Summary for non-specialists
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Economic Adjustment Programme for Ireland

Winter 2011 Review

This paper reports on the findings of the joint EU-IMF review mission, which assessed compliance with the policy conditionality under the financial assistance programme for Ireland up to end-December 2011. It also incorporates in an annex the updated programme documents.

Ireland's real GDP is estimated to have returned to positive growth in 2011 (0.9%) on account of strong exports, aided by recovering cost competitiveness. Domestic demand remains subdued, as households and firms (as well as the public sector) try to reduce their indebtedness. For 2012, the real GDP growth forecast has been revised down (to 0.5%, from 1% in the Autumn review), reflecting slowing growth in trading partners and especially in the euro zone.

Programme implementation remains strong: the 2011 fiscal deficit is estimated to have been kept around 10% of GDP, well below the programme ceiling (10.6% of GDP), and the 2012 budget is consistent with the programme deficit ceiling for this year (8.6% of GDP). Binding expenditure ceilings at the level of individual vote-groups lend additional credibility to the government plan to reduce the fiscal deficit below 3% of GDP by 2015, in line with the provisions of the EU excessive deficit procedure. The recapitalisation of domestic banks has been substantively completed, and banks have met their deleveraging targets for 2011 despite an increasingly challenging market environment. Structural reforms continue to be advanced, notably in the labour market (where sectoral wage-setting arrangements are being made more responsive to economic conditions). An ambitious privatisation plan has also been drawn up to reduce gross debt, increase overall efficiency, and boost jobs.

On the back of this strong programme performance, yields on Irish government bonds have continued to decline. The programme envelope is now expected to cover financing needs until the second half of 2013, though the Irish authorities intend to re-enter the market sooner, including in order to keep a sufficiently large cash buffer for the post-programme period. In this respect, a successful debt management operation has recently smoothened out debt repayments, by postponing some repayments from early 2014 to early 2015.

Despite this significant progress, much remains to be done. Key challenges and risks in the period ahead are associated with the potential for further financial market turbulence in the euro area, with the related increasing headwinds to bank deleveraging and funding. A further weakening of the export demand outlook could also weigh on the budget performance through its negative spillover effects on Ireland's growth. To minimise vulnerabilities, continued steadfast implementation of the programme remains essential.