Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF IRELAND	Assigned Ratings/Outlook: **A+ /stable**	Type: Monitoring, unsolicited
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	25-11-2016 23-10-2020 "Sovereign Ratings" "Rating Criteria and Definitions"

Rating Action

Neuss, 23 October 2020

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "A+" for the Republic of Ireland. Creditreform Rating has also affirmed Ireland's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "A+". The outlook is stable.

Contents

Key Rating Drivers

1. Generally strong macroeconomic performance profile with favorable underlying economic growth track record and favorable business environment; high macro-financial volatility due to presence of multinational enterprises whose activity, however, provides some counterweight to latest recessionary tendencies; elevated although improving household indebtedness could pose constraints to medium-term growth, as does the uncertain future over EU-UK trade terms
2. We expect the Covid-19 pandemic to interrupt the positive economic growth trend only temporarily, although uncertainty over strength and timing of rebound in absence of broadly available tested vaccines remains unusually high
3. Very strong institutional framework; EU/EA membership entails decisive advantages for the small, open economy, while current tensions over UK's Internal Market Bill might raise new questions over handling of the inner-Irish EU border; general election has resulted in a unusual and untested constellation, we think the arrangement demonstrates willingness to reach compromise and provide a stable government; cohesive and efficient Covid-19 crisis management
4. Recent history of improving fiscal metrics will be sharply, albeit presumably temporarily, reversed in light of coronavirus; contingent liability risks entailed by the financial sector remain in place; persistently high concentration of corporate tax revenue sheds a light on tax base-related vulnerabilities; high debt affordability and very sound debt management continue to be mitigating factors in terms of fiscal sustainability
5. High degree of openness combined with its small size renders the economy susceptible to external risks and larger swings related to trade and investment flows and the global economic situation, exacerbated by MNE activities; visibility as regards vulnerabilities related to Ireland's external position remains impaired by role of the latter and IFSC

Reasons for the Rating Decision and Latest Developments

Creditreform Rating has affirmed the Republic of Ireland's credit ratings, which remain backed mainly by a favorable macroeconomic performance profile and very strong institutional quality. Fiscal and external risks continue to represent balancing factors to some degree.

Macroeconomic Performance

The Republic of Ireland's macroeconomic performance profile remains underpinned by exceptionally high wealth levels as measured by income per capita, a strong and responsive business environment, and a healthy economic growth trend over the last ten years, even when adjusting for factors that overstate national accounts. High macro-financial volatility associated with MNE-related activity and its status as one of the most open economies in the EU, as well as an elevated level of private indebtedness, represent factors preventing a more positive assessment, in addition to uncertainty over the future conditions that will define post-Brexit trade between the EU and the UK.

Having emerged strengthened from the financial assistance program (EFSM/EFSF) following the financial crisis, Ireland's economy has since enjoyed a period of relatively high growth, which has also bolstered per capita income as mirrored by latest IMF estimates. GDP per capita (PPP terms, current prices) posted at USD 91,959 in 2019 (2018: USD 86,444), at face value even exceeding that of some of our AAA-rated sovereigns. However, picking up on high macro-financial volatility, we recall that multinational enterprises (MNEs) typically tend to inflate the size of the Irish economy as measured by GDP data, while causing significant volatility in data on gross fixed capital formation, trade, and financial flows, thus obstructing the interpretation of underlying currents. Considering real GDP, Ireland has registered an average increase of 6.3% since 2010, against 1.4% recorded for the euro area. Taking into account modified Gross National Income (GNI*) at constant market prices instead, which strips out factor income of re-domiciled companies, depreciation on R&D service imports, and trade in intellectual property and depreciation on aircraft leasing, suggests a markedly smaller difference, with Ireland posting an average growth rate of 2.8% over this period. Nevertheless, this would still compare favorably with the euro area.

