CREDIT OPINION
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Update

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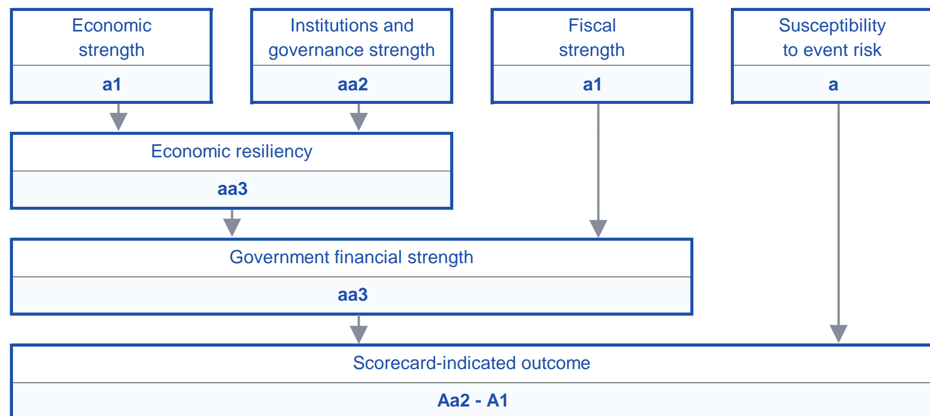
Government of Ireland – Aa3 positive

Update following change in outlook to positive from stable

Summary

Our credit view of Ireland reflects its strong growth potential, robust institutional framework, and the economy's proven resilience to external shocks, including Brexit, the pandemic and the spillovers from Russia's invasion of Ukraine (Ca stable). Ireland's main credit weakness is its elevated but declining debt burden while concentration risks in the corporate sector are also a potential vulnerability of the economy and public finances.

Exhibit 1
Ireland's credit profile is determined by four factors



Source: Moody's Ratings

Credit strengths

» An open, competitive economy with robust growth potential

» Robust institutions and a strong track record of reform and fiscal consolidation

Credit challenges

» An elevated, but declining debt burden relative to the size of the domestic economy

» A high dependence on a small number of multinational firms to drive economic growth and generate corporate tax receipts

This publication provides an update on the sovereign credit profile and may also discuss the likely credit implications of a new development or trend for the sovereign. It does not announce a credit rating action.

Rating outlook

The positive outlook reflects the prospect of a sustained improvement of Ireland's fiscal strength. Based on current policies and our economic growth expectations, we forecast a decline of the gross debt burden and a moderate improvement of debt affordability. We also take into account the fact that Ireland is starting a gradual build-up of a fiscal buffer with the government's new long-term savings funds. While these improvements are largely driven by potentially volatile corporate tax receipts, the prospect of a further but still uncertain boost to revenues following the recent increase in Ireland's corporate tax rate points to the possibility of the reduction of the gross debt burden or build-up of the fiscal buffers being greater than we currently expect. The-build up of fiscal buffers would also reduce fiscal risks as the potentially volatile corporate tax receipts that will be transferred to the savings funds can no longer be used to fund current and permanent expenditure.

Factors that could lead to an upgrade

Ireland's Aa3 ratings would likely be upgraded if Ireland's gross and net debt metrics improved more markedly than we currently expect. This would likely reflect the conduct of government fiscal policy that continues to prudently manage the risks to the public finances stemming from the reliance on potentially volatile corporate tax receipts to generate current fiscal surpluses including through effective management and use the two long-term savings funds.

Factors that could lead to a downgrade

The positive outlook signals that the rating is unlikely to be downgraded in the near term. However, the outlook would likely be returned to stable if improvements to Ireland's fiscal and debt metrics were more muted, leaving Ireland exposed to severe (even if low-probability) credit shocks due to a still high debt burden. Over the medium term, a weakening of the economy's growth potential, for instance reflecting reduced investment and employment of multinationals in key sectors such as pharmaceuticals, ICT services and manufacturing, could also lead the outlook to be returned to stable.

