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IRELAND

January 2015

SECOND POST-PROGRAM MONITORING DISCUSSIONS; STAFF REPORT; AND PRESS RELEASE

In the context of the Second Post-Program Monitoring discussions, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 16, 2015, following discussions that ended on November 21, 2014, with the officials of Ireland. Based on information available at the time of these discussions, the staff report was completed on December 19, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.

The following document has been or will be separately released:

Ex Post Evaluation of Exceptional Access Under the 2010 Extended Arrangement

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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IRELAND

SECOND POST-PROGRAM MONITORING DISCUSSIONS

December 19, 2014

EXECUTIVE SUMMARY

Ireland's recovery has strengthened yet political challenges to adjustment appear to have increased. The recovery is led by job creation and investment financed by retained earnings rather than lending. But uncertainties around medium-term prospects are wide given external risks and domestic crisis legacies. Sustaining recovery and rebuilding space for policy maneuver are therefore key policy priorities. However, weak polls for the governing coalition and adjustment fatigue—reflected in widespread protests against water charges—may constrain policy efforts, as seen in limited fiscal adjustment in 2015.

A clear strategy to underpin reaching budget balance in the medium term is needed:

- Budget balance is a sound medium-term goal as it will put Ireland's high public debt firmly on a downward path and enable fiscal policy to cushion the economy. As growth is likely to diminish over the medium term, steady structural adjustment of about ¾ percent of GDP annually is appropriate to avoid undue drag on growth.

- A strategy is needed to achieve the restraint envisaged by the authorities in the face of strong spending pressures. Such a strategy should include reforms to generate savings while protecting core services, flexibility in reallocating spending, and preparedness to implement new measures including on the revenue side if needed.

- Despite making less progress than desirable, Budget 2015 continues the needed adjustment with about ½ percent of GDP in structural adjustment to reach a deficit below 3 percent of GDP. A firmer adjustment would have been preferable to hasten progress to balance given strong near-term growth prospects and still high debt.

Completing bank repairs and ensuring financial resilience are needed to ensure a revival of bank lending that supports a lasting recovery:

- Although bank capitalization, liquidity, and profitability are much improved, nonperforming loans (NPLs) remain exceptionally high. Priorities are further progress on durable resolution of distressed mortgages—supported by more timely repossession proceedings to motivate borrower engagement on restructures—and ensuring steady workouts or disposals of distressed commercial loans.

- Recent proposals by the Central Bank of Ireland (CBI) to strengthen regulation of mortgage loan origination are a welcome step to increase the resilience of banks and households to property cycles and help moderate such cycles in future.

Approved By
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Acronyms

AIB	Allied Irish Banks
BoI	Bank of Ireland
BTL	Buy to let
CBI	Central Bank of Ireland
CRE	Commercial real estate
EDP	Excessive Deficit Procedure
EFSM	European Financial Stability Mechanism
EFSF	European Financial Stability Facility
ESA	European System of Accounts
FDI	Foreign direct investment
HICP	Harmonized index of consumer prices
IBRC	Irish Bank Resolution Corporation
IFAC	Irish Fiscal Advisory Council
LTRO	Long-term refinancing operation
MART	Mortgage Arrears Resolution Targets
MNE	Multinational enterprise
NAMA	National Asset Management Agency
NFC	Nonfinancial corporation
NPL	Nonperforming loan
NTMA	National Treasury Management Agency
PDH	Primary dwelling home
PMI	Purchasing managers index
PTSB	Permanent tsb
SGP	Stability and Growth Pact
SME	Small- or medium-sized enterprise
SSM	Single Supervisory Mechanism
VAT	Value added tax
WEO	World Economic Outlook

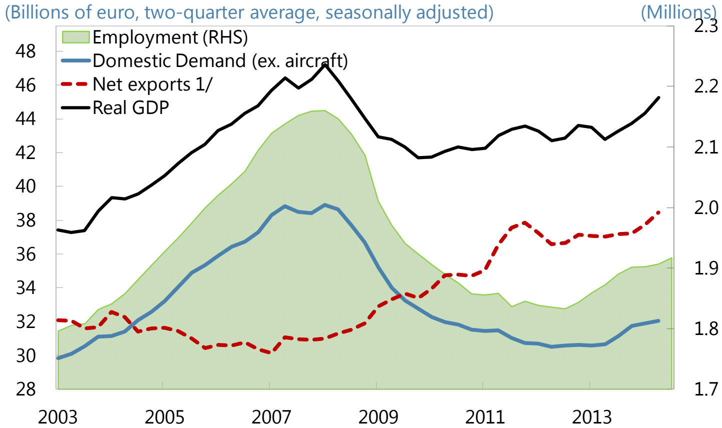
A SHARP REBOUND YET CHALLENGES REMAIN

A strong recovery in 2014 is led by investment and hiring linked to rising business and consumer confidence. The recovery is financed by retained earnings and by multinationals rather than domestic credit. The health of bank and private balance sheets is improving, yet substantial repairs are still needed.

1. **A strong export and investment led recovery is underway though special factors affect the pace of growth recorded in 2014**. Real GDP grew by 4.9 percent y/y in Q1–Q3 2014, with net exports accounting for two-thirds of this expansion, and a range of other indicators confirm a strong recovery (Figure 1). However, the national accounts data for exports rose notably more than customs figures, driven by contract manufacturing outside Ireland that is dominated by a few companies, and which could quickly turn. The pick up in investment and employment that began in H2 2012 as crisis uncertainties eased is starting to be supported by a gradual rise in private consumption. But reported growth in real public consumption is high, owing to longer public sector working hours. Private domestic demand—excluding investment in aircraft and intangibles—rose by 3.1 percent y/y in Q1–Q3, which may better indicate the pace of domestic recovery.

Real GDP Components and Employment

(Billions of euro, two-quarter average, seasonally adjusted) (Millions)

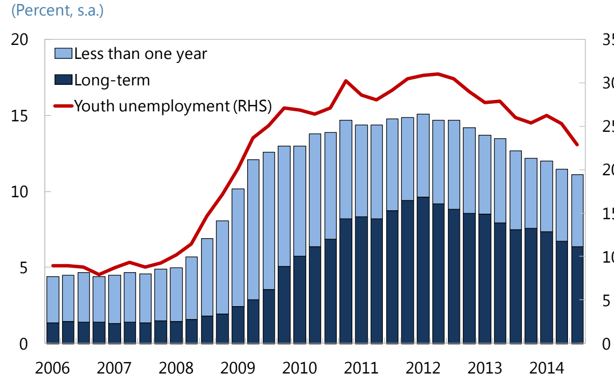


Sources: CSO; Haver Analytics; and IMF Staff calculations.
1/Adjusted uniformly upward by €28 billion for net exports.

2. **Inflation remains low even as unemployment declines and signs of wage growth emerge**. Core HICP inflation is running below 1 percent y/y, pulled down by declining goods prices owing to external conditions while service prices rose by about 2.5 percent y/y. Overall employment rose by 1.5 percent y/y in Q3 2014, led by 2.2 percent growth in the private sector, helping bring unemployment down to a still high 10.7 percent in November. Growth in labor compensation relative to employment suggests rising remuneration per employee—which may partly reflect longer working hours rather than higher hourly wage rates—is supporting disposable incomes. However, high long-term and youth unemployment—with 22 percent neither employed nor in education or training—pose downside to potential GDP the longer they last.

Unemployment Rates

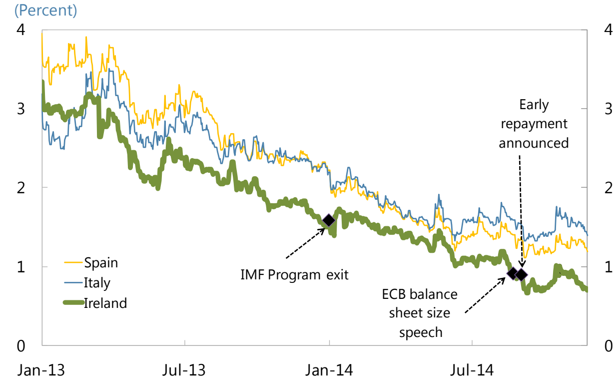
(Percent, s.a.)



Sources: CSO; and Haver Analytics; and IMF staff calculations.

3. Financial market conditions for the sovereign remain exceptionally favorable. The 10 year sovereign bond yield has fallen to 1.3 percent in December and the spread to bunds has declined to 66 basis points. In November, the authorities sold €3.75 billion of 15 year bonds at a yield of 2.47 percent, bringing issuance to €12.2 billion in 2014. There was little market reaction to the rise in planned issuance to help make early repayments to the IMF.

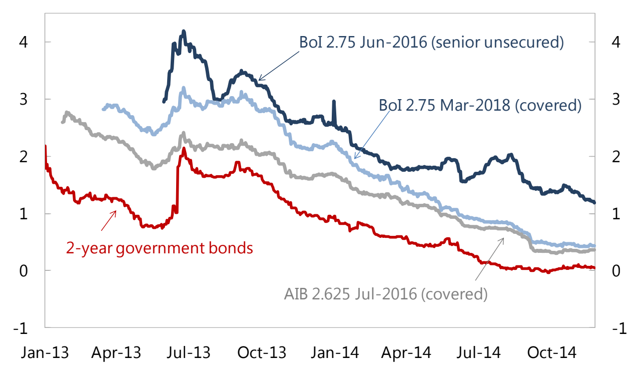
Ten Year Sovereign Bond Spreads
(Percent)



Source: Bloomberg.

4. Bank funding continues to benefit on the back of the sovereign. Bank debt funding rates tracked the sovereign down to all-time lows of less than 1¼ percent on senior unsecured debt. Taking advantage of these conditions, Allied Irish Banks (AIB) and Bank of Ireland (BoI) together issued over €5.2 billion in the first nine months of 2014, including some €750 million of tier 2 capital by BoI. Household deposits remain stable and deposits from nonfinancial corporations (NFCs) continue to rise despite low interest rates and loan repayments, signaling strong retained earnings. Eurosystem funding of domestic banks declined to €12.2 billion at end September, with a significant share of the 3-year LTRO uptake repaid.

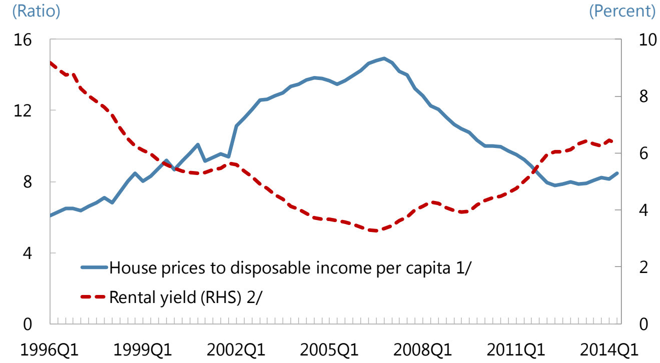
Bank Bond Yields
(Percent)



Source: Bloomberg.

5. Property values are up sharply, though valuation risks are not yet evident, and mortgage lending is beginning to rise from a low base. National housing prices rose 16.3 percent y/y in October, with Dublin prices surging 24.2 percent y/y, though they remain 38 percent below their pre crisis peak. New mortgage loans grew about 50 percent y/y in Q3 2014, from a low base, with about half of all residential property transactions in cash. Residential rents are also rising, and house price ratios to rents and incomes do not yet signal valuation concerns. Commercial real estate (CRE) values climbed 27 percent y/y in September. With commercial rents rising 18 percent y/y, rental yields of around 7 percent do not signal overvaluation.

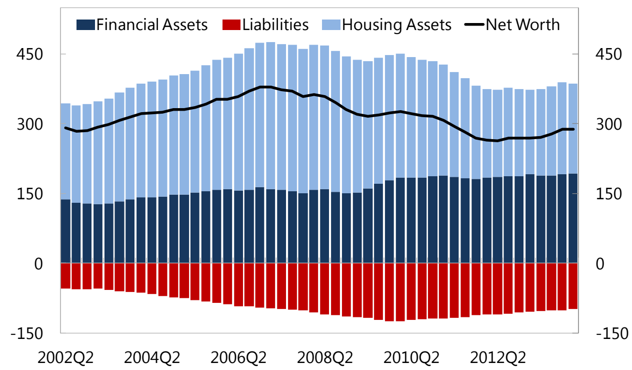
Indicators of Housing Valuation Levels
(Ratio) (Percent)



Sources: PTSB/ESRI; CSO; and Haver Analytics.
1/ Average house prices divided by moving 4-quarter adjusted GDI per capita.
2/ Census 2011 rent extrapolated by CPI rental component over CSO house prices.

6. **These developments are helping to heal crisis-damaged private balance sheets and reduce contingent liabilities of the government**. Household net worth has risen 14 percent since mid 2012, led by higher house valuations and continued debt repayments from high savings. Although declining, household debt remains high by international standards at 198 percent of disposable income and 25½ percent of assets. The total number and value of residential mortgage accounts in arrears has further declined but remain high with the share of all residential mortgages in arrears at 23.7 percent (by value) in Q3 2014 (Box 1). Banks still classify more than half of their commercial loan portfolios as distressed, even as the two main SME lenders (AIB and BoI) work through problem SME loans in line with the bank-specific targets set by the CBI. Improved commercial property market conditions are also facilitating wind downs of impaired assets, with IBRC liquidation approaching completion at no cost to the budget. Similarly, assuming market conditions persist, NAMA is confident it will be in a position to break even with most disposals completed by end 2017 or mid 2018.

Household Assets, Liabilities and Net Worth
(Percent of GDP)



Source: Central Bank of Ireland.

7. **Bank health continues to improve, with high NPL ratios at last declining, yet credit continues to contract**. Net operating profit for the three Irish banks—AIB, BoI, and Permanent tsb (PTSB)—reached just under ½ percent of assets in H1, much improved from break -even a year earlier, supported by both revenue gains and cheaper funding. Provision charges in H1 fell below one-third of that a year earlier. Provisioning coverage of NPLs rose and the three banks remained adequately capitalized at mid year. Stronger profitability and favorable access to market funding have not, however, translated into credit growth, with repayments continuing to outweigh new lending. Credit to SMEs fell by 4.6 percent y/y in H1—excluding lending for property and financial intermediation—and credit to households declined 3.8 percent y/y to October. Yet weak SME credit demand appears to be the main driver as surveys suggest that access to finance is becoming a less pressing problem.

