Approved By
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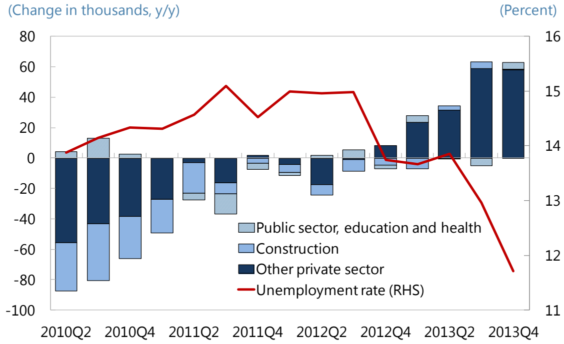
RECENT DEVELOPMENTS

Business sentiment and consumer confidence are improving as uncertainties from the crisis period recede, driving solid job creation, rising investment, and a revival of the property market. Sovereign and bank funding conditions are highly favorable and investor interest in distressed Irish assets is strong, yet bank credit contraction continues mostly due to still heavy private debt burdens.

1. **Strong job creation and a range of other indicators signal a broadening recovery**. Employment growth was 2.3 percent y/y in Q1 2014, led by growth in full-time employment of 3.3 percent y/y, with almost all sectors creating jobs and business surveys indicate continuing growth momentum. Unemployment fell to 11.8 percent in April, down from 15 percent two years ago. Consumer confidence has climbed to levels not seen in seven years with core retail sales rising 3.3 percent y/y in the first four months of 2014. Construction and service PMIs are back to pre crisis levels. Rising tax receipts, up 5½ percent y/y in the first four months of 2014, also indicate continuing recovery.

Job Creation by Sector and Unemployment

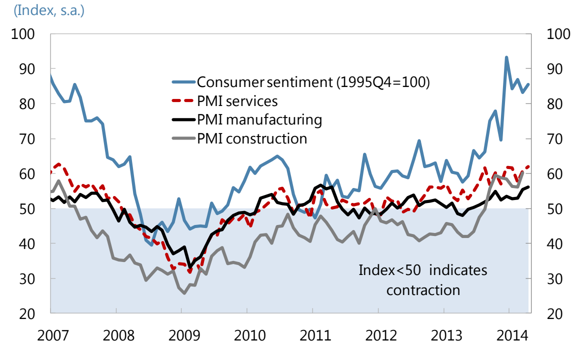
(Change in thousands, y/y) (Percent)



Source: Central Statistics Office.

PMI Indices and Consumer Sentiment Indicator

(Index, s.a.)

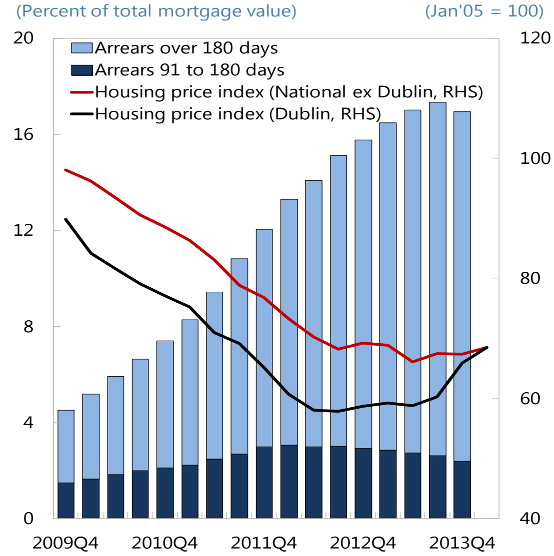


Sources: CSO; ESRI; Haver Analytics; NCB Stockbrokers&UB/Markit.

2. **Property market recovery is spreading beyond Dublin and residential mortgage distress has eased for the first time**. Residential property prices rose by 8.5 percent y/y in April, still led by Dublin, but prices outside Dublin also began to increase, up by 2.9 percent y/y. These trends are supported by rising residential rents, housing turnover, and new mortgage lending. Commercial property prices also rose, up 9.6 percent y/y in Q1 2014, with international investors attracted by favorable rental yields. The share by value of primary dwelling home mortgages more than 90 days in arrears declined from 17.3 percent in Q3 2013 to 16.9 percent in Q4, and higher frequency data show arrears continued to decline in Q1 2014, suggesting that banks' resolution efforts may be beginning to bear fruit.

Mortgages in Arrears on Primary Dwellings

(Percent of total mortgage value) (Jan'05 = 100)



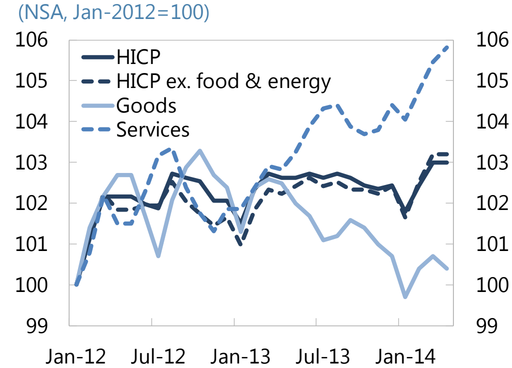
Sources: Central Bank of Ireland; and Central Statistical Office.

3. **The latest national accounts estimates appear likely to be revised**. Preliminary data suggest real GDP fell 2.3 percent q/q in Q4, driving a 0.3 percent contraction for 2013. At the same time, real GNP is estimated to have expanded 3.4 percent over the year. The downside surprise for GDP reflected a spike in goods imports driven by factors whose impact would more typically be spread over several quarters (i.e., adjustments to airline companies' fuel imports and for underreporting of machinery imports). Public and private forecasters generally expect that data revisions are likely in the annual national accounts data for 2013 due in June, which are based on a more detailed methodology.

4. **Inflation remains low, reflecting falling import prices**. The HICP rose by 0.4 percent y/y in April, with goods prices down 2.4 percent y/y, largely reflecting the impact of falling prices of energy and imported goods, consistent with the firming euro and declining U.K. retail inflation. Services inflation running at 3 percent y/y in April, together with surveys of employers evidencing no expectation of cutting wages, do not suggest worrisome domestic deflation dynamics.

HICP and Key Components

(NSA, Jan-2012=100)



Source: Central Statistics Office.

5. **Market funding conditions have improved further and the government has resumed bond auctions**. Consistent with euro area periphery trends, the 10 year sovereign bond yield has fallen to a new low of 2.61 percent. Moody's upgraded Ireland by three notches in two steps, bringing the sovereign into investment grade and unlocking interest from rating sensitive investors, especially in Asia. In early January, the National Treasury Management Agency (NTMA) syndicated €3¾ billion of 10 year bonds. In March, the NTMA held its first bond auction since 2010, with further auctions in April and May leaving only €1½ billion of its €8 billion bond funding target for 2014 still to be raised. During 2013 the Central Bank of Ireland (CBI) sold €350 million of the long-term government bonds acquired following liquidation of the Irish Bank Resolution Corporation (IBRC) compared with the schedule to sell at least €½ billion by end 2014. Banks' bond yields have tracked the sovereign downward, allowing both Bank of Ireland (BoI) and Allied Irish Banks (AIB) to issue senior unsecured bonds this year. Repayments to the ECB continued, with refinancing to domestic banks declining from €33.3 billion in October 2013 to €24.8 billion in April 2014.

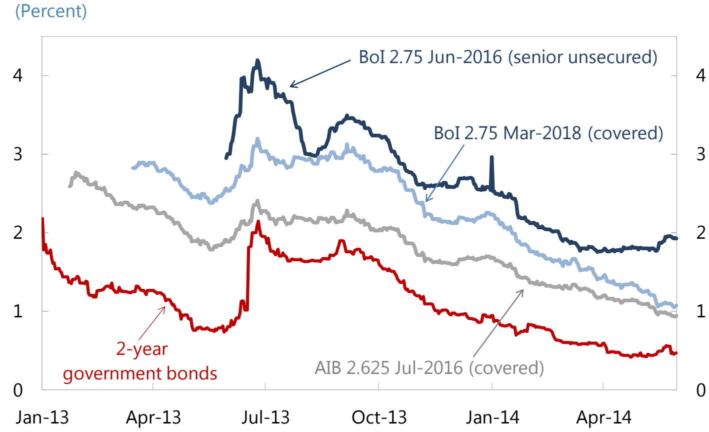
Irish Treasury Bonds Issued in 2014

Date	Amount *(€ billions)*	Maturity *(Years)*	Yield *(Percent)*	Cover *(Times)*
7-Jan 1/	3.75	10	3.54	3.7
13-Mar	1.00	10	2.97	2.9
10-Apr	1.00	10	2.92	2.8
8-May	0.75	10	2.73	2.8

Source: National Treasury Management Agency.
1/ Syndicated.

Bond Yields

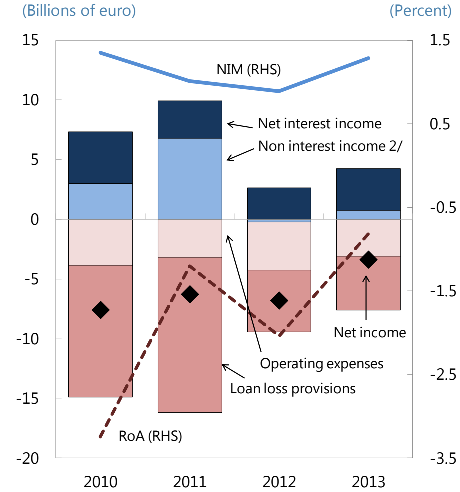
(Percent)



Source: Bloomberg.

6. Banks' 2013 financial statements show higher provisions and, although easing funding costs are supporting bank profitability, credit continues to contract. AIB, BoI, and Permanent tsb (PTSB) set aside provisions totaling €2.5 billion in the second half, reflecting the CBI's updated guidelines introduced in May 2013 and the CBI's balance sheet assessment (BSA) finalized at end November, together with allowances for new NPLs. Coverage ratios of provisions to NPLs increased at all the banks. Higher net interest income in 2013 partly offset provisioning to result in a smaller full year overall loss than in 2012. However, new lending remained weak, with credit outstanding to households and nonfinancial firms contracting 3.7 percent and 6.2 percent y/y, respectively, in April.

Banks' Income Structure 1/

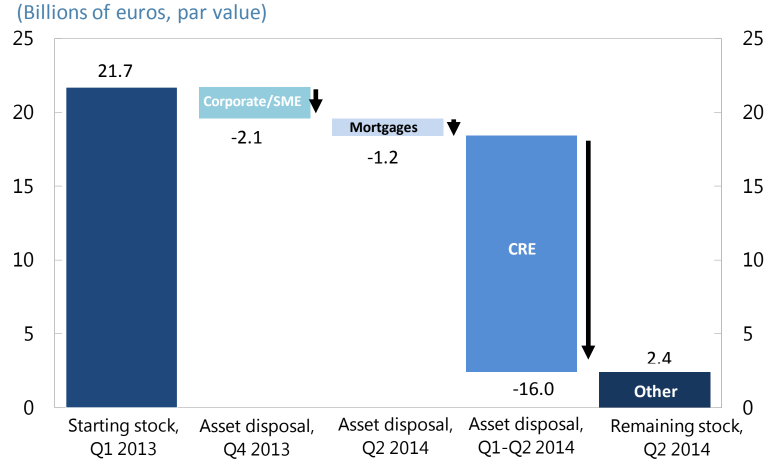


Sources: Central Bank of Ireland; and Fund staff calculations.
1/ Aggregated data for AIB, BoI, and PTSB.
2/ Includes other items net.

7. Market interest in Irish property related loans has shown a step increase. Loan sales by the Special Liquidator for IBRC exceeded expectations, with some 90 percent of the €22 billion book (par value) sold to third parties over the course of a year at prices sufficient to ensure there will be no shortfall to the budget. The National Asset Management Agency (NAMA) agreed a sale of a £4.6 billion (par) Northern Ireland debt portfolio to Cerberus Capital—its largest disposal to date—and also recently sold a €1.8 billion (par) portfolio of Irish and European CRE loans to Blackstone.

IBRC Loan Assets

(Billions of euros, par value)



Source: Department of Finance.

OUTLOOK AND BALANCE OF RISKS

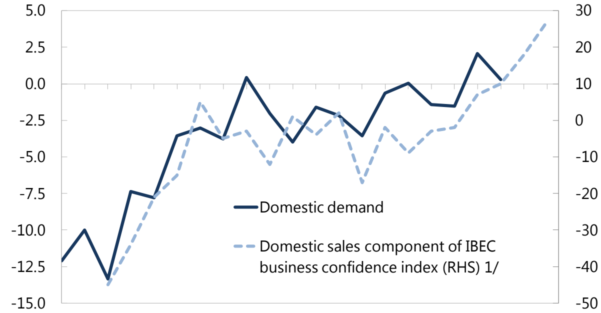
Growth is expected to firm to about 2½ percent from 2015, with a gradual rotation to domestic demand despite little support from credit initially. Risks appear broadly balanced in the near term, but are tilted to the downside over the medium term, in part owing to risks to reviving financial intermediation which is important for sustaining job rich domestic demand growth.

8. Strong domestic indicators and an improving external environment support staff projections for real GDP growth of 1.7 percent in 2014. Recent *World Economic Outlook* projections put growth of Ireland's trading partners at 2 percent, driving export growth of

2½ percent. Final domestic demand is expected to expand by 1.1 percent, led by investment, with significant upside potential given the investment surge in the second half of 2013. A modest ½ percent increase in private consumption reflects rising incomes driven by job creation and improving consumer confidence. Public consumption will remain a drag on domestic demand as public sector wage costs continue to decline under the Haddington Road agreement.

Domestic Demand Indicators

(Percent change, y/y)



Sources: IBEC's Business Sentiment Report (March 2014); CSO; IMF staff calculations.
1/ With a two-quarter lead.

Macroeconomic Projections, 2010–16

(Percentage change unless indicated otherwise)

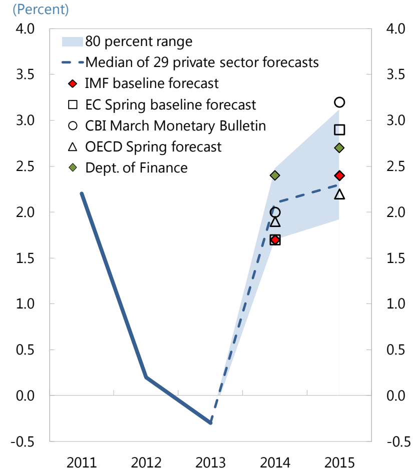
	2010	2011	2012	2013	2014	2015	2016
Real GDP	-1.1	2.2	0.2	-0.3	1.7	2.4	2.5
Final domestic demand	-5.0	-3.0	-1.1	-0.3	1.1	1.2	1.8
Private consumption	0.9	-1.6	-0.3	-1.1	0.5	1.0	1.3
Public consumption	-6.9	-2.8	-3.7	-0.5	-0.5	-2.0	-1.0
Fixed investment	-22.6	-9.5	-1.0	4.2	6.5	6.2	7.3
Change in stocks 1/	0.6	1.0	-0.4	0.1	0.0	0.0	0.0
Net exports 1/	3.0	5.7	1.6	-0.6	0.8	1.5	1.1
Exports	6.4	5.4	1.6	0.2	2.5	3.6	4.1
Imports	3.6	-0.4	0.0	1.0	2.2	2.7	3.9
Nominal GDP (billions of euros)	158.1	162.6	163.9	164.0	167.7	173.7	179.5
GDP deflator	-1.5	0.7	0.7	0.4	0.5	1.1	0.8
Current account (percent of GDP)	1.1	1.2	4.4	6.6	5.8	5.7	5.7
Consumer Prices (HICP)	-1.6	1.2	1.9	0.5	0.6	1.1	1.2
Unemployment rate (percent)	13.9	14.6	14.7	13.0	11.2	10.5	10.1
Household savings rate (percent of disp. income)	12.0	10.7	10.2	10.9	10.8	10.5	9.9
Household debt (percent of disp. income)	215	212	206	202	193	185	179
Credit to households and NFCs (eop)	-3.4	-2.9	-4.0	-4.9	-3.2	-1.2	0.7

Source: IMF staff projections.
1/ Contributions to growth.

9. **Growth is projected to average around 2½ percent from 2015 with a gradual handover to domestic demand.** Heavy household debt burdens mean saving rates are expected to remain high, with a slow recovery of private consumption relying on employment and income growth and declining drag from fiscal consolidation. Investment growth remains solid but given the low base would increase modestly as a ratio to GDP, up some 2½ percentage points by 2019. Rising enterprise deposits equivalent to 2 percent of GDP during 2013 suggest firms have the capacity to finance such investment internally for some time. Inflation will pick up slowly as unemployment declines to a still high 9 percent by 2019. Real growth of 2½ percent over the medium term is consistent with demographic prospects allowing annual employment

Real GDP Growth Projections

(Percent)



Sources: Bloomberg; and IMF staff estimates.

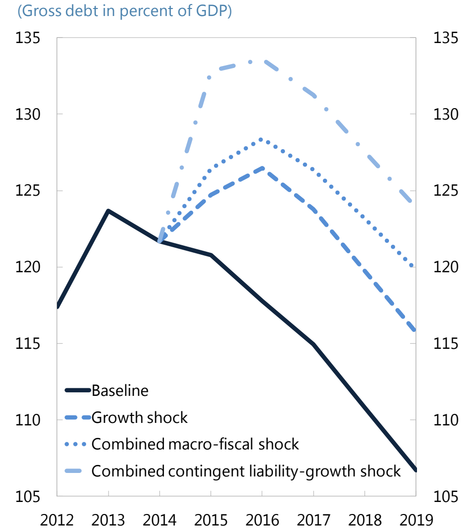
growth of about 1½ percent without wage pressures, while annual labor productivity growth of 1 percent is consistent with OECD estimates placing Ireland in the group of "close to frontier" economies. A recent study focusing on Ireland finds more scope for productivity catch up.

