Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF IRELAND	Assigned Ratings/Outlook: **AA- /positive**	Type: Monitoring, Unsolicited with participation
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 22-09-2023 “Sovereign Ratings” “Rating Criteria and Definitions”

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Rating Action

Neuss, 22 September 2023

Creditreform Rating has raised its unsolicited long-term sovereign rating on the Republic of Ireland to “AA-” from “A+”. Creditreform Rating has also raised Ireland’s unsolicited ratings for foreign and local currency senior unsecured long-term debt to “AA-” from “A+”. The outlook remains positive.

The rating upgrade on the Republic of Ireland reflects

(i) resilient and robust economic growth, underpinned by strong labor market developments, strong competitiveness, and significant private sector deleveraging in recent years;

(ii) limited economic and fiscal fallout from Russia’s war in Ukraine and a constructive EU-UK agreement on post-Brexit trade arrangements for Northern Ireland (Windsor Framework); and

(iii) the post-pandemic substantial decrease in the public debt ratio and an ongoing downward trend, also supported by prudent fiscal planning in the face of expected adverse effects from the implementation of the internationally agreed corporate taxation regime.

Key Rating Drivers

1. Very high GDP per capita and productivity levels, augmented through activities of high-performing multi-national enterprises (MNEs), remain striking features of the Irish economic model; some normalization in pandemic-boosted sectors and a negative carry-over from 2022 expected to temporarily stall GDP growth this year; near-term downside risks to economic growth mainly relate to Ireland’s high degree of trade openness against the backdrop of the weakness of the global economy; resilient private consumption expected to support the GDP expansion in 2024

2. Generally constructive medium-term growth outlook, although the pending implementation of the new global corporate tax regime likely poses headwinds, as do labor shortages; marked progress in lowering private sector indebtedness over recent years has reduced risks via this channel

3. Very strong institutional framework including the advantages linked to EU/EMU membership; Brexit-related risks in connection with the former Northern Ireland protocol appear more remote on the back of the Windsor Agreement
4. Substantially improved fiscal metrics, to a large degree on the back of corporate tax revenue, which remains highly concentrated on few MNEs; the public debt ratio should continue to decrease over the medium term, with current windfall tax revenue offering scope to build buffers against future economic shocks; recent fiscal consolidation and prudent fiscal planning complement sound debt management and a benign debt structure as risk-mitigating factors; recent reforms to the pension system provide a basis for reining in expected increases of age-related spending
5. Recurrent underlying current account surpluses to some degree mitigate external risks to which Ireland as a very open economy is exposed; considerable fluctuations caused by MNE activity, trade flows and the International Financial Services Center (IFSC), along with related data, continue to complicate the analysis of headline positions; eventual execution of new rules to international corporate taxation may add to that

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

The Republic of Ireland's credit ratings are backed by its strong macroeconomic profile, including very high levels of productivity and GDP per capita as well as a very robust GDP growth trend, which is considerably supported by the key role of MNEs. That said, the economic structure comes with a very high degree of volatility and frequent revisions regarding macro-financial data, causing challenges to identifying and interpreting underlying, more domestically-oriented currents. The sovereign continues to boast a very attractive business environment, with downside risks stemming from likely negative effects from the pending global implementation of new corporate taxation rules. Although Ireland is a small open economy and thus generally vulnerable to global economic downturns and supply chain disruptions, the dominant industries represented by the MNEs should help to ensure a positive medium-term growth outlook, given worldwide efforts to further advance in the fields of ICT, as well as a strong focus on achieving higher levels of wellbeing and longevity. Private debt has decreased significantly over recent years and is somewhat distorted by intra-MNE flows, posing less of a burden on medium-term growth prospects, although still comparing high with EU peers at this stage.

