

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 Ninth Review Under the Extended Fund Facility with Ireland and Approves €0.97 Billion Disbursement](#)
March 22, 2013

March 12, 2013

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I. Ireland: Letter of Intent

Dublin, 12 March 2013

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

Dear Ms. Lagarde:

1. As we are now in the final year of our programme, the focus of Government is on ensuring that attention is fully turned to the measures necessary to achieve a successful exit from the Programme and measures that will underpin a durable and sustainable return to market based funding. We believe that the Irish Government's performance in terms of commitment to the Programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

2. There have been a number of positive developments, in a climate of continuing international uncertainty including persistent weakness in economic activity in our main trading partners. Our return to the financial markets continued and the successful bond sale in January, the sale of contingent capital instruments in one of the pillar banks at a slight profit, the recently announced sale of Irish Life, the continuing fall in our bond yields, are all strong positive indicators of our success. The real economy has also shown some improvement, with continuing growth, albeit at low levels, stabilisation in the still high unemployment level, and the better than expected budget outturn for 2012. The resolution of the promissory note discussions and the enactment of legislation to liquidate IBRC has reinforced these positive developments. Allied to this, the benefits of the ECB's decision on Outright Monetary Transactions remain evident. Finally, once the implementation of the 2010 quota reforms is agreed the effective interest rate on our IMF borrowings will be significantly reduced. However, it must be noted that a number of issues remain to be resolved, most notably the delivery of the Euro Area Heads of State and Government commitment on breaking the vicious circle between banks and the sovereign in the EU and to examine how to improve the sustainability of our well performing Programme. Furthermore, our recent request for an extension of maturities on EU funding is an important ongoing issue.

3. Our preparations for exiting our Programme continue to take place against this mixed backdrop. Notwithstanding the external risks, our policy efforts are aimed at further deepening our access to market funding during 2013 in order to exit from reliance on official financing. Timely implementation of the Euro Area Leaders' commitments would greatly support the effectiveness of these efforts. We are sure that we can rely on the continued support of our external partners and fellow Member States in this endeavour.

4. Once again, for the ninth review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets (MEFP Tables 1 and 2). We have now completed over 190 actions. In particular, the performance criterion for end-December 2012 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on the stock of Central

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

5. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out in more detail 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 ninth review under the Extended Arrangement. We also request that the ninth purchase in an amount equivalent to SDR 831 million becomes available at the time of completion of the review.

6. As mentioned above, we continue to move towards the goal of fully regaining market access during 2013. The resumption of Treasury Bill auctions and our bond issues to date are further steps in this direction. The January bond tap has also demonstrated that we have diversified our investor base along both institutional and geographic dimensions. We hope to follow this with the issuance of a long-term benchmark bond and the resumption of a regular bond auction program this year. We intend to maintain a strong cash buffer to support market confidence during this process of deepening market access, and propose to leave the phasing of purchases unchanged, with a total purchase amount of SDR 2,922 million in 2013. This, combined with our currently planned market issuance, should allow us to have an end year cash buffer equivalent to our expected 2014 financing needs.

7. Implementation of the policies under the Programme will be monitored, as before, through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews. We propose that quantitative performance criteria under the arrangement be established for end-June 2013, as set out in the attached MEFP (Table 3). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. As detailed in the MEFP, we also propose the establishment of structural benchmarks on establishing targets requiring the principal mortgage banks to offer a substantial share of restructuring arrangements during 2013, and in consultation with staff of the EC, ECB, and IMF, the CBI will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3). The Technical Memorandum of Understanding (TMU) defines (consistent with the Memorandum of Understanding on Specific Policy Conditionality) the quantitative performance criteria and indicative targets under the programme, and explains how these will be measured.

8. 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 and as previously noted, 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 the European Commission and the ECB.

II. Ireland: Memorandum of Economic and Financial Policies

Our policy efforts are firmly oriented toward durable exit from official financing under the EU-IMF supported programme at the end of 2013. Building on our consistent strong policy implementation, we will continue the intensive work in progress on financial sector health, budget implementation and fiscal framework, and structural reforms, to support Ireland's economic recovery and lay solid foundations to graduate from official financing in 2013.

A. Recent Economic and Financial Developments and Outlook

1. **The Irish economy continues to gradually recover and the outlook is for a modest pickup in growth.** Final domestic demand rose in the third quarter of 2012, the first quarterly increase since early 2008, lifting real GDP growth to 0.8 percent y/y in the first three quarters of 2012. Net exports remained the main engine of growth, with the strong performance of the services sector outweighing a slowdown in goods exports. The latter reflected a weaker external environment and likely the "patent cliff" in the pharmaceutical industry. GNP growth of 3 percent y/y in the first three quarters of 2012, and the current account surplus of over 4 percent of GDP during the same period, each benefited from a decline in net factor income outflows. Inflation abated at year-end, bringing the annual average rate to 1.9 percent, and the unemployment rate eased to 14.6 percent in recent months from 15 percent a year earlier. Looking ahead, a gradual economic recovery is expected on the back of domestic demand stabilising and then returning to expansion, with GDP growth firming to over 1 percent in 2013 and over 2 percent in 2014. A recovery in trading partners remains key for export growth, and resolution of non-performing loans is crucial to ensuring a more durable revival in domestic demand.

