International Monetary Fund

Ireland and the IMF

Press Release:
IMF Completes Seventh Review Under the Extended Arrangement with Ireland and Approves €0.92 Billion Disbursement
September 5, 2012

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

August 20, 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.

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IRELAND

I. LETTER OF INTENT

Dublin, 20 August 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 performance in implementing the agreed policy frameworks and measures. Once more, for the seventh quarterly review, all programme targets have been met. Recently released data shows that Ireland had stronger growth than expected in 2011. We continue to move towards the goal of returning to sustainable funding in the international capital markets during 2013, and took a further step with the successful Treasury Bill auction and the new issuance of €4.2 billion in long-term bonds carried out by the NTMA in July. In line with our growth focus, we have recently launched a multi-year (2012-2018) stimulus package worth €2.25 billion. This will be used for investment in public infrastructure projects, and also supporting employment enhancing and commercial projects and augmenting existing Exchequer investment plans. Separately, we welcome the Heads of State or Government statement from the Euro Area summit that it is imperative to break the vicious circle between banks and sovereigns and that the Eurogroup will examine the situation of the Irish financial sector with the view of further improving the sustainability of our adjustment Programme.

2. Once again, for the seventh 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):

- The performance criterion for end-June 2012 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on the stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears has also been met.

- We submitted on 29 June an updated PTSB restructuring plan to the EC, ECB and IMF (end June structural benchmark). The plan details the actions needed to ensure the viability of PTSB's core business, recognising that this requires the timely legal and financial separation of the asset management unit.

- We published on July 18 the Fiscal Responsibility Bill (end September structural benchmark). In addition ton implementing the European Fiscal Stability Treaty, the bill provides a legal framework for the Fiscal Advisory Council that ensures its independence.

3. 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 seventh review under the Extended Arrangement. We also request that the seventh purchase in an amount equivalent to SDR 758 million becomes available at the time of completion of the review.

4. Looking forward, the financing need outlook until 2013 is broadly in line with expectations at the sixth programme review. We resumed market issuance of Treasury bills in July 2012 and envision regaining sustainable bond markets access in 2013. We have further developed potential domestic financing sources and have maintained a large cash buffer that provides additional comfort. We propose to leave the phasing unchanged with a total purchasing amount equivalent to SDR 1,516 million over the remainder of 2012 (including this review), and SDR 2,922 million in 2013.

5. We propose that quantitative performance criteria under the arrangement be established for 31 December 2012, as set out in the attached MEFP. The Technical Memorandum of Understanding (TMU) explains how programme targets are measured.

6. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, and subsequent letters as well as 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.

7. This letter is being copied to Messrs. Draghi, Juncker, Rehn, and Shiarly.

Sincerely,

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

II. Memorandum of Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. **Ireland's economy returned to growth but continues to face headwinds from slowing external activity**. Real GDP grew by 1.4 per cent in 2011 on the back of a solid export performance. As a result, the current account on the balance of payments recorded a second consecutive surplus, 1.4 per cent of GNP. Domestic demand continues to decline—albeit at a slowing pace—owing to continuing household balance sheet repair and the still weak labour market. Although private sector employment grew modestly at 1.2 percent y/y, the rate of unemployment rose to 14.8 percent in the first quarter. Driven by high energy costs and administered price increases, the annual rate of HICP inflation averaged 1.8 percent in the first six months of the year. Growth prospects for the remainder of 2012 and into 2013 remain modest, with weak trading partner growth dampening export demand even as further competitiveness improvements cushion this effect. Yields on Irish sovereign bonds have fallen sharply on foot of the 28–29 June 2012 euro area Summit, and Ireland successfully returned to the Treasury Bill market.

2. **We welcome the decisions taken on 28–29 June by euro area authorities to examine the situation of the Irish financial sector with the view of further improving the sustainability of our well-performing adjustment programme**. The euro area Summit also recognised the imperative to break the vicious circle between banks and sovereigns that burdens the economic recovery in Ireland. We will work closely with EC/ECB/IMF partners to develop a plan to meet these stated objectives, for consideration by the Eurogroup. Key financial sector issues to be addressed include the financing of the carve out of legacy assets remaining in banks, especially PTSB, and the promissory notes held by IBRC. Meeting these objectives would strengthen confidence and give impetus to Ireland's economic recovery, thereby ensuring bond market access is regained in a durable manner, averting the need to continue to rely on official financial support.

