INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/154

IRELAND

June 2015

THIRD POST-PROGRAM MONITORING DISCUSSIONS—PRESS RELEASE; AND STAFF REPORT

In the context of the Third 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 May 1, 2015, with the officials of Ireland. Based on information available at the time of these discussions, the staff report was completed on June 5, 2015.

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. 15/288
FOR IMMEDIATE RELEASE
June 22, 2015

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

IMF Executive Board Concludes Third Post-Program Monitoring Discussions with Ireland

On June 19, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Third Post-Program Monitoring Discussions with Ireland,[1] and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Ireland's strong economic recovery is continuing in 2015, following robust growth of 4.8 percent in 2014. A range of high frequency indicators point to an extension of the solid recovery momentum into 2015, with growth increasingly driven by domestic demand as well as exports. Job creation continued with employment growth of 2.2 percent year-on-year in the first quarter of 2015, bringing the unemployment rate down to 9.8 percent in May. Tax revenues rose 11 percent year-on-year during the first five months of 2015, while spending remained within budget profiles, so the fiscal deficit for 2015 is expected to be 2.3 percent of GDP, outperforming the budget targets.

Owing to the ECB's quantitative easing, financial conditions remain highly supportive despite some recent bond market volatility. House price increases have moderated in recent months following the announcement of new macro-prudential regulations, but commercial real estate prices are still rising rapidly on the back of strong demand from nonbank investors. Banks' health has improved, but operating profitability remains weak and, despite the recent progress in the resolution of mortgages in arrears, 17.1 percent of mortgages have been in arrears for over 90 days, and of these, almost 60 percent have been in arrears for over 2 years.

Executive Board Assessment[3]

[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.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

In concluding the Third Post-Program Monitoring Discussions with Ireland, Executive Directors endorsed the staff's appraisal, as follows:

Ireland's economic rebound is in full swing, yet fiscal restraint must be maintained in 2015. Growth is set to ease modestly to a still strong 4 percent in 2015 and joblessness has fallen below 10 percent. Budget outturns are off to an excellent start, with the deficit again on track to come in below target in 2015. Locking in this faster progress toward fiscal balance while growth is especially strong requires avoiding a repeat of past spending overruns.

Fiscal policy should make solid progress toward balance in the favorable economic environment and the limited fiscal space in coming years should be used to support durable growth. The authorities' target for a deficit of 1.7 percent of GDP in 2016 would imply fiscal adjustment that is too modest given Ireland's high public debt and strong growth. Hence it is essential that a likely outperformance of revenues be saved in order to avoid delaying adjustment to a period when growth may well be weaker. Looking further ahead, sizable adjustment challenges remain owing to demographic pressures and a rise in public investment likely needed to avoid growth bottlenecks. Measures to raise revenues should be considered to support adjustment in the face of these pressures and it is critical that any unwinding of savings in public sector wages be gradual and that efficiency gains continue. Tax reforms should be focused on areas most supportive of job creation and productivity while protecting progress in tax base broadening.

Bank health has improved yet more progress on profitability is needed and mortgage resolution efforts should be intensified. The operating profitability of banks has risen but remains low. To ensure that banks are able to sustain a credit expansion in support of recovery, lending interest rates must enable banks to cover future loan losses and also build and maintain adequate capital. Despite a welcome sizable fall in nonperforming loans in 2014, they remain very high and a rising share of mortgage arrears are becoming prolonged. It is therefore important that the Central Bank of Ireland's shift to a bank-by-bank supervision of mortgage resolution facilitate progress in the specific areas where banks can improve their performance. But advancing restructuring in cases where that is feasible also requires steps to make legal proceedings more efficient and to increase utilization of the personal insolvency regime. Reforms recently announced by the authorities are therefore welcome, where the availability of court review—subject to suitable guidelines—should enhance borrowers' confidence in the new insolvency arrangements. Yet an efficient repossession system is still needed where other solutions are not feasible. Close monitoring of the booming commercial property market is important, even though at this time domestic banks are not a major source of new financing.

Disposing of state shareholdings in the three domestic banks would clear the public debt incurred in supporting them. The successful sale of PTSB shares is welcome market recognition of the scale of bank repair that has been achieved in Ireland. It also signals the supportiveness of market conditions for sales of bank equity. Early steps to enhance AIB's capital structure, subject to the approval of the ECB, would help prepare the bank for a significant divestment at a time when the authorities consider market conditions to be conducive.

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	-0.3	2.8	-0.3	0.2	4.8	4.0	3.3
Final domestic demand	-4.9	-1.7	-0.2	-0.7	2.9	3.2	2.9
Private consumption	0.9	-1.2	-1.2	-0.8	1.1	1.6	1.9
Public consumption	-7.1	-2.1	-2.1	1.4	0.1	1.4	1.0
Gross fixed investment	-18.0	-2.9	5.0	-2.4	11.3	9.2	7.3
Net exports 1/	3.3	5.9	-0.8	0.6	2.2	1.6	1.1
Exports of goods and services	6.2	5.5	4.7	1.1	12.6	5.0	4.5
Imports of goods and services	3.0	-0.6	6.9	0.6	13.2	4.5	4.4
Real GNP	1.4	-0.8	1.1	3.3	5.2	3.7	3.1
Gross national saving (in percent of GDP)	16.4	15.3	17.1	19.6	22.6	22.9	23.6
Private	26.3	21.6	23.3	23.5	24.8	23.2	23.4
Public 2/	-9.9	-6.3	-6.1	-4.0	-2.2	-0.3	0.3
Gross investment (in percent of GDP)	15.8	14.5	15.6	15.2	16.4	16.9	17.7
Private	12.5	12.2	13.7	13.4	14.5	15.1	15.9
Public	3.4	2.4	1.9	1.7	1.9	1.8	1.8
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	1.1	1.3
Employment	-4.0	-1.8	-0.6	2.4	1.7	2.0	1.9
Unemployment rate (in percent)	13.9	14.6	14.6	13.0	11.3	9.8	8.8
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)	-11.0	-8.7	-8.0	-6.1	-4.2	-2.3	-1.5
Primary balance (excl. bank support)	-10.3	-5.2	-3.9	-1.3	0.0	1.1	1.5
General government gross debt	87.4	111.2	121.7	123.2	109.7	104.7	100.5
General government net debt	67.1	78.9	87.7	92.1	89.9	85.9	82.7
External trade and balance of payments (percent of GDP)							
Balance of goods and services	17.5	20.3	20.5	20.8	21.4	23.5	23.9
Balance of income and current transfers	-16.9	-19.5	-18.9	-16.4	-15.2	-17.6	-17.9
Current account	0.6	0.8	1.6	4.4	6.2	5.9	5.9
Effective exchange rates (1999:Q1=100, average)							
Nominal	107.8	108.6	105.1	109.2	104.1	...	...
Real (CPI based)	111.6	110.2	105.3	108.1	104.1	...	...
Memorandum items:							
Population (in millions)	4.6	4.6	4.6	4.6	4.6	4.6	4.7
GDP per capita (in euros)	36,210	37,387	37,675	38,055	40,223	42,768	44,366
GDP (in billions of euros)	164.9	171.0	172.8	174.8	185.4	198.8	208.0

Sources:Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; IMF staff estimates.
1/ Contribution to growth.
2/ Excludes bank restructuring costs.
3/ Adjusted growth rate of credit to households and non-financial corporations.

INTERNATIONAL MONETARY FUND

IRELAND

June 5, 2015

STAFF REPORT FOR THE THIRD POST-PROGRAM MONITORING DISCUSSIONS

EXECUTIVE SUMMARY

Ireland's economic recovery is expected to remain strong. Growth is increasingly driven by domestic demand as well as exports, and it is job rich, with employment rising 2.2 percent y/y in Q1, bringing the unemployment rate down to 9.8 percent in May. After surging by 4.8 percent in 2014, the economy is expected to expand by about 4 percent this year, aided by highly supportive financial conditions.

Risks look broadly balanced. Unexpected developments in Greece remain the most prominent downside, although Ireland has limited direct exposure and its government cash position provides a sizable buffer. At the same time, risks of euro area stagnation appear to have been blunted by the ECB's quantitative easing and there are upsides to exports following euro depreciation. Domestic balance sheet legacies from the crisis remain a potential growth drag over the medium term, but domestic demand could also outpace baseline projections in an environment of prolonged low interest rates.

Solid progress toward fiscal balance should be made while the economic environment is favorable. The deficit is likely to come in well below budget again in 2015. This welcome progress should be locked by avoiding any repeat of past spending overruns. The deficit reduction projected for 2016 is too modest considering Ireland's high public debt and strong growth, making it critical that revenue outperformance—which appears likely—be saved as the authorities intend. Medium-term spending pressures related to demographics and public investment indicate a need to build revenues and it is critical that any unwinding of savings in public sector wages be gradual. Tax reforms should be focused on areas most supportive of job creation and productivity while protecting progress achieved in base broadening.

Mortgage resolution efforts should be intensified and disposing of state holdings in the three domestic banks would clear the public debt incurred in supporting them. Despite progress in restructuring distressed mortgages in recent years, arrears remain high and are increasingly prolonged. Continued close supervision of banks needs to be supported by increased utilization of the personal insolvency regime—where recent initiatives are welcome—and more efficient repossession proceedings. Improving bank health paired with supportive market conditions argue for early steps to prepare for significant further divestments of state shareholdings in banks. Lending interest rates must be sufficient to cover credit risks and enable banks to build capital to underpin new lending.

Approved By
Jörg Decressin and Alfred Kammer

C. Beaumont (head), Z. Murgasova, A. Bhatia, A. Chailloux, N. Klein (all EUR), T. Poghosyan (FAD), C. Wilson (MCM), and A. Culiuc (SPR) visited Dublin from April 27 to May 1. Ms. Boronova and Ms. Ilagan assisted the mission from headquarters. Messrs. McGrath and Hough (OED) participated in the discussions.

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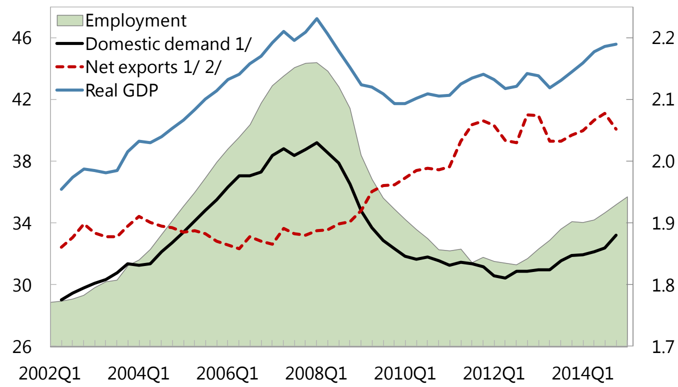
OUTLOOK AND RISKS

1. **The Irish economy is off to a solid start in 2015 after growing by 4.8 percent in 2014**. High frequency indicators suggest the strong momentum has continued in 2015: core retail sales volumes rose by 5.8 percent y/y in first four months of 2015, with consumer confidence back to levels not seen since 2006. Employment rose by 2.2 percent y/y in the first quarter and industrial production in the traditional sector surged by 13 percent y/y. PMIs for services, manufacturing, and construction suggest further expansion (Figure 1).

Real GDP Components and Employment

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

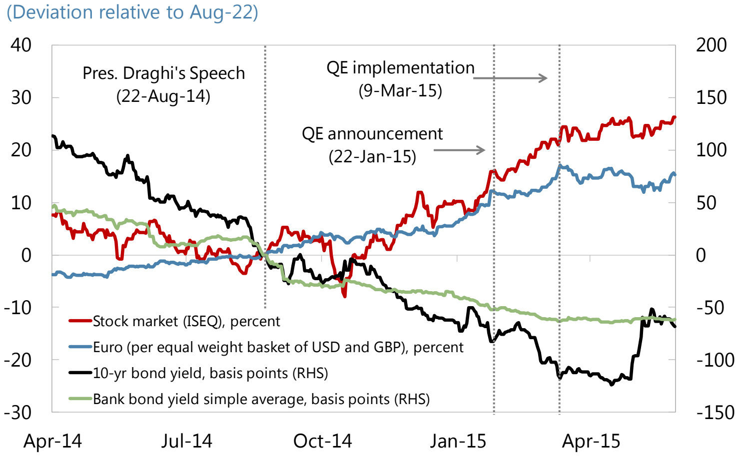


Sources: CSO; Haver Analytics; and IMF Staff calculations.
1/ Excluding airctaft and intangibles. 2/Adjusted uniformly upward by €28 billion.

