Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF IRELAND	Assigned Ratings/Outlook: **A+ /stable**	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 15-10-2021 "Sovereign Ratings" "Rating Criteria and Definitions"

Contents

Rating Action 1
Key Rating Drivers 1
Reasons for the Rating Decision and Latest Developments 2
Macrore 2
Institutional Structure 6
Fiscal Sustainability 8
Foreign Exposure 11
Rating Outlook and Sensitivity ...12
Analysts 13
Ratings* 13
ESG Factors 13
Economic Data 14
Appendix 15

Rating Action

Neuss, 15 October 2021

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.

Key Rating Drivers

1. Relatively resilient economic growth in the pandemic, backed by MNE activity and the pharmaceutical and ICT sectors, aided by Ireland's favorable competitive stance, further boosting the extremely high wealth level in terms of income per capita; high macro-financial volatility linked to the strong presence of MNE, a still elevated level of private indebtedness and some vulnerabilities owing to Ireland's high degree of openness constitute balancing elements to some extent

2. Very high institutional quality, underscored by latest set of Worldwide Governance Indicators; sovereign continues to benefit from EU/EMU membership; main risks linked to Brexit have dissipated amidst the TCA between the EU and the UK, although remaining uncertainties could pose challenges to medium-term growth, as could the recent international agreement on minimum standards regarding international corporate taxation

3. Positive track record of improving fiscal metrics prior to the outbreak of Covid-19; despite a deficit likely to persist for some time, we view risks to fiscal sustainability as moderate, thanks to our expectation of a downward trending of the debt ratio, prudent fiscal planning, very sound debt management, the benign debt profile, and high debt affordability; heightened uncertainty over the consequences of the international corporate tax reform, with the high concentration regarding this source of revenue remaining a soft spot

4. Elevated external vulnerabilities result from the very open and small economy's sensitivity to the global economic cycle and supply-chain disruptions; MNE-related activity and the IFSC tend to cause volatility in the headline positions, but continued surpluses as regards the modified current account balance contribute to mitigating external risks as expressed by a highly negative NIIP to some extent; changes to the global corporate taxation regime could also have larger reverberations for Ireland's external position

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

Ireland's macroeconomic performance profile is buttressed by a growth model which, on the basis of a strong contribution by MNE activity and the key role played by the pharmaceutical and ICT sectors, offered a considerable degree of resilience to the global pandemic, further boosting the very high wealth level in terms of income per capita. We continue to assess the strong business environment as credit positive, while high macro-financial volatility linked to the presence of multinationals, a still elevated level of private indebtedness, and some vulnerabilities owing to Ireland's high degree of openness constitute factors balancing the above strengths to some extent. The latter especially holds in the context of ongoing uncertainty over the evolution of the coronavirus, notwithstanding what appears to be a high level of immunization among the Irish population for the time being. The Trade and Cooperation Agreement (TCA) between the EU and the UK substantially reduced Brexit-related risks to Ireland's macroeconomic development, although remaining uncertainties such as the full implementation of checks on goods according to the Northern Ireland protocol, and regarding services trade, pose challenges to the assessment of the medium-term growth outlook, and call for some caution, in our view.

Ireland entered the pandemic on a strong footing, with an annual average real GDP growth rate of 7.6% in the three years prior to the pandemic (euro area avg. 2017-19: 2.0%). That said, we recall that MNE-related activity tends to inflate the size of Ireland's economy as measured by GDP data, which is why CSO provides a more domestically-oriented metric, GNI*, stripping out factor income of re-domiciled companies, depreciation on R&D service imports, and trade in intellectual property and depreciation on aircraft leasing. By this metric, Ireland posted real average growth of 4.2% in the period 2017-19, still more than double the euro area (EA) economy's average growth rate over this time.

At face value, Ireland's economy weathered the Covid-19 crisis very well, judging by positive real GDP growth to the tune of 5.9% in 2020. Irish authorities provided a strong response to support the economy when the corona crisis broke out, with a stimulus of about EUR 43bn or about 20.7% of 2020 GNI* for 2020 and 2021 combined (NTMA), with the largest chunk in the form of direct support. In terms of above-the-line measures, the sovereign appears to have provided one of the largest expenditure packages among euro area economies. In particular, the wage subsidy schemes proved supportive to private consumption, allowing for a forceful rebound once restrictions to public life and contact intensive activities were eased. Given the strong performance as measured by GDP, Ireland's GDP per capita increased by 6.2% to USD 95,994 (IMF, PPP terms) in 2020, at face value corresponding to 216% of the EU-27 per capita level, the second-highest after Luxembourg, and far exceeding other A-rated peers in our rating universe.

While the country was thus the only EU member to post positive GDP growth last year (EU: -5.9%, EA: -6.3%), it has to be stressed that MNE-related activity was again the major driver thereof, with the especially strong growth exhibited in the ICT and pharmaceutical sectors boosting exports. Illustrating the significance of the MNEs, annual GVA of sectors dominated by foreign-owned MNEs increased by 23.1% y-o-y in 2020, compared to a GVA decline by 8.7% in other

[1] This rating update takes into account information available until 12 October 2021.

sectors (CSO). Basic pharmaceutical products and preparations accounted for 41.7% of the overall net selling value of Ireland's industrial production last year (CSO). Accordingly, MNEs profits increased by about 46% in 2020, substantially exceeding domestic sector profits calculated to have come to about 25% (NTMA).

