INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/163

IRELAND

TENTH REVIEW UNDER THE EXTENDED ARRANGEMENT

June 2013

The following documents have been released and are included in this package:

- **Staff Report** prepared by a staff team of the IMF, following discussions that ended on May 2, 2013, 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 June 3, 2013. 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.
- **Staff Supplement** of June 11, 2013 updating information on recent developments.
- **Press Release** on the Executive Board discussion.

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
Washington, D.C.

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IRELAND

TENTH REVIEW UNDER THE EXTENDED ARRANGEMENT

June 3, 2013

KEY ISSUES

Although economic and financial market developments remain positive, balance sheet challenges continue to pose risks to growth recovery and debt sustainability. Market access is deepening, fiscal results are broadly on track with Budget 2013, and recent indicators support the projection for a third successive year of low but positive growth. The medium-term growth outlook is uncertain, however, owing to high public and private debts, depressed bank lending to households and SMEs, and still-insufficient progress in resolving nonperforming loans, together with the specter of persistent high long-term unemployment.

This review focused on policies to support Ireland's durable return to market financing, with an emphasis on facilitating growth, including by tackling lingering financial sector issues. Maintaining Ireland's strong budget performance and further developing the medium-term framework for fiscal consolidation are essential. Ensuring that a revival of domestic demand is lasting hinges on rebuilding banks' capacity to lend, which requires a return to profitability and concrete progress on enhancing their asset quality. This banking agenda dovetails into preparations for entry into the European banking union, which provides an organizing framework for the necessary diagnostics and remedies, including a pan-European stress test in the first half of next year. In the interim, the authorities will undertake ambitious and well-sequenced preparations, including a thorough asset quality review by November 2013—and preliminary results by end-October 2013—with banks taking appropriate remedial actions ahead of the stress test.

Ireland still has much work ahead and a durable return to market financing would also benefit substantially from timely and forceful delivery on European pledges. The recently approved extension of European loan maturities supports Ireland's transition toward higher rollover volumes, yet debt sustainability remains vulnerable if low growth were to persist as a result of delayed external recovery or impediments to domestic demand revival. Profitability challenges in Ireland's financial sector undermine its capacity to support economic recovery and low growth could crystallize further contingent liabilities. The ESM direct bank recapitalization instrument remains well suited to tackling this bank-sovereign loop and making the prospects for Ireland's recovery and debt sustainability more robust.

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ACRONYMS

AIB	Allied Irish Banks
BoI	Bank of Ireland
CBI	Central Bank of Ireland
CCMA	Code of Conduct on Mortgage Arrears
CoCo	Contingent convertible capital
CRD IV	Capital Requirements Directive IV
CT1	Core tier 1
DOEHLG	Department of Environment, Community, and Local Government
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilization Mechanism
ELA	Emergency Liquidity Assistance
ELG	Eligible Liabilities Guarantee
ESA	European System of Accounts
ESM	European Stability Mechanism
ESRI	Economic and Social Research Institute
ETB	Education and Training Board
HCI	Harmonized Competitiveness Indicator
HICP	Harmonized index of consumer prices
IBEC	Irish Business and Employers Confederation
IBRC	Irish Bank Resolution Corporation
IFAC	Irish Fiscal Advisory Council
IFSC	International Financial Services Centre
IIP	International Investment Position
ISEQ	Irish Stock Exchange overall index
MART	Mortgage arrears resolution targets
MFI	Monetary and financial institution
MNE	Multi national enterprise
NAMA	National Asset Management Agency
NFC	Nonfinancial corporation
NPL	Nonperforming loan
NPRF	National Pension Reserve Fund
NTMA	National Treasury Management Agency
PCAR	Prudential Capital Assessment Review
PLAR	Prudential Liquidity Assessment Review
PMI	Purchasing Managers Index
PRSI	Pay Related Social Insurance
PTSB	Permanent tsb
RWA	Risk weighted assets
SPU	Stability Programme Update
SSM	Single Supervisory Mechanism

OVERVIEW

1. **The review focused on supporting Ireland's progress toward a durable return to market financing**. Market conditions for Irish debt have continued to improve, benefitting from the recent approval of a maturity extension on the European Financial Stability Facility/European Financial Stabilization Mechanism (EFSF/EFSM) loans. Minimizing the risk of a return to reliance on official financing hinges on making debt sustainability more robust by strengthening economic recovery prospects and maintaining steady fiscal consolidation. Accordingly, discussions for this review centered on three broad policy planks:

- ***Financial sector***. *Ensure banks can support sustained recovery through timely action on lingering financial sector issues, including strong preparations for entry into the Single Supervisory Mechanism (SSM) and resolving nonperforming loans (NPLs):*

  - *Banking union:* Dealing with banks' remaining profitability issues and any further balance sheet repair needs is essential to have healthy banks that can rebuild their lending and thereby help sustain stronger economic growth in the medium term. The launch of the SSM next year provides an organizing framework for the necessary diagnostics and remedies. The timetable for the European bank stress tests, previously expected to be in 2013, is being adjusted to be in accord with the July 2014 inception of the SSM. To ensure Ireland has a single diagnostic exercise consistent with SSM requirements, the mission agreed that the schedule for Irish stress tests be aligned with the European process, although this results in a delay in getting a clearer picture on banks' health. In the interim the authorities will therefore undertake careful preparations, reviewing a number of issues, including banks' provisioning, profitability, and risk weighted assets, and addressing these as needed.

  - *Enhancing asset quality:* Following the establishment in March of initial targets for the durable resolution of impaired residential mortgages, discussions spanned further development of this target framework and of separate targets for SME loan resolution.

- ***Fiscal***. *Steady progress in fiscal consolidation should be maintained.* Following two years of meeting program targets with a margin, fiscal buffers appear smaller this year, underscoring the need for continued careful implementation of Budget 2013. The further development of Ireland's medium-term fiscal framework was also discussed.

- ***Structural***. *Determined policy implementation is needed to support growth and contain unemployment.* The mission discussed the policy agenda to support job creation, including in the SME sector, and tackle long-term unemployment.

RECENT DEVELOPMENTS

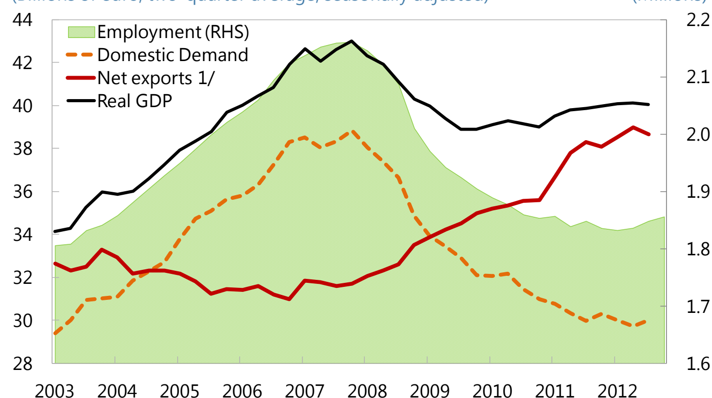
2. **Despite pervasive balance sheet challenges, recent macro indicators show positive signs**. Households boosted saving to 12½ percent of disposable income in 2012, helping reduce their gross debt to a still high 202 percent of disposable income. The breadth of financial distress is

evident in 15.8 percent of mortgages on primary dwellings being over 90 days in arrears, and 26.9 percent of buy-to-let mortgages. The SME sector is particularly hurt by domestic demand weakness with impaired loans rising to 25 percent of SME and corporate loans. Banks have largely responded with a combination of forbearance and rejections of SME loan applications—the latter 2nd highest in the EU. Banks remained loss making in 2012 even before provisioning, and are only beginning to resolve NPLs, now reported at a quarter of gross loans. Nonetheless, after 4½ years of decline, signs of a bottoming in domestic demand and employment appeared in H2 2012:

- ***The economy grew 0.9 percent y/y in 2012, with a notably slower contraction in domestic demand***. Growth continued to be export-led, with robust recorded services exports outweighing a fall in goods exports due in part to the effects of the "patent cliff" in the pharmaceutical industry (Box 1). Domestic demand surprised on the upside, declining by 1½ percent y/y compared with a 3¾ percent fall in 2011. Private consumption declined 0.9 percent y/y, but firmed in H2 2012, aided by a 2½ percent y/y rise in household disposable income, the first rise since 2008. After falling by more than half, real fixed investment picked up by 1.2 percent y/y, largely due to aircraft purchases early in the year, though core non-aircraft investment rose in the second half.

Real GDP Components and Employment

(Billions of euro, two-quarter average, seasonally adjusted) (Millions)

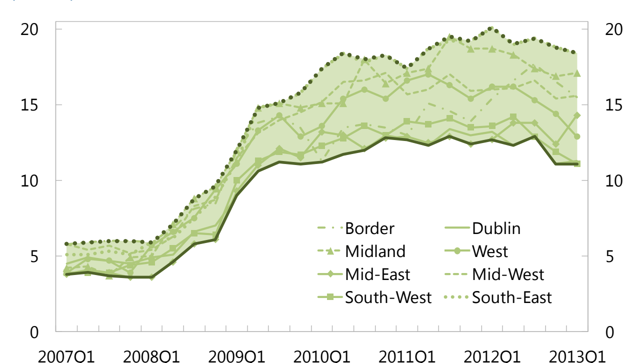


Sources: CSO; Haver Analytics; and IMF Staff calculations.
1/Adjusted uniformly upward by €28 billion to fit on the left scale.

- ***The labor market appears to be stabilizing***. The unemployment rate eased to 13.7 percent in Q1 2013, from 15 percent a year earlier, with employment growing 1.1 percent y/y in Q1 2013 as private sector employment gains outweighed job shedding in the public sector. Nonetheless, a shrinking labor force was also a significant contributor to lower unemployment and most of the new jobs were part-time for employees seeking full-time work. Employment growth was concentrated in selected sectors such as professional and technical services, agriculture, accommodation, and health and social services. Significant differences in vacancy rates and wage growth across sectors point to a need to facilitate cross-sector mobility. Regional disparities persisted, with the difference in unemployment rates between Dublin and the South-East at around 7¼ percentage points. Moreover, if discouraged workers and involuntary part-time workers were included, overall unemployment would have remained above 24 percent.

Unemployment Rates by Region

(Percent)



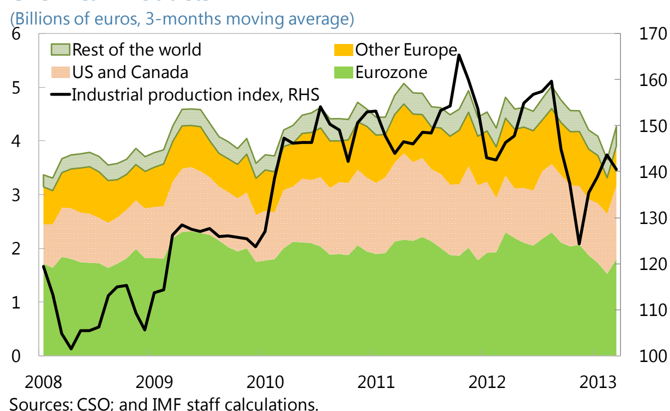
Source: CSO.

Box 1. Impact of the Patent Cliff on the Irish Economy

Production and exports of Irish chemical products fell sharply in H2 2012, likely reflecting a "patent cliff" in the pharmaceutical industry. On average, industrial production of chemicals (most of which are pharmaceutical products) has fallen by around 10 percent since August 2012, with chemicals exports declining by a similar amount. This drop has been attributed mostly to the effect of a wave of patent expirations for several blockbuster drugs currently manufactured in Ireland. Anecdotal evidence suggests that the blue chip pharmaceutical companies based in Ireland are unlikely to continue production of drugs that go off patent on the same scale, so when patents expire production and exports tend to fall.

Exports (by Destination) and Industrial Production of Chemical Products

(Billions of euros, 3-months moving average)



Sources: CSO; and IMF staff calculations.

Despite the large size of Irish pharmaceutical exports, the impact of this cliff on GDP and employment will likely be modest. At present, chemicals constitute around 60 percent of merchandise exports, an increase of almost 15 percentage points since 2005. These exports have proven to be a-cyclical, growing on average by around 7 percent annually even during the recession years of 2008–10. However, as indicated by a Report by Davy Investment Brokers, the impact on GDP may be more muted because:

Chemicals (percent of total) 1/	
Goods exports	59.7
Gross value added (constant prices)	10.8
Employment	1.3

1/ Data refers to 2012, except for gross value added, which is available for 2011.

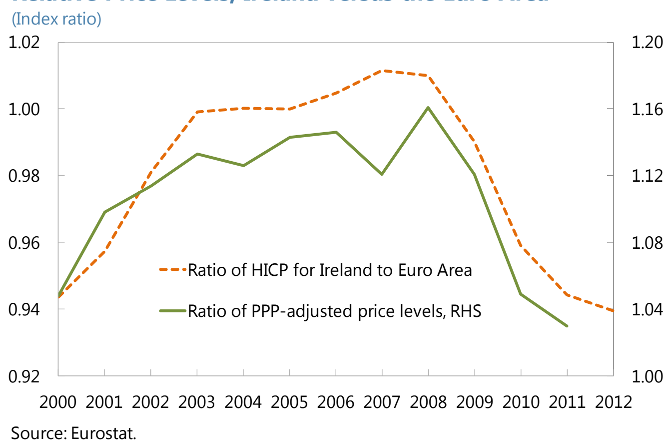
Source: CSO

- Firms manufacturing pharmaceutical products in Ireland are typically foreign subsidiaries, so their exports are associated with significant royalty payments that are recorded in the Balance of Payments as imports of services. Hence, declining exports by the sector tend to be accompanied by smaller services imports, dampening the impact on GDP. A similar effect arises from a reduction in profit outflows from the sector.

- Due to the high (services) import content, value added of the chemical sector—around 10 percent of total in 2011—is much smaller than its share in total exports. Therefore, the impact on GDP of the patent cliff is likely to be more muted than the impact on exports.

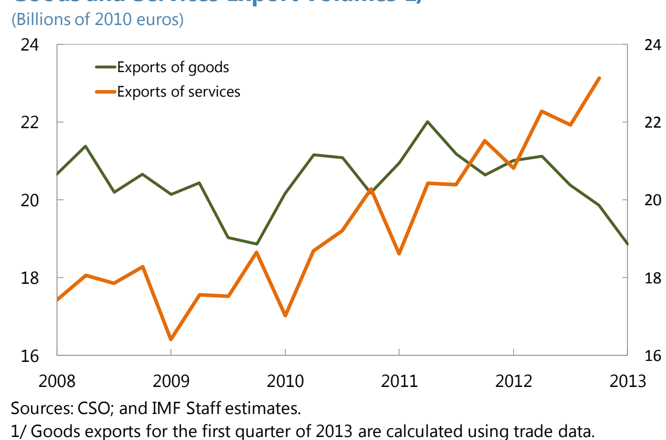
- Given the very specialized nature of the production process and its capital intensity, employment in the chemical sector is also relatively small: the Irish Pharmaceutical Healthcare Association estimates that around 24,500 people work in the pharmaceutical sector, which is around 1¼ percent of employment. Hence the effects of production declines on employment and disposable incomes are likely to be small.

- ***Inflation continues to abate***. HICP inflation declined to 1.1 percent y/y in Q1 2013, down from an average of 1.9 percent y/y in 2012, primarily due to slowing energy price increases and also an easing in core inflation. Relative to the euro area, consumer prices have fallen to their level of early 2000.



Source: Eurostat.

- ***The current account surplus rose to almost 5 percent of GDP, but to a significant extent this reflects firms domiciling in Ireland***. Strong services exports, especially of computer and business services, improved the services balance by almost 3 percent of GDP from 2011, although these recorded gains partly reflect large MNEs booking their international sales in Ireland. Higher than expected income inflows helped the current account balance rise to 4.9 percent of GDP. Yet recent research suggests that firms redomiciling in Ireland played a significant role in these income inflows, boosting both the current account and GNP (Box 2). Net FDI inflows remained strong at 5 percent of GDP in 2012.



Sources: CSO; and IMF Staff estimates.
1/ Goods exports for the first quarter of 2013 are calculated using trade data.

3. **Short-term indicators are mixed, with signs of continued merchandise export weakness**. Core retail sales eased notably in the first four months of 2013 from the high levels at end 2012, though some of the weakness could be weather related, and sales are essentially flat on a year earlier. The capacity utilization indicator rose above 50 for the first time in 18 months, suggesting corporate investment could rise going forward, which is consistent with rising investment expectations among SMEs. However, the fall in goods exports accelerated in the first three months of the year, and industrial production only partly recovered from its sharp fall in September, which, taken with the PMI on new export orders falling below 50 in recent months and declining export expectations of SMEs, bodes poorly for 2013 merchandise export growth.

Source: Irish Small and Medium Enterprises Assosiation.

Box 2. "Redomiciled Firms"—Estimating Their Impact on Ireland's GNP and BOP

In recent years, an increasing number of firms appear to have relocated their headquarters to Ireland. Anecdotal evidence suggests that changes to the UK tax law in 2008 played a significant role, though the low Irish corporate tax rate may have attracted firms from other countries as well. The operations of these "redomiciled" firms differ significantly from other multinational enterprises (MNE) that for decades have been present in Ireland (the 2011 Annual Report of the Industrial Development Agency estimates that over 1000 MNEs operate in Ireland):

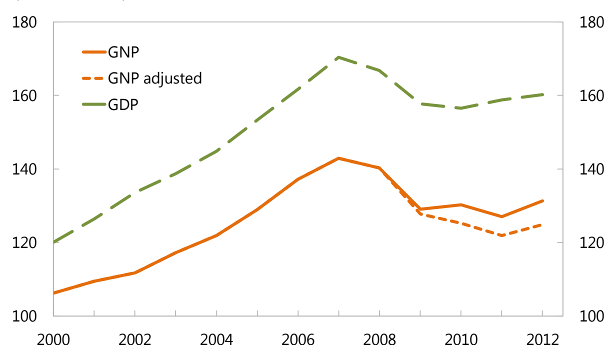
(i) *Redomiciled firms establish only their headquarters in Ireland to consolidate their profits for taxation at the Irish corporate rate*. By contrast, traditional MNEs invest in Ireland to produce goods and services, contributing to the economy through employment, exports, and taxes.

(ii) *Redomiciled firms are treated as Irish enterprises in the national accounts and BOP, in line with statistical standards.* Their large foreign profits are considered as income inflows, increasing the current account and GNP. But the corresponding outflows are only recorded when these firms pay out dividends to their foreign owners. Hence undistributed profits raise the official current account balance and GNP.

(iii) *Traditional multinationals have their profits attributed to their foreign owners*. Therefore, even if profits are not repatriated abroad, they are considered "reinvested earnings", and are deducted from the current account and GNP.

Recently, FitzGerald (2013) provided the first estimate of the impact of redomiciled enterprises on the national accounts and the BOP. His calculations show that undistributed profits accounted for 1.1 percent of GDP in 2009 and rose to 4.3 percent of GDP in 2012. With these earnings stripped out, adjusted GNP fell more than officially recorded in 2009–11 and also grew at a lower rate in 2012. This adjusted GNP path appears to be more consistent with other economic indicators, most notably domestic demand, which continued to fall in 2009–12 whereas official GNP rose 0.9 percent in 2010.

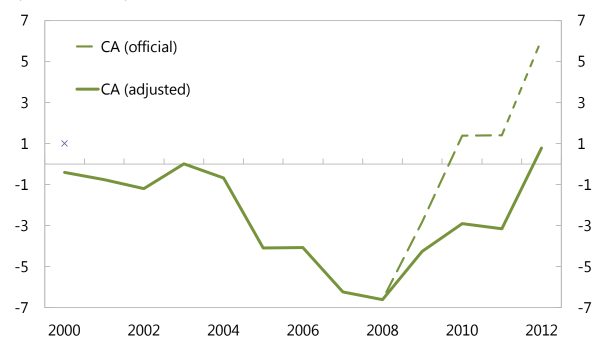
Gross Domestic Product and Gross National Product
(Billions of euro)



Sources: CSO; and FitzGerald (2013).

The adjusted current account balance shows a much smaller surplus in 2012. Adjusting the current account balance by excluding the estimate for undistributed profits of redomiciled companies results in a was 1.4 percent of GNP lower current account balance in 2009. But by 2012 the adjusted current account surplus is estimated at 0.8 percent of GNP, some 5.3 percentage points below the official figure.

Current Account Balance
(Percent of GNP)



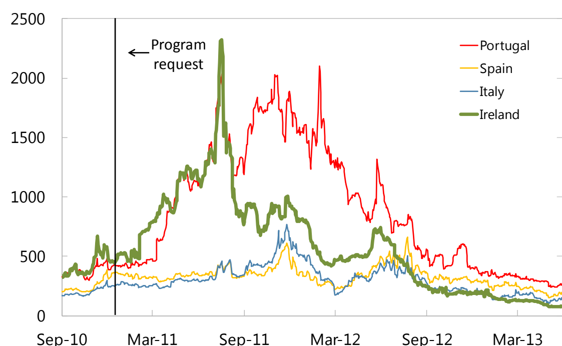
Sources: CSO; and FitzGerald (2013).

4. **Financial market developments have remained supportive, but house prices outside Dublin fell back and domestic credit is still contracting**:

- ***A benchmark bond issue attracted strong investor interest***. On March 13, in the first new Irish 10 year sovereign bond syndication in three years, the authorities raised €5 billion at a yield of 4.15 percent. Total bids amounted to almost €13 billion, from a geographically and institutionally diversified pool of almost 400 investors, with negligible uptake by hedge funds. Treasury bill issues have also been met with strong demand: with a bid-to-cover ratio around 4 for the regular monthly auction of 3-month bills on May 16 which had a yield of 13 basis points.

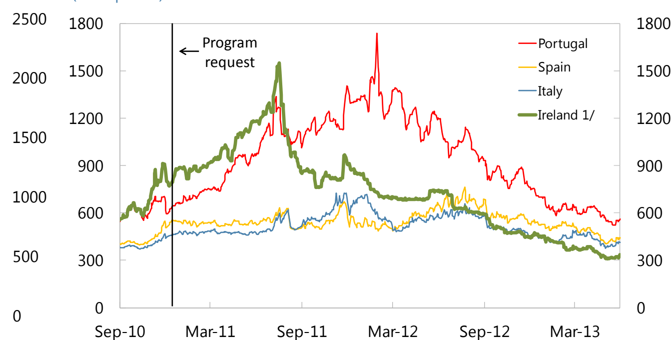
- ***Sovereign bond yields remained low***. Yields on the new 10-year Ireland sovereign issue have developed favorably in the post-auction market, recording a 27 basis points decline to 3.88 percent despite a relatively volatile market. These trends are consistent with broader developments in market sentiment towards peripheral countries' bond markets, with Portuguese and Spanish 10-year benchmark yields declining 27 and 44 basis points respectively. However, Moody's reaffirmed the negative outlook on its rating for Ireland, which remains one-notch into speculative grade, citing continuing negative spillover risks from the euro area.

Two-Year Sovereign Bond Yields
(Basis points)



Sources: Bloomberg; and IMF staff calculations.

