INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/411

IRELAND

December 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2022 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 November 3, 2023, 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 November 22, 2023.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2023 Article IV Consultation with Ireland

FOR IMMEDIATE RELEASE

Washington, DC – December 15, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Ireland.

Ireland's economy has shown remarkable resilience in the face of consecutive shocks. Following two years of impressive performance, domestic activities slowed but remained solid, supported by continued strength in private consumption. Exports decelerated markedly as the global demand for pharmaceutical and contract manufacturing exports receded from a very high base in 2022. Inflation is easing but remains above the ECB target, and the labor market remains tight. The fiscal position has strengthened considerably on the back of strong tax revenues, but the headline numbers mask some underlying vulnerabilities. The large and complex financial sector has remained resilient so far and will continue to be tested by tighter financial conditions.

The outlook is a soft landing. The expansion of the domestic economy, as measured by Modified Gross National Income, is projected to moderate from a very high base to a still healthy pace at 2½ percent in 2023-24 and converge to its potential at 2¼ percent over the medium term. Inflation is expected to further trend down, reaching 2 percent toward late 2025.

The favorable outlook is clouded by considerable external risks. Further weakening of external demand, a renewed surge in commodity prices, an intensification of Russia's war in Ukraine or the conflict in Gaza and Israel, and tighter-than-expected global financial conditions pose risks to the outlook. Furthermore, Ireland's highly open, small economy would likely be shaped by deepening geoeconomic fragmentation in the coming years, and the ongoing changes in international corporate taxation could also alter the country's fiscal outlook. Domestically, greater supply side constraints could weigh on the economy.

Executive Board Assessment[2]

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[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.

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

In concluding the Article IV consultation with Ireland, Executive Directors endorsed the staff's appraisal as follows:

The Irish economy has displayed remarkable resilience in the face of recent consecutive shocks and is well-positioned to achieve a soft landing. Growth is expected to moderate to a still solid level in 2023-24, from a very high base, as tighter financial conditions, domestic capacity constraints, and weakening external demand weigh on the economy. Inflation is anticipated to further trend down and reach the target by late 2025. The positive outlook is, however, clouded by considerable external risks. The external position in 2022 is assessed to be moderately stronger than the level implied by fundamentals and desirable policies.

Continued fiscal prudence is warranted to complement monetary tightening in sustaining disinflation and to build adequate buffers for the future. As fiscal policy should avoid adding to aggregate demand amid still elevated inflation, tax revenue overperformance should be saved. The 2023 fiscal stance is appropriate. While the 2024 Budget entails a slightly expansionary policy, it still targets a sizable surplus. With inflation continuing to recede, one-off cost of living measures should be phased out. Given the uncertain and volatile nature of CIT revenues, Ireland's large exposure to shocks, and future spending pressure, continuing to build buffers is appropriate.

Fiscal policy should support growth-enhancing investment and broaden the tax base. Strengthening public investment efficiency and ensuring timely execution of the capital budget will be critical to deliver on the government's ambitious goals in the National Development Plan while ensuring value for money. More efforts are warranted to expedite the planning permission process, modernize regulations, and streamline the judicial review process. It is also important to prioritize public investment within an appropriate fiscal stance. There is scope to expand and diversify tax revenues, including by improving the PIT system and simplifying the VAT system.

The authorities' decision to save part of excess CIT revenues in two savings funds is welcome. With the EU fiscal rules unlikely to be binding for Ireland, the authorities should reflect on an appropriate anchor for their longer-term fiscal framework, beyond the current spending rule for 2022-26, and how the operation of the new savings funds can be integrated within this framework.

Tighter financial conditions, persistent inflation, and rising vulnerabilities in the CRE market with linkages to leveraged non-banks call for continued heightened vigilance of financial stability risks. Intensified supervision of credit and liquidity risks for domestic retail banks should remain and continued close surveillance of large international banks' vulnerabilities to funding stress is warranted. Staff also encourages continued close monitoring of credit conditions and financial stability risks to assess the need for future adjustment of macroprudential policy settings and welcomes the CBI's decision to gradually increase the CCyB to 1.5 percent. Mortgage measures should not be used to address broader housing affordability issues.

The authorities' active efforts to strengthen the oversight of Ireland's large and complex MBF sector and lead the way internationally in developing and operationalizing a macroprudential framework for non-banks are commendable. The MBF sector's linkages with the Irish economy have been growing and the authorities have taken welcome measures to fully elucidate and closely monitor the linkages. Closing still significant data gaps about the sector and conducting risk analysis at a granular level remain a priority, which will require intensified regional and international collaboration. The CBI's introduction of macroprudential measures for Irish-domiciled property funds are essential steps to strengthen the system's resilience to CRE shocks. The authorities have also taken welcome initiatives to work with regional and international institutions and other countries to develop macro-prudential tools targeting risks from non-banks and should continue these efforts.

Advancing structural reforms would help boost growth and accelerate the green transition. Policies to increase housing density, replace rent caps with targeted housing support for vulnerable households, and improve productivity in the construction sector are important for increasing housing supply and in turn supporting sustainable growth. There is scope to further the MNE sector's inward linkages to the Irish economy, through promoting supply chain linkages, labor mobility, and innovation cooperation between the two and supporting digitalization and innovation of domestic firms. Progress in carbon emission reductions needs to be accelerated to achieve the country's ambitious climate commitments.

INTERNATIONAL MONETARY FUND

IRELAND

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

November 22, 2023

KEY ISSUES

Context and outlook. Ireland's economy has shown remarkable resilience in the face of consecutive shocks. Following two years of impressive performance, growth, as measured by real GNI*, is projected to moderate to a still solid pace at 2½ percent in 2023–24. Inflation is expected to further ease, reaching 2 percent toward late 2025. The fiscal position has strengthened considerably on the back of strong tax revenues, but the headline numbers mask some underlying vulnerabilities. The large and complex financial system has remained resilient so far and will continue to be tested by tighter financial conditions. The positive economic outlook is clouded by considerable external risks.

Fiscal policy. Prudent policy is warranted to support disinflation and avoid adding to aggregate demand, as well as building adequate buffers for future shocks, spending pressures, and potential revenue declines. Given the uncertain and volatile nature of CIT revenues, excess CIT collections should not be used to fund permanent spending. The authorities' decision to save part of excess CIT revenues in two savings funds is welcome—such funds should be operated within a strong fiscal policy framework. Medium-term fiscal policy should continue to prioritize public investment while ensuring value for money and safeguarding fiscal sustainability. Staff recommends broadening the tax base, further strengthening public investment efficiency, and ensuring timely execution of the capital budget.

Financial policies. Tighter financial conditions, persistent inflation, and rising vulnerabilities in the CRE market with linkages to leveraged non-banks call for continued heightened vigilance of financial stability risks. Intensified supervision of credit and liquidity risk for domestic retail banks should remain and close surveillance of international banks' vulnerabilities to funding stress is warranted. The authorities' efforts to develop and operationalize a macroprudential framework for non-banks are commendable. Closely monitoring the growing linkages between the market-based finance sector and the domestic economy and closing data gaps in collaboration with other jurisdictions remain crucial.

Structural reforms. Policies to increase housing density, remove rent controls, and improve productivity in the construction sector are crucial for boosting housing supply. Facilitating domestic SMEs' links with highly productive multinational enterprises and supporting their digitalization and innovation could help raise SMEs' productivity. Progress in achieving Ireland's ambitious climate commitments needs to speed up.

Approved By
Laura Papi (EUR) and Anna Ilyina (SPR)

Discussions were held in Dublin during October 23–November 3, 2023. Mission members included Yan Sun (head), Kamil Dybczak, Karina Garcia, and Yang Yang (all EUR). Gina Fitzgerald and Matthew Day (OED) joined the discussions. Marizielle Evio and Santiago Previde supported the mission. The mission met with Minister for Finance McGrath, Minister for Public Expenditure, National Development Plan Delivery and Reform Donohoe, Governor of the Central Bank of Ireland Makhlouf, senior officials, members of Parliament, labor unions, and private sector representatives.

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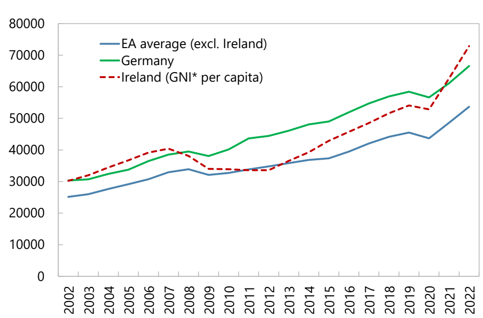
CONTEXT

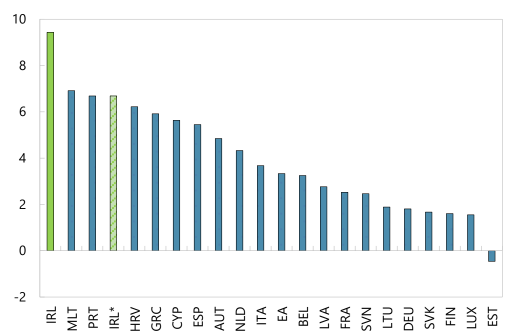
1. **Ireland has made impressive progress over the last decade and displayed remarkable resilience in the face of recent successive shocks, though structural challenges remain.** Real GNI* growth[1] (an appropriate measure of the Irish economy) averaged 5 percent annually over the last decade, underpinned by strong FDI, population growth, and sound policies. More recently, the economy has weathered challenges from the pandemic, Brexit, the energy crisis, and tighter financial conditions, achieving growth among the highest in the euro area. A business-friendly environment, stable policies, strong links to the EU, US, and UK, and a highly skilled labor force continue to attract foreign investment and multinational enterprises (MNEs), and Ireland's position as an international financial hub has further strengthened. At the same time, insufficient housing supply, infrastructure, social, and green investment gaps, and MNEs' limited inward linkages to domestic firms present obstacles to further Ireland's aspirations.

Ireland and Euro Area GNI Per Capita
(PPP dollars)



Sources: Eurostat, Haver Analytics, WEO database, and IMF calculations.
Note: GNI per capita is divided by the PPP exchange rate to account for potential price differences across countries.

Real GDP Growth, 2022
(Y-o-y percent changes)



Sources: World Economic Outlook, and IMF calculations.
Notes: * Real GNI* Growth

2. **The 2022 Article IV recommendations have been broadly reflected in the authorities' policies** (Annex I). The government continues to maintain fiscal prudence while supporting the most vulnerable. Discussions to broaden the tax base and strengthen public investment are ongoing, and policies to enhance housing supply have progressed. The authorities either have completed or are on track to address last year's FSAP key recommendations (Annex II).

RECENT DEVELOPMENTS

3. **Albeit slowing after two years of strong expansion, the Irish economy continues to post solid performance in 2023.** With the real impact of inflation and capacity constraints taking hold, domestic activity slowed somewhat in the second half of 2022 but appears to have regained

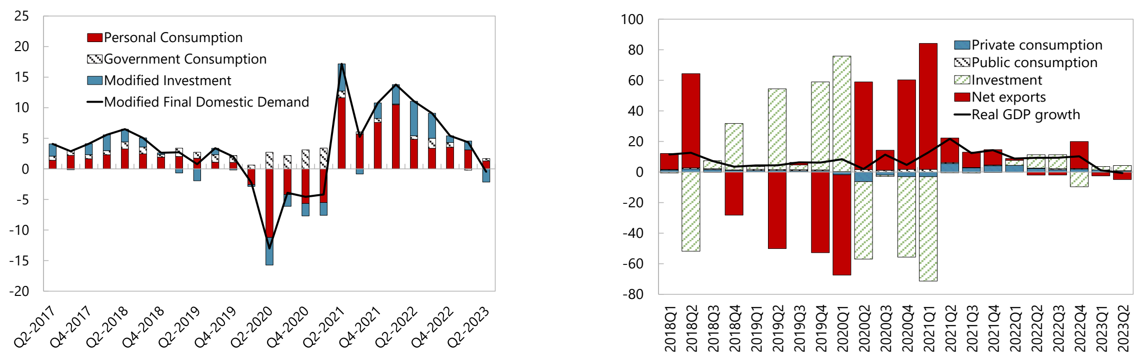
[1] Modified Gross National Income (GNI*) is an indicator designed by the Central Statistical Office (CSO) to measure the size of the Irish economy by excluding MNEs' globalized operations such as depreciation on intellectual property, depreciation on leased aircraft, and net factor income of redomiciled public limited companies. See Box 1 of the 2018 staff report for details. GNI* is only available annually and was about half the size of GDP in 2022.

momentum in 2023:Q2 supported by private consumption. Modified domestic demand (MDD)[2] expanded by 1 percent (q-o-q) in the second quarter, after contracting in the previous three quarters. Overall, MDD rose by 1.8 percent (y-o-y) in 2023:H1, with private consumption growing by a healthy 3.7 percent (y-o-y) supported by robust services spending. High frequency indicators such as PMI, retail sales, and consumer sentiment suggest the momentum may have waned somewhat in Q3, but overall, the domestic economy has remained resilient despite a weakening external environment. Growth measured by GDP continues to be distorted by the MNE sector's activities. Real GDP registered positive growth (0.5 percent, q-o-q) in Q2, after two consecutive quarters of decline. It increased by 0.2 percent (y-o-y) in 2023:H1, from a very high base in 2022, as a significant slowdown of pharmaceutical, semiconductor, and contract manufacturing exports largely offset the expansion in the domestic economy. [3]

Figure 1. Ireland: Economic Developments

Modified Domestic Demand Growth
(Y-o-y percent changes and contributions)

Contribution to Real GDP Growth
Y-o-y percent changes and contributions)



Sources: CSO, Haver Analytics, and IMF staff calculations.

Sources: CSO; Haver Analytics; and IMF staff calculations.

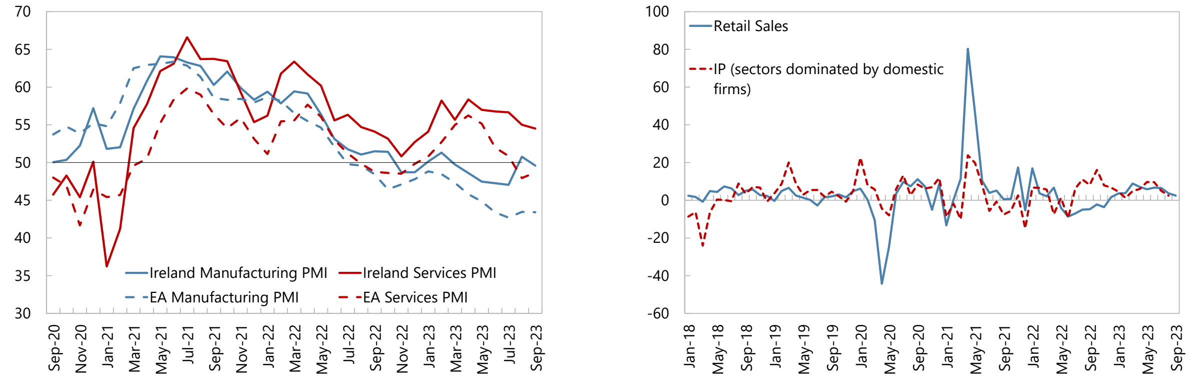
[2] Modified Domestic Demand (MDD) is an indicator developed by the CSO to measure Ireland's domestic economic activity by excluding from final domestic demand certain capital investment items such as airplanes purchased by leasing companies in Ireland and intellectual property purchases of MNEs, which have little impact on the domestic economy. GNI* and MDD aim to remove the distortions of the MNEs' globalized operations from the national accounts and are highly correlated with each other. While GNI* subtracts distortions from GDP using a top-down income method, MDD approaches this from a bottom-up expenditure method.

[3] Flash estimates indicate that GDP declined by 7.4 percent (SA, q-o-q annualized) or 4.7 percent (y-o-y) in 2023:Q3. The contraction was driven by post-Covid normalizations in the multinational dominated sectors. They are based on incomplete data sources and subject to substantial revisions.

Figure 1. Ireland: Economic Developments (Concluded)

PMI Survey
(SA, 50+ = expansion)

Industrial Production and Retail Sales
(Percent)



Sources: Markit, and IMF calculations.

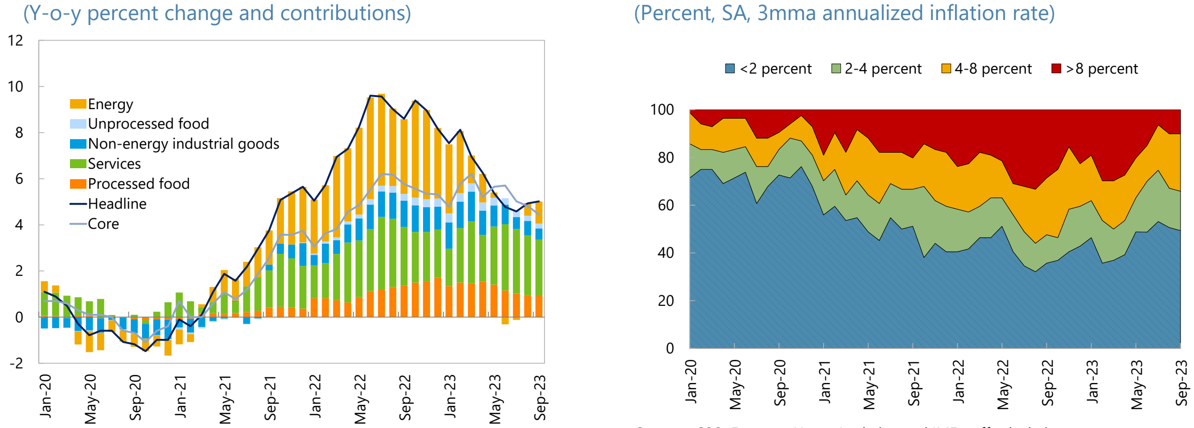
Sources: CSO, and Haver Analytics.

4. **Inflation is easing but remains above the ECB's target.** Headline inflation decelerated to 3.6 percent (y-o-y) in October from 5.0 percent in September as energy prices fell, following a substantial downward trend from its peak at 9.6 percent in mid-2022. Meanwhile, core inflation ticked up slightly to 4.6 percent (y-o-y) in October from 4.4 percent in September, following three consecutive months of disinflation. Sequentially, core inflation also edged up to 2.5 percent (3mma saar) in October from 1.1 percent in September. While inflation of non-energy industrial goods has slowed significantly, processed food and leisure-related services continue to be the main drivers of core inflation.

