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

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

- The staff report for the fourth review under the Extended Arrangement, prepared by a staff team of the IMF, following discussions that ended on October 20, 2011 with the officials of Ireland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 29, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Letter of Intent sent to the IMF by the authorities of Ireland.
- Memorandum of Economic and Financial Policies by the authorities of Ireland.
- Technical Memorandum of Understanding.
- Letter of Intent and Memorandum of Understanding on Specific Economic Policy Conditionality (College of Commissioners).
- A staff supplement of December 9, 2011 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its December 14, 2011 discussion of the staff report that completed the request and/or review.

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

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INTERNATIONAL MONETARY FUND

IRELAND

Fourth Review Under the Extended Arrangement and Request for Rephasing of the Arrangement

Prepared by the European Department in Consultation with Other Departments

Approved by Ajai Chopra and Lorenzo Giorgianni

November 29, 2011

Policy implementation remains strong. The key initial phase of the comprehensive financial sector reform strategy has been implemented as envisaged and the budget is on track for the major fiscal consolidation targeted in 2011. All quantitative macroeconomic targets for this review were achieved, and the applicable structural benchmark was observed.

However, international growth prospects have weakened, and external risks, especially from the euro area, have escalated. Discussions focused on improving prospects for growth, employment, and debt sustainability, which will also help insulate Ireland from increased tensions in the euro area:

- **The authorities remain committed to putting the budget on a sound footing.** The fiscal consolidation plan for 2012–15 aims to underpin confidence in debt sustainability by setting out the phasing and composition of the needed adjustment with due regard for growth.

- **The 2012 budget will target consolidation of €3.8 billion and a general government deficit of 8.6 percent of GDP.** The authorities are making additional adjustment efforts given weaker nominal growth projections in order to reach the original program targets for the deficit. The package of measures is carefully designed to enhance public service efficiency while protecting the vulnerable.

- **Building on progress with financial sector reforms to date, the challenge is to build the capacity of the financial system to support economic recovery and eventually to return to majority private ownership.** The focus is on strengthening bank balance sheets, revising business models to ensure medium-term viability and profitability, and improving internal governance and risk management systems to underpin sound lending. Efforts are also needed to strengthen banking supervision, develop a new credit register and reform the personal insolvency regime.

- **In these more adverse circumstances, further strengthening European support for Ireland's recovery would reinforce prospects for program success, with benefits for European stability.**

Staff supports the authorities' request for completion of the fourth review and the rephasing of purchases within 2012. The purchase subject to completion of this review would be in an amount equivalent to SDR 3.309 billion (about €3.8 billion). The authorities are also requesting that the purchase that would become available at the fifth review be in an amount equivalent to SDR 2.786 billion, with the additional amount taken equally from purchases scheduled for the seventh and eighth reviews.

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

Contents Page

I. Background ... 3

II. Recent Developments ... 3

III. Outlook ... 11

IV. Policy Discussions ... 12
- A. Fiscal Consolidation and Institutional Framework ... 13
- B. Financial Sector Reforms ... 17
- C. Reinforcing Growth and Job Creation Prospects ... 23

V. Program Modalities and Risks ... 24

VI. Staff Appraisal ... 27

Boxes
1. Mortgage Distress: A More Granular Analysis ... 7
2. New Legal Framework for Bank Resolution ... 18
3. Recapitalization, Capital Adequacy, Provisioning and Disclosure ... 20
4. Strengthening the Irish Credit Union Sector ... 22

Figures
1. Real Sector and Inflation Indicators ... 5
2. Housing Market and Mortgage Indicators ... 8
3. Credit Developments ... 9
4. Selected Trends in General Government Public Finances ... 15

Tables
1. Selected Economic Indicators, 2007–12 ... 29
2. Medium-Term Scenario, 2007–16 ... 30
3. General Government Finances, 2007–15 ... 31
4. Indicators of External and Financial Vulnerability, 2007–11 ... 32
5. General Government Financing Requirements and Sources, 2008–13 ... 33
6. Summary of Balance of Payments, 2008–13 ... 34
7. Monetary Survey, 2008–11 ... 35
8. Schedule of Reviews and Purchases ... 36
9. Indicators of Fund Credit, 2010–24 ... 37

Annexes
I. Debt Sustainability Analysis ... 38
II. Fund Relations ... 45

Attachments
I. Letter of Intent ... 47
II. Memorandum of Economic and Financial Policies ... 49
III. Technical Memorandum of Understanding (TMU) ... 61
IV. Letter of Intent (European Commission) ... 65
V. Memorandum of Understanding on Specific Economic Policy Conditionality (European Commision) ... 68

I. BACKGROUND

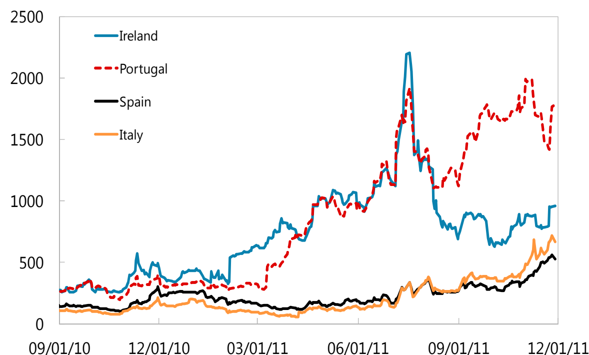
1. **Policy implementation continues to be strong and this has been recognized by financial markets.** The Irish authorities have pressed forward with their financial sector reform strategy while keeping the budget on track for the major fiscal consolidation targeted in 2011. All quantitative macroeconomic targets were achieved (MEFP Table 2) and the structural benchmark for this review was also observed (MEFP Table 1). These efforts have contributed to a notable decline in Ireland's bond spreads in recent months, which have also benefited from EU interest rate cuts agreed at the July 21 Euro Summit, participation by private investors in bank recapitalization, and from renewed confidence in Ireland's medium-term growth potential following strong export-led growth in the first half of 2011.

2. **Sustaining this nascent economic recovery, despite adverse external developments, is key to ensuring debt sustainability and program success.** Trade partner growth prospects have deteriorated as the euro area crisis has outpaced the adoption and implementation of measures by the European authorities. In the face of this external drag on economic recovery, the Irish authorities are adopting additional consolidation measures to meet the original fiscal targets, and they are implementing structural reforms in the labor market and sheltered sectors to enhance competitiveness. Strengthened euro area support for Ireland's growth and debt sustainability would greatly reinforce prospects for Ireland to regain market access at an early stage given these more adverse circumstances.

II. RECENT DEVELOPMENTS

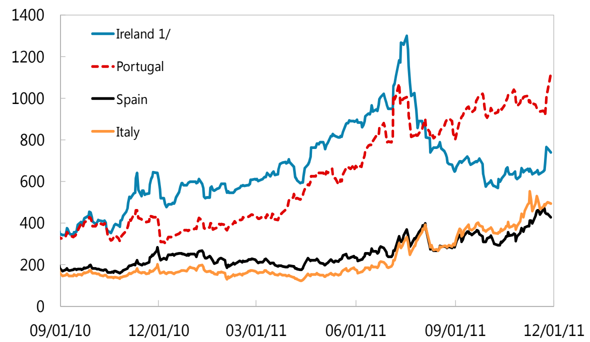
3. **Irish bond spreads have fallen markedly since the spike in mid-July, but they remain susceptible to tremors in the euro area.** Spreads on sovereign bonds declined to pre-program levels in the autumn, but have partly retraced more recently as the euro crisis has engulfed core countries. Reports suggest investors are differentiating Ireland based on its policy implementation track record and growth prospects. Vulnerabilities persist, however, as international demand for Irish bonds is sensitive to developments in the euro area.

Two-Year Sovereign Bond Spreads
(Basis points)



Sources: Bloomberg; and IMF staff calculations.

Ten-Year Sovereign Bond Spreads
(Basis points)

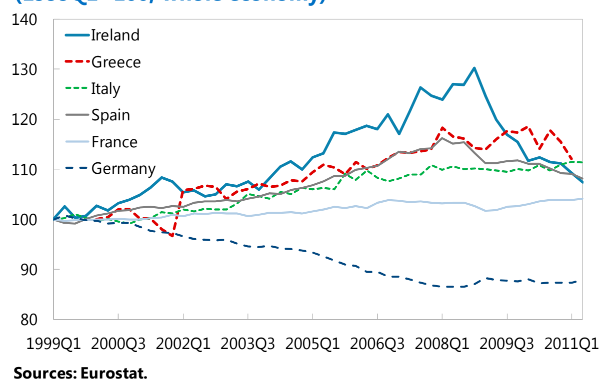


Sources: Bloomberg; and IMF staff calculations.
1/ Irish 9-year government bond yield spread over 9-year bund.

4. **Growth was stronger than anticipated in the first half of 2011, led by net exports and stock re-building** (Figure 1, Table 1). GDP rose by 1.9 percent and 1.6 percent in the first two quarters, bringing the annual growth rate to 2¼ percent. While final domestic demand continued to weigh negatively on annual growth, by some 3¾ percentage points, the rate of decline in private consumption and investment moderated. Re-building of inventories after years of de-stocking contributed almost 2 percentage points to annual growth. Net exports remained the key driver, contributing almost 4¾ percentage points. The resulting large trade surplus was offset by factor income outflows, leaving the current account in a modest deficit.

5. **Robust export growth has benefitted from continued competitiveness improvements**. Goods and services exports grew at annual rates of 4¼ and 5½ percent respectively in Q2, with the IT sector leading the expansion in services exports. Pharmaceuticals continue to account for most of the rise in goods exports, but the indigenous food and beverage sector also registered strong growth of 17 percent y/y in Q2. These developments partly reflect the almost 20 percent decline in unit labor cost for the economy since the peak in 2008, relative to the euro area average, and especially the 30 percent decline seen in the export-oriented manufacturing sector.[1] Recent data show continued growth in goods exports and industrial production, but PMIs for October suggest stagnation in new export orders in the manufacturing and services sectors going forward.

Nominal Unit Labor Cost Relative to Euro Area (1999Q1=100, whole economy)



Sources: Eurostat.

6. **Employment appears to be stabilizing after a severe fall, but unemployment remains high and emigration continues**. Employment declined by 0.2 percent annually in Q2, its lowest fall since 2008, with the decline concentrated in the public sector. The unemployment rate remained high at 14.4 percent in October. Net outward migration of 34,100 persons in the year to April 2011 was broadly unchanged from the previous year, but within this total, emigration of Irish nationals rose from 27,000 to 40,200 persons. HICP inflation was 1.5 percent y/y in October, mostly accounted for by rising energy and food prices. Eurostat estimates that the gap between Irish and euro area consumer prices has fallen from 25 to 13 percent over 2008–10.

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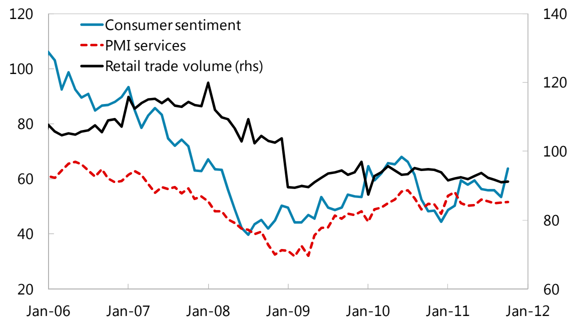
[1] These aggregate improvements should be interpreted with care, as they partly reflect a shift from low productivity sectors, such as construction, to high valued added export sectors. See Box 5 in *Ireland—First and Second Reviews of the Extended Arrangement and Request for Rephasing of the Arrangement* (IMF Country Report No. 11/109) for a discussion of the impact of compositional effects on competitiveness measures, where excluding such effects suggests room for further progress on improving competitiveness.

Figure 1. Ireland: Real Sector and Inflation Indicators

Weak confidence keeps consumer spending low.

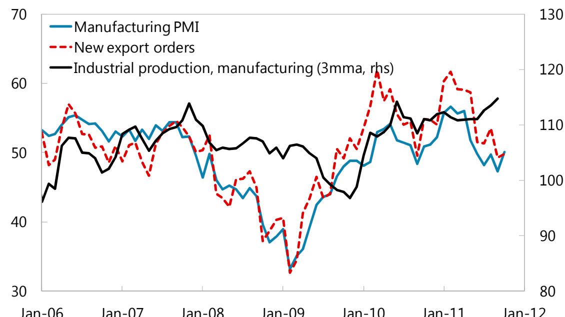
Retail trade and sentiment indicators



Sources: Haver Analytics; NCB; ESRI; and Central Statistics Office Ireland.

Industrial production has rebounded, but sentiment and export orders have softened in recent months.

Industrial production and export indicators

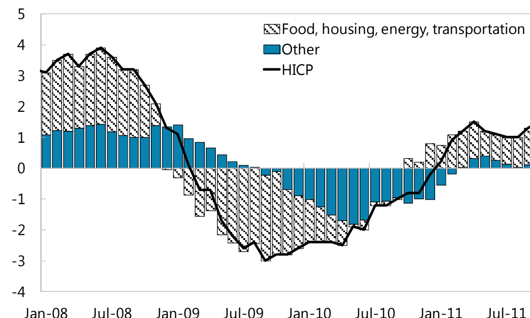


Sources: Haver Analytics; NCB; and Central Statistics Office Ireland.

Higher inflation is mainly driven by food and energy prices, with weak domestic price pressure.

Contribution to Annual HICP Inflation

(Percentage points)

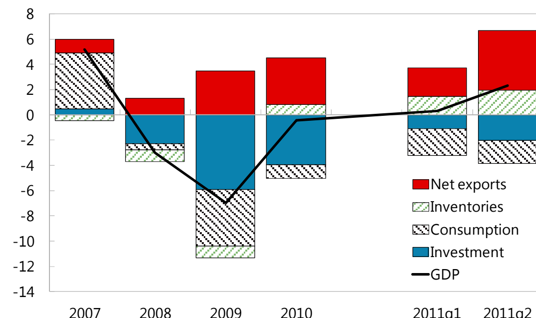


Sources: Central Statistics Office Ireland; and IMF staff calculations.

Net exports remain the key driver of growth, as domestic demand continues to contracts.

Contribution to real GDP growth

(Percent)

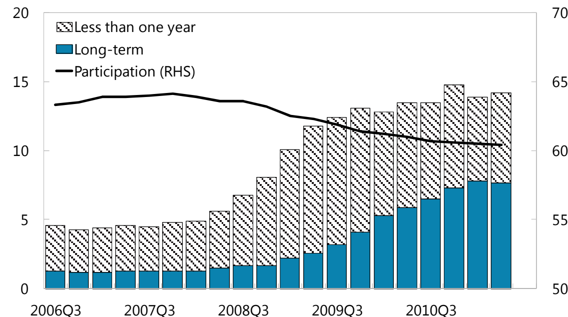


Sources: Central Statistics Office Ireland; and IMF staff calculations.

Unemployment remains high with more than half long-term.

Unemployment and Participation Rates

(Percent)

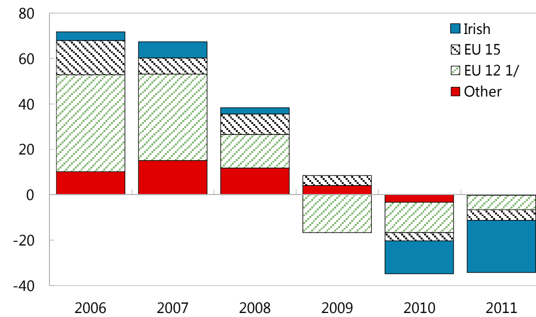


Sources: Haver Analytics; and Central Statistics Office Ireland.

Emigration has picked up following years of large inflows, and is increasingly due to Irish departures.

Net Migration

(Thousands of persons, year ending April)

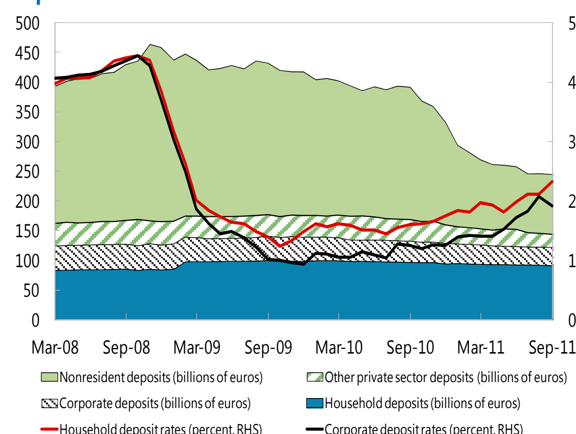


Source: Central Statistics Office Ireland.

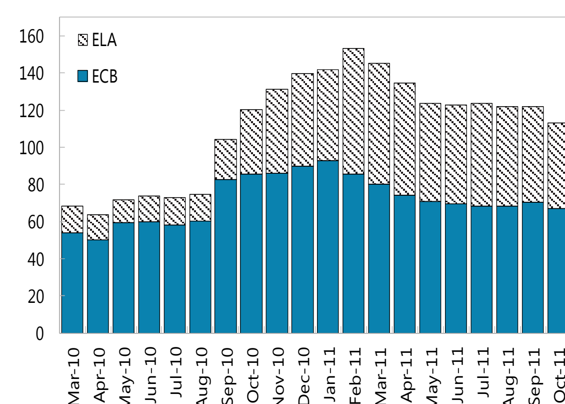
1/ EU 12 refers to EU accession countries 2004-07.

7. **However, housing market and household debt indicators continue to deteriorate** (Figure 2). With the fall in house prices accelerating in October to 15.1 percent on an annual basis, prices are down 45.4 percent from their peak in 2007. The rate of mortgage arrears by value continued to rise, reaching 10.8 percent in September 2011 (8.1 percent in terms of the number of mortgages), up from 6.6 percent in September 2010. With the share of longer-term arrears (greater than 180 days) continuing to rise, the authorities have deepened their analysis of the mortgage arrears problem (Box 1).

8. **Bank access to funding is showing signs of improvement, although the competition for deposits between banks has intensified.** In recent months two domestic banks have been able to secure market-funding primarily based on their U.K. mortgage books for about €6.7 billion in total. The outflow of nonresident deposits from domestically owned banks stopped after the banking strategy announcements at end-March, and has reversed modestly recently, while the level of household and resident corporate deposits has stabilized. However, deposit rates have increased significantly during 2011, as banks seek to protect their liquidity. Overall, domestic banks' reliance on Eurosystem liquidity support has eased modestly in recent months, partly related to a $3.5 billion sale from Anglo's U.S. $9.5 billion commercial property loan portfolio.



Source: Central Bank of Ireland.



Source: Central Bank of Ireland.

9. **Credit continues to contract, but at a more moderate pace** (Figure 3). Credit to households and nonfinancial corporations, which grew by more than 30 percent per year at the peak of the boom before turning down in 2009, is now falling at an adjusted annual rate of about 3 percent, somewhat slower than earlier in 2011. SME credit was largely stable in the first half of 2011. Lending for house purchases continues to fall at an annual pace of about 2½ percent. Credit standards and credit demand have leveled out with the exception of corporate demand which fell further through June.

Box 1. Mortgage Distress: A More Granular Analysis

Aggregate mortgage arrears continue to rise sharply and in September 2011 reached 8.1 percent by the number of loans to owner-occupiers. To better understand the nature of mortgage distress, the CBI has utilized loan-by-loan data from end-2010 that were collected as part of the review of banks' capital needs published at end-March 2011.[1] These data record the arrears position of 600,000 loans on the books of the four banks (AIB, BoI, EBS, and ILP) covered by the review, encompassing 56 percent of mortgages in arrears over 90 days. These loans include €67 billion to owner-occupiers and €20 billion in buy-to-let loans (the aggregate arrears data do not include buy-to-let loans).

Arrears characteristics. Of those households in arrears over 90 days, almost 40 percent have been in this position for a year or more. The average amount of arrears on these loans is €27,000, compared with an average outstanding balance of just over €200,000. On top of arrears of 90 days or more, there are a significant number of borrowers who have restructured loans or delinquent payments of less than 90 days, bringing the total affected to about 20 percent of borrowers at end-2010. Arrears tend to be highest in relation to buy-to-let properties and first-time buyers, as these purchasers took on large debts owing to high house prices during 2005–08.

Negative equity is extensive. It is estimated that 36 percent of owner-occupier households with mortgages in these institutions are in negative equity (at September 2011 house prices). For owner-occupier loans taken between 2005 and 2008 (half of outstanding loans), 48 percent of properties are in negative equity, while 52 percent of buy-to-let loans are in negative equity.

Negative Equity & Arrears
(percent of properties)

Primary residences

Positive equity & current 61.3	Negative equity & current 33.9
Positive equity & arrears 2.4	Negative equity and arrears 2.4

Buy-to-let properties

Positive equity & current 46.3	Negative equity & current 47.3
Positive equity & arrears 2.1	Negative equity and arrears 4.4

Negative equity does not imply arrears. Despite widespread negative equity amongst borrowers, the vast majority of negative equity borrowers, over 90 percent, were not in arrears at end-2010. At the same time, about half of owner-occupier borrowers in arrears at end-2010 had positive equity, with around 38 percent having at least 20 percent equity in their homes. The average negative equity of owner-occupiers without arrears is €68,000, modestly smaller than the average of €84,000 for owner-occupiers in arrears.

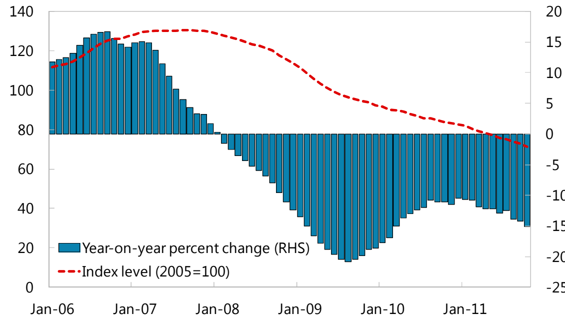
Buy-to-let properties. Of the total loan book analyzed, 22 percent (€20 billion out of €87 billion), relates to buy-to-let property debt. The average outstanding balance for the 52 percent of buy-to-let properties in negative equity is about €320,000 and the average negative equity is just over €100,000.Within the four institutions covered by the Financial Measures Program*,* 33 percent of buy-to-let borrowers also have an owner-occupier mortgage with the same lender.

What drives arrears? Studies, including from other countries, point to unemployment, debt service, and loan-to-value ratios as key determinants for arrears, although geography and loan vintage are also important, as are rental and payment rates for buy-to-let properties. Data availability can be an issue, however, especially for current income. An alternative approach developed a transition matrix for predicting mortgage arrears based on loan vintage, borrower type, interest rate type, and region.

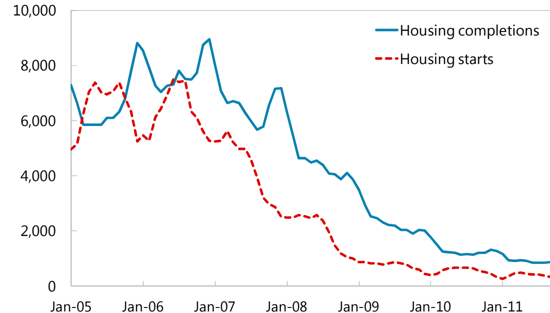
[1] The analysis is reported in conference materials and also in The Distribution of Property Level Mortgage Arrears.

Figure 2. Ireland: Housing Market and Mortgage Indicators

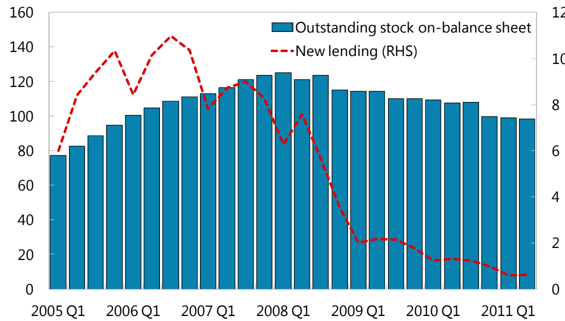
Property prices continue to decline.



