Republic of Ireland
Rating Report

AA- POSITIVE OUTLOOK

Credit strengths

- Wealthy, diversified and competitive economy
- Track record of fiscal discipline, favourable debt profile
- Strong institutional environment
- Euro-area membership

Credit challenges

- Elevated public and private debt levels
- Strong dependence on multinational corporations
- External vulnerabilities as a small, open economy vulnerable to shocks

Rating rationale:

Wealthy, diversified and competitive economy: Ireland benefits from its high wealth levels and competitive economy, supported by high value-added sectors such as pharmaceuticals and information and communication technology, which underpin the country's robust growth potential.

Track record of fiscal consolidation: A return to fiscal surpluses, downward-trending debt metrics and the long maturity of public debt support Ireland's rating.

Strong institutional environment: Ireland has a strong institutional framework, a favourable business environment attracting foreign investment and an effective rule of law.

Euro-area member status: Euro-area membership supports Ireland's high-growth economic model, helping attract and retain foreign investment, and it provides access to lenders of last resort for banks via the European Central Bank and sovereigns via the European Stability Mechanism.

Rating challenges include: i) elevated public debt levels compared to underlying economic activity; ii) strong dependence on multinational corporations, whose corporate tax contributions make up a significant portion of government revenues; and iii) vulnerability to sudden reversals due to shocks of domestic or international origin, given the small size and very open nature of the economy.

Ireland's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency	Qualitative*	Final rating
		Weight	Indicative rating	Notches	Notches	
Domestic economic risk		35%	aaa	EUR [+1]	0	AA-
Public finance risk		20%	aaa		0	
External economic risk		10%	bb-		-3/3	
Financial stability risk		10%	aaa		-1/3	
ESG risk	Environmental factors	5%	aa-		0	
	Social factors	7.5%	a-		-1/3	
	Governance factors	12.5%	aaa		0	
Indicative outcome			**aaa**		**-2**	
Additional considerations					**-1**	

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. In addition, a one-notch negative adjustment is applied to capture distortions in Irish economic data that tend to overstate the performance of underlying fundamentals and credit metrics of Ireland in Scope's Core Variable Scorecard. For details, please see Scope's Sovereign Rating Methodology. Source: Scope Ratings

Outlook and rating triggers

The Positive Outlook reflects our view that risks to the ratings are skewed to the upside over the next 12-18 months.

Positive rating-change drivers

- Significantly strengthened debt sustainability, underpinned by sustained improvements in fiscal fundamentals
- Robust economic growth outlook over forecast horizon

Negative rating-change drivers

- Significantly weaker growth outlook than expected
- Weaker fiscal discipline, leading to lower budget balances and a weaker debt trajectory over the medium term
- Risks in private sector and financial system increasing significantly

Ratings and Outlook

Foreign currency

Long-term issuer rating	AA-/Positive
Senior unsecured debt	AA-/Positive
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AA-/Positive
Senior unsecured debt	AA-/Positive
Short-term issuer rating	S-1+/Stable

