Republic of Ireland
Rating Report

AA-
STABLE OUTLOOK

Credit strengths

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

Credit challenges

- High public and private debt levels
- Strong dependence on multinational corporations
- External vulnerabilities and 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: Strong fiscal discipline before the Covid-19 crisis, 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, effective rule of law and low levels of corruption.

Euro-area member status: Euro-area membership supports Ireland's high-growth economic model, helping to attract and retain foreign investment, and 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) still high 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) the economy's vulnerability to sudden reversals when considered in the context of a small and very open economy due to shocks of either domestic or international origin.

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%	aa+		0	
External Economic Risk		10%	bb-		-3/3	
Financial Stability Risk		10%	aaa		-1/3	
ESG Risk	Environmental	5%	aa-		0	
	Social	7.5%	a		-1/3	
	Governance	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. Additionally, a 1-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 Ratings' methodology. Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers

- Significant reduction in public debt levels
- Robust economic growth outlook maintained over forecast horizon
- Significant decrease in private sector debt levels

Negative rating-change drivers

- Substantially weaker growth outlook
- Reversal of the downward public debt trajectory
- Private sector and financial system risks increase significantly

Ratings and Outlook

Foreign currency

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

Local currency

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

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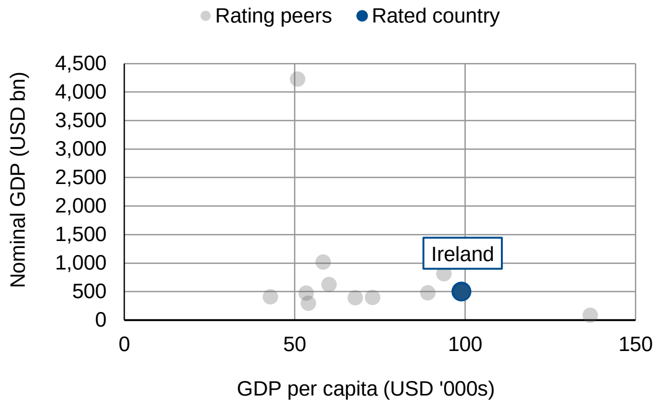
Domestic Economic Risks

- **Growth outlook:** Domestic economic activity, as measured by modified final domestic demand (MDD), weakened in Q1 2022, falling by 0.1% quarter-on-quarter (QoQ). This primarily reflected declining government spending due to the phase out of Covid-19 emergency measures and slowing private demand in a context of higher inflation and uncertainty in the wake of the Russia-Ukraine war. Growth picked up in Q2 2022 (+4.3% QoQ), driven by increased investments and recovering household consumption in services. We anticipate a marked economic slowdown in H2 2022 as decreasing real incomes and rising funding costs weigh on domestic demand while the worsening global economic outlook negatively impacts external demand. Overall, we expect MDD growth to reach 7.4% year-on-year (YoY) in 2022, mostly due to a significant carryover effect from the previous year, before slowing to 1.5% in 2023. We expect GDP growth to reach 9.5% this year and to remain elevated in 2023, at 4.0%, thanks to continued strong activity in the multinational sector.
- **Inflation and monetary policy:** Inflation (HICP) stood at 8.6% YoY in September 2022, slightly down from the previous month. Similar to euro-area peers, the high rates of inflation over the past year result from supply-side factors, particularly spiking energy and food prices, as well as supply chain disruptions which are largely related to the fallout from the war in Ukraine. Price pressures have become more broad-based, however, with core inflation rising above 5% in recent months. We expect inflationary pressures to continue throughout the rest of the year, despite the tightening of monetary policy by the ECB, whose benchmark interest rate stood at 0.75% in September, its highest level since 2011.
- **Labour markets:** The unemployment rate has been declining steadily in recent months, to 4.3% in September 2022, down from a peak of 7.7% in March 2021 and despite the phase out of the Pandemic Unemployment Payment programme earlier this year. The strong economic recovery has resulted in significant employment gains, raising the employment rate to an all-time high of 73.5% by Q2 2022, up 3.4 pp from end-2019. The number of unfilled job vacancies has increased sharply at the same time, reflecting growing labour shortages.