B. Financial Sector Policies

3. **We submitted to the European Commission a restructuring plan for PTSB at end-June, and we are working with our external programme partners towards the comprehensive strategy needed to ensure its viability**. Under the plan, PTSB is reorganising into three distinct units: (i) the core retail bank; (ii) an asset management unit to house certain legacy assets; and (iii) the U.K. residential mortgage operation, which will be divested as soon as conditions permit. Separate management accounts for each unit will be established by end-September, at which time quarterly performance benchmarks will be, for each unit, established by PTSB. The plan recognises that viability of the core retail bank requires the timely legal and financial separation of the asset management unit, but such a separation hinges on further sector-wide restructuring measures, the nature, timetable, and mechanics of which are yet to be specified. Accordingly, we are exploring options in the context of the decision of the euro area member states to examine the situation of the Irish financial sector with the view of further improving the sustainability of our well-performing

adjustment programme. In the interim, work on financial and operational restructuring of PTSB will continue.

4. **The CBI is streamlining the deleveraging framework to minimise risks to lending and deposit pricing distortions while introducing advanced monitoring of liquidity**. Deleveraging has progressed well and will henceforth be assessed based on the existing nominal targets for disposal and run-offs of non-core assets in line with the 2011 Financial Measures Programme while avoiding fire sales of assets. To prepare banks for the scheduled implementation of Basel III liquidity ratios under CRD IV, we will supervise developments in banks' net stable funding ratio with an emphasis on elements under banks' direct control.

5. **We will continue to phase out the ELG Scheme in an orderly manner**. This important measure helped preserve financial stability through a tumultuous period but could be phased out gradually as the stability of the banking system becomes increasingly assured, which would also enhance bank profitability. An inter-agency working group led by the Department of Finance will by end-2012 develop a roadmap for weaning the banking system off the scheme while preserving financial stability and respecting fiscal deficit targets.

6. **In parallel, we are actively working towards another rigorous stress test**. In preparation for the stress test, and in order to further refine future loan loss forecast estimates the CBI is developing credit data and documentation remediation actions for the PCAR banks as part of their risk mitigation plans. The risk mitigation plans will be updated by end September 2012. We will also revise collateral valuation guidelines by end-December 2012. In relation to mortgage and SME loan arrears, and consistent with our recently implemented Guidelines on Provisioning, we will continue to ensure robust provisioning following the application of loan modification options. In particular, where loans arrears are subject to capitalisation we will require that the loan is not re-set to performing status and that the provisions are held against this part of the portfolio until such time as an appropriate repayment track record (i.e., a minimum of 6 months) has been achieved.

7. **We continue to enhance our supervisory framework**. Supervisory reviews will continue to be conducted on an annual basis for the PCAR banks in line with PRISM, our risk based supervisory engagement model. As part of our ongoing supervision, the CBI is also enhancing its approach to Credit Risk, Risk Weighted Asset (RWA) supervision including conducting annual model performance reviews, assessing RWA calculation and reviewing banks' approaches to RWA forecasting and stress testing in advance of PCAR 2013. Supervisory powers will be further strengthened with the enactment of the Supervision and Enforcement Bill, which will be enhanced at the Committee stage.

8. **We are pressing forward in restoring the viability and solvency of our credit union sector**. We are preparing regulations for the Resolution Fund levy to be adopted by end-September (structural benchmark). Following consultations with key stakeholders, we published the general scheme of a bill strengthening the regulatory framework for credit unions in late June. It provides for the establishment of a Restructuring Board with strong

representation from the sector; administrative preparations to that end are underway. The Board will work with credit unions to deliver agreements on restructuring proposals, which will be subject to CBI regulatory approval and will assist in their implementation. The CBI will engage its resolution powers as needed, drawing on Resolution Fund resources if required.

