Ireland: 2022 Article IV Consultation-Press Release; Staff Report; and Informational Annex

INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/213

IRELAND

July 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND INFORMATIONAL ANNEX

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Ireland, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 1, 2022 consideration of the staff report that concluded the Article IV consultation with Ireland.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 1, 2022, following discussions that ended on May 5, 2022, with the officials of Ireland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 16, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Ireland.

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

Selected Issues

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

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Washington, D.C.

PRESS RELEASE

PR22/249

IMF Executive Board Concludes 2022 Article IV Consultation with Ireland

FOR IMMEDIATE RELEASE

Washington, DC – **July 7, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Ireland on July 1, 2022.

The Irish economy has rebounded strongly from the pandemic. Largely driven by multinational enterprises (MNEs), real GDP grew an impressive 13½ percent in 2021, surpassing its pre-pandemic trend. GNI*, which excludes most of MNEs activities, recovered from its 2.2 percent decline in 2020, growing by an estimated 6 percent in 2021. The fiscal deficit, at 1.9 percent of GDP, surprised on the upside due to buoyant tax revenues and somewhat lower-than-budgeted spending. Headline inflation registered an annual rate of 2.4 percent. The strong economic performance continued through Q1 2022, registering 11 precent y-o-y GDP growth. By May 2022, the unemployment rate fell to 4.7 percent, and the job vacancy rate stood at an all-time high.

The financial sector weathered the pandemic crisis well thanks to high capital buffers and effective policy support. The impact of the pandemic on borrowers' financial position has started to dissipate, but uncertainty remains. Retail bank profitability is still lower than peers. Two retail banks are exiting but new non-bank lenders are entering the market. New risks have emerged, including from the rapid expansion of non-bank lenders, that have tripled their share of new mortgage lending over last two years (to 13 percent in 2021). Ireland is host to a large market-based finance sector, which requires enhancing risk analysis and reinforcing regulation in collaboration with international partners.

The growth outlook remains positive, notwithstanding global headwinds from the war in Ukraine. Growth is projected to slow from 13.5 percent in 2021 to a still robust 7.5 percent in 2022. This is partly due to the envisaged deceleration of the IT and pharmaceutical sectors from their exceptional 2021 performance and the indirect impact of the war in Ukraine. Several pre-pandemic challenges remain, including housing shortages, infrastructure, social and green investment gaps, and the need to strengthen MNE's inward linkages to broaden growth and make it more inclusive.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the careful withdrawal of their well-implemented pandemic support and

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

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

welcomed the exceptionally strong economic recovery. While growth is expected to remain strong, uncertainty around the outlook is high as indirect impacts from the war in Ukraine could be substantial due to rising inflation and weakening global demand. Against this background, Directors encouraged efforts to enhance fiscal sustainability, further strengthen financial sector resilience, and advance structural reforms to address key structural bottlenecks to growth.

Noting the risks to the outlook, Directors recommended maintaining two-way fiscal flexibility that is guided by growth and inflation developments. They welcomed the swift response to mitigate the impact of high energy prices on households and businesses, and considered that any additional measures should be carefully targeted to the most vulnerable. Over the medium term, Directors considered that fiscal policy should support growth-enhancing green investment while keeping public debt on a downward trend to rebuild buffers. In this regard, they supported the authorities' efforts to continue to enhance public investment quality to ensure value for money. Noting the long-term demographic trends and remaining uncertainty regarding corporate income tax revenues, Directors saw merit in efforts to bolster pension sustainability and further broaden the tax base.

Directors welcomed the findings of the Financial Sector Stability Assessment (FSAP) and endorsed its main recommendations. They noted that Ireland had considerably strengthened financial sector oversight since the last FSAP. While Ireland's financial sector remains resilient, further efforts are needed to fully address global financial crisis legacies that weigh on retail banks and hinder credit growth. Directors emphasized the need for supervisory capacity to keep pace with the large, complex, and globally interconnected financial sector. They also recommended developing capacity in new areas such as climate, non-bank lending, and fintech. Measures to address remaining data gaps in the non-bank sector and elucidate linkages to the domestic economy were also encouraged. Directors noted the need to extend the macroprudential framework to cover risks from the growing non-bank sector, and also encouraged continued steps to enhance the crisis management regime and strengthen the AML/CFT framework.

Directors concurred that an inclusive and sustainable recovery calls for advancing structural reforms, particularly to increase the inward linkages of multi-national enterprises and mitigate the impact of Brexit on SMEs. They recommended that housing supply policies be further strengthened to improve affordability, and efforts redoubled to support labor upskilling and to enhance the provision of affordable childcare. Directors welcomed the authorities' green agenda, and recommended that well-phased measures be better specified and implemented to achieve the ambitious quantitative targets.

Ireland: Selected Economic Indicators, 2018–27

					Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(annual percentage change, constant prices, unless otherwise indicated)									
Output/Demand										
Real GDP 1/	9.0	4.9	5.9	13.5	7.5	5.0	4.1	3.1	3.0	3.0
Domestic demand	-2.8	43.5	-14.8	-16.8	3.8	4.7	4.5	4.2	4.0	3.9
Public consumption	4.8	7.1	10.9	5.3	-1.3	2.0	2.5	2.9	2.9	2.9
Private consumption	3.9	3.3	-10.4	5.7	5.0	4.0	3.5	3.0	3.0	3.0
Gross fixed capital formation	-8.8	99.5	-23.0	-37.6	5.0	7.0	6.6	6.1	5.5	5.3
Exports of goods and services	11.5	10.4	9.5	16.6	8.5	6.0	5.0	4.0	4.0	4.0
Imports of goods and services	3.3	41.7	-7.4	-3.7	7.0	6.3	5.7	5.1	5.0	5.0
Output gap	1.3	0.3	-2.3	0.8	0.5	0.0	0.0	0.0	0.0	0.0
Contribution to Growth										
Domestic demand	-2.2	30.9	-14.2	-13.2	2.3	2.7	2.6	2.4	2.3	2.3
Consumption	1.8	1.8	-2.1	2.1	1.2	1.2	1.1	1.0	1.1	1.1
Gross fixed capital formation	-2.9	28.1	-12.3	-14.9	1.2	1.5	1.4	1.4	1.3	1.3
Inventories	-1.1	1.0	0.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	10.7	-26.5	21.4	25.7	4.8	2.2	1.3	0.4	0.5	0.5
Residual	0.5	0.6	-1.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Prices										
Inflation (HICP)	0.7	0.9	-0.5	2.4	7.5	3.8	2.5	2.0	2.0	2.0
Inflation (HICP, core)	0.2	0.9	-0.1	1.6	4.7	3.5	2.4	2.0	2.0	2.0
GDP deflator	0.7	4.2	-1.2	-0.4	5.9	3.6	2.3	2.0	2.0	2.0
Employment										
Employment (% changes of level, ILO definition)	2.8	2.9	-2.7	5.9	2.0	1.0	1.0	1.0	1.0	1.0
Unemployment rate (percent)	5.8	5.0	5.8	6.2	5.0	5.0	5.0	5.0	5.0	5.0
	(percent of GDP)									
Public Finance, General Government										
Revenue	25.5	24.7	22.2	23.0	22.5	22.2	22.1	22.1	21.9	21.9
Expenditure	25.3	24.2	27.3	24.9	22.7	21.9	21.5	21.3	21.2	21.0
Overall balance	0.1	0.5	-5.1	-1.9	-0.2	0.4	0.6	0.8	0.8	0.9
Primary balance	1.8	1.8	-4.1	-1.2	0.5	1.1	1.3	1.3	1.3	1.4
Structural balance (percent of potential GDP)	-0.3	0.4	-1.3	0.3	0.9	0.4	0.6	0.8	0.8	0.9
General government gross debt	63.1	57.2	58.4	56.0	49.1	44.8	41.6	39.0	36.4	33.4
General government gross debt (percent of GNI*)	104.1	94.6	104.7	107.3	96.7	88.9	83.2	78.0	72.9	66.9
Balance of Payments										
Trade balance (goods)	33.6	33.1	38.9	41.0	44.9	43.4	41.3	39.7	38.2	36.7
Current account balance	4.9	-19.9	-2.7	13.9	12.3	10.1	9.0	8.0	7.0	7.0
Gross external debt (excl. IFSC) 2/	265.7	292.9	302.1	255.0	220.9	201.2	188.6	180.5	174.3	169.4
Saving and Investment Balance										
Gross national savings	33.5	34.8	38.2	38.1	34.7	32.7	32.2	31.9	31.5	32.3
Private sector	31.7	32.9	41.9	38.8	33.8	31.3	30.6	30.2	29.9	30.6
Public sector	1.8	2.0	-3.7	-0.7	0.9	1.4	1.6	1.7	1.6	1.7
Gross capital formation	28.6	54.7	40.9	24.2	22.4	22.6	23.1	23.9	24.6	25.3
Memorandum Items:										
Nominal GDP (€ billions)	326.0	356.5	372.9	421.5	479.9	522.1	556.1	584.6	614.8	646.2
Nominal GNI* (€ billions)	197.8	215.6	208.2	219.8	243.5	263.4	278.1	292.1	307.0	322.5
Real GNI* (growth rate) 3/	6.1	4.5	-2.2	6.0	4.6	4.4	3.2	3.0	3.0	3.0

Sources: CSO, DoF, Eurostat, and IMF staff estimates and projections.
1/ The reported real GDP growth is changed to non-seasonally adjusted (NSA). The annual SA versus NSA differences in 2018-2020 arise principally due to the lumpy, irregular pattern of IP Imports over the past three years.
2/ IFSC indicates international financial services.
3/ Nominal GNI* is deflated using GDP deflator as proxy, since an official GNI* deflator is not available.

INTERNATIONAL MONETARY FUND

IRELAND

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

June 16, 2022

KEY ISSUES

Context and Outlook. Ireland's economy has rebounded strongly from the pandemic. GDP surpassed its pre-pandemic trend in 2021:Q4—one of the few euro area countries to do so. COVID-support measures have been appropriately unwound, and the fiscal position improved significantly. The financial sector weathered the pandemic crisis well and remains resilient. While the outlook is strong, uncertainty is substantial due to the indirect impacts of the war in Ukraine. Several pre-pandemic challenges remain: housing shortages, infrastructure, social and green investment gaps, and the need to strengthen multinational enterprises' inward linkages to broaden growth and make it more inclusive. There is also a need to address the Global Financial Crisis (GFC) legacy effects on the financial system and tackle the factors contributing to high lending interest rates.

Fiscal policy. The fiscal stance is broadly appropriate. However, in the short term, two-way fiscal flexibility is needed to strike a balance between supporting the economy and containing inflation. In case growth disappoints, automatic stabilizers should be allowed to fully operate and fiscal space deployed, if necessary, through high-quality measures. In the medium term, more high-quality spending is warranted to facilitate the transformation of the economy while safeguarding fiscal sustainability. The long-term fiscal policy mix should secure stable resources to finance the authorities' investment strategy and address social and aging-related expenditure needs.

Financial policies. The regulatory and supervisory frameworks should keep pace with the evolution of the large, complex, and globally interconnected financial system, the rapidly growing non-bank lending, and Fintech and AML/CFT issues. To resolve lingering issues from the GFC, reducing operating restrictions, addressing the challenges in collateral recovery, and expediting the plans to divest government ownership are key. Furthermore, the macroprudential framework should evolve to reflect the growing share of non-bank activity and limit any risks that may stem from developments in the housing market and mortgage lending.

Structural reforms should aim to remove bottlenecks, increase productivity, and reduce inequities. In particular, housing supply policies should be further strengthened, with a focus on boosting productivity in the construction sector and improving the planning and permit processes. Policies should also aim at facilitating post-pandemic labor reallocation and reducing labor shortages, including through re-skilling and reducing barriers to occupational licensing.

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

Discussions were held in Dublin during April 25–May 5, 2022. Mission members included Khaled Sakr (head), Karina Garcia, Anna Shabunina and Marzie Taheri Sanjani (all EUR). The mission worked closely with the Financial Sector Assessment Program (FSAP) team led by Paul Mathieu, who also joined part of the mission. Feargal O'Brolchain and Paul Mooney (OED) joined the discussions. Yushu Chen and Giovanni Borraccia supported the mission. The mission met with Minister for Finance Donohoe, Minister for Public Expenditure and Reform McGrath, Governor of the Central Bank of Ireland Makhlouf, senior officials, members of Parliament, and labor unions and private sector representatives.

CONTENTS

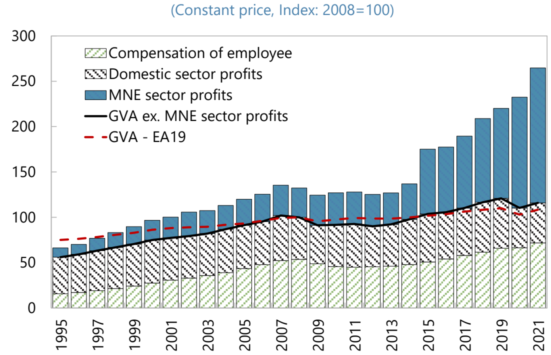
ANNEXES

CONTEXT

1. The Irish economy has recovered exceptionally strongly from the pandemic though pre-pandemic challenges remain. Real GDP growth registered 13½ percent in 2021, building on its unique positive growth in 2020 (5.9 percent), largely driven by the activities of multinational enterprises (MNEs) and the sectors they operate in. GNI*, which excludes most of MNEs activities, recovered from its 2.2 percent decline in 2020, growing by an estimated 6 percent in 2021.[1] GDP has surpassed its pre-pandemic trend. Strong economic performance continued through 2022:Q1 which witnessed 11 percent y-o-y real GDP growth. However, pre-pandemic challenges remain, including worsening housing affordability, Brexit-related uncertainties, and infrastructure and social investment needs to reduce disparities and strengthen MNEs' inward linkages. While direct trade and financial links with Russia and Ukraine are small, there are significant headwinds emanating from the high energy and commodity prices and weakening external demand (Annex I).

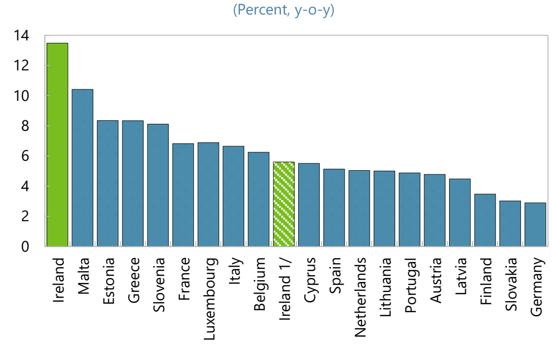
2. The government coalition (Fianna Fáil, Fine Gael, and the Green Party), which took office end-June 2020, is strengthening its program to address socio-economic challenges. Pandemic-related support is being withdrawn cautiously, and measures are being introduced to mitigate energy price increases. The main opposition party, Sinn Fein, won close to one quarter of the parliament seats in the last elections on housing and healthcare issues.

Gross Value Added: Ireland vs. EA19
(Constant price, Index: 2008=100)



Sources: CSO, Eurostat, and IMF staff calculations.

2021 Real GDP Growth for EA Countries
(Percent, y-o-y)



1/ Estimated real GNI* growth by IMF staff.
Sources: CSO, Eurostat, Haver Analytics, and IMF staff calculations.

3. Past staff advice focused on the need to shift to more inclusive and sustainable growth while reducing vulnerabilities. Staff called for increased high-quality spending while continuing to reduce public debt to GNI*, emphasized that structural reforms efforts should be redoubled to ease bottlenecks, and stressed that financial sector policies needed to ensure healthy competition in the domestic bank sector while guarding against risk build-up in the large and growing international non-bank sector. The authorities implemented many of staff's past policy recommendations (See Annex VIII). This report builds on these recommendations and is informed by the 2022 FSAP.

[1] "Modified Domestic Demand", another official measure of indigenous activity, grew by 5.5 percent in 2021 after a 4.3 percent decline in 2020.

RECENT DEVELOPMENTS

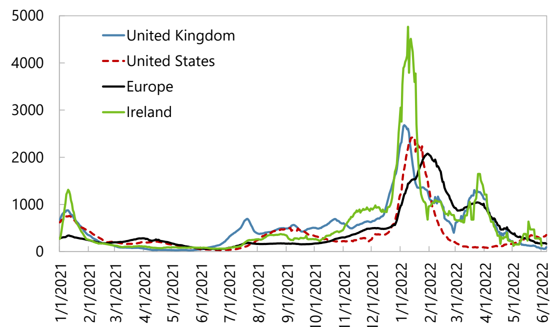
4. All COVID-related restrictions have been lifted as infections declined substantially. The high vaccination rate helped break the link between infections and hospitalizations. Mobility indicators returned to pre-pandemic levels. Despite a recent pick-up in infections, hospitalization remained low[2], and the economy continues to be open as households and businesses have adapted.

Figure 1. Ireland: COVID-19—Infections, Vaccination, and Mobility

Infections peaked in Q1:2022 and have been declining since then.

Daily New Confirmed COVID-19 Cases

(7-day moving average, cases per million people)

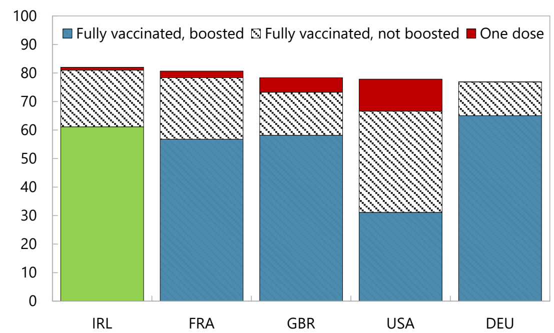


Sources: Our World in Data and Haver Analytics.

Ireland has one of the highest vaccination rates among advanced economies...

COVID-19 Vaccination Rates

(Percentage of population, as of May 25, 2022)

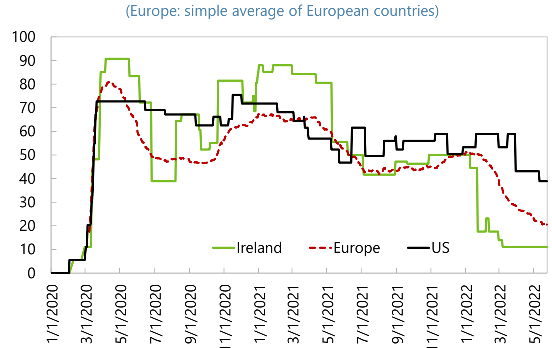


Sources: Our World in Data and IMF staff calculations.

...that allowed the economy to remain open...

Restriction Stringency Index

(Europe: simple average of European countries)

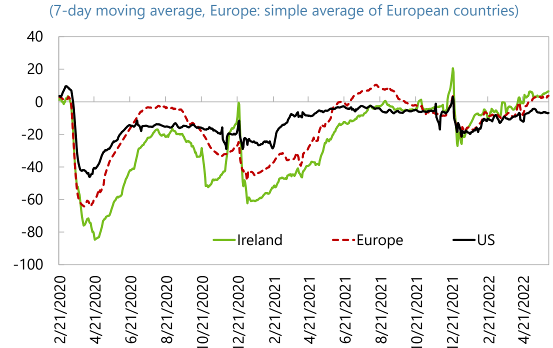


Sources: Oxford University, Haver Analytics, and IMF staff calculations.

..and mobility indicators are back to the pre-pandemic level in Ireland.

Google Mobility: Retail and Recreation

(7-day moving average, Europe: simple average of European countries)



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

5. Reflecting strong activity, the labor market is tight. Labor market data point to a strong rebound, with female and youth employment and participation having the highest gains (see Annex III). Unemployment fell to 4.7 percent in May 2022, and the vacancy rate is at an all-time high. High-frequency data[3], including PMIs, credit and debit card spending, and trade indicators, suggest continued solid growth in 2022:Q2. Nevertheless, as in the rest of the Euro Area (EA), consumer confidence has plunged since the onset of the war in Ukraine.

[2] Ireland's COVID-19 Data Hub (arcgis.com)

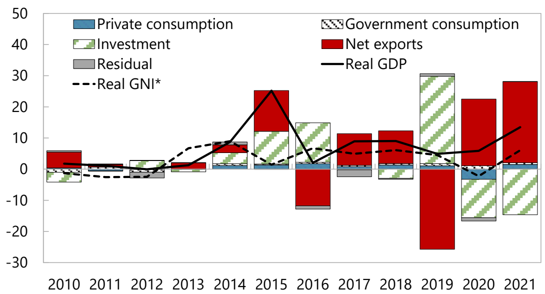
[3] Dashboard (dfin-econ.github.io).

Figure 2. Ireland: Recent Developments

Rapid growth during the pandemic was supported by strong contribution of net exports ...

Real GDP Growth

(Y-o-y percent changes and contributions)

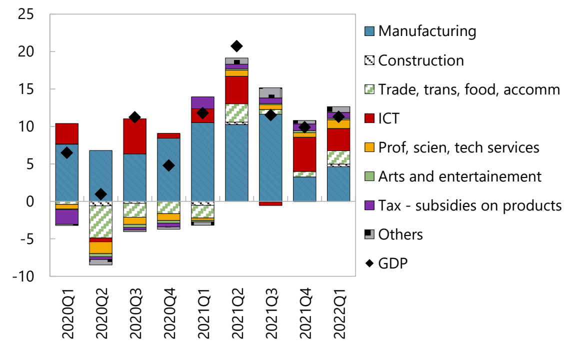


Sources: CSO, Haver Analytics, and IMF staff calculations.
Notes: Nominal GNI* is deflated using GDP Deflator as proxy, since an official GNI* deflator is not available.

... which has been driven by the exceptional performance of MNE dominated sectors.

Ireland: Sectoral Contributions to GDP Growth

(Percent, y-o-y)

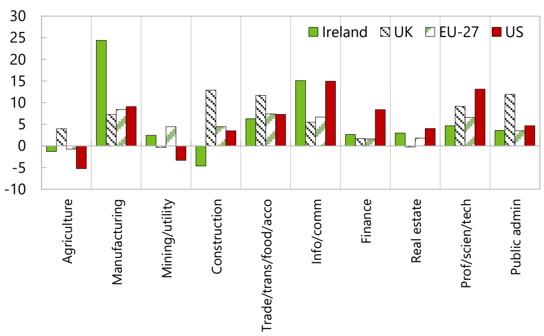


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Irish manufacturing and ICT sectors performed better than those in peer countries in 2021, but the construction sector lagged.

Sectoral Gross Value Added Growth

(2021Q1-Q4 cumulative growth)

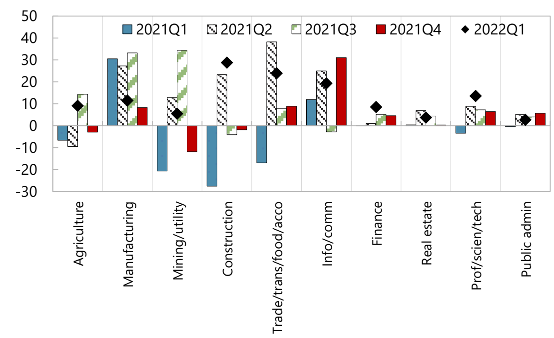


Sources: BEA, Eurostat, Haver Analytics, and IMF staff calculations.

