© 2011 International Monetary Fund

September 2011
IMF Country Report No. 11/276

Ireland: Third Review Under the Extended Arrangement—Staff Report; Letter of Intent; Memorandum of Economic and Financial Policies; Technical Memorandum of Understanding; Letter of Intent and Memorandum of Understanding on Specific Economic Policy Conditionality (College of Commissioners);Staff Supplement; Press Release on the Executive Board Discussion.

In the context of the third review under the extended arrangement, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Extended Arrangement, prepared by a staff team of the IMF, following discussions that ended on July 14, 2011 with the officials of Ireland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 8, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Letter of Intent sent to the IMF by the authorities of Ireland.
- Memorandum of Economic and Financial Policies by the authorities of Ireland.
- Technical Memorandum of Understanding.
- Letter of Intent and Memorandum of Understanding on Specific Economic Policy Conditionality (College of Commissioners).
- A staff supplement of August 29, 2011 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its September 2, 2011 discussion of the staff report that completed the request and/or review.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

IRELAND

Third Review Under the Extended Arrangement

Prepared by the European Department in Consultation with Other Departments

Approved by Ajai Chopra and Martin Mühleisen

August 8, 2011

Extended Arrangement. A three-year EFF arrangement with access of SDR 19.5 billion (1,548 percent of quota) was approved on December 16, 2010. Two purchases totaling SDR 6.4 billion (about €7.2 billion) have been made. The third purchase, subject to completion of this review, would be in an amount equivalent to SDR 1.3 billion (about €1.5 billion). To date the EU has disbursed €15 billion, and is scheduled to disburse another €3 billion in the third quarter, including the equivalent of some €0.5 billion under a bilateral loan from the United Kingdom.

Recent Developments. Escalating stress in the euro area, fueled by uncertainty regarding private sector involvement in relation to Greek government debt, spilled over into soaring Irish sovereign spreads and one rating agency downgraded the Irish sovereign to speculative grade. These pressures began to moderate after the announcements made by the European Council on July 21. Meanwhile, recent economic data are consistent with a return to positive growth in 2011. Although downside risks from potential adverse developments in the euro area have eased, they remain significant.

Program Status. Strong implementation of the program has continued, with fiscal consolidation on track to meet the 2011 program targets, and all end-June and continuous performance criteria and indicative targets achieved. Moreover, the broad agenda of financial sector reforms is advancing, including the restructuring, recapitalization, and deleveraging of banks, with all structural benchmarks for this review being observed. The authorities have also established the Irish Fiscal Advisory Council. The benefits of these efforts were, however, overwhelmed by the financial stress in the euro area for much of the review period. Recent announcements to strengthen European support to Ireland, including through lower interest rate and longer maturity financing, will help improve debt and debt service outlooks. Enhanced EFSF flexibility is also welcome, although options for additional flexibility with the aim of helping countries such as Ireland regain market access at an early stage should be actively considered. Looking ahead, timely and sound implementation of remaining financial sector reforms, coupled with efforts to secure medium-term fiscal consolidation and further enhance growth prospects, is needed to lift market confidence in debt sustainability and thereby ensure Ireland is well positioned to leverage stronger European support into progressively regaining market access.

Discussions. See the Fund Relations Annex.

Publication. The Irish authorities consent to the publication of the Staff Report.

Contents Page

I. Background....3

II. Recent Developments....3

III. Outlook 10

IV. Policy Discussions....11
A. Financial Sector Reforms....12
B. Fiscal Consolidation and Structural Reforms....17

V. Program Modalities and Risks....21

VI. Staff Appraisal....23

Boxes
1. NAMA Asset Acquisition and Disposals....9
2. Bank Deleveraging: Scope and Framework....14
3. Household Debt Distress....16
4. CBI Actions to Strengthen the Effectiveness of Banking Supervision....18
5. The Irish Fiscal Advisory Council....20

Figures
1. Ireland: Real Sector and Inflation Indicators....5
2. Housing Market and Mortgage Indicators....7
3. Developments in Private Sector Loans....8

Tables
1. Selected Economic Indicators, 2077–11....25
2. Medium-Term Scenario, 2007–16....26
3. General Government Finances, 2007–15....27
4. Indicators of External and Financial Vulnerability, 2006–11....28
5. Summary of Balances of Payments, 2008–13....29
6. External Financing Requirements and Sources, 2008–13....30
7. Monetary Survey, 2008–11....31
8. Schedule of Reviews and Purchases....32
9. Indicators of Fund Credit, 2010–24....33

Annexes
I. Debt Sustainability Analysis....34
II. Fund Relations....41

Attachments
I. Letter of Intent....43
II. Ireland: Memorandum of Economic and Financial Policies....45
III. Ireland: Technical Memorandum of Understanding (TMU)....55
IV. Letter of Intent (College of Commissioners)....59
V. Memorandum of Understanding on Specific Economic Policy Conditionality....62

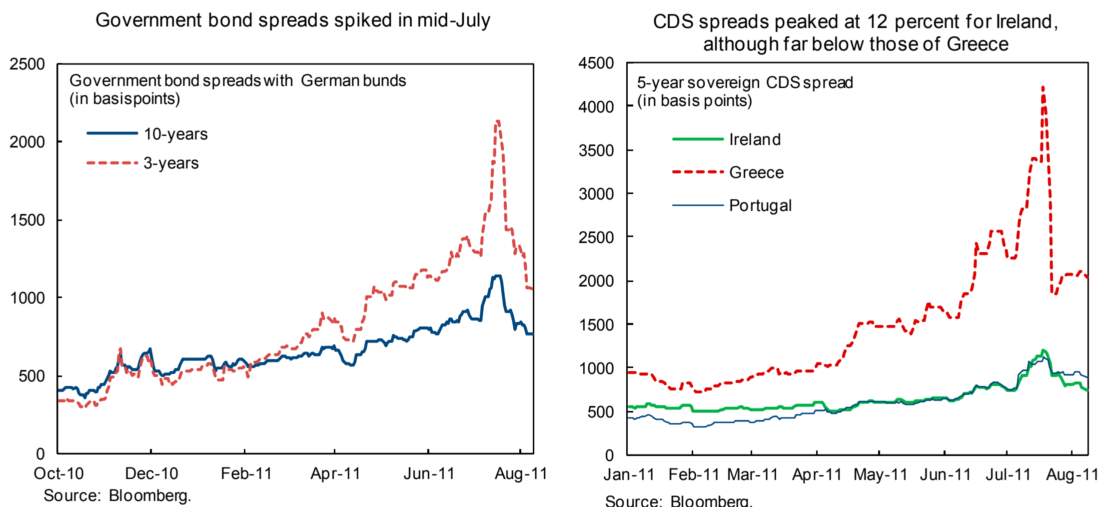
I. Background

1. **The Irish authorities steadfastly maintained strong policy implementation despite a sharp escalation and expansion of stress in euro area sovereign bond markets.** Irish sovereign spreads, together with those of other countries, widened drastically from mid-April through mid-July, driven by uncertainty concerning private sector involvement in support for Greece, and a perceived lack of coordination at the wider euro area level. Despite these headwinds, all quantitative macroeconomic targets were achieved (MEFP Table 2) and all structural benchmarks for this review were observed (MEFP Table 1).

2. **Strengthened European support announced by the European Council meeting on July 21 is welcome, although much remains to be done.** Lowering the interest rates on EU loans, and lengthening their maturities, will improve debt and debt service dynamics. This, together with the EU commitment to provide support until market access is regained if Ireland continues to successfully implement its program, could fortify political backing for the fiscal consolidation needed in coming years, and set the stage for a sustained decline in bond spreads that has yet remained elusive. Enhancements of the flexibility of the EFSF are also welcome, although options for additional flexibility should be kept under active consideration to help Ireland regain market access at an early stage.

II. Recent Developments

3. **Spreads soared owing to spillovers from developments elsewhere in the euro area**. Despite signs of a return to modest growth, solid fiscal performance and strong implementation of the EU-IMF program, heightened market uncertainty in relation to Greece led spreads over German bunds to widen to new highs in mid-July (1,140 basis points for 10-year and 2,130 basis points for three-year government bonds), and Moody's downgraded Ireland by one notch to speculative grade on July 12. Spreads eased after the July 21 announcements, although they remained elevated as of early August. (Staff will provide an update to the Executive Board on these and other relevant developments.)



4. **The economy is stabilizing after three years of decline, with the re-balancing of economic growth from domestic demand to net exports ongoing** (Figure 1, Table 1).

- **Overall the economy has been flat in the past year**. Revisions to GDP data showed a decline of 0.4 percent in 2010, smaller than the preliminary estimate of a 1 percent contraction, and the level of nominal GDP in 2010 was revised up by 1¼ percent. In 2011:Q1, real GDP grew by 0.1 percent on an annual basis, driven by net exports that just outweighed a negative contribution from domestic demand. Consumption was weaker than anticipated, as savings were boosted by precautionary motives, but investment increased although partially due to aircraft purchases. Exports have been strong, although recent declines in new export orders and the manufacturing PMI could indicate softer export growth ahead.

- **Unemployment eased but remains high, and more than half have been out of work for more than one year**. The unemployment rate eased to 14 percent in 2011:Q1, reversing the surprise jump to 14¾ percent at end-2010, largely reflecting an acceleration of the pace of decline in participation. Although employment rose in some sectors, this was not sufficient to offset job losses in hospitality and construction.

- **The pace of inflation has slowed**. Annual HICP inflation was 1.1 percent in June, slowing for the second consecutive month. Energy prices are still the main driver of inflation, but higher insurance costs also pushed up the average. Core inflation has turned positive in past months, but remains weak, keeping inflation well below the euro area average of 2.5 percent in July.

- **Some of the earlier competitiveness losses are being reversed.** Unit labor costs continued to decline in 2011:Q1—by 3 percent on an annual basis—reflecting productivity gains.[1] Average hourly earnings were broadly flat over the same period, but as wages are growing in trading partner countries, the relative labor cost in Ireland has come down.

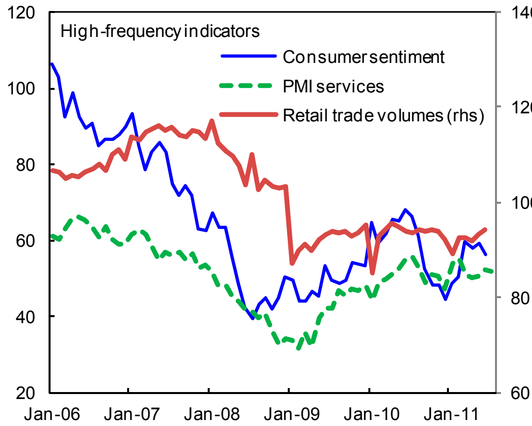
- **The external current account balance dipped in the first quarter, while FDI inflows have increased**. For the first time since 1999, the current account recorded a surplus in 2010 (Table 5). Although the trade surplus continued to grow, large and volatile factor income outflows turned the current account to a 2¾ percent of GDP deficit in 2011:Q1. The Industrial Development Agency (IDA Ireland) announced investments by 75 overseas companies in the first half of 2011, up 19 percent from 2010, with 28 investing in Ireland for the first time.[2]

[1] These productivity gains are partly due to compositional effects, as discussed Box 5 of the IMF Country Report No. 11/109 for the First and Second reviews.

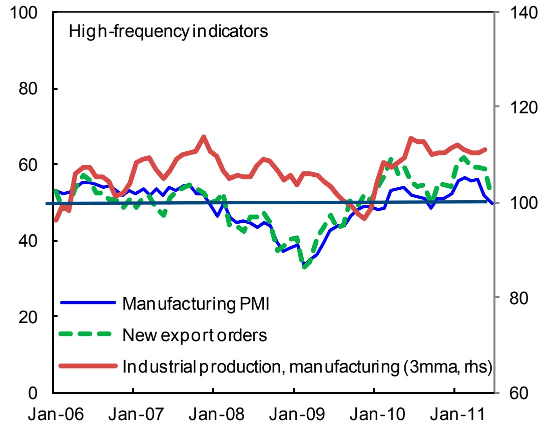
[2] See: http://www.idaireland.com/news-media/press-releases/ida-ireland-on-track-to-a-1/index.xml

Figure 1. Ireland: Real Sector and Inflation Indicators

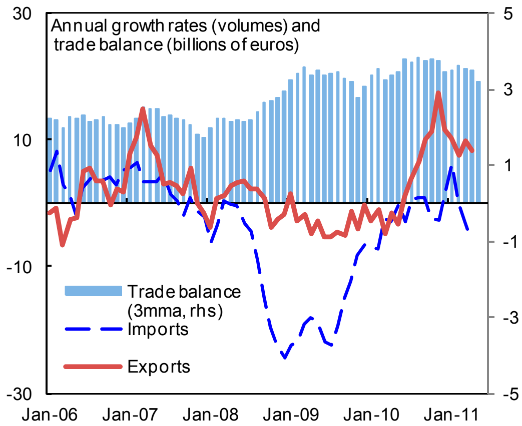
Consumer sentiment has improved, but retail sales remain weak



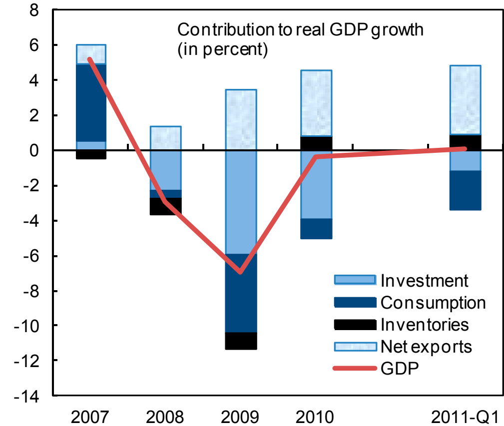
Strong export orders and manufacturing PMI have softened in recent months



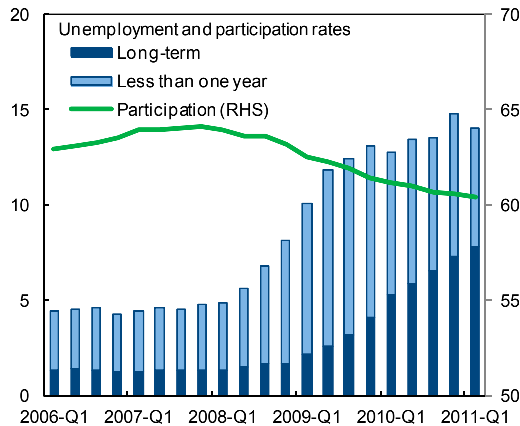
Growth rates of exports and imports have slowed in recent months, but trade surplus persists



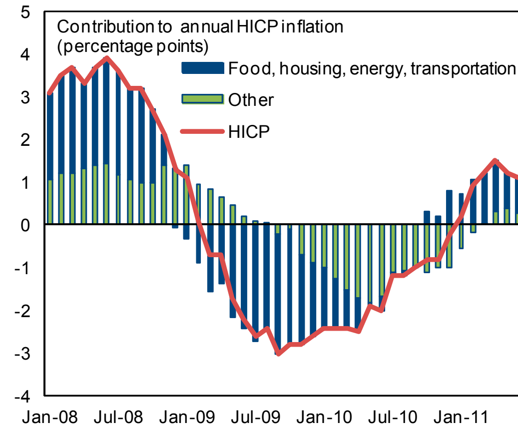
Net exports remain the key source of growth, as domestic demand continues to contract



Unemployment peaked in 2010 Q4, but long-term unemployment continues to increase



Higher inflation is mainly driven by food and energy prices, but domestic pressure is on the rise

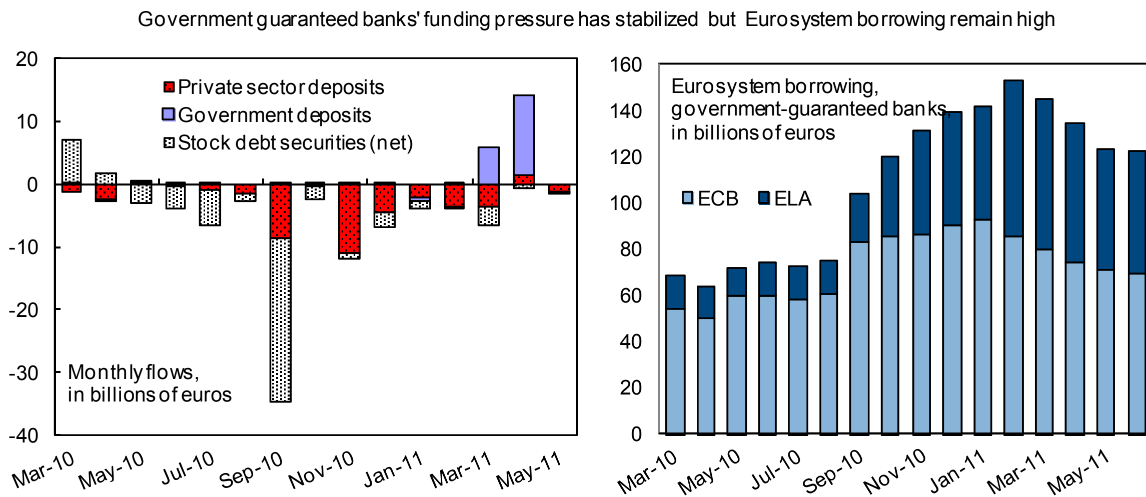


Sources: NCB, ESRI, Markit, and Central Statistics Office Ireland.

5. **Pressure on banks' funding has stabilized in recent months, but credit to the private sector continues to contract** (Figures 2 and 3, Table 7).

- **Deposit outflows have eased and reliance on Eurosystem support has declined but remains high.** In the months since the end-March announcements on bank reforms and recapitalization, private sector deposits at government-guaranteed banks have broadly stabilized. Banks' overall reliance on Eurosystem liquidity support had declined to €123 billion at end-June because the government placed funds as deposits with banks prior to their recapitalization.

Government guaranteed banks' funding pressure has stabilized but Eurosystem borrowing remain high



Source: Central Bank of Ireland.

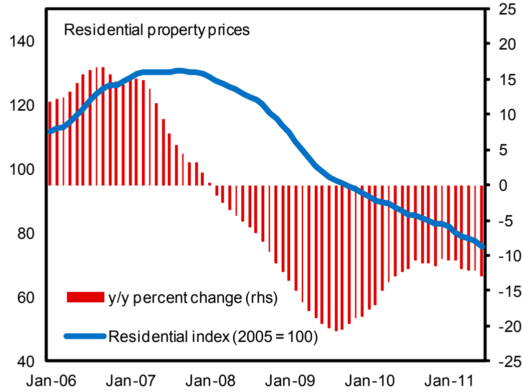
- **Mortgage credit continues to contract and house prices are falling further**. House prices declined at an annual pace of around 13 percent in June, and have fallen 42 percent from their peak in 2007. Households are reducing their mortgage balances, and few new mortgages are being taken out, in part reflecting concerns that the market has further to fall. With continued high unemployment, the rate of mortgage arrears by value has increased to 8.3 percent at March 2011 (or 6.3 percent in terms of the number of mortgages in arrears), from 5.2 percent a year earlier. The majority of this increase reflects arrears of over 180 days, which are almost three-quarters of total arrears.

- **Credit to the SME sector is contracting**. The contraction reflects a combination of weak demand and tighter lending standards, where surveys indicate that successful loan applications are down to 50 percent in 2010 from 90 percent in 2007. It is notable that high indebtedness of businesses is the leading reason given by banks for full or partial loan refusal, suggesting a need to work out problem loans to restore the viability and growth potential of SMEs, some of which are impaired by real estate investments.

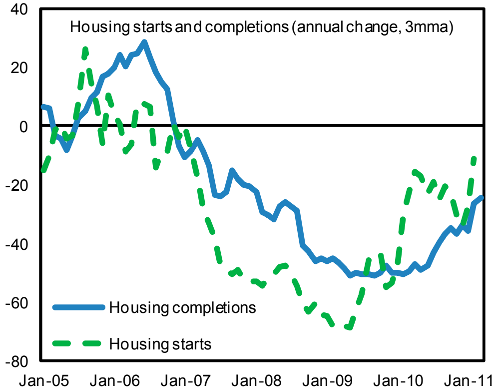
- **NAMA's asset disposals are proceeding**. NAMA has approved €3.9 billion in sales so far, just under half of the target to dispose of one-quarter of assets by end-2013 (Box 1).