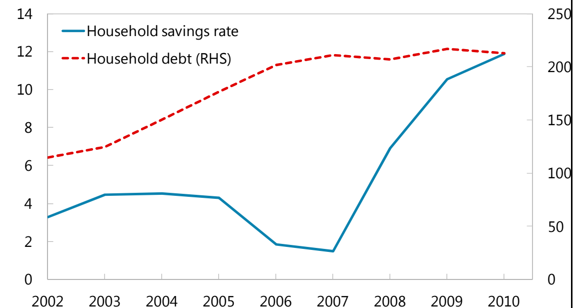
Still falling housing starts suggest that the bottom has not yet been reached.



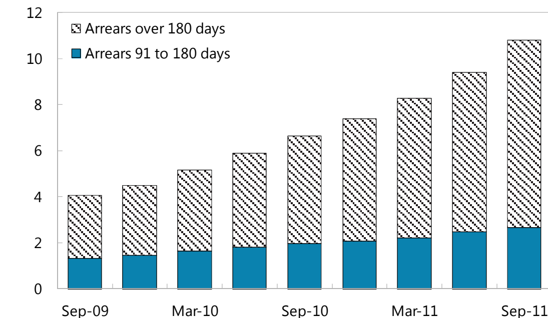
Mortgages outstanding are declining as repayments continue to exceed new lending.



Household debt burdens have stabilized at high levels.



10.8 percent of mortgages are in arrears (by mortgage value), increasingly longer-term.



Half of restructurings are interest-only or partial interest, while repossessions are rising from a low base.

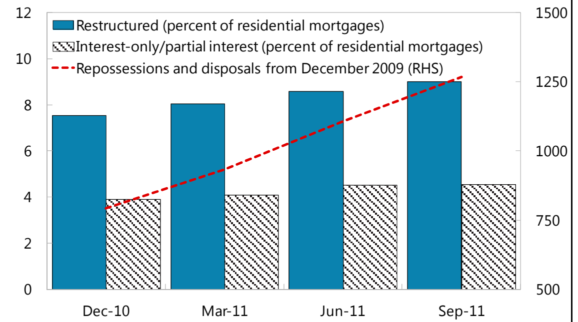
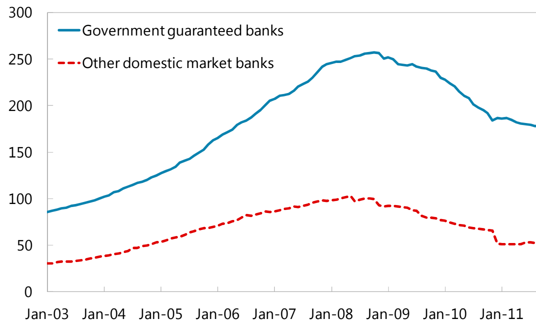


Figure 3. Ireland: Credit Developments

Credit to the private sector continues to contract, but more slowly.

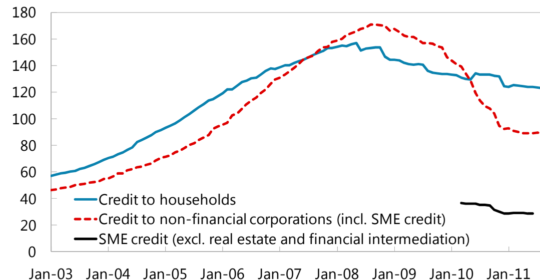
Private Sector Credit by Group of Bank
(Billions of euros)



Sources: Central Bank of Ireland.

Credit to corporates has fallen most sharply (though reflecting €70 billion in loans transferred to NAMA).

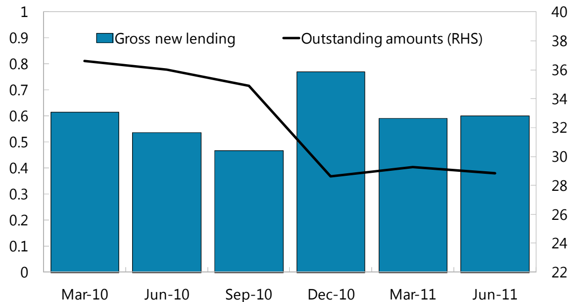
Type of Credit by Domestic Banks 1/
(Billions of euros)



Sources: Central Bank of Ireland.
1/ Domestic market credit institutions. Excludes real estate and financial intermediation.

SME credit stabilized in 2011:Q1 after contracting through 2010 (partly reflecting a foreign bank exit in 2010:Q4).

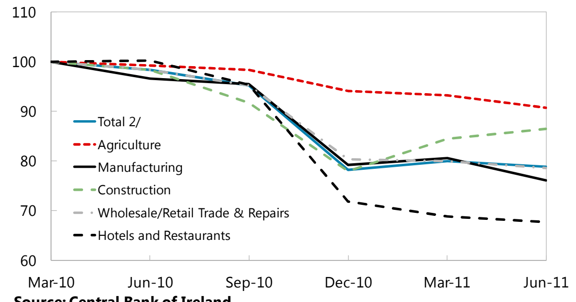
Outstanding SME Credit 1/
(Billions of euros)



Source: Central Bank of Ireland.
1/ All resident credit institutions, excluding real estate and financial intermediation.

Services have been particularly hard hit.

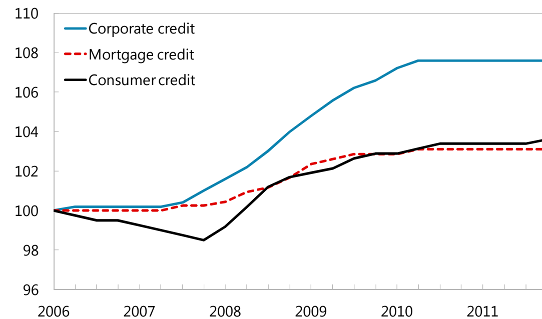
Outstanding SME Credit by Sector 1/
(2010Q1=100)



Source: Central Bank of Ireland.
1/ All resident credit institutions.
2/ Excludes real estate and financial intermediation.

Credit standards have stabilized after a prolonged period of tightening.

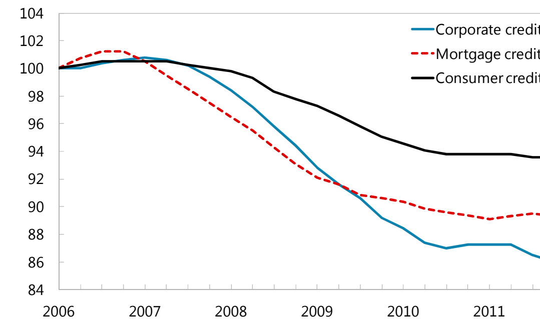
Changes in Credit Standards (+ = Tightening)



Source: Central Bank of Ireland.

Credit demand has generally stabilized at low levels although corporate demand weakened recently.

Changes in Credit Demand

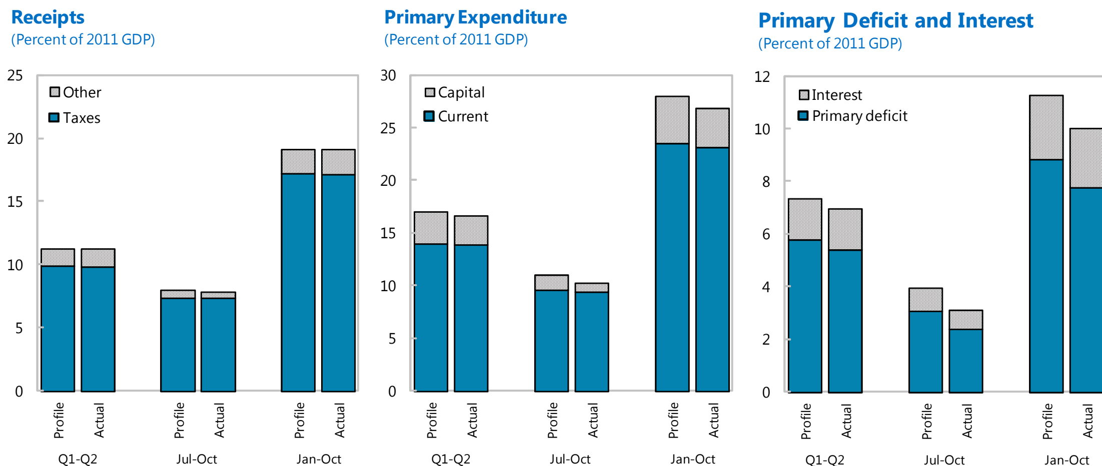


Source. Central Bank of Ireland.

10. **Budget execution remains on track despite weakness in revenues linked to domestic demand.** The performance criterion on the Exchequer primary balance and the

indicative target on central government net debt were both met with a margin at end-September 2011.[2] Excluding net banking sector support costs, the January–October Exchequer primary deficit was €12.1 billion, 0.8 percentage points of GDP narrower than the authorities' profile after allowing for the impact of the Jobs Initiative introduced in May 2011. The smaller deficit primarily reflects tight expenditure control; net current spending undershot budgetary allocation by 1.6 percent (0.4 percent of GDP), while capital spending was below profile by 17.2 percent (0.8 percent of GDP).[3] Overall revenues remained on track, with shortfalls in taxes such as VAT due to weak domestic demand offset by higher than budgeted nontax revenues, such as bank guarantee fees.

Monthly Exchequer Out-Turn Vs. Profile - January to October 2011 1/



Sources: Department of Finance; and IMF staff estimates.

1/ Excludes net bank recapitalization costs of €6.55bn incurred this year.

11. **Program ceilings for fiscal indicators at end-2011 are expected to be observed**. Although spending will pick up toward year-end, and a funding need of 0.2 percent of GDP is expected in relation to the failure of a private insurance company, the end-December performance criterion is projected to be achieved.[4] Similarly, the general government deficit is projected at 10.3 percent of GDP, within the European Council's ceiling of 10.6 percent of GDP. The 2011 consolidation package of €5.3 billion (3.4 percent of GDP) is expected to

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[2] The cumulative Exchequer primary balance through end-September 2011 was -€18.3 billion, above the adjusted target of -€20.2 billion. Central government net debt was €111.7 billion, below the adjusted indicative target of €115.9 billion.

[3] Over-runs in Jobseekers' payments due to unemployment exceeding budget projections were offset by stronger social insurance contributions and savings elsewhere in the social protection vote, while health spending pressures were contained through a range of cost-cutting measures introduced at mid-year.

[4] The funding need relates to temporary Exchequer transfers to the Insurance Compensation Fund (ICF) to cover losses incurred by Quinn Insurance Limited. The transfer in 2011:Q4 will amount to €0.3 billion, with an additional €0.4 billion expected to be transferred in 2012. The transfers are repayable loans to the ICF, which are to be covered over time by a levy on the insurance sector; hence they are being treated as financial transactions, with no impact on the general government balance.

reduce the primary deficit to 6.7 percent of GDP, representing a €3.1 billion (2 percent of GDP) year-on-year reduction. The realized increase in the primary balance will thus likely amount to only about three-fifths of the consolidation effort, which reflects the adverse impact of the contraction in domestic demand and the rise in unemployment, highlighting the challenge of implementing large fiscal consolidations when growth is weak.

III. Outlook

12. **Weaker trading partner growth is expected to dampen activity in the second half of 2011, but still leave annual growth modestly higher than earlier expected.** Slowing global activity is likely to curb export growth to about 3½ percent in the second half of the year, and final domestic demand is expected to contract by 3.7 percent this year. Nonetheless, given the strong growth in the first half, real GDP growth has been revised up to 1.1 percent in 2011 from 0.4 percent in the most recent WEO projection. However, nominal GDP would be essentially flat in 2011 given a projected 1 percent decline in the GDP deflator owing to a deterioration in the terms of trade.

13. **Further deceleration in external trade prevents any growth pick-up in the baseline in 2012** (Table 2). Growth projected for key trading partners—the euro area, the U.S. and the U.K. account for 80 percent of exports—has been revised down from 2 percent at the Third Review to 1½ percent currently (export-weighted). The noncyclicality of pharmaceutical exports and recent improvements in competitiveness help mitigate the impact of lower demand, nonetheless, projected Irish export growth in 2012 has been revised down from 5¼ percent to 3¾ percent. Domestic demand will continue to contract, leaving GDP growth at 1 percent in 2012, down from 1.9 percent at the previous review. Low growth allows only a small reduction in unemployment in 2012. Inflation would remain low at about 1 percent in 2012, as higher indirect tax rates broadly offset the impact of weaker international price pressures.

14. **Economic recovery is projected to strengthen moderately after 2012 if adverse scenarios for international economic growth are averted**. With a rise in world trade growth, exports will continue to lead the recovery, aided by ongoing competitiveness gains. The contraction in private consumption is expected to taper off as consumer sentiment gradually returns and the household savings rate eases from the current high levels (estimated at about 10 percent of disposable income, compared with 4 percent on average in the years before the crisis). Efforts to address household debt distress through enhanced engagement of banks with households, and through personal insolvency reforms, should contribute to this process (section IV.B.). A modest rebound is expected for private investment, which is at very low levels. Overall, growth is expected to average 2¾ percent over 2013–15, but the unemployment rate may remain in double-digits through 2016, risking the development of sizeable structural unemployment.

Ireland: Macroeconomic Projections, 2010–16
(percentage change, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016
Real GDP	-0.4	1.1	1.0	2.3	2.7	3.0	3.3
Real domestic demand	-4.9	-2.7	-1.3	0.6	1.2	2.4	2.7
Private consumption	-0.8	-2.4	-1.3	0.7	1.2	2.0	2.1
Public consumption	-3.8	-3.1	-2.5	-1.5	-1.5	-1.2	0.0
Fixed investment	-24.9	-10.5	0.5	3.5	5.0	9.0	8.5
Change in stocks 1/	0.8	0.9	0.0	0.0	0.0	0.0	0.0
Net exports 1/	3.7	3.3	2.0	1.8	1.8	1.2	1.3
Exports	6.3	4.5	3.8	4.5	5.0	4.9	4.9
Imports	2.7	1.4	2.3	3.6	4.3	4.9	4.9
Current account (in percent of GDP)	0.5	1.5	1.5	1.2	1.3	1.1	1.1
Consumer Prices (HICP)	-1.6	1.2	1.1	1.2	1.4	1.8	1.8
Unemployment rate (in percent)	13.6	14.3	14.2	13.5	12.6	11.4	10.5

1/ Contributions to growth

15. **The authorities' have a broadly similar economic outlook**. In their *Medium-Term Fiscal Statement* growth is projected to accelerate from 1 percent in 2011 to 1.6 percent in 2012, with a somewhat stronger net export contribution than in staff projections. Over 2013–15, average growth would match staff projections at 2¾ percent, representing a downward revision of about ¼ percentage point compared to the April 2011 *Stability Programme Update*. Staff considers that the authorities' macroeconomic assumptions provide a prudent basis for the design of the medium-term fiscal consolidation plan.

16. **However, external factors, especially potential euro area developments, pose large downside risks to this outlook.** The initial years of Ireland's recovery rely greatly on net exports, but threats to global growth have escalated, especially in relation to the unresolved crisis in the euro area. Moreover, disorderly financial or debt developments in the euro area, on top of the existing funding strains on countries and banks, could spill back into confidence in Ireland, potentially undermining hard-won gains in financial stability. The impact of such external shocks could be exacerbated by domestic factors including household deleveraging, drag from fiscal consolidation, and the potential for higher emigration.

IV. Policy Discussions

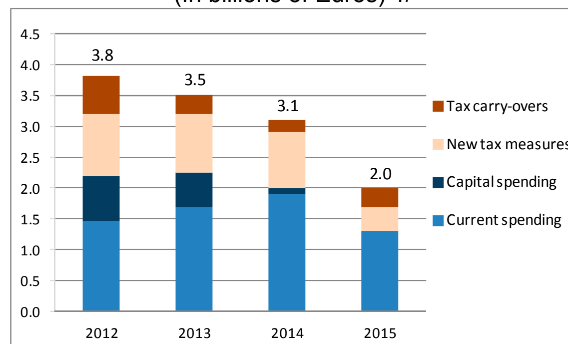
17. **Discussions focused on improving prospects for sustained recovery, which will also help insulate Ireland from increased tensions in the euro area.** The fiscal consolidation plan for 2012–15 aims to underpin confidence in debt sustainability by developing the phasing and composition of the adjustment needed during 2012–15 with due regard for growth. Building on the successful completion of the initial phase of the authorities' financial reform strategy, the priority is to deepen reforms to protect financial stability and develop a financial system that supports sustained growth. Discussions on structural reforms aimed to enhance employment and competiveness to also facilitate economic recovery.

A. Fiscal Consolidation and Institutional Framework

18. **The authorities remain committed to putting the budget on a sound footing, while sharing the burden of adjustment fairly and protecting the most vulnerable.** They continue to aim to reduce the general government deficit to below 3 percent of GDP by 2015, and thereby put government debt on a firmly downward path.[5] The recently completed *Comprehensive Review of Expenditure* provided an in-depth analysis of potential savings and ongoing fiscal institutional reforms are designed to provide a solid foundation for delivering the substantial consolidation effort required.

19. **The recently-published *Medium-Term Fiscal Statement* (MTFS) lays out a credible and balanced path toward a deficit below 3 percent of GDP by 2015** (Table 3, Figure 4).[6] The MTFS sets out a cumulative adjustment of €12.4 billion over 2012–15, some €0.6 billion (0.4 percent of GDP) higher than the amount in the original December 2010 program (MEFP ¶4).[7] Greater adjustment is needed to reach the original targets given weaker nominal growth projections and higher unemployment. The extra adjustment will be an additional drag on growth, but on the scale that is planned, prospects for recovery should not be undermined significantly. Phasing the additional adjustment over both 2012 and 2013 will help protect the high degree of social cohesion that has underpinned the consolidation effort thus far. Moreover, the balanced composition of the aggregate adjustment—current spending (about half), capital spending (a little over 10 percent), and revenues (just under 40 percent)—is conducive to ensuring the robustness and durability of consolidation.

Sources of Fiscal Consolidation in 2012–15
(In billions of Euros) 1/



1/ Tax carryovers in 2012 exclude €0.5 billion in carryovers from the Universal Social Charge and other measures not envisaged under the original program, but implemented under Budget 2011.

[5] In its first *Fiscal Assessment Report*, the Irish Fiscal Advisory Council recommended to deliver a general government deficit of 1 percent of GDP by 2015 through €15.8 billion in consolidation over 2012–15.

[6] See *Medium-Term Fiscal Statement*, November 2011.

[7] Consolidation amounts for 2012 exclude a €0.5 billion carryover effect from the Universal Social Charge and other measures not envisaged under the original program, but implemented as part of Budget 2011. Including this carryover gives a 2012 consolidation of €4.3 billion and total consolidation through 2015 of €12.9 billion.

20. **Implementation of this fiscal consolidation plan is expected to place debt on a downward path after 2013, although risks remain**. Debt-to-GDP is projected to peak at 118 percent in 2013, in line with the previous review. The debt path is lowered by a correction to the end-2010 general government debt level and the reduced interest rate on EU loans, but this is offset by lower projections for nominal GDP.[8] Potential privatization receipts could lower debt prospects, while outlays to restructure the credit union sector could raise debt prospects, but such outlays are expected to be manageable (Section IV.B.). External developments affecting growth and the prospective interest rates on market financing are the key sources of risk to debt sustainability (Annex I).

Ireland: General Government Finances, 2007–15 1/
(In percent of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue	36.3	35.0	33.7	34.3	34.8	35.3	34.8	35.2	35.0
Total expenditure	36.2	42.3	45.4	45.9	45.1	43.8	42.3	40.1	37.9
Overall balance	0.1	-7.3	-11.7	-11.6	-10.3	-8.5	-7.5	-4.9	-2.9
Primary balance	1.1	-6.0	-9.7	-8.5	-6.7	-4.0	-1.8	1.3	3.1
Structural primary balance	-9.4	-12.9	-9.1	-4.4	-2.4	-0.8	0.4	2.6	3.5
Gross general government debt	24.8	44.2	65.2	92.5	105.6	113.7	118.1	117.6	114.7
Net general government debt	11.1	24.4	42.2	76.9	96.6	103.5	107.4	107.8	105.7

1/ Bank support costs are excluded; structural primary balance is scaled to potential GDP.

21. **The 2012 budget will target a €3.8 billion consolidation.** The authorities have decided to preserve the original program ceiling of a general government deficit of 8.6 percent of GDP despite the deterioration in economic outlook, in order to signal their commitment to adhering consistently to program targets. To safely deliver this target, the 2012 includes €0.2 billion in new fiscal measures in addition to the €3.6 billion consolidation envisaged in the original program (MEFP ¶6).[9] The need for additional consolidation reflects the deficit-increasing effects of the weaker macroeconomic outlook and the impact of the Jobs Initiative in 2012, which together slightly outweigh the deficit-reducing effects of a lower interest bill, the deferral of receipts from a telecom license sale into 2012, and higher carryovers from income tax reform measures in 2011. Taking account of the high credibility Ireland has earned in fiscal policy implementation, if growth and revenues fall short of budget projections, staff favor maintaining this scale of discretionary fiscal adjustment (€3.8 billion) to avoid amplifying recessionary shocks, as is provided for by the revenue adjustor to the performance criterion on the Exchequer primary balance.

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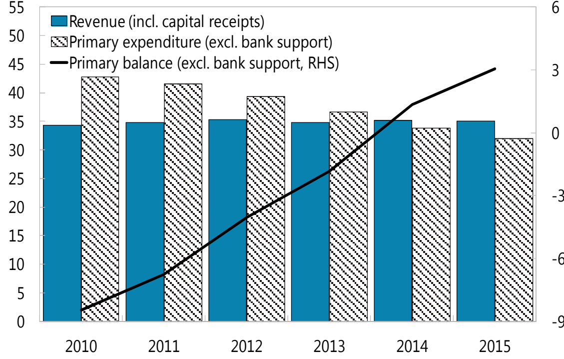
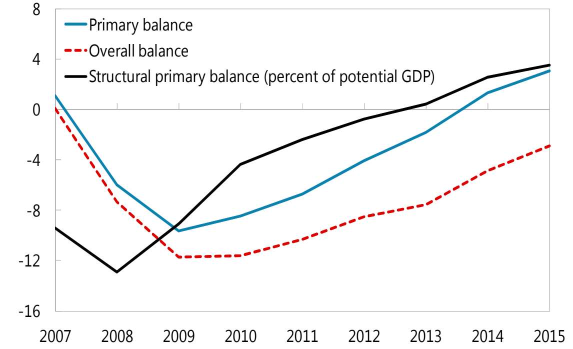
[8] General government debt at end-2010 was revised downward by €3.72 billion (2.4 percent of GDP), correcting a double-counting of the funding needs of the government's Housing Finance Agency. See Information Note on Irish General Government Debt Data. This error had no effect on the indicative target for central government net debt, and staff considers that the availability and quality of statistical data remains satisfactory for program monitoring purposes.

[9] The total additional fiscal consolidation in 2012 is €0.7 billion when carryover effects from measures not included in the original program are included (see footnote 7).

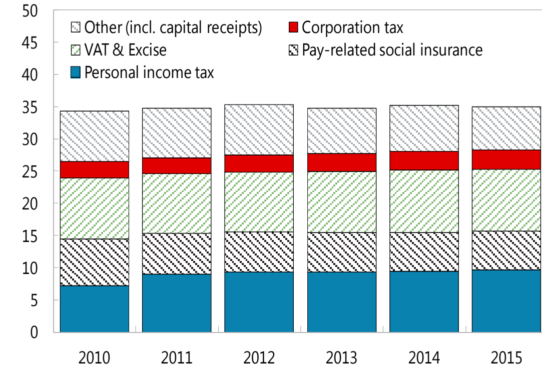
Figure 4. Ireland: Selected Trends in General Government Public Finances



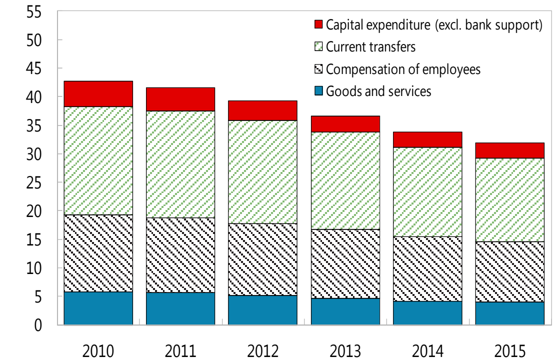
Sources: Department of Finance and IMF staff estimates.



