EU/IMF

Programme of Financial Support

For Ireland

28 April 2011

The contents of this document are:

The Letters of Intent to the EU and the IMF respectively request:

- completion of the quarterly review for the end of the first quarter 2011 under Council Implementing Decision 2011/77/EU on granting Union financial assistance to Ireland; and

- completion of the quarterly review for the end of the first quarter 2011 under the (IMF) Extended Arrangement;

on the basis of our performance to date under the Programme and the policies we set out in the Letters and the attached Programme documents.

The Reviews and the ratification process will be completed by:

- the EU at the ECOFIN Meeting on 17 May 2011; and

- the IMF at its Executive Board Meeting on 16 May 2011.

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Dublin, 28 April 2011

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

Mr. György Matolcsy
Minister for National Economy
Honvéd u. 13 - 15
H - 1055 Budapest
Hungary

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

Mr. Jean-Claude Trichet
President
European Central Bank
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Dear Messrs. Juncker, Matolcsy, Rehn and Trichet,

1. In the February 25 election, the Government has been given a strong mandate to govern. Its policies, as set out in our Programme for Government are designed to facilitate economic growth, restore confidence, fix the banking system, bring order to our public finances, and support the creation of jobs. By the end of this current Dáil's term, it is the

Government's desire that Ireland will be recognised as a fairer, more socially inclusive and equal society supported by a productive and prosperous economy.

2. Policy implementation since the announcement of the EU-IMF programme in November 2010 has been determined:

- The fiscal programme is on track. The deficit is projected to stay within the path set by the EU Council in its Decision on granting financial assistance to Ireland. The quantitative performance criteria for the exchequer primary balance were met for end-December 2010 and end-March 2011. The end-December 2010 and end-March 2011 indicative targets on net central government debt have also been met.

- We have made important progress on addressing the banking sector challenges:

    - The two end-December 2010 structural benchmarks—preparation of terms of reference for the diagnostic study and definition of scenarios for the stress tests—were implemented. The Central Bank and Credit Institutions (Resolution) Bill 2011 was laid before the Seanad (the upper House of the Oireachtas) on 28 February 2011.

    - Recapitalisation to a 12-percent core tier-1 capital ratio by end-February, which was to have been an early confidence building measure in advance of the stress tests, was not implemented as the outgoing Finance Minister considered it inappropriate to inject public resources with the Dáil dissolved for elections. The new government formed on March 9 considered it was appropriate to await the completion of the *Financial Measures Programme* at end March to determine the recapitalisation needed.

    - All the critical end-March benchmarks were observed, including the assessment of banks restructuring plans, and the completion of diagnostic evaluation of banks' assets and the stress tests. Indeed, the CBI released the detailed results of the *Financial Measures Programme*, which was endorsed by the financing partners and has been well received by financial markets.

- Important steps have been taken towards the achievement of the structural reform objectives of the programme. These include the launching of a thorough independent review of the sectoral wage setting arrangements and a reform of unemployment benefit system to reduce replacement rates and increase the effectiveness of activation measures.

3. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our EU/IMF financial assistance programme. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request completion of the first review under the Council Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland.

4. In view of the smaller financing need for recapitalisation than was allowed for in the original phasing, we request a rephasing of the loan disbursements. Under the proposed phasing of disbursements, we request the second EU disbursement under this financial assistance programme in an amount of EUR 3.0 billion.

5. The implementation of our programme will continue to be monitored through quarterly reviews in coordination with the IMF based on performance relative to the policy conditionality as described in the attached MEFP and first update of the Memorandum of Understanding (MoU). In the course of these reviews, understandings will be reached on any additional measures that may be needed to achieve our programme objectives.

6. We are confident that the policies set forth in the Letter of Intent of December 3, 2010 and in this letter are adequate to achieve the objectives of our programme. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the European Commission, the European Central Bank and the IMF on the adoption of such actions in advance of necessary revision of policies contained in this letter and the updated MoU.

7. This letter is being copied to Mr. Strauss-Kahn.

Sincerely,

Michael Noonan T.D.,
Minister for Finance

Patrick Honohan
Governor of the Central Bank of Ireland

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Dublin, 28 April 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. In the February 25 election, the Government has been given a strong mandate to govern. Its policies, as set out in our Programme for Government are designed to facilitate economic growth, restore confidence, fix the banking system, bring order to our public finances, and support the creation of jobs. By the end of this current Dáil's term it is the Government's desire that Ireland will be recognised as a fairer, more socially inclusive and equal society supported by a productive and prosperous economy.

2. Policy implementation since the announcement of the EU/IMF-supported programme in November 2010 has been determined (MEFP Table 1):

- The fiscal programme is on track. All performance criteria relevant for the completion of the first and second programme reviews have been met. The quantitative performance criteria for the exchequer primary balance were met for end-December 2010 and end-March 2011, as was the continuous performance criterion on external payments arrears. The end-December 2010 and end-March 2011 indicative targets on net central government debt have also been met.

- We have made important progress in addressing banking sector challenges. Almost all the structural benchmarks have been implemented, with one measure not implemented due to early parliamentary elections:

  - The two end-December 2010 structural benchmarks—preparation of terms of reference for the diagnostic study and definition of scenarios for the stress tests—were implemented. The Central Bank and Credit Institutions

(Resolution) Bill 2011 was laid before the Seanad (the upper House of the Oireachtas) on 28 February 2011.

- Recapitalisation to a 12 percent core tier- 1 capital ratio by end-February, which was to have been an early confidence building measure in advance of the stress tests, was not implemented as the outgoing Finance Minister considered it inappropriate to inject public resources with the Dáil dissolved for elections. The new government formed on March 9 considered it was appropriate to await the publication of the *Financial Measures Programme* at end March to determine the recapitalisation needed.

- All the critical benchmarks for end-March were observed, including the assessment of banks deleveraging plans and the completion of diagnostic evaluation of banks' assets and the stress tests. Indeed, the CBI released the detailed results in the *Financial Measures Programme*, which was endorsed by the financing partners and has been well received by financial markets.

3. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our programme under the Extended Arrangement. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request moving the timing of the second review to May 15, 2011 and the completion of the combined first and second programme reviews under the Extended Arrangement.

4. In view of the smaller immediate external financing need than was envisaged in the original phasing, we have revised our assessment in terms of the timing of the purchases to reduce the immediate financing being made available, while raising the financing available later in the programme to cover debt amortisation requirements and potential risks to the availability of market funding. Hence, we request that the second and third purchases become available at the time of the completion of the combined first and second reviews, in a total amount equivalent to SDR 1.41 billion, and that the remaining purchases be rephased.