9. **By year-end, banks will roll out options to address loan arrears and unsustainable debts under the Mortgage Arrears Resolution Strategy (MARS)**. The CBI has reviewed loan modification options for residential mortgages and has given feedback to banks. As part of the MARS process, the CBI will communicate to individual banks to ensure appropriately conservative regulatory and accounting treatment of loan modification options is applied. Banks are preparing to roll out a complete set of loan modification options by year-end, with pilots for a number of options set out in the recommendations of the Inter-Departmental Mortgage Arrears Working Group. To provide a free consultation for distressed borrowers, we will augment the Mortgage Advisory Services by end-September with independent financial advisers, funded by banks.

10. **Implementation of banks' loan modification strategies will be subject to intensive bilateral engagement with supervisors to monitor progress**. The CBI is developing a set of key performance indicators to track the banks' implementation of mortgage arrears resolution strategies, which the CBI plans to collect, analyse and publish on a quarterly basis starting at end-December 2012. A set of key performance indicators for SMEs will also be developed by end-December 2012.

11. **We will establish a new insolvency framework that facilitates the resolution of unsustainable personal debt**. We introduced the Personal Insolvency Bill to the Oireachtas in June to establish a new debt settlement regime in order to address personal financial distress, including on residential mortgages. We recognise the importance of protecting creditors' rights and debt-servicing discipline by subjecting the primary new debt settlement processes – the Debt Settlement Arrangement (DSA) and the Personal Insolvency Arrangement (PIA) to a creditor vote by a qualified majority and by requiring court approval, while safeguarding reasonable standards of living for the debtors. The Bill will also modernise the Bankruptcy Act 1988 by shortening the automatic discharge period in line with evolving international practice. We continue to consider further refinements of the Bill, such as pertaining to the valuation of assets, ahead of its enactment.

12. **In parallel, we are advancing preparations to implement the new personal insolvency framework**. We expect soon to appoint a Director-Designate of the Insolvency Service to oversee the establishment of the Service and contribute to the fine-tuning of the law. A significant number of legal and operational issues require to be addressed in finalising the Bill during the Autumn session commencing in September as to permit the Insolvency Service to become operational in January 2013 or very shortly thereafter. These issues include the licensing and supervision of personal insolvency practitioners and the evolution of reasonable household expenses and necessary trade or business expenses guidelines for debtors. Such guidelines to be prepared by end-year will be crucial for the approved

intermediaries in the operation of the Debt Relief Notice process and, will also be of use to personal insolvency practitioners in the negotiation of a DSA or PIA. We will also review the measures necessary for implementation of the framework.

C. Fiscal Policies

13. **We are on track to deliver a budget deficit within the 8.6 percent of GDP target for 2012**. Implementation of Budget 2012 has safely met the end-June performance criterion on the exchequer primary balance and the indicative target on net debt, further extending our track record of consistently achieving the programme's fiscal targets. Despite the weakening external environment and higher unemployment, strong collection efforts have brought in revenues ahead of profile. At the same time, we are alert to pressures in health and social protection spending, and will continue to manage expenditure to remain within budget.

14. **We continue to make the public service leaner and more effective**. As noted in the Second Implementation Report of the Public Service ("Croke Park") Agreement, the personnel reduction targets for 2012 have been surpassed, with the public workforce now 9 percent smaller than the peak at end-2008. Re-deployments of personnel are gathering pace, and we expect to be able to lock in some of the additional reductions in personnel numbers without compromising critical service delivery. However, some recruitment flexibility may be needed in situations where retirements have created particular skills shortages, or where public service needs have risen.

15. **We are monitoring the public service paybill, including non-core pay elements**. In this regard, we are reining in the cost of overtime through enhanced workforce planning and management, and have completed comprehensive reviews of sick pay and allowance policies as the basis for further cost-saving reforms.

16. **We have begun preparations for Budget 2013 with the aim of further underpinning the credibility of our medium-term fiscal goals**. We are currently finalising a new Employment Control Framework, which will fix departmental resource allocations for next year. In mid-October, we will publish an updated Medium-Term Fiscal Statement setting out our macroeconomic and fiscal projections out to 2015, and the underlying consolidation amounts and composition needed to credibly deliver a consolidation path in line with the Excessive Deficit Procedure, bringing the general government deficit below 3 percent of GDP by 2015.

