

EU/IMF

Programme of Financial Support

for Ireland

Draft Programme Documents

November 2011

The following are the documents provided to the EU Commission on a confidential basis for senior Finance Ministry officials of the EU's Euro Group Working Group and Economic and Financial Committee in preparation for EU Finance Ministers' decision on the next disbursement of funds to Ireland. Their contents were subsequently leaked. They are now being laid before the Houses of the Oireachtas in draft form. They will not be finalised until the letters of intent are signed and issued with the accompanying documents at which time they will be published.

Contents

Confidential Draft Letter of Intent – EU Authorities

Confidential Draft Letter of Intent – IMF

Confidential Draft Memorandum of Understanding on
Specific Economic Policy Conditionality

Confidential Draft: Ireland:
Memorandum of Economic and Financial Policies

CONFIDENTIAL DRAFT
I. ATTACHMENT I. IRELAND: LETTER OF INTENT

Dublin, [] November 2011

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

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

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

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

Dear Messrs Draghi, Juncker, Rehn and Rostowski:

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

- On fiscal policy, the outturns up to the end of October are in line with the programme profile, and the general government deficit for 2011 as a whole is expected to be within the 10.6% of GDP programme ceiling. We have also conducted a comprehensive review of expenditure, established an independent fiscal advisory council, and reformed pension entitlements for new entrants to the public service (including linking them to career average earnings).
- We have substantively completed the recapitalization of the domestic banks, at a cost to the taxpayer significantly lower than initially anticipated, thanks to private sector participation and burden sharing. Domestic banks have sold a significant amount of non-core assets. The restructuring of the domestic banks is progressing and plans for this have been submitted to the European Commission for clearance in accordance with State Aid rules. We have published a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight.
- We have made significant progress towards opening up sheltered sectors (e.g., pharmacies, general practitioners, and legal services), and laid out an action plan to reform, in consultation with our social partners, the sectoral labour arrangements to facilitate the needed adjustment in the labour market.

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

2. In particular, in the attached third update of the Memorandum of Understanding on Specific Economic Conditionality (MoU), we set out our plans to further advance towards meeting the programme objectives. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the

completion of the fourth review and the release of the fourth EU disbursement of EUR 4.2 billion. The financing needs outlook remains broadly in line with expectations at the third program review, but to allow a more prudent financing position with respect to the timing of the completion of reviews and disbursements, we request a re-phasing of disbursements. Specifically, we request that the disbursement following the fifth review should be €5.8 billion with the additional amount taken equally from the sixth, seventh and eighth reviews. This represents a redistribution within 2012 of the already agreed disbursements.

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

4. This letter is being copied to Mme Lagarde.

Sincerely,

Michael Noonan, T.D.,
Minister for Finance

Patrick Honohan
Governor of the Central Bank of Ireland

CONFIDENTIAL DRAFT

II. ATTACHMENT I. IRELAND: LETTER OF INTENT

Dublin, [] November 2011

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

Dear Ms. Lagarde:

1. The Government's commitment to the Programme is illustrated by our continued strong performance in its implementation. Once again, for the fourth quarterly review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets (MEFP Tables 1 and 2):

- We have published a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight (structural benchmark for this review).
- The performance criterion for end-September 2011 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears is also met.

This performance comes at a time when there have been both positives and negatives for Ireland. On the negative side, the growing uncertainty in relation to Euro Area debt has contributed to increasing financial market pressures. This in turn is being reflected in a deteriorating outlook for the world economy which is contributing to a heightened risk outlook. On the positive side, growth has resumed, albeit mainly export led. Our banking sector is now attracting private investment and is also successfully funding in the private market. In addition, the Euro Area Heads of State and Government of 21 July this year, made the welcome and significant decision to reduce the cost of EFSF loans, and this was followed by similar commitments in respect of the EFSM loan and our UK bilateral loan. Further steps toward establishing a comprehensive framework to address the crisis facing the region were taken on October 26. These positive developments have been reflected in our bond spreads which, though still high, have narrowed considerably from the elevated levels seen earlier

this year. Against this background, we are proceeding with the process of preparing Budget 2012, and we have recently published our medium-term fiscal strategy, which sets out our fiscal targets for 2012 and for the years up to 2015. In the case of Budget 2012, we are committed to meeting the deficit target of 8.6% of GDP, and will take the high quality adjustment measures necessary to achieve this target.

2. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives laid out in our programme supported by the Extended Arrangement and by the EU. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the fourth review under the Extended Arrangement. We also request that the fourth purchase in an amount equivalent to SDR 3.309 billion becomes available at the time of completion of the review.

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

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

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

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

Sincerely,

Michael Noonan, T.D.
Minister for Finance

Patrick Honohan
Governor of the Central Bank of Ireland

CONFIDENTIAL DRAFT

IRELAND

**MEMORANDUM OF UNDERSTANDING
ON
SPECIFIC ECONOMIC POLICY CONDITIONALITY
(THIRD UPDATE)**

October 2011

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

The quarterly disbursement of financial assistance from the European EFSM¹ will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure, and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and this updated MoU, which details and further specifies the criteria that will be assessed for the successive reviews up to the end of 2013. If targets are expected to be missed, additional action will be taken.

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

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

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

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

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

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

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

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

Fiscal consolidation

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

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

- Revenue measures to yield €1.6 billion² including:

² Inclusive of carryover of €0.6 billion. The Universal Social Charge is also expected to deliver €0.4 billion in additional revenues in 2012. This is not part of the €3.8 billion overall adjustment as it is already included in the Budgetary base figures.

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

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

Financial sector reforms

Recapitalization

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

Deleveraging

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

Reorganisation

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

Credit unions

- The Irish authorities will act to underpin the solvency and viability of the credit union sector while minimising the fiscal cost. As an immediate step, the authorities will deal with weaknesses in the most troubled institutions in accordance with State aid rules while protecting depositors to ensure financial stability. A commitment to initial resolution funding of €250 million will be made from the Exchequer in Q4 2011 which will be based on a principle of recoupment over the medium term via a levy under the Central Bank and Credit Institutions (Resolution)(No.2) Act 2011.

Financial supervision

- The Irish authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it with the staff of the European Commission, the ECB and the IMF.
- The Central Bank of Ireland will issue guidance to banks for the recognition of accounting losses incurred in their loan book. Specifically, the Central Bank of Ireland will begin requiring the banks: (i) on core assets, to increase the consistency and conservatism in their impairment triggers and provisioning model inputs including *inter alia*: period of arrears, emergence periods, cure rates and collateral value, and treatment of restructured loans and forbearance; (ii) on non-core assets (assets under deleveraging) to provision to reflect losses arising from their planned disposal, taking account as appropriate of the PLAR/PCAR analysis. We will ensure that the principles governing these disclosure requirements are made transparent so as to ensure that bank reporting is fully understood.
- The Central Bank of Ireland will publish new guidelines for the valuation of collateral for bank loans by end December 2011.

Structural reforms

To prepare for the introduction of water charges

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

To better target social support expenditure

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

To increase competition

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

To reform labour market

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

Structural fiscal reforms

To further reform key sectors of the economy

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

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

Structural fiscal reforms

To reinforce the credibility of the budgetary process

- Government will introduce a Fiscal Responsibility Bill consistent with the economic governance framework at the EU level, including provisions for a medium-term budgetary framework, fiscal rules and the Fiscal Advisory Council. The Bill will assure the Council's independence through clear arrangements for Council memberships, including consultation

with a relevant committee of the Oireachtas for nomination, appointment, extension and termination. The Government will ensure that the Council is adequately funded over time.

Financial sector reforms

PCAR 2012

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

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

Deleveraging

- The Irish authorities, in consultation with the staff of the European Commission, IMF and ECB, will assess banks' performance vis-à-vis the agreed asset disposal targets. In line with the monitoring system set up, actual and forecast LDRs, NSFR's and asset disposals shall be reported by the banks to the Central Bank of Ireland every six months (first report was issued on 31 July 2011). Such reports will include (i) progress achieved towards interim target; (ii) forecast of LDR and NSFR for the end of the next period; (iii) a detailed plan of action to meet the next interim target; and (iv) actual and planned asset disposals. If actual or forecast asset disposals fail to meet the interim targets for the quantum of asset disposals, the Irish authorities will inform the staff of European Commission, IMF, and ECB within 14 days of becoming aware of such failure. The Central Bank will then oversee the remedial actions to be taken by any bank in question including a prompt timetable for their implementation. In addition to providing the six-monthly report, the Irish authorities will update the staff of European Commission, the IMF and the ECB on progress in the intervening quarters.
- The Irish authorities, in consultation with staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Supervision

