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PRESS RELEASE

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

Staff teams from the European Commission, European Central Bank (ECB), and International Monetary Fund (IMF) visited Dublin from 29 January to 7 February 2013 for the 9th review of the government's economic programme and met with a range of stakeholders. Ireland's strong track record of programme implementation has been maintained, contributing to substantial improvements in market access and conditions for the sovereign and also – albeit more moderately – for the banks. The European Commission / ECB / IMF mission teams continued technical discussions with the authorities on the scope for further improving the sustainability of the well-performing adjustment programme. Mission teams also began discussions on how best to prepare for and support a successful and durable exit from programme financing.

Ireland's economic recovery is continuing and is expected to gradually gain momentum, with growth forecast to firm to over 1% in 2013 and over 2% in 2014. The growth of Irish exports is a key driver of the on-going recovery, but is highly dependent on the pace of recovery in trading partners. Net exports are nevertheless supported by a significant reversal of competitiveness losses experienced during the boom period. At the same time, high unemployment and still weak balance sheets continue to weigh on the domestic economy. A timely resolution of banks' non-performing loans will pave the way for improving the situation in the banking sector, restoring credit supply, reducing uncertainty, and, ultimately, enabling a durable revival in domestic demand.

The government is estimated to have comfortably met the 2012 fiscal targets and it remains committed to a 2013 deficit ceiling of 7.5% of GDP and to correcting the excessive deficit by 2015. Market confidence in Ireland's continued solid fiscal consolidation is essential for the country's durable return to market financing, making the strict implementation of Budget 2013 measures essential. In particular, the government's efforts to ensure stronger management of the health budget, where spending overruns occurred in 2012, must deliver high quality health services while achieving value-for-money more in line with other EU countries. A timely conclusion of the negotiations with public sector unions should allow savings to be achieved while protecting the delivery of core public services.

Unemployment remains stubbornly high, and is increasingly long-term in nature. Reducing it must remain an urgent policy priority. A revival in private sector employment is expected to begin in 2013, but the unemployment rate may decline only gradually, hindered by the prevailing significant skills mismatches among the unemployed. Stepped up efforts to help the long-term unemployed are needed, including redeployments to raise the number of case managers and ensuring their adequate training, mobilising resources for activation through the involvement of the private sector and providing relevant education and training opportunities for the unemployed. Accelerating the implementation of investment projects, including those funded by the European Investment Bank, National Pension Reserve Fund, private investors, and by a portion of state asset sale proceeds could also help to address the unemployment challenge in a timely manner.

Good progress has been made in repairing Ireland's financial sector, which should permit the timely removal of the costly Eligible Liabilities Guarantee scheme, improving banks' profitability. Nonetheless, decisive actions remain essential to ensure banks' capacity to lend and support the recovery. The priority in 2013 must be for banks to make demonstrable progress in enhancing asset quality. The management of mortgage and SME loans in arrears needs to be further enhanced to achieve sustainability for households and distressed but viable businesses. Given the scale of mortgage arrears, supervisors should ensure that banks intensify their engagement with customers in order to find durable solutions appropriate to borrowers' circumstances. Timely activation of the new personal insolvency framework will support these efforts. As a complementary step, greater efforts can be made to pursue legal remedies for unsustainable investment-property related debts. Strengthened progress in resolving SME loan arrears is also important given the key role of this sector in job creation.

Market conditions for Irish bonds continue to improve, with benchmark 8-year yields now below 4.5% and recent bond issues attracting broad investor interest. There have also been encouraging improvements in financing conditions for banks and semi-state utilities. The significant yield declines on Irish sovereign debt reflect growing international confidence in Ireland's robust policy implementation, as well as the euro area leaders' statement on June 29 and the ECB's announcement of Outright Monetary Transactions in early September. But market confidence remains vulnerable given high public and private debts and the mission teams stressed the need for continued strong policy efforts by the Irish authorities in order to lay solid foundations for successful programme exit at end 2013 and a durable return to market financing.

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 €1 billion by the IMF and €1.6 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 April 2013.

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