IMF Country Report No. 16/18

IRELAND

2015 FOURTH POST-PROGRAM MONITORING DISCUSSIONS—PRESS RELEASE AND STAFF REPORT

January 2016

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

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis following discussions that ended on November 13, 2015, with the officials of Ireland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 15, 2015.
- A **Staff Supplement** updating information on recent developments.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

Press Release No. 16/14
FOR IMMEDIATE RELEASE
January 19, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes the Fourth Post-Program Monitoring with Ireland

On January 15, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Fourth Post-Program Monitoring Discussion with Ireland,[1] and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Ireland's economy continues to improve at a robust pace. Real GDP expanded by 7 percent year-on-year over the first three quarters of 2015, with investment providing the largest contribution to growth followed by private consumption. High frequency indicators suggest that the strong economic momentum continued into the last months of 2015. Steady job growth of about 3 percent year-on-year in the third quarter helped reduce the unemployment rate to 8.8 percent in December. Exchequer data for December indicate that 2015 revenues significantly exceeded the initial budget profile, whereas spending recorded a modest increase, leading to a likely outperformance of staff's estimate of the 2015 general government deficit (1.9 percent of GDP).

Financial conditions have remained largely supportive despite volatility in global capital markets. The ECB's quantitative easing has helped keep Irish government yields close to their historical lows. The rise in the residential property markets has somewhat abated in recent months in the wake of the macroprudential measures enacted by the CBI in February 2015, while the supply of new residential housing remains modest. Upward price pressures are stronger in the commercial real estate market. Banks' asset quality is improving, and mortgage arrears have continued to fall, but profitability remains modest and the loan portfolio continues to contract, albeit at a slower pace.

Executive Board Assessment

Ireland is enjoying the fastest growth in the European Union, but challenges remain. The recovery accelerated in 2015 and has become more broad-based, with domestic demand overtaking net trade as the dominant driver of growth. Employment expansion is continuing

[1] The central objective of PPM is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PPM, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

unabated, and the unemployment rate has fallen below 9 percent. Financing conditions remain exceptionally favorable, but upward pressures on house prices are continuing. The outlook is positive and risks are broadly balanced. Yet vulnerabilities are still elevated, particularly public and private debt burdens are high, lending importance to the unfinished task of rebuilding economic resilience.

While it is appropriate to share some fruits of the recovery after years of difficult adjustment, fiscal discipline must be maintained to rebuild room for policy maneuver. Strong growth in 2015 has enabled outperformance of the fiscal targets despite an easing of the underlying stance. Public debt is set to fall below 100 percent of GDP by end-2015. The fiscal plans outlined in Budget 2016 and the consolidation pace consistent with reaching a structural balance in 2018 are broadly appropriate. Maintaining structural balance thereafter would be the minimum required to ensure a prudent pace of debt reduction. Yet the budget measures could have avoided tax base erosion, been better targeted and more protective of budget resources. The resulting savings would have created additional room for capital spending and support sustainable growth. Any future fiscal space should be used to accelerate debt reduction, and to rebuild buffers to allow Ireland’s small and open economy to face external shocks.

The economic recovery has supported the ongoing banking system repair, where more remains to be done. Achieving durable profitability while accelerating balance sheet cleanup would support future lending growth and boost banks’ resilience to shocks. Provision releases should be based on conservative assumptions and collateral reappraisals. Supervisors must ensure that banks’ business models appropriately balance profit seeking and risk management, and that loan pricing adequately reflects credit risk and barriers to collateral realization. As economic conditions change, periodic impact assessment and recalibration of macroprudential measures will be needed to ensure their effectiveness in enhancing the resilience of banks and households and reducing the likelihood of another cycle of boom and bust.

Measures to boost the supply of housing are a welcome step toward addressing the housing market imbalances. They should help reduce building costs and could jump start construction activity, particularly of lower-cost homes where profit margins are tighter. Administrative measures on rents, however, could reduce the return on investment properties and thus dissuade construction.

Ireland: Selected Economic Indicators, 2010–16

(Annual percentage change unless indicated otherwise)

	2010	2011	2012	2013	2014	2015	2016
						Proj.	
National accounts (constant prices)							
Real GDP	0.4	2.6	0.2	1.4	5.2	6.3	4.2
Final domestic demand	-4.6	-0.1	1.0	-1.5	5.2	6.2	3.7
Private consumption	0.8	-0.7	-0.8	-0.3	2.0	3.3	3.1
Public consumption	-7.1	-2.0	-2.2	1.4	4.6	5.3	0.3
Gross fixed investment	-15.5	3.2	8.6	-6.6	14.3	13.6	7.6
Net exports 1/	3.2	3.6	-0.3	2.6	0.1	1.4	1.2
Exports of goods and services	6.4	2.1	2.1	2.5	12.1	12.0	4.5
Imports of goods and services	3.5	-1.5	2.9	0.0	14.7	12.8	4.2
Real GNP	2.2	-0.8	1.6	4.6	6.9	5.3	4.0
Gross national saving (in percent of GDP)	18.4	18.0	17.6	20.7	22.9	23.7	24.7
Private	28.2	24.2	23.6	24.6	24.8	23.8	24.0
Public 2/	-9.8	-6.2	-6.0	-3.9	-1.9	-0.1	0.7
Gross investment (in percent of GDP)	17.8	17.2	19.1	17.7	19.3	19.9	20.5
Private	14.5	14.9	17.2	16.0	17.4	17.9	18.7
Public	3.3	2.3	1.9	1.7	2.0	2.0	1.9
Prices, wages and employment (annual average)							
Harmonized index of consumer prices	-1.6	1.2	1.9	0.5	0.3	0.2	1.5
Average wage, whole economy	-1.9	-0.5	0.5	-0.7	-0.1	1.8	1.7
Employment	-4.0	-1.8	-0.6	2.4	1.7	2.5	2.0
Unemployment rate (in percent)	13.9	14.6	14.6	13.0	11.3	9.6	8.5
Money and credit (end-period)							
Irish resident private sector credit	-3.4	-2.9	-4.0	-4.9	-4.9	…	…
Financial and asset markets (end-period)							
Three-month interbank rate	1.0	1.4	0.2	0.3	0.1	…	…
Government bond yield (in percent, 10-year)	9.2	8.5	4.5	3.5	1.2	…	…
Annual change in ISEQ index (in percent)	5.1	5.2	16.3	30.3	15.1	…	…
House prices	-10.5	-16.7	-4.5	6.4	16.3	…	…
Public finance (in percent of GDP)							
Net lending/borrowing (excl. one-off items)	-10.9	-8.5	-8.0	-6.0	-4.0	-2.0	-0.9
Primary balance (excl. bank support)	-10.2	-5.1	-3.9	-1.3	0.1	1.3	1.9
General government gross debt	86.8	109.3	120.2	120.0	107.6	97.1	91.5
General government net debt	66.6	77.6	86.7	89.8	88.2	79.8	75.3
External trade and balance of payments (percent of GDP)							
Balance of goods and services	17.3	19.9	17.2	19.3	18.3	21.4	21.9
Balance of income and current transfers	-16.8	-19.2	-18.7	-16.2	-14.7	-17.6	-17.7
Current account	0.6	0.8	-1.5	3.1	3.6	3.8	4.2
Effective exchange rates (1999:Q1=100, average)							
Nominal	107.6	108.5	105.0	109.2	105.4	…	…
Real (CPI based)	111.6	110.2	105.3	108.0	103.1	…	…
Memorandum items:							
Population (in millions)	4.6	4.6	4.6	4.6	4.6	4.6	4.7
GDP per capita (in euros)	36,480	38,021	38,131	39,069	41,011	45,256	47,611
GDP (in billions of euros)	166.2	173.9	174.8	179.4	189.0	210.4	223.2

Sources:Bloomberg; Central Bank of Ireland; Department of Finance; IFS; and IMF staff projections.
1/ Contribution to growth.
2/ Excludes bank restructuring costs.

INTERNATIONAL MONETARY FUND

IRELAND

December 15, 2015

FOURTH POST-PROGRAM MONITORING DISCUSSIONS

EXECUTIVE SUMMARY

Ireland is enjoying robust growth, but challenges remain. The healthy recovery of domestic demand and exports is broad-based and projected to continue in the coming period. With jobs growing steadily, unemployment has fallen to less than 9 percent. The near-term outlook is favorable and risks seem to be broadly balanced. Yet vulnerabilities are elevated, lending importance to the unfinished task of rebuilding economic resilience and increasing the room for policy maneuver.

The growth rebound has supported fiscal overperformance, but policy discipline must be maintained. Following a slight easing of the fiscal stance in 2015, the consolidation path set out in Budget 2016, which aims for a structural balance by 2018, needs to be observed to facilitate continued public debt reduction. Measures should avoid tax base erosion and be better targeted and protective of budget resources. Associated savings could be channeled to public investment to support sustainable growth. Revenue outperformance should be used to accelerate debt reduction.

Repair of the banking system should continue and housing market imbalances need to be reduced. Accelerating bank balance sheet cleanup will increase resilience to shocks and support future lending. Supervisors must ensure that banks' business models appropriately balance profit seeking and risk management. Macroprudential measures should be periodically assessed and recalibrated as economic conditions change to ensure their continued effectiveness in enhancing the resilience of banks and households and reducing the likelihood of another cycle of boom and bust. Steps to boost the supply of housing are welcome, but care should be taken that administrative measures on rents do not deter new construction.

Approved By
Jörg Decressin and Alfred Kammer

Z. Murgasova (head), A. Bhatia, A. Chailloux, N. Klein (all EUR), C. Wilson (MCM), and A. Culiuc (SPR) visited Dublin from November 9 to 13. Ms. Boranova assisted the mission from headquarters. Mr. McGrath participated in the discussions.

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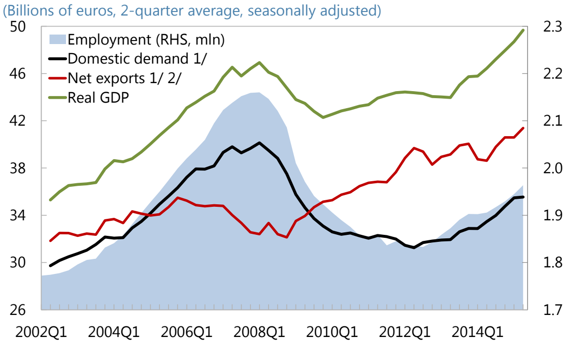
OUTLOOK AND RISKS

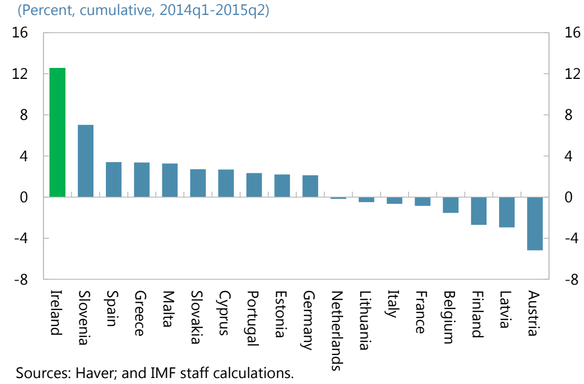
1. **Ireland's broad-based recovery has supported a welcome reduction in vulnerabilities, but crisis legacies still pose challenges**. GDP and domestic demand have rebounded strongly since 2014 on the back of rising employment and incomes, positioning Ireland as the fastest growing economy in the European Union for the second year in a row. While real GDP is now about 5½ percent above its pre-crisis level (also reflecting historical statistical revisions—Box 1), the economy remains vulnerable to shocks—domestic demand has not yet fully recovered; public and private sector debts are elevated; unemployment is still well above pre-crisis levels; and bank repair continues to be a work in progress.

Real GDP Components and Employment
(Billions of euros, 2-quarter average, seasonally adjusted)



Sources: Central Statistics Office; Haver Analytics; and IMF staff calculations.
1/ Excluding aircraft and intangibles. 2/Adjusted upward by €28 billion for scaling purposes.

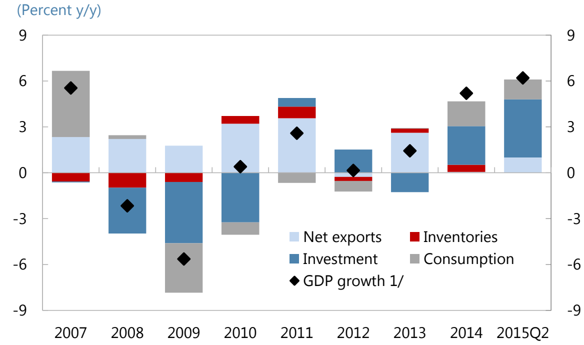
Real GDP Growth
(Percent, cumulative, 2014q1-2015q2)



Sources: Haver; and IMF staff calculations.

2. **The economy continues to improve rapidly**. Real GDP expanded by 6.7 percent y/y in 2015 H1, with investment rebounding (supported by strong corporate profitability) and consumption growing robustly (helped by higher incomes). The contribution of net external demand was lower, as vigorous export growth to the U.K. and U.S. markets was partly offset by a sharp expansion of service imports (particularly royalties and patents), in line with the strong performance of multinationals. Growth has become more evenly spread, with some domestic sectors (distribution, transport, software and communication) registering double-digit expansions. High frequency indicators suggest the strong momentum continued into Q4. Steady job growth, at 3 percent y/y in Q3, reduced the unemployment rate to 8.9 percent in November. The long-term and youth unemployment rates fell as well, in line with the broad-based nature of the recovery. Yet the participation rate, at about 60 percent, remains 4 percentage points below pre-crisis levels. HICP inflation briefly turned positive in May–August, in part due to sharp increases in housing rents and service prices, before reverting to zero in September and October.

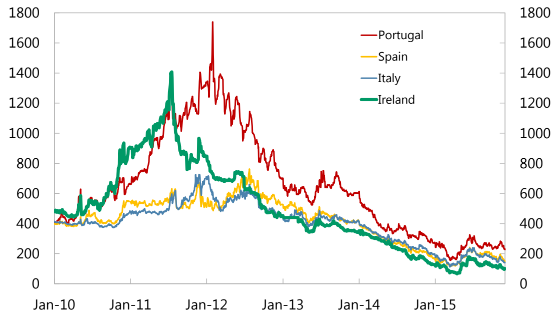
Contributions to Real GDP Growth
(Percent y/y)



Sources: Central Statistics Office; and IMF staff calculations.
1/ GDP growth accounts for statistical discrepancy as well.

3. **Ireland was largely unaffected by the global financial market volatility last summer.** More favorable growth and fiscal prospects together with the ECB's quantitative easing (QE) have helped keep Irish spreads tight. After a temporary pick up over the summer, 10 year Irish bond yields have converged back toward 1 percent. Citing improved fundamentals, S&P raised its long-term sovereign rating on Ireland by one notch to 'A+' in June, although other rating agencies noted the still-high public debt and election-related uncertainty.

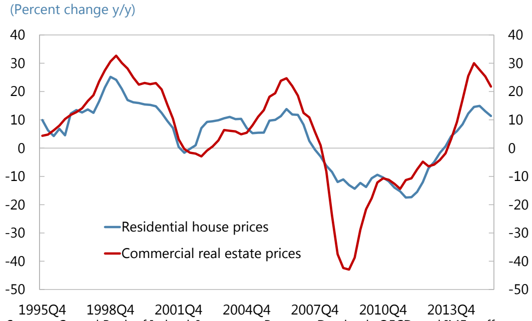
Ten-Year Sovereign Bond Yields
(Basis points)



Source: Bloomberg.

