European Parliament

IN-DEPTH ANALYSIS

Economic Dialogue with Ireland

ECON on 08 November 2016

This note presents selected information on the current status of the EU economic governance procedures and related relevant information in view of an Economic Dialogue with Michael Noonan, Ireland's Minister for Finance, in the competent committee of the European Parliament. The invitation for a dialogue is in accordance with the EU economic governance framework, in particular Article 2a of EU Regulation 1467 as amended by Regulation 1177/2011 and Article 7(10) of EU Regulation 472/2013.

Summary

In the context of the post-programme surveillance and monitoring, both the European Commission (COM) and the International Monetary Fund (IMF) notes that Ireland's economic adjustment has been remarkable and outline positive developments, such as the strong economic rebound and improving public finances, while the challenge for the future is to achieve continued balanced growth in an environment of increased uncertainty, including that created by the result of the United Kingdom (UK) referendum on EU membership.

Ireland successfully corrected its excessive deficit in 2015 and exited the EDP on 17 June 2016. It submitted its 2017 draft budgetary plan in October 2016; the latter will be assessed by the COM in November on the basis of the upcoming autumn forecast.

The GDP figures have been revised significantly upwards in July 2016 (together with other relevant economic indicators): this reduces indicators expressed as a share of GDP and will be reflected in the upcoming COM autumn forecast.

Finally, as regards the banking sector, progress can be noticed in the form of a declining non-performing loan (NPLs) ratio, but the current rate is still nearly three times that of the EU average and the Irish banking sector sees a reduction in the level of loan loss provisions..

1. Post-programme surveillance: State of play

At the end of 2013, Ireland exited its 3-year-programme of financial support (see COM ex-post evaluation of July 2015). Following the exit, Ireland has been subject to post-programme surveillance (PPS) by the COM in liaison with the ECB. Countries exiting a financial assistance programme are subject to PPS as long as a minimum of 75% of the financial assistance provided has not been repaid (Article 14 of Regulation 472/2013). Ireland is also subject to post-programme monitoring (PPM) by the IMF and the ESM (Early Warning System, EWS).

The most recent review mission to Ireland by COM and ECB (with the ESM as observer) took place from 7 to 10 June 2016. Based on this mission, COM/ECB/ESM published their post-programme surveillance report on 19 September 2016, stating that Ireland has made significant progress,

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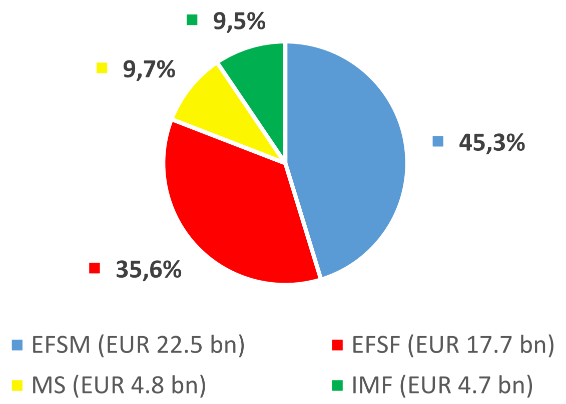
including a restoration of sustainable public finances, with very limited risk to its capacity to repay its outstanding EU loans. The report also identifies some risks including the high degree of domestic and external uncertainty, which puts "*an even greater premium on the prudent management of economic policy and public finances*". Therefore, it highlights a need for economic policies that "*channel the available fiscal space towards debt reduction and public investment*". According to the report, non-performing loans of domestic banks remain, despite significant decreases, among the highest in the EU, the share of long-term mortgage arrears remain elevated and procedural challenges in accessing collateral persist.

The 2010-2013 programme provided a total of € 67.5bn in external funding to Ireland: €22.5bn from the EFSM, €17.7bn from the EFSF, €22.6bn from the IMF and €4.8bn bilaterally from other EU Member States. Over the period of December 2014 to March 2015, Ireland made early repayments to the IMF totalling 15.7bn Special Drawing Rights of the IMF (equalling approximately €19bn, if the respective exchange rate of each repayment is used). As regards the EFSM/EFSF loans, the PPS report of January 2016 states: "*The next principal repayment of EFSM/EFSF loans is due in 2018 although maturity extensions granted in 2013 mean 2018 EFSM maturities will be refinanced.*" Outstanding programme loans amount to around €50bn (see Figure 1 for breakdown).

Figure 1: Outstanding loans from the programme



Source: EGOV table on financial assistance.

According to Fitch's rating action commentary published on 15 July 2016, Ireland's long-term rating position was affirmed at "A", with a stable outlook (Fitch's related full rating report published on 3 August is not publically available).

2. Economic developments

After being severely hit by the financial and economic crisis, Ireland's economy has progressively returned to growth and become the fastest growing country within the euro area in 2014 and 2015. According to the revised Eurostat data, Irish GDP surged by 8.5% in 2014 and 26.3% in 2015[1]. Besides strong underlying and broad-based recovery, operations of some multinational companies strongly affected the 2015 data, as reflected in large increase of net exports

[1] On 21 July 2016, Eurostat considered this upwardly revised data as 'plausible', though it will examine the methodology used by the Ireland's Central Statistical Office. The IMF noted in its 2016 Article IV and Fifth Post-Programme Monitoring Report of 27 July 2016 that these revisions are in line with ESA2010 and BPM6 methodology (p.2 of the Staff Supplement).

and investments[2] (see Box 1). These operations were "*probably driven by changes in global value chains and the international tax environment*"[3,4] and resulted in a level shift in Ireland's GDP, mechanically reducing, all else being equal, every indicator expressed as a share of GDP. In the course of 2016, GDP growth rates are to normalise as base effects progressively fade out: in the first quarter 2016, real GDP contracted by 2.1% on a quarterly basis, reflecting the volatility in investment components[5] whose negative impact more than offset positive contributions from buoyant private consumption. In the spring 2016 COM forecast (prepared before the UK's vote to leave the EU), Ireland's economic activity was projected to expand by 4.9% in 2016 and 3.7% in 2017[6]. However, the 2017 Draft Budgetary Plan (DBP) was built upon downwardly revised, but still robust, growth trajectory (4.2% in 2016 and 3.5% in 2017)[7]. This outlook remains surrounded by large uncertainty and crucially hinges upon the path the UK's economy takes over the medium term[8]. In this respect, the Irish government adopted Brexit contingency plans to address short- and medium-term risks stemming from the UK 'leave' vote.

Box 1: GDP statistics in Ireland: "Leprechaun economics"?

