

## International Monetary Fund

[Ireland](#) and the IMF

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

**Press Release:**

[IMF Completes Sixth Review Under the Extended Arrangement with Ireland and Approves €1.4 Billion Disbursement](#)  
June 13, 2012

May 30, 2012

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

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## Ireland: Letter of Intent

Dublin, 30 May 2012

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

Dear Ms. Lagarde:

1. The Irish Government remains firmly committed to the programme, as illustrated by our continued strong implementation of programme policies. All programme targets have been met or in some cases exceeded. We continue to move steadily towards our core goal of returning to the international capital markets during 2013. In this regard, we have stepped up our efforts and are examining ways in which the programme can at the same time place a greater focus on encouraging economic growth, as this is an important part of the process of market re-entry. Additional headwinds being faced by Ireland in relation to developments internationally and, in particular, within the euro area, are a specific concern and in this light meeting all of our Programme targets, as we have done to date, is a significant continued demonstration of the Authorities' ownership of the programme. We are committed to ensuring that the strong record of programme implementation that we have established is maintained. We are also fully conscious of the significant commitment that has been made by our European partners in continuing to support Ireland's efforts as long as its adjustment remains on track.

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

- The performance criterion for end-March 2012 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears has also been met.
- Although no formal structural benchmarks apply for this review, the reform process continues unabated. In particular, we have drafted the heads of the laws on personal insolvency and introduced modifications to further strengthen competition law, published the final report of the Commission on the Credit Unions, and completed analytical work identifying policy, regulatory, legislative, corporate governance and financial issues that may need to be addressed to dispose of a number of state-owned assets.

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 sixth review under the Extended Arrangement. We also request that the sixth purchase in an amount equivalent to SDR 1.191 billion becomes available at the time of completion of the review.

4. Looking forward, the financing need outlook until 2013 is broadly in line with expectations at the fifth programme review, whereby our larger cash buffer provides additional comfort. That notwithstanding, we intend to regain access to market financing through the issuance of Treasury bills during 2012 as conditions permit, prior to the envisioned return to bond markets in 2013. We expect that the current funding of the programme and the phasing—as laid out in the fifth review—continues to ensure a prudent liquidity position. We therefore propose to leave the phasing unchanged with a total purchasing amount equivalent to SDR 2.707 billion in 2012 and SDR 2.922 billion in 2013.

5. We propose that quantitative performance criteria under the arrangement be established for 30 September 2012, as set out in the attached MEFP. As detailed in the MEFP, we also propose a new structural benchmark on submitting an updated restructuring plan for PTSB, and to reset the benchmarks on the Fiscal Responsibility Bill and the regulation of credit unions to September 2012 as well as aligning the timing of the benchmark on the publication of bank stress tests with the next EBA exercise (MEFP Table 3). The Technical Memorandum of Understanding (TMU) explains how programme targets are measured.

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

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

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9. Sincerely,

10. /s/ /s/

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Michael Noonan, T.D.

Minister for Finance

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Patrick Honohan

Governor of the Central Bank of Ireland

## Ireland: Memorandum of Economic and Financial Policies

### A. Recent Economic Developments and Outlook

1. **The economy registered positive growth last year for the first time since 2007, yet growth prospects for 2012 remain modest.** Real GDP grew 0.7 percent in 2011 owing to continuing strong export performance, though domestic demand continued to decline. The current account posted a small surplus as trade balance gains were offset by very strong income outflows. HICP inflation has reached 2.2 percent recently, mainly driven by rising energy prices and also by indirect tax increases, while the unemployment rate remains high at around 14½ percent. Ireland's bond yields have stabilized recently, though the spread versus German bunds—which are trading at historically low yields—is still elevated at around 520 basis points on nine-year bonds. Looking to 2012, further competitiveness gains should help maintain momentum in the export sector, but continuing household deleveraging and the weak labour market will continue to weigh on domestic demand. While banks' deposit funding has stabilized and capital levels are robust, credit growth remains negative and house prices continue to decline.

### B. Financial Sector Policies

11. *We will continue to press ahead with a comprehensive set of reforms to restore the health of the Irish financial system in the face of more adverse external market conditions. The reforms aim to underpin banks' long-term viability and restart lending. Restoring wholesale and interbank market access for the banks is becoming increasingly challenging, as the deteriorating external environment is exacerbating vulnerabilities in the financial system. We continue technical work on potential approaches to deepen financial sector reforms to support prospects for growth and market re-entry.*

#### 12. **Bank resilience, liquidity, and transparency**

2. **We are advancing our Financial Measures Program (FMP) across a range of work streams.** In the first phase, we are carrying out (i) an independent asset quality review to assess the quality of aggregate and individual loan portfolios and the processes employed for establishing and monitoring asset quality; (ii) a distressed credit operations review to assess the operational capability and effectiveness of distressed loan portfolio management in the banks including arrears management and workout practices in curing NPLs and reducing loan losses; (iii) data integrity validation to assess the reliability of banks' data; and (iv) income recognition and re-ageing project to review existing practices against IFRS and relevant regulatory guidance. We will report on the progress on this work during 2012.

