Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
REPUBLIC OF IRELAND	Assigned Ratings/Outlook: **A+ /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 07-10-2022 "Sovereign Ratings" "Rating Criteria and Definitions"

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Rating Action

Neuss, 07 October 2022

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

The outlook revision on the Republic of Ireland reflects

(i) our expectation of robust economic growth over the medium-term amid strengthened economic resilience including marked progress in private sector deleveraging;

(ii) our assumption of limited economic and fiscal consequences from the Russian war in Ukraine; and

(iii) more favorable prospects regarding a declining public debt ratio on the back of robust growth and associated tax income, additionally boosted by significant increases from corporate tax revenue in the near term

Key Rating Drivers

1. Ongoing robust recovery, with strong performance of pharmaceutical and ICT sectors adding to resilience and continuing to boost the high wealth level in terms of GDP per capita; significant role of multi-national enterprises (MNEs) continues to create macro-financial volatility; adverse effects from the war in Ukraine mainly via high commodity prices and Ireland's high degree of trade openness likely to remain manageable

2. Regarding the generally positive medium-term growth outlook, agreed changes to the international taxation of large corporations could weigh somewhat on the otherwise favorable business environment; a still elevated level of private sector indebtedness partly masks significant progress in deleveraging, especially by private households, suggesting less of a strain on medium-term growth prospects

3. Institutional framework of very high quality, as emphasized by the most recent range of Worldwide Governance Indicators, and significant advantages drawn from EU/EMU membership; remaining uncertainties linked to Brexit and the concomitant Protocol on Ireland

and Northern Ireland are to be monitored, as is the concrete timing for the implementation of the agreed minimum standards on international corporate taxation

4. Strong recovery in public finances following the setback due to Covid-19, significantly driven by MNE-related tax revenue, corroborates expectations for a further declining public debt ratio; convincing recent history of fiscal consolidation adds to a constructive fiscal outlook despite some downside risks related to Russia's war in Ukraine and new global corporate taxation rules; high concentration of corporate tax revenue remains a potential source of vulnerability, while the benign debt profile, prudent fiscal planning and sound debt management constitute important risk-mitigating factors; age-related spending could put pressure on public finances in the longer term if unaddressed
5. Pronounced degree of external exposure implies some downside risks in the currently challenging geopolitical and economic context, with MNE-related activity and the IFSC tending to add to volatility in headline positions, while underlying positions point to some improvements

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

Bolstered by high-value-added sectors, as well as a key role played by MNEs - which somewhat blur visibility regarding underlying, more domestically-oriented growth - Ireland's macroeconomic profile contributed to resilience against adverse effects linked to the corona crisis, thus supporting expectations of limited scarring effects. Generally, very strong GDP trend growth and one of the world's highest GDP per capita readings remain key strengths of the sovereign. The strong business environment and envisaged reforms towards greener economic growth, as well as a higher level of digitalization, support constructive medium-term growth prospects. Some downside risks linked to the ultimate effect of the agreed changes on international corporate taxation - if implemented as foreseen - and some remaining issues linked to Brexit, seem manageable from the current point of view, but will have to be monitored. Vulnerabilities with regard to Ireland's high degree of openness in the current geopolitical context constitute a balancing element to the above strengths, alongside high macro-financial volatility associated with the presence of MNEs. Progressing deleveraging, especially of private households, suggests that private sector indebtedness presents less of a burden to the medium-term growth outlook.

Boasting real GDP growth averaging 8.5% in the period from 2017-2021, Ireland was the only EU economy to avoid a recession during the first year of the pandemic by this measure, with real GDP growing by 6.2%, largely driven by MNE-related activities, and despite relatively strict containment measures to limit the spread of coronavirus. Last year saw a massive increase in real GDP, by 13.6%, at face value constituting the strongest rise among the EU members (2021 EU: 5.3%, euro area (EA): 5.2%). The increase was mainly driven by a massive contribution from net exports (+29.8 p.p.), whereas the pronounced decline in gross fixed capital formation stripped 16.0 p.p. off GDP growth, with both components under heavy influence of accounting for import of intellectual property and associated investment in this area. On the back of the economy's

[1] This rating update takes into account information available until 30 September 2022.

reopening, private consumption contributed 1.1 p.p. to the overall growth result, albeit remaining below its pre-pandemic level.