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Bloomberg: RESP SCOP

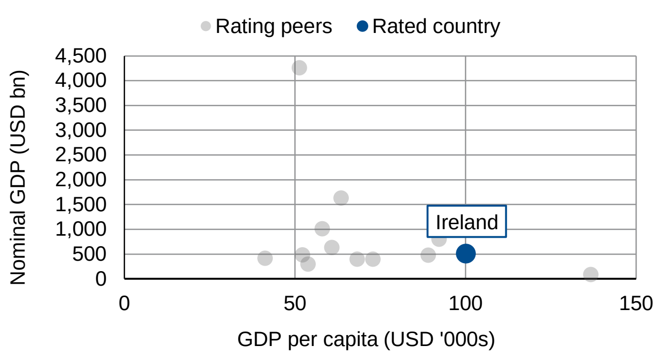
Domestic economic risk

- **Growth outlook**: Domestic economic activity, as measured by modified final domestic demand (MDD), weakened in H2 2022 amid decelerating private demand dynamics, with consecutive QoQ declines of 1.1% and 1.3% in Q3 and Q4 2022. Nevertheless, MDD growth for the year reached 8.2% in 2022, up from 5.8% in 2021, as a result of significant carryover from the first half of the year, along with resilient household consumption and sizable, one-off business investment flows. This is reflected by a nearly 20% jump in modified investment, which excludes distortionary effects of intellectual property flows and aircraft leasing activity. Private demand is likely to slow over H1 2023, reflecting stagnant household consumption due to persistent inflationary pressures and tighter borrowing conditions. However, we expect output growth to remain robust for the full year, with a pickup in private demand in H2 2023. Overall, we expect MDD growth of about 3.0% in 2023 and 2024. GDP growth reached 12.0% in 2022, and we expect it to remain above its long-term potential in 2023 and 2024 at 5.5% and 4.5% respectively. The growth outlook is subject to a significant degree of uncertainty, however, owing to the influence of the multinational (MNE) sector and inflation developments.
- **Inflation and monetary policy**: After rising sharply in 2022, HICP inflation has been declining since October 2022 and reached 8.1% YoY as of February 2023. Core inflation (HICP excluding energy, food, alcohol & tobacco) has also eased somewhat, to 4.9% (down from a peak of 5.8% in August 2022). However, it remains well above historical averages, reflecting a broadening of domestic price pressures. We expect consumer price dynamics to gradually moderate over the course of the year. This will be driven by a combination of base effects, a more favourable external environment resulting in a moderation in energy and food price dynamics, and the ECB's tighter monetary policy. The ECB's main refinancing interest rate reached 3.75% in March, its highest level since 2008.
- **Labour market**: The Irish labour market remains tight despite a recent decline in vacancies. The employment rate remained near all-time highs at 73.2% in 2022, and the unemployment rate was near historical lows at 4.3% as of February 2023. The labour force has grown robustly since the end of the pandemic crisis and was about 10% above its end-2019 level by Q4 2022, boosted in part by strong net migration. Strong labour demand and a growing workforce should support Ireland's medium-term growth outlook while keeping the unemployment rate at moderate levels.

Overview of Scope's qualitative assessments for Ireland's *Domestic Economic Risk*

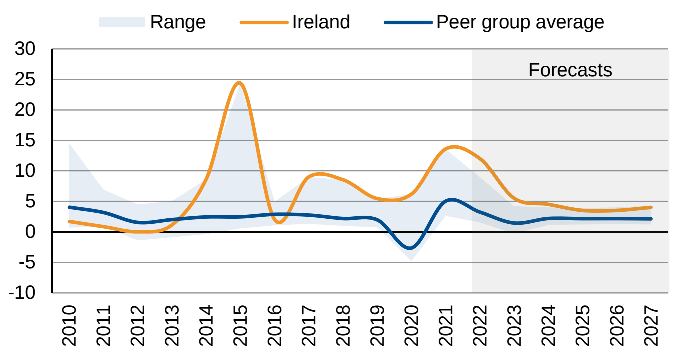
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Strong	+1/3	Strong growth potential, but some uncertainty around longer-term impact of global tax reforms
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank; effective policy framework and transmission over the cycle
	Macro-economic stability and sustainability	Weak	-1/3	Economic structure subject to high volatility; exposure to global crises; reduced Brexit risk

Nominal GDP and GDP per capita, USD '000s



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

Public finances risk

- **Fiscal outlook**: The robust economic growth in 2022 enabled a sharp improvement in the general government balance, which moved from a 3.0% deficit of modified gross national income (GNI*) in 2021 to a 2.3% surplus last year. This performance reflects strong revenue growth, especially due to buoyant growth in corporate income tax receipts (up 48%), which more than offset spending pressures stemming from the energy crisis. To mitigate risks related to the volatility of corporate income tax revenue, the government transferred a total of EUR 6bn (2.2% of 2022 GNI*) to the National Reserve Fund between November 2022 and February 2023. Sustained, robust revenue growth should support further improvements in fiscal metrics, offsetting the impact of cost-of-living support measures (estimated at about 2.0% of GNI* for 2023) and moderately higher interest payments. We expect the headline budget surplus to remain stable at 2.3% of GNI* in 2023 before increasing to 3.7% of GNI* in 2024 (about 1.2% and 2.0% of GDP respectively). The government's high reliance on corporate income tax receipts (accounting for 27% of total tax revenue in 2022) represents a significant vulnerability for the outlook.