2. **Recent developments in sovereign and bank funding markets have also been favourable.** Demand for Irish sovereign debt has continued to broaden, driving bond yields down to their lowest level since April 2010. Our most recent 5 year issuance was at a yield of 3.32 percent and Treasury bill yields recently fell to 0.2 percent, down from 1.8 percent when we returned to the bill market last summer. On foot of developments in sovereign yields, guaranteed bank bond yields have also declined, and banks recently issued non-guaranteed covered bonds on favourable terms. Average rates on new bank deposits have declined to 1 percent even as deposit inflows have continued, and there are signs that bank lending may be turning a corner, associated with a potential bottoming out in housing prices in 2012.

3. **Building on our continued strong programme implementation, as well as supportive European policy initiatives, we are determined to successfully exit the programme.** We are engaged in a constructive dialogue with programme partners on a number of issues to facilitate a sustainable return to market financing. Initial discussions on an exit strategy took place during this review and we are further developing this work with our external partners. Alongside our strong programme implementation, European policy developments have been key to improved market confidence, including the commitment by euro area leaders to break the vicious circle between banks and sovereigns and examine the

situation of Ireland's financial sector with a view to further improving the sustainability of Ireland's well-performing adjustment programme.

B. Financial Sector Policies

4. To allow Ireland's economic recovery to be supported by a healthy flow of new bank credit, we will ensure decisive progress in resolving distressed assets in 2013.

Banks have been recapitalised but their high nonperforming loan ratios reflect the distress of many households and SMEs facing a still weak economy. After making substantial technical and legislative preparations in 2012, we will drive forward the implementation of loan resolution in 2013, ensuring that banks proactively achieve lasting solutions for impaired assets. By bringing greater certainty and sustainability to household and SME balance sheets and deepening market confidence in banks, this process will help unlock bank credit for sound and productive purposes, thereby bolstering the potential for domestic demand to contribute to sustained job-creating recovery.

5. We will hold banks to ambitious targets to address troubled residential mortgages in a manner that will ensure durable reductions in arrears. To underscore the centrality of this task, we will establish a public target requiring the principal mortgage banks to offer a substantial share of restructuring arrangements during 2013 (proposed structural benchmark, end-March). In addition, we will propose by end-June targets to also complete a substantial share of restructuring arrangements during 2013. In consultation with the staff of the EC, ECB, and IMF, we will establish such targets soon thereafter, before completion of the eleventh review at the latest. To ensure the quality of such arrangements and the achievement of this target we will monitor each bank's progress closely, including through a public target for the share of concluded arrangements for which the terms are being met. To count towards these targets, restructuring arrangements must be expected to durably address arrears. We will also publish re-default rates as part of banks' key performance indicators.

6. To facilitate effective engagement with residential mortgage borrowers in arrears, we will complete a review of, and modify where appropriate, the Code of Conduct on Mortgage Arrears by end-June 2013. In December 2012 we clarified the interpretation of the Code, including the restrictions on contacting borrowers. A full review is now underway, which includes a public consultation, to build on these clarifications and take into account developments such as the Personal Insolvency Act and bank's mortgage arrears resolution strategies. The review will, among other things, explore (i) reforming and streamlining the restrictions on contacts to facilitate constructive engagement while ensuring essential consumer protections remain in place; (ii) amending the definition of a non-cooperative borrower such that key protections extend only to borrowers that engage with lenders in a timely manner that is consistent with addressing their arrears; and (iii) permitting modifications of the interest rate setting mechanism where the lender has offered an alternative arrangement which is advantageous to the borrower in the long-term.

7. Resolving nonperforming loans will also require repossessions in some cases, and it is important that these legal procedures be efficient. We will keep under review the effectiveness of statutory repossession arrangements in Ireland based on ongoing

experience with repossession actions. Issues such as length, predictability and cost of proceedings, systems for dealing with non-cooperative borrowers and investment property debts will be included in this review. Where necessary, appropriate measures will be brought forward quickly to deal with any problems arising.

8. **We will soon activate the new personal insolvency framework.** Arising from the passage of the Personal Insolvency Act last December, we will finalise arrangements for the appointment of specialist judges and the licensing and regulation of personal insolvency practitioners by end-March. Within the same time frame, we will also publish guidelines for reasonable allowable household expenditures for debtors, to provide clear expectations for borrowers in financial distress. We expect the newly established Insolvency Service will begin to accept applications from eligible borrowers in the second quarter of 2013.

9. **Given the lead role of SMEs as an employment generator, we will also press forward the timely resolution of SME loan arrears.** Bank-by-bank restructuring targets will be established by end-June, in order to complete a substantial share of restructuring arrangements during 2013. We will track progress based on the key performance indicators in this area developed in coordination with the banks. On-site supervisory reviews will help in assessing the effectiveness of restructuring solutions implemented.

10. **We will continue to ensure that banks apply conservative loss provisioning practices based on justifiable estimates of the risk of their loan portfolios.** By end-March 2013, the CBI will engage with each bank to ensure appropriately prudent provisioning including on key inputs, such as for estimating cure rates for originally performing, forborne, and modified loans, to ensure these cures reflect durable modifications. In consultation with staff of the EC, ECB, and IMF, the CBI will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines setting out clear definitions and principles underpinning banks' provisioning models. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks (**proposed structural benchmark**).