With regard to both real GDP and GNI*, Irish economic growth slowed down notably in 2019. In terms of real GDP, growth decelerated from 8.5% to 5.6% (GNI*: from 6.8% to 1.7%), with net trade acting as a major drag due to a sharp increase in imports, in particular related to intellectual property. The latter constituted an offsetting effect to investment which, mainly driven by intellectual property products, soared by 74.9% (2018: -6.3%), underscoring the volatile nature of this data. Construction investment meanwhile increased by 8.0%, which represents a marked slowdown compared to previous years, chiefly owing to virtual stagnation of residential construction due to a weak first half of the year. In the same vein, investment in machinery and equipment posted a decline (-1.2%) after three consecutive years of double-digit growth, partly due to the weakening international trade environment. Modified gross domestic fixed capital formation, which together with government consumption and private consumption may deliver a more relevant account of the underlying strength of the domestic economy, reveals that investment growth according to this definition has been decelerating since 2015, and more strongly so in 2019, when it came to just 1.2% (2018: 7.1%). Household spending growth, on the other hand, accelerated to 3.2% last year (2018: 2.6%), backed by broad-based employment growth and the highest increase in average hourly earnings in over ten years (2019: 3.5%), mirroring an increasingly tight labor market.

Against this backdrop, the Irish economy thus entered the pandemic on a relatively strong footing at the beginning of the current year, although the domestic economy displayed a somewhat mixed picture. Compared to the biggest economies in the euro area, Irish authorities adopted strict lockdown measures to prevent spreading of the virus slightly later, towards the end of March, as also illustrated by the stringency index compiled by Blavatnik School of Government. This may add to the explanation as to why Q1-20 real GDP compares rather favorably with the euro area as a whole, apart from the above-mentioned distorting effects. After initially having been reported as increasing, real GDP ultimately showed a decline of 2.1% q-o-q in this year's first quarter (EA-19: -3.7%). Like elsewhere, the adverse effect of the lockdown were concentrated in Q2-20, although the reported record fall of 6.1% in real GDP still compares as rather tame with the impact witnessed in the euro area as a whole (Q2-20: -11.8%). A steep decline in imports related to intellectual property was partly offset by strongly falling investment in the same category in Q2-20, whereas construction investment was heavily affected by the Covid-19-related restrictions. For the same reason, private consumption registered a steep decline by 19.6% against the preceding quarter. Looking at modified domestic demand, which according to CSO plunged by 15.7% q-o-q in Q2, would thus give a clearer indication of the highly adverse impact of the pandemic on the domestic economy.

In response to the shock caused by the outbreak of the coronavirus, authorities introduced a range of measures to support the health sector, protect employment, ensure liquidity especially to micro-sized firms and SMEs, and to stabilize the financial sector. According to latest available data, the government's fiscal package amounts to about EUR 42bn in 2020/21. National authorities' reaction was flanked by even more accommodative monetary policy on the part of the ECB which, among other measures, stepped up its Asset Purchase Program and introduced a Pandemic Emergency Purchase Program. The latter now totals EUR 1,350bn and will run until at least June 2021. Reinvestments of maturing principal payments from securities purchased under PEPP until at least the end of 2022 add further to loose monetary policy. Moreover, a set of collateral measures aims to mitigate any tightening of financial conditions across the euro area, and there are currently measures in place to alleviate effects of downgrades on counterparties' collateral availability.

In light of gradually lifted restrictions to public life from May, private consumption resumed in Q3-20, as reflected by e.g. rebounding retail sales. According to CSO, the volume of retail sales in August stood 8.9% above its February level. However, we note that the recovery in spending is rather uneven, as consumer-facing services including hospitality and tourism struggle to recover. What is more, a strong rise in household saving hints at precautionary behavior which may drag down household spending going forward. The Department of Finance (DoF) gauges that the household savings ratio rose to approx. 35% in Q2. According to Central Bank of Ireland (CBI) data, household deposits rose by 4.9% q-o-q in Q2-20, as compared to 1.9% in the second quarter of 2019. In our view, such observations underscore the fragility of the economic rebound, as long as there are no safe-to-use vaccines available and renewed containment policies will become necessary on short notice.

In this vein, latest statistics on the development of the pandemic raise concern, as infection numbers are strongly on the rise. Lately, the 14-day cumulative number of corona cases per 100k persons reached 243.3 (19 October, ECDC data). Until more recently, authorities had resorted to implementing more locally concentrated constraints to public life, as suggested by the 'Plan for living with Covid-19' which was introduced on 15 September. On 19 October, Ireland announced that it would drastically tighten its measures in the fight against the Covid-19 pandemic, moving to Level 5. Until 1 December, its citizens will then only be allowed to stay within a five-kilometer radius of their residence. Visitors from other households are no longer allowed indoors, and pubs and restaurants may only offer food as a delivery service. However, schools are planned to remain open. This makes Ireland the first EU country to enter a second, nationwide lockdown, boding ill for further economic development.

