Ladies and gentlemen,

It is a pleasure to be in Dublin today to present the first set of country-specific recommendations to be adopted the Commission led by President Jean-Claude Juncker.

The pleasure is made all the greater as a result of the atmosphere of hope and renewal that one senses in Ireland, after years of difficult but necessary reforms.

A clear sign that things have turned for the better is that Ireland was the fastestgrowing economy in the EU in 2014 and is on track to remain in that position in 2015 and 2016. Real GDP is expected to surpass pre-crisis levels this year already. This rebound is truly remarkable and is tangible proof that adjustment and reforms do pay off when they are carefully designed, and when there is a strong sense of national ownership. A common understanding that adjustment and reforms may be painful in the short term but necessary and beneficial in the medium-term is, by experience, the most important element that determines success.

Still, not everyone is yet feeling the benefits of the ongoing recovery to a sufficient extent, in particular those who were most affected by the crisis. Although the unemployment rate dropped from more than 15% in 2011 and 2012 to about 10% currently, too many people remain unemployed or live in precarious conditions, or bear the burden of high debts. The positive developments of late should therefore not lead to a sense of complacency. Major battles have been won, but it would be premature to say "mission accomplished". In spite of the undeniable and remarkable progress made so far, important challenges remain concerning public finances, the financial sector and structural reforms.

Some people may think that those challenges are merely legacy issues, shadows from the past. However, it would be wrong and risky to ignore the legacies of the crisis, notably the high private and public debt. These legacies make Ireland vulnerable to external shocks. And as a small and extremely open economy Ireland is more exposed to external developments, both positive and negative. The ongoing brisk economic recovery provides an ideal opportunity to complete the adjustment process.

It is in this context that the Commission has put forward its country-specific recommendations to Ireland for 2015 and 2016. Such recommendations have been addressed to EU Member States as part of the European Semester of economic policy coordination since 2011 in an effort to promote growth and job creation. The first full set of country- specific recommendations was addressed to Ireland only last year after it had successfully exited from the programme. Seven recommendations were made last year, covering areas such as fiscal policy, financial sector reforms, the labour market, healthcare and legal services. The recommendations very much reflected continuity after programme completion. While the programme was completed with flying colours, it was clear that the adjustment process had to continue in view of the sheer size of the economic imbalances accumulated in the pre-crisis years.

This year, the Juncker Commission was determined to streamline the European Semester process and the country-specific recommendations. The purpose was to focus minds and energies on the EU's three key economic policy priorities, namely:

- A coordinated boost to investment
- A renewed commitment to structural reforms; and
- Pursuing fiscal responsibility.

This streamlined and focused approach means that the Commission has reduced the number of recommendations for all Member States. We have also made the recommendations themselves shorter and more pointed, while leaving it to Member States to determine concrete implementing plans.

In the case of Ireland, this new approach means that the Commission has put forward four country-specific recommendations for adoption by the Council, three fewer than last year. The four areas for which recommendations are issued are:

- Fiscal policy and taxation;
- Healthcare reforms;
- Work intensity of households and child poverty risks; and
- Banking sector reforms, in particular relating to non-performing loans.

The first question you might legitimately ask is how the Commission selected these four areas, and why issues that were covered last year are no longer subject to recommendations. The analytical underpinnings are provided in the Country Report we published on February 26th. This report took a broad view of the challenges faced by Ireland not only from a macro-economic perspective, but also in terms of structural and social issues. It concluded that Ireland had made progress in addressing past imbalances and preparing the ground for a sustainable recovery. But it also highlighted remaining weaknesses.

Let me then first explain what the 2015 recommendations are before turning to the areas that have been streamlined.

First, on fiscal policy and taxation. This recommendation focuses on three components with a common goal: ensuring that fiscal policy is sustainable and geared towards promoting balanced growth and job creation.

The first component calls on Ireland to continue adhering strictly to EU fiscal rules in 2016, in particular as it prepares to exit the corrective arm of the Stability and Growth Pact and enters its preventive arm. Converging to the objective of a balanced government budget by 2018 in structural terms is the best way to secure the hard-fought gains achieved so far. As mentioned before, the high level of public debt, a legacy of the crisis, means that Ireland remains vulnerable to shocks. For this reason, the recommendation calls on Ireland to avail of opportunities provided by the strong macro-economic environment to accelerate deficit and debt reduction.

The second component calls on Ireland to further broaden its tax base and review tax expenditures, but without calling for an increase in taxation. The purpose is to ensure that Ireland avoids the pitfalls of the past, where extremely pro-cyclical tax revenues proved to be a key element in the fiscal crisis.

The third component also seeks to avoid a repetition of past mistakes resulting in pro-cyclical policies. Limiting discretionary powers to change expenditure ceilings beyond specific and pre-defined contingencies is needed to ensure the soundness of medium-term budget planning. We are not proposing that Ireland to stick to expenditure plans no matter what. In line with common practice prevailing in other EU countries, we are recommending that expenditure plans be changed only in truly exceptional circumstances.

Second, on healthcare reforms. The evidence from the past few years indicates that Ireland faces challenges in delivering healthcare cost-effectively. Budget overruns have occurred systematically over the past few years, and pressures continue to build up. Public expenditure on healthcare is comparatively high among EU countries even though population health outcomes are by and large no better.

Some efficiency gains have been achieved in the past few years, but the challenges remain significant. At this stage, the low-hanging fruits have already been picked, and deeper structural reforms are necessary in order to provide quality healthcare to the population at an affordable cost to society. This challenge is made all the more significant as Ireland currently has a rather favourable demographic profile. In future, an ageing population will generate additional cost pressures.