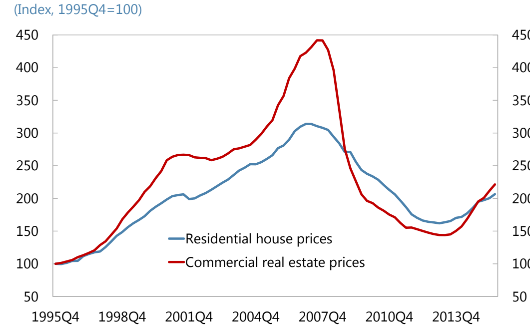
4. **Upward pressure on property valuations persists, but prices remain below levels prior to the boom.** Housing prices have risen by about 33 percent since their nadir in 2013. Cash purchases have lately accounted for about half of total housing purchases. Nonetheless, the CBI's announcement in October 2014 of macroprudential measures (in force since February 2015) has been associated with moderating expectations of future price increases, and has thus reduced the speculative demand for housing. Though slower, the rate of housing price appreciation continues, in part reflecting a weak supply response. While still well below pre-boom levels, commercial real estate (CRE) prices are increasing even more strongly, by 25 percent y/y in Q2, with over half of CRE investment this year driven by foreign buyers. As new CRE stock is expected to increase only from 2016 onward, supply shortages have become acute, with vacancy rates for Dublin prime office space now lower than before the crisis.

Property Prices Growth
(Percent change y/y)



Sources: Central Bank of Ireland; Investment Property Databank; OECD; and IMF staff calculations.

Property Prices
(Index, 1995Q4=100)

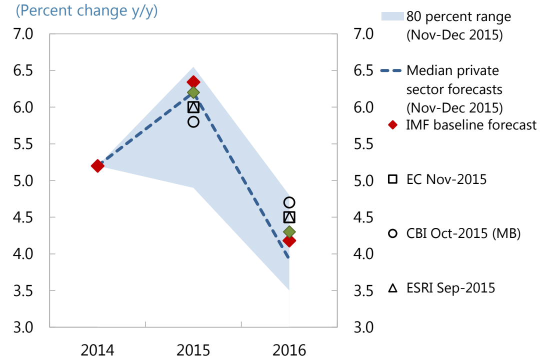


Sources: Central Bank of Ireland; Investment Property Databank; and OECD.

5. Growth projections have been revised up markedly. Staff raised the GDP growth forecast for 2015–16 given the robust performance so far this year and the positive confidence effects from ECB QE. Medium-term growth was also revised upward to reflect the strong investment momentum (high corporate profitability and still ample corporate deposits), and healthy private consumption (solid employment growth and higher disposable income, including from low oil prices). Growth is projected to decelerate gradually to a potential rate of 2½–3 percent with the output gap expected to turn positive in 2016.

Real GDP Growth Projections

(Percent change y/y)



Sources: Bloomberg; CBI, ESRI; EC; MoF and IMF staff estimates

Macroeconomic Projections, 2013–20

(Percentage change unless indicated otherwise)

	2013	2014	2015	2016	2017	2018	2019	2020
Real GDP	1.4	5.2	6.3	4.2	3.3	3.1	2.7	2.6
Final domestic demand	-1.5	5.2	6.2	3.7	3.5	3.4	3.2	2.8
Private consumption	-0.3	2.0	3.3	3.1	2.7	2.5	2.5	2.1
Public consumption	1.4	4.6	5.3	0.3	1.9	2.0	1.1	1.3
Fixed investment	-6.6	14.3	13.6	7.6	6.3	6.1	5.8	5.1
Change in stocks (contribution to growth)	0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth)	2.6	0.1	1.4	1.2	0.5	0.4	0.1	0.3
Exports	2.5	12.1	12.0	4.5	4.2	4.1	4.1	4.2
Imports	0.0	14.7	12.8	4.2	4.4	4.5	4.7	4.7
Current account (percent of GDP)	3.1	3.6	3.8	4.2	3.8	3.5	3.2	3.1
Unemployment rate (percent)	13.0	11.3	9.6	8.5	7.7	7.2	6.9	6.9
Output gap 1/	-5.3	-3.2	-0.5	0.5	0.8	1.0	0.7	0.3
Consumer Prices (HICP)	0.5	0.3	0.2	1.5	1.6	1.7	1.9	2.0

Source: Central Statististical Office and IMF staff projections.
1/ Excluding multinational enterprises, see 2015 Article IV Selected Issues Paper.

6. Risks to the outlook are broadly balanced. In the near term, the main risk is of disruptive asset price shifts resulting from a reassessment of global growth prospects, geopolitical developments, or uncertainty around the pace of U.S. monetary policy normalization. Yet the ECB QE, the government's limited financing needs for 2016, and cash buffers of around 5 percent of GDP would mitigate the impact of the associated tightening of global financial conditions. Conversely, if ECB policy settings were to remain accommodative for a prolonged period of time, this could amplify the Irish business cycle. Risks from an extended period of low euro area growth could hurt confidence, investment, and FDI, but the impact on external demand would be ameliorated to the extent U.S. and U.K. markets remained strong. Although Ireland's trade with emerging markets is relatively limited, weak growth in key emerging economies could feed in through second-round effects. At home, lower drag from deleveraging and increasing property prices and the associated wealth effect could lift private consumption and investment growth above baseline projections, yet could also generate new vulnerabilities if excessive. The impaired credit channel remains a medium-term risk as the investment recovery will eventually stoke demand for renewed bank lending.

Box 1. Recent Changes to National Accounts and Balance of Payments Statistics

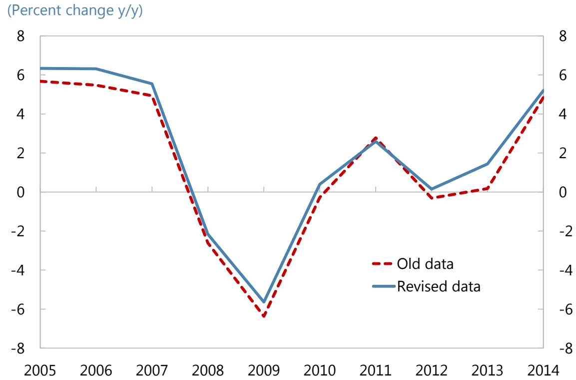
Historical national accounts and balance of payments data were modified substantially in July 2015. Real GDP growth rates for 2012–14 were revised upward, GDP expenditure components changed for the last 10 years, and the current account balance was reduced. Two factors were behind these revisions:

- ***A GDP level-neutral change to the accounting of aircraft purchases by leasing companies.*** Such purchases are now recorded—in line with ESA 2010—as investment and imports in the country of economic ownership irrespective of where the aircraft is registered for aviation purposes. As a large share of the world's aviation fleet is managed from Ireland, this affects Ireland's national accounts (through higher imports and gross fixed capital formation), and its balance of payments (through a lower external trade balance). It also impacts the international investment position (IIP) and financial accounts as the balance sheets of the leasing companies are now included in Ireland's balance sheet.
- ***An upward revision to the service component of private consumption expenditures.*** This reflected additional information from the tax and insurance statistics.

The revisions change the narrative of Ireland's economic performance over the past few years. Ireland avoided a second recession in 2012; the ongoing growth recovery has been solidly rooted since 2013; the recovery of domestic demand in 2014 was much stronger; and nominal GDP in 2014 was 3 percent higher than previously reported, lowering the end-2014 debt-to-GDP ratio to 107.6 percent (from 110.7 percent).

Ireland's recovery took off since 2013.

Real GDP Growth
(Percent change y/y)



Several GDP components are showing stronger growth.

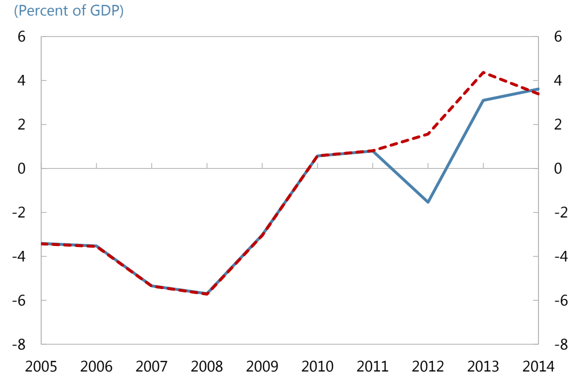
Real GDP and Key Expenditure Components
(Percent change y/y)

	2012		2013		2014	
	Old	New	Old	New	Old	New
Real GDP	-0.3	0.2	0.2	1.4	4.8	5.2
Domestic demand	-0.6	0.7	-0.3	-1.2	3.6	5.7
Final domestic demand	-0.2	1.0	-0.7	-1.5	2.9	5.2
Private consumption	-1.2	-0.8	-0.8	-0.3	1.1	2.0
Public consumption	-2.1	-2.2	1.4	1.4	0.1	4.6
Gross fixed investment	5.0	8.6	-2.4	-6.6	11.3	14.3
Change in stocks 1/	-0.3	-0.3	0.3	0.3	0.5	0.5
Net exports 1/	-0.8	-0.3	0.6	2.6	2.2	0.1
Exports of goods and services	4.7	2.1	1.1	2.5	12.6	12.1
Imports of goods and services	6.9	2.9	0.6	0.0	13.2	14.7

1/ Contribution to growth

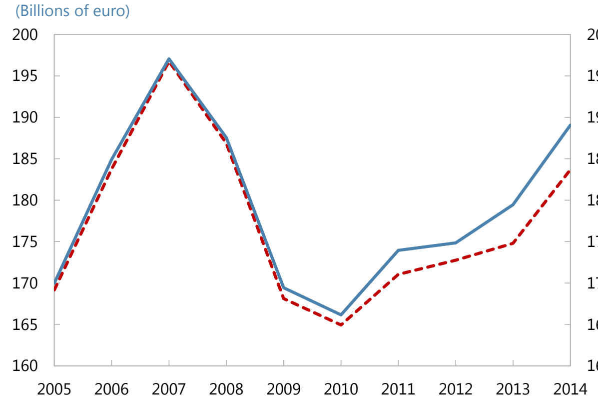
Larger imports reduced recent current account surpluses.

Current Account Balance
(Percent of GDP)



The end-2014 nominal GDP is now higher by about 3 percent.

Nominal GDP
(Billions of euro)



Sources: Central Statistics Office; and IMF staff calculations.

FISCAL POLICY

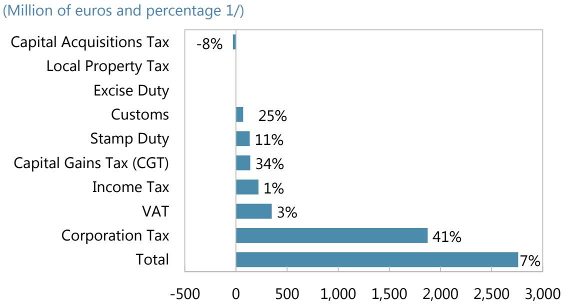
7. In the run up to the general elections in early 2016, Ireland is on track to considerably outperform its 2015 fiscal target, despite a slight easing of the underlying stance. Tax revenues were significantly above profile during January–November, reflecting strong CIT and VAT collections. Total spending remained broadly in line with the original budget through November as overruns in health and social protection were more than offset by a lower than expected interest bill. However, the large tax overperformance allowed a supplementary budget of 0.7 percent of GDP, composed of discretionary spending for social protection and capital projects (0.3 percent of GDP) and overruns (0.4 percent of GDP). Assuming that all the expenditures are executed, staff estimate a modest structural primary easing (0.1 percent of GDP), while the headline deficit projected at 1.9 percent of GDP will significantly outperform the 2.7 percent budget target, allowing exit from the EU Excessive Deficit Procedure. Public debt is set to fall to 97 percent of GDP—lower than anticipated at the time of the 3rd PPM discussion. The headline fiscal outperformance is commendable, but the decline in public debt would have been larger had the full revenue overperformance been used for deficit reduction.

Fiscal Performance, January–November 2015

	Profile	Outturn	Difference	
	(€ bn)	(€ bn)	(€ bn)	(% of GDP)
Tax Revenue and Social Contributions	49.2	52.5	3.2	1.5
Expenditure	57.2	56.7	-0.5	-0.2
Current primary	47.1	47.5	0.4	0.2
Capital	2.9	2.7	-0.2	-0.1
Interest	7.2	6.6	-0.6	-0.3
General government balance1/	-5.5	-1.7	3.8	1.8

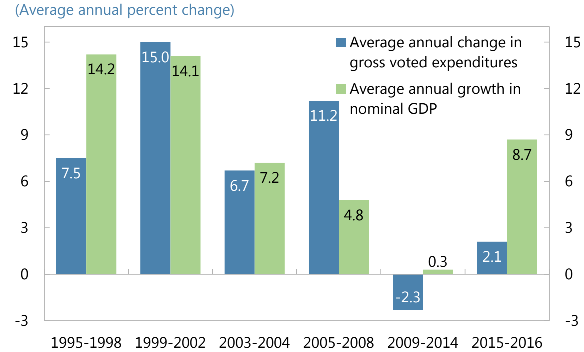
Sources: Exchequer Report (November 2015); and IMF staff calculations.
1/ Estimated, excluding transactions with no general government impact.

Key Tax Heads Outperformance vs. Budget 2015
(Million of euros and percentage 1/)



Sources: Department of Finance; and IMF staff calculations.
1/ Staff projected cash outperformance of full-year revenue vs. Budget 2015 in millions of euros. Percentages indicate ouperformance vs. each individual tax head projection.

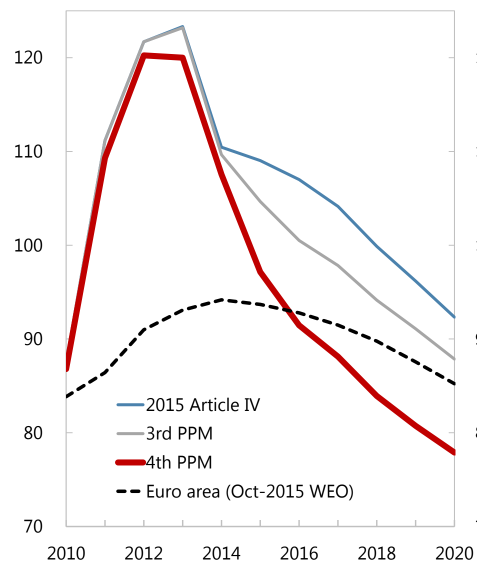
Gross Voted Expenditures and GDP Growth
(Average annual percent change)



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

8. Budget 2016 envisages gradual medium-term fiscal consolidation and debt reduction. Based on the expenditure profile set out in the budget, staff project that the overall fiscal deficit will fall to 0.9 percent of GDP in 2016 and continue to decline until reaching a surplus of 0.3 percent of GDP in 2018—broadly in line with the budget projections. The gradual improvement in the structural primary balance—by about 0.4 percent of GDP per year on average until overall structural balance is reached in 2018 (Ireland's medium-term objective, MTO), as projected by staff—is appropriate given the strength of the recovery and the need to reduce the debt ratio further. Maintaining overall structural balance thereafter would be the minimum required to continue to ensure a prudent pace of debt reduction.[1] The assessment of the short-term cyclical position of the economy and the fiscal stance is, nevertheless, inherently complicated for a very open and volatile economy like Ireland (2015 SIP).[2] Moreover, while the authorities' fiscal plans deliver improved debt dynamics and have been characterized as "broadly compliant with the provisions of the Stability and Growth Pact (SGP)" in the European Commission's assessment of the budget[3], public debt is still projected to remain elevated over the medium term. For this reason, revenue outperformance or unanticipated interest savings should be used for debt reduction. The authorities pointed to their conservative revenue projections and stressed that spending will be constrained by the expenditure benchmark. As a result, any revenue outperformance in 2016 cannot be used to fund additional outlays and will be used to further improve the state's fiscal position. They also emphasized the positive role played by the Spring Economic Statement and National Economic Dialogue in cementing a broad consensus on the size of the fiscal space available ahead of budget preparation.

