March 30, 2020
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/50-1

10:00 a.m., June 14, 2019

1. Ireland—2019 Article IV Consultation

Documents: SM/19/125 and Correction 1; and Correction 2; and Supplement 1; SM/19/127

Staff: De Vrijer, EUR; Porter, SPR

Length: 51 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	I. Mannathoko (AE)
	S. Bah (AF), Temporary
G. Lopetegui (AG)	
	N. Heo (AP)
	P. Fachada (BR)
	Y.Liu (CC), Temporary
	M. Mulas (CE), Temporary
	A. McKiernan (CO)
	C. Just (EC)
H. de Villeroché (FF)	
S. Meyer (GR)	
S. Gokarn (IN)	
	M. Psalidopoulos (IT)
	Y. Saito (JA)
	C. Sassanpour (MD), Temporary
	W. Abdelati (MI), Temporary
A. De Lannoy (NE)	
	J. Sigurgeirsson (NO)
	L. Palei (RU)
M. Mouminah (SA)	
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
S. Riach (UK)	
	P. Pollard (US), Temporary

C. McDonald, Acting Secretary
H. Malothra, Summing Up Officer
A. Lalor, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Communications Department: A. Adriano. European Central Bank: K. Nikolaou, R. Rueffer. European Department: J. De Vrijer, P. Gerson, J. Podpiera, A. Shabunina. Institute for Capacity Development: N. Feerick. Legal Department: J. Swanepoel. Strategy, Policy, and Review Department: N. Porter. Executive Director: L. Levonian (CO), L. Villar (CE). Alternate Executive Director: R. Alkhareif (SA), K.Tan (ST). Senior Advisors to Executive

Directors: Z. Abenoja (ST), M.Gilliot (FF), T. Sitima-wina (AE), G. Vasishtha (CO), J.Weil (CO). Advisors to Executive Directors: D. Cools (NE), O. Haydon (UK), P. Mooney (CO), H. Mori (JA), A. Park (AP), B. Parkanyi (NE), M. Sylvester (CO), A. Urbanowska (SZ), N. Vaikla (NO), D. Vogel (AG), S. Yoe (ST), V. Lucas (GR).

1. IRELAND—2019 ARTICLE IV CONSULTATION

Ms. McKiernan and Mr. Mooney submitted the following statement:

Context

We thank staff for their continuing positive engagement with our authorities and their insightful Report and Selected Issues Papers. The Irish economy is at an unusual conjuncture - faced with significant risks from Brexit and global trade developments on the one hand, and potential excess expansion on the other. The authorities acknowledge the challenges in the coming years but, importantly, these are being met from a strong position. GDP increased by 6.7 percent last year and modified (final) domestic demand (MDD) – a more accurate measure of underlying economic activity in Ireland – increased by 4.5 percent. On the domestic front, a combination of strong growth in disposable income, improving consumer confidence and modest inflation underpinned personal consumer spending growth of 3 percent in 2018. The headline export performance recorded growth of almost 9 percent in the same period. This healthy growth is paying dividends in the labor market, where the number employed last year reached the highest level in history.

The current administration - a minority government in a multi-party coalition – has been in place since 2016, extending its coalition agreement to unite behind the national Brexit strategy and contingency plans. After a decade-long fiscal adjustment path, it faces numerous competing pent-up spending pressures, including public sector wage increases and current and capital spending demands. Nevertheless, the authorities are committed to implementing prudent budgetary policy and rebuilding buffers, to be in a position to provide support in the event of a downturn and / or "No-Deal Brexit."

Brexit: Economic Impact & Preparedness

Ireland will be uniquely affected by Brexit, regardless of the ultimate arrangement. Reports commissioned by the authorities provide extensive analysis of the macroeconomic and trade impacts for Ireland. Compared to the UK remaining in the EU, GDP in Ireland is estimated to be c.2.6 percent lower after ten years in a "Deal" scenario, and 5 percent lower in a "Disorderly No-Deal" scenario.[1]

[1] In the Deal scenario, the UK makes an orderly agreed exit from the EU. This involves a transition period covering the years 2019 and 2020, and a free trade agreement between the UK and the EU27 thereafter. In the

Whole-of-Government preparations have been taking place since before the Brexit referendum for many possible outcomes. These have developed into the Government's Contingency Action Plan[2] - primarily for a "no-deal" scenario - which includes a planned fiscal response and the preparation of Brexit related legislation[3] to support the economy, enterprise and jobs, particularly in key economic sectors such as agriculture, food and transport. Several credit schemes aimed at the most vulnerable parts of the SME sector include a €300m Future Growth loan scheme to support long-term capital investment. In addition, the authorities have undertaken extensive financial sector contingency planning and collaborated with the EU and UK authorities as appropriate.

Fiscal Policy

The authorities are committed to careful management of the public finances, while also providing for spending plans that enhance the productive capacity of the economy into the future. While compliance with EU fiscal rules has provided an anchor, the authorities have gone beyond those requirements to generate some additional fiscal space. The 2019 Stability Program Update projects a small surplus this year, followed by a larger surplus in 2020 in the baseline case. Transfers amounting to €500m each year from 2019-2023 are committed to the "Rainy Day Fund," subject to the enactment of the necessary legislation this year. Nevertheless, the authorities acknowledge staff's advice on the need to tackle spending overruns in the health sector.

While the debt-to-GDP ratio is projected at 61.1 percent in 2019 - close to the EU fiscal rule threshold of 60 percent - other metrics such as the ratio of debt-to GNI*[4] show that, while declining, public indebtedness remains quite high. The government's fiscal strategy will further reduce public debt, via projected surpluses, receipts from the disposal of State ownership of banking assets, and the winding down of the National Asset

Disorderly No-Deal scenario, the UK exits the EU without a deal and there is an additional disruption to trade in the short run.

[2] https://www.dfa.ie/media/dfa/eu/brexit/brexitcontingency/No-Deal-Brexit-Contingency-Action-Plan-December-18.pdf

[3] The Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act, which was signed into law by the President on 17 March 2019.

[4] GNI* excludes the profits of re-domiciled companies, the depreciation of intellectual property and aircraft leasing companies.

Management Agency (NAMA). The latter is expected to generate a €4 billion surplus to the State in 2020-21.

The authorities welcome the results in the Selected Issues Paper on Personal Income Tax Reform: Past and Present. In particular they welcome the recognition of the overall high progressivity of Ireland’s current PIT system, which is recognised internationally as having played an important role in income redistribution and alleviation of poverty (combined with Ireland’s welfare benefits system), and which underpinned Ireland’s inclusive framework in the years of fiscal retrenchment in response to the financial crisis. The authorities also consider that the main conclusion of the paper - suggesting further reform of the income tax system - is helpful, albeit merits further detailed consideration. However, the authorities are less aligned with staff on the link drawn between the increase in CIT revenues and the funding of the reductions in personal income taxes.

The authorities continue to support and work towards an international, multilateral, cohesive and agreed approach to the international corporate tax environment. As a country with a small open economy, having a stable and consensus-based international tax framework is very important for Ireland, as it provides the necessary stability and certainty for investment decisions to be made. Ireland has been a strong proponent and implementor of BEPS and has taken significant steps to address aggressive tax planning, including amending tax residency rules, enhancing tax transparency and mandatory disclosure of tax planning arrangements by advisors. Indeed, Ireland achieved the highest standard for transparency under the BEPS framework.

Financial Sector

Brexit-related applications and plans for authorization are significantly impacting the Irish financial sector landscape. The Central Bank of Ireland has implemented a vigorous authorization process, in collaboration with EU authorities, where applicable, and is committed to upholding the highest standards of regulation and supervision to protect financial stability, consumers and investors. While the final relocation of financial services to Ireland post-Brexit will not be in place for some time, the expectation is that Ireland will become the fourth largest financial services centre in Europe, although the number of systemically-important institutions will not markedly change.

The financial position of the Irish banks continued to improve, and the two main banks recorded profits for the fifth consecutive year. In addition, net loan books expanded for the first time since the financial crisis.

Progress on NPL reduction continued, following vigorous policy and structural actions over a number of years. The average NPL ratio of domestic banks fell from 13.8 percent to 8.5 percent in the year to December 2018, 88 percent below their 2013 peak. Mortgage NPLs (70 percent of all NPLs) fell 39 percent in the Irish banks year on year, aided by loan sales as well as work through measures. The authorities are aware that ongoing work is required to continue these reductions, while also noting that the oldest NPL segments are dominated by restructured loans not currently in arrears and with a larger share of collateralization than EU norms.

The Macroprudential Policies, introduced in 2014, represented a key structural improvement in the Irish policy framework. The mortgage lending limits are reviewed annually to ensure they continue to achieve the objective of protecting the economy from unsustainable credit growth; the 2018 review concluded that the rules, as calibrated, remain unchanged, while becoming more binding as property values rise. The CBI has set the countercyclical capital buffer (CCyB) at 1 percent effective from 1 July 2019 and has requested powers to introduce a systemic risk buffer.

Authorities welcome the Selected Issues Paper on the non-bank financial sector in Ireland. The Central Bank of Ireland has carried out extensive analysis to profile the many types of entity, business modes and activities of this sector, and the authorities welcome the Fund's focus on this area. In particular, they appreciate staff's focus on the non-bank activity and its potential interlinkages to the real economy (including non-bank investment in property and related assets), while agreeing with the conclusion that the employment and value-added linkages to the domestic economy remain weak.

AML/CFT

The Financial Action Task Force (FATF) mutual evaluation report of Ireland in September 2017 acknowledged the strength of Ireland's AML/CFT systems, the measures taken nationally on AML/CFT risks and the cooperation mechanisms developed thereon, while also making recommendations about the areas for further improvement. As part of the regular follow-up reporting, the authorities have submitted evidence for upgrades to compliance ratings on 13 of 40 FATF recommendations, based on the actions taken since 2017, which will be considered by FATF in October

2019. Accordingly, the authorities concur with the staff recommendation to continue to strengthen the AML/CFT regime and have many such measures underway. The 4th Directive has already been transposed into law while the 5th AMLD is largely transposed[5] and the beneficial ownership of trusts provisions are on schedule to be transposed before their deadline. A central register of beneficial ownership for corporates - required under 5AMLD - is expected to go live shortly, well ahead of the January 2020 deadline, as is work on establishing a central mechanism for the retrieval of information on the beneficial ownership of bank accounts and safety deposit boxes.

Housing

Sustained macroeconomic and demographic growth, strong employment and incomes growth, combined with structural factors limiting housing supply led to significant house price recovery since the trough in prices in early 2013. Given the criticality of a supply-side response to the housing market, a comprehensive 5-pillar government housing supply strategy has been underway for several years, facilitating an annual average supply increase of over 30 percent in 2014 – 2018. In the private sector, reforms such as fast-track planning, new building guidelines and the creation of Home Building Finance Ireland (HBFI) are facilitating further investment, as noted by staff in Box 2 of the Report.

The increase in supply is integrated into improved spatial planning under the National Planning Framework (NPF), which guides strategic planning and development in Ireland over the next 20 years. The authorities are cognizant that further work is required in this area and are committed to ensuring that housing supply continues to meet the demands of the Irish population.

Labor Force Participation & Female Representation

With the unemployment rate now at historical lows, employment demand is met by sustained immigration. Ireland is one of the most positively disposed countries in Europe towards immigration, with authorities viewing it as enhancing the productive capacity of the economy and fostering multiculturalism.

To foster enhanced female labor force participation, the recently introduced National Childcare Scheme is designed to address the impediment

[5] The Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Bill 2019

of high childcare costs to female workers. It establishes an equitable and progressive system of universal and income-related subsidies for children up to the age of 15, alongside supports for lifelong learning.

Climate Change

As noted by staff, Ireland is the only EU country with generally rising greenhouse gas emissions. In recognition of the need to step up action, and to ensure the delivery of Ireland's 2030 targets, the government agreed in November 2018 to prepare a new all-of-Government Climate Plan. The Plan will build upon the existing National Mitigation Plan and aims to develop new initiatives across all sectors that contribute to reducing greenhouse gas emissions. The Irish government is committed to carbon pricing as a core element of its policy measures to reduce greenhouse gas emissions and signaled its intention, in the 2019 Budget Statement, to put in place a long-term plan (to 2030) for carbon tax increases, in line with recommendations of Ireland's independent Climate Change Advisory Council and the special Oireachtas (Parliamentary) Committee on Climate Action. In May 2019, the government declared climate as a national emergency, to highlight its commitment to fiscal and other policies to address climate risks.

Conclusion

While the Irish economy continues to grow, the authorities are cognizant of the need to address the vulnerability to significant external risks of Brexit and global trade, on the one hand, and to protect the hard-won fiscal and structural reforms, on the other. Difficult trade-offs lie ahead. The authorities appreciate the useful policy advice contained in the Report as they navigate these choices.

Mr. De Lannoy submitted the following statement:

We thank staff for their informative report and Selected Issues paper in the context of Ireland's Article IV consultation and Ms. McKiernan and Mr. Mooney for additional details in their buff statement.

The Irish economy has shown robust growth that is expected to continue. While multinational enterprises certainly make an important contribution to GDP growth and the tax base, the domestic drivers of the economy are also performing well. At the same time, changes in international taxation and a disorderly Brexit could threaten both economic performance and government revenues, while the large and growing non-bank financial sector should continue to be closely monitored for financial stability risks. We therefore share staff's recommendation that the authorities must address these risks by using windfall fiscal gains for debt reduction, reforms to the tax system, applying stricter expenditure control and enhancing data collection about the non-bank sector.

Macroeconomic developments

Ireland's robust growth performance is expected to continue; albeit with considerable downside risks. While the large impact from the activities of multinationals (MNEs) makes the assessment of Ireland's economic performance particularly uncertain; growth has been elevated on all accounts. Unemployment is on a declining path and previously ailing sectors, such as construction, are recovering. This being said, external risks have not abated, mainly linked to changes in international taxation and Brexit. In addition, high external and household indebtedness are also important vulnerabilities. Therefore, we agree with staff that preventing the re-emergence of boom-bust dynamics and setting aside sufficient buffers to increase resilience to external shocks are a key challenge for Ireland.

Fiscal policies

The Government needs to diversify its revenue sources and use fiscal policy more actively to prevent the economy from potentially overheating. The general government deficit has continued to decline in 2018, reflecting to a large extent the favorable cyclical position and strong corporate tax revenues, while the underlying structural fiscal effort was more limited. Moreover, government debt, while declining and now below 65 percent of GDP, still stands at around 105 percent of GNI*. We welcome the authorities' plans for gradual increasing surpluses in 2020 and beyond; however, in addition, we see the immediate need to improve public finances by increasing spending efficiency (especially in view of recurrent spending overruns in the health sector), reducing the high dependence on corporate tax revenues and using revenue windfalls – as planned – to reduce government debt while avoiding fiscal procyclicality. These measures would not only make public finances more sustainable but also more resilient.

Financial market policies

The Irish banking sector is well capitalized and significant efforts were made to further reduce the stock of non-performing assets (NPLs). We welcome staff's recognition of the good performance of Irish banks in recent stress tests, indicating an adequate level of capitalization. While further efforts are necessary, we would also acknowledge and draw staff's attention to the significant increase in the pace of NPL reduction that has been achieved over the past year. The NPL stock of the five largest banks fell by EUR 12.6 bn in 2018 alone, helped by EUR 7.8 bn in completed NPL sales. We would also note that while NPLs remain comparatively high in certain segments (such as loans in long-term arrears or unlikely-to-pay) the relative riskiness of such segments is lowered by rising collateral values and loans that are now performing. Finally, we like to emphasize the recent regulatory and supervisory initiatives (such as the recommendation and the addendum to the ECB's NPL Guidance) and would call on banks for continued implementation. We welcome staff's assessment that the financial sector's preparation for Brexit appears broadly adequate to mitigate possible major disruptions.

While there are no signs of material imbalances of financial stability, the large and rapidly growing non-bank sector warrants continued monitoring. Credit is continuing to recover and the active use of the macroprudential policy toolkit is welcome to prevent any potential for a return to the boom-bust credit cycle. A large share of household liabilities, including NPLs and securitized mortgages, are held by other financial institutions (OFIs) following bank asset sales. OFIs also hold a significant share of international non-financial corporations' (NFCs) liabilities. According to staff, investment funds grew fivefold in the past decade and the overall non-bank financial sector now accounts for 80 percent of total financial assets in Ireland. We welcome the significant analysis, by the CBI, on the market-based finance sector to assess interlinkages with domestic sectors, as well as developing sectoral stress test techniques. While the rapid rise of non-bank financial sector does not, per se, pose a financial stability concern, supervision internationally in this area is less intrusive and a rise in vulnerabilities would not be as easily observed. Therefore, we share staff's call for further improving data collection from non-banks, and relatedly, further strengthening Ireland's already robust AML/CFT regime. We also concur with staff that, although the macroprudential setting appears appropriate, the available toolkit should be expanded.