3. **Protecting and enhancing the value of bank loan portfolios is a key immediate priority.** The PCAR banks will be required to demonstrate continued progress with the work-out of their non-performing portfolios in line with milestones to be established by the Central Bank. By end June, the banks will prepare revised operational plans for distressed mortgage portfolios, will conclude a cohort analysis of their mortgage portfolio, and will

propose long-term loan modification techniques. Other milestones for mortgages and other portfolios will be developed. A review of distressed credit operations for non-performing SME loans, including SME's commercial real estate debts, is underway and the results will be available by end June. These results will inform the CBI's requirements for the banks to develop their strategies for dealing with SME loan arrears. As part of the FMP, independent advisors will be engaged as appropriate.

**4. Publication of the results of the PCAR exercise will be aligned with the timing of the next EBA exercise.** Leveraging phase one outputs, we will carry out a rigorous stress test that will continue to be based on robust loan-loss forecasts and feature a high level of transparency. This stress test will draw on our assessment of the banks' calculation of risk weighted assets, loan loss forecasting, and capital modeling. It will focus on the bank balance sheets following the implementation of technical work addressing legacy and nonperforming loans. In the meantime, compliance with the minimum capital ratio of 10.5 percent for all PCAR banks (AIB, BOI and PTSB) will continue to be monitored by the Central Bank. Developments relative to PCAR 2011 will be reviewed by the end of Q4 and overall results of this work will be published. We will agree with the staff of the European Commission, ECB, and IMF on the specific features of the methodology.

**5. We are refining our deleveraging framework to minimize risks to lending and discourage excessive competition for deposits.** Deleveraging of non-core assets, including disposals and run-offs, will continue to be governed by six-monthly targets for the nominal volume, and safeguards against fire sales will remain in place. The modified framework will emphasize the net stable funding ratio (NSFR) with a view to replacing the loan-to-deposit ratio targets. By end June, the CBI will propose goals for banks' NSFRs for end 2013, based on banks' submissions of current NSFR ratios and forecasts as they move towards adoption of the Basel III requirements. The CBI will supervise progress toward this goal.

**6. We have enhanced the quality and level of disclosure and provisioning of the PCAR banks.** Reflecting the effectiveness of the revised disclosure and provisioning guidelines, banks' 2011 financial statements have shown a significant improvement in data disclosed to markets and in the level of loan provisioning. We plan to continue deepening efforts by reviewing and enhancing the implementation of the guidelines in the PCAR banks during 2012, taking account of the independent asset quality review under FMP 2012.

**7. We are working towards reducing the level of Government support for the funding of the PCAR banks.** The Department of Finance is working with the other Irish authorities to ensure that the level of State support under the Eligible Liabilities Guarantee (ELG) scheme and other contingent guarantee mechanisms is declining over time, allowing the banks to rebuild their independent operation on a stabilised basis. This approach will enable the banks to resume normalised operations as envisaged under the Relationship Frameworks.

### **13. *Advancing financial institution restructuring***

**14. 8. The ongoing financial and operational restructuring of the ELG covered banks will be monitored closely.** Under the recently published relationship frameworks with the PCAR banks, we are ensuring that these businesses are run on a commercial arms length basis. AIB's new management team is updating its restructuring plan to enhance revenue, right-size costs, and restructure operations. The plan will be submitted to the European Commission by end September 2012.

**15. 9. We have determined the way forward for PTSB.** The bank's proposal for financial and operational restructuring sets out a path to address its vulnerabilities. This requires the segregation of certain legacy and non-performing assets and their timely removal from the bank; we will continue to work with the External Partners to achieve a timely solution. We will therefore submit an updated restructuring plan for PTSB detailing the actions needed to ensure viability of the core businesses, in line with EC state aid rules, by end June 2012 (proposed structural benchmark). The restructuring plan will include a set of quarterly performance benchmarks appropriate for each business unit within PTSB, with a view to protecting and enhancing the value of each unit, and will not be premised on there being additional capital injections from the State. In the interim, work on financial and operational restructuring of PTSB will continue apace. Separately, we will continue to work to dispose of Irish Life as soon as market conditions permit.

**16. 10. We continue to implement our strategy to restore the viability and solvency of the credit union sector.** The Commission on Credit Unions has released its final report, which includes wide ranging recommendations on restructuring the sector. Restructuring will be based on the following principles: (i) to ensure the financial stability and long term sustainability of the sector (ii) completion of restructuring in as short a timeframe as possible under a clear plan identifying Credit Unions appropriate for restructuring, subject to Central Bank approval; (iii) the first call for funding should be on the credit unions concerned or the sector as a whole; (iv) any Exchequer funding should be minimised, should be provided only in the context of a restructuring plan in compliance with EU state aid rules, and should be recouped from the sector over time. In parallel, the CBI will continue its inspections to determine the financial condition of the weakest credit unions, and the resolution powers of the CBI may be engaged drawing on Resolution Fund resources. In view of the comprehensive legislative recommendations in the Report, the legislation to strengthen the Credit Unions' regulatory framework with particular emphasis on enhancing governance and prudential requirements will be published during the third quarter (modified structural benchmark). The regulations for the Resolution Fund levy on all credit institutions will be approved by end September (structural benchmark).