Figure 2. Housing Market and Mortgage Indicators

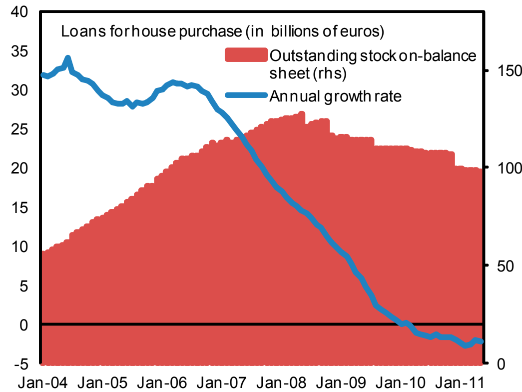
Property prices continue to decline



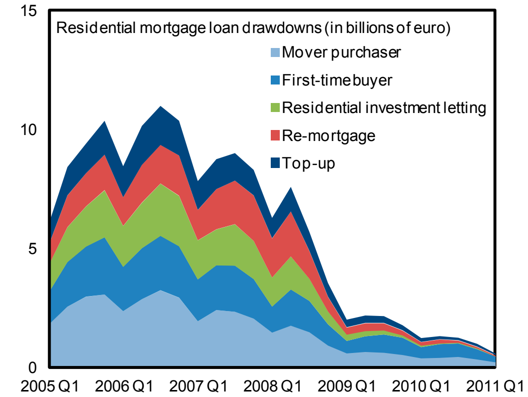
The continued declines in housing starts suggest that the bottom has not yet been reached



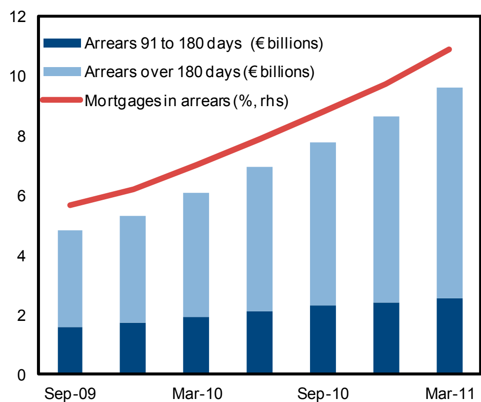
The outstanding stock of mortgages has fallen by 23 percent since the peak in 2008



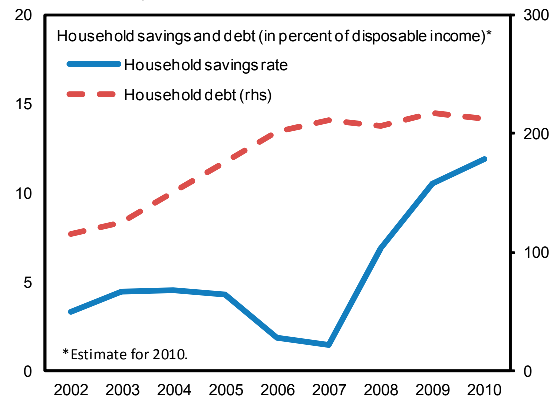
Residential mortgage drawdowns have come down by more than 90 percent



About 6 percent of mortgages are in arrears, increasingly longer-term, totaling about €9 billion



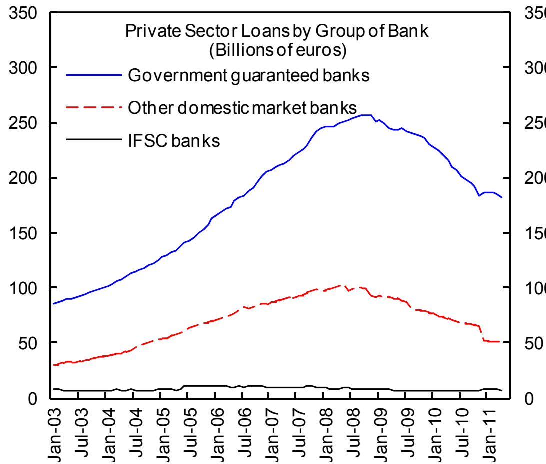
Household debt burdens have begun to fall with the savings rate at record levels



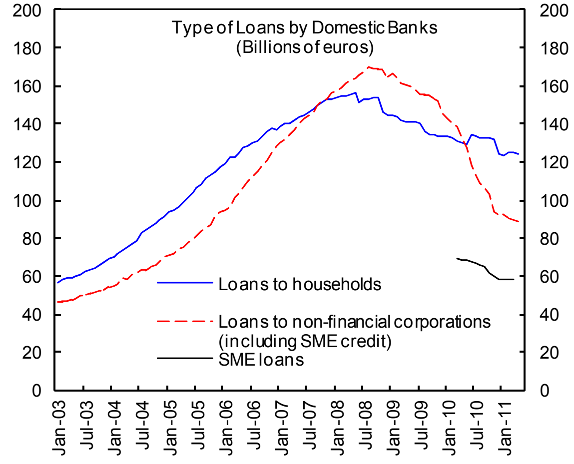
Sources: Central Statistics Office, Department of Environment, PWC, Central Bank of Ireland, and Fund staff estimates.

Figure 3. Developments in Private Sector Loans

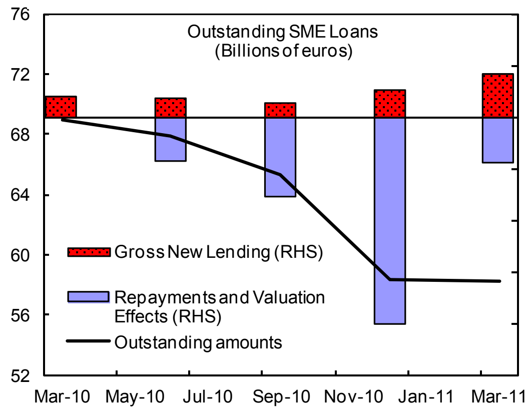
Loans to the private sector continues to contract, from all types of banks



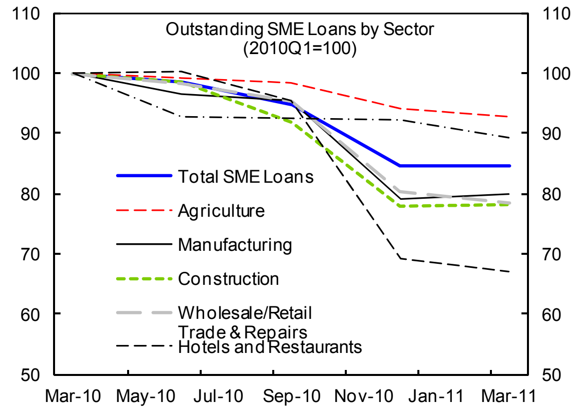
Especially loans to corporations (though this partly reflects €70 billion loans transferred to NAMA)and SMEs



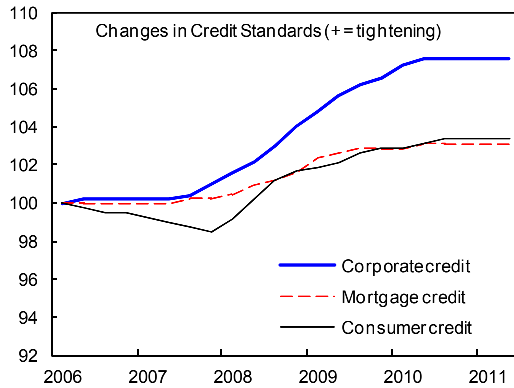
SME loans stabilized in 2011'Q1 after contracting through 2010



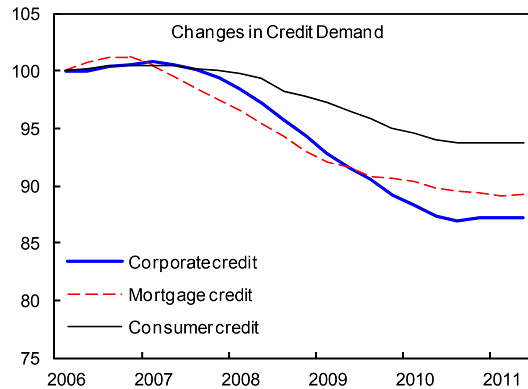
Construction and services are hardest hit



Credit standards have stabilized after a prolonged period of tightening…



…while demand for credit has stabilized at low levels.



Source: Central Bank of Ireland.

Box 1. NAMA Asset Acquisitions and Disposals [1]

The National Asset Management Agency (NAMA) was established in late 2009 to conduct an orderly disposal of banks' distressed property assets. In return for assets purchased by NAMA, participating institutions receive government-guaranteed securities.

By end 2010, NAMA had acquired 11,500 loans to 850 debtors with nominal loan balances of €71.2 billion. About 60 percent of the property assets securing NAMA loans are based in Ireland, and 32 percent in U.K. and Northern Ireland. Recently NAMA acquired additional loans of €1.1 billion, bringing total acquisition to €72.3 billion at a cost of €30.5 billion.

Table 1. NAMA Assets and Disposals
(In billions of Euros)

Acquisitions	**74.7**
Planned acquisitions	2.4
Acquisition to date	72.3
Acquisition cost (to date)	**30.5**
Sales expected by end-2013	**7.5**

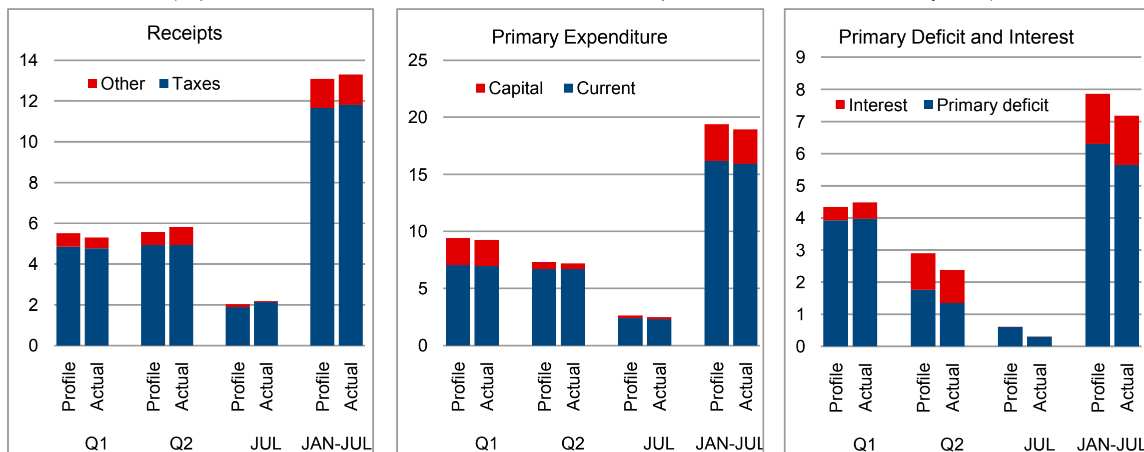
Source: NAMA.

NAMA targets the disposal of 25 percent of total assets by end of 2013, with most of these sales expected to be outside Ireland. As of mid-2011, a total of €3.9 billion of in asset sales were approved, about 43 percent of the end 2013 target.

[1] For more detail, see NAMA's annual report for 2010.

6. **Fiscal performance through July 2011 has been stronger than programmed.** The performance criterion on the cumulative exchequer primary balance at end-June 2011 was met comfortably, as was the indicative target on central government net debt (MEFP Table 2). Excluding the cost of bank recapitalization, the seven-month exchequer primary deficit for January–July was 5.6 percent of GDP, 0.7 percentage points tighter than implied by the authorities' revenue and expenditure profiles. More than half of this fiscal saving arose from the expenditure side, split equally between current and capital spending (1½ and 7 percent below profile, respectively). Revenues were also better than expected by 0.2 percent of GDP, with overperformance in income tax, corporation tax, excise and stamp duties more than offsetting a 2.9 percent shortfall in VAT.

Monthly Exchequer Out-Turn Vs. Profile—January to July 2011 1/
(In percent of 2011 GDP; excludes €7.6 billion bank recapitalization costs incurred in July 2011)



1/ "Profile" denotes the authorities' official revenue and spending profiles—consistent with Budget 2011—which were published in February 2011.

III. OUTLOOK

7. **The macroeconomic outlook has been clouded by the stress in European sovereign debt markets, but recent data are consistent with a return to positive growth in 2011.** Data for first quarter GDP and a range of other indicators support an unchanged real GDP growth projection of 0.6 percent for 2011. As before, the decline in domestic demand is expected to be outweighed by the positive contribution from net exports, but the composition of expected domestic demand growth has shifted. Private consumption is expected to contract by 2½ percent in 2011, down from 1½ percent at the previous review, consistent with declining retail trade (excluding motor trades) through June and a persistently high savings rate. Investment, on the other hand, is expected to decline by 10½ percent in 2011, 3 percentage points less than previously anticipated. The authorities shared broadly similar views on the 2011 outlook.

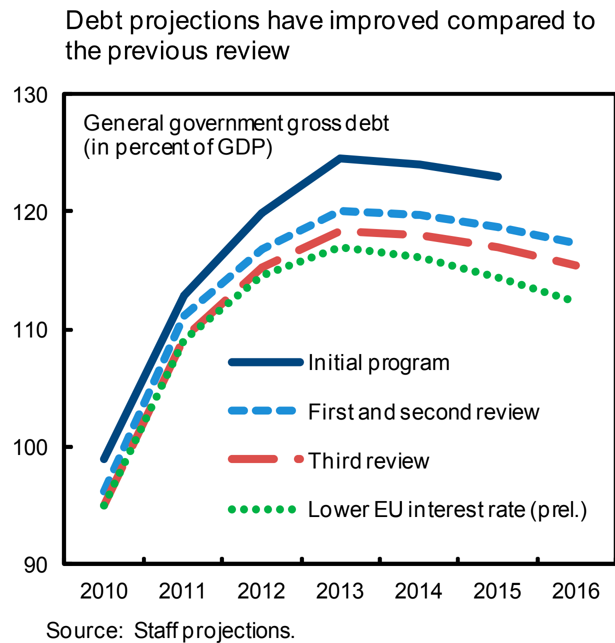
8. **The pace of economic recovery then strengthens in 2012 (Table 2)**. Domestic demand contraction is expected to slow as household savings are already high and household debt is declining, fiscal drag is lessening, and a modest business investment expansion is emerging. Continued solid export growth is projected to be sufficient to generate GDP growth of about 2 percent, even as import growth rises somewhat. The authorities are modestly more optimistic for 2012, expecting a 2½ percent growth rate, reflecting a stronger net export contribution owing to competitiveness gains, and with flat private consumption moderating the decline in domestic demand in 2012.

9. **HICP inflation is expected to remain subdued**. International energy prices will continue to contribute to inflation in the coming months. However, lower VAT rates on labor-intensive items starting from July are expected to lower inflation by 0.1–0.2 percentage points on an annual basis, and weak activity will continue to contain domestic price pressures. On an annual basis, HICP inflation is expected to average 1.1 percent in 2011, and then ease to 0.6 percent in 2012 as international price pressures moderate. CPI inflation is set to be significantly higher due to hikes in mortgage interest rates.

10. **Current account surpluses will rise given the export-led nature of the recovery.** Surpluses of 1¾ percent and 2½ percent of GDP are expected in 2011 and 2012 respectively, up from ½ percent in 2010. Given the large role of multinational companies in exports, rising net exports will be partly offset by factor income outflows, diminishing the overall impact on the current account position and the spillover to domestic demand. In the medium term, as domestic demand recovers, the surplus is expected to stabilize around 1½ percent of GDP.

11. **Debt and debt service projections have improved from the previous review, and will further benefit from enhanced EU support (Annex I).**[3] General government debt is projected to peak at about 118 percent of GDP in 2013—down from 120 percent at the previous review—and to decline to about 115 percent of GDP by 2016, or about 100 percent of GDP net of liquid financial assets. The debt path is lowered primarily due to upward data revisions that lifted the level of nominal GDP projections, although this is partly offset by somewhat higher assumptions for Irish sovereign spreads given recent market developments. As elaborated in Annex I, a preliminary analysis indicates lower EU loan rates will reduce interest costs by about ½ percent of GDP annually, generating a cumulative reduction in the debt path over time. Assuming that all interest expense reductions are saved, as is consistent with the specification of fiscal consolidation targets in the program, the debt ratio is tentatively reduced to 112 percent of GDP in 2016. In addition, the debt service profile is notably improved by the extension of EU loan maturities.

Debt projections have improved compared to the previous review



Source: Staff projections.

IV. Policy Discussions

12. **The authorities shared the view that the program strategy remains appropriate even in the face of more adverse external financial market conditions**. The authorities noted that the sharp widening in Irish sovereign spreads reflected forces out of their hands, and had occurred despite their strong policy implementation efforts and also despite signs of a turning point in economic activity. It was agreed that continued implementation of the program strategy to progressively reduce doubts regarding debt sustainability and thereby regain market access would also serve to help contain any contagion risks and best position Ireland to benefit from stronger European support. Discussions therefore centered on timely and sound implementation of financial sector reforms, steps to enhance confidence in medium-term fiscal consolidation, and structural reforms to support the economic recovery.

[3] The fiscal and external projections are based on EU financing terms in place prior to July 21, 2011 as precise terms are being finalized. Annex I presents a preliminary analysis of the impact of the change in these terms.

A. Financial Sector Reforms

Reforming the Domestic Banks

13. **The restructuring of the domestic banking system is advancing ahead of schedule in some cases**:

- The legal merger procedures for Allied Irish Banks (AIB) and EBS Building Society (EBS) were completed on July 1 (structural benchmark for end-September). EBS will initially operate as a standalone, separately branded subsidiary of AIB with its own branch network and with four directors appointed by AIB. AIB and EBS management are initiating a review of their business strategy and approach to integration.

- Anglo and INBS were also merged on July 1 (structural benchmark for end-December) and renamed the Irish Bank Resolution Corporation. Anglo's U.S. real estate loan portfolio ($9.2 billion) has been offered for sale, with bids requested by mid-August. Immediately preceding the merger, an independent review of both institutions concluded that no additional capital is required in relation to expected loan losses.[4]

- Plans for the execution of Irish Life and Permanent's (IL&P) recapitalization were finalized (structural benchmark for end-May). The life insurance company has been offered for sale, and the bank's restructuring plan to be finalized at end-July will provide the basis for formulating any relevant follow-on actions by end-October.

14. **Recapitalization of banks has been completed (structural benchmark for end-July) with the private sector taking equity stakes in the Bank of Ireland**. The BoI succeeded in attracting a total of €1.6 billion in equity from a group of private investors and a rights issue. Liability management exercises (LME) by banks on their subordinated debt have generated almost €5 billion toward recapitalization needs to date. Thus, of the required €24 billion capital injection identified in March, the government is expected to provide about €17 billion (11 percent of GDP) in cash after the completion of transactions in progress:[5]

- As previously agreed, the recapitalization of IL&P by end-July will be net of the expected proceeds of the sale of its life insurance arm—for which bids were received at end July—and remaining LMEs still being completed.

- The holders of a portion of Bank of Ireland's (BoI) subordinated debt commenced a legal challenge in the U.K. in respect of certain elements of the BoI LME. Staff considered that recapitalization of BoI net of the expected capital to be generated from this remaining

---

[4] See http://www.centralbank.ie/regulation/industry-sectors/credit-institutions/Documents/Addendum%20to%20the%20Financial%20Measures%20Programme%20Report.pdf

[5] The government will hold €3 billion of this injection in the form of contingent convertible bonds rather than equity, with a five-year maturity and a conversion trigger at a core tier 1 capital ratio of 8¼ percent.

subordinated debt would be sufficient to observe the structural benchmark for end-July as the amount is relatively small so that BoI's core tier 1 capital ratio will still exceed 10½ percent (MEFP ¶3).

15. **The authorities are developing a framework to govern the exercise of the state's major ownership rights in the banks resulting from the capital injections.** For the banks' core operations the objective is to ensure a transparent and arms-length relationship between the banks and government. The first step has been to strengthen the Banking Unit in the Department of Finance (DoF), which by end-October will publish its mission statement, lines of responsibility and organizational structure, and also initiate regular public reporting on its activities. By end-December 2011, relationship frameworks will be prepared to establish the commercial basis for the banks' operations under government ownership. In parallel, the renewal of banks' boards and management is in progress, and the CBI will review any remaining directors and senior managers incumbent from September 2008 against the new fitness and probity standards following these standards coming into force. Consistent with the CBI's responsibilities for banking supervision, the unit's role vis-à-vis the CBI regarding banking oversight will be clarified through a memorandum of understanding (proposed structural benchmark, MEFP ¶4).

16. **The framework for the deleveraging of bank balance sheets has been refined (Box 2).** Each bank's own Deleveraging Committee will have the principal responsibility for decisions on asset disposal transactions. These committees include a non-voting member from the DoF, who may refer material transactions to a Review Committee in the DoF, and the Minister for Finance can both enforce and veto material transactions in order to better ensure progress with deleveraging while avoiding fire sales. Given the transition underway in the governance of banks, this framework will be assessed during future reviews based on experience. Staff stressed the value of developing a strong reputation for completing transactions in the early stages of the asset disposal process in order to attract a pool of interested parties investing the resources needed to make competitive bids.

Improving the Transparency and Quality of Bank Balance Sheets

17. **To ensure greater transparency in bank balance sheets, the authorities are enhancing provisioning and disclosure practices.** New provisioning guidelines to be issued by end-December 2011 will promote timely recognition of loan losses, especially for the non-core assets due for deleveraging (proposed structural benchmark, MEFP ¶8). Once implemented, capital ratios will decline somewhat but remain strong, and potential disincentives for asset disposal or restructuring arising from financial reporting implications will be reduced. In parallel, a new disclosure template based on international best practice is being adopted to provide enhanced information on loan quality.

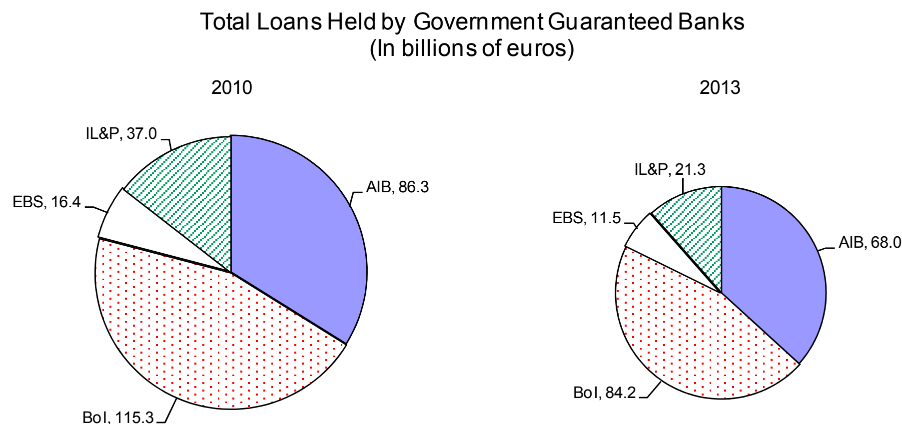
18. **The authorities are also promoting efforts by banks to improve the quality of their loan portfolios by dealing appropriately with troubled assets** (MEFP ¶8). To guide the treatment of SMEs in financial difficulties and in arrears, the CBI is reviewing the Code

of Conduct for Business Lending to Small and Medium Enterprises, especially guidelines related to SMEs in difficulties. For loans to households, the CBI's Code of Conduct on Mortgage Arrears seeks to encourage early and effective engagement between borrowers and banks, which has mainly resulted in mortgage rescheduling. The authorities are reviewing implementation and experience under this Code and will report findings by end-October.