Figure 2. Ireland: Inflation Developments

Contributions to Headline Inflation
(Y-o-y percent change and contributions)

Distribution of Core Inflation Components
(Percent, SA, 3mma annualized inflation rate)

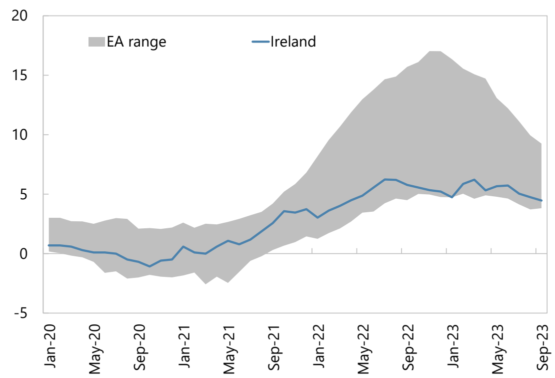


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

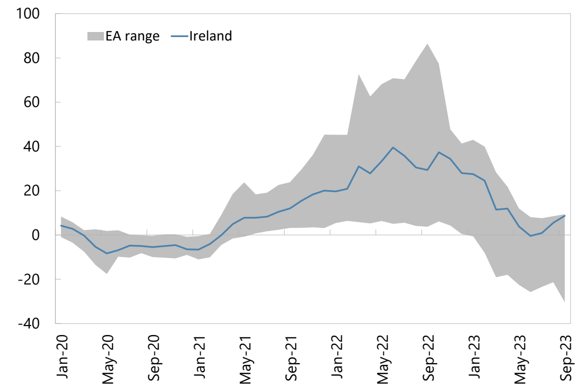
Figure 2. Ireland: Inflation Developments (Concluded)

Core Inflation
(Y-o-y percent change)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Energy and Unprocessed Food HICP
(Y-o-y percent change)

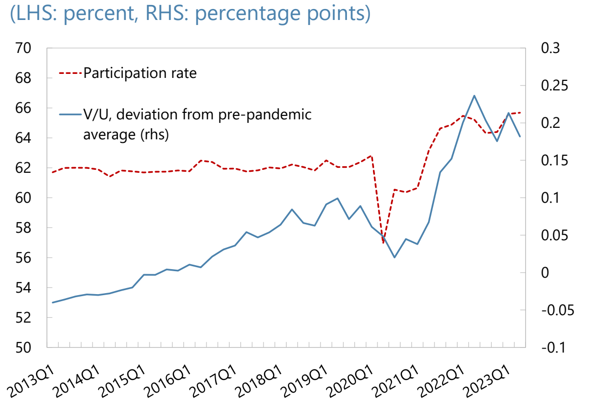


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

5. **The labor market remains tight albeit with some recent easing, and real wage growth is turning positive.** The unemployment rate increased to 4.8 percent in October, from all-time lows of 4.1 percent in the first half of this year but is still below the pre-pandemic level of 5 percent. Employment grew strongly, by 3.8 percent (y-o-y) in 2023:H1. Despite the record-high participation rate and continued inflows of foreign workers, labor shortages are widely reported, particularly in the construction sector. The tight labor market has supported wage growth—hourly wages grew by 5.1 percent in the second quarter, just shy of the contemporaneous inflation of 5.5 percent. High-frequency data on job vacancy and wages from Indeed Wage Tracker signal that pressures in the labor market continued to ease in 2023:Q3. There has been little sign of a wage-price spiral.

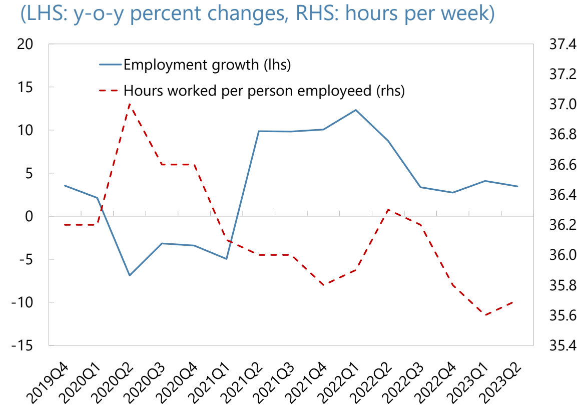
Figure 3. Ireland: Labor Market Developments

Participation Rate and Vacancy/Unemployment Rate
(LHS: percent, RHS: percentage points)



Sources: CSO, Haver Analytics, and IMF calculations.

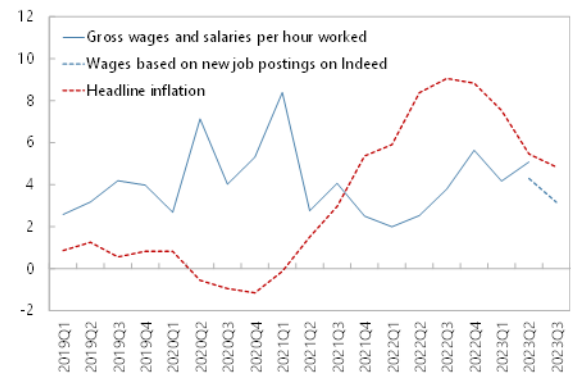
Employment Growth and Hours Worked
(LHS: y-o-y percent changes, RHS: hours per week)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

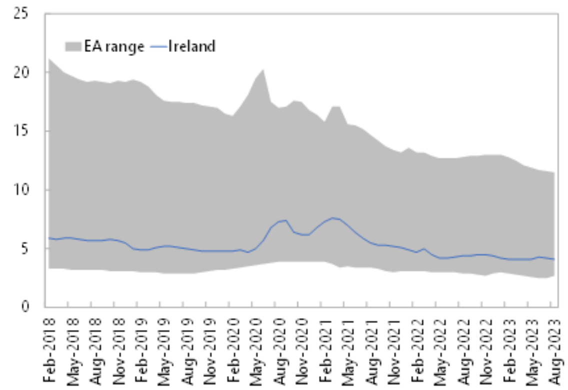
Figure 3. Ireland: Labor Market Developments (Concluded)

Wage
(Y-o-y percent changes)



Sources: CSO, Eurostat, Haver Analytics, and IMF staff calculations.

Unemployment Rate
(Percent)



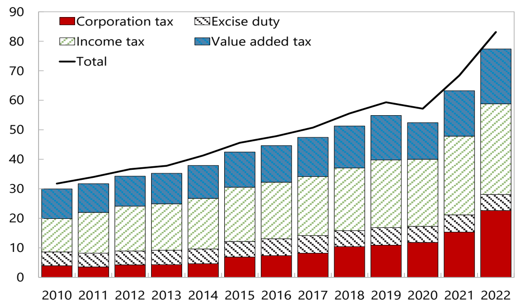
Sources: Eurostat, Haver Analytics, and IMF calculations.

6. Fiscal balances continue to improve on the back of strong tax revenues and unwinding of temporary relief measures. The general government recorded a larger-than-budgeted surplus of 1.7 percent of GDP in 2022 (3.1 percent of GNI*) reflecting exceptionally strong income and VAT revenues. Public debt continues on a firmly downward path, reaching 44 percent of GDP at end-2022. However, measured as a share of GNI*, it remains relatively elevated at 82 percent. Fiscal developments up to October this year have been broadly positive, with tax revenues (excluding CIT) up by 6 percent (y-o-y). But monthly CIT collection was down for a third consecutive month in October (3 percent below the level of January-October 2022), highlighting the inherent volatility and uncertainty of this tax category.

7. Budgetary support to cushion the impact of high inflation has been substantial and largely targeted. A total of €12 billion (about 4.4 percent and 2.4 percent of 2022 GNI* and GDP, respectively) has been provided since 2022, of which €9 billion was made available in 2023. Half of the support provided so far was directed through transfers to households and energy credits, preserving price signals. Targeting has improved over time.

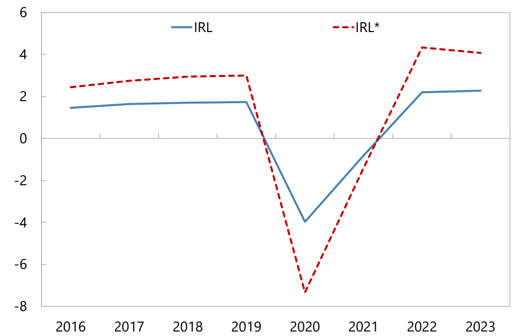
Figure 4. Ireland: Fiscal Developments

Tax Revenues
(Billion euros)



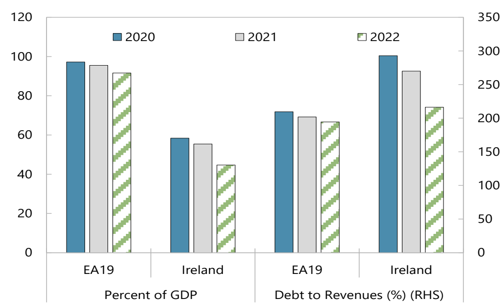
Sources: Department of Finance and Haver Analytics.

Primary Balance
(Percent of GDP)



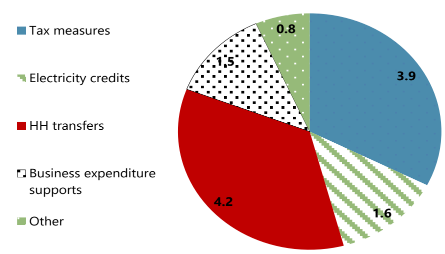
Sources: Eurostat, IMF staff calculations.
Note: Share of GNI*

General Government Debt
(Percent)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Cost of Living Measures, 2022–23
(Billion euros)



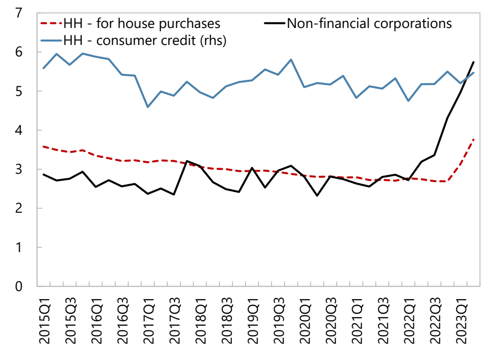
Source: Department of Finance, 2023.

8. **The ECB's monetary tightening has impacted credit conditions in Ireland, notably non-bank lending.** Bank lending rates have increased, though less than in other EA peers, and lending standards have tightened. The pass-through of higher rates to households has been more muted than to businesses. Albeit remaining muted, bank credit growth picked up in 2023:H2, driven by consumer credit and loans for house purchases, while credit to NFCs turned negative. Following rapid growth in recent years, the amount of credit provided by non-bank lenders, which do not take deposits, to domestic businesses has decelerated considerably in 2022, largely reflecting higher sensitivity of non-bank funding to market conditions and challenges to refinance at higher interest rates. The share of new lending provided by non-banks declined sharply in 2022:H2 (from 39 to 32 percent of total).

Figure 5. Ireland: Credit Developments

Interest Rates on New Lending

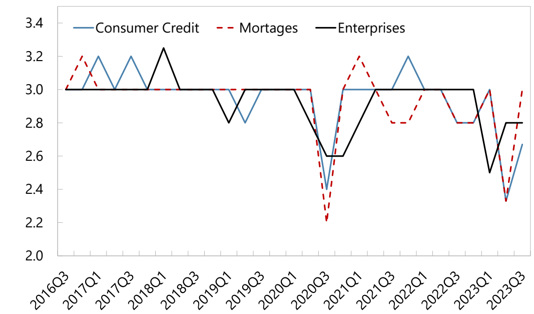
(Percent)



Sources: CBI, and IMF staff calculations.

Change in Credit Standard

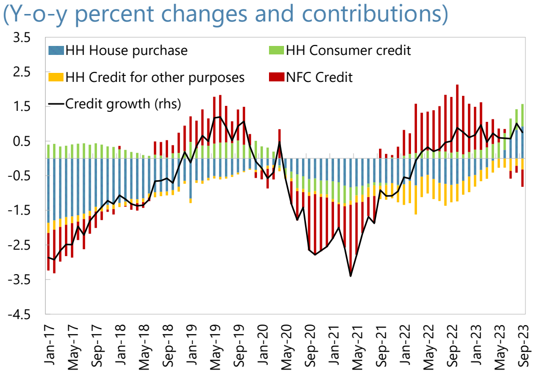
(Percent, mean of past 3 months)



Sources: Central Bank of Ireland and Haver Analytics.
Notes: 1 = Tightened considerably 2 = Tightened somewhat 3 = Basically unchanged 4 = Eased somewhat 5 = Eased considerably

Contributions to Bank Credit Growth

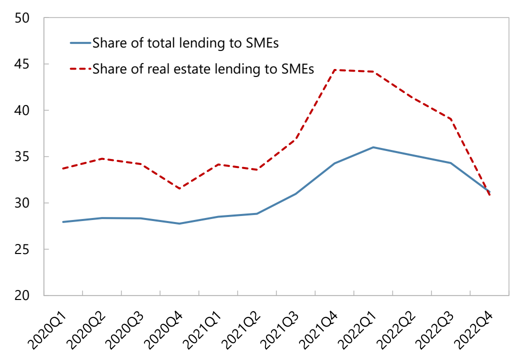
(Y-o-y percent changes and contributions)



Source: CBI
Note: Credit only considers loans by banks to Irish Residents.

Share of Lending to SMEs by Non-Banks

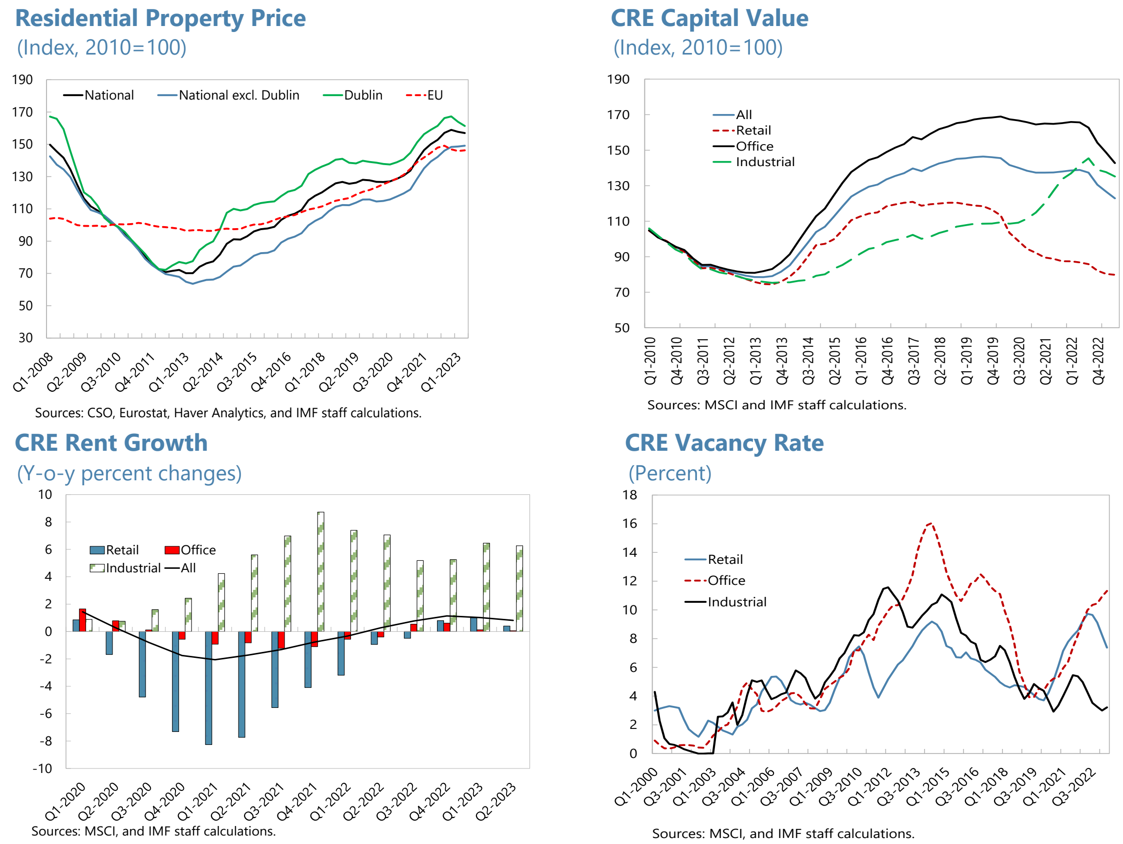
(Percent)



Sources: CBI, and Central Credit Register.

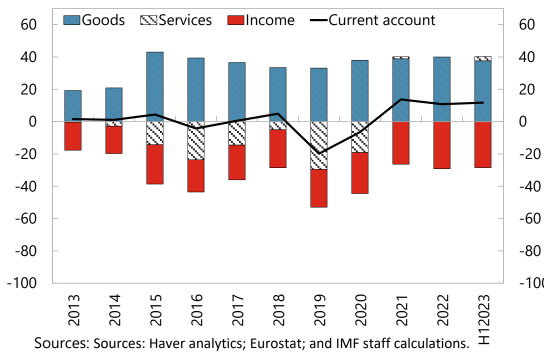
9. **Prices in different segments of the real estate sector have started to ease, to varying degrees.** Reflecting gradually increasing mortgage rates and erosion of household real income, growth of residential real estate (RRE) prices turned negative in 2023:Q1 and Q2 but has picked up in Q3. Residential rents continue growing, by about 7 percent between 2023:Q1 and Q3, significantly above the EA average (1.2 percent). Prices in the commercial real estate (CRE) sector have already fallen considerably, reflecting a combination of cyclical (tighter financial conditions and weakening outlook) and structural factors (change in working patterns and shift towards online shopping).

Figure 6. Ireland: Real Estate Prices



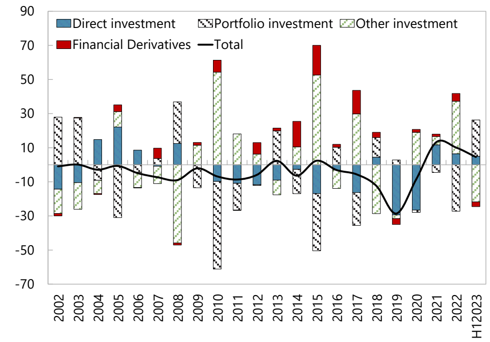
10. The MNE sector activities continue to drive large current account surpluses. The current account (CA) surplus increased to an estimated 12 percent of GDP in the first half of 2023, from 10.8 percent of GDP in 2022. The modified CA excluding most of MNEs-related transactions was much smaller (4 percent of GDP in 2022). Goods exports slowed so far this year from an extraordinarily high base in 2022, reflecting slowing global demand for pharmaceutical products and semiconductors and weakening contract manufacturing activities. Goods imports grew only modestly on the back of lower energy prices and decelerated MNE activities. Exports and imports of services have remained strong in 2023, driven by a robust ICT sector and business services activities. Both inward and outward FDI declined in the first half of 2023, and portfolio and other financial flows largely offset each other. The external position in 2022 is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies (Annex IV).

Current Account Balance
(Percent of GDP)



Sources: Sources: Haver analytics; Eurostat; and IMF staff calculations.

Financial Account
(Percent of GDP)



Sources: Haver analytics; CSO; and IMF staff calculations.

OUTLOOK AND RISKS

11. Staff's baseline is a soft landing. Tighter financial conditions, supply side constraints such as labor and housing shortages, and weakening external demand are expected to weigh on the domestic economy. At the same time, a strong labor market, a recovery of real income as inflation recedes, and a rundown of excess household savings accumulated during the pandemic would support private consumption in the near term. Real GNI* growth is projected to slow to 2½ percent in 2023–24, from a very high base,[4] and to converge to its potential estimated at 2¼ percent over the medium term, with the currently large positive output gap gradually closing. GDP growth is projected at 1½ percent in 2023 and 2⅔ in 2024 as activities continue to normalize. Inflation is expected to further ease, reaching 2 percent toward late 2025. Core inflation, estimated at 5.3 percent in 2023 (5.0 percent, e.o.p.), is projected to further decline to 3.4 percent in 2024 (2.4 percent, e.o.p.), as services inflation is expected to decelerate gradually reflecting the moderation of economic growth and labor market tightness. It is assumed that the ECB will keep its policy rates close to current levels into the second half of 2024, consistent with the October 2023 WEO, and the fiscal impulse in 2024 is slightly positive.

12. The outlook is clouded by considerable external risks (Annex III). Further weakening of external demand, a renewed surge in commodity prices, an intensification of Russia's war in Ukraine or the conflict in Gaza and Israel, and tighter-than-expected global financial conditions pose risks to the outlook. Furthermore, Ireland's highly open, small economy would likely be significantly affected by deepening geoeconomic fragmentation in the coming years. Changes in international taxation could have more negative consequences than currently envisaged. Domestically, capacity

[4] With large volatility from MNEs distorting GDP, staff's forecast focuses on tracking activities of the domestic economy as measured by GNI* and MDD.

constraints particularly in the construction sector could exacerbate housing shortages and slow down implementation of public investment, while prolonged high inflation could further erode consumers' purchasing power and confidence. The MNE sector activities are volatile and entail risks on both sides—a retrenchment (expansion) of the MNE sector would lead to lower (higher) employment growth, tax receipts, and confidence.