Looking at the GDP components last year, net exports were the main growth driver, contributing 3.8 p.p. to overall GDP growth, as exports increased by 9.5%, whereas imports dropped by 7.4%. The largest negative contribution (-2.0 p.p.) came from declining headline gross fixed capital formation (-22.9%), on the heels of an increase by 99.5% in 2019 which was pushed up chiefly by intellectual property, thus once more highlighting the volatility entailed by the operation of multinational companies.

Modified gross national income (GNI*) at constant market prices suggests a markedly worse economic outcome for 2020, as it declined by 3.5% last year (2019: +2.6%, CSO). In fact, modified domestic demand (MDD), which excludes intellectual property from investment, contracted by 4.9%, mostly dragged down by private consumption, which shrank by 10.4%.

Following negative q-o-q growth in Q4-20, Ireland's economy posted strong quarterly real GDP growth rates in the first half of 2021 (Q1-21: 8.7%, Q2-21: 6.3% q-o-q), notwithstanding a third lockdown between January and April this year, thus pushing real GDP 20.7% above its pre-pandemic level (Q4-19) by Q2-21. Exports even exceeded their level prior to the outbreak of Covid-19 by 24.8% as of Q2-21. According to the Central Bank of Ireland (CBI), the production of goods abroad on behalf of Irish resident firms was a major driver for exports in the second quarter. Drawing on the more domestically-focused measure, MDD fell by 3.5% q-o-q in Q1-21 and recovered by 8.4% q-o-q in Q2-21, mostly driven by rebounding private consumption, while modified investment also contributed positively. Private consumption rebounded by 12.6% q-o-q in this year's second quarter, in light of good progress in terms of vaccinations and the easing of restrictions from April this year, but remained 3.9% below its pre-pandemic level.

The Irish labor market had been in a strong position when the pandemic hit. Given the high degree of flexibility, it was severely affected by the pandemic, judging by a larger increase in the annual unemployment rate compared to the euro area as a whole. Despite the 0.7 p.p. rise to 5.7% in 2020 (Eurostat), Ireland's unemployment rate remained well below that of the euro area, which climbed by 0.3 p.p. to 7.9% last year. Looking at monthly data in the course of the current year, Irish unemployment peaked at 7.6% in Mar-21, before falling to 6.4% as of Sep-21 (CSO, EA: 7.5% as of Aug-21, Eurostat). In this regard, we note that the Covid-19 adjusted unemployment rate provided by CSO, which also includes claimants of Pandemic Unemployment Payment (PUP) but is subject to higher volatility, decreased to 10.0% in Sep-21 (Sep-20: 15.9%).

Employment growth, which had increased by around 3% p.a. in 2017-19, was interrupted by the global health crisis, recording a decline by 1.5% in 2020 (Eurostat, domestic concept). More recently, employment increased by 9.9% y-o-y in Q2-21 (CBI), although statistical changes regarding the Labor Force Survey may complicate interpretations somewhat at the current stage.

Looking ahead, the only gradual withdrawal of pandemic-related support (see below) should help to avoid any cliff-edge for the labor market, although some risks remain once this support is no longer in place. Beyond the short term, we note that the government aims for an employment level of 2.5mn by 2024, as set out in the Economic Recovery Plan announced this June. Labor supply shortages are apparently perceived across a limited number of sectors at present, according to CBI, which may keep a lid on wage pressure for the time being, although signs of

rising wages for new hires, in addition to rising input prices in some industries, may broaden and deepen wage pressure further out.

According to CSO data, average weekly earnings increased by 4.0% in Q2-21 vs. Q2-20, comprising average earnings of people in employment including those supported by the Employment Wage Subsidy Scheme (EWSS). However, due to considerable changes in employment in some sectors, there was high volatility over the preceding quarters. In 2019, hence prior to the outbreak of the pandemic, increases observed in average weekly earnings moved around 3.7% in y-o-y terms, suggesting that dynamics have changed little.

With regard to Q3-21, available high-frequency indicators such as monthly retail sales and industrial production in Jul/Aug-21 on average exceeded their respective levels in Q2-21, suggesting that economic growth should have continued in the third quarter, also aided by the easing of social distancing measures and advances in inoculations. Business climate indicators point to vivid economic expansion. While the manufacturing PMI eased to still high 60.3 points in Sep-21, partly owing to the shortages of some intermediate products and commodities, the services PMI decreased slightly to 63.7 points.

On the whole, we believe that Ireland's economic prospects remain positive. As of 7 October, 91.5% of Ireland's adult population were fully vaccinated, which compares favorably against the EU overall (74.1%). We gather that by 22 October, all remaining restrictions could be lifted. Against this backdrop, private consumption should benefit further from released pent-up demand. Furthermore, household spending remains backed by only gradually receding support measures on the labor market such as PUP, which was extended to February 2022, and EWSS, which from Sep-20 replaced the Temporary Wage Subsidy Scheme (TWSS) and was extended to end of Apr-22.