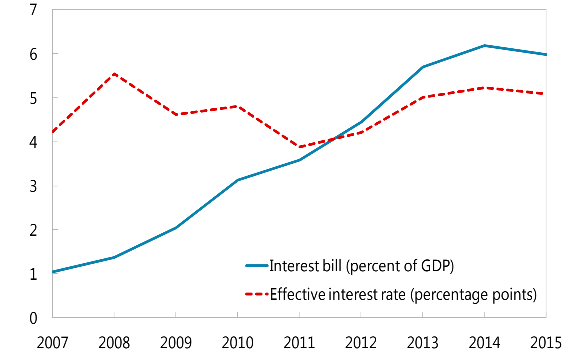
Sources: Department of Finance and IMF staff estimates.
1/ Excluding bank support.



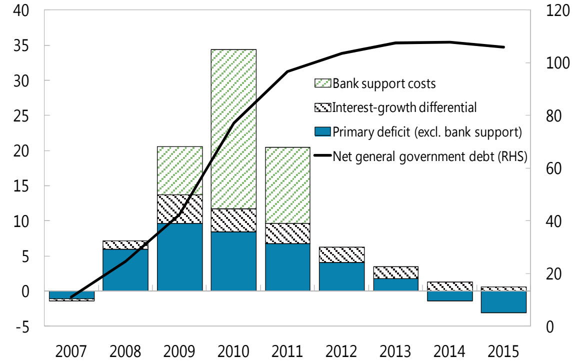
Sources: Department of Finance and IMF staff estimates.



Sources: Department of Finance and IMF staff estimates.
1/ Excluding bank support.



Sources: Department of Finance and IMF staff estimates.



Sources: Department of Finance and IMF staff estimates.

22. **The consolidation in 2012 will be underpinned by a robust package of high-quality measures with prudently assessed yields (MEFP ¶7).**

- *For revenue-raising*, in 2012 the authorities have decided to rely primarily on indirect taxes by raising the standard VAT rate from 21 percent (the EU median) to 23 percent (75th percentile); bringing forward the increase that was originally programmed for 2013–14. This will be accompanied by a further strengthening and reform of direct taxes, by introducing an interim uniform charge on principal residences (to help finance local governments), and harmonizing capital income tax rates at 30 percent. These measures will lend greater stability to Ireland's tax revenues over time.

- *On the expenditure side*, a somewhat larger reduction in capital spending is envisaged relative to the original program in 2012, which is manageable as the cuts are focused on large capital-intensive projects rather than maintenance spending. The authorities are complementing this with lasting current spending adjustments, through ambitious reductions in public service numbers, carefully targeted welfare entitlement reforms, and rationalization of low-priority programs in key departments. These reforms should contribute to more sustainable public service delivery while protecting the most vulnerable segments of society and preserving social cohesion.

23. **To bolster market confidence in the medium-term consolidation, the 2012 budget will also set out measures for 2013–15 (MEFP ¶8).** On the revenue side, the authorities are expecting about half of the adjustment effort to come from (i) further increases in indirect taxes, mainly carbon, excise and vehicle taxes; and (ii) the introduction of a full-fledged value-based property tax (to replace the interim uniform charge on principal residences).[10] The other half of the effort will be derived from a tightening of various tax expenditures including those identified in the 2009 Commission on Taxation Report. Staff welcome the authorities' focus on base-broadening, and consider that such further broadening will likely need to encompass income tax bands and credits. Spending reductions over 2013–15 will be a combination of significant carryovers from earlier structural measures, and new savings from employment reductions, welfare entitlement reforms and, to a relatively small extent, the capital budget. These savings will be anchored in binding cash expenditure ceilings over 2012–14, giving further assurance that the savings committed will be delivered, if necessary through fallback options in relation to public sector wages and primary social welfare rates.

[10] These taxes are generally less susceptible to cyclical fluctuations, and, thus, should reinforce the impact of the 2012 measures. However, there is a need to consider concerns about border trade/smuggling in relation to increases in excise rates (especially on alcohol and tobacco, which are already high in Ireland) .

24. **A Fiscal Responsibility Bill will entrench the authorities' commitment to sustainable public finances**. The Bill will give legal backing to a fiscal rules framework, the Irish Fiscal Advisory Council (IFAC), and medium-term expenditure ceilings (MEFP ¶9). The authorities plan to defer submission of the Bill to Parliament to give more time to design the fiscal rules framework and to take into account the latest developments at the EU level. In particular the October 26 Euro Summit statement required adoption of rules on balanced budgets in structural terms and reinforcement of national fiscal frameworks, including basing national budgets on independent growth forecasts. Staff supports the proposed deferral of the respective structural benchmark to end-March 2012 from end-December 2011.[11] Further discussions clarified that medium-term budget allocations for the IFAC, as initially anticipated, were not considered appropriate by the authorities under the budget system that is currently in place, as such allocations are an exception limited to the Parliament and the central bank. Nonetheless, the government has clearly expressed its commitment to ensuring adequate funding for the IFAC. The deferral of the Bill does not affect the establishment of binding multi-annual expenditure ceilings as part of the 2012 Budget.

B. Financial Sector Reforms

25. **Financial sector policy implementation has been strong throughout the first year of the program.** The strategy announced by the government and central bank at end-March to restructure the domestic banks around two pillars to meet the needs of the Irish economy, to recapitalize them on the basis of stringent stress tests and independent loan loss forecasts, and to progressively deleverage the banks to enhance their liquidity, is progressing well:

- **Restructuring.** Early progress was made with the mergers of AIB with EBS and Anglo Irish with INBS. The Department of Finance has established a banking division to oversee largely state owned banks in the interim before a return to private ownership, and staff encourages regular reporting on the activities of the division going forward.[12] The division's responsibilities for banking oversight in relation to the CBI have been clarified in a Memorandum of Understanding (structural benchmark for end-October).[13] The division is currently developing relationship frameworks with the banks, to ensure that their core businesses will be run on a commercial basis. Moreover, the Central Bank and Credit Institutions (Resolution) Act 2011 was signed into law on October 20, 2011 (Box 2).

[11] The structural benchmark relates to the inclusion of a legal framework for the Irish Fiscal Advisory Council, ensuring its independence in the Fiscal Responsibility Bill (MEFP Table 3).

[12] The mission statement and structure of the Banking Division are set out on the Department of Finance's homepage and the Irish Banking Landscape—Moving Forward.

[13] See *Memorandum of Understanding on Roles and Responsibilities in Relation to Banking Oversight Between the Department of Finance and the Central Bank*.

Box 2. New Legal Framework for Bank Resolution

Financial crisis management arrangements have recently been strengthened by drawing on evolving international best practice. The Central Bank and Credit Institutions (Resolution) Act 2011 was passed into law in October. This permanent legislation will initially exist in parallel with an emergency regime adopted during the crisis, as the special powers under the Credit Institutions (Stabilisation) Act 2010 ("CISA") are expected to continue to apply to the banks that received public financial support during the crisis until end-2012. The new permanent resolution regime is applicable to all credit institutions (e.g., banks, credit unions, and building societies) which are not covered by CISA and enables the CBI to seek a court order for a range of measures to facilitate effective and efficient resolution, with the following key features:

Intervention conditions. The CBI may at its discretion (having consulted the minister) apply various measures in cases where an institution does not meet its license or regulatory requirements, and the CBI: (i) has serious concerns relating to the financial stability of the institution that could not be resolved using the direction of powers of the CBI, or (ii) it encounters a serious threat to the institution's financial stability or the financial system in the State, and where the CBI determines that an immediate winding-up of the institution is not in the public interest.

Special management order. Once the intervention conditions are fulfilled and the CBI decides that a special management order is necessary in all the circumstances, the CBI may request that a special manager be appointed by the court to manage the institution—for an initial term of up to six months—with a view to either restoring or winding down its operations. The powers of a special manager are quite broad and may extend to powers normally reserved for shareholders.

Transfer order. The CBI may seek a court order for the transfer of assets and liabilities (or parts thereof) to another institution when it decides that the intervention conditions are fulfilled and, having regard to any adverse consequences (e.g., creditor interests), a transfer order is necessary in all the circumstances to address one or more of the reasons for those intervention conditions being fulfilled. The law contains further guidance in relation to the implementation of transfers, for example on the pricing mechanism. This resolution power allows the authorities to take prompt action in transferring certain parts of a failing institution (e.g., deposits) to another institution while maintaining access to deposits. The residual entity would typically be liquidated thereafter.

Bridge bank. The CBI has the power, if it is in the public interest, to establish a bridge bank to accommodate the transfer of assets and liabilities from an institution. This could be a useful tool to facilitate the resolution of a systemically-important institution where no suitable counterpart for the transfer of assets and liabilities is available. While the capital necessary for the bridge bank is provided by the resolution fund, the bridge bank's operation would be overseen by the CBI.

Creditor rights. The law includes a mechanism for addressing creditor rights (e.g., review by a special assessor to determine relevant compensation, if any) subject to limitations in situations involving public financial support. This is necessary to provide for an appropriate balance between public interest considerations and the possible negative impact of resolution measures on creditors' property rights which are protected under the Irish Constitution.

Resolution fund. Resolution measures may be supported with resources from a dedicated fund administered by the CBI (e.g., in the form of financial incentives for the transfer of assets and liabilities or to establish and operate bridge banks). The resolution fund will be financed by a levy on credit institutions. Moreover, the law provides for the preparation of recovery and resolution plans and contains specific provisions on orderly liquidation.

European developments. The new Irish regime provides for resolution techniques similar to those adopted by the U.K. and Germany in recent legislative reforms (e.g., specific power for transfer of assets and liabilities, ability to establish bridge banks). Distinctly, the Irish regime is more court-based (rather than an administrative procedure) but recent experience in connection with the liability management exercises points to the suitability of this approach for Ireland.

- **Recapitalization.** As reported at the Third Review, the €24 billion recapitalization of the domestic banks was completed at the end of July, with the exception of operations for €0.5 billion which are expected to be completed by end-2011. The total budgetary cost was limited to €16.5 billion through participation by private investors and liability management exercises on subordinated debt.

- **Deleveraging**. Despite the increasingly difficult market conditions, both pillar banks are expected to meet their deleveraging targets for the end of 2011.[14] Indeed, BoI has completed half of the total noncore asset disposals targeted by end-2013 within base case discounts used in the recapitalization exercise, and AIB expects to at least meet the planned disposals for 2011.[15] Going forward, however, deleveraging targets will become more challenging as market conditions for bank assets have deteriorated, yet the volume of deleveraging remaining is substantial, and disposal plans are increasingly focused on Irish rather than foreign assets.

26. **Nonetheless, continued intensive efforts are needed to build the capacity of the financial system to support economic recovery and return the banks to majority private ownership.** Hence, the focus of reform efforts is on strengthening bank balance sheets, revising business models to ensure medium-term viability and profitability, and improving internal governance and risk management systems. Over time these efforts will allow banks to resume access to market funding at reasonable cost with a broader range of collateral, and develop their capacity to lend soundly in order to support the recovery.

27. **An immediate priority is to enhance the quality and transparency of banks balance sheets** (MEFP ¶12, ¶13). The CBI is therefore providing guidance to banks on more conservative and realistic provisioning and enhanced disclosure requirements on asset quality (Box 3). In this respect, staff has stressed the need to closely monitor income recognition policy for troubled borrowers. To encourage restructuring of troubled debts where appropriate, banks have been asked to submit to the CBI their plans to address loans to households and SMEs in, or facing, financial difficulties (MEFP ¶14, ¶15). Relatedly, the codes of conduct for lending to SMEs, and for consumer protection, have been revised.

[14] For background on deleveraging volumes and framework, see Box 2 in Ireland—Third Review Under the Extended Arrangement, IMF Country Report No. 11/276.

[15] For the Bank of Ireland, see Deleveraging Plan Update.

Box 3. Recapitalization, Capital Adequacy, Provisioning and Disclosure

Following the recent capital injections, the reported capital ratios of Irish domestically-owned banks have risen substantially. As of end-September 2011, average reported bank capital ratios (core tier 1 capital to risk weighted assets) have increased to about 18 percent, up from 6 percent at end 2010. This increase reflects a combination of public and private cash capital injections together with liability management exercises on subordinated debt (see text table). The quality of bank capitalization is reinforced by increases in the equity to total assets ratio (*leverage ratio*) to 10 percent from 4 percent as of December 2010. Furthermore, capital indicators are supported by robust RWA requirements as they account for almost 53 percent of the nominal value of total assets (the average of a sample of core regional banks is about 40 percent).

Importantly, the CBI, in coordination with banks, is taking steps to enhance data quality and disclosure. The current bank solvency indicators are yet to fully reflect the expected loan losses forecast in the end-March 2011 Prudential Capital Assessment Review (PCAR). There is also need to improve disclosure to markets of bank asset quality to help regain access to market financing. Accordingly, the CBI is working on three fronts:

- ***Loan provisioning.*** Discussions with banks focus on frontloading provisions on expected losses on core and non-core assets while keeping banks' accounting policies within IFRS. It is expected that banks will have by end-December 2011 booked more than half of losses forecast in PCAR 2011, with further progress completed by end-2012.

- ***Enhanced disclosure on loan quality.*** On the basis of experience from other countries (including the U.K., Australia and New Zealand) the CBI has identified about a dozen new disclosure requirements (qualitative and numerical) and a few revisions to existing disclosure notes. Further improvements are expected include information on forbearance and debt for equity swaps, significant qualitative disclosure of noncore assets, and enhanced disclosure of provisioning on impaired loans and the related suspended interest income.

- ***Standardization of troubled loan definitions.*** Standardization of such definitions, including impaired, defaulted and restructured loans, will enhance the comparability and facilitate monitoring of performance of banks' loan portfolios.

Better quality banking data will ensure proper balance between capital and loan loss provisions. Over the coming months the level of bank capitalization is expected to decline (but to remain at a high level) as a result of the ongoing work to ensure conservative and realistic provisioning by banks.

28. **The authorities will continue to ensure the resilience of the banking system**. An ongoing program target is to maintain Core Tier 1 capital ratios of Irish banks of no less than 10½ percent, in addition to having adequate capital under the stress scenario of the authorities' own Prudential Capital Review (PCAR). The robust and conservative nature of PCAR 2011 completed in March was confirmed by the recent European Banking Authority (EBA) capital exercise, which did not identify additional capital needs for Irish banks.[16] The authorities and staff agreed that the upcoming PCAR in 2012 should preserve the key features that made PCAR 2011 widely credible, including the independent asset quality review (MEFP ¶17).

29. **Upgrading the banks' business models and internal risk management infrastructure is a fundamental requirement for a healthy banking system** (MEFP ¶21). Accordingly, the CBI has initiated detailed reviews of the banks' business models and will challenge them to promote the restructuring necessary to ensure their long term viability. Additionally, work is underway to assess the role of the banks' Board Risk Committees and to ensure effectiveness of internal audit functions, and also concerning the banks' compliance in respect of the EBA's guidelines on remuneration for senior management.

30. **Further strengthening banking supervision and developing a new credit register are key to ensuring sound banking going forward** (MEFP ¶22). Progress in recruitment, training and development, and information management and technology, together with the adoption of a new operational structure and risk assessment framework, are setting the foundation for effective supervision. These efforts will be reinforced by the enhanced legal powers in the Supervision and Enforcement Bill, which is expected to be enacted in early 2012. In addition, a strategy for establishing a new privately-run credit register to enhance credit information in Ireland was completed in September 2011. The credit register is set to have comprehensive coverage and be regulated by the CBI (legislation is to be submitted by end-September 2012 pending clarification of data protection issues). Staff stressed the need for unique personal identifiers to ensure the accuracy and usefulness of the credit register.

31. **Remaining weaknesses in the financial system are being addressed.** An interim report by the Commission on Credit Unions has been completed, and a strategy to strengthen the sector, including its governance and regulation, has been developed (Box 4). Based on estimates that the restructuring costs are manageable, and the plan to levy credit institutions to recover credit union resolution costs over time, staff supports the authorities' request to broaden the program's adjustor for bank restructuring costs to cover resolution costs for credit unions (MEFP ¶19). On ILP, it was agreed that further analysis of options to strengthen the draft restructuring plan was needed by end-2011.

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[16] See Statement – EBA Capital Exercise, 26 October 2011.

Box 4. Strengthening the Irish Credit Union Sector

The credit union sector in Ireland is small, but has substantial market penetration. Following the establishment of the first credit unions in the late 1950s, their numbers grew strongly, particularly in the 1960s, and there are now 407 registered credit unions with 2.9 million members out of a population of 4½ million. Deposits at credit unions stood at €12.2 billion at the end of 2010, just under 8 percent of private sector deposits. Following the start of the crisis in late 2008, the Deposit Guarantee Scheme for credit institutions was extended to credit unions and covers all deposits up to €100,000.[1]

However, the health of the sector has deteriorated in recent years. The interim report of the Commission on Credit Unions found that recent adverse financial and economic conditions in Ireland, allied with internal governance weaknesses in some credit unions, and the absence of an appropriate statutory regulatory framework, have contributed to difficulties in the sector.[2] To help assess the nature and scale of the problem, all credit unions were subject to a special loan portfolio review by March 2011, a Strategic Review was conducted by Grant Thornton,[3] and the CBI conducted its own stress tests. These analyses all point to a need for significant but manageable restructuring of the sector, with the Minister for Finance indicating resource needs of €0.5 to €1 billion (less than 1 percent of GDP).

The authorities have developed a sequenced reform process to underpin the solvency and viability of the sector, to be guided by the final report of the Credit Union Commission:

1. **Address weak and nonviable credit unions.** This will be done in a manner that helps to protect members' savings, prevent contagion, safeguard financial stability, and protect the sector more generally.
2. **Develop and implement an appropriate regulatory framework.** This will give the regulator the tools to supervise the sector adequately, taking account of the risk profile of the sector, ensure effective governance standards, and strengthen credit unions' risk management and compliance functions.
3. **Put in place a process of long-term restructuring of the sector.** The objective is to ensure long-term sustainability of the credit union sector. This part of the reform strategy process will focus on strengthening "viable" credit unions that are experiencing difficulties.

Implementation of reforms has begun given the need to address the weaknesses in a timely manner. So far, implementation has focused on the design and establishment of the mechanism to resolve non-viable entities, ensuring adequate supervisory powers to intervene in the sector, establishing a resolution fund and securing initial funding. The broader reform process is expected to take more time, and will be the focus of the final report of the Commission on Credit Unions expected by end-March 2012. A key part of the legislative, regulatory, and governance framework under development is expected to be presented to the Oireachtas by mid-2012, following the necessary regulatory impact analysis.

[1] See http://www.finance.gov.ie/viewdoc.asp?DocID=5466
[2] See http://www.finance.gov.ie/documents/publications/reports/2011/credit.pdf
[3] See http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankandFinancialRegulatorBeginsStrategicReviewofCreditUnionSector.aspx

32. **Consideration continues on how to address household debt distress** (MEFP ¶15)**.** The extent of mortgage arrears among households, and the implied risk of distressed house sales, hinders a stabilization of the housing market and the potential for a recovery in consumption. An Inter-departmental Mortgage Arrears Working Group recommended a number of approaches to be considered on a case-by-case basis for borrowers in difficulties, such as mortgage-to-rent schemes.[17] The group underscored the importance of reforming the personal insolvency framework to encourage talks between lenders and borrowers. As noted, the CBI has built up its activity in this area, including by using its supervisory power to require banks to submit strategies for engaging with borrowers by end-November 2011.[18]

33. **Development of the government's strategy for personal insolvency reform is advancing** (MEFP ¶16)**.** Ireland's outdated personal insolvency framework is rarely used, with only 29 personal bankruptcies in 2010 compared with more than 1,400 in Northern Ireland. Initial amendments to the Bankruptcy Act, which took effect in October, shortened the period after which debts are discharged to five years with court approval, and introduced an automatic discharge after 12 years. The authorities are well-advanced in developing a strategy for more comprehensive personal insolvency reforms (end-December 2011 structural benchmark). Issues under discussion include the length of the discharge period, and the possibility to allow secured creditors, e.g., mortgage lenders, to participate in the envisaged voluntary nonjudicial procedures. Allowing such participation could provide a useful option given the importance of unsustainable mortgages in household debt burdens, yet staff shared the authorities' view that care is needed to avoid adverse incentives for borrowers and to husband bank capital.

C. Reinforcing Growth and Job Creation Prospects

34. **Steps are being taken to boost hiring and also to enhance competition in sheltered sectors.** In a number of sectors hard-hit by the crisis (e.g., construction) minimum wages and conditions are established by Employment Regulation Orders (EROs) or Registered Employment Agreements (REA). In the wake of a High Court ruling that parts of the legislation underpinning EROs were unconstitutional, the authorities are preparing new legislation that provides greater guidance on wage setting to addresses this issue.[19] The legislation would also streamline the coverage of EROs, and increase the likelihood that REAs will be reviewed over time (MEFP ¶24). Legislation has recently been submitted to enhance the regulation and transparency of legal services, increase competition in medical services, and strengthen the effectiveness of competition enforcement (MEFP ¶26).

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[17] See *Report of the Inter-Departmental Working Group on Mortgage Arrears*, 12 October 2011.

[18] See Address by Matthew Elderfield, Deputy Governor of the Central Bank of Ireland, *Mortgage Arrears - CBI Supervisory Strategy*, 14 October 2011.

[19] Guidance would be in the form of new criteria to be observed in making EROs, and could include regard for competitiveness factors, average hourly rates in comparable sectors in Ireland's main trading partners, and employment and unemployment rates. See Bruton announces reforms to JLC/REA systems.

35. **Further work is needed to raise the effectiveness of active labor market programs to contain a potential rise in structural unemployment.** Shortcomings have been identified in employment activation and training efforts as well as support schemes.[20] The national employment action plan has been revised, and the authorities will commission and publish an external evaluation of the revised plan, and will prepare an implementation plan based on its recommendations to ensure the unemployed have adequate incentives and skills to return to work (MEFP ¶25).

36. **The authorities are preparing a program of public asset disposals and associated regulatory reforms** (MEFP ¶27). The scale of disposals is under consideration, but in view of significant past privatizations, could only be on the order of a few percent of GDP. In order to maximize the benefit for debt sustainability, it is important to allow an orderly process that avoids fire sales and provides time for regulatory reform to ensure such disposals enhance economic efficiency. The extent to which part of the proceeds is used to undertake growth-enhancing investments is an issue under continuing discussion.

V. Program Modalities and Risks

37. **Program monitoring until end-March 2012 has been updated (MEFP Tables 1–3):**

- **Quantitative performance criteria are proposed for end-March 2012 (MEFP Table 2).** The performance criterion for the Exchequer primary balance is unchanged for end-December 2011, and a performance criterion end-March 2012 is proposed. The end-December 2011 indicative target for net debt has been lowered to reflect out-performance to date. Indicative targets for the primary Exchequer balance and for net debt have been set through September 2012. As discussed in ¶31, it is proposed to introduce an adjustor for outlays for credit union resolution costs (MEFP ¶18–19).

- **One new structural benchmark is proposed in support of program objectives (MEFP Table 3).** This refers to the publication of legislation to strengthen the regulatory framework and put in place effective governance standards for credit unions (MEFP ¶19). In addition, the submission to parliament of a 2012 Budget in line with the agreed program is set as a prior action for completion of the review. The date for submitting to parliament the Fiscal Responsibility Bill, including a legal framework for the Irish Fiscal Advisory Council that ensures its independence, is proposed to be modified from end-December 2011 to end-March 2012 (MEFP ¶9).

[20] See Activation in Ireland: An Evaluation of the National Employment Action Plan and OECD Economic Survey of Ireland 2011.

