**International Monetary Fund**

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# **Ireland:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 10, 2012

> The following item is a Letter of Intent of the government of Ireland, which describes the policies that Ireland intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Ireland, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

**Ireland: Letter of Intent**

Dublin, 10 February 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The Irish Government remains firmly committed to the Programme, as illustrated by our continued strong implementation. All programme targets have been met or exceeded. This performance is all the more noteworthy against the background of a more challenging external outlook, resulting mostly from the lingering uncertainty in relation to euro area sovereign debt developments, as witnessed by the recent downgrades of several euro area member states. From this perspective, continued strong implementation of our programme remains essential, as does the commitment of our euro area partners to continue to support Ireland's efforts as long as its adjustment remains on track.

2. Real economic growth resumed last year, with an estimated increase of 1 percent, and, notwithstanding the risks to the forecasts, further positive growth is expected this year. Growth will continue to be export led, and supported by continued strong foreign direct investment and further competitiveness improvements, which will help offset the impact of the slowdown in our export markets. There have also been some positive developments on funding. Yields on Irish Government debt have continued to fall. The benchmark 2016 and 2020 maturities currently yield 5.40 percent and 6.90 percent, respectively. In addition, the National Treasury Management Agency has re-engaged with the bond market and extended some €3.5 billion of debt maturing just after the programme ends. This is a significant first step in terms of managing Ireland's post programme funding requirements. These developments can be directly related to our strong programme implementation. We will nevertheless remain alert to the substantial risks in the international economic environment.

3. Once again, for the fifth quarterly review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets (MEFP Tables 1 and 2):

- We have met the structural benchmarks set for this review. In particular, we have: (i) adopted the 2012 Budget in December last year; (ii) issued guidance to banks for recognition of accounting losses in their loan book; and (iii) finalized the strategy for personal insolvency reform.

- The performance criterion for end-December 2011 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on stock of

Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears has also been met.

4. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our programme supported by the Extended Arrangement and by the EU. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the fifth review under the Extended Arrangement. We also request that the fifth purchase in an amount equivalent to SDR 2.786 billion becomes available at the time of completion of the review.

5. Looking forward, the financing need outlook for the years 2012 and 2013 remains broadly in line with expectations at the fourth programme review. We expect that the current funding of the programme and the phasing—as laid out in the fourth review—will ensure a prudent liquidity position. We therefore propose to leave the phasing unchanged with a total purchasing amount equivalent to SDR 5.493 billion in 2012 and SDR 2.922 billion in 2013.

6. We propose that quantitative performance criteria under the arrangement be established for 30 June 2012, as set out in the attached MEFP. As detailed in the MEFP, we also propose two new structural benchmarks—on the publication of the PCAR 2012 results and the levy on credit institutions—against which to measure progress under the programme (MEFP Table 3). The Technical Memorandum of Understanding (TMU) explains how programme targets are measured. To avoid undue swings in net debt from asset management operations of the NPRF, we are requesting that the adjustor on net debt will include valuation changes and conversion of NPRF non-liquid assets into liquid assets.

7. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, 28 April 2011, 28 July 2011, 28 November 2011, and in this letter are adequate to achieve the objectives of our Programme. At the same time, while we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become appropriate if circumstances change. As is standard under Fund-supported programmes, we will consult with the Fund on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memorandum becomes necessary, and at the same time consult with the European Commission and the ECB.

8. This letter is being copied to Messrs. Draghi, Juncker, Rehn, and Ms. Vestager.

Sincerely,

| | |
|---|---|
| /s/ | /s/ |
| Michael Noonan, T.D. | Patrick Honohan |
| Minister for Finance | Governor of the Central Bank of Ireland |

# Ireland: Memorandum of Economic and Financial Policies

## A. Recent Economic Developments and Outlook

1. **The economic recovery has slowed after solid growth in the first half of 2011.** Led by strong net exports, real GDP rose by ¾ percent in the first three quarters of 2011 on an annual basis. Recent indicators suggest continued softness in domestic demand with GDP growth in 2011 estimated at about 1 percent. The current account is estimated to have remained in a small surplus, and annual HICP inflation averaged about 1¼ percent for 2011. Ireland's bond yields have improved considerably to 6.7% for the 9-year bond in early February 2012 having peaked at 14% in July 2011. Ireland maintained its credit rating amidst downgrades for a number of euro area countries early in 2012, a recognition of our strong programme adherence.

2. **Weak external conditions pose risks in 2012, and to ensure the achievement of programme objectives we will continue to refine the program and maintain our record of strong policy implementation.** Downside risks to Ireland's economic outlook have increased, especially in relation to potential developments in the euro area. While Irish banks made strong progress with the needed deleveraging in 2011, there are signs that increased asset disposals planned by European banks, and limited availability of funding, will impair market conditions going forward. Accordingly, a refinement of the deleveraging framework is needed to minimize risks to core lending and bank funding costs. In addition, technical work on is underway on potential approaches to reinforce the prospects for the government and banks to regain market access.

## B. Financial Sector Policies

3. **We will continue to press forward with reforms to restore the health of the Irish financial system and address the challenges remaining.** Bank recapitalization is largely completed and our front-loaded deleveraging programme met its 2011 targets. Looking ahead, we remain firmly committed to the goal of our Financial Measures Programme to restore the banks' long-term viability, and will continue to refine its implementation as needed based on experience and to adapt to external risks.

### *Bank deleveraging, resilience, and transparency*

4. **Major progress in downsizing our banking system was made in 2011, and we are working to refine the deleveraging framework to minimize risks to lending to the economy and discourage excessive competition for deposits.** We have put in place a framework including governance structures to complete the targeted €70 billion bank deleveraging by end 2013, of which €34 billion of assets are slated for disposal. The two pillar banks met the 2011 deleveraging targets with almost €15 billion of these assets sold at significantly better pricing than anticipated in the PCAR/PLAR 2011 exercise. Total

deleveraging achieved across banks covered by the ELG and the IBRC was €40.5 billion through end November 2011 against full year 2011 expected deleveraging of €34.7 billion. Based on experience, we are working to refine our deleveraging framework, with more emphasis on the net stable funding ratio for the banks' core balance sheets as we move towards adoption of the Basel III liquidity requirements. The revised framework is intended to become effective after end-June 2012. In the period until end-June 2012, the target for non-core asset disposal will be defined solely in nominal terms, with no interim target with respect to the loan-to-deposit ratio.

5. **For PCAR 2012, we plan to maintain the distinctive rigor and standards of PCAR 2011, especially the independent loan loss forecasts, while aiming to align its timing with the EBA's EU-wide stress test**. In preparation for PCAR 2012 for AIB, BoI and IL&P we will by end June 2012: (i) perform an asset quality review of Irish banks' portfolios using an independent advisor; (ii) validate bank data to ensure consistency (iii) review provisioning, income and loan impairment recognition practices; and (iv) engage with the banks on their loan portfolio resolution strategies and systems. The authorities will agree with the staff of the European Commission, IMF and ECB on the specific features of the methodology for the PCAR 2012 exercise not later than end September 2012. In addition, and as part of the PCAR 2012, we will complete the assessment of banks' approaches to the risk weighting of assets. PCAR 2012 results will ideally be published in coordination with EBA and in any event no later than end-November 2012 (proposed structural benchmark).

