INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/123

# IRELAND

## 2021 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2021

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Ireland, 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 May 7, 2021, 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 May 25, 2021.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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**International Monetary Fund**
**Washington, D.C.**

PRESS RELEASE

PR21/176

# IMF Executive Board Concludes 2021 Article IV Consultation with Ireland

**FOR IMMEDIATE RELEASE**

**Washington, DC** – **June 16, 2021:** On June 14, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Ireland.

The Irish economy was on a favorable path of high growth and declining vulnerabilities in the runup to the pandemic. COVID-19 outbreak had a large impact on Ireland. The high infection rates led to one of the most stringent containment regimes. The economic impact has been highly asymmetric. The domestic sectors contracted by about 10 percent while the export-oriented IT and pharmaceutical sectors, which are dominated by multinationals, grew by 18 percent in 2020, resulting in the overall GDP growth of 3.4 percent in 2020. The "COVID-adjusted" unemployment rate (including short-term pandemic-related unemployment) registered 20 percent for the year. The strong growth in CIT intake and resilient PIT revenues, helped contain the fiscal deficit at 5 percent of GDP despite the large expenditure measures. The annual average rate of inflation for the year was -0.5 percent. Future CIT revenue could be impacted by a possible adoption of an international minimum tax that is higher than Ireland's 12.5 percent although it would be mitigated by Ireland's non-tax comparative advantages that are likely to continue to attract FDI.

Irish banks have entered the crisis with strong capital levels but high level of legacy NPLs and low profitability. Lending to households and non-financial firms declined by about 4 percent year-on-year during the second half of 2020. Both households and firms, particularly SMEs, have significantly benefited from the payment breaks, limiting their vulnerabilities to the reductions in earnings and consumer spending. While impairment charges and NPLs have slightly increased, arrears in banks' mortgage portfolios have continued to decline and capital levels remain solid. Delays in construction during the COVID-19 crisis have exacerbated the shortage of affordable housing. After a small decline in H1:2020, house prices started to grow as demand exceeded supply.

GDP growth is projected at 4.6 percent in 2021, with the negative impact of prolonged lockdown counterweighted by an improved external outlook and increased adaptability to remote working. Private consumption is projected to recover quickly following mass vaccination and easing of restrictions. With a no-deal Brexit avoided, and a vaccine rollout underway, the outlook for investment will begin to improve. Indigenous exporting firms should benefit from a post-COVID international recovery, notwithstanding uncertainties surrounding implementation of some aspects of the EU-UK Trade and Cooperation Agreement (TCA). It is expected that export growth of pharmaceuticals, medical devices, and IT products remains resilient through 2022.

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

**Executive Board Assessment**[2]

The highly asymmetric impact of the pandemic on the Irish economy suggests a two-speed recovery. The domestic sector, which is more labor-intensive, contracted by about 10 percent in 2020, but the strong growth of MNEs softened the blow to the economy and public finances, making Ireland the only EU country with positive growth last year. GDP growth for 2021 is projected at 4.6 percent, with the domestic sector partly recovering as containment measures are gradually eased and adaptability to remote working continues to increase.

The swift and unprecedented policy response has been effective in mitigating the crisis impact and protecting households and firms**.** With a total envelope of around 10 percent of GDP (18 percent of GNI*) for 2020-21, the fiscal package was similar to that of other European countries but included a larger share of direct support. Notwithstanding the large direct support, the overall deficit for 2020 was contained at about 5 percent of GDP due to the strong revenue growth from corporate income taxes.

There is significant uncertainty over the near- and medium-term outlook. Risks are dominated by the pandemic dynamics, the execution of post-Brexit trade arrangements, and likely changes in international corporate taxation. While there are some downside risks for the rest of the year given the ongoing third wave, recent progress in vaccine rollout is promising and provides a significant upside risk. The authorities' comprehensive Brexit response has helped acquaint firms in the sectors most exposed to Brexit with customs procedures, thus reducing their vulnerability. Nevertheless, uncertainties around the non-tariff trade impediments remain a risk given Ireland's strong linkages with the U.K. Changes in international taxation can also affect both the Irish economy and public finances. Ireland should therefore continue to build on its strong non-tax comparative advantages, such as its qualified labor force, strong and stable legal and policy environment, and favorable business climate.

Fiscal policy should continue to be supportive in the near term to avoid cliff-edge effects, especially in view of remaining vulnerabilities**.** As the recovery takes hold, it will need to be adjusted to sustainably boost growth and support social cohesion. After the recovery is complete, the tax base should be broadened to help finance productivity-enhancing investment in human and physical capital, and to resume the reduction in public debt in relation to GNI*. There is also a need to further improve expenditure efficiency, including by enhancing the implementation of infrastructure projects and maintenance of public assets.

Further progress should be made in the period ahead to build on the regulatory actions taken in response to the pandemic, which helped stabilize credit conditions**.** The CBI complemented the ECB's policy support by releasing the countercyclical capital buffer for banks and set out clear expectations around how the industry-led debt moratoria should operate. Lenders should continue to engage constructively with borrowers in financial distress to put in place appropriate and tailored solutions to those borrower's circumstances. It is also important that supervisory focus remains on the timely recognition of problem assets and developing capacity to resolve rising NPLs. The insolvency and bankruptcy systems should be kept under review and enhanced as needed. Over the medium term, cost reduction and greater use of digital technologies could help raise banks' low profitability and reduce lending rates. Non-bank lenders are expected to increase their presence in the market in the period ahead, but

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

strategic initiatives recently announced by two smaller banks are likely to lead to their withdrawal from the Irish market. This further highlights the need for supervisors to focus on the sustainability of banks business models, in particular on banks actions to achieve greater cost efficiency.

Continued strengthening of the regulatory framework for investment funds will help mitigate any spillover and potential reputational risks. Although sizeable redemption pressures at the onset of the crisis receded quickly, and direct exposures to the domestic economy remain limited, the large absolute size of the investment fund sector relative to the domestic economy calls for constant vigilance. We therefore welcome the CBI's plan to further improve data collection, strengthen risk management across the sector, and develop the macroprudential framework in close coordination with other European regulators.

Withdrawal of policy support should be carefully tapered to minimize economic scarring and facilitate an inclusive and sustainable recovery. It is important to adapt and gradually withdraw temporary support measures as the recovery takes hold to incentivize transformation and resource reallocation. Active labor market policies should be further strengthened as support measures are withdrawn, including in areas such as re-training and employment placement services, with special focus on youth employment. Income support measures should become increasingly conditional on re-skilling and further shift toward subsidizing new hiring in the expanding sectors to minimize the increase in long-term unemployment. Business support measures should also be increasingly targeted to affected but viable firms.

The authorities also need to strike a balance between providing targeted support to hard-hit sectors and vulnerable groups and addressing Ireland's medium-term challenges. This will require raising productivity through better education and vocational training. It is also important to empower women to raise their low labor participation, including by increasing the availability of affordable childcare facilities. Reducing affordable housing shortages requires a comprehensive multi-pronged approach across government institutions and levels. More public investment in social and physical infrastructures as well as affordable housing calls for greater spending efficiency and raising additional public revenue after the recovery is complete given the still high public debt in relation to GNI*. In addition, recently legislated higher carbon tax, with a trajectory to 2030, will help finance this effort, and sector-specific policies will help protect vulnerable groups in the transition to greener and more sustainable growth.

## Ireland: Selected Economic Indicators, 2017-26

Population (2020, million): 5.0 | Per capita modified income (2019, euros): 43,174

| | 2017 | 2018 | 2019 | 2020 | Projections 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | (annual percentage change, constant prices, unless otherwise indicated) | | | | | | | | | |
| **Output/Demand** | | | | | | | | | | |
| Real GDP 1/ | 9.1 | 8.5 | 5.6 | 3.4 | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.8 |
| Domestic demand | 1.2 | -1.9 | 32.4 | -18.1 | -11.2 | 7.5 | 4.8 | 4.2 | 3.5 | 3.5 |
| Public consumption | 3.8 | 5.8 | 6.3 | 9.8 | 3.0 | -3.0 | 0.0 | 2.9 | 2.9 | 2.9 |
| Private consumption | 2.4 | 2.8 | 3.2 | -9.0 | 3.0 | 10.0 | 3.5 | 3.0 | 2.6 | 2.6 |
| Gross fixed capital formation | 0.0 | -6.2 | 74.8 | -32.3 | -30.0 | 10.0 | 9.0 | 6.5 | 5.0 | 5.0 |
| Exports of goods and services | 9.2 | 11.1 | 10.5 | 6.2 | 6.0 | 5.1 | 4.5 | 4.0 | 4.0 | 4.0 |
| Imports of goods and services | 1.1 | 4.0 | 32.4 | -11.3 | -4.9 | 7.0 | 5.5 | 5.5 | 5.0 | 5.0 |
| Output gap | 1.6 | 1.0 | 0.6 | -2.3 | -1.9 | -0.7 | -0.2 | 0.0 | 0.0 | 0.0 |
| **Contribution to growth** | | | | | | | | | | |
| Domestic demand | 1.0 | -1.5 | 23.0 | -15.8 | -7.8 | 4.5 | 3.0 | 2.6 | 2.2 | 2.3 |
| Consumption | 1.3 | 1.5 | 1.7 | -1.9 | 1.2 | 2.4 | 1.0 | 1.2 | 1.1 | 1.1 |
| Gross fixed capital formation | 0.0 | -2.0 | 21.2 | -14.7 | -9.0 | 2.1 | 1.9 | 1.5 | 1.2 | 1.2 |
| Inventories | -0.2 | -1.0 | 0.1 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net exports | 10.0 | 9.4 | -17.5 | 20.6 | 12.4 | 0.4 | 0.8 | 0.2 | 0.6 | 0.5 |
| Residual | -1.9 | 0.6 | 0.1 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Prices** | | | | | | | | | | |
| Inflation (HICP) | 0.3 | 0.7 | 0.9 | -0.5 | 1.6 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 |
| Inflation (HICP, end of period) | 0.5 | 0.7 | 1.1 | -1.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| GDP deflator | 1.6 | 0.3 | 3.1 | -0.5 | 2.0 | 1.9 | 1.9 | 2.0 | 2.0 | 2.0 |
| **Employment** | | | | | | | | | | |
| Employment (ILO definition) | 2.9 | 2.9 | 2.9 | -1.3 | 1.0 | 2.0 | 1.5 | 1.2 | 1.0 | 1.0 |
| Unemployment rate (percent) | 6.7 | 5.8 | 5.0 | 5.6 | 6.8 | 5.7 | 5.3 | 5.1 | 5.0 | 5.0 |
| | (percent of GDP) | | | | | | | | | |
| **Public Finance, General Government** | | | | | | | | | | |
| Revenue | 26.0 | 25.8 | 25.1 | 23.4 | 22.1 | 22.2 | 22.2 | 22.3 | 22.3 | 21.9 |
| Expenditure | 26.3 | 25.7 | 24.6 | 28.4 | 27.7 | 25.1 | 23.4 | 23.1 | 22.7 | 22.2 |
| Overall balance | -0.3 | 0.1 | 0.5 | -5.0 | -5.6 | -2.8 | -1.2 | -0.8 | -0.4 | -0.3 |
| Primary balance | 1.6 | 1.7 | 1.7 | -4.0 | -4.6 | -1.9 | -0.3 | 0.1 | 0.4 | 0.5 |
| Structural balance (percent of potential GDP) | -0.8 | -0.2 | 0.3 | -1.6 | -2.7 | -2.6 | -1.1 | -0.8 | -0.4 | -0.3 |
| General government gross debt | 67.0 | 63.0 | 57.4 | 59.5 | 63.0 | 62.9 | 60.9 | 59.0 | 56.9 | 53.1 |
| General government gross debt (percent of GNI*) | 108.1 | 103.6 | 95.6 | ... | ... | ... | ... | ... | ... | ... |
| **Balance of payments** | | | | | | | | | | |
| Trade balance (goods) | 36.3 | 33.4 | 33.5 | 37.9 | 35.0 | 32.3 | 30.4 | 28.9 | 27.5 | 25.8 |
| Current account balance | 0.5 | 6.0 | -11.3 | 4.6 | 5.8 | 5.6 | 5.4 | 5.2 | 5.1 | 5.0 |
| Gross external debt (excl. IFSC) 2/ | 258.9 | 265.5 | 280.0 | 282.2 | 270.9 | 261.0 | 254.6 | 251.1 | 248.3 | 246.4 |
| | (percent) | | | | | | | | | |
| **Monetary and financial indicators** | | | | | | | | | | |
| Bank credit to private sector (growth rate) | -3.2 | -3.4 | -2.3 | -6.1 | ... | ... | ... | ... | ... | ... |
| Deposit rates | 0.4 | 0.3 | 0.3 | 0.4 | ... | ... | ... | ... | ... | ... |
| Government 10-year bond yield | 0.8 | 1.1 | 0.3 | 0.6 | ... | ... | ... | ... | ... | ... |
| **Memorandum items:** | | | | | | | | | | |
| Nominal GDP (€ billions) | 300.4 | 327.0 | 356.1 | 366.5 | 391.1 | 417.8 | 441.9 | 463.5 | 485.8 | 509.3 |
| Nominal GNI* (€ billions) | 186.2 | 198.7 | 213.7 | ... | ... | ... | ... | ... | ... | ... |

Sources: CSO; DoF; Eurostat; and IMF staff.

1/ The reported real GDP growth is seasonally-adjusted (SA). The annual SA versus NSA differences in 2018-2020 arise principally due to the lumpy, irregular pattern of IP Imports over the past three years.

2/ IFSC indicates international financial services.

INTERNATIONAL MONETARY FUND

# IRELAND

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

May 25, 2021

## KEY ISSUES

**Context and Outlook.** Ireland entered the COVID pandemic with reduced vulnerabilities and high growth, especially in multinational enterprises (MNEs)-dominated sectors. The pandemic has had a highly asymmetric impact on the economy. The domestic sectors contracted by about 10 percent in 2020 and unemployment reached 30 percent at the peak of the first wave, while MNEs continued to grow strongly, driving overall GDP growth to 3.4 percent. A swift policy response has been effective in mitigating the crisis impact and protecting households and firms. The domestic sectors are expected to partially recover in 2021, with GDP growth projected at 4.6 percent. Downside risks stem from uncertainties surrounding new COVID variants, post-Brexit trade arrangements, and likely changes in international taxation.

**Fiscal policy.** Past prudent policies and large corporate income tax (CIT) receipts, including in 2020, facilitated a comprehensive policy response to the pandemic. The fiscal stance in 2020 and 2021 is adequate. Measures should be extended as needed to support the recovery, especially in view of the downside risks. Support measures should increasingly focus on facilitating transformation to a greener and more digital growth path. Efforts should continue to improve the quality of expenditure, and more investment should be directed to physical and social infrastructure, including in health, education, and housing. After the recovery is complete, the tax base should be broadened to finance the additional spending and further reduce fiscal vulnerabilities.

**Financial policies.** The Central Bank of Ireland (CBI) complemented the European Central Bank's (ECB) policy support by releasing the countercyclical capital buffer for banks and setting out clear expectation on how the industry-led debt moratoria should operate. Borrower support cushioned potential impairments and limited the decline in credit. Supervisors should carefully monitor banks' portfolios to ensure timely recognition of problem assets and sufficient capacity to resolve non-performing loans (NPLs). Unwinding of support should be gradual to avoid cliff-edge effects. In the medium term, ensuring adequate competition while improving banks' low profitability through greater digitalization and reducing costs would help lower lending rates.

**Structural reforms.** An inclusive and sustainable recovery will require raising productivity through better education and training; effective active labor market policies, especially for the youth and female workers; and alleviating the shortage of affordable housing. Additional effort is also needed to scale up green investments to meet Ireland's ambitious climate targets.

Approved By
**Mahmood Pradhan (EUR) and Bjoern Rother (SPR)**

The mission took place in a virtual format during April 26–May 7, 2021. It comprised Khaled Sakr (head), Andreas Jobst, Anna Shabunina, and Marzie Taheri Sanjani (all EUR). Paul Mathieu and Tumer Kapan (both MCM) participated in the financial sector meetings. Feargal O'Brolchain and Paul Mooney (both OED) also attended the meetings. The mission met with Minister for Finance Paschal Donohoe, Minister for Public Expenditure and Reform Michael McGrath, Governor of the Central Bank of Ireland Gabriel Makhlouf, other officials, parliamentarians, and representatives of the labor unions, business community, the banking sector, and industry, as well as staff from ECB Banking Supervision. Gilda Ordonez-Baric, Yushu Chen, and Fuda Jiang (all EUR) assisted from headquarters.

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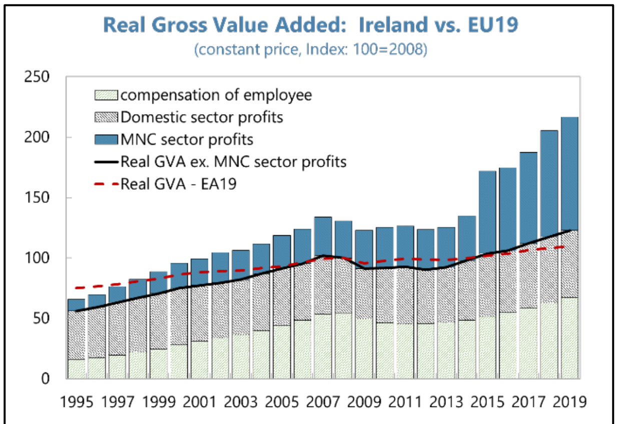
## ANNEXES

# CONTEXT: TWO-SPEED ECONOMY

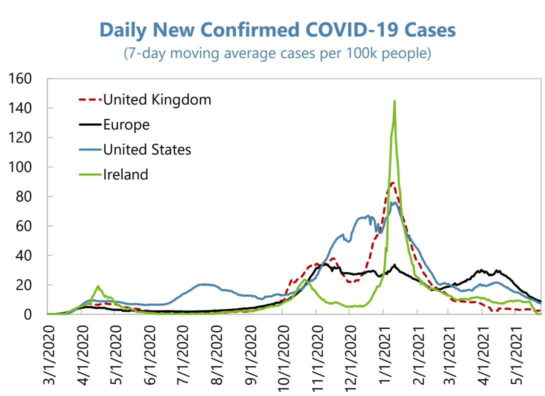
**1. The Irish economy was on a favorable path of high growth and declining vulnerabilities in the runup to the pandemic.** GDP grew by an annual average of 8 percent during 2017-19, unemployment fell to 5 percent, and the fiscal surplus rose to ½ percent of GDP, with the primary balance in surplus for six consecutive years. Public debt declined to 57 percent of GDP but remained close to 100 percent of GNI* (excluding MNEs). The private sector continued deleveraging with falling household and SME indebtedness. Banks capitalization increased but crisis legacies persisted, including elevated NPLs and low profitability. Inflation has been subdued at below 1 percent.



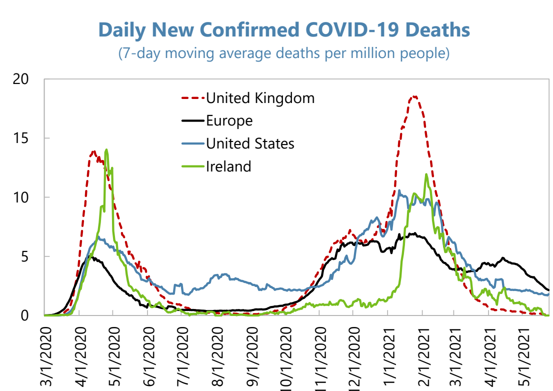
Sources: CSO, Eurostat, and IMF Staff Calculations.

**2. Ireland suffered high COVID infection rates and imposed one of the most stringent containment regimes.** The country coped relatively well with the first two waves of infections, with the strict lockdowns and gradual approach to reopening. However, the economy's reopening at the beginning of December, accompanied by increased social interactions during the holidays and the arrival of a more contagious virus variant from the U.K., resulted in a surge of infections from the lowest levels in Europe to the highest in the world by the second week of January. This necessitated a third lockdown in January through April 2021 with tighter restrictions, including the closure of schools and most construction sites. Infection rates have come down since then. The government has announced gradual reopening starting in May.

**Figure 1. Ireland: COVID - Infections, Restrictions and Mobility**

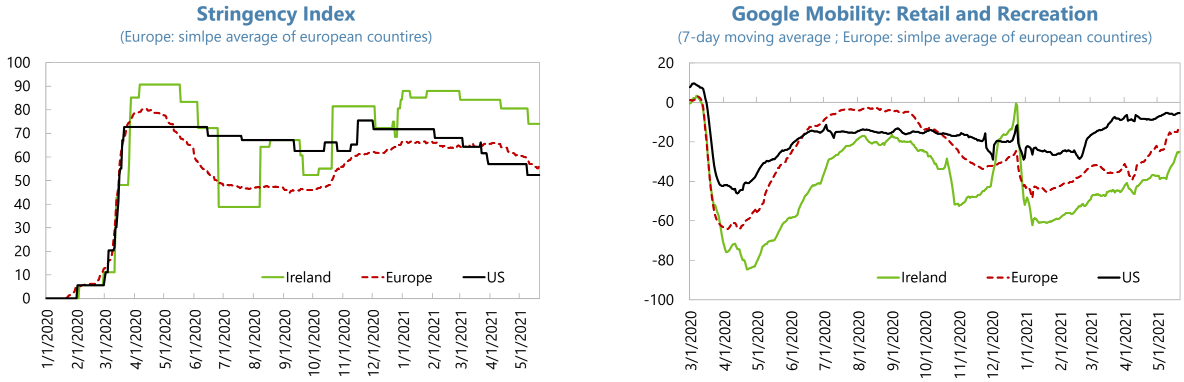


Sources: JHU, and IMF Staff Calculations.



Sources: JHU, and IMF Staff Calculations.

**Figure 1. Ireland: COVID - Infections, Restrictions and Mobility (concluded)**




Sources: Oxford University and IMF Staff Calculations.

Sources: Google and IMF Staff Calculations.

3. **The pandemic's impact on the domestic economy and the labor market was severe.** Output of labor-intensive domestic sectors (i.e., excluding manufacturing and information and communications technologies (ICT)) fell by about 10 percent in 2020, with agriculture least affected at -1.6 percent and entertainment and arts the most (-54 percent), followed by hospitality. Private consumption declined by 9 percent, slightly worse than the EU average, due to the stricter containment measures and to the large share of services in the consumption basket. Labor market data also shows a strong COVID impact. Unemployment reached 30 percent at the peak of the first infection wave, and after some moderation, increased again during the third wave to 25 percent. The "COVID-adjusted" unemployment rate (including short-term pandemic-related unemployment) thus registered almost 20 percent for the year. The annual average rate of inflation for the year was -0.5 percent.

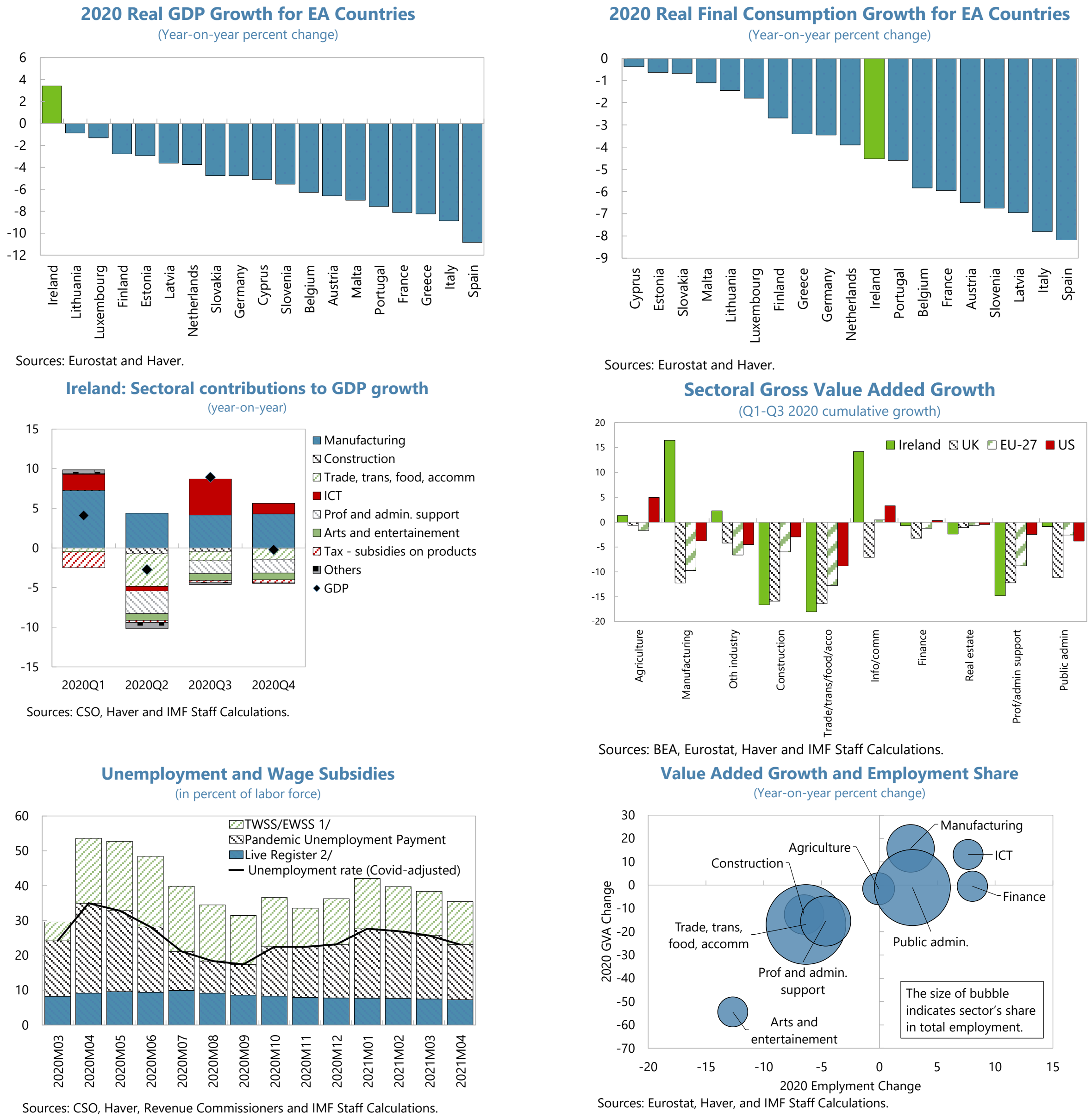
4. **However, strong growth of the MNEs-dominated sectors softened the blow to the economy and public finances, making Ireland the only EU country with positive GDP growth in 2020.** GDP grew by 3.4 percent in 2020 due to the exceptional growth of export-oriented IT and pharmaceutical sectors dominated by multinationals (with output growth of 18 percent in 2020). Employment in multinational companies increased by 3.6 percent and CIT revenues by 8 percent in 2020. This helped contain the fiscal deficit at 5 percent of GDP, which is among the smallest deficits in the euro area, despite the large expenditure measures. Strong performance by the MNEs also contributed to the external position in 2020 being moderately stronger than the level implied by medium-term fundamentals (Annex V).

5. **Comprehensive support measures have been adopted as the pandemic evolved.** The government deployed a large fiscal package amounting to 10 percent of GDP in 2020-21. The wide range of instruments in this package included expanded unemployment benefits, wage subsidies, grants, tax deferrals, tax cuts, and corporate loan guarantees[1]. Above-the-line expenditure measures were the second largest in the euro area. The large scale of intervention prevented a larger decline in domestic economic activity.

[1] See IMF-Tracker of Policy Responses to COVID-19.

**6. The government program includes a strong green agenda and increased housing and health spending[2].** The current government coalition of Fianna Fáil and Fine Gael, and the smaller Green Party took office end-June 2020 after protracted negotiations following general elections in February 2020. However, the main opposition party, Sinn Fein won close to one quarter of the parliament seats on housing and health care issues.

**Figure 2. Ireland: Output, Consumption, and Unemployment**




1/ The Employment Wage Subsidy Scheme (EWSS) replaced the Temporary Wage Subsidy Scheme (TWSS) from 1 September 2020.
2/ The Live Register shows the numbers of people (with some exceptions) registering for Jobseekers Benefit (JB) or Jobseekers Allowance (JA) or for various other statutory entitlements at local offices of the Department of Social Protection.

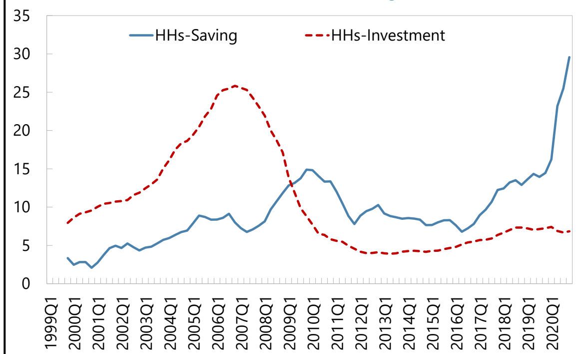
[2] Budget 2021 includes extra €4 billion allocation for health: and an additional €500 million of capital expenditure, including for the construction of 9,500 social housing units and social housing retrofits.

# OUTLOOK AND RISKS

7. **Ireland's economy is on the mend thanks to the unprecedented policy support and strong performance of MNEs.** Staff project 2021 growth at 4.6 percent, with the negative impact of prolonged lockdown counterweighted by an improved external outlook, including the large fiscal stimulus in the United States - Ireland's main trade partner – and increased adaptability to remote working. Private consumption is projected to recover quickly following mass vaccination and easing of restrictions. With a no-deal Brexit avoided, and a vaccine rollout underway, the outlook for investment will begin to improve. Indigenous exporting firms should benefit from a post-COVID international recovery, notwithstanding uncertainties surrounding implementation of some aspects of the EU-UK Trade and Cooperation Agreement (TCA). It is expected that export growth of pharmaceuticals, medical devices, and IT products remains resilient through 2022. Staff projects the output gap to remain negative for couple of years and close in the medium-term.

**Households: Saving and investment**

(Billions of euro, 12m-moving sum)




Sources: OECD and IMF Staff Calculations.