Key indicators

Exhibit 2

Ireland	2018	2019	2020	2021	2022	2023	2024F	2025F
Real GDP (% change)	7.5	5.0	7.2	16.3	8.6	-5.5	1.8	4.0
Inflation rate (% change average)[1]	0.7	0.9	-0.5	2.4	8.1	5.2	1.7	2.0
Gen. gov. financial balance/GDP (%)	0.1	0.5	-4.9	-1.5	1.7	1.6	1.5	1.4
Gen. gov. primary balance/GDP (%)	1.7	1.7	-3.9	-0.7	2.3	2.3	2.1	2.1
Gen. gov. debt/GDP (%)	61.5	55.9	57.0	52.6	43.1	43.3	41.5	39.6
Gen. gov. debt/revenues (%)	247.2	230.4	261.6	237.6	193.8	178.4	168.0	161.7
Gen. gov. interest payment/revenues (%)	6.4	5.2	4.6	3.3	2.9	2.8	2.6	2.6
Current Account Balance/GDP (%)	4.3	-20.7	-7.1	12.2	8.8	8.1	9.8	9.9

[1] Harmonized Index of Consumer Prices (HICP)

Source: Moody's Ratings

Detailed credit considerations

On 16 August, we changed the outlook on Ireland to positive from stable, while also affirming the Aa3 ratings. The decision to change the outlook to positive reflects the prospect of a sustained improvement of Ireland's fiscal strength. Based on current policies and our economic growth expectations, we forecast a decline of the gross debt burden and a moderate improvement of debt affordability. We also take into account the fact that Ireland is starting a gradual build-up of a fiscal buffer with the government's new long-term savings funds. While these improvements are largely driven by potentially volatile corporate tax receipts, the prospect of a further but still uncertain boost to revenues following the recent increase in Ireland's corporate tax rate points to the possibility of the reduction of the gross debt burden or build-up of the fiscal buffers being greater than we currently expect. The build-up of fiscal buffers would also reduce fiscal risks as the potentially volatile corporate tax receipts that will be transferred to the savings funds can no longer be used to fund current and permanent expenditure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

We score Ireland's **economic strength** at “a1”, which balances the moderate size of the Irish economy against high levels of wealth and competitiveness. Ireland is a favoured destination for multinational companies, its attractiveness stemming from a competitive tax structure, a highly skilled and flexible labour force and access to the European Union (EU, Aaa stable) single market. The Irish economy has also repeatedly shown its resilience to external shocks in recent years such as Brexit, the coronavirus pandemic and the Russian invasion of Ukraine. Our final score of “a1” is one notch below the initial score of “aa3”. The negative adjustment accounts for the particularly large distortions in real and nominal GDP numbers brought about by a limited number of transactions by multinational corporations based in Ireland.

We assess Ireland's **institutions and governance strength** as “aa2”. This reflects the country's robust institutions and transparent policy framework which have allowed policymakers to effectively address the country's economic and banking sector crisis through successive administrations, and to prepare effectively for Brexit. Improvements in banking supervision and regulation since the country's financial crisis, both by the Irish regulatory authorities and through the implementation of the Single Supervisory Mechanism (SSM) at the ECB also support institutions and governance strength.

We score **fiscal strength** at “a1”, one notch below the initial score of “aa3” because the distortions in Ireland's GDP and GNP figures mean that the government debt-to-GDP and interest payments to GDP ratios do not give a reliable indication of the state's true repayment capacity. The downward adjustment also reflects elevated revenue concentration from dependence on a small number of corporates for the majority of corporate tax receipts. The public debt ratio stood at just over 100% of GNI* at the end of 2021, but fell to 76% by the end of 2023 due to a combination of very rapid real and nominal growth as well as headline and primary surpluses. Despite this rapid decline, the debt-to-GNI* ratio is far above the median debt-to-GDP ratio of 29.6% of Ireland's Aa3-rated peers.

We assess **susceptibility to event risk** at “a”, driven by banking sector, political and external vulnerability risk.

The risks related to the banking sector have receded, as the domestic banks have strengthened their capitalization levels, started to reduce their elevated levels of impaired assets and improved their profitability metrics since 2014. Our assessment of the risk of a banking sector credit event (BSCE) at “baa3” is lower than the baseline credit assessment of “baa1” for rated banks to reflect concentration risks in the sector.

