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

June 3, 2013

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

Ireland: Letter of Intent

Dublin, 3 June 2013

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

Dear Ms. Lagarde:

1. We remain determined to leave the crisis behind, ensure that the emerging recovery gathers pace, and meaningfully reduce our high unemployment rate. The Government's focus is firmly on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. 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. Despite persistent weakness in economic activity in our main European trading partners, there have been a number of positive developments. Our return to the financial markets continued with the successful launch of a new 10 year benchmark bond in March, which raised some €5 billion at very attractive rates. The recent replacement of the promissory notes with longer-duration, lower-yield government bonds following the liquidation of IBRC along with the agreement by EU Finance Ministers to extend the maturities on our EFSF and EFSM loans by an average of 7 years, will smooth our redemption path for the rest of this decade and represents further significant support to our debt sustainability and market return. The real economy has also shown some improvement, with continuing growth, although, taking account of the weaker global economy, we have revised down our forecast to 1.3% for 2013 and 2.4% in 2014 as set out in the recent Stability Programme Update. Unemployment, though still high, has stabilised. The fiscal outturn for 2012 was considerably better than expected which was confirmed in our EDP return in April and showed the General Government Deficit at 7.6% of GDP, well within the ceiling of 8.6%. Allied to this, the benefits of the ECB's announcement of 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. Notwithstanding the positive developments described above, a number of issues remain current, including the delivery of the Euro Area Heads of State or Government commitment on breaking the vicious circle between banks and the sovereign in the EU and to examine how to further improve the sustainability of our well performing programme.
3. We continue to move towards the goal of fully regaining durable and sustainable market access during 2013. The continuation of regular Treasury Bill auctions which recommenced last

July, and our bond issues to date are positive steps in this direction. The issue, in January 2013 of an existing 5-year bond in an amount of €2.5 billion at a yield of 3.32%, and the issue in March 2013 of a new 10-year bond at yield of 4.15% demonstrate that we have re-connected with a diversified investor base across many key geographic areas and, importantly, with real money investors. The NTMA has also engaged with the market in relation to a return to regular bond auctions during 2013 subject to market conditions, with the specific details to be announced at a later date.

4. Our preparations for the post programme period continue to take place against this mixed backdrop. Notwithstanding the external risks, our policy efforts are aimed at building on our successful return to markets during 2013 in order to exit from reliance on official financing. The previously mentioned arrangement on the promissory notes and the extension of the maturities of EU loans were welcome steps towards improving the sustainability of the programme and should contribute to a successful, continued return to durable market based financing post our programme. 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.

5. Once again, for the tenth 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 200 actions. In particular, the performance criterion for end-March 2013 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.

6. 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 tenth review under the Extended Arrangement. We also request that the tenth purchase in an amount equivalent to SDR 831 million becomes available at the time of completion of the review.

7. 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 2,091.3748 million over the remainder of 2013. This, combined with our currently planned market issuance as well as the remaining programme funding from EU sources, should allow us to have an end year cash buffer sufficient to cover 12-15 months financing needs, which should underpin confidence as we are back in the market in 2014.

8. 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-September 2013, as set out in the attached MEFP (Table 2). 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 completing a preliminary balance sheet assessment

in consultation with staff of the EC, ECB, and IMF, by end-October 2013, and on conducting a forward-looking analysis of operating profits by end-September 2013. 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.

9. 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.

10. This letter is being copied to Messrs. Draghi, Dijsselbloem, Corsepius and Rehn.

Sincerely,

_____/s/
Michael Noonan, T.D.
Minister for Finance

_____/s/
Patrick Honohan
Governor of the Central Bank of Ireland

Ireland: Memorandum of Economic and Financial Policies

A. Recent Economic and Financial Developments and Outlook

1. **The economy grew for a second consecutive year in 2012 and a modest recovery is expected to continue in 2013.** Real GDP increased by 0.9 percent in 2012 driven by net exports. The strong performance of services exports outweighed a slowdown in goods exports reflecting the “patent cliff” in the pharmaceutical industry and weakness in trading partner growth. Notably, domestic demand stabilised during 2012, with private consumption and investment registering positive growth in the second half of 2012. The current account surplus rose to 4.9 percent of GDP and real GNP grew by 3.4 percent benefiting from lower than expected income outflows. Inflation remained subdued, at 1.1 percent y/y in the first quarter of 2013, and the unemployment rate eased to 14 percent but remains a source of concern. Going forward, we expect real GDP growth of approximately 1¼ percent in 2013 and around 2½ percent in 2014. However, this outlook is contingent on the growth performance of Ireland’s main trading partners as well as continued decisive progress in financial sector repair to support a durable domestic demand recovery.