2. **Financial conditions remain highly supportive despite some recent bond market volatility**. Conditions eased in the run up to the implementation of quantitative easing (QE) by the ECB, with Irish sovereign bond yields declining across the curve, reaching close to zero for maturities of up to five years. Yields on Irish bank bonds were also pulled down, though to a lesser extent. Ireland auctioned Treasury bills at a negative yield for the first time on March 19, joining core euro area issuers. More recently, Irish yields backed up broadly in line with rises in German bund yields. But this reversal has not offset the substantial impact of QE on the exchange rate and other market segments, and 7 year government bonds were issued at a yield of just 0.81 percent in mid-May. Euro depreciation, by some 15 percent since August against an equally weighted basket of the U.S. dollar and Sterling, has likely been the most important transmission channel of QE into Ireland's highly open economy.

Quantitative Easing Impact on Irish Financial Markets

(Deviation relative to Aug-22)



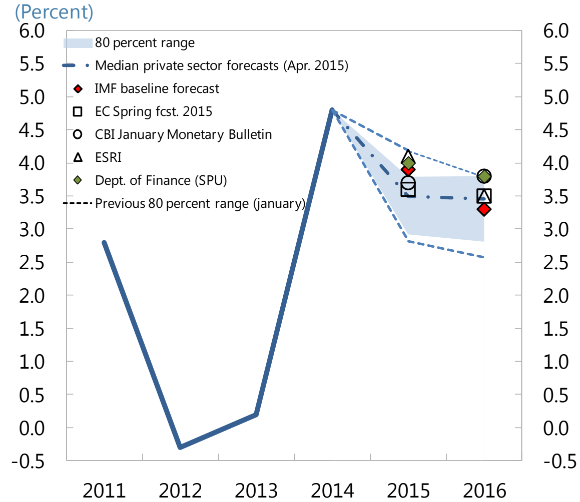
Sources: Bloomberg; ECB; and IMF staff calculations.

3. **Mortgage lending is reviving even as house price gains have slowed**. The value of mortgage loans rose strongly in Q1 from a low base, up 73 percent y/y. This pick up was aided by an easing in mortgage rates, with rates fixed for over one year falling by almost 60 basis points from mid 2014. The stock of credit to firms and households continues to decline, however, as repayments still exceed lending (Figure 3). House price increases have moderated, with the rate of increase in the five months to April (annualized seasonally adjusted basis) at about half of

the 16 percent y/y rate reached in October 2014 (Figure 2). In contrast, commercial real estate (CRE) prices are still going up rapidly, by 27.9 percent y/y in Q1, bolstered rising rents and demand from nonbank investors.

4. **Near-term growth projections have been revised up** (Table 2). Compared with the 2015 Article IV consultation concluded in late March, growth projected for 2015 is revised up to almost 4 percent from 3½ percent, with a more modest increase in 2016. Private consumption was stronger than expected in 2014, recent indicators are robust, and labor market conditions continue to improve, supporting somewhat higher consumption growth projections in 2015-16. Although growth rates in Ireland's trading partners rose only modestly in the Spring *World Economic Outlook*, staff has revised Irish export growth up on account of carryovers from 2014 and euro depreciation—which also boosts Ireland's terms of trade in 2015 given the high share of U.S. dollar denominated exports. With goods exports jumping by 17.4 percent y/y in Q1, further upside is possible. Staff's medium-term outlook is little changed from that in the 2015 Article IV consultation, with medium-term growth on the order of 2½ percent being similar to the 3 percent projected by the Irish authorities in their recent Stability Programme Update (SPU).

Real GDP Growth Projections
(Percent)



Sources: Bloomberg; and IMF staff estimates.

5. **Risks around this outlook appear broadly balanced**. The main risks discussed in the Article IV consultation remain relevant, with unexpected developments in Greece being the most prominent flashpoint for broader financial market volatility. Although Ireland has little direct exposure and the stability of its bond spreads over bunds suggests that markets do not anticipate significant contagion effects to Ireland, its highly open economy would be impacted by any potential adverse effects on European recovery. The Irish authorities noted that the government's strong cash position, provided a buffer against any market disruptions, and that they would continue to monitor developments closely. At the same time, QE appears to be blunting risks of euro area stagnation, with a reduction of perceived downside risks to the growth and inflation outlook likely contributing to the recent jump in bund yields. Looking to the medium term, domestic balance sheet legacies from the crisis remain a potential growth drag, yet household debt and mortgage arrears are declining, business investment is recovering without relying on credit growth, and the recent equity issue by Permanent tsb (PTSB) indicates favorable market conditions could aid banks in meeting Basel III capital requirements, averting risks to lending. Indeed, there are upsides to growth prospects from exports, and domestic demand could also outpace projections, especially if QE and the global search for yield boosted property prices. In such a scenario, however, macroeconomic imbalances and financial fragilities could develop over time.

FISCAL POLICY

6. **Budget outturns in 2015 are off to an excellent start**. Confirming the strength of the economy, tax revenues rose by 11 percent y/y during the first five months of 2015, exceeding their monthly profile by 4 percent. At the same time, spending remained within budget profiles, with gross voted current spending down by 1.1 percent y/y. Estimates of the general government deficit narrowed by about ½ percent of GDP relative to the same period last year.

7. **Fiscal performance in 2015 looks set to exceed Budget 2015 targets, yet continued spending control will be essential**. In the recent SPU, the authorities revised down their full year deficit projection to 2.3 percent of GDP, from the budgeted 2.7 percent, in view of the strong outturns.[1] Hence, staff estimates of the improvement in the structural primary balance in 2015 have risen to 0.6 percent of GDP, up from 0.3 percent of GDP at the time of the Article IV consultation. This makes the pace of fiscal adjustment consistent with staff recommendations for an improvement of at least a ½ percentage point taking into account Ireland's high public debt and strong near-term growth. Locking in this faster progress toward fiscal balance while growth is especially strong requires avoiding a repeat of past spending overruns at year end.

Staff Estimates of Fiscal Adjustment 1/
(Percent of GDP unless otherwise indicated)

	2013	2014	2015	2016	2017	2018
Net lending/borrowing	-5.7	-4.1	-2.3	-1.7	-0.7	-0.1
Interest	4.4	4.0	3.5	3.2	3.2	3.1
Primary balance ex. one-off items	-1.7	-0.2	1.0	1.5	2.4	3.0
Cyclical contribution	-2.2	-1.5	-0.9	-0.6	-0.2	-0.1
Structural primary balance	0.4	1.3	1.9	2.1	2.7	3.1
Annual change	1.3	0.9	0.6	0.2	0.6	0.4
Memorandum items						
Output gap	-4.6	-2.2	-1.3	-0.8	-0.1	0.0
Unemployment rate	13.0	11.3	9.8	8.8	8.3	7.8

Sources: Department of Finance; and IMF staff estimates.
1/ Projections are consistent with the adjustment path set out in the April 2015 Stability Programme Update, including new fiscal initiatives of €1.2 billion in 2016, split equally between revenue and spending.

8. **The Irish authorities target a further reduction in the deficit in 2016**. On current projections, Ireland will exit the EU's excessive deficit procedure in 2015. Budget 2016—which is being prepared in the context of general elections due no later than April 2016—will thus be the first step toward achieving Ireland's medium-term objective of fiscal balance on a structural basis, as needed to put the high public debt burden firmly on a downward path. The authorities

[1] Projections in the SPU include Irish Water within general government pending a final classification by Eurostat. Excluding that item, the projected deficit in 2015 is 2.1 percent of GDP, 0.6 percentage points below budget.

project an overall deficit of 1.7 percent of GDP in 2016, and estimate that there is room for new fiscal initiatives of €1.2–1.5 billion relative to a baseline with noninterest spending that is held broadly flat in nominal terms and no change in tax brackets in 2016. The authorities' Spring Economic Statement plans to allocate this fiscal space on an equal basis between additional spending and reducing the tax burden on low and middle income earners. To help inform the development of specific measures for the budget to be released in October, the authorities plan to engage in a national economic dialogue in July regarding the main structural challenges faced by the economy and society and the options for the allocation of public resources.

9. **Saving the likely outperformance of revenues is needed to make the fiscal stance for 2016 adequate**. Staff estimates that improvement in the primary balance in structural terms is modest in 2016, at about ¼ percent of GDP, as the reduction in the overall deficit partly reflects an expected decline in the interest bill and a narrowing of the output gap. A stronger adjustment, of at least a ½ percent of GDP, would also be appropriate in 2016 in view of Ireland's high public debt and strong growth, implying an overall deficit target of about 1.5 percent of GDP. However, it appears most likely that revenues will exceed official projections, which are for tax revenue growth before measures that is significantly below nominal GDP growth, and also given that revenue outperformance has underpinned Ireland's track record of over delivering on fiscal targets for a number of years. The commitment of the Irish authorities to comply with their obligations under the Stability and Growth Pact, including the Expenditure Benchmark, means that revenue outperformance in 2016 and later years will not be used to fund additional expenditure; the need for a change from the past procyclical pattern of spending the revenues available was a key lesson drawn from the crisis that is firmly embedded in their new fiscal policy framework.

10. **Looking to the medium term, sizable adjustment challenges indicate a need to build revenues while the limited fiscal space should be used to support durable growth**. The authorities' expenditure projections account for demographic pressures as growing cohorts of both young and old increase demands for education and health services. But public sector wages and capital spending are areas where additional needs may well emerge. Negotiations with public sector unions have recently concluded on arrangements to follow the expiration of the Haddington Road agreement in mid 2016, and a review of capital spending is to be completed by June, where a rise in public investment over time is likely required to avert growth bottlenecks. Staff recommended that the authorities consider steps to raise revenues to help address these pressures while protecting adjustment, as discussed in more detail in the 2015 Article IV consultation. Moreover, it is critical that any unwinding of savings in public sector wages be gradual and that efficiency gains continue. Tax reforms should be focused on areas most supportive of job creation and productivity while protecting progress made in tax base broadening. The authorities were broadly in agreement with these recommendations.

11. **The mission recommended that the transparency of medium-term fiscal projections be further improved**. The authorities' medium-term fiscal projections are based on a sound macroeconomic framework and a prudent revenue outlook. The authorities have also clearly set out that their policy is to deliver annual fiscal adjustment in line with the minimum required

under the EU fiscal rules, which is a reduction in the structural balance of at least 0.5 percent of GDP annually. However, the projections for 2017-20 in the SPU show annual adjustment averaging about 1 percent of GDP measured using the EU methodology and also a fiscal surplus in later years. The mission recommended also providing projections consistent with the authorities' intended pace of adjustment, with a modestly slower deficit reduction and higher debt path in the medium term. The authorities noted that the SPU made clear the technical assumptions of no policy change, along with the implication that future budgets would also have fiscal space. Moreover, the SPU projections for public debt remained conservative as they did not take into account the impact of the disposal over coming years of state holdings in the banking system.

FINANCIAL SECTOR

12. **Bank health continues to improve, but impaired assets remain high and profitability low**. The contraction in the three domestic banks' interest earning assets continued, albeit at a slower pace in 2014. Nonetheless, operating profitability doubled to 0.8 percent of assets on foot of lower funding costs as well as nonrecurrent gains from asset sales and revaluations (Table 8). Led by the CRE and SME loan books, there was a sizable fall in the stock of nonperforming loans (NPL), by some 19 percent in 2014, although NPLs are still 23 percent of loans. This fall, together with rising property prices, allowed significant provision releases while keeping the coverage ratio stable. Profitability after provisions was achieved for the first time since the onset of the crisis. Together with lower risk weighted assets, this lifted the three banks' aggregate core tier 1 capital ratio by over 1 percentage point, to 14½ percent.

Irish Banks: Key Financial Indicators[1]
(Percent)

	2010	2011	2012	2013	2014
Credit growth 2/		-4.1	-10.2	-10.8	-4.3
Return on assets	-3.2	-1.2	-2.0	-0.8	0.6
Net interest margin	1.3	0.9	0.8	1.2	1.6
NPL ratio	12.1	19.6	24.8	27.1	23.2
Coverage ratio 3/	44.1	49.8	48.5	51.4	51.7
Texas ratio 4/	118	93	115	120	108
CT1 ratio	6.3	16.4	14.7	13.3	14.5
Loan to deposit 5/	183	146	124	111	108
NSFR		69.0	82.3	96.1	110.5
LCR		71.0	92.3	107.7	109.9

Source: CBI; and IMF staff calculations.
1/Indicators cover the three main domestic banks: Allied Irish Banks, Bank of Ireland, and Permanent TSB.
2/ Annual percent change in end period gross loans and advances.
3/ Provision stock to NPLs.
4/ NPLs to sum of provision stock and CT1 capital.
5/ Net loans to customer deposits, in percent.