Supported by still ongoing government support, planned investment in the wake of the National Recovery and Resilience Plan (NRRP), and favorable financing conditions not least on account of continued accommodative monetary policy, underlying gross fixed capital formation looks set to grow this year and next, whereas the headline figure is likely to be negatively distorted by MNE activities. Ireland will benefit from NGEU funds in the amount of roughly EUR 989mn, or about 0.3% of 2020 GDP (0.5% of nominal GNI*), allocated in the form of grants, which could lift the GDP by about 0.3 to 0.5% by 2026, as per European Commission (EC) estimate.

The renewed National Development Plan (NDP) 2021-2030, published on 4 October, comes with an envisaged envelope of EUR 165bn and a strong focus on housing, climate protection, transport, and healthcare, also aiming to cushion any negative impact from Brexit. Among others, the Housing for All initiative aims to provide 6,000 affordable homes per year, while EUR 13bn in gross voted capital is allocated for transport projects. This should be conducive to improving the medium-to-longer-term growth outlook, although we would flag some reservations as to construction investment, where current supply bottlenecks, higher input costs, and shortages of skilled workers could potentially delay or slow down the intended expansion in housing supply.

Exports should continue to benefit from an ongoing positive global cycle, notwithstanding elevated uncertainty around the further evolution of the pandemic and protracted supply shortages with regard to certain intermediate products. The sovereign's manufacturing goods exports are largely dominated by the pharmaceutical sector, which has benefited in this global health crisis, and which accounted for 22.4% of total merchandising exports in the first half of

this year. Important export markets such as the US and fellow EU countries are likely to enjoy boosts from the massive US fiscal stimulus and the implementation of NGEU-related investment and reforms in Europe.

This said, developments in the UK, which has to come to terms with the post-Brexit trade regime, may remain weaker than pre-Brexit for some time to come. Since border checks on EU imports do not seem to be fully implemented on the part of the UK at this stage, with some controversy over this issue persisting, we continue to see risks to Irish exports to the UK and vice versa. Agricultural products may be particularly affected by this.

Overall, we currently expect real GDP to expand by about 15.0% this year and about 4.5% next year, acknowledging potentially large revisions due to of MNE-related volatile developments. While we would generally describe the medium-term outlook as favorable, especially if investment and reforms along the lines of the NRRP and NDP are implemented in a timely manner, there are risks to the short-term outlook, currently mainly stemming from the evolution of the coronavirus and possible further mutations, from the post-Brexit trade regime and remaining unresolved or contested issues in this respect.

Ireland's strong and welcoming business environment remains a credit positive factor from our point of view, decisively contributing to the sovereign's non-cost competitiveness. Whilst the Doing Business report will be discontinued, we would concur with the World Bank's view which attests to a favorable regulatory environment for businesses including a strong and efficient insolvency framework. So far, the relatively low corporate income tax rate has played its part in attracting multinational enterprises, in addition to a well-educated English-speaking workforce and strong ties to large markets such as the EU, the US and the UK.

However, given the recent developments as far as international taxation is concerned, there may be some challenges looming. In principle, consensus among 136 countries including Ireland on two main pillars has emerged, involving a redefinition of the tax base among states as far as large international companies are concerned and an effective minimum tax rate of 15% (see below). Possible decisions by MNEs to the disadvantage of Ireland might also see some negative reverberations to its labor market and innovation capabilities.

At present, the EU considers Ireland a strong innovator, judging by the European Innovation Scoreboard, with the sovereign achieving a better score than its A-rated peers in our rating universe and slightly exceeding the EU average. On a less positive note, performance relative to the EU has decreased since 2018. While we await the update of the World Economic Forum's (WEF) Global Competitiveness Index, according to which Ireland was perceived as the second-best performer among our A-rated sovereigns, we also pay some attention to the WEF's Special Global Competitiveness Report (Dec-20) which focuses, roughly speaking, on countries' readiness when it comes to environmental, social and digital transformation. In this respect, Ireland occupies a middle-range position (19 out of 37 economies considered).

In this vein, we would highlight positively that Ireland comes in on top among the EU countries in terms of high-tech exports, which in 2018 (latest available data) accounted for 34.7% of total Irish exports, adding to the positive impression left by the country's favorable cost competitiveness, although the latter also appears somewhat exaggerated by MNE presence and related high productivity growth.

Real unit labor cost fell by 2.8% y-o-y in 2020, continuing to compare rather favorably against main European trading partners and the euro area as a whole. Furthermore, Ireland's strong

competitiveness is reflected in a continuous increase in global export market share over recent years, including the pandemic year 2020. Given the increase by 1.29 p.p. to 5.39%, the rise in global market share concerning services was particularly striking last year, although this may be somewhat distorted by the extraordinary circumstances worldwide. The market share as regards global goods exports climbed by 0.21 p.p. to 1.58% in 2020.

With manufacturing and ICT as major drivers for exports and gross value added overall, and in light of the abovementioned planned upgrade to Ireland's infrastructure as well as planned investment in education, the outlook for potential growth seems favorable. Drawing on AMECO data, underlying growth is expected to remain at around 4.3% in 2021 and 2022, well above the level estimated for the EU (EU: 1.3% in 2021, 1.6% in 2022, AMECO) and mainly driven by TFP growth.