Following a phase of very strong growth in recent years, despite successive crises, Ireland's real GDP increased by 9.4% in 2022, showing resilience towards the negative reverberations from the war in Ukraine and lifting the average growth rate in 2018-22 to an impressive 9.0% p.a., massively boosted by the activity of MNEs. In the face of very low dependency on Russian energy, negative effects from the geopolitical shock presented by Russia's invasion in Ukraine primarily manifested in higher consumer prices, disruptions to supply chains and lower external demand from trading partners more severely affected by the adverse reverberations of Russia's attack.

[1] This rating update takes into account information available until 15 September 2023.

However, even using metrics designed to exclude distorting effects by MNE activity, such as the more domestically-oriented modified real Gross National Income (real GNI*), the Irish economy performed strongly in 2022, posting an expansion by 6.7% in 2022 and recording an average growth rate of 4.8% p.a. over the five-year-period from 2018. Modified domestic demand (MDD), another measure preferred by Irish authorities over real GDP when it comes to capturing underlying economic developments, grew by 9.5% in 2022 (avg. 2018-22: 3.6%, CSO data).

That said, the Irish economy did experience a marked slowdown, although the brief technical recession spanning over the winter season 2022/2023 was mainly due to declining investment, in particular the very volatile intellectual property component. Underscoring the intermediate weaker phase, modified domestic demand fell in three consecutive quarters, before rising again in Q2-23. To be sure, private consumption has continued to expand throughout, demonstrating robustness. While exports have posted a third decline in Q2-23, overall real GDP climbed by a comparatively moderate 0.5% q-o-q.

Business climate indicators such as the Purchasing Manager Indices currently point to contrasting developments in the service sector and in manufacturing. The former is apparently growing at a still strong, although moderated, speed, while the latter suggests rather muted activity. Consumer confidence, previously dampened by high inflation rates, has slightly improved over the last few months, amid retreating consumer price increases. The Irish inflation rate stood at 4.9% this August, down from 9.6% in last year's July.

In light of the well-performing and tight labor market, receding consumer price pressure, and government support to ease the cost of living, we expect private consumption to continue to contribute positively to economic output this year and next, along with savings. According to the Central Bank of Ireland (CBI), the saving ratio remains somewhat above the pre-pandemic level, posting at just under 12% in Q1-23. The government introduced measures in the amount of about 1.2% of GDP in 2022 to mitigate adverse economic effects from the war in Ukraine, of which about 0.7 p.p. were energy-related (Stability Program Update Apr-23, SPU-23). For 2023, the SPU-23 mentions measures worth about 1.1% of our estimated GDP. In its Summer Economic Statement (SES), the government included fiscal measures totaling around EUR 6.4 billion for 2024, although we have limited visibility at this stage on the extent to which households will benefit.

Labor shortages and unfilled vacancies could put upward pressure on wages, further strengthening our expectation of resilient private consumption. Ireland's labor market continues to thrive, exhibiting resilience during the recent global shocks. Total employment grew by a robust 6.6% in 2022 as compared to 2.3% in the euro area (EA), having averaged 3.1% p.a. since 2018 (EA: 1.1%), corroborating our view on the Irish economy's fundamental strength. The pharmaceutical and ICT sectors have been major drivers of job creation recently, and the pace of total employment growth continued to exceed that of the euro area in the first half of 2023. Meanwhile, the unemployment rate remains well below the euro area's: From an annual average of 4.5% in 2022 (EA: 6.8%), the rate trended further down, with the monthly figure standing at 4.1% in Jul-23.

As regards the labor participation rate as a more structural indicator, Ireland overtook the euro area average in 2021 and remains above the euro area level, stranding at 77.5% of the total population as of Q1-23 (EA: 74.9%). While Ireland performs well with regard to the European Commission's (EC) social scoreboard, there remains some scope for improvement in terms of inclusion and provision of childcare for under three year-olds.