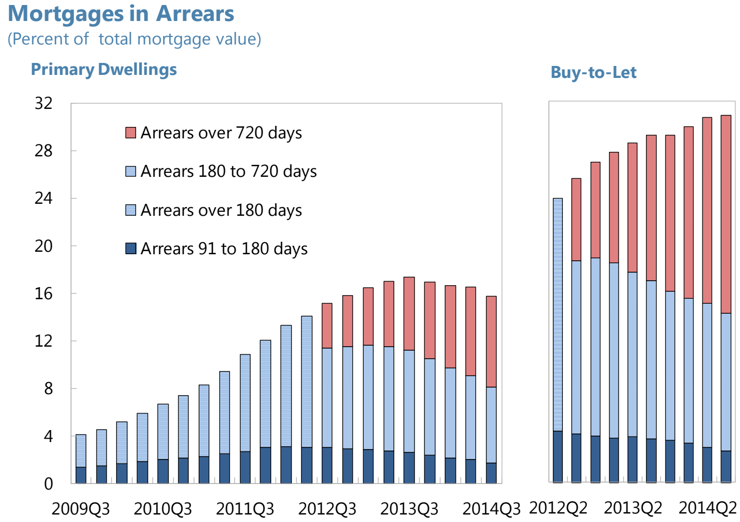
Irish Banks: Key Financial Indicators
(Percent)

	2010	2011	2012	2013	2014H1 1/
Return on assets	-3.2	-1.2	-2.0	-0.8	0.4
Net interest margin	1.3	0.9	0.8	1.2	1.5
NPL ratio	12.1	19.6	24.8	27.1	25.9
Credit growth 2/		-4.1	-10.2	-10.8	-4.8
CET1 ratio 3/	6.3	16.4	14.7	13.3	13.4
Coverage ratio 4/	44.1	49.8	48.5	51.4	52.7
Loan to deposit ratio 5/	183	146	124	111	107
Texas ratio 6/	118	93	115	120	117

Source: CBI; and IMF staff calculations.
1/ Annualized.
2/ Annual percent change in end period balances of gross loans and advances.
3/ CT1 ratio prior to the H1 2014 reporting period.
4/ Provision stock to NPLs.
5/ Net loans to customer deposits.
6/ NPLs to sum of provision stock and CT1 capital.

Box 1. Mortgage Arrears and Resolution Developments

The share of mortgages in arrears on primary dwellings continues to fall, yet the levels of mortgage NPLs remain high. The share by value of primary dwelling home (PDH) mortgages more than 90 days in arrears eased from 16.9 percent at end 2013 to 15.7 percent in Q3 2014. For buy to let (BTL) mortgages, this share continued to increase from 29.2 to 30.8 percent, reflecting in part the prevalence of legal workouts that take time.

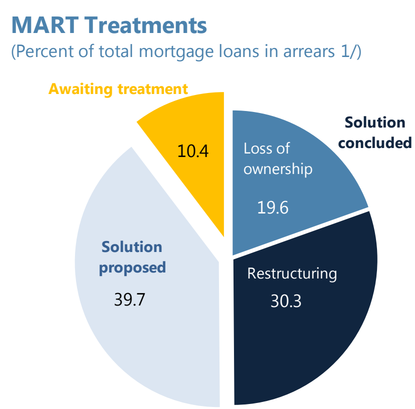


Sources: Central Bank of Ireland; and IMF staff calculations.

Banks' mortgage workouts are guided by CBI targets which seek to balance the need to complete NPL workouts with the imperative of achieving durable solutions. The CBI's Mortgage Arrears Resolution Targets (MART) set quarterly objectives for the share of arrears cases for which the six main mortgage lenders must have proposed or concluded a qualifying solution. In June, the CBI announced end 2014 targets for each bank of 85 percent and 45 percent for proposed and concluded solutions, respectively.

Resolution progress is reportedly ahead of target. MART data for end September 2014 show that the six banks (in aggregate) have proposed solutions to 93 percent of delinquent accounts covered by MART targets and have concluded solutions with 56 percent of delinquent accounts. The share of restructurings constituting long-term solutions rose further, and 89 percent of all concluded MART restructurings were performing.

Restructurings comprise 60 percent of concluded solutions, with the majority providing some debt service relief. While the extent of debt relief is unclear, three-fifths of restructurings reduce debt service obligations through splits (where a portion of the loan principal is warehoused), extended periods of reduced amortization payments, term extension, as well as combinations thereof. Debt write-offs for Personal Insolvency Arrangements are 17 percent for secured debt and 88 percent for unsecured debt, but the number of concluded arrangements at 79 cases cumulatively through Q3 2014 remains low despite a further rise in applications. The number of bankruptcies, which can lead to the write-off of unsecured debt while mortgage debt often remains unaffected, rose further to 301 cases in the first three quarters of 2014.



Sources: Central Bank of Ireland; and staff calculations.
1/ MART covers 108,304 mortgage loans in arrears over 90 days held by ACC Bank, AIB, BoI, KBC Bank Ireland, PTSB, and Ulster Bank.

Banks pursue a change in ownership or rent receivership in 40 percent of treated cases. For most cases where banks demand a loss of ownership, homeowners are not cooperating with lenders on alternative solutions. For BTL properties, where legal solutions or voluntary surrender were proposed for 69 percent (for six banks) of cases in September 2014, banks often pursue rent receivership. Repossessions likely result in sizable debt relief, but it is not clear to what extent lenders pursue the residual after disposal.

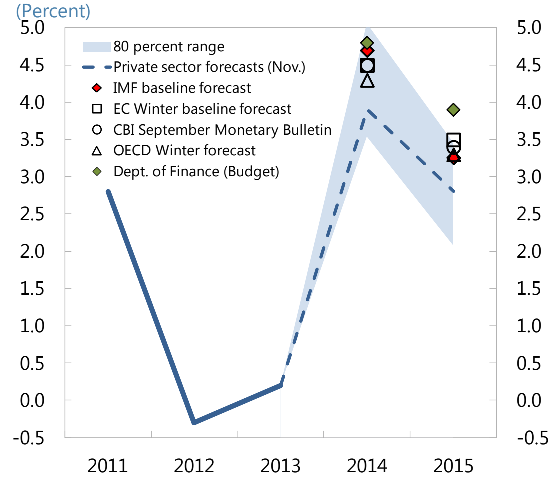
LIFTING OFF INTO UNCERTAIN WEATHER

After a surge in 2014, growth is expected to moderate in 2015 and to average about 2½ percent from 2016. Uncertainties around this outlook are broadly balanced but wide.

8. **Growth is projected to moderate from 4¾ percent in 2014 to 3¼ percent in 2015 and to about 2½ percent thereafter**. Real GDP growth is estimated at 4.7 percent for 2014, which is roughly in the middle of the relatively wide range of recent projections. With the latest WEO maintaining growth of Ireland's trading partners at 2 percent, export growth is projected to revert to 3–4 percent from 2015, compared with average growth in the past five years of 4¾ percent. Investment growth decelerates modestly yet remains brisk given the very low base. In view of still high household debt, the baseline is for a gradual revival of private consumption supported by rising disposable income and eventually some easing in saving rates to less precautionary levels. Inflation rises only slowly as unemployment declines to a still high 9 percent by 2019.

Real GDP Growth Projections

(Percent)



Sources: Bloomberg; and IMF staff estimates.

Macroeconomic Projections, 2010–16

(Percentage change unless indicated otherwise)

	2010	2011	2012	2013	2014	2015	2016
Real GDP	-0.3	2.8	-0.3	0.2	4.7	3.3	2.8
Final domestic demand	-4.9	-1.7	-0.2	-0.7	3.8	2.4	2.4
Private consumption	0.9	-1.2	-1.2	-0.8	0.9	1.3	1.4
Public consumption	-7.1	-2.1	-2.1	1.4	6.6	-1.1	0.3
Fixed investment	-18.0	-2.9	5.0	-2.4	10.0	8.9	7.1
Change in stocks 1/	0.5	0.8	-0.3	0.3	0.0	0.0	0.0
Net exports 1/	3.3	5.9	-0.8	0.6	1.7	1.4	1.0
Exports	6.2	5.5	4.7	1.1	7.0	4.0	4.0
Imports	3.0	-0.6	6.9	0.6	6.7	3.4	3.9
Nominal GDP (billions of euros)	164.9	171.0	172.8	174.8	183.6	190.7	197.4
GDP deflator	-1.6	0.9	1.3	1.0	0.4	0.5	0.7
Output gap (in percent of potential GDP)	-4.1	-2.8	-4.5	-5.8	-3.0	-1.6	-0.8
Current account (percent of GDP)	0.6	0.8	1.6	4.4	3.4	2.7	3.2
Consumer Prices (HICP)	-1.6	1.2	1.9	0.5	0.6	0.9	1.2
Unemployment rate (percent)	13.9	14.6	14.7	13.0	11.2	10.3	9.7
Household savings rate (percent of disp. income)	13.2	11.2	10.2	12.5	10.4	10.0	9.5
Household debt (percent of disp. income)	212	209	205	193	185	174	167

Source: IMF staff projections.

1/ Contributions to growth.

9. Risks to Ireland's growth prospects are broadly balanced within a wide range, with key sources being:

- **Exports, especially to the euro area**. The baseline export assumption is low relative to recent trends, implying some upside. Yet Ireland's openness makes it vulnerable to trading partner growth fluctuations, such as possible stagnation in the euro area which accounts for 40 percent of Ireland's exports. Separately, international action on corporate taxation could undermine Ireland's attractiveness for some export-oriented FDI over time.

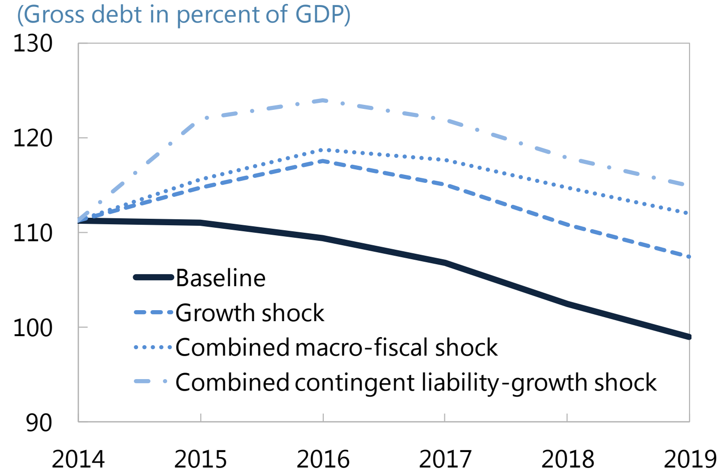
- **Domestic demand, which could sustain its recent momentum or slip given still weak private balance sheets and possible weak financing flows**. With core retail sales rising 3½ percent y/y in the first ten months and oil prices declining substantially, consumption growth may exceed the 1–1½ percent pace projected in coming years, especially if improving property and labor market conditions moderate households' deleveraging efforts. However, a weak lending revival could hinder investment recovery, although credit supply issues may not be pressing for some time given rising enterprise earnings (Box 2).

- **Financial conditions, which are exceptionally favorable, could worsen**. Such favorable conditions may persist, especially if euro area growth remains weak. But shocks such as disappointment on ECB policy action, a reassessment of sovereign risk in Europe, or geopolitical developments could result in renewed volatility and spread widening. The impact on Ireland's financing conditions would likely be larger if consolidation challenges were to delay progress to fiscal balance and in putting debt firmly on a downward path.

10. Public debt remains high and growth shortfalls are the key risk to sustainability. From 123 percent in 2013, public debt falls notably in 2014 to an estimated 111 percent of GDP (Box 3). Under the baseline, gross debt falls below 100 percent of GDP in 2019. A temporary shock to nominal GDP growth would hurt these dynamics: if growth were to drop 2 percentage points below the baseline in 2015–16, debt would rise to 117 percent of GDP in 2016. If this shock was compounded by a cumulative worsening of the primary balance by 2.3 percent of GDP over 2014–19 and a 2 percentage point rise in interest rates on new debt, debt would peak at 118 percent of GDP in 2016. On the upside, disposal of the state's stake in the banks in coming years could significantly lower public debt; the state's largest holding, in AIB, is currently valued at around 7 percent of GDP.

Public Debt Paths under Various Scenarios

(Gross debt in percent of GDP)

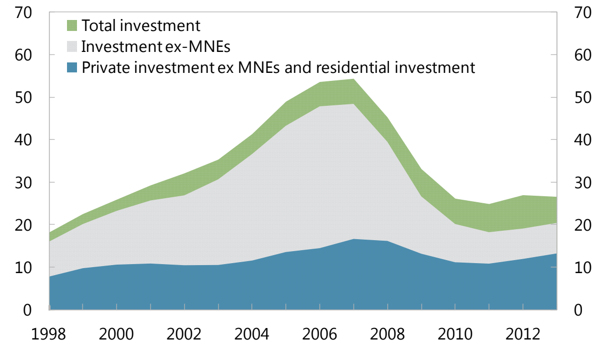


Source: IMF staff estimates.

Box 2. Financing of Corporate Investment

A rise in the current low level of investment will be crucial to sustaining recovery in the years ahead. Nonfinancial corporate (NFC) investment contracted dramatically during the crisis, but is beginning to revive. Staff projects investment growth of about 9 percent in 2014–15 and an average of 6 percent over 2016–19, which would bring investment back to its pre-crisis share of GDP of around 20 percent, supporting growth in employment and productivity.

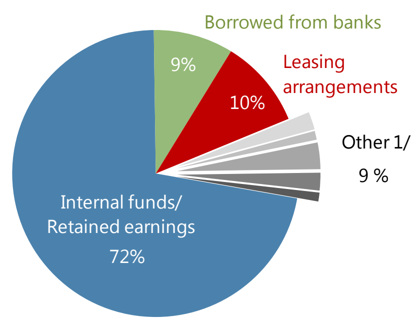
Business Investment since 1998
(Billions of euro)



Sources: Central Statistical Office; and IMF staff calculations.

There are potential risks to the adequacy of bank financing available for investment. Continued household deleveraging and low interest rates could limit the growth in bank deposits that are expected to be the main form of funding for bank lending. The transition towards more stringent Basle III capital adequacy standards could also hinder the channeling of credit to enterprises.

