INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/305

IRELAND

ELEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT

October 2013

In the context of the Eleventh Review Under the Extended Arrangement, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 25, 2013, following discussions that ended on July 18, 2013, with the officials of Ireland on economic developments and policies underpinning the Extended Arrangement. Based on information available at the time of these discussions, the staff report was completed on September 12, 2013.
- **Staff Supplements** of September 18 and 24, 2013 updating information on recent developments.
- **Press Release** including a statement by the Chair of the Executive Board.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

IRELAND

ELEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT

September 12, 2013

KEY ISSUES

Policy implementation remains on track but recent weak GDP data point to a slower growth recovery. Real GDP declined in the first quarter, reflecting a fall in exports and weak domestic demand. Nonetheless, fiscal results remain on track and sovereign and bank bond yields have risen relatively modestly in response to declining global risk appetite. A range of other economic indicators are more encouraging, suggesting lower but still positive growth in 2013, though uncertainty remains. Growth projections for 2014 are also lowered given weaker prospects for consumption recovery and for trading partner growth.

Maintaining steady fiscal consolidation efforts remains central. Key budgetary measures for 2013 have been implemented effectively and broad acceptance of important public sector pay and pension savings has been achieved. Nonetheless, continued firm implementation of Budget 2013 is required to achieve this year's fiscal targets. Further fiscal consolidation efforts were agreed for 2014–15, with cumulative efforts in line with program targets.

After undue delay, banks are now beginning the resolution of impaired loans and this work must press forward to reduce arrears and related uncertainties. Banks have begun to engage with mortgage borrowers in arrears to propose durable solutions. The establishment of the Insolvency Service and the removal of an unintended hurdle to repossession proceedings are, among other steps, expected to help facilitate loan resolution progress. Nonetheless, the authorities should keep the effectiveness of the resolution framework under review and close supervision of banks' efforts will remain essential. Preparations for balance sheet assessments of the three domestic banks to be completed in the Fall are advancing as planned.

Employment has begun to pick up but high long-term unemployment remains a key challenge. Resources for the activation of the long-term unemployed should be further augmented, including through private sector service provision. Facilitating SME examinership could aid resolution of SMEs in arrears, supporting their potential to invest and create jobs.

Ireland is expected to return to reliance on market financing in 2014, yet further European support could make Ireland's recovery and debt sustainability more robust. Irish banks face weak profitability that hinders their capacity to revive lending. European support to lower banks' market funding costs could help sustain domestic demand recovery in the medium term, protecting debt sustainability and financial market confidence.

Approved By
Philip Gerson and Vikram Haksar

C. Beaumont (head), A. Bhatia, A. Chailloux, J. Andritzky, and E. Jurzyk (all EUR); L. Jaramillo (FAD); M. Moore and J. Gutierrez (both MCM); and V. Chensavasdijai (SPR). P. Breuer (Res. Rep.) also participated.

CONTENTS

ANNEXES

APPENDIX

Acronyms

AIB	Allied Irish Banks
BoI	Bank of Ireland
BSA	Balance sheet assessment
BTL	Buy to let
CBI	Central Bank of Ireland
CCMA	Code of Conduct on Mortgage Arrears
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
ELG	Eligible Liabilities Guarantee
ESM	European Stability Mechanism
HICP	Harmonized index of consumer prices
IBRC	Irish Bank Resolution Corporation
IFAC	Irish Fiscal Advisory Council
IFRS	International Financial Reporting Standards
IFSC	International Financial Services Centre
IIP	International investment position
MARP	Mortgage Arrears Resolution Process
MART	Mortgage Arrears Resolution Target
MNE	Multinational enterprise
NAMA	National Asset Management Agency
NARL	National Asset Resolution Limited
NFC	Non financial corporation
NPL	Nonperforming loan
NPRF	National Pension Reserve Fund
NTMA	National Treasury Management Agency
PCAR	Prudential Capital Assessment Review
PDH	Primary dwelling home
PLAR	Prudential Liquidity Assessment Review
PMI	Purchasing managers index
PPNR	Pre provision net revenue
PRSI	Pay Related Social Insurance
PTSB	Permanent tsb
RWA	Risk weighted assets
SSM	Single Supervisory Mechanism

OVERVIEW

1. **The eleventh review of Ireland's EU-IMF supported program found policy implementation remains on track yet near-term growth prospects are weaker and significant fiscal, financial sector and unemployment challenges remain**. Discussions focused on:

- ***Staying the course of steady fiscal consolidation***. Ireland's improved standing in sovereign bond markets reflects the credibility gained from its sustained steady fiscal adjustment. Nonetheless, the general government deficit (excluding one-off guarantee payments) is tracking toward 6.8 percent of GDP in 2013 and gross public debt is projected to peak at 123 percent of GDP at year end. Accordingly, further consolidation in 2014–15 was agreed, which, consistent with earlier plans, is at a diminished pace compared with 2011–13.

- ***Pushing forward with loan resolution***. With the nonperforming loan (NPL) ratio climbing through 26 percent, the review focused on the Mortgage Arrears Resolution Targets (MART) framework and the balance sheet assessment (BSA) to be completed in the Fall. The review also discussed techniques to harness third-party support to lower banks' funding costs and enhance their ability to internally generate the capital needed to expand credit.

- ***Addressing long-term unemployment***. The unemployment rate has eased to 13.7 percent from 15 percent in early 2012, but the long-term jobless constitute some 58 percent of all jobseekers, posing a risk to Ireland's growth potential. Hence the review sought greater focus on improving employment services and training for the long-term unemployed.

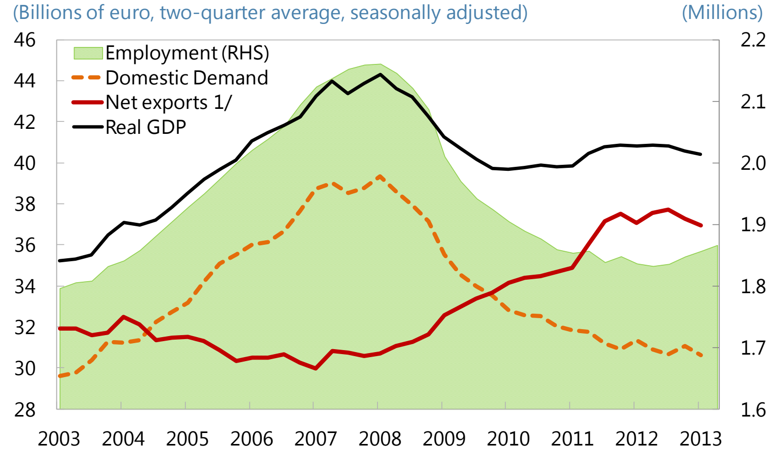
RECENT DEVELOPMENTS

2. **Growth is off to a weak start in 2013 and estimates were revised down for 2012, yet employment and other indicators are more encouraging:**

- ***Real GDP fell 0.9 percent y/y in Q1 2013***. The main drivers are uncertain owing to a large increase in the statistical discrepancy, by 1.6 percent of GDP. Falling goods exports are reported as the main factor, contributing -4.9 percentage points to growth, owing to both the prolonged recession in the euro area and the "patent cliff" in the pharmaceutical industry (Box 1, Staff Report for the Tenth Review). Domestic demand

Real GDP Components and Employment

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



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

1/Adjusted uniformly upward by €28 billion to fit on the left scale.

contributed -1.8 percentage points, with weak consumption and investment partly offset by stock accumulation. Lower imports cushioned the weakness in exports and domestic demand.

- ***Growth estimates for 2012 were revised down while there was a similar upwards revision to growth in 2011.***[1] The revised data are based on the latest corporation tax data for 2011 and updated Census results, as well as business survey data on industrial production and services. The downward revision to growth in 2012 to 0.2 percent y/y from 0.9 percent y/y previously reported reflected a lower contribution from net exports owing to revised deflators.[2] The upward revision to growth in 2011, from 1.4 percent y/y to 2.2 percent, reflected a smaller decline in domestic demand that was previously reported. Overall, nominal GDP in 2012 was little affected by these revisions.

- ***Recent export data have improved modestly and export PMIs have risen.*** Goods export volumes rose 2.3 percent q/q in Q2 2013 though this still left merchandise exports down 7 percent y/y in H1 2013, mainly driven by pharmaceuticals. Nonetheless, after showing weakness in H1, the PMI on new export orders rose to 53 in July-August.

GDP Growth and Levels Comparison

	2011	2012
Real GDP growth (percent)		
Original release	1.4	0.9
New release	2.2	0.2
Difference	0.8	-0.7
Final domestic demand (percent)		
Original release	-4.3	-1.2
New release	-3.0	-1.1
Difference	1.3	0.1
Net exports (% contrib. to growth)		
Original release	5.4	2.8
New release	5.7	1.6
Difference	0.3	-1.2
GDP deflator growth (percent)		
Original release	0.2	1.9
New release	0.7	0.7
Difference	0.5	-1.3
Nominal GDP (€ billion)		
Original release	159.0	163.6
New release	162.6	163.9
Difference (percent)	2.3	0.2

Source: Central Statistical Office.

- ***Employment rose 1.8 percent y/y in Q2, while nominal wages remained flat***. Job growth was recorded in nine of fourteen sectors, including construction which faced the highest rate of job destruction during the crisis, although public sector employment fell 1.4 percent y/y. The unemployment rate eased to 13.7 percent in Q2. While hourly wages edged up by ¼ percent y/y in H1 2013, a similar decline in average hours worked left weekly earnings flat.[3]

- ***A number of high frequency indicators also show positive signs.*** Consumer sentiment rose in June-July, aided by warm weather, and core retail sales grew 1.3 percent y/y in these months. The PMI for manufacturing crossed the expansion threshold of 50 in June and continued to improve through August. Finally, construction may be showing its first tentative signs of recovery as planning permits for new houses rose in Q1 after five years of decline; construction PMIs also improved, with the PMI for housing activity climbing above 50 in July.

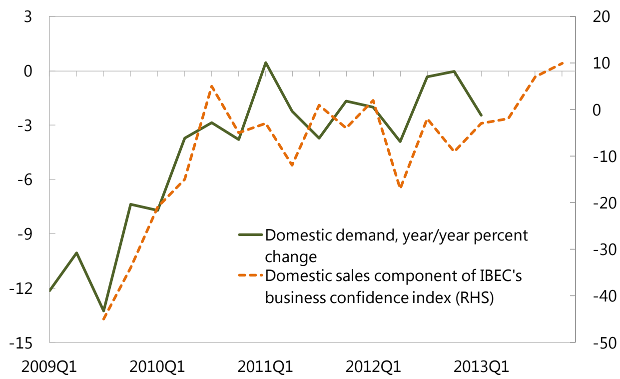
[1] There were also large revisions to historical data when GDP data for the first quarter of 2012 were released.

[2] A revision to the goods export deflator in 2011 implied lower real growth in goods exports in 2012, while the deflator for services was revised up in 2012, as the annual data are based on a comprehensive set of deflators, in contrast to the quarterly data, which is deflated using the CPI excluding mortgages series.

[3] The relatively modest decline in nominal wages in Ireland during the crisis is consistent with international evidence; see for instance Why Firms Avoid Cutting Wages: Survey Evidence from European Firms.

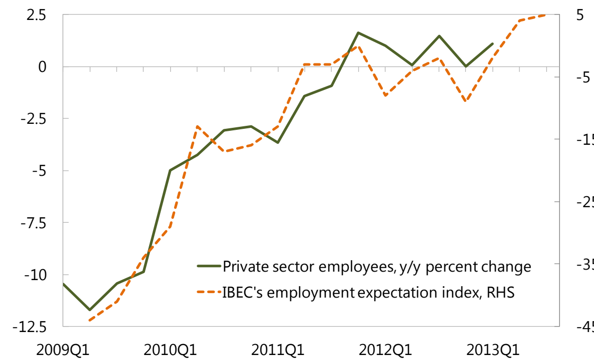
- ***Business sentiment surveys are positive for domestic demand and employment***. Latest survey results from the Irish Business and Employers Confederation, for Q2, suggest a continued recovery in sentiment, in particular among domestically-oriented firms. Based on past relationships, a second quarter of positive expectations for employment would suggest that recent private sector job growth is continuing.

Domestic Demand Indicators



Sources: IBEC's Business Sentiment Report (June 2013); and CSO.

Employment Expectations and Private Sector Employees



Sources: IBEC's Business Sentiment Report (June 2013); and CSO.

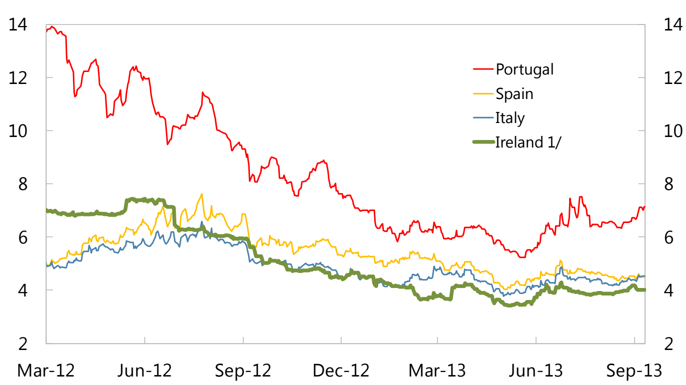
- ***Inflation remains well below the euro area average***. Helped by falling energy prices, HICP inflation was 0 percent y/y in August 2013, below euro area inflation of 1.3 percent y/y during the same period. Overall, Ireland's consumer prices have eased to 115.2 percent of the EU average in 2012, from 129.8 percent in 2008, with room for further improvements in competitiveness.

3. **Financial market conditions reflect an ebbing of global risk appetite, but the impact on bank funding costs has been contained**:

- ***The recent retracement of Irish sovereign bond yields has been broadly consistent with the experience of other countries in the euro area periphery***. After touching record lows in early May, the 10 year yield has risen 56 basis points, to 3.98 percent as of September 11. Market tensions dissipated in July after the settlement of the political crisis in Portugal and recent turbulence in emerging markets has had limited effect on Irish bond yields. No new bond has been issued by the Irish sovereign since the €5 billion ten-year issue in mid March. The regular monthly auction sold €0.5 billion of 3 month Treasury bills in July at a yield of 0.2 percent.

Ten-Year Sovereign Bond Yields

(Percent)

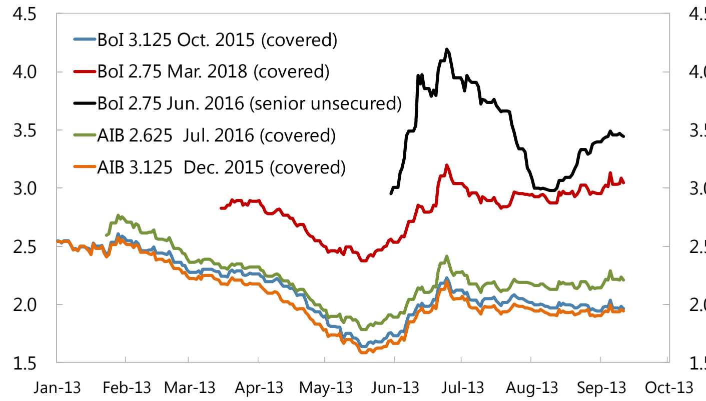


Source: Bloomberg.

1/ Prior to 15 March 2013 a treasury bond maturing in 2020 is used for Ireland.

- ***Bank bond yields have also risen but Eurosystem funding continues to decline***. From a trough in mid-May, yields on Bank of Ireland (BoI) and Allied Irish Banks (AIB) 3 year covered bonds have edged up some 40 basis points as of September 11. Since its May 30 issuance, the yield on BoI's 3 year senior unsecured bond has been more volatile, but overall has risen by 62 basis points, to 3.37 percent. Deposit rates continued to inch downward, however, and ECB borrowing by domestic banks fell from €39.6 billion at end March to €33.4 billion at end August, reflecting a paucity of new lending, further noncore asset deleveraging, modest amounts of new market funding, and a broadly stable deposit base.

Bank Bond Yields
(Percent)



Source: Bloomberg.

4. **Bank credit continues to contract, with overall lending conditions being mixed, yet there are signs of a strengthening in some property markets**:

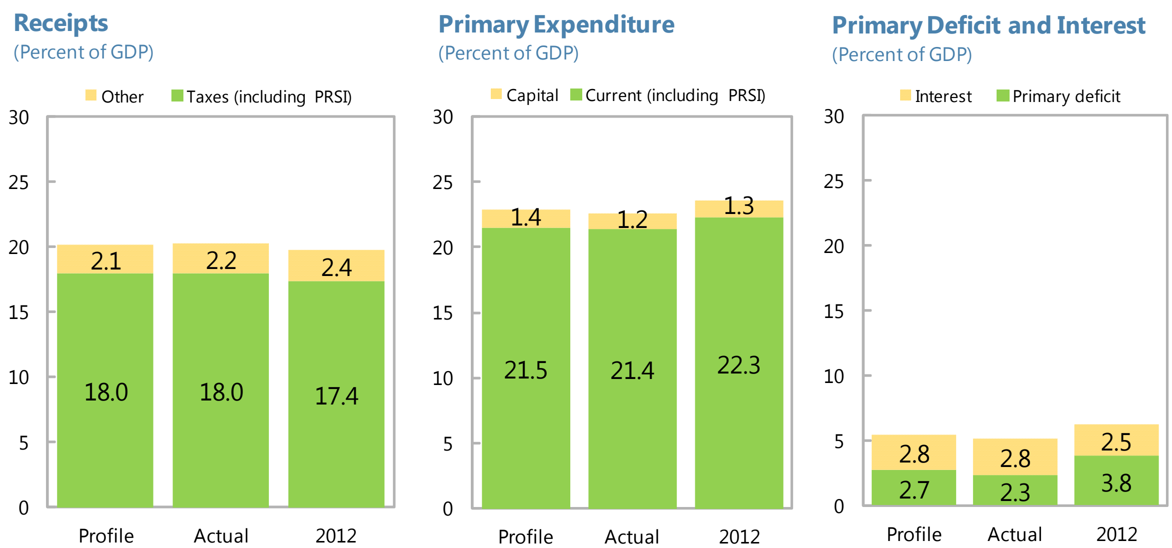
- ***Banks loans outstanding contracted through end July, with household credit shrinking by 4.4 percent y/y and loans to nonfinancial corporations by 4.8 percent.*** Net repayments caused loans outstanding to SMEs (excluding financial intermediation and property related sectors) to fall 4.9 percent y/y in Q2. A survey by the Irish Small and Medium Enterprises Association for Q3 indicated that 57 percent of SMEs who applied for funding (requesting additional or new banking facilities) were refused by their bank. Conversely, the Irish Banking Federation reports mortgage loan approvals up 9.4 percent y/y in July.

- ***Driven by Dublin, residential property prices recorded their first annual increase in six years, and commercial property prices are also rising in some market segments***. Residential property prices rose 2.3 percent y/y in July, led by an 8 percent rise in Dublin while price declines continued outside Dublin at 1.5 percent y/y. The CPI shows residential rents rising 7.2 percent y/y in July, boosting rental yields, and residential property turnover rose 8 percent y/y in the first seven months of the year. In the commercial real estate segment, the SCSI/IPD index indicates a 5.3 percent y/y price increase in Q2, with rental yields of almost 9 percent in Dublin reportedly sparking strong overseas investor interest.

5. **The exchequer deficit through end August was in line with expectations**. Cumulative primary expenditure (excluding guarantee payouts resulting from the promissory note transaction) was 1 percent of GDP lower than in the first eight months of 2012 on account of outlay reductions in social protection, health, and education, and remained slightly below the authorities' profile. Cumulative revenues (after adjusting for one-offs) were ½ percent of GDP higher than a year earlier.

Robust corporate tax and local property tax receipts offset shortfalls in VAT, excise duties, and the deposit interest retention tax, keeping total tax revenues just shy of profile. At 2.3 percent of GDP, the exchequer primary deficit was 1.5 percent of GDP smaller than in the corresponding period of 2012, with the related performance criterion for end June 2013 met by a margin (Attachment II, Table 2).

Cumulative Exchequer Outturn vs. Authorities' Profile, January–August 2013



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

MACRO-FINANCIAL OUTLOOK AND RISKS

6. **Balancing the weak GDP results for the first quarter against a range of more positive indicators, the growth projection for 2013 has been pared back by a ½ percentage point to 0.6 percent y/y, but uncertainties remain**. Most importantly, export growth has been cut by 1½ percentage points as data indicate a larger impact from the patent cliff and tepid recoveries in important trading partners. Lower imports dampen the impact on growth. Domestic demand is expected to be flat, with private consumption still contracting modestly owing to fiscal consolidation and household debt reduction, cushioned by employment growth and low inflation. Fixed investment is expected to expand by some 2 percent given improving business sentiment and the uptick in housing starts, but remains the most volatile GDP component. This projection will need to be further reviewed when Q2 national accounts data become available near end September.

7. **Weaker consumption and export growth are expected to dampen the pace of recovery, with growth now penciled in at 1.8 percent in 2014**. Export and consumption growth are expected to benefit from a projected rise in trading partner growth with employment growth contributing to incomes and confidence. Although consumption growth is still expected to become

modestly positive in 2014, the pick up is weaker because a 1½ percentage point downward revision to household saving in 2012 suggests less room for lower savings given the priority households attach to debt reduction. Public consumption is also expected to be softer than previously anticipated as the full effects of the Haddington Road Agreement feed through in 2014. Export growth in 2014 is scaled back to reflect the possibility that recent weakness could persist.

Macroeconomic Projections, 2009–15

(Percentage change unless indicated otherwise)

	2009	2010	2011	2012	2013	2014	2015
Real GDP	-6.4	-1.1	2.2	0.2	0.6	1.8	2.5
Final domestic demand	-9.7	-5.0	-3.0	-1.1	0.0	0.3	0.9
Private consumption	-5.1	0.9	-1.6	-0.3	-0.3	0.5	1.0
Public consumption	-3.4	-6.9	-2.8	-3.7	-0.6	-2.8	-2.5
Fixed investment	-26.9	-22.6	-9.5	-1.0	2.0	4.0	5.0
Change in stocks 1/	-0.7	0.6	1.0	-0.4	0.0	0.0	0.0
Net exports 1/	4.6	3.0	5.7	1.6	0.6	1.5	1.8
Exports	-3.8	6.4	5.4	1.6	1.1	2.9	4.0
Imports	-9.8	3.6	-0.4	0.0	0.6	1.9	3.0
Nominal GDP (billions of euros)	162.3	158.1	162.6	163.9	166.6	171.6	178.4
GDP deflator	-3.8	-1.5	0.7	0.7	1.0	1.2	1.4
Current account (percent of GDP)	-2.3	1.1	1.2	4.4	2.3	3.0	3.1
Consumer Prices (HICP)	-1.7	-1.6	1.2	1.9	1.0	1.2	1.4
Unemployment rate (percent)	12.0	13.9	14.6	14.7	13.7	13.3	12.8
Household savings rate (percent of disp. income)	14.9	12.0	10.7	11.1	11.3	11.2	10.9
Household debt (percent of disp. income)	218	215	212	203	200	193	185
Credit to households and NFCs (eop)	-1.5	-3.4	-2.9	-4.0	-3.1	-1.2	0.6

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

8. **Growth firms to 2½ percent in 2015 as external growth rises further and fiscal consolidation eases, but durable recovery hinges on reversing the tide of NPLs**. Export growth returns to more normal levels by 2015 and the recovery continues to rely principally on net exports as domestic demand recovery is expected to be protracted as many households continue to deleverage in the medium term. Resolution of mortgages is not expected provide significant direct support to consumption recovery, as while some households may have a reduction in debt service due under a split mortgage restructuring, they may have previously been temporarily on interest-only terms, while other households may need to adjust consumption to serving their debt even if the debt service due is reduced. Rather it is expected that progress in reducing NPLs and enhancing bank profitability will gradually enhance the terms of banks' access to market funding and their ability and willingness to lend to less indebted borrowers—which includes the younger cohort of households—unlocking housing market turnover and reducing household uncertainty. Resolution of SMEs with arrears is also expected to enable the viable parts of SMEs to invest and contribute to job creation. Hence the broader loan resolution process is key to a sustained recovery in domestic demand and employment into the medium term.

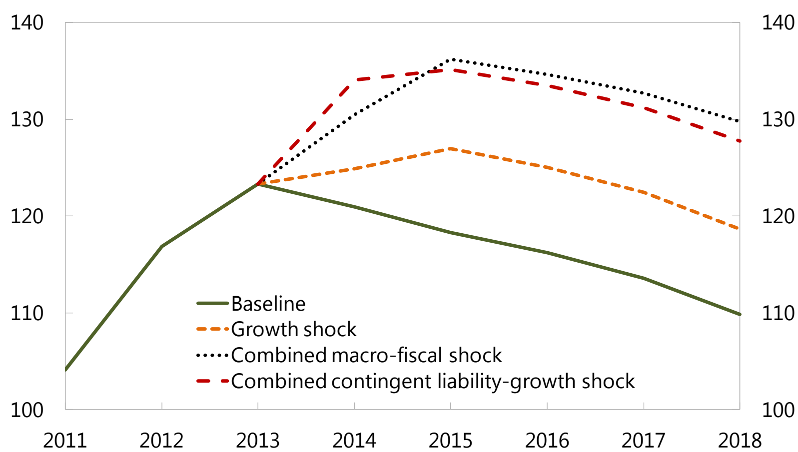
9. **This baseline is subject to a range of risks**:

- ***External demand***. Slower than expected recovery in key trading partners would hurt exports, with a large direct impact on GDP given Ireland's high degree of openness, and could retard improvements in consumer and business confidence, thus potentially spilling over to domestic demand as well. Nonetheless, recent indicators in each of Ireland's main trading partners are relatively positive, providing some scope for exports to outperform these revised projections.
- ***Domestic demand***. Consumption prospects hinge importantly on a continuation of employment gains, supporting incomes and reducing uncertainties. House prices appear to have found a floor in Dublin, but this is yet to be tested by a potential rise in disposals of repossessed properties. Fiscal consolidation in 2014–15 could have more impact on growth than expected depending partly on the composition of measures. Investment recovery is a potential upside given its low base at 11 percent of GDP, compared with the euro area average of 20 percent.
- ***Financial conditions***. The revival in credit growth and investment needed to sustain recovery over the medium term would be hindered if current efforts to resolve NPLs and improve bank profitability were to fall short. If recent international financial market volatility were to impact the euro area periphery more strongly there could be adverse impacts on banks' market funding costs and access and thus to credit availability.

