S&P Global
Ratings

Irish Snapshot H2 2022

Rating Resilience Despite Rising Risks

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Overview

Rising inflation and slower growth--twin threats to the global credit outlook--have yet to unsettle rated Irish issuers, which continue to exhibit growth and resilience. In the first half (H1) of 2022, the number of rated Irish issuers continued to grow, rising to 119 since the start of 2022. Structured finance continues to lead in terms of new ratings, being accountable for nine of the 10 new ratings assigned in H1 2022. New issuance was split evenly between the first and second quarters, despite global primary issuance slowing considerably in the second quarter. The positive story for structured finance continued with rating performance, with three of the five upgrades in H1 attributable to this sector, while all three downgrades were in the corporate sector. While credit headwinds are rising, fueled by the causes and consequences of persistently high inflation, Irish issuers look to be in a solid position, with 93% (excluding structured finance issuers) carrying either a positive or stable outlook.

Sector Outlooks

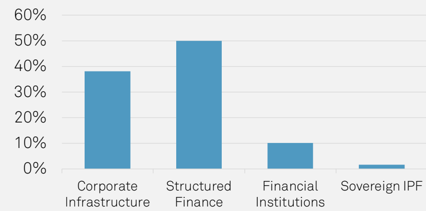
Sovereigns: We forecast that the underlying Irish economy, measured by gross national income (GNI), will rise by 3.5% in 2022. The repercussions of the Russia-Ukraine conflict will affect the Irish economy only moderately. Gas makes up about half of Ireland's electricity mix, but the country does not source its gas from Russia. However, soaring global energy prices will push headline inflation to 6.7%, dampening household purchasing power. Growth will benefit from a strong carryover effect from 2021. Despite the COVID-19 pandemic, real GDP increased by 5.9% in 2020, making Ireland the only EU economy to expand that year. It rose again by a remarkable 13.5% in 2021. This was mainly thanks to foreign-owned high-tech sectors. The increased profitability of some multinationals has helped Ireland outperform its budgetary targets. We expect that general government debt will fall below 100% of GNI by 2023. The stable outlook on the 'AA-' sovereign rating indicates that Ireland will contain the adverse effects of soaring global energy prices on its domestic economy and budgetary position, with no lasting structural damage to its credit metrics.

Financial institutions: Irish domestic bank ratings are on a more stable footing following the revision of the outlooks on AIB Group PLC (AIB) and Bank of Ireland Group PLC to stable from negative in May 2022, reflecting our view that their profitability pressures are easing. Irish banks are delivering on their cost-reduction and earnings-diversification strategies, while ongoing industry consolidation and rising interest rates will also help banks improve profitability. However, despite progress to date, sustained vigilance on costs will be required as cost-to-income ratios remain elevated. We see reduced economic risks for banks in Ireland thanks to solid economic growth prospects, declining private-sector leverage, and ongoing asset-quality improvements, largely due to sale of nonperforming portfolios. Persistent inflation and higher interest rates though will test the debt servicing capacity of the private sector, which had improved over the past several years, while elevated share of current Stage 2 loans could be a point of vulnerability for banks, were the economic environment to deteriorate.

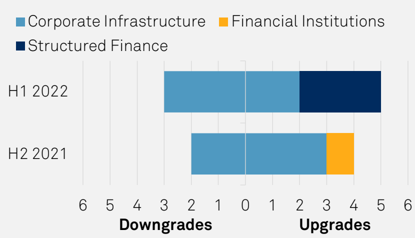
Irish Public Ratings Dashboard

	H1 2022	H2 2021
Public ratings	119	112
Downgrades	3	2
Upgrades	5	4
New ratings	10	11
Stable outlook*	83%	79%