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

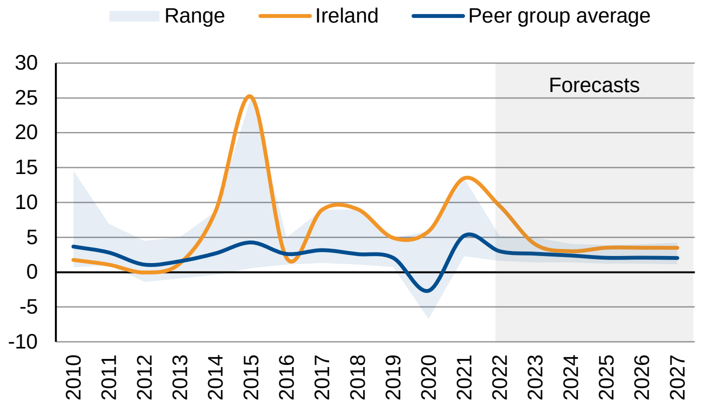
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Strong	+1/3	Strong growth potential, but some uncertainty around longer-term impact of global tax reforms
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central 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



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

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

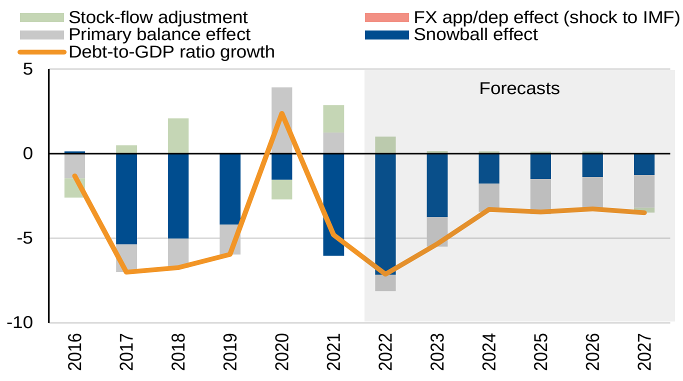
Public Finance Risks

- **Fiscal outlook:** The economic recovery in 2021 allowed for a sharp decline in the general government (GG) deficit, down to 3% of modified gross national income (GNI*). The positive momentum in revenue growth which drove this improvement continued into H1 2022, pushing gross revenue to EUR 66bn between January and August 2022, up 12% from the same period in 2021. The strong rise in corporate income tax (CIT) receipts contributed most to this increase (+68.5%) while total expenditures declined somewhat (-3%) despite spending pressures related to the fallout from the Ukraine conflict. The government announced a set of budgetary measures totalling EUR 11bn (about 4% of GNI*) to alleviate the impact of rising costs on the private sector. Additionally, it aims to transfer a total of EUR 6bn to the National Reserve Fund over 2022-23 to ensure that windfall CIT receipts do not lead to permanent increases in expenditures. We anticipate the headline budget balance will turn positive from this year onward, in line with government expectations. We expect the GG surplus to reach 0.4% of GNI* in 2022 and 2.3% in 2023 (about 0.2% and 1.1% of GDP, respectively). The government's increasing reliance on CIT receipts (expected to cover around 25% of GG revenue in 2022) represents a significant vulnerability to the outlook.
- **Debt trajectory:** The debt-to-GNI* ratio declined to 100.8% in 2021 (debt-to-GDP 55.3%), still above its end-2019 level of 95%. Moving forward, debt metrics should moderate further as a result of robust nominal growth and rising primary surpluses. We expect debt as a share of GNI* to decline to 91% in 2022 and 86% in 2023, or about 48% and 43% of GDP, respectively. Our view is further supported by the government's significant liquidity reserves (EUR 35.5bn as of August 2022, expected to decline to about EUR 20bn by year-end), as well as by the recent implementation of a new fiscal framework imposing caps on permanent increases in government expenditures.
- **Debt profile and 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 end-2021) and by official sector institutions. Average debt maturity is among the longest in the euro-area, at 10.5 years, partially shielding the government from the impact of the rising interest rate environment. Similar to peers, financing costs have increased moderately, with the 10-year government bond yield at 1.71% on average in August 2022, up from -0.08% in August 2021.