6. **The 2011 financial statements of the banks covered by the ELG will be prepared on the basis of new more conservative and realistic provisioning and disclosure guidelines.** With technical support of an internationally recognized auditing firm, we have completed an international peer review of our disclosure practices and developed a stringent template of the loans and receivables disclosures within IFRS and tailored it to reflect the Irish banking circumstances and needs of various stakeholders. We have developed stricter guidelines to ensure Irish covered banks use a more conservative and consistent approach to provisioning within IFRS in relation to impairment triggers and provisioning model inputs. In 2012, we will review the implementation of the guidelines in the covered banks. Additionally, current draft guidelines on loan collateral valuation will be strengthened further by introducing provisions to encourage banks to regularly exchange information on the quality of collateral appraisers.

### *9. Completing the financial sector reform agenda*

7. **We will complete by end-June 2012 the recapitalization of ILP.** Following the suspension of the sale of Irish Life, we have decided that a government purchase of this company will be the most effective mechanism to finalize the recapitalization of ILP, and complete the separation of ILP and Irish Life that is already well-advanced at the operational level. Irish Life is a valuable asset for the State and will continue to be managed on an

independent commercial basis to ensure that value, and we will continue to work to dispose of Irish Life as soon as market conditions permit.

8. **We are finalizing the determination of the way forward for ILP**. During February, we will prepare a preliminary proposal for financial and operational restructuring to address ILP's vulnerabilities, taking the perspective of the state on alternative restructuring options. This work builds on a preliminary analysis of restructuring options recently completed by the bank, and will benefit from third party reviews. The authorities will make a decision on the proposed way ahead by end April. We will prepare an updated restructuring plan for ILP that will detail the actions needed to ensure the bank's long-term viability, in line with EC state aid rules, by end June 2012. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability.

9. **We are implementing our strategy to restore the viability and solvency of the credit union sector.** Following the commencement of the Central Bank and Credit Institutions (Resolution) Act 2011, we have transferred €250 million of exchequer resources to the credit institutions resolution fund. With this infrastructure in place, we have embarked on the first resolution interventions and will be proceeding with further resolution actions required. The costs of resolving vulnerable institutions will be recouped over time through a charge levied across credit institutions. Regulations underpinning this levy will be adopted by end-September 2012 (proposed structural benchmark). We are on track to achieve our end-June benchmark of publishing the legislation to strengthen the regulatory framework of the credit union sector, following consultations with the stakeholders beginning in March 2012 and taking account of the recommendations of the Commission on Credit Unions.

***Strengthening financial supervision and governance***

10. **We are finalizing relationship frameworks with the covered banks to ensure their core businesses will be run on a commercial, cost effective and independent basis designed to ensure the value of the banks as an asset to the State.** These frameworks for the core businesses of AIB, BoI and IL&P contain clear guidelines to: (i) ensure the Minister for Finance's relationship with the domestic banks is in line with best institutional shareholder practices; (ii) rule out intervention by the Minister for Finance in day-to-day management and commercial decisions (including in relation to lending) and preserve independence of the banks' boards; and (iii) allow the banks appropriate discretion to define their own strategies, budgets, and business plans. The frameworks will be published by end-March 2012.

11. **We have made significant progress toward strengthening banks' boards.** In June 2011, the Central Bank wrote to the fifty-five incumbent directors in the State supported banks seeking information in relation to their future intentions and giving notice that those who would remain in place following the 1 January 2012 would be subject to review under

new powers available to the Central Bank in the Central Bank Reform Act 2010. There has been a very high level of renewal of directorships in the covered banks and almost all directors were appointed after September 2008. Incumbent and new board members and senior bank managers are being subjected to rigorous fit and proper tests by the Central Bank of Ireland to ensure that they have the appropriate skills and background.

12. **We continue to enhance banking supervision and supervisory capacity.** We have completed reviews of the effectiveness of banks' internal audit functions, the role and effectiveness of board risk committees, and frameworks for remuneration policies and practices. Corresponding recommendations and requirements have been issued to banks as part of their risk mitigation programmes. The delivery of risk mitigation actions within appropriate timelines is monitored as part of the Central Bank's internal risk and governance panels. We have increased staff resources devoted to banking supervision and are providing training tailored to the needs of the Irish banking system. By mid-2012, our new supervisory engagement model and framework for bank risk assessment (PRISM) which we implemented in November 2011 will have become fully operational.

***Enhancing asset quality***

13. **We are promoting efforts by lenders to address loan arrears and unsustainable debt, thereby reducing uncertainty regarding bank assets and facilitating a recovery in domestic demand.** A high-level steering group involving government departments and the CBI has been formed to deepen work in a number of key areas and follow up on the Inter-Departmental Mortgage Arrears Working Group ($30^{th}$ September 2011) Report recommendations. At the CBI's request, banks submitted their strategies for dealing with mortgage arrears at end-November. The CBI is in the process of providing feedback, and it will monitor implementation under the strategies on a quarterly basis, supported by enhanced data, including on buy-to-let properties. A mortgage-to-rent scheme is being piloted under which housing associations would buy properties and rent them back to owners eligible for social housing, and efforts are underway to develop an independent mortgage advisory function for households needing support on this issue.

14. **Reforms to the personal insolvency framework will underpin the resolution of unsustainable debt while safeguarding Ireland's traditional debt service discipline.** We developed a strategy for personal insolvency reform last year, and refined it further in early 2012, and plan to publish legislation by end-April 2012. The bill will seek to uphold Ireland's strong payment culture while creating a more efficient and modernized bankruptcy process; establishing non-judicial debt settlement and enforcement mechanisms, including an appropriate framework for secured debt such as mortgages; and providing streamlined procedures for those with very limited debt, assets, and income. The government intends as a priority to secure passage and in parallel put in place the infrastructure needed to support the effective implementation of the new insolvency framework.

15. **Steps are also being taken to help SMEs, including those facing financial difficulties.** The revised Code of Conduct for Business Lending to Small and Medium Enterprises took effect in January 2012. It requires that lenders have proper procedures in place, including minimum communication and information standards, for dealing with borrowers that are willing to cooperate. In parallel with the approach taken on mortgage arrears, banks will be required to submit to the CBI their strategies for dealing with SME arrears by end-June 2012.

16. **An effective credit register is an essential building block for sound lending decisions and is a valuable supervisory tool**. Ministerial approval for the proposed legislative framework was received in September. An outline of the proposed legislation will be discussed with stakeholders. We have made progress in developing a register that will deliver comprehensive, reliable and accurate data on each individual borrower. We are on track to publish legislation by end-September 2012 as envisaged and will work in parallel on the practical arrangements with a view to having the system in operation as quickly as possible.

## C. Fiscal Policies

17. **The substantial fiscal consolidation targeted for 2011 has been achieved by a significant margin.** The front-loaded consolidation effort in 2011 was implemented consistently during the year, and the general government deficit is expected to be about 10 percent of GDP, well within the program's target of 10.6 percent of GDP. Indeed, this over-performance was achieved despite weakness in domestic demand and in related revenues owing to firm control over both current and capital expenditures.

