



PRESS RELEASE

12 July 2012 - Statement by the EC, ECB, and IMF on the Review Mission to Ireland

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Dublin during 3-12 July for the seventh review of the government's economic programme. Ireland's policy implementation remains on track despite challenging macroeconomic conditions. In line with the conclusions of the euro area summit statement of 29 June, EC/ECB/IMF teams are discussing with the authorities possible technical solutions to further improve the sustainability of its well-performing adjustment programme. The EC and IMF missions will seek approval for the completion of this review from the relevant EU bodies and the IMF Executive Board respectively.

Ireland's programme implementation remains strong in a challenging environment. Ongoing household balance sheet repair and the still weak labour market hinder growth in domestic demand. Growth prospects for the remainder of 2012 and into 2013 remain modest, with weak trading partner growth dampening export demand despite further competitiveness gains.

The recent notable decline in bond yields underlines the increasing confidence in Ireland's strong capacity to implement adjustment policies and also reflects the recent euro area summit statement. These developments also supported the recent successful return to the Treasury Bill market at reasonable cost.

The authorities continue to advance reforms to restore the health of the Irish financial sector so that it can contribute to economic recovery. The downsizing of bank balance sheets has progressed well. The Personal Insolvency Bill, designed to help address borrower financial distress while maintaining debt-servicing discipline, has been introduced to parliament. Timely establishment of the Insolvency Service and other necessary infrastructure will be important. Permanent TSB submitted a restructuring plan to the European Commission, and work on its financial and operational restructuring continues. Under the supervision of the authorities, banks are working towards improving their asset quality, including through piloting mortgage loan modification options and strengthening management of distressed SME loans. Further work to build on these efforts is needed.

Fiscal targets for the first half of 2012 were met, further extending Ireland's record of consistently achieving programme targets, and the budget deficit is on track to be within the 8.6 percent of GDP target for 2012. Despite the weakening external environment and higher unemployment, strong collection efforts have brought in revenues ahead of profile. However, Ireland's budget deficit remains the largest in the euro area, and it is essential that the authorities maintain prudent control of expenditure, including in health care. The result of the end-May referendum enables ratification of the Treaty on Stability, Coordination and Governance, and forthcoming legislation to implement the Treaty will strengthen Ireland's fiscal framework.

Ireland's unemployment remains very high, and generating growth and jobs on a sustainable basis remains a critical priority. Accordingly, the authorities are considering plans to utilize the enhanced European Investment Bank resources in a range of sectors including education, transport and health care. The introduction of pilots to more actively engage with the unemployed under the *Pathways to Work* programme is encouraging. Strengthening the provision of activation services, especially for the long-term unemployed, is critical.

The objectives of Ireland's EU-IMF supported programme are to address financial sector weaknesses and to put Ireland's economy on the path of sustainable growth, sound finances, and job creation, while protecting the poor and most vulnerable. The programme includes loans from the European Union and EU member states amounting to €45 billion and a €22.5 billion Extended Fund Facility with the IMF. Ireland's contribution is €17.5 billion. Conclusion of this review would make available a disbursement of €0.9 billion by the IMF and €1.0 billion by the EFSM/EFSSF, with other EU member

states expected to disburse a further €0.7 billion through bilateral loans. The next review mission is scheduled for October 2012.

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