10. **As a result, the projected decline in public debt remains fragile, exposed to both lower growth and contingent liabilities, which could compound each other** (Annex I). In the baseline, the ratio of gross public debt to GDP is projected to peak at 123.3 percent at end 2013—with net debt at 106 percent of GDP owing to strong cash balances at end 2013—and then decline to less than 110 percent by 2018 as the economic recovery gains traction. Key risk factors are:

- ***A growth shock***. Slower growth remains the overarching risk to debt sustainability. If projected real GDP growth rates are lowered by 0.5 standard deviations for two years starting next year (implying annual growth about 2 percentage points lower at -0.3 percent y/y in 2014 and 0.5 percent in 2015), the debt-to-GDP ratio peaks at 127 percent of GDP in 2015 before declining.

Public Debt Paths under Various Scenarios
(Nominal gross debt in percent of GDP)



Source: IMF staff estimates.

- ***A macro-fiscal shock***. If slower growth in 2014–15 were compounded by a temporary primary balance shock and by interest rates on newly contracted debt rising by 2 percentage points the debt ratio rises to 136 percent of GDP in 2015 and only falls to 130 percent by 2018.

- ***A contingent liability shock***. Potential sources of contingent liabilities include: (i) shortfalls in the crystallized value of National Asset Management Agency (NAMA) assets (including those acquired in February 2013 from the liquidated Irish Bank Resolution Corporation (IBRC)) relative to the €12.9 billion paid initially by NAMA, which would need to be covered by the government this year and next (Box 1); (ii) any further bank capital needs identified in the 2014 stress test (which would likely need to be furnished under 2–3 year capital plans) that could not be sourced in the market or through ESM direct recapitalization; and (iii) costs related to the ongoing restructuring of the credit union sector, although these are contained by the size of the sector, with net loans being only 2½ percent of GDP. Without estimates of the potential realization of these contingencies, a scenario of a 10 percent of GDP shock is used, taking into account the large financial sector support already incurred. Such a shock, if combined with the above growth shock, would push gross public debt to 135 percent of GDP in 2015 before declining to 128 percent by 2018.

11. **In view of the fragility of Ireland's public debt sustainability, staff considers it desirable that an ESM direct bank recapitalization backstop be available during next year's stress test**. The recently issued main features of the operational framework and way forward for the ESM direct bank recapitalization instrument suggest that, bank by bank, the instrument could shoulder up to 80 percent of a recapitalization need (or exceptionally more), assuming the stress test does not find core tier 1 capital of less than 4½ percent. In practice, there may not be a capital need or it may be met from the private sector. Nonetheless, having the instrument as part of the public backstop to the stress test is important to protect market confidence in debt sustainability and financial market stability.

Box 1. IBRC Asset Valuation and Sales

NAMA acquired a lien on IBRC's loan portfolio at the time of IBRC' s liquidation. Following the signing of the Special Liquidation Order, the CBI assigned the rights and the entitlements under the Exceptional Liquidity Assistance (ELA) Facility Deed and a floating charge over the IBRC balance sheet to National Asset Resolution Limited (NARL), an SPV of NAMA, in exchange for €12.9 billion of government guaranteed NAMA bonds (see Box 1 of the Staff Report for the Ninth Review).

IBRC's estate is now being independently valued at the behest of the Special Liquidators for IBRC. These valuations are to be completed by end November under instructions issued by the Finance Minister to the Liquidators in May, which include: (i) a discount rate of 4.5 percent for expected future cash flows which was determined with reference to NAMA's cost of funds; (ii) a discount of 2.32 percent on the established value of each loan to allow for potential legal issues, including security and title issues and (iii) a valuation cap equal to gross loan value outstanding.

These valuations feed into a sales process that will determine any cost to the government. The Liquidators may only sell the assets to third parties at prices at or above those established by the independent valuation, with NARL as reserve buyer. All sales are to be complete by end 2013 or as soon as practicable thereafter. The Minister is required to make up any shortfall between the amounts due to NARL under the Facility Deed (currently €13.1 billion, including accrued interest) and the valuation placed on IBRC's assets by the independent valuers. If the value of the assets sold is greater than the net outstanding secured borrowings, including the Facility Deed, any remaining assets will be available for the benefit of the pool of unsecured creditors, including amounts due to the Minister as a result of payments under guarantees (approximately €1.1 billion), unguaranteed bondholders, suppliers, and other creditors.

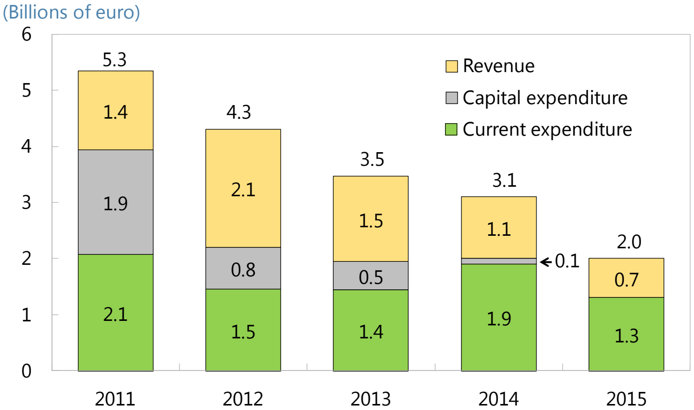
POLICY DISCUSSIONS

A. Fiscal Policy

12. **Firm implementation of Budget 2013 remains critical to achieve the 2013 fiscal targets** (MEFP ¶13). Revenue and expenditure performance is on track so far. In particular, local property tax filings indicate a compliance rate of close to 90 percent and the estimated yield of €250 million is expected to be reached. Revenue will also be supported by legislation recently published to charge private patients in public hospital beds. After reaching broad public sector union acceptance of the Haddington Road Agreement, public service pay and pension bill savings of €0.3 billion in 2013 and €1 billion by 2015 are expected to be achieved. Nonetheless, the margin between projected outturns and budget targets—both for the end September performance criterion and the end 2013 ceiling under the Excessive Deficit Procedure—is narrow.[4] Hence the authorities should press ahead with budgeted non-wage savings that were to be facilitated by the original Croke Park Agreement while maintaining their close monitoring of health spending. At the same time, given the still fragile economic recovery, consolidation measures over and above those already in Budget 2013 should not be implemented to make up for revenue shortfalls should growth disappoint this year.

13. **The fiscal deficit out-turn in 2013 could also potentially be affected by a number of one-off shocks**. The scale of any potential compensation to NAMA in relation to the IBRC loan portfolio will only be clear once the valuation and bidding processes have been completed by late 2013 or early 2014 (Box 1). In addition, the payment of AIB's dividends on preference shares held by the government via the issuance of ordinary shares (0.2 percent of GDP) may be reclassified as a deficit increasing transfer, as was the case in 2012. Uncertainty remains as to possible costs to the budget arising from the recent European Court of Justice ruling on the EU Insolvency Directive (in the Waterford Crystal case). This ruling, found the Irish state should have measures in place to protect a certain level of benefits for members of defined benefit pension schemes in cases where both the employer and the scheme have become insolvent. On the upside, additional proceeds may become available from the sale of state assets currently in the pipeline.

Composition of Fiscal Consolidation 1/
(Billions of euro)



Source: IMF staff estimates.
1/ Of the €6 billion in measures included in Budget 2011, some €0.7 billion related to the sale of assets and debt service savings are not part of staff estimates of the consolidation effort. Revenues for 2012 include €0.5 billion in carryovers from the Universal Social Charge and other measures not envisaged under the original program, but implemented under Budget 2011.

14. **Under the program, fiscal policy has been anchored to a path of annual fiscal consolidation effort through 2015 together with annual ceilings on the fiscal deficit in percent**

[4] A significant factor in the small margin relative to budget targets is the expectation that the Eligible Liabilities Guarantee scheme payments linked to the promissory note transaction (estimated at €1.1 billion) would be treated as above-the-line expenditure for EDP purposes. Excluding this item, the fiscal deficit in 2013 would be 6.8 percent of GDP, well within the 7½ percent of GDP ceiling.

of GDP under the EU's Excessive Deficit Procedure (EDP).[5] The path for consolidation effort promotes a phased fiscal adjustment while allowing automatic stabilizers to operate, and is consistent with EC's consideration of structural effort in assessing compliance with EDP deficit ceilings. By the end of 2013, cumulative fiscal consolidation effort of €13.1 billion (8 percent of GDP) will have been implemented under the program, with just over 60 percent being expenditure measures.

15. **The review had preliminary discussions on fiscal consolidation in Budget 2014**. The Irish authorities are firmly committed to meeting the 5.1 percent of GDP ceiling on the deficit in 2014. They note some room to meet this ceiling with a smaller consolidation effort than the €3.1 billion (1.8 percent of GDP) set out previously, but have deferred a decision on the amount of adjustment in 2014 until closer to Budget 2014. Staff continues to support Ireland's phased fiscal consolidation process to assure that high public debt is put on a firmly downward trajectory while allowing full operation of the automatic stabilizers. In that context, staff stressed the importance of delivering the planned cumulative consolidation in 2014–15 of €5.1 billion (2.9 percent of GDP).[6] Under the revised macroeconomic projections, this amount of cumulative consolidation is also consistent with reaching a deficit within the EDP target of less than 3 percent of GDP by 2015. In this context, it was agreed that the authorities will publish Budget 2014 on October 15 with fiscal targets until 2016 fully in line with the 2010 Council Recommendation under the EDP, including the required fiscal consolidation effort until 2015, and national fiscal rules (proposed structural benchmark, MEFP ¶4). The specific consolidation effort for 2014 will be discussed with the EC, ECB and IMF staff taking into account budgetary outturns in the first three quarters of 2013 and further information on growth developments and prospects.

16. **In preparation for Budget 2014, the authorities are analyzing a range of strategic reform options to ensure the consolidation is equitable, durable, and growth friendly**. Part of the consolidation effort for 2014 will be met through the carryover effect of previous measures, estimated at about €1¼ billion (¾ percent of GDP). New budget measures should minimize the drag on demand and job creation, while maximizing fairness and durability. Staff therefore continues to support an expenditure-led consolidation—about 65 percent of the cumulative effort thus far—which generally has smaller long-term multipliers. On the spending side, the authorities are seeking to better target social supports and subsidies, reform key public services to generate savings while preserving outcomes, and continue targeted capital investment. On the revenue side, they are looking to further broaden the tax base (MEFP ¶5). This approach is broadly consistent with the strategy recommended in the 2012 Article IV staff report.

[5] This fiscal consolidation path to 2015 is unchanged from the November 2011 MTFS, and is also the technical assumption underpinning the April 2013 Update of the Irish Stability Programme to achieve EDP targets.
[6] The assessment of the Irish Fiscal Advisory Council in its April 2013 report is that the planned adjustments of €3.1 billion in 2014 and €2.0 billion in 2015 should not be reduced. At the same time, based on an improved budget out-turn in 2012, the IFAC no longer made a case for additional adjustment beyond €5.1 billion planned in 2014–15, as it had in September 2012.

17. **The authorities continue to strengthen their institutional framework and enhance fiscal transparency**. Legislation to make legally binding the already operational three-year ceilings on aggregate and departmental expenditure was enacted in late July, with operational details specified in a circular issused before end September. The Irish Fiscal Advisory Council (IFAC) has been assigned the role of independently endorsing the macro forecasts on which the budget and stability program are based. A Memorandum of Understanding between the IFAC and the Department of Finance outlines the modalities of the arrangements necessary for the IFAC to carry out this endorsement function. Staff welcomes the publication of the authorities' action plan on enhancing fiscal transparency in the coming years, guided by the Fund's recent fiscal transparency assessment.

B. Financial Sector Policy

18. **The eleventh review focused on three main banking issues**:

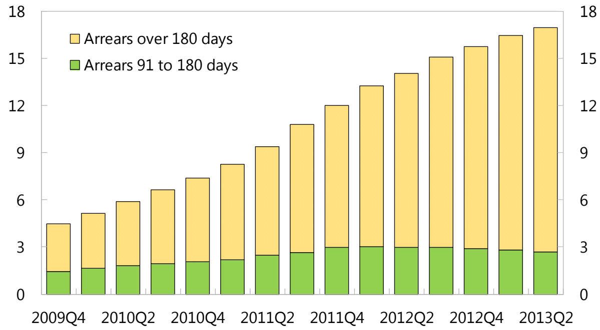
- ***Resolving NPLs***. Arresting the rise in arrears on residential mortgages and SME loans remains the most pressing priority. The review further articulated the MART targets and followed up on the supervisory approach to SME arrears. Banks have now started to engage with mortgage borrowers in arrears, but much further work is needed to conclude sustainable solutions.
- ***Profitability***. The two pillar banks, AIB and BoI, are progressing toward break even, but PTSB faces prolonged losses. Improving profitability to a point where retained earnings can reliably generate new capital is critical to sustaining new lending. The review therefore began discussions on ways to efficiently harness third-party support to help lower banks' funding costs.
- ***Provisioning and capital adequacy***. A BSA, with reviews of loan classification, provisions, and regulatory risk weights, is underway. Preliminary results are due by end October and a final assessment by end November. The review discussed the BSA methodology and separate independent third parties have been engaged for the execution and validation of the exercise.

Resolving NPLs

19. **The overhang of residential mortgages in arrears has continued to grow**. Mortgages on primary dwelling homes (PDHs) in arrears for more than 90 days rose from 15.8 percent of total value at end 2012 to 17.0 percent at end June. Over the same period, the comparable ratio for buy-to-let (BTL) mortgages rose from 26.9 to 28.5 percent. Early arrears cases, with arrears of 90 days or less, have declined by 10 percent from their peak in September 2012. However, the share of loans with long-dated arrears has risen over time, with loans in arrears for over 2 years now accounting for 32.5 percent of PDH loans in arrears over 90 days, and 38.0 percent for BTLs. Loans so deeply in arrears typically have substantially larger arrears balances outstanding. While the share of restructured mortgages, increased only slightly from 13.2 percent of total value at end 2012 to 13.6 percent at end June, the composition of restructurings exhibits the beginning of a shift towards long term solutions, with a drop in interest-only arrangements and rise in split mortgages.[7]

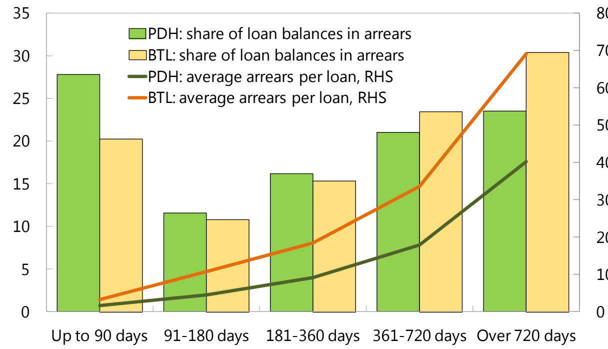
[7] A split mortgage reduces the balance to be serviced while leaving the principal due unchanged—giving the lender potential to share in an improvement in the borrower's circumstances. For further discussion of these issues, see a speech by Governor Honohan on "Sustainable mortgage modification" 23 May 2013.

Mortgages in Arrears on Primary Dwellings
(Percent of total mortgage value)



Source: Central Bank of Ireland.

Residential Mortgages in Arrears by Duration (June 2013)
(Percent) (Thousands of euros)



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

20. **Owing to banks' slow progress in addressing rising mortgage arrears, the authorities have adopted a framework of mortgage arrears resolution targets.** In a systemic banking crisis as Ireland has experienced, some period of forbearance for borrowers in arrears is typical as banks gauge whether borrowers face temporary or lasting difficulties. However, in Ireland forbearance became overly prolonged in recent years, reflecting a combination of factors including banks' hopes for an improvement in economic and property market conditions, the application of IFRS incurred loss model facilitating recognition of loan losses at a slower pace than under an expected loss approach, banks' inadequate operational capacity to deal with distressed assets, their difficulties engaging with some customers reflecting protections under the Code of Conduct on Mortgage Arrears (CCMA) and unintended impediments to initiating repossession proceedings, and a personal insolvency regime that needed reform to provide a functional fallback to bilateral resolution.[8] In their review of progress in addressing mortgage arrears, the authorities summarized the range of reports, legislative reforms, and supervisory efforts since the start of the crisis to address these and other factors—meeting the end June structural benchmark—though the review did not assess the effectiveness of bank's mortgage resolution actions given the limited experience available at the time. Yet, reflecting the lack of progress in loan workout by the banks, the CBI began to develop the Mortgage Arrears Resolution Targets (MART) framework in late 2012 with the first set of targets announced in March.

Residential Mortgage Arrears Resolution Targets, as of March 2013

Targets 1/	2013			2014			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sustainable solutions proposed							
(percent of customers 90+ days in arrears)	20	30	50	2/	*Announced on a rolling quarterly basis*		
Arrangements concluded							
(percent of customers 90+ days in arrears)	*No target*	*No target*	2/	2/	*Announced on a rolling quarterly basis*		
Terms being met							
(percent of arrangements concluded)	*No target*	*No target*	*No target*	75	75	75	75

Source: CBI.
1/ Applying to ACC Bank, AIB, BoI, KBC Bank Ireland, PTSB, and Ulster Bank.
2/ To be announced in September 2013.

[8] Reforms of the personal insolvency framework are summarized in Annex II, and the repossession regime is discussed in Box 4, of Ireland: Ninth Review Under the Extended Arrangement.

21. **Banks report that they have met the initial targets for proposals to resolve mortgage loans**. Each of the six banks subject to the MART regime faced an initial target to propose sustainable solutions to 20 percent of mortgage borrowers more than 90 days past due (see table above).[9] These banks report that they made almost 35 thousand offers covering 33 percent of borrowers in arrears, though the final figures may be lower following CBI audits of the sustainability of these proposals, which are expected to commence in September. It is notable that over half of reported proposals were in the form of legal demand letters for repossession sent to borrowers in prolonged arrears, in order to prompt borrowers will reengage with the bank on solutions.

22. **To move the resolution process beyond proposals, the CBI will announce targets for concluded solutions of at least 15 percent of arrears cases by end 2013 (prior action, MEFP ¶8) and 25 percent by end March 2014**. The CBI will also announce an end March 2014 target for offers of sustainable solutions at 70 percent of arrears cases. These bank-by-bank targets take into account banks' initial prioritization of cases in lengthy arrears where engagement with such borrowers will be often time consuming, with CBI endorsing some banks' approach of putting certain borrowers on a six month trial period of servicing their debts before signing off on a loan modification. Staff would have favored a higher target for concluding resolutions by end 2013 to more quickly reduce arrears and NPLs so as to put banks into a better position to lend, yet allowance for such trial periods appears reasonable to contain redefault risks, which are an important metric for the effectiveness of the resolution process in addressing financial distress and reducing uncertainty around the value of mortgage portfolios.

23. **Close supervision of banks' efforts to meet these targets is needed to ensure consistent progress toward substantially resolving residential mortgage arrears by end 2014** (MEFP ¶8). A number of recent steps should facilitate the resolution of residential mortgage distress going forward, including the establishment of the Insolvency Service, the removal of the unintended legal hurdle to summary repossession proceedings by enacting the Land and Conveyancing Law Reform Act 2013, and the appointment of specialist judges for personal insolvency (MEFP ¶7). In addition, the modification of the Code of Conduct on Mortgage Arrears (CCMA) should facilitate more effective engagement between borrowers and lenders although it also increases banks' compliance requirements (Box 2). However, the effects of these reforms remain to be tested in practice, so the authorities must keep the performance of the mortgage resolution framework under review. The CBI will need to continue close monitoring of developments to ensure banks conclude durable solutions in a timely manner, including through audits of their consistency with the CBI's internal guidelines on sustainable solutions.

[9] Sustainable solutions include (i) returning to full debt service under the original terms; (ii) a long-term modification of mortgage terms where necessary; (iii) repossession or voluntary surrender where other solutions are not available.

Box 2. Evolution of the Code of Conduct for Mortgage Arrears

The purpose of the CCMA is to regulate the interaction between lenders and households with mortgages on primary residences in financial difficulties. The Code sets out a Mortgage Arrears Resolution Process (MARP) with the aim of reaching agreement on alternative repayment terms and protects borrowers from inappropriate collection practices, including a moratorium on repossession as long as the MARP is ongoing. Compliance with the Code is supervised by the CBI. Courts have also taken compliance with the CCMA into account during repossession proceedings.

The CCMA is a product of the crisis. In February 2009, the Financial Regulator issued a first principles-based CCMA introducing, *inter alia*, a six month moratorium on repossession (extended to 12 months in late 2010). In January 2011, following the Cooney Report which recommended a formal and rules-based process, a new Code became effective that prescribed the MARP and included an Appeals Process.

The Code reflects the EU's national approach to consumer protection. While several euro area countries have tightened arrears management regulations following the bursting of the credit bubbles, no common best practice has yet emerged. Portugal has introduced regimes to facilitate multicreditor coordination on mortgage debt, requiring banks to offer sustainable refinancing options. In Greece, the authorities are considering alternatives to replace a limited moratorium on repossession and the existing personal bankruptcy law. In Spain, where repossession is common, protections—including a two year moratorium on repossession—are focused on the vulnerable.

As a program commitment, the CBI conducted a comprehensive review of the CCMA in the first half of 2013, including a public consultation, resulting in several key modifications:

- ***Contact between lender and borrower***. With no evidence of systematic harassment of borrowers identified in the course of the CBI's themed inspections, the limit on unsolicited contacts to three per month was found to unduly constrain banks' ability to engage with cooperating borrowers, especially during the crucial phase of early arrears. The revised CCMA provides more qualitative guidance to banks, which are required to develop a contacts policy and record all calls.
- ***Cooperation and engagement***. While protections under the CCMA are intended only to extend to cooperating borrowers, a narrow definition of noncooperation may have allowed stalling tactics by some borrowers. The modified CCMA requires meaningful engagement by the borrower, in particular with regard to provision of required information. Lenders, in turn, must provide advance notification before declaring a borrower non-cooperating, and offer the opportunity to make an appeal.
- ***Tracker mortgages***. Previously, the CCMA included a requirement that the tracker interest rate setting mechanism of a mortgage could not be altered. This limited banks' ability to offer alternative arrangements to borrowers with tracker mortgages even when preferable to the borrower over the full life of the loan. New provisions now allow the switch to another rate setting mechanism where the lender concludes that none of the options that would allow the borrower to retain the tracker interest rate is appropriate and sustainable for the borrower's individual circumstances.
- ***Moratorium on repossession***. The personal insolvency framework requires that borrowers and lenders must engage under the MARP for at least six months before a Personal Insolvency Arrangement (PIA) may be considered. The modified CCMA therefore requires that lenders must not commence legal proceedings against cooperating borrowers until at least eight months have elapsed since the arrears first arose. A new two month moratorium included in the Land and Conveyancing Law Reform Act 2013 mainly provides time for eligible borrowers to apply for a protective certificate under the PIA where legal proceedings for repossession have commenced.

24. **Strengthening Ireland's repossession framework could further support progress in durable loan modifications** (MEFP ¶9). The recent restoration of the availability of summary repossession proceedings for mortgages created prior to December 2009 is an important step forward. Nonetheless, court proceedings and enforcement of court orders can be lengthy, adding to resolution costs where a change in ownership is the only available solution, and undermining borrowers' incentives to engage on concluding loan modifications and to adhere to the revised debt service schedule. The authorities are therefore examining the introduction of tight deadlines on plenary repossession proceedings for non-principal private residences, together with options to expand judicial resources for repossession cases as needed, where staff suggested that recently appointed specialist judges could contribute. Based on a terms of reference agreed with EC, ECB, and IMF staff, they will also appoint an internal expert group to review the length, predictability, and cost of proceedings, including relative to peer jurisdictions, and to propose remedies by end 2013.

25. **The authorities are also strengthening resolution of SME loans in arrears** (MEFP ¶10). In June the CBI set SME loan restructuring targets for the two banks that dominate SME credit. The targets are supported by a comprehensive monitoring framework, including Key Performance Indicator reports introduced in January 2013. The quality of the workout effort will be assessed through onsite reviews focused on the sustainability of the restructurings and supporting further improvements in banks' operational capacity and strategies.

Reviving Bank Profitability

26. **Despite headwinds, the banks report that a recovery of operating profits is underway**. AIB and BoI, and a smaller bank more focused on household lending, Permanent tsb (PTSB), together generated €92 million of pre-provision net revenue (PPNR) in the first half of 2013 (Table 10).[10] This is sharply improved from the PPNR loss of €678 million in the corresponding period of 2012, though still not yet sufficient to cover credit provisioning costs and it partly relies on the accrual of income on loans in arrears, as provided for under IFRS. The recovery has been driven mainly by operating cost reductions coming through from the second half of 2012, the phasing out of guarantee fees starting this year, and some progress on raising net interest margins as rates on new deposits have fallen below the 1 percent mark for both households and corporations, and there have been some increases in variable-rate mortgages. The near completion of the balance sheet deleveraging process should alleviate profit pressures related to asset disposals going forward yet banks' determination to reduce dependence on ECB funding may act in the opposite direction given the substantially higher cost of wholesale funding.