10. Risks around recovery prospects appear broadly balanced in 2014–15 but tilted to the downside over the medium term. Staff's growth projections lie at the bottom end of the forecast range for 2014, and near the median for 2015, with sources of upside to both exports and domestic demand. Key risks include:

- **External demand**. Ireland's openness (exports at about 110 percent of GDP) makes it vulnerable to trading partner growth, such as a scenario of protracted slow global growth, or if escalating geopolitical tensions were to notably affect EU growth.
- **Financial market conditions**. The substantial spread tightening despite high public and private debts faces some risk of reversal, perhaps linked to a surge in global financial market volatility. Although the direct fiscal impact would be modest owing to long debt maturities, adverse confidence effects would likely slow domestic demand.
- **Low inflation**. Ongoing low inflation in the euro area would lower inflation in Ireland, slowing declines in debt ratios and dragging on domestic demand in the medium term.
- **Bank repair shortfalls**. As firms' internal financing capacity is drawn down, sustaining domestic demand recovery will depend increasingly on a revival of sound lending, where substantial work remains ahead to resolve high NPLs to underpin banks' lending capacity.

11. Debt sustainability remains fragile with key risks from slower growth and any crystallization of contingent liabilities (Annex I). In the baseline, the gross public debt ratio is projected to decline from a peak of 124 percent of GDP in 2013 to 107 percent by 2019. Net debt peaks later, in 2014, as the decline in gross debt in 2014 benefits from the authorities' plan to reduce cash holdings, albeit to around 12–15 months' projected financing needs. A temporary growth shock, with growth dipping 2 percentage points below the baseline in 2015–16, would cause the gross debt ratio to jump to 127 percent in 2016 before easing to 116 percent of GDP by 2019. If this growth shock was compounded by a cumulative worsening of the primary balance by 2.3 percent of GDP over 2014–19 and an attendant 2 percentage point rise in interest rates on newly contracted debt, the debt ratio would hit 129 percent of GDP in 2016 before declining to 121 percent in 2019. Building into this scenario an illustrative contingent liability shock of 10 percent of GDP in 2015, the debt ratio would peak at 134 percent.

Public Debt Paths
(Gross debt in percent of GDP)



Source: IMF staff estimates.

12. The likelihood of contingent liabilities crystallizing, however, appears to be easing. State exposure to IBRC loans is much reduced and sales of the residual assets can help settle unsecured creditor claims, including those of the exchequer in relation to guarantee payments arising from IBRC's liquidation. The broader improvement in investor interest in Irish assets also helps limit the risk of shortfalls in NAMA. Nonetheless, the potential remains for the ECB's forward looking Comprehensive Assessment to identify a capital need, although banks have some capital buffers even after raising provisions following the 2013 BSA. At the same time, the government's intention to dispose of its bank equity holdings provides a significant upside.

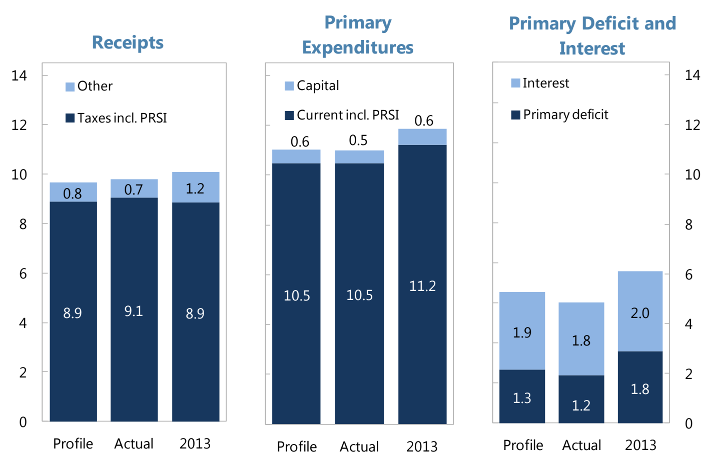
POLICY DISCUSSIONS

13. Discussions took place in the run up to local and European elections which saw a sharp fall in support for the governing coalition parties. In the local elections on May 23, combined support for the two governing parties was 31 percent down from 55 percent at the 2011 general elections. This fall is widely seen as reflecting the large fiscal consolidation in recent years together with the limited benefits, as yet, for the majority of the population from the emerging recovery. Deputy Prime Minister Gilmore resigned as leader of the Labour party—the junior coalition partner—and the selection of a new leader is underway. The leading candidate has indicated that her intention is to remain in the coalition and to maintain the fiscal targets for 2015, while also emphasizing the need for social repair alongside economic repair.

A. Fiscal Policy

14. Fiscal outturns for 2014 are off to a solid start, but proactive budget management will be needed to contain total spending. Budget 2014 targets a deficit of 4.8 percent of GDP and budget performance remained broadly on track through April, with revenues benefitting from strong employment. Continued revenue momentum will be needed to meet the budget forecasts. Although total expenditure is on track, persistent health spending pressures point to a need for further structural reforms in this area. The authorities indicated that they would ensure the aggregate expenditure ceiling is adhered to. If growth disappointments led to revenue shortfalls in 2014, staff considers that significant additional consolidation should not be implemented, while any revenue over performance should allow a smaller deficit.

Cumulative Exchequer Outturn vs. Authorities' Profile, January–April 2014
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.
Note: To facilitate comparability: (i) other receipts exclude proceeds from the sale of Bank of Ireland contingent capital notes (€1 bn.) in 2013 and special dividends from ESB (€0.2 billion) and the National Lottery license payment (€0.2 billion) in 2014 and (ii) current expenditure excludes Eligible Liabilities Guarantee scheme payments linked to the promissory note transaction of €1 billion in 2013 and €49 million in 2014.

15. The authorities anchor medium-term fiscal policy on achieving a headline deficit below 3 percent of GDP in 2015 and structural balance by 2018. Their updated Stability Programme notes that measures of €2 billion (1.2 percent of GDP) would be sufficient to reach this goal under the official macroeconomic projections. But the authorities would implement fiscal measures as necessary in 2015 to stay within this ceiling, with the volume of measures to be revised based on data available ahead of Budget 2015 in mid October. Thereafter, they expect to reach their medium-term objective of overall balance in structural terms by 2018. In the Stability Programme, this is expected to be achieved by holding nominal expenditure broadly flat and letting tax revenues rise in line with economic growth.

16. Staff views budget balance as a sound objective for the medium term and supports a steady adjustment path that moderates economic drag while preserving credibility gains. Converging to a balanced budget in structural terms will reduce Ireland's vulnerabilities by lowering financing needs and putting the public debt ratio more firmly on a downward path. It also protects growth by allowing symmetric operation of automatic stabilizers. Staff estimates that the structural balance will need to improve by a cumulative 4½ percent of GDP over 2014–18 to reach the authorities' goal. Specifically:

General Government Finances With and Without Adjustment, 2014-18

(In percent of GDP unless otherwise stated)

	2014	2015	2016	2017	2018
No adjustment scenario					
Gross debt	121.7	122.5	121.9	122.0	121.8
Net lending/borrowing	-5.0	-4.6	-4.5	-4.5	-4.5
Structural balance 1/	-4.5	-4.5	-4.5	-4.5	-4.5
Baseline scenario					
Gross debt	121.7	120.8	117.8	115.0	110.8
Net lending/borrowing	-5.0	-2.9	-2.0	-1.1	0.0
Structural balance 1/	-4.5	-2.8	-2.0	-1.1	0.0

Source: IMF staff estimates.

1/ In percent of potential GDP

- **For 2015, the previously envisaged consolidation effort remains appropriate and would generate a 1¾ percent of GDP improvement in the structural balance**. Consolidation measures on the order of 1¼ percent of GDP, as targeted since 2011, would safeguard hard won credibility. These measures, together with reduced needs for social supports as unemployment falls and non-indexation of welfare and pay rates, would bring the structural deficit to 2¾ percent of GDP, implying a headline deficit of 2.9 percent of GDP on current staff projections. Anchoring the quantum of adjustment rather than the headline deficit would avoid a procyclical reaction to revisions in macroeconomic projections for 2015 that would remain subject to significant uncertainty.

- **For 2016–18, staff estimates that a further 2¾ percent of GDP cumulative improvement in the structural balance would be needed**. The pace of adjustment should seek to smooth drag over time, while delivering the minimum structural improvement required under the authorities' budget balance rule (Box 1). Although some structural balance improvement would be achieved through expected reductions in the interest burden and lower demand for social supports—the latter reflecting both cyclical and structural factors—new discretionary measures will need to be a major contributor to adjustment in addition to continued restraint of welfare and pay rates. In the event that medium-term growth prospects prove weaker, it would be appropriate to extend adjustment over a longer period.

17. Durable spending and revenue measures and reforms will need to be identified to achieve the authorities' fiscal targets in a growth friendly manner that protects the most vulnerable. Staff encourages the authorities to build their fiscal measures around: (i) better targeting of social supports and subsidies; (ii) focusing revenue efforts on base-broadening rather than rate hikes; (iii) protecting capital expenditure; and (iv) reforming public services to reduce the public cost while preserving outcomes (Box 2). The authorities indicated that expenditure savings for 2015 and beyond will be guided by comprehensive reviews of current and capital spending to be completed before Budget 2015 and the recently published Public Service Reform Plan 2014–16. Staff urges that any tax cuts be offset by other measures to ensure that the overall fiscal adjustment envelope is maintained. The authorities noted that tax reform options will be developed within the existing inter-departmental Tax Strategy Group. The government will also continue to remain active and supportive of the work of the EU and OECD on international tax matters and it has recently launched a public consultation to consider options for Ireland's tax system to respond to a changing international tax environment.

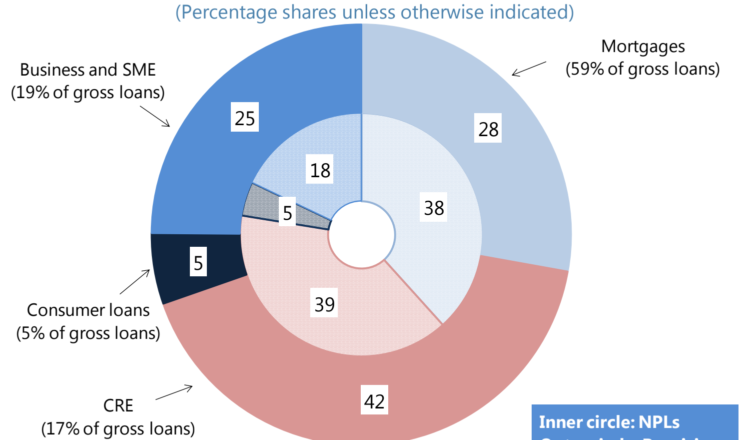
B. Financial Sector Policy

18. Reviving financial intermediation in support of sustained economic recovery will require a multi-pronged approach. Continued weak lending reflects low demand given the still depressed level of investment and high household and SME debts but lingering credit risk aversion and evaluation challenges may also hinder banks' loan origination. Recognizing the need to diversify financing sources and spread risks, the authorities have established Real Estate Investment Trusts that have attracted significant investor interest recently, and they are exploring alternative sources for business financing. But it remains important to complete banking system repair so it can play its role in supporting recovery when credit needs rise.

Resolving Distressed Loans

19. Given the scale of NPLs and the often lengthy resolution process, sustained strong efforts to clean up bank balance sheets are important. Banks' NPLs remain very high, at 27 percent of loans at end 2013, in a range of 17–35 percent across the three Irish headquartered banks. Such ratios reduce banks' potential capacity to lend by hurting profitability, including through higher market funding costs, limiting the supply of collateral for funding, and diverting credit skills. With recovery taking root and property markets improving, banks may see further upside from postponing NPL resolution. But such choices at the individual bank level may not sufficiently internalize the macroeconomic impact of banks collectively leaving NPLs at high levels in terms of barriers to new lending and an inefficient allocation

Banks' NPLs and Provisions, end 2013
(Percentage shares unless otherwise indicated)



Sources: Irish authorities; and IMF staff calculations.

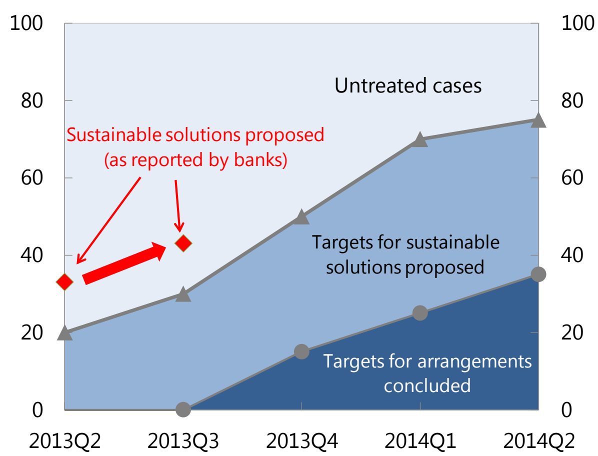
of capital, warranting supervisory pressure on banks to accelerate asset clean up. Reducing uncertainties around the value of banks' loans will also enhance public debt sustainability by supporting valuations for the government's bank equity holdings, which it intends to dispose.

20. In view of improved market conditions, the authorities should press banks to broaden their resolution efforts into impaired CRE loans. Banks hold mostly smaller CRE exposures (below €20 million) that were not transferred to NAMA, yet delinquent CRE loans still account for 40 percent of NPLs. Recent strong IBRC and NAMA deal flow points to potential investor interest—although the nature of the assets differ somewhat—and the banks' portfolios also have relatively high provisioning cover. Staff therefore recommends that banking supervision press forward the restructuring of these NPLs or their disposal in a manner that achieves sufficient deal flow while avoiding flooding markets. Although one bank is exploring disposal options for its CRE loan portfolio, others prefer loan restructuring to retain potential upside and their customer base.

21. Broadening resolution to CRE loans does not diminish the importance of closely supervising banks' resolution of distressed residential mortgages and SME loans:

- **Mortgage resolution should be both timely and durable**. In order to address banks' high reliance on forbearance for distressed mortgages, in Q1 2013 the CBI established Mortgage Arrears Resolution Targets for the banks. Under these targets banks have ramped up engagement with mortgage borrowers in arrears over 90 days, offering solutions to over half of such borrowers by end 2013. Banks report that by end March they had concluded solutions for over 25 percent of primary dwelling and buy to let loans in arrears for more than 90 days. Targeted audits give the CBI comfort that the solutions underway are durable, but reducing reliance on short-term modifications paying interest only or less remains important. The CBI expects to set targets for the second half of 2014 shortly. Staff recommends seeking concluded resolution for a majority of arrears cases by year end while ensuring that these solutions are lasting through audits and close supervisory engagement with banks.

Mortgage Resolution Targets and Outturns
(Percent of cases >90 days past due)



Source: Central Bank of Ireland.

- **Risks to resolution progress should be contained, including by ensuring sufficient court capacity**. Securing constructive engagement by borrowers remains a key challenge to progress, where extending independent advice to borrowers willing to negotiate with lenders may be helpful. The Insolvency Service is developing a protocol to standardize

loan modifications, which could also help. Although the streamlining of court procedures following the recommendations of the Expert Group on Repossessions is welcome, it remains important to ensure that the court system has sufficient capacity to avoid a backlog to protect borrowers' and banks' incentives to engage toward timely resolution.

- **SME loan workouts will require ongoing oversight to ensure viability is restored**. The two main banks making loans to SMEs report substantial progress in developing workouts for their distressed SME loans, although in practice such workouts will be implemented over some years as restructuring steps by SMEs move forward. Recent amendments to the Companies Act facilitating SME less costly examinership procedures are expected to become operational in June, which may be most useful in multi-creditor cases as banks otherwise prefer to conclude workouts outside of the courts.

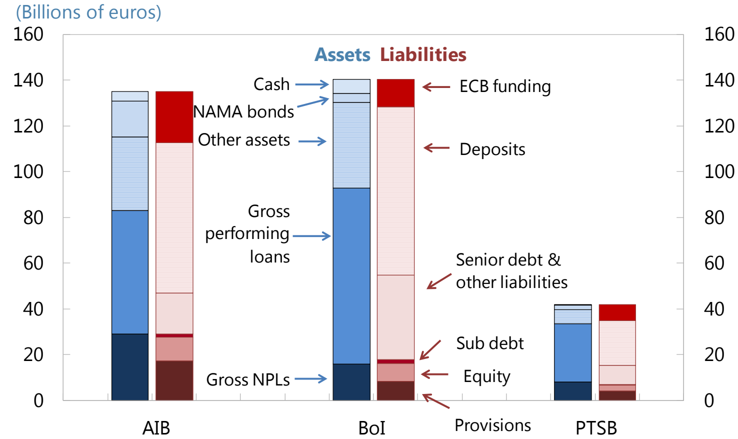
22. NAMA's asset disposal timeline is under review, with staff welcoming market driven acceleration while retaining flexibility. In just over three years of operation, asset disposals have allowed redemptions of €10½ billion of government guaranteed NAMA bonds, about one-third of the senior NAMA debt issued to banks. Reflecting the recent deal flow, NAMA now targets cumulative redemptions of €15 billion by end 2014, two years ahead of its earlier schedule. The government has asked NAMA to review the scope for a faster asset wind down. Staff supports accelerated disposals of assets enjoying stronger demand, which would reduce contingent liabilities and banks' exposure to low yielding NAMA bonds, while noting that it is useful to preserve flexibility for disposals closer to the original deadline of 2020 if needed.