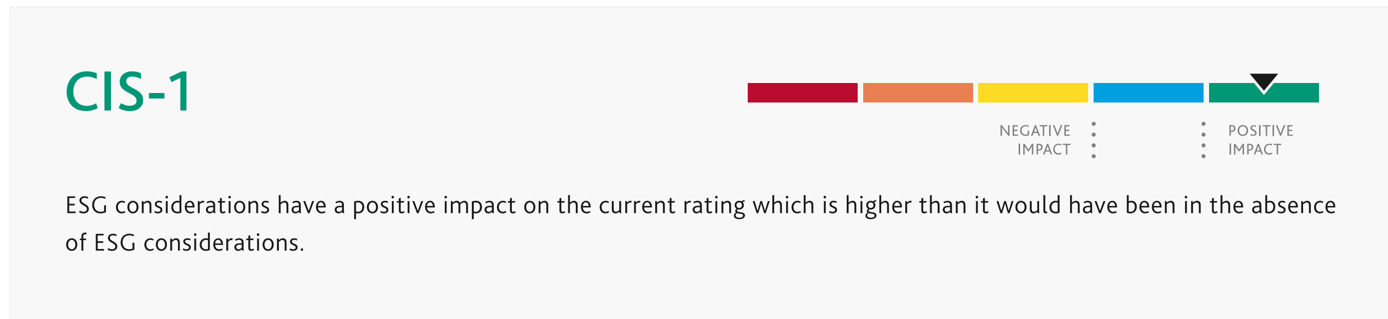
We assess political risk at “a”. Ireland's political risk score remains unchanged following Russia’s invasion of Ukraine. Ireland's neutrality policy as well as its geographic position and limited economic and energy ties to Russia leave the country comparatively insulated from any geopolitical risks. Domestic political risks are limited.

We also score external vulnerability risk at “a”, driven by Ireland's exposure to shifts in the external environment, and to a large, negative net international investment position amid large portfolio and direct investment inflows. We assess government liquidity risk at “aaa”, reflecting low borrowing requirements on the back of improving public finances, a favourable maturity profile and low funding costs.

ESG considerations

Ireland's ESG credit impact score is CIS-1

Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Ireland's **CIS-1** score indicates that ESG considerations have a positive impact on the rating. This reflects Ireland's very strong governance profile and a strong capacity to respond to shocks.

Exhibit 4
ESG issuer profile scores

Source: Moody's Ratings

Environmental

Ireland's **E-2** score reflects its low exposure to physical climate risks, natural capital and other factors. While Ireland has domestic production of natural gas and its energy supply remains dominated by hydrocarbons, overall carbon transition risks are limited for Ireland's mainly services-based economy.

Social

Ireland's **S-2** issuer profile score reflects its favourable demographic profile compared to many other EU countries, although this is partly offset by the rising ageing-related fiscal costs in the coming decades. The score also reflects high-quality education, and good quality health care and basic services, although housing shortages remain a constraint on the economy's growth potential.

Governance

Ireland's **G-1** score reflects its very strong institutions and governance profile support which support its rating. Ireland scores very highly on institutional factors, as captured in the Worldwide Governance Indicators, reflecting strong policy effectiveness and rule of law. Policymakers' effectiveness in addressing the country's financial crisis through successive administrations, and in preparing for Brexit despite high uncertainty, further underpins our assessment.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the “Detailed credit considerations” section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Recent developments

Growth will remain solid on the back of strong consumption growth and increasing domestic investment

We expect the Irish economy to grow at a trend real rate of 2 to 2.5% of Modified Gross National Income (GNI*) in 2024 and coming years. While this is a slowdown from very rapid rates of growth in the wake of coronavirus pandemic, it nevertheless places Ireland among the fastest growing advanced economies in Europe as well as among Aa- and Aaa-rated sovereigns overall.

Growth of the Irish economy in coming years will be predominantly driven by domestic consumption, spurred by strong wage growth in a tight labour market. The significant slowdown of the rate of inflation to 1.5% in July 2024 (year-on-year, as measured by the Harmonised Index of Consumer Prices, HICP) will also support the growth of real incomes and consumption in 2024 and beyond.

Much of the strength of Ireland's labour market is driven by multinational companies in sectors such as pharmaceuticals and medical equipment as well as Information and Communication Technology. However, we expect the growth of investment by such companies to be more muted in coming years, not least as significant one-off investments in the wake of the pandemic established a very high base level for investment.

That said, we expect to see growth of domestically driven investment to pick up some of the slack from the multinational companies. In particular, investment in residential housing is set to pick up in coming years as both the government and the private sector seeks to tackle Ireland's significant housing shortages. The completion of new housing units stood at close to 33,000 in 2023 and looks likely to increase further to around 35,000 in 2024. However, this remains far below estimates of the around 50,000 new units per year needed to make up for current shortages and the expected needs of a growing population. By restricting the domestic mobility of labour as well as labour immigration, Ireland's housing shortages increasingly risk becoming a constraint on the economy's growth potential.