5. We propose that quantitative performance criteria under the arrangement be established for June 30, 2011 and for September 30, 2011, with quarterly reviews, as set out in the attached MEFP. As detailed below, we propose new structural benchmarks against which to measure progress under the programme (MEFP Table 3). The Technical Memorandum of Understanding (TMU) explains how programme targets are measured.

6. We are confident that the policies set forth in the Letter of Intent of December 3rd, 2010 and in this letter are adequate to achieve the objectives of our programme. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. As is standard under Fund-supported programmes,

we will consult with the Fund, the European Commission and the ECB on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum.

7. This letter is being copied to Messrs. Juncker, Matolcsy, Rehn, and Trichet.

Sincerely,

Michael Noonan T.D.,
Minister for Finance

Patrick Honohan
Governor of the Central Bank of Ireland

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. Ireland is making progress in overcoming the worst economic crisis in recent history. The new government's *Programme for Government*, which incorporates its strategy for restoring Ireland to the path of sustained growth, sound finances, and job creation has been put forward in the context of the EU/IMF-supported programme. Developments since the programme was announced in November strengthen our confidence for the future but remind us that many challenges remain. Programme implementation in all areas has been strong, despite the uncertainties created by an election. A government with a clear mandate is now in place. On the positive side, recent stress tests have been recognised as providing a credible basis for rebuilding the domestic banking sector within a cost envisaged under the programme. On the other hand, while the external sector is performing well, domestic demand has recovered less quickly than expected with the attendant costs for jobs; and further headway is needed to regain access quickly to sovereign and bank debt markets.

The MEFP outlines how, with the support of the EU and IMF, we propose to build a secure future for the Irish people on the foundation now in place.

Recent Economic Developments and Outlook

2. We expect output growth to resume in 2011. The currently estimated decline in real GDP in 2010 was larger than anticipated, at 1 percent, largely reflecting unexpectedly weak net exports in the last quarter of the year, although quarterly data are subject to significant volatility and revisions. Moreover, unemployment data were higher than forecast, which together with a delayed investment recovery, warrants some downward revision to the projected 2011 growth rate. Nonetheless, export growth was strong in 2010, and strong demand for Irish exports will continue, driving a modest overall expansion in 2011, strengthening next year and beyond.

3. Inflation is expected to be driven by international energy and food prices even as domestic price pressures remain weak. After two years of falling prices, annual Harmonized Consumer Prices rose in the first quarter of 2011, but this was mostly accounted for by higher energy and food prices. Higher medical insurance fees and indirect taxation measures are also expected to contribute to positive inflation. Nonetheless, core inflation (excluding energy prices) is expected to remain subdued in 2011, owing to the continued slack in the economy.

4. The current account is expected to turn into surplus in 2011. The export-led recovery, coupled with low private investment and continued high saving as households deleverage, boosted the trade balance surplus in 2010. Reflecting both the composition of Irish exports and the slightly stronger international economy, rising net exports is expected to continue in 2011, although the size of the current account turnaround may be dampened somewhat by factor income outflows.

Financial Sector Policies

5. We are moving forward with purpose to put the banking system on a firm footing for the future so that it can become an enabler of the economic recovery. The election results gave the government a clear mandate to create a new banking system that meets the needs of our economy. To do so, we must restore the market's confidence in the Irish banks, which means our banks will need to be smaller, more focused on core operations, well capitalised and have stable market-based funding.

6. We have therefore completed a comprehensive assessment of the capital and liquidity conditions and needs of domestic banks.[1] The Financial Measures Programme comprised:

- The Prudential Capital Assessment Review ("PCAR") 2011 assessed the capital resources of four domestic banks under a baseline scenario and a stringent 3-year stress scenario. These tests identified the additional capital required to meet minimum Core Tier 1 capital ratios of 10½ percent in the baseline and 6 percent in the stress scenario.

- An independent loan loss forecasting exercise performed by BlackRock Solutions. These loss forecasts, which were notably more conservative than those of the banks, were the foundation for the assessment of the capital requirements in the PCAR.

- The Prudential Liquidity Assessment Review ("PLAR") 2011, established targets for banks participating in the PCAR to reduce their leverage and reliance on short-term central bank funding, and to ultimately drive convergence to liquidity standards to be established under the Basel III framework.

Completing these exercises simultaneously has allowed the CBI to model balance sheet and profit and loss dynamics in a transparent, coherent, and conservative manner. The credibility of the exercise has been reflected in the positive market reaction, with bond yields and spreads declining notably, and positive reports by financial analysts and credit ratings agencies. We also welcome the subsequent statements by the ECB which supported market confidence that the Eurosystem will continue to provide liquidity to banks in Ireland given the commitment of the Irish authorities to substantially strengthen the capital base of the banks.

7. On the basis of this rigorous analysis, we have adopted a comprehensive strategy to reorganise and reform the domestic Irish banks. The main aim is to place these banks in a position where they can fund themselves and generate capital, thereby progressively reducing reliance on central bank funding and the Irish State. The process to return to a more normal,

[1] The participating banks were Bank of Ireland (BoI), Allied Irish Banks (AIB), EBS Building Society (EBS) and Irish Life and Permanent (ILP).

fully functioning banking sector was laid out in our comprehensive announcement on March 31, 2011. Importantly, these banks will be reorganised and deleveraged to ensure the full benefits from their recapitalisation for the health of the banks and their prospects to regain market confidence. Although the implementation of these reforms will require sustained and intensive efforts, we are determined that they will culminate in healthy and fully privately owned banking system.

Restructuring

8. The domestic banks will be substantially reorganised to ensure that they will provide the economy with the services and credit it needs. The new system will be organised around two "pillar banks," Bank of Ireland (BoI) and Allied Irish Banks (AIB):

- AIB and the EBS Building Society (EBS) will be merged. A detailed execution plan will be overseen by a steering committee, with project managers in each institution. EBS will initially operate as a subsidiary of AIB; the merger plan will be available in mid-May. The legal merger procedures will be completed during the summer and not later than end-September 2011 subject to regulatory and competition clearances being received (proposed structural benchmark).

- A capital plan for Irish Life and Permanent (ILP) group has been produced. Plans for the execution of ILP's recapitalisation will be agreed between the authorities and ILP by end-May 2011 (proposed structural benchmark). A process to effect the sale of ILP's life insurance subsidiary, Irish Life Assurance, will start immediately and it will be offered for sale by end-October 2011.