Authorities' Views

13. The authorities broadly shared staff's views on the outlook and risks. While the economy appears to have passed the peak of the economic cycle, with some evidence of a softening of activity, they pointed to the tight labor market and strong PIT and VAT revenues as evidence of continued economic strength, while acknowledging recent weaknesses in CIT collections and exports with external demand slowing. Noting that risks to the outlook are to the downside, the authorities stressed the importance of maintaining stability and building buffers in a shock-prone world. They highlighted that the Irish economy has benefited considerably from globalization. Although deepening geoeconomic fragmentation may pose a threat to Ireland's existing economic model and be disruptive in the short term, Ireland's strong fundamentals, sound policies, and dynamism should bode well for its adapting to changing globalization. The authorities highlighted the importance to strengthen the EU's single market and cooperation and uphold a rule-based global trade and investment system. They stressed the need for Ireland to continue advancing structural reforms to strengthen resilience and competitiveness.

POLICY DISCUSSIONS

A. Fiscal Policy

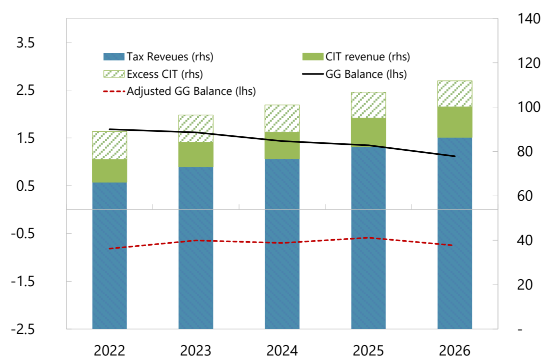
14. Fiscal policy should continue to support disinflation and avoid adding to aggregate demand. Despite signs that inflationary pressures are abating, capacity constraints in the economy have increasingly become binding amid a tight labor market and still elevated core inflation. Well-targeted fiscal policy can support disinflation at a lower cost to growth and inequality, by reducing the tension between price and financial stability, while protecting the most vulnerable.[5] Prudent fiscal policy is also warranted to build adequate buffers, given Ireland's large exposure to external shocks and future spending pressures.

15. The 2024 budget entails a slightly expansionary stance. The general government surplus is projected at 1.6 percent of GDP in 2023 and the government targets a slightly smaller surplus in the 2024 Budget. The budget contains a package of €6.4 billion (around 1 percent of GDP), including

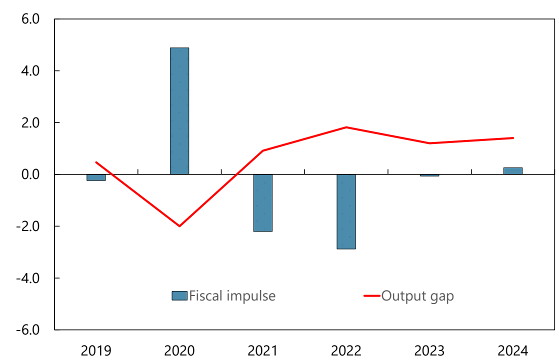
[5] Fiscal Monitor. Chapter 2. IMF, Spring 2023.

about €1.1 billion in taxation measures (largely to protect low-income earners from taxation drag from higher inflation) and €5.3 billion in permanent expenditure measures (mainly to support capital investment and maintenance of public services). In addition, €2.7 billion of temporary tax measures and cost-of-living support is provided and €4.7 billion is set aside to cover Ukraine related costs and more limited Covid-19 provisions.[6] Though the fiscal stance in 2023 is broadly neutral, the 2024 budget translates to an estimated small positive fiscal impulse and continues to breach slightly the government's own spending rule.[7] In staff's view, a smaller and better targeted package would have been less costly while still protecting the most vulnerable. As inflation continues to recede, one-off cost-of-living measures should be phased out. If downside risks materialize, automatic stabilizers should be allowed to work fully. Any additional discretionary support should be temporary and targeted to the most vulnerable while preserving price signals. In case of upside risks, any fiscal overperformance should be saved.

CIT Revenue at Risk
(LHS: percent of GDP, RHS: billion euros)



Fiscal Impulse
(Change in CAPB in percent of GDP)



Sources: IMF staff calculations.

16. Albeit on a steady downward path, public debt remains vulnerable to shocks and the headline fiscal position masks underlying vulnerabilities. Ireland's growing reliance on highly concentrated CIT revenues leaves the fiscal position highly exposed to firm and sector level shocks.[8] Staff, as the authorities, have argued that the fast growth of CIT revenues in recent years are well in excess of what would be implied by economic fundamentals and should be considered transitory.[9] Staff estimate that "excess CIT revenues" amounted to €12 billion in 2022 (about half of the total CIT

[6] Department of Finance. Budget 2024 Economic and Fiscal Outlook.

[7] Defined as annual 5 percent ceiling on the nominal growth of net core expenditure.

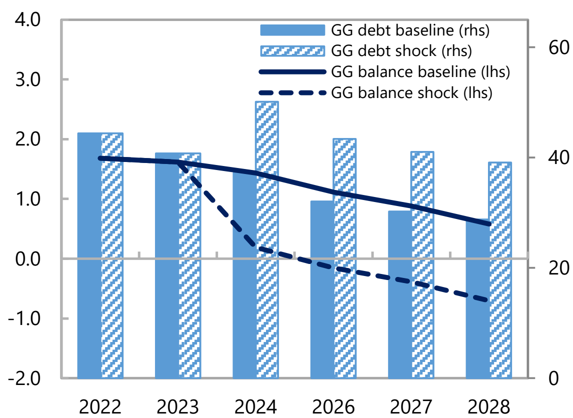
[8] The top 10 firms, all MNEs in the pharma and ICT sectors, accounted for about 60 percent of CIT collection in 2022. They also had sizable indirect contributions to fiscal revenue through VAT and PIT.

[9] See IMF 2019 staff report.

receipts and 2 percent of GDP).[10] Stripping this out of the overall balance suggests Ireland's fiscal space would be more constrained. Furthermore, staff's simulations assuming half of the profits from the top ten CIT contributors move away from Ireland suggest a significant deterioration in the fiscal position and public debt path, not only from the loss of tax revenues, but also through the impact on GDP from the loss of these companies' profits.

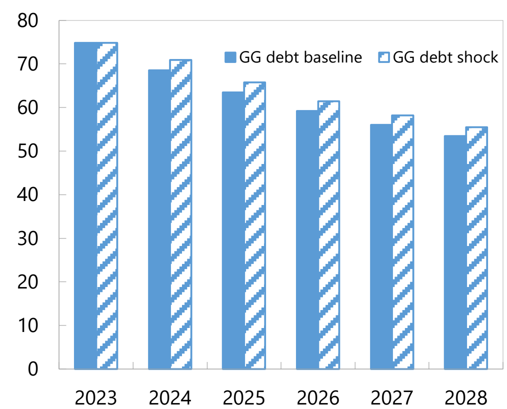
17. Ongoing international corporate taxation changes will impact Ireland's fiscal outlook. There is considerable uncertainty regarding the final design of the OECD BEPS rules and potential impact on Ireland's future tax receipts. MNEs have so far continued to invest in Ireland, attracted by its non-tax comparative advantages. Given the uncertain and volatile nature of CIT revenues, excess CIT collections should not be used to fund permanent spending.

Impact of a Shock to CIT Revenue
(Percent of GDP)



Source: IMF staff.

Impact of a Shock to CIT Revenue
(Percent of GNI*)



Source: IMF staff.

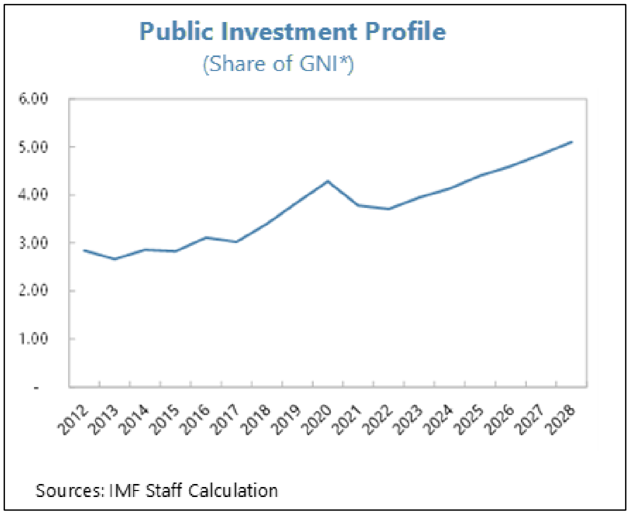
Note: The shock only captures the direct impact of a potential decline in CIT revenues on the budget and GDP forecast, therefore is considered a lower bound estimate. It does not capture spillovers to the rest of the economy.

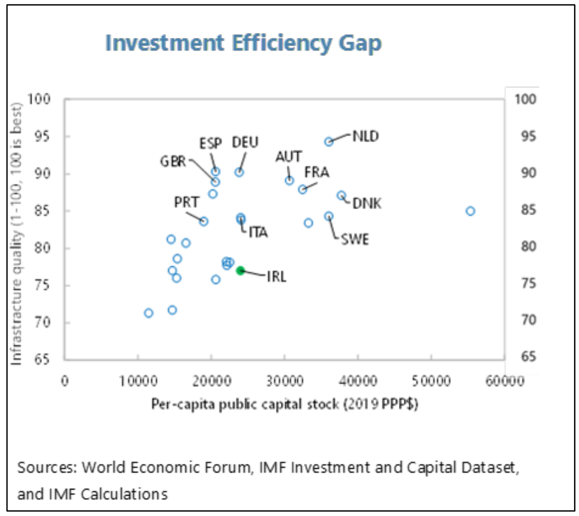
18. Ireland has large and growing investment needs. Public investment has stepped up in recent years. However, further increases are still needed to compensate for the post-GFC underinvestment, including notably in infrastructure and housing supply, and to address new challenges from climate change and digital transformation. Long-term demographic trends will also add pressure to public finances.[11] The National Development Plan (NDP) implies an ambitious

[10] Staff's baseline assumes an annual average of €12 billion excess CIT revenue over 2023–26 and a gradual decline afterwards reflecting the impact of BEPS initiatives.

[11] With the old age dependency ratio expected to double in the next decades and the retirement age well-below life expectancy, length of time in retirement will become one of the longest among OECD countries.

expansion of public investment including on infrastructure, housing, social spending, and the green transition to levels well beyond historic trends. Such much-needed investment ramp-up will need to be managed carefully at the current juncture to contain domestic demand pressures and avoid further exacerbating capacity constraints in the economy. It is therefore important to prioritize public investment without worsening the overall fiscal stance.





19. The authorities' medium-term fiscal stance is broadly appropriate. They envisage a return to the 5 percent expenditure growth rule from 2025.[12] After including planned additional ramp-up in infrastructure investment, staff projects average annual spending growth to slightly exceed the limit. Nevertheless, public debt is still projected to further decline to around 55 percent of GNI* (30 percent of GDP) and public investment rise to above 5 percent of GNI* by 2028, putting Ireland on a stronger footing to address shocks and long-term challenges. Ireland is assessed to be at low risk of sovereign stress (Annex V).

20. Staff highlights the importance of strengthening public investment management and broadening the tax base.

- **Strengthening public investment efficiency and ensuring timely execution of the capital budget will be critical to deliver on the government's ambitious NDP goals while ensuring value for money.** Significant progress has been achieved in planning, allocation, and monitoring of projects through the establishment of the National Investment Office, but more efforts need to be directed towards expediting the planning permission process. At the same

[12] The proposed EU fiscal rules are unsuitable for Ireland given the use of GDP denominators.

time, a complex and slow judicial review process has become a key bottleneck to timely execute investment projects. Streamlining these processes is critical to address large investment needs while reducing uncertainty for projects. Staff welcomes the authorities' proposed reforms in these areas, including the Planning and Development Bill that is pending parliament approval.

- **Broadening the revenue base should remain a key policy objective.** With a relatively low, narrow, and concentrated revenue base, there is scope to expand and diversify tax revenues, including by improving the PIT system, reducing its administrative cost, and simplifying the VAT system.[13] As previously recommended, introduction of additional tax bands and rates to the PIT and appropriately calibrating their tax rates would allow preserving the progressiveness while broadening the tax base, and reducing disincentives to work more.

21. Saving temporary excess CIT revenues is warranted. The authorities have proposed to save a large share of the estimated excess CIT revenues in two savings funds to shield public finances from volatile and uncertain CIT revenues. The Future Ireland Fund (FIF) intends to contribute to the government's future recognized expenditures including aging, climate, and digitalization.[14] The Infrastructure, Climate and Nature Fund (ICNF) has the mandate to protect infrastructure spending during downturns and contribute to achieving carbon budget targets through capital projects.[15] Staff supports the authorities' decision, which would help de-risk public finances from the excessive reliance on a temporary, narrow revenue source and build buffers in good times while partly pre-financing future spending needs. It is important to operate the funds within a strong fiscal policy framework. With the EU fiscal rules unlikely to be binding for Ireland, the authorities should reflect on an appropriate anchor for their longer-term fiscal framework, beyond the current spending rule for 2022–26, and how the operation of the new savings funds can be integrated within this framework.[16] General principles following international best practices should be considered to ensure the funds are appropriately structured and sufficiently large to effectively mitigate the impact of shocks and safeguard fiscal sustainability.

Authorities' Views

22. The authorities agree with the need for fiscal prudence. Faced with strong pressures to spend the fiscal surpluses, they believe that the 2024 Budget strikes an appropriate balance between mitigating the impact of cost-of-living challenges on the society, meeting investment needs, and

[13] See 2022 staff report.

[14] For each year from 2024 to 2035, 0.8 per cent of GDP will be invested in the FIF (approximately €4.3 billion in 2024).

[15] It is intended that €2 billion will be invested in this fund each year from 2024 to 2030, building a fund of up to €14 billion.

[16] See accompanying Selected Issues Paper.

maintaining the provision of public services on the one hand and supporting disinflation and building buffers on the other. They fully agree that the temporary cost-of-living support needs to be phased out as inflation recedes, noting that the package in the 2024 Budget is smaller than in 2023 and will be one-off in nature. The departure from the 5 percent spending rule, which has played an important anchoring role in recent years, is modest and will be temporary. While recognizing the importance of having a strong fiscal policy framework, the authorities highlighted the strategic role that the two new savings funds will play in helping Ireland weather future shocks and anchoring fiscal policy. They also noted strong political consensus behind the savings funds.

B. Financial and Macroprudential Policies

23. Tighter financial conditions, persistent inflation, and rising vulnerabilities in the CRE market and its linkages with leveraged non-banks have contributed to higher systemic financial risks compared to 2022, while at the same time there are mitigating factors.

- Households have remained resilient to higher interest rates and cost-of-living, with sizable excess savings. Although some households (about 20 percent of borrowers) have seen increases in debt payments of up to 50 percent, deleveraging since the GFC, high share of fixed rate mortgages of 2–5 years, and a strong labor market as well as measures to protect financially distressed households represent important mitigating factors. [17]

- While profit margins of domestic businesses have remained stable or even slightly improved, insolvency rates have increased modestly, mostly in small highly indebted firms.

- Residential housing markets remain vulnerable to further increases in interest rates, but the long-standing mismatch between housing supply and demand is expected to mitigate the impact.

- The CRE market has been under considerable pressure with capital values declining since 2022. Corrections in the CRE sector can spillover to the financial system through directly a fall in collateral values and indirectly increased impaired assets and wealth and confidence effects. A high share of foreign expenditure and funding of the CRE market also raises its sensitivity to external shocks. Banks' CRE exposures are smaller and less risky than before the GFC but the share of CRE NPLs in total NPLs remains elevated. Vulnerabilities in non-bank financial intermediaries (NBFI), notably property funds, could amplify the effects of further CRE price declines, creating a potential adverse feedback loop between non-bank financing, the CRE market, and the real economy. As highlighted in the 2022 FSAP, despite the authorities' active efforts, data gaps in direct cross-border exposures to CRE, which can only be closed through international coordination, prevent a complete accounting of potential risks.

[17] Debt-to-disposable income fell from more than 200 percent to about 90 percent between 2011 and 2022.

24. Ireland's banking ecosystem is in transition, with a growing presence of international banks.

- **Domestic retail banks** (about 40 percent of total bank assets) continue to strengthen their balance sheets. Nonetheless, continued vigilance is needed, given a possibly delayed impact from high inflation, tighter financial conditions, and vulnerabilities accumulated during a decade of low interest rates. Banks' profitability has benefited from rising net interest margins and a strong deposit base. Capital and liquidity indicators are well above regulatory minima and strong in a European context. NPL ratios for households and NFCs have declined steadily on the back of loan restructuring and sales as well as strong economic recovery. Solvency and liquidity stress tests have confirmed that banks have capacity to sustain potentially large adverse macroeconomics and liquidity shocks.[18] Nonetheless, the share of Stage 2 loans has marginally increased over the last year and remains above the EU average, indicating potentially rising credit risks.[19] Moreover, balance sheets of vulnerable households and businesses may deteriorate amid higher borrowing costs. As recommended by the 2022 FSAP, the authorities should continue using tools developed for intensified monitoring of credit losses during the pandemic. The reduction in the state's shareholding in Allied Irish Banks (AIB) to below 50 percent is welcome and efforts to further improve the efficiency of domestic banks and divest government stakes should continue. In this context, it is important to recognize the need for domestic banks to retain talent and ensure a level-playing field for them in the face of more nimble non-banks.

Selected Financial Indicators of Selected Banks, 2023Q1
(Percent)

	Domestic Retail Banks 1/	Domestic Banks EBA 2/	EU average EBA 3/
Credit growth	1.8		
to Irish residents	4.4		
Return on assets	1.1	1.2	0.7
Return on equity	11.4	12.2	10.4
Net interest margin	2.7	2.4	1.6
Cost-to-income ratio	56.1	48.4	59.2
NPL ratio	2.3	1.7	1.8
Tier 1 capital ratio	17.2	20.4	17.2

Sources: CBI and IMF staff.
1/ Indicators cover the three main domestic retail banks: Allied Irish Banks, Bank of Ireland, and Permanent TSB.
2/ In case of Ireland, the EBA sample includes AIB Group plc, Bank of America Europe, Bank of Ireland Group plc, Barclays Bank Ireland Plc, Citibank Holdings Ireland Limited, and Ulster Bank Ireland.
3/ EBA sample covers EU's largest banks, both domestic and cross-border.

- **Large international banks** rely on wholesale funding and have large off-balance sheet liabilities with material inter-linkages with foreign NBFIs. Their vulnerabilities to funding stress and shocks from nonbanks warrant continued close monitoring.

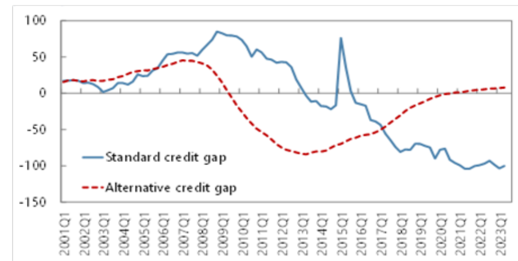
25. Staff encourages continued close monitoring of credit conditions and financial stability risks to assess the need for future adjustment of macroprudential policy settings and notes that mortgage measures should not be used to tackle housing affordability.

[18] 2022 FSAP and EBA stress tests (2023).

[19] EBA risk dashboard as of Q1 2023.

- Given the broadly neutral macro-financial conditions, the CBI is progressing with the gradual increase in the **counter-cyclical capital buffer (CCyB),** to 1.5 percent effective from June 2024. This is expected to improve banks' loss-absorbing capacity without materially impacting credit conditions, thanks to banks' existing capital buffers and a positive profitability outlook. The buffer should be released, partially or fully, to support credit flows in case of materialization of significant financial risks. The dynamic macro-prudential stress testing framework has become a valuable tool, helping assess the resilience of banks and inform the calibration of the CCyB.

Standard Basel and Alternative Credit Gaps
(Percent)



Source: CBI
Notes: The Standardized gap measure is based on the HP-filter methodology applied by the BIS and shows the deviation of the total credit-to-GDP ratio from its long-term trend. The alternative credit gap is based on a revision of O'Brien and Velasco (2020).

