INTERNATIONAL MONETARY FUND

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IRELAND

NINTH REVIEW UNDER THE EXTENDED ARRANGEMENT

April 2013

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

- **Staff Report**, prepared by a staff team of the IMF, following discussions that ended on February 7, 2013, with the officials of Ireland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 13, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Staff Supplement** of March 20, 2013 updating information on recent developments.
- **Press Release** on the Executive Board discussion.

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

Letter of Intent sent to the IMF by the authorities of Ireland*
Memorandum of Economic and Financial Policies by the authorities of Ireland*
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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IRELAND

NINTH REVIEW UNDER THE EXTENDED ARRANGEMENT

March 13, 2013

KEY ISSUES

Although recent economic and financial market developments are positive, balance sheet challenges continue to pose risks to recovery and debt sustainability. The government's market access is deepening, fiscal results were better than expected in 2012, and recent indicators suggest an upward revision to 2012 growth estimates. However, the medium-term growth outlook is uncertain owing to high public and private debts, low lending to households and SMEs, and inadequate progress in resolving non-performing loans, together with the specter of persistent high long-term unemployment.

Entering the last year of the program, this review focused on policies to achieve durable exit from official financing, including by facilitating growth. Maintaining Ireland's strong budget performance into 2013 and further developing the medium-term framework for fiscal consolidation are both critical. Reviving domestic demand in a durable manner hinges on concrete progress on workouts on non-performing loans. Accordingly, the setting of targets for mortgage restructuring was agreed, together with supporting steps on engagement with borrowers, the effectiveness of repossession procedures, and loan provisioning.

Together with continued strong domestic policy implementation, assuring the durability of Ireland's exit hinges on the timely delivery on European leaders' commitment to enhance the sustainability of the program. The recent promissory note transaction provides a significant reduction in Ireland's net debt issuance needs over the next decade, but the outlook for high public debt is little affected. Profitability challenges in Ireland's financial sector undermine its capacity to support economic recovery, and, at the same time, contingent liabilities from the financial sector in a weak growth scenario overhang public debt sustainability. In tackling this bank-sovereign loop, the ESM direct bank recapitalization instrument that is under development could play an invaluable role in making prospects for recovery and debt sustainability more robust.

Approved By
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CONTENTS

ANNEXES

ATTACHMENTS

OVERVIEW

1. **Entering the third and last year of Ireland's program, the focus is on durable exit from drawing on official financing.** Recent positive financial market and real sector developments support Ireland's capacity to exit the EU-IMF supported program at year end. These prospects were bolstered by the promissory note transaction in early February (Box 1), which provides a welcome easing in government financing needs in coming years.

2. **But the underlying fiscal and financial situation is still difficult and continued strong policy execution by the Irish authorities remains paramount.** Three broad policy planks to support exit and growth were agreed at this review:

- **Financial sector:** a framework to promote resolution of non-performing loans (NPLs) was agreed to underpin a sustained revival in lending and domestic demand recovery. Targets for banks to achieve durable loan modifications are supported by steps to promote better engagement of banks and borrowers, to make repossession a more effective last resort option, and to enhance loan loss provisioning practices.
- **Fiscal:** implementation of Budget 2013 measures is well advanced, including significant progress on negotiating public service wage and pension savings, and the authorities are committed to completing this process. The specification of medium-term fiscal consolidation and debt reduction goals will be extended to 2016, and their credibility will be aided by the adoption of 3-year rolling ceilings on aggregate and departmental expenditure.
- **Structural:** with long-term unemployment high, measures to strengthen activation and training of job seekers were agreed, together with steps to facilitate job creation by SMEs.

3. **Delivery on European leader's commitments is needed to assure the durability of Ireland's exit.** Although the banks have been substantially recapitalized, and have made great strides with deleveraging their balance sheets, they are running losses even before provisioning which hinders lending and demand revival. Breaking the sovereign-bank link would complement banks' restructuring efforts by improving funding access and costs, supporting recovery and thus reducing risks to debt sustainability that could later threaten market access. The ESM recapitalization instrument under development could, potentially, be a highly efficient tool in these circumstances, especially if packaged with extensions of EFSF/EFSFM maturities and possible post-program financial backstops.

BALANCE SHEET ADJUSTMENTS AND RECENT DEVELOPMENTS

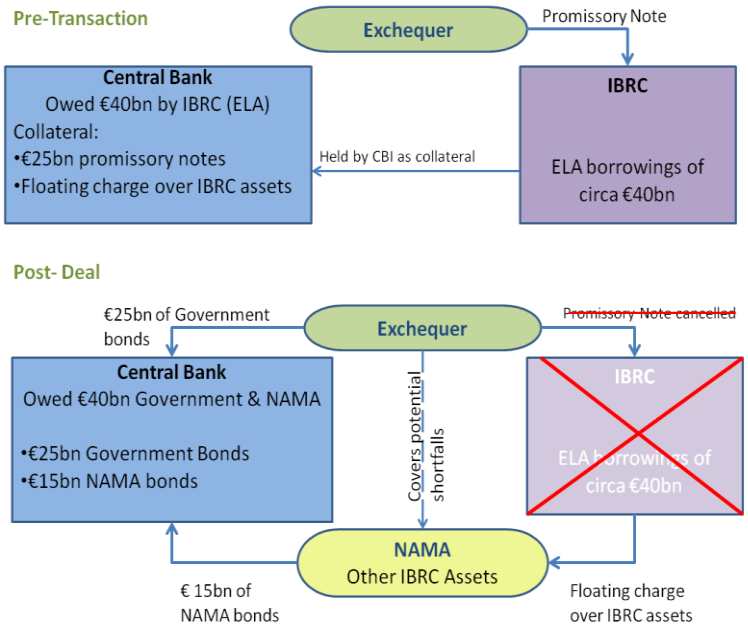
4. **Stretched sectoral balance sheets continue to shape macroeconomic developments and prospects.** Balance sheet issues across the sectors have interacted in a manner that undermines creditworthiness and credit flows, holding back domestic demand (Figure 1):

Box 1. The Promissory Note Transaction

On February 7, the Irish authorities initiated the liquidation of the Irish Bank Resolution Corporation (IBRC) by enacting special legislation overnight. ECB President Draghi stated that the ECB's Governing Council "unanimously took note" of the operation. Market reactions have been positive, with government bond yields declining 11 to 22 basis points within the first 24 hours.

Background. IBRC was a vehicle to wind down two failed institutions, Anglo Irish and Irish Nationwide Building Society (INBS). It held about €16 billion in net loan assets and about €25 billion in promissory notes issued by the government to recapitalize the two banks during 2010. These assets were also used as collateral for about €40 billion in Emergency Liquidity Assistance (ELA) provided by the CBI to cover deposit outflows and bond repayments. The promissory notes were nontradable amortizing debts with an average coupon of 5.8 percent (or 8.2 percent on a cash flow basis after an interest holiday in 2011-12). Debt service of about €3.1 billion (2 percent of GDP) fell due every March until 2023, and smaller payments until 2031, with a weighted average maturity of 7 to 8 years.

Transaction. IBRC's liquidation meant the CBI seized its collateral from IBRC and ELA was eliminated (see graphic). The promissory notes are being replaced by a portfolio of new government bonds with maturities of 25–40 years. NAMA is issuing bonds to CBI in exchange for a charge over all of IBRC's remaining assets, which makes CBI whole. IBRC's remaining assets will be sold and any remaining shortfall for NAMA (relative to the value of NAMA bonds issued) will be paid out by the Exchequer. Any excess assets will be available for the pool of unsecured creditors, including the Exchequer in respect of an estimated €1 billion payment on IBRC liabilities covered under the ELG scheme (see Department of Finance).



New bond terms and sales. The new bond portfolio will have an identical face value, an average maturity of about 34 years, and a floating rate coupon (currently below 3 percent) equivalent to the Irish spread (on a weighted average basis) over 6-month Euribor. The bonds will be sold as soon as possible, provided that conditions of financial stability permit (see Statement by Central Bank of Ireland). At a minimum, sales will adhere to a phased schedule of €½ billion by end 2014; followed by annual sales of €½ billion in 2015–18, €1 billion in 2019–23, and €2 billion thereafter.

Effects. By lowering financing needs over the next decade by about 1⅓ percent of GDP annually, this transaction will bolster Ireland's return to market funding, consistent with a key objective of Ireland's EU-IMF supported program. Interest savings from the lower interest rate on the new bonds do not improve debt sustainability as the high interest was paid to the government-owned IBRC, but savings cumulate gradually from the lower use of market funding. The benefits of the transaction, including for banks' ability to unwind their reliance on Eurosystem funding, could be undermined, however, if markets perceive risks that the volume of bond sales by CBI could be disruptively large.

- ***Household debt remains high, curtailing consumption, and financial distress affects many households.*** The halving of house prices from their peak has driven a 38 percent fall in household net worth, the largest fall in the EU.[1] Households have responded by increasing their savings rate to about 12 percent of gross disposable income, from pre-crisis levels below 8 percent, with about three-quarters of saving used for debt reduction during 2010-12. This has enabled households to cut debt by 12½ percent in nominal terms from its end 2008 peak, yet falling incomes leave the debt ratio at some 208 percent of disposable income. Debt burdens of many households are much higher, and mortgage arrears over 90 days continue to mount, reaching 15.8 percent of the total value of mortgages on principal dwellings and 26.9 percent of buy-to-let mortgages by end-2012, though the emergence of new arrears is slowing.
- ***The SME debt overhang impedes investment and employment recovery.***[2] SMEs account for about half of gross value added (with Irish-owned SMEs at just over one third of GVA), but 72 percent of employment. During the boom SMEs often borrowed to invest in property, with the share of property-related debt rising from one-quarter to one-half. SMEs, in particular micro SMEs owing to their limited exposure to external trade, have also been severely affected by the domestic demand contraction, with loan arrears rising and forbearance by banks being pervasive. Credit outstanding to SMEs is flat, and while weak demand and credit risks are major factors limiting lending, rejections of loan applications are second highest in the EU. Many SMEs need to be restructured to restore the flow of credit to this sector of the economy and thereby facilitate investment and job creation.
- ***Banks, despite far-reaching balance sheet adjustments, remain loss-making and have only begun to tackle NPLs.*** The PCAR banks made pre-provision losses (net of other nonrecurrent items) of 0.3 percent of average assets in 2012 (Table 10).[3] While they report a core tier 1 capital ratio of 15.4 percent—relative to a regulatory minimum of 10½ percent—this buffer declined by 1 percentage point in 2012, and it is expected to further erode as provisions are made. NPLs, which are reported at 24.8 percent of loans, are a key factor undermining income. Advancing the implementation of loan workouts and improving profitability are important to enhance access to funding and improve willingness and capacity to lend.
- ***High public debt compounds the issue.*** Debt of about 120 percent of GDP negatively affects the credit standing of all domestic actors, although multinational corporations have been well insulated. At the same time, stretched private balance sheets create a potential public sector contingent liability if continued weak growth resulted in a further rise in NPLs.

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[1] See "The Impact of the Financial Turmoil on Households: A Cross Country Comparison" in CBI Quarterly Bulletin Q2 2012.

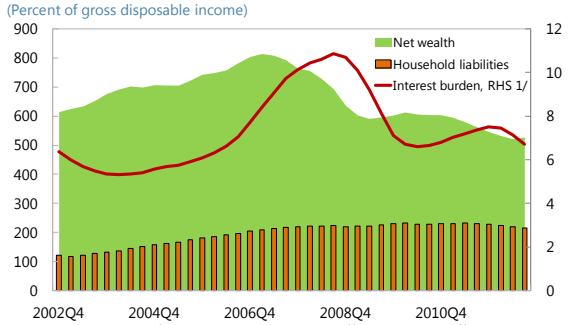
[2] See "SMEs in Ireland: Stylized facts from the real economy and credit market" in CBI Quarterly Bulletin Q2 2012 and "Irish SME credit supply and demand: comparisons across surveys and countries" CBI, Economic Letters Vol. 2012, No. 8.

[3] The PCAR banks are Bank of Ireland (BoI), Allied Irish Banks (AIB), and Permanent TSB (PTSB).

Figure 1. Ireland: Sectoral Balance Sheet Adjustments

Household wealth took a hit from tumbling house prices and households are unwinding their high debt burden.

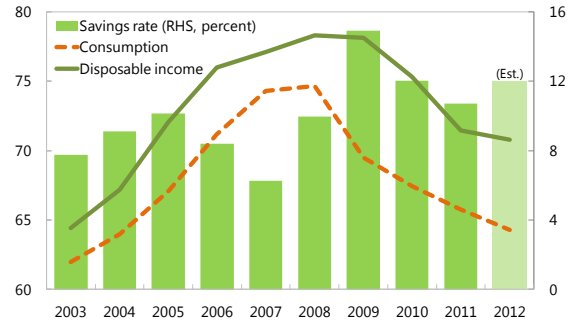
Households: Net Wealth, Debt and Interest Burden
(Percent of gross disposable income)



Sources: Central Bank of Ireland; Central Statistical Office; and IMF staff calculations.
1/Four quarter interest payments (excluding FISIM adjustment) in percent of four-quarter gross disposable income.

Higher saving for debt reduction magnifies the decline in consumption from the fall in disposable income.

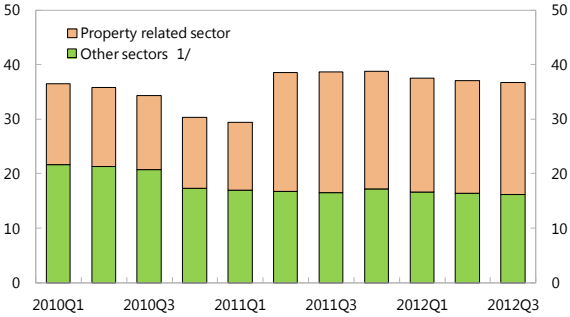
Households: Income, Consumption, and Savings Rate
(Billions of 2002 euros)



Sources: Central Bank of Ireland; Central Statistical Office; and IMF staff calculations.

SME debt is high, and often related to property investments.

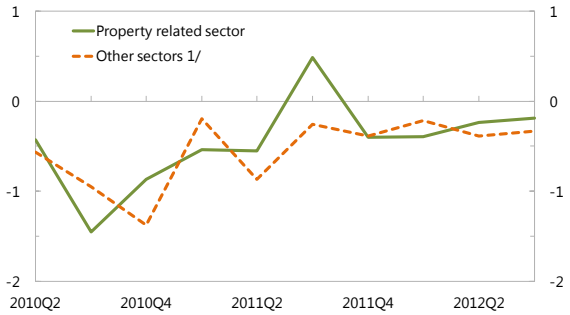
SME: Outstanding Credit Advanced
(Percent of GDP)



Source: Central Bank of Ireland; and Central Statistical Office.
1/ Excludes financial intermediation activities.

Net lending to SME remains negative owing to both limited credit demand and supply constraints.

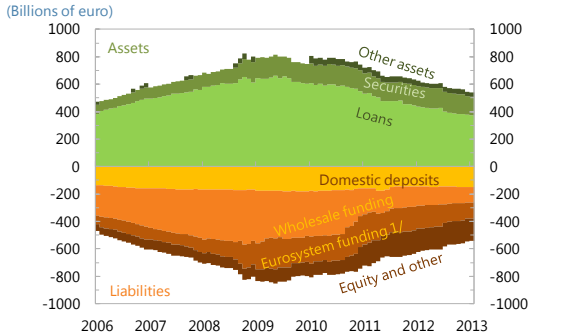
SME: Credit Transactions (Net Lending)
(Billions of euro)



Source: Central Bank of Ireland.
1/ Excludes financial intermediation activities.

The drain in wholesale funding and pressure to redeem liquidity support constrain banks' ability to restart lending.

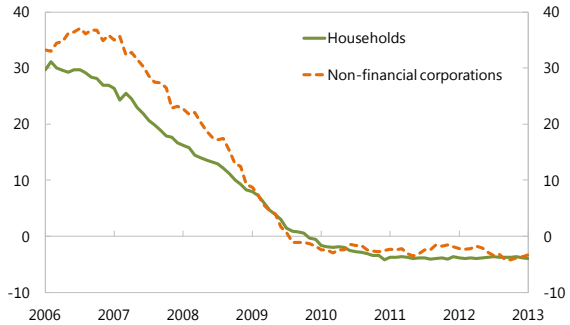
Domestic Credit Institutions: Balance Sheet
(Billions of euro)



Source: Central Bank of Ireland.
1/ Including ELA.

Credit growth remains negative despite pockets of creditworthy borrowers.

Domestic Credit Institutions: Loans Outstanding
(Year-on-year percentage change)

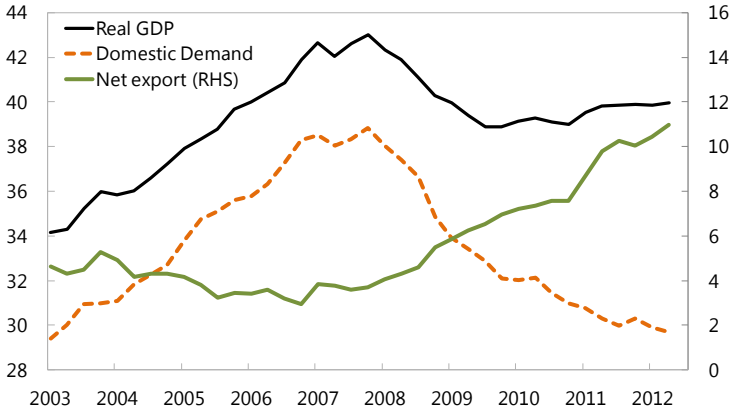


Source: Central Bank of Ireland.

5. **Against such a strained balance sheet backdrop, recent positive economic developments need to be interpreted with some caution (Figure 2):**

- ***Real GDP grew 0.8 percent y/y in Q3 2012, lifting growth to 0.8 percent y/y in Q1–Q3, and prompting a revision of staff's annual growth estimate to 0.7 percent (from 0.4 percent at the 8th review).*** Domestic demand surprised on the upside in the third quarter when it made a positive contribution to growth for the first time since early 2008. Private consumption contracted less than expected in the first three quarters of 2012 while investment rose by over 7 percent, led by core business investment. Exports grew more rapidly than expected on account of booming services exports, although goods exports were hit by the "patent cliff" in pharmaceuticals.[4] Somewhat lower net income outflows to nonresidents boosted GNP, which expanded 3 percent y/y in Q1–Q3.

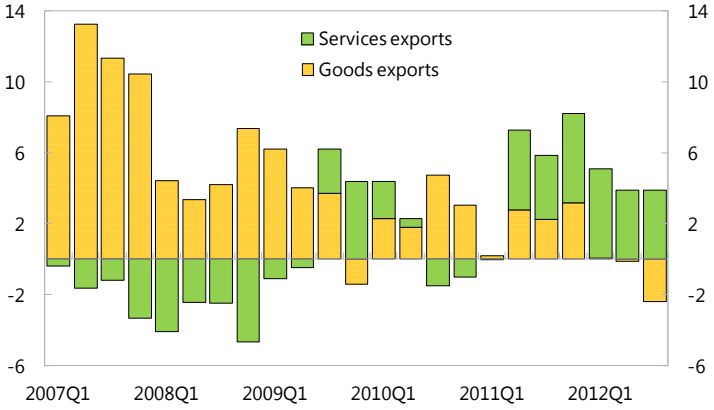
Real GDP Components
(Billions of euro, two-quarter average, seasonally adjusted)



Sources: CSO; and IMF Staff calculations.

- ***The current account surplus rose to 4.2 percent of GDP in Q1–Q3 2012.*** Continued strong growth in services exports, especially computer and business services, contributed significantly. Somewhat lower income outflows also helped, although there is some potential for a reversal in Q4 or later if recording of multinational enterprises profit repatriation has been deferred. Ireland continued to attract foreign investors, with net FDI exceeding the 2011 level, raising employment in FDI-related firms by 4½ percent, although the direct contribution to overall employment is a more modest 0.4 percent.

External Sector Contributions to Real GDP Growth
(Net, percent)



Sources: CSO; and IMF staff calculations.

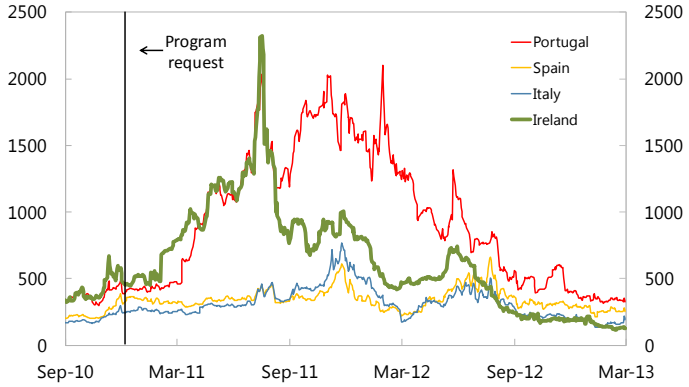
[4] The impact on GDP of this fall in gross exports is mitigated by the high share of imported inputs and royalty payments; see Ireland and the Pharma Patent Cliff.

- ***High frequency indicators were broadly positive in Q4 and early 2013.*** Core retail sales rose 1.4 percent y/y in the three months to January although consumer confidence has eased in recent months. PMIs remained above 50 with service export PMIs particularly strong. However, industrial production has recovered only modestly from a sharp fall in late 2012, that was focused on the chemical sector.[5] The unemployment rate fell to 14.2 percent in Q4 2012, down from a peak of 15 percent in Q1, primarily owing to declining participation. Nonetheless, modest employment growth in the second half was sufficient to drive an annual increase of 0.1 percent—the first annual employment gain in almost five years.

6. **Recent financial market developments have also been favorable:**

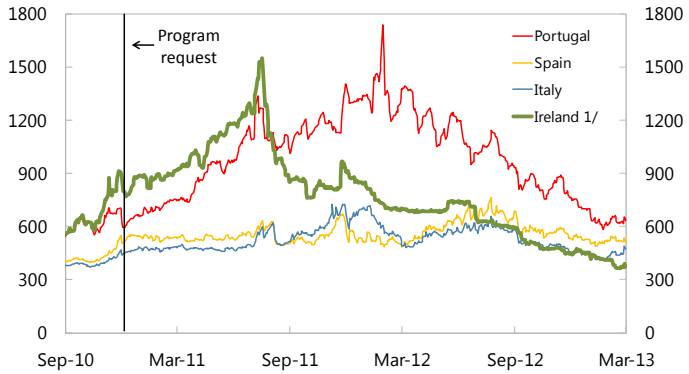
- ***With market access improving, the promissory note transaction reinforced downward pressure on Irish bond yields.*** Against a background of a declining secondary market yields, on January 8 the National Treasury Management Agency (NTMA) tapped the 5-year benchmark bond. By syndicating a €2½ billion issue at a yield of 3.32 percent, a significant part of the 2013 market financing plan is already covered. The NTMA also continued Treasury bill issuance, issuing €0.5 billion of three month bills January and February at yields of 0.2 and 0.24 percent respectively. Yields on 2 and 8-year bonds fell by respectively 16 and 35 basis points during the week following the announcement of the promissory note transaction, aided by positive reactions by rating agencies.[6] At 3.65 percent, long-term yields are down to their lowest level since December 2008, while 2 year yields are historically low at 1.24 percent, with both ends of the yield curve below Italy and Spain.

Two-Year Sovereign Bond Yields
(Basis points)



Sources: Bloomberg; and IMF staff calculations.

Ten-Year Sovereign Bond Yields
(Basis points)



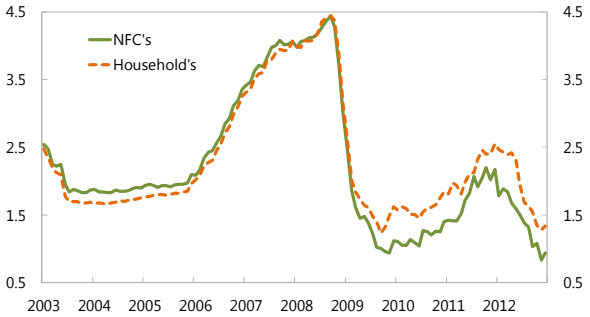
Sources: Bloomberg; and IMF staff calculations.
1/ Irish 8-year government bond yield used since 1/1/2013.

[5] Some observers suggest that the patent cliff is driving down prices, with less impact on pharmaceutical volumes, raising doubts about the sharp real declines reported in export volumes and industrial production.

[6] Standard & Poor's upgraded its outlook on Ireland from 'negative' to 'stable' on February 12 following the promissory note transaction, while keeping Ireland's rating at BBB+. Fitch maintained its BBB+ rating with a stable outlook while describing the promissory note transaction as a "positive surprise".

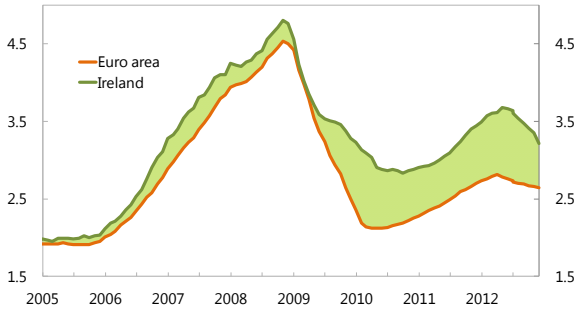
- ***Declines in deposit rates and bank bond yields imply an easing in bank funding conditions.*** Yields on government-guaranteed bank bonds have followed sovereign yields downward, and, at about 2.30 percent, yields on recent covered bond issued outside of the ELG scheme by Bank of Ireland (BoI) and Allied Irish Banks (AIB) are about 80 basis points below their issue rates. Rates on new deposits are down by about 1.2 percent from a year earlier, which will further lower average funding costs over time.

Median Deposit Rates, New Business 1/
(Percent)



Source: Central Bank of Ireland.
1/Data relate to new business conducted through resident offices of a sample of banks and include IBRC. Refers to median deposit rates (excludes overnight). Last observation December 2012.

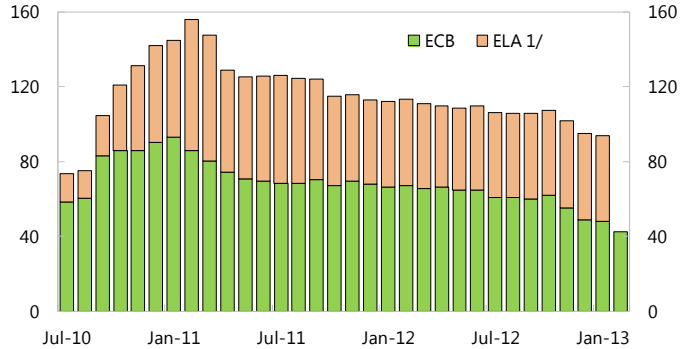
Household Deposit Rates 1/
(Percent per year)



Sources: ECB; and Haver Analytics.
1/ Average for deposits outstanding with agreed maturity up to 2 years.

- ***Reliance on Eurosystem funding has continued to decline.*** A total amount of deleveraging of €57 billion in 2011–12 through asset disposals, net amortization and write offs has enabled the PCAR banks to reduce reliance on ECB credit to half its peak level, and the promissory note transaction eliminated Emergency Liquidity Assistance (ELA). Benefiting from improved investor confidence, the government recently sold Irish Life for €1.3 billion, which had been temporarily acquired in early 2012 in the process of recapitalizing PTSB. It also sold its €1 billion CoCo claim on BoI to private investors at a yield of just under 10 percent, reducing the government's potential equity exposure.

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

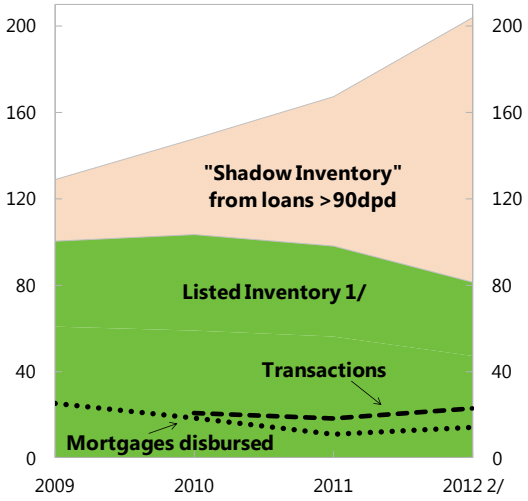


Sources: Irish authorities; Haver Analytics; and IMF staff calculations.
1/ CBI other assets through Q1 2012; CBI other claims on euro area credit institutions thereafter.