At the same time, the high GVA share of ICT, given a GVA of total services of 55.8% in Q2-21, continues to illustrate what we perceive as a high concentration on few industries in the service sector, which emphasizes potential vulnerabilities from the agreed changes to international corporate taxation as seen from Ireland's point of view. We do not expect a fundamental change in Ireland's business model. The envisaged amendments to international corporate taxation practices which still require further work on details, and which are supposed to enter into force from 2023, should not materially weaken the Irish economy's competitiveness.

As a factor conceivably weighing somewhat on the medium-term growth outlook amid possible constraints to risk-bearing capacities in case of further economic shocks, we would point to Ireland's still elevated level of private sector indebtedness, despite continued decreases over the last years. At 146.7% of GDP, NFC debt was the third-highest among EU countries as of Q4-20, having fallen by 18.1 p.p. compared to Q4-19. Indebtedness among private households also compares rather high by European standards, despite having shrunk further, to 102.5% against disposable income as of Q1-21 (Q1-20: 111.7%).

With regard to adjusting to the post-Brexit trade regime, we are aware of estimates by the IMF which point to an adverse impact of the TCA in the amount of 0.5 p.p. of GDP growth as compared to a no-Brexit scenario in 2021. By 2026, the negative impact is estimated to come to a cumulative loss in total economic output of 1.7% compared to the pre-Brexit baseline scenario, among others via non-tariff trade barriers assumed to affect exports and investment.

Institutional Structure

The sovereign's credit rating is underpinned by its very strong institutional framework, to which we also count Ireland's EU/EMU membership as offering advantages to the small open economy in terms of, among other things, access to the single market and European-level funding, as recently witnessed e.g. in the case of NGEU. We would continue to monitor developments around agreed changes in international taxation rules, which may cause some negative reverberations for the Irish business model. Generally, we emphasize as positive the sovereign's high responsiveness to policy recommendations by international institutions.

The World Bank's latest set of Worldwide Governance Indicators (WGIs), released this September, corroborates our strong assessment of Ireland's institutional set-up. Compared to its A-rated peers in our rating universe as well as the euro area overall, Ireland is perceived as performing considerably stronger with regard to all four pillars on which we place the highest emphasis. Compared to 2019, the sovereign is judged to have improved across the board, being

placed 11th out of 208 economies (2019: 14) in terms of voice and accountability, and 20th out of 209 (2019: 29) when it comes to government effectiveness (A median: 47). What is more, the quality of courts and property rights increased, with the sovereign up by 3 places to relative rank 21 out of 209, whilst the extent to which public power is seized for private gains decreased (2020: rank 19, 2019: rank 21).

The European Commission's (EC) Rule of Law Report by and large confirms the high perceived quality and effectiveness of Ireland's justice system, broadly consolidating our impression of a high degree of responsiveness to recommendations on the part of the Irish authorities. In this respect, it seems worth mentioning progress on a reform concerning judicial appointments and promotions (draft law), as well as on introducing a regime to enhance accountability of judges, among others. Nevertheless, some challenges as concerns efficiency remain, as suggested by the EC's latest Justice Scoreboard, which shows that the length of proceedings, in particular commercial proceedings, has continued to increase. At the same time, the government intends to propose a compensation scheme for excessively long court proceedings before the end of the current year. Similarly, we gather that with regard to a low number of judges per inhabitant, remedial measures are underway.

Further to our impression of Ireland's forward-looking and consensus-seeking approach, we would highlight the establishment of the Commission on Pensions in Nov-20, with the remit of examining sustainability and eligibility issues with State Pensions and the Social Insurance Fund as well as outlining options for the government to these issues. By the same token, we deem the sovereign's responsiveness underscored by its endorsement of the OECD's framework agreement on international taxation standards.

With regard to the Northern Ireland protocol which was agreed alongside the TCA struck at the end of last year, requiring checks of imported goods from the UK upon entering Northern Ireland, there remains controversy between the EU and the UK. In fact, the UK has delayed enforcement of required customs procedures on EU imports. Given sensitivities around the issue of de facto creating some sort of border in the Irish Sea, and the history of tensions in the region, we will be following developments vigilantly.

As far as developments with regard to environmental issues are concerned, we note that Ireland occupies a middle-rank in the EC's 2021 eco-innovation index, ranking 15 among the EU-27. The sovereign aims for a reduction of its carbon emissions by 51% by 2030, committing to lowering greenhouse gas (GHG) emissions by 7% per year on average. By 2050, the sovereign would like to achieve zero net emissions, as also endorsed by the Climate Action & Low Carbon Development Bill 2021. Having managed to decrease GHG emissions per capita by 1.3 tons to 12.8 tons from 2010 to 2019, at this level Ireland recorded the second-highest level in the EU (2019: 8.4 tons). According to the NRRP, about 42% of the financial allocations made to Ireland via the RRF will be directed towards objectives in the climate change realm.

Judging by the overall share of energy from renewable sources (2019: 12.0%), Ireland lags behind the EU average (2019: 19.7%), but has seen continuous increases over recent years. The overall relatively low share of renewable energy sources masks substantially diverging developments, since Ireland exhibits the lowest share of energy from renewable sources for heating and cooling in the EU (2019: 6.3%, EU: 22.1%), while it even slightly exceeds the EU-wide share regarding gross electricity consumption (2019: 36.5%, EU: 34.1%). In the recent ECB climate stress test assessing the resilience of NFCs and banks vis-à-vis climate risks, Irish companies are

found to be among the least exposed to physical climate change risks such as flooding or wildfires, whereas Ireland is among the countries influenced the most by climate risks via loan exposure related to firms located abroad.