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

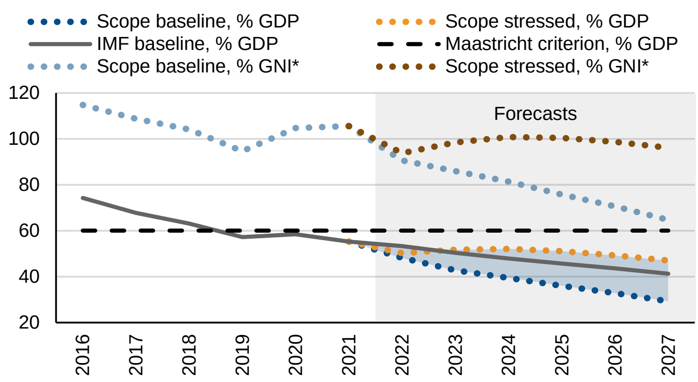
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Fiscal policy framework	Neutral	0	Prudent fiscal policies with strong fiscal framework; appropriate fiscal response to Covid-19 crisis
	Debt sustainability	Neutral	0	Declining public sector debt levels; debt trajectory 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, pps of GDP



Source: Scope Ratings forecasts

Debt-to-GDP forecasts



Source: IMF WEO, Scope Ratings forecasts

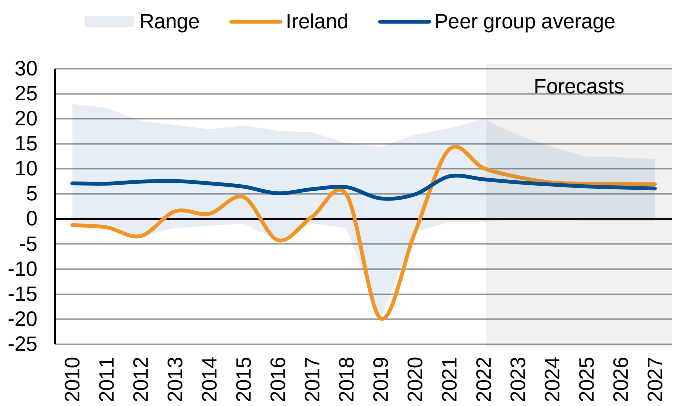
External Economic Risks

- **Current account:** After a deficit of 6.8% of GDP in 2020, Ireland's current account balance swung back to a 14.2% surplus in 2021, following a strong rebound in net exports. The volatility in the current account balance reflects distortions from large scale multinational enterprise (MNE) operations linked to manufacturing and intellectual property imports. Despite a worsening of the global economic outlook and rising prices for some key imports (e.g. energy, fertilisers), the current account balance remained strong in H1 2022 with an estimated surplus of 13.9% of GDP. This resilience comes despite a weakening of the trade surplus with the UK, which declined by 12% in H1 2022 YoY, primarily owing to a strong rebound in merchandise imports. Significant uncertainty remains regarding the future of the Northern Ireland Protocol, with potential adverse impacts on Irish agri-foods exports. Looking ahead, we expect the current account balance to remain largely positive, thanks to the resilience of core export sectors (pharmaceuticals, ICT services) as well as to limited direct exposures to Russia (1% of exports in 2020).
- **External position:** Ireland's gross external debt is elevated, albeit declining, at about 642% of GDP as of Q2 2022, down from around 1,000% around 2011. The net international investment position improved to -138% of GDP in Q2 2022 compared with -171% at end-2020. The large, negative net international investment position (NIIP) largely reflects the positions of the financial sector as well as intra-company 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 or to 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 Risks*

