2014 ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Governor's Statement No. 16

October 10, 2014

Statement by the Hon. **PATRICK HONOHAN,**
Alternate Governor of the Fund for **IRELAND**

Statement by Mr. Patrick Honohan,

Alternate Governor for Ireland of the International Monetary Fund

Annual Meetings 2014

I welcome the opportunity to make this statement to the IMF-World Bank Annual Meetings on behalf of the Government of Ireland.

During the past year, both developed and developing countries continued to respond to the aftermath of the global financial crisis while also striving to develop paths towards renewed economic growth and employment. In line with their respective mandates, the IMF and World Bank continued to support members to move forward from the difficulties of recent years and to rebuild economic and financial capacity. At the same time, both institutions strived to review and reform their structures and processes to ensure as far as possible that they can respond to evolving needs and challenges across a wide policy spectrum.

The issues highlighted in the flagship publications of the IMF and World Bank illustrate the value of concerted global action and the commitment of both institutions to developing integrated policy approaches alongside the work of other international financial institutions. As always, the Annual Meetings are an important milestone in advancing consideration of global economic and financial challenges and provide an invaluable opportunity for an exchange of views on critical issues for the global economy and for the Fund and Bank membership.

Irish Economic Developments

I would like to provide a brief update on developments in the Irish economy. The Irish economy is emerging from the crisis and there are clears signs that economic recovery is underway. GDP growth of 0.2 per cent was recorded last year and data for the first half of this year were very strong and were well ahead of consensus expectations. The increase in economic activity is broadly-based with both domestic sectors and exporting sectors performing strongly. Although below our domestic forecasts, we welcome the WEO's projection of 3.6 per cent GDP growth in Ireland for 2014.

Labour market recovery is clearly underway. Employment has increased in each of the last seven quarters representing an increase of over 70,000 jobs since the low-point in mid-2012. This reflects recovery of almost a quarter of jobs lost since the crisis. In line with this, the unemployment rate stood at 11.1 per cent in September, down from a peak of 15.1 per cent in early 2012. While this is still unacceptably high, it is certainly moving in the right direction.

Domestic demand has stabilised and is showing encouraging signs of growth. Consumer spending is improving as confidence returns, while firms are investing in plant and machinery once again.

Due to its relatively small domestic market, Ireland's growth model must be export oriented. Exports are expected to gain ground this year as demand in Ireland's main export markets, particularly the UK, continues to hold up. In addition, on the basis of the latest trends, the impact of patent expiry in the pharmaceutical sector appears to have passed.

In relation to the public finances, following a very difficult period, there are continued encouraging signs that the position is moving in the right direction. Targets to reduce the underlying General Government deficit have been over achieved to date. Reflecting the continued prudent budgetary stance, the General Government deficit for 2014 is now likely to be of the order of 3.5% of GDP down from 8 per cent of GDP in 2012. The size of the consolidation undertaken has been of the order of 18 per cent of GDP since 2008.

Ireland emerged successfully and on schedule from the EU/IMF programme at the end of 2013 and, in 2014, has returned to participating normally in the sovereign debt markets. Our successful exit was based on a number of factors – both domestic and international – including the Government's steadfast delivery on its programme commitments, the extension of the maturities on the European portion of our programme loans, and the interventions by the ECB to calm the wider euro crisis.

We have moved from the opportunistic and syndicated issuance which characterised our initial return to the markets to a series of scheduled bond auctions, marking the final step in achieving normal bond market access.

Ireland has regained investment-grade status with all of the main debt rating agencies. The improvements in the debt ratings are indicative of sustained progress and of the Government's ongoing commitment to correcting the deficit in the public finances.

Irish Banking Sector Developments

Substantial progress has now been made towards restoration of the normalisation of our banking sector. A few milestone achievements are worth reflecting on in this regard. Last year the Government replaced the Promissory Notes in Irish Bank Resolution Corporation (IBRC) with a portfolio of mixed maturity Government bonds. This resulted in the elimination of Exceptional Liquidity Assistance (ELA) funding from the banking system and the liquidation of IBRC which has progressed exceptionally well. In addition to that landmark transaction, the State has withdrawn the liabilities guarantee scheme, has disposed of various investments in Bank of Ireland, and sold Irish Life.