Measured by the more domestically-oriented metric provided by the Central Statistics Office (CSO), modified GNI (GNI*), Ireland's economic output plunged by 4.6% in the first year of the pandemic (2020), thus better reflecting muted activity in light of a relatively strict pandemic containment regime. In 2021, GNI* saw a massive rebound upon unleashing domestic economic forces, including government support, as it soared by 15.4%. Modified domestic demand expanded by 5.8% last year, in stark contrast to 'conventionally' calculated domestic demand (-18.2%, CSO).

As to the current year, the Irish economy recorded quarter-on-quarter GDP growth of 6.2% and 1.8% in Q1-22 and Q2-22, respectively. Revealing the muting effect of pandemic restrictions related to the Omicron wave at the beginning of the year, modified domestic demand contracted by 0.1% in Q1-22, but bounced back by 4.3% in this year's second quarter.

Looking ahead, near-term growth prospects have clouded somewhat, given a more challenging international economic environment including signs that the euro area heavyweights Germany and Italy are heading for recession. Ireland's direct trade exposure and direct financial links to Russia and Ukraine are limited. Headwinds related to this war at this stage therefore mainly stem from higher energy and commodity prices, as well as from the economic slowdown of trade partners more directly exposed to Russian energy imports.

To be sure, the current picture as regards business sentiment is somewhat mixed. While it has generally been dampened by the developments around Russia's aggression in Ukraine, as well as higher input prices and supply bottlenecks intensified by zero-Covid policies in China, confidence in the industrial and retail sectors was visibly affected to a larger extent over the last few months. By contrast, sentiment in the service sector has held up comparatively well. The Purchasing Manager Indices for the manufacturing and service sectors mirror these developments, while still remaining in expansionary territory (above 50 points) in August.

Soaring inflation rates currently weigh heavily on consumer sentiment, having dragged it below levels seen at the beginning of the pandemic. In Aug-22, Ireland's HICP inflation stood at 9.0%. That said, private consumption should be supported by government measures taken to mitigate the burden posed by higher energy costs, as well as by the strong labor market and rising wages, acknowledging that real wages currently move in negative territory. Approximately EUR 2.4bn has been provided by the Irish authorities through tax relief and spending measures (Summer Economic Statement, SES22), including this February's EUR 500mn cost of living package.

As regards the labor market, pandemic support schemes such as the Employment Wage Subsidy Scheme and the Pandemic Unemployment Payment (PUP) were wound down by Q2-22. Whilst Irish annual unemployment rose to an average of 6.2% in 2021 (2020: 5.9%, Eurostat), monthly figures had declined over the course of that year. Looking at more recent data, we observe that the rate has been relatively stable at around 4.3% (Aug-22), remaining well below the level recorded in the euro area as a whole (Aug-22: 6.6%). In contrast to the euro area, Irish employment continued to grow over the pandemic, posting an increase of 5.8% in 2021 (EA: -0.3%, domestic concept, Eurostat), with employment in ICT exhibiting double-digit percentage increases (2021: 12.9%).

Underscoring Ireland's favorable labor market developments with a view to more structural features, one can observe that Ireland's labor participation has risen above the euro area level recently (Q1-22: 77.3% vs. EA 74.6%), although there may be some pandemic distortions still at play. Moreover, judging by the European Commission's (EC) Social Scoreboard, Ireland compares as a reasonably strong performer, with some room for improvement with regard to social protection and inclusion. Plans to enhance digital skills should generally foster labor market inclusion, while there are also targeted measures to attract and train workers specifically for the construction sector in the pursuit of meeting self-imposed housing supply targets.

Gross fixed capital formation, which tends to fluctuate heavily due to the intellectual property component in connection with MNE operations, should remain supported by planned housing investment and by further initiatives and measures envisaged in the National Recovery and Resilience Plan (NRRP) as well as in the National Development Plan (Oct-21). This said, financing conditions on financial markets are becoming less favorable amid the global tightening cycle, and the downside risks to the European economy in light of further increasing geopolitical tensions may cause some businesses to become more hesitant to invest.

Bearing in mind the importance of SMEs to the domestic economy, it is worth emphasizing that SMEs continue to benefit from the Covid-19 Loan Scheme, which replaced the Covid-19 Credit Guarantee Scheme open to all businesses, and which closed at the end of June 2022. In addition, the Brexit Impact Loan Scheme available to SMEs, launched in October 2021, is to run until the end of 2022. Moreover, a restructuring process dedicated to SMEs was established via the Small Company Administrative Rescue Process (SCARP) Act 2021 with the aim of assisting viable small companies once the support schemes have fully expired.