38. **The program remains well financed.** The Fund and European partners have disbursed some €29.7 billion since the approval of the arrangement.[21] The November disbursement by the EFSF was deferred by a few days owing to exceptional market volatility, and the pricing was less favorable, at 177 basis points over German bunds, compared with 51 basis points on the issuance in June, undermining the benefit of the substantially reduced margins on EU lending. The first disbursement under the U.K. bilateral loan in an amount equivalent to €0.5 billion was made in early October following completion of the Third Review. Bilateral discussions with Sweden and Denmark are ongoing, with completion of the loan documentation expected in a timely manner following the recent agreement on revised EFSF terms. Financing needs for 2012 and 2013 remain broadly in line with expectations at the time of the Third Review, and market financing is assumed to increase modestly in 2012 and to expand further in 2013 (Table 7).

Ireland: Financing Need and Sources, 2011–13
(In billions of euro)

	2011	2012	2013
Financing need	50.1	23.4	22.3
Exchequer cash deficit 1/	21.0	17.7	13.8
Amortization	12.7	5.7	8.5
Bank recapitalization	16.5	0.0	0.0
Financing sources	50.1	23.4	22.3
EU	21.5	16.9	6.6
IMF	12.5	6.3	3.7
Market financing, incl. retail	1.1	3.7	13.3
Cash drawdowns 2/	15.1	-3.5	-1.4

1/ Includes allowance for amortisation of promissory notes and contingency for collateral on hedging transactions.

2/ Use of Exchequer cash balances and NPRF.

39. **The quarterly schedule of IMF and EU disbursements was reviewed in light of recent financial market turbulence and the authorities' intention to return to market financing.** Given the increased volatility in European bond markets, the authorities are requesting a rephasing of purchases within 2012, so as to reassure markets regarding the strong liquidity position of the Irish sovereign in the context of the authorities' intention to return to market financing during 2012. Specifically, the authorities seek to bring forward resources from the third and fourth quarters of 2012 into the first quarter while leaving total financing in 2012 unchanged. The purchase available at the time of the fifth review would be in an amount equivalent to SDR 2.79 billion, with the additional amount taken equally from the purchases currently scheduled for the seventh and eighth reviews.

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

40. **Deepening strains in the euro area have, however, increased risks to Ireland's debt sustainability, so prospects for program success remain fragile despite strong policy implementation by the Irish authorities.** Key risks to debt sustainability include:

- **Growth.** Projected growth of 1 percent in 2012 has been halved compared with the previous quarterly review, reflecting the high openness of the Irish economy to trade and foreign direct investment, and hence its sensitivity to external developments. But the crisis in Europe poses further downside risks to growth; if growth fell to 1 percent on average over 2012–16 (i.e., a cumulative shortfall relative to the baseline of 7 percentage points), debt would reach 127 percent of GDP by 2016.

- **Cost of regaining market access.** Continued financial stress in the euro area would hold up Irish spreads, either preventing an early resumption of market financing, or significantly increasing the cost. The EU commitment to provide financing until market access is regained is a valuable cushion, yet the continued rise in the share of debt perceived as senior can itself increase the cost of regaining market access.

- **Deleveraging.** An intensification of deleveraging by banks in other countries, coupled with persistent weakness of funding markets, would increase the difficulty and cost of deleveraging by Irish banks, undermining bank capital and the potential for renewed lending to begin to support the recovery. These risks are compounded by uncertainty about the scale and duration of deleveraging by households given their high debt burden and rising arrears.

41. **The political determination required to implement the medium-term fiscal consolidation plan could be tested**. Ireland's net public debt was low before the crisis, at 11 percent of GDP in 2007, but only four years later is projected to reach 97 percent of GDP. Supporting the privately-owned banks accounts for 40 percentage points of this increase. Much of this support was necessary to preserve a functioning banking system, and the fiscal cost was mitigated by burden sharing with subordinated debt holders. However, even for banks with losses greatly exceeding their capital and subordinated debt, senior debt is being repaid in full. In particular, debt securities on issue by banks now in wind-down (Anglo and INBS) stood at some €21.1 billion in late 2008 (13½ percent of GDP in 2011), excluding covered bonds and subordinated liabilities. Domestically, the lack of burden sharing with unguaranteed senior debt holders is perceived as being required to protect the European banking system, and is recognized as contributing to Ireland's debt sustainability challenge and fiscal adjustment needs.[22]

42. **In that context, stronger European support for Ireland's recovery would help sustain fiscal consolidation efforts and reinforce prospects for program success, with positive spillovers for European stability.** A range of actions to support Ireland's growth, debt sustainability, and prospects to regain market access at manageable cost can be

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[22] See Government beginning to deliver results for State, Taoiseach Enda Kenny, 2 November 2011.

considered, and preliminary technical discussions in some areas are underway. For example, enhanced support for appropriate public investment, or for SME lending, could underpin growth and job creation. Banks' ability to regain market access and return to private ownership would be aided by guarantees for term funding, conversion of short-term Eurosystem liquidity support into medium-term funding, capital support for vehicles designed to reduce deleveraging costs and spillovers, and temporary equity participation in banks by European partners. The latter would also enhance debt sustainability, which could potentially be reinforced by refinancing prior recapitalization of banks, or by use of enhanced EFSF flexibility to facilitate Ireland regaining market access at reasonable cost. By enhancing the robustness of Ireland's program, these and other potential steps would also provide a firewall protecting the euro area against potential shocks.

VI. Staff Appraisal

43. **The Irish authorities have maintained strong policy implementation in the face of continuing external volatility.** The crucial first phase of the financial sector reform strategy has been completed while keeping the budget on track for the major fiscal consolidation targeted in 2011. These efforts have contributed to a notable decline in Ireland's bond spreads in recent months, together with renewed confidence in Ireland's medium-term growth potential following strong export-led growth in the first half of 2011.

44. **Sustaining this nascent economic recovery is critical to program success.** Economic recovery is needed both to facilitate fiscal consolidation and to erode the burden of accumulated debt. However, the substantial deterioration in the regional economic outlook represents a major external drag on Ireland's recovery, and also poses large downside risks. Careful design and continued sound and timely implementation of fiscal consolidation, financial sector reforms, and structural reforms is therefore necessary to achieve program objectives and contain the impact of potential adverse external developments.

45. **The authorities have renewed their commitment to putting the budget on a sound footing to ensure debt is on a firmly downward path.** Their Medium-Term Fiscal Statement lays out a credible strategy to reduce the deficit to 3 percent of GDP by 2015. The additional consolidation efforts planned in 2012 and 2013 to reach this goal confirm the authorities' commitment to meet the original deficit target under the program despite a worse than expected external environment. The careful phasing and balanced composition of the adjustment give confidence in its durability. The recent establishment of the Fiscal Advisory Council and plans for a fiscal responsibility law will give strong institutional support for medium-term consolidation and the prudence of fiscal policies over the longer term.

46. **The fiscal measures are carefully designed to bolster the credibility of the medium-term consolidation goals, and bring greater certainty to households and companies, while protecting the vulnerable.** The consolidation in 2012 relies primarily on structural reforms of current spending, together with cuts in large capital-intensive projects, and concrete measures to raise revenues, principally a rise in the standard VAT rate. This high-quality package will contribute to more sustainable public service delivery while

protecting the most vulnerable segments of society. Further reforms of current spending are the key driver of fiscal consolidation in 2013–15, which will be supported by modest additional reductions in capital expenditure. On the revenue side, staff welcomes plans to broaden the tax base in a manner that will lend greater stability to Ireland's tax revenues, and considers that such broadening will likely need to encompass income tax bands and credits in later years.

47. **Continued intensive efforts are needed to protect financial stability and ensure the financial system supports sustained economic recovery.** The first phase of the strategy announced by the government and central bank at end-March to restructure, recapitalize, and launch the deleveraging process of the domestic banking system has been successful. Yet, the significant challenges remaining call for a deepening of reforms. Central bank guidance on provisioning and disclosure will help promote strengthening of bank balance sheets. Challenging bank's business models and internal governance and risk management systems are important to ensure medium-term viability and profitability, and it will be critical that the relationship frameworks being established give confidence that the banks' core business are managed on a commercial basis. Continued enhancement of financial sector supervision, together with carefully implemented restructuring of the credit union sector, will support broader financial stability. Modernizing the personal insolvency regime and developing an effective credit register will contribute to the workout of problem loans and better future lending. Over time, these efforts will allow banks to resume access to market funding at reasonable cost, and undertake sound lending to contribute to Ireland's recovery.

48. **Structural reforms under development will help support competitiveness, growth, and hiring.** Reforms to sector wage agreements will enhance potential for hiring in sectors that have been hard-hit by the crisis, while continuing to provide protections to workers. In view of the sharp rise in unemployment, and its high incidence in certain sectors, efforts to strengthen active labor market policies are needed to contain structural unemployment. Enhancing competition in sheltered sectors will boost economic efficiency, as could a carefully designed program of public asset disposals if underpinned by an appropriate regulatory framework.

49. **In these now more adverse circumstances, stronger European support for Ireland's recovery is warranted to reinforce the prospects for program success and thereby promote the public good of European stability.** The Irish authorities have built an exceptional track record of policy implementation in the first year of their program. In the face of a sharp deterioration in growth prospects owing to external shocks, the authorities have strengthened fiscal efforts and are advancing financial and structural reforms**.** These efforts should be matched by exploring the full range of options to further strengthen European support for Ireland's recovery and debt sustainability, as the success of Ireland's program contributes to stability in Europe more broadly.

50. **Staff supports the authorities' request for completion of the fourth review and the rephasing of purchases within 2012.**

Table 1. Ireland: Selected Economic Indicators, 2007–12
(Annual change unless otherwise stated)

	2007	2008	2009	Prel. 2010	Proj. 2011	2012
National accounts (constant prices)						
GDP	5.2	-3.0	-7.0	-0.4	1.1	1.0
Domestic demand	4.9	-4.0	-12.5	-4.9	-2.7	-1.3
Private consumption	6.5	-1.1	-6.9	-0.8	-2.4	-1.3
Public consumption	6.6	0.5	-4.5	-3.8	-3.1	-2.5
Gross fixed investment	2.3	-10.2	-28.7	-24.9	-10.5	0.5
Net exports 1/	1.1	1.3	3.5	3.7	3.3	2.0
Exports of goods and services	8.4	-1.1	-4.2	6.3	4.5	3.8
Imports of goods and services	7.9	-3.0	-9.3	2.7	1.4	2.3
Gross national saving (in percent of GDP)	21.1	15.5	10.8	11.6	12.5	11.8
Private	19.4	18.3	19.0	20.2	20.5	18.4
Public	1.7	-2.8	-8.2	-8.6	-8.0	-6.7
Gross investment (in percent of GDP)	26.1	21.6	14.3	11.0	10.5	10.4
Private	21.5	16.2	10.3	7.3	7.5	7.9
Public	4.6	5.4	4.0	3.7	3.0	2.5
Prices, wages and employment (annual average)						
Harmonized index of consumer prices	2.9	3.1	-1.7	-1.6	1.2	1.1
Average wages, all economy	5.2	3.5	-0.1	-2.2	-1.1	0.2
Employment	3.6	-1.1	-8.1	-4.2	-1.7	-0.2
Unemployment rate (in percent)	4.6	6.3	11.8	13.6	14.3	14.2
Money and credit (end-period) 2/						
Irish contribution to euro area money supply (M3)	12.1	-0.6	-5.9	-20.5	-5.2	...
Irish resident private sector credit 3/	20.1	8.8	-1.7	-3.7	-3.1	...
Financial and asset markets (end-period) 4/						
10-year government bond	4.5	4.4	4.9	9.2	8.2	...
ISEQ index	-26.3	-66.2	27.0	-3.0	-6.5	...
House prices	8.5	-5.9	-18.3	-13.1	-15.1	...
Public finance (in percent of GDP)						
General government balance	0.1	-7.3	-14.2	-31.4	-10.3	-8.5
General government balance (excl. bank support)	0.1	-7.3	-11.7	-11.6	-10.3	-8.5
Primary balance (excl. bank support)	1.1	-6.0	-9.7	-8.5	-6.7	-4.0
General government gross debt	24.8	44.2	65.2	92.5	105.6	113.7
General government net debt	11.1	24.4	42.2	76.9	96.6	103.5
External trade and balance of payments (percent of GDP)						
Balance of goods and services	9.8	9.0	15.2	18.8	20.4	22.3
Balance of income and current transfers	-15.2	-14.6	-18.1	-18.4	-18.9	-20.8
Current account	-5.3	-5.6	-2.9	0.5	1.5	1.5
Effective exchange rates (1999:Q1=100, average) 5/						
Nominal	107.2	112.0	113.1	108.4	108.9	...
Real (CPI based)	119.2	123.8	121.9	112.5	110.1	...
Memorandum items:						
Population (in millions) 6/	4.3	4.4	4.5	4.5	4.6	4.6
GDP per capita (in euros)	43,773	40,702	36,014	34,892	34,078	34,813
GDP (in billions of euros)	189.9	180.0	160.6	156.0	156.1	159.1

Sources: Department of Finance; Central Bank of Ireland; IFS; Bloomberg; and Fund staff calculations.
1/ Contribution to growth. However, the data for exports and imports of goods and services are annual growth rates.
2/ 2011 column refers to the latest available information (end-September).
3/ Adjusted growth rate of credit to households and non-financial corporations.
4/ 2011 column refers to the latest available information (end-October).
5/ 2011 column refers to the latest available information (end-September).
6/ 2011 figure revised following prelimary results from the 2011 Census, 2007–10 to be revised when available.

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

(Percentage change, unless otherwise indicated)

	2007	2008	2009	2010 Prel.	2011 3rd rev.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Real GDP	5.2	-3.0	-7.0	-0.4	0.6	1.1	1.0	2.3	2.7	3.0	3.3
Real domestic demand	4.9	-4.0	-12.5	-4.9	-3.6	-2.7	-1.3	0.6	1.2	2.4	2.7
Real final domestic demand	5.4	-3.0	-11.4	-5.8	-3.8	-3.7	-1.3	0.6	1.2	2.4	2.7
Private consumption	6.5	-1.1	-6.9	-0.8	-2.4	-2.4	-1.3	0.7	1.2	2.0	2.1
Public consumption	6.6	0.5	-4.5	-3.8	-3.6	-3.1	-2.5	-1.5	-1.5	-1.2	0.0
Fixed investment	2.3	-10.2	-28.7	-24.9	-10.7	-10.5	0.5	3.5	5.0	9.0	8.5
Change in stocks 1/	-0.5	-0.9	-1.0	0.8	0.2	0.9	0.0	0.0	0.0	0.0	0.0
Net exports 1/	1.1	1.3	3.5	3.7	3.5	3.3	2.0	1.8	1.8	1.2	1.3
Exports	8.4	-1.1	-4.2	6.3	6.0	4.5	3.8	4.5	5.0	4.9	4.9
Imports	7.9	-3.0	-9.3	2.7	3.0	1.4	2.3	3.6	4.3	4.9	4.9
Current account 2/	-5.3	-5.6	-2.9	0.5	1.8	1.5	1.5	1.2	1.3	1.1	1.1
Gross national saving 2/	21.1	15.5	10.8	11.6	12.1	12.5	11.8	11.9	12.1	12.6	13.0
Gross investment 2/	26.1	21.6	14.3	11.0	9.7	10.5	10.4	10.5	10.7	11.3	11.8
Private	21.5	16.2	10.3	7.3	6.8	7.5	7.9	8.4	8.7	9.3	9.8
Public	4.6	5.4	4.0	3.7	2.9	3.0	2.5	2.1	2.0	2.0	2.0
Prices											
Consumer prices	2.9	3.1	-1.7	-1.6	1.1	1.2	1.1	1.2	1.4	1.8	1.8
Wages	5.2	3.5	-0.1	-2.2	-0.9	-1.1	0.2	0.7	1.3	1.8	2.0
Labor market											
Employment	3.6	-1.1	-8.1	-4.2	-1.5	-1.7	-0.2	0.7	1.3	1.6	1.5
Average unemployment rate	4.6	6.3	11.8	13.6	14.3	14.3	14.2	13.5	12.6	11.4	10.5
Public finance											
General government balance 2/	0.1	-7.3	-14.2	-31.4	-10.4	-10.3	-8.5	-7.5	-4.9	-2.9	-2.3
General government gross debt 2/	24.8	44.2	65.2	92.5	109.2	105.6	113.7	118.1	117.6	114.7	110.9
Output gap 3/	6.5	2.2	-5.5	-6.0	-5.9	-5.5	-5.0	-3.6	-2.2	-1.1	0.0

Sources: CSO; Department of Finance; and IMF staff calculations.

1/ Contributions to growth.

2/ In percent of GDP.

Table 3. Ireland: General Government Finances, 2007–15
(In billions of Euros)

	Actual			Prel.	3rd rev.	Projections 3/				
	2007	2008	2009	2010	2011	2011	2012	2013	2014	2015
Revenue	68.9	62.9	54.2	53.5	54.4	54.3	56.2	57.4	60.4	63.0
Direct taxes	35.0	31.9	28.1	27.1	28.1	28.5	29.8	31.1	32.7	34.6
Personal income tax	13.6	13.2	11.8	11.3	13.8	14.0	14.8	15.4	16.3	17.4
Pay-related social insurance 1/	11.6	11.9	11.6	11.3	9.9	10.0	10.0	10.1	10.4	10.7
Corporate income tax	6.4	5.1	3.9	3.9	3.8	3.9	4.3	4.6	5.1	5.4
Capital taxes	3.5	1.8	0.8	0.6	0.6	0.6	0.7	0.9	1.0	1.0
Indirect taxes	23.3	20.5	16.3	15.7	16.1	15.8	16.2	17.1	17.9	18.4
Value-added tax	14.1	13.4	10.7	10.1	9.9	9.7	10.0	10.3	10.9	11.5
Excise tax	6.0	5.4	4.7	4.7	4.8	4.7	4.8	5.4	5.6	5.9
Stamp duty	3.2	1.7	0.9	1.0	1.4	1.4	1.4	1.4	1.4	1.0
Other revenue 2/	10.6	10.5	9.8	10.6	10.1	10.0	10.1	9.2	9.7	10.0
Expenditure (ex. bank support)	68.7	76.1	73.0	71.6	70.9	70.4	69.7	69.7	68.8	68.2
Current	58.1	63.4	65.3	64.7	64.7	64.1	64.1	65.0	64.1	63.3
Interest payments	2.0	2.5	3.3	4.9	6.0	5.6	7.1	9.3	10.7	10.7
Goods and services	9.8	10.1	9.8	9.1	8.8	8.9	8.3	7.8	7.2	7.3
Compensation of employees	21.4	22.8	22.2	21.0	20.5	20.5	20.0	19.8	19.3	18.9
Current transfers	24.9	28.0	30.1	29.7	29.3	29.2	28.7	28.0	26.9	26.4
Capital (excl. bank support)	10.7	12.8	7.7	6.9	6.2	6.3	5.5	4.8	4.7	4.8
Gross capital formation	8.7	9.6	6.5	5.8	4.5	4.7	4.0	3.5	3.4	3.6
Capital transfers (ex. bank support)	2.0	3.1	1.2	1.1	1.7	1.7	1.6	1.3	1.2	1.3
Bank support costs	0.0	0.0	4.0	30.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (ex. bank support)	0.1	-13.2	-18.8	-18.1	-16.5	-16.1	-13.5	-12.4	-8.4	-5.2
Including bank support	0.1	-13.2	-22.8	-49.0	-16.5	-16.1	-13.5	-12.4	-8.4	-5.2
Primary balance (ex. bank support)	2.1	-10.7	-15.5	-13.2	-10.4	-10.5	-6.4	-3.0	2.3	5.5
Including bank support	2.1	-10.7	-19.5	-44.1	-10.4	-10.5	-6.4	-3.0	2.3	5.5
Memorandum items (in percent of GDP, unless otherwise mentioned)										
Revenue	36.3	35.0	33.7	34.3	34.5	34.8	35.3	34.8	35.2	35.0
Direct	18.4	17.7	17.5	17.4	17.8	18.2	18.7	18.8	19.1	19.2
Indirect	12.3	11.4	10.2	10.1	10.2	10.1	10.2	10.3	10.4	10.2
Other	5.6	5.8	6.1	6.8	6.4	6.4	6.4	5.6	5.7	5.6
Expenditure (ex. bank support)	36.2	42.3	45.4	45.9	44.9	45.1	43.8	42.3	40.1	37.9
Primary current	29.5	33.8	38.6	38.3	37.2	37.5	35.8	33.8	31.1	29.3
Interest	1.0	1.4	2.0	3.1	3.8	3.6	4.4	5.7	6.2	5.9
Capital (ex. bank support)	5.6	7.1	4.8	4.4	3.9	4.0	3.5	2.9	2.7	2.7
Overall balance	0.1	-7.3	-11.7	-11.6	-10.4	-10.3	-8.5	-7.5	-4.9	-2.9
Including bank support	0.1	-7.3	-14.2	-31.4	-10.4	-10.3	-8.5	-7.5	-4.9	-2.9
Primary balance	1.1	-6.0	-9.7	-8.5	-6.6	-6.7	-4.0	-1.8	1.3	3.1
Including bank support	1.1	-6.0	-12.1	-28.3	-6.6	-6.7	-4.0	-1.8	1.3	3.1
Structural primary balance 4/	-9.4	-12.9	-9.1	-4.4		-2.4	-0.8	0.4	2.6	3.5
Gross general government debt	24.8	44.2	65.2	92.5	109.2	105.6	113.7	118.1	117.6	114.7
Net general government debt	11.1	24.4	42.2	76.9	98.7	96.6	103.5	107.4	107.8	105.7
Output Gap (percent of potential GDP)	6.5	2.2	-5.5	-6.0	-5.9	-5.5	-5.0	-3.6	-2.2	-1.1
Nominal GDP (in billions of Euros)	189.9	180.0	160.6	156.0	157.7	156.1	159.1	164.8	171.7	179.8

Sources: Department of Finance; and staff estimates.

1/ Includes imputed social insurance contributions, which are recorded symmetrically under compensation of exployees. The 2011 downward jump in the series reflects the integration of health levy receipts into the universal social charge (now part of income tax).

2/ These include customs duties, unallocated tax receipts, training and employment levy, trading, rental and investment incomes, and transfers from the rest of the world (not elsewhere included).

3/ The projections for 2012–15 are consistent with the adjustment path set out in the Medium-Term Fiscal Statement.

