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Economics of the Member States III  
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To: S. Deroose

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[REDACTED]

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From: [REDACTED]

**Subject: First Post-programme Surveillance (PPS) Review Mission, 29 April - May 2, 2014**

*Commission and ECB teams visited Dublin to undertake the first PPS review mission. The mission was coordinated with the IMF's Post-Programme Monitoring (PPM) mission. The teams met with numerous public and private sector entities to discuss Ireland's recent economic, fiscal and financial developments and outlook. The objective of PPS is ultimately to measure a country's capacity to repay its outstanding loans and to determine whether corrective actions are necessary. The mission consisted of [REDACTED]*

*The mission confirmed its macro-fiscal projections as the economic recovery continues. Fiscal consolidation remains on track despite some health sector slippages. Political pressure to loosen fiscal policy ahead of elections is rising as the government coalition's support has dropped in recent polls. [REDACTED]*


*[REDACTED] Structural and financial reforms also continue to advance. There is some uncertainty over the impact the ECB's Comprehensive Assessment (CA) may have, especially on PTSB. There are plans to launch a state development bank to boost SME lending with EIB and KfW funding, but precise details are still not known.*

**Fiscal consolidation plans remain on course though there are some electoral pressures.** The mission confirmed that the 2014 fiscal deficits target under the Excessive Deficit Procedure (EDP) will likely be met despite some slippages in the health sector, which may be offset from savings in other departments or through additional measures in health. Measures needed to meet the 2015 EDP target are expected to be announced in October with the budget. European and local elections will be held on 23 May, and national election will likely be held in early 2016. After several years of fiscal tightening, elections are highlighting pressures to raise wages and pensions, while the finance minister has also suggested in the press that tax cuts on low and middle-income families may be included in the 2015 budget. [REDACTED]


In the financial sector discussions focused on several issues:

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- *Loan restructurings continue to progress but this is a lengthy process.* The fourth quarter 2013 mortgage arrears restructuring targets (MART) were met but the audit suggests that sustainable solutions continue to rely on legal action using the threat of repossession, while actual repossessions remain low so far. Both mortgage and commercial loan resolutions can take two to five years, thus it will take some time for NPLs to fall significantly. With many legal cases in the pipeline, the court system could face capacity problems, though evidence of this has not yet materialised, and developments are closely monitored by the authorities. The newly established personal insolvency procedure remains little utilized and there are criticisms that it is expensive amongst other problems.
- *In line with the published methodology, the central bank is undertaking the relevant work for the ECB's CA, though there is some uncertainty over the final outcome for one domestic bank.* With the three main domestic banks holding significant capital buffers and loan-loss provisions, worries that the asset quality review and stress test elements of the CA will reveal significant additional capital needs are limited. There is more uncertainty over the results from the supervisory risk assessment element of the CA that will examine *inter alia* banks' liquidity, governance and profitability, in particular in relation to PTSB, and the follow-up supervisory actions that may be taken to address them.
- *The successful sale of 90% of IBRC's assets, and the strong demand for Irish commercial real estate assets, are likely to accelerate the wind-down of NAMA.* The EUR 1.9 billion of unsold IBRC assets will no longer be transferred to NAMA, but instead be auctioned to private investors in the second quarter this year. The speedy wind-down of IBRC reduces the amount of the state's contingent liabilities and some return may be available to the Exchequer in early 2015. NAMA plans to accelerate the redemption of EUR 7.5 billion of its bonds by the end of this year, instead of by the end of 2016, bringing its outstanding senior debt down by half since inception. NAMA's balance sheet may be reduced to zero by 2017 instead of its original target of 2020.
- *The authorities have plans to establish a state development bank in the third quarter to boost SME lending.* The institution would be funded by the EIB, KfW and the National Pension Reserve Fund (NPRF). It would not have a banking license. Projects would be assessed on commercial merits. A proposal is due to go to cabinet soon and the Commission is attempting to find out more details. However, there are no plans to review or streamline the numerous public schemes already available to raise SME credit; they are managed by different ministries and stakeholders with different vested interests.
- *The authorities are establishing the Irish Strategic Investment Fund (ISIF) that will need cautious oversight.* The ISIF will replace the NPRF, which is currently invested internationally in relatively liquid assets. The new fund will amount to about 4% of GDP and involve private co-funding of Irish firms. ISIF will have a double objective: raising jobs and growth, while also being run on a commercial basis. It will also focus on SMEs and infrastructure investment