Gross fixed capital formation remains heavily distorted by MNE-related activity, particularly in aircraft leasing and intellectual property. However, even excluding these important and volatile components, modified investment soared by almost 20% in 2022, with residential investment also contributing positively. Looking ahead, we expect more moderate developments, as tighter financing conditions against the backdrop of the ECB's aggressive monetary policy tightening cycle present headwinds to investment, with construction likely to be more affected, as does the weaker international environment. That said, as part of the government's ongoing 'Housing for all' program, the government has set itself a target to deliver 29,000 new homes in 2023 (300,000 by the end of 2030), having completed 29,851 in 2022, more than the 24,600 planned (National Reform Program Apr-23, NRP23). More generally, the growing population, which according to the Census 2022 (Apr-22) reached its highest level since the 1850s at approx. 5.15mn, creates challenges to the provision of housing.

Ireland has sent a first payment request for EU funds related to the Recovery and Resilience Facility (RRF) only very recently, submitted on 7 Sep-23, for an amount of EUR 323.8mn. The disbursement of this instalment is linked to a total of 41 milestones and targets. Whilst the expected positive effect of total grants to Ireland of EUR 914mn or 0.2% of 2022 GDP may be of limited size, it should support public investment, which according to the SES is set to receive a boost of EUR 2.25bn over 2024-2026, with a focus on critical capital infrastructure and on bolstering the climate action fund.

With foreign demand likely to be more moderate, we anticipate export growth to decelerate this year and next. There are signs of some normalization in the pharmaceutical and the ICT industries after the massive boost to these sectors from the pandemic. ICT exports have accounted for more than half of total services exports in recent years (2022: 58.2%, BoP data, Eurostat) and rose by 13.3% in 2022. On the goods side, medical and pharmaceutical products account for more than a third of total exports (CSO data), but recorded a decline of 11.5% y-o-y in the first half of 2023.

Being aware that macro-financial data are subject to frequent and large revisions, we currently expect real GDP to almost stagnate (0.2%) in 2023 as a whole, reflecting the negative carry-over effect from the previous year and a relatively muted first quarter of 2023. With the quarterly profile expected to show continued, albeit more moderate growth than in recent years, we forecast total economic output to expand by 4.7% in 2024, which would be roughly four times the expected growth rate for the euro area next year. Ireland's GDP per capita, which was estimated to be at USD 133,789 in 2022 (IMF), should thus remain at very high levels.

Apart from the assumed normalization in sectors previously boosted by the pandemic and the ongoing elevated uncertainty related to the war in Ukraine, we think that there are downside risks pertaining to the external environment and headwinds from the well-advanced monetary tightening cycles across major Western economies. On the other hand, domestic demand seems set to gain some traction via private consumption with a view to 2024.

We continue to assess the medium-term growth outlook as positive, as also mirrored by the EC's latest forecast for Ireland's potential growth (2023e: 6.8%, 2024e: 6.0%). Prospects are bolstered by Ireland's economic structure, which should also allow for some positive spillover effects to the domestically-oriented economy. According to NTMA, EUR 0.68tn worth of intellectual property has been attracted to the country since 2015, mainly driven by the ICT and pharmaceutical sectors. Generally, a strong presence of global players in the medical/pharmaceutical space should continue to prove beneficial given aging populations in many advanced economies and concurrent efforts to improve healthcare and promote longevity, ensuring high demand for medical and pharmaceutical products. At the same time, the economic business model harbors some vulnerabilities considering the pending implementation of globally agreed corporate taxation policies.

The MNE-dominated medical/pharmaceutical and ICT sectors make a substantial contribution to Ireland's very high productivity level by European comparison and are crucial to the country's leading position among EU members both in terms of real labor productivity per hour worked and per person. In addition, real productivity has grown strongly both compared to the previous year and over a longer term, exceeding changes in real compensation per employee and thus contributing significantly to Ireland's competitive position including vis-à-vis its main European trading partners. To be sure, there is a significant productivity gap towards domestic SMEs, which are much more affected by shortages of skilled labor and/or any supply chain bottlenecks. Similarly, SMEs access to finance and investment in R&D lags behind that of MNEs, reinforcing the impression of a two-lane economy.

