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

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

- The staff report for the Sixth Review Under the Extended Arrangement, prepared by a staff team of the IMF, following discussions that ended on April 26, 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 May 30, 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 June 7, 2012 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its June 13, 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

Sixth Review Under the Extended Arrangement

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

Approved by Ajai Chopra and Lorenzo Giorgianni

May 30, 2012

Ireland's ownership of the program remains strong and policy implementation has continued to be steadfast despite the considerable challenges. All quantitative targets for the review were met, maintaining the strong performance in earlier reviews. Fiscal, financial, and structural reforms are advancing as envisaged. The authorities remain committed to achieving the 2012 fiscal targets and are developing a package of specific measures to underpin the 2013–15 consolidation.

However, renewed tensions in the euro area have driven up Irish bond spreads, while growth remains weak and unemployment high. Public concerns about austerity will shape the outcome of the May 31 referendum on the European Fiscal Stability Treaty. If the referendum supports Treaty ratification, resuming Treasury bill issuance in the second half 2012 was expected to be feasible, but risks have grown recently with the escalation of financial market tensions in the euro area. Indeed, Irish sovereign bond spreads have risen in recent months to exceed the level at the outset of the EU-IMF program, increasing the challenge to enter bond markets at reasonable cost and on the scale needed in 2013 and thereafter.

Discussions focused on achieving program objectives for recovery and regaining access to market funding. The mission reviewed financial sector work streams, as well as personal insolvency reforms, with a view to ensuring the conditions to renew lending on a sustainable basis. Fiscal policy discussions focused on the outlook for 2012 and deepening the credibility of the phased medium-term fiscal consolidation plan. Discussions on structural reforms continued to be oriented toward enhancing growth and employment.

Risks to Ireland's program would be most effectively managed within a broader European plan to stabilize the euro area. Technical work has continued on the remaining issues from Ireland's deep banking crisis, especially the annual promissory note payments and banks' large holdings of legacy assets. Addressing these issues in a timely manner is important to enhance prospects for Ireland to regain market access, which would also be beneficial for the euro area. The stronger European support needed to address these issues would be most effective as part of a broader plan to stabilize financial markets and strengthen growth in the euro area.

Staff supports the authorities' request for completion of the sixth review. The purchase subject to completion of this review would be in an amount equivalent to SDR 1.191 billion (about €1.4 billion).

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

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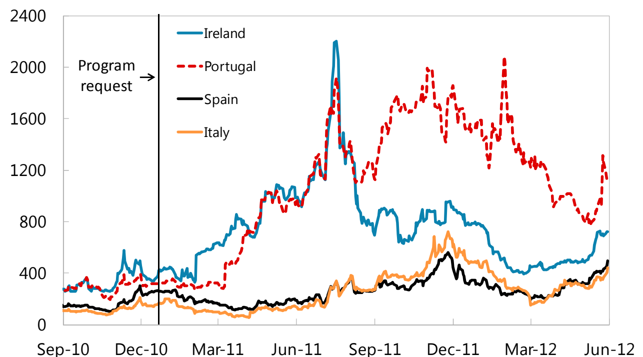
I. Background

1. **Ireland's policy implementation has been consistently strong during the first half of the EU-IMF supported program, yet considerable challenges remain.** All end March fiscal targets were met (MEFP Table 2) and fiscal, financial, and structural reforms are advancing as envisaged. Nonetheless, with growth weak and unemployment high, public concerns about austerity will shape the outcome of the May 31 referendum on the European Fiscal Stability Treaty.[1] If the referendum supports Treaty ratification, resuming Treasury bill issuance in the second half of 2012 was expected to be feasible, but risks have grown recently with the escalation of financial market tensions in the euro area. Entering bond markets at reasonable cost and on the scale needed in 2013 and thereafter will require a substantial improvement in market conditions, and these prospects would also be improved by a deepening of financial sector reforms to address remaining issues from Ireland's deep banking crisis, in particular the annual promissory note payments and the legacy assets of banks. The stronger European support needed to address these issues would be most effective as part of a broader plan to stabilize financial markets and strengthen growth in the euro area.

II. Recent Developments

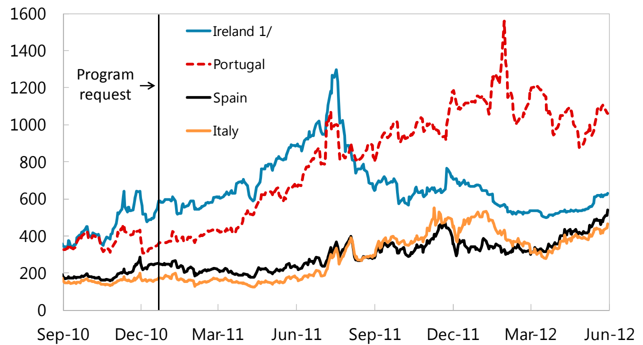
2. **As euro area financial market tensions have reignited, Irish sovereign spreads have risen in recent months to exceed the level at the outset of the EU-IMF program.** Since late March, spreads relative to German bunds have increased by about 280 and 120 basis points on two- and nine-year bonds respectively. At about 723 and 631 basis points respectively, these spreads exceed those prevailing at the time of the program request. Even with the decline in bund yields, the 7.4 percent yield on nine-year bonds remains above the level of the Irish government's last bond auction in September 2010. These developments appear to primarily reflect rising spreads in other euro area countries, but the end May referendum may also play a role as ratings agencies have indicated that Ireland's credit rating will depend on its outcome.

Two-Year Sovereign Bond Spreads
(Basis points)



Sources: Bloomberg; and IMF staff calculations.

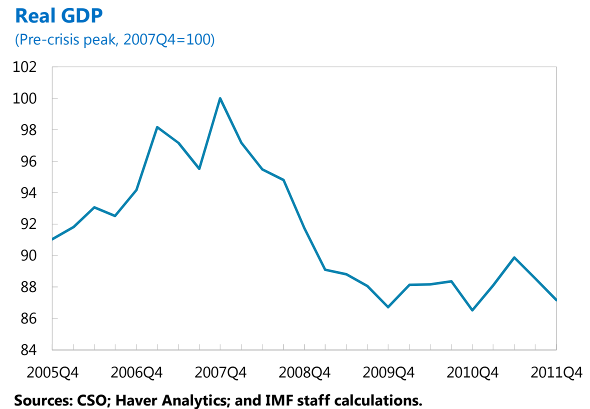
Ten-Year Sovereign Bond Spreads
(Basis points)



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

[1] The referendum is on amending the constitution of Ireland to allow the State to ratify the Treaty. Information is available at http://www.referendum2012.ie/

3. **The Irish economy remains weak, with real GDP broadly flat in the last three years** (Figure 1)**.** Real GDP growth of 0.7 percent was recorded in 2011 but this relied on a surge in net exports and stock rebuilding in the first half of the year. Domestic demand, especially investment, weakened in the second half, and activity declined back to levels typical of 2009–10. This weakness in demand was consistent with the 2½ percent reduction in real GNP, as net income outflows to non-residents rose by 16 percent. A smaller than expected decline in the GDP deflator left nominal GDP in 2011 about ½ percent higher than earlier projected.



Sources: CSO; Haver Analytics; and IMF staff calculations.

4. **Labor market conditions may be beginning to stabilize, yet they remain adverse.** Employment rose by ½ percent in 2011Q4, the first quarterly increase since 2007, with gains across a range of sectors. In the first four months of 2012 the standardized unemployment rate has remained at 14.4 percent on average, in line with 2011 levels. However, this stabilization could be associated with continued emigration as the number of persons under 25 years of age on the Live Register for the unemployed has declined by around 10 percent in the last year. The lack of employment opportunities is seen in the rising share of involuntary part-time employment, vacancy rates among the lowest in Europe, and the long-term unemployment share rising to 60 percent.

5. **Inflation continues to rise and is now closer to the euro area average.** In the first four months of 2012, HICP inflation averaged 1¾ percent y/y, with energy accounting for three quarters of the increase and core inflation (mostly transport and insurance) contributing the remainder. Little of the 2 percentage point hike in the main VAT rate appears to have been passed on although the full pass-through may take some months.

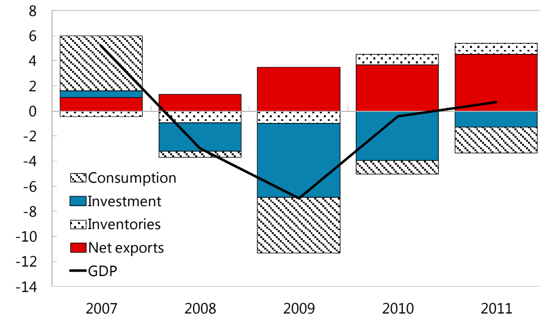
6. **The current account was broadly balanced at 0.1 percent of GDP in 2011, and the unwinding of competitiveness losses continues.** Despite a slowdown in the second half of 2011 due to a weakening external environment, exports rose 4 percent in 2011, with services exports particularly strong. Weak domestic demand compressed imports, especially in the second half of 2011. The resulting high goods and services balance was offset by large income outflows, reflecting the profitability of Ireland's export-oriented MNEs, and leaving the current account close to balance. A range of indicators show improvements in competitiveness are continuing, primarily reflecting productivity gains with relatively modest declines in private sector wages, although a continued gradual decline in Ireland's market share in goods exports suggests further improvements may be needed (Figure 2).

7. **Economic indicators available so far in 2012 appear consistent with expectations of weaker external demand growth, yet some moderation in domestic demand declines.** Data from the Exporters Association finds modest overall export growth in the first quarter of 2012, of 3.6 percent y/y, with services exports growing 8 percent y/y while goods exports

Figure 1. Ireland: Real Sector and Inflation Indicators

Net exports were main driver of growth in 2011…

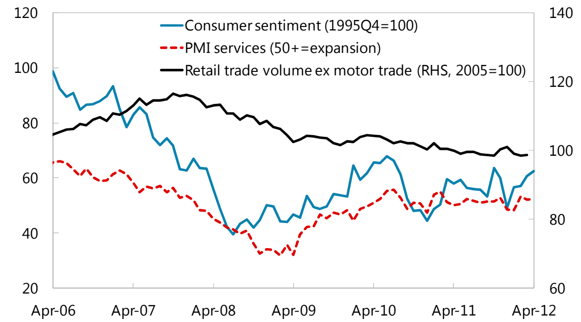
Contribution to Real GDP growth
(Percent)



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

…while consumption remained weak.

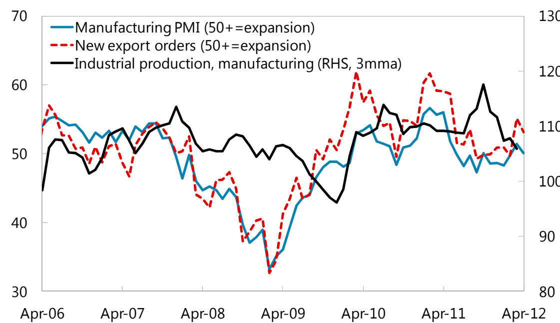
Retail Trade and Sentiment Indicators



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

Industrial production continues to decline, and some of the improvement in export orders and sentiment indicators observed at end-2011 has reversed recently.

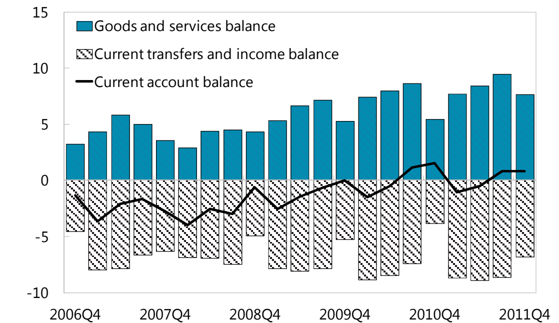
Export Indicators and Industrial Production



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

The current account registered a small surplus in 2011 as net exports outweighed strong income outflows.

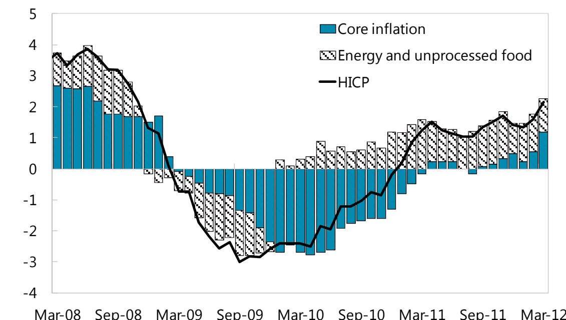
Current Account Balance Composition
(Billions of euros)



Sources: CSOI; and Haver Analytics.

Inflation has risen in Q1-2012, with administrative prices and energy being the main contributors.

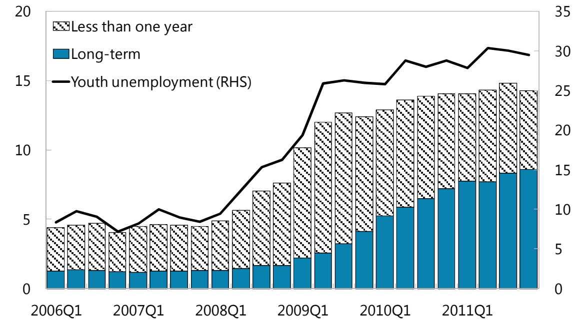
Contribution to Annual HICP Inflation
(Percentage points)



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

Unemployment has stabilized but remained high, with over 60 percent long-term unemployment and 30 percent youth unemployment.

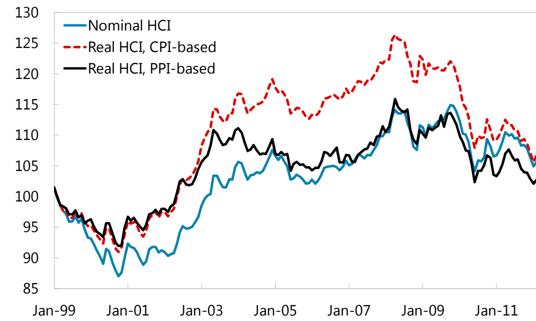
Unemployment Rates
(Percent)



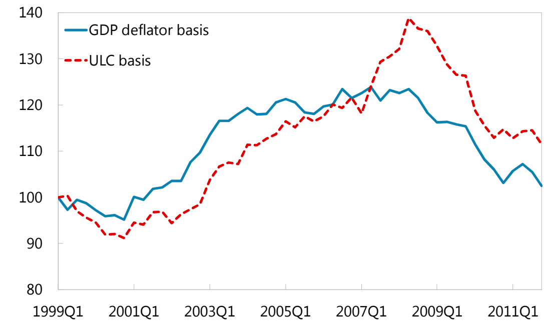
Sources: Haver Analytics; and Central Statistics Office Ireland.

Figure 2. Ireland: Competitiveness Indicators

Competitiveness continues to improve, albeit at a slower pace after sharp gains in 2009 and 2010...

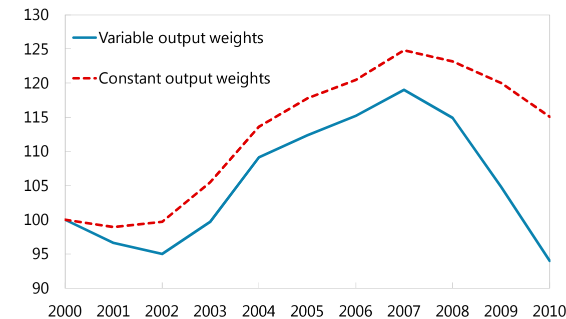


Source: CBI.



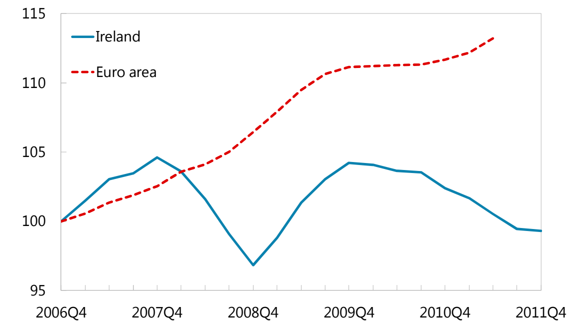
Source: CBI.

...though part of the decline reflects a shift to higher value-added sectors.



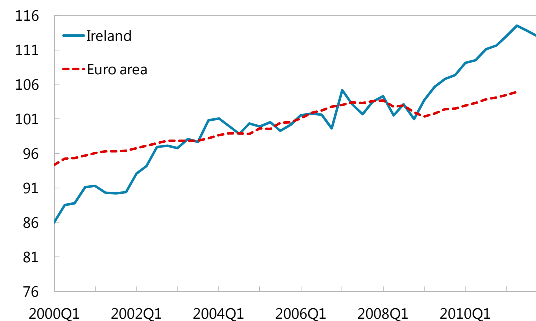
Source: Central Bank of Ireland.
Note: Preliminary data for 2011 is based on average of the first 3 quarters.

Private wages have declined only modestly, but significantly relative to the euro area...



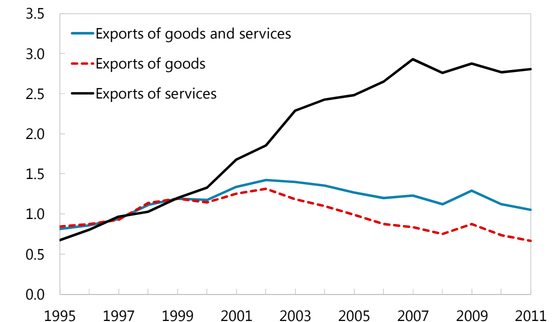
Sources: CSOI; Eurostat; Haver Analytics; and IMF staff calculations.

...while labor productivity has risen faster than in the euro area in recent years, though there was a small decline in the second half of 2011.



Source: Eurostat.

As yet, competitiveness improvements have not been reflected in rising market shares.

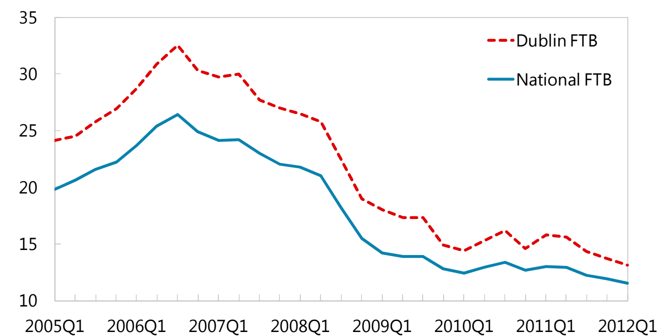


Sources: IMF WEO; and IMF staff calculations.

were flat.[2] Although industrial production declined ½ percent y/y in the first quarter, manufacturing and services PMIs rose over the 50 percent mark in the recent months, largely reflecting rising export orders, suggesting exports could strengthen. Drawing conclusions about consumption trends is complicated by the VAT rate hike, which brought sales forward into late 2011, but the 1.8 percent fall in the volume of retail sales (ex. auto) in the 6 months ending April 2012 may signal some deceleration from the 2.6 percent y/y decline in 2011.

8. **House price declines continued though the pace slowed modestly** (Figure 3). House prices declined 16.4 percent y/y in April, bringing prices to half of their peak in September 2007, although prices in Dublin rose in the last two months. The overall rate of decline remains below the stress scenario for the 2011 bank recapitalization, which factored in a decline of 18.8 percent in 2012.[3] The stock of properties for sale has eased, and recent price declines have led to renewed affordability improvements for first-time buyers, yet mortgage lending remains low.

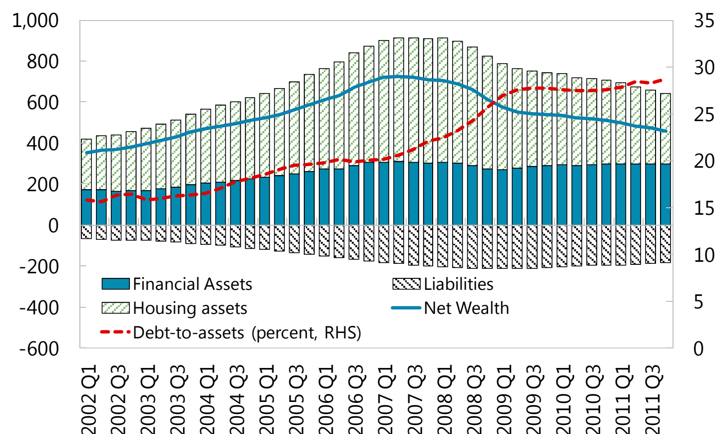
Housing Affordability Index for First-time Buyers 1/
(Percent)



Source: EBS/DKM Housing Affordability Index.
1/ Based on an average home acquired by a first-time buyer household with two average incomes and a 25 year mortgage with 90 percent loan-to-value ratio.