Structural policies

Tightening labor market conditions call for measures to enhance labor market participation and the creation of new job opportunities by diversifying the economy. We note staff's analysis according to which productivity in certain sectors (including those more exposed to Brexit) is lagging behind the productivity of the MNE sector. Authorities should accelerate measures aimed at improving the productivity of domestic firms. We welcome in this regard the authorities' Future Jobs Strategy. Addressing labor shortages will require better aligning education outcomes with business needs and increasing female employment. Also, the participation rate of people with disabilities is among the lowest in the EU, while the number of people living in under-employed households remains one of the highest in the EU. We encourage the authorities to implement their comprehensive strategy in the housing sector, including measures to ease housing constraints and streamline administrative requirements. Finally, the authorities should encourage and consider investments into sustainable transport, water, digital infrastructure, and upgrade their comprehensive climate strategy to curb rising greenhouse gas emissions.

Mr. Fachada and Mr. Fuentes submitted the following statement:

We are grateful to staff for the reports and to Ms. McKiernan and Mr. Mooney for their insightful statement. The Irish economy experienced a strong macroeconomic performance in 2018 buttressed by robust domestic demand and exports growth. The estimated output gap remains positive and unemployment has approached historical lows amid a low inflation environment. Abstracting from the volatile activities of multinational enterprises, high frequency indicators suggest that the growth momentum in 2019 remains strong. However, the pace of domestic activity is expected to ease gradually as Brexit-related uncertainties continue to weigh on consumer and investment sentiments.

Ireland remains largely exposed to Brexit. A disorderly no-deal Brexit is expected to affect Ireland more than any other EU member due to its extensive trade, investment and financial linkages with the UK. We associate ourselves with staff's assessment of the outlook presented in the report that highlights significant short- and long-term implications of the no-deal scenario. We commend the Irish government for publishing a set of emergency laws that will be enacted if the UK leaves the EU without a deal, and the Central Bank of Ireland (CBI) for leading Brexit contingency preparation of the Irish financial system to safeguard financial stability. In that vein, the decision of the European Commission to relax certain state aid regulations to expedite eventual support to the country is also a welcome development. Nonetheless, we encourage the Irish authorities to continue taking the necessary steps to prepare the economy for the potential materialization of a no-deal exit of the UK.

Commitment to fiscal consolidation has reduced the public debt ratio. The gross debt-to-GDP ratio has fallen steadily to 64.8 percent in 2018, underpinned by the authorities' fiscal consolidation efforts. While the government's budget position maintains an overall balance, we take note of the differences between the authorities and staff regarding fiscal consolidation due to discrepancies in expenditure assumptions and the potential fragility of CIT revenue. In any case, the overall policy stance remains broadly neutral for 2019–20 and the authorities have successfully built some fiscal space thanks to moderate financing needs and pre-financing. Nonetheless, the sizeable level of public debt still represents a vulnerability to adverse shocks and may require further consolidation efforts, consistent with the cyclical position of the economy.

Despite recent data revisions, the external position seems to be sustainable and consistent with fundamentals. While the assessment of Ireland's external position is greatly distorted by the large-scale operations of multinationals, we appreciate staff's adjusted assessment to account for Ireland's distinctive conditions. The EBA model continues to gauge the current account surplus as robust, with the REER measures giving mixed messages. As expected, sudden changes in corporate tax planning of multinational enterprises could adversely affect the country's external position and public finances.

Closer monitoring of the nonbank sector in warranted to prevent risk build-up. Considering the nonbank financial sector size and growing interconnectedness with the domestic financial system and the rest of the Irish economy, we welcome staff's thorough analysis of the sector in the Selected Issues Paper. Currently, a significant share of assets in local banks, insurance companies and pension funds are expose to investment funds and special purpose vehicles, and while the overall financial stress level in the investment funds sector remains low, we agree that liquidity and maturity mismatches and leverage risks need to be monitored carefully. All in all, we commend authorities' actions on this front and encourage them to continue enhancing the macroprudential framework and system-wide stress-testing.

Mr. Geadah and Ms. Abdelati submitted the following statement:

We thank staff for an informative report and Ms. McKiernan and Mr. Mooney for their helpful buff statement. The Irish economy continues to outperform most neighbors and peers with growth continuing around 7 percent in 2018 and a favorable outlook, notwithstanding important risks from a no-deal Brexit or escalation of protectionism. Staff's report focuses on lessening expected capacity constraints, including by creating more fiscal space.

Public debt-to-GDP continues to improve and is set to fall below 50 percent of GDP within 5 years, but staff calls for a greater fiscal effort, given the strong cyclical momentum that could be used to build buffers. As highlighted in last year's Article IV report, it is important to avoid the use of temporary revenue gains to fund permanent measures. However, stronger than expected CIT revenues in 2018 have helped to reduce the deficit, extend current spending, and reduce personal income taxes. We take note of staff's concerns regarding the rapid increase in CIT since 2014 from MNEs, which they consider to be at risk in the future and may decline by 0.6 to 1 percent of GDP. Noting that the authorities broadly share the staff's growth outlook, we would be interested in staff elaboration on the reasons why CIT revenue is at risk, and also why potential output and growth are expected to diminish.

The authorities appear well prepared for Brexit, but Ireland is very exposed to a disorderly no-deal Brexit. We broadly concur with the authorities' plans and the staff's advice regarding allowing automatic stabilizers to operate and providing targeted support to hard-hit sectors. We also agree that the authorities need to be prepared with a fiscal stimulus package for possible use, depending on the severity of the shock to the economy.

We take positive note of the assessment that housing market developments are benign and that recent initiatives help to promote housing supply and incentivize prudent mortgage lending. In spite of these developments, and the sharp decline in household debt, Irish households remain among the most indebted in the EU. While domestic banks are well capitalized and liquid, and NPLs have declined, more efforts are needed to reach the NPL goal of 5 percent in the three largest Irish banks by 2020. Consideration should be given to introducing debt-based limits to compliment the LTV and LIT limits. Also, further efforts are needed to continue with bank balance sheet repair, improve their cost-efficiency, and diversify lending. We are encouraged that the authorities intend to improve data collection and deepen their understanding of the stability risks in the large and growing non-bank financial sector, including through building internal risk analysis capacities and enhancing the macroprudential-based surveillance of the sector, as elaborated in the useful SIPs.

We welcome the increase in capital expenditure allocated in the 2019, consistent with the National Development Plan, which will help address bottlenecks to growth. We also take note of the implementation of the Rebuilding Ireland Action Plan and the progress towards Technology Skills 2022. Do the measures recommended in ¶43 – to address housing shortages and to boost productivity, and better align education outcomes with business needs – go beyond what is being contemplated by the authorities?

Mr. Lopetegui and Mr. Vogel submitted the following statement:

We thank staff for the report and Ms. McKiernan and Mr. Mooney for their helpful buff statement.

We welcome Ireland's strong dynamism in recent years. Strong growth led to a virtuous cycle of higher employment, increased private consumption, higher investment, tax cuts, declining public debt-to-GDP ratios, a lower interest burden, and positive net migration since 2015, among others. This does not mean that the country is exempt from important risks, many of them external, in light of its openness to trade and finance. We welcome Annex III of the report, which clearly depicts Ireland's critical exposure to the U.K. and the risks involved from a no-deal Brexit. On the domestic side, we underscore the risk of further fiscal spending pressures (leading to a possible boom-bust dynamic, as characterized by staff) at a time when activity is close to potential, there are fragilities in the real estate sector, and the public sector's revenue base is at risk from possible changes to international corporate taxation. We are reassured by the buff statement that the authorities acknowledge the challenges facing Ireland in the coming years and are committed to implementing prudent budgetary policy and rebuilding buffers.

We tend to agree on the need for the country to resume consolidation efforts and to build buffers against possible adverse shocks. The corporate income tax (CIT) has gained importance in recent years, offsetting the reduction of personal income taxes, which have constituted an important factor behind the buoyant private demand. As noted in Box 1 of the report, CIT revenue at risk ranged from 0.6 to 1 percent of GDP. Meanwhile, after a huge increase, the share of healthcare spending is currently the highest in the EU. The report provides relevant advice on changes to the tax system and the necessity to moderate the growing path of public spending while improving its efficiency.

We are encouraged by the healthy financial indicators in terms of capitalization and liquidity, as well as the positive results of the stress tests under a severe adverse shock. At the same time, although decreasing, non-performing loans to gross loans continue to be relatively high. Furthermore, vulnerabilities related to the real estate market may continue to increase; we note that Irish households remain among the most indebted in the EU, and residential property prices increased robustly in 2018, surpassing household income growth, all of which leads us to conclude that further risks could be emerging from this side. Box 2 of the report underlines that this time, rising housing prices have not been fueled by excessive credit, but rather by a lagging supply response to rising demand. Thus, beyond the need to monitor developments from the financial system, staff rightly mentions the need to expand the supply of housing and the obstacles that may be preventing a faster expansion. The strong expansion of the non-banking sector, which brings total financial intermediation to pre-crisis levels, and the links with the banking sector, demand strong vigilance by supervisory authorities.

We welcome the report's Annex on the eventual effects of a No-Deal Brexit on Ireland. The effects stressed in paragraph 4 of this annex are unambiguously severe, not only in the short term, but also in the long run. We take note of the preparation that the European Commission and the Irish authorities are undertaking to face this eventuality, and, in this regard, we find staff's comment valuable on a key risk which is that "many firms will choose not to incur the cost of preparing for a scenario that may never materialize". Therefore, timely and transparent information seems to be essential to let people and firms prepare proper strategies to endure the shock. We agree conceptually with the fiscal advice in case a no-deal Brexit materializes (automatic stabilizers to operate, targeted and temporary sectoral support, and possible fiscal stimulus), but would appreciate further elaboration from staff on possible cost estimates of such fiscal response.

We encourage the authorities to persevere on different areas of structural reform. Staff adequately highlights the need to tackle challenges arising from population aging and redoubling efforts to achieve climate targets. Building on progress in the AML regime, continued efforts are needed to ensure effective implementation of preventive measures and strengthen transparency of beneficial ownership. Reducing the housing shortage will contribute to price moderation and increased affordability.

With these remarks, we wish Ireland and its people every success in their future endeavors.

Mr. Psalidopoulos and Ms. Collura submitted the following statement:

We thank staff for their comprehensive set of papers and Ms. McKiernan and Mr. Mooney for their helpful buff statement. We broadly share the staff appraisal, associate ourselves with the statement of Mr. De Lannoy and offer the following comments.

Fiscal policy. We welcome that public finances and public debt sustainability continue to improve, though the debt burden assessed through alternative metrics to GDP is still very high. Despite being on track with the European adjustment path, we welcome that the authorities concur with staff on the importance of additional fiscal buffers to resist potential adverse shocks. In this perspective, the Rainy-Day Fund goes into the right direction, and maybe a share of the CIT revenues – when they exceed a certain level - could be earmarked to the Fund, in addition to the annual contribution. Staff comments would be welcome. More in general, we consider appropriate to counter expenditure overruns, and the volatility of the corporate income tax revenue through reforms to other tax sources. However, we note the high level of personal taxation, above the EU average, and would caution against introducing higher rates. We welcome the measures taken so far against aggressive tax planning and call for further action. We do concur with the authorities on the importance of preserving public investment to cover the infrastructure gap that constrains business investment.

Financial Sector. We welcome the progress that banks have accomplished to reduce NPLs and that they appear on track with their reduction targets. Staff, however, is calling for enhanced supervisory efforts to reduce the NPL ratio to the 5 percent target by 2020. Considering the 2018 ECB regulatory and supervisory initiatives, we would appreciate if staff could clarify its advice and be more granular. The non-bank sector has expanded remarkably and is characterized by well-diversified global linkages; we concur with staff that a sound AML-CFT framework is necessary to mitigate any new risks stemming from the rapidly expanding financial sector and we welcome the authorities' commitment in this regard.

Structural reforms. In addition to addressing the house gap, enhancing the innovation-driven productivity of small and medium enterprises is very important. In this respect, the authorities have envisaged a very ambitious strategy, Future Jobs Ireland 2019 that appears promising if implemented with determination. We would appreciate if staff could provide their views on the expected outcome of this strategy and its implementation.

Mr. Saito and Ms. Mori submitted the following statement:

We thank staff for the comprehensive and informative papers and Ms. McKiernan and Mr. Mooney for their helpful buff statement. It is encouraging that the Irish economy continues to expand strongly, supported by multinational enterprises and robust domestic demand and outlook remains favorable. We also welcome that continued job creation pushed the unemployment rate below 6 percent with strengthening net inward migration. At the same time, several risks especially from a no-deal Brexit and international corporate tax reforms exist. In this context, we concur with staff's view that the policymakers should manage risks by focusing on building buffers and strengthening resilience of the economy. As we broadly agree with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

While we positively note the solid budget position, we agree with staff that fiscal policy should be tightened to alleviate demand pressure and build buffers against potential shocks. Given the uncertainty of Brexit and the advanced cyclical position of the economy, we welcome the establishment of Rainy-Day Fund (RDF) this year. In this light, we would like to hear staff's view on the pros and cons between establishing RDF and generating fiscal space in the context of Ireland. In the meantime, increasing dependency on potentially fragile corporate income tax (CIT) is a source of vulnerabilities as it has been allocated to permanent measures such as funding healthcare budgetary over-runs and reducing the income tax (IT) and the Universal Social Charge (USC). Therefore, we encourage the authorities to resume fiscal consolidation efforts and limit dependency of CIT by streamlining VAT system, reforming IT and USC, and implementing local property tax. We welcome the authorities' proactive approach to the international corporate tax reform agenda including the G20/OECD BEPS actions.

Financial Sector

The risk of the large and growing non-bank financial sector should be carefully monitored and additional policy actions should be taken as needed. It is encouraging that Irish banks are well capitalized and liquid and fared well in the EU-wide banking stress tests. However, we note that the high stock of NPL weigh on banks' profitability and bank loan portfolio remain heavily concentrated in property-related lending. In this regard, we would like to hear staff about the impact of growing housing prices on the banks' loan portfolio and possible risks of future housing prices adjustment on the banks' loan quality though mortgage lending limits are in place. We also note that one of the causes of the low margins of banks is elevated operational costs. Could staff elaborate more on a background of elevated operational costs and recommended policy measures to tackle it? On the non-bank financial sector, with non-trivial links with the economy and emerging vulnerabilities, we concur with staff that improving data collection, closely monitoring the build-up of risks, developing system-wide stress testing and continuing intensive international cooperation are called for. We welcome that financial sector preparations for Brexit appear broadly adequate to mitigate major disruptions.

Structural Reforms

Continuous efforts are needed to address structural impediments to support high sustainable growth and enhance resilience to shocks. Addressing housing supply shortfall is essential to ease price pressure amid the increasing population. We are pleased to see that the government has taken several measures to increase housing supply, develop rental market, and improve affordability. On the productivity of SMEs in transportation, accommodation, food services, and agriculture, we note that the average productivity of these sectors have declined over the last decade and these sectors are most exposed to a Brexit shock. Could staff elaborate more on the background of the productivity decline in these sectors?

Brexit

We positively take note that the Irish government has taken steps to prepare for a disorderly Brexit as Ireland is the EU country most exposed to a no-deal Brexit. We appreciate staff for the Annex III, which is very helpful to understand the possible risks of no-deal Brexit. As pointed out, the impact of a no-deal Brexit would likely be severe though subject to significant uncertainty. While the government has taken some steps including the development of the Government's Contingency Action Plan, continuous cooperation between the EU and U.K. and conservative stance for preparation are warranted.

Mr. Meyer and Ms. Lucas submitted the following statement:

We thank staff for an informative set of reports and Ms. McKiernan and Mr. Mooney for their helpful buff statement. The Irish economy continues its strong upswing with a still markedly positive output gap. As labor markets grow increasingly tight, especially housing prices are gaining further momentum. Against this background and also with a view to the significant domestic and external risks, we welcome staff's call for policy measures to build buffers and avoid a further boom-bust cycle. Indeed, bolstering fiscal efforts, increasing resilience in the financial sector and driving forward productivity-enhancing structural reforms appear of the essence in order to facilitate continued sustainable growth. We broadly concur with staff's assessment. We associate ourselves with Mr. De Lannoy's statement and wish to add some remarks for emphasis.

Staff's outlook for economic growth remains favorable but downside risks – of which some might already have partly realized – are substantial. Especially with a view to the critical assumption of an orderly Brexit, a close watch on political developments in the United Kingdom appears warranted. An escalation in protectionism represents a major external risk. Could staff provide an update whether recent materializations of trade related risks might already have altered the outlook? International efforts to mitigate tax avoidance and international profit shifting should be seen as beneficial to achieve a sustainable and fair taxation, but could pose a risk to revenues in Ireland. However, these developments represent a foreseeable structural transformation rather than a shock in our view. The real risk would then be a lack of appropriate adjustment of the Irish business model, along the lines called for by staff, and would be domestic in nature.