Sectoral growth dispersion highlights the asymmetric impact of the pandemic and the two-speed characteristic of the Irish economy.

Ireland: Sectoral Gross Value Added Growth

(Percent, y-o-y)

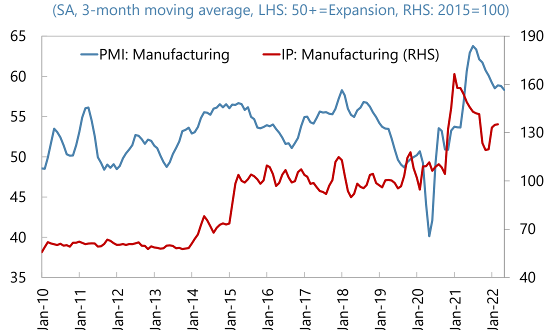


Sources: CSO, Haver Analytics, and IMF staff calculations.

Manufacturing industrial output is expanding and PMI point to a robust increase in manufacturing output...

Manufacturing PMI and Industrial Production

(SA, 3-month moving average, LHS: 50+=Expansion, RHS: 2015=100)

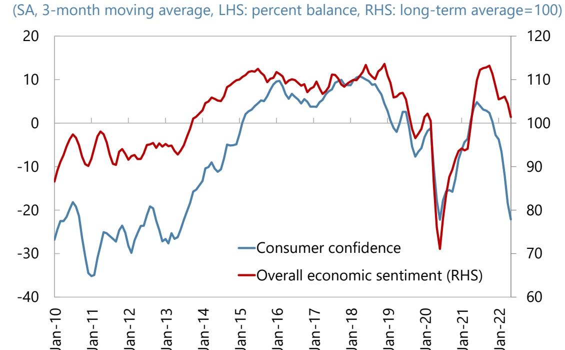


Sources: CSO, IHS Markit, Haver Analytics, and IMF staff calculations.
Notes: SA indicates the data are seasonally adjusted.

... notwithstanding recent fall in confidence indicators, which stems from cost pressures and the war in Ukraine.

Consumer and Business Sentiment

(SA, 3-month moving average, LHS: percent balance, RHS: long-term average=100)



Sources: European Commission, Haver Analytics, and IMF staff calculations.

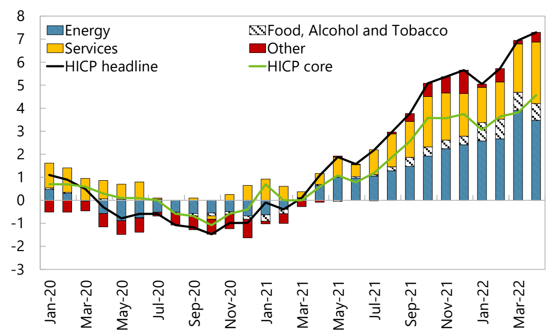
6. Supply-side factors have been the main drivers of inflation, particularly with recent energy and commodity price increases. May 2022 headline and core inflation registered 8.3 and 4.9 percent y-o-y, respectively. A large portion of the inflation is imported as Ireland is a small open economy and the recent inflationary pressures are mainly driven by the direct and indirect effects of fuel and utility prices[4]. Furthermore, housing supply bottlenecks are significant (see Figure 3). House prices[5] grew 14 percent y-o-y in 2021, approaching pre-GFC levels reflecting both higher demand driven by pandemic excess savings and supply constraints. The cost of housing rent and purchase of vehicles have pushed core inflation higher than the EA's average. Wage[6] growth (at 1.9 percent y-o-y in 2022:Q1) has been moderate.

Figure 3. Ireland: Inflation and House Prices

Inflationary pressures are increasing, driven by energy and service prices.

Ireland: Inflation Decomposition

(Percent, y-o-y)

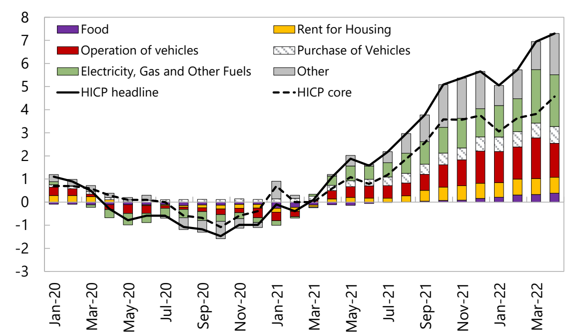


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

The main drivers of high inflation are utilities, fuel, car and rent prices.

Ireland: Detailed Inflation Decomposition

(Percent, y-o-y)

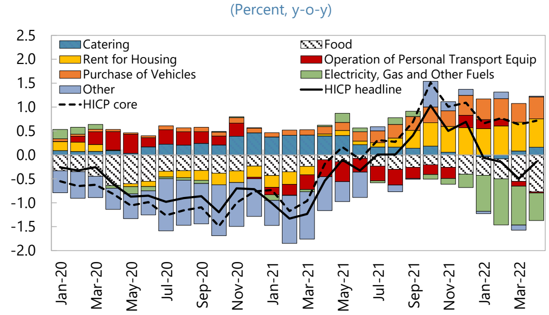


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Rents and car price increases are higher than in the EA, while food and utility price growth is lower.

Ireland vs. EA: Inflation Decomposition

(Percent, y-o-y)

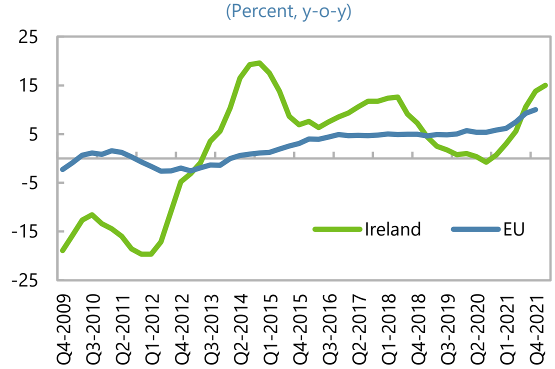


Sources: Eurostat, Haver Analytics, and IMF staff calculations.
Notes: Chart shows the difference in inflation decomposition between IRL and EA. Positive means IRL is higher, while negative means EA is higher.

Ireland's residential property prices growth surpassed the EU.

Residential Property Price Growth

(Percent, y-o-y)



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

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[4] Energy and unprocessed food price inflation stood at 33.3 percent y-o-y in May 2022.

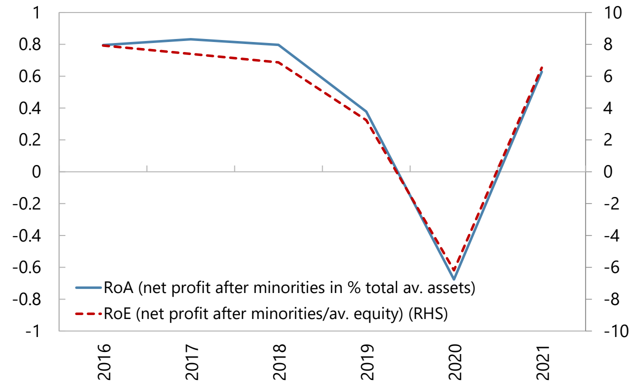
[5] March 2022 residential property price index grew about 15 percent nationally and 12.6 percent in Dublin (y-o-y); Rent index grew at 9 percent nationally (y-o-y) during 2021:Q4 (see, Housing for All | Tableau Public).

[6] Average hourly earnings by economic activities in total economy (NACE 2 definition) published by CSO.

7. The increased resilience and ample government support for borrowers helped the banks to weather the COVID-19 crisis. As of end-2021, the average common equity tier 1 (CET1) ratio was 18 percent[7], which is above the euro area average. The loan-to-deposit ratio declined further to 65 percent, with liquidity benefiting from ECB QE measures and higher customer deposits. The NPL spike was reversed and declined to below pre-pandemic levels at end-2021, which is still high compared to EA peers. Profitability has recovered, but legacies still weigh on the medium-term profitability outlook of retail banks, including high cost-to-income levels, elevated reliance on net interest income and credit risk, and underinvestment in digital infrastructure.

Irish Banks ROA and ROE

(Percent)



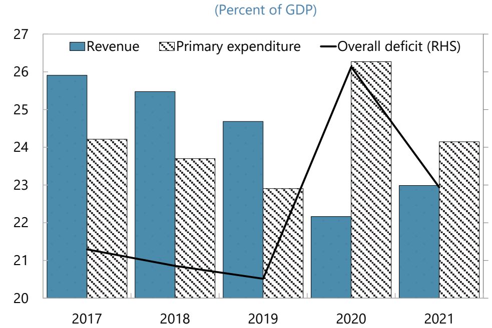
Source: CBI.

Figure 4. Ireland: Recent Fiscal Developments

Fiscal balance has improved significantly due to prudent spending..

Fiscal Indicators

(Percent of GDP)

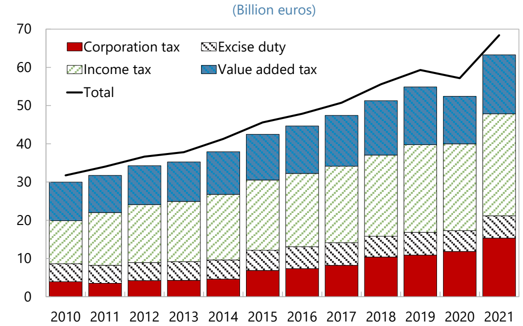


Sources: Eurostat and IMF staff calculations.

..and a strong revenue intake.

Ireland: Tax Revenues

(Billion euros)

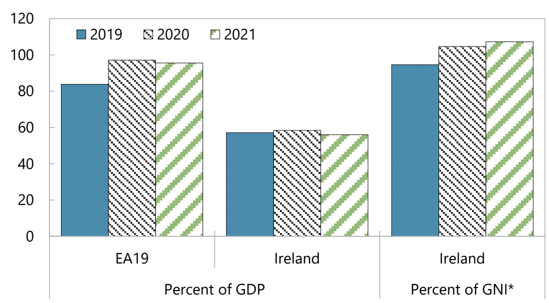


Sources: Department of Finance and Haver Analytics.

Public debt was contained during the COVID crisis..

General Government Debt

(Percent)

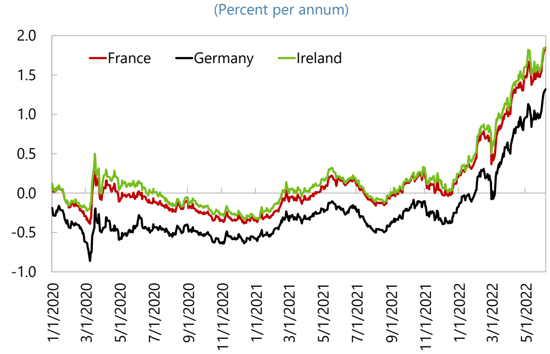


Sources: Eurostat, Haver Analytics, and IMF staff calculations.
Note: 2021 GNI* is estimated by IMF staff.

..but borrowing costs are increasing.

10 Year Government Bond Yield

(Percent per annum)



Sources: TPI and Haver Analytics.

[7] For three main retail banks, on a fully loaded CET1 basis.

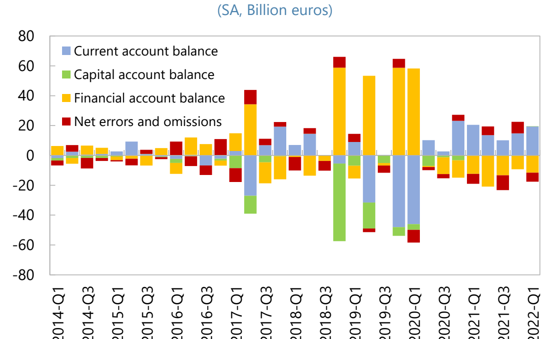
8. **The 2021 fiscal outturn surprised on the upside due to buoyant tax revenues and somewhat lower-than-budgeted spending.** The tax revenue increase was broad-based, with strong VAT and income taxes, reflecting robust employment and consumption. While significant COVID-19 support was made available (3 percent of GDP), underutilization and other current and capital underspending limited the increase of total spending to 2.5 percent. Hence, expenditure declined in relation to the rapidly growing GDP to its pre-pandemic level, gross public debt fell to 56 percent of GDP. While Ireland's public debt is much smaller than the EA average when measured against GDP, this is not the case when it is measured against GNI*.

9. **Exports reached new records in 2021 and were largely driven by MNEs.** IT and pharma exports grew 18.5 percent in 2021, while other exports increased by 4.4 percent. There has been some trade diversion since the EU–U.K. Trade and Cooperation Agreement in December 2020, with the share of exports to the UK in Ireland's total exports declining from 8.9 percent to 7.2 percent and the share of the U.K. in Ireland's total imports shrinking from 21.4 percent to 18.5 percent by March-2022. FDI and other financial flows between Ireland and the U.K. remain substantial, although the relative share of the U.K.'s share in Ireland's inward FDI has been declining. However, the impact of Brexit on Ireland's exports has not been fully realized yet as the U.K. has postponed import controls on goods from Ireland in view of the ongoing negotiations on the implementation of remaining details related to the Northern Ireland Protocol. Ireland's current account (CA) surplus reached 13.9 percent of GDP in 2021, reflecting the strong export performance of the pharmaceuticals and IT sectors and the absence of large Intellectual Property imports. The external position is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies (Annex IV).

Figure 5. Ireland: External Sector Developments

The Balance of Payments key components have been volatile, driven by large financial flows and intellectual property (IP) imports, related to the MNE operations.

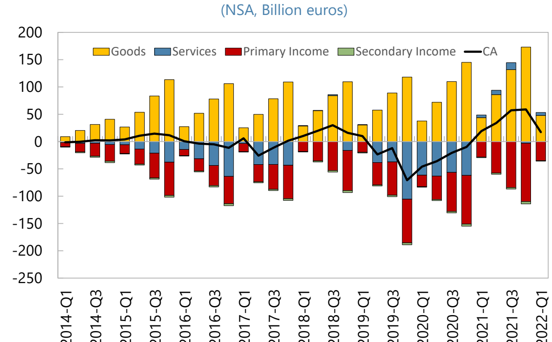
Balance of Payments
(SA, Billion euros)



Sources: Haver Analytics and IMF staff calculations.

The CA reached a surplus largely on the back of the persistent goods trade surplus while services trade deficit narrowed significantly.

Cumulative Current Account Balance (to Year End)
(NSA, Billion euros)



Sources: Haver Analytics and IMF staff calculations.

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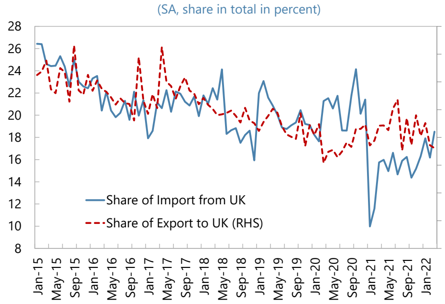
Figure 5. Ireland: External Sector Developments (Concluded)

Post Brexit the bilateral trade with the U.K. has been declining due to continuing diversification of Ireland's trade partners.

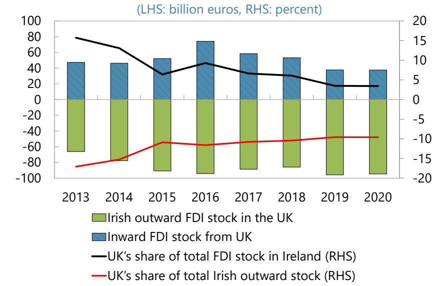
Ireland-UK Import and Export of Goods
(SA, share in total in percent)



Sources: CSO and Haver Analytics.

Irish investment in the U.K. is larger than the U.K.'s FDI in Ireland. The share of the U.K. investment in Ireland's inward FDI has been declining.

UK Investment in Ireland (€38 bn, 2020)
Irish Investment in the UK (€95 bn, 2020)
(LHS: billion euros, RHS: percent)



Sources: Eurostat and IMF staff calculations.

OUTLOOK AND RISKS

10. Ireland's growth outlook remains positive, notwithstanding global headwinds from the war in Ukraine. Growth is projected to slow from 13.5 percent in 2021 to a still robust 7.5 and 5.0 percent in 2022 and 2023, respectively. This is partly due to the envisaged deceleration of the IT and pharmaceutical sectors from their exceptional 2021 performance and the indirect impact of the war in Ukraine. Household excess savings and government support to mitigate the rise in fuel prices are expected to cushion the impact of inflation on disposable income. Over the medium term, as net exports contribution declines, GDP growth is expected to converge to its 3 percent potential, supported by the reforms and investment plans outlined in the NDP.[8] A small positive output gap opened up in 2021 and is expected to close over the medium-term, however, these estimates are subject to significant uncertainty.[9] Public debt is projected to be on a downward trend, and the external current account to remain in surplus.

11. Core inflation is projected to decline slowly, with headline inflation nearing the euro area-wide ECB target by 2024. The contribution of non-energy, non-food items—many of which are subject to supply constraints—to core inflation is expected to continue rising through 2022 as gradual unwinding of pandemic excess saving is driving up demand and pushing up durable goods and services inflation. Core inflation is expected to be 4.7 in 2022 and 3.5 percent in 2023. Should price pressures in energy and construction supplies subside in the first half of 2023 as supply constraints ease, the base effects would be disinflationary. Driven by current energy price projections, headline inflation is projected to average 7.5 percent in 2022 and 3.8 percent in 2023. However, continued energy and commodity price pressures constitutes upward risks to the inflation outlook.

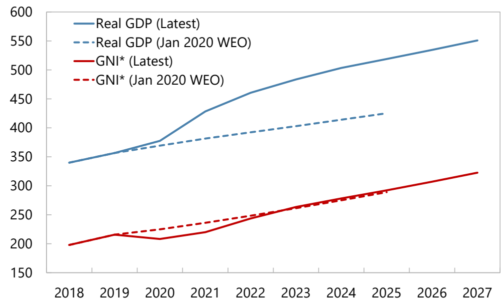
[8] gov.ie - National Development Plan 2021-2030 (www.gov.ie).

[9] Estimates of Ireland's cyclical position are subject to a higher degree of uncertainty given the presence of large MNEs, which have vast networks of global supply chain and markets and can, thus, vary estimates of potential output significantly with little changes in initial resource endowments.

Figure 6. Ireland: Growth and Fiscal Outlook

GDP has exceeded its pre-pandemic trend while GNI experienced a temporary loss during pandemic*

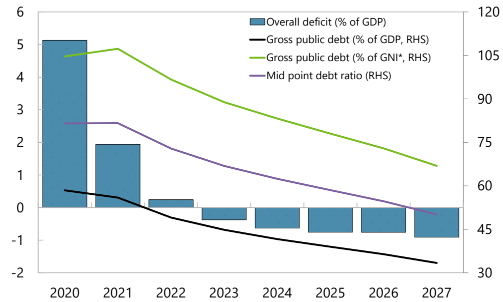
Growth: Pre-pandemic vs. Current Projections
(Billion euros)



Sources: WEO and IMF staff calculations.

Staff projects debt-to-GDP and debt-to-GNI to continue declining in the medium-term driven by strong growth and fiscal surpluses.*

Fiscal Deficit and Public Debt
(Percent)



Sources: Eurostat and IMF staff calculations.

12. Risks to growth are tilted to the downside. Uncertainty is high and external risks are becoming more pressing, including from a prolonged war in Ukraine, further supply-chain disruptions, weaker external demand and confidence, and any unanticipated financial exposures, de-anchoring of inflation expectation, and tighter financial conditions. Disruptions to energy supply could pressure profit margins, negatively impacting economic activity. Also, uncertainty regarding the remaining details of corporate income tax changes and Brexit implementation could weigh on the outlook. The main domestic risks stem from tightened capacity constraints and rising costs in the construction sector which could slow progress in addressing housing shortages and delay the implementation of the National Development Plan (NDP). Upside risks include continued exceptional MNEs' performance, their deeper domestic integration, and Brexit-induced firms' relocations to Ireland.

Authorities' Views

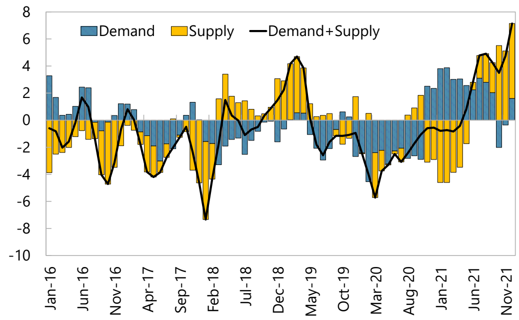
13. The authorities broadly concurred with the staff's views on the outlook and risks. They cited vibrant economic growth, particularly the labor market's strong rebound, improved fiscal position, and declining public and private indebtedness. They, however, remarked that experience has shown that a favorable outlook can change very quickly, which highlights the need to rebuild buffers. They also agreed on the upward risks to inflation and noted that it requires careful demand management. While concurring that capacity constraints in construction have become more binding, they noted the ongoing government initiatives aimed at modernizing the sector. The authorities do not foresee any significant financial sector exposure as a result of the sanctions. Lastly, the authorities agreed with the staff's external sector assessment and analysis but stressed that the current account surplus was consistent with under-investment in housing by the household sector, precautionary savings, and recent deleveraging in the domestic NFC sector.

Figure 7. Measuring the Impact of Supply Chain Disruptions on Irish Manufacturing

Supply shocks have pushed up the Producer Price Index (PPI) in 2021…

Manufacturing PPI inflation

(3-month MA, annualized, SA)

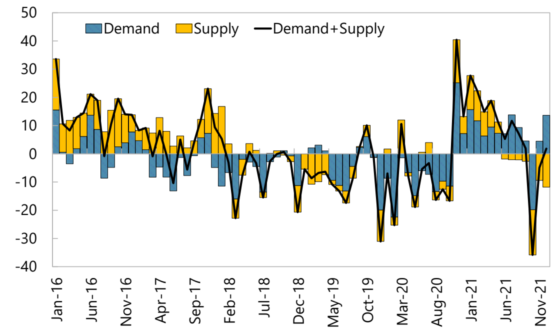


Sources: Haver Analytics and IMF staff calculations.

.. and have affected the manufacturing Industrial Production (IP) growth in 2021:H2

Manufacturing IP

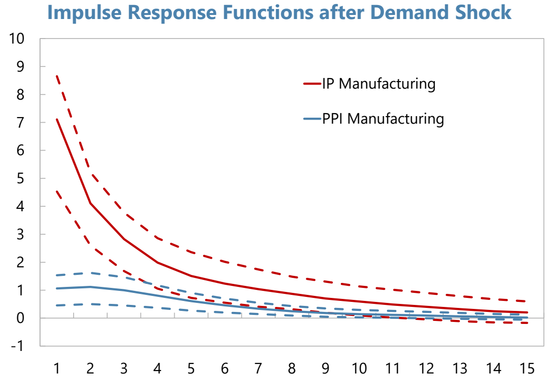
(In logs, removing quadratic trend, SA)



Sources: Haver Analytics and IMF staff calculations.

