Council of the European Union

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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of Ireland and delivering a Council opinion on the 2016 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(2016) 328 final.

COUNCIL RECOMMENDATION

of…

on the 2016 National Reform Programme of Ireland

and delivering a Council opinion on the 2016 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,

[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 Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which it identified Ireland as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016[3]. As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Ireland should ensure the full and timely implementation of the Recommendation.

[3] OJ C 96, 11.3.2016, p. 1.

(2) The 2016 country report for Ireland was published on 26 February 2016. It assessed Ireland's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Ireland's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Ireland is experiencing macroeconomic imbalances. In particular, it is essential to tackle the large stocks of net external liabilities and of public and private debt which constitute vulnerabilities, despite improvements.

(3) On 29 April 2016, Ireland submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[4], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking the effectiveness of the European Structural and Investment Funds to sound economic governance.

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4 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

(5) Following the abrogation of the excessive deficit procedure, Ireland is in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2016 Stability Programme, which is based on a no-policy-change assumption, the Government plans gradual improvements of the headline balance until reaching a surplus of 0,4% of GDP in 2018. The revised medium-term budgetary objective – a structural deficit of 0,5% of GDP – is expected to be reached in 2018. However, the annual change in the recalculated[5] structural balance of 0,1 % of GDP in 2016 does not ensure sufficient progress towards the medium-term budgetary objective. According to the Stability Programme, the government debt-to-GDP ratio is expected to fall to 88,2 % in 2016 and to continue declining to 85,5 % in 2017. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a risk of some deviation from the recommended fiscal adjustment in 2016, while Ireland is projected to be compliant in 2017 under unchanged policies. Ireland is forecast to comply with the transitional debt rule in 2016 and 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Ireland is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in 2016.

(6) Efforts to broaden the tax base have been limited and recent tax measures have focused on cuts and reliefs. Further progress should be made towards making the tax system more efficient and growth-friendly. The Irish authorities conduct a rolling programme of tax expenditure reviews, the results of which are published in an annual report. However, the review process does not cover VAT-related tax expenditures and there is still scope to broaden the tax base through increases in the least distortionary taxes.

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[5] The structural balance as recalculated by the Commission based on the information in the Convergence Programme, following the commonly agreed methodology.

(7) Cost-effectiveness, equal access and sustainability remain critical challenges to the healthcare system. Specific strands of reforms are progressing, but spending on pharmaceuticals, in particular owing to the high cost of single-supplier medicines, continues to weigh on cost effectiveness. Financial management and information systems remain weak and unequal access to primary care is still an issue. Approximately 40 % of the population has free access to general practitioners, while the rest bear the full cost. Significant uncertainty surrounds the broad reform of the healthcare system as the universal health insurance model is in a quandary.

(8) Infrastructure needs should be addressed in order to promote durable and balanced growth in the future. Following a peak of 5,2 % of GDP in 2008, public investment fell to a low of 1,8 % of GDP in 2013 before slightly recovering in 2014, when it was still well below the EU average. In addition, the crisis appears to have led to a structural shift in the composition of general government expenditure away from investment towards current spending. In 2010-2013, capital expenditure averaged only 4,8 % of the total, less than half the long-term average during 1995-2008. Seven years of sharply reduced government investment have had a negative impact on the quality and adequacy of infrastructure and the government support for intangible investments. There are key weaknesses in housing, water, public transport and climate change mitigation capacity. Demand for new housing currently exceeds supply by a wide margin in the country's main urban areas. As a result, residential property prices and rents in urban areas increased sharply in 2014, before growth slowed in 2015. There is currently no evidence of over-valuation, but constraints limiting the construction sector and the supply of housing, including some linked to public infrastructure, could generate risks of imbalances if they are not resolved. The shift in government expenditure has also affected public sector support to R&D and innovation, which was below 2007 levels in 2014. Currently, in terms of public R&D as a percentatge of GDP, Ireland ranks 22nd in the Union. This has a negative impact on the competitiveness of SMEs.