### **17. *Enhancing asset quality***

**11. We are deepening efforts to address loan arrears and unsustainable debts.** We will continue to improve the framework within which banks and borrowers together address mortgage arrears and non-performing SME loans. The CBI has reviewed banks' submissions

on their strategy for dealing with mortgage arrears, and banks are strengthening their strategies as a result. To assess the implementation of these strategies, the CBI will monitor banks' progress against key performance indicators to be defined by end May. Banks will complete pilots of restructuring options as recommended by the Inter-Departmental Mortgage Arrears Working Group, and provide for a fully operational menu of available workout options by end 2012. The CBI will provide guidance under the Code of Conduct for Mortgage Arrears (CCMA) to promote more effective dialogue between lenders and borrowers in payment difficulties. To better inform households, we are revising and further developing the dedicated website and will be running an information campaign under the umbrella of the Citizens Information Board. A programme to facilitate access to professional financial advisory services, funded by banks, is currently being examined and planned for activation by end September.

**12. We are refining proposed reforms of the personal insolvency framework to facilitate the resolution of unsustainable debt while upholding Ireland's strong debt servicing tradition.** We published a draft general Scheme of the Personal Insolvency Bill in January. The proposed reforms modernize the Bankruptcy Act, aligning the discharge period more closely with international practice, and establish a non-judicial debt settlement mechanism, including for mortgages. Well targeted eligibility criteria, including adequate engagement through the Mortgage Arrears Resolution Process, and safeguards for creditor rights, will provide the right mix of incentives to maintain debt service discipline. Taking into consideration substantial inputs received during the consultation period from a wide range of stakeholders, we will publish draft legislation providing for an appropriate balance between debtor and creditor rights before the start of the summer recess of the Oireachtas. In parallel, guidance setting out broad principles on applicable income/expenditure will be prepared. Reform of the insolvency law and procedures will require a development of relevant infrastructure, including a new Insolvency Service, and advance planning has commenced in that regard.

### C. Fiscal Policies

*18. Our track record of meeting all the fiscal targets in the programme continues. The 2011 deficit (excluding bank support costs) is now estimated at 9.4 percent of GDP, benefitting in part from reduced EU lending rates. This outturn is well within the programme ceiling of 10.6 percent of GDP. Maintaining this track record, the targets for end March 2012 on the exchequer primary balance and net debt were achieved with a margin, reflecting sound revenue collection across the main tax items. This strong fiscal consolidation performance, in the face of challenging macroeconomic and labor market conditions, attests to our prudent budget design and implementation.*

**19. 13. We are on track to achieve the 8.6 percent of GDP deficit target for 2012.** The finance bill and the two social welfare bills to implement Budget 2012 have now been passed by the Dail. While the budget is on track in the first quarter, we are alert to risks, including spending pressures in some areas. Accordingly, as in 2011, we will maintain a

Careful and proactive approach to budget management to contain spending to budget allocations.

20. **14. Rationalization of the public service is progressing.** Public service numbers reductions are on track and the end-2012 ceiling of 294,000 is set to be achieved, with indications that the numbers already fell below this level in the first quarter of 2012. Coupled with targeted savings in overtime, sick pay, and other non-core-pay entitlements, this downsizing is expected to deliver durable reductions in the public service pay bill. We will monitor the impact of recent numbers reductions on service delivery closely in coming months. While ensuring that frontline and key public services are adequately protected, we will continue to exercise rigorous centralized control on recruitment and redeployment, to ensure that any new hiring is supported by a strong business case.

21. **15. To further underpin the achievement of our medium-term fiscal consolidation path, we are advancing the preparation of a fully specified and equitable package of measures.** Measures for much of the fiscal consolidation set out in the Medium-Term Fiscal Statement are already specified in Budget 2012 and underpinned by binding multi-annual expenditure limits. To ensure these limits will be met while preserving public services and protecting the most vulnerable of our citizens, we are advancing the development of social welfare reforms. In the context of Budget 2013, the Department of Social Protection will present options to Government for consideration. To replace the household charge, we are undertaking the design of a value-based property tax for implementation in 2013 to provide a stable source of revenue.

22. **16. Institutional fiscal reforms are ready to be implemented.** In the context of the forthcoming referendum, we have published draft legislation to implement the European Treaty on Stability, Coordination and Governance. In addition to enshrining our commitment to sound public finances, this draft legislation gives statutory basis to the Irish Fiscal Advisory Council and provides for its independence and adequate resourcing. We will also anchor our already-operational multi-annual expenditure limits in appropriate legislation to be published by end September 2012.

#### **D. Structural Reforms**

23. *We will strengthen the growth pillar of the programme. Together with fiscal consolidation, a return to robust growth is essential. We have established a working group to review and adapt our strategy for stronger output and employment growth to the increasingly more challenging external circumstances. As the growth outlook of our trading partners has been revised down, we are examining ways to boost domestic demand and job creation while keeping our strong fiscal consolidation track record. The main objective is to build on what we have achieved to further enhance the economy's competitiveness and flexibility, while safeguarding social cohesion and fiscal sustainability. In this respect, our Pathways to Work project together with our Action Plan for Jobs will help reduce the high level of unemployment. It is recognised that innovative and flexible demand side measures are also required.*



**24. 17. Additional initiatives to generate growth and jobs are under preparation.**

Recognising that the European Investment Bank is committed to providing finance for projects in Ireland, we are exploring with them the scope for increased funding for growth-enhancing investment projects in Ireland to accelerate project delivery. We continue to ensure that all available resources from the EU Budget are focused on maximising job creation. Ireland has a strong record in spending Structural funding and we are in a position to spend unused funds from the EU Budget if available. We will explore the possibility of a “Growth Fund” which could leverage support for job creation activities. We will support any new EU-wide initiatives to support growth and believe that these are urgently required to provide a demand stimulus. We support further measures to deepen the Single Market. We will reinvest a significant portion of the proceeds of asset disposals in job-rich projects which will be consistent with our fiscal targets.