Ten-Year Sovereign Bond Yields
(Basis points)

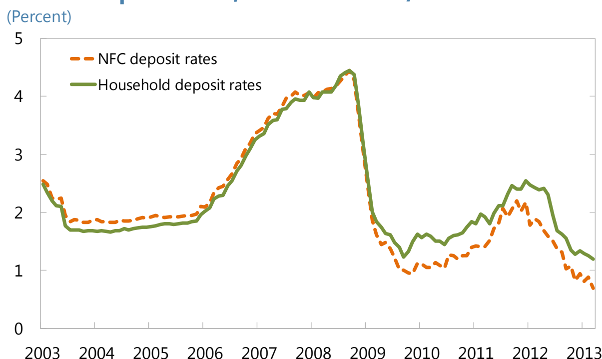


Sources: Bloomberg; and IMF staff calculations.
1/ Irish 8-year government bond yield used since 1/1/2013.

- ***Bank funding conditions have continued to improve***. Two days after the 10-year sovereign issue, Bank of Ireland (BoI) issued €500 million in 5-year covered bonds, at a yield of 2¾ percent, well below the 3⅛ percent pricing on a similar 3 year issue four months earlier. On May 29, BoI marked an important milestone by issuing €500 million of 3-year senior unsecured bonds at a yield of 2.7 percent. Deposit rates have trended down, improving intermediation margins, with new deposits from households attracting an average rate of 1.2 percent and from corporations 0.7 percent. Private sector deposits were flat in April after rising 2.3 percent y/y in March as the end March phasing out of the Eligible Liabilities Guarantee (ELG) scheme went smoothly.[1]

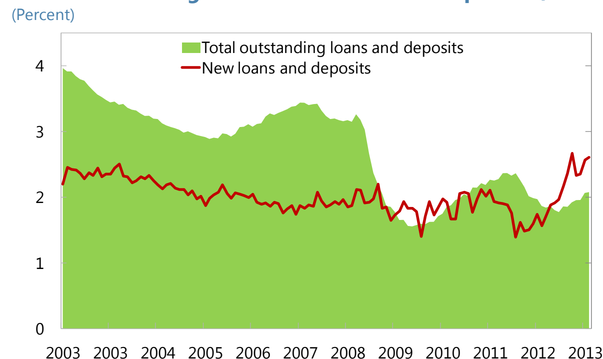
[1] The March figure is corrected for the impact of the liquidation of the Irish Bank Resolution Corporation.

Median Deposit Rates, New Business 1/
(Percent)



Source: Central Bank of Ireland.
1/Data relate to new business conducted through resident offices of a sample of banks and include IBRC. Refers to median deposit rates (excludes overnight). Last observation February 2013.

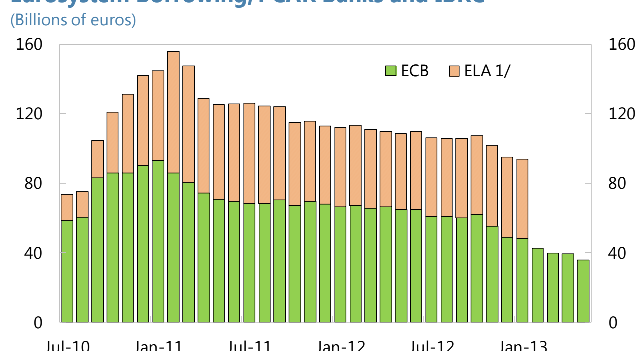
Interest Rate Margins Between Loans and Deposits 1/
(Percent)



Source: Central Bank of Ireland.
1/ Weighted average loan rate minus weighted average deposit rate.

- ***ECB borrowing has fallen steadily***. The PCAR banks have generated total deleveraging of €63.7 billion by February 2013, helping bring their ECB refinancing down to €35.6 billion in May 2013 from the January 2011 peak of €93 billion.[2] The ECB's March 21 decision to extend for two years the own use bank bond program augments collateral buffers at a time when secured bonds remain the primary channel available for wholesale funding.

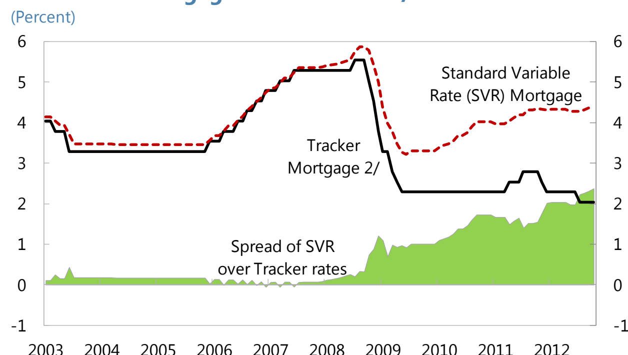
Eurosystem Borrowing, PCAR Banks and IBRC
(Billions of euros)



Sources: Irish authorities; Haver Analytics; and IMF staff calculations.
1/ CBI other assets through Q1 2012; CBI other claims on euro area credit institutions thereafter. ELA was eliminated in February 2013 as a result of the liquidation of IBRC.

- ***Bank lending continued to contract***. Total credit to nonfinancial corporations declined 5.1 percent y/y in April while loans to Irish households declined by 4.1 percent y/y, with loans for house purchase down 2 percent y/y. The expiry of mortgage interest tax relief at the end of 2012 was reflected in a residential mortgage loan draw downs falling 26 percent y/y in the first quarter of 2013, but the April 2013 Bank Lending Survey nonetheless shows a small easing in credit standards for households and an increase in demand for loans for house purchase, consistent with an 8.7 percent y/y increase in loan approvals in April. Lending rates on tracker mortgages eased further following the ECB rate cut on May 2 but new lending is mostly on a Standard Variable Rate basis, where rates have been rising since 2009 as banks seek to restore profitability.

Residential Mortgage Interest Rates 1/
(Percent)



Source: Central Bank of Ireland.
1/ Average rate on outstanding loans.
2/Priced at margin over the ECB main refinancing rate.

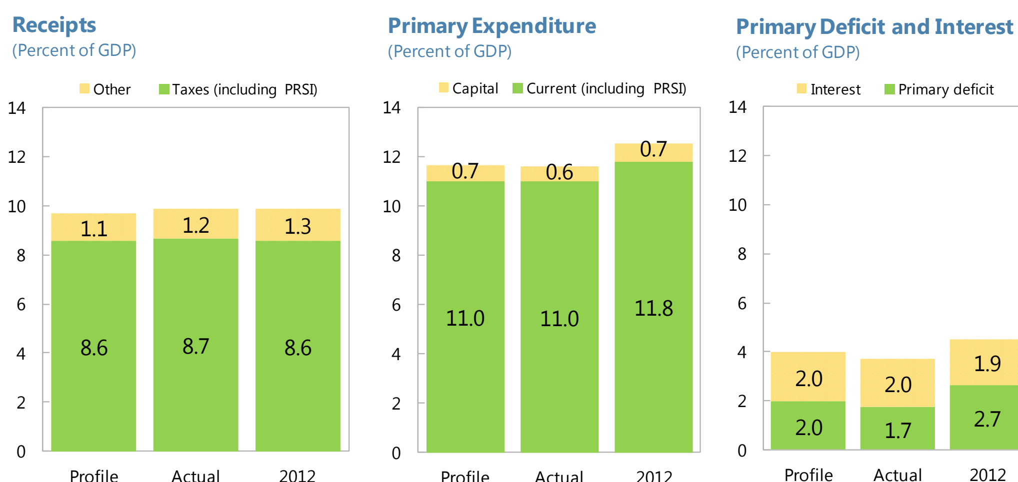
[2] The "PCAR banks" are those covered by the 2011 Prudential Capital Assessment Review (PCAR): AIB (with a state shareholding of 99.9 percent), BoI (15.13 percent), and Permanent tsb (PTSB; 99.23 percent).

- ***House prices slipped back reflecting developments outside Dublin***. After stabilizing over much of 2012, national residential property prices fell 2.6 percent in the first quarter of 2013, bringing the index to a new low 51 percent below its pre-crisis peak. This decline was driven by an almost 4 percent price fall outside Dublin, reflecting divergent market conditions—the stock of property available for sale in Dublin amounts to around 6 months' supply, but regional markets face inventories ranging from 20–60 months. Nonetheless, property transaction volumes rose by 14 percent y/y in Q1 2013, and with rents and disposable incomes rising, housing affordability and implied rental yields appear positive by historical standards.

5. **Final data confirm the 2012 general government deficit was well within the program ceiling**. The general government deficit was 7.6 percent of GDP, some 1 percentage point below the program ceiling, reflecting robust revenues (especially VAT, corporation tax and capital receipts, and a favorable result from a telecom license sale) and lower than budgeted capital and interest spending, which outweighed overruns on health and social spending.

6. **Budgetary developments in the first four months of 2013 were broadly in line with expectations**. At end April, spending was significantly lower than a year ago, on account of reductions in social protection and education outlays, and it remained within profile. Cumulative tax revenues (after adjusting for one-offs) were above collections in the corresponding year-earlier period by about ¼ percent of GDP owing to higher intakes from personal and corporate income taxes and stamp duties. Tax revenues remain just ahead of the authorities' profile despite disappointing results for VAT and excises. Overall, the cumulative exchequer primary deficit at end April was close to 1 percent of GDP lower than at the corresponding point in 2012, and ¼ percent of GDP below the authorities' profile. In this context, the performance criterion on the exchequer primary balance was met by a margin of 0.8 percent of GDP in Q1 (Attachment II, Table 2).

Cumulative Exchequer Out-Turn Vs. Authorities' Profile, January–April 2013



Sources: Department of Finance; and IMF staff estimates.
Note: To facilitate comparability: (i) 2012 tax revenues do not include the €251 million corporation tax payment delayed from December 2011; (ii) the IBRC promissory note payment of €3.06 billion that was settled through bond issuance is excluded from capital expenditure for 2012; (iii) outlays in respect of Irish Life (€1.3 billion) and credit unions (€250 million) are excluded from 2012 capital spending; (iv) proceeds of €1 billion from the sale of Bank of Ireland contingent capital notes is excluded from 2013 other receipts; and (iv) Eligible Liabilities Guarantee scheme payments linked to the promissory note transaction of €934 million are excluded from 2013 current expenditure.

MACRO-FINANCIAL OUTLOOK AND RISKS

7. **Recent developments remain consistent with modest growth of about 1 percent in 2013**. The external sector is expected to remain the main growth engine, albeit with a smaller contribution than in 2012 due to the pharmaceutical patent cliff, a strengthening of the euro relative to sterling, and weaker expected growth in trading partners under the most recent WEO projections.[3] Private consumption is expected to decline modestly as budget measures drag on disposable income, although employment and consumption developments in recent quarters suggest some potential for upside in 2013. Investment is projected to rise modestly, reflecting positive indicators from SMEs and possible improved willingness of banks to lend given easing deposit costs and improved access to collateralized medium-term market funding.

Macroeconomic Projections, 2008–15

(Percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP	-2.1	-5.5	-0.8	1.4	0.9	1.1	2.2	2.7
Real domestic demand	-3.7	-11.0	-4.2	-3.7	-1.5	-0.5	1.0	1.8
Private consumption	-0.1	-5.4	1.0	-2.4	-0.9	-0.3	1.2	1.6
Public consumption	0.6	-4.4	-6.5	-4.3	-3.7	-2.0	-1.6	-0.7
Fixed investment	-10.0	-27.6	-22.6	-12.6	1.2	1.0	4.0	6.0
Change in stocks 1/	-1.2	-0.7	0.6	0.5	-0.2	0.0	0.0	0.0
Net exports 1/	1.4	4.5	3.0	5.4	2.8	1.4	1.4	1.4
Exports	-1.1	-3.8	6.2	5.1	2.9	2.6	3.5	4.1
Imports	-3.0	-9.7	3.6	-0.3	0.3	1.7	2.8	3.8
Nominal GDP (billions of euros)	178.9	161.3	156.5	159.0	163.6	167.5	173.4	180.8
GDP deflator	-3.2	-4.6	-2.2	0.2	1.9	1.3	1.3	1.5
Current account (percent of GDP)	-5.7	-2.3	1.1	1.1	4.9	3.2	3.9	4.0
Consumer Prices (HICP)	3.1	-1.7	-1.6	1.2	1.9	1.3	1.3	1.6
Unemployment rate (percent)	6.4	12.0	13.9	14.6	14.7	14.1	13.7	12.9
Household savings rate (percent of disposable income)	10.0	14.9	12.0	10.7	12.5	11.6	10.5	9.6
Household debt (percent of disposable income)	211	209	218	215	202	197	189	180
Credit to households and NFCs (eop)	8.8	-1.5	-3.4	-2.9	-4.0	-2.4	-0.9	0.6

Source: IMF staff projections.
1/ Contributions to growth.

8. **In the medium term, the baseline scenario is for gradual recovery in growth, to about 2 percent in 2014 and 2¾ percent thereafter**. A key driver of the pickup expected in 2014 is the projected recovery in Ireland's trading partners—with growth projected to rise from 0.5 percent in 2013 to 1.7 percent in 2014—enabling overall export growth to strengthen further, and also bolstering domestic incomes, employment, and confidence. Domestic demand is expected to begin contributing to growth from 2014, as the stabilizing labor market supports disposable income and as declining uncertainties—including with respect to remaining fiscal consolidation measures—allow a gradual easing in savings toward more normal levels over the medium term, together supporting a gradual revival of consumption. With investment starting from a low base, a pick up is also expected once consumption begins to revive. Growth improves in 2015 and thereafter in part because the

[3] In their most recent Report, the Irish Exporters Association recently lowered their export value forecast from 5 percent expected at the beginning of the year to 3.3 percent.

scale of planned budgetary measures eases and also as access to credit improves with credit growth turning positive. However, given the protracted nature of the recovery, unemployment persists at high levels in the medium term, risking a rise in structural unemployment.

9. **Although recent developments are generally supportive of this baseline, significant risks surround the prospects for such a gradual recovery over the medium term, including**:

- ***Trading partner growth***. A weaker than projected recovery in trading partner growth from 2014 on would negatively impact exports and could dampen consumer confidence, retarding the recovery of Ireland's highly open economy. Downside risks to the projected rise in euro area growth appear particularly high given the continued lack of real sector response to monetary easing owing to financial market fragmentation.

- ***Financial market conditions***. The ability of the Irish sovereign and banks to access markets on favorable terms may not persist, e.g., if the "search for yield" driven reduction in credit risk sensitivity were to unwind, perhaps associated with a tapering of quantitative easing policies.

- ***Lending revival and house prices***. Improved bank profitability and access to market funding are needed to revive lending in the baseline to reach positive net credit growth by 2015.[4] Recent falls in deposit rates are positive for net interest margin prospects, but risks remain, especially regarding the effectiveness of loan restructuring efforts and the benefits for loan performance and collateral usable for funding. A lack of lending would also increase the risk of downsides to house prices from the mortgage resolution process, with parallel effects on SME asset values.

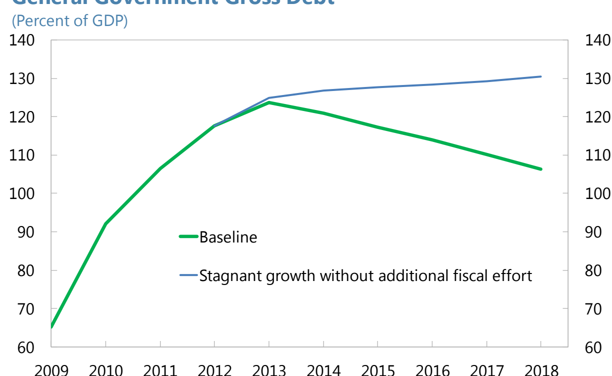
- ***Fiscal consolidation***. Efforts totaling 3 percent of GDP in 2014–15 could have a greater near-term drag on growth than built into the baseline, depending partly on the composition of measures, where about 1¾ percent of GDP in measures remain to be identified.

10. **In view of these growth uncertainties and potential financial sector contingencies Ireland's projected downward debt path remains fragile** (Annex I). Under the baseline scenario, gross public debt is set to peak in 2013 at 123.3 percent of GDP and fall thereafter. Key risks include:

- ***Low growth.*** If overall growth remained at around 1 percent during 2014–18, the general government deficit would only fall to 3½ percent of GDP in 2015 without additional fiscal effort, and then widen to almost 4 percent by 2018, with debt rising to about 130 percent of GDP by 2018. Even with additional fiscal consolidation effort, on the order of 3 percent of GDP over 2015–18, debt would peak around 127 percent of GDP, and not start declining until 2017–18. These results reinforce the importance of policies and measures to support growth recovery.

[4] The CBI's recent Macro-Financial Review indicates the largest uncertainty facing the economy is the health of the banking sector and its ability to support the real economy with credit at sustainable rates.

- ***Contingent liabilities.*** The sale of the IBRC loan portfolio resulting from the liquidation of IBRC could have some budgetary cost later this year if the government needs to compensate NAMA for any shortfall relative to the €12.9 billion it initially paid in the form of NAMA bonds. Additional outlays could arise from possible bank capital needs that may be identified by the SSM-aligned stress test in the first half of 2014 and from the restructuring of the credit union sector in coming years. In the medium term, a shortfall could crystallize at NAMA, depending primarily on developments in property prices until 2020. No estimates of these contingencies are available. A standard contingent liability scenario (Annex I) with a combined cost realization of 10 percent of GDP would cause debt to rise over 130 percent of GDP before gradually declining to around 116 percent of GDP by 2018.



Source: IMF staff projections.

POLICY DISCUSSIONS

The still fragile state of Ireland's debt sustainability calls for policy actions to underpin a lasting recovery in growth and continued fiscal consolidation. In particular, the financial sector strategy must proactively resolve loans to reduce uncertainties around asset values and also address potential contingent liabilities in a well structured manner that protects financial stability. The difficult final years of fiscal consolidation must be managed in the most growth-friendly manner possible while structural reforms effectively tackle remaining hurdles to growth and job creation.

A. Financial Sector

Remaining Challenges

11. **Ireland's financial sector is still under repair after a deep crisis**. The critical issue for the economy is the health of the three PCAR banks (net loans of €197.2 billion, or 121 percent of GDP). By comparison, the credit union sector is small (net loans of €4.1 billion, 2½ percent of GDP) and its challenges are to be addressed over time under the auspices of the Credit Union Restructuring Board. Ireland has substantial assets in resolution mode, with NAMA (net loans €22.8 billion, 14 percent of GDP) resolving these assets by 2020, while the liquidation of IBRC will put its former loan assets (€16 billion, 10 percent of GDP) up for valuation and sale by end 2013.

12. **Focusing on the PCAR banks, high NPLs and inadequate profitability are the key immediate constraints on a revival of lending that need to be addressed urgently**. Based on PCAR 2011, these banks were recapitalized by €24 billion, bringing their average core tier 1 capital to 14.7 percent of risk weighted assets by end 2012, well above market norms and the Irish regulatory minimum of 10½ percent. Nonetheless, even after provisioning, NPLs exceed bank equity

(at 127 percent up from 84 percent in 2011) indicating a need for high reported capital while the resolution process works out the value of NPLs. Liquidity is also much improved, with deleveraging efforts—principally focused on non-core assets outside Ireland—so far bringing their average loan-to-deposit ratio down to 124 percent by end 2012, from 182 percent at end 2010, and halving their use of Eurosystem funding. Hence, even with a need to review the adequacy of provisioning and the calculation of risk weighted assets (see below), the main immediate concerns are:

- ***Nonperforming loans***. At 24.8 percent of total loans, nonperforming loans are a drain on market confidence, cash flows, and a source of operational costs that hinder capacity to lend. A lack of resolution progress also undermines the reliability of assessments of loan values.
- ***Profitability***. In 2012, PCAR banks ran losses before provisions of €0.8 billion, or 0.2 percent of average assets. Benefiting from the phasing out of ELG and improving interest margins, by end 2013 PCAR banks project €1.1 billion in profits before provisions or 0.4 percent of average assets. While this improvement is welcome, profitability would still fall short of covering normal provisioning, and would not build capital to support new lending. Tracker mortgages, at some 30 percent of net loans, are a key drag on bank profitability, and PTSB's especially high exposure to these mortgages contributes to its inability to break even until 2016–17 (Box 3).

Box 3. Tracker Mortgage Portfolios and Irish Bank Profitability

Tracker mortgages have variable rate set at a fixed margin above the ECB policy rate. Tracker mortgages were lent for both primary dwellings and buy-to-let investments and represent 60 percent of the aggregate mortgage lending of AIB, BoI, and PTSB. Many tracker mortgages were originated around the peak of the housing boom. The margins vary across loans, with a recent CBI study estimating the average margin at around 130 basis points over the ECB rate. This would imply a low average interest rate of about 1.8 percent currently.

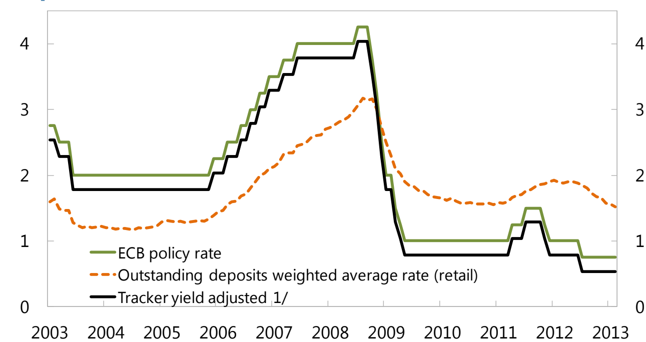
Irish Residential Mortgage Books (PCAR banks, EUR bln, end 2012)

Type of indexation	
ECB tracker	45.5
Other variable rate	24.5
Fixed rate	6.6
Total Book Size	76.6

Source: Central Bank of Ireland

Tracker mortgages cause a substantial drag on Irish banks' profitability. The sharp cut in ECB rates since 2008 has resulted in an equal reduction in the tracker rates. But the cost of deposits and other funding have fallen notably less reflecting a range of factors including sovereign-bank interconnections. Overall, the result is a significant "negative carry" on tracker mortgages. If all tracker mortgages were funded at the average deposit rate, the current negative carry can be estimated at around 100 basis points allowing for a Fund staff assumption of 150 basis points to cover operational costs and the cost of credit risk and capital. Given the scale of tracker mortgages in PCAR banks loan portfolios, the overall profit drag of tracker mortgages is estimated to be about 0.4 percent of average assets. While the recent easing in deposit rates helps banks to return gradually to profitability, funding costs are unlikely to decline sufficiently to turn tracker portfolios profitable while ECB rates remain close to the zero bound.

Adjusted Tracker Mortgage Rates and Weighted Average Deposit Rates 1/



Sources: Central Bank of Ireland; and IMF staff calculations.
1/The tracker rate is adjusted using a 150 basis points margin covering for operational costs, credit risk charges and cost of capital.

13. **Although PCAR banks' reported capital is high, provisioning and risk weighted assets need to be reviewed**. A recent review of developments relative to PCAR 2011 suggests bank capital is tracking between the base and stress scenarios; while arrears are tracking closer to that exercise's stress scenario, housing collateral values are higher than in the base scenario and deleveraging costs notably smaller than projected. However, use of models despite inadequate loan workout experience to underpin relevant parameters suggests a need to review provisioning (48.4 percent of gross nonperforming loans at end 2012) and also the calculation of risk weighted assets.

