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Statement by the EC, ECB, and IMF on the Review Mission to Ireland

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Dublin during July 6-14 for the regular quarterly review of the government's economic programme. The objectives of the programme are to address financial sector weaknesses and to put Ireland's economy on the path of sustainable growth, sound public finances, and job creation, while protecting the poor and most vulnerable.

The teams' assessment is that the programme remains on track and is well financed. The authorities have continued to steadfastly implement programme policies. Tensions in sovereign bond markets have escalated during the visit, but programme financing is cushioning the impact of this shock on the Irish economy and public finances. Continued strong policy implementation will be important to limit potential contagion effects.

Recent developments are consistent with a return to positive growth in 2011. Real GDP stabilized in the year to the first quarter, and modest growth is expected in 2011. Strong exports, aided by progress in recovering lost competitiveness, are expected to continue driving the recovery although domestic demand will continue to contract. Growth is expected to strengthen next year and beyond as the recovery broadens and spills over into the labour market.

Reforms are being implemented to restore the healthy functioning of the banking sector. Restructuring of banks is ahead of schedule, with the merger of Allied Irish Banks with EBS Building Society, and Anglo Irish Bank with INBS, already completed. Renewal of the boards and management of banks is underway, and the recapitalization of domestically owned banks is expected be completed by end July, with the fiscal cost reduced by burden sharing with subordinated debt holders. Deleveraging of banks is making progress, and will deliver a smaller more robust system while avoiding fire sales.

On the fiscal front, the cumulative deficit for the first six months of the year was well below the programme ceiling. The budget deficit is projected to be below 10½ percent of GDP in 2011. The Government has established the Irish Fiscal Advisory Council to provide an independent assessment of public finances. Later this year, the authorities will publish a medium term fiscal consolidation plan for 2012 to 2015, outlining the revenue and expenditure adjustment consistent with reaching a deficit target of below 3 percent of GDP in 2015, drawing on the findings of the ongoing Comprehensive Review of Expenditure.

The authorities are advancing targeted structural reforms. To boost job creation, the Government is working with the social partners to develop reform plans for sectoral wage agreements, which cover sectors where unemployment tends to be high. The government also plans to introduce legislative changes to remove restrictions on trade and competition in sheltered sectors, including the legal profession, medical services and the pharmacy profession, in order to lower costs and boost purchasing power.

The government's programme is supported by loans from the European Union and EU member states amounting to €45.0 billion and a €22.5 billion Extended Fund Facility with the IMF. Ireland's contribution is €17.5 billion. Approval of the conclusion of this review will allow the disbursement of €4.0 billion in this quarter (€2.5 billion by the EU, and €1.5 billion by the IMF). Additional resources in the order of €0.5 billion are also scheduled to be disbursed under the UK bilateral loan in the third quarter. The mission for the next program review is scheduled for October 2011.