Box 2. Bank Deleveraging: Scope and Framework

Scope. In order to improve their liquidity position, the government guaranteed banks (BoI, AIB/EBS, and IL&P) are to deleverage €70 billion in assets by end-2013 through a combination of run-offs from amortizations and prepayments and disposals. By end-May 2011, the banks had reduced their non-core loan book by €7.2 billion. The two largest banks will together deleverage almost €50 billion, primarily by selling non-core assets located outside Ireland. This deleveraging will enable banks to focus on their core operations in retail, SME and corporate banking segments of the domestic economy, while retaining their well funded U.K. subsidiaries.

Total Loans Held by Government Guaranteed Banks
(In billions of euros)



Framework. The banks have established dedicated non-core management teams overseen by the banks' central managements and boards of directors, and have retained international consulting firms to market the various pools of assets in different markets. The governance framework for deleveraging set out by the authorities provides for enhanced oversight by the Department of Finance (DoF):

- Deleveraging Committees: for larger transactions, each banks' committee (chaired by a non-executive Director) will take the decisions on whether to accept bids on assets.
- DoF representative: a non-voting representative on each banks' Deleveraging Committee represents the views of the DoF, and will have the authority to refer any material transaction to the DoF Review Committee.
- DoF Review Committee: will automatically review material transactions where the price falls below a certain threshold. It can also review other transactions at the referral of the DoF representative. The Minister for Finance can enforce or reject any transaction that is reviewed, in order to ensure progress with deleveraging while avoiding fire sales.
- Central Bank: the CBI has defined the semi-annual interim targets for key liquidity indicators that guide the deleveraging process. It will monitor progress against these targets from a financial stability perspective. In case of an expected breach of these targets, it will request a remediation plan, and will consider enforcement actions when appropriate.

19. **Work is underway on personal insolvency reforms to facilitate the orderly and efficient resolution of unsustainable debts by creditors and households** (MEFP ¶8). With current bankruptcy procedures costly and inefficient, reforms in this area are a high priority given the magnitude of distressed household debt and the impact of this on bank balance sheets (Box 3).[6] The creation of out-of-court debt settlement and enforcement procedures is likely to be especially important as even a more efficient bankruptcy system could be overwhelmed by a potentially large number of insolvency cases. Initial amendments of the Bankruptcy Act to, inter alia, allow a shorter debt discharge period and provide for automatic discharge under certain conditions have been submitted to Parliament while the approach to broader modifications is considered. Building on substantial work by the Law Reform Commission, the authorities will finalize their strategy in this area by end-2011 (proposed structural benchmark), with a view toward submitting legislation to Parliament before end-March 2012. The objective is to permit efficient resolution of unsustainable debts while minimizing moral hazard and abuse of the system. Key issues are likely to include the length of time and conditions for the discharge of debts, how to handle multiple creditors, and the infrastructure necessary for out-of-court procedures.

Strengthening the Credit Union Sector

20. **Although the credit union sector is small, at less than 3 percent of domestic banking system assets, the authorities are taking steps to underpin its solvency** (MEFP ¶6). All credit unions in operation were subjected to a special loan portfolio review between July 2010 and March 2011 (structural benchmark for end-April). Based on this information, the authorities are dealing with the most troubled institutions immediately. The adoption of the special resolution regime legislation will grant further powers to the Central Bank, which will facilitate restructuring the sector from the fourth quarter. The authorities are designing the mechanism for the restructuring process, seeking solutions from within the sector in order to minimize any fiscal cost.

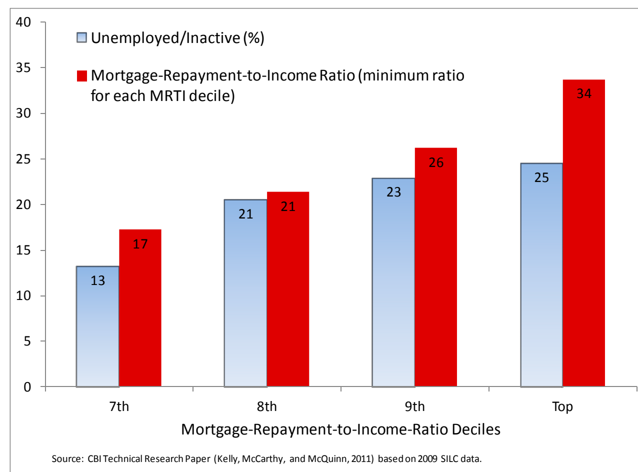
21. **In parallel, the authorities have initiated work to strengthen the future viability of the sector.** This work is led by a newly established *Commission on Credit Unions*, which will make recommendations on the medium-term future of the sector by end-March 2012, with an interim report by September 2011.[7] The intention is to create a sector that is viable in its own right, by strengthening the business model, regulatory framework, and governance standards for credit unions.

[6] The Law Reform Commissions' comprehensive report *Personal Debt Management and Debt Enforcement*, describes shortcomings in the current system and offers reform recommendations.

[7] See press release http://www.finance.irlgov.ie/viewdoc.asp?DocID=6891

Box 3. Household Debt Distress

Household debt rose sharply during the boom, peaking at €212 billion in Q4 2008, equivalent to 207 percent of household disposable income. The bulk of household debt relates to loans from the banking system, 81 percent of which is for house purchases, reflecting a surge in mortgage lending during the boom, with over 40 percent of outstanding mortgages issued in 2004–06. The deep economic contraction has put borrowers under pressure with 6.3 percent of mortgages in arrears in March 2011 (8.3 percent by value).



The link between unemployment and mortgage arrears is evident in household survey data. CBI staff calculated mortgage-repayment-to-disposable-income (MRTI) ratios for households using the 2009 EU Survey on Income and Living Conditions (SILC) data.[1] For the top three deciles (heaviest repayment burdens), MRTIs are above 20 percent (with a rough average for the top decile near 50 percent), and the unemployment or inactivity rate is over 20 percent. With 72 percent of all borrowers in the Survey on variable rate mortgages, borrowers could be heavily affected by higher interest rates—based on 2007 SILC data, an interest rate rise of 1.5 percentage points would expand the number of households with MRTIs above the existing threshold for inclusion in the top decile by 31 percent.[2]

CBI staff also estimated that roughly 13 percent of mortgage borrowers are likely to have negative equity, with a much higher share—about one-third—for those with mortgages approved from 2004 on. However, negative equity measures may be less important than MRTIs in the context of Irish mortgages being on a full recourse basis.

While roughly 90 percent of mortgage obligations are being met according to the original contracts, the number of those struggling is large and may grow given sizeable repayment burdens for many borrowers, expectations for only a gradual decline in unemployment, and potential further interest rate increases. So far, relatively few properties have been repossessed (less than 1,000), opting instead to restructure more than 60,000 mortgages, mostly through rescheduling such as interest only loans.

The Central Bank has put in place a Code of Conduct to help borrowers under pressure engage with lenders, providing a one-year moratorium on repossession if the household cooperates with the lender. In November 2010 the Mortgage Arrears and Personal Debt Group made a number of recommendations to help address mortgage arrears including a deferred interest schemes to provide households time to secure the sustainability of their mortgages without accumulating excessive further debt.[3] For households with unsustainable mortgages—cases where the household cannot pay at least two-thirds of the interest due—the group noted options such as assisted sales and trading down may be less costly than a formal repossession.

[1] http://www.centralbank.ie/publications/Documents/Research%20Technical%20Paper%2009RT11.pdf
[2] http://www.esr.ie/vol42_1/04%20McCarthy%20PP%20article.pdf
[3] http://www.finance.gov.ie/documents/publications/reports/2010/mortgagearrrepfin.pdf

Upgrading the Financial Sector Framework

22. **Decisive steps are being taken to ensure the effectiveness of banking supervision going forward (Box 4).** The Central Bank (Supervision and Enhancement) Bill published in July (structural benchmark for end-July) will underpin the credible enforcement of Irish financial services legislation by strengthening the CBI's ability to impose regulatory requirements and to supervise compliance with those requirements. Moreover, the Bill includes powers for the CBI to commission a review by an expert, allows authorized officers to gather information and access premises (with rather broad powers), and introduces a new whistle blower regime. The CBI's organizational structure has been modified (merging retail and wholesale banking divisions), the number of supervisors has been increased, and the quality and frequency of training enhanced. A new framework for assessing prudential risk is being adopted, and will first be applied to the pillar banks by March 2012.[8]

23. **The authorities are working on proposals to establish a credit registry** (MEFP ¶7)**.** In addition to supporting the supply and quality of new credit, a registry could also facilitate resolution of household debt where there are multiple creditors. Proposals for a statutory registry will be sent to the Minister by end-September 2011. Legislation will be submitted to Parliament by end-September 2012.

24. **Parliamentary proceedings are currently underway on the legislation establishing the special resolution regime.** The authorities are preparing draft amendments to the bill submitted to Parliament that would strengthen the provisions on the special manager and provide more detail on the pricing mechanism for transfer orders. Moreover, limiting the use of bridge banks in bank resolution to situations where this is necessary for promoting financial stability would appear advisable. Adoption by Parliament of the new legislation is envisaged in the Fall.

B. Fiscal Consolidation and Structural Reforms

25. **Fiscal policy is on track to achieve the 2011 general government deficit of 10½ percent of GDP as projected in the program (Table 3).** This assessment reflects the fiscal performance through end-July, somewhat better-than-expected local government finances, and the fact that the Jobs Initiative announced in May is slightly positive for the budget in 2011.[9] The authorities are alert to emerging spending pressures, primarily in social protection and health, and have reiterated their commitment to keeping voted spending within budgetary allocations.

---

[8] See "Banking Supervision: Our approach, 2011 update", The Central Bank of Ireland, 30 June 2011.

[9] For details on the Jobs Initiative, see the Supplementary Information on the IMF Country Report No. 11/109 for the First and Second Reviews.

Box 4. CBI Actions to Strengthen the Effectiveness of Banking Supervision

The CBI has embarked on ambitious supervisory reforms to align its practices with those adopted in well-developed financial markets since mid-2010. The following summarizes progress made and actions underway to reform the supervisory culture and improve the regulatory environment.

Reforming supervisory culture and approach. Advances and work in progress include:

- ***Integration of banking supervision:*** The existing retail and wholesale bank supervision departments have been merged into a combined Banking Supervision division, and a new Prudential Analytics and Resolutions division has been established. Together with the Registrar of Credit Unions this forms the Credit Institutions Supervision directorate;

- ***Enhancement of prudential risk management framework:*** Supervisory teams' views on banks' risk profile, risk mitigation actions and engagement plans are now challenged, discussed and approved by a senior risk governance panel. To support this work the development of a Prudential Risk and Impact System (PRISM) is underway, which is both a new engagement model for the supervision of banks and a tool to facilitate a detailed risk assessment of institutions;

- ***Adoption of new credit risk assessment approach:*** This entails CBI staff's independent forward looking and judgmental view of credit risk exposures. This approach is expected to be proportionate to firms' impact on the economy; and

- ***Recruitment and training:*** In the last 12 months, 48 new staff have been appointed, including quantitative specialists in the areas of risk analytics, Pillar 2 and stress testing. Training programs to develop and update staff skills to challenge the supervised institutions have been put in place. Finally, important improvements in IT have also been made to support progress in critical areas.

Improving the regulatory environment. Actions underway and in the work plan include:

- ***Enhancing bank governance:*** New related party lending, remuneration and internal governance requirements are in place, and a revised fitness and probity framework will be issued in September 2011 and become effective in December 2011;

- ***Promoting improved bank credit risk policies and standards:*** the CBI will review valuation standards for collateral, address weak credit policies (including for loan documentation and review process) and review the potential for credit limits to be applied as a macro prudential measure;

- ***Building credit intelligence in Ireland:*** An inter-agency working group (including CBI staff) is working on a strategy for an effective credit information system (credit register) in Ireland. This aims at addressing the current lack of robust credit intelligence; and

- ***Other related activities*** include strengthening the legal framework for supervision and enforcement, the development of the special bank resolution regime, and a review of arrears handling under the code of conduct for business lending to SMEs.

26. **The authorities are developing their medium-term fiscal consolidation program for 2012–2015** (MEFP ¶10, Figure 4). The government has committed to fiscal consolidation measures of at least €3.6 billion in 2012, and to reduce the general government deficit to below 3 percent of GDP by 2015. In the coming months, the authorities intend to anchor this commitment in a fully-specified high-quality fiscal program in three steps:

- The ongoing *Comprehensive Review of Expenditure* (CRE) will identify scope for focusing public spending most effectively (end-September 2011).
- The *Pre Budget Outlook* will include a medium-term consolidation plan that sets out the overall consolidation amounts and their revenue-expenditure mix for each of the years 2012 to 2015 (end-October 2011).
- *Budget 2012* will announce high-quality revenue and expenditure measures underpinning the medium-term consolidation effort; as well as establish binding medium-term expenditure ceilings consistent with that effort (early December 2011).

27. **Drawing on cross-country experience, staff highlighted some principles to guide the design of the medium-term fiscal plan and the selection of measures**. A range of considerations underpin the selection of high-quality consolidation measures including: demand impact; fairness; durability and sustainability; revenue base broadening and stability; and long-term efficiency. Experience suggests that an expenditure-based consolidation strategy is advantageous in many of these respects, nonetheless, it is important to avoid reliance on unspecified efficiency gains, and well designed revenue measures can add to the robustness of consolidation efforts.

28. **Reforms of fiscal institutions have been initiated with the establishment of the Irish Fiscal Advisory Council** (structural benchmark for end-June) The IFAC has been given a broad mandate and is committed to regular public reporting (Box 5). In the coming months, it will be important to anchor the IFAC's independence in the Fiscal Responsibility Bill (structural benchmark for end-December), including by ensuring it has adequate and secure budget allocations over the medium-term, and through appropriate nomination, appointment, extension and termination arrangements for members of the council.[10]

29. **Important pension reforms will strengthen Ireland's public finances ahead of significant population ageing over the long-term** (MEFP ¶11). A sizeable increase in the social welfare pension age from 65 to 68 years—to be introduced in three steps over 2014 to 2028—was legislated at end-June. A comprehensive public service pension reform bill for new entrants is being prepared for submission to Parliament by end-September.

---

[10] The Bill will also anchor other fiscal framework reforms, including the fiscal rules for prudent fiscal management over the medium-to-long-run, and binding medium-term expenditure ceilings.

Box 5. The Irish Fiscal Advisory Council

The government announced the establishment of the Irish Fiscal Advisory Council (IFAC) on July 7, 2011.[1] The IFAC is mandated to provide an assessment of:[2]

(i) the soundness of official macro-fiscal forecasts;

(ii) the appropriateness of the fiscal stance (including the government's stated medium-term budgetary objective); and

(iii) the consistency between budgetary plans and fiscal rules (the latter are to be specified in a Fiscal Responsibility Bill by year-end).

The IFAC will submit, at least three times a year, written reports to the Minister for Finance, which will automatically be communicated to the Oireachtas within 24 hours. This effectively means that the IFAC's reports are published with the Minister having advance notice of their content. There are no restrictions, otherwise, on the Council's communication with the public.

The IFAC comprises five members, appointed by the Minister for Finance for initial tenures of two to four years. The members will serve in a voluntary capacity, assisted by a small secretariat including full-time economist staff. The Council has been allocated initial funding for the remainder of 2011.

Among the range of fiscal councils in Europe, the IFAC appears most similar to the Swedish Fiscal Policy Council, both in terms of mandate and funding. For instance, the IFAC is charged with assessing, rather than producing, the official macro-fiscal forecasts, which explains its relatively modest resources compared with say, the U.K.'s Office for Budget Responsibility.

[1] See: http://www.finance.gov.ie/viewdoc.asp?DocID=6927
[2] Other functions, such as assessment of the growth, investment and employment effects of budgetary plans, may also be assigned by the Minister for Finance.

30. **The government is preparing an ambitious program for the orderly disposal of state assets** (MEFP ¶13). The draft program will be discussed with EC/ECB/IMF staff by end-December 2011.The mission urged the authorities to consider a program close to the €5 billion identified in the recently concluded Review of State Assets and Liabilities.

31. **The authorities continue to advance on steps to improve efficiency and potential growth** (MEFP ¶14–15). The authorities are developing a time-bound plan of action by end-September to reform the framework for sectoral wage agreements—which cover sectors which have experienced heavy employment losses—having regard to the views of social partners, and taking into account a High Court ruling in early July that sections of the relevant legislation are unconstitutional. In addition, the authorities have taken steps to reduce margins on pharmaceuticals, and plan to introduce legislation by end-September to enhance efficiency and reduce costs in legal services and the medical profession.[11]

[11] The relatively high compensation of medical specialists in Ireland is illustrated in Figure 26.1of *Government at a Glance 2011,* OECD.

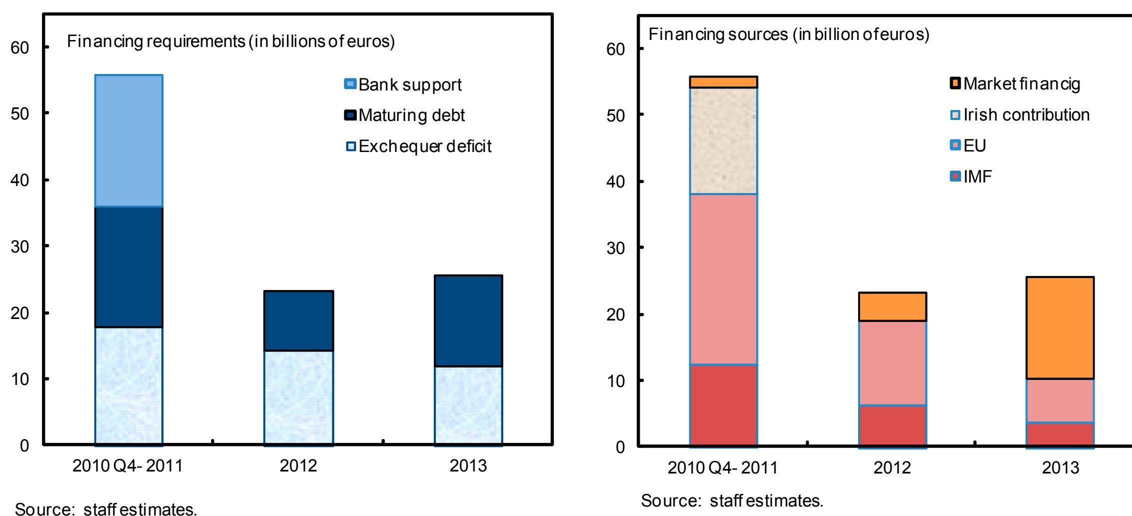
V. PROGRAM MODALITIES AND RISKS

32. **Program monitoring for 2011 has been updated**:

- Quantitative performance criteria are proposed for end-December 2011 (MEFP Table 2). The end-2011 indicative target for the exchequer primary balance from the first and second reviews has been converted to a performance criterion with an unchanged value. The end-December 2011 indicative target for net debt has been tightened somewhat to take into account overperformance to date.

- Four new structural benchmarks are proposed in support of program objectives (MEFP Table 3). The financial sector benchmarks relate to banking sector oversight (MEFP ¶4), recognition of loan losses (MEFP ¶8), and reform of the personal insolvency regime (MEFP ¶8). The fiscal policy benchmark relates to legislation ensuring the independence of the Fiscal Advisory Council (MEFP ¶12).

33. **The program remains well financed (Tables 6, 8, and 9).** The Fund and the EU have disbursed €22.2 billion (14 percent of GDP) since the extended arrangement was approved.[12] Looking forward, market financing is assumed to increase modestly in 2012 (predominantly retail debt), and to expand in 2013, although there are large uncertainties around these assumptions. Drawing on the strong cash buffers maintained under the program could allow a significantly smaller reliance on market financing in 2013, yet this may not be a viable strategy to regain market access. Regarding the remaining program financing, a disbursement equivalent to €0.5 billion is scheduled in 2011:Q3 under the bilateral loan from the United Kingdom. Bilateral agreements with Denmark and Sweden are being finalized.



[12] To date, SDR 6.4 billion (€7.2 billion) has been disbursed by the Fund, €11.4 billion by the European Financial Stability Mechanism, and €3.6 billion by the European Financial Stability Facility.

34. **Risks to the program from contagion appear to be easing from their mid-July peak, but risks to regaining market access remain significant, and there are also some risks to the political sustainability of fiscal consolidation**. The main areas of risk are:

- **Growth**: recent data provides greater confidence that the economy is turning toward modest growth, but spillovers or contagion from distress in European debt markets have recently become the key risk to this outlook. Ireland's openness means that it would be sensitive to weaker growth in the euro area and the United States, and there is also the potential to undermine confidence and domestic demand in Ireland. Although these risks appear to have diminished following the July 21 European Council meeting, sovereign spreads remained high as of early August, including in some countries not supported by programs. Persistent uncertainty regarding the resolution of these stresses could still hinder growth, calling for prompt implementation of the announced measures.

- **Financial sector**: the progress in implementing the restructuring and recapitalization of the banking system has reduced the risk of further fiscal outlays, although close attention to restoring the healthy functioning of the pillar banks will be needed. Nonetheless, challenges remain, including the implementation of the substantial deleveraging program and ensuring an orderly and cost effective restructuring of the credit union sector.

- **Sharing the burden of adjustment:** the authorities' commitment and performance to date give confidence that fiscal targets will be met, and the authorities are working to develop a medium-term fiscal framework and supportive fiscal institutions. It should be recognized, however, that there is a strong sense that burden-sharing between taxpayers and creditors for the cost of supporting the banks has been unfair. In this respect, the authorities have reiterated their absolute commitment to servicing sovereign debt and the debt of the pillar banks (AIB/EBS and BoI) that will meet the banking needs of the Irish economy. Regarding the banks in resolution (Anglo and INBS)—which have received €34.7 billion (22 percent of GDP) in capital from the government—the authorities have stated that any burden sharing with holders of unsecured and unguaranteed senior debt (about €3½ billion remaining) would be undertaken in consultation with the European authorities. Staff stressed that to effectively mitigate contagion risks such burden sharing would need a robust legal and institutional framework that strikes a reasonable balance between creditor safeguards and flexibility.