9. We have started the process of resolving the unviable banks. As a first step, the deposits of Anglo Irish Bank ("Anglo") and Irish Nationwide Building Society ("INBS") were transferred in early 2011 to AIB and ILP, respectively. An independent advisor is in the process of validating the methodologies used during 2010 in the estimation of the future credit losses of Anglo and of performing a three year and lifetime loan loss forecast for INBS. The Central Bank will release the conclusions of this exercise in May. The Irish authorities will implement in due course the recommendations that will arise from this exercise. To minimise costs, the two banks will be merged by transferring INBS into Anglo (proposed structural benchmark for end-2011). Joint restructuring plans were submitted for EC approval at end January, and we intend to implement this plan to the extent possible on an accelerated basis while minimising further capital losses. Managers of these institutions will be subject to strict performance targets to ensure that these banks are worked out in a timely fashion.

10. An extensive diagnostic and stress test of the small, but locally important, credit union sector is underway. In light of this diagnostic, a plan to underpin the solvency and viability of undercapitalised institutions will be prepared by end-May 2011. A key element of

this plan will be to obtain the necessary powers to promote a higher degree of consolidation of the sector through mergers where appropriate, with government financial support if warranted. In addition, the Government will by end-May 2011 establish a Commission on Credit Unions to design a strategy for the future evolution of the sector having regard to its particular nature. By end-2011 we will submit legislation to the Oireachtas to assist the credit unions with a strengthened regulatory framework including more effective governance and regulatory requirements.

Deleveraging

11. We are targeting a significantly smaller and more robust banking system while avoiding fire sales. The target is that by the end of 2013 the domestic banks will achieve a loan to deposit ratio of 122.5 percent, which will facilitate them regaining access to market sources of funding. Non-core assets totaling €73 billion have been identified for deleveraging by end-2013, through a combination of run-offs and a carefully phased programme of disposals. To facilitate the deleveraging, the recapitalisation allows for a total potential loss on disposals of up to €13bn, which is estimated under stress conditions by the Central Bank.

12. To achieve this goal we are establishing a strong framework for the management, governance, and monitoring of deleveraging. Banks are reorganising their balance sheets and operations into core and non-core assets. The latter will also be managed by an individual and/or team possessing the necessary skills and experience and incentivised appropriately under a time-limited contract to execute the deleveraging plans, and which reports to the Deleveraging Committee. This execution will be under the close oversight of a Deleveraging Committee of each bank’s board to be chaired by a non-executive Director and which includes observers representing the Minister for Finance and the Central Bank. To monitor progress, semi-annual interim targets have been adopted for key liquidity indicators and progress against these will be reported every six months. Banks will submit detailed plans on actions to achieve deleveraging in the coming six months to the authorities, and update the authorities on progress towards the interim targets on a quarterly basis. If actual or forecast performance is not consistent with the interim targets, the authorities will require that remedial plans be submitted and, as necessary, will use their powers to ensure achievement of the goal.

13. Progress with deleveraging will be demonstrated in future reviews of the programme, taking into account relevant market conditions. We will have prepared by end-June 2011 specification of the management and internal incentive structures designed to ensure (i) prompt deleveraging and (ii) best prices taking into account market conditions, and consistent set of objectives for the Deleveraging Committee. Moreover, to support market confidence in improving the funding structure of the banks, every six months information on aggregate progress with deleveraging, together with liquidity indicators for the banks undergoing deleveraging, shall be published.

14. The implementation of deleveraging will be subject to ongoing review. In particular, a portion of the assets now within the scope of the deleveraging exercise (specifically, land and development loans in amounts below €20 million) were previously intended for resolution by NAMA. Currently, the government no longer intends to transfer these assets to NAMA. We will require AIB and BoI by end-May 2011 to provide contingency plans to meet the deleverage targets. If these plans are not feasible, we will find and implement alternative ways to meet the deleveraging goals and may reconsider the possibility of transferring the remaining loans to NAMA.

Recapitalisation

15. The PCAR found that a further €24 billion is required to ensure a sound capital basis of the banks. This capital will cover losses up to and beyond the end 2013, over and above current and projected loan loss provisioning, including allowance for significant losses on residential mortgages and commercial real estate. Within this amount, we have included a buffer of €5.3 billion to cover additional but unlikely losses post 2013 to provide an extra layer of resilience, including contingent capital of €3 billion. We will make arrangements for a claw back of any injection of capital by the State. Subject to approval by the CBI, this mechanism will require the banks to repay any such capital in excess of their regulatory obligations, when these financial institutions again have stable access to the wholesale funding market or have otherwise stabilised their funding including a normal reliance on central bank funding. From 2012 onward, the timetable for conducting the annual PCAR exercise will be aligned with the European Banking Authority's EU-wide bank stress tests.

16. Recapitalisation will be completed in a timely manner. Although the recapitalisation is well within the funding envelope available for this purpose, it is important to mitigate the cost to the Irish taxpayer in a manner that preserves financial stability. We will therefore seek direct contributions to significantly reduce the cost to the taxpayer, for example by requiring significant contributions from subordinated debt holders, by the sale of assets to generate capital, and where possible, by seeking private sector investors.

17. We are therefore promptly undertaking the steps needed to execute bank recapitalisation. We are initiating liability management exercises (LME) on subordinated debt, aiming to reduce the principal by the maximum extent possible. Allowing adequate time for the LMEs to be completed, we will complete the recapitalisation of AIB, BoI, ILP and EBS by end-July, 2011, including the placement of contingent capital in these banks, subject to appropriate adjustment for expected asset sales in the case of ILP (proposed structural benchmark).

18. Consistent with the substantial State resources invested in the banking system, we will take the following steps:

- The responsibility for the banking sector within the government will be reorganised. We intend to create a more integrated decision making and supervision structure among all relevant Departments and Agencies with banking responsibilities, which will include strengthening the capacity of the Department of Finance in the area of banking policy, and ensuring that the Department has the appropriate policy responsibilities and financial market and banking expertise to advise Government on potential systemic threats and on measures to address and mitigate these.

- Strict governance standards for state-owned banks will be adopted. For majority state owned banks we are taking steps to ensure that they are run professionally and on the basis of best international banking practices. We commit to appoint a professional and qualified team to manage these financial institutions and let them operate at arm's length from the state. Our goal is to maximise value for the Irish taxpayer and to prepare the banks for return to private ownership as soon as conditions permit.

Strengthening the Banking Framework

19. We are addressing underlying weaknesses that led to the banking crisis. This will involve:

- Continuing to enhance banking supervision. We have fundamentally restructured the supervisory function in the CBI, by more than doubling staffing and training, substantially increasing budget resources having made a high proportion of external hires, and we are commencing the design and implementation of a regulatory risk model. However, we will continue to work to strengthen practices including data collection financial reporting, and credit risk assessments. By end-June, 2011, the Central Bank will prepare an action plan to address these gaps and provide an update on measures initiated in 2010. This will include recommendations, following a benchmarking exercise against international public sector peers and relevant private sector institutions, on how to secure the retention of regulatory staff with skills and experience likely to be in demand in private markets. It will also include a review of the comprehensiveness and structure of training for regulatory staff. Moreover, we will submit a "Supervision and enforcement bill" to the Oireachtas to expand and clarify supervisory powers and sanctions, by end-July 2011 (proposed structural benchmark).