Ireland's very strong competitive stance from a cost perspective is also mirrored by its relatively large share in the global export market, given its small size. While its overall export share came to 2.34% in 2022, its share in global service exports was a staggering 5.14% last year. While slightly retreating from a peak reached in 2020, Ireland's overall export market share remains above pre-pandemic levels, continuing the upward trend observed over recent years.

Adding to our favorable credit assessment, the sovereign boasts strong positions in European and global rankings that capture business friendliness and/or innovation potential, although these appear somewhat enhanced by MNE-related developments. Ireland occupies rank 2 among the 63 countries included in the 2023 IMD global competitiveness index. Highlighting innovation strengths, Ireland is ranked 23rd out of 132 countries considered in the World Intellectual Property Organization's Global Innovation Index (2022). A fifth place among the EU-27 in the EC's latest Digital Economy and Society Index highlights a well-advanced stage in terms of digitization.

Some risks to medium-term growth prospects associated with an elevated level of private indebtedness have continued to diminish, with private sector indebtedness continuing to decrease. Non-financial corporation (NFC) debt remains high in the European context, but also distorted by the MNE-related activity. As of Q1-23, NFC debt-to-GDP declined to 113.1% (Q1-22: 131.7% of GDP), both due to a declining debt stock of NFCs, mainly driven by cross-border loans and long-term debt instruments, and due to the rising GDP. At the same time, households debt-to-disposable income has shrunk further since our last review, standing at 91.8% as of Q1-23 (Q1-22: 100.1%). It seems worth noting that net household wealth reached a new all-time high in Q1-23 (EUR 1,073bn).

Institutional Structure

Ireland's credit rating remains underpinned by its very strong institutional framework, which in light of its EU/EMU membership includes access to the single market, valuable large-scale trade agreements with third countries, use of a reserve currency, as well as access to deep and broad capital markets. The institutional quality is further buttressed, in our view, by a perceived high responsiveness to recommendations by relevant international institutions, as e.g. witnessed regarding the financial aid program following the global financial crisis. The timely decision to join the international agreement on *corporate taxation is likely to increase planning certainty, adding to the impression of sound policy-making. The sovereign's relatively high rankings regarding the World Bank's Worldwide Governance Indicators (WGI) over recent years further supports our favorable credit assessment of the sovereign's institutional conditions.*

Picking up on the latter, we reiterate that Ireland moves among the top twenty out of more than 200 economies considered for the four WGIs on which we put the highest emphasis when assessing a sovereign's institutional quality. With respective ranks of 11 when it comes to 'voice and accountability', 17 in terms of 'government effectiveness', 16 with regard to 'control of corruption' and 20 when it comes to 'rule of law', Ireland's institutional performance is perceived as stronger than that of the euro area on average (median). We note that a new set of WGIs, referring to the year 2022, is due at the end of September.

A comparatively low level of perceived corruption, as well as a potent framework for the prevention of corruption is also attested to by the recent Rule of Law report released by the EC (Jul-23). Originally planned to be presented in 2023, the permanent Advisory Council on Economic Crime and Corruption is preparing a multi-annual anti-corruption strategy. Otherwise, efforts to further enhance the quality of Ireland's justice system continue, although there has been less progress in reducing litigation costs, while envisaged procedures concerning the composition of the judicial appointment commission offer scope for improvement.

Since the Irish financial system has become more complex, not least as a result of Brexit, it may be more exposed to money laundering and terrorist financing risks. Thus, we view the authorities' ongoing strong commitment and related efforts to combating money laundering and countering the financing of terrorism as positive. Irish authorities are inter alia working to implement the second part of a project aiming to interconnect national registers of beneficial ownership to a central European portal ('BORIS'), which has to be complied with under the 5th EU Anti-Money Laundering Directive.