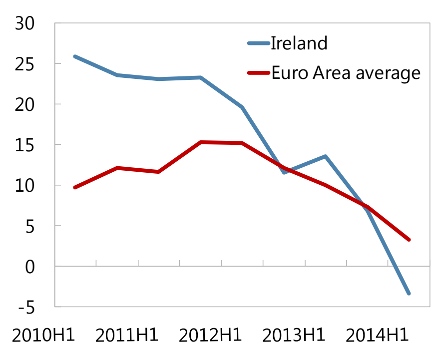
How is SMEs' Investment Financed?
(Average proporion in percent)



Source: DoF; Red C Survey (September 2014).
1/ Non-bank financing, owners' contribution, advances from customers.

Nonetheless, investment by domestic companies is significantly less than total investment. Multinational enterprises (MNEs) operating in Ireland can raise funds in international capital markets or from parent companies (see Cussen, 2013). This sector of the Irish economy is generally thought to be insulated from financing conditions in Ireland. Investment by Irish NFCs (excluding MNEs, residential construction, and the public sector) has been around €10–15 billion in the past decade.

External Financing Gap Perceived by SMEs 1/



Source: SAFE survey.
1/The external financing gap measures the perceived difference at firm level between the need for external funds (across all channels, i.e. bank loans, bank overdrafts, trade credit, equity and debt securities) and the availability of funds.

Strong retained earnings currently limit reliance on bank financing. NFCs' profitability has recovered strongly since 2008, with retained earnings of Irish companies estimated at about €15 billion per year, exceeding current investment financing needs. Surveys confirm the low use of bank loans in financing investment (Red C) and show that most SMEs perceive external financing as more than adequate (SAFE).

At this early stage in the recovery, bank financing availability is not a constraint on investment, and it is unclear whether financing availability would become binding in coming years. A rise in investment of some 20–30 percent in coming years could create additional financing needs by Irish NFCs of €2–4 billion annually, part of which would be met by further growth in earnings. Although a significant rise relative to SME lending of some €2 billion in the 12 months to June 2014, an expansion of lending by €2 billion annually would require an additional expansion of domestic banks' loan books of roughly 1 percent.

Box 3. Public Debt Ratio: Recent Data Revisions and Changes in Outlook

Public debt figures—both historical and projections—have changed since the First PPM report.

Historical debt revisions are related to the shift to ESA 2010 accounting. The key change in historical debt data arises from the consolidation of the Irish Bank Resolution Corporation (IBRC) into general government, which added €12.6 billion to end 2013 public debt, a 6.2 percent increase. However, the transition to ESA 2010 as well as other revisions resulted in an upward revision to GDP of 6.5 percent in 2013. As a result, the revised debt to GDP ratio of 123.3 percent at end 2013 is very close to the 123.7 percent reported to the 1st PPM report.

Gross public debt is estimated to drop to 111 percent of GDP at end 2014 on account of one-off factors. As positive automatic debt dynamics offset the small primary deficit, the 12 percentage point drop in gross debt during 2014 is driven by two developments:

- **Liquidation of IBRC**. This will be almost completed in 2014 on the back of strong investor interest, with remaining liabilities dropping to €1.5 billion (expected to be dealt with gradually in coming years). The liquidation lowers end 2014 debt by 6 percentage points of GDP.

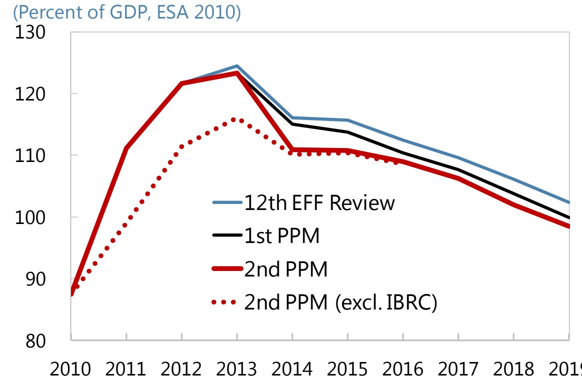
- **Drawdown of cash deposits**. This contributed 4 percentage points to the drop in the gross debt to GDP ratio. The improved outlook and favorable financing conditions have reduced the need for the very high cash buffers the authorities built ahead of exiting the EU-IMF supported program. Over the course of 2014, the government's cash and short-term investments are estimated to fall from €18.5 billion to around €11 billion.

The baseline debt outlook has improved since the First PPM. Gross public debt is 4 percentage points lower in 2014 after accounting for statistical revisions, and is forecast to remain below the previous medium-term debt path owing to:

- **Better growth prospects**. In 2014 alone, higher growth than earlier projected accounts for a 1¼ percentage point reduction in the debt ratio.

General Government Gross Debt

(Percent of GDP, ESA 2010)



Source: IMF staff projections.

- **Improved financing conditions**. Bond yields are at all-time lows reflecting both lower rates on German bunds and lower spreads than anticipated at the time of the First PPM. While incoporating easier financing conditions in the euro area, the projection assumes spreads on Irish bonds at a conservative level of 200 basis points.

- **Early IMF repayments**. Planned early repayments of Fund credit improve debt sustainability by lowering the interest bill by a cumulative total of 1 percentage point of GDP over a number of years and are also expected to extend the debt maturity profile.

SUSTAINING RECOVERY AND REBUILDING POLICY SPACE

Bringing the budget into balance and thereby putting debt firmly on a downward path will help provide space for fiscal policy to cushion the economy. However, major challenges lie ahead in achieving the expenditure restraint envisaged by the authorities, requiring strong policy efforts for some years. A revival of credit flows is needed to sustain the recovery over time, while protecting the resilience of banks and borrowers to shocks. This requires completing bank repair, further strengthening supervision of lending, and ensuring a healthy construction supply response.

A. Fiscal Policy

11. The fiscal deficit is expected to be well within 2014 targets despite some overruns, but political challenges to adjustment and reforms appear to have increased. Tax revenues are ½ percent of GDP ahead of profile, benefitting from stronger labor market conditions and consumer spending. Slippages driven by the healthcare sector are expected to result in an overrun of aggregate primary expenditure by 0.4 percent of GDP. Nonetheless, the fiscal deficit is estimated at about 4 percent of GDP in 2014, well below the budget target of 4.8 percent of GDP. However, polling for the governing parties has deteriorated in 2014 and widespread protests against water charges prompted the authorities to cut fees and cap future charges.

12. Budget 2015 adopted expansionary measures to the extent permitted by the Irish authorities' priority to exit the Excessive Deficit Procedure (EDP) in 2015. The budget targets a deficit of 2.7 percent of GDP, leaving a small buffer relative to the EDP requirement of a deficit below 3 percent of GDP. Reflecting adjustment fatigue and political challenges, the budget adopted expansionary measures of ⅔ percent of GDP, or ½ percent net of earlier measures impacting in 2015 including water charges. Measures include:

- **Tax reductions totaling ¼ percent of GDP**. Income tax cuts that increase the already strong progressivity of the system are the main items. While not significant to the revenue intake, reductions in property taxes by 14 local authorities, including Dublin, are a setback for collections from this recent broadening of the tax base. Nonetheless, termination of capital gains relief on property investments at end 2014 as earlier planned is welcome, as is the expiration of the 0.6 percent pension levy introduced in 2011.
- **Expenditure increases totaling 0.4 percent of GDP**. These include a small increase in social housing investment and a higher health vote—accommodating health overruns in 2014.

13. Although fiscal adjustment continues in 2015, a firmer adjustment would have been preferable given strong near-term growth prospects and still high debt. Reflecting past measures including agreements on public sector compensation, an overall reduction in nominal primary current spending of ½ percent is targeted in 2015. Staff therefore estimates that the 2015 stance is modestly contractionary, with a structural primary balance improvement of about ½ percent of GDP, down from 1½ percent of GDP on average in 2012–14. An adjustment closer to 1 percentage point in 2015 would have enabled more rapid progress to balance during a year expected to have stronger than average growth. IFAC also considers that an opportunity to make faster progress to balance was missed. Taking account of the large and prolonged consolidation efforts during the past seven years the authorities considered that modest tax cuts and expenditure increases were appropriate.

14. Strict spending control is especially critical in 2015 to protect the envisaged adjustment, provide a sound base for the medium term, and safeguard credibility. Budget overruns, especially in healthcare, underscore the need to strengthen spending management. Moreover, any revenue overperformance or additional interest savings should be used to lower the deficit in 2015 despite electoral pressures. This is critical to medium-term consolidation as spending in 2015 is the basis for expenditure ceilings after 2015 under the SGP Expenditure Benchmark. The authorities, based on experience in the budget process, expect that health sector expenditure control will improve in 2015. More broadly, they are confident that their 2015 deficit target, which is below the level required to exit the EDP, will be achieved.

15. The budget should be balanced over time through steady adjustment to put debt on a firmly declining path while protecting growth. Balancing the budget would ensure Ireland's high debt ratio declines on average by 3–4 percentage points annually. Reaching overall balance requires a primary surplus of about 3¾ percent of GDP, entailing a cumulative rise in the structural primary balance of some 2¼ percent of GDP. Budget 2015 envisages an expenditure led consolidation, with nominal expenditure broadly flat and real spending declining by 1 percent annually until 2018, implying annual primary structural adjustment of about ¾ percent of GDP on average. Faster structural adjustment would not be appropriate given the still significant output gap and the need to reduce unemployment to contain hysteresis risks. Should windfalls occur, including interest savings or asset disposals, they should be fully used to reduce debt and hasten progress to fiscal balance. The authorities are pursuing their budgetary strategy, but noted technical issues with aspects of the fiscal rules, in part due to difficulties estimating Ireland's output gap, that would benefit from more detailed consideration at the forthcoming Article IV consultation.

Key Fiscal Indicators: 2014–18

(In percent of GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018
Budget 2015					
Net lending/borrowing	-3.7	-2.7	-1.8	-0.9	0.3
Real GDP (Percent change y/y)	4.7	3.9	3.4	3.4	3.4
IMF Projections					
Net lending/borrowing	-4.1	-2.9	-1.9	-0.9	0.0
Real GDP (Percent change y/y)	4.7	3.3	2.8	2.6	2.5
Structural primary balance, change	0.1	0.4	0.8	0.8	0.7
Real primary spending (Percent change y/y)	2.0	-1.2	-0.4	-1.2	-1.4
Scenario: 1 percent real primary spending growth in 2015-19					
Net lending/borrowing		-3.6	-3.0	-2.8	-2.5

Source: IMF staff projections.

16. But medium-term fiscal consolidation is at risk from spending pressures, requiring the adoption of a clear strategy to enable the restraint envisaged to be realized. If real spending instead rose by 1 percent annually over the medium term, little reduction in the overall balance would be achieved with deficit still around 2½ percent of GDP by 2018 (text table above). As the public investment budget is already low, current expenditures will have to bear the brunt of spending restraint, while ensuring the capacity to meet demands for health and education services from rising child and elderly populations. Nominal public sector wages and social benefits must be held flat for as long as feasible and the authorities will need to continue to seek savings across the budget. As unemployment declines, flexibility to reallocate social protection spending will be key to containing overall spending while addressing public service needs. IFAC also emphasized the need for a medium-term reform plan to achieve spending paths in the face of increased spending pressures. The authorities noted that their approach to managing expenditure, including demographic pressures, will be framed within the context of the fiscal rules which limit spending through the Expenditure Benchmark.

17. Readiness to implement revenue measures is needed to safeguard medium-term achievement of budget balance, including to deal with changing international tax standards. There are risks that the limits of expenditure control will be reached at some point. Moreover, owing to evolving international tax standards, there are also potential downside risks to Ireland's tax base. The authorities saw limited revenue risks in the medium term, including as a result of their phasing out of the "Double Irish" tax scheme. They noted that the Expenditure Benchmark allows discretionary revenue measures to raise expenditures, and this is one option in managing the fiscal position.

B. Financial Sector Policies

18. Supervisory efforts should focus on effective integration with the SSM now that the Comprehensive Assessment is completed. The ECB's Asset Quality Review found modest additional provisioning needs in banks' commercial loan portfolios, confirming the findings of the CBI's 2013 Balance Sheet Assessment (Box 4). In the stress scenario, a capital shortfall of €855 million arose in PTSB, reflecting its weak profits and their sensitivity to shocks (see below). The mission urged continued strong collaborative efforts to facilitate a smooth transition to the SSM, where the more intensive approach envisaged for banking supervision—such as additional on-site inspections—is welcome. The CBI agreed that collaboration and integration is key to the success of the SSM and has already reorganized banking supervision to ensure effective alignment with SSM and has also increased resources to reflect the evolving supervisory approach, particularly with regard to on-site inspections.

19. This opportunity should be used to ensure PTSB is on a path to viability. PTSB's intention to access private markets to address the capital shortfall identified in the Comprehensive Assessment is welcome. Although the bank has shown promise in resolving mortgage distress, expanding its deposit base, and increasing new lending, it remains loss making and only slow improvement can be expected given its large exposure to tracker mortgages. The authorities confirmed that an updated restructuring plan, incorporating improved financial and operating performance, would be submitted to the European Commission shortly. Moreover, the viability of all banks' business models and their ability to deliver sustainable profitability will continue to be a supervisory focus and is a cornerstone of the SSM's supervisory philosophy.

Box 4. Results of the ECB's Comprehensive Assessment

The results of the recent Comprehensive Assessment were in line with expectations for Irish banks. The exercise comprised an asset quality review (AQR) for end 2013, including an assessment of nonperforming exposures (NPEs) and provisions, and a stress test for potential capital shortfalls under baseline and stress scenarios to end 2016. The assessment covered the five Irish banks, including those that received state support during the crisis: AIB, BoI, and PTSB.

The AQR did not materially impact capital. The end 2013 aggregate NPE ratios for selected portfolios (covering at least half of bank's RWA) rose between 1.4 and 2.4 percentage points across the three banks. Provisions were generally deemed adequate, with coverage ratios of provisions to NPEs adjusted modestly upward for AIB and more significantly for BoI, primarily on corporate loans. Including the impact of changes to risk weighted assets, the downward adjustments to banks' aggregate CET1 ratios at end 2013 owing to the AQR was small at 0.3 to 0.6 percentage points, leaving these ratios well above the 8 percent floor. The exercise thus broadly confirmed the CBI's Balance Sheet Assessment of late 2013.