Given Ireland's high degree of openness, the marked growth slowdown underway, in particular in the euro area and in the UK, presents downside risks to export activity, although it has to be stressed that Ireland's export structure offers balancing elements, reiterating the high significance of the medical/pharmaceutical and the ICT sectors. Last year, ICT services exports accounted for almost 60% of total service exports, rising by 26.6%. In the first seven months of 2022, exports of medical and pharmaceutical products made up 40.5% of all goods exports, increasing by 38.3% versus the same period last year.

Notwithstanding MNE activity and frequently large data swings complicating any forecasts, we assume that net trade will continue to contribute positively to GDP growth this year and next, although this is subject to heightened uncertainty in light of the expected adverse developments in the external environment. Some unresolved issues over the handling of the Protocol on Ireland and Northern Ireland may add to uncertainty here. So far, the share of exports to the UK in total Irish exports (goods and services) has trended down to 11.5% in 2021 (2016: 14.6%), while the share of imports from the UK in total Irish imports has shrunk to 12.0% (2016: 12.7%).

Overall, we expect real GDP to expand by about 8.9% this year, with the second half likely to see slower expansion or even some setback in economic output. For 2023, we assume GDP growth in the order of magnitude of about 3.0%.

We think that Ireland's medium-term growth outlook remains backed by its economic structure, which adds to resilience and entails spillovers into the more domestically-oriented economy, e.g. the production of Covid-19 vaccines as well as investment into the production of semiconductors in Ireland. Its strong competitive position, as also reflected by its rank of 11 among the 63 economies considered in the latest IMD World Competitiveness Yearbook (2022), and its high

productivity level in our view also underpin constructive growth prospects, as does its ongoing classification as a strong innovator, drawing on the European Innovation Scoreboard (2022). To be sure, its pronounced degree of productivity, more than double the EU-27 level measured in terms of nominal labor productivity per head and per hour worked (2021: 218.2% and 213.5% of EU-27, respectively, Eurostat), too, is biased by large MNEs, whereas productivity of Irish – more domestically oriented - SMEs compares as less favorable, as highlighted by the EC.

Maintaining its 5th rank among the EU members with regard to the EC's Digital Economy and Society Index (DESI) in 2022, Ireland remains in a favorable position from which to further drive its digital transformation. To this end, the authorities e.g. aim to reach a 75% enterprise take-up in Cloud, Big Data and Artificial Intelligence by 2030, coverage by Gigabit network of all households and business by 2028 and at least 800 businesses accessing the EUR 85mn Digital Transition Fund by 2026.

Together with measures and reforms included in the NRRP to foster the green transition, as well as available financial sources in the amount EUR 1.4bn under the Multiannual Financial Framework 2021-2027 (MFF 21-27), prospects for potential growth to remain well above the euro area level seem favorable. With regard to the Cohesion funds, the Partnership Agreement with the EU was formally launched on 20 September 2022.

Potential growth is estimated to be at about 5.0% in 2022 and 4.8% in 2023, compared to 1.3% and 1.4%, respectively, for the euro area (AMECO data). An expected ongoing increase of Ireland's total factor productivity, and in particular its capital share, should be conducive to this, prospectively adding further to an already very high level of wealth in terms of GDP per capita. In 2021, this stood at roughly USD 112,463 (PPP, IMF data), one of the highest readings worldwide and well above the median of our A-rated sovereigns (USD 41,839).

Illustrating Ireland's strong position in terms of competitiveness, we note that its global export market share when it comes to services increased further last year to 5.74%, extending its upward trend and following a more significant leap in the exceptional year 2020. Its global market share in goods exports slipped somewhat last year, but at 1.54% remained above its pre-pandemic level.

Apart from the high level of uncertainty over the geopolitical situation and the associated negative reverberations to European economies in particular, we see some risks to the medium-term growth outlook from a still elevated level of private indebtedness, although to a lesser extent by now. While non-financial corporate (NFC) debt-to-GDP remains among the highest in the EU, it is distorted by MNE debt and has decreased to 135.9% as of Q1-22 (Q4-19: 170.4% of GDP) amid strong GDP growth. The annual increase in outstanding loans to NFC went up to 5.4% as of Jul-22, but this was following large year-on-year declines over 2021. Moreover, new loan agreements were largely driven by larger loan sizes.

Meanwhile, private households have further deleveraged in terms of their debt measured against disposable income. As of Q1-22, the respective ratio had declined to 99.9% (Q1-21: 107.7%, ECB data), the lowest level since at least 2002 and by now almost in line with the average level for the euro area as a whole (Q1-22: 97.5%). While still counting among the higher ones in the EU, the large decline from its peak points to some space for new lending.

