of quota 3/	1,315	1,548	940	300	109	109	109	109	109	41	10	0
In percent of GDP	11.2	12.4	7.0	1.9	1.8	1.7	1.7	1.6	1.5	0.5	0.1	0.0
In percent of exports of goods and services	10.5	11.7	6.2	1.5	1.5	1.4	1.3	1.3	1.2	0.4	0.1	0.0
In percent of government revenue	33.1	36.2	20.5	6.7	6.6	6.3	6.2	5.9	5.7	2.1	0.5	0.0
Obligations to the Fund												
In percent of quota 3/	26.4	36.3	659.3	654.8	1.2	1.4	1.4	1.4	1.4	69.3	31.5	10.2
In percent of GDP	0.2	0.3	4.9	4.1	0.0	0.0	0.0	0.0	0.0	0.9	0.4	0.1
In percent of exports of goods and services	0.2	0.3	4.3	3.3	0.0	0.0	0.0	0.0	0.0	0.7	0.3	0.1
In percent of government revenue	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.

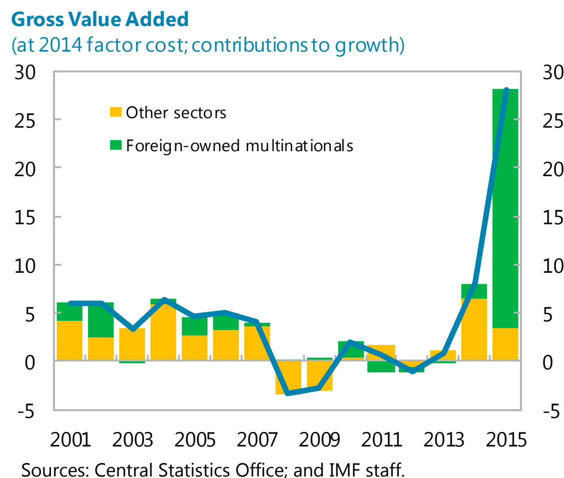
1/ End of period.

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. National Accounts Revision

1. As outlined in the Supplement to the 2016 Article IV staff report, in July 2016, Ireland's Central Statistics Office (CSO) revised substantially the national accounts for 2015, mainly due to corporate restructuring operations of a small number of multinational companies, including the relocation to Ireland of companies' entire balance sheets and the shift of assets to Irish subsidiaries. As a result, the GDP growth rate was upgraded from 7.8 percent to 26.3 percent.[1] On the supply side, the revision was due to a level shift in the stock of capital assets (mainly intellectual property) in Ireland. The mirror image of this was a substantial negative revision of Ireland's NIIP due to higher liabilities to nonresidents. On the demand side, Ireland's net exports were substantially revised upward, reflecting an increase in "contract manufacturing" and lower payment of royalties due to the on-shoring of intellectual property.[2] The CSO estimates that in 2015, the output of foreign-owned multinational enterprises (MNE) grew by 101 percent, while the non-MNE dominated sectors of the Irish economy increased by 4.4 percent over the same period.[3]



Sources: Central Statistics Office; and IMF staff.

2. Although computed strictly in line with international best practices and statistical standards, Ireland's headline GDP and GNP figures no longer provide an effective measure of economic activity that physically takes place in the national territory, as a very significant amount of activity carried out in other countries is now recorded in Ireland's national accounts. In 2015, foreign-owned multinational enterprises accounted for almost 40 percent of Ireland's gross value added at constant 2014 basic prices.

3. As a consequence, it becomes more difficult to gauge the cyclical position of the economy and hence the appropriate setting of economic policies. Headline GDP may become more volatile, together with the tax base, as investment in intellectual property may easily move across jurisdictions. Productivity as well as potential output and the output gap are more difficult to estimate. Traditional fiscal metrics, usually expressed in percent of nominal GDP, need to be

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[1] See http://www.cso.ie/en/media/csoie/newsevents/documents/IrelandEconomicGrowthFigures.pdf.

[2] "Contract manufacturing" refers to a special form of outsourcing, where an Irish company engages a company abroad to manufacture products on its behalf but retains the economic ownership of the inputs used in this production process. This process includes the import of intermediate inputs and manufacturing services by the Irish company. Subsequently, when the product is sold to a customer abroad, a change in economic ownership takes place and the export of this good is then recorded in the Irish national accounts and balance of payments, even though it was never physically present in Ireland.

[3] See, http://www.cso.ie/en/releasesandpublications/er/gvafm/grossvalueaddedforforeign-ownedmultinationalenterprisesandothersectorsannualresultsfor2015/.

assessed carefully (for example, although the debt-to-GDP ratio fell 15 percentage points based on the change of methodology, the economy's capacity to sustain its debt has not changed).

