Ireland: Policy Recommendations provided by the EU and the IMF from 2003 to 2008

This document presents the recommendations issued to Ireland by the **EU** and the **IMF** before the financial and economic crises.

- Before the setup of the European Semester, Country Specific Recommendations (CSRs) were issued by the **Council** or by the **Commission** in line with the Broad Economic Policy Guidelines (BEPGs), or with the Employment Guidelines (EGs) - until 2004 - and in line with the Integrated Guidelines - since 2005.

- The **IMF** annually carries a surveillance exercise according to its Article IV consultation. The IMF Executive Board of Directors discusses the outcomes and proposes recommendations. In 2008, no Art. IV consultation was carried out on Ireland.

- The texts of the recommendations have been rearranged with the aim of facilitating the comparison over time. Bold format was added to highlight the thematic issues covered by the CSRs and assessments.

COUNTRY SPECIFIC RECOMMENDATIONS (CSRs) for Ireland by the Commission and Council between 2003 and 2008

IE					
	2003 [Country Specific Recommendations](#). See p. 33	**2004** [Country Specific Recommendations.](#) See p. 24	**2006** [Implementing the renewed Lisbon Strategy](#). See p. 65-66	**2007** [Assessment of the National Reform Programmes](#) See p. 8	**2008** [Council Country-Specific Integrated Recommendations](#) See p. 19
Public finances	1. Enhance the **efficiency of public expenditure** and improve **revenue and expenditure planning** in a stability-oriented medium-term framework.	1. Enhance the **efficiency of public expenditure** and **improve revenue and expenditure planning** in a stability-oriented medium-term framework.	No CSR	No CSR	No CSR
Competitiveness and structural reforms	2. Encourage the social partners to adhere to a **prudent and flexible wage norm** to allow for **adaptation to productivity and skill differentials** and at the same time **safeguard competitiveness**.	2. Encourage the social partners to adhere to a **prudent and flexible wage norm** to allow for **adaptation to productivity and skill differentials** and at the same time **safeguard competitiveness**.	No CSR	No CSR	No CSR
	3. Prioritise the roll-out of the **infrastructural elements** of the **national development plan**, while preserving **budgetary stability**, and pursue policy measures to **raise the level of R&D**.	3. Prioritise the roll-out of the **infrastructural elements** of the **national development plan**, while preserving **budgetary stability**, and pursue policy measures to **raise the level of R&D**.	No CSR	No CSR	No CSR
	4. **Increase competition in the network industries and in certain sectors of the economy**, such as retail distribution (including the liquor trade), insurance and the professions.	4. **Increase competition in the network industries and in certain sectors of the economy**, such as retail distribution (including the liquor trade), insurance and the	No CSR	No CSR	No CSR

		professions.			
	2003 **Country Specific Recommendations for employment policies**. See p. 5	**2004** **Country Specific Recommendations for employment policies.** See p. 7			
Employment policies	1.Take further comprehensive action to **address regional imbalances in employment, unemployment and job creation**, including through assistance from the Community Structural Funds.	1. **Increase access to active labour market measures** for a larger share of the unemployed and inactive population and ensure their **effectiveness**.			
	2. **Increase in-company training** and expedite the implementation of a **coherent lifelong learning strategy**, with overall targets. Promote the active involvement of the social partners in pursuing these objectives.	3. Implement a coherent **lifelong learning strategy** to reduce early school leaving and increase **participation in training**, especially for the low-skilled and for older workers.			
	3. Strengthen efforts to **mobilise and integrate** into the labour market **economically inactive people**, in particular women, by continuing to remove tax barriers, increasing the number of **affordable childcare** places and addressing the factors underlying **the gender pay gap**.	2. Increase the **supply and affordability of childcare facilities** and take urgent action to tackle the causes of the **gender pay gap**.			