17. **To ensure that this consolidation protects growth and is equitable and durable, we are analysing a range of strategic reform options**. On the spending side, we are seeking to better target our social supports and subsidies, attenuate work disincentives arising from the structure and interaction of social assistance payments, and contain ageing-related spending pressures. On the tax side, we are looking to broaden the base and develop additional stable revenue sources, including through the introduction of a value-based property tax. Core features of its design and collection will be included in draft legislation at the time of Budget 2013.

18. **We are strengthening our national fiscal framework in line with EU rules and further enhancing budgetary transparency and reporting**. The approval of the end-May referendum cleared the way for parliamentary ratification of the Treaty on Stability, Coordination and Governance. We have published the draft legislation to implement the Treaty, which will enshrine the independence of the already-established Irish Fiscal Advisory Council and ensure its adequate resourcing. This legislation will also include the automatic correction mechanism that would apply in cases of deviations from fiscal targets. Furthermore, we will publish legislation to give statutory basis to the already-operational multi-annual expenditure limits by end September. We have begun preparatory work to enhance our regular fiscal reporting on an exchequer and general government basis. Taking into account the recommendations of the External Review of the Compilation of General Government Debt Statistics, we will consolidate the appropriate responsibilities for debt reporting at the CSO, while also refining the methodology for general government debt forecasting in the Department of Finance.

D. Growth and Structural Reforms

19. **Generating growth and jobs on a sustainable basis remains a critical priority**. We welcome the decision by European leaders to increase the capacity of the European Investment Bank (EIB) to address Europe's growth and investment challenges. We plan to avail of this opportunity to supplement our exchequer capital programme through PPP projects with non-Exchequer sources of funding including EIB. The projects will be in a range of sectors including education, transport and health care. Our plans for the disposal of state assets in the energy generation, aviation, and forestry sectors are advancing as envisioned, with no regulatory or legislative obstacles to the commencement of the sales process in 2013 having been identified. We will use at least half of these proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed, and, once realised, the remainder will be reinvested in job-rich projects of a commercial nature consistent with our fiscal targets.

20. **We are taking further steps to tackle the unacceptably high unemployment rate**. As envisaged under our *Pathways to Work* activation strategy, we are progressively rolling out an integrated services system for the unemployed, where the profiling of clients, development of individual career progress plans, and granting of benefits are carried out by case workers. Pilot programs are currently underway in four locations, with a plan to implement them at ten further sites across the country by year-end. To ensure an adequate level of services, we are currently examining resource levels and training needs of the new integrated employment centres. We are also considering the engagement of private sector firms in the provision of activation services, especially for the long-term unemployed. We will prepare an update on both of these issues by end-September 2012. We are also intensifying our engagement with employers, aiming to increase the notification of vacancies to the employment service and to encourage recruitment of the unemployed from the Live Register.

21. **As we move into more-active engagement with the unemployed, we are reforming the structure of welfare payments to reduce disincentives to work**. In this context, we will transfer responsibility for the provision of rental assistance for persons with a long-term housing need from Department of Social Protection to housing authorities using a new Housing Assistance Payment. A commencement date for the new arrangements of 1 January 2013 has been agreed subject to further consideration of legal and administrative issues by Government. This initiative will help reduce net replacement rates for some groups of long-term unemployed. The DECLG and DSP will also report on the housing assistance reform, in particular on the introduction of the new Housing Assistance Payment by end September 2012.

E. Programme Financing and Monitoring

22. **The programme remains adequately financed**. Building on our strong record of programme performance, we have returned to the Treasury Bill market for the first time since September 2010, raising €500 million through Treasury Bill issuance and €4.2 billion by selling long-term bonds on favourable terms from a broad investor base in July. We are maintaining close contacts with a wide range of market participants with the aim of regaining sustainable bond market access in 2013 and are examining alternative funding sources, including the sale of amortising bonds to pension funds. In view of the external risks to our financing strategy, we continue to maintain a prudent cash buffer. The euro area leaders' commitment to meet financing needs until market access is regained, providing that the programme remains on track, offers a further valuable backstop in the event that financial market conditions in the euro area were to deteriorate.

23. **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 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).