9. **Mortgage arrears continued to rise as some households struggle with high indebtedness.** Household's net wealth peaked in mid-2007, but has since declined by 37 percent largely due to the collapse in housing prices. By 2011, households' deleveraging efforts have reduced debt by 13 percent from its end 2008 peak.[4] Declining incomes have, however, meant the overall household debt burden has eased by only 3 percentage points to 208 percent of disposable income in 2011, although there has been some relief from lower interest rates (Figure 3). Income declines, especially on account of the rise in unemployment, have also driven the increase in the

Household Assets, Liabilities, and Net Wealth
(Billions of euros)



Source: CBI.

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[2] See http://www.irishexporters.ie/section/PressReleaseMay2012

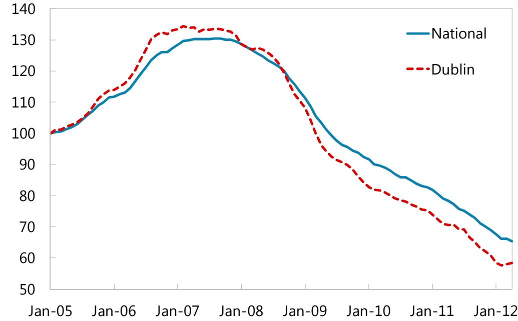
[3] The fall in average house prices in 2011 of 13.2 percent y/y was close to the baseline scenario, and within the stress scenario of a 17.4 percent decline.

[4] The household debt reduction is the largest in the euro area, see *CBI Quarterly Bulletin*, Q2 2012, pp. 78ff.

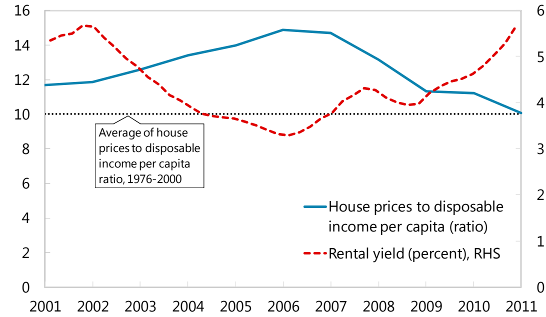
Figure 3. Ireland: Housing and Household Debt Developments, 2001–12

Property prices have halved from their 2007 peak with prices in Dublin recently stabilizing.

Rental yields and the house price-to-income ratio may undershoot previous norms before stabilizing.



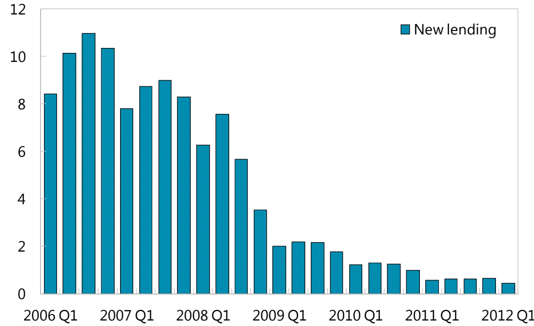
Sources: CSO.



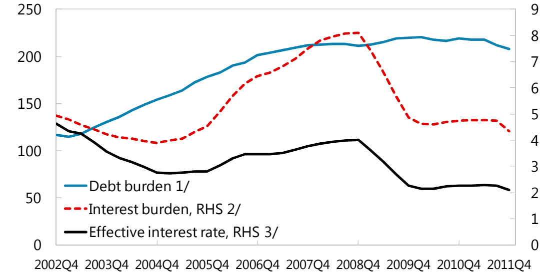
Sources: CSO; ESRI; and NTMA.

New lending has remained dormant.

Falling incomes have counteracted households' efforts to reduce debt burdens, although there was a modest decline in 2011, and interest payment burdens have declined.



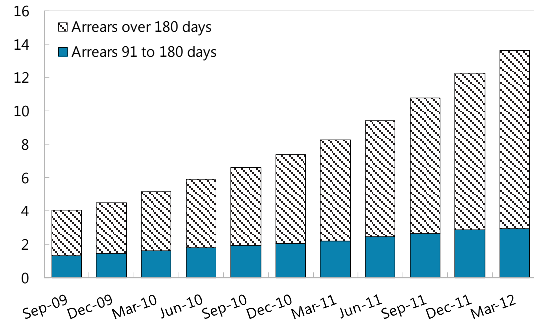
Source: Irish Banking Federation/PWC.



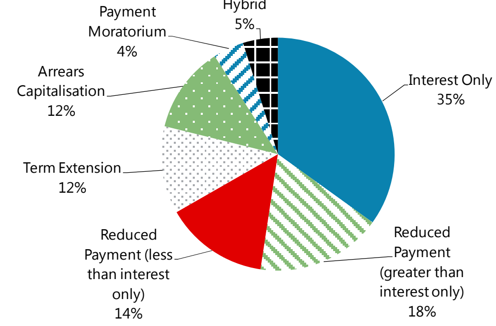
Sources: CBI; Haver Analytics; and IMF staff calculations.
1/ Total household liabilities in percent of four-quarter gross disposable income.
2/ Four quarter interest payments in percent of four-quarter gross disposable income.
3/ Four quarter interest payments in percent of previous quarter's total household liabilities.

Arrears accumulation continued, with 13.7 percent of mortgages by value in arrears at end 2011.

Loan restructurings have aimed at easing or stretching out loan service payments.



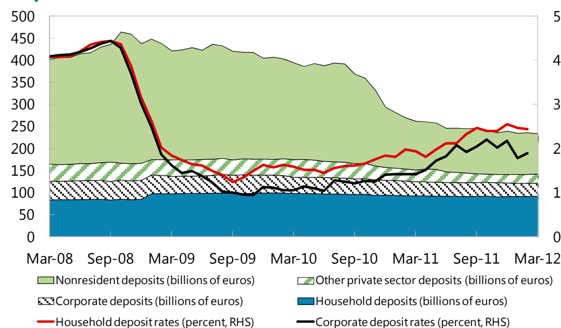
Source: Central Bank of Ireland.



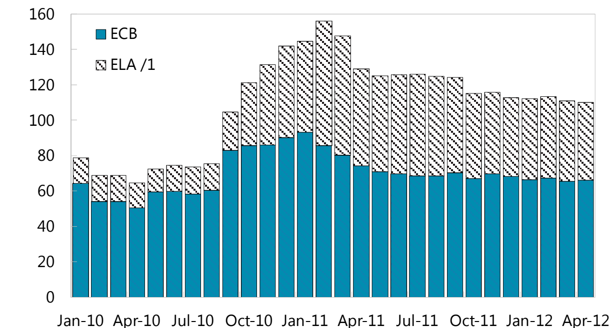
Source: Central Bank of Ireland.

rate of mortgage arrears on principal private residences to 10.2 percent of mortgage accounts and 13.7 percent of mortgage balances at end March 2012. The share of mortgages that have been restructured—predominantly through payments of only the interest due or somewhat more—rose to 12.6 percent at end March 2012, but more than half of restructured loans are in arrears, indicating that deeper loan modifications are needed in some cases.

10. **Bank funding pressures appear to be easing as the overall level of deposits in the banking system has stabilized** (Figure 4)**.** The deleveraging process, and a modest inflow of deposits into the three banks included in the Prudential Capital Assessment Review (PCAR) in 2011 (Allied Irish Banks, Bank of Ireland, and Permanent TSB, or "PCAR banks"), is offsetting their maturing bank debt and has contributed to a gradual reduction in reliance on Eurosystem liquidity support in recent months.[5] The banks continue to access term funding collateralized by U.K. retail mortgages, with AIB recently reporting that it secured the equivalent of €395 million on a 3-year term with a 250 basis point spread over three-month Libor, which follows similar transactions by BoI and PTSB totaling €6.9 billion in late 2011. There are also some signs that competitive pressures on deposit rates may be easing.



Source: Central Bank of Ireland.
Note: Deposit volumes refer to government guaranteed banks; interest rates refer to resident banks.



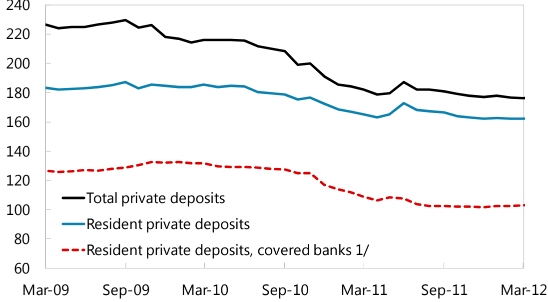
Source: Irish authorities; and IMF staff calculations.
/1 Proxied by the sum of CBI's Other claims on euro area credit institutions and Other assets.

11. **The PCAR banks are highly capitalized but report low profitability mostly due to weak loan quality**. At the end of 2011, Core Tier I capital for these banks averaged 16 percent, up from about 6 percent at end-2010, well above the regulatory minimum of 10.5 percent. However, bank asset quality indicators worsened sharply in 2011, with NPLs rising to 19.5 percent of total loans from 12.1 percent of end-2010, although this was in part driven by stricter CBI loan classification guidelines, and also by the reduction in the value of performing loans (in the denominator) due to deleveraging. Despite the sharp rise in NPLs, banks increased provisioning coverage to 50 percent of NPLs from 42.7 percent in 2010, in line with the new CBI provisioning guidelines. However, the deterioration in asset quality in 2011 has undermined banks' capacity to generate sufficient net interest income to provide for loan losses, with profits before provisioning and extraordinary income declining to 0.2 percent of average assets, from 0.4 percent in 2010 (Box 1).

[5] Permanent TSB (PTSB) is the banking subsidiary of Irish Life and Permanent (ILP).

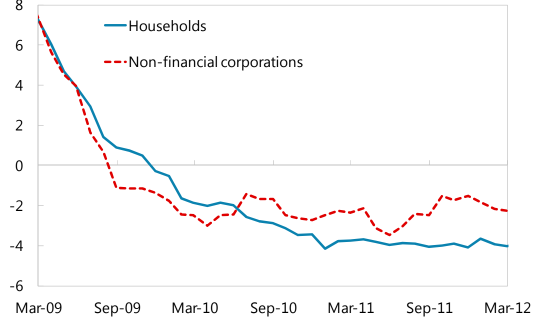
Figure 4. Ireland: Deposit and Credit Developments, 2006–12

The level of private sector deposits has stabilized…



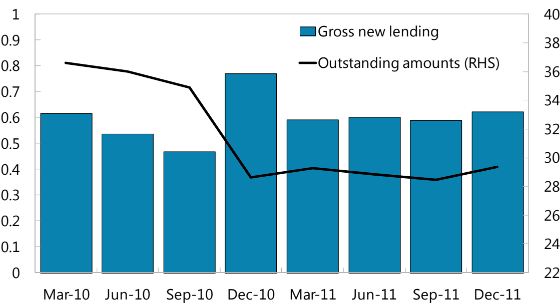
Source: CBI.
1/ Credit institutions covered by the Irish Government Eligible Liabilities Guarantee Scheme.

…but credit to households and corporations continue to contract at stable rates.



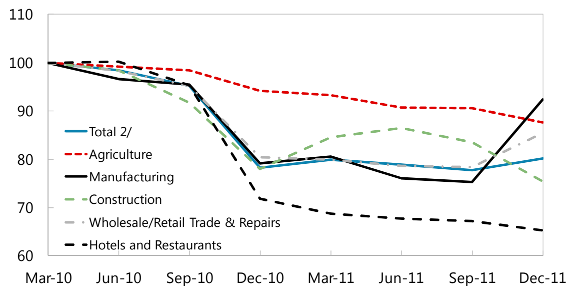
Source: CBI.

SME credit picked up marginally in Q4 2011…



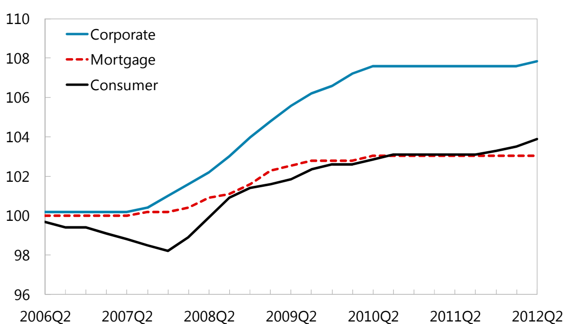
Source: Central Bank of Ireland.
1/ All resident credit institutions, excluding real estate and financial intermediation.

…driven by credit to manufacturing.



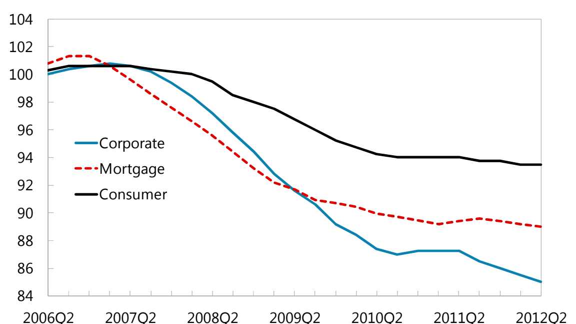
Source: Central Bank of Ireland.
1/ All resident credit institutions.
2/ Excludes real estate and financial intermediation.

Credit standards are stable…



Source: Central Bank of Ireland.

…but credit demand has started to show further weakness.



Source: Central Bank of Ireland.

Box 1. Banks' 2011 Financial Performance

The PCAR banks' financial performance continued to worsen in 2011. Operating profits fell to only 0.2 percent of total average assets (TAA) from 0.4 percent in 2010. Three main factors contributed to the banks' weak financial performance:

- **Low net interest margin (NIM).** The Irish banks' NIM fell by 0.2 percentage points in 2011, to 0.9 percent, which is relatively low among European banks. Funding costs rose by an average of 35 basis points on interest bearing liabilities, driven by increased competition for deposits as well as higher costs for the Eligible Liabilities Guarantee scheme relative to banks' income generating assets.
- **High operating costs.** Although operating expenses were reduced to 0.9 percent from 1 percent of TAAs, they accounted for 100 percent of NIM in 2011, up from 85 percent in 2010.
- **Low net fee income.** This source of income for Irish banks remains low in the European context, and averaged only about 0.2–0.3 percent of TAA in 2010–11.

Gross operating profit was positively impacted in 2011 by non-recurring items relating to:

- Smaller losses on discontinued operations, as assets were sold at generally higher valuations than assumed in the 2011 Prudential Liquidity Assessment Review (PLAR), generating an accounting income, and;
- Much higher non-recurrent gains associated with the liability management exercises (LMEs) on subordinated debt as part of the 2011 recapitalization, including conversion of such claims into equity.

However, banks' pre-provision profits of 2 percent of TAA were insufficient to cover large loan provisions of 3.8 percent of TAAs (up from 2.9 percent of TAA in 2010). The year-over-year impact on net income was mitigated by a fall in the costs of discontinued operations from 1.5 percent of TAA in 2010 to 0.3 percent in 2011. Taking into account the net tax effect, banks' losses fell to 1.2 percent of TAA from 2.9 percent in 2011. In terms of ROE, losses improved in 2011 to minus 20 percent from minus 79 percent in 2010.

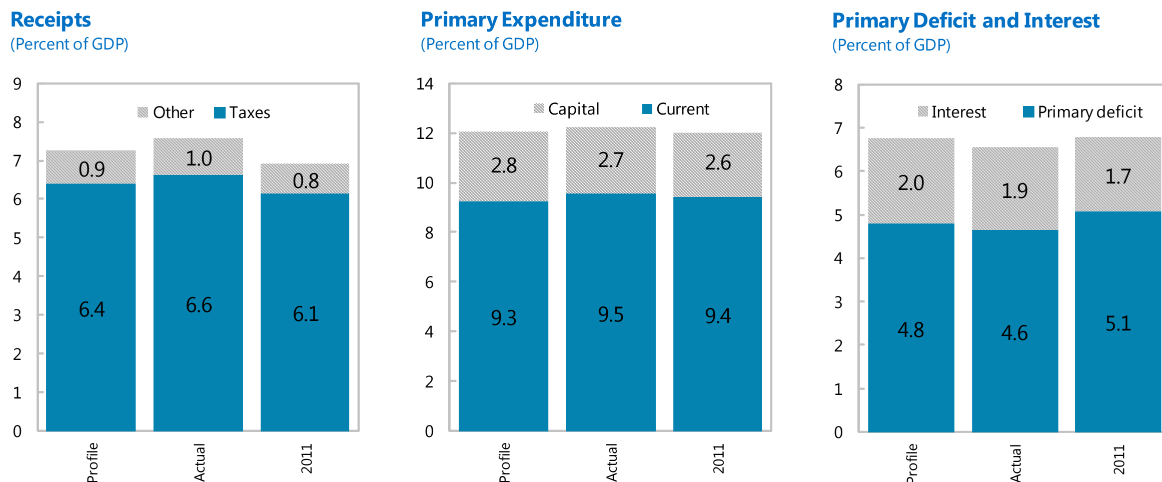
Table: Aggregated Balance Sheets, Profit and Loss Accounts, and Selected Indicators

Covered Banks	2011	2010	Change		Covered Banks	2011		2010	
Balance Sheet	**€b**	**€b**	**€b**	**%**	**Profit and Loss Account**	**€b**	**%TAA**	**€b**	**%TAA**
Cash and CBI	12.2	6.3	5.9	92.6	Interest income	10.4	3.0	11.7	2.9
Net Loans	215.2	262.5	(47.3)	(18.0)	Interest expense	(7.2)	(2.1)	(7.2)	(1.8)
Due-from-Banks	14.5	11.2	3.3	29.7	Net interest margin	3.1	0.9	4.5	1.1
Securities & FDS	69.5	63.1	6.4	10.2	Net fee income	0.9	0.3	1.0	0.2
Other Assets	14.9	25.0	(10.1)	(0.4)	Net trading gains	(0.1)	(0.0)	0.1	0.0
Total Assets	326.3	368.1	(41.8)	(11.4)	Non-recurrent gains	6.0	1.7	1.9	0.5
Total average assets	347.8	399.9	(52.1)	(13.0)	Gross operating income	9.9	2.9	7.5	1.9
					Operating expenses	(3.1)	(0.9)	(3.9)	(1.0)
Central banks	67.8	90.1	(22.3)	(24.7)	Administration and other	(1.2)	(0.3)	(1.9)	(0.5)
Due-to-banks	17.6	27.0	(9.4)	(34.9)	Staff	(1.9)	(0.6)	(2.1)	(0.5)
Deposits	148.9	144.3	4.6	3.2	Pre-provision profits (PPP)	6.8	2.0	3.6	0.9
Debt issues & FDS	56.7	72.1	(15.4)	(21.3)	Loan and NAMA provisions	(13.1)	(3.8)	(11.5)	(2.9)
Other liabilities	7.1	19.3	(12.2)	(63.3)	Loss on derecognized assets	(1.1)	(0.3)	(6.1)	(1.5)
Total liabilities	298.1	352.8	(54.7)	(15.5)	Net income before tax	(7.4)	(2.1)	(14.0)	(3.5)
Net equity	28.2	15.3	12.9	84.2	Tax effects and others (1)	3.2	0.9	2.3	0.6
Total liabilities + equity	326.3	368.1	(41.8)	(11.4)	Net income (attributable)	(4.2)	(1.2)	(11.7)	(2.9)
Gross loans *	240.9	276.8	(35.9)	(13.0)	PPP net of non-recurrent	0.8	0.2	1.7	0.4
Loan provisions (LLP)	23.5	14.3	9.2	63.9	ROE		(20.0)		(79.0)
NPLs	47.0	33.5	13.5	40.2	Cost of credit provisioning (eop)		4.8		4.1
% of NPLs to loans	19.5	12.1		7.4	Risk weighted assets (RWA)	169.3		213.0	
% LLP to NPLs	49.9	42.7		7.2	Capital Tier 1 (CT1) to RWA	27.2	16.1	13.5	6.3
% (NPL-LLP) to NE	83.4	125.3		(41.9)	CT1 to total assets (leverage)		8.3		3.7

Sources: CBI and staff estimates.
Note *: includes in 2012 loans held for sale classified in the balance sheet as other assets.
(1) Includes net tax credits of €1.6b (2011) and €2.1b (2010).

12. **Final data confirm the 2011 general government deficit was well within the program ceiling** (Figure 5). Ireland's 2011 general government deficit of 13.1 percent of GDP includes 3.7 percent of GDP in bank recapitalization outlays classified as capital transfers by Eurostat. Excluding these, the general government deficit was 9.4 percent of GDP, under the program ceiling by 1.2 percent of GDP. This significant over performance reflects firm expenditure control including at local government levels, robust revenue collection across the major taxes, higher than expected bank-related income, and the cut in EU lending rates.

Cumulative Exchequer Outturn for January–April 2012 (percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

PS: To facilitate comparability, (i) the €251 million corporation tax payment delayed from December 2011 into January 2012 is excluded from both the 2012 tax profile and outturn; (ii) the €566 million in interest payments met in Jan-April 2011 via drawdown of the Capital Services Redemption Account (CSRA) are included in the 2011 "exchequer" interest bill; (iii) symmetric entries of €646 million in respect of the Sinking Fund in March 2012 (recorded as current spending, and capital receipts) are taken out; (iv) the IBRC promissory note payment of €3.06 billion that was settled through bond issuance is included in non-voted capital expenditure for 2012; and (v) a €110 million recoupment of a Social Insurance Fund advance is excluded from 2011 net voted current spending.