8. **However, risks to the outlook remain high and are largely driven by the evolving nature of the pandemic and the uncertain extent of scarring.** Risks are tilted to the downside in the near term but are broadly balanced further out (GRAM).

- **COVID-19 and domestic risks.** Rapid and widespread delivery of vaccines would likely spur a fast recovery and contain scarring within zero to 2 percent range. But new virus variants and growing levels of fatigue with public health measures could adversely affect consumption and investment and delay the recovery. This could lead to labor market hysteresis and increase inequality, with scarring weighing on potential growth and social cohesion. On the upside, the improved household balance sheets and unwinding of pent-up demand could provide a boost to consumption and accelerate the recovery.

- **International trade and external risks.** Notwithstanding Brexit, the short-term external outlook remains positive due to the structure of Ireland's exports. However, both the pharmaceutical and computer services sectors in Ireland are highly concentrated, which exposes the economy and budget to considerable company-specific risks. Possible changes in international taxation, including a global minimum CIT rate and digital taxation, constitute an important medium-term risk although it is mitigated by Ireland's non-tax comparative advantages that are likely to continue to attract FDI (Box 1). Sudden shifts in global investor sentiment could affect the large non-bank financial sector, but spillover channels to the domestic sectors are limited, with the notable exception of commercial real estate (CRE).

**9. The details of the implementation of post-Brexit agreements between the EU and the U.K. remain a key source of risks for Ireland due to its strong trade, financial, and labor market linkages with the U.K.** Trade between the U.K. and the EU, including Ireland, has become subject to customs and other controls (with paperwork requirements causing disruptions), UK-based services suppliers no longer have a "passporting" right, and there is tension surrounding the implementation of the Northern Ireland Protocol. The impact of trade friction has thus far been mitigated by precautionary pre-stocking and by the U.K.'s decision to postpone enforcement of customs procedures on its EU imports. At the same time, there are some upside risks as Ireland could be a beneficiary from displaced FDI. In addition, the Irish government has put in place a comprehensive package to support affected businesses and consumers (Annex I).

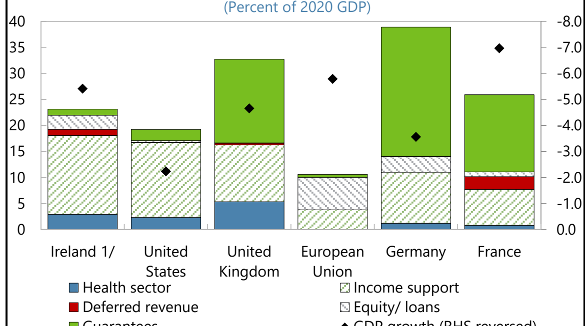
***Authorities' Views***

**10. The authorities broadly concurred with staff's views on the outlook and risks.** They noted that Ireland's pre-pandemic robust performance and prudent policies, as well as the comprehensive support measures during the pandemic, have created strong foundations for the recovery. They expect a strong rebound of domestic demand this year, driven by private consumption. While agreeing that the epidemiological developments continue to constitute a key risk, they noted the recent rapid progress in vaccination. They also noted the comprehensive preparations and support measures, which they put in place to mitigate Brexit-related risks. The authorities are proactively engaged in the international dialogue on CIT. They are also determined to preserve Ireland's non-tax attractive features, including the transparent and stable policy and legal environment and favorable business climate.

# FISCAL: AVOIDING CLIFF-EDGE EFFECTS

**11. The swift and comprehensive fiscal policy response has made good use of the policy space built before the pandemic (Table 1).** Discretionary policy measures together with automatic stabilizers, contributed to the fiscal deficit of around 5 percent of GDP in 2020. The deficit was limited due to the strong growth in CIT intake and resilient PIT revenues, thanks to the progressivity of Ireland's income taxation. Budget 2021 contains additional support of around 3.3 percent of GDP (including a large contingency reserve fund) to cushion the pandemic shock and Brexit transition. Following the adverse virus developments at the beginning of the year and tighter containment measures, most support programs were extended to mid-2021, making appropriate use of the contingency reserves. The support measures are likely to be extended further by several months. The 2021 budget deficit is

**Fiscal Policy Response**
(Percent of 2020 GDP)




1/ in percent of GNI*
Sources: IMF Fiscal Monitor, April 2021, Staff

projected at around 5½ percent of GDP. Most discretionary measures are temporary and pandemic-contingent,[3], and thus the fiscal deficit could decline by half next year.

| | 2020-2021 | 2020 | 2021 | 2020-2021 | Description |
|---|---|---|---|---|---|
| | (In billions of Euros) | | | (% GDP) | |
| **Total above the line measures** | **30.8** | **18.2** | **12.6** | **8.4** | |
| Tax measures | 2.1 | 1.4 | 0.7 | 0.6 | Temporary general VAT cut; hospitality VAT cut, CRSS |
| Expenditure measures | 28.7 | 16.8 | 11.9 | 7.8 | |
| Income supports | 13.6 | 10.4 | 3.2 | 3.7 | Unemployment (PUP) and Wage subsidies schemes (TWSS/EWSS) |
| Health | 4.4 | 2.5 | 1.9 | 1.2 | Covid-19 capacity expenditure |
| Business supports | 1.0 | 0.9 | 0.1 | 0.3 | Business supports, grants, education, arts, tourism and transport |
| Housing, local govt | 1.2 | 1.1 | 0.1 | 0.3 | Commercial rates waivers |
| Other | 8.5 | 1.9 | 6.6 | 2.3 | Help-to-buy, other grants and aids, Recovery Fund |
| incl. Covid/Brexit contingency | | | 5.0 | | |
| **Total below the line and contingent** | **7.0** | **7.0** | **0.0** | **1.9** | |
| Tax deferrals | 2.0 | 2.0 | 0.0 | 0.5 | VAT and income tax deferrals |
| Lending and guarantees | 5.0 | 5.0 | 0.0 | 1.4 | Credit guarantee scheme, Pandemic Stabilisation and Recovery Fund, other schemes |
| **Total support** | **37.8** | **25.2** | **12.6** | **10.3** | |
| *in % of GNI** | | *12.5* | *6.2* | *18.7* | |

Sources: Ireland's Resilience and Recovery Plan, Budget 2021.

**12. The policy stance should continue to be supportive considering remaining vulnerabilities to COVID-19 and Brexit.** However, increasing focus should be placed on incentivizing reallocation of resources and supporting transformation to a greener and more digital economy while limiting the crisis impact on inequality and poverty:

- **Income support.** The authorities have swiftly deployed income support measures by introducing a temporary unemployment benefits scheme with extended coverage and compensation, followed by a wage subsidy scheme. Household incomes were protected in 2020 and this helped limit the increase in inequality.[4] Extending the income supports in line with containment measures is appropriate and withdrawal should be gradual to avoid cliff-edge effects. Going forward, it is important to adapt the measures to minimize disincentives to work, via a gradual reduction in pandemic benefits in sync with the reopening of the economy. These policies should be accompanied by enhanced active labor market policies in order to facilitate labor reallocation.
- **Business support.** Business support measures, which were smaller in size than in other EU countries but had a larger grant component, were rightly focused on SMEs and hard-hit sectors. Demand for subsidy and grant schemes has been high. However, direct lending and guarantee programs had relatively low uptake, possibly due to the large direct supports. The design of some programs could be improved. For example, the business subsidy program has a sharp cut-off in eligibility, requiring a 30 percent drop in turnover, which can create an incentive to suppress output.

[3] See IMF-Tracker of Policy Responses to COVID-19.

[4] Doorley, K. and others (2020) find that the COVID support measures have protected the low-income households well. Without these interventions, inequality in market (pre-tax and transfer) income, as measured by the Gini coefficient, would have risen by close to 10 per cent.

## Euro Area: Duration of Support Measures

| | | AT | BE | CY | DE | EE | ES | FI | FR | GR | IE | IT | LT | LU | LV | MT | NL | PT | SI | SK | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financing support ("bank-facing") | **Guarantee schemes** (end of application window) | Jun-21 | Jun-21 | N/A | Dec-21 | Jun-21 | Jun-21 | Jun-21 | Jun-21 | Jun-21 | Dec-21 | Jun-21 | Jun-21 | Jun-21 | Dec-21 | Sep-21 | Dec-21 | Jun-21 | Jun-21 | Jun-21 | **Jul-21** |
| | **Debt moratoria** (end of application window) | Aug-20 | Mar-21 | Dec-20 | Sep-20 | Apr-21 | Mar-21 | May-20 | Oct-20 | Mar-21 | Sep-20 | Mar-21 | Mar-21 | Jun-20 | Oct-20 | Sep-20 | Sep-20 | Mar-21 | Mar-21 | Jan-21 | **Nov-20** |
| | **Debt moratoria** (final expiration) 1/ | Mar-21 | Jun-21 | Jun-21 | Dec-21 | Sep-21 | Dec-21 | Aug-20 | Dec-20 | Dec-21 | Mar-21 | Mar-22 | Dec-21 | Dec-20 | Feb-21 | Jun-21 | Jun-21 | Dec-21 | Dec-21 | Sep-21 | **Jul-21** |
| | **Deferred insolvency procedures** | Sep-21 | Feb-21 | Jun-20 | Dec-20 | Sep-20 | Mar-21 | Jan-21 | Aug-20 | Sep-20 | Sep-20 | Jun-21 | Sep-20 | Dec-20 | Dec-20 | Mar-21 | Sep-20 | Jul-20 | N/A | Oct-20 | **Dec-20** |
| Balance sheet support | **Short-time working schemes** | Jun-21 | Jun-21 | Mar-21 | Dec-21 | May-21 | May-21 | Dec-20 | Jun-21 | Jul-21 | Jun-21 | Dec-21 | Jun-21 | Jun-21 | Jun-21 | Dec-21 | Jun-21 | Sep-21 | Jun-21 | Jun-21 | **Jun-21** |
| | **Direct grants** | Jun-21 | Jun-21 | Mar-21 | Aug-21 | Apr-21 | Dec-21 | Feb-21 | Jun-21 | Sep-21 | Jun-21 | Jun-21 | Jun-21 | Jun-21 | Jul-21 | Dec-21 | Jun-21 | Jun-21 | | Dec-21 | **Jun-21** |
| | **Tax deferrals** | Jun-21 | Jun-21 | Mar-21 | Sep-21 | Dec-21 | Dec-20 | Aug-20 | Jun-21 | Apr-21 | Jun-21 | Apr-21 | Aug-21 | Jun-21 | Jun-21 | Dec-21 | Jun-21 | Jun-21 | | Jun-21 | **May-21** |
| **Average expiration of all support measures** | | **Jun-21** | **May-21** | **Jan-21** | **Aug-21** | **May-21** | **Jun-21** | **Dec-20** | **Mar-21** | **May-21** | **May-21** | **Aug-21** | **May-21** | **Apr-21** | **May-21** | **Aug-21** | **May-21** | **May-21** | **Aug-21** | **Jun-21** | **May-21** |

Sources: ESRB (MPAG/MPPG Expert Group); national authorities; Aiyar and others (2021); and IMF staff calculations.

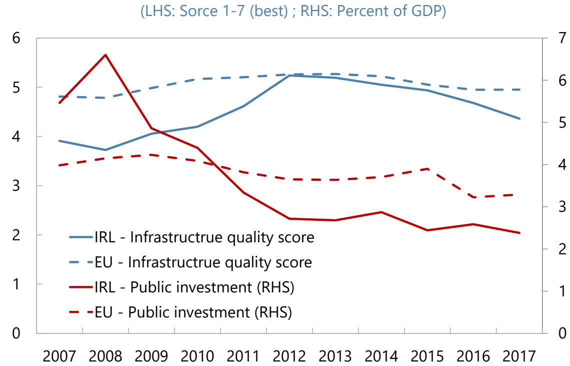
Note: 1/ The latest possible expiration assumes that the payment break starts at the latest possible application date (i.e., just before the debt moratorium application window expires). For instance, for moratoria whose application window was recently extended until March 2021, the final expiration date would be December 2021 in most cases (given the maximum 9-month term for new applications as per extended EBA Guidelines).

- **Public investment.** Current fiscal space and Next Generation EU recovery funds should be used to accelerate Ireland's green and digital transformation. In the near term, scaling up efficient public investments would boost aggregate demand. Over the medium term, such investments would also raise potential growth and address the gap in infrastructure quality vis-à-vis euro area peers and raise productivity. There is also a need to further improve the quality of public spending, including by strengthening adherence to budgeted targets and enhancing the implementation of infrastructure projects and maintenance of public assets (Chart).

## Ireland: Public Capital Stock, Public Investment and Quality of Infrastructure

### Infrastructure Quality Score and Public Investment

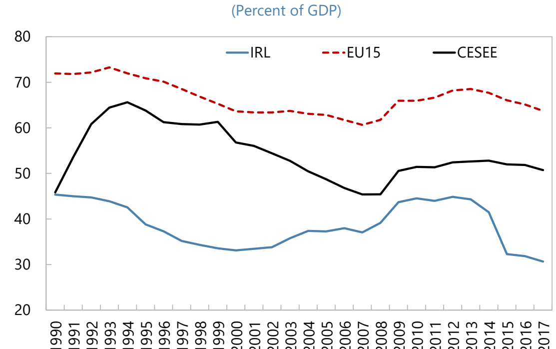
(LHS: Sorce 1-7 (best) ; RHS: Percent of GDP)




Sources: World Economic Forum, IMF and IMF Staff Calculations.

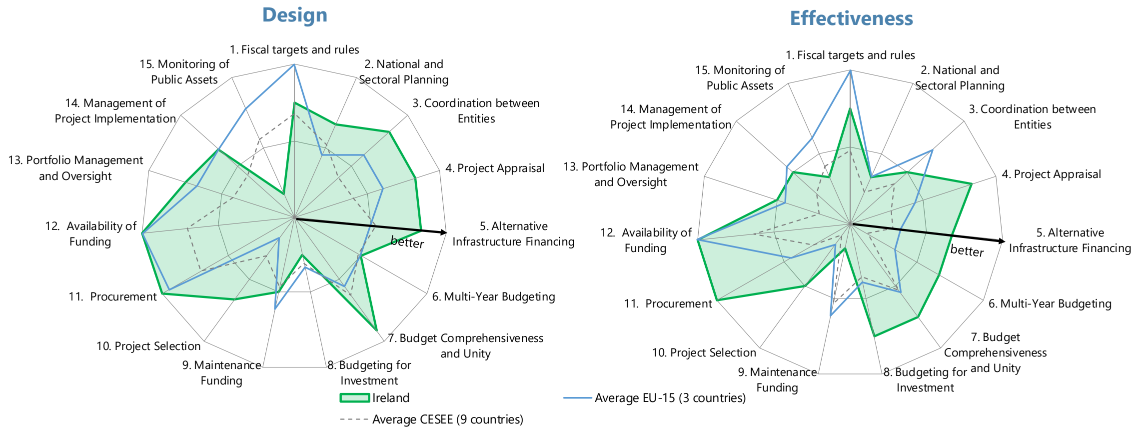
### Public Capital Stock

(Percent of GDP)




Source: IMF Staff Calculations.

**Ireland: IMF 2017 Public Investment Management Assessment (PIMA) for Ireland**




*Sources:* Ari and others (2020); IMF staff assessment. *Note:* The Irish authorities have undertaken various initiatives since the completion of the PIMA in 2017 to address some of the identified shortcomings. A current assessment is not available.

**13. Growing reliance on CIT and its concentrated base is a vulnerability, even though its growth provided a valuable countercyclical buffer during the current crisis.** Large U.S. technology and pharmaceutical companies in Ireland have been a key factor in CIT growth. Risks to CIT receipts suggests that, beyond the crisis, windfall increases should not be used to finance current expenditure (Annex VI). It is, however, important to note that these risks are mitigated by Ireland's non-tax comparative advantages, including its high skilled labor, free access to the EU market, good governance and legal environment, transparency and stable policy, favorable business climate, and strong historical, cultural, and language connections with the U.S. and the U.K. It is therefore important to renew the policy focus on these other attributes, particularly strengthening social capital (education, training, health, and housing) and infrastructure.

**14. While fiscal risks are contained and the financing outlook remains favorable, over the medium term, fiscal policy will need to be adjusted to sustainably boost growth and support social cohesion.** Markets continue to assess Ireland's sovereign risks favorably and there is some fiscal space to accommodate extending the support measures as needed. Public debt-to-GDP ratio is projected to increase to 63 percent this year before declining over the medium-term to 53 percent, helped by low interest rates and growth as well as the projected return to primary surpluses. The ratios of debt to GNI* and to fiscal revenue will also be on a decisive declining trend starting in 2023. This path is adequate and would meet the long-term target of reducing the debt-to-GDP ratio below 50 percent. However, after the recovery is complete, consideration should be given to raising more revenue. This can be achieved by reducing the items subject to preferential VAT and excise rates and increasing property tax revenue.[5] The freeze of the planned higher retirement age should also be reconsidered in the medium term to enhance the soundness of the Social Insurance Fund.

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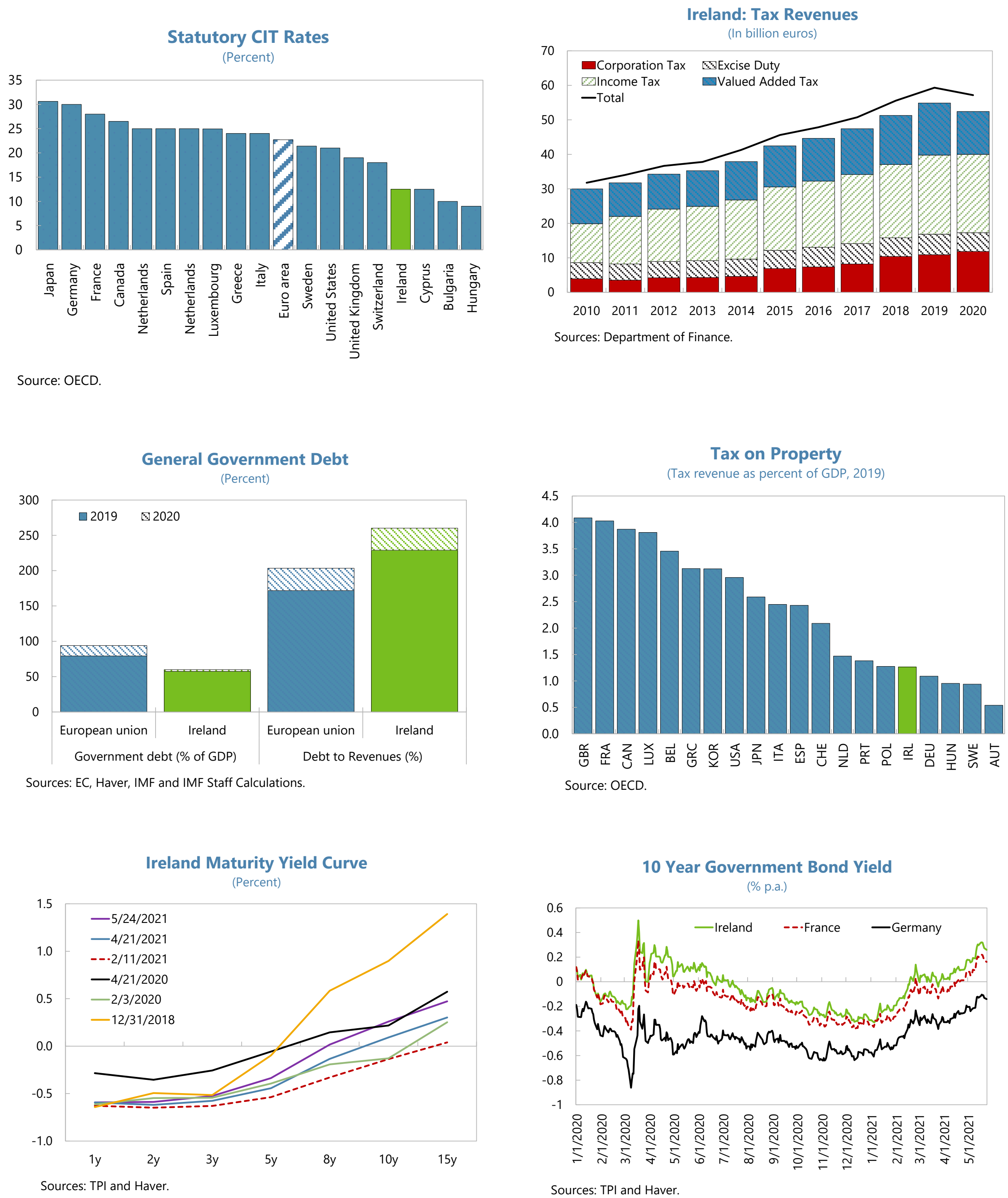
[5] Property tax revenue could be improved by applying the stipulated three-year valuation assessment frequency and eventually increasing the low tax rate of 0.2 percent while ensuring adequate social protection safeguards.

## Figure 3. Ireland: Fiscal Developments



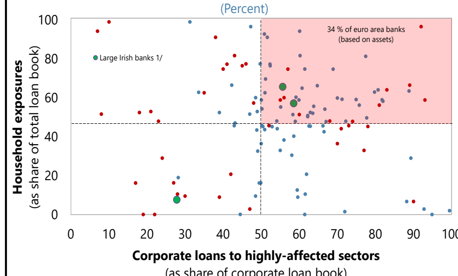
***Authorities' Views***

**15. While the authorities shared the view that premature withdrawal of support measures should be avoided, they emphasized the need to avoid prolonged disincentives to work as well as the importance of safeguarding fiscal sustainability.** They noted that the support measures would be unwound having due regard to the epidemiological developments and the reopening of the economy. They also stressed the need to further improve the efficiency of public spending building on the progress that is being made in the context of the ongoing Spending Review and Performance Budgeting processes, and the establishment of the National Investment Office. They added that more revenue will need to be raised in the medium term to help finance additional social and capital spending. They pointed to the establishment of the [Commission on Taxation and Welfare](), which will analyze the related trade-offs and guide policy decisions.

# FINANCIAL AND MACROPRUDENTIAL POLICIES[6]

**16. Irish banks have entered the crisis with strong capital levels and have been able to absorb rising impairments thanks to strong policy support.** Regulatory flexibility and credit guarantees cushioned the immediate impact of potential impairments and helped limit the decline in credit. In addition to the ECB's capital relief and conservation measures, the CBI released the countercyclical capital buffer and set out clear expectations around how the industry-initiated six-month debt moratorium should operate. Both households and firms, particularly SMEs, have significantly benefited from the payment breaks, limiting their vulnerabilities to the reductions in earnings and consumer spending. This helped prevent a surge of loan defaults and bankruptcies. While impairment charges and NPLs have slightly increased to 3.5 percent (but remain below the EU average), arrears in banks' mortgage portfolios have continued to decline (Chart). Most banks have been very proactive in recognizing impaired credit exposures by almost doubling their loan loss provisions in 2020, which has significantly weighed on their profitability. However, as insolvency proceedings resume, the potential rise in bankruptcies and the underlying deterioration of credit risk will likely test the adequacy of banks' loan provisions. Notwithstanding these challenges, staff's analysis suggests that banks will remain broadly resilient under baseline conditions, thanks in important part to effective policy support (Annex II). Under staff's projected path for growth and unemployment, the aggregate common equity Tier 1 (CET1) capital ratio would decline by about 4 percentage points to 14.1 percent by end-2021 but would leave sufficient capital buffers to current minimum requirements.

**Euro Area and Irish Banks: Exposure to Highly-Affected Sectors and Households**
(Percent)

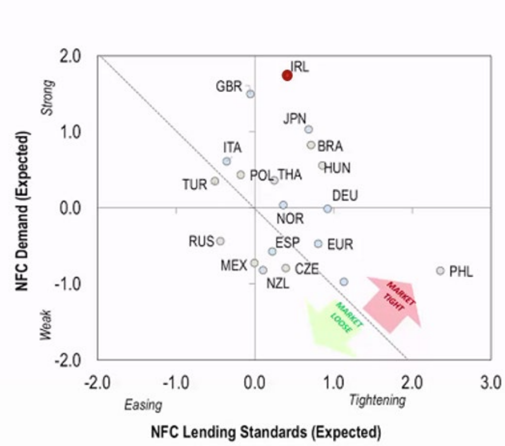



*Sources:* EBA; FitchConnect; IMF staff calculations. *Note:* Red dots are banks with a leverage ratio of less than 6 percent (which does not include any Irish bank); 1/ covered by the EBA Transparency Exercise.

[6] The 2022 FSAP for Ireland will provide a more comprehensive assessment of financial stability.

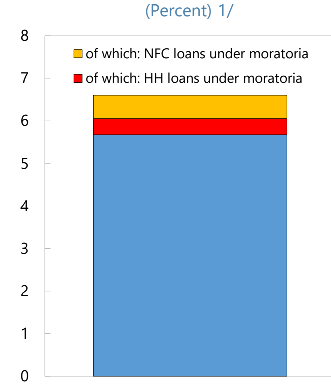
**17. Banks' remain in a strong position to lend, but higher risk perceptions could create credit constraints for SMEs.** Lending to households and non-financial firms declined by about 4 percent year-on-year during the second half of 2020 (in contrast with credit growth of about 4 percent in the euro area overall). This is in part due to the strong fiscal measures, such as income support, grants, and tax deferrals, which limited solvency and liquidity gaps and effectively substituted credit demand. Credit history enquiries and business loan applications have fallen, also signaling contraction in credit demand. At the same time, banks have raised their underwriting standards as higher risk perceptions seem to outweigh the benefits of low funding costs. The incidence of payment breaks for SME loans is still twice as high as for other loans, with about half now repaying under extended terms (compared to less than 10 percent for other loans). However, while the increase of partial rejection rates for SME loans suggests some credit rationing in sectors with a large share of SMEs such as hospitality and retail trade (Chart), there are no general credit supply constraints as banks continue to build excess reserves.

**Lending Standards and Loan Demand for SME**
(Standard deviation)




**18. Unwinding capital relief measures will require a careful balancing act to maintain confidence and support financial intermediation.** Premature phase-out could create cliff-edge effects and risk choking off credit supply. A small share of loans is still subject to payment breaks, which have had little effect on the stock of current NPLs (Chart). However, loans that have benefitted from debt moratoria are more than twice as likely to be classified as unlikely to pay (UTP), which might create legacy risks (Charts below). Borrower support would need to remain available until the recovery takes hold. However, eligibility criteria for corporate debt guarantees and the case-by-case application of payment breaks should be gradually tightened to better target illiquid but viable firms and the most vulnerable households without distorting classification and provisioning requirements of banks.[7] Furthermore, prudential standards for loan provisioning should be normalized—and the realistic usability of capital buffers be communicated—to incentivize both timely recognition of problem assets and continued lending. Supervisors should also enhance monitoring and ensure that banks have the capacity to resolve rising NPLs. Bankruptcy and insolvency system resources should be bolstered to tackle deferred

**NPL Ratio of Irish Banks: Share of NPLs under Moratoria**
(Percent) 1/

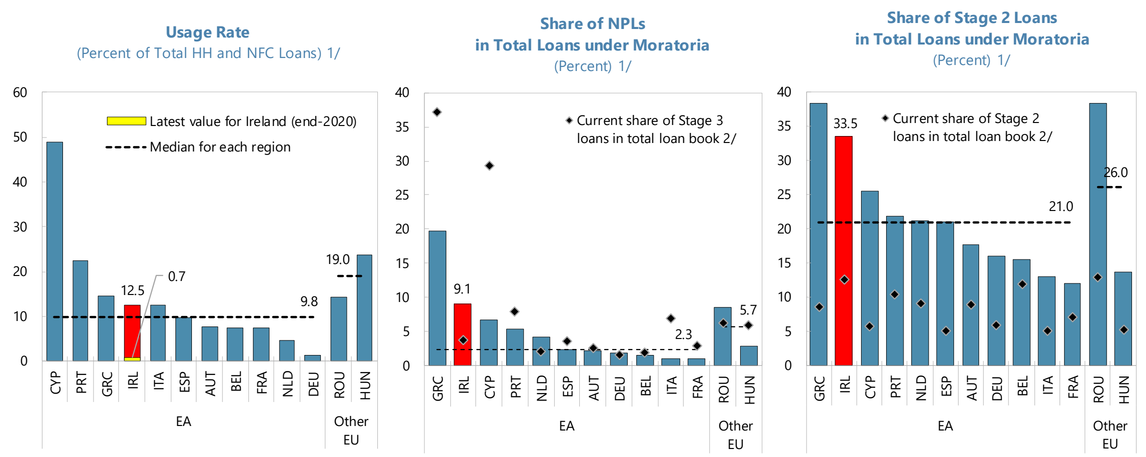



*Sources:* EBA; IMF staff calculations.
1/ NPL shares based on as of end-June 2020 values, using the NPL ratio of 6.6 percent (end-2020) for the large domestic banks (see Table 6).

[7] Such targeting is inherently difficult and incentives should be carefully designed to minimize moral hazard and adverse selection, including by striking a balance between feasibility, monitoring requirements, and burden sharing with private investors (Ebeke and others, 2021).

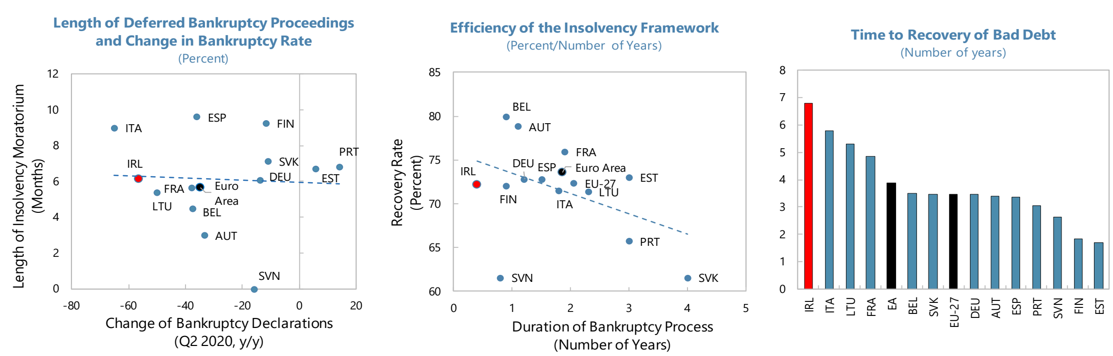
insolvency proceedings, including by developing streamlined liquidation procedures (with debt discharge), especially for SMEs (Chart). Making debt forgiveness nontaxable and encouraging loss carryovers for debt haircuts could foster efficient debt restructuring and facilitate NPL resolution. Out-of-court workouts and fast-track procedures can be particularly helpful given the relatively long asset recovery time in Ireland, which could increase the ultimate cost to both borrowers and lenders and contribute to economic scarring.