24. **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-June 2012	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-June 2012	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
Updated restructuring plan for the PTSB detailing the actions needed to ensure viability of its core businesses.	End – June 2012	Observed
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence.	End – September 2012	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 2011–13

	30-Sep-11		31-Dec-11		31-Mar-12		30-Jun-12		30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13
	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
	(In billions of Euros)											
	Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion	Indicative Target	Indicative Target 4/	Indicative Target
1. Cumulative exchequer primary balance 2/	-20.2	-18.3	-22.3	-21.0	-6.9	-5.7	-9.6	-8.7	-10.6	-11.2	-3.6	-7.2
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	0	0
	Indicative Target		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/	115.9	111.7	117.2	115.7	125.0	123.0	130.1	128.2	132.5	136.0	141.7	148.7

1/ Adjusted.

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

3/ Applies on a continuous basis.

4/ For comparability, the 31-Mar-2012 outcomes for the cumulative Exchequer primary balance and the stock of central government net debt include the payment of the IBRC Promissory Note although settlement of this payment took place in early April through the issuing of a Government bond. The indicative 31-Mar-2013 Exchequer primary balance and Central Government net debt targets assume the IBRC Promissory Note payment is executed in April 2013 with a cash payment from the Exchequer.

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

Measure	Date	Status
Financial sector policies		
Publish legislation to strengthen the regulatory framework for credit unions, including making legislative provision for effective governance standards and prudential requirements (MEFP Nov. 28, 2011, ¶19).	End-September 2012	Structural benchmark
Approve regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable institutions (MEFP Feb. 10, 2012, ¶9).	End-September 2012	Structural benchmark

III. Technical Memorandum of Understanding

August 20, 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 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 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.

[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.

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, but including debt issued to IBRC to settle Promissory Note payments).[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-September 2012 (performance criterion)	-10.6
End-December 2012 (performance criterion)	-11.2
From January 1, 2013	
End-March 2013 (indicative target)	-3.6[3]
End-June 2013 (indicative target)	-7.2

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:[4]

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

[3] The indicative Exchequer primary balance and Central Government net debt targets for 2013 assume the IBRC Promissory Note payment is executed in April 2013 with a cash payment from the Exchequer.

[4] 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-September 2012 (projection)	30.7
End-December 2012 (projection)	44.1
From January 1, 2013	
End-March 2013 (projection)	10.2
End-June 2013 (projection)	20.9

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-June 2012 central government net debt.

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-June 2012 (provisional)	128.2
End-September 2012 (indicative target)	132.5
End-December 2012 (indicative target)	136.0
End-March 2013 (indicative target)	141.7
End-June 2013 (indicative target)	148.7

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.

- The Department of Finance will report to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date the following data: the Exchequer primary balance, Exchequer tax revenues, payments for bank restructuring carried out under the programme’s banking sector support and restructuring strategy, proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts, Exchequer outlays for the resolution of credit unions, any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund.

- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt, including an unaudited analysis of NPRF holdings, 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, 40 working days after the end of each quarter.

IV. Letter of Intent (European Commission)

Dublin, 20 August 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 of the European Commission responsible for Economic and Monetary Affairs and the euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Mr Vassos Shiarly
Minister of Finance
Michael Karaoli & Gregori Afxentiou
1439 Nicosia
Cyprus

Dear Messrs Draghi, Juncker, Rehn, and Shiarly

1. The Irish Government remains firmly committed to the programme, as illustrated by our continued strong performance in implementing the agreed policy frameworks and measures. Recently released data shows that Ireland had stronger growth than expected in 2011. We returned to the international capital markets in July 2012 with the NTMA issuing both Treasury Bills and long-term bonds totaling €4.7 bn in new funding. In line with our growth focus, we have recently launched a multi-year (2012-2018) stimulus package worth €2.25 billion. This will be financed through Public-Private Partnerships

(PPPs) with EIB and private sector participation and be used for investment in public infrastructure projects, and also support employment-enhancing and commercial projects and augment existing Exchequer investment plans. The fiscal consolidation path agreed under the Programme will not be affected.

2. The passage of the referendum allowing the ratification of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union has demonstrated Ireland's commitment to prudent policies and consolidation.