While the existence of the Free Trade Agreement between the EU and the UK generally remains positive for Irish trade, we would flag some remaining risks on the back of Brexit, with lingering uncertainty over the application of the Protocol on Ireland and Northern Ireland (see below). As

suggested by CSO data, the trading route with the UK via Northern Ireland has become more significant following Brexit, while Ireland is likely benefiting from the UK's leaving the EU insofar as FDIs may be diverted to Ireland going forward.

Institutional Structure

We view Ireland's creditworthiness as buttressed by its very strong institutional framework, as also underlined by the most recent set of the World Bank's Worldwide Governance Indicators (WGIs). The high institutional quality is also underpinned by the significant benefits attached to EU/EMU membership for a small open economy, e.g. in terms of access to the large single market and EU funding, and further strengthened by high responsiveness to recommendations by international institutions, as demonstrated following the global financial crisis. Despite likely entailing some disadvantages at least from a fiscal point of view, Ireland's joining the internationally agreed reforms on corporate taxation ultimately illustrates a pro-active and forward-looking approach to policy-making which can be seen as providing for planning certainty.

Corroborating the high quality of Ireland's institutional conditions, the World Bank's 2021 WGIs (published in Sep-22) confirm strong readings as regards the four pillars on which we put high emphasis when forming an opinion on the sovereign's creditworthiness from a governance point of view. Compared to 2020, Ireland either maintained or improved its relative ranks as regards these pillars, remaining well ahead of the respective median of the euro area members as well as of our A-rated sovereigns. In terms of government effectiveness and control of corruption, it climbed by three ranks, respectively, to 17 and 16 out of 209 economies respectively, while edging up one rank to 20 out of 209 when it comes to rule of law. With regard to voice and accountability, the Republic maintained its strong 11th rank (out of 208).

Further firming our assessment of a high-quality institutional set-up, reforms of Ireland's justice system are continuing, as also highlighted by the EC's recent Rule of Law Report (Jul-22). Among other things, efforts are ongoing to tackle high litigation costs and improve the legal aid system, and the Criminal Procedure Act 2021, in force since Feb-22, could enhance efficiency when it comes to addressing corruption cases, or relatively complex offences more generally. While still comparing somewhat unfavorably against other EU countries when looking at the number of judges per inhabitant, the number of High Court judges has been increased. Moreover, the Protected Disclosure (Amendment) Bill 2022 was enacted in Jul-22, transposing the EU Whistleblowing Directive into Irish law.

We note that a permanent Advisory Council was established in May-22, tasked with the coordination of drafting the anti-corruption strategy going forward, with a draft expected for 2023. In a similar vein, GRECO's Second Compliance Report regarding Corruption prevention in respect of members of parliament, judges and prosecutors (Fourth Evaluation Round, published in Jul-22), points to some unresolved issues, concluding that, out of eleven recommendations included in the Fourth Round Evaluation Report, four remain unimplemented, including enhancing the ethics statutory framework concerning members of parliament.

In terms of developing the regulatory and supervisory framework to monitor and prevent/combat any AML/CFT risks, the significant role of market-based finance and increasing application of Fintech, we would highlight as positive advancements driven by the Central Bank of Ireland (CBI). Among others, CBI proposed new sets of prudential measures regarding the Irish property fund sector, adding to our favorable assessment of Ireland's institutional strength.

As far as anti-money laundering measures are concerned, it is also worth mentioning that a risk assessment of Trust or Company Service Providers (TCSPs) in Mar-22 resulted in various recommendations on how to enhance the transparency and supervisory effectiveness of the sector, which we understand are being considered by the government's anti-money laundering steering committee.

With regard to long-term reforms concerning health and social care services (Sláintecare), we note that progress had been delayed somewhat due to the pandemic and a cyberattack last year. Nevertheless, 2021 saw important advancements, such as a reduction of overall waiting lists, increased hours of home support and efficiency gains through testing, and evaluation of innovative models of care. Implementation of Regional Health Areas (RHA) is to be further pursued, with a detailed plan to be developed over the remainder of 2022.

Turning to political developments in connection with Brexit, adverse reverberations from the ongoing controversy between the UK and the EU over implementation of the Protocol on Ireland and Northern Ireland carries some risk of sparking renewed political tensions on the island of Ireland, and we will be monitoring developments here. As far as the domestic political situation is concerned, we expect broad policy continuation despite the three-party government coalition losing its thin parliamentary majority following the resignation of a Fine Gael MP.

