

REPUBLIC OF IRELAND

Rating Analysis - 9/3/21

EJR Sen Rating(Curr/Prj) A+/ A+

EJR CP Rating: A1

EJR's 3 yr. Default Probability: 1.3%

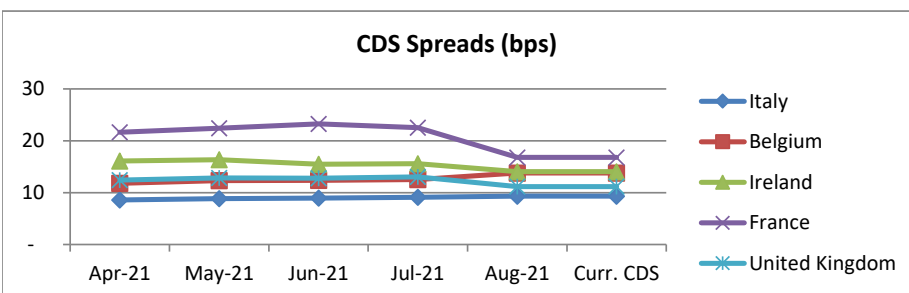
After avoiding a decline in output in 2020 thanks to buoyant exports of Ireland-based multinationals, real GDP is projected to grow by 4.2% in 2021, despite stringent sanitary measures introduced early in the year. As vaccinations are rolled out and restrictions are gradually eased, domestic demand will strengthen, even though uncertainty will continue to weigh on firms' investment decisions. Pent-up consumer spending, as households unwind pandemic-induced excess saving, is projected to lift growth to 5.1% in 2022. Continued fiscal policy support, particularly labour market interventions such as the Pandemic Unemployment Payment (PUP) and the Employers Wage Subsidy Scheme (EWSS), will continue to mitigate the impact of the restrictions on household incomes and the unemployment rate.

Public support for employees and businesses, which cushioned the impact of the crisis and masked the surge in unemployment, will be progressively pared back as the economy reopens. Bankruptcy risks, which have been quiescent until now, might crystallise with the removal of policy support. The resilience of household disposable incomes combined with sharply lower consumer spending has resulted in an exceptional increase in household savings. The Covid-19 pandemic will remain the main determinant of the economic outlook this year and in 2022. The near-term prospects for the economy have deteriorated following a resurgence in COVID-19 cases early in 2021. Direct fiscal supports are expected to cost €20bn and €16.3bn in 2020 and 2021 respectively (9.6% and 7.5% of GNI), driving an estimated increase in the debt ratio to 112% this year. We are affirming.

CREDIT POSITION	Annual Ratios (source for past results: IMF)					
	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	74.6	68.8	71.6	73.9	77.8	79.6
Govt. Sur/Def to GDP (%)	0.8	1.3	-3.9	-6.1	-8.0	-8.9
Adjusted Debt/GDP (%)	74.6	68.8	71.6	73.9	77.8	79.6
Interest Expense/ Taxes (%)	8.8	7.2	6.2	6.5	6.8	6.9
GDP Growth (%)	9.8	9.3	4.6	8.0	8.5	8.9
Foreign Reserves/Debt (%)	1.0	1.2	1.6	1.5	1.6	1.5
Implied Sen. Rating	A+	AA-	A+	A+	A+	A

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

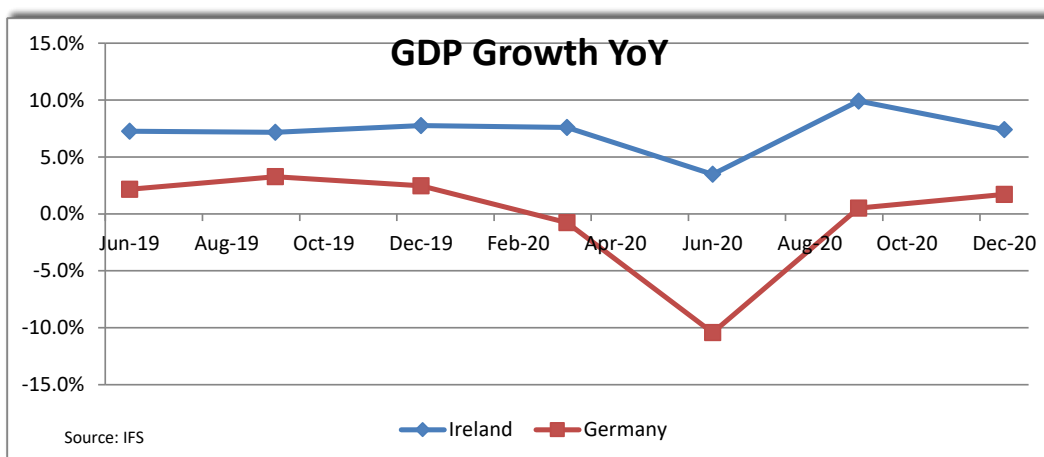
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BBB
Kingdom Of Belgium	AA	142.4	-9.0	142.4	6.5	-5.3	BB+
Republic Of Italy	BBB	184.1	-9.7	184.1	11.9	-7.8	BB-
United Kingdom	AA	187.8	-12.8	187.8	7.2	-4.8	BBB-