Summary of IMF assessments on Ireland between 2003 and 2008

IE	IMF Executive Board Conclusions. Article IV Consultation with Ireland					
	2003 **Art. IV Consultation**	**2004** **Art. IV Consultation**	**2005** **Art. IV Consultation**	**2006** **Art. IV Consultation**	**2007** **Art. IV Consultation**	**2008** **Art. IV Consultation**
Public finances and taxation	(...) Since structural revenue could continue to underperform, Directors stressed that spending **should be held to budgeted levels**, and that any revenue shortfalls be offset by restraint with respect to the wage bill and transfers; given the pressing need to invest in infrastructure, **capital spending should be protected**. Barring major adverse shocks to output and employment, the fiscal stance **should**—at a minimum—be neutral in 2004, with no increase in the cyclically-adjusted deficit, and with the automatic stabilizers allowed	Directors concurred that **fiscal policy** has adjusted well to slower medium-term prospects. To avoid a procyclical fiscal policy, they called for a **modest, front-loaded tightening in the structural fiscal balance in the next budget**, in line with the authorities' commitment to achieve a structural balance over the medium term. (...) It will therefore be important to resist political pressures for increased spending as a result of this improvement in public finances, as such an easing would be procyclical, raise inflation, hurt competi-	(...) Directors **called for prudent budget execution** and saving any revenue windfalls in the remainder of 2005, and for underlying fiscal tightening in 2006 (...). In addition, **Directors underscored the importance** of building a fiscal cushion in good times, such as now, in the event that downside risks materialize. If aggregate demand were to weaken abruptly, Directors agreed that automatic stabilizers should be allowed to operate fully and that specific measures to prop up the housing market should be avoided.	While recognizing that Ireland's fiscal position is sound, **most Directors considered that a modest fiscal tightening would be desirable in 2007**, given the strength of domestic demand, potential risks of a hard landing, and the need to prepare for population aging. (...) Directors agreed that improvements in public services remain a key priority, and, in this context, encouraged the authorities to focus on value for money, including by monitoring government outputs and extending multi-year envelopes to current spending. They welcomed the	(...) Directors cautioned **against discretionary measures that would weaken the underlying fiscal position**. They encouraged the authorities to restrain current expenditure growth and to continue to focus on improving the quality of public spending through cost-benefit analysis. They also welcomed the decision to establish a Commission to review the tax system. Over the long term, Directors considered the **projected increase in age-related spending to be the most important fiscal challenge**. They concurred that Ireland is	In 2008, the IMF did not carry out an Art IV consultation for Ireland

	to operate freely.(...) **Authorities should not rely** on continued strong output growth to eliminate the deficit. In the view of most Directors, implementation of moderate contractionary measures once the economic recovery is established, would protect policy credibility and secure the path toward achieving the medium-term objective. (...) Directors observed that **restraining current expenditure was preferable to increasing taxes** as a means to improve the fiscal balances. (...) Directors drew attention to the **considerable improvements to the tax system** made in recent years, which **should be preserved**. Directors considered that the adoption of a **formal medium-**	tiveness, and limit value for money. Directors shared the authorities' view that concerns about the level and **quality of public services and infrastructure** should be addressed by improving delivery rather than by raising tax and expenditure ratios. (...) The new framework should **safeguard capital spending from procyclical pressures, improve planning and predictability, and encourage efficiency.** Given these potential benefits, most Directors saw merit in extending the **multi-year spending envelopes to cover current expenditures, as well.** Directors supported the fundamental reforms begun in the health sector and the modernization of public service delivery, and encouraged a shift in focus	Regarding the composition of fiscal adjustment, Directors **recommended that the growth of current spending be restrained** and that the **tax base be broadened**. Moderating the steep escalation in current spending would limit the risk of inefficiencies. The **tax base could be broadened by limiting property-related capital allowances**, preserving the nominal ceiling on mortgage interest tax relief, and **introducing a property tax**. While the conduct of fiscal policy in Ireland has been laudable over the years, Directors shared the authorities' view that it **would be useful to deepen public understanding of fiscal issues**. As pressures to raise spending are longstanding and could increase, an	authorities' plans to further deepen the public debate on fiscal priorities.	well-placed to meet this challenge, noting that the authorities have been preparing for it, and welcomed the forthcoming Green Paper on Pension Policy. They agreed that a combination of measures is preferable to a policy based solely on increasing social security contribution rates. In this regard, Directors saw **merit in reviewing the state pensionable age and the level of contributions to the National Pensions Reserve Fund, and strengthening incentives for private savings**. They also supported the authorities' commitment to improve public understanding of fiscal challenges.	

	term fiscal framework at the general government level **would improve** transparency and policy predictability. (...) Directors welcomed the planned **multi-year departmental capital spending envelopes**, and recommended extending them to **cover all non-cyclical primary expenditure**, with safeguards to protect capital spending from budget pressures. (...)	across public services from inputs to outputs. (...)	enhanced public debate could help clarify both short- and longer term constraints and requirements.			
Housing and financial markets	(...) Directors stressed the need for **continued supervisory vigilance to ensure the stability of the financial system** (...) Directors encouraged the authorities to **continue strengthening the monitoring of forward-looking systemic risks**.	Directors underscored the **importance of achieving a soft landing of the housing market**, given that recent house price increases continue to exceed medium-term growth prospects. While in the event of an abrupt unwinding of the housing market boom, financial stability would likely not be a concern, Directors cautioned that	(...) Directors (...) **highlighted, in particular, the need to monitor carefully trends in the housing market**, given the high exposure of banks to this market. Directors underscored that **continued supervisory efforts are essential** to limit excessive risk-taking by lenders and borrowers: stress-testing could be enhanced and conduct-	(...)The recent increase in the risk-weighting on high loan-to-value residential mortgages is an important signal of the **need for banks to differentiate between higher- and lower-risk lending within an asset class**. Directors suggested that the Financial Regulator continue to monitor banks' risk management practices, including for commer-	Directors welcomed the indicators confirming the soundness of the Irish banking system, including the stress tests suggesting that cushions are adequate to cover a range of shocks even in the face of large exposures to the property market. Nevertheless, **financial sector vulnerabilities, including those arising from high household indebtedness and**	