Demand shocks increase both the volume (IP) and prices (PPI), but the impact on the volume of IP being higher than the impact on PPI.

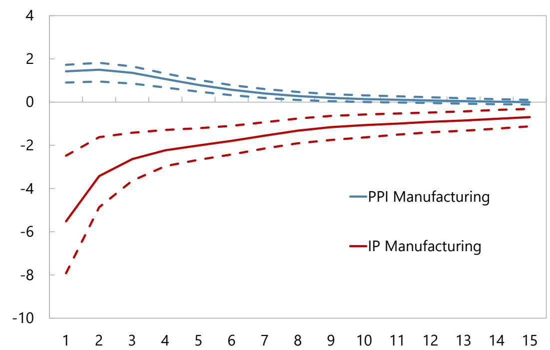
Impulse Response Functions after Demand Shock



Sources: Haver Analytics and IMF staff calculations.

Supply shocks reduce the volume IP and increase the price (PPI), with magnitude of the volume response to the shock upon the impact being larger than the impact on the price effect.

Impulse Response Functions after Supply Shock



Sources: Haver Analytics and IMF staff calculations.

Note: The mission team estimated the impact of supply shocks in a (VAR) model following Celasun et. el. (2022) "Supply Bottlenecks: Where, Why, How Much, and What Next?". The data used in the model is manufacturing Industrial Production (IP) (in logs, removing quadratic trend) and the manufacturing Producer Price Index (PPI) (3-month MA, annualized). Historical variance decompositions are computed using an estimated VAR.

POLICY DISCUSSIONS: BROADEN, INCLUDE, REBUILD

A. Fiscal Policy

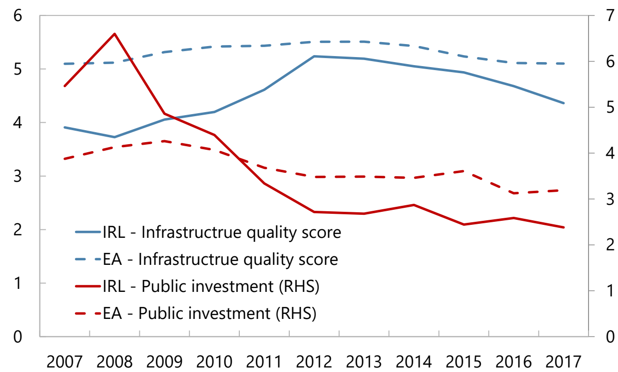
14. **The fiscal balance in 2022 is expected to improve significantly.** With a cautious tapering of COVID support and limited new spending initiatives, the fiscal deficit is expected to decline by 1.7 percent of GDP. New current spending measures (0.7 percent of GDP) focus on health, education, and social welfare, while additional capital spending (0.3 percent of GDP) supports the NDP. A tax relief and social welfare package (0.5 percent of GDP) was appropriately introduced to mitigate the impact of inflation on households and businesses, including through household fuel allowances and a temporary reduction in excise duties. However, some measures, including a one-off electricity grant to all households, could be more targeted to poorer households. While COVID related budget support will continue in 2022, it is scaled down by about 1.6 percent of GDP compared to last year's budget. With limited slack in the economy and high inflation, the budget

2022 strikes a good balance between the strong rebound in activity and increased downside risks to growth. However, as inflation decelerates, there is scope for additional targeted, high-quality expenditure to support socioeconomic objectives, facilitate strengthening of the inward linkages of MNEs, and boost potential growth. The authorities should stand ready to adjust flexibly as conditions evolve. If growth disappoints, they should allow the automatic stabilizers to fully operate and increase high-quality infrastructure and social spending. On the other hand, fiscal policy should also be cognizant of inflation developments to avoid overheating.

15. The authorities' medium-term fiscal strategy aims to enhance fiscal sustainability while supporting investment needs. To steadily rebuild buffers over the medium-term, they introduced a new expenditure rule that limits primary spending increases to the estimated GNI* growth and which would see borrowing only for investment.[10] This strategy, with still-low financing costs and high GDP growth, puts debt firmly on a downward path while supporting NDP investments, which envisions raising annual public investment to above 5 percent of GNI* over the medium term. Staff welcomes the authorities' prudence, especially given that public debt is above 100 percent of GNI* and in view of the remaining uncertainties about MNEs, including changes in international CIT rules. However, under staff's projections, public debt would fall below 40 percent of GDP by 2027. Furthermore, Ireland's public investment is still below EU peers, as is the quality of its infrastructure. This is an obstacle to inclusive growth, labor mobility, and regional economic development (Annex III). There is, therefore, scope to allow for additional growth-enhancing social and green spending while ensuring value for money. Implementation of future investment plans should give priority to infrastructure, healthcare, education, affordable housing, and integration of refugees to address social needs, increase productivity of the indigenous sectors and strengthen MNEs' inward linkages.

Infrastructure Quality Score and Public Investment

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



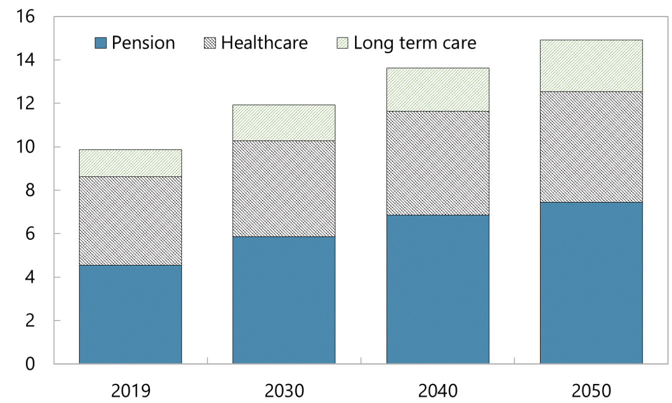
Sources: World Economic Forum, IMF, and IMF staff calculations.

16. The fiscal outlook should be monitored closely given future changes in international corporate income tax (CIT). With CIT being the third-largest source of tax revenue (20 percent of tax revenues), the authorities estimate a revenue loss of at least 0.5 percent of GDP annually. While it is still early for all details of the changes to be determined and their full impact to settle, it is promising that thus far MNEs continue to invest in Ireland attracted by the country's non-tax comparative advantages, including its common law, stable policies, strong links with the EU, U.S., and the U.K., and highly skilled labor force. Given the uncertainty and the volatile nature of CIT revenues, they should be treated with caution, allocating any windfalls to either the Rainy-Day Fund or to reduce debt.

[10] The new rule has been introduced as part of the 2022 budget targeting overall core expenditure. The authorities' estimate the "sustainable growth rate" at 5 percent, which is the historical nominal rate of growth.

17. Long-term demographic trends will eventually pressure public finances. With the old-age dependency ratio expected to double in the next decades and the retirement age well-below life expectancy, length of time in retirement will become one of the longest among OECD countries. In the absence of reforms to safeguard the sustainability of the pension system, public pension costs will increase significantly. Maintaining the planned increase in the retirement age to 68, as previously envisioned, remains key to maintaining the pension fund's sustainability. Previous estimates by the authorities suggest that failure to increase the retirement age as planned could imply a cumulative fiscal cost of about €50 billion (about 12 percent of 2021 GDP) over the long term.[11] Health and long-term care expenditures are also expected to increase significantly, which highlights the need for a cost-efficient healthcare system in line with the authorities' healthcare reform plans.

Public Long Term Expenditure
(Percent of GDP)

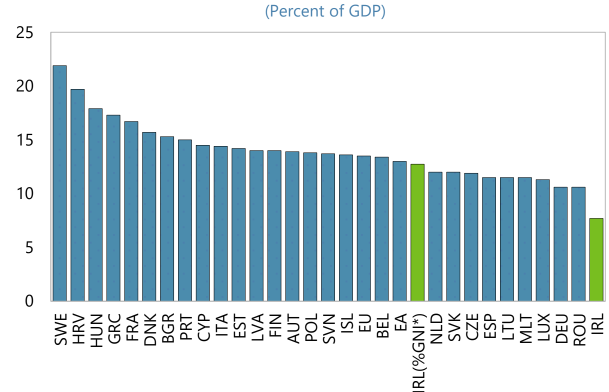


Source: European Comission, Aging Report 2020.

18. Despite the existing fiscal space, securing stable resources and ensuring high quality of expenditure will be required to meet future demands on public finances and social and infrastructure investment needs. Efforts should focus on:

- **Broadening the tax base.** With a low revenue-to-GDP ratio compared to other advanced economies, there is scope to increase less distortive taxes. The structure of the VAT rate can be simplified, and items subject to preferential VAT or excise rates can be reduced. Recent improvements in the property tax framework are welcome. Further efforts should aim to gradually increase the property tax rate from its very low level while ensuring adequate social protection. There is also scope to improve the personal income tax (PIT) system and reduce administrative costs. As previously recommended by staff, an introduction of additional tax bands and rates to the PIT and appropriately calibrating their tax rates would allow preserving the progressiveness of the system, while broadening the tax base, and reducing disincentives to work more. When combined with means-tested cash transfers for low-income households, it would assure a robust, incentive

Total Government Tax Revenue, 2019
(Percent of GDP)



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

[11] Population Ageing and Public Finances in Ireland. DoF, 2021.

compatible and equitable tax system. Furthermore, recalibrating the income tax system by absorbing the Universal Social Charge (USC) could help reduce administrative costs.[12]

- **Maximizing public investment returns.** Well-targeted, efficient investment will be key to boost productivity and deepen MNEs' inward linkages with the domestic economy. Significant progress has been achieved in upgrading the public investment framework and spending procedures along the 2017 PIMA recommendations. The authorities should continue to make progress on the remaining steps to enhance infrastructure projects implementation and strengthen adherence to budgeted targets.

- **Improving adequacy and targeting of social spending.** Ireland generally ranks well in equality and income distribution. However, there is significant heterogeneity among the population, with women and young adults being the most vulnerable. Furthermore, housing affordability for lower-income households, single parents and young adults continues to deteriorate. It is, therefore, important to enhance targeting of social programs to vulnerable groups and implement measures to increase the supply of affordable housing.

Authorities' Views

19. The authorities were more conservative than staff regarding the scope for additional public spending over and above existing plans, taking into account public debt levels and long-term fiscal pressures. They stressed that, while public debt as a share of GDP is relatively manageable, it is better to relate the size of public debt to the considerably smaller GNI* as it is a more relevant measure of domestic activities. They emphasized the need to rebuild buffers, focus on the quality of spending, and avoid making permanent some of the temporary support measures to mitigate the impact of the pandemic and energy price increases. The authorities concurred on the need to diversify the revenue base but noted that the scope for changes in PIT is limited given its already high progressivity and regarded the USC as a reliable and stable source of revenue. They agreed that adverse demographics will be a challenge and that changes to the pension system are required to ensure its sustainability and contain long-term fiscal pressures.

B. Financial and Macroprudential Policies[13]

20. The impact of the pandemic on borrowers' financial position has started to dissipate, but uncertainty remains high and new risks have emerged. Credit growth is muted as firms and households continue to deleverage. Households' balance sheets improved during the pandemic largely due to public support. The share of loss-making SMEs has declined, though heterogeneity across sectors is large. Overall credit conditions remained unchanged in H1:2022. Risks to financial

[12] See IMF Country Report No 19/165.

[13] The 2022 FSAP provides a more comprehensive assessment of financial stability, including more details on measures to maintain effectiveness of AML/CFT risk-based supervision in response to increasing size and complexity of the financial sector and associated ML/TF risks.

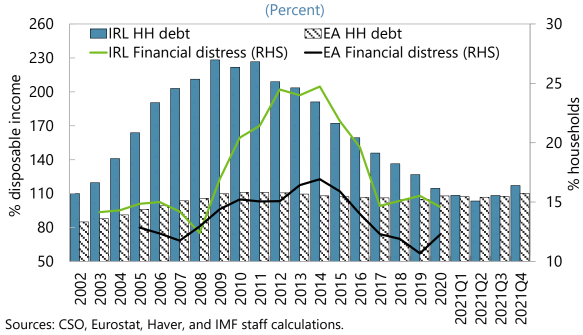
stability include those from persistent legacy issues, a much larger and more complex financial system, as well as emergent ones from non-bank lending, Fintech, and climate.

Figure 8. Ireland: Financial Sector Developments

Households continued to deleverage, and Ireland has reached the average EA level of debt to disposable income ratio.

Households Debt and Financial Distress

(Percent)

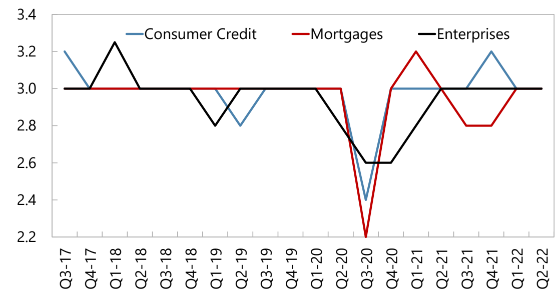


Sources: CSO, Eurostat, Haver, and IMF staff calculations.
Note: Financial Distress is measured as the simple average of percent of household (below 60% of median equivalised income) who have arrears on utility bills, mortgage or rent payments, hire purchase instalments or other loan payments, and inability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

Credit conditions remained largely unchanged in 2022.

Change in Credit Standard

(Percent, mean of past 3 months)

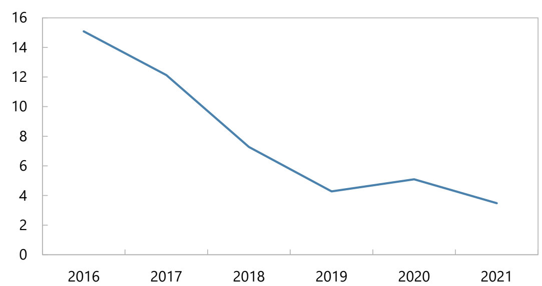


Sources: Central Bank of Ireland and Haver Analytics.
Notes: 1 = Tightened considerably 2 = Tightened somewhat 3 = Basically unchanged 4 = Eased somewhat 5 = Eased considerably

NPLs have resumed their downward trend.

Non-Performing Loans Ratio

(Percent)

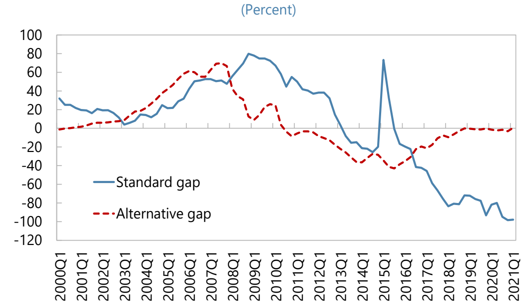


Sources: CBI and Department of Finance.
Notes: The data cover the three main domestic banks: Allied Irish Banks, Bank of Ireland, and Permanent TSB.

The credit gap is estimated to be close to zero.

Standard and Alternative Credit Gap

(Percent)

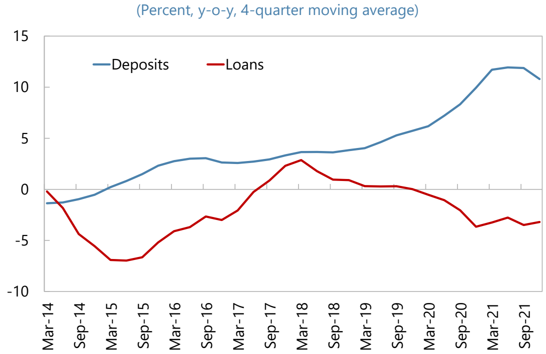


Sources: BIS, CBI, and Haver Analytics.
Notes: Alternative gap is computed as in O'Brien, O'Brien and Velasco (2018) appended with last observation 2021 Q1 based on O'Brien and Velasco (2020) by CBI.

Households accumulated significant cash reserves during the pandemic..

Household Deposits and Loans

(Percent, y-o-y, 4-quarter moving average)

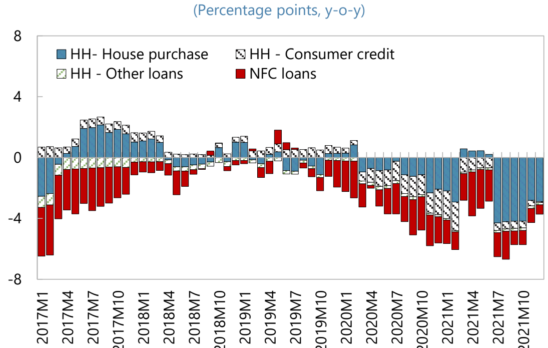


Sources: CBI, Haver Analytics, and IMF staff calculations.

..and credit growth remains weak.

Contributions to Credit Growth

(Percentage points, y-o-y)



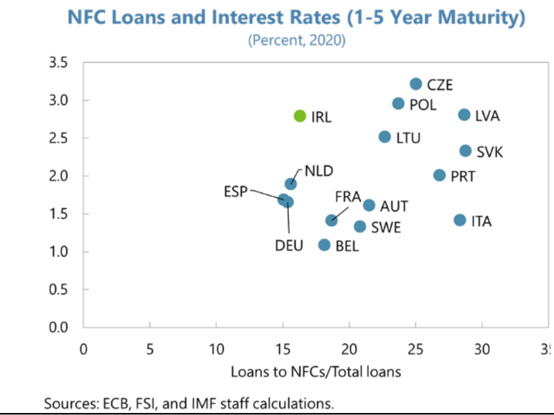
Sources: CBI, Haver Analytics, and IMF staff calculations.

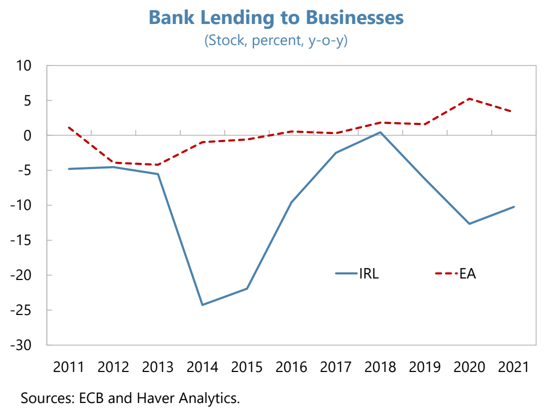
21. Banks withstood the pandemic shock well and remain broadly resilient, thanks to high capital buffers and effective policy support. The FSAP stress tests confirmed banks' resilience to severe macrofinancial shocks. On the solvency side, the analysis showed no bank would see its capital ratio fall below the hurdle rates.[14] Additional sensitivity analysis pointed to some risks stemming from the withdrawal of public support measures. Liquidity tests suggest banks are resilient to adverse liquidity conditions, although maturity mismatches may expose banks to shortfalls over a longer horizon, with some cross currency vulnerabilities. (Figure 9, charts 1 and 2). The authorities should, therefore, maintain the use of tools developed for intensified supervision during the COVID-19 crisis to continue identifying potential sources of stress.

22. Long-term mortgage arrears (LTMA) require a strategy involving multiple government bodies. While LTMAs are largely a legacy of the GFC, failure to create a predictable and efficient system to resolve them hinders credit growth and affordability, given the high uncertainty of realizing collateral. It is, therefore, crucial to eliminate legal and institutional barriers to timely and efficient enforcement of secured credit, including by issuing rules and guidelines for judges with respect to proceedings and ensuring hearings take place in a timely manner. The government needs to develop a multi-agency strategy to provide targeted solutions to LTMA borrowers based on their debt-servicing capacity, including published guidance for lenders on expected restructuring outcomes based on capacity-to-repay indicators.

23. Retail banks' profitability remains under pressure, bank lending interest rates are high, and credit to SMEs is low. High lending cost and limited credit supply have hindered SMEs' growth. In 2021, two out of five main retail banks (Ulster and KBC) announced their exit from Ireland, with their assets largely bought by the remaining banks, further increasing the already high concentration in the Irish retail banking. Additionally, the government is still a majority owner of two of the three remaining retail banks. The authorities should consider ways to spur efficiency gains and innovation in majority government-owned banks and accelerate the divestment of government stakes. Continued supervisory intervention to reduce NPLs and lessen the burden of unproductive assets is also crucial. Increased competition from the rapid expansion of the new entrants, including Fintechs and non-bank lenders, that have tripled their share of new mortgage lending over last two years (to 13 percent in 2021), is improving the access and cost of financial services, but will further pressure banks' profitability. To stay competitive, banks need to accelerate the use of modern technologies, step up innovation, and improve customer service quality.

[14] On aggregate, the CET1 ratio declines by about 6.7 percentage points for retail banks by the 5th year. When looking at the trough, however, capital depletion can reach 7.2 percentage points.



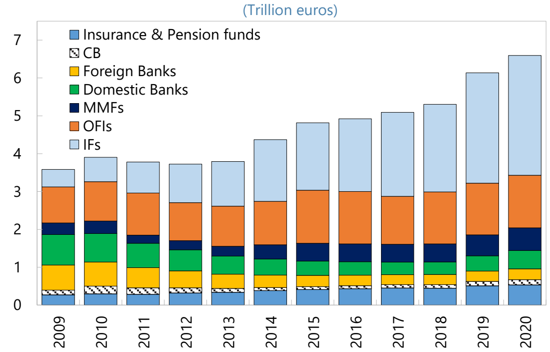


24. Ireland is a host to a large market-based finance sector (MBF), which requires enhancing risk analysis and reinforcing regulation in collaboration with international partners. The MBF sector with assets over 20 times GNI* is comprised of money-market and investment funds, and the catch-all category "other financial institutions" (OFIs). Funds hold primarily non-Irish assets on behalf of non-Irish investors, although they also have some domestic interlinkages, primarily through property funds, that account for more than 40 percent of the invested CRE market, are largely financed by foreign investors, but some funds are highly leveraged[15]. A segment of the OFI sector has sizable linkages to the domestic economy[16], the full extent and nature of those remains opaque and requires further investigation as recommended by the FSAP (Annex II). There are also significant linkages between large international banks and non-bank financial institutions. While the Central Bank of Ireland (CBI) has made significant strides in the monitoring of the MBF and improved its regulation of funds, it is yet to complete its fund stress-testing model and still lacks comprehensive data on granular risk metrics and composition of sizable parts of activity in OFIs. While investment funds (IFs) have limited domestic links, large redemptions from some MMFs during the March 2020 market turmoil underlined the role of IFs in transmitting and amplifying liquidity shocks. Addressing remaining data gaps and elucidating linkages is important for Ireland and the global community. The Irish Authorities should continue to work with European and international institutions to improve the regulatory framework and prioritize its guidance on the use of liquidity management tools. Ireland faces significant and increasing cross-border transactions that raise ML/TF risks. Increased resourcing, broader data collection (particularly of cross-border transactional data) and use of advanced data analytical tools can ensure that risk-based supervision continues to keep pace with the rapid expansion of the financial sector. The authorities should also take steps to mitigate ML risks from complex ownership structures by ensuring that beneficial ownership registries data are accurate, complete, and up-to-date.