18. **We will implement Budget 2012 in the same prudent manner, while cushioning the impact on growth.** Budget 2012 incorporates €3.8 billion in fiscal consolidation measures and we are finalizing the necessary legislation to implement Budget 2012.[1] This effort exceeds the originally programmed amount of €3.6 billion in order to deliver the program's 2012 general government deficit target of 8.6 percent of GDP despite significantly weaker macroeconomic conditions than earlier envisaged, demonstrating our commitment to putting the budget on a sound footing. At the same time, Budget 2012 includes measures to boost economic activity and create jobs, such as prioritizing capital investments that increase the capacity for the economy to grow, targeted tax incentives for employers and the property sector, the introduction of new training, job placement and work experience places, and welfare reforms to incentivize work.

[1] Taking account of the additional carryover from the Universal Social Charge which was introduced as part of Budget 2011, total adjustment is on the order of €4.2 billion.

19. **The general government deficit is firmly set on a declining path to below 3 percent of GDP by 2015.** Budget 2012 set out clear policy directions for medium-term fiscal consolidation anchored by binding current expenditure ceilings through 2014 and capital expenditure ceilings through 2016, together with the announcement of a target to reduce public service employment numbers to 282,500 by 2015. To better facilitate planning by households and businesses, we will progressively elaborate Budget 2012's specification of the consolidation effort over 2013-15. We have already identified measures for the latter period, representing more than half of the total adjustment of €8.6 billion, and we are actively studying options including those identified by the rigorous 2011 Comprehensive Review of Expenditure (CRE). The expiration of favourable retirement terms at end-February 2012, and the completion over the coming months of reviews (including on environmental taxes, a value-based property tax, and social welfare supports) will help advance this process.

20. **Achievement of the ongoing fiscal consolidation will be underpinned by a coherent set of budgetary reforms:**

- *Institutionalization of the CRE process*: Following its success in 2011, the next CRE cycle has been set at end 2013/early 2014, and a new Value-for-Money Code introduced to facilitate focused evaluations on an ongoing basis.

- *Performance-Based Budgeting:* The 2012 departmental estimates (to be published at end-February, 2012) will be organized on the basis of strategic programs rather than traditional sub-heads to enable departments to be evaluated on outputs and outcomes.

- *Reform of Allowances, Overtime, and Sick Leave:* We have identified scope for reducing overtime payments including through smarter rostering for emergency services (such as health and police); rationalizing allowances; and boosting public service productivity through changes to sick leave entitlements.

- *Public Service Reform:* To protect public service delivery with a leaner workforce, and achieve efficiency savings across the public service, we are aggregating public procurement nationally and sectorally as appropriate to the greatest possible extent, rolling out a unified Public Service Card to citizens for accessing government services, expanding e-Government, increasing the use of shared services, and rationalizing the number of government bodies.

21. **Furthermore, we are developing important institutional fiscal reforms consistent with the European framework.** Budget 2012 introduced binding medium-term expenditure ceilings by vote-group, which will help impart stability to public finances in the face of temporary shocks, entrench spending discipline, extend planning horizons, and strengthen incentives for good fiscal management. The Irish Fiscal Advisory Council (IFAC) has been operational since July 2011. Its mandate and independence, along with national fiscal rules to

ensure prudent fiscal policy, are to be enshrined in a Fiscal Responsibility Bill (FRB). The FRB will also provide for the adequacy of IFAC resources to ensure its sustainability and effectiveness. Given the priority for a robust framework to support long-term debt reduction, the FRB will be published by end-June 2012 to take into account the evolution of the European fiscal framework expected during the first quarter of 2012.

### D. Structural Reforms

22. **An ambitious programme of structural reforms to support job creation, increase Ireland's competitiveness and boost potential growth is being put in place.** To facilitate labour market adjustment in sectors where unemployment tends to be high, we have set out reforms of wage-setting arrangements in the Industrial Relations (Amendment) Bill, which includes measures to streamline and modernise Registered Employment Agreements (REAs). In relation to Employment Regulation Orders (EROs), it allows for a reduction in the number of EROs and the number of minimum wages set in each ERO, and excludes conditions of employment covered in other legislation such as Sunday pay rate. Importantly, it requires greater focus on economic conditions and competitiveness in setting wage rates and in implementing both EROs and REAs. Building on the Industrial Relations (Amendment) Bill 2011, the authorities will present amendments to the Dáil in particular to: (i) strengthen the inability to pay clause for EROs and REAs by providing that the inability to pay clause will allow two consecutive exemptions within the overall two year time limit where this is necessary to safeguard employment, and (ii) ensure that the process for the granting of a variation to an REA is conducted in a timely manner.

23. **We will take steps to strengthen activation and training policies to help jobseekers get back to work under the new Pathways to Work.** The approach seeks to coordinate better the efforts of different government departments, increase the frequency and effectiveness of engagement with jobseekers, and impose sanctions for those that do not take advantage of job search, training, and employment opportunities. We will commission and publish an external evaluation of the data required for **evaluation of whether**:

- the large numbers of unemployed across all regions, including the long-term unemployed, have adequate incentives and skills needed to return to work;
- more effective interventions are being put in place, including with respect to group interventions (3 to 6 months) and ongoing interventions (post 6 months); and
- penalty sanctions are being imposed (including the number and level of sanctions).

24. **Based on the recommendations of the external evaluation, the Department of Social Protection will prepare by end-March 2012 an implementation plan to ensure that adequate data are available.** By end-December 2012, we will provide an evaluation of progress in relation to labour market activation measures to enable the unemployed to return to active employment against the targets set out in the Pathways to Work plan.

25. **We are committed to an ambitious programme of state asset disposals to enhance the efficiency and competitiveness of the economy, reduce sovereign financing needs, and provide additional resources for reinvestment in the economy**. This will involve an orderly process of disposals in a manner which allows time to implement necessary regulatory reforms and ensure that value is secured. Analytical work will be completed in the first quarter of 2012 in relation to the suitability for disposal of a number of state-owned assets. This work will also identify the policy, regulatory, legislative, corporate governance and financial issues that may need to be addressed. Details of this asset disposal programme will be provided for discussion with programme partners by end March 2012, and by end June 2012 a detailed outline of the necessary preparatory reforms for completion by end 2012 will be provided**.**

26. **Reforms in the water sector is underway, together with a strengthening of competition policy enforcement**. Steps are being taken towards the creation of a regulated water utility and the roll-out beginning in 2012 of a national water metering programme to allow for charging of households. This will enable necessary investment to ensure water quality and supply can take place on a more sustainable basis. Finally, we are introducing changes to the Competition (Amendment) Bill 2011 to enhance the enforcement capacity of the Competition Authority, benefiting consumers and businesses. A review of the resourcing of the Authority to ensure that staffing capacity is sufficient to enforce the new legislative framework is under way.

## E. Programme Financing and Monitoring

27. **The programme remains well financed, and we are continuing preparations to regain market access as envisaged.** Following the improvements in the terms of EU lending agreed in July 2011, negotiations on bilateral agreements with Sweden and Denmark are near conclusion and arrangements are being made to obtain the necessary parliamentary approval where relevant. Subject to such parliamentary approval, the aim is to be able to make the first disbursements under these agreements in the context of the completion of the fifth review. The first disbursements under these agreements will be made in the context of the completion of the fifth review. Building on our strong record of program performance, we are maintaining close contact with a wide range of market participants to facilitate our return to market financing as envisaged under the programme; market conditions permitting, we are seeking to resume Treasury bill issuance in the second half of 2012.

