March 2012
IMF Country Report No. 12/48

Ireland: Fifth Review Under the Extended Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion.

In the context of the fifth review under the Extended Arrangement, the following documents have been released and are included in this package:

- The staff report for the fifth review under the Extended Arrangement, prepared by a staff team of the IMF, following discussions that ended on January 19, 2012 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 February 13, 2012. 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.

- A staff supplement of February 24, 2012 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its February 27, 2012 discussion of the staff report that completed the request and/or review.

The documents listed below have been or will be separately released.

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*

*Also included in Staff Report

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

Fifth Review Under the Extended Arrangement

Prepared by the European Department in Consultation with Other Departments

Approved by Ajai Chopra and Lorenzo Giorgianni

February 13, 2012

Policy implementation has continued to be strong. The 2011 fiscal targets were met with a margin and all quantitative macroeconomic targets for the review were achieved. Financial sector reforms continued to advance, with the two structural benchmarks for end 2011 observed. In particular, targets for bank deleveraging in 2011 were met, with almost €15 billion of predominantly foreign assets sold at better prices than anticipated. Structural reforms continued to progress, including the publication of reforms of the sectoral wage setting framework, and the development of a strategy for personal insolvency reform.

However, Ireland's economy faces greater external and domestic challenges than envisaged at the outset of the program. The growth outlook has deteriorated as export prospects are dampened by the projected euro area recession, and a somewhat larger decline in consumption is anticipated in view of more rapid house price declines against the background of high household debt burdens. Moreover, deleveraging by European banks threatens market conditions for Irish bank's asset disposals, increasing the risk of curtailing already low domestic bank lending and of more costly deposit funding, undermining prospects for restoring bank viability and for a revival of domestic demand to contribute to economic recovery in the medium term.

Discussions focused on achieving program objectives against deteriorating external conditions, and thereby protecting prospects for regaining access to market funding. In the financial sector the emphasis was on ensuring banks' long-term viability, adapting deleveraging to more adverse market conditions, and advancing the process of identifying and resolving unsustainable debt burdens while protecting debt service discipline. Fiscal policy discussions considered the impact of weaker growth, and the implications of the evolving European fiscal framework for Ireland's fiscal responsibility legislation. To support growth and job creation the review addressed sectoral wage reforms, activation and training policies, and state asset disposals.

The authorities concurred that strong policy implementation will be critical to restoring market access. They remain determined to reach the 2012 deficit targets and have increased the fiscal consolidation effort to 2¾ percent of GDP in Budget 2012. Restoring, over time, the capacity of banks to support economic recovery will involve operational restructuring and debt workouts. The effective implementation of the comprehensive reform of the personal insolvency framework will be crucial in that regard, where the innovative out-of-court procedures for secured debt will require close monitoring and timely establishment of adequate infrastructure.

Staff supports the authorities' request for completion of the fifth review. The purchase subject to completion of this review would be in an amount equivalent to SDR 2.786 billion (about €3.3 billion).

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

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I. Background

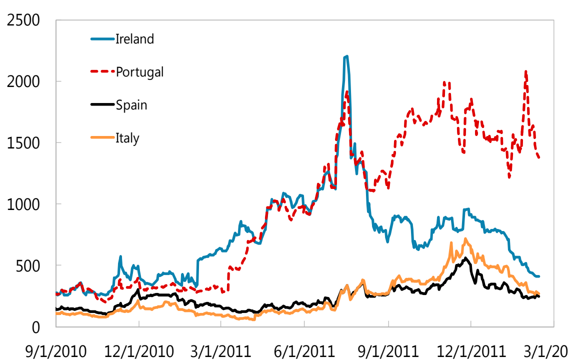
1. **Ireland's strong policy implementation continued in the face of building external headwinds.** Financial sector reforms have advanced on schedule and bank deleveraging targets were exceeded even as conditions for asset sales worsened. The substantial fiscal consolidation targeted for 2011 was achieved with a margin despite tax revenue softening in late 2011. All quantitative macroeconomic targets for the review were met (MEFP Table 2), and the two structural benchmarks for end-2011 were observed (MEFP Table 1).

2. **Sovereign spreads have declined recently, but prospects for regaining sufficient access to market funding in 2013 remain uncertain.** The program assumes modest market access later in 2012 and more substantial market funding in 2013. However, Ireland must deal with challenges from weakening external growth, more difficult market conditions for further disposals of assets by banks, and the continuing tail risks emanating from the euro area crisis, all against the background of government debt peaking at 118 percent of GDP in 2013 and ongoing reforms to rebuild financial sector health. In this context, the recent narrowing in Ireland's bond spreads could be fragile. Discussions considered refinements of the program to protect the achievement of program objectives.

II. Recent Developments

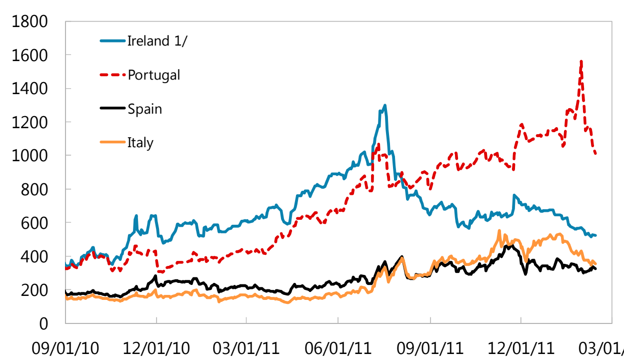
3. **Irish sovereign spreads have declined significantly, but remain high, and credit ratings are on negative outlook.** Since late November 2011 spreads relative to German bunds have fallen by more than 500 and 200 basis points on two- and nine-year bonds respectively, with a notable de-coupling from Greek and Portuguese spreads. As a result, the spread curve has become upward sloping, at about 410 basis points on two-year bonds and 520 basis points on nine-year bonds. In late January 2012, the authorities were able to exchange over €3.5 billion in two-year bonds into three-year bonds at modest additional yield. Nonetheless, Fitch and Standard & Poor's have Ireland on negative outlook, and Moody's maintains a borderline noninvestment grade rating. Falling below investment grade could have serious implications for the pool of potential investors as Ireland may be dropped from various investment benchmarks.

Two-Year Sovereign Bond Spreads
(Basis points)



Sources: Bloomberg; and IMF staff calculations.

Ten-Year Sovereign Bond Spreads
(Basis points)



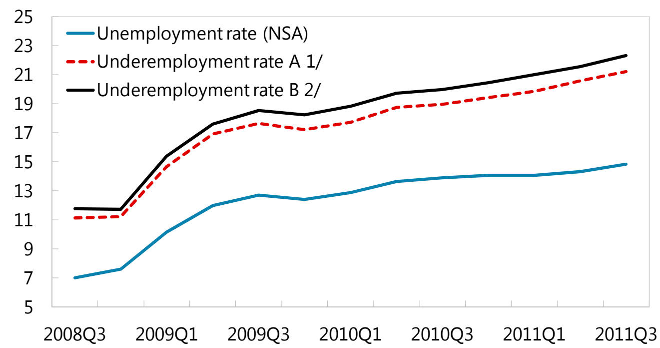
Sources: Bloomberg; and IMF staff calculations.
1/ Irish 9-year government bond yield spread over 9-year bund.

4. **The export-led recovery registered in the first half of 2011 has slowed (Figure 1).** Following strong real GDP growth in the first two quarters, real GDP figures fell 1.9 percent q/q in Q3, moderating overall growth in the first three quarters of the year to ¾ percent y/y. Renewed weakness in consumption, against the backdrop of household debt burdens persisting at some 210 percent of disposable income, was the key driver of Q3 developments, as a sharp decline in investment was broadly offset by lower imports. Declining merchandise and IT service exports also contributed to the weakness in real GDP growth in the third quarter.

5. **Labor market conditions remained weak**. After stabilizing in the first half of 2011, employment fell by 1.1 percent q/q in Q3, with the greatest employment declines recorded in agriculture, and the financial, technical services, and health sectors. The standardized unemployment rate was flat at 14.3 percent s.a. in Q4, while the Q3 household survey measures of underemployment exceed 20 percent. Some 56 percent of the unemployed have been out of work for more than a year, and a significant portion were formerly employed in construction , and may lack the skills necessary to regain employment.

Unemployment and Underemployment Rates

(Percent, NSA)



Source: Central Statistics Office Ireland

1/ Includes workers employed part-time who are willing and able to work full-time.

2/ Includes workers employed part-time who are willing and able to work full-time and people marginally attached to the labor force.

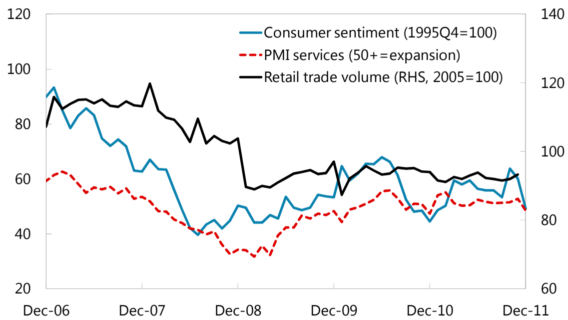
6. **External factors contributed to a higher HICP inflation in the 2011:Q4.** Prices rose 1½ percent y/y in Q4, mostly reflecting higher energy prices, which started rising again in July. Overall, the annual HICP inflation rate was a moderate 1.1 percent y/y in 2011, with near-zero core inflation but a double-digit rise in energy prices.

7. **After a deficit in the first half, the external current account returned to surplus.** The increase in the goods and services balance reflected sharp import declines (6¼ percent q/q in merchandise imports) rather than strong export growth, in contrast with the first half. Despite the continuing reversal of the major competitiveness losses during 2000–07, the weakening external environment led to a fall in merchandise exports by 1¾ percent q/q, with pharmaceutical exports−around 30 percent of total merchandise exports−slowing sharply after rising by almost 15 percent y/y in the first half. Services exports decelerated as well, led by IT services, which account for two-fifths of the total. By region, only exports to the U.K. held up well, with industrial and agricultural exports growing by 4½ and 17 percent y/y, respectively.

Figure 1. Ireland: Real Sector and Inflation Indicators

Consumer confidence remains low, constraining spending.

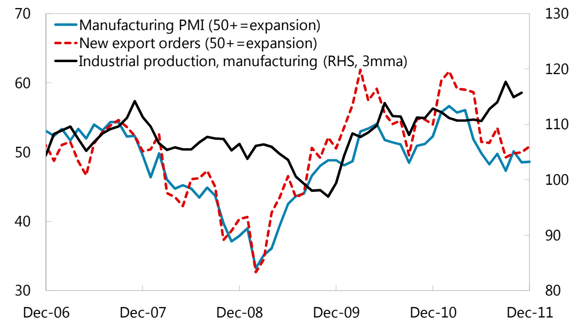
Retail trade and sentiment indicators



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

Industrial production has rebounded, but sentiment and export orders indicate a potential slowdown in the future.

Export Indicators and Industrial Production

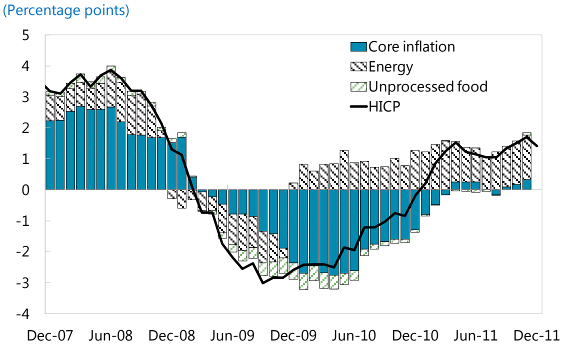


Sources: Haver Analytics; NCB; and Central Statistics Office Ireland.

Higher inflation is mainly driven by energy prices, while core inflation remains close to zero.

Contribution to Annual HICP Inflation

(Percentage points)

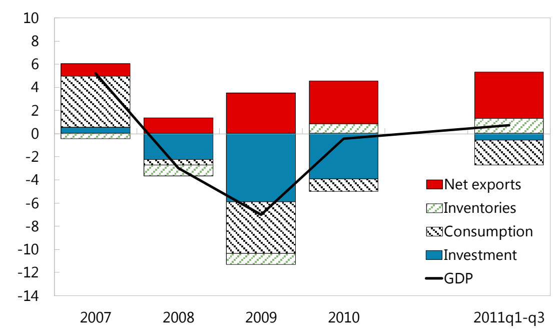


Sources: Central Statistics Office Ireland; and IMF staff calculations.

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

Contribution to real GDP growth

(Percent)

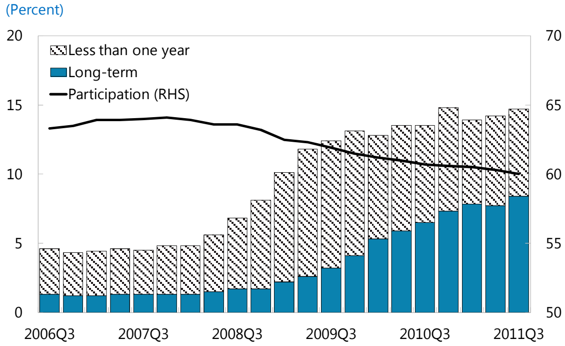


Sources: Central Statistics Office Ireland; and IMF staff calculations.

Unemployment remains high with more than half long-term.

Unemployment and Participation Rates

(Percent)

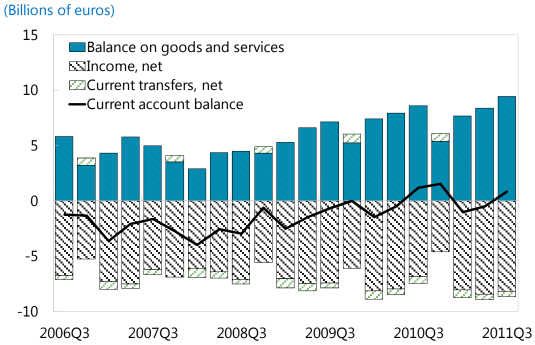


Sources: Haver Analytics; and Central Statistics Office Ireland.

Current account balance turned to a surplus after a deficit in the first six months.

Current Account Balance Composition

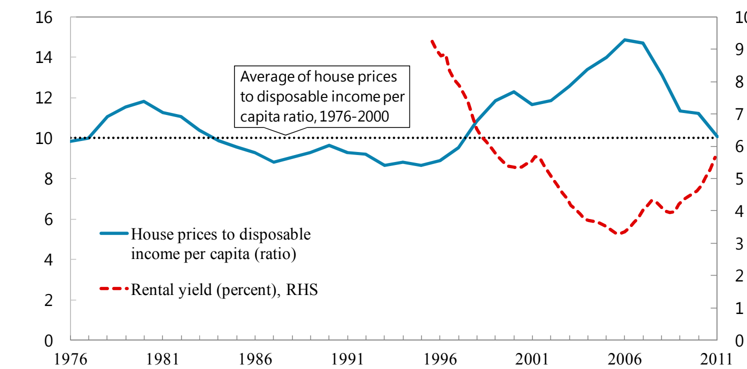
(Billions of euros)



Sources: CSO; and Haver Analytics.

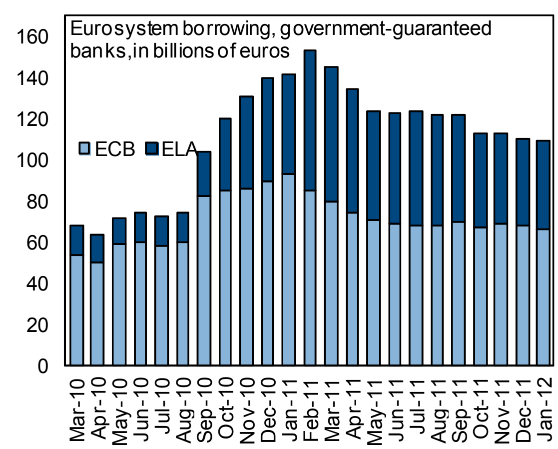
8. **House price declines accelerated in the second half of 2011, while mortgage arrears continued to rise (Figure 2).** Nonetheless the rate of decline in house prices at 13.2 percent y/y in 2011, remained within the stress scenario for the bank recapitalization, which allowed for a house price decline of 17.4 percent in 2011, and a further fall of 18.8 percent in 2012. With house prices down 47.4 percent from their peak in 2007, indicators of house valuation are returning to historical norms. The value share of owner-occupied residential mortgages in arrears rose to 10.8 percent in Q3 2011. About 10.7 percent of this loan book value has undergone restructuring, mostly reducing payments to interest-only, but about half of the restructured loans are still in arrears.[1]

Indicators of Housing Valuation Levels

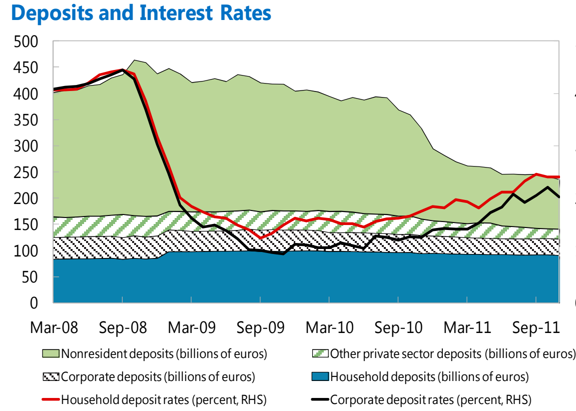


Sources: CSO; ESRI; and NTMA.

9. **Bank funding continues to be difficult, deposit rates are edging up, and credit growth remains weak (Figure 3).** Deposits in the three covered banks stabilized in the second half of 2011, bolstered by domestic deposit inflows in Q4.[2] However deposit rates on new business continued to rise to above 2 percent. While wholesale funding remains largely closed to these banks, almost €7 billion in funding from term bilateral repos was achieved in 2011. The covered banks also reached the 2011 deleveraging target of €32.2 billion by November, but this in part reflected faster amortization of the banks' core loan portfolios and higher provisions. Overall, these developments reduced bank reliance on Eurosystem liquidity support by over €40 billion from its peak of €153 billion in February 2011.



Deposits and Interest Rates



Source: Central Bank of Ireland.

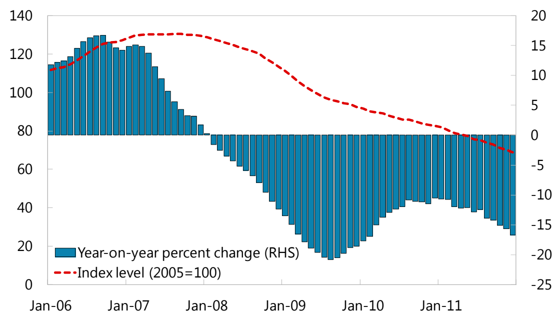
[1] See Box 1 in Ireland–Fourth Review Under the Extended Arrangement and Request for Rephasing of the Arrangement (IMF Country Report No. 11/356) for a more granular analysis of mortgage arrears.

[2] The deposit-taking banks covered under the Eligible Liability Guarantee (ELG) scheme are Allied Irish Banks (AIB), Bank of Ireland (BoI), and Irish Life and Permanent (ILP).

Figure 2. Ireland: Housing Market and Mortgage Indicators

Property prices have fallen by half.

Residential Property Prices

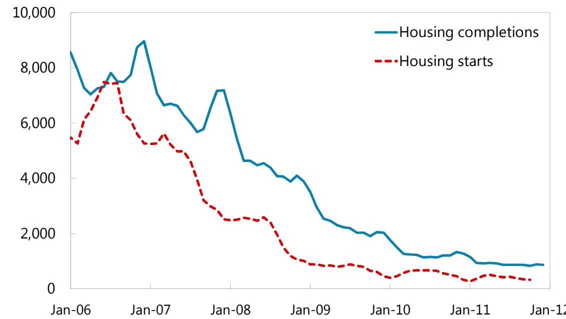


Source: Central Statistics Office; and Haver Analytics.

Housing starts remain very low.

Number of Housing Starts and Completions

(3-month moving average)

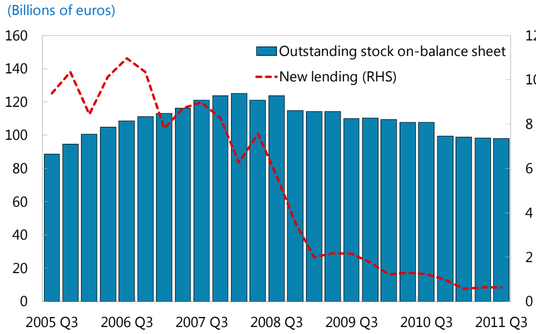


Source: Central Statistics Office; and Haver Analytics.

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

Loans for House Purchases

(Billions of euros)

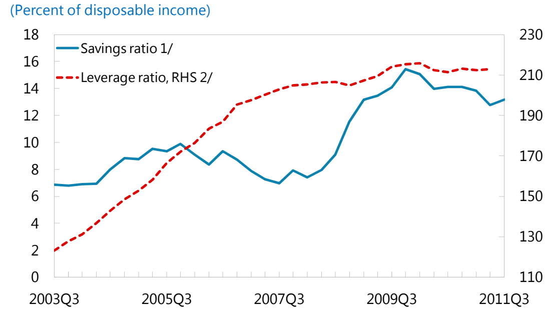


Sources: Central Bank of Ireland; Irish Banking Federation/PWC.