Fiscal Sustainability

Risks to the sovereign's fiscal sustainability associated with the pandemic appear limited after all, despite causing a likely temporary deterioration of respective metrics. Latest fiscal plans as set out in the Summer Economic Statement (SES) and the Budget 2022, could slow down fiscal normalization with a view to the next few years, whilst we consider the revamped fiscal framework presented with the SES as credit positive. While NPL reduction in the banking sector made further headway, we would pay increased attention to developments here as pandemic support to households and companies is being increasingly phased out. Relatively high concentration on a limited range of tax revenue sources, which could be eroded somewhat by the changes to international corporate taxation envisaged to enter into force from 2023, could materially weaken the sovereign's tax base. We think that sound debt management, the benign debt profile and ongoing high debt affordability constitute risk-mitigating factors, with the convincing consolidation track record following the global financial crisis as an additional supportive backdrop against commitment to consolidating public finances.

With headline fiscal metrics on relatively comfortable levels when the coronavirus broke out, the government was well-positioned to provide a forceful response to the health crisis. On the back of the comprehensive fiscal measures to combat Covid-19 and mitigate the effects from strict social distancing, Ireland's general government deficit came to 4.9% of GDP last year (-8.8% of GNI*, CSO, preliminary data). The pandemic thus ended several years of a more or less balanced general government position (avg. 2017-19: 0.1% of GDP). Total revenue fell by 5.1% in 2020 (2019: +6.1%), driven by shrinking tax receipts regarding income, production and capital (-3.7%), and declining social contributions (-5.5%). At the same time, general government expenditure soared by 18.2% (2019: +4.5%), chiefly boosted by social benefits (+25.7%) and rising subsidies (+230.7%), reflecting the government's approach of largely focusing on direct support in this crisis, in the form of transfers to households (above all PUP) and to companies (mainly EWSS).

A number of support measures has been prolonged in Jun-21, including the EWSS, the tax debt warehousing scheme and the reduced VAT rate applying to hospitality and tourism-related goods and services. While we note that for Q1-21, a deficit of EUR 6.8bn was recorded (Department of Finance), the easing of restrictions on public life from Q2-21 seems to have enabled a faster rebound in tax revenue than anticipated, driven by VAT and corporate tax income, as suggested by the Budget 2022 published on 12 October. Moreover, a reduction of PUP recipients and increased earnings in a number of industries yielded income tax receipts that were slightly higher than anticipated. While current spending was higher than estimated, we gather that capital spending remained behind plans. According to the Budget 2022, the exchequer balance would be on course to a deficit of about EUR 12.1bn in 2021, which would be better than anticipated in the April Stability Program update.

With regard to next year, the Budget 2022, which comes with a EUR 4.7bn package, as already set out by the SES, proposes to increase core expenditure by 4.6%, emphasizing social protection, health and education. As concerns tax policies, proposed income tax measures are expected to come at a cost of about EUR 597mn (full year). Moreover, the draft includes tax breaks for working from home (EUR 11mn), as well as an extension to the help-to-buy-scheme (EUR

83mn), among other things. Covid-related spending is foreseen to come to around EUR 6.8bn in 2022, including a EUR 4bn contingency fund and the cost of extending the EWSS to the end of Apr-22. To this end, we understand that most of the emergency measures are anticipated to be withdrawn in 2022. Expenditure of EUR 500mn in 2022 (and 565mn in 2023) is foreseen for measures funded by the Brexit Adjustment Reserve.

We now expect the general government budget deficit to amount to roughly 3.5% of GDP this year and to narrow to about 2.2% of GDP in 2022. To be sure, the estimates remain subject to marked uncertainty surrounding the evolution of the pandemic as well as to volatility entailed by the strong impact of MNE activity and associated income streams. Concerning the medium-term view, the new Budget proposal projects general government spending to increase at an average rate of 1.6% p.a. over the period 2023-25, with the deficit expected to narrow to 0.1% of GDP in 2024 and the balance expected to turn into a small surplus in 2025 (0.2% of GDP, 0.3% of GNI*). Given these plans, the general government deficit could thus be reduced at a slower pace than previously anticipated.

Adding to some concern in this regard, we would flag that the new OECD International Tax agreement joined by Ireland might affect the revenue stream from this source, as well as possibly future strategic decisions by internationally operating companies. The OECD agreement will, inter alia, introduce a global minimum effective corporation tax rate of 15% for multinational enterprises with revenues in excess of EUR 750mn, whilst maintaining the 12.5% rate for businesses with revenues below EUR 750mn.

Ireland's corporate tax intake has been boosting revenue growth over recent years, more than doubling in 2014-20 and accounting for 20.7% of all tax receipts in 2020 (Department of Finance), underscoring the high dependence on these. Moreover, and further corroborating fiscal risks in this area, we observe that concentration within this revenue stream has even increased, with the 10 largest companies accounting for about 51% of net corporate tax receipts (2019: 40%, Irish Revenue).