General Government Gross Debt
(Percent of GDP)



Source: IMF WEO and staff projections.

[1] Staff assume that after 2018 any fiscal space beyond overall structural balance will be used. This generates a lower headline budget surplus in the outer years than in the authorities' projections, as well as a slightly slower decline in the debt-to-GDP ratio.

[2] Staff estimate a 1.3 percent of GDP improvement in the structural primary balance over 2016–18. The authorities' calculations in Budget 2016 based on the harmonized EU methodology—which they acknowledge produces cyclical estimates inconsistent with other indicators of current economic slack—suggest a larger annual structural adjustment exceeding the SGP minimum requirement (Text Table).

[3] The European Commission assessment points to some risks of deviation from the expenditure benchmark.

Staff Estimates of Fiscal Adjustments 1/

(Percent of GDP unless otherwise indicated)

	2013	2014	2015	2016	2017	2018
Net lending/borrowing	-5.6	-3.9	-1.9	-0.9	-0.1	0.3
Interest	4.3	4.0	3.2	2.9	2.8	2.7
Primary balance ex. one-off items	-1.7	0.0	1.2	1.9	2.7	3.0
Structural Balance (overall)	-3.3	-2.0	-1.5	-0.9	-0.3	0.0
Cyclical contribution	-2.4	-1.9	-0.5	0.0	0.2	0.3
Structural Primary Balance	0.7	1.8	1.7	2.0	2.5	2.8
Δ (Annual)	1.9	1.1	-0.1	0.2	0.6	0.2
Memorandum items						
Output gap	-5.3	-3.2	-0.5	0.5	0.8	1.0
Annual change in output gap	-0.7	2.2	2.7	1.0	0.3	0.1
Potential output growth	2.2	2.8	3.5	3.1	3.0	3.0
Unemployment rate	13.0	11.3	9.6	8.5	7.7	7.2
Authorities (Budget 2016, using EC harmonised methodology)						
Output gap	-2.7	-0.4	2.3	2.5	1.6	1.0
Structural Balance (overall)	-4.2	-3.4	-3.2	-2.5	-1.4	-0.3
Structural Primary Balance			0.0	0.5	1.5	2.4

Sources: Department of Finance and IMF staff projections.

9. **While the pace of the adjustment in 2016 is broadly appropriate, the composition of measures could have been more supportive of potential growth.** The fiscal space of €1.5 billion in Budget 2016, stemming in part from recalculation of the expenditure benchmark in April 2015, was equally split between expenditure and revenue measures:[4]

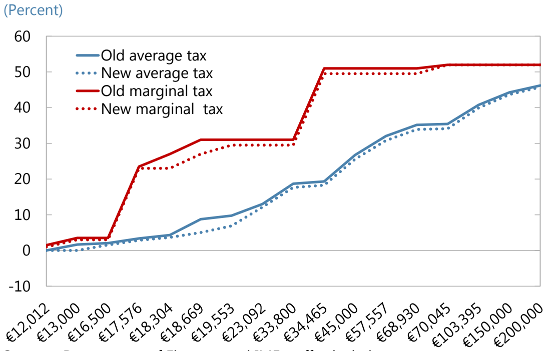
- ***Expenditure measures.*** The "Lansdowne Road" wage agreement with public sector unions adds about €300 million to spending in 2016. An additional €470 million was allocated to education and social protection budgets for early education, new teaching posts, higher state pensions, and larger child benefits. Also announced was a 50 cent increase in the minimum hourly wage (an increase of about 6 percent). These measures aim to cement the recovery by supporting job growth and to ensure that the benefits of a growing economy are shared with the broader population after years of sacrifice. In line with advice in the 2015 Article IV consultation, staff argued that better targeting could help protect the most vulnerable in society at lower cost and produce superior social outcomes while creating more fiscal space for growth-enhancing investment.

- ***Revenue measures.*** Key measures remove 42,500 workers from the scope of the universal social charge (USC) by raising the entry threshold, reduce the three lowest USC rates, and change USC brackets for lower- and middle-income earners. These changes aim to lessen the tax burden and encourage labor market participation for low wage earners and women. While

[4] The frequency of the recalculation was changed from 3 years to 1 year. This raised the "permissible rate of expenditure increase" in 2016 from -0.3 percent to +0.1 percent in real terms, creating space of about €1 billion (Stability Program Update). To this, the authorities added €0.5 billion for the tax buoyancy effect and non-indexation of income tax bands, resulting in overall fiscal space of €1.5 billion.

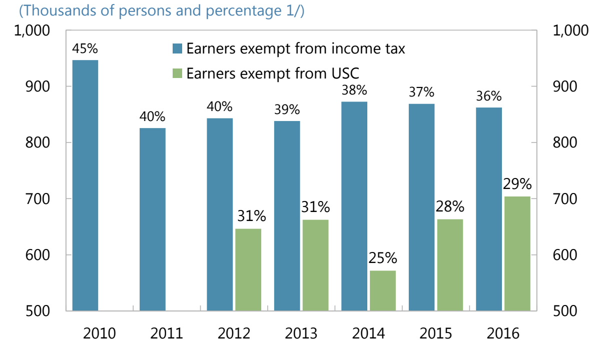
supporting in principle the reduction in distortionary taxes, staff noted that the impact of USC changes appears regressive, with half of the benefit accruing to households with incomes above €70,000 (about twice the median wage in Ireland). Staff also emphasized the risks associated with tax base erosion and argued against further reduction of the USC, which has played an essential role in restoring a sustainable revenue base. The authorities indicated that the very progressive nature of Ireland's tax system made virtually any change regressive. However, post Budget 2016 it is estimated that the top 1 percent of income earners will pay 22 percent of the total income tax and USC collected, up from 21 percent in 2015. In addition, the benefits from the tax measures in the budget were capped at an income level of €70,000 such that those with incomes above this level only benefit to the same extent as those with incomes at or below that level. The authorities also pointed out that wage and employment growth would help maintain nominal revenues despite the lower number of workers subject to the USC in 2016. On property taxation, staff expressed concerns about the procyclical implications of the property valuation freeze. The authorities, having regard to the high levels of home ownership, noted that the likely extent of increased charges in the absence of the property valuation deferral would be inconsistent with the objective of relative stability in the tax yield.

Tax Rates for a Singly Assessed Individual, 2015 1/
(Percent)



Sources: Department of Finance; and IMF staff calculations.
1/ Annual income subject to income tax, USC, and PRSI.

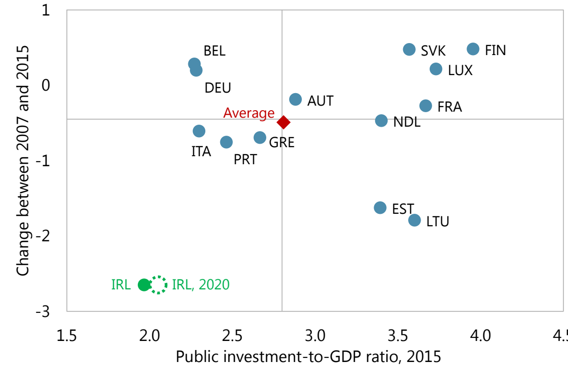
Income Earners Exempt from Income Tax and USC
(Thousands of persons and percentage 1/)



Source: Revenue Commissioner Office.
1/ Numbers on top of bars represent exempt income earners as share of total.

10. The authorities' medium-term plans include unallocated fiscal space if the structural balance budget is maintained. The medium-term budget appropriately features more realistic capital spending plans compared to the Stability Program Update. New infrastructure projects in public transportation, health, education, and social housing outlined in the €27 billion Capital Investment Plan for 2016–21 will maintain capital spending at around 2 percent of GDP—still historically low and below the EU average (2.7 percent of GDP). An additional €½ billion per year is planned for current spending in education, social protection, and health to cope with demographic trends. Yet the authorities' expenditure projections beyond 2016 do not fully incorporate the cost of providing current levels of public services, as highlighted in the Irish Fiscal Advisory Council November 2015 Fiscal Assessment Report. Staff welcomed the increased transparency of the medium-term fiscal projections, but noted the additional potential spending needs to maintain Ireland's attractiveness for foreign investment, as highlighted in the proceedings of the National Economic Dialogue. Staff also stressed the importance of channeling the remaining fiscal space in the outer years to debt reduction rather than tax cuts. The authorities emphasized that the full public sector investment envelope, including non-exchequer funded projects, will total about 3.4 percent of GNP by end-2020. They also underscored their commitment to rapid debt reduction and their belief that upcoming changes to international taxation standards will confirm Ireland as desirable international investment destination.

Public Investment and GDP 1/



Sources: IMF World Economic Outlook; and staff calculations.
1/ Axes cross at the EU average.

FINANCIAL SECTOR AND HOUSING MARKET POLICIES

11. Economic recovery has supported banking system repair, where more remains to be done. Domestic banks started generating profits in 2014 for the first time since the crisis began and new lending is picking up, albeit from low levels. Asset quality has improved across all categories due to rising household incomes, improving corporate profits, and ongoing resolution of distressed loans. Provision coverage declined slightly as collateral values rose, although these values often remain untested by foreclosures and sales. Nonetheless, loan books continue to contract, profitability remains low and partly driven by provision write backs, and nonperforming loans (NPLs) are still high at about one-fifth of gross loans.[5]

Irish Banks: Key Financial Indicators 1/
(Percent)

	2011	2012	2013	2014	2015H1 2/
Credit growth 2/	-4.1	-10.2	-10.8	-4.3	-2.3
Return on assets	-1.2	-2.0	-0.8	0.6	0.8
Pre-provision profits 3/	0.6	-0.2	0.4	0.5	0.4
Net interest margin	0.9	0.8	1.2	1.6	1.8
NPL ratio	19.6	24.8	27.1	23.2	19.8
Coverage ratio 4/	49.8	48.5	51.4	51.7	50.9
Texas ratio 5/	93.0	115.0	120.0	106.0	95.0
CT1 ratio	16.4	14.7	13.3	15.5	16.5
Loan to deposit 6/	146.0	124.0	111.0	108.0	107.0
NSFR	69.0	82.3	96.1	110.5	110.9
LCR	71.0	92.3	107.7	109.9	113.4

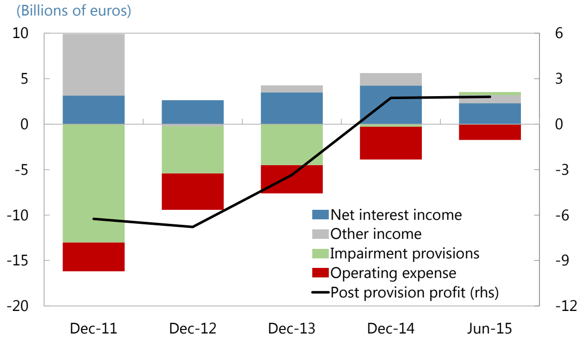
Source: Central Bank of Ireland; and IMF staff calculations.
1/Indicators cover the three main domestic banks: Allied Irish Banks, Bank of Ireland, and Permanent TSB.
2/ Figures are not annualized. Table 8 represents comparison with 2014H1.
2/ Annual percent change in end period gross loans and advances.
3/ Excluding nonrecurrent items, as a share of average total assets.
4/ Provision stock to NPLs.
5/ NPLs to sum of provision stock and CT1 capital.
6/ Net loans to customer deposits, in percent.

12. Achieving durable bank profitability while maintaining prudent lending practices remains a central challenge. The modest improvement in the aggregate pre-provision profitability of the three main domestic banks in 2015 H1 was driven by improving net interest margins on the back of declining funding costs. Yet, at 0.4 percent of average assets, pre-provision profitability (excluding nonrecurrent items) is still subdued, with prospects for further improvement held back by large tracker mortgage books (half of total mortgage value), modest scope for credit demand in the near term, and administrative costs related to the NPL overhang.

[5] A comprehensive assessment of the banking system health will be carried out in the 2016 Financial Sector Assessment Program.

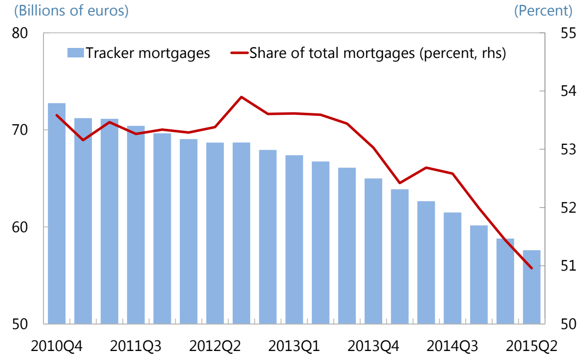
The regulatory authorities agreed that achieving durable profitability to support banks' capacity to generate capital and lend will be a core challenge going forward as further gains from lower funding costs are likely to be limited. They noted, however, that ongoing NPL resolution will provide some relief on costs, while a gradual run off of the tracker mortgage book continues to improve net interest income. Staff cautioned that, as banks may resort to more risky assets to improve returns, supervisors must ensure that banks' business models appropriately balance profit seeking and risk management, and that loan pricing adequately reflects credit risk and barriers to collateral realization.

Irish Domestic Banks: Breakdown of Profits 1/
(Billions of euros)



Source: Central Bank of Ireland.
1/ Refers to Bank of Ireland, Allied Irish Banks, and Permanent tsb.

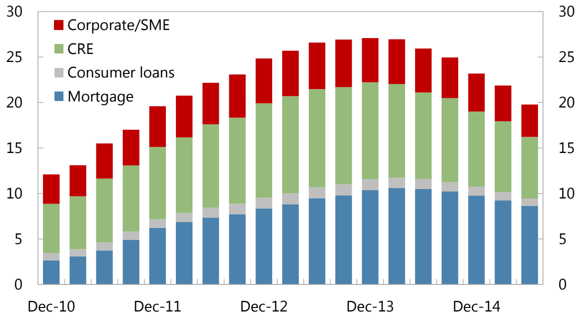
Tracker Mortgages
(Billions of euros) (Percent)



Source: Central Bank of Ireland.

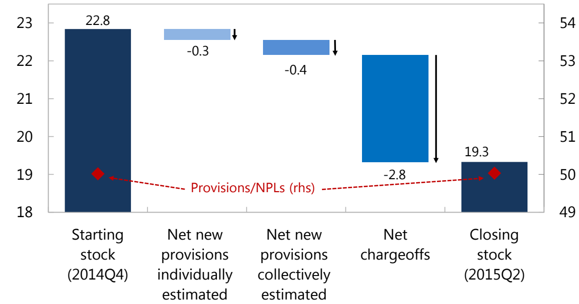
13. Faster balance sheet clean up is needed to boost banks' resilience to shocks and support future credit growth. In the mortgage segment, NPL resolution is complicated by weak cooperation between borrowers and lenders, lengthy legal proceedings, and limited (but increasing) utilization of personal insolvency arrangements. As a result, the stock of mortgage accounts in deep arrears (over 720 days) continues to increase, reaching 55 percent of past-due loans (over 90 days) in mid-2015 from 49 percent at end-2014. About half of the CRE loans are still nonperforming, despite promising trends in restructurings and write downs. The mission emphasized that rising collateral values should not distract workout efforts and stressed that continued supervisory pressure is needed to push forward loan resolution. The authorities noted that the number of accounts in arrears is declining. They pointed out that new court rules imposing more rigorous standards on creditors initiating repossession proceedings, together with new information and support measures aimed at distressed borrowers under the government's mortgage arrears framework, may shorten the legal process and improve engagement. In addition, new legislation may facilitate the acceleration of the resolution of mortgages in distress by reducing the discharge period from three years to one year. With banks continuing to release provisions as property market conditions improve, staff cautioned that write backs should be based on conservative assumptions and collateral reappraisals.

