Statement by the EC, ECB and IMF on the Twelfth Review Mission to Ireland

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Staff teams from the European Commission (EC), European Central Bank (ECB), and the International Monetary Fund (IMF) visited Dublin during October 29-November 7 for the twelfth and final review of the government's economic adjustment program. Ireland's program remains on track in the context of the nascent economic recovery. Discussions with the authorities focused on the conclusion of the program and the remaining challenges.

In the wake of the worst economic crisis in its recent history, Ireland undertook a comprehensive set of reforms, which from December 2010 were supported by an EU-IMF program. The implementation of the program, which will expire in the coming months, has been steadfast

Ireland's economy has been growing above the euro area average since 2011. Growth prospects for Ireland are strengthening after weakness in the earlier part of this year. Goods exports, retail trade, property prices, and consumer confidence are all increasing. Declining unemployment and improving business surveys suggest that the job creation seen in the first half of this year is continuing, which is a crucial element for a revival of domestic demand. Overall, however, Ireland is expected to record low growth in 2013. A somewhat higher growth rate, of about 1¾ percent, is projected for 2014, as trading partners also begin to recover.

Budget outturns remained on track through October, yet spending control must be maintained, in particular in the health care sector, to ensure the 2013 fiscal deficit target of 7.5 percent of GDP is comfortably met. Budget 2014 targets a primary balance and an overall deficit of 4.8 percent of GDP, which is more ambitious than the deficit ceiling of 5.1 percent of GDP set under the Excessive Deficit Procedure. To reach these goals, Ireland’s record of strong budget implementation needs to continue. Realizing the proposed savings in health expenditure, while protecting core services, will require particular attention. Broadening the revenue base, reforming the health sector, and targeting social supports toward the most vulnerable would help achieve the further fiscal consolidation needed in a durable and growth-friendly manner.

Financial sector repair continues, though the share of non-performing loans remains high and lending sluggish. Durable resolution of mortgages in arrears is needed to reduce uncertainties that weigh on economic recovery. The introduction of a target regime for arrears resolution has been helpful, but greater efforts are required by banks to find long-term sustainable solutions for borrowers in genuine mortgage distress. In other arrears cases, there is a need to restore full debt service payments. The fast-tracking of amendments to make examinership less costly for SMEs is positive given the critical role this sector plays in job creation. An assessment of bank balance sheets is advancing and should be completed before the conclusion of this review. The main Irish banks will undergo a risk assessment, asset quality review and stress test, in the context of the upcoming euro area-wide comprehensive assessment.

Unemployment has begun to decline but remains very high. Recent steps to improve employment incentives are welcomed, as are plans for private sector provision of employment services. Additional redeployment of resources is needed to ensure meaningful engagement with job seekers, especially the long-term unemployed, and to provide training relevant to the job market.

Discussions continued on the remaining challenges and related options following the expiry of the current EU-IMF arrangements. Strong policy implementation by the Irish authorities and European decisions have improved funding conditions even as domestic challenges and external uncertainties remain.

The key objectives of Ireland’s EU-IMF supported program are to address financial sector weaknesses, put Ireland’s economy on a path of sustainable growth, sound public finances and job creation, and regain international capital markets access, while protecting the poor and most vulnerable. The program 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. Conclusion of this review, which is subject to the approval process of both the EU and the

IMF, would make available disbursements of €0.8 billion by the EFSM and €0.6 billion by the IMF. This would complete the disbursements of international assistance under the program.

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