Looking ahead, private consumption should benefit from income support schemes such as the Temporary Wage Subsidy Scheme (TWSS), now replaced by the Employment Wage Subsidy Scheme (EWSS), and the Pandemic Unemployment Payment (PUP). Ireland exhibited a robust labor market development in 2019, with broad-based employment rising strongly by 2.9% (2018: 3.2%), thus markedly exceeding the job creation rate recorded in the euro area (1.2%). The unemployment rate (LFS adj.) had dropped from a post-financial crisis high of 15.5% in 2012 to 5.0% in 2019, moving below the rate in the euro area as a whole since 2015. As the corona crisis hit, labor market metrics began to deteriorate, with employment growth coming in at 0.0% and -6.1% q-o-q (national accounts, domestic concept), while monthly LFS-adjusted unemployment climbed from 4.7% in Dec-19 to 5.4% in Sep-20, the latter apparently somewhat biased by the labor market schemes. Covid-19-adjusted unemployment, gauging the share of the inactive labor force due to unemployment or Covid-19, more than halved following a peak in April (30.4%), amounting to 14.7% in September, thus mirroring resuming economic activity over the summer months.

TWSS payments accounted for 8.5% of total (non-agricultural) earnings and more than half (51.8%) of total earnings in accommodation and food in Q2-20 (CSO data). At the peak in the week ending 31 May, about 357k people received support via TWSS, with this weekly number swinging around the 300k mark until expiry of the scheme. From September, TWSS was ultimately replaced by the Employment Wage Subsidy Scheme (EWSS), which comes with tighter eligibility criteria including a turnover loss threshold. Both EWSS and PUP are to run until the end of March 2021, with the PUP scheme also having been extended and conditions having been made somewhat stricter. With regard to PUP, a pinnacle in terms of take-up was reached at the beginning of May at about 602k, whereas this number more than halved (about 217k) by the end of September. Given that consumer confidence seems to have been shaken by rising infection numbers, and new constraints have been introduced to suppress the spread of the virus, prospects for private consumption remain uncertain. Moreover, developments on the labor market may ultimately deteriorate to a larger extent, as a possibly rising number of insolvencies and related job losses remains a risk, in particular if the newest round of imposed restrictions cause a significant delay in the economic recovery.

We would expect underlying business investment to remain subdued, given that global recovery from the first Covid-19 wave seems to have evolved at a slower pace than was hoped for and the still substantial uncertainty over the evolution of this crisis more generally. The impression that trade policy restrictions had been ratcheted up already prior to the pandemic would also weigh on investment activity. What is more, a timely and comprehensive free trade agreement between the UK and the EU looks unlikely at present, not least in view of the tensions over the UK's Internal Market Bill. While preparations for trade between the UK and the EU under WTO rules seem to have further advanced, such an arrangement would essentially be more harmful to external trade. According to CBI, an abrupt transition to WTO terms could shave roughly 2 p.p. off GDP growth in 2021 compared to an FTA-based scenario. On a more positive note, we think that the significant and still increasing role of ICT for the Irish economy, as illustrated by a gross value added share of 16.3% in Q2-20 (EA: 5.4%), should be supportive to investment in the current environment.

To this end, it is worth pointing out that Ireland's exports of computer services accounted for more than half of services exports in 2019 (52.9%, CSO current account exports). Computer services export should thus also help to stabilize its export performance. Goods exports should also remain supported by medical and pharmaceutical products, which accounted for over a third of total goods exports (37.4%) in the first seven months of 2020, and rose by 25.7% compared to the same period of the prior year. At the same time, we gather that equivalence agreements between the UK and the EU pertaining to financial services so far are limited both in scope and timing, thus possibly posing risks to Irish financial services. Compared to the euro area, financial and insurance activities in the Irish economy account for a slightly higher share of total gross value added (GVA), coming to 5.6% in Q2-20 (EA: 5.0%). More generally, we would assume that underlying net trade should be negatively affected by a slow global recovery.