27. **However, PTSB's return to profitability is unduly prolonged and a timely solution is needed to ensure it can contribute to economic recovery**. PTSB's operating loss of €449 million in the first half was little improved from the corresponding period in 2012. As required under EU state aid provisions, an updated restructuring plan for PTSB was submitted to the European Commission in August. With PTSB as a whole not expected to regain profitability until 2017 the plan continues to envisage the separation of PTSB into core and noncore legal entities, with the core entity being a viable bank and noncore entity destined for runoff over time. However, implementation of this plan continues to be impeded by a lack of low cost funding for this runoff

[10] Pre-provision net revenues are calculated as net interest income plus operating income less operating expense.

entity. The authorities will follow up with further analysis of PTSB's profitability prospects and funding options (MEFP ¶13), but it is necessary to implement a lasting solution for PTSB.

28. **In this context, the authorities are stepping up their initiatives to strengthen banks' profitability** (MEFP ¶12). These include the preparation of: (i) an analysis of operating profit through 2015, including operating expenses, funding cost sensitivities, and the recording of income from impaired or modified loans, by end September; (ii) an external review of bank fee regulation, by end 2013; and (iii) a detailed technical proposal to reduce market funding costs for low-yielding assets, by end September.

29. **Reducing banks' market funding costs through a low-risk alternative approach to mobilizing European support would address key challenges** (Box 3). The authorities reported on their exploration of options to lower the funding cost of banks' tracker mortgage portfolios, finding that approaches reliant on Irish sovereign guarantees to be ineffective—consistent with the recent phasing out of the Eligible Liability Guarantee scheme earlier this year—while approaches reliant on increased access to low-cost Eurosystem funding could be effective but could undermine market perceptions of bank health. Nonetheless, in one approach under development, Irish banks could "borrow" the high-quality balance sheet of a European institution to issue market liabilities at rates that would make their low-yielding assets profitable—which would be particularly relevant to PTSB given its large tracker mortgage exposure.[11] Bolstering bank profitability would simultaneously support lending capacity needed for revival of domestic demand growth to be sustained, while at the same time, reduce possible capital needs ahead of the 2014 SSM stress test and improve prospects for their return to private ownership.

Ensuring Appropriate Risk Buffers and Other Measures

30. **The balance sheet assessment (BSA) to be completed later this year is underway** (MEFP ¶11)**.** The BSA focuses on AIB, BoI, and PTSB—the three banks covered by the Prudential Capital Adequacy Review of 2011 and to be stress tested again in 2014. It combines reviews of loan classification, provisioning, and risk weights, and will provide a "point-in-time" capital assessment. Preliminary outputs are due by end October and finalized results by end November, and these will inform the banks' preparation of their end 2013 financial statements. At this stage, the authorities have completed preparations, including engaging third parties independent of the banks to execute loan file reviews and a separate independent third party to validate the exercise as a whole, and the execution phase is underway.

[11] The nature of tracker mortgages and their drag on bank profitability in an environment of low ECB interest rates is discussed in Box 3 of Ireland: Tenth Review Under the Extended Arrangement.

Box 3. A Potential Approach to Reducing Bank Funding Costs

Assets indexed to ECB policy rates are a drag on bank profitability and lending capacity. In Ireland, the "negative carry" on tracker mortgages is estimated by staff at some 0.4 percent of average assets. The Irish authorities have therefore been exploring options to lower the funding costs of these portfolios. Most scenarios with an asset transfer to a third party would crystallize negative carry conditions over the life of the asset and generate substantial costs up front. Further adjusting Eurosystem risk controls (eligible collateral and haircuts) may have only a marginal impact on overall funding costs. An alternative avenue could be to leave the assets on bank balance sheets, and provide a credit enhancement to underpin low-cost market funding.

Credit enhancement could be structured to reduce counterparty risks and sharply reduce banks' market funding costs. Recent 3 year covered bond issues by Irish banks yield about 2.1 percent while 3 year bonds issued by a AAA rated institution trade at 0.3 percent.

By allowing banks to "borrow" access to a high quality balance sheet, the scheme would enhance their capacity to generate the capital needed to sustain lending. Enhancing bank profitability prospects would also feed positively into the SSM stress tests. The framework could have broader applicability in those euro area countries where easing credit constraints, e.g., for SMEs, is key to economic recovery.

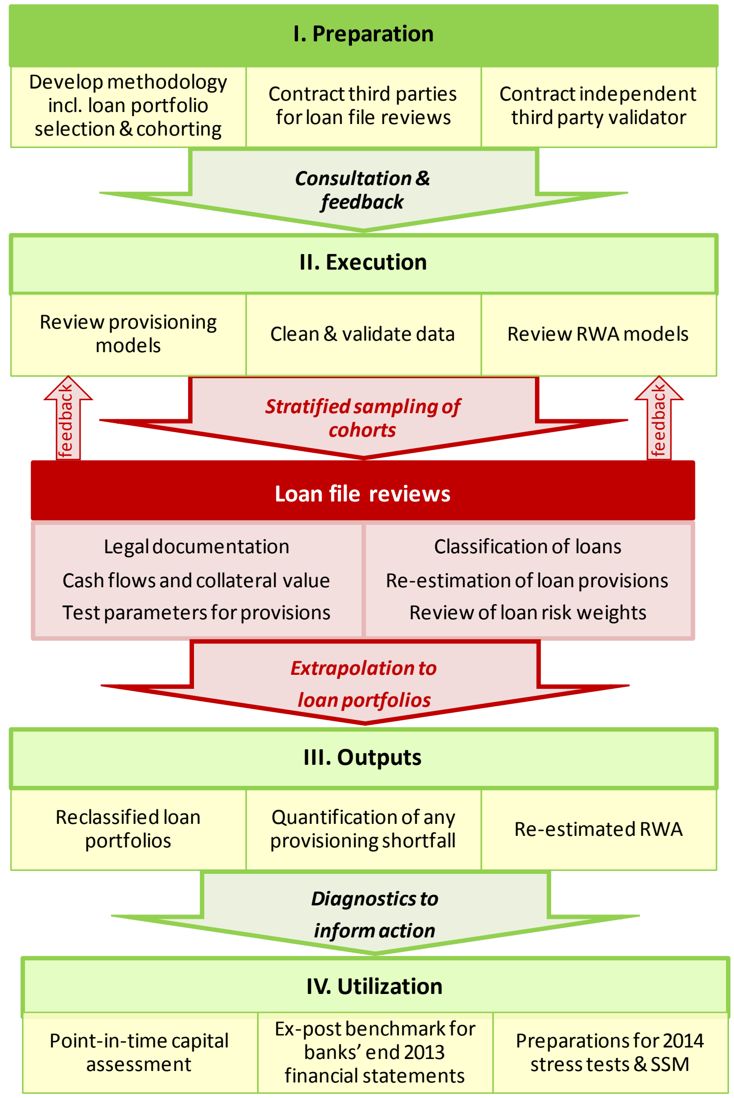
The scheme would be temporary. Reductions in funding costs on tracker mortgages are most useful while ECB refinancing rates remain low, bank funding markets remain fragmented across the euro area, and banks are still under restructuring plans to enhance their profitability and soundness. As these conditions are addressed over time through banking union, fiscal consolidation to reduce sovereign risk, and implementation of bank restructuring plans, the need for such a scheme would diminish.

31. **With the assistance of the third parties, and in consultation with EC, ECB, and IMF staff, the CBI has developed the methodology for the BSA that seeks to deliver credible results within the time available.** The BSA has two main work streams:

- ***Review of asset quality***. This review entails a systematic process of stratified sampling of loan files, reviewing these loan files, and extrapolating the results to each loan portfolio. It will establish whether banks' loan books are appropriately classified and whether provisions on an IFRS incurred-loss basis are consistent with the CBI's Impairment Provisioning and Disclosure Guidelines as amended at end May. Key steps elements of the methodology are:
    - ***Portfolio selection***. Selection of loan portfolios to be included seeks to maximize coverage while ensuring the project is completed on time, with almost all loans and receivables of the participating banks within the scope of the exercise.
    - ***Cohort definition***. Within portfolios, cohorts have been defined to reflect the risk characteristics based on CBI supervisory knowledge.
    - ***Sampling***. Loan files reviewed will include large exposures for the relevant asset classes, plus a random sample for the remaining exposures in a two-phase approach.

- ***Review of risk weights***. In parallel, the CBI is reviewing the appropriateness of banks' risk weighted asset (RWA) calculations for regulatory capital purposes, including key model inputs and assumptions. This review will take into account the results of the review of asset quality and evaluate the sensitivity of RWAs to alternative inputs and assumptions.

Stylized Overview of the Bank Balance Sheet Assessment 2013



32. **Other important financial sector measures are in train**. Two legislative initiatives, in particular, will improve CBI enforcement powers and risk identification across the system:

- ***Central Bank (Supervision and Enforcement) Act 2013***. Signed into law in mid July, this piece of legislation strengthens the regulatory authority of the CBI. Key features include new CBI powers to require auditors to provide written report on firms' compliance with regulatory requirements and to direct firms to undergo targeted third-party reviews of their operations. The Act also reinforces the CBI's authority to issue directions, enter premises, inspect, copy and seize documents, and order restitution through the High Court. The Act further increases the range of financial penalties available to the CBI. These and other powers under the Act will be independently reviewed under the assessments of Ireland's observance of the Basel Committee *Core Principles for Effective Banking Supervision* and the IOSCO *Objectives and Principles of Securities Regulation*, to be completed by end 2013.

- ***Credit Reporting Bill 2012***. The bill, expected to be enacted by November, provides for a statutory Central Credit Register system owned and operated by the CBI. The register, when fully operational, will provide lenders access to borrower information including personal identifiers that will allow for the tracking of credit exposure and payment history. To ensure the earliest operational availability of the register, the CBI is preparing to initiate the process of tendering for the design and implementation of the register (MEFP ¶15).

C. Structural Reforms

33. **The authorities remain committed to promoting growth and fostering job creation** (MEFP ¶16):

- ***Medium Term Economic Strategy***. The authorities are preparing an economic strategy for the 2014–20 period by year end. The strategy will focus on policy actions for achieving sustainable economic and employment growth and outline how requirements under the Stability and Growth Pact and fiscal compact will be met.
- ***State assets***. The sale of energy assets (Bord Gáis Energy and ESB) is continuing as planned, with proceeds expected to be the major contributor to the total projected disposal receipts of up to €3 billion. Conversely, the planned sale of forest harvesting rights currently managed by a state-owned company (Collite) has been suspended; instead, the authorities intend to prepare a restructuring plan within the next six months, planning to implement it by end 2014. The sale of AerLingus remains on hold, pending the outcome of the European Commission antitrust investigation regarding Ryanair's stake in the company (the UK Competition Commission recently instructed Ryanair to cut its stake in the company from 29.8 percent to 5 percent).
- ***Investment projects***. The authorities are also progressively putting into the pipeline the planned €1.4 billion of public-private partnerships and an additional €150 million in investment projects will be directly funded from the budget. A pilot project is being put in place to test the use of social clauses in public work programs. These would require that some publicly funded projects employ a certain share of long-term unemployed job seekers.

34. **Continued reforms of activation and training are essential to limit structural unemployment**: (MEFP ¶17):

- ***Pathways to Work 2013***. The newly released strategy aims to refocus the authorities' efforts on the following issues: (i) the long-term unemployed; (ii) jobless households, where the ratio has increased from 15 percent in 2007 to 22 percent in 2012, double the European average; and (iii) incentives to work. It encompasses ongoing initiatives such as the rollout of the Intreo offices, with a target of 43 to be completed by end year and the remainder in 2014; implementation of the Intreo engagement model in all offices by end year; targets for group and individual engagement with the unemployed; profiling of all clients on Live Register of unemployment; and increasing the number of work places available to the unemployed.
- ***Case officers***. Recognizing that current resources are insufficient to effectively engage with the long-term unemployed, the authorities are redeploying 300 case officers by end 2013, with 200 more to be redeployed next year. By doubling resources, this will lower the ratio of unemployed per case officer from the currently high number of 788 closer to the goal of around 200:1. With the new resources, the authorities intend to activate around 15,000 of the long-term unemployed through group engagement and around 10,000 through individual interviews each quarter. Staff considers these goals should be raised over time in order to provide adequate engagement.

Country	Unemployed per case worker
Netherlands	60:1
Sweden	80:1 to 125:1
UK	80:1
Australia	97:1
Germany	90:1 to 158:1, best results at 40:1

- ***Outsourcing of employment services***. Engaging the private sector in the provision of employment services would help alleviate these staffing concerns. The authorities commissioned a report with an independent consultant, which reviewed international best practice. Based on the outcome of the report, they are now in the process of preparing a request for tender, which should be issued by end November.
- ***Incentives to work***. The Irish welfare model is moving towards a principle of mutual obligation, where income support is intended to be provided in exchange for active engagement with employment services. Hence, the authorities will review their system of sanctions and appeals to ensure it provides appropriate incentives. In addition, they will review training allowances received by certain participants of FÁS courses as well as the wage costs and other factors which may affect youth unemployment.

35. **Efforts to unleash the job-creating potential of the SME sector will continue** (MEFP ¶18). Recent analyses suggest that a nexus of demand and supply factors underlie the weakness of SME financing (Box 4). The Credit Guarantee Scheme will be reviewed with a view to addressing the limited uptake observed so far. Given the imperatives of SME loan resolution, the authorities will seek to accelerate the adoption of provisions giving to Circuit Courts jurisdiction for SME examinership by year end. The authorities will consider by end 2013 the appropriateness of additional legislative amendments to the SME examinership legal framework to reduce costs and achieve efficiency gains.

PROGRAM MODALITIES AND FINANCING

36. **Program conditionality for the eleventh review has been met—subject to a prior action on announcing targets for mortgage resolution—and conditionality for the remainder of the program established** (Attachment I, Tables 1–3):

- ***Conditionality for end June was met***. The January–June exchequer primary deficit of €2.2 billion was well within the adjusted target of €4.0 billion, which reflected adjustments for the overperformance of revenues, additional ELG payments related to the promissory note transaction, and proceeds from the sale of BoI contingent convertible notes. The indicative target on the stock of central government net debt was also met with a margin. The end June benchmark on preparing a review of progress in addressing mortgage arrears was observed.
- ***A prior action was established***. The CBI will publish a target for the conclusion by end 2013 of sustainable solutions of no less than 15 percent of mortgage loans in arrears for more than 90 days.
- ***An additional structural benchmark is proposed*** (Attachment I, Table 3). The authorities will publish Budget 2014 by October 15 with fiscal targets through 2016 fully in line with the 2010 European Council Recommendation under the Excessive Deficit Procedure, including the required fiscal consolidation effort until 2015, and national fiscal rules.

Box 4. Financing Constraints of Irish SMEs

The SME sector is important for job creation in Ireland but credit to the SME sector has been declining. SMEs make up 99.5 percent of all Irish enterprises, employ 72 percent of the Irish workforce and account for 52 percent of the gross value added of the economy. After remaining flat in 2011 and early 2012, the stock of bank credit to SMEs (excluding financial intermediation and the property sector) has declined at annual rates of 5 to 6 percent y/y in recent quarters, with a fall of €1.5 billion (0.8 percent of GDP) in the year to June 2013.

The role of credit supply constraints versus weak credit demand has been unclear. There is clearly potential for supply constraints given the challenges of the banks, including the high share of NPLs, weak profitability, and limited access to market funding, although the latter factor has eased. At the same time, the weakness of the domestic economy would tend to reduce investment and demand for credit. Overlaid on this is the financial condition of many SMEs, with many businesses having invested in property, so collateral constraints and balance sheet distress may also undermine credit availability, as found in a survey by Mazars.

Some studies suggest that credit demand has been the main factor while not excluding supply issues:

- **Econometric analysis by Laeven (2012) suggests weak lending is mostly demand-driven**. Regression analysis of firm level data finds that cash flows play an important role in investments by small firms, indicating they are financially constrained. However, there is no evidence that these constraints become more severe in the crisis, suggesting that the decline in investment and credit by small firms is primarily driven by demand factors.
- **Survey data show that credit constraints rank only third in SMEs problems and affect a minority of SMEs**. Using firm-level information and a broad range of survey data Gerlach-Kristen, O'Connell and O'Toole (2013) show that “Finding customers” is the largest problem faced by Irish SMEs and found that at most one in nine SMEs was credit constrained. Their analysis uses a broad concept of credit constraints, including situations where borrowers are "discouraged" to seek bank finance. They find that credit constrained SMEs are mostly young, small firms with a domestic customer base and a debt overhang and that credit constraints affected loans for investment purposes more substantially.

Other contributions have sought to further identify the sources of Irish SMEs’ financial constraints:

- **A cross-country structural analysis suggests credit supply is intertwined with macroeconomic developments and Ireland is among the most impacted in the euro area**. Holton, Lawless and McCann (2013) use EMU firm-level cross-country survey and market data to identify heterogeneity in SME credit conditions within the euro area since 2009. They found evidence of credit crunch in EMU countries and established empirical links between domestic demand, the level of private sector debt and the supply of credit to SMEs. After controlling for firm characteristics, Ireland appears to be among countries where SMEs are most likely to have their bank application rejected (with Netherlands, Portugal, Spain and Greece). They also found that, once controlled for the impact of sovereign bond market tensions, that Ireland was the second country (behind Netherlands) where a deterioration in macroeconomic conditions had the most impact in terms of generating tighter conditions for SME lending, identifying an additional channel between the economic cycle and lenders’ risk aversion.
- **Bank deleveraging may have played a role in SMEs financial constraints**. Kelly, Lydon, McCann, and O’Brien (2012) provide an econometric analysis of interest rate data for loans below and above €1 million, where loans below this threshold are more likely to be provided to SMEs. A rise in the financing costs—primarily bank deposit rates—faced by banks while deleveraging their balance sheets in 2011–12, is found to have a higher pass-through to the cost of credit for small enterprises. To limit potential unintended effects the design of the deleveraging targets was adjusted to focus on the volume of asset reduction rather than the loan-to-deposit ratio. The substantial decline in deposit rates since mid-2012 suggests that this potential source of financing constraints is unlikely to be contributing to the recent declines in SME credit.

37. **Given the significant volume of funding activity earlier this year, Ireland remains comfortably financed**. Syndicated bond sales in January and March totaled €7.5 billion to date in 2013. The authorities continue to target an end 2013 cash buffer covering 12–15 months of prospective financing needs, and they will take decisions on potential bond auctions later in 2013 in the light of market conditions. Under current conditions, the full-year issuance goal of €10 billion is well within reach. Looking ahead, staff estimates a 2014 Exchequer funding need of about €9 billion, and long term bond issuance could be similar assuming short term debt is mostly rolled over and a drawdown in the cash buffer covers the €6.8 billion bond redemption in January 2014.

38. **Post-program options to support durable market access on favorable terms remain under consideration**. The final agreement on the extension of EFSF/EFSM loan maturities by an average of seven years will ease financing needs from 2015 on, supporting Ireland's market access. The authorities continue to consider a financing backstop once the current program ends, which could include possible precautionary arrangements with the ESM and the IMF as means to support a durable return to market financing. Such backstops could cushion financing against a range of potential risks in the immediate post-program period. Discussions on such arrangements will continue at the twelfth review.

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

- ***Debt sustainability and the systemic risk exception***. Under the baseline macro 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 policy implementation, along with European policymakers' delivering on their commitments to reduce strains in countries facing stress and ensure financial stability in the euro area. As debt sustainability is not assured with a high probability, the program continues to be justified on the basis of the systemic international spillover risks posed by Ireland given continued euro area fragility.
- ***Adequate prospects to retain and expand market access***. In view of Ireland's strong program performance and commitments and its regained market access, there are adequate prospects to retain and expand access to private capital markets within the timeframe over which Fund resources will remain outstanding. There is, however, a risk of inadequate European support for potential remaining challenges in Ireland's financial sector, which would weaken the assurances of adequate and durable market access given Ireland's public debt vulnerabilities.
- ***Sound policies***. More broadly, Ireland's policy program is sound and adjustment is being delivered, providing reasonable prospects for program success. More effective policy action and delivery on commitments at the European level is needed to strengthen prospects for success.

STAFF APPRAISAL

40. **The Irish authorities' have maintained their steadfast policy implementation yet recovery prospects are fragile**. National accounts data show declining economic activity in early 2013, yet employment and other indicators are more positive, leaving uncertainty around current economic developments. Budget developments remain on track and the much delayed mortgage resolution process is now underway, although mortgage arrears have continued to rise. Irish sovereign bonds have weathered the ebbing of global risk appetite and knock on effects to bank funding conditions have been manageable.

41. **Risks to Ireland's economic outlook remain significant**. Growth projections for 2013 and into 2014 have been lowered given recent declines in exports together with conditions suggesting that the pace of consumption recovery will be somewhat slower. Shortfalls in trading partner growth would threaten this recovery though recent indicators are promising. A continuation of recent initial improvements in the labor and housing markets is important to support domestic demand stability in the near term. Looking to the medium term, sustained recovery requires a revival in lending which hinges significantly on the effectiveness of efforts to resolve non-performing loans—a key area where progress has been slow—and improve bank profitability.

42. **Continued firm implementation of Budget 2013 is needed and Budget 2014 should maintain Ireland's track record of steady fiscal consolidation to protect Ireland's favorable market access**. The Irish authorities' fiscal management has remained strong in 2013, including smooth adoption of the local property tax and the welcome broad acceptance by public sector unions of further pay and pension savings. Nonetheless, buffers for the remainder of this year are narrow, demanding continued careful budget implementation. Ireland's steady consolidation efforts have been rewarded with high credibility and manageable market interest rates. Budget 2014 should protect this achievement by setting out adjustment in 2014–15 consistent with the €5.1 billion cumulative consolidation set out in the 2011 and 2012 Medium Term Fiscal Statements, while allowing full operation of the automatic stabilizers. An expenditure-led consolidation remains appropriate, including improved targeting of social supports and subsidies while protecting core public services and the most vulnerable.

43. **It is essential for durable recovery and job creation that the authorities ensure accelerated progress in mortgage resolution**. Mortgage resolution has progressed slowly in recent years, so it is important that banks are recently beginning to work with mortgage borrowers in arrears towards reaching sustainable solutions. Together, the recent reforms of repossession procedures, forthcoming case experience with the Insolvency Service, and reforms to improve engagement between lenders and borrowers, should facilitate converting these proposals into concluded solutions. Banks' efforts will also be motivated by targets for proposing and concluding solutions. Yet many difficult cases will need to be addressed and the practical impact of the recent reforms is unclear at this stage, posing significant risks to the pace and quality of resolution progress. The authorities must therefore be vigilant to ensure the mortgage resolution framework functions effectively in practice including through further reforms of the repossession framework to ensure borrowers have adequate incentives to engage on loan modifications and to adhere to modified debt service schedules. Suitably ambitious resolution targets are needed to reach the authorities' goal of substantially resolving mortgage arrears by end 2014 and the CBI must continue to supervise banks' efforts closely to ensure the sustainability of solutions.

44. **Sustained growth recovery will depend on a revival of bank lending that should be facilitated by enhanced European support**. Recent progress on reducing operational costs and improving net interest margins have brought the main banks near breakeven, yet stronger profitability is needed to support their capacity to lend. Moreover, a smaller bank faces more prolonged lack of profitability that needs to be addressed in a timely manner while also protecting debt sustainability and financial stability. Low official interest rates and the fragmentation of European bank funding markets are key contributors to Irish banks' profitability challenges. A credit enhancement facility to reduce banks' costs of market funding could bolster their profitability and enable them to contribute to Ireland's economic recovery.

45. **The bank balance sheet assessment now underway needs to be completed in a timely manner with robust results**. This assessment takes on particular significance given the uncertainty arising from weak bank earnings and the continued deterioration in asset quality. Through a granular review of banks' loan classification, provisioning, and risk weights, this assessment will take stock of developments since the stress tests in early 2011. The active role of independent third parties in executing and validating the exercise will support the robustness and credibility of the results, which will guide any further repairs needed and help inform banks' preparations for entering the banking union in 2014. Given Ireland's still fragile debt sustainability, an ESM direct recapitalization backstop for the 2014 stress tests would be desirable to protect market confidence and financial stability.

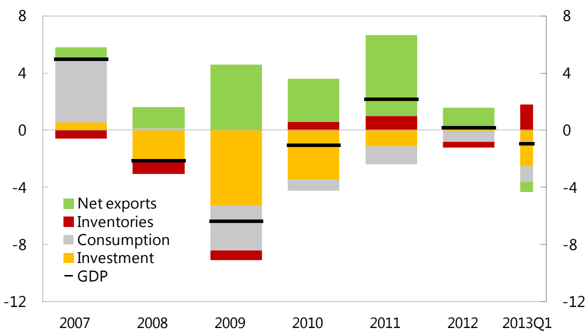
46. **Tackling long-term unemployment and supporting SME job creation remain essential policy priorities**. In line with the objectives in the *Pathways to Work 2013* strategy, resources assigned to activation should be further augmented and focused on the long-term unemployed, including through private sector service provision. Reforms to facilitate SME examinership are important to aid resolution of SMEs in arrears and bolster their potential to invest and create jobs.