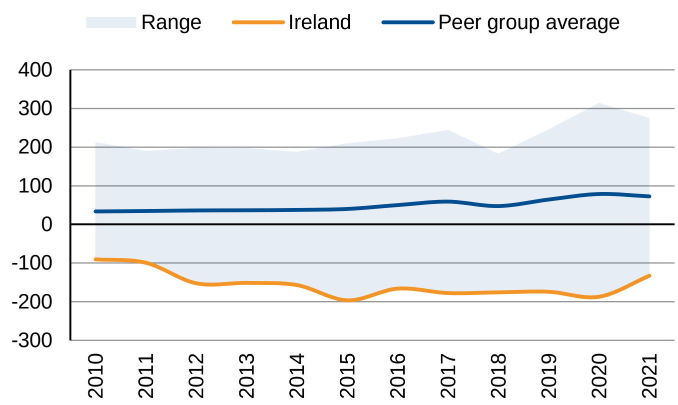
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Current account resilience	Weak	-1/3	Volatile current account due to contract manufacturing and intellectual property-related imports; FDI inflows supported by Brexit but longer-term risks from global corporate tax rule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

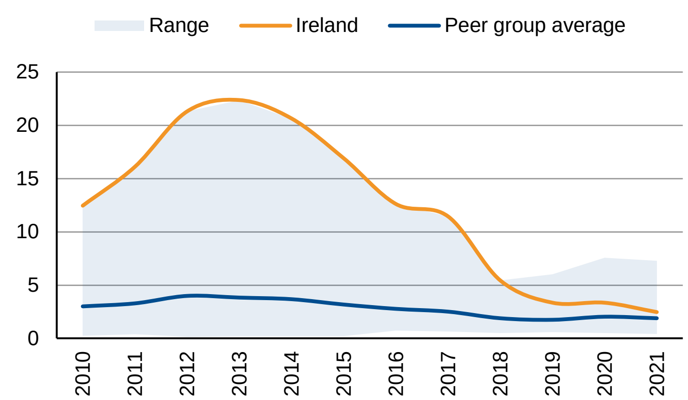
Financial Stability Risks

- **Banking sector:** The Irish banking sector benefits from strong capital and liquidity buffers, as reflected in tier 1 capital and liquid asset ratios of 20.1% and 27.2% as of Q1 2022, respectively. The non-performing loan ratio stood at 2.7% at the same time, down from 3.3% at end-2019, though it remains above the euro-area average (1.9%). After increasing to 7.6% in Q4 2021, on the back of the strong economic recovery, the aggregate return on equity of the Irish banking sector declined to 4.1% in Q1 2022 following an increase in provisions in a context of heightened uncertainty. Looking ahead, we expect rising interest rates and declining competition to support profitability. Banking system exposures to Russia are low, at EUR 1.7bn, or 0.1% of total on and off-balance sheet financial assets and liabilities of Irish banks.
- **Private debt:** Household net wealth stands at record high levels, above EUR 1tn as of Q1 2022 (+15% YoY), though this primarily reflects positive housing asset revaluations. The household debt to gross disposable income ratio remains moderate, at around 77% as of Q1 2022, despite having increased from Q1 2021 (+2.6 pp). Non-financial corporate debt as a share of GDP has declined steadily in recent years, down to 166%, though this largely reflects the influence of MNE activity on GDP growth. Despite these improvements, private sector debt remains elevated, at 197% of GDP, well above the 160% EU private sector debt sustainability threshold.
- **Financial imbalances:** Residential real estate prices have continued growing in recent months, with the national Residential Property Price Index (RPPI) currently above its 2007 peaks. The RPPI increased by 13.1% YoY in July 2022, its twelfth consecutive month of above-10% growth. Rising prices primarily follow from constrained housing supply, in a context of tight labour market conditions. The implementation of mortgage measures by the central bank, including caps on loan-to-value and loan-to-income ratios on new housing loans, have helped to prevent a loosening of lending standards, increasing the resilience of mortgage holders to potential adverse shocks. In February 2022, the European Systemic Board assessed residential real estate vulnerabilities in Ireland as medium and deemed policy measures as appropriate.