In terms of environmental policies, we note that Ireland aims for 80% of electricity production to come from renewables by 2030, as per its Climate Action Plan (Nov-21). Commitments also include halving greenhouse gas (GHG) emissions by 2030, as well as reaching net zero carbon emissions by 2050 at the latest. In order to achieve these overarching goals, the government intends to implement a raft of measures, including stepping up the use of wind energy, retrofitting 500,000 homes by 2030 and installing 680,000 renewable energy heat sources in residential buildings. Judging by the EC's Eco Innovation Index (2021), Ireland moves somewhere in the middle range among EU countries (rank 14), while it counts among the EU countries displaying a relatively low overall share of renewable energy sources (2020: 16.2%, EU: 22.1%, Eurostat). That said, the share of renewable sources in gross electricity consumption already slightly exceeds the EU level (2020: 39.1% vs. EU: 37.5%), whereas there is ample room to catch up when it comes to falling back on renewables for heating/cooling purposes.

Fiscal Sustainability

We continue to regard fiscal sustainability risks as limited, while prospects for a further decline in the public debt ratio have improved despite heightened uncertainty over duration and intensity of the economic fallout from the war in Ukraine. Upside surprises in tax revenue add to fiscal space to alleviate adverse economic effects from Russia's aggression in Ukraine, while we view commitment to fiscal prudence in the medium term as credible in view of Ireland's more recent fiscal track record. The agreed new international corporate taxation regime is likely to entail tax revenue losses for the sovereign, although there is currently uncertainty over the concrete timing of its entering into force. Ongoing efforts to broaden Ireland's tax base are thus to be monitored, given a comparatively high concentration on a limited range of tax revenue sources as well as high concentration with regard to corporate tax revenue. Further improvements in terms of asset quality in the banking sector hint at a higher degree of resilience, while we would also pay attention to efforts under way to improve regulation of the non-bank financial sector. Sound debt management and the favorable debt profile and structure continue to represent important risk-mitigating factors to fiscal sustainability.

After a long streak of steadfast fiscal consolidation in the aftermath of the global financial crisis, resulting in Ireland posting small general government surpluses in 2018 and 2019, the pandemic temporarily reversed the improvement, with the headline balance exhibiting a deficit of 5.1% of GDP in 2020. Amid the strong economic rebound in 2021, the deficit shrank to 1.7% of GDP last year. That said, expressed in terms of GNI*, the deficit came to 3.1% in 2021.

In light of the economic recovery, and with pandemic support largely still in place, the increase in total general government expenditure moderated significantly last year, to 3.6% (2020: 18.0%, Eurostat), with social benefits falling by 1.6%, while compensation of employees rose by 6.9% (2020: 4.8%). Total government revenue soared by 18.8% in 2021, significantly boosted by taxes on income and wealth, which leapt by 22.5% (2020: +2.1%), rising well above 2019 levels. Corporate tax revenue rose particularly dramatically, mounting by 29.5% in 2021 (Exchequer tax receipt data).

Looking at budget execution data in the current year, we observe that tax revenue continued to soar, with the CIT intake rising by 68.5% y-o-y in Jan-Aug 2022. Income tax climbed by 16.0% y-o-y (Department of Finance, DoF data) in the same period. Covid-19 expenditure as of Q1-22 amounted to about EUR 1.5bn, decreasing compared to last year's first quarter, primarily due to lower PUP (CSO).

In order to further shield private households and businesses from soaring energy costs, the government announced a large one-off support package ('core package') with its SES22 in Jul-22, with dedicated expenditure and revenue measures. With the Budget 2023, the abovementioned package was updated and enhanced by further one-off measures comprising EUR 4.1bn, to take effect from Q4-22, lifting the total Budget 2023 package to about EUR 11bn. The latter entails among others a higher income tax standard rate threshold for all earners. Support to businesses includes a Temporary Business Energy Support Scheme worth EUR 1.2bn.

As a concomitant measure, revising intentions presented with last year's Summer Economic Statement (SES21) and this year's Stability Program (SP22), the government in its 2022 SES announced the rise of its core expenditure ceiling by EUR 1.65bn for this purpose, while remaining committed to reinstating its 5% core spending rule from 2024. We note that the Fiscal Council also assesses the medium-term plans as being conducive to fiscal prudence.

At the current juncture, we consider a small general government surplus in the near term to be feasible, as is envisaged by the government. Following a slightly positive headline balance of about 0.1% of our estimated 2022 GDP in 2022, the surplus could edge up to 0.5% of GDP in 2023, although this remains subject to a substantial degree of uncertainty in the current geopolitical and associated economic context.