Evolution of NPEs and Coverage Ratios for Portfolios Subject to AQR

(Percent unless indicated otherwise)

	AIB	BoI	PTSB
NPEs (percent of gross loans)			
NPE ratio end 2013 (reported)	38.10	20.75	25.54
AQR adjustment (pp)	1.40	1.57	2.41
NPE ratio end 2013 (post AQR)	39.50	22.32	27.94
Coverage ratio			
Coverage ratio end 2013 (reported)	51.93	41.99	39.21
AQR adjustment (pp)	0.30	1.86	-0.10
Coverage ratio end 2013 (post AQR)	52.24	43.84	39.11

Source: ECB and EBA.

The stress test, however, identified significant undercapitalization at PTSB. BoI showed robustness in both baseline and stress scenarios, and although AIB faced a substantial impact under stress, its strong initial capital enabled capital to remain above the threshold. However, PTSB's continued pre-provision operating losses weighed heavily in the baseline, such that additional operating and credit losses in the stress scenario resulting in the CET1 ratio falling to about 1 percent, a capital shortfall of €855 million. The bank was given two weeks to submit a capital plan with capital to be raised within 9 months. PTSB announced it intends to cover the shortfall by €400 million of contingent convertibles, asset sales and other actions, and by an equity raise from private investors.

Impact of the Comprehensive Assessment on Bank Capital

(Percent unless indicated otherwise)

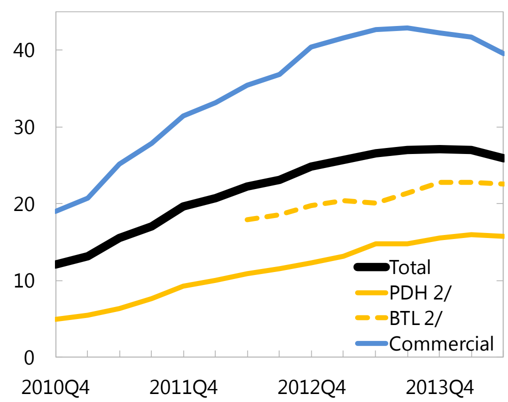
	AIB	BoI	PTSB
CET1 ratio end 2013 (reported)	**14.99**	**12.40**	**13.13**
Adjustment due to AQR (pp)	-0.35	-0.58	-0.29
CET1 ratio end 2013 (post AQR)	**14.64**	**11.82**	**12.84**
Aggregate impact of the baseline scenario (pp)	-2.21	0.62	-4.02
Adjusted CET1 ratio post baseline scenario	**12.43**	**12.44**	**8.82**
Aggregate impact of the stress scenario (pp)	-7.72	-2.50	-11.87
Adjusted CET1 ratio post stress scenario	**6.92**	**9.31**	**0.97**
Capital need (millions of euro)			**855**

Source: ECB and EBA.

There is also a need to adjust capital structures over time to comply withthe transitional provisions applicable to own funds calculations defined under the CRD IV/CRR that will apply according to a transitional period depending on the nature of the CET1 item. All three banks include in their regulatory capital significant amounts of instruments that will be excluded from the calculation of CET1 after the transitional period, including deferred tax assets and preference shares.

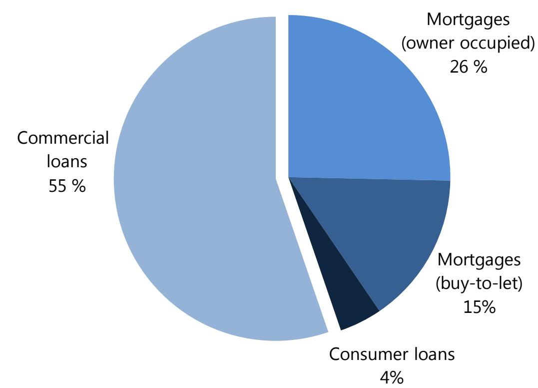
20. NPLs are the main remaining challenge for bank repair. NPLs remain exceptionally high at 25.9 percent of loans in mid 2014, from 27.1 percent at end 2013. Commercial exposures, including SME and commercial property loans, comprise 55 percent of these banks' NPLs and residential mortgages dominate the remainder. Some further progress on NPL reduction can be expected in 2015, as loans restructured during 2014 that have not redefaulted can exit the NPL category after one year, but substantial impaired assets remain to be resolved.

Banks' NPL Ratios 1/
(Percent)



Source: Central Bank of Ireland.
1/ Three main banks. 2/ Ireland and UK loans only.

Nonperforming Loans
(Percent of total 1/)



Sources: Central Bank of Ireland; and IMF staff calculations.
1/ Three main banks, as of end June 2014.

21. Residential mortgage workouts are advancing but timely completion of the large number of legal solutions must be ensured. Banks indicate that by Q3 somewhat over half of mortgages in arrears had been addressed either by durable restructuring (60 percent) or legal proceedings (40 percent), well ahead of end 2014 targets under the CBI's Mortgage Arrears Resolution Targets (MART). For loan restructures, aggregate re-defaults are 11 percent—well below the MART benchmark of 25 percent—with re-defaults more frequent where little or no debt service relief is provided, such as arrears capitalizations. About 12,000 repossession and rent receivership proceedings are underway, but often their completion is delayed by the frequency of adjournments which has led to an increase in the time between hearings from 10 to 13 weeks. The mission emphasized the importance of more efficient proceedings to motivate borrowers to reengage with banks in a timely manner to agree restructures where feasible. While acknowledging the higher case load of courts, the authorities did not agree with staff's assessment of court processes and noted that adjournments are often sought by lenders or are needed for lenders to provide courts with required information. Given the substantial unfinished mortgage resolution work, the mission urged continued supervisory targets for coming years, with due attention to reversing the rise in buy-to-let loans in arrears.

22. SME and CRE loan resolution are also moving forward, but full implementation of workout plans is essential. The CBI set key performance indicators to complete the workout of almost all challenged SME loans by year end, which lenders have reportedly achieved. Some 70 percent of workouts entail loan restructuring and asset disposal over time, with 25 percent of solutions involving insolvency or legal enforcement. Supervision should ensure that banks are either encouraging appropriate progress by distressed borrowers in the execution of workout plans or are making timely loan disposals. The CBI agreed that continued close supervision is warranted while noting that the restructuring of SME and CRE distressed debt is complex and restructuring plans often span 3 to 5 years, thus workout of these loans will require time even with an improving economic outlook.

23. Given the protracted resolution process, a prudent approach to bank provisions is needed. Banks are still in early stages of resolving the large stock of NPLs, many of which have been in prolonged arrears. Historical experience with resolution is limited, leaving significant uncertainty around the durability of restructures and the ultimate value of collateral realizations. Banking supervision should therefore uphold a cautious and prudent level of provisions including by challenging write backs. The authorities noted that the robustness of the banks' approach to and adequacy of provisioning will continue to be a focus area for banking supervision.

24. Strengthening the regulation of mortgage origination is a welcome step to reduce Ireland's macro-financial vulnerabilities. The CBI recently published a consultation paper including proposals that: (i) no more than 15 percent of mortgage lending to owner-occupiers to be at a loan to value (LTV) of greater than 80 percent, and (ii) no more than 20 percent of mortgage lending should be at a loan to income (LTI) ratio of greater than 3.5 times. Given the low current level of lending, the near-term impact on housing markets would likely be modest. Nonetheless, over time such limits will increase the resilience of both the banking and household sectors to shocks and moderate propensity for credit-driven house price booms. Staff therefore urged that any exemptions to these limits—such as for first-time buyers—be carefully structured so as to not undermine the intended improvement in the resilience of the Irish financial system. Finalization of the central credit register remains important, including to permit these regulations to cover households' entire debt, which better indicates potential financial vulnerabilities.

C. Labor and Property Market Policies

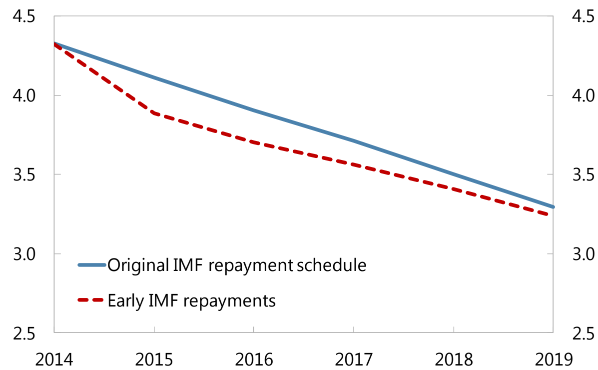
25. A stronger response from construction supply is needed to help contain pressures on housing prices and rents. Housing completions rose 35 percent y/y to October 2014, but are still roughly half the estimated annual need, contributing to the rise in prices and rents. Timely implementation of the government's Construction 2020 initiatives is therefore important, but reintroduction of tax distortions on real estate that contributed to the bubble must be avoided. The authorities note that for Dublin, current planning permissions equivalent to two years of housing supply are available. They consider that forthcoming use-it-or-lose-it planning permissions together with vacant site levies should help accelerate construction by countering reluctance to develop properties owing to expectations of further price appreciation.

26. Efforts to strengthen employment and training services must continue. High levels of youth and long-term unemployment pose downside risks to employment and hence to growth in the medium term. Steady progress on engaging with long-term unemployed persons is being made and the private employment services are expected to start in H2 2015. The timely establishment of regional Education and Training Boards that will collaborate with Intreo offices, is important to deliver the training needed by the labor market. The operation of these new frameworks must be evaluated closely over time, and adapted accordingly, to ensure they deliver services that are most effective in helping the unemployed return to work.

FINANCING AND POST-PROGRAM MONITORING

27. Early repayments of Fund credit will reduce the government's interest and hedging expenses and extend the average maturity of public debt. Proportional early repayment requirements on Ireland's debts to the EFSF/EFSM were waived in mid-October, with bilateral lenders following in November. The authorities plan to make early repayments of up to €18 billion in total depending on market conditions, with the first repayment equivalent to some €9 billion completed in mid-December 2014. Cumulative savings on interest and hedging costs are estimated at around 1 percent of GDP.

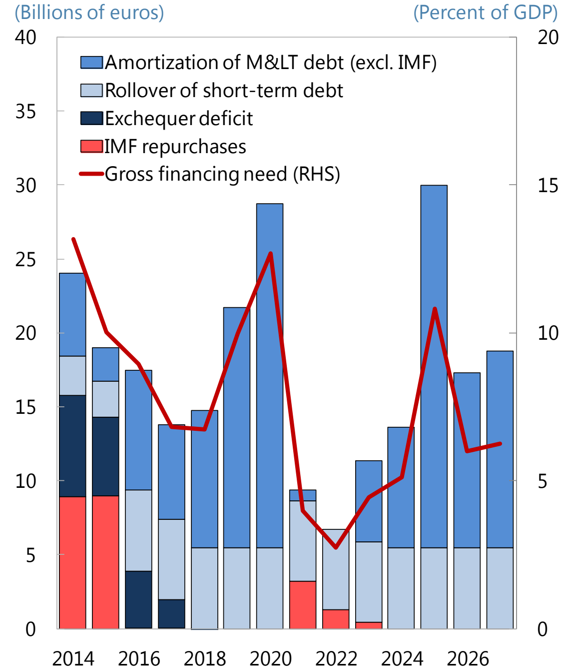
Interest Bill on a Cash Basis 1/
(Percent of GDP)



Source: IMF staff projections.
1/ Including hedging costs and assuming current spreads on Irish bonds.

28. Ireland's capacity to repay the IMF has strengthened and remaining risks reflect broader risks to Ireland's debt sustainability. Ireland's market access is currently robust and is on highly favorable terms, reflecting its improved economic outlook and broader euro area bond market developments. By locking in low market rates and extending average maturities, early repayments to the Fund reinforce debt sustainability and market access, increasing Ireland's capacity to service its remaining Fund credit. A range of risks to Ireland's growth, debt sustainability, and financing conditions are set out in ¶11. These risks also bear on Ireland's capacity to repay the Fund, requiring steadfast commitment to reaching fiscal balance in the medium term and strong supervision to ensure sound financial intermediation.

Government Gross Financing Need
(Billions of euros) (Percent of GDP)



Source: IMF staff estimates.

STAFF APPRAISAL

29. The Irish economy has surged forward yet medium term uncertainties are wide. GDP figures have caught up with job data and other positive indicators and bond yields are tracing new lows, facilitating early repayments to the IMF with significant budgetary savings. Rising property prices are helping to heal crisis damaged balance sheets and are facilitating resolution of impaired assets. Nonetheless, high public and private debts, nonperforming loans, and unemployment, remain key vulnerabilities. Ireland also faces risks to international trade and financial conditions that imply significant uncertainty around medium-term growth prospects.

30. To help sustain the recovery and reverse the damage to employment, fiscal and financial policies must focus on building resilience. A large and prolonged fiscal consolidation effort has been made and fatigue is evident. Yet further narrowing of deficits is needed to put public debt firmly on a downward path and rebuild scope for fiscal policy to cushion the economy. Progress in bank repair is confirmed by the Comprehensive Assessment, although steady resolution of high NPLs is still needed, together with steps to ensure that new lending will contribute to recovery without undermining the resilience of banks and borrowers.

31. A clear strategy is needed to underpin the achievement of fiscal balance in the medium-term. Budget 2015 continues the needed adjustment, but a firmer structural adjustment, closer to 1 percent of GDP, would have been preferable given strong near-term growth prospects and still high debt. Strict spending control will be particularly important in 2015 to protect this adjustment and provide a sound base for expenditures in the medium-term. The authorities' medium-term fiscal path entails a balanced pace of adjustment, but its achievement is at risk owing to spending pressures. A clear strategy to achieve the further gradual real spending decline envisaged is needed, including ongoing reforms to generate savings while protecting public services and investment, continued restraint of the public wage bill and social benefits, and flexibility to reallocation spending over time. Readiness to implement revenue measures should also be maintained if they prove necessary to ensure steady consolidation progress.