The Comprehensive Assessment

23. The ECB's Comprehensive Assessment and corrective actions where needed are important to reinforce confidence in European banks, including in Ireland (Box 3). AIB, BoI, and PTSB all reported capital ratios above the regulatory minima at end 2013. Notwithstanding, a finding of a capital need under the Assessment cannot be precluded, with results due to be announced in October. Private capital is the first line of recourse and it is welcome that market conditions for European bank equity issuance currently appear relatively favorable. Nonetheless, where private capital is insufficient, public support may be needed, including from a common euro area backstop to protect market confidence and financial stability; the possibility of ESM direct recapitalization should not be excluded. If the supervisory risk element of the assessment identifies other issues, such as profitability or liquidity, staff considers these should be addressed over time in a manner that contains costs while firmly safeguarding financial

Banks' Balance Sheets, end 2013

(Billions of euros)



Sources: Banks' financial statements.

stability. This is especially important for PTSB, where staff continues to see risks to its return to adequate profitability over a reasonable horizon in its current form, but approval of its European Commission restructuring plan is on hold pending completion of the Assessment.

Financial Oversight and Infrastructure

24. Ireland's observance of key regulatory and supervisory standards was recently assessed. Detailed assessments of observance of the Basel Committee's *Core Principles for Effective Banking Supervision* and the International Organization of Securities Commission's *Objectives and Principles of Securities Regulation* have been published, with an umbrella Report on Observance of Standards and Codes. The CBI maintained that its prioritization of supervisory effort is appropriately risk based, especially as the cohorts of institutions designated as medium-low or low impact are least systemically important. Regarding issues of CBI independence under some legislative provisions, the authorities noted that such concerns are hypothetical as no political interference is observed in practice. Nonetheless, this matter will be considered in the context of any future review of the relevant statutes. They will also evaluate their code on related party transactions and, if potential risks outside of its scope are evidenced, will move to amend it.

25. The authorities are enhancing their macroprudential framework in line with European Systemic Risk Board (ESRB) recommendations. Aside from countercyclical capital buffers established under the Capital Requirements Regulation, macroprudential policies in the EU remain largely the responsibility of national authorities, in consultation with the ESRB, and are a shared competency with the ECB for countries in the Single Supervisory Mechanism. The CBI is Ireland's national macroprudential authority. Staff encouraged further progress on work to develop effective macroprudential tools that are ready to be put into operation if the need arises.

26. The authorities are considering options to develop nonbank financing. Ireland hosts a large number of international investment funds, yet they do not provide significant financing to the domestic economy. The CBI is exploring options to permit loan origination by Irish authorized funds—a significant change from current regulations that limit funds to purchases of loan portfolios. Entry of such companies could help diversify sources of credit to the economy, especially for firms that are too small to access bond markets. Moreover, ISIF, together with Germany's KfW and the European Investment Bank, will finance the newly established Strategic Banking Corporation of Ireland (SBCI). With €500 million of initial funding expecting to rise to €4 billion over the next five years, SBCI will seek on-lending institutions (e.g., commercial banks or other loan originators) to channel funds to SMEs, aiming to reduce cost and improve flexibility of SME funding. As nonbank financing develops, it would be important for the CBI to increase resources devoted to nonbank regulation and supervision as needed to mitigate risks to financial stability and protect borrowers and investors.

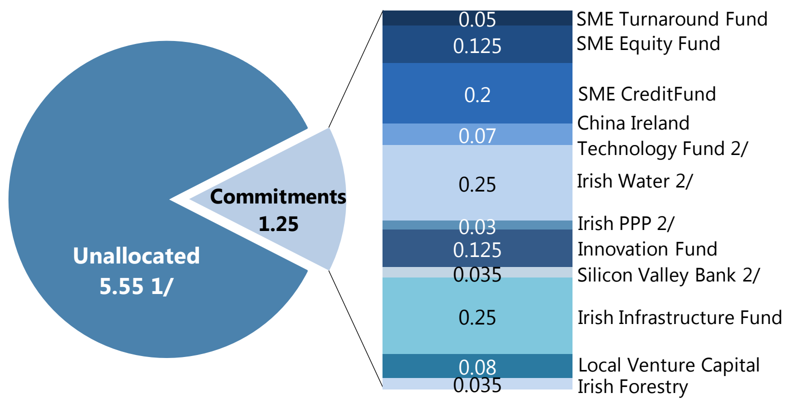
C. Growth Strategy

27. Maximizing job gains in over the medium term requires further strengthening of employment services and training, especially for the long-term unemployed. Although

important initial progress has been made in reducing unemployment, the share of long-term unemployed remains high at 61 percent. The roll out of the Intreo one-stop-shops for jobseekers is a step in the right direction, but the intensity of engagement with the unemployed remains low by international standards. The recent issuance of a tender for private sector providers of labor activation services ("JobPath") is therefore welcome, yet further redeployment of public sector staff is also needed. Following the high-level strategic review of Further Education and Training policies, timely implementation is required of a detailed strategy to better align training provision with employer needs, including through the promotion of apprenticeships.

28. Careful management of the ISIF is critical. The recently established ISIF redeploys public assets of €6.8 billion (4 percent of GDP) from the National Pension Reserve Fund (a sovereign wealth fund) to commercial investments in Ireland to support economic activity and employment. To date, €1¼ billion in resources have been allocated to funds covering SME equity and credit financing and infrastructure projects, including PPPs for school construction and financing of water meters. Moving from managing financial assets to such a broad private investment role will entail major operational challenges. Ensuring the commerciality of projects through prudent scrutiny of project returns and substantial private investor participation is critical. ISIF supported projects should not displace private projects otherwise they are not adding to growth and employment. As part of managing risks to these public funds, detailed reporting on ISIF activities and performance is appropriate. The ISIF should not crowd out private financing and the continued need for the ISIF should be reviewed periodically, taking into account its performance and developments in the range of private financing options available.

NPRF/ISIF Commitments
(Billions of euro)



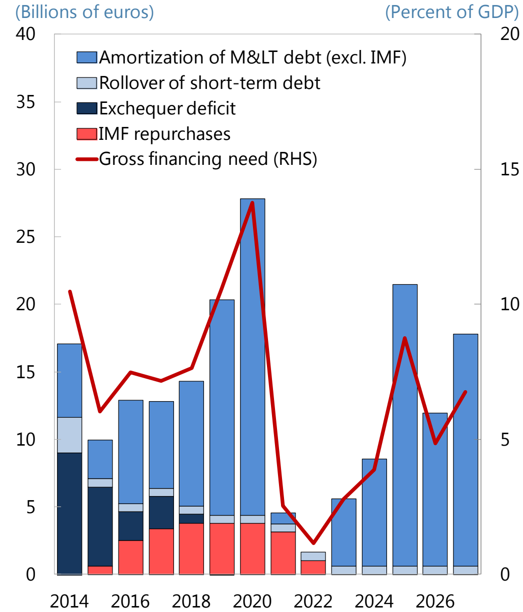
Sources: Department of Finance; and National Pensions Reserve Fund.
1/ NPRF Discretionary Portfolio as of end 2013 minus Commitments.
2/ To date.

29. The authorities recently released a strategic plan for the depressed building sector. Construction remains depressed with former construction workers a significant portion of the unemployed. At the same time, supply shortages are driving house price rises in some urban areas. Key steps in the plan to address these issues are improving planning flexibility, reducing local taxes on developers, and promoting the use of vacant sites in urban areas. The plan also considers supporting first-time buyers to finance new homes in areas where shortages are particularly acute, including though mortgage guarantees to banks. Staff welcomes measures to ease supply constraints but cautions against such mortgage guarantees in view of the implications for contingent liabilities and credit standards.

POST-PROGRAM MONITORING

30. Ireland's capacity to repay the Fund is expected to be adequate, assuming continued implementation of current policies and access to credit markets. Public debt projections have marginally improved since the last review under Ireland's EU-IMF supported program, contingent liabilities have been reduced significantly, sovereign ratings have been upgraded, and financing is being accessed regularly on favorable terms. The government is comfortably financed for the next year, with more than 80 percent of its 2014 bond funding target already met. Gross financing needs in 2015–19 are manageable and the authorities have in the past transacted in secondary markets to smooth amortization humps. EFF repurchases are scheduled to begin in 2015 and conclude by 2022, with repayments to the EFSM expected to commence in 2027 and to the EFSF in 2029.

Government Gross Financing Need



Source: IMF staff estimates.

31. Risks to Ireland's capacity to repay reflect broader risks to Ireland's debt sustainability. Given the rise in gross financing needs in the medium term, continued market access remains of paramount importance. Key risks lie in the factors shaping the public debt path, including the range of risks to growth over the medium term (paragraph 10), and the potential for contingent liabilities to be realized (paragraph 11). Moreover, as Ireland has endured substantial fiscal adjustment in the past seven years, the political difficulty of further fiscal consolidation to balance the budget is also a potential source of risk, requiring further steadfast commitment to Ireland's medium-term fiscal framework. Sound policies at the euro area level also have an important role to play, including by achieving inflation targets and supporting medium-term growth such as through a well functioning banking union, which together will promote stability in euro area financial market conditions.

STAFF APPRAISAL

32. The Irish economy is beginning its recovery from crisis but determined efforts remain vital to sustain strong growth while reducing vulnerabilities. Following a smooth exit from the EU-IMF supported program, strong job creation and other indicators suggest economic recovery is broadening. Together with other European periphery countries, Ireland currently enjoys favorable financial market conditions and the government has resumed bond auctions at historically low yields. Nonetheless, unemployment is still high even after a significant decline in recent years, and public and private debt burdens remain a source of risk to the strength and durability of the recovery, in part as very high NPLs could weigh on a revival of lending in the medium term.

33. Steady fiscal adjustment is needed to put the budget on a sound footing and ensure that public debt is on a firmly downward trajectory. Consistent with continuing recovery, budget revenues are off to a solid start in 2014, and the authorities should ensure total expenditure remains within the ceiling despite persistent health spending pressures, including if revenues outperform. For 2015, maintaining the long planned fiscal measures of about 1¼ percent of GDP would safeguard hard won credibility. Anchoring the quantum of adjustment rather than the headline deficit would also avoid procyclical responses to revisions in growth projections. Budget balance is a sound fiscal objective for the medium term, serving to protect Ireland's sustained recovery by putting high public debt firmly on a downward path. Reaching balance would entail an estimated further 2¾ percent of GDP in fiscal adjustment after 2015, representing a significant political challenge. It will therefore be critical to utilize the ongoing reviews to identify durable spending and revenue measures to achieve these fiscal goals in a growth friendly manner that protects the most vulnerable.

34. Firm supervisory pressure on banks to durably resolve high NPLs is needed to support a revival of financial intermediation and enhance debt sustainability. Nonbanks can diversify financing options and spread risks, but banks need to work through extensive distressed loans to be ready to play their full role. Rising investor interest increases the scope for lasting resolution of impaired CRE loans through a combination of disposals and restructurings, and banking supervision should press this process forward as market conditions permit. It is also appropriate for NAMA to consider accelerating its disposals while preserving flexibility. The central bank must maintain close supervision over banks' resolution of distressed mortgages and SME loans to ensure timely and durable progress, including resolving a majority of mortgages in arrears by year end. Recent personal insolvency and repossession reforms are welcome and it remains important to avoid court backlogs in order to protect borrowers' and banks' incentives to engage toward timely resolution.

35. The ECB's ongoing Comprehensive Assessment is important to reinforce confidence in European banks including in Ireland. In common with all European banks subject to the Assessment, any capital needs, if identified, would need to be addressed in a timely manner. Private capital is the first line of recourse and it is welcome that market conditions for European bank equity issuance currently appear relatively favorable. Nonetheless, public support may be needed where private capital is insufficient, including from a common euro area backstop to protect market confidence and financial stability; the possibility of ESM direct recapitalization should not be excluded. If the Assessment identifies profitability or liquidity issues, these should be addressed over time in a manner that contains costs while safeguarding financial stability.

36. Growth potential should be bolstered by helping the long-term unemployed return to work and fiscal risks should be contained while facilitating investment. Further improving engagement with the long-term unemployed and ensuring training meets labor market needs is essential. Although the ISIF could help address market financing gaps, careful management of its broad private investment role is critical. Commerciality should be ensured through close scrutiny of project returns and substantial private investor participation. The continued need for the ISIF should be reviewed periodically.

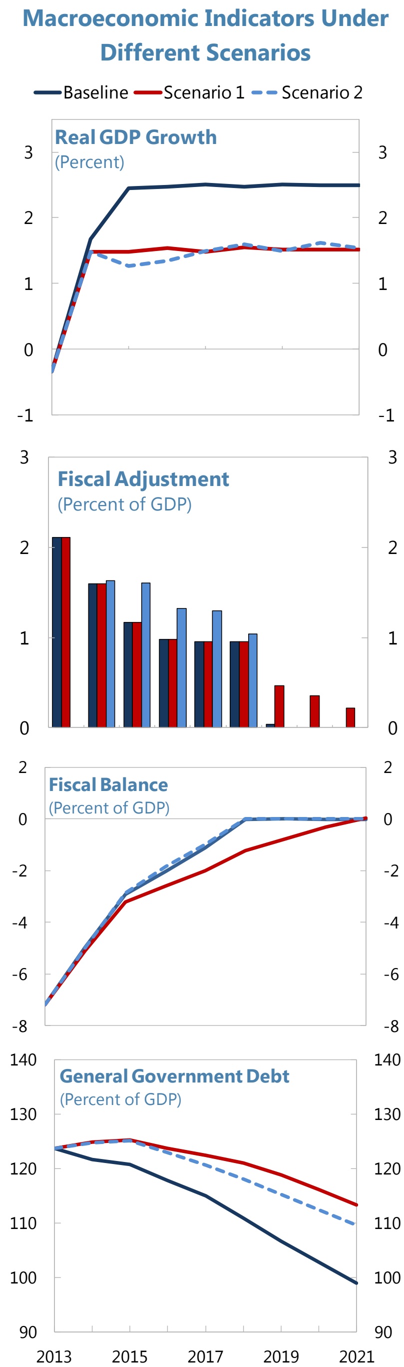
Box 1. Fiscal Impact of a Low Growth Scenario Under EU Policy Rules

Ireland's fiscal targets are anchored in the EU framework. The requirements under the Excessive Deficit Procedure (EDP) are binding through 2015. Thereafter, national fiscal rules in line with the Stability and Growth Pact (SGP) commitments apply:

- **EDP**. Ireland's general government deficit must remain below the 2010 EU Council Recommendation of 5.1 percent of GDP for 2014 and 3.0 percent for 2015. If the ceiling is not met owing to weak growth, structural adjustment is taken into account in the compliance assessment.

- **Budget balance rule**. This rule, which kicks in from 2016, requires the general government budget position to be in balance or in surplus, or that adequate progress be made toward the authorities' medium-term budgetary objective of an overall balance in structural terms, with a minimum structural balance improvement of 0.5 percent of GDP each year. The Medium-Term Economic Strategy and the Stability Programme Update signaled reaching balance by 2018.

- **Debt rule**. Starting in 2019, three years after Ireland exits the EDP, the general government debt rule also becomes applicable. It requires that at least one-twentieth of the difference between the actual gross debt ratio and the SGP reference value of 60 percent of GDP be closed every year.



The fiscal impact of sustained low growth would depend on the policy reaction within this framework. If average real GDP growth were only 1½ percent annually starting in 2014, the authorities could maintain planned measures and still observe the rules, or they could increase measures to keep to the same timetable:

- **Scenario 1**: Maintaining currently planned measures, the overall deficit would rise to 5.2 percent of GDP in 2014 and 3.4 percent in 2015. Achievement of structural budget balance would be delayed until 2021 with 3 extra years of 0.5 percent of GDP adjustment required. Debt reduction would slow, with the debt ratio falling to about 120 percent of GDP in 2019, compared with 107 percent of GDP in the baseline.

- **Scenario 2**: Meeting the original schedules for a deficit below 3 percent and budget balance would entail additional fiscal adjustment. Additional effort of 0.5 percent of GDP would be needed in 2015 to meet the 2.9 percent target. Further effort in each year of 2016–18 of about 0.3 percent of GDP would be needed to reach balance by 2018. These additional adjustments are estimated to lower growth in 2015–18 by a cumulative 0.8 percent, with only limited benefit for the pace of debt reduction, as the debt ratio would fall to 116 percent of GDP by 2019.

Box 2. Options for Fiscal Adjustment Measures

Fiscal consolidation should be based on reforms that are equitable, durable, and growth friendly. In line with the recommendations discussed during the 2012 Article IV consultation, staff encourages the authorities to build the measures around:

- **Better targeting of social supports and subsidies**. Substantial, durable, and progressive savings can be achieved by better targeting costly universal supports. Spending on three universal supports and subsidies (the child benefit, the household benefits package, and the subsidy on student fees) is about 2 percent of GDP annually. Although medical cards are means-tested, persons over 70 years of age face a significantly more generous means test. Staff estimates that realistic gradual reductions in these schemes through better targeting could yield annual savings of 1 percent of GDP. Measures to reform these supports would also help contain demographic-related spending pressures.

Selected Expenditure Items Offering Scope for Targeting/Saving
(Percent of GDP)

	2014 est.
Household benefits	0.2
Child benefits	1.1
Subsidy on college fees	0.6
Medical cards	0.9
Total	**2.8**

Sources: Budget 2014 Expenditure Report; and IMF staff estimates.

- **Focusing revenue efforts on base broadening rather than rate hikes**. The authorities could consider expanding the number of products covered under the standard VAT rate, (which could yield up to 1 percent of GDP) or eliminating the 9 percent reduced rate for tourism related activities (with potential revenue impact of up to ½ percent of GDP). Personal income tax revenues could be expanded by reducing the main income tax credits and lowering the entry point (potentially yielding ½ percent of GDP, based on a 7 percent reduction in credits and tax bands).