13. **Fiscal developments in the first four months of 2012 were in line with expectations**. The performance criterion on the exchequer primary balance was met with a margin of ¾ percent of GDP in the first quarter (see Table 2, MEFP).[6] At end April, cumulative revenues (after adjusting for favorable one-offs) were above the authorities' profile by 0.3 percent of GDP and above last year's collections over the same period by 0.7 percent of GDP. Higher revenues were distributed evenly across personal income tax, VAT, and corporation tax, validating the estimated yields for major recent revenue measures.[7] Spending pressures partly offset the strong revenue outturn, with current spending

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[6] The net central government debt target was met with a wider margin reflecting, inter alia, a lower than programmed interest bill owing to reductions in the interest rate on EU loans.

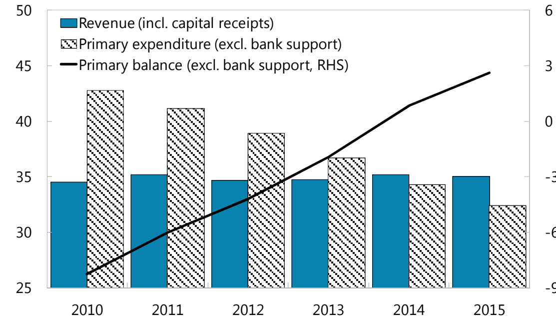
[7] In its *April 2012 Fiscal Assessment Report*, the Irish Fiscal Advisory Council analyzed the Budget 2012 costing of the 2012 VAT projection, and assessed it to be appropriately conservative. Separately, a €100/year household charge—introduced as part of Budget 2012 to yield about €160 million for local governments—has faced implementation challenges: there have been some delays in the payment of the charge, with just over half received to date. However, further payments are being processed, and the government is committed to collecting the full amount of the tax, including with penalties on late payments.

Figure 5. Ireland: Selected Trends in General Government Finances

An 11 percent of GDP rise in the primary balance is targeted by 2015 from 2010.

Revenues, Primary Expenditure and Balance

(Percent of GDP)

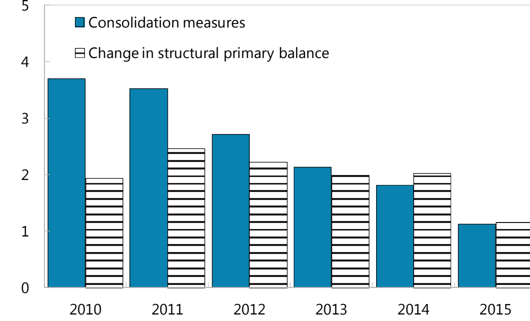


Sources: Department of Finance; and IMF staff estimates.

The fiscal measures are front-loaded, yet the fiscal overall adjustment is also phased over time to protect the fragile recovery.

Consolidation Measures and Structural Primary Balance

(Percent of GDP)

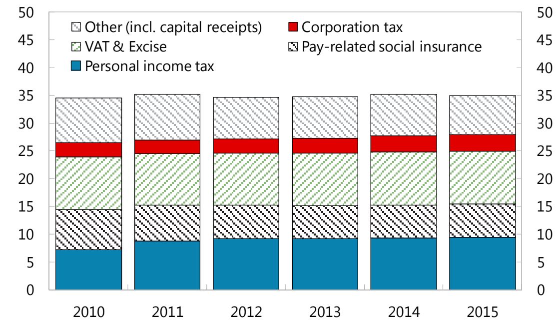


Sources: Department of Finance; and IMF staff estimates.

Tax measures are significant, although they will not raise revenues as a share of GDP given the slower recovery in domestic demand than in GDP.

Revenue Composition

(Percent of GDP)

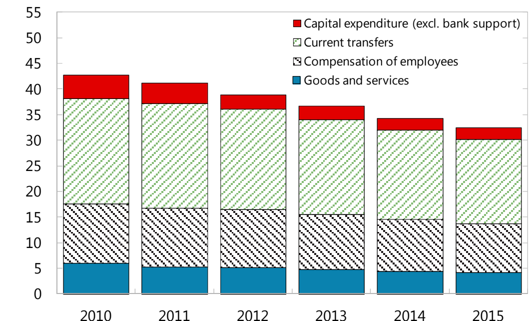


Sources: Department of Finance; and IMF staff estimates.

Primary expenditure is to decline by 10 percentage points of GDP from 2010, reflecting durable savings across all components.

Primary Expenditure Components

(Percent of GDP)

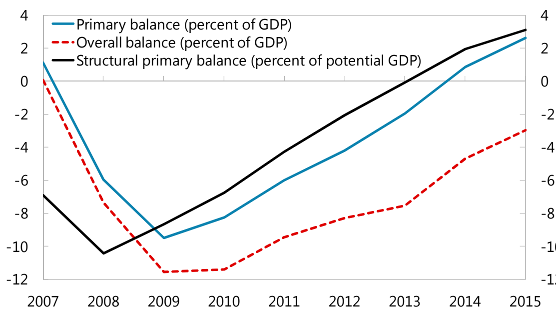


Sources: Department of Finance; and IMF staff estimates.

A 3 percent of GDP overall deficit, and 2½ percent of GDP primary surplus, are targeted for 2015.

Headline, Primary and Structural Balance 1/

(Percent of GDP)



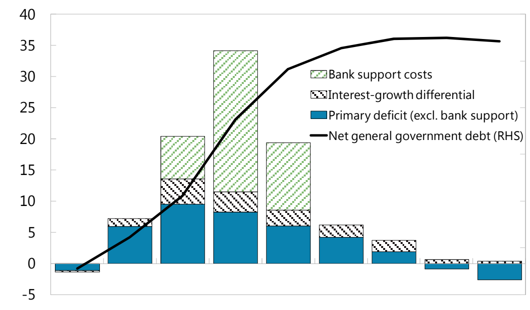
Sources: Department of Finance; and IMF staff estimates.

1/ Excluding bank support.

Over half of the increase in net debt arose from bank support costs.

Sources of Increase in Net Debt-to-GDP Ratio

(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

above the authorities' profile by 0.2 percent of GDP, mainly in social protection and health, owing to higher than expected hospital activity and medical card issuance and unemployment above budgeted levels. Overall, the cumulative exchequer primary deficit at end April was 0.2 percent of GDP below the authorities' profile, and ½ percent of GDP below the same period last year.

14. **NAMA's asset disposal program has advanced faster than envisaged (Box 2).** Total asset sales approved so far are in excess of €8 billion, of which about 90 percent were assets located outside Ireland. NAMA recently completed an assessment of business plans and agreed asset sales schedules, and may exceed its plans for €9 billion in asset sales by end 2013.[8] NAMA continues to be highly liquid and cash balances were €4.6 billion at end March 2012, including a €3 billion short-term loan to IBRC. Hence, NAMA's interim target to redeem a total of €7.5 billion in senior bonds by end 2013 appears feasible.

III. OUTLOOK AND RISKS

15. **Growth prospects for 2012 remain modest at about ½ percent, unchanged from the fifth review.** Net exports are expected to continue driving growth, though with a smaller growth contribution than in the last two years as trading partner GDP growth is expected to fall to 0.7 percent from 1.6 percent in 2011. Consumption is projected to decline by 1.7 percent as real household disposable income further weakens while the savings rate will likely remain elevated as households continue to reduce high debt burdens, although retail sales data for April suggest downside risks. The decline in fixed investment is expected to continue, in part owing to fiscal consolidation, though at a slower pace than in 2011.

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

	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP	-0.4	0.7	0.5	1.9	2.6	2.8	2.9	2.9
Real domestic demand	-4.9	-3.0	-2.1	0.0	1.1	1.8	2.1	2.3
Private consumption	-0.8	-2.8	-1.7	0.3	1.1	1.5	1.6	1.7
Public consumption	-3.8	-3.7	-2.0	-1.5	-1.3	-1.2	0.0	0.0
Fixed investment	-24.9	-10.6	-4.5	1.0	4.3	7.5	7.5	8.0
Change in stocks 1/	0.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	3.7	4.5	2.2	1.9	1.8	1.5	1.3	1.2
Exports	6.3	4.1	3.0	4.0	4.3	4.6	4.7	4.7
Imports	2.7	-0.7	1.0	2.8	3.5	4.3	4.7	4.9
Nominal GDP (in billions of euros)	156.0	156.4	159.2	164.2	171.0	178.7	186.9	195.4
GDP deflator	-2.4	-0.4	1.2	1.2	1.5	1.6	1.6	1.6
Current account (in percent of GDP)	0.5	0.1	0.9	1.8	2.8	3.6	3.7	3.9
Consumer Prices (HICP)	-1.6	1.1	1.7	1.2	1.4	1.6	1.8	1.8
Unemployment rate (in percent)	13.6	14.4	14.3	13.7	13.0	12.3	11.3	10.4

1/ Contributions to growth

[8] See Box 1, *Third Review Under the Extended Arrangement - Staff Report*.

Box 2. NAMA's Evolving Asset Realization Strategy[1]

Following the initial asset acquisition and debtor assessment phase, NAMA is increasingly focused on asset management and debt recovery functions. The 2011 unaudited draft financial statement reflects this shift and shows €1 billion in operating profits up from €305 million in 2010. The net impairment charge fell to €810 million following a positive asset revaluation of €306 million based on a thorough inventory valuation. Consequently, NAMA posted a profit of €200 million in 2011.

NAMA's Financial Results, 2010-11
(Millions of euros)

Balance sheet			Income statement		
	2010	2011		2010	2011
Assets	29,655	30,580	Operating Profit	305	1,010
Cash	837	3,330			
Government bonds	0	500	Net interest income	346	758
Loans and receivables	27,951	25,907	Interest income	525	1,283
Other assets	867	843	Interest expense	-179	-525
Liabilities	29,252	30,222	Administrative expenses 1/	-46	-121
NAMA senior bonds	28,650	29,106	Realized gains	0	306
Other liabilities	277	1,116	Unrealized impairment charge (net)	-1,485	-810
Equity	403	358	Other items (net)	5	67
NAMA subordinate bonds	1,507	1,601			
Retained eaning and reserves	-1,182	-1,243	Profit	-1,180	200

Source: NAMA.
1/ 2011 includes €60 million servicer fees.

NAMA is pursuing a range of strategies to facilitate its asset recovery progress:

- **Vendor (Staple) Finance – Commercial Property**. Increased sales resulting from NAMA offering financing (up to 70 percent) to buyers will help to transfer price risk on the underlying asset portfolio. The accompanying switch in credit risk from non-performing debtors to selected borrowers (considered on a case-by-case basis) should help to further lower risk on the overall commercial loan portfolio.

- **A Qualified Investment Fund** is planned launched by late 2012 to help attract institutional investors to buy properties on a phased basis by asset type (e.g., office, retail, hotel) or by geographic location.

- **Residential Deferred Payment.** NAMA has launched a small pilot residential mortgage initiative providing potential purchasers with a level of protection against further falls in housing values.[2] A deferred portion (20 percent) of the sale price is only payable if the value of the property has not fallen over the next five years. This deferred payment does not expose NAMA to any greater risk than it already carries and aims to accelerate sales to potential buyers concerned about potential price declines.

- **Capital Investment.** NAMA has recently proposed to invest €2 billion to enhance and complete commercial and residential projects, including land developments, over the period to 2016.[3]

[1] Also see Box 1. NAMA Asset Acquisitions and Disposals, *Ireland—Third Review Under the Extended Arrangement*, IMF Country Report No. 11/276.
[2] See *Deferred Payment Initiative For Residential Mortgage Market*.
[3] NAMA proposes to invest €2 billion in Ireland to complete construction work and develop greenfield sites.

16. **An external recovery underpins the projected strengthening in growth in coming years, with support from a gradual revival of domestic demand, but there are significant risks.** Net exports are expected to continue to be the main contributor to growth in 2013–14, with support from further gains in competitiveness over time. Consistent with Ireland's major banking crisis and ongoing fiscal consolidation, the revival in domestic demand is projected to be a protracted process, with a stabilization of demand in 2013, followed by a gradual pick up to about 2 percent growth by 2015–17. Overall, growth is projected to average 2½ percent in 2013–17, which is low in relation to the scale of underutilized resources. There are, however, a range of interconnected risks to this outlook:

- **External demand and financial market conditions**. Given the high openness of the Irish economy, a continuation of weak trading partner growth would greatly hinder Ireland's recovery prospects. An intensification of euro area stress would heavily impact Ireland's growth and the debt outlook through exports, and also through household and business confidence and spending, with adverse effects on financial sector health.
- **Domestic demand**. The gradual resumption in private consumption and investment growth starting in 2013 hinges on a combination of a bottoming out of housing prices, some pick up in lending to SMEs and the younger cohort of households with less debt, well targeted private debt restructuring over coming years, and public confidence that the crisis is being overcome, which will allow some easing in precautionary savings.
- **Bank lending**. Banks' capitalization has been greatly strengthened, but their underlying profitability remained weak in 2011, reflecting the low quality of loan portfolios which include significant legacy assets (Box 3). These factors could hinder a renewal of lending to households and SMEs including by limiting access to funding.
- **Unemployment**. Gradual recovery and slow reductions in unemployment could imply higher structural unemployment, limiting potential growth in the medium-term, and ongoing high youth unemployment could risk sustained high emigration.

Box 3. Legacy Assets from the Credit Boom: Tracker Mortgages

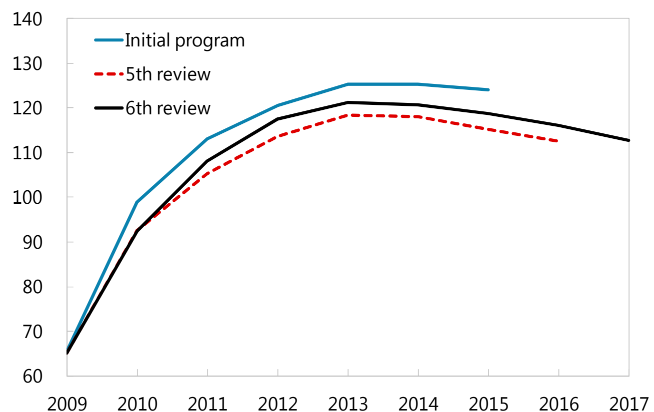
Following a sharp increase during the credit boom, more than half of all outstanding loans for house purchase continue to be so-called "tracker mortgages". Banks discontinued offering such products in Ireland as their anchor, the ECB main refinancing rate, was sharply reduced in late 2008 and banks lost access to funding at low spreads over the ECB rate. However, they remain a prominent legacy of the credit boom as the terms on the loan can usually not be modified by the bank. Many of the tracker mortgages were originated near the top of the boom, typically with high LTVs and low introductory margins. These loans currently typically carry a 100–125 basis point margin over the ECB refinancing rate. About half of Irish mortgages for owner-occupied houses are trackers, and almost two thirds of mortgages for buy-to-let properties.

In addition to banks' non-performing loans, these legacy assets hamper the banks' return to profitability, market funding, and private ownership. As market funding costs for banks rose well above ECB refinancing rates, these products became a drag on bank profitability. Selling a pool of tracker mortgages would entail a capital loss well above the credit losses allowed for in recapitalizing the banks, reflecting the fundamental change in bank funding markets since the crisis. Hence, these assets are unattractive as collateral for market funding and they deter interest from private investors.

17. **The structure of government debt, in particular the promissory notes, is a further challenge.** During 2010 some €30.7 billion (20 percent of GDP) in promissory notes were injected into two failed banks—since merged into the Irish Bank Resolution Company (IBRC)—following exceptional loan losses. This capital was needed to ensure the banks were eligible for Eurosystem funding used to cover deposit outflows, and also to repay holders of unguaranteed senior bank bonds as considered appropriate by the ECB due to concerns about pan-European financial stability. This lack of burden-sharing on senior bank debt as part of the resolution process added to government debt, exacerbating the political difficulties with the annual payments of €3.1 billion due on the notes until 2023. In these circumstances, the authorities settled the payment due at end March 2012 by placing a long-term government bond with a face value of €3.5 billion with IBRC.[9] The underlying set of transactions was complex and it is not expected that future promissory note payments can be financed in this manner.[10] A more durable extension of the debt service schedule on promissory notes, matched by corresponding stability in the Eurosystem funding of IBRC, is needed to ensure the political sustainability of the substantial medium-term fiscal consolidation planned, and to significantly reduce market financing requirements in the medium term and thereby facilitate regaining market access.

18. **Debt sustainability remains fragile, especially with respect to medium-term growth prospects (Annex 1).** The debt path is projected to peak at 121 percent of GDP in 2013 and to decline to 111 percent of GDP by 2017. The upward shift in the gross debt path compared with the previous review reflects higher cash balances, which are expected to reinforce prospects for regaining access to market funding. The debt outlook remains sensitive to weaker growth, with debt rising to about 133 percent of GDP by 2017 if growth were to stagnate at ½ percent. Although the disposal of state assets and the planned sale of Irish Life could modestly lower the debt path, this may be offset to some extent in the next few years by potential outlays for restructuring the credit union sector.

General Government Gross Debt
(Percent of GDP)



Source: IMF staff projections.

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[9] See Statement by Minister for Finance to the Dáil on 31st March Promissory Note Payment.

[10] In addition to receiving long-term government securities, the IBRC entered into a short-term repurchase agreement with NAMA, and thereby repaid part of the outstanding Emergency Liquidity Assistance (ELA) from the CBI. This initial funding is to be replaced by a repurchase agreement between IBRC and BoI for the government security, which the BoI would fund by accessing ECB financing using the government security as collateral.

IV. Policy Discussions

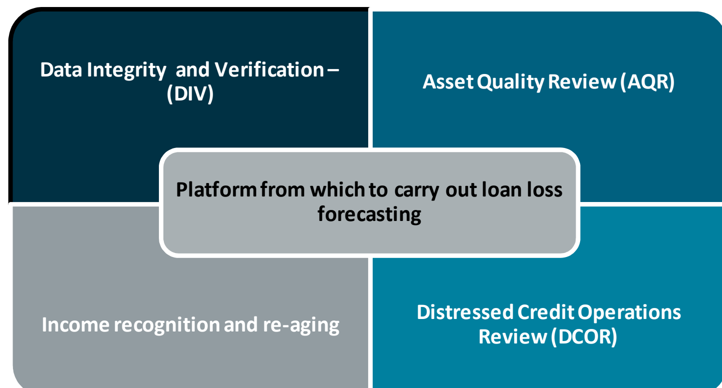
19. **The policy discussions focused on achieving program objectives for recovery and regaining access to market funding.** The authorities noted that despite their full implementation of the program, the weaker external environment and the continuing uncertainty in financial markets weighed on progress in growth, job creation, and the reduction of spreads. In this context, the mission reviewed financial sector work streams, as well as personal insolvency reforms, with a view to ensuring the conditions to renew lending on a sustainable basis. Fiscal policy discussions focused on the outlook for 2012 and deepening the credibility of the plan for phased medium-term fiscal consolidation. Discussions on structural reforms remained oriented toward enhancing growth and employment. Technical work also continued on addressing the challenges remaining from the deep banking crisis, especially the annual promissory note payments and banks' large holdings of legacy assets, which were recognized as issues that would need to be addressed at forthcoming reviews.

A. Financial Sector

20. **The program of financial sector reforms aims to restore banks' long-term viability and restart lending.** This requires an integrated approach that (i) maintains bank's solvency and ensures improvements in their liquidity and profitability; (ii) proactively addresses any areas of vulnerabilities remaining in the financial system; and (iii) provides a well functioning framework to address the critical challenge of enhancing the quality of financial sector assets. In addition to strengthening loan performance as discussed further below, restoring profitability requires deep operational restructuring of branch networks and staffing to rebalance costs relative to income, lifting low net interest margins, and boosting fee income to realign the Irish banks with their European counterparts.

Bank resilience, liquidity, and transparency

21. **The authorities' Financial Measures Program is tackling core issues for continued strengthening of banking sector health.** PCAR 2011 provided a strong capital foundation to build upon, through independent loan loss forecasts, a stringent stress test, and a significant buffer for loan losses after the three-year period of the stress test. The authorities are working toward a further assessment of bank capital, while also strengthening banks' capacity to manage distressed loans. The first phase of this work in 2012 lays the foundation for subsequent analysis by ensuring data integrity, independently reviewing asset quality based on loan sampling, and reviewing income recognition practices (MEFP ¶2).



22. **Progress in restructuring distressed loans is a key immediate priority to ensure banks' medium-term viability while preserving bank capital and minimizing moral hazard** (MEFP ¶3). Even with the higher provisioning coverage achieved in 2011, NPLs net of provisions are high relative to bank capital, undermining banks' capacity to generate positive operational cash flow, and slowing their return to market funding. Hence the first phase of work also includes decisive steps to address these risks**:**

- ***Distressed Credit Operations Review (DCOR).*** With the technical support of an international firm, the CBI is assessing banks' preparedness to effectively workout troubled but sustainable residential mortgages and SME debts. The recent review of residential mortgages showed that banks: delay effective loan restructuring through forbearance; lack experienced and well trained staff in loan workouts; and have inadequate quality control. Banks are currently working to address these weaknesses, and will prepare revised operational plans for distressed mortgages by end June.