28. **Implementation of the policies under the programme will continue to be monitored through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews, as envisaged in our Letters of Intent since the inception of the arrangement on 3 December 2010 along with this letter**. The programme also continues to be in compliance with requirements under the Memorandum of Understanding on Specific Policy Conditionality. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and

indicative targets under the programme. The Government's targets for the exchequer primary balance are monitored through quarterly performance criteria and net central government debt is an indicative target (Table 2). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3).

29. **We authorise the IMF and the European Commission to publish the Letter of Intent and its attachments, and the related staff report.**

Table 1. Programme Monitoring

| Measure | Date | Status |
|---|---|---|
| **Quantitative Performance Criteria** | | |
| Cumulative exchequer primary balance | End-December 2011 | Observed |
| **Indicative Target** | | |
| Ceiling on the stock of central government net debt | End-December 2011 | Observed |
| **Continuous Performance Criteria** | | |
| Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government | Continuous | Observed |
| **Structural Benchmarks** | | |
| Define the criteria to run stringent stress tests scenarios. | End-December 2010 | Observed |
| Agree on terms of reference for the due diligence of bank assets by internationally recognised consulting firms. | End-December 2010 | Observed |
| The Central Bank will direct the recapitalisation of the principal banks (AIB, BoI and EBS) to achieve a capital ratio of 12 percent core tier 1. | End-February 2011 | Not observed [1/] |
| Submit to Dáil Éireann the draft legislation on a special resolution regime. | End-February 2011 | Observed [2/] |
| The Central Bank to complete the assessment of the banks' restructuring plans. | End-March 2011 | Observed |
| Complete the diagnostic evaluation of banks' assets. | End-March 2011 | Observed |
| Complete stress tests (PCAR 2011). | End-March 2011 | Observed |
| Complete a full assessment of credit unions' loan portfolios | End-April 2011 | Observed |
| Finalise plans for the recapitalisation of Irish Life and Permanent. | End-May 2011 | Observed |
| Establish a Fiscal Advisory Council. | End-June 2011 | Observed |
| Complete the recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society. | End-July 2011 | Observed |
| Submit the Supervision and Enforcement Bill to Oireachtas. | End-July 2011 | Observed |
| Complete the legal merger procedures of Allied Irish Bank and EBS Building Society. | End-September 2011 | Observed |
| Publish a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight. | End-October 2011 | Observed [3/] |
| The merger of Irish Nationwide Building Society and Anglo-Irish bank. | End-December 2011 | Observed |
| Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book. | End-December 2011 | Observed |
| Finalise a strategy to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system. | End-December 2011 | Observed |
| Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets. | 2012 Budget day in early December 2011 | Observed |

1/ Central Bank directions were issued within the required timeframe, however completion of the capital injections required was postponed by the Minister for Finance until after the General Election. These directions are now superseded by the Central Bank's PCAR directions of 31 March 2011.
2/ In practice this was submitted to the Seanad as discussed in paragraph 21of the MEFP, as the Dáil was dissolved owing to the elections.
3/ Effective end-October 2011 and posted on November 8, 2011.

## Table 2. Ireland: Quantitative Performance Criteria and Indicative Targets Under the Economic Programme for 2011–12

| | 30-Jun-11 | | 30-Sep-11 | | 31-Dec-11 | | 31-Mar-12 | 30-Jun-12 | 30-Sep-12 | 31-Dec-12 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Target 1/ | Outcome | Target 1/ | Outcome | Target 1/ | Outcome | Target | Target | Target | Target |
| | (In billions of Euros) | | | | | | | | | |
| | Performance Criterion | | Performance Criterion | | Performance Criterion | | Performanc e Criterion | Performance Criterion | Indicative Target | Indicative Target |
| 1. Cumulative exchequer primary balance 2/ | -10.1 | -8.4 | -20.2 | -18.3 | -22.3 | -21.0 | -7.5 | -9.0 | -10.6 | -10.9 |
| 2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Indicative Target | | Indicative Target | | Indicative Target | | Indicative Target | Indicative Target | Indicative Target | Indicative Target |
| 3. Ceiling on the stock of central government net debt 1/ | 94.6 | 91.7 | 115.9 | 111.7 | 117.2 | 115.7 | 125.0 | 128.8 | 130.9 | 133.3 |

1/ Adjusted.
2/ Measured by the exchequer balance excluding interest payments. Cumulative from the start of the relevant calendar year.

Table 3. Ireland: Upcoming Prior Action and Structural Benchmarks under the Programme for 2012

| Measure | Date | Status |
| --- | --- | --- |
| **Financial sector policies** | | |
| Publish legislation to strengthen the regulatory framework including making legislative provision for effective governance standards and prudential requirements for credit unions (MEFP Nov. 28, 2011, ¶19). | End-June 2012 | Structural benchmark |
| Approve regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable institutions (MEFP, ¶9). | End-September 2012 | Proposed structural benchmark |
| Publish PCAR 2012 results (MEFP, ¶5). | End-November 2012 | Proposed structural benchmark |
| **Fiscal policies** | | |
| Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence (MEFP, ¶21). | End-June 2012 | Modified Structural benchmark |

# Ireland: Technical Memorandum of Understanding (TMU)

10 February 2012

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to performance criteria and indicative targets under the arrangement supported by the Extended Fund Facility (EFF). These performance criteria and indicative targets are reported in Table 2 attached to the Memorandum of Economic and Financial Policies (MEFP). This TMU also describes the methods to be used in assessing the programme performance and the information requirements to ensure adequate monitoring of the targets.

2. For programme purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "programme exchange rates", with the exception of the items affecting the government fiscal balances, which will be measured at current exchange rates. The programme exchange rates are those that prevailed on December 30, 2011 as shown on the

10. IMF's website (http://www.imf.org/external/np/fin/data/rms_five.aspx, accessed 19 January 2012), in particular, €1 = 1.2939 U.S. dollar and €1 = 0.842786 SDR.

## I. Quantitative Performance Criteria And Indicative Targets

### *Floor on the Exchequer Primary Balance*

3. The Exchequer balance is the traditional domestic budgetary aggregate which measures the net surplus or net deficit position of the Exchequer Account. The Exchequer Account is the single bank account of the Central Fund and is held at the Central Bank of Ireland. The annual audited accounts of the Exchequer Account produced by the Department of Finance are known as the Finance Accounts. An unaudited summary known as the Exchequer Statement is produced at the end of each month. Under the Irish Constitution, all Government receipts are paid in to the Central Fund and all Government expenditure is funded from it, unless provided otherwise by law.[1] The Exchequer balance is the difference between total receipts into, and total expenditure out of, the Exchequer Account. It measures the sum of the current and capital balances. The current balance is defined as current receipts (tax and non-tax revenue) minus current expenditure (voted expenditure and non-voted expenditure charged directly on the Central Fund, including the Sinking Fund). The capital balance is defined as capital receipts (Sinking Fund and other capital receipts) minus capital

[1] Receipts of the Central Fund comprise Exchequer tax revenues, non-tax revenues, receipts from the European Union and other capital receipts. Charges on the Central Fund include the expenditure of Government departments and offices, payments related to the servicing of the national debt, payments to the European Union Budget, the salaries, pensions and allowances of the President, judiciary, and Comptroller & Auditor General and the running costs of the Houses of the Oireachtas (Parliament). Extra-budgetary funds (including the National Pensions Reserve Fund), the Social Insurance Fund, semi-state bodies and local governments are not part of the Exchequer system.

expenditure (voted and non-voted expenditure). The Sinking Fund provision is a transfer from the current account to the capital account to reduce national debt and has no effect on the overall Exchequer balance.