14. **In this context, the Irish authorities will align forthcoming stress tests with those for the SSM and strengthen their preparations for smooth entry into the banking union** (MEFP ¶10). At the time of the sixth review in the second quarter of 2012, it was agreed that stress tests were to be aligned with the next European Banking Authority capital exercise, which had earlier been expected to take place in September 2013, providing a check-up on bank health before the end of the program. However, with the SSM to be effective by July 1, 2014, the next joint European stress test exercise is now expected to take place in the first half of 2014. An earlier stress test would be valuable in spurring prompt action to address any identified issues, but recognizing that a single capital exercise that is fully consistent with SSM standards would best support financial stability, it was agreed to align the timing and methodology of the Irish bank stress test with the SSM exercise. Although this delays the planned timing of Ireland's own stress test from September 2013, the authorities will prioritize work to strengthen bank profitability and assess bank balance sheets in the interim (MEFP ¶11). They also remain determined to ensure that the process of resolving impaired assets, both mortgages and SME loans, is firmly advancing in a manner that maximizes performance.

Addressing NPLs

15. **The authorities set out a comprehensive NPL resolution strategy at the ninth review**. This entailed establishing a framework of residential mortgage resolution targets for the principal mortgage lenders, reviewing consumer protection rules for mortgages in arrears, addressing unintended impediments to repossession, activating the new personal insolvency framework, and updating bank provisioning guidelines. This suite of policies seeks to both push banks to pursue sustainable solutions with borrowers and remove hurdles from their path, with the strategic goal of achieving a durable reduction in arrears.

16. **The Central Bank of Ireland (CBI) is implementing the resolution strategy as planned** (MEFP ¶4):

- *Mortgage arrears resolution targets:* After establishing a framework of public targets for restructuring arrangements (text table), the CBI's next step is to propose a target by end-June for arrangements to be concluded by end-2013, and it will establish such targets soon thereafter, before completion of the eleventh review at the latest.

- *Monitoring:* Informed by on-site reviews of the PCAR banks, the CBI is pushing the banks to strengthen their collection of early arrears, treatment of late arrears, assessment of Standard Financial Statements, and legal enforcement units.

Residential Mortgage Arrears Resolution Targets

Targets 1/	2013			2014			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sustainable solutions proposed *(percent of customers 90+ days in arrears)*	20	30	50	*To be announced on a rolling quarterly basis*			
Arrangements concluded *(percent of customers 90+ days in arrears)*	*No target*	*No target*	*TBA by Q3*	*To be announced on a rolling quarterly basis*			
Terms being met *(percent of arrangements concluded)*	*No target*	*No target*	*No target*	75	75	75	75

Source: CBI.
1/ The targets cover ACC Bank, AIB, BoI, KBC Bank Ireland, PTSB, and Ulster Bank.

17. **Despite limited progress thus far the banks are confident of meeting the mortgage resolution targets**. Currently, the number of durable restructuring arrangements concluded remains modest. Nonetheless. Banks are stepping up engagement with customers and are proposing sustainable solutions to borrowers in arrears. Borrowers will have greater clarity on their options when procedures under the Personal Insolvency Act becomes operation in June, and banks will also soon have guidance from the CBI on solutions that qualify for the targets. These factors point to a ramping up of conversions from proposals to concluded restructuring arrangements as the year progresses. A thorough stock taking at midyear (structural benchmark, end-June) will inform any necessary adjustments to the strategy.

18. **Modifications to the Code of Conduct on Mortgage Arrears (CCMA) will also be issued by end June (MEFP ¶5)**. Taking into account a public consultation, the CBI is preparing amendments to (i) replace the current cap on unsolicited contacts of borrowers at 3 per month with a requirement that lender communications be proportionate, guided by board-approved contacts policies; (ii) clarify the definition of a non-cooperative borrower, thus limiting certain protections under the CCMA to borrowers who engage with their lenders constructively; and (iii) link provisions of the CCMA and new procedures under the personal insolvency framework to clear a path for insolvent borrowers desiring to enter an insolvency arrangement. In light of the already high consumer protection standards, staff cautioned against excessive complexity and subjectivity in the CCMA, which could hamper progress toward mutually beneficial solutions. In particular, if a sustainable restructuring arrangement is refused by the borrower, staff favors lifting CCMA protections against repossession after a brief review period.

19. **Implementing a strengthening of the repossession framework remains critical** (MEFP ¶6). The authorities have published a Bill amending the Land and Conveyancing Law Reform Act 2009 to ensure the availability of summary repossession proceedings for mortgages created prior to December 2009 (except for cases already pending). At the same time, the Bill adds new provisions for adjournments to accommodate borrower consultations with insolvency practitioners. Passage of the Bill by parliament is expected before the summer recess. The authorities have appointed six specialized judges dedicated to personal insolvency cases and will further supplement resources in the Court system if needed. Staff favored exploring further measures to enhance the efficiency of the repossession regime such as reducing the frequency and duration of adjournments. Looking ahead, the CBI is reviewing banks' policies governing the management of repossessed properties and vendor financing to the buyers of such assets. Findings may feed into prudential guidance, including a policy on managing potential conflicts of interest in vendor financing.

20. **Preparations to activate the new personal insolvency framework are on track and a scheme to manage multi-lender distressed debt is being developed in parallel**. The Insolvency Service, established on March 1 pursuant to the Personal Insolvency Act 2012, will begin to accept applications from late June with a view to completing the first arrangements by October (MEFP ¶7). The Service has kicked off its information campaign, including by publishing balanced Reasonable Living Expenses Guidelines for debtors subject to the new debt settlement procedures. The Service has also published regulations for personal insolvency practitioners and other approved intermediaries and has developed a training syllabus which will form part of the licensing process. Relatedly, the CBI has initiated a three month pilot scheme with lenders to facilitate the restructuring of secured and unsecured distressed consumer debs in a multi-lender context. A decision tree helps guide cooperation among lenders and the pilot will conclude with a review.

21. **The authorities are also pushing for substantial progress in SME loan restructuring before year end**. Key performance indicators for SME debt resolution have been reported as of end March and are being analyzed by the CBI. They provide a sound basis to monitor each bank's progress in the restructuring of its SME portfolio and will inform the setting up, by end June, of SME loan restructuring targets applicable to the PCAR banks involved in SME lending. On-site supervisory visits in H2 2013 will include individual SME loan file reviews and operational reviews to assess banks' loan restructuring efforts and their results.

22. **The CBI is reviewing its 2011 Impairment Provisioning and Disclosure Guidelines and is considering new provisioning rules for restructured residential mortgages** (structural benchmark, MEFP ¶10, 9th review). The update will set out clear definitions and principles underpinning banks' provisioning models, seeking to level out observed differences in the level of conservatism around assumptions for bank model inputs and other matters of management judgment. Separately, the CBI is minded to introduce rules-based provisioning requirements on all mortgage loans in arrears greater than 90 days which have not been restructured on a sustainable basis with effect from end 2014.

Assuring Sustained Capital Adequacy

23. **As part of the preparatory work for entry into the SSM the authorities will initiate a dedicated work stream on bank profitability issues** (MEFP ¶11). This work, which is particularly important to address PTSB's viability challenges, includes:

- ***Operating profit analysis***. The PCAR banks will prepare a forward-looking analysis of operating profits, subject to critical review by the CBI, by end September 2013 (proposed structural benchmark). The analysis subject to review will include the evolution of projected operating expenses, sensitivity analysis to ECB interest rates and funding costs, and the contribution to revenues of modified, forborne and nonperforming loans. The CBI will report the results to the banks to consider the capacity of operating profits to absorb provisioning needs in their financial plans.

- ***Tracker funding cost options***. An ongoing project, reporting at end-June and end-September 2013, will explore options to reduce the funding cost of tracker mortgages on a sustainable basis. It will quantify the profit contribution of tracker mortgages, identify a range of options to reduce funding costs, and assess their feasibility and costs and benefits. Follow up will include engaging external parties—including European institutions—as needed to advance implementation, and exploring options to defray potential costs, such as eliminating tax deductibility of mortgage interest up to low tracker rates.

- ***External review of bank fee regulation***. Bank's noninterest income amounted to only 0.3 percent of average assets in 2012 partly reflecting restrictive fee approval processes.[5] An external review by end-December 2013 of the regulatory framework will consider fee regulation frameworks in other countries.

24. **A comprehensive balance sheet assessment will also be completed for the PCAR banks well in advance of the stress test.** A preliminary assessment will be completed by end-October 2013 (proposed structural benchmark), and finalized by end-November, with a number of elements:

- ***Asset quality review***. A quantitative assessment of loan provisions will review the classification of NPLs and forbearance, and will include a review of the processes, key inputs and assumptions for specific and collective provisioning and estimate associated sensitivities. The results of this assessment will be reported to the banks and also used by the CBI as a benchmark for its review of end-2013 provisioning. A key input into the assessment will be the central bank's updated Impairment Provisioning and Disclosure Guidelines. Other methodological aspects, such as the appropriate sample size and selection for loan file reviews and involvement of third parties independent of the banks, are to be agreed by end July, and the test parameters for benchmarking provisioning are to be agreed by end September.

- ***Risk-weighted assets***. A review of the appropriateness of risk weighted asset calculations will continue work to assess key model inputs and assumptions, including sensitivity analysis. The CBI will inform to banks, and will issue Risk Mitigation Plans where necessary, for implementation by end December 2013.

- ***Balance sheet assessment***. An estimate of banks' point-in-time capital adequacy will use as inputs the results of the asset quality review and the review of risk weighted assets. Banks will be advised of the results to inform their financial planning and preparations for SSM entry.

[5] Under section 149 of the Consumer Credit Act 1995, banks must make a submission to the CBI if they wish to introduce or increase charges in respect of a service. The CBI reviews these submissions and either approves the charge in full, accepts the proposal but at lower levels requested by the entity or rejects the proposal. The CBI assesses each submission based on the promotion of fair competition; the impact new charges or increases in existing charges will have on customers; how the bank justifies its proposed new charges or increase in existing charges; and a firm passing any costs on to its customers.

B. Fiscal Policy

25. **Fiscal policy is on track for the 2013 fiscal targets yet buffers appear small** (MEFP ¶12)**.** Exchequer performance has been closely aligned with the authorities' profile through end April. Full implementation of the remaining measures that take effect in the second half of the year is therefore critical to reach the 2013 targets and medium-term consolidation goals:

- ***Expenditure***. The authorities have reached a revised agreement with public service union leaders to achieve the targeted pay and pension bill savings of €300 million (0.2 percent of GDP) in 2013 and €1 billion by 2015. The agreement modifies the earlier proposal by allowing pay cuts for higher paid workers to be reversed in 2017–18 and revising the freezes on automatic increments.[6] Balloting of the agreement by some unions is expected over the next few weeks and legislation will be published to implement the pay cuts by July 1. The authorities will also need to press ahead with budgeted non-wage savings that were to be facilitated by the original Croke Park agreement—such as staff redeployments and the reconfiguration of public service delivery—while maintaining their close monitoring of health spending.
- ***Revenue***. By end-May, residential property tax filings reached more than 1.5 million—indicating a compliance rate of more than 90 percent. The deadline for payments is July 1, with an estimated yield of 0.1 percent of GDP. Legislation is in preparation to charge private patients in public hospital beds, expected to be enacted by end-June.

26. **A number of potential one-off shocks could impact fiscal performance in 2013.** The scale of any potential compensation to NAMA in relation to the IBRC loans it acquired as part of the promissory note transaction will only be clear once the valuation and bidding processes have been completed by late 2013.[7] Also, the payment of Allied Irish Bank's dividends on preference shares held by the government via the issuance of ordinary shares (0.2 percent of GDP) may be reclassified as a deficit increasing transfer, as was the case in 2012. On the upside, additional proceeds may become available from the sale of state assets currently in the pipeline.

27. **Steady budgetary adjustment should be maintained to safely reach the medium-term fiscal targets**. In order to protect the fragile economic recovery, staff continues to support the accommodation of revenue shortfalls in the event of a significantly weaker growth outturn. Any significant additional consolidation to reach the 2015 deficit target should instead be deferred to 2015 where the adjustment burden is lighter, taking advantage of the asymmetry of multipliers over the cycle. In addition, staff would not support reductions in the agreed scale of fiscal consolidation effort in 2014–15 on the basis of interest savings from the promissory note transaction.[8]

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[6] See paragraph 27 of the staff report for the 9th review for details on the earlier "Croke Park II" proposal.

[7] See Box 1 of the 9th review staff report.

[8] The planned fiscal adjustments are €3.1 billion in 2014 and €2.0 billion in 2015. In its April 2013 Fiscal Assessment Report, the Irish Fiscal Advisory Council no longer calls for additional consolidation as a safety margin to meet the 2.9 percent deficit target for 2015, but underscores that the planned 2014–15 adjustments should not be reduced.

28. **The authorities' April 2013 Stability Programme Update (SPU) forecasts the 2015 deficit to fall to 2.2 percent of GDP**. The SPU notes that the adjustment path outlined in Budget 2013 is used as a technical assumption, with the decision on the specific adjustment path to bring the deficit below 3 percent of GDP by 2015 to be made closer to October 2013 when next year's budget will be presented. Staff supports such a reassessment of the medium-term consolidation path in order to incorporate budget performance in 2013 and updated growth projections, while retaining a buffer to safely meet the deficit ceilings of 5.1 percent of GDP in 2014 and less than 3 percent of GDP in 2015. It also welcomes the work underway on structural reforms to generate savings while preserving core public services and protecting the vulnerable (MEFP ¶13). Beyond 2015, the SPU projects on a technical basis a continued improvement in structural balances based on restraining annual expenditure growth to 1 percent in order to reach a balanced budget by 2019, thereby achieving the revised medium-term budgetary objective.

29. **The authorities continue to strengthen their medium-term fiscal framework, consistent with the EU fiscal governance structure.** To implement the "Two Pack", Budget 2014 will be brought forward to October 15 and the Irish Fiscal Advisory Council will be assigned the role of independently endorsing the macroeconomic forecasts on which the budget and stability program are based. Legislation is progressing to make the already operational 3-year ceilings on aggregate and departmental expenditure legally binding and consistent with the expenditure benchmark under the Stability and Growth Pact (MEFP ¶14).[9] Once the bill is enacted, a circular will be published, specifying the operational details of the ceilings, including the circumstances under which they can be revised and the correction mechanisms. Altogether, these steps will largely complete the Medium Term Budgetary Framework in line with EU requirements.

C. Structural Reforms

30. **The authorities remain focused on bolstering growth and job creation.** The 2013 Action Plan for Jobs outlines seven broad-based reforms to support employment in areas where Ireland has a competitive advantage, like data compilation and analysis, computer sciences, and the health and pharmaceutical sector. In the first quarter of 2013, 96 percent of the actions planned for that period were completed. The authorities will conduct a thorough evaluation of the employment impact of the 2012 and 2013 plans before the 2014 reforms are determined to ensure the best initiatives are carried forward and ineffective ones are dropped. State asset disposals are proceeding as planned, with part of the proceeds expected this year from energy facilities. A range of public-private investment projects are in the works, including roads, schools, and healthcare centers, with the tender process expected to commence in the summer.

31. **Efforts to reduce unemployment, especially long-term, continue.** The rollout of the new one-stop-shop Intreo employment offices is proceeding as planned, and the authorities will ensure that jobseekers seeking activation and training assistance are offered the same quality and speed of

[9] The ceilings are on a cash basis for gross voted current and capital expenditure, which excludes interest payments.

services across the country. To improve capacity to activate the long-term unemployed, the authorities are reassigning 300 new case officers by end-year and reviewing the engagement of private firms for the provision of employment services, with the decision expected by end-June. All registered long-term unemployed should also be profiled by end year. Furthermore, a new and simplified JobsPlus scheme will be introduced in the second half of the year—replacing the existing Employer Job (PRSI) Incentive and Revenue Job Assist schemes—and will offer monthly payments for two years to firms that hire long-term unemployed job seekers.

32. **A recent Supreme Court ruling deeming Registered Employment Agreements (REA) unconstitutional may over time influence wages and employment conditions in sectors most affected by the crisis**. REAs were collective agreements regulating pay and working conditions in the construction and electrical contracting sectors among others. Once registered with the Labor Court, these agreements became binding for all firms operating in the sector. The resulting minimum wage in the construction sector, which had risen substantially during the boom, was cut by only 7.5 percent in early 2011 despite a 60 percent fall in employment in the sector. The implications of the Supreme Court ruling are now being examined. Most likely existing employees will retain their current pay and work arrangements, as these are governed by individual employment contracts that would need to be renegotiated before any change can take place. But contracts for new workers will now be governed by the general labor laws, including the national minimum wage, which may allow for more wage flexibility and employment in the medium term.

33. **Policy actions to support job creation by SMEs will aim to alleviate financial constraints, promote equity finance, and improve the business environment.** The authorities are rolling out the new SME funds to provide up to €850 million of new financing to SMEs through equity finance and restructuring investment and credit. They will also ensure that the Temporary Partial Credit Guarantee Scheme and the Micro Enterprise Loan Fund are fully utilized subject to sufficient demand from SMEs. The SME State Bodies Group will help coordinate and assess government initiatives in research, policy and information skills, partnerships with the European Investment Bank, access to finance, and CBI engagement with banks. Regarding debt restructuring, the work out of SME's debts is often complicated by the entanglement of common business debt and property investments debt contracted by their owners. To facilitate SME restructuring in multi-creditor cases, additional legislative amendments to further enhance the SME examinership legal framework will be considered by authorities by end-September.

PROGRAM MODALITIES AND FINANCING

34. **Program conditionality for the tenth review has largely been met, and conditionality for the remainder of the program established** (Attachment I, Tables 1–3):

- ***Program conditionality for end March was met***. The Exchequer primary deficit of €1.8 billion was well within the adjusted target of €3.2 billion, which reflected adjustments for the over performance of revenues, additional ELG payments related to the promissory note transaction,

and proceeds from the sale of holdings of CoCos on BoI. Similarly, the indicative target on the stock of central government net debt was met with a margin. A supplement to this report will provide staff's assessment of the end-May structural benchmark on updating, where necessary, of the 2011 Impairment Provisioning and Disclosure Guidelines.

- ***Two additional structural benchmarks are proposed*** (MEFP Table 3). Under the first benchmark, the authorities will conduct a forward-looking analysis of operating profits of PCAR banks by end September 2013. With regard to the second benchmark, the authorities will complete a preliminary balance sheet assessment of PCAR banks by end October 2013.

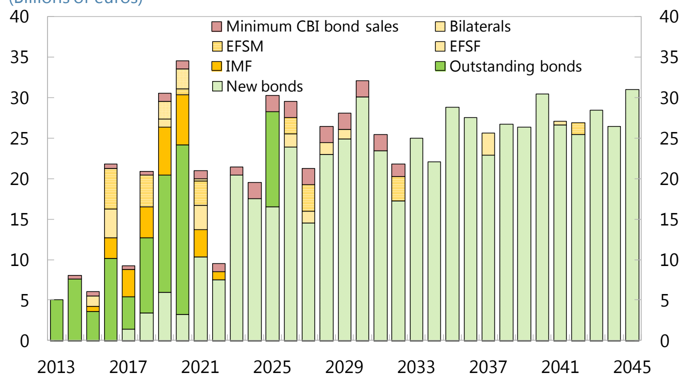
- ***Quantitative performance criteria were set for end September 2013***. The performance criteria for the exchequer primary balance was set for the last review under the program with a test date at end September 2013, which incorporates updates to the timing of receipts and higher than expected contributions to the EU budget.

35. **Ireland has largely met its 2013 financing goal and the authorities are aiming to move to scheduled auctions later in the year.** Following Ireland's increasingly robust return to market financing and reflecting the anticipated full drawing on programmed official support, the authorities target a cash buffer at end 2013 sufficient to cover prospective financing needs for 12–15 months. Given bond issuance of €7.5 billion to date, Ireland is well advanced towards meeting its full-year issuance goal of €10 billion. As the next step in cementing Ireland's renewed market access, the NTMA is planning to resume, subject to market conditions, regular bond auctions later in the year.

36. **Rollovers increase funding challenges in the medium term**. Ireland's market financing needs are projected to increase to high levels by historical standards, at about €20-25 billion by the end of the decade (about 10 percent of 2020 GDP) before leveling off thereafter. Moreover, as about one-third of the current stock of government bonds is held by the CBI and ECB, forthcoming issuance will significantly expand the free float of Irish government bonds. While recent issuance has been taken up by a geographically diverse and largely institutional investor base, interest from ratings-sensitive investors may be hindered by the speculative grade rating from Moody's.

Redemption Profile 1/

(Billions of euros)



Sources: NTMA; European Commission; and IMF staff estimates.
1/Includes maturities from debt rolled over assuming new issues have a maturity mix of 3, 5, 7, and 10 years.

37. **The recently agreed extension of EFSF/EFSM loan maturities supports Ireland's transition towards higher rollover volumes**. EU Finance Ministers recently approved a maximum weighted average maturity extension of 7 years to help moderate significant repayment humps in 2016–20 and facilitate raising the large volume of market financing needed in this period. To achieve

this overall maturity extension some of the existing loans will be rolled over into new obligations as they fall due.

38. **As foreshadowed in the staff report for the 9th review, discussions on potential post-program options continued**. These discussions explored the pros and cons of financing backstops once the current program ends, including a possible precautionary arrangement with the ESM as a means to support a durable return to market financing. Such a backstop could cushion financing against a range of potential risks in the immediate post-program period, and would also meet one of the conditions for Ireland to qualify for Outright Monetary Transactions. Should the authorities consider seeking an ESM precautionary facility, under ESM guidelines they would also be expected to seek support from the IMF.

39. **Although subject to significant risks, exceptional access criteria continue to be met**:

- Under the baseline macroeconomic framework, debt sustainability is expected to be maintained over the medium term, although subject to significant risks if growth does not strengthen or if further contingent liabilities materialize. Crucially, this relies on ongoing strong program implementation, along with European policymakers delivering on their commitments in order to reduce strains in countries facing stress and ensure financial stability of the euro area. As debt sustainability is not assured with a high probability, the program continues to be justified on the basis of systemic international spillover risks given euro area fragility.
- In view of Ireland's strong program performance and commitments, its recently regained market access—which has deepened following the promissory note transaction and the agreed extension of EFSF/EFSM loan maturities—there are adequate prospects to retain and expand access to private capital markets to secure repayment of Fund resources. There is however, a risk of inadequate progress toward stronger European support, which would weaken the assurances of adequate and durable market access given Ireland's public debt and financial sector vulnerabilities.
- More broadly, the policy program of Ireland is sound and adjustment is being delivered, providing reasonably strong prospects for program success. More effective policy action and delivery on commitments at the European level is needed to strengthen prospects for success.

STAFF APPRAISAL

40. **Ireland's strong policy implementation continues and market conditions have further improved**. The budget is on track, meeting fiscal targets for the first quarter, and important efforts to durably address the high level of NPLs are now beginning under the mortgage arrears resolution targets. Ireland's 10 year benchmark bond issue in mid-March was a landmark step forward and the recently approved extension of EFSF/EFSM loan maturities has reinforced progress in deepening market access on affordable terms. Against a weak economic backdrop in European trading

partners, Ireland has recorded a second year of modest growth, with signs emerging of domestic demand and employment beginning to stabilize.

41. **An uncertain medium-term outlook, however, still clouds Ireland's prospects**. Recent developments in Ireland support the baseline scenario for a gradual revival of domestic demand contributing to a recovery in growth from 2014. Yet much hinges on growth strengthening significantly in Ireland's main trading partners and on continued favorable conditions in international financial markets. Domestically, demand recovery faces drag from still high private sector debts, continuing fiscal consolidation, and risks to the domestic credit flow necessary to sustain the recovery in the medium term. Persistently low growth would, in turn, undermine debt sustainability, as would realization of potential financial sector contingencies.