- ***Evaluation of arrears resolution strategies****.* This aims to focus lenders on developing resolution strategies which are sustainable and well tested. This evaluation has been completed for mortgage loans, and banks have made revisions to address CBI concerns, and they will propose long-term loan modification techniques by end June.

- ***Monitoring of restructuring implementation***. The CBI is designing a monitoring system that sets key performance indicators at check points in the steps towards completion of loan restructuring, to assess banks' performance in addressing distressed loans.

23. **The follow up to PCAR 2011 will continue to be rigorous and transparent, and it will be integrated with the next European Banking Authority (EBA) capital exercise in 2013** (MEFP ¶4). Leveraging the platform created by phase one outputs (described in paragraphs 21 and 22), a rigorous stress test will be carried out, supported by reviews of a number of critical issues, including the assessment of banks' approaches to the calculation of risk weighted assets, loan loss forecasting, and capital modeling. The review of loan loss forecasting in particular will benefit from analyzing banks' frameworks for resolving distressed assets and the progress being made in practice. The results of this analysis will be published with the next EBA exercise to ensure consistency and avoid duplication. Compliance with the minimum Core Tier 1 capital ratio of 10.5 percent for all PCAR banks (AIB, BoI and PTSB) will continue to be monitored by the CBI and developments relative to PCAR 2011 will be reviewed by the end of 2012.

24. **A refinement of the deleveraging framework will be put in place in the second half of 2012 (MEFP ¶5).** The CBI has in collaboration with the PCAR banks developed a reporting template to measure progress according to the new framework which will be based on end 2013 goals for the net stable funding ratio (NSFR) for the core assets of each bank. Separate six-monthly nominal targets for deleveraging of non-core assets, including disposals and run-offs, will remain in place. By moving away from an aggregate target for the loan-to-deposit ratio, this refinement is expected to lessen the pressure from deleveraging on core lending and deposit interest rates.

Advancing financial institution restructuring

25. **The current PTSB is considered to be nonviable and needs to be deeply restructured** (MEFP ¶9). Preliminary estimates prepared by PTSB's new management find that although the bank, as is, would remain adequately capitalized through 2016, it has persistent negative cash flow and poor loan quality. A number of resolution options were considered, such as merging the good part of PTSB with another bank, but there is lack of interest from existing banks. Winding down PTSB is estimated to have a significant fiscal cost, a key consideration given Ireland's high government debt. In addition, the EC and ECB did not favor this approach considering the desirability of preserving adequate competition in the banking sector and of avoiding potential liquidity needs in the process of moving deposits. In that context, the authorities have determined that the way forward is to split PTSB into three business units: Retail Bank, Asset Management Unit (AMU), and the UK Capital Home Loans (CHL) book (Box 4), and a detailed restructuring plan is being prepared for PTSB by end June. Implementation of an approved restructuring plan will be monitored closely under the EU-IMF supported program.

Box 4. PTSB—The Way Forward

The bank's new management team has developed a strategy to create a viable retail bank that would continue to focus on serving the household market. This strategy entails the segregation of PTSB into three business units:

- *Retail Bank*: would hold about half of PTSB assets. The bank would aim by 2016 to have a significant minority share of new mortgage lending, expand its deposit base modestly, improve its net interest margin by more cost effective funding structures, lower loan loss charges, and significantly reduce its operating costs. The new management team expects this unit to break even in 2015 and deliver a return on equity consistent with market benchmarks by 2016.
- *Asset Management Unit*: would hold about one-third of PTSB assets, mostly non-performing or high-risk residential mortgages, low interest trackers, and non-core business. This unit would have its own management team with a mandate to manage the assets for value within regulatory constraints to appropriate service standards. According to preliminary estimates the AMU would have sufficient capital to remain capitalized over its lifetime.
- *Capital Home Loans (UK)*: this mortgage business is low yielding but also has low NPLs. It would continue to remain actively managed with the view to seeking an eventual exit.

26. **Creating a viable bank from PTSB rests on a timely and complete separation of the AMU assets, together with intensive restructuring efforts.** Staff consider that PTSB's proposal for financial and operational restructuring, which formed the basis for the authorities' decision to create a Retail Bank, shows strengths and some robustness to potential developments, but rigorous implementation of these plans will be needed to contain risks. Staff emphasized that should the Retail Bank remain legally and financially associated with the AMU, it will become increasingly difficult to deliver on these plans and build a credible business model for the new institution.

27. **Completion of the PTSB's restructuring will require financial support from the European partners.** The timely carve-out of the legacy and non-performing assets in the

AMU into a separate vehicle (e.g. the IBRC, an asset recovery bank) would be priced in a manner that covers capital requirements, funding and operating costs, and forecast loan impairments, ensuring that IBRC is financially sound. However, a carve-out made by replacing these assets with Irish government securities would leave the Retail Bank with a dominant exposure to the government, hindering its return to market funding and viability, while the increase in government debt would raise hurdles to regaining market access. One approach would be to transfer PTSB's existing Eurosystem funding together with the AMU assets to the IBRC, alternatively, high quality assets could be injected to replace the AMU assets, although this would entail additional European funding. Specific funding modalities will need to be determined at coming reviews of the program.

28. **The process of restoring solvency of the small but important credit union sector has begun** (MEFP ¶10).[11] The financial situation of the sector is challenging with arrears of almost 20 percent of the €5.5 billion loans at end 2011, and while provisioning is very high, at about 80 percent of loans in arrears, reported arrears may be lowered by forbearance.[12] The process to address the 25 severely undercapitalized credit unions (with reserves of less than 7.5 percent) began in January with the court's appointment, at CBI request, of a special manager at a large credit union, and was followed by the recapitalization of some other weak credit unions with funds from the sector's Savings Protection Scheme. The CBI continues to closely monitor the financial condition of the weakest credit unions and may draw on Resolution Fund resources as needed. The regulations for the levy on all credit institutions to recover these resolution costs are expected to be approved by end September (structural benchmark).

29. **The authorities are developing a framework to restore the viability of the credit union sector, which would require substantial and timely restructuring and consolidation.** The Commission on Credit Unions' final report recommends that the sector be restructured on a voluntary, incentivized, and time-bound basis. The report envisages that the restructuring process will be funded by the participating credit unions, the credit union sector, and exchequer funding on a recoverable basis, overseen by a new Restructuring Board, and, subject to regulatory approval by the Central Bank. Staff stressed the importance of the report's recommendation to ensure that the restructuring process should not infringe on CBI's resolution powers and that any last resort funding from the Exchequer should be minimized and recouped from the sector over time.[13] Publication of the strengthened regulatory framework (structural benchmark), including appropriate fitness and probity and governance standards, has been delayed to September to allow incorporation of the Commission's substantial recommendations in this regard.

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[11] For background on the sector, see Box 4. *Strengthening the Irish Credit Union Sector* in the *Ireland—Fourth Review under the Extended Arrangement and Request for Rephasing of the Arrangement (IMF Country Report No. 1/356)*.

[12] Some losses on these consumer loans may be crystallized in coming years with the envisaged introduction of debt relief certificates for debts up to €20,000 for borrowers with essentially no income or assets

[13] The Minister for Finance has indicated overall resource needs on the order of €0.5 billion to €1 billion.

Enhancing asset quality

30. **Efforts to facilitate bilateral resolution of household debt distress are being deepened** (MEFP ¶11). The intention is that the majority of debt workouts for borrowers facing unsustainable payments will be arranged bilaterally, outside of the insolvency process. With arrears rising more rapidly in 2011, it is appropriate that the CBI is proactively exercising its supervisory powers to accelerate this process. Following up on the CBI's review of their strategies for dealing with mortgage arrears, banks are piloting restructuring options for unsustainable mortgage loans. Going forward, the CBI will monitor banks' progress in arrears resolution against a set of key performance indicators, which will be discussed in future program reviews. Arrangements are also being made to ensure that borrowers are well advised in their negotiations with banks, including a dedicated website.

31. **The authorities are also seeking to address SME's loan problems as the health of this sector is essential to growth and employment.** At end-December 2011, about 20 percent of corporate and SME loans were impaired, mostly explained by the high level of past due loans of small enterprises. Following an approach similar to mortgage loans, the CBI has requested banks to submit strategies for dealing with problematic SME loans, including a review of banks' debt collection operations. SMEs account for 68 percent of private employment, so progress on this issue is important to ensure that indebted but still viable enterprises can recover and grow. The government is also establishing a microfinance fund and a temporary partial guarantee scheme for small or specialized SMEs. Staff stressed the need to ensure that any initiative to facilitate SME lending is directed to performing borrowers or restructured borrowers showing good performance after restructuring, so public funds are not used by banks to keep troubled SMEs unresolved.

32. **Drafting of legislation to reform the personal insolvency framework is underway** (MEFP ¶12). The draft general scheme of the personal insolvency bill published in January proposes a modernization of the Bankruptcy Act and establishing a non-judicial debt settlement mechanism, including for mortgages.[14] The authorities are refining the draft legislation, drawing on substantial inputs from the public consultation process, and staff supports the authorities' revised timeline for its publication. At the same time, it is important to advance the preparation of guidance on the applicable income and expenditure thresholds, clarify the operation of payment orders in bankruptcy, and assess whether there is a need to strengthen the role of courts regarding creditors' property rights in the personal insolvency arrangement. Well-targeted eligibility criteria for debtors, including adequate engagement through the Mortgage Arrears Resolution Process, are needed to provide the right incentives to maintain debt service discipline. Staff also recommends intensifying efforts to develop the necessary infrastructure, including the new Insolvency Service, enhancing resources at the Courts Service, and preparing a licensing and monitoring regime for personal insolvency trustees. Moreover, the effectiveness of the framework for repossessions should be reviewed to ensure an efficient functioning by the time the new insolvency regime takes effect.

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[14] For a more detailed description, see Box 2, *Fifth Review Under the Extended Arrangement - Staff Report*.

B. Fiscal Policies

33. **The 2012 Budget is on track for the program's fiscal targets** (MEFP ¶13). The authorities have expressed their commitment to unwind the modest spending over-runs in health and social protection by year-end, and to accommodate the somewhat higher outlay for insurance sector support within the existing expenditure envelope.[15] Given the better than expected general government balance out-turn for 2011, and the on-track exchequer performance through April 2012, staff projects a 2012 general government deficit of 8.3 percent of GDP, in line with the authorities' *April 2012 Stability Programme Update* (SPU) and within the 8.6 percent program ceiling. Accordingly, no change is proposed in the quarterly performance criteria on the exchequer primary balance. Staff continues to support the accommodation of revenue shortfalls in the event of significantly weaker growth out-turn in order to protect the fragile economic recovery, and spreading over subsequent years the closure of any emerging fiscal gap arising from this accommodation.

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

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	33.9	34.5	35.2	34.7	34.8	35.2	35.0
Total expenditure	36.2	42.3	45.4	45.9	44.6	43.0	42.3	39.9	38.0
Current primary	29.5	33.8	38.7	38.1	37.1	36.0	34.1	31.9	30.1
Capital	5.6	7.1	4.7	4.6	4.0	2.9	2.6	2.4	2.3
Interest	1.0	1.4	2.0	3.1	3.4	4.1	5.6	5.5	5.6
Overall balance	0.1	-7.3	-11.5	-11.4	-9.4	-8.3	-7.5	-4.7	-2.9
Primary balance	1.1	-6.0	-9.5	-8.3	-6.0	-4.2	-1.9	0.8	2.6
Structural primary balance	-6.9	-10.4	-8.7	-6.7	-4.3	-2.1	-0.1	2.0	3.1
Structural balance	-7.5	-11.4	-11.0	-10.1	-7.9	-6.2	-5.7	-3.6	-2.5
Gross general government debt	24.8	44.2	65.1	92.5	108.2	117.5	121.2	119.7	116.2
Net general government debt	11.1	24.4	42.2	74.9	96.4	105.5	109.5	110.0	108.4

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

34. **A package of specific measures is being developed to underpin the programmed consolidation effort over 2013-15** (MEFP ¶15). Although *Budget 2012* identified measures and policy directions in relation to the majority of the €8.6 billion consolidation effort during 2013–15, some important decisions remain to be taken, especially on current spending. The authorities are working toward a more fully specified fiscal program by Budget 2013 in order to facilitate regaining access to market funding and reduce uncertainty for households and businesses about future tax and spending policies. This work is focused on a number of areas where close attention to equity considerations is needed:

- ***Public wage bill***: Following wage cuts in 2009–10, the authorities agreed with public sector unions (Croke Park Agreement) to rely on voluntary reductions in employment

[15] Budget 2012 provides for €396 million in liquidity support (temporary loan) to the insurance compensation fund (ICF) to help cover the losses of Quinn Insurance. However, it is now anticipated that an additional €60 million will be required for this purpose, taking the required injection above budgetary allocations.

accompanied by efficiency gains through enhanced flexibility (Box 5). This approach has delivered the budgeted savings while maintaining industrial peace which is critical to the implementation of other fiscal and structural reforms. While staff sees advantages in further wage reductions, especially in terms of immediate savings, the authorities' prefer to maintain controls on hiring—but still meet the needs of frontline services—while pursuing savings in non-core-pay entitlements (MEFP ¶14). The second implementation report for the Croke Park Agreement, expected in June 2012, provides a fresh opportunity to review the adequacy and quality of the savings targeted and achieved.

- ***Social benefits**:* Staff supports reforms to better target child income and working age supports, which can deliver important medium-term savings, while protecting the most vulnerable—including through provision of adequate services for affected beneficiaries. Staff also encouraged reforming sick leave policies by requiring employers to pay for the first two to four weeks of illness; the current practice of the state paying from the outset is not consistent with international best practice and is vulnerable to lax enforcement.

- ***Age-related spending:*** The upcoming actuarial review of the Social Insurance Fund and the OECD review of pensions present an opportunity to take stock of rising age-related expenditures, including pensions, non-targeted supplementary benefits, health entitlements and income tax exemptions. Containing these expenditures is important for long-term fiscal sustainability given high growth in the population over 65, and this can be done while protecting those on low incomes or with particular needs.

- ***Property taxation:*** The authorities have decided to replace the flat annual household charge of €100 per household with a value-based property tax, to be introduced in 2013 (MEFP ¶15). An inter-departmental committee is currently analyzing design and collection issues and in that context has engaged in a public consultation process. The mission supported the principle of a value-based property tax serving as a stable source of funding for local governments.[16]

35. **Draft legislation to implement the EU Fiscal Stability Treaty has been published** (MEFP ¶16). To enact the Treaty the authorities have prepared a draft Fiscal Responsibility Bill (FRB) containing: (i) *EU fiscal rules*: the structural deficit ceiling of ½ percent of GDP, and the requirement to reduce excess public debt (i.e. above 60 percent of GDP) by 1/20th percentage points per annum; and (ii) *an independent fiscal council*: the draft bill gives statutory basis to the Irish Fiscal Advisory Council (IFAC), allocates an adequate annual budget of €800,000, and limits the powers of the Minister for Finance to terminate the contracts of Council members without due parliamentary process. The bill is in broad

[16] Separately, the authorities recently concluded the public consultation on the reform of motor and vehicle registration taxes (recommendations for Budget 2013 will be developed over the summer). Staff concurred on the need to adjust CO_2 bands in line with technological advance and, hence, protect tax revenues, and suggested that this be done in a manner that preserves incentives for environmental efficiency.

Box 5. Ireland's Public Wage Bill—Developments and Prospects

Ireland's compensation for public employees rose by 3½ percentage points of GDP (and GNP) in the pre-crisis boom. During 2000–08, the gross exchequer pay bill rose 118 percent in nominal terms, driven by staff numbers rising 35 percent and average pay increases of 61 percent. In ESA95 terms, by end-2008, compensation had risen to 11.2 (13) percent of GDP (GNP) and one-third of primary current spending, above European levels, especially the original 11 Euro Area economies.

General Government Wagebill			
	2000	2008	2011
percent of GDP (GNP)			
IRL	7.9	11.2	11.4
EA-11	10.9	10.5	10.8
EU-27	11.0	11.1	11.1
IRL (GNP)	9.3	13.0	14.4
percent of primary current spending			
IRL	31.9	32.7	32.1
EA-11	28.4	26.1	25.0
EU-27	30.3	29.4	28.2

Source: Eurostat

The authorities' immediate crisis response included pay cuts and a hiring moratorium, followed by a multi-year agreement with unions on staffing reductions and efficiency-enhancing reforms. After a breakdown of the tripartite Social Partnership Agreement in early 2009, public wages were cut by 13½ percent, on average, over two years. The cuts were progressive, with those earning over €100,000 facing net pay reductions of up to 30 percent. In March 2010, the government struck a new multi-year deal (Croke Park Agreement (CPA)) with public sector unions, protecting workers against layoffs and further wage cuts, in exchange for a validation of the 2009–10 pay cuts and cooperation on voluntary retirements, redeployments and other efficiency measures (such as reform of non-core-pay entitlements) to help achieve targeted pay bill savings. Other measures since adopted or in progress include: for new entrants, a 10 percent additional reduction in salaries and a unified (less generous) public service pension scheme; for public service pensioners, a 4 percent average levy; and a €200,000 salary cap.

Net Exchequer Pay and Pensions Bill; and Numbers (2008-15) 1/						
	2008	2009	2010	2011	2012	2015
Pay (€bn)	17.2	16.7	15.0	14.7	14.4	13.7
Pensions (€bn)	1.6	2.0	2.2	2.4	2.5	2.6
Pay & pensions (€bn)	18.8	18.7	17.2	17.1	16.9	16.3
share of GDP	10.4	11.6	11.0	10.9	10.6	9.1
share of GNP	12.2	14.1	13.4	13.8	13.5	11.8
share of gross voted current spending	35.2	33.5	31.9	32.3	32.6	34.4
Personnell (000s, including LGs)	319.9	310.3	305.5	296.9	294.4	282.5
Pensioners (000s, including LGs)	85.3	111.6	116.4	130.6	139.4	n.a.
Average public service wage (ratio of per capita GNP, CG)	1.73	2.02	1.90	2.03	2.00	1.75

Source: Department of Public Expenditure and Reform.
1/ Pay and pensions bill figures are net of pension-related deduction introduced in 2009, and superannuation contributions from serving staff, respectively.

By end-2011, these measures had delivered net annual savings of €1.7 billion. Lower pay rates and staffing levels have helped reduce the net exchequer pay bill by €2.5 billion, but there has been a €0.8 billion *increase* in the net pensions bill, the latter driven by a 53 percent rise in pensioner numbers since 2008 (mostly reflecting demographic trends, but also the impact of early retirements). With additional net pay and pensions savings of €0.2 billion projected for 2012 and €0.6 billion over 2013–15, the ultimate annual savings by 2015 are €2.5 billion (or 0.7 percentage points of GDP). Nonetheless, as a share of GNP, the net exchequer pay and pensions outlay in 2015 is projected to be 0.4 percentage points below the 2008 level, representing a relatively modest decline.

The authorities' approach, thus far, has helped keep industrial peace, protect frontline services, raise public sector productivity, and deliver agreed savings in a durable way. The cuts in employment have been strategic rather than across-the-board, focusing on the health sector while protecting teacher numbers given the rising number of school-going children. A similar targeted approach is being adopted on the pay side: by reining in hospital and police overtime costs (through smarter rostering) and sick pay. The authorities are also currently reviewing options in relation to out-of date allowances.

The coming months afford an opportunity to review the appropriateness of the level and quality of wage bill savings achieved and budgeted, including as a share of total current expenditure reductions. The findings of the Implementation Report of the CPA, and the Report on Public Service and Private Sector Wage Differentials by the Central Statistics Office, both expected in June, will be instructive in this regard. Given that three quarters of public employment and the wage bill are in the health and education sectors, and about 60 percent of public workers are paid less than €50,000, achieving robust further savings in the wage bill will need to carefully balance considerations of public service adequacy and efficiency, equity, and industrial peace.

alignment with the recommendations contained in the IFAC's January 2012 report on *Strengthening Ireland's Fiscal Institutions*.

36. **Additional legislation will be required to give statutory basis to medium-term expenditure ceilings** (MEFP ¶16). The structural benchmark on the FRB was expected to encompass medium-term expenditure ceiling in addition to the fiscal rules and independent fiscal council which are covered in the draft FRB. The authorities will give statutory basis to medium-term expenditure ceilings via additional legislation. Future legislation could also usefully provide for best-practices in budgetary reporting and fiscal transparency.

37. **Staff discussed a new structural balance computation methodology with the authorities.** As the implementation of the Fiscal Stability Treaty rests on structural fiscal balances, it is important for Ireland to consider methodologies that capture key cyclical factors affecting fiscal performance. Given the structure of Ireland's revenues, these include developments in housing and equity prices in addition to output. A draft computation by staff was discussed with the Irish authorities and the staffs of the EC and ECB (Annex II).