32. Financial sector priorities are for banking supervision to integrate smoothly with the SSM, to put PTSB on a sound footing, to press forward on NPL resolution, and to ensure the soundness of new lending. The more intensive supervisory approach envisaged under SSM is appropriate and CBI efforts to align its resources and structures with the SSM are welcome. It is encouraging that PTSB intends to meet from private sources its capital shortfall under stress and this capital raise must be used as an opportunity to establish a clear path to viability. For all banks, unfinished resolution work requires continued supervisory targets for distressed mortgage workouts, more timely completion of repossession proceedings to motivate borrowers to engage on restructures where feasible, and guidance to ensure that banks are either encouraging appropriate progress by distressed commercial borrowers in the execution of workout plans or making timely loan disposals. Given the still limited resolution experience, a prudent approach to provisioning should be maintained, including with respect to write backs. The CBI's proposed new residential mortgage lending rules are a welcome step to reduce

Ireland's macro-financial vulnerabilities, where exemptions should carefully structured in order to not undermine the resilience of banks or the Irish financial system.

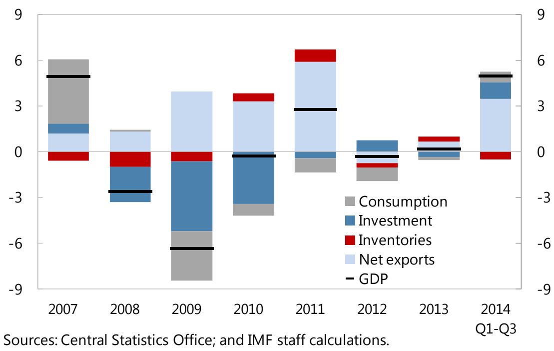
33. Growth potential should be supported by helping youth and long-term jobless return to work and pressures on housing prices and rents contained by addressing supply bottlenecks. The new frameworks for employment and training services should be closely monitored and adapted as needed to ensure the unemployed are best enabled to meet labor market needs. Factors impeding housing supply should be addressed, including through timely implementation of the government's *Construction 2020* initiatives. In particular, the introduction of use-it-or-lose-it planning permissions together with vacant-site levies could usefully help counter reluctance to develop properties owing to expectations of further price appreciation.

Figure 1. Ireland: Real Sector and Inflation Indicators, 2006–14

All GDP components contributed to a 5.8 expansion y/y in H1…

Contributions to Real GDP Growth

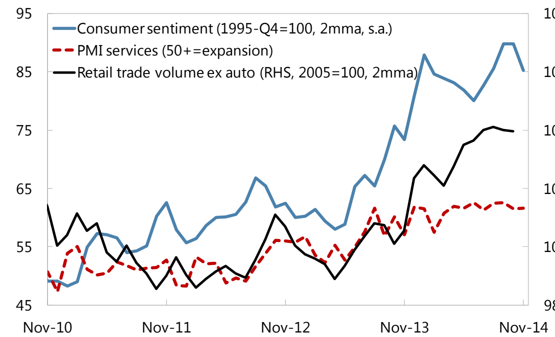
(Percent, y/y, full year GDP except for 2014)



Sources: Central Statistics Office; and IMF staff calculations.

…aided by strong consumer confidence and rising retail sales.

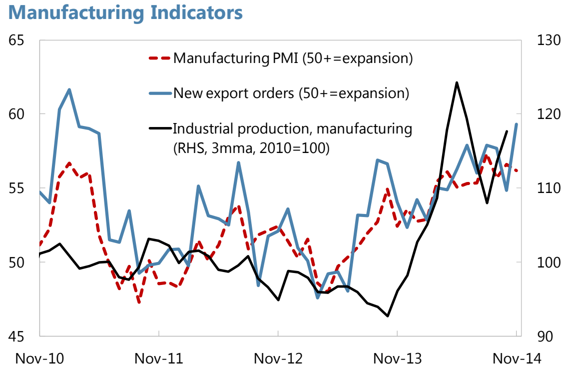
Retail Trade and Sentiment Indicators



Sources: CSO; ESRI; Haver Analytics; and NCB Stockbrokers/Markit.

Exports orders and PMIs are positive for manufacturing but industrial production data has been volatile

Manufacturing Indicators

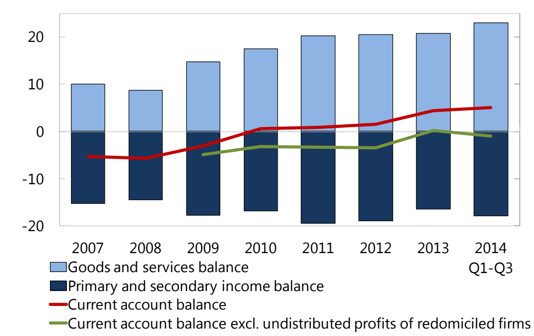


Sources: Central Statistics Office; NCB; and Haver Analytics.

The current account remained broadly balanced in H1 excluding profits of redomiciled firms.

Current Account Balance Composition

(Percent of GDP)

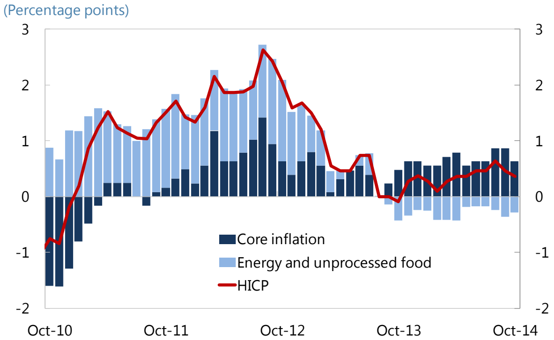


Sources: Central Statistics Office; Haver Analytics **and staff estimates.**

Inflation remains low as rising services prices are partly offset by falling energy and food prices.

Contribution to Annual HICP Inflation

(Percentage points)

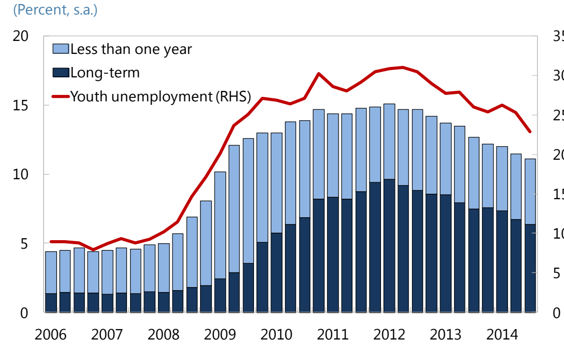


Sources: Central Statistics Office; and IMF staff calculations.

Unemployment declined to 11.1 percent in Q3, with long-term and youth unemployment also declining but remaining high.

Unemployment Rates

(Percent, s.a.)

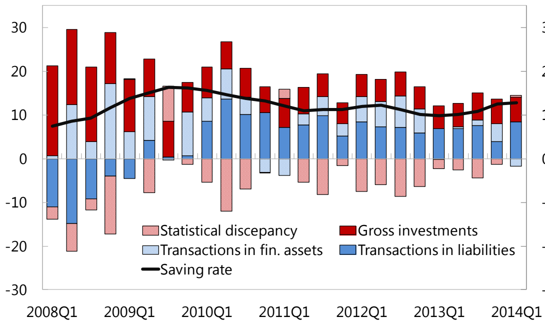


Sources: CSO; and Haver Analytics; and IMF staff calculations.

Figure 2. Ireland: Household Finance and Housing Developments, 2003–14

Household savings still remain elevated, with three-quarters of savings devoted to debt reduction since 2010…

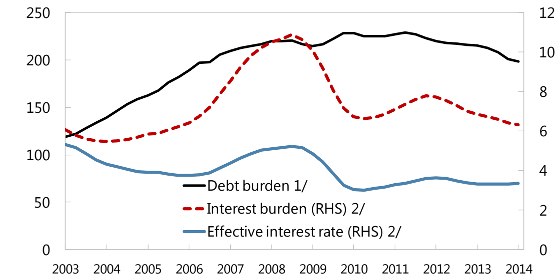
Decomposition of Household Savings
(Percent of gross disposable income)



Sources: Central Bank of Ireland; Eurostat; and IMF staff calculations.

…contributing to the gradual reduction in debt burdens while low interest payments also contribute.

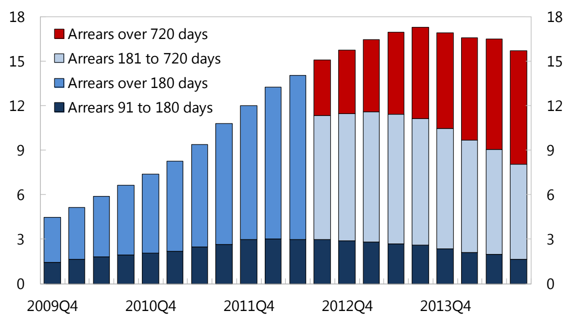
Household Debt and Interest Payments
(Percent of gross disposable income)



Sources: Central Bank of Ireland; Haver Analytics and IMF staff calculations.
1/ Total household liabilities in percent of four-quarter gross disposable income.
2/ Four quarter interest payments (excluding FISIM adjustment) in percent of four-quarter gross disposable income or previous quarter's total household liabilities, respectively.

The share of mortgages on primary dwellings in arrears continues to decline.

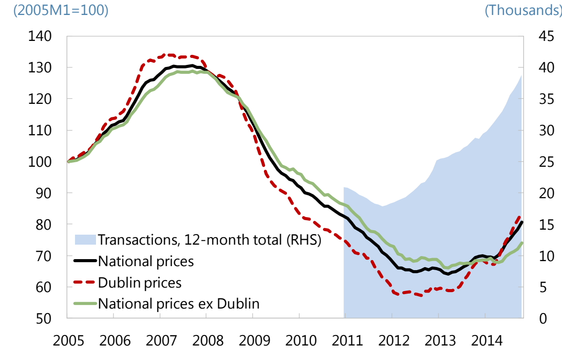
Mortgages in Arrears on Primary Dwellings
(Percent of total mortgage value)



Source: Central Bank of Ireland.

The residential property market is reviving, particularly in Dublin, although prices are still well below peak levels.

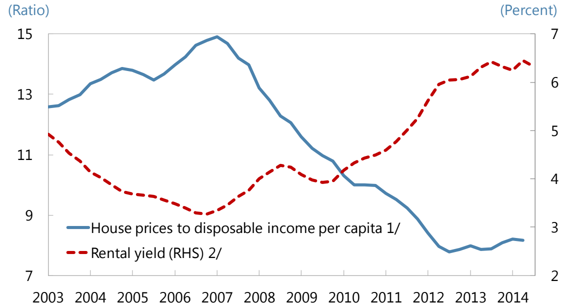
Residential Property Prices and Transactions
(2005M1=100) (Thousands)



Sources: CSO; Property services regulatory authority; and IMF staff calculations.

Indicators of housing valuations are starting to reverse but do not yet suggest valuation risks.

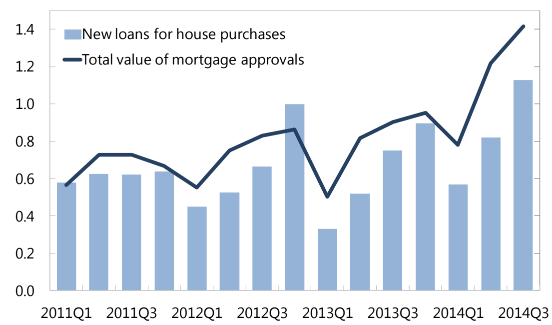
Indicators of Housing Valuation Levels
(Ratio) (Percent)



Sources: PTSB/ESRI; CSO; and Haver Analytics.
1/ Average house prices divided by moving 4-quarter adjusted GDI per capita.
2/ Census 2011 rent extrapolated by CPI rental component over CSO house prices.

New mortgage lending has recently rebounded strongly, albeit from low levels.

Housing Loans and Mortgage Approvals
(Billions of euros)

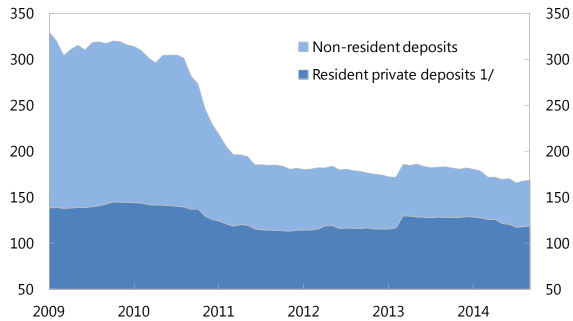


Source: Banking and Payment Federation Ireland.

Figure 3. Ireland: Credit Developments, 2003–14

Deposits remained stable…

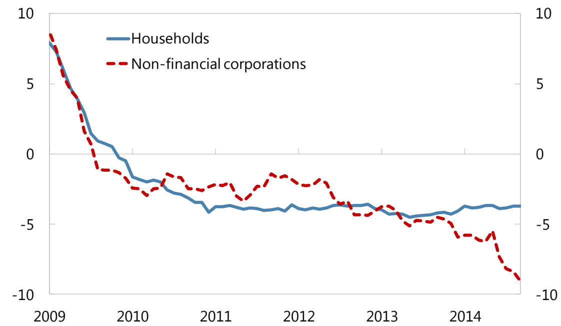
Irish Banks' Deposits
(Billions of euro)



Source: Central Bank of Ireland.
1/ Irish-headquartered banking groups (as per Table A.4.2, monetary statistics)

…but credit continues to contract, especially as non-financial corporations repay loans.

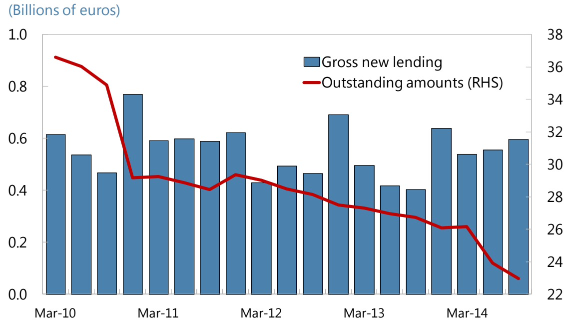
Loans Outstanding to Irish Residents
(Percent change, y/y)



Source: Central Bank of Ireland.

