

Staff statement following the tenth post-programme mission to Ireland

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16/11/2018

Press releases

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Staff from the European Commission, in liaison with staff from the European Central Bank¹, visited Dublin from 13 to 16 November 2018 for the tenth post-programme mission to Ireland. This was coordinated with an International Monetary Fund staff visit. Staff from the European Stability Mechanism participated in the meetings in the context of its Early Warning System.

Private consumption and construction investment are expected to sustain domestic growth momentum in the short term, but risks remain. Strong employment growth, in conjunction with increasing wages, continues to support household income and private consumption. Construction investment is expanding at a fast pace, though from a low base. Significant risks continue to overshadow the economic outlook. Primarily external in nature, they relate to the uncertainties regarding the terms of the UK's withdrawal from the EU as well as changes to the international taxation and trade environment. On the domestic side, signs of overheating could become more apparent going forward.

Public finances have further improved, underpinned by increasing corporate tax revenue. A broadly balanced position is expected in 2019, improving to surplus thereafter. However, risks of volatility in some forms of tax revenue, such as corporate tax, remain. While total government expenditure in 2018 has so far been within budget allocations, some slippages have emerged in Departments, with a notably large slippage in healthcare. The public debt ratio has diminished, but the stock of debt remains elevated. The favourable cyclical situation combined with buoyant corporate tax receipts implies a strong case for increasing the resilience to economic fluctuations by broadening the tax base. This could also include building fiscal buffers, inter alia, by strengthening the envisaged rainy day

fund.

Broad efforts to reduce legacy non-performing loans (NPLs) in a decisive manner remain welcome. NPLs have been declining although long-term arrears remain a concern. Well calibrated actions should continue to ensure that NPLs remain on a firm downward path.

The comprehensive macroprudential framework primarily aims to promote the resilience of banks and households in a forward-looking manner.

Property price increases remain high despite some recent moderation, while credit continues to recover. Concerns remain that the draft bill enabling the Central Bank of Ireland to cap interest rates on variable rate mortgages, if enacted, could have negative implications for the transmission of monetary policy, financial stability and bank competition.

Despite accelerating supply, the housing shortage persists and affordability indicators remain above their long-term average. Recent government measures to bolster housing supply include the promotion of land development for construction. However, it will take time for the measures to produce significant results. Stepping up the construction of social housing and increasing the productive capacity of the construction sector may also help to provide affordable housing.

The mission would like to thank the Irish authorities for the helpful and open discussions.

The next PPS mission is planned to take place in the spring of 2019.

¹ European Central Bank (ECB) Staff participated in this mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

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