- **Protecting capital expenditure**. Spending on gross fixed capital formation has fallen from 5.3 percent of GDP in 2008 to 1.6 percent of GDP in 2014. This is extremely low when compared to an estimated depreciation of 1.4 percent of GDP in 2014.

- **Reforming key public services, especially health and higher education, to reduce the public cost while preserving outcomes**. In health, potential reforms could include improving the financial management system, promoting greater use of primary care rather than hospital stays, and further reducing pharmaceutical costs. Staff welcomes the government's commitment to move ahead with the universal health insurance plan on the basis of no additional cost, and will advocate for careful costing of the plan, to be implemented in 2019, to ensure that it does not create additional spending pressures in practice. The authorities are encouraged to advance the efficiency increasing measures included in the plan, namely the reorganization of the hospital sector and revision of the provider reimbursement mechanisms. In higher education, reform could involve a new funding model that better takes into account skills priorities and links college fees to the costs and earnings potential of courses, while supporting low income students through affordable loans and grants.

Box 3. The Comprehensive Assessment

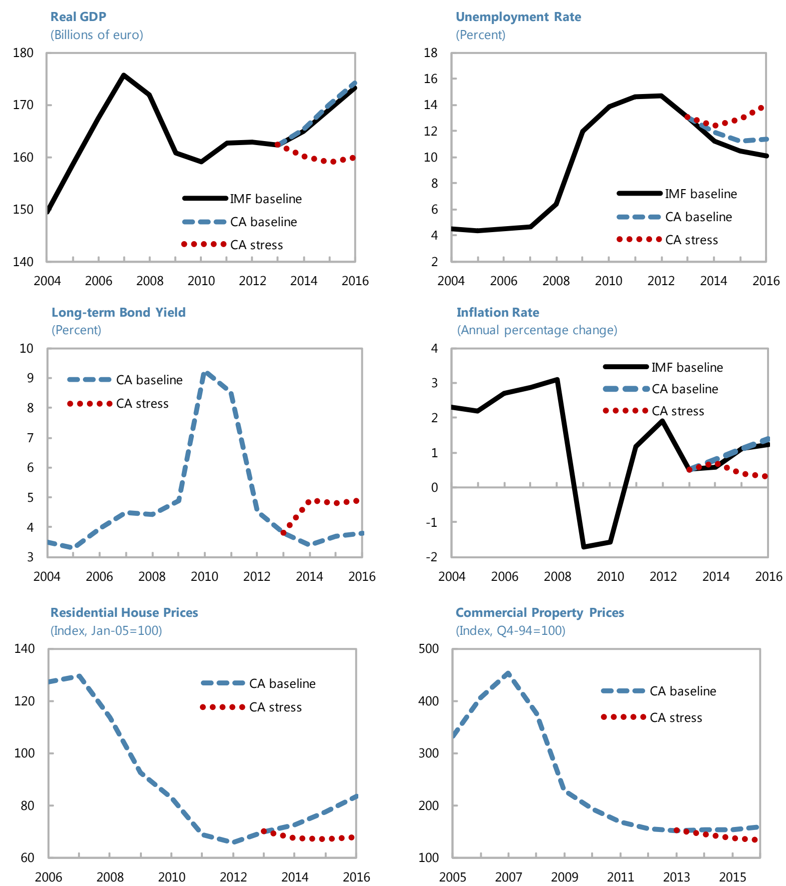
Irish banks are currently undergoing the ECB's Comprehensive Assessment (CA). The five largest banks are included: three Irish headquartered banks (AIB, BoI, PTSB), and the domestic subsidiaries of Merrill Lynch and Royal Bank of Scotland. Based on end 2013 data, the CA comprises: (i) an Asset Quality Review (AQR); (ii) a forward looking stress test covering 2014–16; and (iii) a supervisory assessment of key risks in banks' balance sheets, including liquidity, leverage, and funding.

- **The AQR will audit banks' banking and trading books**. For each bank, at least half of the credit risk weighted assets and at least half of the material portfolios will be covered. For the banking book, the AQR will look at the impairment and loan classification, valuation of collateral, and fair valuation of assets, while core processes, pricing models, and revaluation of Level 3 derivatives will be covered in the trading book review. Compared with the CBI's BSA in 2013, the AQR for the CA has narrower coverage of the banking book by risk weighted assets (RWA), it does not review banks' RWA models, but does cover the trading book although such exposures are not large for the domestic retail banks.

- **Scenarios for the stress test were recently published**. Compared with the baseline, the stress scenario for Ireland has cumulative declines until 2016 of 8.1 percent, 18.9 percent, and 1.9 percent for real GDP, residential house prices, and consumer prices, respectively, and a 3.6 percentage point higher unemployment rate. Given the baseline, the residential house prices reach levels near recent troughs while an additional decline of around 12 percent is assumed for commercial property. Consumer price inflation is projected lower but still positive. The stress test will be conducted using a static balance sheet assumption, although banks with European Commission approved restructuring plans that are likely to be completed, and which were also publicly announced before end 2013, will be able to incorporate these assumptions into the baseline scenario.

- **The CA will apply a common equity tier 1 risk based capital floor of 8 percent for the AQR and the stress test baseline, and 5.5 percent for the adverse scenario, using the relevant transitional definitions**. Results will be announced in October. If a capital need is identified, the additional capital will have to be raised within 6 months if the shortfall occurs under the AQR or baseline scenario, or within 9 months if it arises under the stress scenario.

Ireland: Comparison of Scenarios



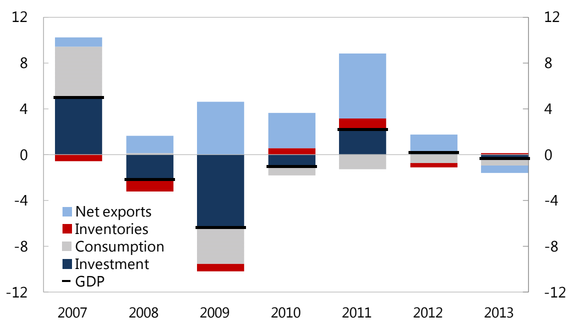
Sources: CSO; ESRB; IPD; and IMF staff calculations.

Figure 1. Ireland: Real Sector and Inflation Indicators, 2006–14

Net exports weighed on growth in 2013 as the "patent cliff" lowered pharmaceutical exports substantially…

Contributions to Real GDP Growth

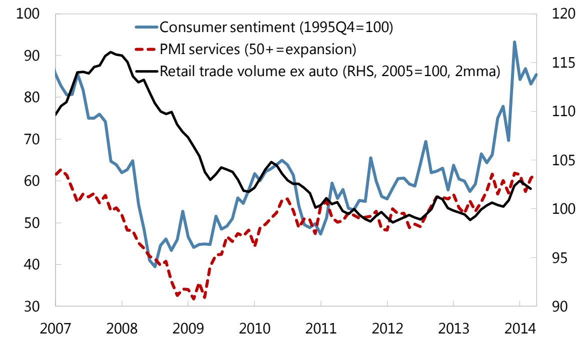
(Percent, y/y)



Sources: Central Statistics Office; and IMF staff calculations.

…yet high-frequency indicators suggest stronger domestic demand in 2014 as consumer confidence rebounded to pre-crisis levels.

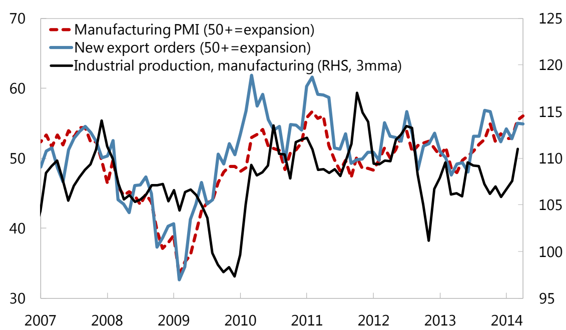
Retail Trade and Sentiment Indicators



Sources: CSO; ESRI; Haver Analytics; and NCB Stockbrokers/Markit.

Export orders, while volatile, are gradually regaining ground and the manufacturing PMI is now firmly into expansion territory.

Export Indicators and Industrial Production

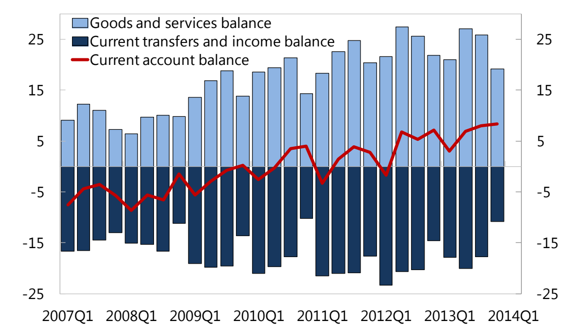


Sources: Central Statistics Office; NCB; and Haver Analytics.

The current account surplus grew in 2013 as net exports, while weaker, still outweighed income outflows.

Current Account Balance Composition

(Percent of GDP)

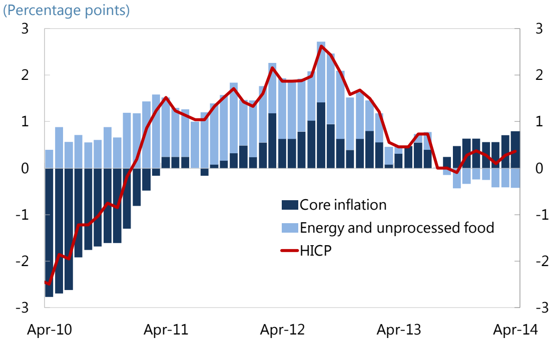


Sources: Central Statistics Office; and Haver Analytics.

Inflation is at low ebb, in the wake of a stronger euro and falling import prices.

Contribution to Annual HICP Inflation

(Percentage points)

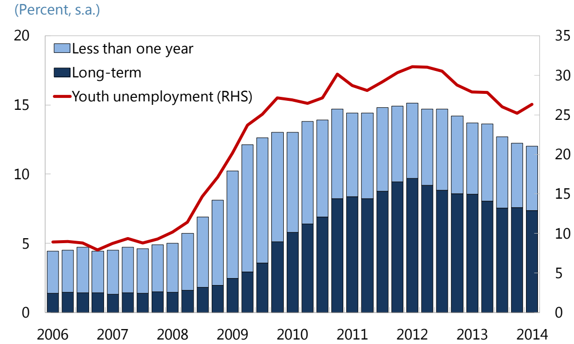


Sources: Central Statistics Office; and IMF staff calculations.

Unemployment eased to 12 percent in Q1, but youth unemployment is still above 25 percent.

Unemployment Rates

(Percent, s.a.)



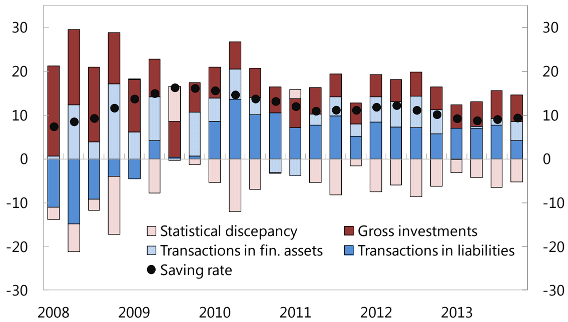
Sources: CSO; and Haver Analytics; and IMF staff calculations.

Figure 2. Ireland: Household Finance and Housing Developments, 2003–14

Household savings remain elevated, with three-quarters of savings devoted to debt reduction since 2010...

Decomposition of Household Savings

(Percent of gross disposable income)

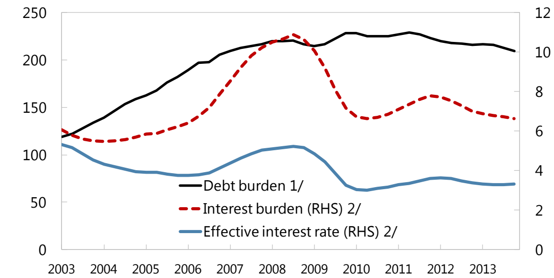


Sources: Central Bank of Ireland; Eurostat; and IMF staff calculations.

...but household balance sheets remain burdened with large debt, although interest payments are low.

Household Debt and Interest Payments

(Percent of gross disposable income)

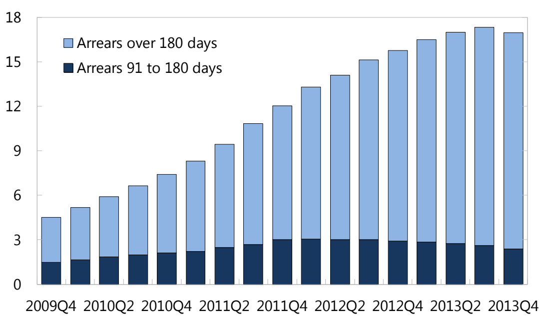


Sources: Central Bank of Ireland; Haver Analytics and IMF staff calculations.
1/ Total household liabilities in percent of four-quarter gross disposable income.
2/ Four quarter interest payments (excluding FISIM adjustment) in percent of four-quarter gross disposable income or previous quarter's total household liabilities, respectively.

From Q4 2013, outflows of long term mortgage arrears exceeded new arrears...

Mortgages in Arrears on Primary Dwellings

(Percent of total mortgage value)

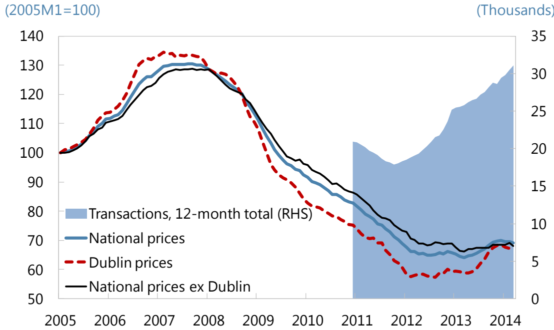


Source: Central Bank of Ireland.

...and property prices are recovering nationwide.

Residential Property Prices and Transactions

(2005M1=100) (Thousands)

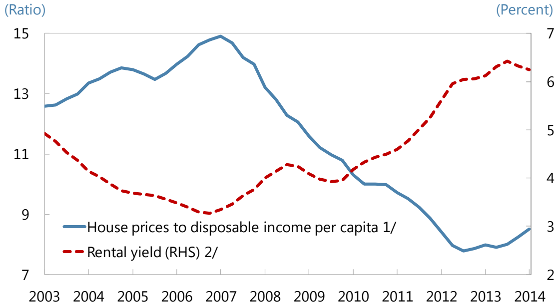


Sources: CSO; Haver Analytics; Property services regulatory authority; and IMF staff calculations.

Rental yields remain close to their highest level in ten years, suggesting favorable valuation.

Indicators of Housing Valuation Levels

(Ratio) (Percent)

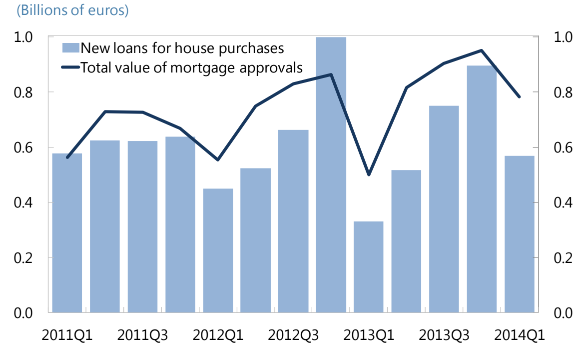


Sources: PTSB/ESRI; CSO; and Haver Analytics.
1/ Average house prices divided by moving 4-quarter adjusted GDI per capita.
2/ Census 2011 rent extrapolated by CPI rental component over CSO house prices.

New mortgage lending is on an uptrend from low levels with the decline in Q1 reflecting seasonal patterns.

Housing Loans and Mortgage Approvals

(Billions of euros)

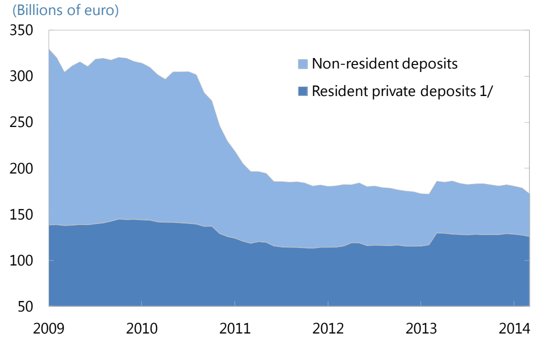


Source: Irish Banking Federation.

Figure 3. Ireland: Credit Developments, 2003–14

The level of private sector deposits remained stable…

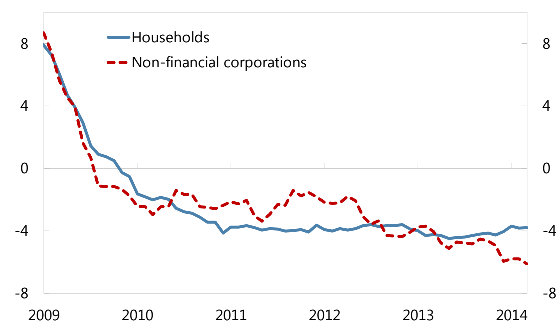
Irish Banks' Deposits
(Billions of euro)



Source: Central Bank of Ireland.
1/ Irish-headquartered banking groups (as per Table A.4.2, monetary statistics)

…but deleveraging continues at a 4.5 percent y/y rate in 2013.