Background

In July 2016, the Irish Central Statistical Office (CSO) published official figures for 2015, showing that GDP increased by 26.3% between 2014 and 2015. Such a growth rate is exceptional and affects indicators used in several domains, ranging from fiscal surveillance to contributions paid to the EU budget, as well as regional policies (structural funds) or even monetary policy. Nobel Prize-winning economist Paul Krugman called the explosive Irish economic growth figures as "leprechaun economics".

The main figures concerned

Because of the exceptionally high increase of GDP, the general government debt- to-GDP ratio dropped from 105% in 2014 to 79% in 2015, and the deficit from 3.7% to 1.9%. Other relevant figures showed impressive increases in 2015 compared to 2014: tax revenue increased by 7.2%; the Gross National Product (GNP) raised by 18.7%; exports grew by 34.4% and imports increased by 21.7%; the growth rate in investments (gross fixed capital formation) was 32.9%. All the activity sectors showed positive growth in 2015: value added in industry (including construction) advanced by 87.3%, while the other main sectors had annual increases ranging from 5.7% to 10.4%.

Figures less affected by the relocation and restructuring of multinational companies (see below), and that therefore would provide a more balanced view of the economy, are the following: employment registered a small increase from 67% in 2014 to 68.7% in 2015 and personal consumption expenditure increased by 4.8%. At Euro area level, 0.4% of the total upward shift of GDP (2.0%) is due to the Irish change.

Possible reasons

Both the CSO and Eurostat referred to "increasing globalisation" as the main reason behind such figures, especially changes related to big multinational economic operators with headquarters in Ireland. Detailed explanations are not provided, due to confidentiality rules aimed at protecting companies. According to several

[2] In 2015, Ireland's net exports surged by 102% and investment by 32.7%.
[3] See the COM Spring 2016 Post-Programme Surveillance Report for Ireland,, September 2016, p. 12.
[4] Changes in the international tax environment reflect tax policy reforms in the OECD area, including Base Erosion and Profit Shifting (BEPS) Action Plan to combat tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations.
[5] I.e. purchases/imports of intangible assets and aircraft for leasing.
[6] The IMF Staff estimates Ireland's potential real GDP growth at around 3 percent.
[7] These projections reflect positive contribution from domestic demand that more than outweigh the negative impact of net exports on the back of slowing global trade.
[8] Model based simulations done by the Economic and Social Research Institute (IE) suggest that "*a 1 per cent reduction in UK GDP is to reduce Ireland's GDP and GNP by 0.3 per cent in the medium term*" (p. 2).

sources[9], however, the main factor explaining the changes is the relocation and/or restructuring of a small number of multinational companies to Ireland, further combined with methodological changes introduced with recently revised standard statistical manuals (ESA2010 and Balance of Payment[10]). Private companies mergers or takeover (especially in the medical sector), the shifting of intellectual property right to Irish subsidiaries (especially in the high-tech sector) and the high number of new aircraft imports into Ireland for international leasing activities have led to a huge increase in the level of capital assets, which reflected in a proportional increase of GDP. Such relocations and restructuring[11] are also associated with an increase in "contract manufacturing", i.e. outsourcing of goods manufacturing abroad, which boosts exports and, therefore, GDP, and with a reduction of royalties paid on intellectual property rights, which reduce imports.

Further statements and reactions

Eurostat considered that the data were plausible, and that it will have access to the information it needs to carry out its detailed investigations.

IMF stated that the GDP change "*reflects a level shift and the underlying economic developments appear unchanged... Additional metrics better reflecting the underlying developments of the Irish economy should be developed (...)*".

In October 2016, the CSO established an "Economic Statistics Review Group" composed of experts from various background and including international observers from the EU/Eurostat and the IMF. It noted that "... *It is becoming increasingly difficult to represent the complexity of economic activity in Ireland in a single headline indicator such as GDP. Ireland's GDP and other related measures can be affected by activities elsewhere in the globe and users of these statistics need improved insight before drawing conclusions about domestic activity.... the Group will drive developments on indicators and analyses that will better support understanding of the Irish economy and in particular, activity in the domestic economy*".

Headline inflation, as measured by Harmonised Index of Consumer Prices (HICP), has decelerated to 0.3% in 2014 and was virtually nil in 2015 as declines in goods and transport prices, driven by low commodity and fuel prices, offset price increases in rents and other services. Headline inflation came in at -0.3% in September 2016. This negative inflation mainly reflects significant easing of underlying inflation pressures: core inflation (as measured by HICP inflation excluding energy and unprocessed food) fell close to zero (0.1% in September 2016, after hovering around 1% over the first seven months of this year). In its spring 2016 forecast, the COM expected Ireland's inflation to pick up to 0.3% in 2016 and 1.3% in 2017 on the back of robust private consumption as wages continue to recover.

According to the latest Eurostat data, **Ireland's current account sharply widened to 10.2% of GDP in 2015,** up from 1.7% of GDP a year earlier. This sharp increase was predominantly driven by large operations of some multinational companies (see Box 2 on Apple tax ruling). Note that Eurostat has not published monthly data, including for 2016, due to confidentiality reasons[12]. In fact, as regards balance of payments data more generally, Eurostat already pointed out it will "*follow the Irish authorities in not publishing a full set of breakdowns where these could reveal any individual*

[9] E.g. "Pre-Budget 2017 Statement" by the *Irish Fiscal Advisory Council;* "Investor presentation" by the *National Treasury Management Agency*; M. Noonan's written answer to the national parliament on the GDP growth; article in the Irish Times.

[10] The updated manuals introduce changes in the way activities of multinationals are recorded. Time series were revised accordingly, therefore the changes in data are mainly due to the relocation of the multinational companies.

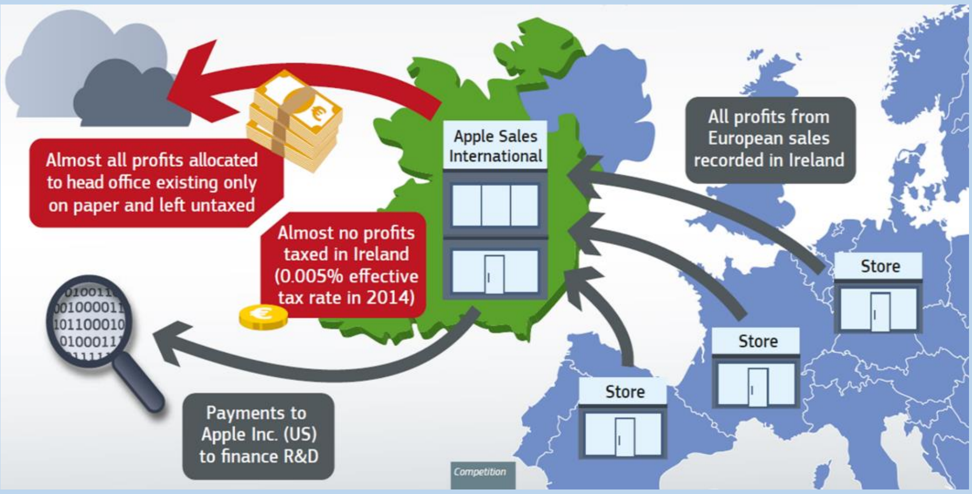
[11] A possible explanation for relocation is the end of the double-Irish tax loophole that allowed Irish firms to be 'stateless' (non-resident in any country for tax purposes). That loophole was closed by Ireland at the end of 2014, with effect from 2015 for newly incorporated firms, giving a transition period until 2020 for existing firms.

