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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2015 National Reform Programme of Ireland and delivering a Council opinion the 2015 Stability Programme of Ireland

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2015) 258 final.

COUNCIL RECOMMENDATION

of …

on the 2015 National Reform Programme of Ireland

and delivering a Council opinion the 2015 Stability Programme of Ireland

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a Recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States[3]. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a Recommendation[4] on Ireland's National Reform Programme for 2014 and delivered its opinion on Ireland's updated Stability Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council[5], the Commission presented its opinion on Ireland's draft budgetary plan for 2015.

3 Maintained by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

4 Council Recommendation of 8 July 2014 on the National Reform Programme 2014 of Ireland and delivering a Council opinion on the Stability Programme of Ireland, 2014 (OJ C 247, 29.7.2014, p. 29).

5 Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey, marking the start of the 2015 European Semester for economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which Ireland was identified as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for fostering investment, intensifying structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Ireland. This assessed Ireland's progress in addressing the country-specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Ireland is experiencing macroeconomic imbalances which require decisive policy action and specific monitoring. In particular, Ireland completed the EU-IMF financial assistance programme in 2013 and is currently subject to post-programme surveillance and European Semester surveillance. Despite a marked improvement in the economic outlook, some risks continue to deserve close attention: the high levels of private- and public-sector indebtedness; remaining financial sector challenges, in particular with regard to banks' profitability; and labour market adjustment marked by high structural unemployment.

(7) On 29 April 2015, Ireland submitted its 2015 National Reform Programme and, on 30 April 2015, its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Ireland is currently in the corrective arm of the Stability and Growth Pact. In its 2015 Stability Programme, the Government plans to correct the excessive deficit by 2015, in line with the deadline set by the Council. Thereafter, it plans to reach the medium-term objective – a balanced budget in structural terms - by 2019. The Government plans to reduce the headline deficit to 2,3 % of GDP in 2015 and to turn it into a surplus of 0,7 % of GDP in 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to be brought down from 109,7 % in 2014 to 105,0 % of GDP in 2015 and gradually to 89,4 % of GDP in 2019. The macroeconomic scenario underpinning these budgetary projections is favourable in 2015 and plausible in 2016. Based on the Commission's 2015 spring forecast, a timely and durable correction of the excessive deficit by 2015 is foreseen. The fiscal effort for 2011-2015 is estimated to be below the recommended effort, but the amount of discretionary measures taken under the Programme and thereafter is in line with what was required. Assuming a timely and durable correction of the excessive deficit as planned, Ireland will be subject to the preventive arm of the Pact as of 2016. Measures to support the planned deficit targets and progress towards the medium-term objective from 2016 onwards have not been specified in sufficient detail. Therefore, in the light of the Commission's 2015 spring forecast, there appears to be a risk of a significant deviation from the required adjustment towards the medium-term objective in 2016, and further structural measures will be needed in that year. Based on its assessment of the Stability Programme and taking to account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Ireland will not comply with the provisions of the Stability and Growth Pact.

(9) Tax reforms have contributed to the fiscal adjustment, but there is further scope to reduce distortions, improve the efficiency of the tax system and raise its growth and environmental friendliness. Property taxation has been turned into a recurrent tax, but the base is still relatively narrow as certain non-residential properties remain outside the tax net. Labour taxation lacks simplicity due to complex social contributions. The tax bases for consumption and environment taxes are limited by reduced rates and exemptions. Zero and reduced rates for value-added tax make it less efficient than the EU average and there seems to be no systematic evaluation of such tax expenditures. There is scope to improve the effectiveness of environmental tax instruments and remove environmentally harmful subsidies. Recent changes to tax residency rules are welcome, even if their effect may take time to assess. Major reforms to the fiscal framework have been undertaken in recent years. New rules and procedures, in particular the medium-term expenditure framework, are expected to provide a safeguard against pro-cyclical fiscal policy and are crucial for fiscal sustainability. However, under current rules, the Government has considerable discretion to change expenditure ceilings beyond pre-defined contingencies, which weakens medium-term budgetary plans.

(10) Public expenditure on healthcare is comparatively high even though population health status indicators are generally no better than in the rest of the EU. Efficiency gains have been achieved in recent years. However, the health system needs deeper structural reforms to contain expected cost increases and maintain favourable health outcomes in the face of an ageing population. Ireland aims to introduce a single-tier universal health insurance scheme in the medium term and is implementing reforms under the Future Health strategy. Intermediate steps are being pursued in the introduction of universal health insurance to address some of the pressing challenges and improve cost-effectiveness. Effectively rolling out e-health tools, activity-based funding and improved prescription practices have significant potential to increase cost-effectiveness. At the same time, the potential remains to reduce public spending on pharmaceuticals, in particular patented medicines, which is well above the EU average.

(11) Ireland has one of the highest proportions of people living in 'low work-intensity' households in the Union. This generates serious social challenges and raises the risk of child poverty. As low work-intensity is particularly severe among single-parent households, the proportion of children living in households with low work-intensity is nearly three times the EU average. Some progress has been made in addressing pockets of inactivity traps by altering the operation of some welfare payments. Nevertheless, access to full-time childcare remains limited and expensive, which is a barrier to female and single-parent participation in the labour market.