4/ In percent of nominal potential GDP.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2007–11

	2007	2008	2009	2010	2011 6/
External indicators					
Exports (annual percent change, value in euros)	8.3	-1.4	-2.8	8.1	5.3
Imports (annual percent change, value in euros)	9.5	-1.1	-9.6	5.7	4.5
Terms of trade (goods, annual percent change)	-3.3	-4.7	3.3	-0.8	-1.1
Current account balance (in percent of GDP)	-5.3	-5.6	-2.9	0.5	1.5
Capital and financial account balance (in percent of GDP)	6.4	9.0	-1.3	7.5	-20.6
Of which:					
Inward portfolio investment	86.1	-10.2	13.9	48.3	21.2
Inward foreign direct investment	9.5	-6.2	11.6	15.1	16.3
Other investment liabilities	91.8	85.4	-53.9	-42.5	-55.1
U.S. dollar per euro (period average)	1.37	1.47	1.39	1.33	1.42
U.K. pound per euro (period average)	0.68	0.79	0.89	0.86	0.87
Financial markets indicators					
General government debt (in percent of GDP)	24.8	44.2	65.2	92.5	105.6
Government bond yield (in percent, 10-year, end-period)	4.5	4.4	4.9	9.2	...
Spread of government bond yield with Germany (in percent, end of period)	0.0	1.3	1.3	6.1	...
Real government bond yield (in percent, 10-year, period average, based on HICP)	1.5	1.4	6.9	7.6	...
Annual change in ISEQ index (in percent, end of period)	-26.3	-66.2	27.0	-3.0	...
Personal lending interest rate (in percent)	11.7	11.9	11.1	11.4	11.5
Standard variable mortgage interest rate (in percent)	5.4	4.8	3.3	4.0	4.3
Financial sector risk indicators					
Annual credit growth rates (to Irish resident private sector, in percent) 1/	20.1	8.8	-1.7	-3.7	-3.1
Personal lending as a share of total Irish resident credit (in percent)	39.6	35.2	35.6	35.8	34.9
Of which:					
House mortgage finance	32.8	29.0	30.1	30.6	30.2
Other housing finance	0.3	0.3	0.2	0.3	0.3
Other personal lending	6.5	5.9	5.3	5.2	4.7
Irish resident household mortgage debt annual growth rates (in percent) 2/	17.5	9.8	0.6	-2.1	-2.5
Foreign-currency denominated assets (in percent of total assets)	36.5	31.7	34.3	30.3	29.9
Foreign-currency denominated liabilities (in percent of total liabilities)	41.1	35.5	31.1	25.8	25.8
Non-performing loans (in percent of total loans) 3/	0.8	2.6	9.0	8.6	10.8
Total provisions for loan losses (in percent of total loans)	0.4	1.3	4.0	4.2	5.4
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.7	10.6	10.9	10.4	10.9
Bank return on assets (before tax, in percent)	0.7	-0.3	-1.6	-3.1	-0.3
Bank return on equity (before tax, in percent)	16.4	-8.0	-40.6	-67.6	-5.4
Deposits to M3 ratio 4/	1.4	1.4	1.4	1.5	1.2
Loan-to-deposit ratio vis-à-vis Irish residents 5/	2.1	2.2	2.1	2.1	2.1
vis-à-vis total 5/	2.1	2.2	2.2	2.1	2.1
Concentration ratios in the banking sector					
No. of banks accounting for 25 percent of total assets	3	2	2	2	2
No. of banks accounting for 75 percent of total assets	15	14	13	13	14
Share of state-owned banks in total assets (in percent)	0.0	0.0	6.0	8.0	18.0
Share of foreign-owned banks in total assets (in percent)	32.2	62.0	65.0	66.0	66.0

Sources: Data provided by the Central Bank of Ireland; International Financial Statistics; Bloomberg; and Fund staff estimates.
1/ Adjusted growth rate of credit to households and non-financial corporations.
2/ Growth rates adjusted for valuation, reclassification, derecognition/transfer of loans to non-MFIs, and exchange rates.
3/ Owing to differences in classification, international comparisons of nonperforming loans are indicative only.
4/ Deposits vis-à-vis Irish and nonresidents.The M3 compiliation methodology has been amended in line with Eurosystem requirements.
5/ Nongovernment credit/nongovernment deposits ratio.
6/ For 2011, staff projections for macroeconomic variables, and June 2011 for financial soundness indicators, except interest rates, credit growth, foreign currency-denominated assets and liabilities, deposit data, which are September 2011.

Table 5. Ireland: General Government Financing Requirements and Sources, 2008–13
(In billions of euros)

	2008	2009	Prel. 2010	Proj. 2011	2012	2013
Gross borrowing need	15.9	63.4	71.4	50.1	23.4	22.3
Exchequer cash deficit 1/	12.7	24.6	18.7	21.0	17.7	13.8
Amortization	3.1	27.7	17.3	12.7	5.7	8.5
Medium-and long-term	0.1	5.1	1.2	4.9	5.7	6.0
Short-term	3.0	22.6	16.2	7.8	0.0	2.5
Official creditors	0.0	0.0	0.0	0.0	0.0	0.0
European Union	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0
Bank recapitalization	0.0	11.0	35.3	16.5	0.0	0.0
Gross financing sources	15.9	63.4	71.4	16.2	0.1	11.9
Market financing (inc. retail)	34.9	53.3	26.1	1.1	3.7	13.3
Promissory notes	0.0	0.0	30.9	0.0	0.0	0.0
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0
Cash drawdowns 2/	-19.0	10.0	14.4	15.1	-3.5	-1.4
Financing gap	0.0	0.0	0.0	33.9	23.2	10.3
EFSM/EFSF	0.0	0.0	0.0	20.5	14.6	5.1
Bilateral EU	0.0	0.0	0.0	0.9	2.3	1.5
IMF	0.0	0.0	0.0	12.5	6.3	3.7
Memorandum items						
Exchequer cash balance	22.0	21.8	12.3	7.3	10.8	12.1
Total debt	79.6	104.6	144.3	164.9	181.0	194.6
Official creditors	0.0	0.0	0.0	33.9	57.1	67.5
European Union	0.0	0.0	0.0	21.5	38.3	45.0
IMF	0.0	0.0	0.0	12.5	18.8	22.5
Other	79.6	104.6	144.3	131.0	123.8	127.2
Treasury bills, bonds and retail	72.0	96.3	110.4	98.9	96.9	101.7
Promissory notes	0.0	0.0	30.9	28.3	25.2	22.6
Other	7.6	8.4	2.9	3.8	1.8	2.9
Total debt (in percent of GDP)	44.2	65.2	92.5	105.6	113.7	118.1
Official creditors	0.0	0.0	0.0	21.7	35.9	40.9
European Union	0.0	0.0	0.0	13.7	24.1	27.3
IMF	0.0	0.0	0.0	8.0	11.8	13.7
Other	44.2	65.2	92.5	83.9	77.8	77.2
Treasury bills, bonds and retail	40.0	60.0	70.8	63.3	60.9	61.7
Promissory notes	0.0	0.0	19.8	18.1	15.8	13.7
Other	4.2	5.2	1.9	2.4	1.1	1.7

Sources: National Treasury Management Agency; Department of Finance; and IMF staff projections.

1/ Includes allowance for amortisation of promissory notes and contingency for collateral on hedging transactions.
2/ Use of Exchequer cash balances and National Pension Reserve Fund.

Table 6. Ireland: Summary of Balance of Payments, 2008–13

			Prel.	Proj.		
	2008	2009	2010	2011	2012	2013
			(In billions of euros)			
Current account balance	-10.2	-4.7	0.8	2.4	2.4	2.0
Balance of goods and services	16.1	24.4	29.4	31.9	35.5	38.7
Trade balance	23.8	32.5	36.5	35.8	35.7	38.5
Exports of goods	81.0	77.6	82.9	84.2	82.9	86.9
Imports of goods	-57.2	-45.2	-46.4	-48.5	-47.2	-48.4
Services balance	-7.7	-8.1	-7.1	-3.8	-0.2	0.2
Credit	67.9	67.1	73.8	80.4	88.7	94.1
Debit	-75.6	-75.2	-80.9	-84.2	-88.9	-93.9
Income balance	-25.2	-27.9	-27.4	-28.6	-33.8	-35.5
Credit	84.0	55.1	57.7	70.5	76.6	77.7
Debit	-109.2	-83.0	-85.1	-99.0	-110.4	-113.2
Current transfers (net)	-1.2	-1.2	-1.2	-1.0	0.7	-1.1
Capital and financial account balance	16.2	-2.1	11.7	-32.2	-25.6	-12.3
Capital account balance	0.0	-1.3	-0.7	-0.1	-0.3	-0.4
Financial account	16.1	-0.9	12.4	-32.1	-25.2	-12.0
Direct investment	-24.2	-0.5	1.7	16.2	5.9	4.2
Portfolio investment	-45.7	22.6	94.0	9.4	-10.7	-2.3
Other investment	86.1	-23.1	-88.0	-54.1	-16.5	-10.6
Change in reserve assets 1/	-0.1	0.1	0.0	-3.6	-4.0	-3.3
Net errors and omissions	-6.0	6.8	-12.5	-4.1	0.0	0.0
Financing gap	0.0	0.0	0.0	33.9	23.2	10.3
Program financing	0.0	0.0	0.0	33.9	23.2	10.3
IMF	0.0	0.0	0.0	12.5	6.3	3.7
EU	0.0	0.0	0.0	21.5	16.9	6.6
			(In percent of GDP)			
Current account balance	-5.6	-2.9	0.5	1.5	1.5	1.2
Balance of goods and services	9.0	15.2	18.8	20.4	22.3	23.5
Trade balance	13.2	20.2	23.4	22.9	22.4	23.3
Services balance	-4.3	-5.0	-4.5	-2.5	-0.1	0.1
Income balance	-14.0	-17.4	-17.6	-18.3	-21.3	-21.5
Current transfers (net)	-0.6	-0.8	-0.8	-0.6	0.5	-0.7
Capital and financial account balance	9.0	-1.3	7.5	-20.6	-16.1	-7.5
Of which:						
Direct investment	-13.4	-0.3	1.1	10.4	3.7	2.5
Portfolio investment	-25.4	14.1	60.2	6.0	-6.7	-1.4
Other investment	47.9	-14.4	-56.4	-34.6	-10.3	-6.4
Change in reserve assets 1/	0.0	0.0	0.0	-2.3	-2.5	-2.0
Net errors and omissions	-3.3	4.3	-8.0	-2.6	0.0	0.0
Financing gap	0.0	0.0	0.0	21.7	14.6	6.2
Program financing	0.0	0.0	0.0	21.7	14.6	6.3
IMF	0.0	0.0	0.0	8.0	4.0	2.2
EU	0.0	0.0	0.0	13.7	10.6	4.0

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

Table 7. Ireland: Monetary Survey, 2008–11
(In billions of euros, unless otherwise indicated; end of period)

	Dec-08	Dec-09	Dec-10	Mar-11	Jun-11	Sep-11
Aggregate balance sheet of domestic market credit institutions						
Assets	801	798	742	704	654	659
Claims on Central Bank of Ireland	9	12	8	8	6	6
Claims on Irish resident Other MFIs	137	143	138	131	107	112
Claims on Irish resident non MFIs	374	363	357	351	343	341
General government	3	9	43	39	38	42
Private sector	371	354	314	312	305	299
Claims on non-residents	250	241	206	177	161	163
Other assets	32	40	32	37	37	38
Liabilities	801	798	742	704	654	659
Liabilities to ECB 1/	45	58	95	83	72	71
Liabilities to Irish resident Other MFIs	126	131	132	122	100	103
Deposits of Irish resident non MFIs	170	180	161	160	169	146
General government	3	3	3	9	22	3
Private sector	167	176	157	152	147	143
Deposits of non-residents	271	229	137	110	99	103
Debt securities	100	98	64	60	57	54
Capital and reserves	41	53	71	65	71	94
Other liabilities (incl. Central Bank of Ireland)	48	50	83	104	86	88
Money and credit 2/						
Net foreign assets	-100	-75	-67	-60	-50	…
Central Bank of Ireland 3/	-24	-37	-128	-122	-111	…
Commercial banks	-77	-38	61	62	61	62
Net domestic assets	295	283	251	244	241	…
Public sector credit	3	10	43	40	39	42
Private sector credit	394	375	335	331	332	326
Other	-102	-102	-127	-127	-130	…
Irish Resident Broad money (M3) 4/	194	208	185	184	192	186
Irish Resident Intermediate money (M2) 4/	176	188	173	168	173	169
Irish Resident Narrow money (M1)	78	100	97	95	94	91
	(percent of GDP)					
Public sector credit 5/	1.4	5.3	27.6	25.3	24.6	26.9
Private sector credit 5/	206.1	220.4	201.5	200.3	196.4	191.9
	(y-o-y percentage change)					
Broad money - Irish contribution to euro area M3 6/	-0.6	-5.9	-20.5	-17.5	-8.3	-5.2
Irish Public sector credit 6/ 7/	101.8	176.9	366.1	107.9	78.2	30.6
Irish Household and non-financial corporations credit 6/ 7/	8.8	-1.7	-3.7	-3.3	-3.6	-3.1
Memo items: 8/						
Irish resident private sector credit to deposits (in percent) 9/	222.8	200.8	200.0	205.5	207.3	209.2
Deposits from Irish Private Sector (y-o-y percent change) 7/	1.0	1.8	-9.8	-12.0	-12.9	-13.5
Wholesale funding (billions of euros)	439.6	422.8	315.3	275.7	241.2	245.8
Deposits from MFIs	339.4	324.8	251.1	216.1	184.0	191.5
Debt securities	100.2	98.1	64.3	59.6	57.2	54.3
Wholesale funding (y-o-y percent change) 7/ 10/	16.1	6.8	-21.8	-31.1	-37.3	-32.0
Wholesale funding (percent of assets) 10/	54.8	53.0	42.5	39.2	36.9	37.3

Sources: Central Bank or Ireland and staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Services Centre (IFSC).
3/ Sourced from quarterly IIP statistics.
4/ Differs from the M3 (M2) Irish contribution to euro area as only liabilities vis-a-vis Irish residents are used.
5/ Refers to credit advanced by domestic market credit institutions.
6/ Includes IFSC.
7/ Growth rates adjusted for valuation, reclassification, derecognition/loan transfer to non-MFIs, and exchange rates.
8/ Excludes IFSC.
9/ Domestic market credit institutions' private sector credit to deposits.
10/ Includes resident and non-resident MFI deposits, and debt securities issued.

Table 8. Ireland: Schedule of Reviews and Purchases 1/

Review	Availability Date	Action	Purchase	
			SDRs	Percent of quota
	December 16, 2010	Board approval of arrangement	5,012,425,200	399
First and Second Reviews	May 16, 2011	Observance of end-March 2011 performance criteria, completion of First and Second Reviews	1,410,000,000	112
Third Review	August 15, 2011	Observance of end-June 2011 performance criteria, completion of Third Review	1,319,000,000	105
Fourth Review	December 14, 2011	Observance of end-September 2011 performance criteria, completion of Fourth Review	3,309,000,000	263
Fifth Review	February 15, 2012	Observance of end-December 2011 performance criteria, completion of Fifth Review	2,786,000,000	222
Sixth Review	June 15, 2012	Observance of end-March 2012 performance criteria, completion of Sixth Review	1,191,000,000	95
Seventh Review	September 15, 2012	Observance of end-June 2012 performance criteria, completion of Seventh Review	758,000,000	60
Eight Review	December 15, 2012	Observance of end-September 2012 performance criteria, completion of Eight Review	758,000,000	60
Ninth Review	March 15, 2013	Observance of end-December 2012 performance criteria, completion of Ninth Review	831,000,000	66
Tenth Review	June 15, 2013	Observance of end-March 2013 performance criteria, completion of Tenth Review	831,000,000	66
Eleventh Review	September 15, 2013	Observance of end-June 2013 performance criteria, completion of Eleventh Review	681,000,000	54
Twelth Review	November 15, 2013	Observance of end-September 2013 performance criteria, completion of Twelth Review	579,374,800	46
Total			19,465,800,000	1,548

1/ Incorporates proposed rephasing of the fifth, seventh and eight purchase at the Fourth Review.
Source: IMF staff projections.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fund credit															
Disbursement	-	11,050	5,493	2,922	-	-	-	-	-	-	-	-	-	-	-
Stock 2/	-	11,050	16,543	19,466	19,466	18,931	16,757	13,862	10,617	7,373	4,129	1,420	349	-	-
Obligations	-	125	389	515	692	1,256	2,845	3,463	3,682	3,542	3,402	2,755	1,086	352	0
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349	-
Charges	-	125	389	515	692	721	672	567	437	297	158	46	14	3	0
Stock of Fund credit															
In percent of quota	-	879	1,315	1,548	1,548	1,505	1,332	1,102	844	586	328	113	28	-	-
In percent of GDP	-	8.0	11.7	13.4	12.9	12.1	10.3	8.1	5.9	3.9	2.1	0.7	0.2	-	-
In percent of exports of goods and services	-	7.5	10.8	12.1	11.5	10.6	8.9	7.0	5.1	3.4	1.8	0.6	0.1	-	-
Obligations to the Fund															
In percent of quota	-	10	31	41	55	100	226	275	293	282	271	219	86	28	0
In percent of GDP	-	0.1	0.3	0.4	0.5	0.8	1.7	2.0	2.0	1.9	1.7	1.3	0.5	0.2	0
In percent of exports of goods and services	-	0.1	0.3	0.3	0.4	0.7	1.5	1.7	1.8	1.6	1.5	1.1	0.4	0.1	0

Source: IMF staff estimates.

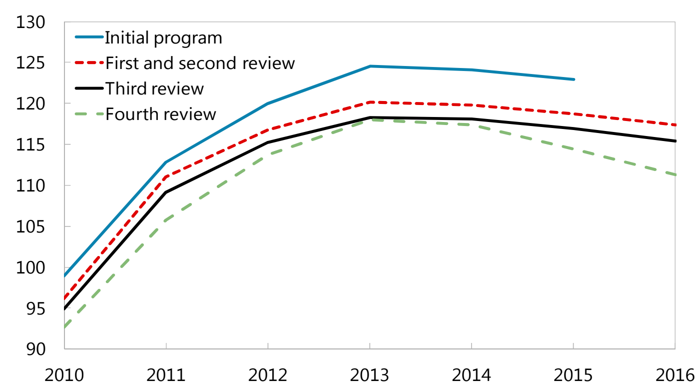
1/ Calculated based on existing credit and full disbursements of the prospective available amounts under the extended arrangement under the Extended Fund Facility.
2/ End of period.

Annex I. Debt Sustainability Analysis

This Annex presents an analysis of public debt sustainability based on staff's revised medium-term macroeconomic framework and the Irish authorities' fiscal consolidation plan. It also provides an analysis of external debt sustainability.

General Government Debt

On balance, the debt outlook has improved somewhat from the Third Review. General government gross debt is expected to peak at 118 percent of GDP in 2013, in line with the previous review, but to then decline more rapidly to 111 percent of GDP by 2016, compared with 115 percent earlier.



The following key factors increase the outlook for the debt-to-GDP ratio:

- Nominal GDP has been revised downward in 2011 and 2012, reflecting a weaker GDP deflator. By 2016, nominal GDP is therefore projected to be 2.8 percent lower than anticipated at the Third Review.

- The debt projections now incorporate Exchequer outlays for the resolution of credit unions, transfers to the Insurance Compensation Fund, and voluntary health insurance, amounting to about €1.2 billion in 2011–12 (0.8 percent of GDP).

But these are expected to be outweighed by factors reducing the debt-to-GDP ratio:

- The general government debt stock at end-2010 has been revised downward by €3.72 billion (2.4 percent of GDP), correcting an error in the statistical accounting treatment of a government agency's debt.

- The reduction in interest rates and extension of maturities on EU loans, which became effective in October, has improved debt dynamics. As a result, projected interest payments on EU loans have been reduced by about 3 percent of GDP cumulatively over 2011–16.

- The fiscal projections incorporate the recently specified fiscal consolidation plan, which will to bring the deficit to 3 percent of GDP by 2015. At the Third Review, the 2015 deficit was projected at 4.9 percent, as the consolidation plan had not yet been spelled out.

The planned fiscal consolidation will place the debt-to-GDP ratio firmly on a downward path in the baseline scenario. By 2015, the primary surplus is projected to exceed 3 percent of GDP, more than 2½ percentage points of GDP above the debt-stabilizing primary balance. Assuming that the primary balance remains at this level, debt-to-GDP could be reduced to close to 80 percent of GDP by 2030. In contrast, in the absence of fiscal consolidation, debt would reach 147 percent of GDP in 2016.

Nonetheless, the debt path is subject to downside risk from more adverse growth or market interest rates than assumed in the baseline scenario. The alternative scenarios and bound tests illustrate the sensitivities to growth and interest rate assumptions:[1]

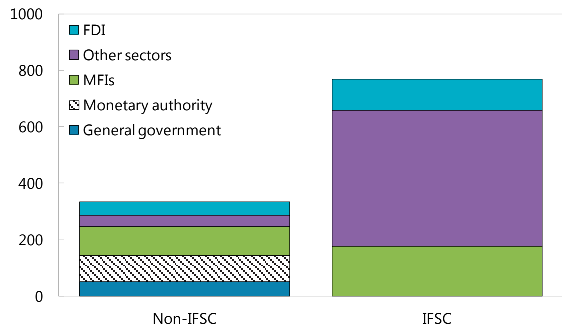
- **A negative shock to growth could put debt on an upward path**. For example, a permanent one-third standard deviation shock would lower the average growth rate from 2¼ to 1 percent over 2012–16. The size of the shock is affected by the strong volatility in GDP over the past 10 years. In such a scenario, debt would reach 127 percent of GDP by 2016.

- **Higher interest rates would slow down the reduction in the debt-to-GDP ratio**. The impact of interest rate developments is mitigated by government debt having predominantly fixed interest rates. Higher market rates therefore mainly affect interest payments on new borrowings. Therefore, assuming that interest rates on new borrowings remain at current levels is equivalent to assuming a ¼ percentage point higher average interest rate on the full debt stock over 2012–16 and ½ percentage point higher average interest rate in 2016. In this scenario, debt would reach 112 percent by 2016, compared to 111 percent in the baseline scenario.

External Debt

External debt is high, but is expected to come down gradually as the domestic economy adjusts. Total external debt reached 1,030 percent of GDP at end-2010. However, more than two thirds is accounted for by the International Financial Services Center (IFSC), which has substantial external assets. The overall international investment position was a net liability of about 90 percent of GDP at end-2010.

External debt at end-2010
(Percent of 2010 GDP)



Sources: Central Statistics Office Ireland.

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

Ireland: Net Investment Position
(In percent of GDP)

	2005	2006	2007	2008	2009	2010
Assets	1,029	1,128	1,195	1,269	1,506	1,691
Direct investment abroad	54	51	54	67	125	167
Portfolio investment abroad	613	690	705	702	842	922
Other investment abroad	361	386	436	498	538	601
Reserve assets	0	0	0	0	1	1
Liabilities	1,053	1,133	1,215	1,344	1,610	1,782
Direct investment to Ireland	85	67	73	75	107	119
Portfolio investment to Ireland	628	686	700	712	912	1,073
Other investment to Ireland	341	380	442	558	591	591
Net investment position	-24	-5	-19	-76	-103	-91
Direct investment, net	-31	-15	-19	-8	18	49
Portfolio investment, net	-15	4	5	-9	-70	-151
Other investment, net 1/	20	6	-5	-59	-52	10
Reserve assets	0	0	0	0	1	1

Source: Central Statistics Office.
1/ Includes valuation changes and errors and omissions.

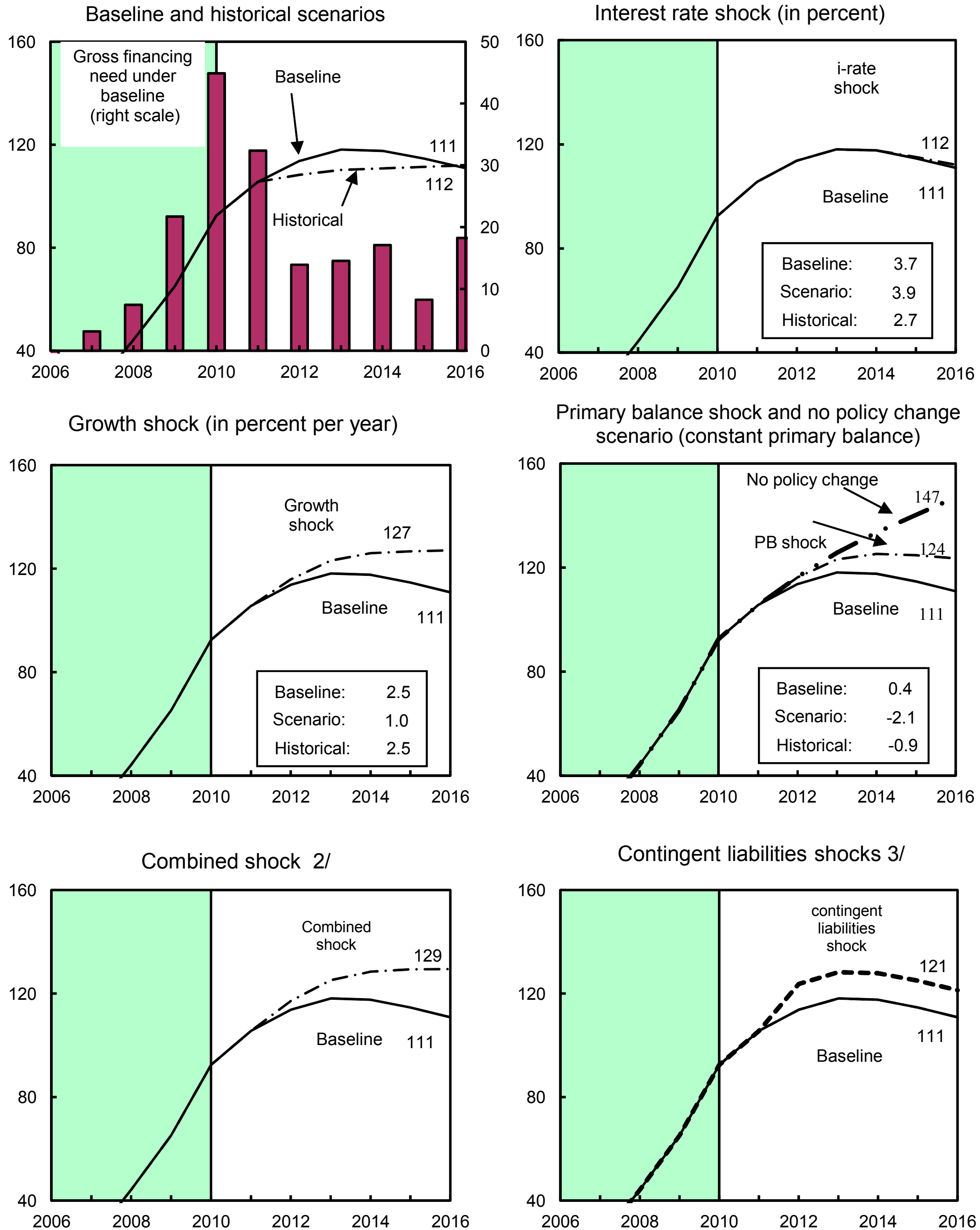
Excluding the IFSC, external debt represented 330 percent of GDP, and is expected to come down gradually to 260 percent of GDP by 2016 in the baseline scenario. As illustrated by alternative scenarios and bound tests, risks to this scenario are considerable. With a permanent shock to growth, the external debt ratio would decline more slowly to 304 percent of GDP by 2016. The sensitivity to exchange rate changes is mitigated by a high estimated degree of euro-denominated external debt. Should the real exchange rate depreciate by 30 percent in 2011, debt would reach 350 percent of GDP by 2012, and decline to 263 percent by 2016.