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

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

Net exports contributed less to growth in 2012 and they became a drag on growth in the first quarter of 2013…

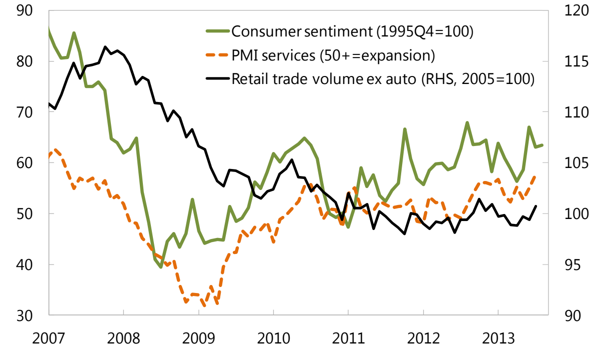
Contributions to Real GDP Growth
(Percent)



Sources: CSO; and IMF staff calculations.

…while consumer sentiment and core retail sales improved in May-July.

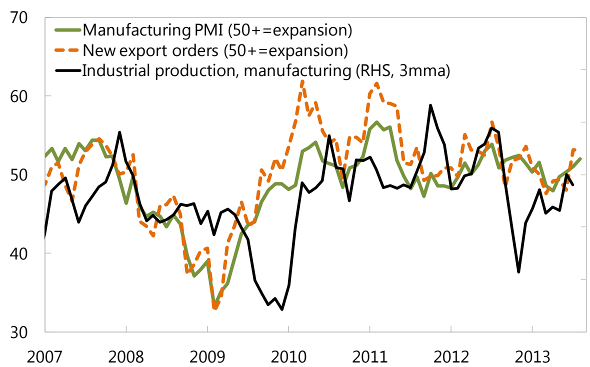
Retail Trade and Sentiment Indicators



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

Industrial production recovered some of the patent-cliff-related losses and new export orders exceeded 50 from June.

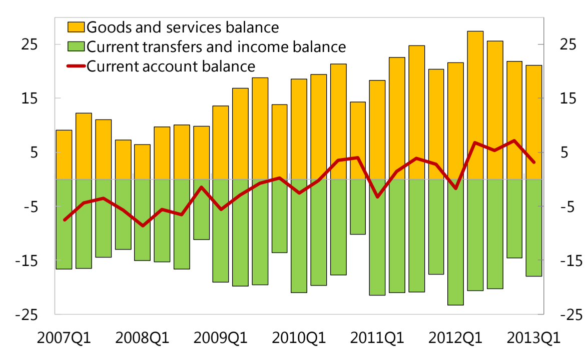
Export Indicators and Industrial Production



Sources: CSO; NCB; and Haver Analytics.

The current account surplus continued into the first quarter of 2013 as net exports outweighed income outflows.

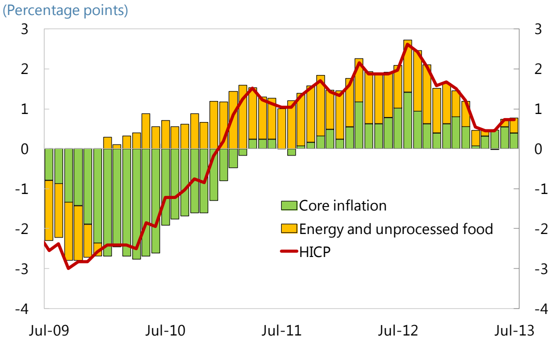
Current Account Balance Composition
(Percent of nominal GDP)



Sources: CSO; and Haver Analytics.

Despite a recent uptick, inflation remained low on account of moderating energy and administered prices.

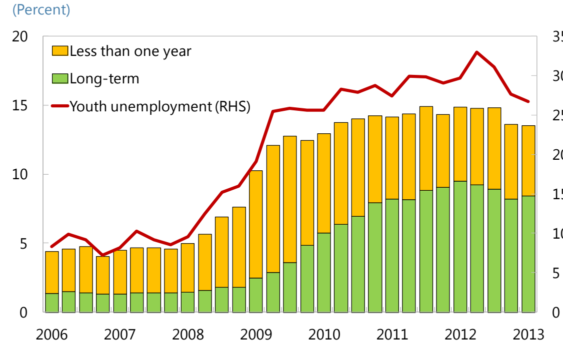
Contribution to Annual HICP Inflation
(Percentage points)



Sources: CSO; and IMF staff calculations.

Unemployment eased modestly to just under 14 percent, with 58 percent long-term and youth unemployment around 27 percent.

Unemployment Rates
(Percent)



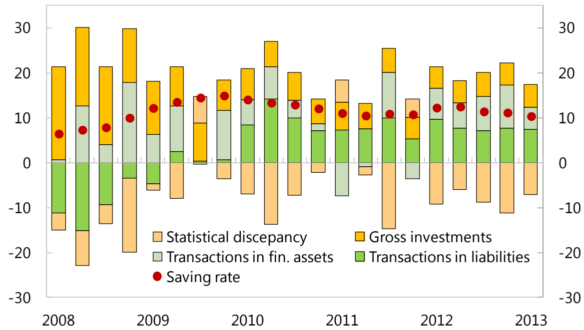
Sources: CSO; and Haver Analytics.

Figure 2. Ireland: Household Finance and Housing Developments, 2003–12

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

Decomposition of Household Savings

(Percent of Gross Disposable Income)

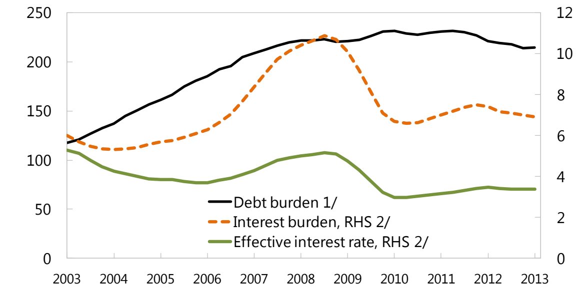


Sources: CBI; ECB; Haver Analytics; and IMF staff calculations.

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

Household Debt and Interest Payments

(Percent of disposable income)

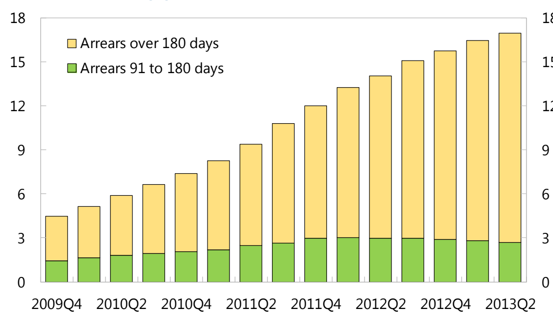


Sources: CBI; Haver Analytics; and IMF staff calculations.
1/ Total household liabilities in percent of four-quarter gross disposable income.
2/ Four quarter interest payments (excluding FISIM adjustment) in percent of four-quarter gross disposable income or previous quarter's total household liabilities,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

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

Mortgages in Arrears on Primary Dwellings

(Percent of total mortgage value)

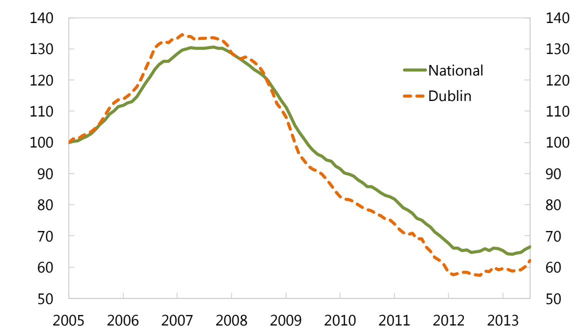


Source: Central Bank of Ireland.

…and the recent rise in national property prices is driven by strong rises in Dublin while prices continue to decline slowly in the rest of the country.

Residential Property Prices

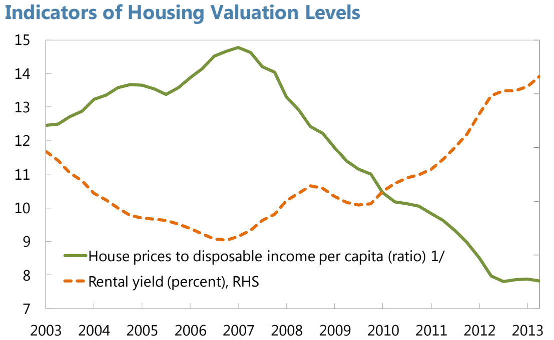
(2005M1=100)



Sources: CSO; and Haver Analytics.

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

Indicators of Housing Valuation Levels

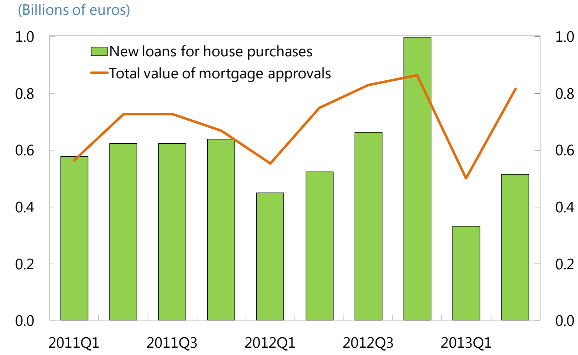


Sources: PTSB/ESRI; CSO; and Haver Analytics.
1/ Average house prices divided by moving 4-quarter adjusted GDI per capita.

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

Housing Loans and Mortgage Approvals

(Billions of euros)

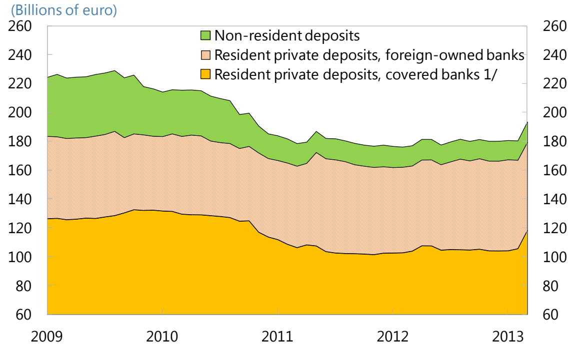


Source: Irish Banking Federation.

Figure 3. Ireland: Credit Developments, 2003–13

The level of private sector deposits has stabilized…

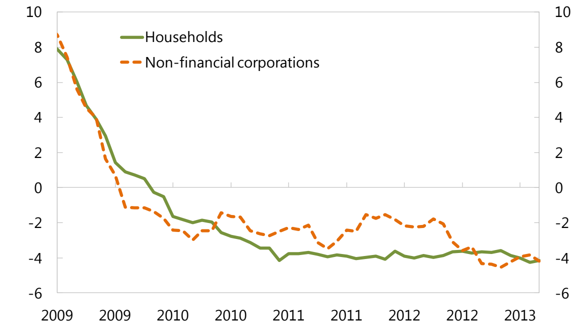
Bank Deposits
(Billions of euro)



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

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

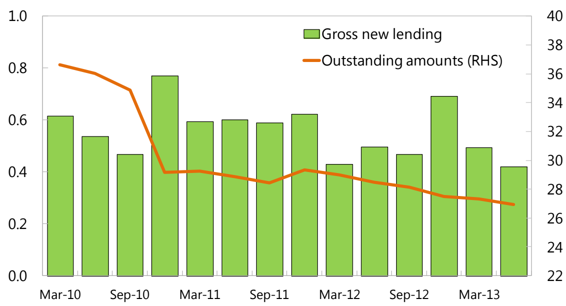
Loans Outstanding to Irish Residents
(Year-on-year percentage change)



Source: Central Bank of Ireland.

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

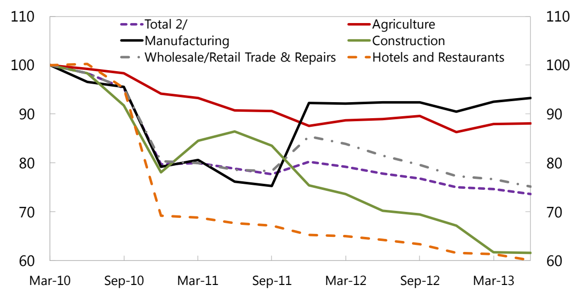
Outstanding SME Credit 1/
(Billions of euros)



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

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

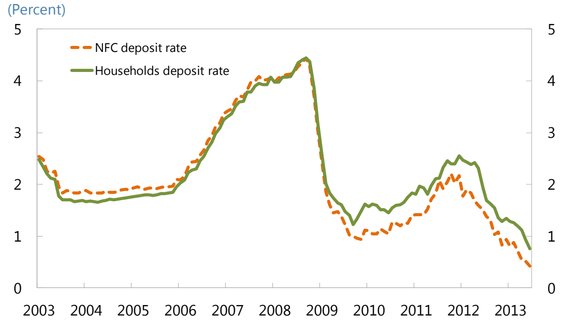
Outstanding SME Credit by Sector 1/
(2010Q1=100)



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

The decline in deposit rates from mid 2012 is continuing steadily…

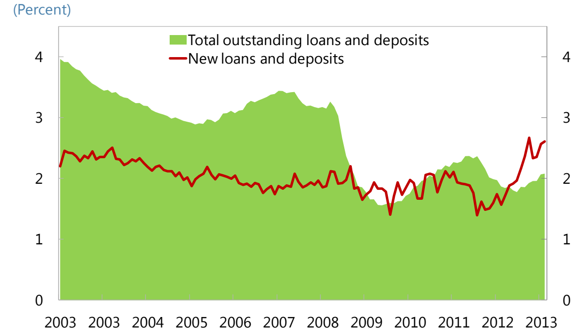
Median Deposit Rates, New Business 1/
(Percent)



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

…helping to improve margins between loans and deposits, though they remain below pre-crisis levels on outstanding balances.

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



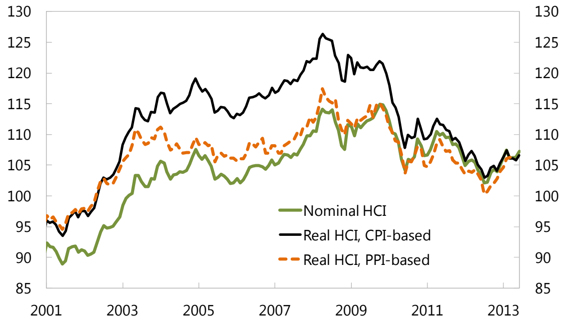
Source: Central Bank of Ireland.
1/ Weighted average loan rate minus weighted average deposit rate.

Figure 4. Ireland: Competitiveness Indicators, 1996–2013

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

Harmonized Competitiveness Indicators (Monthly)

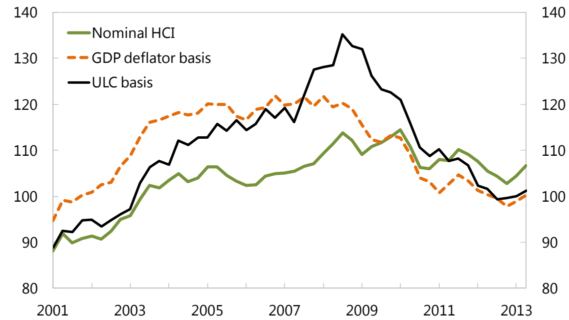
(1999Q1=100)



Sources: CBI; and Haver Analytics.

Harmonized Competitiveness Indicators (Quarterly)

(1999Q1=100)



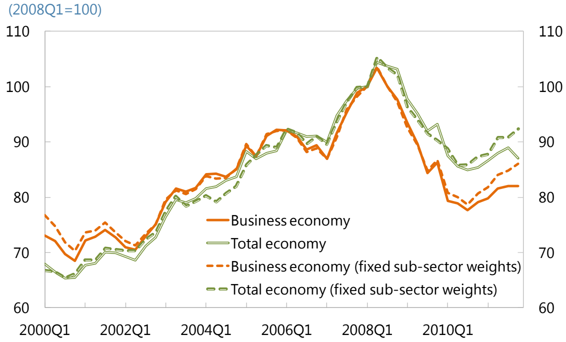
Sources: CBI; and Haver Analytics.

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

Private wages have been broadly flat in recent years, while growth has continued in the euro area…

Real Effective Exchange Rates on a ULC Basis

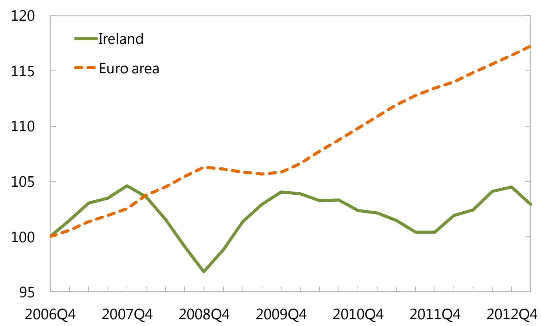
(2008Q1=100)



Source: Bruegel.

Hourly Labor Costs in Manufacturing

(2006=100; 4-quarter moving average)



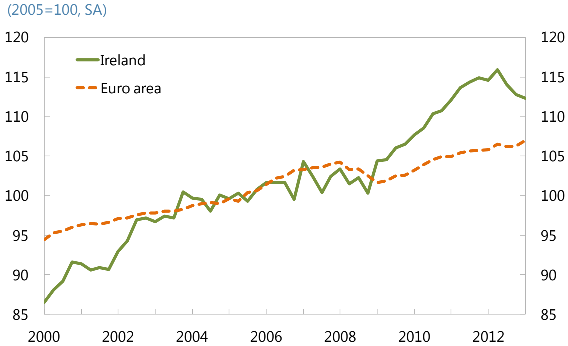
Sources: CSO; Eurostat; Haver Analytics; and IMF staff calculations.

…while labor productivity continues to outpace the euro area, this gap has narrowed recently as employment data showed gains while GDP data declined.

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

Real Labor Productivity

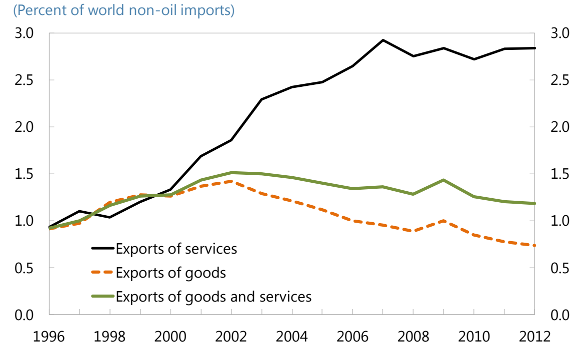
(2005=100, SA)



Source: Eurostat.

Export Shares

(Percent of world non-oil imports)

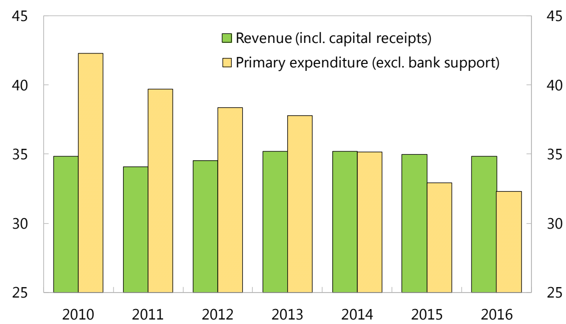


Sources: IMF WEO; and IMF staff calculations and projections.

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

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

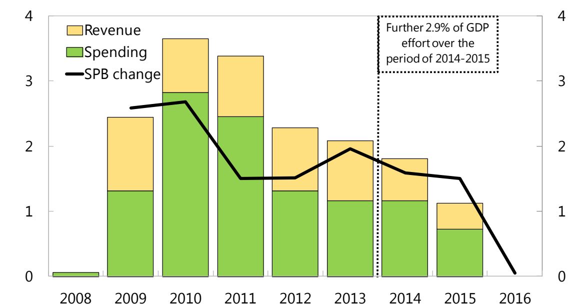
Revenues and Primary Expenditure
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

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

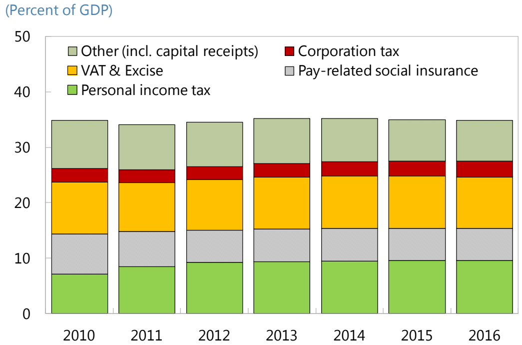
Composition of Fiscal Consolidation
(Percent of GDP)



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.

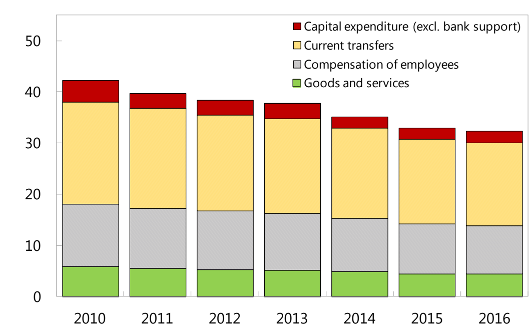
Revenue Composition
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

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

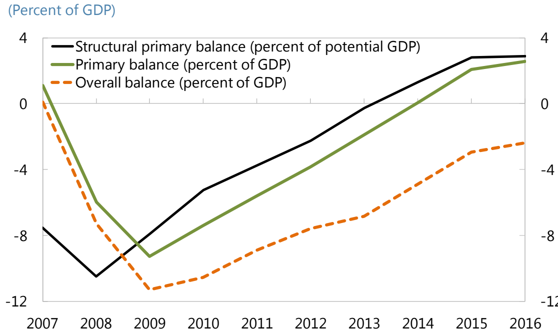
Primary Expenditure Components
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.

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

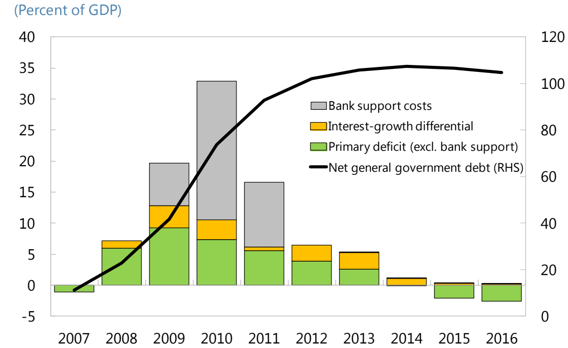
Headline, Primary and Structural Balance 1/
(Percent of GDP)



Sources: Department of Finance; and IMF staff estimates.
1/ Excluding bank support; for 2013, includes exchequer outlays for guarantees paid out under the ELG scheme in the context of the liquidation of IBRC.

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

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



Sources: Department of Finance; and IMF staff estimates.