Household debt burdens have stabilized at high levels, keeping the savings rate elevated.

Households' Savings and Leverage Ratios

(Percent of disposable income)



Sources: CSO; and IMF staff calculations.

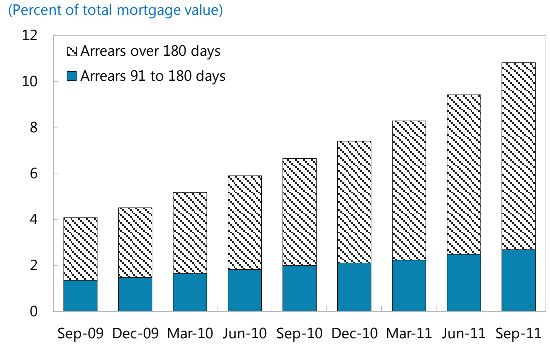
1/ Average of four-quarter savings in percent of disposable income.

2/ Total liabilities in percent of four-quarter disposable income.

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

Mortgages in Arrears

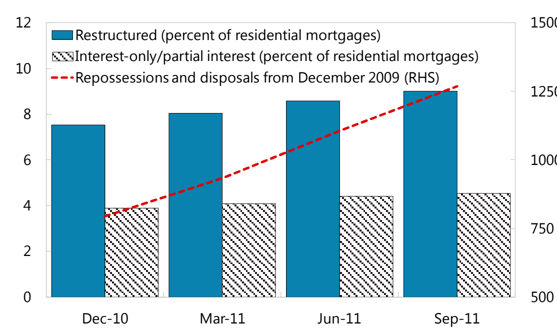
(Percent of total mortgage value)



Source: Central Bank of Ireland.

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

Restructurings and Repossessions

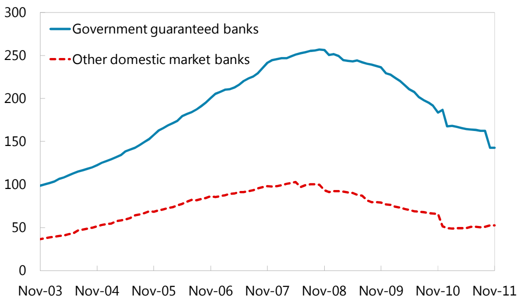


Source: Central Bank of Ireland.

Figure 3. Ireland: Credit Developments

Private sector credit continues to contract in the government-guaranteed banks.

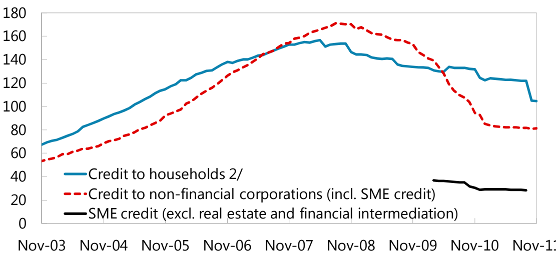
Private Sector Credit by Group of Bank
(Billions of euros)



Sources: Central Bank of Ireland.

Sharp fall in corporate credit appears to have stopped, while stock of household credit fell due to securitization at end-year.

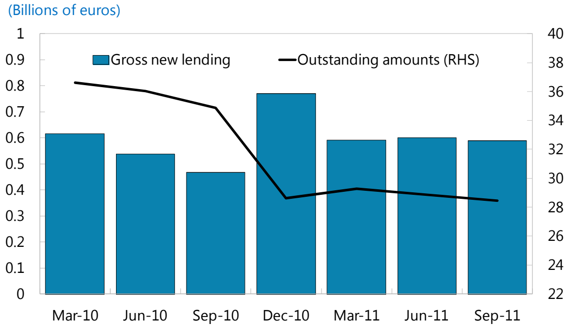
Type of Credit by Domestic Banks 1/
(Billions of euros)



Sources: Central Bank of Ireland.
1/ Domestic market credit institutions. Excludes real estate and financial intermediation.
2/ In November 2011, 17.7 billions of euros in household credit was securitized.

New lending to SMEs continues to contract.

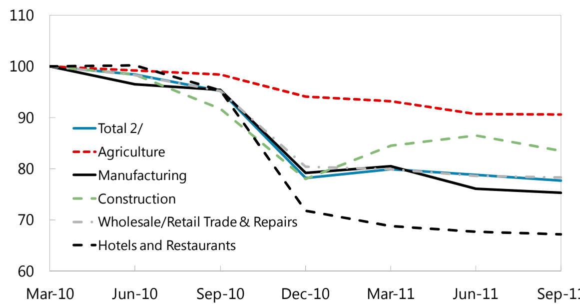
Outstanding SME Credit 1/
(Billions of euros)



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

Credit to the service sector remains well below the pre-crisis level.

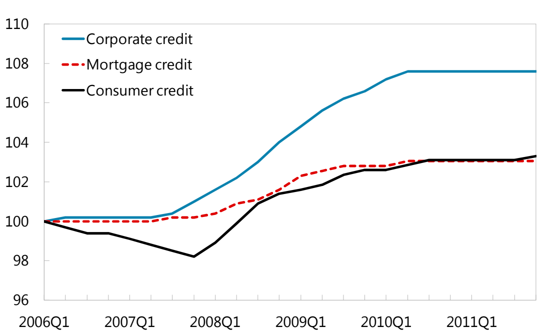
Outstanding SME Credit by Sector 1/
(2010Q1=100)



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.

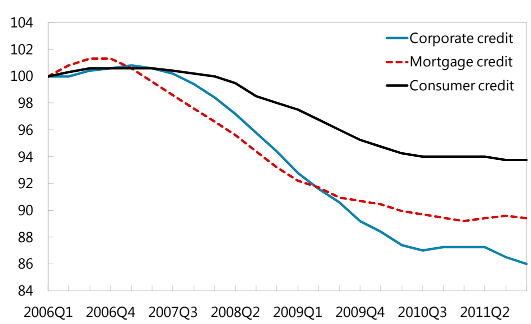
Changes in Credit Standards



Source: Central Bank of Ireland.

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

Changes in Credit Demand

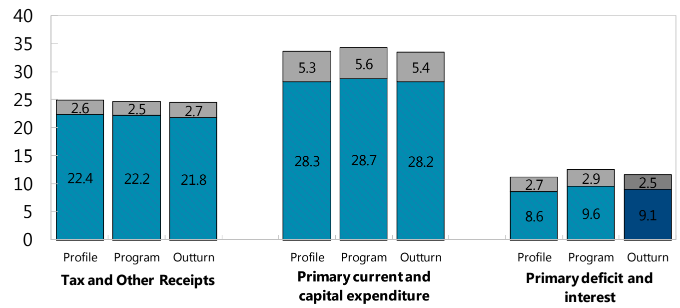


Source. Central Bank of Ireland.

10. **All quantitative fiscal targets for 2011 were observed with healthy margins**. The Exchequer primary balance (excluding financial sector support costs) registered a deficit of €14.2 billion (9.1 percent of GDP) in 2011, below the unadjusted program target of €15 billion. Excluding shortfalls in VAT and income tax receipts arising from weaker-than-expected domestic demand, the implied fiscal over-performance was €1.3 billion (0.7 percent of GDP).[3] A similar margin is also estimated for the general government balance, which is estimated at about 10 percent of GDP, well under the EC's program ceiling of 10.6 percent of GDP.[4] This strong performance with respect to fiscal targets reflects effective control of spending, which was kept to budgetary allocations despite pressures in the health and social protection votes, and solid revenue collection in a challenging economic environment.

2011 Exchequer Outturn Vs. Authorities' Profile and Program Targets 1/

(Percent of 2011 GDP) 2/



Sources: Department of Finance; and IMF staff estimates.

1/ Excludes net bank and credit union recapitalization costs of €6.8bn incurred this year.

2/ Blue-shaded bars refer to tax receipts, primary current expenditure, and primary deficit, respectively.

11. **Budget 2012 has been approved, providing for the agreed fiscal consolidation and budgetary reforms.**[5] The budget implies a consolidation effort of €4.3 billion (2¾ percent of GDP) in 2012—including the full €1.1 billion carryover from 2011 tax measures—which significantly exceeds the €3.6 billion effort originally programmed. The new measures announced amount to €3.2 billion, of which almost two-fifths represent durable savings in health, social protection, and education spending, while a quarter arise from capital spending. The remainder is accounted for by a revenue-raising package that focuses on indirect tax increases, but also provides targeted tax relief to low-income and part-time workers, small businesses, and the property and home mortgage sectors. Budget 2012 also announced binding cash ceilings by vote-group through 2014 for current spending, and through 2016 for capital spending. These ceilings will help anchor the medium-term consolidation effort, facilitate forward planning by departments, and prevent pro-cyclical

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[3] As per the Technical Memorandum of Understanding, the €15 billion Exchequer primary deficit target was adjusted upward for net financial sector support costs and weaker-than-projected revenues. The adjusted target was €22.3 billion, against which an actual of €21 billion was registered (Table 2).

[4] The target for net central government debt was also met comfortably.

[5] The Budget 2012 documentation can be accessed at http://budget.gov.ie/budgets/2012/2012.aspx. For a staff assessment of the budget, see Staff Supplement http://www.imf.org/external/pubs/ft/scr/2011/cr11356.pdf.

spending in the future. The ceilings are expected to bind administratively rather than legally, with the government retaining flexibility to re-allocate across vote groups.

12. **NAMA's asset sales exceeded target for 2011, but softer real estate prices will dent its financial results.** Sales of €4.4 billion in 2011, primarily of assets located outside Ireland, exceeded the target of €3.1 billion. However, weaker real estate prices in the UK, US and Ireland will be reflected in accounting losses on the remaining portfolio, detracting from NAMA's 2011 financial performance. Following a recent external review of NAMA, an Advisory Group is being established that will report directly to the Minister for Finance.[6]

III. Outlook and Risks

13. **Growth projected for 2012 has been revised down to ½ percent y/y, with significant downside risks from the euro area crisis coupled with domestic vulnerabilities**. The recession projected in the euro area and lower growth in the U.K. are expected to slow Ireland's export growth to 2¾ percent y/y in 2012, cushioned by the cyclical resilience of pharmaceuticals and IT services, and by the ongoing reversal of past competitiveness losses, although room for further gains remains.[7] The projected decline in private consumption is also somewhat larger at 1.6 percent y/y, partly as the recent steeper house price declines prompt households to keep their savings high. Although the 2012 growth forecast has been revised down by ½ percentage point, the impact on nominal GDP is expected to be partly offset by the weaker euro and an easing in international energy prices.

2012 GDP Growth: Comparison of WEO Projections
(Percent)

Sources: World Economic Outlook; and IMF staff calculations.

14. **Ireland's economy must overcome both domestic and external hurdles to medium-term recovery**. Net exports are projected to be the main engine of growth in 2013–15, which will be aided by the record number of foreign companies investing in Ireland in 2011.[8] Nonetheless, this projection is contingent on a pick-up in economic activity in Ireland's main trading partners. In the face of high private debt burdens, reviving domestic demand is expected to be a more protracted process, hinging on the success of ongoing efforts to restore the healthy operation of the financial system. A key aspect of this process is the restructuring of household and SME debts, which together will facilitate a stabilization of the housing market, an easing in household savings, and renewed SME investment. In

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[6] See NAMA Review.

[7] See Box 5 in Ireland–First and Second Reviews Under 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.

[8] See IDA Ireland End of Year Statement 2011.

particular, consumption is expected to recover quite gradually from 2013 as younger cohorts gain access to credit with lending activity building from a low base, and as older cohorts ease precautionary saving related to crisis uncertainties. If these external and domestic hurdles can be overcome, growth is expected to strengthen to 2¾ percent on average over 2013–17.

15. **Rising structural unemployment looms as an important and potentially lasting challenge to achieving sustained recovery**. Given the high contribution to growth from the capital-intensive export sector, the unemployment rate is projected to remain in double digits through the medium term, risking an increase in structural unemployment. Reforms under development in sectoral wages and labor activation and training should support hiring, and the review of key social welfare schemes to be completed by the Spring will also be important to avoid work disincentives and unemployment traps. Inflation is expected to remain below 2 percent, allowing for a further gradual unwinding of competitiveness losses.

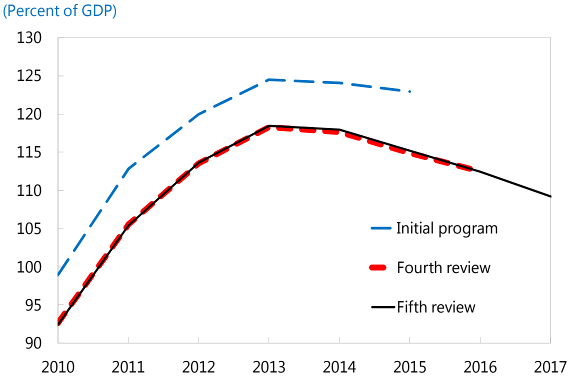
Ireland: Macroeconomic Projections, 2010–17
(percentage change, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP	-0.4	0.9	0.5	2.0	2.7	2.9	3.2	3.3
Real domestic demand	-4.9	-3.2	-2.0	0.4	1.1	1.7	2.5	2.6
Private consumption	-0.8	-2.8	-1.6	0.5	1.2	1.5	2.0	2.1
Public consumption	-3.8	-3.0	-1.9	-1.5	-1.3	-1.2	0.0	0.0
Fixed investment	-24.9	-14.0	-4.5	3.0	4.3	7.5	8.5	8.5
Change in stocks 1/	0.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	3.7	3.5	2.1	1.7	1.9	1.6	1.4	1.4
Exports	6.3	4.2	2.8	3.8	4.5	4.9	4.9	4.9
Imports	2.7	0.8	1.0	2.8	3.5	4.5	4.9	4.9
Nominal GDP (in billions of euros)	156.0	155.8	158.8	163.9	170.9	178.8	187.5	196.8
GDP deflator	-2.4	-1.0	1.4	1.2	1.5	1.7	1.6	1.6
Current account (in percent of GDP)	0.5	0.3	1.3	1.4	1.2	1.3	1.3	1.3
Consumer Prices (HICP)	-1.6	1.1	1.6	1.2	1.3	1.6	1.8	1.8
Unemployment rate (in percent)	13.6	14.3	14.5	13.7	13.0	12.1	11.0	10.4

1/ Contributions to growth

16. **Debt sustainability remains fragile, especially with respect to medium-term growth prospects (Annex I)**. The baseline debt outlook is little changed from the previous review, peaking at 118 percent of GDP in 2013, and declining to about 112 percent by 2016. However, the debt trajectory is vulnerable to lower medium-term growth. For example, debt would reach 138 percent of GDP by 2016 if growth were to stagnate. Weaker growth would also increase the difficulty of the planned medium-term fiscal consolidation, and over time result in higher impairments of bank loans. Mitigating the latter risk, the bank recapitalization announced in March 2011 included a €5.3 billion (3.3 percent of GDP) buffer for potential losses after 2013.

General Government Gross Debt
(Percent of GDP)



Source: IMF Staff calculations.

17. **In this context, the prospects for regaining the substantial access to market funding that is assumed in 2013 remain uncertain**. On top of the risks to growth and debt sustainability identified above, the financial turmoil in the region has negative spillovers through a number of channels. A key channel is the greater difficulty of bank downsizing given increasing asset disposals by European banks and limited funding availability, which could increase losses from asset disposals, and/or prompt Irish banks to rely on cutting already low domestic lending, with negative effects on asset values and demand. The perception of tail risks in the euro area also undermines the potential for progress on financial reforms, as seen in the suspension of the sale of Irish Life in late 2011.

IV. Policy Discussions

18. **Discussions focused on achieving program objectives against deteriorating external conditions, and thereby protecting prospects for regaining market access**. On the financial sector, the emphasis was on ensuring banks' long-term viability, adapting deleveraging to more adverse market conditions, and resolving unsustainable debt burdens while protecting debt service discipline. Fiscal policy discussions considered the impact of weaker growth, and the implications of the evolving European fiscal framework for Ireland's fiscal responsibility legislation. To support growth and job creation the review addressed sectoral wage reforms, activation and training policies, and state asset disposals.

A. Financial Sector

19. **Strong implementation of financial sector reforms continued.** Both structural benchmarks were implemented by end-2011 as envisaged: the Central Bank of Ireland issued guidance to banks on the recognition of accounting losses incurred in their loan books;[9] and a strategy was finalized to guide the development of broader legal reforms around personal insolvency. Other reforms due by year end were also implemented as envisaged, including issuance by the CBI of guidance on disclosure that will be the basis for banks 2011 financial statements, and the design of the levy to recoup resolution costs in the credit union sector.

20. **Nonetheless, further efforts are needed to ensure banks become healthy enough to contribute to Ireland's sustained economic recovery.** Banks are yet to return to profitability while asset quality has continued deteriorating. Progress is needed on two fronts to facilitate a return to markets and renewed sound lending: (i) effective household and SME debt workouts to improve the quality of assets; and (ii) reducing operating expenses. Continuing vigorous banking supervision will be fundamental to achieving these goals, through close monitoring of banks' implementation of restructuring plans that lead to sustainable business models, while also ensuring that they remain well capitalized and provisioned, and have durable professional governance structures.

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[9] See Central Bank publishes Impairment Provisioning and Disclosure Guidelines, 20 December 2011.

Bank deleveraging, resilience, and transparency

21. **Major progress has been achieved in deleveraging the banking system in 2011.** The covered banks broadly met their 2011 asset disposal targets with almost €15 billion in assets sold at significantly better pricing than anticipated, despite severe global market uncertainty. Together with run-offs of assets, the overall deleveraging by covered banks of €34 billion exceeds the target for 2011.

Bank Deleveraging 2011-13 (in billion of euros)

	2011-13 Prog.1/	2011 Prog.1/	2011 Prel.
Overall deleveraging	70.2	32.2	34.0 2/
Core assets	11.5	7.1	9.2
Asset disposals	1.4	1.4	1.5
Amortization and other	10.1	5.7	7.7
Non-core assets 3/	58.7	25.1	24.8
Asset disposals	32.6	14.1	13.0 2/
Amortization and other	26.1	11.0	11.8

Source: Central Bank of Ireland and Department of Finance.

1/ As specified in the Financial Measures Programme (FMP).
2/ Includes €2 billion of asset disposals contractually agreed that had not settled by end 2011.
3/ Assets designated as not core to the business models of banks.

22. **Nonetheless, there is a need to refine the deleveraging framework to minimize risks to domestic lending and deposit rates (MEFP ¶4).** It is notable that the faster than targeted deleveraging in 2011 was associated with larger run-offs of banks' core loan portfolios, potentially constraining domestic credit. The authorities are also concerned that targets for banks loan-to-deposit have bid up deposit rates and undermined bank income. To minimize the risk of such side-effects, the authorities are considering adjusting the deleveraging framework, to have separate targets for: (i) the net stable funding ratio for banks' core balance sheets; and (ii) the nominal reduction in noncore assets. In view of deteriorating market conditions for bank assets given the large scale deleveraging efforts of other European banks, it is more likely that the safeguard against fire sales already included in the deleveraging framework may need to be used in the first half of 2012, while the refined deleveraging framework is under development.[10]

23. **The authorities will continue to ensure the resilience of the banking system (MEFP ¶5).** An ongoing program target calls for Irish banks to maintain Core Tier 1 capital ratios of no less than 10½ percent, in addition to having adequate capital under the stress scenario of the CBI's Prudential Capital Assessment Review (PCAR).[11] It was agreed that the PCAR in 2012 should preserve the key features that made PCAR 2011 widely credible, including the independent loan loss forecasts, while seeking to align timing with the EBA stress tests to avoid duplication or confusion. The integrity of bank data will again be validated, especially regarding the prudent accounting by banks of interest income from impaired loans, and proper reporting of past due loans and impaired loans.

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[10] See Box 2 in *Ireland—Third Review Under of the Extended Arrangement* (IMF Country Report No. 11/276) for a discussion of the bank deleveraging framework.

[11] The robust and conservative nature of PCAR 2011 completed in March 2011 was confirmed by the recent European Banking Authority (EBA) capital exercise, which did not identify additional capital needs for Irish banks. See Results of EBA Capital Exercise–Irish Banks, 8 December 2011.

24. **Bank balance sheet transparency is being enhanced (MEFP ¶6).** New loan provisioning guidelines provide detailed standards to mitigate discretion in implementing the incurred loss model under IFRS. The authorities are working to ensure banks and external auditors understand the new prudential guidelines (notably regarding regulatory definitions of troubled loans, loans in default, and restructured loans) and they will review banks' 2011 financial statements before publication to ensure consistency with new regulations.

Completing the financial sector reform agenda

25. **The way forward for ILP is being finalized**. The authorities have agreed, subject to government approval, that the purchase Irish Life will be completed by end-June 2012 as the most effective approach to complete the recapitalization of ILP and also the separation of the two companies (MEFP ¶7). The authorities' intention remains to sell Irish Life as soon as market conditions permit. Given concerns about the viability of ILP's current business plan, restructuring options will be considered and the authorities intend to make a decision on the way forward by end-April 2012 (MEFP ¶8).