- **Access to market financing:** recent market developments have raised doubts about the feasibility of regaining market access, even though they are largely driven by external factors. The enhanced terms of EU financing contribute positively to the prospects for regaining market access, although the full impact is difficult to judge at this point. In particular, the intensive debate in Europe on private sector involvement suggests that announcements that Greece is an exception may not convince markets. It would therefore be valuable for the EFSF to have additional flexibility in a form that would help overcome these hurdles to Ireland regaining market access at an early stage.

VI. Staff Appraisal

35. **The Irish authorities have extended their track record of resolute policy implementation.** Even in the face of adverse developments in sovereign spreads and ratings the authorities have persevered with the implementation of wide ranging financial sector reforms, kept the fiscal consolidation on track and initiated the strengthening of the fiscal institutional framework, and continued developing structural reforms.

36. **Strengthened European support for Ireland is welcome, but early implementation is key, and restoring broader stability in the euro area is essential**. Lower interest rates will make a significant contribution to reducing interest payments, and longer maturities improve Ireland's debt service prospects. It will be important to save these gains—as is consistent with the targets for fiscal consolidation in the program—to derive the maximum improvement in Ireland's debt outlook. The enhanced flexibility of the EFSF to provide precautionary financing and debt buy-backs is also welcome. Yet, given the uncertainties prevailing in financial markets, options for additional flexibility should be kept under active consideration to facilitate Ireland regaining market access at an early stage. And finally, notwithstanding the government's determination to implement the program, Ireland's prospects are dependant on the success of broader efforts to restore financial stability across the euro area.

37. **Continued timely and sound implementation of financial sector reforms will help position Ireland to fully benefit from stronger European support.** The legal restructuring of banks is ahead of schedule, and the renewal of boards and management is in progress. Bank recapitalization has been completed despite legal challenges, and investor participation in the Bank of Ireland is a welcome endorsement of the reform strategy. Ensuring the banks' core businesses are managed on a commercial basis will further contribute to laying the foundations for the banks to rebuild their operational health and capacity to sustainably generate capital, as needed to contribute to economic recovery and to prepare them to return to private ownership. Achieving early progress with deleveraging will help drive the overall success of this ambitious effort to improve the liquidity position of the banks. Greater confidence in the availability of ECB financing in the medium term could maximize the benefits of these efforts for the banks' ability to regain market access in time.

38. **Further strengthening supervision and the broader financial framework is also critical to restoring financial sector health and preserving financial stability.** Enhanced codes for SME's in financial difficulties and household's with mortgage arrears, new guidance on provisioning, and upgraded disclosure requirements will promote improvements in the quality and transparency of banks' loan portfolios. Nonetheless, the effectiveness of banks' implementation of these and other prudential initiatives will depend importantly on the success of ongoing work to strengthen supervision. Well executed restructuring of the small but important credit union sector is necessary to safeguard overall financial stability. Progress with the large legislative agenda for supervisory powers, the special resolution

regime, household insolvency, and establishing a credit registry is key to providing the tools for reform implementation and to ensuring that these efforts have lasting benefits.

39. **Confidence in the achievability of the substantial further fiscal consolidation needed will benefit from developing strong consensus on a medium-term fiscal plan.** The budget is on track to meet the 2011 program targets, demonstrating the authorities' capacity to implement large scale fiscal adjustment. Moving ahead, it will be important to take full advantage of the Comprehensive Review of Expenditure to generate sustainable savings, to set out a clear medium-term consolidation plan for 2012–15 in the *Pre Budget Outlook,* and to underpin this plan by specifying high-quality measures and medium-term expenditure ceilings with the 2012 Budget. By reducing uncertainties around taxation and expenditure policies, such a plan will also support household and business confidence. The establishment of the Irish Fiscal Advisory Council is a welcome step to inform fiscal policy discussions and support fiscal discipline, and the planned Fiscal Responsibility Bill should ensure its independence.

40. **Staff support the authorities' request for completion of the third review.**

Table 1. Ireland: Selected Economic Indicators, 2007–11

(Annual change unless otherwise stated)

	2007	2008	2009	Prel. 2010	Prog. 2011	Proj. 2011
National accounts (constant prices)						
GDP	5.2	-3.0	-7.0	-0.4	0.6	0.6
Domestic demand	4.9	-4.0	-12.5	-4.9	-3.5	-3.6
Private consumption	6.5	-1.1	-6.9	-0.8	-1.6	-2.4
Public consumption	6.6	0.5	-4.5	-3.8	-4.4	-3.6
Gross fixed investment	2.3	-10.2	-28.7	-24.9	-13.5	-10.7
Net exports 1/	1.1	1.3	3.5	3.7	3.5	3.5
Exports of goods and services	8.4	-1.1	-4.2	6.3	6.0	6.0
Imports of goods and services	7.9	-3.0	-9.3	2.7	3.0	3.0
Gross national saving (in percent of GDP)	21.1	15.5	10.8	11.6	12.2	12.1
Private	19.2	18.3	19.0	20.2	30.5	20.3
Public	1.8	-2.8	-8.2	-8.6	-18.3	-8.2
Gross investment (in percent of GDP)	26.1	21.6	14.3	11.0	10.8	9.7
Private	21.5	16.2	10.3	7.3	7.9	6.8
Public	4.6	5.4	4.0	3.7	2.9	2.9
Prices, wages and employment (annual average)						
Harmonized index of consumer prices	2.9	3.1	-1.7	-1.6	1.0	1.1
Average wages, all economy	5.2	3.5	-0.1	-2.2	-1.0	-0.9
Employment	3.6	-1.1	-8.1	-4.2	-1.4	-1.5
Unemployment rate (in percent)	4.6	6.3	11.8	13.6	14.5	14.3
Money and credit (end-period) 2/						
Irish contribution to euro area money supply (M3)	12.1	-0.6	-5.9	-19.5	…	5.0
Irish resident private sector credit 3/	20.2	8.8	-1.7	-4.0	…	-3.7
Financial and asset markets (end-period) 4/						
10-year government bond	4.5	4.4	4.9	9.2	…	11.0
ISEQ index	-26.3	-66.2	27.0	-3.0	…	-3.2
House prices	8.5	-5.9	-18.3	-13.1	…	-12.9
Public finance (in percent of GDP)						
General government balance	0.1	-7.3	-14.2	-32.0	-10.6	-10.4
General government balance (excl. bank support)	0.1	-7.3	-11.7	-11.8	-10.6	-10.4
Primary balance (excl. bank support)	0.9	-6.3	-9.7	-8.7	-6.7	-6.6
General government gross debt	24.9	44.4	65.2	94.9	111.1	109.2
General government net debt	11.2	24.6	42.3	78.0	…	98.7
External trade and balance of payments (percent of GDP)						
Balance of goods and services	9.8	9.0	15.2	18.8	21.0	21.3
Balance of income and current transfers	-15.2	-14.6	-18.1	-18.4	-20.6	-19.5
Current account	-5.3	-5.6	-2.9	0.5	0.5	1.8
Effective exchange rates (1999:Q1=100, average) 5/						
Nominal	107.2	112.0	113.1	108.4	…	111.0
Real (CPI based)	119.2	123.8	121.9	112.5	…	113.6
Memorandum items:						
Population (in millions) 6/	4.3	4.4	4.5	4.5	4.5	4.6
GDP per capita (in euros)	43,773	40,702	36,014	34,892	34,969	34,419
GDP (in billions of euros)	189.9	180.0	160.6	156.0	155.8	157.7

Sources: Department of Finance; Central Bank of Ireland; IFS; Bloomberg; and Fund staff calculations.

1/ Contribution to growth. However, the data for exports and imports of goods and services are annual growth rates.

2/ 2011 column refers to the latest available information (end-June).

3/ Weighted average for adjusted growth rates of credit to households and non-financial corporations.

4/ 2011 column referst to the latest available information (end-June for house prices, otherwise end-July).

5/ 2011 column refers to the latest available information (end-April).

6/ 2011 figure revised following prelimary results from the 2011 Census, 2007–10 to be revised when available.

Table 2. Ireland: Medium-Term Scenario, 2007–16

(Percentage change, unless otherwise indicated)

	2007	2008	2009	2010 Prel.	2011 Prog.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Real GDP	5.2	-3.0	-7.0	-0.4	0.6	0.6	1.9	2.4	2.9	3.3	3.3
Real domestic demand	4.9	-4.0	-12.5	-4.9	-3.5	-3.6	-0.5	0.5	1.3	2.8	2.7
Real final domestic demand	5.4	-3.0	-11.4	-5.8	-3.9	-3.8	-0.5	0.5	1.3	2.8	2.7
Private consumption	6.5	-1.1	-6.9	-0.8	-1.6	-2.4	-0.4	0.5	1.2	2.2	2.1
Public consumption	6.6	0.5	-4.5	-3.8	-4.4	-3.6	-1.9	-1.5	-1.5	0.0	0.0
Fixed investment	2.3	-10.2	-28.7	-24.9	-13.5	-10.7	1.3	3.5	6.0	9.0	8.5
Change in stocks 1/	-0.5	-0.9	-1.0	0.8	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Net exports 1/	1.1	1.3	3.5	3.7	3.5	3.5	2.1	2.0	1.9	1.3	1.3
Exports	8.4	-1.1	-4.2	6.3	6.0	6.0	5.2	5.1	5.0	4.9	4.9
Imports	7.9	-3.0	-9.3	2.7	3.0	3.0	4.0	4.2	4.3	4.9	4.9
Current account 2/	-5.3	-5.6	-2.9	0.5	0.5	1.8	2.3	2.0	1.7	1.3	1.2
Gross national saving 2/	21.1	15.5	10.8	11.6	12.2	12.1	12.1	11.9	12.0	12.2	12.6
Private	19.2	18.3	19.0	20.2	30.5	20.3	19.2	17.9	15.8	15.7	15.7
Public	1.8	-2.8	-8.2	-8.6	-18.3	-8.2	-7.0	-6.0	-3.8	-3.6	-3.1
Gross investment 2/	26.1	21.6	14.3	11.0	10.8	9.7	9.6	9.7	10.0	10.6	11.2
Private	21.5	16.2	10.3	7.3	7.9	6.8	7.4	7.8	8.4	9.0	9.5
Public	4.6	5.4	4.0	3.7	2.9	2.9	2.2	1.9	1.7	1.6	1.6
Prices											
Consumer prices	2.9	3.1	-1.7	-1.6	1.0	1.1	0.6	1.4	1.6	1.8	1.8
Wages	5.2	3.5	-0.1	-2.2	-1.0	-0.9	-0.1	0.7	1.0	1.3	1.3
Labor market											
Employment	3.6	-1.1	-8.1	-4.2	-1.4	-1.5	0.7	1.9	1.8	2.1	1.6
Average unemployment rate	4.6	6.3	11.8	13.6	14.5	14.3	13.8	13.0	12.3	11.2	10.5
Public finance											
General government balance 2/	0.1	-7.3	-14.2	-32.0	-10.6	-10.4	-8.9	-7.3	-4.9	-4.6	-4.1
General government structural balance 3/	-7.5	-11.6	-10.0	-9.0	-6.7	-7.0	-6.0	-5.0	-3.2	-3.4	-3.2
General government gross debt 2/	24.9	44.4	65.2	94.9	111.1	109.2	115.2	118.3	118.1	117.0	115.4
Output gap 3/	6.5	2.2	-5.5	-6.0	-6.4	-5.9	-4.8	-3.5	-2.2	-0.9	0.0

Sources: CSO; Department of Finance; and IMF staff calculations.
1/ Contributions to growth.
2/ In percent of GDP.
3/ In percent of potential output.

Table 3. Ireland: General Government Finances, 2007–15 1/

(In billions of euros)

	Actual			Prel.	Prog.	Projections 1/				
	2007	2008	2009	2010	2011	2011	2012	2013	2014	2015
Current balance	8.9	-2.1	-12.0	-12.8	-11.9	-11.4	-9.7	-8.2	-4.9	-4.7
Current revenue	65.6	59.9	52.9	52.1	52.8	53.3	55.8	58.1	60.9	64.3
Tax revenue (incl. taxes on capital)	49.7	43.0	35.4	34.5	36.8	37.3	39.9	42.2	44.8	47.8
Social security receipts	9.1	9.3	8.9	8.7	6.9	7.5	7.6	7.7	7.8	8.0
Miscellaneous	6.8	7.6	8.5	8.9	9.1	8.6	8.2	8.2	8.3	8.5
Current expenditure	56.7	62.0	64.9	64.9	64.6	64.7	65.5	66.3	65.8	69.0
Interest payments	1.6	1.9	3.3	5.0	6.1	6.0	7.7	10.1	11.4	12.2
Goods and services	10.6	10.6	9.3	9.2	8.8	8.8	8.3	7.7	7.0	7.1
Compensation of employees	17.9	20.1	19.5	18.1	18.1	18.0	17.6	17.2	16.4	16.8
Current transfers	24.8	27.5	30.2	30.2	29.1	29.3	29.2	28.6	28.2	29.9
Depreciation	1.8	1.9	2.5	2.5	2.6	2.6	2.7	2.7	2.8	2.9
Capital balance	-8.8	-11.1	-10.8	-37.1	-4.6	-5.1	-4.8	-4.1	-3.8	-3.8
Capital receipts (excl. taxes on capital)	2.2	1.9	1.1	0.9	1.6	1.1	1.1	1.1	1.1	1.1
Capital expenditure	11.1	13.0	11.9	38.0	6.2	6.2	5.9	5.1	4.8	4.9
Gross capital formation	9.0	9.8	6.7	5.9	4.5	4.5	4.1	3.7	3.5	3.6
Capital transfers (incl. bank support costs)	2.0	3.2	5.3	32.1	1.7	1.7	1.8	1.4	1.4	1.4
General government balance	0.1	-13.2	-22.8	-49.9	-16.5	-16.5	-14.5	-12.2	-8.7	-8.5
Primary balance	1.7	-11.3	-19.5	-44.9	-10.4	-10.4	-6.8	-2.1	2.7	3.7
Memorandum items (in percent of GDP, unless otherwise mentioned)										
Total receipts	35.7	34.3	33.6	34.0	34.9	34.5	35.1	35.2	35.2	35.4
Current revenue (incl. capital taxes)	34.5	33.3	32.9	33.4	33.9	33.8	34.4	34.5	34.6	34.8
Capital receipts	1.2	1.0	0.7	0.5	1.0	0.7	0.7	0.6	0.6	0.6
Total expenditure	35.7	41.7	47.8	66.0	45.4	45.0	44.0	42.4	40.1	40.0
Primary current spending	29.0	33.4	38.4	38.4	37.6	37.2	35.6	33.4	30.9	30.7
Interest payments	0.8	1.0	2.0	3.2	3.9	3.8	4.8	6.0	6.5	6.6
Capital spending (incl. capital transfers)	5.8	7.2	7.4	24.3	4.0	3.9	3.7	3.1	2.7	2.7
Overall balance	0.1	-7.3	-14.2	-32.0	-10.6	-10.4	-8.9	-7.3	-4.9	-4.6
Primary balance	0.9	-6.3	-12.2	-28.8	-6.7	-6.6	-4.2	-1.3	1.5	2.0
Overall balance (excl. bank support)	0.1	-7.3	-11.7	-11.8	-10.6	-10.4	-8.9	-7.3	-4.9	-4.6
Primary balance (excl. bank support)	0.9	-6.3	-9.7	-8.7	-6.7	-6.6	-4.2	-1.3	1.5	2.0
Structural primary balance (percent of potential GDP)	-6.6	-10.5	-8.1	-6.0	-3.1	-3.4	-1.5	0.8	3.1	3.1
Gross general government debt	24.9	44.4	65.2	94.9	111.1	109.2	115.2	118.3	118.1	117.0
Net general government debt	11.2	24.6	42.3	78.0	…	98.7	104.5	107.5	106.2	104.1
Output Gap (percent of potential GDP)	6.5	2.2	-5.5	-6.0	-6.4	-5.9	-4.8	-3.5	-2.2	-0.9
Nominal GDP (in billions of Euros)	189.9	180.0	160.6	156.0	155.8	157.7	162.2	168.4	176.0	185.0

Sources: Department of Finance; and staff estimates.

1/ In line with the initial program, the baseline projections incorporate the fiscal consolidation measures for 2011-14 that were approved by government in late 2010. Staff and the authorities project that additional measures will be required to meet the Stability and Growth Pact deficit target of 3 percent in 2015. For comparability of treatment with other European countries, this target is not reflected in the Fund's medium-term projections as the underlying measures are not yet articulated.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2006–11

	2006	2007	2008	2009	2010	2011 8/
External indicators						
Exports (annual percent change, value in euros)	6.2	8.3	-1.4	-2.8	8.1	7.6
Imports (annual percent change, value in euros)	8.9	9.5	-1.1	-9.6	5.7	5.7
Terms of trade (goods, annual percent change)	-4.6	-3.3	-4.7	3.3	-0.8	-1.1
Current account balance (in percent of GDP)	-3.5	-5.3	-5.6	-2.9	0.5	1.8
Capital and financial account balance (in percent of GDP)	2.8	6.4	9.0	-1.3	7.5	-23.0
Of which:						
Inward portfolio investment	124.3	86.1	-10.2	13.9	48.3	5.8
Inward foreign direct investment	-2.5	9.5	-6.2	11.6	12.7	10.1
Other investment liabilities	74.1	91.8	85.4	-53.9	-42.5	-19.4
U.S. dollar per euro (period average)	1.26	1.37	1.47	1.39	1.33	1.42
U.K. pound per euro (period average)	0.68	0.68	0.79	0.89	0.86	0.87
Financial markets indicators						
General government debt (in percent of GDP)	24.7	24.9	44.4	65.2	94.9	109.2
Government bond yield (in percent, 10-year, end-period)	4.0	4.5	4.4	4.9	9.2	…
Spread of government bond yield with Germany (in percent, end of period)	-0.3	0.0	1.3	1.3	6.1	…
Real government bond yield (in percent, 10-year, period average, based on HICP	1.0	1.6	1.5	6.6	9.2	…
Annual change in ISEQ index (in percent, end of period)	27.8	-26.3	-66.2	27.0	-3.0	…
Personal lending interest rate (in percent)	11.2	11.7	11.9	11.1	11.3	11.3
Standard variable mortgage interest rate (in percent)	4.8	5.4	4.8	3.3	4.0	4.0
Financial sector risk indicators						
Annual credit growth rates (to Irish resident private sector, in percent) 1/	31.3	20.2	8.8	-1.7	-4.0	-3.7
Personal lending as a share of total Irish resident credit (in percent)	42.3	39.6	35.2	35.6	35.8	35.5
Of which:						
House mortgage finance	34.9	32.8	29.0	30.1	30.6	30.7
Other housing finance	0.4	0.3	0.3	0.2	0.3	0.3
Other personal lending	7.0	6.5	5.9	5.3	5.2	4.8
Irish resident household mortgage debt annual growth rates (in percent) 2/	27.4	17.5	9.8	0.6	2.1	-2.2
Commercial property lending as a percent of total loans (excluding financial intermediation) 3/	31.2	34.2	36.1	34.3	25.5	25.7
Foreign-currency denominated assets (in percent of total assets)	33.7	36.5	31.7	34.3	30.3	28.0
Foreign-currency denominated liabilities (in percent of total liabilities)	36.9	41.1	35.5	31.1	25.8	23.5
Contingent and off-balance sheet accounts (in percent of total assets) 4/	1133	…	…	…	…	…
Non-performing loans (in percent of total loans) 5/	0.7	0.8	2.6	9.0	8.6	9.2
Total provisions for loan losses (in percent of total loans)	0.4	0.4	1.3	4.0	5.3	4.5
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.9	10.7	10.6	10.9	10.4	10.1
Bank return on assets (before tax, in percent)	0.8	0.7	…	…	…	…
Bank return on equity (before tax, in percent)	19.1	16.4	…	…	…	…
Liquid assets of all banks to total assets (liquid asset ratio, in percent)	32.7	28.4	…	…	…	…
Liquid assets of all banks to short-term liabilities (in percent)	38.4	34.4	…	…	…	…
Deposits to M3 ratio 6/	1.4	1.4	1.4	1.4	1.5	1.4
Loan-to-deposit ratio vis-à-vis Irish residents 7/	1.9	2.1	2.2	2.1	2.1	2.1
vis-à-vis total 7/	1.9	2.1	2.2	2.2	2.1	2.1
Concentration ratios in the banking sector						
No. of banks accounting for 25 percent of total assets	3	3	2	2	2	2.0
No. of banks accounting for 75 percent of total assets	17	15	14	13	13	13.0
Share of state-owned banks in total assets (in percent)	0.0	0.0	0.0	6.0	8.0	7.0
Share of foreign-owned banks in total assets (in percent)	36.3	32.2	62.0	65.0	66.0	63.0

Sources: Data provided by the Central Bank of Ireland; International Financial Statistics; Bloomberg; and Fund staff estimates.

1/ Weighted average for adjusted growth rates of credit to households and non-financial corporations.

2/ Including securitisations.

3/ Includes lending for construction and real estate activities.

4/ Credit equivalent values.

5/ Owing to differences in classification, international comparisons of nonperforming loans are indicative only.

6/ Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been amended in line with Eurosystem requirements.

7/ Nongovernment credit/nongovernment deposits ratio.

8/ For 2011, staff projections for macroeconomic variables, and March 2011 for financial soundness indicators, except NPLs, provisions for loan losses, household mortgage growth, and regulatory capital, which are June 2011.