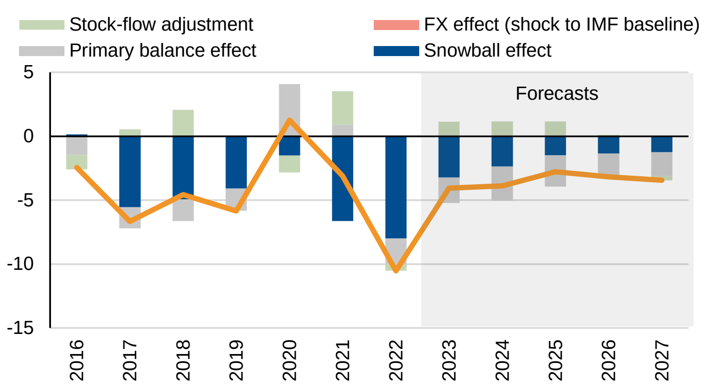
- **Debt trajectory**: The debt-to-GNI* ratio declined to an estimated 86% in 2022 (debt-to-GDP at 44.5%), below its end-2019 level of 95%. We expect debt metrics to improve further as a result of robust nominal growth and growing primary surpluses, which should offset the impact of higher borrowing costs. We expect debt as a share of GNI* to decline to 80% in 2023 and 73% in 2024, or about 41% and 37% of GDP respectively. Our view is further supported by the government's significant liquidity reserves (EUR 28.5bn as of February 2023) as well as by the recent introduction of a reformed fiscal framework imposing caps on permanent increases in government expenditures.

- **Market access**: Ireland benefits from a favourable debt profile, supported by a high share of public sector debt held by the Eurosystem (29% as of H1 2022) and official sector institutions. Average debt maturity is above 10 years, among the longest in the euro area, partially shielding the government from the impact of the rising interest rate environment. As with peers, financing costs have increased since H2 2021, with the 10-year government bond yield at 2.86% on average in February 2023, up from 0.78% in February 2022.

Overview of Scope's qualitative assessments for Ireland's *Public Finance Risk*

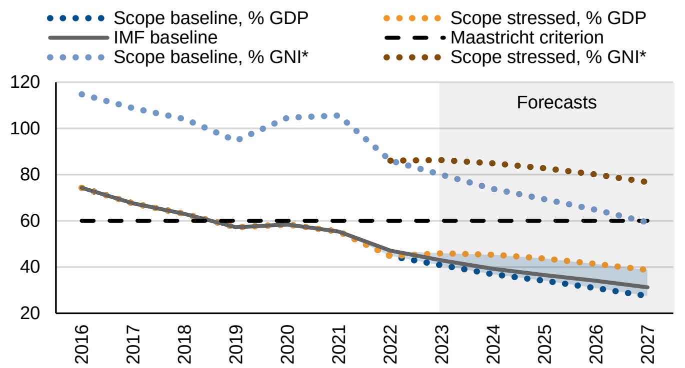
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Prudent fiscal policies with appropriate fiscal framework; suitable fiscal responses to recent shocks
	Debt sustainability	Neutral	0	Declining public sector debt levels; debt trajectory vulnerable to adverse shocks
	Debt profile and market access	Neutral	0	Strong market access and debt structure, liquid cash reserves, access to lenders of last resort