- ***Credit developments tentatively suggest bank lending may be turning a corner.*** The pace of decline in loans outstanding for housing purposes eased to 1.6 percent y/y in 2012, from a 2½ percent fall in 2011. Mortgage drawdowns have picked up, with the Irish Banking Federation reporting an almost 56 percent y/y increase in Q4 2012 driven by mover-purchasers and first-time buyers, although a deadline for qualifying for mortgage interest tax relief may play a significant role.

- ***Housing prices have firmed from their trough in mid 2012.*** House prices halved in the five years to June 2012, and have since edged up by 1 percent.[7] Transactions are picking up from low levels and listed inventory is declining, especially in Dublin, but "shadow" inventory in the form of properties securing nonperforming mortgages is substantial, posing downside risks. In the face of tight credit constraints, almost half of all transactions are in cash, limiting the pool of potential buyers.

Properties For Sale and Transactions
(Thousands)

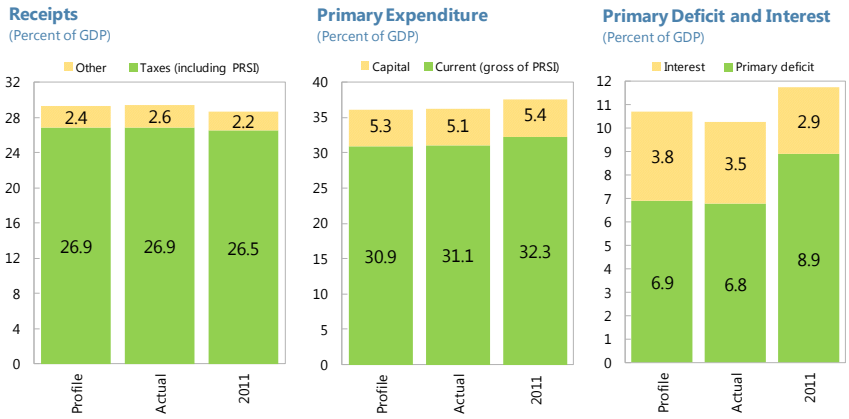


Sources: Central Bank of Ireland; Property Price Register; Daft.ie; MyHome; IBF; and IMF staff calculations.
1/ Sum of properties for sale from Daft.ie and myhome.ie, two major listing agents.
2/ Includes buy-to-let properties.

- ***However, banks made losses in 2012.*** Banks' pre provision net revenue (PPNR) declined to a loss of 0.3 percent of assets in 2012 (Table 10). Key factors are compressed net interest margins owing to high funding costs and low-yielding tracker mortgages and NAMA bonds, high operational costs and fees for the Eligible Guarantees Scheme (ELG) that will be ended for new liabilities incurred after March 28, 2013. Poor asset quality, with reported NPLs at 24.8 percent of total loans, impairs income and constrains usable collateral.

7. **Fiscal targets for 2012 were met by a significant margin.** The exchequer primary balance and general government balance were each inside target by 0.9 percent of GDP, reflecting robust revenues (especially VAT, corporation tax and capital receipts, and a favorable telecom license sale) and lower-than-budgeted capital and interest spending, which outweighed health and social spending overruns.

Cumulative Exchequer Out-Turn Vs. Authorities' Profile - January-December 2012



Sources: Department of Finance; and IMF staff estimates.
Note: To facilitate comparability, (i) the €251 million corporation tax payment delayed from December 2011 into January 2012 is booked to 2011 tax revenue; (ii) the €600 million in interest payments met in Jan-Dec 2011 via drawdown of the Capital Services Redemption Account (CSRA) are included in the 2011 exchequer interest bill; (iii) symmetric entries of €646 million in respect of the Sinking Fund in March 2012 -- recorded as current spending and other receipts (capital receipts) -- are taken out; (iv) symmetric entries of €300 million (€110 million) in respect of the deficit-neutral Social Insurance Fund advance were removed from the 2012 (2011) capital receipts and non-voted capital heads; (v) the IBRC promissory note payment of €3.06 billion that was settled through bond issuance is included in capital expenditure for 2012; (vi) outlays in respect of ILP (€1.3 billion) and credit unions (€250 million) are excluded from 2012 capital spending; (vii) about €1 billion in one-off proceeds arising from the sale of the state's shareholding in BoI is excluded from 2011 other receipts; and (viii) the July 2011 bank recapitalization costs of €7.6 billion are excluded from non-voted capital spending for 2011.

[7] The annual average house price fall of about 12.8 percent in 2012 is less than anticipated in the PCAR 2011 base scenario (14.4 percent) and well inside the PCAR stress scenario (18.8 percent).

MACRO-FINANCIAL OUTLOOK AND RISKS

Prospects for 2013

8. **Recent developments appear consistent with GDP growth of about 1 percent y/y in 2013.** The pace of domestic demand declines slowed notably in 2012; a more modest slowing is projected in 2013, with domestic demand still weakening by about 1 percent. The impact of fiscal measures on household disposable income is allowed for in a further ½ percent decline in private consumption, although recent indicators appear more positive. An investment decline of 1½ percent is projected, but this may also be an area with upside risks, as investment projects funded by the EIB and National Pension Reserve Fund (NPRF) may begin in 2013, and SMEs report positive developments in Q4 and expect higher investment. Net exports continue to drive growth in 2013, but a ½ percent smaller contribution is allowed for than estimated for 2012, as higher import growth reflects the smaller decline in domestic demand.

Macroeconomic Projections, 2008–15
(Percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012 Q1-Q3	2012	2013	2014	2015
Real GDP	-2.1	-5.5	-0.8	1.4	0.8	0.7	1.1	2.2	2.7
Real domestic demand	-3.7	-11.0	-4.2	-3.7	-1.8	-2.2	-1.0	0.9	1.8
Private consumption	-0.1	-5.4	1.0	-2.4	-1.4	-1.8	-0.5	1.2	1.6
Public consumption	0.6	-4.4	-6.5	-4.3	-4.1	-4.0	-2.5	-1.3	-0.5
Fixed investment	-10.0	-27.6	-22.6	-12.6	0.3	-2.0	-1.5	3.0	6.0
Change in stocks 1/	-1.2	-0.7	0.6	0.5	-0.1	0.0	0.0	0.0	0.0
Net exports 1/	1.4	4.5	3.0	5.4	3.5	2.4	1.8	1.6	1.4
Exports	-1.1	-3.8	6.2	5.1	3.2	2.6	3.0	4.0	4.2
Imports	-3.0	-9.7	3.6	-0.3	-0.2	0.4	1.7	3.5	3.9
Nominal GDP (billions of euros)	178.9	161.3	156.5	159.0	123.3	162.9	166.7	172.8	180.3
GDP deflator	-3.2	-4.6	-2.2	0.2	2.7	1.8	1.3	1.4	1.6
Current account (percent of GDP)	-5.7	-2.3	1.1	1.1	4.2	2.9	3.4	4.0	4.1
Consumer Prices (HICP)	3.1	-1.7	-1.6	1.2	2.0	1.9	1.3	1.3	1.6
Unemployment rate (percent)	6.4	12.0	13.9	14.6	14.9	14.7	14.6	14.1	13.3
Credit to households and NFCs (eop)	8.8	-1.2	-3.7	-2.8	-3.0	-3.8	-1.4	-0.4	0.6

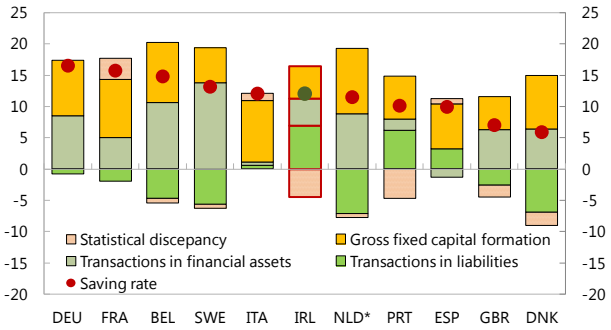
Source: IMF staff projections.
1/ Contributions to growth.

9. **The slowing domestic demand decline in 2013 is supported by anticipated developments in the financial sector.** As further discussed in section IV.A, a tangible improvement in banks' profitability is expected in 2013 relative to the weakness seen in 2012, reflecting their steps to cut staff and branches, a repricing of loans and deposits that should improve net interest margins, and the announced elimination of the costly ELG scheme. Improved profitability will facilitate the expected pick up in new lending to households and SMEs in 2013, relative to the very low base of about €4.2 billion (2½ percent of GDP) in the year to September 2012. Nonetheless, continued high debt repayments mean credit outstanding to households and non financial corporations would still decline, although more slowly than in 2012. As a result, the availability of funding is not expected to constrain lending in 2013, although significant maturities of bank debt may slow the decline in liabilities to the Eurosystem.

Medium-term Baseline

10. **The baseline projection for a gradual recovery over the medium-term hinges on a combination of trading partner growth, renewed domestic confidence, and steady improvement in lending.** A protracted recovery process is to be expected in the wake of Ireland's severe financial crisis in 2008–10, as seen in the low growth realized in 2011–12 and also expected in 2013. By 2014, external recovery is expected to support a more significant strengthening of export growth, and net exports remain the main contributor to growth. But after six years of decline, domestic demand is expected to also contribute to growth from 2014. Private consumption gains are modest, driven by gradual firming in labor income—nominal wage growth is already rising in some sectors—and an easing of the savings rate toward more normal levels as uncertainties ease. With investment down to very low levels, the rebound may well exceed the projected pick up in capital spending. Overall, the medium term recovery in the baseline is weak compared with past recoveries from property boom-bust cycles (Box 2), as is appropriate given the relative scale of the preceding boom, especially in relation to household borrowing.

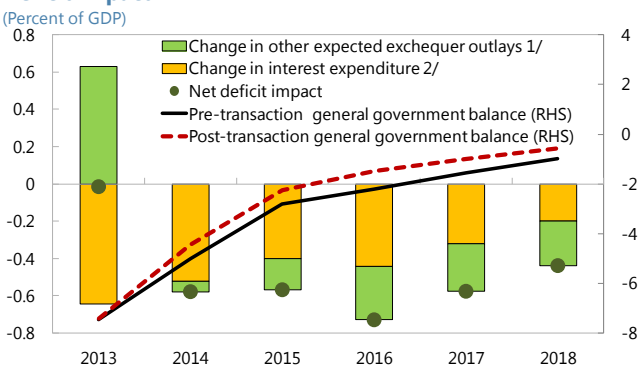
Household Saving
(Percent of gross disposable income, 2011Q4 -2012Q3 cumulative)



Sources: CBI; ECB; Haver Analytics; and IMF staff calculations.
* Refers to 2011Q2-2012Q1.

11. **The promissory note transaction reduces the general government fiscal deficit.** The transaction impacts the fiscal accounts through: (i) exchequer outlays for guarantees paid out under the ELG scheme, (ii) the lower coupon and amortization payments on the new government bonds compared to the promissory note in the next decade, and (iii) interest savings from lower market financing needs, including interest on interest, and higher expected CBI dividends, as government bonds carry a greater margin over CBI's funding cost than ELA to IBRC.[8] The transaction is largely deficit neutral in 2013 as lower interest costs offset ELG outlays, but in 2014 it improves the general government balance by 0.6 percent of GDP, rising to 0.7 percent of GDP in 2016 before moderating to 0.4 percent of GDP by 2018.

Deficit Impact
(Percent of GDP)



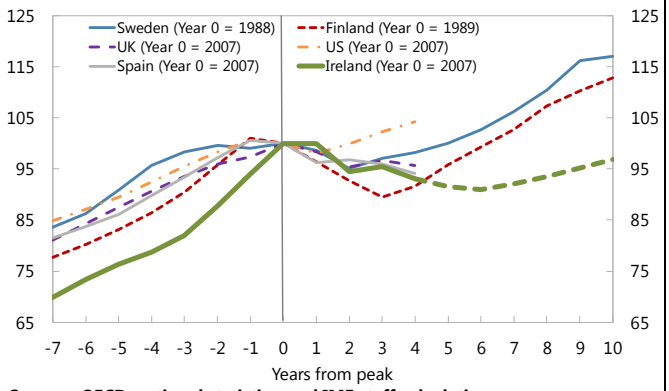
Sources: Department of Finance; and IMF staff estimates.
1/ Includes ELG payouts, changes in CBI dividend, and other interest paid.
2/ Difference in cash interest due on bonds exchanged for promissory notes.

[8] No shortfall for NAMA following the conclusion of the asset sale process has been assumed

Box 2. Recovery Comparison with Previous Property Boom-Bust Cycles

The baseline scenario for Ireland assumes a protracted recovery of private consumption and investment. Private consumption fell 7 percent between 2007 and 2011 and is expected to contract 1/2 percent more before bottoming out in 2013. Under the current forecast, private consumption is expected to grow around 1¾ percent annually from 2014 on; hence it would take ten years for real consumption to return to pre-crisis levels. Investment halved compared to pre-crisis levels, including in the business category. With investment growth expected at around 6 percent, the recovery period is even longer.

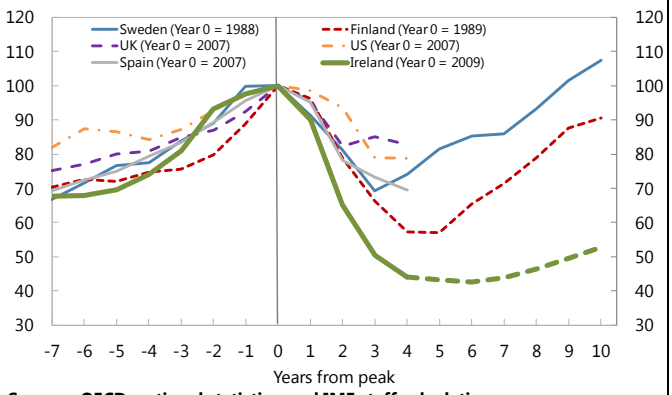
Household Consumption after Cycle Turns
(Real consumption; Year 0 = 100)



Sources: OECD; national statistics; and IMF staff calculations.

This recovery process is slower than in the boom bust cycles observed in Sweden and Finland of the late 1980s. In these cases, consumption recovery took five years and seven years, respectively. There are similarities to the Irish crisis, including that these governments abstained from generalized debt relief to overleveraged households, relying on automatic stabilizers and lower interest rates on variable-rate mortgages, but the flexible exchange rates also assisted their recovery.

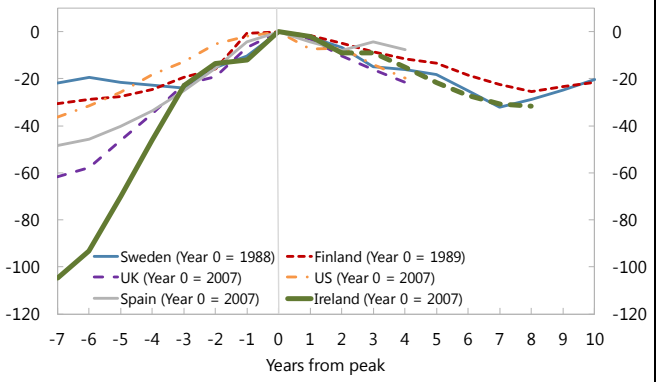
Gross Fixed Investment after Cycle Turns
(Real investment; Year 0 = 100)



Sources: OECD; national statistics; and IMF staff calculations.

These comparators suggest the overall pace of household debt retrenchment in the projections for Ireland is broadly in line with experience. Although Ireland starts from a higher household debt burden, which might argue for faster debt reduction, Irish households—especially the significant cohort with tracker mortgages indexed to ECB policy rates—benefit from uncommonly low euro area interest rates, which leave interest bills relatively modest (about 7 percent of disposable income) compared with their heavy debt burden.

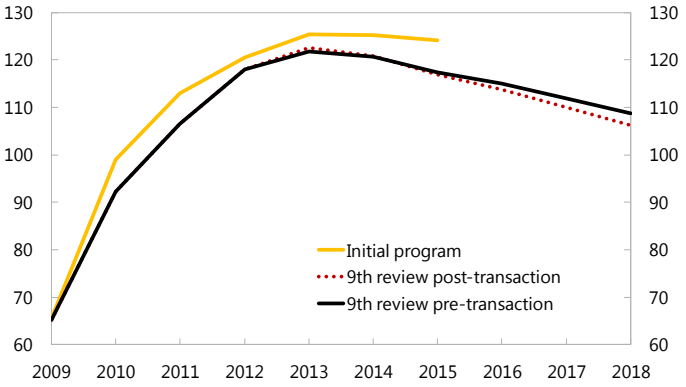
Household Deleveraging after Cycle Turns
(Cumulative change in debt to disposable income from peak in percentage points)



Sources: OECD; national statistics; and IMF staff calculations.

12. **Although remaining high, public debt is put on a downward path under these baseline projections, with the recent promissory note transaction resulting in only a marginal improvement in the debt outlook**. The promissory note transaction has an initial adverse impact on debt of 0.8 percent of GDP in 2013 due to lower upfront cash savings on interest, but lower deficits reduce debt in the medium term. Under this baseline, Ireland's debt peaks at 123 percent of GDP in 2013, and declines to 106 percent by 2018, 2½ percentage points lower than without the promissory note transaction (Annex I). It should be noted, however, that this likely overstates the long run benefit, as the higher interest payments made to the IBRC on the promissory notes were building capital that would eventually have returned as dividends to the government.

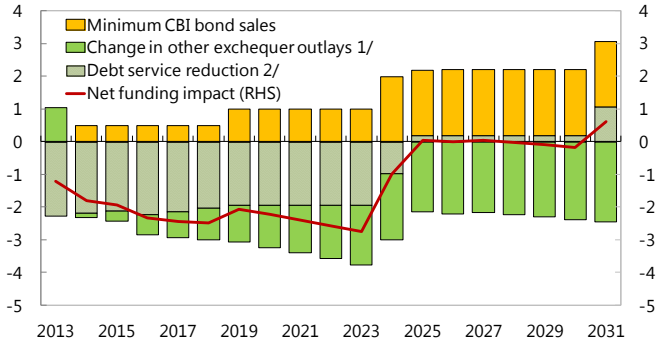
General Government Gross Debt
(Percent of GDP)



Source: Department of Finance; and IMF staff projections.

13. **Nonetheless, the promissory note transaction does significantly reduce debt issuance needs in the next decade.** As discussed in Box 1, the structure of the bonds replacing the promissory notes significantly reduces the debt service due from the government, in the range of €1¼ to €2¾ billion annually until 2023. Although there will be phased sales of the new bonds by the CBI, taking into account that market funding of debt service requirements on the promissory notes would have added to rollover needs, net debt issuance is reduced by up to about €24 billion cumulatively until 2023.

Impact on Gross Market Issuance
(Billions of euro)



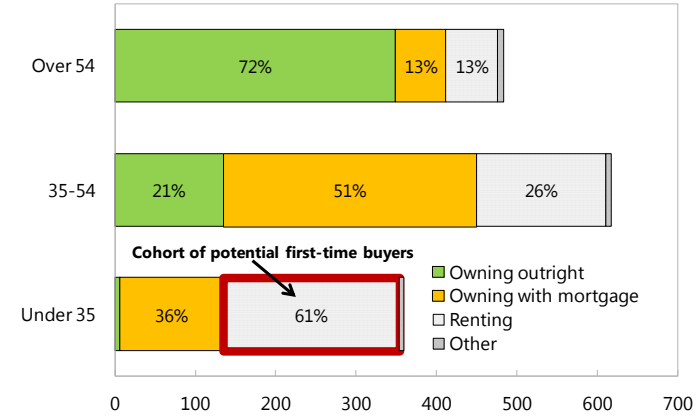
Sources: Department of Finance; and IMF staff estimates.
1/ Includes ELG payouts, changes in CBI dividend, and other interest paid.
2/ Difference in total debt service of bonds exchanged for promissory notes.

Risks to the Baseline

14. **A steady pickup in lending over the medium-term hinges on banks having adequate funding and profitability.** Although household debts are high, these tend to be concentrated on the 35 to 54 year old cohort. Demand for new lending is envisaged to arise as younger, non-indebted cohorts enter the housing market once confidence deepens that house prices have bottomed out. The process of mortgage loan restructuring is therefore critical to reduce uncertainties overhanging the housing market, and also to create performing assets that can collateralize funding without the excess collateralization seen in banks' recent covered bond issues. Similarly, SME restructuring is important to both improve the quality of bank assets and

the risk profile of SMEs as borrowers. Even assuming deposits grow with nominal GDP, banks will need to be in a position to ramp up access to market funding over time, especially as they face further bond maturities in coming years. In addition, profitability will need to further improve from the gains anticipated in 2013 if banks are to generate the capital required to sustain new lending, but significant structural challenges remain in the financial system.

Housing Ownership by Age Group (2012)
(Thousands of households)



Sources: Household Budget Survey; and IMF staff calculations.

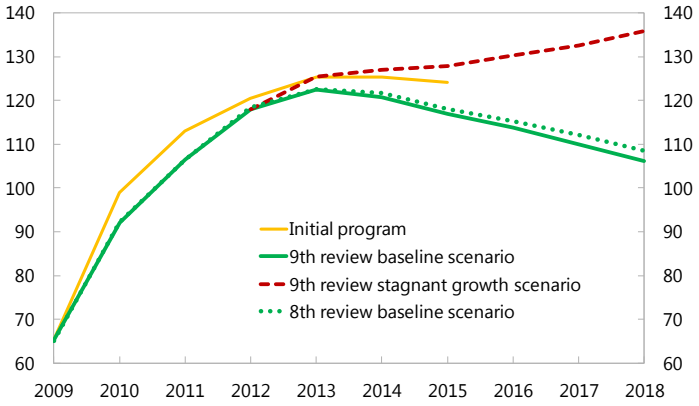
15. **Hence, the main risks to medium-term recovery prospects include the situation of Ireland's financial sector:**

- **Trading partner recovery.** Net exports remain a key engine of growth in the medium term, and sustained recovery hinges on euro area, U.K. and U.S. developments.
- **Fiscal drag.** Fiscal consolidation will continue to be significant in coming years, with the growth impact depending on the composition of measures among other factors.
- **Financial reform benefits.** Implementation of loan restructuring has lagged to date, and the benefits of improved asset quality in terms of funding access and costs are uncertain, depending in part on funding market trends in the euro area.
- **Debt overhangs.** The envisaged easing in household savings and firming in SME investments may not be realized if households and firms maintain their emphasis on debt reduction, perhaps owing to renewed euro area uncertainties or downside in house prices.
- **Bank-sovereign loop.** High public debt stocks are compounded by still large contingent liabilities from the banking system in a scenario where weak growth reduces asset values and heightens loan arrears, implying vulnerabilities for the cost and availability of funding for both the public and private sectors.

16. **These risks to growth have profound adverse implications for the robustness of debt sustainability and for the durability of market access.** The downtrend in debt in the baseline is contingent on a pick up in GDP growth and the avoidance of additional fiscal costs from financial sector support; if the above sources of risk keep growth in check, say at ½ percent in coming years, Ireland's debt ratio would continue to rise, reaching some 134 percent of GDP by 2018. Moreover, higher loan losses associated with rising unemployment and weaker asset prices would generate new capital needs once banks' buffers are exhausted, which could further raise debt ratios in the medium term. Were such a scenario to arise, Ireland's ability to rely fully on the market to cover its large post-program financing needs could easily become strained.

These risks reinforce the importance of creating conditions for sustained economic recovery, through strong implementation of financial and structural reforms and careful design and execution of fiscal consolidation. But even with rigorous implementation of these policies, the required balance sheet adjustments still leave Ireland vulnerable. European steps, such as use of the ESM recapitalization instrument under development, that can help ensure the financial system is well placed to meet the economy's credit needs, would go a long way to mitigating these risks.

General Government Gross Debt
(Percent of GDP)



Source: IMF staff projections.

POLICIES FOR EXIT AND GROWTH

A. Financial Sector

17. **Financial sector reforms will continue to focus on creating conditions for a lasting revival of sound lending in support of economic recovery.** The key priorities are:

- **Concrete progress with loan resolution in 2013.** This will support Ireland's exit prospects and growth outlook by (i) strengthening market confidence that, despite the scale of NPLs, bank asset quality issues will be resolved over time at manageable cost; (ii) restoring creditworthiness of viable SMEs so they can contribute to recovery, which may require deeper SME restructuring in addition to loan modifications; (iii) reducing distress among households in relation to the sustainability of their obligations; and (iv) easing uncertainty in the housing market regarding the potential impact of the disposal of properties.
- **Dealing with remaining profitability and viability issues in the banking sector.** As discussed, despite their substantial recapitalization, the PCAR banks ran pre-provision losses in 2012. Although improved profitability is expected in 2013, it is unclear profitability will become sufficient to sustain adequate new lending, especially in the case of PTSB.

18. **Achieving the first goal requires a dramatic shift from the slow progress on resolving NPLs to date.** Focusing on mortgages, the number of mortgage accounts in arrears over 90 days is now large, at 123,000 including buy-to-let mortgages. Nonetheless, a case-by-case approach is necessary as generalized debt relief would be unaffordable and ill-targeted as 84 percent of mortgages on principal dwellings by value are not in arrears even though many of these are in negative equity. Accordingly, supervisory efforts have been made to ensure banks have the strategies and resources needed to work out loans (Box 3). However, while many restructurings have been made (about 80,000 mortgages on principal residences), in practice some 78 percent of restructurings by value are temporary forbearance, such as interest-only payments, that are often unlikely to durably address arrears.

Box 3. Mortgage Arrears Resolution Preparations

Initial steps in dealing with mortgage arrears emphasized consumer protection including protections of the family home. The Code of Conduct on Mortgage Arrears (CCMA), introduced by the CBI in 2009 and strengthened in 2010, requires banks to establish a structured Mortgage Arrears Resolution Process for engaging with struggling borrowers, through a specialized Arrears Support Unit. There is a 12-month moratorium on repossession so long as the borrower cooperates with the lender, limits on contacts with borrowers to avoid harassment, and lenders must not require borrowers in arrears to give up their low cost tracker mortgage. At the same time, borrowers must disclose their financial position through a Standard Financial Statement.

However, it was soon recognized that forbearance would in many cases not provide a sustainable solution. The September 2011 Keane report recommended a case-by-case approach, with banks applying a decision tree in each case to determine the appropriate resolution option, which may include a split mortgage—where part of the mortgage is serviced and the remainder is warehoused. It also recognized that some people will lose their homes, and supported earlier recommendations (including the November 2010 report of the Mortgage Arrears and Personal Debt Group) for reform of judicial bankruptcy proceedings and the establishment of a non-judicial debt settlement process.

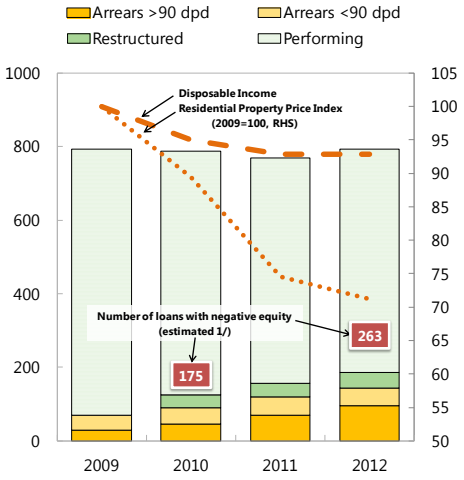
In late 2011, the CBI intensified its supervisory oversight in this area, to ensure banks have the operational capacity and strategies to address mortgage arrears bilaterally. In early 2012, a Distressed Credit Operations Review identified deficiencies in the resources and skills of banks in this area, and the CBI has monitored improvements by banks. Banks also developed strategies for treatments of borrowers according to their circumstances, where there is a decision between temporary forbearance, longer-term modifications, and solutions involving change of ownership. The CBI has reviewed these strategies and they have been piloted during the second half of 2012.