According to the Irish authorities, 1,500 foreign-owned MNEs based in Ireland and employing roughly 400,000 people, as well as 56 Irish MNEs employing about 100,000 people will be affected by the landmark decision on corporate tax reform. CBI analysis has suggested that a permanent loss of corporate tax amounting to EUR 4.7bn by 2025 – combined with a permanent increase in spending – could add about 2.5 p.p. to the general government deficit and 3.8 p.p. to debt by that time. The Department of Finance and the Revenue Commissioners have estimated that the cost of the agreement will amount to up to EUR 2bn per year when both pillars come into effect.

Not least with regard to the above points, we think that capital spending, which, including for investment funded under the NRRP, is envisaged to rise to 5.4% of national income over the period to 2025, seems ambitious. We are aware that the Fiscal Council has expressed similar reservations.

Notwithstanding these caveats, we consider the ultimately persisting commitment to budget consolidation in the medium term as credible, not least in light of the convincing track record in the recent past. In this context, we highlight as positive the government's fiscal framework as set out by the SES for the period until 2025, which introduces fixed annual expenditure ceilings with regard to core expenditure, with the aim to de-couple (core) spending policy from cyclical variations and windfall tax revenue. We gather that the government expenditure ceiling stands

at EUR 89.3bn for 2021 and at EUR 87.6bn for 2022. Ultimately, if applied effectively, we view these factors as supportive to our credit assessment.

Driven by the primary deficit, Ireland's public debt ratio rose by 1.2 p.p. to 58.4% of GDP in 2020 (CSO, preliminary data), thus still remaining below the Maastricht threshold of 60% of GDP and below our estimate in our last review (Oct-20). Prior to the pandemic, the debt-to-GDP ratio was following a firm downward trend, reaching its lowest level since 2008 in 2019. We expect general government debt to come to about 54.3% of GDP this year and to continue falling next year, presumably reaching roughly 51.2% of GDP.

Given the MNE-related distortions, it is worth stressing that public debt against GNI* may arguably better reflect the debt burden on the domestic economy, as this metric rose to about 104.7% in 2020 (2019: 94.6%, CSO, preliminary data). To be sure, it stayed well below the peak reached in 2013 (157%, NTMA). Moreover, at about 260.6% of general government revenue in 2020 (CSO, preliminary data), general government debt remains at a relatively high level by EU standards. By the same token, interest-to-revenue compares somewhat unfavorably against most EU members, posting at a somewhat elevated 4.6% in 2020. This said, the downward trajectory remained in place here, with interest payments falling further by 17.2% in 2020.

Alongside improving debt affordability, we continue to see sound debt management and the benign debt profile as risk-mitigating factors in our assessment of fiscal risks. Timely repayment of the final tranche of the GBP3.23bn bilateral loan granted by the UK in the wake of the financial crisis in Mar-21 may serve as another illustration thereof. The weighted average maturity of debt is among the longest in the EU, at 10.6y as of end-Aug (ECB data), and government bonds are mostly subject to fixed interest rates, thus reducing interest rate risk. Moreover, the Eurosystem is the single largest holder of Irish government bonds, having made cumulative net purchases of Irish government bonds in the amount of roughly EUR 21.5bn as of end Sep-21 under the PEPP alone, corresponding to about 5.8% of 2020 GDP.

Ireland also benefits from EU-level funding via SURE, coming to EUR 2.5bn in Q1-21, and from EUR 1.1bn of the EUR 5bn Brexit Adjustment Reserve (see above). Adding to these points, Ireland exhibited a larger cash balance than anticipated at the end of 2020 (roughly EUR 17.4bn), as the exchequer borrowing requirement for 2020 was lower than expected (NTMA). We gather that the cash balance could exceed this level by the end of 2021. What is more, there are no redemptions to be made until March 2022.

Meanwhile, contingent liabilities have increased modestly in this crisis (0.6% of GDP, Eurostat). Moreover, the public guarantee scheme introduced in Sep-20 has seen a relatively low take-up. As of 5-Aug-21, the take-up of the EUR 2bn envelope for SME under the Covid Credit Guarantee Scheme (CCGS) was at 20.2% (EUR 403.2mn, Department of Public Expenditure).

Looking at Ireland's banking sector, we observe a sound capitalization level, given a CET1 ratio of 19.2% as of Q2-21 (Q2-20: 19.0%), well above the EU average (Q2-21: 15.8%). Following a phase of negative return on assets (RoA) over the course of 2020, the sector's profitability has improved again in the first half of 2021 (Q2-21: 0.7%, EU: 0.5%). The elevated level of non-performing loans (NPL), the majority of which is related to mortgages, has come down to 3.4% as of Q2-21 (EU: 2.3%), after having risen to 4.2% (Q4-20) over the course of the pandemic. With that, the metric is almost back to its pre-pandemic stance.