11. **Permanent TSB is implementing its restructuring, yet steps beyond the purview of its management remain important for long-term profitability.** The bank is divided into three distinct internal strategic business units and is forcefully implementing its restructuring, especially by stemming the flow of new arrears. Nonetheless, the separation of certain asset portfolios from the bank would underpin its return to profitability. We will continue to work with our external partners with the aim of achieving an appropriate solution as part of examining the situation in the Irish financial sector with a view of further improving the sustainability of the well-performing adjustment programme, as stated by euro area leaders.

12. **We continue to prepare for Prudential Capital Assessment Review (PCAR) 2013.** This rigorous stress test exercise will build on already completed data validation and asset quality review work. The CBI, supported by consultants, is developing loan loss forecasting models that will be subject to external validation. We will ensure that banks

implement the findings of the credit regulatory capital review process on banks' risk-weighted asset calculations, forecasting and stress testing, in advance of PCAR 2013. We will report to the staff of the European Commission, the IMF and the ECB on progress with the implementation of the specific mitigating actions communicated to banks and consult with them on the specific features of the PCAR 2013 methodology. We will aim to align the timing of the publication of PCAR 2013 results with that of the next EBA exercise.

C. Fiscal Policies

13. **In 2012 we extended our track record of meeting the fiscal targets by a significant margin.** The 2012 general government deficit is expected to come in below 8 percent of GDP, well within the 8.6 percent ceiling. This performance is the result of a determined fiscal consolidation effort, reflected in robust revenue collection across the major tax heads and in effective management of aggregate expenditure within budgetary limits, and some favourable one-off developments. Importantly, overspends in health and social protection, which were partly linked to higher-than-expected unemployment, were offset by non-interest expenditure savings in other areas.

14. **We are implementing Budget 2013 in the same prudent manner.** The bulk of the measures comprising the €3.5 billion consolidation effort have been enacted, including the introduction of the property tax and the social welfare package. We are in the process of implementing the remaining key pieces of the budget package: legislating to effect higher charging for private patients in public hospitals and to mandate greater generic drug use (by end June); seeking an agreement with public sector unions on reductions in the pay and pension bill (by end-February, as discussed below); and preparing for the roll-out of the property tax on July 1. Moreover, we have decided that the Health Service Executive and the Department of Health will report to the Cabinet Committee on Health on the implementation of the health sector measures on a monthly basis to actively prevent renewed slippages. Taking into account a higher revenue base in 2012, we expect to safely deliver a general government deficit within the 7.5 percent of GDP ceiling in 2013.

15. **Public service reforms are moving to a new phase.** Building on the budgetary savings and efficiencies delivered under the 2010 Croke Park Agreement, we have recently launched negotiations on a successor agreement with public service unions focused on achieving a substantial further reduction in the pay and pension bill for the public service, as well as long term productivity and workplace reforms. If successful, this arrangement will deliver the additional €1 billion in durable net pay and pension savings targeted by 2015. We have also recently announced targeted voluntary redundancy as a tool to help reduce public service numbers to 282,500 by end 2014—a 12 percent fall from their 2008 peak—while protecting core public services. These efforts are being complemented by other efficiency enhancing reforms, including the development of performance-based budgeting across all sectors and the deployment of shared services in human resources and pension administration. In combination, these reforms will support the sustained provision of high quality public services at affordable cost.

16. **We are further strengthening our fiscal institutions, medium-term budgetary framework, and fiscal transparency, which will help underpin successful exit from the EU/IMF supported programme.** The recently enacted Fiscal Responsibility Act enshrined the independence of the fiscal council and established rules to ensure prudent fiscal policy. Legislation to give statutory basis to the already operational ceilings on aggregate and departmental expenditure—which will be set on a 3-year rolling basis, ensuring compliance with the Stability and Growth Pact—is now before the Oireachtas. We are continuing to enhance fiscal transparency, including through the dissemination of public service performance indicators via the recently launched Ireland Stat website and publication of the Government Financial Statistics Report by the CSO in April.

17. **We will take additional steps to bolster market confidence in the achievement of our medium-term fiscal consolidation and debt reduction goals.** In our April 2013 Stability Programme, we will set out revenue and expenditure paths extending to 2016, consistent with the provisions of the Stability and Growth Pact. The structural budgetary reforms and improved processes that have been put in place in recent years e.g. comprehensive expenditure reviews, position us well to design and implement reforms to ensure strong delivery of public services within medium-term resource envelopes. Budget 2014 will provide a further opportunity to articulate these reform policies, especially in relation to health, education and social protection.

D. Structural Reforms

18. **We are continuing to advance investment projects to promote job creation and growth.** Projects have been identified—including education facilities, roads, primary health care centres, courthouses, and police headquarters—that we will develop through public private partnerships with the European Investment Bank, the National Pension Reserve Fund (NPRF), and private investors. We are working with the National Development Finance Agency to streamline the tender process and accelerate project delivery, and intend to initiate tenders for education and justice projects in the third quarter of 2013, with the road and primary care centre projects to follow by year end. The implementation of state asset disposal plans for 2013 in the energy generation and forestry sectors is also progressing. We will use at least half of the resulting proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed. Once realised, the remaining proceeds will be invested in job-rich projects of a commercial nature, consistent with our fiscal targets. We will also continue our efforts to improve the business environment and foster job creation under the Action Plan for Jobs, with 2013 measures to be announced in February.