		the impact of such an unwinding on employment and private consumption could be significant. They therefore (...) encouraged further efforts to increase borrower and lender awareness of the prospects for interest rate increases and their implications for debt-servicing costs. (...) Steps, which the authorities were advised to consider in a medium-term context, included removing the interest-deductibility of mortgage payments on primary dwellings, and introducing a market-value-based wealth tax on property, graduated to tax second homes at higher rates. (...)	ed more frequently, credit standards could be strengthened, and interim updates to the *Financial Stability Report* could be prepared. Directors welcomed the FSAP update planned for 2006. (...) In the **banking system**, codes of conduct to promote competition could usefully be extended, with the eventual objective of removing the regulation of certain fees. In the **non-life insurance sector**, greater disclosure of aggregate information on claims histories would be desirable.	cial property lending. Going forward, they called for **continued updating of the stress-testing framework, and further strengthening of the regulatory and supervisory framework, especially for insurance**.	**rising interest rates, require continued supervisory vigilance**. In this context, Directors commended the progress in implementing the recommendations of the 2006 Financial Sector Assessment Program update. **They called for continued careful monitoring of banks' risk management practices, including those pertaining to commercial property lending**. Directors supported the envisaged upgrading of the stress-testing framework and the commitment to continue to improve supervision.	
Competiveness and structural reforms	(...) Directors emphasized that wage growth must moderate in order to **preserve external competitiveness and avoid risks to output and employ-**	(...) Directors concurred that **safeguarding competitiveness should be a key priority** of Ireland's economic policy and social partnership. (...) agreed in-	(...) With the slowdown in productivity growth and the entrenchment of low and stable inflation, Directors **recommended that wage increases under the**	Directors considered that continued wage moderation and labor market flexibility are essential to **support competitiveness**. The implementation of the new social partnership	Directors stressed that **preserving and enhancing Ireland's external competitiveness will be key to underpinning future growth prospects**. To this end,	

	ment. They (...) emphasized that the **wage norm** for the agreement's second phase would need to reflect closely changes in productivity and economic conditions. (...)Directors **noted the importance** of having substantive and publicly verifiable evidence of productivity improvements (...). They suggested that the **compensation system for public pay** be based on private sector comparators, and that merit and skill differences be taken into account. Directors agreed that **enhancing competition and lowering regulatory obstacles will be important** for sustaining medium-term productivity and income growth. **Regulatory reform** should be oriented firmly toward serving **consumer welfare**.	creases do not take into account past erosions in the level of competitiveness or the risks of further euro appreciation. To address this potential source of vulnerability, **Directors called for an extended period of wage restraint** as well as for increased wage flexibility within the social partnership. Directors also **noted that improving domestic competition**, especially in the services sector, **would help** to contain input costs in the export sector.	**forthcoming national wage agreement and the next public sector benchmarking exercise be moderate.** In addition, Directors noted that the **wage agreement needs to preserve flexibility**, given differential productivity developments across firms, and that the next benchmarking exercise should be as transparent as possible, continue to promote verifiable modernization in the public sector, and avoid putting upward pressure on wages elsewhere in the economy. Directors agreed that strengthening **competition in the domestic economy** is crucial to maintaining strong productivity growth and external competitiveness. (...) **Better regulation** is (...) needed in	agreement should continue to allow **flexibility in wage increases** at the firm level and minimize the increase in the restrictiveness of **employment protection legislation**.	wages should continue to grow in line with productivity, and increases in global energy prices and mortgage costs should not be allowed to feed into wage growth. Directors recommended that both the implementation of the current social partnership agreement and the forthcoming public sector pay benchmarking exercise avoid adding to **wage pressures**. Directors underlined the importance of **labor market flexibility in facilitating adjustment to the cooling housing market**.	

	(...) They also welcomed the Competition Authority's scrutiny of restrictive practices in services, and **encouraged** the government to address the issues identified.		retail and professional services to stimulate competition and reduce prices.			
Statistics	Directors noted the progress made in the **provision of statistics**, and encouraged the authorities to make **further improvements** (...)	Directors encouraged the authorities to continue their efforts on **improving the provision of statistics**.	Directors encouraged the authorities to continue their efforts to improve the **timeliness and reliability of statistics.**	-	**-**	

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