As regards Ireland's commitment to achieving climate goals, authorities have presented Ireland's Climate Action Plan 2023 (CAP23) last December, implementing the carbon budgets and sectoral emission ceilings. With regard to the identified six high-impact sectors, the government, among other things, intends to markedly accelerate use of wind power as well as solar power by 2030. Another large contribution to reducing carbon emissions is envisaged to come through increasing the energy efficiency of buildings.

Vis-à-vis its fellow EU members, Ireland's overall share of energy from renewable sources compares as relatively low (2021: 12.5%, EU: 21.8%, Eurostat), suggesting room for improvement, with the use of renewables for heating/cooling lagging markedly behind, while the share of renewables in gross electricity consumption comes close. We note that Ireland is seen as moving in the middle-range among the EU countries, according to the EC's 2022 eco-innovation index.

With a view to domestic politics, in December 2022, Fine Gael's leader Varadkar took over as prime minister from Fianna Fail's leader Martin, leading the unprecedented three-party coalition also including the Green party, as per the previous rotation agreement, for the second part of the five-year term. We assess the Windsor Agreement struck between the UK and the EU over the treatment of Northern Ireland with regard to trade flows between the UK and the Irish island as a positive development. We think that the likelihood of political unrest on this matter has been reduced by the agreement.

Fiscal Sustainability

We view risks to fiscal sustainability as limited, also corroborated by our expectation of a continued decline in the public debt ratio following its significant reduction to levels last registered prior to the global financial crisis, although the denominator is significantly distorted by operations of MNEs. Strong tax revenues in recent years facilitate the intended build-up of fiscal buffers to absorb economic shocks and to meet challenges of the twin transition. Sound debt management and the favorable debt profile, also reflected in the recent decline in interest payments, continue to represent important risk-mitigating factors. Potential downside risks to fiscal sustainability relate to net negative effects from the pending implementation of the internationally agreed corporate taxation regime, as this is assumed to adversely affect tax receipts, with the latter remaining highly concentrated among a small number of MNEs, thus complicating predictability. We will also continue to monitor efforts to broaden the tax base, with some progress on this achieved through implementation of various property taxes. Ireland's banking sector appears relatively resilient, with relevant financial stability metrics continuing to improve.

Following the first two pandemic years, in which the general government balance was in a larger deficit than on average over the five years to 2019 (avg. 2015-19: -0.5%), the balance turned sharply into a surplus to the tune of 1.6% of GDP in 2022 (2021: -1.6% of GDP), well above our estimate in our last rating report (Oct-22). Expressed in terms of GNI*, the 2022 surplus was at 3.0%.

What the Irish authorities consider to be windfall corporate tax receipts, or excess corporate tax revenue, proved to be a decisive factor behind this, as the underlying fiscal position remained negative. At approx. EUR 22.6bn, overall corporate tax receipts rose by 47.8% in 2022 and more than twice the amount recorded in the pre-pandemic year 2019 (Department of Finance, DoF data). Within the manufacturing sector, which is the main driver of corporate tax receipts, chemical and pharmaceutical, as well as ICT-related manufacturing led the strong increases. In this context, we note that the top 3 companies accounted for about 30% of corporate tax revenue (Fiscal Council intelligence).

Total general government revenue rose by 16.8% last year (2021: 18.8%), also receiving considerable tailwinds from strongly increasing net social contributions in the face of the well-performing labor market. While total government outlays (2022: +1.7%) moderated not least due to lower pandemic-related expenditure compared to 2021, mainly reflected in a sharp drop in subsidies, public wages were again lifted markedly (8.4%). It is also worth stressing that, in contrast to many other EU members, interest payments still declined in 2022 (-0.5%), partly due to favorable financing conditions amid sound debt management and a benign debt profile, displaying one of the longest weighted average debt maturities in the EU.

