EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

21 November 2014 - Statement by the European Commission and the European Central Bank following the conclusion of the second post-programme surveillance mission to Ireland

Staff teams from the European Commission and European Central Bank (ECB) visited Ireland to carry out the second post-programme surveillance (PPS) mission on 17-21 November. This was coordinated with the IMF's second post-programme monitoring (PPM) mission. The European Stability Mechanism also participated in the meetings on aspects related to its Early Warning System.

The economic situation has continued to improve in Ireland since the end of the EU/IMF-financial assistance programme, with the recovery broadening. Economic growth strongly picked up in the first half of 2014, with the national accounts having reconciled with the previous positive flow of high-frequency indicators, particularly in the labor market. While exports rebounded markedly in the first half of this year, there is still some uncertainty as to whether this strength is sustainable. The broadening of the recovery is being reflected in both the confirmation of a gradual strengthening in private consumption and the expansion of investment. The recent flow of high frequency data bodes well for economic activity in the second half of this year. In the housing market, rising demand and the low level of new construction have pushed up prices rapidly, especially in Dublin. Recently, the Central Bank of Ireland proposed to introduce macro-prudential measures regulating mortgage lending. Overall, real GDP growth of 4.6% and 3.6% is projected for 2014 and 2015 respectively. The main downside risks to the short-term outlook are linked to a weakening in economic momentum in the euro area and the sustainability of high export growth.

Latest indications are that the general government deficit in 2014 is likely to turn out slightly above the authorities' most recent budgetary forecast of 3.7% of GDP, which is well within the original ceiling of 5.1%, and down from 5.7% of GDP in 2013. The improvement reflects several factors, notably the stronger than expected economic recovery, higher revenues from central bank profits, some expenditure restraint and the upward revision of GDP alongside the new national accounting methodology (ESA 2010). Still, overruns in the healthcare sector increased compared to last year. The deficit is expected to fall below 3%-of-GDP by next year. More ambitious deficit targets for 2015 and 2016 would help to bring the still very high government debt-to-GDP ratio firmly on a downward path. The government needs to stand ready to adopt additional measures to address potential future fiscal risks.

Financing conditions have improved markedly. The Irish sovereign has consolidated market access at long maturities with the recent issuance of a 15-year bond, the first since 2009. The agreement of European lenders to waive the proportional early repayment requirement allows for the early repayment of IMF loans, generating interest savings. The authorities signaled their intention to repay EUR 9 billion of IMF loans by the end of this year. Strong investor demand for Irish assets has also accelerated the unwinding of NAMA, the National Asset Management Agency. It is essential to take full advantage of the currently very favorable funding conditions in order to return to a normal financial environment

The Irish domestic banks' performance continues to advance with rising profitability. With the results of the ECB's comprehensive assessment published, the remaining restructuring, recapitalisation and disposal of the State’s holding in the three main domestic banks can now be further advanced. Non-performing loans in the main domestic banks are declining gradually

albeit from a still high level. Mortgage arrears resolution has continued, though more progress is required. The sustainability of solutions still needs to be verified over time. Similarly, continued efforts are essential to advance the restructuring of non-performing commercial debt (the majority of total non-performing loans). In the current low interest rate environment, the transmission of low funding rates to the real economy is key to sustain economic growth and create jobs. Government initiatives to boost SME financing are welcome but will need to be carefully evaluated, particularly in the context of weak demand from small businesses for funding. Structural reforms are progressing at varying rates. Reforms to further education and training are now advancing apace, even though it will take time before the new institutional setup and programmes are entirely effective in addressing skills mismatches. The implementation of the Job Path programme should provide additional activation support to the long-term unemployed starting in the second half of 2015. Key strands of reforms in healthcare are progressing, but further advances will be necessary to reap additional efficiency gains and better control health expenditure without compromising healthcare delivery. Enactment of the Legal Services Regulation Bill will not take place as planned in 2014 and the establishment of multidisciplinary practices faces increased uncertainty.

In conclusion, despite significant progress, the macroeconomic adjustment process needs to continue and important challenges remain. Unemployment – particularly long-term and youth unemployment – remains high. Deleveraging of public and private debt is progressing, but the debt overhang remains a significant challenge to the economy, calling for sustained fiscal consolidation and financial repair. The recovery in the banking sector is still on-going.

The next PPS mission will take place in the spring of 2015.

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

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