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Assessment of the 2013 national reform programme and stability programme for IRELAND

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Economic Outlook

While the EU as a whole is experiencing stagnant or negative growth, the Irish economy continues to expand at a moderate pace and economic growth is becoming more broad-based. Ireland's real GDP grew by 0.9 % in 2012, with an improving contribution from domestic demand. According to the Commission's spring 2013 forecast, growth is expected to accelerate to 1.1 % in 2013 and 2.2 % in 2014, placing Ireland among the stronger performers in an environment of negative or stagnant growth in the EU. Employment growth turned positive in late 2012, but unemployment remains high at 14.2 % in 2012, with a high prevalence of long-term and youth unemployment. It is expected to fall to 13.7 % in 2014. Competitiveness has improved in recent years, and the current account swung from a deficit of EUR 10 billion in 2007 and 2008 to a surplus of EUR 8.1 billion in 2012.

Overall, the 2013 deficit ceiling of 7.5 % of GDP should be within reach and the authorities are committed to cutting the headline deficit to below 3% by 2015 in line with Excessive Deficit Procedure (EDP). In 2012, the deficit fell to 7.6 %, well below the 8.6 % programme target

Key Issues

It will be critical for the authorities to avoid complacency and strictly follow the objectives of the EU-IMF programme in 2013, as well after 31 December 2013 when the programme expires. The options to ensure a successful and sustainable exit from the programme are currently being reviewed. Ireland's funding position continues to strengthen and it is regaining good market access. As a result, Ireland holds significant cash reserves and by the end of 2013 it is expected to be able cover its financing needs for more than one year. Full implementation of the programme is also key to ensure progress towards all Europe 2020 targets.

Implementation of the economic adjustment programme has been strong from the outset and positive impacts are now visible in terms of the correction of macroeconomic imbalances, restored competitiveness and budding growth. Substantial fiscal consolidation has been achieved so far and major progress has been done in bank deleveraging and restructuring. Meanwhile, structural reforms have improved economic fundamentals and Ireland's competitiveness.

In spite of all the progress achieved, significant challenges and imbalances remain. Further work is required to complete the restructuring of the banking sector, put public finances on a sustainable footing, and reduce unemployment.

- **Banking sector**: more forceful action is required to address the still high and growing level of non-performing loans, slow progress in tackling problem mortgages and SME loans, uncertainty about potential future losses and still-elusive profitability. These factors continue to hamper the ability of banks to lend to the economy and make it all the more important to step up efforts to establish an operational credit register before end-2013. Access to finance, in particular for SMEs, remains challenging though a lack of demand may also be a contributing factor. Preparatory work for the next round of stress tests is on-going, but the authorities have indicated they consider that Ireland should conduct the next stress tests in the context of the EU-wide exercise ahead of the entry into force of the Single Supervisory Mechanism.

- **Public finances**: the authorities aim to achieve savings of EUR 1 billion in the public service pay and pensions bill over the period 2013–2015, of which EUR 300 million during the second half of 2013. The negative vote by trade union members on the Croke Park public sector pay agreement means that equivalent saving measures need to be identified. Moreover, healthcare spending increased significantly in recent years and needs to be contained. Budget 2013 introduces a number of measures to that effect, but a number of these require legislative action, and further efforts could be made to lower drug costs. The Commission services have also renewed their call for additional efforts to ensure that the multi-annual expenditure framework is robust, binding and fully aligned with the reformed EU framework for fiscal governance.
- **Structural reform**: the loss of competitiveness suffered during the boom years has been erased through a mix of increased productivity, falling prices in key segments of the economy and wage moderation. The fight against high unemployment, in particular long-term and youth unemployment, is a priority. Although the social welfare system sheltered the most vulnerable to some extent and fiscal consolidation has been progressive overall, 29.9% of the population was at risk of poverty or social exclusion in 2010. This makes job creation efforts all the more important. Overall, structural reforms have progressed well, yet at times too slowly.

1. INTRODUCTION

Confronted with the burst of the real-estate bubble, the huge cost of rescuing its domestic banks and the resulting macro-economic imbalances, Ireland requested a programme of financial assistance in November 2010. The programme approved in December 2010 by the ECOFIN Council and the Board of the International Monetary Fund (IMF) covers the period 2010–2013 and mobilises EUR 85 billion of financing. It includes contributions of EUR 45 billion from the EU, EUR 22.5 billion from the IMF and the use of Ireland's own financial assets to the tune of EUR 17.5 billion. EU financing comes from the European Financial Stabilisation Mechanism (EUR 22.5 billion), the European Financial Stability Facility (EUR 17.7 billion) and bilateral loans from the United Kingdom, Sweden and Denmark (EUR 4.8 billion). Following the successful completion of the 9th programme review on 22 April 2013, only 10 % of the overall programme envelope remains to be disbursed.

The main objectives of the programme are to put public finances on a sustainable footing, restore the health of the banking sector and re-establish market confidence, thereby enabling a return to robust economic growth and full access to market funding. To achieve these goals, the programme spells out commitments in three main areas:

- **Fiscal consolidation.** The programme aims to reduce the general government deficit to at most 7.5 % of GDP in the last year of the programme period and below 3 % of GDP by 2015, from a peak of 30.9 % in 2010 due to the cost of bailing out banks and the collapse of construction-related revenue.[1] Fiscal consolidation is gradual to minimise adverse growth effects, but essential to restore the sustainability of public finances and put government debt as a percentage of GDP on a downward trend by the end of the programme. The ratio of public debt to GDP is expected to peak at 123 % in 2013 and fall thereafter. Consolidation is also a critical condition to enable Ireland to return to full and sustainable market funding.
- **Recapitalisation, downsizing and fundamental reorganisation of the banking sector**. Recapitalising and deleveraging the domestic banking sector is necessary to restore its long-term viability and sever the link between banks and the sovereign. Restoring the health of the banking sector is also critical to ensure that the credit channel functions properly, while at the same time supporting an orderly adjustment of household balance sheets and continuing to lend funds to support economic activity.
- **Structural reforms.** Restoring sustainable growth requires making a major structural adjustment following the burst of the construction bubble (before the crisis construction accounted for around 25 % of GDP), the associated surge in unemployment and the loss of competitiveness suffered during the early 2000s. The programme plans a number of labour market reforms to support job creation, restore competitiveness and strengthen activation and re- and up-skilling policies. It also seeks to open up sheltered services sectors and strengthen competition policy in order to reduce relatively high prices in key areas of the economy, including legal services, health and retail.

Programme implementation is monitored by the Commission, the ECB and the IMF on a quarterly basis. Compliance with the terms set in the Memorandum of Understanding

[1] The underlying deficit stood at 10.7% of GDP in 2010 excluding deficit-increasing financial sector support measures of 20.2% of GDP.