[15] Irish real estate funds have total assets of about €33 billion.

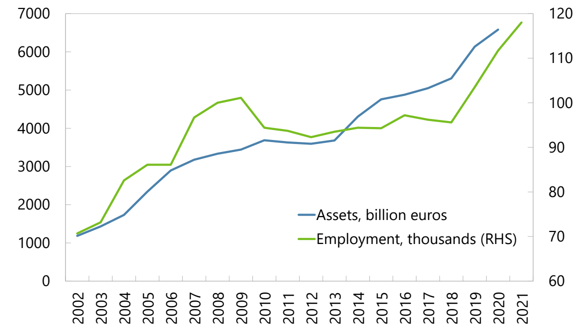
[16] Most of OFIs' transactions relate to internationally focused activities, but entities within the OFI sector also have meaningful linkages with domestic banks, households, and firms.

Financial Sector Assets
(Trillion euros)



Sources: CSO and Haver Analytics.

Financial Sector Assets and Employment

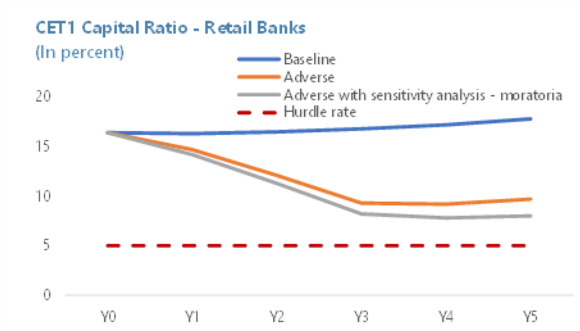


Sources: Eurostat, Haver Analytics, and IMF staff calculations.

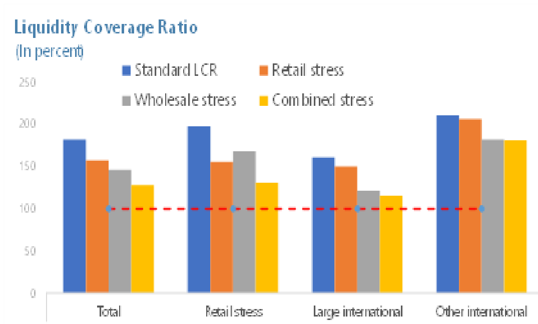
25. The macroprudential framework has been effective in supporting the resilience of borrowers and containing pro-cyclical credit dynamics, but it needs to evolve, including to reflect the growing share of non-bank activity. Financial stability risks emanating from the housing sector remain low. Going forward, the limits on mortgage debt should continue to be closely monitored, and, if warranted by developments in unsecured credit, be complemented by limits on total debt (i.e., debt-to-income and debt-service-to-income ratios). Investment in commercial real estate (CRE) rebounded in 2021 with significant cross-border flows, often intermediated via IFs. While these flows provide diversification of funding, they can also act as a channel of contagion for global financial shocks. The CBI's proposal to implement a leverage limit and provide liquidity management guidelines for Irish-domiciled property funds are essential steps to strengthen the system's resilience to CRE shocks. On the CCyB, the balance of factors affecting the decision to raise it from the current level of zero is shifting towards rebuilding the resilience but should remain data driven given the increased uncertainty around the economic outlook.

Figure 9. Ireland: Banking Sector and Credit Developments

FSAP stress tests show that no bank would see its capital ratio fall below the hurdle rates



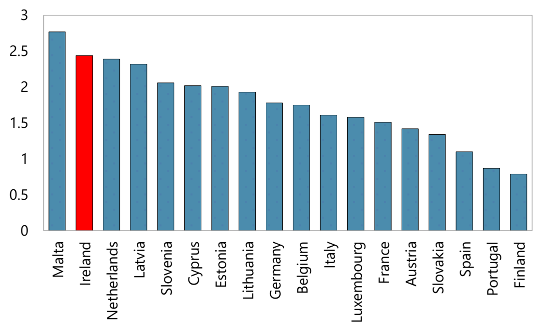
Liquidity tests suggest banks are resilient to adverse liquidity conditions.



Irish banks have relatively high lending rates.

Mortgage Lending Rate

(Percent)

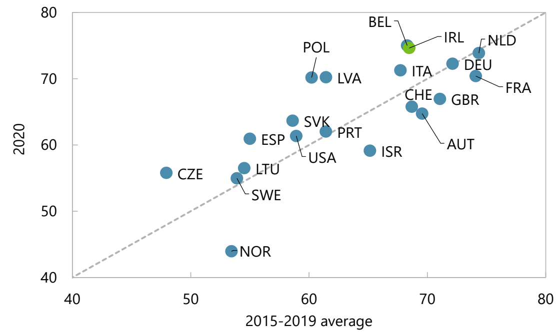


Sources: ECB Statistical Data Warehouse.

However their cost to income ratio is among the highest among peers.

Cost-to-Income Ratio

(Percent)



Sources: FSI and IMF staff calculations.

Authorities' Views

26. **The authorities shared staff's assessment that the Irish financial system has demonstrated resilience to a combination of Brexit and COVID shocks.** The authorities noted that Irish retail banks have returned to pre-pandemic profitability and resumed progress in NPL reduction, and that further NPL reduction remains a key supervisory priority. The authorities acknowledged the importance of addressing the remaining GFC legacy issues on the retail banks and completing government divestiture. On LTMA, they emphasized ongoing efforts and a comprehensive on-going cross-departmental approach. The authorities did not see a need to expand the macroprudential kit to include total debt metrics at this point. They noted the administrative burden and highlighted their close and continuous monitoring of any potential leakages from the existing measures.

27. **The authorities agreed on the need to ensure that the regulatory framework and supervisory capacity keep pace with Ireland's growing global and interconnected financial sector.** They noted Ireland's demonstrated commitment to cross-border collaboration on financial sector oversight and regulation and its active collaboration and engagement with European and international regulators, including the ECB/SSM, the Single Resolution Board and, more broadly, the European System of Financial Supervision especially on extending macroprudential tools and policy to the non-bank financial sector where appropriate. They agreed to the importance of a robust AML/CFT framework and the ongoing need for it to be strengthened, including in respect of cross-border activity, as European and international AML/CFT standards continue to be enhanced.

C. Structural Policies

Housing

28. **The pandemic has exacerbated housing market's imbalances, contributing to accelerating prices despite the recent acceleration in housing construction.** Double-digit price growth has further pressured affordability as price-to-income and price-to-rent ratios increased sharply in recent quarters. House completions recovered in 2021 but were still below 2019 levels.

Housing commencements have accelerated to the highest number since the GFC,[17] but the construction sector is facing combined headwinds of input cost inflation and labor shortages.

29. CRE activities performed better than expected during the pandemic. Investment in the sector was exceptionally strong in 2021 and this momentum is expected to continue in 2022. The polarization between different sectors that characterized the Irish property investment market stems from the higher return to investment in CRE than residential, partly due to the strong growth of MNEs, Brexit-related relocations to Ireland, and businesses' general resilience despite the pandemic.

30. Supply-side policies should be further strengthened. The government has introduced a comprehensive fiscal and regulatory package (Housing for All[18]), costing close to 1 percent of GDP annually, to address the affordable housing shortage. The package includes measures to improve zoning, planning, land availability, and social housing. Timely implementation of these measures is needed and should be accompanied by additional policies aimed at raising productivity in the construction sector. The "First Home" affordable purchase shared-equity scheme (starting in 2022:Q3) aims to support first home buyers. However, it does not address the supply bottlenecks. While the scheme is partly targeted and limited in size, if expanded it can put further upward pressure on prices.

31. Improving construction productivity is needed to bolster housing supply. The construction sector is fragmented, lagging on digitalization, and faces high input costs and labor shortages. Complex and lengthy processes for obtaining occupational licenses, with excessively long apprenticeship requirements, raise barriers to entry and contribute to substantial bottlenecks and high costs of construction. In recent years, the government has taken some steps toward digitalization of the construction sector, upskilling and reskilling workers, including by increasing the number of apprenticeship centers. There is also a need to streamline the lengthy, cumbersome, and uncertain zoning and permit processes.

Authorities' Views

32. The government is implementing a set of comprehensive measures under "Housing for All – A New Housing Plan for Ireland" aimed at alleviating the housing shortage[19]. Establishment of the Construction Sector Innovation and Digital Adoption Subgroup by the government[20] and the industry is welcome to deliver on the seven priority actions detailed in the Building Innovation Report[21]. The Construction Sector Group[22] ensures regular and open dialogue between government and industry on how best to achieve and maintain a sustainable and

[17] Housing for All | Tableau Public.

[18] The multi-year program includes €12bn direct Exchequer funding, €3.5bn through the Land Development Agency, and €5bn through the Housing Finance Agency.

[19] gov.ie - Housing for All - a New Housing Plan for Ireland (www.gov.ie).

[20] gov.ie - Project Ireland 2040 (www.gov.ie).

[21] Build Digital Project.

[22] gov.ie - Construction Sector Group (www.gov.ie).

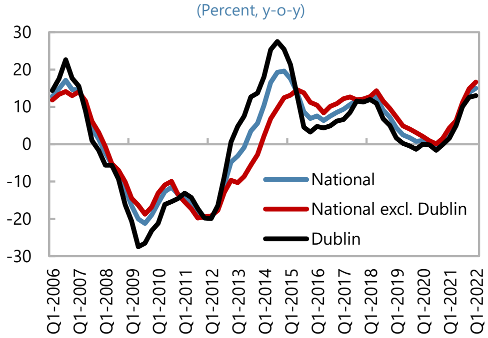
innovative construction sector in order to successfully deliver on the commitments in Project Ireland 2040[23].

Figure 10. Ireland: Real Estate and Construction Developments

Housing price growths have accelerated since the beginning of the pandemic..

Residential Property Price Growth

(Percent, y-o-y)

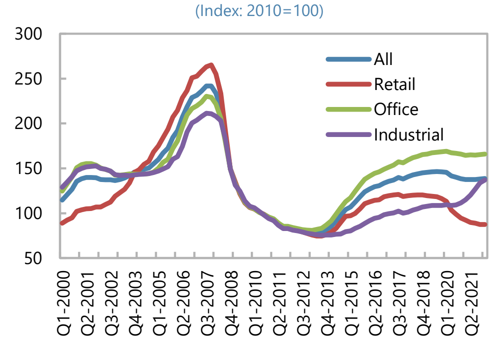


Sources: CSO, Eurostat, Haver Analytics, and IMF staff calculations

..and the commercial real estate sector proved to be resilient.

CRE Capital Value

(Index: 2010=100)

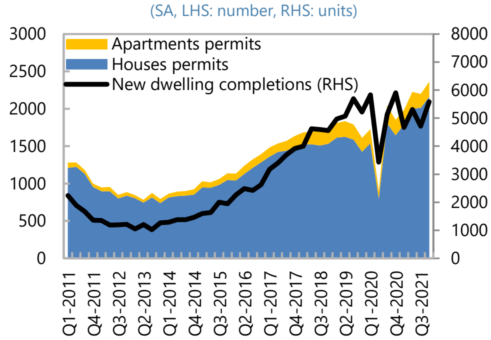


Sources: MSCI and IMF staff calculations.

After falling at the start of the pandemic, construction indicators have recovered.

Building Permits Granted and New Dwelling Completions

(SA, LHS: number, RHS: units)

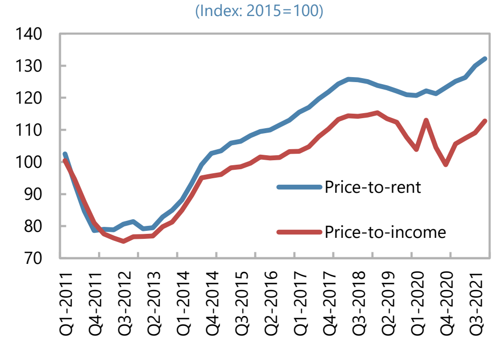


Sources: CSO, Haver Analytics, and IMF staff calculations.

While price-to-income has been volatile during the pandemic, price-to-rent has been growing.

Price-to-Rent and Price-to-Income

(Index: 2015=100)

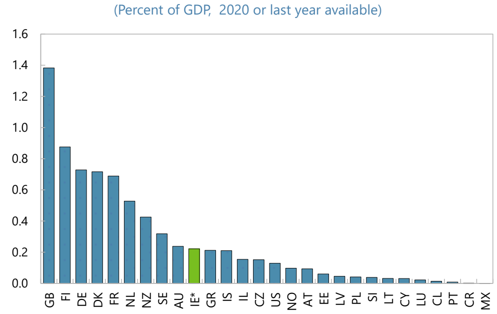


Sources: OECD and IMF staff calculations.

There is scope for increasing targeted government spending on housing allowances for low-income household,..

Total Government Spending on Housing Allowances

(Percent of GDP, 2020 or last year available)



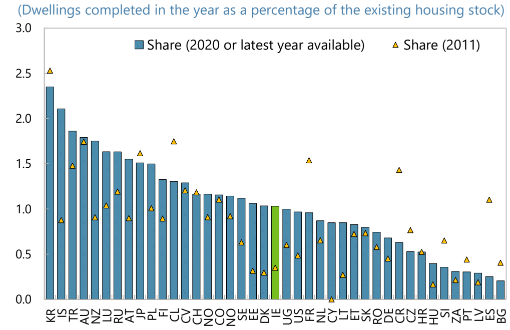
Source: OECD

Notes: Ireland shows as percent of GNI*.

..., as well as easing the supply bottlenecks to increase construction.

Housing Construction

(Dwellings completed in the year as a percentage of the existing housing stock)



Source: OECD

Note: IMF European Department Paper "Who Bore the Brunt of the Pandemic in Europe? Shifting Private Stress to the Public Sector", July 2021

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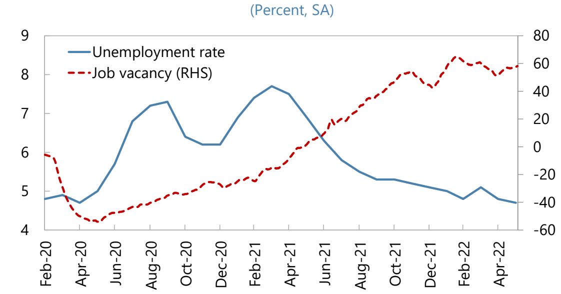
[23] gov.ie - Project Ireland 2040 (www.gov.ie).

Labor Market

33. Labor market conditions have become tighter than in the pre-pandemic years. In 2022:Q1, the employment and participation rates reached all-time highs of 73.2 percent and 65.5 percent, respectively, largely thanks to significant gains in female, youth, and older age employment. Monthly unemployment rate (15-74 years) in May 2022 dropped to 4.7 percent. The expiration of the Pandemic Unemployment Payment scheme (PUP) in February 2022 and the short-term working schemes (TWSS, EWSS) in April 2022 are expected to partly alleviate labor shortages (see Annex III).

Job postings have been increasing while unemployment rate is falling, indicating a tight labor market.

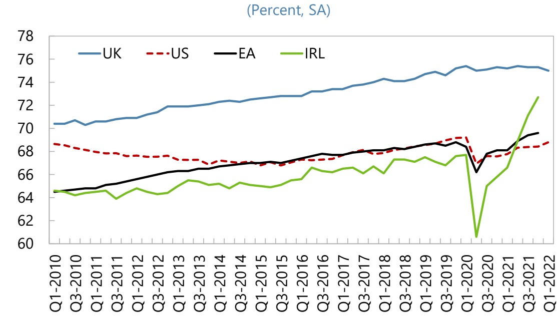
Unemployment Rate and Job Vacancy
(Percent, SA)



Sources: CSO, Haver Analytics, Indeed.
Notes: Job vacancy line shows the percentage change in seasonally-adjusted job postings since February 1, 2020, using a 7-day trailing average, as posted on the leading hiring website *"Indeed"*.

Ireland has made significant progress post-pandemic in increasing the female LFPR relative to pears

Female Labor Force Participation Rate
(Percent, SA)



Sources: Eurostat, Haver Analytics, Office for National Statistics, and U.S. Bureau of Labor Statistics.
Notes: US and UK shows aged 16-64 years, while IRL and EA shows aged 15-64 years.

34. The post-pandemic sectoral labor reallocation to support green and digital transition should be facilitated by training and efficient active labor market policies. The pandemic had an asymmetric and potentially persistent impact on contact-intensive sectors with transition challenges looming for low-skilled workers who may have a hard time integrating into expanding digital or green-construction sectors, due to skill mismatches. Employment in the contact intensive sector is slowly recovering. In contrast, industry, manufacturing, finance, ICT, and real estate sectors registered employment growth, partially thanks to the ability to work remotely, larger demand for IT services, and growing e-commerce. Reskilling should focus on enhancing skills relevant for the high-tech, digital, and green construction sectors. In this context, the authorities' strategy in the National Recovery and Resilience Plan (NRRP) to strengthen access to training, with a particular emphasis on digital skills, are welcome. [24] Efforts should also continue to encourage the links between the education institutions and industry and to facilitate on-the-job training. Reforms to apprenticeship programs should aim at lowering barriers to entry.

35. Ireland has made significant progress in increasing female participation, but there is still room for improvement. Female participation and employment rates have surpassed the pre-pandemic and the average EU levels, reaching 60.2 percent and 69.1 percent by 2022:Q1, though they remain below U.K. levels. This improvement was observed particularly in the sectors less

[24] gov.ie - Ireland's National Recovery and Resilience Plan 2021 (www.gov.ie)

affected by COVID-19, suggesting the gains can be permanent. Further gains in this area can be achieved through active labor market policies, increasing the provision of affordable childcare, and facilitating flexible work arrangements and opportunities to telework, including through investment in digital infrastructure.

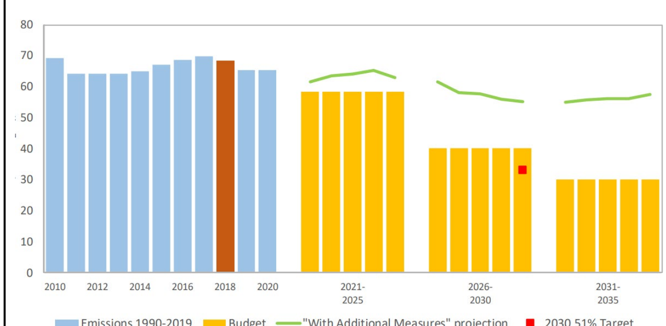
Authorities' Views

36. The authorities highlighted the increased range and availability of funded retraining and upskilling courses, and well-established mechanisms for partnership across the skills ecosystem[25]. They agreed that more needs to be done to incentivize their uptake, as well as to ensure continued delivery of the ongoing reform of the apprenticeship program. They noted the comprehensive training programs put in place by the newly established Department of Further and Higher Education, Research, Innovation and Science[26] to alleviate skilled labor shortages and bring Ireland above the EU average for life-long learning indicators. They concurred on the need to continue to reform apprenticeship programs to make them more cost-efficient and attractive for employers and employees, increase the number of trade and apprenticeship programs. The authorities agreed that an increase in affordable child-care centers, flexible work schedules, and telework opportunities could boost female participation in the labor market.

Climate Policies

37. Ireland is making progress in implementing its ambitious climate agenda, but more clarity is needed on measures to achieve the stated quantitative targets. The amended Climate Action and Low Carbon Development Act 2021 set a path to halve emissions by 2030 and achieve carbon neutrality by 2050, which will require 7 percent annual reduction in emissions over the next eight years. The carbon tax was increased in line with the legislated path to reach €100 by 2030. The government also introduced house retrofitting grants (up to €25,000) and electric vehicles subsidies to accelerate emissions reduction in the housing and transport sectors. The NRRP[27] has 0.2 percent of GNI* investments aimed at advancing the green transition. The approval of sector-specific carbon budgets is welcome but needs to be complemented by concrete measures to achieve the quantitative targets. Furthermore, just transition measures should be a priority to support the affected groups. Irish banks' exposure to

Proposed Carbon Budgets in the Context of Recent Emissions, Projections, and the 51% Emissions Reduction Target
(Greenhouse gas emissions, Mt CO2eq)



Source: Climate Change Advisory Council.

[25] Including National Skills Council, Regional Skills Fora, Expert Group on Future Skills Needs.

[26] [gov.ie - Department of Further and Higher Education, Research, Innovation and Science (www.gov.ie).](http://www.gov.ie)

[27] Ireland's total allocation of NGEU financing is €1bln (0.5% of GNI*).

climate risks is not insignificant,[28] and the CBI has prepared a high-level multi-year strategic workplan, which benefits from EU initiatives and adopted a governance structure supporting its delivery. This workplan should be complemented by a sequenced action plan to manage climate-related financial risks in priority areas, with an early emphasis on robust data disclosures.

Authorities' Views

38. The authorities reiterated their commitment to climate targets and noted the large investment needs. They emphasized the central role of green investment programs in the NDP, as well as the government's focus on improving the regulatory environment for renewable investments. While the full reductions required to meet the Carbon Budgets are not yet identified in the climate action plan, the legally-binding sectoral emissions ceilings are expected to be agreed by the government this summer.

STAFF APPRAISAL

39. After an exceptionally strong rebound from the pandemic, Ireland's outlook remains favorable, albeit subject to substantial uncertainty. GDP surpassed its pre-pandemic trend and employment is at all-time high. COVID-support measures have been appropriately unwound in line with the recovery. Growth is projected to remain strong, but uncertainty is high and external risks are more pressing. While direct links with Russia and Ukraine are small, indirect impacts can be substantial and a further escalation of the war is a key source of risks. There are also uncertainties concerning the remaining details of Brexit implementation and corporate income tax changes. Although anticipated to moderate, inflation pressures are expected to persist with risks to the upside.

40. The 2022 fiscal stance is broadly appropriate, but fiscal policy should maintain two-way flexibility in light of high uncertainty. Strong tax revenue outturns and the tapering of the COVID-19 support have provided room for a swift response to mitigate the impact of high energy prices on businesses and households. Additional measures, if needed, should be temporary and carefully targeted to better support vulnerable segments of the population. In the near term, as inflation decelerates, there is scope for more high-quality investment to counter headwinds from the war in Ukraine.

41. Over the medium term, fiscal policy should aim to support growth-enhancing investment while making room to accommodate social and demographics-related costs. As long as public debt continues on a declining path, there is scope for additional growth-enhancing and green spending while ensuring value for money. Priority should be given to education, training, health, and infrastructure to increase the productivity of the indigenous sectors and promote MNEs' inward linkages. To maximize investment returns, the authorities should continue their progress in enhancing public investment quality. Long-term demographic trends and remaining uncertainty

[28] FSAP technical note on risk analysis.

regarding CIT necessitate a broadening of the tax base, including by removing preferential VAT rates and gradually increasing the very low property tax rates while ensuring adequate social safeguards.

42. Further efforts are needed to fully address GFC legacies, which weigh on domestic retail banks' performance. While banks remain broadly resilient, profitability is lackluster, lending interest rates are high, and credit to SMEs is low. Addressing challenges to the recovery of collateral, reducing operating restrictions, and divesting government ownership while paying attention to maintain sufficient competition would help reduce the cost of borrowing for households and SMEs and spur efficiency and innovation. Other risks that need to be carefully managed stem from the potential impact from the unwinding of pandemic-related support, fintech and climate change.