2. **Recent financial market developments are favourable, reflecting a deepening and broadening of Ireland’s access to capital markets.** On March 13 the NTMA issued €5 billion in a new 10-year bond at a yield of 4.15 percent. Over 80 percent of the issue was taken up by foreign investors, mostly in Europe and there was little uptake by leveraged investors. Irish 10-year bond yields have declined to historic lows of around 3.5 percent. Ireland continues to access the T-bill market, where demand has been strong and terms remain favourable. Funding conditions for banks have also improved evidenced by a 5-year €500 million Bank of Ireland covered bond issuance on March 15 against improved spreads. Notwithstanding the ELG removal at the end of March, deposit rates and covered bond yields have declined further in 2013. The removal of the ELG fees will also improve margins and enhance profitability. However, credit continues to decline as redemptions still exceed new lending.

B. Financial Sector Policies

3. **Recognising that a sustained economic recovery will increasingly require a recovery of lending, we are further strengthening the banks.** We will assure that (i) banks are on track to achieve sufficient profitability to enhance the capital base and sustain new lending going forward; and (ii) the process of resolving impaired assets is firmly advancing. Accordingly, we are maintaining pressure through our programme of mortgage restructuring targets, complemented by ongoing reforms to consumer protection rules, repossession procedures, the personal insolvency framework, and impairment and provisioning guidelines. Taken together, this suite of policies raises incentives for banks to actively pursue sustainable solutions, and to remove impediments from their path, to ensure a demonstrable improvement in credit quality during 2013.

4. **We continue to hold banks to ambitious targets to address troubled residential mortgages to ensure durable reductions in arrears.** We will augment the recently established Mortgage Arrears Resolution Targets (MART) framework by issuing guidance to credit

institutions on the definition of sustainable restructuring arrangements by end June. We will set targets for the completion of sustainable solutions as specified in the MEFP for the 9th review. We continue to monitor each bank's progress, including through audits and against bank-specific targets. As outlined in the MART framework, we are also minded to impose a specific provisioning treatment on unresolved impaired mortgages by January 1 2014, for end-2014 annual statements. As a stock-taking of progress in addressing mortgage arrears, we will prepare a comprehensive review by end June. The review will assess the effectiveness of the banks' mortgage restructuring and resolution actions based on available experience, having regard to the broader policy framework and based on its findings consider any necessary adjustments.

5. **We will modify the Code of Conduct on Mortgage Arrears by end June to facilitate effective engagement between lenders and distressed borrowers.** Informed by submissions received during a public consultation, we are preparing amendments focused on: (i) replacing the current restrictions on the number of unsolicited contacts with contact policies set out by lenders and approved by the boards of those lenders; (ii) amending the definition of a non-cooperative borrower such that key protections extend only to borrowers that engage constructively with lenders within a specified time period in a manner that is consistent with addressing their arrears. In addition we are considering amendments to 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.

6. **We recognise the need for efficient repossession procedures to promote the completion of sustainable mortgage solutions.** In March, we published the Land and Conveyancing Law Reform Bill 2013 to remove unintended constraints on repossessions for mortgages created prior to December 2009 as identified by case law. We are seeking passage of the legislation before the start of the Oireachtas summer recess. We will keep under review the capacity of the Court system in relation to repossession cases and the effectiveness of statutory repossession arrangements as set out in the MEFP for the 9th review.

7. **Preparations to make the new personal insolvency framework operational by end June are well underway.** The Insolvency Service has disseminated comprehensive information on the new debt settlement procedures, including the Reasonable Living Expenses Guidelines. Regulations for the licensing and regulation of personal insolvency practitioners are about to be finalised, and the appointment of specialist judges is expected by June.