4. The performance criteria are set on the Exchequer primary balance (the Exchequer balance excluding net debt interest payments in the service of the National Debt).[2]

5. For the purposes of the programme, the floor on the Exchequer primary balance (quantitative performance criterion) will be adjusted downward by payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. Such payments may include, inter alia, loans to banks, investments in their equity (requited recapitalisation), unrequited recapitalisation, and purchases of troubled assets, which are carried out in line with programme objectives. The floor will be adjusted upward by the amount of proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts. The floor will also be adjusted downward for Exchequer outlays for the resolution of credit unions, and upward for any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund. Any other financial operation by Government to support banks, including the issuance of guarantees or provision of liquidity, will be reported to EC, IMF, and ECB staffs.

6. The floor on the Exchequer primary balance (quantitative performance criterion) in each year will be measured cumulatively from the start of that calendar year.

| Cumulative Exchequer primary balance | (In billions of Euros) |
|---|---|
| From January 1, 2012: | |
| End-March 2012 (performance criterion) | -7.5 |
| End-June 2012 (performance criterion) | -9.0 |
| End-September 2012 (indicative target) | -10.6 |
| End-December 2012 (indicative target) | -10.9 |

11.

7. The performance criterion on the Exchequer primary balance (floor) will be adjusted upward (downward) for the full amount of any over-performance (under-performance) in Exchequer tax revenues, pay-related social insurance contributions (PRSI) and national training fund contributions against the current projection which is listed below:[3]

[2] Net debt interest payments are as per the end-month Exchequer Statements.

[3] Exchequer tax receipts are comprised of income tax (including the universal social charge), value added tax (VAT), corporation tax, excise duties, stamp duties, capital gains tax, capital acquisitions tax and customs duties.

| Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above) | (In billions of Euros) |
|---|---|
| From January 1, 2012: | |
| End-March 2012 (projection) | 9.7 |
| End-June 2012 (projection) | 19.7 |
| End-September 2012 (projection) | 30.7 |
| End-December 2012 (projection) | 43.8 |

8. Any policy changes, including in administration and enforcement of taxes, which impact the revenue projection set out in paragraph 7 will lead to a reassessment of the adjustor in the context of program reviews.

***Ceiling on the Stock of Central Government Net Debt***

9. The stock of net central government debt, for the purposes of the programme, is defined as the National Debt less liquid assets of the National Pensions Reserve Fund (NPRF). The National Debt is defined as the total outstanding amount of principal borrowed by central government and not repaid as of the test date, less liquid assets available for redemption of those liabilities at the same date. These liquid assets comprise the Exchequer cash balances (including cash in the Capital Services Redemption Account), Exchequer deposits with commercial banks and other institutions, and investments in investment grade sovereign bills. For the purposes of the programme, NPRF liquid assets include the asset classes listed above, and also all marketable securities such as equities, government bonds and other listed investments. NPRF shares in domestic Irish banks, as well as the NPRF's non-liquid discretionary portfolio are excluded from the definition of liquid assets.

10. For the purposes of the programme, the ceiling on the central government net debt (indicative target) will be adjusted upward by debt arising from payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. These payments may include, inter alia, loans to banks, investments in their equity (requited recapitalisation); unrequited recapitalisation; and purchases of troubled assets, which are carried out in line with programme objectives. The ceiling will also be adjusted (i) downward by the amount of proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer or NPRF receipts; (ii) upward for Exchequer outlays for the resolution of credit unions, and downward for any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund; (iii) downward by the amount liquidated from the NPRF non-liquid discretionary portfolio; and (iv) downward (upward) by valuation gains (losses) in the NPRF liquid portfolio. The programme exchange rates will apply to all non-Euro denominated debt.

11. The ceiling on the outstanding stock of central government net debt will be adjusted upward (downward) by the amount of any final upward (downward) revision to the stock of end-December 2011 central government net debt.

| Central government net debt | (In billions of Euros) |
|---|---|
| Outstanding stock: | |
| End-December 2011 (provisional) | 115.7 |
| End-March 2012 (indicative target) | 125.0 |
| End-June 2012 (indicative target) | 128.8 |
| End-September 2012 (indicative target) | 130.9 |
| End-December 2012 (indicative target) | 133.3 |

### *Non-accumulation of External Payments Arrears by Central Government*

12. The central government will accumulate no external payments arrears during the programme period. For the purposes of this performance criterion, an external payment arrear will be defined as a payment by the central government on its contracted or guaranteed external debt that has not been made within five business days after falling due, excluding any contractual grace period. The performance criterion will apply on a continuous basis.

13. The stock of external payments arrears of the central government will be calculated based on the schedule of external payments obligations reported by the National Treasury Management Agency.

## II. REPORTING REQUIREMENTS

14. Performance criteria under the programme will be monitored using data supplied to the EC, IMF, and ECB staffs. The Irish authorities will transmit promptly any data revisions in a timely manner.

- The Department of Finance will report the Exchequer primary balance to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date.

- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.

- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staff, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

- The Central Bank of Ireland will provide on a quarterly basis, bank by bank data on the assets of government guaranteed banks, including loans and provisioning by period overdue (90+days and less than 90 days) and category of borrower, 35 working days after the end of each quarter.

**Ireland: Letter of Intent (European Commission)**

Dublin, 10 February 2012

Mr. Mario Draghi
President
European Central Bank
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Mr. Jean-Claude Juncker
Eurogroup President
Ministère des Finances
3, rue de la Congrégation
L-1352
Luxembourg

Mr. Olli Rehn
Vice-President
Commissioner for Economic and Financial Affairs and the Euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Ms. Margrethe Vestager
Minister for Economics and the Interior
Økonomi- og Indenrigsministeriet
Slotsholmsgade 10-12
1216 København K
Denmark

Dear Messrs Draghi, Juncker, Rehn, and Ms. Vestager

1. The Irish Government remains firmly committed to the Programme, as illustrated by our continued strong implementation of its objectives. We continue to rigorously implement our EU/IMF-supported adjustment programme. We have met or bettered all the programme targets and milestones associated with the fifth review. In particular:

- As regards fiscal policy, the general government deficit for 2011 is estimated to have been under 10% of GDP, well below the 10.6% of GDP programme ceiling. We have underpinned our commitment to the 2012 deficit programme ceiling by incorporating in the 2012 budget a larger consolidation (EUR 3.8 billion) than envisaged under the programme (EUR 3.6 billion) reflecting the fact that this is an intermediate target for achieving the primary target of a General Government Deficit of 8.6%. We have identified through a thorough expenditure review and additional revenue measures the broad options for the additional consolidation required to bring the deficit down to below 3% of GDP by 2015, to which we remain committed under the programme and the excessive deficit procedure. We have announced binding multi-year expenditure ceilings at the level of the individual votes, and continue to work on strengthening the fiscal framework, including through forthcoming fiscal responsibility legislation (for which a draft is well advanced and which will align national law with requirements at the European level).