43. The regulatory and supervisory framework needs to continue to keep pace with the large, complex, and globally interconnected MBF sector, the dynamic fintech sector, and risks of money laundering/terrorism financing and sanctions evasion. We welcome the CBI's significant progress in monitoring and supervising the MBF sector. Addressing remaining data gaps and elucidating linkages is important for Ireland and the global community. We encourage the authorities to continue to work with European and international authorities to improve NBFIs' regulatory framework and prioritize its guidance on the use of liquidity management tools.

44. The macroprudential framework needs to evolve to reflect the growing share of non-bank activity. The macroprudential measures on mortgages were effective in supporting resilience of borrowers and containing pro-cyclical credit dynamics. Going forward, the limits on mortgage debt should continue to be closely monitored, and, if warranted by developments in unsecured credit, be complemented by limits on total debt. The CBI's proposal to implement a leverage limit and provide liquidity management guidelines for Irish-domiciled property funds are essential steps forward to strengthen the system's resilience to CRE shocks.

45. Advancing structural reforms would help boost productivity, facilitate labor reallocation, reduce inequality, and support the green agenda. Several pre-pandemic challenges remain, including insufficient housing supply; infrastructure, social, and green investment gaps; and the need to strengthen MNEs' inward linkages to broaden growth and make it more inclusive. Housing supply policies should be further strengthened, with a focus on boosting productivity in the construction sector, streamline the zoning and permit processes as well as the occupational licensing requirements. To facilitate labor reallocation, policies should support upskilling and provision of affordable childcare. To ensure the successful implementation of the authorities' green agenda, well-phased measures should be specified and put in place to achieve the quantitative targets.

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

Table 1. Ireland: Selected Economic Indicators, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
	(annual percentage change, constant prices, unless otherwise indicated)									
Output/Demand										
Real GDP 1/	9.0	4.9	5.9	13.5	7.5	5.0	4.1	3.1	3.0	3.0
Domestic demand	-2.8	43.5	-14.8	-16.8	3.8	4.7	4.5	4.2	4.0	3.9
Public consumption	4.8	7.1	10.9	5.3	-1.3	2.0	2.5	2.9	2.9	2.9
Private consumption	3.9	3.3	-10.4	5.7	5.0	4.0	3.5	3.0	3.0	3.0
Gross fixed capital formation	-8.8	99.5	-23.0	-37.6	5.0	7.0	6.6	6.1	5.5	5.3
Exports of goods and services	11.5	10.4	9.5	16.6	8.5	6.0	5.0	4.0	4.0	4.0
Imports of goods and services	3.3	41.7	-7.4	-3.7	7.0	6.3	5.7	5.1	5.0	5.0
Output gap	1.3	0.3	-2.3	0.8	0.5	0.0	0.0	0.0	0.0	0.0
Contribution to Growth										
Domestic demand	-2.2	30.9	-14.2	-13.2	2.3	2.7	2.6	2.4	2.3	2.3
Consumption	1.8	1.8	-2.1	2.1	1.2	1.2	1.1	1.0	1.1	1.1
Gross fixed capital formation	-2.9	28.1	-12.3	-14.9	1.2	1.5	1.4	1.4	1.3	1.3
Inventories	-1.1	1.0	0.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	10.7	-26.5	21.4	25.7	4.8	2.2	1.3	0.4	0.5	0.5
Residual	0.5	0.6	-1.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Prices										
Inflation (HICP)	0.7	0.9	-0.5	2.4	7.5	3.8	2.5	2.0	2.0	2.0
Inflation (HICP, core)	0.2	0.9	-0.1	1.6	4.7	3.5	2.4	2.0	2.0	2.0
GDP deflator	0.7	4.2	-1.2	-0.4	5.9	3.6	2.3	2.0	2.0	2.0
Employment										
Employment (% changes of level, ILO definition)	2.8	2.9	-2.7	5.9	2.0	1.0	1.0	1.0	1.0	1.0
Unemployment rate (percent)	5.8	5.0	5.8	6.2	5.0	5.0	5.0	5.0	5.0	5.0
	(percent of GDP)									
Public Finance, General Government										
Revenue	25.5	24.7	22.2	23.0	22.5	22.2	22.1	22.1	21.9	21.9
Expenditure	25.3	24.2	27.3	24.9	22.7	21.9	21.5	21.3	21.2	21.0
Overall balance	0.1	0.5	-5.1	-1.9	-0.2	0.4	0.6	0.8	0.8	0.9
Primary balance	1.8	1.8	-4.1	-1.2	0.5	1.1	1.3	1.3	1.3	1.4
Structural balance (percent of potential GDP)	-0.3	0.4	-1.3	0.3	0.9	0.4	0.6	0.8	0.8	0.9
General government gross debt	63.1	57.2	58.4	56.0	49.1	44.8	41.6	39.0	36.4	33.4
General government gross debt (percent of GNI*)	104.1	94.6	104.7	107.3	96.7	88.9	83.2	78.0	72.9	66.9
Balance of Payments										
Trade balance (goods)	33.6	33.1	38.9	41.0	44.9	43.4	41.3	39.7	38.2	36.7
Current account balance	4.9	-19.9	-2.7	13.9	12.3	10.1	9.0	8.0	7.0	7.0
Gross external debt (excl. IFSC) 2/	265.7	292.9	302.1	255.0	220.9	201.2	188.6	180.5	174.3	169.4
Saving and Investment Balance										
Gross national savings	33.5	34.8	38.2	38.1	34.7	32.7	32.2	31.9	31.5	32.3
Private sector	31.7	32.9	41.9	38.8	33.8	31.3	30.6	30.2	29.9	30.6
Public sector	1.8	2.0	-3.7	-0.7	0.9	1.4	1.6	1.7	1.6	1.7
Gross capital formation	28.6	54.7	40.9	24.2	22.4	22.6	23.1	23.9	24.6	25.3
Memorandum Items:										
Nominal GDP (€ billions)	326.0	356.5	372.9	421.5	479.9	522.1	556.1	584.6	614.8	646.2
Nominal GNI* (€ billions)	197.8	215.6	208.2	219.8	243.5	263.4	278.1	292.1	307.0	322.5
Real GNI* (growth rate) 3/	6.1	4.5	-2.2	6.0	4.6	4.4	3.2	3.0	3.0	3.0

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

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

2/ IFSC indicates international financial services.

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

Table 2. Ireland: Statement of Operations of the General Government, 2018–27
(Percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections 1/					
Revenue	**25.5**	**24.7**	**22.2**	**23.0**	**22.5**	**22.2**	**22.1**	**22.1**	**21.9**	**21.9**
Taxes	18.6	18.1	16.4	17.8	17.3	17.0	17.0	17.1	17.1	17.1
Personal income tax	7.0	6.9	6.6	6.9	6.7	6.8	6.8	6.9	6.9	7.0
Corporate income tax	3.2	3.1	3.2	3.6	3.6	3.4	3.4	3.3	3.2	3.1
VAT	4.3	4.3	3.4	3.9	3.7	3.7	3.7	3.7	3.7	3.8
Excises	1.4	1.4	1.4	1.4	1.2	1.0	1.0	1.0	1.0	1.0
Other taxes	2.6	2.4	1.8	2.0	2.1	2.1	2.1	2.1	2.1	2.2
Social contributions	4.5	4.4	4.0	3.8	3.7	3.8	3.8	3.8	3.8	3.8
Other revenue	2.4	2.1	1.7	1.4	1.5	1.5	1.3	1.2	1.1	1.0
Expenditure	**25.3**	**24.2**	**27.3**	**24.9**	**22.7**	**21.9**	**21.5**	**21.3**	**21.2**	**21.0**
Expense	23.3	22.0	25.0	22.9	20.3	19.4	18.9	18.7	18.5	18.3
Compensation of employees	6.8	6.6	6.6	6.2	5.9	5.9	5.9	5.9	5.9	5.8
Use of goods and services	3.4	3.5	4.0	3.9	3.6	3.4	3.3	3.3	3.3	3.3
Interest	1.6	1.3	1.0	0.8	0.8	0.7	0.7	0.5	0.6	0.5
Subsidies	0.6	0.5	1.7	1.6	0.7	0.5	0.5	0.5	0.5	0.5
Social benefits	9.1	8.6	10.1	8.9	7.9	7.5	7.2	7.1	6.9	6.8
Other expense	1.8	1.4	1.6	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Net acquisition of nonfinancial assets	2.0	2.2	2.3	2.0	2.4	2.5	2.6	2.6	2.7	2.7
Net Lending(+)/Borrowing(-) (Overall Balance)	**0.1**	**0.5**	**-5.1**	**-1.9**	**-0.2**	**0.4**	**0.6**	**0.8**	**0.8**	**0.9**
Net financial transactions	-0.2	0.3	-4.8	-1.8	-0.2	0.4	0.6	0.8	0.8	0.9
Net acquisition of financial assets	4.9	-0.2	-0.4	2.7	0.0	0.1	0.4	0.4	0.3	0.3
Net incurrence of liabilities	5.2	-0.5	4.3	4.4	0.3	-0.2	-0.3	-0.4	-0.4	-0.6
Memorandum Items:										
Structural balance	-0.3	0.4	-1.3	0.3	0.9	0.4	0.6	0.8	0.8	0.9
Structural primary balance	1.4	1.7	-0.3	1.1	1.6	1.1	1.3	1.3	1.3	1.4
Gross public debt	63.1	57.2	58.4	56.0	49.1	44.8	41.6	39.0	36.4	33.4
in percent of GNI*	104.1	94.6	104.7	107.3	96.7	88.9	83.2	78.0	72.9	66.9
in percent of revenue	247.8	231.8	263.6	243.4	218.5	201.7	188.4	176.5	165.9	152.5
Net public debt 2/	55.8	49.0	52.4	50.9	44.7	40.8	37.9	35.5	33.1	30.3
Interest (in percent of revenue)	6.4	5.3	4.6	3.4	3.4	3.3	2.9	2.5	2.5	2.3
Currency and deposits	6.7	6.9	4.7	4.1	3.6	3.3	3.1	3.0	2.8	2.7
GDP at current market prices (in billions of euros)	326.0	356.5	372.9	421.5	479.9	522.1	556.1	584.6	614.8	646.2

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

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

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

Table 3. Ireland: Balance of Payments and International Investment Position, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
Balance of Payments			(billions of euros, unless otherwise indicated)							
Current Account Balance	**16.0**	**-70.8**	**-9.9**	**58.8**	**59.1**	**52.8**	**50.3**	**46.8**	**43.0**	**45.2**
(Percent of GDP)	**4.9**	**-19.9**	**-2.7**	**13.9**	**12.3**	**10.1**	**9.0**	**8.0**	**7.0**	**7.0**
Balance of goods and services	93.1	12.6	83.1	169.8	201.8	219.9	231.6	238.4	246.1	253.9
(Percent of GDP)	28.6	3.5	22.3	40.3	42.1	42.1	41.6	40.8	40.0	39.3
Trade balance	109.4	118.1	145.0	172.9	215.3	226.5	229.5	232.4	234.5	237.2
Exports of goods	211.8	225.9	244.8	282.8	360.7	385.8	399.4	412.8	426.5	442.1
Imports of goods	102.3	107.8	99.9	109.9	145.4	159.3	169.9	180.5	192.0	205.0
Services balance	-16.3	-105.6	-61.9	-3.1	-13.5	-6.6	2.1	6.0	11.6	16.7
Primary income balance	-73.4	-79.8	-89.2	-106.7	-137.8	-161.8	-175.6	-185.6	-196.8	-202.0
(Percent of GDP)	-22.5	-22.4	-23.9	-25.3	-28.7	-31.0	-31.6	-31.8	-32.0	-31.3
Secondary income balance	-3.7	-3.5	-3.8	-4.3	-5.0	-5.4	-5.7	-6.0	-6.3	-6.7
Capital account balance	-52.0	-35.3	-15.5	-0.9	-8.5	-8.6	-11.6	-26.8	-28.4	-30.4
Financial account balance	-40.5	-101.9	-34.8	55.0	50.7	44.2	38.7	19.9	14.7	14.8
(Percent of GDP)	-12.4	-28.6	-9.3	13.0	10.6	8.5	7.0	3.4	2.4	2.3
Direct investment	14.5	-104.8	-110.2	39.1	-36.0	-30.0	-32.6	-33.1	-34.7	-36.4
Portfolio investment	37.8	10.2	-20.7	9.7	6.7	6.9	7.3	7.6	8.2	8.5
Other investment	-93.7	-7.7	94.8	1.1	79.9	67.2	64.0	45.4	41.1	42.7
Change in reserve assets	0.8	0.4	1.3	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-4.5	4.2	-9.3	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Net International Investment Position					(percent of GDP)					
Net investment position	-183.5	-190.3	-170.8	-137.5	-110.3	-92.9	-80.2	-72.9	-67.0	-61.4
Net direct investment	-23.8	-21.8	-29.5	24.0	13.6	6.7	0.5	-5.2	-10.6	-15.7
Net portfolio investment	-130.6	-160.7	-168.0	-200.2	-174.5	-159.0	-148.0	-139.5	-131.3	-123.6
Net other investment	-30.5	-9.2	25.0	35.9	48.2	57.2	65.2	69.8	73.1	76.1
Reserve assets	1.4	1.4	1.7	2.8	2.4	2.2	2.1	2.0	1.9	1.8
External Debt					(percent of GDP)					
Total external debt	749.9	741.8	701.2	684.7	645.9	591.7	555.3	529.3	506.0	485.0
Non-IFSC external debt	265.7	292.9	302.1	255.0	220.9	201.2	188.6	180.5	174.3	169.4
IFSC external debt	484.2	448.9	399.1	429.7	424.9	390.5	366.7	348.8	331.7	315.6
Short-term debt	163.6	170.5	173.2	175.4	165.5	151.6	142.2	135.6	129.6	124.2
Medium & long term debt	586.3	571.3	528.0	509.3	480.4	440.1	413.0	393.7	376.4	360.7
Memorandum Item:										
Modified current account balance (CA*) 1/	4.1	5.7	6.4	…	…	…	…	…	…	…

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

1/ CA* excludes most of MNEs-related transactions as estimated by the authorities.

Table 4. Ireland: Monetary Survey, 2016–22
(Billions of euros, unless otherwise indicated; end of period)

	2016	2017	2018	2019	2020	2021	2022 1/
Aggregate Balance Sheet of Domestic Market Credit Institutions							
Assets	356.2	331.6	333.8	403.9	484.0	493.9	583.8
Claims on Central Bank of Ireland	10.4	9.9	8.2	19.0	40.5	78.3	87.7
Claims on Irish resident Other MFIs	41.5	38.4	34.0	37.7	36.5	37.9	39.7
Claims on Irish resident non MFIs	190.5	183.6	178.3	173.0	167.4	162.2	173.4
General government	17.3	15.9	16.2	14.6	18.7	15.9	12.5
Private sector	173.2	167.7	162.1	158.5	148.8	146.3	160.9
Households	88.2	89.8	91.3	92.0	89.3	88.1	101.9
Non-Financial Corporations	39.5	38.4	37.7	36.2	32.2	28.9	30.3
Non-Bank Financial Intermediaries	45.5	39.6	33.1	30.3	27.3	29.3	28.7
Claims on non-residents	72.6	63.9	73.5	103.9	142.0	142.0	163.2
Other assets	41.2	35.7	39.9	70.3	97.5	73.4	119.9
Liabilities	356.2	331.6	333.8	403.9	484.0	493.9	583.8
Liabilities to Eurosystem 2/	7.0	7.4	3.0	2.0	7.1	20.8	20.8
Liabilities to Irish resident Other MFIs	39.4	35.6	29.5	32.0	30.6	32.3	33.6
Deposits of Irish resident non MFIs	169.1	174.5	179.2	195.3	224.2	247.7	267.4
General government	3.7	3.0	3.0	2.8	3.2	2.8	2.9
Private sector	165.4	171.4	176.2	192.6	220.9	244.9	264.4
Households	97.1	99.1	103.8	110.5	129.2	140.9	144.1
Non-Financial Corporations	42.5	47.5	48.1	55.6	60.1	67.0	65.1
Non-Bank Financial Intermediaries	25.8	24.8	24.4	26.5	31.7	37.1	55.2
Deposits of non-residents	38.5	23.8	31.7	52.4	77.2	72.0	100.8
Debt securities	23.1	21.2	25.5	25.5	23.0	22.6	22.5
Capital and reserves	61.3	57.5	54.0	52.7	49.8	49.2	48.2
Other liabilities (incl. Central Bank of Ireland)	17.8	11.7	11.0	44.0	72.0	49.4	90.5

Table 4. Ireland: Monetary Survey, 2016–22 (Concluded)
(Billions of euros, unless otherwise specified, end of period)

	2016	2017	2018	2019	2020	2021	2022 1/
Money and Credit 3/							
Net foreign assets	41.0	46.2	53.0	92.3	111.9	152.8	…
Central Bank of Ireland 4/	5.9	11.2	24.1	44.6	52.7	87.2	…
Commercial banks	35.1	34.9	28.9	47.7	59.3	65.6	67.7
Net domestic assets	175.0	173.4	191.0	161.6	245.4	223.9	180.7
Public sector credit	18.3	16.9	17.3	15.5	19.3	16.6	12.8
Private sector credit	185.8	179.1	173.9	166.0	155.1	153.0	168.0
Other	-29.1	-22.6	-0.2	-20.0	71.0	54.4	…
Irish Resident Broad money (M3) 5/	216.0	219.6	243.9	253.9	357.3	376.8	387.2
Irish Resident Intermediate money (M2) 5/	191.7	200.9	211.1	237.4	273.4	303.3	306.4
Irish Resident Narrow money (M1)	146.5	158.7	171.6	198.3	234.3	274.1	277.6
			(Percent of GDP)				
Public sector credit 6/	23.6	20.0	19.8	15.9	20.0	15.1	…
Private sector credit 6/	237.3	211.5	197.2	173.2	159.3	139.5	…
			(Percentage change y/y)				
Broad money - Irish contribution to euro area M3 7/	7.0	1.6	10.7	3.4	41.4	6.3	9.7
Irish Public sector credit 7/ 8/	-5.1	-6.0	3.7	-10.7	24.0	-14.0	-32.1
Irish Household and non-financial corporations credit 7/ 8/	-1.7	0.1	1.9	1.3	-1.7	0.5	1.3
Memorandum Items: 9/							
Credit to deposits (in percent) 10/	104.7	97.8	92.0	82.3	67.3	59.7	60.9
Deposits from Irish Private Sector (y-o-y percent change)	0.7	5.1	2.6	9.1	12.9	10.2	7.7
Wholesale funding (billions of euros)	92.9	73.3	79.0	94.0	99.1	103.1	129.1
Deposits from MFIs	69.8	52.1	53.5	68.6	76.1	80.6	106.6
Debt securities	23.1	21.2	25.5	25.5	23.0	22.6	22.5
Wholesale funding (y-o-y percent change) 11/	-7.6	-20.0	13.1	19.9	6.0	1.3	14.7
Wholesale funding (percent of assets) 11/	26.1	22.1	23.7	23.3	20.5	20.9	22.1

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

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

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

Sources: CBI and IMF staff.
1/ Indicators cover the three main domestic banks: Allied Irish Banks, Bank of Ireland, and Permanent TSB. Figures are based on Q4 data, unless otherwise indicated.

Annex I. The Impact of the War in Ukraine on the Irish Economy[1]

While direct trade links with Russia and Ukraine are small, the impact of energy and food price increases, external demand, and confidence can be substantial. Although Irish banks do not have significant direct exposure to the two countries, the non-bank financial sector, largely externally oriented, has some exposures to Russia on both the assets and liabilities sides.

1. Trade. Ireland exports 0.4 percent of total goods exports to Russia and 0.1 percent to Ukraine. Non-fuel imports from both countries are negligible. Ireland imports only 4.5 percent of its fuel from Russia (52 percent from the U.K., 20 percent from the U.S., 6 percent from the Netherlands, 5 percent from Sweden).

2. Energy and food prices. 2022 energy bills are expected to double from their 2019 level. This, along with food price increases, are reducing households' purchasing power and pressuring firms' margins, dampening consumption, investment, and confidence.

3. Aircraft leasing and MNEs. Direct exposure to Russian airlines reportedly amounts to €4.1bln, which is only 3 percent of the leasing companies' total assets.[2] Lessors have sufficient liquidity and capital buffers to absorb the immediate effects of difficulties repossessing aircrafts, foregone rents, and impairments. Some IT MNEs could see lower profits owing to the closure of their businesses in Russia, but more importantly from a possible decline in global sales due to faltering growth and supply chains.

4. Financial sector. Special Purpose Entities (SPEs) have the largest links to Russia as they hold €37bn of Russian-issued assets. There are also 33 Russian-sponsored SPEs identified, with total assets of €35bn, which is 8 percent of the non-securitization SPE sector. Investment funds held €11bn Russian-issued assets at end-2021 (0.3 percent of their total assets). Banking asset exposures were within international banks and small (€1.1bn). Irish banks lending to aircraft leasing companies was €768m at end-2021 (2 percent of total loans). No Irish banks had loans secured against collateral located in Russia or Ukraine.

5. Migrant Inflow. Ireland has estimated accepting 80,000–100,000 Ukrainian refugees. The inflow so far has been around 25,000. Additional demand for social services and housing will raise fiscal costs and affordable housing pressures. In the longer-term, there are upside risks from increased labor supply.

[1] This assessment covers the impact of both the war and the related sanctions.