Table 5. Ireland: Summary of Balance of Payments, 2008–13

	2008	2009	Prel. 2010	Proj. 2011	Proj. 2012	Proj. 2013
	(In billions of euros)					
Current account balance	-10.2	-4.7	0.8	2.9	3.8	3.3
Balance of goods and services	16.1	24.4	29.4	33.6	38.1	41.8
Trade balance	23.8	32.5	36.5	33.9	36.4	39.3
Exports of goods	81.0	77.6	82.9	80.6	84.3	88.4
Imports of goods	-57.2	-45.2	-46.4	-46.7	-47.9	-49.1
Services balance	-7.7	-8.1	-7.1	-0.3	1.6	2.5
Credit	67.9	67.1	73.8	86.9	93.9	100.8
Debit	-75.6	-75.2	-80.9	-87.2	-92.3	-98.3
Income balance	-25.2	-27.9	-27.4	-30.5	-34.0	-38.0
Credit	84.0	55.1	57.7	75.4	75.9	77.2
Debit	-109.2	-83.0	-85.1	-105.9	-109.9	-115.2
Current transfers (net)	-1.2	-1.2	-1.2	-0.2	-0.3	-0.4
Capital and financial account balance	16.2	-2.1	11.7	-36.3	-22.8	-13.6
Capital account balance	0.0	-1.3	-0.7	0.0	-0.3	-0.4
Financial account	16.1	-0.9	12.4	-36.2	-22.4	-13.2
Direct investment	-24.2	-0.5	6.4	11.5	8.3	9.2
Portfolio investment	-45.7	22.6	94.0	-10.9	-7.9	-5.9
Other investment	86.1	-23.1	-88.0	-23.1	-15.3	-12.3
Change in reserve assets 1/	-0.1	0.1	0.0	-13.7	-7.4	-4.4
Net errors and omissions	-6.0	6.8	-12.5	-4.8	0.0	0.0
Financing gap	0.0	0.0	0.0	38.2	19.0	10.3
Program financing	0.0	0.0	0.0	38.2	19.0	10.3
IMF	0.0	0.0	0.0	12.5	6.3	3.6
EU	0.0	0.0	0.0	25.6	12.7	6.6
	(In percent of GDP)					
Current account balance	-5.6	-2.9	0.5	1.8	2.3	2.0
Balance of goods and services	9.0	15.2	18.8	21.3	23.5	24.8
Trade balance	13.2	20.2	23.4	21.5	22.5	23.3
Services balance	-4.3	-5.0	-4.5	-0.2	1.0	1.5
Income balance	-14.0	-17.4	-17.6	-19.3	-21.0	-22.6
Current transfers (net)	-0.6	-0.8	-0.8	-0.1	-0.2	-0.3
Capital and financial account balance	9.0	-1.3	7.5	-23.0	-14.0	-8.1
Of which:						
Direct investment	-13.4	-0.3	4.1	7.3	5.1	5.5
Portfolio investment	-25.4	14.1	60.2	-6.9	-4.9	-3.5
Other investment	47.9	-14.4	-56.4	-14.6	-9.4	-7.3
Change in reserve assets 1/	0.0	0.0	0.0	-8.7	-4.6	-2.6
Net errors and omissions	-3.3	4.3	-8.0	-3.1	0.0	0.0
Financing gap	0.0	0.0	0.0	24.2	11.7	6.1
Program financing	0.0	0.0	0.0	24.2	11.7	6.1
IMF	0.0	0.0	0.0	7.9	3.9	2.2
EU	0.0	0.0	0.0	16.3	7.8	3.9

Sources: The Central Statistics Office; Central Bank of Ireland; and Fund staff estimates.
1/ Includes financing need to build reserves for bank support.

Table 6. Ireland: External Financing Requirements and Sources, 2008–13
(In billions of euros)

			Prel.	Proj.		
	2008	2009	2010	2011	2012	2013
Gross financing requirement	723.7	845.6	781.1	670.1	611.3	570.0
Current account deficit	10.2	4.7	-0.8	-2.9	-3.8	-3.3
Medium- and long-term debt amortization	98.3	110.0	114.8	109.7	119.9	121.3
Public sector (incl. Central Bank of Ireland) 1/	13.3	28.1	20.2	24.1	22.9	21.4
Banks	41.6	30.1	42.0	16.1	20.7	15.9
Other	43.3	51.7	52.7	69.4	76.3	84.0
Short-term debt amortization	615.2	730.9	667.1	563.4	495.1	452.0
Public sector (incl. Central Bank of Ireland)	1.4	63.4	69.0	150.9	143.9	131.5
Banks	500.0	566.7	493.2	292.8	219.6	175.7
Other	113.7	100.8	104.9	119.7	131.6	144.8
Sources of financing	723.7	845.6	781.1	631.9	592.3	559.7
Capital account	0.0	-1.3	-0.7	0.0	-0.3	-0.4
Foreign direct investment	-24.2	-0.5	6.4	11.5	8.3	9.2
Equities	15.1	11.7	11.7	5.0	-6.6	3.3
Medium- and long-term borrowing	96.0	84.4	256.4	88.4	100.5	117.5
Public sector (incl. Central Bank of Ireland)	9.5	26.0	16.3	0.0	0.0	12.4
Banks	-34.6	-2.6	20.2	12.1	16.5	12.7
Other	121.1	60.9	220.0	76.3	84.0	92.4
Short-term borrowing	730.9	667.1	563.4	495.1	452.0	423.5
Public sector (incl. Central Bank of Ireland)	63.4	69.0	150.9	143.9	131.5	126.6
Banks	566.7	493.2	292.8	219.6	175.7	140.5
Other	100.8	104.9	119.7	131.6	144.8	156.4
Other sources, including errors and ommissions	-94.3	84.2	-56.2	31.9	38.4	6.5
Financing gap	0.0	0.0	0.0	38.2	19.0	10.3
Program financing	0.0	0.0	0.0	38.2	19.0	10.3
IMF	0.0	0.0	0.0	12.5	6.3	3.6
EU	0.0	0.0	0.0	25.6	12.7	6.6
Memorandum items						
Gross borrowing need	..	..	..	51.2	23.2	25.7
Exchequer requirement	..	..	..	16.2	14.3	12.1
Amortization	..	..	..	16.0	8.9	13.6
Bank recapitalization (net) 2/	..	..	..	19.0	0.0	0.0
Gross financing sources	..	..	..	51.2	23.2	25.7
Market access (incl. retail debt)	..	..	..	1.7	4.4	15.4
Use of buffers (Treasury cash balance, NPRF)	..	..	..	11.3	-0.2	-0.1
Program financing	..	..	..	38.2	19.0	10.3

Sources: The Central Statistics Office; Central Bank of Ireland; and Fund staff estimates.
1/ Includes budget deficit financing.
2/ Assumes liability management exercises on subordinated debt generate €5 billion.

Table 7. Ireland: Monetary Statistics, 2008–11

(In billions of euros)

	Government guaranteed banks					IFSC banks				
	Dec-08	Dec-09	Dec-10	Mar-11	May-11	Dec-08	Dec-09	Dec-10	Mar-11	May-11
Assets	623.2	646.0	623.2	583.6	543.4	610.3	525.3	425.5	380.7	376.4
Loans Residents	349.5	348.1	332.2	321.1	290.7	65.0	62.6	69.0	50.0	45.2
Bank-nonaffiliated	10.3	8.5	2.7	1.8	2.0	4.2	2.4	2.3	2.0	2.1
Bank-affiliated	88.6	109.8	111.5	106.4	79.9	43.8	43.9	49.2	31.7	18.3
Private sector	250.4	229.6	186.9	184.7	180.5	16.1	15.5	17.1	16.0	24.5
Households	106.9	102.8	101.7	100.4	99.7	1.0	1.1	1.1	1.1	1.1
NFC	110.8	97.8	62.3	61.8	61.2	2.8	2.1	2.5	2.5	2.2
Other private sector	32.6	29.0	22.9	22.4	19.6	12.3	12.2	13.5	12.5	21.2
Other loans	0.3	0.3	31.1	28.2	28.4	0.8	0.8	0.3	0.3	0.3
Other assets	154.3	152.3	152.2	149.2	141.9	329.8	284.7	163.7	145.4	150.8
Loans nonresident	119.4	145.5	138.7	113.3	110.7	215.6	178.1	192.9	185.2	180.4
Private sector loans	30.3	32.1	36.0	31.4	30.9	71.6	60.9	53.4	49.3	47.9
Other loans	89.0	113.4	102.8	81.9	79.8	143.9	117.2	139.5	136.0	132.5
Liabilities	623.2	646.0	623.2	583.6	543.4	610.3	525.3	425.5	380.7	376.4
Deposits	229.6	252.0	234.3	224.2	210.7	55.3	47.7	54.5	37.0	32.0
Bank-nonaffiliated	8.4	10.8	5.6	4.9	4.0	4.9	3.2	2.2	1.7	2.2
Bank-affiliated	88.2	105.7	111.9	104.4	77.9	40.7	36.9	41.2	23.8	10.1
Private sector	130.2	132.4	113.7	106.3	107.5	9.7	7.5	11.2	11.4	19.7
Households	71.0	72.3	66.7	63.9	62.9	0.0	0.1	0.5	0.7	0.8
NFC	31.3	28.7	23.9	21.7	21.6	2.2	1.9	2.6	2.9	2.8
Other private sector	27.9	31.3	23.0	20.7	23.0	7.4	5.5	8.1	7.9	16.1
Other deposits	2.9	3.1	3.1	8.6	21.3	0.0	0.0	0.0	0.0	0.0
Other liabilites	197.6	222.7	285.3	281.6	258.0	225.8	181.6	161.2	142.7	149.4
Deposits nonresident	196.1	171.2	103.6	77.8	74.7	329.2	296.1	209.8	201.0	195.0
Private sector deposits	37.5	27.1	12.5	10.9	10.1	68.0	67.8	60.6	58.4	57.5
Affiliates' deposits	114.1	106.3	68.1	48.2	47.5	209.5	178.7	101.7	101.9	94.2
Other deposits	44.4	37.8	23.0	18.7	17.2	51.8	49.6	47.5	40.7	43.3

Source: Central Bank of Ireland.

Table 8. Ireland: Schedule of Reviews and Purchases

Review	Availability Date	Action	Purchase	
			SDRs	Percent of quota
	December 16, 2010	Board approval of arrangement	5,012,425,200	399
First and Second Reviews	May 16, 2011	Observance of end-March 2011 performance criteria, completion of First and Second Reviews	1,410,000,000	112
Third Review	August 15, 2011	Observance of end-June 2011 performance criteria, completion of Third Review	1,319,000,000	105
Fourth Review	December 14, 2011	Observance of end-September 2011 performance criteria, completion of Fourth Review	3,309,000,000	263
Fifth Review	March 15, 2012	Observance of end-December 2011 performance criteria, completion of Fifth Review	1,920,000,000	153
Sixth Review	June 15, 2012	Observance of end-March 2012 performance criteria, completion of Sixth Review	1,191,000,000	95
Seventh Review	September 15, 2012	Observance of end-June 2012 performance criteria, completion of Seventh Review	1,191,000,000	95
Eight Review	December 15, 2012	Observance of end-September 2012 performance criteria, completion of Eight Review	1,191,000,000	95
Ninth Review	March 15, 2013	Observance of end-December 2012 performance criteria, completion of Ninth Review	831,000,000	66
Tenth Review	June 15, 2013	Observance of end-March 2013 performance criteria, completion of Tenth Review	831,000,000	66
Eleventh Review	September 15, 2013	Observance of end-June 2013 performance criteria, completion of Eleventh Review	681,000,000	54
Twelth Review	November 15, 2013	Observance of end-September 2013 performance criteria, completion of Twelth Review	579,374,800	46
Total			19,465,800,000	1,548

Source: IMF staff projections.

Table 9. Ireland. Indicators of Fund Credit, 2010–24 1/
(In millions of SDR)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fund credit															
Disbursement	-	11,050	5,493	2,922	-	-	-	-	-	-	-	-	-	-	-
Stock 2/	-	11,050	16,543	19,466	19,466	18,931	16,830	13,934	10,690	7,445	4,201	1,492	349	-	-
Obligations	-	138	397	557	741	1,305	2,819	3,508	3,719	3,571	3,423	2,766	1,162	353	1
Repurchase	-	-	-	-	-	535	2,101	2,896	3,244	3,244	3,244	2,709	1,143	349	-
Charges	-	138	397	557	741	770	718	612	475	327	179	57	19	5	1
Stock of Fund credit															
In percent of quota	-	879	1,315	1,548	1,548	1,505	1,338	1,108	850	592	334	119	28	-	-
In percent of GDP	-	7.8	11.3	12.9	12.4	11.6	9.9	7.8	5.7	3.8	2.0	0.7	0.2	-	-
In percent of exports of goods and services	-	7.2	10.2	11.4	10.8	10.0	8.4	6.6	4.8	3.2	1.7	0.6	0.1	-	-
Obligations to the Fund															
In percent of quota	-	11	32	44	59	104	224	279	296	284	272	220	92	28	0
In percent of GDP	-	0.1	0.3	0.4	0.5	0.8	1.7	2.0	2.0	1.8	1.7	1.3	0.5	0.1	0
In percent of exports of goods and services	-	0.1	0.2	0.3	0.4	0.7	1.4	1.7	1.7	1.5	1.4	1.1	0.4	0.1	0

Source: IMF staff estimates.

1/ Calculated based on existing credit and full disbursements of the prospective available amounts under the extended arrangement under the Extended Fund Facility.
2/ End of period.

ANNEX I. DEBT SUSTAINABILITY ANALYSIS

This Annex presents a baseline public debt sustainability analysis, and then illustrates the impact of changes in the terms of EU financing on the basis of preliminary assumptions regarding the effect of the announcements on July 21 by the European Council. It also provides analysis of external debt sustainability.

General government debt: baseline

The baseline debt projections have improved modestly from the previous program review, reflecting mainly a revised base for nominal GDP in 2010 (Annex Table 1). General government debt is expected to peak at 118 percent of GDP in 2013—against 120 percent at the first and second reviews and 125 percent of GDP at program approval. The reduction in the peak debt ratio primarily reflects the 1½ percentage point upward revision to 2010 nominal GDP data, which lifts the level of projections for nominal GDP. Government debt is projected to decline to 115 percent of GDP by 2016. Taking into account recent developments, the baseline scenario incorporates somewhat higher interest rates on new market borrowing, which slows the decline in the debt ratio only modestly reflecting the medium-term maturity of Irish public debt.

Fiscal consolidation is essential to put the debt-to-GDP ratio on a downward path. In line with the initial program, the baseline scenario incorporates the fiscal consolidation measures for 2011–14 that were approved by previous government in late 2010, and also incorporates the May 2011 Jobs Initiative. On this basis, staff projects the primary surplus to reach 1½ percent of GDP by 2014, which exceeds the primary surplus required to stabilize debt (0.9 percent of GDP). Additional measures will be needed in 2015 to meet the Stability and Growth Pact target of a deficit of no more than 3 percent of GDP by 2015, which would reduce the debt ratio further in 2015–16.[1]

Uncertainties about the outlook for growth and market interest rates remain substantial. The alternative scenarios and bound tests illustrate the sensitivities to growth and interest rate assumptions:[2]

- A negative shock to the baseline growth rate could put debt on an upward path. For example, a permanent one-third standard deviation shock would lower the average growth rate from 2½ to 1¼ percent over 2011–16. With such a shock debt would increase to 132 percent of GDP by 2016. (The size of the shock is affected by the sharp boom and bust of the Irish economy over the past years.)

---

[1] For comparability of treatment with other countries, this target is not reflected in staff's medium-term projections as the underlying measures are not yet articulated.

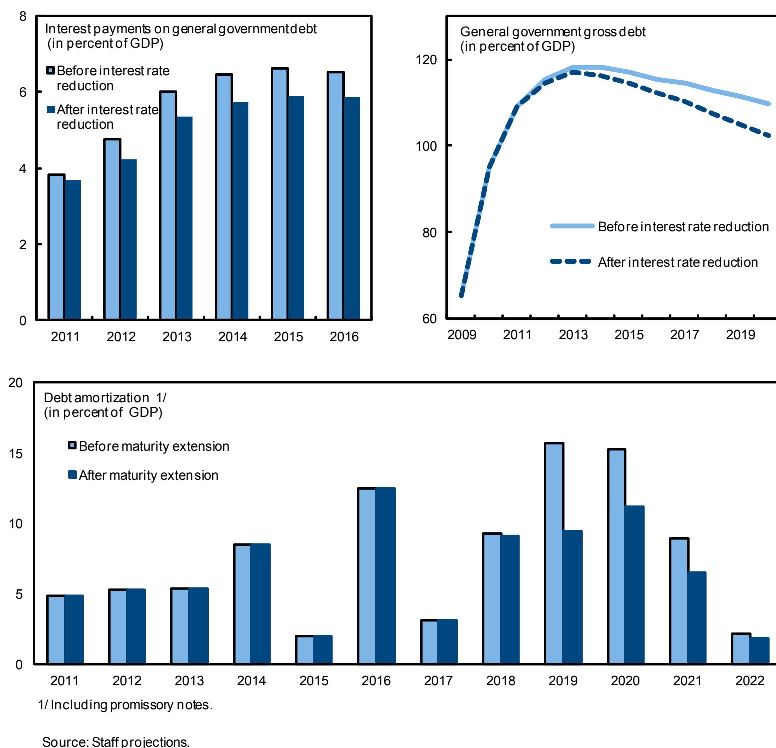
[2] The alternative scenarios have been modified from their standardized versions.

- The debt outlook is sensitive to interest rate developments. However, Irish government debt has predominantly fixed interest rates, hence higher market interest rates only affect interest payments on new market borrowing. Therefore, assuming that interest rates on new borrowing remain at current levels is equivalent to assuming a ½ percentage point higher average interest rate on the full debt stock over 2012–16 and a 1½ percentage point higher average interest rate in 2016. In this scenario, debt would reach 119 percent of GDP in 2014, and remain at 119 percent through 2016. Hence a reduction in sovereign spreads from current levels is critical to putting debt firmly on a declining path.

- The envisaged fiscal consolidation is necessary to reduce the debt ratio. In the absence of fiscal consolidation, debt would reach 149 percent of GDP by 2016 and be on an upward path.

General government debt: preliminary assessment of impact of revised EU loan terms

The reduction in interest rates and extension of maturities on EU loans improves the debt dynamics and the debt service outlook. EC staff indicate that the precise implications of the July 21 announcement by the European Council for the terms of EU financing are being determined, and a rough preliminary assumption would be to assume that the interest rate on all EU loans is reduced by 200 basis points. It is assumed that the maturities on EU loans issued in the future are 15 years, compared to an average maturity of 7½ years targeted initially. As a result, the interest rate payments for Ireland are reduced by about 3 percent of GDP cumulatively over 2011-16. The debt ratio would peak at 117 percent of GDP with such an interest rate reduction, and then decline to 112 percent of GDP by 2016. Rollover needs in 2019-20 would also be reduced notably.



External debt

Ireland's gross external liabilities are very large in relation to GDP, but are mostly offset by external assets. Ireland's gross external liabilities are large at around 1,100 percent of GDP (end-2010). But this is due mainly to the presence of the large International Financial Services Center (IFSC), which also possesses sizeable external assets. Excluding the IFSC, external liabilities are significantly smaller, in the order of 330 percent of GDP (at end-2010). The overall International Investment Position is a net liability of about 90 percent of GDP (at end-2010), as substantial external assets are held by non-IFSC residents.

Under the baseline scenario, and based on revised 2010 data, gross external debt is expected to have peaked at end-2010 at some 1,100 percent of GDP, and is projected to decline to 863 percent of GDP by end-2016. The baseline scenario incorporates the assumption that the full amount of the EU-IMF financing will be drawn, partly contributing to a buildup in Irish foreign assets (about €19 billion). Under the baseline projections, public sector external liabilities will continue to increase, while deleveraging will lower private sector liabilities.

As illustrated by alternative scenarios and bound tests, risks to the baseline scenario are non-negligible:

- With a permanent shock to growth, the external debt ratio would reach 967 percent of GDP by 2016. The external debt-to-GDP ratio will still stabilize, in spite of the severity of the shock (-2¼ percentage points lower growth than in the baseline scenario).

