Summary for non-specialists
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Economic Adjustment Programme for Ireland — Spring 2013 Review

This paper reports on the main findings of the tenth review mission to Ireland, which took place from 23 April to 2 May 2013. It provides a detailed assessment of compliance with policy conditionality of the economic adjustment programme through end-March 2013 and an overview of remaining challenges, based on information available as of 24 May 2013. The paper also contains in an annex the updated programme documents.

Programme implementation remains generally strong:

- The 2013 fiscal deficit ceiling is within reach, but buffers have decreased and the deficit remains high. The structural improvement in the fiscal position is expected to continue in 2013, but the over-achievement relative to the ceiling in 2012 and one-off deficit-increasing factors this year mean that the headline deficit figure should only fall marginally from 7.6% of GDP to 7.5%.
- Banks need to step up their efforts to deal with non-performing loans (NPLs) and repair their balance sheets. Progress has been made recently to address mortgages in default, including as a result of restructuring targets set by the Central Bank of Ireland. The personal insolvency framework will soon become operational and will help address NPLs, but more attention needs to be devoted to non-performing SME loans. Further progress in addressing the debt overhang remains key to support economic adjustment and the recovery.
- Structural reforms continue to advance, albeit at times at a slower pace than expected. Faster progress is encouraged in strengthening labour activation services, re-skilling and up-skilling the unemployed and fostering job creation. Deeper structural reforms would be needed in the delivery of health care, while reforms to the regulatory framework for legal services, launched under the programme in 2011, have faced significant obstacles and delays. Water sector reforms are advancing, but the introduction of household water charges will be postponed to late-2014.

Real GDP is expected to grow by around 1% in 2013. Domestic demand should exert a smaller drag on the economy than in previous years, but the outlook for most trading partners has been downgraded since the previous review and remains clouded by uncertainty. Encouraging signs have been registered in the labour market, with modest increases in non-public sector employment and a fall in the unemployment rate to 13.7% in the first quarter of 2013.

The timeline for the next stress test of the Irish banks has been adapted to that of the forthcoming European-wide SSM/EBA exercises. In order to ensure consistency in methodology, scenarios and capital requirements, it was decided to conduct the stress tests on Irish banks ahead of, but in close proximity to, the stress test to be conducted by the ECB as it takes over its functions as Single Supervisory Mechanism (SSM), most likely in the first half of 2014. Preparatory supervisory steps, including a balance sheet assessment, will be completed before the end of the programme to foster further progress in strengthening banks' balance sheets ahead of the European-wide stress tests.

Market sentiment towards Ireland has continued to improve, helped by recent EU policy decisions. In particular, the Council agreed to extend the average maturity of EFSF and EFSM loans by 7 years. This, together with the strong programme implementation and the positive impact on sentiment of the ECB's OMT announcement has contributed to bringing yields on medium-term bonds back down to pre-crisis levels.

Despite continued substantial progress, important risks and challenges remain, mainly associated with uncertainty around the growth outlook and trading partners' demand, the still large budget deficit, banks' large arrears and weak profitability.