Deleveraging is evident in the SME sector, where redemptions continue to exceed new credit…

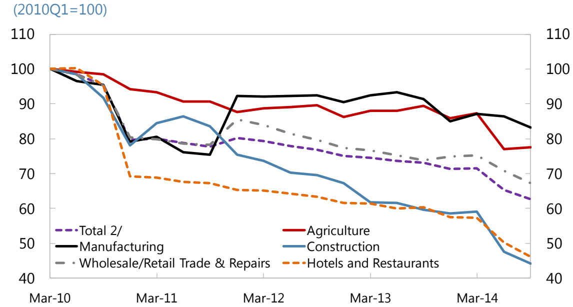
Outstanding SME Credit 1/
(Billions of euros)



Source: Central Bank of Ireland.
1/ All resident credit institutions, excluding real estate and financial intermediation.

…in all sectors.

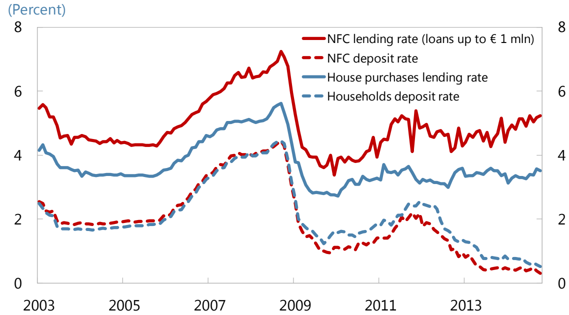
Outstanding SME Credit by Sector 1/
(2010Q1=100)



Source: Central Bank of Ireland.
1/ All resident credit institutions.
2/ Excludes real estate and financial intermediation.

Low deposit rates together with a drift up in NFC lending rates…

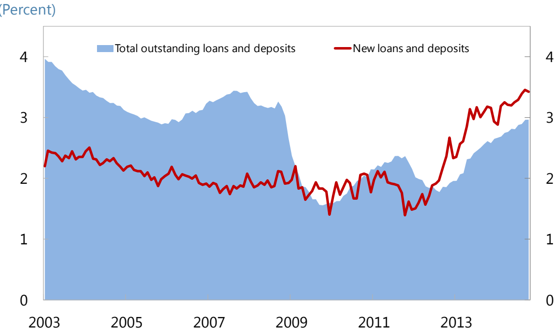
Median Lending and Deposit Rates, New Business 1/
(Percent)



Source: Central Bank of Ireland.
1/ Data relate to new business conducted through resident offices of a sample of banks and include IBRC. Last observation Aug-2014.

…continue to boost banks' interest margins, helping profitability.

Interest Rate Margins Between Loans and Deposits 1/
(Percent)

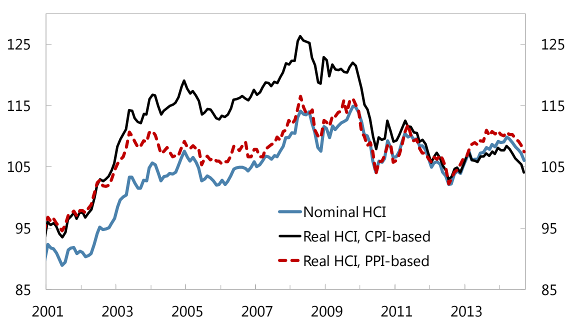


Source: Central Bank of Ireland.
1/ Weighted average loan rate minus weighted average deposit rate.

Figure 4. Ireland: Competitiveness Indicators, 1996–2014

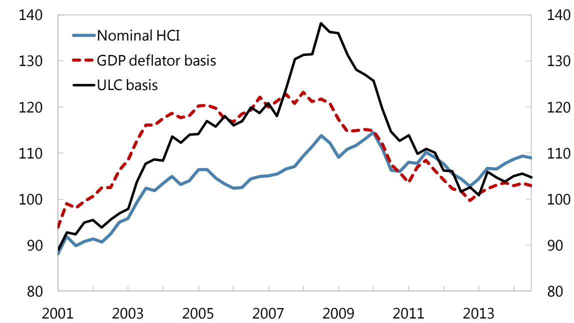
Competitiveness indicators over the last year have moved broadly in line with the euro exchange rate.

Harmonized Competitiveness Indicators (Monthly)
(1999Q1=100)



Sources: CBI; and Haver Analytics.

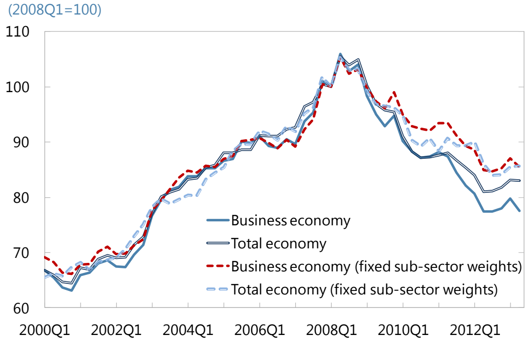
Harmonized Competitiveness Indicators (Quarterly)
(1999Q1=100)



Sources: CBI; and Haver Analytics.

Though part of the earlier improvement in competitiveness reflected a shift to higher value-added sectors.

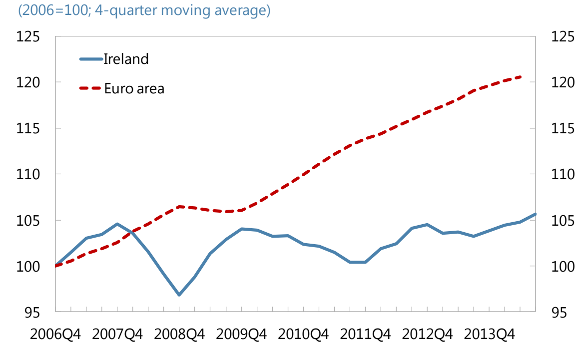
Real Effective Exchange Rates on a ULC Basis
(2008Q1=100)



Source: Bruegel.

Private wages have increased at a slower pace than in the euro area.

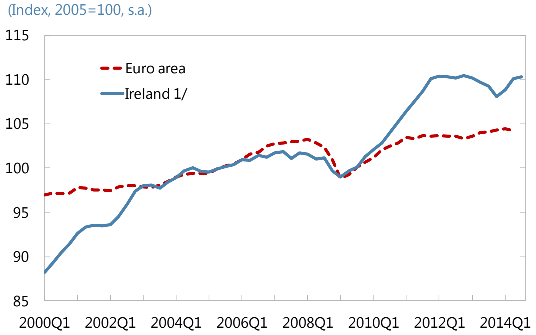
Hourly Labor Costs in Manufacturing
(2006=100; 4-quarter moving average)



Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

While labor productivity outpaced the euro area in 2010-11, this gap is no longer widening.

Real Labor Productivity
(Index, 2005=100, s.a.)

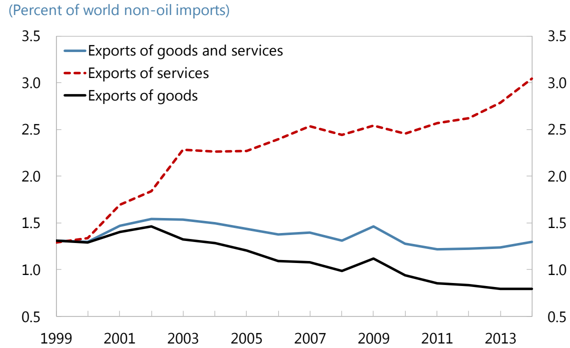


Source: CSOI; ECB; Haver Analytics; and IMF staff calculations.

1/ Calculated as real output per person employed.

As yet, competitiveness improvements have not been reflected in rising market shares, except in services.

Export Shares
(Percent of world non-oil imports)



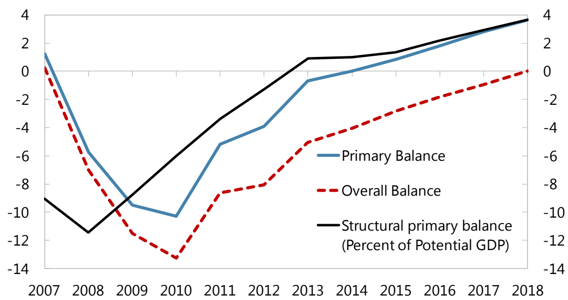
Sources: IMF WEO; and IMF staff calculations.

Figure 5. Ireland: Selected Trends in General Government Finances, 2007–18

The primary deficit is expected to close by 2014, down from 10¼ percent of GDP in 2010.

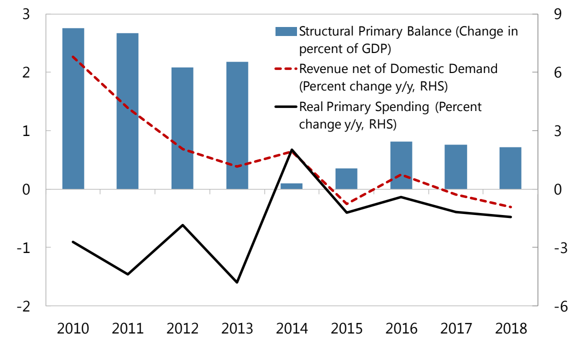
Structural fiscal adjustment was strong in 2009–13, reflecting real spending cuts and revenue growth exceeding domestic demand. More gradual adjustment in coming years relies mostly on real spending declines.

Headline and Structural Balances 1/
(Percent of GDP, unless otherwise indicated)



Sources: Department of Finance; and IMF staff estimates.
1/ Excluding bank support; for 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

Fiscal Adjustment: Pace and Sources

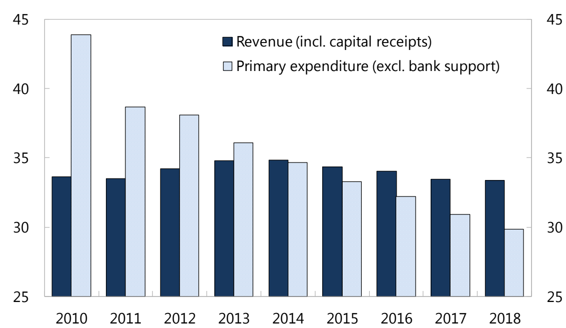


Source: Department of Finance and IMF staff estimates.

Staff projects an overall deficit of 2.9 percent of GDP for 2015, and a balanced budget by 2018.

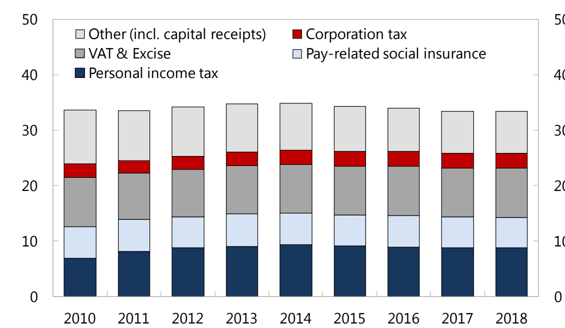
Given the slow rebound in nominal domestic demand, revenues will remain broadly flat as a share of GDP.

Revenues and Primary Expenditure
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

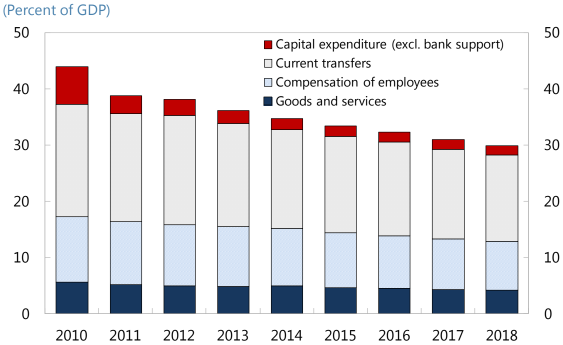
Revenue Composition
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Primary expenditures are expected to fall by 5 percentage points of GDP, requiring continued expenditure control.

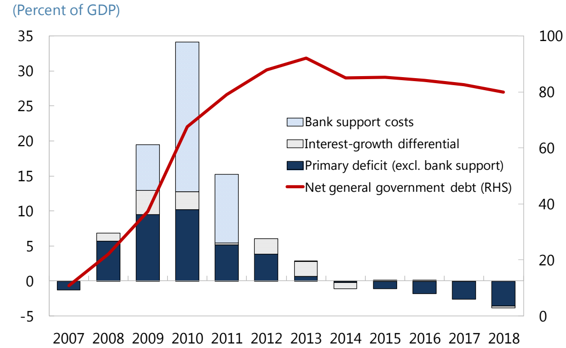
Primary Expenditure Components
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Half of the increase in net debt arose from bank support costs.

