Summary for non-specialists
Occasional Papers No. 131 / April 2013
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Economic Adjustment Programme for Ireland — Winter 2012 Review

This paper reports on the main findings of the ninth review mission to Ireland, which took place from 29 January to 7 February 2013. It provides a detailed assessment of compliance with policy conditionality of the economic adjustment programme through end-December 2012 and an overview of remaining challenges, based on information available as of 15 March 2013. The paper also contains in an annex the updated programme documents.

Programme implementation remains strong overall:

- **Fiscal consolidation is progressing but implementation risks remain, particularly in the health sector.** The general government deficit for 2012 is estimated at around 7¾ % of GDP, substantially below the programme ceiling of 8.6%. The 2013 Budget represents further welcome progress towards the objective to reduce the general government deficit below 3% of GDP by 2015. Implementation risks remain, however, as there is still some uncertainty as to how planned savings in the health sector and in payroll will be effectively achieved.
- **Financial sector reforms have progressed, but the level of non-performing loans (NPLs) remains high.** Banks have so far made very little use of the loan modification options designed to durably deal with unsustainable mortgage debts. The financial sector restructuring process continues to weigh on the ability of banks to support the economic recovery.
- **Structural reforms are also advancing, with an opportune focus on addressing the high level of unemployment.** Progress has been made with business facilitation measures under the Action Plan for Jobs and institutional reforms are progressing to support the unemployed in their job searches and re-skilling efforts. The process of reforming the water sector is also advancing.

The macroeconomic framework has been kept broadly unchanged. The forecast for real GDP growth for 2013 remains at 1.1%, despite somewhat stronger-than-expected 2012Q4 data. The composition of growth has changed somewhat, however, with a more limited drag from domestic demand and a slightly lower contribution from net exports. Private employment increased modestly in Q3 and Q4 2012, but the unemployment rate remains high and above 14%.

The funding outlook for the government has improved. The conversion of the promissory notes into long-term government bonds following the liquidation of the IBRC was a major development during the review period. It significantly reduces the Government's financing needs over the period to 2023 and will reduce the budget deficit by about 0.7% of (2013) GDP for ten years starting in 2014. The government's cash position has been strengthened by recent successful debt issuance (already some 75% of the planned long-term market funding for 2013 has been secured) and the sale of some assets. As a result, plans are on track for the government to build up a cash buffer sufficient to cover expected financing needs for 12 to 15 months beyond the end of the programme.

Initial discussions were held on possible strategies to underpin the successful completion of, and exit from, the programme. Options to help Ireland regain stable market access going forward are under consideration, with discussions set to continue in the months ahead. The large cash buffer should enhance market confidence and is a strong line of defence.

Despite this continued substantial progress, important risks and challenges remain, mainly associated with continued uncertainty around the growth outlook, high unemployment, the still large budget deficit, banks' large levels of arrears and weak profitability, reform fatigue and the still fragile market sentiment.