- Ensuring that banks adopt prudent policies to address the deterioration in asset quality. To this end, the CBI will issue guidelines by end-June 2011 to encourage the timely and adequate allocation of provisions. The CBI will commence ongoing monitoring of the implementation of these guidelines in July 2011, which will also address any delays in the recognition of loan arrears which may be affecting the timely recognition of loan losses. Furthermore, by end-September 2011, the CBI will publish a report on the treatment of loans in arrears under the Code of Conduct for Business Lending to Small and Medium Enterprises aiming to provide standards for banks concerning their handling of past due loans of still viable entities, and where recovery appears feasible.

- Ensuring sound bank lending and risk management. We have instructed banks to enhance their capacity to measure financial risks by hiring highly-skilled senior personnel and retraining existing staff. In addition, we have drafted new corporate governance standards, and our new "fit-and-proper" standards for bank managers will be effective in September 2011. Finally, CBI will take steps to ensure that the frequency and quality of banks' information disclosure and transparency will be enhanced by end-September, 2011.

- Enhancing the quality and availability of credit information available to credit providers. We will develop a legal framework that would facilitate the collection and centralisation of financial information on borrowers. The establishment of such a framework will improve the information available to banks to make sound credit assessments, and will be a vital tool for banking supervision. Proposals will be submitted for the Minister's consideration by the Department of Finance by end-September, 2011.

20. We will improve asset recovery procedures by:

- Addressing weaknesses in the personal insolvency regime. We are preparing draft legislation to reform our personal insolvency law and procedures seeking to balance efficient and effective insolvency proceedings with the risk of moral hazard. While the proposals are likely to focus on significant amendment of the Bankruptcy Act, we also intend to provide for the introduction of a new structured non-judicial debt settlement and enforcement system to provide for an alternative to court supervised proceedings. Further analysis is needed of the economic and financial effects of the new arrangements and the ongoing intensive discussions with relevant stakeholders will be completed shortly.

- Strengthening NAMA. NAMA will be required to maintain the highest standards of governance with appropriate accountability and transparency arrangements. We will ensure that the costs of NAMA operations are reduced and that NAMA 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 disposal of 25 percent of assets by end 2013.

21. Finally, we are improving our crisis preparedness. The work on establishing a special resolution regime for banks is well advanced. As the Dáil had been dissolved due to the calling of the general election on the 25th of February 2011 and as the Central Bank and Credit Institutions (Resolution) Bill could be initiated in either House of the Oireachtas, it was submitted to Seanad Éireann at the end of February. Notwithstanding the submission of this Bill, in order to progress the legislation as quickly as possible, we will reintroduce the

Bill in Dáil Éireann. Elections to the Seanad Éireann are currently underway and the new Seanad is not expected to convene before early to mid-May 2011. Moreover we are preparing amendments to the Bill designed to enhance the resolution toolset in line with the evolving EU principles on crisis resolution and in the light of discussions with the external partners.

Fiscal Policies

22. Ireland faces significant adjustments to ensure that debt remains on a sustainable path and to win back access to market funding. Accordingly, in our Programme for Government we have fully committed to fiscal consolidation in line with the terms of the EU/IMF-supported programme and we reaffirm the goal to deliver a 3 percent of GDP fiscal deficit in 2015. To ensure that the overall consolidation is underpinned by the most effective use of our scarce resources, we have recently launched an ambitious and comprehensive review of expenditure. As part of this process the scale of the necessary consolidation in Budgets 2013-2015 will have to be reviewed in the context of the likely growth prospects nearer the time.

23. Our immediate priority is to support job creation through a fiscally neutral Jobs Initiative. To this end, we will adopt a package of measures, including job training programmes for the unemployed, temporary tax incentives for labour-intensive sectors till end-2013, and a reorientation of public investment towards local and regional infrastructure. We will submit the Jobs Initiative to Dáil Éireann in May 2011. Consistent with our commitment to the programme's fiscal consolidation targets, we will ensure strict budget neutrality in 2011 and over the period to 2014 of adopted fiscal measures and will specify fully costed measures to deliver the requisite offsetting savings in the Jobs Initiative (prior action).

24. We will seek to ensure that future fiscal consolidation is fair and does not over burden those most in need. As a first step, we will reverse the recent reduction in the national minimum wage, mitigating any effects on employment through the targeted reduction in PRSI in the Jobs Initiative. Despite the surge in social protection spending there remains many vulnerable groups in the country. There is also evidence that some welfare schemes are susceptible to abuse, while others may be contributing to poverty and inactivity traps. The Department of Social Protection will build on their recent studies on working age payments, child income support and disability allowance and submit to Government, by end-March 2012, a comprehensive programme of reforms that can help us better target social support to those on lower incomes, and ensure that work pays for welfare recipients. To this end, the Department will submit a progress report by end-December 2011.

25. We are undertaking institutional fiscal reforms to firmly anchor the sustainability of public finances:

- In the context of the proposals set out in the Programme for Government and pre-existing commitments under the EU/IMF-supported programme, we will establish a Fiscal

Advisory Council to provide an independent assessment of public finances by end-June (structural benchmark). The Council will report publicly to Government and the Oireachtas on a regular basis. By end-June 2011, we will specify the role of the Council, appoint its members, and allocate resources. Its mandate and independence will be given statutory basis as part of the Fiscal Responsibility Bill later in the year.

- The Fiscal Responsibility Bill, to be submitted to Dáil Éireann in the fourth quarter of 2011, will reform the budgetary framework. To safeguard fiscal discipline over the cycle, the Bill will also give legal backing to a set of fiscal rules. The rules will provide a basis for assessing the appropriateness of official targets and performance.

- In the meanwhile, to reinforce fiscal discipline and facilitate a more strategic allocation of spending, following the comprehensive review of expenditure, we will introduce by end-December 2011 binding multi-annual expenditure ceilings with broad coverage and consistent with the government's fiscal consolidation targets under the EU/IMF-supported programme and the Stability and Growth Pact provisions (proposed to be re-set as structural benchmark for end-December 2011).

The *Programme for Government* contains proposals for reforms to Ireland's budgetary framework and the Department will organise a seminar in May 2011 to allow for discussion of policy options. The discussion will have regard to the *Programme for Government* and the proposals in the Report of the Joint Oireachtas Committee on Finance and the Public Service entitled *Macroeconomic Policy and Fiscal and Economic Governance,* the Department's discussion document and other relevant inputs.