**COVID-19 Pandemic-Related Repayment Relief-Usage Rate and Share of Impaired Loans**



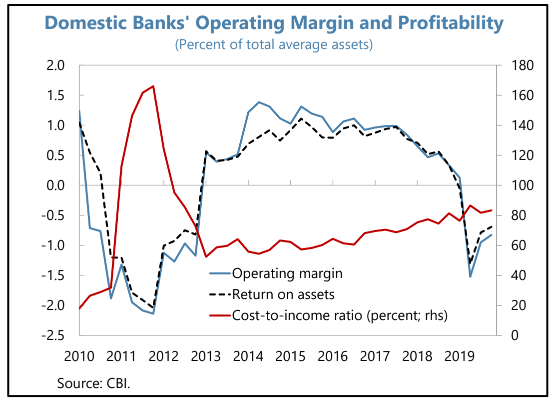

*Sources:* Banking and Payments Federation Ireland; EBA; IMF staff calculations.
1/ based on as of end-June 2020 values.
2/ Under IFRS 9, banks must model expected losses based on historical, current, and forward-looking information, including macroeconomic forecasts. Although it is not necessary for a credit event to occur before an expected credit loss is recognized, a missed payment is taken as an indication of increased risk, triggering a higher provision. At origination, the provision must cover expected loss resulting from possible default within 12 months (Stage 1). If thereafter the bank determines that a material increase in credit risk has occurred, the provision must also cover the lifetime expected loss on the loan (Stage 2). Finally, if credit risk is determined to have increased to the point where the loan is impaired (usually at more than 90 days past due), the provision must add coverage of future accrued interest at amortized cost (Stage 3).

**Ireland and Selected Euro Area Countries: Bankruptcy Build-up and Pre-crisis Length of Insolvencies**

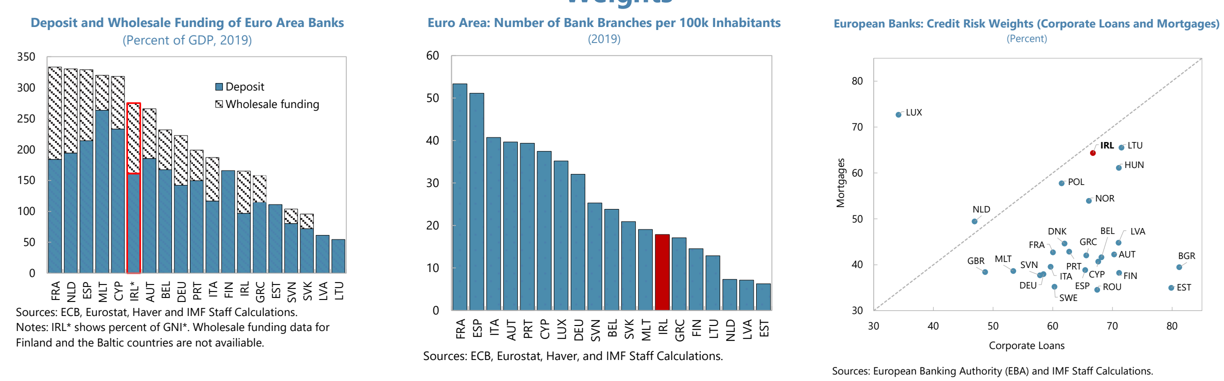



*Sources:* CEIC; EBA; Eurostat; Haver Analytics; KMPG; Linklaters; OECD; IMF staff calculations. *Note:* The historical duration of bankruptcy proceedings for the EA and EU-27 is a simple average across all countries. The time to recovery is defined as the duration in years of the recovery period (as part of the recovery rate process, from the start of the formal enforcement status to the date of ultimate recovery from the formal enforcement procedures). The recovery rates represent a simple average of the EBA-reported values for corporate and SME loans. For Belgium and Lithuania, the time to recovery applies to SMEs only. For Germany, the time to recovery for corporates is proxied by commercial real estate loans.

**19. Addressing banks' persistently low profitability could help facilitate their "self-healing" and contribute to lowering the lending rates over the medium term.** Irish banks face large operational cost and high capital requirements as a legacy effect from the past crisis, which explains the low profits despite relatively high lending spreads (Charts). These challenges increased during the current crisis, with the aggregate return on equity dropping to -6.2 percent last year. Absent bold actions to reduce operating costs, profitability will likely remain subdued, especially if the crisis entails significant scarring. Banks should also enhance non-interest revenues and streamline operations, including by boosting their digital capabilities. The announced withdrawal of two retail banks over the next few years requires supervisors to ensure that potential consolidation does not concentrate market power and reduce incentives for achieving greater efficiency, including by reviewing banks' business models and providing prescriptive guidance on unprofitable non-core assets.




**Euro Area and Ireland: Banking Sector Concentration, Deposit Funding and Credit Risk Weights**



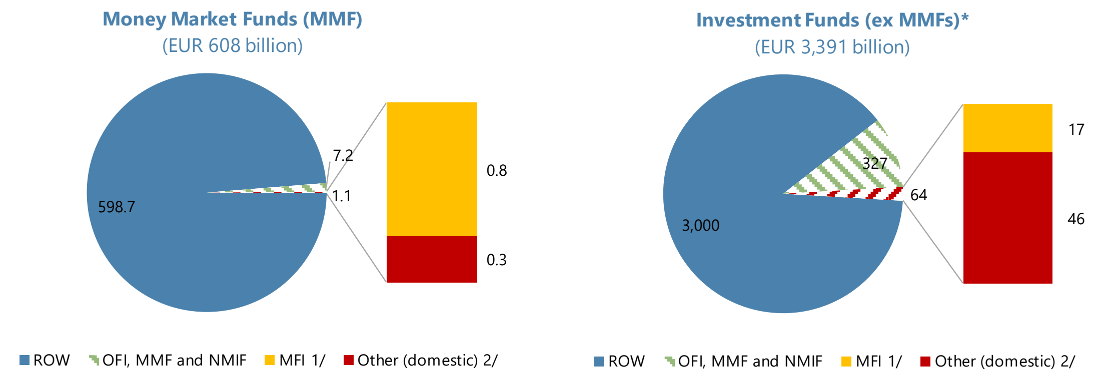

**20. Regulatory measures should be strengthened to mitigate any spillover and potential reputational risks from investment funds (IFs)**. Some IFs, especially those exposed to illiquid assets, experienced significant redemption pressures at the onset of the crisis. Their direct exposures to the domestic economy remain limited (Chart), with the notable exception of CRE. IFs own nearly half of CRE in Ireland, but this accounts for less than 0.5 percent of their total assets (Chart).[8] The CBI can impose leverage restrictions based on system risks concerns and suspend redemptions if it is in the public interest or interest of investors. Since more than a third of IFs in the euro area are registered in Ireland, enhancing the resilience of the sector requires adopting a system-wide perspective with a focus on potential spillover effects, in close coordination with other European authorities. This would ideally include the development of a strong EU macroprudential framework

[8] This also applies to money market funds (MMFs), which receive only negligible funding from domestic sources and invest mostly in foreign short-term debt securities. Although MMFs did not breach their prudential liquidity ratios, they also experienced redemption pressures, which raised concerns about risk management practices.

that encourages consistent risk management practices across the sector (e.g., availability of liquidity buffers, activation of liquidity management tools, and effective prudential triggers).[9]

**Ireland: Asset Exposure of Investment and Money Market Funds**

(EUR billion; end-March 2021)




Sources: Central Bank of Ireland; IMF staff calculations. Notes: OFI=other financial institutions, MFI=monetary financial institutions; */ includes eal estate assets (approx. EUR 19 billion); 1/ domestic and foreign MFIs without central bank; 2/ includes central bank, other investment and money market funds, pension funds, insurance companies, government, non-financial corporates, and households.

***Authorities' Views***

**21. The authorities highlighted the important role of policy support in mitigating the pandemic's impact on financial stability and broadly shared staff's views on policies going forward.** They stressed that supportive measures, such as wage subsidies, grants and tax deferrals, have been effective in limiting solvency and liquidity gaps, while also resulting in lower credit demand by nonfinancial corporates. The CBI saw the potential for "cliff-edge effects" if support measures are withdrawn prematurely, notwithstanding that around 90 percent of borrowers that benefitted from payment breaks have returned initially to a pre-crisis payment schedule. However, in some sectors firms have been particularly affected by the public health response (e.g., food and accommodation and construction) and critically depend on support measures; hence, the full impact of the crisis has yet to be seen. The authorities are carefully monitoring banks' asset quality as NPLs are starting to trend upwards. The CBI confirmed that banks have significantly raised their loan loss provisions and have sufficient capital buffers to absorb shocks that are materially worse than current baseline projections (based on a forward-looking scenario analysis of retail banks at end-2020). The authorities concurred with staff that banks should continue to engage constructively with borrowers in financial distress while encouraging timely recognition of problem assets.

**22. The authorities confirmed the need for incumbent banks to address their pre-existing profitability challenges**. The pandemic has compounded profitability pressures banks have been facing even before the current crisis due to a difficult operating environment and declining lending margins. Streamlining operations could help raise banks' low profitability and reduce lending rates;

[9] Given the recent FATF mutual evaluation report and the legislative amendments that Ireland has made to ensure its framework is in line with international standards, the authorities should continue to implement an AML/CFT risk-based supervisory framework (for both bank and non-bank financial institutions).

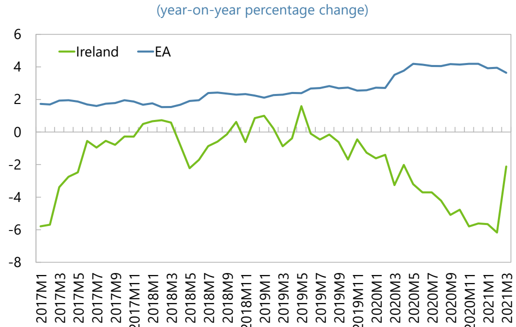
however, incentives to achieve greater cost efficiency with the expected exit of two smaller retail banks might decline. The sustainability of banks business models will continue to be a supervisory focus.

**23. The authorities agreed that while the regulatory framework for investment funds is broadly working well, there is a need to make targeted enhancements as an EU-wide effort.** Building on previous work, the CBI will further improve data collection, strengthen risk management practices (with a focus on liquidity risk), and contribute to the development of the EU macro-prudential framework for the sector in close coordination with other European regulators. The CBI is deeply involved in a number of ongoing reviews of the MMF Regulations, which include reviewing regulatory reforms based on the lessons learnt from the stress experienced by MMFs globally last March.

## Figure 4. Ireland: Credit Developments

*In contrast to the euro area, in Ireland, credit to the real economy has declined rapidly …*

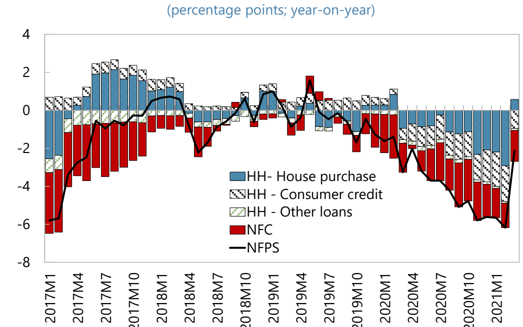
**Credit to Nonfinancial Private Sector**
(year-on-year percentage change)




Sources: CBI, ECB, Haver, and IMF Staff Calculations.

*… and across all categories.*

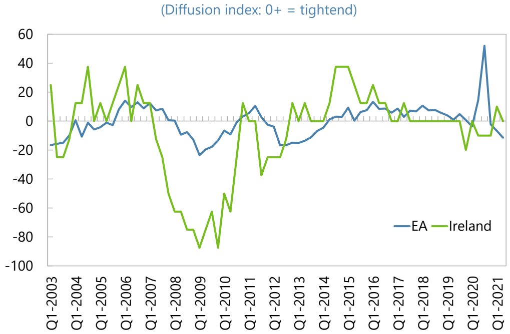
**Contributions to Credit Growth**
(percentage points; year-on-year)




Sources: CBI, Haver, and IMF Staff Calculations.

*Cash buffers and support measures have mitigated liquidity risk, which loan demand has picked up recently*

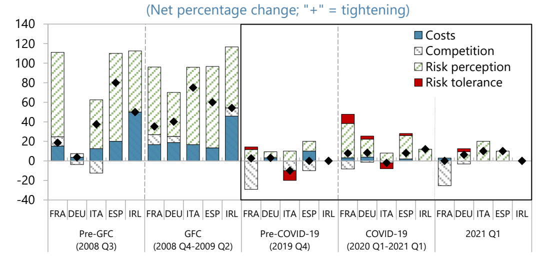
**Change in Business Loan Demand, Past 3 Months**
(Diffusion index: 0+ = tightend)




Sources: ECB and Haver.

*Lending standards remain much looser than during the GFC but have noticeably tightened over the last quarters*

**Change in NFC Credit Standards**
(Net percentage change; "+" = tightening)




*Sources:* ECB; Haver Analytics; IMF staff calculations.
*Note:* Changes in credit standards during the respective quarter(s) based on net percentages calculated as the difference between banks seeing tightening versus easing credit standards. Contributing factors do not add up to the overall assessment of credit standards. In each country, the GFC episode refers to the quarter in which credit standards peaked (2008 Q3 or Q4). For the GFC and COVID-19 crisis periods, the quarterly values are averaged.

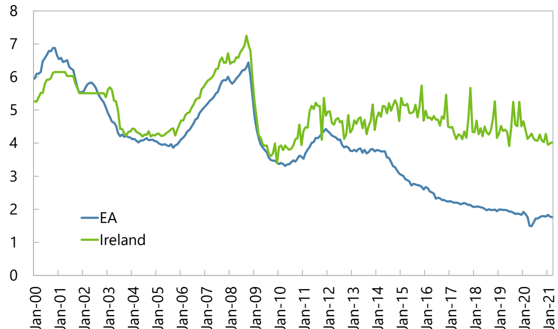
## Figure 4. Ireland: Credit Developments (concluded)

*SME lending rates have remained remarkably sticky during the last decade …*

*… and have decreased only marginally during the current crisis, making SME lending rates the highest in Europe.*

**MFI Interest Rates: New Loans to NFC, <= EUR 1 Million**

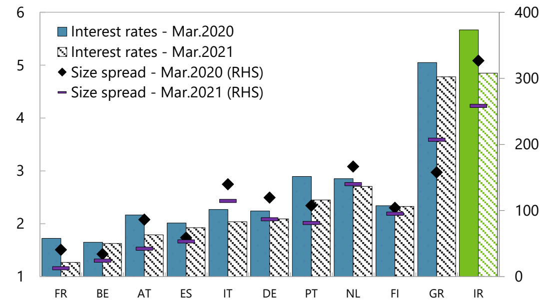
(AAR, Percent)




Sources: ECB and Haver.

**Interest Rates on Small Loans and Size Spread**

(Percent/Basis points;12mma)




Notes: Small loans are less than EUR 250,000. The spread is calculated as the difference in the bank lending rates on small and large loans (exceeding EUR 1 million).
Sources: ECB, Haver, and IMF Staff Calculations.

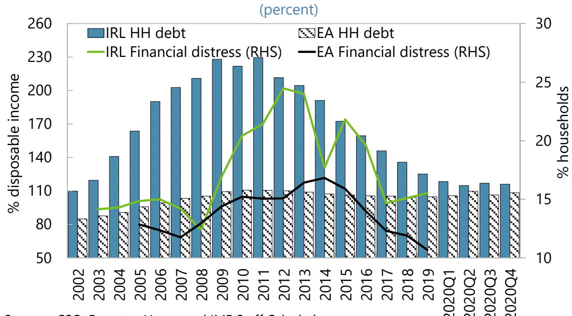
# MINIMIZING SCARRING

**24. Despite a six-fold increase in unemployment, including temporary unemployment, at the peak of the crisis, household balance sheets improved on aggregate**. The labor market impact has been highly asymmetric across sectors, education levels, and age groups. The youth and less educated were affected the most. More than half of the 15–24 years-old were out of work in February. Significant policy support helped protect vulnerable groups (around 50 percent of workers benefited from pandemics income support at the peak of the crisis). Households aggregate income increased in 2020 and their indebtedness declined. However, household financial distress indicators are still above the euro area average, highlighting the need for a wider assessment of the efficacy and coverage of social safety nets after the pandemic.

## Figure 5. Ireland: Labor Market and Household Income

**Households Debt and Financial Distress**

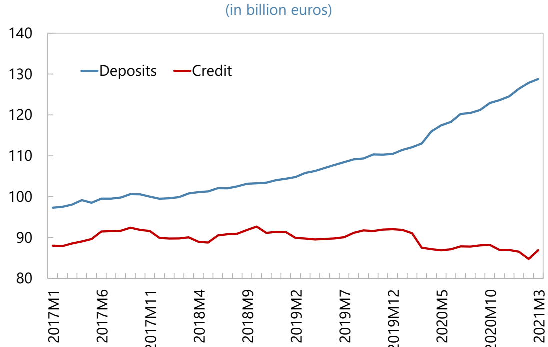
(percent)




Sources: CSO, Eurostat, Haver, and IMF Staff Calculations.
Note: Financial Distress is measured as the simple average of percent of people (below 60% of median equivalised income) who have arrears on utility bills, mortgage or rent payments, hire purchase instalments or other loan payments, and inability to make ends meet.

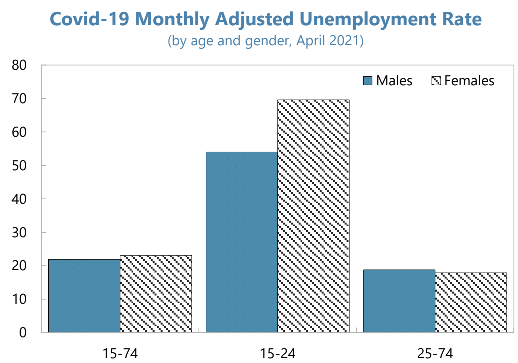
**Irish Households: Deposits and Credit Outstanding**

(in billion euros)

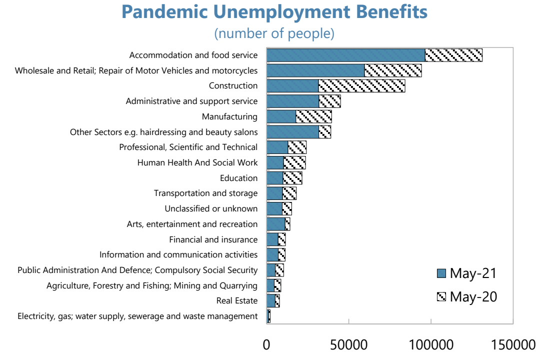



Sources: CBI, Haver and IMF Staff Calculations.

## Figure 5. Ireland: Labor Market and Household Income (concluded)




Source: CSO and Haver.




Source: Department of Social Protection.

**25. An inclusive and sustainable recovery will require raising labor participation and productivity.** In response to the pandemic, the authorities have introduced a range of measures to boost skills and training[10]. As the recovery proceeds, the authorities should provide more targeted support that incentivizes labor re-allocation to expanding sectors. Active labor market policies, including reskilling, could be complemented with other interventions (such as employment services, transportation stipends, job search assistance, and localized investment) to help workers acquire the skills needed to adapt to the post-pandemic economy, including for the green and digital transitions. Financial disincentives to taking up employment should be addressed. It is also important to empower women to raise their low participation in the labor market, including by continuing to increase the availability of affordable childcare facilities.

**Skills and training supports for workers and businesses**

| | |
|---|---|
| **Enterprise Ireland** | – Strategic Consultancy Grant<br>– Covid-19 Act on Support<br>– Key Manager Grant<br>– eiLearn online learning platform<br>– Virtual Mentoring Network |
| **Local Enterprise Offices** | – Training webinars<br>– Expert views videos<br>– Training programmes and workshops |
| **Regional Skills Fora** | – Network of nine Regional Skills Fora |
| **Skillnet Ireland** | – Skillnet Networks<br>– ReBound – Back to Business Safely<br>– Skills Connect<br>– MentorsWork programme<br>– Transform your Business programme<br>– Designing Growth programme |
| **SOLAS** | – Skills to Advance<br>– eCollege<br>– Apprenticeship Incentivisation Scheme |
| **Springboard+** | – Springboard+ |

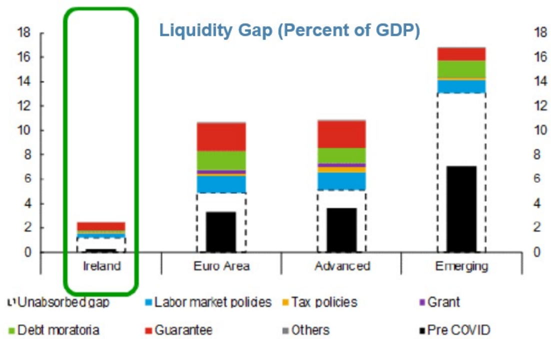
Source: Department of Enterprise, Trade and Employment. https://enterprise.gov.ie/en/What-We-Do/Workplace-and-Skills/Skills-for-Enterprise/COVID-19-Skills-and-training-supports/Skills-for-business.html

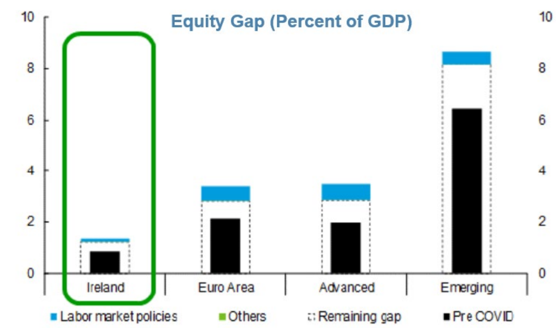
**26. While firms' balance sheets did not deteriorate to the extent feared, and a wave of insolvencies has been avoided so far[11], the authorities should monitor corporate vulnerabilities and provide targeted support to viable firms.** Private sector-led decisions on targeting and size of financing, with co-financing or insurance by the state, would limit moral hazard

[10] The online portal – www.gov.ie/therightcourse website draws together information on the wide range of services available from a variety of state-sponsored agencies and service providers.

[11] A recent CBI paper on corporate vulnerabilities (McCann and Yao, 2021) estimates that one-in-six Irish SMEs would have been financially distressed at end-2020 without policy support and that fiscal support during the first here quarters of 2020 reduced SME debt by two-fifths compared to a no-support scenario.

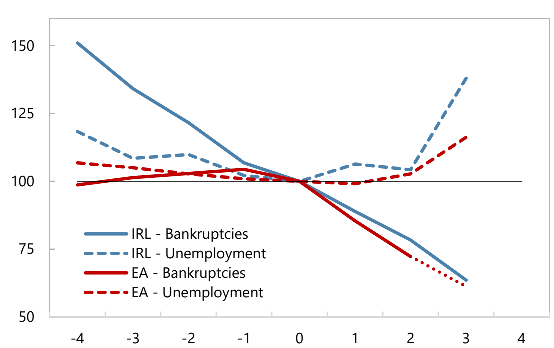
and diversify risk. Any additional support should address weaknesses due to COVID-19 rather than pre-existing conditions, with eligibility limited to firms likely to be profitable on a forward-looking basis.



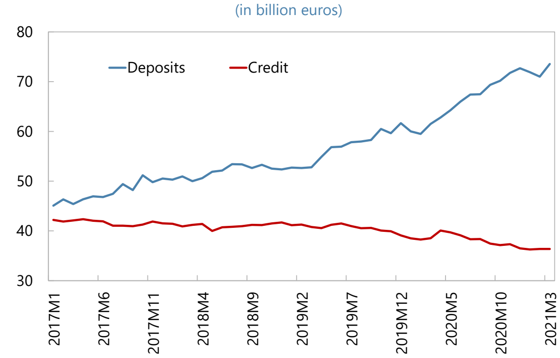

Reference: IMF Working Paper (21/56), "[Corporate Liquidity and Solvency in Europe during COVID-19: The Role of Policies]". Data in this cross country EU wide analysis consists of 4 million firms in 26 countries using Orbis database at annual frequency for the span of 2017-2018 values; the authors acknowledge the caveat for Ireland coverage, i.e., while large firms are well represented in Orbis, coverage of SMEs, particularly micro firms, is very thin.

**Ireland: Firm Bankruptcies and Unemployment Rate**
(Index, 2019Q4=100)




Sources: Haver, OECD, and IMF Staff Calculations.

**Irish NFCs: Deposits and Credit Outstanding**
(in billion euros)




Sources: CBI, Haver and IMF Staff Calculations.

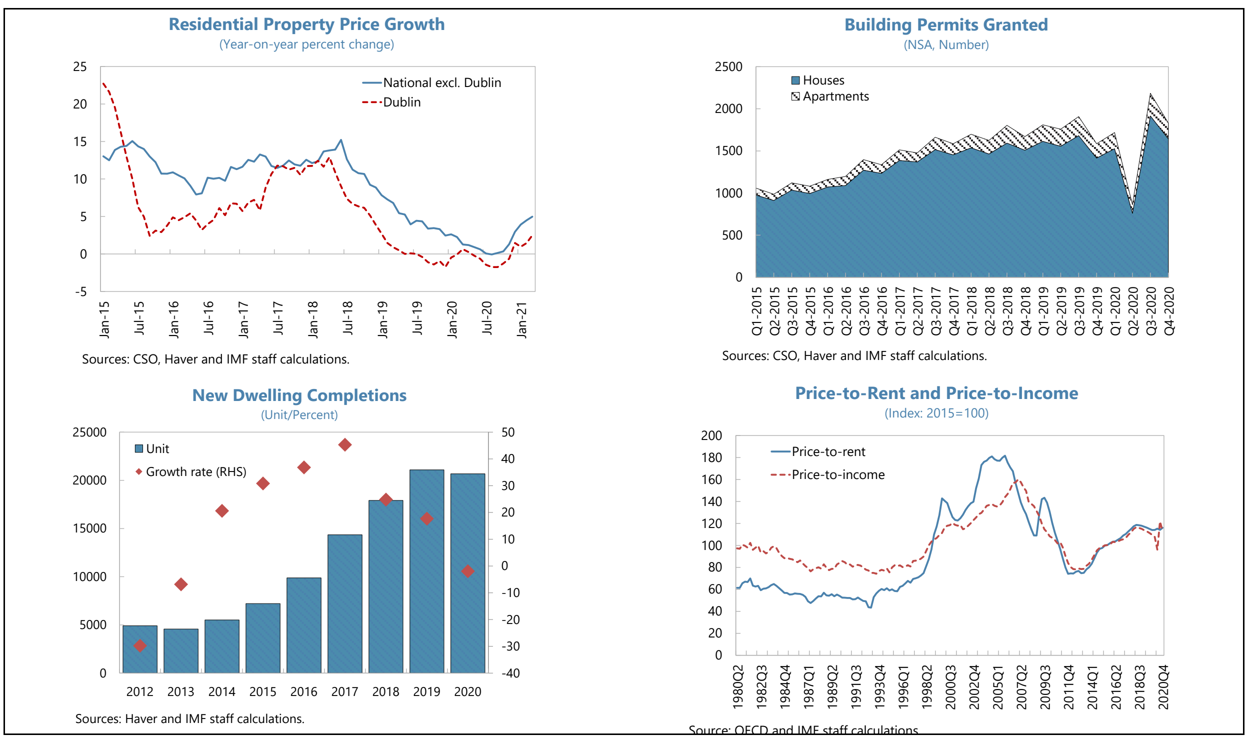
## *Authorities' Views*

**27. The authorities agreed that re-absorption of the temporary unemployed in the labor force is key to prevent an increase in long-term unemployment and minimize scarring.** They noted that this will require both adapting the support measures to minimize work disincentives and boosting education, training, and reskilling. To that end, the Departments of Social Protection and of Education, Research, Innovation and Science are working together to expand the range of lifelong learning programs, improve job search, address the needs of digital and green transformation, and challenges arising from Brexit. The authorities also noted that the *Pathways to Work* (covering the period 2015-2020) laid out the strategy to evaluate the existing ALMPs and to inform the design and delivery of services to the unemployed. The authorities concurred that insolvency risks have so far been mitigated by the comprehensive borrower support measures[12], however, going forward they foresee a likely pick-up in the number of insolvencies. To that extent, they noted that the proposed changes to the restructuring process aim to introduce a new more timely and less costly "summary rescue process" for small businesses and should help minimize scarring.

# BUILDING UP BETTER

### *Affordable Housing*

**28. Well-targeted macroprudential measures contained the build-up of vulnerabilities in the housing market and helped stabilize prices, but supply shortages and affordability concerns are on the rise.** The initial dampening impact of COVID on the housing market was followed by a robust recovery in H2:2020, with the overall fall in residential construction only at 2 percent in 2020, which was largely due to the stringent first lockdown. To ease the dampening impact of the third lockdown on housing construction, the Health Regulations allowed for the designation of certain social housing projects as essential projects[13], however, the housing supply-demand gap will likely widen further in the pandemic aftermath. After a small decline in H1:2020, house prices started to grow as demand exceeded supply. If an increasing part of household pandemic savings is directed to the housing market it could put further upward pressure on house prices.




[12] Kren, J. and others "New survey evidence on COVID-19 and Irish SMEs: Measuring the Impact and Policy Response", Research Technical Papers, Vol. 2021, No. 3 (Dublin: Central Bank of Ireland).