(9) Unemployment has fallen below the EU average and in March 2016 stood at 8,6 %. However, long-term unemployment and the low work intensity of households remain sources of concern. In particular, although the rate of long-term unemployment has decreased over recent years, the proportion of unemployed who are long-term unemployed remains high at 56,3 % in the fourth quarter of 2015, above the EU average of 48,3 %. In 2014 (latest comparable data), the percentage of the population living in very low work intensity (VLWI) households was the highest in the EU at 21,1 % and was especially prevalent for single-parent households. The proportion of children (aged 0 to 17) at risk of poverty or social exclusion (AROPE) fell to 30,3 % in 2014 but remains higher than the EU average of 27,8 %. The corresponding AROPE figure for single-parent households (62,5 % in 2014) is much higher than the EU average (48,2 %).

(10) Ireland has begun rollout of the JobPath Programme to address the needs of the long-term unemployed and is developing an activation approach to encourage those with the potential and desire to play a more active role in the labour force. The challenge remains to expand job support services to those traditionally excluded from the labour market, including people with a disability and those with caring responsibilities. Overall, the welfare system has worked well to contain the effects of the crisis on poverty and inequality, but barriers to inclusive growth remain. Some progress has been achieved in tapering benefits, but concerns persist about inactivity traps for certain households. As a percentage of wages, net childcare costs in Ireland are among the highest in the Union, the second highest for couples and the highest for single parents. Concerns remain over the quality of childcare provisions. For example, in 2014 the percentage of graduates working in the early childhood education and care sector (15 %) remained well below the recommended level. Skills mismatches remain and skills shortages have emerged in certain areas, while upskilling and reskilling opportunities remain insufficient, and the decrease in education expenditure could have a negative impact on educational outcomes in the future.

(11) The high leverage of the private sector reflects ongoing loan impairment issues. At the end of June 2015, private sector non-consolidated debt stood at 266,3 % of GDP, well above the euro area average. Although the non-performing loans ratio has been declining due to the economic recovery and restructuring activities, at the end of 2015 it remained among the highest in the euro area, at over 16 % of all domestic banks' loans. In addition, 14,7 % of the mortgage stock was in arrears at the end of 2015, while accounts in arrears of over two years represented almost 10 % of the total mortgage loan balance. While progress is being made, most mortgage restructuring is temporary, highlighting a risk of re-default, especially in the event of macroeconomic deterioration or external shock. Commercial real estate loans held by domestic banks and SME and business loans also remain areas of concern, with non-performing loan ratios of 37,3 % and 13,8 % respectively. While progress is being made, it will take much more time and effort to restructure these accounts sustainably. Personal insolvency procedures, bankruptcy, examinership (court protection under Irish law for companies in difficulty) and other means of partial debt relief intended to restore households and business to viability remain under-utilised. The introduction of the central credit registry has been slow, despite being critical to support prudent lending.

(12) The Legal Services Regulation Act 2015 has been signed into law, but, at a late stage in the process, concessions were made to the legal professions that significantly reduced the initial ambition of the reform. Implementation of the new framework is only just starting and it is too early to be fully confident that it will boost competition and reduce costs. Legal services are an input to all sectors of the economy and their cost has a bearing on Ireland's competitiveness. An actual reduction in costs can be achieved only if the competition-enhancing and cost-reducing provisions of the planned regulatory framework become law following public consultation processes or incorporated in regulations to be issued by the Legal Services Regulatory Authority.

(13) 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 2016 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 EU's overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

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

(15) 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 (3) below.

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

HEREBY RECOMMENDS that Ireland take action in 2016 and 2017 to:

1. Following the correction of the excessive deficit, achieve an annual fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016 and in 2017. Use windfall gains from strong economic and financial conditions, as well as from asset sales, to accelerate debt reduction. Reduce vulnerability to economic fluctuations and shocks, inter alia by broadening the tax base. Enhance the quality of expenditure, particularly by increasing cost-effectiveness of healthcare and by prioritising government capital expenditure in R&D and in public infrastructure, in particular transport, water services and housing.

2. Expand and accelerate the implementation of activation policies to increase the work intensity of households and address the poverty risk of children. Pursue measures to incentivise employment by tapering the withdrawal of benefits and supplementary payments. Improve the provision of quality, affordable full-time childcare.

3. Finalise durable restructuring solutions to lower non-performing loans, to ensure debt sustainability of households and to encourage lenders to reduce the debt of excessively leveraged yet viable businesses. Accelerate the phasing-in of a fully operational central credit registry covering all categories of lenders and debtors.

Done at Brussels,

For the Council
The President