- We continue to advance our financial sector reform strategy. Recapitalization of domestic banks has been substantively completed, and deleveraging of non-core assets has progressed in line with programme. We remain engaged with our programme partners to ensure that the needed restructuring of the domestic banks is achieved in the most efficient and effective way possible, with due regard to State Aid rules. We have begun in earnest the restructuring of the credit union sector, for which we have made available EUR 250 million from the Exchequer in the last quarter of last year. The Central Bank has issued guidance to the Covered Institutions on more conservative and realistic provisioning and enhanced disclosure requirements on asset quality as well as new collateral valuation guidelines for banks.

- We have also made significant progress in the structural reform agenda of the programme. Proposals were prepared and discussed with our programme partners on strategies to: (i) introduce water charges by the end of the EU/IMF programme and (ii) improve targeting of our social support expenditure. We have also introduced legislation, expected to be taken up by our Parliament in the weeks ahead, to reform sectoral wage-setting arrangements to facilitate the needed adjustment in the labour market. Finally, we have also agreed, in broad terms, an ambitious approach to be pursued to ensure that state-owned assets are efficiently mobilized to reduce the government financing needs and provide some additional resources for reinvestment in job creation initiatives in the economy, while also increasing the overall efficiency of the economy.

- This performance is all the more noteworthy against the background of a more challenging external outlook, resulting mostly from the lingering uncertainty in relation to euro area sovereign debt developments, as witnessed by the recent downgrades of several euro area member states. From this perspective our continued strong implementation of the programme remains essential, as does the commitment of our euro area partners to continue to support Ireland's efforts as long as its adjustment remains on track. Real economic growth resumed last year, with an estimated increase of 1%, and, notwithstanding the risks to the forecasts, further positive growth is expected this year. This growth will continue to be export led, and will be supported by continued strong foreign direct investment and further competitiveness improvements, which will help offset the impact of the slowdown in our export markets. There have also been some positive developments on the outlook for government funding. Yields on Irish Government debt have continued to fall. The benchmark 2016 and 2020 maturities currently yield 5.6% and 7.1% respectively. In addition, the National Treasury Management Agency has re-engaged with the bond market and extended some €3.5 billion of debt maturing just after the programme ends. This is a significant first step in terms of managing Ireland's post programme funding requirements. These developments can be directly related to our strong programme implementation. We will nevertheless remain alert to the substantial risks in the international economic environment.

2. In the attached fourth update of the Memorandum of Understanding on Specific Economic Conditionality (MoU), we set out our plans to further advance towards meeting the programme objectives. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the fifth review and the release of the fifth EFSF/EFSM disbursement of EUR 5.8 billion.

3. We are confident that the policies set forth in our successive Letters of Intent, from that of 3 December 2010 up to and including this letter, are adequate to achieve the objectives of our programme. The degree of uncertainty and margins of error surrounding macroeconomic and fiscal projections over the period remain high, due mainly, but not exclusively, to international events. While we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become necessary to meet changing circumstances. As indicated in the MoU, we will consult with the staff of the European Commission, the ECB and the International Monetary Fund on the adoption of such actions in advance in the event that revision of the policies contained in this letter and the attached MoU becomes necessary.

4. This letter is being copied to Mme Lagarde.

Sincerely,

| | |
|---|---|
| /s/ | /s/ |
| Michael Noonan, T.D., | Patrick Honohan |
| Minister for Finance | Governor of the Central Bank of Ireland |

**Memorandum of Understanding on Specific Economic Policy Conditionality (European Commission)**

**IRELAND**

**MEMORANDUM OF UNDERSTANDING**

**ON**

**SPECIFIC ECONOMIC POLICY CONDITIONALITY**

*(FOURTH UPDATE)*

6 March 2012

With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, this fourth update of the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) details the general economic policy conditions as embedded in Council Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland.

The quarterly disbursement of financial assistance from the European EFSM[1] will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure, and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this updated MoU, which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are expected to be missed, additional action will be taken.

For the duration of the EU/IMF financial assistance programme the Irish authorities will take all the necessary measures to ensure a successful implementation of the programme and minimise the costs to the taxpayers, while protecting the most vulnerable. In particular, they commit to:

- Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. In particular, the Department of Finance and the Department of Public Expenditure and Reform will continue to ensure effective tax collection and tight supervision of expenditure commitments by the line departments to ensure that the primary deficit target in cash (see Table 1 of

[1] On 28 November 2010 Eurogroup and ECOFIN Ministers issued a statement clarifying that euro-area and EU financial support will be provided on the basis of the programme which has been negotiated with the Irish authorities by the Commission and the IMF, in liaison with the ECB. Further to the Union support from the EFSM, loans from the EU and its Member States will include contributions from the European Financial Stability Facility (EFSF) and bilateral lending support from the United Kingdom, Sweden, and Denmark. The Loan Facility Agreements on these financing contributions will specify that the disbursements there under are subject to the compliance with the conditions of this Memorandum.

MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved. Any additional unplanned revenues must be allocated to debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible.
- Ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF Programme and the needs of the economy.
- Consult ex-ante with the European Commission, the ECB and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.

To facilitate programme monitoring, the authorities will provide the European Commission, the ECB and the IMF with:

- All information required to monitor progress during programme implementation and to track the economic and financial situation.
- A compliance report on the fulfilment of the conditionality prior to the release of the instalments.
- Reliable and regular availability of budgetary and other data as detailed in Annex 1.

## 1. Actions for the sixth review (actions to be completed by end Q1-2012)

### Financial sector reforms

*Capitalization*

- The authorities will report on the evolution of regulatory capital up to end December 2011, within the banks covered by the PCAR and will present and discuss their findings with the staff of the European Commission, the ECB and the IMF by end February 2012.

*Deleveraging*

- The authorities, in consultation with the staff of the European Commission, IMF and ECB, will assess banks' performance vis-à-vis the agreed asset disposal targets. In line with the adjusted monitoring system set up, actual and forecast loan-to-deposit ratios (LDRs) and asset disposals shall be reported by the banks to the Central Bank of Ireland every six months. The Central Bank will oversee the remedial actions to be taken by any bank in case of actual or likely breach of the targets. In addition to providing the six-monthly report, the authorities will update the staff of the European Commission, the IMF and the ECB on progress in the intervening quarters.

- The authorities will present proposals to improve the calibration of the Net Stable Funding Ratio (NSFR) within a Core Balance Sheet with a view to replacing LDRs as the main target in the deleveraging process.

- The authorities, in consultation with staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the Liquidity Coverage Ratio (LCR) in order to ensure convergence to Basel 3 standards by the relevant dates.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the staff of the European Commission, the ECB and the IMF.

- By end February, the authorities will prepare a preliminary proposal for financial and operational restructuring to address ILP's vulnerabilities, taking the perspective of the state on alternative restructuring options. This work builds on a preliminary analysis of restructuring options recently completed by the bank, and will benefit from third party reviews.

*Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank action plan for strengthening supervision of credit institutions and discuss it together with the staff of European Commission, the ECB and the IMF.

## Structural reforms

*Efficient social support expenditure*

- The Department of Social Protection will submit to Government the comprehensive programme of reforms that can help better targeting of social support to those on lower incomes, and ensure that work pays for welfare recipients.