Country	EJR Rtg.	CDS
Italy	BBB-	9
Belgium	BBB	14
Ireland	A+	14
France	A+	17
United Kingdom	A+	11

Economic Growth

According to the Central Bank of Ireland, economic growth will rebound this year from the low base in 2020. Modified domestic demand, a measure of domestic activity (excluding exports and imports), is forecast to grow by 2.8% in 2021 and 3.9% in 2022. Total economic activity is forecast to grow by 5.9% in 2021 and 4.7% in 2022. The recovery in activity this year will be mainly supported by exports, before broadening substantially next year. A return of the savings ratio from recent high values towards more normal levels will support a rebound in consumption in 2022 towards pre-pandemic levels (17.7% in 2021 and 10.4% in 2022). Business investment is also expected to recover strongly in the baseline scenario, benefitting from a reduction in uncertainty and more favourable financing conditions. The Gross Domestic Product (GDP) in Ireland expanded 6.30 percent in the second quarter of 2021 over the previous quarter - a positive.



Fiscal Policy

The rise in deficit and debt ratios that has occurred has been both warranted and necessary. Policy support will need to be maintained over the short-term in order to stabilise the economy. The Exchequer ran a deficit of €720 million in the first two months of the year, compared to a surplus of €1.0bn in the same period of 2020. The Irish government recorded a deficit of just below 9% of GNI or around €20bn last year. This deterioration, from a surplus of 0.9% of GNI in 2019, would be one of the largest in the Euro area, although the deficit ratio itself would be broadly in line with the region's average.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Ireland	-3.95	71.58	14.05
Germany	-4.19	79.69	10.21
France	-8.79	145.87	16.80
Belgium	-8.97	142.45	13.79
Italy	-9.72	184.12	9.33
United Kingdom	-12.82	187.83	11.16

Sources: Thomson Reuters and IFS

Unemployment

Ireland's seasonally adjusted unemployment rate decreased to 6.4% in August of 2021 from 6.5% in the previous month, the lowest since December. The COVID-19 Adjusted Measure of Unemployment could indicate a rate as high as 12.4% if all claimants of the Pandemic Unemployment Payment were classified as unemployed. This alternative measure is down from 13.5% in July 2021 and down from 17.1% in August 2020. Youth unemployment rate, measuring job-seekers aged 15-24 years, fell to 16.9% from 17.2% in July.

Unemployment (%)		
	2019	2020
Ireland	4.95	5.92
Germany	3.20	4.31
France	8.43	8.62
Belgium	5.36	5.55
Italy	9.95	9.31
United Kingdom	3.74	4.34