- The recent targeted recalibration of **mortgage measures**[20] is expected to ease access to housing in the near term, given persistent increases in house prices largely due to supply constraints. Despite the slight increase in LTI for first-time buyers (FTB), the limit remains quite restrictive and would unlikely lead to irresponsible borrowing. The change of allowance limits is expected to reduce the volume of allowances available. However, the relaxation of LTV for second and subsequent buyers (SSBs) is not advisable given that SSBs are riskier than FTBs. These measures could be counterproductive from a housing-affordability perspective were they to increase housing demand and prices. The CBI should continue to carefully monitor the impact of the changes to the measures to ensure that they are achieving their objective of ensuring sustainable lending standards in the mortgage market.

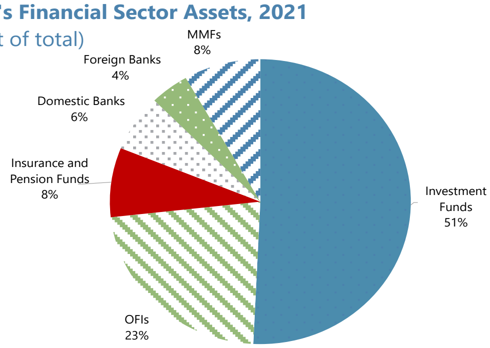
26. Ireland's large and complex market-based finance (MBF) sector remains mostly externally oriented, yet its linkages with the Irish economy have been growing and need to be closely monitored.[21] The MBF sector (more than 20 times GNI*) is dominated by investment funds (IFs) and money market funds (MMFs), whose linkages to households and domestic banks are limited. But a cohort of highly leveraged property funds—holding some 35 percent of the investable Irish CRE market—represents a potential source of financial stability risks. Moreover, there are significant interlinkages between the funds sector and the remaining segment of the MBF—special purpose entities (SPEs) and the catch-all category "other financial institutions residual (OFI residual)", with the latter having significant linkages to domestic banks, households, and firms. Banks and funds also have common exposures to the CRE market, representing a potential channel of contagion. Notwithstanding considerable progress, work should continue to fully elucidate the interlinkages between parts of the MBF sector and the rest of the financial system, and with the domestic

[20] Effective from January 1, 2023, the LTI limit for FTBs was increased from 3.5 to 4 times income and the LTV limit for SSBs was raised from 80 to 90 percent. Furthermore, to reduce complexity of the framework, allowances for FTBs and SSBs were limited to 15 percent of total.

[21] See the 2022 FSAP Technical Note on Financial Interconnectedness of the Market-Based Financial Sector.

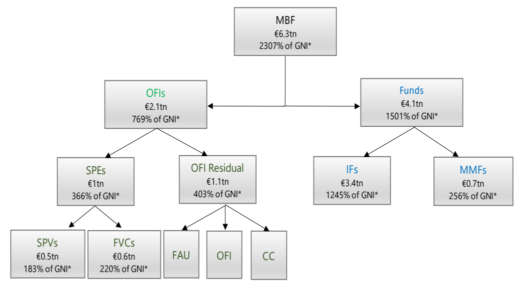
economy. As recommended in the 2022 FSAP, closing still significant data gaps in the OFI residual sector and conducting risk analysis at a granular level remain a priority, which will require intensified international collaboration. Staff welcomes the CBI's efforts to further develop guidance to the funds sector on using the full range of liquidity management tools and conduct more deep dives on sub-segments of the funds sector, as well as the government's ongoing extensive review of the funds sector, which will consider the financial resilience and sustainability of the industry in Ireland.

Ireland's Financial Sector Assets, 2021
(Percent of total)



Sources: CSO and Haver Analytics.

The Irish-Domiciled Market-Based Finance Sector



Sources: CBI; and IMF staff calculations.
Notes: Numbers represent balance sheet assets/GNI* as of 2022Q4. MBF – marker-based finance sector, IFs – investment funds, MMFs – money-market funds, OFIs – other financial institutions, SPEs – special purpose entities, SPVs – special purpose vehicles, FVCs – financial vehicle corporations, FAU – financial auxiliaries, OFI – other financial intermediaries, CC – central counterparties. Data is not available on the split of assets among the sub-components of the OFI residual.

27. Commendably, Ireland is at the forefront of developing and operationalizing a macroprudential framework for non-banks. Reflecting their sheer size and growing connections to the domestic economy, developing a comprehensive macroprudential framework for non-banks has become a key priority for the CBI. In line with the 2022 FSAP recommendations, the CBI introduced a leverage limit and liquidity management guidance on property funds in November 2022. It also issued a Discussion Paper for consultation that lays out an overarching approach to macroprudential policy for investment funds and aims to advance the international debate on this front, and a consultation paper on steady state resilience measures for Irish authorized GBP-denominated liability driven investment (LDI) funds (Annex VI). Going forward, the CBI should continue to closely monitor developments in the CRE market and property funds and recalibrate the macroprudential measures as needed in case of material shifts, leakages, or unintended procyclical effects. It should also continue to work with regional and international institutions and other countries to develop macro-prudential tools targeting risks from non-banks, including for leakages and cross-border issues.

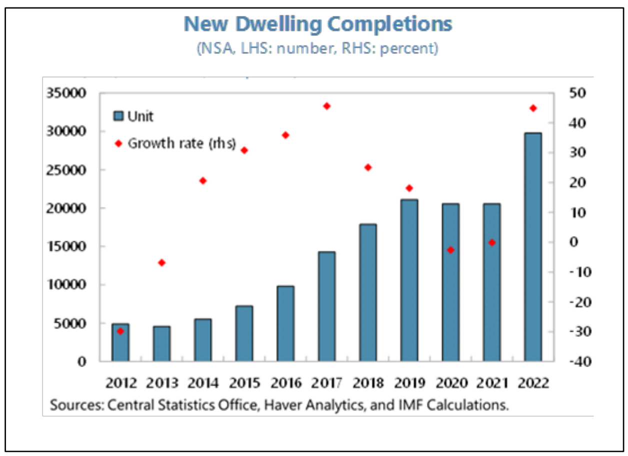
28. The authorities are also on track to implement other key 2022 FSAP recommendations and further efforts are warranted (Annex II). The CBI has made progress in strengthening its capacity to monitor and manage climate-related financial risks in banks and insurance companies and a sequenced action plan has been adopted. The authorities have initiated a review of the corporate reorganization procedure and are considering options to revisit the existing system to comply with the EU Directive on Preventive Insolvency. Given Ireland's status as a growing international financial center, increases in AML/CFT supervisory resources and efforts to develop a quantitative risk assessment framework for cross-border money laundering risks are welcome. These efforts, including on the integration of cross-border payments data in the money laundering risk assessment of banks, should continue. The authorities should also consider exploring potential impacts of money laundering events on financial stability more broadly.

Authorities' Views

29. The authorities highlighted their active efforts to ensure that Ireland's regulatory framework and supervisory capacity keep pace with its large and complex financial sector. They have intensified the monitoring of financial stability risks, particularly regarding the CRE market, and noted that an enormous amount of work is underway in Ireland to fill data gaps and elucidate interlinkages between different parts of Ireland's financial system and with the domestic economy. But international and regional collaboration is needed, given large cross-border flows and regulatory arbitrage. The authorities noted they have been at the forefront of developing macroprudential frameworks and tools targeting systemic risks from NBFIs, are working with international partners to lead the global debate in this area and announced new macroprudential measures for Irish property funds last year. They also noted that the macroprudential mortgage measures continue to strike an appropriate balance between their stabilization and resilience benefits and the economic costs they impose. The 2022 framework review found that targeted changes were appropriate to re-balance the benefits and costs of the calibration of the measures and to ensure they remain fit for purpose into the future. The authorities noted they will continue divesting the government's shares in domestic banks and expect to remove the remuneration rules on those banks at an appropriate time.

C. Structural Policies

30. Notwithstanding recent achievements, improving housing availability and affordability remains a key policy priority. Construction activity picked up after the re-opening of the economy with new home completions and commencements as well as new investment increasing substantially in 2022–23. However, the gap between residential housing supply and demand remains large and structural impediments to a well-functioning housing system persist, driven predominantly by supply-side bottlenecks including low construction productivity, labor shortages,



Sources: Central Statistics Office, Haver Analytics, and IMF Calculations.

land availability, and a slow and complex judicial review framework. As a result, residential housing prices have continued to rise while housing availability remains low. As demand for housing continues growing in line with economic growth, increasing immigration, and declining average household size, imbalances between housing supply and demand would likely become even more pressing, further exacerbating labor market shortages and competitiveness of the economy. Relatedly, rents have risen amidst historically low supply and stringent rent caps, the latter of which have reduced profitability and amount of residential investment.[22]

31. Policies to increase housing density, remove rent caps, and improve productivity in the construction sector are crucial for boosting housing supply, and in turn supporting sustainable growth. While the government's Housing for All plan has a host of helpful policies, it may not be enough to address supply-side bottlenecks. Some policies may even add to demand pressures in the near-term, and thus should be narrowly targeted and limited in size.[23] To address affordability concerns and more durably manage housing market imbalances, it is imperative that they are complemented by a broader set of supply-side policies that increase urban density, improve use of land, and improve construction productivity.[24] Measures providing greater certainty to developers such as improving the transparency and certainty about approval process as well as accelerating the process are also required. Furthermore, reducing the complexity and restrictiveness of rent legislations, notably replacing rent caps with more targeted housing support for poor households, would help increase rental housing supply.

32. There is scope to further the MNE sector's inward linkages to the Irish economy. Ireland has attracted large FDI and built an oversized MNE sector over decades. Analysis suggests that employment growth in the manufacturing sector has been largely driven by the MNEs, and the decline of unit labor cost has been mainly driven by MNE-dominated sectors. The competitiveness of the sectors dominated by domestic firms significantly lags. Facilitating links between MNEs and domestic SMEs via supply-chain linkages, labor mobility, and innovation cooperation could help raise productivity levels of SMEs. Supporting the digital transformation of SMEs, promoting innovation through expansion of government support for SME-driven R&D, and providing infrastructure to foster industrial clusters could also help bridge the productivity gap.[25]

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[22] National Economic Dialogue 2023.

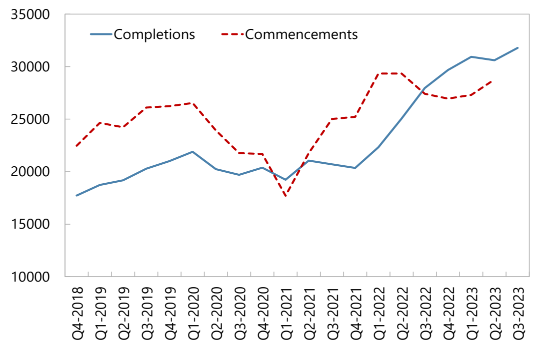
[23] Such as measures supporting first-time homeowners.

[24] SIP "Housing Affordability in Ireland" discusses policies and experiences with measures addressing housing affordability in other countries such as Australia, Canada, and New Zealand.

[25] Review of SME and Entrepreneurship Policy in Ireland (OECD, 2019).

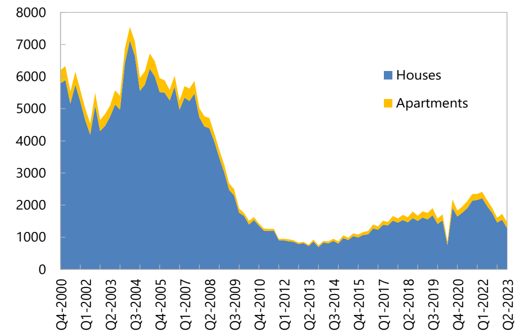
Figure 7. Ireland: Housing Affordability

Residential Construction Activity
(Unit, 1-year rolling annual totals)



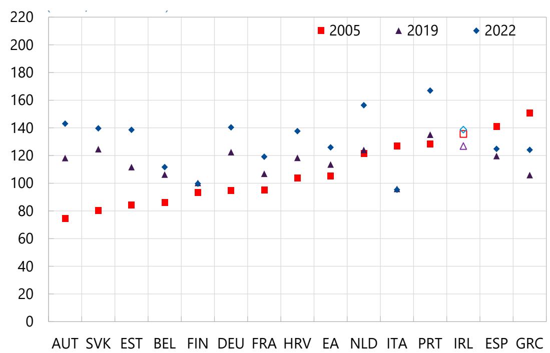
Sources: Central Statistics Office, Housing Agency, and IMF staff calculations.

Building Permits
(NSA, Number)



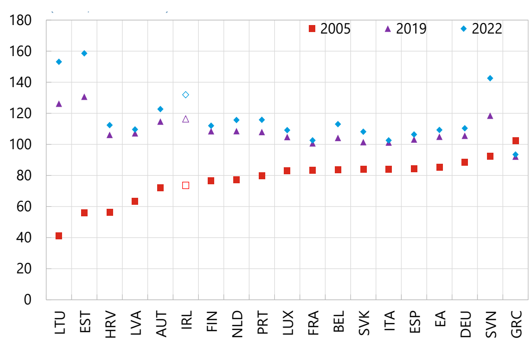
Sources: CSO, Haver and IMF staff calculations.

Real House Price Index
(Index, 2015=100)



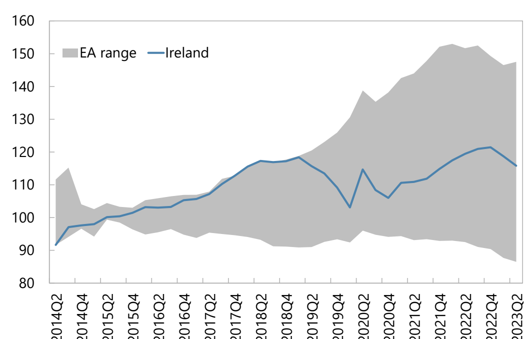
Source: OECD.

Rent Price Index
(Index, 2015=100)



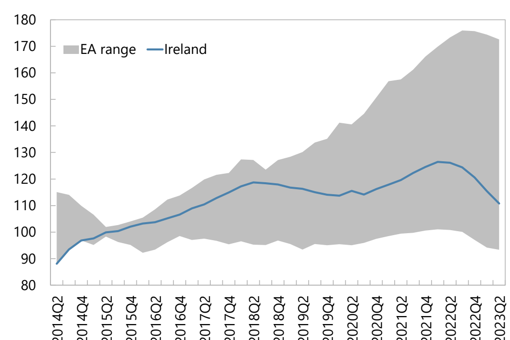
Source: OECD.

Price to Income Ratio
(Percent)



Source: OECD.
Note: The ratio of nominal house prices to nominal household disposable income per capita.

Price to Rent Ratio
(Percent)



Source: OECD.
Note: The ratio of nominal house prices to rental prices.

33. Progress in achieving key climate commitments needs to speed up. The government has rightly adopted ambitious emission reduction targets for 2030 and 2050, seeking to reach net zero emissions by mid-century. However, Ireland will likely fall short of the 2030 target. The introduction of sectoral limits was welcome; however, compliance is proving challenging and almost all sectors are projected to exceed their ceilings. The authorities have legislated an annual increase in carbon tax to 2030, with revenues raised from rate increases committed to be fully recycled to address the cost of climate change. To meet the 2030 target, the authorities will need to implement additional policies that deliver emission reductions across all sectors faster than expected. Ahead of the Fit-for-55 package rollout in 2027–28, options could include removal of implicit fossil fuel subsidies, expansion of the national carbon tax to sectors currently not covered by a form of carbon pricing (e.g., agriculture), higher and unified carbon taxation, and introduction of sectoral feebates. Vulnerable households should be protected using part of revenues from carbon taxation.

Authorities' Views

34. The authorities highlighted the positive impact of recent policies on housing supply, noting that the delivery of new housing units in 2023-24 is expected to meet existing targets. Acknowledging that the housing supply gap is likely growing, they indicated that the targets are being revised. Nevertheless, ramping up the supply is difficult given current capacity constraints in the industry. In this context, the authorities highlighted the role of bringing vacant sites and properties to market. They agree that raising construction productivity and increasing density are key to boosting housing supply, although weak viability of high-density housing remains an important obstacle for developers. Removing rent caps will be challenging given the impact it would have on affordability and the authorities have adopted support measures for small landlords in order to protect supply of rental housing.

35. The authorities highlighted progress already made in fostering stronger linkages between the MNE sector and the indigenous economy. This is particularly evident in life sciences and digital technology where domestic sourcing of inputs has increased. They also emphasized ongoing initiatives to foster incubation centers and industry clustering.

36. The authorities recognize that additional efforts are needed to get back on track to meet the climate targets. They highlighted the important role that the new savings funds will play in providing climate financing and noted the significant progress made by legislating annual increases of the carbon tax to 2030. Work is ongoing to simulate the impact of additional policy options to achieve the targets.

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37. The Irish economy has displayed remarkable resilience in the face of recent consecutive shocks and is well-positioned to achieve a soft landing. Growth is expected to moderate to a still solid level in 2023-24, from a very high base, as tighter financial conditions, domestic capacity constraints, and weakening external demand weigh on the economy. Inflation is anticipated to further trend down and reach the target by late 2025. The positive outlook is, however, clouded by considerable external risks. The external position in 2022 is assessed to be moderately stronger than the level implied by fundamentals and desirable policies.

38. Continued fiscal prudence is warranted to complement monetary tightening in sustaining disinflation and to build adequate buffers for the future. As fiscal policy should avoid adding to aggregate demand amid still elevated inflation, tax revenue overperformance should be saved. The 2023 fiscal stance is appropriate. While the 2024 Budget entails a slightly expansionary policy, it still targets a sizable surplus. With inflation continuing to recede, one-off cost of living measures should be phased out. Given the uncertain and volatile nature of CIT revenues, Ireland's large exposure to shocks, and future spending pressure, continuing to build buffers is appropriate.

39. Fiscal policy should support growth-enhancing investment and broaden the tax base. Strengthening public investment efficiency and ensuring timely execution of the capital budget will be critical to deliver on the government's ambitious goals in the National Development Plan while ensuring value for money. More efforts are warranted to expedite the planning permission process, modernize regulations, and streamline the judicial review process. It is also important to prioritize public investment within an appropriate fiscal stance. There is scope to expand and diversify tax revenues, including by improving the PIT system and simplifying the VAT system.

40. The authorities' decision to save part of excess CIT revenues in two savings funds is welcome. With the EU fiscal rules unlikely to be binding for Ireland, the authorities should reflect on an appropriate anchor for their longer-term fiscal framework, beyond the current spending rule for 2022-26, and how the operation of the new savings funds can be integrated within this framework.

41. Tighter financial conditions, persistent inflation, and rising vulnerabilities in the CRE market with linkages to leveraged non-banks call for continued heightened vigilance of financial stability risks. Intensified supervision of credit and liquidity risks for domestic retail banks should remain and continued close surveillance of large international banks' vulnerabilities to funding stress is warranted. Staff also encourages continued close monitoring of credit conditions and financial stability risks to assess the need for future adjustment of macroprudential policy settings and welcomes the CBI's decision to gradually increase the CCyB to 1.5 percent. Mortgage measures should not be used to address broader housing affordability issues.

42. The authorities' active efforts to strengthen the oversight of Ireland's large and complex MBF sector and lead the way internationally in developing and operationalizing a macroprudential framework for non-banks are commendable. The MBF sector's linkages with the Irish economy have been growing and the authorities have taken welcome measures to fully elucidate and closely monitor the linkages. Closing still significant data gaps about the sector and conducting risk analysis at a granular level remain a priority, which will require intensified regional and international collaboration. The CBI's introduction of macroprudential measures for Irish-domiciled property funds are essential steps to strengthen the system's resilience to CRE shocks. The authorities have also taken welcome initiatives to work with regional and international institutions and other countries to develop macro-prudential tools targeting risks from non-banks and should continue these efforts.

43. Advancing structural reforms would help boost growth and accelerate the green transition. Policies to increase housing density, replace rent caps with targeted housing support for vulnerable households, and improve productivity in the construction sector are important for increasing housing supply and in turn supporting sustainable growth. There is scope to further the MNE sector's inward linkages to the Irish economy, through promoting supply chain linkages, labor mobility, and innovation cooperation between the two and supporting digitalization and innovation of domestic firms. Progress in carbon emission reductions needs to be accelerated to achieve the country's ambitious climate commitments.