8. **We are driving forward the process of SME debt restructuring.** The CBI is reviewing resolution progress through the first set of key performance indicator reports on banks' SME portfolios. Targets for SME debt restructuring are under development and will be communicated to the PCAR banks by the end June deadline. We are focusing supervisory effort on strengthening banks' operational capacity to complete sustainable solutions. On-site supervisory activities in the second half of 2013 will include individual loan file reviews and operational reviews to assess the implementation of the banks SME distressed portfolio strategies and that the restructuring process delivers durable solutions. These will also help to ensure proper recognition of impairment, collateral valuation, and prudent provision coverage.

9. **The CBI will ensure that the banks continue to observe sound practices for identification of impairment and determining provisioning needs.** As specified in the MEFP

for the 9th review, by end May the CBI will update, where necessary, the 2011 Impairment Provisioning and Disclosure Guidelines. This update will specify the criteria to observe for exposures returning from nonperforming to performing restructured status, acceptable methods for provisioning loans under temporary forbearance as well as to calculate cure rates used for collective provisioning purposes. 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.

10. **We are harmonizing our ongoing bank diagnostic work with the European timetable for banking union.** A key goal for Ireland is smooth entry into the Single Supervisory Mechanism (SSM) in 2014. We will therefore conduct a stress test in accordance with the new EU methodology, ahead of and in close proximity to the upcoming SSM exercise. We will consult with the staff of the EC, ECB, and IMF on the preparations for the stress test, and the loan loss forecasting models underpinning the forthcoming stress test will be subject to external validation.

11. **We are advancing our preparatory work on a number of fronts in the interim.** Taking into account progress in developing the relevant SSM methodology and in consultation with the staff of the EC, ECB, and IMF, we will complete a preliminary balance sheet assessment of the PCAR banks by end October (proposed structural benchmark) incorporating the results of: (i) an assessment of quantitative impairment provisions and a review of risk classification, i.e., an asset quality review on an incurred loss basis, and (ii) a review of the appropriateness of risk weights for regulatory capital purposes. The asset quality review will be based on the CBI's Impairment Provisioning and Disclosure Guidelines as updated at end May. Other methodological aspects—such as the appropriate sample size and selection for loan reviews and involvement of third parties independent of the banks—are to be agreed by end-July 2013, and the test parameters for benchmarking provisioning by end-September 2013. This balance sheet assessment will be finalised by end-November 2013. In addition, we will conduct a forward-looking analysis of operating profits for each of the PCAR banks to end 2015, including sensitivity analysis to funding costs, by end September (proposed structural benchmark). In parallel, we will report in June and September 2013 on the exploration of options to lower the funding cost of banks' tracker mortgage portfolios, and assess banks' fee income relative to peers in selected other jurisdictions, with a view to completing an external review of our regulation of bank fees by end December. We will also analyze current eligible regulatory capital under Basel III/CRD IV by end October. All of these work streams will inform the banks' business and financial plans going forward, and we will report to the staff of the EC, ECB, and IMF progress with the implementation of specific mitigating actions communicated to banks.

C. Fiscal Policies

12. **We are committed to achieve the 7.5 percent of GDP deficit target for 2013.** The finance and social welfare bills implementing many of the Budget 2013 measures have been enacted. Property tax notifications have been issued and filings are due by end-May. A new bill has been published to promote competition to lower drug costs and we are preparing legislation to charge private patients in public hospital beds. Budget implementation is on track

in the first quarter and we will maintain a careful and proactive budget management to contain spending within allocations. We are pressing ahead with work place reform to drive up efficiency in public service delivery. We also reaffirm our commitment to a durable reduction in public service pay and pensions, including through additional saving measures of €300 million in 2013 and €1 billion by 2015, if possible on a negotiated basis.

13. **To further underpin our medium-term fiscal consolidation path, we are starting to prepare a fully specified and equitable package of measures.** Budget 2013 stipulated significant measures towards achieving our medium term fiscal consolidation effort set out in the 2012 Medium Term Fiscal Statement. For the remaining consolidation needed, we are developing revenue and expenditure reforms that preserve core public services and protect the most vulnerable. In the context of Budget 2014, key departments will present health, education, and social protection reform options to the government for consideration. As a first step, we will develop an eHealth Strategy as specified in the MOU.