13. **The authorities have shifted to a new supervisory approach to promote the resolution of distressed mortgages**. The Mortgage Arrears Resolution Targets (MART), introduced in early 2013, facilitated significant progress in mortgage resolution, with restructures of 41,000 cases by end 2014—equivalent to 34 percent of the total cases of arrears over 90 days past due at end 2012 (Annex I). In April the Central Bank of Ireland (CBI) replaced these common quarterly targets with bank-by-bank supervision. Under the new framework, individual banks are required to (i) conclude sustainable solutions for the vast majority of distressed borrowers by end 2015; (ii) continue meeting the "terms being met" target of 75 percent of restructurings;

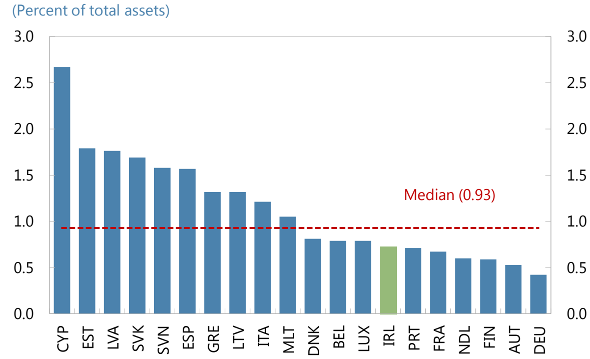
(iii) explore alternative solutions to a loss of ownership if the borrower re-engages; and
(iv) engage fully and appropriately in the process set out in the Personal Insolvency Act.

14. **The mission emphasized that completing the resolution of impaired mortgages will require intensified and sustained efforts**. Despite progress under the MART, many loans are moving into prolonged arrears. Resolution of buy-to-let loans where rents are accruing to banks should be encouraged through continued intensive supervision. Primary dwelling mortgages deep in arrears pose a greater challenge, with many cases of weak bank–borrower engagement resulting in recourse to lengthy repossession procedures. In some cases these proceedings succeed in restarting bilateral discussions on mortgage restructures, but more progress is needed. To advance restructuring in cases where it is feasible, close supervision of areas where banks can improve needs to be complemented by steps to make legal proceedings more efficient and to increase utilization of the personal insolvency regime. The mission also welcomed recent progress in reducing impaired CRE and SME loans, noting that resolution efforts need to be sustained given the still high share of NPLs in these segments.

15. **More recently, the government has announced reforms of the personal insolvency framework**. The Personal Insolvency Arrangement (PIA) can provide a court supervised restructuring of mortgage and other debts, subject to creditor approval by certain majorities. The reform will give courts the power to review and where appropriate approve insolvency deals that have been rejected by banks. The authorities expect this change—to be legislated shortly—will result in more cases being processed to a successful outcome through the personal insolvency framework. Court rules and procedures in relation to repossession will also be streamlined, to ensure better case management of repossession applications and guide more cases toward the insolvency arrangements administered by the Insolvency Service of Ireland (ISI). Moreover, the Mortgage to Rent scheme will be expanded, by increasing the property value thresholds that apply. Staff welcomes these initiatives, as court review of rejected PIA proposals—subject to suitable guidance such as the ISI guidelines on reasonable living expenses—should give confidence to distressed borrowers to use the PIA. Nonetheless, for those borrowers where a restructuring is not feasible, and where Mortgage to Rent solutions are not appropriate, recourse to bankruptcy or repossession should be concluded in a reasonable period.

16. **Lending interest rates must enable banks to generate adequate profits to support new lending**. While increasing, Irish banks' operating profitability remains relatively low. Declines in funding costs aided by QE will assist, but there are also drags from the prevalence of tracker mortgages in loan portfolios and from prospects for a prolonged period of low ECB rates. However, with rates on new floating rate mortgages at 4.1 percent at end March, compared with an average of 2.1 percent in the

Banks' Operating Profit, June-2014
(Percent of total assets)



Source: ECB.

euro area, political pressures to reduce mortgage rates have emerged. The mission stressed the importance of loan pricing adequate to cover credit losses—including the high costs of collateral realization in Ireland—and to build capital needed to transition to fully loaded Basel III requirements in order to avoid impediments to a revival of lending.

17. **Macro-financial stability should continue to be protected, especially given strong foreign interest in Irish assets**. The CBI adopted macroprudential regulations in late January to protect stability by underpinning the financial resilience of banks and households (see Box 3 of the 2015 Article IV Consultation). At this early stage, assessment of the initial impact of the regulations remains difficult, but it appears that the CBI announcement proposing such regulations played a role in the recent housing price deceleration by dampening expectations for house price gains in coming years. Data are not yet available to permit an assessment of their impact on the amount and composition of mortgage origination. Regarding the rapid rise in CRE prices, it had started from a low base, with prices still below levels prior to the mid-2000s boom and 55 percent below peak. Moreover, these gains were underpinned by strong demand for office space in Dublin, as reflected in rising rents. Staff nonetheless urged readiness to deploy macroprudential tools, such as loan-to-value limits and capital add-ons, to contain bank's exposures. The authorities have initiated a risk assessment of CRE developments and they continue to supervise bank's activities in this sector closely, noting that domestic banks are not a major source of new financing at this time.

18. **Strengthened onsite supervision has been a core element of the move to the Single Supervisory Mechanism (SSM), where continued close CBI-ECB cooperation is required**. Joint Supervisory Teams (JSTs) including CBI staff are carrying out ECB-led direct supervision of significant institutions, with a supervisory program tailored to each bank and informed by thematic reviews, including on NPL resolution, profitability, and earnings. The JSTs also provide guidance for intensified onsite inspections and are responsible for overseeing the implementation of recommendations by onsite inspectors. The mission welcomed the increased intensity of the onsite inspections, including results from the first phase of a review of impairment provisions designed to understand the main drivers for changes in impairment provisions and reported asset quality. Staff also welcomed the review underway to assess banks' risk weighting models, which form important inputs to regulatory capital calculations.

19. **Favorable market conditions and improving balance sheets support the implementation of plans to divest state shareholdings in the banks**. PTSB, the smallest of the three domestic banks, recently raised equity (€400 million) and additional tier 1 capital (€125 million) to cover the capital shortfall identified in the ECB's 2014 comprehensive assessment and repay part of earlier public capital injections. It subsequently issued €300 million of senior unsecured bonds, a first since 2007. These successes build on progress in disposing noncore assets, improvements in net interest margins, and the EU approval of PTSB's

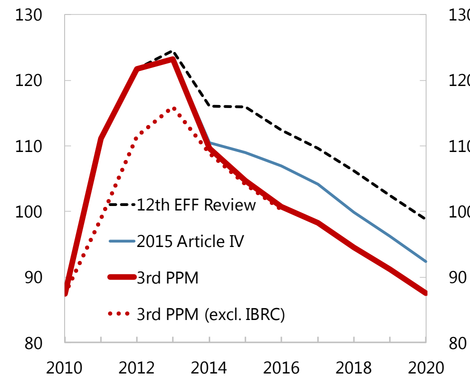
restructuring plan, which entails further measures in 2015–18 to ensure long-term viability.[2] The mission welcomed the PTSB transactions as market recognition of the scale of bank repair that has been achieved, while noting that it also signals the supportiveness of market conditions for bank equity sales. It encouraged the authorities to enhance AIB's capital structure in a timely manner, subject to the approval of the ECB, to ready this much larger bank for a significant divestment at a time the authorities consider market conditions conducive.

FINANCING AND POST-PROGRAM MONITORING

20. **Ireland has repaid over 80 percent of its outstanding Fund credit within 15 months of program conclusion**. Early repurchases in December 2014 to March 2015 totaled SDR 15.7 billion (around €18.3 billion), reducing Fund credit outstanding to 300 percent of quota. Hence, Ireland will no longer pay the surcharges due on large and prolonged borrowings. The scale and pace of early repayment reflects the country's strong economic recovery and the highly favorable financing conditions in the euro area.

General Government Gross Debt

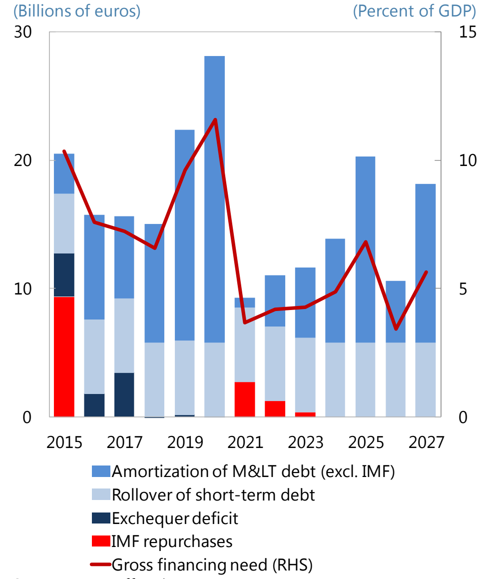
(Percent of GDP)



Source: IMF staff projections.

Government Gross Financing Need

(Billions of euros) (Percent of GDP)



Source: IMF staff estimates.

21. **Ireland's capacity to repay the Fund has improved further over the last year**. The outlook for the public debt ratio has fallen significantly since the Article IV consultation largely owing to an upward revision to nominal GDP projections, partly reflecting a rise in the terms-of-trade due to euro depreciation. Ireland raised €9.5 billion in long term bonds in Q1 alone, about two-thirds of the planned total for the year. If secondary market bond purchases under QE continue at their current pace, staff estimates that purchases will be equivalent to about three-quarters of the total Irish sovereign bond issuance expected from May 2015 to September 2016. Ireland's funding strategy has smoothed gross financing needs significantly in coming years, and the financing hump currently projected for 2020 may also be smoothed through normal debt management operations. Finally, gross financing needs are relatively modest in 2021–23—the years when remaining liabilities to the IMF fall due—further lowering risks to the Fund (Table 7).

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[2] The plan includes steps to contain costs, reduce defaulted tracker mortgage holdings, and dispose non-core assets such as the remaining UK mortgage book and non-performing Irish CRE portfolio.

STAFF APPRAISAL

22. **Ireland's economic rebound is in full swing, yet fiscal restraint must be maintained in 2015**. Growth is set to ease modestly to a still strong 4 percent in 2015 and joblessness has fallen below 10 percent. Budget outturns are off to an excellent start, with the deficit again on track to come in below target in 2015. Locking in this faster progress toward fiscal balance while growth is especially strong requires avoiding a repeat of past spending overruns.

23. **Fiscal policy should make solid progress toward balance in the favorable economic environment and the limited fiscal space in coming years should be used to support durable growth**. The authorities' target for a deficit of 1.7 percent of GDP in 2016 would imply fiscal adjustment that is too modest given Ireland's high public debt and strong growth. Hence it is essential that a likely outperformance of revenues be saved in order to avoid delaying adjustment to a period when growth may well be weaker. Looking further ahead, sizable adjustment challenges remain owing to demographic pressures and a rise in public investment likely needed to avoid growth bottlenecks. Measures to raise revenues should be considered to support adjustment in the face of these pressures and it is critical that any unwinding of savings in public sector wages be gradual and that efficiency gains continue. Tax reforms should be focused on areas most supportive of job creation and productivity while protecting progress in tax base broadening.

24. **Bank health has improved yet more progress on profitability is needed and mortgage resolution efforts should be intensified**. The operating profitability of banks has risen but remains low. To ensure that banks are able to sustain a credit expansion in support of recovery, lending interest rates must enable banks to cover future loan losses and also build and maintain adequate capital. Despite a welcome sizable fall in nonperforming loans in 2014, they remain very high and a rising share of mortgage arrears are becoming prolonged. It is therefore important that the CBI's shift to a bank-by-bank supervision of mortgage resolution facilitate progress in the specific areas where banks can improve their performance. But advancing restructuring in cases where that is feasible also requires steps to make legal proceedings more efficient and to increase utilization of the personal insolvency regime. Reforms recently announced by the authorities are therefore welcome, where the availability of court review—subject to suitable guidelines—should enhance borrowers' confidence in the new insolvency arrangements. Yet an efficient repossession system is still needed where other solutions are not feasible. Close monitoring of the booming commercial property market is important, even though at this time domestic banks are not a major source of new financing.