26. We are taking proactive measures to reduce our long-term pension liabilities. The next few months will see significant changes to pensions terms put into law. The most important of these changes is a three-step increase in the retirement age for social welfare pensions from 65 to 68, over 2014-28. In addition, we are introducing a new single pension scheme for all new entrants to the public service – it will link the pension age to that for the social welfare pension and entitlements will be based on average career earnings and annual increases in consumer prices. These measures will considerably and credibly strengthen our public finances over the long term.

Product and Labour Market Reforms

27. We are adopting policies to lower costs in sheltered sectors, thus boosting purchasing power and underpinning further competitiveness gains. These will include reforms to the regulation of the legal profession and reducing barriers to entry to the medical profession with the aim of bringing down costs. We will also ensure that the competition enforcement regime is reinforced by strengthening the powers of the Competition Authority. No further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF-supported programme and the needs of the economy.

28. It is important that we make effective use of our state assets and, where appropriate, dispose of them to help reduce our government debt. We are committed to studying the recommendations of the just-concluded Review of State Assets and Liabilities, with a view to raising the efficiency of commercial semi-state bodies via governance reforms and cost-control, and a phased privatisation of selected enterprises supported by associated development of the regulatory system as appropriate.

29. We are committed to create conditions conducive to job creation. We are awaiting the results of currently ongoing independent review of sectoral wage agreements (Employment Regulation Orders – EROs - and Registered Employment Agreements - REAs) and will present a time bound action plan to follow-up on its recommendations by end September 2011.

Programme Financing

30. Given the desirability of combining the first and second reviews (see LOI), we request that the timing of drawings from the EU and IMF be adjusted so as to bring forward to May 15, 2011 the disbursement originally scheduled to be available on June 15, 2011. In addition, we request that the total of the second and third purchases from the IMF be reduced by 2.3 billion SDRs due to a lower immediate balance of payments need than envisaged in the original programme, and that the remaining purchases be rephased accordingly, while keeping the total amount available under the EU-IMF financing package unchanged. Based on the commitments made by our EU bilateral partners, we are in the process of completing arrangements for the funding of the programme, where we have recently signed a bilateral agreement with the United Kingdom, and we are finalising similar arrangements with Sweden and Denmark, expected to total about €5 billion, ensuring that the programme is fully financed.

Programme Monitoring

31. Progress in the implementation of the policies under the programme will continue to be monitored through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews, with the third and fourth reviews expected to be completed on or after August 15 and December 14, 2011, respectively. The programme also continues to be in compliance with requirements under the Memorandum of Understanding on Specific Policy Conditionality. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the programme. The Government's targets for the exchequer primary balance are monitored through quarterly performance criteria and net central government debt is an indicative target (Table 2). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. Progress on implementing structural reforms is monitored through structural benchmarks (Table 3).

32. 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 2011	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-March 2011	Observed
Continuous Performance Criteria		
Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government	Continuous	Observed
Structural Benchmarks		
Define the criteria to run stringent stress tests scenarios.	End-December 2010	Observed
Agree on terms of reference for the due diligence of bank assets by internationally recognised consulting firms.	End-December 2010	Observed
The Central Bank will direct the recapitalisation of the principal banks (AIB, BoI and EBS) to achieve a capital ratio of 12 percent core tier 1.	End-February 2011	Not observed[2]
Submit to Dáil Éireann the draft legislation on a special resolution regime.	End-February 2011	Observed [3]
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	Ongoing
The Central Bank will direct the recapitalisation of ILP to achieve a capital ratio of 12 percent core tier 1.	End-May 2011	Modified or replaced[4]
Establish a Budget Advisory Council.	End-June 2011	Ongoing
Introduce a medium-term expenditure framework with binding multi-annual ceilings on expenditure in each area.	End-July 2011	Modified or replaced

[2] 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.

[3] In practice this was submitted to the Seanad as discussed in paragraph 21of the MEFP, as the Dáil was dissolved owing to the elections.

[4] See Table 3.

Table 2. Quantitative Performance Criteria and Indicative Targets under the Economic Programme for 2010–11

	December 31, 2010		March 31, 2011		June 30, 2011	September 30 2011	December 31, 2011	March 31, 2012
	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
	(In billions of Euros)							
	Performance Criterion		Performance Criterion		Performance Criterion	Performance Criterion	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance 2/	-15.8	-14.7	-7.9	-6.3	-10.9	-14.2	-15.0	-6.0
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt	83.6	81.7	92.1	88.5	94.6	98.2	101.1	107.9

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. Prior Action and Structural Benchmarks under the Programme for 2011

Measure	Date	Status
Financial sector policies		
Finalise plans for the recapitalisation of Irish Life and Permanent (MEFP, ¶8).	End-May 2011	Structural benchmark
Complete the recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society (MEFP, ¶17).	End-July 2011	Structural benchmark
Submit the Supervision and Enforcement Bill to Oireachtas (MEFP, ¶19)	End-July 2011	Structural benchmark
Complete the legal merger procedures of Allied Irish Bank and EBS Building Society (MEFP, ¶8).	End-September 2011	Structural benchmark
The merger of Irish Nationwide Building Society and Anglo-Irish bank (MEFP, ¶9).	End-December 2011	Structural benchmark
Fiscal policies		
Ensure strict budget neutrality of the Jobs Initiative in 2011 and over the period to 2014 by specifying fully costed off-setting measures (MEFP, ¶23).		Prior action
Establish a Fiscal Advisory Council (MEFP, ¶25).	End-June 2011	Structural benchmark
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets (MEFP, ¶25).	End-December 2011	Structural benchmark

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

April 28, 2011

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

2. For programme purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "programme exchange rates", with the exception of the items affecting the government fiscal balances, which will be measured at current exchange rates. The programme exchange rates are those that prevailed on November 24, 2010 as shown on the European Central bank web-page, in particular, €1 = 1.3339 U.S. dollar and €1 = 0.86547 SDR.

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.[5] 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

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

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

4. The performance criteria are set on the exchequer primary balance (the exchequer balance excluding net debt interest payments in the service of the National Debt).[6]

5. For the purposes of the programme, the floor on the exchequer primary balance (quantitative performance criterion) will be adjusted downward by payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. Such payments may include, inter alia, loans to banks, investments in their equity (requited recapitalisation), unrequited recapitalisation, and purchases of troubled assets, which are carried out in line with programme objectives. Any other financial operation by Government to support banks, including the issuance of guarantees or provision of liquidity, will be reported to EU, IMF, and ECB staffs.