Sources of Increase in Net Debt-to-GDP Ratio
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Table 1. Ireland: Selected Economic Indicators, 2009–15

(Annual percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015
							Proj	
National accounts (constant prices)								
Real GDP	-2.6	-6.4	-0.3	2.8	-0.3	0.2	4.7	3.3
Final domestic demand	-2.5	-8.9	-4.9	-1.7	-0.2	-0.7	3.8	2.4
Private consumption	0.0	-5.4	0.9	-1.2	-1.2	-0.8	0.9	1.3
Public consumption	0.6	-3.5	-7.1	-2.1	-2.1	1.4	6.6	-1.1
Gross fixed investment	-9.6	-20.5	-18.0	-2.9	5.0	-2.4	10.0	8.9
Net exports 1/	1.3	3.9	3.3	5.9	-0.8	0.6	1.7	1.4
Exports of goods and services	-0.9	-4.0	6.2	5.5	4.7	1.1	7.0	4.0
Imports of goods and services	-2.6	-9.2	3.0	-0.6	6.9	0.6	6.7	3.4
Real GNP	-2.3	-9.0	1.7	-0.9	2.0	3.3	4.0	3.1
Gross national saving (in percent of GDP)	18.5	16.6	16.4	15.3	17.1	19.6	19.4	19.6
Private	20.3	24.4	26.3	21.6	23.3	23.5	21.8	21.0
Public 2/	-1.8	-7.8	-9.9	-6.3	-6.1	-4.0	-2.4	-1.4
Gross investment (in percent of GDP)	24.2	19.7	15.8	14.5	15.6	15.2	16.0	16.9
Private	19.0	16.0	12.5	12.2	13.7	13.4	14.4	15.5
Public	5.2	3.7	3.4	2.4	1.9	1.7	1.7	1.4
Prices, wages and employment (annual average)								
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.2	1.9	0.5	0.6	0.9
Average wage, whole economy	5.8	0.0	-1.9	-0.5	0.5	-0.7	0.9	2.2
Employment	-0.7	-7.8	-4.0	-1.8	-0.6	2.4	2.2	1.8
Unemployment rate (in percent)	6.4	12.0	13.9	14.6	14.6	13.0	11.0	10.7
Money and credit (end-period) 3/								
Irish resident private sector credit 4/	8.8	-1.5	-3.4	-2.9	-4.0	-4.9	-4.9	...
Financial and asset markets (end-period) 3/								
Three-month interbank rate	2.9	0.7	1.0	1.4	0.2	0.3	0.1	...
Government bond yield (in percent, 10-year)	4.4	4.9	9.2	8.5	4.5	3.5	1.2	…
Annual change in ISEQ index (in percent)	-47.3	28.8	5.1	5.2	16.3	30.3	15.1	…
House prices	-12.4	-18.6	-10.5	-16.7	-4.5	6.4	15.9	...
Public finance (in percent of GDP)								
Net lending/borrowing (excl. one-off items)	n.a.	…	-11.0	-8.7	-8.0	-6.1	-4.3	-3.0
Primary balance (excl. bank support)	-5.8	-9.5	-10.3	-5.2	-3.9	-1.3	0.0	0.9
General government gross debt	42.6	62.2	87.4	111.1	121.7	123.3	110.7	110.1
General government net debt		37.2	67.5	79.1	87.9	92.1	84.6	85.5
External trade and balance of payments (percent of GDP)								
Balance of goods and services	8.7	14.8	17.5	20.3	20.5	20.8	21.7	22.4
Balance of income and current transfers	-14.4	-17.8	-16.9	-19.5	-18.9	-16.4	-18.4	-19.7
Current account	-5.7	-3.0	0.6	0.8	1.6	4.4	3.4	2.7
Effective exchange rates (1999:Q1=100, average) 3/								
Nominal	111.6	112.5	107.8	108.6	105.1	109.2	104.1	...
Real (CPI based)	123.1	121.0	111.6	110.2	105.3	108.1	104.1	...
Memorandum items:								
Population (in millions)	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4.6
GDP per capita (in euros)	41,665	37,083	36,210	37,387	37,675	38,055	39,835	41,018
GDP (in billions of euros)	186.9	168.1	164.9	171.0	172.8	174.8	183.6	190.7

Sources:Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; IMF staff estimates.
1/ Contribution to growth.
2/ Excludes bank restructuring costs.
3/ Data refers to end-September for nominal and real effective exchange rates, and for private sector credit, end-October for interbank rate and house prices, end-November for other indicators.
4/ Adjusted growth rate of credit to households and non-financial corporations.

Table 2. Ireland: Medium-Term Scenario, 2009–19

(Annual percentage change, unless indicated otherwise)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
								Proj.			
Real GDP	-6.4	-0.3	2.8	-0.3	0.2	4.7	3.3	2.8	2.6	2.5	2.5
Domestic demand	-9.6	-4.3	-0.7	-0.6	-0.3	3.8	2.4	2.4	2.3	2.4	2.8
Final domestic demand	-8.9	-4.9	-1.7	-0.2	-0.7	3.8	2.4	2.4	2.3	2.5	2.9
Private consumption	-5.4	0.9	-1.2	-1.2	-0.8	0.9	1.3	1.4	1.7	2.1	2.3
Public consumption	-3.5	-7.1	-2.1	-2.1	1.4	6.6	-1.1	0.3	-0.4	-0.2	1.1
Gross fixed investment	-20.5	-18.0	-2.9	5.0	-2.4	10.0	8.9	7.1	6.0	5.3	5.5
Change in stocks 1/	-0.6	0.5	0.8	-0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	3.9	3.3	5.9	-0.8	0.6	1.7	1.4	1.0	0.9	0.6	0.3
Exports of goods and services	-4.0	6.2	5.5	4.7	1.1	7.0	4.0	4.0	4.1	4.2	4.2
Imports of goods and services	-9.2	3.0	-0.6	6.9	0.6	6.7	3.4	3.9	4.2	4.5	4.8
Real GNP	-9.0	1.7	-0.9	2.0	3.3	4.0	3.1	2.5	2.3	2.3	2.2
Current account 2/	-3.0	0.6	0.8	1.6	4.4	3.4	2.7	3.2	3.0	2.9	2.9
Gross national saving 2/	16.6	16.4	15.3	17.1	19.6	19.4	19.6	20.6	20.8	21.2	21.7
Private	24.4	26.3	21.6	23.3	23.5	21.8	21.0	21.0	20.3	19.8	20.4
Public	-7.8	-9.9	-6.3	-6.1	-4.0	-2.4	-1.4	-0.4	0.4	1.3	1.3
Gross investment 2/	19.7	15.8	14.5	15.6	15.2	16.0	16.9	17.3	17.8	18.3	18.8
Private	16.0	12.5	12.2	13.7	13.4	14.4	15.5	15.9	16.4	17.0	17.5
Public	3.7	3.4	2.4	1.9	1.7	1.7	1.4	1.4	1.4	1.3	1.3
Prices											
Harmonized index of consumer prices	-1.7	-1.6	1.2	1.9	0.5	0.6	0.9	1.2	1.4	1.7	1.7
GDP deflator	-3.9	-1.6	0.9	1.3	1.0	0.4	0.5	0.7	0.9	1.3	1.1
Average wage, whole economy	0.0	-1.9	-0.5	0.5	-0.7	0.9	2.2	1.2	1.1	1.4	1.7
Labor market											
Employment	-7.8	-4.0	-1.8	-0.6	2.4	2.2	1.8	1.5	1.5	1.5	1.5
Unemployment rate (in percent)	12.0	13.9	14.6	**14.6**	13.0	11.0	10.7	10.3	9.8	9.4	9.0
Public finance											
General government balance 2/ 3/	-11.5	-13.3	-8.6	-8.0	-6.1	-4.3	-3.0	-1.9	-0.9	0.0	0.0
General government gross debt 2/	62.2	87.4	111.1	121.7	123.3	110.7	110.1	108.4	105.6	101.3	97.9
General government net debt 2/	37.2	67.5	79.1	87.9	92.1	84.6	85.5	84.7	82.7	79.3	76.6
Output gap	-2.4	-4.1	-2.8	-4.5	-5.8	-3.0	-1.6	-0.8	-0.3	-0.1	0.0
Nominal GDP (in billions of euros)	168.1	164.9	171.0	172.8	174.8	183.6	190.7	197.4	204.4	212.2	219.8

Sources: Central Statistics Office; Department of Finance; and IMF staff estimates.

1/ Contributions to growth.

2/ In percent of GDP. Public finance data excludes bank restructuring costs. For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

3/ General government balance per ESA2010 definition.

Table 3. Ireland: General Government Statement of Operations, 2010–19
(consistent with *GFSM* 2001; in billions of Euros)

					Projections 1/					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	55.5	57.3	59.1	60.8	63.9	65.2	67.4	69.1	71.1	72.7
Taxes	38.1	39.0	41.1	42.5	45.7	46.9	49.0	50.5	52.0	53.7
Personal income tax	11.3	13.8	15.2	15.8	17.0	17.2	17.5	18.0	18.4	19.0
Corporate income tax	3.9	3.8	4.0	4.3	4.7	4.9	5.2	5.4	5.6	5.7
Value-added tax	10.1	9.7	10.2	10.3	10.9	11.1	11.9	12.3	12.6	12.9
Excise tax	4.7	4.7	4.7	4.9	5.3	5.5	5.9	6.1	6.3	6.5
Other 2/	8.1	7.0	7.0	7.2	7.8	8.2	8.5	8.8	9.1	9.5
Social contributions 3/	9.5	10.0	9.7	10.3	10.6	10.8	11.3	11.5	11.7	12.0
Other revenue 4/	7.9	8.3	8.4	8.0	7.6	7.5	7.2	7.1	7.3	7.1
Expenditure (excl. fin. sector support)	77.4	72.1	73.0	70.8	71.4	70.6	71.0	71.1	71.0	72.7
Expense (excl. fin. sector support)	71.8	68.0	69.6	67.8	68.3	67.8	68.2	68.2	68.2	69.8
Compensation of employees	19.3	19.2	18.9	18.7	18.7	18.8	18.8	18.8	18.8	18.9
Use of goods and services	9.1	8.7	8.4	8.3	9.4	8.8	9.0	9.0	9.1	9.4
Interest	4.9	5.9	7.2	7.7	7.5	7.0	7.2	7.7	7.7	7.7
Subsidies	1.8	1.6	1.5	1.5	1.6	1.7	1.9	1.9	1.9	1.9
Social benefits 3/	28.8	28.8	29.4	28.6	28.1	27.9	27.7	27.3	27.2	28.2
Other expense (excl. fin. sector support) 5/	8.0	3.9	4.2	3.1	3.1	3.6	3.6	3.6	3.6	3.7
Gross fixed capital formation	5.5	4.0	3.3	3.0	3.1	2.8	2.8	2.8	2.8	2.9
One-off revenue and expenditure items 6/	35.4	6.7	0.0	-0.7	-0.4	-0.3	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. one-off items)	-18.1	-14.8	-13.9	-10.7	-7.9	-5.7	-3.7	-1.9	0.0	0.0
Net lending/borrowing	-53.5	-21.6	-13.9	-10.0	-7.5	-5.5	-3.7	-1.9	0.0	0.0
Primary balance (excl. one-off items)	-13.2	-9.0	-6.7	-3.0	-0.4	1.3	3.5	5.8	7.7	7.7
Net financial worth, transactions	-53.5	-21.6	-13.9	-10.0	-7.5	-5.5	-3.7	-1.9	0.0	0.0
Net acquisition of financial assets	-8.1	3.2	10.3	0.0	-6.7	-1.0	-0.2	0.0	0.0	0.0
Net incurrence of liabilities	45.3	24.7	24.2	10.0	0.8	4.5	3.5	1.9	0.0	0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP, unless indicated otherwise)										
Revenue	33.6	33.5	34.2	34.8	34.8	34.2	34.1	33.8	33.5	33.1
Taxes and social contributions 3/	28.8	28.6	29.4	30.2	30.7	30.3	30.5	30.3	30.0	29.9
Other revenue 4/	4.8	4.9	4.8	4.6	4.1	3.9	3.6	3.5	3.5	3.2
Expenditure (excl. fin. sector support)	46.9	42.1	42.2	40.5	38.9	37.0	36.0	34.8	33.5	33.1
Current primary (excl. fin. sector support) 5/	40.6	36.3	36.2	34.4	33.1	31.9	30.9	29.6	28.5	28.3
Interest	3.0	3.4	4.1	4.4	4.1	3.7	3.7	3.8	3.6	3.5
Gross fixed capital formation	3.4	2.4	1.9	1.7	1.7	1.4	1.4	1.4	1.3	1.3
Net lending/borrowing (excl. one-off items)	-11.0	-8.7	-8.0	-6.1	-4.3	-3.0	-1.9	-0.9	0.0	0.0
Net lending/borrowing	-32.4	-12.6	-8.0	-5.7	-4.1	-2.9	-1.9	-0.9	0.0	0.0
Primary balance (excl. one-off items)	-8.0	-5.2	-3.9	-1.7	-0.2	0.7	1.8	2.8	3.7	3.5
Net financial worth, transactions	-32.4	-12.6	-8.0	-5.7	-4.1	-2.9	-1.9	-0.9	0.0	0.0
Net acquisition of financial assets	-4.9	1.8	6.0	0.0	-3.6	-0.5	-0.1	0.0	0.0	0.0
Net incurrence of liabilities	27.5	14.5	14.0	5.7	0.4	2.4	1.8	0.9	0.0	0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance 7/	-8.9	-6.7	-5.2	-3.2	-2.9	-2.3	-1.4	-0.8	0.0	0.0
Structural primary balance 7/	-6.0	-3.3	-1.3	0.9	1.0	1.4	2.2	2.9	3.7	3.5
General government gross debt	87.4	111.1	121.7	123.3	110.7	110.1	108.4	105.6	101.3	97.9
General government net debt	67.5	79.1	87.9	92.1	84.6	85.5	84.7	82.7	79.3	76.6
Output gap (percent of potential GDP)	-4.1	-2.8	-4.5	-5.8	-3.0	-1.6	-0.8	-0.3	-0.1	0.0
Nominal GDP (in billions of euros)	164.9	171.0	172.8	174.8	183.6	190.7	197.4	204.4	212.2	219.8

Sources: Department of Finance; and IMF staff estimates.

1/ Projections are consistent with the adjustment path set out in Budget 2015.

2/ Includes stamp duty, capital taxes, property tax and other taxes.

3/ Includes imputed social insurance contributions. The 2011 downward jump in the series reflects the integration of health levy receipts into the universal social charge (now part of income tax).

4/ Includes property income, sales of goods and services, current transfer revenue and capital transfer revenue.

5/ For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

6/ Includes financial sector support costs, license sales, and other non-recurrent revenue and expenditure items that do not affect underlying fiscal position.