Amid strong nominal GDP and a shrinking general government deficit, Ireland's debt-to-GDP ratio fell by 3.1 p.p. to 55.3% of GDP in 2021, and further to 53.1% of GDP as of Q1-22 (Eurostat, provisional data), at face value continuing to compare as moderate against the level recorded for the euro area as a whole (95.6% of GDP). When set against GNI*, the public debt ratio also fell considerably, but moved at a significantly higher 100.8% in 2021 (2020: 108.9%, 2019: 96.8%, DoF). We also highlight that general government debt measured against general government revenue continues to compare somewhat unfavorably by European standards (2021: 2.9 vs. EA 2.0). Given our expectations for ongoing strong nominal GDP growth and successive headline surpluses, we expect the debt-to-GDP ratio to decline markedly, penciling in 44.4% of GDP for 2022 and 40.5% for 2023.

We continue to see some vulnerabilities to public finances in connection with the relatively narrow tax base and a concentration risk when it comes to corporate tax revenue. Corporate tax receipts have continued to increase their share in total tax revenue over recent years, climbing to 22.4% of total tax revenue in 2021 (DoF). Moreover, the ten largest corporate tax payers accounted for more than half (53%) of net corporate tax receipts, with this share having gone up significantly during the corona crisis, having moved between 36% and 45% in the years 2013-2019.

Echoing our concerns, DoF in a recent assessment (Sep-22) points out that the current very high levels of corporate tax revenue are unlikely to be permanent, with estimates suggesting that 'windfall' corporate tax receipt of about EUR 4-6bn may have to be considered as temporary. This said, we note that in its medium-term outlook included in the Budget 2023, the government assumes the windfall corporation tax to remain relatively stable in a range of EUR 9-10bn per year for the period 2022-25.

As mentioned above, upon implementation of the new international corporation taxation regime agreed in 2021 and initially foreseen to be implemented from 2023, now likely to be postponed to at least 2024, Ireland could be faced with some erosion of its attractiveness as a business location. As a consequence of the new regime, DoF reckons that revenue losses could amount to an estimated EUR 2bn p.a. versus the baseline.

While measures to broaden Ireland's tax base also include a system of carbon pricing, we caution that revenue streams from this income source may be hard to predict as well. In addition, cost estimates on how to achieve the aspired-to halving of GHG emissions by 2030 remain very vague at this stage, as the Fiscal Council has also highlighted, adding to uncertainties over public finances. This said, the Budget 2023 foresees directing EUR 2bn to the National Reserve Fund this year and EUR 4bn next year, making use of the 'excess corporate tax revenue', thus constituting some additional firepower against any shocks.

In 2021, interest payments fell by 14.1%, reaching 0.8% of GDP (1.4% of GNI*, 3.3% of total revenue). Against the backdrop of rising interest rates on financial markets, refinancing via the capital market is set to become less favorable over the medium term. However, Ireland's benign debt profile includes government debt mostly subject to fixed interest rates, and the possibility to roll over debt by issuing new bonds still offers options to reduce interest costs. Also, only about a third of debt matures over the coming five years (NTMA).

Furthermore, Ireland displays one of the longest weighted average maturities in Europe, standing at 10.5 years as of September 2022. According to NTMA data, 18.0% of the EUR 240.9bn gross national debt at the end of Aug-22 consisted of EU loans including SURE, and the Eurosystem's cumulative net purchases of Irish government bonds (PSPP and PEPP) amounted to about 16.2% of 2021 GDP as of Aug-22 (ECB data). In addition, Ireland commands over a considerable cash position amounting to roughly EUR 27.5bn at the end of 2021 and plans to continue doing so into 2023.

Fiscal risks associated with Ireland's banking sector currently appear limited, having receded further against the backdrop of ongoing improvements in asset quality as measured by the NPL ratio. The latter further declined to 2.7% as of Q1-22 (-1 p.p. vs. Q1-21, -2.3 p.p. vs. Q1-19), narrowing the gap to the EU level (Q1-22: 1.9%, EBA data). The sector has weathered the pandemic relatively well and continues to display comfortable capital buffers. As of Q1-22, the CET1 ratio

stood at 19.0% (EU: 15.2%, EBA data). While partly negative over the initial phase of the pandemic, bank profitability has been back in positive territory from 2021 as expressed by return on assets. We understand that the government has begun to sell its share in Bank of Ireland, thus further reducing legacy contingent liabilities from the financial crisis. Drawing on Eurostat data, overall government contingent liabilities were stable at a relatively low 0.3% of GDP in 2021 compared to the preceding year.