19. **A range of factors have hindered durable resolution, but the authorities recognize that there is a need to address unsustainable debts to avoid further delaying the domestic economic recovery.** As is typical in a crisis, banks delay loan resolution in the hope of more favorable economic and property market conditions. In the meantime, the application of IRFS incurred loss model has facilitated banks recognizing their loan losses at a slower pace than under other accounting regimes. It has also taken time to strengthen inadequate operational capacity to deal with distressed assets, and banks experience difficulties engaging with some borrowers, in part reflecting protections under the Code of Conduct on Mortgage Arrears (CCMA). Personal insolvency reforms that were recently completed had earlier posed uncertainties for banks about appropriate resolution strategies; more recently, with these reforms nearing implementation, a group of banks has adopted a multilender coordination protocol which could help resolve arrears cases without deploying the personal insolvency framework. Finally, there are also concerns that loan modifications entailing principal reductions could stimulate strategic defaults, with such concerns heightened by impediments to initiating repossession proceedings.

20. **Accordingly, the authorities are committed to wide-ranging actions to ensure decisive progress in resolving distressed assets in 2013** (MEFP ¶4). Targets for durable loan restructuring are supported by steps across consumer protection arrangements, reforms of repossession procedures, and implementing the recently enacted personal insolvency reforms:

- ***The CBI will establish by end-March a target requiring banks to offer a substantial share of restructuring arrangements during 2013 (proposed structural benchmark)*** *(MEFP ¶5).* A target for completing such arrangements during 2013 will be set subsequently, prior to the completion of the 11th review. Critically, the CBI will monitor each bank's progress closely, including by auditing samples of loan modifications to ensure they can be expected to durably address arrears.

PDH Mortgages, Arrears, and Arrear Drivers
(Thousands)

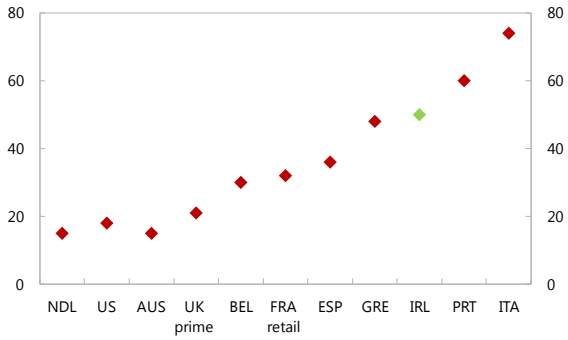


Sources: CBI; CSO; and IMF staff calculations.
1/ Based on CBI Quarterly Bulletin (Feb. 2012), pp. 85ff.

- ***The CBI will also modify the CCMA by end-June, where appropriate to facilitate effective engagement with mortgage borrowers in arrears*** *(MEFP ¶6).* The CBI intends to review in particular (i) the restrictions on contacts to facilitate constructive engagement, where it recently provided a clarification; (ii) amending the definition of non-cooperating borrowers to ensure protections are limited to borrowers where engagement is timely and consistent with addressing their arrears; and (iii) the current protection on tracker mortgages, specifically in cases where a borrowers is offered an alternative arrangement that is advantageous in the long-term. Staff considers a thorough review of the CCMA appropriate as the emphasis shifts from forbearance to resolution, and notes in particular the need to ensure unsecured lenders are not advantaged in collections.

- ***To facilitate durable resolution results, the authorities will also ensure that repossession procedures work efficiently in practice*** *(MEFP ¶7).* Repossessions declined in recent years despite the rise in arrears. The authorities remain committed to remove unintended constraints through legislative amendments to be submitted to parliament by end-March (MEFP ¶12, eighth review), with a view of passing them into law by around mid-year. This step is important to facilitate the funding needed for a renewal of mortgage lending on reasonable terms, and it will also facilitate conclusion of agreements to modify a loan and help ensure they are lasting solutions, while containing the risk that such modifications reduce payments by borrowers that can afford to pay. In addition, the authorities will keep repossession experience under review, and quickly bring forward appropriate measures to address any problems regarding the length, predictability, and cost of proceedings; Box 4 outlines some potential steps. Staff noted the need for prudential policies on banks' property management and vendor financing to facilitate reasonably timely disposal of property while avoiding market disruption.

Fitch Expected Time to Completion of Repossession
(Months)



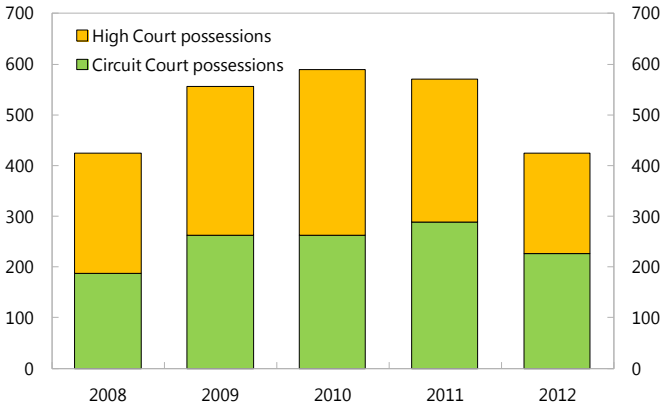
Source: Fitch.

Box 4. Enhancing the Efficiency of the Repossession Regime

Recent international experience underscores the need for efficient repossession procedures, while ensuring proper protection of the interests of the debtor. Prolonged and costly procedures to seize mortgage collateral tend to be associated with slower recovery of property markets.[1] In Ireland, the overall number of repossessions is very low, at some 0.3 percent of total arrears cases in 2012, compared with rates of 3 to 5 percent in the U.K. and U.S., suggesting a need to strengthen the efficiency of the repossession regime.

Irish lenders may seek repossession either based on statute or on the mortgage terms. For residential properties, a homeowner cannot be required to give up possession save by court order due to constitutional protections. Lenders may bring a case in the Circuit Court or in the High Court, with costs significantly higher in the latter. Summary proceedings are deemed most efficient, while plenary proceedings are also available but take significantly longer due to procedural requirements.[2] However, in the case of mortgages secured on registered property, following a case in mid-2011 there is uncertainty about the ability of lenders to pursue summary repossession proceedings for mortgages created prior to December 2009. This appears to have led to a fall in proceedings in 2012, and the authorities intend to introduce legislation ensuring the availability of summary proceedings under the Land and Conveyancing Law Reform Act 2009.

Court Possession Orders Made



Source: Courts Service.

The planned legislative change will help but additional measures for enhancing efficiency should be explored. Banks report Circuit Court proceedings take a number of years due to adjournments and subsequent appeals. By comparison, the process is faster in the U.K. with many cases completed in one to two years. An example of an expedited and centralized approach already exists in Ireland, with the Commercial Court at the High Court providing a fast track to repossession for commercial properties valued above €1 million, due to streamlined proceedings and few adjournments. This suggests that as a further step to enhance the efficiency of the repossession regime—while maintaining the necessary protections—the designation of specialist judges at the High Court (or perhaps large Circuit Courts) could concentrate expertise and provide resources for handling a potentially larger volume of repossession cases in an expedited manner. Another option would be to prescribe in legislation the conditions that must be assessed by the court prior to adjourning a case, for example, that the debtor has made a material (not token) payment to the lender and presented a substantive proposal for repayment in a timely manner.

1/ See Michael Fratantoni and Michael Moore, The U.S. mortgage crisis - are there lessons for policymakers?

2/ In the case of investment properties, the appointment of rent receivers can facilitate that rental income, if any, is applied towards payment of the mortgage.

- ***The new personal insolvency framework is expected to become operational in the second quarter*** *(MEFP ¶8)*. The Personal Insolvency Act was signed into law on December 26, 2012 (Annex II). The authorities intend to appoint specialist judges, publish regulations, and begin issuing licenses for personal insolvency practitioners by end-March, with a view to start accepting insolvency applications in the second quarter. Guidelines on reasonable allowable household expenditures will soon provide key input guiding debt service schedules proposed under the new debt resolution processes and may also shape banks' loan restructuring offers.

21. **The authorities will also press forward the timely resolution of SME loan arrears with the aim of restoring the capacity to invest and create jobs** (MEFP ¶9). Bank-by-bank SME restructuring targets will be established by end-June, with the aim of completing a substantial share of restructuring arrangements during 2013. Progress will be monitored against comprehensive key performance indicators. Onsite reviews by the supervisor during 2013 will help in assessing the durability of the restructuring solutions.

22. **By end-May, the CBI will update the 2011 Impairment Provisioning and Disclosure Guidelines (proposed structural benchmark), which will give further momentum to durable restructuring efforts** (MEFP ¶10). As a first step, the CBI is engaging with banks to ensure key inputs for provisioning of loans, especially modified loans, are appropriately prudent. Taking into account an assessment of the application of the current guidelines, the CBI will then update the guidelines, where necessary, setting out clear definitions and principles underpinning bank's provisioning models. In the context of their ongoing efforts to strengthen financial supervision the authorities have also requested an external Basle Core Principles assessment (structural benchmark from the 8th review) that will be carried out during the second half of 2013.

23. **Bank profitability is expected to improve in 2013.** By end-2012, the three PCAR banks had closed 61 branches and reduced their head-count by about 10 percent, with additional reductions planned for 2013. In 2013, they are targeting to improve profitability by ½ percent of average assets, with about one-third of the uplift from operational cost savings, almost half from improved net interest and fee income, and the remainder from phasing out the ELG scheme. If BoI and AIB deliver on their current plans, they are forecast to have positive pre-provision profits in the second half of 2013. Further profitability gains depend on (i) improved net interest margins, where challenges continue from the high share of tracker mortgages with low margins over the main ECB refinancing rate; (ii) loan resolution to restore loan performance, where uncertainty remains given limited experience; and (iii) further operational cost savings.

24. **However, staff considers that PTSB still faces more acute challenges that need to be addressed to assure its viability and contribution to growth** (MEFP ¶11). The bank has been divided into three distinct internal strategic business units and is progressing in implementing the benchmarks provided for in its proposed restructuring plan. But PTSB as an integrated legal entity is only expected to breakeven in the medium term. Recognizing this situation, PTSB's restructuring plan submitted to the European Commission is based on the separation of the asset management unit which holds low-yielding and non-performing assets; it has not been possible, however, to implement this approach at manageable funding cost to date.

25. **To assure prospects for durable exit, a solution to these structural profitability challenges needs to be developed as part of the European leaders' commitment to examine the situation of Ireland's financial sector with a view to further improving the sustainability of Ireland's well performing program**. The forthcoming Prudential Capital Assessment Review, with loan loss modeling subject to external validation, can provide a prudent assessment of asset quality to help develop such a solution; the CBI is preparing to conclude the PCAR with the aim of aligning it with the EBA exercise in September (MEFP ¶12).[9] But staff considers that a broader examination of the PCAR banks' valuation is needed given the implications of their low-yielding asset structure for their long-term profitability. The ESM direct bank recapitalization instrument that is currently under development could play a valuable role in such a solution, both by sharing the cost of past recapitalization and by cushioning the impact of any new capital need that could be identified. In the case of PTSB, staff favors mobilizing such financial assistance in a manner structured to minimize the overall cost of firmly placing PTSB's retail bank on a viable trajectory.

B. Fiscal Policy

26. **The promissory note transaction is not expected to affect fiscal performance as measured under the program in 2013.** The interest savings from the promissory note transaction may be offset by an increase in capital transfers to fulfill government guarantees worth about €1 billion on IBRC liabilities. Additional costs could arise from potential compensation to NAMA for any shortfall suffered by NAMA following the asset sale process, but the amount will only be clear later in 2013 following a bidding process. As the Fund's assessment of fiscal performance is based on the primary Exchequer balance, the interest savings from the promissory note transaction have no impact, and any one-off costs associated with the transaction will be cushioned by the adjustor for bank support costs.

27. **Hence, full implementation of Budget 2013 measures remains critical to reach the 2013 targets and the medium-term consolidation goals.** Excluding one-off factors, the overall Exchequer balance in January-February is up 0.2 percent of GDP from the same period in 2012, primarily owing to higher tax revenues and lower capital spending. The bulk of the 1.7 percent of GDP in new measures in Budget 2013 have been enacted, with the residential property tax and social welfare bills signed into law. Several important pieces of the budget package, totaling about 0.5 percent of GDP, are to be adopted in coming months (MEFP ¶14):

- *On the expenditure side*, the authorities have reached agreement with public service union leaders on a proposal that would trim annual net pay and pension outlays by the additional €1 billion targeted by 2015, with €0.3 billion in savings slated for 2013 (MEFP ¶15). The main elements of the three-year agreement, that, if approved by union members, would enter into force on July 1st, include (i) increasing the number of standard hours worked (to a minimum

[9] The CBI published on March 1 a review of the financial performance PCAR banks in the period to end-June 2012 compared with the financial projections in PCAR 2011—which governed bank recapitalization in 2011.

of 37 hours); (ii) cutting pay of public servants earning over €65,000 on a progressive scale starting at 5.5 percent and rising to 10 percent for those earning over €185,000; (iv) freezing automatic increments on a progressive scale based on salary; and (v) reducing overtime costs. To prevent renewed health spending overruns, the implementation of measures in this sector will be monitored on a monthly basis by a high-level cabinet committee.

- *On the revenue side*, the new residential property tax is expected to yield 0.15 percent of GDP in the second half of 2013. Technical preparations, including developing a property registry and valuation model, have been completed, and administration of the tax by the Revenue Commissioners has commenced. Legislation to effect higher charging for patients with private health insurance in public hospitals is expected to be enacted by end-June.

28. **The authorities are further developing their medium-term fiscal framework to underpin successful program exit** (Box 5). Building on the recently enacted Fiscal Responsibility Act 2012, legislation has been submitted to give statutory basis to the already operational expenditure ceilings (MEFP ¶16), which are to be set at the aggregate and ministerial level on a 3-year rolling basis. Key operational aspects of the ceilings are under discussion, including the role of comprehensive expenditure reviews, carryover provisions, and sanctions. The authorities are expected to set out revenue and expenditure paths extending to 2016 in their April 2013 Stability Programme (MEFP ¶17). The authorities note that Budget 2014 will provide a further opportunity to articulate structural reforms to underpin future fiscal consolidation while ensuring strong delivery of public services, especially in health, education and social protection, and staff urged full utilization of this opportunity.

Ireland: General Government Finances, 2010–15 1/
(In percent of GDP unless otherwise stated; excluding financial sector support costs)

	2010	2011	2012	2013	2014	2015
EDP general government balance targets		-10.6	-8.6	-7.5	-5.1	-2.9
Net lending/borrowing (General government balance)	-10.7	-9.1	-7.7	-6.8	-4.4	-2.2
Primary balance	-7.5	-5.7	-3.8	-1.9	0.6	2.8
Structural primary balance (percent of potential GDP)	-5.7	-3.7	-2.1	0.0	2.0	3.5
Structural balance	-9.1	-7.1	-6.0	-4.9	-3.1	-1.5
Remaining consolidation commitment 2/	3.7	3.5	2.7	2.1	1.8	1.1
Net general government debt	74.5	94.9	103.1	106.6	108.0	106.0
Unemployment rate (percent)	13.9	14.6	14.8	14.6	14.1	13.3

1/ Projections are consistent with staff's macroeconomic baseline, Budget 2013 and MTFS (2012).
2/ Carryovers from revenue measures are included.

29. **Any change in the consolidation path beyond 2013 should be assessed at the time of publication of Budget 2014.** With the previously-specified consolidation effort in 2014–15 (totaling 2.9 percent of GDP), the promissory note transaction contributes to lowering the projected fiscal deficit in 2015 to 2.2 percent of GDP, relative to the target of below 3 percent of GDP. The consolidation path for 2014–15 will be reviewed at the time of Budget 2014 in the light of further information on budget performance in 2013 and on growth prospects. This review should take into account that a buffer can be valuable to ensure the 2015 target can be safely achieved in the face of shocks. Staff maintains the view that

given the still fragile economic recovery, additional consolidation should not be implemented in 2013 to make up for revenue shortfalls if growth disappoints. Rather, any significant additional consolidation to reach the 2015 deficit target should be deferred to 2015 where the adjustment burden is lighter. Such flexibility, which takes advantage of the asymmetry of multipliers over the cycle, will have a marginal impact on debt sustainability but entail substantial benefits for the political feasibility and credibility of consolidation.

Box 5. Medium-Term Budgetary Framework

The main elements of a comprehensive medium-term budgetary framework (MTBF) have been established in recent months, or soon will be. Reforms include a new set of national fiscal rules and expenditure ceilings, and strengthening of institutions and transparency, which are set out in the Fiscal Responsibility Act 2012 (FRA) signed into law at end-November and the Ministers and Secretaries (Amendment) Bill 2012 (MSAB) currently with Parliament.

National fiscal rules

- *General government budget balance rule.* The FRA requires the general government budget position to be either in balance or in surplus, or that adequate progress is made towards the authorities' medium-term budgetary objective (a structural deficit of 0.5 percent of potential GDP) in accordance with the Stability and Growth Pact (SGP). It allows for correction mechanisms in case of deviations, in line with the common principles proposed by the European Commission. Although not in the FRA, the requirement introduced in Budget 2013 that local governments also maintain a balanced budget will support achievement of the general government rule.
- *General government debt rule*. The debt rule, also provided for in the FRA, requires that at least one-twentieth of the difference between the current debt to GDP ratio and the SGP reference of 60 percent be closed every year. This debt rule is only expected to be applied in full some three years after Ireland has exited from its current excessive deficit procedure in 2015.

Expenditure framework

- *General government expenditure benchmark*. The authorities are to ensure compliance with the expenditure benchmark, implemented as part of the "six pack" regulation at the EU level. Under this benchmark, annual expenditure growth (based on a modified general government expenditure aggregate) net of discretionary revenue measures should not exceed a reference medium-term rate of potential GDP growth, as determined by the European Commission.
- *Aggregate and ministerial level expenditure ceilings*. Consistent with the expenditure benchmark, the MSAB sets expenditure ceilings on a 3-year rolling basis both at the aggregate exchequer and ministerial level. Operational details (such as the role of comprehensive expenditure reviews, carryover provisions, and sanctions) are to be published at the same time as the Bill is enacted. Ministerial expenditure ceilings are to be complemented by an employment control framework that enforces the government's public service numbers policy.

Institutions and transparency

- *Irish Fiscal Advisory Council*. The FRA formally tasks the Council with assessing the soundness of the government's macroeconomic projections, budgetary projections and fiscal stance. The Council will also examine the extent of compliance with legislated fiscal rules. The law provides a statutory basis for the independence and adequate funding of the Council.
- *Transparency***.** In line with the EU Fiscal Frameworks Directive, the authorities are expected to publish a fully fledged MTBF compiling a complete set of procedures by end 2013. Fiscal reporting is also to be enhanced with a new Government Finance Statistics publication in April 2013.

C. Structural Reforms

30. **The authorities continue to promote job creation and growth** (MEFP ¶18). They are seeking to accelerate the delivery of investment projects funded through public-private partnerships with the EIB, NPRF, and private investors. Investment resources will also be provided from proceeds from the disposal of state assets, the implementation of which is progressing. The Fourth Progress Report on the 2012 Action Plan for Jobs indicates that over 90 percent of planned actions have been completed and the recently published 2013 Plan contains over 330 new measures to support job creation.

31. **To address the challenge of high long-term unemployment (Box 6) the authorities are taking a range of steps** (MEFP ¶19). In order to increase engagement with this cohort of jobseekers they are planning to double the amount of case officers through internal redeployment, as well as proceeding with the plan to roll out one-stop-shop offices for the unemployed (Intreo). The plans to outsource provision of some employment services for the long-term unemployed to the private sector are also progressing, with an aim to issue a tender for the provision of services by end-June 2013. The authorities are also reviewing the tax incentives for hiring long-term unemployed persons, aiming to increase the currently limited take-up among firms.

32. **The authorities are reforming the further education system and seeking to better align training and activation policies with labor market needs** (MEFP ¶20):

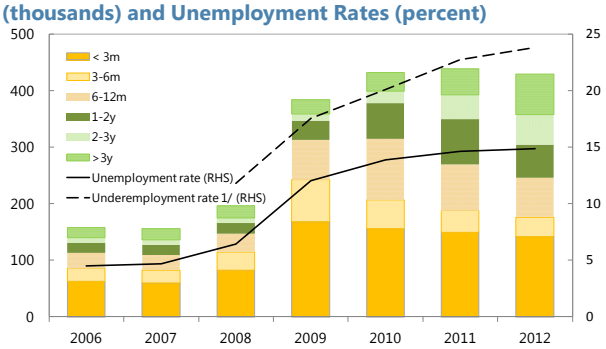
- ***Further education system.*** The authorities have published the Action Plan for SOLAS (Further Education and Training Authority) and the legislation for SOLAS and for Education and Training Boards (ETBs) is before Parliament. Under the new system, ETBs will become responsible for delivery of all further education and training in Ireland, by contracting it to private, public, and non-profit providers. SOLAS will oversee the ETBs as well as deliver funding for courses. To ensure that courses provided by ETBs are well aligned with labor market needs as well as with the needs of the unemployed, the authorities will prepare a review by end-September.
- ***Activation and training schemes***. The authorities have recently completed a Review of Employment Support Schemes, which outlines options for the reform of four main types of activation schemes. It also highlights the need to better target participation, including by obtaining referrals to courses from case workers. The authorities will prepare an action plan to implement these reforms by end-April.

33. **To help unleash SMEs capacity to invest and create jobs, efforts to facilitate financing and improve the business environment are being intensified (MEFP ¶21).** The Seed and Venture Capital program managed by Enterprise Ireland will receive €175 million of Exchequer funding with the aim of leveraging a further €525 from the private sector to finance high potential start-ups. Innovation Fund Ireland has been created to increase the availability of risk capital for early-stage and high-growth companies, and will receive €125 million of Exchequer funding, and further funding from the NPRF, with the objective of reaching a size of

Box 6. Addressing Long-term Unemployment in Ireland

Ireland is facing an acute unemployment crisis. Since the recession started, employment has fallen by 15½ percent, pushing the unemployment rate close to 15 percent, the share of workers unemployed for over 1 year to 60 percent, and the share of very long-term unemployed (over 2 years) to 30 percent. If involuntary part time workers and workers only marginally attached to the labor force—two groups that registered significant increases—are also accounted for, the unemployment and underemployment rate in Ireland stands at a staggering 23 percent.

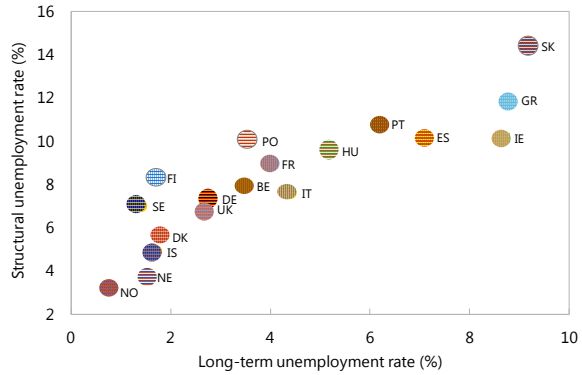
Number of Unemploymened on Live Register by Duration (thousands) and Unemployment Rates (percent)



Sources: Department of Social Protection, CSO, and IMF staff estimates.
1/Includes involuntary part-time and discouraged workers.

The high share of long-term jobseekers increases the risk that unemployment will remain high even after the economy recovers. Experience from other European countries facing high unemployment in the 1980s is that long spells of joblessness increase the probability of permanent skill loss and exit from the labor force (OECD, 2012), raising structural unemployment. Currently, the share of jobseekers exiting to employment—while low altogether—is close to zero for people unemployed for more than 5 years. Moreover, while the overall number of vacancies in the economy is low, significant differences between sectors are evident, with shortages emerging in high-skilled IT and financial sectors, that are unlikely to be filled to a significant extent by the long-term unemployed.

Long-term vs Structural Unemployment Rate in Europe



Sources: Eurostat; and OECD Economic Outlook 92.

Activation and training policies need to be refocused on the long-term unemployed to help them to remain in the labor force and adapt their skills to market needs:

- ***Activation***. The creation of one-stop-shop Intreo offices to provide integrated services to jobseekers is a significant step forward; however the number of case officers is currently too small to handle activation of the large number of long-term unemployed. Therefore, plans to increase resources through redeployment or by engaging private sector firms should be pursued without delay.

- ***Training and further education***. Training and activation must be well aligned with job market needs and the needs of the unemployed. The recently completed Review of Employment Support Schemes contains many constructive reform ideas. However, the planned expansion of the state employment programs should be considered carefully: their positive impact on future employability of participants was limited in the past (McGuinness et al., 2011), while the average cost per person is almost two times higher than for the education programs (see High Level Issues Paper, p. 13). In contrast, training raises work prospects, though some courses are more effective (McGuinness et al., 2011). The review of further education expected this year should help determine the course curriculum, and as should the course evaluation system expected to be put in place once SOLAS and ETBs become operational.

€500 million through venture capital manager participation. The NPRF has also announced strategic partnerships with private equity managers to provide equity, credit and restructuring investment for Irish small and medium-sized corporates. The three funds combined will utilize up to €500 million of NPRF funds with the objective of making €850 million of funding available for investment in Irish SMEs. The Department of Finance has announced it is planning to increase the resources of the Credit Review Office, following the conclusions of the independent assessment of the CRO published in November 2012. A new independent survey on the demand for lending will be undertaken to cover the period October 2012–March 2013, and will inform future policy actions in this area.

34. **To facilitate SME restructuring, further enhancement of the examinership framework for SMEs will be considered by end September** (MEFP ¶ 21). Amendments to the Companies Bill 2012 were published on December 21 to reduce the cost of examinership for SMEs by designating Circuit Courts, rather that the High Court, as competent for the examinership of companies within the EU small company thresholds. Emphasizing the need to disentangle property investment debt from SMEs' core business, if it is potentially viable, staff urged streamlining court oversight of examinership procedures for SMEs where feasible, especially to facilitate restructuring in cases with multiple creditors.

FINANCING AND PROGRAM MODALITIES

35. **Program conditionality over the remainder of the program has been updated:**

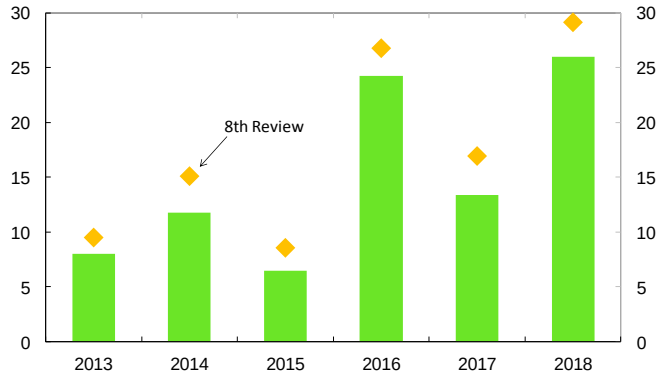
- **Quantitative performance criteria are proposed for end-June 2013** (MEFP Table 2). The performance criteria for the Exchequer primary balance at end-March remains unchanged, while the indicative target for end-June has been reset slightly reflecting changes in the revenue base and converted into a performance criterion. The end-September indicative target has also been reset. The indicative targets on net central government debt have been amended to incorporate the implications of the promissory note restructuring. Finally, the TMU has been modified to include an adjustor for the net central government debt indicative target to the extent that the NPRF's liquid assets are invested in SME-related Funds (up to a cap of €500 million).
- **Two additional structural benchmarks are proposed** (MEFP Tables 1 and 3). The first relates to establishing public targets requiring the principal mortgage banks to offer mortgage restructurings that are expected to be durable for a substantial share of arrears cases, by end-March. Separately, similar targets applying to the completion of mortgage restructuring arrangements are to be established prior to concluding the eleventh review of the program. The second benchmark reflects the publication of an update, as necessary, of the 2011 Impairment Provisioning and Disclosure Guidelines by end-May.

36. **Ireland's increasingly robust return to the market underpins the strength of financing under the program.** The restructuring of the promissory note in February added to the signs of improved sentiment already evident, with positive reactions from rating agencies.

