

Statement by the EC, ECB, and IMF on the Review Mission to Ireland

April 15, 2011

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

The teams' assessment is that the program 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. Program implementation has been determined, despite the period of political change and a 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 EU-IMF-supported program.

The macroeconomic outlook for 2011 is for growth to resume. After contracting by 1 percent 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 recapitalization and reforms announced on March 31 are a major step towards restoring the Irish banking system to health. The credibility of the exercise has been reflected in positive market reaction, with the Irish bond yields declining following the announcement. The review mission discussions focused on the priorities for implementing these reforms, including reorganizing and deleveraging the banking system, and strengthening 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 by a comfortable margin. The budget deficit is projected at about 10 ½ percent of GDP in 2011, and the authorities reaffirmed their strong commitment to the fiscal consolidation agreed in the EU-IMF-supported program, as well as to a deficit of 3 percent 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 program, 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 program implementation, 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 program is supported by loans from the European Union and EU member states amounting to €45.0 billion and a €22.5 billion Extended Fund Facility [hyperlinks] with the Fund. 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 program review is scheduled for July 2011.