[12] As such, this approach is not exceptional: monthly current account data also remain confidential for Cyprus, the Netherlands, Austria and the United Kingdom.

companies concerned". Due to these large statistical revisions, the COM spring 2016 projections for Ireland's current account balance, presented in Annex 1, are not up-to-date.

Box 2: The Apple State aid case

On 30 August 2016 the COM concluded that Apple had benefited, from 2003 to 2013, from illegal State aid amounting up to EUR 13 billion in the form of undue tax benefits. A tax benefit may entail State aid if it is selective, involves State resources, distorts competition and affects trade between Member States (article 107.1 TFUE). Following an in-depth investigation the COM concluded that two tax rulings had artificially and substantially lowered the amount of taxes paid by the US group. The profits booked by the two Apple companies in Ireland (Apple Sales International and Apple Sales Europe) were recorded in internal head-office structures not to subject to the Irish corporate tax, nor to taxes in any other jurisdiction. The COM considers that those internal head-offices structures "*existed only on paper and could not have generated such profits*", and that "*as a result of the allocation method, Apple only paid an effective corporate tax rate that declined from 1% in 2003 to 0.005% in 2014*". The COM indicated that the tax-free head-office structures were not based in any country and did not have any employee or own premises, and concluded that only the Irish branches of Apple Sales International and Apple Sales Europe could generate income from the distribution of Apple products and from the production of certain lines of computers for the Apple group.



Source: *Commission*

When the COM concludes that a measure involves illegal State aid, the amount of State aid granted by the Member State must be recovered together with interests, for a ten-year period up to the COM's first request for information. In the case at hand, the COM estimates that the amount of undue tax benefits from 2003 to 2013 amounts to EUR 13 billion. No fine are imposed on beneficiaries under EU State aid rules.

The COM does not assess whether profits recorded in Ireland should have been recorded in the countries where the sales effectively took place, nor whether the research and development activities undertaken in the United-States were adequately remunerated by the Irish companies. The COM considers those transfer pricing issues are not covered by EU State aid rules. Therefore the COM further clarifies that any decision by those countries to require Apple to record higher profits in their jurisdictions would lower the amount of taxes to be recovered by Ireland. It is to be noted that Apple changed its structure in Ireland in 2015.

On 2 September 2016 the Irish government unanimously decided appeal the COM decision. The Irish governments considers that (i) all taxpayers were treated equally since the two tax rulings "*only stated the operation of the applicable tax laws that were in place at the time*", (ii) that the decision is about tax affairs, which remain a competence of Member States, and (iii) that the decision amounts to the retroactive application of new tax standards, which jeopardizes legal certainty and impedes the conduct of business in Ireland.

Unemployment has been on steady downward path since 2012 as improving underlying activity translated into job creation. After its peak of 14.7% in 2011 and 2012, the unemployment rate declined to 9.4% in 2015. This favourable trend has continued into 2016, bringing the share of unemployed persons in the labour force to 7.9% in September 2016[13]. Youth unemployment has also been sizeably reduced, but still remains at elevated levels (15.9% in September 2016 as compared to a peak of 31.1% in July 2012).

Public finances markedly improved during 2015 reflecting strong increase in revenues, driven by a surge in Corporate Income Tax (CIT) receipts, and an upward level shift in GDP. Owing to these favourable developments, general government deficit dropped down from 3.7% in 2014 to 1.9% of GDP in 2015[14]. Consequently, Ireland exited the Excessive Deficit Procedure in June 2016. Public finances have continued to outperform budget projections during the first half of 2016, reflecting better-than-expected revenue and overall spending discipline (with the exception of continued overruns in health expenditure). However, the COM warned that the observed revenue outperformance is likely to be of cyclical nature as the surge in CIT receipts is to some extent reflecting decisions by a small number of large multinational companies. Finally, **general government gross debt, expressed in terms of GDP, dropped to 78.6% in 2015, down from 105.2% in the previous year**. This improvement resulted from the above-mentioned level shift in GDP (denominator effect), though the nominal value of public debt also declined by 1.1% between 2014 and 2015 (from EUR 203.3 billion to EUR 201.1 billion).

3. Public finances

On 17 June 2016, the Council **abrogated the EDP for Ireland** since the country has brought its public deficit below the 3% of GDP threshold and since the deficit was assessed to remain below the 3% of GDP reference value over the forecast horizon (2016-2017).

As part of **implementation of the preventive arm of the Stability and Growth Pact**, the Council adopted in July 2016 as part on the Country Specific Recommendations (CSRs) a Council Opinion on Ireland stating that the country is "broadly compliant" with the provisions of the SGP and that further measures will be needed to ensure compliance in 2016: "*Based on the COM 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.*"

According to the change of the structural balance as projected in the COM spring 2016 forecast under no policy change assumption (see Table 1), the requested fiscal adjustment ("*annual fiscal adjustment of 0.6 % of GDP towards the MTO in 2016 and in 2017*") might not be met in 2016, while it might be met in 2017 (y-o-y change of structural balance of 1.0% of GDP); on average, the projected structural budget balances for 2016 and 2017 seem to meet the requested fiscal adjustment in structural terms.

[13] This is well below the corresponding euro area average of 10.1%.

[14] Based on the COM calculations, the GDP level shift accounts for half of the drop in the deficit figures. (see PPS report of September 2016, p. 14).