We expect public finances to remain on a favorable trajectory, with available monthly data relating to 2023 pointing to a continued boost to government revenues via the corporate sector. However, the momentum in tax receipts is waning. From Jan-Aug-23, corporate tax receipts rose by 7.3% y-o-y, with the month of August posting a strong decline of 36.1% y-o-y (DoF, Exchequer tax receipts, cash basis). Having said that, the Exchequer deficit recorded in the first eight months of the current year (EUR -0.3bn), comparing unfavorable against a marked surplus over the same period in 2022, was largely due to the transfer of EUR 4bn to the National Reserve Fund (NRF), established in 2019. Income tax, meanwhile, also remains on a positive path, rising by 8.2% y-o-y over the period Jan-Aug-23. At the same time, interest payments are below the respective period in 2022.

With its SES this July, the government announced a EUR 6.4bn fiscal package for the upcoming 2024 budget, including EUR 5.2bn in additional spending and around EUR 1.1bn in taxation measures. The latter aim to protect workers from inflation-induced higher taxation. Non-core expenditure will continue to include humanitarian aid to Ukraine, and, to a lesser extent, Covid-19 expenditure. Furthermore, an additional EUR 2.25bn, to be financed from the windfall tax receipts, is earmarked to boost critical capital infrastructure projects in 2024-2026, and to contribute to the existing Climate Action Fund. As regards 2024, we note that the government assumes to reach an underlying surplus next year, i.e. excluding the windfall corporate tax profits, for the first time in 17 years.

We think that the government's expectation of reaching a headline surplus in 2023 remains feasible, assuming a surplus of about 1.9% of GDP this year and 2.1% of GDP 2024. Uncertainty around these estimates remains elevated, due to the unpredictable path of geopolitical developments, the elaborated challenges linked to the macro-financial volatility, and unclear net effects from the envisaged implementation of the second pillar of the internationally agreed corporate taxation reform for 2024. The government assumes permanent losses of about EUR 2bn per year from putting into effect the respective pillar.

While awaiting more detail to be provided with the 2024 budget proposal, the government intends to establish some sort of long-term savings fund to deal with structural fiscal challenges – likely different from the more short-term oriented NRF currently in place. In principle, such considerations underscore the authorities' proactive and forward-looking approach. In the medium-term, formulation of core spending ceilings should be conducive to limiting risks to public finances, with a positive track record of compliance with the Domestic Budgetary Rule in the pre-pandemic years strengthening confidence in this. However, we are aware that latest plans regarding core spending foresee higher expenditure to the tune of about EUR 4bn by 2026 compared to plans expressed in Apr-23, as the Fiscal Council highlights (Sep-23), which we will closely monitor.

General government debt as a share of GDP dropped markedly on the back of strong nominal GDP growth last year, to 44.7%, and further to 43.5% as of Q1-23. Measured against GNI*, public debt shrank from 101.0% to 83.3% in 2022, falling well below its pre-pandemic level (2019: 96.5% of GNI*). In light of our assumptions for nominal GDP growth and a headline surplus, we assume Ireland's debt to GDP ratio to decrease to 41.9% of GDP this year and further to 39.0% of GDP in 2024. Ireland's sound debt management and favorable debt structure continues to act as a risk-mitigating factors. We recall that a first tranche of the EFSM loan over EUR 22.5bn is due in this year's fourth quarter.

As mentioned above, we continue to see vulnerabilities stemming from a high concentration of corporate tax revenues. The NRF, the climate action fund and the envisaged sovereign wealth fund mitigate such concerns to some extent, as they enhance capacities to absorb shocks, and will partly tackle longer-term fiscal pressures, although we would still flag some concern over the breadth and reliability of the tax base, despite some recent progress on some property taxes.

As to age-related costs, the government emphasizes the need for complementary reforms to ensure the sustainability of the pension system in the longer run, flanking the aforementioned plans to set up a savings fund. While the statutory retirement age remains at 66 years as per a reform of the State Pension System announced in Sep-22, workers are given a choice to work until 70 in exchange for a higher state pension from 2024. In this context we note that the fiscal council joins in on some doubts raised by the Pensions Commission (2021) over a high take-up of such solutions among elderly workers. An envisaged staggered increase in social insurance contribution rates over the coming years is yet to become a concrete proposal, possibly later this year.