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

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing primary balance 10/
Baseline: Public sector debt 1/	24.7	24.8	44.2	65.2	92.5	105.6	113.7	118.1	117.6	114.7	110.9	0.4
Change in public sector debt	-2.3	0.1	19.4	20.9	27.3	13.1	8.1	4.4	-0.5	-3.0	-3.7	
Identified debt-creating flows (4+7+12)	-5.1	-1.6	8.7	19.5	33.3	14.5	6.5	3.6	0.1	-2.4	-3.2	
Primary deficit	-3.9	-1.1	6.0	9.7	8.1	6.7	4.0	1.8	-1.3	-3.1	-3.6	
Revenue and grants	36.3	36.3	35.0	33.7	34.3	34.8	35.3	34.8	35.2	35.0	34.8	
Primary (noninterest) expenditure 2/	32.4	35.1	40.9	43.4	42.4	41.5	39.3	36.6	33.8	32.0	31.2	
Automatic debt dynamics 3/	-1.2	-0.5	2.8	7.4	5.1	3.5	2.4	1.7	1.5	0.6	0.4	
Contribution from interest rate/growth differential 4/	-1.2	-0.5	2.8	7.4	5.1	3.5	2.4	1.7	1.5	0.6	0.4	
Of which contribution from real interest rate	0.1	0.7	2.0	3.9	4.8	4.6	3.5	4.2	4.5	4.0	4.0	
Of which contribution from real GDP growth	-1.3	-1.2	0.8	3.5	0.3	-1.0	-1.0	-2.5	-3.1	-3.4	-3.6	
Contribution from exchange rate depreciation 5/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	2.5	20.1	4.2	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	2.5	20.1	4.2	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 6/	2.8	1.7	10.7	1.4	-6.0	-1.3	1.6	0.8	-0.6	-0.6	-0.5	
Public sector debt-to-revenue ratio 1/	68.1	68.5	126.5	193.1	269.7	303.7	322.3	339.4	334.5	327.3	318.9	
Gross financing need 7/	-2.8	3.1	7.4	21.7	44.9	32.4	13.9	14.5	17.1	8.3	18.3	
in billions of U.S. dollars	-6.6	8.6	18.2	50.9	92.6	72.1	31.2	33.5	40.7	20.4	47.1	
Scenario with key variables at their historical averages 8/						105.6	108.4	110.3	110.8	111.4	112.0	0.2
Scenario with no policy change (constant primary balance) in 2011-2016						105.6	116.4	125.7	133.4	140.4	147.1	0.5
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.3	5.2	-3.0	-7.0	-0.4	1.1	1.0	2.3	2.7	3.0	3.3	
Average nominal interest rate on public debt (in percent) 8/	4.1	4.5	5.3	4.1	4.7	3.9	4.3	5.1	5.5	5.3	5.4	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.6	3.2	7.6	8.2	7.1	4.9	3.4	3.9	4.0	3.6	3.7	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.8	9.2	7.4	-5.4	-4.7	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	3.6	1.3	-2.3	-4.1	-2.4	-1.0	0.9	1.3	1.4	1.7	1.7	
Growth of real primary spending (deflated by GDP deflator, in percent) 2/	7.4	14.2	13.0	-1.4	-2.7	-1.0	-4.3	-4.7	-5.2	-2.7	0.7	
Primary deficit 2/	-3.9	-1.1	6.0	9.7	8.1	6.7	4.0	1.8	-1.3	-3.1	-3.6	

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

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



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

Annex Table 2. Ireland: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated) 1/

	Actual							Projections						
	2006	2007	2008	2009	2010			2011	2012	2013	2014	2015	2016	Debt-stabilizing non-interest current account 7/
Baseline: External debt (excl. IFSC)	**206.5**	**257.3**	**303.2**	**327.0**	**334.8**			**324.4**	**315.5**	**302.0**	**288.4**	**273.6**	**257.9**	**2.9**
External debt incl. IFSC	692.9	750.9	810.9	942.1	1030.8									
Change in external debt	9.1	50.7	45.9	23.8	7.8			-10.4	-8.9	-13.5	-13.6	-14.8	-15.7	
Identified external debt-creating flows (4+8+9)	-0.7	-3.8	22.1	38.8	21.0			-13.9	-5.9	-9.5	-9.3	-10.1	-11.3	
Current account deficit, excluding interest payments	2.0	0.5	-6.8	-6.3	-14.5			-21.0	-15.5	-14.2	-16.5	-17.8	-18.8	
Deficit in balance of goods and services	-6.0	-5.5	-5.0	-11.2	-14.1			-16.9	-18.0	-19.0	-20.1	-20.4	-20.8	
Exports	67.4	68.6	71.5	78.3	87.4			92.8	94.1	95.8	97.2	98.2	99.0	
Imports	-61.4	-63.1	-66.5	-67.1	-73.3			-75.9	-76.1	-76.7	-77.1	-77.8	-78.2	
Net non-debt creating capital inflows (negative)	8.2	0.0	-0.6	-2.5	9.6			-10.4	-3.7	-2.5	-0.5	-0.5	-0.5	
Automatic debt dynamics 2/	-10.9	-4.4	29.5	47.6	25.8			17.4	13.3	7.2	7.6	8.2	8.0	
Contribution from nominal interest rate	5.6	8.3	15.3	11.0	16.2			21.2	16.5	14.1	15.5	16.5	16.6	
Contribution from real GDP growth	-9.6	-10.0	8.1	23.8	1.4			-3.8	-3.2	-6.9	-7.9	-8.3	-8.6	
Contribution from price and exchange rate changes 3/	-6.8	-2.6	6.1	12.8	8.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	9.8	54.5	23.8	-15.0	-13.2			3.5	-3.0	-4.0	-4.3	-4.7	-4.5	
External debt-to-exports ratio (in percent)	306.5	375.2	423.9	417.7	383.0			349.6	335.3	315.4	296.7	278.7	260.6	
Gross external financing need (in billions of US dollars) 5/	13.4	16.7	56.1	392.7	354.2			333.8	334.2	331.6	329.6	328.3	325.4	
in percent of GDP	7.5	8.8	31.2	244.5	227.1	5-Year	5-Year	213.8	210.0	201.2	191.9	182.5	172.3	
Scenario with key variables at their historical averages 6/								324.4	338.6	353.5	369.2	385.6	402.9	23.2
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.3	5.2	-3.0	-7.0	-0.4	0.0	5.3	1.1	1.0	2.3	2.7	3.0	3.3	
GDP deflator in US dollars (change in percent)	3.6	1.3	-2.3	-4.1	-2.4	-0.8	3.1	-1.0	0.9	1.3	1.4	1.7	1.7	
Nominal external interest rate (in percent)	3.1	4.3	5.6	3.2	4.8	4.2	1.1	6.3	5.2	4.6	5.4	6.0	6.4	
Growth of exports (US dollar terms, in percent)	4.5	8.4	-1.2	-2.3	8.5	3.6	5.1	6.2	3.4	5.4	5.8	5.8	5.9	
Growth of imports (US dollar terms, in percent)	7.7	9.5	0.0	-10.0	6.1	2.7	7.9	3.6	2.2	4.4	4.7	5.6	5.6	
Current account balance, excluding interest payments	-2.0	-0.5	6.8	6.3	14.5	5.0	6.6	21.0	15.5	14.2	16.5	17.8	18.8	
Net non-debt creating capital inflows	-8.2	0.0	0.6	2.5	-9.6	-2.9	5.5	10.4	3.7	2.5	0.5	0.5	0.5	

1/ The debt sustainability is based on data and projections excluding the International Financial Services Center (IFSC).

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

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

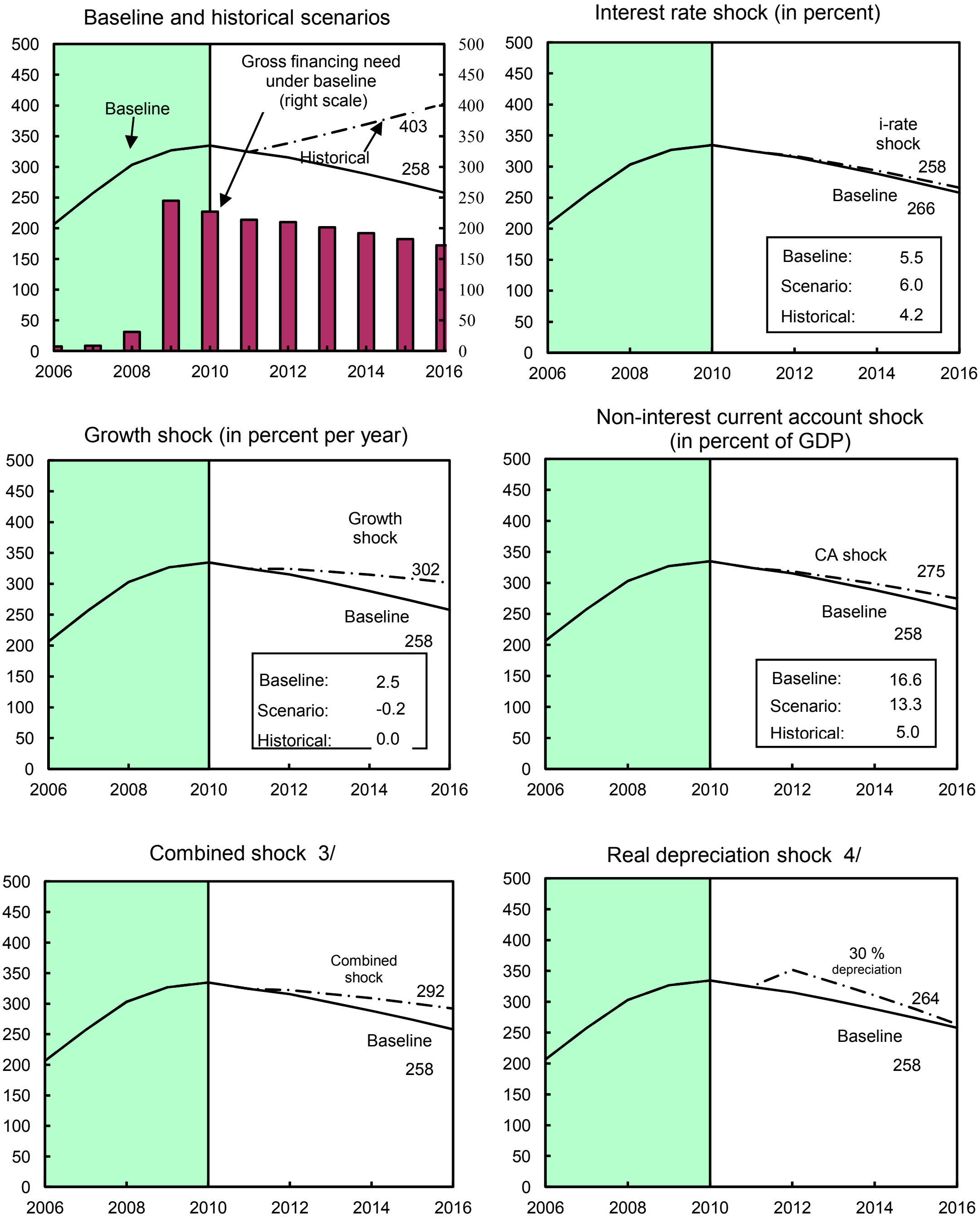
4/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

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



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

Annex II. Fund Relations

(As of October 31, 2011)

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

II. **General Resources Account:**	**SDR Million**	**Percent of Quota**
Quota	1,257.60	100.00
Fund holdings of currency	8,740.54	695.02
Reserve position in Fund	258.53	20.56

III. **SDR Department:**	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	775.42	100.00
Holdings	632.01	81.50

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Extended Arrangements	7,741.43	615.57

V. **Financial Arrangements:**

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
EFF	12/16/10	12/15/13	19,465.80	7,741.43

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

	2011	2012	2013	2014	2015
Principal					535.20
Charges/Interest	42.00	181.32	181.16	212.45	215.65
Total	42.00	181.32	181.16	212.45	750.85

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

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

VIII. **Safeguards Assessment:**

The safeguards assessment of the Central Bank of Ireland (CBI) was finalized in March 2011. The assessment concluded that the CBI has a relatively strong safeguards

framework in place, underpinned by its participation in the Eurosystem and good governance practices. Recommendations were made to address heightened risks emanating from the financial crisis, notably in relation to ELA lending, and to strengthen the CBI's financial autonomy. The authorities are preparing draft amendments to clarify certain aspects of the Central Bank Act, taking into account best practices in the Eurosystem.

IX. **Article IV Consultations:**

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

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

Discussions were held in Dublin during October 11–20, 2011. The IMF team comprised Craig Beaumont (head), Johan Mathisen, Bergljot Barkbu, and James John (all EUR); Olga Stankova (EXR), S.M. Ali Abbas (FAD); Maike Luedersen (LEG); Luis Cortavarría and Joaquin Gutierrez Garcia (both MCM), and Ben Kelmanson (SPR). Mr. Chopra joined the last several days of the mission. Teams from the EC and ECB as well as Alternate Executive Director Mary O'Dea participated in the discussions. The mission met with the Minister for Finance, the Minister for Public Expenditure and Reform, the Governor of the Central Bank and the Deputy Governor for Financial Regulation, the Minister for Justice, the Chief Executive of the National Treasury Management Agency, the Chief Executive of the National Asset Management Agency, and senior officials from these institutions. The mission also met with representatives of the Fiscal Council; the Department of Jobs, Enterprise and Innovation; the Department of Justice and Equality; the Office of the Attorney General; the Department of Social Protection; the Department of the Environment, Community and Local Government; the Central Statistics Office; the Economic and Social Research Institute; banks and market analysts; parliamentarians; the Irish Business and Employers' Confederation; the Irish Congress of Trade Unions; and Social Justice Ireland.

XI. **Technical Assistance:**

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

XII. **Resident Representative:**

Mr. Peter Breuer assumed his position in September 2011.

Attachment I. Ireland: Letter of Intent

Dublin, 28 November 2011

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

Dear Ms. Lagarde:

1. The Government's commitment to the Programme is illustrated by our continued strong performance in its implementation. Once again, for the fourth quarterly 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 published a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight (structural benchmark for this review).

- The performance criterion for end-September 2011 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears is also met.

2. This performance comes at a time when there have been both positives and negatives for Ireland. On the negative side, the growing uncertainty in relation to Euro Area debt has contributed to increasing financial market pressures. This in turn is being reflected in a deteriorating outlook for the world economy which is contributing to a heightened risk outlook. On the positive side, growth has resumed, albeit mainly export led. Our banking sector is now attracting private investment and is also successfully funding in the private market. In addition, the Euro Area Heads of State or Government on 21 July this year, made the welcome and significant decision to reduce the cost of EFSF loans, and this was followed by similar commitments in respect of the EFSM loan and our U.K. bilateral loan. Further steps toward establishing a comprehensive framework to address the crisis facing the region were taken on October 26. These positive developments have been reflected in our bond spreads which, though still high, have narrowed considerably from the elevated levels seen earlier this year. Against this background, we are proceeding with the process of preparing Budget 2012, and we have recently published our medium-term fiscal strategy, which sets out our fiscal targets for 2012 and for the years up to 2015. In the case of Budget 2012, we are committed to meeting the deficit target of 8.6 % of GDP, and will take the high-quality adjustment measures necessary to achieve this target.

3. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our programme supported by the Extended Arrangement and by the EU. The budgetary measures provided in the MEFP are based on the current assessment of policy intentions. The final decisions on the measures necessary to achieve the agreed level of fiscal adjustment will be made with the

introduction of the Budget – which for 2012 will be announced on 5th and 6th December 2011. 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 fourth review under the Extended Arrangement. We also request that the fourth purchase in an amount equivalent to SDR 3.309 billion becomes available at the time of completion of the review.

4. Looking forward, the financing need outlook for the years 2012 and 2013 remains broadly in line with expectations at the third program review. Nevertheless, given our intention to seek to regain access to market financing during 2012 as conditions permit, and the heightened need to maintain a prudent liquidity position to ensure market confidence owing to intensified external volatility, we request a rephasing of purchases within 2012. Specifically, we request that the purchase to become available at the time of the fifth review be in an amount equivalent to SDR 2.79 billion, with the additional amount taken equally from the purchases currently scheduled for the seventh and eighth reviews.

5. We propose that quantitative performance criteria under the arrangement be established for 31 March 2012, as set out in the attached MEFP. As detailed in the MEFP, we also propose two new structural benchmarks—on credit union reforms and policies to address unemployment—against which to measure progress under the programme (MEFP Table 3). The Technical Memorandum of Understanding (TMU) explains how programme targets are measured. Based on our strategy to underpin the solvency and viability of the credit union sector, we are requesting that the adjustor on bank restructuring costs be extended to include any resolution costs which may arise for credit unions.

6. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, 28 April 2011, 28 July 2011, and in this letter are adequate to achieve the objectives of our programme. The degree of uncertainty and margins of error surrounding macroeconomic and fiscal projections over the period remain high, due mainly, but not exclusively, to international events. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. As is standard under Fund-supported programmes, we will consult with the Fund, the European Commission and the ECB on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum.

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

8. Sincerely,

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

Attachment II. Ireland: Memorandum of Economic and Financial Policies

A. Recent Economic Developments and Outlook

1. **The economic recovery gathered pace in the first half of 2011, but the global slowdown is expected to dampen growth through 2012**. GDP grew at 2¼ percent on an annual basis in the second quarter, reflecting strong net exports and rebuilding of stocks. However, growth is likely to be modest in 2011 and 2012, as weakening external demand is diminishing export growth prospects—although the continuing recovery in Ireland's competitiveness will provide a cushion—and domestic demand is expected to continue declining, although at a moderating rate. The current account surplus is expected to expand. Annual HICP inflation was 1½ percent in October. Inflation is expected to remain low because domestically driven inflationary pressures remain weak and the effects of higher international commodity prices will taper off.

2. **There has been a welcome improvement in market sentiment toward Ireland, yet risks remain, and we will protect and build on these gains by sustaining firm implementation of the program.** We have continued to implement the program in a determined manner, advancing the financial reform strategy we adopted in March 2011, keeping the budget on track, and moving forward with a package of structural reforms to enhance competitiveness. The welcome July 21 European agreement has substantially lowered Ireland's debt burden and rollover needs. Together with concrete signs of recovery, these factors have been reflected in a notable decline in Irish sovereign spreads in recent months. Nevertheless, amid renewed stresses in the euro area, sustained firm program implementation matched by continued strong European support will be required to underpin prospects for regaining market access at an early stage.

B. Fiscal Policies

3. **The substantial fiscal consolidation targeted for 2011 will be achieved.** The front-loaded package of permanent consolidation measures agreed under the programme is being implemented in full. Revenues have performed broadly on profile despite a more challenging domestic demand environment than envisaged at the time the targets were set. Moreover, aggregate spending has been kept to budgeted allocations even in the face of pressures arising from higher-than-expected unemployment. We have met all our quarterly fiscal targets this year, and the expected end-year general government deficit is within the 10.6 percent of GDP EU/IMF-supported programme ceiling.

4. **The Government remains committed to an ambitious medium-term fiscal consolidation effort to put the debt ratio firmly on a downward path.** As laid out in the Medium-Term Fiscal Statement, additional consolidation of some €12.4 billion will be implemented over the next four years to bring the general government deficit to below 3 percent of GDP by 2015, in line with the Stability and Growth Pact targets. The following

table sets out the phasing and composition of the required adjustment effort. In the current challenging external environment, with increased risk to the medium-term fiscal position, this consolidation plan strikes an appropriate balance between debt reduction imperatives and the need to preserve confidence in growth and job creation.

Budgetary Consolidation 2012–15, in €billion 1/

	2012	2013	2014	2015
Expenditure	2.2	2.25	2.0	1.3
Current	1.45	1.70	1.9	1.3
Capital	0.75	0.55	0.1	0.0
Revenue	1.6	1.25	1.1	0.7
Consolidation	**3.8**	**3.5**	**3.1**	**2.0**

1/ The figures in the table above are consistent with the Medium-Term Fiscal Statement published on 4 November. The annual consolidation amounts exclude one-off items but include an element of carryover from measures implemented in previous years. In 2012, however, the expected €0.4 billion in carryover from the Universal Social Charge is not included in the €3.8 billion in consolidation.

5. **In implementing this consolidation, we will be guided by our aim to focus government expenditure on key services while protecting the most vulnerable.** The recently completed Comprehensive Review of Expenditure (CRE) was a root and branch survey of Government that identified a range of concrete options for savings which will deliver the bulk of consolidation over the medium term. Moreover, consistent with our commitment to protect the most vulnerable, we have opted for a selective approach that aims at better targeting social support and reforming entitlements, rather than pursuing across-the-board reductions in primary social welfare rates.

6. **Underscoring our commitment to fiscal consolidation, Budget 2012 will deliver an unchanged general government deficit target of 8.6 percent of GDP.** The Budget will be submitted to the Oireachtas on December 6 (prior action). The government will adopt consolidation measures amounting to €3.8 billion comprised of expenditure savings of €2.2 billion and revenue measures contributing €1.6 billion.

7. **We have designed the measures underpinning the 2012 consolidation with a view to enhancing public sector efficiency, while protecting growth and employment:**

- **Spending measures**: Our €1.45 billion current expenditure adjustments are based on targeted savings in (i) the wage bill arising mainly from public service numbers reductions of 7,000; (ii) social welfare, where we are reforming entitlements,

reducing unemployment traps and improving the targeting of our social supports; and (iii) departments' non-pay budgets by focusing spending on high-priority programs, reducing input costs, eliminating subsidies, and placing the funding for government services on a more sustainable footing. In addition, reductions in the capital budget of €0.75 billion will be achieved through deferring a number of large and expensive capital intensive projects, while protecting essential outlays for schools and hospitals. These measures will be supported by the recently announced Public Service Reform programme which aims at rationalising state bodies, reducing decentralisation-related project commitments, and maximising efficiencies through procurement reform, shared services and a greater use of IT services.