Table 1: Comparison of Council requests and COM spring 2016 forecast figures

Annual fiscal adjustment in structural terms as requested by the Council in July 2016 (CSR 1)		COM forecast - spring 2016 (under no policy change scenario)			
		Structural budget balance as (% of GDP; *y-o-y difference in % of GDP)*		**Debt** (% of GDP)	**GDP growth** (%)
CSR1: "achieve an **annual fiscal adjustment of 0.6 % of GDP** towards the MTO in 2016 and in 2017." Level and target year of MTO (recital 5 of CSR): 0.5% of GDP in 2018	**2013**	-4.0	(2.2)	120.0	1.4
	2014	-2.7	(1.3)	107.5	5.2
	2015	-2.2	*(0.5)*	93.8	7.8
	2016	-2.0	***(0.2)***	89.1	4.9
	2017	-1.0	***(1.0)***	86.6	3.7

Sources: CSR 2016 and COM spring 2016 forecast. Note: The strong revisions of the Irish GDP, which occurred in July 2016 (see Box 1), have a significant impact on the data in this table, which were underlying the CSR given to Ireland.

The **debt rule** (the public debt was according to Eurostat 78.6% in 2015) will become applicable after the transition period of three years from the correction of the excessive deficit (12 July 2016). Within the transition period, Ireland needs to comply with a minimum linear structural adjustment.

On 17 October, Ireland submitted its **2017 DBP** to the COM and the Eurogroup, as requested under EU Regulation 473/2013. Key features of the Irish DBP as well as the requests of the Council regarding the annual fiscal adjustment in structural terms to achieve the MTO are shown in the Table 2.

Table 2: Comparison of Council requests and DBP forecast figures

	Projections included in 2017 DBP (October 2016)				
	GDP growth (% change)	**Debt** (% of GDP)	**Deficit/ Surplus** (% of GDP)	**Structural deficit/surplus** (% GDP; *y-o-y difference in % of GDP*)	**Annual fiscal adjustment in structural terms as requested by the Council in July 2017 (CSR 1)**
2016	4.2	76.0	-0.9	-1.9 *(0.3)*	*"achieve an **annual fiscal adjustment of 0,6 % of GDP** towards the medium-term budgetary objective in 2016 and in 2017."*
2017	3.5	74.3	-0.4	--1.1 *(0.8)*	

Sources: 2017 DBP and 2016 Country Specific Recommendation (CSRs) to Ireland.

According to the figures included in the 2017 DBP (see Table 2), the year-on-year differences of the projected structural budget balances for 2016 (y-o-y difference: 0.3% of GDP) and 2017 (y-o-y difference: 0.8% of GDP) are on average close to the fiscal adjustment in structural terms as requested by the Council.

The COM opinion (due by end of November) on the DBP will however be based on a more comprehensive analysis and on the autumn forecast (scheduled for early November). The COM has not identified a particularly serious non-compliance, since in such a case the COM would have needed to adopt its opinion within two weeks after the submission of the DBP in order to request a revised DBP. It may also be noted that Ireland was not part of the countries (Belgium, Cyprus, Finland, Italy, Lithuania, Portugal and Spain) that the COM asked on 25 October 2016 to submit further information relating to their 2017 DBP.

The Irish Fiscal Advisory Council[15] (IFAC): "*endorses as within the range of appropriate projections the set of macroeconomic forecasts prepared by the Department of Finance for Budget 2017 for the years 2016 and 2017*". However, the endorsement reflects only the demand side projections, not the supply side variables, such as the output gap. The fiscal council did not provide a detailed analysis or comparison of macroeconomic projections with the DBP, this will be assessed in the forthcoming "Fiscal Assessment Report" scheduled for publication in November 2016.

Both the IMF and the COM recently updated their **assessment of public debt sustainability** of Ireland. Their analyses, however, predate the revision of the data for 2015 GDP growth (which showed a difference of the debt-to-GDP ratio for 2015 from 93.8% to 78.6%), and therefore all the relevant indicators need to be recalculated. According to the COM (p. 46), the debt-to-GDP ratio decreased in 2015 because of the GDP growth, the sales of state assets and sizeable primary surplus, coupled with low interest environment. The ratio is expected to steadily decrease until 2024, and then slightly raise, mainly because of increasing cost of ageing. The sustainability of public debt remains however vulnerable to negative economic shocks. According to the IMF (p. 59), the Irish public debt sustainability has improved substantially compared to previous analyses, reflecting the combination of strong growth, prudent fiscal policy, and favourable financing conditions.

4. Macro-economic imbalances

The COM established in March 2016 that Ireland is **experiencing macroeconomic imbalances, requiring specific monitoring.** Imbalances are essentially stemming from large stocks of external liabilities, as well as of public and private debt, which are however improving. The house prices also showed an increase of 15.2% in 2014 (beyond the warning threshold) and a still high, though less pronounced, 8.3% in 2015. Two of the three CSRs addressed to Ireland in 2016 are based on MIP): they focus on public finance and on the problem of non-performing loans in the banking sector (Annex 4 presents the CSRs addressed to Ireland in 2015 and 2016, as well as the COM's assessment of the implementation of 2015 CSRs).

In its latest report on Ireland, published in August 2016, the COM noted that Ireland has made **some progress in implementing the relevant 2015 CSRs**. In the framework of the PPS, the COM recommends the authorities to increase public investment, in order to address housing and infrastructure bottlenecks and prepare for possible adverse scenarios, mainly due to uncertainty on the future relationships between the UK and the EU, as well as risks of boom-bust cycles.

The IMF draw similar conclusions in its latest report on Ireland, published in the context of the Art. IV Consultation. According to the IMF, growth momentum has continued in 2016, with sensible reduction of unemployment. The IMF expects the output gap to close by 2021. Policies should focus on further reducing public debt while enhancing spending efficiency, lessening private sector vulnerabilities, improving bank balance sheets, and mitigating boom-bust cycles. Furthermore,

[15] In accordance with EU law (Council Directive 2011/85/EU, EU Regulation 1466/97 on the preventive arm of the SGP an EU Regulation 473/2013) macroeconomic and budgetary forecasts of (euro area) Member States shall be produced endorsed by independent bodies.

addressing structural weaknesses would support robust and inclusive medium-term growth and job creation.

5. Financial Stability

Background

A key response of the Irish Government to the serious crisis in the Irish banking sector was the establishment of the National Asset Management Agency (NAMA) in December 2009, which is often seen as an example how to successfully manage "bad assets" on a large scale (see Schoenmaker 2015). NAMA's task was to purchase property-related loans (in total more than 12000 loans for property, land, and development projects, with a face value of approximately EUR 74 billion) from the five participating financial institutions, thereby significantly reducing their burden of non-performing loans (NPLs), to manage the loans and the related collateral, and ultimately to dispose of all those assets.