42. **Determined financial sector reforms remain central to underpin a sustained recovery in growth**. Banks' capacity to renew lending continues to be constrained by the interconnected issues of large nonperforming loans and low profitability, low turnover in the housing market, and balance sheet distress of many households and SMEs. It is therefore essential for the authorities to hold banks to achieving the public targets for mortgage arrears resolution, and to closely monitor the sustainability of resolution arrangements in practice. Effective implementation of supporting reforms will be key to success, especially the timely removal of unintended barriers to repossession proceedings, so as to protect debt service discipline and promote the conclusion of restructurings where needed that will prove durable. Progress in bringing the new personal insolvency regime into effective operation is welcome and revision of the CCMA should facilitate constructive engagement between banks and borrowers. Resolution targets for SME loans in arrears should soon be adopted to promote work outs for viable enterprises that support their ability to invest and create jobs.

43. **Preparations for the entry into the banking union provide an organizing framework for important bank diagnostics and will also drive forward further repairs**. Alignment of the Irish stress test timetable with that of the SSM, although resulting in a delay in getting a clearer picture on banks' health, will ensure a single test against stringent standards fully consistent with other euro area countries. Strong preparatory steps well in advance of the stress test are essential to accurately diagnose outstanding issues, including an operating profit analysis and a balance sheet assessment including a rigorous asset quality review. These should drive concrete efforts to address profitability and other issues, including lowering the cost of funding for banks' tracker mortgage portfolios, where efficient solutions may depend on European support, consistent with euro area leaders' commitment to examine the situation of the Irish financial sector with the view to improving the sustainability of the well performing adjustment program. Past experience with ensuring credible stress tests that promote financial stability is that a strong financial backstop will be needed, including an ESM equity backstop for jurisdictions where private resources are inadequate and public debt sustainability is fragile.

44. **Steady fiscal adjustment is needed to support Ireland's durable return to reliance on market financing**. Budget performance is again on track for the annual fiscal targets, a credit to the authorities' prudent projections and careful management. Nonetheless the buffers relative to the

2013 fiscal targets appear small, making it important that remaining measures under Budget 2013 be implemented in full. It is welcome that the government has reaffirmed its commitment to the targets for pay and pension savings, and recent progress toward a negotiated agreement is welcome, but achieving these goals through legislative action will be necessary if this agreement is not concluded. After six contractionary budgets adjustment fatigue is growing. Development of structural reforms to deliver medium-term savings while protecting core public services and the vulnerable is therefore critical. Any reassessment of the medium-term consolidation path should await Budget 2014, and focus on safely achieving the medium-term fiscal consolidation targets in a growth-friendly manner, while using interest savings from the promissory note transaction to help build buffers against potential shocks. The steps to complete the legal establishment of the 3-year expenditure ceilings, and specify their operational aspects, should be completed in a timely manner.

45. **Although a recovery in growth is key to reducing unemployment, effective implementation of strengthened activation policies and SME supports will facilitate progress**. It is welcome that progress with the roll out of new one-stop shop employment offices continues, but activation resources remain low relative to the number of long-term unemployed, and the envisaged redeployment of case officers will only be completed by year end. Especially in the case that the engagement of private firms for providing of employment services does not proceed, the authorities will need to strengthen efforts to build adequate trained resources in this area. New initiatives to support SMEs through equity finance are being rolled out and it is essential the SME State Body Group ensure adequate coordination and evaluation of the effectiveness of the range of government initiatives in this area. To support scope for investments, and reduce public debt, state asset disposals should continue to be advanced and public-private investment projects implemented expeditiously.

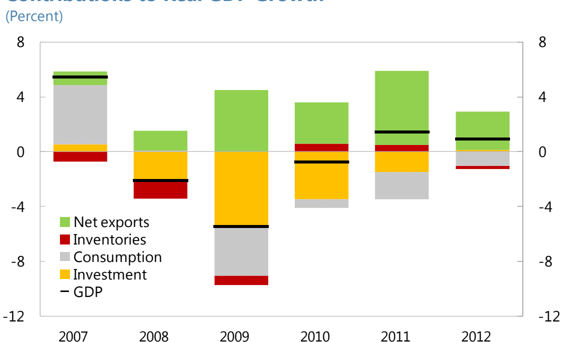
46. **Overall, Ireland still has much work ahead, but even with continued strong policy implementation, its durable return to the markets would benefit substantially from timely and forceful delivery on European pledges**. Fiscal consolidation has been kept on track despite low growth and high unemployment. Yet debt sustainability remains vulnerable if low growth were to persist as a result of delayed external recovery or impediments to domestic demand revival. The banks and NAMA are still in the early stage of working out nonperforming loans so contingent liabilities remain a threat. Ireland must therefore continue its efforts to restore financial sector health and implement structural reforms to support recovery while maintaining steady fiscal consolidation. Conditions in international financial markets are currently highly favorable, but it is not clear these circumstances will last. Against this backdrop, further European support in addressing the profitability challenges of the banks and in cushioning the impact of any capital needs that may arise would support recovery and protect debt sustainability, and thereby enhance prospects for a durable return to reliance on market financing.

47. **Staff supports the authorities' request for completion of the tenth review**.

Figure 1. Ireland: Real Sector and Inflation Indicators, 2006–13

Net exports remained the main contributor to growth in 2012…

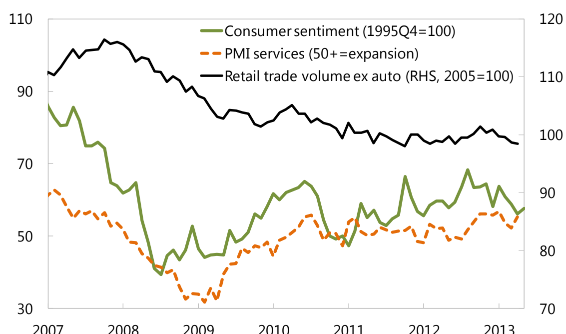
Contributions to Real GDP Growth
(Percent)



Sources: CSO; and IMF staff calculations.

…though core retail sales disappointed in the first four months of 2013.

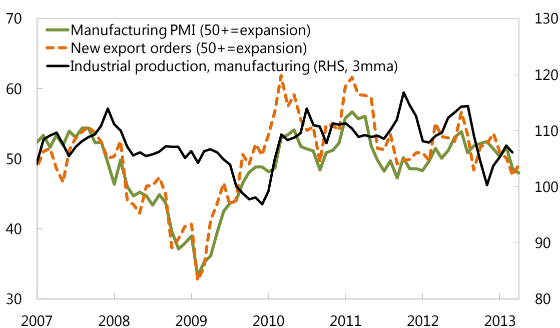
Retail Trade and Sentiment Indicators



Sources: ESRI; NCB Stockbrokers/Markit; CSO; and Haver Analytics.

Industrial production recovered some of the patent-cliff-related losses but new export orders indicator fell below 50 in March.

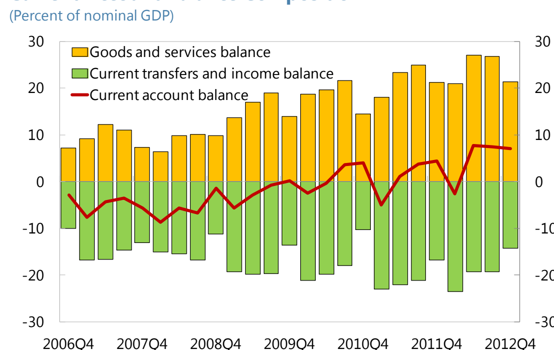
Export Indicators and Industrial Production



Sources: CSO; NCB; and Haver Analytics.

The current account registered a large surplus in 2012 as strong net exports outweighed income outflows.

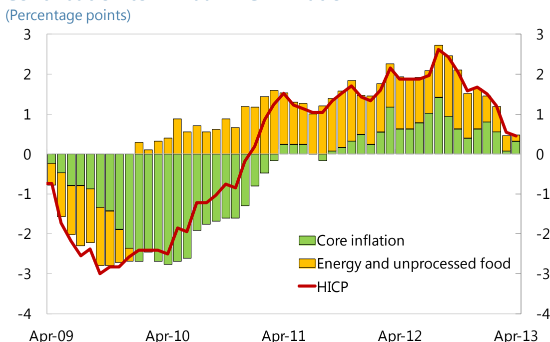
Current Account Balance Composition
(Percent of nominal GDP)



Sources: CSO; and Haver Analytics.

Inflation started to abate in September on account of moderating energy and administered prices.

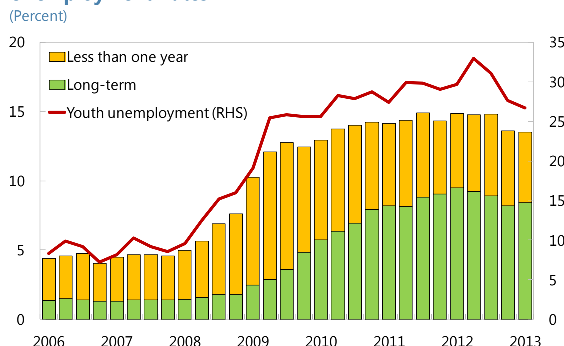
Contribution to Annual HICP Inflation
(Percentage points)



Sources: CSO; and IMF staff calculations.

Unemployment eased modestly to just under 14 percent, with over 60 percent long-term and youth unemployment still close to 30 percent.

Unemployment Rates
(Percent)



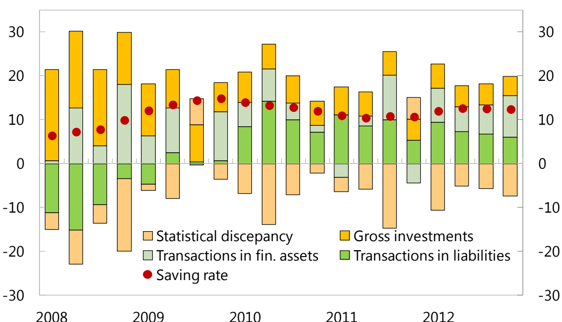
Sources: CSO; and Haver Analytics.

Figure 2. Ireland: Household Finance and Housing Developments, 2001–13

Household savings remain elevated, with three-quarters of savings devoted to debt reduction since 2010…

Decomposition of Household Savings

(Percent of Gross Disposable Income)

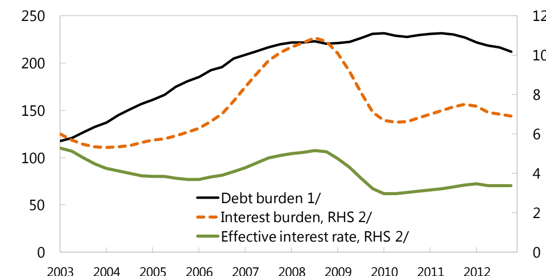


Sources: CBI; ECB; Haver Analytics; and IMF staff calculations.

…but household balance sheets remain burdened with large debt, although interest payments are low.

Household Debt and Interest Payments

(Percent of disposable income)

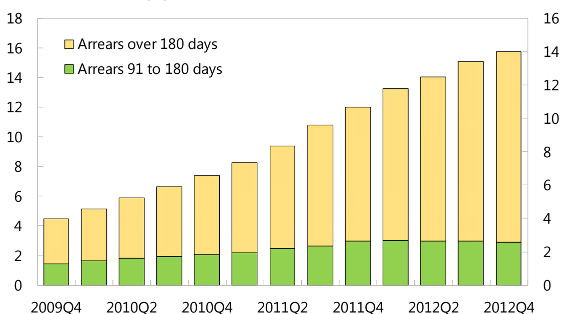


Sources: CBI; Haver Analytics; and IMF staff calculations.
1/ Total household liabilities in percent of four-quarter gross disposable income.
2/ Four quarter interest payments (excluding FISIM adjustment) in percent of four-quarter gross disposable income or previous quarter's total household liabilities, respectively.

Mortgage arrears continue to increase, although the flow of new arrears is abating…

Mortgages in Arrears

(Percent of total mortgage value)

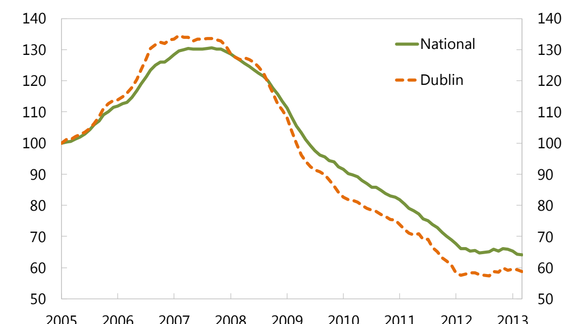


Source: Central Bank of Ireland.

… and the decline in property prices reflects divergent conditions between Dublin and the rest of the country.

Residential Property Prices

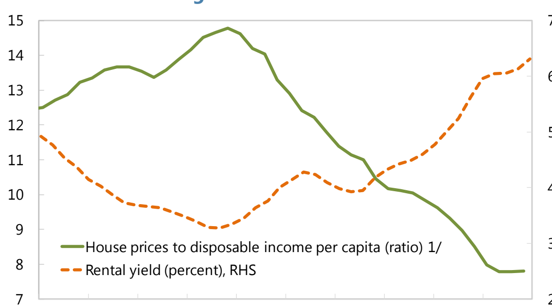
(2005M1=100)



Sources: CSO; and Haver Analytics.

Declining house prices drove rental yields to their highest level in ten years.

Indicators of Housing Valuation Levels

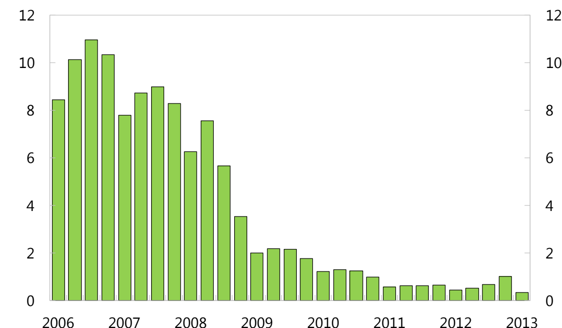


Sources: PTSB/ESRI; CSO; and Haver Analytics.
1/ Average house prices divided by moving 4-quarter adjusted GDI per capita.

Yet, the low volume of new mortgage lending restricts the circle of new buyers and impedes the housing recovery.

Loans for House Purchases

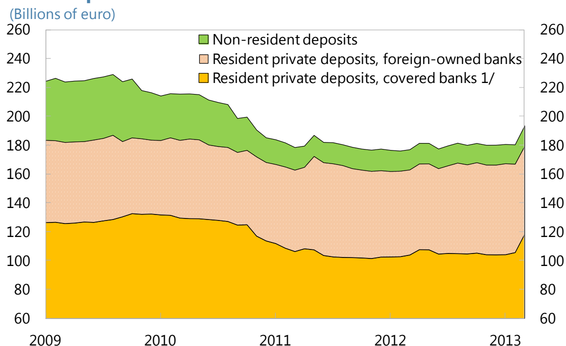
(Billions of euros)



Source: Irish Banking Federation/PWC.

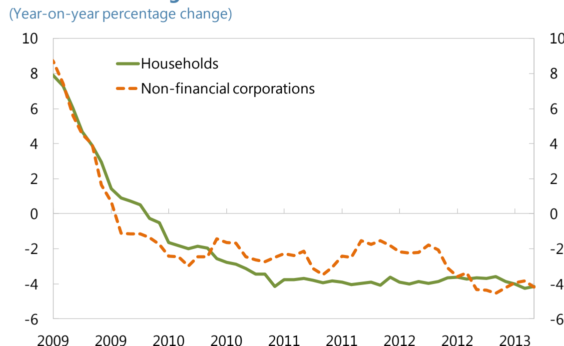
Figure 3. Ireland: Credit Developments, 2006–13

The level of private sector deposits has stabilized, with a recent rise reflecting liquidation of IBRC…



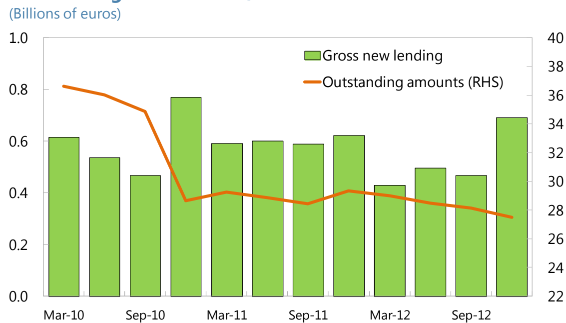
Source: Central Bank of Ireland.
1/ Credit institutions covered by the Irish Government Eligible Liabilities Guarantee Scheme.

…but credit to households and corporations continues to contract as repayments exceed lending.



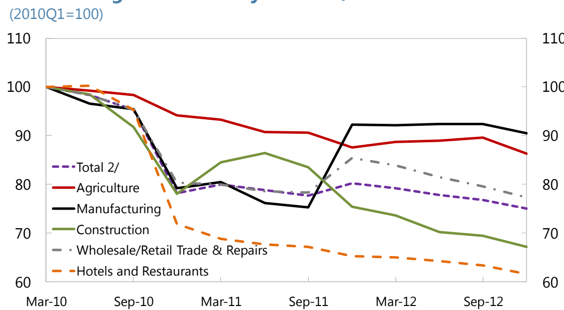
Source: Central Bank of Ireland.

Total SME credit remains low and credit outstanding declining in the past year…



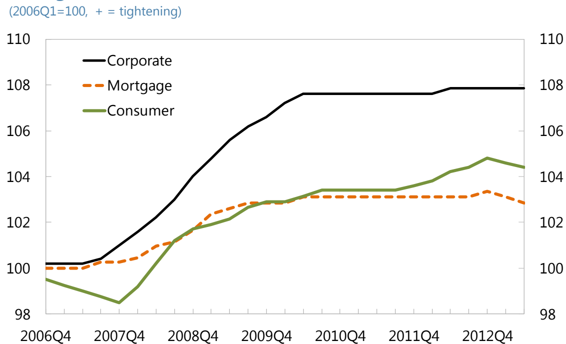
Source: Central Bank of Ireland.
1/ All resident credit institutions, excluding real estate and financial intermediation.

…with continued declines in across all sectors, though to a lesser extent in manufacturing and agriculture.



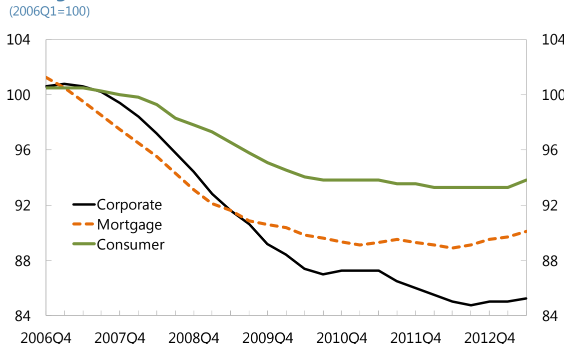
Source: Central Bank of Ireland.
1/ All resident credit institutions.
2/ Excludes real estate and financial intermediation.

Credit standards have started to ease for mortgages and consumer loans…



Source: Central Bank of Ireland.

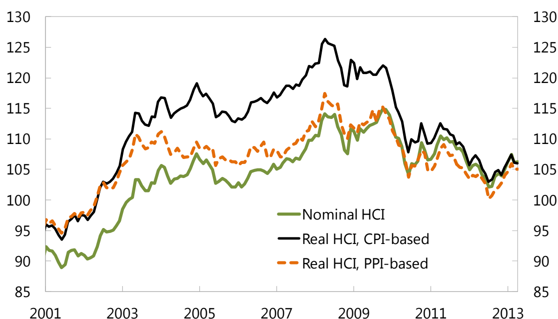
…while credit demand started to show some signs of life, with mortgage applications on the rise in April.



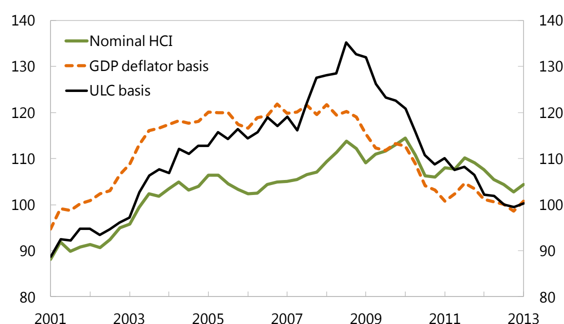
Source: Central Bank of Ireland.

Figure 4. Ireland: Competitiveness indicators, 2000–13

Appreciation of the euro in the recent months slowed the improvement in competitiveness indicators.

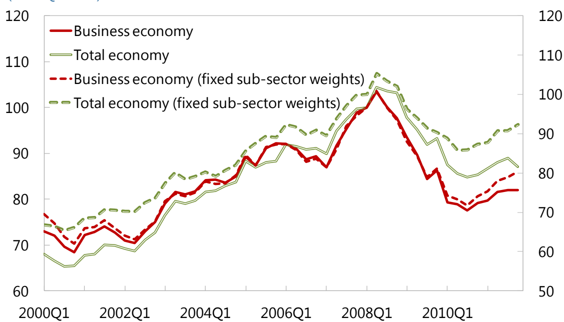


Sources: CBI; and Haver Analytics.



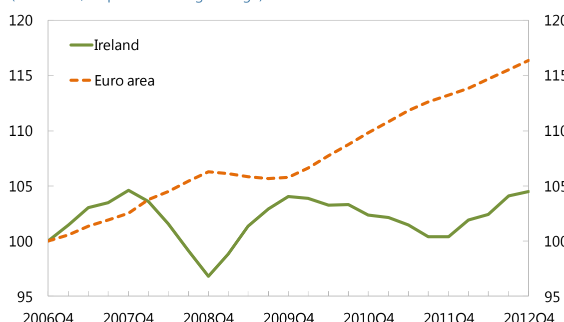
Sources: CBI; and Haver Analytics.

Though part of that earlier improvement reflects a shift to higher value-added sectors.



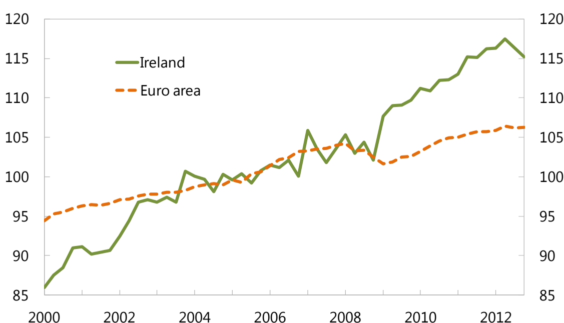
Source: Bruegel.

Private wages have risen in 2012, though this growth has been slower than in the euro area…



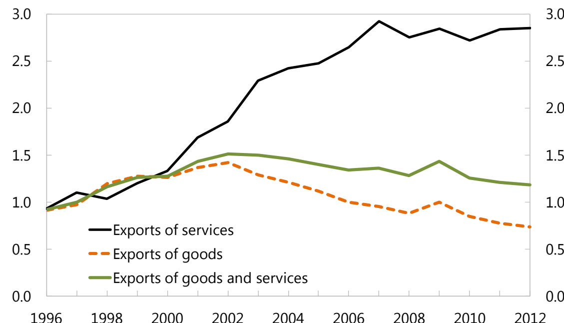
Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

…while labor productivity continues to outpace the euro area.



Source: Eurostat.