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

(Annual percentage change unless indicated otherwise)

	2008	2009	2010	2011	2012	2013	2014
						Proj	
National accounts (constant prices)							
Real GDP	-2.2	-6.4	-1.1	2.2	0.2	0.6	1.8
Final domestic demand	-2.2	-9.7	-5.0	-3.0	-1.1	0.0	0.3
Private consumption	0.1	-5.1	0.9	-1.6	-0.3	-0.3	0.5
Public consumption	0.6	-3.4	-6.9	-2.8	-3.7	-0.6	-2.8
Gross fixed investment	-9.6	-26.9	-22.6	-9.5	-1.0	2.0	4.0
Net exports 1/	1.5	4.6	3.0	5.7	1.6	0.6	1.5
Exports of goods and services	-1.1	-3.8	6.4	5.4	1.6	1.1	2.9
Imports of goods and services	-3.0	-9.8	3.6	-0.4	0.0	0.6	1.9
Real GNP	-1.8	-9.1	0.5	-1.6	1.8	0.3	1.3
Gross national saving (in percent of GDP)	16.3	13.8	13.3	11.8	15.1	13.1	14.1
Private	18.4	21.3	20.4	18.3	20.6	19.0	17.3
Public 2/	-2.0	-7.6	-7.1	-6.4	-5.6	-5.9	-3.2
Gross investment (in percent of GDP)	22.0	16.1	12.2	10.6	10.6	10.8	11.0
Private	16.7	12.3	8.7	8.1	8.6	9.1	9.3
Public	5.3	3.7	3.5	2.5	2.0	1.6	1.7
Prices, wages and employment (annual average)							
Harmonized index of consumer prices	3.1	-1.7	-1.6	1.2	1.9	1.0	1.2
Average wage, whole economy	5.8	0.0	-1.9	-0.5	0.5	0.4	0.3
Employment	-0.7	-7.8	-4.0	-1.8	-0.6	0.6	0.9
Unemployment rate (in percent)	6.4	12.0	13.9	14.6	14.7	13.7	13.3
Money and credit (end-period) 3/							
Irish resident private sector credit 4/	8.8	-1.5	-3.4	-2.9	-4.0	-4.6	…
Financial and asset markets (end-period) 3/							
Three-month interbank rate	2.9	0.7	1.0	1.4	0.2	0.2	…
Government bond yield (in percent, 10-year) 5/	4.4	4.9	9.2	8.5	4.5	3.9	…
Annual change in ISEQ index (in percent)	-47.3	28.8	5.1	5.2	16.3	19.7	…
House prices	-12.4	-18.6	-10.5	-16.7	-4.5	-0.3	…
Public finance (in percent of GDP)							
General government balance (excl. bank support) 6/	-7.3	-11.3	-10.6	-8.9	-7.6	-7.5	-4.9
Primary balance (excl. bank support)	-6.0	-9.3	-7.4	-5.6	-3.9	-2.6	0.1
General government gross debt	44.2	64.5	91.2	104.1	117.4	123.3	121.0
General government net debt	22.8	41.6	73.8	92.8	102.1	105.5	107.9
External trade and balance of payments (percent of GDP)							
Balance of goods and services	9.0	15.8	18.4	21.5	24.1	24.7	26.0
Balance of income and current transfers	-14.6	-18.1	-17.3	-20.3	-19.7	-22.4	-23.0
Current account	-5.6	-2.3	1.1	1.2	4.4	2.3	3.0
Effective exchange rates (1999:Q1=100, average) 3/							
Nominal	111.6	112.5	107.8	108.6	105.1	107.3	…
Real (CPI based)	123.1	121.0	111.6	110.2	105.3	106.6	…
Memorandum items:							
Population (in millions)	4.5	4.5	4.6	4.6	4.6	4.6	4.6
GDP per capita (in euros)	40,189	35,797	34,710	35,542	35,752	36,110	36,975
GDP (in billions of euros)	180.2	162.3	158.1	162.6	163.9	166.6	171.6

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

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

(Annual percentage change, unless indicated otherwise)

	2009	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018
					10th Review			Proj.			
Real GDP	-6.4	-1.1	2.2	0.2	1.1	0.6	1.8	2.5	2.5	2.5	2.5
Domestic demand	-10.4	-4.4	-1.8	-1.6	-0.5	0.0	0.3	0.9	1.8	2.0	2.2
Final domestic demand	-9.7	-5.0	-3.0	-1.1	-0.5	0.0	0.3	0.9	1.8	2.0	2.2
Private consumption	-5.1	0.9	-1.6	-0.3	-0.3	-0.3	0.5	1.0	1.3	1.6	1.6
Public consumption	-3.4	-6.9	-2.8	-3.7	-2.0	-0.6	-2.8	-2.5	0.3	0.0	0.5
Gross fixed investment	-26.9	-22.6	-9.5	-1.0	1.0	2.0	4.0	5.0	6.0	6.0	6.5
Change in stocks 1/	-0.7	0.6	1.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports 1/	4.6	3.0	5.7	1.6	1.4	0.6	1.5	1.8	1.2	1.1	0.9
Exports of goods and services	-3.8	6.4	5.4	1.6	2.6	1.1	2.9	4.0	4.1	4.2	4.2
Imports of goods and services	-9.8	3.6	-0.4	0.0	1.7	0.6	1.9	3.0	3.9	4.2	4.4
Real GNP	-9.1	0.5	-1.6	1.8	0.0	0.3	1.3	2.0	2.1	2.1	2.2
Current account 2/	-2.3	1.1	1.2	4.4	3.2	2.3	3.0	3.1	3.3	3.5	3.5
Gross national saving 2/	13.8	13.3	11.8	15.1	13.4	13.1	14.1	14.7	15.3	15.7	16.1
Private	21.3	20.4	18.3	20.6	19.3	19.0	17.3	16.0	15.9	16.0	16.1
Public	-7.6	-7.1	-6.4	-5.6	-5.9	-5.9	-3.2	-1.3	-0.6	-0.3	0.0
Gross investment 2/	16.1	12.2	10.6	10.6	10.2	10.8	11.0	11.6	11.9	12.2	12.6
Private	12.3	8.7	8.1	8.6	8.6	9.1	9.3	9.9	10.2	10.5	10.9
Public	3.7	3.5	2.5	2.0	1.5	1.6	1.7	1.7	1.7	1.7	1.7
Prices											
Harmonized index of consumer prices	-1.7	-1.6	1.2	1.9	1.3	1.0	1.2	1.4	1.6	1.7	1.7
GDP deflator	-3.8	-1.5	0.7	0.7	1.2	1.0	1.2	1.4	1.6	1.6	1.7
Average wage, whole economy	0.0	-1.9	-0.5	0.5	0.9	0.4	0.3	1.0	1.2	1.5	1.5
Labor market											
Employment	-7.8	-4.0	-1.8	-0.6	0.2	0.6	0.9	1.7	1.7	1.7	1.7
Unemployment rate (in percent)	12.0	13.9	14.6	14.7	14.1	13.7	13.3	12.8	12.4	12.0	11.5
Public finance											
General government balance 2/ 3/	-11.3	-10.6	-8.9	-7.6	-7.5	-7.5	-4.9	-2.9	-2.4	-2.0	-1.7
General government gross debt 2/	64.5	91.2	104.1	117.4	123.6	123.3	121.0	118.3	116.2	113.6	109.8
General government net debt 2/	41.6	73.8	92.8	102.1	105.7	105.5	107.9	107.0	105.3	103.0	99.6
Output gap	-3.0	-3.8	-1.7	-1.7	-1.7	-1.8	-1.2	-0.4	0.1	0.3	0.3
Nominal GDP (in billions of euros)	162.3	158.1	162.6	163.9	167.5	166.6	171.6	178.4	185.8	193.5	201.7

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

1/ Contributions to growth.

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

3/ General government balance per ESA95 definition.

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

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

					Projections 1/					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	56.0	55.1	55.4	56.6	58.7	60.4	62.4	64.7	66.8	69.3
Taxes	35.9	34.8	37.6	39.7	41.4	43.6	45.3	47.1	49.0	51.0
Personal income tax	11.8	11.3	13.8	15.2	15.7	16.3	17.1	17.8	18.5	19.3
Corporate income tax	3.9	3.9	3.8	4.0	4.1	4.5	4.9	5.2	5.5	5.8
Value-added tax	10.7	10.1	9.7	10.2	10.3	10.9	11.2	11.6	12.0	12.5
Excise tax	4.7	4.7	4.7	4.7	5.2	5.4	5.6	5.8	6.0	6.2
Other 2/	4.8	4.9	5.6	5.7	6.2	6.7	6.5	6.7	7.0	7.3
Social contributions 3/	12.0	11.5	10.3	9.5	9.8	10.2	10.4	10.7	11.0	11.4
Other revenue 4/	8.1	8.8	7.5	7.4	7.4	6.6	6.7	6.9	6.8	6.9
Expenditure (excl. fin. sector support)	74.4	71.8	69.9	69.1	71.2	68.8	67.6	69.2	70.7	72.8
Expense (excl. fin. sector support)	68.3	66.3	65.8	65.7	68.4	65.9	64.7	65.9	67.3	69.3
Compensation of employees	20.7	19.3	19.1	18.8	18.6	17.9	17.5	17.5	17.8	18.3
Use of goods and services	10.4	9.3	8.9	8.6	8.5	8.4	7.8	8.3	8.4	8.7
Interest	3.3	5.0	5.3	6.1	8.2	8.5	8.9	9.2	9.6	9.9
Subsidies	0.9	0.9	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Social benefits 3/	28.3	28.2	28.8	28.7	28.0	27.7	27.1	27.1	27.6	28.3
Other expense (excl. fin. sector support) 5/	4.7	3.6	3.1	2.9	4.6	2.9	2.8	3.4	3.5	3.6
Gross fixed capital formation	6.1	5.5	4.0	3.3	2.7	2.9	3.0	3.2	3.3	3.5
Financial sector support costs	4.0	31.6	6.8	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Net lending/borrowing (excl. fin. sector support)	-18.4	-16.7	-14.5	-12.5	-12.5	-8.4	-5.2	-4.4	-3.9	-3.5
Net lending/borrowing (incl. fin. sector support)	-22.4	-48.3	-21.3	-12.5	-12.6	-8.5	-5.3	-4.5	-3.9	-3.5
Primary balance (excl. fin. sector support)	-15.1	-11.7	-9.1	-6.3	-4.3	0.1	3.7	4.7	5.7	6.4
Net financial worth, transactions	-22.4	-48.3	-21.3	-12.5	-12.6	-8.5	-5.3	-4.5	-3.9	-3.5
Net acquisition of financial assets	2.6	-8.1	3.2	5.2	5.3	-7.2	-2.4	0.2	0.2	0.2
Net incurrence of liabilities	24.9	40.1	24.4	17.7	17.9	1.3	2.9	4.7	4.1	3.7
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (in percent of GDP, unless indicated otherwise)										
Revenue	34.5	34.9	34.1	34.5	35.2	35.2	35.0	34.8	34.5	34.4
Taxes and social contributions 3/	29.5	29.3	29.4	30.0	30.8	31.3	31.2	31.1	31.0	30.9
Other revenue 4/	5.0	5.6	4.6	4.5	4.4	3.9	3.8	3.7	3.5	3.4
Expenditure (excl. fin. sector support)	45.8	45.4	43.0	42.1	42.7	40.1	37.9	37.2	36.5	36.1
Current primary (excl. fin. sector support) 5/	40.1	38.8	37.2	36.3	36.2	33.5	31.3	30.6	29.9	29.5
Interest	2.0	3.1	3.3	3.7	4.9	4.9	5.0	4.9	5.0	4.9
Gross fixed capital formation	3.7	3.5	2.5	2.0	1.6	1.7	1.7	1.7	1.7	1.7
Net lending/borrowing (excl. fin. sector support)	-11.3	-10.6	-8.9	-7.6	-7.5	-4.9	-2.9	-2.4	-2.0	-1.7
Net lending/borrowing (incl. fin. sector support)	-13.8	-30.5	-13.1	-7.6	-7.6	-5.0	-2.9	-2.4	-2.0	-1.7
Primary balance (excl. fin. sector support)	-9.3	-7.4	-5.6	-3.9	-2.6	0.1	2.1	2.5	2.9	3.2
Net financial worth, transactions	-13.8	-30.5	-13.1	-7.6	-7.6	-5.0	-2.9	-2.4	-2.0	-1.7
Net acquisition of financial assets	1.6	-5.1	1.9	3.2	3.2	-4.2	-1.3	0.1	0.1	0.1
Net incurrence of liabilities	15.4	25.4	15.0	10.8	10.7	0.8	1.6	2.5	2.1	1.8
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural balance	-10.2	-8.6	-7.1	-6.0	-5.2	-3.6	-2.2	-2.1	-2.0	-2.0
Structural primary balance 6/	-7.9	-5.2	-3.7	-2.2	-0.3	1.3	2.8	2.9	2.9	2.9
General government gross debt	64.5	91.2	104.1	117.4	123.3	121.0	118.3	116.2	113.6	109.8
General government net debt	41.6	73.8	92.8	102.1	105.5	107.9	107.0	105.3	103.0	99.6
Output gap (percent of potential GDP)	-3.0	-3.8	-1.7	-1.7	-1.8	-1.2	-0.4	0.1	0.3	0.3
Nominal GDP (in billions of euros)	162.3	158.1	162.6	163.9	166.6	171.6	178.4	185.8	193.5	201.7

Sources: Department of Finance; and IMF staff estimates.

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

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

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

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

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

6/ In percent of nominal potential GDP.

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

	2009	2010	2011	2012	2013 7/
External indicators					
Exports (annual percent change, value in euros)	-2.5	8.0	6.1	5.8	2.5
Imports (annual percent change, value in euros)	-9.9	6.8	2.9	3.9	2.0
Terms of trade (goods, annual percent change)	1.7	-1.6	-2.7	0.4	0.0
Current account balance (in percent of GDP)	-2.3	1.1	1.2	4.4	2.3
Capital and financial account balance (in percent of GDP)	-2.2	3.8	5.9	-0.8	-2.5
Of which:					
Inward portfolio investment	13.8	47.8	18.2	44.7	40.9
Inward foreign direct investment	11.4	20.4	10.4	18.2	18.3
Other investment liabilities	-53.3	-39.2	-51.2	-67.5	-45.7
U.S. dollar per euro (period average)	1.40	1.32	1.40	1.29	1.32
U.K. pound per euro (period average)	0.89	0.86	0.87	0.81	0.86
Financial markets indicators					
General government debt (in percent of GDP)	64.5	91.2	104.1	116.9	123.3
Government bond yield (in percent, 10-year, end-period) 1/	4.9	9.2	8.5	4.5	4.2
Spread of government bond yield with Germany (in percent, end of period)	1.3	6.0	6.5	3.2	2.2
Real government bond yield (in percent, 10-year, period average, based on HICP)	6.9	7.6	8.4	4.1	2.9
Annual change in ISEQ index (in percent, end of period)	28.8	5.1	5.2	16.3	20.7
Personal lending interest rate (in percent)	11.1	11.4	11.6	11.6	11.6
Standard variable mortgage interest rate (in percent)	3.3	4.0	4.2	4.3	4.4
Financial sector risk indicators					
Annual credit growth rates (to Irish resident private sector, in percent) 2/	-1.5	-3.4	-2.9	-4.0	-4.6
Personal lending as a share of total Irish resident credit (in percent)	35.6	35.5	30.0	33.0	33.4
Of which:					
House mortgage finance	30.1	30.7	25.4	28.7	29.2
Other housing finance	0.2	0.4	0.3	0.3	0.3
Other personal lending	5.3	4.8	4.6	4.3	4.2
Irish resident household mortgage debt annual growth rates (in percent) 3/	-3.9	-9.0	-19.3	5.6	4.4
Foreign-currency denominated assets (in percent of total assets)	34.3	30.3	29.4	28.4	28.1
Foreign-currency denominated liabilities (in percent of total liabilities)	31.1	25.8	26.3	25.4	25.6
Non-performing loans (in percent of total loans) 4/	9.0	8.6	9.1	11.3	11.5
Total provisions for loan losses (in percent of total loans)	4.0	4.2	4.8	5.4	4.5
Regulatory capital to risk-weighted assets of domestic banks (in percent)	10.9	10.4	17.7	16.6	15.9
Bank return on assets (before tax, in percent)	-1.6	-3.1	-0.8	-0.8	…
Bank return on equity (before tax, in percent)	-40.6	-67.6	-16.9	-14.1	…
Deposits to M3 ratio 5/	1.3	1.5	1.2	1.3	1.4
Loan-to-deposit ratio vis-à-vis Irish residents 6/	2.1	2.1	2.1	1.9	1.7
vis-à-vis total 6/	2.2	2.1	2.1	1.9	1.7
Concentration ratios in the banking sector					
No. of banks accounting for 25 percent of total assets	2.0	2.0	2.0	2.0	2.0
No. of banks accounting for 75 percent of total assets	13.0	13.0	14.0	14.0	14.0
Share of state-owned banks in total assets (in percent)	6.0	8.0	18.0	19.1	15.8
Share of foreign-owned banks in total assets (in percent)	65.0	65.0	61.6	57.6	61.3

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 2013, staff projections for macroeconomic variables and debt, end-July 2013 for bond yields and stock market index, and end-June 2013 for other indicators. Financial sector indiators cover all credit institutions licensed in Ireland except for personal lending rate, which is calculated based on a sample of retail banks, and a mortgage interest rate, which is calculated excluding IFSC.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Proj.					
	(In billions of euros)									
Current account balance	-3.8	1.8	2.0	7.3	3.9	5.2	5.6	6.2	6.7	7.0
Balance of goods and services	25.6	29.1	35.0	39.6	41.2	44.6	48.7	51.4	54.1	56.5
Trade balance	32.5	35.8	36.7	36.4	35.2	36.2	37.8	39.8	41.9	44.1
Exports of goods	77.6	82.6	85.0	85.9	83.9	85.9	89.2	93.1	97.3	101.7
Imports of goods	-45.2	-46.9	-48.3	-49.5	-48.8	-49.7	-51.4	-53.3	-55.4	-57.6
Services balance	-6.9	-6.6	-1.7	3.2	6.0	8.5	10.9	11.7	12.2	12.4
Credit	67.6	74.3	81.5	90.3	96.5	101.7	107.9	114.2	121.1	128.5
Debit	-74.5	-81.0	-83.2	-87.1	-90.5	-93.2	-97.0	-102.6	-108.9	-116.1
Income balance	-27.9	-25.9	-31.8	-31.1	-36.1	-38.1	-41.7	-43.7	-45.8	-47.7
Credit	55.1	57.1	57.1	57.2	53.7	54.4	54.5	56.4	58.5	61.0
Debit	-83.0	-83.0	-88.9	-88.4	-89.8	-92.5	-96.2	-100.1	-104.3	-108.7
Current transfers (net)	-1.4	-1.4	-1.2	-1.2	-1.2	-1.3	-1.5	-1.6	-1.6	-1.9
Capital and financial account balance	-2.3	6.6	-24.7	-22.3	-15.6	-5.2	-5.6	-6.2	-6.7	-7.0
Capital account balance	-1.3	-0.7	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Financial account	-1.1	7.3	-24.4	-22.1	-15.4	-5.0	-5.3	-5.9	-6.4	-6.6
Direct investment	-0.6	15.4	17.8	15.4	15.8	15.9	16.0	16.6	17.2	17.9
Portfolio investment	22.6	86.0	26.9	-0.2	2.4	16.3	15.8	12.7	10.0	10.0
Other investment	-23.1	-94.1	-69.4	-35.5	-30.9	-33.8	-31.7	-28.3	-25.4	-24.9
Change in reserve assets 1/	0.1	0.0	0.3	0.0	-2.5	-3.4	-5.3	-6.8	-8.3	-9.6
Net errors and omissions	6.1	-8.4	-11.8	-6.2	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	1.2	4.4	2.3	3.0	3.1	3.3	3.5	3.5
Balance of goods and services	15.8	18.4	21.5	24.1	24.7	26.0	27.3	27.7	28.0	28.0
Trade balance	20.0	22.6	22.6	22.2	21.1	21.1	21.2	21.4	21.6	21.9
Services balance	-4.3	-4.2	-1.0	2.0	3.6	4.9	6.1	6.3	6.3	6.2
Income balance	-17.2	-16.4	-19.6	-19.0	-21.7	-22.2	-23.3	-23.5	-23.7	-23.6
Current transfers (net)	-0.9	-0.9	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9
Capital and financial account balance	-1.4	4.2	-15.2	-13.6	-9.4	-3.0	-3.1	-3.3	-3.5	-3.5
Of which:										
Direct investment	-0.4	9.8	10.9	9.4	9.5	9.3	8.9	8.9	8.9	8.9
Portfolio investment	13.9	54.4	16.5	-0.1	1.4	9.5	8.8	6.8	5.2	5.0
Other investment	-14.2	-59.5	-42.7	-21.6	-18.6	-19.7	-17.8	-15.3	-13.1	-12.4
Change in reserve assets 1/	0.0	0.0	0.2	0.0	-1.5	-2.0	-3.0	-3.7	-4.3	-4.8
Net errors and omissions	3.7	-5.3	-7.3	-3.8	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	21.2	13.0	7.1	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	21.2	13.0	7.1	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	7.7	3.9	2.1	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	13.5	9.0	5.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account balance excluding undistributed profits 2/	-3.3	-2.1	-2.3	-0.1						

Sources: Central Bank of Ireland; Central Statistics Office; and IMF staff estimates.
1/ Includes financing need to build reserves for bank support.
2/ Undistributed profits of redomiciled firms, as estimated by FitzGerald (2013).

Table 6. Ireland: Monetary Survey, 2008–13

(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	Mar-13	Jun-13	Jul-13
Aggregate balance sheet of domestic market credit institutions											
Assets	805	801	747	639	614	610	571	550	498	487	484
Claims on Central Bank of Ireland	9	12	8	4	5	6	7	2	2	3	2
Claims on Irish resident Other MFIs	125	129	123	92	86	81	55	53	50	50	50
Claims on Irish resident non MFIs	375	364	359	340	338	333	331	326	292	288	287
General government	3	9	43	42	44	45	47	47	19	20	20
Private sector	372	355	316	298	294	288	285	279	274	269	267
Households	78	47	26	55	58	57	79	73	59	55	54
Non-Financial Corporations	168	177	159	143	144	144	145	147	160	159	159
Non-Bank Financial Intermediaries	126	131	132	99	92	87	60	59	55	54	53
Claims on non-residents	252	243	209	150	141	143	132	122	112	105	105
Other assets	44	54	48	52	44	46	46	47	42	41	41
Liabilities	805	801	747	639	614	610	571	550	498	487	484
Liabilities to Eurosystem 1/	45	58	95	72	75	78	71	59	44	39	37
Liabilities to Irish resident Other MFIs	126	131	132	99	92	87	60	59	55	54	53
Deposits of Irish resident non MFIs	171	180	162	146	147	147	148	153	169	172	173
General government	3	3	3	2	2	3	3	6	10	13	13
Private sector	168	177	159	143	144	144	145	147	160	159	159
Deposits of non-residents	273	230	140	100	93	91	84	76	77	74	77
Debt securities	100	98	64	52	44	41	40	38	34	29	27
Capital and reserves	42	53	72	91	93	97	97	98	94	94	94
Other liabilities (incl. Central Bank of Ireland)	48	50	83	79	70	69	71	66	24	25	24
Money and credit 2/											
Net foreign assets	-345	-421	-480	-340	-34	-23	-15	-14	-9	…	…
Central Bank of Ireland 3/	-24	-37	-128	-101	-76	-77	-67	-62	-42	…	…
Commercial banks	-321	-384	-352	-239	42	54	52	48	33	31	33
Net domestic assets	539	629	652	509	203	191	185	183	194	…	…
Public sector credit	3	10	43	43	44	46	47	48	19	20	20
Private sector credit	394	375	335	324	319	313	309	302	297	292	287
Other	142	244	274	143	-160	-167	-171	-166	-122	…	…
Irish Resident Broad money (M3) 4/	194	208	173	169	169	168	170	170	185	189	189
Irish Resident Intermediate money (M2) 4/	176	188	173	167	167	166	168	168	182	183	182
Irish Resident Narrow money (M1)	78	100	97	90	89	89	90	92	105	109	109
						(percent of GDP)					
Public sector credit 5/	1.4	5.3	27.6	27.0	27.9	28.4	29.0	29.4	11.5	12.2	12.2
Private sector credit 5/	206.8	221.0	202.4	190.1	186.9	180.7	177.3	173.5	170.4	167.4	166.3
						(y-o-y percentage change)					
Broad money - Irish contribution to euro area M3 6/	-0.4	-6.6	-19.6	1.3	-3.3	-10.2	-7.5	-7.3	-0.5	6.1	6.1
Irish Public sector credit 6/ 7/	101.8	176.9	369.4	1.5	11.0	15.3	8.5	8.5	-58.6	-57.1	-57.3
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	-4.2	-4.6	-4.6
Memorandum items: 8/											
Credit to deposits (in percent) 9/	221.8	200.5	199.2	207.6	204.0	199.7	195.9	189.9	171.1	168.5	167.6
Deposits from Irish Private Sector (y-o-y percent change)	-6.0	42.5	-16.4	-11.7	-18.8	-24.9	-25.2	-26.1	-31.2	-34.4	-34.9
Wholesale funding (billions of euros)	73	59	31	22	18	16	15	15	15	12	10
Deposits from MFIs	16	12	10	8	7	7	7	8	8	7	6
Debt securities	57	47	21	14	10	8	8	8	7	6	4
Wholesale funding (y-o-y percent change) 10/	-19.5	-19.0	-48.9	-28.1	-34.8	-39.7	-35.3	-30.8	-15.1	-21.0	-32.7
Wholesale funding (percent of assets) 10/	9.1	7.4	4.4	3.4	2.9	2.6	2.7	2.8	3.0	2.5	2.1

Sources: Central Bank of Ireland; and staff estimates.
1/ Relating to Eurosystem monetary policy operations.
2/ Including banks in the International Financial Service Centre (IFSC).
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	2012	2013 *Proj.*
Gross borrowing need	**15.9**	**63.4**	**71.4**	**45.3**	**29.8**	**27.8**
Exchequer cash deficit 1/	12.7	24.6	18.7	19.1	17.1	11.2
Amortization	3.1	27.7	17.3	9.7	11.1	16.6
Medium-and long-term	0.1	5.1	1.2	4.8	6.8	6.1
Short-term 2/	3.0	22.6	16.2	4.9	4.4	10.5
Official creditors	0.0	0.0	0.0	0.0	0.0	0.0
European Union	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0
Bank recapitalization	0.0	11.0	35.3	16.5	1.6	0.0
Gross financing sources 3/	**15.9**	**63.4**	**71.4**	**10.8**	**8.5**	**16.0**
Market financing (incl. retail) 4/	34.9	53.3	23.2	1.4	10.1	21.3
Net retail funding	1.3	1.8	3.4	1.4	1.3	1.5
Other market financing	33.6	51.6	19.8	0.0	8.8	19.8
Promissory notes	0.0	0.0	30.9	0.0	0.0	0.0
Bond placement for Promissory notes 5/				…	3.5	…
Cash drawdowns	-19.0	10.0	17.3	9.4	-5.2	-5.3
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	6.5
Bilateral EU	0.0	0.0	0.0	0.5	2.5	1.9
IMF	0.0	0.0	0.0	12.6	6.4	3.5
Memorandum items						
Exchequer cash balance 6/	22.0	21.8	12.3	12.9	18.1	23.4
General government debt 7/	79.6	104.6	144.2	169.2	192.5	205.5
Official creditors	0.0	0.0	0.0	34.5	56.0	67.5
European Union	0.0	0.0	0.0	21.9	37.1	45.0
IMF	0.0	0.0	0.0	12.6	18.9	22.5
Other	79.6	104.6	144.2	134.7	136.5	138.0
Treasury bills, bonds and retail	72.0	96.3	110.4	101.6	104.2	133.9
Promissory notes	0.0	0.0	30.9	28.3	25.3	0.2
Other	7.6	8.4	3.0	4.8	7.0	3.9
General government debt (in percent of GDP) 7/	44.2	64.5	91.2	104.1	117.4	123.3
Official creditors	0.0	0.0	0.0	21.2	34.1	40.5
European Union	0.0	0.0	0.0	13.5	22.6	27.0
IMF	0.0	0.0	0.0	7.7	11.5	13.5
Other	44.2	64.5	91.2	82.9	83.3	82.8
Treasury bills, bonds and retail	39.9	59.3	69.8	62.5	63.6	80.4
Promissory notes	0.0	0.0	19.5	17.4	15.4	0.1
Other	4.2	5.1	1.9	3.0	4.3	2.3

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, including intra-year rollovers.