- **Revenue measures**: After successive budgets in which income tax burdens were raised significantly, and given the already large carryover of some €0.6 billion into 2012 from income tax increases in 2011, we have decided to focus on indirect tax increases to deliver the bulk of the €1 billion additional tax effort required in 2012. To this end, the VAT rate is being raised by 2 percentage points to 23 percent, which will be supplemented by increases in carbon and motor taxes. We are also taking the first steps toward a value-based property tax, by introducing an interim uniform household charge on primary residences, which will provide a stable funding source for local governments in the years ahead.

8. **Budget 2012 will detail high-quality measures to deliver our planned medium-term consolidation, along with binding medium-term expenditure envelopes.** To bolster the credibility of our medium-term plan and reduce uncertainty about future fiscal measures, we will set out on Budget Day revenue and expenditure measures for 2013–15 and their fiscal impact. Over one-quarter of the almost €5½ billion in planned expenditure effort for this period will arise from the substantial carryover of savings from public service numbers reductions and from entitlement reforms in social welfare due for implementation in 2012. An additional reduction in public service numbers of 11,500, and efficiency and equity-enhancing adjustments to the welfare system will deliver the new savings, with contributions also from nonpay programs and from the capital budget, as already indicated in the Infrastructure and Capital Investment Plan 2012–16. To anchor this consolidation, Budget 2012 will set out binding nominal expenditure ceilings for all Departments for 2012–14 (end-December 2011 structural benchmark). On the revenue side, we will target a further €3 billion effort through further strengthening carbon, excise and vehicle taxation; replacing the interim uniform household charge with a value-based property tax; and tightening various capital gains, VAT, PRSI and income tax expenditures.

9. **Institutional reforms are underway to support fiscal consolidation in the medium term and to underpin the soundness of fiscal policy on an ongoing basis.** A Fiscal Responsibility Bill, which will give effect to key articles of the recently adopted EU Directive on requirements for budgetary frameworks, will be submitted to the Oireachtas by end-March 2012. The Bill will establish a fiscal rules framework to ensure that public

finances are managed in a prudent and sustainable manner, and in accordance with the requirements of the Stability and Growth Pact. The Bill will also provide for the establishment of the Irish Fiscal Advisory Council on a statutory basis. The Bill will assure the Council's independence through clear arrangements for Council memberships, including consultation with a relevant Committee of the Oireachtas for nomination, appointment, extension and termination (end-March 2012 structural benchmark). The Government will ensure that the Council is adequately funded over time.

C. Financial Sector Policies

10. **We have made substantial progress in restoring the health of the Irish financial system, and will continue to press forward with reforms to protect these gains and address the challenges remaining.** The recapitalisation of the banking sector has been substantively completed at lower fiscal cost than expected due to private participation and burden-sharing. Improved confidence is reflected in the ability of banks to secure term funding. Deleveraging is advancing despite challenging conditions and it is likely the domestic banks will meet their disposal objectives for end-2011 though transaction risks remain. The priorities now are to strengthen bank balance sheets, expand their access to market funding, and develop banks' capacity to lend soundly in order to support the recovery.

Enhancing quality and transparency of banks' balance sheets

11. **Enhancing the quality of banks' balance sheets is critical to bringing private funding and ownership back to the financial system.** An immediate priority is to strengthen banks' disclosure and provisioning practices. In addition, tools are being put into place to facilitate private sector debt restructuring while preserving payment discipline, which will reduce uncertainty around the value of bank assets.

12. **To build confidence in bank assets, we will align disclosure guidance with international best practices.** By end-December 2011, we will issue disclosure guidance to banks that will cover items such as: standardised definitions related to troubled loans including arrears, default, and restructuring. We will ensure that the principles governing these disclosure guidance are made transparent so as to ensure that bank reporting is fully understood. These requirements will be reflected in the 2011 published financial statements, and we will continue to monitor adherence.

13. **Loan provisioning is being put on a more prudent and forward-looking basis, while remaining in compliance with IFRS.** We will issue guidance to banks for the recognition of accounting losses in their loan books (end-December 2011 structural benchmark). Whilst recognising the differences between provisions and loan loss forecasts for the end-December 2011 financial accounts, the banks are expected to bring forward a substantial proportion of loan losses originally envisaged to be booked in the period through

2013 in the 2011 PCAR. We will ensure that the principles governing these loan provisioning guidance are made transparent so as to ensure that bank reporting is fully understood.

14. **To guide the process of dealing with SMEs in financial difficulties, we have finalised revisions to the Code of Conduct for Business Lending to Small and Medium Enterprises which provide for a framework for how lenders deal with SMEs in financial difficulties.** The new SME Code was published on 4th of November 2011 and will become effective on 1st of January 2012. The revised SME Code reflects consultations with stakeholders and seeks to facilitate balanced negotiations between SMEs and lenders by requiring lenders to have proper procedures in place for dealing with borrowers facing financial difficulties (including minimum communication and information standards), where borrowers show willingness to cooperate and engage in a fair bilateral process for alternative repayment arrangements to be put in place. The Code makes clear that lenders retain their rights with respect to liquidation or other insolvency procedures. Banks will be required to submit their strategies for addressing arrears in their SME portfolios to the CBI by end-June 2012.

15. **The framework to enable households and creditors to deal with unsustainable debt burdens is being strengthened.** Orderly negotiations between lenders and distressed borrowers are critical to addressing unsustainable household debts while preserving Ireland's strong payment culture. To this end, we will continue to monitor implementation of the Code of Conduct on Mortgage Arrears. An Inter-departmental Mortgage Arrears Working Group recommended a range of options to address households in different financial situations. The Government is considering the recommendations and has committed to begin placing independent mortgage advisors in the field by end-March 2012. The CBI is exercising their supervisory powers to encourage banks to address the issue proactively.

16. **The Government is preparing its strategy for reform of the personal insolvency regime, which is important to underpin this resolution process.** We are on track to finalise a strategy by end-2011 to amend the Bankruptcy Act and create a new structured non-judicial debt settlement and enforcement mechanism (structural benchmark end-December), and intend to publish draft legislation by end-March 2012. In parallel, we will prepare plans to implement the institutional infrastructure needed to support out-of-court settlements by end-March 2012.

Strengthening the resilience of the financial sector

17. **We will continue to ensure the adequacy of bank capital.** In the 2012 Prudential Capital Assessment Review we will maintain the conservative and prudent approach underpinning the 2011 exercise, including independent loan loss forecasts, in the context of the EBA stress tests.

18. **We are acting to underpin the solvency and viability of the credit union sector, while protecting the public purse.** As an immediate step, we will proceed with actions to

deal with weaknesses in the most troubled institutions while protecting depositors to ensure financial stability. The costs of transfer will be contained through a competitive process, in so far as practicable. A commitment to initial resolution funding of €250 million will be made from the Exchequer in Q4 2011 which will be based on a principle of recoupment over the medium term via a levy under the Central Bank and Credit Institutions (Resolution) (No.2) Act 2011. Further funding, up to an amount to be agreed to with our external partners, will be made available in 2012, if required, for either resolution or stabilisation once the 2012 Credit Union amendment legislation is in place. As recommended by the interim report of the Commission on Credit Unions, the legal provision that requires credit unions to maintain an amount, under the terms of the Deposit Guarantee Scheme, in the Deposit Protection account at the Central Bank will be commenced in 2012.

19. **The restructuring process will take account of the interim report of the Commission on Credit Unions and any further recommendations made by the Commission on the revised structure for the sector.** We will publish legislation to strengthen the regulatory framework including making legislative provision for effective governance standards and prudential standards by end-June 2012 (proposed structural benchmark). The foregoing strategy to restructure the credit union sector and strengthen the regulatory and governance framework will help to ensure its' viability while protecting financial stability and containing fiscal costs. On this basis, we request that the adjustor in respect of payments for bank restructuring be extended to include resolution costs for credit unions, for both the performance criterion on the Exchequer primary balance and the indicative target on net central government debt.

20. **While proceeding to evaluate the bids for ILP's insurance arm, an action plan is being developed to address the challenges facing the banking group.** We have reviewed the ILP restructuring plan that was submitted to the European Commission in July. As a follow-on action, we are working with the institution and its advisors to assess options to strengthen the restructuring plan. By end-December 2011 we will complete an assessment of these options.

Upgrading supervision and the financial framework

21. **We are taking further actions to strengthen supervision.** We will continue to implement and report on progress with the Central Bank's action plan for strengthening supervision of credit institutions. As part of next year's supervisory work, we will, amongst other things, roll out a new risk assessment framework (PRISM), assess banks risk weighted asset calculations and the on-going accuracy of banks' internal models, continue training and development initiatives for Central Bank staff, further embed new operational structures to support cultural and engagement model changes, and continue to monitor banks deleveraging targets. The Supervision and Enforcement Bill will commence second stage in the Dáil shortly and is expected to continue its passage through the Oireachtas in early 2012.

22. **Legislation will be published by end-September 2012 in respect of a new Central Credit Register.** The proposed new credit register will support more informed lending decisions and development of improved insolvency procedures, while also providing an important tool for banking supervision. The data set to be collected is still being finalised, but will be comprehensive in scope, will include information on restructured as well as new loans, and will be covered by robust measures to protect personal information. We will work to ensure that an effective system is in place to deliver comprehensive and accurate data unique to each borrower. We plan to submit legislation to the Oireachtas to implement this approach by end-September 2012.

23. **We are strengthening the crisis management framework and imposing a levy to finance a resolution fund for credit institutions.** The Central Bank and Credit Institutions (Resolution) (No. 2) Act was passed by the Oireachtas in October 2011. This new steady-state regime establishes a resolution fund and provides for a range of resolution tools, most importantly the ability to transfer assets and liabilities to other institutions and the establishment of bridge banks (where the latter is in the public interest). The parameters of the levy noted in paragraph 18 will be determined by end-December 2011.

D. Structural Reforms

24. **Reforms to sectoral wage agreements are being prepared consistent with the time-bound action plan completed at end-September.** On July 28, the Government outlined proposed changes to Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs) aimed at increasing employers' willingness to hire, in particular in sectors hard-hit by the crisis, and to facilitate the necessary cross sector adjustment. These announcements took into consideration the implications of the 7 July 2011 High Court ruling which found that sections of the legislation governing wage-setting mechanisms within Joint Labour Committees are unconstitutional. The reforms will allow the targeted abolition of some EROs; greatly streamline the number of minimum wages set; require consideration of economic conditions such as unemployment, wage trends, and international competitiveness in setting wage rates; allow greater flexibility to deviate from EROs for companies facing financial difficulties; and will no longer include conditions of employment covered in existing legislation, such as compensation for working on Sunday. The reforms also will establish a time-bound process by which REA terms may be varied without consent of all parties, clarify the representativeness of parties necessary to register an REA, and clarify when REAs may be cancelled. Legislation will be submitted to the Oireachtas by end-December 2011.

25. **We will strengthen activation and training policies to help jobseekers get back to work.** We will commission and publish an external evaluation of the revised national employment action plan to ensure:

- that the large numbers of unemployed across all regions, including the long-term unemployed, have adequate incentives and skills needed to return to work; and

- the data and reporting systems required to ensure more effective interventions are put in place, including:

    - group intervention statistics (3 to 6 months);

    - ongoing intervention statistics (post 6 months) including numbers and level of penalty sanctions.

Based on its recommendations we will prepare an implementation plan by end-March 2012.

26. **We are advancing a substantial body of legislation to lower costs in sheltered sectors and strengthen competition law, thereby enhancing economic efficiency and Ireland's growth potential.** In October, the Government submitted to the Oireachtas the Legal Services Regulation Bill, which will increase transparency on legal costs, better protect consumers of legal services, and create independent oversight bodies for professional misconduct and disputes over legal costs that cover both solicitors and barristers. In September, the Government submitted legislation to make it easier for general practitioner doctors to obtain contracts under the General Medical Services Scheme. To improve enforcement of competition provisions, the Government submitted the Competition (Amendment) Bill to increase penalties under existing statutes for violations of competition law, allow recovery of investigation and court proceeding costs, and make it easier for private individuals to prove an action once public enforcement proceedings have been taken successfully. We will continue to engage with the staff of the European Commission on the effectiveness of competition enforcement. We will seek the timely enactment and implementation of this legislation.

27. **We are preparing an ambitious programme of state asset disposals and associated regulatory reforms.** We are considering options for asset disposals, based on the Programme for Government and the report of the Review Group on State Assets and Liabilities. Our draft programme of asset disposals will be discussed with the European Commission, the IMF and the ECB by end-December 2011, in advance of taking final decisions on the programme to be pursued. The draft programme will identify potential assets for disposal and any necessary regulatory changes, including those needed to be consistent with relevant EU legislation, that would have to be made in advance of such disposals. The timetable for implementation will take into account the need for an orderly process that avoids fire sales and allows time to implement regulatory reforms.

E. Programme Financing

28. **The program remains well financed and improvements in the terms of EU lending have strengthened Ireland's financing and debt outlook.** The combined effect of the very welcome significant reductions in interest rates and longer maturities on EFSM, EFSF and bilateral loans, along with quota related reductions in IMF lending rates, could reduce our interest bill by around €10 billion over the full period to maturity. We look forward to final implementation of these important commitments. The first disbursement under the U.K. bilateral loan in the amount of €0.5 billion was made in early October in the context of the completion of the third review of the IMF-supported program. Bilateral discussions with Sweden and Denmark are ongoing, with completion of the loan documentation pending final agreement on the new EFSF terms.

F. Programme Monitoring

29. **Progress in the implementation of the policies under the programme will continue to be monitored through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews, as envisaged in the Letters of Intent of 3 December 2010, 28 April 2011, 28 July 2011 and this letter.** The programme also continues to be in compliance with requirements under the Memorandum of Understanding on Specific Policy Conditionality. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the programme. The Government's targets for the exchequer primary balance are monitored through quarterly performance criteria and net central government debt is an indicative target (Table 2). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3).

30. **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-September 2011	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-September 2011	Observed
Continuous Performance Criteria		
Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government	Continuous	Observed
Structural Benchmarks		
Define the criteria to run stringent stress tests scenarios.	End-December 2010	Observed
Agree on terms of reference for the due diligence of bank assets by internationally recognised consulting firms.	End-December 2010	Observed
The Central Bank will direct the recapitalisation of the principal banks (AIB, BoI and EBS) to achieve a capital ratio of 12 percent core tier 1.	End-February 2011	Not observed 1/
Submit to Dáil Éireann the draft legislation on a special resolution regime.	End-February 2011	Observed 2/
The Central Bank to complete the assessment of the banks' restructuring plans.	End-March 2011	Observed
Complete the diagnostic evaluation of banks' assets.	End-March 2011	Observed
Complete stress tests (PCAR 2011).	End-March 2011	Observed
Complete a full assessment of credit unions' loan portfolios	End-April 2011	Observed
Finalise plans for the recapitalisation of Irish Life and Permanent.	End-May 2011	Observed
Establish a Fiscal Advisory Council.	End-June 2011	Observed
Complete the recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society.	End-July 2011	Observed
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

1/ Central Bank directions were issued within the required timeframe, however completion of the capital injections required was postponed by the Minister for Finance until after the General Election. These directions are now superseded by the Central Bank's PCAR directions of 31 March 2011.
2/ In practice this was submitted to the Seanad as discussed in paragraph 21of the MEFP, as the Dáil was dissolved owing to the elections.
3/ Effective end-October 2011 and posted on November 8, 2011 (http://www.finance.gov.ie/documents/publications/reports/2011/bankMOU.pdf).

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

	June 30, 2011		September 30, 2011		December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012
	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
	(In billions of Euros)							
	Performance Criterion		Performance Criterion		Performance Criterion	Performance Criterion	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance 2/	-10.1	-8.4	-20.2	-18.3	-15.0	-7.5	-9.0	-11.0
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt	94.6	91.7	115.9	111.7	116.9	126.2	129.9	132.4

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. Ireland: Upcoming Prior Action and Structural Benchmarks under the Programme for 2011–2012

Measure	Date	Status
Financial sector policies		
Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book (MEFP, ¶13).	End-December 2011	Structural benchmark
Finalise a strategy to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system (MEFP, ¶16).	End-December 2011	Structural benchmark
Publish legislation to strengthen the regulatory framework including making legislative provision for effective governance standards and prudential requirements for credit unions (MEFP, ¶19).	End-June 2012	Proposed structural benchmark
Fiscal policies		
Submit the 2012 Budget to the Oireachtas (MEFP, ¶6).	6 December 2011	Prior action
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets (MEFP, ¶8).	2012 Budget day in early December 2011	Structural benchmark
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence (MEFP, ¶9).	End-March 2012	Structural benchmark

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

29 November 2011

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to performance criteria and indicative targets under the arrangement supported by the Extended Fund Facility (EFF). These performance criteria and indicative targets are reported in Table 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 November 24, 2010 as shown on the European Central bank web-page, in particular, €1 = 1.3339 U.S. dollar and €1 = 0.86547 SDR.

I. Quantitative Performance Criteria And Indicative Targets

Floor on the Exchequer Primary Balance

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

[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.

expenditure (voted and non-voted expenditure). The Sinking Fund provision is a transfer from the current account to the capital account to reduce national debt and has no effect on the overall Exchequer balance.

4. The performance criteria are set on the Exchequer primary balance (the Exchequer balance excluding net debt interest payments in the service of the National Debt).[2]

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

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

Cumulative Exchequer primary balance	(In billions of Euros)
From January 1, 2011:	
End-December 2011 (performance criterion)	-15.0
From January 1, 2012:	
End-March 2012 (performance criterion)	-7.5
End-June 2012 (indicative target)	-9.0
End-September 2012 (indicative target)	-11.0

7. The performance criterion on the Exchequer primary balance (floor) will be adjusted upward (downward) for the full amount of any over-performance (under-performance) in Exchequer tax revenues, pay-related social insurance contributions (PRSI) and national training fund contributions against the current projection which is listed below:[3]

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

[3] Exchequer tax receipts are comprised of income tax (including the universal social charge), value added tax (VAT), corporation tax, excise duties, stamp duties, capital gains tax, capital acquisitions tax and customs duties.

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of Euros)
From January 1, 2011:	
End-December 2011 (projection)	42.4
From January 1, 2012:	
End-March 2012 (projection)	9.7
End-June 2012 (projection)	19.7
End-September 2012 (projection)	30.7

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 are excluded from the definition of liquid assets.

10. For the purposes of the programme, the ceiling on the central government net debt (indicative target) will be adjusted upward by debt arising from payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. These payments may include, inter alia, loans to banks, investments in their equity (requited recapitalisation); unrequited recapitalisation; and purchases of troubled assets, which are carried out in line with programme objectives. The ceiling will be adjusted 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. The ceiling will also be adjusted upward for Exchequer outlays for the resolution of credit unions, and downward for any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund. The programme exchange rates will apply to all non-euro denominated debt.

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

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-September 2011 (provisional)	111.7
End-December 2011 (indicative target)	116.9
End-March 2012 (indicative target)	126.2
End-June 2012 (indicative target)	129.9
End-September 2012 (indicative target)	132.4

Non-accumulation of External Payments Arrears by Central Government

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

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

II. REPORTING REQUIREMENTS

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

- The Department of Finance will report the Exchequer primary balance to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date.

- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.

- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staff, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

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

Attachment IV. Ireland: Letter of Intent (European Commission)

Dublin, 28 November 2011

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

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

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

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

Dear Messrs Draghi, Juncker, Rehn and Rostowski:

1. The Government's commitment to the Programme is illustrated by our continued strong performance in its implementation. Once again, for the fourth quarterly review, we have met all the programme targets both in terms of policy reforms as well as quantitative targets:

- On fiscal policy, the outturns up to the end of October are in line with the programme profile, and the general government deficit for 2011 as a whole is expected to be within the 10.6% of GDP programme ceiling. We have also conducted a comprehensive review of expenditure, established an independent fiscal advisory council, and reformed pension entitlements for new entrants to the public service (including linking them to career average earnings).

- We have substantively completed the recapitalisation of the domestic banks, at a cost to the taxpayer significantly lower than initially anticipated, thanks to private sector participation and burden sharing. Domestic banks have sold a significant amount of non-core assets. The restructuring of the domestic banks is progressing and plans for this have been submitted to the European Commission for clearance in accordance with State Aid rules. We have published a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight.

- We have made significant progress towards opening up sheltered sectors (e.g., pharmacies, general practitioners, and legal services), and laid out an action plan to reform, in consultation with our social partners, the sectoral labour arrangements to facilitate the needed adjustment in the labour market.

This performance comes at a time when there have been both positives and negatives for Ireland. On the negative side, the growing uncertainty in relation to Euro Area debt has contributed to increasing financial market pressures. This in turn is being reflected in a deteriorating outlook for the world economy which is contributing to a heightened risk outlook. On the positive side, growth has resumed, albeit mainly export led. Our banking sector is now attracting private investment and is also successfully funding in the private market. In addition, the Euro Area Heads of State or Government meeting on 21 July this year, made the welcome and significant decision to reduce the cost of EFSF loans, and this was followed by similar commitments in respect of the EFSM loan and our UK bilateral loan. Further steps toward establishing a comprehensive framework to address the crisis facing the region were taken on October 26. These positive developments have been reflected in our bond spreads which, though still high, have narrowed considerably from the elevated levels seen earlier this year. Against this background, we are proceeding with the process of preparing Budget 2012, and we have recently published our medium-term fiscal strategy, which sets out our fiscal targets for 2012 and for the years up to 2015. In the case of Budget 2012, we are committed to meeting the deficit target of 8.6% of GDP, and will take the high quality adjustment measures necessary to achieve this target.

2. In particular, in the attached third update of the Memorandum of Understanding on Specific Economic Conditionality (MoU), we set out our plans to further advance towards meeting the programme objectives. The budgetary measures provided in the MoU are based on the current assessment of policy intentions. The final decisions on the measures necessary

to achieve the agreed level of fiscal adjustment will be made with the introduction of the Budget – which for 2012 will be announced on 5th and 6th December 2011. 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 fourth review and the release of the fourth EU disbursement of EUR 4.2 billion. The financing needs outlook remains broadly in line with expectations at the third program review, but to allow a more prudent financing position with respect to the timing of the completion of reviews and disbursements, we request a re-phasing of disbursements. Specifically, we request that the disbursement following the fifth review should be €5.8 billion with the additional amount taken equally from the sixth, seventh and eighth reviews. This represents a redistribution within 2012 of the already agreed disbursements.

3. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, 28 April 2011, 28 July 2011, and in this letter are adequate to achieve the objectives of our programme. The degree of uncertainty and margins of error surrounding macroeconomic and fiscal projections over the period remain high, due mainly, but not exclusively, to international events. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. As indicated in the MoU, we will consult with the European Commission, the ECB and the International Monetary Fund on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum of Understanding.

4. This letter is being copied to Mme Lagarde.

Sincerely,

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

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

IRELAND
MEMORANDUM OF UNDERSTANDING
ON
SPECIFIC ECONOMIC POLICY CONDITIONALITY

(THIRD UPDATE)

28 November 2011

With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, this third update of the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) details the general economic policy conditions as embedded in Council Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland.

The quarterly disbursement of financial assistance from the European EFSM[1] will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure, and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this updated MoU, which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are expected to be missed, additional action will be taken.

For the duration of the EU/IMF financial assistance programme the Irish authorities will take all the necessary measures to ensure a successful implementation of the programme and minimise the costs to the taxpayers, 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 tight supervision of expenditure commitments by the line departments, and effective tax collection, to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council

[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.

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

- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible.
- Ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF Programme and the needs of the economy.
- Consult ex-ante with the European Commission, the ECB and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.