(MoU) and in the IMF's Memorandum of Economic and Financial Policies is assessed prior to every quarterly loan disbursement. Given the conditionality attached to the programme under the MoU and the regular reporting and monitoring requirements, programme countries have been exempted from the obligation to submit national reform programmes (NRP) and stability or convergence programmes (SCP).[2] The Irish authorities nonetheless submitted updated programmes on 30 April 2013. The NRP was released following prior engagement with the Joint Oireachtas Committee on European Affairs. The Association of Irish Regions and other stakeholders, including trade unions and employers' representatives also had the opportunity to provide inputs and comments on the draft NRP. This Staff Working Document under the 2013 European Semester provides a synthesis of recent progress in implementing the economic adjustment programme, with additional details available in the European Commission's quarterly reviews of programme implementation.[3] It assesses remaining economic challenges and progress in achieving Europe 2020 targets.

Ireland has maintained a strong track record of programme implementation from the outset. The economic and financial adjustment programme agreed upon under Council Implementing Decision 2011/77/EU (and subsequently amended under updated MoUs) built upon the authorities' Programme for Government and National Recovery Plan 2011–2014, which ensured full ownership of the reform process. Nine quarterly reviews have been completed successfully since the programme started in December 2010, leading to the timely disbursement (authorisation) of all instalments of EU, bilateral and IMF loans. With the successful completion of the 9th review of the programme in April 2013, some EUR 60 billion of disbursements have been authorised, representing just under 90 % of the total international financial assistance of EUR 67.5 billion. In view of the very high cash buffers accumulated by the government and with the objective of reducing the carry costs of these buffers, Ireland decided to draw down the financial instalment of EUR 0.8 billion authorised after the 8th programme review only at the end of April 2013. Similarly, the EUR 1.6 billion instalment after the 9th review is scheduled to be drawn down at the end of June, i.e. two months after completion of the review.

Ireland's funding position continues to improve and it is regaining good market access. During the first quarter of 2013, Ireland successfully broadened market funding at different maturities. In January, a syndicated tap of the 2017 bond raised EUR 2.5 billion at a yield of 3.3 %. The first 10-year bond since the start of the programme was issued in March, raising EUR 5 billion at a yield of 4.15 %. Both issuances were met with strong demand from international investors, including fund managers, banks, pension funds and insurance companies. As a result, Ireland holds significant cash reserves and is expected to have a financing cover in excess of 12 months by the end of 2013. The extension of maturities by an average of seven years on EFSF and EFSM loans also smoothens the redemption profile to 2023 and provides further assurances on the post-programme funding needs.

[2] As per the Secretariat General's letter to ambassadors of 13 September 2012 (Ares(2012)1063684).

[3] These reports, along with other information related to the financial assistance package, can be found on http://ec.europa.eu/economy_finance/assistance_eu_ms/ireland/index_en.htm.

2. ECONOMIC SITUATION AND OUTLOOK

While the EU as a whole is experiencing stagnant or negative growth, the Irish economy continues to expand at a moderate pace and economic growth is becoming more broad-based. Recent indicators were stronger than expected despite worsening conditions in key euro area trading partners. National accounts data for Q3 and Q4 2012 also indicate that GDP growth has started to become more broad-based and is no longer only reliant on net exports. Private consumption rose year-on-year for the first time since 2010 during the third quarter of 2012. In 2012 as a whole, real GDP increased by 0.9 %, following growth of 1.4 % in 2011.

Competitiveness has improved in recent years, leading to a sharp rebalancing of the external accounts. The sharp contraction in imports of goods and services in 2008 and 2009 followed by moderate growth since then contrasts with significant increases in exports of goods and services since 2010. As a result, the net trade contribution to GDP growth jumped to 5.4 % and 2.4 % in 2011 and 2012, respectively. In turn, the current account swung from a deficit of EUR 10 billion in 2007 and 2008 to a surplus of EUR 8.1 billion in 2012.

Positive developments are slowly emerging on the labour market front. While unemployment remains high and participation is still 4 percentage points below pre-crisis levels at around 60 %, data for the third and fourth quarters of 2012 indicate that private-sector employment is on the rise, compensating for retrenchments in public service employees. A net 6 500 jobs were added in Q4 2012 compared with the previous quarter, following 2 200 additions in Q3 (seasonally adjusted).

Real GDP growth is expected to accelerate to 1.1 % in 2013 and 2.2 % in 2014. Positive signs in terms of domestic demand indicate that the economy could be at an inflection point, which may lead to positive surprises later this year. But the Irish economy nevertheless also faces risks in its external environment, in particular with slower demand from its trading partners in the euro area. Under the baseline scenario of moderate growth in 2013, employment is likely to increase only slowly this year, meaning that unemployment is likely to remain above 13 %, with a high prevalence of long-term and youth unemployment.

3. ECONOMIC CHALLENGES

3.1. FISCAL POLICY AND TAXATION

The general government deficit was substantially below the programme ceiling in 2012. The outturn was 7.6 % of GDP, compared with a programme ceiling of 8.6 % (Table 1). This over-performance resulted from stronger-than-expected revenue, including one-off elements, but part of this revenue is also expected to result in positive base effects for 2013. Expenditure stayed within budget, but overruns in the health sector in the first part of the year forced the authorities to take corrective measures. These were of a temporary nature, however, and did not address structural issues.

Table 1: Main budgetary indicators

(% of GDP)	2012	2013		2014		2015	2016
	COM	COM	SP	COM	SP	SP	SP
Underlying general government balance [1]	**-7.6**	**-7.5**	**-7.4**	**-4.3**	**-4.3**	**-2.2**	**-1.7**
Primary balance	-3.9	-2.4	-2.5	0.6	0.6	2.7	3.1
Interest expenditure	-3.7	-5.0	-4.9	-5.0	-4.9	-4.9	-4.8
EDP deficit ceilings	**-8.6**	**-7.5**	**-7.5**	**-5.1**	**-5.1**	**-2.9**	**n.a**
Government gross debt	**117.6**	**123.3**	**123.3**	**119.5**	**119.4**	**115.5**	**110.8**

Notes:

[1] The underlying deficit excludes one-off deficit-increasing financial sector support measures, as such measures are excluded from the EDP deficit ceilings for Ireland.

Source :

Stability programme (SP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

At 28.9% in 2011, the total tax-to-GDP ratio in Ireland is the 6th lowest in the Union and the second lowest in the euro area. The taxation structure is characterised by a strong reliance on taxes other than social security contributions, whose share in total tax receipts is the second lowest of the EU. At 6.2 % of GDP, VAT collection is the second lowest in the EU. The standard VAT rate is 23% since 2012. A reduced rate of 13.5% applies to various services, newspapers, building works and household energy and fuels, and a second reduced rate of 9% applies to some tourism activities. Basic food, children's clothing and footwear and books enjoy a zero VAT rate. The personal income tax system contains two rates: 20% and 41% for revenues above EUR 32 800 (single with no dependants). The corporate income tax rate of 12.5% applies since 2003 and is one of the lowest in the EU. A special rate of 25% applies to passive non-trading income.

The budget for 2013 targets a deficit of 7.5 % of GDP, in line with the programme ceiling. The fiscal consolidation in 2013 is achieved through structural revenue-raising efforts of EUR 1.4 billion, expenditure savings of EUR 1.9 billion, and increased dividends from state-owned companies of EUR 0.1 billion. In addition, the 2013 budget addresses the structural overruns in the health sector in 2012, estimated at about EUR 0.7 billion. On the revenue side, the most significant new measure is the introduction of a local property tax which, in the absence of a comprehensive property register, will be charged on the basis of a self-assessed (but controlled) property valuation. More modest revenue-raising measures include a broadening of the labour tax base and increases in various taxes and excises. Expenditure savings are achieved by reducing child benefit rates, further reducing the number of public service employees, increasing student contributions and other saving measures.