Debt burden continues to decline - even as bulk of fiscal surpluses will be transferred to new savings funds

Ireland's high debt burden relative to the size of the domestic economy has long been one of the main weaknesses of the credit profile. Debt-to-GNI* stood at over 100% as recently as 2021, but declined sharply to 76% of GNI* at the end of 2023 on the back of very strong real and nominal growth as well as large fiscal surpluses in the wake of the pandemic. Large primary surpluses and a robust growth outlook lead us to project gross government debt to fall to around 70% of GNI* at the end of 2025. Despite the significant decline in the debt burden, Ireland's debt-to-GNI* ratio remains far above the median debt-to-GDP ratio of 29.6% of Ireland's Aa3-rated peers.

The pace of gross debt reduction would have been even faster had it not been for the fact that Ireland this year will start transferring a significant share of its so-called “windfall” or “excess” corporate tax receipts to two new long-term savings funds – the Future Ireland Fund (FIF) and the Infrastructure Climate and Nature Fund (ICNF). Taken together, we project the two funds to stand at around 5% of GNI* at the end of 2025.

The “excess” corporate tax receipts are currently estimated to stand at just over 4% of GNI*. Starting in 2024, 0.8% of GDP per year (around 1.5% of GNI*, 35% of estimated excess receipts) will be transferred to the FIF and an additional €2 billion per year (around 0.7% of GNI* 16% of estimated windfalls) to the ICNF starting in 2025. In addition, the €6 billion (2.1% of GNI*) available in the National Reserve Fund set up in 2019 will also be transferred to the two new funds in 2024.

We expect the government to continue running headline fiscal surpluses of around 2.5% of GNI* in coming years. However, without the “excess” corporate tax receipts, the headline fiscal position would remain in deficit of 1-1.5% of GNI* (Exhibit 5). Ireland's corporate tax receipts are highly concentrated among a small group of multinationals, with ten firms accounting for more than half of all corporate tax revenues. As such, they are potentially highly volatile and transitory.

While there are clear downside risks to corporate tax revenues, there are also potential upside risks following the increase of Ireland's corporate tax rate for large companies from 12.5% to 15% which took effect in 2024. The impact of the increase in the corporate tax rate on government revenues is expected to principally occur starting in 2026. However, the magnitude and durability of such

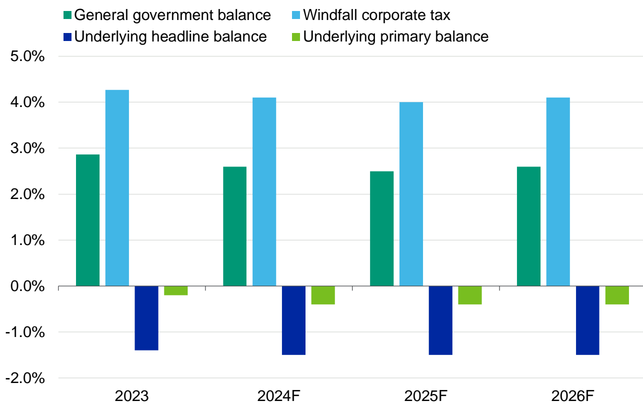
improvements is currently highly uncertain, as this will depend both on how large multinationals respond to the increase in the corporate tax rate and to possible changes in the international tax environment.

The increase in the Irish tax rate stems from Pillar 2 of the OECD agreement on Base erosion and profit shifting (BEPS). Pillar 1 of BEPS would likely redistribute some of Ireland's corporate tax revenues to other jurisdictions, on balance making the two pillars net negative for Irish tax revenues. However, Pillar 1 is yet to be ratified and continues to face opposition not least in the United States (Aaa negative) Congress. Even if Pillar 1 is never ratified, other unilateral initiatives by the US or the European Union on corporation tax could negatively impact Irish tax revenues and potentially also its attractiveness as a favoured base of multinational companies.