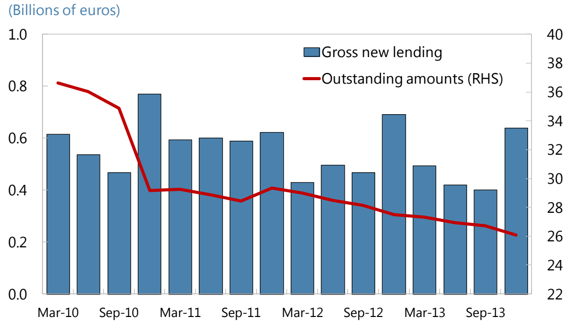
Loans Outstanding to Irish Residents
(Percent change, y/y)



Source: Central Bank of Ireland.

Total SME outstanding credit is steadily declining as redemption exceed new lending…

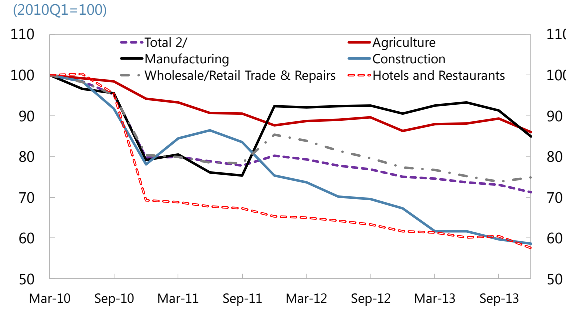
Outstanding SME Credit 1/
(Billions of euros)



Source: Central Bank of Ireland.
1/ All resident credit institutions, excluding real estate and financial intermediation.

…across all sectors.

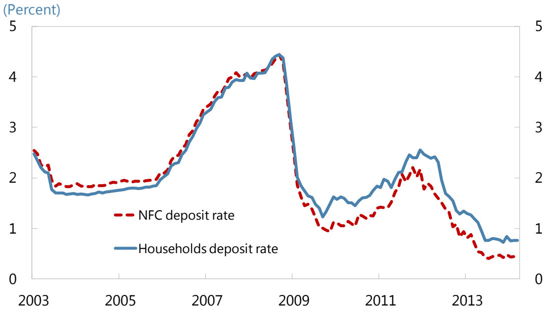
Outstanding SME Credit by Sector 1/
(2010Q1=100)



Source: Central Bank of Ireland.
1/ All resident credit institutions.
2/ Excludes real estate and financial intermediation.

New deposit rates stabilized below 1 percent…

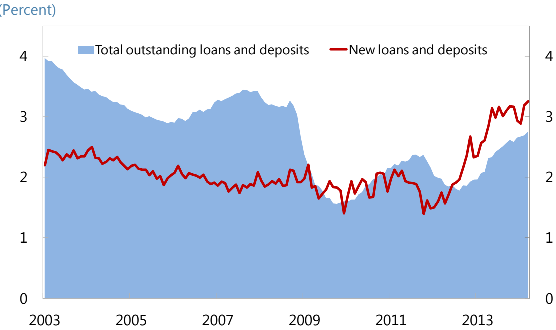
Median Deposit Rates, New Business 1/
(Percent)



Source: Central Bank of Ireland.
1/ Data relate to new business conducted through resident offices of a sample of banks and include IBRC. Refers to median deposit rates (excludes overnight). Last observation March 2014.

…generating an increase in interest margins.

Interest Rate Margins Between Loans and Deposits 1/
(Percent)

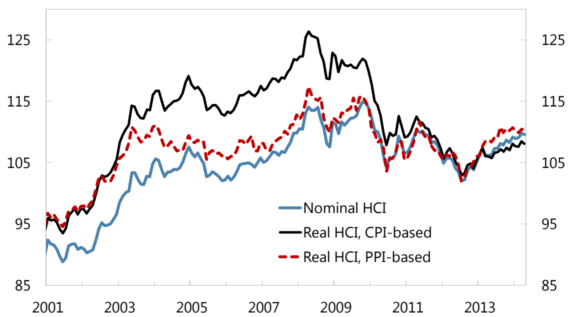


Source: Central Bank of Ireland.
1/ Weighted average loan rate minus weighted average deposit rate.

Figure 4. Ireland: Competitiveness Indicators, 1996–2014

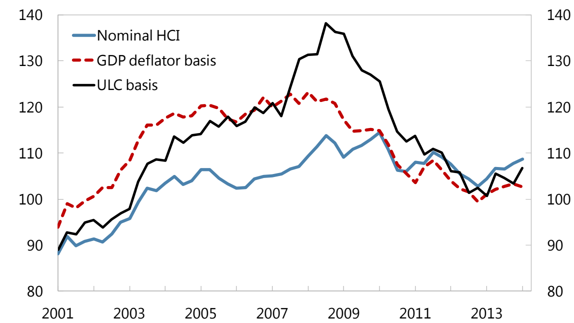
Appreciation of the euro in the recent months slowed the improvement in competitiveness indicators.

Harmonized Competitiveness Indicators (Monthly)
(1999Q1=100)



Sources: CBI; and Haver Analytics.

Harmonized Competitiveness Indicators (Quarterly)
(1999Q1=100)

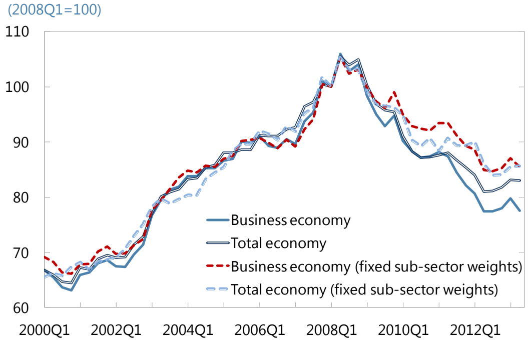


Sources: CBI; and Haver Analytics.

Though part of that earlier improvement reflects a shift to higher value-added sectors.

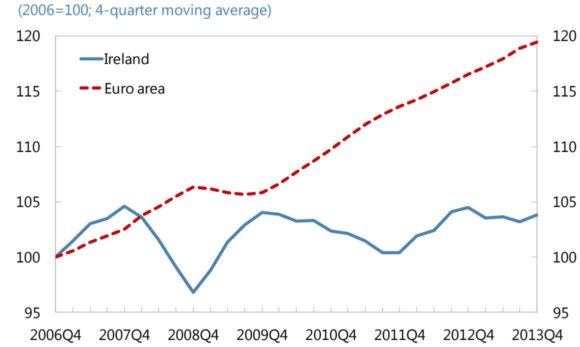
Private wages have been broadly flat in recent years, while growth has continued in the euro area.

Real Effective Exchange Rates on a ULC Basis
(2008Q1=100)



Source: Bruegel.

Hourly Labor Costs in Manufacturing
(2006=100; 4-quarter moving average)

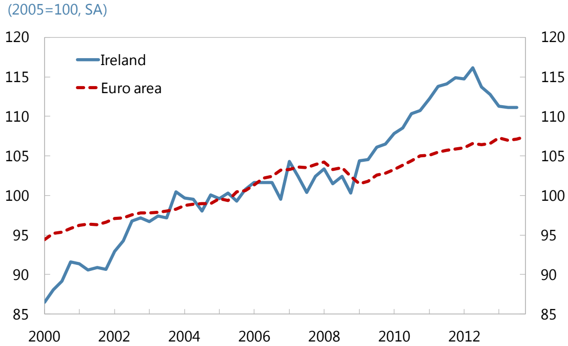


Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

While labor productivity continues to outpace the euro area, this gap has narrowed recently as employment data showed gains while output in the high-productivity pharmaceutical sector stalled due to patent expiry.

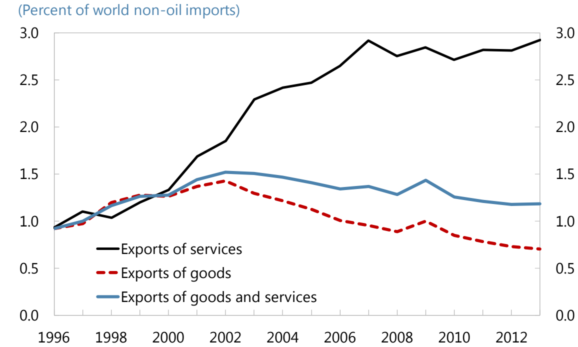
As yet, competitiveness improvements have not been reflected in rising market shares, with the impact of patent expiry on the goods market share evident.

Real Labor Productivity
(2005=100, SA)



Source: Eurostat.

Export Shares
(Percent of world non-oil imports)

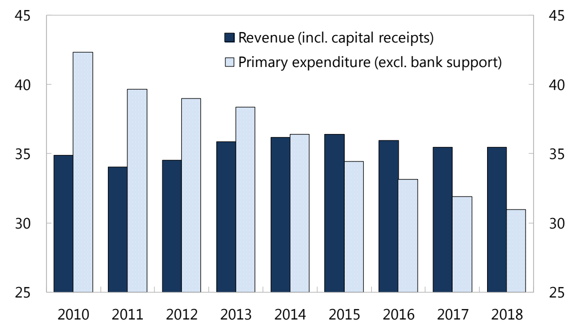


Sources: IMF WEO; and IMF staff calculations and projections.

Figure 5. Ireland: Selected Trends in General Government Finances, 2007–18

The primary deficit is expected to almost fully close by 2014, down from 7½ percent of GDP in 2010.

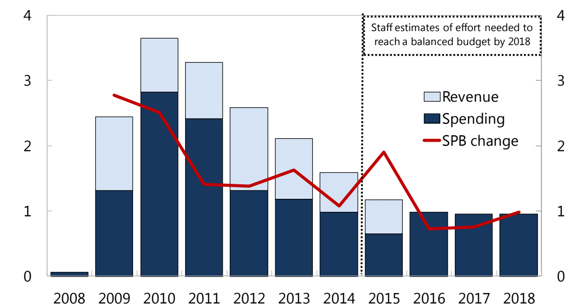
Revenues and Primary Expenditure
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Fiscal adjustment is programmed to moderate over time and is expenditure-led.

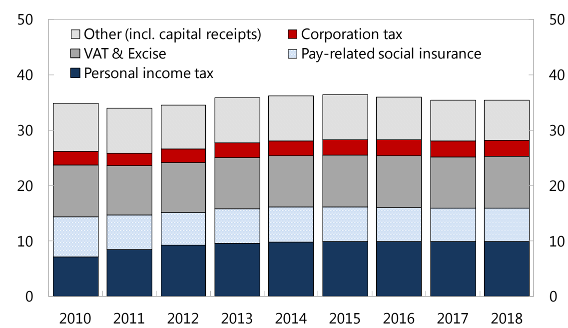
Composition of Fiscal Adjustment
(Percent of GDP)



Source: Department of Finance; and IMF staff estimates.
SPB denotes structural primary balance ratio.

Given the weaker recovery in nominal domestic demand, tax measures will only modestly raise revenues as a share of GDP.

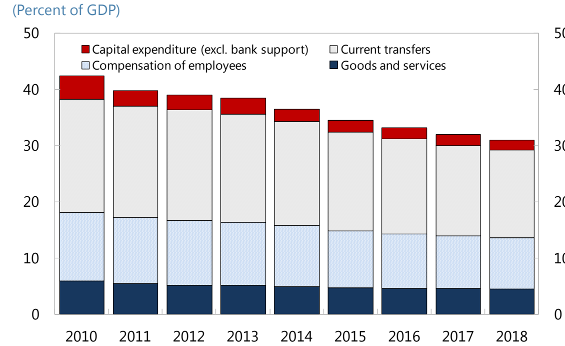
Revenue Composition
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Primary expenditures are expected fall by 13 percent of GDP, reflecting evenly spread savings.

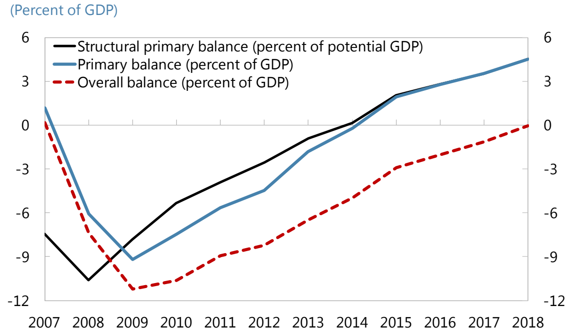
Primary Expenditure Components
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

The authorities target an overall deficit of 2.9 percent of GDP for 2015, and a balanced budget by 2018.

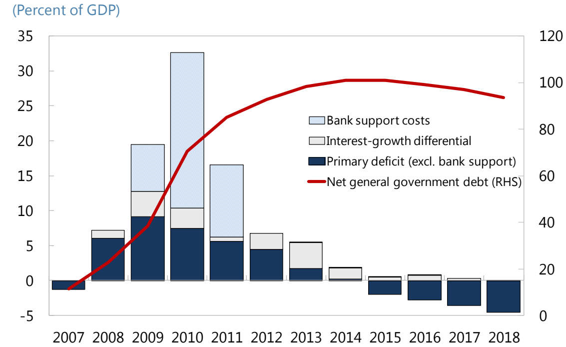
Headline, Primary and Structural Balance 1/
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.
1/ Excluding bank support; for 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

It will take time to unwind the increase in net debt, half of which arose from bank support costs.

Sources of Increase in Net Debt-to-GDP Ratio
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Table 1. Ireland: Selected Economic Indicators, 2009–15

(Annual percentage change unless indicated otherwise)

	2009	2010	2011	2012	2013	2014	2015
						Proj	
National accounts (constant prices)							
Real GDP	-6.4	-1.1	2.2	0.2	-0.3	1.7	2.4
Final domestic demand	-9.7	-5.0	-3.0	-1.1	-0.3	1.1	1.2
Private consumption	-5.1	0.9	-1.6	-0.3	-1.1	0.5	1.0
Public consumption	-3.4	-6.9	-2.8	-3.7	-0.5	-0.5	-2.0
Gross fixed investment	-26.9	-22.6	-9.5	-1.0	4.2	6.5	6.2
Net exports 1/	4.6	3.0	5.7	1.6	-0.6	0.8	1.5
Exports of goods and services	-3.8	6.4	5.4	1.6	0.2	2.5	3.6
Imports of goods and services	-9.8	3.6	-0.4	0.0	1.0	2.2	2.7
Real GNP	-9.1	0.5	-1.6	1.8	3.4	1.3	2.1
Gross national saving (in percent of GDP)	13.8	13.3	11.8	15.1	17.8	17.5	17.8
Private	21.2	20.5	18.4	21.4	23.3	20.8	19.1
Public 2/	-7.5	-7.2	-6.5	-6.3	-5.5	-3.3	-1.3
Gross investment (in percent of GDP)	16.1	12.2	10.6	10.6	11.2	11.7	12.1
Private	12.3	8.8	8.2	8.8	9.5	10.1	10.5
Public	3.7	3.4	2.4	1.9	1.7	1.6	1.6
Prices, wages and employment (annual average)							
Harmonized index of consumer prices	-1.7	-1.6	1.2	1.9	0.5	0.6	1.1
Average wage, whole economy	0.0	-1.9	-0.5	0.5	-0.7	0.5	1.0
Employment	-7.8	-4.0	-1.8	-0.6	2.4	2.2	1.8
Unemployment rate (in percent)	12.0	13.9	14.6	14.7	13.0	11.2	10.5
Money and credit (end-period) 3/							
Irish resident private sector credit 4/	-1.5	-3.4	-2.9	-4.0	-4.9	-4.8	...
Financial and asset markets (end-period) 3/							
Three-month interbank rate	0.7	1.0	1.4	0.2	0.3	0.3	...
Government bond yield (in percent, 10-year)	4.9	9.2	8.5	4.5	3.5	2.8	...
Annual change in ISEQ index (in percent)	28.8	5.1	5.2	16.3	30.3	7.7	...
House prices	-18.6	-10.5	-16.7	-4.5	6.4	0.1	...
Public finance (in percent of GDP)							
General government balance (excl. bank support) 5/	-11.2	-10.6	-8.9	-8.2	-7.2	-5.0	-2.9
Primary balance (excl. bank support)	-9.2	-7.5	-5.6	-4.5	-2.5	-0.2	2.0
General government gross debt	64.4	91.2	104.1	117.4	123.7	121.7	120.8
General government net debt	38.5	70.4	85.0	92.7	98.3	101.1	101.1
External trade and balance of payments (percent of GDP)							
Balance of goods and services	15.8	18.4	21.5	24.1	23.3	24.0	25.2
Balance of income and current transfers	-18.1	-17.3	-20.3	-19.7	-16.7	-18.2	-19.5
Current account	-2.3	1.1	1.2	4.4	6.6	5.8	5.7
Effective exchange rates (1999:Q1=100, average) 3/							
Nominal	112.5	107.8	108.6	105.1	109.2	...	...
Real (CPI based)	121.0	111.6	110.2	105.3	108.1	107.9	...
Memorandum items:							
Population (in millions)	4.5	4.6	4.6	4.6	4.8	4.8	4.8
GDP per capita (in euros)	35,797	34,710	35,542	35,752	34,349	34,903	35,932
GDP (in billions of euros)	162.3	158.1	162.6	163.9	164.0	167.7	173.7

Sources:Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; and IMF staff estimates.
1/ Contribution to growth.
2/ Excludes bank restructuring costs.
3/ Data refers to end-December for nominal effective exchange rate, end-January for real effective exchnage rate, end-February for private sector credit, interbank rate and house prices, end-March for other indicators.
4/ Adjusted growth rate of credit to households and non-financial corporations.
5/ General government balance per ESA95 definition. For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