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

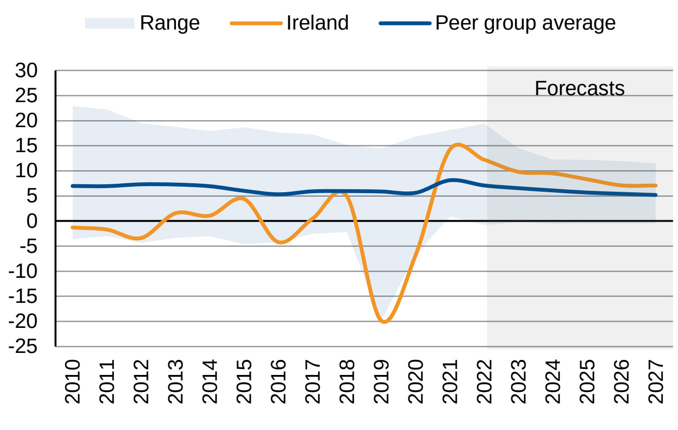
External economic risk

- **Current account**: Ireland's current account surplus decreased to 12.2% of GDP in 2022, down from a record high of 14.2% of GDP in 2021. At the same time, the modified current account balance, which removes distortions related to large-scale MNE operations, is estimated to have remained broadly stable at around 11% of GNI*. We expect the current account balance to remain largely positive thanks to the dynamism of core export sectors (pharmaceuticals, ICT services) and due to lower uncertainty regarding trade with the UK following the agreement of the Windsor Framework. However, a weaker economic growth outlook among Ireland's key trading partners will weigh on the external balance over the medium term. Significant uncertainty also remains due to potential headwinds related to developments in the Russia-Ukraine war and its implications for global commodity prices.
- **External position**: Ireland's gross external debt is elevated but declining at about 560% of GDP as of end-2022, down from roughly 1,000% around 2011. The net international investment position improved to about negative 121% of GDP by end-2022, compared with negative 171% at end-2020. The large, negative net international investment position largely reflects the positions of the financial sector as well as intracompany loans operated by MNEs.
- **Resilience to shocks**: Euro-area membership strengthens Ireland's resilience to short-term shocks. Still, the country's small, open economy is highly integrated in global financial markets and is exposed to short-term external shocks related to the tightening of global financial conditions and changes in the international tax system such as the OECD-sponsored 'base erosion and profit shifting' reform.

Overview of Scope's qualitative assessments for Ireland's *External Economic Risk*

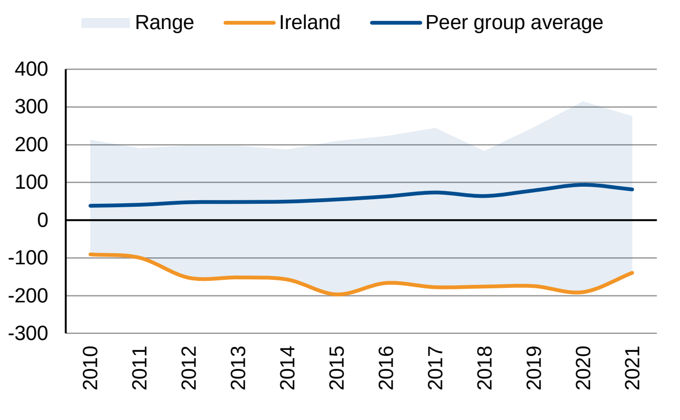
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Current account resilience	Weak	-1/3	Volatile current account due to contract manufacturing and intellectual property-related imports; FDI inflows supported by Brexit but longer-term risks from changes to global corporate tax rules
	External debt structure	Weak	-1/3	External debt levels declining but still higher than those of peers; significant short-term external debt
	Resilience to short-term external shocks	Weak	-1/3	Benefits from euro-area membership but exposed to global shocks