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

Table 1. Ireland: Selected Economic Indicators, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
	(Annual percentage change, constant prices, unless otherwise indicated)									
Output/Demand										
Real GDP 1/	5.3	6.6	15.1	9.4	1.5	2.7	2.5	2.5	2.5	2.5
Real GNI* (growth rate) 2/	2.5	-3.6	13.9	6.7	2.5	2.5	2.3	2.3	2.3	2.3
Domestic demand	42.6	-10.7	-16.7	8.3	3.0	2.4	2.5	3.1	3.1	3.1
Public consumption	6.5	11.6	6.3	3.5	2.0	2.0	1.6	2.5	2.5	2.5
Private consumption	2.6	-9.9	8.4	9.4	4.0	3.0	3.0	2.8	2.7	2.7
Gross fixed capital formation	100.7	-16.5	-40.4	5.1	2.5	2.0	2.5	4.1	4.1	4.2
Exports of goods and services	11.8	11.5	15.1	13.9	1.0	3.8	3.6	3.2	3.2	3.2
Imports of goods and services	42.3	-1.7	-7.5	15.9	1.2	4.0	4.0	3.8	3.8	3.8
Output gap	0.5	-2.0	0.9	1.8	1.2	1.0	0.5	0.2	0.0	0.0
Contribution to Growth										
Domestic demand	30.4	-10.3	-13.5	5.0	1.8	1.4	1.5	1.9	1.9	1.9
Consumption	1.5	-1.9	3.0	2.8	1.2	1.0	1.0	1.0	1.0	1.0
Gross fixed capital formation	28.6	-9.0	-17.0	1.1	0.5	0.4	0.5	0.9	0.9	0.9
Inventories	0.3	0.6	0.5	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	-25.3	16.9	28.6	3.7	0.2	1.3	1.1	0.7	0.7	0.7
Residual	0.2	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Prices										
Inflation (HICP)	0.9	-0.5	2.4	8.1	5.3	3.2	2.4	2.0	2.0	2.0
Inflation (HICP, core)	0.9	-0.1	1.6	5.0	5.3	3.4	2.4	2.0	2.0	2.0
GDP deflator	3.4	-1.2	0.5	6.6	5.3	3.4	2.4	2.0	2.0	2.0
Employment										
Employment (% changes of level, ILO definition)	3.0	-2.8	6.0	6.6	2.0	1.5	1.0	0.9	0.9	1.0
Unemployment rate (percent)	5.0	5.9	6.2	4.5	4.4	4.4	4.6	4.6	4.7	4.8
					(Percent of GDP)					
Public Finance, General Government										
Revenue	24.8	22.2	22.9	22.9	23.2	22.9	22.9	22.9	22.8	22.6
Expenditure	24.3	27.2	24.4	21.2	21.5	21.5	21.6	21.8	21.9	22.0
Overall balance	0.5	-5.0	-1.5	1.7	1.6	1.4	1.3	1.1	0.9	0.6
in percent of GNI*	0.8	-9.2	-2.8	3.1	3.0	2.6	2.5	2.1	1.6	1.1
Primary balance	1.8	-4.0	-0.8	2.3	2.2	2.0	1.9	1.7	1.4	1.1
Cyclically adjusted primary balance	1.6	-3.3	-1.0	1.8	1.9	1.6	1.8	1.6	1.4	1.1
General government gross debt	57.1	58.1	54.4	44.4	40.4	37.4	34.9	33.0	31.4	30.2
General government gross debt (percent of GNI*)	96.7	107.4	101.2	82.3	74.2	68.9	64.4	60.9	58.2	56.0
Balance of Payments										
Trade balance (goods)	33.1	38.0	38.8	40.0	35.0	34.4	33.6	31.8	29.5	26.9
Current account balance	-19.9	-6.5	13.7	10.8	9.8	9.0	8.2	7.3	7.1	7.0
Gross external debt (excl. IFSC) 3/	293.0	316.8	259.4	203.2	184.5	168.7	156.6	147.0	139.0	132.3
Saving and Investment Balance										
Gross national savings	34.9	36.5	37.3	34.5	31.4	30.7	30.3	29.9	29.7	29.2
Private sector	33.0	40.1	37.7	31.9	28.8	27.9	27.6	27.5	27.7	27.6
Public sector	2.0	-3.6	-0.3	2.6	2.7	2.8	2.7	2.5	1.9	1.7
Gross capital formation	54.8	43.1	23.6	23.7	23.7	23.4	23.1	23.2	23.3	23.4
Memorandum Items:										
Nominal GDP (€ billions)	356.4	375.3	434.1	506.3	541.2	575.1	603.9	631.3	659.9	690.0
Nominal GNI* (€ billions)	210.4	202.9	233.3	273.1	294.8	312.4	327.4	341.6	356.3	371.7
Modified domestic demand (percentage change) 4/	2.2	-5.9	7.3	9.5	2.5	2.5	2.3	2.3	2.3	2.3

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/ Nominal GNI* is deflated using GDP deflator as proxy, since an official GNI* deflator is not available.

3/ IFSC indicates international financial services.

4/ Modified Domestic Demand (MDD) measures Ireland's domestic economic activity by excluding certain capital investment items such as aeroplanes purchased by leasing companies in Ireland and Intellectual Property purchases of foreign-owned corporations from final domestic demand.

Table 2. Ireland: Statement of Operations of the General Government, 2019–28

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	Projections 2023	2024	2025	2026	2027	2028
Revenue	**24.8**	**22.2**	**22.9**	**22.9**	**23.2**	**22.9**	**22.9**	**22.9**	**22.8**	**22.6**
Taxes	18.1	16.4	17.4	17.6	17.8	17.6	17.7	17.7	17.6	17.5
Personal income tax	6.9	6.5	6.7	6.5	6.7	6.7	6.7	6.7	6.7	6.7
Corporate income tax	3.1	3.2	3.6	4.5	4.3	4.2	4.1	4.0	3.9	3.7
VAT	4.3	3.4	3.8	3.8	3.9	4.0	4.0	4.0	4.1	4.1
Excises	1.4	1.3	1.3	1.1	1.1	1.0	1.1	1.1	1.2	1.2
Other taxes	2.5	2.1	2.0	1.7	1.8	1.7	1.8	1.8	1.8	1.8
Social contributions	4.5	4.1	4.0	4.0	4.0	4.0	3.9	3.9	3.9	3.8
Other revenue	2.2	1.7	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Expenditure	**24.3**	**27.2**	**24.4**	**21.2**	**21.5**	**21.5**	**21.6**	**21.8**	**21.9**	**22.0**
Expense	22.1	24.9	22.4	19.2	19.4	19.3	19.2	19.3	19.3	19.3
Compensation of employees	6.7	6.6	6.1	5.7	5.7	5.8	5.8	5.8	5.8	5.8
Use of goods and services	3.6	4.0	3.7	3.5	3.6	3.5	3.5	3.6	3.6	3.6
Interest	1.3	1.0	0.8	0.7	0.6	0.6	0.6	0.6	0.5	0.5
Subsidies	0.5	1.7	1.7	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Social benefits	8.7	9.9	8.6	7.3	7.2	7.2	7.2	7.2	7.2	7.1
Other expense	1.4	1.6	1.4	1.4	1.6	1.6	1.5	1.5	1.5	1.5
Net acquisition of nonfinancial assets	2.2	2.3	2.0	2.0	2.1	2.2	2.4	2.5	2.6	2.7
Net Lending(+)/Borrowing(-) (Overall Balance)	**0.5**	**-5.0**	**-1.5**	**1.7**	**1.6**	**1.4**	**1.3**	**1.1**	**0.9**	**0.6**
Net financial transactions	0.7	-5.0	-1.5	1.4	1.6	1.4	1.3	1.1	0.9	0.6
Net acquisition of financial assets	-0.3	-0.3	3.1	-1.1	2.7	0.9	0.8	1.0	0.8	1.0
Net incurrence of liabilities	-1.0	4.7	4.6	-2.6	1.1	-0.5	-0.5	-0.1	-0.1	0.4
Memorandum Items:										
Cyclically adjusted primary balance	1.6	-3.3	-1.0	1.8	1.9	1.6	1.8	1.6	1.4	1.1
Gross public debt	57.1	58.1	54.4	44.4	40.4	37.4	34.9	33.0	31.4	30.2
in percent of GNI*	96.7	107.4	101.2	82.3	74.2	68.9	64.4	60.9	58.2	56.0
in percent of revenue	230.4	261.7	237.8	193.6	174.4	163.2	152.4	143.8	137.8	133.6
Overall balance	0.5	-5.0	-1.5	1.7	1.6	1.4	1.3	1.1	0.9	0.6
in percent of GNI*	0.8	-9.2	-2.8	3.1	3.0	2.6	2.5	2.1	1.6	1.1
Net public debt 1/	48.9	49.6	44.5	37.2	34.9	30.9	27.6	24.8	22.5	20.7
Interest (in percent of revenue)	5.2	4.6	3.3	2.9	2.7	2.6	2.5	2.6	2.2	2.2
Currency and deposits	6.8	7.1	9.1	6.5	7.2	7.8	8.4	9.0	9.5	10.0
GDP at current market prices (in billions of euros)	356.4	375.3	434.1	506.3	541.2	575.1	603.9	631.3	659.9	690.0

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

1/ 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, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
Balance of Payments	(Billions of euros, unless otherwise indicated)									
Current Account Balance	**-70.8**	**-24.5**	**59.5**	**54.6**	**52.8**	**51.7**	**49.5**	**46.3**	**46.6**	**48.5**
(Percent of GDP)	**-19.9**	**-6.5**	**13.7**	**10.8**	**9.8**	**9.0**	**8.2**	**7.3**	**7.1**	**7.0**
Balance of goods and services	12.6	70.6	173.9	202.0	214.0	229.2	241.1	250.3	259.9	269.8
(Percent of GDP)	3.5	18.8	40.1	39.9	39.5	39.9	39.9	39.7	39.4	39.1
Trade balance	118.1	142.5	168.5	202.3	189.5	197.6	203.2	200.7	194.7	185.5
Exports of goods	225.9	242.7	280.7	354.4	336.4	350.1	359.9	362.0	361.7	358.7
Imports of goods	107.8	100.2	112.2	152.1	146.9	152.4	156.6	161.3	166.9	173.2
Services balance	-105.6	-71.9	5.4	-0.2	24.6	31.6	37.9	49.6	65.1	84.3
Primary income balance	-79.8	-91.3	-110.0	-142.8	-156.2	-172.2	-186.0	-198.2	-207.2	-214.9
(Percent of GDP)	-22.4	-24.3	-25.3	-28.2	-28.9	-29.9	-30.8	-31.4	-31.4	-31.1
Secondary income balance	-3.5	-3.8	-4.4	-4.7	-5.0	-5.3	-5.6	-5.9	-6.1	-6.4
Capital account balance	-35.3	-11.9	1.4	-1.2	-8.9	-12.0	-27.7	-29.1	-31.1	-32.5
Financial account balance	-101.9	-32.1	57.2	51.4	43.9	39.7	21.8	17.2	15.5	16.0
(Percent of GDP)	-28.6	-8.5	13.2	10.1	8.1	6.9	3.6	2.7	2.4	2.3
Direct investment	-104.8	-99.7	50.8	32.7	20.4	21.7	21.3	19.6	19.3	18.9
Portfolio investment	10.2	-5.1	-19.6	-137.8	-10.8	-11.0	-11.2	-11.5	-11.7	-11.9
Other investment	-7.7	71.4	21.0	155.9	34.3	29.0	11.7	9.0	8.0	9.0
Change in reserve assets	0.4	1.3	5.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	4.2	4.3	-3.8	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Net International Investment Position	(Percent of GDP)									
Net investment position	-190.4	-165.0	-130.9	-116.8	-96.3	-77.9	-62.2	-48.6	-36.2	-24.8
Net direct investment	-21.9	-32.5	13.3	-31.3	-25.5	-20.2	-15.7	-12.0	-8.5	-5.4
Net portfolio investment	-160.8	-160.1	-183.9	-153.4	-140.2	-128.8	-119.5	-111.3	-103.5	-96.1
Net other investment	-9.2	26.0	37.0	65.5	67.1	68.9	71.0	72.7	74.0	74.9
Reserve assets	1.4	1.6	2.7	2.4	2.3	2.1	2.0	1.9	1.9	1.8
External Debt	(Percent of GDP)									
Total external debt	742.1	702.7	677.8	577.2	542.9	506.0	477.8	454.3	432.9	413.4
Non-IFSC external debt	293.0	316.8	259.4	203.2	184.5	168.7	156.6	147.0	139.0	132.3
IFSC external debt	449.1	385.9	418.3	373.9	358.4	337.3	321.2	307.2	293.9	281.1
Short-term debt	170.5	269.2	255.1	219.3	206.2	192.2	181.5	172.6	164.5	157.0
Medium & long term debt	571.6	433.5	422.6	357.9	336.7	313.7	296.3	281.7	268.5	256.3
Memorandum Item:										
Modified current account balance (CA*) 1/	4.2	3.9	5.4	3.9	…	…	…	…	…	…

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

1/ CA* is the current account balance adjusted for the depreciation of capital assets held outside Ireland and owned by Irish resident foreign owned firms.

Table 4. Ireland: Monetary Survey, 2017–23
(Billions of euros, unless otherwise indicated; end of period)

	2017	2018	2019	2020	2021	2022	2023 1/
Aggregate Balance Sheet of Domestic Market Credit Institutions							
Assets	331.6	333.8	403.9	483.9	493.9	558.5	573.7
Claims on Central Bank of Ireland	9.9	8.2	19.0	40.5	78.3	77.1	64.0
Claims on Irish resident Other MFIs	38.4	34.0	37.7	36.5	37.9	47.2	50.7
Claims on Irish resident non MFIs	183.6	178.3	173.0	167.4	162.2	171.4	165.5
General government	15.9	16.2	14.6	18.7	15.9	11.0	11.3
Private sector	167.7	162.1	158.5	148.8	146.3	160.4	154.2
Households	89.8	91.3	92.0	89.3	88.1	100.6	100.0
Non-Financial Corporations	38.4	37.7	36.2	32.2	28.9	30.4	30.7
Non-Bank Financial Intermediaries	39.6	33.1	30.3	27.3	29.3	29.4	23.5
Claims on non-residents	63.9	73.5	103.9	142.0	142.0	169.7	191.2
Other assets	35.7	39.9	70.3	97.5	73.4	93.1	102.3
Liabilities	331.6	333.8	403.9	483.9	493.9	558.5	573.7
Liabilities to Eurosystem 2/ 3/	7.4	3.0	2.0	7.1	20.8	10.5	…
Liabilities to Irish resident Other MFIs	35.6	29.5	32.0	30.6	32.3	40.8	42.7
Deposits of Irish resident non MFIs	174.5	179.2	195.3	224.2	247.7	280.9	276.6
General government	3.0	3.0	2.8	3.2	2.8	3.2	4.7
Private sector	171.4	176.2	192.6	220.9	244.9	277.7	271.8
Households	99.1	103.8	110.5	129.2	140.9	148.6	148.7
Non-Financial Corporations	47.5	48.1	55.6	60.1	67.0	70.6	69.6
Non-Bank Financial Intermediaries	24.8	24.4	26.5	31.7	37.1	58.5	53.6
Deposits of non-residents	23.8	31.7	52.4	77.2	72.0	107.1	118.4
Debt securities	21.2	25.5	25.5	23.0	22.6	21.6	20.8
Capital and reserves	57.5	54.0	52.7	49.8	49.2	46.7	46.5
Other liabilities (incl. Central Bank of Ireland)	11.7	11.0	44.0	72.0	49.4	61.3	68.8

Table 4. Ireland: Monetary Survey, 2017–23 (Concluded)
(Billions of euros, unless otherwise indicated; end of period)

	2017	2018	2019	2020	2021	2022	2023 1/
Money and Credit 4/							
Net foreign assets	46.2	53.0	92.3	107.1	147.3	163.8	170.2
Central Bank of Ireland 5/ 6/	11.2	24.1	44.6	47.8	81.7	96.0	83.2
Commercial banks	34.9	28.9	47.7	59.3	65.6	67.8	87.0
Net domestic assets	173.4	191.0	161.6	250.3	229.5	241.7	174.1
Public sector credit	16.9	17.3	15.5	19.3	16.6	11.2	11.4
Private sector credit	179.1	173.9	166.0	155.1	153.0	169.0	162.7
Other	-22.6	-0.2	-20.0	75.8	59.9	61.6	...
Irish Resident Broad money (M3) 7/	219.6	243.9	253.9	357.3	376.8	405.5	394.0
Irish Resident Intermediate money (M2) 7/	200.9	211.1	237.4	273.4	303.3	314.8	316.0
Irish Resident Narrow money (M1)	158.7	171.6	198.3	234.3	274.1	285.7	285.2
			(Percent of GDP)				
Public sector credit 8/	19.7	19.5	15.8	19.6	14.4	8.4	...
Private sector credit 8/	208.2	194.4	172.3	156.2	132.7	122.8	...
			(Percentage change y/y)				
Broad money - Irish contribution to euro area M3 9/	1.6	10.7	3.4	41.4	6.3	7.3	3.8
Irish Public sector credit 9/ 10/	-6.0	3.7	-10.7	24.0	-14.0	-27.8	-23.1
Irish Household and non-financial corporations credit 9/ 10/	0.1	1.9	1.3	-1.7	0.5	0.6	1.0
Memorandum Items: 11/							
Credit to deposits (in percent) 12/	97.8	92.0	82.3	67.3	59.7	57.8	56.7
Deposits from Irish Private Sector (y-o-y percent change)	5.1	2.6	9.1	12.9	10.2	6.4	4.7
Wholesale funding (billions of euros)	73.3	79.0	94.0	99.1	103.1	138.8	148.2
Deposits from MFIs	52.1	53.5	68.6	76.1	80.6	117.1	127.4
Debt securities	21.2	25.5	25.5	23.0	22.6	21.6	20.8
Wholesale funding (y-o-y percent change) 13/	-20.0	13.1	19.9	6.0	1.3	15.7	3.3
Wholesale funding (percent of assets) 13/	22.1	23.7	23.3	20.5	20.9	24.9	25.8

Sources: CBI and IMF staff.
1/ As of February 2023.
2/ 2022 data as of November 2022.
3/ Relating to Eurosystem monetary policy operations.
4/ Including banks in the International Financial Service Center.
5/ Sourced from quarterly IIP statistics.
6/ 2023 data as of March 2023.
7/ Differs from the M3 (M2) Irish contribution to euro area as only liabilities vis-a-vis Irish residents are used.
8/ Refers to credit advanced by domestic market credit institutions.
9/ Includes IFSC.
10/ Growth rates adjusted for valuation, reclassification, derecognition/loan transfer to non-MFIs, and exchange rates.
11/ Excludes IFSC.
12/ Domestic market credit institutions' private sector credit to deposits.
13/ Includes resident and non-resident MFI deposits, and debt securities issued.