19. **Addressing long-term unemployment is a top priority and we are committed to accelerating the implementation of our Pathways to Work strategy and monitor its effectiveness, with the ultimate objective of leaving no-one outside of the activation system.** In order to achieve these objectives, we will:

Ensure that Intreo offices are established as scheduled, with a full roll out by the end of 2014 or earlier if possible.

Redeploy and train staff from within the Department of Social Protection to boost direct engagement with the long-term unemployed and provide them with adequate activation services. We will substantially increase the number and proportion of group and one-to-one engagements with the long-term unemployed. With this objective in mind, we will seek to achieve a doubling of case workers by the end of 2013 through internal redeployment, with further increases in 2014.

Following the review of the process with our consultants, by end-April 2013 we will decide on a timetable for the process of procuring activation services for the long-term unemployed from private providers, with the aim of issuing a tender for the provision of services by end-June 2013.

Encourage employers to hire long-term unemployed persons by reviewing the Employer PRSI Refund and Revenue Job Assist schemes by end-June 2013, with the aim of promoting better take-up among firms.

20. We will deepen the reform of the further education system and better align training and activation policies with labour market needs:

Reform of the further education system. By end-June 2013, we aim to establish the Education and Training Boards (ETBs) and the Further Education and Training Authority (SOLAS), and by end-December 2013 we aim to have transferred six of the FAS training centres to the local ETBs. Recognizing the need to best align the provision of further education and training with labour market needs and the specific needs of the long-term unemployed, we will prepare a strategic review of training and further education provisions by end-September 2013. This review will guide ETBs and SOLAS in establishing the course framework offered to the jobseekers. We will put in place procedures to regularly evaluate training and activation outcomes to ensure that they respond to labour market needs and are cost effective.

Activation and training schemes. We have recently completed a Review of Employment Support Schemes under the Department of Social Protection, and following the consultation process with the stakeholders, we will prepare by end April 2013 an action plan aimed at increasing the effectiveness of training and activation support schemes. We will also improve the targeting of these schemes by ensuring that participation by jobseekers is increasingly guided by case workers and that priority is given to the long-term unemployed.

21. Addressing challenges faced by SMEs is critical to unleash their capacity to invest and create jobs. We will therefore intensify our efforts to facilitate lending and equity financing to eligible SMEs and to improve their business environment:

On top of the €4 billion lending target assigned to pillar banks in 2013 for the SME sector, a range of new government initiatives under the aegis of Enterprise Ireland and the European Investment Bank will help channel long-term funds towards the sector. We have earmarked €350 million of budget resources to leverage private sector funding with the objective of providing more than €1 billion of venture capital and equity financing to high potential innovative SMEs.

To facilitate SME restructuring, especially in multi-creditor cases, we will consider by end-September the appropriateness of additional legislative amendments to further enhance the SME examinership legal framework to reduce costs and achieve efficiency gains drawing on experience with the operation of the Insolvency Service in the personal

insolvency reform and recommendations in the Company Law Review report, including the potential for an administrative body to facilitate SME restructuring.

The Authorities intend to establish a strategic investment fund (redeploying NPRF resources) with an Ireland focused investment mandate to invest in areas of strategic importance on a commercial basis, supporting economic growth and employment. In January 2013, the NPRF announced that it will invest up to €500 million in three new SME funds which will make up to €850 million available to SME's through the provision of equity, credit and restructuring/recovery investment. The NPRF will continue to work on supporting the delivery of additional funds that will complement those already announced and provide financing for SME's.

In 2013, a detailed work programme to ensure that all financing initiatives reach their full potential will be prepared by the SME State Bodies Group, an inter-agency coordination body consisting of representatives from the Departments of Finance and Jobs, Enterprise and Innovation, as well as other agencies. This group will also ensure the cohesion of policies on access to funding for SMEs across the government and evaluate the effectiveness of recent measures.

Our 10 point tax reform plan will help support small companies' cash flow position, access funding more easily, export capacity and reduce the cost of tax compliance.

E. Programme Financing and Monitoring

22. The programme is adequately financed and our financing strategy aims to further strengthen the basis for our successful return to reliance on market funding.

In January we raised €2.5 billion through a tap of our bond maturing in 2017 at a yield of 3.32 percent. This issue was significantly over subscribed and attracted a diverse investor base. More than 200 institutional investors—including fund managers, pension funds, bank treasuries and insurance companies placed orders with strong demand from the U.K., the Nordic countries and mainland Europe. We have also continued our programme of regular three-month Treasury bill auctions, with yields declining to 0.2 percent at the recent January auction. Building on this progress, we aim to seek further opportunities to issue medium to long term debt ahead of a potential return, market conditions permitting, to more regular bond issuance later this year. Following the sale of contingent capital claims of €1 billion on Bank of Ireland, we will seek further recovery of bank support costs, including through the sale of Irish Life if market conditions permit. In view of the external risks to our financing, we will maintain a prudent cash buffer and aim to end the programme with a buffer covering around one year of financing needs to support market confidence. Moreover, in a medium to longer term context, a lengthening of maturities on EFSF/EFSM loans is under discussion.