26. **Restoring the viability and solvency of the credit union sector is underway (MEFP ¶9).** Following the transfer of €250 million to the credit institutions resolution fund from the exchequer in late December, the first resolution interventions have begun.[12] Regulations implementing a levy across credit institutions to recoup costs over time will be adopted by end-September 2012, with revenues expected from 2013, when the Credit Institutions (Stabilization) Act ceases to have effect. Progress is being made toward publishing legislation to strengthen the regulatory framework of the credit union sector by end-June 2012.

Strengthening financial supervision and governance

27. **The authorities are finalizing relationship frameworks with the covered banks consistent with their commitment that their core business will operate on a commercial basis (MEFP ¶10).** Independent bank management and directors will be critical to preserve value, facilitate operational restructuring, and ensure that decisions on pricing and lending reflect the banks' commercial interests. In turn, the state must ensure that its representatives on bank boards seek to protect the value of banks as an asset to the state, including concerning redundancy packages. Relatedly, the CBI has begun rigorous fit and proper tests for senior bank managers and directors (MEFP ¶11).

28. **Efforts to further strengthen banking supervision continue (MEFP, ¶12).** Once the recruitment of new staff is completed–expected shortly–the CBI will have almost doubled the number of supervisors since 2009. In addition, the CBI has recently introduced its new Probability Risk and Impact System (PRISM) framework to assess and mitigate the risks of regulated entities (see Box 1). Moreover the authorities are refining the draft supervision enforcement bill that will strengthen the CBI's powers.

[12] See Special Manager Appointed to Newbridge Credit Union, 13 January 2012.

Box 1. Risk Based Supervision in Ireland

The development of a new risk based framework for financial supervision in Ireland reflects a fundamental change in supervisory philosophy. The failures of the previous approach, focused on verifying governance and risk management models rather than on attempting an independent assessment of risk, have been analyzed extensively.[1] To strengthen the effectiveness of supervision, the risk based approach entails:[2]

- Prioritization to protect against failures that would have the most severe consequences.
- More challenging and outcome focused supervision that aims to identify problems early and make serious efforts to mitigate them before they develop into a crisis.

Prioritization is necessary as the CBI supervises more than 10,000 financial firms with staff of just over 700, although staffing has substantially increased from 385 at the end of 2009. These resources are targeted according to the impact that a firm could have, were it to experience problems, on the Irish economy and public finances. Based on an empirical analysis, firms are categorized into high, medium high, medium-low, and low impact; where most domestic banks and the largest insurance companies are ultra-high impact. While some low-impact firms are expected to fail each year, the CBI's risk appetite for the highest impact firms is much smaller, and the frequency and depth of inspection visits correspondingly greater.

Challenging supervision begins with a better understanding of the financial firms. In order to unearth and discuss key issues with a firms' leadership team, the supervisors must understand the firms' business model. Therefore, in addition to recruiting staff with industry knowledge, the CBI has invested in practical training for supervisory staff on evaluating the strengths and weakness of firms' strategies. They are expected to engage with firms in a robust manner, and to make judgments on the firms' risks to build up an overall risk profile for the firm.

The Probability Risk and Impact System (PRISM) application serves to structure these supervisory judgments on the firms' risk profile.[3] It cover ten categories of risks: credit, market, operational, insurance, liquidity, capital, governance, business model, environment and conduct. The supervisors' judgment in each of these areas is subject to a number of quality control mechanisms, including review by a risk governance panel consisting of senior staff from across the CBI. PRISM for all banks and insurers was launched in late November 2011. It will be implemented for the remaining financial firms mid 2012.

PRISM also assists supervisors to formulate and track risk mitigation actions where a firm's risk is not acceptable. The priority in formulating risk mitigation programmes is to protect financial stability and the consumer. Once such a programme is in place, PRISM also helps track its implementation over time, with enforcement action being an option where non-compliance with a programme leaves a firm in breach of a regulation or law.

Vigilance by banking supervisors will continue to be critical. The PRISM framework relies on supervisors' judgement. It facilitates a systematic risk-based approach to banking supervision, which must be underpinned by a culture of informed scepticism, being alert to issues that may not be captured automatically by CBI systems, and driving to ensure that in practice problems are mitigated in a timely manner.

[1] A set of three reports on the banking crisis include the role of regulation: The Irish Banking Crisis - Regulatory and Financial Stability Policy 2003-2008; Preliminary Report on the Sources of Ireland's Banking Crisis; and Misjudging Risk: Causes of the Systemic Banking Crisis in Ireland.
[2] See address by Deputy Governor Matthew Elderfield, PRISM - Risk based supervision in Ireland.
[3] For more details, see PRISM Explained.

Enhancing asset quality

29. **To address household debt distress, the authorities have prepared their strategy for personal insolvency reform (MEFP ¶14)**. Further, the authorities have published for consultation a draft outline for a bill to reform the Bankruptcy Act and introduce three new mechanisms for out-of-court debt settlement, with fully developed draft legislation to be published by end-April. In face of rising mortgage arrears, the authorities' strategy: (i) modernizes the bankruptcy regime by making it less onerous, especially by reducing the discharge period from 12 to 3 years (with provision for income payment orders for a period of up to five years from the bankruptcy discharge); and (ii) facilitates voluntary out-of-court arrangements between borrowers and lenders of both secured and unsecured debt (Box 2). The strategy is to make bankruptcy a more viable option for households with unsustainable debts, yet to rely primarily on less costly out-of-court alternatives, which provide scope for debt settlement without forced house sales which have negative externalities. Importantly, in order to preserve payment discipline, the eligibility for these out-of-court options is based on assessments of the borrower's ability to pay, and there are also limits on the number of times these out-of-court options may be used and there are penalties for using them.

30. **Staff welcomes the innovative approach to tackling Ireland's household debt distress, and urges careful design of the relevant legislation and timely establishment of the infrastructure to implement the reform**. Importantly, the strategy includes a framework for voluntary out-of-court settlement of secured debt including mortgages, which is necessary to address Ireland's current challenges. For purposes of out-of-court settlement, the proposal allows for a range of restructuring options in situations where the property is not sold, while protecting all the legal rights of the mortgage lender in relation to their collateral. The overall framework also takes into account the Code of Conduct on Mortgage Arrears, and is consistent with the CBI's ongoing work to ensure lenders develop and implement appropriate strategies for dealing with mortgage arrears on a bilateral basis (MEFP ¶13).

31. **Careful design to limit strategic defaults by debtors and to secure sufficient participation of creditors will be key to ensuring this voluntary approach will be successful in practice**. Staff have suggested some refinements, e.g., a clearer distinction in the treatment of owner-occupied and buy-to-let properties, and more guidance on expense limits, including on housing. The authorities also intend to place independent mortgage advisers in the field and to resolve regulatory issues. As a high priority matter, the necessary infrastructure needs to be put in place, including the insolvency service and the regime for personal insolvency trustees.

32. **Efforts to develop an effective credit registry are progressing although challenges remain (MEFP ¶16).** Many elements for a credit registry have been outlined, but it remains critical that the register deliver comprehensive and accurate data unique to each borrower. The authorities are considering options to address this challenge and an outline of the proposed legislation will be discussed with stakeholders in early 2012. The aim is to publish legislation by end-September 2012 and have the system in operation by end-2013.

Box 2. Reform of the Personal Insolvency Regime

To address unsustainable household debt, the authorities are developing comprehensive reforms to enhance the judicial bankruptcy framework and introduce voluntary out-of-court arrangements.[1] A key challenge is to create a suitable framework for effective resolution of rising mortgage distress—about 12.8 percent of the number of mortgages were in distress as of September 2011 (i.e., in arrears greater than 90 days or restructured)—while upholding payment discipline.

Three proposed new mechanisms aim to resolve most cases through voluntary out-of-court arrangements (while also encouraging bilateral solutions directly between lenders and borrowers), thereby reducing the need for bankruptcy proceedings. These new mechanisms comprise: (i) debt relief certificates; (ii) debt settlement arrangements (DSA); and (iii) personal insolvency arrangements (PIAs). Debt relief certificates are aimed at debtors with relatively small unsecured debts up to €20,000 total, and essentially no income or assets. Debt relief certificates would be administered by an Insolvency Service, with discharge granted after one year.

An important feature of the proposal is the PIA, which would allow restructuring of unsecured and secured debt between €20,001 and €3 million, whereas a DSA would only deal with unsecured debt such as consumer loans above €20,001. In both cases, debtors are assisted by a personal insolvency trustee who draws up a proposed debt service arrangement based on the debtor's financial statement and facilitates the multi-creditor negotiations. Upon engagement of the trustee, debtors may seek enforcement protection for a period of 30 business days for the DSA (40–60 business days for the PIA). DSAs may have a length of up to five years; PIAs can be slightly longer, covering about six-to-seven years. In both cases, the arrangement proposed by the trustee must be approved by the debtor and—in terms of value—a qualified majority of creditors (DSA: 65 percent; PIA: 65 percent overall, as well as 75 percent of secured and 55 percent of unsecured creditors). It is the authorities' intention that creditors and debtors should first seek to reach an agreement before petitioning for bankruptcy.

The PIA is specifically tailored to facilitate resolution of mortgage distress for debtors that are cash-flow insolvent (i.e., unable to pay debts as they fall due), and may only be engaged in once. As the PIA deals with unsecured and secured debts, creditors' interests may differ, making it more challenging for the trustee to find a solution that the debtor and most creditors can agree upon. The aim is to resolve any unsecured debt over a period of normally six years and to restructure secured debt on a sustainable path thereafter. A PIA can include any of the range of mortgage restructuring options proposed in the report of the Inter-Departmental Mortgage Arrears Working Group ("Keane Report"), including mortgage-to-rent or trade-down (and other suitable solutions).[2] Provisions are included for the protection of the family home. There is no automatic write-down of secured debt and provisions are included for the protection of a secured creditor's right of recourse to the value of the security. Loan principal cannot be reduced below the value of the security (unless the relevant creditor agrees) and it is intended that there will be a clawback if the property is subsequently sold at a higher value. There are strict eligibility criteria to enter the process and safeguards to ensure that the debtor acts in good faith (including some limits on access to new credit). Creditors may challenge a PIA in the Circuit Court.

Judicial bankruptcy remains a last resort. Currently, a comparatively long discharge period (automatic discharge after 12 years and at the court's discretion after five years) renders bankruptcy an inefficient venue for resolving debt issues, with some well publicized recent attempts at "bankruptcy tourism" to the U.K. given its shorter discharge period. To bring Ireland's bankruptcy framework more in line with international best practice, the current proposal will shorten the discharge period to three years, but with the possibility for the court to extend this period and to impose income payments orders. However, large numbers of bankruptcy petitions would seriously strain available capacity at the courts, and the out-of-court arrangements are designed to be a more attractive alternative.

[1] See http://www.inis.gov.ie/en/JELR/Pages/PB12000014

[2] See Report of the InterDepartmental Group on Mortgage Arrears.

B. Fiscal Consolidation and Institutional Framework

33. **The fiscal outlook remains consistent with meeting the general government deficit target of 8.6 percent of GDP for 2012 (MEFP ¶18).** The mission reviewed the budget projections for 2012 in view of the weaker outlook for real GDP growth, finding that with a stronger base in 2011 (the general government deficit is likely to have been below the 10 percent of GDP envisaged at Budget time) coupled with a higher outlook for the GDP deflator, the 8.6 percent of GDP target remains achievable. In the event of significant further reduction in growth projections, staff continued to support the accommodation of associated revenue shortfalls, as further fiscal consolidation beyond the significant 2¾ percent of GDP effort already in train would unduly jeopardize the still-fragile economic recovery. At the same time, if there is a shock with a lasting effect on the macroeconomic outlook, staff supported a reevaluation of the consolidation path for 2013–15 to preserve the credibility of the medium-term target to reach a 3 percent of GDP general government deficit by 2015.

34. **The authorities are anchoring their medium-term fiscal consolidation effort through a progressive specification of measures and supporting budgetary reforms (MEFP ¶19–21, Figure 4).** As noted at the Fourth Review, just under half of the €8.6 billion medium-term fiscal consolidation effort (mainly current spending savings) remains to be specified. A number of policies and reforms already provide a solid foundation for realizing these savings, such as: binding multi-year cash ceilings through 2014 for current expenditure (by vote group); a further 4 percent reduction in public service numbers over 2013–15; the introduction of performance budgeting and a new value-for-money code; rationalization of state bodies; and reforms to sick leave and overtime and allowance payments.[13] Nonetheless, it is important to develop specific reforms to underpin how savings can be realized with least compromise of other public policy goals. In the important area of social protection, the authorities are completing a review of the child income and working age payments to better target support to the most vulnerable groups, while minimizing the cost to the state (Box 3).

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

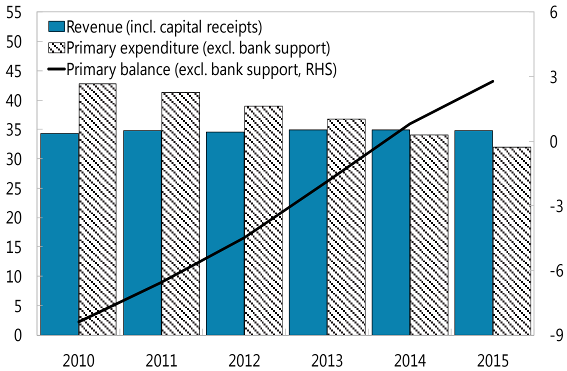
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue	36.3	35.0	33.7	34.3	34.7	34.5	34.9	35.0	34.8
Total expenditure	36.2	42.3	45.4	45.9	44.6	43.2	42.4	39.9	37.8
Overall balance	0.1	-7.3	-11.7	-11.5	-9.9	-8.6	-7.5	-5.0	-3.0
Primary balance	1.1	-6.0	-9.7	-8.4	-6.6	-4.5	-1.9	0.8	2.8
Cyclically-adjusted primary balance	-8.3	-12.6	-9.7	-5.0	-2.5	-1.1	0.6	2.3	3.5
Gross general government debt	24.8	44.2	65.2	92.5	105.4	113.7	118.4	118.0	115.2
Net general government debt	11.1	24.4	42.2	76.9	96.3	103.4	107.6	108.1	106.2

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

[13] Details of these reforms are set out in two Budget 2012 documents: *Reform of the Public Expenditure Framework* and *Public Service Reform Programme*, available on www.per.gov.ie.

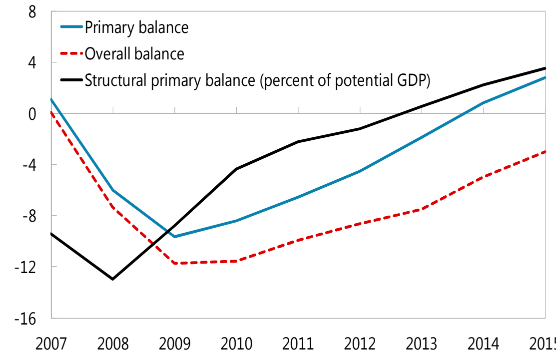
Figure 4. Ireland: Selected Trends in General Government Public Finances

Revenues, Primary Expenditure and Balance
(Percent of GDP)



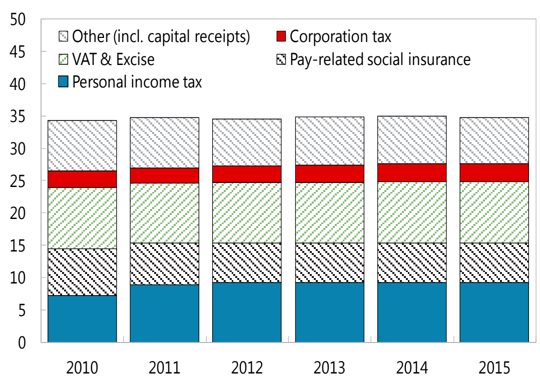
Sources: Department of Finance; and IMF staff estimates.

Headline, Primary and Structural Balance 1/
(Percent of GDP)



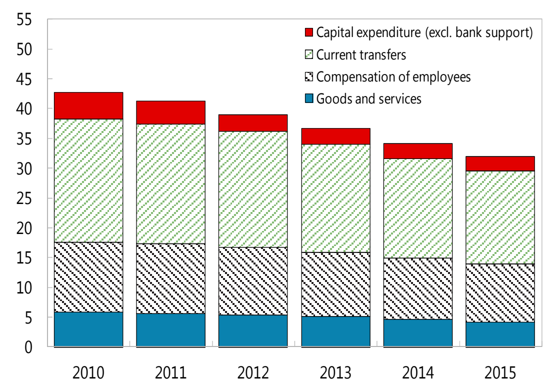
Sources: Department of Finance; and IMF staff estimates.
1/ Excluding bank support.

Revenue Composition
(Percent of GDP)



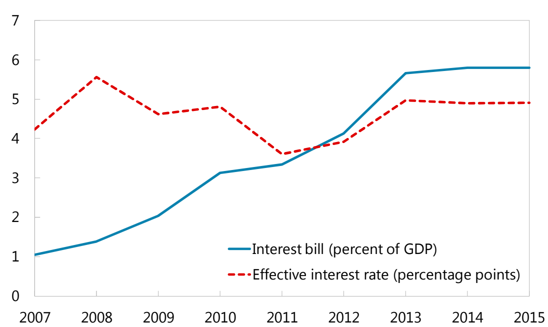
Sources: Department of Finance; and IMF staff estimates.

Primary Expenditure Components
(Percent of GDP)



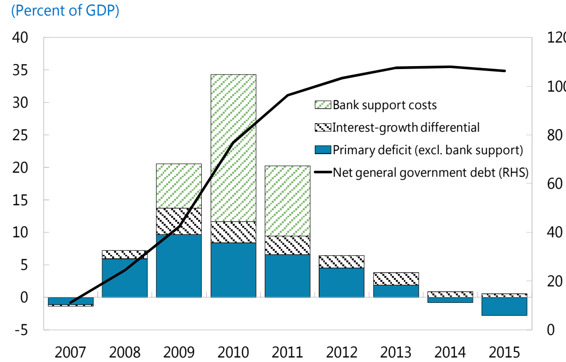
Sources: Department of Finance; and IMF staff estimates.

Interest Bill and Effective Interest Rate



Sources: Department of Finance; NTMA; and IMF staff estimates.

Sources of Increase in Debt-to-GDP Ratio
(Percent of GDP)

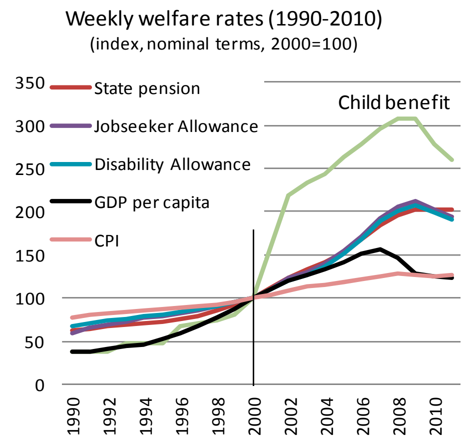


Sources: Department of Finance; and IMF staff estimates.

Box 3. Social Welfare: Scope for Reform

The Irish state provides significant support to low-income groups. As noted by OECD (2011), in the absence of social safety nets, the 9 percentage point increase in the unemployment rate between 2007 and 2009 would have translated into a 6 percentage point increase in poverty rates (the largest in EU). Instead, the *consistent* poverty rate (as measured by the Central Statistics Office) remained relatively flat, reflecting the protection afforded by various working-age and child supports, mortgage/rent allowances, medical cards, and an unchanged level of pension payment.

This protection has come, however, at a high fiscal cost. Welfare spending was 6 percentage points of GDP higher in 2010 than in 2007 (the largest increase in Europe) and now claims over half of government revenue (up from one-third in 2007). The surge partly reflects a collapse in GDP and revenues, but mostly the interplay of: (i) mounting unemployment payment recipients (with weak job search conditionality, Ireland has the highest ratio of recipients to unemployed in the OECD); (ii) rising rates of payment (which doubled between 2000 and 2009—trebled in the case of the universal child benefit); and (iii) aging-related spending pressures from before the crisis (payments to elderly doubled between 2001 and 2007, and have risen by one-fifth since).



Importantly, the current system generates poverty traps for some groups, while providing less targeted support to others. The current flat structure of the Jobseeker allowance, along with supplementary and secondary benefits, implies replacement rates of over 70 percent for about one-fifth of the unemployed (ESRI 2011; Forfas 2010). Individuals with low skills and parents with high childcare costs are particularly vulnerable to the resulting unemployment trap. At the same time, almost 2 percent of GDP in universal payments (child benefit, household benefits and free travel for the elderly), prevent a more targeted use of the state's resources to support, for example, low-income families engaged in or seeking work; single parents requiring childcare support; and training, internships and up-skilling for the unemployed.