**25. 18. We are strengthening our response to the problem of high unemployment.**

As outlined in our new Pathways to Work labour activation strategy, we will accelerate our profiling efforts to ensure that jobseeker training needs are swiftly identified and effectively met. We will further strengthen our direct engagement with the unemployed through one-to-one interviews, raise the number of vacancies filled off the Live Register, and fortify our system of sanctions. By end June, we will prepare a progress report on the ongoing assessment of the current activation and training policies, including progress on the new data collection system and the possibility to engage with private sector firms specializing in activation of the long-term unemployed. A further report will be completed by end September. We will also explore the scope for attenuating any adverse employment incentives arising from the structure of social payments through a cross-departmental report.

**26. 19. We also have a multi-pronged demand-side strategy in place to support jobs.**

Building on the 2011 Jobs Initiative, and the tax incentives provided in Budget 2012, the recently published Action Plan for Jobs sets out a range of measures to support employment creation. These measures include supporting indigenous start-ups and high-growth mid-sized companies, further enhancing SME credit and R&D incentives, and pursuing targeted growth opportunities in the Green economy and the ICT sector. In the context of this demand-side strategy, there may be scope to consider adapting existing flexible working arrangements in the public service.

**27. 20. We are developing the work programmes needed to advance our programme for the disposal of state assets.**

Following a rigorous process, we have identified the state assets for disposal and will, by end June 2012, develop a detailed outline of the necessary work, including regulatory reforms, to be completed by end 2012 to facilitate the expected commencement of the sales process in 2013. We will use at least half of the proceeds from state asset sales for debt reduction in due course, with the details on timing and implementation to be agreed. The remainder of the total realised proceeds would be reinvested in projects which are of a commercial nature, meet *ex ante* cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.

28. **21. Competitiveness reforms are proceeding as envisaged.** We are increasing the resources of the Competition Authority to improve its capacity to tackle anti-competitive behaviour. We have decided to transfer responsibility for water service provision from local authorities to a regulated water utility and roll out a domestic water metering program. These reforms will raise the efficiency of water usage while protecting poor households, creating employment, and placing the long-term funding of water services on a sustainable footing.

#### **E. Programme Financing and Monitoring**

29. **22. The programme remains adequately financed and we are continuing preparations to regain market access as envisaged.** Bilateral agreements with Sweden and Denmark have now been concluded. Building on our strong record of program performance, we are maintaining close contact with a wide range of market participants to facilitate our return to market financing as envisaged under the programme. Market conditions permitting, we are seeking to resume Treasury bill issuance in the second half of 2012.

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

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

Table 1. Programme Monitoring

Measure	Date	Status
<b>Quantitative Performance Criteria</b>		
Cumulative exchequer primary balance	End-March 2012	Observed
<b>Indicative Target</b>		
Ceiling on the stock of central government net debt	End-March 2012	Observed
<b>Continuous Performance Criteria</b>		
Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government	Continuous	Observed
<b>Structural Benchmarks</b>		
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 <sup>1/</sup>
Submit to Dáil Éireann the draft legislation on a special resolution regime.	End-February 2011	Observed <sup>2/</sup>
The Central Bank to complete the assessment of the banks' restructuring plans.	End-March 2011	Observed
Complete the diagnostic evaluation of banks' assets.	End-March 2011	Observed
Complete stress tests (PCAR 2011).	End-March 2011	Observed
Complete a full assessment of credit unions' loan portfolios	End-April 2011	Observed
Finalise plans for the recapitalisation of Irish Life and Permanent.	End-May 2011	Observed
Establish a Fiscal Advisory Council.	End-June 2011	Observed
Complete the recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society.	End-July 2011	Observed
Submit the Supervision and Enforcement Bill to Oireachtas.	End-July 2011	Observed
Complete the legal merger procedures of Allied Irish Bank and EBS Building Society.	End-September 2011	Observed
Publish a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight.	End-October 2011	Observed <sup>3/</sup>
The merger of Irish Nationwide Building Society and Anglo-Irish bank.	End-December 2011	Observed
Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book.	End-December 2011	Observed
Finalise a strategy to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system.	End-December 2011	Observed
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets.	2012 Budget day in early December 2011	Observed

1/ Central Bank directions were issued within the required timeframe, however completion of the capital injections required was postponed by the Minister for Finance until after the General Election. These directions are now superseded by the Central Bank's PCAR directions of 31 March 2011.

2/ In practice this was submitted to the Seanad as discussed in paragraph 21 of the MEFP, as the Dáil was dissolved owing to the elections.

3/ Effective end-October 2011 and posted on November 8, 2011.