A negotiated extension of the public service agreement (Croke Park agreement) was rejected by trade union members in April 2013. The Croke Park II agreement had been agreed between the government and trade union leaders in January. The negotiated agreement covered a three-year period starting 1 July 2013 and was to reduce wages in excess of EUR 65 000, introduce longer working hours, temporarily freeze increments and reduce overtime costs, among others. The authorities aimed to achieve savings of EUR 1 billion in the public service pay and pensions bill over the period 2013–2015, with EUR 300 million during the second half of 2013. These savings and efficiency gains in the delivery of public services were expected to come on top of those achieved under the initial Croke Park agreement and in parallel with the targeted reduction in public service employment to 282 500 by 2015 from a peak of 320 000 in 2008. The negative vote by trade union members means that equivalent saving measures will therefore need to be identified. The government had indicated in early 2013 that it was willing to legislate measures if necessary, even though it still favours a negotiated solution.

Containing the rise in the cost of medical services will require further action. Health care spending increased significantly in recent years and needs to be contained. The 2013 budget introduces a number of measures to that effect, including an increase in the prescription charge for medical card holders, higher co-payment for drugs and a reduction in professional fees for health service providers. A number of these measures require legislative action, however, which subjects them to serious implementation risk, similar to previous cost-containment efforts. Moreover, significant issues of a structural nature remain to be addressed that could contain or reduce costs while at the same time maintaining or improving the delivery of health care to patients, including more extensive use of generics, lower drug costs and the establishment of health identifiers for patients and professionals.

Plans to improve the medium-term fiscal framework can help establish fiscal discipline and achieve the consolidation path agreed under the programme. In response to the Fiscal Compact, Ireland enacted the Fiscal Responsibility Act 2012 to enshrine balanced budget and public debt limits principles in domestic law. The Act also established the Fiscal Advisory Council on a statutory basis, and progress has been made in terms of medium-term budgeting and setting multi-year expenditure ceilings. Nevertheless, Commission services renewed their call for additional efforts to ensure that the multi-annual expenditure framework is robust, binding and fully aligned with the reformed EU framework for fiscal governance.

The Irish authorities submitted their Stability Programme on 30 April 2013. They forecast real GDP to grow by 1.3 % in 2013 (slightly below the 1.5 % assumption used at the time of the Budget) and by 2.4 % and 2.8 % in 2014 and 2015, respectively. This is slightly more optimistic than the Commission's forecast of 1.1 %, 2.2 % and 2.7 % real GDP growth in 2013, 2014 and 2015, but divergences in the nominal GDP forecast are negligible given the Commission's higher forecast for the GDP deflator over the period.

The targeted general government deficit for 2013 is fully in line with Ireland's commitments under the programme. Starting in 2014, the authorities project the deficit to fall faster than under the EDP recommendation of December 2010 as a result of the windfall gains generated by the promissory note operation (see below).[4] The authorities indicate that the use of these gains for additional deficit reduction is a '*purely technical assumption*' underpinning the budgetary projections to 2016 and that further decisions would be taken at Budget time in light of the emerging economic and fiscal outlook and in light of policy priorities. Ireland, however, is bound under the EDP recommendation to '*seize opportunities, including from better economic conditions, to accelerate reducing the gross debt ratio towards the 60 % of GDP reference value*', which would encompass the savings generated by the promissory note operation.

3.2. FINANCIAL SECTOR

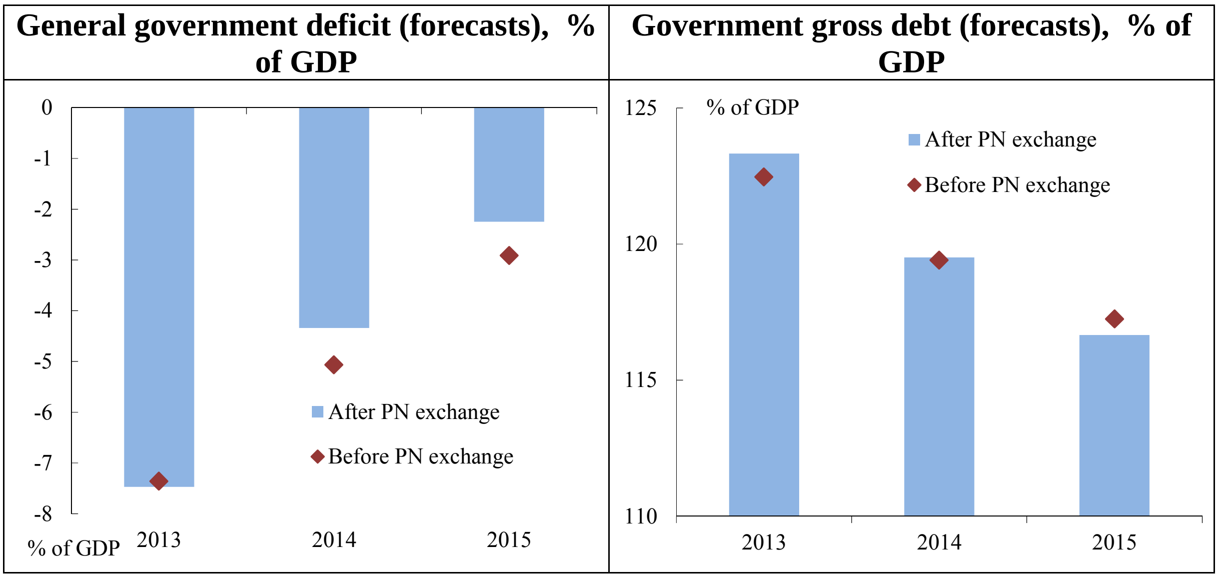
There has been considerable progress with deleveraging and restructuring domestic banks and normalising their funding profiles, but further action is essential on several fronts. In particular, the high and still rising level of non-performing loans, slow progress in implementing durable modifications to problem mortgage and SME loans, the uncertainty about associated potential future losses and still-elusive profitability are challenges that require more forceful action by the Central Bank of Ireland. These factors also continue to hamper the ability of banks to extend productive lending to the economy and contribute to the

[4] The EDP deficit ceilings are 7.5%, 5.1% and 2.9% of GDP in 2013, 2014 and 2015, respectively. The deficits communicated under the stability programme for the same years are 7.4%, 4.3% and 2.2% of GDP.

emerging recovery. Access to finance, in particular for SMEs, remains challenging, though demand-side constraints may also be a contributing factor to the low level of credit to this sector.