Overall, we would expect real GDP to decline by about 2.7% this year and to see an increase of about 1.4% in 2021. This takes into account our assumption that EU and the UK will find some middle ground to avoid falling back on WTO rules as well as the current lockdown which will obviously weigh on growth prospects in the near term. To be sure, we believe that the Covid-19 impact on the economy in Q4-20 will be less severe compared to the most acute phase in spring, as the government is better prepared and can resort to more targeted, effective, and tested measures than during the first wave. Nevertheless, uncertainty around these assumptions seems particularly high at the current stage, considering the unpredictability of this pandemic and the uncertainty over any post-Brexit deal with the EU, which add to the abovementioned macroeconomic volatility that typically shapes Irish National Accounts. This is all the more so, as tested medical treatments may only be broadly available from mid-2021 at the earliest.

Having said that, the expected recovery should be supported by Ireland's high degree of non-cost competitiveness. Its welcoming and flexible business environment is mirrored by a good 24th rank among 190 economies considered in the latest Doing Business report. To be sure, World Bank is currently reviewing this indicator. Ireland also scores well with regard to the World Economic Forum's Global Competitiveness Index (GCI), remaining the second-best performer among A-rated peers in our rating universe. In this context it is also worth recalling that, within the EU, Ireland is second only to Luxembourg as far as export sophistication is concerned (World Bank data). On top of that, favorably developing unit labor costs compared to its key European trading partners supports Ireland's cost competitiveness. Reflecting competitiveness gains, Ireland was able to increase its export market share further from 1.88% to 2.01% in 2018-19, mainly driven by services exports, whose market share rose to 4.06% in 2019 (2018: 3.68%).

At the same time, we observe that gross value added of total services is the smallest among the EU countries, amounting to 60.8% of total GVA in Q4-19, before falling to 55.8% in Q2-20. Bearing in mind that ICT accounted for 16.3 p.p. thereof, this seems to illustrate a high concentration on few industries in the service sector which are typically associated with the operations of MNEs and are characterized by high productivity. Targeted investment in R&D, digital infrastructure, as well as in upskilling would seem conducive to broaden productivity growth also among the domestic economy and enhance resilience to economic shocks of various types. Furthermore, if left unaddressed, a relatively low labor participation of women and some vulnerable groups, as well as a shortage of skilled workers, could pose constraints to medium-term growth as well.

We assess positively that the government remains committed to tackle these issues, as evidenced by the envisaged publication of the National Economic Plan along with ambitions to advance its green agenda. Such intentions seem even more relevant in light of possible changes to international taxation, as the latter could potentially make investing in Ireland less attractive to MNEs.

Further, as regards factors potentially constraining medium-term growth, we would flag that household debt is among the highest in the EU but remains on a downward trajectory, falling from a high at 216.5% of disposable income in Q4-11 to 112.4% in Q1-20 (Q1-19: 123.3%). Moreover, non-financial corporate debt, although admittedly boosted by inter-company loans among MNEs and further declining to 156.1% of GDP in the year to Q1-20, at face value is the third highest among EU member states. Looking at demographics, a prospectively lower net migration, as suggested by EU estimates, may hamper medium-term growth to some extent.

Institutional Structure

We continue to view Ireland's institutional framework as a key credit strength. Also, EU/EMU membership delivers major benefits to the small, open economy through access to the single market, to a mobile and well-educated workforce as well as to broad and deep financial markets - the combination of which has proved fertile ground for Ireland to become a hub for European operations of MNEs.

The high quality of the sovereign's institutional conditions are corroborated by the latest vintage of the World Bank's Worldwide Governance Indicators (WGI), which show that across the dimensions we deem particularly important, the Irish sovereign exceeds the euro area median and outperforms the A-rated peers in our rating universe, being more in line with the rankings of our AA-rated sovereigns. We note that with a view to 'voice and accountability', the sovereign even improved 5 places to rank 12 out of 209 economies (EA-19: 26), while slipping 3 ranks to 23/209 as regards control of corruption (EA-19: 42) and deteriorating 7 ranks to 29/209 in terms of government effectiveness (EA-19: 35). In terms of rule of law, the sovereign's ranking remained broadly stable, at rank 24 out of 209 economies (EA-19: 33).