We welcome staff's call to make good use of the currently favorable environment to rebuild fiscal buffers. Not least given the country's strong dependency on corporate income taxes, which might prove especially volatile in the case of Ireland, and the still elevated public and gross external indebtedness, we encourage the authorities to return to a more ambitious fiscal consolidation path. Potential further windfall gains should be used to accelerate the reduction of the debt ratio, as also recommended by the European Council.[6] We take positive note of the authorities' commitments in this regard.

The authorities' intention to further strengthen financial sector resilience is highly welcome. The banking sector appears overall sound, although still high levels of non-performing loans and below-average provisions require further efforts. We take note of the rapid expansion and dominant role of non-bank financial assets and staff's assessment of a potential adverse impact on the Irish economy in case of a large shock to the sector. In the selected issues paper, staff mentions a "business friendly

[6] Please see Council recommendation of 13 July 2018 on the 2018 National Reform Programme of Ireland and delivering a Council opinion on the 2018 Stability Programme of Ireland (2018/C 320/07), Tz. 8, 21.

regulatory and tax regime” as a driver underlying the growth in non-bank financial assets [Selected Issues, p. 14]. Against this background, we would be interested in staff’s further elaborations on the nature of a potential shock. Is the scenario comparable to the case of a tightening in international corporate taxation regimes? We welcome the authorities’ commitment to deepening the understanding of potential risks for financial stability emanating from the sector, including through improving data collection and stress testing capacity. Where feasible, staff should advise and assist the authorities in these endeavors, including through further analytical work. We join staff’s call to further strengthen the macroprudential toolkit and ensure an appropriate AML/CFT framework.

We echo staff’s advice to tackle key structural impediments to growth. The authorities should implement measures to ease housing supply constraints and streamline administrative requirements. Financial support should be targeted at low-income households. Could staff provide further elaboration on their recommendation of improving financial access of distressed but viable construction firms? In this regard, how does staff assess the risks of a potentially pro-cyclical market intervention in the construction sector, including possible implications for financial stability? Action should also be taken to improve educational outcomes and align skills more closely to employers’ needs. We encourage the authorities to continue implementing policies to bolster female labor force participation and promote equal opportunities.

Mr. de Villeroché, Mr. Castets and Ms. Gilliot submitted the following statement:

We thank staff for their very interesting set of documents and Ms. McKiernan and Mr. Mooney for their informative buff Statement. Despite a slowdown since 2017, growth performance of the Irish economy remains remarkable mainly driven by strong domestic demand including fixed investment and a positive trade balance and contribution of net exports to growth. Trade and financial openness have served the economy well, boosting job creation and attracting strong portfolio and direct investment flows. The sensitivity of Ireland to exogenous shocks is concurrently mirroring its integration to the global trade and financial markets. The significant weight of multinational enterprises (MNEs) in the economy also indicates that changes in global trade tariffs, international taxation regimes and a disorderly Brexit may affect strongly the Irish economic outlook. Consequently, efforts to enhance resilience of the economy, secure stable and higher fiscal revenues and financial sector preparations for Brexit should be stepped up to cushion both structural and cyclical shocks. We associate ourselves with Mr. De

Lannoy's statement and wish to offer the following comments for consideration.

Outlook and risks

Ireland's post-crisis economic recovery has been commendable and, notwithstanding uncertainty over the duration of the slowdown in activity, domestic demand and exports remain thriving while continuous decrease in unemployment, wage growth and low inflation have contributed to increase household disposable income, fueling housing demand all the while. Buoyant export sector, including computer services and pharmaceuticals along with capital accumulation, high-productive and profitable multinational enterprises reflected in the level to total-factor productivity, have contributed to Ireland's strong external position and increase in potential growth. Although some supply-side bottlenecks suggest that Ireland is reaching a high position in its cycle, we would however be cautious in assessing that the cyclical position has been advanced as this is much related to MNEs. Although Brexit remains the main downside risk to the outlook over the long term, escalation of protectionism is likely to weigh on economic activity, investment and budgetary revenues.

External Stability Assessment

The results of the assessment of the external position raise however some questions and while we thank staff for the detailed Annex II on this aspect we do not get the caveats lifted. First, as the balance of payments data revisions have been reoccurring for many years now involving significant revisions (5,5 percentage point downward revision in the later external stability assessment which also implies strong change in the unexplained residual) related to large-scaled operations of MNEs, we are wondering which avenues other than the adjustment made through the trade balance to primary income balance ratio could be explored to make the MNEs activity reporting timelier and more predictable. Has staff reflected on this? Second, on Ireland's external position evaluation, we would recommend using the 2018 refinement of EBA methodology presented in the 2018 External Sector Report which aims to better accounting for biases in the measurement of the current account by including statistical treatment of financial returns (retained earnings on portfolio equity and inflation) rather than using the ratio mentioned above which is questionable. This ad hoc adjustment 's consistency only relies on the fact that the current account composition is extremely unbalanced in the case of Ireland reflecting sizable net intra-group interest and profits flows. Staff's comments would be appreciated. Moreover, statistical bias or measurement errors are often associated with multinational entreprises and profit-shifting. Third and more broadly, the report underscores the interest of relying on GNI as a better measure of the underlying economy compared to GDP. While we note several references in the documents, we are pondering whether there would be an interest in extending the reliance on GNI to the overall assessment including projections and the impact on the MNEs' intangible assets accounting on growth. Staff's comments would be welcome.

Fiscal policy

Fiscal consolidation must be supported by reforms to enhance spending efficiency, fight tax avoidance, broaden the tax base and secure investment and healthcare. Public finances have continued to improve against a favorable economic environment and higher-than-expected corporate income tax revenues. In this respect, public debt has been put on a downward path and Ireland should achieve its Medium-Term Objective this year. Risks on growth and fiscal revenues from trade uncertainty and Brexit outcome require nonetheless the build-up of buffers, avoiding procyclicality and sustained efforts on investment policy to bridge infrastructures gap. We salute however the establishment this year of the Rainy-Day Fund. On the potential impact of international corporation taxation changes on tax revenues in Ireland, we note that the revenues from MNEs taxation have been more dynamic than anticipated the first year of implementation of the TCJA in the United States. Could staff indicate how it assesses the impact of this reform on the taxation of US MNEs located in Ireland?

In line with our comments on the External Stability Assessment including the consideration of the significant primary income deficit (reflecting high direct investment income outflows), we strongly encourage the authorities to achieve full implementation of the G20/OECD Base Erosion and Profit Shifting initiative including the EU Anti-Tax Avoidance Directives (ATAD). Compliance with international taxation standards should also be accompanied by more proactive domestic tax reforms to strengthen the reliance on more permanent and stable fiscal revenue sources. We concur with staff's recommendation on the need for a simplification of the tax system through a recalibration of the current Income Tax and the absorption of the USC while broadening the tax base to preserve the yield and progressivity of the current system. The design of a Personal Income Tax system based on more bands and rates should remain in line with the objectives of simplification, lowering administrative burden and preserving the current income distribution as recommended by staff. These steps could be usefully complemented by the rationalization of the VAT multiple preferential rates and exemptions.

Finally, we salute the commitment of the authorities to further strengthen public finances through measures to ensure the financial sustainability of the Social Insurance Fund (SIF) and the upgrade of the climate strategy to fulfil Ireland's 2030 carbon emission targets.

Financial system

The Irish financial system has also performed well over the recent years and while the banking sector is well-capitalized and liquid, risks from the profitability and the non-bank financial sides should be monitored. Efforts to reduce further the NPL ratio must be pursued while macroprudential measures could be reinforced with the introduction of debt-based measures to better take into account the households' solvency profile. The increase in the countercyclical capital buffer to 1 percent is thus welcome. We appreciated the Selected Issues Paper which clearly highlights the rising weight of non-bank financial sector and surge of market power of insurance and pension funds and money market funds in the total of Ireland's financial system assets. Heightened attention from the supervisory authorities is warranted despite resilience of the investment fund industry to an overall financial stress given its global interconnectedness and potential high external disruptions linked in particular to Brexit. We fully concur with staff on the importance of achieving compliance of Ireland's AML/CFT regime with existing requirements.

Ms. Pollard and Ms. Svenstrup submitted the following statement:

We thank staff for a comprehensive report and Ms. McKiernan and Mr. Mooney for the informative buff Statement. The Irish economy continues to experience strong growth driven by robust domestic demand and low unemployment. Public finances have improved, and inflation is modest. However, given Ireland's high exposure to external shocks, particularly a no-deal disorderly Brexit, the authorities should aim to develop policies to further build policy buffers and manage downside risks. We broadly agree with staff's assessment and thus limit our comments to a few key issues.

Ireland will be uniquely impacted by Brexit even in the most benign outcome. We appreciate staff's comprehensive discussion of the no-deal Brexit risks and potential policy responses. As outlined by Ms. McKiernan and Mr. Mooney, the authorities are rightfully taking a whole-of-government approach to respond to various scenarios, including the development of a broad Contingency Action Plan. We note that the Risk Assessment Matrix includes policy responses above what is discussed in the report. For example, it recommends that, in the event of a no-deal Brexit, the central bank should "stand ready to provide liquidity support to banks if needed." The RAM also recommends that "ECB policy actions should contribute to reviving growth and could also aid competitiveness." Could staff provide more clarity on these recommendations?

Ireland's public finances have improved, debt dynamics are favorable, and the government is taking further measures to mitigate potential vulnerabilities stemming from high public and household debt. Efforts to further build fiscal buffers would be sensible, particularly in the context of Ireland's strong growth performance. We agree with staff's recommendations to broaden the tax base and reduce tax expenditures, and the Selected Issues paper makes good arguments in favor of income tax reform to reduce pro-cyclical tax policy responses. At the same time, efforts to increase the efficiency of public spending, control healthcare costs, and strengthen the Social Insurance Fund will make Ireland's fiscal position more sustainable. We particularly welcome the introduction of the Investment Projects and Programs Tracker to enhance transparency and monitoring of public expenditures, and we encourage the authorities to make further improvements in line with the Fund's PIMA.

Staff assess Ireland's external position to be broadly in-line with fundamentals and forecast a welcome decline in the current account surplus over the medium term. Could staff provide further insight on the drivers of the sizable forecasted adjustment in the current account balance (4.5 percentage points of GDP between 2018 and 2024)?

The authorities have taken welcome steps to improve the resilience of the banking sector. Yet, Ireland still faces weak bank profitability, as well as a relatively high number of NPLs and mortgages in arrears. In addition to efforts to reduce NPLs, banks should also increase efforts to improve cost efficiency and diversify their lending portfolios. Could staff discuss whether profitability issues and current equity valuations will impact plans to reduce the government's stake in the three major Irish banks? Further, given the rapid growth and high interlinkages of Ireland's investment fund sector, we welcome the Selected Issues Paper's analysis and agree with the call for enhanced surveillance.

Finally, we agree that further effort is needed to address bottlenecks to growth. We welcome efforts to increase housing supply to reduce overheating risk, and the launch of the Affordable Childcare Scheme will support higher female employment and help boost growth potential.

Mr. Just and Mr. Stradal submitted the following statement:

We thank staff for their comprehensive set of papers, and Ms. McKiernan and Mr. Mooney for their helpful buff statement. We welcome the robust growth of the Irish economy which has facilitated the reduction of crisis legacies over the past five years. We note that the outlook is subject to significant risks on both sides of the favorable base case. The widest available array of countercyclical policies should be deployed if either of the two materialize. We associate ourselves with Mr. De Lannoy's statement and add the following comments.

We acknowledge the remarkable fiscal consolidation achieved so far and encourage the authorities to use the current strong macroeconomic backdrop to proceed further as the debt burden remains elevated. The increasing dependency on a small number of large corporate income tax (CIT) payers and the high concentration of affiliates of US-based multinationals among them present notable fiscal risks. In this vein, we welcome Box 1 quantifying the CIT revenue at risk. We commend the debt management risk mitigation measures taken by the authorities, including extending maturities in the current low-yield environment and diversifying the investor base.

We welcome the strong capitalization and liquidity of the Irish banking sector. The non-performing loan (NPL) ratio continues to decline thanks to the multi-pronged strategy implemented by the authorities. We are reassured by the acknowledgement of the further efforts required. We note in the buff statement that some NPL segments are dominated by restructured loans currently not in arrears. Could staff comment on the size of the share of these NPLs, as well as on the details of the reclassification of such loans back to performing?

The exuberant growth of the non-bank segment has driven the total size of the financial sector to new historical highs. We appreciate the second Selected Issues Paper which provides many valuable characteristics of the investment funds and other investment vehicles. We concur with staff that a close monitoring of the risk build-up and the linkages to the banking sector, other sectors of the domestic economy, as well as cross-border linkages, is increasingly important. It will require additional improvements in data collection (though not only in Ireland to be effective) and further development of system-wide stress testing. We welcome the authorities' commitment to uphold the highest standards of regulation and supervision. Could staff comment on the adequacy of supervisory capacities in the context of a tight labor market and the strong demand for financial sector experts?

We fully subscribe to staff's recommendation to enhance the macroprudential toolkit. Debt-based measures are a useful complement to loan-to-value limits in managing the mortgage credit demand. We encourage the Central Bank of Ireland (CBI) to consider raising the countercyclical buffer beyond the 1 percent applicable as of July this year, should the credit growth pick up further. We also support the CBI's request for powers to introduce a systemic risk buffer.

Finally, we appreciate that the unique character of the Irish economy requires using alternative measures of economic activity. However, we wonder whether the internal consistency of the staff appraisal may not be compromised by switching between the GDP, GNI*, and modified domestic demand throughout the Report. Staff comments are welcome.

Mr. Heo and Ms. Park submitted the following statement:

We thank staff for their helpful reports and Ms. McKiernan and Mr. Mooney for their informative buff statement. The Irish economy continues to perform well and has made impressive strides in recovering from the 2008 crisis. Broad-based growth has reduced unemployment to historical lows and the output gap is estimated to be positive. While the outlook is favorable, it is also subject to a high level of uncertainty, notably around the form and impact of Brexit and spillovers from increased trade tensions. In this context, we agree that priorities include building fiscal and financial sector buffers, contingency planning, and progressing structural reforms supportive of resilience and growth.

Continuing to build fiscal buffers is a priority in the face of potential shocks, and countercyclical fiscal policy is also prudent amid the strengthening cyclical upswing. Despite significant progress, public debt remains high, particularly relative to GNI* or general government revenue. We welcome the government's commitment to use receipts from the disposal of state-owned banking assets and the winding down of the asset management agency to pay down debt. Staff's analysis of corporate income tax revenues at risk highlights the vulnerability created by reliance on this potentially fragile revenue source; we agree that corporate tax windfalls should be directed towards paying down debt and that careful consideration should be given to broadening the tax base. Specifically, as proposed by the useful Selected

Issues paper, there may be merit in reforming personal income tax to provide a stable source of revenue, reduce the administrative burden and align work incentives, while preserving high progressivity. Could staff comment on any plans by the authorities in this area? Tax reform would also assist in creating space for spending to enhance the productive capacity of the economy.

We commend the authorities for their efforts to engage with and implement the international corporate tax reform agenda. Active engagement with the OECD BEPS initiative and compliance with international standards on transparency and cooperation is welcome. We encourage Ireland to engage in ongoing multilateral efforts to address tax challenges arising from digitalization. In the 2018 Special Issues paper on this topic, staff highlighted that digital taxation proposals could have serious negative implications for Ireland's CIT revenues. We would be interested in staff's views on the impact of more recent developments (including recent dialogue between G20 Finance Ministers) on this assessment.

The sustained improvements in the Irish banking sector and ongoing work to strengthen regulatory frameworks is also key to enhancing Ireland's resilience to shocks. As the buff highlights, it is striking that the average non-performing loan ratio has fallen from nearly 14 percent of loans at its peak to 8 percent. Nonetheless, this high stock of non-performing loans remains a source of vulnerability. We are encouraged that the authorities expect banks to use the full toolkit to reduce NPLs, including restructuring and sale of loan portfolios. The shift in the structure of Ireland's financial system is striking and staff's analysis of the risks arising from the non-bank financial sector is valuable. We agree that rapid growth in this sector and increasing domestic links strengthens the case for improved data collection, monitoring and stress testing. Staff discuss use of housing-related macroprudential tools and the counter cyclical and systemic capital buffers – are there any prudential tools available for addressing vulnerabilities specific to the non-bank financial sector?

Given the continued uncertainty but large potential impact of Brexit, we are encouraged that considerable contingency planning has been taking place. As outlined in the buff, this covers a planned targeted, temporary fiscal response and detailed financial sector contingency planning. Annex III states that the government has recently published a set of emergency laws that will be enacted if the UK leaves the EU without a deal – could staff expand on what this covers and their assessment of the Ireland's preparedness for a disruptive no-deal Brexit?