To underpin their successful exit the authorities intend to end the program with a cash buffer sufficient to cover expected financing needs for 12–15 months beyond the end of the program. To do so, the NTMA plans to issue around €8 billion in long-term bonds during 2013, with €2½ billion of this already raised on January 8 by reopening a 2017 bond at a yield of 3.32 percent. This issue was substantially over subscribed and achieved a significant diversification of the investor base, both along institutional as well as geographic grounds including investors from the U.K., the Nordic countries and continental Europe. Later this year, the authorities plan to issue a benchmark bond and, market conditions permitting, to restart a regular bond auction program. The program of regular Treasury bill issues will continue, with the possibility that the current three-month issues will be supplemented by issues of longer dated bills.

37. **Risks around this financing strategy have declined in the near-term, but significant challenges remain.** Ireland remains exposed to changes in sentiment regarding prospects for European support, or for the euro area periphery more generally that could affect the terms of market access. Early OMT eligibility could help contain such pressures. Beyond this, the recognition of additional contingent liabilities remains a potential ongoing risk, including the true-up with NAMA in the near-term (see Annex I). If market tensions were to persist it would also make dealing with the large and uneven financing schedule over coming years very challenging. To help smooth the financing profile, the authorities have initiated discussions requesting a lengthening of the maturities of their EFSF/EFSM loans. Discussions began on post program options, including the possibility of precautionary arrangements, and these discussions will continue over coming reviews taking into account developments and evolving risks.

Treasury Bond Issuance
(Billions of euro)



Source: IMF staff projections.

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

- Under the baseline macroeconomic framework, debt sustainability is expected to be maintained over the medium term, although subject to significant risks if growth does not strengthen or if further contingent liabilities materialize. Crucially, this relies on ongoing strong program implementation, along with European policymakers delivering on their commitments in order to reduce strains in countries facing stress and ensure financial stability of the euro area. As debt sustainability is not assured with a high probability, the program continues to be justified on the basis of systemic international spillover risks given euro area fragility.

- In view of Ireland's strong program performance and commitments and its recently regained market access, there are adequate prospects to retain and expand access to private capital markets before Fund repurchases begin in July 2015. There is however, a risk of inadequate progress toward stronger European support, which would weaken assurances of adequate and durable market access given Ireland's public debt and financial sector vulnerabilities.

- More broadly, the policy program of Ireland is sound and adjustment is being consistently delivered, providing reasonably strong prospects for program success. More timely delivery on commitments at the European level is needed to strengthen prospects for success.

STAFF APPRAISAL

39. **Strong policy implementation has continued and positive results are emerging.** As in 2011, the fiscal deficit in 2012 was well within program targets. Important reforms have been adopted with the passage of the Fiscal Responsibility Act and the Personal Insolvency Act. Positive indicators are emerging for the revival of domestic demand, employment, and credit extension. The government's market access has continued to deepen and market conditions improved further following the promissory note transaction, which is a welcome step forward in addressing Ireland's heavy debt burden arising from bank support.

40. **However, growth is expected to remain sluggish in 2013 and the outlook for gradual recovery over the medium term remains highly uncertain.** Recent indicators appear consistent with previous projections for growth on the order of 1 percent in 2013, as the decline in domestic demand is slowing and exports are expected to firm modestly. With public and private debts still high, and the financial system facing weak profitability and providing limited credit, there are significant hurdles to achieving the growth in domestic demand needed to drive a stronger recovery and job creation from 2014 onwards. Continued weak growth would likely erode confidence and potentially undermine market access as a recovery is critical to putting Ireland's debt on a downward path.

41. **A sharp improvement in dealing with non-performing loans is critical to strengthen prospects for recovery.** Inadequate progress by banks has necessitated the adoption of targets for the restructuring of mortgage loans to address arrears in a durable manner, together with a similar approach to SME loans in arrears. Achieving these goals is essential to demonstrate that the banks high non-performing loans will be resolved at manageable cost, to reduce uncertainties overhanging property markets, to enable viable SMEs to access capital and create jobs, and to address the distress of households facing unsustainable debt burdens. Key supporting steps need to be adopted to facilitate effective engagement between mortgage borrowers and lenders, to make repossession a more effective last resort option in order to protect payment discipline, and to ensure provisioning provides the right incentives to banks. Timely and sound implementation of the personal insolvency reforms, especially appropriate guidance on reasonable allowable household expenditures, will also encourage resolution progress. Further reforms of examinership should be considered for SMEs.

42. **Ireland's strong track record of budget execution must be maintained in 2013 and building on the recent strengthening of the medium-term budget framework will support durable exit.** The strong out turn in 2012 improves prospects for 2013 but full implementation of budget measure remains necessary, especially concluding the proposed agreement with public service unions. Close monitoring of health spending is appropriate following overruns last year and successful introduction of the property tax is needed as a welcome broadening of Ireland's tax base. With the adoption of the Fiscal Responsibility Act and forthcoming legislation to underpin expenditure ceilings, Ireland will have a sound framework to underpin the still substantial fiscal consolidation required in the medium term. To ensure the achievability of this consolidation, and thereby strengthen its credibility, the authorities should develop structural reforms to enable core public services to be delivered within a limited resource envelope in coming years, especially in health, education, and social protection. The fiscal consolidation path should be reviewed at the time of Budget 2014, taking into account growth prospects and budget performance, with the aim to ensure medium-term consolidation targets are safely achieved in the most growth-friendly manner.

43. **Long-term unemployed job seekers must increasingly be the focus of activation policies to prevent a rise in structural unemployment.** A recovery in economic growth is a prerequisite for job creation, yet it is also crucial to ensure that job seekers remain in the labor force and acquire skills in demand, where greatest efforts are needed with the long-term unemployed who are most at risk. Redeploying staff to double the number of case workers is welcome, yet further redeployments are likely needed together with suitable training, and progress on involving the private sector in providing employment services should be kept on track. Given the signs of skill mismatches, ongoing reforms of the further education system should be implemented in a manner that ensures that training is in line with market needs.

44. **Even with continued strong policy implementation, a durable exit from drawing on official support cannot be assured without timely and forceful delivery of European pledges.** The promissory note transaction is a valuable step to moderate Ireland's financing needs in the next decade, yet public debt is projected to remain at high levels. However, the deep balance sheet adjustments required after the crisis, the structurally weak profitability and lending capacity of banks, and soft external demand together engender substantial uncertainties around medium-term recovery prospects. A failure to realize stronger growth could revive concerns about debt sustainability and undermine the availability of the substantial market financing needed in the medium term. Direct bank recapitalization by the ESM remains the most definitive way to forestall such a scenario, by enabling financial sector challenges to be addressed while protecting debt sustainability, and insulating the sovereign from potential contingent liabilities from the banking sector. This should be structured in a manner that efficiently addresses banks' remaining profitability challenges, thereby removing a key barrier to domestic demand recovery and job creation. Timely progress on this work is a critical component of a comprehensive strategy for Ireland's durable exit from drawing on official financing.

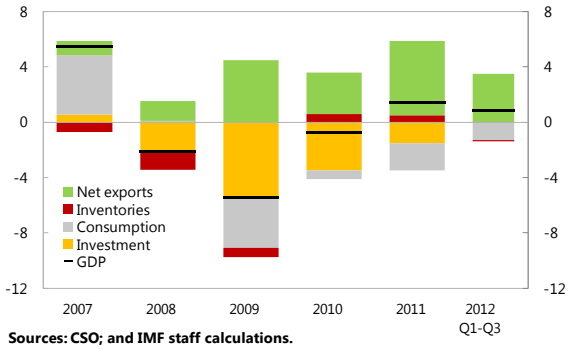
45. **Staff supports the authorities' request for completion of the ninth review.**

Figure 2. Ireland: Real Sector and Inflation Indicators

Net exports remained the main contributor to growth throughout the first three quarters of 2012…

Contributions to Real GDP Growth

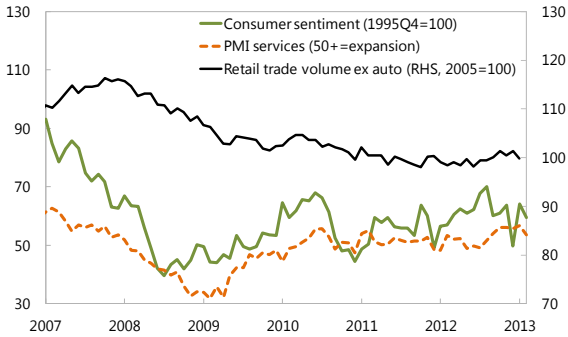
(Percent)



Sources: CSO; and IMF staff calculations.

…while retail sales continued to grow in the last quarter of 2012 and at the beginning of 2013.

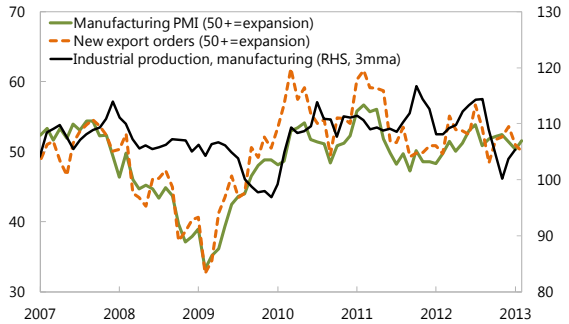
Retail Trade and Sentiment Indicators



Sources: CSO; NCB; ESRI; and Haver Analytics.

Industrial production recovered some of the patent-cliff-related losses while new export orders remain in the expansion territory.

Export Indicators and Industrial Production

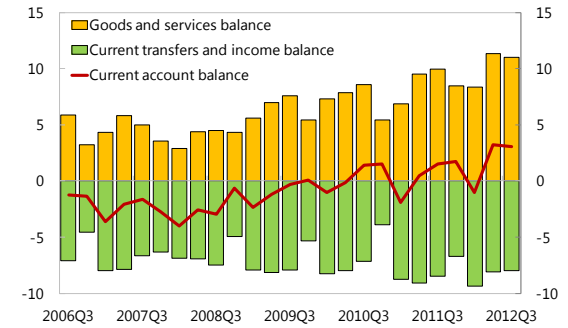


Sources: CSO; NCB; and Haver Analytics.

The current account remained in surplus in the first three quarters of 2012 as strong net exports outweighed income outflows.

Current Account Balance Composition

(Billions of euros)

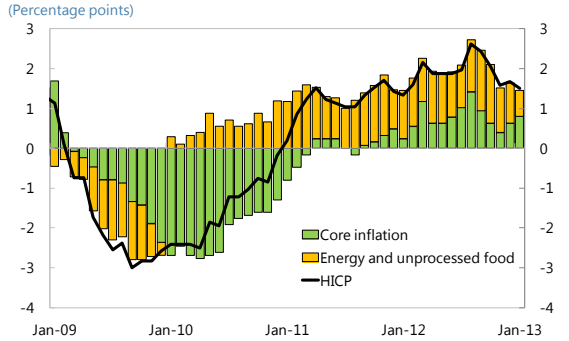


Sources: CSO; and Haver Analytics.

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

Contribution to Annual HICP Inflation

(Percentage points)

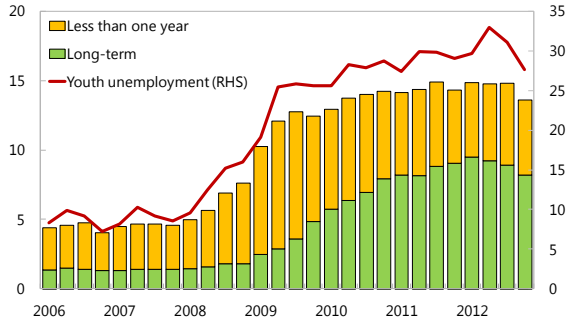


Sources: CSO; and IMF staff calculations.

Unemployment remained close to 15 percent, with over 60 percent long-term and youth unemployment still above 30 percent.

Unemployment Rates

(Percent)

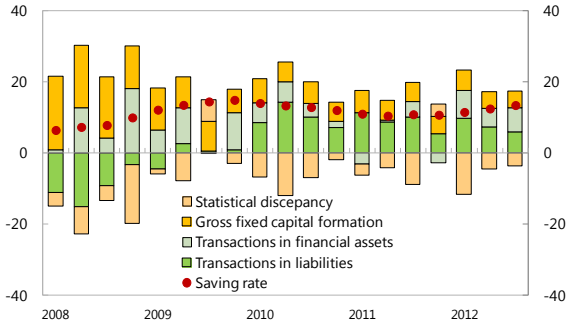


Sources: CSO; and Haver Analytics.

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

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

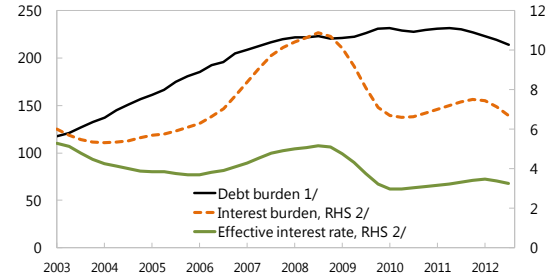
Decomposition of Household Savings
(Percent of Gross Disposable Income)



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

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

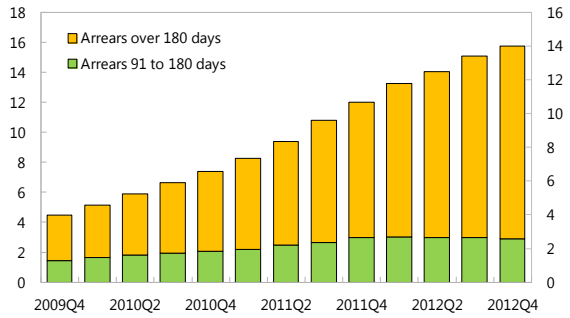
Household Debt and Interest Payments
(Percent of disposable income)



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

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

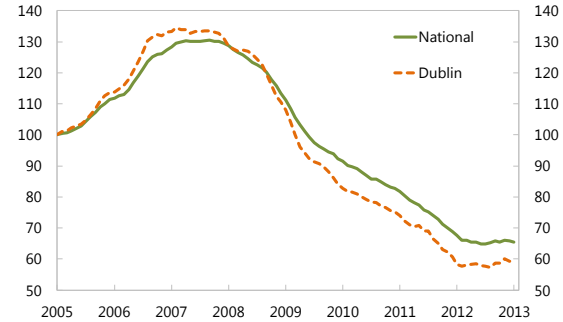
Mortgages in Arrears
(Percent of total mortgage value)



Source: Central Bank of Ireland.

... as the decline in property prices has come to a halt after prices halved from their peak levels...

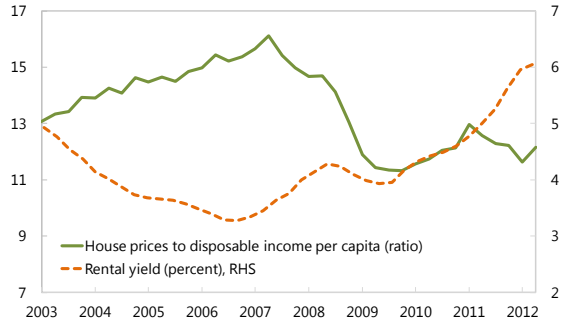
Residential Property Prices
(2005M1=100)



Sources: CSO; and Haver Analytics.

...which has brought rental yields and the house price-to-income ratio toward more normal levels.

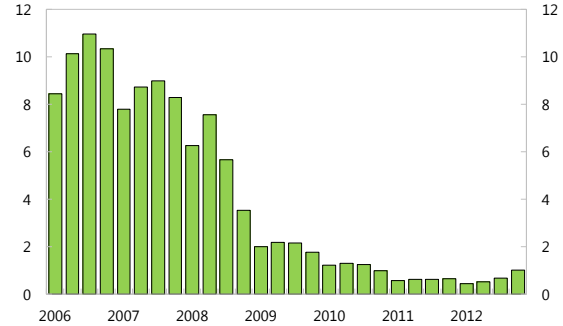
Indicators of Housing Valuation Levels



Sources: CSO; ESRI; NTMA; and Haver Analytics.

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

Loans for House Purchases
(Billions of euros)

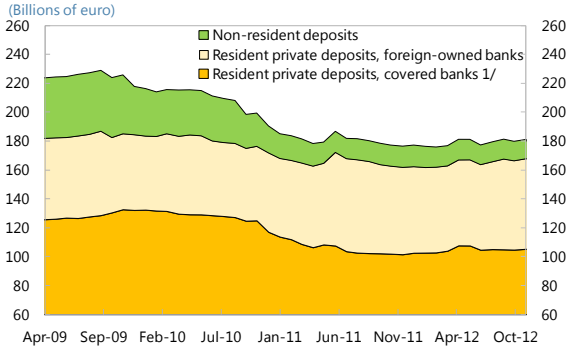


Source: Irish Banking Federation/PWC.

Figure 4. Ireland: Credit Developments, 2006–12

The level of private sector deposits has stabilized…

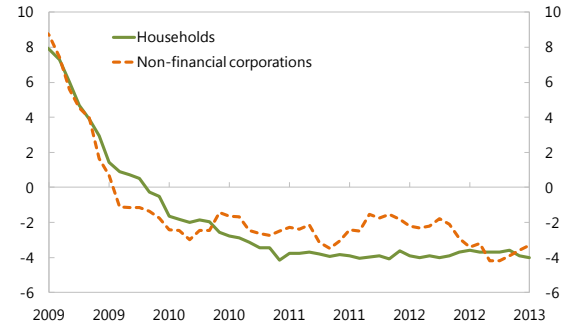
Bank Deposits
(Billions of euro)



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

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

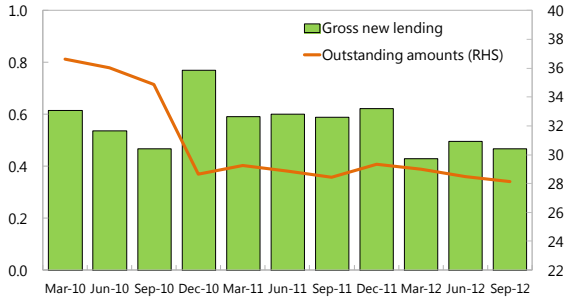
Loans Outstanding to Irish Residents
(Year-on-year percentage change)



Source: Central Bank of Ireland.

Total SME credit remains low and credit outstanding flat…

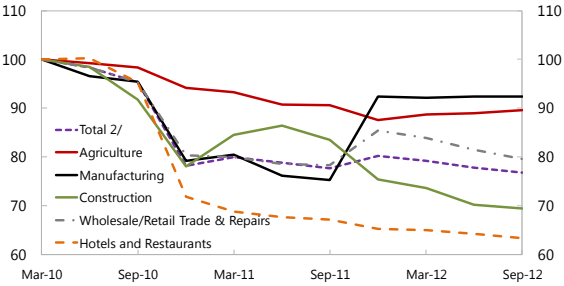
Outstanding SME Credit 1/
(Billions of euros)



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

…with continued declines in construction and hotels & restaurants, and some rise in agriculture.

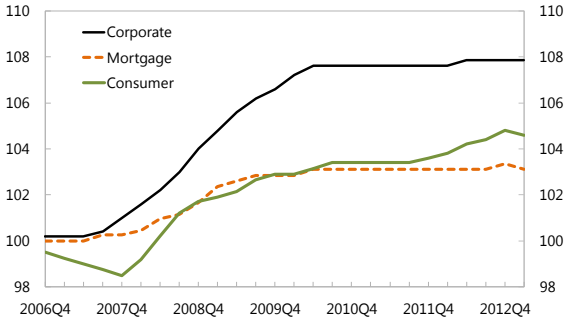
Outstanding SME Credit by Sector 1/
(2010Q1=100)



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

Credit standards keep tightening for consumer loans…

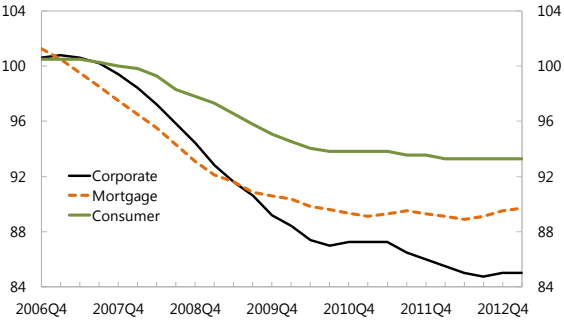
Changes in Credit Standards
(2006Q1=100, + = tightening)



Source: Central Bank of Ireland.

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

Changes in Credit Demand
(2006Q1=100)

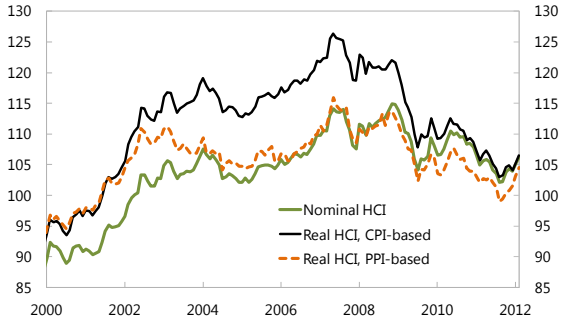


Source: Central Bank of Ireland.

Figure 5. Ireland: Competitiveness Indicators

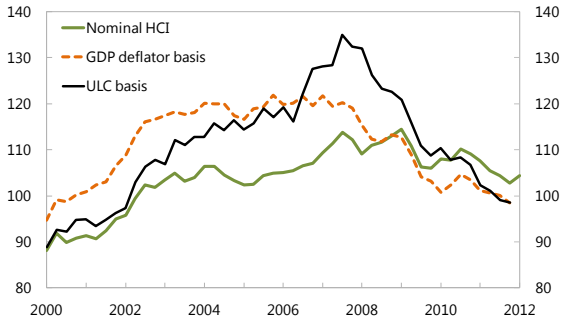
Appreciation of the euro in the last quarter of 2012 slowed the improvement in competitiveness indicators.

Harmonized Competitiveness Indicators (Monthly)
(1999Q1=100)



Sources: CBI; and Haver Analytics.

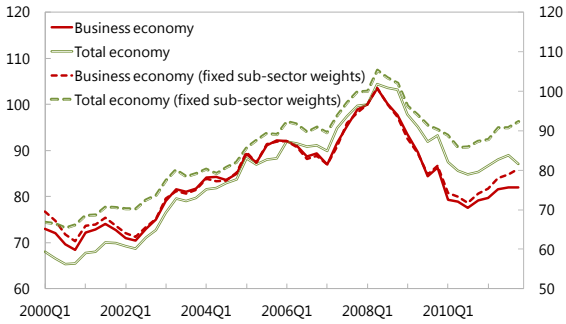
Harmonized Competitiveness Indicators (Quarterly)
(1999Q1=100)



Sources: CBI; and Haver Analytics.

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

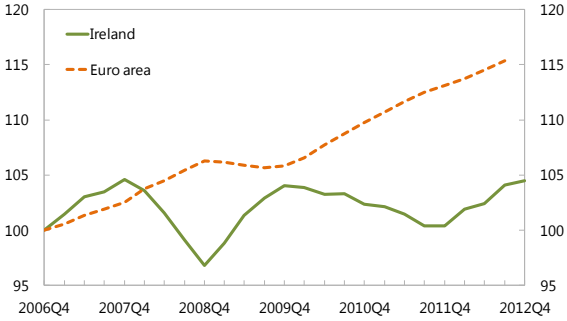
Real Effective Exchange Rates on a ULC Basis
(2008Q1=100)



Source: Bruegel.

Private wages have risen in 2012, yet have been broadly flat compared with steady rises in the euro area…

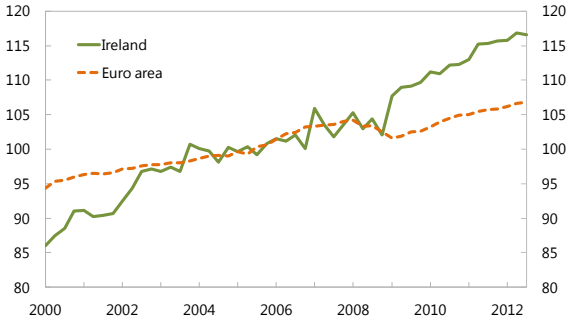
Hourly Labor Costs in Manufacturing
(2006=100; 4-quarter moving average)



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

…while labor productivity continues to outpace the euro area

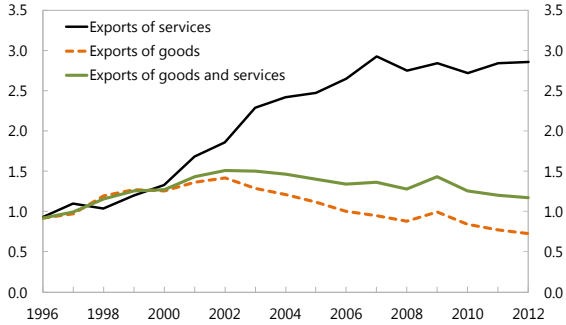
Real Labor Productivity
(2005=100, SA)



Source: Eurostat.

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

Export Shares
(Percent of world non-oil imports)

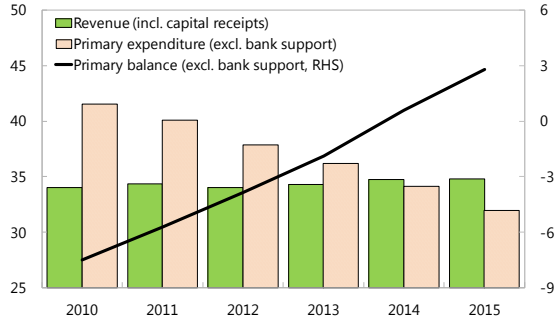


Sources: IMF WEO; and IMF staff calculations and projections.

Figure 6. Ireland: Selected Trends in General Government Finances

Of a 10 percent of GDP primary balance improvement (2010–15) almost two-fifths was achieved by 2012.

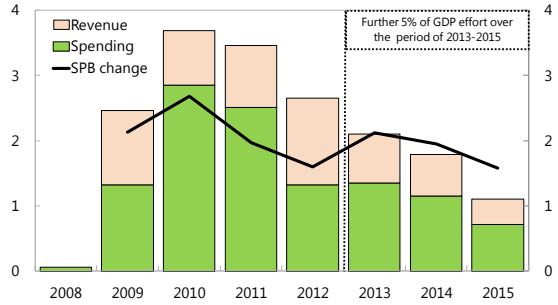
Revenues, Primary Expenditure and Balance
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

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

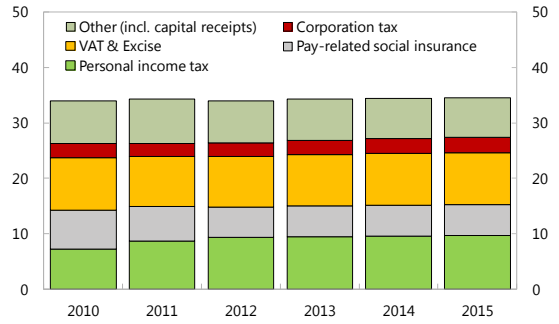
Composition of Fiscal Consolidation
(Percent of GDP)



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

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

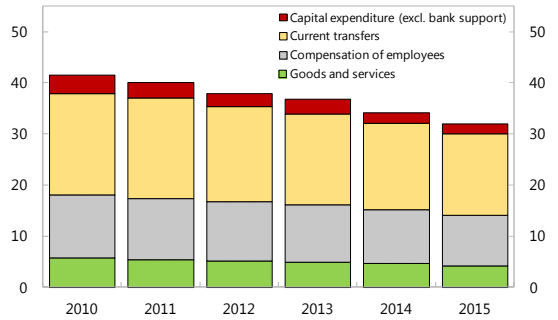
Revenue Composition
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

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

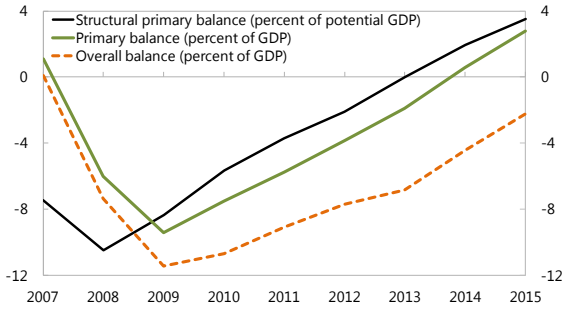
Primary Expenditure Components
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

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

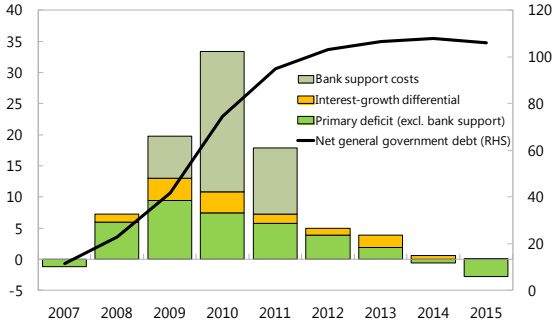
Headline, Primary and Structural Balance 1/
(Percent of GDP)



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

It will take time to unwind the increase in net debt, three fifths of which arose from bank support costs.