Aiming to further strengthen banking sector resilience by gradually enhancing capital buffers, CBI announced it would increase the countercyclical capital buffer rate (CCyB) from 0.0% to 0.50% (Jun-22), taking effect from Jun-23, suggesting that macroprudential policies are keeping pace with adjusted risk assessments. More generally, CBI pursues the strategy of establishing a CCyB rate of 1.5% when risk conditions are deemed to be neither elevated nor subdued.

In the context of still comparatively high private sector indebtedness, bank lending developments may generally deserve some attention in a rising interest rate environment driven by a tightening of monetary policy, bearing in mind potential difficulties for some households or businesses to service their debt in such an environment. Tying in with this, we recall that loans to private households for house purchases accounted for 62.5% of total outstanding loans to the private sector as of Jul-22. However, as mentioned above, households have been deleveraging for a prolonged period, arguably creating some space for new lending activity. What is more, CBI simulations of a 2 p.p. rise in mortgage rates point to limited risks for mortgage takers, and new mortgage lending to households is mostly subject to fixed interest rates.

House prices dynamics have continued to show strength, with the annual increase in prices according to Eurostat reaching 9.8% and the 3-year growth rate fast approaching 20% (Q1-22: 19.8%) as of Q1-22. At the same time, affordability indicators such as the OECD's price-to-income ratio do not send signals of major fundamentals-price-misalignments. To be sure, the lack of desired housing supply remains a key driver of these developments and is being addressed e.g. through the 'Housing for all' plan put forward last year. Preliminary Census 2022 results, according to which Ireland's population reached about 5.1mn this April, roughly corresponding to an increase of 12% in about a decade, hint at demographic pressure weighing on the housing market.

Further to potential risks to fiscal sustainability via the financial sector, cyber risks have arguably mounted against the backdrop of the war in Ukraine and related geopolitical tensions, and could affect the financial sector, as also highlighted by CBI more recently. Sensitivity to this issue is further elevated by the fact that Ireland features a relatively large non-bank financial sector, total assets of which have risen to roughly 14 times the size of Irish GDP in 2021 (EC intelligence).

With a view to the unfavorable outlook for longer-term age-related costs, we gather that a new Automatic Enrolment Retirement Savings System is to be implemented, in order to enhance coverage of supplementary pensions. More details on the design serving as a basis for draft legislation were announced in Mar-22.

Foreign Exposure

As a small and very open economy, the sovereign remains susceptible to external risks and any disruptions to the global economic cycle. On account of Ireland's business structure, which comes with a relatively high concentration of MNEs, large swings as regards balance of payment data, in particular regarding services trade, are a feature frequently complicating interpretation of underlying currents.

That said, measures aiming to exclude these effects point to some strengthening of the underlying external position.

Ireland's headline current account balance displayed huge volatility over the last few years, moving from a deficit of -19.9% of GDP in 2019 to a surplus of 13.9% of GDP in 2021 (2020: -2.7% of GDP). The most pronounced movements occurred in the services balance, which in 2021 still remained in deficit to the tune of -0.7% of GDP, corresponding to a narrowing by 15.9 p.p. vis-à-vis 2020. Some of these significant changes can be attributed to depreciation of intellectual property and aircraft leasing. Last year, an increasing surplus in goods trade also added to the mounting current account surplus, albeit to a much lesser extent than the service balance (+2.1 p.p. to 41.0% of GDP). As of Q1-22, measured as a quarterly moving sum, the current account decreased somewhat to 12.8% of GDP.

Drawing on the modified current account surplus, designed so as to exclude distorting elements when it comes to trade in R&D services, intellectual property and aircraft leasing, we observe an increase in the remaining surplus to 6.1% of GDP in 2021 (11.1% of GNI*), continuing an upward trend and pointing to Ireland's underlying strength in terms of competitiveness.

Looking ahead, we expect the current account to continue exhibiting a comparatively large surplus this year and next, likely remaining somewhat distorted by trade activity largely associated with MNE-dominated industries such as ICT and pharmaceuticals. Higher energy prices should lead to a narrowing tendency of the modified current account surplus this year and on into next year. Uncertainties over the de facto handling of the Northern Ireland Protocol also remain a potential source of some volatility, as does, further out, the impact of the changes to global corporate taxation.

Ireland's NIIP narrowed significantly in 2021, by 35.1 p.p. to -138.9% of GDP, the lowest level by this measure since 2013. The observed decrease was mostly driven by the net direct investment position turning positive. While the position remains highly negative, we do not view this as a harbinger of imminent external sustainability risks, as this metric is significantly distorted by movements linked to MNE operations, as well as the role of the International Financial Services Center (IFSC). The abovementioned underlying current account balance improvements also have a positive impact on Ireland's underlying NIIP.