Table 5. Ireland: Key Financial Indicators of Selected Irish Banks 1/
(Percent)

	2016	2017	2018	2019	2020	2021	2022	2023 2/
Credit growth	-9.4	-3.9	-3.4	1.0	-3.8	-1.2	1.8	10.6
to Irish residents	-2.1	-17.9	2.2	-3.3	-1.9	-1.6	4.4	14.2
Return on assets	0.8	0.8	0.8	0.4	-0.7	0.6	0.6	1.2
Return on equity	7.9	7.4	6.9	3.2	-6.2	6.5	7.0	12.8
Net interest margin	2.1	2.3	2.2	2.2	1.9	1.7	1.9	2.9
Cost-to-income ratio	59.2	64.4	67.8	76.5	75.1	75.1	62.9	51.6
NPL ratio	15.1	12.1	7.3	4.3	5.1	3.5	2.3	2.3
Coverage ratio	35.7	30.4	28.8	27.9	31.3	31.7	32.8	31.6
CT1 ratio	16.8	18.4	17.8	17.9	17.1	18.1	16.9	15.6
Net loan to deposit ratio	88.1	92.0	90.4	85.3	70.5	65.4	71.8	75.9

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/ As of June 2023

Annex I. Implementation of Past IMF Recommendations

2022 Article IV Recommendations	Policy Actions
Fiscal Policy	
Close monitoring of volatile and uncertain CIT revenues. Allocate any windfalls from CIT revenues to either the Rainy-Day Fund or to reduce debt.	To date, the National reserve Fund has been replenished with €6 billon. The authorities have announced the establishment of two saving funds to partly pre-fund the additional fiscal costs associated with demographic and other structural changes and partly as a countercyclical tool to protect infrastructure investment.
Broadening the tax base: simplify the VAT structure, gradual increase of property tax, improve the PIT structure.	Tax Group Strategy papers for Budget 2024 and the Personal Tax Review assessed several aspects of the tax structure in Ireland and provided several options for policy changes in the context of the budget preparations including: i) options for streamlining the VAT system, including eliminating reduced rates in specific sectors and potential impact on revenues; ii) an assessment of the PIT structure, including the option of introducing an intermediate or third income tax rate. Discussions on the current property tax system concluded it would be detrimental to increase property taxes.
Improve adequacy and targeting of social spending.	Targeting of fiscal support measures to address the cost-of-living crisis improved since the first package introduced in 2022. however, some measures included in the 2024 budget remain untargeted.
Structural Reforms	
Reduce skill-mismatch in labor market by upskilling, reskilling and life-long learning.	Employment support continues to be delivered under the Pathways to Work 2021-2025 program (mid-term review is ongoing) and continue to expand the range of lifelong learning.
Continue efforts to boost housing supply and improve affordability.	Some progress under the Housing for All program has been achieved: completed new homes increased by 20 percent in Q2 2023 while starting of new constructions increase by 7 percent. The government's Roadmap for increased adoption of Modern Methods of Construction in Public Housing delivery put forward specific recommendations for public and private sectors for the adoption of moder technology an processes in the delivery of public housing. Several innovation and productivity support to domestically focused residential construction companies and the offsite manufacturing supply chain have been rolled out under the Enterprise Ireland's Built to Innovate initiative,
Climate	
Specify and implement well-phased measures to achieve the quantitative targets	Progress has been slow, and sectoral limits are likely to be missed in many sectors. At the same time, annual carbon tax increases have been legislated to ensure it reaches €100 of CO2 equivalent by 2030, and their proceeds are invested in retrofitting homes.
Financial Sector Policy	
See Annex II	Ireland has sharply reduced its NPL legacy positions over the recent past. The authorities are on track to implement the 2022 FSAP key recommendations (Annex II).
Source: IMF staff.	

Annex II. Implementation of FSAP Key Recommendations

Rec No.	Recommendation	Addressee (Lead Agency in bold)	Time	Comment
Oversight – Cross Cutting				
1	Notwithstanding strong de facto independence, further strengthen de jure Central Bank independence by: • amending legislation such that the Minister for Finance may dismiss Central Bank Commission members only on specified grounds of serious misconduct, and • enshrining in legislation a written procedure for the submission by the Central Bank and approval by Minister for Finance of the supervisory levy.	**DoF,** Oireachtas	ST	Currently under review and on track. Fulfilment of the 1st point will require amendment of s.25(3) of the Central Bank Act 1942 (as amended). Regarding the 2nd point, consultation with the CBI will be needed to ensure the process is workable and without unintended consequences. It will be necessary to identify a suitable legislative vehicle for both proposed changes. All legislative changes are subject to agreement by the Minister and Government.
2	Amend relevant legislation to provide for greater individual accountability and enhance supervisory powers of the Central Bank to take direct enforcement action against individuals. Finalize the related internal framework to operationalize execution of the upgraded accountability regime.	**DoF,** Oireachtas, CBI	ST	Completed - The Central Bank (Individual Accountability Framework) Act 2023 was enacted on 9 March 2023. A Central Bank-wide project is in progress to operationalise the new IAF regime. Two Commencement Orders were signed by the Minister for Finance to commence all sections of the Act in 2023, (1) 19th April (all provisions with the exception of those in (2)), and (2) 29th December (SEAR, Conduct Standards and Certification). Furthermore, a consultation paper on key aspects of the IAF (SEAR, Conduct Standards and enhancements to the Fitness and Probity Regime) was issued in March 2023. The consultation closed in June 2023, and the Central Bank is currently reviewing responses with a view to finalising proposals in Q4 2023. The IAF Act also introduces a number of important changes to enhance the Central Bank's Administrative Sanctions Procedure under Part IIIC of the 1942 Act (the ASP). A second consultation launched in June 2023 on the Central Bank's proposed ASP guidelines. This consultation closed on 14 September and the Central Bank is now considering responses with a view to finalising and publishing the ASP Guidelines in Q4 2023.
3	Adopt a sequenced action plan for banking and insurance supervision to manage climate-related financial risks in priority areas, with an early emphasis on robust data and quality disclosure.	**CBI**	I	On-track - A sequenced action plan is in place (3-year forward looking roadmaps) detailing the various projects and activities that are required to meet this (and broader) objectives with respect to climate change risk management. The work is progressing through the climate change hub and spokes model led by the Central Bank's Climate Change Unit (workstreams 1 and 2 teams). The teams meet on a monthly basis to discuss progress across the activities in the roadmaps, to identify gaps and obstacles and to engage in strategic conversation to progress the work.
Macroprudential Policy				
4	Work with European institutions to develop macroprudential tools targeting risks from non-banks, including for leakages and other cross border issues.	**CBI**	MT	On-track, the CBI has engaged with international colleagues (ESRB, ESMA, FSB etc.) In July, the CBI published a Discussion Paper (DP) on the macroprudential framework for investment funds highlighting the issue of policy tools, both re-purposing of existing tools and the potential need to develop new ones, including for liquidity mismatch and interconnectedness. The CBI will undertake a programme of engagement with key stakeholders on the contents of the DP in the coming months.

Rec. No.	Recommendation	Addressee (Lead Agency in bold)	Time	Comment
Macroprudential Policy				
5	Expand the monitoring of non-bank lenders beyond those engaged in mortgage activities.	**CBI**	ST	On-track. Non-bank and bank lending patterns across households and firms are regularly covered the CBI's Financial Stability Review. A draft Financial Stability Note on the balance sheet profile and vulnerabilities of non-bank lenders to SMEs is forthcoming in Q42023. A research paper on non-bank lenders filling lending gaps left by Ulster Bank was presented at conferences. A deep dive on non-bank lending to real estate and bank lending to large CRE exposures is planned for Q3.
6	Strengthen the resilience of property funds by introducing the proposed macroprudential leverage limit and liquidity management guidance, while adjusting the limit countercyclically.	**CBI**	I	On-track – In November 2022 the CBI announced the introduction of a leverage limit of 60 percent on property funds, which will be gradually implemented over a five-year period for existing funds. Funds with leverage currently over 50 per cent will need to submit a plan outlining how to keep leverage below 60 percent or reduce it below 60 percent prior to the implementation deadline. The leverage limit would be subject to regular monitoring by the CBI. Furthermore, the CBI introduced new Guidance to address risks from liquidity mismatch, with an 18-month implementation period. Both measures will apply immediately to newly authorised Irish property funds.
Banking Sector				
7	Maintain the use of tools developed for intensified monitoring of banks' credit losses introduced during the pandemic.	**CBI**	ST	On-track - The tools developed by the CBI in the immediate aftermath of Covid-19, continue to drive its supervision of credit and other debt related risks. The underlying data analysis continues to be collectively considered on a collaborative, cross-divisional basis via specific, formally established fora developed by the Distressed Debt Working Group. Specifically, Credit Network focuses on credit risk issues and related priority actions arising. Debt Steering Group is looking at potential indicators of latent distress, access to and availability of credit on a forward-looking basis.
Insurance Sector				
8	Continue strengthening insurance supervision focused on intra group transactions and concentrations, with a focus on post-Brexit group structures, recovery planning, and liquidity risk management.	**CBI**	ST	On-track - On 30 January 2023, the CBI published Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures aiming set expectations for (re)insurance undertakings and to promote a level playing field. Following a thematic review of recovery plans, industry feedback was issued to all firms in Q4 2022. Further engagement will come under the Central Bank's PRISM engagement, including regular risk assessments and annual reviews of recovery plans and ORSAs.
MBF Sector				
9	Work with ESMA, ESRB, and EU Commission, as part of the Commission's review of the EU MMF Regulation, to promote MMF resilience.	CBI, **DoF**	ST	Completed - CBI representatives engaged with the EC in Q4 2022. The CBI set out its views on the resilience of MMFs and proposed areas for enhancement to the regulatory framework. The EC's assessment of the functioning of the Money Market Fund Regulation from a prudential and economic perspective was published on 20 July 2023. It proposes addressing certain shortcomings, but does not include a legislative proposal as the Commission has assessed that overall the MMF Regulation has enhanced financial stability and successfully passed the test of the recent market stress episodes. Discussions will continue internally in the CBI, while the Department of Finance will continue to engage with relevant stakeholders in relation to the MMF framework.

Rec. No.	Recommendation	Addressee (Lead Agency in bold)	Time	Comment
MBF Sector				
10	Prioritize guidance to the funds sector on using the full range of liquidity management tools, including those which result in subscribing or redeeming investors bearing the associated transaction costs.	**CBI**	ST	On-track - The Central Bank is co-leading the work underway at the FSB on OEIFs on the use of LMTs, particularly price-based LMTs. The Central Bank is also heavily involved in the parallel IOSCO process to develop international guidance on the use of such tools. Proposed amendments to the AIFMD and UCITS will require funds to select appropriate LMTs from a set list - the Irish domestic framework already provides for the full range of available LMTs set out in the proposal. The Central Bank also issued an industry communication on the use of side-pockets by UCITS in limited circumstances in 2022.
11	Intensify collaboration between the Central Bank, the CSO, and international regulators to better understand the OFI residual entities and their domestic and foreign linkages, and to conduct risk analysis at a granular level.	**CBI**, CSO	MT	On-track - The CBI and Central Statistics Office (CSO) have been engaging and collaborating on this topic in H1 2023. The CSO have been able to identify the nature of OFI residual linkages to the domestic economy feeding into National Accounts. The CSO is to examine the types of instruments associated with these links. Discussions at a Eurosystem level have been deprioritised.
12	Conduct more deep dives to further enhance the monitoring of risks of subsegments of the funds sector.	**CBI**	ST	Analysis of risks in the funds sector, including bond funds, LDIs, property funds etc. (including Risk Assessment heat-maps and sensitivity analysis of bond funds to interest rates) is ongoing and on track. Current planning (not confirmed) assumes the CBI will examine hedge funds and related other funds in 2024. A new framework has been implemented to enhance the supervision of funds and their associated risks.
Fintech Sector				
13	Prepare to introduce domestic legislation in the event of significant delay or material gaps in the MiCA framework.	**DoF**, CBI	ST	De-prioritised - The EU Markets in Crypto Assets Regulation (MICAR) entered into force in June 2023 with implementation in two phases, 12 and 18 months after entry into force. A project to implement MICAR is currently underway at the Central Bank. The EC has suggested that there will likely be a second MiCA regulation.
14	Continue to advocate for inclusion of systemic Irish cloud service providers in the Union Oversight Framework under DORA; failing which, seek additional statutory powers to review and examine the resilience of these entities.	CBI, **DoF**	MT	On-track - DORA was published in the official journal in December 2022 and is in the process of being transposed. The Central Bank is actively involved in shaping DORA, including its new oversight regime of critical ICT third-party providers (CTPP). In addition, the CBI has SME representation at the actual drafting working groups of the ESAs, further influencing the direction of the oversight of CTPPs.
Insolvency and Creditor Rights				
15	Further develop the government strategy, ensuring coordination across multiple responsible agencies, to provide targeted solutions to long-term mortgage arrears borrowers based on their financial situation and debt servicing capacity.	CBI, **DoF**, DOJ, ISI, consulting relevant agencies	ST	An inter-Departmental Group has been established to advance work on Long Term Mortgage Arrears, which is on track. The first meeting of the Group is scheduled to take place in Q3 2023. Department of Justice will participate in the work of this Group in relation to matters within its statutory remit.
16	Conduct a review of examinership given its limited usage, the new EU Directive and identified gaps vis a vis the Standard. Consider introducing a new hybrid procedure in line with the "spirit" of the EU Directive.	**DETE**, CLRG	I	The EU Directive on Preventive Insolvency has been transposed, which included amendments to examinership. A review of examinership in relation to the optional protocols of the Directive is on the CLRG work programme and on track.

Rec. No.	Recommendation	Addressee (Lead Agency in bold)	Time	Comment
Crisis Management				
17	Develop policies and procedures for assessing the prospective solvency of a bank entering into or undergoing resolution to determine its eligibility for ELA.	**CBI**	ST	On-track - A draft policy is being developed in line with the recommendation and will be tested in an exercise planned for Q4 2023. Following the exercise, any further work required to finalize the policy will be agreed and completed within the recommendation timeframe.
18	Remedy weaknesses in the insolvency regime for insurers, including any required legislative amendments	**DoF**, CBI	ST	On-track - Establishing a resolution framework for (re)insurers is a medium-term objective for the Department. The current focus is on influencing the progress of the Insurance Recovery and Resolution Directive (IRRD) at EU level. Once completed, the Department will consider how to implement it domestically, and address any remaining gaps. As part of this upcoming work, the CBI has presented a proposal to the Department of Finance for consideration with regard to updating the liquidation powers of the Central Bank for insurers.
Financial Integrity				
19	Adequately resource AML/CFT capacity, use advanced data analytical tools, and focus on deepening understanding of and addressing ML/TF risks from non-resident and cross-border activity.	Relevant AMLSC members Lead: **DoF**	ST	On-track - To deepen understanding of ML/TF risks and examine Ireland's long-term approach to producing risk assessments, the AML Steering Committee undertook a project in 2022 and 2023. In terms of capacity, Ireland's Financial Intelligence Unit has had a data analyst assigned to it in 2023. A recruitment competition for detectives for the Garda National Economic Crime Bureau was also conducted in 2023 and some of the successful candidates will be assigned to the FIU. Also, in 2022, the AML Compliance Unit of the Department of Justice was supplemented with a forensic accountant. Additional resources have been allocated to the CBI to support the development of the risk assessment framework which will enhance its assessment of ML/TF risk, including transnational risks. CBI teams have utilised a gravity model framework and an assumption-driven simulation approach to provide a range of estimates for the level of Money Laundering (ML) broken down between domestic and international ML, providing a better understanding of ML risks faced by Ireland. In 2024, the CBI will be undertaking a thematic review focussed on international flows and how firms are managing the risk arising from such flows.

C = Continuous; I = Immediate (within one year); ST = Short Term (within 1-3 years); MT = Medium Term (within 3-5 years).
Note: The table presents a factual update of progress vis-à-vis the 2022 FSAP recommendations, based on inputs from the authorities.

Annex III. Risk Assessment Matrix [1]

Risks	Likelihood	Expected Impact	Policy Response
		Global Risks	
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**High**	**Medium** While the direct impact of the war is limited, negative spillovers from the conflict including weaker external demand and higher commodity prices would affect growth and inflation in Ireland. Migrants (including refugees) inflows could raise fiscal and housing pressures. Over the longer run, however, migrants can help alleviate labor shortage in Ireland.	• Provide targeted fiscal support to vulnerable segments. • Facilitate integration of refugees via additional spending on healthcare, housing, and education. • Accelerate high-quality public investment projects if growth falters.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	**Medium** As a commodity importer, higher energy prices could erode households' purchasing power, increase firms' costs, and ultimately lower private consumption and investment.	• Provide targeted support to vulnerable households and viable firms. • Strengthen the resilience of the supply chain of critical commodities including by diversifying suppliers.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • **U.S.:** Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing". • **Europe:** Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections.	**Medium** **Medium** **Medium**	**High** Ireland is highly integrated in the global value chain, with a very large multinational enterprise sector. Lower trading partner growth would lead to slower export growth and weaker consumer and business confidence, which will eventually weigh on employment, consumption and investment.	• Provide targeted fiscal support to vulnerable households and viable firms. Fiscal automatic stabilizers should be allowed to work fully.

[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.

Risks	Likelihood	Expected Impact	Policy Response
Global Risks			
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium	Medium Tighter financial conditions could increase financing costs for the private and public sectors, dampening sentiment and lowering growth. Ireland's limited automatic wage indexation will reduce risks of a wage-price spiral. While Ireland's public debt is about 80 percent of GNI*, it is much smaller in percent of GDP. It also has a long maturity profile with prudent management.	• Consider recalibrating fiscal policy to achieve disinflation. • Intensify monitoring of financial conditions and impacts.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	Medium	Medium Significant tightening of financial conditions could lead to liquidity and solvency stresses in banks and non-banks, and shaper corrections in the commercial real estate market. Ireland's banking system has considerable buffers and the authorities have strengthened macro-prudential policy measures for non-banks.	• Intensify monitoring of the financial sector and close data gaps. • Recalibrate macroprudential measures.
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	High Ireland is highly integrated into global value chains. It is a commodity importer and its production base is concentrated in a small number of sectors (notably, pharmaceutical manufacturing and ICT). As a result, the country is vulnerable to trade and investment barriers and supply disruptions. Ireland could either benefit or lose from further fragmentations including "friend shoring" or "reshoring" by the US and EU, depending on the nature and depth of the shocks.	• Further accelerate structural reforms to strengthen competitiveness and build resilience. • Redouble efforts together with other EU countries to deepen the single market and complete its architecture. • Strengthen the resilience of the supply chain of critical commodities including by diversifying suppliers.
Domestic Risks			
Capacity constraints become more binding for growth. Capacity constraints, particularly in the housing market and labor market, slow down the implementation of public investment and hinder labor inflows.	Medium	High Housing and infrastructure shortages limit the extent to which the Irish economy can attract foreign workers, increasing wage and price pressures and lowering the country's competitiveness and potential growth.	• Accelerate high quality public investment in housing and infrastructure. • strengthen education and active labor market policies that improve labor supply.
Volatile MNE activities. Uncertainty over global demand leads to larger swings in MNE activities in Ireland.	Medium	High MNEs are important employers and taxpayers in Ireland. A retrenchment (expansion) of the MNE sector would lead to lower (higher) employment growth, tax receipts, and confidence.	• Save less windfall CIT revenues in the short run if MNE profits fall temporarily. If the fall is permanent, recalibrate MT fiscal policy.
Continued uncertainty related to the detailed implementation of post-Brexit arrangements. Further delays in finalizing remaining detailed implementation of post-Brexit arrangements can hamper trade and raise tensions.	Low	Low Ireland's significant trade, financial, and labor market links with the U.K. makes it vulnerable to remaining uncertainty and trade frictions. The impact thus far has been low, but the U.K. has not yet imposed full import procedures on EU exports to Great Britain.	• Continue actively contributing to the cooperation between the EU and the U.K. • Continue to provide support for the firms most exposed to Brexit and vulnerable groups. • Continue to facilitate SMEs' trade diversification.

Annex IV. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: The external position in 2022 was moderately stronger than the level implied by medium-term fundamentals and desirable policies. This assessment tries to abstract from the large-scale operations of multinational enterprises (MNEs), which have limited links to the indigenous economy and distort the headline current account (CA). The CA is expected to register a sizable albeit smaller surplus in 2023, with some moderation over the medium term. Further weakening of external demand, a renewed surge in commodity prices, and an intensification of the war in Ukraine are the main near-term risks, while uncertainty around geoeconomic fragmentation and the MNE sector remains high over the medium term.