3. We welcome the June 29 statement of the Heads of State or Government of the euro area stressing the need to sever the pernicious link between the banks and the sovereigns and mandating the euro group to examine the situation of the Irish financial sector with a view to enhancing the sustainability of our well-performing programme. We are working with staff from the European Commission, the European Central Bank and the International Monetary Fund to present options to the Eurogroup in the next few weeks. In the meantime, we remain committed to maintaining our strong record of programme implementation, beginning with the forthcoming preparations for the 2013 Budget.

4. Once again, for the seventh review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets:

- As regards our fiscal consolidation objectives, the cumulative exchequer balance through end-June 2012 was ahead of the programme profile and the 2012 general government deficit is projected to be at, or below, the 8.6% of GDP programme ceiling.

- We have continued to advance the envisaged structural reforms. In particular, we have agreed on a detailed, time-bound implementation plan for the transfer of water service provision to Irish Water, made provisions for an increase in the staffing of the Competition Authority, and assessed scope for reform of welfare payments, including to reduce any disincentives to take up work. We have also conducted a due diligence on the state assets which we have identified for disposal starting in 2013, and have identified no regulatory or legislative obstacle to bringing the assets closer to the point of sales in the weeks and months ahead. Finally, we have presented to the Oireachtas a revised Industrial Relations (Amendment) Bill in line with the result of public consultations and programme understandings. The bill has been enacted and was commenced on August 1.

- The overarching strengthening, restructuring, and right-sizing of the domestic banking sector and the credit union sector is also progressing according to plans, including for example with the completion of the remaining capitalization of Permanent TSB and of some of the work-streams in the Financial Measures Programme (independent asset quality review, distressed credit operations review, a data integrity validation exercise, and an income recognition and re-aging project), the submission to the European Commission of a restructuring plan for Permanent TSB, and the publication of the legislation on personal insolvency reform.

5. In the attached sixth update of the Memorandum of Understanding of Specific Economic Policy Conditionality (the MOU), as well as in the Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives of our economic adjustment programme supported by financial assistance from the EU and the IMF. 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 seventh review and the release of the seventh EFSF/EFSM disbursement of EUR 1 billion.

6. Looking forward, the financing need outlook until 2013 is broadly in line with expectations at the sixth programme review, whereby our larger cash buffer provides additional comfort. We continue to move steadily towards our core goal of regaining sustainable access to the international capital markets during 2013, and have recently returned successfully to the both the Treasury Bill and bond markets with issuance which received ample demand and were favourably priced. As a result, the funding hurdle associated with a large bond redemption in January 2014 has been significantly reduced.

7. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, and subsequent letters as well as 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. We will continue to consult with staff of the European Commission, the ECB, and the IMF on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memoranda becomes necessary.

8. This letter is being copied to Mme Lagarde.

Sincerely,

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

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

Ireland

Memorandum of Understanding on Specific Economic Policy Conditionality

(Sixth update)

13 September 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 sixth 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 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 (EDP), 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 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

[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.

achieved. Any additional unplanned revenues must be allocated to debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- Continue to strengthen the fiscal framework and reporting in line with that of the EU.
- Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of the total realised proceeds in projects which are of a commercial nature, meet ex-ante cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.
- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible.
- Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular, the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on *Pathways to Work* (the government's strategy for institutional reform of the activation system).
- 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.
- Ensure that NAMA: (i) maintains the highest standards of governance with appropriate accountability and transparency arrangements; (ii) reduces the costs of its operations; and (iii) constructively contributes to the restoration of the Irish property market in the course of meeting the asset disposal targets established and monitored by the NAMA Board, including redemption of €7.5 billion worth of senior bonds by end 2013.
- Ensure that the restructuring of credit unions will underpin the financial stability and long term sustainability of the sector. The restructuring will be completed in as short a timeframe as possible under a clear plan identifying credit unions appropriate for restructuring, subject to Central Bank regulatory approval. As regards funding, the first call should be on the credit unions concerned or the sector as a whole; any Exchequer funding should be minimised, should be provided only in the context of a restructuring plan in compliance with EU state aid rules, and should be recouped from the sector over time. In parallel, the Central Bank will continue its inspections to determine the financial condition of the weakest credit unions, and will engage its resolution powers as needed, drawing on Resolution Fund resources if required.
- Ensure continued compliance with the minimum Core Tier 1 Capital ratio of 10.5 percent for all PCAR banks (AIB, BOI, and PTSB).

