Summary for non-specialists
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Economic Adjustment Programme for Ireland – Autumn 2013 Review

This paper discusses the main findings of the twelfth and last review mission to Ireland, which took place during October 29-November 7, 2013. The report gives an overview of the country's very good programme performance over the last three years, as the arrangement expires at the end of 2013. It contains a detailed assessment of compliance with policy conditionality of the economic adjustment programme through end-2013 and gives an overview of remaining challenges, based on information available as of 30 November, 2013. The paper also has an annex with the updated programme documents.

Overall, programme implementation remains robust:

- The 2013 fiscal deficit is projected at 7.4% of GDP, 0.1 percentage points below the programme ceiling though there are some risks. The possible statistical reclassification of Allied Irish Bank (AIB) dividends paid as ordinary shares on the government's preference shares may raise the deficit. There are also some overruns in the healthcare sector which need to be addressed by the end of 2013. The 2014 budget deficit is projected to decline further to 5.0% of GDP and entails a decline in public debt for the first time in several years.

- Financial sector repair is proceeding. The Balance Sheet Assessment of the three largest domestic banks was finalised at end-November as planned. The results of the assessment indicate that additional provisions may be appropriate for some loans and that current capital buffers held by each institution are sufficient. The banks have made good progress with meeting their targets for the completion of sustainable mortgage restructurings. Their profitability has also improved though the outlook remains challenging for some institutions.

- Implementation of structural reforms continues at a moderate but steady pace. Capacity to deliver activation services and support to the unemployed is being increased but remains short of needs. The authorities completed a strategic review of the further education and training provision, which provides a number of useful recommendations that could be implemented as part of an upcoming strategy by the supervisory institution. No genuine progress towards enacting the Legal Services Regulation Bill was reported since the previous review. The funding model for Irish Water was communicated with a delay, but a comprehensive public consultation paper was released at end-October. The level of state support for Irish Water will depend on the outcome of the consultations in early 2014.

Modest growth is projected in 2013, with a pick up foreseen in 2014. Real GDP is expected to grow by 0.3% in 2013 and 1.7% in 2014, lower than projected at the last review due to relatively weak national accounts data for the first half of 2013. The projections envisage a rise in economic activity in the second half of 2013, as recent high-frequency data in Ireland remain positive. For example, the unemployment rate fell to 12.8% in the third quarter of 2013, more than two percentage points below its early 2012 peak.

On 14 November 2013, the government announced its decision to conclude the EU/IMF programme in December without a pre-arranged precautionary credit facility. Ireland has accumulated significant cash balances under the programme, while interest rates on Irish bonds have declined significantly. At the end of 2013, the cash balances are estimated at about EUR 20 billion, which constitute a significant backstop against internal and external risks. In addition, a number of developments, including European decisions to extend loan maturities, have further contributed to supporting market sentiment and lowering the borrowing needs in the future.

Nonetheless, challenges remain. Further progress is required in several areas to complete the adjustment process and to further entrench balanced and sustainable growth. In addition, the unemployment rate remains high. The government is preparing a medium-term strategy aimed at setting off a virtuous cycle of faster economic growth, healthier banks, and stronger public finances to ensure durable market access. In particular, with public debt level at 124% of GDP in 2013, Ireland needs to continue with fiscal consolidation, reduce the private sector debt overhang, and improve bank profitability to revive lending.