14. **We continue to strengthen our institutional framework consistent with the EU fiscal governance structure.** We are bringing forward our budget cycle so that Budget 2014 is published by October 15. The mandate of the Irish Fiscal Advisory Council (IFAC) will be amended to include an ex ante endorsement of the macroeconomic forecasts on which future budgets and stability programmes will be based. This will be supported by a memorandum of understanding between the Department of Finance and IFAC. We will progress, and if necessary amend, the Ministers and Secretaries (Amendment) legislation to make the already operational ceilings on aggregate and departmental expenditure legally binding and consistent with the expenditure benchmark under the Stability and Growth Pact of the European Union. We will finalize a circular specifying the operational details of the ceilings—including on the circumstances under which they can be revised and on the correction mechanisms—and will publish it within a month of enactment. Altogether, these steps will largely complete our Medium Term Budgetary Framework in line with EU requirements.

15. **We are taking further steps to enhance fiscal transparency.** The 2013 Revised Estimates for the Public Service was published in April, supplemented by key performance information on programme outputs and impacts to facilitate assessment of the effectiveness of public spending. In addition, the CSO published a new Government Finance Statistics Report with annual and quarterly general government data, including on net debt and net worth.

D. Structural Reforms

16. **We will continue to implement measures to improve the environment for job creation including through the 2013 Action Plan for Jobs and new capital projects.** The reforms outlined in the 2013 Action Plan for Jobs will support private sector firms where Ireland has a competitive advantage including data processing, ICT, and healthcare technologies and products. We will create a single licensing application system for the retail sector to further reduce administrative burdens; and will encourage an increase in the number of SMEs trading on-line. We will also improve energy efficiency. We will conduct an evaluation of the employment impact of the 2012 and 2013 Action Plan for Jobs to inform our policy choices for the Action Plan in 2014. As part of our approach to economic stimulus and supporting job creation, we are advancing a range of capital projects in key public infrastructure areas including

roads and schools. The implementation of state asset disposal plans for the energy sector is advancing, with the view of obtaining proceeds this year. 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. The remaining proceeds will be invested in job-rich projects of a commercial nature, consistent with our fiscal targets.

17. Reducing unemployment remains our top priority:

- *Engagement with the unemployed.* We continue to roll out Intreo offices, with 11 opened in 2012, up to 33 are planned for 2013, with the full roll-out to be completed by end-2014. We will ensure the same quality of activation and training services extends to all job seekers across the country. We plan to profile all unemployed persons on the Live Register by end 2013, set new targets for exits from long-term unemployment and boost referrals of long-term unemployed to education and training programmes. We will publish every quarter (starting in quarter 2 in 2013) a report on progress in meeting targets under pathways to work and on overall progress in activating the long term unemployed.
- *Case workers.* We plan to redeploy 300 staff as case officers by the end of 2013 and will ensure their adequate training. We are actively considering the potential for private sector involvement in providing employment services to the long-term unemployed with a view to a decision by end June 2013.
- *JobsPlus.* Our new simplified JobsPlus scheme will improve job prospects of the long-term unemployed through monthly payments for two years to enterprises hiring the long-term unemployed.

18. We will strengthen support for SME job creation through a programme to alleviate financial constraints, promote equity finance and improve the business environment.

- *Governance:* The SME State Bodies Group will coordinate and assess government initiatives in research, policy and information skills, partnerships with the European Investment Bank, access to finance, and CBI engagement with banks. We will monitor the credit environment for SMEs, optimize the utilization of public funds and assess the effectiveness of the policy actions implemented in 2012.
- *Lending and equity finance:* The Credit Review Office, whose resources have been increased recently, will continue to monitor the enforcement of the €4 billion lending targets assigned to Bank of Ireland and AIB in 2013. We will actively roll-out three new SME funds to provide up to €850 million of new financing to SMEs through equity finance and restructuring investment and credit, including through private participation. We will ensure that the Temporary Partial Credit Guarantee Scheme and the Micro Enterprise Loan Fund are fully utilized subject to sufficient demand from SMEs.