[2] As reported by the FT

Annex II. List of FSAP Key Recommendations

	Recommendation	Addressee	Timing*
Oversight – Cross Cutting			
1	Notwithstanding the strong de facto independence, further strengthen de jure Central Bank independence by: • amending legislation such that the Minister for Finance may dismiss Central Bank Commission members only on specified grounds of serious misconduct, and • enshrining in legislation a written procedure for the submission by the Central Bank and approval by Minister for Finance of the supervisory levy	DoF, Parliament	ST
2	Amend relevant legislation to provide for greater individual accountability and enhance supervisory powers of the Central Bank to take direct enforcement action against individuals. Finalize the related internal framework to operationalize execution of the upgraded accountability regime.	DoF, Parliament, Central Bank	ST
3	Adopt a sequenced action plan for banking and insurance supervision to manage climate-related financial risks in priority areas, with an early emphasis on robust data and quality disclosure.	Central Bank	I
Macroprudential Policy			
4	Work with European institutions to develop macroprudential tools targeting risks from non-banks, including for leakages and other cross-border issues.	Central Bank	MT
5	Expand the monitoring of non-bank lenders beyond those engaged in mortgage activities.	Central Bank	ST
6	Strengthen the resilience of property funds by introducing the proposed macroprudential leverage limit and liquidity management guidance, while adjusting the limit countercyclically.	Central Bank	I
Banking Sector			
7	Maintain the use of tools developed for intensified monitoring of banks' credit losses introduced during the pandemic.	Central Bank	ST
Insurance Sector			
8	Continue strengthening insurance supervision focused on intra-group transactions and concentrations, with a focus on post-Brexit group structures, recovery planning, and liquidity risk management.	Central Bank	ST
MBF Sector			
9	Work with ESMA, ESRB, and EU Commission, as part of the Commission's review of the EU MMF Regulation, to promote MMF resilience.	Central Bank, DoF	ST
10	Prioritize guidance to the funds sector on using the full range of liquidity management tools, including those which result in subscribing or redeeming investors bearing the associated transaction costs.	Central Bank	ST
11	Intensify collaboration between the Central Bank, the CSO, and international regulators to better understand the OFI residual entities and their domestic and foreign linkages, and conduct risk analysis at a granular level.	Central Bank, CSO	MT

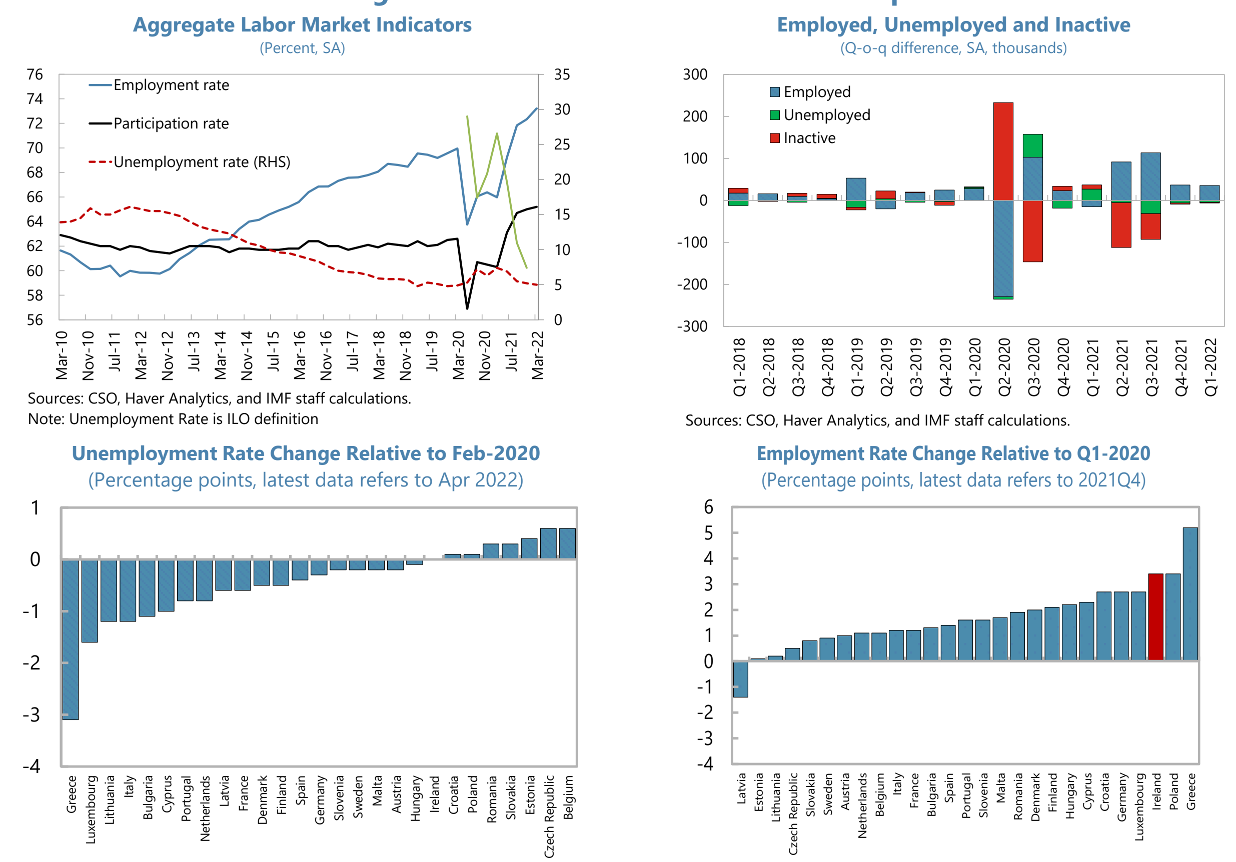
	Recommendation	Addressee	Timing*
12	Conduct more deep dives to further enhance the monitoring of risks of sub-segments of the funds sector.	Central Bank	ST
Fintech Sector			
13	Prepare to introduce domestic legislation in the event of significant delays or material gaps in the MiCA framework.	DoF, Central Bank	ST
14	Continue to advocate for inclusion of systemic Irish cloud service providers in the Union Oversight Framework under DORA; failing which, seek additional statutory powers to review and examine the resilience of these entities.	Central Bank, DoF	ST
Insolvency and Creditor Rights			
15	Further develop the government strategy, ensuring coordination across multiple responsible agencies, to provide targeted solutions to long-term mortgage arrears borrowers based on their financial situation and debt servicing capacity.	Central Bank, DoF, DoJ, ISI, in consultation with relevant agencies	ST
16	Conduct a review of examinership given its limited usage, the new EU Directive and identified gaps vis a vis the Standard. Consider introducing a new hybrid procedure in line with the "spirit" of the EU Directive.	DETE; CLRG	I
Crisis Management			
17	Develop policies and procedures for assessing the prospective solvency of a bank entering into or undergoing resolution to determine its eligibility for ELA.	Central Bank	ST
18	Remedy weaknesses in the insolvency regime for insurers, including any required legislative amendments.	DoF, Central Bank	ST
Financial Integrity			
19	Adequately resource AML/CFT capacity, use advanced data analytical tools, and focus on deepening understanding of and addressing ML/FT risks from non-resident and cross-border activity.	Relevant AMLSC Members	ST

* Timing: C = Continuous; I = Immediate (within one year); ST = Short Term (within 1-3 years); MT = Medium Term (within 3-5 years). DoF: Department of Finance; DoJ: Department of Justice; ISI: Insolvency Service of Ireland; DETE: Department of Enterprise, Trade and Employment; CLRG: Company Law Review Group.; AMLSC: Anti-Money Laundering and Countering the Financing of Terrorism.

Annex III. Labor Market Developments During Pandemic

1. **The pandemic and associated containment measures caused short-lived slack in the labor market**, with the COVID-adjusted unemployment rate (n.s.a.) peaking at 27 percent in 2021:Q1, the employment rate (s.a.) dropping to 63.7 percent in 2020:Q2, and the labor force participation rate (LFPR, SA) dropping to 57.1 percent in 2020:Q2. However, the comprehensive policy supports[1] cushioned the impact of the pandemic (See Annex V for the complete list of COVID-19 support measures), and as the restrictions were lifted in 2021:H2, the labor market rebounded. Hence, among the EU countries, Ireland had one of the lowest increases in the unemployment rate and one of the largest employment rates increases during the pandemic. The most recent labor force survey (LFS, 2022:Q1) illustrates that the employment rate and the LFPR has reached an all-time high of 73.2 percent and 65.5 percent (s.a.), respectively, thanks to the significant

Annex Figure III.1. Ireland: Labor Market Developments



Sources: CSO, Haver Analytics, and IMF staff calculations.
Note: Unemployment Rate is ILO definition

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

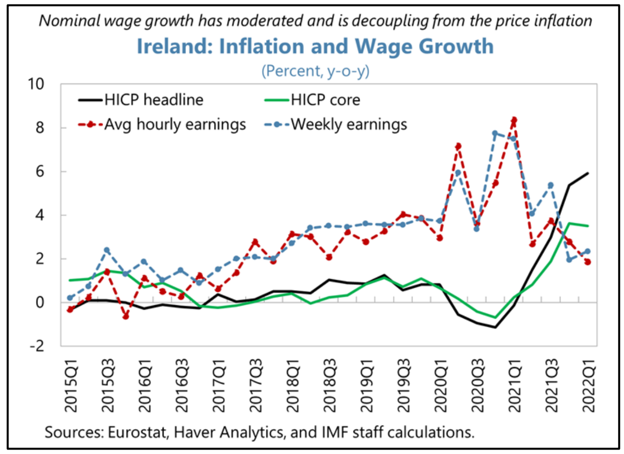
Sources: Eurostat, Haver Analytics, and IMF staff calculations.

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

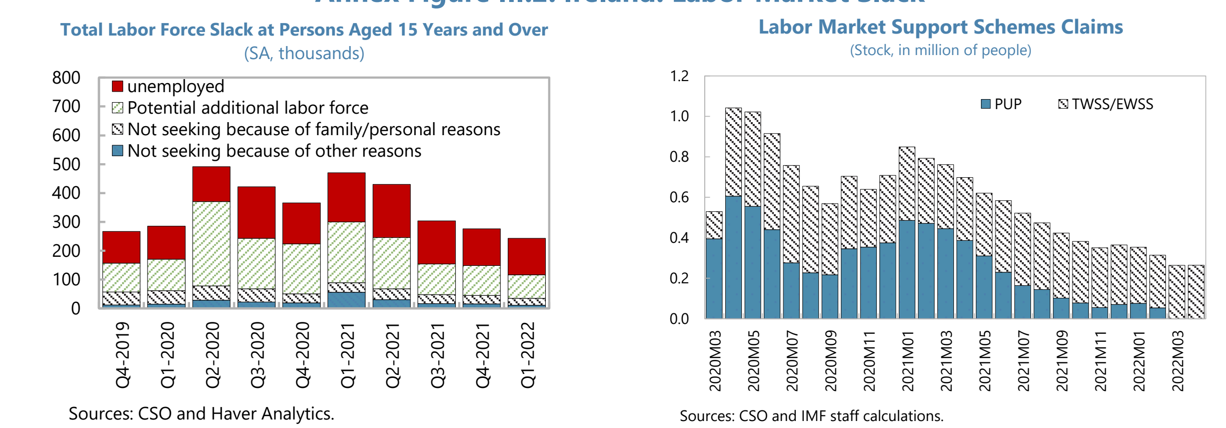
[1] Employment Wage Subsidy Scheme (EWSS), COVID-19 Restrictions Support Scheme (CRSS), PUP, Enhanced Illness Benefit, tax warehousing scheme.

gains in the employment of female, youth, and older-age cohorts. The monthly unemployment rate fell to 4.7 percent in May 2022, below the NAIRU level.[2] The number of economically inactive persons dropped to an all-time low of 1.4 million.

2. The labor market has become tighter than pre-pandemic, and firms are reporting labor shortages. The job vacancy rate is at an all-time high. However, expirations of the Pandemic unemployment payment (PUP) in Feb-2022 and short-time working schemes (TWSS, EWSS) in by end-May 2022 are expected to alleviate labor shortages somewhat. Labor market slack in the form of *Potential Additional Labor Force* has reverted to pre-pandemic levels. The number of unemployed is falling rapidly and is currently around 12 thousand above the Mar-2020 level, suggesting some remaining labor capacity, or a higher level of long-run structural unemployment. However, weekly wage increases have thus far been moderate and registered 2.3 percent y-o-y in 2022:Q1 (and 1.9 percent for hourly wages).



Annex Figure III.2. Ireland: Labor Market Slack

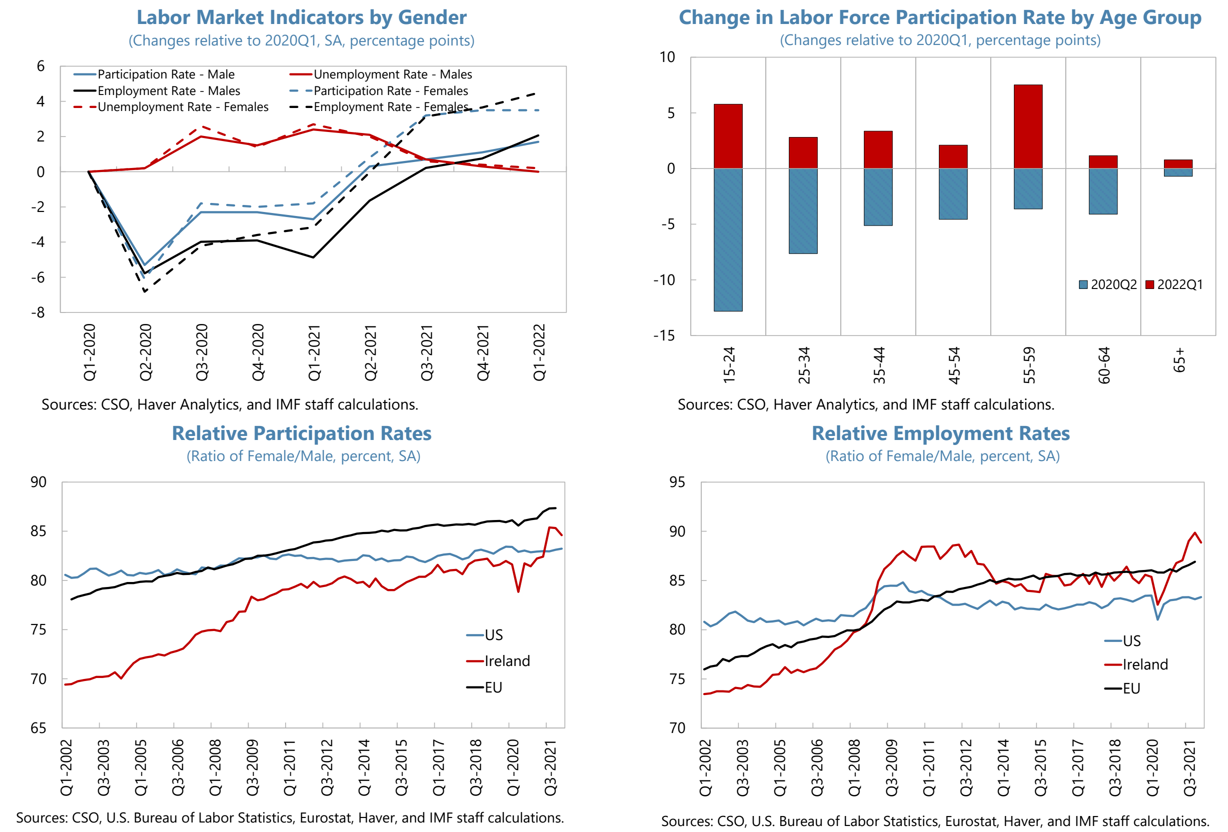


3. Recent gains in employment have been driven by women, older and younger age cohorts. The participation rate of the young age cohort (15–24 years) and older age cohort (55–59) has seen the highest gain relative to the pre-pandemic level. Female LFPR and employment rate, having surpassed the pre-pandemic level, reached 60.2 percent and 69.1 percent (s.a., quarterly LFS) by 2022:Q1. From a sectoral perspective, female employment has grown in sectors less adversely affected by COVID-19, such as managers, professionals, secretarial, and even plants and machine

[2] The COVID-adjusted unemployment rate in February 2022 stood at 7 percent and has been discontinued since then.

operatives for primarily full-time, higher-skilled, and salaried positions. These factors suggest the gains will be likely permanent. Nevertheless, the long-term viability of these jobs remains to be seen as supports are tapered and firms begin to pay full wage costs. Additionally, while Ireland has made significant progress in improving female LFPR, there is still room to grow to the EU level in recent years. In this context, an increase in the provision of affordable child-care centers, flexible work schedules, and opportunities to telework could further increase female participation.

Annex Figure III.3. Ireland: Gender and Age Gaps in the Labor Force During the Pandemic

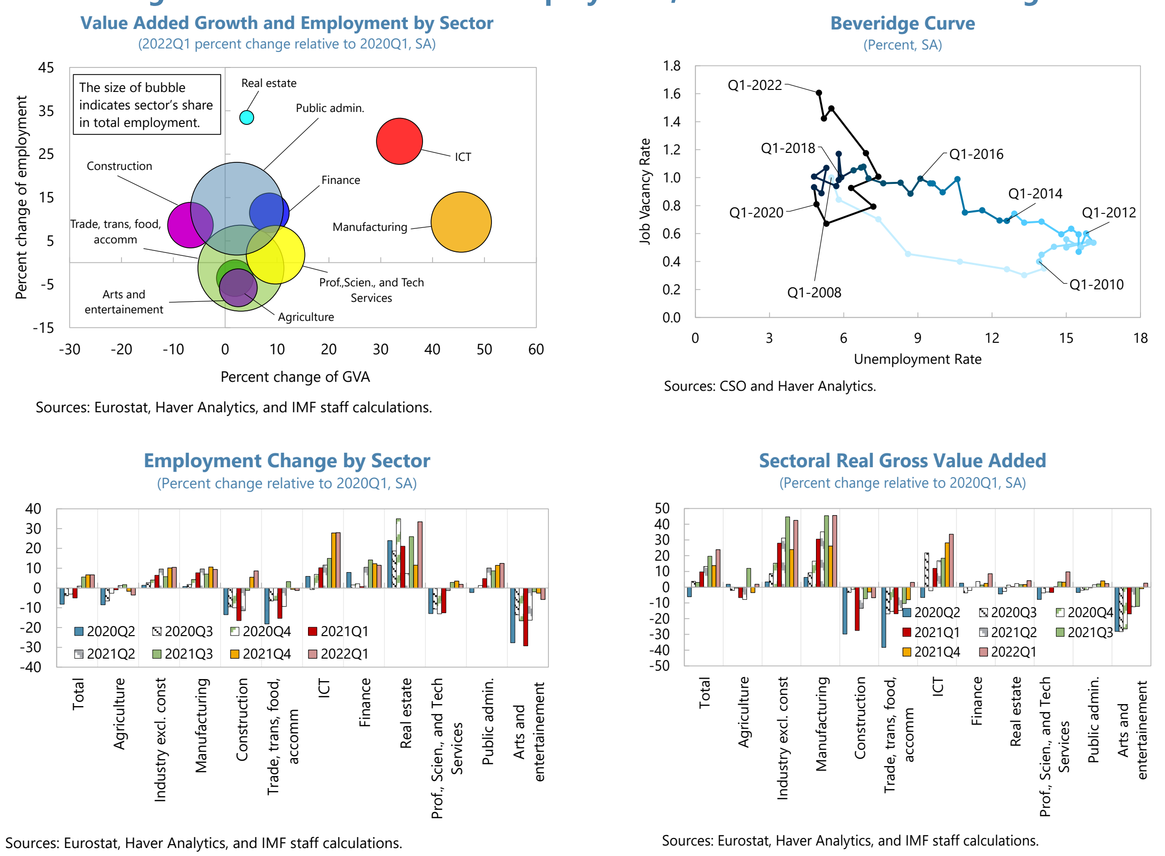


4. **There is scope for a sectoral labor reallocation to support the green and digital transition post-pandemic.** The pandemic had an asymmetric and potentially persistent impact on contact-intensive sectors with transition challenges looming for low-skilled workers who may have a hard time integrating into expanding digital or green-construction sectors, due to skill mismatches. Relative to pre-pandemic, in 2022:Q1 the value-added in construction sector is still experiencing some losses, while industry, manufacturing and ICT sectors are registering large gains. Employment in the contact intensive sector is slowly recovering. In contrast, industry, manufacturing, finance, ICT, public administration and real estate sectors experienced employment growth, thanks to the ability to work remotely, larger demand for IT services and housing demand. The government has made significant progress in improving labor skills, upskilling, and reskilling[3]; however, firms are still

[3] For example, through programs such as National skill strategy; Skills Connect initiative, Pathways to Work Strategy 2021 - 2025, Regional Skills; National adult literacy agency - Nala; Solas | Learning Works.

reporting labor shortages for high-skilled and construction jobs. To close skill gaps, the authorities' National Recovery and Resilience Plan[4] aims at strengthening access to training, with a particular emphasis on digital skills.[5] The establishment of the Department of Further and Higher Education, Research, Innovation and Science[6] to fund and create policy for the higher and further education and research sectors is a welcomed first step but it should be complemented to incentivize the uptake of these training programs, to reform apprenticeship programs in order to make them more cost-efficient and attractive for employers and employees, to increase the number of trade and apprenticeship schools, and to ease licensing process for trade jobs.

Annex Figure III.4. Ireland: Sectoral Employment, Value-Added and Beveridge Curve



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[4] gov.ie - Ireland's National Recovery and Resilience Plan 2021 (www.gov.ie)

[5] A well-designed skills policy should improve utilization of the already existing reskilling and upskilling programs, help the low-skilled workers in contact-intensive sectors to enhance their digital skills, addressing knowledge deficits, and fostering the acquisition of new skills.

[6] gov.ie - Department of Further and Higher Education, Research, Innovation and Science (www.gov.ie)

Annex IV. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: The external position in 2021 was moderately stronger than the level implied by medium-term fundamentals and desirable policies. The course of the pandemic and spillovers of the war in Ukraine are the main near-term risks, and uncertainty remains high over the medium term. This assessment abstracts from the large-scale operations of multinational enterprises (MNEs), which have limited links to the indigenous economy and distort the headline current account (CA). Ireland's competitiveness has improved in recent years, as demonstrated by an increasing share of Irish exports in world exports. External balance sheets have strengthened, and FDI inflows continue to be strong, supported by a favorable business climate and robust economic growth. Productivity growth, however, varies sharply across sectors and is concentrated in large MNEs.

