Brussels, 2 May 2014

Statement by the European Commission and the European Central Bank following the conclusion of the first post-programme surveillance mission to Ireland

Following the successful completion of the EU/IMF financial assistance programme at the end of 2013, staff teams from the European Commission and European Central Bank (ECB), visited Ireland to carry out post-programme surveillance (PPS) on April 29-2 May. This was coordinated with the IMF's first post-programme monitoring (PPM) mission. The European Stability Mechanism also participated in the meetings on aspects related to its Early Warning System.

Overall, the outlook for Ireland has continued to improve since the conclusion of the EU/IMF-supported programme. Against the backdrop of a general decline of sovereign yields, demand for Irish assets from private investors is high as the authorities are resuming normal market borrowing. The economic recovery and the decline in headline budget deficits continue, while structural and financial sector reforms advance. Nonetheless, high public and private sector indebtedness weigh on the speed of the recovery, especially of private consumption.

High-frequency indicators continue to point towards a gradual recovery in 2014 as external demand developments support exports and domestic demand stabilises. For example in February, industrial production increased by 5.3% over the previous year and about 72,000 jobs have been created since the third quarter of 2012. In the first few months of the year, though still high, unemployment has proceeded on a steady downward path and is now below the euro-area average, consumer confidence has climbed and the property market has stabilized. GDP growth is projected at around 1 3/4% in 2014, up from -0.3% in 2013.

The general government deficit narrowed by over one percentage point of GDP in 2013 to 7.2% of GDP, within the 7.5% limit set under the Excessive Deficit Procedure (EDP). In 2013, revenue over-performed compared to plans while overall expenditure was on track; overruns in the health sector were offset by savings in other areas. The 2014 general government deficit is on track to stay within the 5.1% EDP ceiling. This projection assumes a rigorous implementation of the budget to offset health sector overruns, and is predicated upon a favourable growth and employment outlook. The authorities remain committed to reducing the general government deficit to below 3% of GDP in 2015, though specific adjustment measures are still to be determined and will be communicated in their Draft Budgetary Plan in October.

Improving market conditions have resulted in lower bank funding costs and reduced reliance on the Eurosystem for funding. Bank profitability has improved with the better operating environment, but it remains challenging as a result of the high levels of low-yielding tracker mortgages and non-performing loans. Total mortgage arrears have begun to fall from a high level as the banks have made progress in meeting their resolution targets, while lending to the private sector continues to decline. Continued restructuring of SME loans is critical to boost lending in this sector and support growth, while the ongoing review of the effectiveness of SME funding and the creation of non-bank financing sources are also important. This year, the main banks will undergo a supervisory risk assessment, an asset quality review and a stress test, in the context of the ECB's euro area-wide comprehensive assessment.

Structural reforms initiated under the EU/IMF-supported programme continue to progress. Active labour market policies focus on improving the delivery of support services in *Intreo* offices and on partially contracting out the provision of services to the long-term unemployed. At the same time, further education and training reforms aim to reduce significant skills mismatches and better address the needs of jobseekers and employers. Continued progress on these initiatives and on the *Action Plan for Jobs* will be critical to maintain the positive momentum on job creation and reduce youth and long-term unemployment. The implementation of the eHealth strategy is advancing together with the reform of financial management systems, but further reforms in the health sector are still needed to improve budget control and tackle overspending in pharmaceuticals. Water sector reforms are advancing as scheduled and the introduction of charges for domestic users by the end of 2014 could have important positive fiscal implications. Reduced legal services costs and better access to justice, including for businesses, are expected to be gained pending the timely completion of legal services regulatory reforms.

The next PPS mission will take place in late 2014.

The mission would like to thank the Irish authorities and the IMF for their constructive and open discussions.