COUNCIL OF THE EUROPEAN UNION

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from:	The General Secretariat
to:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on Ireland's 2014 national reform programme and delivering a Council opinion on Ireland's 2014 stability programme

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2014) 408 final.

COUNCIL RECOMMENDATION

of

on the National Reform Programme 2014 of Ireland
and delivering a Council opinion on the Stability Programme of Ireland, 2014

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,

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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 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 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, which 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], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

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[3] Maintained for 2014 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) Ireland was subject to a macroeconomic adjustment programme until December 2013. Under Article 12 of Regulation (EU) No 472/2013 of the European Parliament and of the Council[4], it was thus exempt from the monitoring and assessment of the European Semester for economic policy coordination for the duration of that programme. In view of the successful completion of the Irish macroeconomic adjustment programme, Ireland should now be fully integrated in the European Semester framework.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report.

(6) On 20 December 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

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4 Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

(7) On 5 March 2014, the Commission published the results of its in-depth review for Ireland, under Article 5 of Regulation (EU) No 1176/2011 and taking into account the successful completion of the Irish economic adjustment programme and thus the fact that Ireland should now be fully integrated in the European Semester framework. The Commission's analysis leads it to conclude that Ireland's recently completed macroeconomic adjustment programme was instrumental in managing economic risks and reducing imbalances. However, the remaining macroeconomic imbalances require specific monitoring and decisive policy action. In particular, financial sector developments, private and public sector indebtedness, and, linked to that, the high gross and net external liabilities and the situation of the labour market mean that risks are still present.

(8) On 17 April 2014, Ireland submitted its 2014 National Reform Programme and, on 29 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The main objectives of the budgetary strategy outlined in the 2014 Stability Programme are to correct the excessive deficit by 2015 and reach the medium-term objective by 2018. The Stability Programme targets a deficit below 3 % of GDP by 2015, in line with the Excessive Deficit Procedure recommendation. The Stability Programme confirms the medium-term objective of a balanced budgetary position in structural terms, which is consistent with the provisions of the Stability and Growth Pact. Beyond 2015, the Stability Programme sets a reduction in the headline fiscal deficit of around 1 percentage point of GDP per annum in 2016–2018. It aims to reduce debt from close to 124 % of GDP in 2013 to 107 % of GDP in 2018. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme was endorsed as "within the range of appropriate projections" by an independent body (the Irish Fiscal Advisory Council). It is broadly in line with the Commission forecast for 2014 and 2015, with some differences in the contributions of the demand components. However, the authorities' forecast for the later years of the Stability Programme is optimistic. Moreover, the achievement of the budgetary targets is not supported by sufficiently detailed measures for 2015. As a result, the Commission deficit forecast for 2015 is higher than the target recommended by the Council. Based on the assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the Stability Programme's targets are consistent with the requirements of the Stability and Growth Pact, but need to be supported by specific measures from 2015 onward. There have been significant steps to improve important aspects of the Irish fiscal framework and the quality and timeliness of data provision. Current rules for the medium-term expenditure ceilings allow for discretionary changes by the government that are not limited to predefined contingencies.

(10) Tax reforms have contributed to the fiscal adjustment, but there is further scope to improve the efficiency and growth-friendliness of the tax system. Property taxation has been shifted from a transaction tax to a recurrent tax based on residential property values, but the tax base is still relatively narrow as certain properties remain outside the tax net. Labour taxation is fragmented and complex; and the tax bases for consumption and environment taxes are narrowed by reduced rates and exemptions, while such taxes are more growth-friendly. Zero and reduced VAT rates result in a VAT efficiency below the EU average. Reduced VAT rates are widely used to achieve redistribution objectives even though they are not an efficient and well-targeted policy tool to protect vulnerable groups. There is scope to improve the effectiveness of environmental tax instruments and removing environmentally harmful subsidies.

(11) Even though Ireland has a relatively young population, public healthcare expenditure was among the highest in the Union in 2012 at 8,7 % of GNI, significantly above the EU average of 7,3 %. Given the current difficulties in managing the health budget, expected demographic pressures due to an ageing population mean that current service levels can be maintained only if value-for-money gains are achieved over the medium to long term. The increase in health-related spending to 2060 due to demographic pressures is projected at 1,2 percentage points of GDP. Challenges to the health sector are multifaceted. Financial management and accounting systems and processes are fragmented across healthcare providers. This causes delays and hurdles in collecting and processing information. It also hinders the monitoring of healthcare expenditure and efforts to achieve value-for-money and an appropriate allocation of resources. The high level of pharmaceutical expenditure is another challenge, with expenditure on out-patient drugs being comparatively high.