The financial assistance programme later on approved by the Council and the IMF Board in December 2010 made EUR 35 billion available to finance measures to overhaul the banking sector, with the objective of delivering smaller and robust banks that are viable in the long term without state support. Two key measures were targeted at that objective: an immediate and credible recapitalization of banks coupled with the reorganization and downsizing of the sector. Bank capital injections were done in several rounds, following a calculation of the capital shortfalls which became known as the Prudential Capital Adequacy Reviews ("PCAR"). Two banks that received capital, Anglo Irish and the smaller Irish Nationwide Building Society, were finally put into liquidation. Four other banks were recapitalised, restructured, and stayed in business, namely Bank of Ireland (BOI), Allied Irish Banks (AIB), Irish Life and Permanent (ILP), the banking part of which was later renamed permanent TSB (PTSB), and Educational Building Society (EBS), the latter not on a stand-alone basis but as subsidiary of AIB.

Recent financial sector developments

The COM's latest Post-Programme Surveillance Report published in September 2016 strikes a rather upbeat tone on Ireland's banking sector, pointing out that the domestic banks' profitability continues to recover and that they maintain sound capital levels. The COM reckons that the recovery in profitability is due to improving asset quality, higher net interest margins and lower funding costs, though it has also been bolstered by one-off releases of provisions. Looking forward, however, prolonged low interest rates and a continued trend of firms' and households' deleveraging could be a challenge to the banks' profitability.

The cost of borrowing for households and SMEs has recently declined, but is still higher than the euro-area average.

The NPL ratio also continued to decline as a result of economic growth and ongoing restructuring efforts. According to data provided by the European Banking Authority (EBA), in the Risk Dashboard, the NPL ratio for the domestic banks fell to 15.4% (weighted average) at the end of June 2016, down from 20.6 % at the end of September 2015. Though that is certainly a notable improvement, the current rate is still nearly three times that of the EU average (5.5% in June 2016).

Moreover, the positive trend seen with regard to the NPL ratio is compromised by the fact that the Irish banking sector sees a reduction in the level of loan loss provisions ("rainy day funds"), that are the loan loss provisions. While according to the EBA data the coverage ratio for NPLs (i.e. specific allowances for loans over total gross non-performing loans and advances) has on average slightly improved in the EU from 43.6% (September 2015) to 43.9% (June 2016), the very same ratio is in Ireland not only lower, but also decreased over the same period from 40.8% to 37.9%. The level of loan loss provisioning, which has to be in line with accounting standards, is essentially a decision taken by a bank's management, judging the risks in the loan book. That decision is nevertheless in the focus of the supervisor and part of on-site inspection programmes to ensure that provisions are not released prematurely (cp. the Annual Performance Statement of the Central Bank of Ireland).

On 29 July 2016, the **EBA published the results of its latest EU-wide stress test exercise**, both at aggregate and individual level for the 51 participating banks from 15 EU and EEA countries, among those the two largest Irish banks, Bank of Ireland and Allied Irish Banks. The starting point of most banks was this year considerably better than in previous exercises since the EU banking sector significantly bolstered its capital base in recent years; the average CET1 capital ratio (fully loaded) in the EBA sample stood at 12.6% in 2015. AIB exceeded that value with a CET1 ratio of 13.11%, while the CET1 ratio of BOI (11.28%) was lower than the average. The overall impact on the hypothetical stress situation on the banks' capital ratios, however, ranged from close to 0 for the Norwegian bank to more than -700bps for the two banks from Ireland which brought up the rear. In the adverse stress scenario, AIB ended up with a fully-loaded CET1 ratio of 4.3% in 2018, BOI with a ratio of 6.1%, both considerably lower than those of most of their peers (European average: 9.2%). While AIB had a better starting point than BOI, they swapped places in the stress scenario. The comparatively bad performance of the two Irish banks in the stress test are not least the result of the static balance sheet aspect of the test and the underlying macroeconomic scenario used by EBA: While the baseline scenario assumed that Ireland will continue to show strong economic growth, with GDP growth rates that significantly outperform most other European countries (4.5% in 2016, 3.5% in 2017, and 3.6 in 2018 in Ireland as compared to 1.8%, 1.9% and 1.7% in the Euro area), the stress scenario assumed that those GDP growth rates would also be significantly lower though still better than the EU average (-0.1 % in 2016, -1.2% in 2017, and 1.7% in 2018 in Ireland as compared to -1.0%, -1.3% and 0.6% in the Euro area). In any case, those stress test results are a reminder that Irish banks' recovery is still fragile.

Immediately after the UK 'leave' vote, along with other UK exposed banks, the share prices of Irish banks experienced sharp drops due to concerns that the referendum will lead to a deterioration of the economic prospects for Irish companies doing business in the UK and effects stemming from the depreciation of the Pound sterling. The full impact of the UK referendum result on Irish banks will only be seen in the medium term.

The recapitalisation of the Irish banks as well as their restructuring plans and the remuneration for the aid received had to be approved by the COM in line with the applicable State Aid rules. The restructuring period of BOI, for example, runs until the end of 2016, that of AIB until the end of 2017, and that of PTSB until the end of 2018.

6. Progress towards EU2020 Targets

Ireland is showing signs of recovery from the economic crisis. The employment rate of the population aged 20-64 has been steadily increasing from 63.7% in 2012 to 68.7% in 2015, only fractionally below its 2020 target of 69%. However, the 2015 employment rate still remains below its 2008 peak of 72.2% as well as the EU 28 average (70.1% in 2015). Ireland's R&D expenditure, as a percentage of GDP, has remained broadly stable at close to 1.5% over the period 2014-2014, well below its 2%

target as well as the EU 28 average of 2.03%. To increase R&D investments, a new investment strategy for Science, Technology and Innovation for Ireland (Investment 2020) has been adopted in December 2015.

As to educational indicators, Ireland reduced the share of early school leavers in the population aged 18-24 below its 2020 target of 8% already in 2014 (6.9%) and maintained that low level in 2015. By comparison, the share of early school leavers in the population aged 18-24 within the EU28 stood at 11.0% in 2015. Tertiary educational attainment among the population aged 30-34 has been gradually increasing to 52.3% in 2015. While still remaining below the target of 60%, it was the third highest rate within the EU28.

Ireland has made some progress in developing energy from renewable sources, with the share of renewable energy in gross final energy consumption increasing from 4.1% in 2008 to 8.6% in 2014. Notwithstanding this positive trend, the current level still remains significantly below the 2020 target of 16% and the 2014 EU28 average (16% as well). While total greenhouse gas emissions were little changed over the period 201-2014, they stood nearly 6% above the 1990 level.

Finally, social indicators are recently showing signs of slight improvement. The rate of people at risk of poverty and social exclusion has decreased from 30% in 2012 to 27.6% in 2014, although it remains above the EU28 average of 24.4% in 2014 and is therefore still part of a CSR issued by the Council in 2016 to Ireland (See Annex 4).