4. To address these issues, the CSO has convened a high-level cross-sector consultative group (the Economic Statistics Review Group), with the task of providing guidance to the CSO on the development of a broader or more detailed suite of indicators that give greater insight into economic activity in Ireland. The Group is chaired by the Governor of the Central Bank of Ireland and comprises Eurostat and the IMF as international observers.

5. The Group's findings are expected to be communicated in early 2017.

Annex II. Government's Initiatives to Address Housing Shortages and Homelessness

1. In response to the mounting pressures in the housing market and the need to reduce homelessness and increase affordability, the government introduced a comprehensive multi-pronged Housing Action Plan in July 2016. The plan is based on five pillars:

- **Addressing homelessness and keeping people in their homes**: enhance support for vulnerable families; ensure adequate supply of emergency accommodation at the national level; establish a new mortgage arrear resolution service and introduce a state-funded Advice-and-Arrears scheme to support distressed borrowers; and review the Code of Conduct on mortgage arrears to ensure that it is fair and balanced.

- **Accelerate the delivery of social housing**: allocate an amount of €5.35 billion for the delivery of 47,000 social housing units until 2021; streamline the approval processes, create new delivery mechanism, including the establishment of NTMA/private sector fund to support additional supply; and provide housing assistance plan for those with long-term housing needs.

- **Increase the output of private housing**: deliver 25,000 units per annum on average in 2017–21 by freeing up land supply; reducing land and construction costs; creation of local infrastructure housing activation fund to relieve critical infrastructure impediments; reform planning processes; and increase construction capacity by reducing skill mismatches.

- **Improve the rental sector**: encourage additional investment in the rental sector; improve the affordability of rent and increase the certainty for both tenants and landlords; enhance the role of the Residential Tenancies Board; and review the standards of the rental accommodation to ensure that they reflect the requirements of a modern rental market.

- **Utilize existing housing**: better manage the social housing stock to avoid prolonged periods of vacancies; increase the Housing Agency's capacity to acquire vacant properties from banks and investors, work with local authorities and the Housing Agency to resolve the legacy of unfinished housing estates; and remove regulatory barriers to re-using vacant properties.

Annex III. Risk Assessment Matrix[1/]

Source of Risk and Likelihood (G-RAM)	Impact if Realized	Policy Recommendations Mitigation/Response
M **Protracted uncertainty associated with negotiating post-Brexit arrangements** could weigh on confidence and investment more than expected—most prominently in the UK and the rest of Europe with possible knock-on effects elsewhere. Increased barriers could also dampen the longer-run economic performance of affected countries more than expected.	H Given Ireland's significant trade and financial links with the UK, a sustained fall in the £/€ rate or an increase in trade barriers would impact the economy significantly and affect consumer and investor confidence, with sizeable repercussion on the labor market and sovereign spreads. Irish banks' already weak profitability would be dented, given their direct and indirect exposures, and the burden of impaired assets may increase further. Sensitivities related to the Irish border question due to Brexit also present special challenges.	In the short run, allow automatic stabilizer to work. In the medium term, fiscal policy, within the limited room for discretionary measures, should support growth. Expenditure savings could be redirected to pro-growth initiatives. 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. Continue close supervision and accelerate balance-sheet repair. And ensure that banks would be able to withstand negative shocks. Central banks should stand ready to provide liquidity support to banks if needed.
H **Rise in populism and nationalism in large economies**—especially those with near-term elections—could slow down or even reverse policy coordination and collaboration; international trade liberalization; financial, and labor flows; and lead to unsustainable policies, weighing on global growth and exacerbating financial market volatility.	H As a small open economy, Ireland is extremely vulnerable to external shocks. In this context, the role of MNEs might mitigate as well as exacerbate the impact on the economy depends on the nature of the shock. While populist and/or anti-EU movement have not had a major impact in Ireland to date, increased disenchantment with globalization may spur political fragmentation.	Participate in coordinated policy response at the European level. In the short run, let automatic stabilizers work. Smooth out debt issuance through use of cash buffers. Strengthening growth potential through reforms, as noted above. Accelerate NPL reduction and more broadly work to strengthen bank resiliency to negative shocks.
M **Sharp rise in risk premia with flight to safety**: Investors withdraw from specific risk asset classes as they reassess underlying economic and financial risks in large economies, or respond to unanticipated Fed tightening, and increases in U.S. term premia, with poor market liquidity amplifying volatility. Safe haven currencies—especially the US dollar—surge creates balance sheet strains for FX debtors.	L/M High private and public debt, and high financial interconnectedness make Ireland susceptible to contagion. However, market developments suggest any spread widening is likely to be contained by the ECB's QE. If spreads widen, the impact on deficits and debt would be limited by low financing needs, and cash buffers. The impact on growth could be more significant in the case of a reversal of inflows into commercial property.	Continue phased and steady fiscal consolidation to reinforce market confidence, while allowing automatic stabilizers to work. Fiscal policy should be more growth-friendly, within the existing fiscal envelope.