However, we will closely monitor developments upon the expiry of support to households and companies. The share of stage 2 loans and advances at amortized cost increased to 16.2% as of

Jun-21 (Jun-20: 14.5%), well above the EU level (Jun-21: 8.8%, Jun-20: 8.2%), with the share of stage 2 loans with expired moratoria and with non-expired moratoria among the highest in the EU, at 45.7% and 74.6% respectively in Jun-21. Having said this, it seems that Irish banks were able to build sufficient buffers to withstand the negative impact of assumed severe scenarios, as suggested by the 2021 EBA stress test and the ECB Single Supervisory Mechanism stress test of banks directly supervised by the ECB. In addition, credit developments currently seem far from alarming, judging by ongoing negative y-o-y rates as regards outstanding loans to NFC (Jul-21: -5.2%) and to households (Jul-21: -7.1%). Outstanding mortgage loans to households in Jul-21 were 7.3% below their level in Jul-20, continuing a slight downward trend in place since mid-2017.

Picking up on the housing sector, we observe that house price increases slowed down significantly, as mirrored by the 3y-rate of change that has moderated to 8.6% as of Q2-21 (Q2-20: 15.8%, Eurostat), although pandemic-related restraint on the part of potential buyers/sellers may have contributed to this alongside increasing supply and introduced macro-prudential rules. Still, housing supply appears to fall short of demand. Current shortages of materials affecting the construction sector may engender upward pressure on residential property prices.

Further to possible structural vulnerabilities, we would highlight the envisaged withdrawal of two retail banks (Ulster Bank and KBC Bank Ireland) from the Irish banking market over the next few years, as this will leave the latter in a more concentrated state. Outside the banking sector, non-bank financial institutions remain exposed to potential tightening in global financial conditions and could experience increased volatility and vulnerability.

As regards the medium-to-longer term outlook on the basis of demographic developments, the recently published EU Aging Report 2021 comes with comparatively favorable estimates for Ireland vis-à-vis other EU members, with age-related costs estimated to remain the lowest in the EU by 2030, despite an increase to 15.2% of GDP in 2030 (2019: 13.2% of GDP), mainly driven by public pensions. However, we have to stress that, set against GNI*, age related costs appear markedly less benign, coming to 21.4% in 2019, and projected to rise to 24.7% by 2030.

In this respect, we are aware of the government's 2020 decision to repeal (Social Welfare Act 2020) an envisaged pension reform which, among other things, proposed to increase the state pension age from currently 66 years to 67 years from 2021 and to 68 from 2028. The Department of Finance reckons that this could entail an additional fiscal burden of around EUR 50bn over the longer term, and the Commission on Pensions points to strategic risks from failing to ensure fiscal sustainability of the State Pension in its own right and suggests consideration of introducing a contribution to the Social Insurance Fund from general taxation. While we do not expect demographic developments to derail public finances, we would continue to monitor further developments concerning any potential changes to pension-related issues.

Foreign Exposure

The small Irish economy's high degree of openness comes with considerable vulnerabilities, in particular sensitivity to the global economic cycle and any disruptions to trade flows. While volatility of flows associated with MNE activity tends to lead to larger swings in the current account balance, recurring and increasing current account surpluses as shown by the respective modified balance have contributed to further diminishing the large negative net international investment position (NIIP), mitigating to some extent external risks related to Ireland's position as a pronounced net debtor. The agreed

changes to international corporate taxation could also have significant effects on the balance of payments, which remain to be monitored.

From a large deficit in the amount of 19.9% of GDP in 2019, Ireland's current account balance exhibited a narrowed deficit to the tune of 2.7% of GDP last year (CSO data), driven by a considerably lower deficit in the services balance whose swings, partly related to intellectual property, have been paramount to volatile movements over the last years. Looking at the modified current account balance, which excludes trade in intellectual property as well as R&D services, we note that the sovereign boasted a persistent surplus over the last years, with the positive balance increasing to 11.5% of GNI* in 2020, the highest since the Second World War.

More recently, the current account surplus (four-quarter-moving-sum) came to 15.2% of GDP (Q2-21), with the services balance posting a slight surplus and the goods surplus increasing further. Going forward, we generally expect the current account to be supported by ramped-up investment in digitalization in the EU bloc, which is likely to continue to drive Irish ICT exports. A stronger focus on health care may also persist for the time being, providing impetus to the pharmaceutical and medical sector, and respective exports. With domestic demand likely to grow robustly this year and next, the modified current account balance may see a narrower surplus.

In terms of NIIP, at face value, Ireland was the second largest net debtor among the EU countries last year (2020: -172.8% of GDP, 2019: -174.0%, Eurostat), although it has to be reiterated that the position remains distorted by MNE operations and the role of the International Financial Services Center (IFSC), arguably mitigating risks. As of Q1-21, the NIIP shrank to -168.7% of GDP.

Rating Outlook and Sensitivity

Our rating outlook on the Republic of Ireland's long-term sovereign ratings is stable. We see risks in connection with the Covid-19-related deterioration of fiscal metrics, and the envisaged changes in international corporate taxation, as broadly balanced by the assumed sustained economic strength on the basis of a relatively resilient economic structure, by the elaborated factors mitigating fiscal risks, and by Ireland's institutional strengths. We have to reiterate that, in light of the highly dynamic epidemiological situation, any assessment and interpretation of economic and fiscal developments and prospects remains more challenging than under normal circumstances.