Policy Responses. In the short term, targeted fiscal support to mitigate the effects of high energy prices and potential new pandemic waves, and support for refugees from the Ukraine war are warranted. In the medium term, a productivity-enhancing fiscal policy with greater public sector investment in areas such as affordable housing, digitization, infrastructure, and climate mitigation would help potential growth and boost corporate investment.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. Ireland is a net external debtor, and the scale of the international balance sheet (NIIP) is very large, partially reflecting the gross positions of financial services firms operating in the International Financial Services Centre (IFSC).[1] Moreover, much of the cross-border liabilities arise from the operation of redomiciled MNEs through intra-company loans, which lowers the rollover risk. The NIIP, after peaking at -198 percent of GDP in 2015, improved to -138 percent in 2021. In 2021 the non-IFSC NIIP narrowed to around -97 percent of GDP, and the IFSC NIIP stood at -40 percent. Non-IFSC gross external debt was around 201 percent of GDP in 2021, down from 213.3 percent in 2020, and is downward trending, reflecting the current account surplus, real GDP growth, and non-debt-creating capital inflows.
Assessment. Ireland's NIIP reflects the activities of MNEs and market-based finance entities with few linkages to the Irish economy. Hence in assessments of external sustainability, IMF staff acknowledge that these are not, ultimately, the liabilities of Irish residents. After controlling for the distortions associated with the MNE sector, including redomiciled firms, intellectual property, aircraft leasing, and adjusting for the international financial intermediation activities of investment funds and special purpose entities result in a NIIP that is considerably less negative. [2]</td></tr>
<tr><td>2021 (% GDP)</td><td>NIIP: - 138</td><td>Gross Assets: 1803</td><td>Res. Assets: 3</td><td>Gross Liabilities: 1940</td><td colspan="3">Debt Liabilities: 685</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. Several factors — including 'contract manufacturing,' the foreign profitability redomiciled MNEs, and the depreciation of Irish-based, foreign-owned capital assets such as intellectual property and leased aircraft – distort the headline external balance and complicate the interpretation of trends. Over the last decade, the CA has been very volatile, subject to frequent revisions, and averaged close to balance, reflecting a large goods trade surplus. Specifically, Ireland's share of world exports has been increasing, driven by exports of pharmaceutical products, business and financial services, and computer services. In 2021 the CA swung to a surplus of 13.9 percent of GDP, from a deficit of 2.7 percent in 2020, reflecting the strong export performance of pharmaceuticals and IT sectors in the absence of large Intellectual Property (IP) imports. From the saving-investment balance, households net-saving increased given the lower spending opportunity during the pandemic. Also, the pandemic-related fiscal stimulus led to substantial dissaving in the government sector. The flow of funds from the government to the household and corporate sectors are expected to continue in 2022, though at a lower level than 2021. In the medium term, the CA surplus is expected to moderate at around 7 percent of GDP as the government dissaving decreases, while households net saving decreases, but it will remain sizable given the structural housing gap, export activities of MNEs and the exit from the double-Irish leads to smaller services import by MNEs.
Assessment. The EBA CA model estimates a cyclically adjusted CA of 14.6 percent of GDP and a CA norm of −3.0 percent of GDP, with the standard error of 1.8 percent of GDP. An adjustment of +0.5 percent of GDP to the cyclically adjusted CA balance has been made to account for transitory pandemic-related factors. This COVID-19 adjustment consists of -0.3 pp to reflect the contraction in travel services net exports, +0.5 pp to reflect net exports of medical supplies triggered by the health emergency, and −0.2 pp to reflect shifts in household consumption composition from services toward consumer goods, 0.5 pp to reflect changes in the transport services balance, due to high freight costs in 2021. Additionally, an adjustment of –16.5 pp of GDP is included to remove the impact of MNEs operations. The resulting Staff CA gap of 1.5 (±1.8) percent of GDP includes identified policy gaps of 1 percent of GDP and an unexplained residual -0.5 percent of GDP.</td></tr>
<tr><td>2021 (% GDP)</td><td>CA: 13.9</td><td>Cycl. Adj. CA: 14.6</td><td>EBA Norm: -3.0</td><td>EBA CA Gap: 17.5</td><td>COVID-19 Adj.: 0.5</td><td>Other Adj.: -16.5</td><td>Staff CA Gap: 1.5</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. The ULC-based REER depreciated sharply following the GFC (2008), reflecting productivity gains and declining labor costs. Productivity growth, however, has been concentrated in MNEs.[3] The REER was relatively stable prior to the pandemic. In 2021 the average CPI-based REER appreciated by 0.2 percent, while the ULC-based REER depreciated by 0.6 percent, relative to 2020 average.
Assessment. The EBA REER index and level models estimate the REER gap of -18.9 and 19.3 percent, respectively. However, the explanatory power of policy variables is negligible in both cases, with the gaps almost entirely attributed to unexplained residuals in the models. Consistent with the staff CA gap, staff assess the REER gap to be in the range of -3.9 to 0.4 percent on average during 2021, with a midpoint of -1.8 percent (given an estimated elasticity of 0.85).</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. Ireland's capital and financial accounts are characterized by significant volatility due to the financing operation and investment activities of MNEs. In 2021, net FDI outflows amounted to 39 bn euro, driven by equity repayment and reinvested earnings of MNEs. Financial account outflows in 2021 was around 12 percent of GDP.
Assessment. Inward FDI and foreign demand for Irish sovereign bonds have supported Ireland's strong economic performance and investor-friendly business climate, including a favorable tax environment.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="7">Background. The euro has the status of a global reserve currency.
Assessment. Reserves held by the euro area are typically low relative.</td></tr>
<tr><td>Technical Background Notes</td><td colspan="7">1/ For more information about the impact of MNEs on Ireland's NIIP, see "The Role of Foreign-owned Multinational Enterprises in Ireland," IMF Country Report No. 17/172.
2/ See Galstyan, V., 2019, "Estimates of Foreign Assets and Liabilities for Ireland," Central Bank of Ireland and Trinity College Dublin.
3/ See "Firm-level Productivity and its Determinants: The Irish Case," IMF Country Report No. 16/257.</td></tr>
</table>

Annex Table IV.1. Ireland: Non-IFSC External Debt Sustainability Framework, 2017-2027

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	261.9	265.7	292.9	302.1	255.0	**220.9**	**201.2**	**188.6**	**180.5**	**174.3**	**169.4**	**-5.5**
Change in external debt	-35.6	3.8	27.2	9.2	-47.0	-34.1	-19.8	-12.6	-8.1	-6.2	-4.9	
Identified external debt-creating flows (4+8+9)	-46.6	-37.8	-12.7	-25.9	-47.4	-28.7	-17.9	-13.8	-10.0	-8.2	-7.1	
Current account deficit, excluding interest payments	-8.4	-12.8	13.8	-0.6	-11.2	-10.3	-10.4	-8.9	-7.2	-6.6	-5.6	
Deficit in balance of goods and services	-16.7	-24.0	1.9	-14.3	-30.1	-31.2	-30.4	-29.1	-27.7	-26.3	-24.9	
Exports	107.8	109.9	113.9	113.6	116.7	129.2	131.3	132.2	133.4	134.9	136.5	
Imports	91.1	85.9	115.8	99.3	86.6	97.9	100.9	103.0	105.8	108.6	111.6	
Net non-debt creating capital inflows (negative)	-16.5	-0.3	-26.9	-14.8	4.6	-3.7	-2.9	-2.9	-2.8	-2.8	-2.8	
Automatic debt dynamics 1/	-21.7	-24.6	0.4	-10.5	-40.8	-14.6	-4.5	-2.0	0.1	1.2	1.3	
Contribution from nominal interest rate	10.7	9.3	9.7	7.6	3.6	3.8	5.7	5.6	5.5	6.4	6.4	
Contribution from real GDP growth	-23.7	-20.6	-12.6	-16.1	-34.7	-18.4	-10.2	-7.6	-5.4	-5.2	-5.0	
Contribution from price and exchange rate changes 2/	-8.7	-13.3	3.3	-2.0	-9.7	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	11.0	41.6	39.9	35.0	0.4	-5.4	-1.9	1.2	2.0	2.0	2.2	
External debt-to-exports ratio (in percent)	243.0	241.8	257.2	265.9	218.5	171.1	153.2	142.7	135.3	129.2	124.1	
Gross external financing need (in billions of US dollars) 4/	232.5	233.6	370.4	331.8	262.9	258.9	264.7	271.5	280.8	292.9	303.5	
in percent of GDP	78.3	71.7	103.9	89.0	62.4	54.0	50.7	48.8	48.0	47.6	47.0	
Scenario with key variables at their historical averages 5/						**220.9**	**203.5**	**189.2**	**174.1**	**158.7**	**143.2**	**-11.9**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	8.9	9.0	4.9	5.9	13.5	7.5	5.0	4.1	3.1	3.0	3.0	
GDP deflator in US dollars (change in percent)	3.0	5.4	-1.2	0.7	3.3	-3.4	3.7	3.8	3.0	2.7	2.4	
Nominal external interest rate (in percent)	4.0	4.1	3.8	2.8	1.4	1.5	2.8	3.0	3.1	3.8	3.9	
Growth of exports (US dollar terms, in percent)	9.7	12.0	13.3	4.3	16.2	26.0	10.6	7.2	6.1	6.3	6.4	
Growth of imports (US dollar terms, in percent)	2.1	3.6	47.3	-10.3	-1.4	28.7	12.2	8.7	7.9	8.0	8.0	
Current account balance, excluding interest payments	8.4	12.8	-13.8	0.6	11.2	10.3	10.4	8.9	7.2	6.6	5.6	
Net non-debt creating capital inflows	16.5	0.3	26.9	14.8	-4.6	3.7	2.9	2.9	2.8	2.8	2.8	

Source: IMF staff.

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

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

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

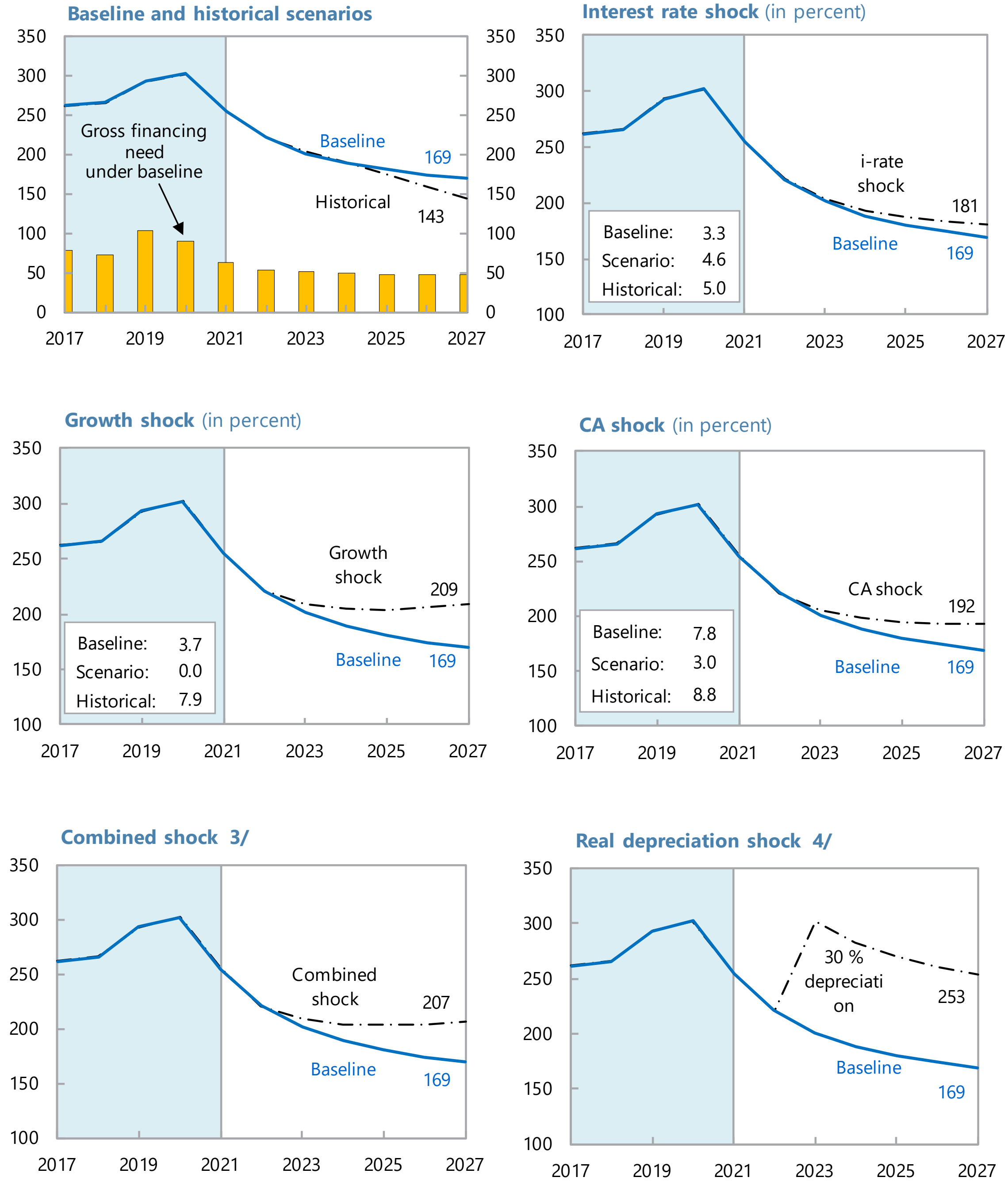
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Annex Figure IV.1. Ireland: External Debt Sustainability Bound Tests [1/2/]

(Non-IFCS External debt in percent of GDP)



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

Annex V. Policy Support Measures[1]

		Expiration Date	2020	2021	2022	Total
Balance Sheet Support/Income Support	Short-time working schemes (TWSS, EWSS)	May-22	4.4	5.3	0.9	10.7
	Pandemic Unemployment Benefit (PUP)	Mar-22	5.0	4.0	0.2	9.2
	Tax Cuts (general VAT/hospitality sector)	Mar-21/ Mar-23	0.16	0.62	0.4	1.18
	Direct Grants (CRSS)	Jan-22	0.2	0.5	0.01	0.73
	Total		**9.8**	**10.4**	**1.5**	**21.7**
Financing Support	Tax Deferrals	Apr-22				
	Guarantee schemes (end of application window)	June-22				
	Debt moratoria (end of application window)	Sep-20				
	Debt moratoria (final expiration)	Mar-21				
	Deferred insolvency procedures	Sep-20				

[1] Rounding may affect the totals

Annex VI. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
Conjunctural Risks			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	**High** A prolonged Ukraine war could further increase global energy prices, disrupt financial markets, and pose a drag to the global recovery.	**Medium** While direct trade links with Russia and Ukraine are small, the impact of energy and commodity price increases, weakening of external demand and confidence can be substantial. Migrant inflow will raise fiscal and housing pressures. On the upside, migrants can eventually contribute to labor supply.	• Provide targeted fiscal support to vulnerable segments. Accelerate high quality public investment projects if growth falters. • Implement additional measures to integrate migrants including via additional spending on healthcare, housing, and education.
Outbreaks of lethal and highly contagious COVID-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	**Medium** Despite high vaccination rate, resurgence of a virulent variant leads to prolonged lockdowns and greater uncertainty.	**Medium** While the economy has proven resilient overall, the impact on high contact services and low-skilled workers would be significant. Subsequent lockdowns in Ireland have had a diminishing economic impact. Ireland's high vaccination rate, exceeding 90 percent of adults, is a mitigating factor.	• Intensify if needed public health measures, build on the high vaccination rate by conducting large-scale testing, and contact tracing as appropriate, and increase digital infrastructure investment to further facilitate remote working practices. • Support households, workers, and viable businesses in a targeted fashion to overcome liquidity needs; and gradually encourage necessary reallocation of resources as the recovery continues.

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

Risks	Likelihood	Impact	Policy Response
Conjunctural Risks			
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	**Medium for the US/ Medium-Low for EA** Higher interest rates in the U.S. and E.U. results in tighter financial conditions.	**Low/Medium** Tighter financial conditions could increase financing costs for the private and public sectors, lowering sentiment, and derailing the recovery. While Ireland's public debt is about 100 percent of GNI*, it is much smaller in precent of GDP. It has a long maturity profile, and its management has been prudent.	• Intensify monitoring of financial conditions and impacts. • Continue with prudent public debt management policies.
Abrupt growth slowdown in China. A combination of extended COVID-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels.	**Medium** China has emerged as a dominant player in global trade and an abrupt growth slowdown there will result in significant spillovers.	**Medium** Slower global demand can spillover to domestic economy and impact. Global sales of MNE's can be affected.	• Provide targeted fiscal support. • Further facilitate SMEs' trade diversification.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	**High** Further increases in energy prices will put additional pressure on domestic inflation, damaging confidence and demand. The longer inflation pressure persists, the greater the risk of second round effects.	**Medium** High inflation would erode households' purchasing power, increase cost-push shocks for firms, and ultimately lower private consumption and investment.	• Provide targeted fiscal support to shield the most vulnerable households and viable firms.
Structural Risks			
Natural disasters related to climate change. Higher frequency of natural disasters causes severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	**Medium** Stronger and more frequent economic disruptions. Larger fiscal costs related to disaster recovery and adaptation.	**Medium** As an Island, Ireland is at high risk of climate-change related disruption which can have high fiscal costs and impact citizens' livelihood.	• Accelerate implementation of the climate action plan. • Provide targeted support to vulnerable households and firms.

Risks	Likelihood	Impact	Policy Response
		Structural Risks	
Continued trade frictions and uncertainty related to the detailed implementation of post-Brexit arrangements.	**Low/Medium** Further delays in finalizing remaining detailed implementation of post-Brexit arrangements can hamper trade and raise tensions.	**Medium** Ireland's significant trade, financial, and labor market links with the U.K. makes it vulnerable to remaining uncertainty and trade frictions. However, the impact thus far has been low, and trade is already being successfully diversified, although the U.K. has not yet imposed full import procedures on Irish exports to Great Britain.	• Continue actively contributing to the cooperation between the EU and the U.K. • Continue to provide support for the firms most exposed to Brexit and vulnerable groups. • Continue to facilitate SMEs' trade diversification.

Annex VII. Public Debt Sustainability Analysis

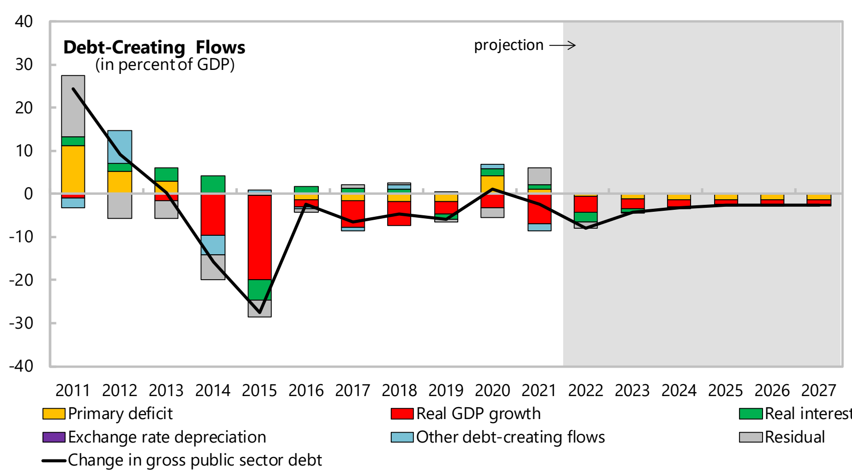
Annex Figure VII.1. Public Sector Debt Sustainability Analysis - Baseline Scenario

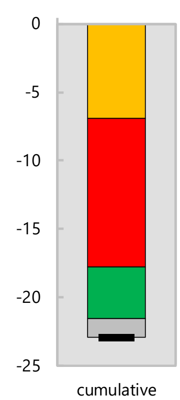
Debt, Economic and Market Indicators [1]

	Actual			Projections						As of May 10, 2022		
	2011-2019 [2]	2020	2021	2022	2023	2024	2025	2026	2027	Sovereign Spreads		
Nominal gross public debt	88.2	58.4	56.0	48.0	43.8	40.6	38.1	35.6	33.0	EMBIG (bp) 3/		68
Public gross financing needs	12.5	13.9	7.1	7.1	4.1	3.3	4.0	3.8	2.4	5Y CDS (bp)		17
Net public debt	64.7	50.4	48.8	40.8	36.9	34.0	31.6	29.2	26.8			
Real GDP growth (in percent)	6.8	5.9	13.5	7.5	5.0	4.1	3.1	3.0	3.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	2.1	-1.2	-0.4	5.9	3.6	2.3	2.0	2.0	2.0	Moody's	A1	A1
Nominal GDP growth (in percent)	9.2	4.6	13.1	13.8	8.8	6.5	5.1	5.2	5.1	S&Ps	AA-	AA-
Effective interest rate (in percent) [4]	3.3	1.9	1.5	1.5	1.8	1.9	1.8	1.9	1.8	Fitch	AA-	AA-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-3.2	1.2	-2.5	-7.9	-4.2	-3.2	-2.6	-2.5	-2.5	-22.9	
Identified debt-creating flows	-2.6	3.6	-6.5	-6.6	-4.2	-3.2	-2.6	-2.5	-2.5	-21.6	
Primary deficit	1.4	4.1	1.2	-0.5	-1.1	-1.3	-1.3	-1.3	-1.4	-6.9	-1.1
Primary (noninterest) revenue and gr	29.2	22.2	23.0	22.4	22.2	22.1	22.1	21.9	21.9	132.7	
Primary (noninterest) expenditure	30.6	26.3	24.1	21.9	21.1	20.8	20.8	20.6	20.5	125.8	
Automatic debt dynamics [5]	-4.3	-1.5	-6.0	-6.1	-3.1	-1.9	-1.3	-1.2	-1.1	-14.7	
Interest rate/growth differential [6]	-4.3	-1.5	-6.0	-6.1	-3.1	-1.9	-1.3	-1.2	-1.1	-14.7	
Of which: real interest rate	1.0	1.7	1.0	-2.4	-0.9	-0.2	-0.1	-0.1	-0.1	-3.8	
Of which: real GDP growth	-5.3	-3.2	-7.0	-3.7	-2.2	-1.7	-1.2	-1.1	-1.0	-10.9	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.2	1.0	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization/Drawdown of Deposits	-1.2	1.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Eur	1.4	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-0.6	-2.4	4.0	-1.3	0.0	0.0	0.0	0.0	0.0	-1.3	





Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

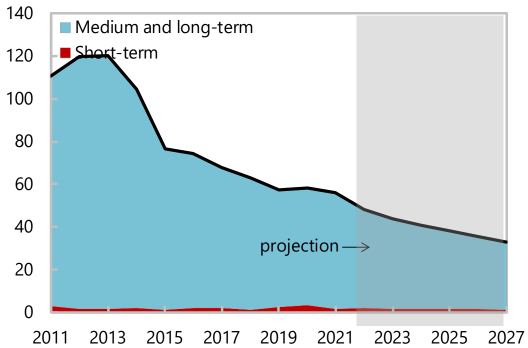
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

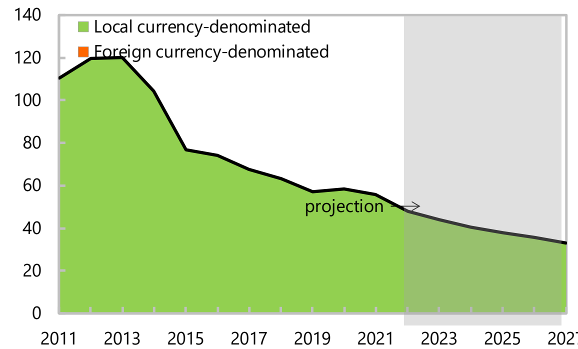
Annex Figure VII.2. Ireland Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenario

Composition of Public Debt

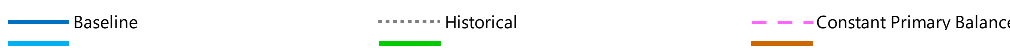
By Maturity
(in percent of GDP)



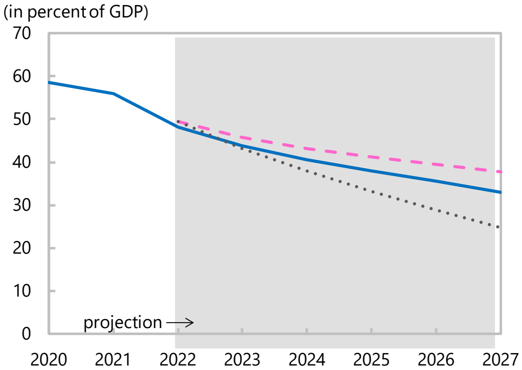
By Currency
(in percent of GDP)



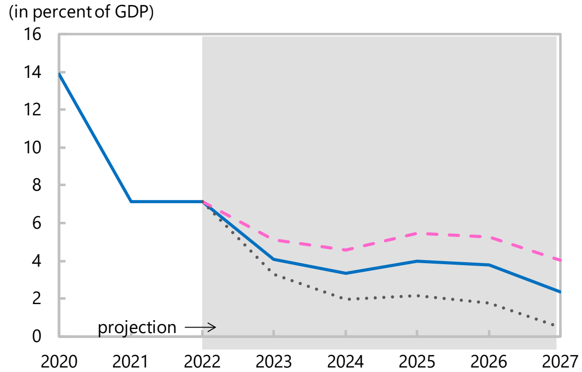
Alternative Scenarios



Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	7.5	5.0	4.1	3.1	3.0	3.0
Inflation	5.9	3.6	2.3	2.0	2.0	2.0
Primary Balance	0.5	1.1	1.3	1.3	1.3	1.4
Effective interest rate	1.5	1.8	1.9	1.8	1.9	1.8
Constant Primary Balance Scenario						
Real GDP growth	7.5	5.0	4.1	3.1	3.0	3.0
Inflation	5.9	3.6	2.3	2.0	2.0	2.0
Primary Balance	0.5	0.5	0.5	0.5	0.5	0.5
Effective interest rate	1.5	1.8	1.9	1.8	1.9	1.9

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	7.5	7.1	7.1	7.1	7.1	7.1
Inflation	5.9	3.6	2.3	2.0	2.0	2.0
Primary Balance	0.5	2.2	2.2	2.2	2.2	2.2
Effective interest rate	1.5	1.8	2.0	2.0	2.2	2.2

Source: IMF staff.