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

III. Ireland: Technical Memorandum of Understanding (TMU)

March 12, 2013

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

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

Floor on the Exchequer Primary Balance

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

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.

Fund provision is a transfer from the current account to the capital account to reduce national debt and has no effect on the overall Exchequer balance.

4. The performance criteria are set on the Exchequer primary balance which is the Exchequer balance excluding net debt interest payments in the service of the National Debt. From January 2013 all payments related to the IBRC promissory notes are excluded from the Exchequer primary balance measure used for programme monitoring purposes.²

5. For the purposes of the programme, the floor on the Exchequer primary balance (quantitative performance criterion) will be adjusted

(i) 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,

(ii) upward by the amount of proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts,

(iii) upward by the amount of receipts from disposals of state assets specified in the paragraph 21 of the MEFP dated 29 November 2012,

(iv) downward by the amount of these receipts spent on growth-enhancing projects not included in Budget 2013, up to no more than half of these receipts,

(v) downward for Exchequer contributions to the Resolution Fund for the resolution of credit institutions, and upward for any Exchequer recoupment from the Resolution Fund, of such outlays.

(vi) upward for any recoupment of Exchequer contributions from the Credit Union Fund.

Any other financial operation by Government to support banks or other credit institutions including credit unions, 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)
<hr/>	
From January 1, 2013	
End-March 2013 (performance criterion)	-3.7
End-June 2013 (performance criterion)	-4.2
End-September 2013 (indicative target)	-4.8

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

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

(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, 2013	
End-March 2013 (projection)	10.2
End-June 2013 (projection)	21.1
End-September 2013 (projection)	32.5

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 adjutor 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

(i) upward by debt arising from payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy.⁴ 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,

(ii) 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,

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 and property tax (from 2013).

⁴ This includes the exchange of the outstanding IBRC promissory notes, which were not part of the national debt, with government bonds, which are part of the national debt. An according revision is carried out for indicative targets for central government net debt from March 2013 onwards.

- (iii) downward by the amount of receipts from disposals of state assets specified in the paragraph 21 of the MEFP dated 29 November 2012,
- (iv) upward by the amount of these receipts spent on growth-enhancing projects not included in Budget 2013, up to no more than half of these receipts,
- (v) upward for Exchequer contributions to the Resolution Fund for the resolution of credit institutions, and downward for any Exchequer recoupment, from the Resolution Fund, of such outlays.
- (vi) downward for any recoupment of Exchequer contributions from the Credit Union Fund.
- (vii) downward by the amount liquidated from the NPRF non-liquid discretionary portfolio.
- (viii) downward (upward) by valuation gains (losses) in the NPRF liquid portfolio. The programme exchange rates will apply to all non-euro denominated debt.
- (ix) upward by the amount of cumulative drawings on NPRF's SME focussed funds up to €500 million.

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 2012 central government net debt.

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-December 2012 (provisional)	133.7
End-March 2013 (indicative target)	168.1
End-June 2013 (indicative target)	171.3
End-September 2013 (indicative target)	172.5

Non-accumulation of External Payments Arrears by Central Government

11. 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.

12. 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

13. Performance under the programme will be monitored using data supplied to the EC, IMF, and ECB staffs. The Irish authorities will transmit promptly any data revisions.

- The Department of Finance will report to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date the following data: the Exchequer primary balance, Exchequer tax revenues, payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy, proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts, receipts from disposals of state assets specified in the paragraph 21 of the MAFP dated 29 November 2012 and associated outlays on growth-enhancing projects not included in Budget 2013, Exchequer outlays for the resolution and restructuring of credit unions, any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund and the Restructuring and Stabilisation Fund.
- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt, including an unaudited analysis of NPRF holdings, with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.
- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staffs, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

The Central Bank of Ireland will provide on a quarterly basis, bank by bank data on the assets of government guaranteed banks, including loans and provisioning by period overdue (90+days and less than 90 days) and category of borrower, 40 working days after the end of each quarter.

Table 1. Programme Monitoring

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

Table 1. Programme Monitoring (concluded)

Measure	Date	Status
Publish legislation to strengthen the regulatory framework for credit unions, including making legislative provision for effective governance standards and prudential requirements	End-September 2012	Observed
Approve regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable institutions	End-September 2012	Observed
Request an external BCP assessment in support of efforts to strengthen financial supervision and regulation	End-March 2013	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

	31-Dec-11		31-Mar-12		30-Jun-12		30-Sep-12		31-Dec-12		31-Mar-13	30-Jun 13	30-Sep-13
	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target	Target	Target
(In billions of Euros)													
	Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion	Performance Criterion	Indicative Target
1. Cumulative exchequer primary balance 2/	-22.3	-21.0	-6.9	-5.7	-9.6	-8.7	-11.4	- 10.1	-13.2	-12.3	-3.7	- 4.2	- 4.8
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt 1/	117.2	115.7	125.0	123.0	130.1	128.2	132.5	130.0	135.8	133.7	168.1	171.3	172.5