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

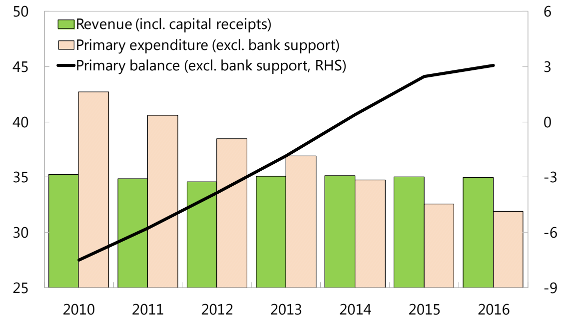


Sources: IMF WEO; and IMF staff calculations and projections.

Figure 5. Ireland: Selected Trends in General Government Finances, 2007–16

Of an 11 percent of GDP primary balance improvement (2010–16), more than half is expected by 2013.

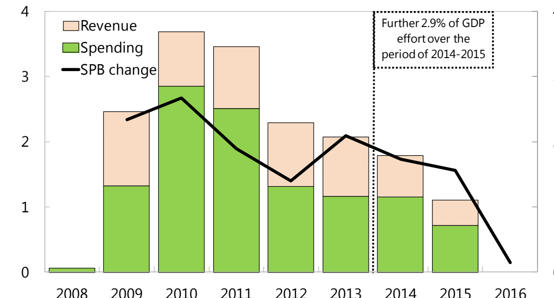
Revenues, Primary Expenditure and Balance
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Fiscal consolidation is programmed to moderate over time and is expenditure-led.

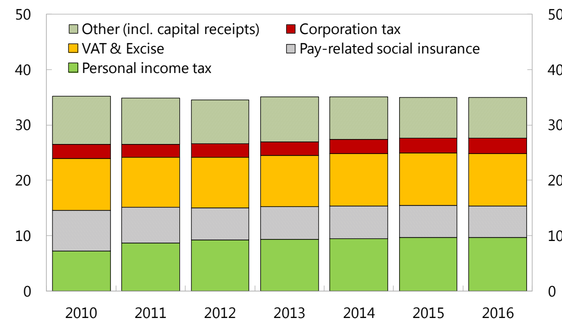
Composition of Fiscal Consolidation
(Percent of GDP)



Source: IMF staff estimates.
SPB denotes structural primary balance ratio.

Given the weaker recovery in nominal domestic demand, tax measures will not raise revenues as a share of GDP.

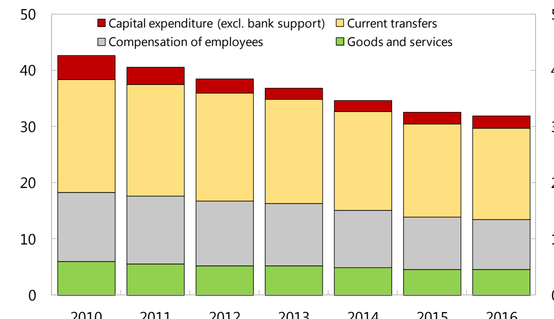
Revenue Composition
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

Primary expenditures will fall by more than 10 percent of GDP, reflecting evenly spread durable savings.

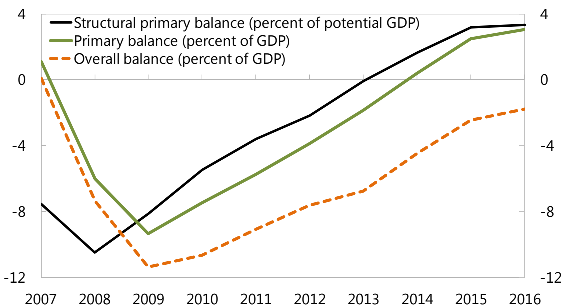
Primary Expenditure Components
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

An overall deficit below 3 percent of GDP is targeted for 2015, and a primary surplus is to be regained in 2014.

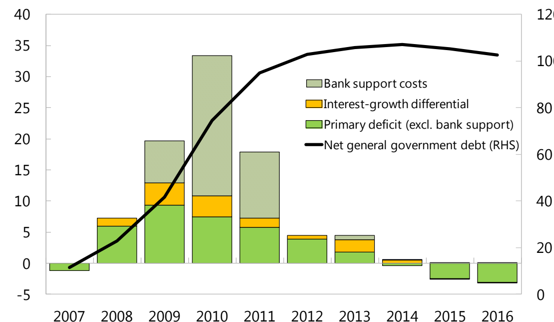
Headline, Primary and Structural Balance 1/
(Percent of GDP)



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

It will take time to unwind the increase in net debt, half of which 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.

Table 1. Ireland: Selected Economic Indicators, 2008–14

(Annual percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013	2014
						Proj	
National accounts (constant prices)							
Real GDP	-2.1	-5.5	-0.8	1.4	0.9	1.1	2.2
Domestic demand	-3.7	-11.0	-4.2	-3.7	-1.5	-0.5	1.0
Private consumption	-0.1	-5.4	1.0	-2.4	-0.9	-0.3	1.2
Public consumption	0.6	-4.4	-6.5	-4.3	-3.7	-2.0	-1.6
Gross fixed investment	-10.0	-27.6	-22.6	-12.6	1.2	1.0	4.0
Net exports 1/	1.4	4.5	3.0	5.4	2.8	1.4	1.4
Exports of goods and services	-1.1	-3.8	6.2	5.1	2.9	2.6	3.5
Imports of goods and services	-3.0	-9.7	3.6	-0.3	0.3	1.7	2.8
Real GNP	-1.8	-8.1	0.9	-2.5	3.4	0.0	1.5
Gross national saving (in percent of GDP)	16.3	13.5	13.1	11.3	15.0	13.4	14.5
Private	18.2	21.2	20.3	17.7	20.9	19.3	17.5
Public 2/	-1.9	-7.6	-7.2	-6.5	-5.9	-5.9	-3.0
Gross investment (in percent of GDP)	22.0	15.9	12.0	10.1	10.1	10.2	10.6
Private	16.5	12.1	8.5	7.5	8.3	8.6	9.1
Public	5.5	3.8	3.5	2.6	1.7	1.5	1.5
Prices, wages and employment (annual average)							
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.2	1.9	1.3	1.3
Average wage, whole economy	3.5	0.0	-1.9	-0.5	0.6	0.9	1.0
Employment	-0.7	-7.8	-4.0	-1.8	-0.6	0.2	0.9
Unemployment rate (in percent)	6.4	12.0	13.9	14.6	14.7	14.1	13.7
Money and credit (end-period) 3/							
Irish resident private sector credit 4/	8.8	-1.5	-3.4	-2.9	-4.0	-4.1	...
Financial and asset markets (end-period) 3/							
Three-month interbank rate	2.9	0.7	1.0	1.4	0.2	0.2	...
Government bond yield (in percent, 10-year) 5/	4.4	4.9	9.2	8.5	4.5	3.6	…
Annual change in ISEQ index (in percent)	-47.3	28.8	5.1	5.2	16.3	12.3	…
House prices	-12.4	-18.6	-10.5	-16.7	-4.5	-2.6	...
Public finance (in percent of GDP)							
General government balance (excl. bank support) 6/	-7.4	-11.4	-10.7	-9.1	-7.6	-7.5	-4.5
Primary balance (excl. bank support)	-6.0	-9.3	-7.5	-5.7	-3.9	-2.5	0.4
General government gross debt	44.5	64.8	92.1	106.4	117.6	123.6	120.8
General government net debt	23.0	41.8	74.5	94.9	102.8	105.7	107.1
External trade and balance of payments (percent of GDP)							
Balance of goods and services	9.0	15.9	18.6	21.9	24.1	25.2	26.2
Balance of income and current transfers	-14.7	-18.2	-17.5	-20.8	-19.6	-20.6	-21.0
Current account	-5.7	-2.3	1.1	1.1	4.9	3.2	3.9
Effective exchange rates (1999:Q1=100, average) 3/							
Nominal	111.6	112.5	107.8	108.6	105.1	106.2	...
Real (CPI based)	123.1	121.0	111.6	110.2	105.3	106.0	...
Memorandum items:							
Population (in millions)	4.5	4.5	4.6	4.6	4.6	4.6	4.6
GDP per capita (in euros)	39,884	35,575	34,356	34,753	35,677	36,299	37,366
GDP (in billions of euros)	178.9	161.3	156.5	159.0	163.6	167.5	173.4

Sources: Bloomberg; Central Bank of Ireland; Department of Finance; International Financial Statistics; and IMF staff estimates.
1/ Contribution to growth.
2/ Excludes bank restructuring costs.
3/ Data refers to end-March for private sector credit, interbank rate and house prices, and end-April for other indicators.
4/ Adjusted growth rate of credit to households and non-financial corporations.
5/ Since mid-2012, 8 year government bond yield is shown as no 10 year benchmark exists.
6/ General government balance per ESA95 definition. For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

Table 2. Ireland: Medium-Term Scenario, 2009–18

(Annual percentage change, unless indicated otherwise)

	2009	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018
					9th Review	Proj.					
Real GDP	-5.5	-0.8	1.4	0.9	1.1	1.1	2.2	2.7	2.7	2.7	2.7
Domestic demand	-11.0	-4.2	-3.7	-1.5	-1.0	-0.5	1.0	1.8	2.0	2.1	2.4
Final domestic demand	-10.2	-4.9	-4.3	-1.2	-1.0	-0.5	1.0	1.8	2.0	2.1	2.4
Private consumption	-5.4	1.0	-2.4	-0.9	-0.5	-0.3	1.2	1.6	1.5	1.7	1.7
Public consumption	-4.4	-6.5	-4.3	-3.7	-2.5	-2.0	-1.6	-0.7	0.0	0.0	0.5
Gross fixed investment	-27.6	-22.6	-12.6	1.2	-1.5	1.0	4.0	6.0	6.4	6.5	7.0
Change in stocks 1/	-0.7	0.6	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	4.5	3.0	5.4	2.8	1.8	1.4	1.4	1.4	1.2	1.2	1.0
Exports of goods and services	-3.8	6.2	5.1	2.9	3.0	2.6	3.5	4.1	4.3	4.5	4.5
Imports of goods and services	-9.7	3.6	-0.3	0.3	1.7	1.7	2.8	3.8	4.3	4.6	4.8
Real GNP	-8.1	0.9	-2.5	3.4	0.1	0.0	1.5	2.2	2.1	2.2	2.2
Current account 2/	-2.3	1.1	1.1	4.9	3.4	3.2	3.9	4.0	4.0	4.0	4.0
Gross national saving 2/	13.5	13.1	11.3	15.0	13.2	13.4	14.5	15.4	15.8	16.1	16.5
Private	21.2	20.3	17.7	20.9	18.5	19.3	17.5	16.5	16.2	16.1	16.0
Public	-7.6	-7.2	-6.5	-5.9	-5.3	-5.9	-3.0	-1.0	-0.4	0.1	0.6
Gross investment 2/	15.9	12.0	10.1	10.1	9.8	10.2	10.6	11.5	11.8	12.2	12.6
Private	12.1	8.5	7.5	8.3	8.2	8.6	9.1	10.1	10.4	10.7	11.1
Public	3.8	3.5	2.6	1.7	1.6	1.5	1.5	1.4	1.4	1.4	1.5
Prices											
Harmonized index of consumer prices	-1.7	-1.6	1.2	1.9	1.3	1.3	1.3	1.6	1.8	1.8	1.8
GDP deflator	-4.6	-2.2	0.2	1.9	1.3	1.2	1.3	1.5	1.6	1.6	1.7
Average wage, whole economy	0.0	-1.9	-0.5	0.6	0.9	0.9	1.0	1.5	2.0	2.1	2.1
Labor market											
Employment	-7.8	-4.0	-1.8	-0.6	0.1	0.2	0.9	2.0	2.1	2.1	2.0
Unemployment rate (in percent)	12.0	13.9	14.6	14.7	14.6	14.1	13.7	12.9	12.4	11.0	10.3
Public finance											
General government balance 2/ 3/	-11.4	-10.7	-9.1	-7.6	-7.5	-7.5	-4.5	-2.5	-1.8	-1.4	-0.9
General government gross debt 2/	64.8	92.1	106.4	117.6	122.5	123.6	120.8	117.2	114.0	110.2	106.4
General government net debt 2/	41.8	74.5	94.9	102.8	106.6	105.7	107.1	105.4	102.6	99.1	95.7
Output gap	-2.6	-3.4	-2.2	-1.8	-1.8	-1.7	-1.0	-0.2	0.2	0.3	0.2
Nominal GDP (in billions of euros)	161.3	156.5	159.0	163.6	166.7	167.5	173.4	180.8	188.7	197.0	205.8

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

1/ Contributions to growth.

2/ In percent of GDP, excludes bank restructuring costs. For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

3/ General government balance per ESA95 definition.

Table 3. Ireland: General Government Statement of Operations, 2009–18

(consistent with *GFSM* 2001; in billions of Euros)

					Projections 1/					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	56.0	55.1	55.4	56.6	58.7	60.9	63.3	66.0	68.5	71.6
Taxes	35.9	34.8	37.6	39.7	41.5	44.0	46.0	48.1	50.5	53.0
Personal income tax	11.8	11.3	13.8	15.2	15.6	16.5	17.5	18.3	19.3	20.4
Corporate income tax	3.9	3.9	3.8	4.0	4.2	4.6	4.9	5.3	5.6	6.0
Value-added tax	10.7	10.1	9.7	10.2	10.3	11.0	11.5	11.9	12.4	12.9
Excise tax	4.7	4.7	4.7	4.7	5.2	5.4	5.7	5.9	6.1	6.4
Other 2/	4.8	4.9	5.6	5.7	6.1	6.6	6.5	6.8	7.0	7.3
Social contributions 3/	12.0	11.5	10.3	9.5	9.8	10.2	10.5	10.8	11.1	11.5
Other revenue 4/	8.1	8.8	7.5	7.4	7.4	6.7	6.8	7.1	6.9	7.1
Expenditure (excl. fin. sector support)	74.4	71.8	69.9	69.1	71.2	68.7	67.8	69.4	71.2	73.4
Expense (excl. fin. sector support)	68.3	66.3	65.8	65.7	68.3	65.7	64.7	66.0	67.8	69.6
Compensation of employees	20.7	19.3	19.1	18.8	18.7	17.8	16.8	16.9	17.2	17.8
Use of goods and services	10.4	9.3	8.9	8.6	8.7	8.4	8.3	8.6	8.7	9.0
Interest	3.3	5.0	5.3	6.1	8.2	8.5	8.9	9.2	9.7	9.8
Subsidies	0.9	0.9	0.6	0.6	0.5	0.4	0.4	0.4	0.5	0.6
Social benefits 3/	28.3	28.2	28.8	28.7	28.2	27.8	27.5	27.6	28.1	28.7
Other expense (excl. fin. sector support) 5/	4.7	3.6	3.1	2.9	4.0	2.8	2.9	3.3	3.5	3.8
Gross fixed capital formation	6.1	5.5	4.0	3.3	2.9	3.0	3.0	3.4	3.4	3.8
Financial sector support costs	4.0	31.6	6.8	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. fin. sector support)	-18.4	-16.7	-14.5	-12.5	-12.5	-7.8	-4.4	-3.4	-2.7	-1.8
Net lending/borrowing (incl. fin. sector support)	-22.4	-48.3	-21.3	-12.5	-12.6	-7.9	-4.5	-3.4	-2.7	-1.8
Primary balance (excl. fin. sector support)	-15.1	-11.7	-9.1	-6.3	-4.3	0.7	4.5	5.8	7.1	8.0
Net financial worth, transactions	-22.9	-47.9	-20.3	-12.5	-12.6	-7.9	-4.5	-3.4	-2.7	-1.8
Net acquisition of financial assets	2.6	-8.1	3.2	5.2	5.6	-6.2	-2.4	0.2	0.2	0.2
Net incurrence of liabilities	25.5	39.8	23.4	17.7	18.2	1.7	2.1	3.6	2.9	2.0
Statistical discrepancy	0.5	-0.4	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP, unless indicated otherwise)										
Revenue	34.7	35.2	34.9	34.6	35.1	35.1	35.0	35.0	34.8	34.8
Taxes and social contributions 3/	29.7	29.6	30.1	30.1	30.7	31.3	31.2	31.2	31.3	31.4
Other revenue 4/	5.0	5.6	4.7	4.5	4.4	3.8	3.8	3.7	3.5	3.4
Expenditure (excl. fin. sector support)	46.1	45.9	44.0	42.2	42.5	39.6	37.5	36.8	36.1	35.7
Current primary (excl. fin. sector support) 5/	40.3	39.2	38.1	36.4	35.9	33.0	30.9	30.1	29.5	29.0
Interest	2.0	3.2	3.3	3.7	4.9	4.9	4.9	4.9	4.9	4.8
Gross fixed capital formation	3.8	3.5	2.5	2.0	1.7	1.7	1.7	1.8	1.7	1.8
Net lending/borrowing (excl. fin. sector support)	-11.4	-10.7	-9.1	-7.6	-7.5	-4.5	-2.5	-1.8	-1.4	-0.9
Net lending/borrowing (incl. fin. sector support)	-13.9	-30.8	-13.4	-7.6	-7.5	-4.6	-2.5	-1.8	-1.4	-0.9
Primary balance (excl. fin. sector support)	-9.3	-7.5	-5.7	-3.9	-2.5	0.4	2.5	3.1	3.6	3.9
Net financial worth, transactions	-14.2	-30.6	-12.7	-7.6	-7.5	-4.6	-2.5	-1.8	-1.4	-0.9
Net acquisition of financial assets	1.6	-5.2	2.0	3.2	3.3	-3.6	-1.3	0.1	0.1	0.1
Net incurrence of liabilities	15.8	25.4	14.7	10.8	10.8	1.0	1.2	1.9	1.5	1.0
Statistical discrepancy	0.3	-0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance	-10.4	-8.8	-7.0	-6.0	-5.7	-3.2	-1.7	-1.5	-1.5	-1.3
Structural primary balance 6/	-8.1	-5.5	-3.6	-2.2	-0.8	1.6	3.2	3.3	3.4	3.5
General government gross debt	64.8	92.1	106.4	117.6	123.6	120.8	117.2	114.0	110.2	106.4
General government net debt	41.8	74.5	94.9	102.8	105.7	107.1	105.4	102.6	99.1	95.7
Output gap (percent of potential GDP)	-2.6	-3.4	-2.2	-1.8	-1.7	-1.0	-0.2	0.2	0.3	0.2
Nominal GDP (in billions of euros)	161.3	156.5	159.0	163.6	167.5	173.4	180.8	188.7	197.0	205.8

Sources: Department of Finance; IMF and staff estimates.

1/ Projections are consistent with the adjustment path set out in the Medium-Term Fiscal Statement (2012), as specified in Budget 2013.

2/ Includes stamp duty, capital taxes, property tax and other taxes.

3/ Includes imputed social insurance contributions. The 2011 downward jump in the series reflects the integration of health levy receipts into the universal social charge (now part of income tax).

4/ Includes property income, sales of goods and services, current transfer revenue and capital transfer revenue.

5/ For 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

6/ In percent of nominal potential GDP.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2009–13

	2009	2010	2011	2012	2013 7/
External indicators					
Exports (annual percent change, value in euros)	-2.5	7.8	5.7	6.2	3.7
Imports (annual percent change, value in euros)	-10.1	6.6	2.8	4.4	2.7
Terms of trade (goods, annual percent change)	1.7	-1.2	-2.9	-0.1	-0.1
Current account balance (in percent of GDP)	-2.3	1.1	1.1	4.9	3.2
Capital and financial account balance (in percent of GDP)	-1.4	4.2	-18.0	-12.8	-10.2
Of which:					
Inward portfolio investment	13.8	48.3	19.2	44.3	42.4
Inward foreign direct investment	11.5	20.7	5.2	13.9	13.9
Other investment liabilities	-53.6	-39.6	-52.0	-59.5	-41.8
U.S. dollar per euro (period average)	1.40	1.32	1.40	1.29	1.32
U.K. pound per euro (period average)	0.89	0.86	0.87	0.81	0.85
Financial markets indicators					
General government debt (in percent of GDP)	64.8	92.1	106.4	117.6	123.6
Government bond yield (in percent, 10-year, end-period) 1/	4.9	9.2	8.5	4.5	3.6
Spread of government bond yield with Germany (in percent, end of period)	1.3	6.0	6.5	3.2	2.3
Real government bond yield (in percent, 10-year, period average, based on HICP)	6.9	7.6	8.4	4.1	2.4
Annual change in ISEQ index (in percent, end of period)	28.8	5.1	5.2	16.3	12.3
Personal lending interest rate (in percent)	11.1	11.4	11.6	11.6	…
Standard variable mortgage interest rate (in percent)	3.3	4.0	4.2	4.3	…
Financial sector risk indicators					
Annual credit growth rates (to Irish resident private sector, in percent) 2/	-1.5	-3.4	-2.9	-4.0	-4.1
Personal lending as a share of total Irish resident credit (in percent)	35.6	35.8	30.0	33.0	...
Of which:					
House mortgage finance	30.1	30.6	25.4	28.7	...
Other housing finance	0.2	0.3	0.3	0.3	...
Other personal lending	5.3	5.2	4.6	4.3	...
Irish resident household mortgage debt annual growth rates (in percent) 3/	-3.9	-9.0	-19.3	5.6	...
Foreign-currency denominated assets (in percent of total assets)	34.3	30.3	29.4	28.4	...
Foreign-currency denominated liabilities (in percent of total liabilities)	31.1	25.8	26.3	25.4	...
Non-performing loans (in percent of total loans) 4/	9.0	8.6	9.1	11.3	...
Total provisions for loan losses (in percent of total loans)	4.0	4.2	4.8	5.3	...
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.9	10.4	17.7	16.7	...
Bank return on assets (before tax, in percent)	-1.6	-3.1	-0.8	…	...
Bank return on equity (before tax, in percent)	-40.6	-67.6	-16.9	…	...
Deposits to M3 ratio 5/	1.4	1.5	1.2	1.3	...
Loan-to-deposit ratio vis-à-vis Irish residents 6/	2.1	2.1	2.1	1.9	...
vis-à-vis total 6/	2.2	2.1	2.1	1.9	...
Concentration ratios in the banking sector					
No. of banks accounting for 25 percent of total assets	2	2	2	2.0	...
No. of banks accounting for 75 percent of total assets	13	13	14	14.0	...
Share of state-owned banks in total assets (in percent)	6.0	8.0	18	19.2	...
Share of foreign-owned banks in total assets (in percent)	65.0	66.0	62	57.6	...