Table 2. Ireland: Medium-Term Scenario, 2009–19

(Annual percentage change, unless indicated otherwise)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
								Proj.			
Real GDP	-6.4	-1.1	2.2	0.2	-0.3	1.7	2.4	2.5	2.5	2.5	2.5
Domestic demand	-10.4	-4.4	-1.8	-1.6	-0.1	1.1	1.2	1.8	2.0	2.3	2.7
Final domestic demand	-9.7	-5.0	-3.0	-1.1	-0.3	1.1	1.2	1.8	2.0	2.3	2.7
Private consumption	-5.1	0.9	-1.6	-0.3	-1.1	0.5	1.0	1.3	1.6	1.9	2.2
Public consumption	-3.4	-6.9	-2.8	-3.7	-0.5	-0.5	-2.0	-1.0	-0.3	-0.5	0.5
Gross fixed investment	-26.9	-22.6	-9.5	-1.0	4.2	6.5	6.2	7.3	6.0	6.5	6.5
Change in stocks 1/	-0.7	0.6	1.0	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	4.6	3.0	5.7	1.6	-0.6	0.8	1.5	1.1	1.0	0.8	0.5
Exports of goods and services	-3.8	6.4	5.4	1.6	0.2	2.5	3.6	4.1	4.2	4.2	4.2
Imports of goods and services	-9.8	3.6	-0.4	0.0	1.0	2.2	2.7	3.9	4.2	4.5	4.8
Real GNP	-9.1	0.5	-1.6	1.8	3.4	1.3	2.1	2.1	2.2	2.2	2.2
Current account 2/	-2.3	1.1	1.2	4.4	6.6	5.8	5.7	5.7	5.5	5.3	4.6
Gross national saving 2/	13.8	13.3	11.8	15.1	17.8	17.5	17.8	18.2	18.3	18.5	18.4
Private	21.2	20.5	18.4	21.4	23.3	20.8	19.1	18.6	17.9	17.1	16.8
Public	-7.5	-7.2	-6.5	-6.3	-5.5	-3.3	-1.3	-0.4	0.4	1.4	1.6
Gross investment 2/	16.1	12.2	10.6	10.6	11.2	11.7	12.1	12.5	12.8	13.3	13.8
Private	12.3	8.8	8.2	8.8	9.5	10.1	10.5	10.9	11.3	11.8	12.1
Public	3.7	3.4	2.4	1.9	1.7	1.6	1.6	1.6	1.5	1.4	1.6
Prices											
Harmonized index of consumer prices	-1.7	-1.6	1.2	1.9	0.5	0.6	1.1	1.2	1.4	1.7	1.7
GDP deflator	-3.8	-1.5	0.7	0.7	0.4	0.5	1.1	0.8	1.2	1.5	1.3
Average wage, whole economy	0.0	-1.9	-0.5	0.5	-0.7	0.5	1.0	1.3	1.5	1.8	2.0
Labor market											
Employment	-7.8	-4.0	-1.8	-0.6	2.4	2.2	1.8	1.5	1.5	1.5	1.5
Unemployment rate (in percent)	12.0	13.9	14.6	14.7	13.0	11.2	10.5	10.1	9.6	9.3	8.9
Public finance											
General government balance 2/ 3/	-11.2	-10.6	-8.9	-8.2	-7.2	-5.0	-2.9	-2.0	-1.1	0.0	0.0
General government gross debt 2/	64.4	91.2	104.1	117.4	123.7	121.7	120.8	117.8	115.0	110.8	106.7
General government net debt 2/	38.5	70.4	85.0	92.7	98.3	101.1	101.1	99.2	97.1	93.6	90.1
Output gap	-3.0	-3.8	-1.6	-1.6	-1.9	-1.3	-0.1	0.0	0.0	0.0	0.0
Nominal GDP (in billions of euros)	162.3	158.1	162.6	163.9	164.0	167.7	173.7	179.5	186.1	193.7	201.2

Sources: Central Statistics Office; Department of Finance; and IMF staff estimates.
1/ Contributions to growth.
2/ In percent of GDP, excludes bank restructuring costs. For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.
3/ General government balance per ESA95 definition.

Table 3. Ireland: General Government Statement of Operations, 2010–19
(consistent with *GFSM* 2001; in billions of Euros)

					Projections 1/					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	55.1	55.3	56.6	58.9	60.7	63.2	64.5	66.0	68.7	71.1
Taxes	34.8	37.6	39.5	41.4	43.3	45.4	46.9	48.5	50.9	53.0
Personal income tax	11.3	13.8	15.2	15.8	16.5	17.2	17.8	18.4	19.2	20.0
Corporate income tax	3.9	3.8	4.0	4.3	4.5	4.9	5.2	5.4	5.7	5.8
Value-added tax	10.1	9.7	10.2	10.3	10.5	10.9	11.2	11.5	12.1	12.6
Excise tax	4.7	4.7	4.7	4.9	5.1	5.4	5.5	5.7	6.0	6.3
Other 2/	4.9	5.6	5.4	6.1	6.8	7.1	7.3	7.5	7.9	8.2
Social contributions 3/	11.5	10.1	9.7	10.2	10.5	10.8	11.1	11.3	11.7	12.1
Other revenue 4/	8.8	7.6	7.5	7.3	6.8	7.0	6.5	6.1	6.2	6.1
Expenditure (excl. fin. sector support)	71.9	69.8	70.1	70.6	69.0	68.3	68.1	68.1	68.8	71.1
Expense (excl. fin. sector support)	66.5	65.9	67.0	67.9	66.3	65.5	65.3	65.2	66.0	67.9
Compensation of employees	19.3	19.1	18.8	18.4	18.3	17.5	17.4	17.3	17.6	17.9
Use of goods and services	9.3	8.8	8.5	8.3	8.2	8.1	8.1	8.5	8.7	9.0
Interest	5.0	5.3	6.1	7.7	8.0	8.5	8.6	8.7	8.8	8.9
Subsidies	1.6	1.3	1.5	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Social benefits 3/	28.4	29.0	29.0	28.6	27.9	27.1	26.9	26.4	26.6	27.6
Other expense (excl. fin. sector support) 5/	3.0	2.4	3.1	3.5	2.6	2.7	2.8	2.8	2.8	2.9
Other current transfers	1.8	1.9	1.9	1.5	1.7	2.0	2.1	2.0	2.1	2.1
Capital transfers (excl. fin. sector support)	1.3	0.6	1.2	1.9	0.9	0.7	0.7	0.7	0.7	0.8
Gross fixed capital formation	5.4	3.9	3.1	2.7	2.7	2.8	2.8	2.9	2.8	3.2
Financial sector support costs	31.6	6.8	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0
Net lending/borrowing (excl. fin. sector support)	-16.8	-14.5	-13.4	-11.8	-8.3	-5.1	-3.6	-2.1	-0.1	0.0
Net lending/borrowing (incl. fin. sector support)	-48.4	-21.3	-13.4	-11.8	-8.4	-5.2	-3.7	-2.1	-0.1	0.0
Primary balance (excl. fin. sector support)	-11.8	-9.2	-7.3	-4.1	-0.4	3.4	5.0	6.6	8.8	8.9
Net financial worth, transactions	-48.4	-21.3	-13.4	-11.8	-8.4	-5.2	-3.7	-2.1	-0.1	0.0
Net acquisition of financial assets	-7.8	3.5	10.1	-1.4	-7.1	-0.3	-1.0	0.0	0.0	0.0
Net incurrence of liabilities	40.6	24.9	23.5	10.4	1.2	4.9	2.8	2.1	0.1	0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP, unless indicated otherwise)										
Revenue	34.9	34.0	34.5	35.9	36.2	36.4	35.9	35.5	35.5	35.4
Taxes and social contributions 3/	29.3	29.4	30.0	31.5	32.1	32.4	32.3	32.2	32.3	32.3
Other revenue 4/	5.6	4.7	4.6	4.4	4.1	4.0	3.6	3.3	3.2	3.0
Expenditure (excl. fin. sector support)	45.5	43.0	42.7	43.1	41.2	39.3	38.0	36.6	35.5	35.3
Current primary (excl. fin. sector support) 5/	38.9	37.3	37.1	36.7	34.8	32.8	31.6	30.4	29.5	29.3
Interest	3.1	3.3	3.7	4.7	4.7	4.9	4.8	4.7	4.5	4.4
Gross fixed capital formation	3.4	2.4	1.9	1.7	1.6	1.6	1.6	1.5	1.4	1.6
Net lending/borrowing (excl. fin. sector support)	-10.6	-8.9	-8.2	-7.2	-5.0	-2.9	-2.0	-1.1	0.0	0.0
Net lending/borrowing (incl. fin. sector support)	-30.6	-13.1	-8.2	-7.2	-5.0	-3.0	-2.1	-1.1	0.0	0.0
Primary balance (excl. fin. sector support)	-7.5	-5.6	-4.5	-2.5	-0.2	2.0	2.8	3.5	4.5	4.4
Net financial worth, transactions	-30.6	-13.1	-8.2	-7.2	-5.0	-3.0	-2.1	-1.1	0.0	0.0
Net acquisition of financial assets	-4.9	2.2	6.1	-0.8	-4.3	-0.2	-0.5	0.0	0.0	0.0
Net incurrence of liabilities	25.7	15.3	14.3	6.3	0.7	2.8	1.5	1.1	0.0	0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance	-8.7	-7.2	-6.3	-5.6	-4.6	-2.8	-2.0	-1.1	0.0	0.0
Structural primary balance 6/	-5.3	-3.9	-2.5	-0.9	0.2	2.1	2.8	3.5	4.5	4.4
General government gross debt	91.2	104.1	117.4	123.7	121.7	120.8	117.8	115.0	110.8	106.7
General government net debt	70.4	85.0	92.7	98.3	101.1	101.1	99.2	97.1	93.6	90.1
Output gap (percent of potential GDP)	-3.8	-1.6	-1.6	-1.9	-1.3	-0.1	0.0	0.0	0.0	0.0
Nominal GDP (in billions of euros)	158.1	162.6	163.9	164.0	167.7	173.7	179.5	186.1	193.7	201.2

Sources: Department of Finance; and IMF staff estimates.
1/ Projections are consistent with the adjustment path set out in Budget 2014.
2/ Includes stamp duy, capital taxes, property tax and other taxes.
3/ Includes imputed social insurance contributions. The 2011 downward jump in the series reflects the integration of health levy receipts into the universal social charge (now part of income tax).
4/ Includes property income, sales of goods and services, current transfer revenue and capital transfer revenue.
5/ For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.
6/ In percent of nominal potential GDP.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2009–14

	2009	2010	2011	2012	2013	2014 6/
External indicators						
Exports (annual percent change, value in euros)	-2.5	8.0	6.1	5.8	0.2	3.7
Imports (annual percent change, value in euros)	-9.9	6.8	2.9	3.9	1.3	3.2
Terms of trade (goods, annual percent change)	1.7	-1.6	-2.7	0.4	-0.2	0.1
Current account balance (in percent of GDP)	-2.3	1.1	1.2	4.4	6.6	5.8
Capital and financial account balance (in percent of GDP)	-2.2	3.8	5.9	-1.9	-6.1	-5.8
Of which:						
Inward portfolio investment	13.8	47.8	18.2	44.7	31.5	31.8
Inward foreign direct investment	11.4	20.4	10.4	18.2	16.3	16.3
Other investment liabilities	-53.3	-39.2	-30.0	-54.5	-20.6	-20.1
U.S. dollar per euro (period average)	1.40	1.32	1.40	1.29	1.32	...
U.K. pound per euro (period average)	0.89	0.86	0.87	0.81	0.86	...
Financial markets indicators						
General government debt (in percent of GDP)	64.4	91.2	104.1	117.4	123.7	121.7
Government bond yield (in percent, 10-year, end-period)	4.9	9.2	8.5	4.5	3.5	2.8
Spread of government bond yield with Germany (in percent, end of period)	1.3	6.0	6.5	3.2	1.4	1.2
Real government bond yield (in percent, 10-year, period average, based on HICP)	6.9	7.6	8.4	4.1	3.3	2.4
Annual change in ISEQ index (in percent, end of period)	28.8	5.1	5.2	16.3	30.3	...
Personal lending interest rate (in percent)	11.1	11.4	11.6	11.6	11.6	...
Standard variable mortgage interest rate (in percent)	3.3	4.0	4.2	4.3	4.4	...
Financial sector risk indicators						
Annual credit growth rates (to Irish resident private sector, in percent) 1/	-1.5	-3.4	-2.9	-4.0	-4.9	...
Personal lending as a share of total Irish resident credit (in percent)	35.6	35.5	30.0	33.0	34.5	...
Of which:						
House mortgage finance	30.1	30.7	25.4	28.7	30.3	...
Other housing finance	0.2	0.4	0.3	0.3	0.4	...
Other personal lending	5.3	4.8	4.6	4.3	4.2	...
Irish resident household mortgage debt annual growth rates (in percent) 2/	-3.9	-9.0	-19.3	5.6	6.0	...
Foreign-currency denominated assets (in percent of total assets)	34.3	30.3	29.4	28.4	28.3	...
Foreign-currency denominated liabilities (in percent of total liabilities)	31.1	25.8	26.3	25.4	26.0	...
Non-performing loans (in percent of total loans) 3/	9.0	8.6	9.1	11.3	11.9	...
Total provisions for loan losses (in percent of total loans)	4.0	4.2	4.8	5.4	4.5	...
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.9	10.4	17.7	16.6	15.7	...
Bank return on assets (before tax, in percent)	-1.6	-3.1	-0.8	-0.8	...	...
Bank return on equity (before tax, in percent)	-40.6	-67.6	-16.9	-14.1	...	...
Deposits to M3 ratio 4/	1.3	1.5	1.2	1.3	1.4	...
Loan-to-deposit ratio vis-à-vis Irish residents 5/	2.1	2.1	2.1	1.9	1.7	...
vis-à-vis total	2.2	2.1	2.1	1.9	1.7	...
Concentration ratios in the banking sector						
No. of banks accounting for 25 percent of total assets	2.0	2.0	2.0	2.0	2.0	...
No. of banks accounting for 75 percent of total assets	13.0	13.0	14.0	14.0	14.0	...
Share of state-owned banks in total assets (in percent)	6.0	8.0	18.0	19.1	16.7	...
Share of foreign-owned banks in total assets (in percent)	65.0	65.0	61.6	57.6	59.5	...

Sources: Bloomberg; Central Bank of Ireland; International Financial Statistics; and IMF staff estimates.
1/ Adjusted growth rate of credit to households and non-financial corporations.
2/ Including securitisations.
3/ Owing to differences in classification, international comparisons of nonperforming loans are indicative only.
4/ Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been amended in line with Eurosystem requirements.
5/ Nongovernment credit/nongovernment deposits ratio.
6/ For 2014, end-March 2014 for bond yields and stock market index. Staff projections for macroeconomic variables and debt Financial sector indicators cover all credit institutions licensed in Ireland except for personal lending rate, which is calculated based on a sample of retail banks, and a mortgage interest rate, which is calculated excluding IFSC.

Table 5. Ireland: Summary of Balance of Payments, 2009–19

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Projections					
					(In billions of euros)						
Current account balance	-3.8	1.8	2.0	7.3	10.9	9.7	9.9	10.2	10.2	10.2	9.3
Balance of goods and services	25.6	29.1	35.0	39.6	38.2	40.2	43.7	46.2	48.3	50.4	51.6
Trade balance	32.5	35.8	36.7	36.4	32.2	33.0	34.5	36.4	38.2	40.3	42.3
Exports of goods	77.6	82.6	85.0	85.9	81.9	83.7	86.9	90.7	94.7	99.0	103.4
Imports of goods	-45.2	-46.9	-48.3	-49.5	-49.7	-50.7	-52.4	-54.3	-56.5	-58.7	-61.1
Services balance	-6.9	-6.6	-1.7	3.2	6.1	7.2	9.2	9.8	10.1	10.1	9.3
Credit	67.6	74.3	81.5	90.3	94.6	99.4	104.7	110.9	117.3	124.5	131.8
Debit	-74.5	-81.0	-83.2	-87.1	-88.6	-92.1	-95.5	-101.0	-107.2	-114.4	-122.5
Income balance	-27.9	-25.9	-31.8	-31.1	-26.0	-29.1	-32.2	-34.2	-36.3	-38.1	-39.9
Credit	55.1	57.1	57.1	57.2	55.3	54.1	53.9	54.7	56.0	57.9	59.8
Debit	-83.0	-83.0	-88.9	-88.4	-81.3	-83.1	-86.1	-88.9	-92.2	-96.0	-99.7
Current transfers (net)	-1.4	-1.4	-1.2	-1.2	-1.4	-1.5	-1.7	-1.7	-1.8	-2.1	-2.4
Capital and financial account balance	-2.3	6.6	9.8	-22.3	-20.9	-9.7	-9.9	-10.2	-10.2	-10.2	-9.3
Capital account balance	-1.3	-0.7	-0.3	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-1.1	7.3	10.1	-20.3	-20.9	-9.7	-9.9	-10.2	-10.3	-10.2	-9.3
Direct investment	-0.6	15.4	17.8	15.4	9.5	9.7	9.6	10.1	10.6	11.0	11.5
Portfolio investment	22.6	86.0	26.9	-0.2	-42.8	-57.9	-50.9	-50.0	-45.5	-41.7	-30.6
Other investment	-23.1	-94.1	-34.9	-14.2	23.3	43.0	35.0	32.1	26.3	20.2	10.9
Change in reserve assets 1/	0.1	0.0	0.3	0.0	0.0	-4.5	-3.5	-2.4	-1.6	0.2	-1.1
Net errors and omissions	6.1	-8.4	-11.8	-6.2	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	21.3	11.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	34.5	21.3	11.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	12.6	6.4	3.5	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	21.9	14.8	7.5	0.0	0.0	0.0	0.0	0.0	0.0
					(In percent of GDP)						
Current account balance	-2.3	1.1	1.2	4.4	6.6	5.8	5.7	5.7	5.5	5.3	4.6
Balance of goods and services	15.8	18.4	21.5	24.1	23.3	24.0	25.2	25.7	26.0	26.0	25.6
Trade balance	20.0	22.6	22.6	22.2	19.6	19.7	19.9	20.3	20.5	20.8	21.0
Services balance	-4.3	-4.2	-1.0	2.0	3.7	4.3	5.3	5.5	5.5	5.2	4.6
Income balance	-17.2	-16.4	-19.6	-19.0	-15.8	-17.3	-18.5	-19.1	-19.5	-19.7	-19.8
Current transfers (net)	-0.9	-0.9	-0.7	-0.7	-0.9	-0.9	-1.0	-1.0	-1.0	-1.1	-1.2
Capital and financial account balance	-1.4	4.2	6.0	-13.6	-12.8	-5.8	-5.7	-5.7	-5.5	-5.3	-4.6
Of which:											
Direct investment	-0.4	9.8	10.9	9.4	5.8	5.8	5.5	5.6	5.7	5.7	5.7
Portfolio investment	13.9	54.4	16.5	-0.1	-26.1	-34.5	-29.3	-27.9	-24.5	-21.5	-15.2
Other investment	-14.2	-59.5	-21.5	-8.7	14.2	25.7	20.1	17.9	14.1	10.5	5.4
Change in reserve assets 1/	0.0	0.0	0.2	0.0	0.0	-2.7	-2.0	-1.3	-0.9	0.1	-0.5
Net errors and omissions	3.7	-5.3	-7.3	-3.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	13.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	21.2	13.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	7.7	3.9	2.1	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	13.5	9.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Current account balance excluding undistributed profits 2/	-3.3	-2.1	-2.3	-0.1	2.1	1.4	1.4	1.6	1.5	1.4	0.9

Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff estimates.
1/ Includes financing need to build reserves for bank support.
2/ Undistributed profits of redomiciled firms, as estimated by FitzGerald (2013).