(12) Ireland faces challenges relating to unemployment, particularly long-term and youth unemployment, and there is still a large working age population with low skills, resulting in inequality and skills mismatches. Long-term unemployment has fallen gradually with the recent strengthening of the labour market, but it remains high as a proportion of overall unemployment, representing over 61 % of the total at the end of 2013. The unemployment rate among young people peaked above 30 % in mid 2012. Additionally, the proportion of young people not in employment, education or training increased by 8 percentage points between 2007 and 2012 to 18,7 % before ebbing to 16,1 %, but still among the highest in the Union. There is a need to cover all young people in need within a four-month period, in line with the objectives of a youth guarantee. Skills mismatches have emerged with the rebalancing of the economy, making re-skilling and up-skilling a challenge for the education and training system. In addition, participation in lifelong learning is lower than the EU average (7,3 %, as compared with 10,7 % in 2013).

(13) Ireland has one of the highest proportions of people living in households with low work intensity in the Union, which generates serious social challenges. The proportion was higher than the EU average prior to the crisis and surged from 14,3 % in 2007 to 24,2 % in 2011. Low work intensity is particularly severe among single-parent households with children. This has contributed to a growing risk of poverty or social exclusion of children in Ireland and exacerbates the issue of the unequal labour market participation of women which stood at 67,2 % in 2013, as compared with 83,4 % for men. As a result, attention has turned to access to and affordability of childcare, a significant barrier to parents finding employment and avoiding the risk of poverty. The labour market is also affected by pockets of unemployment traps. The flat structure of unemployment benefits under the Jobseeker's Benefit and Jobseeker's Allowance system, the unlimited duration of the Jobseeker's Allowance and the loss of supplementary payments (in particular, rent supplement and medical cards) upon return to employment mean that replacement rates are relatively high for the long-term unemployed with low income potential and other categories of workers depending on family circumstances.

(14) Lending to SMEs remains weak, reflecting a combination of subdued credit demand and supply constraints, as SMEs continue to be affected by excess leveraging and weak domestic demand while banks need to make further progress in achieving sustainable resolutions in their SME non-performing loans book. The latest Red C survey indicates that, of the 35 % of SMEs that requested bank credit between October 2013 and March 2014, 19 % were declined a loan. The Credit Review Office was established at the end of 2009 to mediate disputes between lenders and prospective SME borrowers who have been refused credit. Although positive, the impact of the Credit Review Office appears to have been rather limited to date, partly because the number of appeals has been quite small. SMEs rely heavily on bank financing for investment, and non-bank sources of finances are relatively underdeveloped, although some alternatives, including loan funds, are currently being examined. As the recovery gathers momentum, however, and as domestic demand recovers supply constraints are likely to increase unless credit channels are adequately repaired, which is crucial for the growth outlook. Dedicated schemes and funds have been put in place to improve access to finance for SMEs, such as the Credit Guarantee Scheme, the Microenterprise Loan Fund Scheme and three SME funds put in place, but so far take-up has been low.

(15) Despite banking sector reforms undertaken under the recently completed programme of financial assistance, there are still significant challenges. These challenges were analysed in detail in the Commission's 2014 in-depth review of Ireland. Non-performing loans represented almost 27 % of the total as of June 2013 for the three main domestic banks. Private sector indebtedness is still among the highest in the Union in spite of recent deleveraging and this remains a risk to financial stability and a burden on the economy. Household and SME deleveraging is incomplete, and bank and SME balance sheet repair are critical to restore credit channels. Bank lending continues to fall and the banking sector still struggles with profitability, in part because of the high number of tracker mortgages (low-yielding legacy assets) on banks' balance sheets.

(16) The cost of enforcing contracts is high. Lawyer fees represent the majority of these costs, at 18,8 percentage points and high legal services costs affect the cost structure of all businesses, including SMEs. In addition, unlike for other professional services, legal services costs have failed to adjust downwards since the onset of the crisis, in part due to insufficient competition. The authorities have committed themselves to introducing reforms to the legal services sector as part of the macroeconomic adjustment programme. They published a Legal Services Regulation Bill in 2011 that remains to be enacted. Judicial and court administrative resources to implement active pre-trial case management are very limited, which may be contributing to delays in the delivery of justice and raise costs. In addition, there are significant gaps in Ireland's ability to collect data on the efficiency of the justice system.