Turning to latest political developments, we observe that, following the snap election on 8 February, a new government coalition consisting of Fianna Fail, Fine Gael and the Green Party has succeeded the minority government led by Fine Gael. The election had yielded an inconclusive result, with Sinn Fein achieving 37 of the 160-seat Dail, against 35 seats won by Fine Gael and 38 seats obtained by Fianna Fail. While the result underscores the impression that the traditional dominance of the two main parties was notably weakened, difficult coalition talks suggest that policymaking may become more challenging. This appears to tie in with a deteriorating WGI relating to political stability, where Ireland is now placed at rank 38 (2018: rank 30). An unprecedented coalition between the rivalling Fianna Fail and Fine Gael marks a turning point for the country, as does government participation of the Green Party, which won 12 seats. It was furthermore agreed that in December 2022, Fine Gael leader Varadkar would take over from Fianna Fail's Michael Martin to serve as prime minster for the second half of the five-year term - another novelty. While unusual by historic standards and as such untested, we think the arrangement demonstrates willingness to reach compromise and provide a stable government, and to our mind crisis management has come across as cohesive and efficient.

While the Withdrawal Agreement between the UK and the EU seemed to place particular emphasis on Irish concerns as regards the future handling of the border between the Republic of Ireland and Northern Ireland, we would flag the uncertainty surrounding the Internal Market Bill proposed by the UK government on 10 September. Setting out rules concerning market access principles between England, Scotland, Wales and Northern Ireland following the Brexit transition period, the bill has sparked serious controversy with the EU over whether the proposal would breach international law by apparently aiming to modify parts of the withdrawal agreement. Jeopardizing the difficult agreement struck over the Irish border question might even run the risk of resurfacing tensions in the affected area.

With a view to responsiveness to EU recommendations and willingness to comply with internationally agreed standards, we note continued efforts on the part of the sovereign, for instance pertaining to deploying measures concerning countries listed as non-cooperative tax jurisdictions with the EU. We also understand that there is further progress related to ATAD-compliance.

Fiscal Sustainability

Vulnerabilities to fiscal sustainability continue to constitute an important factor in our assessment of the sovereign's creditworthiness, currently compounded by the envisaged strong, albeit presumably temporary, increase in the general government deficit and public debt ratio. The positive track record of improving fiscal metrics following the global financial crisis, a generally prudent approach of fiscal policy-making, along with high debt affordability and very sound debt management, represent mitigating factors. By contrast, fiscal risks related to still elevated although downward trending NPL ratios, as well as a relatively high concentration of corporate tax revenue, still remain.

Following years in which the sovereign had to deal with legacy issues in the wake of the global financial crisis and managed to continuously bring down its headline deficit, 2019 represented the second consecutive year in which Ireland registered a modest general government surplus (0.5% of GDP, 2018: 0.1% of GDP). Total revenue increased by a still healthy 5.9% last year (2018: 7.9%), backed by increasing tax revenue (6.7%, 2018: 8,7%) and rising social contributions (6,0%, 2018: 7.5%) in an environment of ongoing, albeit decelerating, economic growth. Total outlays were expanded by 4.2% (2018: 6.2%), with slightly stronger increases in spending on employee compensation (5.0%) and social benefits (3.8%).

With regard to the current year, the Covid-19 crisis has obviously overthrown forecasts as expressed in the Budget 2020, which had foreseen a slight deficit to the tune of 0.6% of GDP, partly based on increased spending in preparation for an assumed disorderly Brexit. In the face of the pandemic, fiscal prospects have deteriorated markedly, given falling revenue amid lockdown measures and rising spending to protect people's health and jobs and kick-start economic recovery.

We would expect the headline balance to sharply deteriorate, posting a deficit of 6.3% of GDP this year. According to latest NTMA calculations, support measures announced in reaction to the pandemic would amount to about EUR 24.5bn in 2020, including indirect support through the Credit Guarantee Scheme and the Pandemic Stabilization and Recovery Fund (EUR 4.0bn). The lion's share of the package would be directed towards social protection and health, with approx. EUR 11.4bn and EUR 2.0bn in 2020. Overall, the substantial weakening of public finance is thus largely driven by the expenditure side, where social payments, subsidies, and public investment will increase significantly. At the same time, the revenue intake will decline to some extent, mainly due to falling indirect tax components, whereas corporate income taxes s soften the fiscal fallout.