- 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 eighth review (actions to be completed by end Q3-2012)

Financial sector reforms

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will establish an advanced monitoring framework covering in detail all factors affecting banks' Net Stable Funding Ratio (NSFR). This will enable close monitoring of progress towards the relevant Basel III requirements.
- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage portfolios in accordance with the agreed key performance indicators.

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 with the staff of the European Commission, the ECB and the IMF.
- The authorities will publish the legislation to strengthen the credit union legislative framework taking account of the comprehensive recommendations in the Commission on Credit Unions Report.

- As recommended by the interim and final reports of the Commission on Credit Unions, regulations will introduce the requirement, under the terms of the Deposit Guarantee Scheme, for credit unions to maintain an amount in the Deposit Protection account at the Central Bank. The authorities will also adopt regulations underpinning the Resolution Fund Levy to recoup Exchequer resources provided for the resolution of troubled credit unions.

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 strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.

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

- AIB’s new management team will update its restructuring plan to enhance revenue, reduce operating costs, and restructure operations. This plan will be submitted to the European Commission for approval under State Aid rules.

Structural reforms

Personal debt

- The authorities will ensure that a programme to facilitate access by distressed borrowers to professional financial advisory services, funded by banks, will be operational.

State assets

- Building on the indicative timetable for asset sales provided at end-Q2 2012, the government will provide a progress report for each asset and/or group of assets identified for disposal. This report will cover both progress achieved and remaining steps towards the point of sale.

Efficient social support expenditure

Building on the progress so far and on the data provided at end-June 2012, the Department of Social Protection will:

- continue: (i) the introduction of one-stop shops, (ii) employer engagement by the National Employment and Entitlement Services (NEES); and (iii) the roll-out of job matching;

- continuously monitor the performance of the activation system and report to the staff of the European Commission, the IMF, and the ECB on progress on:
    - Reducing the average duration of staying on the live register
    - Increasing the fraction of vacancies filled off the live register
    - Ensuring engagement with employment services as a pre-condition for receipt of jobseeker payments

- Carrying out profiling, group and individual engagement through interviews
- Increasing the number of unemployed referred to training courses and employment supports
- Providing data on live register broken down by continuous duration, and on probability of exit by various durations
- Providing summary statistics on those in receipt of penalty sanctions by duration of unemployment and prioritise progress on data analysis by exit destination and length of penalty period.

- Report to the staff of the European Commission, the IMF, and the ECB on continued progress on implementing an improved data collection system to enable ongoing evaluation of activation and training policies, in light of the March 2012 external evaluation.

- In the context of Budget 2013, the Department of Social Protection (DSP) will present options to Government for consideration, having regard, inter alia, to the results of the July 2012 actuarial review of the social insurance fund. The DECLG and DSP will also report on the housing assistance reform, in particular on the introduction of the new Housing Assistance Payment.

Health sector

- Authorities to specify quantified measures to eliminate the spending overrun by year end.

Labour market reform

- The authorities will further advance the passage of the Industrial Relations (Amendment) Bill 2011 through the parliamentary process.

Utilities sector

- Building on the high level implementation strategy provided at end-Q2 2012, the authorities will report on progress for the transfer of water services provision from local authorities to Irish Water and the roll-out of a domestic water metering programme with a view to start charging by the end of the EU-IMF programme period. The authorities will also consider and provide an update on the general government debt and deficit treatment implications of establishment of Irish Water.

Structural fiscal reforms

Fiscal framework

- The Government will publish legislation to anchor its already operational multi-annual expenditure limits.

- Government will publish draft legislation which enshrines the commitment to sound public finances, gives statutory basis to the Irish Fiscal Advisory Council and provides for the Council’s independence and adequate resourcing.

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

Fiscal consolidation

- Taking account of the European Semester, Government will publish a budget for 2013 aiming for 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.

