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PRESS RELEASE

STATEMENT BY THE EUROPEAN COMMISSION, ECB AND IMF ON THE FIRST QUARTERLY REVIEW MISSION TO IRELAND

Staff teams from the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) visited Dublin from 5 to 15 April for the first quarterly review of the Irish Government's economic programme. The objectives of the programme are to address financial sector weaknesses and to put Ireland's economy on a path of sustainable growth, sound public finances and job creation. Maintaining social fairness in shouldering the burden of adjustment is one of the programme's priorities.

The teams' assessment is that the programme is on track, but challenges remain and steadfast policy implementation will be key.

Ireland is making good progress in overcoming the worst economic crisis in its recent history. The implementation of the programme has been determined, despite the period of political change and an uncertain external environment. The new government, through its Programme for Government and its decisive approach to banking sector reforms, has taken full ownership of the goals and key elements of the programme supported by EU and IMF.

The **macroeconomic outlook** for 2011 is for growth to resume. After contracting by 1% in 2010, real GDP is expected to grow in 2011, albeit more slowly than previously forecast. Strong exports lead the expansion, supported by improved competitiveness and world trade growth. Domestic demand will continue to contract, although at a slower pace. Core inflation is forecast to remain subdued, but rising energy and food prices are increasing headline inflation.

In the **banking sector**, the comprehensive recapitalisation and reforms announced on 31 March are a major step towards restoring the Irish banking system to health. The credibility of the exercise has been reflected in positive market reactions, with Irish bond yields declining after the announcement. The review mission discussions focused on the priorities for implementing these reforms, including the reorganising and deleveraging the banking system, and the strengthening of its capital base. These steps are crucial for enabling the banking system to become a driver of economic recovery.

On the **fiscal front**, the targets for end-December 2010 and end-March 2011 were met with a comfortable margin. The budget deficit is projected to stand at about 10.5% of GDP in 2011, and the authorities have reaffirmed their strong commitment to the fiscal consolidation agreed under the programme supported by EU/IMF, as well as to reach a deficit of 3% of GDP in 2015. In the near-term, the authorities plan to adopt a "Jobs Initiative" package to stimulate employment, within the agreed fiscal targets. The authorities are also carrying out a comprehensive spending review to ensure that fiscal consolidation is underpinned by the most effective use of resources. These, and other measures included in the programme, will help ensure sustainability of public finances.

Regarding **structural reforms**, supportive measures in the "Jobs Initiative" and reform of sectoral wage-setting arrangements on the basis of an ongoing review will foster job creation. The government also plans to introduce legislative changes to remove restrictions on trade and competition in sheltered sectors, including the legal profession, medical services and the pharmacy profession.

Continued strong implementation of the programme, with support from the EU and the IMF, remains key to achieving Ireland's return to capital markets at affordable interest rates.

The government's programme is supported by loans from the EU and its Member States, in the amount of to €45.0 billion, and a €22.5 billion Extended Fund Facility with the IMF. Ireland's contribution is €17.5 billion. Approval of the conclusion of the first review will allow the disbursement of €4.5 billion (€2.9 billion by the EU, and €1.6 billion by the IMF).

The mission for the next programme review is scheduled for July 2011.

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