Table 2. Ireland: Quantitative Performance Criteria and Indicative Targets  
Under the Economic Programme for 2011–13

	30-Sep-11		31-Dec-11		31-Mar-12		30-Jun-12	30-Sep-12	31-Dec-12	31-Mar-13
	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
	(In billions of Euros)									
	Performance Criterion		Performance Criterion		Performance Criterion 4/		Performance Criterion	Performance Criterion	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance 2/	-20.2	-18.3	-22.3	-21.0	-6.9	-5.7	-9.0	-10.6	-10.9	-6.5
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt 1/	115.9	111.7	117.2	115.7	125.0	123.0	128.8	130.9	133.3	141.7

1/ Adjusted.

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

3/ Applies on a continuous basis.

4/ For comparability, the 31-Mar-2012 outcomes for the cumulative Exchequer primary balance and the stock of central government net debt include the payment of the IBRC Promissory Note although settlement of this payment took place in early April through the issuing of a Government bond. The indicative 31-Mar-2013 Exchequer primary balance and Central Government net debt targets assume the IBRC Promissory Note payment is executed in March 2013 as it was in March 2011 – with a cash payment from the Exchequer.

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

Measure	Date	Status
<b>Financial sector policies</b>		
Submit an updated restructuring plan for PTSB detailing the actions needed to ensure viability of its core businesses (MEFP, ¶9).	End-June 2012	Proposed structural benchmark
Publish legislation to strengthen the regulatory framework for credit unions, including making legislative provision for effective governance standards and prudential requirements (MEFP Nov. 28, 2011, ¶19).	End-September 2012	Modified structural benchmark
Approve regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable institutions (MEFP Feb. 10, 2012, ¶9).	End-September 2012	Structural benchmark
<b>Fiscal policies</b>		
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence (MEFP Feb. 10, 2012, ¶21).	End-September 2012	Modified structural benchmark

## Technical Memorandum of Understanding (TMU)

30 May 2012

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

2. For programme purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at “programme exchange rates”, with the exception of the items affecting the government fiscal balances, which will be measured at current exchange rates. The programme exchange rates are those that prevailed on December 30, 2011 as shown on the IMF’s website ([http://www.imf.org/external/np/fin/data/rms\\_five.aspx](http://www.imf.org/external/np/fin/data/rms_five.aspx), accessed 19 January 2012), in particular, €1 = 1.2939 U.S. dollar and €1 = 0.842786 SDR.

### I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

#### *Floor on the Exchequer Primary Balance*

3. The Exchequer balance is the traditional domestic budgetary aggregate which measures the net surplus or net deficit position of the Exchequer Account. The Exchequer Account is the single bank account of the Central Fund and is held at the Central Bank of Ireland. The annual audited accounts of the Exchequer Account produced by the Department of Finance are known as the Finance Accounts. An unaudited summary known as the Exchequer Statement is produced at the end of each month. Under the Irish Constitution, all Government receipts are paid in to the Central Fund and all Government expenditure is funded from it, unless provided otherwise by law.<sup>1</sup> The Exchequer balance is the difference between total receipts into, and total expenditure out of, the Exchequer Account. It measures the sum of the current and capital balances. The current balance is defined as current receipts (tax and non-tax revenue) minus current expenditure (voted expenditure and non-voted expenditure charged directly on the Central Fund, including the Sinking Fund). The capital balance is defined as capital receipts (Sinking Fund and other capital receipts) minus capital expenditure (voted and non-voted expenditure). The Sinking Fund provision is a transfer from the current account to the capital account to reduce national debt and has no effect on the overall Exchequer balance.

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

4. The performance criteria are set on the Exchequer primary balance (the Exchequer balance excluding net debt interest payments in the service of the National Debt, but including debt issued to IBRC to settle Promissory Note payments).<sup>2</sup>

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

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

Cumulative Exchequer primary balance	(In billions of Euros)
From January 1, 2012:	
End-June 2012 (performance criterion)	-9.0
End-September 2012 (performance criterion)	-10.6
End-December 2012 (indicative target)	-10.9
End-March 2013 (indicative target)	-6.5 <sup>3</sup>

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:<sup>4</sup>

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of Euros)
From January 1, 2012:	
End-June 2012 (projection)	19.7
End-September 2012 (projection)	30.7
End-December 2012 (projection)	43.8
End-March 2013 (projection)	10.0

<sup>2</sup> Net debt interest payments are as per the end-month Exchequer Statements.

<sup>3</sup> The indicative end-March 2013 Exchequer primary balance and Central Government net debt targets assume the IBRC Promissory Note payment is executed in March 2013 as it was in March 2011 – with a cash payment from the Exchequer.

<sup>4</sup> 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, as well as the NPRF's non-liquid discretionary portfolio are excluded from the definition of liquid assets.

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

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

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-March 2012 (provisional)	123.0
End-June 2012 (indicative target)	128.8
End-September 2012 (indicative target)	130.9
End-December 2012 (indicative target)	133.3
End-March 2013 (indicative target)	141.7



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

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

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

**II. REPORTING REQUIREMENTS**

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

- The Department of Finance will report the Exchequer primary balance to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date.
- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.
- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staff, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

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

**Letter of Intent (European Commission)**

Dublin, 30 May 2012

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

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

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

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

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

The Irish Government remains firmly committed to the programme, as illustrated by our continued strong implementation of programme policies. All programme targets have been met or in some cases exceeded. We continue to move steadily towards our core goal of returning to the international capital markets during 2013. In this regard, we have stepped up our efforts and are examining ways in which the programme can at the same time place a greater focus on encouraging economic growth, as this is an important part of the process of market re-entry. Additional headwinds being faced by Ireland in relation to developments internationally and, in particular, within the euro area, are a specific concern and in this light meeting all of our Programme targets, as we have done to date, is a significant continued demonstration of the Authorities' ownership of the programme.