We could lower Ireland's credit ratings or the outlook, if it turns out that a more sustained deterioration of public finances, possibly resulting from the agreed reform to international taxation standards, presents significant downside risks to fiscal sustainability over an extended period of time. This could be exacerbated by a deteriorating medium-term growth outlook in such a scenario. Also, jeopardizing the Northern Ireland protocol might run the risk of resurfacing tensions in the area.

Conversely, we could consider raising Ireland's ratings or the outlook if medium-term growth prospects improve despite looming risks from new international corporate taxation standards and from post-Brexit adjustment requirements, including handling of the Irish border in practice. Upward pressure could also arise if we observe implementation of measures enhancing the productivity of the non-MNE sector, increasing the resilience of this segment and likely broadening the tax base, thus countering potential downward risks to this stream of revenue. Effective implementation of the envisaged budgetary framework to ensure fiscal consolidation would also seem beneficial to our assessment.

Analysts

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

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

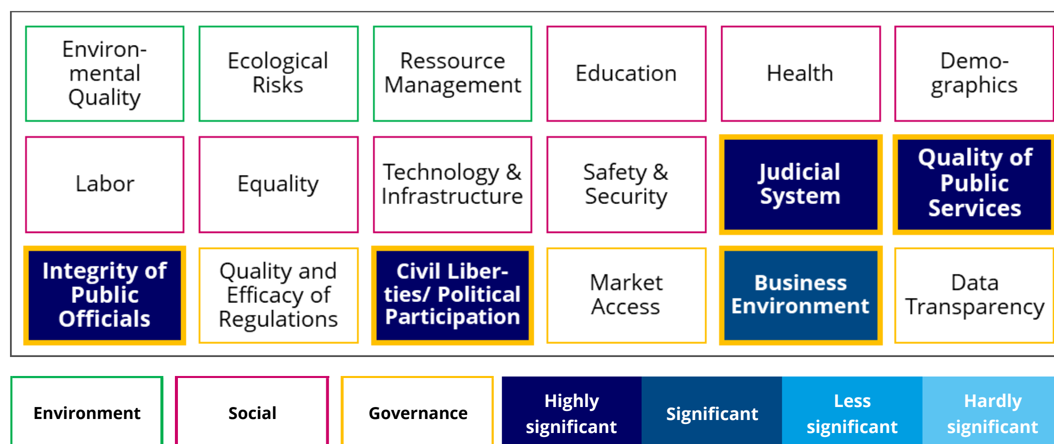
Ratings*

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

ESG Factors

ESG Factor Box



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 what follows, we explain how and to which 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 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.

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.

Economic Data

[in %, otherwise noted]	2015	2016	2017	2018	2019	2020	2021e	2022e
Macroeconomic Performance								
Real GDP growth	25.2	2.0	8.9	9.0	4.9	5.9	15.0	4.5
GDP per capita (PPP, USD)	68,872	71,251	77,780	85,752	90,390	95,994	111,360	117,358
Credit to the private sector/GDP	78.4	70.2	61.2	54.0	47.4	42.9	n/a	n/a
Unemployment rate	10.0	8.4	6.7	5.8	5.0	5.7	n/a	n/a
Real unit labor costs (index 2015=100)	100.0	103.2	98.6	95.9	93.8	91.2	n/a	n/a
Ease of doing business (score)	79.8	80.1	80.1	79.6	79.6	n/a	n/a	n/a
Life expectancy at birth (years)	81.5	81.7	82.2	82.2	82.8	n/a	n/a	n/a
Institutional Structure								
WGI Rule of Law (score)	1.8	1.5	1.4	1.5	1.4	1.5	n/a	n/a
WGI Control of Corruption (score)	1.7	1.7	1.6	1.6	1.5	1.6	n/a	n/a
WGI Voice and Accountability (score)	1.3	1.3	1.3	1.3	1.3	1.4	n/a	n/a
WGI Government Effectiveness (score)	1.6	1.4	1.3	1.4	1.3	1.5	n/a	n/a
HICP inflation rate, y-o-y change	0.0	-0.2	0.3	0.7	0.9	-0.5	2.2	2.6
GHG emissions (tons of CO2 equivalent p.c.)	13.4	13.7	13.6	13.5	12.8	n/a	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability								
Fiscal balance/GDP	-1.9	-0.7	-0.3	0.1	0.5	-4.9	-3.5	-2.2
General government gross debt/GDP	76.7	74.1	67.8	63.1	57.2	58.4	54.3	51.2
Interest/revenue	9.8	8.5	7.7	6.4	5.3	4.5	n/a	n/a
Debt/revenue	284.2	272.2	261.6	247.8	231.7	258.1	n/a	n/a
Weighted average maturity of debt (years)	11.7	11.4	10.7	10.0	10.0	10.3	n/a	n/a
Foreign exposure								
Current account balance/GDP	4.4	-4.2	0.5	4.9	-19.9	-2.7	n/a	n/a
International reserves/imports	0.0	0.0	0.0	0.0	0.1	0.1	n/a	n/a
NIIP/GDP	-198.4	-172.2	-165.4	-180.9	-174.0	-172.8	n/a	n/a
External debt/GDP	865.8	827.3	734.3	750.0	742.5	702.6	n/a	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

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, European Investment Bank, Blavatnik School of Government, ECDC, 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 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.

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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: Michael Bruns
HRB 10522, Amtsgericht Neuss