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



Sources: Department of Finance; and IMF staff estimates.

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

(Annual percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013	2014
						Proj	
National accounts (constant prices)							
Real GDP	-2.1	-5.5	-0.8	1.4	0.7	1.1	2.2
Domestic demand	-3.7	-11.0	-4.2	-3.7	-2.2	-1.0	0.9
Private consumption	-0.1	-5.4	1.0	-2.4	-1.8	-0.5	1.2
Public consumption	0.6	-4.4	-6.5	-4.3	-4.0	-2.5	-1.5
Gross fixed investment	-10.0	-27.6	-22.6	-12.6	-2.0	-1.5	3.0
Net exports 1/	1.4	4.5	3.0	5.4	2.4	1.8	1.6
Exports of goods and services	-1.1	-3.8	6.2	5.1	2.6	3.0	4.0
Imports of goods and services	-3.0	-9.7	3.6	-0.3	0.4	1.7	3.5
Real GNP	-1.8	-8.1	0.9	-2.5	0.7	0.1	1.5
Gross national saving (in percent of GDP)	16.3	13.5	13.1	11.3	12.8	13.2	14.0
Private	18.2	21.2	20.3	17.7	18.8	18.5	16.9
Public 2/	-1.9	-7.7	-7.2	-6.5	-6.0	-5.3	-2.9
Gross investment (in percent of GDP)	22.0	15.9	12.0	10.1	9.9	9.8	9.9
Private	16.5	12.1	8.5	7.5	8.2	8.2	8.4
Public	5.5	3.8	3.5	2.6	1.8	1.6	1.5
Prices, wages and employment (annual average)							
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.2	1.9	1.3	1.3
Average wage, whole economy	3.5	0.0	-1.9	-0.5	0.6	0.9	1.2
Employment	-0.7	-7.8	-4.0	-1.8	-0.6	0.1	0.9
Unemployment rate (in percent)	6.4	12.0	13.9	14.6	14.7	14.6	14.1
Money and credit (end-period) 3/							
Irish resident private sector credit 4/	8.8	-1.5	-3.4	-2.9	-3.8	...	...
Financial and asset markets (end-period) 3/							
Three-month interbank rate	2.9	0.7	1.0	1.4	0.2	...	...
Government bond yield (in percent, 10-year) 5/	4.4	4.9	9.2	8.5	4.5	4.3	…
Annual change in ISEQ index (in percent)	-33.8	-23.4	13.2	3.0	17.1	17.9	…
House prices	-5.9	-18.3	-13.1	-13.2	-4.5	...	...
Public finance (in percent of GDP)							
General government balance (excl. bank support) 6/	-7.4	-11.5	-10.7	-9.1	-7.7	-6.8	-4.4
Primary balance (excl. bank support)	-6.0	-9.4	-7.5	-5.7	-3.8	-1.9	0.6
General government gross debt	44.5	64.9	92.2	106.5	117.9	122.5	120.7
General government net debt	23.0	41.8	74.5	94.9	103.1	106.6	108.0
External trade and balance of payments (percent of GDP)							
Balance of goods and services	9.0	15.9	18.6	21.9	24.3	25.8	26.8
Balance of income and current transfers	-14.7	-18.2	-17.5	-20.8	-21.4	-22.4	-22.8
Current account	-5.7	-2.3	1.1	1.1	2.9	3.4	4.0
Effective exchange rates (1999:Q1=100, average) 3/							
Nominal	111.6	112.5	107.8	108.6	105.1	...	...
Real (CPI based)	123.1	121.0	111.6	110.2	104.9	...	...
Memorandum items:							
Population (in millions)	4.5	4.5	4.6	4.6	4.6	4.6	4.6
GDP per capita (in euros)	39,884	35,575	34,356	34,753	35,524	36,135	37,228
GDP (in billions of euros)	178.9	161.3	156.5	159.0	162.9	166.7	172.8

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

1/ Contribution to growth.
2/ Excludes bank restructuring costs.
3/ 2013 column refers to the end-January information.
4/ Adjusted growth rate of credit to households and non-financial corporations.
5/ Since mid-2012, 8 year government bond yield is shown as no 10 year benchmark exists.
6/ General government balance per ESA95 definition.

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

(Annual percentage change, unless indicated otherwise)

	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017	2018
				8th Rev.				Proj.			
Real GDP	-5.5	-0.8	1.4	0.4	0.7	1.1	2.2	2.7	2.7	2.7	2.7
Domestic demand	-11.0	-4.2	-3.7	-2.9	-2.2	-1.0	0.9	1.8	2.1	2.2	2.5
Final domestic demand	-10.2	-4.9	-4.3	-2.7	-2.3	-1.0	0.9	1.8	2.1	2.2	2.5
Private consumption	-5.4	1.0	-2.4	-2.1	-1.8	-0.5	1.2	1.6	1.7	1.8	1.9
Public consumption	-4.4	-6.5	-4.3	-4.0	-4.0	-2.5	-1.3	-0.5	0.0	0.0	0.5
Gross fixed investment	-27.6	-22.6	-12.6	-4.0	-2.0	-1.5	3.0	6.0	6.5	6.5	7.0
Change in stocks 1/	-0.7	0.6	0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	4.5	3.0	5.4	2.7	2.4	1.8	1.6	1.4	1.2	1.2	1.0
Exports of goods and services	-3.8	6.2	5.1	2.8	2.6	3.0	4.0	4.2	4.4	4.5	4.5
Imports of goods and services	-9.7	3.6	-0.3	0.3	0.4	1.7	3.5	3.9	4.4	4.6	4.9
Real GNP	-8.1	0.9	-2.5	-0.5	0.7	0.1	1.5	2.2	2.2	2.2	2.2
Current account 2/	-2.3	1.1	1.1	2.3	2.9	3.4	4.0	4.1	4.1	4.1	4.1
Gross national saving 2/	13.5	13.1	11.3	11.7	12.8	13.2	14.0	14.3	14.6	15.0	15.1
Private	21.2	20.3	17.7	18.2	18.8	18.5	16.9	15.1	14.7	14.6	14.2
Public	-7.7	-7.2	-6.5	-6.5	-6.0	-5.3	-2.9	-0.8	-0.1	0.4	0.9
Gross investment 2/	15.9	12.0	10.1	9.9	9.9	9.8	9.9	10.2	10.5	11.0	11.0
Private	12.1	8.5	7.5	8.0	8.2	8.2	8.4	8.8	9.2	9.6	9.6
Public	3.8	3.5	2.6	1.9	1.8	1.6	1.5	1.4	1.4	1.4	1.5
Prices											
Harmonized index of consumer prices	-1.7	-1.6	1.2	2.0	1.9	1.3	1.3	1.6	1.8	1.8	1.8
GDP deflator	-4.6	-2.2	0.2	1.6	1.8	1.3	1.4	1.6	1.6	1.7	1.7
Average wage, whole economy	0.0	-1.9	-0.5	0.5	0.6	0.9	1.2	1.6	1.9	2.0	2.1
Labor market											
Employment	-7.8	-4.0	-1.8	-1.2	-0.6	0.1	0.9	1.9	2.0	2.1	2.0
Unemployment rate (in percent)	12.0	13.9	14.6	14.8	14.7	14.6	14.1	13.3	12.4	11.5	10.8
Public finance											
General government balance 2/ 3/	-11.5	-10.7	-9.1	-8.3	-7.7	-6.8	-4.4	-2.2	-1.5	-1.0	-0.6
General government gross debt 2/	64.9	92.2	106.5	118.3	117.9	122.5	120.7	116.9	113.8	110.0	106.2
General government net debt 2/	41.8	74.5	94.9	103.7	103.1	106.6	108.0	106.0	103.3	99.8	96.4
Output gap	-2.5	-3.3	-2.1	-2.1	-1.9	-1.8	-1.1	-0.3	0.2	0.3	0.3
Nominal GDP (in billions of euros)	161.3	156.5	159.0	162.3	162.9	166.7	172.8	180.3	188.2	196.5	205.2

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

1/ Contributions to growth.

2/ In percent of GDP, excludes bank restructuring costs.

3/ General government balance per ESA95 definition.

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

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

				Projections 1/						
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	54.5	53.3	54.6	55.4	57.2	60.0	62.7	65.1	67.6	70.8
Taxes	35.9	34.8	37.6	39.8	41.6	44.3	46.5	49.0	51.3	54.1
Personal income tax	11.8	11.3	13.8	15.2	15.7	16.7	17.8	18.9	19.9	21.2
Corporate income tax	3.9	3.9	3.8	4.0	4.3	4.6	5.0	5.4	5.7	6.1
Value-added tax	10.7	10.1	9.7	10.2	10.2	10.9	11.4	11.9	12.4	12.9
Excise tax	4.7	4.7	4.7	4.7	5.2	5.4	5.6	5.9	6.1	6.4
Other 2/	4.8	4.9	5.6	5.7	6.2	6.8	6.7	7.0	7.2	7.5
Social contributions 3/	11.6	11.1	9.9	9.0	9.3	9.8	10.1	10.4	10.8	11.2
Other revenue 4/	7.0	7.3	7.1	6.7	6.2	5.9	6.1	5.7	5.5	5.6
Expenditure (excl. fin. sector support)	72.9	70.0	69.1	68.0	68.5	67.7	66.8	67.9	69.6	72.0
Expense (excl. fin. sector support)	66.9	64.6	64.9	65.1	66.0	65.1	64.2	65.3	66.8	69.0
Compensation of employees	20.6	19.2	19.1	18.8	18.7	18.3	17.8	18.2	18.7	19.4
Use of goods and services	10.0	9.0	8.6	8.4	8.1	7.9	7.5	7.7	7.9	8.1
Interest	3.3	5.0	5.3	6.3	8.2	8.7	9.1	9.0	9.2	9.4
Subsidies	0.9	0.9	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.6
Social benefits 3/	27.2	27.1	27.6	26.9	26.3	25.7	25.4	25.8	26.1	26.8
Other expense (excl. fin. sector support)	4.9	3.4	3.7	4.3	4.1	4.0	4.0	4.1	4.3	4.5
Net acquisition of nonfinancial assets	6.1	5.4	4.1	2.8	2.6	2.6	2.6	2.6	2.8	3.0
Financial sector support costs	4.0	31.6	6.8	0.1	1.1	0.1	0	0	0	0
Primary balance (excl. fin. sector support)	-15.2	-11.7	-9.1	-6.3	-3.2	1.0	5.1	6.3	7.3	8.3
Net lending/borrowing (excl. fin. sector support)	-18.5	-16.7	-14.5	-12.6	-11.4	-7.7	-4.1	-2.8	-1.9	-1.1
Net lending/borrowing (incl. fin. sector support)	-22.5	-48.3	-21.3	-12.7	-12.5	-7.8	-4.1	-2.8	-1.9	-1.1
Memorandum items (in percent of GDP, unless indicated otherwise)										
Revenue	33.8	34.0	34.4	34.0	34.3	34.7	34.8	34.6	34.4	34.5
Taxes and social contributions 3/	29.5	29.4	29.9	29.9	30.5	31.3	31.4	31.6	31.6	31.8
Other revenue 4/	4.3	4.7	4.5	4.1	3.7	3.4	3.4	3.0	2.8	2.7
Expenditure (excl. fin. sector support)	45.2	44.7	43.5	41.7	41.1	39.2	37.0	36.1	35.4	35.1
Current primary (excl. fin. sector support)	39.4	38.1	37.5	36.1	34.6	32.6	30.5	29.9	29.3	29.0
Interest	2.0	3.2	3.3	3.9	4.9	5.0	5.0	4.8	4.7	4.6
Net acquisition of nonfinancial assets	3.8	3.5	2.6	1.7	1.6	1.5	1.4	1.4	1.4	1.5
Net lending/borrowing	-11.5	-10.7	-9.1	-7.7	-6.8	-4.4	-2.2	-1.5	-1.0	-0.6
Including financial sector support	-13.9	-30.9	-13.4	-7.8	-7.5	-4.5	-2.3	-1.5	-1.0	-0.6
Primary balance	-9.4	-7.5	-5.7	-3.8	-1.9	0.6	2.8	3.3	3.7	4.0
Including financial sector support	-11.9	-27.7	-10.0	-3.9	-2.6	0.5	2.8	3.3	3.7	4.0
Structural balance	-10.6	-9.1	-7.1	-6.0	-4.9	-3.1	-1.5	-1.3	-1.1	-1.0
Structural primary balance 5/	-8.4	-5.7	-3.7	-2.1	0.0	2.0	3.5	3.6	3.6	3.6
General government gross debt	64.9	92.2	106.5	117.9	122.5	120.7	116.9	113.8	110.0	106.2
General government net debt	41.8	74.5	94.9	103.1	106.6	108.0	106.0	103.3	99.8	96.4
Output gap (percent of potential GDP)	-2.5	-3.3	-2.1	-1.9	-1.8	-1.1	-0.3	0.2	0.3	0.3
Nominal GDP (in billions of euros)	161.3	156.5	159.0	162.9	166.7	172.8	180.3	188.2	196.5	205.2

Sources: Department of Finance; IMF and staff estimates.

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

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

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

4/ These include bank-related revenues, customs duties, unallocated tax receipts, training and employment levy, trading, rental and investment incomes, and transfers from the rest of the world (not elsewhere included).

5/ In percent of nominal potential GDP.

Table 4. Ireland: Indicators of External and Financial Vulnerability, 2008–12

	2008	2009	2010	2011	2012 7/
External indicators					
Exports (annual percent change, value in euros)	-1.4	-2.5	7.8	5.7	5.8
Imports (annual percent change, value in euros)	-1.1	-10.1	6.6	2.8	3.8
Terms of trade (goods, annual percent change)	-2.3	1.7	-1.2	-2.9	-0.1
Current account balance (in percent of GDP)	-5.7	-2.3	1.1	1.1	2.9
Capital and financial account balance (in percent of GDP)	9.0	-1.4	4.2	-18.0	-12.7
Of which:					
Inward portfolio investment	-10.2	13.8	48.3	19.2	2.2
Inward foreign direct investment	-6.3	11.5	20.7	5.2	3.5
Other investment liabilities	86.0	-53.6	-39.6	-52.0	-43.0
U.S. dollar per euro (period average)	1.47	1.39	1.33	1.39	1.29
U.K. pound per euro (period average)	0.79	0.89	0.86	0.87	0.81
Financial markets indicators					
General government debt (in percent of GDP)	44.5	64.9	92.2	106.5	117.9
Government bond yield (in percent, 10-year, end-period) 1/	4.4	4.9	9.2	8.5	4.5
Spread of government bond yield with Germany (in percent, end of period)	1.2	1.3	6.3	5.5	3.2
Real government bond yield (in percent, 10-year, period average, based on HICP)	1.4	6.9	7.6	8.4	3.0
Annual change in ISEQ index (in percent, end of period)	-33.8	-23.4	13.2	3.0	17.1
Personal lending interest rate (in percent)	11.9	11.1	11.4	11.6	11.6
Standard variable mortgage interest rate (in percent)	4.8	3.3	4.0	4.2	4.3
Financial sector risk indicators					
Annual credit growth rates (to Irish resident private sector, in percent) 2/	8.8	-1.5	-3.4	-2.9	-3.8
Personal lending as a share of total Irish resident credit (in percent)	35.2	35.6	35.8	30.0	30.6
Of which:					
House mortgage finance	29.0	30.1	30.6	25.4	26.2
Other housing finance	0.3	0.2	0.3	0.3	0.3
Other personal lending	5.9	5.3	5.2	4.6	4.4
Irish resident household mortgage debt annual growth rates (in percent) 3/	-7.1	-3.9	-9.0	-19.3	-19.0
Foreign-currency denominated assets (in percent of total assets)	31.7	34.3	30.3	29.4	29.9
Foreign-currency denominated liabilities (in percent of total liabilities)	35.5	31.1	25.8	26.3	26.7
Non-performing loans (in percent of total loans) 4/	2.6	9.0	8.6	9.1	10.7
Total provisions for loan losses (in percent of total loans)	1.2	4.0	4.2	4.8	5.7
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.6	10.9	10.4	17.5	17.0
Bank return on assets (before tax, in percent)	-0.3	-1.6	-3.1	-0.9	…
Bank return on equity (before tax, in percent)	-8.0	-40.6	-67.6	-18.2	…
Deposits to M3 ratio 5/	1.4	1.4	1.5	1.2	1.4
Loan-to-deposit ratio vis-à-vis Irish residents 6/	2.2	2.1	2.1	2.1	2.0
vis-à-vis total 6/	2.2	2.2	2.1	2.1	1.9
Concentration ratios in the banking sector					
No. of banks accounting for 25 percent of total assets	2	2	2	2	2
No. of banks accounting for 75 percent of total assets	14	13	13	14	14
Share of state-owned banks in total assets (in percent)	0.0	6.0	8.0	18	19
Share of foreign-owned banks in total assets (in percent)	62.0	65.0	66.0	62	58

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

1/ Since mid-2012, 8 year government bond yield is shown as no 10 year benchmark exists.

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

3/ Including securitisations.

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

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

6/ Nongovernment credit/nongovernment deposits ratio.

7/ For 2012, staff projections for macroeconomic variables and debt, end-September for banking sector indicators, and end-December for other financial market indicators. Financial sector indiators cover all credit institutions licensed in Ireland except for personal lending rate, which is calculated based on a sample of retail banks, and a mortgage interest rate, which is calculated excluding IFSC.

Table 5. Ireland: Summary of Balance of Payments, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Proj.				
					(In billions of euros)					
Current account balance	-3.8	1.8	1.8	4.7	5.6	7.0	7.4	7.7	8.0	8.4
Balance of goods and services	25.6	29.1	34.8	39.5	43.0	46.4	49.7	52.6	55.7	58.5
Trade balance	32.5	35.8	36.6	37.5	38.9	40.8	43.4	46.1	49.4	52.6
Exports of goods	77.6	82.6	84.9	86.6	88.8	92.0	96.2	100.6	105.9	111.2
Imports of goods	-45.2	-46.9	-48.3	-49.1	-50.0	-51.1	-52.8	-54.5	-56.5	-58.6
Services balance	-6.9	-6.6	-1.8	2.1	4.1	5.6	6.3	6.5	6.4	5.9
Credit	67.6	74.3	81.4	89.9	94.9	101.1	107.1	113.7	120.7	128.3
Debit	-74.5	-81.0	-83.3	-87.8	-90.8	-95.5	-100.8	-107.2	-114.3	-122.4
Income balance	-27.9	-25.9	-31.8	-33.6	-36.0	-38.0	-40.7	-43.2	-46.0	-48.1
Credit	55.1	57.1	55.9	56.3	56.0	57.3	58.8	60.6	62.4	65.2
Debit	-83.0	-83.0	-87.7	-89.9	-92.0	-95.3	-99.5	-103.8	-108.4	-113.2
Current transfers (net)	-1.4	-1.4	-1.2	-1.3	-1.3	-1.4	-1.6	-1.7	-1.7	-2.0
Capital and financial account balance	-2.3	6.6	-28.7	-20.7	-17.4	-7.0	-7.4	-7.7	-8.0	-8.4
Capital account balance	-1.3	-0.7	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Financial account	-1.1	7.3	-28.4	-20.6	-17.1	-6.7	-7.1	-7.4	-7.7	-8.1
Direct investment	-0.6	15.4	11.3	8.9	8.7	8.5	8.6	8.5	8.4	8.8
Portfolio investment	22.6	86.0	27.5	1.0	-0.9	-2.5	-2.1	-2.5	-2.8	-3.1
Other investment	-23.1	-32.2	-67.6	-32.4	-23.7	-12.7	-14.1	-14.7	-14.5	-14.3
Change in reserve assets 1/	0.1	0.0	0.3	1.9	-1.2	0.0	0.6	1.3	1.2	0.5
Net errors and omissions	6.1	-8.4	-7.6	-5.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	34.5	21.3	11.8	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	34.5	21.3	11.8	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	12.6	6.4	3.5	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	21.9	14.8	8.3	0.0	0.0	0.0	0.0	0.0
					(In percent of GDP)					
Current account balance	-2.3	1.1	1.1	2.9	3.4	4.0	4.1	4.1	4.1	4.1
Balance of goods and services	15.9	18.6	21.9	24.3	25.8	26.8	27.6	28.0	28.4	28.5
Trade balance	20.1	22.8	23.0	23.0	23.3	23.6	24.1	24.5	25.1	25.6
Services balance	-4.3	-4.2	-1.1	1.3	2.5	3.2	3.5	3.5	3.2	2.9
Income balance	-17.3	-16.6	-20.0	-20.6	-21.6	-22.0	-22.6	-23.0	-23.4	-23.4
Current transfers (net)	-0.9	-0.9	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0
Capital and financial account balance	-1.4	4.2	-18.0	-12.7	-10.4	-4.0	-4.1	-4.1	-4.1	-4.1
Of which:										
Direct investment	-0.4	9.9	7.1	5.5	5.2	4.9	4.8	4.5	4.3	4.3
Portfolio investment	14.0	54.9	17.3	0.6	-0.6	-1.4	-1.2	-1.3	-1.4	-1.5
Other investment	-14.3	-20.5	-42.5	-19.9	-14.2	-7.3	-7.8	-7.8	-7.4	-6.9
Change in reserve assets 1/	0.0	0.0	0.2	1.2	-0.7	0.0	0.3	0.7	0.6	0.2
Net errors and omissions	3.8	-5.4	-4.8	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	21.7	13.1	7.1	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	21.7	13.1	7.1	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	7.9	4.0	2.1	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	13.8	9.1	5.0	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff estimates.
1/ Includes financing need to build reserves for bank support.

Table 6. Ireland: Monetary Survey, 2008–12

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

	Dec-08	Dec-09	Dec-10	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Jan-13
Aggregate balance sheet of domestic market credit institutions									
Assets	801	798	742	634	610	606	567	546	541
Claims on Central Bank of Ireland	9	12	8	4	5	6	7	2	2
Claims on Irish resident Other MFIs	125	129	123	92	86	81	55	53	52
Claims on Irish resident non MFIs	374	363	357	338	337	333	330	325	323
General government	3	9	43	42	44	45	47	47	48
Private sector	371	354	314	296	293	287	284	278	274
Households	144	139	129	109	108	108	106	111	110
Non-Financial Corporations	163	144	90	85	85	84	84	82	81
Non-Bank Financial Intermediaries	64	71	95	101	100	96	94	85	83
Claims on non-residents	250	241	206	147	139	140	129	119	115
Other assets	44	54	47	52	44	46	46	47	48
Liabilities	801	798	742	634	610	606	567	546	541
Liabilities to Eurosystem 1/	45	58	95	72	75	78	70	59	56
Liabilities to Irish resident Other MFIs	126	131	132	99	92	87	60	59	58
Deposits of Irish resident non MFIs	170	180	161	144	145	145	146	151	151
General government	3	3	3	2	2	3	3	6	6
Private sector	167	176	157	141	142	143	143	145	145
Households	85	99	94	91	91	91	92	92	92
Non-Financial Corporations	41	39	31	28	27	27	27	28	28
Non-Bank Financial Intermediaries	40	38	32	23	24	24	25	25	26
Deposits of non-residents	271	229	137	98	91	90	83	75	76
Debt securities	100	98	64	52	44	41	39	38	37
Capital and reserves	41	53	71	91	93	97	97	98	99
Other liabilities (incl. Central Bank of Ireland)	48	50	83	78	70	69	71	66	65
Money and credit 2/									
Net foreign assets	-345	-421	-480	-340	-34	-23	-15	…	…
Central Bank of Ireland 3/	-24	-37	-128	-101	-76	-77	-67	…	…
Commercial banks	-321	-384	-352	-239	42	54	52	48	44
Net domestic assets	539	629	652	509	203	191	185	…	…
Public sector credit	3	10	43	43	44	46	47	48	49
Private sector credit	394	375	335	324	319	313	309	302	298
Other	142	244	274	143	-160	-167	-171	…	…
Irish Resident Broad money (M3) 4/	194	208	173	169	169	168	170	170	171
Irish Resident Intermediate money (M2) 4/	176	188	173	167	167	166	168	168	169
Irish Resident Narrow money (M1)	78	100	97	90	89	89	90	92	92
	(percent of GDP)								
Public sector credit 5/	1.4	5.3	27.6	27.0	27.9	28.4	29.0	29.4	30.2
Private sector credit 5/	206.1	220.4	201.5	189.1	185.9	180.1	176.8	172.9	170.9
	(y-o-y percentage change)								
Broad money - Irish contribution to euro area M3 6/	-0.4	-6.6	-19.6	1.3	-3.4	-10.3	-7.5	-7.3	-7.2
Irish Public sector credit 6/ 7/	101.8	176.9	369.4	1.5	11.0	15.3	8.5	8.5	7.9
Irish Household and non-financial corporations credit 6/ /7	8.8	-1.5	-3.4	-2.9	-3.2	-3.4	-4.0	-4.0	-3.9
Memorandum items: 8/									
Credit to deposits (in percent) 9/	222.8	200.8	200.0	209.2	205.5	201.5	197.9	191.7	189.2
Deposits from Irish Private Sector (y-o-y percent change)	1.1	2.1	-9.8	-9.2	-5.6	-2.7	0.7	2.4	2.9
Wholesale funding (billions of euros)	440	423	315	234	213	203	168	157	157
Deposits from MFIs	339	325	251	182	169	163	129	120	120
Debt securities	100	98	64	52	44	41	39	38	37
Wholesale funding (y-o-y percent change) 10/	14.9	0.1	-21.9	-27.1	-25.3	-19.5	-33.7	-33.0	-29.0
Wholesale funding (percent of assets) 10/	54.8	53.0	44.8	36.8	34.9	33.5	29.7	28.9	29.1

Sources: Central Bank or Ireland and staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Service Centre.
3/ Sourced from quarterly IIP statistics.
4/ Differs from the M3 (M2) Irish contribution to euro area as only liabilities vis-a-vis Irish residents are used.
5/ Refers to credit advanced by domestic market credit institutions.
6/ Includes IFSC.
7/ Growth rates adjusted for valuation, reclassification, derecognition/loan transfer to non-MFIs, and exchange rates.
8/ Excludes IFSC.
9/ Domestic market credit institutions' private sector credit to deposits.
10/ Includes resident and non-resident MFI deposits, and debt securities issued.