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

Structural reforms

To reform the personal debt regime

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

To further reform key sectors of the economy

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

To improve the activation of the unemployed

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

To better target social support expenditure

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

To increase competition

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

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

Financial sector reforms

PCAR 2012

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

Deleveraging

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

Credit Unions

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

Reorganisation

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

Financial Supervision

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

Structural reforms

To assist in covering financing needs and to increase competition

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

To increase competition

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

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

Financial sector reforms

Deleveraging

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).
- The Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial Supervision

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

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

Fiscal consolidation

• [Government will propose a budget for 2013 aiming at a further reduction of the general Government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure and including the detailed presentation of consolidation measures amounting to €3.5 billion. The 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 €1.25 billion³ will be introduced, including:
 - A broadening of personal income tax baseA restructuring of motor taxation
 - A reduction in general tax expenditures.
 - An increase in excise duty and other indirect taxes.
- Expenditure reductions of no less than €2.25 billion, including:
 - Social expenditure reductions.
 - Reduction of public service numbers and public service pension adjustments.
 - Other programme expenditure, and reductions in capital expenditure.

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

Financial sector reforms

Deleveraging

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

Reorganisation

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

³

³Inclusive of carryover from 2012.

Financial Supervision

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

Structural reforms

To increase competition

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

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

Financial sector reforms

PCAR 2013

- The Irish authorities will report on the evolution of the capital up to the end of December 2012, within the banks covered by the PCAR and will present and discuss its findings with the staff of the European Commission, the ECB and the IMF by end February 2013.
- The 2013 PCAR exercise will be carried out in the context of the 2013 European Banking Authority (EBA) stress tests. The Irish authorities will agree with the staff of the European Commission, IMF and ECB on the specific features of the methodology building on the strengths of the PCAR 2011.

Deleveraging

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).
- The Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial supervision

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

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

Financial sector reforms

PCAR 2013

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

Deleveraging

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

Reorganisation

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

Financial supervision

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

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

Financial sector reforms

Deleveraging

- Asset disposal monitoring – as per requirement under Financial Sector Reforms in 6th Review (Q1 – 2012).
- The Irish authorities, in consultation with the staff of the European Commission, IMF, and ECB, will monitor closely the evolution of the NSFR and the LCR in order to ensure convergence to Basel 3 standards by the relevant dates.

Reorganisation

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

Financial Supervision

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

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

Financial sector reforms

PCAR 2013

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

Deleveraging

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

Reorganisation

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

Financial Supervision

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

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 90 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly , 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly , 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- owned commercial enterprises (interest and amortisation)	Quarterly, 30 working days after the end of each quarter
F.10	Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.	Quarterly, 30 working days after the end of each quarter.
F.11	Report on progress achieved towards interim PLAR targets and actual and planned asset disposals.	Quarterly, 10 working days after the end of each quarter.
To be provided by the NTMA		
N.1	Monthly information on the Government's cash position with indication of sources as well of number of days covered	Monthly, three working days after the end of each month

N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 days after the end of each month
N.3	Data on public debt and new guarantees issued by central Government to public enterprises and the private sector.	Monthly, 30 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for central Government.	Monthly, 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the banking and Government sectors in the next 12 months	Monthly, 30 working days after the end of each month
To be provided by the Central Bank of Ireland		
C.1	The Central Bank of Ireland's balance sheet.	Weekly, next working day
C.2	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month.	Monthly, 30 working days after each month end.
C.3	Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts	Quarterly, 35 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month

CONFIDENTIAL DRAFT

IRELAND: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

A. Recent Economic Developments and Outlook

1. **The economic recovery gathered pace in the first half of 2011, but the global slowdown is expected to dampen growth through 2012.** GDP grew at 2¼ percent on an annual basis in the second quarter, reflecting strong net exports and rebuilding of stocks. However, growth is likely to be modest in 2011 and 2012, as weakening external demand is diminishing export growth prospects—although the continuing recovery in Ireland's competitiveness will provide a cushion—and domestic demand is expected to continue declining, although at a moderating rate. The current account surplus is expected to expand. Annual HICP inflation was 1¼ percent in September. Inflation is expected to remain low because domestically driven inflationary pressures remain weak and the effects of higher international commodity prices will taper off.

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

B. Fiscal Policies

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

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

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

1. Budgetary Consolidation 2012-15, in €billion 1/

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

1/. The figures in the table above are consistent with the Medium-Term Fiscal Statement published on 4 November. The annual consolidation amounts include an element of carryover from measures implemented in previous years. The Universal Social Charge is also expected to deliver 0.4bn in additional revenues in 2012. This is not part of the €3.8bn package as it is already included in the Budgetary base figures..