Policy Responses. In the short term, fiscal policy should balance risks of renewed inflationary pressures with the need for targeted support to the vulnerable and investment spending. In the medium term, a productivity-enhancing fiscal policy with greater public sector investment in areas such as affordable housing, infrastructure, digitization, and green transition would help potential growth and boost corporate investment, thus reducing the current account balance.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. Ireland's large negative net international investment position (NIIP) reflects the globalized operations of MNEs including financial services firms operating in the International Financial Services Centre (IFSC).[1] The NIIP, after peaking at -198 percent of GDP in 2015, improved to -117 percent in 2022 from -131 percent in 2021. Non-IFSC gross external debt was around 203 percent of GDP in 2022, down from 259 percent in 2021, and is downward trending, reflecting the current account surplus, real GDP growth, and non-debt-creating capital inflows.
Assessment. Ireland's NIIP largely reflects the activities of MNEs and market-based finance entities with few linkages to the Irish economy. Moreover, much of the cross-border liabilities from the operation of redomiciled MNEs have low rollover risk as they are financed through intra-company loans. Therefore, staff acknowledge that these are not, ultimately, the liabilities of Irish residents in assessing Ireland's external sustainability. Staff's estimates suggest that controlling for the volatilities associated with 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 would result in a NIIP that is considerably less negative.[2]</td></tr>
<tr><td>2022 (% GDP)</td><td>NIIP: - 117</td><td>Gross Assets: 1407</td><td>Res. Assets: 2</td><td>Gross Liabilities: 1524</td><td colspan="3">Debt Liabilities: 577</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. Several factors—including contract manufacturing, the foreign profitability of redomiciled MNEs, and the depreciation of Irish-based, foreign-owned capital assets such as intellectual property and leased aircraft—distort the headline external balance and complicate the interpretation of trends. Over the recent decades, the CA has been very volatile and subject to frequent and large revisions. Ireland's share of world exports has been increasing, driven by exports of pharmaceutical products, business and financial services, and computer services. In 2022 the CA recorded a surplus of 10.8 percent of GDP from 13.7 percent in 2021, reflecting the continued strong export performance of pharmaceuticals and IT sectors in the absence of large Intellectual Property (IP) imports. From the saving-investment balance, households net-saving rate decreased in 2022 from the very high levels during the pandemic but remained somewhat above the pre-pandemic levels. Government savings increased as large windfall of corporate income taxes were collected and the pandemic-related fiscal stimulus was gradually unwound. In the medium term, the CA surplus is expected to moderate at around 6 percent of GDP as the government and households net saving decreases, but it will remain sizable given the structural housing and infrastructure gaps, export activities of MNEs, and the exit from the double-Irish leading to smaller services import by MNEs.
Assessment. The EBA CA model estimates a cyclically adjusted CA of 12.3 percent of GDP and a CA norm of −2.3 percent of GDP, with the standard error of 1.9 percent of GDP. An adjustment of +0.5 percent of GDP to the cyclically adjusted CA balance has been made to account for transitory pandemic-related factors including the contraction in travel services net exports and changes in the transport services balance due to high freight costs. Additionally, an adjustment of –13.8 pp of GDP is included to remove the impact of MNEs operations. The resulting Staff CA gap of 1.3 (±1.9) percent of GDP includes identified policy gaps of 1.7 percent of GDP and an unexplained residual -0.4 percent of GDP.</td></tr>
<tr><td>2022 (% GDP)</td><td>CA: 10.8</td><td>Cycl. Adj. CA: 12.3</td><td>EBA Norm: -2.3</td><td>EBA CA Gap: 14.6</td><td>COVID-19 Adj.: 0.5</td><td>Other Adj.: -13.8</td><td>Staff CA Gap: 1.3</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] The REER depreciated during the pandemic—the average CPI-based REER depreciated by 3.5 percent, while the ULC-based REER depreciated by 6.6 percent in 2022, relative to 2021 average. Some of the REER depreciation has been reversed in 2023.
Assessment. Consistent with the staff CA gap, staff assess the REER gap to be in the range of -3.6 to 0.7 percent on average during 2022, with a midpoint of -1.5 percent (given an estimated elasticity of 0.88). Results from the EBA REER index and level models were affected by large distortions and volatilities of the MNE sector, with the gaps almost entirely attributed to unexplained residuals in the models.</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 due to the financing operation and investment activities of MNEs. In 2022, net FDI outflows amounted to 33 billion euro (6.5 percent of GDP), driven by equity repayment and reinvested earnings of MNEs. Total net financial account outflows in 2022 was around 10 percent of GDP.
Assessment. Inward FDI and foreign demand for Irish sovereign bonds have supported 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.
Assessment. Reserves held by the euro area are typically low relative to standard metrics. The currency floats freely.</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.
2/ See Galstyan, V., 2019, "Estimates of Foreign Assets and Liabilities for Ireland," Central Bank of Ireland and Trinity College Dublin.
3/ See "Firm-level Productivity and its Determinants: The Irish Case," IMF Country Report No. 16/257.</td></tr>
</table>

Table IV.1. Ireland: Non-IFSC External Debt Sustainability Framework, 2018–2028

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	264.6	293.0	316.8	259.4	203.2	**184.5**	**168.7**	**156.6**	**147.0**	**139.0**	**132.3**	**2.1**
Change in external debt	4.1	28.5	23.8	-57.4	-56.2	-18.7	-15.8	-12.1	-9.5	-8.1	-6.7	
Identified external debt-creating flows (4+8+9)	-37.3	-11.4	-39.9	-58.8	-7.8	-5.0	-6.0	-4.6	-3.4	-2.3	-1.3	
Current account deficit, excluding interest payments	-13.6	12.7	-0.1	-13.9	-11.9	-12.3	-11.6	-9.3	-8.1	-6.7	-5.3	
Deficit in balance of goods and services	-23.9	1.9	-13.7	-34.8	-36.2	-29.1	-29.1	-28.7	-27.9	-26.9	-25.9	
Exports	109.4	113.9	118.7	119.5	124.6	109.9	110.0	110.2	109.8	109.5	109.1	
Imports	85.6	115.8	105.0	84.8	88.4	80.7	80.9	81.5	81.9	82.5	83.2	
Net non-debt creating capital inflows (negative)	-0.3	-26.9	-29.1	4.2	10.4	1.9	1.9	1.8	1.6	1.5	1.4	
Automatic debt dynamics 1/	-23.4	2.8	-10.7	-49.1	-6.3	5.5	3.8	3.0	3.1	2.9	2.7	
Contribution from nominal interest rate	10.1	10.8	9.3	3.6	3.4	8.3	8.5	7.0	6.9	6.5	6.1	
Contribution from real GDP growth	-19.2	-13.6	-18.1	-39.9	-23.6	-2.8	-4.7	-4.1	-3.8	-3.6	-3.4	
Contribution from price and exchange rate changes 2/	-14.3	5.5	-2.0	-12.7	13.9	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	41.4	39.9	63.7	1.4	-48.4	-13.8	-9.8	-7.5	-6.1	-5.8	-5.5	
External debt-to-exports ratio (in percent)	241.8	257.2	266.9	217.0	163.2	167.9	153.3	142.0	134.0	127.0	121.2	
Gross external financing need (in billions of US dollars) 4/	233.6	370.4	352.8	260.5	240.7	259.2	256.0	254.9	257.9	261.7	266.9	
in percent of GDP	71.4	103.9	94.0	60.0	47.5	47.9	44.5	42.2	40.9	39.6	38.7	
Scenario with key variables at their historical averages 5/					**203.2**	**180.6**	**153.3**	**127.1**	**102.4**	**78.4**	**55.7**	**-10.8**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	8.5	5.3	6.6	15.1	9.4	1.5	2.7	2.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	5.8	-2.1	0.7	4.2	-5.1	8.7	3.9	2.7	2.1	1.6	1.6	
Nominal external interest rate (in percent)	4.5	4.2	3.4	1.4	1.4	4.5	4.9	4.4	4.6	4.6	4.5	
Growth of exports (US dollar terms, in percent)	12.0	13.3	9.7	16.5	21.5	-5.7	6.4	5.2	4.1	4.2	4.2	
Growth of imports (US dollar terms, in percent)	3.6	47.3	-4.5	-6.6	21.6	-2.4	6.6	5.8	5.0	5.4	5.4	
Current account balance, excluding interest payments	13.6	-12.7	0.1	13.9	11.9	12.3	11.6	9.3	8.1	6.7	5.3	
Net non-debt creating capital inflows	0.3	26.9	29.1	-4.2	-10.4	-1.9	-1.9	-1.8	-1.6	-1.5	-1.4	

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.

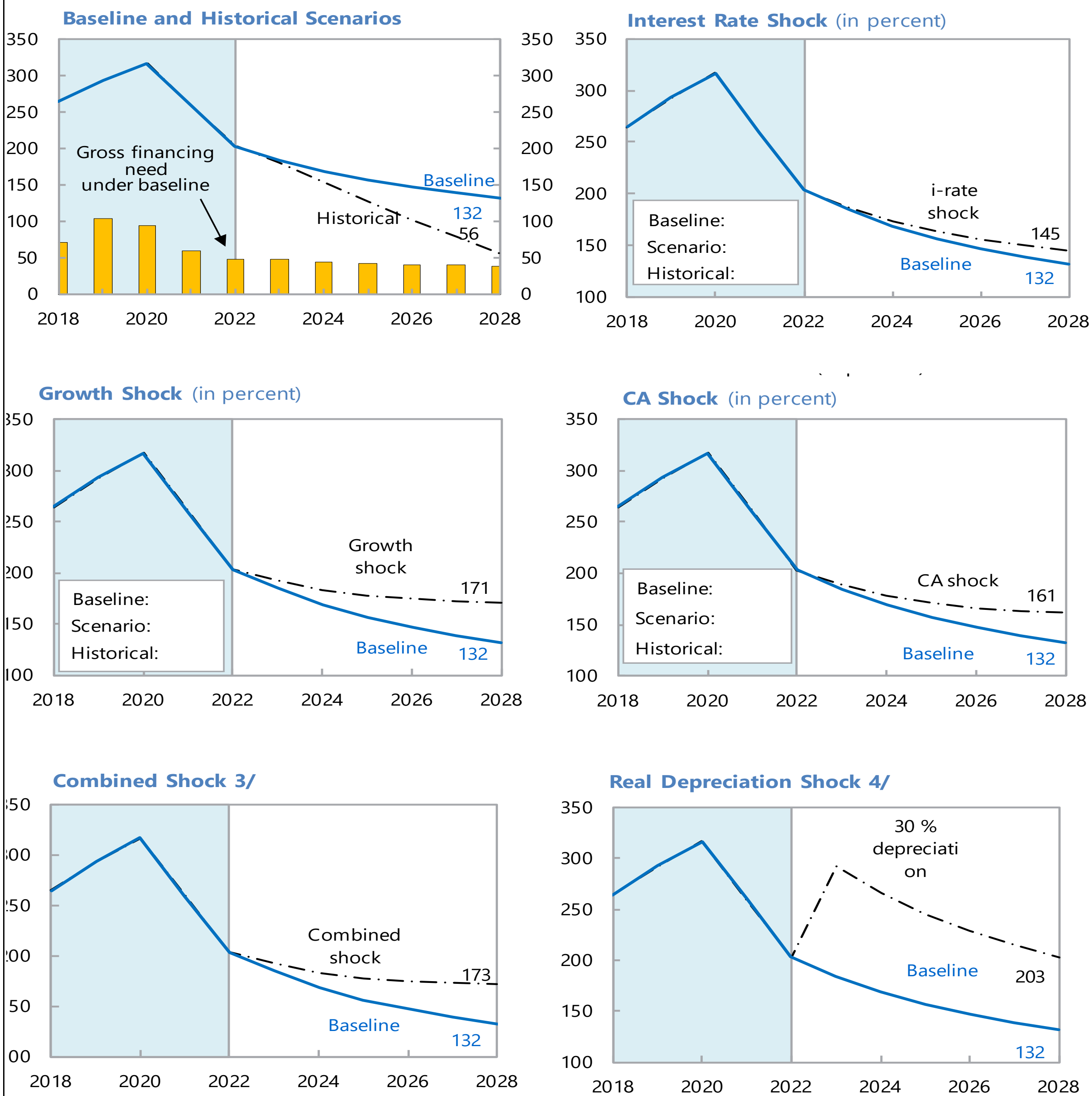
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure IV.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 V. Sovereign Risk and Debt Sustainability Framework

Figure V.1. Ireland: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	Ireland's overall risk of sovereign stress is low, reflecting relatively low vulnerabilities of the near and medium term outlook, while long term vulnerabilities are considered to be moderate.
Near term 1/			
Medium term	Low	Low	Risk of sovereign stress over the medium term is low, consistent with the mechanical signals. This largely reflects Irelands' relatively low debt burden, and favorable debt structure (long maturities, stable investor base and debt predominantly at fixed rates). The Fan chart module, signals a moderate risk, reflecting uncertainty around the outlook.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	...	...	
Long term	...	Moderate	Risks over the long term are assessed to be moderate, reflecting upcoming unfavorable demographics trends: an old age dependency ratio expected to double in the next decades and a retirement age well-below life expectancy. In the absence of reforms to safeguard the sustainability of the pension system, public pension costs are projected to increase significantly. Previous estimates by the authorities suggest that failure to increase the retirement age as planned could imply a cumulative fiscal cost of about 10 percent of 2022 GDP over the long term. Health and long-term care expenditures are also expected to increase significantly, which highlights the need for a cost-efficient healthcare system in line with the authorities' healthcare reform plans.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not required for surveillance countries.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Ireland is at a low overall risk of sovereign stress. Public debt has been contained through consecutive shocks, falling by more than 10 pp since the onset of the pandemic. The low interest rate environment of previous years and an active debt management strategy have helped lengthen the maturity of the debt structure and kept debt servicing costs contained. Public debt is expected to remain on a firmly downward path despite the projected growth slowdown and a higher interest rate environment. However, there are vulnerabilities. While Ireland's public debt is much smaller than the EA average when measured against GDP, when measured against GNI*, a more relevant measure of domestic activities, the public debt burden is much more elevated (standing at above 80 percent of GNI* in 2022). Furthermore, the dependence on volatile and uncertain CIT revenues leaves the fiscal position significantly exposed to shocks to the multinational sector (see staff customized scenario, section A).

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure V.2. Ireland: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes
CPS	NFPS	GG: expected	CG	2	Extra budgetary funds (EBFs)	Yes
CPS	NFPS	GG: expected	CG	3	Social security funds (SSFs)	Yes
CPS	NFPS	GG: expected		4	State governments	Yes
CPS	NFPS	GG: expected		5	Local governments	Yes
CPS	NFPS			6	Public nonfinancial corporations	No
CPS				7	Central bank	No
CPS				8	Other public financial corporations	No

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

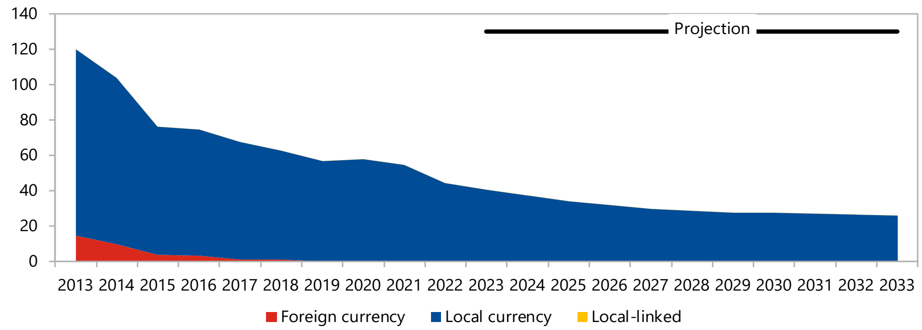
	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The debt coverage remains unchanged from the last Article IV -- i.e., it covers general government debt, with most debt issued by the central government.

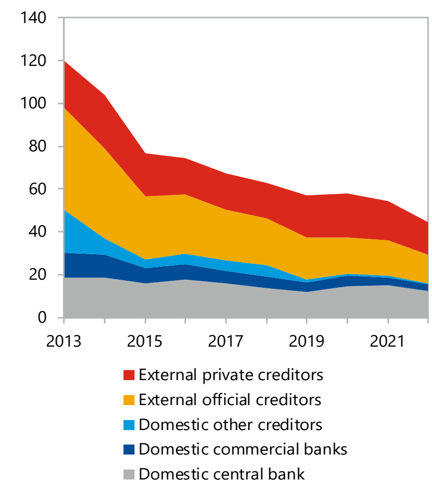
Figure V.3. Ireland: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



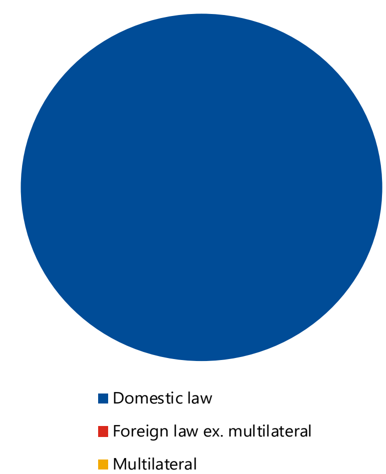
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



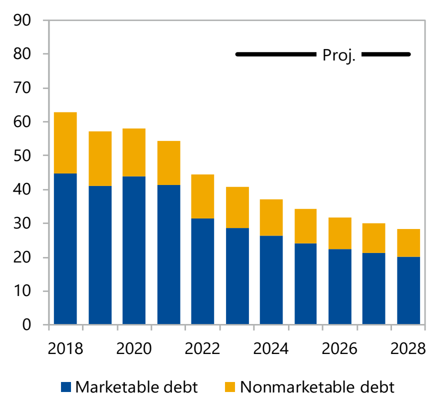
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



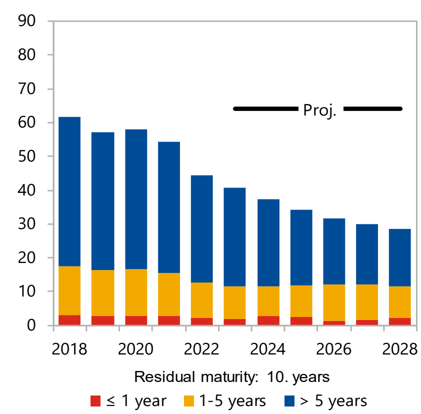
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

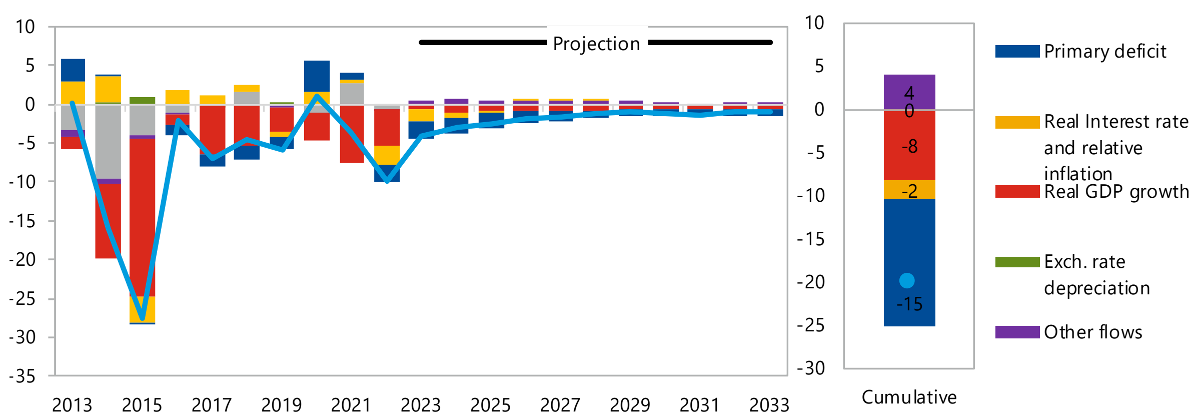
Commentary: Public debt is entirely in domestic currency, predominantly marketable and largely held by external creditors. The relatively long average maturity of the debt portfolio (7 years) and debt primarily on fixed rates provides are important buffer to the higher interest rate environment.