Annex VIII. Implementation of Past IMF Recommendations

2021 Article IV Recommendations	Policy Actions
Fiscal Policy	
Continue to be supportive in the near term to avoid cliff-edge effects. As the recovery takes hold, adjusted to sustainably boost growth and support social cohesion. After the recovery is complete, the tax base should be broadened to help finance productivity-enhancing investment in human and physical capital, and to resume the reduction in public debt in relation to GNI*.	A recent reform to the property tax system aims at modernizing it and broadening its base. Properties will now undergo updated valuations every four years, and houses not previously included in the taxation system will now be covered. The Commission on Taxation and Welfare will shortly submit a report with their recommendations on tax and spending reform options.
Continue to improve the quality of expenditure, and more investment should be directed to physical and social infrastructure, including in health, education, and housing.	The Spending Reviews and Performance Budgeting processes, along with the establishment of the National Investment Office have helped improve spending efficiency. The introduction of the investment project tracker has been helpful in enhancing transparency and monitoring expenditures.
Brexit	
Continue to provide support for the firms most exposed to Brexit shock and vulnerable groups. Facilitate SMEs' trade diversification.	The authorities' comprehensive preparations and support measures, have supported firms in the sectors most exposed to Brexit through their transition to new operating mode, thus reducing their vulnerability. Additionally, the Brexit taskforce continues to refine readiness efforts as the Brexit challenges evolve. The Government continuously publishes a range of practical advice to help businesses and citizens to prepare for Brexit at gov.ie/brexit.
International tax reform agenda	
Continue active engagement in implementing the international tax reform agenda.	The Government is very supportive of the Two Pillared Solution proposed by the OECD and have recently opened a public consultation on the domestic transposition of the EU Minimum Tax Directive. The government is actively engaging in the international dialogue on Corporate Income Tax reforms. They issued an update to Ireland's corporation tax roadmap, charting progress and committing to additional measures and have also fully transposed the Anti-Tax Avoidance Directives.
Climate Policy	
Develop an ambitious strategy to achieve Ireland's climate change commitments.	The Climate Action and Low Carbon Development (Amendment) Act 2021aims to halve emissions by 2030 and to achieve carbon neutrality by 2050 through increasing the carbon tax and boosting investment in low-emission public transport, energy-efficient housing, and renewable energy production. The increased carbon tax path has been legislated.

2021 Article IV Recommendations	Policy Actions
Financial Sector Policy	
Step up efforts to reduce non-performing loans to the target level.	Ireland has sharply reduced its NPL legacy positions over the recent past. Further NPL reduction remains a key supervisory priority.
Complement macroprudential toolkit with debt-based instruments and a systemic risk buffer.	Ireland has income-based macroprudential limits (LTV, LTI) and operationalized its central credit register. The authorities continue to monitor closely any potential leakages from the existing measures.
Monitor closely potential risks in and spillovers from the growing nonbank sector. Further improve data collection, closely monitor risk build-up, and develop system-wide stress testing. Continue engagement in international cooperation.	Ireland has demonstrated commitment to cross-border collaboration on financial sector oversight and regulation and its active collaboration and engagement with European and international regulators, including the ECB/SSM, the Single Resolution Board and, more broadly, the European System of Financial Supervision, especially on extending macroprudential tools and policy to the non-bank financial sector where appropriate.
Public Investment	
Use the fiscal space to accelerate Ireland's green and digital transformation. Scale up efficient public investments to boost aggregate demand, raise potential growth and address the gap in infrastructure quality vis-à-vis euro area peers.	The *National Planning Framework* and the *National Development Plan 2021-2030* combine to form *Project Ireland 2040*, which is the the government's long-term overarching strategy to deliver new jobs, new homes, heightened cultural, and social amenities, enhanced regional connectivity and improved environmental sustainability.
Labor Market	
Continue to align education and training programs to labor demand;	*National Recovery and Resilience Plan* aimed at strengthening access to training, with a particular emphasis on digital skills. The newly established *Department of Further and Higher Education, Research, Innovation and Science* is tasked to fund and create policy for the higher and further education and research.
Reduce skill-mismatch in labor market by upskilling, reskilling and life-long learning.	The government has made significant progress in improving labor skills, upskilling, and reskilling through programs such as *National skill strategy; Skills Connect initiative, Pathways to Work Strategy 2021 - 2025, Regional Skills; National adult literacy agency - Nala; Solas | Learning Works;* expand the range of lifelong learning programs, improve job search, address the needs of digital and green transformation.
Incentivizes labor re-allocation to expanding sectors. Use active labor market policies to help workers acquire the skills needed to adapt to the post-pandemic economy, including for the green and digital transitions.	*Pathways to Work 2021-2025* is the government's overall framework for activation and employment support policy to assist people back to work as the economy and labour market recovers from COVID-19, improve job search, and address the needs of digital and green transformation.
Empower women to raise their low participation in the labor market, including by continuing to increase the availability of affordable childcare facilities	The government is offering a range of *child-care programs* to reduce high costs of childcare under the umbrella of *National Childcare Scheme (NCS)* leading to an increase in female labor force participation in 2021.

2021 Article IV Recommendations	Policy Actions
Housing	
Continue efforts to boost housing supply and improve affordability.	The government has introduced a comprehensive fiscal and regulatory package (Housing for All), costing close to 1 percent of GDP annually, to address the shortage of affordable housing. The package includes measures to improve zoning, planning, land availability, and social housing. The "First Home" affordable purchase shared-equity scheme (starting in 2022:Q3) aims to support first home buyers.
Source: IMF staff.	

INTERNATIONAL MONETARY FUND

IRELAND

June 16, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By European Department

CONTENTS

FUND RELATIONS

(As of May 31, 2022)

Membership Status: Joined August 8, 1957; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	3,449.90	100.00
Fund holdings of currency	2,599.76	75.36
Reserve position in Fund	850.18	24.64

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	4,082.00	100.00
Holdings	4,051.84	99.26

Outstanding Purchases and Loans: None

Financial Arrangements:

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

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

	2022	2023	2024	2025	2026
Principal					
Charges/Interest	0.09	0.24	0.24	0.24	0.24
Total	0.09	0.24	0.24	0.24	0.24

Exchange Rate Arrangement and Exchange Restrictions:

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

Article IV Consultation:

The last Article IV consultation was concluded on June 14, 2021. The associated Executive Board assessment is available at https://www.imf.org/en/News/Articles/2021/06/15/pr21176-ireland-imf-executive-board-concludes-2021-article-iv-consultation-with-ireland and the staff report (Country Report No. 2021/123) at https://www.imf.org/en/Publications/CR/Issues/2021/06/15/Ireland-2021-Article-IV-Consultation-Press-Release-and-Staff-Report-460782 Ireland is on the standard 12-month consultation cycle.

Financial Sector Assessment Program (FSAP) Participation and ROSC:

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

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance.
National accounts and real sector data: Quarterly national accounts are currently published within three months of its reference period. GNI* comes only at annual frequency and in nominal and real scale with a long lag of around 7 months from reference year. Other real sector data are relatively timely, with industrial production and retail sales data published within six weeks and employment data within 3 months of the reference period, but some non-SDDS series are published one and a half years later . Employment and unit labor costs, and national income and expenditure data are usually available with 3 months lag.
Wages and earnings statistics: The quarterly Earnings, Hours and Employment Costs Survey has replaced the Labor Cost Survey, and also replaces all other existing short-term earnings surveys. The results are comparable across sectors and include more detail on components of earnings and labor costs than was available before. However, final data are only available with a six-month lag.
Government finance statistics: The authorities publish Exchequer returns and indicative estimates of the general government balance on a monthly basis. The definitive general government balance is reported quarterly and annually. Ireland reports these data to STA through a conversion of the datasets reported to Eurostat under the "ESA Transmission Programme". Annual and quarterly fiscal data in the *GFSM 2014* framework are reported through the Eurostat convergence project with the IMF.
Monetary and financial statistics: The ECB reporting framework is used for monetary statistics and data are reported to the IMF through a "gateway" arrangement with the ECB. The arrangement provides an efficient transmission of monetary statistics for central bank and other depository corporations to the IMF and for publication in the IMF's *International Financial Statistics (IFS)*. Data are published in *IFS* with a lag of about a month. Ireland reports some data and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). [Data gap on Investment Fund should be closed.]
Financial sector surveillance: Ireland reports 11 of the 12 core and 9 encouraged FSIs for deposit takers, one FSI for other financial corporations, and 3 FSIs for real estate markets with quarterly frequency on a regular basis for posting on the IMF's FSI website.
External sector statistics: Quarterly balance of payments and international investment position (IIP) data are compiled by the Central Statistics Office. The authorities implemented the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The most recent balance of payments and IIP data reported to STA and disseminated in the *IFS* are

for Q4/2022. Ireland reports data for the Coordinated Portfolio Investment Survey (CPIS), the Coordinated Direct Investment Survey (CDIS), and the Data Template on International Reserves and Foreign Currency Liquidity.	
II. Data Standards and Quality	
Ireland is subject to the statistical requirements and timeliness and reporting standards of Eurostat and the European Central Bank (ECB). Ireland subscribes to the Fund's Special Data Dissemination Standard and uses SDDS flexibility options on the timeliness of wages and earnings, and central government debt data.	No data ROSC is available.

Ireland: Table of Common Indicators Required for Surveillance

(as of May 24, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	May 24, 2022	5/24/2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	April 2022	5/9/2022	M	M	M
Reserve/Base Money	March 2022	4/29/2022	M	M	M
Broad Money	March 2022	4/29/2022	M	M	M
Central Bank Balance Sheet	March 2022	5/3/2022	M	M	M
Consolidated Balance Sheet of the Banking System	March 2022	4/29/2022	M	M	M
Interest Rates[2]	April 2022	5/12/2022	M	M	M
Consumer Price Index	April 2022	5/12/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2021:Q4	4/21/2022	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	April 2022	5/04/2022	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2021:Q4	4/21/2022	Q	Q	Q
External Current Account Balance	2021:Q4	3/04/2022	Q	Q	Q
Exports and Imports of Goods and Services	2021:Q4	3/04/2022	Q	Q	Q
GDP/GNP (National Account and Gross Value Added)	2021:Q4	3/04/2022	Q	Q	Q
Gross External Debt	2021:Q4	3/04/2022	Q	Q	Q
International Investment Position[6]	2021:Q4	3/04/2022	Q	Q	Q

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

Statement by Mr. Feargal O'Brolchain, Alternate Executive Director, and Mr. Paul Mooney, Advisor to the Executive Director
July 1, 2022

Context

We thank staff for their continuing constructive and beneficial engagement with our authorities, and for their comprehensive and insightful reports and selected issues papers.

In the face of several external shocks—the pandemic and the United Kingdom's exit from the European Union—the Irish economy has proven to be very resilient over the last number of years. This resilience is evident from the fact that the level of economic activity is back above pre-pandemic levels while employment is now at its highest level ever.

Budgetary policy has played a key role in facilitating the rapid economic rebound from the pandemic; the fiscal response was geared towards income support, maintaining the employee-employer link, and preventing the exit of solvent firms. Available evidence points to limited, if any, 'scarring' of the economy.

The Government's spring forecasts—published as part of the European Union budgetary cycle in April—are based on Modified Domestic Demand (MDD) expanding by 4¼ percent this year and by just under 4 percent next year. Given some of the distortions in the macro-economic data, the authorities see MDD as the most appropriate indicator of economic conditions in Ireland.

Since the spring forecasting round, the outlook has become less benign, with many of the risks that were identified at the time now coming to pass:

- inflation is higher, broader, and more persistent than previously assumed;
- growth in many of Ireland's main trading partners is slowing;
- supply-chain disruption is continuing to weigh on global and domestic activity.

In addition, financial conditions have tightened somewhat. Further uncertainty has recently arisen from adverse developments in relation to Brexit, specifically the implementation of the Ireland/Northern Ireland Protocol.

Fiscal Policy

Public indebtedness has increased over the two years of the pandemic: general government debt reached 106 percent of national income (GNI*) at end-2021. The authorities see a rise in public debt as the most appropriate mechanism for absorbing the economic fallout from the pandemic. Notwithstanding higher indebtedness, the burden of debt has continued to fall, reflecting the fact that debt issuance during the pandemic was financed at very favourable rates. The authorities have also used favourable financing conditions to lengthen the maturity structure of public debt instruments.

The Government put in place a new medium-term strategy last summer, centered on an expenditure rule; this was designed to allow expenditure to grow in line with the economy's estimated nominal trend growth rate at that time. The Government will shortly publish its annual *Summer Economic Statement*, which will set out the budgetary parameters for *Budget 2023*. The framework will aim to ensure that the public finances remain on a sustainable trajectory in an increasingly challenging and uncertain economic landscape.

In relation to the acceleration in inflation, the Government has introduced measures amounting to around 1 percent of national income (GNI*) to limit the fallout on households, including measures targeted at those most in need. The authorities recognize that the inflation spike is primarily the result of global price dynamics and are conscious of the need to avoid an external price shock becoming an internal price shock; accordingly, the Government's approach has been to balance the need to support households while avoiding fanning the inflation flames.

International Tax

The authorities are fully committed to the political agreement reached at the OECD Inclusive Framework on BEPS last October, to establish a new tax framework to address the tax challenges of digitalization. Ireland recognizes that taxation policy needs to reflect a changing digital economy. This work is best done through the OECD, to prevent unilateral measures that could undermine international trade and create new mismatches between national tax systems.

While the agreement will come at a cost to Ireland in terms of lost tax revenues, overall, the agreement will bring long-term stability and certainty to the international tax framework.

Financial Sector

The Irish authorities welcome the Financial Sector Stability Assessment (FSSA), reflected in the open and constructive engagement with the Fund team throughout the process. The authorities appreciated the Fund's extensive work and engagement with a wide range of stakeholders and valued the insights provided by an external, in-depth assessment of the resilience of the financial sector, and the overall framework for financial sector oversight and crisis management in Ireland. More broadly, the authorities are strongly supportive of the Financial Sector Assessment Program (FSAP) as a global financial stability tool. The authorities see the key recommendations of the Fund as important in further strengthening Ireland's overall framework for the oversight of the financial sector. They broadly support the key recommendations, especially in the current evolving global environment.

The authorities welcome the Fund's positive endorsement of Ireland's continued progress in strengthening regulation, supervision, and crisis management since the last FSAP. Over the past decade, the resilience of the Irish financial system has been enhanced considerably. The value of that resilience was demonstrated through the shocks stemming from Brexit, the pandemic and, more recently, the initial macro-financial effects of the Russian invasion of Ukraine. In the banking system, higher capital buffers, improved funding structures, and robust mortgage lending standards mean that banks are in a better position to absorb stresses and maintain the supply of financial services to households and businesses. Substantial progress has also been made in dealing with the effects of the financial crisis. This is evidenced, for example, in the very significant reduction in non-performing loans (NPL) from their crisis peak, and the substantial share of mortgages that were in distress during the financial crisis but have since been restructured. Notwithstanding this progress, the authorities agree that certain areas require continued attention, with a view to drawing a line under the legacy issues from the financial crisis.

As Ireland's financial sector continues to grow in size, complexity, and interconnectedness, the authorities are determined to ensure that the regulatory framework and supervisory capacity keep ahead of the evolving landscape. A number of the areas of focus by the Fund, including in the FSSA recommendations, relate to the evolution of the financial sector landscape, for example, in terms of the growth in non-bank financial intermediation; the post-Brexit insurance and banking landscape; or the evolution of the fintech sector. Ireland has already been responding actively to this evolution. For example, regulatory capability and supervisory resourcing have increased considerably in recent years, as the financial system has grown in size and complexity. Our authorities have also been investing heavily to close data gaps, conducting analysis on the market-based finance sector, and working with colleagues internationally to develop the policy framework for this segment of the financial system. More broadly, as acknowledged by the Fund, Ireland has been—and aims to continue to be—at the forefront of European policy and supervisory developments in a number of these areas, including in consumer protection and cross-border activities related to markets, banking, and insurance. The authorities are determined to maintain those efforts going forward.

Meeting future challenges requires continued regulatory and supervisory coordination at a European and global level. Our authorities welcome the Fund's endorsement of Ireland's demonstrated commitment to cross-border collaboration on financial sector oversight and regulation. The single market for financial services in Europe and the European System of Financial Supervision means that—across all sectors—Ireland's approach to oversight entails a high degree of integration with Europe. The Irish authorities remain committed to continue driving work with European and international counterparts on a number of areas identified by the Fund team, including in relation to extending macroprudential oversight to the market-based finance sector, digital operational resilience, and regulation of fintech activities. Contributing to the development of financial regulation and strengthening of supervision at a European level is a key channel through which Ireland contributes to global financial stability.

Climate-related financial risks and financing the transition to a zero-carbon economy will be important challenges facing the financial system. Given the global nature of climate-related issues, we are very supportive of the Fund's efforts to integrate such analysis into FSAPs. The authorities welcomed the Fund's focus on managing climate-related risks to the financial sector. This is consistent with the authorities' focus and work program in this area.

Structural Issues

Infrastructure

The authorities recognize the need to further develop Ireland's infrastructure. The National Development Plan (NDP) published in October 2021 provides a detailed and positive vision for Ireland over the next 10 years and sees total public investment of €165 billion over the period 2021-2030. The NDP is the largest in the history of the State with Ireland's annual capital investment budget now among the largest across EU countries. Investment is focused on vital infrastructure in areas such as housing, transport, climate action, education, enterprise, and sport, and a range of reforms have been implemented in order to secure maximum value for money.

Housing

The root cause of pressures in the Irish housing market is insufficient supply. As a result, property price inflation continues to rise. In response, the Government announced *Housing for All* late last year, a multi-annual, multi-billion-euro plan to improve Ireland's housing system and deliver more homes of all types whilst addressing pressures within the housing market. The plan is underpinned by a commitment of an annual average investment of in excess of €4 billion in housing, through an overall combination of €12 billion in direct Exchequer funding, €3.5 billion in funding through the Land Development Agency (LDA) and €5 billion funding through the Housing Finance Agency (HFA).

While significant challenges lie ahead in terms of housing supply, most notably in terms of the cost of construction, some positive forward indicators have recently emerged. Housing commencements, a strong indicator of future housing completions, was around 32,500 units in the 12 months to April 2022—close to the annual target of 33,000 units set out in *Housing for All*. These figures represent the eighth consecutive month in which the 12-month rolling monthly total number of housing commencements has exceeded 30,000.

Labor Force Participation & Female Representation

The resilience of the Irish economy has arguably been most clearly evident in the labor market.

The post-pandemic recovery of the labor market has been large, with 2.5 million people in employment in Q1 2022—the highest level on record. In part, this recovery reflects the Government supports put in place throughout the pandemic to effectively maintain the employer-employee link. As the economy has reopened, these supports have helped pave the way for a rapid recovery in the labor market.

Encouragingly, employment has been bolstered by much higher female participation, with more than 100,000 additional women now part of the workforce, compared to the first quarter of 2020.

Momentum in the labor market has continued into Q2 2022, with the monthly unemployment rate standing at 4.7 percent in April, the lowest monthly rate since October 2019, and employment indicators remain positive. In that respect, the economy has moved closer to full employment, but employment growth is expected to slow through the rest of 2022, in line with the outlook for Modified Domestic Demand.

Challenges and risks remain; the recovery has been uneven across sectors, with mismatches between labor demand and supply emerging as a constraint and presenting the risk of increasing wage pressures for some sectors.

In this context, skills development is a central dimension of the new National Digital Strategy. The authorities will drive the development of digital skills provision across the skills spectrum to enable all cohorts across the labor market and wider society to participate positively in and benefit from the digital transition. The Strategy commits to increasing the share of adults in Ireland with at least basic digital skills to 80 percent by 2030.

The shift in labor demand towards higher digital skills is likely to continue and become even more pronounced. Identifying the specific skill requirements that need to be met through focused and specific programmes will be a particular priority. The Strategy commits to increasing the numbers of learners graduating with higher-level digital skills to over 12,400 graduates, apprentices, and trainees by end-2022, with ambition to further increase digital skills provision in following years.

Climate Change

The Program for Government sets out a commitment to achieve 51 percent emission reductions by 2030 relative to 2018, and net zero by 2050—a target which is now statutory. In November 2021, the Government published Climate Action Plan 2021, which identifies and sets out the far-reaching policy changes across every sector to deliver the necessary emissions reductions—a doubling of the ambition set out in the 2019 Climate Action Plan. The next iteration of the Climate Action Plan to be published later this year will elaborate on the detail of measures required to meet emission targets and climate action objectives, while incorporating measures to be refined and progressed on climate action.

Another landmark development in the governance of Ireland's climate policy was the approval in April 2022 of the program of legally binding carbon budgets, which specifies the total amount of emissions that may be emitted out to 2035. The related sectoral emissions ceilings, to be finalized later this summer, will apportion the national carbon budgets between various sectors of the economy in the years to 2030. In addition, the sectoral emissions ceilings will specify the measures needed to ensure delivery of the carbon budgets.

Conclusion

The Irish economy has proven to be remarkably resilient in recent years—particularly throughout the COVID-19 pandemic. Notwithstanding this resilience, further policy challenges lie ahead across fiscal policy, the financial sector, climate and digital transitions, and a more uncertain international economic environment, including the latest potential adverse developments in relation to Brexit. The authorities welcome and appreciate the IMF's quality and well specified advice as they address these challenges.