E. Programme Financing and Monitoring

19. The programme remains adequately financed and we continue to plan to maintain a healthy cash buffer. Over recent months we have made substantial progress in further deepening our market access, as demonstrated by our successful issue of a new 10-year benchmark bond. This brought the total long-term issuance for the year to date to around three

quarters of the working plan of €10 billion. The remaining issuance could be fulfilled through bond auctions subject to market conditions. Incorporating the 7 year extension in EFSM/EFSD maximum average maturities agreed on April 12 by EU Finance Ministers into our medium-term financing plan will help smooth financing peaks in coming years. As part of our prudent return to the markets we expect to conclude 2013 with a cash buffer covering 12–15 months of future funding needs.

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

Table 1. Programme Monitoring

Measure	Date	Status
Quantitative Performance Criteria		
Cumulative exchequer primary balance	End-March 2013	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-March 2013	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	
	Target1/	Outcome	Target	Target	Target	Target										
(In billions of euro)																
	Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion	
. 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	-3.2	-1.8	-4.2	-4.8		
. Ceiling on the accumulation of new external payments repairs on external debt contracted or guaranteed by the central government 3/	0	0	0	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	
. Ceiling on the stock of central government net debt	117.2	115.7	125.0	123.0	130.1	128.2	132.5	130.0	135.8	133.7	167.9	161.8	171.1	172.3		

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		
Publish an update, where necessary, of the 2011 Impairment Provisioning and Disclosure Guidelines by end-May 2013 (MEFP ¶10, 9 th review).	End-May 2013	Structural benchmark
Undertake a review of progress in addressing mortgage arrears (MEFP ¶12, 8th review).	End-June 2013	Structural benchmark
Conduct a forward looking analysis of PCAR banks' operating profits (MEFP ¶11, 10th review)	End-September 2013	Proposed structural benchmark
Complete a preliminary balance sheet assessment of PCAR banks (MEFP ¶11, 10th review)	End-October 2013	Proposed structural benchmark

Ireland: Technical Memorandum of Understanding (TMU)

May 29, 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 Fund provision is a transfer from the current

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.

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)
From January 1, 2013	
End-June 2013 (performance criterion)	-4.2
End-September 2013 (performance criterion)	-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

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

Exchequer tax revenues, pay-related social insurance contributions (PRSI) and national training fund contributions against the current projection which is listed below:³

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of euros)
From January 1, 2013	
End-June 2013 (projection)	21.1
End-September 2013 (projection)	32.7

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

(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 focused 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-March 2013 (provisional)	161.8
End-June 2013 (indicative target)	171.1
End-September 2013 (indicative target)	172.3

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 MEFP 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.

Letter of Intent (European Commission)

Dublin, 3 June 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,

We remain determined to leave the crisis behind, ensure that the emerging recovery gathers pace, and meaningfully reduce our high unemployment rate. The Government's focus is firmly on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. 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.

Despite persistent weakness in economic activity in our main European trading partners, there have been a number of positive developments. For example, unemployment has fallen by a percentage point over the past year and domestic demand grew in the second half of last year.

The yields on Irish government bonds have continued their steady decline and are now well below the levels registered before the launch of the programme. This has been supported by the general improvement in market sentiment following the announcement by the ECB of its outright monetary transactions programme as well as, more specifically to Ireland, by the recent replacement of the promissory notes with longer-duration, lower-yield government bonds following the liquidation of IBRC and by the decision by the Eurogroup and the ECOFIN to extend by 7 years the average duration of the EU loans. Additionally, the fiscal 2012 outturn for the general government balance, at 7.6% of GDP, was substantially better than the programme ceiling (8.6% of GDP). Budget 2013 is consistent with the programme deficit ceiling (7.5% of GDP) for 2013, and the budget execution in the first four months of this year is in line with the forecast profile. We have met all the other programme reform milestones set for the last quarter of 2012 and the first quarter of 2013 (with the exception of a comparative study on the medicine costs, which has been outsourced and is expected to be ready over the next few days or weeks). Notwithstanding the positive developments described above, a number of issues remain current, most notably the delivery of the Euro Area Heads of State or Government commitment on breaking the vicious circle between banks and the sovereign in the EU and to examine how to further improve the sustainability of our well performing programme.