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

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

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

Fiscal consolidation

o Following the conclusion of the Comprehensive Review of Expenditure (CRE), Government published the Medium-Term Fiscal Statement on 4 November 2011, setting out a medium-term fiscal consolidation plan for 2012 – 2015 outlining the overall composition of revenue and expenditure adjustments for each year, consistent with the targets set out in the Council Recommendation in the context of the excessive deficit procedure. Moreover, by 2012 Budget day in early December 2011, Government will anchor this consolidation plan in binding medium-term expenditure cash ceilings and will set out revenue and expenditure measures to deliver the needed adjustment.

o Government will propose a budget for 2012 aiming to further reduce the general Government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure and including the detailed presentation of consolidation measures amounting to €3.8billion. The Government will introduce:

o Revenue measures to yield €1.6 billion[2] including:

- An increase in the standard VAT rate

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[2] *Inclusive of carryover of EUR 0.6 billion from the revenue measures committed in the original programme. For 2012, they exclude one-off measures and EUR 0.4 billion in carryover from the universal social charge which was introduced as part of Budget 2011.*

  - Increases in other indirect taxes
  - A Property tax
  - A reform of capital gains tax and capital acquisitions tax.
- o Expenditure reduction of EUR €2.2 billion including:
  - Social expenditure reductions.
  - Reduction of public service numbers and public service pension adjustments.
  - Other programme expenditure, and reductions in capital expenditure.

Without prejudice to the minimum consolidation amount referred to in the previous paragraph and in consultation with the staff of the European Commission, the IMF and the ECB, the Government may substitute one or more of the above measures with others of equally good quality following further analysis of the recently completed CRE.

Financial sector reforms

Recapitalization

- Government will ensure that the recapitalization of banks, as identified in the 2011 Prudential Capital Assessment Review, will be completed subject to appropriate adjustments for asset sales of IL&P.

Deleveraging

- An update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the ECB and the IMF. In addition, the Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the Net Stable Funding Ratio (NSFR) and the Liquidity Coverage Ratio (LCR) in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

- The Irish authorities will report on progress in implementing the strategy for the reorganisation of Irish credit institutions and discuss it with staff of the European Commission, the ECB and the IMF. The Irish authorities will continue to work to obtain the approval of the European Commission of the restructuring plans for the banks in the context of the ongoing State Aid cases.
- The Irish authorities, in consultation with the staff of the European Commission, the IMF and the ECB, will complete the assessment of options to strengthen the restructuring plan for IL&P.

Credit unions

- The Irish authorities will act to underpin the solvency and viability of the credit union sector while minimising the fiscal cost. As an immediate step, the authorities will deal with weaknesses in the most troubled institutions in accordance with State aid rules while protecting depositors to

ensure financial stability. A commitment to initial resolution funding of €250 million will be made from the Exchequer in Q4 2011 which will be based on a principle of recoupment over the medium term via a levy under the Central Bank and Credit Institutions (Resolution)(No.2) Act 2011.

Financial supervision

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

- The Central Bank of Ireland will issue guidance to banks for the recognition of accounting losses incurred in their loan book. Specifically, the Central Bank of Ireland will begin requiring the banks: (i) on core assets, to increase the consistency and conservatism in their impairment triggers and provisioning model inputs including *inter alia*: period of arrears, emergence periods, cure rates and collateral value, and treatment of restructured loans and forbearance; (ii) on non-core assets (assets under deleveraging) to provision to reflect losses arising from their planned disposal, taking account as appropriate of the PLAR/PCAR analysis. We will ensure that the principles governing these disclosure requirements are made transparent so as to ensure that bank reporting is fully understood.

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

Structural reforms

To prepare for the introduction of water charges

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

To better target social support expenditure

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

To increase competition

- Building on the Competition (Amendment) Bill, the Irish authorities will engage with European Commission services and discuss measures to further enhance the competition enforcement framework and present amendments to the Bill where appropriate.

To reform labour market

- Building on the time-bound action plan presented in September 2011, authorities will present legislation to the Dáil to modernise Registered Employment Agreements (REAs) and Employment Regulations Orders (EROs) with a view to reducing the possible negative impact on job creation and competitiveness of existing arrangements. The Irish authorities will engage with the staff of the European Commission, the IMF and the ECB on the basis of draft legislation in advance of publication.

Structural fiscal reforms

To further reform key sectors of the economy

- Government will consider options for an ambitious programme of asset disposals, based on the Programme for Government and the report of the Review Group on State Assets and Liabilities. Government will prepare a draft programme of asset disposals in this context and discuss it with the staff of the European Commission, the IMF and the ECB by end-December 2011 in advance of taking final decisions on the programme to be pursued. The draft programme will include the identification of the potential assets to be disposed, any necessary regulatory changes and a timetable for implementation, and an assessment of their classification as financial or non-financial transactions.
- The draft programme will include the identification of the regulatory steps and changes deemed necessary, including those required to be consistent with relevant EU legislation, in relation to the options under consideration before the sale of a minority stake in the Electricity Supply Board (ESB) can be finalised.

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

Structural fiscal reforms

To reinforce the credibility of the budgetary process

- Government will introduce a Fiscal Responsibility Bill consistent with the economic governance framework at the EU level, including provisions for a medium-term budgetary framework, fiscal rules and the Fiscal Advisory Council. The Bill will assure the Council's independence through clear arrangements for Council memberships, including consultation with a relevant committee of the Oireachtas for nomination, appointment, extension and termination. The Government will ensure that the Council is adequately funded over time.

Financial sector reforms

PCAR 2012

The Irish authorities will report on the evolution of the capital up to end December 2011, within the banks covered by the PCAR and will present and discuss its findings with the staff of the European Commission, the ECB and the IMF by end February 2012.

- The 2012 PCAR exercise will be carried out in the context of the 2012 European Banking Authority (EBA) stress tests. The Irish authorities will agree with the staff of the European Commission, IMF and ECB on the specific features of the methodology building on the strengths of the PCAR 2011.

Deleveraging

- The Irish authorities, in consultation with the staff of the European Commission, IMF and ECB, will assess banks' performance vis-à-vis the agreed asset disposal targets. In line with the monitoring system set up, actual and forecast LDRs, NSFR's and asset disposals shall be reported by the banks to the Central Bank of Ireland every six months (first report was issued on 31 July 2011). Such reports will include (i) progress achieved towards interim target; (ii) forecast of LDR and NSFR for the end of the next period; (iii) a detailed plan of action to meet the next interim target; and (iv) actual and planned asset disposals. If actual or forecast asset disposals fail to meet the interim targets for the quantum of asset disposals, the Irish authorities will inform the staff of European Commission, IMF, and ECB within 14 days of becoming aware of such failure. The Central Bank will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation. In addition to providing the six-monthly report, the Irish authorities will update the staff of European Commission, the IMF and the ECB on progress in the intervening quarters.

- The Irish authorities, in consultation with staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Supervision

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

Structural reforms

To reform the personal debt regime

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

To further reform key sectors of the economy

- In line with the time-bound action plan submitted in September 2011, authorities will publish a public consultation draft of updated retail planning guidelines which include, *inter alia*, the agreed changes to the retail size caps in Ireland. Building on representations received by end-2011, authorities will issue finalised retail planning guidelines which include the agreed changes to retail size caps.

To improve the activation of the unemployed

- The Irish authorities will take steps to strengthen activation and training policies to help jobseekers get back to work and will commission and publish an external evaluation of the revised national employment action plan to ensure:
    - that the large numbers of unemployed across all regions, including the long-term unemployed, have adequate incentives and skills needed to return to work; and
    - the data and reporting systems required to ensure more effective interventions are put in place, including:
        - group intervention statistics (3 to 6 months);
        - ongoing intervention statistics (post 6 months) including numbers and level of penalty sanctions.
- Based on its recommendations the Department of Social Protection will prepare an implementation plan by end-March 2012

To better target social support expenditure

- The Department of Social Protection will submit to Government the comprehensive programme of reforms that can help better targeting of social support to those on lower incomes, and ensure that work pays for welfare recipients.

To increase competition

- Authorities will undertake a review of the resourcing of the Competition Authority and report on whether it is sufficient to allow adequate enforcement capacity of the new legislative framework.

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

Financial sector reforms

PCAR 2012

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

Deleveraging

An update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the

ECB and the IMF. In addition, the Irish authorities, in consultation with the the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Credit Unions

- As recommended by the interim report of the Commission on Credit Unions, the legal provision that requires credit unions to maintain an amount, under the terms of the Deposit Guarantee Scheme, in the Deposit Protection account at the Central Bank will become effective in 2012 .
- The restructuring process will take account of the interim report of the Commission on Credit Unions and any further recommendations made by the Commission on Credit Unions on the revised structure for the sector. The Irish authorities will publish legislation to strengthen the regulatory framework, including making legislative provision for effective governance standards and prudential requirements.

Reorganisation

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

Financial Supervision

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

Structural reforms

To assist in covering financing needs and to increase competition

- Based on the results of the assessment of the efficiency of the electricity and gas sectors, the authorities will further strengthen the regulatory and market reform programme in consultation with staff of the European Commission Services, with a view to increase efficiency, improve governance, strengthen competition and improve these sectors' ability to contribute towards covering Ireland's financing needs and improving its growth potential and economic recovery.

To increase competition

- Authorities will ensure that resourcing of the Competition Authority is sufficient to ensure adequate enforcement capacity of the new legislative framework on the basis of the review undertaken in Q1 2012.

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

Financial sector reforms

Deleveraging

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).

- The Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial Supervision

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

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

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

Fiscal consolidation

- Government will propose a budget for 2013 aiming at a further reduction of the general Government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure and including the detailed presentation of consolidation measures amounting to €3.5 billion. The following measures are proposed for 2013:
    - Revenue measures to raise at least €1.25 billion [3] will be introduced, including:
        - A broadening of personal income tax base
        - A restructuring of motor taxation
        - A reduction in general tax expenditures.
        - An increase in excise duty and other indirect taxes.
    - Expenditure reductions of no less than €2.25 billion, including:
        - Social expenditure reductions.

[3] Inclusive of carryover from 2012

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

Without prejudice to the minimum consolidation amount referred to in the previous paragraph and in consultation with the staff of the European Commission, the IMF and the ECB, the Government may substitute one or more of the above measures with others of equally good quality following further analysis of the recently completed CRE.

Financial sector reforms

Deleveraging

- An update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the ECB and the IMF. In addition, the Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial Supervision

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

Structural reforms

To increase competition

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

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

Financial sector reforms

PCAR 2013

- The Irish authorities will report on the evolution of the capital up to the end of December 2012, within the banks covered by the PCAR and will present and discuss its findings with the staff of the European Commission, the ECB and the IMF by end February 2013.

- The 2013 PCAR exercise will be carried out in the context of the 2013 European Banking Authority (EBA) stress tests. The Irish authorities will agree with the staff of the European Commission, IMF and ECB on the specific features of the methodology building on the strengths of the PCAR 2011.

Deleveraging

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).

- The Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial supervision

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

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

Financial sector reforms

PCAR 2013

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

Deleveraging

- An update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the ECB and the IMF. In addition, the Irish authorities, in consultation with the

staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial supervision

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

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

Financial sector reforms

Deleveraging

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).

- The Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial Supervision

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

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

Financial sector reforms

PCAR 2013

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

Deleveraging

- A final report of the banks' implementation of their deleveraging plans under the PLAR 2011 and their compliance with the LDR target will be discussed with the European Commission, the ECB and the IMF. In addition, the Irish authorities, in consultation with the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial Supervision

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

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 90 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly , 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly , 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- owned commercial enterprises (interest and amortisation)	Quarterly, 30 working days after the end of each quarter
F.10	Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.	Quarterly, 30 working days after the end of each quarter.
F11	Report on progress achieved towards interim PLAR targets and actual and planned asset disposals.	Quarterly, 10 working days after the end of each quarter.
To be provided by the NTMA		
N.1	Monthly information on the Government's cash position with	Monthly, three working

	indication of sources as well of number of days covered	days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 days after the end of each month
N.3	Data on public debt and new guarantees issued by central Government to public enterprises and the private sector.	Monthly, 30 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for central Government.	Monthly , 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the banking and Government sectors in the next 12 months	Monthly, 30 working days after the end of each month
To be provided by the Central Bank of Ireland		
C.1	The Central Bank of Ireland's balance sheet.	Weekly, next working day
C.2	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	Quarterly, 35 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes and deleveraging sales progress sheets, detailing pricing,quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month

INTERNATIONAL MONETARY FUND

IRELAND

Fourth Review Under the Extended Arrangement and Request for Rephasing of the Arrangement—Supplementary Information

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

Approved by Ajai Chopra and Lorenzo Giorgianni

December 9, 2011

1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on November 30, 2011 (EBS/11/172).** Budget 2012 was submitted to parliament on December 5–6 and is consistent with the programmed €3.8 billion consolidation for 2012, meeting the prior action for this review. The budgetary package also includes binding current expenditure ceilings over 2012–14 which, together with the capital expenditure envelopes set out in the Infrastructure and Capital Investment Plan 2012–16 (published in November), fulfill the structural benchmark on a multi-annual expenditure framework. The additional information does not change the thrust of the staff appraisal.

2. **The authorities have revised their 2012 macroeconomic projections to account for weakening external environment.** Projected growth in real GDP was revised to 1.3 percent in 2012, down from 1.6 percent in the *Medium-Term Fiscal Statement* released in early November, and closer to the staff projection of 1 percent growth in 2012. The revision mostly reflects weaker export growth projections and a steeper contraction in private consumption and investment. Due to tax increases envisaged in the budget, the authorities now expect a 1.9 percent increase in HICP next year (compared to 1.2 percent projected earlier), which also raises GDP deflator inflation. Overall, there is little change in projected nominal GDP in 2012. Beyond 2012, the medium-term projections are broadly unchanged, continuing to hinge on a restoration of growth in trading partners.

3. **Budget 2012 stipulates concrete measures to achieve the €3.8 billion consolidation target for 2012, consistent with the MEFP (¶24).[1]** The revenue package

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[1] The 2012 budgetary package was announced in steps. On November 4, 2011, the Medium-Term Fiscal Statement (MTFS) set out the macroeconomic assumptions and consolidation amounts for 2012–15; a €3.8 billion fiscal consolidation target was set for 2012. On November 10, the Infrastructure and Capital Investment Plan was published, containing the capital spending allocations for 2012 (and through 2016). On December 5, the Minister for Public Expenditure and Reform presented the Estimates Statement to the Dáil, stipulating the current expenditure envelopes for 2012 (and through 2014) as well as the underlying measures, as part of the Comprehensive Expenditure Report. Finally, on December 6, the Minister for Finance announced the Financial Statement, the Summary of Budget Measures (including revenue measures) and the overall

(continued)

totals €1.07 billion (net of the €0.6 billion carryover from 2011, and the cost of new targeted tax reliefs), while net expenditure savings amount to €2.15 billion, combining €0.75 billion in capital reductions (as previously set out in the Infrastructure and Capital Investment Plan 2012–16) and €1.4 billion in current spending cuts:

- The revenue measures (and associated yields) comprise: (i) a 2 percentage point increase in the standard VAT rate, to 23 percent (€0.56 billion); (ii) a tightening of excise duties – mainly carbon and motor tax (€0.18 billion); (iii) the harmonization of tax rates for capital gains, capital acquisitions and retained deposit interest, at 30 percent (€0.17 billion); (iv) the introduction of a flat annual household charge of €100—as a forerunner to a value-based property tax (€0.16 billion); (v) tightening of various income tax and pay-related social insurance reliefs (€0.08 billion); and (vi) tax administration measures (€0.09 million). This €1.24 billion revenue effort is offset slightly by €0.17 billion in targeted tax reliefs directed at, inter alia, low-income and part-time workers, the commercial property sector, current and potential mortgage holders, and SMEs and start-up companies.

- The current expenditure savings are anchored in a targeted reduction of 6,000 in public service numbers in 2012 (relative to end-2011 forecast of 300,000). Across sectors, the savings are led by the departments of health, social protection, and education and skills, which account for 80 percent of gross current spending (see Text Table 1).

  - In *health*, the savings are distributed evenly across four broad areas: higher charges for private care in public hospitals; wage bill savings arising from employment reductions (2,000 persons over 2011 forecast) and adjustments in overtime and premium rate payments; tighter payments on schemes for drugs and to General Practioners; and other service efficiencies and non-drug procurement savings.

  - The major *social protection* adjustments (accounting for about half of the savings from the vote) include: discontinuation of the higher child benefit payment rates for the third and fourth child; shortening of the fuel allowance eligibility season from 32 to 26 weeks; lowering the share of redundancy costs reimbursed to employers from 60 to 15 percent; and reductions in rent supplement payments.[2]

  - Savings in the *education* vote will come primarily from raising average pupil-teacher ratios in post-primary schools from 20:1 to 21:1; a €250 increase in the

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Economic and Fiscal Outlook and targets for 2012. All Budget 2012 documents are available on the Department of Finance's website.

[2] The remaining half of the savings arises from a number of small measures, such as discontinuation of some schemes, modified eligibility criteria for certain payments, and tightening of the definition and application of means tests.

annual student contribution to college fees; a 2 percent reduction in core funding for higher education bodies; and the elimination of maintenance grants for post-graduate students.

Ireland: Distribution of Current Expenditure Measures (Euro billions)

Department:	Savings in 2012	Full year equivalent
Health	0.54	0.80
Social Protection	0.48	0.81
Education and Skills	0.13	0.32
Agriculture, Food & the Marine	0.11	0.11
Justice and Equality	0.10	0.10
Other	0.19	0.16
Less: Offsetting costs	*-0.15*	
Total	**1.40**	**2.29**

4. **The package of budgetary measures for 2012 accords with the authorities' goals of supporting job creation and reforming public service delivery.** Targeted welfare adjustments and accompanying activation and training initiatives, together with unchanged income tax burdens, will help make work pay while continuing to protect the most vulnerable. The contemporaneous introduction of targeted incentives to boost activity in the SME and property sectors and to support mortgage borrowers helps attenuate the impact on domestic demand, although such measures should be temporary. The shift away from across-the-board cuts toward more discriminate measures in the current and capital budgets will promote a leaner more efficient public sector. Although the combination of higher indirect taxation, flat household charge, and welfare adjustments will entail some losses across the income distribution, the capital gains, deposit interest retention tax, and capital acquisition tax measures in 2012 are progressive and the cumulative adjustment since 2008 remains strongly progressive.

5. **A majority of the targeted consolidation effort of €8.6 billion over 2013–15 has been specified, with the main exception being part of the future measures to contain current expenditure.** Budget 2012 signaled that *tax effort* of €2.8 billion (excluding €0.23 billion in carryover of 2012 tax measures into 2013) required over this period could be achieved by, inter alia, introducing a value-based property tax; reforming vehicle registration and motor taxes; extending PRSI to non-payroll income; tightening a variety of income tax expenditures, and reducing the tax-related costs of private pension provision. The Infrastructure and Capital Investment Plan 2012–16 provides a clear basis for the €0.65 billion in additional *capital savings* through 2015. As regards *current spending*, however, most of the almost €5 billion in additional savings over 2013–15 are still to be formally specified. Nonetheless, the authorities have announced a target for the reduction in public service numbers of 12,500 over 2013–15, as well as possible reform avenues in social protection expenditure (which is expected be contribute the bulk of savings), such as better targeting of child income support and the introduction of a single assistance payment for

working age persons. A wide menu of reform options in other expenditure areas have also been identified in the now-published departmental CRE documentation.[3] Moreover, the authorities have published cash ceilings for current expenditure (by-vote) out to 2014, which should further anchor expectations around the authorities' consolidation commitments.[4]

6. **Increased financial stress in the euro area is starting to hamper the deleveraging process, and notably the disposal of Irish Life has been suspended.[5]** The disposal of Irish Life was part of the plan to recapitalize Irish Life & Permanent. The authorities stated that the bidding process attracted significant interest from a broad range of potential acquirers, however none of the bids received for Irish Life were acceptable at the present time, as the current very challenging European market environment is not supportive of achieving a valuation that recognizes the strength of the Irish Life business. The authorities have confirmed that they will complete the envisaged recapitalization, and the resulting capital requirement of €1.3 billion is less than 1 percent of GDP. The timing and modalities of this transaction are expected to be discussed as part of the fifth review of the program, with it expected to be neutral with respect to the program's fiscal deficit target, while the impact on net government debt is manageable and is expected to be temporary.

7. **The recapitalization of Bank of Ireland (BoI) has been completed.** On December 2, 2011 BoI announced that it had generated approximately €350 million of core tier 1 capital from the repurchase of residential mortgage backed securities and subordinated debt. As a result, Minister Noonan announced he was no longer considering the use of a Subordinated Liability Order to raise the remaining capital requirement for Bank of Ireland.

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[3] This is available on http://per.gov.ie/comprehensive-review-of-expenditure-submissions/.

[4] It is important to note that for key votes (such as health), cash ceilings set for 2012 in the November 2010 National Recovery Plan provided a useful basis for budgetary settlement discussion in the recent CRE. As such, ceilings announced as part of Budget 2012 should provide an important anchor for the requisite expenditure effort.

[5] Ireland is among the Eurozone countries on Standard & Poor's negative watch pending the outcome of the Summit, with a downgrade by two notches to near non-investment grade possible.

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

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Washington, D.C. 20431 USA

IMF Completes Fourth Review Under the Extended Arrangement with Ireland and Approves €3.9 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of Ireland's performance under an economic program supported by a three-year, SDR 19.47 billion (about €23.02 billion; or US$29.91 billion) arrangement under the Extended Fund Facility (EFF), or the equivalent of about 1,548 percent of Ireland's IMF quota. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 3.31 billion (about €3.91 billion; or US$5.08 billion), bringing total disbursements under the EFF to SDR 11.05 billion (about €13.07 billion; or US$16.98 billion).

The arrangement for Ireland, which was approved on December 16, 2010 (see Press Release No. 10/496) is a part of a financing package amounting to €85 billion (about US$110.44 billion) also supported by Ireland's European partners through the European Financial Stabilization Mechanism and European Financial Stability Facility, and bilateral loans from the United Kingdom, Sweden and Denmark, and Ireland's own contributions.

In the wake of credit and housing booms that were followed by the worst economic crisis in its recent history, Ireland undertook an in-depth analysis, including stringent stress tests, of its domestic banks. On this basis, the Irish authorities adopted a comprehensive financial sector reform strategy in March 2011. Implementation of the first phase of the strategy to reorganize the domestic banks, strengthen their capital base, and initiate a downsizing of their balance sheets is now complete, and further reforms are underway.

The authorities are also continuing to implement a sizeable fiscal adjustment, with the budget on track for the 2011 fiscal targets. The recently announced 2012 budget includes €3.8 billion (2.7 percent of GDP) in spending and revenue measures, to reach a deficit target of 8.6 percent of GDP, and the authorities' Medium-Term Fiscal Framework sets out the path to bring the deficit below 3 percent of GDP in 2015. These actions are helping to restore confidence as part of the government's strategy to put the economy on a path of sustainable growth, sound public finances, and job creation.

Led by strong export performance, Ireland's real GDP growth turned positive in the first half of 2011, reaching an annual rate of 2¼ percent in the second quarter, with annual growth of 1.1 percent projected in 2011. Weakening activity in Ireland's trading partners is projected slow Irish exports such that real GDP growth remains around 1 percent in 2012.

Following the Executive Board's discussion on December 14, Mr. David Lipton, First Deputy Managing Director and Acting Chair, said:

"The Irish authorities have maintained strong program implementation despite the strained external environment. Growth turned positive in the first half of the year and Irish bond spreads have declined significantly since the summer, but Ireland faces risks from the turmoil in the euro area and the weakened growth prospects of trading partners.

"The authorities are keeping the budget on track for a substantial consolidation this year. Through the 2012 budget and Medium-Term Fiscal Statement they have expressed their commitment that the public debt ratio will be put on a clear downward path through a balanced mix of expenditure and revenue measures. The planned amount of fiscal adjustment should be maintained in the event of adverse developments to avoid amplifying policy procyclicality.

"After successful completion of the crucial first phase of financial sector reforms, the authorities are now deepening their efforts to build the sector's capacity to support the recovery. Key steps underway include improving provisioning and disclosure, strengthening banks' business models and internal controls, and enhancing financial sector supervision. The authorities are also working to restructure the credit union sector, develop relationship frameworks so that state owned banks operate on a commercial basis, and modernize the personal insolvency framework to facilitate resolution of household debt distress.

"Continued timely implementation of fiscal, financial, and structural reforms as well as European support, are essential for the success of the Irish program."