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

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

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

- **Spending measures:** Our €1.45 billion current expenditure adjustments are based on targeted savings in (i) the wage bill (€[] billion) arising mainly from [],000 public service numbers reductions; (ii) social welfare (€[] billion), where we are reforming entitlements, reducing unemployment traps and improving the targeting of our social supports; (iii) various departmental programs (€[] billion). In addition, reductions in the capital budget of €0.75 billion will be achieved through reprioritizing spending and deferring a number of large and expensive capital-intensive projects.
- **Revenue measures:** After successive budgets in which income tax burdens were raised significantly, and given the already large carryover of some €0.6 billion into 2012 from income tax increases in 2011, we have decided to focus on indirect tax increases to deliver the bulk of the €1 billion additional tax effort required in 2012. To this end, the VAT rate is being raised by 2 percentage points to 23 percent, which will generate €[0.67] billion. We are also taking the first strides toward a value-based property tax, by introducing a €100/year household charge on primary residences. This will yield about €[0.16] billion and provide a stable funding source for local governments in the years ahead. A further €0.1 billion in revenue effort will obtain from a reform of capital gains taxation. The remaining revenue requirement will be raised through increases in other forms of indirect taxation.]

8. Budget 2012 will detail high-quality measures to deliver our planned medium-term consolidation, along with binding medium-term expenditure envelopes. To bolster the credibility of our medium-term plan and reduce uncertainty about future fiscal measures, we will set out on Budget Day revenue and expenditure measures for 2013-15 and their fiscal impact. The key revenue approach involves a continued redirection of policy adjustment away from direct taxation to indirect taxation. On the spending side, we will continue a programme of wage bill reductions, welfare reform and other programme spending efficiencies and reductions. To anchor the expenditure effort, the budget will also include binding annual nominal expenditure ceilings for all Departments covering the period 2012-14 (end-December 2011 structural benchmark).

9. Institutional reforms are underway to support fiscal consolidation in the medium term and to underpin the soundness of fiscal policy on an ongoing basis. A Fiscal Responsibility Bill, which will give effect to key articles of the recently adopted EU Directive on requirements for budgetary frameworks, will be submitted to the Oireachtas by end-March 2012. The Bill will establish a fiscal rules framework to ensure that public finances are managed in a prudent and sustainable manner, and in accordance with the requirements of the Stability and Growth Pact. The Bill will also provide for the establishment of the Irish Fiscal Advisory Council on a statutory basis. The Bill will assure the Council's independence through clear arrangements for Council memberships, including consultation with a relevant Committee of the Oireachtas for nomination, appointment, extension and termination (end-March 2012 structural benchmark). The Government will ensure that the Council is adequately funded over time.

C. Financial Sector Policies

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

Enhancing quality and transparency of banks' balance sheets

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

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

13. **Loan provisioning is being put on a more prudent and forward-looking basis, while remaining in compliance with IFRS.** We will issue guidance to banks for the recognition of accounting losses in their loan books (end-December 2011 structural benchmark). Whilst recognizing the differences between provisions and loan loss forecasts for the end-December 2011 financial accounts, the banks are expected to bring forward a substantial proportion of loan losses originally envisaged to be booked in the period through 2013 in the 2011 PCAR. We will ensure that the principles governing these loan provisioning guidance are made transparent so as to ensure that bank reporting is fully understood.

14. **To guide the process of dealing with SMEs in financial difficulties, we have finalised revisions to the Code of Conduct for Business Lending to Small and Medium Enterprises which provide for a framework for how lenders deal with SMEs in financial difficulties.** The new SME Code was published on 4th of November 2011 and will become effective on 1st of January 2012. The revised SME Code reflects consultations with stakeholders and seeks to facilitate balanced negotiations between SMEs and lenders by

requiring lenders to have proper procedures in place for dealing with borrowers facing financial difficulties (including minimum communication and information standards), where borrowers show willingness to cooperate and engage in a fair bilateral process for alternative repayment arrangements to be put in place. The Code makes clear that lenders retain their rights with respect to liquidation or other insolvency procedures. Banks will be required to submit their strategies for addressing arrears in their SME portfolios to the CBI by end-June 2012.

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

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

Strengthening the resilience of the financial sector

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

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

amount, under the terms of the Deposit Guarantee Scheme, in the Deposit Protection account at the Central Bank will be commenced in 2012.