17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Ireland's economic policy. It has assessed the National Reform Programme and the Stability Programme. 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 reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

(18) In the light of this assessment, the Council has examined the Stability Programme, and its opinion[5] is reflected in particular in recommendations (1) and (2) below.

(19) 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), (3), (5) and (6) below.

(20) 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 this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro[6*]. 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 within the period 2014-2015 to:

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5 Under Article 5(2) of Regulation (EC) No 1466/97.
6 OJ C ….
* OJ: please insert reference for st10676/14.

1. Fully implement the 2014 budget and ensure the correction of the excessive deficit in a sustainable manner by 2015 through underpinning the budgetary strategy with additional structural measures while achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Enhance the credibility of the fiscal adjustment strategy, effectively implement multi-annual budgetary planning and define broad budgetary measures underlying the medium-term fiscal targets. Ensure the binding nature of the government expenditure ceiling including by limiting the statutory scope for discretionary changes. To support fiscal consolidation, consideration should be given to raising revenues through broadening the tax base. Enhance the growth and environmental friendliness of the tax system.

2. Advance the reform of the healthcare sector initiated under the Future Health strategic framework to increase cost-effectiveness. Pursue additional measures to reduce pharmaceutical spending, including through more frequent price realignment exercise for patented medicines, increased generic penetration and improved prescribing practices. Reform the financial management systems of the national health authority to streamline systems across all providers and to support better claims management. Roll out individual health identifiers starting by the end of the first quarter of 2015 at the latest.

3. Pursue further improvements in active labour market policies, with a particular focus on the long-term unemployed, the low-skilled and, in line with the objectives of a youth guarantee, young people. Advance the ongoing reform of the further education and training (FET) system, employment support schemes and apprenticeship programmes. Offer more workplace training; improve and ensure the relevance of FET courses and apprenticeships with respect to labour market needs. Increase the level and quality of support services provided by the Intreo labour offices. Put in place a seamless FET referrals system between Intreo offices and Education and Training Boards.

4. Tackle low work intensity of households and address the poverty risk of children through tapered withdrawal of benefits and supplementary payments upon return to employment. Facilitate female labour market participation by improving access to more affordable and full-time childcare, particularly for low income families.

5. Advance policies for the SME sector including initiatives to address the availability of bank and non-bank financing and debt restructuring issues, while avoiding risks to public finances and financial stability. Advance initiatives to improve SME's access to bank credit and non-bank finance. Introduce a monitoring system for SME lending in the banking sector. In parallel, work to ensure that available non-bank credit facilities, including the three SME funds co-funded by the National Pensions Reserve Fund, Microfinance Ireland and the temporary loan guarantee scheme, are better utilised. Promote the use of these and other non-bank schemes by SMEs. Enhance the Credit Review Office's visibility and capabilities in mediating disputes between banks and prospective SME borrowers who have been refused credit.

6. Monitor banks' performance against the mortgage arrears restructuring targets. Announce ambitious targets for the third and fourth quarters of 2014 for the principal mortgage banks to propose and conclude restructuring solutions for mortgage loans in arrears of more than 90 days, with a view to substantially resolving mortgage arrears by the end of 2014. Continue to assess the sustainability of the concluded restructuring arrangements through audits and targeted on-site reviews. Develop guidelines for the durability of solutions. Publish regular data on banks' SME loan portfolios in arrears to enhance transparency. Develop a strategy to address distressed commercial real-estate exposures. Establish a central credit registry.

7. Reduce the cost of legal proceedings and services and foster competition, including by adopting the Legal Services Regulation Bill by the end of 2014, including its provision allowing the establishment of multi-disciplinary practices, and by seeking to remove the solicitor's lien. Monitor its impact, including on the costs of legal services. Take executive steps to ensure that the Legal Services Regulatory Authority is operational without delay and that it meets its obligations under the legislation, including in terms of publishing regulations or guidelines for multi-disciplinary practices and the resolution of complaints. Improve data collection systems to enhance the monitoring and evaluation of the efficiency of judicial proceedings to identify issues in need of reform.

Done at Brussels,

For the Council
The President