Social welfare payments by category	2011 (% of GDP)
Old age pensions	3.0
Widow(er)s/one-parent families	1.6
Jobseeker supports	2.4
Benefit (insurance)	0.7
Allowance (assistance)	1.7
Employment supports	0.4
Illness, disability and carers	2.1
Child related payments	1.6
Child benefit	1.3
Other	0.3
Other supports	1.4
Supplementary welfare allowances	0.6
Household benefits/free travel	0.4
Other	0.4
Total	12.5

Potential reform options include moving toward more a means-tested and integrated approach to social welfare payments. Building on the 2012 budget measures, the Department of Social Protection have already advanced technical work on: (i) a possible integrated child income support scheme, which would combine a leaner universal component (to replace child benefit) and a more substantial means-tested supplement; and (ii) a single working age assistance payment, which could consolidate seven social assistance schemes into a single payment that considers all factors (such as disability, caring responsibility, single-parenthood etc.) affecting recipient need. It is important that the design and implementation of targeting reflect broad social support, take account of the impact on existing beneficiaries, are accompanied by effective labor market activation measures, and demonstrably protect the most vulnerable. The principle of moving toward more means-tested support could also extend to the elderly, who have remained largely unaffected by recent welfare adjustments (Callan et al, 2011). Although the increase in retirement age to 68 (by 2028) will contain aging-related spending pressures, the 3 percent annual increase in the elderly population suggests a need for reducing non-targeted old-age expenditure (such as free schemes, medical cards, age-related tax exemptions), and assessing the appropriateness of the real state pension rate.

35. **The target for the publication of the Fiscal Responsibility Bill (FRB) is being deferred to end-June in view of ongoing discussions on the European fiscal framework.** In consultation with EC/ECB/IMF staff, the authorities have advanced work on a draft FRB that will give statutory basis to the already-established Irish Fiscal Advisory Council (IFAC), the new medium-term expenditure framework, and a set of fiscal rules to ensure prudent fiscal management through good times and bad. In addition to providing arrangements ensuring the independence of the IFAC, the FRB will also provide for the adequacy of IFAC resources to ensure its sustainability and effectiveness. The IFAC recently published a comprehensive report on strengthening fiscal institutions in Ireland which will also be important to consider in finalizing the FRB.[14]

C. Structural Reforms

36. **Steps are being taken to promote job creation and to help the unemployed rejoin the workforce (MEFP ¶22–23).** The authorities have published draft legislation to reform Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs), which together had set minimum wages and conditions in a number of sectors, including those most affected by the crisis such as construction. Streamlining the employment conditions and the number of wages set under EROs, ensuring that wage setting under EROs and REAs takes economic conditions and competitiveness into account, and increasing flexibility to vary from ERO and REA terms under adverse conditions should help facilitate job creation and adjustment across sectors. Labor activation and training policies are also being strengthened under the Pathways to Work scheme, where a single official will coordinate the work across the government to achieve more frequent and effective interaction with job-seekers, sanctions will be used to strengthen incentives for participation, and enhanced data collection will facilitate monitoring of results.

37. **The authorities have reiterated their commitment to an ambitious public asset disposal program to enhance efficiency and growth prospects (MEFP ¶25)**. A detailed program will be determined in coming months after assessing the suitability for disposal of a number of state-owned assets and will be discussed with external partners together with the extent to which proceeds are used to undertake growth enhancing investments. An orderly process that avoids fire sales will be best secure value for the state, and the benefit for Ireland's debt sustainability will also be maximized by allowing time to implement regulatory reforms to ensure the fullest efficiency and competitiveness gains are realized.

[14] In relation to fiscal rules, the Council favors a cyclically-adjusted approach to consolidation (accompanied by limits on expenditure growth), using a ceiling on the pace of debt reduction rather than on the primary balance, and a greater focus on ex-post compliance with targets. Key recommendations on the design of the fiscal council include a greater role for the Oireachtas and the Council Chair in the appointment and termination of Council members; requiring a formal response by the Minister for Finance to the Council's periodic assessments; and instituting adequate funding arrangements for the Council (including buy-outs of time devoted to Council work for Council members employed in the Irish public sector). The report can be accessed at Strengthening Ireland's Fiscal Institutions (January 2012).

V. Program Modalities

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

- **Quantitative performance criteria are proposed for end-June 2012 (MEFP Table 2).** The performance criterion for the Exchequer primary balance is unchanged for end-March 2012, while the previously set end-June 2012 indicative target is being converted into a performance criterion. Also proposed are: (i) a revised end-September 2012 indicative target for the Exchequer primary balance; (ii) a new end-December 2012 indicative target for the Exchequer primary balance; and (iii) a set of indicative quarterly targets for net central government debt for end-March through end-December 2012. The liquid assets adjustor on the net central government debt target is being refined (TMU ¶10) to avoid fluctuations due to valuation changes or liquidation of the National Pension Reserve Fund nonliquid assets.

- **Two new structural benchmarks are proposed in support of program objectives (MEFP Table 3).** These refer to approving the regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable credit unions (MEFP, ¶9) and publishing the PCAR 2012 results (MEFP, ¶5). In addition, the structural benchmark on submission to parliament of the Fiscal Responsibility Bill has been delayed from March to June 2012 to ensure consistency with the evolving European fiscal framework (MEFP ¶21).

39. **Arrangements for official financing of the program by bilateral partners are near conclusion.** The Fund and European partners have disbursed some €38.2 billion since the approval of the arrangement, and will disburse a further €9.7 billion on the completion of this review. Despite some temporary funding delays, European disbursements continue to be made broadly in line with the program, facilitated more recently by the flexibility afforded by pre-funding and recourse to short-term interim financing. The second disbursement under the U.K. bilateral loan in an amount equivalent to €0.5 billion was made on 30th January following completion of the Fourth Review. Following the improvements in the terms of EU lending agreed in July 2011, negotiations on bilateral agreements with Sweden and Denmark are expected to be concluded by the end of this quarter. It is expected that the first disbursements under these agreements will be made in the context of the completion of the fifth review.

40. **The program is adequately financed in 2012 (Table 5).** The market financing assumed in 2012 of about €4 billion (which includes retail funding and commercial paper in addition to Treasury bills) appears achievable, with spreads now below the level when the program was negotiated, and the recent bond exchange is also a positive signal. The authorities also remain in regular contact with a broad range of market participants, and market conditions permitting, are seeking to resume Treasury bill issuance in the second half of 2012. In case of a temporary shortfall in market funding in 2012, this would be manageable in view of the projected cash buffer of €10.4 billion at end-2012. Financing assurances will gain prominence in future reviews as the need for market funding in 2013 is

considerably larger, at about €14 billion during the year, and there are a range of risks as discussed in section III.

41. **Progress is being made on implementing the recommendations of the safeguards assessment.** The CBI has strengthened internal governance and control structures for Emergency Liquidity Assistance; brought forward the publication date to May 2011 of its audited financial accounts for 2010 and, subject to the audit of accounts by the Comptroller and Auditor General, expects to publish the 2011 accounts in April; clarified its accounting framework for areas not covered under ECB guidelines; and formally approved revised investment guidelines. The CBI and DoF are considering how to strengthen the arrangements for the financial autonomy of the CBI. The proposals being discussed may require changes to central bank legislation and changes in other related regulations, which would be prepared in close consultation with the ECB. Consolidation of relevant central bank legislation has been endorsed. Although full consolidation might be a long term project, certain measures could be taken to improve the accessibility of central bank legislation in a shorter timeframe, such as completing the re-statement of the Central Bank Act.

VI. Staff Appraisal

42. **Ireland's firm ownership of the program and strong policy implementation offer a clear opportunity for program success.** Ireland has laid the foundation for regaining credibility among financial markets by establishing a track record of meeting fiscal consolidation targets and addressing the banking crisis in comprehensive manner. Ireland's economy has shown a capacity for export-led growth, aided by significant progress in unwinding past competitiveness losses, its investment climate remains attractive, and the authorities are engaged in structural reforms where needed to support job creation. These efforts have recently been rewarded by financial markets with a significant narrowing of bond spreads, although they remain relatively high.

43. **However, Ireland faces greater challenges than envisaged at the outset of the program, as the effects of the euro area crisis are magnified by domestic debt burdens.** The growth outlook has deteriorated as export prospects are dampened by the recession projected for the euro area and by lower growth projections for Ireland's other trading partners. Moreover, deleveraging by European banks increases the risk of curtailing already low domestic bank lending and of more costly deposits, undermining prospects for restoring bank viability and for economic recovery. The vulnerability of household and SME balance sheets could increase the impact of such shocks on Ireland's recovery, and a more lasting period of low growth would further increase the difficulty of the medium-term fiscal consolidation and threaten debt sustainability.

44. **It is therefore welcome that the authorities remain determined to build upon the sound implementation of fiscal policy in 2011**. In Budget 2012, the authorities have demonstrated their commitment to fiscal adjustment by increasing consolidation effort to 2¾ percent of GDP in 2012, and the 2012 targets remain within reach despite the weakening in growth prospects. In the event of significant further reduction in growth projections,

automatic stabilizers on the revenue-side should be allowed to operate to avoid jeopardizing the fragile economic recovery as envisaged under the program. Nonetheless, it is critical to protect the credibility of the medium-term consolidation goals, including by continuing to develop the reforms needed to underpin the targeted reductions in current spending. Staff supports deferring the target for the publication of the Fiscal Responsibility Bill to ensure consistency with the evolving European fiscal framework.

45. **In the financial sector, the priority is to underpin prospects for domestic demand recovery by ensuring banks long-term viability and improving balance sheet quality.** Returning to market funding and private ownership over time requires that banks be placed on a path to sustained profitability, thereby allowing the necessary capital to be generated to underpin renewed and sound lending activity. Banks must have the scope and incentives to operate on commercial basis, while at the same time their implementation of restructuring plans and loan portfolio resolution strategies need to be supervised vigorously. In the current adverse market conditions for bank assets, it is important that that deleveraging framework provides firm safeguards against fire sales, and it is appropriate to refine the design of the framework to minimize risks to lending and deposit rates. Completing the restructuring of the financial system, in respect of ILP and the credit unions, should continue to contain fiscal costs and protect financial stability.

46. **Advancing the comprehensive reform of the personal insolvency framework in a careful manner will be crucial to facilitate the resolution of household debt distress in coming years while protecting debt service discipline**. The inclusion of secured debt in out-of-court debt settlement procedures is a welcome initiative, although these procedures will need to be designed well and closely monitored over time to ensure they achieve sufficient creditor participation in a voluntary setting, and that the eligibility requirements and other elements are implemented in a manner that avoids incentives for strategic default. Moreover, the necessary infrastructure must be built up in a timely manner to support sound implementation of the reform and avoid undue resort to formal bankruptcy proceedings.

47. **Ensuring that the Irish authorities continued strong policy implementation succeeds in restoring the substantial market access required in 2013 is critical**. Ireland's program faces weaker trading partner growth and more adverse market conditions for bank deleveraging. The authorities have responded by increasing fiscal adjustment and deepening financial reforms. Stronger European support can greatly enhance the effectiveness of those efforts, such as by reducing market financing needs in the medium-term and thereby reinforcing debt sustainability, and by helping financial sector reforms efforts cope with more adverse market conditions. Regaining market access in timely and reliable manner would demonstrate that strong policy implementation can succeed, and also avert the prospect of ongoing reliance on official financing, that would, itself, increasingly hinder the potential for Ireland to return to market funding.

48. **Staff supports the authorities' request for completion of the Fifth Review.**

Table 1. Ireland: Selected Economic Indicators, 2008–13

(Annual percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013
					Proj	
National accounts (constant prices)						
Real GDP	-3.0	-7.0	-0.4	0.9	0.5	2.0
Domestic demand	-4.0	-12.5	-4.9	-3.2	-2.0	0.4
Private consumption	-1.1	-6.9	-0.8	-2.8	-1.6	0.5
Public consumption	0.5	-4.5	-3.8	-3.0	-1.9	-1.5
Gross fixed investment	-10.2	-28.7	-24.9	-14.0	-4.5	3.0
Net exports 1/	1.3	3.5	3.7	3.5	2.1	1.7
Exports of goods and services	-1.1	-4.2	6.3	4.2	2.8	3.8
Imports of goods and services	-3.0	-9.3	2.7	0.8	1.0	2.8
Gross national saving (in percent of GDP)	15.9	11.4	11.5	10.6	11.0	11.0
Private	18.7	19.6	20.1	18.2	18.4	17.4
Public	-2.8	-8.2	-8.6	-7.6	-7.4	-6.4
Gross investment (in percent of GDP)	21.6	14.3	11.0	10.3	9.7	9.6
Private	16.2	10.3	7.3	7.3	7.5	7.5
Public	5.4	4.0	3.7	3.0	2.2	2.1
Prices, wages and employment (annual average)						
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.1	1.6	1.2
Average wage, whole economy	3.5	-0.1	-2.2	-1.1	0.3	0.7
Employment	-1.1	-8.1	-4.2	-1.9	-1.0	0.7
Unemployment rate (in percent)	6.3	11.8	13.6	14.3	14.5	13.7
Money and credit (end-period)						
Irish contribution to euro area money supply (M3)	-0.6	-5.9	-20.5	-0.2	...	...
Irish resident private sector credit 2/	8.8	-1.7	-3.7	-2.9	...	...
Financial and asset markets (end-period)						
Three-month interbank rate 3/	2.9	0.7	1.0	1.5	...	...
Government bond yield (in percent, 10-year) 4/	4.4	4.9	9.2	8.4	...	...
Annual change in ISEQ index (in percent)	-66.2	27.0	-3.0	0.6	...	...
House prices	-5.9	-18.3	-13.1	-13.2	...	...
Public finance (in percent of GDP)						
General government balance	-7.3	-14.2	-31.3	-9.9	-8.6	-7.5
General government balance (excl. bank support)	-7.3	-11.7	-11.5	-9.9	-8.6	-7.5
Primary balance (excl. bank support)	-6.0	-9.7	-8.4	-6.6	-4.5	-1.9
General government gross debt	44.2	65.2	92.5	105.4	113.7	118.4
General government net debt	24.4	42.2	76.9	96.3	103.4	107.6
External trade and balance of payments (percent of GDP)						
Balance of goods and services	9.0	15.2	18.8	20.9	23.0	24.4
Balance of income and current transfers	-14.6	-18.1	-18.4	-20.6	-21.7	-23.0
Current account	-5.6	-2.9	0.5	0.3	1.3	1.4
Effective exchange rates (1999:Q1=100, average) 3/						
Nominal	112.0	113.1	108.4	108.9	...	...
Real (CPI based)	123.8	121.9	112.5	110.1	...	...
Memorandum items:						
Population (in millions) 5/	4.4	4.5	4.5	4.6	4.6	4.5
GDP per capita (in euros)	40,702	36,014	34,892	34,010	34,737	36,200
GDP (in billions of euros)	180.0	160.6	156.0	155.8	158.8	163.9

Sources: Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; and IMF staff estimates.

1/ Contribution to growth.

2/ Adjusted growth rate of credit to households and non-financial corporations.

3/ 2011 column refers to the latest available information (end-September).

4/ For 2011, 9 year government bond yield is shown as no 10 year benchmark exists.

5/ 2011 figure revised following prelimary results from the 2011 Census, 2007–10 to be revised when available.

Table 2. Ireland: Medium-Term Scenario, 2008–17

(Annual percentage change, unless indicated otherwise)

	2008	2009	2010	2011	2011	2012	2013	2014	2015	2016	2017
				4th rev.	Proj.						
Real GDP	-3.0	-7.0	-0.4	1.1	0.9	0.5	2.0	2.7	2.9	3.2	3.3
Domestic demand	-4.0	-12.5	-4.9	-2.7	-3.2	-2.0	0.4	1.1	1.7	2.5	2.6
Final domestic demand	-3.0	-11.4	-5.8	-3.7	-4.5	-2.0	0.4	1.1	1.8	2.5	2.7
Private consumption	-1.1	-6.9	-0.8	-2.4	-2.8	-1.6	0.5	1.2	1.5	2.0	2.1
Public consumption	0.5	-4.5	-3.8	-3.1	-3.0	-1.9	-1.5	-1.3	-1.2	0.0	0.0
Gross fixed investment	-10.2	-28.7	-24.9	-10.5	-14.0	-4.5	3.0	4.3	7.5	8.5	8.5
Change in stocks 1/	-0.9	-1.0	0.8	0.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	1.3	3.5	3.7	3.3	3.5	2.1	1.7	1.9	1.6	1.4	1.4
Exports of goods and services	-1.1	-4.2	6.3	4.5	4.2	2.8	3.8	4.5	4.9	4.9	4.9
Imports of goods and services	-3.0	-9.3	2.7	1.4	0.8	1.0	2.8	3.5	4.5	4.9	4.9
Current account 2/	-5.6	-2.9	0.5	1.5	0.3	1.3	1.4	1.2	1.3	1.3	1.3
Gross national saving 2/	15.9	11.4	11.5	12.5	10.6	11.0	11.0	10.9	11.4	11.9	12.4
Gross investment 2/	21.6	14.3	11.0	10.5	10.3	9.7	9.6	9.7	10.1	10.6	11.0
Private	16.2	10.3	7.3	7.5	7.3	7.5	7.5	7.7	8.2	8.7	9.2
Public	5.4	4.0	3.7	3.0	3.0	2.2	2.1	2.0	1.9	1.9	1.8
Prices											
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.2	1.1	1.6	1.2	1.3	1.6	1.8	1.8
GDP deflator	-2.3	-4.1	-2.4	-1.0	-1.0	1.4	1.2	1.5	1.7	1.6	1.6
Average wage, whole economy	3.5	-0.1	-2.2	-1.1	-1.1	0.3	0.7	1.2	1.6	1.9	2.0
Labor market											
Employment	-1.1	-8.1	-4.2	-1.7	-1.9	-1.0	0.7	1.3	1.7	1.9	2.0
Unemployment rate (in percent)	6.3	11.8	13.6	14.3	14.3	14.5	13.7	13.0	12.1	11.0	10.4
Public finance											
General government balance 2/	-7.3	-14.2	-31.3	-10.3	-9.9	-8.6	-7.5	-5.0	-3.0	-2.6	-2.1
General government gross debt 2/	44.2	65.2	92.5	105.6	105.4	113.7	118.4	118.0	115.2	112.5	109.2
General government net debt 2/	24.4	42.2	76.9	96.6	96.3	103.4	107.6	108.1	106.2	103.8	100.9
Output gap 3/	2.2	-5.5	-6.0	-5.5	-5.7	-5.7	-4.6	-3.3	-2.1	-1.1	0.0
Nominal GDP (in billions of euros)	180.0	160.6	156.0	156.1	155.8	158.8	163.9	170.9	178.8	187.5	196.8

Sources: Central Statistics Office; Department of Finance; and IMF staff estimates.

1/ Contributions to growth.

2/ In percent of GDP.

Table 3. Ireland: General Government Finances, 2008–17

(In billions of euros)

	2008	2009	2010	2011		2012	2013	2014	2015	2016	2017
				4th rev	Proj.	Proj. 3/					
Revenue	62.9	54.2	53.5	54.3	54.1	54.9	57.2	59.8	62.2	64.3	67.4
Direct taxes	31.9	28.1	27.1	28.5	28.3	29.3	30.5	32.1	33.7	35.3	37.0
Personal income tax	13.2	11.8	11.3	14.0	13.8	14.6	15.1	15.7	16.5	17.2	18.1
Pay-related social insurance 1/	11.9	11.6	11.3	10.0	10.1	9.8	10.1	10.6	11.0	11.5	11.9
Corporate income tax	5.1	3.9	3.9	3.9	3.8	4.1	4.4	4.7	5.1	5.4	5.7
Capital taxes	1.8	0.8	0.6	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.2
Indirect taxes	20.5	16.3	15.7	15.8	15.8	16.2	16.9	17.8	18.1	18.9	19.8
Value-added tax	13.4	10.7	10.1	9.7	9.7	10.0	10.3	10.9	11.4	11.8	12.4
Excise tax	5.4	4.7	4.7	4.7	4.7	4.9	5.1	5.3	5.5	5.8	6.0
Stamp duty	1.7	0.9	1.0	1.4	1.4	1.3	1.5	1.6	1.2	1.3	1.3
Other revenue 2/	10.5	9.8	10.7	10.0	10.0	9.4	9.7	9.9	10.3	10.2	10.6
Expenditure (ex. bank support)	76.1	73.0	71.5	70.4	69.6	68.5	69.5	68.3	67.5	69.2	71.4
Current	63.4	65.3	64.6	64.1	63.4	64.1	65.0	64.0	63.2	64.8	66.9
Interest payments	2.5	3.3	4.9	5.6	5.2	6.6	9.3	9.9	10.4	10.6	10.8
Goods and services	10.1	9.8	9.1	8.9	8.8	8.6	8.3	7.8	7.5	7.8	8.0
Compensation of employees	20.2	19.5	18.3	18.2	18.2	18.0	17.8	17.6	17.3	17.9	18.5
Current transfers	30.6	32.8	32.3	31.5	31.2	30.9	29.6	28.6	28.0	28.5	29.5
Capital (excl. bank support)	12.8	7.7	6.9	6.3	6.1	4.5	4.5	4.3	4.3	4.4	4.5
Gross capital formation	9.6	6.5	5.8	4.7	4.7	3.4	3.5	3.5	3.4	3.5	3.6
Capital transfers (ex. bank support)	3.1	1.2	1.1	1.7	1.4	1.0	1.0	0.8	0.9	0.9	0.9
Bank support costs	0.0	4.0	30.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (ex. bank support)	-13.2	-18.8	-18.0	-16.1	-15.4	-13.7	-12.3	-8.5	-5.4	-4.9	-4.1
Including bank support	-13.2	-22.8	-48.8	-16.1	-15.4	-13.7	-12.3	-8.5	-5.4	-4.9	-4.1
Primary balance (ex. bank support)	-10.7	-15.5	-13.1	-10.5	-10.2	-7.1	-3.1	1.4	5.0	5.7	6.8
Including bank support	-10.7	-19.5	-44.0	-10.5	-10.2	-7.1	-3.1	1.4	5.0	5.7	6.8
Memorandum items (in percent of GDP, unless indicated otherwise)											
Revenue	35.0	33.7	34.3	34.8	34.7	34.5	34.9	35.0	34.8	34.3	34.3
Direct	17.7	17.5	17.4	18.2	18.2	18.5	18.6	18.8	18.8	18.8	18.8
Indirect	11.4	10.2	10.1	10.1	10.1	10.2	10.3	10.4	10.1	10.1	10.1
Other	5.8	6.1	6.8	6.4	6.4	5.9	5.9	5.8	5.8	5.4	5.4
Expenditure (ex. bank support)	42.3	45.4	45.9	45.1	44.6	43.2	42.4	39.9	37.8	36.9	36.3
Primary current	33.8	38.6	38.3	37.5	37.4	36.2	34.0	31.6	29.6	28.9	28.5
Interest	1.4	2.0	3.1	3.6	3.3	4.1	5.7	5.8	5.8	5.6	5.5
Capital (ex. bank support)	7.1	4.8	4.4	4.0	3.9	2.8	2.7	2.5	2.4	2.3	2.3
Overall balance	-7.3	-11.7	-11.5	-10.3	-9.9	-8.6	-7.5	-5.0	-3.0	-2.6	-2.1
Including bank support	-7.3	-14.2	-31.3	-10.3	-9.9	-8.6	-7.5	-5.0	-3.0	-2.6	-2.1
Primary balance	-6.0	-9.7	-8.4	-6.7	-6.6	-4.5	-1.9	0.8	2.8	3.0	3.4
Including bank support	-6.0	-12.1	-28.2	-6.7	-6.6	-4.5	-1.9	0.8	2.8	3.0	3.4
Structural balance 4/	-13.7	-11.5	-8.0	-6.0	-5.8	-5.5	-5.1	-3.5	-2.3	-2.2	-2.1
Structural primary balance 4/	-12.9	-8.8	-4.3	-2.4	-2.2	-1.2	0.6	2.2	3.5	3.5	3.5
General government gross debt	44.2	65.2	92.5	105.6	105.4	113.7	118.4	118.0	115.2	112.5	109.2
General government net debt	24.4	42.2	76.9	96.6	96.3	103.4	107.6	108.1	106.2	103.8	100.9
Output Gap (percent of potential GDP)	2.2	-5.5	-6.0	-5.5	-5.7	-5.7	-4.6	-3.3	-2.1	-1.1	0.0
Nominal GDP (in billions of Euros)	180.0	160.6	156.0	156.1	155.8	158.8	163.9	170.9	178.8	187.5	196.7

Sources: Department of Finance; IMF 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 and specified in Budget 2012. The 2016-17 columns set out IMF staff projections (based on a no-policy-change baseline assumption).