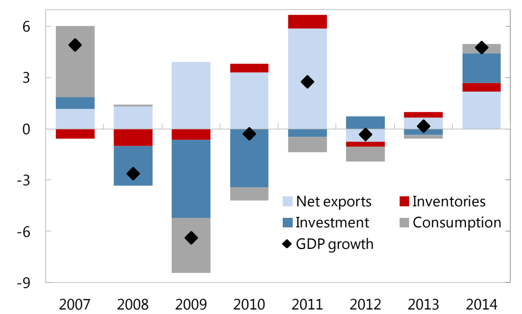
25. **Disposing of state shareholdings in the three domestic banks would clear the public debt incurred in supporting them**. The successful sale of PTSB shares is welcome market recognition of the scale of bank repair that has been achieved in Ireland. It also signals the supportiveness of market conditions for sales of bank equity. Early steps to enhance AIB's capital structure, subject to the approval of the ECB, would help prepare the bank for a significant divestment at a time when the authorities consider market conditions to be conducive.

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

All GDP components contributed to a 4.8 percent y/y expansion in 2014…

Contributions to Real GDP Growth

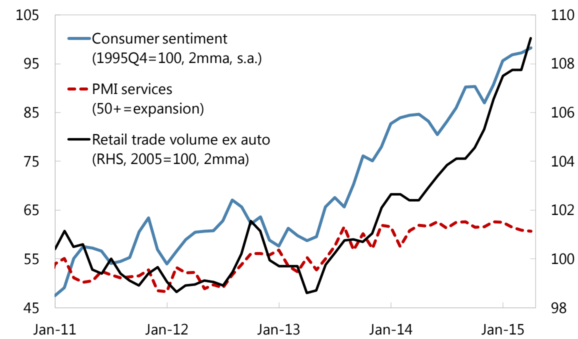
(Percent, y/y)



Sources: Central Statistics Office; and IMF staff calculations.

…with strong consumer confidence evident in rapidly rising retail sales.

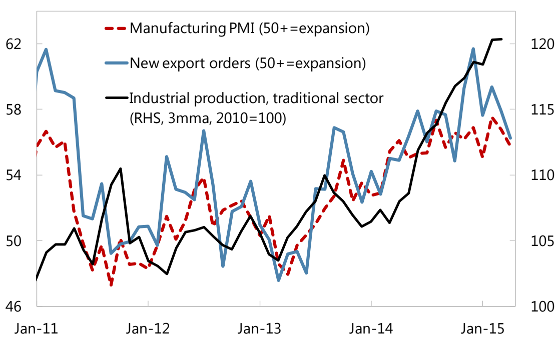
Retail Trade and Sentiment Indicators



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

Export orders and PMIs are positive for manufacturing and industrial production data is rising sharply.

Manufacturing Indicators

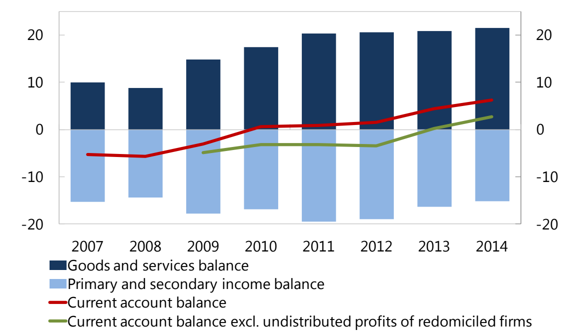


Sources: Central Statistics Office; NCB; and Haver Analytics.

The current account moved into a modest surplus in 2014 excluding estimated profits of redomiciled firms.

Current Account Balance Composition

(Percent of GDP)

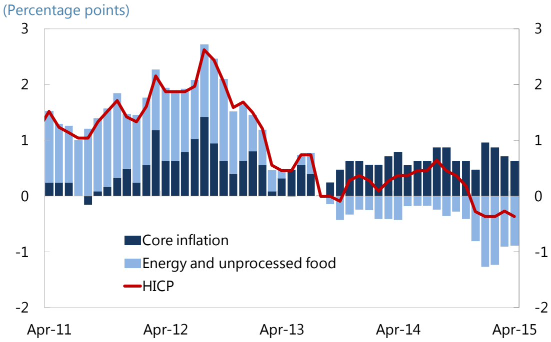


Sources: Central Statistics Office; Haver Analytics; and IMF staff estimates.

Inflation has turned negative owing to falling energy prices, but core inflation remained around 0.8 percent in April as services prices rose 2.5 percent.

Contribution to Annual HICP Inflation

(Percentage points)

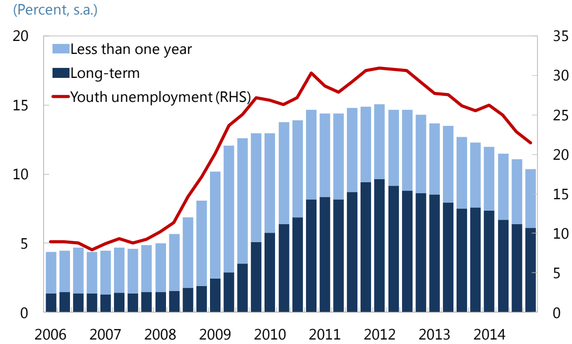


Sources: Central Statistics Office; and IMF staff calculations.

Unemployment declined to 9.9 percent in Q1, with long-term and youth unemployment also declining but remaining high.

Unemployment Rates

(Percent, s.a.)



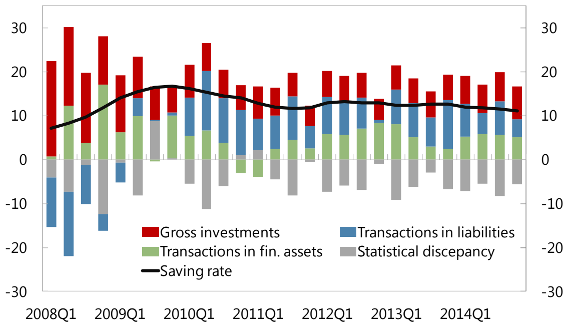
Sources: CSO; and Haver Analytics; and IMF staff calculations.

Figure 2. Ireland: Household Finance and Housing Developments, 2002–15

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

Decomposition of Household Savings

(Percent of gross disposable income)

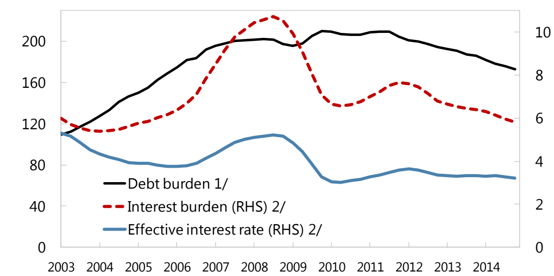


Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff calculations.

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

Household Debt and Interest Payments

(Percent of gross disposable income)

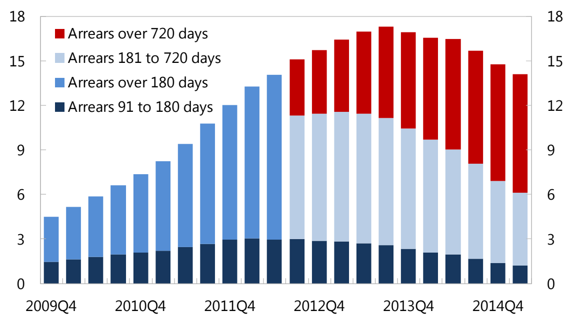


Sources: Central Bank of Ireland; Haver Analytics and IMF staff calculations.
1/ Total household loans in percent of four-quarter gross disposable income.
2/ Four quarter interest payments (excluding FISIM adjustment) in percent of four-quarter gross disposable income or previous quarter's total household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

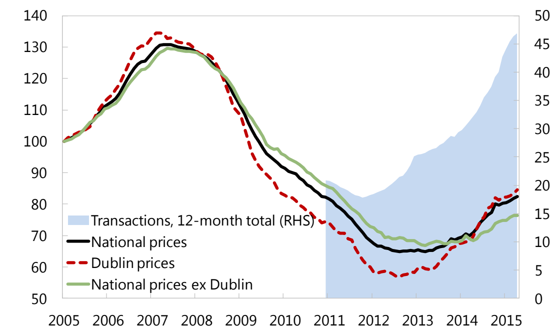


Source: Central Bank of Ireland.

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)

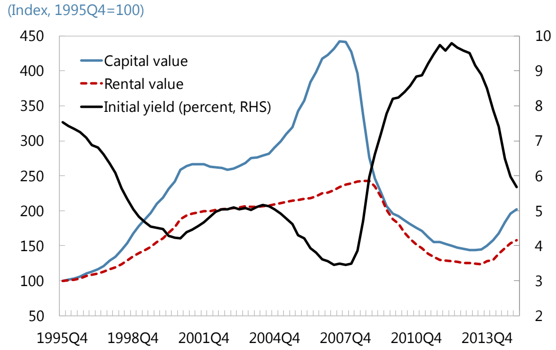


Sources: CSO; Property services regulatory authority; and IMF staff calculations.

Commercial property prices and rents rose sharply from a low base in 2014…

Commercial Real Estate Value Indices and Initial Yield

(Index, 1995Q4=100)

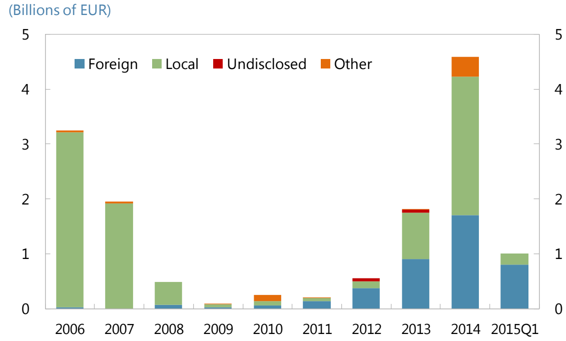


Source: Investment Property Databank; and Central Bank of Ireland.

…and transactions rose strongly in 2014 with over one-third by non-residents, and further inflows in Q1.

Commercial Property Transactions 1/

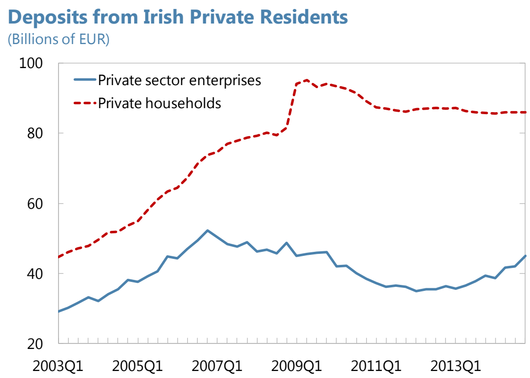
(Billions of EUR)



Source: CBRE Research (Ireland).
1/ Relates to individual transactions worth of at least €1 mln.

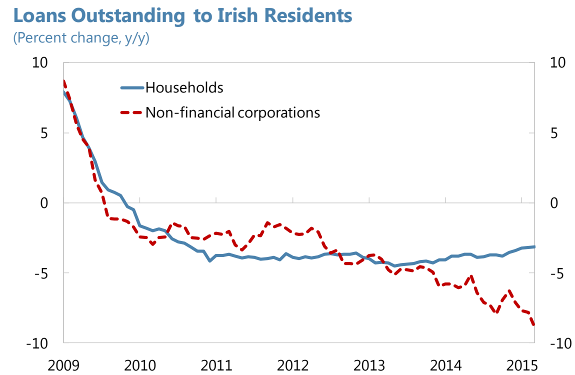
Figure 3. Ireland: Credit Developments, 2003–15

Enterprise deposits are rising while household deposits remained stable…



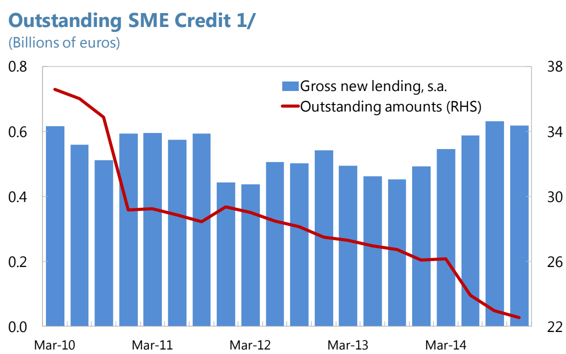
Source: Central Bank of Ireland.

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



Source: Central Bank of Ireland.

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

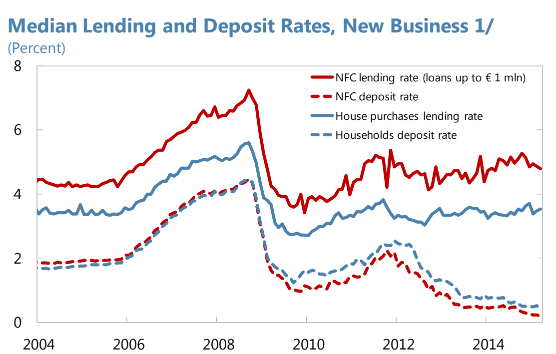


Source: Central Bank of Ireland.
1/ All resident credit institutions, excluding real estate and financial intermediation.