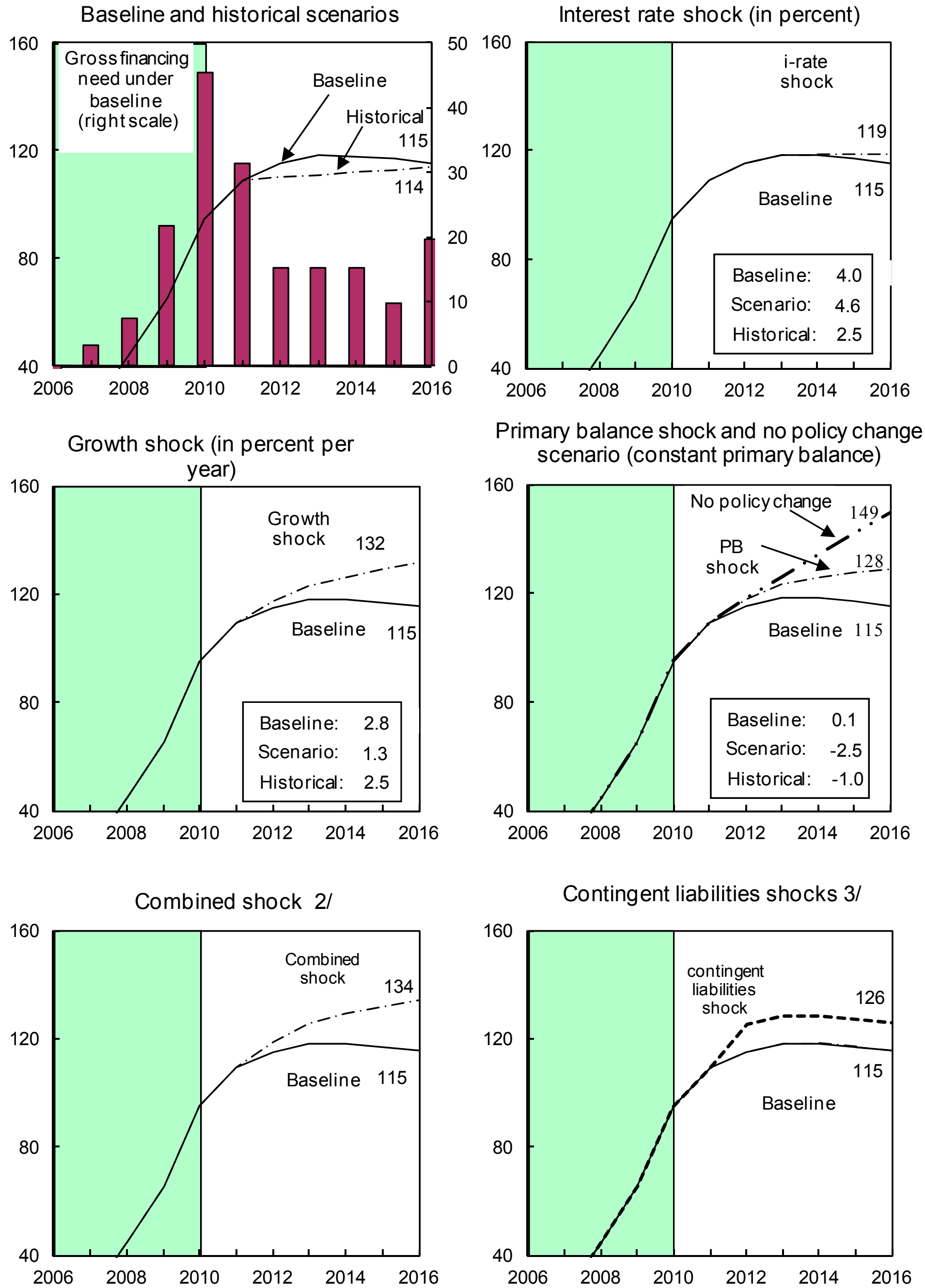
- The sensitivity to exchange rate changes is mitigated by a high estimated degree of euro denominated external debt. Should the real exchange rate depreciate by 30 percent in 2011, debt would reach 1,125 percent of GDP by 2012, and decline to 960 percent by 2016.

Annex Table 1. Ireland: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing primary balance 10/
Baseline: Public sector debt 1/	24.7	24.9	44.4	65.2	94.9	109.2	115.2	118.3	118.1	117.0	115.4	0.9
Change in public sector debt	-2.3	0.2	19.4	20.9	29.7	14.2	6.0	3.1	-0.2	-1.1	-1.5	
Identified debt-creating flows (4+7+12)	-5.2	-1.6	8.7	19.6	33.9	15.1	5.9	3.0	-0.2	-1.1	-1.5	
Primary deficit	-3.8	-0.9	6.3	9.7	8.7	6.6	4.2	1.3	-1.5	-2.0	-2.4	
Revenue and grants	36.1	35.7	34.3	33.6	34.0	34.5	35.1	35.2	35.2	35.4	35.2	
Primary (noninterest) expenditure 2/	32.3	34.8	40.6	43.3	42.6	41.1	39.3	36.4	33.6	33.3	32.8	
Automatic debt dynamics 3/	-1.4	-0.7	2.4	7.4	5.1	2.8	1.7	1.7	1.3	0.9	0.9	
Contribution from interest rate/growth differential 4/	-1.4	-0.7	2.4	7.4	5.1	2.8	1.7	1.7	1.3	0.9	0.9	
Of which contribution from real interest rate	0.0	0.5	1.6	3.9	4.8	3.4	3.8	4.4	4.6	4.6	4.6	
Of which contribution from real GDP growth	-1.3	-1.2	0.8	3.5	0.3	-0.6	-2.1	-2.7	-3.2	-3.7	-3.7	
Contribution from exchange rate depreciation 5/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	2.5	20.1	5.7	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	2.5	20.1	5.7	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 6/	2.8	1.8	10.7	1.3	-4.2	-0.9	0.1	0.1	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	68.5	69.8	129.2	193.9	279.4	316.2	328.5	336.4	335.7	330.8	328.3	
Gross financing need 7/	-2.8	3.1	7.4	21.7	45.5	31.3	15.3	15.3	15.1	9.8	19.7	
in billions of U.S. dollars	-6.4	8.1	19.6	47.8	97.9	68.4	34.6	36.1	37.5	25.6	53.9	
Scenario with key variables at their historical averages 8/						109.2	110.2	111.2	112.1	113.0	113.9	-0.1
Scenario with no policy change (constant primary balance) in 2011-2016						109.2	117.6	126.1	134.1	141.8	149.4	1.1
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.3	5.2	-3.0	-7.0	-0.4	0.6	1.9	2.4	2.9	3.3	3.3	
Average nominal interest rate on public debt (in percent) 8/	3.6	3.6	4.0	4.1	4.7	4.1	4.5	5.4	5.7	5.9	5.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.0	2.3	6.3	8.2	7.2	3.6	3.6	4.0	4.1	4.2	4.1	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.8	9.2	7.3	-6.8	0.7	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	3.6	1.3	-2.3	-4.1	-2.4	0.5	0.9	1.4	1.6	1.7	1.7	
Growth of real primary spending (deflated by GDP deflator, in percent) 2/	7.4	13.5	13.1	-0.9	-2.0	-2.9	-2.7	-5.1	-4.9	2.4	1.5	
Primary deficit 2/	-3.8	-0.9	6.3	9.7	8.7	6.6	4.2	1.3	-1.5	-2.0	-2.4	

1/ General government gross debt. The projections include Fund and EU disbursements. Government-guaranteed NAMA bonds are excluded, based on Eurostat guidance.
For 2015 and 2016, no policy change is assumed.
2/ Excluding bank support costs.
3/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
4/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.
5/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
6/ For projections, this line includes exchange rate changes.
7/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt and short-term debt at end of previous period, and bank recapitalization costs.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ Derived as nominal interest expenditure divided by previous period debt stock.
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex Figure 1. Ireland: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks, except for the growth and interest rate shocks, which are one-third and one-fourth standard deviation, respectively. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time 10 percent of GDP shock to contingent liabilities occur in 2011.

Annex Table 2. Ireland: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2006	2007	2008	2009	2010			2011	2012	2013	2014	2015	2016	Debt-stabilizing non-interest current account 6/
Baseline: External debt	750.9	810.9	942.1	1030.8	1105.1			1060.7	1004.5	954.3	922.3	889.4	863.4	-30.1
External debt excl. IFSC	206.5	257.3	303.2	327.0	334.8									
Change in external debt	57.9	60.1	131.2	88.6	74.3			-44.4	-56.2	-50.2	-32.0	-32.9	-26.0	
Identified external debt-creating flows (4+8+9)	-83.2	-83.8	55.5	109.7	18.3			-19.0	-23.4	-32.5	-28.9	-31.1	-30.0	
Current account deficit, excluding interest payments	-6.7	-7.2	-9.0	-8.9	-12.3			-18.2	-17.8	-16.5	-15.4	-14.5	-13.9	
Deficit in balance of goods and services	-10.2	-9.8	-9.0	-15.2	-18.8			-21.3	-23.5	-24.8	-26.0	-26.3	-26.8	
Exports	78.7	80.0	82.8	90.2	100.5			106.2	109.9	112.3	113.8	114.8	115.8	
Imports	-68.5	-70.2	-73.8	-74.9	-81.7			-84.9	-86.4	-87.5	-87.8	-88.4	-89.0	
Net non-debt creating capital inflows (negative)	-29.1	-43.2	5.0	-7.0	-11.7			-10.4	-1.0	-7.4	-1.1	-0.8	-0.8	
Automatic debt dynamics 1/	-47.4	-33.4	59.4	125.6	42.3			9.6	-4.5	-8.6	-12.4	-15.8	-15.3	
Contribution from nominal interest rate	10.3	12.6	14.6	11.9	11.9			16.4	15.5	14.5	13.7	13.2	12.7	
Contribution from real GDP growth	-33.7	-36.5	25.4	73.9	4.6			-6.8	-20.0	-23.1	-26.1	-29.0	-28.0	
Contribution from price and exchange rate changes 2/	-23.9	-9.5	19.4	39.9	25.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	141.2	143.9	75.7	-21.0	56.0			-25.3	-32.8	-17.7	-3.1	-1.8	4.0	
External debt-to-exports ratio (in percent)	954.2	1013.1	1138.2	1143.4	1099.5			998.4	913.8	849.4	810.2	774.9	745.5	
Gross external financing need (in billions of US dollars) 4/	514.2	567.5	723.7	845.6	781.1			670.1	611.3	570.0	541.3	558.3	585.4	
in percent of GDP	288.4	298.8	402.1	526.5	500.7	10-Year	10-Year	425.0	376.9	338.5	307.5	301.8	301.2	
Scenario with key variables at their historical averages 5/								1060.7	980.4	921.8	880.4	841.8	809.5	-44.3
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.3	5.2	-3.0	-7.0	-0.4	2.5	4.4	0.6	1.9	2.4	2.9	3.3	3.3	
GDP deflator in US dollars (change in percent)	3.6	1.3	-2.3	-4.1	-2.4	1.6	3.5	0.5	0.9	1.4	1.6	1.7	1.7	
Nominal external interest rate (in percent)	1.6	1.8	1.7	1.1	1.1	1.4	0.3	1.5	1.5	1.5	1.5	1.5	1.5	
Growth of exports (US dollar terms, in percent)	7.2	8.4	-2.0	-2.8	8.3	4.6	5.8	6.9	6.4	6.1	5.9	5.9	6.0	
Growth of imports (US dollar terms, in percent)	9.0	9.2	-0.4	-9.4	5.8	4.0	7.1	5.2	4.7	5.1	4.9	5.8	5.8	
Current account balance, excluding interest payments	6.7	7.2	9.0	8.9	12.3	6.3	3.2	18.2	17.8	16.5	15.4	14.5	13.9	
Net non-debt creating capital inflows	29.1	43.2	-5.0	7.0	11.7	23.0	23.6	10.4	1.0	7.4	1.1	0.8	0.8	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

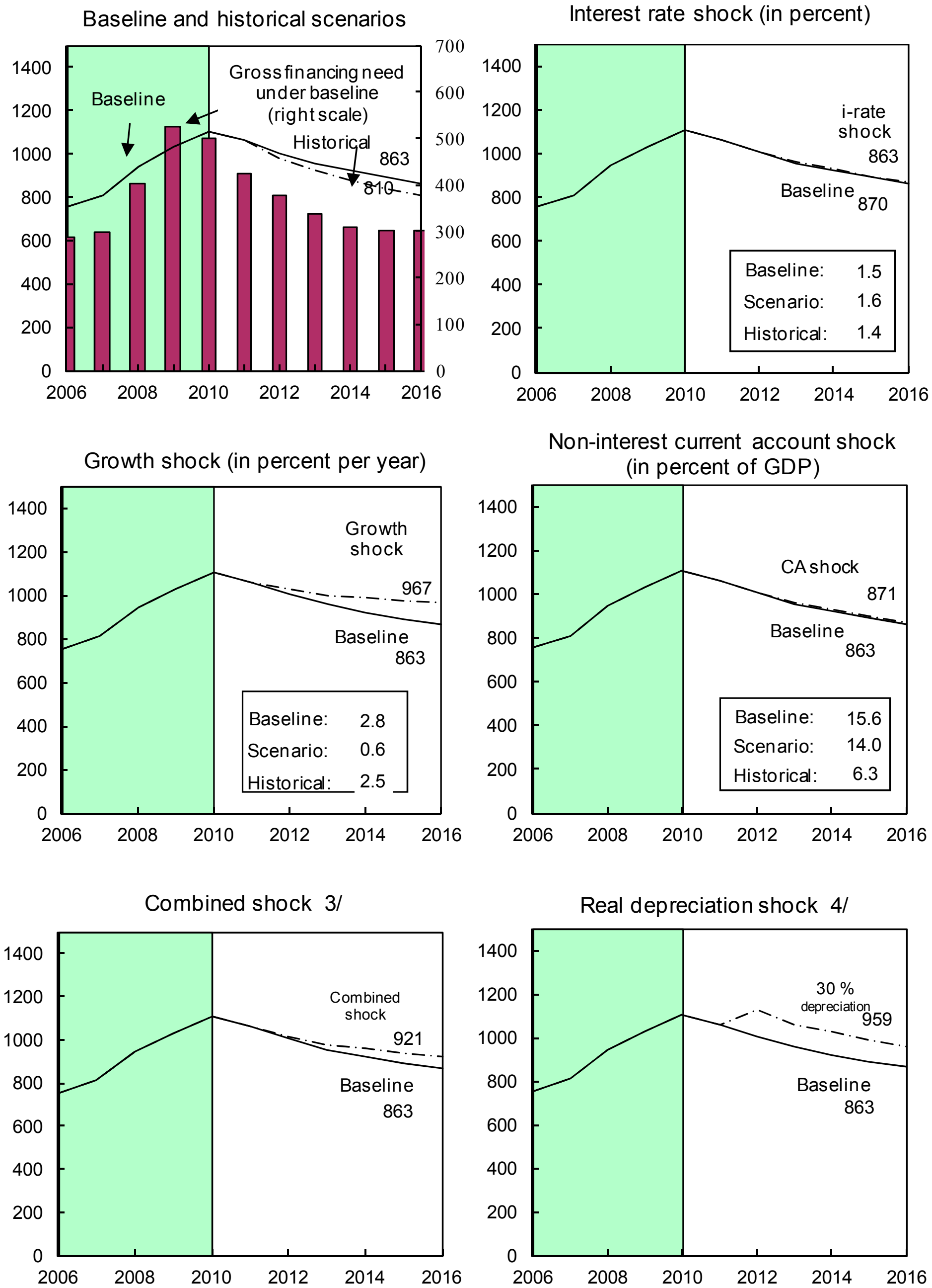
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex Figure 2. Ireland: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2011.

ANNEX II. FUND RELATIONS
(As of June 30, 2011)

I. **Membership Status:** Joined August 8, 1957; Article VIII

II. **General Resources Account:**

	SDR Million	Percent of Quota
Quota	1,257.60	100.00
Fund holdings of currency	7,421.55	590.14
Reserve position in Fund	258.49	20.55

III. **SDR Department:**

	SDR Million	Percent of Allocation
Net cumulative allocation	775.42	100.00
Holdings	628.18	81.01

IV. **Outstanding Purchases and Loans:**

	SDR Million	Percent of Quota
Extended Arrangements	6,422.43	510.69

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	12/16/10	12/15/13	19,465.80	6,422.43

VI. **Projected Payments to the Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	2011	2012	2013	2014	2015
Principal					535.20
Charges/Interest	74.85	153.43	153.29	174.19	174.29
Total	74.85	153.43	153.29	174.19	709.49

VII. **Exchange Rate Arrangement and Exchange Restrictions:**

Ireland's currency is the euro, which floats freely and independently against other currencies. Ireland has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions, other than restrictions notified to the Fund under Decision No. 144 (52/51).

VIII. **Safeguards Assessment:**

The safeguards assessment of the Central Bank of Ireland (CBI) was finalized in March 2011. The assessment concluded that the CBI has a relatively strong safeguards framework in place, underpinned by its participation in the Eurosystem and good governance practices. Recommendations were made to address heightened risks emanating from the financial crisis, notably in relation to ELA lending, and to strengthen the CBI's financial autonomy. Since the planned recapitalization of the domestic banks will shape the risks

identified, the Government will consider the safeguards recommendations after that process is completed. In the interim the authorities are preparing draft amendments to clarify certain aspects of the Central Bank Act, taking into account best practices in the Eurosystem.

IX. **Article IV Consultations:**

The last Article IV consultation was concluded on July 7, 2010 (IMF Country Report No. 10/209). Article IV consultations with Ireland are on the 24-month cycle.

X. **Third Review Under the Extended Arrangement:**

Discussions were held in Dublin during July 6–14, 2011. The IMF team comprised Ajai Chopra (head), Craig Beaumont, Johan Mathisen, Bergljot Barkbu, and James John (all EUR); Olga Stankova (EXR), S.M. Ali Abbas (FAD); Maike Luedersen (LEG); Luis Cortavarría and Peter Breuer (MCM), and Ben Kelmanson (SPR). Teams from the EC and ECB as well as Messrs. Stephen O'Sullivan and Peter McGoldrick from the Executive Director's office participated in the discussions. The mission met with the Minister for Finance, the Minister for Public Expenditure and Reform, the Governor of the Central Bank and the Deputy Governor for Financial Regulation, , and senior officials from these institutions as well as from the National Treasury Management Agency (NTMA) and the National Asset Management Agency (NAMA). The mission also met with representatives of the Fiscal Council; the Department of Jobs, Enterprise and Innovation; the Department of Justice and Equality; the Office of the Attorney General; the Department of Social Protection; the Department of the Environment, Community and Local Government; the Central Statistics Office; the Economic and Social Research Institute; banks and market analysts; the Irish Business and Employers' Confederation; the Irish Congress of Trade Unions; and Social Justice Ireland.

XI. **Technical Assistance:**

Department	**Purpose**	**Date**
STA	Balance of Payments Statistics	January 2011
STA	Monetary and Financial Statistics	January 2011

Attachment I. Letter of Intent

Dublin, 28 July 2011

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

Dear Ms. Lagarde:

1. The Irish Government reaffirms its commitment to making this programme a success. Our track record to date is strong. We have met and in some important cases exceeded our commitments under the EU/IMF supported programme both in terms of policy reforms as well as quantitative targets. (MEFP Tables 1 and 2). This has been the case from the outset of the programme. Furthermore we note that the commitments undertaken in Budget 2011 are on track and that after three years of decline economic growth has turned positive this year. Our ambitious financial sector reforms are also proceeding satisfactorily. However, despite this strong start financial market conditions for Irish Government paper have deteriorated, particularly in recent months. The widespread uncertainty surrounding the Euro area has been a significant factor in this. In this regard, the recent moves to strengthen Euro Area financial assistance mechanisms are welcomed as a significant positive step which could lead to a much more favourable assessment of the medium term prospects for programme countries generally and Ireland specifically. These developments also reflect the policy position that has been pursued by the Irish Government on a number of occasions in relation to the design changes that are required particularly in the areas of pricing and flexibility of the funding instruments available. We welcome the significant progress achieved to date in that regard. We also welcome your continued strong support for these initiatives.

2. We have made important progress in both the financial sector and fiscal reforms. All structural benchmarks for this review have been implemented on or before the required deadlines:

- The recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society will be completed (net of the remaining liability management exercises and disposal of ILP's insurance arm).

- The Government has established the Irish Fiscal Advisory Council to provide an independent assessment of public finances.

- The credit unions were inspected between July 2010 and March 2011 to complete an assessment of their loan portfolios.

- The legal merger of Allied Irish Banks and EBS Building Society was completed on 1 July 2011, well ahead of the end September 2011 schedule.

- The merger of Anglo Irish Bank and Irish Nationwide Building Society to form the Irish Bank Resolution Company (IBRC) was completed on 1 July 2011, well ahead of its scheduled end December 2011 deadline.

- A joint restructuring plan for Anglo and INBS (now the IBRC) has been submitted to and approved by the European Commission.

- A plan to recapitalise Irish Life & Permanent has been finalised, again ahead of schedule and the Irish Life subsidiary has been already offered for sale again in advance of the October 2011 deadline.

- The Central Bank (Supervision and Enforcement) Bill 2011 will be submitted to the Oireachtas by 31 July 2011.

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 third review under the Extended Arrangement. We also request that the third purchase in an amount equivalent to SDR 1.319 billion becomes available at the time of completion of the review.

4. We propose that quantitative performance criteria under the arrangement be established for 31 December 2011, as set out in the attached MEFP. As detailed below, we also propose new structural benchmarks against which to measure progress under the programme (MEFP Table 3). The Technical Memorandum of Understanding (TMU) explains how programme targets are measured.

5. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, on 28 April 2011, and in this letter are adequate to achieve the objectives of our programme. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. As is standard under Fund-supported programmes, we will consult with the Fund, the European Commission and the ECB on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum.

6. This letter is being copied to Messrs. Juncker, Rehn, Rostowski and Trichet.

Sincerely,

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

Attachment II. Ireland: Memorandum of Economic and Financial Policies

Recent Economic Developments and Outlook

1. **The economy is on track to return to positive growth this year.** GDP stabilised on an annual basis in the first quarter of 2011. Strong exports, aided by progress in recovering lost competitiveness, are expected to continue driving the recovery, as domestic demand, especially consumption, contracts. The export-led recovery will lead to a further strengthening of the current account, which turned into surplus in 2010. Annual inflation of 1.1 percent in June is primarily due to higher international energy prices, with core inflation turning slightly positive in recent months. Economic activity is expected to strengthen next year and beyond as the recovery broadens out and spills over to the labour market.

Financial Sector Policies

2. **We are continuing to restore the healthy functioning of our domestic financial system so it can contribute to the recovery.** Accordingly, we are taking decisive steps to (i) recapitalise, restructure, and deleverage the domestically owned banks; (ii) reform the business model and strengthen the financial health of the credit union sector; (iii) enhance the existing institutional and regulatory framework, and strengthen the transparency and quality of bank balance sheets.

The Domestically-Owned Banks

3. **Recapitalising the domestic banks by end July, with contributions from the private sector, will represent a key milestone** (structural benchmark). Of the €24 billion required, €4.9 billion has been obtained to date through liability management exercises (LMEs). To allow further burden sharing, the final €0.5 billion step in recapitalising Bank of Ireland will be completed by end 2011 and any further recapitalisation of ILP will be completed following the disposal of the insurance arm. We will review the restructuring plan for ILP due by end July and, as necessary, set out by end October the relevant follow-on actions.