Annex 1: Key macro-economic indicators

	2012	2013	2014	2015	2016[f]	2017[f]
Real GDP growth – *% change on previous year*						
Ireland	-1.1	-1.1	8.5	26.3	4.9	3.7
EA	-0.9	-0.3	1.2	2.0	1.6	1.8
GDP per capita – *Purchasing power parities, Euro*						
Ireland	35,000	35,300	37,600	49,600	n.a.	n.a.
EA	28,700	28,800	29,400	30,600	n.a.	n.a.
General government budget balance – *% of GDP*						
Ireland	-8.0	-5.7	-3.7	-1.9	-1.1	-0.6
EA	-3.6	-3.0	-2.6	-2.1	-1.9	-1.6
General government structural budget balance[*] – *% of potential GDP*						
Ireland	-6.2	-4.0	-2.7	-2.2	-2.0	-1.0
EA	-2.1	-1.4	-1.0	-1.0	-1.3	-1.4
General government gross debt – *% of GDP*						
Ireland	119.5	119.5	105.2	78.6	89.1	86.6
EA	89.5	91.3	92.0	90.4	92.2	91.1
Interests paid on general government debt – *% of GDP*						
Ireland	4.1	4.2	3.9	2.6	2.8	2.7
EA	3.0	2.8	2.7	2.4	2.3	2.2
Inflation (HICP) – *% change on previous year*						
Ireland	1.9	0.5	0.3	0.0	0.3	1.3
EA	2.5	1.4	0.4	0.0	0.2	1.4
Unemployment – *% of labour force*						
Ireland	14.7	13.1	11.3	9.4	8.2	7.5
EA	11.3	12.0	11.6	10.9	10.3	9.9
Youth unemployment – *% of labour force (15 - 24 years)*						
Ireland	30.4	26.8	23.9	20.9	n.a	n.a
EA	23.6	24.4	23.8	22.4	n.a	n.a
Current account balance – *% of GDP*						
Ireland	-2.6	2.1	1.7	10.2	4.6	4.6
EA	1.3	2.2	2.4	3.1	3.7	3.6
Exports – *% change on previous year*						
Ireland	2.4	3.1	14.4	34.4	6.9	6.6
EA	2.6	2.1	4.5	6.5	3.5	4.7
Imports – *% change on previous year*						
Ireland	5.4	1.1	15.3	21.7	7.7	7.4
EA	-0.8	1.3	4.9	6.4	4.6	5.3
Total investments – *% change on previous year*						
Ireland	11.9	-5.7	18.3	32.9	13.4	8.3
EA	-3.5	-2.5	1.4	3.2	2.9	3.8
Total investments – *% of GDP*						
Ireland	19.5	18.2	20.5	21.2	n.a.	n.a.
EA	20.2	19.6	19.6	19.7	n.a.	n.a.
General government investments – *% change on previous year*						
Ireland	2.0	2.0	2.2	1.7	n.a.	n.a.
EA	2.9	2.8	2.7	2.7	n.a.	n.a.
Total final consumption expenditure – *% change on previous year*						
Ireland	-1.7	-0.6	2.5	3.7	n.a.	n.a.
EA	-0.9	-0.4	0.8	1.7	n.a.	n.a.
Households final consumption expenditure – *% change on previous year*						
Ireland	-1.1	-0.3	2.0	4.8	n.a.	n.a.
EA	-1.2	-0.8	0.8	1.8	n.a.	n.a
Income Inequality (Gini Coefficient) – *Scale 0-100: 0 = total income equality; 100 = total income inequality*						
Ireland	29.9	30.0	30.8	n.a.	n.a	n.a
EA	30.4	30.7	31.0	30.8	n.a	n.a
Unit labour cost - nominal – *% change on previous year*						
Ireland	1.3	2.8	-4.5	-16.5	-0.8	-0.1
EA	2.0	1.1	0.7	0.3	0.9	1.1

Source: all indicators are from Eurostat, with data extracted on 24/10/2016; (f): forecasts are from the European Economic Forecast - Spring 2016; (*) the source of the structural balance is the database DG ECFIN/AMECO.

Annex 2: Macroeconomic Imbalance Scoreboard

Indicators			Threshold	2007	2008	2009	2010	2011	2012	2013	2014	2015
External imbalances and competitiveness	**Current account balance (% of GDP)**	**3 year average**	-4/+6%	-5.1	-6.1	-6.0	-4.3	-2.8	-2.1	-0.8	0.4	4.7
		Year value	-	-6.5	-6.5	-4.9	-1.5	-2.0	-2.6	2.1	1.7	10.2
	Net international investment position (% of GDP)		-35%	-31.4	-95.8	-116.8	-114.9	-138.3	-137.3	-131.7	-162.1	-208.0
	Real effective exchange rate - 42 trading partners	**% change (3 years)**	± 5% €A	3.1	7.3	5.1	-5.4	-9.6	-12.2	-3.9	-3.6	-5.9
		% change y-o-y	-	3.1	3.5	-1.5	-7.2	-1.1	-4.3	1.6	-0.7	-6.7
	Share of world exports	**% change (5 years)**	-6%	-12.0	-16.7	2.0	-6.8	-10.5	15.7	-7.5	-12.0	38.3
		% change y-o-y		3.3	-6.9	18.6	-13.5	-9.3	-2.7	2.1	12.9	35.8
	Nominal unit labour cost	**% change (3 years)**	9% €A	14.6	18.5	9.7	-6.5	-13.5(b)	-8.3	4.0	-0.5	-18.1
		% change y-o-y	-	6.3	8.0	-4.5	-9.3	-0.1(b)	1.3	2.8	-4.5	-16.5
Internal imbalances	**House prices** (% change y-o-y deflated**)**		6%	4.3	-8.4	-13.6	-11.6	-16.9	-15.2	1.1	15.1	8.3
	Private sector credit flow (% of GDP)		14%	24.8	22.0	-4.6	2.2	16.2	-0.6	-1.4	2.5	-6.7
	Private sector debt (% of GDP)		133%	198.0	236.5	256.7	257.9	270.9	278.8	267.3	281.3	303.4
	General government gross debt (EDP) (% of GDP)		60%	23.9	42.4	61.7	86.3	109.6	119.5	119.5	105.2	78.6
	Unemployment rate	**3 year average**	10%	4.5	5.2	7.7	10.8	13.5	14.4	14.2	13.0	11.3
		Year value	-	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3	9.4
	Total Financial Sector Liabilities, non-consolidated (% change y-o-y)		16.5%	9.6	6.5	3.4	6.3	-2.2	-1.8	-2.7	23.1	9.5
Employment indicators	**Activity rate % 15-64 total pop.** (3 year change)		-0.2%	3.1b	1.3	-1.3(b)	-3.2	-2.9	-1.4	0.4	0.6	0.8
	Long term unemployment active pop. 15-74 (3 year change)		0.5%	-0.2	0.3	2.1	5.4	6.9	5.5	1.0	-2.0	-3.7
	Youth unemployment % active pop. 15-24 (3 year change)		2%	0.4	4.6	15.3	18.5	15.8	6.4	-0.8	-5.2	-9.5

Source: Eurostat MIP Scoreboard indicators (data extracted on 26 October 2016 and therefore may not correspond to the 2016 AMR). A separate EGOV document provides an overview of the implementation of the MIP. Note: Grey cells signal data falling outside the MIP thresholds; p = provisional; b = break in time series and (:) = missing.