Rating Outlook and Sensitivity

Our rating outlook on the Republic of Ireland's long-term credit ratings is positive, as we assume that the risk situation will improve over the next 12-24 months. While the very strong institutional framework remains a key support for our credit assessment, spillovers via the macroeconomic profile from current geopolitics seem limited, and despite uncertainty over fiscal components, the outlook for marked declines in the public debt ratio has significantly improved. Risks related to foreign exposure have been reduced. We emphasize that the assessment and interpretation of economic developments remains more challenging than under normal circumstances, as is the case for other indicators, in particular from the fiscal realm.

We could consider lifting the sovereign's ratings if economic growth remains robust amid limited fallout from the current geopolitical and related economic backdrop, fiscal consolidation takes place as expected and the public debt ratio follows the assumed marked downward path. Such a scenario would also include the absence of any major adverse developments related to Brexit.

More generally, upward pressure on the ratings could also result from successfully and sustainably broadening the tax base, ideally enhancing the predictability of tax revenue streams.

Conversely, a downward revision of our outlook and/or the ratings could be prompted by a substantial and prolonged worsening of public finances and deterioration of the debt ratio, possibly on the back of a more negative impact than assumed from the new global corporation taxation regime and a possible failure to broaden the tax base. A prolonged period of substantially weaker economic development, possibly due to a material escalation of the Russian military aggression, could also be a source leading or adding to such an unfavorable scenario.

Analysts

Primary Analyst
Fabienne Riefer
Senior Analyst Public Finance
f.riefer@creditreform-rating.de
+49 2131 109 1462

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

Ratings*

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

*) Unsolicited

ESG Factors

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

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

ESG Factor Box

Environ-mental Quality	Ecological Risks	Ressource Management	Education	Health	Demo-graphics
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial System**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liber-ties/ 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 a economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, and IMD Business School 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]	2016	2017	2018	2019	2020	2021	2022e
Macroeconomic Performance							
Real GDP growth	2.0	9.0	8.5	5.4	6.2	13.6	8.9
GDP per capita (PPP, USD)	71,252	77,782	85,759	90,405	96,021	112,463	124,596
Credit to the private sector/GDP	70.1	61.1	53.9	47.4	42.9	37.1	n/a
Unemployment rate	8.4	6.7	5.8	5.0	5.9	6.2	n/a
Real unit labor costs (index 2015=100)	103.4	99.7	96.1	93.4	90.1	85.7	n/a
World Competitiveness Ranking (rank)	7	6	12	7	12	13	11
Life expectancy at birth (years)	81.7	82.2	82.2	82.8	82.6	n/a	n/a
Institutional Structure							
WGI Rule of Law (score)	1.5	1.4	1.4	1.4	1.5	1.5	n/a
WGI Control of Corruption (score)	1.7	1.6	1.6	1.5	1.6	1.6	n/a
WGI Voice and Accountability (score)	1.3	1.3	1.3	1.3	1.4	1.4	n/a
WGI Government Effectiveness (score)	1.4	1.3	1.4	1.3	1.5	1.5	n/a
HICP inflation rate, y-o-y change	-0.2	0.3	0.7	0.9	-0.5	2.4	8.3
GHG emissions (tons of CO2 equivalent p.c.)	13.7	13.5	13.5	12.8	11.8	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	-0.8	-0.3	0.1	0.5	-5.1	-1.9	0.1
General government gross debt/GDP	74.3	67.8	63.1	57.2	58.4	56.0	44.4
Interest/revenue	8.5	7.7	6.4	5.2	4.6	3.3	n/a
Debt/revenue	271.8	261.3	247.3	231.5	262.2	238.8	n/a
Total residual maturity of debt securities (years)	11.4	10.7	10.0	10.0	10.3	10.7	n/a
Foreign exposure							
Current account balance/GDP	-4.2	0.5	5.2	-19.9	-2.7	13.9	n/a
International reserves/imports	0.0	0.0	0.0	0.1	0.1	0.1	n/a
NIIP/GDP	-172.7	-167.3	-183.6	-193.5	-174.0	-138.9	n/a
External debt/GDP	826.8	732.3	748.7	742.2	702.6	672.8	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

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 process and commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of NTMA during their review. However, the rating outcome as well as the related outlook remained unchanged.

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, IMD Business School, European Center for Disease Prevention and Control (ECDC), Blavatnik School of Government, 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