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

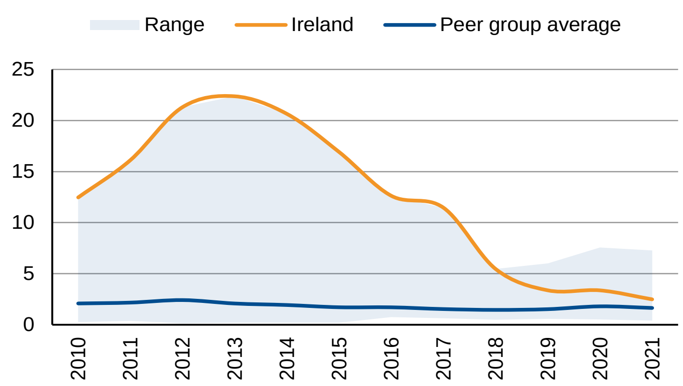
Financial stability risk

- **Banking sector**: The Irish banking sector benefits from strong capital and liquidity buffers. The Tier 1 capital ratio stood at 19% in Q3 2022 while the liquidity coverage ratio increased to 180.7%, the highest level on record. The non-performing loan ratio fell to 2.0% after having been on a declining trend since late-2020, although it remains above the euro-area average (1.8%). After falling to 4.1% in Q1 2022 due to increased provisions, the Irish banking sector's aggregate return on equity improved to 6.9% by Q3 2022 amid growing interest income. Looking ahead, we expect higher lending margins and low domestic competition to support profitability. Since the UK's departure from the EU, international (non-retail) banks located in Ireland, but mainly providing services to the rest of the EU, have significantly increased in size.
- **Private debt**: Household net wealth stands at record highs, above EUR 1trn (up by about 29% from its end-2019 level), although this primarily reflects positive housing asset revaluations. The household debt-to-gross disposable income ratio remains moderate at around 74% as of Q3 2022. Despite having decreased markedly in recent years, the share of variable-rate mortgages remains high at 44%. Non-financial corporate debt as a share of GDP remains on a declining trend at 159% as of Q3 2022, although this largely reflects the influence of MNE activity on GDP growth. Despite these improvements, private sector debt remains elevated at 186% of GDP, above the 160% EU's private sector debt sustainability threshold.
- **Financial imbalances**: Although the national Residential Property Price Index remains at a record high level, housing market dynamics have moderated somewhat in recent months, with transactions and price growth slowing amid rising interest rates and tighter lending conditions. High prices primarily reflect constrained housing supply in a context of tight labour market conditions. The central bank's implementation of mortgage measures has helped prevent looser lending standards, increasing mortgage holders' resilience to potential adverse shocks. In February 2022, the European Systemic Risk Board assessed residential real estate vulnerabilities in Ireland as medium and deemed policy measures as appropriate. Vulnerabilities have emerged in the commercial real estate market in recent years, with the sector accounting for more than 30% of aggregate NPLs in Ireland. In view of investment funds' significant exposure to the sector, the central bank introduced a set a macroprudential measures targeting the most exposed investment funds, including leverage limits.

Overview of Scope's qualitative assessments for Ireland's *Financial Stability Risks*

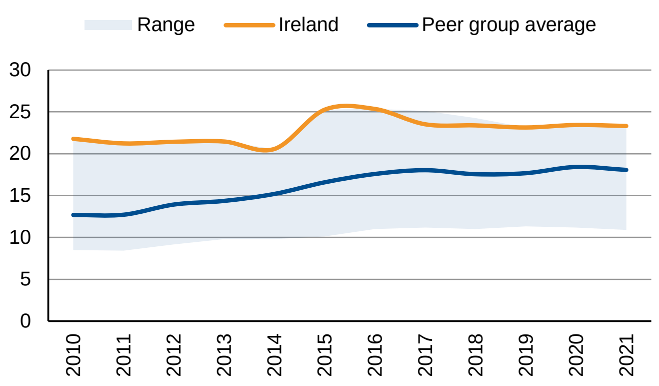
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Significantly improved banking-system resilience over last decade, but moderate profitability
	Banking sector oversight	Neutral	0	Oversight under the Central Bank of Ireland and the ECB as part of banking union
	Financial imbalances	Weak	-1/3	Elevated private sector debt, risks from global financial-market interconnections and increasing size of Irish financial system