We continue to move towards the goal of fully regaining durable and sustainable market access during 2013. The continuation of regular Treasury Bill auctions which recommenced in July 2012, and our bond issues to date are positive steps in this direction. The issue, in January 2013 of an existing 5-year bond in an amount of €2.5 billion at a yield of 3.32%, and the issue in March 2013 of a new 10-year bond at yield of 4.15%, demonstrate that we have re-connected with a diversified investor base across many key geographic areas and, importantly, with real money investors. The NTMA has also engaged with the market in relation to a return to regular bond auctions during 2013 subject to market conditions, with the specific details to be announced at a later date.

We will continue to work with staff of the European Commission, the European Central Bank and the International Monetary Fund towards a successful completion of the adjustment programme with a timely and effective implementation of the policy conditions as set out in the updated version of the MoU (attached). The previously mentioned arrangement on the promissory notes and the extension of the maturities of EU loans were welcome steps towards improving the sustainability of the programme and should contribute to a successful, continued return to durable market based financing in the post programme period.

In light of our performance under the programme and our continued commitment to it, we request the completion of the tenth review and the release of the tenth disbursement of EUR 1 billion from the EFSF.

In the attached ninth 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.

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 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.

As Ireland currently holds the EU Presidency, it was deemed more appropriate to address this letter to the Secretary General of the Council. This letter is being copied to Mme Lagarde.

Sincerely,

_____/s/____

Michael Noonan, T.D.

Minister for Finance

_____/s/____

Patrick Honohan

Governor of the Central Bank of Ireland

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

Ireland

Memorandum of Understanding
On
Specific Economic Policy Conditionality

(Ninth Update)

3 June 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 EFSM¹ will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the installments 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:

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

- 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).
 - In preparation for the timely introduction of the Single Supervisory Mechanism (SSM) the Irish authorities, in consultation with staff of the EC, ECB and IMF, will conduct a stress test in accordance with the new EU methodology, ahead of and in close proximity to the upcoming SSM exercise. In addition, the authorities will consult with the staff of the EC, ECB, and IMF, and taking into account progress in developing the relevant SSM methodology, advance preparatory work on a number of fronts including the preparations of the loan loss forecasting models underpinning the forthcoming stress test. The models will be subject to external validation.
 - 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 eleventh review (actions to be completed by end Q2-2013)

Financial sector reforms

Capital assessment

5. 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.

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. 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 specifying the criteria to observe for exposures returning from nonperforming to performing restructured status, acceptable methods for provisioning loans under temporary forbearance as well as to calculate cure rates used for collective provisioning purposes. 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.

9. 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 nonperforming 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.

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

11. 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.

12. The authorities will issue guidance to the credit institutions on the definition of a sustainable restructuring arrangement by end-June.

13. 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.

14. As a stock-taking of progress in addressing mortgage arrears, the authorities will prepare a comprehensive review by end-June. The review will assess the effectiveness of the banks' mortgage restructuring and resolution actions based on available experience, having regard to the broader policy framework and based on its findings consider any necessary adjustments.

15. While ensuring that balanced incentives and debtors' sustainability are maintained, the authorities will prepare amendments to the [Code of Conduct on Mortgage Arrears \(CCMA\)](#) focused on: (i) replacing the current restrictions on the number of unsolicited contacts with contact policies set out by lenders and approved by the boards of those lenders; (ii) amending the definition of a non-cooperative borrower such that key protections extend only to borrowers that engage constructively with lenders within a specified time period in a manner that is consistent with addressing their arrears. In addition we are considering amendments to 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.

Profitability

16. The authorities will report on the exploration of the options to lower the funding cost of banks' tracker mortgage portfolios.

Financial supervision

17. 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.

18. 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.

19. 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.

Structural reforms

Expenditure ceilings

20. The authorities will progress, and if necessary amend, the Ministers and Secretaries (Amendment) legislation to make the already operational ceilings on aggregate and departmental expenditure legally binding and consistent with the expenditure benchmark under the Stability and Growth Pact of the European Union. The authorities will finalize a circular specifying the operational details of the ceilings—including on the circumstances under which they can be revised and on the correction mechanisms, and will publish within a month of enactment.