Non-Performing Loans 1/
(Percent of gross loans)



Source: Central Bank of Ireland.
1/ Refers to Bank of Ireland, Allied Irish Banks, and Permanent tsb.

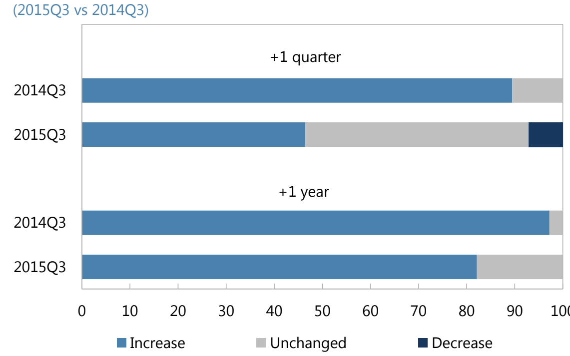
Provisions 1/
(Billions of euros) (Percent)



Source: Central Bank of Ireland.
1/ Refers to Bank of Ireland, Allied Irish Banks, and Permanent tsb.

14. The authorities are appropriately focused on ensuring prudent lending standards. The new macroprudential rules seek to support the resilience of banks and households and prevent the reemergence of procyclical dynamics between mortgage lending and housing prices. The authorities noted that it was premature to assess the full impact of the measures as only a fraction of loan drawdowns have been subject to the new rules so far due to lagged effects, but house price expectations have moderated. In staff's view, periodic impact assessments and recalibration of the measures will be appropriate to ensure their effectiveness. Given that CRE valuations would likely be sensitive to volatility in capital flows, staff welcomed the close supervisory monitoring of CRE financing—where nonbanks play an important role—to identify vulnerabilities, including potential spillovers to the banking system. Continued tracking of loans to CRE buyers and developers would help illuminate supply and demand dynamics going forward. The authorities noted that they did not see a need to intervene at this time, but were keeping the situation under review. Microprudential oversight of the domestic banks also covers CRE portfolios.

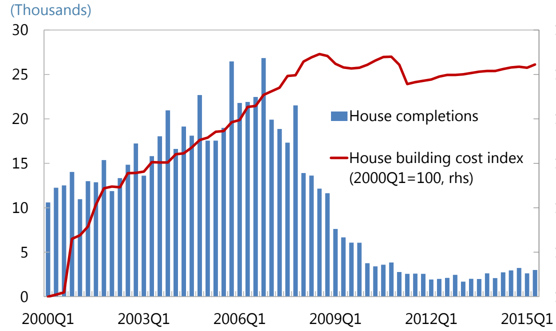
Expectation of House Price Changes
(2015Q3 vs 2014Q3)



Source: Central Bank of Ireland (Macro-Financial Review 2015:II).

15. New measures in housing seek to boost sluggish supply which is exacerbating imbalances in this market. The confluence of still-subdued construction activity and rising demand has resulted in an acute housing shortage—especially in central Dublin—that has fueled prices and rents and stretched affordability. Mindful of the mounting pressures, the government has launched a policy package comprising measures to both boost supply (including streamlined building codes and rebates to developers for qualifying projects) and stabilize rents (also increasing tenant rights and protections). Staff welcomed the increased

House Completions and Building Cost 1/
(Thousands)



Sources: Haver Analytics; and IMF staff calcualtions.
1/The Irish Housing Agency estimates that a minimum of 20,000 new homes are required to meet the housing demand in 2015.

focus on the housing market, noting that some of the measures would help reduce building costs and could jump start construction activity, particularly of lower-cost homes where profit margins are tighter. The mission, however, warned that the administrative measures on rents could reduce rates of return on investment properties and thus dissuade construction.

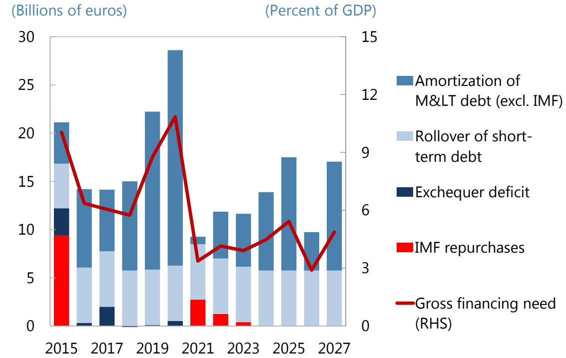
16. Disposals of public stakes in the banks would allow accelerated sovereign debt reduction. The recently approved restructuring of the capital base of Allied Irish Banks comprises the conversion of preference shares into ordinary equity, new capital issuance, and a partial repayment (of €1.7 billion) to the state. When implemented, it will enhance capital quality by lifting the bank's fully loaded common equity tier 1 ratio from about 8 percent of risk weighted assets to over 12 percent, thereby positioning the bank for divestment. The Bank of Ireland also recently announced its plans to redeem the remaining €1.3 billion preference shares (owned by private investors) in January 2016 to allow the bank to renew dividends payments to investors. The authorities indicated that the disposals time line for all public stakes depends on several factors, including maximization of returns to the taxpayer.

FINANCING AND POST-PROGRAM MONITORING

17. Ireland's capacity to repay the Fund is strong on the back of robust economic and fiscal performance, as well as favorable financing terms. Ireland has raised €13 billion in long-term bonds in 2015, while revenue over-performance helped increase the government's cash balance to €14 billion as of end-October—more than double the outstanding obligations to the Fund and equivalent to over 12 months of projected gross financing needs. The ECB's QE is proceeding as planned and, if secondary market purchases under the QE continued at the current rate of over €800 million a month, would be broadly equivalent to expected Irish sovereign issuance of long-term bonds over the next 12 months.

18. Medium-term financing needs also appear manageable, and the falling public debt burden reduces risks going forward. Strong growth and fiscal performance have dramatically lowered the baseline public debt path, where further reduction is predicated on the authorities' continued commitment to fiscal prudence. Gross public debt is now expected to fall below 100 percent of GDP by end-2015—a full two years earlier than anticipated at the time of the 3rd PPM discussion. Ireland's funding strategy has significantly smoothed medium-term gross financing requirements, and it is likely that the projected hump in 2020 will be dealt with well in advance through debt management operations. Finally, the 2021–23 period—when the remaining liabilities to the IMF fall due—has relatively modest gross financing needs, further lowering risks to the Fund.

Government Gross Financing Need



Source: IMF staff calculations and projections.

STAFF APPRAISAL

19. Ireland is enjoying the fastest growth in the European Union, but challenges remain. The recovery accelerated in 2015 and has become more broad-based, with domestic demand overtaking net trade as the dominant driver of growth. Employment expansion is continuing unabated, and the unemployment rate has fallen below 9 percent. Financing conditions remain exceptionally favorable, but upward pressures on house prices are continuing. The outlook is positive and risks are broadly balanced. Yet vulnerabilities are still elevated, particularly public and private debt burdens are high, lending importance to the unfinished task of rebuilding economic resilience.

20. While it is appropriate to share some fruits of the recovery after years of difficult adjustment, fiscal discipline must be maintained to rebuild room for policy maneuver. Strong growth in 2015 has enabled outperformance of the fiscal targets despite an easing of the underlying stance. Public debt is set to fall below 100 percent of GDP by end-2015. The fiscal plans outlined in Budget 2016 and the consolidation pace consistent with reaching a structural balance in 2018 are broadly appropriate. Maintaining structural balance thereafter would be the minimum required to ensure a prudent pace of debt reduction. Yet the budget measures could have avoided tax base erosion, been better targeted and more protective of budget resources. The resulting savings would have created additional room for capital spending and support sustainable growth. Any future fiscal space should be used to accelerate debt reduction, and to rebuild buffers to allow Ireland's small and open economy to face external shocks.

21. The economic recovery has supported the ongoing banking system repair, where more remains to be done. Achieving durable profitability while accelerating balance sheet cleanup would support future lending growth and boost banks' resilience to shocks. Provision releases should be based on conservative assumptions and collateral reappraisals. Supervisors must ensure that banks' business models appropriately balance profit seeking and risk management, and that loan pricing adequately reflects credit risk and barriers to collateral realization. As economic conditions change, periodic impact assessment and recalibration of macroprudential measures will be needed to ensure their effectiveness in enhancing the resilience of banks and households and reducing the likelihood of another cycle of boom and bust.

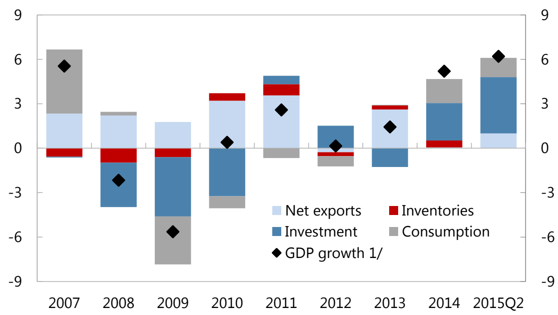
22. Measures to boost the supply of housing are a welcome step toward addressing the housing market imbalances. They should help reduce building costs and could jump start construction activity, particularly of lower-cost homes where profit margins are tighter. Administrative measures on rents, however, could reduce the return on investment properties and thus dissuade construction.

Figure 1. Ireland: Real Sector and Inflation Indicators, 2006–15

GDP grew by 6.2 percent y/y in 2015Q2 driven by a robust recovery of domestic demand.

Contributions to Real GDP Growth

(Percent y/y)

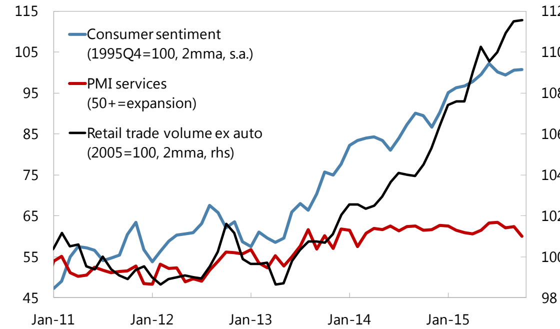


Sources: CSO; and IMF staff calculations.

1/ GDP growth accounts for statistical discrepancy as well.

Strong consumer confidence has supported the rapidly rising retail sales.

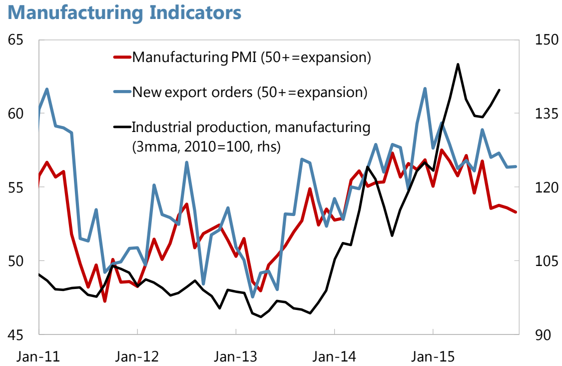
Retail Trade and Sentiment Indicators



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

Export orders and PMIs are positive for manufacturing and industrial production is on an increasing trend.

Manufacturing Indicators

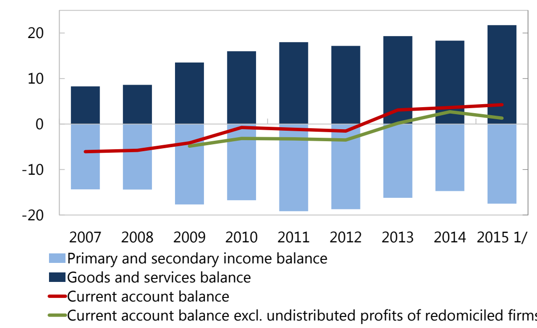


Sources: CSO; NCB Stockbrokers/Markit; and Haver Analytics.

The current account excluding estimated profits of re-domiciled firms remained in a modest surplus in 2015 H1.

Current Account Balance Composition

(Percent of GDP)



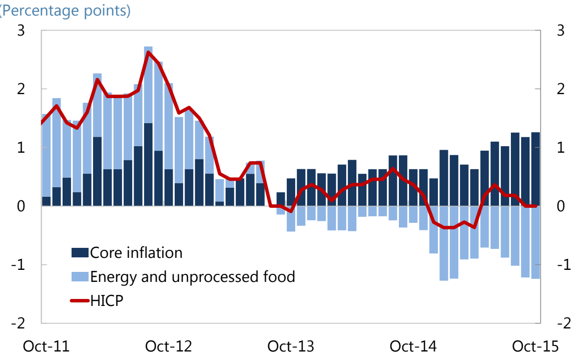
Sources: CSO; Haver Analytics; and IMF staff estimates.

1/ Annualized; based on first 2 quarters data.

Inflation has shifted to a positive territory on the back of higher core inflation, particularly prices of services.

Contribution to Annual HICP Inflation

(Percentage points)

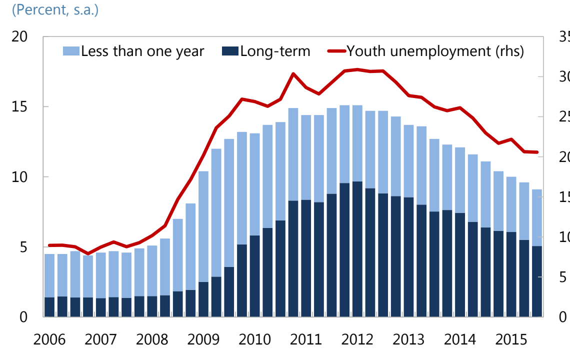


Sources: CSO; Eurostat; and IMF staff calculations.

Unemployment continued to decline, with an improvement in both long-term and youth unemployment.

Unemployment Rates

(Percent, s.a.)



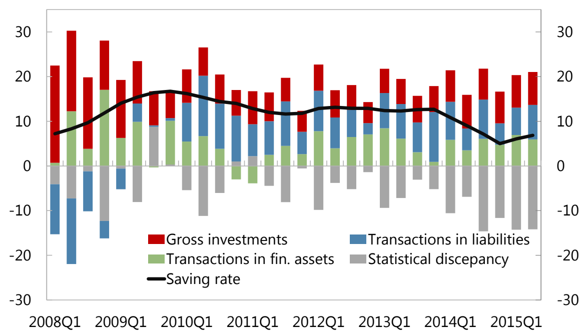
Sources: CSO; Haver Analytics; and IMF staff calculations.

Figure 2. Ireland: Household Finance and Property Market Developments, 1995–2015

Household savings somewhat declined reflecting a recovery in private consumption.

Decomposition of Household Savings

(Percent of gross disposable income)

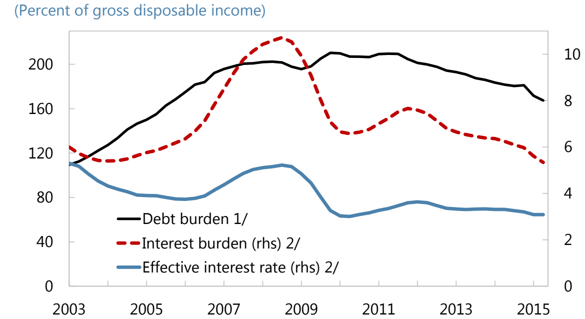


Sources: Central Bank of Ireland; CSO; and IMF staff calculations.

Debt burden and interest payments continued to fall.