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

1/ Since mid-2012, 8 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 2013, staff projections for macroeconomic variables and debt, end-September 2012 for lending rates, end-April 2013 for other financial market indicators and exchange rates, and end-December for other indicators. 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: Summary of Balance of Payments, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Proj.					
	(In billions of euros)									
Current account balance	-3.8	1.8	1.8	8.1	5.3	6.7	7.2	7.5	7.8	8.2
Balance of goods and services	25.6	29.1	34.8	39.3	42.3	45.4	48.6	51.5	54.3	57.0
Trade balance	32.5	35.8	36.6	36.4	36.1	37.1	38.8	40.9	43.0	45.3
Exports of goods	77.6	82.6	84.9	86.4	86.2	88.2	91.6	95.6	99.9	104.5
Imports of goods	-45.2	-46.9	-48.3	-50.0	-50.1	-51.1	-52.8	-54.8	-56.9	-59.2
Services balance	-6.9	-6.6	-1.8	3.0	6.1	8.3	9.7	10.6	11.3	11.7
Credit	67.6	74.3	81.4	90.2	97.4	103.7	110.2	117.2	124.8	132.9
Debit	-74.5	-81.0	-83.3	-87.3	-91.3	-95.4	-100.5	-106.5	-113.5	-121.2
Income balance	-27.9	-25.9	-31.8	-30.0	-35.7	-37.4	-39.9	-42.4	-44.8	-46.9
Credit	55.1	57.1	55.9	58.1	54.6	56.0	57.6	59.3	61.3	64.0
Debit	-83.0	-83.0	-87.7	-88.2	-90.2	-93.5	-97.4	-101.7	-106.2	-110.9
Current transfers (net)	-1.4	-1.4	-1.2	-1.2	-1.2	-1.3	-1.5	-1.6	-1.7	-1.9
Capital and financial account balance	-2.3	6.6	-28.7	-20.9	-17.1	-6.7	-7.2	-7.5	-7.8	-8.2
Capital account balance	-1.3	-0.7	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Financial account	-1.1	7.3	-28.4	-20.7	-16.8	-6.4	-6.9	-7.2	-7.5	-7.8
Direct investment	-0.6	15.4	11.3	8.1	8.2	8.1	7.9	8.2	8.4	8.7
Portfolio investment	22.6	86.0	27.5	-4.6	2.0	2.0	4.0	3.8	4.8	4.0
Other investment	-23.1	-94.1	-67.6	-35.6	-28.4	-17.5	-19.9	-20.6	-21.9	-22.2
Change in reserve assets 1/	0.1	0.0	0.3	-0.1	1.4	1.1	1.1	1.5	1.3	1.7
Net errors and omissions	6.1	-8.4	-7.6	-8.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	34.5	21.3	11.7	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	34.5	21.3	11.7	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	12.6	6.4	3.5	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	21.9	14.8	8.2	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)									
Current account balance	-2.3	1.1	1.1	4.9	3.2	3.9	4.0	4.0	4.0	4.0
Balance of goods and services	15.9	18.6	21.9	24.1	25.2	26.2	26.9	27.3	27.6	27.7
Trade balance	20.1	22.8	23.0	22.2	21.6	21.4	21.5	21.6	21.8	22.0
Services balance	-4.3	-4.2	-1.1	1.8	3.7	4.8	5.4	5.6	5.7	5.7
Income balance	-17.3	-16.6	-20.0	-18.4	-21.3	-21.6	-22.1	-22.5	-22.8	-22.8
Current transfers (net)	-0.9	-0.9	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9
Capital and financial account balance	-1.4	4.2	-18.0	-12.8	-10.2	-3.9	-4.0	-4.0	-4.0	-4.0
Of which:										
Direct investment	-0.4	9.9	7.1	4.9	4.9	4.7	4.4	4.3	4.3	4.2
Portfolio investment	14.0	54.9	17.3	-2.8	1.2	1.1	2.2	2.0	2.4	1.9
Other investment	-14.3	-60.2	-42.5	-21.8	-16.9	-10.1	-11.0	-10.9	-11.1	-10.8
Change in reserve assets 1/	0.0	0.0	0.2	0.0	0.8	0.6	0.6	0.8	0.7	0.8
Net errors and omissions	3.8	-5.4	-4.8	-5.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	21.7	13.0	7.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	21.7	13.0	7.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	7.9	3.9	2.1	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	13.8	9.1	4.9	0.0	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 6. Ireland: Monetary Survey, 2009–13

(In billions of euros, unless otherwise indicated; end of period)

	Dec-09	Dec-10	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Aggregate balance sheet of domestic market credit institutions								
Assets	798	742	634	610	606	567	546	494
Claims on Central Bank of Ireland	12	8	4	5	6	7	2	2
Claims on Irish resident Other MFIs	129	123	92	86	81	55	53	50
Claims on Irish resident non MFIs	363	357	338	337	333	330	325	291
General government	9	43	42	44	45	47	47	19
Private sector	354	314	296	293	287	284	278	273
Households	139	129	109	108	108	106	111	109
Non-Financial Corporations	144	90	85	85	84	84	82	82
Non-Bank Financial Intermediaries	71	95	101	100	96	94	85	82
Claims on non-residents	241	206	147	139	140	129	119	109
Other assets	54	47	52	44	46	46	47	42
Liabilities	798	742	634	610	606	567	546	494
Liabilities to Eurosystem 1/	58	95	72	75	78	70	59	44
Liabilities to Irish resident Other MFIs	131	132	99	92	87	60	59	55
Deposits of Irish resident non MFIs	180	161	144	145	145	146	151	168
General government	3	3	2	2	3	3	6	10
Private sector	176	157	141	142	143	143	145	158
Households	99	94	91	91	91	92	92	92
Non-Financial Corporations	39	31	28	27	27	27	28	28
Non-Bank Financial Intermediaries	38	32	23	24	24	25	25	39
Deposits of non-residents	229	137	98	91	90	83	75	76
Debt securities	98	64	52	44	41	39	38	34
Capital and reserves	53	71	91	93	97	97	98	94
Other liabilities (incl. Central Bank of Ireland)	50	83	78	70	69	71	66	24
Money and credit 2/								
Net foreign assets	-421	-480	-340	-34	-23	-15	-14	…
Central Bank of Ireland 3/	-37	-128	-101	-76	-77	-67	-62	…
Commercial banks	-384	-352	-239	42	54	52	48	33
Net domestic assets	629	652	509	203	191	185	184	…
Public sector credit	10	43	43	44	46	47	48	19
Private sector credit	375	335	324	319	313	309	302	297
Other	244	274	143	-160	-167	-171	-166	…
Irish Resident Broad money (M3) 4/	208	173	169	169	168	170	170	185
Irish Resident Intermediate money (M2) 4/	188	173	167	167	166	168	168	182
Irish Resident Narrow money (M1)	100	97	90	89	89	90	92	105
				(percent of GDP)				
Public sector credit 5/	5.3	27.6	27.0	27.9	28.4	29.0	29.4	11.5
Private sector credit 5/	220.4	201.5	189.1	185.9	180.1	176.8	172.9	169.8
				(y-o-y percentage change)				
Broad money - Irish contribution to euro area M3 6/	-6.6	-19.6	1.3	-3.3	-10.2	-7.5	-7.3	-0.6
Irish Public sector credit 6/ 7/	176.9	369.4	1.5	11.0	15.3	8.5	8.5	-58.5
Irish Household and non-financial corporations credit 6/ /7	-1.5	-3.4	-2.9	-3.2	-3.4	-4.0	-4.0	-4.1
Memorandum items: 8/								
Credit to deposits (in percent) 9/	200.8	200.0	209.2	205.5	201.5	197.9	191.7	172.4
Deposits from Irish Private Sector (y-o-y percent change)	2.1	-9.8	-9.2	-5.6	-2.7	0.7	2.4	10.5
Wholesale funding (billions of euros)	423	315	234	213	203	168	157	150
Deposits from MFIs	325	251	182	169	163	129	120	116
Debt securities	98	64	52	44	41	39	38	34
Wholesale funding (y-o-y percent change) 10/	0.1	-21.9	-27.1	-25.3	-19.5	-33.7	-33.0	-28.3
Wholesale funding (percent of assets) 10/	53.0	44.8	36.8	34.9	33.5	29.7	28.9	30.3

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 7. Ireland: General Government Financing Requirements and Sources, 2008–13

(In billions of euros)

	2008	2009	2010	2011	Proj. 2012	Proj. 2013
Gross borrowing need	**15.9**	**63.4**	**71.4**	**45.3**	**29.8**	**25.8**
Exchequer cash deficit 1/	12.7	24.6	18.7	19.1	17.1	11.2
Amortization	3.1	27.7	17.3	9.7	11.1	14.6
Medium-and long-term	0.1	5.1	1.2	4.8	6.8	5.2
Short-term 2/	3.0	22.6	16.2	4.9	4.4	9.4
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**	**8.5**	**14.1**
Market financing (incl. retail) 4/	34.9	53.3	23.2	1.4	10.1	20.2
Net retail funding	1.3	1.8	3.4	1.4	1.3	0.8
Other market financing	33.6	51.6	19.8	0.0	8.8	19.4
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	9.4	-5.2	-5.6
Financing gap	**0.0**	**0.0**	**0.0**	**34.5**	**21.3**	**11.7**
EFSM/EFSF	0.0	0.0	0.0	21.5	12.3	6.4
Bilateral EU	0.0	0.0	0.0	0.5	2.5	1.9
IMF	0.0	0.0	0.0	12.6	6.4	3.5
Memorandum items						
Exchequer cash balance 6/	22.0	21.8	12.3	12.9	18.1	23.7
General government debt 7/	79.6	104.5	144.2	169.2	192.5	207.0
Official creditors	0.0	0.0	0.0	34.5	56.0	67.4
European Union	0.0	0.0	0.0	21.9	37.1	44.9
IMF	0.0	0.0	0.0	12.6	18.9	22.5
Other	79.6	104.5	144.2	134.7	136.5	139.6
Treasury bills, bonds and retail	72.0	96.3	110.4	101.6	104.0	134.6
Promissory notes	0.0	0.0	30.9	28.3	25.3	0.2
Other	7.6	8.4	2.9	4.8	7.2	4.8
General government debt (in percent of GDP) 7/	44.5	64.8	92.1	106.4	117.6	123.6
Official creditors	0.0	0.0	0.0	21.7	34.2	40.2
European Union	0.0	0.0	0.0	13.8	22.7	26.8
IMF	0.0	0.0	0.0	7.9	11.6	13.5
Other	44.5	64.8	92.1	84.7	83.4	83.4
Treasury bills, bonds and retail	40.2	59.7	70.5	63.9	63.6	80.4
Promissory notes	0.0	0.0	19.7	17.8	15.4	0.1
Other	4.3	5.2	1.9	3.0	4.4	2.9

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 8. Ireland: Schedule of Reviews and Purchases

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 13, 2012	Observance of end-March 2012 performance criteria, completion of Sixth Review	1,191,000,000	95
Seventh Review	September 5, 2012	Observance of end-June 2012 performance criteria, completion of Seventh Review	758,000,000	60
Eight Review	December 12, 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 projections.

Table 9. Ireland. Indicators of Fund Credit, 2010–23 1/

(In millions of SDR)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
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	332	359	643	1,207	2,799	3,424	3,651	3,519	3,387	2,747	1,083	351
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349
Charges	-	109	332	359	643	672	626	528	406	274	143	38	12	3
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	-	7.9	12.0	13.3	12.9	12.1	10.3	8.2	6.0	4.0	2.2	0.7	0.2	-
In percent of exports of goods and services	-	7.5	11.1	12.1	11.6	10.8	9.1	7.2	5.2	3.5	1.9	0.6	0.1	-
Obligations to the Fund														
In percent of quota	-	9	26	29	51	96	223	272	290	280	269	218	86	28
In percent of GDP	-	0.1	0.2	0.2	0.4	0.8	1.7	2.0	2.1	1.9	1.8	1.4	0.5	0.2
In percent of exports of goods and services	-	0.1	0.2	0.2	0.4	0.7	1.5	1.8	1.8	1.7	1.5	1.2	0.5	0.1

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.

Table 10. Ireland: PCAR Banks' Aggregated Summary Financial Statements, 2011 – 2012

(In billions of euro, unless otherwise indicated)

Balance Sheet	2011	2012	Year/year change	
	EUR bn	EUR bn	EUR bn	%
Cash & due from Eurosystem	12.2	13.3	1.1	8.8
Net loans	220.1	197.2	-22.9	-10.4
Due from banks	14.2	13.1	-1.1	-7.8
Securities & derivatives	63.8	65.8	2.0	3.1
Other assets	16.1	11.2	-4.9	-30.5
Total assets	326.4	300.5	-25.8	-7.9
Total average assets (TAA) 1/	332.1	317.0	-15.1	-4.5
Due to Eurosystem	53.8	47.0	-6.8	-12.6
Due to banks	31.6	16.3	-15.3	-48.3
Deposits	148.9	158.8	9.9	6.6
Debt & derivatives	56.6	47.7	-8.9	-15.6
Other liabilities	7.1	7.9	0.7	10.4
Total liabilities	298.1	277.8	-20.3	-6.8
Net equity	28.2	22.7	-5.6	-19.7
Total liabilities & equity	326.4	300.5	-25.8	-7.9
Memorandum items:				
Gross loans 2/	240.8	223.8	-17.0	-7.0
Loan loss provisions	23.5	26.8	3.3	14.0
Gross NPLs	47.2	55.6	8.4	17.8
Gross NPLs to gross loans (%)	19.6	24.8	0.0	5.2
Provisions to gross NPLs (%)	49.7	48.1	0.0	-1.6
Net NPLs to net equity (%)	83.9	127.0	0.0	43.1

Profit and Loss Account	2011		2012	
	EUR bn	% of TAA	EUR bn	% of TAA
Interest income	10.4	3.1	9.1	2.9
Interest expense 4/	-7.3	-2.2	-6.4	-2.0
Net interest margin	3.1	0.9	2.6	0.8
Net fee income	1.2	0.4	0.8	0.3
Net trading gains	0.9	0.3	-0.3	-0.1
Other nonrecurrent items	4.7	1.4	-0.8	-0.3
Gross operating income	9.9	3.0	2.4	0.8
Operating expenses	-3.2	-1.0	-4.0	-1.3
o/w: administration & other	-1.2	-0.4	-1.8	-0.6
o/w: staff	-1.9	-0.6	-2.2	-0.7
Preprovision profits (PPP)	6.8	2.0	-1.6	-0.5
Loan loss & NAMA provisions	-13.0	-3.9	-5.2	-1.6
Loss on derecognized assets	-0.9	-0.3	-0.2	-0.1
Net income before tax	-7.1	-2.1	-6.9	-2.2
Tax effects & other 3/	3.1	0.9	0.5	0.2
Net income	-4.0	-1.2	-6.5	-2.0
Memorandum items:				
PPP net of other nonrecurrent items	2.1	0.6	-0.8	-0.2
Return on equity		-18.6		-25.2
Provisions to gross loans		4.9		2.2
Risk weighted assets (RWA)	166.8	50.2	147.2	46.4
Core tier 1 capital (CT1) and CT1 to RWA (%)	27.4	16.4	21.6	14.7
CT1 to total assets = leverage ratio (%)		8.4		7.2

Sources: CBI; and IMF staff estimates.

1/ TAA denotes total average assets net of loan loss provisions over the reporting period for PCAR banks. PCAR banks are Bank of Ireland (BOI), Allied Irish Bank (AIB), and Permanent TSB (PTSB). In June 2011, Irish Nationwide was included in the data as a PCAR bank. No longer included it was merged with IBRC in July (this would reduce comparable total assets in June 2011 by €6.3 bn). EBS and AIB merged on July 2011 and are consolidated only since June 2012 with minimal accounting

2/ Includes loans held for sale, classified on balance sheet as other assets.

3/ Includes profits from discontinued operations of €1.6 billion and tax credits of €1.5 billion in 2011.

4/ Includes estimate of ELG fees paid: €1.1 billion in 2011, and €0.9 billion in 2012.

Annex I. Debt Sustainability Analysis

This Annex presents the public and external debt sustainability analysis (DSA) based on staff's medium-term macroeconomic framework and the Irish authorities' fiscal consolidation plan.

General Government Debt

Under the baseline macroeconomic projection, the planned fiscal adjustment will put Ireland's debt ratio on a declining path from 2014. Ireland's primary surplus is projected to increase above its debt stabilizing threshold in 2014. Automatic debt dynamics arising from the interest rate-growth differential will add some 1½ percentage points per year to the debt ratio in 2013–14, before stronger growth takes hold from 2015. Subsequently, the impact of the interest rate-growth differential is negligible, with debt reductions driven by the primary surplus. Gross general government debt is projected to fall to around 96 percent of GDP by 2021.

Lower economic growth remains the principal risk to debt sustainability. If real GDP growth were to stagnate at 1 percent per year in the medium term, the automatic debt dynamics would add around 2¼ percentage points of GDP each year on average over 2013–16. At this level, debt would be on an unsustainable path to 136 percent of GDP by 2021. In addition, stagnant growth may add to debt from any further bank restructuring costs.

Realization of contingent liabilities could also add to debt. The range of the government's explicit guarantees is expected to narrow as NAMA bonds are repaid and the ELG scheme is phased out. The extent of contingent liabilities has risen relative to the DSA in the ninth review reflecting banks issuing additional Own Use Bank Bonds (around €12.5 in total as at end-March 2013) for collateral purposes ahead of the expiration of the ELG scheme in March. While the liquidation of IBRC in February removed the need for the government to provide guarantees of ELA, this was offset by the issuance of an additional €12.9 billion in NAMA senior bonds, which are government guaranteed. A realization of a related contingent liability could occur later this year when IBRC's remaining assets will be sold and any remaining shortfall for NAMA (relative to the value of NAMA bonds issued) will be paid out by the Exchequer. As the owner of NAMA, which is resolving loan portfolios with heavy exposure to Irish and U.K. property markets, the government it is also exposed to losses in excess of its capital on NAMA's existing portfolio. Finally, the government is exposed to the potential for larger loan losses in the financial system, including the domestic banks, if their current capital buffers were exhausted. Taking into account the overall scale of contingent liabilities, and the limited relevant information available on potential realization risks, a standard 10 percent of GDP shock is used to represent possible realization of such contingent liabilities.

Ireland: Contingent Liabilities
(in percent of projected 2013 GDP)

Senior NAMA bonds	24.1
Other Bank Liabilities covered by Eligible Liability Guarantee scheme	13.0
Total	**37.1**

Source: Irish authorities and IMF staff calculations

Interest rate shocks remain a less powerful risk. The baseline is built on unchanged interest rate projections, which have not taken into account the full extent of recent declines in spreads, thus including a safety margin. In the medium term, Ireland is shielded from a rise in interest rates by its still-high share of fixed rate and official borrowing. While the swapping of the fixed coupon promissory note against €25 billion of floating rate long term bonds reduces the share of fixed rate borrowing, the government has the option to exchange a portion of them against fixed rate bonds at the time CBI is selling them in the market.

Debt reductions from asset sales are an upside risk. Current assumptions do not incorporate proceeds from state asset disposals of up to €3 billion (around 1¾ percent of GDP) in the areas of energy generation, aviation, and forestry, at least half of which are to be used for debt reduction. Similarly, no allowance is made for further transactions reducing the cost incurred in supporting the banking system beyond the recent sales of interests in BoI and Irish Life.

External Debt

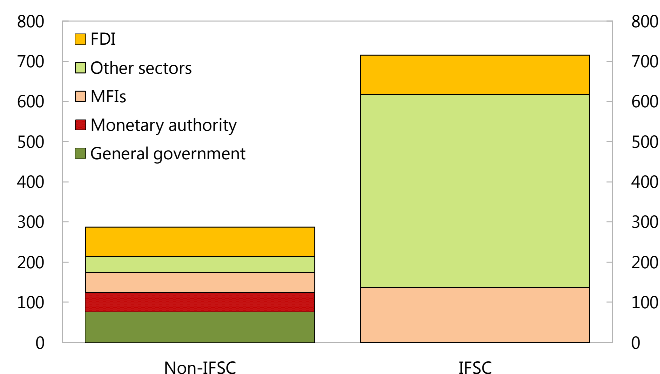
The external debt of the non-IFSC sector has declined significantly during 2012 but remained elevated. At the end of Q4 2012, total external non-IFSC debt stood at around 287 percent of GDP, down by over 35 percentage points of GDP below the end-2011 outcome. Lower external debt of the Central Bank, MFIs, and the non-MFI sector was responsible for this decline, as the central bank reduced its Target 2 liabilities and the financial institutions reduced their reliance on the ECB funding. In contrast, external debt of the government sector rose again as the authorities continued to draw funds under the EU-IMF program.

By 2018, external debt is expected to fall to around 200 percent of GDP, though significant risks surround this forecast. Lackluster growth remains the main risk: a macroeconomic scenario where the economy develops at historical averages would fail to stabilize external non-IFSC debt, which would reach 286 percent of GDP by 2018. A permanent ½ standard deviation shock to growth, implying growth in 2014 almost 2 percentage points lower than under the baseline and average growth of around 0.8 percent thereafter, would raise the debt-to-GDP ratio to 220 percent of GDP in the medium term, around 20 percentage points above the baseline. A permanent ½ standard deviation shock to the non-IFSC current account (excluding interest payments) would yield a similar outcome, with debt around 20 percentage points above the baseline. A combined shock of ¼ of the standard deviation to the current account, interest rates, and the GDP growth rate would increase the medium-term debt to 228 percent of GDP.

Total external debt including the IFSC remained very high at the end of 2012, at around 1,002 percent of GDP. Since the end of 2012, the total external debt has fallen by almost 74 percentage points of GDP, with a significant decline registered in the last quarter. In addition to a reduction in the non-IFSC debt, the gross external debt of the IFSC sector has fallen by around 17 percentage points of GDP. Net international investment liabilities in Q4 2012 stood at the end-2011 level of 96 percent of GDP as a fall in net liabilities of the non-IFSC sector was offset by a reduction in the net assets of the IFSC.