State assets

21. 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

22. 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.

23. 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 are actively considering the potential for private sector involvement in providing employment services to the long-term unemployed with a view to a decision by end-June 2013.

24. 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.

25. The authorities will conduct an evaluation of the employment impact of the 2012 and 2013 Action Plan for Jobs to inform their policy choices for the Action Plan in 2014.

Water services reform

26. 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

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

28. 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.

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

Financial sector reforms

Capital assessment

29. Taking into account progress in developing the relevant SSM methodology, the authorities will agree with staff of the European Commission, the IMF, and the ECB other methodological aspects (of the asset quality review on an incurred loss basis as per paragraph 46) - such as the appropriate sample size for loan reviews, involvement of third parties independent of the banks and provisioning parameters - by end July and test parameters for benchmarking provisioning by end-September.

30. 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

31. 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

32. 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.

Profitability

33. The authorities will conduct a forward looking analysis of the operating profit for each of the PCAR banks, including sensitivity analysis to funding costs, to end 2015. The authorities will advise the banks of the outcome of this exercise in order to inform banks' business and financial planning going forward. In addition the authorities will report on the exploration of options to lower the funding cost of banks' tracker mortgage portfolios.

Asset quality

34. 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

35. 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 nonperforming 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.

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

37. 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

38. 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.

39. 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.

40. 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

Access to SME credit

41. 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

42. 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.

43. The authorities will communicate the funding model for Irish Water, including an outline of the expected levels of State support until such time as it is substantially self-funded.

Further education and training

44. 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

45. 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-proprietary name (INN) by end-October 2013, where appropriate – required for the achievement of these targets will be put in place and kept under further review.

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

Financial sector reforms

Capital Assessment

46. Taking into account progress in developing the relevant SSM methodology and in consultation with staff of the EC, ECB and IMF, the authorities will complete a preliminary balance sheet assessment by end-October incorporating the results of (i) an assessment of quantitative impairment provisions and a review of risk classification i.e., an asset quality review on an incurred loss basis, and (ii) a review of the appropriateness of risk weighted assets calculations under alternative assumptions. The asset quality review will be based on the Central Bank of Ireland's Impairment Provisioning and Disclosure Guidelines updated at end

May 2013. The balance sheet assessment will be finalised by end-November 2013 and the results will be communicated to the PCAR Banks to help inform their assessment of impairment provisions and financial plans going forward.

Deleveraging

47. 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.

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

Asset quality

49. 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 nonperforming 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.

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

51. 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. This work will be complemented with an analysis of current eligible regulatory capital under Basel III/CRD IV by end October.

Financial Supervision

52. 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.

53. 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.

54. 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.

55. The authorities will assess banks' fee income relative to peers in selected other jurisdictions. Based on this assessment they will complete an external review of the regulation of bank fees.

Structural reforms

Labour market reform

56. 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

57. The authorities will announce a definitive time-plan for the introduction of domestic water charges in the fourth quarter of 2014. Consultations will be carried out to determine the framework for water charges.

Health

58. In line with the eHealth Strategy, the authorities will publish by end-October legislation in conformity with data protection law to enable the introduction of universal and unique health identifiers for patients and service providers as well as to facilitate the introduction of full ePrescription.

59. The authorities will adopt a framework by end-October to streamline and consolidate multiple and fragmented financial management and accounting systems and processes by end-October.

60. The authorities are committed to the introduction of a prospective case-based payment system for public hospitals, in line with a principle of case based cost recovery for use of public hospitals by public and private patients. This will be implemented on a phased basis beginning with a shadow phase by end-October 2013.

Legal services reform

61. Once the relevant legislation has been enacted, the authorities will take the appropriate measures to establish the Legal Services Regulatory Authority in an expedited fashion.

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.
F.14	Report on prescribing and dispensing practices by doctors and pharmacies.	Quarterly, 30 working days after the end of each quarter.
F.15	Report on the quantum of pre-installation surveys completed and water meters installed by geographical area.	Monthly, 15 working days after the end of each month.
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	Monthly, 30 working days after

	amortisation) for the National Debt.	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.