*Competition*

- Following the introduction of amendments to the Competition (Amendment) Bill at committee stage, the authorities will seek to introduce an amendment allowing commitments by an undertaking to the Competition Authority to be made a rule of court having due regard to Ireland's constitutional framework.

- The authorities will undertake a review of the resourcing of the Competition Authority and report on whether it is sufficient to allow adequate enforcement capacity of the legislative framework.

*Water charges*

- In light of the results of a public consultation process, the authorities will provide programme partners with an update on progress toward the transfer of water service provision from local authorities to a regulated water utility and plans for the roll-out of a domestic water metering programme with a view to starting charging by the end of the EU – IMF Programme period.

*Labour market reform*

- Building on the Industrial Relations (Amendment) Bill 2011, the authorities will present amendments to the Dáil in particular to: (i) Strengthen the inability to pay clause for EROs and REAs by providing that the inability to pay clause will allow two consecutive exemptions within the overall two year time limit where this is necessary to safeguard employment, and (ii) ensure that the process for the granting of a variation to an REA is conducted in a timely manner.

*Activation of the unemployed*

- The authorities will take steps to strengthen activation and training policies to help jobseekers get back to work and will commission and publish an external evaluation of the data and reporting systems required, under the new 'Pathways to Work' approach, to enable ongoing evaluation of activation and training policies, including whether:
- the large numbers of unemployed across all regions, including the long-term unemployed, have adequate incentives and skills needed to return to work;
- more effective interventions are being put in place, including with respect to group interventions (3 to 6 months) and ongoing interventions (post 6 months); and
- penalty sanctions are being imposed (including the number and level of sanctions).
- Based on its recommendations the Department of Social Protection will prepare an implementation plan.

*State assets*

- The Government is committed to an ambitious programme of state asset disposals designed to enhance the efficiency and competitiveness of the economy, reduce sovereign financing needs, and provide additional resources for reinvestment in the economy. This will involve an orderly process of disposals in a manner which allows time to implement necessary regulatory reforms and to ensure that value is secured.
- Detailed analytical work will be completed in the first quarter of 2012 in relation to the suitability for disposal of a number of state-owned assets, with the assistance of NewERA – the Government’s key financial adviser in relation to the management and/or disposal of these state assets. This work will identify the policy, regulatory, legislative, corporate governance and financial issues that may need to be addressed. The Government will provide details on this asset disposal programme for discussion with programme partners.

## 2. Actions for the seventh review (actions to be completed by end Q2-2012)

### Financial sector reforms

*Capitalization*

- Government will ensure that the recapitalization of IL&P, as identified in the 2011 Prudential Capital Assessment Review, is completed, following the suspension of the sale of Irish Life.

- In preparation for PCAR 2012 for AIB, BoI and IL&P we will by end June 2012: (i) perform an asset quality review of Irish banks' portfolios using an independent advisor; (ii) validate bank data to ensure consistency (iii) review provisioning, income and loan impairment recognition practices; and (iv) engage with the banks on their loan portfolio resolution strategies and systems.

*Deleveraging*

- The authorities will provide an update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the ECB and the IMF. In addition, the authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

- In addition, the authorities will establish draft rules for the creation and subsequent holding of liquidity buffers by banks in preparation of the new Capital Requirements Regulation which will enter into force in January 2013.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.

- The authorities will make a decision on the proposed way ahead for ILP by end April and will prepare an updated restructuring plan that will detail the actions needed to ensure the bank's long-term viability, in line with EC state aid rules, by end June 2012. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability.

- As recommended by the interim report of the Commission on Credit Unions, the legal provision that requires, under the terms of the Deposit Guarantee Scheme, credit unions to maintain an amount in the Deposit Protection account at the Central Bank will be commenced by regulations in 2012. Taking into account the interim report of the Commission on Credit Unions and any further recommendations made by the Commission on Credit Unions, the authorities will develop a legislative framework for the restructuring of the sector. The authorities will publish legislation to strengthen the regulatory framework, including making legislative provision for effective governance standards and prudential requirements.

*Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.
- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

## Structural reforms

*Personal debt regime*

- Government will introduce legislation to reform the personal debt regime to the Houses of the Oireachtas with the objective of increasing the speed and efficiency of proceedings, while at the same time mitigating moral hazard and maintaining credit discipline.

*Utility sectors*

- Based on the results of the assessment of the efficiency of the electricity and gas sectors, the authorities will further strengthen the regulatory and market reform programme in consultation with staff of the European Commission Services, with a view to increase efficiency, improve governance, strengthen competition and improve these sectors' ability to contribute towards covering Ireland's financing needs and improving its growth potential and economic recovery.
- The authorities will supply programme partners with a detailed, time-bound implementation plan by end-April 2012 for the transfer of water service provision from local authorities to a regulated water utility and a plan for the roll-out of a domestic water metering programme with a view to starting charging by the end of the EU – IMF Programme period.

*Retail sector*

- By end April 2012, having reflected on the outcome of a public consultation on updated retail planning guidelines, the authorities will issue finalised retail planning guidelines taking into account the agreed changes to the retail size caps.

*Competition*

- The authorities will ensure that resourcing of the Competition Authority is sufficient to ensure adequate enforcement capacity of the legislative framework on the basis of the review undertaken in Q1 2012.

*Efficient social support expenditure*

- The Department of Social Protection will provide an evaluation of the actions taken in respect of job seekers payments recipients who do not attend employment activation interviews.

*State assets*

- Government will outline in detail the specific regulatory, legislative, corporate governance and financial reforms which need to be taken, ensuring consistency with relevant EU legislation where necessary, to allow for the asset sale programme to proceed, and an ambitious calendar with indicative timelines for sales will be set out.

### Structural fiscal reforms

*Fiscal framework*

- Government will introduce a Fiscal Responsibility Bill consistent with the economic governance framework at the EU level, including provisions for a medium-term budgetary framework and fiscal rules. The Bill will also put the Fiscal Advisory Council on a statutory footing, formalising the Council's independence through clear arrangements for adequate funding over time and for Council membership, including consultation with the relevant committee of the Oireachtas for nomination, appointment, extension and termination.

## 3. Actions for the eighth review (actions to be completed by end Q3-2012)

### Financial sector reforms

*Capitalization*

- The authorities will agree with the staff of the European Commission, IMF and ECB on the specific features of the methodology for the PCAR 2012 exercise building on the strengths of the PCAR 2011. In addition, and as part of the PCAR 2012, we will complete the assessment of banks' approaches to the risk weighting of assets.

*Deleveraging*

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).

- The authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the staff of the European Commission, the ECB and the IMF.

*Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

- Government will present to Dáil Éireann legislation to establish a statutory credit risk register.

### Structural reforms

*State assets*

- Government will report to programme partners on progress, including details of the timetable for publication of necessary legislation to allow the asset disposal programme to proceed and carry out identified reforms of corporate governance in state-owned assets.