Household Debt and Interest Payments

(Percent of gross disposable income)

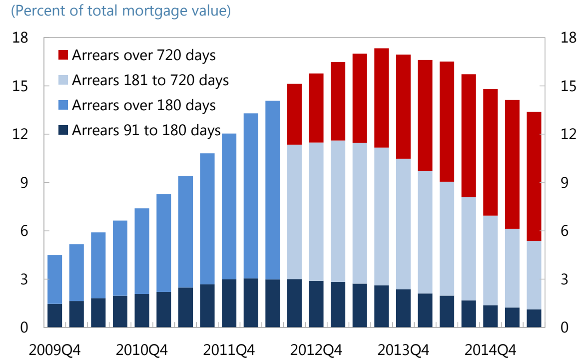


Sources: CBI; Haver Analytics; and IMF staff calculations.
1/ Total household loans in percent of 4 quarter gross disposable income.
2/ 4 quarter interest payments (excl. FISIM adjustment) in percent of 4-quarter gross disposable income or previous quarter's total household loans, respectively.

The share of mortgages on primary dwellings in arrears continues to decline, except for arrears over 720 days.

Mortgages in Arrears on Primary Dwellings

(Percent of total mortgage value)

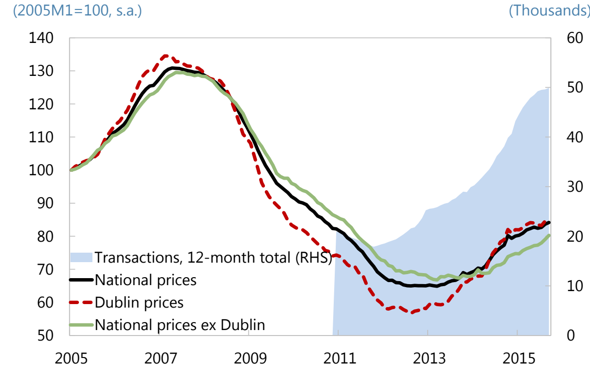


Source: Central Bank of Ireland.

The residential property market is reviving, particularly in Dublin, with some price deceleration in recent months.

Residential Property Prices and Transactions

(2005M1=100, s.a.) (Thousands)

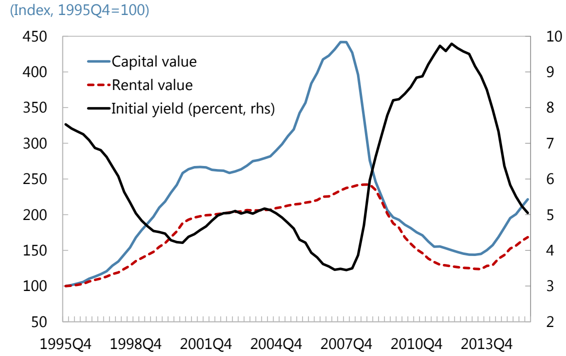


Sources: CSO; Property Services Regulatory Authority; and IMF staff calculations.

Commercial property prices and rents rose sharply from a low base, but remained well below the pre-crisis peaks...

Commercial Real Estate Value Indices and Initial Yield

(Index, 1995Q4=100)

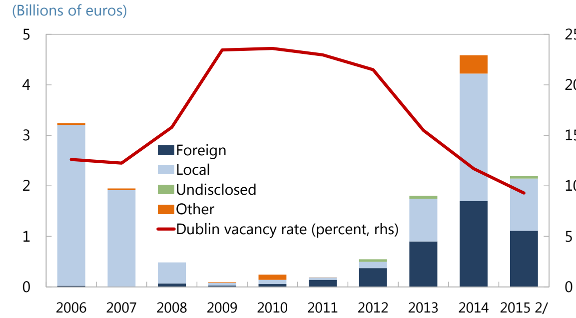


Sources: Central Bank of Ireland; and Investment Property Databank.

...and transactions have risen strongly with about 50 percent by non-residents over the first three quarters of 2015.

Commercial Property Transactions and Vacancies 1/

(Billions of euros)

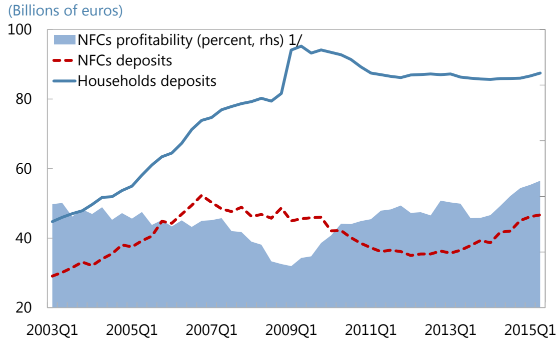


Source: CBRE Research (Ireland).
1/ Relates to individual transactions worth of at least €1 mln.
2/ Data is as of Sep-2015.

Figure 3. Ireland: Credit Developments, 2003–15

While household deposits remained stable, enterprise deposits are up following strong non-financial corporation's profitability ...

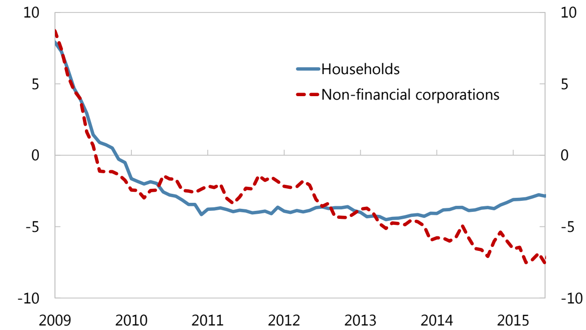
Irish Private Residents Deposits and NFCs Profitability
(Billions of euros)



Sources: Central Bank of Ireland; and CSO.
1/ NFCs' gross operating surplus to gross value added (National Accounts)

...this leading to further deleveraging of non-financial corporations and a continued contraction in credit.

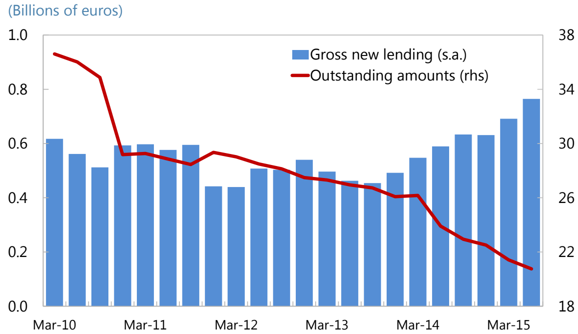
Loans Outstanding to Irish Residents
(Percent change y/y)



Source: Central Bank of Ireland.

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

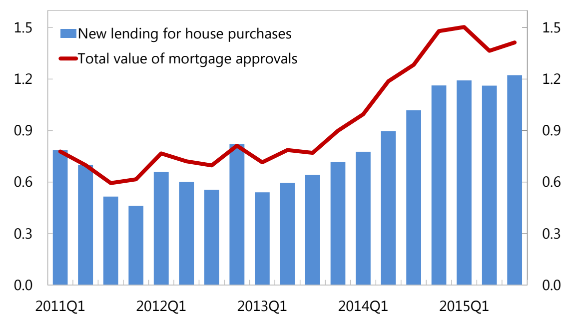
Outstanding SME Credit 1/
(Billions of euros)



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

New mortgage lending has somewhat moderated following the introduction of new macroprudential measures.

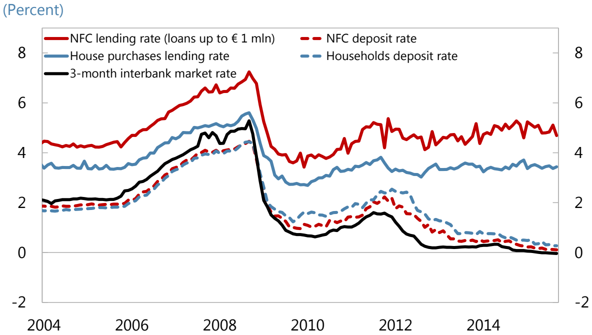
Housing Loans and Mortgage Approvals
(Billions of euros, seasonally adjusted)



Source: BPFI; and IMF staff calculations.

Low deposit rates and broadly stable lending rates...

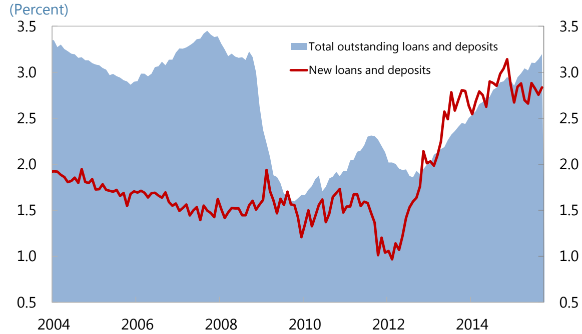
Median Lending and Deposit Rates, New Business 1/
(Percent)



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-2015.

...continue to boost banks' interest margins.

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



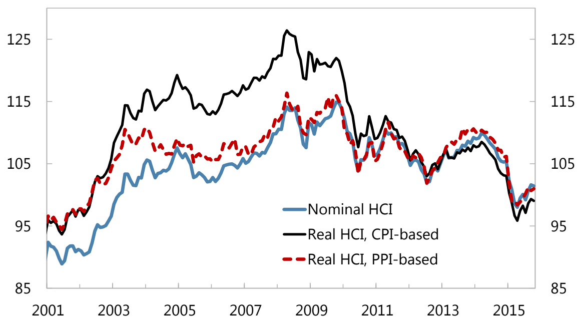
Source: Central Bank of Ireland.
1/ Weighted average loan rate minus weighted average deposit rate.

Figure 4. Ireland: Competitiveness Indicators, 1999–2015

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

Harmonized Competitiveness Indicators (Monthly)

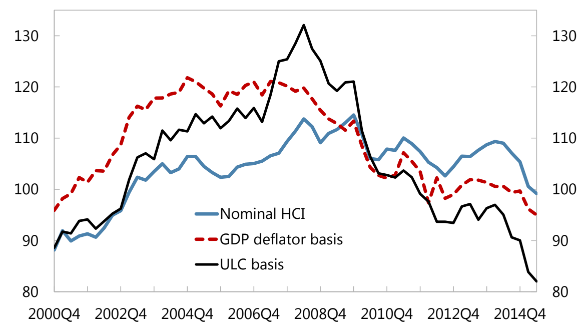
(1999Q1=100)



Sources: Central Bank of Ireland; and Haver Analytics.

Harmonized Competitiveness Indicators (Quarterly)

(1999Q1=100)

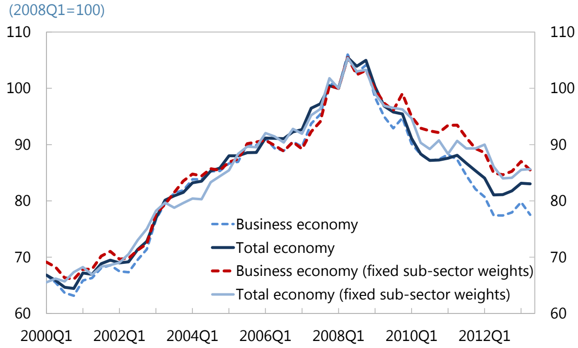


Sources: Central Bank of Ireland; and Haver Analytics.

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)

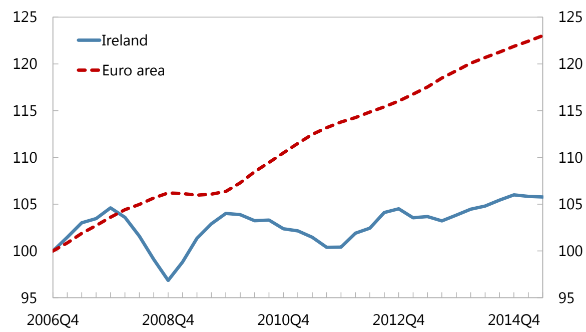


Source: Darvas, Zsolt (2012); Bruegel REER dataset (www.bruegel.org).

Wages in the manufacturing sector have increased at a slower pace than in the euro area.

Hourly Labor Costs in Manufacturing

(2006=100; 4-quarter moving average)

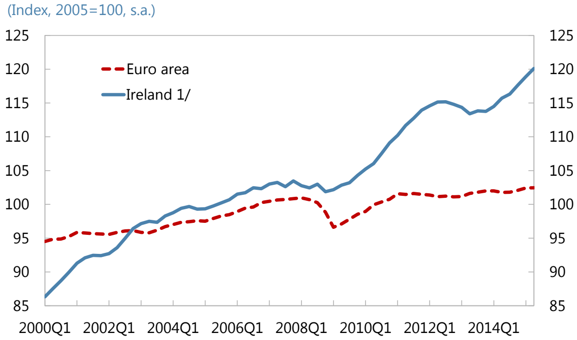


Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

Labor productivity continues to outpace that of the euro area.

Real Labor Productivity

(Index, 2005=100, s.a.)



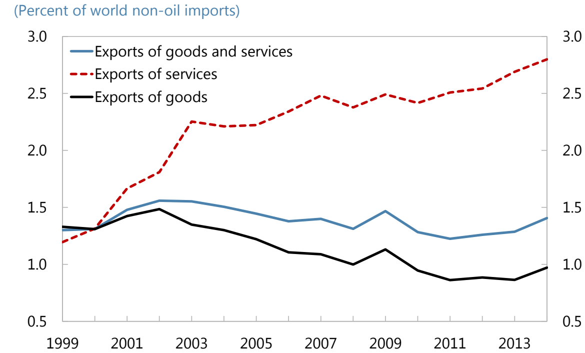
Source: CSO; ECB; Haver Analytics; and IMF staff calculations.

1/ Calculated as real output per person employed.

Ireland's overall export market share rose in 2014.

Export Shares

(Percent of world non-oil imports)



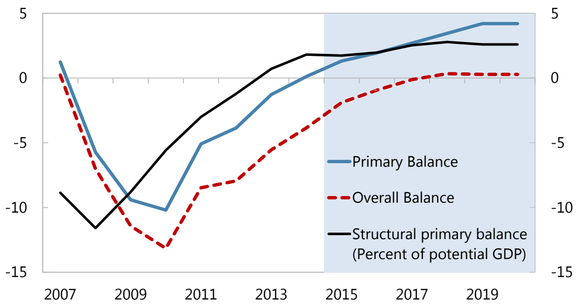
Source: IMF staff calculations.

Figure 5. Ireland: Selected Trends in General Government Finances, 2007–20

The primary balance is projected to improve over the medium term.

Headline and Structural Balances 1/

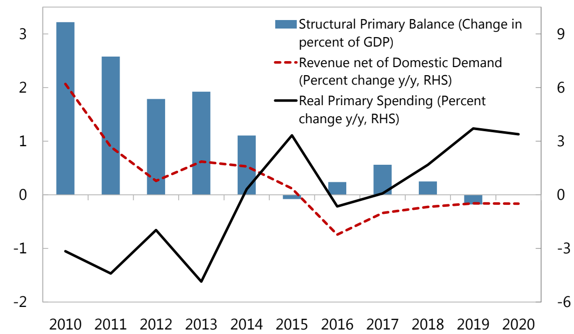
(Percent of GDP, unless otherwise indicated)



Sources: Department of Finance; and IMF staff estimates.
1/ Excluding bank support costs. Structural primary balance also excludes one-off revenue and expenditure items.

After strong fiscal adjustment in 2009–14, reflecting real spending cuts and revenue growth exceeding domestic demand, adjustment efforts appear more uneven thereafter.