The liquidation of IBRC and the associated promissory note operation are an important step towards restructuring the banking sector. Although it is outside the scope of the programme, the operation is consequential in several aspects: (i) it converted EUR 25 billion of promissory notes into long-term government bonds with a weighted average maturity of over 34 years (the promissory notes were extinguished in the process); (ii) these long-term bonds are now owned by the Central Bank of Ireland (CBI), which has committed to sell them on the market according to a pre-determined schedule, provided this does not impair financial stability; and (iii) residual IBRC assets will be transferred to private investors or the National Asset Management Agency as part of the liquidation process, following an independent valuation. Most importantly, the operation will reduce government financing needs by a cumulative EUR 30 billion over the next 10 years, and it is projected to generate savings of about EUR 1 billion per year (0.7 % of 2013 GDP) for the general government budget starting in 2014. In 2013, the impact of the operation is expected to be slightly negative 0.1 % of GDP as one-off transactions costs related to guaranteed liability claims and accrued interest on promissory notes outweigh the positive impact of the lower interest cost of the new government bonds (relative to the promissory notes) (Figure 1).

Figure 1: estimated impact on public finances of promissory notes (PN) operation, 2013-2015



Source: Commission services' estimates.

Other milestones in restructuring domestic banks have been achieved recently. The Personal Insolvency Act was enacted at the end of 2012. It provides a framework to address unsustainable private debt and facilitate the resolution of mortgage arrears. A number of outstanding operational issues are currently being addressed to allow applications to be accepted from end June 2013, including the appointment of specialist judges to deal specifically with personal insolvency cases and the recent publication of guidelines on reasonable standard of living expenses. Removing the eligible liabilities guarantee scheme for new issuances at the end of March 2013 had no adverse impact on banks' funding. It will eliminate a significant drag on banks' profitability, thereby improving the prospects of restoring functioning credit channels and removing a considerable contingent liability for the state. In addition, the government recently sold its EUR 1 billion holding of contingent convertible capital notes in Bank of Ireland and its stake in Irish Life insurance to private investors, thereby making a further step towards severing the link between banks and the sovereign.

However, major challenges remain to complete domestic bank reforms. Progress made in deleveraging and restructuring banks under the programme should not obscure persistent weaknesses and challenges ahead. Long-term mortgage arrears have continued to increase recently, and there are signs that some dysfunctional features of the institutional mortgage landscape may be affecting payment discipline and fostering strategic defaults. A durable treatment of non-performing loans still needs to be achieved, and there are signs that some lenders continue to provide unsecured credit to highly indebted borrowers without adequately checking their creditworthiness. These developments make it all the more important that efforts to establish an operational credit register, a programme objective, be stepped up as progress to date has been slow and this may not be achieved before end-2013.

Preparatory work for the next round of bank stress tests is on-going. The Prudential Capital Assessment Review (PCAR) 2013 is scheduled to be completed and published under the programme by the end of Q3 and could be preceded by an analysis of the quality of banks' assets. The authorities nevertheless indicated that they consider that Ireland should conduct the next bank stress test in the context of the EU-wide exercise of stress tests ahead of the entry into force of the Single Supervisory Mechanism next year, including signalling a return to normality in the Irish banking sector.

3.3. LABOUR MARKETS, EDUCATION AND SOCIAL POLICIES

The crisis has generated major job losses and has been the source of social distress. Employment was 318 000 lower at the end of 2012 than at the peak of 2008, with a corresponding fall in the participation rate from almost 74 % to 63.8 %. The rise in unemployment, including among the youth, has had severe implications on poverty and inequality, even though the effect has been partly buttressed by the social protection system. As a result, employment and social inclusion are critical areas where progress is needed to meet Europe 2020 targets (see overview table on Europe 2020 targets in section 5).

Job creation and labour market reforms therefore dominate the structural reform agenda. The fight against high unemployment, in particular long-term and youth unemployment, is a top priority under the programme. The unemployment rate remains high, even though it fell slightly by the end of 2012 to 14.2 % (seasonally adjusted). In addition, long-term unemployment now accounts for about 60 % of the total and youth unemployment (age group 15 to 24) is at 31.1 %. The rise of unemployment and under-employment is at the root of rising income inequality and social exclusion, even though the social welfare system sheltered the most vulnerable to some extent and fiscal consolidation has been progressive overall. This makes job creation efforts all the more important. Reforms have progressed well — albeit too slowly at times — on three complementary fronts: job creation, labour activation and vocational education and training.

The *Action Plan for Jobs* is at the core of efforts to foster job creation. Launched in 2012, the process continues in 2013 with the adoption and implementation of additional horizontal and sector-specific measures to improve the business environment and promote job creation. Under the *Pathways to Work* strategy, the authorities are putting in place activation mechanisms aimed at helping and enticing the unemployed to find jobs. One-stop shop *Intreo* offices are being created to support jobseekers under a case-management approach, but these offices face capacity constraints that prevent them from sufficiently widening the scope and frequency of individual contacts. Reforms to the vocational education and training system are also ongoing, with the forthcoming establishment of SOLAS as a guiding authority and the creation of Education and Training Boards. Improving the effectiveness of the education and training sector is essential to ensure that long-term-unemployed jobseekers do not become permanently excluded from work and to better align the provision of vocational education and training with labour market needs.

The employment- and poverty-related policies outlined in the NRP are in line with the programme of financial assistance. The authorities and the programme have sought to preserve the mitigating effect of the social protection system on poverty and social exclusion in spite of the fiscal consolidation efforts. Their future plans rightly focus on restoring economic growth, promoting job creation, strengthening activation services and promoting the re-and up-skilling of the unemployed. Faster progress in implementing certain key policies, including in terms of activation (redeployment of staff as case managers, outsourcing certain activation functions to private-sector providers, and reforming employment support schemes) is nevertheless needed.

3.4. STRUCTURAL MEASURES PROMOTING GROWTH AND COMPETITIVENESS

Structural reforms have improved economic fundamentals. Reforms in the labour and product markets since the start of the programme have contributed to improving competitiveness and re-balancing the external accounts. The loss of competitiveness suffered during the boom years has been erased through a mix of increased productivity, falling prices in key segments of the economy and wage moderation.

Competition policy has been strengthened and water sector reforms have gained momentum. The Competition (Amendment) Act 2012 gave new and enhanced enforcement powers to the Competition Authority, which used them for the first time in February 2013 to resolve a case concerning resale price maintenance practices by a distributor of imported footwear. Water sector reforms were implemented slowly early on in the programme but have gained significant momentum recently, including with the enactment of the interim Water Services Act 2013 in March and operational progress in installing meters for households, which is set to begin in July 2013. The process to transfer operations of water services from local authorities to the national utility Irish Water will continue in the months ahead with the publication of a comprehensive Water Services Bill that will provide a new legal framework for the sector, including the transfer of regulatory powers to the Commission for Energy Regulation. The authorities are also working on the funding model for Irish Water and will consult the Commission on State-aid related issues.

Aside from employment and social inclusion, progress towards achieving Europe 2020 targets is also needed across most other areas. Although Ireland performs better than the EU average on a number of indicators, for example tertiary education attainment, it also falls far short of some of the targets. Progress in reducing greenhouse gas emissions in sectors not covered by the emission trading system (ETS) has been slow and the target is expected to be missed by a wide margin even if all additional measures under policy documents were to be fully implemented. Similarly, the increase in the use of renewable energies has been relatively modest in recent years.