Annex 3: Progress towards EU2020 targets

<table>
<tr><th>Indicator</th><th colspan="2">Ireland</th><th></th><th colspan="2">EU28</th></tr>
<tr><td rowspan="5">Employment rate
(% of population aged 20-64)</td><td colspan="2">69</td><td>Target 2020</td><td colspan="2">75</td></tr>
<tr><td colspan="2">68.7</td><td>2015</td><td colspan="2">70.1</td></tr>
<tr><td colspan="2">67.0</td><td>2014</td><td colspan="2">69.2</td></tr>
<tr><td colspan="2">65.5</td><td>2013</td><td colspan="2">68.4</td></tr>
<tr><td colspan="2">63.7</td><td>2012</td><td colspan="2">68.4</td></tr>
<tr><td rowspan="5">Expenditure on R&D
(% of GDP)</td><td colspan="2">2</td><td>Target 2020</td><td colspan="2">3</td></tr>
<tr><td colspan="2">n.a.</td><td>2015</td><td colspan="2">n.a.</td></tr>
<tr><td colspan="2">1.52[e]</td><td>2014</td><td colspan="2">2.03[p]</td></tr>
<tr><td colspan="2">1.54[e]</td><td>2013</td><td colspan="2">2.03</td></tr>
<tr><td colspan="2">1.56[e]</td><td>2012</td><td colspan="2">2.01</td></tr>
<tr><td rowspan="5">Greenhouse gas emission[1]</td><td>Total
n.a.[1]
(Index 1990 = 100)</td><td>Non-ETS
80[1]
(Index 2005 = 100)</td><td>Target 2020</td><td colspan="2">Total
80[1]
(Index 1990 = 100)</td></tr>
<tr><td>n.a.</td><td>n.a.</td><td>2015</td><td colspan="2">n.a.</td></tr>
<tr><td>105.69</td><td>n.a.</td><td>2014</td><td colspan="2">77.05</td></tr>
<tr><td>105.81</td><td>n.a.</td><td>2013</td><td colspan="2">80.24</td></tr>
<tr><td>105.58</td><td>88.84</td><td>2012</td><td colspan="2">81.8</td></tr>
<tr><td rowspan="5">Share of renewable energy
(%)</td><td colspan="2">16</td><td>Target 2020</td><td colspan="2">20</td></tr>
<tr><td colspan="2">n.a.</td><td>2015</td><td colspan="2">n.a.</td></tr>
<tr><td colspan="2">8.6</td><td>2014</td><td colspan="2">16.0</td></tr>
<tr><td colspan="2">7.7</td><td>2013</td><td colspan="2">15.0</td></tr>
<tr><td colspan="2">7.1</td><td>2012</td><td colspan="2">14.3</td></tr>
<tr><td rowspan="5">Primary energy consumption
(million tonnes of oil equivalent-TOE)</td><td colspan="2">13.9</td><td>Target 2020</td><td colspan="2">1,483</td></tr>
<tr><td colspan="2">n.a.</td><td>2015</td><td colspan="2">n.a.</td></tr>
<tr><td colspan="2">13.4</td><td>2014</td><td colspan="2">1,507.1</td></tr>
<tr><td colspan="2">13.4</td><td>2013</td><td colspan="2">1,569.1</td></tr>
<tr><td colspan="2">13.5</td><td>2012</td><td colspan="2">1,584.0</td></tr>
<tr><td rowspan="5">Early school leaving
(% of population aged 18-24)</td><td colspan="2">8</td><td>Target 2020</td><td colspan="2">10</td></tr>
<tr><td colspan="2">6.9</td><td>2015</td><td colspan="2">11.0</td></tr>
<tr><td colspan="2">6.9[b]</td><td>2014</td><td colspan="2">11.2[b]</td></tr>
<tr><td colspan="2">8.4</td><td>2013</td><td colspan="2">11.9</td></tr>
<tr><td colspan="2">9.7</td><td>2012</td><td colspan="2">12.7</td></tr>
<tr><td rowspan="5">Tertiary educational attainment
(% of population aged 30-34)</td><td colspan="2">60</td><td>Target 2020</td><td colspan="2">40</td></tr>
<tr><td colspan="2">52.3</td><td>2015</td><td colspan="2">38.7</td></tr>
<tr><td colspan="2">52.2[b]</td><td>2014</td><td colspan="2">37.9[b]</td></tr>
<tr><td colspan="2">52.6</td><td>2013</td><td colspan="2">37.1</td></tr>
<tr><td colspan="2">51.1</td><td>2012</td><td colspan="2">36.0</td></tr>
<tr><td rowspan="5">Population at risk of poverty or social exclusion
(thousand - % of total population)</td><td>Reduction by 200 thousand</td><td>n.c.s.t.</td><td>Target 2020</td><td>Reduction by 20 million</td><td>n.c.s.t.</td></tr>
<tr><td>n.a.</td><td>n.a.</td><td>2015</td><td>118,759[e]</td><td>23.7[e]</td></tr>
<tr><td>1,274</td><td>27.6</td><td>2014</td><td>122,258</td><td>24.4</td></tr>
<tr><td>1,358</td><td>29.5</td><td>2013</td><td>122,685</td><td>24.6</td></tr>
<tr><td>1,378</td><td>30.0</td><td>2012</td><td>123,601</td><td>24.7</td></tr>
</table>

Source: Eurostat (data extracted on 17 October 2016). (1) The Effort Sharing Decision (2009/406/EC) sets country-specific targets for non-ETS emissions only and an EU target for ETS-emissions. For Ireland, non-ETS emissions will be reduced by 20% compared to 2005 levels. For the EU, ETS-emissions will be reduced by 21% compared to 2005 level and overall emissions by 20% compared to 1990 levels.
* = Estimate; n.c.s.t. = "no country specific target"; n.a = "not available"; p = provisional and b = break in time series.