4. **We are strengthening the governance framework for banks.** Our ultimate goal is a robust, profitable, and privately owned banking system, which can support the Irish economy. In the meantime, we are:

- **Renewing the boards and senior management of banks based on fit and proper standards.** Already a number of Board members of credit institutions that have received financial support have departed voluntarily. The Minister has asked the institutions to submit board and management renewal plans. In addition the Central Bank will review any remaining incumbent directors' and senior managers' roles in

the lead up to the crisis against the new fitness and probity standards following those standards coming into force.

- **Enshrining arms length governance of pillar banks' core activities.** In order to properly exercise the ownership rights of the state in banks we have strengthened the Banking Unit of the Department of Finance, and the legislation for the delegation to NTMA of these rights has been rescinded. By end October we shall:
    - Publish the mission statement for the new Banking Unit, as well as its lines of responsibility and organisational structure.
    - Develop and publish a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight to ensure clarity of responsibility in this area (proposed structural benchmark).
    - Initiate public reporting on the activities of the Banking Unit on a regular basis.

- **Establishing relationship frameworks.** By December 2011 the Minister for Finance shall prepare relationship frameworks with each bank to establish the commercial basis for each bank's operations under Government ownership and a template will be developed for discussion with the External Partners in October 2011. In order to achieve the objectives of the deleveraging process, we will as an exception, exercise more active oversight of banks' activities relating to the non-core assets (as further described below).

5. **We will ensure that the deleveraging process proceeds in a well coordinated and effective manner.** The non-core assets are being deleveraged through a combination of run offs from amortization or prepayments and a carefully coordinated programme of phased asset disposals. While avoiding fire sales, this will deliver a smaller more robust banking system, with a target loan to deposit ratio of 122.5 percent by end 2013. In the near term, the focus will be on assessing bank targets for the quantum of asset disposal requirements, derived from their deleveraging programmes established to meet the PLAR target loan to deposit ratios, which will be closely monitored. As set out below, we have developed a framework for the governance of deleveraging, which will be kept under review based on experience.

- **Banks have established a framework for asset disposals.** Following the identification of the non-core assets, the banks, with the assistance of international consulting firms, are completing due diligence on their inventories to establish the phasing and pricing of non-core assets identified for sale. Banks have also established deleveraging committees (chaired by a non-executive Director) to make decisions on

larger transactions, and will report to the authorities on progress towards the semi-annual interim targets for key liquidity indicators on a quarterly basis.

- **The Banking Unit of the Department of Finance (DoF) will play an active role in driving and overseeing the deleveraging process.** A representative of the DoF will participate in a non-voting capacity in each bank's Deleveraging Committee to promote the observance of agreed goals, report regularly to the DoF Review Committee, and have the authority to refer material transactions to the DoF Review Committee. Any such transactions would automatically be reviewed if the price falls below a certain threshold based on the PCAR/PLAR exercise. The Minister of Finance would use his powers to either enforce or veto transactions with a view to advancing deleveraging while avoiding fire sales.

- **The Central Bank will monitor the process from a financial stability perspective.** The Central Bank has defined the semi-annual interim targets for key liquidity indicators, and will monitor progress against those metrics. Upon receipt of a report from an institution forecasting a breach of an interim target or based on its own assessment the Central Bank will request a remediation plan and may at the same time convert the interim target into a mandatory target. Appropriate application of enforcement actions will be considered if due wholly or partly to the non execution of a deleverage plan transaction.

Strengthening the Credit Union Sector

6. **We are implementing the strategy to underpin the solvency and viability of the credit union sector.** Immediate steps are being taken to deal with weaknesses in the most troubled institutions, including restrictions on their operations where appropriate. Commencing in the fourth quarter we will take all measures necessary to restructure the sector and address difficulties in individual credit unions while minimising any fiscal cost, and will identify solutions within the sector, as well as specify additional funding arrangements in case they are needed to complete this process. This restructuring process will take account of the interim report of the Commission on Credit Unions.

Upgrading the Financial Sector Framework

7. **We are continuing our efforts to strengthen the institutional and regulatory framework underpinning the financial system.** We are making progress in several fronts:

- **A new prudential risk assessment framework is being adopted.** The Central Bank is currently engaged in ongoing development of its new risk framework, Prudential Risk and Impact System (PRISM), which will be implemented by end 2012. By the start of 2012 phase one will be implemented for banks and by March 2012 we expect to have completed our first assessment of the pillar banks' risk profile on the basis of

PRISM, and identified a set of mitigating recommendations. We also plan to issue new credit risk standards, including collateral valuations and credit limits by end December 2011. During 2013 we will request the IMF to undertake an independent assessment under a stand-alone Report on the Observance of Standards and Codes (ROSC) against Basel Core Principles for Effective Banking Supervision.

- **Strengthened banking supervision and enforcement powers.** We plan to publish the Central Bank (Supervision and Enforcement) Bill by end July (structural benchmark). This bill strengthens the ability of the Central Bank to impose and supervise compliance with regulatory requirements and to undertake timely prudential interventions. The bill will provide the Central Bank with greater access to information and analysis and will underpin the credible enforcement of Irish financial services legislation in line with international best practice.

- **Enhanced supervisory transparency.** The Central Bank will over time further increase the level of supervisory disclosure by publishing information concerning the supervisory actions undertaken during the previous year.

- **Steps to establish a credit risk register are being taken.** A proposal to enhance the quality and availability of credit information will be sent to the Minister by end September 2011. Legislation for the establishment of a statutory credit register will be drafted and submitted to the Oireachtas by September 2012.

- **Special resolution regime.** The Central Bank and Credit Institutions (No. 2) (Resolution) Bill is expected to complete Second Stage before the end of the current Dáil session and will proceed to Committee Stage in September 2011 for further discussion and refinement.

8. **We are strengthening the transparency and quality of bank balance sheets:**

- **By December 2011, the Central Bank will issue guidance to banks for the recognition of accounting losses incurred in their loan book (proposed structural benchmark).** Specifically, the Central Bank will begin requiring the banks: (i) on core assets, to increase the consistency and conservatism in their impairment triggers and provisioning model inputs including *inter alia*: period of arrears, emergence periods, cure rates and collateral value, and treatment of restructured loans and forbearance; (ii) on non-core assets (assets under deleveraging) to provision to reflect losses arising from their planned disposal, taking account as appropriate of the PLAR/PCAR analysis. We will develop these new requirements with assistance of an internationally recognised auditing firm to ensure consistency with IFRS.

- **Introduction of new disclosure practices by end 2011.** We will ensure that banks adopt a best practice template that enhance transparency in definition of impairment,

measurement process for loan and receivable financial assets, timing of write-offs, collective provisioning methodology, and risk management and portfolio quality disclosure.

- **We will continue to facilitate improvements in the quality of banks' loan books.** In particular, we will review the requirements of the Code of Conduct for Business Lending to SME Enterprises (SME Code) relating to the treatment of SMEs in financial difficulties and facing arrears. By end September 2011 revisions to the existing procedural guidelines (especially relating to those in financial difficulties) will be approved. These are being drafted through a consultative process and will be designed to avoid introducing incentives for strategic defaulting. The Government will continue to review implementation and experience under the Code of Conduct on Mortgage Arrears to encourage early and effective engagement between borrowers and banks and report by the end of October 2011.

- **Reform the personal insolvency regime.** We will continue to facilitate efforts by individuals and lenders to address issues of significant over-indebtedness. We intend to have in place by end December 2011 a strategy covering the key policy issues and parameters for the development of broader legal reforms, including significant amendments to the Bankruptcy Act 1998 and creation of a new structured non-judicial debt settlement and enforcement system (proposed structural benchmark). The objective is to permit efficient and effective insolvency proceedings while minimising moral hazard.

Fiscal Policies

9. **On the back of a €6 billion consolidation effort, we are on track to achieve the programmed deficit reduction in 2011.** The end June 2011 primary exchequer balance target was met with a margin and the end year programme targets remain within reach. The end June central government net debt target was also met, as was the non-accumulation of external arrears requirement. Our strong performance, despite challenging macroeconomic conditions, reflects the government's unwavering commitment to fiscal consolidation, and Ireland's strong institutional capacity in revenue administration and public finance management. Our robust implementation record credibly positions us to deliver the programmed fiscal adjustment of at least €3.6 billion in 2012, and the additional measures in outer years needed to bring the general government deficit below 3 percent of GDP by 2015.

10. **The ongoing comprehensive review of expenditure (CRE) is expected to identify significant scope for sharpening public service delivery.** Instead of cutting around the edges, we are adopting a "programme review" approach to help focus spending on the most effective and high-priority programmes. By end October 2011, following the conclusion of the CRE, we will present the Pre Budget Outlook to the Dáil setting out a medium-term fiscal consolidation plan for 2012–2015 outlining the overall composition of revenue and

expenditure adjustments for each year, consistent with the targets set out in the Council Recommendation in the context of the excessive deficit procedure. Moreover, by 2012 Budget day in early December 2011, we will anchor this consolidation plan in binding medium-term expenditure cash ceilings (structural benchmark) and will set out revenue and expenditure measures to deliver the needed adjustment while protecting the poor and vulnerable.

11. **We are implementing significant pension reforms to help secure Ireland's long-term public finances in the face of high projected increases in ageing-related costs.** Signed into law on June 29, 2011, the reforms provide for step increases in the retirement age for social welfare pensions from 65 to 68 years over 2014-2028. Supplementing this is a package of public service pension reforms for new entrants, to be submitted for Parliamentary approval by end September-2011. Notably, these necessary reforms, which will help brace Ireland against population ageing, are being implemented in a socially-cohesive manner.

12. **As part of our institutional fiscal reform commitments, we have established the Irish Fiscal Advisory Council.** The Council comprises five distinguished economics professionals with strong international expertise, and has received an initial funding provision for the remainder of 2011. The Council will have the mandate to assess and comment on official macroeconomic forecasts and budgetary projections, compliance with fiscal rules, and the appropriateness of the fiscal stance. A Fiscal Responsibility bill, to be submitted to the Houses of the Oireachtas by end December 2011, will give statutory basis to the Council and ensure its independence with due regard to the role that nomination appointment and dismissal procedures can play, and medium-term budget allocations (proposed structural benchmark). The bill will also give legal backing to the aforementioned expenditure ceilings, and establish a set of fiscal rules to underpin sound fiscal policy.

13. **We are committed to an ambitious programme of state asset disposals.** We will consider options for asset disposals, based on the Programme for Government and the report of the Review Group on State Assets and Liabilities. We will prepare a draft programme of asset disposals in this context and discuss it with the staff of the European Commission, the IMF and the ECB by end December 2011 in advance of taking final decisions on the programme to be pursued. The draft programme will include the identification of the potential assets for disposal, any necessary regulatory changes, and a timetable for implementation.

Product and Labour Market Reforms

14. **To reform the framework for sectoral wage agreements, the Government is working to develop a time-bound plan of action by end September 2011 having regard to the views of the social partners and other stakeholders.** The reforms aim at increasing employers' willingness to hire, in particular in sectors hard hit by the crisis and to facilitate

the necessary cross sector adjustment. They will take into consideration the implications of the 6 July 2011 High Court ruling which found that sections of legislation governing wage-setting mechanisms in EROs are unconstitutional.

15. **We are advancing policies to lower costs in sheltered sectors to boost purchasing power and underpin competiveness improvements.** We have taken steps to reduce margins on pharmaceuticals, and intend to submit legislative changes to Parliament by end September 2011 to reform regulation of the legal profession to promote greater transparency and efficiency, and to reduce barriers to entry to the medical profession. To enhance the enforcement of Irish and EU competition law, we will consider how the effectiveness of the Competition Authority will be strengthened; we will also merge the Competition Authority and National Consumer Agency. Requests for exemptions to the competition law framework will not be accepted unless they are consistent with the goals of the EU / IMF supported programme for Ireland and the needs of the economy.

Programme Financing

16. **The programme remains adequately financed. Progress is ongoing in finalising loan documentation with our EU bilateral partners.** The bilateral agreement with the United Kingdom is in place, with the first of 8 quarterly disbursements due to be made in the context of completion of this review. Loan arrangements with Sweden and Denmark are being finalised and envisage semi-annual disbursements, also linked to future programme reviews.

Programme Monitoring

17. Progress in the 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 the Letters of Intent of December 3rd, 2010, April 28, 2011 and 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).

18. 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 2011	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-June 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 3/
Submit the Supervision and Enforcement Bill to Oireachtas.	End-July 2011	Observed 3/
Complete the legal merger procedures of Allied Irish Bank and EBS Building Society.	End-September 2011	Observed
The merger of Irish Nationwide Building Society and Anglo-Irish bank.	End-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/ This was updated subsequent to the signing of the LOI/MEFP.

Table 2. Quantitative Performance Criteria and Indicative Targets under the Economic Programme for 2011–12

	March 31, 2011		June 30, 2011		September 30 2011	December 31, 2011	March 31, 2012	June 30, 2012
	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
	(In billions of Euros)							
	Performance Criterion		Performance Criterion		Performance Criterion	Performance Criterion	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance 2/	-7.9	-6.3	-10.1	-8.4	-14.2	-15.0	-5.7	-7.4
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
	Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt	92.1	88.5	94.6	91.7	98.6	100.4	107.9	112.0

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.

Table 3. Upcoming Structural Benchmarks under the Programme for 2011

Measure	Date	Status
Financial sector policies		
Publish a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight (MEFP, ¶4).	End-October 2011	Proposed structural benchmark
Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book (MEFP, ¶8).	End-December 2011	Proposed structural benchmark
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 (MEFP, ¶8).	End-December 2011	Proposed structural benchmark
Fiscal policies		
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets (MEFP, ¶10).	2012 Budget day in early December 2011 1/	Structural benchmark
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence (MEFP, ¶12).	End-December 2011	Proposed structural benchmark

1/ Timing advanced from end-December 2011.

Attachment III. Ireland: Technical Memorandum of Understanding (TMU)

28 July 2011

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 1 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 November 24, 2010 as shown on the European Central bank web-page, in particular, €1 = 1.3339 U.S. dollar and €1 = 0.86547 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

[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.

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. 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, 2011:	
End-September 2011 (performance criterion)	-14.2
End-December 2011 (performance criterion)	-15.0
From January 1, 2012:	
End-March 2012 (indicative target)	-5.7
End-June 2012 (indicative target)	-7.4

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]

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of Euros)
From January 1, 2011:	
End-September 2011 (projection)	28.6
End-December 2011 (projection)	42.4
From January 1, 2012:	
End-March 2012 (projection)	9.9
End-June 2012 (projection)	19.6

[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.

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 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 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 2011 central government net debt.

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-June 2011 (provisional)	91.7
End-September 2011 (indicative target)	98.6
End-December 2011 (indicative target)	100.4
End-March 2012 (indicative target)	107.9
End-June 2012 (indicative target)	112.0

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 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.

Attachment IV. Letter of Intent (College of Commissioners)

Dublin, 28 July 2011

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

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

Mr. Jan Vincent Rostowski
Minister of Finance
Ul Swietokrzyska 12
PL-00-916 WARSZAWA
Poland

Mr. Jean-Claude Trichet
President
European Central Bank
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Dear Messrs. Juncker, Rehn, Rostowski and Trichet,

1. The Irish Government reaffirms its commitment to making this programme a success. Our track record to date is strong. We have met and in some important cases exceeded our commitments under the EU/IMF supported programme both in terms of policy reforms as well as quantitative targets. (MEFP Tables 1 and 2). This has been the case from the outset of the programme. Furthermore we note that the commitments undertaken in Budget 2011 are on track and that after three years of decline economic growth has turned positive this year. Our ambitious financial sector reforms are also proceeding satisfactorily. However, despite this strong start financial market conditions for Irish Government paper have deteriorated, particularly in recent months. The widespread uncertainty surrounding the Euro area has been a significant factor in this. In this regard, the recent moves to strengthen Euro Area financial assistance mechanisms are welcomed as a significant positive step which could lead to a much more favourable assessment of the medium term prospects for programme

countries generally and Ireland specifically. These developments also reflect the policy position that has been pursued by the Irish Government on a number of occasions in relation to design changes that are required particularly in the areas of pricing and flexibility of the funding instruments available. We welcome the significant progress achieved to date in that regard. We also welcome your continued strong support for these initiatives.

2. Policy implementation since the review conducted last spring has been determined. We have met (and in some cases exceeded) all our commitments under the EU/IMF-supported programme, and are well on track to meet the programme's remaining quantitative and reform milestones:

The cumulative deficit for the first six months of the year was well below the adjusted programme ceiling, and the net central government debt was below the programme's indicative ceiling. We are on track to observe, and indeed overachieve, the programme target on the overall deficit for 2011 as a whole of 10.6% of GDP.

The recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society will be completed (net of the remaining liability management exercises and disposal of ILP's insurance arm).

The Government has established the Irish Fiscal Advisory Council to provide an independent assessment of public finances.

The credit unions were inspected between July 2010 and March 2011 to complete an assessment of their loan portfolios.

The legal merger of Allied Irish Banks and EBS Building Society was completed on 1 July 2011, well ahead of the end September 2011 schedule.

The merger of Anglo Irish Bank and Irish Nationwide Building Society to form the Irish Bank Resolution Company (IBRC) was completed on 1 July 2011, well ahead of its scheduled end December 2011 deadline.

A joint restructuring plan for Anglo and INBS (now the IBRC) has been submitted to and approved by the European Commission

A plan to recapitalise Irish Life & Permanent has been finalised, again ahead of schedule and the Irish Life subsidiary has been already offered for sale again in advance of the October 2011 deadline.

The Central Bank (Supervision and Enforcement) Bill 2011 will be submitted to the Oireachtas by 31 July 2011.

3. In the attached Memorandum of Economic and Financial Policies (MEFP) and Memorandum of Understanding on Specific Economic Policy Conditionality (MoU), we set out our plans to further advance towards meeting the objectives laid out in our programme supported by 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 third review. Overall financing needs have not changed. We request the release of the third EU instalment of EUR 5.5 billion. This would include the planned

disbursement of EUR 2.5 billion in the third quarter and enable EUR 3 billion to be disbursed during the first half of the fourth quarter before finalisation of the fourth review, allowing the disbursement of EUR 7.2 billion previously agreed to be spread over that quarter.

4. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, on 28 April 2011, and in this letter are adequate to achieve the objectives of our programme. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will continue to consult with the Fund, the European Commission and the ECB on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum.

5. This letter is being copied to Ms Lagarde.

Sincerely,

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

Attachment V. Memorandum of Understanding on Specific Economic Policy Conditionality

Ireland
Memorandum of Understanding
on
Specific Economic Policy Conditionality

(SECOND UPDATE)

28 July 2011

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 second 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. 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 tight supervision of expenditure commitments by the line departments, and effective tax collection, to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the

[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.

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 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 fourth review (actions to be completed by end Q3-2011)

Fiscal consolidation

- Government will review the achieved and projected savings arising from efficiency-enhancing administrative measures and from reductions in public service numbers and present appropriate adjustment measures, including to the overall public service wage bill, to ensure consistency with the fiscal adjustment targets over the programme horizon.

Financial sector reforms

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

Recapitalisation

- The Irish authorities will ensure that the capital needs of Bank of Ireland (BoI), Allied Irish Banks (AIB), Educational Building Society (EBS) and Irish Life & Permanent (IL&P), as identified in the 2011 Prudential Capital Assessment Review (PCAR) have been fully met by 31 July 2011, subject to appropriate adjustments for asset sales of IL&P and for pending

Liability Management Exercises for BoI and IL&P. These adjustments reduce the amount to be injected by 31 July 2011 by EUR 1.1 billion for IL&P and EUR 0.5 billion for BoI.

Deleveraging

- The Irish authorities will ensure that the banks covered by the Prudential Liquidity Assessment Review (PLAR) will have identified the separation of their core and non-core assets and have implemented the appropriate governance structure for the deleveraging of non-core assets.

- In the area of asset disposal monitoring, in the near term focus will be on assessing bank targets for the quantum of asset disposal requirements, derived from their deleveraging programmes established to meet the PLAR target loan to deposit ratios (LDRs), which will be closely monitored. In line with the monitoring system set up, actual and forecast LDRs and asset disposals shall be reported by the banks to the Central Bank of Ireland every six months (first report by 31 July 2011). Such reports will include (i) progress achieved towards interim target; (ii) forecast of LDR for the end of the next period; (iii) a detailed plan of action to meet the next interim target; and (iv) actual and planned asset disposals. If actual or forecast asset disposals fail to meet the interim targets, the Irish authorities will inform the European Commission, IMF, and ECB within 14 days of becoming aware of such failure. The Central Bank will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation. In addition to providing the six-monthly report, the Irish authorities will update the European Commission, the IMF and the ECB on progress in the intervening quarters.

- The Irish authorities, in consultation with the European Commission, IMF, and ECB, will monitor closely the evolution of Net Stable Funding Ratios (NSFR) and the Liquidity Coverage Ratios (LCR) of the banks in order to ensure convergence to Basel 3 standards by the relevant dates.

Financial Supervision

- The Irish 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 European Commission, the ECB and the IMF.

- Building on the restructuring undertaken to date, the Irish authorities will submit restructuring plans to the European Commission by 31 July 2011 in accordance with EU competition rules, taking into account the outcomes of the PCAR and PLAR and covering a period of 5 years. These plans will also be made available to the IMF and the ECB. Except where otherwise agreed with the European Commission, commitments already undertaken by the Irish authorities in the context of EU competition decisions will be maintained.

- Government will, by 31 July 2011, introduce legislation (titled "The Central Bank (Supervision and Enforcement) Bill 2011") strengthening the ability of the Central Bank of Ireland to impose and supervise compliance with regulatory requirements and to undertake timely prudential interventions. The Bill will provide the Central Bank of Ireland with

greater access to information and analysis and will underpin the credible enforcement of Irish financial services legislation in line with international best practice.

- The Department of Finance will submit to the Minister for Finance proposals to enhance the quality and availability of credit information available to credit providers by 30 September 2011.

Structural reforms

Labour market reforms

- Government will report on reforms to strengthen the labour market activation system and its links to unemployment support schemes in the fight against long-term unemployment.