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

(In billions of euros)

	2008	2009	2010	2011	Proj. 2012	Proj. 2013
Gross borrowing need	**15.9**	**63.4**	**71.4**	**45.3**	**29.8**	**25.4**
Exchequer cash deficit 1/	12.7	24.6	18.7	19.1	17.1	14.0
Amortization	3.1	27.7	17.3	9.7	11.1	12.3
Medium-and long-term	0.1	5.1	1.2	4.8	6.8	5.1
Short-term 2/	3.0	22.6	16.2	4.9	4.4	7.2
Official creditors	0.0	0.0	0.0	0.0	0.0	0.0
European Union	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0
Bank recapitalization	0.0	11.0	35.3	16.5	1.6	-1.0
Gross financing sources 3/	**15.9**	**63.4**	**71.4**	**10.8**	**8.5**	**13.6**
Market financing (incl. retail) 4/	34.9	53.3	23.2	1.4	10.1	15.8
Net retail funding	1.3	1.8	3.4	1.4	1.3	0.6
Other market financing	33.6	51.6	19.8	0.0	8.8	15.2
Medium-and long-term	11.0	35.4	14.9	0.0	5.8	8.0
Short-term	22.6	16.2	4.9	0.0	3.0	7.2
Promissory notes	0.0	0.0	30.9	0.0	0.0	0.0
Bond placement for Promissory notes 5/				…	3.5	…
Cash drawdowns	-19.0	10.0	17.3	9.4	-5.2	-2.2
Financing gap	**0.0**	**0.0**	**0.0**	**34.5**	**21.3**	**11.8**
EFSM/EFSF	0.0	0.0	0.0	21.5	12.3	6.4
Bilateral EU	0.0	0.0	0.0	0.5	2.5	1.9
IMF	0.0	0.0	0.0	12.6	6.4	3.5
Memorandum items						
Exchequer cash balance 6/	22.0	21.8	12.3	12.9	18.1	20.2
General government debt 7/	79.6	104.6	144.2	169.3	191.6	204.3
Official creditors	0.0	0.0	0.0	34.5	56.0	67.4
European Union	0.0	0.0	0.0	21.9	37.1	44.9
IMF	0.0	0.0	0.0	12.6	18.9	22.5
Other	79.6	104.6	144.2	134.8	135.6	136.8
Treasury bills, bonds and retail	72.0	96.3	110.4	101.6	104.0	132.5
Promissory notes	0.0	0.0	30.9	28.3	25.3	0.2
Other	7.6	8.4	3.0	4.9	6.4	4.1
General government debt (in percent of GDP) 7/	44.5	64.9	92.2	106.5	117.6	122.5
Official creditors	0.0	0.0	0.0	21.7	34.4	40.5
European Union	0.0	0.0	0.0	13.8	22.7	26.9
IMF	0.0	0.0	0.0	7.9	11.6	13.5
Other	44.5	64.9	92.2	84.8	83.3	82.1
Treasury bills, bonds and retail	40.2	59.7	70.5	63.9	63.9	79.5
Promissory notes	0.0	0.0	19.7	17.8	15.5	0.1
Other	4.3	5.2	1.9	3.1	3.9	2.5

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

1/ Includes allowance for amortization of Promissory notes and contingency for collateral on hedging transactions.

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

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

4/ Gross issuance including rollovers.

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

6/ Includes buffer from financing contingency.

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

Table 8. Ireland: Schedule of Reviews and Purchases

Review	Availability Date	Action	Purchase	
			SDRs	Percent of quota
	December 16, 2010	Board approval of arrangement	5,012,425,200	399
First and Second Reviews	May 16, 2011	Observance of end-March 2011 performance criteria, completion of First and Second Reviews	1,410,000,000	112
Third Review	August 15, 2011	Observance of end-June 2011 performance criteria, completion of Third Review	1,319,000,000	105
Fourth Review	December 14, 2011	Observance of end-September 2011 performance criteria, completion of Fourth Review	3,309,000,000	263
Fifth Review	February 15, 2012	Observance of end-December 2011 performance criteria, completion of Fifth Review	2,786,000,000	222
Sixth Review	June 13, 2012	Observance of end-March 2012 performance criteria, completion of Sixth Review	1,191,000,000	95
Seventh Review	September 5, 2012	Observance of end-June 2012 performance criteria, completion of Seventh Review	758,000,000	60
Eight Review	December 17, 2012	Observance of end-September 2012 performance criteria, completion of Eight Review	758,000,000	60
Ninth Review	March 15, 2013	Observance of end-December 2012 performance criteria, completion of Ninth Review	831,000,000	66
Tenth Review	June 15, 2013	Observance of end-March 2013 performance criteria, completion of Tenth Review	831,000,000	66
Eleventh Review	September 15, 2013	Observance of end-June 2013 performance criteria, completion of Eleventh Review	681,000,000	54
Twelth Review	November 15, 2013	Observance of end-September 2013 performance criteria, completion of Twelth Review	579,374,800	46
Total			19,465,800,000	1,548

Source: IMF staff projections.

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

(In millions of SDR)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund credit														
Disbursement	-	11,050	5,493	2,922	-	-	-	-	-	-	-	-	-	-
Stock 2/	-	11,050	16,543	19,466	19,466	18,931	16,757	13,862	10,617	7,373	4,129	1,420	349	-
Obligations	-	109	335	371	653	1,217	2,808	3,432	3,657	3,523	3,390	2,749	1,083	351
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349
Charges	-	109	335	371	653	682	635	536	413	279	146	40	12	3
Stock of Fund credit														
In percent of quota	-	879	1,315	1,548	1,548	1,505	1,332	1,102	844	586	328	113	28	-
In percent of GDP	-	7.9	12.1	13.5	13.1	12.3	10.5	8.3	6.1	4.1	2.2	0.7	0.2	-
In percent of exports of goods and services	-	7.5	11.2	12.3	11.7	10.9	9.2	7.2	5.3	3.5	1.9	0.6	0.1	-
Obligations to the Fund														
In percent of quota	-	9	27	30	52	97	223	273	291	280	270	219	86	28
In percent of GDP	-	0.1	0.2	0.3	0.4	0.8	1.8	2.1	2.1	2.0	1.8	1.4	0.5	0.2
In percent of exports of goods and services	-	0.1	0.2	0.2	0.4	0.7	1.5	1.8	1.8	1.7	1.6	1.2	0.5	0.1

Source: IMF staff estimates.

1/ Calculated based on existing credit and full disbursements of the prospective available amounts under the extended arrangement under the Extended Fund Facility.
2/ End of period.

Table 10. Ireland: PCAR Banks' Aggregated Summary Financial Statements, 2011–12

(In billions of euro, unless otherwise indicated)

Balance Sheet	2011	2012	Year/year change	
	EUR bn	EUR bn	EUR bn	%
Cash & due from Eurosystem	12.2	13.3	1.1	8.8
Net loans	220.1	197.6	-22.4	-10.2
Due from banks	14.2	13.1	-1.1	-7.8
Securities & derivatives	63.8	65.8	2.0	3.1
Other assets	16.1	11.4	-4.6	-28.9
Total assets	326.4	301.2	-25.1	-7.7
Total average assets (TAA) 1/	332.1	317.1	-14.9	-4.5
Due to Eurosystem	53.8	46.6	-7.2	-13.5
Due to banks	31.6	16.8	-14.8	-46.8
Deposits	148.9	158.8	9.8	6.6
Debt & derivatives	56.6	47.7	-8.9	-15.7
Other liabilities	7.1	7.9	0.7	10.0
Total liabilities	298.1	277.8	-20.3	-6.8
Net equity	28.2	23.4	-4.8	-17.0
Total liabilities & equity	326.4	301.2	-25.1	-7.7

Profit and Loss Account	2011		2012	
	EUR bn	% of TAA	EUR bn	% of TAA
Interest income	10.4	3.1	9.1	2.9
Interest expense 4/	-7.3	-2.2	-6.4	-2.0
Net interest margin	3.1	0.9	2.6	0.8
Net fee income	1.2	0.4	0.8	0.3
Net trading gains	0.9	0.3	-0.3	-0.1
Other nonrecurrent items	4.7	1.4	-0.8	-0.3
Gross operating income	9.9	3.0	2.4	0.8
Operating expenses	-3.2	-1.0	-4.2	-1.3
o/w: administration & other	-1.2	-0.4	-1.8	-0.6
o/w: staff	-1.9	-0.6	-2.4	-0.7
Preprovision profits (PPP)	6.8	2.0	-1.8	-0.6
Loan loss & NAMA provisions	-13.0	-3.9	-4.7	-1.5
Loss on derecognized assets	-0.9	-0.3	-0.2	-0.1
Net income before tax	-7.1	-2.1	-6.6	-2.1
Tax effects & other 3/	3.1	0.9	0.7	0.2
Net income	-4.0	-1.2	-5.9	-1.9

Memorandum items:

Gross loans 2/	240.8	223.8	-17.0	-7.0	PPP net of other nonrecurrent items	2.1	0.6	-1.0	-0.3
Loan loss provisions	23.5	26.8	3.3	14.0	Return on equity		-18.6		-22.9
Gross NPLs	47.2	55.6	8.4	17.8	Provisions to gross loans		4.9		2.0
Gross NPLs to gross loans (%)	19.6	24.8		5.2	Risk weighted assets (RWA)	166.8	50.2	145.0	45.7
Provisions to gross NPLs (%)	49.7	48.1		-1.6	Core tier 1 capital (CT1) and CT1 to RWA (%)	27.4	16.4	22.3	15.4
Net NPLs to net equity (%)	83.9	123.0		39.0	CT1 to total assets = leverage ratio (%)		8.4		7.4

Sources: CBI and IMF staff estimates.

1/ TAA denotes total average assets net of loan loss provisions over the reporting period for PCAR banks. PCAR banks are Bank of Ireland (BOI), Allied Irish Bank (AIB), and Permanent TSB (PTSB). In June 2011 Irish Nationwide was included in the data as a PCAR bank. No longer included it was merged with IBRC in July (this would reduce comparable total assets in June 2011 by €6.3 bn). EBS and AIB merged on July 2011 and are consolidated only since June 2012 with minimal accounting impact
2/ Includes loans held for sale, classified on balance sheet as other assets.
3/ Includes profits from discontinued operations of €1.6 billion and tax credits of €1.5 billion in 2011.
4/ Includes estimate of ELG fees paid: €1.1 billion in 2011, and € 0.9 billion in 2012.

ANNEX I. DEBT SUSTAINABILITY ANALYSIS

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

General Government Debt

The promissory note transaction has an initial small upward impact on Ireland's debt path, but is expected to contribute modestly to lower debt in the medium term. In 2013, the promissory note transaction (Box 1) could initially raise overall government debt due to higher interest expenses on a cash basis. But the lower fiscal deficit until Ireland reaches its medium term objective, by about 2020, cumulatively lowers overall general government debt by about 4 percentage points of GDP until 2021. The long average average maturity (34–35 years) of the bonds replacing the promissory note, which had an average maturity of 7–8 years, significantly reduces the government's rollover risks.

Under the baseline macroeconomic projection, the planned fiscal adjustment will put Ireland's debt ratio on a declining path from 2014. Ireland's primary deficit is projected to fall below its debt stabilizing threshold in 2014. Automatic debt dynamics arising from the interest rate-growth differential will add some 1½ percentage points per year to the debt ratio in 2013–14, before stronger growth takes hold from 2015. Subsequently, the impact of the interest rate-growth differential is negligible, with debt reductions driven by the primary surplus. Gross general government debt is projected to fall to around 95 percent of GDP by 2021.

Lower economic growth remains the principal risk to debt sustainability. If real GDP growth were to stagnate at ½ percent per year in the medium term, the automatic debt dynamics would add 3 percentage points of GDP each year on average over 2013–16. At this level, debt would be on an unsustainable path to 150 percent of GDP by 2021. In addition, stagnant growth may add to debt from higher bank restructuring costs.

Realization of contingent liabilities could also add to debt. The range of the government's explicit guarantees is narrowing as NAMA bonds are repaid and the ELG scheme is phased out. While liquidation of IBRC removes the need for the government to provide guarantees of ELA, this is offset by a rise in the stock of NAMA bonds—which are government guaranteed—as a result of NAMA's purchase of ex-IBRC loans from the CBI as part of IBRC's resolution. A realization of this contingent liability could occur later this year when NAMA is made whole for any shortfall between the price paid for these loans and their independently assessed value. As the owner of NAMA, which is resolving loan portfolios with heavy exposure to Irish and U.K. property markets, the government it is also exposed to losses in excess of its capital on NAMA's existing portfolio. Finally, the government is exposed to the potential for larger loan losses in the financial system, including the domestic banks, if their current capital buffers were exhausted. The potential realization of such contingent liabilities is sensitive to the scenario, but drawing on the difference between loan loss projections between the base and stress scenario in PCAR 2011,

and taking into account the broad sensitivity of NAMA recoveries to property prices, allowing for an overall impact on the order of 10 percent of GDP appears reasonable in a downside scenario.

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

Senior NAMA bonds	17.1
Other Bank Liabilities covered by Eligible Liability Scheme	11.4
Total	**28.5**

Source: Irish authorities and IMF staff calculations

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

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

External Debt

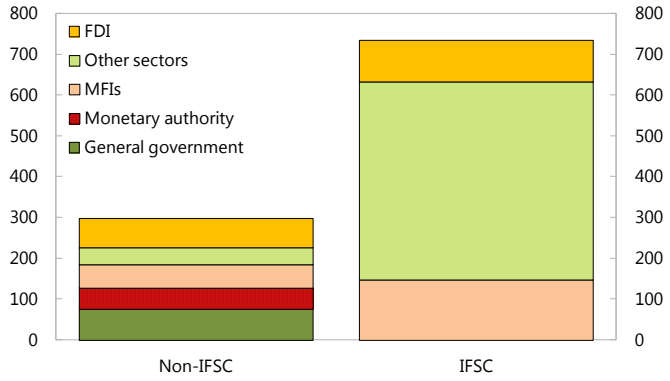
The external debt of the non-IFSC sector declined in the third quarter of 2012 to below the end-2011 levels but remains elevated. At the end of Q3 2012, total external non-IFSC debt stood at around 297 percent of GDP, down from 306 percent of GDP recorded in Q2, and 25 percentage points of GDP below the end-2011 outcome. Fall in the external debt of the Central Bank, MFIs, and the non-MFI sector was responsible for this decline, as the central bank reduced its Target 2 liabilities and the other institutions continued to deleverage. On the other hand, external debt of the government sector rose again as the authorities continued to draw funds under the EU-IMF program.

By 2017, external debt is expected to fall to 225 percent of GDP, though significant risks surround this forecast. Stagnating growth remains the main risk to debt: a macroeconomic scenario at historical averages would fail to stabilize the debt-to-GDP ratio in the next five years, bringing the external debt to around 315 percent of percent of GDP in 2017. A permanent ½ standard deviation shock to growth, implying almost 1 percent contraction in real GDP in 2013 and average growth of around 0.6 percent thereafter, would raise the debt-to-GDP ratio to 251 percent of GDP in the medium term, around 26 percentage points above the baseline. A permanent ½ standard deviation shock to the non-IFSC current account (excluding interest

payments) would raise the medium-term debt ratio by around 20 percentage points compared to the baseline. A combined shock of ¼ of the standard deviation applied to the current account, interest rates, and the GDP growth rate would increase the medium-term debt to 253 percent of GDP.

Total external debt including the IFSC remained very high at the end of Q3-2012, at around 1,030 percent of GDP. Since the end of 2011, the total external debt has fallen by almost 45 percentage points of GDP, though majority of this decline took place in the first quarter. In addition to a reduction in the non-IFSC debt, the gross external debt of the IFSC sector has fallen by around 20 percentage points of GDP. The net international investment position in Q3 2012 stood at the end-2011 of 96 percent of GDP as the reduction in net liabilities of the IFSC sector was offset by a fall in net asset position of the non-IFSCs.

External Debt Composition, 2012-Q3
(Percent of projected 2012 GDP)



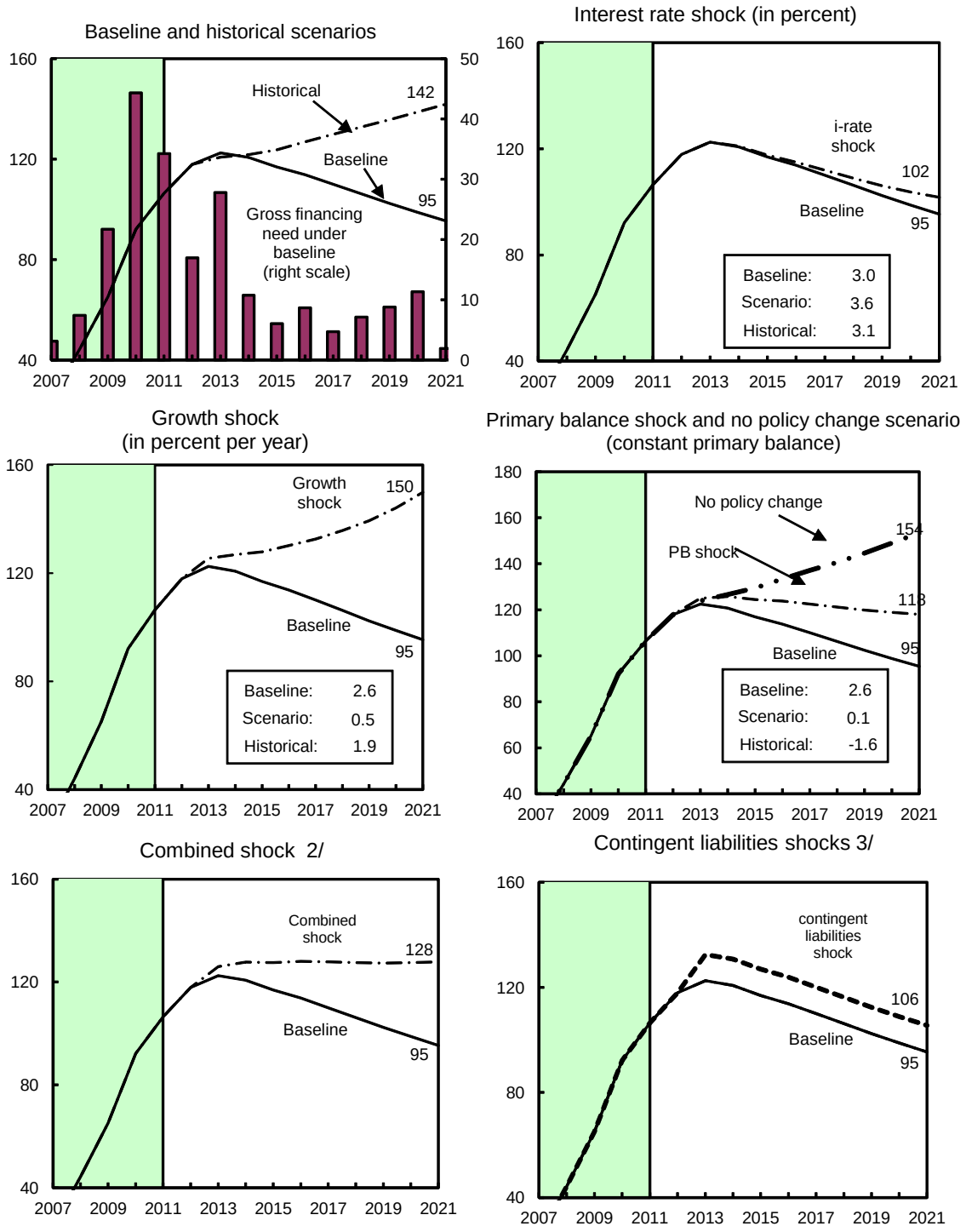
Sources: Central Statistics Office Ireland; and IMF staff calculations.

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

	2005	2006	2007	2008	2009	2010	2011	Q3-2012
Assets	1,031	1,132	1,203	1,276	1,503	1,697	1687	1734
Direct investment abroad	54	52	54	68	127	163	153	167
Portfolio investment abroad	615	692	709	707	839	932	901	962
Other investment abroad	362	388	439	501	536	602	633	605
Reserve assets	0	0	0	0	1	1	1	1
Liabilities	1,056	1,137	1,222	1,353	1,596	1,786	1783	1830
Direct investment to Ireland	85	67	73	76	108	137	122	139
Portfolio investment to Ireland	629	689	705	716	908	1,066	1085	1144
Other investment to Ireland	342	382	444	561	580	583	576	548
Net investment position	-25	-5	-20	-76	-93	-89	-96	-96
Direct investment, net	-31	-15	-19	-8	19	26	30	28
Portfolio investment, net	-15	4	5	-9	-69	-134	-184	-182
Other investment, net 1/	20	6	-5	-60	-44	18	57	57
Reserve assets	0	0	0	0	1	1	1	1
Memorandum items								
Net IIP of the IFSC							15	2
Net IIP of the non-IFSC							-111	-99

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

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



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. The interest rate shock is a permanent 200 basis point shock applied to short-term debt and new market lending, the growth shock is a stagnation of growth at 0.5 percent per annum, and the primary balance shock is a one-half standard deviation shock. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to the growth rate , interest rate, and primary balance.
3/ Illustrative one-time 10 percent of GDP shock to contingent liabilities in 2013.

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

	Actual					Projections									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1 Baseline: General government debt	24.8	44.2	65.2	92.2	106.5	117.9	122.53	120.7	116.9	113.8	110.0	106.2	102.3	98.8	95.4
2 Change in general government debt	0.1	19.4	20.9	27.0	14.3	11.5	4.6	-1.8	-3.8	-3.1	-3.8	-3.8	-3.8	-3.6	-3.4
3 Identified debt-creating flows (4+7+12)	-1.6	8.7	23.9	34.9	18.2	3.8	6.2	0.0	-2.7	-3.3	-3.8	-3.7	-3.7	-3.6	-3.4
4 Primary deficit	-1.1	6.0	9.7	7.5	5.7	3.8	2.5	-0.6	-2.8	-3.3	-3.6	-3.4	-4.0	-3.9	-3.9
5 Revenue and grants	36.3	35.0	33.7	34.0	34.4	34.0	34.3	34.8	34.8	34.5	34.3	34.3	34.3	34.3	34.3
6 Primary (noninterest) expenditure 2/	35.1	40.9	43.4	41.5	40.1	37.9	36.8	34.2	32.0	31.3	30.7	30.9	30.3	30.4	30.5
7 Automatic debt dynamics 3/	-0.5	2.8	7.4	4.9	1.9	-0.1	3.8	0.6	0.2	-0.1	-0.1	-0.2	0.3	0.3	0.4
8 Contribution from interest rate/growth differential 4/	-0.5	2.8	7.4	4.9	1.9	-0.1	3.8	0.6	0.2	-0.1	-0.1	-0.2	0.3	0.3	0.4
9 Of which contribution from real interest rate	0.7	2.0	3.9	3.2	3.2	0.6	5.0	3.3	3.3	3.0	2.8	2.7	2.8	2.8	2.8
10 Of which contribution from real GDP growth	-1.2	0.8	3.5	1.7	-1.3	-0.7	-1.3	-2.6	-3.2	-3.0	-3.0	-2.9	-2.5	-2.5	-2.4
11 Contribution from exchange rate depreciation 5/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	...
12 Other identified debt-creating flows	0.0	0.0	6.8	22.5	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15 Other (bank recapitalization) 6/	0.0	0.0	6.8	22.5	10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Residual, including asset changes (2-3) 7/	1.7	10.7	-3.0	-7.9	-4.0	7.7	-1.6	-1.8	-1.1	0.2	0.0	-0.1	-0.1	0.0	0.0
General government debt-to-revenue ratio	68.5	126.5	193.1	270.8	309.8	346.6	357.1	347.0	335.7	329.3	320.3	309.2	298.0	287.7	277.7
Scenario with key variables at their historical averages 8/						117.8	119.2	120.2	122.0	125.2	128.1	131.0	133.9	137.0	140.1
Scenario with no policy change (constant primary balance) in 2012-2021						117.9	123.8	126.4	129.3	133.2	136.9	140.4	144.5	148.8	153.3
Key Macroeconomic and Fiscal Assumptions Underlying Baseline															
Real GDP growth (in percent)	5.2	-3.0	-7.0	-2.6	1.4	0.7	1.1	2.2	2.7	2.7	2.7	2.7	2.5	2.5	2.5
Average nominal interest rate on public debt (in percent) 9/	4.5	5.3	4.1	4.8	3.7	3.7	4.3	4.3	4.4	4.3	4.3	4.2	4.4	4.5	4.6
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.2	7.6	8.2	4.8	3.5	0.6	4.3	2.8	2.9	2.7	2.7	2.6	2.8	2.9	3.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	7.4	0.0	-5.4	-5.1	-0.3	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.3	-2.3	-4.1	0.0	0.2	3.1	0.0	1.5	1.5	1.6	1.7	1.7	1.6	1.6	1.6
Growth of real primary spending (deflated by GDP deflator, in percent) 2/	14.2	13.0	-1.4	-6.7	-2.1	-6.2	-0.6	-5.1	-3.8	0.5	0.8	3.4	0.7	2.8	2.6
Primary deficit 2/	-1.1	6.0	9.7	7.5	5.7	3.8	2.5	-0.6	-2.8	-3.3	-3.6	-3.4	-4.0	-3.9	-3.9

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

2/ Excluding bank support costs.

3/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

4/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

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

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

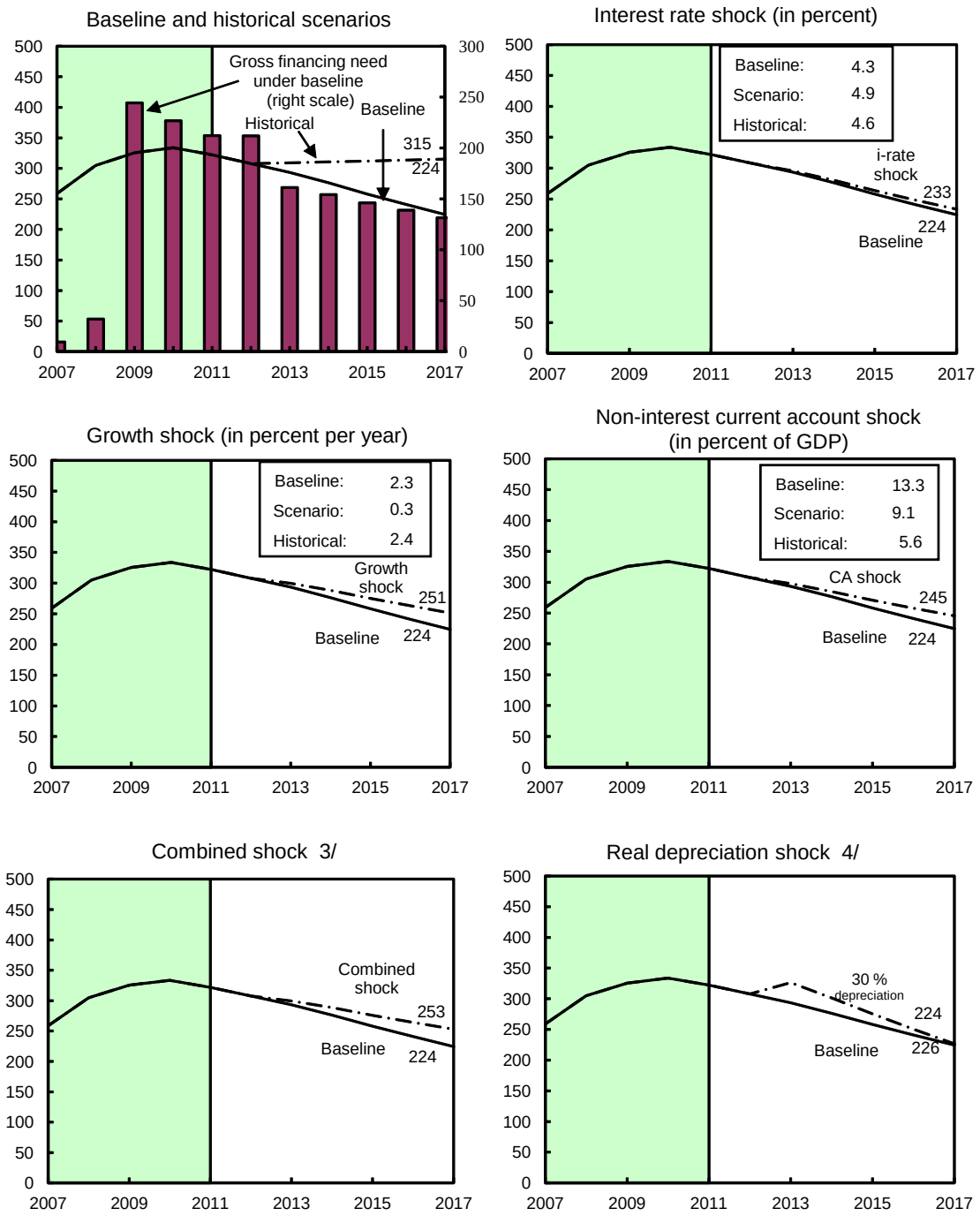
7/ For projections, this line includes exchange rate changes.

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

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

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Annex I Figure 2. Ireland: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Ireland desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2013.