- On the basis of the aggregate budgetary projections set out in the Medium Term Fiscal Statement (MTFS) of November 2011, consolidation measures for 2013 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 value-based property tax.
    - 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 to the requirements to achieve the agreed fiscal targets, the Government may, in consultation with the staff of the European Commission, the IMF, and the ECB, 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).

Financial sector reforms

Capital assessment

- The authorities will provide the staff of the European Commission, the ECB and the IMF a review of developments in the covered banks relative to PCAR 2011 by end-November. Overall results of this work will be published. The authorities will agree with the staff of the European Commission, the ECB and the IMF on the specific details of the review.

Deleveraging

[2] Inclusive of carryover from 2012.

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage portfolios in accordance with the agreed key performance indicators. A set of key performance indicators for SMEs will also be developed.

Liquidity buffers

- Following finalisation of the Capital Requirements Directive legislative text, the authorities will establish draft guidance for the creation and subsequent holding of liquidity buffers by banks for issue in advance of the entry into force of the regulations.

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 IMF, and the ECB.

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 strategies to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios.

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 asset disposals

- Government will complete, if necessary, relevant regulatory, legislative, corporate governance and financial reforms required to bring to the point of sale the assets it has identified for disposal. For each asset and/or group of assets, the government will provide a report to the staff of the European Commission, the IMF, and the ECB on progress achieved and remaining steps towards to the point of sale.

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

Financial sector reforms

Capitalisation

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

Capital assessment

- The authorities will agree with the staff of the European Commission, the ECB and IMF on the specific features of the methodology.

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

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

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

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 with the staff of the European Commission, the IMF, and the ECB.

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 with the staff of the European Commission, the IMF, and the ECB.

- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.

- The authorities will review the implementation of the 2011 CBI Provisioning and Disclosure guidelines by the covered banks.

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

Financial sector reforms

Capital assessment

- The authorities will complete the PCAR 2013. Building on the outcomes from PCAR 2011 and the FMP 2012, the authorities will conduct another rigorous stress test and this will continue to be based on robust loan-loss forecasts and a high level of transparency. This stress test will draw on our assessment of the banks' calculation of risk weighted assets, loan loss forecasting, and capital modelling. The stress test will focus on the bank balance sheets following the implementation of technical work addressing legacy and nonperforming loans. Before publication, the results of the PCAR 2013 will be discussed with the staff of European Commission, the IMF, and the ECB and will be aligned with the timing of the next EBA exercise. The results and methodology will be published in full and on a bank-by-bank basis, and the authorities will accordingly ensure that banks are adequately capitalised.

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

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

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

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 IMF, and the ECB.

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 IMF, and the ECB.

- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.

Structural reforms

State assets

- The authorities will report to the staff of the European Commission, the IMF, and the ECB on the quantum of the proceeds of any realised asset sales to date. For assets yet to be disposed, the authorities will report on progress made and remaining steps.

Labour market reform

- The authorities will report to the staff of the European Commission, the IMF, and the ECB on the impact on the labour market of reforms to sectoral wage-setting mechanisms undertaken under the programme.

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

Financial sector reforms

Capital assessment

- 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 IMF, and the ECB.

Deleveraging

- The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures

Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

- The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework.

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

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

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 IMF, and the ECB.

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 IMF, and the ECB.

- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios.

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

Financial sector reforms

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 run-off targets in nominal value terms will be discussed with the staff of the European Commission, the IMF, and the ECB.

- The authorities will produce a final report on progress towards compliance with Basel III liquidity and funding requirements 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.

Asset quality

- The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators.

Reorganisation

- The authorities will provide a final 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 IMF, and the ECB.

Financial Supervision

- The authorities will present a final 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 IMF, and the ECB.
- The authorities will provide a final report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.
- 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 IMF, and the ECB 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 the staff of the European Commission, the IMF, and the ECB.

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 central 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 working days after the end of each month
N.3	Data on the National Debt	Monthly, 15 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 including LDR, NSFR and LCR outturns and forecasts.	Quarterly, 40 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 from the banks 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 deleveraging in line with the 2011 Financial Measures Programme; and (ii) actual and planned asset disposals.	Quarterly, 40 working days after the end of the reference period.