The NRP outlines the main policy initiatives to move towards the R&D, education and climate change targets. R&D is rising gradually and was equivalent to 1.7 % of GDP in 2011, making the 2 % target by 2020 within reach. In addition, Ireland is among the Member States with the highest share of R&D intensive sectors in the economy. The adoption of a new national intellectual property protocol in 2012 is a welcome step to enable industry to benefit from R&D in public institutions. The prioritisation of public R&D into 14 areas with high potential in terms of economic and societal impact and job creation effects is also welcome. In contrast, Ireland is off-track when it comes to greenhouse gas reduction objectives. The European Environmental Agency projects non-ETS greenhouse gas emissions to be only 2 % below their 2005 level in 2020 unless additional measures are taken, compared with a target of 20 %. Even under the assumption that all additional measures planned under existing policy documents are taken, emissions would fall by only 9 % below their 2005 level in 2020. Further measures are therefore needed if Ireland is to meet its GHG emission target, including under the Climate Action and Low-Carbon Development Bill 2013. While government departments with responsibility for key sectors have been tasked with the preparation of individual 2050 low-carbon roadmaps, evidence is still lacking as to how Ireland will integrate these into a viable, coordinated and consistent national emission reduction roadmap.

4. OVERVIEW TABLE ON EUROPE 2020 TARGETS

Europe 2020 (national targets and progress)	
Employment rate target: between 69 % and 71 %	The employment rate (Eurostat definition, age group 20-64) picked up moderately throughout 2012, from 63.2 % in Q1 to 64.1 % in Q4. It nevertheless remains down from 73.8 % in 2007. Concurrently, the unemployment rate (Eurostat definition, age group 20-64) has started to decline, falling to 13.6 in Q4 2012 after remaining above 14 % for 2 full years. It is still about triple the pre-crisis level of about 4.6 % (2007).
R&D investment target: 2 % of GDP	Gross domestic expenditure on R&D was 1.7 % of GDP in 2011, up from 1.2 % in 2005.
Reduction of greenhouse gas (GHG) emissions in sectors that are not covered by the Emission Trading System by 20 % compared to 2005 levels	Change in non-ETS greenhouse gas emissions between 2005 and 2011: -11 %. According to the latest projections by the European Environmental Agency, non-ETS emissions are projected to be only 2 % below their 2005 level in 2020 when existing measures are taken into account. Accounting for all additional measures under existing policy documents, non-ETS emissions would still be projected to be only 9 % below their 2005 level in 2020.
Renewable energy target: 16 % of total energy use	Renewable energy in final energy consumption increased from 3.6 % in 2008 to 6.7 % in 2011. This figure is close to the 2011/2012 interim target. To achieve the EU 2020 target, Ireland should speed up the establishment of a predictable and transparent policy framework. It should ensure that additional policies for offshore wind projects are put in place swiftly.
Indicative national energy efficiency target for 2020: 20% energy savings in 2020 along with public sector energy saving target of 33%. This implies reaching a 2020 level of 13.94 Mtoe primary consumption and 11.688 Mtoe final energy consumption	Ireland has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). It has also expressed it, as required, in terms of an absolute level of primary and final energy consumption in 2020 and has provided information on the basis on which data

	this has been calculated.
Early school leaving target: 8 %	The early school leaving rate dropped to 9.7 % in 2012 from 10.8 % a year earlier. Ireland performs better than the EU average for the early school leaving rate (9.7 % vs 12.8 % in 2012).
Tertiary education attainment target: 60 %	The tertiary attainment rate increased to 51.1 % in 2012 from 49.7 % a year earlier. Ireland currently has the highest tertiary attainment rate in the whole of the EU.
To reduce the number experiencing consistent poverty to 4 % by 2016 (interim target) and to 2 % or less by 2020, from the 2010 baseline rate of 6.2 %, which will lift at least 200 000 people out of the risk of poverty and exclusion between 2012 and 2020 (revised target).	The number of people in consistent poverty increased from 186 000 to 277 000 in the period 2008–2010 (latest available data).

5. CONCLUSION

Reforms under the programme are yielding clear and tangible results. The economy is showing signs of a budding broad-based recovery, even though risks and uncertainties remain significant, and the unemployment situation generates social distress. Structural reforms and the restructuring of the banking sector, although incomplete so far, have progressed well and are laying the foundations for more sustainable growth in the future. Strong programme implementation and progress towards fiscal consolidation, together with major new arrangements in Ireland and the euro area (in particular, liquidation of the Irish Bank Resolution Corporation (IBRC), the associated conversion of promissory notes into long-term bonds and the OMT announcement by the ECB) have also built up market confidence, thereby reducing yields and enabling Ireland to advance its return to the markets. Significant challenges and imbalances remain, however, including in terms of banks' asset quality and profitability, private- and public-sector debt, general government budget and unemployment.

Programme implementation is expected to stay strong overall throughout 2013, but it is important to avoid complacency as significant challenges and imbalances remain. The ambitious reforms put in place thus far under the programme have addressed many deep-rooted imbalances and strengthened Ireland's position, thereby improving prospects for a successful programme exit, together with sustainable growth and job creation. Imbalances, risks (internal and external) and vulnerabilities remain, however, and will need to be addressed with determination throughout the duration of the programme and beyond. In particular, further work is required to complete the restructuring of the banking sector, put public finances on a sustainable footing, and reduce unemployment. Programme implementation will be assessed under quarterly missions through end-2013 and it is expected that the authorities will continue to follow the benchmarks set under the revised MoU throughout the period.

ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	10.1	6.0	1.8	-0.8	1.4	0.9	1.1	2.2
Output gap [1]	1.5	1.9	0.4	-4.5	-2.9	-1.3	-0.3	0.8
HICP (annual % change)	2.2	4.1	1.8	-1.6	1.2	1.9	1.3	1.3
Domestic demand (annual % change) [2]	8.7	5.2	1.0	-4.4	-3.7	-1.5	-0.6	0.5
Unemployment rate (% of labour force) [3]	9.4	4.3	6.4	13.9	14.7	14.7	14.2	13.7
Gross fixed capital formation (% of GDP)	20.2	22.8	23.5	11.9	10.1	10.1	10.3	10.7
Gross national saving (% of GDP)	22.3	22.2	19.2	13.1	12.0	15.6	13.8	15.0
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**0.7**	**1.4**	**-3.3**	**-30.8**	**-13.4**	**-7.6**	**-7.5**	**-4.3**
Gross debt	**63.2**	**32.5**	**37.2**	**92.1**	**106.4**	**117.6**	**123.3**	**119.5**
Net financial assets	**-35.1**	**-12.7**	**-10.2**	**-48.7**	**-66.7**	**n.a**	**n.a**	**n.a**
Total revenue	38.0	34.4	36.0	35.2	34.9	34.6	34.8	35.0
Total expenditure	37.3	33.0	39.3	66.1	48.2	42.2	42.3	39.4
of which: Interest	3.9	1.5	1.3	3.2	3.3	3.7	5.0	5.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**n.a**	**3.4**	**3.7**	**28.8**	**11.9**	**6.0**	**6.7**	**5.9**
Net financial assets; non-financial corporations	**n.a**	**-88.4**	**-96.3**	**-110.7**	**-101.4**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**n.a**	**18.2**	**4.4**	**-17.7**	**-11.7**	**n.a**	**n.a**	**n.a**
Gross capital formation	n.a	8.9	8.4	4.8	4.6	5.1	5.9	6.2
Gross operating surplus	n.a	34.6	31.0	33.1	35.0	35.6	36.4	37.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**n.a**	**-6.6**	**-5.3**	**3.6**	**2.9**	**6.8**	**2.7**	**2.3**
Net financial assets	**n.a**	**88.9**	**60.4**	**75.3**	**75.5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	n.a	35.9	39.8	41.0	39.6	38.9	38.1	37.1
Net property income	n.a	2.1	1.0	1.2	0.9	3.4	-0.1	0.7
Current transfers received	n.a	13.3	15.0	19.6	19.7	19.7	18.8	17.7
Gross saving	n.a	3.9	5.3	6.8	5.9	9.5	5.4	5.0
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**2.9**	**0.4**	**-4.2**	**0.7**	**1.0**	**3.7**	**1.8**	**3.5**
Net financial assets	**n.a**	**19.8**	**50.4**	**99.1**	**106.3**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	12.3	15.4	11.1	18.8	22.0	24.1	25.1	26.1
Net primary income from the rest of the world	-10.9	-14.9	-13.9	-16.1	-19.3	-17.7	-22.5	-22.6
Net capital transactions	1.0	0.4	0.1	0.0	0.1	0.0	-1.3	-0.5
Tradable sector	50.9	45.6	38.5	39.5	n.a	n.a	n.a	n.a
Non tradable sector	38.3	42.7	49.9	49.5	n.a	n.a	n.a	n.a
of which: Building and construction sector	5.2	7.1	7.7	5.0	n.a	n.a	n.a	n.a
Real effective exchange rate (index, 2000=100)	88.3	86.6	106.5	97.6	93.7	88.9	89.2	87.2
Terms of trade goods and services (index, 2000=100)	101.3	100.8	97.9	95.9	93.5	92.8	92.5	92.4
Market performance of exports (index, 2000=100)	74.5	100.8	101.8	105.5	106.7	108.7	110.2	109.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	0.9	0.9	1.1	1.3	2.2	2.4	2.8	2.7
Private consumption (% change)	-0.9	-0.9	-0.1	0.2	1.2	1.1	1.2	1.0
Gross fixed capital formation (% change)	0.9	1.2	0.9	3.7	2.8	8.2	4.3	4.5
Exports of goods and services (% change)	2.9	2.9	2.7	2.3	3.7	3.0	4.3	4.2
Imports of goods and services (% change)	0.3	0.3	1.8	1.8	2.7	2.3	3.3	3.5
Contributions to real GDP growth:								
- Final domestic demand	-1.0	-0.9	-0.4	0.2	0.4	1.1	0.8	1.0
- Change in inventories	-0.2	-0.2	0.0	0.2	0.0	0.0	0.0	0.0
- Net exports	2.8	2.9	1.5	1.0	1.8	1.4	1.9	1.7
Output gap[1]	-1.3	-1.6	-0.3	-0.8	0.8	-0.2	0.2	0.1
Employment (% change)	-0.6	-0.6	0.1	0.4	0.9	1.1	1.3	1.4
Unemployment rate (%)	14.7	14.7	14.2	14.0	13.7	13.3	12.8	12.3
Labour productivity (% change)	1.5	1.5	1.0	0.9	1.3	1.3	1.5	1.3
HICP inflation (%)	1.9	2.0	1.3	1.2	1.3	1.8	2.0	2.0
GDP deflator (% change)	1.9	2.0	1.2	1.3	1.4	1.3	1.4	1.4
Comp. of employees (per head, % change)	1.8	0.6	0.3	1.0	0.2	1.6	1.7	2.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.7	3.7	1.8	3.8	3.5	4.0	4.1	4.3

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission services' 2013 spring forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	SP	COM[1]	SP	SP	SP	SP
Revenue	**34.6**	**34.8**	**35.0**	**35.0**	**35.2**	**35.3**	**34.8**	**0.2**
of which:								
- Taxes on production and imports	11.0	10.9	11.2	11.1	11.4	11.5	11.2	0.2
- Current taxes on income, wealth, etc.	12.8	13.1	13.2	13.6	13.8	14.3	14.3	1.5
- Social contributions	5.8	5.9	5.8	5.8	5.8	5.6	5.5	-0.3
- Other (residual)	5.0	4.9	4.8	4.5	4.2	3.9	3.8	-1.2
Expenditure	**42.2**	**42.3**	**42.5**	**39.4**	**39.6**	**37.5**	**36.5**	**-5.7**
of which:								
- Primary expenditure	38.5	37.3	37.6	34.4	34.7	32.6	31.7	-6.8
of which:								
Compensation of employees	11.5	11.1	11.2	10.6	10.2	9.2	8.9	-2.6
Intermediate consumption	5.2	4.8	5.1	4.4	4.8	4.6	4.5	-0.7
Social payments	17.5	16.7	16.8	15.7	16.0	15.1	14.6	-2.9
Subsidies	0.4	0.4	0.3	0.4	0.2	0.2	0.2	-0.2
Gross fixed capital formation	2.0	1.7	1.9	1.6	1.8	1.7	1.7	-0.3
Other (residual)	1.8	2.5	2.3	1.8	1.8	1.7	1.6	-0.2
- Interest expenditure	3.7	5.0	4.9	5.0	4.9	4.9	4.8	1.1
General government balance (GGB)	**-7.6**	**-7.5**	**-7.5**	**-4.3**	**-4.4**	**-2.2**	**-1.7**	**5.9**
Primary balance	**-3.9**	**-2.4**	**-2.6**	**0.6**	**0.5**	**2.7**	**3.1**	**7.0**
One-off and other temporary measures	0.4	-0.4	-0.6	0.0	-0.1	0.0	0.0	-0.4
GGB excl. one-offs	**-8.1**	**-7.1**	**-6.9**	**-4.3**	**-4.3**	**-2.2**	**-1.7**	**6.4**
Output gap[2]	-1.3	-0.3	-0.8	0.8	-0.2	0.2	0.1	1.4
Cyclically-adjusted balance[2]	-7.0	-7.3	-7.1	-4.8	-4.3	-2.3	-1.8	5.2
Structural balance (SB)[3]	**-7.4**	**-6.9**	**-6.5**	**-4.8**	**-4.2**	**-2.3**	**-1.8**	**5.7**
Change in SB	*0.2*	*0.5*	*0.9*	*2.2*	*2.3*	*1.9*	*0.6*	-
Two year average change in SB	*0.9*	*0.4*	*0.6*	*1.3*	*1.6*	*2.1*	*1.2*	-
Structural primary balance[3]	-3.7	-1.9	-1.6	0.2	0.7	2.6	3.0	6.7
Change in structural primary balance		*1.8*	*2.1*	*2.1*	*2.3*	*1.9*	*0.5*	-
Expenditure benchmark								
Applicable reference rate[4]	-0.84	-0.84	-0.84	-0.70	-0.70	-0.70	-0.70	-
Deviation[5] (% GDP)	-6.4	-0.9	-1.1	-3.0	-2.5	-1.4	0.2	-
Two-year average deviation (% GDP)	-11.2	-3.7	-3.7	-2.0	-1.8	-1.9	-0.6	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**66.6**	**117.6**	**123.3**	**123.3**	**119.5**	**119.4**	**115.5**	**110.8**
Change in the ratio	16.4	11.2	5.7	5.7	-3.8	-3.9	-3.9	-4.7
Contributions[2] *:*								
1. Primary balance	**10.9**	**3.9**	**2.4**	**2.6**	**-0.6**	**-0.5**	**-2.7**	**-3.1**
2. "Snow-ball" effect	**3.3**	**0.8**	**2.4**	**1.9**	**0.7**	**0.4**	**0.1**	**0.2**
Of which:								
Interest expenditure	2.2	3.7	5.0	4.9	5.0	4.9	4.9	4.8
Growth effect	0.2	-1.0	-1.2	-1.5	-2.6	-2.9	-3.2	-3.0
Inflation effect	0.9	-2.0	-1.4	-1.5	-1.7	-1.6	-1.6	-1.6
3. Stock-flow adjustment	**2.2**	**6.6**	**0.9**	**1.1**	**-3.8**	**-3.8**	**-1.3**	**-1.7**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

