COUNCIL RECOMMENDATION

of 10 July 2012

on the National Reform Programme 2012 of Ireland and delivering a Council opinion on the Stability Programme of Ireland, 2012-2015

(2012/C 219/13)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 July 2011, the Council adopted a recommendation [3] on Ireland's National Reform Programme for 2011 and delivered its opinion on Ireland's updated Stability Programme for 2011-2015.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of *ex ante* and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(5) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 15 February 2012, adopted a resolution on employment and social aspects in the Annual Growth Survey 2012 and a resolution on the contribution to the Annual Growth Survey 2012.

(6) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.

(8) On 27 April 2012, Ireland submitted its Stability Programme covering the period 2012-2015 and its 2012 National Reform Programme.

(9) On 7 December 2010, the Council adopted Implementing Decision 2011/77/EU [4] granting financial assistance to Ireland until end 2013 in accordance with Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism [5]. The accompanying Memorandum of Understanding signed on 16 December 2010 and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2012 by Council Decision 2012/238/EU of 26 April 2012 on guidelines for the employment policies of the Member States (OJ L 119, 4.5.2012, p. 47).
(3) OJ C 215, 21.7.2011, p. 1.
(4) OJ L 30, 4.2.2011, p. 34.
(5) OJ L 118, 12.5.2010, p. 1.

(10) Overall, Ireland has implemented the conditions of the financial assistance programme specified in the Memorandum of Understanding. In particular, the fiscal deficit target for 2011 (10,6 %) was achieved by a significant margin and the budget for 2012 targets a fiscal deficit of 8,6 % of GDP, in line with the financial assistance programme ceiling. Medium-term fiscal consolidation plans are consistent with the financial assistance programme's deficit ceilings and a deficit below 3 % of GDP by 2015. The recapitalisation of domestic banks envisaged by the 2011 Prudential Capital Assessment Review of the Central Bank of Ireland has been substantively completed and domestic banks' deleveraging exceeded the financial assistance programme's targets for 2011 as a whole. Structural reforms to enhance competitiveness and allow stronger job creation are significantly advanced.

(11) Ireland's economy returned to modest growth of 0,7 % in 2011, broadly as expected under the financial assistance programme. Growth was export-led, benefiting from competitiveness improvements and solid external demand. Net exports contributed 4,7 percentage points to GDP growth, while domestic demand continued to contract due to fiscal consolidation, falling employment and household balance sheet repair. In 2012, growth is set to moderate to about 0,5 %, due to the adverse external environment and the continuing adjustment of domestic demand. Household and corporate balance sheet repair will continue to weigh on consumption and investment in the medium term. Export-driven growth is expected to pick up, increasing to 1,9 % in 2013 and to 2,8 % by 2015 on the back of Ireland's strong demographics and flexible labour market as well as considerable spare capacity in the economy.

(12) Based on the assessment of the Stability Programme pursuant to Article 5(1) of Regulation (EC) No 1466/97, the Council is of the opinion that the macro-economic scenario underpinning the budgetary projections of the Programme is plausible. Economic growth projections in the Stability Programme are similar to the Commission services 2012 spring forecast. The objective of the budgetary strategy of the Stability Programme is to reduce the general government deficit below the 3 % of GDP threshold by end 2015, which is in line with the deadline set by the Council for correcting the excessive deficit. The Stability Programme currently projects a deficit of 8,3 % of GDP (below the programme target of 8,6 % of GDP) in 2012, 7,5 % of GDP in 2013, 4,8 % of GDP in 2014 and 2,8 % of GDP by the end of the programme period in 2015. This path is underpinned by consolidation measures of 2,7 % of GDP implemented in the budget for 2012, and broad consolidation measures of 3,9 % of GDP in 2013-2014 and a further partly specified consolidation effort of 1,1 % of GDP in 2015. The Stability Programme restates the medium-term budgetary objective (MTO) of a structural general government deficit of 0,5 % of GDP, which is not reached within the programme period. The MTO adequately reflects the requirement of the Stability and Growth Pact. General government debt is above 60 % of GDP and is projected to increase from 108 % of GDP in 2011 to 120 % in 2013 before starting to decline. For the duration of the excessive deficit procedure until 2015 and in the three years thereafter, Ireland will be in a transitional period and the budgetary plans would ensure sufficient progress towards compliance with the debt reduction benchmark of the Stability and Growth Pact.

(13) Ireland has made a number of commitments under the Euro Plus Pact. These commitments relate to fostering competitiveness, fostering employment, enhancing sustainability of public finances and reinforcing financial stability,

HEREBY RECOMMENDS that Ireland take action within the period 2012-2013 to:

Implement the measures laid down in Implementing Decision 2011/77/EU and further specified in the Memorandum of Understanding of 16 December 2010 and its subsequent supplements.

Done at Brussels, 10 July 2012.

For the Council

The President

V. SHIARLY