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

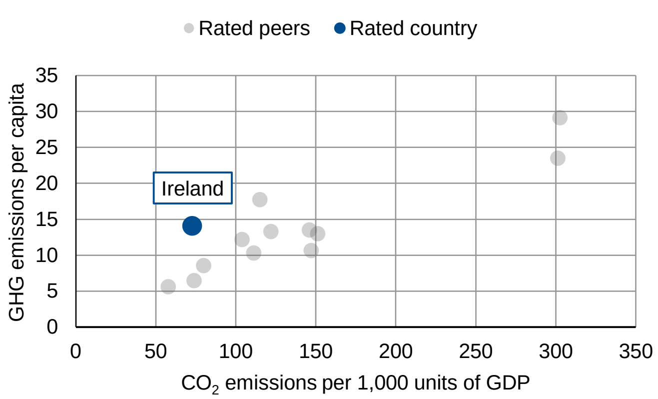
ESG risk

- **Environment**: Ireland's environmental sustainability record is mixed. While carbon emissions per capita are moderate compared with peers, total greenhouse gas (GHG) emissions per capita are elevated compared with other EU member states. Its energy mix remains largely fossil fuel-based and is dominated by oil (45% of total as of 2021) and natural gas (32%). The government has adopted ambitious climate goals, aiming to reduce carbon emissions by 51% by 2030 and to attain climate neutrality by 2050. It has rolled out several policies to this end, including large-scale investments in renewable energy generation capacities, and a carbon tax, currently valued at EUR 41 per ton, with the commitment to raise it to EUR 100 by 2030. It also recently launched a National Retrofitting Scheme aimed at boosting homes' energy efficiency.
- **Social**: Ireland benefits from more favourable demographic trends than other rating peers and is expected to maintain one of the lowest old-age dependency ratios in the EU in the coming decades. The European Commission expects age-related expenditures to increase to 19.4% of GDP by 2070, well below the EU average (25.9%). Still, the country faces significant social-related credit challenges, including an elevated share of the population being at risk of poverty or social exclusion (20.0%) and a high share of young people neither in employment nor in education and training (9.8%) compared to highly rated peers. Additionally, housing affordability challenges have increased markedly in recent years following a period of rapidly rising residential real estate prices.
- **Governance**: Ireland benefits from a stable political environment and is currently led by its first grand coalition of rival conservative parties Fianna Fáil and Fine Gael and the Green party. In July 2022, the coalition government lost its narrow formal parliamentary majority following the resignation of one of its members, reducing its capacity to carry through significant reforms. The current Taoiseach (prime minister) Leo Varadkar returned to the post in December 2022 as part of a rotating premiership arrangement. The next general elections are scheduled to take place before March 2025.

Overview of Scope's qualitative assessments for Ireland's *ESG risk*

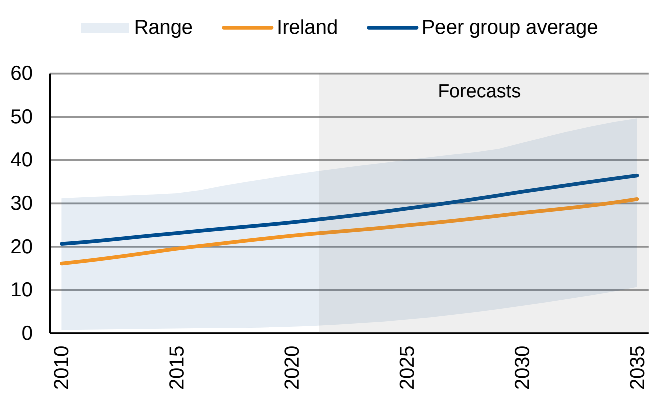
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Environmental factors	Neutral	0	Mixed record on environmental sustainability; however, ambitious climate action objectives
	Social factors	Weak	-1/3	Favourable demographics but moderate income inequality and risks of social exclusion
	Governance factors	Neutral	0	Stable political environment under the nation's first grand coalition