- Government will discuss with European Commission Services the main findings of the independent reviews of Registered Employment Agreements (REAs) and Employment Regulations Orders (EROs) arrangements, and present a time-bound comprehensive action plan to follow up on its recommendations, taking into consideration the implications of the 6 July 2011 High Court ruling which found that sections of legislation governing wage-setting mechanisms in EROs are unconstitutional.

To increase competition

- Government will introduce legislative changes to remove restrictions to trade and competition in sheltered sectors including:
  - the legal profession, establishing an independent regulator for the profession and implementing the recommendations of the Legal Costs Working Group and outstanding Competition Authority recommendations to reduce legal costs.
  - medical services, eliminating restrictions on the number of general practitioners (GPs) qualifying and removing restrictions on GPs wishing to treat public patients as well as restrictions on advertising.

- Government will introduce legislation to strengthen competition law enforcement in Ireland 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 as well as ensuring the effective functioning of the Competition Authority, which will be merged with the National Consumer Agency

- The Irish authorities will agree with European Commission Services a time-bound action plan to implement the recommendations of the study on the economic impact of eliminating the cap on the size of retail premises with a view to enhancing competition and lowering prices for consumers.

- An independent assessment of the electricity and gas sectors will commence taking due account of the EU regulatory context for these sectors.

Structural fiscal reforms

To underpin medium-term ceilings and identify savings and efficiencies

- The Irish authorities will complete a comprehensive review of expenditure (CRE) which will form the basis for the allocation of binding multi-year expenditure ceilings by expenditure vote group consistent with the aggregate expenditure envelope underpinning the government's fiscal targets under the EU/IMF financial assistance programme and the Stability and Growth Pact provisions.

To put the public service pension system on a more sustainable basis

- Pension entitlements for new entrants to the public service will be reformed with effect from 2011. This will include a review of accelerated retirement for certain categories of public servants and an indexation of pensions to consumer prices. Pensions will be based on career average earnings. New entrants' retirement age will also be linked to the Social Welfare pension retirement age.

To facilitate better government at a local level

- Government will ensure that effective measures are in place to cap the contribution of the local government sector to general government borrowing at an acceptable level. The mechanisms in place to underpin this position will be kept under close review, in consultation with the European Commission Services. The review will also consider how to provide data on the financial position including assets and liabilities of the sector on a timely basis.

2. Actions for the fifth review (actions to be completed by end Q4-2011)

Fiscal consolidation

- Following the conclusion of the CRE, government will, by end-October 2011, present the Pre-Budget Outlook to the Dáil, setting out a medium-term fiscal consolidation plan for 2012 – 2015 outlining the overall composition of revenue and expenditure adjustments for each year, consistent with the targets set out in the Council Recommendation in the context of the excessive deficit procedure. Moreover, by 2012 Budget day in early December 2011, Government will anchor this consolidation plan in binding medium-term expenditure cash ceilings and will set out revenue and expenditure measures to deliver the needed adjustment.

- Government will propose a budget for 2012 aiming to further reduce 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 amounting to at least €3.6bn. The EU/IMF Programme of Financial Support for Ireland agreed in December 2010 provides for the following commitments in relation to measures for 2012:

    - Revenue measures to yield EUR1,500m[2] in a full year will be introduced, including:

[2] Inclusive of 2011 carryover

- A lowering of personal income tax bands and credits.
- A reduction in private pension tax reliefs.
- A reduction in general tax expenditures.
- A property tax.
- A reform of capital gains tax and acquisitions tax.
- An increase in the carbon tax.

o Expenditure reduction of EUR 2,100m including:
- Social expenditure reductions.
- Reduction of public service numbers and public service pension adjustments.
- Other programme expenditure, and reductions in capital expenditure.

The CRE will be completed in September 2011. The budgetary measures outlined above will be examined by the government in the light of the findings of the CRE and the Programme for Government. Based on the CRE and in consultation with the European Commission, the IMF and the ECB, the government will introduce budgetary changes which will aim to fully realise efficiencies identified, while remaining fiscally neutral

Financial sector reforms

- Government will ensure that the originally agreed recapitalisation of BoI is completed, including by providing public funds for any remaining capital needs net of the burden sharing in BoI. (See section 1.ii above). If the sale of IL&P's insurance arm is completed, any remaining capital needs in IL&P will be provided for (to be reviewed in October 2011).
- The Irish authorities will report on the evolution of the capital within the banks covered by the PCAR.

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 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 NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

- The Irish authorities, in consultation with the External Partners will review the restructuring plan for IL&P due by end July and, as necessary, set out by end October the relevant follow-on actions.

Credit unions

- The Irish authorities will implement the strategy to underpin the solvency and viability of the credit union sector. Steps will be taken to deal with weaknesses in the most troubled institutions, including restrictions on their operations where appropriate. Commencing in this quarter, the authorities will take all the necessary actions to restructure the sector and address difficulties in individual credit unions while minimising any fiscal cost, and will identify solutions within the sector, as well as specify additional funding arrangements in case they are needed to complete this process. This restructuring process will take account of the interim report of the Commission on Credit Unions.

- The Irish authorities will submit legislation to the Dáil to strengthen the regulatory framework for credit unions including more effective governance and regulatory requirements.

Financial supervision

- The Irish 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 European Commission, the ECB and the IMF.

- The Central Bank of Ireland will issue guidance to banks for the recognition of accounting losses incurred in their loan book. Specifically, the Central Bank of Ireland will begin requiring the banks: (i) on core assets, to increase the consistency and conservatism in their impairment triggers and provisioning model inputs including *inter alia*: period of arrears, emergence periods, cure rates and collateral value, and treatment of restructured loans and forbearance; (ii) on non-core assets (assets under deleveraging) to provision to reflect losses arising from their planned disposal, taking account as appropriate of the PLAR/PCAR analysis. The Central Bank of Ireland will develop these new requirements with assistance of an internationally recognised auditing firm to ensure consistency with International Financial Reporting Standards (IFRS).

- The Central Bank of Ireland will publish new guidelines for the valuation of collateral for bank loans by end December 2011.

Structural reforms

To prepare for the introduction of water charges

- Government will prepare proposals for implementation of the recommendations of the independent assessment of transfer of responsibility for water service provision from local authorities to a water utility in consultation with European Commission Services with a view to starting charging during the EU/IMF Programme period.

To better target social support expenditure

- The Department of Social Protection will build on their recent studies on working age payments, child income support and disability allowance with a view to producing, after consultation with stakeholders, a comprehensive programme of reforms that can help better target social support to those on lower incomes, and ensure that work pays for welfare recipients. To this end, the Department will submit a progress report by end-December 2011.

Structural fiscal reforms

To reinforce the credibility of the budgetary process

- 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, fiscal rules and the Fiscal Advisory Council. This will give a statutory basis to the Council and ensure its independence with due regard to the role that nomination and appointment/dismissal procedures can play and to medium-term budget allocations.

To further reform key sectors of the economy

- Government will consider options for an ambitious programme of asset disposals, based on the Programme for Government and the report of the Review Group on State Assets and Liabilities. Government will prepare a draft programme of asset disposals in this context and discuss it with the staff of the European Commission, the IMF and the ECB by end-December 2011 in advance of taking final decisions on the programme to be pursued. The draft programme will include the identification of the potential assets to be disposed, any necessary regulatory changes and a timetable for implementation.

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

Fiscal consolidation

- Finance Bill 2012 will contain necessary provisions to bring into effect the already signalled VAT increases in 2013 and 2014.

Financial sector reforms

- The Irish authorities will agree the terms of reference for the PCAR 2012.

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 4th Review (Q3 – 2011).

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

- The Irish 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 European Commission, the ECB and the IMF.

Structural reforms

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

To better target 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.

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

Financial sector reforms

- The PCAR for 2012 will be completed. Before publication, the results of the PCAR for 2012 will be assessed, together with European Commission, the ECB and the IMF. The results and methodology used will then be published in detail and on a bank-by-bank basis by 30 June 2012. Based on these results, the authorities will ensure that banks are adequately capitalised.

- 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 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 NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

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

- The Irish 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.

Structural reforms

To assist in covering financing needs and to increase competition

- 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 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.

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

Financial sector reforms

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 4th Review (Q3 – 2011).
- The Irish authorities, in consultation with 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 Irish authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions and discuss it together with the European Commission, the ECB and the IMF.
- The Irish 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.
- Government will present to Dáil Éireann legislation to establish a statutory credit risk register.

6. 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 amounting to at least EUR 3,100m. The EU/IMF Programme of Financial Support for Ireland agreed in December 2010 provides for the following commitments in relation to measures for 2013:
    - Revenue measures to raise at least EUR 1,100m[3] in the full year will be introduced, including:

[3] Inclusive of carryover from 2012.

- A lowering of personal income tax bands and credits
- A reduction in private pension tax relief.
- A reduction in general tax expenditures.
- An increase in property tax.

o Expenditure reductions of no less than EUR 2,000m, including:

- Social expenditure reductions.
- Reduction of public service numbers and public service pension adjustments.
- Other programme expenditure, and reductions in capital expenditure.

The budgetary measures outlined above will be examined by the government in the light of the findings of the CRE and the Programme for Government. Based on the CRE and in consultation with the European Commission, the IMF and the ECB, government will introduce budgetary changes which will aim to fully realise efficiencies identified, while remaining fiscally neutral.

Financial sector reforms

- The Irish authorities will report on the evolution of the capital within the banks covered by the PCAR.
- 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 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 NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.
- The Irish authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions and discuss it together with the European Commission, the ECB and the IMF.
- The Irish 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.

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

Financial sector reforms

- The Irish authorities will agree the terms of reference for the PCAR 2013.
- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 4th Review (Q3 – 2011).
- The Irish authorities, in consultation with 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 Irish authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions and discuss it together with the European Commission, the ECB and the IMF.

- The Irish 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.

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

Financial sector reforms

- The PCAR for 2013 will be completed. Before publication, the results of the PCAR for 2013 will be assessed, together with European Commission, the ECB and the IMF. The results and methodology used will then be published in detail and on a bank-by-bank basis by 30 June 2013. Based on these results, the Irish authorities will ensure that banks are adequately capitalised.

- 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 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 NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

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

- The Irish 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.

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

Financial sector reforms

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 4th Review (Q3 – 2011).

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

- The Irish 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.

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

Financial sector reforms

- The Irish authorities will report on the evolution of the capital within the banks covered by the PCAR.

- A final report of the banks' implementation of their deleveraging plans under the PLAR 2011 and their compliance with the LDR target 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 NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

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

- The Irish 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.

Annex 1. Provision of data

During the programme, the following indicators and reports shall be made available to the European Commission, the ECB and the IMF staffs by the 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.
F11	Report on progress achieved towards interim PLAR targets and actual and planned asset disposals.	Quarterly, 10 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, next working day

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 central government.	Monthly , 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the banking and government sectors 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	The Central Bank will provide details on the aggregate monetary balance sheet of all Irish authorised credit institutions, EEA and non-EEA branches on a monthly basis.	Monthly, on the last working day of the following month
C.3	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.4	Consolidated balance sheet information for the domestic banks (collected through the FINREP reporting system)	Monthly, 30 working days after each month end.
C.5	Balance sheet information, based on products rather than categories (as in FINREP).	Quarterly, 30 working days after the end of each quarter
C.6	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.7	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.8	Certain financial stability indicators on a monthly basis, including capital adequacy ratios, liquidity ratios, loan to deposit ratios and sectoral distribution of loans	Monthly, 30 working days after each month end.
C.9	Additional financial stability indicators including details on non performing loans, provisions, return on assets, return on equity, interest margin and income.	Quarterly, 30 working days after the end of each quarter.

INTERNATIONAL MONETARY FUND

IRELAND

Third Review Under the Extended Arrangement—Supplementary Information

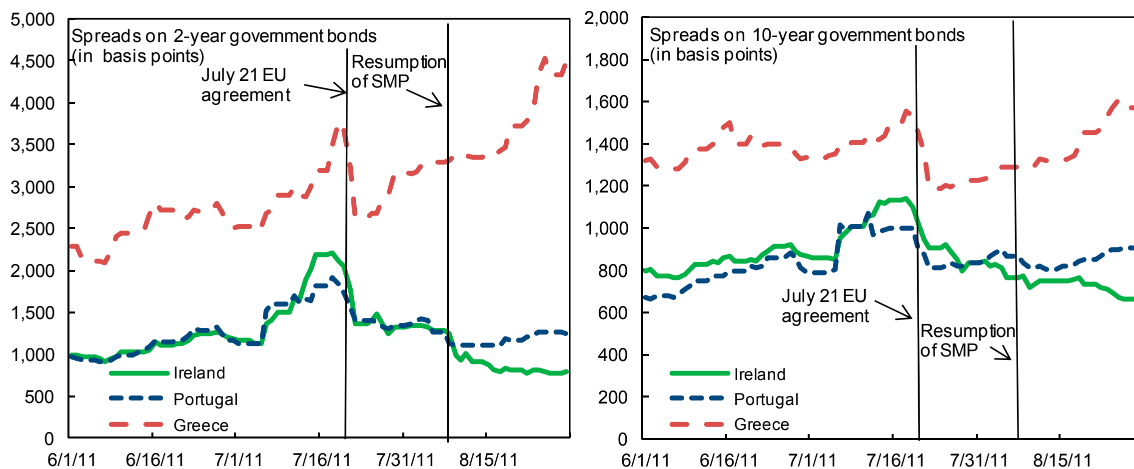
Prepared by the European Department
(In consultation with other departments)

Approved by Ajai Chopra and James Roaf

August 29, 2011

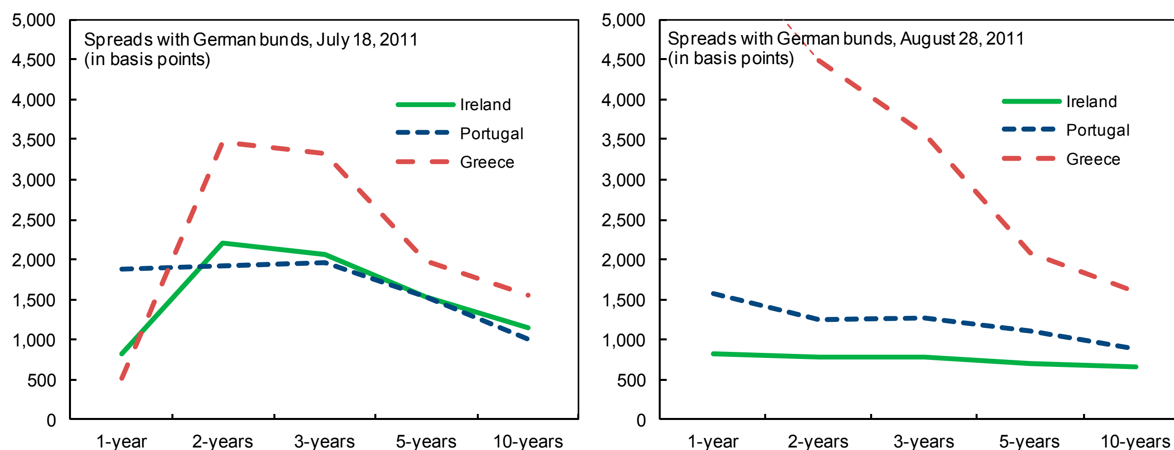
Since the staff report was finalized spreads on Irish bonds have declined notably, benefitting from resolute policy implementation and stronger European support. Weaker growth prospects in trading partners are, however, expected to dampen Ireland's recovery. These developments do not affect the thrust of the staff appraisal.

1. **Conditions in sovereign bond markets have improved for Ireland since the issuance of the staff report** (chart). Following the July 21 announcements by the European Council, there had been a significant decline in spreads on Irish government bonds over German bunds from their mid-July peak. This decline was reinforced by the ECB's renewed bond purchases under the Securities Market Programme (SMP) announced on August 4, with the two-year spread over German bunds falling from about 1,350 basis points to about 900 basis points within a few days. Irish two-year spreads have since declined further to below 800 basis points recently, raising the possibility that markets are starting to differentiate Ireland from other periphery countries. Market commentary suggests interest from hedge funds and funds that traditionally invest in emerging markets owing to positive perceptions of growth prospects and program implementation capacity, where the private participation in Bank of Ireland at end July may have contributed to a more favorable market appraisal.



Source: Bloomberg.

2. **The shape of spreads curves has also changed notably** (chart). Spreads were generally higher for shorter maturities in July, signaling financial market concerns about shorter-term financing issues. As of end-August, the “spreads curves” have flattened considerably for Ireland and Portugal, reflecting less near-term uncertainty given the July 21 EU agreement on Greek debt restructuring, more favorable EU financing terms, and the ECB’s announcement on the SMP.



3. **Key developments related to the banking sector are:**

- **Term funding for banks.** Since late June, Bank of Ireland has secured term funding for two pools of U.K. retail mortgage-backed debt instruments (RMBDs) denominated in GPB. The funding has an average maturity of 2.2 years and a spread of 265 basis points over three-month Euribor. Further operations using U.K. mortgage loans as collateral are anticipated.

- **Sale of banking assets.** Anglo Irish Bank reportedly concluded the sale of its U.S. real estate loan portfolio. Detailed results have not been disclosed at this time.

- **Mortgage arrears.** The rate of mortgage arrears by value rose to 9.4 percent in June, from 8.3 percent in March, with arrears of over 180 days remaining around three-quarters of total arrears. In terms of the number of mortgages in arrears, the rate of arrears rose to 7.2 percent in June, from 6.3 percent in March.

4. **Recent economic indicators are consistent with modest growth this year.** The external trade surplus continued to expand through June as the volume of goods exports increased by 6 percent in May on an annual basis while goods imports fell by 3 percent. Retail sales volumes, excluding motor trades, increased in June on a monthly basis for the first time since January 2011, moderating the annual rate of decline to 2¼ percent from 4 to 5 percent in recent months. Residential property prices continued to decline in July, with

the annual rate of decline decelerating slightly to 12½ percent, bringing the total decline since the peak in 2007 to 42½ percent.

5. **A global slowdown is expected to dampen the pace of recovery in Ireland.** The growth outlook for key trading partners—the euro area, the U.S. and the U.K.—has worsened substantially since the staff report was issued. Indeed, the services sector PMI indicates falling new export business, and the PMI for manufacturing suggests a slowdown in the growth of new export orders. Staff have therefore lowered projections for growth in demand for Irish exports, especially in 2012, although the impact on activity will be cushioned by the high import-content of Irish exports. For the September World Economic Outlook, staff will lower the projected Irish growth rate to 0.4 percent in 2011 and to about 1½ percent in 2012. The impact on the public debt outlook is modest, and is also offset by the expected interest rate reduction on EU financing. These macroeconomic projections will be updated following the release of national accounts data for the second quarter in late September in preparation for the fourth review.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 11/323
FOR IMMEDIATE RELEASE
September 2, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review Under the Extended Arrangement with Ireland and Approves €1.48 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Ireland's performance under an economic program supported by a three-year, SDR 19.47 billion (about €21.82 billion; or US$31.17 billion) arrangement under the Extended Fund Facility (EFF), or the equivalent of about 1,548 percent of Ireland's IMF quota. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 1.32 billion (about €1.48 billion; or US$2.11 billion), bringing total disbursements under the EFF to SDR 7.74 billion (about €8.68 billion; or US$12.39 billion).

The arrangement for Ireland, which was approved on December 16, 2010 (see Press Release No. 10/496) is a part of a financing package amounting to €85 billion (about US$123 billion) also supported by Ireland's European partners through the European Financial Stabilization Mechanism and European Financial Stability Facility, and bilateral loans from the United Kingdom, Sweden and Denmark, and Ireland's own contributions.

In the wake of credit and housing booms that were followed by the worst economic crisis in its recent history, Ireland undertook an in-depth analysis, including stringent stress tests, of its domestic banks. On this basis, the Irish authorities adopted a comprehensive strategy in March to reorganize and deleverage the domestic banks, and to strengthen their capital base. Implementation of the financial sector strategy is advancing and is ahead of schedule in some areas. The authorities are also continuing to implement a sizeable fiscal adjustment, and will publish later this year a medium-term fiscal consolidation plan for 2012 to 2015, outlining revenue and expenditure paths to bring the deficit below 3 percent of GDP in 2015. These actions are helping to restore confidence as part of the government's strategy to put the economy on a path of sustainable growth, sound public finances, and job creation. Recent indicators are consistent with a return to positive growth in 2011.

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"The Irish authorities have maintained resolute implementation of their economic program. The economy is showing signs of stabilization and financial market conditions have also recently improved. Ireland's economy, however, faces a weakening in trading partner growth, which could dampen the pace of Ireland's recovery in the near term. Continued timely implementation of the program remains essential to support the ongoing recovery, limit contagion risks, and rebuild market confidence.

"The authorities are pushing forward financial sector reforms which are at the heart of Ireland's response to the crisis. Bank recapitalization has been completed with welcome private investor participation. Legal restructuring of banks is ahead of schedule and their boards and management teams are being renewed. An ambitious bank deleveraging program is underway, which will gradually reduce reliance on central bank funding. Prospects for banks' to regain market access would be enhanced by greater confidence in medium-term availability of ECB financing. Efforts to strengthen supervision and the framework for resolution of financial institutions, modernize household insolvency legislation, improve credit information, and restructure the credit union sector will further support financial sector health.

"The authorities are implementing major fiscal adjustment effectively by keeping the budget on track to meet the 2011 targets. Building a strong consensus on a medium-term fiscal plan in the coming months will reinforce confidence in achieving the substantial fiscal consolidation ahead, and reduce uncertainties around tax and spending policies for households and businesses. The recent establishment of a Fiscal Advisory Council will support sound fiscal policies on an ongoing basis.

"The strengthening of European support for Ireland announced on July 21 is welcome, and it should be put in place soon, together with the restoration of broader stability in the euro area. Saving the gains from lower interest rates and sustaining strong program implementation will ensure that Ireland is best positioned to benefit from enhanced European support."