External Debt Composition, 2012-Q4

(Percent of nominal 2012 GDP)



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

Ireland: Net International Investment Position

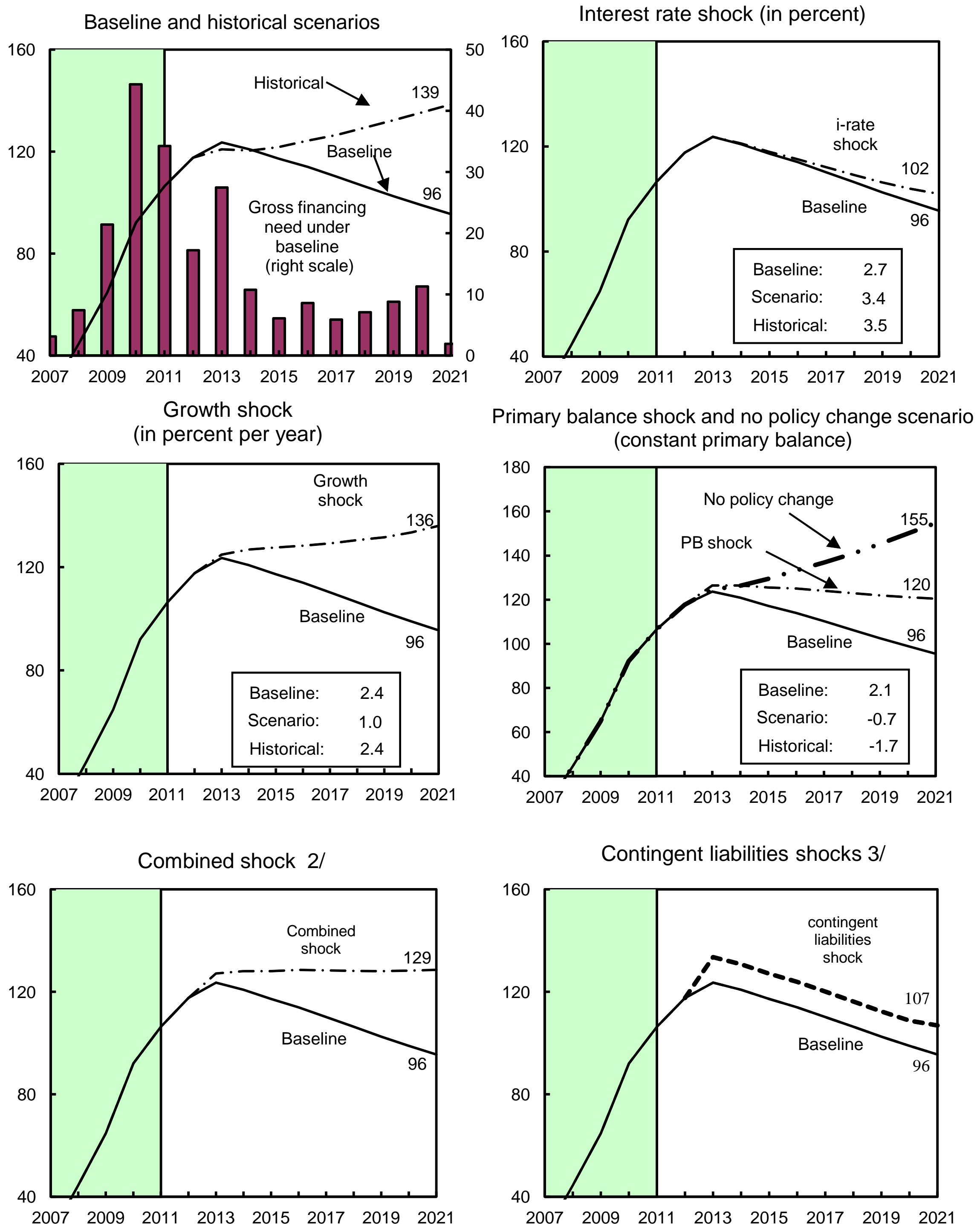
(In percent of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012
Assets	1,031	1,132	1,203	1,276	1,503	1,697	1,687	1,722
Direct investment abroad	54	52	54	68	127	163	153	166
Portfolio investment abroad	615	692	709	707	839	932	901	973
Other investment abroad	362	388	439	501	536	602	633	582
Reserve assets	0	0	0	0	1	1	1	1
Liabilities	1,056	1,137	1,222	1,353	1,596	1,786	1,783	1,818
Direct investment to Ireland	85	67	73	76	108	137	122	138
Portfolio investment to Ireland	629	689	705	716	908	1,066	1,085	1,160
Other investment to Ireland	342	382	444	561	580	583	576	520
Net investment position	-25	-5	-20	-76	-93	-89	-96	-96
Direct investment, net	-31	-15	-19	-8	19	26	30	28
Portfolio investment, net	-15	4	5	-9	-69	-134	-184	-187
Other investment, net 1/	20	6	-5	-60	-44	18	57	62
Reserve assets	0	0	0	0	1	1	1	1
Memorandum items								
Net IIP of the IFSC	32	35	44	4	-1	-1	15	-2
Net IIP of the non-IFSC	-56	-41	-63	-80	-92	-88	-111	-94

Source: Central Statistics Office.

1/ Includes valuation changes and errors and omissions.

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



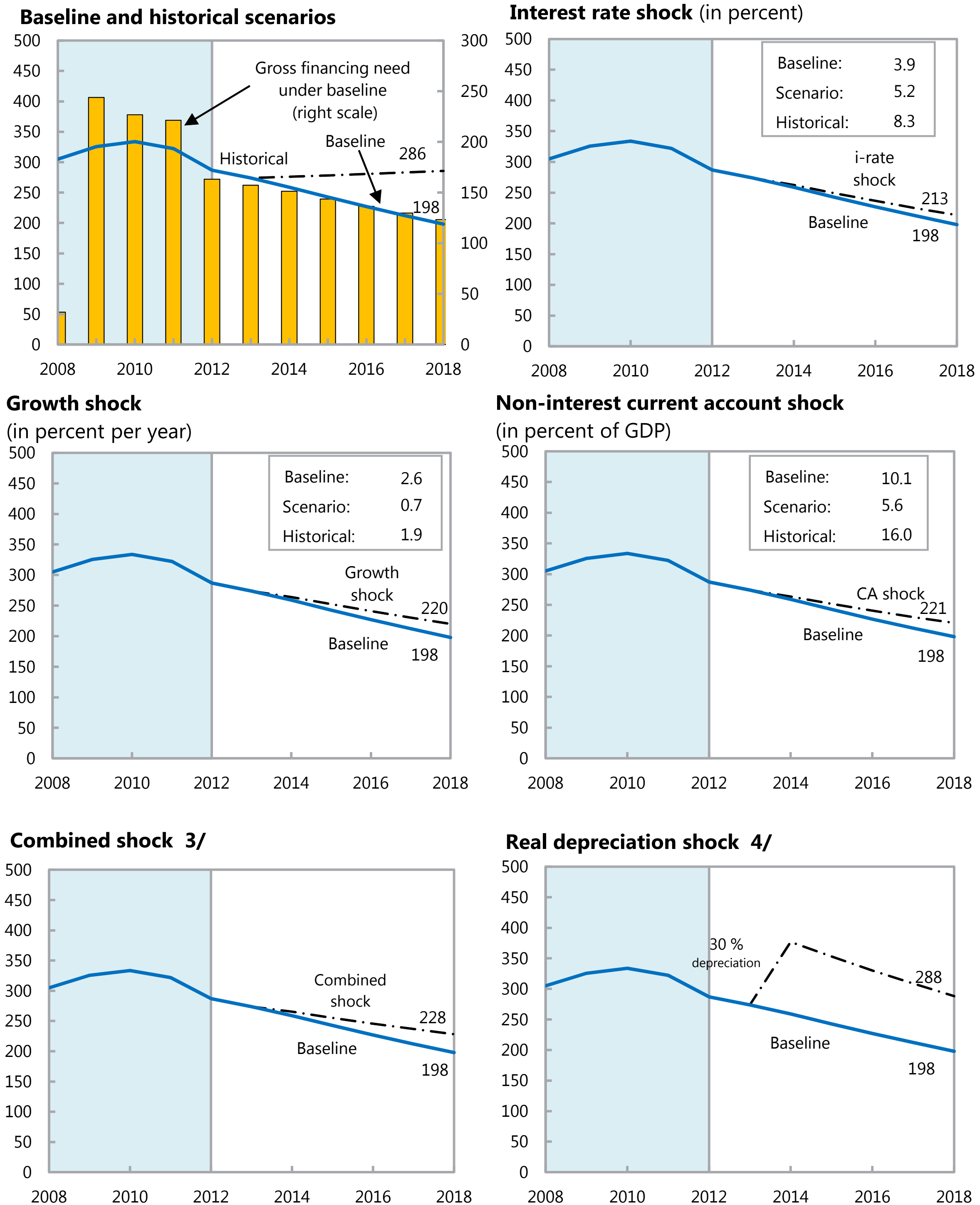
Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. The interest rate shock is a permanent 200 basis point shock applied to short-term debt and new market lending, the growth shock is a stagnation of growth at 0.5 percent per annum, and 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/ Illustrative one-time 10 percent of GDP shock to contingent liabilities in 2013.

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	Debt-stabilizing primary balance 10/
Baseline: General government debt	25.1	44.5	64.8	92.1	106.4	117.6	123.6	120.8	117.2	114.0	110.2	106.4	102.5	99.0	95.5	0.1
Change in general government debt	0.5	19.4	20.3	27.3	14.3	11.2	6.0	-2.8	-3.6	-3.2	-3.8	-3.8	-3.8	-3.6	-3.4	
Identified debt-creating flows (4+7+12)	-1.1	9.2	24.0	36.4	18.7	5.3	5.7	0.8	-2.1	-2.6	-3.0	-3.7	-3.7	-3.6	-3.4	
Primary deficit	-0.7	6.5	10.3	8.7	6.2	4.5	3.5	0.0	-2.2	-2.5	-2.9	-3.4	-3.9	-3.7	-3.6	
Revenue and grants	36.5	35.2	33.8	34.0	34.4	33.9	34.1	34.6	34.7	34.5	34.3	34.3	34.3	34.3	34.3	
Primary (noninterest) expenditure 2/	35.8	41.7	44.1	42.7	40.6	38.4	37.6	34.6	32.5	32.0	31.5	31.0	30.5	30.6	30.8	
Automatic debt dynamics 3/	-0.4	2.7	6.9	5.2	1.9	0.9	2.2	0.8	0.1	-0.1	-0.1	-0.3	0.1	0.2	0.1	
Contribution from interest rate/growth differential 4/	-0.4	2.7	6.9	5.2	1.9	0.9	2.2	0.8	0.1	-0.1	-0.1	-0.3	0.1	0.2	0.1	
Of which contribution from real interest rate	0.9	2.2	4.2	4.7	3.2	1.8	3.5	3.4	3.2	2.9	2.8	2.5	2.7	2.6	2.5	
Of which contribution from real GDP growth	-1.3	0.6	2.7	0.5	-1.3	-1.0	-1.3	-2.6	-3.1	-3.0	-2.9	-2.9	-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	22.5	10.6	0.0	0.0	0.1	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	22.5	10.6	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 7/	1.5	10.2	-3.7	-9.1	-4.4	5.9	0.2	-3.6	-1.5	-0.6	-0.8	-0.1	-0.1	0.0	0.0	
General government debt-to-revenue ratio	68.8	126.4	192.0	270.7	309.8	347.3	362.2	349.2	338.1	330.2	320.9	309.7	298.5	288.1	278.1	
Scenario with key variables at their historical averages 8/						117.6	120.9	120.4	121.9	124.3	126.5	129.4	132.3	135.4	138.5	1.4
Scenario with no policy change (constant primary balance) in 2012-2021						117.6	124.6	126.4	129.5	133.3	136.8	140.8	145.3	150.0	154.7	0.2
Key Macroeconomic and Fiscal Assumptions Underlying Baseline																
Real GDP growth (in percent)	5.4	-2.1	-5.5	-0.8	1.4	0.9	1.1	2.2	2.7	2.7	2.7	2.7	2.5	2.5	2.5	
Average nominal interest rate on public debt (in percent) 9/	4.5	5.1	4.1	4.8	3.7	3.7	4.3	4.2	4.3	4.3	4.3	4.1	4.3	4.3	4.3	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.8	8.2	8.8	7.0	3.5	1.8	3.0	2.9	2.8	2.6	2.6	2.4	2.7	2.7	2.7	
Nominal appreciation (increase in US dollar value of local currency, in percent)	7.4	0.0	-5.4	-5.1	-0.3	...	...	...	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	0.7	-3.2	-4.6	-2.2	0.2	1.9	1.2	1.3	1.5	1.6	1.6	1.7	1.6	1.6	1.6	
Growth of real primary spending (deflated by GDP deflator, in percent) 2/	16.2	14.1	-0.1	-3.8	-3.6	-4.6	-0.9	-6.0	-3.7	1.2	1.0	1.2	0.9	2.9	3.1	
Primary deficit 2/	-0.7	6.5	10.3	8.7	6.2	4.5	3.5	0.0	-2.2	-2.5	-2.9	-3.4	-3.9	-3.7	-3.6	

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 assumed.
2/ Excluding bank support costs.
3/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
4/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
5/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
6/ Total bank recapitalization costs net of proceeds, including funds provided by the National Pension Reserve Fund.
7/ For projections, this line includes exchange rate changes.
8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
9/ Derived as nominal interest expenditure divided by previous period debt stock.
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex I. Figure 2. Ireland: 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 1. Table 2. Ireland: External Debt Sustainability Framework, 2008-2018
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
Baseline: External debt	305.0	325.6	333.7	322.1	287.0			**274.0**	**258.9**	**242.5**	**226.9**	**212.1**	**198.0**	**-4.2**
Change in external debt	46.1	20.6	8.1	-11.6	-35.1			-13.0	-15.0	-16.4	-15.6	-14.8	-14.1	
Identified external debt-creating flows (4+8+9)	22.8	35.9	18.0	-0.8	-12.5			-9.4	-11.5	-12.4	-11.7	-11.1	-10.6	
Current account deficit, excluding interest payments	-18.8	-16.0	-20.7	-33.5	-15.2			-13.1	-11.3	-10.4	-9.3	-9.8	-9.9	
Deficit in balance of goods and services	-138.9	-144.4	-159.8	-164.9	-169.1			-167.5	-169.0	-169.7	-170.9	-172.7	-174.6	
Exports	72.0	78.0	86.8	91.0	93.7			93.1	93.6	94.2	95.0	95.9	96.9	
Imports	-66.9	-66.4	-73.0	-73.9	-75.4			-74.4	-75.3	-75.5	-75.9	-76.8	-77.7	
Net non-debt creating capital inflows (negative)	-0.6	-2.4	6.0	2.6	-2.9			-4.9	-4.7	-4.4	-4.3	-4.3	-4.2	
Automatic debt dynamics 1/	42.3	54.3	32.7	30.1	5.5			8.6	4.5	2.3	2.0	2.9	3.6	
Contribution from nominal interest rate	28.0	21.0	22.7	35.3	14.6			11.6	10.2	9.1	8.3	8.8	9.1	
Contribution from real GDP growth	5.8	18.5	2.6	-4.7	-2.9			-3.0	-5.7	-6.8	-6.4	-5.9	-5.5	
Contribution from price and exchange rate changes 2/	8.5	14.8	7.4	-0.6	-6.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	23.3	-15.4	-9.8	-10.8	-22.6			-3.6	-3.6	-4.0	-3.9	-3.7	-3.6	
External debt-to-exports ratio (in percent)	423.9	417.2	384.4	354.1	306.4			294.3	276.5	257.4	238.9	221.1	204.4	
Gross external financing need (in billions of euro) 4/	57.3	393.3	354.7	352.1	267.0			263.4	262.1	259.6	258.0	255.9	253.9	
in percent of GDP	32.0	243.9	226.7	221.4	163.2	10-Year	10-Year	157.3	151.2	143.5	136.6	129.8	123.3	
Scenario with key variables at their historical averages 5/								**274.0**	**276.0**	**278.2**	**280.5**	**283.0**	**285.6**	**18.7**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-2.1	-5.5	-0.8	1.4	0.9	1.9	3.8	1.1	2.2	2.7	2.7	2.7	2.7	
GDP deflator (change in percent)	-3.2	-4.6	-2.2	0.2	1.9	0.4	2.9	1.3	1.3	1.6	1.6	1.7	1.7	
Nominal external interest rate (in percent)	10.3	6.2	6.8	10.8	4.7	8.3	2.6	4.1	3.9	3.7	3.6	4.0	4.5	
Growth of exports (in percent)	-1.2	-2.2	7.9	6.5	5.9	4.3	4.3	1.7	4.1	5.0	5.3	5.4	5.5	
Growth of imports (in percent)	0.0	-10.6	6.7	2.9	5.0	3.0	6.8	1.0	4.8	4.5	5.1	5.6	5.7	
Current account balance, excluding interest payments	18.8	16.0	20.7	33.5	15.2	16.0	9.1	13.1	11.3	10.4	9.3	9.8	9.9	
Net non-debt creating capital inflows	0.6	2.4	-6.0	-2.6	2.9	-2.2	4.3	4.9	4.7	4.4	4.3	4.3	4.2	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 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 II. Fund Relations

(As of April 30, 2013)

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	18,373.43	1,460.99
Reserve position in Fund	258.61	20.56

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	775.42	100.00
Holdings	643.26	82.93

IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Extended Arrangements	17,374.43	1,381.55

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	17,374.43

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

	2013	2014	2015	2016	2017
Principal			535.20	2,173.15	2,826.49
Charges/Interest	339.47	564.99	589.07	542.84	444.85
Total	339.47	564.99	1,124.27	2,716.00	3,271.34

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 safeguards assessment of the Central Bank of Ireland (CBI) found that the CBI has a relatively strong safeguards framework in place. Its financial statements are audited in accordance with international standards and published. Governance and control systems adhere to good practices. The assessment recommended measures to address heightened risks emanating from the financial crisis, notably liquidity lending, and to improve transparency. Recommendations

were also made to strengthen the de-jure autonomy of the central bank. Progress has been made in implementing these recommendations: the CBI has strengthened internal governance and control procedures for ELA; brought forward the publication dates for its audited financial accounts; clarified its accounting framework for areas not covered by ECB guidelines; and formally approved revised investment guidelines. The CBI and DoF are considering how to strengthen the arrangements for financial autonomy of the CBI, which may require changes to central bank legislation and changes in other related regulations, which would be prepared in consultation with the ECB.

IX. **Article IV Consultations:**

The last Article IV consultation was concluded on September 5, 2012 (IMF Country Report SM/12/220). Article IV consultations with Ireland are on the 24-month cycle.

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

Discussions were held in Dublin during April 23–May 2, 2013. The IMF team comprised Craig Beaumont (head), Ashok Bhatia, Alexandre Chailloux, Jochen Andritzky, and Emilia Jurzyk (all EUR); Laura Jaramillo (FAD); Michael Moore and Joaquin Gutierrez Garcia (both MCM), and Nathan Porter (SPR). Teams from the EC and ECB as well as Mary O'Dea and Michael Hough 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 post in September 2011.

Appendix I. Ireland: Letter of Intent

Dublin, 3 June 2013

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

Dear Ms. Lagarde:

1. We remain determined to leave the crisis behind, ensure that the emerging recovery gathers pace, and meaningfully reduce our high unemployment rate. The Government's focus is firmly on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. We believe that the Irish Government's performance in terms of commitment to the programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

2. Despite persistent weakness in economic activity in our main European trading partners, there have been a number of positive developments. Our return to the financial markets continued with the successful launch of a new 10 year benchmark bond in March, which raised some €5 billion at very attractive rates. The recent replacement of the promissory notes with longer-duration, lower-yield government bonds following the liquidation of IBRC along with the agreement by EU Finance Ministers to extend the maturities on our EFSF and EFSM loans by an average of 7 years, will smooth our redemption path for the rest of this decade and represents further significant support to our debt sustainability and market return. The real economy has also shown some improvement, with continuing growth, although, taking account of the weaker global economy, we have revised down our forecast to 1.3% for 2013 and 2.4% in 2014 as set out in the recent Stability Programme Update. Unemployment, though still high, has stabilised. The fiscal outturn for 2012 was considerably better than expected which was confirmed in our EDP return in April and showed the General Government Deficit at 7.6% of GDP, well within the ceiling of 8.6%. Allied to this, the benefits of the ECB's announcement of Outright Monetary Transactions remain evident. Finally, once the implementation of the 2010 quota reforms is agreed, the effective interest rate on our IMF borrowings will be significantly reduced. Notwithstanding the positive developments described above, a number of issues remain current, including the delivery of the Euro Area Heads of State or Government commitment on breaking the vicious circle between banks and the sovereign in the EU and to examine how to further improve the sustainability of our well performing programme.

3. We continue to move towards the goal of fully regaining durable and sustainable market access during 2013. The continuation of regular Treasury Bill auctions which recommenced last

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

4. Our preparations for the post programme period continue to take place against this mixed backdrop. Notwithstanding the external risks, our policy efforts are aimed at building on our successful return to markets during 2013 in order to exit from reliance on official financing. The previously mentioned arrangement on the promissory notes and the extension of the maturities of EU loans were welcome steps towards improving the sustainability of the programme and should contribute to a successful, continued return to durable market based financing post our programme. Timely implementation of the Euro Area Leaders' commitments would greatly support the effectiveness of these efforts. We are sure that we can rely on the continued support of our external partners and fellow Member States in this endeavour.

5. Once again, for the tenth review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets (MEFP Tables 1 and 2). We have now completed over 200 actions. In particular, the performance criterion for end-March 2013 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on the stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears was also met.

6. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out in more detail our plans to further advance towards meeting the objectives laid out in our programme supported by the Extended Arrangement and by the EU. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the tenth review under the Extended Arrangement. We also request that the tenth purchase in an amount equivalent to SDR 831 million becomes available at the time of completion of the review.

7. We intend to maintain a strong cash buffer to support market confidence during this process of deepening market access, and propose to leave the phasing of purchases unchanged, with a total purchase amount of SDR 2,091.3748 million over the remainder of 2013. This, combined with our currently planned market issuance as well as the remaining programme funding from EU sources, should allow us to have an end year cash buffer sufficient to cover 12-15 months financing needs, which should underpin confidence as we are back in the market in 2014.

8. Implementation of the policies under the programme will be monitored, as before, through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews. We propose that quantitative performance criteria under the arrangement be established for end-September 2013, as set out in the attached MEFP (Table 2). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. As detailed in the MEFP, we also propose the establishment of structural benchmarks on completing a preliminary balance sheet assessment

in consultation with staff of the EC, ECB, and IMF, by end-October 2013, and on conducting a forward-looking analysis of operating profits by end-September 2013. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3). The Technical Memorandum of Understanding (TMU) defines (consistent with the Memorandum of Understanding on Specific Policy Conditionality) the quantitative performance criteria and indicative targets under the programme, and explains how these will be measured.

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

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

Sincerely,

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

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

Attachment I. Ireland: Memorandum of Economic and Financial Policies

A. Recent Economic and Financial Developments and Outlook

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

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

B. Financial Sector Policies

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

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

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

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

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

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

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

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

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

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

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

C. Fiscal Policies

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

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

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

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

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

D. Structural Reforms

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

roads and schools. The implementation of state asset disposal plans for the energy sector is advancing, with the view of obtaining proceeds this year. We will use at least half of the resulting proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed. The remaining proceeds will be invested in job-rich projects of a commercial nature, consistent with our fiscal targets.

17. **Reducing unemployment remains our top priority:**

- *Engagement with the unemployed.* We continue to roll out Intreo offices, with 11 opened in 2012, up to 33 are planned for 2013, with the full roll-out to be completed by end-2014. We will ensure the same quality of activation and training services extends to all job seekers across the country. We plan to profile all unemployed persons on the Live Register by end 2013, set new targets for exits from long-term unemployment and boost referrals of long-term unemployed to education and training programmes. We will publish every quarter (starting in quarter 2 in 2013) a report on progress in meeting targets under pathways to work and on overall progress in activating the long term unemployed.

- *Case workers.* We plan to redeploy 300 staff as case officers by the end of 2013 and will ensure their adequate training. We are actively considering the potential for private sector involvement in providing employment services to the long-term unemployed with a view to a decision by end June 2013.

- *JobsPlus.* Our new simplified JobsPlus scheme will improve job prospects of the long-term unemployed though monthly payments for two years to enterprises hiring the long-term unemployed.

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

- *Governance:* The SME State Bodies Group will coordinate and assess government initiatives in research, policy and information skills, partnerships with the European Investment Bank, access to finance, and CBI engagement with banks. We will monitor the credit environment for SMEs, optimize the utilization of public funds and assess the effectiveness of the policy actions implemented in 2012.

- *Lending and equity finance:* The Credit Review Office, whose resources have been increased recently, will continue to monitor the enforcement of the €4 billion lending targets assigned to Bank of Ireland and AIB in 2013. We will actively roll-out three new SME funds to provide up to €850 million of new financing to SMEs through equity finance and restructuring investment and credit, including through private participation. We will ensure that the Temporary Partial Credit Guarantee Scheme and the Micro Enterprise Loan Fund are fully utilized subject to sufficient demand from SMEs.