The State continues to maintain a keen interest in banking sector developments, not only from a policy perspective, but also in terms of its majority ownership of both AIB and PTSB and its significant shareholding in Bank of Ireland. The latest results posted by AIB and BOI show a return to profitability as a result of margin improvement, cost reduction, asset value recovery, and improved funding conditions. Both banks now enjoy a surplus capital position. PTSB is now close to break-even on a pre-provision basis. Additionally, credit union deposits have stabilised and are now growing again. It is also important to note that NAMA, the entity established to acquire loans linked to land and development from a number of institutions, continues to play a major role in our economic recovery and is now expected to complete its work two years ahead of schedule and deliver a profit.

Despite these milestone achievements and the banks' much improved financial performance we are very conscious that more work needs to be done to achieve a fully normalised banking sector. While mortgage arrears are now declining much restructuring work remains to be done. Indeed the quantum of non-performing loans in the sector, while reducing, is still an issue – though the improved macroeconomic environment will provide much support in that regard. Notwithstanding these further required improvements we are very confident that the banking sector will continue to move in the right direction and will continue to support economic recovery.

Establishment of the Strategic Banking Corporation of Ireland

The recently established Strategic Banking Corporation of Ireland (SBCI) will be formally launched at the end of October 2014.

The SBCI will facilitate lending to SMEs in Ireland. It will emulate the successful models of other public financial institutions by operating a wholesale lending operation providing its funds through financial intermediaries who will borrow from the SBCI and fund SMEs directly.

The SBCI is being funded by a mix of funding provided by Germany's KfW, the European Investment Bank and Ireland's own National Pension Reserve Fund and will channel funding to SMEs in product ranges and at attractive rates designed to suit the needs of the SMEs. It is envisaged that the SBCI will increase the types of funding available and the number of providers of funding to the real economy thereby having the potential to play a critical role in improving competition in the Irish banking sector.

Macro Prudential issues

The Central Bank of Ireland has recently published a macro-prudential policy framework for Ireland and a consultation paper on proposed new rules for the multiples that banks could be expected to apply when issuing home loans from January 1, 2015. No more than 15 per cent of the value of new mortgages for private dwelling homes (PDHs) should have a loan to value (LTV) ratio above 80 per cent. In addition, new lending above 3.5 times loan to income (LTI) is being restricted to no more than 20 per cent of the value of all new PDH loans. In the case of buy-to-let properties, no more than 10 per cent of the value of all new loans should have a LTV above 70 per cent. These measures have been carefully considered and, taking past experience into account, are being introduced at an appropriate time to ensure borrowers and lenders can withstand potential economic or property market shocks in the future without financial distress.

IMF issues

Turning to matters related specifically to these meetings, I applaud the IMF's continued important role in safeguarding financial stability and in supporting a coherent policy framework in an increasingly interconnected world. Its work on surveillance, spillovers and financial stability, as evidence by its flagship reports, makes clear the importance of dialogue between policymakers in order to minimize unintended distortions arising from policy initiatives. The IMF's focus on policies that support growth and jobs is the correct one as this is where the success or failure of policy efforts will be seen by all.

Against the background of an uneven recovery, with slower-than-expected growth, the key messages from the Fund revolve around the importance of implementing growth- friendly policies and macro-critical structural reforms; advancing measures designed to boost actual and potential economic growth; promoting appropriate regulation and vigilant financial sector supervision; and enhancing dialogue and international cooperation to support coherence across the policy spectrum. The IMF is actively supporting members in their pursuit of such policy objectives, for example, by providing resources where needed for lending and capacity building; by strengthening its surveillance activities; and by providing comprehensive policy advice and analysis in the above mentioned areas.