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

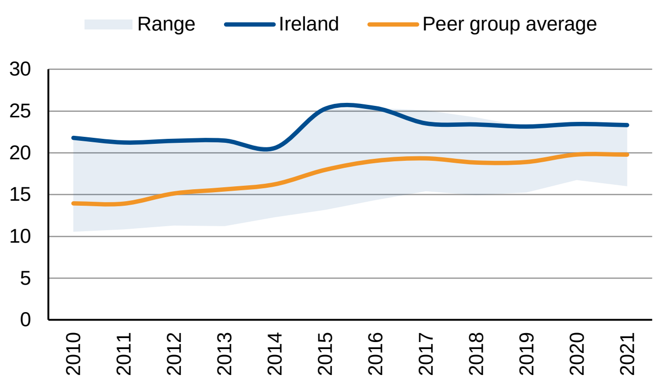
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Significantly improved banking-system resilience over last decade, but low profitability and high NPLs when compared with peers
	Banking sector oversight	Neutral	0	Oversight under 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, % of total loans



Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

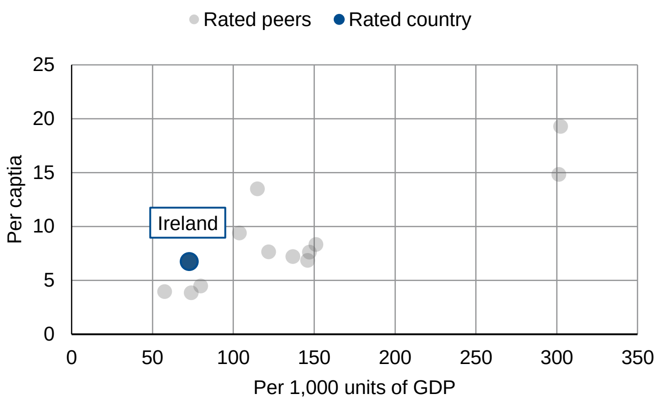
ESG Risks

- **Environment:** Ireland's environmental sustainability record is mixed. While CO_2 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 (51.7%) and gas (17.5%). 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 (21.7%), and a high share of young people neither in employment nor in education and training (13.1%) compared to euro area peers. Additionally, housing affordability challenges have increased markedly in recent years given rising residential real estate prices.
- **Governance:** Ireland benefits from a stable political environment and is currently led by its first grand coalition between rival conservative parties Fianna Fáil and Fine Gael and the Green party. Current Taoiseach Micheál Martin rose to the premiership in June 2020 and will hand over the leadership to Leo Varadkar at the end of 2022, in a rotating premiership arrangement. 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 next general elections are scheduled for 2025.

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

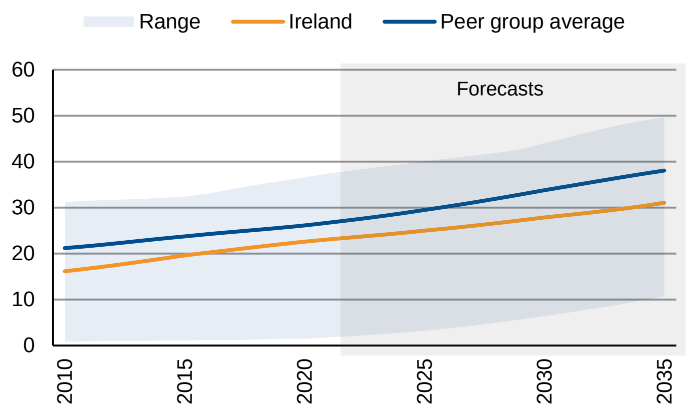
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Environmental factors	Neutral	0	Mixed record on environmental sustainability; however, ambitious climate action objectives
	Social factors	Weak	-1/3	Favourable demographics, but moderate income inequality and risks from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