C. Structural Reforms

38. **The authorities are determined to strengthen growth and job creation under the program** (MEFP ¶17). Recognizing the more challenging external environment, the authorities are establishing a working group to review and adapt their strategy for growth and job creation, by further enhancing the economy's competitiveness and flexibility while safeguarding social cohesion. The authorities support EU-wide initiatives to enhance growth and are exploring scope to mobilize EIB investments and unused EU Budget funds, and these issues will be further discussed at coming reviews.

39. **Progress on the authorities' jobs initiatives is essential to help bring down the high level of unemployment** (MEFP ¶18–19). The *Pathways to Work* initiative announced in February aims to improve employment activation policies, including by:

- Identifying jobseekers at a risk of long-term unemployment quickly so they can benefit from early interventions such as profiling, group interviews and subsequent one-to-one interviews and be directed to appropriate training programs. Jobseekers will be assigned individual case workers, which should strengthen their engagement with unemployment services. At present, however, the number of unemployed per case worker is above international best practice, which may impede effectiveness of the reform. To address this, the authorities are developing proposals to engage private sector providers to supply case management and employment services.

- Establishing enforcement mechanisms to penalize non-compliant jobseekers, e.g. those that do not attend required interviews, refuse to participate in training, or take up jobs. This is a welcome step, though close monitoring will be needed to ensure that sanctions are actually applied as required.

- Strengthening linkages with employers to ensure that higher share of vacancies is filled by people from the Live Register, such as by developing systems to better match employment vacancies with candidates, extending the Employer Job PRSI Incentive Scheme till end-2012 and lengthening its coverage to the first 18 months of employment.

On the labor demand side, the *Action Plan for Jobs* from February sets out a range of measures to support employment creation, including support for indigenous start-ups and high growth mid-sized companies, further enhancing SME credit and R&D incentives, and pursuing targeted growth opportunities in the Green economy and the ICT sector, and in April the authorities released a *First Progress Report* on implementing these measures. The review of the structure of social payments (MEFP ¶18) is important to avoid unemployment traps arising from unduly high replacement rates for the long-term unemployed.

40. **Amendments to the proposed reforms of sectoral wage agreements are in train.** Reforms of Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs) are provided for in draft legislation published earlier by the Government. Additional amendments have been approved by the Government and are on track to be submitted to the parliament by mid-June. They will (i) allow for a more timely variation to the REAs by setting time limits on each stage of the process; (ii) allow for a maximum of two consecutive exemptions (rather than one) from an obligation to pay the minimum salary under the REA if it is necessary to safeguard employment; (iii) clarify employers' obligations related to consultation with the workers on an "inability to pay" clause; and (iv) limit the number of wages set by each ERO to a maximum of three.

41. **The authorities' state asset disposal program aims to enhance the economy's efficiency and growth prospects** (MEFP ¶20). The government announced in February asset sales of up to €3 billion, comprising energy companies (part of Bord Gais Eireann's Energy business and some of Electricity Supply Board's non-strategic power generation capacity), a forestry company (Coillte, excluding land) and the remaining state shares in the national airline (Aer Lingus).[17] Preparatory work, including regulatory reforms, is scheduled to be completed by end 2012 to facilitate the expected commencement of sales in 2013 depending on market conditions. It was agreed that at least half of the realized proceeds will be earmarked to reduce debt, with the remainder to be reinvested in viable projects that meet strict *ex ante* cost-benefit criteria to expand employment while meeting program fiscal targets.[18]

V. Program Modalities

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

[17] See http://www.merrionstreet.ie/index.php/2012/02/substantial-reinvestment-in-economy-from-disposal-of-state-assets-howlin/?cat=

[18] The increase in the share of proceeds reinvested from one-third to one-half amounts to up to ¼ percent of GDP, having negligible impact on Ireland's debt outlook.

- **Quantitative performance criteria are proposed for end-September 2012 (MEFP Table 2).** The performance criterion for the Exchequer primary balance is unchanged for end-June 2012, while the previously set end-September 2012 indicative target is being converted into a performance criterion. An end-March 2013 indicative target for the Exchequer primary balance is also proposed as well as an indicative target for net central government debt for end-March 2013. The TMU is modified to clarify that debt issued to IBRC in relation to repayments on Promissory Notes is included in the definition of the Exchequer primary balance.

- **One new structural benchmark is proposed and the dates for other benchmarks are modified in support of program objectives (MEFP Table 3).** The new structural benchmark refers to submitting an updated restructuring plan for PTSB. The existing benchmark on fiscal responsibility legislation is proposed to be moved to September 2012 to allow time for the EU to finalize guidance on some aspects, and that on regulation of credit unions is proposed to be moved to September 2012. The date for publication of the next PCAR will be specified at a later review, when the EBA has announced a specific timetable for the next EU-wide stress test exercise.

43. **Arrangements for all the official financing to be provided under the program are now in place.** Bilateral agreements with Sweden and Denmark were recently concluded, and a first tranche of amount of €0.1 billion has been disbursed by Denmark, while a first disbursement of Sweden's loan is expected shortly. Of the program's total external financing envelope of €67.5 billion, some 71 percent or €48 billion have been disbursed, with European partners disbursing some €32 billion and the Fund the equivalent of €16 billion (at program exchange rates). At the completion of this review, some €4.1 billion will be disbursed—including the equivalent of €1.4 billion by the Fund—so total official financing of €15 billion will remain once that disbursement is made.

44. **Program financing remains adequate for the coming year, although risks to market financing have recently increased** (Table 5). Gross market funding needs are just under €4 billion in 2012, and the authorities are planning to raise this amount through the resumption of Treasury bill auctions in the second half of 2012, together with continued retail funding and rollovers of commercial paper. In addition, the authorities are seeking to facilitate pension fund investments into government annuities. Based on the authorities' continued close engagement with the investor community, these plans appeared feasible if the end May referendum allows the Fiscal Stability Treaty to be ratified, but risks have increased with the recent rise in euro area financial tensions. The projected 2012 year-end cash balance of €13.5 billion provides a cushion against any market funding shortfall in the second half of 2012. Market funding needs—excluding rollovers of Treasury bills or commercial paper—increase to some €6 billion in the first half of 2013. The feasibility of issuing government bonds as needed in 2013 will depend on improved market conditions in the euro area in addition to continued progress in program implementation and the outlook for growth and government debt. Any market funding shortfall in that period could also temporarily be covered by drawing down cash, although the use of cash buffers could be a negative signal for financial markets.

VI. Staff Appraisal

45. **The Irish authorities have demonstrated their ownership of the program by maintaining steadfast policy implementation in the face of considerable challenges.** The strong track record from the launch of the program has been extended as all quantitative targets for end March 2012 were met, and fiscal, financial, and structural reforms are progressing as envisaged. Financial markets had reflected these efforts in a significant narrowing of bond spreads. But these positive trends have recently been overcome by the renewal of financial tensions in the euro area that are widening spreads in the region.

46. **Bolstering growth and job creation is central to the success of the program**. Debt sustainability and regaining market access require a strengthening in growth, as the alternative of seeking substantial additional fiscal adjustment in a low growth environment would risk a pernicious cycle of rising unemployment, higher arrears and loan losses, and renewed erosion of bank capital. It is therefore welcome that the authorities are reviewing and adapting their strategy for growth and job creation. Amendments to the proposed sectoral wage reforms will enhance their labor demand benefits. Continued progress in implementing the authorities' jobs initiatives is essential, where additional resources may be needed to strengthen the effectiveness of labor activation efforts, potentially through private provision. Close monitoring of the appropriate application of sanctions for non-compliant jobseekers will be needed, and it is also important to ensure that the structure of social payments avoids unemployment traps for the long-term unemployed. Reinvesting part the proceeds from state asset disposals offers a useful spark for growth in the near-term, and it is important to maximize the longer run benefits through sound regulatory frameworks and strong competition enforcement.

47. **Budget design and implementation is a critical strength that the authorities should build upon to reinforce the credibility of medium-term fiscal consolidation.** The 2012 Budget is on track in the first four months of 2012, demonstrating the prudence of revenue projections, and the authorities are committed to unwind modest spending overruns by year end. Any revenue shortfall associated with significantly weaker growth should be accommodated in order to protect the fragile recovery, yet recouped in subsequent years to support debt sustainability. The work on a package of specific measures to underpin the fiscal consolidation planned for 2013–15, including in areas such as the public sector wage bill, targeting of social benefits, age-related spending, and property taxation, should be completed by the Budget 2013 to support efforts to regain market access. By giving statutory basis to the Irish Fiscal Advisory Council and enshrining EU fiscal rules, the fiscal responsibility bill, together with legislation to underpin the medium-term expenditure ceilings, will create a strong framework to give confidence that prudent fiscal policies and debt reductions will continue after the program.

48. **An integrated approach is required to restore banks' long-term viability and restart lending to support the nascent recovery.** It will be important for the central bank to continue to apply its supervisory powers consistently to bring about the needed strengthening of banks' capacity to manage distressed loans, which is critical to the health of the banks and

their ability to support Ireland's economic recovery. The intensive work on reforming the personal insolvency framework is also an essential element of promoting resolution of debt distress over time. Success will depend on appropriate eligibility criteria and income and expenditure thresholds to maintain debt service discipline, together with ensuring the infrastructure needed for the reforms to be operational is established in a timely manner. A fundamental restructuring of the credit union sector needs to be implemented in a time-bound manner to ensure its viability, supported by stronger regulatory and governance standards, while ensuring any fiscal cost is minimized and recouped from the sector over time.

49. **Addressing remaining vulnerabilities in the financial system will require stronger financial support from the European partners.** Putting PTSB on a sound footing will require the strong implementation of intensive restructuring efforts over a number of years. The success of this approach hinges on the timely separation a significant portion of legacy and non-performing assets to ensure the credibility of the business model for the new PTSB and hence its capacity to deliver on its restructuring plans. However, funding this carve out with Irish government securities is not consistent with restoring PTSB's viability or with program goals for regaining market access. There are a number of modalities by which stronger European financial support could enable PSTB's restructuring to proceed, and the specific approach needs to be determined at coming reviews.

50. **Tackling the issues remaining from Ireland's deep banking crisis in a proactive manner has become critical, and such efforts would be most effective as part of a broader European plan to stabilize the euro area.** PTSB's restructuring is part of a larger need to put the funding of the Irish banking system on a sustainable basis in the wake of an exceptionally costly banking crisis which has deeply stressed the finances of the state. Addressing this larger challenge, by extending the term of the promissory notes and the associated Eurosystem funding, and placing banks' legacy assets in a vehicle that does not rely on market funding, would much enhance the prospects for the banks to support Ireland's economic recovery and for the Irish sovereign to return to the market rather than rely on ongoing official financing. Temporary European equity participation in state owned banks would greatly reinforce these benefits, by weakening bank-sovereign linkages, immediately enhancing debt sustainability, and improving prospects to attract private owners. In view of the recent escalation of financial tensions in the euro area, the stronger European support needed to address these issues would be most effective as part of a broader plan to stabilize financial markets and strengthen growth in the euro area.

51. **Staff supports the authorities' request for completion of the Sixth 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	0.7	0.5	1.9
Domestic demand	-4.0	-12.5	-4.9	-3.0	-2.1	0.0
Private consumption	-1.1	-6.9	-0.8	-2.8	-1.7	0.3
Public consumption	0.5	-4.5	-3.8	-3.7	-2.0	-1.5
Gross fixed investment	-10.2	-28.7	-24.9	-10.6	-4.5	1.0
Net exports 1/	1.3	3.5	3.7	4.5	2.2	1.9
Exports of goods and services	-1.1	-4.2	6.3	4.1	3.0	4.0
Imports of goods and services	-3.0	-9.3	2.7	-0.7	1.0	2.8
Real GNP	-2.8	-9.8	0.3	-2.5	-0.1	1.4
Gross national saving (in percent of GDP)	15.9	11.4	11.5	10.6	10.8	11.6
Private	18.7	19.6	20.1	18.1	18.3	18.7
Public	-2.8	-8.2	-8.6	-7.5	-7.5	-7.1
Gross investment (in percent of GDP)	21.6	14.3	11.0	10.5	9.9	9.9
Private	16.2	10.3	7.3	7.2	7.7	7.8
Public	5.4	4.0	3.7	3.3	2.2	2.0
Prices, wages and employment (annual average)						
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.1	1.7	1.2
Average wage, whole economy	3.5	-0.1	-2.2	-0.7	0.3	0.8
Employment	-1.1	-8.1	-4.2	-2.1	-0.8	0.7
Unemployment rate (in percent)	6.3	11.8	13.6	14.4	14.3	13.7
Money and credit (end-period) 2/						
Irish resident private sector credit 3/	8.8	-1.7	-3.7	-2.9	-3.3	...
Financial and asset markets (end-period) 2/						
Three-month interbank rate	2.9	0.7	1.0	1.4	1.2	...
Government bond yield (in percent, 10-year) 4/	4.4	4.9	9.2	8.5	6.9	...
Annual change in ISEQ index (in percent)	-33.8	-23.4	13.2	3.0	7.3	...
House prices	-5.9	-18.3	-13.1	-13.2	-16.3	...
Public finance (in percent of GDP)						
General government balance 5/	-7.3	-14.0	-31.2	-13.1	-8.3	-7.5
General government balance (excl. bank support)	-7.3	-11.5	-11.4	-9.4	-8.3	-7.5
Primary balance (excl. bank support)	-6.0	-9.5	-8.3	-6.0	-4.2	-1.9
General government gross debt	44.2	65.1	92.5	108.2	117.6	121.2
General government net debt	24.4	42.2	74.9	96.4	105.6	109.5
External trade and balance of payments (percent of GDP)						
Balance of goods and services	9.0	15.2	18.8	21.2	23.2	24.7
Balance of income and current transfers	-14.6	-18.1	-18.4	-21.1	-22.3	-22.9
Current account	-5.6	-2.9	0.5	0.1	0.9	1.8
Effective exchange rates (1999:Q1=100, average) 2/						
Nominal	111.6	112.5	107.8	108.6	105.8	...
Real (CPI based)	123.1	121.0	111.6	110.2	106.9	...
Memorandum items:						
Population (in millions) 6/	4.4	4.5	4.5	4.6	4.6	4.5
GDP per capita (in euros)	40,702	36,014	34,892	34,147	34,826	36,275
GDP (in billions of euros)	180.0	160.6	156.0	156.4	159.2	164.2

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

1/ Contribution to growth.

2/ 2012 column refers to the latest available information: end-January for the three-month interbank rate, end-March for the change in house price prices and competitiveness indicators, and end-April for other indicators.

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

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

5/ General government balance per ESA95 definition.

6/ 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	2012	2012	2013	2014	2015	2016	2017
					5th rev.			Proj.			
Real GDP	-3.0	-7.0	-0.4	0.7	0.5	0.5	1.9	2.6	2.8	2.9	2.9
Domestic demand	-4.0	-12.5	-4.9	-3.0	-2.0	-2.1	0.0	1.1	1.8	2.1	2.3
Final domestic demand	-3.0	-11.4	-5.8	-4.1	-2.0	-2.1	0.0	1.1	1.8	2.1	2.3
Private consumption	-1.1	-6.9	-0.8	-2.8	-1.6	-1.7	0.3	1.1	1.5	1.6	1.7
Public consumption	0.5	-4.5	-3.8	-3.7	-1.9	-2.0	-1.5	-1.3	-1.2	0.0	0.0
Gross fixed investment	-10.2	-28.7	-24.9	-10.6	-4.5	-4.5	1.0	4.3	7.5	7.5	8.0
Change in stocks 1/	-0.9	-1.0	0.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	1.3	3.5	3.7	4.5	2.1	2.2	1.9	1.8	1.5	1.3	1.2
Exports of goods and services	-1.1	-4.2	6.3	4.1	2.8	3.0	4.0	4.3	4.6	4.7	4.7
Imports of goods and services	-3.0	-9.3	2.7	-0.7	1.0	1.0	2.8	3.5	4.3	4.7	4.9
Real GNP	-2.8	-9.8	0.3	-2.5	0.6	-0.1	1.4	2.2	2.4	2.5	2.6
Current account 2/	-5.6	-2.9	0.5	0.1	1.3	0.9	1.8	2.8	3.6	3.7	3.9
Gross national saving 2/	15.9	11.4	11.5	10.6	11.0	10.8	11.6	12.8	14.0	14.6	15.2
Private	18.7	19.6	20.1	18.1	18.4	18.3	18.7	17.2	16.5	16.5	16.6
Public	-2.8	-8.2	-8.6	-7.5	-7.4	-7.5	-7.1	-4.4	-2.5	-1.9	-1.4
Gross investment 2/	21.6	14.3	11.0	10.5	9.7	9.9	9.9	10.0	10.4	10.8	11.3
Private	16.2	10.3	7.3	7.2	7.5	7.7	7.8	8.1	8.6	9.1	9.6
Public	5.4	4.0	3.7	3.3	2.2	2.2	2.0	1.9	1.8	1.8	1.7
Prices											
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.1	1.6	1.7	1.2	1.4	1.6	1.8	1.8
GDP deflator	-2.3	-4.1	-2.4	-0.4	1.4	1.2	1.2	1.5	1.6	1.6	1.6
Average wage, whole economy	3.5	-0.1	-2.2	-0.7	0.3	0.3	0.8	1.2	1.6	1.9	2.0
Labor market											
Employment	-1.1	-8.1	-4.2	-2.1	-1.0	-0.8	0.7	1.3	2.0	2.1	2.2
Unemployment rate (in percent)	6.3	11.8	13.6	14.4	14.5	14.3	13.7	13.0	12.3	11.3	10.4
Public finance											
General government balance 2/ 3/	-7.3	-14.0	-31.2	-13.1	-8.6	-8.3	-7.5	-4.7	-2.9	-2.4	-1.8
General government gross debt 2/	44.2	65.1	92.5	108.2	113.7	117.6	121.2	119.7	116.2	113.6	110.4
General government net debt 2/	24.4	42.2	74.9	96.4	103.4	105.6	109.5	110.0	108.4	106.1	103.1
Output gap 3/	3.7	-3.4	-3.5	-2.8	-5.7	-2.7	-1.8	-0.8	-0.1	0.3	0.5
Nominal GDP (in billions of euros)	180.0	160.6	156.0	156.4	158.8	159.2	164.2	171.0	178.7	186.9	195.4

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

1/ Contributions to growth.

2/ In percent of GDP.