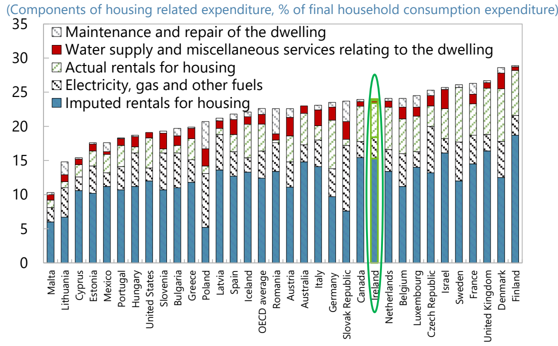
[13] The Housing Agency had designated over 350 projects, which were due for completion before the end of April, with partial reopening of residential construction on April 12 and full reopening of on May 4.

**29. Reducing shortages in affordable housing requires a multi-pronged approach**. The government's effort in this regard is welcome but more needs to be done by (i) releasing more land for development, (ii) streamlining approval processes for permits and re-zoning, (iii) assessing incentives to build rental properties, and (iv) increasing supply, including of social housing. The establishing of the Land Development Agency is a step in the right direction. On the other hand, policies should resist stimulating demand further given the existing supply-demand imbalances, and avoid resorting to short-term solutions such as relaxing prudential regulations to enable households to borrow more and the program to subsidize home purchase needs to be carefully designed and remain limited in size in order to minimize risks to the financial sector.

*Housing affordability is a structural issue in Ireland,*

**Breakdown of Housing Related Expenditure, 2017**

(Components of housing related expenditure, % of final household consumption expenditure)

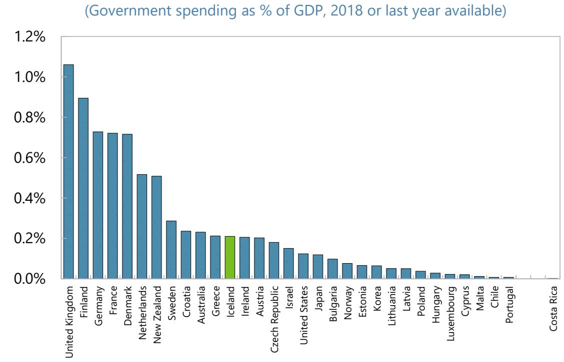



Sources: OECD Annual National Accounts Database and Eurostat Annual national accounts database.

*with the low public spending on housing allowance,*

**Public Spending on Housing Allowances in OECD Countries**

(Government spending as % of GDP, 2018 or last year available)

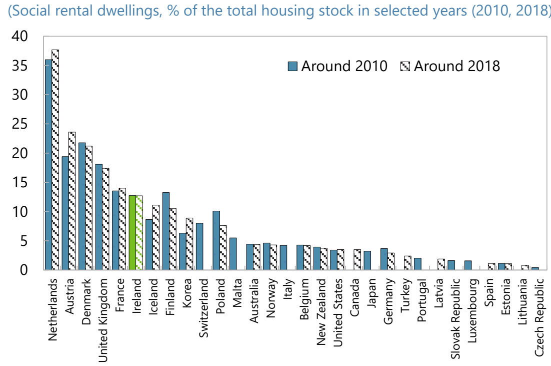


Source: OECD Questionnaire on Affordable and Social Housing (2016, 2019).

*Social housing stock has still room to grow.*

**Social Rental Housing Stock: Trends Over Time**

(Social rental dwellings, % of the total housing stock in selected years (2010, 2018))

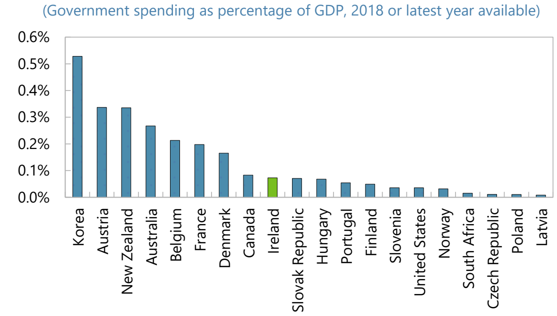



Source: OECD Questionnaire on Affordable and Social Housing (2016, 2019).

*Similarly, public spending on social rental housing can increase.*

**Public Spending on Supporting Social Rental Housing**

(Government spending as percentage of GDP, 2018 or latest year available)



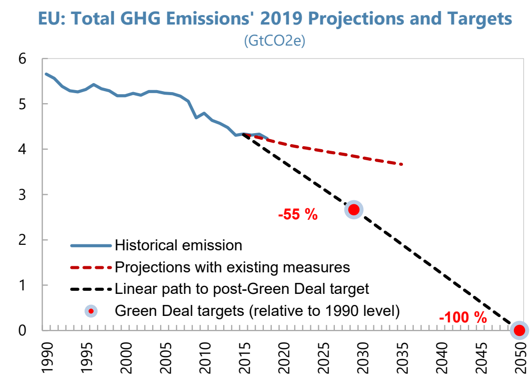
Sources: OECD Questionnaire on Affordable and Social Housing (2016, 2019).
Note: Figures refer to central government spending only, with the exception of Australia, Austria and Korea where funding at regional level.

## *Green Recovery*

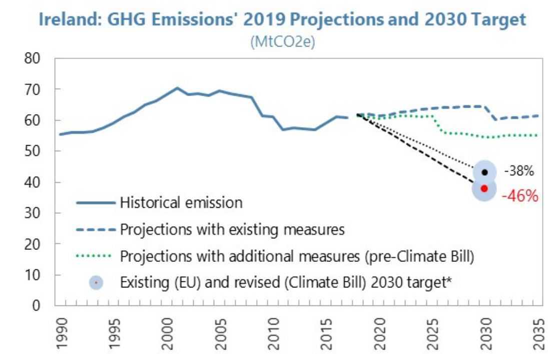
**30. Ireland has missed 2020 EU climate targets by a significant margin,[14] and full implementation of the new ambitious climate agenda is needed to catch up and achieve 2030 targets**. High economic growth since 2005 and sectoral specificity of the emissions (with 1/3 of

[14] The EU Effort Sharing Regulation target required a 20-percent reduction in GHG emissions by 2020 relative to 1990; however, GHG emissions in Ireland declined by merely 4 percent.

emissions coming from agriculture) largely explain the limited progress in emission reduction. The coalition agreement has propelled Ireland's climate agenda. In March 2021, the government approved the Climate Action Bill, which aims to halve emissions by 2030 and achieve carbon neutrality by 2050. Planned measures include increasing the carbon tax to €100 per ton from the previous commitment of €80 (with the carbon tax increase by €7.50 to €33.50 in Budget 2021 as an important first step), and boosting investment in low-emission public transport, energy-efficient housing, and renewable energy production.

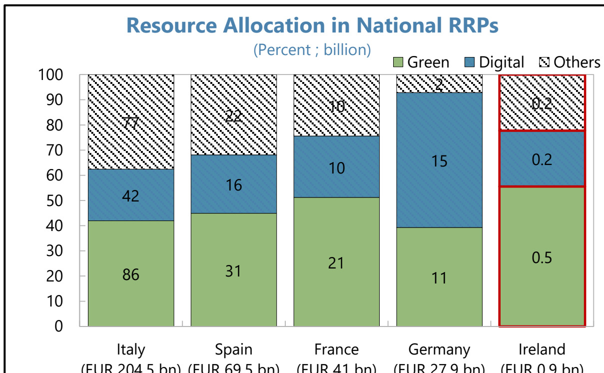



Sources: European Environment Agency; European Commission; IMF staff calculations.




Sources: European Environment Agency; European Commission; IMF staff calculations.
Note: */ reflects the emission-weighted average of the 43-percent reduction target for energy (subject to ETS) and the emission reduction in other sectors by either 30 percent under the EU effort sharing regulation or 50 percent under the 2021 Climate Bill.

**31. Recovery policies should prioritize green investment that facilitates Ireland's transformation to a low-carbon economy.** The green transition will require substantial capital spending, which could boost growth and jobs during the recovery phase and help achieve EU emission reduction targets. While funding from the NGEU recovery package for capital spending will provide helpful additionality, Ireland's cumulative share of RRF grants of 0.2 percent of GDP is small relative to projected investment needs of about 1.5 percent of GDP each year over the next decade; however, its disproportionately high share of capital spending on green projects (chart) provides an important signal of Ireland's commitment to the climate agenda (SIP Chapter). Ireland's high share of emissions from agriculture makes the emission reduction goal particularly challenging and calls for innovative solutions, including incentivizing carbon sequestration through the restoration of peatlands and agronomic techniques. Policy priorities include: (1) public investment in low-carbon transportation infrastructure and charging stations for electric vehicles, complemented by feebates to reduce the relative price of electric vehicles, (2) developing off-shore wind power and investing in smart electricity grids, and (3) public support for energy-efficient housing, low-emission agronomic technologies, and natural




Sources: Darvas and Tagliapietra (2021); and authors.
Note: RRP=Recovery and Resilience Plan (for allocation of EU funding under the Next Generation EU recovery package).

carbon sequestration. The implementation of the planned increase in domestic carbon price, accompanied by the reduction in fuel subsidies, will help catalyze private investment.

***Authorities' Views***

**32. The authorities reiterated their commitment to address the housing and climate change challenges.** They noted the progress towards improving housing supply and affordability through a comprehensive policy package, including the *Help-to-buy Program*, *National Cost Rental Policy*, and *Land Development Agency (LDA) Bill*, *that* provides a permanent basis to increase the supply of social and affordable homes and promote optimal use of State land. The recently legislated *Affordable Housing Bill* includes a 10 percent affordable housing requirement on new developments in addition to the existing requirement for 10 percent social housing. The authorities highlighted the recently legislated carbon tax increase, with a trajectory to 2030, and the ring-fenced use of the projected revenues of €9.5 billion for investment in energy efficiency, just transition, and low-emission agriculture. Additionally, the *National Home Retrofit Scheme* provides incentives for homeowners to improve their energy rating with 35 to 50 percent grant elements.

# STAFF APPRAISAL

**33. The highly asymmetric impact of the pandemic on the Irish economy suggests a two-speed recovery.** The domestic sector, which is more labor-intensive, contracted by about 10 percent in 2020, but the strong growth of MNEs softened the blow to the economy and public finances, making Ireland the only EU country with positive growth last year. GDP growth for 2021 is projected at 4.6 percent, with the domestic sector partly recovering as containment measures are gradually eased and adaptability to remote working continues to increase.

**34. The swift and unprecedented policy response has been effective in mitigating the crisis impact and protecting households and firms.** With a total envelope of around 10 percent of GDP (18 percent of GNI*) for 2020-21, the fiscal package was similar to that of other European countries but included a larger share of direct support. Notwithstanding the large direct support, the overall deficit for 2020 was contained at about 5 percent of GDP due to the strong revenue growth from corporate income taxes.

**35. There is significant uncertainty over the near- and medium-term outlook.** Risks are dominated by the pandemic dynamics, the execution of post-Brexit trade arrangements, and likely changes in international corporate taxation. While there are some downside risks for the rest of the year given the ongoing third wave, recent progress in vaccine rollout is promising and provides a significant upside risk. The authorities' comprehensive Brexit response has helped acquaint firms in the sectors most exposed to Brexit with customs procedures, thus reducing their vulnerability. Nevertheless, uncertainties around the non-tariff trade impediments remain a risk given Ireland's strong linkages with the U.K. Changes in international taxation can also affect both the Irish economy and public finances. Ireland should therefore continue to build on its strong non-tax comparative advantages, such as its qualified labor force, strong and stable legal and policy environment, and favorable business climate.

**36. Fiscal policy should continue to be supportive in the near term to avoid cliff-edge effects, especially in view of remaining vulnerabilities.** As the recovery takes hold, it will need to be adjusted to sustainably boost growth and support social cohesion. After the recovery is complete, the tax base should be broadened to help finance productivity-enhancing investment in human and physical capital, and to resume the reduction in public debt in relation to GNI*. There is also a need to further improve expenditure efficiency, including by enhancing the implementation of infrastructure projects and maintenance of public assets.

**37. Further progress should be made in the period ahead to build on the regulatory actions taken in response to the pandemic, which helped stabilize credit conditions.** The CBI complemented the ECB's policy support by releasing the countercyclical capital buffer for banks and set out clear expectations around how the industry-led debt moratoria should operate. Lenders should continue to engage constructively with borrowers in financial distress to put in place appropriate and tailored solutions to those borrower's circumstances. It is also important that supervisory focus remains on the timely recognition of problem assets and developing capacity to resolve rising NPLs. The insolvency and bankruptcy systems should be kept under review and enhanced as needed. Over the medium term, cost reduction and greater use of digital technologies could help raise banks' low profitability and reduce lending rates. Non-bank lenders are expected to increase their presence in the market in the period ahead, but strategic initiatives recently announced by two smaller banks are likely to lead to their withdrawal from the Irish market. This further highlights the need for supervisors to focus on the sustainability of banks business models, in particular on banks actions to achieve greater cost efficiency.

**38. Continued strengthening of the regulatory framework for investment funds will help mitigate any spillover and potential reputational risks.** Although sizeable redemption pressures at the onset of the crisis receded quickly, and direct exposures to the domestic economy remain limited, the large absolute size of the investment fund sector relative to the domestic economy calls for constant vigilance. We therefore welcome the CBI's plan to further improve data collection, strengthen risk management across the sector, and develop the macroprudential framework in close coordination with other European regulators.

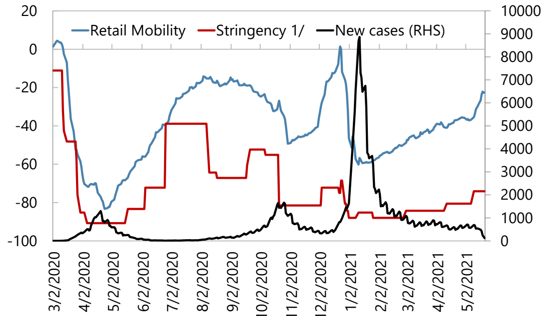
**39. Withdrawal of policy support should be carefully tapered to minimize economic scarring and facilitate an inclusive and sustainable recovery.** It is important to adapt and gradually withdraw temporary support measures as the recovery takes hold to incentivize transformation and resource reallocation. Active labor market policies should be further strengthened as support measures are withdrawn, including in areas such as re-training and employment placement services, with special focus on youth employment. Income support measures should become increasingly conditional on re-skilling and further shift toward subsidizing new hiring in the expanding sectors to minimize the increase in long-term unemployment. Business support measures should also be increasingly targeted to affected but viable firms.

**40. The authorities also need to strike a balance between providing targeted support to hard-hit sectors and vulnerable groups and addressing Ireland's medium-term challenges.** This will require raising productivity through better education and vocational training. It is also important to empower women to raise their low labor participation, including by increasing the availability of affordable childcare facilities. Reducing affordable housing shortages requires a comprehensive multi-pronged approach across government institutions and levels. More public investment in social and physical infrastructures as well as affordable housing calls for greater spending efficiency and raising additional public revenue after the recovery is complete given the still high public debt in relation to GNI*. In addition, recently legislated higher carbon tax, with a trajectory to 2030, will help finance this effort, and sector-specific policies will help protect vulnerable groups in the transition to greener and more sustainable growth.

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

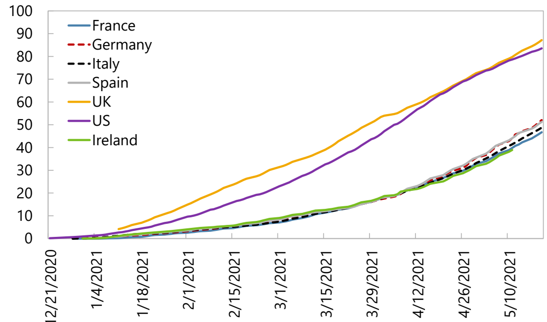
## Figure 6. Ireland: COVID and High-Frequency Indicators, 2018–20

### Ireland: Mobility, Stringency and New Cases
(7-day moving average for retail mobility and new cases)



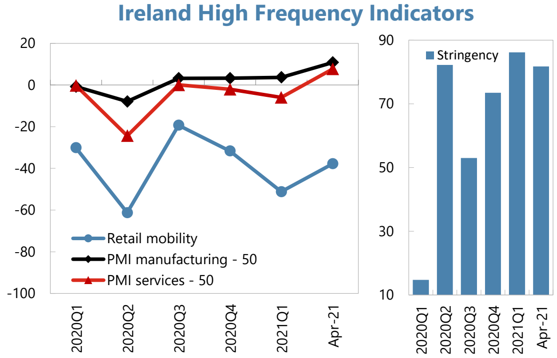

Notes: 1/ Stringency index is shown in reverse scale.
Sources: Google, JHU, Oxford University and IMF staff calculations.

### Cumulative COVID-19 Vaccination Doses Administered
(per 100 people)



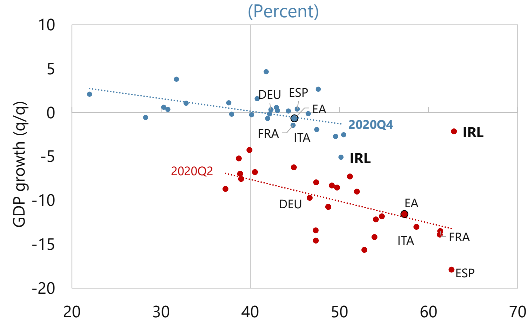

Sources: Our World in Data and Haver.

### Ireland High Frequency Indicators




Sources: Google, Markit, COVID-19 Government Response Tracker, Oxford University, Haver, and IMF staff calculations.

### EU: Growth vs. Restrictions on Movement
(Percent)




Sources: Eurostat; Google; Oxford University; IMF staff calculations.
1/ simple average of the degree of stringency and decline in mobility.

## Table 1. Ireland: Selected Economic Indicators, 2017–26

Population (2020, million): 5.0 Per capita modified income (2019, euros): 43,174

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projections | | | | | |
| | (annual percentage change, constant prices, unless otherwise indicated) | | | | | | | | | |
| **Output/Demand** | | | | | | | | | | |
| Real GDP 1/ | 9.1 | 8.5 | 5.6 | 3.4 | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.8 |
| Domestic demand | 1.2 | -1.9 | 32.4 | -18.1 | -11.2 | 7.5 | 4.8 | 4.2 | 3.5 | 3.5 |
| Public consumption | 3.8 | 5.8 | 6.3 | 9.8 | 3.0 | -3.0 | 0.0 | 2.9 | 2.9 | 2.9 |
| Private consumption | 2.4 | 2.8 | 3.2 | -9.0 | 3.0 | 10.0 | 3.5 | 3.0 | 2.6 | 2.6 |
| Gross fixed capital formation | 0.0 | -6.2 | 74.8 | -32.3 | -30.0 | 10.0 | 9.0 | 6.5 | 5.0 | 5.0 |
| Exports of goods and services | 9.2 | 11.1 | 10.5 | 6.2 | 6.0 | 5.1 | 4.5 | 4.0 | 4.0 | 4.0 |
| Imports of goods and services | 1.1 | 4.0 | 32.4 | -11.3 | -4.9 | 7.0 | 5.5 | 5.5 | 5.0 | 5.0 |
| Output gap | 1.6 | 1.0 | 0.6 | -2.3 | -1.9 | -0.7 | -0.2 | 0.0 | 0.0 | 0.0 |
| **Contribution to growth** | | | | | | | | | | |
| Domestic demand | 1.0 | -1.5 | 23.0 | -15.8 | -7.8 | 4.5 | 3.0 | 2.6 | 2.2 | 2.3 |
| Consumption | 1.3 | 1.5 | 1.7 | -1.9 | 1.2 | 2.4 | 1.0 | 1.2 | 1.1 | 1.1 |
| Gross fixed capital formation | 0.0 | -2.0 | 21.2 | -14.7 | -9.0 | 2.1 | 1.9 | 1.5 | 1.2 | 1.2 |
| Inventories | -0.2 | -1.0 | 0.1 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net exports | 10.0 | 9.4 | -17.5 | 20.6 | 12.4 | 0.4 | 0.8 | 0.2 | 0.6 | 0.5 |
| Residual | -1.9 | 0.6 | 0.1 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Prices** | | | | | | | | | | |
| Inflation (HICP) | 0.3 | 0.7 | 0.9 | -0.5 | 1.6 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 |
| GDP deflator | 1.6 | 0.3 | 3.1 | -0.5 | 2.0 | 1.9 | 1.9 | 2.0 | 2.0 | 2.0 |
| **Employment** | | | | | | | | | | |
| Employment (ILO definition) | 2.9 | 2.9 | 2.9 | -1.3 | 1.0 | 2.0 | 1.5 | 1.2 | 1.0 | 1.0 |
| Unemployment rate (percent) | 6.7 | 5.8 | 5.0 | 5.6 | 6.8 | 5.7 | 5.3 | 5.1 | 5.0 | 5.0 |
| | | | | | (percent of GDP) | | | | | |
| **Public Finance, General Government** | | | | | | | | | | |
| Revenue | 26.0 | 25.8 | 25.1 | 23.4 | 22.1 | 22.2 | 22.2 | 22.3 | 22.3 | 21.9 |
| Expenditure | 26.3 | 25.7 | 24.6 | 28.4 | 27.7 | 25.1 | 23.4 | 23.1 | 22.7 | 22.2 |
| Overall balance | -0.3 | 0.1 | 0.5 | -5.0 | -5.6 | -2.8 | -1.2 | -0.8 | -0.4 | -0.3 |
| Primary balance | 1.6 | 1.7 | 1.7 | -4.0 | -4.6 | -1.9 | -0.3 | 0.1 | 0.4 | 0.5 |
| Structural balance (percent of potential GDP) | -0.8 | -0.2 | 0.3 | -1.6 | -2.7 | -2.6 | -1.1 | -0.8 | -0.4 | -0.3 |
| General government gross debt | 67.0 | 63.0 | 57.4 | 59.5 | 63.0 | 62.9 | 60.9 | 59.0 | 56.9 | 53.1 |
| General government gross debt (percent of GNI*) | 108.1 | 103.6 | 95.6 | … | … | … | … | … | … | … |
| **Balance of payments** | | | | | | | | | | |
| Trade balance (goods) | 36.3 | 33.4 | 33.5 | 37.9 | 35.0 | 32.3 | 30.4 | 28.9 | 27.5 | 25.8 |
| Current account balance | 0.5 | 6.0 | -11.3 | 4.6 | 5.8 | 5.6 | 5.4 | 5.2 | 5.1 | 5.0 |
| Gross external debt (excl. IFSC) 2/ | 258.9 | 265.5 | 280.0 | 282.2 | 270.9 | 261.0 | 254.6 | 251.1 | 248.3 | 246.4 |
| | | | | | (percent) | | | | | |
| **Monetary and financial indicators** | | | | | | | | | | |
| Bank credit to private sector (growth rate) | -3.2 | -3.4 | -2.3 | -6.1 | … | … | … | … | … | … |
| Deposit rates | 0.4 | 0.3 | 0.3 | 0.4 | … | … | … | … | … | … |
| Government 10-year bond yield | 0.8 | 1.1 | 0.3 | 0.6 | … | … | … | … | … | … |
| **Memorandum items:** | | | | | | | | | | |
| Nominal GDP (€ billions) | 300.4 | 327.0 | 356.1 | 366.5 | 391.1 | 417.8 | 441.9 | 463.5 | 485.8 | 509.3 |
| Nominal GNI* (€ billions) | 186.2 | 198.7 | 213.7 | … | … | … | … | … | … | … |

Sources: CSO; DoF; Eurostat; and IMF staff estimates and projections.
1/ The reported real GDP growth is changed to non-seasonally-adjusted (NSA). The annual SA versus NSA differences in 2018-2020 arise principally due to the lumpy, irregular pattern of IP Imports over the past three years.
2/ IFSC indicates international financial services.

## Table 2. Ireland: Statement of Operations of the General Government, 2017–26
(percent of GDP, unless otherwise indicated)

| | | | | | Projections 1/ | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| **Revenue** | **26.0** | **25.8** | **25.1** | **23.4** | **22.1** | **22.2** | **22.2** | **22.3** | **22.3** | **21.9** |
| Taxes | 18.5 | 18.5 | 18.2 | 16.9 | 16.4 | 16.7 | 16.7 | 16.8 | 16.8 | 16.5 |
| Personal income tax | 7.1 | 7.0 | 6.9 | 6.2 | 6.3 | 6.3 | 6.3 | 6.4 | 6.4 | 6.5 |
| Corporate income tax | 2.8 | 3.2 | 3.1 | 3.2 | 3.0 | 3.0 | 3.0 | 2.9 | 2.9 | 2.5 |
| VAT | 4.3 | 4.3 | 4.3 | 3.5 | 3.6 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Excises | 1.5 | 1.4 | 1.4 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Other taxes | 2.9 | 2.6 | 2.4 | 2.8 | 2.2 | 2.2 | 2.2 | 2.3 | 2.3 | 2.3 |
| Social contributions | 4.6 | 4.6 | 4.5 | 4.3 | 4.1 | 3.9 | 4.0 | 4.0 | 4.0 | 4.1 |
| Other revenue | 2.8 | 2.7 | 2.5 | 2.1 | 1.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.4 |
| **Expenditure** | **26.3** | **25.7** | **24.6** | **28.4** | **27.7** | **25.1** | **23.4** | **23.1** | **22.7** | **22.2** |
| Expense | 24.5 | 23.6 | 22.2 | 25.8 | 25.1 | 22.4 | 20.7 | 20.4 | 20.0 | 19.5 |
| Compensation of employees | 7.0 | 6.7 | 6.5 | 6.8 | 6.7 | 6.7 | 6.5 | 6.4 | 6.3 | 6.2 |
| Use of goods and services | 3.5 | 3.4 | 3.5 | 4.0 | 4.0 | 3.5 | 3.4 | 3.4 | 3.3 | 3.2 |
| Interest | 2.0 | 1.6 | 1.3 | 1.0 | 0.9 | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 |
| Subsidies | 0.6 | 0.6 | 0.5 | 1.5 | 1.6 | 0.9 | 0.5 | 0.5 | 0.5 | 0.5 |
| Social benefits | 9.8 | 9.3 | 8.9 | 10.6 | 10.3 | 8.8 | 7.9 | 7.7 | 7.6 | 7.4 |
| Other expense | 1.6 | 1.9 | 1.6 | 1.8 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Net acquisition of nonfinancial assets | 1.8 | 2.1 | 2.3 | 2.7 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| **Net lending(+)/borrowing(-) (overall balance)** | **-0.3** | **0.1** | **0.5** | **-5.0** | **-5.6** | **-2.8** | **-1.2** | **-0.8** | **-0.4** | **-0.3** |
| Net financial transactions | -0.4 | 0.2 | 0.5 | -4.9 | -5.9 | -3.7 | -1.5 | -1.3 | -0.9 | 1.1 |
| Net acquisition of financial assets | -0.7 | 5.3 | 0.0 | -1.1 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net incurrence of liabilities | -0.3 | 5.2 | -0.5 | 3.9 | 5.6 | 3.7 | 1.5 | 1.3 | 0.9 | -1.1 |
| **Memorandum items:** | | | | | | | | | | |
| Structural balance | -0.8 | -0.2 | 0.3 | -1.6 | -2.8 | -2.6 | -1.1 | -0.8 | -0.4 | -0.3 |
| Structural primary balance | 1.2 | 1.4 | 1.6 | -0.6 | -1.9 | -1.7 | -0.3 | 0.1 | 0.5 | 0.5 |
| Gross public debt 2/ | 67.0 | 63.0 | 57.4 | 59.5 | 63.0 | 62.9 | 60.9 | 59.0 | 56.9 | 53.1 |
| in percent of GNI* | 108.1 | 103.6 | 95.6 | 106.4 | … | … | … | … | … | … |
| in percent of revenue | 257.7 | 244.1 | 228.8 | 254.4 | 284.6 | 282.7 | 273.9 | 264.8 | 255.0 | 242.1 |
| Net public debt 3/ | 59.8 | 55.8 | 49.3 | 51.1 | 55.1 | 55.5 | 54.0 | 52.5 | 50.7 | 47.2 |
| Interest (in percent of revenue) | 7.6 | 6.3 | 5.0 | 4.3 | 4.3 | 4.3 | 3.9 | 4.1 | 3.9 | 3.5 |
| Currency and deposits | 5.7 | 6.6 | 6.7 | 4.7 | 4.0 | 3.7 | 3.5 | 3.3 | 3.2 | 3.0 |
| GDP at current market prices (in billions of euros) | 300.4 | 327.0 | 356.1 | 366.5 | 391.1 | 417.8 | 441.9 | 463.5 | 485.8 | 509.3 |

Sources: DoF; Eurostat; and IMF staff estimates and projections.

1/ The decline in most items as percent of GDP is caused by the greater divergence between GDP and tax base as well as GNI* in 2020, e.g. VAT is projected to return to 10 percent of private consumption.

2/ Includes the accumulation of a Rainy Day Fund of €0.5 billion starting in 2019.

3/ Gross debt minus financial assets corresponding to debt instruments (currency and deposits, debt securities, and loans).