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

		Actual						Projections						
	2007	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	**258.9**	**305.0**	**325.6**	**333.7**	**322.1**			**307.7**	**293.4**	**276.5**	**258.1**	**241.0**	**224.5**	**-3.9**
2 Change in external debt	51.7	46.1	20.6	8.1	-11.6			-14.4	-14.3	-17.0	-18.4	-17.1	-16.5	
3 Identified external debt-creating flows (4+8+9)	-2.6	22.8	36.2	18.0	-0.8			-8.8	-10.5	-13.0	-14.1	-13.0	-12.5	
4 Current account deficit, excluding interest payments	1.0	-6.2	-5.5	-14.1	-19.2			-21.8	-16.5	-13.1	-12.1	-12.2	-12.6	
5 Deficit in balance of goods and services	-5.5	-5.0	-11.1	-13.8	-17.0			-18.5	-19.6	-19.5	-20.0	-20.3	-20.6	
6 Exports	69.0	72.0	78.0	86.8	91.0			92.6	94.0	95.1	95.8	96.7	97.8	
7 Imports	-63.5	-66.9	-66.8	-73.0	-73.9			-74.1	-74.4	-75.6	-75.8	-76.4	-77.2	
8 Net non-debt creating capital inflows (negative)	0.0	-0.6	-2.5	6.0	2.6			-5.5	-5.2	-4.9	-4.8	-4.5	-4.3	
9 Automatic debt dynamics 1/	-3.7	29.6	44.2	26.1	15.7			18.5	11.2	5.0	2.8	3.6	4.4	
10 Contribution from nominal interest rate	8.3	15.4	10.9	16.1	21.0			20.7	14.4	11.3	10.0	10.3	10.7	
11 Contribution from real GDP growth	-10.6	5.8	18.5	2.6	-4.7			-2.1	-3.2	-6.3	-7.2	-6.7	-6.3	
12 Contribution from price and exchange rate changes 2/	-1.5	8.5	14.8	7.4	-0.6			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	54.3	23.3	-15.6	-9.8	-10.8			-5.6	-3.8	-4.0	-4.3	-4.1	-3.9	
External debt-to-exports ratio (in percent)	375.2	423.9	417.7	384.4	354.1			332.2	312.1	290.7	269.3	249.1	229.5	
Gross external financing need 4/	17.7	57.3	393.9	354.7	337.5			345.1	268.6	266.7	263.5	261.4	258.6	
in percent of GDP	9.4	32.0	244.3	226.7	212.3			211.8	161.1	154.3	146.1	138.9	131.6	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	307.7	309.2	310.7	312.2	313.7	315.2	
Key Macroeconomic Assumptions Underlying Baseline														
Nominal external interest rate (in percent)	4.3	5.6	3.2	4.8	6.4	4.6	1.3	6.6	4.8	4.0	3.8	4.2	4.6	
Growth of exports (in percent)	8.4	-1.2	-2.3	8.0	6.5	4.0	4.7	4.3	3.9	4.8	5.2	5.3	5.6	
Growth of imports (in percent)	9.5	0.0	-10.0	6.0	2.9	2.7	7.1	2.7	2.7	5.3	4.6	5.2	5.5	
Current account balance, excluding interest payments	-1.0	6.2	5.5	14.1	19.2	5.6	8.4	21.8	16.5	13.1	12.1	12.2	12.6	
Net non-debt creating capital inflows	0.0	0.6	2.5	-6.0	-2.6	-2.9	4.1	5.5	5.2	4.9	4.8	4.5	4.3	

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

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

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

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

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

ANNEX II. THE NEW PERSONAL INSOLVENCY ACT 2012

The passage of the new Personal Insolvency Act in December 2012 introduces comprehensive reforms in personal insolvency. The need for reform of Ireland's personal insolvency regime had been recognized for some time, especially given the scale of household financial distress resulting from the crisis.[1] Enactment follows intensive discussions spanning several years, especially on an innovative approach to include mortgages in a voluntary debt resolution procedure, and on achieving an appropriate balance between debtor and creditor rights.

The key components of the law are the introduction of three new procedures for debt resolution and substantial reforms to the Bankruptcy Act of 1988. Despite initial reforms in 2011, bankruptcy remained an inefficient approach for resolving personal debt issues owing to the comparatively long discharge period. The law now provides, subject to certain conditions, for automatic discharge from bankruptcy, after three years, and permits court orders requiring payments from income for up to five years in the bankruptcy process.

The new debt resolution processes will assist debtors and creditors in reaching sustainable arrangements to resolve significant indebtedness and aim to reduce the need for petitions for judicial bankruptcy. The new processes are as follows:

(i) **Debt Relief Notice**: allows for the discharge of relatively small amounts of unsecured debt, subject to conditions, up to €20,000 total for persons with essentially no income or assets, subject to a supervision period of three years;

(ii) **Debt Settlement Arrangement** (DSA): for the settlement of unsecured debt (no monetary debt limit to provide flexibility), normally over a five year period; and

(iii) **Personal Insolvency Arrangement** (PIA): for the settlement of secured debt up to €3 million (though this limit may be increased by agreement of the creditors) and unsecured debt (no limit), over a six-to-seven year period.

Majority creditor approval is required to conclude a DSA and PIA. Upon application by a licensed personal insolvency practitioner to the Insolvency Service for a DSA or PIA, a debtor will be granted a protective certificate against creditor enforcement actions for a 70-day period (with possible extension). In both cases, the proposed arrangement must be prepared by a personal insolvency practitioner appointed by the debtor. This arrangement must be approved by both the debtor and a qualified majority of creditors (in terms of the value of claims). For the DSA, 65 percent of creditors must approve. For the PIA, there are two applicable thresholds: 65 percent overall as well as more than 50 percent of secured creditors and 50 percent of unsecured creditors.

Although the new Insolvency Service of Ireland is responsible for the proper functioning of the new procedures, the courts are involved at various stages. Court approval is required for the granting of the protective certificate and the approval of final arrangements, based on submissions from the Insolvency Service. The courts also decide objections by creditors (e.g., material inaccuracies in the debtor's financial statement), safeguarding creditors' property rights and enhancing legal certainty. Although it is expected that the role of the courts will be essentially supervisory, additional resources are needed in this complex

[1] See the Law Reform Commission's Report on Personal Debt Management and Debt Enforcement, December 2010.

regime, and a number of specialist judges will be appointed to the Circuit Courts. The Insolvency Service will license and regulate the personal insolvency practitioners.

The PIA is specifically tailored to facilitate resolution of mortgage distress. Eligibility for a PIA requires that debtors be cash-flow insolvent, i.e., unable to pay debts as they fall due. To encourage debtors to adhere to the arrangement, the PIA may only be engaged in once, and the aim is to resolve any unsecured debt over a period of normally six years and to restructure secured debt on a sustainable path thereafter. The latter may involve the write-down of some of the secured debt where appropriate. As the PIA deals with both unsecured and secured debts, it may be more challenging for the personal insolvency practitioner to find a solution acceptable to both the debtor and to most creditors. Notably, for purposes of voting, secured creditors will vote in the secured creditor class to the extent that their claim is supported by the value of the collateral; any deficiency would be voted in the unsecured creditor class, shifting the balance of power to large secured creditors (e.g., mortgage lenders) if there is significant negative equity. As a result, such arrangements would likely entail significant reductions on unsecured debts. There is also the possibility for large secured creditors to block a PIA, but such an approach would risk that debtors may resort to judicial bankruptcy given the shortened automatic discharge period.

Mortgage restructuring under the PIA could involve a broad range of options. For example, this includes the options set out in the Report of the Inter-Departmental Mortgage Arrears Working Group, such as split mortgages, mortgage-to-rent or trade-down (and other suitable solutions). There is no presumption that a PIA would involve a write-down of secured claims, but loan principal cannot be reduced below the market value of the collateral, e.g., the property, unless the relevant creditor agrees. Provisions are included for the protection of the family home except where the costs, accommodation etc. are disproportionately large.[2] At the same time, if the property is subsequently sold at a higher price, a clawback provision for the creditor extends for 20 years.

The new framework will become operational once the needed infrastructure is in place. This includes staffing of the Insolvency Service, appointment of specialist judges, licensing of personal insolvency practitioners, and establishing IT systems. In practice, even while these preparations are underway, it is expected that mortgage lenders will increasingly work bilaterally with debtors towards reaching durable mortgage restructurings in the shadow of the new legal framework.

[2] Where the PIA provides for sale of property the subject of security, the sale proceeds must be applied in satisfaction of the secured debt unless the relevant secured creditor agrees otherwise. Any shortfall from such sale abates in equal proportion to the unsecured debts and is discharged with any remaining unsecured debt on completion of the PIA.

ANNEX III. FUND RELATIONS

(As of January 31, 2013)

I. Membership Status: Joined August 8, 1957; Article VIII

II. **General Resources Account**:	**SDR Million**	**Percent of Quota**
Quota	1,257.60	100.00
Fund holdings of currency	17,542.45	1,394.91
Reserve position in Fund	258.61	20.56

III. **SDR Department**:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	775.42	100.00
Holdings	641.26	82.70

IV. **Outstanding Purchases and Loans**:	**SDR Million**	**Percent of Quota**
Extended Arrangements	16543.43	1315.48

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	12/16/10	12/15/13	19,465.80	16,543.43

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

	2013	2014	2015	2016	2017
Principal			535.20	2,173.15	2,757.24
Charges/Interest	431.56	536.27	558.55	512.08	413.91
Total	431.56	536.27	1,093.75	2,685.24	3,171.15

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

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

VIII. **Safeguards Assessment**:

The safeguards assessment of the Central Bank of Ireland (CBI) was finalized in March 2011. The safeguards assessment of the Central Bank of Ireland (CBI) found that the CBI has a relatively strong safeguards framework in place. Its financial statements are audited in accordance with international standards and published. Governance and control systems adhere to good practices. The assessment recommended measures to address heightened risks emanating from the financial crisis, notably liquidity lending, and to improve

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

IX. **Article IV Consultations**:

The last Article IV consultation was concluded on September 10, 2012 (IMF Country Report No. 12/284). Article IV consultations with Ireland are on the 24-month cycle.

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

Discussions were held in Dublin during January 29 to February 7, 2013. The IMF team comprised Craig Beaumont (head), Ashok Bhatia, Alexandre Chailloux, Jochen Andritzky, and Emilia Jurzyk (all EUR); S.M. Ali Abbas and Laura Jaramillo (FAD); Michael Moore and Joaquin Gutierrez Garcia (both MCM), and Nathan Porter (SPR). Teams from the EC and ECB as well as Mary O'Dea and Michael Hough from the Executive Director's office participated in the discussions. The mission met with the Minister for Finance, the Minister for Public Expenditure and Reform, the Governor of the Central Bank and the Deputy Governor for Financial Regulation, the Chief Executive of the National Treasury Management Agency, the Chief Executive of the National Asset Management Agency, and senior officials from these institutions. The mission also met with representatives of the Fiscal Council; the Department of Jobs, Enterprise and Innovation; the Department of Justice and Equality; the Department of Social Protection; Central Statistics Office; the Economic and Social Research Institute; banks and market analysts.

XI. **Technical Assistance**:

Department	Purpose	Date
STA	Balance of Payments Statistics	January 2011
STA	Monetary and Financial Statistics	January 2011

XII. **Resident Representative**:

Mr. Peter Breuer assumed his post in September 2011.

ANNEX IV. IRELAND: LETTER OF INTENT

Dublin, 12 March 2013

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

Dear Ms. Lagarde:

1. As we are now in the final year of our programme, the focus of Government is on ensuring that attention is fully turned to the measures necessary to achieve a successful exit from the Programme and measures that will underpin a durable and sustainable return to market based funding. We believe that the Irish Government's performance in terms of commitment to the Programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

2. There have been a number of positive developments, in a climate of continuing international uncertainty including persistent weakness in economic activity in our main trading partners. Our return to the financial markets continued and the successful bond sale in January, the sale of contingent capital instruments in one of the pillar banks at a slight profit, the recently announced sale of Irish Life, the continuing fall in our bond yields, are all strong positive indicators of our success. The real economy has also shown some improvement, with continuing growth, albeit at low levels, stabilisation in the still high unemployment level, and the better than expected budget outturn for 2012. The resolution of the promissory note discussions and the enactment of legislation to liquidate IBRC has reinforced these positive developments. Allied to this, the benefits of the ECB's decision on Outright Monetary Transactions remain evident. Finally, once the implementation of the 2010 quota reforms is agreed the effective interest rate on our IMF borrowings will be significantly reduced. However, it must be noted that a number of issues remain to be resolved, most notably the delivery of the Euro Area Heads of State and Government commitment on breaking the vicious circle between banks and the sovereign in the EU and to examine how to improve the sustainability of our well performing Programme. Furthermore, our recent request for an extension of maturities on EU funding is an important ongoing issue.

3. Our preparations for exiting our Programme continue to take place against this mixed backdrop. Notwithstanding the external risks, our policy efforts are aimed at further deepening our access to market funding during 2013 in order to exit from reliance on official financing. Timely implementation of the Euro Area Leaders' commitments would greatly support the effectiveness of these efforts. We are sure that we can rely on the continued support of our external partners and fellow Member States in this endeavour.

4. Once again, for the ninth review, we have met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets (MEFP Tables 1 and 2). We have now completed over 190 actions. In particular, the performance criterion for end-December 2012 on the cumulative Exchequer primary balance was met with a margin, as was the indicative target on the stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears was also met.

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

6. As mentioned above, we continue to move towards the goal of fully regaining market access during 2013. The resumption of Treasury Bill auctions and our bond issues to date are further steps in this direction. The January bond tap has also demonstrated that we have diversified our investor base along both institutional and geographic dimensions. We hope to follow this with the issuance of a long-term benchmark bond and the resumption of a regular bond auction program this year. We intend to maintain a strong cash buffer to support market confidence during this process of deepening market access, and propose to leave the phasing of purchases unchanged, with a total purchase amount of SDR 2,922 million in 2013. This, combined with our currently planned market issuance, should allow us to have an end year cash buffer equivalent to our expected 2014 financing needs.

7. Implementation of the policies under the Programme will be monitored, as before, through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews. We propose that quantitative performance criteria under the arrangement be established for end-June 2013, as set out in the attached MEFP (Table 3). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. As detailed in the MEFP, we also propose the establishment of structural benchmarks on establishing targets requiring the principal mortgage banks to offer a substantial share of restructuring arrangements during 2013, and in consultation with staff of the EC, ECB, and IMF, the CBI will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3). The Technical Memorandum of Understanding (TMU) defines (consistent with the Memorandum of Understanding on Specific Policy Conditionality) the quantitative performance criteria and indicative targets under the programme, and explains how these will be measured.

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

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

Sincerely,

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

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

ATTACHMENT I. IRELAND: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Our policy efforts are firmly oriented toward durable exit from official financing under the EU-IMF supported programme at the end of 2013. Building on our consistent strong policy implementation, we will continue the intensive work in progress on financial sector health, budget implementation and fiscal framework, and structural reforms, to support Ireland's economic recovery and lay solid foundations to graduate from official financing in 2013.

A. Recent Economic and Financial Developments and Outlook

1. **The Irish economy continues to gradually recover and the outlook is for a modest pickup in growth.** Final domestic demand rose in the third quarter of 2012, the first quarterly increase since early 2008, lifting real GDP growth to 0.8 percent y/y in the first three quarters of 2012. Net exports remained the main engine of growth, with the strong performance of the services sector outweighing a slowdown in goods exports. The latter reflected a weaker external environment and likely the "patent cliff" in the pharmaceutical industry. GNP growth of 3 percent y/y in the first three quarters of 2012, and the current account surplus of over 4 percent of GDP during the same period, each benefited from a decline in net factor income outflows. Inflation abated at year-end, bringing the annual average rate to 1.9 percent, and the unemployment rate eased to 14.6 percent in recent months from 15 percent a year earlier. Looking ahead, a gradual economic recovery is expected on the back of domestic demand stabilising and then returning to expansion, with GDP growth firming to over 1 percent in 2013 and over 2 percent in 2014. A recovery in trading partners remains key for export growth, and resolution of non-performing loans is crucial to ensuring a more durable revival in domestic demand.

2. **Recent developments in sovereign and bank funding markets have also been favourable.** Demand for Irish sovereign debt has continued to broaden, driving bond yields down to their lowest level since April 2010. Our most recent 5 year issuance was at a yield of 3.32 percent and Treasury bill yields recently fell to 0.2 percent, down from 1.8 percent when we returned to the bill market last summer. On foot of developments in sovereign yields, guaranteed bank bond yields have also declined, and banks recently issued non-guaranteed covered bonds on favourable terms. Average rates on new bank deposits have declined to 1 percent even as deposit inflows have continued, and there are signs that bank lending may be turning a corner, associated with a potential bottoming out in housing prices in 2012.

3. **Building on our continued strong programme implementation, as well as supportive European policy initiatives, we are determined to successfully exit the programme.** We are engaged in a constructive dialogue with programme partners on a number of issues to facilitate a sustainable return to market financing. Initial discussions on an exit strategy took place during this review and we are further developing this work with our external partners. Alongside our strong programme implementation, European policy developments have been key to improved market confidence, including the commitment by euro area leaders to break the vicious circle between banks and sovereigns and examine the

situation of Ireland's financial sector with a view to further improving the sustainability of Ireland's well-performing adjustment programme.

B. Financial Sector Policies

4. **To allow Ireland's economic recovery to be supported by a healthy flow of new bank credit, we will ensure decisive progress in resolving distressed assets in 2013.** Banks have been recapitalised but their high nonperforming loan ratios reflect the distress of many households and SMEs facing a still weak economy. After making substantial technical and legislative preparations in 2012, we will drive forward the implementation of loan resolution in 2013, ensuring that banks proactively achieve lasting solutions for impaired assets. By bringing greater certainty and sustainability to household and SME balance sheets and deepening market confidence in banks, this process will help unlock bank credit for sound and productive purposes, thereby bolstering the potential for domestic demand to contribute to sustained job-creating recovery.

5. **We will hold banks to ambitious targets to address troubled residential mortgages in a manner that will ensure durable reductions in arrears.** To underscore the centrality of this task, we will establish a public target requiring the principal mortgage banks to offer a substantial share of restructuring arrangements during 2013 (proposed structural benchmark, end-March). In addition, we will propose by end-June targets to also complete a substantial share of restructuring arrangements during 2013. In consultation with the staff of the EC, ECB, and IMF, we will establish such targets soon thereafter, before completion of the eleventh review at the latest. To ensure the quality of such arrangements and the achievement of this target we will monitor each bank's progress closely, including through a public target for the share of concluded arrangements for which the terms are being met. To count towards these targets, restructuring arrangements must be expected to durably address arrears. We will also publish re-default rates as part of banks' key performance indicators.

6. **To facilitate effective engagement with residential mortgage borrowers in arrears, we will complete a review of, and modify where appropriate, the Code of Conduct on Mortgage Arrears by end-June 2013.** In December 2012 we clarified the interpretation of the Code, including the restrictions on contacting borrowers. A full review is now underway, which includes a public consultation, to build on these clarifications and take into account developments such as the Personal Insolvency Act and bank's mortgage arrears resolution strategies. The review will, among other things, explore (i) reforming and streamlining the restrictions on contacts to facilitate constructive engagement while ensuring essential consumer protections remain in place; (ii) amending the definition of a non-cooperative borrower such that key protections extend only to borrowers that engage with lenders in a timely manner that is consistent with addressing their arrears; and (iii) permitting modifications of the interest rate setting mechanism where the lender has offered an alternative arrangement which is advantageous to the borrower in the long-term.

7. **Resolving nonperforming loans will also require repossessions in some cases, and it is important that these legal procedures be efficient.** We will keep under review the effectiveness of statutory repossession arrangements in Ireland based on ongoing experience with repossession actions. Issues such as length, predictability and cost of proceedings,

systems for dealing with non-cooperative borrowers and investment property debts will be included in this review. Where necessary, appropriate measures will be brought forward quickly to deal with any problems arising.

8. **We will soon activate the new personal insolvency framework.** Arising from the passage of the Personal Insolvency Act last December, we will finalise arrangements for the appointment of specialist judges and the licensing and regulation of personal insolvency practitioners by end-March. Within the same time frame, we will also publish guidelines for reasonable allowable household expenditures for debtors, to provide clear expectations for borrowers in financial distress. We expect the newly established Insolvency Service will begin to accept applications from eligible borrowers in the second quarter of 2013.

9. **Given the lead role of SMEs as an employment generator, we will also press forward the timely resolution of SME loan arrears.** Bank-by-bank restructuring targets will be established by end-June, in order to complete a substantial share of restructuring arrangements during 2013. We will track progress based on the key performance indicators in this area developed in coordination with the banks. On-site supervisory reviews will help in assessing the effectiveness of restructuring solutions implemented.

10. **We will continue to ensure that banks apply conservative loss provisioning practices based on justifiable estimates of the risk of their loan portfolios.** By end-March 2013, the CBI will engage with each bank to ensure appropriately prudent provisioning including on key inputs, such as for estimating cure rates for originally performing, forborne, and modified loans, to ensure these cures reflect durable modifications. In consultation with staff of the EC, ECB, and IMF, the CBI will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines setting out clear definitions and principles underpinning banks' provisioning models. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks (**proposed structural benchmark**).

11. **Permanent TSB is implementing its restructuring, yet steps beyond the purview of its management remain important for long-term profitability.** The bank is divided into three distinct internal strategic business units and is forcefully implementing its restructuring, especially by stemming the flow of new arrears. Nonetheless, the separation of certain asset portfolios from the bank would underpin its return to profitability. We will continue to work with our external partners with the aim of achieving an appropriate solution as part of examining the situation in the Irish financial sector with a view of further improving the sustainability of the well-performing adjustment programme, as stated by euro area leaders.

12. **We continue to prepare for Prudential Capital Assessment Review (PCAR) 2013.** This rigorous stress test exercise will build on already completed data validation and asset quality review work. The CBI, supported by consultants, is developing loan loss forecasting models that will be subject to external validation. We will ensure that banks implement the findings of the credit regulatory capital review process on banks' risk-weighted asset calculations, forecasting and stress testing, in advance of PCAR 2013. We will report to the staff of the European Commission, the IMF and the ECB on progress with the implementation of the specific mitigating actions communicated to banks and consult with them on the specific

features of the PCAR 2013 methodology. We will aim to align the timing of the publication of PCAR 2013 results with that of the next EBA exercise.

C. Fiscal Policies

13. **In 2012 we extended our track record of meeting the fiscal targets by a significant margin.** The 2012 general government deficit is expected to come in below 8 percent of GDP, well within the 8.6 percent ceiling. This performance is the result of a determined fiscal consolidation effort, reflected in robust revenue collection across the major tax heads and in effective management of aggregate expenditure within budgetary limits, and some favourable one-off developments. Importantly, overspends in health and social protection, which were partly linked to higher-than-expected unemployment, were offset by non-interest expenditure savings in other areas.

14. **We are implementing Budget 2013 in the same prudent manner.** The bulk of the measures comprising the €3.5 billion consolidation effort have been enacted, including the introduction of the property tax and the social welfare package. We are in the process of implementing the remaining key pieces of the budget package: legislating to effect higher charging for private patients in public hospitals and to mandate greater generic drug use (by end June); seeking an agreement with public sector unions on reductions in the pay and pension bill (by end-February, as discussed below); and preparing for the roll-out of the property tax on July 1. Moreover, we have decided that the Health Service Executive and the Department of Health will report to the Cabinet Committee on Health on the implementation of the health sector measures on a monthly basis to actively prevent renewed slippages. Taking into account a higher revenue base in 2012, we expect to safely deliver a general government deficit within the 7.5 percent of GDP ceiling in 2013.

15. **Public service reforms are moving to a new phase.** Building on the budgetary savings and efficiencies delivered under the 2010 Croke Park Agreement, we have recently launched negotiations on a successor agreement with public service unions focused on achieving a substantial further reduction in the pay and pension bill for the public service, as well as long term productivity and workplace reforms. If successful, this arrangement will deliver the additional €1 billion in durable net pay and pension savings targeted by 2015. We have also recently announced targeted voluntary redundancy as a tool to help reduce public service numbers to 282,500 by end 2014—a 12 percent fall from their 2008 peak—while protecting core public services. These efforts are being complemented by other efficiency enhancing reforms, including the development of performance-based budgeting across all sectors and the deployment of shared services in human resources and pension administration. In combination, these reforms will support the sustained provision of high quality public services at affordable cost.

16. **We are further strengthening our fiscal institutions, medium-term budgetary framework, and fiscal transparency, which will help underpin successful exit from the EU/IMF supported programme.** The recently enacted Fiscal Responsibility Act enshrined the independence of the fiscal council and established rules to ensure prudent fiscal policy. Legislation to give statutory basis to the already operational ceilings on aggregate and departmental expenditure—which will be set on a 3-year rolling basis, ensuring compliance

with the Stability and Growth Pact—is now before the Oireachtas. We are continuing to enhance fiscal transparency, including through the dissemination of public service performance indicators via the recently launched Ireland Stat website and publication of the Government Financial Statistics Report by the CSO in April.

17. **We will take additional steps to bolster market confidence in the achievement of our medium-term fiscal consolidation and debt reduction goals.** In our April 2013 Stability Programme, we will set out revenue and expenditure paths extending to 2016, consistent with the provisions of the Stability and Growth Pact. The structural budgetary reforms and improved processes that have been put in place in recent years e.g. comprehensive expenditure reviews, position us well to design and implement reforms to ensure strong delivery of public services within medium-term resource envelopes. Budget 2014 will provide a further opportunity to articulate these reform policies, especially in relation to health, education and social protection.

D. Structural Reforms

18. **We are continuing to advance investment projects to promote job creation and growth.** Projects have been identified—including education facilities, roads, primary health care centres, courthouses, and police headquarters—that we will develop through public private partnerships with the European Investment Bank, the National Pension Reserve Fund (NPRF), and private investors. We are working with the National Development Finance Agency to streamline the tender process and accelerate project delivery, and intend to initiate tenders for education and justice projects in the third quarter of 2013, with the road and primary care centre projects to follow by year end. The implementation of state asset disposal plans for 2013 in the energy generation and forestry sectors is also progressing. We will use at least half of the resulting proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed. Once realised, the remaining proceeds will be invested in job-rich projects of a commercial nature, consistent with our fiscal targets. We will also continue our efforts to improve the business environment and foster job creation under the Action Plan for Jobs, with 2013 measures to be announced in February.

19. **Addressing long-term unemployment is a top priority and we are committed to accelerating the implementation of our Pathways to Work strategy and monitor its effectiveness, with the ultimate objective of leaving no-one outside of the activation system.** In order to achieve these objectives, we will:

- Ensure that Intreo offices are established as scheduled, with a full roll out by the end of 2014 or earlier if possible.
- Redeploy and train staff from within the Department of Social Protection to boost direct engagement with the long-term unemployed and provide them with adequate activation services. We will substantially increase the number and proportion of group and one-to-one engagements with the long-term unemployed. With this objective in mind, we will seek to achieve a doubling of case workers by the end of 2013 through internal redeployment, with further increases in 2014.

- Following the review of the process with our consultants, by end-April 2013 we will decide on a timetable for the process of procuring activation services for the long-term unemployed from private providers, with the aim of issuing a tender for the provision of services by end-June 2013.
- Encourage employers to hire long-term unemployed persons by reviewing the Employer PRSI Refund and Revenue Job Assist schemes by end-June 2013, with the aim of promoting better take-up among firms.

20. **We will deepen the reform of the further education system and better align training and activation policies with labour market needs:**

- Reform of the further education system. By end-June 2013, we aim to establish the Education and Training Boards (ETBs) and the Further Education and Training Authority (SOLAS), and by end-December 2013 we aim to have transferred six of the FAS training centres to the local ETBs. Recognizing the need to best align the provision of further education and training with labour market needs and the specific needs of the long-term unemployed, we will prepare a strategic review of training and further education provisions by end-September 2013. This review will guide ETBs and SOLAS in establishing the course framework offered to the jobseekers. We will put in place procedures to regularly evaluate training and activation outcomes to ensure that they respond to labour market needs and are cost effective.
- Activation and training schemes. We have recently completed a Review of Employment Support Schemes under the Department of Social Protection, and following the consultation process with the stakeholders, we will prepare by end April 2013 an action plan aimed at increasing the effectiveness of training and activation support schemes. We will also improve the targeting of these schemes by ensuring that participation by jobseekers is increasingly guided by case workers and that priority is given to the long-term unemployed.