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

4/ Gross issuance including rollovers.

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

6/ Includes buffer from financing contingency.

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

Table 8. Ireland: Schedule of Reviews and Purchases

Review	Availability Date	Action	Purchase	
			SDRs	Percent of quota
	December 16, 2010	Board approval of arrangement	5,012,425,200	399
First and Second Reviews	May 16, 2011	Observance of end-March 2011 performance criteria, completion of First and Second Reviews	1,410,000,000	112
Third Review	August 15, 2011	Observance of end-June 2011 performance criteria, completion of Third Review	1,319,000,000	105
Fourth Review	December 14, 2011	Observance of end-September 2011 performance criteria, completion of Fourth Review	3,309,000,000	263
Fifth Review	February 15, 2012	Observance of end-December 2011 performance criteria, completion of Fifth Review	2,786,000,000	222
Sixth Review	June 13, 2012	Observance of end-March 2012 performance criteria, completion of Sixth Review	1,191,000,000	95
Seventh Review	September 5, 2012	Observance of end-June 2012 performance criteria, completion of Seventh Review	758,000,000	60
Eight Review	December 12, 2012	Observance of end-September 2012 performance criteria, completion of Eight Review	758,000,000	60
Ninth Review	March 15, 2013	Observance of end-December 2012 performance criteria, completion of Ninth Review	831,000,000	66
Tenth Review	June 15, 2013	Observance of end-March 2013 performance criteria, completion of Tenth Review	831,000,000	66
Eleventh Review	September 15, 2013	Observance of end-June 2013 performance criteria, completion of Eleventh Review	681,000,000	54
Twelth Review	November 15, 2013	Observance of end-September 2013 performance criteria, completion of Twelth Review	579,374,800	46
Total			19,465,800,000	1,548

Source: IMF staff projections.

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

(In millions of SDR)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund credit														
Disbursement	-	11,050	5,493	2,922	-	-	-	-	-	-	-	-	-	-
Stock 2/	-	11,050	16,543	19,466	19,466	18,931	16,757	13,862	10,617	7,373	4,129	1,420	349	-
Obligations	-	109	332	346	647	1,211	2,803	3,427	3,653	3,521	3,389	2,748	1,083	351
Repurchase	-	-	-	-	-	535	2,173	2,896	3,244	3,244	3,244	2,709	1,071	349
Charges	-	109	332	346	647	676	630	532	409	277	144	39	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	-	7.7	12.0	13.4	12.9	12.0	10.2	8.1	5.9	3.9	2.1	0.7	0.2	-
In percent of exports of goods and services	-	7.5	11.1	12.4	11.8	10.9	9.1	7.2	5.2	3.5	1.9	0.6	0.1	-
Obligations to the Fund														
In percent of quota	-	9	26	27	51	96	223	273	290	280	269	219	86	28
In percent of GDP	-	0.1	0.2	0.2	0.4	0.8	1.7	2.0	2.0	1.9	1.7	1.4	0.5	0.2
In percent of exports of goods and services	-	0.1	0.2	0.2	0.4	0.7	1.5	1.8	1.8	1.7	1.5	1.2	0.4	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, H1 2012–H1 2013 1/

(In billions of euro unless otherwise indicated)

Balance Sheet	H1 2012	H1 2013	H1/H1 change	
	€ bn.	€ bn.	€ bn.	%
Cash & due from Eurosystem	17.2	9.1	-8.1	-47.3
Net loans	208.2	186.0	-22.2	-10.6
Due from banks	17.5	8.7	-8.8	-50.3
Securities & derivatives	64.1	64.7	0.5	0.8
Other assets	13.9	13.4	-0.5	-3.8
Total assets	320.9	281.8	-39.1	-12.2
Total average assets (TAA)	322.5	292.0	-30.5	-9.5
Due to Eurosystem	64.1	33.7	-30.4	-47.5
Due to banks	16.1	19.1	3.0	18.5
Deposits	155.5	159.0	3.6	2.3
Debt & derivatives	51.6	37.9	-13.8	-26.6
Other liabilities	8.4	11.0	2.7	32.1
Total liabilities	295.7	260.7	-35.0	-11.8
Net equity	25.2	21.1	-4.2	-16.4
Total liabilities & equity	320.9	281.8	-39.1	-12.2

Profit and Loss Account	H1 2012		H1 2013	
	€ bn.	% of TAA	€ bn.	% of TAA
Interest income	4.7	5.9	4.1	5.6
Interest expense	-3.4	-4.3	-2.5	-3.5
Net interest margin	1.3	1.6	1.5	2.1
Net fee income	0.4	0.5	0.4	0.6
Net trading gains	-0.2	-0.3	0.1	0.1
Other nonrecurrent items	0.0	0.0	-0.1	-0.2
Gross operating income	1.5	1.8	1.9	2.6
Operating expenses	-2.1	-2.7	-1.8	-2.4
o/w: administration & other	-0.9	-1.1	-0.8	-1.1
o/w: staff	-1.3	-1.6	-1.0	-1.3
Preprovision profits (PPP)	-0.7	-0.8	0.1	0.1
Loan loss & NAMA provisions	-2.5	-3.1	-1.9	-2.7
Loss on derecognized assets	-0.1	-0.1	0.4	0.5
Net income before tax	-3.2	-4.0	-1.5	-2.0
Tax effects & other 3/	0.3	0.4	0.1	0.2
Net income	-2.9	-3.6	-1.4	-1.9

Memorandum items:

	H1 2012	H1 2013	€ bn.	%
Gross loans 2/	233.7	213.5	-20.2	-8.6
Loan loss provisions	25.4	28.2	2.8	11.1
Gross NPLs	51.8	56.8	5.0	9.6
Gross NPLs to gross loans (%)	22.2	26.6		4.4
Provisions to gross NPLs (%)	49.0	49.7		0.7
Net NPLs to net equity (%)	104.7	135.5		30.8

	H1 2012 € bn.	H1 2012 % of TAA	H1 2013 € bn.	H1 2013 % of TAA
PPP net of other nonrecurrent items	-0.7	-0.8	0.2	0.3
Return on equity		-13.8		-13.3
Provisions to gross loans		1.6		1.2
Risk weighted assets (RWA)	157.8	48.9	138.9	47.6
Core tier 1 capital (CT1) and CT1 to RWA (%)	25.7	16.3	19.5	14.1
CT1 to total assets = leverage ratio (%)		8.0		6.9

Sources: CBI; and IMF staff estimates.

1/ PCAR banks are Bank of Ireland, Allied Irish Banks, and Permanent tsb.
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.

Annex I. Debt Sustainability Analysis

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

Public Debt Sustainability Analysis

1. **Public debt sustainability risks remain largely unchanged from last review**. Since the last review, Ireland's debt trajectory has developed in line with staff projections, and principal risks to debt sustainability have not changed substantially. Under the baseline scenario, public debt is projected to peak this year at 123.3 percent of GDP before declining to 109.8 percent in 2018 as the fiscal deficit narrows and economic recovery gains traction. Gross financing needs are forecast to remain below 15 percent of GDP over the medium term, providing a mitigating factor for the risks associated with the debt level. The downward trajectory of Ireland's public debt remains fragile given its vulnerability to lower growth and contingent liabilities, mainly from the financial sector.

2. **The public DSA is based on the Fund's new framework for market access countries.**[1] The new framework expands the risk-based approach of the basic DSA, including an analysis of vulnerabilities arising from the debt profile and financing needs. A heat map and debt profile vulnerability charts use standardized thresholds to enable cross-country comparison.

3. **A heat map and fan charts indicate that Ireland faces high risks to debt sustainability** (Figure 1). The debt burden benchmark for advanced economies of 85 percent of GDP is already exceeded, which suggests that Ireland's debt level is highly vulnerable under all scenarios regardless of the extent to which a shock increases debt. Gross financing needs are only vulnerable to the contingent liability shock, as the benchmark of 20 percent of GDP is only exceeded under this stress test. The debt profile is also subject to high risks from external financing requirements (excluding debts of the IFSC) and public debt held by non-residents which exceed the upper risk assessment benchmarks for these indicators.[2] It is useful to note, however, that a large proportion of external financing requirements reflects non-IFSC private sector debt and trade operations. The fan charts illustrate the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and an asymmetric distribution of risks, where in the former upside and downside risks are treated as equally likely, while in the latter only negative shocks to the primary balance are considered. The asymmetric fan chart is more relevant given the large planned fiscal adjustment and shows that risks to the debt outlook are skewed to the upside.

---

[1] See Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries.

[2] Note that Irish government bonds held by non-residents are considered to be external debt for this analysis.

4. **There is no evidence of a systematic projection bias in the baseline assumptions for key macroeconomic variables** (Figure 2). Ireland's forecast track record is comparable to that of all other countries with Fund-supported programs. The median forecast errors for real GDP growth and the primary balance during 2004-12 are below 1 percent and in line with other countries. The large forecast errors for growth, primary balance, and inflation mostly arise during the crisis period, especially the primary balance where there were very large unforeseen bank recapitalization costs.

5. **Reflecting the sizable fiscal effort, Ireland's fiscal adjustment is projected to improve its primary balance to above its debt stabilizing threshold** (Figure 2). The estimated change in the cyclically adjusted primary balance of 4 percent over three years during the projection period is in the top quartile of fiscal adjustments observed in advanced and emerging market countries with debt greater than 60 percent of GDP. While this sizable projected adjustment reflects Ireland's steadfast efforts under the program and in the medium term, it also makes the baseline debt path vulnerable to a primary balance shock.

6. **Under the baseline macroeconomic projection, Ireland's debt ratio will enter a declining path from 2014** (Figures 3 and 4). Ireland's primary surplus is projected to rise above its debt-stabilizing threshold in 2015, while the planned reduction in the large cash buffer after a major debt amortization in January 2014 allows gross public debt to decline from 2014. Automatic debt dynamics arising from the interest rate-growth differential will on average add some 2 percentage points per year to the debt ratio in 2013–14, before stronger growth takes hold from 2015. As a result of the large cash buffer accumulated, net public debt in 2013 amounts to 105.5 percent of GDP, and falls to just below 100 percent of GDP by 2018 when the cash buffer is assumed to shrink to more normal levels of about 7 percent of GDP.

7. **The projected decline in public debt remains fragile, vulnerable to both lower growth and contingent liabilities, which could compound each other** (Figure 5). Key risk factors include:

- ***Growth shock***. Slower growth remains the principal risk to debt sustainability. If projected real GDP growth rates for 2014-15 are lowered by 0.5 standard deviations (implying annual growth about 2 percentage points lower at -0.3 percent y/y in 2014 and 0.5 percent in 2015), the debt-to-GDP ratio would rise to 127 percent in 2015 (compared with 118 percent under the baseline) before starting to decline.[3]

[3] A one-half standard deviation shock, instead of the default one standard deviation shock, is applied to the growth rate to adjust for the exceptionally volatile growth rates during the recent boom-bust years.

- ***Interest rate shock***. An interest rate shock does not pose a significant risk given that a 200 basis point increase on new borrowing affects the debt trajectory only marginally.[4] The baseline is built on unchanged interest rate projections, which have not taken into account the full extent of recent declines in spreads, thus including a safety margin. In the medium term, Ireland is shielded from a rise in interest rates by its still-high share of fixed rate and official borrowing. While the swapping of the fixed coupon promissory note against €25 billion of floating-rate long-term bonds reduces the share of fixed-rate borrowing, the government has the option to exchange a portion of them against fixed-rate bonds at the time CBI is selling them in the market.

- ***Macro-fiscal shock***. If slower growth in 2014-15 is compounded by a temporary primary balance shock and by an increase in interest rates on new borrowing by 2 percentage points, the debt ratio rises to 136 percent of GDP in 2015 and only falls to 130 percent by 2018. In this scenario, gross financing needs increase to 15 percent of GDP in 2014–15, or some 6 percentage points of GDP higher than in the baseline.

- ***Contingent liability shock***. Potential sources of financial sector contingent liabilities include: (i) shortfalls in the crystallized value of National Asset Management Agency (NAMA) assets (including those acquired in February 2013 from the liquidated Irish Bank Resolution Corporation (IBRC)) relative to the €12.9 billion paid initially by NAMA, which would need to be covered by the government this year and next (Box 1); (ii) any further bank capital needs identified in the 2014 stress test (which would likely need to be furnished under 2–3 year capital plans) that could not be sourced in the market or through ESM direct recapitalization; and (iii) costs related to the ongoing restructuring of the credit union sector, although these are contained by the size of the sector, with net loans being only 2½ percent of GDP. Without estimates of the potential realization of these contingencies, a scenario assuming a 10 percent of GDP shock is used.[5] Such a shock, if combined with the above growth shock, would push gross public debt to 135 percent of GDP in 2015 before declining to 128 percent by 2018.

8. **Debt reductions from asset sales present an upside risk**. Current baseline 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 and aviation, 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 sales of interests in BoI and Irish Life earlier this year.

---

[4] A 200 basis point interest rate shock, instead of a default shock using the difference between the average real interest rate level over the projection period and the maximum real historical level (equivalent to 545 basis points), appears more appropriate given the exceptionally high interest rates during the crisis years (2008–10).

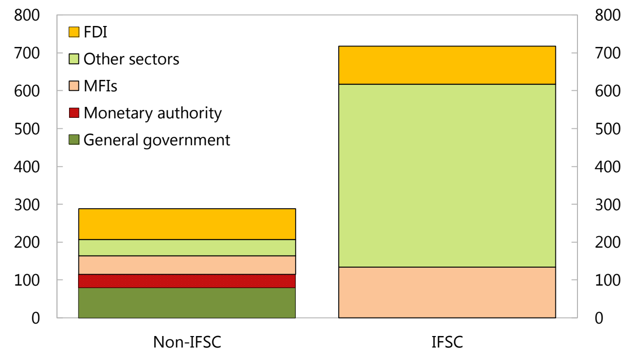
[5] A 10 percent of GDP shock is used, instead of a default shock of 10 percent of banking sector assets (equivalent to around 30 percent of GDP), taking into account the large financial sector support already incurred.

External Debt Sustainability Analysis

9. **External debt excluding the IFSC sector stood at 288 percent of GDP at the end of Q1 2013, while the total external debt (IFSC and non-IFSC) amounted to 1,006 percent of GDP**:

- Compared with end 2012, the non-IFSC debt declined by 11 percentage points of GDP while total external debt increased by 6 percentage points of GDP. Net international investment liabilities in Q1 2013 stood at 108 percent of GDP, which was mostly accounted for by the non-IFSC sector. Since end-2011, total external debt has fallen by 46 percentage points of GDP, while the non-IFSC debt declined by around 27 percentage points of GDP.

External Debt Composition, 2013-Q1
(Percent of nominal projected 2013 GDP)



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

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

	2006	2007	2008	2009	2010	2011	2012	2013Q1
Assets	1,133	1,197	1,267	1,493	1,680	1,650	1,718	1,764
Direct investment abroad	52	54	67	126	161	149	165	182
Portfolio investment abroad	693	706	701	833	922	881	971	1,005
Other investment abroad	388	437	498	533	595	619	581	576
Reserve assets	0	0	0	1	1	1	1	1
Liabilities	1,138	1,216	1,342	1,586	1,768	1,744	1,814	1,872
Direct investment to Ireland	67	73	75	107	135	120	138	168
Portfolio investment to Ireland	689	701	711	903	1,055	1,061	1,157	1,193
Other investment to Ireland	382	442	557	576	578	563	519	511
Net investment position	-5	-19	-76	-92	-88	-94	-96	-108
Direct investment, net	-15	-19	-8	19	26	30	28	15
Portfolio investment, net	4	5	-9	-69	-133	-180	-186	-188
Other investment, net 1/	6	-5	-59	-44	18	56	62	64
Reserve assets	0	0	0	1	1	1	1	1
Memorandum items								
Net IIP of the IFSC	35	44	4	-1	-1	15	-2	-3
Net IIP of the non-IFSC	-41	-63	-79	-91	-87	-108	-94	-107

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

- The non-IFSC debt is largely comprised of official external liabilities of the general government and the central bank (around 40 percent of the total), which increased six-fold as a result of the crisis. Around 30 percent of the non-IFSC debt is accounted for by FDI-related liabilities, with the remainder split between foreign liabilities of domestic financial institutions (which, as a result of deleveraging, are on a firmly downward path) and other sectors.

- End 2012 debt data was revised to account for newly available statistical information. Although end 2012 total external debt is little changed, there have been more significant revisions in the major components. The incorporation of new firm-level returns raised the non-IFSC debt by around €21 billion (4.5 percent compared with the initial release) due to higher liabilities to foreign direct investors (around two-thirds of the total), and higher debt of non-financial institutions. At the same time, the IFSC debt has been lowered by €20.6 billion, with lower liabilities of financial and non-financial institutions accounting for one-third and two-thirds of the downward revisions, respectively.

10. **By end 2018, total external non-IFSC debt is expected to decline to 215 percent of GDP, though significant risks surround this projection** (Table 1)**.** This revised debt projection is around 15 percentage points of GDP higher than at the 10th Review (but consistent with the 9th Review projection), with the increase mostly accounted for by higher end 2012 debt numbers. Nevertheless, risks to the debt outlook remain (Figure 6). With growth remaining at historical averages, in 2018 debt would be over 55 percentage points of GDP higher than under the baseline, though it would remain on a declining path. A permanent ½ standard deviation shock to growth, implying a contraction of around ¼ percent in 2014 (about 2 percentage points below the baseline) and slow growth of ½ percent annually thereafter, would raise the debt-to-GDP ratio to 241 percent, over 25 percentage points above the baseline. A permanent ½ standard deviation shock to the non-IFSC current account (excluding interest payments) would raise debt by around 20 percentage points of GDP above the baseline. A combined shock of ¼ of the standard deviation to the current account balance, real interest rate, and GDP growth rate would increase medium-term debt to 247 percent of GDP.

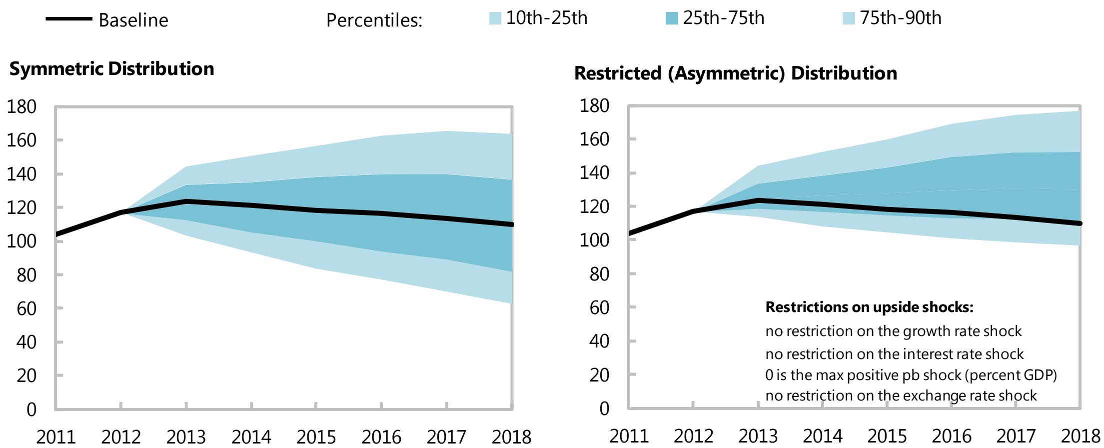
Annex I. Figure 1. Ireland Public DSA—Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

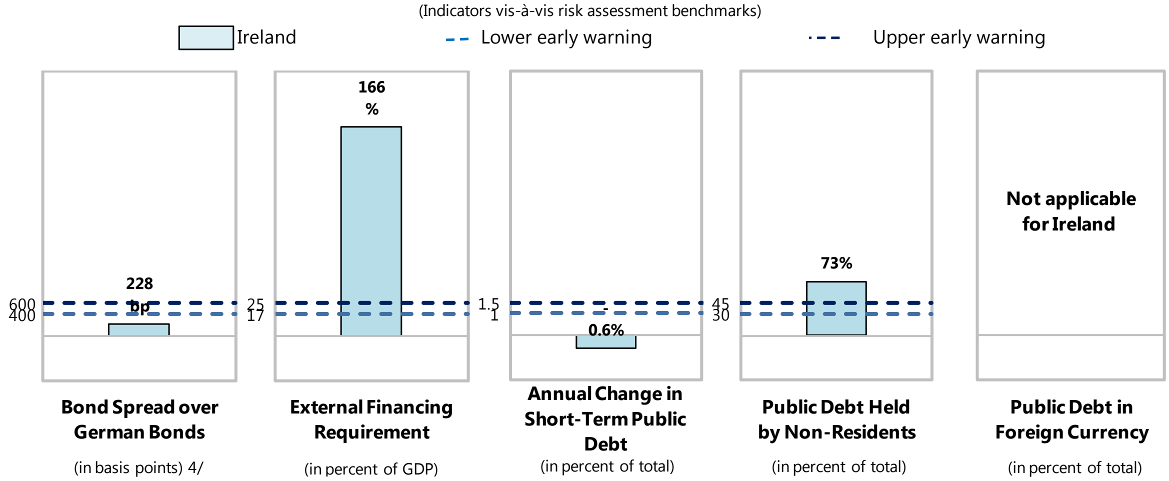
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85 percent of GDP is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20 percent of GDP is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

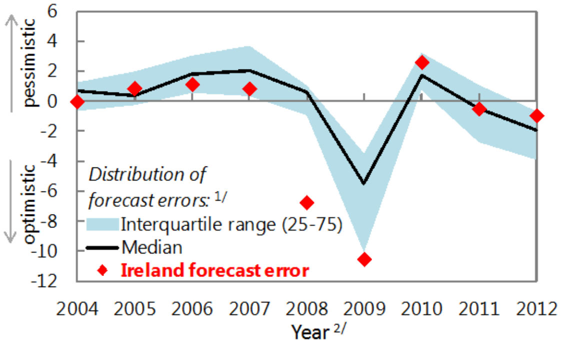
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Average over the last 3 months, 14-May-13 through 12-Aug-13.