## 4. Actions for the ninth review (actions to be completed by end Q4-2012)

### Fiscal consolidation

- Government will propose a budget for 2013 aiming at a further reduction of the general Government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure and including the detailed presentation of consolidation measures which, on the basis of the aggregate budgetary projections set out in the Medium Term Fiscal Statement (MTFS) of November 2011, will amount to at least €3.5 billion. The following measures are proposed for 2013 on the basis of the MTFS:
    - Revenue measures to raise at least €1.25 billion[2], including:
        - A broadening of personal income tax base.
        - A restructuring of motor taxation.
        - A reduction in general tax expenditures.
        - An increase in excise duty and other indirect taxes.
    - Expenditure reductions necessary to achieve an upper limit on voted expenditure of €54 billion, which will involve consolidation measures of €2.25 billion on the basis of the MTFS, including:
        - Social expenditure reductions.
        - Reduction in the total pay and pensions bill.
        - Other programme expenditure, and reductions in capital expenditure.

Without prejudice to the minimum consolidation amount referred to in the previous paragraph and in consultation with the staff of the European Commission, the IMF and the ECB, the Government may substitute one or more of the above measures with others of equally good quality based on the options identified in the Comprehensive Review of Expenditure (CRE).

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[2] Inclusive of carryover from 2012.

## Financial sector reforms

*Capitalization*

- PCAR 2012 results will ideally be published in coordination with EBA and in any event no later than end-November 2012. Before publication, the results of the PCAR for 2012 will be discussed with the staff of European Commission, the ECB and the IMF. The results and methodology will then be published in full and on a bank-by-bank basis. The authorities will continue to ensure that banks are adequately capitalised.

*Deleveraging*

- An update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the ECB and the IMF. In addition, the Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the staff of the European Commission, the ECB and the IMF.

*Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland’s action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.
- The authorities will review the implementation of the Provisioning and Disclosure guidelines in the covered banks.
- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

## Structural reforms

*Competition*

- On the basis of a report from authorities on developments to be provided by end Q4 2012, the authorities in consultation with staff of the European Commission, IMF and the ECB will review whether sufficient progress has been made toward the goal of strengthening competition law enforcement by ensuring the availability of effective sanctions for infringements of Irish competition law and Articles 101 and 102 of the Treaty on the Functioning of the European Union and the functioning of the Competition Authority, and whether additional measures will be required.

*Efficient social support expenditure*

- The authorities will provide an evaluation of progress in relation to labour market activation measures to enable the unemployed to return to active employment against the targets set out in the 'Pathways to Work' plan.

*State assets*

- Government will complete the identified regulatory, legislative, corporate governance and financial reforms and will discuss with programme partners the specific assets to be brought to market in 2013.

## 5. Actions for the tenth review (actions to be completed by end Q1-2013)

### Financial sector reforms

*Capitalization*

- The authorities will report on the evolution of regulatory capital up to the end of December 2012, within the banks covered by the PCAR and will present and discuss their findings with the staff of the European Commission, the ECB and the IMF by end February 2013.

*Deleveraging*

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6$^{th}$ Review (Q1 – 2012).
- The authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.
- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the staff of the European Commission, the ECB and the IMF.

*Financial supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland’s action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.
- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

## 6. Actions for the eleventh review (actions to be completed by end Q2-2013)

### Financial sector reforms

Deleveraging

- The authorities will present an update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the ECB and the IMF. In addition, the Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.
- The authorities will also monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the staff of the European Commission, the ECB and the IMF.

*Financial supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.
- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

### Structural reforms

*State assets*

- Government will report to programme partners on the quantum of the proceeds of any realised asset sales to date.

## 7. Actions for the twelfth review (actions to be completed by end Q3-2013)

### Financial sector reforms

*Capitalization*

- The 2013 PCAR exercise will begin in the context of the 2013 European Banking Authority (EBA) stress tests. The authorities will agree with the staff of the European

Commission, IMF and ECB on the specific features of the methodology building on the strengths of the PCAR 2011 and 2012.

- The authorities will report on the evolution of regulatory capital up to the end of June 2013, within the banks covered by the PCAR and will present and discuss their findings with the staff of the European Commission, the ECB and the IMF by end August 2013.

*Deleveraging*

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).

- The authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the European Commission, the ECB and the IMF.

*Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

## 8. Actions for the thirteenth review (actions to be completed by end Q4-2013)

### Financial sector reforms

- CapitalizationPCAR 2013 will be completed. Before publication, the results of the PCAR for 2013 will be discussed with the staff of European Commission, the ECB and the IMF. The results and methodology will then be published in full and on a bank-by-bank basis. The authorities will continue to ensure that banks are adequately capitalised.

*Deleveraging*

- The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal and deleveraging targets will be discussed with the European Commission, the ECB and the IMF. In addition, the Irish authorities, in consultation with the European Commission, IMF, and

ECB, will monitor closely the evolution of the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

- The authorities will also monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

*Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it together with the European Commission, the ECB and the IMF.

*Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the European Commission, the ECB and the IMF.

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

- The authorities will ensure that the statutory credit risk register is operational.

## Annex 1. Provision of data

During the programme, the following indicators and reports shall be made available to the staff of the European Commission, the ECB and the IMF by the Irish authorities on a regular basis. The External Programme Compliance Unit (EPCU) of the Department of Finance will coordinate and collect data and information and forward to all external programme partners.

| **To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate** | | |
|---|---|---|
| Ref. | Report | Frequency |
| F.1 | Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable). | Monthly, 10 days after the end of each month |
| F.2 | Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification). | Monthly, 20 days after the end of each month |
| F.3 | Quarterly data on main revenue and expenditure items of local Government. | Quarterly, 90 days after the end of each quarter |
| F.4 | Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities). | Quarterly, 30 days after the end of each quarter |
| F.5 | Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics. | Quarterly accrual data, 90 days after the end of each quarter |
| F.6 | Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects. | 30 days after EDP notifications |
| F.7 | Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies. | Quarterly , 30 working days after the end of each quarter |
| F.8 | Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities. | Quarterly , 30 working days after the end of each quarter |
| F.9 | Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- owned commercial enterprises (interest and amortisation). | Quarterly, 30 working days after the end of each quarter |
| F.10 | Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes. | Quarterly, 30 working days after the end of each quarter. |

| To be provided by the NTMA | | |
|---|---|---|
| N.1 | Monthly information on the Government's cash position with indication of sources as well of number of days covered. | Monthly, three working days after the end of each month |
| N.2 | Data on below-the-line financing for central Government. | Monthly, no later than 15 days after the end of each month |
| N.3 | Data on public debt and new guarantees issued by central Government to public enterprises and the private sector. | Monthly, 30 working days after the end of each month |
| N.4 | Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for the National Debt . | Monthly , 30 working days after the end of each month |
| N.5 | Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months. | Monthly, 30 working days after the end of each month |
| **To be provided by the Central Bank of Ireland** | | |
| C.1 | The Central Bank of Ireland's balance sheet. | Weekly, next working day |
| C.2 | Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month. | Monthly, 30 working days after each month end. |
| C.3 | Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts. | Quarterly, 35 working days after the end of each quarter |
| C.4 | Detailed information on deposits for the last Friday of each month. | Monthly, 30 working days after each month end. |
| C.5 | Data on liabilities covered under the ELG Scheme for each of the Covered Institutions. | Monthly, 30 working days after each month end. |
| C.6 | Deleveraging committee minutes and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics. | Monthly, reflecting committee meetings held each month |
| C.7 | Deleveraging reports including (i) progress achieved towards interim target; (ii) forecast of LDR and NSFR for the end of the next period; and (iii) actual and planned asset disposals. | 3 monthly, 10 working days after the end of the reference period. |