Mr. Jin and Ms. Liu submitted the following statement:

We thank staff for the comprehensive set of reports and Ms. McKiernan and Mr. Mooney for the helpful buff statement. The Irish economy continues to grow strongly, supported by robust external and domestic demand. The unemployment rate has reached its lowest level in the past ten years. Nevertheless, the economy faces several external risks, among which a no-deal Brexit, escalating trade disputes, and changes in international corporate taxation could weigh on the economy. Therefore, macroeconomic policies should fully consider the adverse impacts and prepare for those shocks. We agree with the thrust of staff's appraisal and would like to offer the following comments.

Building fiscal buffers is necessary to withstand potential shocks and strengthen fiscal resilience. Ireland has some fiscal space, and abundant corporate income tax (CIT) proceeds have benefited the fiscal position in recent years. Nevertheless, the dependency on CIT revenue, a sizable part from the multinational enterprises (MNEs), makes the fiscal positions vulnerable to significant changes of tax policies of U.S. multinational enterprises. In this context, we concur with staff's proposal to tighten fiscal policy to alleviate demand pressures and reduce the dependency on CIT revenue by broadening the tax base and further streamlining the VAT. We also encourage the authorities to moderate expenditure growth and improve spending efficiency to enhance fiscal space. We welcome the authorities' commitment to implementing a prudent budgetary policy to build buffers in the event of a downturn. We see a need for a carefully targeted, temporary fiscal support to protect jobs and help the hard-hit industries in case of a disruptive no-deal Brexit. We welcome the authorities' continued efforts in implementing the international corporate tax reform agenda.

More efforts are needed to improve asset quality and guard against financial stability risks in non-bank financial sectors. We welcome the deleveraging of the banking sector reflected by the 60 percent shrinkage of domestic and foreign banks' balance sheets. Ireland's domestic banks are well capitalized and liquid. However, the still high level of NPLs, loans concentrated in property-related lending, and rapid expansion of the non-bank financial sector in particular are sources of concern for financial stability. Therefore, we agree with the staff proposals to step up efforts to further reduce nonperforming loans, closely monitor risks from the non-bank activities, and conduct system-wide stress testing. Given the financial sector's close linkage with the U.K., we encourage the authorities to continue to closely cooperate with their EU counterparts to ensure business continuity of the financial sector while maintaining a high-quality authorization of Brexit-related relocations.

Further structural reform is needed to address key bottlenecks to support sustainable growth. Staff assess that the housing gap, productivity and skills gap, and gender gap are the three main structural gaps in the economy. We welcome the authorities' measures to increase housing supply and develop the rental market to meet the rising housing demand. We encourage the authorities to provide training and tailored education to the hard-hit employees to help them better cope with difficult circumstances. Meanwhile, reducing the large gender employment and pay gap remains important for female labor participation.

Ms. Riach and Mr. Haydon submitted the following statement:

We thank staff for their report, and Ms. McKiernan and Mr. Mooney for their informative buff statement. We associate ourselves with the statement by Mr. De Lannoy and would like to add the following comments.

We commend the Irish authorities on their continued strong economic performance. The macro-financial situation has improved over the past few years. The government runs a near-balanced budget, the banking sector is far more resilient, and there has been an acceleration of NPL disposals. Ms. McKiernan and Mr. Mooney point out that this healthy growth is paying dividends in the labor market, where the number employed last year reached the highest level in history.

Staff consider that a no-deal Brexit represents the key downside risk to this broadly positive outlook. Ireland is the only EU country to have a land border with the UK, and our countries share strong cultural, economic and trading links. As Ms. McKiernan and Mr. Mooney highlight, Ireland will be uniquely affected by Brexit, regardless of the ultimate arrangement. We welcome staff's assessment that the financial sector's preparation for Brexit appears broadly adequate to mitigate possible major disruptions. Over recent months, the UK authorities, the European Commission and Member State governments have taken a number of steps to mitigate some of the worst economic effects of a no-deal Brexit, including for financial stability. Given the ongoing uncertainty around the Brexit outcome, such collaboration between UK, Irish and EU authorities remains crucial over the coming months.

Mr. Inderbinen and Ms. Urbanowska submitted the following statement:

We thank staff for their candid set of reports and Ms. McKiernan and Mr. Mooney for their helpful buff statement. We broadly concur with staff's assessment of the economic outlook and the balance of risks, and we would like to offer the following comments.

Ireland's robust economic performance is expected to continue. We welcome the robust growth, underpinned by strong domestic demand and net exports. Nevertheless, the favorable outlook is clouded by several downside risks. The economy is operating near full potential, the labor market is showing signs of tightening, and inflation has started to rise. Externally, given the deep linkages with the UK, particularly in the financial sector, a no-deal Brexit could have an immediate impact on growth. Additionally, the evolving international taxation landscape and rising trade tensions merit the authorities' close attention.

Despite improved public finances, fiscal consolidation measures seem warranted. We take note of the solid fiscal outturn on the back of robust output growth and an increase in corporate tax receipts. Nevertheless, the risks of revenue volatility remain, given the country's high dependency on CIT revenues and their concentration. To safeguard public finances and ensure fiscal sustainability, the authorities should focus on building buffers and increasing spending efficiency and further reduce public debt, including by saving revenue windfalls. Broadening the tax base, streamlining VAT collection, and improving the income taxation system would further increase resilience. We share the authorities' view on the importance of a stable and consensus-based international tax framework, as emphasized in the buff statement.

Efforts to further strengthen financial sector stability should continue. We welcome the recent improvements in domestic banks' performance and note the adequate level of capital buffers. In aggregate, banks are well capitalized and liquid, but profitability remains vulnerable. Also, banks' loan portfolios remain heavily concentrated in property-related lending. Furthermore, Irish households remain among the most indebted in the EU. Therefore, we share staff's recommendation that the existing macroprudential toolkit – although appropriate – should be expanded to further bolster resilience. Regarding Brexit, we stress the need for an extensive financial sector contingency planning to avoid major disruptions, including the potential impact on the growing non-bank sector.

Structural weaknesses need to be addressed to support sustainable and inclusive growth. Closing the housing gap is of paramount importance. Therefore, we encourage the authorities to decisively implement measures aimed at expanding housing supply through improved regulation, streamlined planning processes, and adequate tax measures to reduce land hoarding. Furthermore, boosting domestic firms' productivity is key. We welcome the authorities' Future Jobs Strategy in this regard. Finally, increasing female labor force participation by facilitating affordable childcare would be a step in the right direction.

Mr. Palei and Mr. Potapov submitted the following statement:

We thank staff for a set of insightful papers and Ms. McKiernan and Mr. Mooney for their informative buff statement. The Irish economy continues to perform well, supported by robust external and internal demand. Further progress has been achieved in strengthening public finances and improving banks' and households' balance sheets. While the growth outlook is broadly favorable, it is exposed to potential internal and external shocks that are comprehensively described in the Risk Assessment Matrix (Annex IV). We welcome the authorities' efforts to further build macroeconomic resilience and promote sustainable growth. We broadly concur with staff's appraisal.

Among the risks to the outlook staff rightly highlighted a disorderly no-deal Brexit. It will have significant and immediate adverse consequences for the Irish economy. According to various studies, the materialization of this risk could reduce output in Ireland by between 2 and 7 percent in the long run. Another concern is related to a potential impact from the international corporate tax reforms and rising trade tensions globally. We welcome the authorities' efforts to prepare the country for a disorderly Brexit, including the design of a framework to provide emergency state support for hard-hit businesses. We are encouraged by staff's assessment that the preparation activities in the financial sector appear broadly adequate to mitigate major disruptions. At the same time, could staff elaborate on any contingency plans of non-financial firms and the risks that these firms will prefer not to incur the cost of preparing for a disorderly Brexit (Annex III)?

By now the level of output in Ireland is well above the pre-crisis peak. Still, output growth rates significantly exceed the EU average. According to staff, the Irish economy is operating near full capacity, with unemployment approaching the historical lows. While the activities of multinational enterprises (MNEs) make it more difficult to gauge the cyclical position, according to staff, both conventional and alternative metrics point to the positive output gap. Moreover, the currently advanced cyclical position is accompanied by continuing surge in house prices and rents. Against this background, we share the authorities' and staff's concerns about the increasing dependency of the economy on uncertain corporate tax revenues, as well as about additional pressures for tax cuts, wage hikes, and public investments.

Rebuilding fiscal buffers and maintaining sound public finances is among the key priorities for the authorities. Public debt has been on a downward path since 2013 and declined to below 65 percent of GDP (105 percent of GNI*) in 2018. We welcome the authorities' plans to use future proceeds from disinvestments in the banking sector and the National Asset Management Agency profits for further reducing public debt. At the same time, staff argue that a slightly more ambitious fiscal consolidation would be needed under the current circumstances. In this context, we support the authorities' plans to save any additional unforeseen CIT revenues. Broadening the tax base, reforming the personal tax system, and improving the efficiency of current expenditures would be necessary to reduce the dependency on revenue gains from MNEs' activities.

The banking sector continues to recover, and banks show improvements in banks' capital and liquidity positions. Macroprudential policy measures have helped mitigate financial stability risks. At the same time, although NPLs are declining as a share of total loans, they remain relatively high, and the resolution of mortgage arrears remains sluggish. We support staff's recommendations aimed at further improving the bank asset quality. We also commend staff for their in-depth analysis in the Selected Issues paper of domestic linkages and risks stemming from the growing non-bank financial sector and support the main recommendations in this area. In particular, we would highlight the importance of strengthening Ireland's AML/CFT regime and increasing transparency of beneficial ownership. At the same time, we would appreciate staff's additional elaborations on the creation of a systemic risk capital buffer.

Over the recent years housing prices have been increasing in Ireland. As staff pointed out, unlike in the pre-crisis period, house prices are fueled by a persistent supply shortfall rather than by bank credit. While staff's analysis does not point to a significant misalignment of housing prices, expanding the housing supply and enhancing affordability should be the authorities' immediate priorities. Among possible measures we would highlight the importance of streamlining the planning process, reducing administrative costs, and alleviating financial constraints in the construction sector. The introduction of debt-based macroprudential policy measures would further mitigate risks of boom-bust cycles.

Ms. Mahasandana and Ms. Yoe submitted the following statement:

We thank staff for the comprehensive reports and Ms. McKiernan and Mr. Mooney for the insightful buff statement.

Ireland's economy continues to show buoyant growth, even as it faces external uncertainties from Brexit, escalation of global protectionism and a changing international corporate tax environment. As the economy enjoys strong and broad-based expansion as well as historically-low unemployment, we encourage the authorities to take advantage of this window of opportunity to accelerate fiscal consolidation, continue the good progress in banking sector repairs and undertake structural reforms. We broadly concur with staff's assessment and offer the following comments for emphasis.

Efforts to accelerate fiscal consolidation remains critical to rebuild buffers against risk.

We welcome the authorities' prudent management of public finances, which has led to an improvement in Ireland's public debt sustainability. Strong cyclical position of the economy and better than expected corporate tax receipt have helped to close the fiscal balance. In particular, corporate income tax (CIT) constitutes an increasingly significant source of tax. However, as CIT is volatile in nature, it is critical for the authorities to diversify its revenue sources and avoid using corporate tax windfalls to fund permanent measures such as health budgetary over-runs. We share staff's recommendation to broaden the tax base through stable revenue raising measures, including phasing out VAT preferential rates and exemptions, implementing local property tax and reforming the income tax, over the medium term. We welcome staff's comment on the expected timeline to implement these tax reforms taking into consideration the political appetite, and whether there are mitigating measures, for instance to reduce non-priority expenditures, that should be considered if these reforms are delayed. Moderating expenditure growth is equally important to support fiscal consolidation. However, the authorities highlighted greater spending pressures associated with election cycles and to address healthcare and housing needs of the population. Can staff elaborate on the specific areas of current expenditure that can be reduced to help build fiscal space for capital expenditure.

We encourage authorities to speed up the cleanup of bank balance sheets and to continue expanding its macroprudential toolkit to enhance financial sector resilience. Good progress has been made in improving banks' asset quality, but continued efforts are needed as the stock of nonperforming loans (NPLs) continues to weigh on banks' profitability. While financial stability risk is contained given subdued credit growth, we agree that introducing debt measures, such as debt-to-income and debt service-to-income ratios, would allow the authorities to better mitigate any debt build-up in the future.

We welcome the authorities' measures to increase housing supply so as to address the housing gap and to moderate house price increase. Supply shortages in the housing market continued to put upward pressure on both house and rental prices. This raises affordability issues and weigh on household debt sustainability. With the authorities being on track to meet its home-building target, we look forward to the new housing supply coming onstream to ease price pressures. In this regard, we seek staff's assessment of whether upcoming housing supply will be sufficient to plug the housing gap so as to moderate price and rental growth, and whether a stronger supply-side response is needed at present.

Mr. Mouminah, Mr. Alkhareif and Mr. Keshava submitted the following statement:

We thank staff for a well-written set of reports and Ms. McKiernan and Mr. Mooney for their helpful buff statement. We are in broad agreement with staff's analysis and policy recommendations and would limit our remarks to a few issues.

We welcome the continued strong performance of the Irish economy, but risks are rising. Indeed, we are encouraged by strong and broad-based growth, solid job creation, strengthened household balance sheets, and further improvement in public finances. In addition, the economic outlook remains favorable, but it is subject to considerable risks, especially to a no-deal Brexit. In this connection, we echo staff's recommendation to focus on building buffers and strengthening the resilience of the economy while addressing structural bottlenecks to growth.

Further strengthening public finances is essential to guard against risks. While we are encouraged by further improvement in public finances, we note that debt burden remains elevated when expressed in metrics beyond the traditional debt-to-GDP ratio such as debt-to-GNI* or debt-to-revenue ratios to reflect an accurate measurement of underlying economic activity.

Moreover, the staff report brings attention to CIT revenue at risk. Against this background, further streamlining VAT rates, moderating expenditure growth, and improving spending efficiency are some of the priorities. We welcome the planned contributions to the Rainy-Day Fund starting from the 2019 Budget, which will be an important step to enhance resilience to shocks. We also take positive note of the authorities' commitment to use any proceeds from government disinvestments in the financial sector to reduce public debt. Continued close engagement in advancing the international tax reform agenda is encouraging and should continue.

We welcome the authorities' emphasis on further strengthening financial sector resilience. While domestic banks are well capitalized and liquid, the NPL ratio, despite notable improvement, remains high and the authorities should continue their efforts to accelerate NPL reduction, especially the resolution of the mortgages with long-term arrears. The authorities have noted the progress in banks' balance sheet repair and the successful issuance of minimum requirement for own funds and eligible liabilities (MREL), and we would welcome staff elaboration on MREL. On macroprudential toolkit, we were wondering whether the authorities concur with the staff's recommendation on the need to complement the existing limits on loan-to-value and loan-to-income ratios with debt-based measures (DTI and DSTI). Like staff, we encourage the authorities to continue strengthening the AML/CFT regime.

Finally, we agree that structural bottlenecks should be addressed. In this context, efforts to address the housing shortage should continue. We also echo staff recommendation on the importance of better aligning education and training programs to labor demand in important sectors, increasing female employment, and boosting productivity of domestic firms.

With these remarks, we wish the authorities continued success.

Mr. Mojarrad and Mr. Sassanpour submitted the following statement:

We thank staff for a well-written set of papers and Ms. McKiernan and Mr. Mooney for their candid buff statement.

Ireland's fundamentally strong and rapidly growing economy is at a critical juncture, facing unusual uncertainties and a set of potentially significant downside risks, most notably the prospects of a "no-deal" Brexit and the worrisome rise in global trade protectionism. These unique circumstances call for full preparedness and policy flexibility. Moreover, operating near capacity, the economy is also facing internal demand pressures and there are emerging signs of stress in the housing market reflecting higher income and employment. The economy is facing longer-term challenges related to population aging. Ireland's positive attitude towards immigration as a source of economic strength and greater multiculturalism is admirable. What is staff's assessment of the Brexit's impact on immigration to Ireland, if any?

Fiscal policy has outperformed the EU fiscal rules and we welcome the authorities' decision to commit future budgetary savings to the "Rainy Day Fund (RDF)" for smoothing operations and use receipts from sales of state assets for paying down public debt. Budget's strong performance has been underpinned by large MNE CIT receipts, which could also be a potential source of vulnerability in view of the evolving international corporate tax environment. Staff suggests using additional unforeseen CIT revenues in the RDF and/or in debt pay down. In staff's view, given the balance of risks, what are the determining factors? We also welcome the authorities' appropriate focus on enlarging the fiscal space to withstand adverse shocks and the convergence of views between the authorities and staff to address overspending in the healthcare sector and increase efficiency of public investment. The recent government declaration of climate as a national emergency and its commitment to address climate risks is praiseworthy.