To this end, we would point to the latest Exchequer returns, which include data until the end of Q3-20 and which have been less negative than expected. So far, tax revenue has proven broadly resilient, falling by 3.0% y-o-y up to September. While VAT receipts were down by 19.9%, corporate tax receipts, buoyed by rising profitability in parts of the multinational sector, strongly surprised on the upside, displaying an increase of 27.9%. However, it has to be borne in mind that a substantial part of the tax revenue is typically paid in the final two months of the year, thus still leaving room for a more negative outturn.

Expenditure is set to continue increasing strongly in the coming year. The Budget 2021 puts high emphasis on building up healthcare capacity, protecting household incomes and supporting employment and comes with a new package to the tune of nearly EUR 18bn. The expenditure plan encompasses, among other things, roughly EUR 8.5bn for public services to tackle Covid-19. It also introduces a EUR 3.4bn Recovery Fund to address the negative impact on jobs and businesses from the coronavirus, as well as possibly having to resort to WTO terms in UK-EU trade. Announced tax measures would include a reduced VAT rate for the hospitality sector starting from this November until December 2021. Apart from a focus on health and social protection, in terms of increasing expenditure the new budget also aims at fostering child care and education, environmental/climate related topics and housing. Public investment is envisaged to be ramped up. On the whole, we tentatively expect the headline deficit in 2021 to remain roughly at the same level as in 2020, partly due to additional funds devoted to Covid-19 crisis management in light of a renewed lockdown.

The prospective sharply rising headline deficit and falling GDP will see the downward trending debt-to-GDP ratio reverse, at least temporarily. We would expect the ratio to leap to some 63% this year, before rising less dynamically in 2021, acknowledging massive uncertainty around this estimate. We note that a large NTMA cash position, which totaled roughly EUR 31.6bn as of end-September 2020, should curb the increase in Ireland's public debt ratio. At 57.4% last year, debt-to-GDP has reached its lowest level since 2008 (2018: 63.0%), comparing rather favorably with the euro area level of 84.1% in 2019. Having said that, we observe that the debt has slightly risen over a 5-year horizon in nominal terms. Moreover, set against the modified GNI*, we note that general government debt is at a significantly higher level (95.6%, 2018: 103.6%) and Ireland's debt-to-revenue ratio remains one of the highest in the EU (233.3% in 2019). We welcome the government's commitment to pursue a sustainable medium-term expenditure framework, setting out a clear path to achieving a balanced budget, with more detail to come via the Stability Program 2021 in spring.

Risks to public finances are heavily skewed to the downside, as currently suggested by the new wave of corona cases and intensifying confinement measures. Uncertainty around post-Brexit trade terms only adds to the notion of a very unpredictable near-term development. While the government expects corporate income tax intake to increase further next year, we would reiterate that any changes to international taxation might entail downside risks for corporate tax revenues, also due to the strong links to MNEs. According to Revenue Irish Tax and Customs, 70% of corporate net tax receipts is generated by the top 100 companies, of which 77% are foreign MNEs, highlighting high concentration within this stream of revenue. Corporate tax reforms as proposed by the OECD (BEPS 2.0), although delayed, underline that revised standards seem to be looming.

While the corona crisis does not so far seem to have had an impact on the capitalization of Irish banks, there are signs that it started to affect asset quality in Q2-20, as well as bank profitability, thus calling for vigilant monitoring. After falling from 19.6% in Q4-19 to 18.9% in Q1-20, the CET1 ratio of the Irish banking sector inched up to 19.0% in Q2-20 (EBA data), remaining well above the EU level (Q2-20: 15.0%) and pointing to a considerable cushion against shocks. Meanwhile, the average NPL ratio climbed to 4.0% in Q2-20, after having been stable at 3.3% in Q1-20 compared to Q4-19. Nevertheless, it remains below its level one year ago, but still points to a lower asset quality than in the EU overall (Q2-20: 2.9%). Mortgage arrears have continued their downward trend, coming to 9.9% in Jun-20, measured as the volume of total mortgage accounts in arrears against total mortgage loan accounts outstanding (Jun-19: 11.3%). With regard to long-term mortgage arrears that have been due for over 90 days, the percentage has declined from 8.7% to 7.9% as of Jun-20. In terms of profitability, looking at returns on assets, the Irish banking sector had outperformed that of the EU over the last few years, but turned negative in Q2-20 (-1.0%), now comparing unfavorably with the EU (0.0%).