## Table 3. Ireland: Balance of Payments and International Investment Position, 2017–26

| | 2017 | 2018 | 2019 | 2020 | Projections 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance of Payments** | | | | (billions of euros, unless otherwise indicated) | | | | | | |
| **Current account balance** | **1.5** | **19.6** | **-40.4** | **16.9** | **22.6** | **23.6** | **23.8** | **24.1** | **24.8** | **25.5** |
| ***(Percent of GDP)*** | **0.5** | **6.0** | **-11.3** | **4.6** | **5.8** | **5.6** | **5.4** | **5.2** | **5.1** | **5.0** |
| Balance of goods and services | 65.6 | 92.8 | 43.8 | 109.8 | 157.4 | 160.3 | 165.2 | 167.6 | 171.6 | 175.8 |
| *(Percent of GDP)* | 21.8 | 28.4 | 12.3 | 30.0 | 40.2 | 38.4 | 37.4 | 36.2 | 35.3 | 34.5 |
| Trade balance | 109.1 | 109.1 | 119.1 | 138.8 | 136.9 | 134.9 | 134.5 | 134.2 | 133.4 | 131.6 |
| Exports of goods | 197.8 | 211.4 | 227.5 | 237.8 | 238.6 | 242.3 | 249.6 | 259.1 | 269.3 | 278.8 |
| Imports of goods | 88.7 | 102.3 | 108.4 | 99.1 | 101.8 | 107.4 | 115.1 | 125.0 | 135.8 | 147.2 |
| Services balance | -43.5 | -16.3 | -75.3 | -28.9 | 20.5 | 25.4 | 30.7 | 33.4 | 38.2 | 44.2 |
| Primary income balance | -61.1 | -69.5 | -80.6 | -89.0 | -130.6 | -132.3 | -136.6 | -138.5 | -141.7 | -144.9 |
| *(Percent of GDP)* | -20.3 | -21.2 | -22.6 | -24.3 | -33.4 | -31.7 | -30.9 | -29.9 | -29.2 | -28.5 |
| Secondary income balance | -3.1 | -3.7 | -3.6 | -3.9 | -4.2 | -4.5 | -4.7 | -4.9 | -5.2 | -5.4 |
| Capital account balance | -25.9 | -52.0 | -35.1 | -18.1 | -19.6 | -20.9 | -22.1 | -23.2 | -24.3 | -25.5 |
| Financial account balance | -16.7 | -32.2 | -66.3 | -10.4 | 3.1 | 2.7 | 1.7 | 1.0 | 0.5 | 0.0 |
| *(Percent of GDP)* | -5.6 | -9.8 | -18.6 | -2.8 | 0.8 | 0.6 | 0.4 | 0.2 | 0.1 | 0.0 |
| Direct investment | -48.6 | 21.8 | -87.3 | -72.6 | -72.8 | -74.3 | -74.1 | -73.1 | -71.5 | -74.7 |
| Portfolio investment | -57.6 | 37.6 | 29.2 | 31.3 | 32.7 | 33.3 | 35.2 | 36.8 | 38.8 | 40.5 |
| Other investment | 89.1 | -92.3 | -8.6 | 29.6 | 43.2 | 43.6 | 40.7 | 37.2 | 33.2 | 34.2 |
| Change in reserve assets | 0.4 | 0.8 | 0.4 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net errors and omissions | 7.7 | 0.2 | 9.2 | -9.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net International Investment Position** | | | | | (percent of GDP) | | | | | |
| Net investment position | -165.1 | -180.7 | -173.8 | -167.8 | -156.5 | -145.8 | -137.5 | -130.9 | -124.8 | -119.0 |
| Net direct investment | -19.8 | -21.6 | -16.6 | -31.9 | -48.5 | -63.1 | -76.5 | -88.7 | -99.3 | -109.4 |
| Net portfolio investment | -151.1 | -130.9 | -154.6 | -164.1 | -145.4 | -128.2 | -113.2 | -100.0 | -87.4 | -75.4 |
| Net other investment | 4.5 | -29.6 | -4.0 | 26.5 | 35.9 | 44.0 | 50.8 | 56.5 | 60.7 | 64.6 |
| Reserve assets | 1.2 | 1.4 | 1.4 | 1.7 | 1.6 | 1.5 | 1.4 | 1.3 | 1.3 | 1.2 |
| **External Debt** | | | | | (percent of GDP) | | | | | |
| Total external debt | 725.6 | 747.3 | 724.8 | 748.0 | 707.4 | 669.5 | 640.9 | 619.5 | 599.7 | 581.7 |
| Non-IFSC external debt | 258.9 | 265.5 | 280.0 | 282.2 | 270.9 | 261.0 | 254.6 | 251.1 | 248.3 | 246.4 |
| IFSC external debt | 466.7 | 481.8 | 444.7 | 465.8 | 436.5 | 408.6 | 386.3 | 368.3 | 351.4 | 335.2 |
| Short-term debt | 145.2 | 162.6 | 169.4 | 174.9 | 165.4 | 156.5 | 149.8 | 144.8 | 140.2 | 136.0 |
| Medium & long term debt | 580.4 | 584.7 | 555.3 | 573.1 | 542.0 | 513.0 | 491.1 | 474.7 | 459.5 | 445.7 |
| **Memorandum item:** | | | | | | | | | | |
| Modified current account balance (CA*) | 3.5 | 3.7 | 4.6 | … | … | … | … | … | … | … |

Sources: CBI; CSO; and IMF staff estimates and projections.

## Table 4. Ireland: Monetary Survey, 2015–21
(Billions of euros, unless otherwise indicated; end of period)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 1/ |
|---|---|---|---|---|---|---|---|
| **Aggregate balance sheet of domestic market credit institutions** | | | | | | | |
| Assets | 377.6 | 356.2 | 331.6 | 333.8 | 403.9 | 484.0 | 505.1 |
| Claims on Central Bank of Ireland | 5.5 | 10.4 | 9.9 | 8.2 | 19.0 | 40.5 | 55.7 |
| Claims on Irish resident Other MFIs | 46.1 | 41.5 | 38.4 | 34.0 | 37.7 | 36.5 | 37.3 |
| Claims on Irish resident non MFIs | 205.8 | 190.5 | 183.6 | 178.3 | 173.0 | 167.4 | 165.2 |
| General government | 18.4 | 17.3 | 15.9 | 16.2 | 14.6 | 18.7 | 18.8 |
| Private sector | 187.4 | 173.2 | 167.7 | 162.1 | 158.5 | 148.8 | 146.4 |
| Households | 92.0 | 88.2 | 89.8 | 91.3 | 92.0 | 87.0 | 86.9 |
| Non-Financial Corporations | 44.2 | 39.5 | 38.4 | 37.7 | 36.2 | 34.5 | 34.5 |
| Non-Bank Financial Intermediaries | 51.2 | 45.5 | 39.6 | 33.1 | 30.3 | 27.3 | 25.0 |
| Claims on non-residents | 83.5 | 72.6 | 63.9 | 73.5 | 103.9 | 142.0 | 144.7 |
| Other assets | 36.7 | 41.2 | 35.7 | 39.9 | 70.3 | 97.5 | 102.1 |
| Liabilities | 377.6 | 356.2 | 331.6 | 333.8 | 403.9 | 484.0 | 505.1 |
| Liabilities to Eurosystem 2/ | 10.0 | 7.0 | 7.4 | 3.0 | 2.0 | 7.1 | 17.9 |
| Liabilities to Irish resident Other MFIs | 46.3 | 39.4 | 35.6 | 29.5 | 32.0 | 30.6 | 30.6 |
| Deposits of Irish resident non MFIs | 166.6 | 169.1 | 174.5 | 179.2 | 195.3 | 224.2 | 228.2 |
| General government | 4.2 | 3.7 | 3.0 | 3.0 | 2.8 | 3.2 | 2.8 |
| Private sector | 162.3 | 165.4 | 171.4 | 176.2 | 192.6 | 220.9 | 225.4 |
| Households | 94.7 | 97.1 | 99.1 | 103.8 | 110.5 | 124.5 | 128.8 |
| Non-Financial Corporations | 40.1 | 42.5 | 47.5 | 48.1 | 55.6 | 64.7 | 64.9 |
| Non-Bank Financial Intermediaries | 27.5 | 25.8 | 24.8 | 24.4 | 26.5 | 31.7 | 31.7 |
| Deposits of non-residents | 42.8 | 38.5 | 23.8 | 31.7 | 52.4 | 77.2 | 80.1 |
| Debt securities | 25.2 | 23.1 | 21.2 | 25.5 | 25.5 | 23.0 | 22.3 |
| Capital and reserves | 67.2 | 61.3 | 57.5 | 54.0 | 52.7 | 49.8 | 48.7 |
| Other liabilities (incl. Central Bank of Ireland) | 19.5 | 17.8 | 11.7 | 11.0 | 44.0 | 72.0 | 77.4 |

## Table 4. Monetary Survey, 2015–21 (Concluded)

(Billions of Euros, unless otherwise specified, end of period)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 1/ |
|---|---|---|---|---|---|---|---|
| **Money and credit** 3/ | | | | | | | |
| Net foreign assets | 43.3 | 41.0 | 46.2 | 53.0 | 92.3 | 111.9 | ... |
| Central Bank of Ireland 4/ | 2.5 | 5.9 | 11.2 | 24.1 | 44.6 | 52.7 | ... |
| Commercial banks | 40.8 | 35.1 | 34.9 | 28.9 | 47.7 | 59.3 | 59.9 |
| Net domestic assets | 158.1 | 175.0 | 173.4 | 191.0 | 161.6 | 245.4 | ... |
| Public sector credit | 19.4 | 18.3 | 16.9 | 17.3 | 15.5 | 19.3 | 19.5 |
| Private sector credit | 199.9 | 185.8 | 179.1 | 173.9 | 166.0 | 155.1 | 153.0 |
| Other | -61.1 | -29.1 | -22.6 | -0.2 | -20.0 | 71.0 | ... |
| Irish Resident Broad money (M3) 5/ | 201.5 | 216.0 | 219.6 | 243.9 | 253.9 | 357.3 | 341.1 |
| Irish Resident Intermediate money (M2) 5/ | 184.0 | 191.7 | 200.9 | 211.1 | 237.4 | 273.4 | 279.4 |
| Irish Resident Narrow money (M1) | 132.9 | 146.5 | 158.7 | 171.6 | 198.3 | 234.3 | 243.2 |
| | | | (Percent of GDP) | | | | |
| Public sector credit 6/ | 26.6 | 23.3 | 19.6 | 19.3 | 15.8 | 19.8 | ... |
| Private sector credit 6/ | 270.5 | 234.2 | 207.1 | 193.1 | 171.6 | 158.1 | ... |
| | | | (Percentage change y/y) | | | | |
| Broad money - Irish contribution to euro area M3 7/ | 5.1 | 7.0 | 1.6 | 10.7 | 3.4 | 41.4 | 20.8 |
| Irish Public sector credit 7/ 8/ | -9.3 | -5.1 | -6.0 | 3.7 | -10.7 | 24.0 | 15.9 |
| Irish Household and non-financial corporations credit 7/ 8/ | -4.1 | -1.7 | 0.1 | 1.9 | 1.3 | -1.7 | -1.5 |
| **Memorandum items:** 9/ | | | | | | | |
| Credit to deposits (in percent) 10/ | 115.4 | 104.7 | 97.8 | 92.0 | 82.3 | 67.3 | 65.0 |
| Deposits from Irish Private Sector (y-o-y percent change) | 5.8 | 0.7 | 5.1 | 2.6 | 9.1 | 12.9 | 13.1 |
| Wholesale funding (billions of euros) | 105.4 | 92.9 | 73.3 | 79.0 | 94.0 | 99.1 | 107.5 |
| Deposits from MFIs | 80.2 | 69.8 | 52.1 | 53.5 | 68.6 | 76.1 | 85.2 |
| Debt securities | 25.2 | 23.1 | 21.2 | 25.5 | 25.5 | 23.0 | 22.3 |
| Wholesale funding (y-o-y percent change) 11/ | -17.6 | -7.6 | -20.0 | 13.1 | 19.9 | 6.0 | 2.1 |
| Wholesale funding (percent of assets) 11/ | 27.9 | 26.1 | 22.1 | 23.7 | 23.3 | 20.5 | 21.3 |

Sources: CBI and IMF staff.
1/ As of March 2021.
2/ Relating to Eurosystem monetary policy operations.
3/ Including banks in the International Financial Service Center.
4/ Sourced from quarterly IIP statistics.
5/ Differs from the M3 (M2) Irish contribution to euro area as only liabilities vis-a-vis Irish residents are used.
6/ Refers to credit advanced by domestic market credit institutions.
7/ Includes IFSC.
8/ Growth rates adjusted for valuation, reclassification, derecognition/loan transfer to non-MFIs, and exchange rates.
9/ Excludes IFSC.
10/ Domestic market credit institutions' private sector credit to deposits.
11/ Includes resident and non-resident MFI deposits, and debt securities issued.

## Table 5. Ireland: Financial Soundness Indicators

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020Q3 |
|---|---|---|---|---|---|---|---|
| | | | | (In percent) | | | |
| **Capital** | | | | | | | |
| Regulatory capital to risk-weighted assets | 22.7 | 24.4 | 26.9 | 25.3 | 25.4 | 25.0 | 25.7 |
| Regulatory Tier 1 capital to risk-weighted assets | 20.6 | 22.1 | 25.0 | 23.5 | 23.4 | 23.1 | 23.7 |
| Capital to assets (leverage ratio) | 12.7 | 14.0 | 13.5 | 14.3 | 14.9 | 13.5 | 12.1 |
| Large exposures to capital | 24.8 | 18.1 | 22.3 | 22.9 | 19.9 | 30.8 | 33.6 |
| **Profitability** | | | | | | | |
| Return on assets | 0.4 | 1.0 | 1.0 | 0.8 | 0.9 | 0.7 | -0.4 |
| Return on equity | 5.3 | 5.7 | 7.8 | 6.1 | 6.5 | 5.0 | -3.5 |
| Interest margin to gross income | 54.5 | 57.9 | 50.7 | 52.0 | 52.0 | 46.5 | 53.2 |
| Non-interest expenses to gross income | 66.2 | 68.7 | 63.9 | 67.3 | 68.9 | 73.4 | 73.3 |
| Trading income to total income | 4.8 | 0.5 | 9.6 | 6.4 | 7.1 | 5.8 | 4.1 |
| Personnel expenses to total income | 35.5 | 35.5 | 37.3 | 35.9 | 36.4 | 37.9 | 42.7 |
| **Liquidity** | | | | | | | |
| Liquid assets to total assets | ... | ... | 18.8 | 20.5 | 27.4 | 26.4 | 28.6 |
| Liquid assets to short-term liabilities | ... | ... | 29.4 | 30.3 | 35.8 | 35.7 | 37.5 |
| Customer deposits to total non-interbank loans | ... | 64.1 | 70.9 | 76.4 | 71.2 | 65.1 | 64.8 |
| **Sensitivity to market risk** | | | | | | | |
| Net open position in FX to capital | 0.8 | 0.2 | 1.4 | 1.5 | 2.4 | 1.9 | 2.7 |
| Gross assets position in derivatives to capital | 50.6 | 29.6 | 35.9 | 24.4 | 17.9 | 59.3 | 80.3 |
| Gross liabilities position in derivatives to capital | 55.2 | 31.7 | 37.1 | 26.5 | 19.4 | 61.4 | 80.8 |
| Net open position in equities to capital | 5.6 | 5.9 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| **Sectoral distribution of loans** | | | | | | | |
| Domestic residents | 56.1 | 54.8 | 54.7 | 55.7 | 48.3 | 44.9 | 44.8 |
| Deposit takers | 12.6 | 12.0 | 11.0 | 10.0 | 7.4 | 6.4 | 6.0 |
| Central bank | 1.1 | 2.7 | 5.1 | 6.3 | 5.5 | 7.9 | 10.7 |
| Other financial corporations | 5.1 | 4.8 | 4.6 | 4.7 | 4.3 | 3.4 | 3.3 |
| General government | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.0 |
| Nonfinancial corporations | 14.5 | 12.1 | 11.3 | 11.2 | 9.9 | 8.3 | 7.6 |
| Households | 22.7 | 23.0 | 22.6 | 23.3 | 21.1 | 18.8 | 17.1 |
| Nonresidents | 43.9 | 45.2 | 45.3 | 44.3 | 51.7 | 55.1 | 55.2 |
| ***Memo items*** | | | | | | | |
| Non-performing loans net of provisions to capital | 56.0 | 42.8 | 40.2 | 35.2 | 18.0 | 11.5 | 10.0 |
| Non-performing loans to total gross loans | 20.6 | 14.9 | 13.6 | 11.5 | 5.7 | 3.4 | 3.5 |

Sources: IMF Financial Soundness Indicators and ECB.

**Table 6. Ireland: Key Financial Indicators of Selected Domestic Banks [1/]**

(Percent)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Credit growth | -5.4 | -5.3 | -9.4 | -3.9 | -3.4 | 1.0 | -3.8 |
| to Irish residents | -3.6 | -1.1 | -7.5 | -2.1 | 1.2 | 0.8 | -3.8 |
| Return on assets | 0.5 | 0.7 | 0.8 | 0.8 | 0.8 | 0.3 | -0.7 |
| Pre-provision profits 2/ | 0.4 | 0.7 | 0.8 | 0.8 | 0.7 | 0.4 | 0.3 |
| Net interest margin | 1.3 | 1.8 | 2.0 | 2.2 | 2.1 | 2.0 | 1.8 |
| Cost-to-income ratio | 64.1 | 63.2 | 60.2 | 68.1 | 70.8 | 81.3 | 83.3 |
| NPL ratio | 23.2 | 16.1 | 12.9 | 10.7 | 8.1 | 5.0 | 6.6 |
| Coverage ratio | 51.7 | 51.6 | 50.3 | 45.6 | 37.7 | 42.3 | 54.5 |
| CT1 ratio | 15.5 | 14.9 | 16.8 | 18.4 | 17.8 | 17.7 | 17.1 |
| Net loan to deposit | 108.2 | 105.9 | 102.4 | 94.9 | 93.8 | 90.4 | 78.6 |

Sources: CBI 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, unless otherwise indicated.

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

# Annex I. The Impact of Brexit on Ireland's Trade[1]

*Ireland is the EU country most exposed to Brexit due to its strong trade and financial linkages, as well as high labor mobility, with the British economy. The EU-UK Trade and Cooperation Agreement (TCA) have averted the prospect of a no-deal Brexit. However, implementation details are being negotiated to minimize non-tariff impediments to goods and services trade. In the short run, there are likely to be some supply-chain disruptions until the details of the agreement are finalized. However, there can also be upward effects from potential relocation of UK-based services to Ireland. The authorities' comprehensive preparations have helped acquaint firms in the sectors most exposed to Brexit with customs procedures, thus reducing their vulnerability.*

1. **Brexit has created some non-tariff trade barriers.** The new agreement preserves the zero-tariff and quota-free trade in goods that existed under EU membership, which also applies these exemptions to all goods that comply with the rules of origin.[2] This is especially important for sectors such as food processing and agribusiness[3]. The deal also facilitates cooperation in areas such as investment, competition, state aid, air and road transport, energy, and sustainability.

2. **However, the TCA puts an end to the free movement of people, goods, and services between the U.K. and the EU with the exception of the Common Travel Area arrangements and the Northern Ireland Protocol.** Rules of origin compliance, custom controls, and the lost passporting right for U.K. firms could create trade frictions.[4] Estimates of the cost of compliance with rules of origin requirements vary between 2 and 6 percent of a product's final value. In addition, there is still no decision on regulatory equivalence for financial services. U.K.'s temporary permissions and recognition regimes facilitate the continued provision of U.K. based activities of Irish firms without disruption. Separately, the EU's temporary equivalence decision grants EU financial institutions access to the U.K. financial markets infrastructure for clearing and settlement

### Annex Box 1.1. Top 5 Countries in Services and Goods Trade (2019)

| | Services | |
|---|---|---|
| | Exports | Imports |
| | (millions of Euros) | |
| United States | 34,894 | 55,146 |
| Bermuda | 2,149 | 63,985 |
| United Kingdom | 34,897 | 20,552 |
| Netherlands | 7,269 | 30,018 |
| Germany | 16,298 | 5,086 |
| **Total** | **221,370** | **296,702** |
| | (% of total trade) | |
| United States | 15.8 | 18.6 |
| Bermuda | 1.0 | 21.6 |
| United Kingdom | 15.8 | 6.9 |
| Netherlands | 3.3 | 10.1 |
| Germany | 7.4 | 1.7 |
| | (% of IRL 2019 NGDP) | |
| United States | 9.8 | 15.5 |
| Bermuda | 0.6 | 18.0 |
| United Kingdom | 9.8 | 5.8 |
| Netherlands | 2.0 | 8.4 |
| Germany | 4.6 | 1.4 |

| | Goods | |
|---|---|---|
| | Exports | Imports |
| | (millions of Euros) | |
| United States | 46,960 | 14,023 |
| United Kingdom | 15,752 | 20,352 |
| Germany | 13,601 | 7,484 |
| France | 5,435 | 12,333 |
| Belgium | 15,505 | 1,655 |
| **Total** | **152,497** | **90,827** |
| | (% of total trade) | |
| United States | 30.8 | 15.4 |
| United Kingdom | 10.3 | 22.4 |
| Germany | 8.9 | 8.2 |
| France | 3.6 | 13.6 |
| Belgium | 10.2 | 1.8 |
| | (% of IRL 2019 NGDP) | |
| United States | 13.2 | 3.9 |
| United Kingdom | 4.4 | 5.7 |
| Germany | 3.8 | 2.1 |
| France | 1.5 | 3.5 |
| Belgium | 4.4 | 0.5 |

Reference: CSO and IMF staff estimates

[1] Prepared by Andreas Jobst and Marzie Taheri Sanjani.

[2] In this respect, it goes beyond EU free trade agreements with Canada or Japan.

[3] Without the agreement, exports of certain meat or dairy products would face tariffs above 40 percent under WTO terms.

[4] Anecdotal evidence suggests that certain companies are opting to pay tariffs because completion of the necessary forms is extremely onerous, in some cases to the extent of being impractical.

services until mid-2022 and mid-2021, respectively.[5] However, the EU has not granted equivalence in certain other areas – including for the provision of investment services, which creates an incentive for U.K. financial services providers to relocate some of their business to Ireland to preserve EU passporting rights.[6]

### Annex Box 1.2 How is Brexit Affecting Transport and Recent Trade Data?

**The U.K. "land bridge" is the most efficient route for Irish-EU trade compared to direct sea routes.** Trucks from Ireland heading to the EU via GB take around at best 10 hours compared to the 40-hour sea route, making it a popular choice for food and other perishable goods. The introduction of border procedures between the U.K. and Ireland and between the U.K. and the continent could thus adversely affect Irish seafood, fresh products, and agricultural export.

**To alleviate delays at ports, around 80 percent of freight movements were "green-routed", which waives the need for documentary or physical inspections.**[1/] The Ireland Revenue Commissioners Office has been dealing with a surge in paperwork since Brexit. Nevertheless, the significant Brexit-policy response to upgrade the physical and IT infrastructures at ports and custom were effective in preparing Irish businesses. In particular, introducing the Customs RoRo Service has facilitated the movement and control of goods and vehicles when moved by scheduled ferries between Ireland and Great Britain. Moreover VAT is now payable at the point of importation, along with any customs duties, though in practice most traders have a deferred payment account. Importers and hauliers complete in advance their pre-boarding declaration. Some estimates suggest that a 10 percent increase in waiting time at customs reduces the value of trade in goods by about 1 percent. The results are larger for time-sensitive goods (pharmaceuticals, food, and beverages) and for SMEs in general.

**High-frequency bilateral trade data point to possibly temporary trade reduction in the first two months of 2021.** Earlier monthly data show higher imports and exports of goods in October and November 2020, consistent with stockpiling of goods. The U.K. will not impose full SPS checks on the EU imports until January 1, 2022. The full impact on EU-UK trade will only be visible when the U.K. has introduced its full customs and SPS regime. The EU introduced full customs and SPS checks on U.K. imports from 1 January 2021.

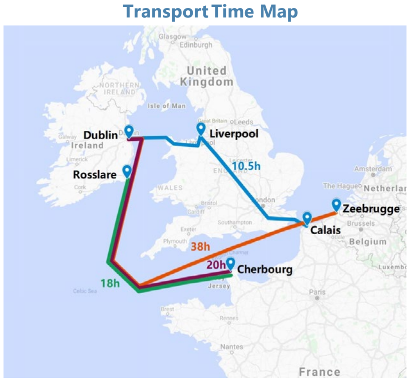
[1/] Some 15 percent were "orange-routed," requiring a documentary check, while 5 percent were "red-routed," requiring a physical inspection at the port, delaying the release of the load.

[5] Ireland has eliminated potential uncertainty about the settlement of Irish corporate securities by migrating these services to the Euroclear CSD in Belgium (in lieu of the U.K. Central Securities Depository (CSD)). This migration was facilitated by legislative and non-legislative measures undertaken by the Irish public authorities.

[6] Tracking relocation of the U.K.-based financial services in response to Brexit illustrates that around 403 firms have already relocated to different financial centers and more are expected to relocate due to uncertainties around granting equivalence by the EU to the U.K. Dublin remains a popular choice for U.K. financial services firms to relocate staff or operations.

**Annex Box 1.2 How is Brexit Affecting Transport and Recent Trade Data? (concluded)**

Transport Time Map



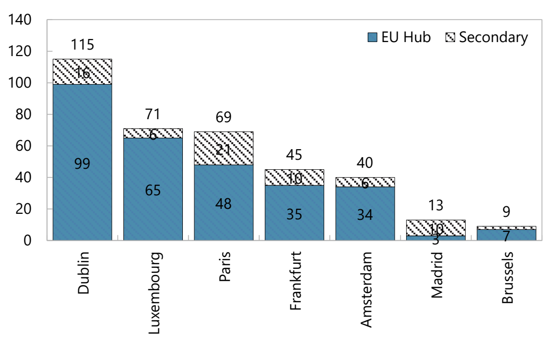

Source: Politico.

Ireland-UK Trade in Goods
(NSA, € billions)


Sources: CSO and Haver.

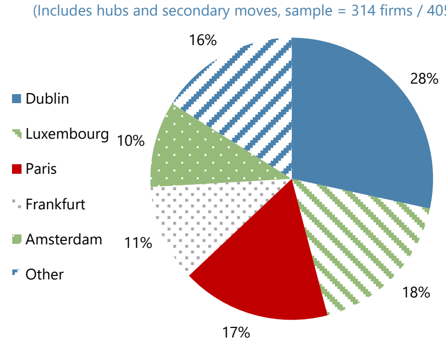
3. **Ireland may benefit from relocation of British-based services due to its favorable legal and robust regulatory environment.** To continue operating smoothly post Brexit, some U.K. firms may need to establish a presence in an EU country. Some financial sector firms have already relocated from London to Dublin and other EU locations. The following factors tend to be key considerations for businesses relocating to Ireland: (i) continued access to the EU permitting various tax exemptions and reliefs provided for by EU Directives; (ii) skilled, English-speaking workforce; (iii) favorable labor relations system; (iv) stable business-friendly policies; (v) strong and transparent judicial system that is comparable to the U.K. system.[7] Tracking relocation of the U.K.-based financial services in response to Brexit illustrates that Dublin is a popular choice for U.K. financial services firms to relocate staff or operations.

The number of firms moving to different financial centres




Sources: New Financial.

Financial centre share of Brexit-related relocations
(Includes hubs and secondary moves, sample = 314 firms / 405 moves)

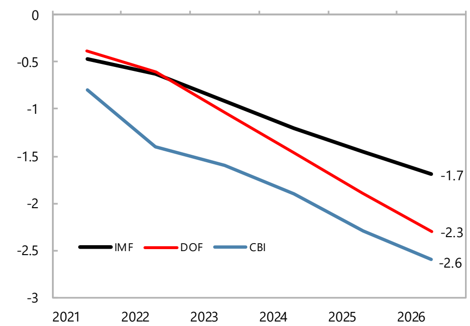



Sources: New Financial.

[7] The requirements and obligations under Irish law associated with setting up and maintaining a company in Ireland are very similar to the U.K., including around; shareholder rights, directors duties, maintaining statutory registers and other post incorporation reporting (EVERSHEDS).

**4. Simulation results using the IMF GIMF[8] model suggest a small but persistent adverse impact of the TCA deal on growth.** Growth in 2021 is likely to be -0.5 percentage points lower compared to the no-Brexit baseline. Over a five-year post-Brexit horizon, a small permanent supply shock and non-tariff trade barriers reduce exports and investment, resulting in a cumulative output loss of 1.7 percent. This outcome can be mitigated by the upside risk from U.K.-based service firms relocating to Ireland. The Irish authorities project a larger slowdown of activity due to a higher impact of rising trade costs and greater business uncertainty.[9]

**Comparison of Projected Output Loss from EU-UK Trade and Cooperation Agreement**
(Cumulative deviation from pre-Brexit baseline, percent)




*Sources:* Central Bank of Ireland; Department of Finance; IMF staff estimates.
*Note:* The IMF scenario assumes an additional 7.2 percent increase of non-tariff trade barriers (in tariff-equivalent terms) due to border disruptions relative to baseline.

## Annex Box 2 Brexit Readiness Action Plan (Legislative and Budgetary Measures)

- Significant dedicated measures and supports were announced in Budgets 2017, 2018, 2019, and 2020. Supports up to, and including, Budget 2019 amounted to over €800 million, and Budget 2020 provided for more than €1 billion.
- Budget 2021 includes a €3.4 billion Recovery Fund targeted at stimulating the economy and employment in the aftermath of COVID and Brexit. The Fund is flexible in its design to provide the means to react swiftly to a constantly changing environment. It focuses on three main areas: infrastructure development; reskilling and retraining; and supporting investment and jobs. It supports both those in employment and those whose jobs have not survived the pandemic.
- Working with the Commission to ensure Irish businesses and sectors benefit from the €5 billion Brexit Adjustment Reserve, to the maximum extent possible.
- Continuing to provide supports such as the Brexit Loan Scheme, the COVID-19 Working Capital Scheme, and the Future Growth Loan Scheme to assist business innovate, change, or adapt, and strategically invest in response to Brexit.
- Roll-out the €20 million 'Ready for Customs' Brexit package announced as part of the July Jobs Stimulus.
- Launch of Customs Readiness tools offered by Skillnet Ireland, Local Enterprise Offices', Enterprise Ireland and Bord Bia.
- Legislating the "2020 Brexit Omnibus Act" which underpins the Brexit readiness measures.

Source: Government of Ireland—Brexit Readiness Action Plan (September 2020).