We are committed to ensuring that the strong record of programme implementation that we have established is maintained. We are also fully conscious of the significant

commitment that has been made by our international partners in continuing to support Ireland's efforts as long as its adjustment remains on track.

Once again, for the sixth review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets: As regards our fiscal consolidation objectives, the cumulative exchequer balance through end-March 2012 was ahead of the programme profile and the 2012 general government deficit is projected to be at, or within the 8.6% of GDP programme ceiling. The latest EDP returns also confirmed that the 2011 underlying general government deficit, at 9.4% of GDP, was kept well below the 10.6% of GDP envisaged under the programme and the Council Recommendation in the context of the excessive deficit procedure. We continue to strengthen our fiscal framework, in line with the evolving EU regulations. In particular, we have advanced work to provide the Irish Advisory Fiscal Council—established on an administrative basis last year as part of the programme—with a legal basis for its functional and financial independence. In this regard we draw attention to the general legislative scheme on this matter that we recently published.

We have continued to advance the envisaged structural reforms. In particular, we have introduced modifications to further strengthen the Competition (Amendment) Bill, announced the transfer of the responsibility for water provision from local authorities to a centralized regulated newly established water utility, published revised planning guidelines, and completed analytical work identifying policy, regulatory, legislative, corporate governance and financial issues that may need to be addressed to dispose of a number of state-owned assets.

The overarching strengthening, restructuring, and right-sizing of the domestic banking sector and the credit union sector is also progressing according to plans, e.g. with the publication of the final report of the Commission on the Credit Unions and of the heads of the law on personal insolvency reform.

In the attached fifth update of the Memorandum of Understanding of Specific Economic Policy Conditionality (the MOU), as well as in the Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives of our economic adjustment programme supported by financial assistance from the EU and the IMF. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the sixth review the release of the sixth EFSF/EFSM disbursement of EUR 2.3 billion.

Looking forward, the financing need outlook until 2013 is broadly in line with expectations at the fifth programme review, whereby our larger cash buffer provides additional comfort. That notwithstanding, we intend to regain access to market financing through the issuance of Treasury bills during 2012 as conditions permit, prior to the envisioned return to bond markets in 2013. We expect that the current funding of the

programme and the phasing—as laid out in the fifth review—continues to ensure a prudent liquidity position.

We are confident that the policies set forth in the Letters of Intent of 3 December 2010, and subsequent letters as well as this letter are adequate to achieve the objectives of our Programme. At the same time, while we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become appropriate if circumstances change. We will continue to consult with staff of the European Commission, the ECB, and the IMF on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memoranda becomes necessary. This letter is being copied to Mme Lagarde.

Sincerely,

/s/

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Michael Noonan, T.D.  
Minister for Finance

/s/

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Patrick Honohan  
Governor of the Central Bank of Ireland

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

**IRELAND**

**MEMORANDUM OF UNDERSTANDING  
ON  
SPECIFIC ECONOMIC POLICY CONDITIONALITY**

***(FIFTH UPDATE)***

**25 JUNE 2012**

With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, this fifth 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<sup>5</sup> will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure (EDP), and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this updated MoU, which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are expected to be missed, additional action will be taken.

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

- Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. In particular, the Department of Finance and the Department of Public Expenditure and Reform will continue to ensure effective tax collection and tight supervision of expenditure commitments by the line departments to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set

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<sup>5</sup> 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.

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.

- Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of the total realised proceeds in projects which are of a commercial nature, meet ex-ante cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.
- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible.
- Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular, the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on *Pathways to Work* (the government's strategy for institutional reform of the activation system).
- Ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF Programme and the needs of the economy.
- Ensure that NAMA: (i) maintains the highest standards of governance with appropriate accountability and transparency arrangements; (ii) reduces the costs of its operations; and (iii) constructively contributes to the restoration of the Irish property market in the course of meeting the asset disposal targets established and monitored by the NAMA Board, including redemption of €7.5 billion worth of senior bonds by end 2013.
- Ensure that the restructuring of credit unions will underpin the financial stability and long term sustainability of the sector. The restructuring will be completed in as short a timeframe as possible under a clear plan identifying credit unions appropriate for restructuring, subject to Central Bank approval. As regards funding, the first call should be on the credit unions concerned or the sector as a whole; any Exchequer funding should be minimised, should be provided only in the context of a restructuring plan in compliance with EU state aid rules, and should be recouped from the sector over time. In parallel, the Central Bank will continue its inspections to determine the financial condition of the weakest credit unions, and may engage its resolution powers drawing on Resolution Fund resources.
- Ensure continued compliance with the minimum capital ratio of 10.5 percent for all PCAR banks (AIB, BOI, and PTSB).
- Consult ex-ante with the European Commission, the ECB and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.