H **Structurally weak growth in key advanced economies**: Weak demand, low productivity growth, and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to lower medium-term path of potential growth (the Euro area, Japan, and the United States) and exacerbating legacy financial imbalances especially among banks (the Euro area).	M/H 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.	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.
L **Persistently lower energy prices,** triggered by supply factors reversing more gradually than expected.	L Lasting low energy prices would reduce production costs and increase the real income of consumers supporting economic growth. However, low inflation and inflation expectations could also lead to high savings and lower investment given the slower decline in the real private debt burden.	ECB policy actions should contribute to mitigating disinflation.
M **Domestic adjustment fatigue** coupled with a challenging political context. The minority government is facing increasing public expectations to reap the fruits of the recovery.	M 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.	Ensure sound public finances and a durable debt reduction to rebuild fiscal buffers. Enhance communication strategy regarding policy and reform plans.
L **High concentration of the industrial base in a small number of high-tech sectors,** which makes the Irish economy vulnerable to sectoral and firm-specific shocks.	M 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 companies.	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

[1/] The 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 relatively likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline (with L, M, H, denote low, medium, and high, respectively). The RAM reflects staff views on the sources of risk and overall level of concern as of the time of discussions with the authorities.

Annex IV. Irish Banks' Resilience to Stressed Macroeconomic Conditions

1. The resilience of Irish banks to economic shocks was assessed by the European Banking Authority (EBA), within the context of the EU-wide stress tests completed just after the Article IV discussion. Notwithstanding some differences in terms of methodology and scope versus the IMF Financial Stability Assessment Program (FSAP) (see below), the conclusions are similar. Specifically, although significant progress has been made in supporting its resilience, the Irish banking sector remains vulnerable to an adverse shift in macroeconomic conditions. In particular,

- The **EBA's solvency stress tests**, which were applied to Allied Irish Banks (AIB) and Bank of Ireland (BOI), show that the Common Equity Tier 1 (CET1) ratio of the two Irish banks would end up among the worst of the 51 European banks considered, mainly owing to high level of distress loans and deferred tax assets. The stress test assumed a static balance sheet, which implies that maturing low-yield assets (mortgage tracker) and costly liabilities (Contingent Capital Notes) would be replaced with similar financial instruments. In this exercise, compared to the baseline scenario, the fully loaded CET1 ratio for BOI would fall by 8.9 percentage points to 6.1 percent in 2018, while the ratio for AIB would face a sharper fall of 9.6 percentage points to 4.3 percent, both below the relevant minimums, thus indicating that there is room to improve the banks' loss absorption capacity. This exercise will inform the 2016 round of the ECB's assessment of the capital needs of each credit institution.
- The **FSAP solvency stress test**, applied to five systemically important institutions, indicates that, in an adverse macroeconomic scenario, the fully loaded CET1 ratio would drop by 7.2 percentage points below the baseline in 2018, largely on the back of higher loan-loss provisions, increased funding costs, and Basel III adjustments. Four banks would see their CET1 ratio fall below 7 percent.

Stress tests' key assumptions[1/]

Deviation from baseline in 2018	EBA	FSAP
Real GDP	-10.4	-9.5
Unemployment rate (in percentage points)	4.6	4
HICP inflation (percent)	-3.5	-5
Long-term interest rate	74	460
Residential real estate prices	-22.3	-30
Commercial real estate	-28.4	-46

1/ The FSAP and the EBA stress tests used data available through June 2015 and December 2015, respectively.

2. **Methodology and scope**: The two stress test exercises were complementary in terms of assumptions and methodology. The EBA macroeconomic shock, which was somewhat more severe than the FSAP shock, led to higher credit defaults. The FSAP's adverse scenario incorporated a more pronounced depreciation of property market prices as well as greater funding shock and financial asset devaluation. Furthermore, unlike in the FSAP stress tests, the EBA methodology allowed for an improvement in the pension deficit due to higher yields and the accrual of interest income on nonperforming loans. It also applied a constant balance sheet approach, against more dynamic balance sheet assumptions in the FSAP stress tests.