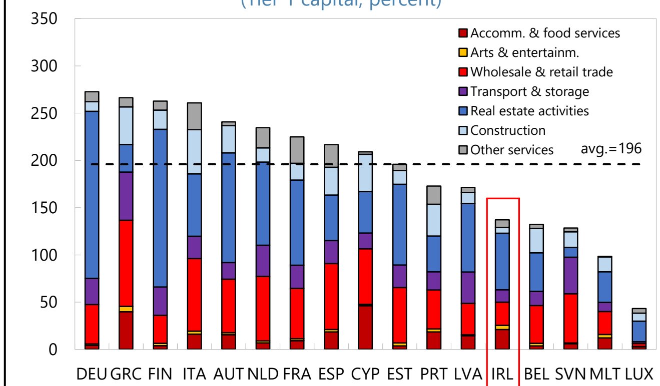
[8] Staff presented earlier estimates to the Irish authorities during the staff visit in November 2019. For background on the GIMF model, see Kumhof and others (2010).

[9] Recent DoF research on examination of the sectoral overlap of COVID-19 and Brexit shocks shows that there is a limited overlap in the sectors exposed to the Brexit versus covid shocks; the sectors exposed to each shock are not particularly closely connected to those affected by the other shock, hence adding the Brexit shock to that of COVID-19 brings a wider range of sectors exposed to risk but that the impacts are not magnified by interaction effects. See https://assets.gov.ie/87415/d9e78488-8d67-4568-9e48-91069c0db5fc.pdf.

# Annex II. Impact of COVID-19 on Irish Banks[1]

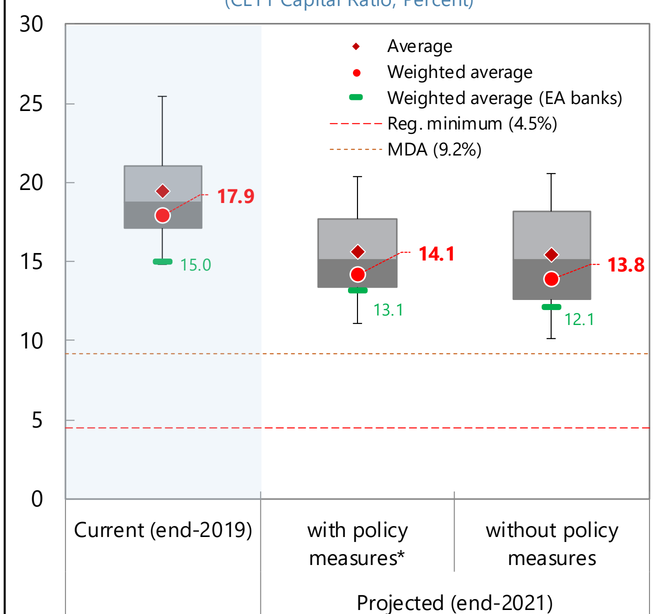
**1. The impact of the COVID-19 crisis on Irish banks has been limited so far, but declining profitability could limit their lending capacity over the medium term.** Irish banks have some of the largest capital buffers in Europe. However, even before the current crisis, most retail-oriented banks reported declining profits due to compressed net interest margins and inefficient cost structures amid legacy assets from the last crisis pushing up the capital intensity of new lending. While banks have maintained strong capital positions (thanks to smaller-than-expected loan losses), profitability challenges could arise from: (i) further increases in provisions for higher loan losses; (ii) write-offs of non-performing loans due to corporate insolvencies; and (iii) lower income from nonlending activities. Nearly half of banks' corporate exposures are to highly affected sectors, especially to real estate and trade (and to a lesser extent construction and transport). These exposures have already impacted banks' profit though higher provisioning expenses in 2020. In addition, more than two-thirds of bank lending is to households, especially via mortgages, which have not seen a significant credit deterioration but could become increasingly affected by adverse aggregate income and employment effects in a protracted recovery. If such a scenario were to occur, banks would likely preserve capital and tighten lending conditions on the back of rising risk perceptions.

**Euro Area Banks' Exposure to Highly Affected Sectors**
(Tier 1 capital, percent)




Sources: EBA; IMF staff calculations.

**Irish Banks—Solvency Stress Test, Baseline Scenario**
(CET1 Capital Ratio, Percent)

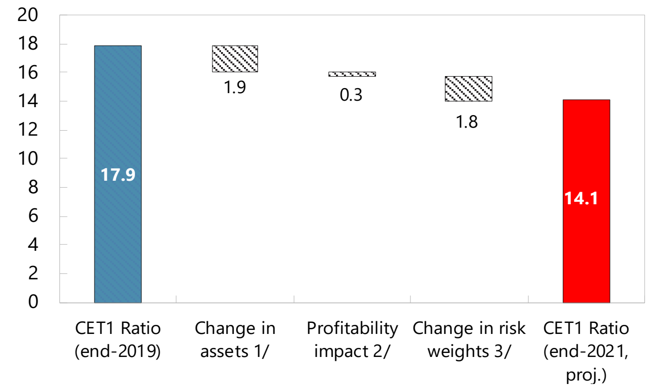



*Sources:* EBA; ECB; ESRB; FitchConnect; S&P Market Intelligence; and IMF staff estimates.
*Note:* CCB=capital conservation buffer, CET1=common equity Tier 1, EA=euro area, MDA=maximum distributable amount (weighted average). The grey shaded area of the boxplots shows the inter-quartile range (25th to 75th percentile), with whiskers at the 5th and 95th percentile of the distribution. */ Debt repayment relief (moratoria) for businesses and households, public credit guarantees, deferred bankruptcy proceedings, and dividend restrictions (only in 2020).

[1] Prepared by Andreas Jobst.

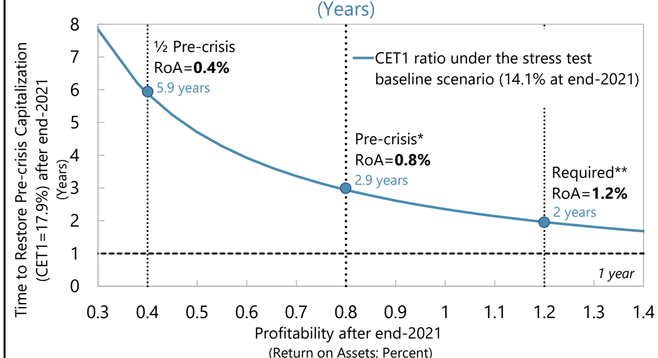
**2. Staff's analysis suggests that Irish banks are likely to remain broadly resilient under baseline conditions thanks to a wide range of mutually reinforcing policy measures.**[2] Public bank-level data from statutory filings as of end-2019 of eight banks is combined with information from the 2020 EBA Transparency Exercise to project the capital impact of the current crisis via three transmission channels (profitability, asset quality, and risk exposures). The analysis differs from other recent studies—by the European Central Bank (ECB) and European Banking Authority (EBA)—because it also (1) considers the mitigating effect of policy support provided to banks and borrowers until end-2021[2] and (2) includes the expected deterioration of banks' credit portfolios using the results of micro-level analysis of estimated solvency and liquidity gaps of corporate borrowers (Annex Box 2.1). Under staff's projected path for growth and unemployment under baseline conditions (consistent with the April 2021 WEO forecast), the aggregate common equity Tier 1 (CET1) capital ratio would decline by about 4 percentage points from 17.9 percent to 14.1 percent by end-2021 if policy measures operate as expected (and, thus, would be significantly below the currently reported value of 17.1 percent for the largest banks at the end of 2020) (Charts above). The main risk drivers are deleveraging (due to loan impairment charges) and rising capital intensity of lending (due to higher

**Breakdown of Change in CET1 Capital Ratio**
(Percent, with policies, baseline scenario)




*Sources:* EBA; ECB; FitchConnect; ESRB; S&P Market Intelligence; IMF staff estimates.
*Note:* The analysis uses end-2019 bank-by-bank consolidated data; 1/ Net lending and corporate debt write-offs to firms that have become illiquid and insolvent (weighted by outstanding debt and mapped to the sector-by-sector corporate exposure of sample banks); 2/ Net profitability impact of policy measures (lower provisions for guaranteed loans to solvent corporates, some loss forbearance on eligible loans under moratoria, and decline in interest income due to duration of debt moratoria (households and businesses)) and change in net operating income after general provisions (including non-interest income and impairment charges for non-corporate exposures) due to lower GDP growth and higher unemployment rate; 3/ Increase of credit risk weights due to higher unexpected losses (derived from the increase of default risk implied by the projected increase of general provisions (for all loans) and additional specific provisions for corporate loan losses) and lower credit risk weights for guaranteed portion of corporate loans.

**Expected Time to Replenish Capital Buffers through Profits 1/**
(Years)




Sources: Aiyar and others (2021); ECB, FitchConnect, and IMF staff calculations.
Note: RoA=return on assets; */ Long-term average until end-2018; **/ required to replenish capital buffers within two years; 1/ Assumptions: average risk weight=40 percent, taxes=15 percent, dividend payout ratio=15 percent.

[2] These results are part of a broader analysis of European banks, which was carried out in the European Department. The sample of Irish banks comprises 8 banks, including all domestic banks and the largest foreign subsidiaries. See Aiyar and others (2021). A short summary can be found in Dao and others (2021). The results for Irish banks are similar to the CBI's own analysis in the latest Financial Stability Review (2020). The differential impact of policy measures on the capital assessment of Irish banks under stress is small due to the high loan provisioning and asset recovery value in Ireland. In addition, while fiscal support to households and firms has significantly reduced the liquidity and solvency gaps (Annex Box 2.1), the overall capital impact of the corporate shock (even without considering effective policies) is small compared to the impact of the general deterioration of banks' asset quality and profitability.

default risk of corporate and retail lending). If banks can restore their pre-crisis profitability, it would take them nearly three years to replenish capital buffers to pre-crisis levels after the projected capital decline (Chart above). While there is no aggregate capital shortfall relative to the minimum prudential requirement, some banks might face difficulties in meeting their capital threshold for the maximum distributable amount (MDA), currently around 9.2 percent on average. This would lead to restrictions on dividend distributions and coupon payments to hybrid capital, which is senior to, and hence cheaper than, equity, and, thus, likely to be an important source of funds when the cost of capital is high due to banks' low market valuation.[3]

### Annex Box 2.1. Ireland: Determining the Corporate Default Risk Shock

**Corporate default risk is modelled as a single-factor shock based on a combination of bank-specific exposure data with expected loss rates across all sectors.** While the general impact of changes in macroeconomic conditions on bank profitability already includes higher provisioning expenses and impairment charges, the extraordinary economic contraction during the current crisis is likely to raise corporate default risk beyond the level suggested by historical inference. Corporate exposure data are extracted from the detailed composition of sectoral corporate exposures of sample banks covered by the EBA's annual Transparency Exercise. The loss rates for each sector (at the NACE2 level) are based on the updated results of the October 2020 *Regional Economic Outlook* for Europe.

**The exercise follows a two-step process:**

- First, we determine the within-sector, debt-weighted share of firms that are likely to become illiquid and insolvent (Annex Figure 2.1, panel 1), which defines the sector-specific default rates—with and without policy measures—uniformly in each country. The share of firm debt in Ireland that is estimated to be at risk of default is 8 percent (up from 5 percent pre-COVID), of which about a quarter is to highly affected sectors.
- Second, we map the sectoral default rates to each bank's actual corporate exposure to determine the additional corporate default losses for each bank in each sector (Annex Figure 2.1, panel 2).[1] We translate these losses into bank-level write-offs, after accounting for existing loan loss coverage (including the flow of new provisions in 2020) and the average recovery value of collateral (proxied by public information on so-called "loss-given-default" for corporate exposures in each country). The write-offs are added to the general impact of deteriorating asset quality across all credit types.

**We find that policies are likely to be very powerful in mitigating the impact of the crisis on corporate risk.** If supportive policies operate in Ireland as expected, their differential impact will one of the highest in Europe, with expected losses from corporate defaults declining from 5.0 percent to 1.8 percent. Since we cover two time periods, 2020 and 2021, we control for the effect of deferred insolvency proceedings, which delays the materialization of corporate defaults (and the extent to which banks incur write-offs). We assume that only 15 percent of the calculated corporate shock occurs in 2020, and the remainder spills over into the next year.

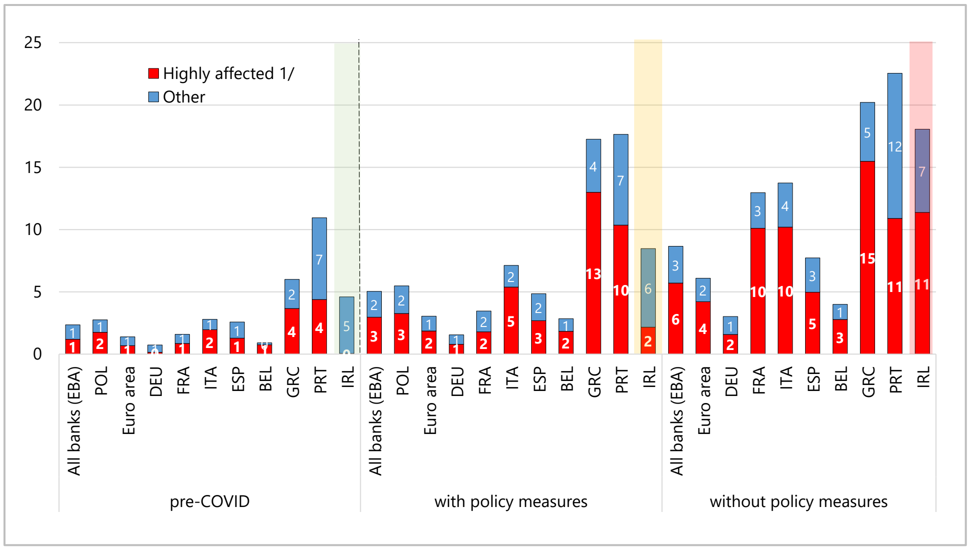
1/ See Mojon, Rees, and Schmieder (2021) for a similar analysis using corporate exposures of banks in G-7 countries, Australia and China.

3 Hybrid capital represents about 15 percent of capital in the banking sector.

## Annex Figure 2.1. Ireland: Mapping Corporate Vulnerability to Banks' Corporate Loan Default Risk

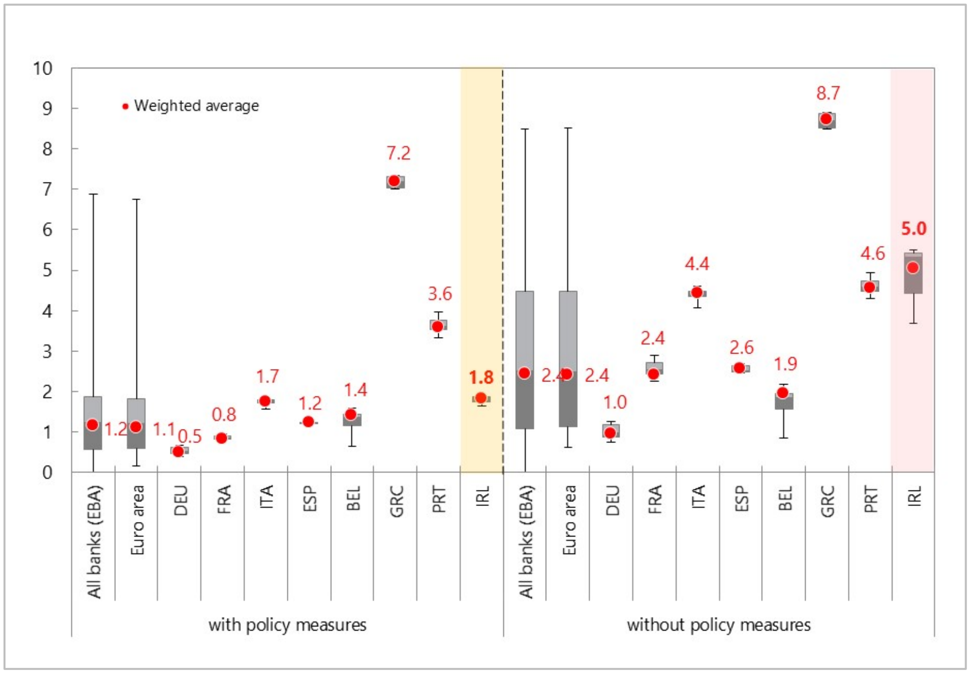
### 1. Share of Illiquid and Insolvent Firms after COVID-19 Shock

(Percent)




### 2. Estimated Average Corporate Loss Rate due to COVID-19 Shock

(Percent of corporate exposures)



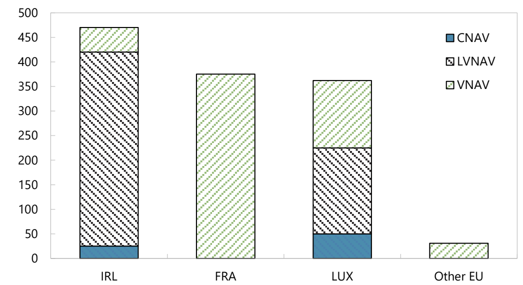

*Sources:* European Banking Authority; and IMF staff estimates.

*Note:* The grey shaded area of the boxplots shows the inter-quartile range (25th to 75th percentile), with whiskers at the 5th and 95th percentile of the distribution. 1/ "Highly affected sectors" include construction, wholesale/retail trade, transport and storage, accommodation and food services, real estate activities, arts/entertainment/recreation, and other services (NACE Codes F-I, L, R, and S). Data labels in the figure use International Organization for Standardization (ISO) country codes.

# Annex III. Money Market Funds in Ireland[1]

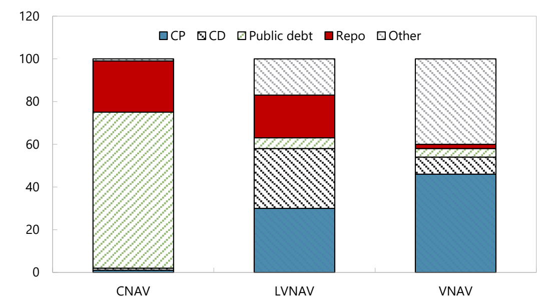
**1. As a prime destination for investment funds, Ireland hosts the largest share of EU money market funds (MMF).** Together with the investment fund sector, MMFs have contributed significantly to the rapid growth of the non-bank financial sector in Ireland since the global financial crisis.[2] MMFs are generally used as cash management vehicles for investors seeking short-term, liquid investments with marginally higher return than bank deposits. MMFs are also an important source of short-term funding for banks and non-financial corporates, and, thus, critical to the smooth functioning of money markets and liquidity management. With a total net asset value of more than €600 billion at end-March 2021, Irish MMFs constitute 10 percent of total financial sector assets and account for almost 40 percent of EU MMFs.

**EU Money Market Funds: Net Asset Value by Country of Domicile**
(EUR billion, end-Sept. 2020)




Sources: AMF; ESMA; Lipper; IMF staff calculations.
Note: CNAV=constant net asset value, VNAV=variable net asset value, LVNAV=low volatility net asset value.

**EU Money Market Funds: Portfolio Composition**
(Percent of net asset value, end-Sept. 2020)




Sources: Crane; ESMA; IMF staff calculations.
Note: CNAV=constant net asset value, VNAV=variable net asset value, LVNAV=low volatility net asset value.

**2. However, Irish MMFs' funding and investment activities are geographically diversified, with very limited domestic linkages.** More than 80 percent of the MMFs are Low-Volatility Net Asset Value (LVNAV)[3] funds and are funded mostly by U.K. investors (57 percent);[4] the combined funding from domestic banks, non-financial corporations, and households amounts to slightly more than one percent of total assets. Irish MMFs invest mostly in certificates of deposit (CD), commercial paper (CP), and repurchase agreements, with negligible linkages to the domestic economy (such as CDs issued by

[1] Prepared by Andreas Jobst and Anna Shabunina.

[2] Ireland also hosts a large investment funds sector (IFs) with total assets of €2.9 trillion. Like MMFs, IFs have only limited linkages to the domestic economy, except for real estate funds (REITs) (see Ireland 2019 Article IV Staff Report, Selected Issues Paper, Chapter 2).

[3] MMFs are split into two broad categories based on their commitment to protect the principal investment. Constant Net Asset Value (CNAV) funds promise to repay the principal in full, whereas Variable Net Asset Value (VNAV) funds do not make this explicit promise. After the global financial crisis, in the EU, most CNAVs were replaced by LVNAVs, which do not as readily reflect the variability in the value of underlying securities as LVNAVs (50-basis-point threshold for CNAVs vs. 20-basis-point threshold for LVNAVs). LVNAVs have daily and weekly liquidity ratios (ratios of total assets maturing in a day or a week) of 10 and 30 percent, respectively. If these thresholds are breached, restrictions can be placed on withdrawals. If a breach lasts for more than 15 days in a 90-day period, the LVNAV must switch to a VNAV. Prior to the 2018 reforms, the MMFs in Ireland were predominantly CNAVs, which do not reflect the variability in the value of underlying securities.

[4] These are largely claims of U.K. investment funds, whose ultimate beneficiaries reside outside of Ireland.

Irish banks).[5] The overwhelming share of direct asset exposures is via debt securities in the United States, the U.K, and France.

3. **At the onset of the COVID-19 crisis, Irish MMFs—similar to MMFs globally—experienced significant liquidity pressures but did not break regulatory thresholds.** Almost 10 percent of total assets were withdrawn from MMFs (Golden, 2020), with the largest outflows recorded in U.S. dollar-denominated LVNAVs. MMFs in France, Luxembourg, the U.K., and the United States faced similar redemption pressures. While no Irish MMF had to suspend redemptions[6] or breached key regulatory thresholds, some funds came close to their liquidity ratio (Chart).[7] Strong global central bank actions that followed had a calming effect on the markets.

4. **MMFs have increased their liquidity buffers during the second half of 2020, but some vulnerabilities remain.** MMFs increased their liquidity ratios,[8] reflecting concerns that liquidity could suddenly disappear again during times of stress. MMFs have a very large market footprint in private money markets by holding most of the CPs issued by financial institutions. CPs are commonly sold through a group of dealers or banks that agree to sponsor and make markets in CPs in exchange for a fee.[9] Since MMFs have a high degree of portfolio overlap, there is a considerable risk of market contagion.

5. **Regulatory measures and oversight of MMFs should be strengthened, ideally in coordination with other European countries, including in the context of the current review of the EU Money Market Funds Regulation.** In the absence of a comprehensive safety net for nonbank financial institutions, current risks should be carefully monitored, including spillover effects to the European financial system. The Central Bank of Ireland (CBI) can require funds to suspend redemption, on a case-by-case basis, if it is in the public interest or interests of the unitholders.[10] The CBI has enhanced data collection on MMF activities and risk management practices (including the alignment of fund redemption terms with asset liquidity and the effective use of liquidity management tools) and continues to contribute to the development of an EU-wide macroprudential

[5] MMFs' portfolio compositions reflect their regulatory type: CNAVs invest almost exclusively in public debt and repurchase agreements (repo), while LVNAVs and VNAVs are predominantly exposed to CP and CD markets.

[6] In contrast, the European Securities Markets Authority (ESMA) estimates that IFs suspended redemptions of about 4 percent of total assets to meet potential withdrawals in March 2020.

[7] Article 34 of the EU Money Market Fund Regulation (MMFR) contains specific liquidity requirements for CNAVs and LVNAVs. Whenever the proportion of weekly maturing assets falls below 30 percent of the total assets, and net daily redemptions are greater than 10 percent of NAV, the manager of the affected MMF must immediately inform its Board. The Board shall then consider using liquidity management tools, such as redemption fees, gates, and in extreme cases, suspensions. MMF regulation requires LVNAVs to apply fees or restrictions on investors withdrawing cash if the entities cannot convert at least 30 percent of their assets into cash within five days—or if more than 10 percent of assets are redeemed by investors.

[8] MMFs have adjusted their portfolios towards more liquid assets at comparable yields—and away from assets that do not meet their credit standards (i.e., MMFs have not changed their credit standards).

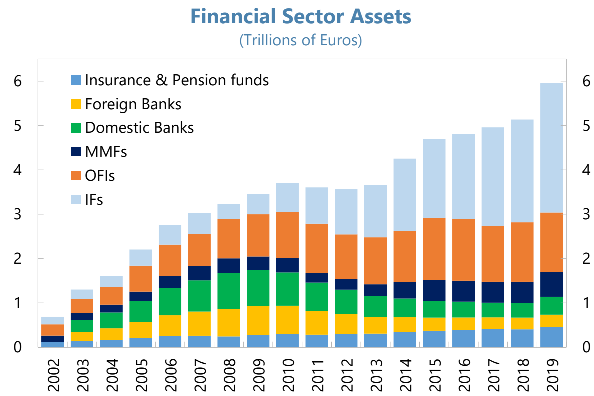
[9] There are also ongoing policy discussions regarding the extent to which structural vulnerabilities from liquidity mismatches and leverage in the global funds sector contributed to the COVID-19-related market disruption.

[10] However, the CBI cannot require funds to suspend redemptions if prudential triggers are not met (such as the breach of the liquidity ratio).

framework for the sector.[11] Going forward, pre-emptive liquidity policies, such as usable liquidity requirements, may help mitigate the build-up of vulnerabilities in the sector (Giuzio, Kaufmann and Ryan, 2021).[12]

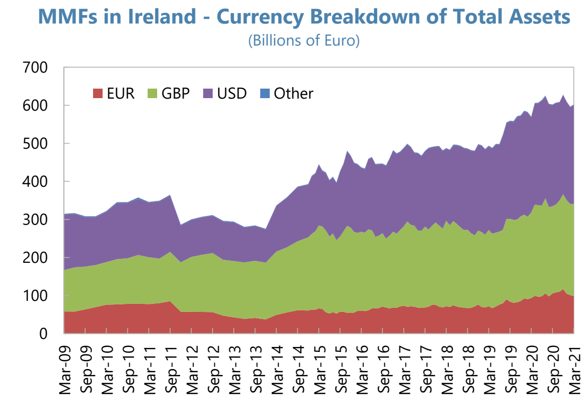
## Annex Figure 3.1. Ireland: Money Market Funds

*MMFs constitute 10 percent of the total financial sector assets in Ireland.*



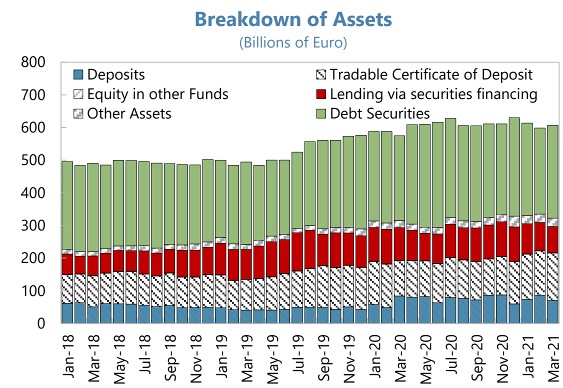

Sources: CSO and Haver.

*Irish MMFs are mostly denominated in sterling and US dollars, with the remainder in euro.*



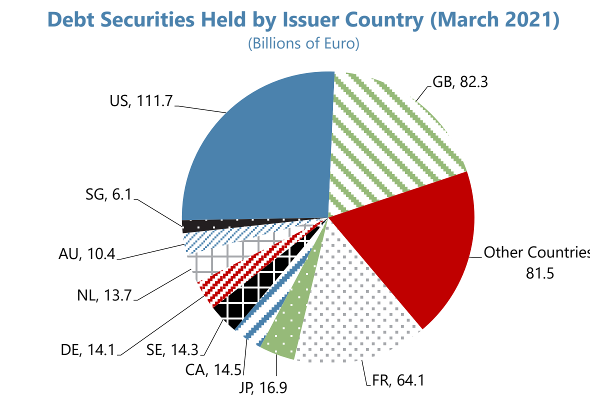

Source: CBI

*MMFs largely invest in debt securities globally …*




Source: CBI

*… with large shares in the U.S., the U.K., and the euro area.*



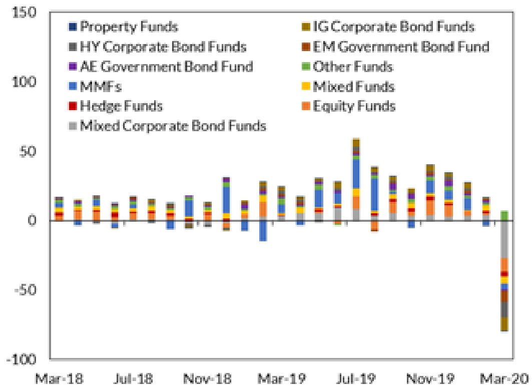

Source: CBI

[11] In addition, the CBI was also involved in a recent ESMA survey of MMFs' use of liquidity management tools under the EU rules for Undertakings for the Collective Investment in Transferable Securities (UCITS).

[12] Increasing the current deviation from the NAV "collar" (currently at 20 basis points) would enhance the resilience of LVNAVs (as measured by the level of redemption) and could be more effective than raising the current liquidity ratio requirements by addressing the trigger for early redemptions rather than building more liquidity buffers to absorb shocks (ESMA, 2021). Ultimately, a move to floating NAV would remove potential cliff-edge effects when the NAV deviation exceeds a certain threshold.

## Annex Figure 3.1. Ireland: Money Market Funds (concluded)

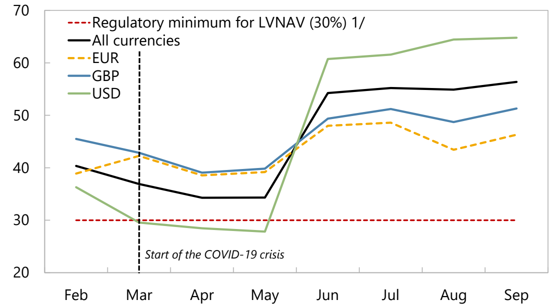
*IFs and MMFs experienced significant redemptions in March …*




*… which resulted in a significant decline in the one-week liquidity ratio.*

**Irish Money Market Funds: Liquidity Ratio (2020)**

(Percent ; share of assets with a residual maturity of one week or less )




Notes: LVNAV=low volatility net asset value. 1/ the minimum liquidity threshold applies to LVNAV MMFs only, which are the predominant category of MMFs domiciled in Ireland.

Sources: CBI and IMF staff calculations.