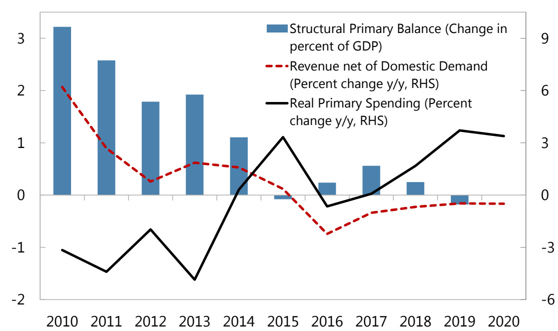
Fiscal Adjustment: Pace and Sources



Sources: Department of Finance; and IMF staff estimates.

The increasing primary surplus is projected to be driven by further declines in spending to GDP, leading budget surpluses starting in 2018.

Fiscal Adjustment: Pace and Sources

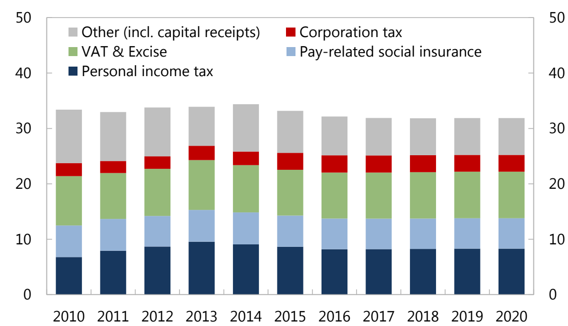


Sources: Department of Finance; and IMF staff estimates.

With domestic demand increasing less than GDP, revenues are projected to decline by about 1.3 percentage points of GDP from 2015 to 2020.

Revenue Composition

(Percent of GDP)

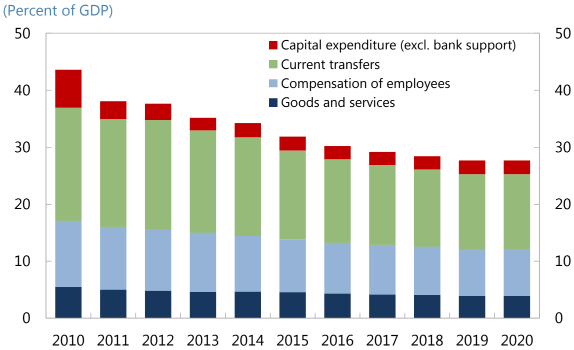


Sources: Department of Finance; and IMF staff estimates.

Primary expenditures are projected to fall by 3 percentage points of GDP from 2015 to 2020.

Primary Expenditure Components

(Percent of GDP)

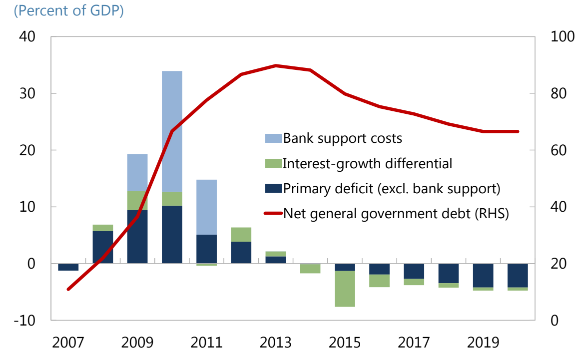


Sources: Department of Finance; and IMF staff estimates.

The strong 2015 growth-interest differential will contribute less to debt reduction going forward.

Sources of Increase in Net Debt-to-GDP Ratio

(Percent of GDP)

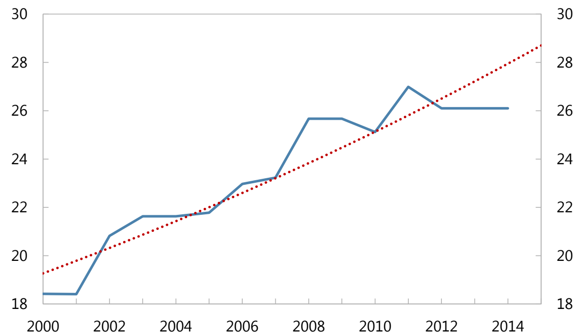


Sources: Department of Finance; and IMF staff estimates.

Figure 6. Ireland: Cyclical Position of the Irish Economy: Stylized Facts, 1997–2015

Electricity consumption in 2014 was below the 2011 level and 8 percent below its long-term trend.

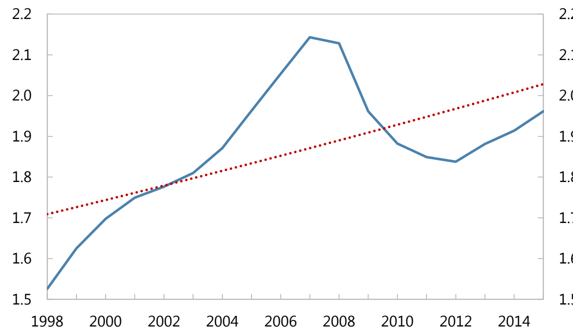
Electricity Consumption vs 20-year Trend
(Billions of kWh)



Sources: OECD; and IMF staff calculations.

Total employment in 2015 is about 10 percent below its 2006 peak.

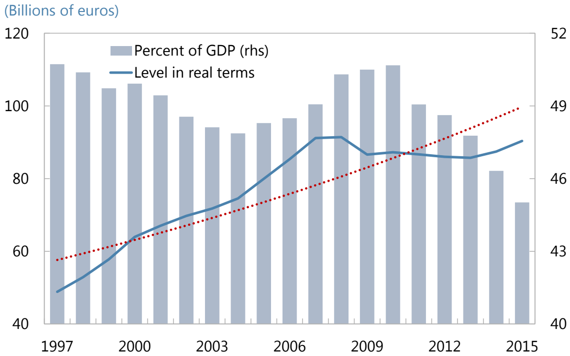
Total Employment vs 20-year Trend
(Thousands of people)



Sources: CSO; and IMF staff calculations.

Private consumption has shrunk markedly as a share of GDP, remains 10 percent below its long-term trend.

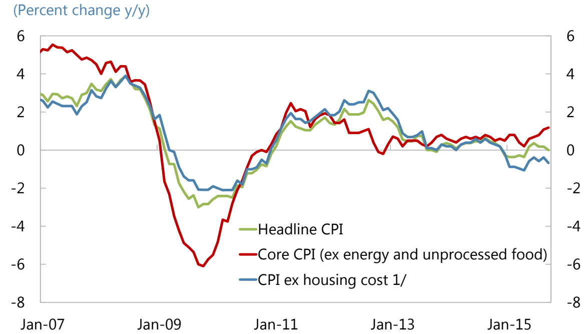
Private Consumption vs 20-year Trend
(Billions of euros)



Sources: CSO; and IMF staff calculations.

Inflation excluding rent and mortgage costs remains negative.

Consumer Prices
(Percent change y/y)



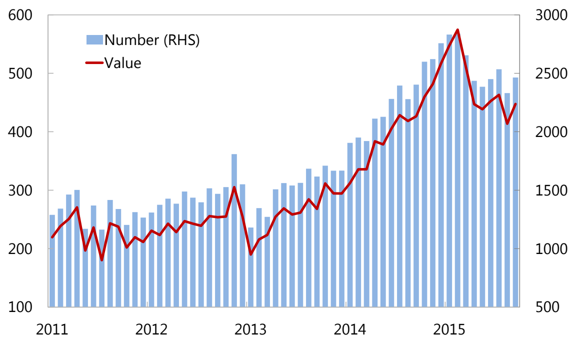
Source: CSO.
1/ Housing cost includes rent, mortgage interest, insurance, maintenance cost.

Figure 7. Ireland: Housing Developments, 1990–2015

Mortgage approvals somewhat moderated with the introduction of the new macroprudential measures…

Mortgage Approvals

(Millions of euros)

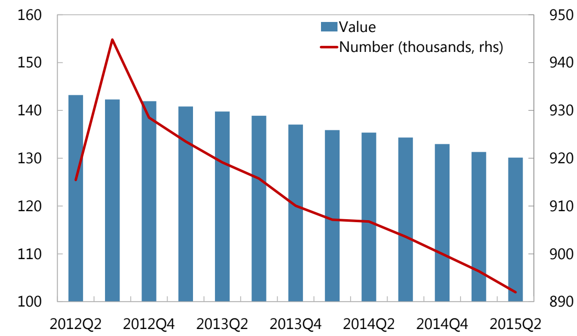


Sources: BPFI; and Haver Analytics.

…and the stock of mortgage loans continues to fall.

Number and Value of Residential Mortgage Loans

(Billions of euros)

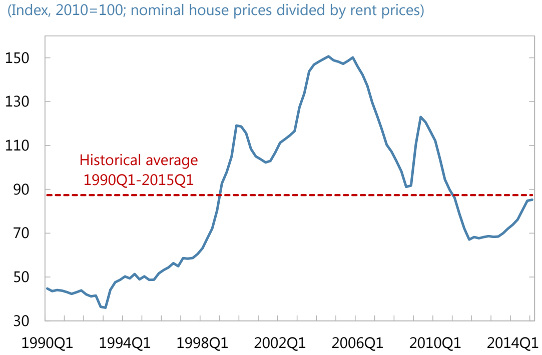


Sources: Central Bank of Ireland; and Haver Analytics.

Price-to-rent ratio is just below its historical average…

Price-to-Rent Ratio

(Index, 2010=100; nominal house prices divided by rent prices)

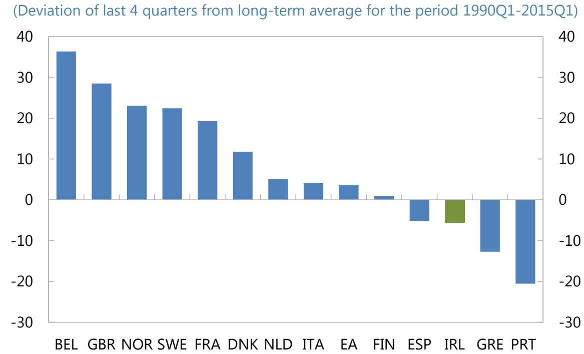


Source: OECD; and IMF staff calculations.

..and so is price-to-income ratio.

Price-to-Income Ratio

(Deviation of last 4 quarters from long-term average for the period 1990Q1-2015Q1)

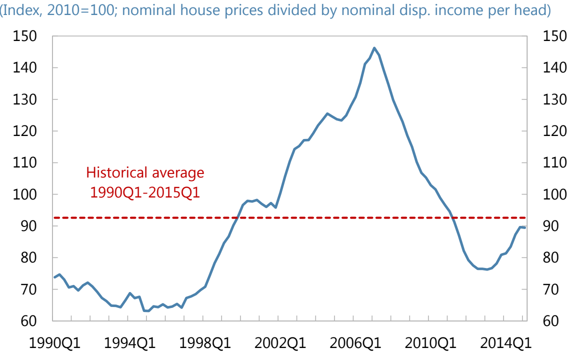


Sources: OECD; and IMF staff calculations.

House prices have risen faster than rents recently…

Price-to-Income Ratio

(Index, 2010=100; nominal house prices divided by nominal disp. income per head)



Source: OECD; and IMF staff calculations.

…though affordability continues to improve.

Mortgage Value (PDH)

(Percent of households gross disposable income; calculated as 4-qurter rolling sum)

Sources: Central Bank of Ireland; CSO; and Haver Analytics.

Table 1. Ireland: Selected Economic Indicators, 2010–16
(Annual percentage change unless indicated otherwise)

	2010	2011	2012	2013	2014	2015	2016
						Proj.	
National accounts (constant prices)							
Real GDP	0.4	2.6	0.2	1.4	5.2	6.3	4.2
Final domestic demand	-4.6	-0.1	1.0	-1.5	5.2	6.2	3.7
Private consumption	0.8	-0.7	-0.8	-0.3	2.0	3.3	3.1
Public consumption	-7.1	-2.0	-2.2	1.4	4.6	5.3	0.3
Gross fixed investment	-15.5	3.2	8.6	-6.6	14.3	13.6	7.6
Net exports 1/	3.2	3.6	-0.3	2.6	0.1	1.4	1.2
Exports of goods and services	6.4	2.1	2.1	2.5	12.1	12.0	4.5
Imports of goods and services	3.5	-1.5	2.9	0.0	14.7	12.8	4.2
Real GNP	2.2	-0.8	1.6	4.6	6.9	5.3	4.0
Gross national saving (in percent of GDP)	18.4	18.0	17.6	20.7	22.9	23.7	24.7
Private	28.2	24.2	23.6	24.6	24.8	23.8	24.0
Public 2/	-9.8	-6.2	-6.0	-3.9	-1.9	-0.1	0.7
Gross investment (in percent of GDP)	17.8	17.2	19.1	17.7	19.3	19.9	20.5
Private	14.5	14.9	17.2	16.0	17.4	17.9	18.7
Public	3.3	2.3	1.9	1.7	2.0	2.0	1.9
Prices, wages and employment (annual average)							
Harmonized index of consumer prices	-1.6	1.2	1.9	0.5	0.3	0.2	1.5
Average wage, whole economy	-1.9	-0.5	0.5	-0.7	-0.1	1.8	1.7
Employment	-4.0	-1.8	-0.6	2.4	1.7	2.5	2.0
Unemployment rate (in percent)	13.9	14.6	14.6	13.0	11.3	9.6	8.5
Money and credit (end-period)							
Irish resident private sector credit	-3.4	-2.9	-4.0	-4.9	-4.9	…	…
Financial and asset markets (end-period)							
Three-month interbank rate	1.0	1.4	0.2	0.3	0.1	…	…
Government bond yield (in percent, 10-year)	9.2	8.5	4.5	3.5	1.2	…	…
Annual change in ISEQ index (in percent)	5.1	5.2	16.3	30.3	15.1	…	…
House prices	-10.5	-16.7	-4.5	6.4	16.3	…	…
Public finance (in percent of GDP)							
Net lending/borrowing (excl. one-off items)	-10.9	-8.5	-8.0	-6.0	-4.0	-2.0	-0.9
Primary balance (excl. bank support)	-10.2	-5.1	-3.9	-1.3	0.1	1.3	1.9
General government gross debt	86.8	109.3	120.2	120.0	107.6	97.1	91.5
General government net debt	66.6	77.6	86.7	89.8	88.2	79.8	75.3
External trade and balance of payments (percent of GDP)							
Balance of goods and services	17.3	19.9	17.2	19.3	18.3	21.4	21.9
Balance of income and current transfers	-16.8	-19.2	-18.7	-16.2	-14.7	-17.6	-17.7
Current account	0.6	0.8	-1.5	3.1	3.6	3.8	4.2
Effective exchange rates (1999:Q1=100, average)							
Nominal	107.6	108.5	105.0	109.2	105.4	…	…
Real (CPI based)	111.6	110.2	105.3	108.0	103.1	…	…
Memorandum items:							
Population (in millions)	4.6	4.6	4.6	4.6	4.6	4.6	4.7
GDP per capita (in euros)	36,480	38,021	38,131	39,069	41,011	45,256	47,611
GDP (in billions of euros)	166.2	173.9	174.8	179.4	189.0	210.4	223.2

Sources:Bloomberg; Central Bank of Ireland; Department of Finance; IFS; and IMF staff projections.
1/ Contribution to growth.
2/ Excludes bank restructuring costs.