CO_2 emissions per GDP and GHG per capita, $mtCO_2e$



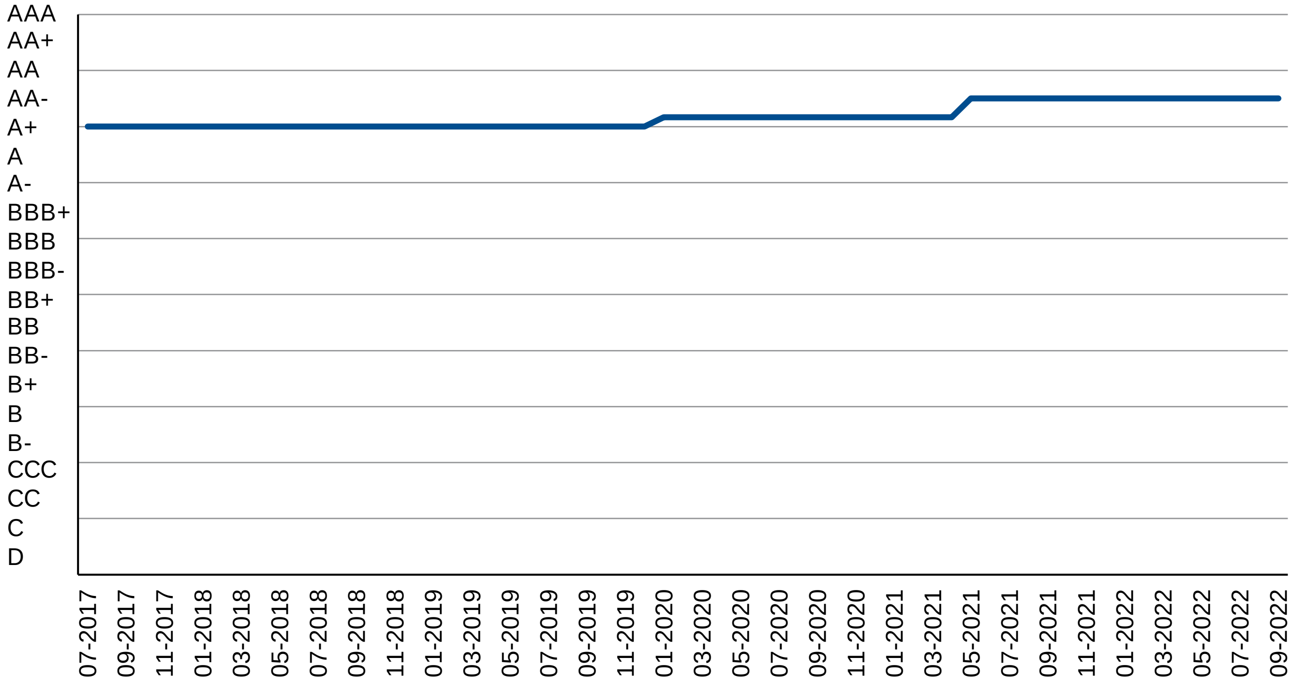
Source: European Commission, Scope Ratings

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 in adjacent categories per Scope's Core Variable Scorecard, including 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.

Core variable	Source	2017	2018	2019	2020	2021
GDP per capita, USD '000s	IMF	69,489	78,844	80,646	85,230	99,013
Nominal GDP, USD bn	IMF	335.3	385.2	399.2	425.5	498.9
Real growth, %	IMF	8.9	9.0	4.9	5.9	13.5
CPI inflation, %	IMF	0.3	0.7	0.9	-0.5	2.4
Unemployment rate, %	World Bank	6.7	5.7	5.0	5.6	6.6
Public debt, % of GDP	IMF	67.8	63.1	57.2	58.4	55.3
Interest payment, % of revenue	IMF	7.5	6.2	5.1	4.5	3.4
Primary balance, % of GDP	IMF	1.6	1.7	1.8	-3.9	-1.2
Current account balance, % of GDP	IMF	0.5	4.9	-19.9	-2.7	13.9
Total reserves, months of imports	IMF	0.1	0.1	0.1	0.1	0.2
NIIP, % of GDP	IMF	-177.8	-175.9	-174.4	-187.3	-132.9
NPL ratio, % of total loans	IMF	11.5	5.5	3.4	3.4	2.5
Tier 1 ratio, % of RWA	IMF	25.1	22.6	22.5	22.9	23.5
Domestic credit to private sector, % of GDP	World Bank	44.3	40.8	36.0	32.4	-
CO_2 per EUR 1,000 of GDP, $mtCO_2e$	EC	103.1	94.6	84.5	72.9	-
Income inequality (bottom 50%), % of adults	World Bank	19.6	20.3	20.5	20.4	20.4
Labour-force participation rate, %	World Bank	72.9	73.2	73.5	-	-
Old-age dependency ratio, %	UN	20.8	21.4	22.0	22.6	23.1
Composite governance indicators*	World Bank	1.4	1.4	1.3	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 7 October 2022	27.7

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