	2012	2013		2014		2015	2016
		COM/SP[3]	SP[4]	COM/SP[3]	SP[4]	SP	SP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment[7]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	0.5
To be compared to:							
Required adjustment[8]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	-0.4

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3] Assessment of the consolidation path set in SP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the SP assuming growth follows the SP projections.

[5]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	IE		EU27	
	No-policy change scenario	**Programme (SCP) scenario**	**No-policy change scenario**	**Programme (SCP) scenario**
S2	4.2	1.3	3.0	1.3
of which:				
Initial budgetary position (IBP)	1.0	-1.0	0.8	-0.9
Long-term cost of ageing (CoA)	3.2	2.3	2.2	2.2
of which:				
Pensions	3.2	2.8	1.0	1.1
Health care	1.2	1.1	0.9	0.8
Long-term care	1.3	1.2	0.6	0.6
Others	-2.4	-2.7	-0.4	-0.3
S1 (required adjustment)*	5.4	1.6	2.2	0.5
of which:				
Initial budgetary position (IBP)	0.7	-2.9	0.0	-1.8
Debt requirement (DR)	3.9	3.8	1.9	1.9
Long-term cost of ageing (CoA)	0.7	0.7	0.3	0.4
S0 (risk for fiscal stress)**	0.35		:	
Debt, % of GDP (2012)	117.6		87.0	
Age-related expenditure, % of GDP (2012)	25.4		25.8	

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

Source :
Commission services; 2013 stability programme.

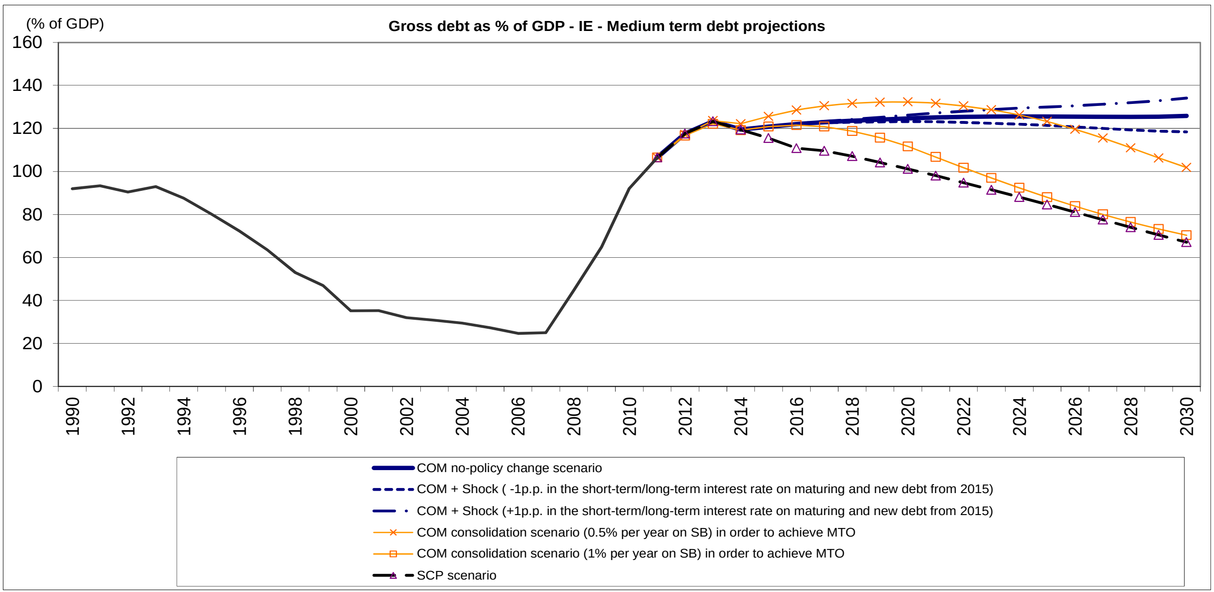


Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	28.4	32.1	29.8	28.3	28.3	28.9
Breakdown by economic function (% of GDP)[1]						
Consumption	11.0	11.5	11.0	10.2	10.4	10.1
of which:						
- VAT	7.0	7.8	7.3	6.4	6.4	6.2
- excise duties on tobacco and alcohol	1.6	1.2	1.3	1.4	1.3	1.2
- energy	1.3	1.2	1.3	1.4	1.4	1.4
- other (residual)	1.1	1.3	1.2	1.0	1.2	1.3
Labour employed	9.9	10.3	11.3	11.7	11.6	12.0
Labour non-employed	0.1	0.1	0.1	0.1	0.1	0.1
Capital and business income	5.6	7.1	5.3	4.4	4.3	4.5
Stocks of capital/wealth	1.8	3.1	2.2	2.0	2.0	2.2
p.m. Environmental taxes[2]	2.3	2.5	2.5	2.4	2.6	2.6
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	60.3	67.8	55.9	46.5	48.5	48.1

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	968.0	1013.1	975.8	826.2	718.1
Share of assets of the five largest banks (% of total assets)	55.3	58.8	56.8	53.2	…
Foreign ownership of banking system (% of total assets)	55.8	49.9	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1)]	2.6	9.0	8.6	16.1	18.7
- capital adequacy ratio (%) [2)]	12.1	12.8	14.5	18.9	18.7
- return on equity (%) [3)]	-8.0	-40.6	-66.5	-15.0	...
Bank loans to the private sector (year-on-year % change)	1.4	-5.6	-12.6	-4.7	-2.6
Lending for house purchase (year-on-year % change)	-6.9	-4.1	-2.5	-0.9	6.6
Loan to deposit ratio	179.0	162.0	141.7	133.4	128.7
CB liquidity as % of liabilities	5.6	6.0	8.7	9.1	10.9
Banks' exposure to countries receiving official financial assistance (% of GDP)[4)]	18.2	19.1	8.2	2.6	2.1
Private debt (% of GDP)	…	221.2	189.5	165.6	156.9
Gross external debt (% of GDP)[5)]					
- Public	32.3	46.8	51.3	65.1	75.1
- Private	460.4	610.5	687.1	703.1	704.5
Long term interest rates spread versus Bund (basis points)*	0.5	2.0	3.0	7.0	4.7
Credit default swap spreads for sovereign securities (5-year)*	89.2	202.1	299.6	734.7	479.5

Notes:

1) Latest data (March 2012). All licensed banks.