Turning to the banking sector, risks to fiscal sustainability appear remote at this stage. Judging by metrics suggesting comfortable capital buffers and further improved asset quality, the sector gives a sound impression. It is noteworthy that the NPL ratio has decreased further to a level in line with the EU average (Q1-23: 1.7%, EU: 1.8%, EBA data). At 19.3% in Q1-23, the CET1 ratio is significantly higher than the respective ratio for the EU as whole (EU Q1-23: 15.8%). Supported by the higher interest rate environment, profitability, as measured by return on assets, has recently improved and continues to compare favorable against the EU.

To further strengthen the resilience of the sector, given potential risks from tighter financing conditions that might cause challenges for a rising share of households and/or enterprises to service their debt, the counter-cyclical capital buffer was increased to 1.5%, coming into effect from June 2024. While in the period 2020-2022 most newly issued mortgage loans were subject to initial fixed interest rates, the majority of mortgage loans is exposed to interest rate risks in the medium term. That said, the share of mortgage credit in outstanding credit to the private sector in Ireland compares as low in the European context.

As a growing global financial center, and recalling that non-bank credit to the private non-financial sector as a share of GDP is considerably larger than the respective share of banks, risks relate to potentially abrupt adjustments of the global financial system. This also concerns the growing use of and vulnerabilities associated with fintech and crypto assets. Moreover, some risks stem from off-balance sheet exposures of large international banks, which will also have to be monitored.

Foreign Exposure

Ireland's high degree of openness entails vulnerabilities such as sensitivity to the global economic cycle and disruptions in trade flows. While the volatility of flows associated with MNE activity tends to create large swings in the current account balance, posing challenges to identifying underlying developments, the modified current account balance, which largely strips out these effects, has shown significant surpluses over recent years, which have helped to reduce the still very large and negative NIIP. We will monitor effects of the pending implementation of the new global corporation tax regime on the above metrics, as it could potentially lead to larger movements.

The sovereign's headline current account balance posted another large surplus in 2022, although at 8.7% of GDP markedly lower than in 2021 (14.0% of GDP, Eurostat data), with the primary income balance posting an even larger deficit than in recent years (2022: -27.4% of GDP) and with the services balance swinging back into deficit (2022: -3.3% of GDP). Despite rising energy costs, the goods surplus increased to 40.4% of GDP, remaining the dominant component of the current account.

Turning to the modified current account balance, which excludes distorting elements when it comes to trade in R&D services, intellectual property and aircraft leasing, last year's narrowing headline surplus was mirrored (2022: -2.2 p.p. to 7.8% of GNI*), although an upward trend remains in place, continuing to corroborate the underlying competitive strength of Ireland's economy.

As of Q1-23, the headline current account surplus moderated to 7.9% of GDP. Going forward, despite headwinds from a challenging international environment in the near term, we expect a large headline surplus to persist, with the coincidence of largely export-orientated MNE output and intellectual property imports likely to continue to cause pronounced fluctuations.

Ireland's very large and negative NIIP remains one of the most pronounced in the EU, but continued to decline, decreasing to -109.7% of GDP in Q1-23 (Eurostat data), which would correspond to the least negative position since the year 2008. The position also remains subject to considerable distortions linked to MNE operations and the role of the IFSC, pointing to a lower degree of risk than the nominally high level suggests.

Rating Outlook and Sensitivity

Our rating outlook on the Republic of Ireland is positive, reflecting our expectation of a declining trend in debt-to-GDP and associated headline surpluses over the medium term. We expect the prospectively favorable development of public finances to be accompanied by strong medium-term economic growth, with the underlying more domestically oriented economy continuing to perform robustly, supported by continued favorable labor market conditions.