4/ In percent of nominal potential GDP.

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

	2007	2008	2009	2010	2011 7/
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	4.1
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	0.3
Capital and financial account balance (in percent of GDP)	6.4	9.0	-1.3	7.5	-17.5
Of which:					
Inward portfolio investment	86.1	-10.2	13.9	48.3	14.4
Inward foreign direct investment	9.5	-6.2	11.6	15.1	19.9
Other investment liabilities	91.8	85.4	-53.9	-42.5	-44.9
U.S. dollar per euro (period average)	1.37	1.47	1.39	1.33	1.39
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	105.4
Government bond yield (in percent, 10-year, end-period) 1/	4.5	4.4	4.9	9.2	8.4
Spread of government bond yield with Germany (in percent, end of period)	0.1	0.5	2.0	3.2	7.1
Real government bond yield (in percent, 10-year, period average, based on HICP)	1.5	1.4	6.9	7.6	8.5
Annual change in ISEQ index (in percent, end of period)	-26.3	-66.2	27.0	-3.0	0.6
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	4.4
Financial sector risk indicators					
Annual credit growth rates (to Irish resident private sector, in percent) 2/	20.1	8.8	-1.7	-3.7	-2.9
Personal lending as a share of total Irish resident credit (in percent)	39.6	35.2	35.6	35.8	35.3
Of which:					
House mortgage finance	32.8	29.0	30.1	30.6	30.7
Other housing finance	0.3	0.3	0.2	0.3	0.3
Other personal lending	6.5	5.9	5.3	5.2	4.6
Irish resident household mortgage debt annual growth rates (in percent) 3/	17.5	-7.1	-3.9	-9.3	-8.6
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) 4/	0.8	2.6	9.0	8.6	8.6
Total provisions for loan losses (in percent of total loans)	0.4	1.2	4.0	4.2	4.3
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.7	10.6	10.9	10.4	18.6
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 5/	1.4	1.4	1.4	1.5	1.2
Loan-to-deposit ratio vis-à-vis Irish residents 6/	2.1	2.2	2.1	2.1	2.1
vis-à-vis total 6/	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	18.6
Share of foreign-owned banks in total assets (in percent)	32.2	62.0	65.0	66.0	61.3

Sources: Bloomberg; Central Bank of Ireland; International Financial Statistics; and IMF staff estimates.

1/ For 2011, 9 year government bond yield is shown as no 10 year benchmark exists.

2/ Adjusted growth rate of credit to households and non-financial corporations.

3/ Including securitisations.

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

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

6/ Nongovernment credit/nongovernment deposits ratio.

7/ For 2011, staff projections for macroeconomic variables, and September 2011 for financial soundness indicators, except bank profitability indicators, which are as of June 2011, and credit growth, which is as of December 2011. Financial sector indiators cover all credit institutions licensed in Ireland except for personal lending rate, which is calculated based on a sample of retail banks, and a mortgage interest rate, which is calculated excluding IFSC.

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

				Proj.		
	2008	2009	2010	2011	2012	2013
Gross borrowing need	15.9	63.4	71.4	45.2	29.3	22.6
Exchequer cash deficit 1/	12.7	24.6	18.7	19.1	18.6	14.1
Amortization	3.1	27.7	17.3	9.7	9.2	8.5
Medium-and long-term	0.1	5.1	1.2	4.8	5.7	6.0
Short-term 2/	3.0	22.6	16.2	4.9	3.5	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	16.4	1.6	0.0
Gross financing sources	15.9	63.4	71.4	10.8	6.4	12.5
Market financing (inc. retail) 2/	34.9	53.3	23.2	1.3	3.9	14.2
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 3/	-19.0	10.0	17.3	9.4	2.5	-1.7
Financing gap	0.0	0.0	0.0	34.4	22.9	10.1
EFSM/EFSF	0.0	0.0	0.0	21.5	13.6	5.1
Bilateral EU	0.0	0.0	0.0	0.5	2.8	1.5
IMF	0.0	0.0	0.0	12.5	6.5	3.6
Memorandum items						
Exchequer cash balance	22.0	21.8	12.3	12.9	10.4	12.1
Total debt	79.6	104.6	144.3	164.2	180.5	194.1
Official creditors	0.0	0.0	0.0	34.4	57.3	67.5
European Union	0.0	0.0	0.0	22.0	38.4	45.0
IMF	0.0	0.0	0.0	12.5	18.9	22.5
Other	79.6	104.6	144.3	129.7	123.1	126.6
Treasury bills, bonds and retail	72.0	96.3	110.4	100.3	95.0	100.7
Promissory notes	0.0	0.0	30.9	28.3	25.2	24.1
Other	7.6	8.4	2.9	1.1	2.9	1.8
Total debt (in percent of GDP)	44.2	65.2	92.5	105.4	113.7	118.4
Official creditors	0.0	0.0	0.0	22.1	36.1	41.2
European Union	0.0	0.0	0.0	14.1	24.2	27.4
IMF	0.0	0.0	0.0	8.0	11.9	13.7
Other	44.2	65.2	92.5	83.3	77.6	77.3
Treasury bills, bonds and retail	40.0	60.0	70.8	64.4	59.8	61.4
Promissory notes	0.0	0.0	19.8	18.2	15.9	14.7
Other	4.2	5.2	1.9	0.7	1.8	1.1

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

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

2/ Includes retail funding and short-term commercial paper in addition to Treasury Bills.

3/ Use of Exchequer cash balances and National Pension Reserve Fund.

Table 6. Ireland: Summary of Balance of Payments, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Proj.			
					(In billions of euros)					
Current account balance	-10.2	-4.7	0.8	0.4	2.0	2.3	2.0	2.3	2.5	2.6
Balance of goods and services	16.1	24.4	29.4	32.5	36.5	40.0	43.9	47.4	50.7	54.1
Trade balance	23.8	32.5	36.5	40.4	41.9	44.6	47.8	51.0	54.6	58.3
Exports of goods	81.0	77.6	82.9	88.3	91.9	96.3	100.6	105.0	109.9	114.9
Imports of goods	-57.2	-45.2	-46.4	-47.9	-50.0	-51.7	-52.8	-54.0	-55.3	-56.6
Services balance	-7.7	-8.1	-7.1	-7.9	-5.4	-4.6	-3.9	-3.6	-3.9	-4.2
Credit	67.9	67.1	73.8	76.6	79.4	83.3	88.7	95.6	103.0	110.9
Debit	-75.6	-75.2	-80.9	-84.5	-84.8	-87.9	-92.7	-99.2	-106.8	-115.1
Income balance	-25.2	-27.9	-27.4	-30.9	-33.9	-36.4	-40.4	-43.7	-46.7	-49.9
Credit	84.0	55.1	57.7	55.8	62.6	68.4	68.9	69.4	66.0	62.5
Debit	-109.2	-83.0	-85.1	-86.6	-96.5	-104.8	-109.2	-113.1	-112.7	-112.3
Current transfers (net)	-1.2	-1.2	-1.2	-1.2	-0.6	-1.4	-1.4	-1.5	-1.6	-1.6
Capital and financial account balance	16.2	-2.1	11.7	-27.3	-24.9	-12.4	-2.0	-2.3	-2.5	-2.6
Capital account balance	0.0	-1.3	-0.7	0.0	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Financial account	16.1	-0.9	12.4	-27.3	-24.6	-12.1	-1.7	-1.9	-2.1	-2.2
Direct investment	-24.2	-0.5	1.7	17.2	6.5	4.6	4.1	4.2	4.3	4.2
Portfolio investment	-45.7	22.6	94.0	7.7	-10.3	-2.2	-1.5	-1.7	-1.9	-2.0
Other investment	86.1	-23.1	-88.0	-48.0	-17.2	-11.1	-3.1	-3.5	-3.8	-4.1
Change in reserve assets 1/	-0.1	0.1	0.0	-4.2	-3.6	-3.3	-1.2	-1.0	-0.7	-0.3
Net errors and omissions	-6.0	6.8	-12.5	-7.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	34.4	22.9	10.1	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	34.4	22.9	10.1	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	12.5	6.5	3.6	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	22.0	16.4	6.6	0.0	0.0	0.0	0.0
					(In percent of GDP)					
Current account balance	-5.6	-2.9	0.5	0.3	1.3	1.4	1.2	1.3	1.3	1.3
Balance of goods and services	9.0	15.2	18.8	20.9	23.0	24.4	25.7	26.5	27.0	27.5
Trade balance	13.2	20.2	23.4	25.9	26.4	27.2	28.0	28.5	29.1	29.6
Services balance	-4.3	-5.0	-4.5	-5.1	-3.4	-2.8	-2.3	-2.0	-2.1	-2.1
Income balance	-14.0	-17.4	-17.6	-19.8	-21.4	-22.2	-23.6	-24.4	-24.9	-25.3
Current transfers (net)	-0.6	-0.8	-0.8	-0.8	-0.4	-0.8	-0.8	-0.8	-0.8	-0.8
Capital and financial account balance	9.0	-1.3	7.5	-17.5	-15.7	-7.6	-1.2	-1.3	-1.3	-1.3
Of which:										
Direct investment	-13.4	-0.3	1.1	11.1	4.1	2.8	2.4	2.4	2.3	2.1
Portfolio investment	-25.4	14.1	60.2	4.9	-6.5	-1.4	-0.9	-1.0	-1.0	-1.0
Other investment	47.9	-14.4	-56.4	-30.8	-10.8	-6.8	-1.8	-1.9	-2.0	-2.1
Change in reserve assets 1/	0.0	0.0	0.0	-2.7	-2.3	-2.0	-0.7	-0.5	-0.4	-0.2
Net errors and omissions	-3.3	4.3	-8.0	-4.9	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	22.1	14.4	6.2	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	22.1	14.4	6.2	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	8.0	4.1	2.2	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	14.1	10.4	4.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff estimates.

1/ Includes financing need to build reserves for bank support.

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

	Dec-08	Dec-09	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Aggregate balance sheet of domestic market credit institutions							
Assets	801	798	742	704	654	659	634
Claims on Central Bank of Ireland	9	12	8	8	6	6	4
Claims on Irish resident Other MFIs	125	129	123	116	92	96	92
Claims on Irish resident non MFIs	374	363	357	351	343	341	338
General government	3	9	43	39	38	42	42
Private sector	371	354	314	312	305	299	296
Claims on non-residents	250	241	206	177	161	163	147
Other assets	44	54	47	52	52	54	52
Liabilities	801	798	742	704	654	659	634
Liabilities to ECB 1/	45	58	95	83	72	71	72
Liabilities to Irish resident Other MFIs	126	131	132	122	100	103	99
Deposits of Irish resident non MFIs	170	180	161	160	169	146	144
General government	3	3	3	9	22	3	2
Private sector	167	176	157	152	147	143	141
Deposits of non-residents	271	229	137	110	99	103	98
Debt securities	100	98	64	60	57	54	52
Capital and reserves	41	53	71	65	71	94	91
Other liabilities (incl. Central Bank of Ireland)	48	50	83	104	86	88	78
Money and credit 2/							
Net foreign assets	-100	-75	-67	-60	-50	-49	…
Central Bank of Ireland 3/	-24	-37	-128	-122	-111	-111	…
Commercial banks	-77	-38	61	62	61	62	62
Net domestic assets	295	283	251	244	241	235	…
Public sector credit	3	10	43	40	39	42	43
Private sector credit	394	375	335	331	332	326	324
Other	-102	-102	-127	-127	-130	-133	…
Irish Resident Broad money (M3) 4/	194	208	185	184	192	186	182
Irish Resident Intermediate money (M2) 4/	176	188	173	168	173	169	167
Irish Resident Narrow money (M1)	78	100	97	95	94	91	90
			(In percent of GDP)				
Public sector credit 5/	1.4	5.3	27.6	25.3	24.6	27.2	26.9
Private sector credit 5/	206.1	220.4	201.5	200.2	196.4	193.4	189.9
			(Annual percentage change)				
Broad money - Irish contribution to euro area M3 6/	-0.6	-5.9	-20.5	-17.5	-8.0	-10.7	-0.2
Irish Public sector credit 6/ 7/	101.8	176.9	366.1	107.9	78.2	30.6	1.5
Irish Household and non-financial corporations credit 6/ 7/	8.8	-1.7	-3.7	-3.3	-3.6	-3.1	-2.9
Memorandum items: 8/							
Credit to deposits (in percent) 9/	222.8	200.8	200.0	205.5	207.3	209.2	209.2
Deposits from Irish Private Sector (annual percent change) 7/	1.0	1.8	-9.8	-12.0	-12.9	-13.5	-9.2
Wholesale funding (billions of euros)	439.6	422.8	315.3	275.7	241.2	245.8	233.6
Deposits from MFIs	339.4	324.8	251.1	216.1	184.0	191.5	182.0
Debt securities	100.2	98.1	64.3	59.6	57.2	54.3	51.6
Wholesale funding (annual percent change) 7/ 10/	16.1	6.8	-21.8	-31.1	-37.3	-32.0	-27.1
Wholesale funding (percent of assets) 10/	54.8	53.0	44.8	39.2	36.9	37.3	36.8

Sources: Central Bank of Ireland and IMF staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Service 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

Source: IMF staff estimates.

1/ Incorporates proposed rephasing of the fifth, seventh and eighth purchase at the Fourth Review.

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	-	109	364	481	655	1,219	2,810	3,433	3,657	3,523	3,390	2,749	1,083	351	0
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349	-
Charges	-	109	364	481	655	684	637	537	413	279	146	40	12	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	12.1	13.9	13.4	12.5	10.6	8.4	6.1	4.1	2.2	0.7	0.2	-	-
In percent of exports of goods and services	-	7.5	11.1	12.5	11.9	11.0	9.2	7.2	5.3	3.5	1.9	0.6	0.1	-	-
Obligations to the Fund															
In percent of quota	-	9	29	38	52	97	223	273	291	280	270	219	86	28	0
In percent of GDP	-	0.1	0.3	0.3	0.4	0.8	1.8	2.1	2.1	1.9	1.8	1.4	0.5	0.2	0
In percent of exports of goods and services	-	0.1	0.2	0.3	0.4	0.7	1.5	1.8	1.8	1.7	1.5	1.2	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 the public and external debt sustainability analysis based on staff's revised medium-term macroeconomic framework and the Irish authorities' fiscal consolidation plan. At this stage, no allowance is made for potential privatization receipts.

General Government Debt

Debt is expected to remain high in the medium term, broadly in line with the Fourth Review forecast. General government debt is projected to peak at 118 percent of GDP in 2013, before declining gradually to about 112 percent by 2016. The outlook is little changed compared with the last review as the downward revision to real GDP growth in 2012 is expected to be offset by a combination of somewhat higher GDP deflator inflation and lower projected interest payments. The debt trajectory is expected to remain below the initial program projection, which peaked at 125 percent of GDP.

In the baseline scenario, the fiscal consolidation in Budget 2012 and the Medium Term Fiscal Statement should place the debt-to-GDP ratio on a downward path. By 2015, the primary surplus is projected to reach 2¾ percent of GDP, which is around 2½ percentage points of GDP above the debt-stabilizing primary balance. Under the Fiscal compact, further fiscal consolidation is expected in subsequent years to bring the overall structural balance to a near balanced position.

However, the debt path remains subject to significant risks:

- **A negative shock to growth (stemming, for instance from a prolonged recession in trading partner countries) could put debt on an unsustainable path.** A permanent decline in growth of around 2¼ percentage points each year (corresponding to half of the historical standard deviation) would proportionally raise the primary budget deficit, and raise the debt-to-GDP ratio to 138 percent by 2016. A recession in 2012–13 (of the magnitude experienced in 2008 and 2010, respectively) would raise the medium-term debt outlook by further five percentage points. The impact of such scenarios would be larger if they lead to renewed deflation, which would negatively impact nominal GDP growth, raising the debt-to-GDP ratio. Weaker growth over a prolonged period could also result in higher impairments in bank loan portfolios, which in turn could spill over onto the sovereign. This risk, however, should be mitigated by the fact that the bank recapitalization announced in March 2011 included a €5.3 billion (3.3 percent of GDP) buffer for potential losses after 2013.

- **Recognition of contingent liabilities would constitute a one-off increase in the level of debt.** Ireland's contingent fiscal liabilities relate to the covered banks, the

IBRC, and NAMA. There is no expectation of losses from these entities as the covered banks have been recapitalized under PCAR 2011, the IBRC meets capital adequacy requirements, and NAMA received assets at heavy discounts—averaging 58 percent—to protect its viability. Under the standard scenario, the assumption of 10 percent of GDP in contingent liabilities by the Irish government would raise the debt-to-GDP ratio to 124 percent in 2012 and cause it to peak at 129 percent in the following year, but starting from 2014 debt would start to decline steadily, reaching 123 percent by 2016. However, the debt trajectory would be higher if the higher debt level resulted in higher interest rates on new market funding.

Ireland: Contingent Liabilities
(in percent of projected 2012 GDP)

Senior NAMA bonds	18.7
Guarantees for Emergency Liquidity Assistance	9.8
Deposits Covered by Deposit Protection Scheme	51.0
Other Bank Liabilities covered by Eligible Liability Scheme	31.3
Total	**110.8**

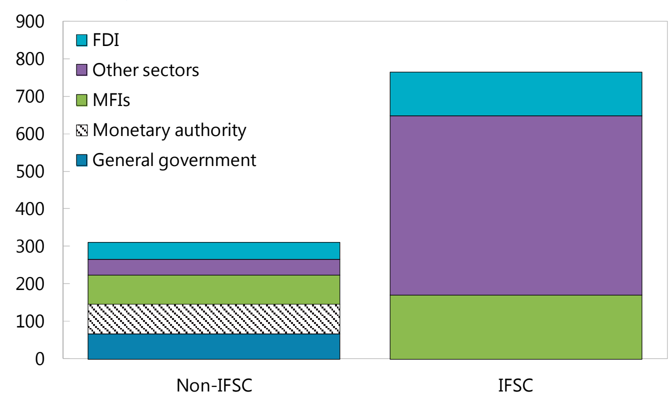
Source: Irish authorities and IMF staff calculations

- **An interest rate shock would raise the medium-term level of debt by around 1 percentage point of GDP.** A step change in the average interest rate on new market borrowing by 200 basis points a year would raise the average interest rate on total government debt by a maximum of 43 basis points in 2016. Total public sector debt would peak at around 118 percent of GDP in 2013 (same as in the baseline scenario). but would decline to 113 percent in 2016 (an increase of 1 percentage point compared with the no-shock scenario). The relatively small impact of higher interest rates on overall debt levels stems from a very high share of fixed rate borrowing in the government portfolio.