Exhibit 5

Large fiscal surpluses remain driven by windfall corporate tax receipts

% GNI*

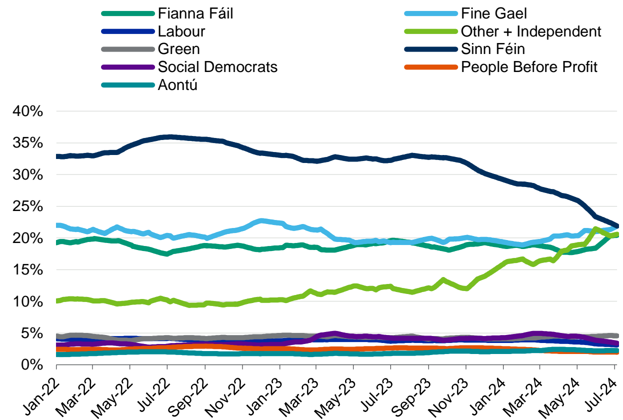


Source: Department of Finance, Moody's Ratings

Exhibit 6

Support for Sinn Féin has dropped sharply ahead of upcoming elections

Estimate of public support for parties to Dáil Éireann, %



Source: Irish Polling Indicator, Moody's Ratings

Renewed mandate for current centre-right coalition increasingly likely as support for Sinn Féin drops ahead of elections

Elections to Dáil Éireann (the lower house of parliament) have to be held by March 2025 at the latest, but we expect they will most likely be held in the late autumn of 2024. Polling indicates that the most likely outcome of the elections is a continuation of the current coalition of the centre-right Fianna Fáil and Fine Gael parties together either with the Green Party (as in the current coalition) or a number of the many independent members of parliament. As such, we expect there to be broad policy continuity under the next government.

Support for the left-wing nationalist Sinn Féin, which polled at close to 35% until the end of 2023 (Exhibit 6), has continued to drop as the party has struggled to adapt to a shift in the political debate away from the party's core issues of housing and social policy to topics such as immigration. The party has also lost the backing of some of its newer supporters as it has sought to moderate economic policy positions ahead of a possible entry into government.

Moody's rating methodology and scorecard factors: Ireland - Aa3 positive

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength				**aa3**	**a1**	**50%**
Growth dynamics	Average real GDP growth (%)	2019-2028F	4.9	aa3		25%
	MAD Volatility in Real GDP Growth (%)	2014-2023	2.5	b2		10%
Scale of the economy	Nominal GDP ($ billion)	2023	551.5	aa3		30%
National income	GDP per capita (PPP, Intl$)	2023	130,915.2	aaa		35%
Adjustment to factor 1	*# notches*				-1	max ±9
Factor 2: Institutions and governance strength				**aa2**	**aa2**	**50%**
Quality of institutions	Quality of legislative and executive institutions			aa		20%
	Strength of civil society and the judiciary			aaa		20%
Policy effectiveness	Fiscal policy effectiveness			aa		30%
	Monetary and macroeconomic policy effectiveness			aa		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	*# notches*				0	max ±3
F1 x F2: Economic resiliency				**aa2**	**aa3**	
Factor 3: Fiscal strength				**aa3**	**a1**	
Debt burden	General government debt/GDP (%)	2023	43.3	a2		25%
	General government debt/revenue (%)	2023	178.9	a2		25%
Debt affordability	General government interest payments/revenue (%)	2023	2.8	aa1		25%
	General government interest payments/GDP (%)	2023	0.7	aa1		25%
Specified adjustments	*Total of specified adjustment (# notches)*			0	1	max ±6
	Debt Trend - Historical Change in Debt Burden	2015-2023	-30.7	0	0	
	Debt Trend - Expected Change in Debt Burden	2023-2025F	-3.7	0	1	
	General Government Foreign Currency Debt/ GDP	2023	0.0	0	0	
	Other non-financial public sector debt/GDP	2023	0.0	0	0	
	Government Financial Assets including Sovereign Wealth Funds / GDP	2023	0.0	0	0	
Other adjustment to factor 3	*# notches*				-2	max ±3
F1 x F2 x F3: Government financial strength				**aa2**	**aa3**	
Factor 4: Susceptibility to event risk				**a**	**a**	Min
Political risk				a		
	Domestic political risk and geopolitical risk			a		
Government liquidity risk				aaa	aaa	
	Ease of access to funding			aaa		
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk				a	a	
	Risk of banking sector credit event (BSCE)	Latest available	baa1	baa3		
	Total domestic bank assets/GDP	2023	--	80-180		
Adjustment to F4 BSR	*# notches*				0	max ±2
External vulnerability risk				a	a	
	External vulnerability risk			a		
Adjustment to F4 EVR	*# notches*				0	max ±2
Overall adjustment to F4	*# notches*				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome				**Aa1 - Aa3**	**Aa2 - A1**	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) Initial factor score: scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. **(2) Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. **(3) Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. **(4) There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

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