Table 6. Ireland: Monetary Survey, 2008–14

(In billions of euros, unless otherwise indicated; end of period)

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Aggregate balance sheet of domestic market credit institutions										
Assets	805	801	747	639	550	498	487	484	474	459
Claims on Central Bank of Ireland	9	12	8	4	2	2	3	2	2	3
Claims on Irish resident Other MFIs	125	129	123	92	53	50	50	51	49	49
Claims on Irish resident non MFIs	375	364	359	340	326	292	288	286	281	273
General government	3	9	43	42	47	19	20	20	21	20
Private sector	372	355	316	298	279	274	269	266	260	253
Households	145	140	130	110	111	110	109	110	108	107
Non-Financial Corporations	163	144	91	86	83	82	81	80	78	75
Non-Bank Financial Intermediaries	64	71	95	101	85	82	80	76	74	71
Claims on non-residents	252	243	209	150	122	112	105	105	102	95
Other assets	44	54	48	52	47	42	41	39	41	39
Liabilities	805	801	747	639	550	498	487	484	474	459
Liabilities to Eurosystem 1/	45	58	95	72	59	44	39	35	31	26
Liabilities to Irish resident Other MFIs	126	131	132	99	59	55	54	55	52	52
Deposits of Irish resident non MFIs	171	180	162	146	153	169	172	174	175	171
General government	3	3	3	2	6	10	13	14	14	13
Private sector	168	177	159	143	147	160	159	160	161	158
Households	85	99	94	91	92	92	91	91	90	91
Non-Financial Corporations	42	39	32	29	29	29	30	31	32	31
Non-Bank Financial Intermediaries	41	39	33	24	26	39	39	39	39	36
Deposits of non-residents	273	230	140	100	76	77	74	75	71	64
Debt securities	100	98	64	52	38	34	29	26	27	28
Capital and reserves	42	53	72	91	98	94	94	94	96	96
Other liabilities (incl. Central Bank of Ireland)	48	50	83	79	66	24	25	24	23	22
Money and credit 2/										
Net foreign assets	-345	-421	-480	-340	-14	-9	-9	-1	2	39
Central Bank of Ireland 3/	-24	-37	-128	-101	-62	-42	-39	-39	-37	…
Commercial banks	-321	-384	-352	-239	48	33	31	38	39	39
Net domestic assets	539	629	652	509	183	194	198	192	189	151
Public sector credit	3	10	43	43	48	19	20	20	21	20
Private sector credit	394	375	335	324	302	297	292	286	278	271
Other	142	244	274	143	-166	-122	-114	-114	-110	-141
Irish Resident Broad money (M3) 4/	194	208	173	169	170	185	189	191	191	189
Irish Resident Intermediate money (M2) 4/	176	188	173	167	168	182	183	184	183	182
Irish Resident Narrow money (M1)	78	100	97	90	92	105	109	112	114	114
	(Percent of GDP)									
Public sector credit 5/	1.4	5.3	27.6	27.0	29.4	11.5	12.2	12.4	12.8	12.2
Private sector credit 5/	206.8	221.0	202.4	190.1	173.5	170.4	167.4	165.6	161.9	157.5
	(Y/y percentage change)									
Broad money - Irish contribution to euro area M3 6/	-0.4	-6.6	-19.6	1.3	-7.3	-0.5	5.6	13.5	11.2	0.2
Irish Public sector credit 6/ 7/	101.8	176.9	369.4	1.5	8.5	-58.6	-57.1	-57.4	-57.8	2.2
Irish Household and non-financial corporations credit 6/ /7	8.8	-1.5	-3.4	-2.9	-4.0	-4.2	-4.6	-4.4	-4.9	-4.8
Memorandum items: 8/										
Credit to deposits (in percent) 9/	221.8	200.5	199.2	207.6	189.9	171.1	168.5	166.1	161.4	159.9
Deposits from Irish Private Sector (y-o-y percent change)	1.2	1.8	-9.4	-8.9	2.4	10.4	10.1	10.0	9.3	-1.0
Wholesale funding (billions of euros)	441	424	317	235	159	151	142	140	135	130
Deposits from MFIs	341	326	253	183	120	117	113	114	108	102
Debt securities	100	98	64	52	38	34	29	26	27	28
Wholesale funding (y-o-y percent change) 10/	14.9	0.0	-21.7	-26.9	-33.0	-28.3	-28.3	-15.0	-11.6	-12.0
Wholesale funding (percent of assets) 10/	54.8	52.9	44.8	36.8	28.8	30.3	29.2	29.0	28.5	28.3

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

Table 7. Ireland. Indicators of Fund Credit, 2010–23

(In millions of SDR)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund credit														
Disbursement	-	11,050	5,493	2,922	-	-	-	-	-	-	-	-	-	-
Stock 1/	-	11,050	16,543	19,466	19,466	18,931	16,757	13,862	10,617	7,373	4,129	1,420	349	-
Obligations	-	109	332	457	656	1,223	2,814	3,437	3,661	3,527	3,393	2,750	1,084	352
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349
Charges	-	109	332	457	656	688	641	541	417	283	149	41	13	3
Stock of Fund credit														
In percent of quota	-	879	1,315	1,548	1,548	1,505	1,332	1,102	844	586	328	113	28	-
In percent of GDP	-	7.7	12.0	13.6	13.1	12.2	10.4	8.2	6.0	4.0	2.2	0.7	0.2	-
In percent of exports of goods and services	-	7.5	11.2	12.6	12.0	11.0	9.2	7.2	5.2	3.4	1.9	0.6	0.1	-
Obligations to the Fund														
In percent of quota	-	9	26	36	52	97	224	273	291	280	270	219	86	28
In percent of GDP	-	0.1	0.2	0.3	0.4	0.8	1.7	2.0	2.1	1.9	1.8	1.4	0.5	0.2
In percent of exports of goods and services	-	0.1	0.2	0.3	0.4	0.7	1.6	1.8	1.8	1.6	1.5	1.2	0.4	0.1

Source: IMF staff estimates.

1/ End of period.

Table 8. Ireland: PCAR Banks' Aggregated Summary Financial Statements, 2012–13 1/

(In billions of euro unless otherwise indicated)

Balance Sheet	2012	2013	2012-13 change	
	€ bn.	€ bn.	€ bn.	%
Cash & due from Eurosystem	13.3	10.6	-2.7	-20.2
Net loans	197.2	179.4	-17.7	-9.0
Due from banks	13.1	8.0	-5.0	0.0
Securities & derivatives	65.8	64.0	-1.8	-2.8
Other assets	11.2	13.4	2.2	19.7
Total assets	300.5	275.4	-25.1	-8.3
Total average assets (TAA)	317.0	286.1	-30.9	-9.7
Due to Eurosystem	47.0	26.1	-21.0	-44.6
Due to banks	16.3	20.1	3.7	22.9
Deposits	158.8	161.9	3.1	1.9
Debt & derivatives	47.7	37.3	-10.4	-21.8
Other liabilities	7.9	9.3	1.4	17.5
Total liabilities	277.8	254.7	-23.1	-8.3
Net equity	22.7	20.8	-1.9	-8.5
Total liabilities & equity	300.5	275.4	-25.1	-8.3
Memorandum items:				
Gross loans 2/	223.8	208.2	-15.6	-7.0
Loan loss provisions	26.9	29.0	2.1	7.7
Gross NPLs	55.6	56.4	0.8	1.4
Gross NPLs to gross loans (%)	24.8	27.1		2.2
Provisions to gross NPLs (%)	48.4	51.4		3.0
Net NPLs to net equity (%)	126.3	132.0		5.7

Profit and Loss Account	2012		2013	
	€ bn.	% of TAA	€ bn.	% of TAA
Interest income	9.1	2.9	7.9	2.7
Interest expense	-6.4	-2.0	-4.3	-1.5
Net interest margin	2.6	0.8	3.5	1.2
Net fee income	0.8	0.3	0.8	0.3
Net trading gains	-0.3	-0.1	0.0	0.0
Other nonrecurrent items	-0.8	-0.3	-0.1	0.0
Gross operating income	2.4	0.8	4.3	1.5
Operating expenses	-4.0	-1.3	-3.1	-1.1
o/w: administration & other	-1.8	-0.6	-1.7	-0.6
o/w: staff	-2.2	-0.7	-1.4	-0.5
Preprovision profits (PPP)	-1.6	-0.5	1.2	0.4
Loan loss & NAMA provisions	-5.2	-1.6	-4.5	-1.6
Loss on derecognized assets	-0.2	-0.1	0.4	0.2
Net income before tax	-6.9	-2.2	-2.9	-1.0
Tax effects & other 3/	0.5	0.2	0.6	0.2
Net income	-6.5	-2.0	-2.3	-0.8
PPP net of other nonrecurrent items	-0.8	-0.2	1.3	0.4
Return on equity		-25.2		-10.9
Provisions to gross loans		12.0		13.9
Risk weighted assets (RWA)	147.2	46.4	135.8	47.5
Core tier 1 capital (CT1) and CT1 to RWA (%)	21.6	14.7	18.0	13.3
CT1 to total assets = leverage ratio (%)		6.8		6.3

Sources: CBI; and IMF staff estimates.

1/ PCAR banks are Bank of Ireland, Allied Irish Banks, and Permanent tsb.
2/ Includes loans held for sale, classified on balance sheet as other assets.
3/ Includes profits from discontinued operations of €1.6 billion and tax credits of €1.5 billion in 2011.

Annex I. Debt Sustainability Analysis

This Annex presents the public and external debt sustainability analysis (DSA) based on staff's medium-term macroeconomic framework and the Irish authorities' fiscal consolidation plan.

Public Debt Sustainability Analysis

1. **Public debt sustainability risks remain largely unchanged from the twelfth review (IMF Country Report No. 13/366)**. Since the last review, Ireland's debt trajectory has developed broadly in line with staff projections, and principal risks to debt sustainability have not changed substantially, although sales of IBRC and NAMA loan portfolios imply a further decline in contingent liabilities, in addition to the earlier reduction associated with the expiry of the Eligible Liabilities Guarantee scheme and the elimination of Emergency Liquidity Assistance. Under the baseline scenario, public debt is projected to decline gradually from the peak of 123.7 percent of GDP at end-2013 to 106.7 percent in 2019 as the fiscal deficit narrows and economic recovery gains traction. The downward trajectory of Ireland's public debt remains fragile given its vulnerability to lower growth and contingent liabilities, mainly from the financial sector. Compared with projections at the time of the twelfth review, gross financing needs (GFN) are smoothed out by debt management operations (including a €4.1 billion bond buy-back in December 2013) and are forecast to remain well below 15 percent of GDP over the medium term, providing a mitigating factor for the risks associated with the debt level.

2. **A heat map and fan charts indicate that Ireland faces high risks to debt sustainability** (Figure 1). The debt burden benchmark for advanced economies of 85 percent of GDP is already exceeded, which suggests that Ireland's debt level is highly vulnerable under all scenarios regardless of the extent to which a shock increases debt. GFN reach 15 percent of GDP under the contingent liability shock but remain below the vulnerability threshold of 20 percent of GDP. The debt profile is also subject to high risks from external financing requirements (excluding debts of the IFSC) and public debt held by non-residents which exceed the upper risk assessment benchmarks for these indicators.[1] It is useful to note, however, that a large proportion of external financing requirements reflect non-IFSC private sector debt and trade operations. The fan charts illustrate the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and an asymmetric distribution of risks. The asymmetric fan chart (where only negative shocks to the primary balance are considered) is more relevant given the large planned fiscal adjustment and shows that risks to the debt outlook are skewed to the upside.

3. **There is no evidence of a systematic projection bias in the baseline assumptions for key macroeconomic variables** (Figure 2). Ireland's forecast track record is comparable to that of all other countries with Fund-supported programs. The median forecast errors for real GDP growth and the primary balance during 2004–12 are below 1 percent and in line with other

[1] Note that Irish government bonds held by non-residents are considered to be external debt for this analysis.

countries. Individual large forecast errors for growth, primary balance, and inflation mostly arise during the crisis period, especially for the primary balance where there were very large unforeseen bank recapitalization costs.

4. **Reflecting the sizable fiscal effort, Ireland's fiscal adjustment is projected to improve its primary balance to above its debt stabilizing threshold** (Figure 2). The estimated change in the cyclically adjusted primary balance of 4½ percent of GDP over three years during the projection period is in the top quartile of fiscal adjustments observed in advanced and emerging market countries with debt greater than 60 percent of GDP. While sizable, this projected adjustment is consistent with Ireland's track record of steadfast efforts during its EU-IMF supported program, and is further underpinned by Ireland's commitments under the Excessive Deficit Procedure and fiscal rules entrenched in the Fiscal Responsibility Act. Nonetheless, the baseline debt path remains vulnerable in the event of a primary balance shock.

5. Under the baseline macroeconomic projection, Ireland's debt ratio will enter a declining path after 2014 (Figures 3 and 4). Ireland's primary surplus is projected to rise above its debt-stabilizing threshold in 2015, while the planned reduction in the large cash buffer allows gross public debt to decline from 2014. Automatic debt dynamics arising from the interest rate-growth differential will add 2 percentage points per year to the debt-to-GDP ratio in 2014, before higher growth and inflation take hold from 2015.

6. The projected decline in public debt remains fragile, vulnerable to both lower growth and contingent liabilities, which could compound each other (Figure 5). Key risk factors include:

- ***Growth shock.*** Slower growth remains the principal risk to debt sustainability. If projected real GDP growth rates for 2015–16 are lowered by 0.5 standard deviation (implying annual growth about 2 percentage points lower at 0.5 percent y/y in 2015 and 2016), the debt-to-GDP ratio peaks at 127 percent in 2016 (compared with 118 percent under the baseline) before declining.[2]

- ***Interest rate shock***. An interest rate shock does not pose a significant risk given that a 200 basis point increase on new borrowing affects the debt trajectory only marginally.[3] The baseline is built on conservative interest rate projections, which have not taken into account the full extent of recent declines in spreads, thus including a safety margin. In the medium term, Ireland is shielded from a rise in interest rates by its still-high share of fixed rate and official borrowing. While the swapping of the fixed coupon promissory note against €25 billion of floating-rate long-term bonds reduces the share of fixed-rate

[2] A one-half standard deviation shock, instead of a default one standard deviation shock, is applied to the growth rate to adjust for the exceptionally volatile growth rates during the recent boom-bust years.

[3] A 200 basis point interest rate shock, instead of a larger shock derived from the difference between average real interest rate level over the projection period and maximum real historical level (equivalent to 514 basis points), appears more appropriate given the exceptionally high interest rates during the crisis years (2008–10).

borrowing, there is an option to exchange a portion of them against fixed-rate bonds at the time the CBI is selling them in the market. The CBI will make such sales according to a minimum disposal schedule and if financial stability conditions permit.

- ***Macro-fiscal shock***. If slower growth in 2015–16 were compounded by a primary balance shock[4] and by an increase in interest rates on new borrowing by 2 percentage points, the debt ratio rises to 129 percent of GDP in 2016 and falls to 120 percent by 2019. In this scenario, gross financing needs increase by about 2½ percentage points of GDP on average over the medium term compared with the baseline.

- ***Contingent liability shock***. Potential sources of financial sector contingent liabilities include: (i) shortfalls in the crystallized value of NAMA assets, although the potential for such shortfalls appears to have eased given progress with NAMA disposals to date and the recent sale of 90 percent of IBRC assets; (ii) any further bank capital needs identified in the 2014 Comprehensive Assessment that could not be sourced in the market or through ESM direct recapitalization; and (iii) costs related to the ongoing restructuring of the credit union sector, although these are contained by the size of the sector, with net loans being only 2½ percent of GDP. Without estimates of the potential realization of these contingencies, a scenario assuming a 10 percent of GDP shock is used.[5] Such a shock, if combined with the above growth shock, would push gross public debt to 133 percent of GDP and 134 percent in 2015 and 2016, respectively, before declining to 124 percent by 2019.