2) Latest data (March 2012). Domestic banks.

3) Latest data (December 2011). All licensed banks.

4) Covered countries are CY, EL, ES, LV, HU, PT and RO.

5) Latest data 2012Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	73.8	72.3	67.1	64.6	63.8	63.7
Employment growth (% change from previous year)	4.4	-0.6	-7.8	-4.1	-1.8	-0.6
Employment rate of women (% of female population aged 20-64)	64.4	64.1	61.9	60.2	59.4	59.4
Employment rate of men (% of male population aged 20-64)	83.0	80.4	72.4	69.1	68.2	68.2
Employment rate of older workers (% of population aged 55-64)	53.8	53.7	51.3	50.2	50.0	49.3
Part-time employment (% of total employment, 15 years and more)	17.7	18.6	21.3	22.7	23.6	24.1
Part-time employment of women (% of women employment, 15 years and more)	32.0	32.4	33.9	34.9	35.7	35.4
Part-time employment of men (% of men employment, 15 years and more)	7.0	7.8	10.7	12.1	13.1	14.1
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	8.1	8.5	8.6	9.6	10.2	10.2
Transitions from temporary to permanent employment	2.1	:	:	:	:	:
Unemployment rate1 (% of labour force, age group 15-74)	4.7	6.4	12.0	13.9	14.7	14.7
Long-term unemployment rate2 (% of labour force)	1.4	1.7	3.5	6.8	8.7	9.1
Youth unemployment rate (% of youth labour force aged 15-24)	9.1	13.3	24.0	27.6	29.1	30.4
Youth NEET rate (% of population aged 15-24)	10.7	14.8	18.4	19.2	18.8	18.7
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	11.6	11.3	11.6	11.5	10.8	9.7
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	43.3	46.1	48.9	50.1	49.7	51.1
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	13.0	16.0	15.0	21.0	10.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	11.0	8.0	5.0	8.0	11.0	:
Labour productivity per person employed (annual % change)	1.0	-1.5	2.6	3.4	3.3	1.3
Hours worked per person employed (annual % change)	-0.7	-1.1	-1.7	-0.6	0.0	0.2
Labour productivity per hour worked (annual % change; constant prices)	1.8	-0.4	4.4	4.0	3.3	1.0
Compensation per employee (annual % change; constant prices)	4.4	8.2	3.5	-1.0	-0.4	-1.5
Nominal unit labour cost growth (annual % change)	4.0	6.4	-3.8	-6.4	-3.3	0.2
Real unit labour cost growth (annual % change)	3.3	9.8	0.9	-4.3	-3.5	-1.7

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2006	2007	2008	2009	2010
Sickness/Health care	6.97	7.24	8.51	10.66	12.27
Invalidity	0.90	0.97	1.15	1.34	1.33
Old age and survivors	4.66	4.76	5.59	6.40	6.64
Family/Children	2.49	2.60	3.10	3.64	3.66
Unemployment	1.28	1.37	1.81	3.06	3.50
Housing and Social exclusion n.e.c.	0.35	0.34	0.42	0.35	0.33
Total	17.00	17.64	21.00	26.03	28.33
of which: means tested benefits	4.15	4.37	5.28	6.69	0.00
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	23.1	23.7	25.7	29.9	:
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	26.2	26.6	31.4	37.6	:
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	28.7	22.5	17.9	12.9	:
At-Risk-of-Poverty rate[2] (% of total population)	17.2	15.5	15.0	16.1	:
Severe Material Deprivation[3] (% of total population)	4.5	5.5	6.1	7.5	:
Share of people living in low work intensity households[4] (% of people aged 0-59)	14.2	13.6	19.8	22.9	:
In-work at-risk-of poverty rate (% of persons employed)	5.6	6.5	5.4	7.6	:
Impact of social transfers (excluding pensions) on reducing poverty	48.0	54.4	60.0	60.1	:
Poverty thresholds, expressed in national currency at constant prices[5]	13239	13418	12700	11439	:
Gross disposable income (households)	91903	96928	90680	86161	84195
Relative median poverty risk gap (60% of median equivalised income, age: total)	17.6	17.7	16.2	15.2	:

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	0.9	-1.5	2.6	3.4	3.3	1.5
Labour productivity[1] in manufacturing (annual growth in %)	5.8	2.9	16.7	19.7	6.3	n.a.
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-3.7	n.a.	n.a.	n.a.	n.a.	n.a.
Total number of patent[2] applications per million of labour force	134.8	143.3	154.0	165.2	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	515	515	515	515	650	650
Time to start a business[3] (days)	16	13	13	13	13	10
R&D expenditure (% of GDP)	1.2	1.5	1.8	1.7	1.7	n.a.
Tertiary educational attainment (% of 30-34 years old population)	39.5	46.1	48.9	49.9	49.7	50.9
Total public expenditure on education (% of GDP)	4.68	5.71	6.47	6.47	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	0.9	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	1.0	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	2.6	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

Source:
Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.12	0.11	0.11	0.11	0.11	0.10
Carbon intensity	kg / €	0.53	0.46	0.46	0.44	0.44	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.51	1.55	1.01	0.86	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.15	n.a.	0.14	n.a.
Energy balance of trade	% GDP	-1.6%	-2.4%	-3.2%	-2.4%	-3.0%	-3.6%
Energy weight in HICP	%	n.a.	9	9	9	9	11
Difference between change energy price and inflation	%	n.a.	4.6	5.6	-4.1	3.3	8.4
Environmental taxes over labour taxes	ratio	23.9%	23.4%	22.1%	20.5%	20.5%	n.a.
Environmental taxes over total taxes	ratio	8.1%	8.0%	8.4%	8.5%	8.5%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.07	0.06	0.06	0.05	0.05	n.a.
Share of energy-intensive industries in the economy	% GDP	16.1	13.8	14.0	16.0	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.12	0.14	0.12	0.11	0.12
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.04	0.04	0.03	0.03	0.04
Public R&D for energy	% GDP	n.a.	0.01%	0.02%	0.02%	0.02%	0.01%
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.01%	0.01%	0.01%
Recycling rate of municipal waste	ratio	27.1%	34.1%	36.5%	35.4%	39.5%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	31.1%	30.1%	27.8%	28.3%	27.4%
Transport energy intensity	kgoe / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	87.5%	89.7%	88.2%	85.6%	88.9%
Diversification of oil import sources	HHI	n.a.	0.44	0.48	0.54	0.50	n.a.
Diversification of energy mix	HHI	n.a.	0.39	0.38	0.37	0.37	0.36
Share renewable energy in energy mix	%	n.a.	3.0%	3.6%	4.4%	4.4%	5.9%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
*Provisional figures provided by DG CLIMA. Final figures will be available on 15/04.
** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.