**Speaking Note**

*Introduction*

Ladies and gentlemen, it is my pleasure to join you today to exchange views on the Country Report for Ireland.

This is the third time you have given me the opportunity to address this Committee. Last year you invited me to present the Country Specific Recommendations adopted by the Council for Ireland.

The Country Report for Ireland was published by the Commission on 27 February, together with the Country reports of the other Member States. The Commission also adopted a Communication summarising the main findings in the 28 reports.

Let me recall you that the Country Reports are mid-way in the cycle of the European Semester. As you know, the European Semester is the process within which Member States coordinate their economic policies.

The current cycle started on 21 November last year with the adoption by the Commission of the Annual Growth Survey, the Alert Mechanism Report, the Draft Joint Employment Report and the recommendations for
the euro area [For your convenience, we have distributed a few slides supporting this presentation. The European Semester cycle is showed in Figure 1].

I do not propose to go through the figure, as I did last year, but I can come back if needed during the question/answer session.

After publishing the report, we open the dialogue phase with the authorities and the stakeholders in order to prepare the Country Specific Recommendations of this year, 2019. My presence here today is part of this dialogue phase.

Before summarising the findings in the Country Report for Ireland, let me highlight a distinctive feature of the current European Semester cycle:

The current European Semester cycle runs in parallel with the negotiations of the Multiannual Financial Framework for the period 2021-2027. As you know, this is the moment when the EU establishes the public investment priorities for the coming ten years.

This is the reason why the Commission considers this as an opportunity to reinforce the synergies between economic policy coordination within the European Semester and the allocation of EU funds.

This year, the European Semester is putting a particularly strong focus on identifying and prioritising national and regional investment needs to guide the programming of Cohesion Policy projects.

In practical terms this means that all Country Reports have included a specific annex on investment areas that the Commission considers a priority for the European Regional Development Fund and the European Social Fund Plus over the period 2021-2027.
This annex will serve as a basis for the dialogue between Member States and the Commission services in view of programming these funds.

In this regard, I am happy to announce that my colleagues responsible for regional and social funds are coming to Dublin on 20 March to present this Annex D to Irish stakeholders.

But the analysis of investment needs is not just confined to this annex. The Commission has identified as well the priority areas for public and private investment, which underpin inclusive and sustainable economic growth and intense job creation.

Let me finish this introduction by confirming that this is not the only event to discuss the findings in the Country Reports with authorities and social and economic stakeholders in this dialogue. I, myself, will have the pleasure to meet many stakeholders tomorrow when a Commission team will present the findings of the Country report in the European Commission Representation for Ireland.

**Main findings of the Country Report for Ireland**

Let me now turn to the main findings of the Report for Ireland.

As with past editions, the Report provides an analysis of the economic and social situation in Ireland.

Starting with the **macroeconomic framework**, I would like to emphasise that the current economic policy coordination cycle takes place in a context of sustained but less dynamic economic growth in Europe. Although the European economy is expected to grow for the seventh
year in a row in 2019, the pace of growth is projected to moderate and the outlook is subject to large uncertainty.

**Ireland is not an exception.** Economic growth in Ireland was robust in 2018 supported by strong labour market developments and construction investment. However, real GDP growth is forecast to moderate in 2019 and 2020, although compared to many other Member States it will remain solid [You can find the growth profile and composition in Figure 2].

This benign outlook is clouded by heightened uncertainty mostly related to external factors such as the terms of the UK’s withdrawal from the European Union and changes to the international taxation and trade environment.

Since I have mentioned Brexit, let me highlight that the publication of the Country Reports occurred this year just 30 days ahead of the deadline for the UK’s withdrawal from the EU. Despite the closeness of the deadline, the terms of UK’s future relations with the EU were uncertain at the moment of preparing and publishing the report. This again led us to avoid speculations in the Report about possible scenarios and, instead, use a technical assumption of status quo in terms of trading relations between the EU and the UK.

[The vote yesterday at the British Parliament …]
Labour market outcomes remain favourable, with the unemployment rate approaching pre-crisis levels. However, as the labour market tightens, skills shortages are becoming increasingly apparent in fast growing sectors, most notably for information and communication technology, construction and property professionals.

Against this background, wage growth is picking up. This could be a sign of an economy operating at its potential. This is the reason why we have indicated that the Irish economy could show some signs of overheating. In this context, it is worth highlighting the relatively low rate of labour market participation, notably by women, which shows the existence of under-used human capacity.