3/ General government balance per ESA95 definitior

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

(In billions of euros)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est	Proj. 3/					
Revenue	63.0	54.4	53.9	55.0	55.3	57.1	60.2	62.6	64.7	67.5
Direct taxes	31.9	28.1	27.1	28.4	29.1	30.3	32.1	34.1	35.7	37.6
Personal income tax	13.2	11.8	11.3	13.8	14.7	15.2	16.0	17.0	17.9	19.0
Pay-related social insurance 1/	11.9	11.6	11.3	10.1	9.6	9.7	10.2	10.6	10.9	11.2
Corporate income tax	5.1	3.9	3.9	3.8	4.1	4.5	4.9	5.3	5.7	6.1
Capital taxes	1.8	0.8	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	16.3	17.0	17.9	18.2	18.9	19.7
Value-added tax	13.4	10.7	10.1	9.7	10.0	10.3	10.9	11.4	11.8	12.3
Excise tax	5.4	4.7	4.7	4.7	4.9	5.1	5.3	5.6	5.8	6.0
Stamp duty	1.7	0.9	1.0	1.4	1.3	1.5	1.6	1.2	1.3	1.3
Other revenue 2/	10.6	9.9	11.0	10.9	9.9	9.8	10.1	10.3	10.1	10.2
Expenditure (ex. bank support)	76.2	72.9	71.6	69.8	68.4	69.5	68.2	67.9	68.9	70.8
Current	63.4	65.4	64.4	63.5	63.8	65.2	64.1	63.8	64.7	66.6
Interest payments	2.5	3.3	4.9	5.4	6.5	9.2	9.5	10.0	9.8	10.7
Goods and services	10.1	9.8	9.3	8.3	8.2	7.9	7.6	7.4	7.5	7.6
Compensation of employees	20.2	19.5	18.1	17.9	18.0	17.7	17.4	17.1	17.5	17.8
Current transfers	30.7	32.8	32.1	31.9	31.2	30.4	29.7	29.4	29.9	30.4
Capital (excl. bank support)	12.8	7.5	7.2	6.3	4.6	4.3	4.1	4.0	4.1	4.3
Gross capital formation	9.7	6.4	6.0	5.2	3.5	3.4	3.2	3.2	3.3	3.3
Capital transfers (ex. bank support)	3.1	1.2	1.2	1.1	1.1	1.0	0.9	0.8	0.9	0.9
Bank support costs	0.0	4.0	30.9	5.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (ex. bank support) 4/	-13.2	-18.5	-17.8	-14.8	-13.2	-12.4	-8.0	-5.3	-4.1	-3.3
Including bank support	-13.2	-22.5	-48.6	-20.5	-13.2	-12.4	-8.0	-5.3	-4.1	-3.3
Primary balance (ex. bank support)	-10.7	-15.2	-12.9	-9.4	-6.7	-3.2	1.5	4.7	5.7	7.4
Including bank support	-10.7	-19.2	-43.7	-15.1	-6.7	-3.2	1.5	4.7	5.7	7.4
Memorandum items (in percent of GDP, unless indicated otherwise)										
Revenue	35.0	33.9	34.5	35.2	34.7	34.8	35.2	35.0	34.6	34.5
Direct	17.7	17.5	17.4	18.1	18.3	18.5	18.8	19.1	19.1	19.2
Indirect	11.4	10.2	10.1	10.1	10.2	10.3	10.5	10.2	10.1	10.1
Other	5.9	6.2	7.1	6.9	6.2	6.0	5.9	5.8	5.4	5.2
Expenditure (ex. bank support)	42.3	45.4	45.9	44.6	43.0	42.3	39.9	38.0	36.9	36.2
Primary current	33.8	38.7	38.1	37.1	36.0	34.1	31.9	30.1	29.4	28.6
Interest	1.4	2.0	3.1	3.4	4.1	5.6	5.5	5.6	5.3	5.5
Capital (ex. bank support)	7.1	4.7	4.6	4.0	2.9	2.6	2.4	2.3	2.2	2.2
Overall balance 4/	-7.3	-11.5	-11.4	-9.4	-8.3	-7.5	-4.7	-2.9	-2.2	-1.7
Including bank support	-7.3	-14.0	-31.2	-13.1	-8.3	-7.5	-4.7	-2.9	-2.2	-1.7
Primary balance	-6.0	-9.5	-8.3	-6.0	-4.2	-1.9	0.8	2.6	3.1	3.8
Including bank support	-6.0	-12.0	-28.0	-9.7	-4.2	-1.9	0.8	2.6	3.1	3.8
Structural balance	-11.4	-11.0	-10.1	-7.8	-6.2	-5.7	-3.6	-2.5	-2.2	-2.1
Structural primary balance 5/	-10.4	-8.7	-6.7	-4.3	-2.1	-0.1	2.0	3.1	3.1	3.4
General government gross debt	44.2	65.1	92.5	108.2	117.6	121.2	119.7	116.2	113.6	110.4
General government net debt	24.4	42.2	74.9	96.4	105.6	109.5	110.0	108.4	106.1	103.1
Output Gap (percent of potential GDP)	3.7	-3.4	-3.5	-2.8	-2.7	-1.8	-0.8	-0.1	0.3	0.5
Nominal GDP (in billions of Euros)	180.0	160.6	156.0	156.4	159.2	164.2	171.0	178.7	186.9	195.4

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.

4/ The overall balance corresponds to the general government balance, as per ESA95 definitions.

5/ In percent of nominal potential GDP.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2007–12

	2007	2008	2009	2010	2011	2012 7/
External indicators						
Exports (annual percent change, value in euros)	8.3	-1.4	-2.8	8.1	4.8	4.5
Imports (annual percent change, value in euros)	9.5	-1.1	-9.6	5.7	3.0	2.6
Terms of trade (goods, annual percent change)	-1.5	-2.3	1.7	-1.2	-2.9	-0.1
Current account balance (in percent of GDP)	-5.3	-5.6	-2.9	0.5	0.1	0.9
Capital and financial account balance (in percent of GDP)	6.4	9.0	-1.3	7.5	-17.7	-15.2
Of which:						
Inward portfolio investment	86.1	-10.2	13.9	48.3	20.2	2.4
Inward foreign direct investment	9.5	-6.2	11.6	12.7	6.0	4.7
Other investment liabilities	91.8	85.4	-53.9	-42.5	-59.2	-34.1
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	65.1	92.5	108.2	117.6
Government bond yield (in percent, 10-year, end-period) 1/	4.5	4.4	4.9	9.2	8.5	6.9
Spread of government bond yield with Germany (in percent, end of period)	0.1	0.5	2.0	3.2	7.1	5.2
Real government bond yield (in percent, 10-year, period average, based on HICP)	1.5	1.4	6.9	7.5	8.6	7.0
Annual change in ISEQ index (in percent, end of period)	-26.3	-33.8	-23.4	13.2	3.0	7.3
Personal lending interest rate (in percent)	11.7	11.9	11.1	11.4	11.6	…
Standard variable mortgage interest rate (in percent)	5.4	4.8	3.3	4.0	4.2	…
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	30.0	…
Of which:						
House mortgage finance	32.8	29.0	30.1	30.6	25.4	…
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	-9.0	-19.3	…
Foreign-currency denominated assets (in percent of total assets)	36.5	31.7	34.3	30.3	29.4	…
Foreign-currency denominated liabilities (in percent of total liabilities)	41.1	35.5	31.1	25.8	26.3	…
Non-performing loans (in percent of total loans) 4/	0.8	2.6	9.0	8.6	9.1	…
Total provisions for loan losses (in percent of total loans)	0.4	1.2	4.0	4.2	4.8	…
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.7	10.6	10.9	10.4	17.5	…
Bank return on assets (before tax, in percent)	0.7	-0.3	-1.6	-3.1	-0.9	…
Bank return on equity (before tax, in percent)	16.4	-8.0	-40.6	-67.6	-18.2	…
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	…
Share of foreign-owned banks in total assets (in percent)	32.2	62.0	65.0	66.0	62	…

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 2012, staff projections for macroeconomic variables and debt, and April 2012 for financial market indicators, except for real bond yield, which is as of February. 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)

	2008	2009	2010	2011	Proj. 2012	2013
Gross borrowing need	**15.9**	**63.4**	**71.4**	**45.3**	**29.3**	**23.2**
Exchequer cash deficit 1/	12.7	24.6	18.7	19.1	18.4	14.5
Amortization	3.1	27.7	17.3	9.7	9.3	8.7
Medium-and long-term	0.1	5.1	1.2	4.8	5.9	6.0
Short-term 2/	3.0	22.6	16.2	4.9	3.4	2.7
Official creditors	0.0	0.0	0.0	0.0	0.0	0.0
European Union	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0
Bank recapitalization	0.0	11.0	35.3	16.5	1.6	0.0
Gross financing sources 3/	**15.9**	**63.4**	**71.4**	**10.8**	**6.6**	**13.1**
Market financing (incl. retail) 4/	34.9	53.3	23.2	1.4	3.8	13.1
Promissory notes	0.0	0.0	30.9	0.0	0.0	0.0
Bond placement for Promissory notes 5/				…	3.5	…
Cash drawdowns	-19.0	10.0	17.3	9.3	-0.6	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**34.6**	**22.7**	**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	12.6	6.3	3.6
Memorandum items						
Exchequer cash balance 6/	22.0	21.8	12.3	13.0	13.5	13.5
General government debt 7/	79.6	104.6	144.2	169.3	187.1	199.1
Official creditors	0.0	0.0	0.0	34.6	57.3	67.5
European Union	0.0	0.0	0.0	22.0	38.4	44.9
IMF	0.0	0.0	0.0	12.6	18.9	22.5
Other	79.6	104.6	144.2	134.7	129.8	131.6
Treasury bills, bonds and retail	72.0	96.3	110.4	101.6	99.8	104.2
Promissory notes	0.0	0.0	30.9	28.3	25.3	22.7
Other	7.6	8.4	3.0	1.1	2.9	1.8
General government debt (in percent of GDP) 7/	44.2	65.1	92.5	108.2	117.6	121.2
Official creditors	0.0	0.0	0.0	22.1	36.0	41.1
European Union	0.0	0.0	0.0	14.0	24.1	27.4
IMF	0.0	0.0	0.0	8.1	11.9	13.7
Other	44.2	65.1	92.5	86.1	81.5	80.1
Treasury bills, bonds and retail	40.0	60.0	70.8	64.9	62.7	63.4
Promissory notes	0.0	0.0	19.8	18.1	15.9	13.8
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 amortization of Promissory notes and contingency for collateral on hedging transactions.

2/ Gross amortization of Treasury bills, Exchequer notes, and commercial paper.

3/ Includes stock-flow adjustment arising from the March 2012 payment of Promissory notes.

4/ Gross issuance including rollovers.

5/ Placement of a bond for the March 2012 payment of Promissory notes to IBRC.

6/ Includes buffer from financing contingency.

7/ Includes local debt, other national debt, and other general government debt on consolidated level.

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	0.1	1.5	2.9	4.7	6.4	7.0	7.6
Balance of goods and services	16.1	24.4	29.4	33.2	37.0	40.5	44.1	47.4	50.5	53.5
Trade balance	23.8	32.5	36.5	36.4	37.5	39.5	43.0	46.2	49.0	51.8
Exports of goods	81.0	77.6	82.9	85.3	87.4	90.6	95.1	100.3	105.8	111.8
Imports of goods	-57.2	-45.2	-46.4	-48.9	-49.8	-51.1	-52.1	-54.1	-56.8	-60.0
Services balance	-7.7	-8.1	-7.1	-3.2	-0.6	1.1	1.2	1.3	1.5	1.7
Credit	67.9	67.1	73.8	79.1	83.3	89.9	95.0	100.6	106.8	113.4
Debit	-75.6	-75.2	-80.9	-82.3	-83.9	-88.9	-93.9	-99.3	-105.3	-111.7
Income balance	-25.2	-27.9	-27.4	-32.2	-34.6	-36.7	-38.4	-40.0	-42.5	-44.7
Credit	84.0	55.1	57.7	56.4	55.5	56.3	58.4	60.0	56.9	54.0
Debit	-109.2	-83.0	-85.1	-88.6	-90.1	-92.9	-96.8	-100.1	-99.4	-98.7
Current transfers (net)	-1.2	-1.2	-1.2	-0.9	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1
Capital and financial account balance	16.2	-2.1	11.7	-27.6	-24.2	-13.1	-4.7	-6.4	-7.0	-7.6
Capital account balance	0.0	-1.3	-0.7	-0.4	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5
Financial account	16.1	-0.9	12.4	-27.2	-23.9	-12.6	-4.3	-5.9	-6.5	-7.1
Direct investment	-24.2	-0.5	6.4	11.0	8.3	7.2	6.8	6.4	6.7	6.8
Portfolio investment	-45.7	22.6	94.0	28.2	0.4	-2.1	-1.8	-2.1	-2.7	-3.0
Other investment	86.1	-23.1	-88.0	-66.7	-30.9	-16.3	-9.2	-9.4	-9.5	-9.0
Change in reserve assets 1/	-0.1	0.1	0.0	0.3	-1.6	-1.4	0.0	-0.8	-1.0	-2.0
Net errors and omissions	-6.0	6.8	-12.5	-7.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	34.6	22.7	10.1	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	34.6	22.7	10.1	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	12.6	6.3	3.6	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	22.0	16.4	6.5	0.0	0.0	0.0	0.0
					(In percent of GDP)					
Current account balance	-5.6	-2.9	0.5	0.1	0.9	1.8	2.8	3.6	3.7	3.9
Balance of goods and services	9.0	15.2	18.8	21.2	23.2	24.7	25.8	26.5	27.0	27.4
Trade balance	13.2	20.2	23.4	23.3	23.5	24.0	25.1	25.8	26.2	26.5
Services balance	-4.3	-5.0	-4.5	-2.1	-0.4	0.6	0.7	0.7	0.8	0.9
Income balance	-14.0	-17.4	-17.6	-20.6	-21.7	-22.3	-22.4	-22.4	-22.7	-22.9
Current transfers (net)	-0.6	-0.8	-0.8	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Capital and financial account balance	9.0	-1.3	7.5	-17.7	-15.2	-7.9	-2.8	-3.6	-3.7	-3.9
Of which:										
Direct investment	-13.4	-0.3	4.1	7.0	5.2	4.4	4.0	3.6	3.6	3.5
Portfolio investment	-25.4	14.1	60.2	18.0	0.2	-1.3	-1.1	-1.2	-1.4	-1.5
Other investment	47.9	-14.4	-56.4	-42.6	-19.4	-9.9	-5.4	-5.3	-5.1	-4.6
Change in reserve assets 1/	0.0	0.0	0.0	0.2	-1.0	-0.9	0.0	-0.4	-0.5	-1.0
Net errors and omissions	-3.3	4.3	-8.0	-4.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	22.1	14.3	6.2	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	22.1	14.3	6.2	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	8.1	4.0	2.2	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	14.0	10.3	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, 2008–12
(In billions of euros, unless otherwise indicated; end of period)

	Dec-08	Dec-09	Dec-10	Dec-11	Mar-12
Aggregate balance sheet of domestic market credit institutions					
Assets	801	798	742	634	610
Claims on Central Bank of Ireland	9	12	8	4	5
Claims on Irish resident Other MFIs	125	129	123	92	86
Claims on Irish resident non MFIs	374	363	357	338	337
General government	3	9	43	42	44
Private sector	371	354	314	296	293
Claims on non-residents	250	241	206	147	139
Other assets	44	54	47	52	44
Liabilities	801	798	742	634	610
Liabilities to Eurosystem 1/	45	58	95	72	75
Liabilities to Irish resident Other MFIs	126	131	132	99	92
Deposits of Irish resident non MFIs	170	180	161	144	145
General government	3	3	3	2	2
Private sector	167	176	157	141	142
Deposits of non-residents	271	229	137	98	91
Debt securities	100	98	64	52	44
Capital and reserves	41	53	71	91	93
Other liabilities (incl. Central Bank of Ireland)	48	50	83	78	70
Money and credit 2/					
Net foreign assets	-100	-75	-67	-39	…
Central Bank of Ireland 3/	-24	-37	-128	-101	…
Commercial banks	-77	-38	61	62	42
Net domestic assets	295	283	249	221	…
Public sector credit	3	10	43	43	44
Private sector credit	394	375	335	324	319
Other	-102	-102	-129	-145	…
Irish Resident Broad money (M3) 4/	194	208	182	182	185
Irish Resident Intermediate money (M2) 4/	176	188	173	167	167
Irish Resident Narrow money (M1)	78	100	97	90	89
	(percent of GDP)				
Public sector credit 5/	1.4	5.3	27.6	27.0	28.3
Private sector credit 5/	206.1	220.4	201.5	189.1	187.0
	(y-o-y percentage change)				
Broad money - Irish contribution to euro area M3 6/	-0.4	-6.6	-19.5	1.3	-3.6
Irish Public sector credit 6/ 7/	101.8	176.9	366.1	1.5	11.0
Irish Household and non-financial corporations credit 6/ /7	8.8	-1.4	-3.5	-2.9	-3.2
Memorandum items: 8/					
Credit to deposits (in percent) 9/	222.8	200.8	200.0	209.2	205.5
Deposits from Irish Private Sector (y-o-y percent change)	1.0	2.1	-9.8	-9.2	-5.6
Wholesale funding (billions of euros)	439.6	422.8	315.3	233.6	212.7
Deposits from MFIs	339.4	324.8	251.1	182.0	168.5
Debt securities	100.2	98.1	64.3	51.6	44.2
Wholesale funding (y-o-y percent change) 10/	14.9	0.1	-21.9	-27.1	-25.3
Wholesale funding (percent of assets) 10/	54.8	53.0	44.8	36.8	36.3

Sources: Central Bank or Ireland and staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Service Centre.
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	294	487	661	1,225	2,816	3,438	3,662	3,527	3,393	2,750	1,084	351	0
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349	-
Charges	-	109	294	487	661	690	643	542	417	283	148	41	13	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	12.2	13.9	13.4	12.5	10.6	8.4	6.2	4.1	2.2	0.7	0.2	-	-
In percent of exports of goods and services	-	7.6	11.2	12.6	12.0	11.1	9.3	7.3	5.4	3.6	1.9	0.6	0.2	-	-
Obligations to the Fund															
In percent of quota	-	9	23	39	53	97	224	273	291	280	270	219	86	28	0
In percent of GDP	-	0.1	0.2	0.3	0.5	0.8	1.8	2.1	2.1	2.0	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	1.6	1.8	1.9	1.7	1.6	1.2	0.5	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. The analysis has been extended for a longer time horizon reaching until 2021. At this stage, no allowance is made for potential privatization receipts, including the disposal of Irish Life, but at the same time, no allowance for potential additional costs of restructuring the credit union sector is made, which could initially fall in part on the budget.

General Government Debt

The baseline debt scenario contains higher cash buffers in the medium term, resulting in an upward shift of the debt path. The increase in the end-2011 gross debt by €5.2 billion (2.8 percent of GDP) vis-à-vis the 5th review is mainly the result of higher financing generating higher cash buffers, including the timing of EFSF funding and higher rollovers of commercial paper by NAMA. The authorities plan to maintain the higher cash buffer in the remainder of the program, and further augment it with part of the cash savings originating from the payment of the Promissory note through a bond placement in March 2012, while unwinding cash balances over time in the post-program period. As a result, the debt path has shifted upward but converges towards the previous path in the post-program period. Notwithstanding the higher precautionary cash buffer, the debt trajectory is still expected to remain below the initial program projection, which peaked at 125 percent of GDP.

The implementation of the medium-term fiscal consolidation plan continues to underpin the baseline scenario of a declining debt path after 2013. A primary surplus above the long-run debt stabilizing primary balance puts the debt on a downward trajectory in 2014. The reduction in debt levels is bolstered by some unwinding of cash balances in 2014-15. A review of the interest expenditure forecast in view of recent market developments slightly reduces the contribution of the interest/growth differential.

The outlook continues to be subject to significant risks:

Lower growth would lead to a rising path for debt. In a low growth scenario with real GDP growth stagnating in the medium term at the 0.5 percent level projected in 2012, the debt-to-GDP ratio would increase to 133 percent by 2017 and 151 percent by 2021. As the primary surplus would remain below the threshold required to stabilize debt owing to lower revenues in this scenario, an unsustainable debt dynamic would emerge.

Contingent liabilities remain a risk to the outlook. Ireland's contingent fiscal liabilities relate to the banks covered by the eligible liabilities guarantee (ELG) scheme, the IBRC, and NAMA. The extent of reported contingent liabilities remains largely unchanged from previous reviews, aside from the removal of the UK subsidiary of BoI from the coverage of

the ELG scheme.[19] Given last year's recapitalization under PCAR 2011 and notwithstanding the restructuring plans of PTSB, there is no expectation of contingent liabilities from the PCAR banks, but a further intensification of tensions in the euro area and renewed recession would pose risks of loan losses and capital needs. The IBRC meets capital adequacy requirements, and NAMA received assets at heavy discounts–averaging 62 percent–to protect its viability, yet the ultimate proceeds generated over the next decade from their asset disposals remain subject to property price and other risks. Using a standard 10 percent contingent liability shock to the current baseline in 2013, the debt ratio would suffer a parallel shift, peaking at 131 percent of GDP in 2013 and declining to 106 percent of GDP by 2021.

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

Senior NAMA bonds	19.2
Guarantees for Emergency Liquidity Assistance	9.6
Deposits Covered by Deposit Protection Scheme	52.4
Other Bank Liabilities covered by Eligible Liability Scheme	19.6
Total	**100.8**

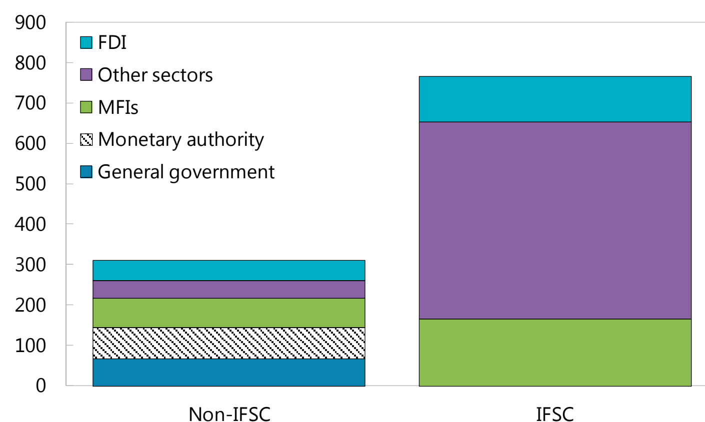
Source: Irish authorities and IMF staff calculations

Higher interest rates for new market funding would flatten the decline in the debt trajectory. At present, Ireland has a high share of fixed rate borrowing which shields it from the immediate effect of higher interest rates. A shock to the interest rate of 200 basis points, which is applied to short term debt and new market borrowing, would increase the effective interest rate by 140 basis points by 2021. As a result, debt would decline more gradually to 103 percent of GDP in 2021.