Source: Intl. Finance Statistics

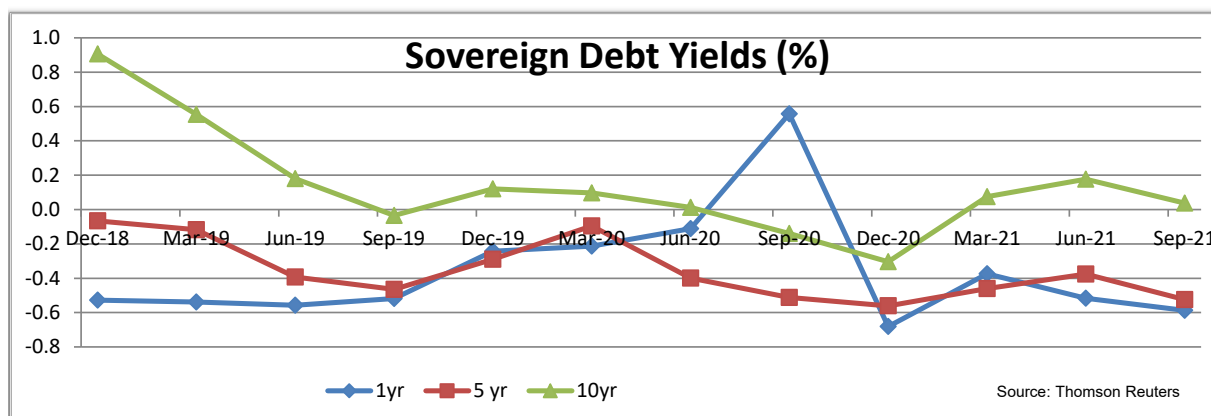
Banking Sector

Following a three-year period of relative stability, lending to non-financial corporations (NFCs) contracted over the course of 2020, with repayments exceeding drawdowns by €2.1 billion on a whole-year basis. Bank lending to Irish households for the purposes of consumption continued to recover from the large declines that occurred during the most intense phases of the COVID-19 lockdowns. July 2021 marks the third consecutive months of positive net lending flows, and the 12-month growth rate in consumer lending now stands at minus 1.4%, up from the COVID period low of minus 6.7%.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
BANK OF IRELAND	133.8	4.26
ALLIED IRISH BANKS	110.4	6.05
Total	244.1	
EJR's est. of cap shortfall at		
10% of assets less market cap		12.0
Ireland's GDP		372.9

Funding Costs

Ireland raised €3.5B from the sale of a new 20-year bond in April 2021 and this was raised at a yield of 0.585%. The current Ireland 10Y Government Bond has a -0.011% yield and 5-Years Credit Default Swap quotation is 15.60 and implied probability of default is 0.26%. According to figures from the European Commission, Ireland is forecast to have total government debt of €241.6 billion for 2021, up by almost 10% on 2020. Incremental debt without corresponding comfort on GDP traction might see the cost of funding to increase.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 24 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2021	2020	Change in
	Rank	Rank	Rank
Overall Country Rank:	24	24	0
Scores:			
Starting a Business	23	23	0
Construction Permits	36	36	0
Getting Electricity	47	47	0
Registering Property	60	60	0
Getting Credit	48	48	0
Protecting Investors	13	13	0
Paying Taxes	4	4	0
Trading Across Borders	52	52	0
Enforcing Contracts	91	91	0
Resolving Insolvency	19	19	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Ireland is strong in its overall rank of 81.4 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom				
World Rank 81.4*				
	2021	2020	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	86.0	86.6	-0.6	53.6
Government Integrity	72.4	82.8	-10.4	45.9
Judicial Effectiveness	82.0	64.4	17.6	45.4
Tax Burden	76.6	76.4	0.2	77.7
Gov't Spending	81.1	78.8	2.3	67.1
Fiscal Health	93.1	91.4	1.7	72.1
Business Freedom	81.5	82.7	-1.2	63.2
Labor Freedom	76.1	75.9	0.2	59.5
Monetary Freedom	84.4	85.3	-0.9	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*Based on a scale of 1-100 with 100 being the highest ranking.
 **The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
 Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

REPUBLIC OF IRELAND has seen a decline in taxes of 3.7% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 3.7% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

REPUBLIC OF IRELAND's total revenue growth has been more than its peers and we assumed no decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(6.4)	(3.7)	(3.7)	0.5
Social Contributions Growth %	(1.2)	(1.0)	0.5	0.5
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(13.9)	(13.9)	(13.9)
Total Revenue Growth%	(4.5)	(4.1)	(4.1)	(3.7)
Compensation of Employees Growth%	2.9	5.2	5.2	5.2
Use of Goods & Services Growth%	2.8	18.0	6.3	6.3
Social Benefits Growth%	8.0	24.4	16.6	16.6
Subsidies Growth%	28.1	251.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.4	1.4	
Currency and Deposits (asset) Growth%	22.9	0.0		
Securities other than Shares LT (asset) Growth%	2.2	0.0		
Loans (asset) Growth%	10.8	(77.2)	(3.7)	(3.7)
Shares and Other Equity (asset) Growth%	(23.8)	(45.0)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	2.5	0.0		
Financial Derivatives (asset) Growth%	2.0	3,250.0	(3.7)	(3.7)
Other Accounts Receivable LT Growth%	8.0	(2.9)	(2.9)	(2.9)
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	3.8	4.4	3.0	3.0
Currency & Deposits (liability) Growth%	0.7	6.8	6.8	6.8
Securities Other than Shares (liability) Growth%	14.5	13.6	9.5	9.5
Loans (liability) Growth%	3.6	(3.3)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	10.3	1,840.0	10.0	10.0
Financial Derivatives (liability) Growth%	10.1	(61.8)	(10.0)	(10.0)
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are REPUBLIC OF IRELAND's annual income statements with the projected years based on the assumptions listed on page 5.

**ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)**

	2017	2018	2019	2020	P2021	P2022
Taxes	55,714	60,549	64,678	62,289	59,984	57,765
Social Contributions	13,691	14,625	15,833	15,674	15,752	15,831
Grant Revenue						
Other Revenue						
Other Operating Income	<u>7,520</u>	<u>7,911</u>	<u>7,621</u>	<u>6,564</u>	<u>6,564</u>	<u>6,564</u>
Total Revenue	76,925	83,085	88,132	84,527	82,301	80,160
Compensation of Employees	21,112	22,125	23,434	24,645	25,919	27,258
Use of Goods & Services	10,448	11,216	12,634	14,904	15,843	16,841
Social Benefits	28,579	29,397	30,644	38,132	44,462	51,843
Subsidies	1,814	1,947	1,733	6,088	6,089	6,089
Other Expenses				6,589	6,589	6,589
Grant Expense						
Depreciation	4,104	4,376	4,736	5,048	5,048	5,048
Total Expenses excluding interest	<u>70,936</u>	<u>75,114</u>	<u>78,830</u>	<u>95,406</u>	<u>103,949</u>	<u>113,668</u>
Operating Surplus/Shortfall	5,989	7,971	9,302	-10,879	-21,648	-33,508
Interest Expense	<u>5,905</u>	<u>5,317</u>	<u>4,632</u>	<u>3,839</u>	<u>3,894</u>	<u>3,950</u>
Net Operating Balance	85	2,654	4,670	-14,718	-25,543	-37,458

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF IRELAND's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
ASSETS	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	17,171	21,524	23,806	25,843	25,843	25,843
Securities other than Shares LT (asset)	1,768	1,525	1,431	1,327	1,327	1,327
Loans (asset)	-781	-1,195	-1,983	-452	-435	-419
Shares and Other Equity (asset)	-4,496	-1,238	-2,351	-1,293	-1,319	-1,345
Insurance Technical Reserves (asset)			1	2	2	2
Financial Derivatives (asset)	409	387	6	201	194	186
Other Accounts Receivable LT	10,659	26,320	28,494	27,654	26,839	26,048
Monetary Gold and SDR's						
Other Assets					39,576	39,576
Additional Assets	<u>54,663</u>	<u>44,494</u>	<u>45,151</u>	<u>39,576</u>		
Total Financial Assets	79,393	91,817	94,555	92,858	92,026	91,218
LIABILITIES						
Other Accounts Payable	9,496	24,107	24,179	25,248	26,005	26,786
Currency & Deposits (liability)	21,600	21,648	22,220	23,721	23,721	23,721
Securities Other than Shares (liability)	146,545	146,997	149,903	170,347	186,610	204,425
Loans (liability)	50,088	50,513	49,112	47,494	73,037	110,495
Insurance Technical Reserves (liability)	4	4	5	97	107	117
Financial Derivatives (liability)	558	405	178	68	61	55
Other Liabilities						
Liabilities	228,291	243,674	245,597	266,975	291,686	328,335
Net Financial Worth	<u>-148,898</u>	<u>-151,857</u>	<u>-151,042</u>	<u>-174,117</u>	<u>-199,660</u>	<u>-237,118</u>
Total Liabilities & Equity	79,393	91,817	94,555	92,858	92,026	91,218

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Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustment which are reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for the most recent period is "A+"; we expect results to remain approximately the same.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer REPUBLIC OF IRELAND with the ticker of 1266Z ID we have assigned the senior unsecured rating of A+. There are three notches in our rating categories (e.g., A-, A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15a available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:

The information is generally adequate and acceptable.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	(3.7)	0.3	(7.7)	A+	A+	A+
Social Contributions Growth %	0.5	3.5	(2.5)	A+	A+	A+
Other Revenue Growth %	0.0	3.0	(3.0)	A+	A+	A+
Total Revenue Growth%	(4.1)	0.1	(6.1)	A+	A+	A+
Monetary Gold and SDR's Growth %	(2.9)	(0.9)	(4.9)	A+	A+	A+

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

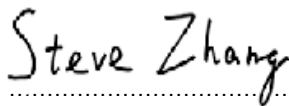


.....
Subramanian NG
Senior Rating Analyst

Today's Date

September 3, 2021
.....

Reviewer Signature:



.....
Steve Zhang
Senior Rating Analyst

Today's Date

September 3, 2021
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Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings.

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.