E. Programme Financing and Monitoring

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

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

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

Table 1. Programme Monitoring

Measure	Date	Status
Quantitative Performance Criteria		
Cumulative exchequer primary balance	End-March 2013	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-March 2013	Observed
Continuous Performance Criteria		
Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government	Continuous	Observed
Structural Benchmarks		
Define the criteria to run stringent stress tests scenarios.	End-December 2010	Observed
Agree on terms of reference for the due diligence of bank assets by internationally recognised consulting firms.	End-December 2010	Observed
The Central Bank will direct the recapitalisation of the principal banks (AIB, BoI and EBS) to achieve a capital ratio of 12 percent core tier 1.	End-February 2011	Not observed[1/]
Submit to Dáil Éireann the draft legislation on a special resolution regime.	End-February 2011	Observed[2/]
The Central Bank to complete the assessment of the banks' restructuring plans.	End-March 2011	Observed
Complete the diagnostic evaluation of banks' assets.	End-March 2011	Observed
Complete stress tests (PCAR 2011).	End-March 2011	Observed
Complete a full assessment of credit unions' loan portfolios	End-April 2011	Observed
Finalise plans for the recapitalisation of Irish Life and Permanent.	End-May 2011	Observed
Establish a Fiscal Advisory Council.	End-June 2011	Observed
Complete the recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society.	End-July 2011	Observed
Submit the Supervision and Enforcement Bill to Oireachtas.	End-July 2011	Observed
Complete the legal merger procedures of Allied Irish Bank and EBS Building Society.	End-September 2011	Observed
Publish a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight.	End-October 2011	Observed[3/]
The merger of Irish Nationwide Building Society and Anglo-Irish bank.	End-December 2011	Observed
Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book.	End-December 2011	Observed
Finalise a strategy to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system.	End-December 2011	Observed
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets.	2012 Budget day in early December 2011	Observed
Updated restructuring plan for the PTSB detailing the actions needed to ensure viability of its core businesses.	End-June 2012	Observed
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence.	End-September 2012	Observed

Table 1. Programme Monitoring (concluded)

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

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

Table 2. Ireland: Quantitative Performance Criteria and Indicative Targets Under the Economic Programme for 2011–13

	31-Dec-11		31-Mar-12		30-Jun-12		30-Sep-12		31-Dec-12		31-Mar-13		30-Jun-13	30-Sep-13
	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target	Target
	(In billions of euro)													
	Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion	Performance Criterion
1. Cumulative exchequer primary balance 2/	-22.3	-21.0	-6.9	-5.7	-9.6	-8.7	-11.4	- 10.1	-13.2	-12.3	-3.2	-1.8	-4.2	-4.8
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt	117.2	115.7	125.0	123.0	130.1	128.2	132.5	130.0	135.8	133.7	167.9	161.8	171.1	172.3

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

Table 3. Structural Benchmarks Under the Programme

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

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

May 29, 2013

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

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

Floor on the Exchequer Primary Balance

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

[1] Receipts of the Central Fund comprise Exchequer tax revenues, non-tax revenues, receipts from the European Union and other capital receipts. Charges on the Central Fund include the expenditure of Government departments and offices, payments related to the servicing of the national debt, payments to the European Union Budget, the salaries, pensions and allowances of the President, judiciary, and Comptroller & Auditor General and the running costs of the Houses of the Oireachtas (Parliament). Extra-budgetary funds (including the National Pensions Reserve Fund), the Social Insurance Fund, semi-state bodies and local governments are not part of the Exchequer system.

account to the capital account to reduce national debt and has no effect on the overall Exchequer balance.

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

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

(i) downward by payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. Such payments may include, inter alia, loans to banks, investments in their equity (requited recapitalisation), unrequited recapitalisation, and purchases of troubled assets, which are carried out in line with programme objectives,

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

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

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

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

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

Any other financial operation by Government to support banks or other credit institutions including credit unions, including the issuance of guarantees or provision of liquidity, will be reported to EC, IMF, and ECB staffs.

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

Cumulative Exchequer primary balance	(In billions of euros)
From January 1, 2013	
End-June 2013 (performance criterion)	-4.2
End-September 2013 (performance criterion)	-4.8

7. The performance criterion on the Exchequer primary balance (floor) will be adjusted upward (downward) for the full amount of any over-performance (under-performance) in

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

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

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

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

Ceiling on the Stock of Central Government Net Debt

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

10. For the purposes of the programme, the ceiling on the central government net debt (indicative target) will be adjusted

(i) upward by debt arising from payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy.[4] These payments may include, inter alia, loans to banks; investments in their equity (requited recapitalisation); unrequited recapitalisation; and purchases of troubled assets, which are carried out in line with programme objectives,

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

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

[3] Exchequer tax receipts are comprised of income tax (including the universal social charge), value added tax (VAT), corporation tax, excise duties, stamp duties, capital gains tax, capital acquisitions, tax and customs duties and property tax (from 2013).

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

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

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

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

(vii) downward by the amount liquidated from the NPRF non-liquid discretionary portfolio.

(viii) downward (upward) by valuation gains (losses) in the NPRF liquid portfolio. The programme exchange rates will apply to all non-euro denominated debt.

(ix) upward by the amount of cumulative drawings on NPRF's SME focused funds up to €500 million.

The ceiling on the outstanding stock of central government net debt will be adjusted upward (downward) by the amount of any final upward (downward) revision to the stock of end December 2012 central government net debt.

Central government net debt	(In billions of euros)
Outstanding stock:	
End-March 2013 (provisional)	161.8
End-June 2013 (indicative target)	171.1
End-September 2013 (indicative target)	172.3

Non-accumulation of External Payments Arrears by Central Government

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

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

II. REPORTING REQUIREMENTS

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

- The Department of Finance will report to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date the following data: the Exchequer primary balance, Exchequer tax revenues, payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy, proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts, receipts from disposals of state assets specified in the paragraph 21 of the MEFP dated 29

November 2012 and associated outlays on growth-enhancing projects not included in Budget 2013, Exchequer outlays for the resolution and restructuring of credit unions, any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund and the Restructuring and Stabilisation Fund.

- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt, including an unaudited analysis of NPRF holdings, with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.
- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staffs, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

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

Attachment III. Letter of Intent (European Commission)

Dublin, 3 June 2013

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

Mr. Jeroen Dijsselbloem
Minister van Financiën
Ministerie van Financiën
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Postbus 20201
2500 EE Den Haag
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Mr. Olli Rehn
Vice President of the European Commission responsible for Economic and Monetary Affairs and the euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

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

Dear Messrs Draghi, Dijsselbloem, Corsepius and Rehn,

1. We remain determined to leave the crisis behind, ensure that the emerging recovery gathers pace, and meaningfully reduce our high unemployment rate. The Government's focus is firmly on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. We believe that the Irish Government's performance in terms of commitment to the programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

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

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

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

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

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

6. In the attached ninth update of the Memorandum of Understanding of Specific Economic Policy Conditionality (the MOU), as well as in the Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives of our economic adjustment programme.

7. We are confident that the policies set forth in the Letters of Intent of 3 December 2010 and subsequent letters as well as this letter are adequate to achieve the objectives of our programme. At the same time, while we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become appropriate if circumstances

change. We will continue to consult staff of the European Commission, the ECB, and the IMF on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memoranda becomes necessary.

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

Sincerely,

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

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

Ireland

Memorandum of Understanding
On
Specific Economic Policy Conditionality

(Ninth Update)

3 June 2013

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

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

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

- 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

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

Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved. Any additional unplanned revenues must be allocated to debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- Continue to strengthen the fiscal framework and reporting in line with EU requirements.

- Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of the total realised proceeds in projects which are of a commercial nature, meet ex-ante cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.

- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible and on a sustainable basis.

- Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular, the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on *Pathways to Work* (the government's strategy for institutional reform of the activation system).

- Ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF Programme and the needs of the economy.

- Ensure that NAMA: (i) maintains the highest standards of governance with appropriate accountability and transparency arrangements; (ii) reduces the costs of its operations; and (iii) constructively contributes to the restoration of the Irish property market in the course of meeting the asset disposal targets established and monitored by the NAMA Board, including redemption of €7.5 billion worth of senior bonds by end 2013.

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

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

- Ensure continued compliance with the minimum Core Tier 1 Capital ratio of 10.5% for all PCAR banks (AIB, BOI, and PTSB).

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

- Consult ex-ante with the European Commission, the ECB and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.

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

- All information required to monitor progress during programme implementation and to track the economic and financial situation.

- A compliance report on the fulfilment of the conditionality prior to the release of the instalments.

- Reliable and regular availability of budgetary and other data as detailed in Annex 1.

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

Financial sector reforms

Capital assessment

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

Deleveraging

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

Funding and liquidity monitoring

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

Asset quality

8. In consultation with staff of the EC, ECB, and IMF, the authorities will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines specifying the criteria to observe for exposures returning from nonperforming to performing restructured status, acceptable methods for provisioning loans under temporary forbearance as well as to calculate cure rates used for collective provisioning purposes. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks.

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

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

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

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

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

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

15. While ensuring that balanced incentives and debtors' sustainability are maintained, the authorities will prepare amendments to the Code of Conduct on Mortgage Arrears (CCMA) focused on: (i) replacing the current restrictions on the number of unsolicited contacts with contact policies set out by lenders and approved by the boards of those lenders; (ii) amending the definition of a non-cooperative borrower such that key protections extend only to borrowers that engage constructively with lenders within a specified time period in a manner that is consistent with addressing their arrears. In addition we are considering amendments to permitting modifications of the interest rate setting mechanism where the lender has offered an alternative arrangement which is advantageous to the borrower in the long term.

Profitability

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

Financial supervision

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

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

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

Structural reforms

Expenditure ceilings

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

State assets

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

Labour market reform

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

23. The authorities will prepare an action plan aimed at increasing the effectiveness of training and activation supports, building on the recommendations of the DSP Review of Employment Support Schemes and the evaluation of JobBridge by end-April 2013. The authorities will also review the progress in the rolling out of Intreo offices and define measures to address potential shortcomings. The authorities are actively considering the potential for private sector involvement in providing employment services to the long-term unemployed with a view to a decision by end-June 2013.

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

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

Water services reform

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

Health sector

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

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

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

Financial sector reforms

Capital assessment

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

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

Deleveraging

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

Funding and liquidity monitoring

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

Profitability

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

Asset quality

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

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

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

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

Financial Supervision

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

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

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

Structural reforms

Access to SME credit

41. Based on experience of the operation of the Insolvency Service in the personal insolvency reform, the authorities will consider the appropriateness of further enhancements to the company law framework to facilitate restructuring, especially in multi-creditor cases,

reduce costs and achieve efficiency gains, including the potential for an administrative body to facilitate SME restructuring.

Water services reform

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

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

Further education and training

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

Health

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

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

Financial sector reforms

Capital Assessment

46. Taking into account progress in developing the relevant SSM methodology and in consultation with staff of the EC, ECB and IMF, the authorities will complete a preliminary balance sheet assessment by end-October incorporating the results of (i) an assessment of quantitative impairment provisions and a review of risk classification i.e., an asset quality review on an incurred loss basis, and (ii) a review of the appropriateness of risk weighted assets calculations under alternative assumptions . The asset quality review will be based on the Central Bank of Ireland's Impairment Provisioning and Disclosure Guidelines updated at end May 2013. The balance sheet assessment will be finalised by end-November 2013 and the results will be communicated to the PCAR Banks to help inform their assessment of impairment provisions and financial plans going forward.

Deleveraging

47. The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal and run-off

targets in nominal value terms will be discussed with the staff of the European Commission, the IMF, and the ECB.

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

Asset quality

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

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

51. The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III requirements using the advanced monitoring framework. This work will be complemented with an analysis of current eligible regulatory capital under Basel III/CRD IV by end October.

Financial Supervision

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

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

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

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

Structural reforms

Labour market reform

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

Water services reform

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

Health

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

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

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

Legal services reform

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

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 105 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly, 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly, 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State-	Quarterly, 30 working days after

	owned commercial enterprises (interest and amortisation)	the end of each quarter
F.10	Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.	Quarterly, 30 working days after the end of each quarter.
F.11	Report on implementation of budgetary measures in the health sector, covering inter alia assessment of timeliness and effects vis-à-vis 2013 Budget plans and explanation for any delay/shortfall, as well as update on status of any remaining actions required for effective implementation.	Monthly, 30 working days after the end of each month.
F.12	Report comparing, against the monthly targets: (i) health expenditure by mains service areas, (ii) pay and non-pay element of current expenditure, (iii) capital expenditure and (iv) income collected.	Monthly, 7 working days after the end of each month.
F.13	Report on pharmaceutical prescriptions and expenditure, including information on value and volume of drugs and the extent of the use of generics and off-patent drugs.	Quarterly, 30 working days after the end of each quarter.
F.14	Report on prescribing and dispensing practices by doctors and pharmacies.	Quarterly, 30 working days after the end of each quarter.
F15	Report on the quantum of pre-installation surveys completed and water meters installed by geographical area.	Monthly, 15 working days after the end of each month.
To be provided by the NTMA		
N.1	Monthly information on the central Government's cash position with indication of sources as well of number of days covered	Monthly, three working days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 working days after the end of each month
N.3	Data on the National Debt	Monthly, 15 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for the National Debt.	Monthly, 30 working days after the end of each month

N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months	Monthly, 30 working days after the end of each month
To be provided by the Central Bank of Ireland		
C.1	The Central Bank of Ireland's balance sheet.	Weekly, next working day
C.2	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month.	Monthly, 30 working days after each month end.
C.3	Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts including LDR, NSFR and LCR outturns and forecasts.	Quarterly, 40 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes from the banks and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month
C.7	Deleveraging reports including (i) progress achieved towards deleveraging in line with the 2011 Financial Measures Programme; and (ii) actual and planned asset disposals.	Quarterly, 40 working days after the end of the reference period.

INTERNATIONAL MONETARY FUND

IRELAND

June 11, 2013

TENTH REVIEW UNDER THE EXTENDED ARRANGEMENT—SUPPLEMENTARY INFORMATION

Prepared By European Department

1. **This supplement reports on key developments since the issuance of the staff report on June 4, 2013** (EBS/13/70). The Central Bank of Ireland (CBI) updated its loan loss provisioning guidelines observing a structural benchmark for end May—which completes the conditionality for the 10th review. In addition, banking data for Q1 2013 were transmitted to staff; the National Asset Management Agency (NAMA) published its 2012 Annual Report; and Exchequer outturns for May 2013 came out.[1] This new information does not alter the thrust of the staff appraisal.

2. **The CBI published its updated Impairment Provisioning and Disclosure Guidelines to enhance conservatism and comparability in provisioning practices**. The update, which sets out clear definitions and principles for bank provisioning models, will be applicable to public disclosures by domestic banks starting with the end 2013 financial statements, and implementation is encouraged for all credit institutions. It introduces criteria and timing requirements on when banks can return restructured loans to performing status and release the attendant provisions. Other main elements include:

- ***Obligations for bank management***. Obligations are imposed on senior management to: (i) deploy information systems to tag, track, and report a broader set of credit metrics; (ii) determine and validate re-default rates for forborne and modified credit exposures; and (iii) disclose key judgments, estimates, and assumptions employed for provisioning, as well as sensitivity analysis around assumptions on house prices, economic activity, and unemployment rates.

- ***Loan classification***. A definition of a nonperforming loan (NPL) is inserted, and clarifications made on when an NPL may be reclassified as cured and performing—stipulating that the calculation of cure rates be based on evidence, distilling out the impact of forbearance. New requirements are added for back-testing of inputs and

[1] The PCAR banks were recapitalized on the basis of the March 2011 Prudential Capital Assessment Review.

loss estimates for collective provisioning, including documentation of policies and procedures, to be made available for review by the CBI. The calculation of probabilities of default for forborne loans now requires adequate segmentation by loan pool, to ensure that the probabilities are reflective of the credit characteristics of each stratified pool, with conservative treatment of interest-only forborne loans.

- ***Restructurings***. A principle is established that renewal, refinancing, renegotiation, restructuring, or novation of a credit facility will not interrupt the aging of arrears unless the borrower pays all interest without new financing. The principle is extended also to overdrafts, requiring sufficient turnover to pay for interest debited into the account from the overdraft or other credit facilities of the client, including when interest is capitalized by consolidating an overdraft into a facility of longer tenor.
- ***Collateral valuation***. Enhanced appraisal requirements are imposed for residential mortgages, requiring a recent independent valuation where the loan balance outstanding exceeds an initial threshold of €750,000, falling to €500,000 from 2014 onward.

3. **First quarter results for the three PCAR banks—Allied Irish, Bank of Ireland, and Permanent tsb—are consistent with a slow progression toward break-even**. Pre-provision losses eased from Q4, aided by lower Eligible Liability Guarantee (ELG) fees, reduced nonrecurrent losses on financial instruments, and a drop in operating expenses. Operational cost reduction in the 12 months through Q1 is noteworthy, with the aggregate number of branches declining by about one-fifth and full time employees by about one-tenth. A lower flow of provisions allowed bottom-line net losses to fall significantly. The NPL ratio continued to tick up and NPLs net of provisions remain high relative to equity. Reflecting the ongoing losses and some one-off regulatory capital deductions, the aggregate core tier 1 risk-based capital ratio slipped slightly over the quarter.

4. **NAMA's Annual Report shows further progress in meeting asset disposal targets, although an influx of loans later this year could pose operational challenges**. Receipts from asset disposals totaled €2.8 billion in 2012, resulting in a net profit of €228 million despite a rise in cumulative impairment provisions to €3.3 billion (12½ percent of gross loans and receivables). From its inception until end 2012, NAMA has generated gross cash flows of €10.6 billion, including asset disposal receipts of €6.8 billion. Much of these cash flows have been paid out to banks through cumulative senior NAMA bond redemptions of €6¼ billion by June 2013, and redemptions are on track for the end 2013 goal of €7½ billion. NAMA is making preparations to acquire those loans of the liquidated Irish Bank Resolution Corporation (IBRC) for which no sale to third parties is agreed or completed before end 2013, or as soon as practicable thereafter. In addition, loan servicing previously conducted by IBRC on behalf of NAMA on debt with a total principal amount of €41 billion is in the process of being migrated to a servicing company. The integration of IT systems and staff from IBRC will require considerable management attention going forward.

5. **The Exchequer deficit at end May was in line with expectations**. Cumulative primary expenditure (excluding the ELG payout related to the IBRC liquidation) was about ½ percent of GDP lower than a year earlier as spending remained slightly below the authorities' profile for within-year performance against annual Budget 2013 targets. Cumulative revenues (after adjusting for one-offs) were about ½ percent of GDP higher than a year earlier. Robust corporate tax and early local property tax receipts kept tax revenues ahead of profile, offsetting shortfalls in VAT on imports and the deposit interest retention tax. Overall, the end May primary deficit was about 1 percent of GDP lower than in 2012, and well within profile. On June 5 the authorities enacted legislation to implement by July 1 the public service pay cuts negotiated under the so-called "Haddington Road" agreement, with an estimated impact on wages of 6½ percent on average. Balloting by public service unions on this agreement is still in progress.

Cumulative Exchequer Outturn vs. Profile, January–May 2013
(Percent of GDP)

	May 2013 profile	May 2012 outturn	May 2013 outturn
Revenue	13.0	13.2	13.4
Tax revenue	11.3	11.3	11.5
Other revenue	1.7	1.9	1.9
Expenditure	16.7	17.3	16.6
Current primary	13.8	14.5	13.7
Interest payments	2.2	2.0	2.1
Capital	0.8	0.8	0.8
Overall balance	-3.7	-4.1	-3.2
Primary balance	-1.5	-2.2	-1.1

Sources: Department of Finance; and IMF staff estimates.

Note: To facilitate comparability: (i) 2012 tax revenues do not include the €251 million corporation tax payment delayed from December 2011; (ii) outlays in respect of Irish Life (€1.3 billion) and credit unions (€250 million) are excluded from 2012 capital spending; (iii) proceeds of €1 billion from the sale of Bank of Ireland contingent capital notes are excluded from 2013 other receipts; and (iv) ELG payments of €939 million linked to the promissory note transaction are excluded from 2013 current expenditure.

6. **Other recent economic data are also consistent with staff's macroeconomic projections for 2013**. Registered unemployment stayed at 13.7 percent in April and May, unchanged from Q1 levels. The number of benefit claimants fell in May to the lowest level since August 2009, although net outward migration and low labor force participation likely contributed. Inflation fell to 0.5 percent y/y in April, largely reflecting declining energy prices which, together with modest increases in disposable income observed at the end of last year, could help boost consumer purchasing power. Residential property prices fell 1.2 percent y/y in April, the slowest rate of decline since early 2008.

7. **Bond market conditions have tightened somewhat**. Since the issuance of the staff report, the yield on Ireland's new 10-year benchmark bond has risen 6 basis points, to 3.94 percent, broadly in line with developments in other periphery countries.

Press Release No. 13/218
FOR IMMEDIATE RELEASE
June 17, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Tenth Review Under the Extended Fund Facility Arrangement for Ireland and Approves €0.95 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the tenth review of Ireland's performance under an economic program supported by a three-year, arrangement under the Extended Fund Facility (EFF), for the equivalent of SDR 19.4658 billion (about €22.28 billion or about US$29.71 billion) or the equivalent of 1,548 percent of Ireland's IMF quota. The completion of the review enables the disbursement of an amount equivalent to SDR 0.831 billion (about €0.95 billion or about US$1.27 billion), bringing total disbursements under the EFF to the equivalent of SDR 18.21 billion (about €20.83 billion or about US$27.79 billion).

The arrangement for Ireland, approved on December 16, 2010 (see Press Release No. 10/496), is part of a financing package amounting to €85 billion (about US$113 billion), also supported by the European Financial Stabilization Mechanism and European Financial Stability Facility, bilateral loans from Denmark, Sweden, and the United Kingdom, and Ireland's own contributions.

The Irish economy grew modestly for a second year in 2012 and positive signs are emerging with employment rising just over 1 percent year-on-year in the first quarter of 2013, though the rate of unemployment remains high at 13.7 percent. Fiscal outturns in the first five months are in line with Budget 2013. Ireland targets a general government deficit of less than 3 percent of GDP by 2015 and with growth projected to accelerate from 2014, public debt is expected to peak at around 123 percent of GDP this year. In the banking sector, just over 25 percent of loans are nonperforming and losses persist, hindering new lending. Addressing these issues is the focus of the authorities' preparations for entry into European banking union ahead of the European stress test exercise next year.

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

"Two and a half years into their program, the Irish authorities maintain steadfast policy implementation. Improved market sentiment and the recently approved extension of

EFSF/EFSM loan maturities have been reflected in a decline of bond yields. Yet economic recovery is not well established and risks to debt sustainability remain. Strong policy implementation and timely delivery on European pledges to enhance program sustainability remain key.

“With the launch of the Single Supervisory Mechanism next year, Ireland’s banking sector stress test will be aligned with the broader European exercise, ensuring a single test against common and stringent standards. In the interim, the authorities will undertake all the necessary preparations, including a comprehensive asset quality review and an operating profit analysis, and banks will take appropriate remedial actions if needed. Monitoring banks’ performance against the targets for resolving mortgages in arrears, while ensuring the durability of these loan resolutions, is particularly important, and work outs of small and medium enterprise loans in arrears are needed to help support growth and jobs.

“Fiscal policy remains on track to achieve the 2013 targets and the authorities’ commitment to achieving targeted pay and pension savings is welcome. Any reassessment of the fiscal consolidation path should await Budget 2014 and focus on safely reaching medium-term targets in a growth-friendly manner, where savings from the promissory note transaction provide an opportunity to help build buffers against shocks. Structural reforms in key spending areas are needed to deliver future savings while protecting core public services and the vulnerable. Effective implementation of reforms to strengthen employment services is important to address long-term unemployment.”