New mortgage lending has rebounded strongly in recent quarters, albeit from low levels.

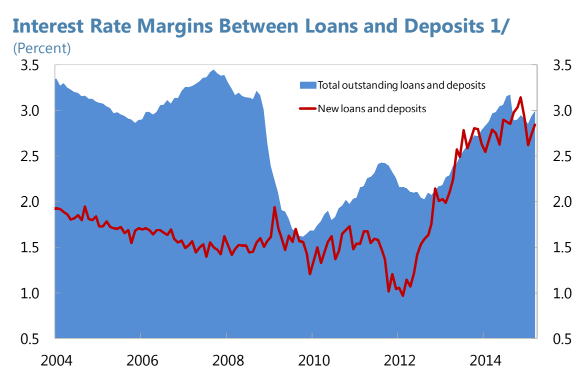
Source: Banking and Payment Federation Ireland; and IMF staff calculations.

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



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

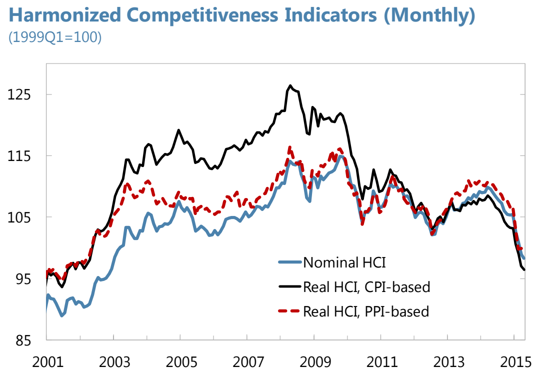
…continue to boost banks' interest margins, although there was a sharp decline recently as banks compete to lend.



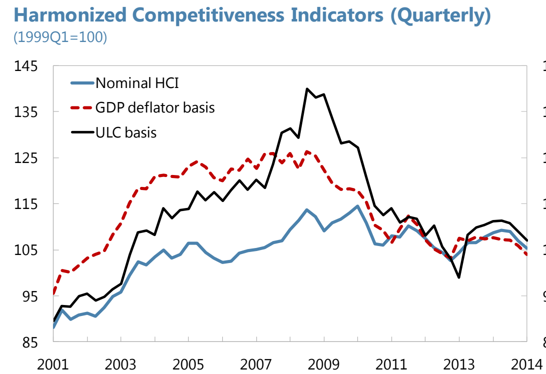
Source: Central Bank of Ireland.
1/ Weighted average loan rate minus weighted average deposit rate.

Figure 4. Ireland: Competitiveness Indicators, 1996–2015

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

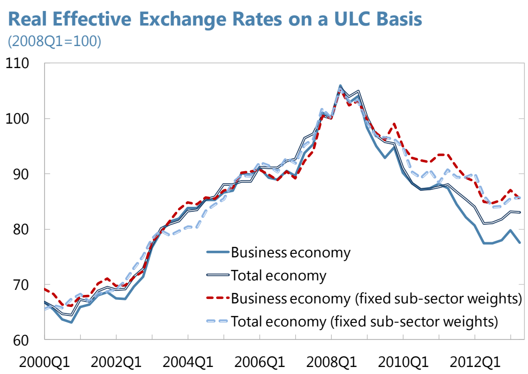


Sources: CBI; and Haver Analytics.



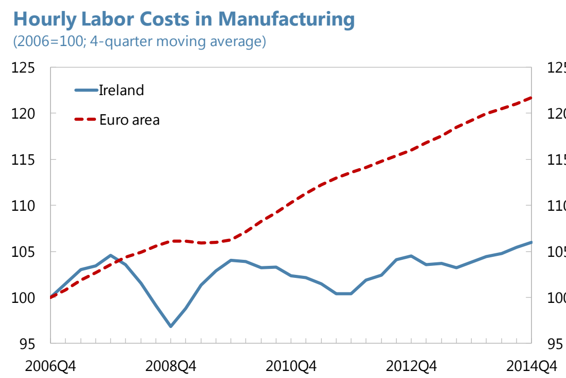
Sources: CBI; and Haver Analytics.

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



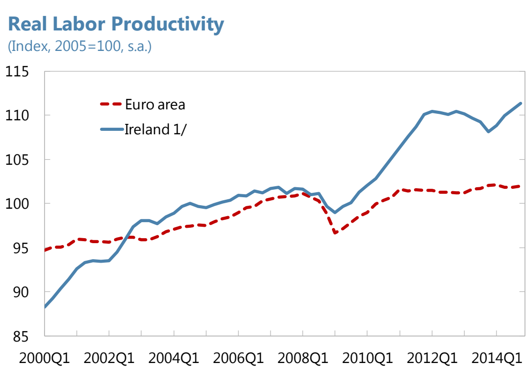
Source: Bruegel.

Private wages have increased at a slower pace than in the euro area, but appear to be picking up recently.



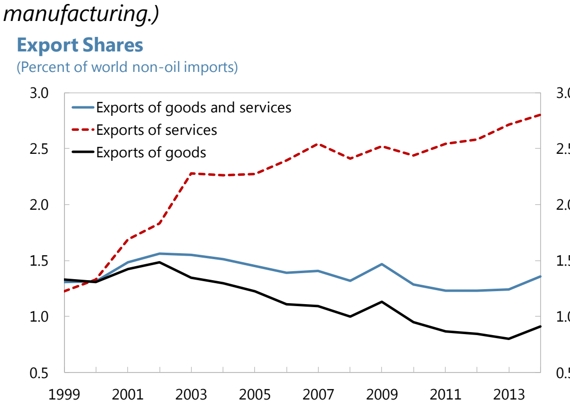
Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

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



Source: CSOI; ECB; Haver Analytics; and IMF staff calculations.
1/ Calculated as real output per person employed.

Ireland's overall export market share rose in 2014. (The rising share for goods may partly reflect offshore contract manufacturing.)

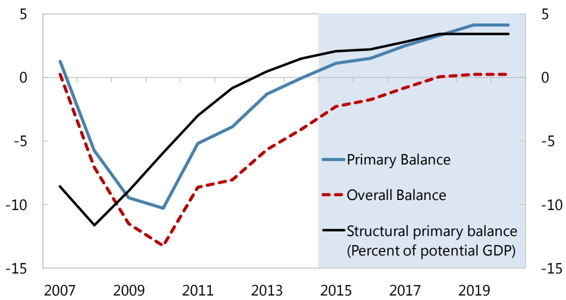


Source: IMF staff calculations.

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

The primary deficit was almost closed in 2014, down from 10¼ percent of GDP in 2010.

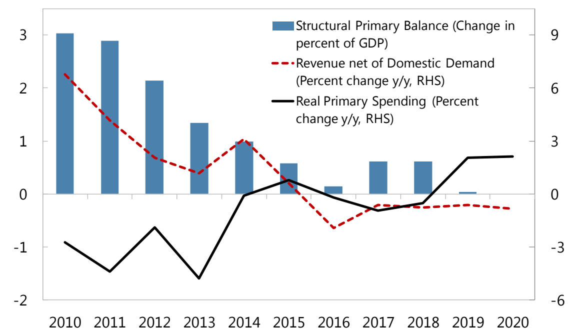
Headline and Structural Balances 1/
(Percent of GDP, unless otherwise indicated)



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

Structural fiscal adjustment was strong in 2009–14, reflecting real spending cuts and revenue growth exceeding domestic demand. More gradual adjustment in coming years relies mostly on real spending declines.

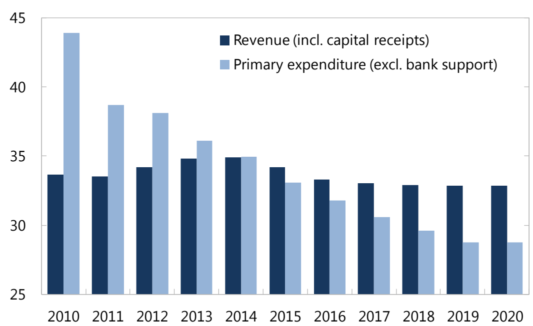
Fiscal Adjustment: Pace and Sources



Source: Department of Finance and IMF staff estimates.

The movement into primary surplus is projected to be driven by further declines in spending to GDP.

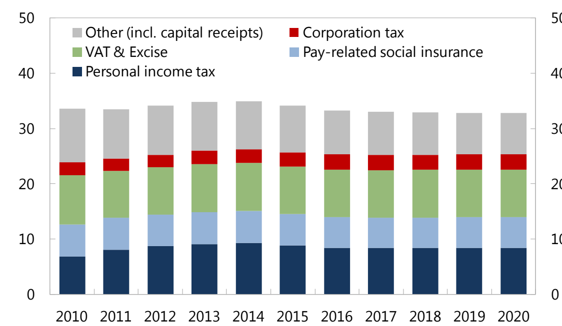
Revenue and Primary Expenditure
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Given the slower rebound in domestic demand than GDP, revenues are projected to decline 2 percentage points as a share of GDP from 2014 to 2018.

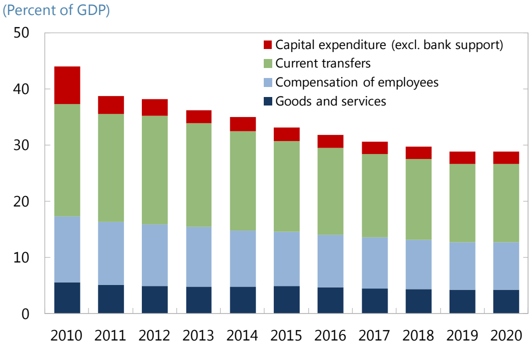
Revenue Composition
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Primary expenditures are projected to fall by 5 percentage points of GDP from 2014 to 2018.

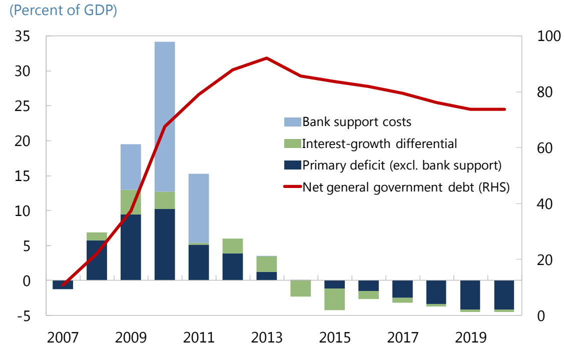
Primary Expenditure Components
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Half of the increase in net debt arose from bank support costs. (The fall in net debt in 2014 reflects IBRC liquidation).

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



Sources: Department of Finance; and IMF staff estimates.

Table 1. Ireland: Selected Economic Indicators, 2010–16

(Annual percentage change unless indicated otherwise)

	2010	2011	2012	2013	2014	2015	2016
						Proj.	
National accounts (constant prices)							
Real GDP	-0.3	2.8	-0.3	0.2	4.8	4.0	3.3
Final domestic demand	-4.9	-1.7	-0.2	-0.7	2.9	3.2	2.9
Private consumption	0.9	-1.2	-1.2	-0.8	1.1	1.6	1.9
Public consumption	-7.1	-2.1	-2.1	1.4	0.1	1.4	1.0
Gross fixed investment	-18.0	-2.9	5.0	-2.4	11.3	9.2	7.3
Net exports 1/	3.3	5.9	-0.8	0.6	2.2	1.6	1.1
Exports of goods and services	6.2	5.5	4.7	1.1	12.6	5.0	4.5
Imports of goods and services	3.0	-0.6	6.9	0.6	13.2	4.5	4.4
Real GNP	1.4	-0.8	1.1	3.3	5.2	3.7	3.1
Gross national saving (in percent of GDP)	16.4	15.3	17.1	19.6	22.6	22.9	23.6
Private	26.3	21.6	23.3	23.5	24.8	23.3	23.6
Public 2/	-9.9	-6.3	-6.1	-4.0	-2.2	-0.5	0.0
Gross investment (in percent of GDP)	15.8	14.5	15.6	15.2	16.4	16.9	17.7
Private	12.5	12.2	13.7	13.4	14.5	15.1	15.9
Public	3.4	2.4	1.9	1.7	1.9	1.8	1.8
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	1.1	1.3
Employment	-4.0	-1.8	-0.6	2.4	1.7	2.0	1.9
Unemployment rate (in percent)	13.9	14.6	14.6	13.0	11.3	9.8	8.8
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)	-11.0	-8.7	-8.0	-6.1	-4.2	-2.4	-1.7
Primary balance (excl. bank support)	-10.3	-5.2	-3.9	-1.3	0.0	1.1	1.5
General government gross debt	87.4	111.2	121.7	123.2	109.7	104.7	100.5
General government net debt	67.1	78.9	87.7	92.1	89.9	85.9	82.7
External trade and balance of payments (percent of GDP)							
Balance of goods and services	17.5	20.3	20.5	20.8	21.4	23.5	23.9
Balance of income and current transfers	-16.9	-19.5	-18.9	-16.4	-15.2	-17.6	-18.0
Current account	0.6	0.8	1.6	4.4	6.2	5.9	5.9
Effective exchange rates (1999:Q1=100, average)							
Nominal	107.8	108.6	105.1	109.2	104.1	...	...
Real (CPI based)	111.6	110.2	105.3	108.1	104.1	...	...
Memorandum items:							
Population (in millions)	4.6	4.6	4.6	4.6	4.6	4.6	4.7
GDP per capita (in euros)	36,210	37,387	37,675	38,055	40,223	42,768	44,366
GDP (in billions of euros)	164.9	171.0	172.8	174.8	185.4	198.8	208.0

Sources:Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; IMF

1/ Contribution to growth.