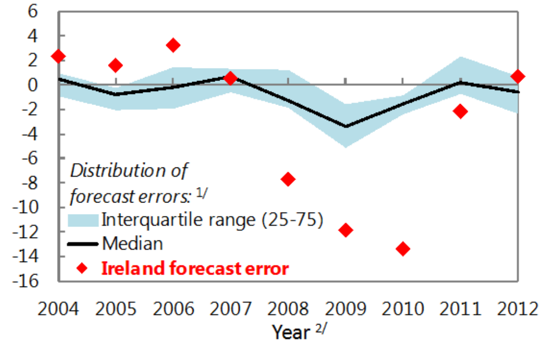
Annex I Figure 2. Ireland Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus program countries

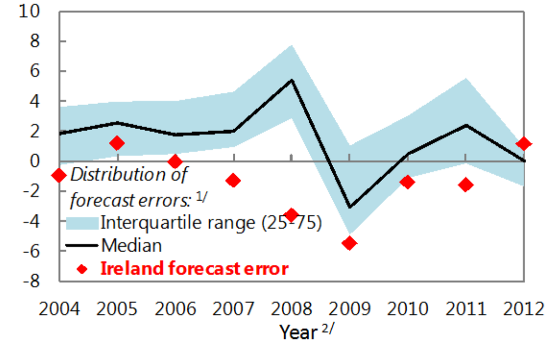
Real GDP Growth
(in percent, actual-projection)
Ireland median forecast error, 2004-2012: **-0.04**
Has a percentile rank of: **40%**



Primary Balance
(in percent of GDP, actual-projection)
Ireland median forecast error, 2004-2012: **0.54**
Has a percentile rank of: **69%**

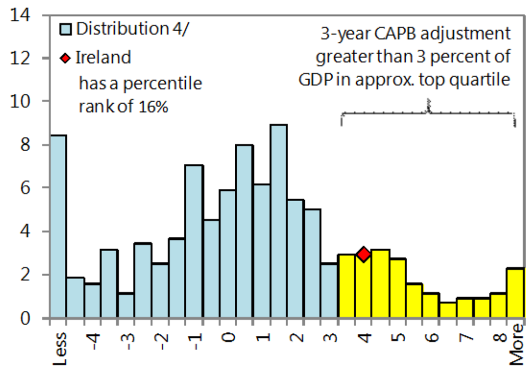


Inflation (Deflator)
(in percent, actual-projection)
Ireland median forecast error, 2004-2012: **-1.28**
Has a percentile rank of: **1%**

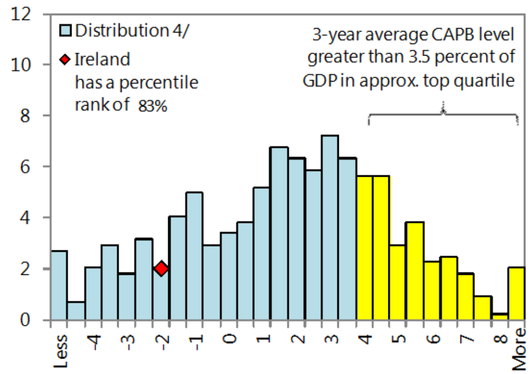


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

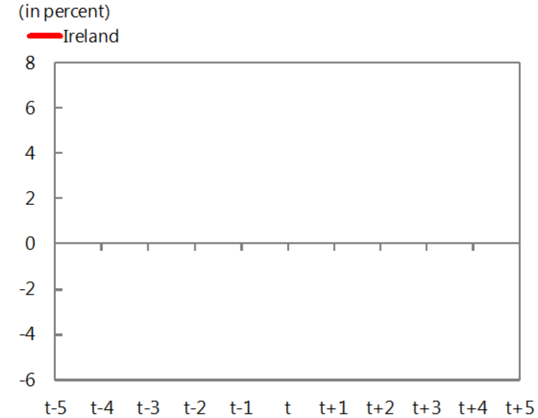


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Ireland.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex I Figure 3. Ireland Public DSA – Baseline Scenario

(in percent of GDP unless otherwise indicated)

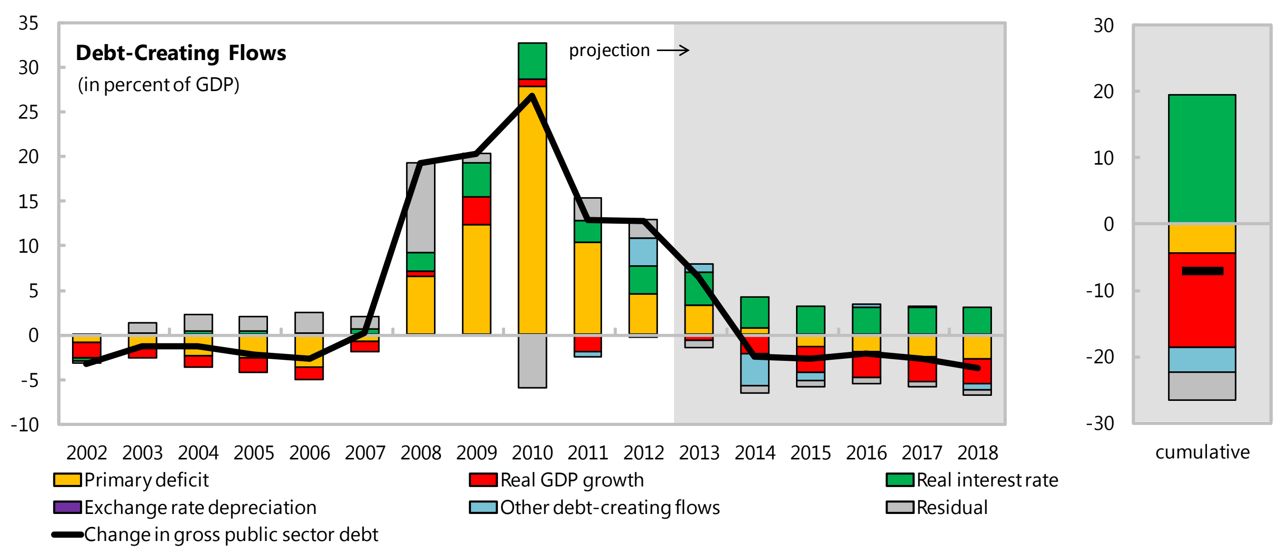
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	41.0	104.1	117.4	123.3	121.0	118.3	116.2	113.6	109.8
Public gross financing needs	...	19.0	15.0	13.1	10.4	7.3	11.2	9.2	13.1
Net public debt	...	92.8	102.1	105.5	107.9	107.0	105.3	103.0	99.6
Real GDP growth (in percent)	2.3	2.2	0.2	0.6	1.8	2.5	2.5	2.5	2.5
Inflation (GDP deflator, in percent)	1.2	0.7	0.7	1.0	1.2	1.4	1.6	1.6	1.7
Nominal GDP growth (in percent)	3.6	2.8	0.8	1.6	3.0	4.0	4.1	4.2	4.2
Effective interest rate (in percent) [3/]	4.4	3.7	3.6	4.2	4.2	4.2	4.3	4.4	4.5

As of August 12, 2013		
Sovereign Spreads		
Spread (bp) 2/		215
CDS (bp)		143
Ratings	Foreign	Local
Moody's	Ba1	Ba1
S&Ps	BBB+	BBB+
Fitch	BBB+	BBB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [8/]
Change in gross public sector debt	6.2	12.9	13.3	6.0	-2.4	-2.7	-2.1	-2.6	-3.7	-7.5	
Identified debt-creating flows	4.7	10.4	10.6	7.2	-1.7	-2.0	-1.4	-2.2	-3.3	-3.4	
Primary deficit	3.9	10.4	4.6	3.3	0.7	-1.4	-1.9	-2.4	-2.7	-4.4	-0.6
Revenue and grants	34.8	33.5	33.8	34.5	34.5	34.3	34.2	34.0	33.9	205.5	
Primary (noninterest) expenditure	38.7	43.9	38.4	37.8	35.2	32.9	32.3	31.6	31.2	201.1	
Automatic debt dynamics [4/]	0.8	0.5	2.9	2.9	1.3	0.2	0.1	0.2	0.2	4.8	
Interest rate/growth differential [5/]	0.8	0.5	2.9	3.0	1.4	0.3	0.2	0.2	0.3	5.4	
Of which: real interest rate	1.3	2.5	3.1	3.7	3.5	3.2	3.0	3.1	3.0	19.5	
Of which: real GDP growth	-0.4	-1.9	-0.2	-0.7	-2.1	-2.9	-2.9	-2.8	-2.8	-14.1	
Other identified debt-creating flows	0.0	-0.5	3.1	0.9	-3.7	-0.8	0.4	0.1	-0.8	-3.8	
Drawdown of deposits (negative)	0.0	-5.7	3.2	3.2	-4.2	-1.3	0.1	0.1	0.1	-2.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other, incl. stock-flow adjustment	0.0	5.2	0.0	-2.3	0.5	0.5	0.3	0.0	-0.9	-1.8	
Residual, incl. interest revenue [6/]	1.5	2.5	2.6	-1.2	-0.8	-0.8	-0.7	-0.6	-0.5	-4.6	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Bond Spread over German Bonds.

3/ Defined as interest payments divided by debt stock at the end of previous year.

4/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

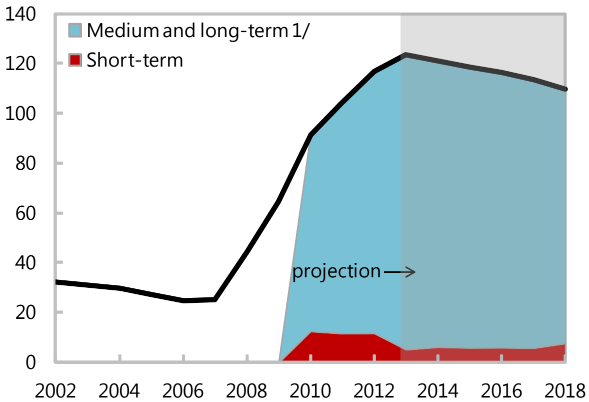
6/ This line includes asset and exchange rate changes.

7/ 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.

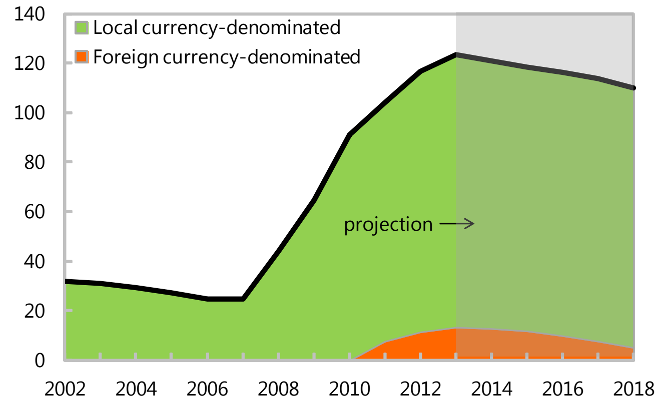
Annex I. Figure 4. Ireland Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



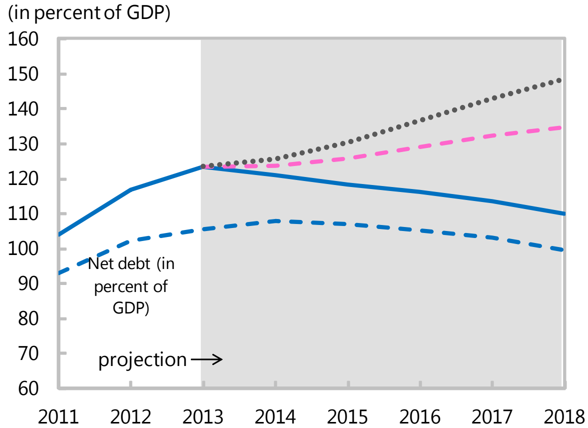
By Currency
(in percent of GDP)



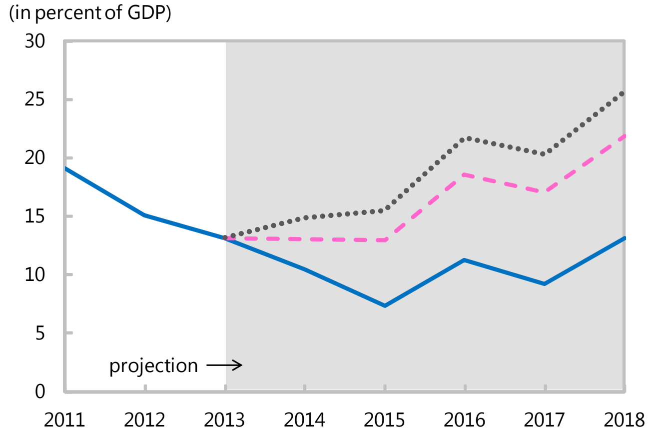
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

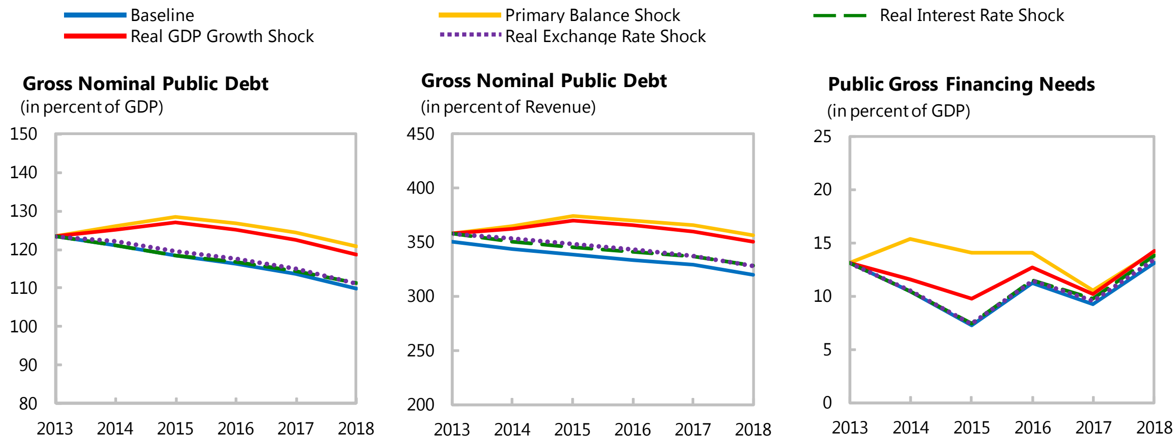
Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	0.6	1.8	2.5	2.5	2.5	2.5
Inflation	1.0	1.2	1.4	1.6	1.6	1.7
Primary Balance	-3.3	-0.7	1.4	1.9	2.4	2.7
Effective interest rate	4.2	4.2	4.2	4.3	4.4	4.5
Constant Primary Balance Scenario						
Real GDP growth	0.6	1.8	2.5	2.5	2.5	2.5
Inflation	1.0	1.2	1.4	1.6	1.6	1.7
Primary Balance	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Effective interest rate	4.2	4.2	4.3	4.3	4.4	4.5

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	0.6	1.7	1.7	1.7	1.7	1.7
Inflation	1.0	1.2	1.4	1.6	1.6	1.7
Primary Balance	-3.3	-5.1	-5.1	-5.1	-5.1	-5.1
Effective interest rate	4.2	4.2	4.3	4.4	4.7	4.8

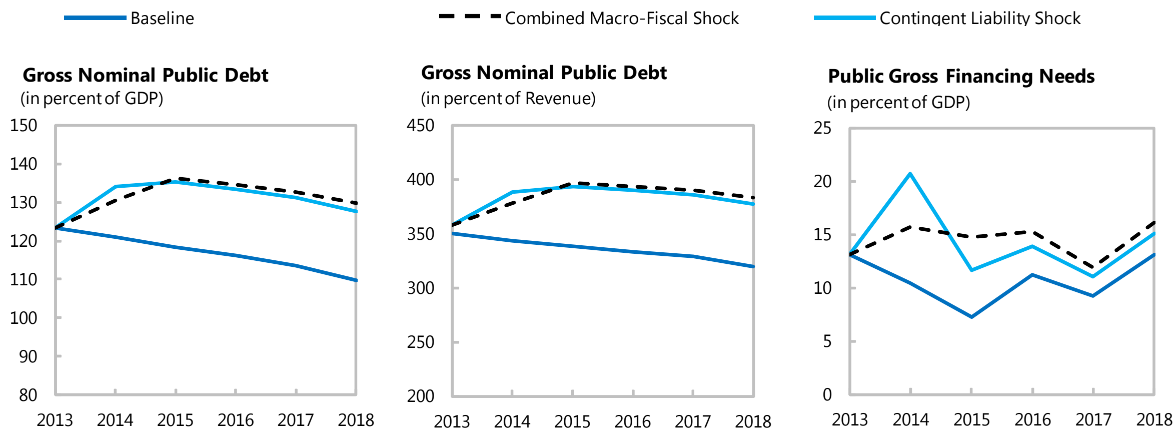
Source: IMF staff.
1/ Includes retail debt.

Annex I. Figure 5. Ireland Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

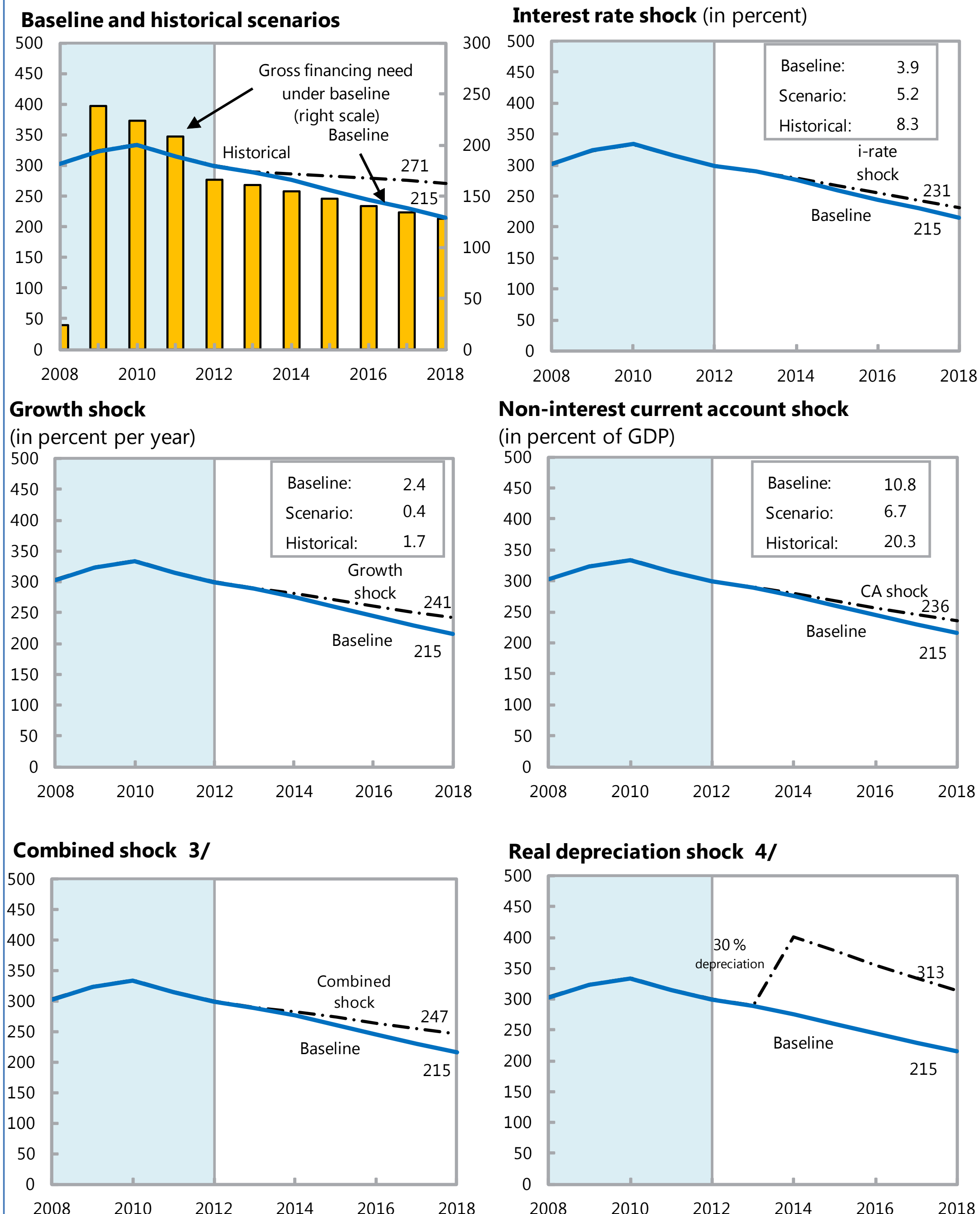
(in percent)

	2013	2014	2015	2016	2017	2018
Primary Balance Shock						
Real GDP growth	0.6	1.8	2.5	2.5	2.5	2.5
Inflation	1.0	1.2	1.4	1.6	1.6	1.7
Primary Balance	-3.3	-5.6	-3.5	1.9	2.4	2.7
Effective interest rate	4.2	4.2	4.4	4.5	4.6	4.6
Real Interest Rate Shock						
Real GDP growth	0.6	1.8	2.5	2.5	2.5	2.5
Inflation	1.0	1.2	1.4	1.6	1.6	1.7
Primary Balance	-3.3	-0.7	1.4	1.9	2.4	2.7
Effective interest rate	4.2	4.2	4.4	4.5	4.8	4.9
Combined Macro-Fiscal Shock						
Real GDP growth	0.6	-0.3	0.5	2.5	2.5	2.5
Inflation	1.0	0.7	0.9	1.6	1.6	1.7
Primary Balance	-3.3	-5.6	-3.5	1.9	2.4	2.7
Effective interest rate	4.2	4.3	4.4	4.6	4.9	5.1

	2013	2014	2015	2016	2017	2018
Real GDP Growth Shock						
Real GDP growth	0.6	-0.3	0.5	2.5	2.5	2.5
Inflation	1.0	0.7	0.9	1.6	1.6	1.7
Primary Balance	-3.3	-1.6	-0.3	1.9	2.4	2.7
Effective interest rate	4.2	4.2	4.3	4.3	4.4	4.5
Real Exchange Rate Shock						
Real GDP growth	0.6	1.8	2.5	2.5	2.5	2.5
Inflation	1.0	1.6	1.4	1.6	1.6	1.7
Primary Balance	-3.3	-0.7	1.4	1.9	2.4	2.7
Effective interest rate	4.2	4.3	4.3	4.3	4.4	4.4
Contingent Liability Shock						
Real GDP growth	0.6	-0.3	0.5	2.5	2.5	2.5
Inflation	1.0	0.7	0.9	1.6	1.6	1.7
Primary Balance	-3.3	-10.7	1.4	1.9	2.4	2.7
Effective interest rate	4.2	4.3	4.6	4.6	4.7	4.7

Source: IMF Staff.

Annex I. Figure 6. Ireland: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



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

Annex 1. Table 1. Ireland: External Debt Sustainability Framework, 2008-2018

(In percent of GDP, unless otherwise indicated)

	Actual 2008	2009	2010	2011	2012			Projections 2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	302.7	323.6	334.0	314.9	299.2			**289.3**	**275.8**	**260.0**	**244.5**	**229.6**	**215.3**	**-3.3**
2 Change in external debt	45.1	20.8	10.4	-19.0	-15.7			-10.0	-13.4	-15.9	-15.4	-14.9	-14.3	
3 Identified external debt-creating flows (4+8+9)	15.1	31.9	11.6	-9.1	-5.0			-6.9	-9.9	-12.0	-11.5	-11.1	-10.5	
4 Current account deficit, excluding interest payments	-26.6	-20.6	-22.9	-35.0	-16.1			-13.2	-11.4	-10.8	-10.0	-10.8	-11.0	
5 Deficit in balance of goods and services	-137.8	-143.9	-158.2	-161.4	-167.7			-165.5	-166.7	-167.4	-168.8	-170.6	-172.5	
6 Exports	71.4	77.5	85.9	89.0	93.0			91.9	92.4	93.3	94.1	95.1	96.0	
7 Imports	-66.4	-66.4	-72.3	-72.3	-74.7			-73.6	-74.2	-74.1	-74.7	-75.5	-76.5	
8 Net non-debt creating capital inflows (negative)	0.4	-1.9	3.1	0.6	-1.6			-4.3	-4.2	-4.0	-4.0	-4.0	-4.0	
9 Automatic debt dynamics 1/	41.2	54.4	31.3	25.3	12.6			10.5	5.7	2.8	2.5	3.8	4.5	
10 Contribution from nominal interest rate	27.8	20.9	22.7	34.5	15.2			12.2	10.6	9.4	8.9	9.7	10.0	
11 Contribution from real GDP growth	5.9	21.5	3.5	-7.0	-0.5			-1.7	-4.9	-6.6	-6.3	-5.9	-5.6	
12 Contribution from price and exchange rate changes 2/	7.6	12.0	5.0	-2.2	-2.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	30.0	-11.1	-1.2	-9.9	-10.7			-3.0	-3.6	-3.9	-4.0	-3.9	-3.7	
External debt-to-exports ratio (in percent)	423.9	417.7	388.7	353.7	321.6			314.9	298.4	278.7	259.8	241.5	224.2	
Gross external financing need (in billions of euro) 4/	43.0	385.8	354.3	339.3	271.4			267.3	265.8	262.8	261.2	259.1	257.3	
in percent of GDP	23.9	237.7	224.1	208.7	165.5	10-Year	10-Year	160.5	154.9	147.3	140.6	133.9	127.6	
Scenario with key variables at their historical averages 5/								**289.3**	**286.0**	**282.5**	**278.9**	**275.0**	**270.9**	**16.0**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-2.2	-6.4	-1.1	2.2	0.2	1.7	4.0	0.6	1.8	2.5	2.5	2.5	2.5	
GDP deflator (change in percent)	-2.9	-3.8	-1.5	0.7	0.7	0.7	2.6	1.0	1.2	1.4	1.6	1.6	1.7	
Nominal external interest rate (in percent)	10.3	6.2	6.8	10.6	4.9	8.3	2.5	4.2	3.8	3.5	3.6	4.1	4.6	
Growth of exports (in percent)	-1.2	-2.3	8.0	6.6	5.4	4.2	4.3	0.3	3.7	4.9	5.1	5.2	5.3	
Growth of imports (in percent)	0.0	-10.0	6.0	3.0	4.1	2.9	6.5	0.1	3.8	3.8	5.0	5.3	5.6	
Current account balance, excluding interest payments	26.6	20.6	22.9	35.0	16.1	20.3	8.1	13.2	11.4	10.8	10.0	10.8	11.0	
Net non-debt creating capital inflows	-0.4	1.9	-3.1	-0.6	1.6	-0.4	2.1	4.3	4.2	4.0	4.0	4.0	4.0	

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

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

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

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

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

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

Annex II. Fund Relations

(As of August 31, 2013)

Membership Status: Joined August 8, 1957; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	1,257.60	100.00
Fund holdings of currency	19,204.39	1,527.07
Reserve position in Fund	258.66	20.57

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	775.42	100.00
Holdings	645.24	83.21

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Extended Arrangements	18,205.43	1,447.63

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	18,205.43

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	2,895.74
Charges/Interest	121.98	597.03	622.89	576.68	478.65
Total	121.98	597.03	1,158.09	2,749.83	3,374.39

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).

Safeguards Assessment:

The safeguards assessment of the Central Bank of Ireland (CBI) was finalized in March 2011. It 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 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.

Article IV Consultations:

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

Eleventh Review Under the Extended Arrangement:

Discussions were held in Dublin during July 9–18, 2013. The IMF team comprised Craig Beaumont (head), Ashok Bhatia, Alexandre Chailloux, Jochen Andritzky, and Emilia Jurzyk (all EUR); Laura Jaramillo (FAD); Michael Moore and Joaquin Gutierrez Garcia (both MCM), and Varapat Chensavasdijai (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.

Technical Assistance:

Department	Purpose	Date
STA	Balance of Payments Statistics	January 2011
STA	Monetary and Financial Statistics	January 2011
FAD	Fiscal transparency assessment	March 2013

Resident Representative:

Mr. Peter Breuer assumed his post in September 2011.