7. **Debt reductions from asset sales present an upside risk**. Disposal of ESB generation assets has realized €0.2 billion and the sale of Bord Gais Energy has been agreed on the basis of an enterprise value of €1.1 billion. Current baseline assumptions do not incorporate proceeds from any further state asset disposals. Similarly, no allowance is made for further transactions reducing the cost incurred in supporting the banking system beyond the sales of interests in BoI and Irish Life in 2013.[6] For example, the value of AIB was recently estimated at €10–11 billion (about 6 percent of GDP).

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[4] A shock equivalent to one-half of the planned fiscal adjustment over the medium term is used, instead of a larger temporary shock derived from baseline primary balance minus one-half of the 10-year historical standard deviation, given the exceptionally high primary balances (reflecting bank recap costs) during the crisis years.

[5] A 10 percent of GDP shock is used, instead of a default shock of 10 percent of banking sector assets (equivalent to around 30 percent of GDP), taking into account the 40 percent of GDP of financial sector support already incurred.

[6] The public sector stakes are 99.9 percent in AIB, 15.2 percent in BoI, and 99.02 for PTSB.

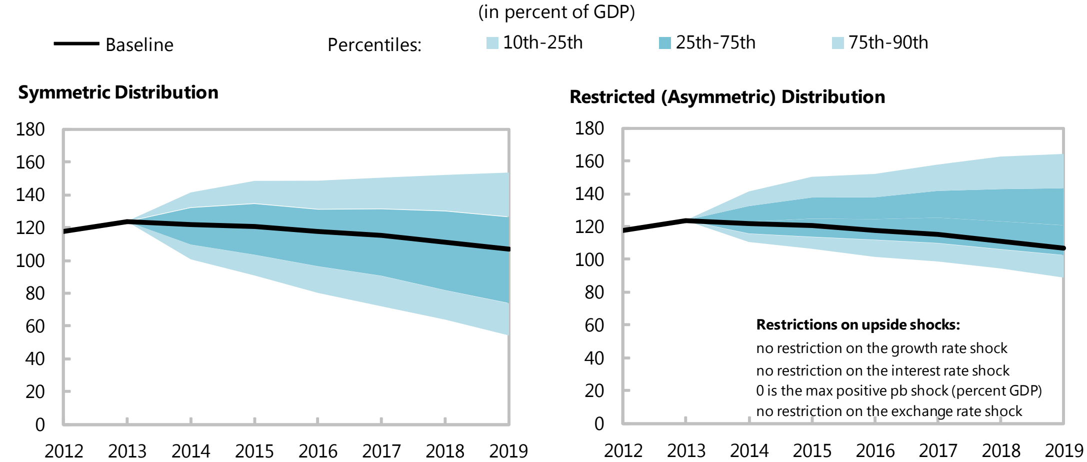
Annex I. Figure 1. Ireland Public DSA—Risk Assessment

Heat Map

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

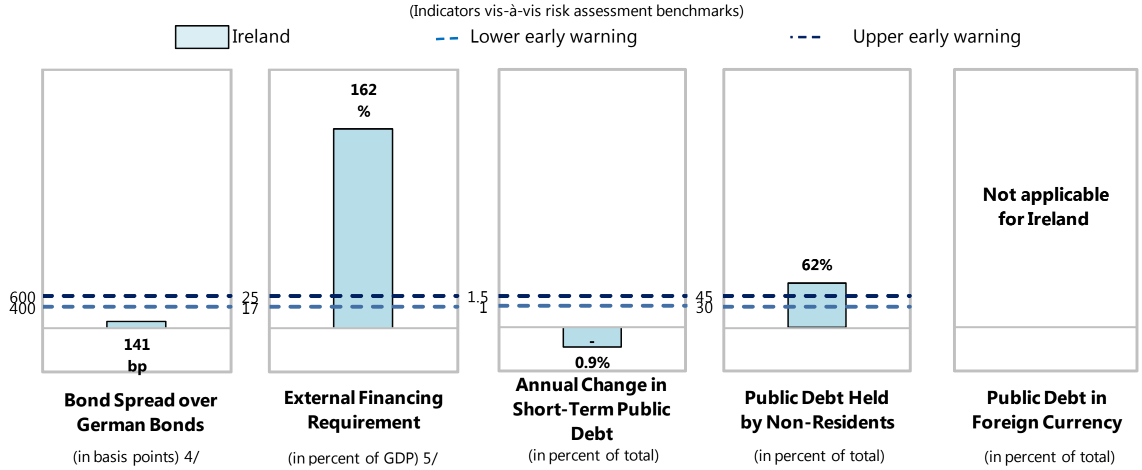
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

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

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

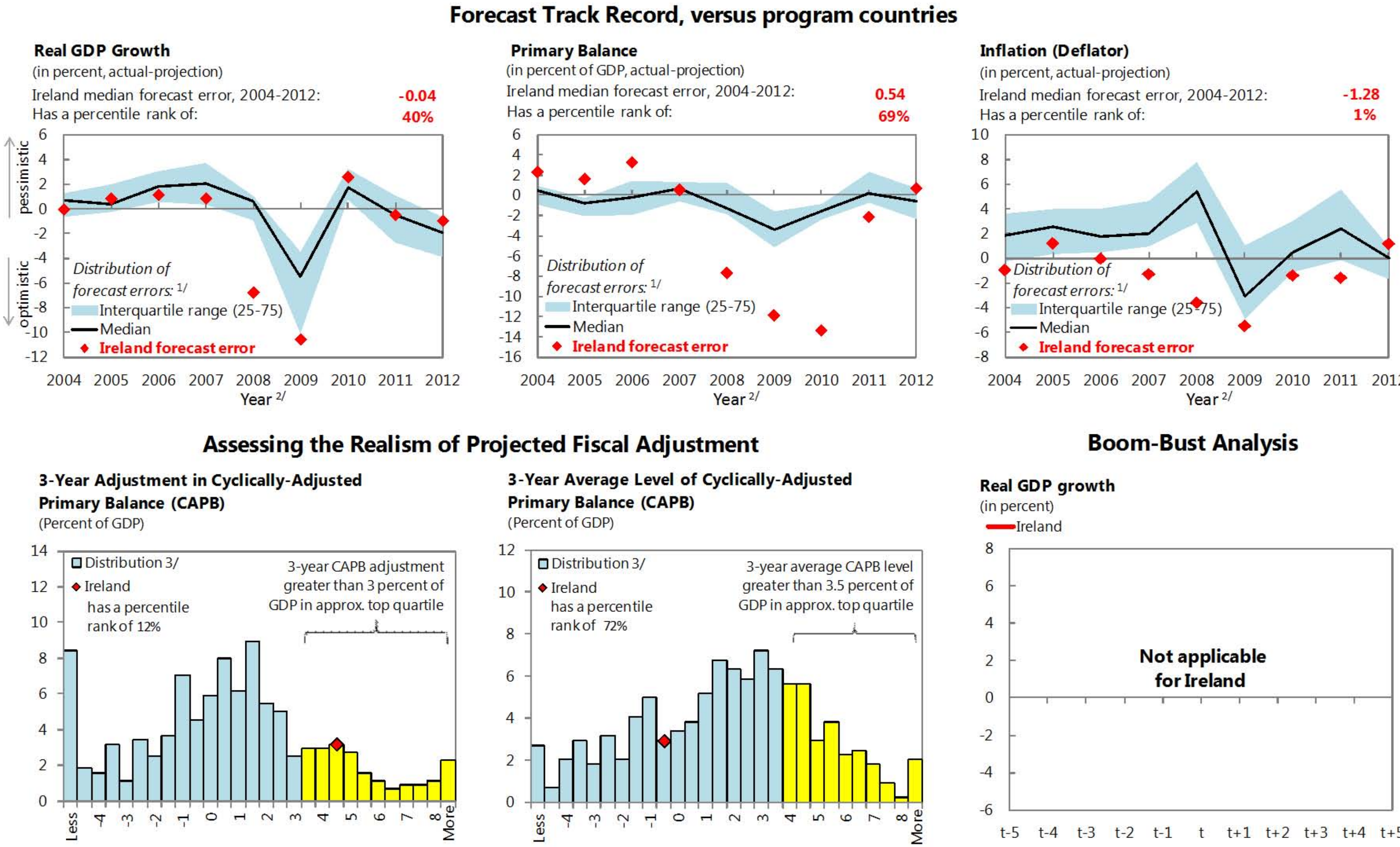
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ Average over the last 3 months, 21-Feb-14 through 22-May-14.

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

Annex I. Figure 2. Ireland Public DSA—Realism of Baseline Assumptions



Source : IMF staff.

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

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

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

Annex I. Figure 3. Ireland Public DSA—Baseline Scenario

(In percent of GDP unless otherwise indicated)

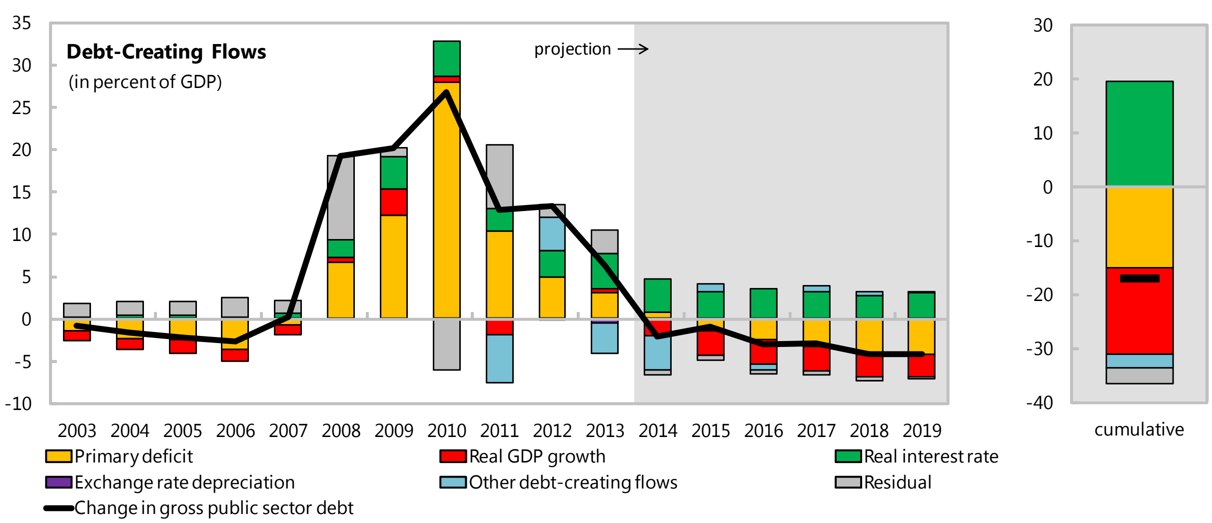
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	49.0	117.4	123.7	121.7	120.8	117.8	115.0	110.8	106.7
Public gross financing needs	...	15.6	17.7	9.7	4.8	7.6	6.6	7.3	10.5
Real GDP growth (in percent)	1.9	0.2	-0.3	1.7	2.4	2.5	2.5	2.5	2.5
Inflation (GDP deflator, in percent)	0.7	0.7	0.4	0.5	1.1	0.8	1.2	1.5	1.3
Nominal GDP growth (in percent)	2.7	0.8	0.1	2.2	3.6	3.3	3.7	4.0	3.9
Effective interest rate (in percent) [3/]	4.3	3.6	4.0	3.8	3.9	3.9	4.0	4.1	4.2

As of May 22, 2014		
Sovereign Spreads		
Spread (bp) 2/		139
CDS (bp)		60
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB+	BBB+
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [7/]
Change in gross public sector debt	8.0	13.3	6.3	-2.0	-0.9	-3.0	-2.8	-4.1	-4.1	-17.0	
Identified debt-creating flows	5.7	11.8	3.5	-1.5	-0.4	-2.6	-2.5	-3.8	-4.0	-14.9	
Primary deficit	5.2	5.0	3.1	0.7	-1.4	-2.5	-3.3	-4.2	-4.3	-15.0	0.3
Revenue and grants	34.9	34.0	35.3	35.7	35.9	35.6	35.2	35.2	35.2	212.7	
Primary (noninterest) expenditure	40.0	39.0	38.4	36.4	34.5	33.0	31.8	31.0	30.9	197.7	
Automatic debt dynamics [4/]	1.2	2.9	4.1	1.8	0.1	0.5	0.1	-0.1	0.3	2.7	
Interest rate/growth differential [5/]	1.2	2.9	4.6	1.9	0.3	0.7	0.3	0.0	0.3	3.6	
Of which: real interest rate	1.6	3.1	4.2	3.9	3.2	3.6	3.1	2.8	3.0	19.6	
Of which: real GDP growth	-0.4	-0.2	0.4	-2.0	-2.9	-2.9	-2.8	-2.7	-2.7	-16.1	
Other identified debt-creating flows	-0.6	3.9	-3.7	-4.1	0.9	-0.6	0.7	0.5	0.0	-2.6	
Drawdown of deposits (negative)	-0.6	3.2	-0.5	-4.3	-0.2	-0.5	0.0	0.0	0.0	-5.0	
Other, incl. stock-flow adjustment	0.0	0.8	-3.1	0.2	1.0	-0.1	0.7	0.5	0.0	2.4	
Residual, incl. interest revenue [6/]	2.4	1.5	2.8	-0.6	-0.7	-0.6	-0.5	-0.4	-0.2	-3.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Bond Spread over German Bonds.

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

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

5/ The real interest rate contribution is derived from the numerator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

6/ Includes asset and exchange rate changes.

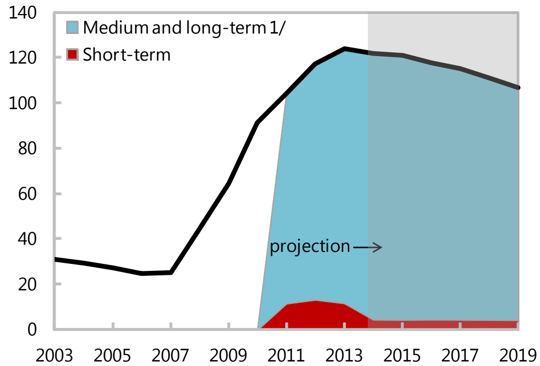
7/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex I. Figure 4. Ireland Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

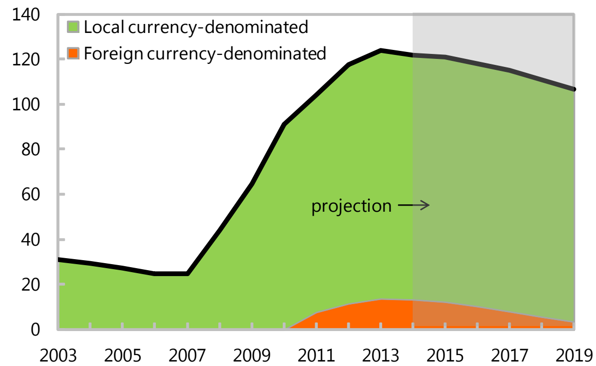
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

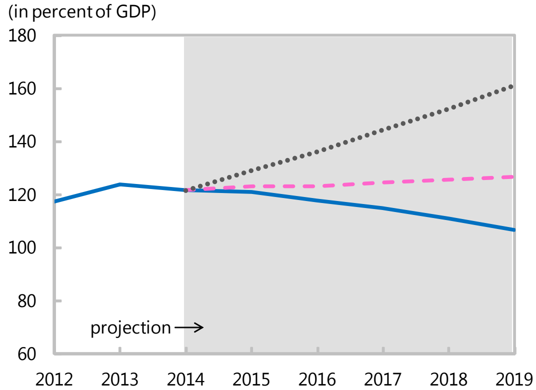


Alternative Scenarios

Baseline Historical Constant Primary Balance

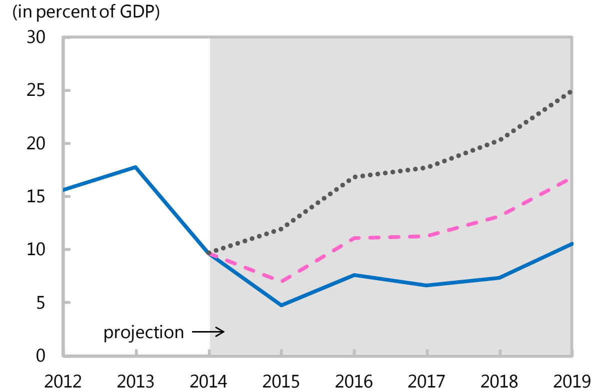
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.7	2.4	2.5	2.5	2.5	2.5
Inflation	0.5	1.1	0.8	1.2	1.5	1.3
Primary Balance	-0.7	1.4	2.5	3.3	4.2	4.3
Effective interest rate	3.8	3.9	3.9	4.0	4.1	4.2
Constant Primary Balance Scenario						
Real GDP growth	1.7	2.4	2.5	2.5	2.5	2.5
Inflation	0.5	1.1	0.8	1.2	1.5	1.3
Primary Balance	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	3.8	3.9	3.9	4.0	4.2	4.3

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.7	1.3	1.3	1.3	1.3	1.3
Inflation	0.5	1.1	0.8	1.2	1.5	1.3
Primary Balance	-0.7	-5.6	-5.6	-5.6	-5.6	-5.6
Effective interest rate	3.8	3.9	4.1	4.4	4.6	4.9

Source: IMF staff.

1/ Includes retail debt.