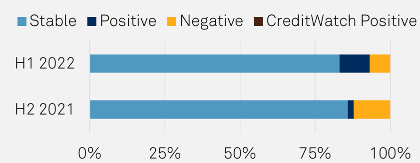
Total Irish Issuers



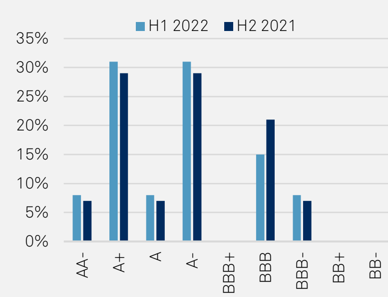
Upgrades/Downgrades



Outlook Distribution



Financial Institutions Ratings§



Corporate/Infrastructure: The performance of most rated Irish corporates remains stable, despite rising global pressures, including supply chain disruptions, increasing cost inputs, and downward revisions to global growth forecasts. Rating quality is a key reason for this stability, as we rate close to 50% of Irish corporates investment grade. Furthermore, we rate only 13% 'B-' or below, and this group only accounts for 5% of the total debt maturing in Europe, the Middle East, and Africa in both H2 2022 and 2023, reflecting limited refinancing risk, at least in the near term. However, rated Irish corporates are far from immune from rating pressures, and, as well as accounting for all the downgrades (3) in H1, they also account for all current negative outlooks (4). The industry sectors remain unevenly exposed to changing consumer sentiment and companies' sustained ability to pass through cost increases to customers. The leading industry sectors include health care, transportation, and building materials.

Structured finance: This sector accounts for 50% of rated Irish entities, the largest sector represented. Its leading position is attributable to continued strong growth of residential mortgage-backed securities (RMBS) and collateralized loan obligation (CLO) transactions. The Irish economy bounced back quickly from the pandemic, and house prices have continued to rise, partly due to continued supply and demand imbalances. While this means that existing loan-to-value ratios have improved, growth may slow and affordability issues may rise, depending on the extent of the rate-tightening cycle that the European Central Bank recently embarked upon. CLO transactions continue to exhibit stable performance despite increased market volatility. Loan prices have dropped and primary CLO issuance has fallen as fears around inflation and growth make investors more cautious. While European corporate defaults remain low, we believe that the European trailing-12-month speculative-grade corporate default rate could hit 3.0% by March 2023, up from 0.7% in March 2022.

Related Research

- Pain On the Horizon, June 28, 2022
- The European Speculative-Grade Corporate Default Rate Could Rise To 3% By March 2023, May 18, 2022
- Outlooks On Two Largest Irish Banks Revised To Stable On Easing Profitability Pressure; Ratings Affirmed, May 16,2022
- Ireland, May. 23, 2022

Additional Contributors:

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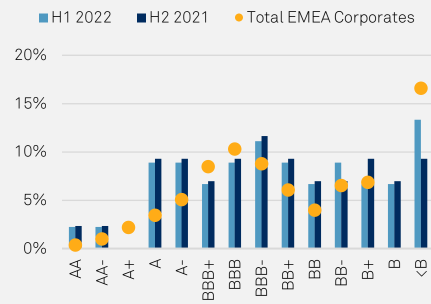
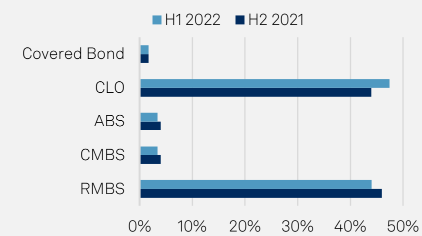
Corporate Ratings



Structured Finance Issuers



*Calculation excludes Structured Finance ratings.
§Where applicable, ratings reflect operating company as opposed to holding company entities.
ABS--Asset-backed securities.
CLO--Collateralized loan obligation.
CMBS--Commercial mortgage-backed securities.
IPF--International public finance.
RMBS--Residential mortgage-backed securities.
Source: S&P Global Ratings.

S&P Global Ratings publicly rates 119 Ireland-incorporated or headquartered issuers across financial institutions, sovereign international public finance (IPF), corporate/infrastructure, and structured finance sectors. The structured finance portfolio is composed of transactions involving Irish assets or Ireland-based asset managers.

The commentary and charts reflect the portfolio as of June 31, 2022, and do not reflect any rating actions that may have been taken after this date.

This report does not constitute a rating action.