CO_2 emissions per GDP, $mtCO_2e$



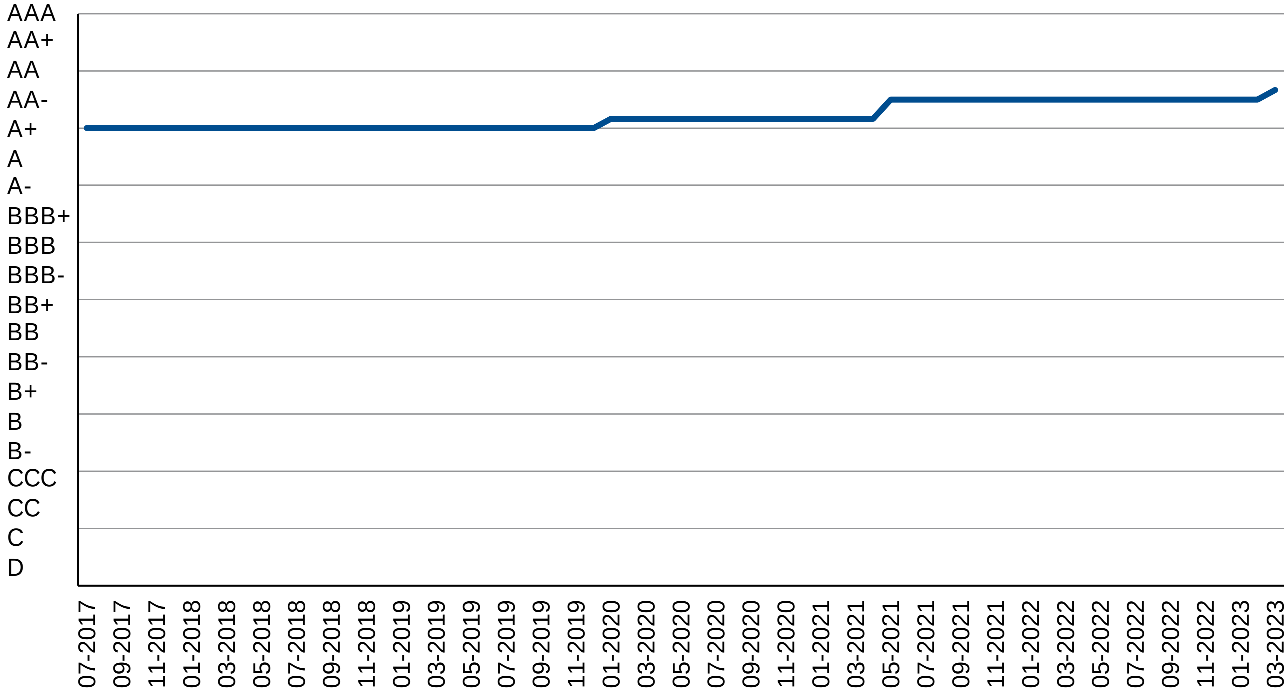
Source: European Commission, Scope Ratings

Old-age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, with Scope's core variable scorecard embedding a methodological reserve-currency adjustment.

Peer group*
Denmark
Finland
Germany
Luxembourg
Netherlands
Norway
Sweden
Switzerland

Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2017	2018	2019	2020	2021	2022
Domestic economic	GDP per capita, USD '000s	IMF	69.7	79.0	80.7	85.2	100.1	102.2
	Nominal GDP, USD bn	IMF	336.3	385.9	399.4	425.5	504.5	519.8
	Real growth, %	IMF	9.0	8.5	5.4	6.2	13.6	9.0
	CPI inflation, %	IMF	0.3	0.7	0.9	-0.5	2.4	8.4
	Unemployment rate, %	WB	6.7	5.7	5.0	5.6	6.6	-
Public finance	Public debt, % of GDP	IMF	67.6	63.0	57.2	58.4	55.3	47.0
	Interest payment, % of revenue	IMF	7.5	6.2	5.1	4.6	3.3	3.2
	Primary balance, % of GDP	IMF	1.6	1.7	1.7	-4.1	-0.9	1.1
External economic	Current account balance, % of GDP	IMF	0.5	4.9	-19.8	-6.8	14.2	12.2
	Total reserves, months of imports	IMF	0.1	0.1	0.1	0.1	0.2	-
	NIIP, % of GDP	IMF	-177.3	-175.6	-174.3	-190.3	-139.2	-
Financial stability	NPL ratio, % of total loans	IMF	11.5	5.5	3.4	3.4	2.5	-
	Tier 1 ratio, % of risk-weighted assets	IMF	25.1	22.6	22.5	22.9	23.5	22.2
	Credit to private sector, % of GDP	WB	44.1	40.8	36.0	32.4	-	-
ESG	CO_2 per EUR 1,000 of GDP, $mtCO_2e$	EC	103.6	95.1	86.1	72.7	68.2	-
	Income share of bottom 50%, %	WID	19.6	20.3	20.5	20.4	20.4	-
	Labour-force participation rate, %	WB	72.9	73.2	73.5	-	-	-
	Old-age dependency ratio, %	UN	20.9	21.3	21.8	22.3	22.7	23.2
	Composite governance indicators*	WB	1.4	1.4	1.3	1.4	1.4	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 31 March 2023	27.7

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