Table 2. Ireland: Medium-Term Scenario, 2010–20

(Annual Percentage change, unless indicated otherwise)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Proj.					
Real GDP	0.4	2.6	0.2	1.4	5.2	6.3	4.2	3.3	3.1	2.7	2.6
Domestic demand	-4.1	0.8	0.7	-1.2	5.7	6.1	3.7	3.5	3.4	3.2	2.8
Final domestic demand	-4.6	-0.1	1.0	-1.5	5.2	6.2	3.7	3.5	3.4	3.2	2.8
Private consumption	0.8	-0.7	-0.8	-0.3	2.0	3.3	3.1	2.7	2.5	2.5	2.1
Public consumption	-7.1	-2.0	-2.2	1.4	4.6	5.3	0.3	1.9	2.0	1.1	1.3
Gross fixed investment	-15.5	3.2	8.6	-6.6	14.3	13.6	7.6	6.3	6.1	5.8	5.1
Change in stocks 1/	0.5	0.8	-0.3	0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	3.2	3.6	-0.3	2.6	0.1	1.4	1.2	0.5	0.4	0.1	0.3
Exports of goods and services	6.4	2.1	2.1	2.5	12.1	12.0	4.5	4.2	4.1	4.1	4.2
Imports of goods and services	3.5	-1.5	2.9	0.0	14.7	12.8	4.2	4.4	4.5	4.7	4.7
Real GNP	2.2	-0.8	1.6	4.6	6.9	5.3	4.0	3.2	3.0	2.4	2.3
Current account 2/	0.6	0.8	-1.5	3.1	3.6	3.8	4.2	3.8	3.5	3.2	3.1
Gross national saving 2/	18.4	18.0	17.6	20.7	22.9	23.7	24.7	25.1	25.4	25.9	26.3
Private	28.2	24.2	23.6	24.6	24.8	23.8	24.0	23.6	23.3	23.6	24.1
Public	-9.8	-6.2	-6.0	-3.9	-1.9	-0.1	0.7	1.5	2.1	2.3	2.2
Gross investment 2/	17.8	17.2	19.1	17.7	19.3	19.9	20.5	21.3	22.0	22.7	23.2
Private	14.5	14.9	17.2	16.0	17.4	17.9	18.7	19.4	20.1	20.7	21.2
Public	3.3	2.3	1.9	1.7	2.0	2.0	1.9	1.8	1.9	2.0	2.1
Prices											
Harmonized index of consumer prices	-1.6	1.2	1.9	0.5	0.3	0.2	1.5	1.6	1.7	1.9	2.0
GDP deflator	-2.3	2.0	0.4	1.2	0.1	4.6	1.8	1.4	1.2	1.3	1.3
Average wage, whole economy	-1.9	-0.5	0.5	-0.7	-0.1	1.8	1.7	1.8	2.0	2.4	2.7
Labor market											
Employment	-4.0	-1.8	-0.6	2.4	1.7	2.5	2.0	1.9	1.6	1.6	1.2
Unemployment rate (in percent)	13.9	14.6	14.6	13.0	11.3	9.6	8.5	7.7	7.2	6.9	6.9
Public finance											
General government balance 2/ 3/	-13.2	-8.5	-8.0	-6.0	-4.0	-2.0	-0.9	-0.1	0.3	0.3	0.2
General government gross debt 2/	86.8	109.3	120.2	120.0	107.6	97.1	91.5	88.1	83.9	80.7	77.9
General government net debt 2/	66.6	77.6	86.7	89.8	88.2	79.8	75.3	72.7	69.2	66.5	64.2
Output gap	-5.2	-3.6	-4.7	-5.3	-3.2	-0.5	0.5	0.8	1.0	0.7	0.3
Nominal GDP (in billions of euros)	166.2	173.9	174.8	179.4	189.0	210.4	223.2	233.8	244.0	253.7	263.6

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

1/ Contributions to growth.

2/ In percent of GDP.

3/ Excluding one-offs. For 2013, includes exchequer outlays for payments under the ELG scheme in the context of IBRC's liquidation.

Table 3. Ireland: General Government Statement of Operation, 2010–20
Table 3. Ireland: General Government Statement of Operations, 2010–20

(Consistent with *GFSM* 2001; in billions of euros)

						Projections 1/					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	55.5	57.3	59.1	60.8	65.0	69.8	71.8	74.6	77.7	80.9	83.9
Taxes	38.1	39.0	41.1	42.5	46.4	49.9	52.1	54.6	57.2	59.7	62.1
Personal income tax	11.3	13.8	15.2	17.2	17.2	18.2	18.3	19.2	20.1	21.1	22.0
Corporate income tax	3.9	3.8	4.0	4.6	4.6	6.4	6.9	7.3	7.5	7.7	7.9
Value-added tax	10.1	9.7	10.2	11.2	11.2	12.1	12.9	13.6	14.2	14.9	15.5
Excise tax	4.7	4.7	4.7	5.0	5.0	5.2	5.6	5.9	6.2	6.5	6.8
Other taxes 2/	8.1	7.0	7.0	4.6	8.5	7.9	8.3	8.7	9.2	9.6	10.0
Social contributions 3/	9.5	10.0	9.7	10.3	10.9	11.9	12.4	12.9	13.4	13.9	14.4
Other revenue 4/	7.9	8.3	8.4	8.0	7.7	8.1	7.3	7.1	7.1	7.3	7.4
Expenditure (excl. one-off items)	77.4	72.1	73.0	70.8	72.3	73.8	73.9	74.9	76.9	80.1	83.5
Expense	71.8	68.0	69.6	67.8	68.6	69.6	69.7	70.7	71.4	71.6	71.8
Compensation of employees	19.3	19.2	18.9	18.7	18.6	19.5	19.9	20.3	20.7	20.8	21.0
Use of goods and services	9.1	8.7	8.4	8.3	8.8	9.6	9.7	9.8	9.9	9.9	10.0
Interest	4.9	5.9	7.2	7.7	7.5	6.7	6.4	6.6	6.6	6.4	6.2
Subsidies	1.8	1.6	1.5	1.5	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Social benefits	28.8	28.8	29.4	28.6	28.1	28.2	28.0	28.1	28.2	28.3	28.6
Other expense (excl. fin. sector support)	8.0	3.9	4.2	3.1	3.7	3.6	3.8	3.9	4.0	4.0	4.0
Gross fixed capital formation	5.5	4.0	3.3	3.0	3.7	4.1	4.2	4.2	4.5	5.1	5.4
Financial sector support costs	31.6	6.8	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Unallocated fiscal space 5/	…	…	…	…	…	…	…	0.0	1.0	3.5	6.3
One-off revenue and expenditure items 6/	35.4	6.7	0.0	-0.7	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. fin. sector sup	-21.9	-14.7	-13.9	-10.0	-7.3	-4.0	-2.1	-0.3	0.8	0.7	0.4
Net lending/borrowing (excl. one-off items)	-18.1	-14.8	-13.9	-10.7	-7.5	-4.2	-2.1	-0.3	0.8	0.7	0.4
Net lending/borrowing	-53.5	-21.6	-13.9	-10.0	-7.3	-4.0	-2.1	-0.3	0.8	0.7	0.4
Primary balance (excl. one-off items)	-13.2	-9.0	-6.7	-3.0	0.0	2.5	4.3	6.3	7.4	7.2	6.7
Net financial worth, transactions	-53.5	-21.6	-13.9	-10.0	-7.3	-4.0	-2.1	-0.3	0.8	0.7	0.4
Net acquisition of financial assets	-11.6	3.7	5.8	-5.6	-19.1	-0.1	-0.5	0.0	0.0	0.0	0.0
Net incurrence of liabilities	41.8	25.3	19.7	4.3	-11.8	3.8	1.6	0.3	-0.8	-0.7	-0.4
Memorandum items (in percent of GDP, unless indicated otherwise)											
Revenue	33.4	33.0	33.8	33.9	34.4	33.2	32.2	31.9	31.8	31.9	31.8
Taxes and social contributions 3/	28.6	28.2	29.0	29.4	30.3	29.4	28.9	28.9	28.9	29.0	29.0
Other revenue 4/	4.8	4.8	4.8	4.5	4.1	3.8	3.3	3.0	2.9	2.9	2.8
Expenditure (excl. one-off items)	46.6	41.4	41.7	39.5	38.2	35.1	33.1	32.0	31.5	31.6	31.7
Current primary	40.3	35.7	35.7	33.5	32.3	29.9	28.3	27.4	27.0	27.0	27.2
Interest	3.0	3.4	4.1	4.3	4.0	3.2	2.9	2.8	2.7	2.5	2.4
Gross fixed capital formation	3.3	2.3	1.9	1.7	2.0	2.0	1.9	1.8	1.9	2.0	2.1
Net lending/borrowing (excl. one-off items)	-10.9	-8.5	-8.0	-6.0	-4.0	-2.0	-0.9	-0.1	0.3	0.3	0.2
Net lending/borrowing	-32.2	-12.4	-8.0	-5.6	-3.9	-1.9	-0.9	-0.1	0.3	0.3	0.2
Primary balance (excl. one-off items)	-7.9	-5.2	-3.9	-1.7	0.0	1.2	1.9	2.7	3.0	2.8	2.5
Unallocated fiscal space 5/	…	…	…	…	…	…	…	0.0	0.4	1.4	2.4
Net financial worth, transactions	-32.2	-12.4	-8.0	-5.6	-3.9	-1.9	-0.9	-0.1	0.3	0.3	0.2
Net acquisition of financial assets	-7.0	2.1	3.3	-3.1	-10.1	-0.1	-0.2	0.0	0.0	0.0	0.0
Net incurrence of liabilities	25.2	14.5	11.3	2.4	-6.2	1.8	0.7	0.1	-0.3	-0.3	-0.2
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance 7/	-8.4	-6.3	-5.1	-3.3	-2.0	-1.5	-0.9	-0.3	0.0	0.0	0.1
Structural primary balance 7/	-5.6	-3.0	-1.2	0.7	1.8	1.7	2.0	2.5	2.8	2.6	2.4
General government gross debt	86.8	109.3	120.2	120.0	107.6	97.1	91.5	88.1	83.9	80.7	77.9
General government net debt 8/	66.6	77.6	86.7	89.8	88.2	79.8	75.3	72.7	69.2	66.5	64.2
Output gap (percent of potential GDP)	-5.2	-3.6	-4.7	-5.3	-3.2	-0.5	0.5	0.8	1.0	0.7	0.3
Nominal GDP (in billions of euros)	166.2	173.9	174.8	179.4	189.0	210.4	223.2	233.8	244.0	253.7	263.6

Sources: Department of Finance; and IMF staff projections.

1/ Projections are consistent with the expenditure profile set out in Budget 2016.

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/ The projected fiscal balances assumes no further improvement once structural balance is reached. The unallocated "fiscal space" reflects room for expenditure increases or revenue cuts relative to staff projections. The fiscal space would be 0.5 percent of GDP lower over 2019-2020 if a neutral fiscal stance (stable structural primary balance) was maintained.

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.

8/ Debt net of exchequer account, other deposits and non-irish t-bills and other financial assets.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2010–14

	2010	2011	2012	2013	2014	2015 8/
External indicators						
Exports (annual percent change, value in euros)	7.8	5.9	12.2	2.1	12.3	18.3
Imports (annual percent change, value in euros)	6.1	2.6	18.9	-0.4	15.0	16.0
Terms of trade (goods, annual percent change)	-1.5	-0.9	-1.5	0.1	-0.1	2.8
Current account balance (in percent of GDP)	0.6	0.8	-1.5	3.1	3.6	3.8
Capital and financial account balance (in percent of GDP)	-6.2	-7.8	-1.5	4.4	3.8	4.0
Inward portfolio investment	45.5	17.0	40.5	29.3	91.5	73.1
Inward foreign direct investment	19.5	9.7	20.1	18.8	12.4	36.3
Other investment liabilities	-37.3	-28.0	-57.8	-12.8	36.8	21.5
U.S. dollar per euro (period average)	1.32	1.40	1.29	1.33	1.32	1.10
U.K. pound per euro (period average)	0.86	0.87	0.81	0.85	0.80	0.73
Financial markets indicators						
General government debt (in percent of GDP)	86.8	109.3	120.2	120.0	107.6	97.6
Government bond yield (in percent, 10-year, end-period)	9.2	8.5	4.5	3.5	1.2	1.0
Spread of government bond yield with Germany (in percent, end of period)	6.0	6.5	3.2	1.4	0.6	0.5
Real government bond yield (in percent, 10-year, period average, based on HICP)	7.6	8.4	4.1	3.3	2.0	1.0
Annual change in ISEQ index (in percent, end of period)	5.1	5.2	16.3	30.3	15.1	33.8
Personal lending interest rate (in percent)	12.5	12.9	13.3	13.9	13.8	…
Standard variable mortgage interest rate (in percent)	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/	-3.4	-2.9	-4.0	-4.9	-4.4	-4.0
Personal lending as a share of total Irish resident credit (in percent) 2/	38.9	34.1	36.8	38.7	42.7	44.5
Loans for house purchase	29.8	24.8	28.1	29.9	34.5	37.0
Consumer credit	5.7	5.1	4.7	4.6	5.1	5.5
Other loans	3.4	4.1	3.9	4.1	3.1	2.0
Irish resident household mortgage debt annual growth rates (in percent) 3/	-9.6	-19.3	5.7	-1.9	-6.0	-5.3
Foreign-currency denominated assets (in percent of total assets)	30.3	29.4	28.4	27.5	26.4	…
Foreign-currency denominated liabilities (in percent of total liabilities)	25.8	26.3	25.4	25.3	24.5	…
Non-performing loans (in percent of total loans) 4/	13.0	16.1	25.0	25.7	20.7	18.8
Total provisions for loan losses (in percent of total loans) 5/	5.2	7.2	11.9	13.0	9.9	8.6
Regulatory Tier 1 capital to risk-weighted assets of domestic banks (in percent) 5/	11.5	16.6	16.7	17.3	20.1	20.5
Bank return on assets (percent) 5/	-2.7	-0.9	-0.8	-0.4	0.5	…
Bank return on equity (percent) 5/	-41.0	-10.8	-7.8	-6.8	6.1	…
Deposits to M3 ratio 6/	1.5	1.2	1.3	1.3	1.4	…
Loan-to-deposit ratio vis-à-vis Irish residents 7/	2.1	2.1	1.9	1.6	1.6	…
Loan-to-deposit ratio vis-à-vis total	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	…
No. of banks accounting for 75 percent of total assets	13.0	14.0	14.0	13.0	13.0	…

Sources: Bloomberg; Central Bank of Ireland; International Financial Statistics; IMF staff calculations and projections.

1/ Adjusted growth rate of credit to households and non-financial corporations.

2/ Data is based on Table A.1 published by Central Bank of Ireland.

3/ Data is based on Table A.6 published by Central Bank of Ireland; includes securitisations.

4/ Includes lending for construction and real estate activities.

5/ Based on IMF's Financial Soundness Indicators data.

6/ Credit equivalent values. Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been amended in line with Eurosystem requirements.

7/ Nongovernment credit/nongovernment deposits ratio.

8/ Staff projections for macroeconomic variables and debt.