In the financial sector, we are comforted that Irish banks are faring well in stress tests and that the central bank models suggest that banks will be able to weather even a disorderly no-deal Brexit. However, we share staff concerns that some crisis legacies persist, the share of mortgages with long-term arrears remains high, and loan loss provisioning is well below the EU average. Although the reasons for the recent rise in house prices are more benign and fundamentally different from the earlier episode, and strong macroprudential measures are in place, we would welcome household debt repayment measures, as suggested by staff. In the nonbank financial sector, the rapid increase in Irish investment funds and their connectivity to domestic activity call for greater vigilance, especially as Ireland is on its way becoming a major European financial center following the Brexit. As financial firms relocate to Ireland, a high-quality authorization process is in order.

Finally, we welcome the recent steps to increase female labor force participation by addressing high childcare costs and providing universal and income-related subsidies for children along with lifelong learning support, as indicated by Ms. McKiernan and Mr. Mooney. Ireland's commitment to gender equality and social equity is commendable.

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for the comprehensive set of papers and Ms. McKiernan and Mr. Mooney for their informative buff statement. Ireland continues to enjoy strong economic growth, while some risks remain, including a non-deal Brexit, and global risks from a rise in trade protectionism and corporate taxation changes. Given these potential headwinds, we encourage the Irish authorities to implement prudent fiscal policies and set aside sufficient buffers to enhance resilience and mitigate external risks. We associate ourselves with Mr. De Lannoy´s gray, and generally concur with staff's appraisal while adding the following for emphasis.

We encourage the authorities to implement prudent fiscal policies and build buffers against risks. The tight labor market, rising inflation and accelerated wage growth, are signs that the economy is operating at full capacity. These developments also fuel demand for housing and push up housing prices. We share staff´s concern that further economic expansion could lead to overheating and therefore fiscal policy should be geared towards strengthening resilience and preventing the economy from entering a potential boom-bust cycle. We concur with staff that targeting budget surpluses for 2019-2020 and containing expenditure growth are warranted. These measures would also enable the authorities to move towards reducing the relatively high public debt level. As the share of corporate tax in total revenues has increased considerably in recent years and the concentration of corporate tax payers could pose risks, we also advise the authorities to broaden the tax base to mitigate potential fiscal risks.

We acknowledge the authorities' progress in reducing NPLs. We are encouraged by the authorities' efforts and commitment towards preparing the financial sector for Brexit. We commend the authorities for the significant reduction of NPL stock for the five largest banks. However, given the still relatively high comparative NPL ratio, we encourage the authorities to continue to focus their efforts on reducing the NPL ratio to the 5 percent target by 2020.

Rising housing prices warrant close monitoring. The tightening of macroprudential measures has helped mitigate the rise in house prices, while continued strong pressure in the housing market calls for the active use of macroprudential measures. Moreover, as suggested by staff, further efforts on the supply side of the housing would be helpful.

The large and rapidly growing non-bank financial sector could be a matter of concern. While we share staff´s assessment that financial stability risks from the significant growth of the non-bank financial sector appear limited, improving data collection from non-banks, monitoring the build-up of risks and system wide stress-testing, and further strengthening Ireland's already robust AML/CFT regime are welcome.

Ireland's proactive approach in the international tax reform agenda should continue to address digitalization and tax avoidance. We encourage to use proposed changes in international taxation rules as an opportunity to address the increasing dependency on corporate tax revenue.

The authorities should place enhanced efforts towards encouraging female labor force participation. We welcome the authorities' efforts, including the affordable Childcare Scheme. Nevertheless, the female participation rate remains behind the EU average and the authorities should to more to relieve employment pressures and enhance potential GNI by closing the employment gap.

Mr. Moreno and Ms. Mulas submitted the following statement:

We thank staff for its report and informative paper, as well Ms. McKiernan and Mr. Mooney for their candid buff statement. We associate ourselves with Mr. De Lannoy's statement and would like to add the following comments for emphasis:

Ireland's economic dynamism has gone hand in hand with a reduction in social exclusion. In 2018, Ireland's real GDP grew by 6.8 percent, well above the euro area average. The expansion is also substantial in terms of the real modified domestic demand. Also, the unemployment rate has reached its lowest level in ten years, while wage growth accelerated. Additionally, the population at risk of poverty and social exclusion continues to fall in line with the recovery. Against this background, we encourage authorities to persist with their economic reform program to mend remaining crisis legacies, to smooth the profile of the Irish economy, and to enhance an inclusive and sustainable growth.

Downside and increasing risks, particularly regarding Brexit and trade tensions, continue to cloud the economic outlook. Primarily external in nature, these risks relate to uncertainties regarding the terms of the UK's withdrawal from the EU as well as changes to the international taxation and trade environment. The recent escalation in protectionism is particularly challenging for Ireland given its deep integration into global value chains and that its production base is highly concentrated in a small number of sectors. Additionally, we are also concerned about a sustained rise in risk premium in reaction to a disorderly Brexit as households and SMEs remain overleveraged.

Reforming the tax system is paramount. As we have stated in the past, there is a need to protect public finances by broadening the tax base in a growth-friendly way, given the rapid rise in MNEs' operations and their volatility that could lead to a revenue shock. While we agree with staff on the need to preserve the overall high progressivity of personal income taxation, as it has been found efficient in income redistribution and alleviating poverty, we see merits on the proposal of reform to reduce the administrative burden and align work incentives. We also see merits in the proposal to implement a local property tax as it could also impact the housing market. Does staff consider that a local property tax could enhance the rental market? Another key issue is to continue to strengthen the features of the tax system that may facilitate aggressive tax planning. Ireland's tax rules appear to be used by multinationals engaged in aggressive tax planning structures. To address this concern, the authorities have taken steps to amend aspects of their tax system to curb aggressive tax planning, particularly by implementing European and internationally agreed initiatives. Could staff elaborate on the progress achieved so far to prevent aggressive tax practice?

The financial sector has made significant progress since the crisis. The banking sector is gradually improving its assets while maintaining solid capital buffers. Besides, increased portfolio sales are facilitating faster non-performing loans reduction in the banking sector. We encourage authorities to continue to use the positive outlook to leave remaining legacies completely behind. Besides, the authorities have recalibrated the macro-prudential toolkit to increase banks' resilience. The more stringent macro-prudential rules appear to have eased pressure on house prices, notably in Dublin. Despite improvements, housing supply still falls short of demand, fueling property and rent prices. Therefore, we agree with staff that further efforts are needed to address the housing shortage.

We agree on the need to address bottlenecks to foster a sustainable and long-term inclusive growth. The performance of the Irish economy is increasingly dependent on the activities of a limited number of foreign firms. Removing obstacles to the functioning of some key markets would help increase the flexibility and resilience of the Irish economy. Although its regulatory environment remains business-friendly, Ireland has fallen six notches to 23rd place in the World Bank's classification of Doing Business

(World Bank, 2018) and is far from its average position (14th) between 2008 and 2018. This trend needs to be reverted by prioritizing both public and private investment in infrastructure, housing, innovation, skills and social inclusion, particularly by fostering female labor force participation. To this end, we highly welcome the recently introduced National Childcare Scheme designed to address the impediment of high childcare costs to female workers as insufficient provision of childcare is the main cause of high female inactivity. Another important trend that needs to be reverted is the steady rising of greenhouse gas emissions. We welcome the authorities' intention to prepare a new all-of-Government Climate Plan to develop new initiatives across all sectors that contribute to reducing greenhouse gas emissions. We urge authorities to consider all the measures needed to achieve its national climate objectives as Ireland is falling further behind in decarbonizing its economy.

Ms. Mannathoko and Mr. Sitima-wina submitted the following statement:

We thank staff for the comprehensive set of papers and Ms. McKiernan and Mr. Mooney for their informative buff statement.

Ireland has achieved rapid economic growth in recent years, driven by multinational exports. This has enabled a robust external balance, allowing it to face the sizeable risks stemming from Brexit and adverse global trade developments from a position of strength. We note in particular, the extensive preparations made for whatever Brexit scenario transpires. Significant fiscal adjustment will be needed to build buffers against these shocks and reduce public debt to the 50 percent target level. We also encourage the authorities to enact measures to enhance productivity, address housing bottlenecks, and maintain a proactive approach to the international corporate tax reform agenda. We are in broad agreement with the thrust of the staff appraisal and provide the following comments for emphasis.

We commend the commitment to fiscal consolidation that has reduced the public debt ratio and encourage sustained measures needed to place public debt on a firm downward trajectory and boost fiscal buffers against shocks. Given the size of the Irish multinational enterprise (MNE) sector, we commend the authorities' proactive implementation of the international corporate tax reform agenda, including the ongoing efforts to address digitalization and tax avoidance and to implement reforms to reduce profit shifting. We also encourage measures to broaden the domestic tax base. On the expenditure side, we see merit in a deeper review of expenditures to improve efficiency in healthcare and public investment. In this regard, we welcome the introduction of the Investment Projects and Programmes Tracker which would enhance transparency and monitoring of expenditures but also assist in efforts to close Ireland's efficiency gap. We welcome the allocation of resources to the Rainy Day Fund and the commitment to reduce public debt over the medium term, noting that population aging will increase fiscal pressure in the future.

Preserving financial sector stability and resilience is essential in preparation for Brexit, and in this regard the health of banks in Ireland and the positive stress test results, are encouraging. It is reassuring that the stress scenario assuming a no-deal Brexit outcome conducted by the Central Bank of Ireland, suggests that banks would remain resilient in case of a disorderly Brexit. On the issue of non-performing loans (NPLs), we commend the authorities on the significant reduction in the NPL ratio since its 2013 peak. Nevertheless, while we note that domestic banks are well capitalized and liquid, NPLs ratios remain high, requiring further measures. Given that the provisioning for impaired loans is below the EU average, we urge the prioritization of supervisory efforts to bring the NPL ratio down to the 5 percent target. Staff views on potential housing market risks that may exacerbate this ratio in the medium term are welcome.

We also wish to highlight the importance of further strengthening the AML regime given the extensive linkages of the financial sector with the global financial economy. With respect to the non-bank financial sector, given its rapid growth, we also concur with staff on the need to closely monitor the build-up of risks, develop system-wide stress testing and continue intensive international cooperation between supervisors.

Efforts to increase the housing supply need to continue. Reflecting supply shortages, house prices have maintained their upward trend although at a slower pace suggesting the need for a better supply response. We see merit, therefore, in pursuing structural measures such as proper zoning and planning to support housing construction in areas where demand is high. Streamlining administrative measures and improving access to finance for construction firms are also important. Although macroprudential policies appear appropriate, we support expanding the toolkit to better monitor mortgage repayment capacity by complementing the current loan-to-value and loan-to-income ratios with debt-based measures.

Besides housing, efforts to address structural constraints related to gender, productivity and skills gaps also have our support. While aggregate productivity in Ireland is higher, and growing faster than in most European countries, a sectoral breakdown shows that productivity in some sectors including agriculture and transportation has declined. In this respect, we encourage the authorities to put in place measures to improve the business environment, targeting investments in infrastructure, skills development and research and development. At the same time, eliminating the skills gap and skills mismatches, and improving female labor participation (which lags behind the EU average) will also support productivity. We welcome the Affordable Childcare Scheme; we anticipate that it will boost female labor participation among low-income families.

With these comments we wish the Irish authorities continued success.

Mr. Raghani and Mr. Bah submitted the following statement:

We thank staff for the set of reports on Ireland, including the useful Selected Issues Paper as well as Ms. McKiernan and Mr. Mooney for their informative buff statement.

Steadfast implementation of sound policies and reforms over the recent years has led the Irish economy to achieve robust growth and enhance its resilience to shocks. Driven by vigorous external and domestic demand, real GDP grew by 6.8 percent in 2018 and growth is expected to remain in favorable territories in 2019 and over the medium term albeit a significant deceleration with respect to the recent momentum. We also note that the unemployment rate reached historically low levels at below 6 percent in April 2019 with upward pressures on wages, reflecting a tight labor market. In addition, public finances have improved significantly while the current account surplus has further increased.

Going forward, Ireland’s economic outlook remains favorable. However, vigilance is required to contain the impact of downside risks if they came to materialize. A disorderly Brexit represents a significant risk. Furthermore, rising global trade tensions and unexpected changes to corporate tax planning of multinational companies based in Ireland could negatively impact the Irish economy and public finances. To mitigate these risks, the authorities have commissioned an extensive analysis of their macroeconomic impact and developed a Government’s Contingency Action Plan to support key economic sectors should Brexit materialize. In the same vein, we welcome the comprehensive financial sector contingency plan prepared in collaboration with the EU and the UK authorities. Moreover, as Ireland is viewed as particularly vulnerable to Brexit, we encourage the authorities to step up efforts to address the fiscal, financial and structural vulnerabilities of the economy. In this regard, we broadly agree with staff's policy recommendations and would like to provide the following comments for emphasis.

We welcome the authorities' s commitment to further strengthening public finances. Given the increased spending pressures stemming mainly from public investment and repeated healthcare overruns, fiscal policy should focus on expanding the fiscal space required to face potential adverse shocks. To this end, saving additional corporate income tax, streamlining VAT preferential rates and exemptions, and reforming the income tax will be critical. On the expenditure side, we see merit in enhancing control on spending and increasing the efficiency of public investment. These measures should help reduce vulnerabilities to shocks and allow faster public debt reduction while achieving the overall fiscal surplus set for 2019. Regarding the Social Insurance Fund, we agree on the need to strengthen its financial soundness in a context of increases in pensions and other social expenditures associated with aging population. The authorities' ongoing efforts to upgrade their climate strategy to meet the 2030 carbon emission targets are commendable. Regarding the international corporate tax reform, we encourage the Irish authorities to pursue their proactive approach and praise their efforts in implementing the G20/OECD BEPS actions to reduce profit shifting and achieve greater tax transparency and information sharing.

Good progress has been achieved in strengthening the financial sector's resilience, and more is needed to preserve financial stability. Irish banks are well capitalized and liquid. This performance is to be maintained as the non-bank financial sector is also growing fast. We welcome the policy and structural actions taken by the authorities to accelerate the reduction in the NPL ratio. While taking note of the progress made by the authorities on this front, could staff elaborate on the feasibility of achieving the 5 percent NPL ratio by 2020? Further efforts to strength banks' business models, enhance the central bank's macroprudential toolkit and expand stress tests will also be necessary to appropriately address the sector's emerging vulnerabilities. The transposition of the 4th EU Anti-Money Laundering Directive into national legislation is a welcome step as it will reinforce Ireland's anti-money laundering regime and help preserve the integrity of its financial sector.

Further efforts are required to tackle the housing shortage and increase labor force participation. In a context of demographic growth and strong employment rate, we agree on the need to boost the housing supply which will also help improve houses' affordability. In this regard, we appreciate the authorities' ongoing five-pillar strategy and the creation of Home Building

Finance Ireland to foster further investments in the sector. The country has made meaningful progress on the migrant integration front which raises overall labor force participation and increases the economy's productive capacity. In the same vein, we welcome the recent initiatives to increase the female labor force participation and close the gender gap in employment. We invite the authorities to boost spending in research and development and support further the increase in the absorptive capacity of small- and medium-sized enterprises (SMEs), with the view to unleash their potential growth.

The representative from the European Central Bank submitted the following statement:

We would like to thank Staff for their report and Ms. McKiernan and Mr. Mooney for their buff statement. We associate ourselves with the statement by Mr. De Lannoy.

The outlook for the Irish economy remains favorable; yet, there are downside risks, primarily external, and vulnerabilities remain. The Irish economy has been growing strongly supported by both the external sector and domestic demand. For the latter, investment in the rebounding construction sector has been an important driver of growth, along with private and public consumption. There are, however, some signs of tightening economic slack, particularly in labor market and domestic inflation developments. Therefore, we agree with Staff that preventing the re-emergence of excessive boom-bust dynamics and setting aside sufficient buffers to increase resilience to external shocks is a key challenge for Ireland. External risks mainly relate to Brexit, trade tensions and international taxation developments. Persistent stock imbalances, most notably elevated household debt, also increase Ireland's vulnerability to shocks.

We would like to make some observations on Staff's recommendation in the RAM that, in response to selected risk scenarios, "ECB policy actions should contribute to reviving growth and could also aid competitiveness". As noted already on the occasion of last year's Article IV report, we have some reservations regarding the formulation of this recommendation given Ireland's membership in the euro area. If the recommendation is intended with respect to the Irish economy specifically, we would like to recall that national policies have to be used to address country-specific macroeconomic developments in currency union member states. ECB monetary policy is geared towards maintaining price stability in the euro area as a whole and cannot be tailored to the needs of an individual country. If this policy recommendation is, instead, intended for the euro area as a whole, it would be more appropriate to include this risk assessment in the euro area Article IV report, in case deemed appropriate from a euro area perspective.