Lending to the private sector has been declining over the year to Jul-20, with loans to non-financial corporations down by 6.4% against Jul-19, suggesting that government-backed loans may not have been taken up as expected. Loans to households meanwhile fell by 2.5% over the same period, with consumer loans displaying double-digit percent declines in an annual comparison since May. We would follow developments closely here, as a slower-than-expected recovery could eventually result in companies and/or households struggling to service their debt. Mortgage loans to households were also on the decline, moving 0.4% below the prior year's level in Jul-20. We think that risks associated with the housing market have abated somewhat, as housing prices appear to have broadly stabilized recently, with the 3-year growth rate having fallen below 20% for the first time since 2014, but remaining in double-digits (Q2-20: 15.8%, Eurostat). Looking at affordability metrics such as the price-to-income ratio (OECD data), we note that prices seem by and large aligned with income at this point, thus not pointing to any pressing valuation issues.

We positively note that, buttressed by the ECB's accommodative policy stance, which has been topped up with additional asset purchases in the wake of the corona crisis (see above), interest rate payments further declined by 16.2% in 2019. With that, interest costs accounted for 5.0% of total revenue (2018: 6.3%), thus firmly following a downward path although still appearing somewhat elevated in a European context. For 2020, this ratio is expected to shrink further to 4.6%. Adding to favorable elements in our consideration of fiscal sustainability issues is NTMA's very sound debt management, translating into a favorable debt profile which is reflected by a high average weighted maturity of the debt portfolio (10.1y as of Oct-20, NTMA). What is more, Irish sovereign debt is held by a diversified investor base, with the EFSM and EFSF liabilities accounting for approx. 20% of total government debt (NTMA data). To our understanding, final redemption of a EUR 6.5bn bond that matures in October has been pre-funded, and we are aware that there are no bonds to mature in 2021. This only leaves official sector debt to deal with in the near term, with the two remaining tranches of a UK bilateral loan falling due this December and in Q1-20 (roughly EUR 0.5bn each).

Foreign Exposure

Ireland's high degree of openness coupled with the small size of its economy make it susceptible to external risks and larger swings related to trade flows and the wellbeing of the global economy. Moreover, operations of MNEs cause considerable volatility in the Irish balance of payment data, thus complicating their interpretation.

Imports of intellectual property products were paramount in pushing the current account balance into deficit last year. While the current account balance had shown a surplus of 6.0% of GDP in 2018, it swung into a deficit of 11.3% of GDP in 2019. Abstracting from R&D services and trade in intellectual property, the modified current account (CA*) exhibits a surplus of EUR 16.5bn or about 4.6% of 2019 nominal GDP. Measured against GNI*, the modified current account balance even showed a surplus of 7.7%. Going with the latter metric, the modified current account has been increasingly in surplus since 2014, suggesting that Ireland has managed to increase its competitiveness and build some buffers against external shocks.

At the middle of the current year, the current account deficit came in at 1.7% of GDP (CSO data). With the corona pandemic causing a massive slowdown in global economic activities and the recovery likely delayed by currently resurfacing pandemic risks and renewed constraints aimed at social distancing, we would cautiously expect the modified current account balance to narrow this year.

At face value, Ireland remained the largest net external debtor among EU member states last year, in light of a slightly narrowing net international investment position (NIIP) that amounted to 174.0% of GDP (2018: 180.9.0% of GDP). By Q2-20, this position had widened somewhat to 176.0% of GDP. However, we would reiterate our view that, given MNE-related distortions and the role of the International Financial Services Center (IFSC), associated risks may be deemed as significantly less severe. This being said, we observe that the negative position of the government, after being relatively stable in Q4-19 compared with the same quarter in the prior year, has grown by Q2-20, as has the CBI position.