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

Cumulative Exchequer primary balance	(In billions of Euros)
From January 1, 2011:	
End-June 2011 (performance criterion)	-10.9
End-September 2011 (performance criterion)	-14.2
End-December 2011 (indicative target)	-15.0
From January 1, 2012:	
End-March 2012 (indicative target)	-6.0

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

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

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

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of Euros)
From January 1, 2011:	
End-June 2011 (projection)	18.5
End-September 2011 (projection)	28.6
End-December 2011 (projection)	41.3
From January 1, 2012:	
End-March 2012 (projection)	9.9

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 programme reviews.

Ceiling on the Stock of Central Government Net Debt

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

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

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

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-March 2011 (provisional)	88.5
End-June 2011 (indicative target)	94.6
End-September 2011 (indicative target)	98.2
End-December 2011 (indicative target)	101.1
End-March 2012 (indicative target)	107.9

Non-accumulation of External Payments Arrears by Central Government

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

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

REPORTING REQUIREMENTS

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

- The Department of Finance will report the Exchequer balance to the IMF staff, with a lag of no more than seven days after the test date.
- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.
- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EU, IMF and ECB staff, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

Ireland
Memorandum of Understanding
on
Specific Economic Policy Conditionality

(First update)

28 April, 2011

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

The quarterly disbursement of financial assistance from the European Financial Stabilisation Mechanism (EFSM)[8] will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure, and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this Updated Memorandum of Understanding on specific economic policy conditionality (MoU), which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are (expected to be) missed, additional action will be taken.

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

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

[8] 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.

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

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

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

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

1. Actions for the third review (actions to be completed by end Q2-2011)

i. Fiscal consolidation

Government will introduce the necessary measures to offset in full the estimated fiscal costs of new measures in the '2011 Jobs Initiative' in 2011 and over the period to 2014 while avoiding measures that would endanger the successful implementation of the programme. To ensure the latter, Government commits to consult with the European Commission, the ECB and the IMF on these measures.

ii. Financial sector reforms

Recapitalisation

The authorities will ensure that a process of banking system recapitalisation is immediately set in motion. This recapitalisation process will respond to the outcome of the PCAR 2011, which identified a total capital need of EUR 24 billion for BOI, AIB, EBS and IL&P, of which EUR 21 billion should be met in the form of Core Tier 1 (CT1) capital and EUR 3 billion in the form of contingent capital.

As part of the recapitalisation process, liability management exercises (LMEs) in respect of the banks' subordinated debt holders will be initiated aiming to reduce the principal by the maximum extent possible. The possibilities for private placements will be explored.

The Irish authorities will submit a comprehensive term sheet for a contingent capital instrument in the amount of EUR 3 billion. This term sheet will be agreed with the European Commission, IMF, and ECB by 15 May 2011 at the latest.

The Irish authorities will make arrangements for a claw back of any injection of capital by the State. Subject to approval by the CBI, this mechanism will require the banks to repay any such capital in excess of their regulatory obligations, when these financial institutions again have stable access to the wholesale funding market or have otherwise stabilised that funding including through a normal reliance on central bank funding.

An independent advisor is in the process of validating the methodology used in the estimation of future credit losses of Anglo and of performing a three year lifetime loan loss forecast for INBS. The Central Bank will release the conclusions of this exercise in May. If necessary the Central Bank will undertake remedial action. To minimise costs, the two banks will be merged by transferring INBS into Anglo by end-2011. The joint restructuring plan of Anglo and INBS was submitted for EC approval at end January, and the Irish authorities intend to implement this plan to the extent possible on an accelerated basis while minimising further capital losses. Managers of these institutions will be subject to strict performance targets to ensure that these banks are worked out in a timely fashion.

Deleveraging

The PLAR 2011 has established a target loan-to-deposit ratio (LDR) of 122.5% which will be achieved by end 2013 for BoI, AIB, EBS and IL&P. Interim targets will be established by the CBI for the intervening period. The Irish authorities will present a plan which will provide for: a) an appropriate governance structure including appropriate incentives for the deleveraging process in each bank based on objective benchmarks; b) an in-depth monitoring system to examine the compliance with these targets; and c) a set of sanctions for non-compliance with these targets by 30 June 2011.

By 31 May 2011, AIB and BoI will provide alternative deleveraging options to account for the fact that the transfer of sub-EUR 20 million land and development loans to NAMA will now no longer take place. If these plans are not feasible, the authorities will ensure that the banks will find and implement alternative ways to meet the deleveraging goals including reconsidering the possibility of transferring the remaining loans to NAMA

In addition, the Irish authorities, in consultation with the European Commission, IMF, and ECB, will monitor closely the evolution of the Net Stable Funding Ratio (NSFR) and the Liquidity Coverage Ratio (LCR) in order to ensure convergence to Basel 3 standards by the relevant dates.

Financial supervision

As Dáil Éireann had been dissolved due to the calling of the general election on the 25th of February, the Central Bank and Credit Institutions (Resolution) Bill was submitted to the Seanad at the end of February. Notwithstanding the submission of the Bill, in order to progress the legislation as quickly as possible, the Irish authorities will reintroduce the Bill in the Dáil Éireann. Moreover the Irish authorities will prepare amendments to the Bill designed to enhance the resolution toolset available in line with the evolving EU principles on crisis resolution and in the light of discussions with the external partners.

The CBI will continue to strengthen its capacity to supervise credit institutions by further reinforcing its staffing levels and expertise. The CBI will enhance its risk assessment and monitoring framework, including the collection of relevant data from the banking system, particularly drawing on the lessons learned in the PCAR process on data validation and integrity and asset quality review. To this end, the CBI will produce a detailed action plan by 30 June 2011, prioritising those actions considered to be most urgent.

Credit institutions

Progress in implementation of the strategy for the reorganisation of Irish credit institutions as announced in the 31 March 2011 statement will be assessed by the authorities, together with the European Commission, the ECB and the IMF. In particular, the Irish authorities will ensure that the banks covered by the PCAR/PLAR will begin the process of separating the core and non-core assets and implementing an appropriate governance structure to deleverage the non-core assets.

Credit unions

An extensive diagnostic and stress test of the small, but locally important, credit union sector is underway. In light of the diagnostic, a plan to underpin the solvency and viability of the undercapitalised institutions will be prepared by the Irish authorities by 31 May 2011. A key element of this plan will be to obtain the necessary powers to promote a higher degree of consolidation in the sector through mergers, where appropriate, with government financial support if warranted. In addition, the Government will by 31 May 2011 establish a Commission on Credit Unions to design a strategy for the future evolution of the sector having regard to its particular nature. By end-2011, the Irish authorities will submit legislation to the Dáil Éireann to assist the credit unions with a strengthened regulatory framework including more effective governance and regulatory requirements. To the extent that the Government is required to provide financial support to the sector, this support will be notified to the European Commission in line with EU State aid rules.

iii. Structural reforms

To enhance long-term fiscal sustainability

Government will introduce legislation to increase the age at which one qualifies for a Social Welfare pension. Under the National Pension Framework the age at which people will qualify for the Social Welfare pension will be increased to 66 years in 2014, 67 in 2021 and 68 in 2028.