**Structural reforms continue to progress, with the introduction of water charges a particularly sensitive issue ahead of the local and European elections.** Charges will be introduced in the final quarter of 2014 and there has been significant debate within the coalition government over certain aspects of the water tariffs, such as the introduction of a fixed charged, its level and the provision of a free allowance. However, an agreement appears to have been reached and the water sector reform process is not at risk. The enactment of the Legal Services Regulation Bill has slipped again to the third quarter and the establishment of the regulatory authority is expected towards the end of 2014. Reforms of active labour market policies and further education and training continue to advance. Progress on key health sector reforms is uneven. Financial management reforms in the Health Services Executive are proceeding, but the momentum on pharmaceutical spending policy reform has slowed and the governance arrangements for the new eHealth entity have not been clarified. The sale of state assets has progressed in recent months with the sale of Bord Gáis Energy and two power plants of the Electricity Supply Board. Dividend payments from the parent companies owning these assets could yield privatisation revenue of about EUR 300-400 million (about 0.2% of GDP) in 2014.



**Press outputs.** On the final day of the mission, the Commission Services and ECB released a joint press statement, while the department of finance issued a separate statement regarding the successful conclusion of the EU-IMF mission. The IMF published a concluding statement the following business day.

#### **Next steps**

- The tentative timetable towards the completion of the first PPS review is laid out in the Annex. It targets discussion of the compliance report at EFC/EWG on 12-13 June and submission to the ECON committee of the European Parliament and the national parliament in the week of 16 June, ahead of the EG/ECOFIN meeting of 19/20 June. Publication of the PPS report is expected around 23 June.

## Annex I: Timetable for first post-programme surveillance report

2014-03-07	<b>Post-programme surveillance (PPS)</b>
Last updated =>	2014-05-05
Sat 10/05	
Sun 11/05	
Mon 12/05	
Tue 13/05	
Wed 14/05	
Thu 15/05	
Fri 16/05	
Sat 17/05	
Sun 18/05	
Mon 19/05	
Tue 20/05	Draft report to head of unit.
Wed 21/05	
Thu 22/05	Draft report to Directorate H and DDG.
Fri 23/05	IMF staff report to Management.
Sat 24/05	
Sun 25/05	
Mon 26/05	
Tue 27/05	Draft report to Cabinet.
Wed 28/05	
Thu 29/05	
Fri 30/05	IMF report to Executive Board.
Sat 31/05	
Sun 01/06	
Mon 02/06	PPS report sent to authorities, IMF, ECB and ESM for comments.
Tue 03/06	Deadline for comments, COB.
Wed 04/06	Changes introduced into PPS report.
Thu 05/06	

Fri 06/06	Submit staff PPS report to EFC (via EFC secretariat).
Sat 07/06	
Sun 08/06	
Mon 09/06	
Tue 10/06	
Wed 11/06	
Thu 12/06	EFC / EWG (LISBON)
Fri 13/06	EFC / EWG (LISBON). IMF Board discussion.
Sat 14/06	
Sun 15/06	
Mon 16/06	
Tue 17/06	
Wed 18/06	
Thu 19/06	
Fri 20/06	
Sat 21/06	
Sun 22/06	
Mon 23/06	PPS staff report published.
Tue 24/06	
Wed 25/06	
Thu 26/06	
Fri 27/06	