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. Structural Benchmarks Under the Programme

Measure	Date	Status
Financial sector policies		
Establish a public target requiring the principal mortgage banks to offer a substantial share of restructuring arrangements during 2013 (MEFP ¶5).	End-March 2013	Proposed structural benchmark
Publish an update, where necessary, of the 2011 Impairment Provisioning and Disclosure Guidelines by end-May 2013 (MEFP ¶10).	End-May 2013	Proposed structural benchmark
Undertake a review of progress in addressing mortgage arrears (MEFP ¶12, 8 th review).	End-June 2013	Structural benchmark

IV. Ireland: Letter of Intent (European Commission)

Dublin, 12 March 2013

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

Mr. Jeroen Dijsselbloem
Minister van Financiën
Ministerie van Financiën
Korte Voorhout 7
Postbus 20201
2500 EE Den Haag
The Netherlands

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

Mr Uwe Corsepius
Secretary-General
General Secretariat of the Council of the European Union
Rue de la Loi 175
1048 Brussels
Belgium

Dear Messrs Draghi, Dijsselbloem, Corsepius and Rehn

1. As we are now in the final year of our programme, the focus of Government is on ensuring that attention is fully turned to the measures necessary to achieve a successful exit from the Programme and measures that will underpin a durable and sustainable return to market based funding. We believe that the Irish Government's performance in terms of commitment to the Programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

2. There have been a number of positive developments, in a climate of persistent weakness in economic activity in our main trading partners in Europe. Our gradual return to the financial markets continued and the successful bond sale in January, the sale of contingent capital instruments in one of the pillar banks at a slight profit, the recently announced sale of Irish Life, the continuing fall in our bond yields, are all strong positive indicators of our success. The real economy has also shown some improvement, with continuing growth, albeit at low levels, stabilisation in the still high unemployment level, and the better than expected budget outturn for 2012. The resolution of the promissory note discussions and the enactment of legislation to liquidate IBRC has reinforced these positive developments. Allied to this, the benefits of the ECB's decision on Outright Monetary Transactions remain evident. Finally, once the implementation of the 2010 quota reforms is agreed the effective interest rate on our IMF borrowings will be significantly reduced. Progress is expected with respect to other issues, most notably the delivery of the Euro Area Heads of State and Government commitment on breaking the vicious circle between banks and the sovereign in the EU and to examine how to improve the sustainability of our well performing Programme. Furthermore, our recent request for an extension of maturities on EU funding is an important ongoing issue.

3. Our preparations for exiting our Programme continue to take place against this mixed backdrop. Notwithstanding the external risks, our policy efforts are aimed at further deepening our access to market funding during 2013 in order to exit from reliance on official financing. Timely implementation of the Euro Area Leaders' commitments would greatly support the effectiveness of these efforts. We are sure that we can rely on the continued support of our external partners and fellow Member States in this endeavour.

4. For the ninth review, we have once again met our commitments (with over 190 actions completed) under the EU/IMF supported Programme in terms of policy reforms as well as quantitative targets:

- The 2012 general government deficit is expected to be below 8% of GDP, well within the programme ceiling (8.6% of GDP). We have also a budget in place for 2013 which is consistent with observing the 7.5% of GDP ceiling on the general government deficit for this year.
- We have taken measures to offset cost overruns in the health sector in 2012 and to ensure that expenditures in this important area remain within the allotted ceiling this year. Some of the measures require additional steps for their full implementation and we have established a Cabinet Committee on Health which will be informed in a timely manner of any slippages or problems that might arise so as to ensure prompt remedial action.
- We have enacted the Personal Insolvency Act 2012, which provides the most radical and comprehensive reform of our insolvency and bankruptcy law and practice since the foundation of the State. We have established the Personal Insolvency Service and are now putting in place the necessary infrastructure and regulatory framework to accept applications from eligible borrowers in the second quarter of 2013.

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

IRELAND

MEMORANDUM OF UNDERSTANDING
ON
SPECIFIC ECONOMIC POLICY CONDITIONALITY

(EIGHTH UPDATE)

12 MARCH 2013

1. 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 eighth 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.
2. The quarterly disbursement of financial assistance from the EFSM 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.
3. For the duration of the EU/IMF financial assistance programme the Irish authorities will take all the necessary measures to ensure a successful implementation of the programme and minimise the costs to the taxpayers, while protecting the most vulnerable. In particular, they commit to:
 - Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. In particular, the Department of Finance and the Department of Public Expenditure and Reform will continue to ensure effective tax collection and tight supervision of expenditure commitments by the line departments to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved. Any additional unplanned revenues must be allocated to debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- Continue to strengthen the fiscal framework and reporting in line with EU requirements.
- 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 and on a sustainable basis.
- 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, via the Credit Union Restructuring Board, will underpin the financial stability and long term sustainability of the sector. The restructuring will be completed in as short a timeframe as possible under a clear plan identifying credit unions appropriate for restructuring, subject to Central Bank regulatory approval. As regards funding, the first call should be on the credit unions concerned or the sector as a whole; any Exchequer funding should be minimised, should be provided only in the context of a restructuring plan in compliance with EU state aid rules, and should be recouped from the sector over time. In parallel, the Central Bank will continue its inspections to determine the financial condition of the weakest credit unions, and will engage its resolution powers as needed, drawing on Resolution Fund resources if required.
- The authorities will report quarterly 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.