External Debt

Total external debt continues to decline, though from a very high level. At the end of 2011, total external debt fell to 1,075 percent of GDP, a modest decline from the end-2010 level of 1,105 percent of GDP. Most of the improvement occurred due to a fall in non-IFSC liabilities, where declining external debt of the Central Bank and the deleveraging MFIs more than offset the increase in debt of the General Government. At the same time, the IFSC sector (which holds around 70 percent of total debt but also has sizeable external assets) reduced its external exposure by 5 percentage points due to a decline in external debt of the MFIs. The overall net international investment position in 2011 increased by around

External Debt Composition, 2011
(Percent of 2011 GDP)



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

[19] See *Notice re Reduction of Participation in ELG scheme of BOI (UK) plc*.

10 percentage points to 102 percent of GDP, with increase in net external liabilities of the non-IFSC sector partially offset by improvement in the IFSC sector.

Despite a decline to 310 percent of GDP at end-2011 and projected fall in the medium-term, the non-IFSC debt is expected to remain elevated. By 2017, the external debt is expected to fall to 218 percent of GDP—a decline of 90 percentage points compared to the end-2011 outcome. However, substantial risks surround this forecast. A macro scenario at historical averages would fail to stabilize the debt-to-GDP ratio, resulting in debt of 382 percent of GDP in 2017. A permanent shock to growth would push the 2017 debt-to-GDP ratio to 250 percent of GDP, while a shock to current account flows would increase it to 238 percent. Given low share of FX denominated debt, the effects of currency depreciation would be moderate: a depreciation of 30 percent in 2013 would cause the external debt to peak at 318 percent of GDP in the same year, and subsequently decline to 215 percent in 2017.

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

	2005	2006	2007	2008	2009	2010	2011
Assets	1,029	1,128	1,195	1,269	1,506	1,691	1707
Direct investment abroad	54	51	54	67	125	167	160
Portfolio investment abroad	613	690	705	702	842	922	915
Other investment abroad	361	386	436	498	538	601	631
Reserve assets	0	0	0	0	1	1	1
Liabilities	1,053	1,133	1,215	1,344	1,610	1,782	1809
Direct investment to Ireland	85	67	73	75	107	119	120
Portfolio investment to Ireland	628	686	700	712	912	1,073	1105
Other investment to Ireland	341	380	442	558	591	591	584
Net investment position	-24	-5	-19	-76	-103	-91	-102
Direct investment, net	-31	-15	-19	-8	18	49	40
Portfolio investment, net	-15	4	5	-9	-70	-151	190
Other investment, net 1/	20	6	-5	-59	-52	10	47
Reserve assets	0	0	0	0	1	1	1

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

Annex I Table 1. Ireland: Public Sector Debt Sustainability Framework, 2007-2021 1/
(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Baseline: General government debt	24.8	44.2	65.2	92.5	108.2	117.6	121.2	119.7	116.2	113.6	110.4	106.9	103.0	99.4	95.8
Change in general government debt	0.1	19.4	20.9	27.3	15.7	9.4	3.7	-1.5	-3.5	-2.6	-3.2	-3.5	-3.8	-3.7	-3.5
Identified debt-creating flows (4+7+12)	-1.6	8.7	23.9	35.9	20.0	6.4	3.9	-0.1	-2.2	-2.7	-3.1	-3.4	-3.7	-3.6	-3.4
Primary deficit	-1.1	6.0	9.7	8.3	6.0	4.2	1.9	-0.8	-2.6	-2.9	-3.7	-4.3	-4.8	-4.7	-4.7
Revenue and grants	36.3	35.0	33.7	34.5	35.2	34.7	34.8	35.2	35.0	34.6	34.5	34.5	34.5	34.5	34.5
Primary (noninterest) expenditure 2/	35.1	40.9	43.4	42.8	41.2	38.9	36.7	34.3	32.4	31.7	30.9	30.2	29.7	29.8	29.9
Automatic debt dynamics 3/	-0.5	2.8	7.4	5.1	3.2	2.2	2.0	0.7	0.4	0.2	0.5	0.9	1.1	1.1	1.2
Contribution from interest rate/growth differential 4/	-0.5	2.8	7.4	5.1	3.2	2.2	2.0	0.7	0.4	0.2	0.5	0.9	1.1	1.1	1.2
Of which contribution from real interest rate	0.7	2.0	3.9	4.8	3.8	2.7	4.2	3.7	3.7	3.4	3.7	3.6	3.6	3.6	3.6
Of which contribution from real GDP growth	-1.2	0.8	3.5	0.3	-0.7	-0.6	-2.2	-3.0	-3.2	-3.2	-3.2	-2.6	-2.6	-2.5	-2.4
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	6.8	22.6	10.8	0.0	0.0	0.0	0.0	0.0	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	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	0.0	0.0	0.0	0.0
Other (bank recapitalization) 6/	0.0	0.0	6.8	22.6	10.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3) 7/	1.7	10.7	-3.0	-8.6	-4.2	3.0	-0.3	-1.4	-1.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
General government debt-to-revenue ratio	68.5	126.5	193.1	267.8	307.6	338.7	348.7	340.3	331.7	327.9	319.6	309.5	298.4	287.7	277.4
Scenario with key variables at their historical averages 9/						117.6	120.5	122.3	124.2	127.5	130.7	133.9	137.2	140.5	143.9
Scenario with no policy change (constant primary balance) in 2012-2021						117.6	123.5	127.1	130.4	135.0	139.7	145.0	150.5	156.3	162.3
Key Macroeconomic and Fiscal Assumptions Underlying Baseline															
Real GDP growth (in percent)	5.2	-3.0	-7.0	-0.4	0.7	0.5	1.9	2.6	2.8	2.9	2.9	2.5	2.5	2.5	2.5
Average nominal interest rate on public debt (in percent) 10/	4.5	5.3	4.1	4.7	3.7	3.8	4.9	4.8	4.9	4.7	5.1	5.0	5.2	5.3	5.4
Average real interest rate (nominal rate minus change in GDP deflator, in per	3.2	7.6	8.2	7.1	4.2	2.6	3.7	3.2	3.2	3.1	3.4	3.4	3.6	3.7	3.8
Nominal appreciation (increase in US dollar value of local currency, in percen	7.4	0.0	-5.4	-5.1	-0.3	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.3	-2.3	-4.1	-2.4	-0.4	1.2	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Growth of real primary spending (deflated by GDP deflator, in percent) 2/	14.2	13.0	-1.4	-1.9	-3.1	-5.0	-3.9	-4.1	-3.0	0.8	0.2	0.3	0.8	2.8	2.7
Primary deficit 2/	-1.1	6.0	9.7	8.3	6.0	4.2	1.9	-0.8	-2.6	-2.9	-3.7	-4.3	-4.8	-4.7	-4.7

1/ General government gross debt. The projections include Fund and EU disbursements. Government-guaranteed NAMA bonds are excluded, based on Eurostat guidance. From 2018, no policy change is

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 $r - \pi(1+g)$ and the real growth contribution as -g.

5/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

6/ Total bank recapitalization costs, including funds provided by the National Pension Reserve Fund.

7/ For projections, this line includes exchange rate changes.

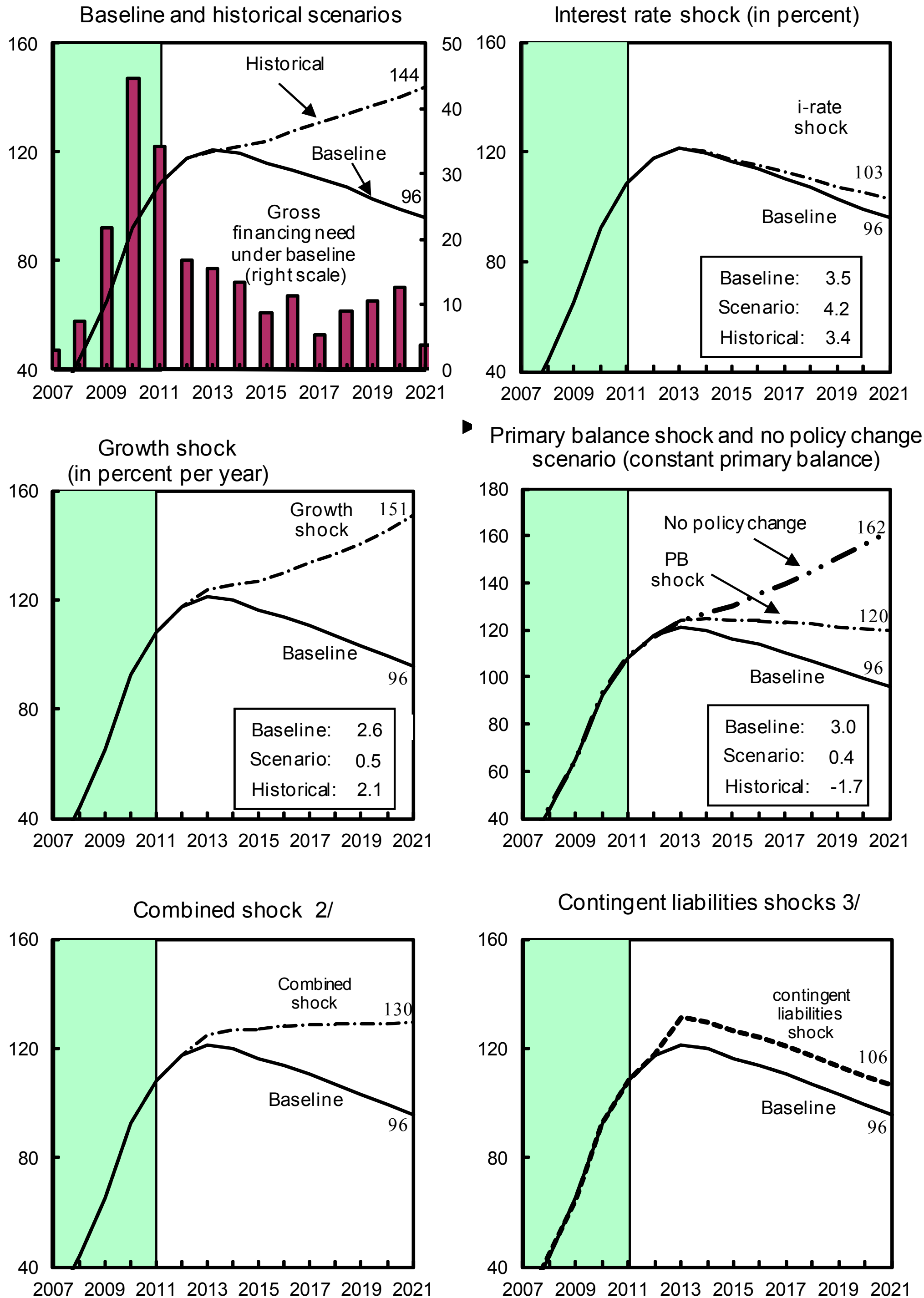
8/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt and short-term debt at end of previous period, and bank recapitalization costs.

9/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

10/ Derived as nominal interest expenditure divided by previous period debt stock.

11/ 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 I 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. The interest rate shock is a permanent 200 basis point shock applied to short-term debt and new market lending, the growth shock is a stagnation of growth at 0.5 percent per annum, and the primary balance shock is a one-half standard deviation shock. 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 the growth rate , interest rate, and primary balance.
3/ One-time 10 percent of GDP shock to contingent liabilities occur in 2013.

Annex I Table 2. Country: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2007	2008	2009	2010	2011	5-Year Historical Average	5-Year Standard Deviation	2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 6/
1 Baseline: External debt	**257.3**	**303.2**	**327.0**	**334.8**	**309.7**			**299.2**	**284.8**	**267.7**	**250.1**	**233.5**	**218.4**	**0.8**
2 Change in external debt	50.7	45.9	23.8	7.8	-25.0			-10.5	-14.4	-17.1	-17.7	-16.6	-15.1	
3 Identified external debt-creating flows (4+8+9)	-3.3	22.7	39.5	21.5	-3.1			-6.8	-10.8	-12.7	-13.4	-12.5	-11.3	
4 Current account deficit, excluding interest payments	1.0	-6.2	-5.6	-14.0	-18.7			-16.0	-14.7	-15.9	-17.1	-17.0	-16.2	
5 Deficit in balance of goods and services	-5.5	-5.0	-11.2	-14.3	-16.5			-17.1	-18.2	-19.2	-19.8	-20.2	-20.4	
6 Exports	68.6	71.5	78.3	87.4	91.5			92.2	94.3	95.2	96.3	97.4	98.6	
7 Imports	-63.1	-66.5	-67.1	-73.1	-75.0			-75.1	-76.1	-76.1	-76.5	-77.2	-78.2	
8 Net non-debt creating capital inflows (negative)	0.0	-0.6	-2.5	9.6	-4.8			-5.2	-4.4	-4.0	-3.6	-3.6	-3.5	
9 Automatic debt dynamics 1/	-4.4	29.5	47.6	25.8	20.4			14.4	8.3	7.1	7.3	8.0	8.4	
10 Contribution from nominal interest rate	8.3	15.3	11.0	16.2	21.3			16.0	13.9	14.1	14.6	14.9	14.8	
11 Contribution from real GDP growth	-10.0	8.1	23.8	1.4	-2.4			-1.6	-5.6	-7.0	-7.3	-6.8	-6.5	
12 Contribution from price and exchange rate changes 2/	-2.6	6.1	12.8	8.2	1.4			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	54.0	23.2	-15.7	-13.7	-21.9			-3.8	-3.6	-4.3	-4.3	-4.0	-3.7	
External debt-to-exports ratio (in percent)	375.2	423.9	417.7	383.0	338.4			324.3	302.2	281.1	259.8	239.7	221.5	
Gross external financing need (in billions of US dollars) 4/	17.7	57.3	393.9	355.1	333.3			327.6	324.5	320.8	317.0	315.5	314.9	
in percent of GDP	9.3	31.8	245.3	227.6	213.0			205.8	197.5	187.5	177.4	168.8	161.2	
Scenario with key variables at their historical averages 5/								299.2	313.4	328.7	345.2	362.9	382.0	29.2
Key Macroeconomic Assumptions Underlying Baseline														
Nominal external interest rate (in percent)	4.3	5.6	3.2	4.8	6.4	4.9	1.2	5.3	4.8	5.2	5.7	6.2	6.7	
Growth of exports (in percent)	8.4	-1.2	-2.3	8.5	5.0	3.7	5.2	2.6	5.4	5.2	5.6	5.8	5.9	
Growth of imports (in percent)	9.5	0.0	-10.0	5.8	3.0	1.6	7.4	1.9	4.5	4.1	5.0	5.6	5.9	
Current account balance, excluding interest payments	-1.0	6.2	5.6	14.0	18.7	8.7	7.7	16.0	14.7	15.9	17.1	17.0	16.2	
Net non-debt creating capital inflows	0.0	0.6	2.5	-9.6	4.8	-0.4	5.5	5.2	4.4	4.0	3.6	3.6	3.5	

1/ 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,
e = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ 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).

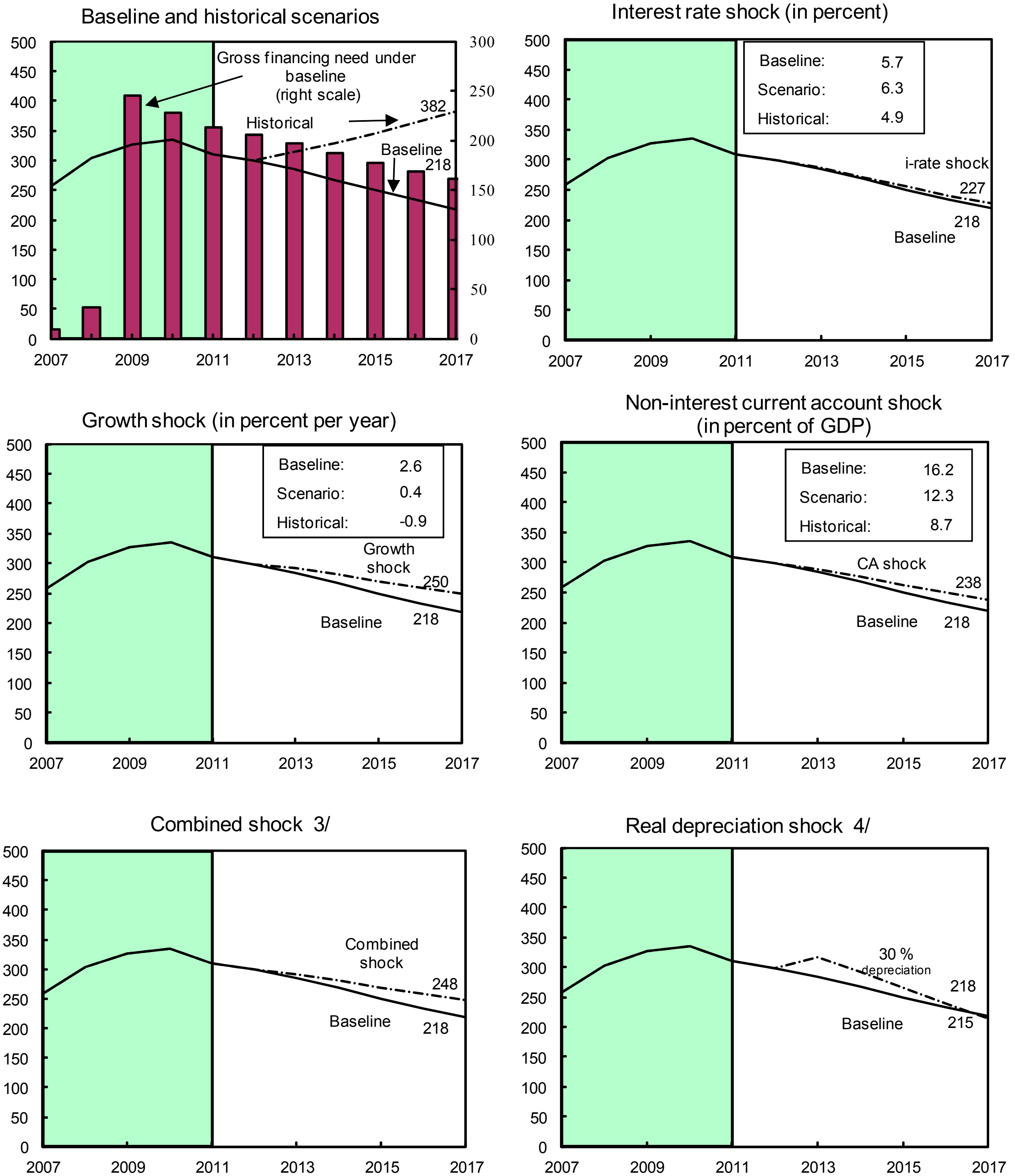
3/ For projection, line includes the impact of price and exchange rate changes.

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

5/ 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.

6/ 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 I Figure 2. Country: External Debt Sustainability: Bound Tests 1/ 2/
(External 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. 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 2010.

Annex II. Calculating a Structural Fiscal Balance for Ireland

Structural fiscal balances are a useful tool to assess the fiscal stance. By removing one-off revenues and expenditures (e.g. bank recapitalization costs), cyclical factors, and potentially other temporary effects from the headline fiscal balance, structural balances help judge the underlying fiscal position (see Bornhorst et al, 2011). The importance of structural balances has recently been elevated by European Stability Treaty, which requires that the structural fiscal deficit of an EU member state does not exceed 0.5 percent of GDP (in most cases) and establishes automatic correction mechanisms in case the threshold is breached.

However, the calculation of structural fiscal balances is a non-trivial exercise with no single method appropriate for all countries over all periods. The OECD, European Commission, IMF and other institutions, have developed a number of different definitions, ranging from the basic cyclically-adjusted balance concept to an augmented structural balance that includes corrections for one-offs, asset prices, commodity prices and output composition effects. Accordingly, there are a range of methods to calculate both the “gaps” that feed into these corrections and the associated budgetary elasticities.

In selecting an appropriate methodology for Ireland, staff was guided by the following criteria: simplicity, transparency and replicability; ability to capture Ireland-specific factors (the large asset price cycle and the sensitivity of the budget thereto); and reasonable consistency of results with actual pre- and post-crisis budgetary relaxation and consolidation, respectively. On this basis, the approach adopted is a measure of the structural balance that corrects Ireland’s headline fiscal indicators for four gaps: real output, equity and house price gaps which all affect revenues (disaggregated by tax type), and the unemployment gap, which affects unemployment benefits.

To implement the correction, staff first calculated the potential (or fundamental) levels of real output, house and equity prices, and unemployment. The *output gap* (deviation of actual from potential output) was calculated using a standard Hodrick-Prescott filter applied to the logarithm of real GDP with a smoothing parameter of 25. While the results appear reasonable, alternative approaches warrant analysis, such as to take account of the scale of the collapse in construction, Given the pre-crisis boom in housing and asset prices and their subsequent collapse, the *fundamental levels for house and equity prices* were set at the average of 2014–17 projected levels, with growth rates for 2012 onward taken from the baseline PCAR 2012 scenario. The unemployment gap was based on the OECD’s estimates of the *natural rate of unemployment*.