Accordingly, a positive rating action could be prompted by ongoing resilience of economic growth and the Irish labor market amid limited adverse effects from the challenging global economic environment, including the timely implementation of the agreed international corporate taxation regime. Robust economic growth is likely to support the decline in Ireland's debt-to-GDP ratio. Further upward pressure on the rating could also stem from sustained positive developments in financial stability metrics, a broadening of the tax base, and/or the build-up of significant fiscal buffers via state funds.

Conversely, we could consider lowering the rating or outlook, if economic growth slows down significantly amid a prolonged global economic downturn, possibly compounded by a significant slowdown in corporate tax revenues following the implementation of the new global regime and failure to broaden the tax base sustainably, which could halt or possibly reverse the decrease in the public debt ratio. A material escalation of Russia's war in Ukraine may also lead to such an adverse scenario.

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Ratings*

Long-term sovereign rating	AA- /positive
Foreign currency senior unsecured long-term debt	AA- /positive
Local currency senior unsecured long-term debt	AA- /positive

*) Unsolicited

ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

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 assessment of an economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, and IMD Business School and the World Intellectual Property Organization (UN) add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

While Covid-19 may exert 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 on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2017	2018	2019	2020	2021	2022	2023e
Macroeconomic Performance							
Real GDP growth	9.3	8.5	5.3	6.6	15.1	9.4	0.2
GDP per capita (PPP, USD)	78,003	85,622	90,719	96,743	113,786	133,789	145,196
Credit to the private sector/GDP	60.9	53.8	47.4	42.7	36.4	34.8	n/a
Unemployment rate	6.7	5.8	5.8	5.9	6.2	4.5	n/a
Real unit labor costs (index 2015=100)	99.5	95.9	93.9	90.5	86.1	81.2	79.5
World Competitiveness Ranking (rank)	6	12	7	12	13	11	2
Life expectancy at birth (years)	82.2	82.2	82.8	82.6	82.4	n/a	n/a
Institutional Structure							
WGI Rule of Law (score)	1.4	1.4	1.4	1.5	1.5	n/a	n/a
WGI Control of Corruption (score)	1.6	1.6	1.5	1.6	1.6	n/a	n/a
WGI Voice and Accountability (score)	1.3	1.3	1.3	1.4	1.4	n/a	n/a
WGI Government Effectiveness (score)	1.3	1.4	1.3	1.5	1.5	n/a	n/a
HICP inflation rate, y-o-y change	0.3	0.7	0.9	-0.5	2.4	8.1	5.1
GHG emissions (tons of CO2 equivalent p.c.)	13.8	13.8	13.1	12.1	12.6	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP	-0.3	0.1	0.5	-5.0	-1.6	1.6	1.9
General government gross debt/GDP	67.6	63.0	57.0	58.4	55.4	44.7	41.9
Interest/revenue	7.7	6.4	5.2	4.6	3.3	2.9	n/a
Debt/revenue	261.3	247.3	230.4	261.7	237.8	193.5	n/a
Total residual maturity of debt securities (years)	10.7	10.0	10.0	10.3	10.7	10.7	n/a
Foreign exposure							
Current account balance/GDP	0,5	5,2	-19,8	-6,8	14,2	8,8	n/a
International reserves/imports	4.7	4.9	5.7	7.5	11.0	8.9	n/a
NIIP/GDP	-166.9	-183.3	-193.4	-177.0	-145.5	-120.7	n/a
External debt/GDP	730.4	746.8	742.9	699.4	668.9	555.8	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, CSO, own estimates

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
Monitoring	15.10.2021	A+ /stable
Monitoring	07.10.2022	A+ /positive
Monitoring	22.09.2023	AA- /positive

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. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The National Treasury Management Agency (NTMA) participated in the credit rating process, as it provided additional information during the credit rating process. 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	YES
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, World Intellectual Property Organization (WIPO), IMD Business School, Central Bank of Ireland, Central Statistics Office (CSO), Republic of Ireland - Department of Finance, Department of Public Expenditure and Reform, National Treasury Management Agency (NTMA), Irish Tax and Customs, Commission on Pensions.

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 the event 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.

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