2/ Excludes bank restructuring costs.

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

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	-0.3	2.8	-0.3	0.2	4.8	4.0	3.3	2.8	2.6	2.5	2.5
Domestic demand	-4.3	-0.7	-0.6	-0.3	3.6	3.1	2.9	2.6	2.6	2.8	2.8
Final domestic demand	-4.9	-1.7	-0.2	-0.7	2.9	3.2	2.9	2.6	2.6	2.8	2.8
Private consumption	0.9	-1.2	-1.2	-0.8	1.1	1.6	1.9	2.0	2.1	2.3	2.2
Public consumption	-7.1	-2.1	-2.1	1.4	0.1	1.4	1.0	0.8	0.9	0.9	1.0
Gross fixed investment	-18.0	-2.9	5.0	-2.4	11.3	9.2	7.3	5.5	5.3	5.4	5.5
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/	3.3	5.9	-0.8	0.6	2.2	1.6	1.1	0.8	0.6	0.4	0.4
Exports of goods and services	6.2	5.5	4.7	1.1	12.6	5.0	4.5	4.1	4.1	4.1	4.1
Imports of goods and services	3.0	-0.6	6.9	0.6	13.2	4.5	4.4	4.3	4.5	4.7	4.7
Real GNP	1.4	-0.8	1.1	3.3	5.2	3.7	3.1	2.5	2.4	2.1	2.2
Current account 2/	0.6	0.8	1.6	4.4	6.2	5.9	5.9	5.7	5.4	5.3	5.2
Gross national saving 2/	16.4	15.3	17.1	19.6	22.6	22.9	23.6	24.0	24.3	24.7	25.2
Private	26.3	21.6	23.3	23.5	24.8	23.3	23.6	23.1	22.8	23.2	23.7
Public	-9.9	-6.3	-6.1	-4.0	-2.2	-0.5	0.0	0.9	1.5	1.6	1.5
Gross investment 2/	15.8	14.5	15.6	15.2	16.4	16.9	17.7	18.3	18.9	19.4	20.0
Private	12.5	12.2	13.7	13.4	14.5	15.1	15.9	16.6	17.3	17.8	18.5
Public	3.4	2.4	1.9	1.7	1.9	1.8	1.8	1.6	1.6	1.6	1.5
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	-1.6	0.9	1.3	1.0	1.2	3.1	1.2	1.3	1.1	1.2	1.3
Average wage, whole economy	-1.9	-0.5	0.5	-0.7	-0.1	1.1	1.3	1.7	1.9	2.5	3.0
Labor market											
Employment	-4.0	-1.8	-0.6	2.4	1.7	2.0	1.9	1.6	1.6	1.6	1.5
Unemployment rate (in percent)	13.9	14.6	14.6	13.0	11.3	9.8	8.8	8.3	7.8	7.3	6.9
Public finance											
General government balance 2/ 3/	-13.3	-8.6	-8.0	-6.1	-4.2	-2.4	-1.7	-0.7	-0.1	0.0	0.0
General government gross debt 2/	87.4	111.2	121.7	123.2	109.7	104.7	100.5	97.8	94.1	91.1	88.1
General government net debt 2/	67.1	78.9	87.7	92.1	89.9	85.9	82.7	80.7	77.7	75.2	72.8
Output gap	-4.4	-3.6	-5.4	-4.6	-2.2	-1.3	-0.8	-0.1	0.0	0.0	0.0
Nominal GDP (in billions of euros)	164.9	171.0	172.8	174.8	185.4	198.8	208.0	216.6	224.7	233.1	242.0

Sources: Central Statistics Office; Department of Finance; and IMF staff estimates.
1/ Contributions to growth.
2/ In percent of GDP.
3/ Excluding one-off items. For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

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	64.7	68.0	69.2	71.6	73.9	76.6	79.3
Personal income tax	11.3	13.8	15.2	15.8	17.2	17.7	17.4	18.1	18.8	19.6	20.5
Corporate income tax	3.9	3.8	4.0	4.3	4.6	5.2	5.8	6.0	6.2	6.4	6.6
Value-added tax	10.1	9.7	10.2	10.3	11.2	11.7	12.3	12.8	13.3	13.9	14.5
Excise tax	4.7	4.7	4.7	4.9	5.0	5.3	5.6	5.8	6.0	6.3	6.6
Other taxes 2/	8.1	7.0	7.0	7.2	8.4	8.7	9.1	9.4	9.8	10.2	10.7
Stamp duty	1.0	1.4	1.4	1.3	1.7	1.8	1.8	1.9	2.0	2.1	2.2
Capital tax	0.6	0.7	0.7	0.6	0.9	0.9	0.9	1.0	1.0	1.1	1.1
Other (including property tax)	6.6	5.0	4.9	5.2	5.8	6.0	6.3	6.5	6.8	7.1	7.4
Social contributions 3/	9.5	10.0	9.7	10.3	10.8	11.3	11.6	12.0	12.4	12.9	13.4
Other revenue 4/	7.9	8.3	8.4	8.0	7.5	8.2	7.5	7.4	7.3	7.3	7.1
Expenditure (excl. one-off items)	77.4	72.1	73.0	70.8	72.3	72.6	72.9	73.2	74.2	76.7	79.2
Expense	71.8	68.0	69.6	67.8	68.8	68.9	69.2	69.6	69.9	70.1	70.1
Compensation of employees	19.3	19.2	18.9	18.7	18.6	19.2	19.5	19.6	19.7	19.8	19.9
Use of goods and services	9.1	8.7	8.4	8.3	8.7	9.6	9.5	9.6	9.7	9.7	9.7
Interest	4.9	5.9	7.2	7.7	7.5	6.9	6.8	6.9	7.0	6.9	6.7
Subsidies	1.8	1.6	1.5	1.5	1.7	2.1	2.1	2.1	2.1	2.1	2.1
Social benefits 3/	28.8	28.8	29.4	28.6	28.5	27.5	27.5	27.6	27.7	27.8	27.9
Other expense (excl. fin. sector support)	8.0	3.9	4.2	3.1	3.7	3.7	3.8	3.7	3.7	3.8	3.8
Other current transfers	2.4	2.5	2.5	2.1	2.6	2.5	2.5	2.5	2.6	2.7	2.7
Capital transfers (excl. fin. sector supp	5.5	1.4	1.7	1.0	1.1	1.2	1.3	1.2	1.1	1.1	1.1
Gross fixed capital formation	5.5	4.0	3.3	3.0	3.5	3.7	3.7	3.6	3.6	3.8	3.7
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/								0.1	0.7	2.8	5.4
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	-7.6	-4.6	-3.6	-1.6	-0.3	-0.1	0.0
Net lending/borrowing (excl. one-off items)	-18.1	-14.8	-13.9	-10.7	-7.8	-4.9	-3.6	-1.6	-0.3	-0.1	0.0
Net lending/borrowing	-53.5	-21.6	-13.9	-9.97	-7.6	-4.6	-3.6	-1.6	-0.3	-0.1	0.0
Primary balance (excl. one-off items)	-13.2	-9.0	-6.7	-3.0	-0.3	2.0	3.1	5.3	6.7	6.8	6.7
Net financial worth, transactions	-53.5	-21.6	-13.9	-10.0	-7.6	-4.6	-3.6	-1.6	-0.3	-0.1	0.0
Net acquisition of financial assets	-8.1	3.2	10.3	0.0	0.0	0.7	-0.3	0.0	0.0	0.0	0.0
Net incurrence of liabilities	45.3	24.7	24.2	10.0	7.6	5.3	3.3	1.6	0.3	0.1	0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP, unless indicated otherwise)											
Revenue	33.6	33.5	34.2	34.8	34.9	34.2	33.3	33.1	32.9	32.9	32.8
Taxes and social contributions 3/	28.8	28.6	29.4	30.2	30.8	30.1	29.7	29.6	29.7	29.7	29.8
Other revenue 4/	4.8	4.9	4.8	4.6	4.1	4.1	3.6	3.4	3.2	3.1	2.9
Expenditure (excl. one-off items)	46.9	42.1	42.2	40.5	39.0	36.5	35.0	33.8	32.7	31.7	30.5
Current primary	40.6	36.3	36.2	34.4	33.0	31.2	30.0	28.9	28.0	27.1	26.2
Interest	3.0	3.4	4.1	4.4	4.0	3.5	3.2	3.2	3.1	3.0	2.8
Gross fixed capital formation	3.4	2.4	1.9	1.7	1.9	1.8	1.8	1.6	1.6	1.6	1.5
Net lending/borrowing (excl. one-off items)	-11.0	-8.7	-8.0	-6.1	-4.2	-2.4	-1.7	-0.7	-0.1	0.0	0.0
Net lending/borrowing	-32.4	-12.6	-8.0	-5.7	-4.1	-2.3	-1.7	-0.7	-0.1	0.0	0.0
Primary balance (excl. one-off items)	-8.0	-5.2	-3.9	-1.7	-0.2	1.0	1.5	2.4	3.0	2.9	2.8
Net financial worth, transactions	-32.4	-12.6	-8.0	-5.7	-4.1	-2.3	-1.7	-0.7	-0.1	0.0	0.0
Net acquisition of financial assets	-4.9	1.8	6.0	0.0	0.0	0.4	-0.2	0.0	0.0	0.0	0.0
Net incurrence of liabilities	27.5	14.5	14.0	5.7	4.1	2.7	1.6	0.7	0.1	0.0	0.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance 7/	-8.8	-6.4	-4.8	-3.8	-2.6	-1.5	-1.2	-0.5	0.0	0.0	0.0
Structural primary balance 7/	-6.0	-3.1	-0.9	0.4	1.3	1.9	2.1	2.7	3.1	3.0	2.8
General government gross debt	87.4	111.2	121.7	123.2	109.7	104.7	100.5	97.8	94.1	91.1	88.1
General government net debt	67.1	78.9	87.7	92.1	89.9	85.9	82.7	80.7	77.7	75.2	72.8
Output gap (percent of potential GDP)	-4.4	-3.6	-5.4	-4.6	-2.2	-1.3	-0.8	-0.1	0.0	0.0	0.0
Nominal GDP (in billions of euros)	164.9	171.0	172.8	174.8	185.4	198.8	208.0	216.6	224.7	233.1	242.0

Sources: Department of Finance; and IMF staff estimates.

1/ Projections are consistent with the adjustment path set out in the April 2015 Stability Programme Update, including new fiscal initiatives of €1.2 billion in 2016, split equally between revenue and spending.

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 assume improvements in the structural balance of 0.6 percent of GDP from 2017, with no further improvement once structural balance is reached. The unallocated “fiscal space” reflects room for expenditure increases or revenue cuts relative to staff projections based on the Irish authorities “no policy change” assumption.

