Summary for non-specialists
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Economic Adjustment Programme for Ireland Autumn 2012 Review

This paper reports on the main findings of the eighth review mission to Ireland, which took place on 16-25 October 2012. It provides a detailed assessment of compliance with policy conditionality of the economic adjustment programme through end-September 2012 and an overview of remaining challenges. The paper also contains in an annex the updated programme documents.

Overall programme implementation remains strong:

- **Fiscal consolidation is on track.** The general government deficit for 2012 is expected to remain well within the programme ceiling (8.6% of GDP). The 2013 Budget is consistent with observing the general government deficit ceiling under the programme of 7.5% of GDP in 2013. Measures were also announced to correct the overruns experienced in healthcare in 2012.
- **Financial sector reform and restructuring have continued**. The authorities introduced legislation to reform the personal insolvency regime, establish a levy to underpin a bank resolution fund, and launched an advisory service for distressed mortgage borrowers. Banks continue to make progress towards their deleveraging targets and to advance operational restructurings, although concerns remain on growing duration of arrears, the prospects for banks' medium-term profitability, and the scarcity of new lending to underpin economic activity.
- **Advances continue to be made in structural areas,** in particular as regards (i) reforming the sectoral wage-setting mechanisms (now complete); (ii) strengthening labour market activation policies; (iii) putting water service provision on a sound financial footing; and (iv) preparing select state assets for eventual disposal.

The mission updated **the programme macroeconomic framework** by revising down somewhat the forecast for real GDP growth in 2013, mostly as a reflection of the lower pace of economic activity now envisaged in Ireland's key trading partners and a somewhat weaker domestic demand. The forecast for nominal GDP in 2013 has been kept broadly unchanged, however, reflecting a small upward revision in expected inflation. Unemployment is stubbornly high (at around 14.8%) and is increasingly long-term in nature—a key policy concern.

As far as the **sovereign funding outlook** is concerned, building on recent successful bond issuances, the authorities intend to maintain a comfortable cash position over the course of 2013 and ensure that by the end of the year, in preparation for the exit from the programme, they have covered financing needs for the next 12 months.

Despite this continued substantial progress, important **risks and challenges** remain, mainly associated with the growth outlook (reflecting both uncertainty on trading partners' growth and impaired credit intermediation and ongoing balance-sheet repair at home), the stubbornly high unemployment rate, the still large deficit, and banks' large levels of arrears and weak profitability.