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

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

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

### **Financial sector reforms**

#### *Capitalisation*

- Government will ensure that the recapitalisation of PTSB<sup>6</sup>, as identified in the 2011 Prudential Capital Assessment Review (PCAR), is completed.
- In the context of the Financial Measures Programme (FMP), the authorities will carry out the following work streams: (i) an independent asset quality review to assess the quality of aggregate and individual loan portfolios and the processes employed for establishing and monitoring asset quality; (ii) a distressed credit operations review to assess the operational capability and effectiveness of distressed loan portfolio management in the banks including arrears management and workout practices in curing NPLs and reducing loan losses; (iii) a data integrity validation exercise to assess the reliability of banks' data; and (iv) an income recognition and re-ageing project to review existing practices against IFRS and relevant regulatory guidance. The authorities will report on the progress of this work, following completion.

#### *Asset Quality*

- The authorities will assess banks' progress with the work-out of their non-performing portfolios in line with milestones established by the Central Bank of Ireland after consultation with staff of the European Commission, the IMF and the ECB. The banks will prepare revised operational plans for distressed mortgage portfolios, will conclude a cohort analysis of their mortgage portfolio and will propose long-term loan modification techniques. Other milestones for mortgages and other portfolios will be developed. As part of the FMP, independent advisors will be engaged as appropriate.

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<sup>6</sup> The legal separation of Irish Life from the Irish Life & Permanent Group is expected to occur soon. Hence from here onwards, the references in this document to IL&P and the equivalent ILP are replaced by a reference to Permanent TSB ("PTSB").

### *Deleveraging*

- The authorities will provide an update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the IMF and the ECB.
- The authorities will continue to monitor the deleveraging of non-core assets, including disposals and run-offs, in accordance with six-monthly targets in terms of nominal volumes. Fire sales of assets will be avoided. On the basis of submissions by the banks in accordance with the recently issued PLAR quarterly forecast balance sheet template, the authorities will, in consultation with the staff of the European Commission, the IMF and the ECB, modify the framework to emphasise the Net Stable Funding Ratio (NSFR) with a view to replacing the loan-to-deposit targets. NSFR goals for end-2013 will be consistent with the deleveraging objectives of previously set LDR targets and in particular with ensuring adequate progress towards Basel III requirements.
- The authorities, in consultation with the staff of the European Commission, the IMF and ECB, will monitor closely the evolution of Liquidity Coverage Ratios (LCR) in order to ensure convergence to Basel III standards by the relevant dates.
- The authorities will establish draft rules for the creation and subsequent holding of liquidity buffers by banks in preparation of the new Capital Requirements Regulation which will enter into force in January 2013.

### *Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions and discuss it with the staff of the European Commission, the IMF and the ECB.
- The authorities will ensure that PTSB will continue to work on its financial and operational restructuring, on the basis of the segregation of a core retail bank from certain legacy and non-performing assets. In this context, PTSB will prepare an updated restructuring plan that will detail the actions needed to ensure the bank's long-term viability, in line with EU state aid rules. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability.

### *Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it with the staff of the European Commission, the ECB and the IMF.
- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies. To promote a more effective dialogue between lenders and borrowers, the CBI will provide guidance to banks under the Code of Conduct for Mortgage Arrears. The results of the review of distressed credit operations for non-performing SME loans, including SME's commercial real estate debts, will be available to the staff of the European Commission, ECB and IMF.

## **Structural reforms**

### *Utility sector*

- The authorities will supply programme partners with a detailed, time-bound implementation plan for the transfer of water services provision from local authorities to



Irish Water and the plan for the roll-out of a domestic water metering programme with a view to starting charging by the end of the EU-IMF programme period.

#### *Competition*

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

#### *Efficient social support expenditure*

The Department of Social Protection will:

- Provide an evaluation of the actions taken in respect of jobseekers payments recipients who do not attend employment activation interviews.
- Building on Pathways to Work, introduce one stop shop pilots, NEES employer engagement and job matching.
- Continuously monitor the performance of the activation system and report to programme partners on progress on the following:
  - Reducing the average duration of staying on the live register
  - Increasing the fraction of vacancies filled off the live register
  - Ensuring engagement with employment services as a pre-condition for receipt of jobseeker payments
  - Carrying out profiling, group and individual engagement through interviews
  - Increasing the number of unemployed referred to training courses and employment supports
  - Providing data numbers on live register broken down by continuous duration, and probability of exit by various durations
- Report to programme partners on progress on implementing an improved data collection system to enable ongoing evaluation of activation and training policies, in light of the March 2012 external evaluation.

#### *State assets*

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

#### *Labour market reform*

- Building on the Industrial Relations (Amendment) Bill 2011, the authorities will present amendments to the Dáil in particular to: (i) provide that the inability to pay clause for EROs and REAs can allow two consecutive exemptions within the overall two year time limit where this is necessary to safeguard employment, and (ii) ensure that the process for the granting of a variation to an REA is conducted in a timely manner.
- The authorities will explore the scope for attenuating any adverse employment incentives arising from the structure of social payments through a cross-departmental report.

