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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 October 16–25, 2012 for the eighth review of the government's economic programme and also met with a variety of stakeholder groups. Policy implementation remains steadfast despite the challenging external environment, helping Ireland to start to regain market access. It is expected that fiscal targets for 2012 will be met despite expenditure overruns in some areas, and the authorities are committed to the 2013 deficit ceiling of 7.5 percent of GDP. Banks remain well-capitalised and downsizing has progressed well, yet further efforts are needed to address their profitability and asset quality challenges. In line with the euro area summit conclusions of 29 June, EC/ECB/IMF teams continued to discuss with the authorities possible technical solutions to improve the sustainability of the well-performing adjustment programme.

Ireland's gradual economic recovery has continued, but largely due to weaker net exports, real GDP growth has slowed to a projected rate of ½ percent in 2012. Domestic demand and employment continue to decline owing to on-going household balance sheet repair, the weak labour market, and low lending to households and SMEs. Prospects for growth in 2013 are for modest pickup to just over 1 percent as domestic demand declines moderately, although weak trading partner growth may continue to dampen net exports despite Irish competitiveness gains.

However, unemployment remains unacceptably high, especially among the youth, making job creation and growth a key priority. Accordingly, plans are progressing to utilise resources from the European Investment Bank, the National Pension Reserve Fund, and private investors to finance job-rich projects in several sectors. The Action Plan for Jobs will contribute to employment generation through a wide range of measures. It is also important to ensure that job seekers are well prepared to fill positions when they become available by strengthening employment and training services through vigorous implementation of the Pathways to Work initiative. Engagement with the long-term unemployed should be a priority, including through timely and well-designed involvement of the private sector in providing employment services.

It is expected that fiscal targets for 2012 will be met. Revenues remain ahead of profile in the first three quarters of 2012, which, together with expenditure restraint in several areas, has offset expenditure overruns in the health sector, and also on social welfare owing to higher unemployment. The authorities are alert to the health sector overruns and are determined to meet the programme target for a budget deficit below 7.5 percent of GDP in 2013. The measures adopted in Budget 2013 should be durable, as growth-friendly as possible, and minimise the burden of adjustment on the most vulnerable.

The authorities are ramping up reforms to restore the health of the Irish financial sector so that it can help support economic recovery. Intensified efforts are required to deal decisively with mortgage arrears and further reduce bank operating costs. Parliament is currently considering an ambitious reform of the personal insolvency framework. For this essential reform to succeed, a careful balance should be struck that addresses borrower's financial distress and protects the family home, while also reinforcing debt service discipline. An orderly phasing out of the costly Eligible Liability Guarantee Scheme would improve bank profitability and thereby support lending capacity.

Market conditions for Irish bonds are much improved, bringing benchmark 8-year yields below 5 percent, underpinned by Ireland's robust policy implementation under its EU-IMF supported programme. Significant yield declines also reflect the euro area leaders' statement on June 29 and the ECB's announcement of Outright Monetary Transactions in early September. Ireland has started to regain market access, including through government bond issues. This achievement, despite Ireland's still rising public debt, underlines investor confidence in Ireland's capacity to implement adjustment policies as well as market expectations of European support for Ireland. Nonetheless, significant risks remain along the path back to full reliance on market funding, requiring continued determined policy efforts by the Irish authorities.

The key objectives of Ireland's EU-IMF supported programme are to address financial sector weaknesses and 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. Conclusion of this review would make available a disbursement of €0.9 billion by the IMF and €0.8 billion by the EFSM/EFSF, with EU member states expected to disburse a further €0.5 billion through bilateral loans. The next review mission is scheduled for January 2013.