Rating Outlook and Sensitivity

Our rating outlook for Ireland's long-term credit ratings is stable, as we consider risks related to the worsening economic situation and the assumed temporary reversal of fiscal improvements to be broadly balanced by the economy's generally favorable underlying economic strengths, by the persistently strong institutional framework, as well as by the abovementioned mitigating factors concerning fiscal risks. We emphasize that the evolution of the Covid-19 pandemic is extremely uncertain. As a corollary, any assessment of the further economic development is extraordinarily uncertain and significantly more difficult than usual, as is the case for other metrics, e.g. from the fiscal realm.

We could lower Ireland's credit ratings or the outlook, if, contrary to our expectations, Ireland's medium-term growth deteriorates significantly. This could be the case if lacking progress in controlling the corona pandemic, also on the global level, delays economic recovery. Downward pressure could also stem from a more sustained deterioration of public finances in this case. With a longer term view, changes to international taxation standards could present further downside risks to fiscal sustainability and the ratings. Also, jeopardizing the difficult agreement struck over the Irish border question in the course of EU-UK negotiations might run the risk of resurfacing tensions.

Although perhaps less likely given the current circumstances, we could consider a positive rating action in the event of a swifter and stronger economic rebound than we currently expect. This could also result in more rapidly improving fiscal metrics. More generally, decisive implementation of measures to enhance productivity of the non-MNE sector and thus increase the resilience of economic growth on a broader basis would seem beneficial, as would strengthened efforts to broaden Ireland's tax base and reduce its dependence on corporate tax revenues.

Analysts

Primary Analyst
Fabienne Riefer
Sovereign Credit Analyst
f.riefer@creditreform-rating.de
+49 2131 109 1462

Chairperson
Benjamin Mohr
Head of Sovereign Ratings
b.mohr@creditreform-rating.de
+49 2131 109 5172

Ratings*

Long-term sovereign rating	A+ /stable
Foreign currency senior unsecured long-term debt	A+ /stable
Local currency senior unsecured long-term debt	A+ /stable

*) Unsolicited

Economic Data

[in %, otherwise noted]	2014	2015	2016	2017	2018	2019	2020e	2021e
Real GDP growth	8.6	25.2	2.0	9.1	8.5	5.6	-2.7	1.4
GDP per capita (PPP, USD)	51,006	68,860	71,339	78,209	86,444	91,959	89,383	94,971
HICP inflation rate, y-o-y change	0.3	0.0	-0.2	0.3	0.7	0.9	-0.4	0.3
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	81.4	81.5	81.7	82.2	82.3	n.a.	n.a.	n.a.
Fiscal balance/GDP	-3.6	-2.0	-0.7	-0.3	0.1	0.4	-6.3	-6.3
Current account balance/GDP	1.1	4.4	-4.2	0.5	6.0	-11.3	n.a.	n.a.
External debt/GDP	949.8	865.6	825.0	725.9	747.5	725.0	n.a.	n.a.

Source: International Monetary Fund, Eurostat, own estimates

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box

Environmental Quality	Ecological Risks	Ressource Management	Education	Health	Demographics
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial System**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liberties/ Political Participation**	Market Access	**Business Environment**	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the competitive stance of the sovereign such as the World Bank's Ease of Doing Business index and the World Economic Forum's Global Competitiveness Indicator add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	25.11.2016	A /stable
Monitoring	24.11.2017	A /positive
Monitoring	26.10.2018	A+ /stable
Monitoring	08.11.2019	A+ /stable
Monitoring	23.10.2020	A+ /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. Neither the rated sovereign nor a related third party participated in the credit rating process. Creditreform Rating AG had no access to the accounts, representatives or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, European Investment Bank, Blavatnik School of Government, ECDC, Central Bank of Ireland, Central Statistics Office (CSO), Republic of Ireland - Department of Finance, National Treasury Management Agency, Irish Tax and Customs.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating issued by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the entity or the issue under review.

When assessing the creditworthiness of sovereign issuers, Creditreform Rating AG relies on publicly available data and information from international data sources, governments and national statistics. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. Hence, this rating is no statement of fact but an opinion. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments. Thus, no express or implied warranty as to the accuracy, timeliness or completeness for any purpose of any such rating, opinion or information is given by Creditreform Rating AG in any form or manner whatsoever. Furthermore, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings.

Creditreform Rating AG

Creditreform Rating AG
Europadamm 2-6
D - 41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Dr. Harmut Bechtold
HRB 10522, Amtsgericht Neuss