Moving to a more detailed summary of main findings, I would like to recall that within of the Macroeconomic Imbalances Procedure, Ireland was identified last year as recording macroeconomic imbalances, although they were not considered as excessive.

As has been the case of the other Member States where the possible existence or risks of macroeconomic imbalances were identified in the Alert Mechanism Report, the report for Ireland undertakes an in-depth review of possible macroeconomic imbalances. [Figure 3 summaries the results of the review for all Member States]

The Report finds that Ireland continues to face macroeconomic imbalances related to large stocks of private and public debt and net external liabilities. Challenges remain despite notable improvements on the back of robust economic growth and policy action.
In particular, public debt relative to GDP is diminishing, but remains vulnerable to unfavourable shocks. In addition, as also highlighted by this Committee in the recent Post-Budget Report, the reliance on potentially volatile revenue and recurrent over-spending in health care put the long-term sustainability of public finances at risk.

In this context of a strong cyclical position, better-than-expected tax revenue intakes provide an opportunity for accelerating debt reduction and building up buffers against adverse future shocks.

Private indebtedness is further reducing, with the private debt to GDP ratio being below the macroeconomic imbalance procedure threshold when we discount the effects of multinational corporations. However, household debt relative to gross disposable income continues to be among the highest in the European Union. This makes Irish households vulnerable to negative income shocks. [Figure 4 provides information on private indebtedness, its evolution and composition.]

Vulnerabilities in the financial sector are declining. Domestic banks have reduced non-performing loans significantly. This reduction has taken place through portfolio sales and restructuring activities. Banks have also remained profitable and well-capitalised. Although these findings are positive, the report also concludes that long-term arrears continue to be relatively high. More than half of total non-performing loans have been in arrears for more than two years and relate to mortgages.

The net international investment position of the country, although highly negative, continues to improve. To what extent this points to a vulnerability is difficult to determine. The investment position of Ireland is strongly influenced by the presence of multinational companies and the
International Financial Services Centre. In such a case, the possible vulnerabilities would not strongly affect the domestic sector.

In the area of housing, we observe that the broad range of measures implemented by the government to tackle the undersupply of housing are bearing fruit. Housing supply is rapidly recovering although it is true that from low levels and still falling short of demand. As a result, house price inflation remains high, but it has recently moderated.

Where investment is concerned, let me summarise the main investment priorities identified in the report. The report concludes that more investment in research and development, skills and digitalisation would address the lagging productivity of domestic firms. It could also address the sizeable regional differences in competitiveness, productivity and skilled labour that exist in Ireland, mostly due to the concentration of multinationals around Dublin.

In addition, more investment in clean energy, transport, water, broadband and housing as well as to decarbonise sectors with high emissions could foster sustainable growth. Decarbonisation is important, not only for its environmental benefits but also because a lack of action could involve costs “in the billions” by 2030.

In general, but also in the context of Brexit, the report considers that Ireland could benefit from diversifying its maritime transport and energy connections with continental Europe.

Last but not least, access to employment for all jobseekers could foster inclusive growth. Here, the lack of sufficient affordable childcare is weighing on women’s labour market participation. In addition, rising homelessness requires continued attention.
It is worth emphasising that the National Development Plan addresses many of these investment needs by increasing the capital investment effort to EUR 116 billion over 2018-2027.

Moreover, the announced Future Jobs Programme may help increase the productivity of small and medium-sized enterprises.

Yet, incentivising private investment in areas such as clean energy, transport, housing and skills remains a challenge.

This concludes the assessment of the economic and social situation in Ireland. The Report also includes the customary assessment of the progress on implementing the Country specific recommendations. The conclusion is that some progress has been made.

**Conclusions**

To sum up, the economic outlook for Ireland remains positive, but it is clouded by heightened external risks.

The implemented structural reforms oriented towards enhancing the resilience of the Irish financial system and the rainy-day fund may provide a buffer to future external shocks.

However, the strong dependence on the activities of a limited number of multinational firms, the efficiency of health care expenditure and closing remaining investment gaps remain challenges.

To conclude, let me recall that the publication of the Country Reports marks the start of the dialogue between Commission and Member States on policy options to address identified challenges. I am therefore very interested to hear your views on our new Report for Ireland. Of course, my colleagues and I are ready to answer any question you may have.
Annex

Figure 1: European Semester Cycle
Figure 2: Real GDP growth and contributions
Figure 3: Macroeconomic Imbalance Procedure
Figure 4: Private indebtedness