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

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

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

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

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

D. Structural Reforms

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

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

- that the large numbers of unemployed across all regions, including the long-term unemployed, have adequate incentives and skills needed to return to work; and
- the data and reporting systems required to ensure more effective interventions are put in place, including:
 - group intervention statistics (3 to 6 months);
 - ongoing intervention statistics (post 6 months) including numbers and level of penalty sanctions.

Based on its recommendations we will prepare an implementation plan by end-March 2012 (proposed structural benchmark).

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

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

E. Programme Financing

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

F. Programme Monitoring

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

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

Table 1. Programme Monitoring

Measure	Date	Status
Quantitative Performance Criteria		
Cumulative exchequer primary balance	End-September 2011	Observed
Indicative Target		
Ceiling on the stock of central government net debt	End-September 2011	Observed
Continuous Performance Criteria		
Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government	Continuous	Observed
Structural Benchmarks		
Define the criteria to run stringent stress tests scenarios.	End-December 2010	Observed
Agree on terms of reference for the due diligence of bank assets by internationally recognised consulting firms.	End-December 2010	Observed
The Central Bank will direct the recapitalisation of the principal banks (AIB, BoI and EBS) to achieve a capital ratio of 12 percent core tier 1.	End-February 2011	Not observed 1/
Submit to Dáil Éireann the draft legislation on a special resolution regime.	End-February 2011	Observed 2/
The Central Bank to complete the assessment of the banks' restructuring plans.	End-March 2011	Observed
Complete the diagnostic evaluation of banks' assets.	End-March 2011	Observed
Complete stress tests (PCAR 2011).	End-March 2011	Observed
Complete a full assessment of credit unions' loan portfolios	End-April 2011	Observed
Finalise plans for the recapitalisation of Irish Life and Permanent.	End-May 2011	Observed
Establish a Fiscal Advisory Council.	End-June 2011	Observed
Complete the recapitalisation of Allied Irish Banks, Bank of Ireland, Irish Life and Permanent and EBS Building Society.	End-July 2011	Observed
Submit the Supervision and Enforcement Bill to Oireachtas.	End-July 2011	Observed
Complete the legal merger procedures of Allied Irish Bank and EBS Building Society.	End-September 2011	Observed
Publish a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight.	End-October 2011	[Observed]
The merger of Irish Nationwide Building Society and Anglo-Irish bank.	End-December 2011	Observed

1/ Central Bank directions were issued within the required timeframe, however completion of the capital injections required was postponed by the Minister for Finance until after the General Election. These directions are now superseded by the Central Bank's PCAR directions of 31 March 2011.

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

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

	June 30, 2011		September 30, 2011		December 31, 2011	March 31, 2012	June 30, 2012	September 30, 2012
	Target 1/	Outcome	Target 1/	Outcome	Target	Target	Target	Target
(In billions of Euros)								
	Performance Criterion		Performance Criterion		Performance Criterion	Performance Criterion	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance 2/	-10.1	-8.4	-20.2	-18.3	-15.0	[-5.7]	[-7.4]	[]
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt	94.6	91.7	115.9	111.7	100.4	[107.9]	[112.0]	[]

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.

{ PAGE * MERGEFORMAT }

Table 3. Ireland: Upcoming Structural Benchmarks under the Programme for 2011-2012

Measure	Date	Status
Financial sector policies		
Central Bank to issue guidance to banks for the recognition of accounting losses incurred in their loan book (MEFP, ¶13).	End-December 2011	Structural benchmark
Finalise a strategy to guide the development of broader legal reforms around personal insolvency, including significant amendments to the Bankruptcy Act 1998 and the creation of a new structured non-judicial debt settlement and enforcement system (MEFP, ¶16).	End-December 2011	Structural benchmark
Publish legislation to strengthen the regulatory framework including making legislative provision for effective governance standards and prudential requirements for credit unions. (MEFP, ¶19).	End-June 2012	Proposed structural benchmark
Fiscal policies		
Introduce a medium-term expenditure framework with binding multi-annual expenditure ceilings with broad coverage and consistent with the fiscal consolidation targets (MEFP, ¶18).	2012 Budget day in early December 2011	Structural benchmark
Submit to parliament, as part of the Fiscal Responsibility Bill, a legal framework for the Fiscal Advisory Council ensuring its independence (MEFP, ¶19).	End-March 2012	Structural benchmark
Structural policies		
[Prepare a reform and implementation plan for activation and training programmes based on the recommendations of an external review (MEFP, ¶25).	End-March 2012	Proposed structural benchmark]