Fiscal policy should aim at building buffers and reducing vulnerabilities, in particular by avoiding contributing to overheating risks and by diversifying revenue sources. Although Ireland is in compliance with the fiscal rules and the general government deficit has continued to decline, this decline appears to reflect to a large extent the favorable cyclical position and strong corporate tax revenues, while the underlying structural fiscal effort is more limited. An argument could be made that a more substantial fiscal surplus should targeted already in 2019 as a counter-cyclical macroeconomic measure, particularly in view of the nascent signs of overheating. More generally, prudent expenditure management, ongoing debt reductions and broadening of the tax base would enhance the resilience of public finances to economic fluctuations and adverse shocks. The newly established Rainy-Day Fund is welcome, although the expected contributions of EUR 0.5bn appear relatively modest and its design as a counter-cyclical economic tool could be improved.

As regards structural policies, we agree with Staff on the importance of closing the productivity gap between domestic and foreign-owned firms in Ireland. This would help improve the prospects for longer-term growth in Ireland and would also be desirable in view of the risks arising from changes to the international taxation and trade environment and their possible impacts on the activities of MNEs in Ireland.

As regards the financial sector, significant progress is being made in the efforts to reduce legacy NPLs. While Staff rightly points out that these efforts should continue, greater recognition could have been given to the very significant increase in the pace of reduction that has been achieved over the past year. Looking ahead, Staff state (Para. 23) “enhanced supervisory efforts are needed to reduce the NPL ratio to the 5 percent target by 2020”. We would like to emphasize the recent regulatory/supervisory initiatives (such as the recommendation and the addendum to the NPL Guidance aimed at increasing the coverage of long-dated NPLs) and instead put the emphasis on the need for their implementation by banks.

In a more technical vein, we consider that Staff’s discussions of provisioning levels could have been more elaborated and nuanced. While it is correct that provisioning for impaired loans remains below the EU average and has decreased slightly recently, the underlying situation is less clear-cut as comparisons over time and across countries have to take into account a number of special factors. For instance, the recent slight reduction in coverage ratios in 2018 is partly related to the sale of large NPL portfolios in long-term arrears with relatively high provisions. Furthermore, composition effects are relevant with respect to cross-country comparisons, given the relatively large proportion of the NPL segment classified as Unlikely-to-Pay (UtP) or past due (PD) for less than 90 days which have lower coverage ratios. Ultimately, what is important is that banks do not provision too little for their mortgage exposures because of optimistic expectations about the future growth of real estate prices.

While there are some signs of pressures building up, there is little evidence of broad-based significant financial stability issues and the active use by the Central Bank of Ireland of the existing macroprudential policy toolkit is to be commended in this regard. The upswing in the financial cycle in Ireland continues to be supported by strengthening, albeit contained, credit dynamics. New lending (in particular for mortgages) is robust but does not appear excessive for the moment. The active use of Ireland of the existing macroprudential policy toolkit is already making an important contribution to reducing the risks of a renewed boom-bust cycle and to mitigate negative effects from any potential negative shocks to the financial system. We also share the conclusion from the special issues note on the non-bank sector that the potential build-up of vulnerabilities related to the rapid growth of the investment fund sector should be closely monitored, even if risks remain contained for the moment. We also share the view that, although the macroprudential setting appears appropriate, the available toolkit should be expanded, in particular with the addition of a Systemic Risk buffer (SyRB).

We welcome staff's assessment that the financial sector's preparation for Brexit appears broadly adequate to mitigate possible major disruptions. The Central Bank of Ireland and the ECB continue in close cooperation to thoroughly and closely monitor Brexit contingency planning of Irish financial firms.

The Acting Chair (Mr. Furusawa) made the following statement:

The Irish economy is doing very well. Growth is strong, underpinned by robust external and domestic demand. In addition, public finances have improved, and unemployment is down to historic lows. Despite the fact that Ireland's robust economic performance is expected to continue, the economy is facing risks from Brexit, global trade developments, and domestic capacity constraints. As you have noted in your gray statements, the authorities also agreed that the policy priorities should focus on building buffers and further strengthening the resilience of the economy.

Mr. De Lannoy made the following statement:

I thank the staff for the insightful set of papers and Ms. McKiernan and Mr. Mooney for their helpful buff statement. On behalf of my European colleagues, I would like to highlight a couple of points. The Irish economy is growing strongly, and this is expected to continue. Moreover, this growth does not only come from multinational enterprises but also from domestic drivers. Unemployment is on a declining path, and previously ailing sectors, such as construction, are recovering. However, there are external risks on the horizon, the most prominent being a no-deal Brexit.

While international tax reforms could also impact GDP growth and government revenues, the active participation of the Irish authorities in international tax initiatives is seen as a mitigating factor. In addition, high external and household indebtedness are key vulnerabilities for Ireland. We agree with the staff that preventing the re-emergence of boom-bust dynamics and setting aside sufficient buffers to increase resilience to external shocks are an imperative for Ireland. Ireland’s general government deficit and public debt are on a declining trend, with public debt now being below 65 percent of GDP. We welcome the authorities’ commitment to continue on this path by increasing surpluses in 2020 and beyond, which would also imply stepping up their structural efforts. Going forward, we see room for further increasing of spending efficiency, reducing the high dependence on corporate tax revenues, and using windfall revenues as planned to reduce government debt while avoiding procyclicality.

Let me make few points on the financial sector. First, the Irish banking sector is well capitalized, and significant efforts have been made to further reduce the stock of nonperforming assets. Several recent regulatory and supervisory initiatives should also further contribute to a decline in nonperforming levels.

Second, on Brexit, we welcome the fact, and we agree with staff’s assessment, that the financial sector’s preparation for Brexit appears broadly adequate.

Third, on the non-bank financial sector, which accounts for 80 percent of total financial sector assets and which is rapidly rising, I would like to welcome the proactive attitude of the authorities. They have actively used the macroprudential toolkits, and the Central Bank of Ireland has performed considerable analysis on interlinkages of the market-based financial sector with the domestic sector. Given the size of the sectors, we would encourage the authorities to remain vigilant, improve data collection from non-banks and further strengthen the macroprudential toolkits.

Turning to structural policies, we encourage the authorities to continue enhancing labor market participation as Ireland's impressive economic growth has tightened the labor markets. We also welcome the comprehensive housing strategy, mentioned by Ms. McKiernan, which would ease housing constraints and streamline administrative requirements.

Finally, on monetary policy, we were somewhat surprised to read in the Risk Assessment Matrix that in response to selected risk scenarios, European Central Bank (ECB) policy actions should contribute to reviving growth and could also aid competitiveness. ECB policies cannot be tailored to the specific needs of one member alone but are tailored to the needs of the euro area as a whole. We believe that the euro area Article IV consultation would be the appropriate place for recommendations linked to the European Central Bank.

Ms. Mannathoko made the following statement:

We also thank Ms. McKiernan and Mr. Mooney for their buff statement and staff for the report. We have already issued a gray statement, so I will limit my intervention, but first we wish to commend the Irish authorities on the economy's impressive recovery, especially after the global financial crisis, and the continued strong growth that we have seen. However, as has been mentioned, there are significant risks facing the economy, so we did agree with the need to build buffers and strengthen resilience.

I had one general point. We had a question on nonperforming loans (NPLs). The significant reduction in the share of NPLs in loans after the global financial crisis is commendable, but the question really is related to the legacy of the global financial crisis, which has not really fully worked itself out of the economy—and the high-level of household debt, a significant share of which is mortgages, is an example of this. We had a question regarding the advice being given to authorities regarding the high household indebtedness from mortgages and the potential risks from the housing market should the economy experience a significant shock, because it is facing potential shocks now. Maybe the staff could comment on the broader implications should the economy slow down following Brexit, what the housing market implications might be, especially if we are expecting housing prices to peak and either stabilize or if the housing bubble bursts.

Mr. Mouminah made the following statement:

We thank the staff for the well-written set of reports and providing the answers to our questions. We also thank Ms. McKiernan and Mr. Mooney for their helpful buff statement. We issued a gray statement welcoming the continued strong economic growth, solid job creation, and further improvement in public finances in Ireland. In my intervention, I would like to focus on two things, housing and VAT-related issues.

On housing, we welcome the authorities' comprehensive strategy, as noted by Ms. McKiernan and Mr. Mooney. We are also assured by the recognition that more work is required to meet the growing housing demand. Brexit is likely to accelerate immigration, especially in the IT and the financial services sectors following relocation of financial firms from the United Kingdom to Ireland and worsen the housing problem.

We understand that one of the main drivers of improvement in living standards in Ireland has been accumulation of properties, primarily through owning one's home. We are wondering if the secular decline in the home ownership rate of the Irish population over the last two decades is likely to continue in the period ahead, and whether this is a matter of concern based on our understanding that housing ownership peaked at about 79 percent in 1991, and now it is about 67 percent.

On the VAT, we see a clear case for further streamlining preferential rates and exemptions as Ireland has a five-rate system with a maximum rate at 23 percent. In this context, we take positive note of the assessment that narrowing the VAT structure could yield about between 0.2 to 0.8 percent of the GDP and look forward for the reform measures and the safeguards. We wish the authorities the best of luck, and hopefully Brexit gets resolved with minimal impact on Ireland.

Mr. Psalidopoulos made the following statement:

I associate myself with Mr. De Lannoy's gray statement and his oral remarks. Allow me to make the following few points for emphasis.

The Irish economy continues to experience strong growth, which, supported by sound policies, has helped public finances to improve. It reduced unemployment remarkably and decreased NPLs. On the specific point of NPL reduction, we are skeptical about the need for any additional supervisory action to reach the target in 2020, as the tools used so far seem to be more than sufficient to achieve it. As Mr. Moreno and Ms. Mulas reminded us in their gray statement, the economic dynamism has proceeded with a reduction in social exclusion, which we welcome.

In light of the exposure to external shocks, the positive growth momentum helps the authorities focus on policies to manage downside risks and on creating additional fiscal buffers. We see several good actions in this regard, such as the contingency plans envisaged in case of a no-deal Brexit, the Rainy-Day Fund, and other initiatives that address structural bottlenecks and improve potential output.

As most Directors have noted, countering the volatility of corporate income tax is strategic. At the same time, we welcome the actions that the authorities have taken to tackle aggressive tax planning and encourage them to continue to address features of the tax system that may facilitate such multinationals' tax decisions, as also recommended by the European Commission recently. Indeed, the high level of royalty and dividend payments suggests that Ireland's tax rules are used by companies that engage in aggressive tax planning.

Finally, we join Mr. Heo and Ms. Park in encouraging the authorities to engage in ongoing multilateral efforts to address tax challenges arising from digitalization. With these remarks, we wish the authorities continued success.

Mr. Just made the following statement:

We thank the staff for the answers to technical questions and associate ourselves with Mr. De Lannoy's remarks. We were also quite surprised by staff's recommendation that ECB policy action should contribute to revising growth and could also aid competitiveness and look forward to the staff's explanation.

Ireland has staged a remarkable comeback from the crisis 10 years ago but also faces a set of significant risks. The authorities should address those practically and can do so from a position of strength. As there are increasing signs of an overheating of the economy, macrofinancial stability should become the clear priority of the government, not least to forestall the repeat of a boom-bust cycle, but also to improve fiscal sustainability. Certain spending categories have increased strongly, while the financing often relies on corporate income taxation, which could be at risk, as the staff aptly puts it.

Increasing fiscal surpluses should also seek to address the volatility of fiscal revenue and strengthen the resilience of public finances. Taxation is also a powerful tool to address greenhouse gas emissions and green the Emerald Isle.

We highly appreciate the selected issues paper on non-bank financial corporations. This market segment is rising in many countries, but the lack of data on stocks and flows constrains effective supervision. We probably also cannot say with much confidence where risk is actually located. This is a challenge for Ireland but also for many other jurisdictions. We thus wonder whether the Fund in cooperation with the relevant international bodies could increasingly direct attention to those market segments.

Ms. Pollard made the following statement:

We commend the Irish authorities for the progress they have made since the crisis, as exemplified by the strong growth and low unemployment. In our view, the biggest risk facing the economy is the possibility of a no-deal Brexit, and we welcome the steps the authorities are taking to prepare for this possibility. We asked a question in our gray on the recommendations for ECB policy actions in the Risk Assessment Matrix, and unlike my European colleagues, we are not concerned about having a reference to ECB policy but are just wondering when the staff say that they could aid competitiveness, is the staff suggesting that the ECB advocate a policy that would cause a depreciation of the euro?

Second, we asked a question about the current account balance and the staff's forecast for that, and the response in the technical questions said that the staff expects that there will be an increasing deficit in the income balance as a result of future repatriation of multinational enterprise profits, and I am just wondering why the staff expects that to occur. Is this related to tax changes?

Mr. Meyer made the following statement:

I associate myself with Mr. De Lannoy's written and oral statement. I would just like to add three or four points. First, the Irish economy continues to experience strong growth after impressive growth rates over the last few years. Also, the unemployment rate, as others have highlighted, is now moving below 5 percent. It stood at 8.4 percent at 2016. That is impressive. Having said that, as the staff puts it and we agree to that, crisis legacies have diminished, but some vulnerabilities persist, certainly including how Brexit unfolds.

I wanted to comment on international taxation, corporate taxation, and would like to start with the general comment that international efforts to mitigate tax avoidance and international profit shifting should be seen as beneficial for Ireland to achieve the sustainable and fair taxation. Of course, in Ireland this poses also a risk to revenues. In our view, these developments represent a foreseeable structural transformation rather than a shock, as the staff has put it. The real risk would then be a lack of appropriate adjustment of the Irish business model along the lines called for by the staff and would be, in that sense, domestic in nature. In that regard, we were surprised by the staff's classification of an external risk with negative spillovers in the document.

On fiscal, we encourage the authorities to use the currently favorable environment for a more ambitious fiscal consolidation path. In that regard, we echo the staff's call for policy measures to build buffers and at the same time avoid a further boom-bust cycle. Potential for the windfall gains should be used to accelerate the reduction of the debt ratio, as also recommended by the European Council. We take positive note of the authorities' commitments in this regard.

Third, we highly welcome the authorities' intention to further strengthen financial sector resilience. The banking sector appears overall sound. Also, still high levels of NPLs and below-average provisions require further efforts. We join the staff's call to further strengthen the macroprudential toolkit and ensure an appropriate Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework.

Finally, to further generate ongoing sustainable growth, we call on the authorities to tackle key structural impediments. This concerns measures to ease housing supply constraints and streamline administrative requirements in that regard. Financial support should be targeted at low-income households. We welcome the comments made in the buff statement by Ms. McKiernan and Mr. Mooney on the comprehensive government housing strategy, and with this, I wish the authorities all the best.

Mr. Sigurgeirsson made the following statement:

I associate myself with the remarks made by Mr. De Lannoy this morning, and we have issued a comprehensive gray, and I would just like to emphasize a few points.

First, we welcome the authorities' efforts to tackle the gender gap, including launching the affordable childcare scheme. Lowering costs for quality childcare provides an incentive for women to rejoin the labor force sooner after childbirth. Nevertheless, the female participation rate remains below the EU average, which is unfortunate given the stretched labor market. In a number of countries in my constituency, concerted efforts to close the gender gap have proven successful in increasing female labor force participation. Strong policies which sometimes had been seen as controversial have proven efficient, including promoting flexible work schedules, equal sharing of parental leave, and financial incentives to promote female entrepreneurship. Some countries have even gone as far as having mandatory quotas and equal pay assessments.

Second, a lot of water has gone under the bridge in the 10 years that have passed since the financial crisis, where my country and Ireland were the most exposed, and it is likely that this event will stand as a historical milestone in both countries despite our long history.

In light of the different routes taken in the resolution of the financial sector, it has been interesting to observe the successful revival of the two countries. Ireland has fared remarkably well, much better than anyone had expected. With this experience, the authorities should be in a better position than before to gauge risks in the financial sector, and we encourage the authorities to monitor closely the rapid growth of the non-bank financial sector. Experience should teach us that a spike in one segment of the financial sector is likely to emerge as a problem, be it big or small, in some corner of the economy sooner or later.

Mr. de Villeroché made the following statement:

I associate myself with Mr. De Lannoy's comments and would like to add the following points.

First, on the recovery that Ireland experienced, we had strong growth performance over the recent years. Unemployment is now at a particularly low level, and this is an excellent result. Like many other Directors, we see Ireland as highly exposed to a no-deal Brexit, as Ireland is a small and open economy. We think it is the main risk going forward.

I have comments on the external sector first. We note that the current account remains massive. We struggle a bit to assess what are the underlying factors of that. As we said in our gray statement, we would recommend using the 2018 refinement of the External Balance Assessment (EBA) methodology, which aims to better account for bias in the measurement of the current account by including statistical treatment of financial returns, meaning returned earnings on portfolio equity, rather than using an ad hoc ratio, as mentioned above.

More globally, as we did the Article IV review for the Netherlands, we encourage the European Department (EUR) in close cooperation with the Research Department (RES) and with the Statistics Department (STA) to dedicate more resources to work on data reconciliation so as to ensure that we have the most accurate picture as possible of the current account.