Annex 4: Ireland's 2015 and 2016 Country Specific Recommendations

IE	Country Specific Recommendations (CSRs) 2015 **SGP: CSR 1, 2 and MIP: CSR 1, 4**	Assessment of implementation of CSR 2015 **(based on COM Country Report, February 2016)**	Country Specific Recommendations 2016 **SGP: CSR 1 and MIP: CSR 1, 3**
	1. Ensure a durable correction of the excessive deficit in 2015. Achieve a fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016. Use windfall gains from better-than-expected economic and financial conditions to accelerate the deficit reduction and debt reduction. Limit the existing discretionary powers to change expenditure ceilings beyond specific and predefined contingencies. **Broaden the tax base and review tax expenditures,** including on value-added taxes.	**Limited progress:** **No progress** in limiting discretionary powers to change expenditure ceilings. These have been revised up repeatedly on the back of better than expected growth, i.e. beyond specific and predefined contingencies. No changes have been made to the legal framework defining the conditions under which expenditure ceilings can be revised. **Limited progress** in broadening the tax base. Announced measures implementing internationally agreed efforts to reduce tax avoidance are likely to contribute to broadening the tax base. However, changes to the universal social charge, postponement of the revaluation of self-assessed property values used to calculate local property tax liabilities and introduction of further tax credits in the 2016 budget are likely to narrow the tax base. A report on tax expenditure was published recently but is limited in scope as it covers only a limited number of tax expenditures and does not cover VAT at all.	**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. Take measures to increase the cost-effectiveness of the healthcare system, including by reducing spending on patented medicines and gradually implementing adequate prescription practices. Roll	**Some progress:** Ireland has made **some progress** in increasing cost-effectiveness in the healthcare system, even though it remains an issue, with renewed expenditure overruns	

	out activity-based funding throughout the public hospital system.	in 2015. Savings on pharmaceuticals have been generated by the increased recourse to generics and the use of internal reference prices and lists of interchangeable medicines. Prescription by international non-proprietary name is still not compulsory for medicines to be dispensed in Ireland. The planned mid-term review of the agreement on the supply and pricing of patented medicines with the Irish Pharmaceutical Healthcare Association (IPHA) was never concluded. Formal engagement with the IPHA for its replacement is only expected to start in early 2016. An Activity Based Funding Implementation Plan 2015-2017 was published in May 2015.	
	3. Take steps to increase the work-intensity of households and to address the poverty risk of children by tapering the withdrawal of benefits and supplementary payments upon return to employment and through better access to affordable full-time childcare.	**Some progress:** **Some progress** in increasing the work intensity of households. Reforms to the One Parent Family Payment (OFP) are continuing. The largest group of recipients of OFP, around 30 000, transitioned to a jobseeker's payment in July 2015. **Some progress** in addressing the poverty risk of children. The 2016 budget announced that Child Benefit would increase by a further EUR 5 to EUR 140 per month per child. A new Social Inclusion and Community Activation Programme was launched in April 2015. The programme aims to cater for individuals who are further from the labour market. Target groups include children and families from disadvantaged areas and lone parents.	**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.

		<u>Some progress</u> in tapering benefits. The 2016 budget announced reforms to the Family Income Supplement, which has increased the number of eligible families. The roll-out of the Housing Assistance Payment, which reduces the disincentive to return to work arising from housing subsidies for the unemployed, is continuing. **<u>Some progress</u>** in improving access to childcare. The Inter-departmental Working Group on Investment in Childcare identified a number of policy options to strengthen childcare services. The 2016 budget announced plans for the development of a single Affordable Childcare Programme providing a new simplified childcare subsidy programme to be in place in 2017. The 2016 budget also announced new funding for childcare amounting to EUR 85 million and increasing the total funding for childcare by a third. EUR 47 million will be spent on a second year of free preschool education for children from 3 years of age until they start primary school.	
	4. Finalise durable restructuring solutions for a vast majority of mortgages in arrears by end-2015 and strengthen the monitoring arrangements by the Central Bank of Ireland. Ensure that restructuring solutions for loans to distressed SMEs and residual commercial real-estate loans are sustainable by further assessing banks' performance against own targets. **Take the necessary steps to ensure that a central credit registry is operational by 2016**.	**Some progress:** **<u>Some progress</u>** in finalising durable restructuring solutions. The Central Bank of Ireland has requested banks to provide plans on how they intend to conclude sustainable solutions with the vast majority of mortgage borrowers in arrears by the end of Q1-2016. As of the end of September 2015, 86 % of concluded restructuring solutions were meeting the terms of arrangements. However, meeting the terms of the arrangement is not necessarily an indicator of sustainability. Not all restructures are sustainable	**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.**

		solutions since they include short-term solutions, such as interest only restructures. **<u>Substantial progress</u>** in strengthening monitoring arrangements. The five main mortgage holders' mortgage restructuring proposals are now monitored by the Central Bank of Ireland through a more granular framework that has replaced the mortgage arrears restructuring targets. The Central Bank of Ireland started publishing statistics on non-bank lenders' mortgage arrears portfolios in early 2015, as more non-banks hold mortgage loan arrears, especially long-term ones. **<u>Some progress</u>** in ensuring restructuring solutions for loans to SMEs. The Central Bank of Ireland continues with the monitoring of distressed SME and commercial real estate loan resolution against the set of key performance indicators. Still, their resolution continues to be a lengthy process. The National Asset Management Agency (NAMA) is ahead of schedule with the sale of its development property and commercial loan portfolio. NAMA is due to be wound down in 2018. **<u>Some progress</u>** in ensuring restructuring solutions for loans to SMEs. The Central Bank of Ireland continues with the monitoring of distressed SME and commercial real estate loan resolution against the set of key performance indicators. Still, their resolution continues to be a lengthy process. The National Asset Management Agency (NAMA) is ahead of schedule with the sale of its development property and commercial loan portfolio. NAMA is due to be wound down in 2018.	

		<u>Some progress</u> in setting up a credit registry. A revised plan for the implementation of the central credit registry has been adopted while pushing back the timeline for effective implementation. Lenders may start submitting data on individuals from the end of September 2016, while the deadline for the submissions for all categories will only be at the end of 2017. Inquiries to the central credit registry when granting new loans to individuals will become mandatory for lenders from 2018 onwards, while it will become obligatory for all categories of loan in mid-2018. The development of secondary legislation is still ongoing, with the intention to finalise the regulations by March 2016.	