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

### Financial sector reforms

#### *Deleveraging*

- The authorities, in consultation with the staff of the European Commission, the IMF and the ECB, will assess banks' performance vis-à-vis the agreed deleveraging targets including asset disposals and run-off. Actual and forecast net stable funding ratios (NSFRs), loan-to-deposit ratios (LDR) and asset disposals shall be reported by the banks to the Central Bank of Ireland every six months. The Central Bank will oversee the remedial actions to be taken by any bank in case of actual or likely breach of the targets. In addition to providing the six-monthly report, the authorities will update the staff of the European Commission, the IMF and the ECB on progress in the intervening quarters.
- The authorities, in consultation with the staff of the European Commission, the IMF and the ECB, will monitor closely the evolution of the LCR in order to ensure convergence to Basel III standards by the relevant dates.

#### *Reorganisation*

- The authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it with the staff of the European Commission, the ECB and the IMF.
- Authorities will publish the legislation to strengthen the credit unions legislative framework taking account of the comprehensive recommendations in the Commission on Credit Unions Report.
- As recommended by the interim and final reports of the Commission on Credit Unions, the legal provision that requires, under the terms of the Deposit Guarantee Scheme, credit unions to maintain an amount in the Deposit Protection account at the Central Bank will be commenced by regulations. The authorities will also adopt regulations underpinning the Resolution Fund Levy to recoup Exchequer resources provided for the resolution of troubled credit unions.

#### *Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the ECB and the IMF.
- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.
- Government will present to Dáil Éireann legislation to establish a statutory credit risk register.
- AIB's new management team will update its restructuring plan to enhance revenue, right-size costs, and restructure operations. This plan will be submitted to the European Commission.

## Structural reforms

### *Personal debt regime*

- Government will introduce legislation to reform the personal debt regime to the Oireachtas before the start of the summer recess, with the objective of increasing the speed and efficiency of proceedings while at the same time mitigating moral hazard and maintaining credit discipline.
- A programme to facilitate access to professional financial advisory services, funded by banks, will be activated.

### *State assets*

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

### *Efficient social support expenditure*

- In the context of Budget 2013, the Department of Social Protection will present options to Government for consideration, having regard, inter alia, to the results of the actuarial review of the social insurance fund.

## Structural fiscal reforms

### *Fiscal framework*

- The Government will publish legislation to anchor its already operational multi-annual expenditure limits.
- Government will publish draft legislation which enshrines the commitment to sound public finances, gives statutory basis to the Irish Fiscal Advisory Council and provides for the Council's independence and adequate resourcing.

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

### Fiscal consolidation

- Taking account of the European Semester, Government will publish a budget for 2013 aiming for a further reduction of the General Government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure.
- On the basis of the aggregate budgetary projections set out in the Medium Term Fiscal Statement (MTFS) of November 2011, consolidation measures for 2013 will amount to at least €3.5 billion. The following measures are proposed for 2013 on the basis of the MTFS:
  - Revenue measures to raise at least €1.25 billion<sup>7</sup>, including:
    - A broadening of personal income tax base.

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<sup>7</sup> Inclusive of carryover from 2012.

- A value-based property tax.
- A restructuring of motor taxation.
- A reduction in general tax expenditures.
- An increase in excise duty and other indirect taxes.
- Expenditure reductions necessary to achieve an upper limit on voted expenditure of €54 billion, which will involve consolidation measures of €2.25 billion on the basis of the MTFs, including:
  - Social expenditure reductions.
  - Reduction in the total pay and pensions bill.
  - Other programme expenditure, and reductions in capital expenditure.

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

## **Financial sector reforms**

### *Capital assessment*

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

### *Deleveraging*

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

### *Reorganisation*

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

### *Financial Supervision*

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

## Structural reforms

### *Competition*

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

### *Efficient social support expenditure*

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

### *State assets*

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

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

### Financial sector reforms

#### *Capitalisation*

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

#### *Deleveraging*

- Monitoring – as per requirement under Financial Sector Reforms in 8<sup>th</sup> Review (Q3 – 2012).
- The authorities, in consultation with the staff of the European Commission, the IMF and the ECB, will monitor closely the evolution of the LCR in order to ensure convergence to Basel III standards by the relevant dates.
- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

#### *Reorganisation*

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

#### *Financial supervision*

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

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

### **Financial sector reforms**

#### *Capital assessment*

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

#### *Deleveraging*

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

#### *Reorganisation*

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

#### *Financial supervision*

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

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

### **Structural reforms**

#### *State assets*

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

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

### **Financial sector reforms**

#### *Capital assessment*

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

#### *Deleveraging*

- Monitoring – as per requirement under Financial Sector Reforms in 8<sup>th</sup> Review (Q3 – 2012).
- The authorities, in consultation with the staff of the European Commission, the IMF and the ECB, will monitor closely the evolution of the LCR in order to ensure convergence to Basel III standards by the relevant dates.
- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

#### *Reorganisation*

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

#### *Financial Supervision*

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

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

### **Financial sector reforms**

#### *Deleveraging*

- The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal, NSFR and LDR targets will be discussed with the European Commission, the IMF and the ECB. In addition, the authorities, in consultation with the European Commission, the IMF and the ECB, will monitor closely the evolution of the LCR in order to ensure convergence to Basel III standards by the relevant dates.
- The authorities will also monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

#### *Reorganisation*

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

#### *Financial Supervision*

- The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the European Commission, the IMF and the ECB.
- The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage, and SME loan portfolios.
- The authorities will ensure that the statutory credit risk register is operational.



## Annex 1. Provision of data

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

<b>To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate</b>		
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	Quarterly, 30 working

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