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

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

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

	2010	2011	2012	2013	2014 6/
External indicators					
Exports (annual percent change, value in euros)	7.8	5.9	9.2	0.9	12.9
Imports (annual percent change, value in euros)	6.1	2.6	11.1	0.4	13.8
Terms of trade (goods, annual percent change)	-1.5	-2.9	0.4	0.0	-0.3
Current account balance (in percent of GDP)	0.6	0.8	1.6	4.4	6.2
Capital and financial account balance (in percent of GDP)	-4.3	-5.6	0.0	6.5	6.3
Of which:					
Inward portfolio investment	45.9	17.3	40.8	31.2	90.6
Inward foreign direct investment	19.6	9.9	20.4	16.0	3.1
Other investment liabilities	-37.6	-28.5	-58.5	-14.9	39.2
Public debt in foreign currency (in percent of GDP) 1/	0.0	0.0			
Of which:					
External debt to exports ratio (in percent)	0.0	0.0			
External interest payments to exports (in percent)	0.0	0.0			
U.S. dollar per euro (period average)	1.32	1.40	1.29	1.33	1.32
U.K. pound per euro (period average)	0.86	0.87	0.81	0.85	0.80
Financial markets indicators					
General government debt (in percent of GDP)	87.4	111.2	121.7	123.2	109.7
Government bond yield (in percent, 10-year, end-period)	9.2	8.5	4.5	3.5	1.2
Spread of government bond yield with Germany (in percent, enc	6.0	6.5	3.2	1.4	0.6
Real government bond yield (in percent, 10-year, period average	7.6	8.4	4.1	3.3	2.0
Annual change in ISEQ index (in percent, end of period)	5.1	5.2	16.3	30.3	
Personal lending interest rate (in percent)	12.5	12.9	13.27	13.88	13.84
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 pe	-3.4	-2.9	-4.0	-4.9	
Annual deposit growth rates (in percent)					
Personal lending as a share of total Irish resident credit (in perc	35.5	30.0	33.0	34.8	35.4
Of which:					
House mortgage finance	30.7	25.4	28.7	30.5	31.3
Other housing finance	0.4	0.3	0.3	0.4	0.4
Other personal lending	4.8	4.6	4.3	4.3	4.1
Irish resident household mortgage debt annual growth rates (in	-9.0	-19.3	5.6	-1.9	-1.1
Commercial property lending as a percent of total loans (excluding financial intermediation) 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 liabi	25.8	26.3	25.4	25.3	24.5
Contingent and off-balance sheet accounts (in percent of total a	0.0	0.0	0.0	0.0	
Non-performing loans (in percent of total loans) 3/	8.6	9.1	11.3	12.5	
Total provisions for loan losses (in percent of total loans)	4.2	4.8	5.4	5.0	
Regulatory capital to risk-weighted assets of domestic banks (i	10.4	17.7	16.6	15.1	
Bank return on assets (before tax, in percent)	-3.1	-0.8	-0.8	-0.7	
Bank return on equity (before tax, in percent)	-67.6	-16.9	-14.1	-13.0	
Liquid assets of all banks to total assets (liquid asset ratio, in percent)					
Liquid assets of all banks to short-term liabilities (in percent)					
Deposits to M3 ratio 4/	1.5	1.2	1.3	1.3	1.4
Loan-to-deposit ratio vis-à-vis Irish residents 5/	2.1	2.1	1.9	1.6	1.6
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
Share of state-owned banks in total assets (in percent)	8.0	18.0	19.1	17.5	
Share of foreign-owned banks in total assets (in percent)	65.0	61.6	57.6	57.9	

Sources: Bloomberg; Central Bank of Ireland; International Financial Statistics; and IMF staff estimates.
1/ Adjusted growth rate of credit to households and non-financial corporations.
2/ Including securitisations.
3/ Includes lending for construction and real estate activities.
4/ Credit equivalent values.
3/ Owing to differences in classification, international comparisons of nonperforming loans are indicative onl
4/ Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been
5/ Nongovernment credit/nongovernment deposits ratio.
6/ Staff projections for macroeconomic variables and debt Financial sector indicators cover all credit institutions licensed in Ireland except for personal lending rate, which is calculated based on a sample of retail banks, and a mortgage interest rate, which is calculated excluding IFSC.

Table 5. Ireland: Summary of Balance of Payments, 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	7.6	11.5	11.8	12.3	12.3	12.2	12.3	12.5
Balance of goods and services	28.8	34.7	35.4	36.4	39.7	46.8	49.6	52.0	53.5	54.8	56.1
Trade balance	42.9	43.3	42.4	36.2	45.9	49.4	51.9	54.6	57.4	60.2	62.6
Exports of goods	89.7	91.6	97.0	91.8	106.8	112.3	117.3	122.6	128.0	133.5	138.7
Imports of goods	-46.9	-48.3	-54.6	-55.6	-60.9	-62.9	-65.3	-67.9	-70.6	-73.3	-76.2
Services balance	-14.1	-8.6	-7.0	0.2	-6.2	-2.6	-2.3	-2.7	-3.9	-5.4	-6.5
Credit	68.1	75.4	85.5	92.3	101.0	111.5	119.2	126.5	134.0	142.2	151.6
Debit	-82.2	-84.1	-92.5	-92.1	-107.2	-114.1	-121.6	-129.1	-137.8	-147.7	-158.1
Primary income balance	-26.4	-32.1	-30.3	-26.3	-26.0	-32.4	-34.6	-36.8	-38.1	-38.9	-39.7
Credit	56.2	56.6	58.4	56.3	63.4	63.0	65.3	67.2	69.8	73.0	76.5
Debit	-82.7	-88.8	-88.7	-82.5	-89.4	-95.5	-99.9	-104.0	-107.9	-111.9	-116.2
Secondary income balance	-1.4	-1.2	-2.4	-2.5	-2.3	-2.6	-2.7	-2.8	-3.2	-3.5	-3.9
Capital and financial account balance	-7.2	24.7	21.2	22.2	12.4	12.0	12.5	12.6	12.5	12.6	12.9
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	-7.3	24.4	21.1	22.1	12.2	11.9	12.4	12.4	12.3	12.5	12.7
Direct investment	-15.4	-17.8	-23.3	-9.8	18.2	6.8	7.1	7.4	7.6	7.9	8.1
Portfolio investment	-86.0	-26.9	4.1	46.3	4.2	26.2	26.2	26.2	26.2	26.3	26.3
Other investment	94.1	69.4	40.4	-14.4	-10.3	-21.1	-20.8	-21.1	-21.4	-21.7	-21.7
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	-8.3	-11.7	-2.9	3.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	34.5	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	1.6	4.4	6.2	5.9	5.9	5.7	5.4	5.3	5.2
Balance of goods and services	17.5	20.3	20.5	20.8	21.4	23.5	23.9	24.0	23.8	23.5	23.2
Trade balance	26.0	25.3	24.5	20.7	24.8	24.8	25.0	25.2	25.5	25.8	25.9
Services balance	-8.5	-5.0	-4.0	0.1	-3.3	-1.3	-1.1	-1.2	-1.7	-2.3	-2.7
Income balance	-16.0	-18.8	-17.5	-15.0	-14.0	-16.3	-16.6	-17.0	-17.0	-16.7	-16.4
Current transfers (net)	-0.9	-0.7	-1.4	-1.4	-1.2	-1.3	-1.3	-1.3	-1.4	-1.5	-1.6
Capital and financial account balance	-4.4	14.4	12.3	12.7	6.7	6.0	6.0	5.8	5.6	5.4	5.4
Of which:											
Direct investment	-9.4	-10.4	-13.5	-5.6	9.8	3.4	3.4	3.4	3.4	3.4	3.4
Portfolio investment	-52.1	-15.7	2.4	26.5	2.3	13.2	12.6	12.1	11.6	11.3	10.9
Other investment	57.1	40.6	23.4	-8.2	-5.6	-10.6	-10.0	-9.8	-9.5	-9.3	-9.0
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	-5.0	-6.8	-1.7	1.9	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	20.2	12.3	6.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	20.2	12.3	6.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	7.4	3.7	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	12.8	8.6	4.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Current account balance excluding undistributed profits 2/	-2.6	-2.5	-2.7	0.1	2.2	2.2	2.3	2.3	2.1	2.1	2.1

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

(Billions of euros, unless otherwise indicated; end of period)

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Mar-15	Apr-15
Aggregate balance sheet of domestic market credit institutions							
Assets	747	639	550	474	420	414	411
Claims on Central Bank of Ireland	8	4	2	2	3	4	4
Claims on Irish resident Other MFIs	123	92	53	49	47	46	46
Claims on Irish resident non MFIs	359	340	326	281	237	226	225
General government	43	42	47	21	20	19	19
Private sector	316	298	279	260	217	207	206
Households	130	110	111	108	97	94	94
Non-Financial Corporations	91	86	83	78	58	53	52
Non-Bank Financial Intermediaries	95	101	85	74	62	60	60
Claims on non-residents	209	150	122	103	91	96	96
Other assets	48	52	47	40	42	42	40
Liabilities	747	639	550	474	420	414	411
Liabilities to Eurosystem 1/	95	72	59	31	14	14	11
Liabilities to Irish resident Other MFIs	132	99	59	52	50	48	48
Deposits of Irish resident non MFIs	162	146	153	174	161	165	165
General government	3	2	6	14	9	8	7
Private sector	159	143	147	161	153	157	158
Households	94	91	92	90	91	91	92
Non-Financial Corporations	32	29	29	32	37	38	39
Non-Bank Financial Intermediaries	33	24	26	38	26	28	27
Deposits of non-residents	140	100	76	71	63	61	63
Debt securities	64	52	38	27	27	25	25
Capital and reserves	72	91	98	96	80	74	74
Other liabilities (incl. Central Bank of Ireland)	83	79	66	23	26	27	24
Money and credit 2/							
Net foreign assets	-480	-340	-14	2	18	…	…
Central Bank of Ireland 3/	-128	-101	-62	-37	-20	…	…
Commercial banks	-352	-239	48	39	38	44	41
Net domestic assets	662	522	194	199	156	…	…
Public sector credit	43	43	48	21	21	20	20
Private sector credit	335	324	302	278	227	218	216
Other	284	156	-156	-100	-92	…	…
Irish Resident Broad money (M3) 4/	182	182	180	201	174	177	181
Irish Resident Intermediate money (M2) 4/	173	167	168	183	172	176	178
Irish Resident Narrow money (M1)	97	90	92	113	116	119	121
				(Percent of GDP)			
Public sector credit 5/	27.6	27.0	29.4	12.8	12.5	12.0	11.9
Private sector credit 5/	202.4	190.1	173.5	161.9	134.9	128.9	128.3
				(Percentage change y/y)			
Broad money - Irish contribution to euro area M3 6/	-19.6	1.3	-7.3	11.5	-0.1	-1.1	1.1
Irish Public sector credit 6/ 7/	369.4	1.5	8.5	-57.8	-3.0	-1.5	-2.3
Irish Household and non-financial corporations credit 6/ /7	-3.4	-2.9	-4.0	-4.9	-4.9	-5.5	-5.3
Memorandum items: 8/							
Credit to deposits (in percent) 9/	199.2	207.6	189.9	162.0	141.7	131.9	130.3
Deposits from Irish Private Sector (y-o-y percent change)	-9.4	-8.9	2.4	8.9	-3.3	0.5	0.9
Wholesale funding (billions of euros)	317	235	159	135	126	121	122
Deposits from MFIs	253	183	120	108	99	96	98
Debt securities	64	52	38	27	27	25	25
Wholesale funding (y-o-y percent change) 10/	-21.7	-26.9	-33.0	-11.6	-6.6	-8.3	-7.3
Wholesale funding (percent of assets) 10/	44.8	36.8	28.8	28.5	30.0	29.3	29.8

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

Table 7. Ireland. Indicators of Fund Credit, 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	7.3	11.4	12.7	7.3	2.4	2.3	2.2	2.1	2.0	1.9	0.7	0.2	-
In percent of exports of goods and services	7.5	10.8	12.1	6.5	2.1	2.0	1.9	1.8	1.7	1.6	0.6	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	5.1	5.2	0.0	0.0	0.0	0.0	0.0	1.2	0.5	0.2
In percent of exports of goods and services	0.1	0.2	0.3	4.6	4.6	0.0	0.0	0.0	0.0	0.0	1.0	0.4	0.1

Source: IMF staff estimates.

1/ End of period.

2/ Reflects early repurchases to date.