# Annex IV. Risk Assessment Matrix[1]

| Source of Risk | Relative Likelihood | Impact if Realized | Policy Response |
|---|---|---|---|
| **Global Risk** | | | |
| **Unexpected shift in the COVID-19 pandemic.** | **Medium**<br>**Downside:**<br>• **Asynchronous progress.** Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects (for some Emerging and Frontier Markets triggering capital outflows, depreciation, and inflation pressures, and debt defaults).<br>• **Prolonged pandemic.** The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient. | **High**<br>A prolonged pandemic could cause long-term scarring for the economy and risk reaching the limits of fiscal support for the economy, forcing larger dislocations for workers and companies. | • Maintain and intensify if needed public health measures, large-scale testing, and contact tracing.<br>• Use available fiscal resources to support households, workers, and businesses to overcome liquidity needs; and gradually encourage necessary reallocation of resources once the recovery is well established. |
| | **Medium**<br>**Upside:**<br>**Faster containment.** Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity. | **High**<br>Faster-than-expected recovery would boost confidence and economic activity. | Unwind crisis measures while avoiding a hasty withdrawal of fiscal support that risks undermining the recovery. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. **Please consult the G-RAM operational guidance on the SPR Risk Unit website.**

| Source of Risk | Relative Likelihood | Impact if Realized | Policy Response |
|---|---|---|---|
| **Sharp rise in global risk premia exposes financial and fiscal vulnerabilities.** | **Medium**<br>A reassessment of market fundamentals (e.g., in response to adverse COVID-19 developments) triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes, leading to significant losses in major non-bank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults. | **High**<br>Financial market volatility and a tightening of financial conditions could increase financing costs for the private and public sectors and lowering sentiment, prolonging the downturn. | • Reduce the risk of a vicious cycle between the sovereign, corporates, and banks through: (1) Streamlining NPL resolution and insolvency procedures. (2) Repairing banks' balance sheets once the pandemic is over.<br>• Improve monitoring of non-bank financial sector and the linkages to the domestic economy. |
| **Continued trade frictions and uncertainty related to the execution of post-Brexit agreements** | **Medium**<br>The EU-UK Trade and Cooperation Agreement averted the prospect of a no-deal Brexit. However, details are being negotiated to minimize non-tariff barriers to goods and services trade. Further complications related to the implementation of the EU-UK Trade and Cooperation Agreement can lead to the additional supply-chain disruptions. | **Medium**<br>Ireland's significant trade, financial and labor market links with the U.K. makes it vulnerable to any remaining uncertainty on and trade frictions. | • Continue actively contributing to the cooperation between the EU and the U.K.<br>• Continue to provide support for the firms most exposed to Brexit shock and vulnerable groups.<br>• Facilitate SMEs' trade diversification. |
| **Geopolitical risks related to the Northern Ireland Protocol** | **Low**<br>Uncertainty around the execution of the Protocol has contributed to violent protests in Northern Ireland in April 2020. These protests have since receded. An escalation of unrests could raise political tension and security concerns. | **Medium**<br>Increased political tension and violence could have a negative impact on trade flows and raise security concerns. | • Continue to work with the EC and the U.K. to ensure a smooth execution of the Protocol, protect the Good Friday Agreement and avoid retaliatory policies.<br>• Deploy targeted measures to alleviate the pressure on the affected sectors. |
| **Structural Risks** | | | |
| **Changes in International taxation rules (BEPS) and transparency standards for cross-border activities** | **High**<br>A large share of fiscal revenues and some economic activity depend on cross-border operations of Irish-resident multinational enterprises (MNEs). | **High**<br>Tax base erosion, and reduction of budget revenues and activity. | • Once the recovery is firmly underway, fiscal consolidation would help maintain buffers to mitigate revenue loss.<br>• Diversify fiscal revenue base and develop contingency plans and further pension reform. |

# Annex V. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: The external position in 2020 was moderately stronger than the level implied by medium-term fundamentals and desirable policies. However, this assessment is highly uncertain given the COVID-19 crisis and the large-scale operations of foreign-owned multinational companies (MNEs), which have limited links to the indigenous economy and distort the headline current account (CA). The CA balance swung to a surplus of 4.6 percent of GDP in 2020 from a deficit of 11.3 percent in 2019, reflecting the strong export performance of pharmaceuticals, computer, and business services, in the absence of large Intellectual Property (IP) imports. Ireland's competitiveness has improved in recent years, as demonstrated by an increasing share of Irish exports in world exports. External balance sheets have strengthened, and FDI inflows continue to be strong, supported by a favorable business climate and robust economic growth. Productivity growth, however, varies sharply across sectors and is concentrated in large MNEs.<br><br>Policy Responses. The sizeable fiscal stimulus in response to the pandemic is a welcome use of Ireland's fiscal space. In the near term, policies should continue mitigating the outbreak, promote the healthcare outcome, minimize economic scarring, and facilitate a broad-based and inclusive recovery. It is important to adapt and gradually withdraw temporary support measures as the recovery takes hold to incentivize transformation and resource reallocation as well as safeguard fiscal sustainability. Income support measures should become increasingly conditional on re-skilling and further shift toward subsidizing new hiring in the expanding sectors to minimize the increase in long-term unemployment. Business support measures should also be increasingly targeted to affected but viable firms. Eventually, the tax base will need to be broadened to help finance productivity-enhancing investment in human and physical capital. In the medium-term, a productivity-enhancing fiscal policy, with greater public sector investment in areas such as affordable housing, digitization, infrastructure, and climate mitigation would help potential growth and boost corporate investment. Room should be made for priority fiscal spending by better targeting social benefits according to need.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. Ireland is a net external debtor, and the scale of the international balance sheet (NIIP) is very large, partially reflecting the gross positions of financial services firms operating in the International Financial Services Centre (IFSC). Moreover, much of the cross-border liabilities arise from the operation of redomiciled MNEs through intra-company loans, which lowers the rollover risk. The NIIP, after peaking at -198 percent of GDP in 2015, improved to -168 percent in 2020, with non-IFSC NIIP narrowed to about -122 percent of GDP, and the IFSC NIIP stood at -46 percent. Non-IFSC external debt is projected at 282 percent of GDP in 2020, down from a peak of 300 percent in 2015, and is downward trending, reflecting the current account surplus, real GDP growth, and non-debt-creating capital inflows.<br><br>Assessment. Ireland's NIIP reflects the activities of MNEs and market-based finance entities with few linkages to the Irish economy. Hence in assessments of external sustainability, IMF staff acknowledge that these are not, ultimately, the liabilities of Irish residents. After controlling for the distortions associated with parts of the MNE sector, including redomiciled firms, intellectual property, aircraft leasing, and adjusting for the international financial intermediation activities of investment funds and special purpose entities result in a NIIP that is considerably less negative. [2]</td></tr>
<tr><td>2020 (% GDP)</td><td colspan="2">NIIP: - 167.8</td><td>Gross Assets: 1718.4</td><td colspan="2">Res. Assets: 1.7</td><td>Gross Liab.: 1886.2</td><td>Debt.: 748.0</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. Several factors — including 'contract manufacturing,' the foreign profitability redomiciled MNEs and, the depreciation of Irish-based, foreign-owned capital assets such as intellectual property and leased aircraft – are distorting the headline external balance and complicating the interpretation of trends. Over the last decade, the current account (CA) has been very volatile, subject to frequent revisions, and averaged close to balance, reflecting a large goods trade surplus. Specifically, Ireland's share of world exports has been increasing, driven by exports of pharmaceutical products, business and financial services, and computer services. In 2020 the CA swung to a surplus of 4.6 percent of GDP, from a deficit of 11.3 percent in 2019, driven by a large goods trade surplus and by a low services deficit—absent of large IP import by MNEs, marking the end of double-Irish. The bulk of the CA surplus reflects the large saving-investment surplus of households and corporates. From the saving-investment balance, households net-saving increased given the lower spending opportunity during the gov't restrictions. Also, the unprecedented fiscal stimulus led to substantial dis-saving in the government sector. The flow of fund from the government to the household and corporate sectors is expected to continue in 2021 as pandemic-related government employment and welfare supports remain in place. In the medium term as the economy recovers from the pandemic, the CA surplus is expected to grow to 5 percent of GDP as the government dissaving decreases, while households net saving decreases, it will remain sizable given the structural housing gap and the exit from the double-Irish leads to smaller services import by MNEs.<br><br>Assessment. For 2020, the EBA CA model estimates a norm of 1.9 percent of GDP (standard error around the norm is 1.6 percent of GDP) against a cyclically adjusted CA of 4.5 percent of GDP. The resulting EBA gap of 2.6 percent of GDP includes identified policy gaps of 0.9 percent of GDP and an unexplained residual of 1.7 percent of GDP. However, in view of the pandemic-related excess trade surplus judged to be transitory, an adjustment of -1.1 pp of GDP to the cyclically adjusted CA balance is made, which yields a CA gap of 1.5 (±1.6) percent of GDP. This adjustment consists of -0.2 pp of GDP to reflect the contraction in tourism net exports, +0.3 pp of GDP to reflect the exceptionally sharp fall in global oil prices and volumes, -0.8 pp of GDP to reflect an increase in global demand for medical goods export, and –0.5 pp of GDP to reflect MNE operations on Irish CA.</td></tr>
<tr><td>2020 (% GDP)</td><td>CA: 4.6%</td><td>Cycl. Adj. CA: 4.5%</td><td>EBA Norm: 1.9%</td><td>EBA Gap: 2.6%</td><td>COVID-19 EBA Adj.: -0.6%</td><td>Other Adj.: -0.5%</td><td>Staff Gap: 1.5%</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. The ULC-based REER depreciated sharply following the GFC (2008), reflecting productivity gains and declining labor costs. Productivity growth, however, has been concentrated in MNEs.[3] In the recent years prior to the pandemic REER was relatively stable. In 2020 the average CPI-based REER appreciated by 0.1 percent, while the ULC-based REER depreciated by 5.3 percent, relative to the 2019 average.<br><br>Assessment. The staff CA gap implies a REER gap of -1.5 percent in 2020 (applying an estimated elasticity of 0.98). EBA REER index and level model estimates point to an undervaluation of 15.5 and an overvaluation of 16.7 percent, respectively. However, the explanatory power of policy variables is negligible in both cases, with the gaps almost entirely attributed to unexplained residuals in the models. Consistent with the staff CA gap, staff assess the REER to be undervalued in the range of -3.1 to 0.1 percent, with a midpoint of -1.5 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. Ireland's capital and financial accounts are characterized by significant volatility. In 2020, FDI outflows in Ireland was large at around 20 percent of GDP, driven by reinvested earning of MNEs. The capital account deficit decreased to around 5 percent of GDP in 2020 from 10 percent in 2019. The financial market volatility at the onset of the pandemic triggered sizable but short-lived outflows in bond and equity markets which stabilized beginning in May. Financial account outflows in 2020 amounted to 3.2 percent of GDP.<br><br>Assessment. Inward FDI and foreign demand for Irish sovereign bonds have been supported by Ireland's strong economic performance and investor-friendly business climate, including a favorable tax environment.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="7">Background. The euro has the status of a global reserve currency.<br>Assessment. Reserves held by the euro area are typically low relative to standard metrics.</td></tr>
<tr><td>Technical Background Notes</td><td colspan="7">1/ For more information about the impact of MNEs on Ireland's NIIP, see "The Role of Foreign-owned Multinational Enterprises in Ireland," IMF Country Report No. 17/172.<br>2/ See Galstyan, V., 2019, "Estimates of Foreign Assets and Liabilities for Ireland," Central Bank of Ireland and Trinity College Dublin.<br>3/ See "Firm-level Productivity and its Determinants: The Irish Case," IMF Country Report No. 16/257.</td></tr>
</table>

# Annex VI. External Debt Sustainability Analysis

**Table 1. Ireland: Non-IFSC External Debt Sustainability Framework, 2016-2026**
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | **Debt-stabilizing non-interest current account 6/** |
| **Baseline: External debt** | 296.7 | 258.9 | 265.5 | 280.0 | 282.2 | **270.9** | **261.0** | **254.6** | **251.1** | **248.3** | **246.4** | **-13.7** |
| Change in external debt | -3.4 | -37.8 | 6.6 | 14.6 | 2.2 | -11.3 | -10.0 | -6.3 | -3.5 | -2.8 | -1.9 | |
| Identified external debt-creating flows (4+8+9) | -4.1 | -48.6 | -34.3 | -16.8 | -22.9 | -23.8 | -22.6 | -18.2 | -14.2 | -12.7 | -11.6 | |
| Current account deficit, excluding interest payments | -4.9 | -7.0 | -12.5 | 6.2 | -4.2 | -5.5 | -4.0 | -3.2 | -2.5 | -3.2 | -2.7 | |
| Deficit in balance of goods and services | -9.9 | -16.5 | -23.8 | -7.7 | -21.4 | -29.4 | -27.1 | -25.7 | -24.1 | -22.8 | -21.5 | |
| Exports | 107.7 | 106.6 | 109.3 | 113.0 | 110.8 | 110.6 | 109.2 | 109.2 | 110.2 | 111.5 | 112.6 | |
| Imports | 97.8 | 90.1 | 85.5 | 105.3 | 89.5 | 81.2 | 82.1 | 83.5 | 86.2 | 88.6 | 91.1 | |
| Net non-debt creating capital inflows (negative) | -3.9 | -16.3 | 1.7 | -22.6 | -9.9 | -9.3 | -8.9 | -8.4 | -7.9 | -7.4 | -7.3 | |
| Automatic debt dynamics 1/ | 4.6 | -25.3 | -23.5 | -0.4 | -8.8 | -9.1 | -9.7 | -6.6 | -3.9 | -2.1 | -1.6 | |
| Contribution from nominal interest rate | 12.6 | 9.3 | 8.1 | 7.8 | 4.4 | 2.4 | 2.5 | 2.7 | 3.0 | 4.6 | 4.9 | |
| Contribution from real GDP growth | -5.8 | -23.9 | -19.4 | -14.3 | -9.1 | -11.5 | -12.2 | -9.3 | -6.9 | -6.7 | -6.5 | |
| Contribution from price and exchange rate changes 2/ | -2.2 | -10.7 | -12.2 | 6.1 | -4.0 | ... | ... | ... | ... | ... | ... | |
| Residual, ind. change in gross foreign assets (2-3) 3/ | 0.8 | 10.8 | 40.8 | 31.3 | 25.0 | 12.5 | 12.6 | 11.9 | 10.8 | 9.9 | 9.8 | |
| External debt-to-exports ratio (in percent) | 275.4 | 243.0 | 243.0 | 247.8 | 254.6 | 245.0 | 239.0 | 233.3 | 227.8 | 222.8 | 218.8 | |
| **Gross external financing need (in billions of US dollars) 4/** | 249.8 | 232.5 | 230.4 | 328.7 | 288.5 | 281.4 | 292.5 | 303.4 | 315.8 | 328.5 | 343.1 | |
| in percent of GDP | 92.2 | 77.4 | 70.5 | 92.3 | 78.7 | 72.0 | 70.0 | 68.7 | 68.1 | 67.6 | 67.4 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | **270.9** | **266.9** | **259.1** | **249.9** | **239.4** | **228.7** | **-11.9** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 2.0 | 9.1 | 8.5 | 5.6 | 3.4 | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.8 | |
| GDP deflator in US dollars (change in percent) | 0.7 | 3.7 | 4.9 | -2.3 | 1.5 | 8.9 | 3.2 | 2.1 | 2.1 | 2.0 | 2.0 | |
| Nominal external interest rate (in percent) | 4.3 | 3.6 | 3.5 | 3.0 | 1.6 | 1.0 | 1.0 | 1.1 | 1.2 | 1.9 | 2.1 | |
| Growth of exports (US dollar terms, in percent) | 2.0 | 9.7 | 11.6 | 12.6 | 0.9 | 6.5 | 5.5 | 5.7 | 5.9 | 6.0 | 5.9 | |
| Growth of imports (US dollar terms, in percent) | 18.0 | 2.1 | 3.3 | 34.2 | -12.6 | -3.1 | 8.0 | 7.6 | 8.2 | 7.8 | 7.8 | |
| Current account balance, excluding interest payments | 4.9 | 7.0 | 12.5 | -6.2 | 4.2 | 5.5 | 4.0 | 3.2 | 2.5 | 3.2 | 2.7 | |
| Net non-debt creating capital inflows | 3.9 | 16.3 | -1.7 | 22.6 | 9.9 | 9.3 | 8.9 | 8.4 | 7.9 | 7.4 | 7.3 | |

Source: IMF staff.

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

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

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

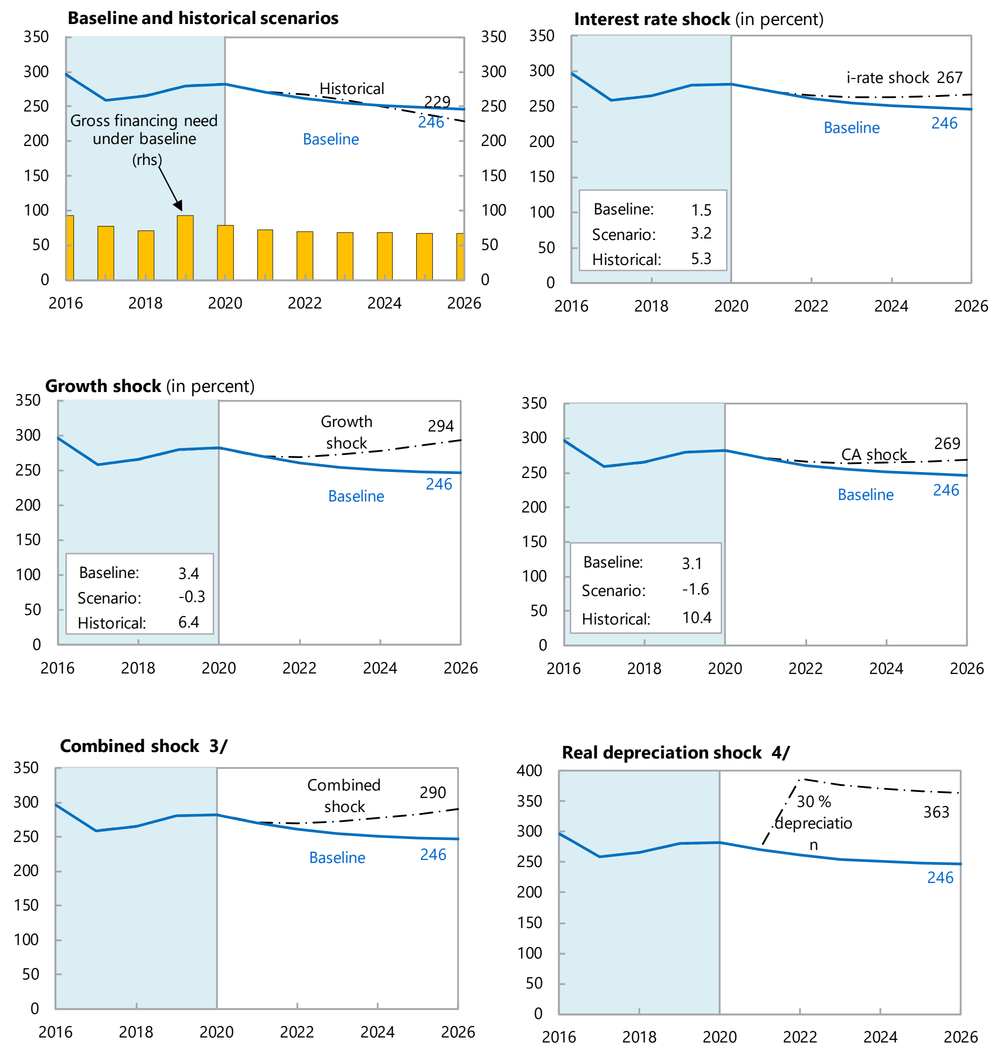
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

## Annex Figure 6.1. Ireland: External Debt Sustainability Bound Tests 1/2/

Non-IFCS External debt in percent of GDP)



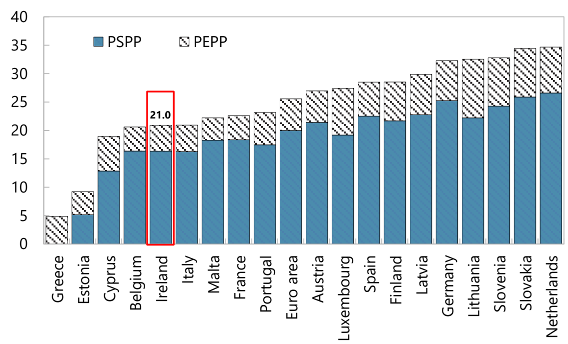

Sources: International Monetary Fund; country desk data; and staff projections.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

# Annex VII. Public Debt Sustainability Analysis

**1. Medium-term fiscal risks are contained, and financing remains favorable.** High growth and prudent fiscal policy in recent years have allowed Ireland to reduce the debt level to 57 percent of GDP at the end-2019, as well as lengthen its average maturity to above 10 years. Financing of the pandemic support measures led to increase public debt to 60 percent of GDP last year. Additionally, there are no large redemptions this year and government bond yields remain low**.** While CDS and bond spreads are expected to remain low due to ECB's QE policy, an increase in interest rates is estimated to have a negligible short-term impact on debt dynamics, as most public debt is at fixed rates.

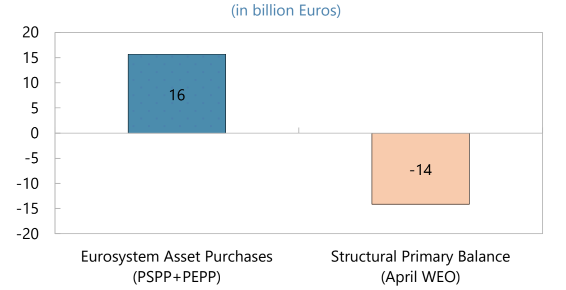
**2. The ECB's accommodative response to the pandemic, including its expanded bond purchasing program, has helped lower debt servicing costs and mitigate rollover risks.** The Eurosystem currently holds more than 21 percent of publicly placed Irish government debt under both the public sector purchase program (PSPP) and the pandemic emergency purchase program (PEPP). Since refinancing needs for 2021 are likely to be close to Eurosystem asset purchases, the absence of long-term bond redemptions suggests potential net displacement of Irish government bonds, resulting in small spread risk and keeping interest rate-growth differential favorable.

**Eurosystem Holdings of Government Debt (PSPP and PEPP)**
(Percent of outstanding debt; end-Dec. 2020)




Sources: ECB, and IMF Staff Calculations.

**Ireland: Potential Eurosystem Asset Purchases and Projected Fiscal Deficit in 2021 1/**
(in billion Euros)




Sources: ECB; IMF staff calculations. Notes: PSPP=public sector purchase program, PEPP=pandemic emergency purchase program. 1/ Even after considering the ECB's self-imposed restrictions (capital key and issuer limit), new debt issuance to cover the projected fiscal deficit could be absorbed by Eurosystem asset purchases.

**3. Vulnerabilities to debt dynamics exist but are manageable.** Debt dynamics is vulnerable to combined macro-financial shock, but for all shocks scenarios initial debt increase reverses to a declining path. The relatively high share of debt held by non-residents poses potential vulnerabilities, but a sudden-stop scenario represents a tail risk since non-resident holders are mainly real-money investors with long-term investment horizons. In addition, Exchequer's cash balances also provide a buffer to cover almost a year of GFNs.[1] Although the debt ratio as a percent of GNI* remains high, it is on a decisive declining path starting from 2023.

**4. A severe shock to the CIT revenues would push back public debt stabilization, which would nevertheless resume with a 2-year delay.** A customized shock scenario was devised by assuming a permanent decline in CIT revenue by 6 billion (50 percent of current intake), reflecting a

[1] As of end-February 2021, the total Exchequer cash balance amounted to nearly €23 billion.

worst-case scenario under changes in international taxation that would lead to competitiveness loss for Ireland despite its non-tax advantages. In this scenario, lower CIT intake is also accompanied by lower GDP growth. Consequences for domestic economy would be small due to the limited linkages. Non-CIT revenues are therefore kept unchanged in nominal terms compared to the baseline. A similar assumption is made regarding public expenditure. This tail-risk scenario is highly unlikely as the Irish economy has a number of other non-tax characteristics that would sustain significant attractiveness for the MNEs, including good governance, high quality of human capital, and strong links with the U.S., U.K., and the EU.

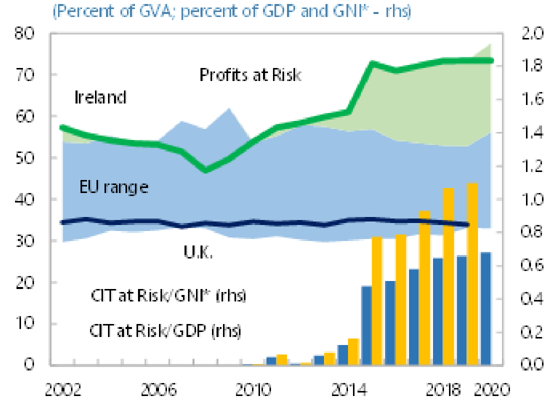
## Annex Box 7.1. The Impact of Possible Changes in International Taxation

Ireland hosts many MNEs, which bring a significant amount of intellectual and physical capital thanks to a favorable regulatory, legal, and tax regime. The new proposals on introducing a global minimum corporate tax rate are likely to affect technology and pharmaceutical companies.

The authorities estimated that earlier OECD proposals on shifting part of the tax revenue to the countries in which the output is actually consumed (Pillar I) would result in a decline of Ireland's €12 billion CIT revenue by about €2 billion (or 0.6 percent of GDP). Staff's medium-term projections already incorporate this scenario. These projections will be updated as the proposals are finalized. Under Pillar II, introduction of a minimum CIT rate higher than the current 12.5 percent in Ireland could have a larger impact, especially since the top ten corporations pay almost half of Ireland's CIT revenue. Under a tail-risk scenario in which half of the CIT revenue is lost, staff's debt sustainability analysis suggests that stabilization of public debt would be delayed by about two years.

**NFC: Gross Operating Income and CIT at Risk**

(Percent of GVA; percent of GDP and GNI* - rhs)




Sources: Haver and IMF staff.