As we know, statistical bias is often associated with multinational corporates and profit shifting. We also struggle to measure productivity. We know that the pretax corporate profits [offering] firms account for [800] percent of employees' compensation in Ireland, and we can wonder if the calculation of productivity is completely reliable.

My second point goes to international corporate taxation, and I fully associate myself with the comments made by Mr. Meyer. While we see a struggle against tax avoidance as a global public good, and we are a bit surprised on the way it has been presented and framed in the report, we do not see it as a risk. We think it is something on which Ireland will have time to adapt but will need to adapt. There is the case for the staff to work more constructively with Ireland on how this adaptation could take place. This is our recommendation. We are very happy that Ireland is proactively engaged in tax discussions at the OECD. We hope that being proactive will mean, being constructive to move forward this agenda, and not being only on the defensive, as has too often been the case in the past.

Last comment on the financial sector, significant progress has been made on the reduction of NPLs. This effort needs to be continued. Macroprudential measures could be reinforced. Debt-based measures to better take into account the household solvency profile may be helpful in that regard.

Ms. Mulas made the following statement:

We associate ourselves with Mr. De Lannoy's statement and his remarks today. We have issued a gray statement, and we would like to emphasize the following four points.

We would like to highlight that Ireland's economic dynamism has gone hand in hand with a reduction in social exclusion. Not only has Ireland grown with vigor, and its unemployment has reached its lowest level in 10 years, but the population at risk of poverty and social exclusion has continued to fall in line with the recovery. We commend authorities for this progress and encourage them to continue with such an inclusive growth strategy.

On Brexit, we consider it very interesting the point raised by Mr. Lopetegui and Mr. Vogel on the need for timely and transparent information to encourage firms and households to be prepared for any scenario. Indeed, the staff highlights in its responses that the non-financial sector is less well prepared than the financial sector. Therefore, it is important to continue to raise awareness, especially among small- and medium-sized enterprises (SMEs), on the need to plan their own strategies on Brexit, particularly for a non-deal scenario.

We fully share Mr. Meyer's comments, which have been supported also by Mr. de Villeroché, regarding the international effort to integrate tax avoidance and international profit shifting. We fully agree that these efforts should be seen as a forceful structural transformation, rather than a shock to Ireland. Therefore, we encourage the authorities to put in place all the measures needed, including reforming the tax system, to be prepared for such a structural transformation. In this vein, we welcome that the authorities have published a corporate tax roadmap which specifies deadlines for full implementation of agreed EU and G20-OECD reforms, as the staff noted in its responses.

Finally, we commend the authorities for their efforts to address two major issues that are lagging: female labor force participation and greenhouse gas emissions. We applaud the measure already envisaged, and we encourage authorities to be ambitious to revert the current trends as soon as possible. With these comments, we wish the Irish authorities continued success.

The staff representative from the European Department (Mr. De Vrijer), in response to questions and comments from Executive Directors, made the following statement:[7]

> We thank Directors for their insightful gray statements and their agreement with the thrust of the staff appraisal. In addition to the written responses to technical questions provided yesterday, I would like to address some broader issues and try to answer some of the questions that you raised. As noted in the staff report and by many Directors, the main economic challenge for Ireland at this juncture is to avoid that the rapid rate of economic expansion runs into capacity constraints and puts excessive pressure on the labor market while at the same time preparing for the possibility that sizeable external risks materialize, notably a no-deal Brexit. Some tightening of fiscal policy would facilitate achieving both objectives by alleviating demand pressures and building buffers that can be used in time of need. Saving any additional corporate tax windfalls and avoiding further spending overruns in health care would go a long way toward achieving the recommended budget surpluses.
>
> The staff has recommended undertaking a reform of personal income taxation. Such a tax reform would not be primarily aimed at raising additional revenues but rather at assuring revenue stability through a broader tax base and reducing the dependency on potentially uncertain corporate income tax revenues.
>
> The government has recently started work on background studies for a personal income tax reform, assessing and costing options for a single personal income tax with Universal Social Charge (USC) features. These could include further individualization of income taxation and increasing the number of tax bands and rates. As of now, no specific features or timeline for such a reform have been announced.
>
> In response to one of the questions in the gray statements, staff does not currently envisage the need for budgetary spending cuts in case tax broadening reforms take some time.
>
> As noted in the report and underlined by Directors, it is equally important for Ireland to continue its proactive approach to engaging on the international corporate tax reform agenda and implementing agreed reforms. The authorities fully concur, and the implementation of the corporate tax

[7] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

roadmap would be an important step in realizing the agreed base erosion and profit shifting (BEPS) actions and the EU anti-tax avoidance directives. Furthermore, international reforms are being discussed at the OECD to address tax issues related to the digitalization of the economy as well as remaining profit shifting. These discussions aim at reaching a multilateral consensus-based solution by 2020. This work program has been endorsed by the recent G20 meeting and was embraced by the Irish Minister of Finance in a recent speech. At this stage, it is too early to be confident about the precise nature of such a multilateral solution. However, as noted in the 2018 selected issues paper, it is likely that digital taxation would reduce taxable profits in Ireland, hence corporate tax revenues. Because it is difficult to quantify the impact of such new measures, we continue to see this as a risk rather than as a known event that requires a transformation already, but it is clear that there is a strong determination to reach agreement on further reforms, and once there is more clarity on what these reforms are, then it is no longer a risk but a realized event. All this underscores the staff's advice to broaden the Irish tax base and reduce reliance on thus far buoyant corporate taxes.

On the housing market and household indebtedness, house prices are close to fundamentals and basically driven by stronger demand for housing than supply. Even if there would be a Brexit shock, that may have an impact on the economy. However, there will be relocation of financial institutions to Ireland. The net effect on the housing market is difficult to gauge at this point, but we do think that the risk of a sharp drop in house prices, also because there has not been an excessive credit boom related to the housing market, is fairly low at the moment.

On the declining rate of home ownership, we have not closely looked into this issue, but we suspect that it has to do also with the changing composition of households. One interesting fact is that of the list of households eligible for social housing, about 70 percent of these households are one or two-person households, so it may well be that the changing composition of households demanding housing also leads to greater preference for rental apartments rather than the traditional family houses that were owned by households.

On NPL reduction, we fully agree with the intention of the government to use the full toolbox to further reduce NPLs, and supervisory action would be part of that. But over the last year there has been quite a lot of progress made in the sale of NPL portfolios, and that is a perfectly fine instrument as well.

On the ECB question, while a no-deal Brexit is clearly a key adverse risk for Ireland, the Risk Assessment Matrix annex to the staff report lists several other important risks for Ireland as well. A combination of a no-deal Brexit with weaker-than-expected global growth, for example, would be very challenging. In this context, the policy recommendations included in the Risk Assessment Matrix related to the ECB inadvertently gave the impression that ECB monetary policy actions can be tailored to the needs of an individual country rather than being geared toward the euro area as a whole. The intent of this was that if these shocks were to sufficiently affect the union-wide economy, ECB action would be a likely response. To correct this evident ambiguity, we have issued a correction in the staff report.

On the balance of payments, the key driver in our baseline projection for the reduction in the surplus over the medium-term is that some of the financial flows leaving Ireland that we have seen in 2018 would continue, and to some extent this may be related to the U.S. tax reform, but we do not exactly know to what extent this was the case. This baseline and the balance of payments projections in general are surrounded by significant uncertainty, and we have to keep an open mind that this could change.

On the External Sector Assessment, there is data work ongoing and methodological work ongoing in Ireland to get a better handle on the balance of payments developments and the financial flows related to current account activities. It is fair to say that this work is still ongoing and may be not as advanced as in some other countries. This is the reason that we used this method in the staff report. But as data improvements progress, we will certainly consider using the EBA method, the additional EBA method next year.

Ms. McKiernan made the following concluding remarks:

I thank Directors for their constructive comments. I appreciate that these are broadly supportive of the policy position adopted by our authorities, while also highlighting areas for additional work.

Ireland has built its post-crisis recovery into a strong current position. The strength of domestic demand on the labor market, combined with positive external demand, helped to broaden and deepen the growth, while also working off many crisis legacies. But even as the memory of and the legacy problems of the crisis in Ireland begin to fade, there is a deep intent not to repeat the mistakes of the past, and that applies especially in relation to fiscal, banking, and credit areas. That guides policy and politics in Ireland today and is reflected in important policy shifts since the crisis, notably in relation to macroprudential policy and also on fiscal policy with the building up of the Rainy-Day Fund and the commitment to save future corporate tax windfalls to increase financial buffers.

As the staff report notes, the risks are mainly on the downside. Our authorities fully agree and are keenly aware of the need to build buffers and to plan for more uncertain times ahead. I will just pick up on a few of the recurring themes in the gray statements and the discussion this morning. One was on the multinational sector in Ireland and the associated corporate tax issues. I reiterate that the corporate tax rate is just one of the many reasons that multinationals locate in Ireland. As a small open economy, Ireland has over a long period built its strong, positive orientation to international trade through labor market, legal, business, and social frameworks that facilitate inward and outward trade and investment.

With the youthful, well-educated labor force, Ireland has been ranked first in the word for flexibility and adaptability of workers, and our education system has been key. It has been ranked among the top 10 in the world with one of the highest percentages of population who have completed third-level education. Innovation is hugely valued, and companies can avail of financial incentives and collaborate with industry and business.

Our pro-business environment has been adapted to enable companies to set up swiftly with minimum red tape in a connected environment. But despite all these advantages, we are not complacent about the risks to international trade and openness, and none of this is to in any way take away from Ireland’s intent to continue to plan for and engage on international tax reform, and in particular, on corporate tax reform. Ms. Mulas referred to our corporate tax roadmap, where we have a very concerted strategy in terms of how we work on improving our dealing with corporate tax issues that are currently underway, and we are heavily engaged in the OECD agenda to come up with an international multilateral solution.

Our authorities are fully aware of the situation regarding female labor force participation. In Ireland there are now more women at work and financially independent than ever before, but we are aware that far more work is needed. This week the Taoiseach announced the setup of a Citizens Assembly starting in October to examine and make recommendations on the issue of gender equality. The Citizens Assembly approach was used to tremendous effect in Ireland over the last couple of years to get broad buy-in that facilitated substantial changes in the law on some of the most contentious social issues that Ireland has had to grapple with in recent years. Mr. Sigurgeirsson, I want to invite you to give us some input to the Citizens Assembly because you mentioned many important lessons from your experience.

I will now turn to Brexit, is the biggest challenge facing Ireland at present. In the absence of policy intervention, the spatial and the sectoral shape of the economy would change. Cities are growing from the influx of firms, especially in the financial sector, whereas the regions would suffer most as the most impacted factors would be SMEs, such as in transport and agricultural and business. But as I said at the Board last year, the economic impacts are, in the minds of the Irish people, far less important than the desire to protect peace on the island of Ireland, which is synonymous with no border between north and south. No border is a symbol of conflict resolution and economic progress.

The so-called Ireland-U.K. land bridge and integrated supply chains are the language of economic prosperity, but they have been built on peaceful foundations. In all the negotiations so far, all sides are have worked to that solution, and that can get lost in all the contentious debate around Brexit; so the Irish authorities are extremely grateful to U.K. and EU colleagues alike for putting that border issue central to the discussions despite all the difficulties, and we remain hopeful for that outcome. However, to be in a position to deal with a different outcome, our contingency plans for border controls have now ramped up, particularly now that our financial sector contingency planning and legal frameworks for a no-deal Brexit have been developed.

Finally, could I say a special thanks to the mission team led by Mr. De Vrijer. Your interactions with the authorities were always constructive, and your policy advice appropriately penetrating and much appreciated.

In general, our authorities would also like to support the Fund for its advocacy for multilateral solutions to global problems, especially on global trade and climate change, which has led to an increased focus in national decision making and certainly is helpful for our authorities in prioritizing those issues to a greater extent. Could I just as an aside say a special thanks for the selected issues paper on the non-banking sector, because we saw that as a public good that provides value outside of just the Irish Article IV because it analyzes an area of increasing importance in our general work.

Before I sign off, to refer to one of Ireland's other great exports, which is our literary heritage, this Sunday is Bloomsday, the central day in James Joyce's *Ulysses*. One of James Joyce's most famous quotes is: "To learn, one must be humble, but life is a great teacher." My favorite is: "From the sublime to the ridiculous is but a step."

The Acting Chair (Mr. Furusawa) noted that Ireland is an Article VIII member, and no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Ireland's strong, broad-based growth, bringing unemployment down to historical lows and strengthening public and private balance sheets. Directors noted that while the outlook remains favorable, there are challenges from domestic capacity constraints and external downside risks, notably a no-deal Brexit, escalation of global protectionism, and adapting to ongoing international tax changes. Against this background, Directors encouraged the authorities to strengthen fiscal buffers, address key structural bottlenecks to growth, and continue preparing for Brexit.

Noting the advanced cyclical position and external risks to the outlook, Directors encouraged the authorities to accelerate fiscal consolidation to alleviate demand pressures and build buffers. They saw merit in saving additional corporate tax revenue, broadening the tax base to reduce dependency on uncertain revenues, reforming personal income taxation to make it more efficient, and enforcing spending limits. They underscored the importance of ensuring value-for-money in public infrastructure investments. Directors supported establishing the Rainy-Day Fund as a fiscal tool for unforeseen events and welcomed the authorities' commitment to using all proceeds from financial sector divestments to reduce public debt. They encouraged the authorities to continue implementing the international tax reform agenda, develop an ambitious strategy to achieve Ireland's climate change commitments, and strengthen the long-term financial soundness of the Social Insurance Fund.

Directors acknowledged that Ireland is uniquely vulnerable to a no-deal Brexit. They concurred that, if this risk were to materialize, the government should let automatic fiscal stabilizers operate freely and provide targeted support to hard-hit sectors. A fiscal stimulus may be called for, depending on the severity of the downturn in the broader economy. In case of a sharp credit contraction, Directors considered that the countercyclical capital buffer could be released.

Directors welcomed the progress in balance sheets repair of the domestic banks but stressed that continued efforts to improve asset quality remain a priority. To help reach the targets for NPL reduction, they supported measures to accelerate legal processes, encourage creditor-borrower engagement, and enhance supervisory efforts. Directors welcomed the proactive use of macroprudential policy tools and endorsed the expansion of the toolkit with a systemic risk buffer and debt-based measures. They also encouraged further strengthening the AML/CFT framework.

Directors noted the authorities' efforts in data collection on the large and fast-growing nonbank sector. They encouraged the authorities to further improve data collection, closely monitor risk build-up, and develop system-wide stress testing. In view of the sector's global reach, Directors emphasized the need for continued engagement in international cooperation. Close cooperation with the EU and the U.K. should continue to avoid cliff-edge risks related to Brexit.

Directors underscored the importance of addressing key structural bottlenecks to growth. They welcomed the progress in the provision of social housing and encouraged the authorities to continue their efforts to boost housing supply, including through further rationalizing building regulations. Directors recognized the need to boost productivity in domestic firms, also by direct funding of innovation, employee training programs, and infrastructure investments. They supported the authorities' measures to increase female employment, notably through the affordable child care program, and encouraged further aligning educational paths with business demand for high-skilled jobs.

It is expected that the next Article IV consultation with Ireland will be held on the standard 12-month cycle.

APPROVAL: April 6, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook/Risks

1. ***Could staff provide an update whether recent materializations of trade related risks might already have altered the outlook?***

- The impact of trade tensions on Ireland have been very limited so far and we have not revised our baseline projection at this stage. Exports have been growing very strongly last year, driven by MNE pharmaceuticals. The sector-specificity of major MNE exporters in Ireland (computers, pharmaceuticals, and chemicals) may play a role as these sectors have thus far been less affected by trade barriers.

2. ***We note that the Risk Assessment Matrix includes policy responses above what is discussed in the report. For example, it recommends that, in the event of a no-deal Brexit, the central bank should "stand ready to provide liquidity support to banks if needed." The RAM also recommends that "ECB policy actions should contribute to reviving growth and could also aid competitiveness." Could staff provide more clarity on these recommendations?***

- Staff will respond to this question during the Board meeting.

3. ***Annex III states that the government has recently published a set of emergency laws that will be enacted if the UK leaves the EU without a deal – could staff expand on what this covers and their assessment of the Ireland's preparedness for a disruptive no-deal Brexit?***

- The legislation covers a broad range of sectors in the Irish economy, including healthcare arrangements, transport, energy, and education. It allows Enterprise Ireland (the state economic development agency) to support vulnerable businesses through investment, loans and grants for research, development and innovation. Other measures are aimed at ensuring continuity for businesses and citizens with respect to taxation matters, financial services, and cross-border transportation. Given the unprecedented nature of a no-deal Brexit, it is difficult to assess whether the Irish economy as a whole is adequately prepared. Nevertheless, the law should mitigate some of the worst effects of a no-deal Brexit.