21. **Addressing challenges faced by SMEs is critical to unleash their capacity to invest and create jobs.** We will therefore intensify our efforts to facilitate lending and equity financing to eligible SMEs and to improve their business environment:

- On top of the €4 billion lending target assigned to pillar banks in 2013 for the SME sector, a range of new government initiatives under the aegis of Enterprise Ireland and the European Investment Bank will help channel long-term funds towards the sector. We have earmarked €350 million of budget resources to leverage private sector funding with the objective of providing more than €1 billion of venture capital and equity financing to high potential innovative SMEs.
- To facilitate SME restructuring, especially in multi-creditor cases, we will consider by end-September the appropriateness of additional legislative amendments to further enhance the SME examinership legal framework to reduce costs and achieve efficiency gains drawing on experience with the operation of the Insolvency Service in the personal insolvency reform and recommendations in the Company Law Review report, including the potential for an administrative body to facilitate SME restructuring.
- The Authorities intend to establish a strategic investment fund (redeploying NPRF resources) with an Ireland focused investment mandate to invest in areas of strategic

importance on a commercial basis, supporting economic growth and employment. In January 2013, the NPRF announced that it will invest up to €500 million in three new SME funds which will make up to €850 million available to SME's through the provision of equity, credit and restructuring/recovery investment. The NPRF will continue to work on supporting the delivery of additional funds that will complement those already announced and provide financing for SME's.

- In 2013, a detailed work programme to ensure that all financing initiatives reach their full potential will be prepared by the SME State Bodies Group, an inter-agency coordination body consisting of representatives from the Departments of Finance and Jobs, Enterprise and Innovation, as well as other agencies. This group will also ensure the cohesion of policies on access to funding for SMEs across the government and evaluate the effectiveness of recent measures.
- Our 10 point tax reform plan will help support small companies' cash flow position, access funding more easily, export capacity and reduce the cost of tax compliance.

E. Programme Financing and Monitoring

22. **The programme is adequately financed and our financing strategy aims to further strengthen the basis for our successful return to reliance on market funding.** In January we raised €2.5 billion through a tap of our bond maturing in 2017 at a yield of 3.32 percent. This issue was significantly over subscribed and attracted a diverse investor base. More than 200 institutional investors—including fund managers, pension funds, bank treasuries and insurance companies placed orders with strong demand from the U.K., the Nordic countries and mainland Europe. We have also continued our programme of regular three-month Treasury bill auctions, with yields declining to 0.2 percent at the recent January auction. Building on this progress, we aim to seek further opportunities to issue medium to long term debt ahead of a potential return, market conditions permitting, to more regular bond issuance later this year. Following the sale of contingent capital claims of €1 billion on Bank of Ireland, we will seek further recovery of bank support costs, including through the sale of Irish Life if market conditions permit. In view of the external risks to our financing, we will maintain a prudent cash buffer and aim to end the programme with a buffer covering around one year of financing needs to support market confidence. Moreover, in a medium to longer term context, a lengthening of maturities on EFSF/EFSM loans is under discussion.

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

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

March 12, 2013

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

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

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

Floor on the Exchequer Primary Balance

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

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

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

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

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

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

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

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

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

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

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

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

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

Cumulative Exchequer primary balance	(In billions of Euros)
From January 1, 2013	
End-March 2013 (performance criterion)	-3.7
End-June 2013 (performance criterion)	-4.2
End-September 2013 (indicative target)	-4.8

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

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

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

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of Euros)
From January 1, 2013	
End-March 2013 (projection)	10.2
End-June 2013 (projection)	21.1
End-September 2013 (projection)	32.5

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

Ceiling on the Stock of Central Government Net Debt

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-December 2012 (provisional)	133.7
End-March 2013 (indicative target)	168.1
End-June 2013 (indicative target)	171.3
End-September 2013 (indicative target)	172.5

Non-accumulation of External Payments Arrears by Central Government

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

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

II. REPORTING REQUIREMENTS

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

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

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

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

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

Table 1. Programme Monitoring

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

Table 1. Programme Monitoring (concluded)

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

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

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

	31-Dec-11		31-Mar-12		30-Jun-12		30-Sep-12		31-Dec-12		31-Mar-13	30-Jun 13	30-Sep-13
	Target 1/	Outcome	Target 1/	Outcome	Target 1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target	Target	Target
	(In billions of Euros)												
	Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion	Performance Criterion	Indicative Target
1. Cumulative exchequer primary balance 2/	-22.3	-21.0	-6.9	-5.7	-9.6	-8.7	-11.4	- 10.1	-13.2	-12.3	-3.7	- 4.2	- 4.8
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0	0	0	0	0	0
	Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt 1/	117.2	115.7	125.0	123.0	130.1	128.2	132.5	130.0	135.8	133.7	168.1	171.3	172.5

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

Table 3. Structural Benchmarks Under the Programme

Measure	Date	Status
Financial sector policies		
Establish a public target requiring the principal mortgage banks to offer a substantial share of restructuring arrangements during 2013 (MEFP ¶5).	End-March 2013	Proposed structural benchmark
Publish an update, where necessary, of the 2011 Impairment Provisioning and Disclosure Guidelines by end-May 2013 (MEFP ¶10).	End-May 2013	Proposed structural benchmark
Undertake a review of progress in addressing mortgage arrears (MEFP ¶12, 8th review).	End-June 2013	Structural benchmark

Attachment III. Ireland: Letter of Intent (European Commission)

Dublin, 12 March 2013

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

Mr. Jeroen Dijsselbloem
Minister van Financiën
Ministerie van Financiën
Korte Voorhout 7
Postbus 20201
2500 EE Den Haag
The Netherlands

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

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

Dear Messrs Draghi, Dijsselbloem, Corsepius and Rehn

1. As we are now in the final year of our programme, the focus of Government is on ensuring that attention is fully turned to the measures necessary to achieve a successful exit from the Programme and measures that will underpin a durable and sustainable return to market based funding. We believe that the Irish Government's performance in terms of commitment to the Programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

2. There have been a number of positive developments, in a climate of persistent weakness in economic activity in our main trading partners in Europe. Our gradual return to the financial markets continued and the successful bond sale in January, the sale of contingent capital instruments in one of the pillar banks at a slight profit, the recently announced sale of Irish Life, the continuing fall in our bond yields, are all strong positive indicators of our success. The real economy has also shown some improvement, with continuing growth, albeit at low levels, stabilisation in the still high unemployment level, and the better than expected budget outturn for 2012. The resolution of the promissory note discussions and the enactment of legislation to liquidate IBRC has reinforced these positive developments. Allied to this, the benefits of the ECB's decision on Outright Monetary Transactions remain evident. Finally, once the implementation of the 2010 quota reforms is agreed the effective interest rate on our IMF borrowings will be significantly reduced. Progress is expected with respect to other issues, most notably the delivery of the Euro Area Heads of State and Government commitment on breaking the vicious circle between banks and the sovereign in the EU and to examine how to improve the sustainability of our well performing Programme. Furthermore, our recent request for an extension of maturities on EU funding is animportant ongoing issues.

3. Our preparations for exiting our Programme continue to take place against this mixed backdrop. Notwithstanding the external risks, our policy efforts are aimed at further deepening our access to market funding during 2013 in order to exit from reliance on official financing. Timely implementation of the Euro Area Leaders' commitments would greatly support the effectiveness of these efforts. We are sure that we can rely on the continued support of our external partners and fellow Member States in this endeavour.

4. For the ninth review, we have once again met our commitments (with over 190 actions completed) under the EU/IMF supported Programme in terms of policy reforms as well as quantitative targets:

- The 2012 general government deficit is expected to be below 8% of GDP, well within the programme ceiling (8.6% of GDP). We have also a budget in place for 2013 which is consistent with observing the 7.5% of GDP ceiling on the general government deficit for this year.
- We have taken measures to offset cost overruns in the health sector in 2012 and to ensure that expenditures in this important area remain within the allotted ceiling this year. Some of the measures require additional steps for their full implementation and we have established a Cabinet Committee on Health which will be informed in a timely manner of any slippages or problems that might arise so as to ensure prompt remedial action.
- We have enacted the Personal Insolvency Act 2012, which provides the most radical and comprehensive reform of our insolvency and bankruptcy law and practice since the foundation of the State. We have established the Personal Insolvency Service and are now putting in place the necessary infrastructure and regulatory framework to accept applications from eligible borrowers in the second quarter of 2013.

- We are advancing work aimed at resolving the stock of non-performing loans in the banking sector. Progress on this front is instrumental in removing important uncertainties for households and firms in debt distress and to allow banks to fully resume lending activities.
- We continue to advance structural reforms with the view to strengthening the fundamentals of the Irish economy and promoting a job-rich recovery. We are forcefully implementing our Action Plan for Jobs to promote job creation and are making progress in improving our labour market activation policies and institutions, including through increased engagement with the long-term unemployed. We are also advancing the process of reforming our further education and training system to enhance its relevance in retraining the unemployed and providing the skills our economy needs. Needless to say this will remain a priority focus of the Government in the weeks and months ahead.
- We have further strengthened the power and capacity of our competition authority.
- We are moving ahead with the reform of the water sector, including laying the groundwork for the introduction of domestic water charges.

5. In light of our performance under the programme and our continued commitment to it, we request the completion of the ninth review and the release of the ninth disbursement of EUR 1.6 billion from the EFSF.

6. In the attached eighth update of the Memorandum of Understanding of Specific Economic Policy Conditionality (the MOU), as well as in the Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives of our economic adjustment programme. We also continue to work with staff of the European Commission, the European Central Bank and the International Monetary Fund on the follow-up to the 29 June statement by the Heads of State and Government of the euro area.

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

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

Sincerely,

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

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

IRELAND

MEMORANDUM OF UNDERSTANDING
ON
SPECIFIC ECONOMIC POLICY CONDITIONALITY

(EIGHTH UPDATE)

12 MARCH 2013

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

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

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

- Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. In particular, the Department of Finance and the Department of Public Expenditure and Reform will continue to ensure effective tax collection and tight supervision of expenditure commitments by the line departments to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved. Any additional unplanned revenues must be allocated to debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

- Continue to strengthen the fiscal framework and reporting in line with EU requirements.
- Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of the total realised proceeds in projects which are of a commercial nature, meet ex-ante cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.
- Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible and on a sustainable basis.
- Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular, the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on Pathways to Work (the government's strategy for institutional reform of the activation system).
- Ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the EU/IMF Programme and the needs of the economy.
- Ensure that NAMA: (i) maintains the highest standards of governance with appropriate accountability and transparency arrangements; (ii) reduces the costs of its operations; and (iii) constructively contributes to the restoration of the Irish property market in the course of meeting the asset disposal targets established and monitored by the NAMA Board, including redemption of €7.5 billion worth of senior bonds by end 2013.
- Ensure that the restructuring of credit unions, via the Credit Union Restructuring Board, will underpin the financial stability and long term sustainability of the sector. The restructuring will be completed in as short a timeframe as possible under a clear plan identifying credit unions appropriate for restructuring, subject to Central Bank regulatory approval. As regards funding, the first call should be on the credit unions concerned or the sector as a whole; any Exchequer funding should be minimised, should be provided only in the context of a restructuring plan in compliance with EU state aid rules, and should be recouped from the sector over time. In parallel, the Central Bank will continue its inspections to determine the financial condition of the weakest credit unions, and will engage its resolution powers as needed, drawing on Resolution Fund resources if required.
- The authorities will report quarterly on progress in implementing the strategy for the reorganisation of Irish credit institutions, including any steps to strengthen the credit union sector, and discuss it with the staff of the European Commission, the IMF, and the ECB.
- Ensure continued compliance with the minimum Core Tier 1 Capital ratio of 10.5% for all PCAR banks (AIB, BOI, and PTSB).

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

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

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

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

Financial sector reforms

5. Capital Assessment

The authorities will provide the staff of the European Commission, the ECB and the IMF a review of developments in the PCAR banks relative to PCAR 2011. Overall results of this work will be published by end February 2013. The authorities will agree with the staff of the European Commission, the ECB and the IMF on the specific details of the review.

Deleveraging

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

Funding and liquidity monitoring

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

Asset quality

8. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME

portfolios in accordance with the agreed key performance indicators. The authorities will monitor each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.

9. The authorities will publish banks' reported data on loan modifications, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.

10. .The authorities will establish by end-March a public target requiring the principal mortgage banks to offer durable restructuring arrangements for a substantial share of problem mortgage loans during 2013.

11. Having secured adequate protections for debtors' principal private residence through the enactment of the Personal Insolvency Bill, the authorities will introduce legislation remedying the issues identified by case law in the 2009 Land and Conveyancing Law Reform Act, so as to remove unintended constraints on banks to realise the value of loan collateral under certain circumstances.

Financial supervision

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

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

14. The authorities will engage with each bank to ensure appropriately prudent provisioning including on key inputs, such as for estimating cure rates for originally performing, forborne, and modified loans, to ensure these cures reflect durable modifications.

15. Following completion of annual model performance reviews assessing banks' risk-weighted asset calculations forecasting and stress testing in advance of PCAR 2013, the authorities will report to the staff of the European Commission, the IMF and the ECB on progress with implementation of the findings from the credit regulatory capital review process and with the specific mitigating actions communicated to the banks.

Structural reforms

Health sector

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

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

Financial sector reforms

Capital assessment

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

18. The authorities will agree with the staff of the European Commission, the ECB and IMF on the specific features of the methodology for the PCAR 2013 stress test exercise.

Deleveraging

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

Funding and liquidity monitoring

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

Asset quality

21. In consultation with staff of the EC, ECB, and IMF, the authorities will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines setting out clear definitions and principles underpinning banks' provisioning models. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks.

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

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

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

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

26. The authorities will undertake a review of progress in addressing mortgage arrears.

27. While ensuring that balanced incentives and debtors' sustainability are maintained, the authorities will complete a review of the Code of Conduct on Mortgage Arrears (CCMA). The review will, among other things, explore: (i) reforming and streamlining the restrictions on contacts; (ii) amending the definition of a non-cooperative borrower; and (iii) permitting modifications of the interest rate setting mechanism where the lender has offered an alternative arrangement which is advantageous to the borrower in the long-term.

Financial supervision

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

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

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

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

Structural reforms

State assets

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

Labour market reform

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

34. The authorities will prepare an action plan aimed at increasing the effectiveness of training and activation supports, building on the recommendations of the DSP Review of Employment Support Schemes and the evaluation of JobBridge by end-April 2013. The authorities will also review the progress in the rolling out of Intreo offices and define measures to address potential shortcomings. The authorities will communicate a timetable for the process of procuring activation services for the long-term unemployed from private providers.

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

Water services reform

36. The Commission for Energy Regulation (CER) will carry out consultations to determine the framework for household water charges with a view to start charging by the end of the EU-IMF programme period. The CER will also conduct consultations in due course to determine the pricing methodology for the non-domestic sector.

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

Health sector

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

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

Financial sector reforms

Capital assessment

39. The authorities will complete the PCAR 2013. Building on the outcomes from PCAR 2011 and the FMP 2012, the authorities will conduct another rigorous stress test and this will continue to be based on robust loan-loss forecasts and a high level of transparency. This stress test will draw on an assessment of the banks' calculation of risk weighted assets, loan loss forecasting, and capital modelling. Before publication, the results of the PCAR 2013 will be discussed with the staff of European Commission, the IMF, and the ECB and will be aligned with the timing of the next EBA exercise. The results and methodology will be published in full and on a bank-by-bank basis, and the authorities will accordingly ensure that banks are adequately capitalised.

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

Deleveraging

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

Funding and liquidity monitoring

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

Asset quality

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

44. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their non-performing mortgage and SME portfolios in accordance with the agreed key performance indicators. The authorities will monitor

each PCAR bank's performance relative to already-defined key performance indicators for progress in resolving problem loans, and also against bank specific targets for reviewing new and existing individual arrears cases.

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

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

Financial Supervision

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

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

Structural reforms

Access to SME credit

49. Based on experience of the operation of the Insolvency Service in the personal insolvency reform, the authorities will consider the appropriateness of further enhancements to the company law framework to facilitate restructuring, especially in multi-creditor cases, reduce costs and achieve efficiency gains, including the potential for an administrative body to facilitate SME restructuring.

Water services reform

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

51. The Government's budgetary perspective will be based on Irish Water becoming substantially self-funded over time.

Further education and training

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

Health

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

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

Financial sector reforms

Deleveraging

54. The authorities will produce a final report of the banks' implementation of their deleveraging plans under the PLAR 2011. Their compliance with the asset disposal and run-off targets in nominal value terms will be discussed with the staff of the European Commission, the IMF, and the ECB.

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

Asset quality

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

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

Financial Supervision

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

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

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

Structural reforms

Labour market reform

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

Water services reform

62. The CER will establish the framework to assess water charges for households, including those without meters. Irish Water, in association with the authorities and the CER, will inform the public on the level of water charges and launch a communication campaign building on the one initiated in February 2013.

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 105 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly, 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly, 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- 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 implementation of budgetary measures in the health sector, covering inter alia assessment of timeliness and effects vis-à-vis 2013 Budget plans and explanation for any delay/shortfall, as well as update on status of any remaining actions required for effective implementation.	Monthly, 30 working days after the end of each month.
F.12	Report comparing, against the monthly targets: (i) health expenditure by mains service areas, (ii) pay and non-pay element of	Monthly, 7 working days after the end of

	current expenditure, (iii) capital expenditure and (iv) income collected.	each month.
F.13	Report on pharmaceutical prescriptions and expenditure, including information on value and volume of drugs and the extent of the use of generics and off-patent drugs.	Quarterly, 30 working days after the end of each quarter.
To be provided by the NTMA		
N.1	Monthly information on the central Government's cash position with indication of sources as well of number of days covered	Monthly, three working days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 working days after the end of each month
N.3	Data on the National Debt	Monthly, 15 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for the National Debt.	Monthly, 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months	Monthly, 30 working days after the end of each month
To be provided by the Central Bank of Ireland		
C.1	The Central Bank of Ireland's balance sheet.	Weekly, next working day
C.2	Individual maturity profiles (amortisation only) for each of the domestic banks will be provided as of the last Friday of each month.	Monthly, 30 working days after each month end.
C.3	Detailed financial and regulatory information (consolidated data) on domestic individual Irish banks and the banking sector in total especially regarding profitability (P&L), balance sheet, asset quality, regulatory capital; PLAR funding plan forecasts including LDR, NSFR and LCR outturns and forecasts.	Quarterly, 40 working days after the end of each quarter
C.4	Detailed information on deposits for the last Friday of each month.	Monthly, 30 working days after each month end.
C.5	Data on liabilities covered under the ELG Scheme for each of the Covered Institutions.	Monthly, 30 working days after each month end.
C.6	Deleveraging committee minutes from the banks and deleveraging sales progress sheets, detailing pricing, quantum, and other relevant result metrics.	Monthly, reflecting committee meetings held each month
C.7	Deleveraging reports including (i) progress achieved towards deleveraging in line with the 2011 Financial Measures Programme; and (ii) actual and planned asset disposals.	Quarterly, 40 working days after the end of the reference period.

INTERNATIONAL MONETARY FUND

IRELAND

NINTH REVIEW UNDER THE EXTENDED ARRANGEMENT—SUPPLEMENTARY INFORMATION

March 20, 2013

Prepared By European Department

1. **This supplement provides an update on financial and policy developments since the issuance of the staff report on March 13, 2013** (EBS/13/21). As discussed below, a benchmark sovereign bond was issued, a set of mortgage restructuring targets for banks was announced (obviating a structural benchmark that had been proposed for end March), proposed revisions to the Code of Conduct on Mortgage Arrears (CCMA) were set out for public consultation, and a report on remuneration in the banking industry was published. The new information does not alter the thrust of the staff appraisal.

2. **On March 13, the authorities issued a new 10 year bond—the first since January 2010—raising €5 billion at a yield of 4.15 percent**. The syndicated issue attracted total bids of almost €13 billion from just under 400 investors. As with the tap of Ireland's 2017 bond early in the year, there was broad investor interest by geography, with majority uptake by European investors, especially U.K., German, Nordic, and French, an 18 percent uptake by Irish residents, and 7 percent by U.S. investors. Distribution by type of institution was similarly broad, including fund managers, banks, pension funds, and insurance companies, with relatively little uptake by hedge funds. The recent bond issuances contain collective action clauses, which have not hindered demand. In light of the success of these placements, the authorities have raised their 2013 bond issuance target to €10 billion. Staff view this benchmark issuance as another key step toward the restoration of full market access for Ireland. It is having a virtuous impact on bank funding, with Bank of Ireland (BoI) issuing €500 million in 5 year covered bonds on March 15, at a yield of 2.75 percent, well below the 3.125 percent pricing on a similar 3 year covered bond issued in November.

3. **Also on March 13, the Central Bank of Ireland (CBI) announced a comprehensive framework to accelerate the resolution of mortgages in arrears**. The cornerstone of this framework is a set of published targets to address distressed residential mortgages, applicable to the six main mortgage banks as a group and

covering mortgages on both principal dwellings and buy-to-let housing.[1] Initially, the main target established is for the aggregate share of sustainable solutions proposed to mortgage borrowers with loans over 90 days in arrears, rising on a quarterly basis to reach 50 percent by end 2013. Targets for the conclusion of such solutions will be established before completion of the eleventh review at the latest. To help ensure the sustainability of these solutions, the CBI will monitor the share of arrangements where the terms are being met against a benchmark of 75 percent from 2014. Going forward, new quarterly targets for 2014 will be established on a rolling quarterly basis.

Residential Mortgage Resolution Targets

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

Source: CBI.

4. **Close CBI supervision of banks' performance will be complemented by other steps to support the effectiveness of these targets in durably reducing mortgage arrears**. These will include regulatory actions such as the possible imposition of additional capital requirements on banks that fail to meet targets, and more rigorous provisioning requirements for mortgages over 90 days in arrears and not subject to a sustainable solution. Under the new provisioning requirements, the CBI is minded to require that unsustainably restructured mortgages, or mortgages relapsing into arrears, be provisioned immediately up to the value of the underlying collateral, using valuation, time-to-repossession, and bank-sale discount assumptions observed by the regulator. These requirements, as well as more stringent Pillar 2 capital adequacy norms to be applied to banks showing poor operational capacity or defective mortgage resolution strategies, will be phased in for 2014, or earlier where banks underperform vis-à-vis the 2013 loan modification targets.

5. **Staff welcomes the announcement of the well designed mortgage resolution framework, which obviates the need for a structural benchmark which had been proposed for end March** (MEFP ¶5). The comprehensive scope of the targets, covering all residential mortgages and all the principal mortgage lending banks, is a key positive element for moving the resolution process forward. Additionally, the set of sustainable solutions is broadly defined, including the possibility for banks to take possession of property where other arrangements, such as

[1] These comprise ACCBank, Allied Irish Banks, BoI, KBC Bank Ireland, Permanent tsb, and Ulster Bank.

amending the terms of the mortgage, could not be reached or were not appropriate.[2] It is important that the option to repossess be available as a resort after other options have been exhausted, including to promote debt service discipline during the resolution process.

6. **The CBI has also initiated its review of the CCMA, setting out proposed changes in a number of areas for public consultation** (MEFP ¶6). The consultation paper proposes amendments to: (i) replace the limit on the number of contacts initiated by lenders with distressed borrowers with a requirement that lender communications be proportionate, guided by a contacts policy; (ii) clarify the definition of a non-cooperative borrower, thus limiting certain protections under the CCMA—such as the 12 month moratorium on repossession—to borrowers who engage constructively; and (iii) align the CCMA with the new personal insolvency framework. The paper also moots greater flexibility to modify the rate-setting mechanism on indexed "tracker" mortgages when part of restructuring arrangements that are advantageous to the borrowers over the long term. The consultation period concludes on April 10, 2013 and the CCMA will be modified, where appropriate, by end June.

7. **Separately, an external review of bank remuneration commissioned by the Department of Finance has been published**. The review, which covers Allied Irish Banks, BoI, Permanent tsb, and the recently liquidated Irish Bank Resolution Corporation over the period 2008–12, finds that remuneration declined by 20–54 percent across the banks, mainly through headcount reductions and reductions in incentive-related pay. Remuneration is now largely comprised of fixed costs for salaries, pension contributions, and fixed allowances. While average total remuneration for continuing employees decreased in each of the three going concern banks, average salaries rose at all four banks reviewed as a result of pay increases provided in 2009 and promotions. Following a consideration of the review, the government has decided to direct the banks to come up with plans to deliver savings of 6-10 percent, through reductions in payroll and pension benefits, new working arrangements, and other efficiency gains. Staff considers the review useful and notes that there may be further scope to adjust the distribution of staff by cost center and core function (e.g., headcount per branch, commercial volume per employee) to maximize savings.

8. **Recent data are consistent with staff's macroeconomic projections for 2013**. Inflation fell to 1.2 percent y/y in February 2013 due to moderating core inflation while registered unemployment, at 14.1 percent, remained unchanged from the revised out-turn for January. National accounts data for the fourth quarter of 2012 are expected on March 21.

[2] For example, if a borrower's income would no longer permit a mortgage covering the current value of the property to be serviced, and if prospects for sufficient income to be regained were inadequate.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 13/90
FOR IMMEDIATE RELEASE
March 22, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Ninth Review Under the Extended Fund Facility with Ireland and Approves €0.97 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the ninth review of Ireland's performance under an economic program supported by a three-year, SDR 19.4658 billion (about €22.61 billion or about US$29.28 billion) arrangement under the Extended Fund Facility (EFF), or the equivalent of about 1,548 percent of Ireland's IMF quota. The completion of the review enables the disbursement of an amount equivalent to SDR 0.831 billion (about €0.97 billion or about US$1.25 billion), bringing total disbursements under the EFF to SDR 17.37 billion (about €20.18 billion or about US$26.13X billion).

The arrangement for Ireland, approved on December 16, 2010 (see Press Release No. 10/496), is part of a financing package amounting to €85 billion (about US$110.06 billion), also supported by the European Financial Stabilisation Mechanism and European Financial Stability Facility, bilateral loans from Denmark, Sweden, and the United Kingdom, and Ireland's own contributions.

Ireland's strong policy implementation has continued and positive signs are emerging. Real GDP growth was 0.9 percent in 2012, and employment rose slightly over the year, although unemployment remains high at 14.2 percent. Further deepening its market access, Ireland issued €5 billion of 10 year bonds at 4.15 percent in March.

The 2012 fiscal deficit of 7¾ percent of GDP was well within the 8.6 percent target. In 2013, the fiscal deficit is projected at 6¾ percent of GDP, moving toward the target of below 3 percent by 2015. Public debt is expected to peak at 122½ percent of GDP this year and decline in later years provided growth picks up from the 1 percent rate projected in 2013.

Financial sector reforms have continued to advance, but banks remain weighed down by nonperforming loans at about 25 percent of total loans. The Irish authorities have therefore established targets for banks to durably resolve distressed mortgages, with banks required to propose sustainable solutions to 50 percent of distressed mortgage accounts by end-2013.

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

"The Irish authorities have pursued steadfast policy implementation for more than two years and positive results are emerging. Recent economic indicators suggest a nascent revival of domestic demand, Irish bond yields have fallen to pre-program levels, and the government's market access has deepened, as seen in the successful issuance of 10-year bonds.

"Nonetheless, problem loans remain high and accelerating their resolution is a key to economic recovery. The recent establishment of mortgage loan restructuring targets for banks is therefore welcome, and it will be supported by reforms announced by authorities that facilitate constructive engagement between banks and borrowers, promote the efficiency of repossession procedures as a last resort, provide banks with the right incentives through provisioning rules, and by sound implementation of the personal insolvency reform. Progress with resolution efforts for SME loans is also a priority.

"Building on the strong budget outturn for 2012, sound budget execution remains critical in 2013, including continued vigilance on health spending and a successful introduction of the property tax. The fiscal consolidation path in coming years should be reviewed at the time of Budget 2014 to ensure that medium-term consolidation targets are achieved in a growth-friendly manner.

"Prospects for Ireland's exit from official support have improved, yet continued strong policy implementation remains paramount given risks to medium-term growth and debt sustainability. Timely and forceful delivery on European pledges to improve program sustainability, especially by breaking the vicious circle between the banks and the Irish sovereign, would go a long way toward Ireland's durable exit from drawing on official support."