Figure V.4. Ireland: Baseline Scenario

(Percent of GDP unless indicated otherwise)

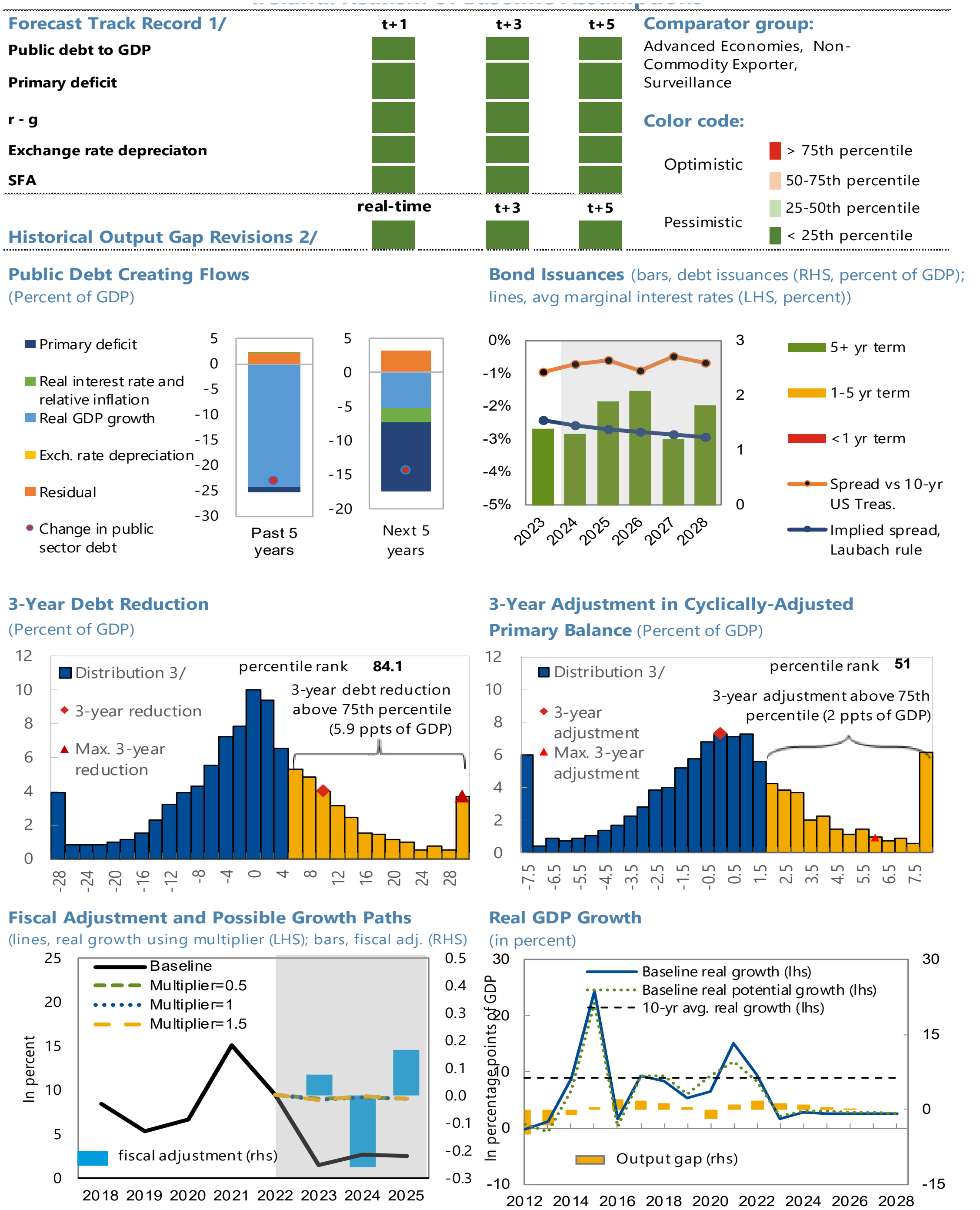
	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	44.4	40.4	37.4	34.9	33.0	31.4	30.2	29.1	27.9	26.5	25.5	24.5
Change in public debt	-10.0	-4.0	-3.0	-2.5	-2.0	-1.6	-1.3	-1.0	-1.2	-1.4	-1.0	-1.1
Contribution of identified flows	-9.4	-4.0	-2.9	-2.5	-2.0	-1.6	-1.3	-1.0	-1.2	-1.4	-1.0	-1.1
Primary deficit	-2.3	-2.2	-2.0	-1.9	-1.7	-1.3	-1.0	-0.9	-0.9	-0.9	-0.9	-1.0
Noninterest revenues	22.9	23.1	22.9	22.9	22.9	22.8	22.5	22.6	22.6	22.6	22.6	22.6
Noninterest expenditures	20.6	20.9	20.9	21.0	21.2	21.4	21.5	21.7	21.7	21.7	21.7	21.7
Automatic debt dynamics	-7.1	-2.2	-1.7	-1.1	-0.8	-0.8	-0.7	-0.5	-0.5	-0.4	-0.3	-0.2
Real interest rate and relative inflat	-2.4	-1.6	-0.7	-0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3
Real interest rate	-2.4	-1.6	-0.7	-0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-4.7	-0.7	-1.1	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.4	0.8	0.5	0.5	0.5	0.5	0.4	0.1	-0.1	0.2	0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.4	0.8	0.5	0.5	0.5	0.5	0.4	0.1	-0.1	0.2	0.2
Contribution of residual	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	2.9	0.9	0.5	1.3	1.5	0.6	1.3	1.7	2.5	2.6	1.2	1.2
of which: debt service	5.3	3.1	2.5	3.3	3.2	2.0	2.4	2.6	3.4	3.6	2.2	2.2
Local currency	5.3	3.1	2.5	3.3	3.2	2.0	2.4	2.6	3.4	3.6	2.2	2.2
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Real GDP growth (percent)	9.4	1.5	2.7	2.5	2.5	2.5	2.5	2.3	2.2	2.3	2.3	2.2
Inflation (GDP deflator; percent)	6.6	5.3	3.4	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	16.6	6.9	6.3	5.0	4.5	4.5	4.6	4.3	4.3	4.3	4.3	4.3
Effective interest rate (percent)	1.4	1.5	1.7	1.8	2.1	2.1	2.3	2.4	2.6	2.9	3.2	3.3

Contribution to Change in Public Debt
(percent of GDP)



Staff commentary: Despite the projected growth slowdown and a less supportive interest rate environment, public debt is expected to continue firmly on a downwards path on the back of a strong fiscal position and still robust growth.

Figure V.5. Ireland: Realism of Baseline Assumptions



Commentary: Past forecast errors reveal a conservative bias of staff's forecast across all indicators. The projected fiscal adjustment is well within norms, and while debt reduction prjections are slightly above norms, it is still well below than Ireland's maximum historical 3-y debt reduction.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team’s assessment of the initial overvaluation from EBA (or EBA-Lite).

Figure V.6. Ireland: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

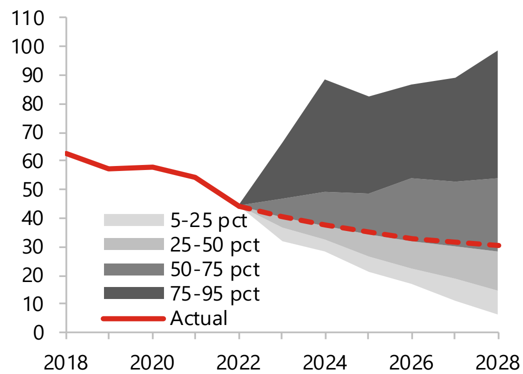
(Percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	92.0	1.3	...
	Probability of debt not stabilizing (pct)	13.7	0.1	...
	Terminal debt level x institutions index	5.4	0.1	...
	Debt fanchart index	**...**	**1.6**	**Moderate**
GFN finance-ability module	Average GFN in baseline	1.0	0.4	...
	Bank claims on government (pct bank assets)	0.7	0.2	...
	Chg. in claims on govt. in stress (pct bank assets)	0.3	0.1	...
	GFN financeability index	**...**	**0.7**	**Low**

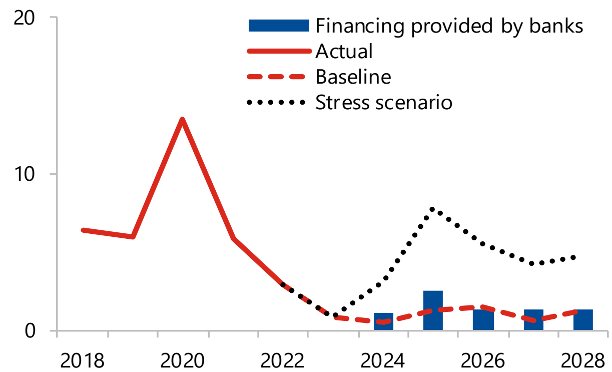
Adv. Econ., Non-Com. Exp, Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Ireland

Final Fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)

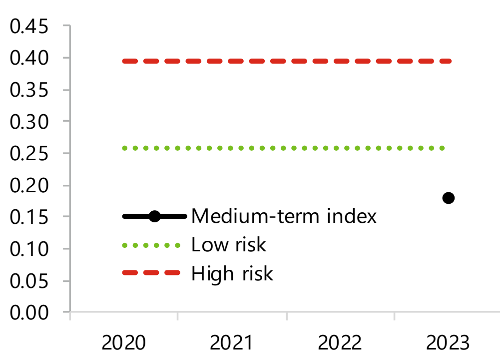


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN finaceability index	7.6	17.9	0.5	0.0
Medium-term index (MTI)	0.3	0.4	...	0.2, Low

Prob. of missed crisis, 2023-2028 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 58.0 pct.

Commentary: The debt fanchart shows a relatively low probability that Ireland's public debt will not stabilize over the medium term. And all medium-term tools point to low level of risks.

Annex VI. Macroprudential Policy for Nonbanks—Ireland's Perspective and Efforts

1. Market developments at the beginning of the Covid pandemic and the fall 2022 gilt turmoil reminded yet again of the fragility and complexity of the global financial system and the need to reform the existing macroprudential frameworks. The current macroprudential and regulatory frameworks—focused primarily on banks or discrete and ex post measures in case of NBFIs—have not been sufficient to mitigate the impact of shocks in times of stress, particularly given the growing systemic importance of nonbanks. They need to expand macroprudential frameworks beyond the traditional banking sector and adjust to the changing landscape to safeguard the global financial stability.

2. The Irish authorities have been at the forefront of developing macroprudential frameworks and tools targeting systemic risks from NBFIs and are leading the global debate. In November 2022, the CBI announced a set of macroprudential measures aimed at strengthening the resilience of Irish property funds sector.[1] In July 2023, the CBI issued a Discussion Paper[2] for public consideration and feedback on an approach to macroprudential policy for investment funds. The Discussion Paper aims to advance the ongoing international and European discussions on how a macroprudential perspective in the regulation of the funds sector could be achieved and seeks feedback on a number of issues such as the channels through which investment funds can generate systemic risk; the current regulatory framework for investment funds; the key proposed objectives and principles of macroprudential policy for investment funds; the design and deployment of macroprudential tools for investment funds; and key considerations for operationalising a macroprudential framework for investment funds. Recently in November 2023, the CBI issued a consultation paper on steady state resilience measures for Irish authorized GBP-denominated liability driven investment (LDI) funds.

Macroprudential Measures for Property Funds

3. Property funds have become a key participant in the Irish CRE market. The macroprudential measures seek to limit situations when vulnerabilities in the property fund sector—mainly high leverage and liquidity mismatches—lead to forced selling of assets during times of stress, causing further price pressures in the CRE market and endangering financial and macroeconomic stability.

- *Measures to address excessive leverage*: Irish-authorized funds with 50 percent or more of their assets in Irish property are obliged to keep their total debt (i.e., total non-equity liabilities) to total assets ratio below 60 percent. Existing property funds must comply with the 60 percent leverage limit within a five-year period from announcement (by November 24, 2027). New

[1] CBI (2022) "The Central Bank's macroprudential policy framework for Irish property funds".

[2] CBI Discussion Paper (2023): "An approach to macroprudential policy for investment funds".

property funds—authorized on or after November 24, 2022—will not be authorized without leverage below the 60 percent. Property funds investing at least 80 percent of assets under management in social housing will not be in scope of the leverage limit, subject to meeting certain criteria. Further, property funds investing in development activities will be permitted to use a different methodological framework for the valuation of assets as part of the leverage calculation on those specific assets if they so choose.

- *Guidance to address liquidity mismatch:* The Guidance states that property funds should generally provide for a liquidity timeframe of at least 12 months, taking into account the nature of the assets held. The existing property funds are expected to implement liquidity timeframes by May 24, 2024 and the property funds authorized on or after November 24, 2022 are expected to adhere to the Guidance immediately.

4. Consistent with other regulatory requirements, the leverage limit would be subject to regular monitoring and review by the CBI. Regular monitoring would aim to ensure that the leverage limits are achieving their macroprudential aims, and that they are not imposing undue burden on market participants or the broader economy. In the event of adverse CRE market shocks, the CBI can consider temporarily removing the limit, subject to conditions. The CBI has acknowledged that large, unanticipated price corrections may mean that some property funds would inadvertently breach the limit, even if they maintained a prudent buffer. In such instances, the affected funds may also not be in a position to take immediate steps to comply with the leverage limit without further compromising financial stability.

5. The CBI can also tighten the limit in the event that signs of significant overheating in the Irish CRE market are identified. In those circumstances the risk of larger price falls would increase, so property funds may need to countercyclically reduce their leverage in order to be resilient to those shocks. The CBI is closely monitoring the adoption of the measures and their effectiveness and impact, including through the collection of new data and further engagement with Irish property funds where warranted.

Steady State Resilience Measures for Irish authorized GBP denominated LDI Funds

6. In response to the 2022 gilt market crisis, the CBI outlined supervisory expectations for Irish authorized GBP denominated LDI funds. The gilt market shock resulted in a sudden and sharp increase in yields. In turn, this led to LDI funds, particularly those employing high leverage, selling gilts into a market with low liquidity, causing yields to rise even further. Irish authorized GBP LDI funds, a substantial minority of the total industry, accounted for approximately 30% of gilt sales over the crisis period (Dunne at al. 2023). In November 2022, the CBI set out supervisory expectations via an industry letter, in coordination with Luxembourg's the Commission de Surveillance du Secteur Financier (CSSF), that GBP LDI funds would maintain an enhanced level of resilience observed at the time. The level of resilience was set to a 300-400 basis points (bps), which meant that funds would not experience a negative NAV in the event of such increase in yields (i.e. a yield buffer).

7. While the resilience of GBP LDI funds has improved since the crisis, the CBI is currently developing policy measures to enhance the steady state resilience of these funds. The resilience of GBP LDI funds in Ireland has improved from 170bps in October 2022 to approximately 440 bps in March 2023. In addition, the CBI has committed to arrive at a more steady state assessment of the level of resilience required across the sector. Therefore, on November 23, 2023, the Central Bank issued a consultation paper on the proposed measures to enhance the steady-state resilience of Irish-authorised GBP-denominated LDI funds. This consultation paper has been issued in coordination with the CSSF. The consultation paper outlines measures that codify, and in certain cases augment, the existing yield buffer measure in place from the November 2022 letter using Article 25 of the AIFMD. This includes design features to facilitate yield buffer usability and buffer composition requirements and is accompanied by liquidity guidance. The CBI consultation paper is open for feedback until January 18, 2024 and the CBI is expected to announce the final steady state measures in the first half of 2024.

Macroprudential Policy for Investment Funds

8. Recognizing that a macroprudential approach for investment funds cannot simply be an extension or replication of the macroprudential framework applied to banks, the CBI's Discussion Paper lays out key considerations regarding systemic risk posed by the funds sector. The materialization of system risk comes following a shock or trigger events and the interplay between vulnerabilities at a fund cohort level (notably leverage and liquidity mismatch) and interconnectedness of the funds sector, with the rest of the financial system and/or the real economy. Building on these considerations, the Discussion Paper outlines key objectives of a macroprudential framework for the funds sector and key principles that could underpin its design as well as discussing tools that could be deployed to achieve the objectives.

9. The Discussion Paper advocates for strengthening the funds sector's resilience to stresses while making it less likely to amplify adverse shocks. Furthermore, building on the existing regulatory frameworks that largely focus on investor protection, the focus should be on collective behavior of segments of funds rather than individual funds and should not target asset prices. To inform and underpin the specific design and operation of the macroprudential framework for funds, the Discussion Paper outlines the following key principles:

- In the case of investment funds, resilience-enhancing measures need to work on a collective or aggregate basis, aimed at fund cohorts;

- It is important that resilience be built before crisis conditions occur. Sufficient ex ante policies should be in place targeted at the identified sources of systemic risk, though ex post tools remain important as part of a wider toolkit;

- Policy measures could either seek to limit underlying vulnerabilities and/or be targeted at the interconnectedness of the sector, reducing contagion risk;
- As the nature and magnitude of systemic risks evolve, it is important that policies have a degree of flexibility over time;
- Policy intervention should be the result of a careful balance between costs and benefits for the broader economy; and
- Global co-ordination is a critical enabler when designing a macroprudential policy framework for the funds sector. It is also important that macroprudential measures take a system-wide perspective and guard against the possibility that risks shift to other parts of the financial system.

INTERNATIONAL MONETARY FUND

IRELAND

November 22, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of October 31, 2023)

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	2,492.28	72.24
Reserve position in Fund	957.66	27.76

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	4,082.00	100.00
Holdings	4,186.31	102.56

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

Overdue Obligations and Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	2022	2023	2024	2025	2026	2027	2028
Principal							
Charges/Interest	-0.05	-3.39	-4.38	-4.38	-4.38	-4.38	-4.38
Total	-0.05	-3.39	-4.38	-4.38	-4.38	-4.38	-4.38

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. The authorities formally notified the Fund of updated EU sanctions under Decision No. 144 (52/51) in November 2023.

Article IV Consultation:

The last Article IV consultation was concluded on July 1, 2022. The associated Executive Board assessment is available at https://www.imf.org/en/News/Articles/2022/07/07/pr22249-imf-executive-board-concludes-2022-article-iv-consultation-with-ireland and the staff report (Country Report No. 2022/213) at https://www.imf.org/en/Publications/CR/Issues/2022/07/07/Ireland-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Informational-Annex-520463 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 financial stability assessment was discussed by the Board on July 1, 2022. The FSSA and accompanying Reports on the Observation of Standards and Codes (ROSCs) are available at https://www.imf.org/en/Publications/CR/Issues/2022/07/07/Ireland-Financial-System-Stability-Assessment-520469.

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. GNI* comes only at annual frequency and in nominal and real scale with a long lag of around 7 months from reference year. Other real sector data are relatively timely, with industrial production and retail sales data published within six weeks and employment data within 3 months of the reference period, but some non-SDDS series are published one and a half years later. Employment and unit labor costs, and national income and expenditure data are usually available with 3 months lag.
Wages and earnings statistics: The quarterly Earnings, Hours and Employment Costs Survey has replaced the Labor Cost Survey, and also replaces all other existing short-term earnings surveys. The results are comparable across sectors and include more detail on components of earnings and labor costs than was available before. However, final data are only available with 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 the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial sector surveillance: Ireland reports 11 of the 12 core and 9 encouraged 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 Q4/2022. 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). Ireland subscribes to the Fund's Special Data Dissemination Standard and uses SDDS flexibility options on the timeliness of wages and earnings, and central government debt data.	No data ROSC is available.

Ireland: Table of Common Indicators Required for Surveillance

(as of November 9, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	November 9, 2023	11/9/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	September 2023	10/10/2023	M	M	M
Reserve/Base Money	September 2023	10/31/2023	M	M	M
Broad Money	September 2023	10/31/2023	M	M	M
Central Bank Balance Sheet	September 2023	11/3/2023	M	M	M
Consolidated Balance Sheet of the Banking System	September 2023	10/31/2023	M	M	M
Interest Rates[2]	September 2023	11/9/2023	M	M	M
Consumer Price Index	October 2023	11/9/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2023:Q2	10/20/2023	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	October 2023	11/3/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2023:Q2	10/20/2023	Q	Q	Q
External Current Account Balance	2023:Q2	9/1/2023	Q	Q	Q
Exports and Imports of Goods and Services	2023:Q2	9/1/2023	Q	Q	Q
GDP/GNP (National Account and Gross Value Added)	2023:Q2	9/1/2023	Q	Q	Q
Gross External Debt	2023:Q2	9/1/2023	Q	Q	Q
International Investment Position[6]	2023:Q2	9/1/2023	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).