Table 5. Ireland: Summary of Balance of Payments, 2010–20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Projections					
	(Billions of euros)										
Current account balance	0.9	1.4	-2.7	5.6	6.8	8.1	9.3	8.9	8.4	8.1	8.1
Balance of goods and services	28.8	34.7	30.0	34.7	34.7	45.1	48.9	50.9	52.2	53.1	54.5
Trade balance	42.9	43.3	37.6	35.1	42.3	53.4	57.7	60.7	63.8	67.0	69.6
Exports of goods	89.7	91.6	101.9	98.7	113.2	131.3	139.1	145.3	151.8	158.3	164.5
Imports of goods	-46.9	-48.3	-64.3	-63.7	-70.9	-77.8	-81.4	-84.6	-88.0	-91.3	-94.9
Services balance	-14.1	-8.6	-7.6	-0.4	-7.6	-8.3	-8.8	-9.8	-11.6	-13.9	-15.1
Credit	68.1	75.4	85.5	92.7	101.8	122.9	131.2	139.3	147.6	156.8	167.5
Debit	-82.2	-84.1	-93.1	-93.1	-109.4	-131.3	-140.0	-149.0	-159.2	-170.7	-182.6
Primary income balance	-26.4	-32.1	-30.1	-26.2	-25.1	-33.8	-36.1	-38.4	-39.7	-40.6	-41.5
Credit	56.2	56.6	58.4	56.5	62.9	63.8	67.4	70.1	73.5	77.1	80.8
Debit	-82.7	-88.8	-88.5	-82.7	-88.0	-97.6	-103.5	-108.5	-113.2	-117.7	-122.3
Secondary income balance	-1.4	-1.2	-2.6	-2.9	-2.7	-3.3	-3.5	-3.6	-4.0	-4.4	-4.9
Capital and financial account balance	-10.4	24.7	18.5	18.7	7.9	8.3	9.6	9.2	8.7	8.4	8.6
Capital account balance	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Financial account	-10.5	24.4	18.4	18.6	7.8	8.2	9.4	9.0	8.6	8.3	8.4
Direct investment	-15.4	-17.8	-17.7	-12.0	9.0	-40.1	-41.7	-43.1	-44.6	-46.4	-48.3
Portfolio investment	-86.0	-26.9	3.8	46.0	-20.1	15.5	15.5	15.5	15.5	15.7	15.7
Other investment	90.9	69.4	32.3	-15.5	18.7	32.8	35.6	36.6	37.7	39.0	41.1
Change in reserve assets 1/	0.0	-0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-9.4	-12.2	-0.2	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	-2.2	35.0	21.3	11.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	34.5	21.3	11.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	12.6	6.4	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	21.9	14.8	7.5	0.8	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP)										
Current account balance	0.6	0.8	-1.5	3.1	3.6	3.8	4.2	3.8	3.5	3.2	3.1
Balance of goods and services	17.3	19.9	17.2	19.3	18.3	21.4	21.9	21.8	21.4	20.9	20.7
Trade balance	25.8	24.9	21.5	19.5	22.4	25.4	25.8	26.0	26.1	26.4	26.4
Services balance	-8.5	-5.0	-4.4	-0.2	-4.0	-4.0	-3.9	-4.2	-4.7	-5.5	-5.7
Income balance	-15.9	-18.5	-17.2	-14.6	-13.3	-16.1	-16.2	-16.4	-16.3	-16.0	-15.7
Current transfers (net)	-0.9	-0.7	-1.5	-1.6	-1.4	-1.5	-1.5	-1.5	-1.6	-1.7	-1.8
Capital and financial account balance	-6.3	14.2	10.6	10.4	4.2	4.0	4.3	3.9	3.6	3.3	3.3
Of which:											
Direct investment	-9.3	-10.2	-10.1	-6.7	4.8	-19.1	-18.7	-18.4	-18.3	-18.3	-18.3
Portfolio investment	-51.7	-15.5	2.2	25.6	-10.6	7.4	6.9	6.6	6.4	6.2	5.9
Other investment	54.7	39.9	18.5	-8.6	9.9	15.6	16.0	15.7	15.5	15.4	15.6
Change in reserve assets 1/	0.0	-0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-5.6	-7.0	-0.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	-1.3	20.1	12.2	6.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	19.8	12.2	6.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	7.2	3.7	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	12.6	8.5	4.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Current account balance excluding undistributed profits 2/	-2.5	-2.5	-5.8	-1.0	-0.3	0.3	0.9	0.6	0.4	0.3	0.3

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, 2010–15

(In billions of euros, unless otherwise indicated; end of period)

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Oct-15
Aggregate balance sheet of domestic market credit institutions						
Assets	747	639	550	474	420	388
Claims on Central Bank of Ireland	8	4	2	2	3	9
Claims on Irish resident Other MFIs	123	92	53	49	47	46
Claims on Irish resident non MFIs	359	340	326	281	237	210
General government	43	42	47	21	20	19
Private sector	316	298	279	260	217	192
Households	130	110	111	108	97	93
Non-Financial Corporations	91	86	83	78	58	47
Non-Bank Financial Intermediaries	95	101	85	74	62	52
Claims on non-residents	209	150	122	103	91	84
Other assets	48	52	47	40	42	39
Liabilities	747	639	550	474	420	388
Liabilities to Eurosystem 1/	95	72	59	31	14	10
Liabilities to Irish resident Other MFIs	132	99	59	52	50	46
Deposits of Irish resident non MFIs	162	146	153	174	161	167
General government	3	2	6	14	9	5
Private sector	159	143	147	161	153	163
Households	94	91	92	90	91	94
Non-Financial Corporations	32	29	29	32	37	41
Non-Bank Financial Intermediaries	33	24	26	38	26	27
Deposits of non-residents	140	100	76	71	63	45
Debt securities	64	52	38	27	27	26
Capital and reserves	72	91	98	96	80	73
Other liabilities (incl. Central Bank of Ireland)	83	79	66	23	26	21
Money and credit 2/						
Net foreign assets	-480	-340	-14	2	20	…
Central Bank of Ireland 3/	-128	-101	-62	-37	-18	…
Commercial banks	-352	-239	48	39	38	41
Net domestic assets	662	522	194	199	155	…
Public sector credit	43	43	48	21	21	20
Private sector credit	335	324	302	278	227	205
Other	284	156	-156	-100	-93	…
Irish Resident Broad money (M3) 4/	182	182	180	201	175	189
Irish Resident Intermediate money (M2) 4/	173	167	168	183	172	185
Irish Resident Narrow money (M1)	97	90	92	113	116	132
	(Percent of GDP)					
Public sector credit 5/	27.6	27.0	29.4	12.8	12.5	11.6
Private sector credit 5/	202.4	190.1	173.5	161.9	134.9	119.4
	(Percentage change y/y)					
Broad money - Irish contribution to euro area M3 6/	-19.6	1.3	-7.3	11.5	-0.6	7.6
Irish Public sector credit 6/ 7/	369.4	1.5	8.5	-57.8	-3.0	0.0
Irish Household and non-financial corporations credit 6/ /7	-3.4	-2.9	-4.0	-4.9	-4.4	0.0
Memorandum items: 8/						
Credit to deposits (in percent) 9/	199.2	207.6	189.9	162.0	141.7	117.9
Deposits from Irish Private Sector (y-o-y percent change)	-9.4	-8.9	2.4	8.9	-3.3	4.8
Wholesale funding (billions of euros)	317	235	159	135	126	109
Deposits from MFIs	253	183	120	108	99	83
Debt securities	64	52	38	27	27	26
Wholesale funding (y-o-y percent change) 10/	-21.7	-26.9	-33.0	-11.6	-6.6	-15.1
Wholesale funding (percent of assets) 10/	44.8	36.8	28.8	28.5	30.0	28.1

Sources: Central Bank of Ireland and staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Service Centre (IFSC).
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, 2011–23

(In millions of SDR)

	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	3,773	3,773	3,773	3,773	3,773	3,773	1,420	349	-
Obligations	109	332	456	8,292	8,234	40	40	40	40	40	2,385	1,083	351
Repurchase 2/	-	-	-	7,644	8,049	0	0	0	0	0	2,353	1,071	349
Charges	109	332	456	648	185	40	40	40	40	40	32	12	3
Stock of Fund credit													
In percent of quota	879	1,315	1,548	940	300	300	300	300	300	300	113	28	-
In percent of GDP	7.2	11.3	12.4	7.1	2.3	2.1	2.0	1.9	1.9	1.8	0.6	0.2	-
In percent of exports of goods and services	7.1	10.5	11.6	6.3	1.9	1.8	1.7	1.6	1.5	1.4	0.5	0.1	-
Obligations to the Fund													
In percent of quota	9	26	36	659	655	3	3	3	3	3	190	86	28
In percent of GDP	0.1	0.2	0.3	5.0	4.9	0.0	0.0	0.0	0.0	0.0	1.1	0.5	0.1
In percent of exports of goods and services	0.1	0.2	0.3	4.4	4.1	0.0	0.0	0.0	0.0	0.0	0.9	0.4	0.1

Source: IMF staff calculations and projections.

1/ End of period.

2/ Reflects early repurchases to date.

Table 8. Ireland: Main Domestic Banks' Aggregated Financial Statements, 2014–15 1/

(In billions of euro unless otherwise indicated)

Balance Sheet	2014H1 € bn.	2015H1 € bn.	Y/Y change € bn.	Y/Y change %
Cash & due from Eurosystem	9.7	10.8	1.0	10.5
Net loans	176.2	172.3	-3.8	-2.2
Due from banks	8.8	8.3	-0.5	-5.8
Securities & derivatives	59.9	51.2	-8.7	-14.5
Other assets	11.1	13.4	2.3	20.3
Total assets	265.8	256.0	-9.8	-3.7
Total average assets (TAA)	270.3	260.4	-9.8	-3.6
Due to Eurosystem	12.3	7.7	-4.6	-37.1
Due to banks	18.7	21.5	2.8	14.8
Deposits	164.9	163.8	-1.1	-0.7
Debt & derivatives	41.6	34.0	-7.6	-18.2
Other liabilities	6.5	4.8	-1.7	-26.4
Total liabilities	244.1	231.9	-12.2	-5.0
Net equity	21.7	25.0	3.3	15.1
Total liabilities & equity	265.8	256.9	-8.9	-3.3

Profit and Loss Account	2014H1 € bn.	2014H1 % of TAA	2015H1 € bn.	2015H1 % of TAA
Interest income	3.7	1.4	3.7	1.4
Interest expense	-1.7	-0.6	-1.4	-0.5
Net interest margin	2.0	0.8	2.3	0.9
Net fee income	0.5	0.2	0.5	0.2
Net trading gains	0.0	0.0	0.1	0.0
Other nonrecurrent items	0.3	0.1	0.3	0.1
Gross operating income	2.8	1.0	3.2	1.2
Operating expenses	-1.6	-0.6	-1.7	-0.7
o/w: administration & other	-0.8	-0.3	-0.9	-0.3
o/w: staff	-0.8	-0.3	-0.9	-0.3
Preprovision profits (PPP)	1.1	0.4	1.5	0.6
Loan loss & NAMA provisions	-0.6	-0.2	0.3	0.1
Loss on derecognized assets	0.2	0.1	-0.3	-0.1
Net income before tax	0.7	0.3	1.5	0.6
Tax effects & other 3/	-0.1	0.0	-0.5	-0.2
Net income	0.6	0.2	1.0	0.4

Memorandum items:

	2014H1 € bn.	2015H1 € bn.	Y/Y change € bn.	Y/Y change %
Gross loans 2/	204.1	195.3	-8.8	-4.3
Loan loss provisions	27.9	19.7	-8.3	-29.6
Gross NPLs	53.0	38.6	-14.3	-27.0
Gross NPLs to gross loans (%)	25.9	19.8		-23.8
Provisions to gross NPLs (%)	52.7	50.9		-3.5
Net NPLs to net equity (%)	115.4	76.0		-34.2

	2014H1 € bn.	2014H1 % of TAA	2015H1 € bn.	2015H1 % of TAA
PPP net of other nonrecurrent items	0.9	0.3	1.2	0.4
Return on equity		2.6		4.2
Provisions to gross loans		-2.2		-0.1
Risk weighted assets (RWA)	128.6	47.6	126.6	48.6
Core tier 1 capital (CT1) and CT1 to RWA (%)	17.3	13.4	20.9	16.5
CT1 to total assets = leverage ratio (%)		6.5		8.2

Sources: CBI; and IMF staff estimates.

1/ Bank of Ireland, Allied Irish Banks, and Permanent tsb.

2/ Includes loans held for sale, classified on balance sheet as other assets.

3/ Includes profits from discontinued operations of €1.6 billion and tax credits of €1.5 billion in 2011.

IRELAND

January 7, 2016

STAFF REPORT FOR THE FOURTH POST-PROGRAM MONITORING DISCUSSIONS—SUPPLEMENTARY INFORMATION

Prepared By European Department

This supplement provides information that has become available since the issuance of the Staff Report on December 18, 2016. The information does not alter the thrust of the staff appraisal.

1. **National accounts data for 2015 Q3 reaffirm the strength of the Irish economy.** The GDP grew 7 percent year-on-year in Q3, with a continued momentum of all expenditure components, and notably investment growth of some 36 percent, buoyed by substantial investment of multinationals in research and development. Exports continue to expand at double-digits, but stronger imports, reflecting partly the increase in service imports related to surging intangible investments, led to a negative contribution of net trade in Q3. The Irish GDP is now 7.3 percent above its pre-crisis peak of 2007.

Real National Accounts, 2015Q3
(Percentage change)

	Q/q, s.a.	Y/y, n.s.a.
GDP	1.4	7.0
Private consumption	0.7	3.6
Public consumption	-1.0	-1.4
Investment	4.9	35.8
Exports	2.2	12.4
Imports	5.4	18.9
Net Trade (n.s.a.)	-15.7	-16.2
Gross National Product	-0.8	3.2

Sources: Central Statistics Office; and IMF staff calculations.

2. **December exchequer data confirmed the sizeable outperformance of public finance in 2015.** Full-year revenues came out €3.5 billion above the initial budget profile, fueled largely by strong corporate income tax receipts (€2.3 billion above profile and about 50 percent higher than in 2014). Expenditure recorded a more moderate increase, rising by €1.2 billion over the initial budget profile (but slightly below the supplementary budget envelope), as a lower than planned interest bill partly offset a larger increase in current primary spending. Although final deficit numbers for 2015 will only be published in April, the 2015 deficit should fall close

Full-year 2015 Fiscal Performance

	Profile 1/	Outturn	Difference	
	(€ bn)	(€ bn)	(€ bn)	(% of GDP)
Tax Revenue and Social Contributions	53.9	57.4	3.5	1.7
Expenditure	62.8	63.9	1.2	0.6
Current primary	51.4	53.1	1.7	0.8
Capital	3.6	3.8	0.2	0.1
Interest	7.7	7.0	-0.7	-0.3
General government balance 2/	-6.1	-3.8	2.3	1.1

Sources: Exchequer Report (December 2015); and IMF staff calculations.
1/ Initial budget profile.
2/ Estimated, excluding transactions with no general government impact.

to 1.5 percent of GDP—below staff's projection of 1.9 percent of GDP. This creates a possibility of an upside for the 2016 fiscal outturn compared to staff projections as the expenditure benchmark will provide a constraint on spending.

3. **Inflation turned negative again.** The harmonized CPI (HIPC) fell by 0.1 percent in November year-on-year for the first time since April 2015 and after remaining unchanged in September-October. The decline was driven by both core and non-core items. Core inflation (excluding energy and unprocessed food) eased to 1.3 percent year-on-year from 1.5 percent in October.

4. **Macroprudential framework was further strengthened in line with the EU banking regulations.** The Central Bank of Ireland announced in December the Countercyclical Capital Buffer (CCB) and "Other Systemically Important Institutions" Buffer (O-SII) rates as part of the new EU banking regulations that are applicable in Ireland from 2016. In view of the weak credit developments in Ireland, the CCB rate has been set at zero percent, and will be reviewed on a quarterly basis. The O-SII buffer will apply to the Bank of Ireland and Allied Irish Banks and will be phased in gradually from July 2019 until it reaches 1.5 percent in 2021.

5. **Prices of commercial real estate (CRE) continued to increase in 2015Q3, albeit at a slower pace.** The CRE prices rose by 22 percent in Q3 compared to 30 percent at end-2014, largely reflecting ongoing supply shortages in the offices market. Nevertheless, CRE prices remain 49 percent below their peak at end-2007.