4. ***What is staff's assessment of the Brexit's impact on immigration to Ireland, if any?***

- Ireland traditionally has an open labor market and a track record of job-driven immigration. Brexit may accelerate immigration especially in the IT sector and financial services, following relocations of financial firms from the U.K. to Ireland.

Fiscal Policy

5. ***Noting that the authorities broadly share the staff's growth outlook, we would be interested in staff elaboration on the reasons why CIT revenue is at risk, and also why potential output and growth are expected to diminish.***

- The quantified part of CIT revenue at risk (€2-3 billion) relates to MNE activities that have weak links to the domestic economy and are highly concentrated (about 40 percent of overall CIT revenues is paid by 10 companies).
- In parallel, the full implementation of BEPS actions and the EU Anti-Tax Avoidance Directives (ATAD) would limit profit shifting opportunities and close existing grandfathered arrangements in the coming years.
- Output growth and potential growth have been propelled in recent years by activities of MNEs, notably contract manufacturing, which are not expected to continue to expand at high rates under the baseline projection. At the same time, the economy is currently operating near full capacity, which puts limits on sources of expansion.

6. ***In the 2018 Special Issues paper on this topic, staff highlighted that digital taxation proposals could have serious negative implications for Ireland's CIT revenues. We would be interested in staff's views on the impact of more recent developments (including recent dialogue between G20 Finance Ministers) on this assessment.***

- Staff will respond to this question during the Board meeting.

7. ***The authorities have taken steps to amend aspects of their tax system to curb aggressive tax planning, particularly by implementing European and internationally agreed initiatives. Could staff elaborate on the progress achieved so far to prevent aggressive tax practice?***

- Ireland has been compliant with BEPS and ATAD implementation schedules. It also committed to continue implementation and published a corporation tax roadmap, which specifies deadlines for full implementation of agreed EU and G20/OECD reforms.

8. ***Could staff indicate how it assesses the impact of this reform on the taxation of US MNEs located in Ireland?***

- To date, the impact of the U.S. tax reform has had a material impact on FDI outflows, as anticipated by the 2018 SIP chapter on this topic, without affecting substantial activities of U.S. MNEs in Ireland. However, the full effects of the U.S. tax reform may take more time to materialize. At the same time, CIT revenues have continued to increase, in part related to the launch of major export-oriented pharmaceutical production in Ireland.

9. ***We agree conceptually with the fiscal advice in case a no-deal Brexit materializes (automatic stabilizers to operate, targeted and temporary sectoral support, and possible fiscal stimulus), but would appreciate further elaboration from staff on possible cost estimates of such fiscal response.***

- Indicative costs of automatic stabilizers depend on the size of the shock. Every percentage point of output gap reduction is estimated to lower the general government balance by 0.4 percentage point (IMF - SPN/09/23; EC - Economic Papers 452, 2012). Assuming a no-deal, disorderly Brexit would reduce output during the first year by 4 percent, the output gap would decline by 2 percent. For example, if Brexit were to take place on Halloween, automatic stabilizers would cost about 0.2 percent of GDP in 2019 and 0.6 percent of GDP in 2020.
- Resources in the Rainy-Day Fund (about 0.6 percent of GDP at end-2019) and possibly other cash buffers could be activated for targeted unforeseen fiscal support needs stemming from no-deal Brexit.
- However, the ultimate size and cost of the fiscal response to a no-deal Brexit will also depend on the modalities of Brexit and of the EU's support that could be made available to Ireland.

10. ***Given the uncertainty of Brexit and the advanced cyclical position of the economy, we welcome the establishment of Rainy-Day Fund (RDF) this year. In this light, we would like to hear staff's view on the pros and cons between establishing RDF and generating fiscal space in the context of Ireland.***

11. ***Staff suggests using additional unforeseen CIT revenues in the RDF and/or in debt pay down. In staff's view, given the balance of risks, what are the determining factors?***

- Government savings can be used either to directly reduce public debt or put aside as a buffer in the RDF to be used in case of future unforeseen financing needs. Both generate fiscal space in different ways and staff supports the use of their combination. While debt reduction is the default option, savings in the RDF can prove valuable to provide room for maneuver when external financing becomes expensive or not available. The government intends to operate the RDF as a contingency fund. Staff considers that the size of the RDF envisaged by the authorities, about 2 percent of GDP over the medium term, as broadly appropriate.

12. ***In this perspective, the Rainy-Day Fund goes into the right direction, and maybe a share of the CIT revenues – when they exceed a certain level - could be earmarked to the Fund, in addition to the annual contribution. Staff comments would be welcome.***

- Staff supports saving any unforeseen CIT windfalls, including in the RDF. The current setup already allows for additional savings in the RDF, beyond the envisaged annual contribution of €500 mil.

13. ***Specifically, as proposed by the useful Selected Issues paper, there may be merit in reforming personal income tax to provide a stable source of revenue, reduce the administrative burden and align work incentives, while preserving high progressivity. Could staff comment on any plans by the authorities in this area?***

- Staff will respond to this question during the Board meeting.

14. ***We welcome staff's comment on the expected timeline to implement these tax reforms taking into consideration the political appetite, and whether there are mitigating measures, for instance to reduce non-priority expenditures, that should be considered if these reforms are delayed.***

- Staff will respond to this question during the Board meeting.

15. ***We also see merits in the proposal to implement a local property tax as it could also impact the housing market. Does staff consider that a local property tax could enhance the rental market?***

- Higher local property taxes may have two kinds of impact on the rental market and staff considers that both would be small. On one side, higher property taxes would increase opportunity costs of available but not-rented housing and thereby enhance supply of rentals. On the other side, property tax increases will in part be passed on to rents, which may somewhat exacerbate affordability of rental housing.

16. ***Can staff elaborate on the specific areas of current expenditure that can be reduced to help build fiscal space for capital expenditure.***

- The government has been conducting regular spending reviews to improve efficiency. After important cuts during the crisis, current expenditures have been growing moderately, except on healthcare. Therefore, healthcare spending is the prime area of focus for efficiency gains.

Financial sector

17. ***We note in the buff statement that some NPL segments are dominated by restructured loans currently not in arrears. Could staff comment on the size of the share of these NPLs, as well as on the details of the reclassification of such loans back to performing?***

- Staff does not have information on the breakdown of mortgage balances - only aggregate data on restructured accounts that are in arrears is available. These are comprised of loans that had arrears prior to restructuring (but are now performing according to the new arrangement) and loans that have slipped back into arrears post restructuring. However, the data on arrears at end-2018 show that only 4 percent of these are in restructured mortgage accounts meeting the terms of restructured arrangement, 13 percent are in restructured mortgages in arrears, and the majority of arrears is in non-restructured mortgages.

18. ***However, we note that the high stock of NPL weigh on banks' profitability and bank loan portfolio remain heavily concentrated in property-related lending. In this regard, we would like to hear staff about the impact of growing housing prices on the banks' loan portfolio and possible risks of future housing prices adjustment on the banks' loan quality though mortgage lending limits are in place.***

19. ***Given that the provisioning for impaired loans is below the EU average, we urge the prioritization of supervisory efforts to bring the NPL ratio down to the 5 percent target. Staff views on potential housing market risks that may exacerbate this ratio in the medium term are welcome.***

- Domestic banks have a large exposure to property market shocks and a sharp future housing price correction could weaken bank balance sheets. However, given low credit growth, growing housing supply and a moderation in house prices, staff assesses the probability of such a correction to be low.

20. ***Considering the 2018 ECB regulatory and supervisory initiatives, we would appreciate if staff could clarify its advice and be more granular.***

- The ECB addendum applies only to the new NPLs. To address the legacy issues, that are key in Ireland, supervisory engagement remains important. Such efforts would consist of adopting binding guidelines on NPL write offs and on increasing loan-loss provisions.

21. ***While taking note of the progress made by the authorities on this front, could staff elaborate on the feasibility of achieving the 5 percent NPL ratio by 2020?***

- Active use of the full toolkit to reduce NPLs, including restructuring and sale of loan portfolios, should allow the banks to reach this target.

22. ***We also note that one of the causes of the low margins of banks is elevated operational costs. Could staff elaborate more on a background of elevated operational costs and recommended policy measures to tackle it?***

- The main causes of high operational costs are related to NPL management, underinvestment in IT systems, the small market size, and limited economies of scale.

23. ***The authorities have noted the progress in banks' balance sheet repair and the successful issuance of minimum requirement for own funds and eligible liabilities (MREL), and we would welcome staff elaboration on MREL.***

- Two largest Irish retail banks have already demonstrated access to the market with the issuance of MREL eligible debt and are well on track to meet their MREL targets. The third and smallest bank is planning the first sale this year.

24. ***Could staff discuss whether profitability issues and current equity valuations will impact plans to reduce the government's stake in the three major Irish banks?***

- Irish authorities reaffirmed their commitment to disinvest their holdings of bank shares. The timing and phasing of the sales will depend on market conditions.

25. ***Could staff comment on the adequacy of supervisory capacities in the context of a tight labor market and the strong demand for financial sector experts?***

- The CBI is actively increasing the number of employees, including in supervisory department, hiring internationally and expanding the skill set of staff.

26. ***In the selected issues paper, staff mentions a "business friendly regulatory and tax regime" as a driver underlying the growth in non-bank financial assets [Selected Issues, p. 14]. Against this background, we would be interested in staff's further elaborations on the nature of a potential shock. Is the scenario comparable to the case of a tightening in international corporate taxation regimes?***

- Given the large exposures of the funds and vehicles sector to the rest of the world, a potential shock is likely to emanate from a sudden deterioration in the global financial market conditions.

27. ***Could staff provide further elaboration on their recommendation of improving financial access of distressed but viable construction firms? In this regard, how does staff assess the risks of a potentially pro-cyclical market intervention in the construction sector, including possible implications for financial stability?***

- Distressed but viable construction firms are often not able to embark on new projects due to lack of access to working capital. Government support, such as the newly designed Home Building Finance Ireland that will lend to small scale construction firms across Ireland may prove helpful to accelerate housing supply.
- Since housing supply is recovering from below the long-term average of housing completion and leveraged lending is limited by increasingly binding macro-prudential limits, housing boom and financial stability concerns are limited at present.

28. ***Staff discuss use of housing-related macroprudential tools and the counter cyclical and systemic capital buffers – are there any prudential tools available for addressing vulnerabilities specific to the non-bank financial sector?***

- The discussions are ongoing at the EU level, including on the recommendations of the ESRB's Expert Group on Investment Funds to the European Commission. These include recommendations related to liquidity management tools; limiting liquidity transformation; stress testing in investment funds; further guidance on leverage; and possible legislation requiring UCITS funds and their management companies to regularly report data.

29. ***On macroprudential toolkit, we were wondering whether the authorities concur with the staff's recommendation on the need to complement the existing limits on loan-to-value and loan-to-income ratios with debt-based measures (DTI and DSTI).***

- The authorities have established centralized credit registry last year. They are considering whether adding debt-based measures would be feasible and desirable.

30. ***We are encouraged by staff's assessment that the preparation activities in the financial sector appear broadly adequate to mitigate major disruptions. At the same time, could staff elaborate on any contingency plans of non-financial firms and the risks that these firms will prefer not to incur the cost of preparing for a disorderly Brexit (Annex III)?***

- The non-financial sector is less well prepared than the financial sector, especially small and medium-sized firms. Preparations have been uneven and dependent on each firm's technical and financial capacity. Many firms are reluctant to incur the cost of preparing for a scenario that may never materialize. The authorities stressed, however, that more and more firms are making contingency plans and that they provide technical advice and other support for SMEs to prepare for a no-deal Brexit.

31. ***At the same time, we would appreciate staff's additional elaborations on the creation of a systemic risk capital buffer.***

- As a small open economy Ireland is particularly prone to volatility and structural shocks, especially given the significant role of MNEs. Adding a systemic risk buffer (SyRB) to the CBI's macroprudential toolkit would improve loss-absorbing capacity if a systemic risk event occurred. Furthermore, releasing the SyRB in the event of large negative systemic shock would protect credit supply. The CBI has requested the power to institute the SyRB from the Ministry of Finance.

External sector

32. ***Could staff provide further insight on the drivers of the sizable forecasted adjustment in the current account balance (4.5 percentage points of GDP between 2018 and 2024)?***

- The adjustment in the current account balance is mainly driven by the increased deficit of the primary income balance, as staff expects future repatriation of MNE profits, including on their portfolio investments in Ireland.

33. ***First, as the balance of payments data revisions have been reoccurring for many years now involving significant revisions (5,5 percentage point downward revision in the later external stability assessment which also implies strong change in the***

unexplained residual) related to large-scaled operations of MNEs, we are wondering which avenues other than the adjustment made through the trade balance to primary income balance ratio could be explored to make the MNEs activity reporting timelier and more predictable. Has staff reflected on this?

- Large current account revisions have been a recent phenomenon, connected with the 2015 balance sheet relocations of large MNEs (contract manufacturing, import of financial and IT services, royalties, and aircraft leasing). The Irish statistical office has been making very significant efforts to properly account for distortions these operations have brought to Ireland. Nevertheless, ex post revisions have been very large in part because of the need to ensure consistency between MNE profits in the national accounts and the external accounts (notably current account). Until methodological and data issues are more settled, alternative adjustments based on economic concepts seem premature.

34. ***Second, on Ireland's external position evaluation, we would recommend using the 2018 refinement of EBA methodology presented in the 2018 External Sector Report which aims to better accounting for biases in the measurement of the current account by including statistical treatment of financial returns (retained earnings on portfolio equity and inflation) rather than using the ratio mentioned above which is questionable. This ad hoc adjustment 's consistency only relies on the fact that the current account composition is extremely unbalanced in the case of Ireland reflecting sizable net intra-group interest and profits flows. Staff's comments would be appreciated.***

- The operations of MNEs greatly complicate the analysis of Ireland's BOP. The approach taken by staff to adjust the current account balance, though imperfect, leads to a result that is in line with the methodology for estimating measurement biases, as discussed in the technical supplement to the 2018 External Sector Report. Applying that methodology results in a downward adjustment to the current account of 5.6 percent of GDP (equal to a retained earnings bias plus an inflation bias) compared to the downward adjustment of 5.7 percent of GDP derived by staff in Annex II.

Structural reforms

35. ***Do the measures recommended in ¶43 – to address housing shortages and to boost productivity, and better align education outcomes with business needs – go beyond what is being contemplated by the authorities?***

36. ***We seek staff's assessment of whether upcoming housing supply will be sufficient to plug the housing gap so as to moderate price and rental growth, and whether a stronger supply-side response is needed at present.***

- Further policies should aim at removing the large gender employment and pay gaps, also by promoting equal opportunities, flexible work schedules, income tax individualization, and gender pay transparency at company level, and fostering women's entrepreneurship. On productivity, additional policies should be aimed at improving enabling environments in these sectors, including through direct funding of R&D, training of employees, and quality infrastructure investment.

- According to the authorities' projections, the number of completed dwellings will reach its long-term average during the upcoming two years. Already last year, when supply started to pick up, the pace of house price growth has been moderating. With accelerating supply, house price growth is expected to moderate further.

37. ***In this respect, the authorities have envisaged a very ambitious strategy, Future Jobs Ireland 2019 that appears promising if implemented with determination. We would appreciate if staff could provide their views on the expected outcome of this strategy and its implementation.***

- The future jobs strategy defined targets and deliverables in several priority areas – innovation, skills, labor force participation, low carbon economy. These are often 2025 targets and their evaluation would be therefore premature. However, some targets may not be ambitious enough to fully address the skills mismatches, such as in the IT sector.

38. ***On the productivity of SMEs in transportation, accommodation, food services, and agriculture, we note that the average productivity of these sectors have declined over the last decade and these sectors are most exposed to a Brexit shock. Could staff elaborate more on the background of the productivity decline in these sectors?***

- While additional research is needed on the subject, the possible reasons for lagging productivity in these sectors include current structure of the market with large number of small players and the small market size that constrain economies of scale. Additionally, limited absorptive capacity of SMEs hampers greater efficiency gains. The authorities are planning to conduct studies on the issue.

Fund related issues

39. ***We wonder whether the internal consistency of the staff appraisal may not be compromised by switching between the GDP, GNI*, and modified domestic demand throughout the Report. Staff comments are welcome.***

40. ***While we note several references in the documents, we are pondering whether there would be an interest in extending the reliance on GNI to the overall assessment including projections and the impact on the MNEs' intangible assets accounting on growth. Staff's comments would be welcome.***

- GDP is used consistently throughout the report as the benchmark metric, in conformity with international standards. GNI* and modified domestic demand are used where they bring relevant information as a complementary metrices, especially in the public sector DSA (debt-to-GNI* ratio) and on underlying demand pressures (output gap estimation). Thus, the staff appraisal is internally consistent.

- While very useful for measuring the size of the domestic economy, GNI* is an auxiliary statistic and cannot at this stage replace GDP. GNI* is available only in annual frequency and at current prices. By construction (derived using the external accounts) it does not provide a breakdown of components of demand and is subject to large revisions.