Budgetary elasticities of the various tax heads with respect to the four gaps were taken from recent work by the OECD (Girouard and Andre, 2005 and Price and Dang, 2011). Where the elasticity estimates for an individual tax type were not available with respect to the output gap, a unit elasticity is assumed. For expenditures, the standard assumption of zero elasticity for all expenditures, excluding unemployment benefits, is maintained. For unemployment benefits, a 0.2 percent of GDP cost per 0.1 percentage point of cyclical unemployment is assumed.

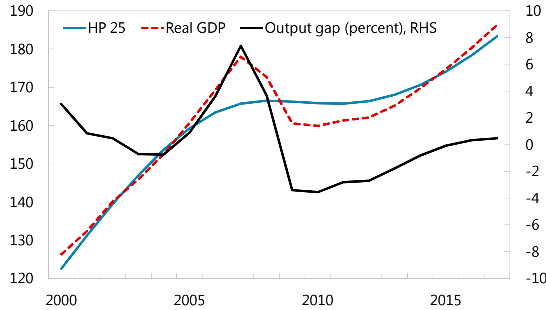
Ireland’s structural primary balance is found to have deteriorated between 2000 and 2008, especially after 2005. The calculated structural primary deficit peaked at -10.4 percent of potential GDP in 2008 after which it began to improve on the back of the major consolidation effort implemented (beginning in the second half of 2008). It is important to note that the improvement in the initial years appears small in relation to the reported amount

of consolidation measures. This reflects (i) the fact that a substantial chunk of measures taken initially needed to arrest fiscal pressures implied in the *no-policy change* scenario; and (ii) the fall in potential GDP and structural revenue, as well as the surge in structural unemployment during 2009–10. The projected path of the structural primary balance shows an improvement from -4.8 percent of potential GDP at end-2011 to +3.3 percent of potential GDP in 2015. This 8 percent of GDP turnaround is broadly consistent with the planned consolidation amounts set out in the *Medium-Term Fiscal Statement* of November 2011, once the full tax carryover effects of Budget 2011 measures are taken into account.

Annex II. Figure 1: Structural Fiscal Balance

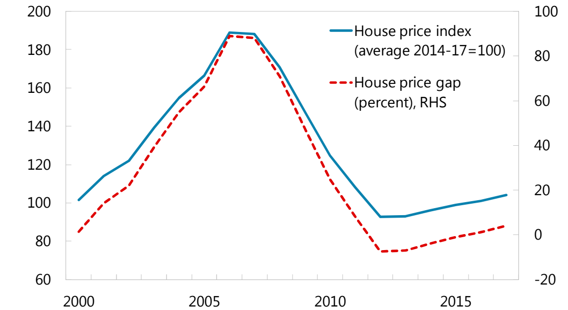
Real and Potential GDP

(Billions of euros)



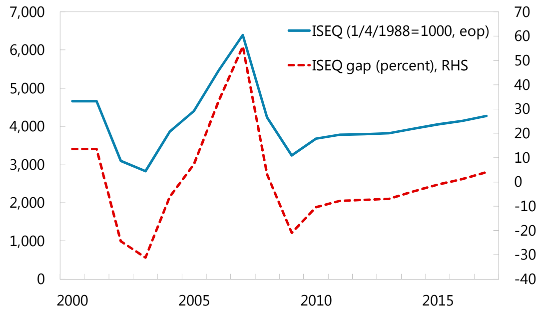
Sources: CSO; Haver Analytics; and IMF staff calculations and projections.

House Price Index and House Price Gap



Sources: Permanent TSB; ESRI; and IMF staff calculations and projections.

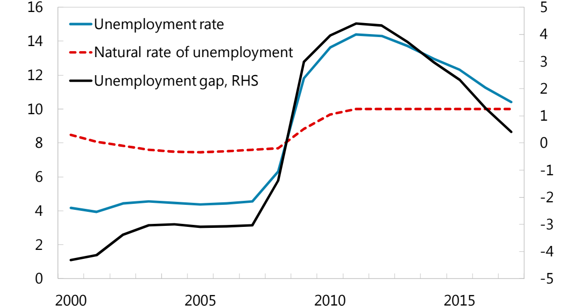
Stock Price Index and Asset Price Gap



Sources: Haver Analytics; and IMF staff calculations and projections .

Unemployment Rate and Unemployment Gap

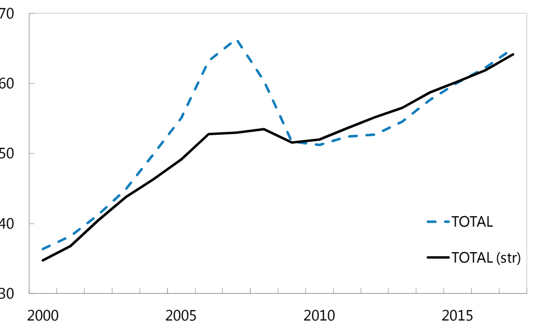
(Percent)



Sources: CSO; OECD; and IMF staff calculations and projections.

Actual and Structural Fiscal Revenues

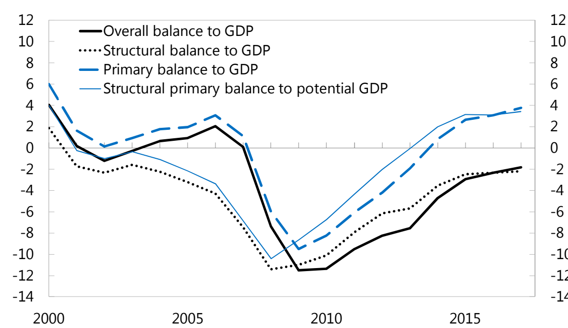
(Billions of euros)



Sources: CSOI; OECD; and IMF staff calculations.

Actual and Structural Fiscal Balance Measures

(In percent of actual or potential GDP)



Sources: CSOI; OECD; and IMF staff calculations.

Annex III. Fund Relations

(As of April 30, 2012)

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	14,835.49	1,179.67
Reserve position in Fund	258.57	20.56

III. **SDR Department:**	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	775.42	100.00
Holdings	640.42	82.59

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Extended Arrangements	13,836.43	1,100.22

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	13,836.43

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	2,073.90
Charges/Interest	263.45	360.42	439.72	456.14	408.95
Total	263.45	360.42	439.72	991.35	2,482.85

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

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

VIII. **Safeguards Assessment:**

The safeguards assessment of the Central Bank of Ireland (CBI) was finalized in March 2011. The assessment concluded that the CBI has a relatively strong safeguards framework in place, underpinned by its participation in the Eurosystem and good governance practices. Recommendations were made to address heightened risks emanating from the

financial crisis, notably in relation to ELA lending, and to strengthen the CBI's financial autonomy. The authorities are preparing draft amendments to clarify certain aspects of the Central Bank Act, taking into account best practices in the Eurosystem.

IX. **Article IV Consultations:**

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

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

Discussions were held in Dublin during April 17-26, 2012. The IMF team comprised Craig Beaumont (head), Jochen Andritzky, Johan Mathisen, and Emilia Jurzyk (all EUR); S.M. Ali Abbas (FAD); Luis Cortavarría and Joaquin Gutierrez Garcia (both MCM), and Ben Kelmanson (SPR). Teams from the EC and ECB as well as Mary O'Dea and Peter McGoldrick from the Executive Director's office 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.

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, 30 May 2012

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

Dear Ms. Lagarde:

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

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

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

3. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our programme supported by the Extended Arrangement and by the EU. Based on the strength of these

policies, and in light of our performance under the programme and our continued commitment, we request the completion of the sixth review under the Extended Arrangement. We also request that the sixth purchase in an amount equivalent to SDR 1.191 billion becomes available at the time of completion of the review.

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

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

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

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

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

B. Financial Sector Policies

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

Bank resilience, liquidity, and transparency

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

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

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

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

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

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

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

Advancing financial institution restructuring

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

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

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

Enhancing asset quality

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

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

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

C. Fiscal Policies

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

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

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

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

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

D. Structural Reforms

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

17. Additional initiatives to generate growth and jobs are under preparation. Recognising that the European Investment Bank is committed to providing finance for

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

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

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

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

21. Competitiveness reforms are proceeding as envisaged. We are increasing the resources of the Competition Authority to improve its capacity to tackle anti-competitive

behaviour. We have decided to transfer responsibility for water service provision from local authorities to a regulated water utility and roll out a domestic water metering program. These reforms will raise the efficiency of water usage while protecting poor households, creating employment, and placing the long-term funding of water services on a sustainable footing.

E. Programme Financing and Monitoring

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

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

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

Table 1. Programme Monitoring

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

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 2011–13

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

1/ Adjusted.
2/ Measured by the exchequer balance excluding interest payments. Cumulative from the start of the relevant calendar year.
3/ Applies on a continuous basis.
4/ For comparability, the 31-Mar-2012 outcomes for the cumulative Exchequer primary balance and the stock of central government net debt include the payment of the IBRC Promissory Note although settlement of this payment took place in early April through the issuing of a Government bond. The indicative 31-Mar-2013 Exchequer primary balance and Central Government net debt targets assume the IBRC Promissory Note payment is executed in March 2013 as it was in March 2011 – with a cash payment from the Exchequer.

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

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

Attachment III. Technical Memorandum of Understanding (TMU)

30 May 2012

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

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

I. Quantitative Performance Criteria And Indicative Targets

Floor on the Exchequer Primary Balance

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

[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.

4. The performance criteria are set on the Exchequer primary balance (the Exchequer balance excluding net debt interest payments in the service of the National Debt, but including debt issued to IBRC to settle Promissory Note payments).[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-June 2012 (performance criterion)	-9.0
End-September 2012 (performance criterion)	-10.6
End-December 2012 (indicative target)	-10.9
End-March 2013 (indicative target)	-6.5[3]

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:[4]

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

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

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

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

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

Ceiling on the Stock of Central Government Net Debt

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

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

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

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

Non-accumulation of External Payments Arrears by Central Government

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

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

II. Reporting Requirements

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

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

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

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

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

Attachment IV. Letter of Intent (European Commission)

Dublin, 30 May 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

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

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

IRELAND

MEMORANDUM OF UNDERSTANDING
ON
SPECIFIC ECONOMIC POLICY CONDITIONALITY

(FIFTH UPDATE)

25 JUNE 2012

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

The quarterly disbursement of financial assistance from the European EFSM[5] will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure (EDP), and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this updated MoU, which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are expected to be missed, additional action will be taken.

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

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

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

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

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

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

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

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

Financial sector reforms

Capitalisation

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

Asset Quality

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

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

Deleveraging

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

- The authorities will continue to monitor the deleveraging of non-core assets, including disposals and run-offs, in accordance with six-monthly targets in terms of nominal volumes. Fire sales of assets will be avoided. On the basis of submissions by the banks in accordance with the recently issued PLAR quarterly forecast balance sheet template, the authorities will, in consultation with the staff of the European Commission, the IMF and the ECB, modify the framework to emphasise the Net Stable Funding Ratio (NSFR) with a view to replacing the loan-to-deposit targets. NSFR goals for end-2013 will be consistent with the deleveraging objectives of previously set LDR targets and in particular with ensuring adequate progress towards Basel III requirements.

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

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

Reorganisation

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

- The authorities will ensure that PTSB will continue to work on its financial and operational restructuring, on the basis of the segregation of a core retail bank from certain legacy and non-performing assets. In this context, PTSB will prepare an updated restructuring plan that will detail the actions needed to ensure the bank’s long-term viability, in line with EU state aid rules. The plan should not be premised on there being additional capital injections from the State, and should safeguard financial stability.

Financial Supervision

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

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

Structural reforms

Utility sector

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

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

Competition

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

Efficient social support expenditure

The Department of Social Protection will:

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

State assets

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

Labour market reform

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

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

Financial sector reforms

Deleveraging

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

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

Reorganisation

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

- Authorities will publish the legislation to strengthen the credit unions legislative framework taking account of the comprehensive recommendations in the Commission on Credit Unions Report.

- As recommended by the interim and final reports of the Commission on Credit Unions, the legal provision that requires, under the terms of the Deposit Guarantee Scheme, credit unions to maintain an amount in the Deposit Protection account at the Central Bank will be commenced by regulations. The authorities will also adopt regulations underpinning the Resolution Fund Levy to recoup Exchequer resources provided for the resolution of troubled credit unions.

Financial Supervision

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

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

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

- AIB’s new management team will update its restructuring plan to enhance revenue, right-size costs, and restructure operations. This plan will be submitted to the European Commission.

Structural reforms

Personal debt regime

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

State assets

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

Efficient social support expenditure

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

Structural fiscal reforms

Fiscal framework

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

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

Fiscal consolidation

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

[7] Inclusive of carryover from 2012.

  - A broadening of personal income tax base.
  - A value-based property tax.
  - A restructuring of motor taxation.
  - A reduction in general tax expenditures.
  - An increase in excise duty and other indirect taxes.
- 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 to the requirements to achieve the agreed fiscal targets, the Government may, in consultation with the staff of the European Commission, the IMF and the ECB, substitute one or more of the above measures with others of equally good quality based on the options identified in the Comprehensive Review of Expenditure (CRE).

Financial sector reforms

Capital assessment

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

Deleveraging

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

Reorganisation

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

Financial Supervision

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

- The authorities will review the implementation of the Provisioning and Disclosure guidelines by the covered banks.

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

Structural reforms

Competition

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

Efficient social support expenditure

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

State assets

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

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

Financial sector reforms

Capitalisation

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

Deleveraging

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

Reorganisation

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

Financial supervision

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

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

Financial sector reforms

Capital assessment

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

Deleveraging

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

Reorganisation

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

Financial supervision

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

Structural reforms

State assets

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

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

Financial sector reforms

Capital assessment

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

Deleveraging

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

Reorganisation

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

Financial Supervision

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

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

Financial sector reforms

Deleveraging

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

Reorganisation

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

Financial Supervision

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

Annex 1. Provision of data

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

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

INTERNATIONAL MONETARY FUND

IRELAND

Sixth Review Under the Extended Arrangement—Supplementary Information

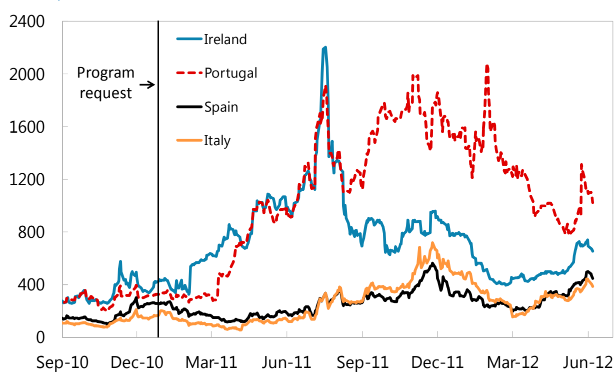
Prepared by the European Department
(In consultation with other departments)

Approved by Ajai Chopra and Martin Mühleisen

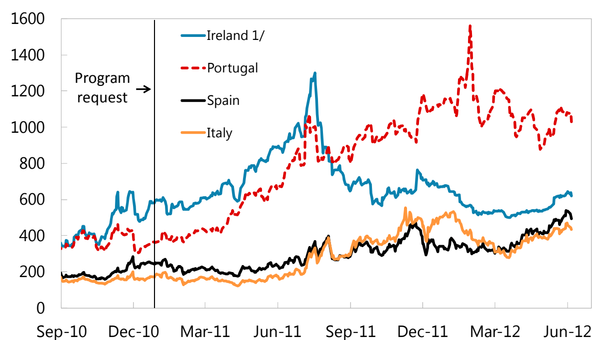
June 7, 2012

1. **This supplement provides an update on the outcome of the recent referendum in Ireland and on financial and economic developments since the issuance of the staff report on May 30, 2012 (EBS/12/72).** The additional information does not change the thrust of the staff appraisal.

2. **Ireland's referendum on May 31, 2012 supported amending Ireland's constitution to allow ratification of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.** A total of 60.3 percent of votes cast were in favor of the constitutional amendment, with turnout of 51 percent of the electorate. Ratification of the Treaty ensures eligibility for potential future support from the European Stability Mechanism. Although there was a decline in 2-year bond spreads of 85 basis points in the following days, this coincided with modest general easing of financial tensions in the euro area, and the nine-year bond yield is little changed at close to 7.4 percent.



Sources: Bloomberg; and IMF staff calculations.



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

3. **The May exchequer returns suggest fiscal performance remains in line with the budgetary profile during the first five months of 2012**. The cumulative exchequer primary deficit at end-May, including the payment on the promissory note via bond issuance to the IBRC, was €6.4 billion (4 percent of GDP), 0.1 percent of GDP under the authorities' profile,

and 1.3 percentage points of GDP narrower than the deficit for the same period in 2011. Adjusting for bank-related income of 0.6 percent of GDP that was received a month earlier this year, the improvement is ¾ percent of GDP from the same period in 2011. Importantly, 40 percent of the full-year tax revenue target has now been collected, with income tax, VAT and corporation tax continuing to over perform modestly. The expenditure overrun seen in earlier months has also moderated, and now amounts to less than 0.1 percent of GDP.

4. **Recent real sector indicators appear consistent with the assessment of the staff report, but unemployment rose to new highs**. Employment gains registered in the last quarter of 2011 were partly reversed in the first quarter of 2012, and the unemployment rate rose to 14.8 percent, the highest level since 1994. Nonetheless, consumer sentiment continued to recover in April, although it remains low by historical standards. Exports of goods were almost flat in the first quarter, but the PMI index of new export orders remains above 50, and industrial production rose by 2.8 percent y/y in April, with growth recorded in both the modern and the traditional sectors. Consumer prices remained stable for the second consecutive month in May, bringing the annual HICP inflation rate to 1.9 percent y/y.

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/222
FOR IMMEDIATE RELEASE
June 13, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Sixth Review Under the Extended Arrangement with Ireland and Approves €1.4 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Ireland's performance under an economic program supported by a three-year, SDR 19.47 billion (about €23.5 billion; or about US$29.5 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 1.191 billion (about €1.4 billion; or about US$1.8 billion), bringing total disbursements under the EFF to SDR 15.027 billion (about €18.2 billion; or about US$22.8 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$106.5 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.

Ireland's policy implementation has continued to be steadfast and ownership of the program remains strong despite the considerable challenges the country is facing. However, as financial tensions in the euro area have resurfaced, Irish sovereign bond spreads have risen in recent months to exceed the level at the outset of the EU-IMF program. Slowing growth in trading partners is expected to dampen Ireland's export-led recovery, with real GDP projected to expand by ½ percent in 2012, down from 0.7 percent in 2011. At the same time, Ireland's progress in strengthening the financial system is reflected in the stability of overall level of deposits in the banking system.

After achieving the substantial fiscal consolidation targeted for 2011 with a margin, budget outturns for the first five months of 2012 again were in line with expectations. At the end of May, the cumulative primary deficit was 1.3 percentage points of GDP narrower than in the same period last year, and just below the authorities' profile for the year. Income tax, VAT and corporation tax continued to over perform, and some 40 percent of the full-year tax revenue target has now been collected. The expenditure overrun seen in earlier months has also moderated, to less than 0.1 percent of GDP.

Financial sector and structural reforms are advancing as envisaged. The authorities remain committed to achieving the 2012 fiscal targets and are developing a package of specific measures to further underpin the 2013–15 consolidation. In the financial sector, the authorities are deepening reform efforts to improve the quality of bank assets and facilitate resolution of household debt distress, and are developing a framework to strengthen the credit union sector. Importantly, the authorities are reviewing and adapting their strategy for growth and job creation in view of the challenging external environment.

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

"Approaching the half-way mark of its EU/IMF-supported program, Ireland has once more met all program targets. This attests to the Irish authorities' steadfast policy implementation in the face of headwinds from renewed financial stress in the euro area, which has led to a significant rise in Ireland's bond spreads.

"The budget remained on track through the first five months of the year for the annual deficit target of 8.6 percent of GDP, and the authorities' commitment to keep spending within the budget envelope and maintain sound public finances is welcome. If real GDP growth expected for 2012 were to weaken notably, accommodating a potential revenue shortfall would help protect the fragile recovery. The authorities are working to specify by Budget 2013 the measures to underpin the 2013 15 fiscal consolidation, which is important to help Ireland regain market access, as is the further implementation of the authorities' fiscal institutional reform plans.

"Bolstering growth and job creation is central to the success of the program. Enhanced resources are needed for engaging actively with jobseekers, and care should be taken to avoid unemployment traps in the social payments structure. Reinvesting a portion of state asset disposals will support job creation, but stronger competition enforcement is needed to harness the full growth benefits of these divestments.

"Financial sector reforms must lay the basis for banks to make sound loans in support of the recovery, including by improving their capacity to manage distressed assets. Early preparation of the new personal insolvency framework is needed to address household debt distress while protecting debt service discipline. Restructuring of PTSB will need to be carefully implemented to ensure it is put on a sound footing, including through timely separation of certain legacy and nonperforming assets.

"Ireland's sustained and forceful fiscal consolidation and policy reforms would be most effective in regaining market access and promoting recovery as part of broader European efforts to stabilize financial markets and strengthen growth in the euro area."