To support businesses

Government will extend the voluntary 15-day rule relating to prompt payments to the health service executive, local authorities and state agencies.

To support employment growth

We will reverse the recent reduction in the national minimum wage, mitigating any effects on employment through the targeted reduction in PRSI in the Jobs Initiative.

iv. Structural fiscal reforms

To reinforce a credible budgetary strategy

Government will establish a Fiscal Advisory Council in the context of the proposals set out in the Programme for Government and pre-existing commitments under the Programme of Financial Support.

2. Actions for the fourth review (actions to be completed by end Q3-2011)

i. Fiscal consolidation

Government will review the achieved and projected savings arising from administrative measures to increase efficiency and from public service numbers reductions and present appropriate adjustment measures, including to the overall public service wage bill, to ensure consistency with the fiscal adjustment targets over the programme horizon.

ii. Financial sector reforms

The Irish authorities will ensure that the capital needs of BoI, AIB, EBS and IL&P, as identified in the PCAR 2011 have been fully met by 31 July 2011, subject to an appropriate adjustment for asset sales in the case of IL&P.

The Irish authorities will ensure that the banks covered by the PLAR will have identified the separation of their core and non-core assets and have implemented the appropriate governance structure for the deleveraging of non-core assets.

In line with the monitoring system set up, actual and forecast target LDRs shall be reported by the banks to the CBI every six months (first report 31 July 2011). Such reports will include (i) progress achieved towards interim target; (ii) forecast of LDR for the end of the next period; (iii) a detailed plan of action to meet the next interim target. If actual or forecast LDRs fail to meet the interim targets, the Irish authorities will within 14 days of becoming aware of such failure inform the European Commission, IMF, and ECB. The CBI will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation. In addition, the Irish authorities will update the European

Commission, the IMF and the ECB on progress in the quarters not covered by the six-monthly report.

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

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

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

Building on the restructuring undertaken to date, the Irish authorities will submit by 31 July 2011, restructuring plans to the European Commission in accordance with EU competition rules taking into account the outcomes of the PCAR and PLAR and covering a period of 5 years. These plans will also be made available to the IMF and the ECB. Commitments already undertaken by the Irish authorities in the context of EU competition decisions will be maintained.

The Department of Finance will, by 31 July 2011, introduce legislation (titled "The Central Bank (Supervision and Enforcement) Bill 2011) enhancing the powers of the CBI to intervene in the financial system when fulfilling its role as supervisor. Following the enactment of this legislation, the CBI will have the power to enforce the implementation of a LDR of 122.5%, including the power to direct the banks subject to the PLAR to sell assets.

The Department of Finance will finalise a detailed plan for enhancing the quality and availability of credit information available to credit providers by 30 September 2011.

iii. Structural reforms

Labour market reforms

Government will report on reforms to strengthen the labour market activation system and its link to unemployment supports in the fight against long-term unemployment.

Government will discuss with European Commission Services the main findings of the independent reviews of Registered Employment Agreements (REAs) and Employment Regulations Orders (EROs) arrangements, and present a time-bound comprehensive action plan to follow up on its recommendations.

To increase competition

Government will introduce legislative changes to remove restrictions to trade and competition in sheltered sectors including:

- the legal profession, establishing an independent regulator for the profession and implementing the recommendations of the Legal Costs Working Group and outstanding Competition Authority recommendations to reduce legal costs.

- medical services, eliminating restrictions on the number of GPs qualifying and removing restrictions on GPs wishing to treat public patients as well as restrictions on advertising.
- the pharmacy profession, ensuring that the recent elimination of the 50% mark-up paid for medicines under the State's Drugs Payments Scheme is enforced.

Government shall bring forward legislation to strengthen competition law enforcement in Ireland by ensuring the availability of effective sanctions for infringements of Irish competition law and Articles 101 and 102 of the Treaty on the Functioning of the European Union as well as ensuring the effective functioning of the Competition Authority.

The authorities will agree with European Commission Services a time-bound action plan to implement the recommendations of the study on the economic impact of eliminating the cap on the size of retail premises with a view to enhancing competition and lowering prices for consumers.

An independent assessment of the electricity and gas sectors will commence taking due account of the EU regulatory context for these sectors.

iv. Structural fiscal reforms

To underpin medium-term ceilings and identify savings and efficiencies

The Authorities will complete a comprehensive review of expenditure which will form the basis for the allocation of binding multi-year expenditure ceilings by expenditure vote group consistent with the aggregate expenditure envelope underpinning the government's fiscal targets under the EU/IMF financial assistance programme and the Stability and Growth Pact provisions.

To put the public service pension system on a more sustainable basis

Pension entitlements for new entrants to the public service will be reformed with effect from 2011. This will include a review of accelerated retirement for certain categories of public servants and an indexation of pensions to consumer prices. Pensions will be based on career average earnings. New public service entrants will also see a 10% pay reduction. New entrants' retirement age will also be linked to the Social Welfare pension retirement age.

To facilitate better government at a local level

Government will ensure that effective measures are in place to cap the contribution of the local government sector to general government borrowing at an acceptable level. The mechanisms in place to underpin this position will be kept under close review, in consultation with the Commission Services. The review will also consider how to provide data on the financial position including assets and liabilities of the sector on a timely basis.

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

i. Fiscal consolidation

Government will present a draft budget for 2012 aiming to further reduce the general government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure and including the detailed presentation of consolidation measures amounting to at least €3.6bn.

The EU/IMF Programme of Financial Support for Ireland agreed in December 2010 provides for the following commitments in relation to measures for 2012.

Revenue measures to yield EUR1,500m[9] in a full year will be introduced, including:

- A lowering of personal income tax bands and credits.
- A reduction in private pension tax reliefs.
- A reduction in general tax expenditures.
- A property tax.
- A reform of capital gains tax and acquisitions tax.
- An increase in the carbon tax.

The budget will provide for a reduction of expenditure in 2012 of EUR 2,100m including:

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

The Comprehensive Review of Expenditure (CRE) underway will be completed in September 2011. The budgetary measures outlined above will be examined by the Government in the light of the findings of the Review and the Programme for Government. Based on the CRE and in consultation with the European Commission, the IMF and the ECB, the government will introduce budgetary changes which will aim to fully realise efficiencies identified, while remaining fiscally neutral.

ii. Financial sector reforms

The authorities will report on the evolution of the capital within the banks covered by the PCAR.