(12) With the stronger macroeconomic environment, the overall situation of SMEs has improved but they face very contrasting financial positions; a relatively small proportion is still suffering from legacy issues and concentrating the sector's further deleveraging needs. Credit demand is also showing signs of recovery. SMEs continue to rely heavily on bank financing for investment and non-bank sources of finance are relatively underdeveloped. As the recovery gathers momentum and domestic demand recovers, supply constraints are likely to increase unless credit channels are repaired adequately and financing sources are diversified; this is crucial for investment and the growth outlook. Significant policy initiatives have been taken to support SMEs' access to finance and to offer new products with longer duration. These include the establishment of the Strategic Banking Corporation of Ireland (SBCI), the Ireland Strategic Investment Fund (ISIF) and other schemes. However, while still in the early stages, the uptake on some of these schemes has so far been low and the effectiveness and impact of the SBCI and ISIF can be judged only in the light of experience.

(13) Ireland has made good progress in restructuring, downsizing and recapitalising its domestic banks. Banks' funding profiles have returned to normal and profitability continues to improve. However, legacy challenges remain critical. The high stock of non-performing loans is declining only slowly and continues to weigh on the capacity of banks to support the economic recovery. Such loans represented 23,2 % of total loans in the three main domestic banks in the fourth quarter of 2014, one of the highest rates in the Union. While banks continue to meet their mortgage arrears resolution targets, the longest-term arrears (over 720 days) continue to build up, increasing to 9,8 % of total loan balances in the fourth quarter of 2014. Progress is being made in implementing sustainable restructuring solutions; in April, the Central Bank of Ireland required banks to have solutions in place for the vast majority of borrowers by end-2015. However, banks have relied significantly on standard self-restraint techniques involving the rescheduling of principal or interest payments rather than lowering both. Banks also continue to rely heavily on legal proceedings as a way of convincing customers in arrears to engage. The planned introduction of a central credit register has progressed only slowly even though it is key to improving supervision, credit underwriting and risk management.

(14) The situation in the labour market has improved since 2013, with renewed job creation in the private sector and a steady fall in unemployment. Nevertheless, the unemployment rate is still high and long-term unemployment remains a serious concern. The risk exists that some cyclical unemployment could become structural as skills mismatches have emerged with the rebalancing of the economy. Youth unemployment is still much higher than in the pre-crisis period. Activation reforms have made significant progress in recent years, but some concerns remain about the effectiveness of existing activation policies and training programmes, and of the ability of employment services to deliver on the scale required. The recently launched Job Path initiative is a positive development; its effectiveness will need to be tested. In the past, the further education and training system has been ineffective in providing the type of skills that the rebalanced economy needs, and reforms have started only recently.

(15) Costs for legal services remain high and still have to adjust in line with other professional services. Adjustment is important, as legal services are an input to all sectors of the economy and their cost has a bearing on Ireland's competitiveness. Reform of the regulatory framework for legal services with a view to increasing competition and reducing costs is a long-standing project to which the authorities are committed. However, the Legal Services Regulation Bill, published in 2011, has not been adopted. In addition, an actual reduction in costs can be achieved only if the competition-enhancing and cost-reducing provisions of the planned regulatory framework are preserved and incorporated into the regulations to be issued by the Legal Services Regulatory Authority that is about to be set up. Therefore, the Commission will continue to monitor progress in this area in the context of the European Semester.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Ireland's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Ireland in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Ireland but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (4) below.

(17) In the light of this assessment, the Council has examined the Stability Programme, and its opinion[6] is reflected in particular in recommendations (1) and (2) below.

[6] Under Article 5(2) of Regulation (EC) No 1466/97.

(18) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (4) below.

(19) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro[7][*]. As a country whose currency is the euro, Ireland should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Ireland take action in 2015 and 2016 to:

1. Ensure a durable correction of the excessive deficit in 2015. Achieve a fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016. Use windfall gains from better-than-expected economic and financial conditions to accelerate the deficit reduction and debt reduction. Limit the existing discretionary powers to change expenditure ceilings beyond specific and predefined contingencies. Broaden the tax base and review tax expenditures, including on value-added taxes.

2. Take measures to increase the cost-effectiveness of the healthcare system, including by reducing spending on patented medicines and gradually implementing adequate prescription practices. Roll out activity-based funding throughout the public hospital system.

3. Take steps to increase the work-intensity of households and to address the poverty risk of children by tapering the withdrawal of benefits and supplementary payments upon return to employment and through better access to affordable full-time childcare.

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[7] OJ C ….
[*] Insert details for the euro-zone recommendation st 9230/15 (ex st8888/15).

4. Finalise durable restructuring solutions for a vast majority of mortgages in arrears by end-2015 and strengthen the monitoring arrangements by the Central Bank of Ireland. Ensure that restructuring solutions for loans to distressed SMEs and residual commercial real-estate loans are sustainable by further assessing banks' performance against own targets. Take the necessary steps to ensure that a central credit registry is operational by 2016.

Done at Brussels,

For the Council
The President