7/ In percent of nominal potential GDP. Excludes one-off items.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2009–14

	2009	2010	2011	2012	2013	2014 6/
External indicators						
Exports (annual percent change, value in euros)	-2.5	7.8	5.9	9.2	0.9	8.0
Imports (annual percent change, value in euros)	-9.2	6.1	2.6	11.1	0.4	7.5
Terms of trade (goods, annual percent change)	1.5	-1.5	-2.9	0.4	0.0	0.2
Current account balance (in percent of GDP)	-3.0	0.6	0.8	1.6	4.4	3.4
Capital and financial account balance (in percent of GDP)	0.6	-4.3	-5.6	0.0	6.5	3.5
Of which:						
Inward portfolio investment	13.3	45.9	17.3	40.8	31.2	30.6
Inward foreign direct investment	11.0	19.6	9.9	20.4	16.0	15.5
Other investment liabilities	-51.5	-37.6	-28.5	-58.5	-14.9	-22.2
U.S. dollar per euro (period average)	1.40	1.32	1.40	1.29	1.33	1.32
U.K. pound per euro (period average)	0.89	0.86	0.87	0.81	0.85	0.80
Financial markets indicators						
General government debt (in percent of GDP)	62.2	87.4	111.1	121.7	123.3	110.7
Government bond yield (in percent, 10-year, end-period)	4.9	9.2	8.5	4.5	3.5	1.4
Spread of government bond yield with Germany (in percent, end of period)	1.3	6.0	6.5	3.2	1.4	0.6
Real government bond yield (in percent, 10-year, period average, based on HIC	6.9	7.6	8.4	4.1	3.3	1.7
Annual change in ISEQ index (in percent, end of period)	28.8	5.1	5.2	16.3	30.3	
Personal lending interest rate (in percent)	10.73	12.5	12.9	13.27	13.88	13.84
Standard variable mortgage interest rate (in percent)	2.8	3.3	3.1	3.6	3.4	3.4
Financial sector risk indicators						
Annual credit growth rates (to Irish resident private sector, in percent) 1/	-1.5	-3.4	-2.9	-4.0	-4.9	
Personal lending as a share of total Irish resident credit (in percent)	35.6	35.5	30.0	33.0	34.8	35.4
Of which:						
House mortgage finance	30.1	30.7	25.4	28.7	30.5	31.3
Other housing finance	0.2	0.4	0.3	0.3	0.4	0.4
Other personal lending	5.3	4.8	4.6	4.3	4.3	4.1
Irish resident household mortgage debt annual growth rates (in percent) 2/	-3.9	-9.0	-19.3	5.6	-1.9	-1.1
Foreign-currency denominated assets (in percent of total assets)	34.3	30.3	29.4	28.4	27.5	26.4
Foreign-currency denominated liabilities (in percent of total liabilities)	31.1	25.8	26.3	25.4	25.3	24.5
Non-performing loans (in percent of total loans) 3/	9.0	8.6	9.1	11.3	12.5	
Total provisions for loan losses (in percent of total loans)	4.0	4.2	4.8	5.4	5.0	
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.9	10.4	17.7	16.6	15.1	
Bank return on assets (before tax, in percent)	-1.6	-3.1	-0.8	-0.8	-0.7	
Bank return on equity (before tax, in percent)	-40.6	-67.6	-16.9	-14.1	-13.0	
Deposits to M3 ratio 4/	1.3	1.5	1.2	1.3	1.3	1.4
Loan-to-deposit ratio vis-à-vis Irish residents 5/	2.1	2.1	2.1	1.9	1.6	1.6
vis-à-vis total	2.2	2.1	2.1	1.9	1.7	1.6
Concentration ratios in the banking sector						
No. of banks accounting for 25 percent of total assets	2.0	2.0	2.0	2.0	2.0	2.0
No. of banks accounting for 75 percent of total assets	13.0	13.0	14.0	14.0	13.0	13.0
Share of state-owned banks in total assets (in percent)	6.0	8.0	18.0	19.1	17.5	
Share of foreign-owned banks in total assets (in percent)	65.0	65.0	61.6	57.6	57.9	

Sources: Bloomberg; Central Bank of Ireland; International Financial Statistics; and IMF staff estimates.
1/ Adjusted growth rate of credit to households and non-financial corporations.
2/ Including securitisations.
3/ Owing to differences in classification, international comparisons of nonperforming loans are indicative only.
4/ Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been amended in line with Eurosystem
5/ Nongovernment credit/nongovernment deposits ratio.
6/ For 2014, end-November 2014 for bond yields, stock market index and exchange rates. Staff projections for macroeconomic variables and debt Financial sector indicators cover all credit institutions licensed in Ireland except for personal lending rate, which is calculated based on a sample of retail banks, and a mortgage interest rate, which is calculated excluding IFSC.

Table 5. Ireland: Summary of Balance of Payments, 2009–19

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Projections					
	(In billions of euros)										
Current account balance	-5.1	0.9	1.4	2.7	7.6	6.2	5.2	6.4	6.1	6.2	6.3
Balance of goods and services	24.8	28.8	34.7	35.4	36.4	39.9	42.8	45.2	47.1	48.8	49.6
Trade balance	39.9	42.9	43.3	42.4	36.2	37.2	38.6	40.7	42.8	45.1	47.3
Exports of goods	85.0	89.7	91.6	97.0	91.8	93.8	97.2	101.5	105.9	110.8	115.4
Imports of goods	-45.2	-46.9	-48.3	-54.6	-55.6	-56.7	-58.5	-60.7	-63.1	-65.7	-68.1
Services balance	-15.1	-14.1	-8.6	-7.0	0.2	2.8	4.1	4.4	4.3	3.7	2.3
Credit	61.3	68.1	75.4	85.5	92.3	104.9	110.9	117.4	124.2	131.7	139.6
Debit	-76.4	-82.2	-84.1	-92.5	-92.1	-102.1	-106.8	-113.0	-119.9	-128.0	-137.3
Income balance	-28.5	-26.4	-32.1	-30.3	-26.3	-31.2	-34.7	-35.8	-37.9	-39.2	-39.5
Credit	53.9	56.2	56.6	58.4	56.3	55.1	54.9	57.0	58.1	60.4	63.7
Debit	-82.5	-82.7	-88.8	-88.7	-82.5	-86.3	-89.6	-92.8	-96.0	-99.7	-103.3
Current transfers (net)	-1.4	-1.4	-1.2	-2.4	-2.5	-2.6	-2.9	-3.0	-3.1	-3.4	-3.8
Capital and financial account balance	1.1	-7.2	24.7	21.2	22.2	6.4	5.4	6.6	6.3	6.4	6.5
Capital account balance	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account	1.1	-7.3	24.4	21.2	22.1	6.3	5.3	6.5	6.2	6.3	6.4
Direct investment	0.6	-15.4	-17.8	-23.3	-9.8	-9.5	-9.3	-9.8	-10.3	-10.7	-11.2
Portfolio investment	-22.6	-86.0	-26.9	4.1	46.3	16.6	1.0	11.0	5.2	4.0	3.0
Other investment	23.1	94.1	69.4	40.4	-14.4	-1.8	16.6	8.3	11.4	12.8	14.4
Change in reserve assets 1/	-0.1	0.0	-0.3	0.0	0.0	0.9	-3.0	-3.0	-0.1	0.2	0.2
Net errors and omissions	6.2	-8.3	-11.7	-2.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	34.5	21.3	11.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	34.5	21.3	11.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	12.6	6.4	3.5	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	21.9	14.8	7.5	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)										
Current account balance	-3.0	0.6	0.8	1.6	4.4	3.4	2.7	3.2	3.0	2.9	2.9
Balance of goods and services	14.8	17.5	20.3	20.5	20.8	21.7	22.4	22.9	23.0	23.0	22.6
Trade balance	23.7	26.0	25.3	24.5	20.7	20.2	20.3	20.6	20.9	21.3	21.5
Services balance	-9.0	-8.5	-5.0	-4.0	0.1	1.5	2.2	2.2	2.1	1.8	1.0
Income balance	-17.0	-16.0	-18.8	-17.5	-15.0	-17.0	-18.2	-18.1	-18.6	-18.5	-18.0
Current transfers (net)	-0.8	-0.9	-0.7	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.7
Capital and financial account balance	0.6	-4.4	14.4	12.3	12.7	3.5	2.8	3.4	3.1	3.0	3.0
Of which:											
Direct investment	0.4	-9.4	-10.4	-13.5	-5.6	-5.2	-4.9	-5.0	-5.0	-5.1	-5.1
Portfolio investment	-13.5	-52.1	-15.7	2.4	26.5	9.1	0.5	5.6	2.5	1.9	1.4
Other investment	13.8	57.1	40.6	23.4	-8.2	-1.0	8.7	4.2	5.6	6.0	6.6
Change in reserve assets 1/	0.0	0.0	-0.2	0.0	0.0	0.5	-1.6	-1.5	-0.1	0.1	0.1
Net errors and omissions	3.7	-5.0	-6.8	-1.7	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	20.2	12.3	6.3	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	20.2	12.3	6.3	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	7.4	3.7	2.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	12.8	8.6	4.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Current account balance excluding undistributed profits 2/	-4.0	-2.6	-2.5	-2.7	0.1	-0.7	-1.2	-0.5	-0.6	-0.6	-0.5

Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff estimates.
1/ Includes financing need to build reserves for bank support.
2/ Undistributed profits of redomiciled firms, as estimated by FitzGerald (2013).

Table 6. Ireland: Monetary Survey, 2009–14
(In billions of euros, unless otherwise indicated; end of period)

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Mar-14	Jun-14	Sep-14
Aggregate balance sheet of domestic market credit institutions								
Assets	801	747	639	550	474	459	439	423
Claims on Central Bank of Ireland	12	8	4	2	2	3	5	2
Claims on Irish resident Other MFIs	129	123	92	53	49	49	47	45
Claims on Irish resident non MFIs	364	359	340	326	281	273	258	244
General government	9	43	42	47	21	20	20	20
Private sector	355	316	298	279	260	253	238	223
Households	140	130	110	111	108	107	101	100
Non-Financial Corporations	144	91	86	83	78	75	68	60
Non-Bank Financial Intermediaries	71	95	101	85	74	71	69	63
Claims on non-residents	243	209	150	122	102	95	92	91
Other assets	54	48	52	47	41	39	38	41
Liabilities	801	747	639	550	474	459	439	423
Liabilities to Eurosystem 1/	58	95	72	59	31	26	17	13
Liabilities to Irish resident Other MFIs	131	132	99	59	52	52	49	49
Deposits of Irish resident non MFIs	180	162	146	153	175	171	166	163
General government	3	3	2	6	14	13	14	13
Private sector	177	159	143	147	161	158	152	150
Households	99	94	91	92	90	91	91	91
Non-Financial Corporations	39	32	29	29	32	31	33	34
Non-Bank Financial Intermediaries	39	33	24	26	39	36	28	26
Deposits of non-residents	230	140	100	76	71	64	65	64
Debt securities	98	64	52	38	27	28	28	29
Capital and reserves	53	72	91	98	96	96	89	81
Other liabilities (incl. Central Bank of Ireland)	50	83	79	66	23	22	24	24
Money and credit 2/								
Net foreign assets	-421	-480	-340	-14	2	-5	9	38
Central Bank of Ireland 3/	-37	-128	-101	-62	-37	-44	-26	…
Commercial banks	-384	-352	-239	48	39	39	35	38
Net domestic assets	629	662	522	194	200	203	186	151
Public sector credit	10	43	43	48	21	20	21	21
Private sector credit	375	335	324	302	278	271	256	242
Other	244	284	156	-156	-99	-88	-91	-112
Irish Resident Broad money (M3) 4/	208	182	182	180	201	198	195	189
Irish Resident Intermediate money (M2) 4/	188	173	167	168	183	182	178	176
Irish Resident Narrow money (M1)	100	97	90	92	114	114	110	110
				(Percent of GDP)				
Public sector credit 5/	5.3	27.6	27.0	29.4	12.8	12.2	12.5	12.8
Private sector credit 5/	221.0	202.4	190.1	173.5	161.9	157.5	148.3	139.2
				(Percentage change y/y)				
Broad money - Irish contribution to euro area M3 6/	-6.6	-19.6	1.3	-7.3	11.2	0.2	-8.0	-6.6
Irish Public sector credit 6/ 7/	176.9	369.4	1.5	8.5	-57.8	2.2	-0.7	-0.8
Irish Household and non-financial corporations credit 6/	-1.5	-3.4	-2.9	-4.0	-4.9	-4.8	-5.3	-5.9
Memorandum items: 8/								
Credit to deposits (in percent) 9/	200.5	199.2	207.6	189.9	161.4	159.9	156.5	148.5
Deposits from Irish Private Sector (y-o-y percent chang	1.8	-9.4	-8.9	2.4	9.3	-1.0	-4.5	-4.2
Wholesale funding (billions of euros)	424	317	235	159	135	130	129	128
Deposits from MFIs	326	253	183	120	108	102	101	99
Debt securities	98	64	52	38	27	28	28	29
Wholesale funding (y-o-y percent change) 10/	0.0	-21.7	-26.9	-33.0	-11.6	-12.0	-6.6	-7.0
Wholesale funding (percent of assets) 10/	52.9	44.8	36.8	28.8	28.5	28.3	29.3	30.2

Sources: Central Bank of Ireland and staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Service Centre.
3/ Sourced from quarterly IIP statistics.
4/ Differs from the M3 (M2) Irish contribution to euro area as only liabilities vis-a-vis Irish residents are used.
5/ Refers to credit advanced by domestic market credit institutions.
6/ Includes IFSC.
7/ Growth rates adjusted for valuation, reclassification, derecognition/loan transfer to non-MFIs, and exchange rates.
8/ Excludes IFSC.
9/ Domestic market credit institutions' private sector credit to deposits.
10/ Includes resident and non-resident MFI deposits, and debt securities issued.

Table 7. Ireland. Indicators of Fund Credit, 2010–23

(In millions of SDR)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund credit														
Disbursement	-	11,050	5,493	2,922	-	-	-	-	-	-	-	-	-	-
Stock 1/	-	11,050	16,543	19,466	11,822	11,822	11,822	11,822	10,617	7,373	4,129	1,420	349	-
Obligations	-	109	332	457	8,463	400	366	366	1,567	3,518	3,387	2,747	1,083	351
Repurchase 2/	-	-	-	-	7,644	0	0	0	1,204	3,244	3,244	2,709	1,071	349
Charges	-	109	332	457	819	400	366	366	363	274	143	38	12	3
Stock of Fund credit														
In percent of quota	-	879	1,315	1,548	940	940	940	940	844	586	328	113	28	-
In percent of GDP	-	7.3	11.4	12.7	7.4	7.3	7.0	6.7	5.8	3.9	2.1	0.7	0.2	-
In percent of exports of goods and services	-	7.5	10.8	12.1	6.8	6.7	6.3	6.0	5.1	3.4	1.8	0.6	0.1	-
Obligations to the Fund														
In percent of quota	-	9	26	36	673	32	29	29	125	280	269	218	86	28
In percent of GDP	-	0.1	0.2	0.3	5.3	0.2	0.2	0.2	0.9	1.9	1.7	1.3	0.5	0.2
In percent of exports of goods and services	-	0.1	0.2	0.3	4.9	0.2	0.2	0.2	0.8	1.6	1.5	1.2	0.4	0.1

Source: IMF staff estimates.

1/ End of period.

2/ Reflects early repurchases to date