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

[9] Inclusive of 2011 carryover

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

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

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

iii. Structural reforms

To prepare for the introduction of water charges

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

To better target social support expenditure

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

iv. Structural fiscal reforms

To reinforce the credibility of the budgetary process

The government will introduce a Fiscal Responsibility Bill consistent with the economic governance framework at the EU level, including provisions for a medium-term budgetary framework, fiscal rules and the Fiscal Advisory Council.

To further reform key sectors of the economy

The Government is due to consider a potential programme of asset disposals based on the Programme for Government and the Review Group on State Assets and Liabilities. The Government will discuss its plans with the European Commission, the IMF and the ECB when it has finalised its response to the Review.

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

i. Fiscal consolidation

Finance Bill 2012 will contain necessary provisions to bring into effect the already signalled VAT increases in 2013 and 2014.

ii. Financial sector reforms

The authorities will agree the terms of reference for the PCAR 2012.

In line with the monitoring system set up, actual and forecast target LDRs shall be reported by the banks to the CBI every six months. Such reports will include (i) progress achieved towards interim target; (ii) forecast of LDR for the end of the next period; (iii) a detailed plan of action to meet the next interim target. If actual or forecast LDRs fail to meet the interim targets, the Irish authorities will within 14 days of becoming aware of such failure inform the European Commission, IMF, and ECB. The CBI will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation. .

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

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

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

iii. Structural reforms

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

To better target social support expenditure

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

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

i. Financial sector reforms

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

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

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

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

ii. Structural reforms

To assist in covering financing needs and to increase competition

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

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

i. Financial sector reforms

In line with the monitoring system set up, actual and forecast target LDRs shall be reported by the banks to the CBI every six months. Such reports will include (i) progress achieved towards interim target; (ii) forecast of LDR for the end of the next period; (iii) a detailed plan of action to meet the next interim target. If actual or forecast LDRs fail to meet the interim targets, the Irish authorities will within 14 days of becoming aware of such failure inform the

European Commission, IMF, and ECB. The CBI will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation.

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

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

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

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

i. Fiscal consolidation

The government will provide a draft budget for 2013 aiming at a further reduction of the general government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure and including the detailed presentation of consolidation measures amounting to at least EUR 3,100m.

The EU/IMF Programme of Financial Support for Ireland agreed in December 2010 provides for the following commitments in relation to measures for 2013.

Revenue measures to raise at least EUR 1,100m[10] in the full year will be introduced, including:

- A lowering of personal income tax bands and credits
- A reduction in private pension tax relief.
- A reduction in general tax expenditures.
- An increase in property tax.

The budget will provide for a reduction in expenditure in 2013 of no less than EUR 2,000m, including:

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

[10] Inclusive of carryover from 2012

The budgetary measures outlined above will be examined by the Government in the light of the findings of the Comprehensive Review of Expenditure (CRE) and the Programme for Government. Based on the CRE and in consultation with the European Commission, the IMF and the ECB, the government will introduce budgetary changes which will aim to fully realise efficiencies identified, while remaining fiscally neutral.

ii. Financial sector reforms

The authorities will report on the evolution of the capital within the banks covered by the PCAR.

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

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

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

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

i. Financial sector reforms

The authorities will agree the terms of reference for the PCAR 2013.

In line with the monitoring system set up, actual and forecast target LDRs shall be reported by the banks to the CBI every six months. Such reports will include (i) progress achieved towards the final target; (ii) forecast of LDR for the end of the next period; (iii) a detailed plan of action to meet the final target. If actual or forecast LDRs fail to meet the interim targets, or it does not appear to be feasible that the bank will meet the end of year target, the Irish authorities will within 14 days of becoming aware of such failure inform the European Commission, IMF, and ECB. The CBI will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation.

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

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

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

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

ii. Financial sector reforms

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

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

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

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

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

i. Financial sector reforms

In line with the monitoring system set up, actual and forecast target LDRs shall be reported by the banks. Such reports will include (i) progress achieved towards the final target; (ii) forecast of LDR for the end of the next period; (iii) a detailed plan of action to meet the final target. If actual or forecast LDRs fail to meet the interim targets, or it does not appear to be feasible that the bank will meet the end of year target, the Irish authorities will within 14 days of becoming aware of such failure inform the European Commission, IMF, and ECB. The CBI will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation.

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

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

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

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

ii. Financial sector reforms

The authorities will report on the evolution of the capital within the banks covered by the PCAR.

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

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

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

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the central government's budget execution and prospects for the remainder of the year.	Monthly, 20 days after the end of each month
F.3	Updated annual plans for the general government balance showing 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.4	Quarterly data on main revenue and expenditure items of local government.	Quarterly, 90 days after the end of each quarter
F.5	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.6	Quarterly data on general government accounts, and general government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 90 days after the end of each quarter
F.7	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.8	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 month
F.9	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 month
F.10	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- owned commercial enterprises (interest and amortisation)	Quarterly, 30 working days after the end of each quarter
F.11	Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.	Quarterly, 30 working days after the end of each quarter.
To be provided by the NTMA		
N.1	Monthly information on the Government's cash position with indication of sources as well of number of days covered	Monthly, next working day
N.2	Data on below-the-line financing for central government.	Monthly, no later than 15 days after the end of each month

N.3	Data on public debt and new guarantees issued by central government to public enterprises and the private sector.	Monthly, 30 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for central government.	Monthly , 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the banking and government sectors in the next 12 months	Monthly, 30 working days after the end of each month
To be provided by the Central Bank		
C.1	The Central Bank's balance sheet.	Weekly, next working day
C.2	The Central Bank will provide details on the aggregate monetary balance sheet of all Irish authorised credit institutions, EEA and non-EEA branches on a monthly basis.	Monthly, on the last working day of the following month
C.3	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided for the last Friday of each month.	Monthly, 30 working days after each month end.
C.4	The Central Bank will provide monthly consolidated balance sheet information for the domestic banks (collected through the FINREP reporting system)	Monthly, 30 working days after each month end.
C.5	On a quarterly basis the Central Bank will provide balance sheet information, based on products rather than categories (as in FINREP).	Quarterly, 30 working days after the end of each quarter
C.6	The Central Bank will provide detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.7	For each of the Covered Institutions the Central Bank will provide monthly data on liabilities covered under the ELG Scheme.	Monthly, 30 working days after each month end.
C.8	The Central Bank will provide certain financial stability indicators on a monthly basis, including capital adequacy ratios, liquidity ratios, loan to deposit ratios and sectoral distribution of loans	Monthly, 30 working days after each month end.
C.9	On a quarterly basis the Central Bank will provide additional financial stability indicators including details on non performing loans, provisions, return on assets, return on equity, interest margin and income.	Quarterly, 30 working days after the end of each quarter.