Turning towards governance, Ireland, along with other EU states, sees the implementation of the 2010 Quota and Governance reforms as vital for the Fund's financial strength, its legitimacy and credibility. We encourage members that have not yet ratified the reforms to do so as soon as possible. We also support further progress on the 15th General review of Quotas and consider that, given the IMF's mandate and particularly its increasing focus on spillovers and interconnectedness, there should be a continued strong role for the openness variable in the quota formula.

Early repayment of IMF loans

Notwithstanding the positive developments I have already outlined, Ireland's debt level remains high at an estimated 123% of GDP in 2013. This includes programme borrowings from the IMF of €22.5bn. There is scope for Ireland to improve its debt sustainability by replacing up to €18.3 billion of its IMF loans subject to the highest rate of charge with cheaper market based funding. Ireland has therefore developed a proposal on early repayment with which to avail of the current favourable market conditions. We welcome the IMF's support for this proposal. It has also received broad political support at European level, but this is subject to necessary national approval procedures. Early repayment will reduce the level of IMF resources allocated to the EU, thereby releasing them to meet other IMF lending priorities. Successfully replacing programme funding with market funding will improve Ireland's debt sustainability and would be a further step towards post financial crisis normalisation, for both Ireland and the EU.

World Bank Issues

Turning to World Bank issues, Ireland welcomes the World Bank Group's continued efforts in working side-by-side with developing countries and indeed all those countries which are dealing with significant challenges. The past year has shown that the global landscape is an unpredictable one – as seen more recently with the Ebola crisis in West Africa - and the events which cross our paths must be faced together and with resilience.

Ireland continues to support the World Bank as it makes the transition to become 'One World Bank Group' and a 'solutions Bank' as part of the new World Bank Group Strategy which was launch by President Kim at the 2013 Annual Meetings. Creating synergies among the five World Bank Group institutions and building on their comparative strengths should enable the Group to be more responsive and to deliver 'total development solutions'. The change process associated with this significant organisational realignment requires effective management so that it creates the vision which has been outlined; and like any strategy it requires careful implementation so that it delivers the expected outcomes.

Development Issues

In the development area, Ireland attaches the highest priority to the achievement of the MDGs and fully supports that the Post 2015 Agenda should finish the work of the MDGs by eradicating extreme poverty and tackling new and emerging global challenges. Ireland's priorities for the Post-2015 Development Agenda are drawn from our Policy for International Development, 'One World, One Future' and include highlighting the linkages between the issues of hunger, nutrition and climate change; and forging stronger links between emergency humanitarian relief and long term development aid. Under the post-2015 process, the Third International Conference on Financing for Development in 2015 will be crucial in examining all financing options for developing countries. Ireland will play its full role in working for the success of this crucially important meeting and encourages the World Bank and the IMF to actively engage in this process.

Ireland remains very concerned about the human and economic impact of the Ebola crisis. Ireland is working directly in Sierra Leone and Liberia and internationally on a comprehensive and effective response to the appalling Ebola epidemic in West Africa and has provided significant financial resources and humanitarian supplies to the countries affected. In this regard we strongly welcome the World Bank's "Ebola Emergency Response Project" assisting the countries most affected.

Ireland continues to enhance its economic relationship with Africa and we are very pleased to host shortly the fourth Africa Ireland Economic Forum (AIEF), to be held in Dublin at the end of October 2014. The Forum will be hosted by the Department of Foreign Affairs and Trade, the UCD Michael Smurfit Graduate Business School and the African Embassies in Dublin. AIEF has become Ireland's largest annual Africa-focused economic event. It provides a platform for discussion of emerging opportunities for trade and investment with and in Africa and will present a range of African and Irish keynote speakers, as well as networking opportunities for African and Irish delegates.

Conclusion

Developments in the global economy continue to underline the pivotal role of institutions such as the IMF and the World Bank. Ireland will continue to work to help ensure that both institutions are well placed to respond to ongoing and emerging challenges in the most effective way.