External Debt

Total external debt is high, but it is expected to decline gradually. At end 2011:Q3, total external debt fell to 1,073 percent of GDP, a modest decline from the 2010. Most of the improvement occurred due to a fall in non-IFSC debt as the external exposure of MFIs fell. At the same time, debt of the IFSC sector (which holds around 70 percent of total debt but also has sizeable external assets) fell by around 1 percentage point. The overall net international investment position remained broadly stable at -95 percent of GDP at 2011:Q3, with net external liabilities of the non-IFSC sector at 108 percent of GDP.

External Debt Composition, 2011Q3
(Percent of projected 2011 GDP)



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

At end-2011:Q3, non-IFSC debt was 310 percent of GDP and despite a significant decline in the medium-term will remain elevated. By 2016, external debt is projected to fall to 236 percent of GDP. This is a more significant drop than projected at the time of the Fourth Review due to a greater than expected improvement in external debt in 2011. The projection is, however, subject to substantial risks. This outlook is especially susceptible to growth and current account shocks: a permanent shock to growth would push the 2016 debt-to-GDP ratio to 277 percent, while a shock to current account flows would raise it to 253 percent. Exchange rate depreciation would have a moderate impact on the long-term debt dynamics, given small share of FX debt. A depreciation of 30 percent in 2012 would cause the external debt to peak at 333 percent of GDP, and decline to 237 percent in 2016.

Ireland: Net International Investment Position
(In percent of GDP)

	2005	2006	2007	2008	2009	2010	Q3 2011 1/
Assets	1,029	1,128	1,195	1,269	1,506	1,691	1661
Direct investment abroad	54	51	54	67	125	167	157
Portfolio investment abroad	613	690	705	702	842	922	860
Other investment abroad	361	386	436	498	538	601	642
Reserve assets	0	0	0	0	1	1	1
Liabilities	1,053	1,133	1,215	1,344	1,610	1,782	1756
Direct investment to Ireland	85	67	73	75	107	119	136
Portfolio investment to Ireland	628	686	700	712	912	1,073	1049
Other investment to Ireland	341	380	442	558	591	591	570
Net investment position	-24	-5	-19	-76	-103	-91	-95
Direct investment, net	-31	-15	-19	-8	18	49	21
Portfolio investment, net	-15	4	5	-9	-70	-151	-189
Other investment, net 2/	20	6	-5	-59	-52	10	72
Reserve assets	0	0	0	0	1	1	1

Source: Central Statistics Office.
1/ In percent of estimated 2011 GDP.
2/ Includes valuation changes and errors and omissions.

Annex Table 1. Ireland: Public Sector Debt Sustainability Framework, 2006-2016 1/
(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: General government debt	24.7	24.8	44.2	65.2	92.5	105.4	113.7	118.4	118.0	115.2	112.5	0.3
Change in general government debt	-2.3	0.1	19.4	20.9	27.3	12.9	8.3	4.8	-0.5	-2.8	-2.7	
Identified debt-creating flows (4+7+12)	-5.1	-1.6	8.7	19.5	33.2	14.2	6.6	4.0	0.1	-2.2	-2.7	
Primary deficit	-3.9	-1.1	6.0	9.7	8.4	6.6	4.5	1.9	-0.8	-2.8	-3.0	
Revenue and grants	36.3	36.3	35.0	33.7	34.3	34.7	34.5	34.9	35.0	34.8	34.3	
Primary (noninterest) expenditure 2/	32.4	35.1	40.9	43.4	42.7	41.3	39.0	36.7	34.1	32.0	31.3	
Automatic debt dynamics 3/	-1.2	-0.5	2.8	7.4	5.1	3.4	2.2	2.1	0.9	0.6	0.3	
Contribution from interest rate/growth differential 4/	-1.2	-0.5	2.8	7.4	5.1	3.4	2.2	2.1	0.9	0.6	0.3	
Of which contribution from real interest rate	0.1	0.7	2.0	3.9	4.8	4.2	2.6	4.3	4.1	3.9	3.8	
Of which contribution from real GDP growth	-1.3	-1.2	0.8	3.5	0.3	-0.8	-0.5	-2.2	-3.1	-3.3	-3.5	
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	19.8	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	19.8	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	-5.9	-1.3	1.6	0.8	-0.6	-0.6	0.0	
General government debt-to-revenue ratio	68.1	68.5	126.5	193.1	269.4	303.2	329.0	339.6	337.4	331.3	327.8	
Gross financing need 7/	-2.8	3.1	7.4	21.7	44.8	32.0	14.1	13.4	13.3	9.1	12.0	
in billions of U.S. dollars	-6.6	8.6	18.2	50.9	92.4	67.1	29.8	29.2	29.8	21.2	29.1	
Scenario with key variables at their historical averages 8/						105.4	108.1	110.1	110.6	111.2	112.4	0.2
Scenario with no policy change (constant primary balance) in 2011-2016						105.4	115.7	125.2	132.2	138.9	145.8	0.4
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.3	5.2	-3.0	-7.0	-0.4	0.9	0.5	2.0	2.7	2.9	3.2	
Average nominal interest rate on public debt (in percent) 9/	4.1	4.5	5.3	4.1	4.7	3.6	4.0	5.1	5.1	5.1	5.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	0.6	3.2	7.6	8.2	7.1	4.6	2.6	3.9	3.6	3.5	3.5	
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	1.4	1.2	1.5	1.6	1.6	
Growth of real primary spending (deflated by GDP deflator, in percent) 2/	7.4	14.2	13.0	-1.4	-2.8	-1.7	-5.0	-4.0	-4.5	-3.6	0.9	
Primary deficit 2/	-3.9	-1.1	6.0	9.7	8.4	6.6	4.5	1.9	-0.8	-2.8	-3.0	

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 e = 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 - π (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.

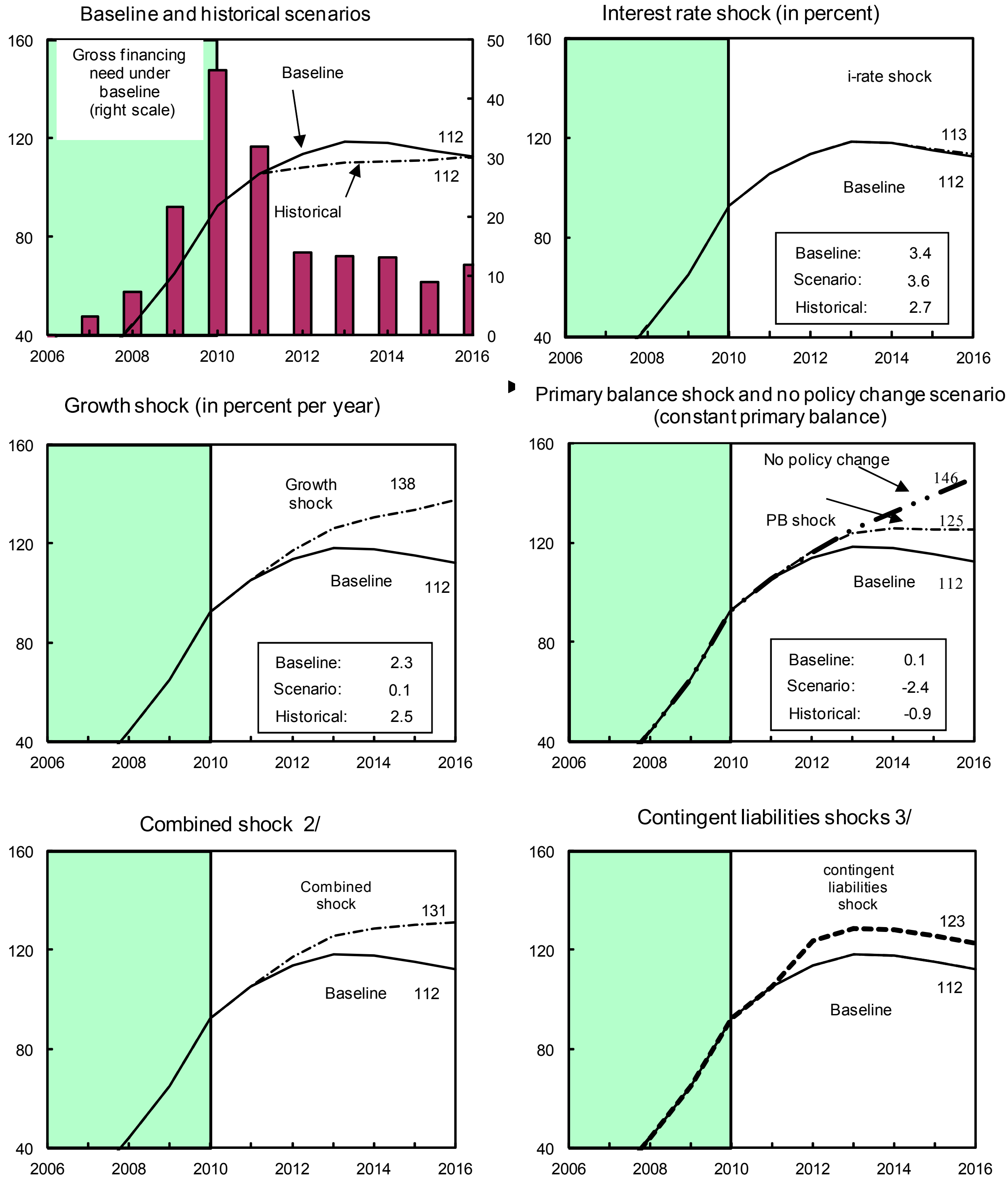
7/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt and short-term debt at end of previous period, and bank recapitalization costs.

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/
(General government 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 interest rate shocks which is a one-fourth standard deviation. 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/
1 Baseline: External debt (excl. IFSC)	**206.5**	**257.3**	**303.2**	**327.0**	**334.8**			**310.6**	**298.8**	**284.3**	**269.1**	**253.0**	**236.1**	**1.9**
External debt incl. IFSC	692.9	750.9	810.9	942.1	1030.8									
2 Change in external debt	9.1	50.7	45.9	23.8	7.8			-24.2	-11.8	-14.5	-15.2	-16.1	-16.9	
3 Identified external debt-creating flows (4+8+9)	-0.7	-3.8	22.1	38.8	21.0			-27.4	-7.4	-10.9	-11.1	-11.7	-12.8	
4 Current account deficit, excluding interest payments	2.0	0.5	-6.8	-6.3	-14.5			-34.9	-17.3	-14.5	-19.4	-19.1	-19.0	
5 Deficit in balance of goods and services	-6.0	-5.5	-5.0	-11.2	-14.1			-23.8	-27.0	-28.4	-29.6	-30.6	-31.2	
6 Exports	67.4	68.6	71.5	78.3	87.4			99.6	102.9	104.5	105.6	106.9	108.0	
7 Imports	-61.4	-63.1	-66.5	-67.1	-73.3			-75.8	-75.9	-76.1	-76.0	-76.3	-76.8	
8 Net non-debt creating capital inflows (negative)	8.2	0.0	-0.6	-2.5	9.6			-11.1	-4.1	-2.8	-0.5	-0.6	-0.7	
9 Automatic debt dynamics 2/	-10.9	-4.4	29.5	47.6	25.8			18.6	14.0	6.4	8.9	7.9	6.8	
10 Contribution from nominal interest rate	5.6	8.3	15.3	11.0	16.2			21.4	15.4	12.1	16.4	15.4	14.5	
11 Contribution from real GDP growth	-9.6	-10.0	8.1	23.8	1.4			-2.9	-1.5	-5.7	-7.5	-7.5	-7.7	
12 Contribution from price and exchange rate changes 3/	-6.8	-2.6	6.1	12.8	8.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	9.8	54.5	23.8	-15.0	-13.2			3.2	-4.4	-3.6	-4.2	-4.4	-4.0	
External debt-to-exports ratio (in percent)	306.5	375.2	423.9	417.7	383.0			311.7	290.4	272.1	254.8	236.7	218.6	
Gross external financing need (in billions of euro) 5/	13.4	16.7	56.1	392.7	354.2			308.0	324.2	321.6	318.9	316.2	312.4	
in percent of GDP	7.5	8.8	31.2	244.5	227.1	5-Year	5-Year	197.7	204.1	196.2	186.6	176.8	166.6	
Scenario with key variables at their historical averages 6/								310.6	324.1	338.3	353.2	368.9	385.3	22.3
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.3	5.2	-3.0	-7.0	-0.4	0.0	5.3	0.9	0.5	2.0	2.7	2.9	3.2	
GDP deflator (change in percent)	3.6	1.3	-2.3	-4.1	-2.4	-0.8	3.1	-1.0	1.4	1.2	1.5	1.7	1.6	
Nominal external interest rate (in percent)	3.1	4.3	5.6	3.2	4.8	4.2	1.1	6.4	5.1	4.2	6.0	6.0	6.0	
Growth of exports (in percent)	4.5	8.4	-1.2	-2.3	8.5	3.6	5.1	13.8	5.2	4.8	5.4	5.9	6.0	
Growth of imports (in percent)	7.7	9.5	0.0	-10.0	6.1	2.7	7.9	3.3	2.0	3.5	4.1	5.1	5.6	
Current account balance, excluding interest payments	-2.0	-0.5	6.8	6.3	14.5	5.0	6.6	34.9	17.3	14.5	19.4	19.1	19.0	
Net non-debt creating capital inflows	-8.2	0.0	0.6	2.5	-9.6	-2.9	5.5	11.1	4.1	2.8	0.5	0.6	0.7	

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).

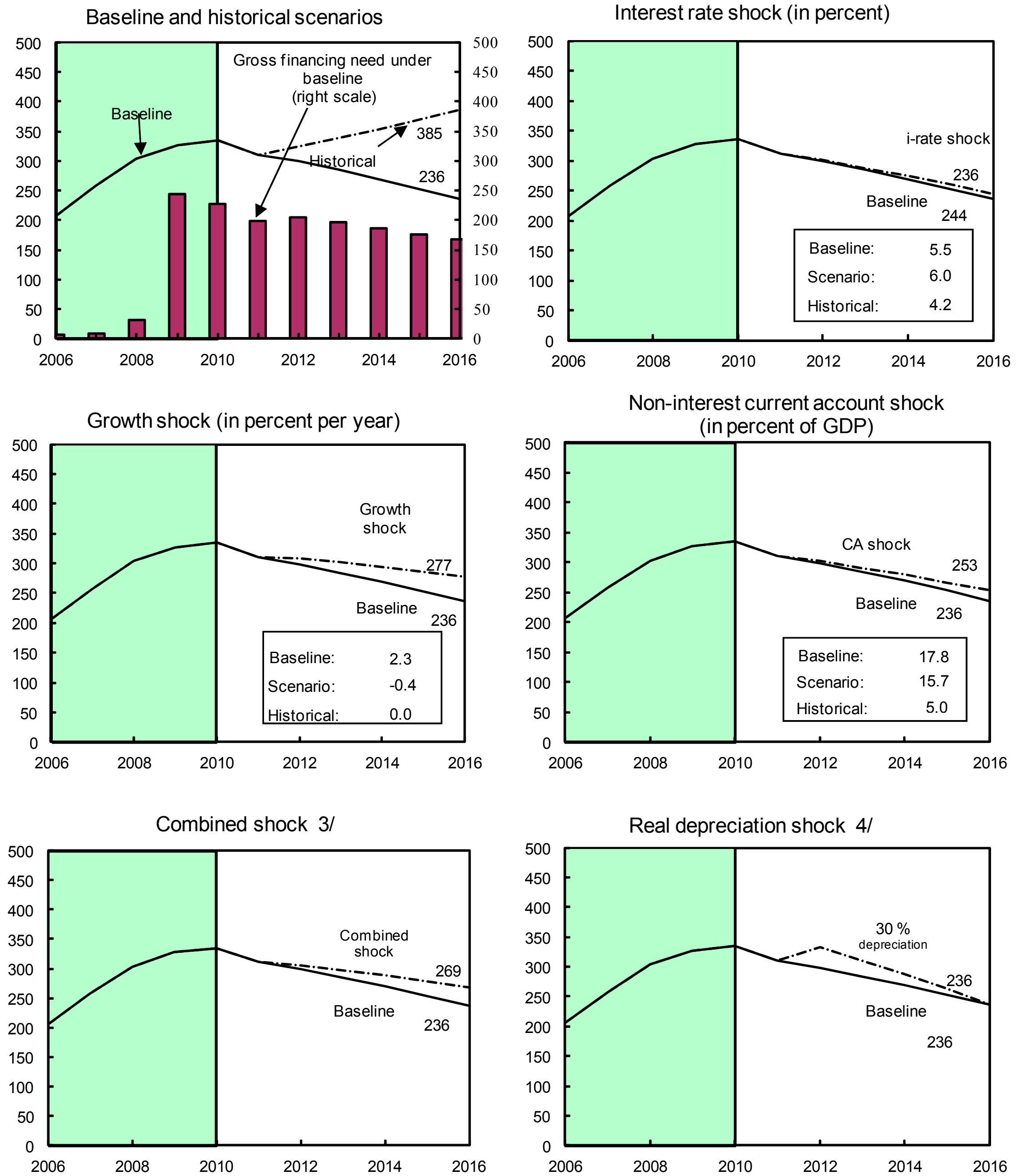
4/ For projection, line includes the impact of price and exchange rate changes.

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 December 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	12,049.51	958.14
Reserve position in Fund	258.53	20.56

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	775.42	100.00
Holdings	635.52	81.96

IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Extended Arrangements	11,050.43	878.69

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	12/16/10	12/15/13	19,465.80	11,050.43

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

	2012	2013	2014	2015	2016
Principal				535.20	1,841.74
Charges/Interest	256.77	268.25	325.60	336.12	290.94
Total	256.77	268.25	325.60	871.32	2,132.68

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. **Fifth Review Under the Extended Arrangement:**

Discussions were held in Dublin during January 10–19, 2012. The IMF team comprised Craig Beaumont (head), Johan Mathisen, and Emilia Jurzyk (all EUR); Olga Stankova (EXR), S.M. Ali Abbas and Jochen Andritzky (both FAD); Luis Cortavarría and Joaquin Gutierrez Garcia (both MCM), and Ben Kelmanson (SPR). 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 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 Department of Social Protection; Central Statistics Office; the Economic and Social Research Institute; banks and market analysts; parliamentarians; the Construction Industry Federation; 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, 10 February 2012

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

Dear Ms. Lagarde:

1. The Irish Government remains firmly committed to the Programme, as illustrated by our continued strong implementation. All programme targets have been met or exceeded. This performance is all the more noteworthy against the background of a more challenging external outlook, resulting mostly from the lingering uncertainty in relation to euro area sovereign debt developments, as witnessed by the recent downgrades of several euro area member states. From this perspective, continued strong implementation of our programme remains essential, as does the commitment of our euro area partners to continue to support Ireland's efforts as long as its adjustment remains on track.

2. Real economic growth resumed last year, with an estimated increase of 1 percent, and, notwithstanding the risks to the forecasts, further positive growth is expected this year. Growth will continue to be export led, and supported by continued strong foreign direct investment and further competitiveness improvements, which will help offset the impact of the slowdown in our export markets. There have also been some positive developments on funding. Yields on Irish Government debt have continued to fall. The benchmark 2016 and 2020 maturities currently yield 5.40 percent and 6.90 percent, respectively. In addition, the National Treasury Management Agency has re-engaged with the bond market and extended some €3.5 billion of debt maturing just after the programme ends. This is a significant first step in terms of managing Ireland’s post programme funding requirements. These developments can be directly related to our strong programme implementation. We will nevertheless remain alert to the substantial risks in the international economic environment.

3. Once again, for the fifth 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 met the structural benchmarks set for this review. In particular, we have: (i) adopted the 2012 Budget in December last year; (ii) issued guidance to banks for recognition of accounting losses in their loan book; and (iii) finalized the strategy for personal insolvency reform.
- The performance criterion for end-December 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 has also been met.

4. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our programme supported by the Extended Arrangement and by the EU. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the fifth review under the Extended Arrangement. We also request that the fifth purchase in an amount equivalent to SDR 2.786 billion becomes available at the time of completion of the review.

5. Looking forward, the financing need outlook for the years 2012 and 2013 remains broadly in line with expectations at the fourth programme review. We expect that the current funding of the programme and the phasing—as laid out in the fourth review—will ensure a prudent liquidity position. We therefore propose to leave the phasing unchanged with a total purchasing amount equivalent to SDR 5.493 billion in 2012 and SDR 2.922 billion in 2013.

6. We propose that quantitative performance criteria under the arrangement be established for 30 June 2012, as set out in the attached MEFP. As detailed in the MEFP, we also propose two new structural benchmarks—on the publication of the PCAR 2012 results and the levy on credit institutions—against which to measure progress under the programme (MEFP Table 3). The Technical Memorandum of Understanding (TMU) explains how programme targets are measured. To avoid undue swings in net debt from asset management operations of the NPRF, we are requesting that the adjustor on net debt will include valuation changes and conversion of NPRF non-liquid assets into liquid assets.

7. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, 28 April 2011, 28 July 2011, 28 November 2011, and in this letter are adequate to achieve the objectives of our Programme. At the same time, while we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become appropriate if circumstances change. As is standard under Fund-supported programmes, we will consult with the Fund on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memorandum becomes necessary, and at the same time consult with the European Commission and the ECB.

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

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 has slowed after solid growth in the first half of 2011.** Led by strong net exports, real GDP rose by ¾ percent in the first three quarters of 2011 on an annual basis. Recent indicators suggest continued softness in domestic demand with GDP growth in 2011 estimated at about 1 percent. The current account is estimated to have remained in a small surplus, and annual HICP inflation averaged about 1¼ percent for 2011. Ireland's bond yields have improved considerably to 6.7% for the 9-year bond in early February 2012 having peaked at 14% in July 2011. Ireland maintained its credit rating amidst downgrades for a number of euro area countries early in 2012, a recognition of our strong programme adherence.

2. **Weak external conditions pose risks in 2012, and to ensure the achievement of programme objectives we will continue to refine the program and maintain our record of strong policy implementation.** Downside risks to Ireland's economic outlook have increased, especially in relation to potential developments in the euro area. While Irish banks made strong progress with the needed deleveraging in 2011, there are signs that increased asset disposals planned by European banks, and limited availability of funding, will impair market conditions going forward. Accordingly, a refinement of the deleveraging framework is needed to minimize risks to core lending and bank funding costs. In addition, technical work on is underway on potential approaches to reinforce the prospects for the government and banks to regain market access.

B. Financial Sector Policies

3. **We will continue to press forward with reforms to restore the health of the Irish financial system and address the challenges remaining.** Bank recapitalization is largely completed and our front-loaded deleveraging programme met its 2011 targets. Looking ahead, we remain firmly committed to the goal of our Financial Measures Programme to restore the banks' long-term viability, and will continue to refine its implementation as needed based on experience and to adapt to external risks.

Bank deleveraging, resilience, and transparency

4. **Major progress in downsizing our banking system was made in 2011, and we are working to refine the deleveraging framework to minimize risks to lending to the economy and discourage excessive competition for deposits.** We have put in place a framework including governance structures to complete the targeted €70 billion bank deleveraging by end 2013, of which €34 billion of assets are slated for disposal. The two pillar banks met the 2011 deleveraging targets with almost €15 billion of these assets sold at

significantly better pricing than anticipated in the PCAR/PLAR 2011 exercise. Total deleveraging achieved across banks covered by the ELG and the IBRC was €40.5 billion through end November 2011 against full year 2011 expected deleveraging of €34.7 billion. Based on experience, we are working to refine our deleveraging framework, with more emphasis on the net stable funding ratio for the banks' core balance sheets as we move towards adoption of the Basel III liquidity requirements. The revised framework is intended to become effective after end-June 2012. In the period until end-June 2012, the target for non-core asset disposal will be defined solely in nominal terms, with no interim target with respect to the loan-to-deposit ratio.

5. **For PCAR 2012, we plan to maintain the distinctive rigor and standards of PCAR 2011, especially the independent loan loss forecasts, while aiming to align its timing with the EBA's EU-wide stress test**. In preparation for PCAR 2012 for AIB, BoI and IL&P we will by end June 2012: (i) perform an asset quality review of Irish banks' portfolios using an independent advisor; (ii) validate bank data to ensure consistency (iii) review provisioning, income and loan impairment recognition practices; and (iv) engage with the banks on their loan portfolio resolution strategies and systems. The authorities will agree with the staff of the European Commission, IMF and ECB on the specific features of the methodology for the PCAR 2012 exercise not later than end September 2012. In addition, and as part of the PCAR 2012, we will complete the assessment of banks' approaches to the risk weighting of assets. PCAR 2012 results will ideally be published in coordination with EBA and in any event no later than end-November 2012 (proposed structural benchmark).

6. **The 2011 financial statements of the banks covered by the ELG will be prepared on the basis of new more conservative and realistic provisioning and disclosure guidelines.** With technical support of an internationally recognized auditing firm, we have completed an international peer review of our disclosure practices and developed a stringent template of the loans and receivables disclosures within IFRS and tailored it to reflect the Irish banking circumstances and needs of various stakeholders. We have developed stricter guidelines to ensure Irish covered banks use a more conservative and consistent approach to provisioning within IFRS in relation to impairment triggers and provisioning model inputs. In 2012, we will review the implementation of the guidelines in the covered banks. Additionally, current draft guidelines on loan collateral valuation will be strengthened further by introducing provisions to encourage banks to regularly exchange information on the quality of collateral appraisers.

Completing the financial sector reform agenda

7. **We will complete by end-June 2012 the recapitalization of ILP.** Following the suspension of the sale of Irish Life, we have decided that a government purchase of this company will be the most effective mechanism to finalize the recapitalization of ILP, and complete the separation of ILP and Irish Life that is already well-advanced at the operational level. Irish Life is a valuable asset for the State and will continue to be managed on an

independent commercial basis to ensure that value, and we will continue to work to dispose of Irish Life as soon as market conditions permit.

8. **We are finalizing the determination of the way forward for ILP**. During February, we will prepare a preliminary proposal for financial and operational restructuring to address ILP's vulnerabilities, taking the perspective of the state on alternative restructuring options. This work builds on a preliminary analysis of restructuring options recently completed by the bank, and will benefit from third party reviews. The authorities will make a decision on the proposed way ahead by end April. We will prepare an updated restructuring plan for ILP that will detail the actions needed to ensure the bank's long-term viability, in line with EC state aid rules, by end June 2012. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability.

9. **We are implementing our strategy to restore the viability and solvency of the credit union sector.** Following the commencement of the Central Bank and Credit Institutions (Resolution) Act 2011, we have transferred €250 million of exchequer resources to the credit institutions resolution fund. With this infrastructure in place, we have embarked on the first resolution interventions and will be proceeding with further resolution actions required. The costs of resolving vulnerable institutions will be recouped over time through a charge levied across credit institutions. Regulations underpinning this levy will be adopted by end-September 2012 (proposed structural benchmark). We are on track to achieve our end-June benchmark of publishing the legislation to strengthen the regulatory framework of the credit union sector, following consultations with the stakeholders beginning in March 2012 and taking account of the recommendations of the Commission on Credit Unions.

Strengthening financial supervision and governance

10. **We are finalizing relationship frameworks with the covered banks to ensure their core businesses will be run on a commercial, cost effective and independent basis designed to ensure the value of the banks as an asset to the State.** These frameworks for the core businesses of AIB, BoI and IL&P contain clear guidelines to: (i) ensure the Minister for Finance's relationship with the domestic banks is in line with best institutional shareholder practices; (ii) rule out intervention by the Minister for Finance in day-to-day management and commercial decisions (including in relation to lending) and preserve independence of the banks' boards; and (iii) allow the banks appropriate discretion to define their own strategies, budgets, and business plans. The frameworks will be published by end-March 2012.

11. **We have made significant progress toward strengthening banks' boards.** In June 2011, the Central Bank wrote to the fifty-five incumbent directors in the State supported banks seeking information in relation to their future intentions and giving notice that those who would remain in place following the 1 January 2012 would be subject to review under

new powers available to the Central Bank in the Central Bank Reform Act 2010. There has been a very high level of renewal of directorships in the covered banks and almost all directors were appointed after September 2008. Incumbent and new board members and senior bank managers are being subjected to rigorous fit and proper tests by the Central Bank of Ireland to ensure that they have the appropriate skills and background.

12. **We continue to enhance banking supervision and supervisory capacity.** We have completed reviews of the effectiveness of banks' internal audit functions, the role and effectiveness of board risk committees, and frameworks for remuneration policies and practices. Corresponding recommendations and requirements have been issued to banks as part of their risk mitigation programmes. The delivery of risk mitigation actions within appropriate timelines is monitored as part of the Central Bank's internal risk and governance panels. We have increased staff resources devoted to banking supervision and are providing training tailored to the needs of the Irish banking system. By mid-2012, our new supervisory engagement model and framework for bank risk assessment (PRISM) which we implemented in November 2011 will have become fully operational.

Enhancing asset quality

13. **We are promoting efforts by lenders to address loan arrears and unsustainable debt, thereby reducing uncertainty regarding bank assets and facilitating a recovery in domestic demand.** A high-level steering group involving government departments and the CBI has been formed to deepen work in a number of key areas and follow up on the Inter-Departmental Mortgage Arrears Working Group (30th September 2011) Report recommendations. At the CBI's request, banks submitted their strategies for dealing with mortgage arrears at end-November. The CBI is in the process of providing feedback, and it will monitor implementation under the strategies on a quarterly basis, supported by enhanced data, including on buy-to-let properties. A mortgage-to-rent scheme is being piloted under which housing associations would buy properties and rent them back to owners eligible for social housing, and efforts are underway to develop an independent mortgage advisory function for households needing support on this issue.

14. **Reforms to the personal insolvency framework will underpin the resolution of unsustainable debt while safeguarding Ireland's traditional debt service discipline.** We developed a strategy for personal insolvency reform last year, and refined it further in early 2012, and plan to publish legislation by end-April 2012. The bill will seek to uphold Ireland's strong payment culture while creating a more efficient and modernized bankruptcy process; establishing non-judicial debt settlement and enforcement mechanisms, including an appropriate framework for secured debt such as mortgages; and providing streamlined procedures for those with very limited debt, assets, and income. The government intends as a priority to secure passage and in parallel put in place the infrastructure needed to support the effective implementation of the new insolvency framework.

15. **Steps are also being taken to help SMEs, including those facing financial difficulties.** The revised Code of Conduct for Business Lending to Small and Medium Enterprises took effect in January 2012. It requires that lenders have proper procedures in place, including minimum communication and information standards, for dealing with borrowers that are willing to cooperate. In parallel with the approach taken on mortgage arrears, banks will be required to submit to the CBI their strategies for dealing with SME arrears by end-June 2012.

16. **An effective credit register is an essential building block for sound lending decisions and is a valuable supervisory tool**. Ministerial approval for the proposed legislative framework was received in September. An outline of the proposed legislation will be discussed with stakeholders. We have made progress in developing a register that will deliver comprehensive, reliable and accurate data on each individual borrower. We are on track to publish legislation by end-September 2012 as envisaged and will work in parallel on the practical arrangements with a view to having the system in operation as quickly as possible.

C. Fiscal Policies

17. **The substantial fiscal consolidation targeted for 2011 has been achieved by a significant margin.** The front-loaded consolidation effort in 2011 was implemented consistently during the year, and the general government deficit is expected to be about 10 percent of GDP, well within the program's target of 10.6 percent of GDP. Indeed, this over-performance was achieved despite weakness in domestic demand and in related revenues owing to firm control over both current and capital expenditures.

18. **We will implement Budget 2012 in the same prudent manner, while cushioning the impact on growth.** Budget 2012 incorporates €3.8 billion in fiscal consolidation measures and we are finalizing the necessary legislation to implement Budget 2012.[1] This effort exceeds the originally programmed amount of €3.6 billion in order to deliver the program's 2012 general government deficit target of 8.6 percent of GDP despite significantly weaker macroeconomic conditions than earlier envisaged, demonstrating our commitment to putting the budget on a sound footing. At the same time, Budget 2012 includes measures to boost economic activity and create jobs, such as prioritizing capital investments that increase the capacity for the economy to grow, targeted tax incentives for employers and the property sector, the introduction of new training, job placement and work experience places, and welfare reforms to incentivize work.

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[1] Taking account of the additional carryover from the Universal Social Charge which was introduced as part of Budget 2011, total adjustment is on the order of €4.2 billion.

19. **The general government deficit is firmly set on a declining path to below 3 percent of GDP by 2015.** Budget 2012 set out clear policy directions for medium-term fiscal consolidation anchored by binding current expenditure ceilings through 2014 and capital expenditure ceilings through 2016, together with the announcement of a target to reduce public service employment numbers to 282,500 by 2015. To better facilitate planning by households and businesses, we will progressively elaborate Budget 2012's specification of the consolidation effort over 2013-15. We have already identified measures for the latter period, representing more than half of the total adjustment of €8.6 billion, and we are actively studying options including those identified by the rigorous 2011 Comprehensive Review of Expenditure (CRE). The expiration of favourable retirement terms at end-February 2012, and the completion over the coming months of reviews (including on environmental taxes, a value-based property tax, and social welfare supports) will help advance this process.

20. **Achievement of the ongoing fiscal consolidation will be underpinned by a coherent set of budgetary reforms:**

- *Institutionalization of the CRE process*: Following its success in 2011, the next CRE cycle has been set at end 2013/early 2014, and a new Value-for-Money Code introduced to facilitate focused evaluations on an ongoing basis.

- *Performance-Based Budgeting:* The 2012 departmental estimates (to be published at end-February, 2012) will be organized on the basis of strategic programs rather than traditional sub-heads to enable departments to be evaluated on outputs and outcomes.

- *Reform of Allowances, Overtime, and Sick Leave:* We have identified scope for reducing overtime payments including through smarter rostering for emergency services (such as health and police); rationalizing allowances; and boosting public service productivity through changes to sick leave entitlements.

- *Public Service Reform:* To protect public service delivery with a leaner workforce, and achieve efficiency savings across the public service, we are aggregating public procurement nationally and sectorally as appropriate to the greatest possible extent, rolling out a unified Public Service Card to citizens for accessing government services, expanding e-Government, increasing the use of shared services, and rationalizing the number of government bodies.

21. **Furthermore, we are developing important institutional fiscal reforms consistent with the European framework.** Budget 2012 introduced binding medium-term expenditure ceilings by vote-group, which will help impart stability to public finances in the face of temporary shocks, entrench spending discipline, extend planning horizons, and strengthen incentives for good fiscal management. The Irish Fiscal Advisory Council (IFAC) has been operational since July 2011. Its mandate and independence, along with national fiscal rules to

ensure prudent fiscal policy, are to be enshrined in a Fiscal Responsibility Bill (FRB). The FRB will also provide for the adequacy of IFAC resources to ensure its sustainability and effectiveness. Given the priority for a robust framework to support long-term debt reduction, the FRB will be published by end-June 2012 to take into account the evolution of the European fiscal framework expected during the first quarter of 2012.

D. Structural Reforms

22. **An ambitious programme of structural reforms to support job creation, increase Ireland's competitiveness and boost potential growth is being put in place.** To facilitate labour market adjustment in sectors where unemployment tends to be high, we have set out reforms of wage-setting arrangements in the Industrial Relations (Amendment) Bill, which includes measures to streamline and modernise Registered Employment Agreements (REAs). In relation to Employment Regulation Orders (EROs), it allows for a reduction in the number of EROs and the number of minimum wages set in each ERO, and excludes conditions of employment covered in other legislation such as Sunday pay rate. Importantly, it requires greater focus on economic conditions and competitiveness in setting wage rates and in implementing both EROs and REAs. Building on the Industrial Relations (Amendment) Bill 2011, the authorities will present amendments to the Dáil in particular to: (i) strengthen the inability to pay clause for EROs and REAs by providing that the inability to pay clause will allow two consecutive exemptions within the overall two year time limit where this is necessary to safeguard employment, and (ii) ensure that the process for the granting of a variation to an REA is conducted in a timely manner.

23. **We will take steps to strengthen activation and training policies to help jobseekers get back to work under the new Pathways to Work.** The approach seeks to coordinate better the efforts of different government departments, increase the frequency and effectiveness of engagement with jobseekers, and impose sanctions for those that do not take advantage of job search, training, and employment opportunities. We will commission and publish an external evaluation of the data required for evaluation of whether:

- the large numbers of unemployed across all regions, including the long-term unemployed, have adequate incentives and skills needed to return to work;
- more effective interventions are being put in place, including with respect to group interventions (3 to 6 months) and ongoing interventions (post 6 months); and
- penalty sanctions are being imposed (including the number and level of sanctions).

24. **Based on the recommendations of the external evaluation, the Department of Social Protection will prepare by end-March 2012 an implementation plan to ensure that adequate data are available.** By end-December 2012, we will provide an evaluation of progress in relation to labour market activation measures to enable the unemployed to return to active employment against the targets set out in the Pathways to Work plan.

25. **We are committed to an ambitious programme of state asset disposals to enhance the efficiency and competitiveness of the economy, reduce sovereign financing needs, and provide additional resources for reinvestment in the economy**. This will involve an orderly process of disposals in a manner which allows time to implement necessary regulatory reforms and ensure that value is secured. Analytical work will be completed in the first quarter of 2012 in relation to the suitability for disposal of a number of state-owned assets. This work will also identify the policy, regulatory, legislative, corporate governance and financial issues that may need to be addressed. Details of this asset disposal programme will be provided for discussion with programme partners by end March 2012, and by end June 2012 a detailed outline of the necessary preparatory reforms for completion by end 2012 will be provided**.**

26. **Reforms in the water sector is underway, together with a strengthening of competition policy enforcement**. Steps are being taken towards the creation of a regulated water utility and the roll-out beginning in 2012 of a national water metering programme to allow for charging of households. This will enable necessary investment to ensure water quality and supply can take place on a more sustainable basis. Finally, we are introducing changes to the Competition (Amendment) Bill 2011 to enhance the enforcement capacity of the Competition Authority, benefiting consumers and businesses. A review of the resourcing of the Authority to ensure that staffing capacity is sufficient to enforce the new legislative framework is under way.

E. Programme Financing and Monitoring

27. **The programme remains well financed, and we are continuing preparations to regain market access as envisaged.** Following the improvements in the terms of EU lending agreed in July 2011, negotiations on bilateral agreements with Sweden and Denmark are near conclusion and arrangements are being made to obtain the necessary parliamentary approval where relevant. Subject to such parliamentary approval, the aim is to be able to make the first disbursements under these agreements in the context of the completion of the fifth review. The first disbursements under these agreements will be made in the context of the completion of the fifth review. Building on our strong record of program performance, we are maintaining close contact with a wide range of market participants to facilitate our return to market financing as envisaged under the programme; market conditions permitting, we are seeking to resume Treasury bill issuance in the second half of 2012.

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

indicative targets under the programme. The Government's targets for the exchequer primary balance are monitored through quarterly performance criteria and net central government debt is an indicative target (Table 2). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3).

29. **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-December 2011	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-December 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
Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book.	End-December 2011	Observed
Finalise a strategy to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system.	End-December 2011	Observed
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets.	2012 Budget day in early December 2011	Observed

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

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

	30-Jun-11		30-Sep-11		31-Dec-11		31-Mar-12	30-Jun-12	30-Sep-12	31-Dec-12
	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
	(In billions of Euros)									
	Performance Criterion		Performance Criterion		Performance Criterion		Performanc e Criterion	Performance Criterion	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance 2/	-10.1	-8.4	-20.2	-18.3	-22.3	-21.0	-7.5	-9.0	-10.6	-10.9
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt 1/	94.6	91.7	115.9	111.7	117.2	115.7	125.0	128.8	130.9	133.3

1/ Adjusted.
2/ Measured by the exchequer balance excluding interest payments. Cumulative from the start of the relevant calendar year.
3/ Applies on a continuous basis.

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

Measure	Date	Status
Financial sector policies		
Publish legislation to strengthen the regulatory framework including making legislative provision for effective governance standards and prudential requirements for credit unions (MEFP Nov. 28, 2011, ¶19).	End-June 2012	Structural benchmark
Approve regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable institutions (MEFP, ¶9).	End-September 2012	Proposed structural benchmark
Publish PCAR 2012 results (MEFP, ¶5).	End-November 2012	Proposed structural benchmark
Fiscal policies		
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence (MEFP, ¶21).	End-June 2012	Modified Structural benchmark

Attachment III. Technical Memorandum of Understanding (TMU)

10 February 2012

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

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

I. Quantitative Performance Criteria And Indicative Targets

Floor on the Exchequer Primary Balance

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

[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, 2012:	
End-March 2012 (performance criterion)	-7.5
End-June 2012 (performance criterion)	-9.0
End-September 2012 (indicative target)	-10.6
End-December 2012 (indicative target)	-10.9

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, 2012:	
End-March 2012 (projection)	9.7
End-June 2012 (projection)	19.7
End-September 2012 (projection)	30.7
End-December 2012 (projection)	43.8

8. Any policy changes, including in administration and enforcement of taxes, which impact the revenue projection set out in paragraph 7 will lead to a reassessment of the adjustor in the context of program reviews.

Ceiling on the Stock of Central Government Net Debt

9. The stock of net central government debt, for the purposes of the programme, is defined as the National Debt less liquid assets of the National Pensions Reserve Fund (NPRF). The National Debt is defined as the total outstanding amount of principal borrowed by central government and not repaid as of the test date, less liquid assets available for redemption of those liabilities at the same date. These liquid assets comprise the Exchequer cash balances (including cash in the Capital Services Redemption Account), Exchequer deposits with commercial banks and other institutions, and investments in investment grade sovereign bills. For the purposes of the programme, NPRF liquid assets include the asset classes listed above, and also all marketable securities such as equities, government bonds and other listed investments. NPRF shares in domestic Irish banks, as well as the NPRF's non-liquid discretionary portfolio are excluded from the definition of liquid assets.