Without seeking to be exhaustive, the recommendation therefore indicates areas where cost effectiveness can be improved. This includes public spending on patented medicines, whose prices are well above the EU average.

Third, on the work intensity of households and child poverty risks. Regardless of the indicators used, Ireland is among the countries in the EU with the highest proportion of people living in low work intensity households. This is only in part a legacy of the crisis and it generates grave social challenges and raises the risk of child poverty. Low work intensity is also particularly severe among single adult households with children.

Given the importance of the issue, the recommendation calls on Ireland to act on two key strands of reforms. The first is to ensure that work always pays and that remaining disincentives to take up a job are eliminated by the tapered withdrawal of benefits and supplementary payments upon return to employment. The second is to improve access to affordable childcare, an indicator on which Ireland lags far behind most OECD countries.

Our fourth recommendation is on banking sector reforms. Ireland has come a long way in restructuring, downsizing and recapitalising its domestic banks already. It is not by chance that the government is now setting its sights on selling its remaining stakes in the banks. The disposals, when they take place, will enable Ireland to significantly reduce its public debt. They will also sharply reduce the final cost of the support measures that were necessary to address the banking sector crisis.

In spite of the impressive progress achieved so far, legacy challenges remain important. Non-performing loans still represent about 23% of the total. This is one of the highest rates in the EU. It is also an impediment to the capacity of banks to support the economic recovery.

As a result, the Commission continues to stress that further progress is needed in reducing non-performing loans. This is the case both in terms of mortgages in arrears and in terms of the non-performing loans of SMEs.

Our recommendation addresses these two types of loan books. It is critical that sustainable solutions are reached between debtors and creditors. Restructurings should be such that loans do not fall back into arrears, and it will fall upon the Central Bank of Ireland to monitor the sustainability or conclude resolutions.

Poor lending practices and insufficient record-keeping and exchanges of information set the stage for the banking crisis. A central credit register is a key tool to ensure adequate supervision, credit underwriting and risk management. Yet and progress towards its establishment has been slow. The Commission therefore again calls on Ireland to make progress on this all-important initiative and to take the necessary steps to ensure that the register is operational by 2016.

Finally, let me also say a few words on the areas that were subject to country specific recommendations in 2014 but not this year. Does it mean that the Commission is fully satisfied with the progress made in implementing these recommendations over the past year? Does it mean that the Commission no longer sees these issues as relevant for Ireland? The answer of course is that they are still relevant, very much so.

In the area of labour market reforms, there is no denying that efforts under *Pathways to Work* and the *Action Plan for Jobs* have paid off. The unemployment rate has fallen from its peak of about 15% in late 2012 to 10% today on the back of rising private sector employment. This is a major achievement. But of course there is much more to do on this front especially in view of the Government's goal of increasing total employment to 2.1 million by 2018.

A number of important initiatives are continuing, not least of which is the forthcoming contracting out of employment support services to private providers under the *JobPath* initiative. Continued progress is also critical in making sure that further education and training programmes are fit for purpose and respond to the needs of an evolving economy. We recognise this and will continue to monitor progress in the context of the European Semester.

Similarly, while the authorities have put in place major initiatives recently to improve SME access to finance, credit to SMEs remains subdued. This is no doubt in part due to the still muted demand for credit, but in the coming months and year, it will be necessary to assess whether the new instruments effectively address the financing challenges that SMEs are confronted with. In particular, the promotion of long-term funding products for investment and the development of non-bank financing, including equity, will be critical elements in the success of the new institutions. Take-up will be a good gauge of success. Once again, the Commission will continue to monitor progress in the context of the European Semester.

As part of the programme of financial assistance, Ireland committed to reforming the regulatory framework for legal services in order to reduce costs. The Legal Services Regulation Bill was indeed published in 2011, but the Commission indicated on

numerous occasions that progress towards enactment was frustratingly slow. Although the Bill is still to be enacted, it cleared an important hurdle in April by being sent to the Seanad. Further amendments are anticipated, but we are encouraged by the authorities' indications that enactment is now within reach, and we trust that there will be a rapid conclusion to the legislative process.

The Commission views enactment of the Bill as an important first step towards the reduction of high legal services costs, which make it more expensive to do business in Ireland and are a burden on all citizens. The Commission will therefore continue to closely monitor progress in the context of the European Semester, as well as under Post-Programme Surveillance, given that the reform of legal services had been part of the programme commitments.

To conclude, let me briefly indicate what the next steps are. The recommendations will be discussed among Member States in the next few weeks before their adoption by the Council before the summer.

Ireland has in the past demonstrated its determination to advance important reforms, including in the context of the financial assistance programme. It has also shown its determination in coordinating economic policies at the EU level, including in the context of the Stability and Growth Pact and the European Semester. This bodes well for the implementation of the 2015 recommendations.

As I indicated already, the Commission will monitor progress on an ongoing basis as part of the European Semester cycle. In February 2015, the Commission also concluded that Ireland continued to experience macroeconomic imbalances that require specific monitoring and decisive policy action. As a result, progress in implementing the recommendations on fiscal policy and taxation and banking sector reforms will also be monitored as part of semi-annual post programme surveillance missions.

I have focused my remarks on our recommendations for Ireland, and our recommendations by definition on what remains to be done to boost jobs and growth and ensure financial stability. But this should not dilute the first message I have delivered here today, which is that Ireland's recovery is a truly remarkable achievement, and one of which this country can feel proud. The Commission's role is to support Ireland in its efforts to ensure that this recovery is as broad-based and durable as possible, and that its benefits are felt by all Irish citizens.

I thank you very much for your attention.

End of speech