## Annex Figure 1. Ireland Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

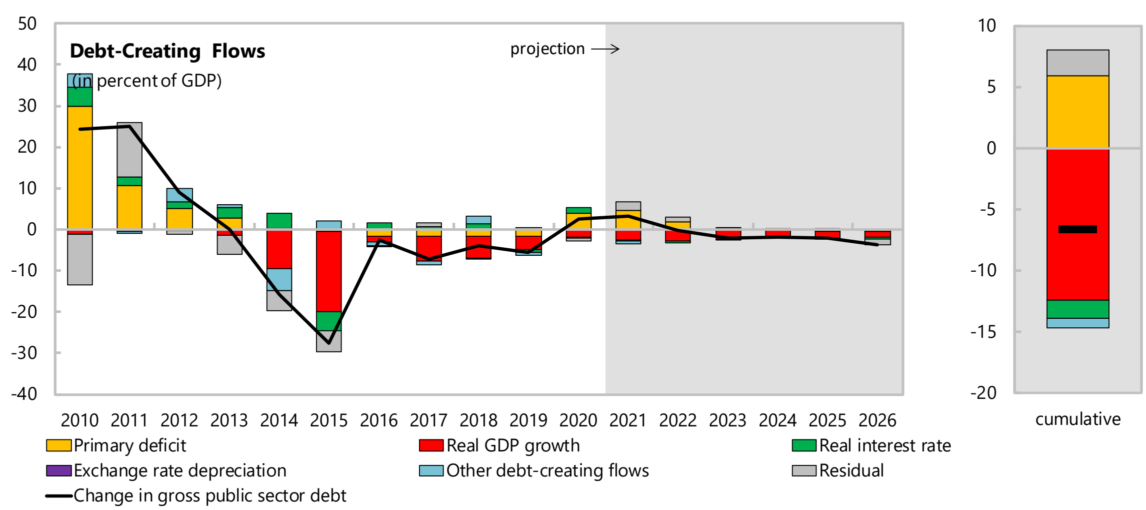
(in percent of GDP unless otherwise indicated)

### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | | As of March 17, 2021 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 [2/] | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Sovereign Spreads | | |
| Nominal gross public debt | 91.3 | 57.4 | 59.9 | 63.0 | 62.9 | 60.9 | 59.1 | 57.0 | 53.3 | EMBIG (bp) 3/ | | 34 |
| Public gross financing needs | 13.1 | 6.0 | 14.0 | 6.5 | 6.3 | 6.2 | 5.3 | 5.7 | 6.8 | 5Y CDS (bp) | | 36 |
| Net public debt | 65.9 | 48.9 | 51.7 | 54.1 | 54.3 | 52.5 | 50.9 | 48.9 | 45.4 | | | |
| Real GDP growth (in percent) | 6.4 | 5.6 | 3.4 | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.7 | Ratings | Foreign | Local |
| Inflation (GDP deflator, in percent) | 1.4 | 3.1 | -0.5 | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 2.0 | Moody's | A2 | A2 |
| Nominal GDP growth (in percent) | 8.0 | 8.9 | 2.9 | 6.7 | 6.8 | 5.7 | 4.8 | 4.8 | 4.8 | S&Ps | AA- | AA- |
| Effective interest rate (in percent) [4/] | 3.5 | 2.2 | 1.8 | 1.8 | 1.4 | 1.5 | 1.6 | 1.6 | 1.5 | Fitch | A+ | A+ |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | cumulative | debt-stabilizing |
| Change in gross public sector debt | 0.1 | -5.6 | 2.5 | 3.2 | -0.1 | -2.0 | -1.8 | -2.1 | -3.7 | -6.6 | primary |
| Identified debt-creating flows | 1.7 | -6.1 | 3.3 | 1.1 | -1.4 | -2.2 | -2.0 | -2.2 | -2.2 | -8.8 | balance [9/] |
| Primary deficit | 4.8 | -1.7 | 4.0 | 4.6 | 1.9 | 0.3 | -0.1 | -0.4 | -0.4 | 5.9 | -1.8 |
| Primary (noninterest) revenue and gr | 30.3 | 25.0 | 23.4 | 22.1 | 22.1 | 22.1 | 22.2 | 22.2 | 21.9 | 132.7 | |
| Primary (noninterest) expenditure | 35.1 | 23.3 | 27.4 | 26.7 | 24.0 | 22.5 | 22.1 | 21.8 | 21.4 | 138.6 | |
| Automatic debt dynamics [5/] | -3.4 | -3.9 | -0.6 | -2.7 | -3.2 | -2.5 | -1.9 | -1.8 | -1.8 | -13.9 | |
| Interest rate/growth differential [6/] | -3.4 | -3.9 | -0.6 | -2.7 | -3.2 | -2.5 | -1.9 | -1.8 | -1.8 | -13.9 | |
| Of which: real interest rate | 1.6 | -0.7 | 1.3 | -0.1 | -0.3 | -0.2 | -0.3 | -0.2 | -0.3 | -1.5 | |
| Of which: real GDP growth | -5.0 | -3.2 | -1.9 | -2.6 | -2.9 | -2.3 | -1.6 | -1.6 | -1.5 | -12.4 | |
| Exchange rate depreciation [7/] | 0.0 | 0.0 | 0.0 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 0.4 | -0.6 | -0.1 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.7 | |
| Privatization/Drawdown of Deposits | -1.1 | -0.6 | 1.0 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.7 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Please specify (2) (e.g., ESM and Eur | 1.5 | 0.0 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes [8/] | -1.6 | 0.5 | -0.8 | 2.0 | 1.2 | 0.2 | 0.1 | 0.1 | -1.5 | 2.1 | |




Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

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

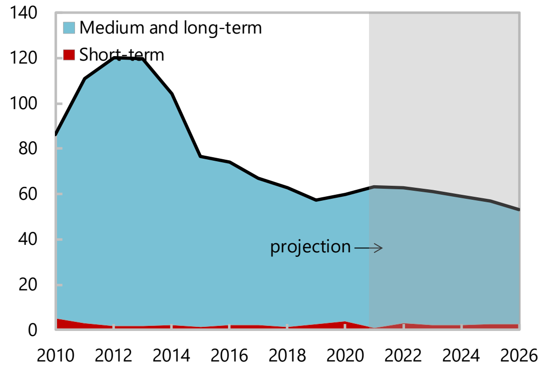
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

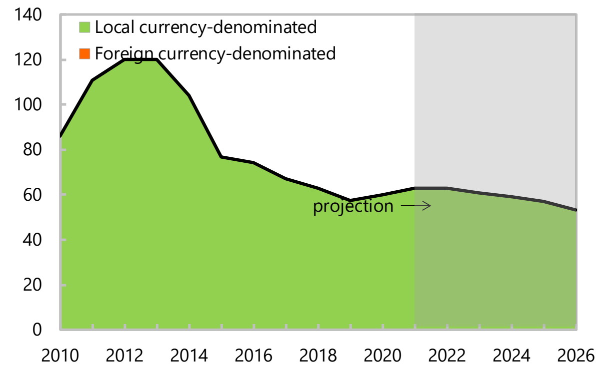
## Annex Figure 2. Ireland Public DSA - Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

**By Maturity**
(in percent of GDP)



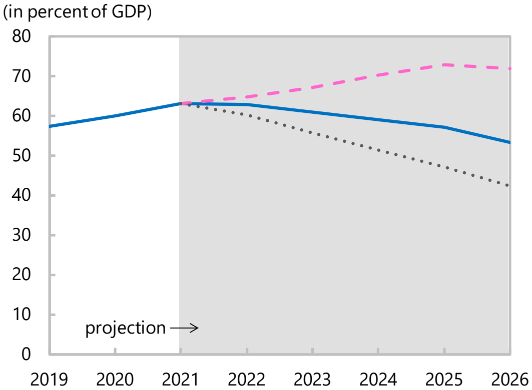

**By Currency**
(in percent of GDP)



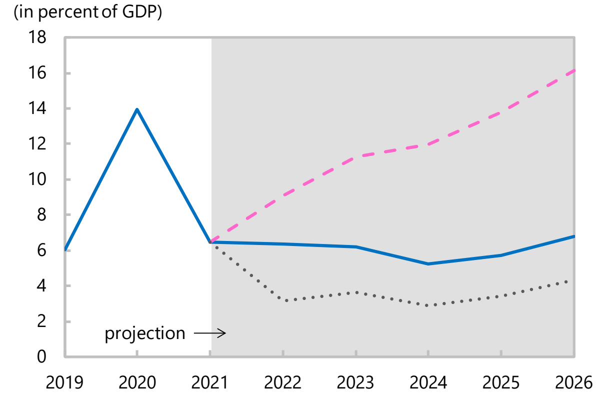

### Alternative Scenarios

Baseline
Historical
Constant Primary Balance

**Gross Nominal Public Debt**
(in percent of GDP)




**Public Gross Financing Needs**
(in percent of GDP)



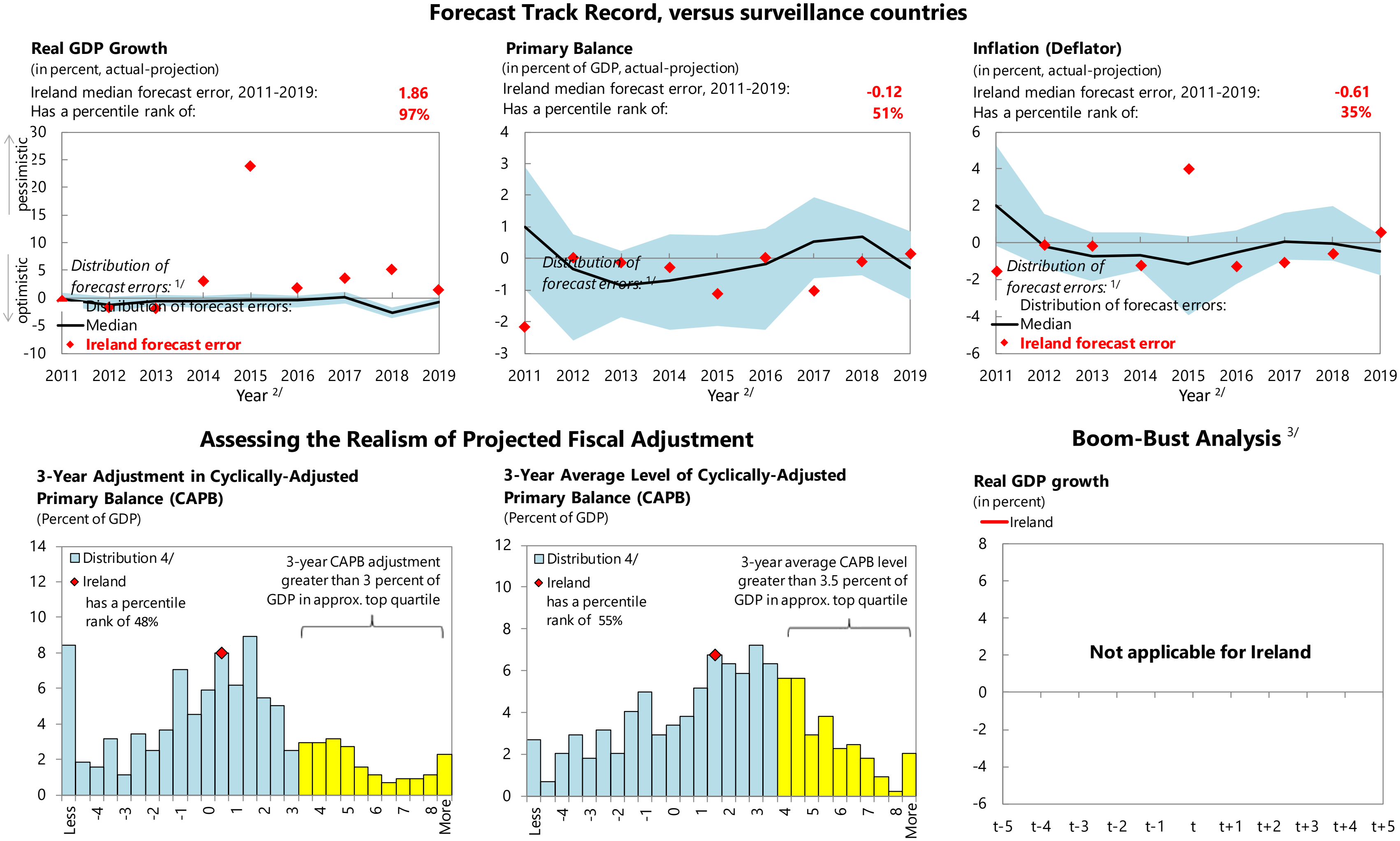

### Underlying Assumptions
(in percent)

| Baseline Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.7 |
| Inflation | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 2.0 |
| Primary Balance | -4.6 | -1.9 | -0.3 | 0.1 | 0.4 | 0.4 |
| Effective interest rate | 1.8 | 1.4 | 1.5 | 1.6 | 1.6 | 1.5 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.7 |
| Inflation | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 2.0 |
| Primary Balance | -4.6 | -4.6 | -4.6 | -4.6 | -4.6 | -4.6 |
| Effective interest rate | 1.8 | 1.4 | 1.6 | 1.6 | 1.7 | 1.7 |

| Historical Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.6 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| Inflation | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 2.0 |
| Primary Balance | -4.6 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Effective interest rate | 1.8 | 1.4 | 1.7 | 1.7 | 1.8 | 1.7 |

Source: IMF staff.

## Annex Figure 3. Ireland Public DSA - Realism of Baseline Assumptions




Source : IMF Staff.

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

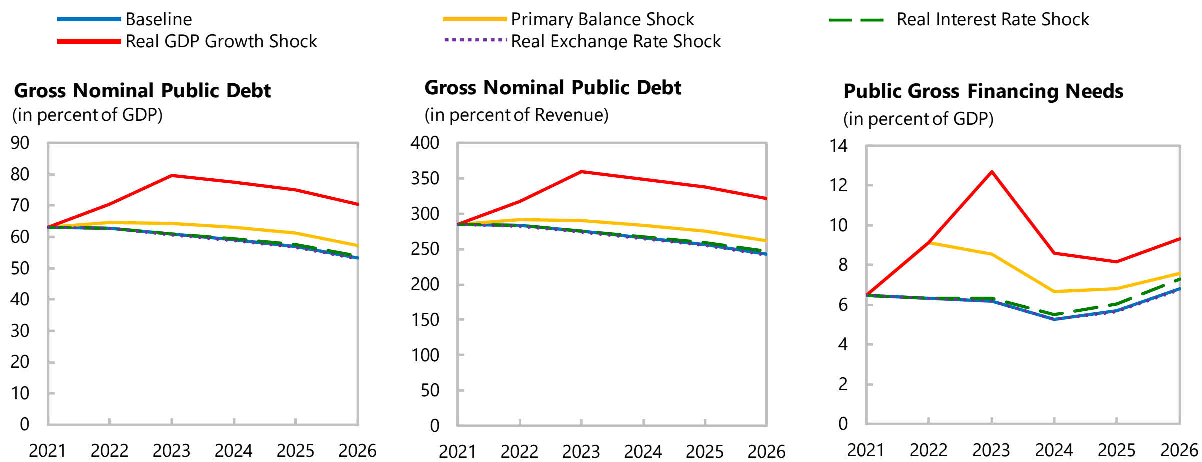
2/ Projections made in the spring WEO vintage of the preceding year.

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

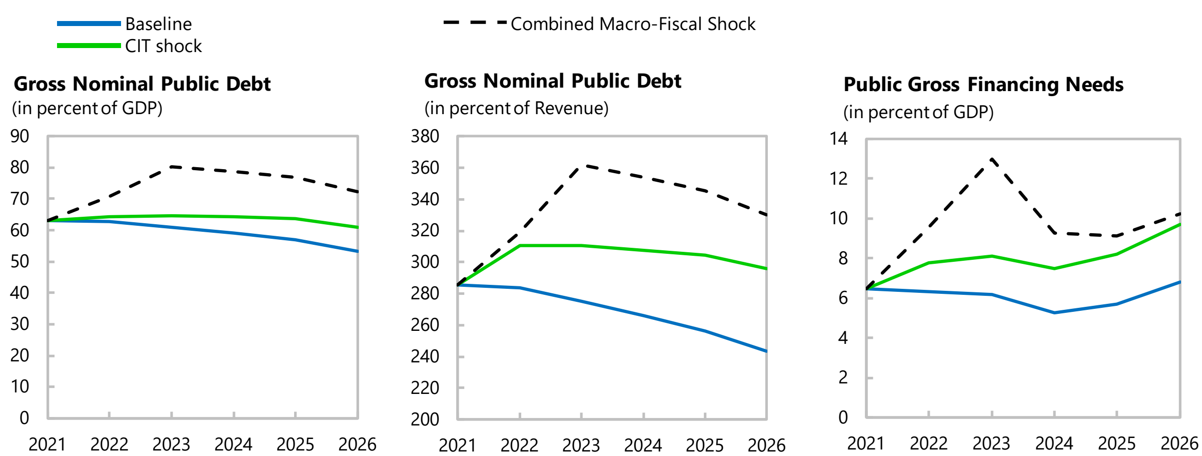
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

## Annex Figure 4. Ireland Public DSA - Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions
(in percent)

| Primary Balance Shock | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.7 |
| Inflation | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 2.0 |
| Primary balance | -4.6 | -4.6 | -1.9 | -0.3 | 0.1 | 0.4 |
| Effective interest rate | 1.8 | 1.4 | 1.6 | 1.7 | 1.7 | 1.7 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.7 |
| Inflation | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 2.0 |
| Primary balance | -4.6 | -1.9 | -0.3 | 0.1 | 0.4 | 0.4 |
| Effective interest rate | 1.8 | 1.4 | 1.8 | 1.9 | 2.0 | 2.1 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 4.6 | -2.6 | -3.7 | 2.8 | 2.8 | 2.7 |
| Inflation | 2.0 | 0.0 | 0.0 | 2.0 | 1.9 | 2.0 |
| Primary balance | -4.6 | -4.6 | -4.9 | -0.3 | 0.1 | 0.4 |
| Effective interest rate | 1.8 | 1.4 | 1.8 | 2.0 | 2.2 | 2.3 |

| Real GDP Growth Shock | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 4.6 | -2.6 | -3.7 | 2.8 | 2.8 | 2.7 |
| Inflation | 2.0 | 0.0 | 0.0 | 2.0 | 1.9 | 2.0 |
| Primary balance | -4.6 | -4.2 | -4.9 | 0.1 | 0.4 | 0.4 |
| Effective interest rate | 1.8 | 1.4 | 1.6 | 1.8 | 1.8 | 1.8 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 4.6 | 4.9 | 3.8 | 2.8 | 2.8 | 2.7 |
| Inflation | 2.0 | 2.3 | 1.9 | 2.0 | 1.9 | 2.0 |
| Primary balance | -4.6 | -1.9 | -0.3 | 0.1 | 0.4 | 0.4 |
| Effective interest rate | 1.8 | 1.4 | 1.5 | 1.6 | 1.6 | 1.5 |
| **CIT Shock** | | | | | | |
| Real GDP growth | 4.6 | 3.9 | 2.8 | 2.3 | 2.3 | 2.2 |
| Inflation | 2.0 | 1.9 | 1.9 | 2.0 | 1.9 | 2.0 |
| Primary balance | -4.6 | -3.3 | -1.7 | -1.2 | -0.9 | -0.9 |
| Effective interest rate | 1.8 | 1.4 | 1.6 | 1.7 | 1.7 | 1.7 |

Source: IMF staff.

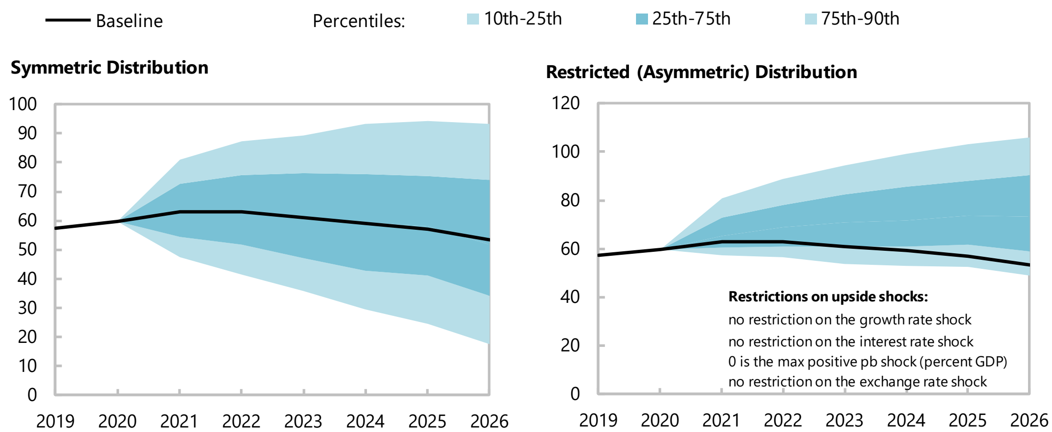
## Annex Figure 5. Ireland Public DSA Risk Assessment

### Heat Map

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

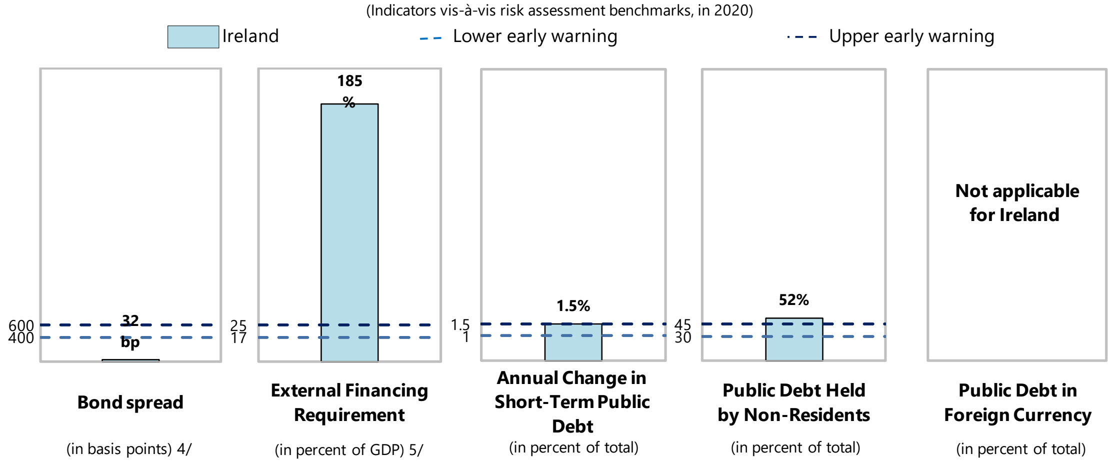
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)




Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 17-Dec-20 through 17-Mar-21.

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

# Annex VIII. Implementation of Past IMF Recommendations

| 2019 Article IV Recommendations | Policy Actions |
|---|---|
| **Fiscal Policy** | |
| Accelerate fiscal consolidation to alleviate demand pressures, reduce dependency on uncertain revenues, and build buffers against risks. Reform the income tax system to make it more efficient while broadening the tax base, enforce spending limits, and enhance efficiency of public investment. | Before the pandemic: (i) substantial buffer was created thanks to Ireland's pre-pandemic high growth and prudent fiscal policies. Public debt declined further, thanks to continued strong nominal GDP growth, while the headline deficit improved on the back of strong CIT revenues. The ongoing Spending Reviews and Performance Budgeting processes, along with the establishment of the National Investment Office have helped improve spending efficiency. The recently established Commission on Taxation and Welfare will analyze tax and spending reform options. |
| Strengthen the long-term financial soundness of the Social Insurance Fund. | The planned increase in the retirement age has been suspended. |
| **Brexit** | |
| In the case of a no-deal Brexit risk let automatic fiscal stabilizers operate freely and provide targeted support to hard-hit sectors. A fiscal stimulus may be called for, depending on the severity of the downturn in the broader economy. In case of a sharp credit contraction, countercyclical capital buffer could be released. | The EU-UK Trade and Cooperation Agreement (TCA) has averted a no-deal Brexit. The authorities' comprehensive preparations and support measures, have helped acquaint firms in the sectors most exposed to Brexit with customs procedures, thus reducing their vulnerability. Additionally, the Brexit taskforce continues to refine readiness efforts as the Brexit challenges evolve. |
| Continue to ensure high-quality authorization of Brexit-related relocations. | The CBI has completed all relevant preparation for a smooth transition to the temporary equivalence regime for financial services supervision, including by ensuring operational continuity of firms that decide to relocate to Ireland. |
| **International tax reform agenda** | |
| Continue active engagement in implementing the international tax reform agenda. | The government is actively engaging in the international dialogue on CIT reforms. They issued an update to Ireland's corporation tax roadmap, and published "consultation on the OECD Approach to the attribution of profits". |
| **Climate Policy** | |
| Develop an ambitious strategy to achieve Ireland's climate change commitments. | The recently approved Climate Action Bill aims to halve emissions by 2030 and to achieve carbon neutrality by 2050 through increasing the carbon tax and boosting investment in low-emission public transport, energy-efficient housing, and renewable energy production. The increased carbon tax path has been legislated. |

| 2019 Article IV Recommendations | Policy Actions |
|---|---|
| **Financial Sector Policy** | |
| Step up efforts to reduce non-performing loans to the target level. | Ireland has sharply reduced its NPL legacy positions over the recent past. Continued progress will be needed, especially with likely increased bankruptcies as the Covid-support measures are withdrawn. |
| Complement macroprudential toolkit with debt-based instruments and a systemic risk buffer. | Ireland has income-based macroprudential limits and operationalized its central credit register. However, considerations around moving to a DTI limit will form part of thematic reviews, which are scheduled to be completed in 2022. |
| Monitor closely potential risks in and spillovers from the growing nonbank sector. Further improve data collection, closely monitor risk build-up, and develop system-wide stress testing. To continue engagement in international cooperation. | The CBI has intensified the supervision of the investment funds while seeking a system-wide perspective on the use of liquidity management tools. The CBI has enhanced data collection on MMF activities and risk management practices and continues to contribute to the development of an EU-wide macroprudential framework for the sector. |
| **Structural Reforms** | |
| Boost productivity in domestic firms by direct funding for innovation, employee training programs, and infrastructure investments. Improve infrastructure quality, with emphasis on investment outcomes. | The National Development Plan 2018 - 2027 (NDP) sets out the investment priorities that will underpin the implementation of the National Planning Framework, through a total investment of approximately €116 billion. |
| Continue to align education and training programs to labor demand in sectors with high-skills, high-pay jobs. | The Departments of Social Protection and of Education, Research, Innovation and Science are working together to expand the range of lifelong learning programs, improve job search, address the needs of digital and green transformation, and meet the challenges arising from Brexit. The *Pathways to Work* (covering the period 2015-2020) laid out the strategy to evaluate the existing ALMPs and to inform the design and delivery of services to the unemployed. |
| Tackle the gender pay gap and ensure equal job opportunities for women. | The Affordable Childcare Scheme helped to reduce high costs of childcare |
| Continue efforts to boost housing supply, including through further rationalizing building regulations. | Progress has been made towards improving housing supply and affordability through a comprehensive policy package, including the *Help-to-buy Program*, *National Cost Rental Policy*, and *Land Development Agency (LDA) Bill*, *that* provides a permanent basis to increase the supply of social and affordable homes and promote optimal use of State land. The recently legislated *Affordable Housing Bill* includes a 10 percent affordable housing requirement on new developments in addition to the existing requirement for 10 percent social housing. Construction has been affected by Covid-related closures. |

*Source: IMF staff.*

INTERNATIONAL MONETARY FUND

# IRELAND

May 26, 2021

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX


| Prepared By | European Department |
|---|---|


## CONTENTS

# FUND RELATIONS

(As of April 30, 2021)

**Membership Status:** Joined August 8, 1957; Article VIII

| **General Resources Account:** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 3,449.90 | 100.00 |
| Fund holdings of currency | 2,643.16 | 76.62 |
| Reserve position in Fund | 806.78 | 23.39 |

| **SDR Department:** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 775.42 | 100.00 |
| Holdings | 679.44 | 87.62 |

**Outstanding Purchases and Loans:** None

**Financial Arrangements:**

| **Type** | **Approval Date** | **Expiration Date** | **Amount Approved (SDR million)** | **Amount Drawn (SDR million)** |
|---|---|---|---|---|
| EFF | 12/16/10 | 12/15/13 | 19,465.80 | 19,465.80 |

**Projected Payments to the Fund**

(SDR million; based on existing use of resources and present holdings of SDRs, as of April 30, 2021):

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Principal | | | | | |
| Charges/Interest | 0.04 | 0.06 | 0.06 | 0.06 | 0.06 |
| Total | 0.04 | 0.06 | 0.06 | 0.06 | 0.06 |

**Exchange Rate Arrangement and Exchange Restrictions:**

Ireland's currency is the euro, which floats freely and independently against other currencies. Ireland has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions, and has not notified the Fund of any restrictions under Decision No. 144 (52/51).

**Article IV Consultation:**

The last Article IV consultation was concluded on June 14, 2019. The associated Executive Board assessment is available at https://www.imf.org/en/News/Articles/2019/06/14/pr19221-ireland-imf-executive-board-concludes-2019-article-iv-consultation and the staff report (IMF Country Report No. 19/164) at https://www.imf.org/en/Publications/CR/Issues/2019/06/14/Ireland-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46994. Ireland is on the standard 12-month consultation cycle.

**Financial Sector Assessment Program (FSAP) Participation and ROSC:**

The Financial System Stability Assessment (FSSA) for the last mandatory FSA was discussed by the Board on July 27, 2016. The FSSA and accompanying Reports on the Observation of Standards and Codes (ROSCs) are available at http://www.imf.org/en/Publications/CR/Issues/2016/12/31/Ireland-Financial-System-Stability-Assessment-44142.

# STATISTICAL ISSUES

| I. Assessment of Data Adequacy for Surveillance |
| --- |
| **General:** Data provision is broadly adequate for surveillance. |
| **National accounts and real sector data:** Quarterly national accounts are currently published within three months of its reference period. Other real sector data are relatively timely, with industrial production and retail sales data published within six weeks and employment data within 3 months of the reference period, but some series are published one and a half years later (e.g., household disposable income). Employment and unit labor costs, and national income and expenditure data are usually available with a three-month lag. |
| **Wages and earnings statistics:** The quarterly Earnings, Hours and Employment Costs Survey has replaced the four-yearly Labor Cost Survey, and replaces all other existing short-term earnings surveys. The results are comparable across sectors and include more detail on components of earnings and labor costs than was available before. However, data are only available with more than a six-month lag. |
| **Government finance statistics:** The authorities publish Exchequer returns and indicative estimates of the general government balance on a monthly basis. The definitive general government balance is reported quarterly and annually. Ireland reports these data to STA through a conversion of the datasets reported to Eurostat under the "ESA Transmission Programme." Annual and quarterly fiscal data in the *GFSM 2014* framework are reported through the Eurostat convergence project with the IMF. |
| **Monetary and financial statistics:** The ECB reporting framework is used for monetary statistics, and data are reported to the IMF through a "gateway" arrangement with the ECB. The arrangement provides an efficient transmission of monetary statistics for central bank and other depository corporations to the IMF and for publication in the IMF's *International Financial Statistics (IFS)*. Data are published in *IFS* with a lag of about a month. Ireland reports some data and indicators of the Financial Access Survey (FAS), including two indicators of the United Nations Sustainable Development Goals. |
| **Financial sector surveillance:** Ireland reports 11 of the 12 core and 9 encouraged Financial Soundness Indicators (FSIs) for deposit takers, one FSI for other financial corporations, and 3 FSIs for real estate markets with quarterly frequency on a regular basis for posting on the IMF's FSI website. |
| **External sector statistics:** Quarterly balance of payments and international investment position (IIP) data are compiled by the Central Statistics Office. The authorities implemented the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The most recent balance of payments and IIP data reported to STA and disseminated in the *IFS* are for Q3/2020. Ireland reports data for the Coordinated Portfolio Investment Survey (CPIS), the |

| | |
|---|---|
| Coordinated Direct Investment Survey (CDIS), and the Data Template on International Reserves and Foreign Currency Liquidity. | |
| **II. Data Standards and Quality** | |
| Ireland is subject to the statistical requirements and timeliness and reporting standards of Eurostat and the European Central Bank (ECB). A subscriber to the Fund's Special Data Dissemination Standard (SDDS) since 1996, Ireland met SDDS specifications on July 17, 2001, and uses SDDS flexibility options on the timeliness of wages/earnings and central government debt data. Ireland's latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board. | No data ROSC is available. |

## Ireland: Table of Common Indicators Required for Surveillance

(as of May 10, 2021)

| | Date of Latest Observation | Date Received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of Publication[7] |
|---|---|---|---|---|---|
| Exchange Rates | May 10, 2021 | 5/10/2021 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | March 2021 | 4/14/2021 | M | M | M |
| Reserve/Base Money | March 2021 | 4/30/2021 | M | M | M |
| Broad Money | March 2021 | 4/30/2021 | M | M | M |
| Central Bank Balance Sheet | March 2021 | 5/4/2021 | M | M | M |
| Consolidated Balance Sheet of the Banking System | March 2021 | 4/29/2021 | M | M | M |
| Interest Rates[2] | March 2021 | 5/6/2021 | M | M | M |
| Consumer Price Index | March 2021 | 4/8/2021 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | 2020:Q4 | 4/23/2021 | Q | A | A |
| Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government | April 2021 | 5/05/2021 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2020:Q4 | 4/23/2021 | Q | Q | Q |
| External Current Account Balance | 2020:Q4 | 3/05/2021 | Q | Q | Q |
| Exports and Imports of Goods and Services | 2020:Q4 | 3/05/2021 | Q | Q | Q |
| GDP/GNP | 2020:Q4 | 3/05/2021 | Q | Q | Q |
| Gross External Debt | 2020:Q4 | 3/05/2021 | Q | Q | Q |
| International Investment Position[6] | 2020:Q4 | 3/05/2021 | Q | Q | Q |

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Not Available (NA).