- Ensure continued compliance with the minimum Core Tier 1 Capital ratio of 10.5% 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.
4. 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 tenth review (actions to be completed by end Q1-2013)

Financial sector reforms

5. Capital Assessment

The authorities will provide the staff of the European Commission, the ECB and the IMF a review of developments in the PCAR banks relative to PCAR 2011. Overall results of this work will be published by end February 2013. The authorities will agree with the staff of the European Commission, the ECB and the IMF on the specific details of the review.

Deleveraging

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

Funding and liquidity monitoring

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

Asset quality

8. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.
9. The authorities will publish banks' reported data on loan modifications, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.
10. The authorities will establish by end-March a public target requiring the principal mortgage banks to offer durable restructuring arrangements for a substantial share of problem mortgage loans during 2013.
11. Having secured adequate protections for debtors' principal private residence through the enactment of the Personal Insolvency Bill, the authorities will introduce legislation remedying the issues identified by case law in the 2009 Land and Conveyancing Law Reform Act, so as to remove unintended constraints on banks to realise the value of loan collateral under certain circumstances.

Financial supervision

12. 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.
13. 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.
14. The authorities will engage with each bank to ensure appropriately prudent provisioning including on key inputs, such as for estimating cure rates for originally performing, forborne, and modified loans, to ensure these cures reflect durable modifications.
15. Following completion of annual model performance reviews assessing banks' risk-weighted asset calculations forecasting and stress testing in advance of PCAR 2013, the authorities will report to the staff of the European Commission, the IMF and the ECB on progress with implementation of the findings from the credit regulatory capital review process and with the specific mitigating actions communicated to the banks.

Structural reforms

Health sector

16. The authorities will conduct a study to compare the cost of drugs, prescription practices and the usage of generics in Ireland with comparable EU jurisdictions.

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

Financial sector reforms

Capital assessment

17. The authorities will report by end of May 2013 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.

18. The authorities will agree with the staff of the European Commission, the ECB and IMF on the specific features of the methodology for the PCAR 2013 stress test exercise.

Deleveraging

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

Funding and liquidity monitoring

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

Asset quality

21. In consultation with staff of the EC, ECB, and IMF, the authorities will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines setting out clear definitions and principles underpinning banks' provisioning models. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks.

22. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance

indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.

23. The authorities will publish banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.

24. The authorities will propose a public target requiring the principal mortgage banks to complete durable restructuring arrangements on a substantial share of problem mortgage loans during 2013.

25. The authorities will establish individual bank targets requiring them to complete a substantial share of durable restructuring arrangements for SME loans in arrears in 2013.

26. The authorities will undertake a review of progress in addressing mortgage arrears.

27. While ensuring that balanced incentives and debtors' sustainability are maintained, the authorities will complete a review of the Code of Conduct on Mortgage Arrears (CCMA). The review will, among other things, explore: (i) reforming and streamlining the restrictions on contacts; (ii) amending the definition of a non-cooperative borrower; and (iii) permitting modifications of the interest rate setting mechanism where the lender has offered an alternative arrangement which is advantageous to the borrower in the long-term.

Financial supervision

28. 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.

29. 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.

30. The authorities will review the implementation of the 2011 CBI Provisioning and Disclosure guidelines by the covered banks with reference to the end-2012 published financial statements.

31. Upon publication of the EU directive establishing a framework for the recovery and resolution of credit institutions and investment firms, the authorities will review the Resolution fund levy regulation.

Structural reforms

State assets

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

Labour market reform

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

34. The authorities will prepare an action plan aimed at increasing the effectiveness of training and activation supports, building on the recommendations of the DSP Review of Employment Support Schemes and the evaluation of JobBridge by end-April 2013. The authorities will also review the progress in the rolling out of Intreo offices and define measures to address potential shortcomings. The authorities will communicate a timetable for the process of procuring activation services for the long-term unemployed from private providers.

35. The authorities will continue to redeploy and train staff from within the Department of Social Protection in order to significantly increase the number of Intreo case managers, substantially increase the number and proportion of group and one-to-one engagements with the long-term unemployed and provide them with adequate activation services. The authorities will report on progress in achieving the DSP objective of doubling of case managers by end-2013. They will also assess the skills adequacy of case managers and report on training needs and plans.

Water services reform

36. The Commission for Energy Regulation (CER) will carry out consultations to determine the framework for household water charges with a view to start charging by the end of the EU-IMF programme period. The CER will also conduct consultations in due course to determine the pricing methodology for the non-domestic sector.

37. The Government will publish the General Scheme of a Water Services Bill with the aim of defining the regulatory framework for the water sector under a national public utility setting and providing for the establishment of Irish Water in its final form. There will be prior engagement with the European Commission as appropriate, in developing the legislative arrangements.

Health sector

38. The authorities will develop an eHealth Strategy in conjunction with the HSE by end Q2 2013. This will serve as a time-bound action plan for the implementation of eHealth systems, including a comprehensive system of ePrescription which uses a unique patient identifier, such as the PPSN—to support and enable the delivery of integrated patient care under the reform agenda.