Table 8. Ireland: PCAR Banks' Aggregated Summary Financial Statements, 2013–14 1/

(In billions of euro unless otherwise indicated)

Balance Sheet	2013	2014	Y/Y change		Profit and Loss Account	2013		2014	
	€ bn.	€ bn.	€ bn.	%		€ bn.	% of TAA	€ bn.	% of TAA
Cash & due from Eurosystem	10.6	12.7	2.1	19.5	Interest income	7.9	2.7	7.9	2.9
Net loans	179.4	172.9	-6.5	-3.6	Interest expense	-4.3	-1.5	-3.7	-1.4
Due from banks	8.0	6.4	-1.6	-20.1	Net interest margin	3.5	1.2	4.2	1.6
Securities & derivatives	64.0	57.6	-6.4	-10.0	Net fee income	0.8	0.3	1.1	0.4
Other assets	13.5	10.4	-3.1	-22.7	Net trading gains	0.0	0.0	-0.3	-0.1
Total assets	275.6	260.0	-15.5	-5.6	Other nonrecurrent items	-0.1	0.0	0.7	0.2
Total average assets (TAA)	286.1	266.9	-19.2	-6.7	Gross operating income	4.3	1.5	5.6	2.1
					Operating expenses	-3.1	-1.1	-3.6	-1.3
Due to Eurosystem	26.1	10.2	-15.9	-61.0	o/w: administration & other	-1.7	-0.6	-1.9	-0.7
Due to banks	20.1	21.6	1.5	7.4	o/w: staff	-1.4	-0.5	-1.7	-0.6
Deposits	161.9	160.2	-1.7	-1.0	Preprovision profits (PPP)	1.2	0.4	2.0	0.8
Debt & derivatives	37.3	39.0	1.7	4.5	Loan loss & NAMA provisions	-4.5	-1.6	-0.3	-0.1
Other liabilities	9.4	6.5	-2.9	-30.7	Loss on derecognized assets	0.4	0.2	0.2	0.1
Total liabilities	254.8	237.4	-17.4	-6.8	Net income before tax	-2.9	-1.0	1.9	0.7
Net equity	20.8	22.6	1.8	8.9	Tax effects & other 3/	0.6	0.2	-0.4	-0.1
Total liabilities & equity	275.6	260.0	-15.5	-5.6	Net income	-2.3	-0.8	1.6	0.6
Memorandum items:									
Gross loans 2/	208.2	196.9	-11.3	-5.4	PPP net of other nonrecurrent items	1.3	0.4	1.3	0.5
Loan loss provisions	29.0	23.6	-5.4	-18.6	Return on equity		-11.3		7.0
Gross NPLs	56.4	45.7	-10.7	-19.0	Provisions to gross loans		-2.2		-0.1
Gross NPLs to gross loans (%)	27.1	23.2		-14.4	Risk weighted assets (RWA)	135.8	47.4	129.0	48.3
Provisions to gross NPLs (%)	51.4	51.7		0.6	Core tier 1 capital (CT1) and CT1 to RWA (%)	18.0	13.3	18.7	14.5
Net NPLs to net equity (%)	132.0	97.6		-26.1	CT1 to total assets = leverage ratio (%)		6.5		7.2

Sources: CBI; and IMF staff estimates.

1/ PCAR banks are 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.

Annex I. Mortgage Resolution Progress and the Challenge Remaining

In recent years the Central Bank of Ireland (CBI) has undertaken a range of supervisory actions to address the mounting problem of distressed mortgages. In late 2011, the CBI required banks to develop mortgage arrears resolution strategies focused on loan modification. It then conducted a review of banks' operational capacity for managing distresed credit. During 2012, the CBI pressed banks to strenghten their strategies and their operational capacity, but the overall workout implementation remained slow.

Mortgage Arrears Resolution Targets (MART) were introduced in March 2013 as part of this supervisory effort. By end 2012, just over 120 thousand residential mortgages were in arrears for over 90 days, or 13 percent of total mortgages. The MART framework, which was active until the end of 2014, was a supervisory policy applied by the CBI to the six main mortgages lenders[1] to generate a shift from forbearance and temporary restructures to durable solutions. In particular, it set quarterly performance targets for lenders to propose sustainable solutions to borrowers, and to then to work with borrowers to conclude these solutions. The quarterly targets were defined in terms of the share of arrears cases of 90 days and above and were the same for all lenders. Sustainable solutions, as defined more fully in CBI guidelines, can be one of the following: (i) a restructuring that enables the borrower to meet the terms of the new arrangement over the full remaining life of the mortgage; (ii) a personal insolvency arrangement (PIA) under the new Personal Insolvency Act; or (iii) loss of ownership through a voluntary surrender or an initiation of repossession proceedings. To help ensure that loan restructures are durable, a minimum share for restructures where subsequent debt service payments meet the new terms was set at 75 percent.

The CBI's supervisory efforts, including the MART, were implemented at a time of broader reforms to facilitate the resolution of impaired household debt. The existing personal bankruptcy regime was unduly punitive and hardly used in practice, so the Personal Insolvency Act was enacted at end 2012. Implementation of the new regime proceeded with the establishment of the Insolvency Service of Ireland (ISI) in early 2013 and the shortening of the bankruptcy discharge period from twelve to three years at end 2013. In addition to managing bankruptcy, the ISI administers three court-supervised insolvency arrangements, including the PIA which includes the possibility to address personal insolvency through a restructuring of mortgage debt rather than via disposal of the property. It was also important that in mid-2013 that an unintended impediment to repossession was removed, by amending the relevant legislation to clarify that summary proceedings could be used for mortgages originated before December 2009.

[1] The six main mortgage lenders are: ACC Bank plc, Allied Irish Bank plc, Bank of Ireland, KBC Bank, Permanent TSB, and Ulster Bank Ireland.

These reforms and supervisory interventions, including the MART, prompted banks to step up their resolution efforts, with aggregate progress ahead of the CBI's targets. During 2013, the lenders proposed solutions to well over the 50 percent of arrears cases targeted, but conclusions came with a significant lag, with just under one-quarter achieved by year end. The following year saw the process of making proposals virtually completed, while conclusions reached 62 percent of arrears cases by end-2014.

Performance against the MART (share of arrears cases)[1]

	2013Q4	2014Q4
Proposed solutions (percent)	59 (50)	97 (85)
Concluded solutions (percent)	23 (15)	62 (45)
Terms being met (percent)	N/A	91 (75)

Source: Central Bank of Ireland.
[1] Figures in parentheses are the quarterly targets.

These resolution efforts contributed to a decline in arrears in the primary dwelling house (PDH) segment, but less progress was evident in the buy-to-let (BTL) sector. Most mortgages in Ireland are PDH, but about one-sixth are BTL. In the PDH segment, the conclusion of solutions (51,211 cases) contributed to a moderation in the share (by value) of mortgages in arrears over 90 days to 14.8 percent by end-2014, from a peak of 17.3 percent in 2013Q3. In the BTL segment, the number of concluded solutions stood at 16,406 cases but the share of mortgages in arrears over 90 days remained elevated at 29.4 percent. In part, the high share of BTL arrears reflects the creditors' strong contractual provisions to receive rental payments, which often provide a continued cash flow even while mortgages remain in arrears.

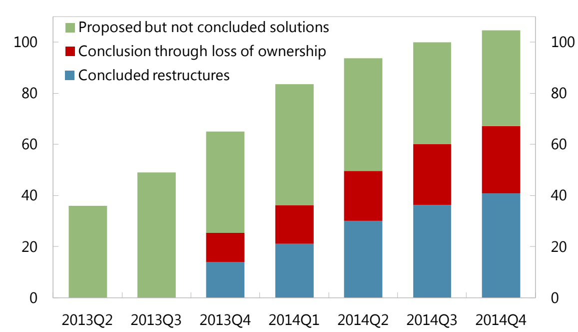
Mortgages in Arrears over 90 days

	2012Q4	2013Q4	2014Q4
Primary Dwellings			
Number	92,349	96,467	78,699
Share by number (percent)	11.9	12.6	10.4
Share by value (percent)	15.8	16.9	14.8
Buy to Let			
Number	28,366	30,706	29,224
Share by number (percent)	18.9	21.1	20.7
Share by value (percent)	26.9	29.2	29.4

Source: Central Bank of Ireland.

MART targets were met primarily through a combination of restructures and repossession proceedings. Of the concluded solutions, restructured payment arrangements accounted for just above 60 percent, while repossession proceedings accounted for most of the remainder. At less than one percent of the concluded solutions, the utilization of personal insolvency arrangements remained limited. The take up of these arrangements has disappointed expectations, but is not out of line with initial experience with the UK's Individual Voluntary Arrangements, and the ISI continues to work to enhance take up through information [campaigns], the elimination of [fees], and the adoption of [protocols] to streamline the process.

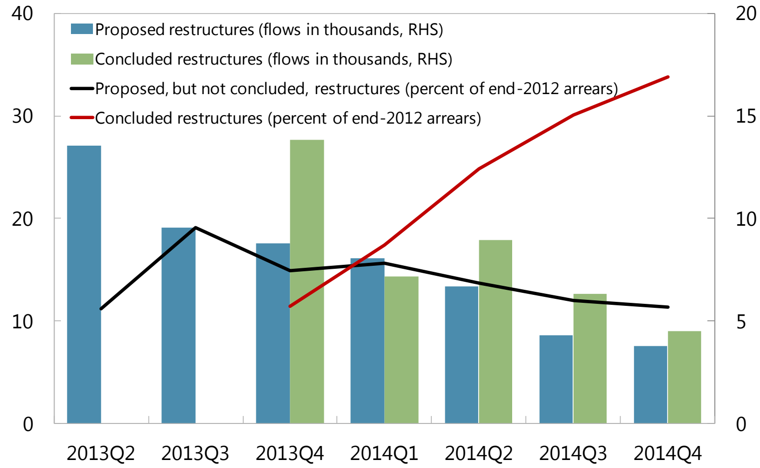
Proposed and Concluded Solutions under MART
(Number of mortgages in arrears over 90 days, in thousands)



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

Mortgage restructures under the MART came to just over one-third of initial arrears cases by end 2014. The number of concluded restructures registered a three-fold increase in 2014 and, by end-year, it reached about 41,000 cases—equivalent to 34 percent of the end-2012 total of arrears cases over 90 days. A further rise in the concluded restructures is expected in 2015 given the pipeline of proposed, but not concluded restructures (13,750 cases). However, the continued moderation in the flow of concluded restructures during the last three quarters of 2014 may suggest that the number of arrears cases that can be resolved by mortgage restructuring is gradually diminishing. Based on the information available to date, the overall quality of restructures appears adequate, with 91-percent meeting the new payment terms, but this will need to be monitored closely over a longer period.

Mortgage Restructures under MART



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

Loss of ownership accounts for most of the remaining arrears cases with concluded solutions. About 26,300 cases—equivalent to 28 percent of end-2012 total arrears cases over 90 days—were concluded through initiation of legal proceedings, repossessions, arrangements for voluntary sale/surrender of the property, or the appointment of receivers for BTL cases. The number of legal proceedings issued in 2014 registered a three-fold increase from 2013. However, the number of legal proceedings that were concluded was only a fraction of the number of cases issued. In large number of cases, the process was adjourned by the courts due to a variety of reasons, including to allow further negotiations to take place between banks and borrowers and owing to insufficient provision of documentation or supportive evidence by banks. Hence, despite the issuance of a legal repossession proceeding being treated as a conclusion under the MART, there is a strong risk that the majority of these cases remain in arrears for a prolonged period. The number of repossession orders granted by courts has remained limited, and loss of ownership was primarily driven by voluntary surrenders.[2]

Repossessions and Voluntary Surrenders of Primary Dwellings[1]

	2012	2013	2014
Legal proceedings issued	1,327	3,846	11,424
Legal proceedings concluded	702	1,478	2,195
Loss of ownership	604	766	1311
of which			
Repossessions	194	251	313
Voluntary surrenders	410	515	998

Source: Central Bank of Ireland.

[1] These statistics relate to activities by banks and non-banks.

[2] Repossession does not automatically clear arrears as mortgages are typically full recourse and there is often a deficiency between the property value and the mortgage outstanding. Banks indicate that they take a case by case approach to the deficiency, depending on the resources of the borrower.

Together the authorities' reforms and supervisory efforts, including the MART, facilitated welcome progress in addressing mortgage distress, but the completion of resolution will probably take many years in a large portion of arrears cases. It is welcome that about 41,000 repayment and restructure arrangements were concluded by end-2014 as part of the MART and that a high share of these restructures are performing. Yet over 100,000 mortgages are still in arrears for over 90 days, valued at nearly 13 percent of GDP, and more than half of arrears in both the PDH and BTL cohorts are prolonged (720 days and above).[3] Some further mortgage restructures are expected to be concluded in 2015, but repossession proceedings will likely be issued a significant portion of the cases where there is a lack of engagement between borrowers and lenders. The number of PDH repossessions in 2013-14 accounts for less than four percent of the legal proceedings that were issued in this period. Hence there is risk that about half of arrears cases enter into extended legal proceedings, leaving the debt overhanging households and impairing bank balance sheets for years to come.

[3] These statistics somewhat overstate the challenge to the extent that some restructured loans may continue to carry past arrears even as the new terms are being met.