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

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

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-December 2011 (provisional)	115.7
End-March 2012 (indicative target)	125.0
End-June 2012 (indicative target)	128.8
End-September 2012 (indicative target)	130.9
End-December 2012 (indicative target)	133.3

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. Letter of Intent (European Commission)

Dublin, 10 February 2012

Mr. Mario Draghi
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European Central Bank
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Germany

Mr. Jean-Claude Juncker
Eurogroup President
Ministère des Finances
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Mr. Olli Rehn
Vice-President
Commissioner for Economic and Financial Affairs and the Euro
European Commission
BERL 10/299
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Ms. Margrethe Vestager
Minister for Economics and the Interior
Økonomi- og Indenrigsministeriet
Slotsholmsgade 10-12
1216 København K
Denmark

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

1. The Irish Government remains firmly committed to the Programme, as illustrated by our continued strong implementation of its objectives. We continue to rigorously implement our EU/IMF-supported adjustment programme. We have met or bettered all the programme targets and milestones associated with the fifth review. In particular:

- As regards fiscal policy, the general government deficit for 2011 is estimated to have been under 10% of GDP, well below the 10.6% of GDP programme ceiling. We have underpinned our commitment to the 2012 deficit programme ceiling by incorporating in the 2012 budget a larger consolidation (EUR 3.8 billion) than envisaged under the programme (EUR 3.6 billion) reflecting the fact that this is an intermediate target for achieving the primary target of a General Government Deficit of 8.6%. We have identified through a thorough expenditure review and additional revenue measures the broad options for the additional consolidation required to bring the deficit down to below 3% of GDP by 2015, to which we remain committed under the programme and the excessive deficit procedure. We have announced binding multi-year expenditure ceilings at the level of the individual votes, and continue to work on strengthening the fiscal framework, including through forthcoming fiscal responsibility legislation (for which a draft is well advanced and which will align national law with requirements at the European level).

- We continue to advance our financial sector reform strategy. Recapitalization of domestic banks has been substantively completed, and deleveraging of non-core assets has progressed in line with programme. We remain engaged with our programme partners to ensure that the needed restructuring of the domestic banks is achieved in the most efficient and effective way possible, with due regard to State Aid rules. We have begun in earnest the restructuring of the credit union sector, for which we have made available EUR 250 million from the Exchequer in the last quarter of last year. The Central Bank has issued guidance to the Covered Institutions on more conservative and realistic provisioning and enhanced disclosure requirements on asset quality as well as new collateral valuation guidelines for banks.

- We have also made significant progress in the structural reform agenda of the programme. Proposals were prepared and discussed with our programme partners on strategies to: (i) introduce water charges by the end of the EU/IMF programme and (ii) improve targeting of our social support expenditure. We have also introduced legislation, expected to be taken up by our Parliament in the weeks ahead, to reform sectoral wage-setting arrangements to facilitate the needed adjustment in the labour market. Finally, we have also agreed, in broad terms, an ambitious approach to be pursued to ensure that state-owned assets are efficiently mobilized to reduce the government financing needs and provide some additional resources for reinvestment in job creation initiatives in the economy, while also increasing the overall efficiency of the economy.

- This performance is all the more noteworthy against the background of a more challenging external outlook, resulting mostly from the lingering uncertainty in relation to euro area sovereign debt developments, as witnessed by the recent downgrades of several euro area member states. From this perspective our continued strong implementation of the programme remains essential, as does the commitment of our euro area partners to continue to support Ireland's efforts as long as its adjustment remains on track. Real economic growth resumed last year, with an estimated increase of 1%, and, notwithstanding the risks to the forecasts, further positive growth is expected this year. This growth will continue to be export led, and will be supported by continued strong foreign direct investment and further competitiveness improvements, which will help offset the impact of the slowdown in our export markets. There have also been some positive developments on the outlook for government funding. Yields on Irish Government debt have continued to fall. The benchmark 2016 and 2020 maturities currently yield 5.6% and 7.1% respectively. In addition, the National Treasury Management Agency has re-engaged with the bond market and extended some €3.5 billion of debt maturing just after the programme ends. This is a significant first step in terms of managing Ireland's post programme funding requirements. These developments can be directly related to our strong programme implementation. We will nevertheless remain alert to the substantial risks in the international economic environment.

2. In the attached fourth update of the Memorandum of Understanding on Specific Economic Conditionality (MoU), we set out our plans to further advance towards meeting the programme objectives. 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 fifth review and the release of the fifth EFSF/EFSM disbursement of EUR 5.8 billion.

3. We are confident that the policies set forth in our successive Letters of Intent, from that of 3 December 2010 up to and including 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. While we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become necessary to meet changing circumstances. As indicated in the MoU, we will consult with the staff of the European Commission, the ECB and the International Monetary Fund on the adoption of such actions in advance in the event that revision of the policies contained in this letter and the attached MoU becomes necessary.

4. This letter is being copied to Mme Lagarde.

Sincerely,

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

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

IRELAND

MEMORANDUM OF UNDERSTANDING ON SPECIFIC ECONOMIC POLICY CONDITIONALITY

(FOURTH UPDATE)

6 March 2012

With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, this fourth 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 effective tax collection and tight supervision of expenditure commitments by the line

[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.

departments to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved. Any additional unplanned revenues must be allocated to debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- 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 sixth review (actions to be completed by end Q1-2012)

Financial sector reforms

Capitalization

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

Deleveraging

- The 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 adjusted monitoring system set up, actual and forecast loan-to-deposit ratios (LDRs) and asset disposals shall be reported by the banks to the Central Bank of Ireland every six months. The Central Bank will oversee the remedial actions to be taken by any bank in case of actual or likely breach of the targets. In addition to providing the six-monthly report, the authorities will update the staff of the European Commission, the IMF and the ECB on progress in the intervening quarters.

- The authorities will present proposals to improve the calibration of the Net Stable Funding Ratio (NSFR) within a Core Balance Sheet with a view to replacing LDRs as the main target in the deleveraging process.

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

Reorganisation

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

- By end February, the authorities will prepare a preliminary proposal for financial and operational restructuring to address ILP's vulnerabilities, taking the perspective of the state on alternative restructuring options. This work builds on a preliminary analysis of restructuring options recently completed by the bank, and will benefit from third party reviews.

Supervision

- The 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

Efficient 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.

Competition

- Following the introduction of amendments to the Competition (Amendment) Bill at committee stage, the authorities will seek to introduce an amendment allowing commitments by an undertaking to the Competition Authority to be made a rule of court having due regard to Ireland's constitutional framework.

- The 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 legislative framework.

Water charges

- In light of the results of a public consultation process, the authorities will provide programme partners with an update on progress toward the transfer of water service provision from local authorities to a regulated water utility and plans for the roll-out of a domestic water metering programme with a view to starting charging by the end of the EU – IMF Programme period.

Labour market reform

- Building on the Industrial Relations (Amendment) Bill 2011, the authorities will present amendments to the Dáil in particular to: (i) Strengthen the inability to pay clause for EROs and REAs by providing that the inability to pay clause will allow two consecutive exemptions within the overall two year time limit where this is necessary to safeguard employment, and (ii) ensure that the process for the granting of a variation to an REA is conducted in a timely manner.

Activation of the unemployed

- The 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 data and reporting systems required, under the new 'Pathways to Work' approach, to enable ongoing evaluation of activation and training policies, including whether:

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

- more effective interventions are being put in place, including with respect to group interventions (3 to 6 months) and ongoing interventions (post 6 months); and

- penalty sanctions are being imposed (including the number and level of sanctions).

- Based on its recommendations the Department of Social Protection will prepare an implementation plan.

State assets

- The Government is committed to an ambitious programme of state asset disposals designed to enhance the efficiency and competitiveness of the economy, reduce sovereign financing needs, and provide additional resources for reinvestment in the economy. This will involve an orderly process of disposals in a manner which allows time to implement necessary regulatory reforms and to ensure that value is secured.

- Detailed analytical work will be completed in the first quarter of 2012 in relation to the suitability for disposal of a number of state-owned assets, with the assistance of NewERA – the Government's key financial adviser in relation to the management and/or disposal of these state assets. This work will identify the policy, regulatory, legislative, corporate governance and financial issues that may need to be addressed. The Government will provide details on this asset disposal programme for discussion with programme partners.

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

Financial sector reforms

Capitalization

- Government will ensure that the recapitalization of IL&P, as identified in the 2011 Prudential Capital Assessment Review, is completed, following the suspension of the sale of Irish Life.

- In preparation for PCAR 2012 for AIB, BoI and IL&P we will by end June 2012: (i) perform an asset quality review of Irish banks' portfolios using an independent advisor; (ii) validate bank data to ensure consistency (iii) review provisioning, income and loan impairment recognition practices; and (iv) engage with the banks on their loan portfolio resolution strategies and systems.

Deleveraging

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

- In addition, the authorities will establish draft rules for the creation and subsequent holding of liquidity buffers by banks in preparation of the new Capital Requirements Regulation which will enter into force in January 2013.

Reorganisation

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

- The authorities will make a decision on the proposed way ahead for ILP by end April and will prepare an updated restructuring plan that will detail the actions needed to ensure the bank's long-term viability, in line with EC state aid rules, by end June 2012. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability.

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

Financial Supervision

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

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

Structural reforms

Personal debt regime

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

Utility sectors

- 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.

- The authorities will supply programme partners with a detailed, time-bound implementation plan by end-April 2012 for the transfer of water service provision from local authorities to a regulated water utility and a plan for the roll-out of a domestic water metering programme with a view to starting charging by the end of the EU – IMF Programme period.

Retail sector

- By end April 2012, having reflected on the outcome of a public consultation on updated retail planning guidelines, the authorities will issue finalised retail planning guidelines taking into account the agreed changes to the retail size caps.

Competition

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

Efficient social support expenditure

- The Department of Social Protection will provide an evaluation of the actions taken in respect of job seekers payments recipients who do not attend employment activation interviews.

State assets

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

Structural fiscal reforms

Fiscal framework

- 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 and fiscal rules. The Bill will also put the Fiscal Advisory Council on a statutory footing, formalising the Council's independence through clear arrangements for adequate funding over time and for Council membership, including consultation with the relevant committee of the Oireachtas for nomination, appointment, extension and termination.

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

Financial sector reforms

Capitalization

- The authorities will agree with the staff of the European Commission, IMF and ECB on the specific features of the methodology for the PCAR 2012 exercise building on the strengths of the PCAR 2011. In addition, and as part of the PCAR 2012, we will complete the assessment of banks' approaches to the risk weighting of assets.

Deleveraging

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

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

Financial Supervision

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

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

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

Structural reforms

State assets

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

4. 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 which, on the basis of the aggregate budgetary projections set out in the Medium Term Fiscal Statement (MTFS) of November 2011, will amount to at least €3.5 billion. The following measures are proposed for 2013 on the basis of the MTFS:

- o Revenue measures to raise at least €1.25 billion[2], 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.
- o Expenditure reductions necessary to achieve an upper limit on voted expenditure of €54 billion, which will involve consolidation measures of €2.25 billion on the basis of the MTFS, including:
  - Social expenditure reductions.
  - Reduction in the total pay and pensions bill.
  - Other programme expenditure, and reductions in capital expenditure.

Without prejudice to the minimum consolidation amount referred to in the previous paragraph and 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 based on the options identified in the Comprehensive Review of Expenditure (CRE).

[2] Inclusive of carryover from 2012.

Financial sector reforms

Capitalization

- PCAR 2012 results will ideally be published in coordination with EBA and in any event no later than end-November 2012. Before publication, the results of the PCAR for 2012 will be discussed with the staff of European Commission, the ECB and the IMF. The results and methodology will then be published in full and on a bank-by-bank basis. The authorities will continue to ensure that banks are adequately capitalised.

Deleveraging

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

Financial Supervision

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

Structural reforms

Competition

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

Efficient social support expenditure

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

State assets

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

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

Financial sector reforms

Capitalization

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

Deleveraging

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

- The 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.

- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Reorganisation

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

Financial supervision

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

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

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

Financial sector reforms

Deleveraging

- The authorities will present an update on progress of the banks' implementation of their deleveraging plans under the PLAR 2011 and any related actions will be discussed with the staff of the European Commission, the ECB and the IMF. In addition, the 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.
- The authorities will also monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Reorganisation

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

Financial supervision

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

Structural reforms

State assets

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

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

Financial sector reforms

Capitalization

- The 2013 PCAR exercise will begin in the context of the 2013 European Banking Authority (EBA) stress tests. The 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 and 2012.

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

Deleveraging

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

- The 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.

- In addition, the authorities will monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Reorganisation

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

Financial Supervision

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

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

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

Financial sector reforms

- CapitalizationPCAR 2013 will be completed. Before publication, the results of the PCAR for 2013 will be discussed with the staff of European Commission, the ECB and the IMF. The results and methodology will then be published in full and on a bank-by-bank basis. The authorities will continue to ensure that banks are adequately capitalised.

Deleveraging

- The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal and deleveraging targets 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 LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

- The authorities will also monitor the liquidity buffers held by banks in accordance with the Capital Requirements Regulation effective since January 2013.

Reorganisation

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

Financial Supervision

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

- The authorities will report on banks' progress with the implementation of their mortgage arrears resolution strategies.

- The authorities will ensure that the statutory credit risk register is operational.

Annex 1. Provision of data

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

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.

To be provided by the NTMA		
N.1	Monthly information on the Government's cash position with indication of sources as well of number of days covered.	Monthly, three working days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 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 the National Debt .	Monthly , 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months.	Monthly, 30 working days after the end of each month
To be provided by the Central Bank of Ireland		
C.1	The Central Bank of Ireland’s balance sheet.	Weekly, next working day
C.2	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month.	Monthly, 30 working days after each month end.
C.3	Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts.	Quarterly, 35 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month
C.7	Deleveraging reports including (i) progress achieved towards interim target; (ii) forecast of LDR and NSFR for the end of the next period; and (iii) actual and planned asset disposals.	3 monthly, 10 working days after the end of the reference period.

INTERNATIONAL MONETARY FUND

IRELAND

Fifth Review Under the Extended Arrangement
Supplementary Information

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

Approved by Ajai Chopra and Lorenzo Giorgianni

February 24, 2012

Since the staff report was finalized, the government has announced a €3 billion program of state asset disposals and launched an Action Plan for Jobs. In addition, some real sector, fiscal and mortgage arrears data as well as more detailed data on SME loan quality have become available. These developments do not affect the thrust of the staff appraisal.

1. **Recently available data are broadly in line with the assessment in the staff report,** and include:

- **Real sector.** In January the Consumer Sentiment Indicator recovered much of its sharp December decline, though it remains low by historical standards. The unemployment rate eased slightly to 14.2 percent in January, but the share of long-term benefit claimants continued to rise. Merchandise exports increased in value terms by 2½ percent q/q in the fourth quarter of 2011, and with imports broadly flat, net exports likely made a positive contribution to GDP growth in the last quarter of 2011.

- **Mortgage arrears.** The latest data on residential mortgage arrears (covering principal dwelling houses) show a further increase in arrears over 90 days, from 10.8 percent of outstanding mortgages in September 2011 to 12.3 percent in December. This deterioration remains well below that allowed for in the stress scenario of the 2011 Prudential Capital Assessment Review underpinning the recapitalization of the three covered banks. The share of mortgages outstanding that have been restructured rose from 10.7 percent to 11.7 percent, and the portion of these loans in arrears increased further to 54.1 percent. Repossessions of these properties remained low.

Ireland: Residential Mortgage Arrears (in billion of euros)

	Dec-09	Dec-10	Dec-11
Outstanding	118.3	116.7	113.5
Mortgage loans in arrears over 90 days 1/	5.3	8.6	13.9
in percent of outstanding	4.5	7.4	12.3
Restructured mortgages	n/a	10.4	13.3
in percent of outstanding		8.9	11.7
Number of repossessions (cum.)	397	585	895

Source: Central Bank of Ireland.
1/ Includes restructured mortgages in arrears.

- **Fiscal.** The tax revenue out-turn for January 2012 (Exchequer basis) showed a 9 percent year-on-year increase (when corporation tax receipts of a €¼ billion expected in December 2011 but received in January are excluded), which was expected owing primarily to the carryover of income tax measures implemented in Budget 2011. The Finance Bill was published on February 8 and is currently passing through the various parliamentary discussion stages.

2. **The Government announced on February 22 its intention to dispose of €3 billion of state assets, including Bord Gais Eireann's Energy business and some of Electricity Supply Board's (ESB) nonstrategic power generation capacity**.[1] Once market conditions are favorable, some assets of Coillte and the remaining shareholding in Aer Lingus will also be considered for sale. The government will by end-March 2012 identify any remaining policy, regulatory, legislative and/or financial issues that may need to be addressed by the end of 2012 in order to facilitate transactions commencing in 2013. The government also announced a decision not to proceed with a sale of a minority stake in ESB, given a range of complex regulatory and legislative issues associated with a sale. The government intends to reinvest one-third of the realized proceeds from the state asset disposals.

3. **The government launched on February 13 an Action Plan for Jobs, aiming to improve support for job-creating businesses and remove barriers to employment-creation**.[2] Some of the key actions to be implemented in 2012 include establishing a "one-stop-shop" to support mentoring of managers of micro-enterprises, facilitating access to credit through funding schemes targeting especially micro and small enterprises, and promoting business networks to attract investments and potential buyers, and securing supply contracts for SMEs. These efforts complement the wide range of existing support including for startup investment, market development and R&D, and streamlined procedures to minimize administrative and technical burden on starting and getting support for a business.

4. **The Central Bank of Ireland published descriptive statistics on SME loan quality as of December 2010 based on an in-depth analysis a large sample of loans data provided for PCAR 2011**.[3] These data allow the decomposition of the geographic and sectoral allocation of loans, exposure sizes and loan performance, and show that losses are most severe in the hotels and restaurants, construction, and wholesale and retail sectors. The data also show that in almost all sectors, large exposures are associated with larger shares of nonperforming loans. Separately, the European Investment Bank (EIB) has concluded lending arrangements with AIB and BoI, under which EIB will provide up to €300 million in support of lending to SMEs.

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[1] See http://per.gov.ie/2012/02/22/government-secures-substantial-reinvestment-in-economy-from-disposal-of-state-assets/.

[2] See http://www.djei.ie/publications/2012APJ.pdf.

[3] See article in Central Bank of Ireland's Economic Letters Vol. 2012, No. 3 entitled http://www.centralbank.ie/publications/Documents/IrishSMEmarket_10Feb12.pdf

Press Release No. 12/60
FOR IMMEDIATE RELEASE
February 27, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fifth Review Under the Extended Arrangement with Ireland and Approves €3.2 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Ireland's performance under an economic program supported by a three-year, SDR 19.47 billion (about €22.6 billion; or US$30.23 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 2.786 billion (about €3.23 billion; or US$4.33 billion), bringing total disbursements under the EFF to SDR 13.836 billion (about €16.05 billion; or US$21.49 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$114 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.

The Irish authorities continue to advance wide-ranging reforms to restore the health of the financial system so it can support Ireland's recovery. Major progress in downsizing the banking system has been made, with the two largest banks disposing of almost €15 billion in mainly foreign assets in 2011 at better prices than anticipated. A comprehensive strategy for personal insolvency reform has been announced, including an out-of-court debt settlement mechanism that would cover mortgages and other secured debts.

The substantial fiscal consolidation targeted for 2011 was achieved with a margin, with the general government deficit reduced to 10 percent of GDP, well within the program target of 10.6 percent. This result was attained despite weaker domestic demand, reflecting the authorities' strong revenue administration and firm expenditure control. Budget 2012 targets further fiscal consolidation to lower the deficit to 8.6 percent of GDP and sets out a clear path to reach the 3 percent of GDP deficit target by 2015.

Steps to support growth and job creation are being put in place. Reforms of sectoral wage agreements have been submitted to parliament to make wage-setting in occupations hard hit by recession more responsive to economic conditions. The authorities are also strengthening the effectiveness of activation and training policies to help job seekers get back to work. The government recently announced the disposal of €3 billion in state assets to enhance competitiveness while securing value for the state and reinvesting one-third of the proceeds.

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

"The Irish authorities have continued strong implementation of their program despite deteriorating external conditions, meeting 2011 fiscal targets with a margin and advancing structural reforms to support growth and job creation. After three years of contraction, Ireland's growth is estimated at almost 1 percent in 2011, with exports leading the current account into surplus. Ireland's bond spreads have declined significantly in recent months, although they remain relatively high.

"At the same time, the challenges Ireland faces have intensified since the outset of the program, with growth expected to ease to about ½ percent in 2012 owing to a slowing in trading partner activity. The Irish authorities have responded by raising the fiscal consolidation effort adopted in Budget 2012, and the budget remains on track to meet an unchanged general government deficit target of 8.6 percent of GDP. If growth should weaken further, the automatic stabilizers should be allowed to operate to help avoid jeopardizing the fragile recovery.

"To support a renewal of sound lending and domestic demand recovery, financial sector reforms must continue to rebuild long-term viability of the banks and improve the quality of their balance sheets. Banks' implementation of restructuring plans and loan portfolio resolution strategies will require vigorous supervision, while allowing them to operate on a commercial basis. The proposed reform of the personal insolvency framework is important to help address household debt distress over time, and it needs to be well designed and adequately resourced.

"Continued strong implementation of fiscal consolidation, and financial and structural reforms by the Irish authorities will be critical for the government to regain timely and substantial access to market funding. Continued strong European support remains essential to the effectiveness of the authorities' efforts."