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

Financial sector reforms

Capital assessment

39. 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 an assessment of the banks' calculation of risk weighted assets, loan loss forecasting, and capital modelling. Before publication, the results of the PCAR 2013 will be discussed with the staff of European Commission, the IMF, and the ECB and will be aligned with the timing of the next EBA exercise. The results and methodology will be published in full and on a bank-by-bank basis, and the authorities will accordingly ensure that banks are adequately capitalised.

40. 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

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

Funding and liquidity monitoring

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

Asset quality

43. The authorities will keep under review the effectiveness of statutory repossession arrangements in Ireland based on ongoing experience with repossession actions. Issues such as length, predictability and cost of proceedings, systems for dealing with non-cooperative borrowers and investment property debts will be included in this review. Where necessary appropriate measures will be brought forward quickly to deal with any problems arising

44. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage

and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.

45. The authorities will publish banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.

46. Following consultation with the staff of the European Commission, the ECB and the IMF the authorities will establish a public target requiring the principal mortgage banks to complete durable restructuring arrangements on a substantial share of problem mortgage loans during 2013. A public target will also be set for the share of concluded arrangements for which the terms are being met to ensure the quality and durability of such arrangements.

Financial Supervision

47. 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.

48. 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

Access to SME credit

49. Based on experience of the operation of the Insolvency Service in the personal insolvency reform, the authorities will consider the appropriateness of further enhancements to the company law framework to facilitate restructuring, especially in multi-creditor cases, reduce costs and achieve efficiency gains, including the potential for an administrative body to facilitate SME restructuring.

Water services reform

50. The Government will publish, as early as possible in Q3 2013, a Water Services Bill with the aim of defining the regulatory framework for the water sector under a national public utility setting and providing for the establishment of Irish Water in its final form. There will be prior engagement with the European Commission as appropriate, in developing the legislative arrangements.

51. The Government's budgetary perspective will be based on Irish Water becoming substantially self-funded over time.

Further education and training

52. The authorities will conduct by September 2013 a strategic review of the training and education provision offered by Education and Training Boards (ETBs) to guide the strategic work of SOLAS and the FET provision by ETBs. The review will evaluate the FET provision in terms of its relevance for labour activation purposes, i.e. whether it is suited to the needs and abilities of the large pool of unemployed, in particular the long-term unemployed, and to the prospective skills needs of the economy. The review will provide an assessment of the existing provision as well as recommendations to enhance their relevance for activation purposes.

Health

53. The authorities will set high level annual targets for increasing the share of generic drug usage in the medium-term. Enabling measures – such as compulsory prescription by International non-propriety name (INN) by end 2013, where appropriate – required for the achievement of these targets will be put in place and kept under further review.

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

Financial sector reforms

Deleveraging

54. The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal and run-off targets in nominal value terms will be discussed with the staff of the European Commission, the IMF, and the ECB.

55. The authorities will produce a final report on progress towards compliance with Basel III liquidity and funding requirements by the relevant dates.

Asset quality

56. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.

57. The authorities will publish banks' reported data on loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.

Financial Supervision

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

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

60. The authorities will ensure, subject to the enactment of the Credit Reporting Bill and the completion of project due diligence, that the Central Credit Register is at an advanced stage of development. The authorities will also present a final comprehensive report on progress in implementing the Central Credit Register and discuss it together with the European Commission, the IMF, and the ECB.

Structural reforms

Labour market reform

61. The authorities will report on compliance with the action plan to double the number and ensure adequate training of Intreo case managers.

Water services reform

62. The CER will establish the framework to assess water charges for households, including those without meters. Irish Water, in association with the authorities and the CER, will inform the public on the level of water charges and launch a communication campaign building on the one initiated in February 2013.

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 105 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.
F.11	Report on implementation of budgetary measures in the health sector, covering inter alia assessment of timeliness and effects vis-à-vis 2013 Budget plans and explanation for any delay/shortfall, as well as update on status of any remaining actions required for effective implementation.	Monthly, 30 working days after the end of each month.

F.12	Report comparing, against the monthly targets: (i) health expenditure by mains service areas, (ii) pay and non-pay element of current expenditure, (iii) capital expenditure and (iv) income collected.	Monthly, 7 working days after the end of each month.
F.13	Report on pharmaceutical prescriptions and expenditure, including information on value and volume of drugs and the extent of the use of generics and off-patent drugs.	Quarterly, 30 working days after the end of each quarter.
To be provided by the NTMA		
N.1	Monthly information on the central Government's cash position with indication of sources as well of number of days covered	Monthly, three working days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 working days after the end of each month
N.3	Data on the National Debt	Monthly, 15 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for the National Debt.	Monthly, 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months	Monthly, 30 working days after the end of each month
To be provided by the Central Bank of Ireland		
C.1	The Central Bank of Ireland's balance sheet.	Weekly, next working day
C.2	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month.	Monthly, 30 working days after each month end.
C.3	Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts including LDR, NSFR and LCR outturns and forecasts.	Quarterly, 40 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes from the banks and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month
C.7	Deleveraging reports including (i) progress achieved towards deleveraging in line with the 2011 Financial Measures Programme; and (ii) actual and planned asset disposals.	Quarterly, 40 working days after the end of the reference period.