Appendix I. Ireland: Letter of Intent

Dublin, 11 September 2013

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

Dear Ms. Lagarde:

1. We remain determined to leave the crisis behind, and to ensuring that policy supports broadening our economic recovery, and meaningfully reduces our high unemployment rate. The Government remains focused on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. The Irish Government's commitment to the programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

2. Despite the impact of persistent weakness in economic activity in our main European trading partners there have been a number of positive developments. Ireland's return to the financial markets continued with the successful launch of a new 10 year benchmark bond in March, which raised some €5 billion. The replacement of the IBRC promissory notes with long-term government bonds together with the extension of the maturities on our EFSF and EFSM loans by an average of 7 years significantly reduces the State's funding requirement over the next decade, smoothing Ireland's debt redemption path. It represents further significant support to Ireland's debt sustainability and continued market presence. Ireland achieved a second successive year of growth in 2012; the latest data from the CSO showed that real GDP expanded by 0.2 per cent. However, the picture emerging in 2013 is more mixed. Preliminary GDP figures for the first quarter of 2013 are less encouraging and were worse than the expectations of both domestic and international forecasters. It should be noted that quarterly estimates of GDP in Ireland are volatile and subject to revision. Despite these weak first quarter data, other high frequency indicators are more positive including the unemployment rate which at 13.6% in June has declined from the peak of 15.1% in February 2012. Notwithstanding the possible risks to the fiscal outlook, which are being actively managed, Ireland expects to meet the deficit target of 7.5% of GDP this year, following the considerable outperformance in 2012. In addition, more generally, the ECB's continued commitment to its Outright Monetary Transactions policy has helped to support Eurozone bond markets. Finally, once the implementation of the 2010 quota reforms is agreed, the effective interest rate on Ireland's IMF borrowings will be significantly reduced.

3. We continue to move towards the goal of fully regaining durable and sustainable market access during 2013. The continuation of regular Treasury bill auctions which recommenced in July 2012 and Ireland's successful bond issues in the year to date are positive steps in this

direction. The issue, in January 2013 of €2.5 billion of an existing 5 year bond at a yield of 3.32%, as well as the issue, in March 2013, of €5 billion of a new 10 year bond at yield of 4.15% demonstrated that Ireland has re-built a diversified investor base across many key geographic areas and, importantly, with real money investors. The NTMA continues to engage with the market in relation to a possible return to regular bond auctions later in 2013 subject to market conditions.

4. Ireland's preparations for the post programme period continue to take place against a mixed backdrop. Notwithstanding the external risks, Ireland's policy efforts are aimed at building on its continued successful return to markets during 2013 in order to exit from reliance on drawing upon official financing. The previously mentioned arrangement on the IBRC promissory notes and the extension of the maturities of EU loans are welcome steps towards improving the sustainability of the programme and will contribute to durable market financing. Timely implementation of the Euro Area Leaders' commitments to break the vicious circle between banks and sovereigns in the EU and to examine how to further improve the sustainability of the Irish programme 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 endeavor.

5. Once again, for the eleventh review, Ireland has met its commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets (MEFP Tables 1 and 2). Ireland has now completed over 230 actions. In particular, the performance criterion for end-June 2013 on the cumulative Exchequer primary balance was achieved, as was the indicative target on the stock of Central Government net debt. The continuous performance criterion on non-accumulation of external payment arrears was also met.

6. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out in more detail Ireland's plans to further advance towards meeting the objectives laid out in the support programme supported by the Extended Arrangement and by the EU. Based on the strength of these policies, and in light of Ireland's performance under the programme and continued commitment, we request the completion of the eleventh review under the Extended Arrangement. We also request that the eleventh purchase in an amount equivalent to SDR 681 million becomes available at the time of completion of the review.

7. We intend to maintain a strong cash buffer to support market confidence during this process of deepening market access, and propose to leave the phasing of purchases unchanged, with a total purchase amount of SDR 1,260.3748 million over the remainder of 2013. This, combined with our currently planned market issuance as well as the remaining programme funding from EU sources, should allow Ireland have an end year cash buffer sufficient to cover 12–15 months of financing needs, which should underpin confidence as we return to full debt market issuance.

8. Quantitative performance criteria under the arrangement have been established previously for end-September 2013, as set out in the attached MEFP (Table 2). As is standard in EU/IMF arrangements, there is a continuous performance criterion on the non-accumulation of external payment arrears. As detailed in the MEFP, we also propose the establishment of a structural benchmark on the publication of Budget 2014 by mid-October. In addition the publication of a target for the conclusion of sustainable solutions for mortgages in arrears by

end-2013 is a prior action for the completion of the eleventh review. Progress on implementing structural reforms is monitored through structural benchmarks (Tables 1 and 3). The Technical Memorandum of Understanding (TMU) defines (consistent with the Memorandum of Understanding on Specific Policy Conditionality) the quantitative performance criteria and indicative targets under the programme, and explains how these will be measured.

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

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

Sincerely,

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

Attachment I. Memorandum of Economic and Financial Policies

A. Recent Economic and Financial Developments and Outlook

1. **Recent data point to the recovery being more fragile than previously thought, yet positive growth is expected as the external environment improves.** Real GDP contracted by 0.9 percent y/y in Q1 as goods exports slumped owing to weak trading partner growth and the patent cliff in the pharmaceuticals industry. After beginning to stabilise in 2012, final domestic demand also weakened in Q1, though recent high-frequency indicators have been more positive. In contrast, employment rose 1.1 percent y/y in Q1, driven by rising part-time employment, while registered unemployment eased to 13.7 percent from around 15 percent a year earlier. Growth in 2013 and beyond depends upon recovery in Ireland's main trading partners and sustained growth hinges on continued progress in financial sector repair.

2. **Ireland's access to international credit markets has withstood recent market volatility though domestic financial conditions remain mixed.** Fluctuations in Irish sovereign bond yields have been relatively moderate during international financial market volatility and yields remain low by historical standards. Banks have accessed further market funding, including a senior unsecured bond issue by Bank of Ireland in late May, although wholesale funding conditions have tightened somewhat since then. Deposit rates have continued to trend down and the deposit base remained stable despite the phasing out of the Eligible Liability Guarantee scheme from March. However, credit outstanding has further contracted, with new lending below expectations in Q1, though credit demand appears to have risen recently.

B. Fiscal Policies

3. **We remain committed to the 7.5 percent of GDP deficit ceiling for 2013.** Budget implementation is on track in the first half of the year and the end-June performance criterion on the Exchequer primary balance and indicative target on net debt have safely been met. Local property tax filings indicate a strong compliance rate and legislation has been published to charge private patients in public hospital beds. We will maintain careful and proactive budget management to contain spending within allocations and undertake corrective measures if necessary. After reaching broad public sector union acceptance of the Haddington Road Agreement—which includes, among others, measures on pay, productivity and workplace reform—we will press ahead with implementing savings of €0.3 billion in 2013 and €1 billion per annum by 2015.

4. **We are beginning to prepare Budget 2014 with the aim of continuing our steady progress toward putting the public finances on a sound footing.** We will publish Budget 2014 by October 15 with fiscal targets until 2016 fully in line with the 2010 Council Recommendation under the Excessive Deficit Procedure, including the required fiscal consolidation effort until 2015 and with national fiscal rules, (**proposed structural benchmark**). The budget documents will also specify the annual Ministerial expenditure ceilings through 2016.

5. **To ensure equitable, durable and growth-friendly budget measures, we are analysing a range of reform options.** Budget 2013 incorporated significant measures contributing to our medium term fiscal consolidation effort. For the remaining consolidation

needed, we are developing revenue and expenditure reforms that preserve core public services and protect the most vulnerable. On the spending side, we are seeking to better target our social supports and subsidies, to reform key public services to generate savings while preserving outcomes, and to continue targeted capital investment. On the revenue side, we are looking to further broaden the tax base. We will implement reforms of the health and water sectors as specified in the MoU.

C. Financial Sector Policies

6. **As a key part of our recovery agenda we are making comprehensive efforts to strengthen the health of the financial sector.** To improve banks' ability and willingness to lend to households and SMEs in support of the economic recovery, we will continue to take steps to improve asset quality, review provisions, and enhance profits. Arresting the rise in nonperforming loans remains the top immediate priority. We will further advance the framework for resolution of mortgages and SME loans in arrears. Separately, we are conducting analysis in a variety of specific areas that will lead to proposals to improve net interest margins and hasten banks' return to profitability—which is essential to generate the capital needed to support new lending going forward. We will also conduct thorough reviews of asset quality and risk weighted assets, which will come together as a comprehensive point-in-time assessment of PCAR bank balance sheets. These and other diagnostic exercises will inform any necessary follow-up actions by these banks, including to help prepare for joining the Single Supervisory Mechanism (SSM) next year.

7. **Our progress in implementing a range of reforms improves the groundwork for banks to advance the resolution of residential mortgage distress.** The Insolvency Service has started to accept applications for Debt Relief Notices or Protective Certificates under the new personal insolvency framework. We have appointed six Specialist Judges dedicated to personal insolvency cases. With the recent passage of the Land and Conveyancing Law Reform Act 2013 we have removed unintended constraints on summary repossession proceedings. Over time, experience with these insolvency and repossession arrangements should help catalyse bilateral agreements between lenders and borrowers, including in situations involving both secured and unsecured debt. In addition, to facilitate more effective engagement between lenders and distressed borrowers, we have modified the Code of Conduct on Mortgage Arrears (CCMA), including by replacing the 12-month moratorium on repossession of primary dwellings and amending the definition of non-cooperating borrowers. The Central Bank of Ireland has also developed an internal guideline for assessing the sustainability of mortgage arrears solutions, under which temporary forbearance is acceptable only for borrowers with temporary difficulties. We have completed a mid-year review of progress in addressing mortgage arrears and we will continue to keep the mortgage resolution framework under close review to ensure its effectiveness.

8. **We are further articulating our system of mortgage resolution targets with a view to substantially resolving mortgage arrears by end-2014.** All lenders subject to the Mortgage Arrears Resolution Targets framework have reported that they have fulfilled the mid-year target for sustainable solutions proposed. Based on consultations with the staff of the EC, ECB, and IMF, we will as soon as practicable, and no later than the Board meeting for this review, publish a target for the conclusion by end-2013 of sustainable solutions of no less than 15 percent of mortgage loans in arrears for more than 90 days, consistent with largely completing sustainable

solutions by end-2014 (**prior action**). Each quarter we will announce future targets on a rolling basis, including, by mid-September, Q1 2014 targets for proposed solutions of 70 percent and for concluded solutions of no less than 25 percent. We will monitor each bank's progress, including through audits of performance against the resolution targets as set out in the MART framework, and assessing the sustainability of offered and concluded solutions. We will report to staff of the EC, ECB, and IMF by [CM1]early-November on the number and nature of solutions proposed in Q3 with a preliminary assessment of sustainability issues, and in mid-November, on the outcome of the audit of banks' proposed solutions for Q2, which will include an assessment of the sustainability of banks' solutions. We will devise a system for lenders to report on legal proceedings with a view to ensuring progress towards achieving sustainable solutions. We will also require lenders to have in place a strategy to address any potential shortfall from the repossession of the property.

9. **To promote the completion of sustainable mortgage solutions, we are taking steps to ensure that when conditions merit repossession, these procedures will be timely and predictable.** All appropriate safeguards are in place to keep distressed but cooperating mortgage borrowers in their homes with repossession of principal dwellings as last resort. Nonetheless, efficient repossession procedures are needed for those cases where other sustainable solutions are not available. Firstly, we will examine by end-October the merits of assigning additional functions to the Specialist Judges appointed to deal with personal insolvency cases which will enable them to deal with repossession cases as needed. Secondly, as part of our ongoing review of the effectiveness of statutory repossession arrangements as set out in the MEFP for the 9th review, we will define, in consultation with the staff of the EC, ECB, and IMF, terms of reference by mid-August for an expert group to review by end-2013 the length, predictability and cost of proceedings, including relative to peer jurisdictions, and propose, where necessary, appropriate measures to be brought forward quickly to deal with any problems arising. Thirdly, building on the positive experience with expedited proceedings in the Commercial Court, we will examine the possibility of introducing tight deadlines on plenary repossession proceedings for non-principal private residences by end-October.

10. **We are taking further steps to ensure that the process of SME debt resolution initiated earlier this year is implemented effectively.** In June we set restructuring targets for the two main banks involved in SME lending. We will closely monitor progress made through the various stages of the restructuring process, utilising Key Performance Indicator reports, and will assess the quality and sustainability of the concluded debt restructuring arrangements through targeted on-site reviews. The Central Bank of Ireland's on-site reviews will focus on the banks' operational restructuring capabilities and strategies, the durability of the solutions and, for the loan files reviewed, assess the appropriateness of loan grading, provisioning coverage and collateral valuations.

11. **We are preparing a preliminary assessment of the balance sheets of the PCAR banks by end-October, to be finalised by end-November.** This review will incorporate the results of: (i) an assessment of quantitative impairment provisions and a review of risk classification, i.e., an asset quality review on an incurred loss basis, and (ii) a review of the appropriateness of risk weights for regulatory capital purposes. Third parties independent of the banks will contribute to the implementation of the exercise, including through on-site loan file reviews. A separate independent third party will be engaged to validate the exercise. Sampling and loan file reviews will follow best practice to ensure a high level of coverage and

representativeness. The test parameters for benchmarking provisioning will be agreed by end-September. Outputs will include a sensitivity analysis for critical parameters. In the course of this assessment we will engage, with staff of the EC, ECB, and IMF, on an ongoing basis on progress, methodology, inputs, outputs, and findings.

12. **We are taking steps to hasten the recovery of banks' profitability in order to facilitate new lending going forward.** First, the CBI will prepare an operating profit analysis by end-September, which will assess operating profit projections to 2015, including operating expenses, funding cost sensitivities, and the recording of income from impaired or modified loans. Second, we will prepare an external review of bank fee regulation by end-2013, which will include benchmarking against relevant comparator jurisdictions with a view to identifying any necessary reform and making proposals to Government on how best to effect any such reform. Third, we are preparing a detailed technical proposal to reduce market funding costs for low-yielding assets in a low-risk manner, to address a key drag on banks' contribution to economic recovery.

13. **We are following up on the updated restructuring plan for Permanent tsb (PTSB) of July.** We will review (i) PTSB's financial forecasts in light of broader reviews currently being undertaken, including of asset quality and risk weights; (ii) profitability prospects in light of measures under consideration to reduce funding costs on low-yielding assets; (iii) funding options, and (iv) its preparedness for the SSM balance sheet assessment planned for next year.

14. **Credit unions play an essential role in Ireland's financial landscape, and we will ensure that their lending is subject to adequate prudential requirements and oversight.** The commencement of the new requirements in the Credit Union and Co-operation with Overseas Regulators Act 2012 support the introduction of a strengthened regulatory framework for credit unions. From 1 August the administrative sanctions procedure (which can include monetary penalties) will apply to credit unions in relation to prescribed contraventions. We will continue to review lending restrictions on credit unions to determine whether they are set at appropriate levels and will impose any restrictions on credit unions as necessary to protect members' savings.

15. **We will promptly commence the Credit Reporting Bill 2012 upon its enactment--which is expected by November**. Through utilisation of an array of personal identifiers including the Personal Public Service Number, this centralised credit register will enable a more accurate borrower-by-borrower determination of credit exposures and payment histories, filling a critical gap in the institutional framework for prudent credit extension, which will help support a recovery in sound credit and domestic demand. To ensure the earliest operation of the register we are advancing preparations to enable the Central Bank of Ireland to tender for the design and implementation of the register shortly after commencement of the Act.

D. Structural Reforms

16. **Our plans to support economic activity, including employment through a range of investment projects are proceeding as planned.** In addition to our normal Exchequer funded capital investment plan, two Public-Private Partnership (PPPs) projects in the areas of education and roads have entered the construction phase and several other projects will advance to construction at various stages over the next two years. These projects will be funded through PPPs and—to a limited extent—through additional direct funding from the budget. To link in

with our labour activation policy measures, we are piloting the use of social procurement clauses to ensure that a portion of workers are recruited from the long term unemployed and from apprenticeship programmes. The disposal of state assets is also advancing and the sale of key energy sector assets will be completed by end-2013. We will use at least half of the resulting proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed. The remainder will be invested in job-rich projects of a commercial nature, consistent with our fiscal targets.

17. **We are strengthening our efforts to address the high level of unemployment:**

- ***Case officers providing employment services.*** Our plans to redeploy 300 staff as case workers by end-2013 are proceeding as planned, and an additional 200 staff will be redeployed in 2014. In order to optimise the skills set of case workers and seek ways to increase redeployments beyond existing targets, we will consider redeploying staff from outside of the Department of Social Protection (DSP). We will also ensure that all redeployed staff receive adequate training. To substantially boost activation resources, we will determine the scope and structure of a contracting model of activation services to private providers and issue a request for tender by end-November.

- ***Focus on the long-term unemployed.*** We will utilise the additional resources deployed on activation/case management duties to maximise the number of long term unemployed people who receive activation services. As an initial target and cognisant that it will take time to redeploy and train new staff to be fully effective, we aim to engage fifteen thousand long-term unemployed people in group engagement sessions and to integrate an additional ten thousand long-term unemployed people in the activation process of regular one-on-one interviews every quarter, starting in Q4 2013. These initial targets will be reviewed as the process of deploying additional resources to activation progresses.

- ***Training and education***. Recognizing that state-sponsored training and education of jobseekers should put jobseekers on a path towards employment, we will ensure that all new applications for the Back to Education payment are reviewed for employment relevance and, where appropriate, that the applicant's application is discussed with a case officer, prior to approval. By end-December we will also develop a clear system of cooperation between the Intreo offices and the Education and Training Boards to ensure that jobseekers' participation in activation and training is effectively monitored after the referral. We will continually seek to ensure that activation needs are well served by the Further Education and Training (FET) sector, that duplication of advice and guidance is avoided, that resources are optimally assigned and that the jobseeker is provided with a streamlined activation service. We will also seek that SOLAS submits its strategic plan by end-March 2014, with an update on progress on its formulation by end-December 2013, so that it rapidly takes up its responsibility of ensuring the relevance of further education programmes for jobseekers and employers. We will review whether certain FAS FET participants should continue to retain all or part of their DSP welfare payments while on FET courses in addition to FAS training allowances by end-October.

- ***Sanctions.*** As our unemployment assistance rests on the principle of mutual obligation, by end-October we will review the system of sanctions, taking account of recourse to appeals, to ensure that it provides strong incentives to participate in activation and training and operates in a fair manner.

- ***Youth unemployment*.** As unemployment among young people remains a major problem, we will by end-2013 review wage costs and other factors which may affect employment of young people.

18. **Supporting the SME sector, which is a major employer, remains one of our essential objectives:**

- We are promoting awareness and understanding of the full range of Government initiatives to support SME financing. We will undertake a review of the Credit Guarantee Scheme to identify and address issues that have a bearing on the take-up and the future performance and success of the Scheme. The NPRF SME funds announced earlier this year (the Restructuring Fund, Turnaround Fund and Credit Fund) will be operational within the coming months and provide, in partnership with private sector players, up to €900 million of equity finance and new lending to SMEs. These funds will also help to facilitate the workout of viable SMEs with loans in arrears. We will continue our efforts to deploy these initiatives and study further options in the context of the EFC high-level expert group on long-term finance and SMEs that was set-up following a recommendation of the 2013 Irish EU Presidency.
- **We are taking steps to facilitate SME restructurings.** The full amendments to the Company Law are currently anticipated for 2014. Given the imperatives of SME loan resolution, we will seek to accelerate the adoption of provisions that give jurisdiction to Circuit Courts for SME examinership by year-end. To facilitate SME restructuring, especially in multi-creditor cases, we will consider by end-2013 the appropriateness of additional legislative amendments to the SME examinership legal framework to reduce costs and achieve efficiency gains. By end-2013, drawing on initial experience with the operation of the Insolvency Service in the personal insolvency reform and recommendations in the Company Law Review report, we will consider the potential for an administrative body to facilitate SME restructuring.

E. Programme Financing and Monitoring

19. **To date in 2013, €7.5 billion has been raised by the NTMA from two syndicated bond sales in the first quarter of 2013 - both of which attracted strong international interest and were heavily oversubscribed – we expect to end the year with a cash buffer covering 12-15 months of future financing needs.** Decisions on potential bond auctions will be taken later in the year in the light of prevailing market conditions. The recent confirmation of the 7 year extension in EFSM/EFSF maximum average maturities reduces refinancing needs in coming years. These positive developments support Ireland's ability to access long-term market funding on sustainable terms and we remain on course to consolidate a durable return to the debt markets in 2014. We are also developing a Medium Term Economic Strategy until 2020 to underpin our growth and debt sustainability prospects, which will support our access to market financing.

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

Table 1. Programme Monitoring

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

Table 1. Programme Monitoring (concluded)

Measure	Date	Status
Publish legislation to strengthen the regulatory framework for credit unions, including making legislative provision for effective governance standards and prudential requirements.	End-September 2012	Observed
Approve regulations to establish a charge levied across credit institutions to recoup over time the costs of resolving vulnerable institutions.	End-September 2012	Observed
Request an external BCP assessment in support of efforts to strengthen financial supervision and regulation.	End-March 2013	Observed
Publish an update, where necessary, of the 2011 Impairment Provisioning and Disclosure Guidelines.	End-May 2013	Observed
Undertake a review of progress in addressing mortgage arrears.	End-June 2013	Observed

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

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

	31-Dec-11		31-Mar-12		30-Jun-12		30-Sep-12		31-Dec-12		31-Mar-13		30-Jun-13		30-Sep-13
	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target1/	Outcome	Target
	(In billions of euro)														
	Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion		Performance Criterion
1. Cumulative exchequer primary balance 2/	-22.3	-21.0	-6.9	-5.7	-9.6	-8.7	-11.4	- 10.1	-13.2	-12.3	-3.2	-1.8	-4.0	-2.2	-4.8
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 3/	0	0	0	0	0	0	0	0	0	0	0	0	0		0
	Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target		Indicative Target
3. Ceiling on the stock of central government net debt	117.2	115.7	125.0	123.0	130.1	128.2	132.5	130.0	135.8	133.7	167.9	161.8	171.1	164.6	172.3

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

Table 3. Structural Benchmarks Under the Programme

Measure	Date	Status
Financial sector policies		
Publish a target for the conclusion by end-2013 of sustainable solutions of mortgage loans in arrears for more than 90 days (MEFP ¶8, 11th review)		Prior action
Conduct a forward looking analysis of PCAR banks' operating profits (MEFP ¶11, 10th review)	End-September 2013	Structural benchmark
Complete a preliminary balance sheet assessment of PCAR banks (MEFP ¶11, 10th review)	End-October 2013	Structural benchmark
Fiscal policies		
Publish 2014 Budget (MEFP ¶4, 11th review)	October 15, 2013	Proposed structural benchmark

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

September 11, 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-September 2013 (performance criterion)	-4.8

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

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

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

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

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

Ceiling on the Stock of Central Government Net Debt

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

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

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

[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.

(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 paragraph 21 of the MEFP dated 29 November 2012,

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

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

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

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

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

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

The ceiling on the outstanding stock of central government net debt will be adjusted upward (downward) by the amount of any final upward (downward) revision to the stock of end June 2013 central government net debt.

Central government net debt	(In billions of euros)
Outstanding stock:	
End-June 2013 (provisional)	164.6
End-September 2013 (indicative target)	172.3

Non-accumulation of External Payments Arrears by Central Government

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

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

II. REPORTING REQUIREMENTS

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

- The Department of Finance will report to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date the following data: the Exchequer primary balance, Exchequer tax revenues, payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy, proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts, receipts from disposals of state assets specified in the paragraph 21 of the MEFP dated 29 November 2012 and associated outlays on growth-enhancing projects not included in Budget 2013, Exchequer outlays for the resolution and restructuring of credit unions, any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund and the Restructuring and Stabilisation Fund.
- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt, including an unaudited analysis of NPRF holdings, with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.
- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staffs, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 11 of this memorandum.

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

Attachment III. Letter of Intent (European Commission)

Dublin, 11 September 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. Rimantas Šadžius
Minister of Finance
Lukiškių 2,
01512 Vilnius,
Lithuania

Dear Messrs. Draghi, Dijsselbloem, Rehn and Šadžius,

1. We remain determined to leave the crisis behind, support the emerging economic recovery and meaningfully reduce our high unemployment rate. As we near the completion of our programme, the Government's focus is firmly on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. 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. Although, first-quarter national accounts data have been disappointing with export growth slowing due to sector-specific developments as well as weak trading partner growth, more high-frequency data have been encouraging, with house prices returning to year-on-year growth, broad-based employment growth

has resumed and unemployment is down. The yields on Irish government bonds remain low and are now well below the levels seen before the programme. This has been supported by the general improvement in market sentiment following the announcement by the ECB of its outright monetary transactions programme as well as, more specifically to Ireland, by the replacement of the promissory notes with longer-duration, government bonds following the liquidation of IBRC and by the decision by the Eurogroup and the ECOFIN to extend by seven years the average duration of the EU loans. We have also made progress with the bank diagnostic exercise and remain committed to completing the assessment of banks' balance sheets by the end of November. There have also been advances with the target based approach to deal with mortgage arrears.

3. We are near regaining durable and sustainable market access. The continuation of regular Treasury bill auctions in 2013, at low yields and high bid-to-cover ratios, and the successful issuance of medium to long-term bonds means there is little market financing need left for the year. We intend to maintain a strong cash buffer to support market confidence during this process of deepening market access. This, combined with our currently planned market issuance as well as the remaining programme funding, should allow us to have an end year cash buffer sufficient to cover about 12 to15 months' financing needs, which should underpin confidence in 2014.

4. We will continue to work with staff of the European Commission, the European Central Bank and the International Monetary Fund towards a successful completion of the adjustment programme with a timely and effective implementation of the policy conditions as set out in the updated version of the MoU (attached).

5. In light of our performance under the programme and our continued commitment to it, we request the completion of the eleventh review and the release of the eleventh disbursement of EUR 2.3 billion from the EFSF.

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

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

8. This letter is being copied to Mme Lagarde.

Sincerely,

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

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

Ireland
Memorandum of Understanding
On
Specific Economic Policy Conditionality
(Tenth Update)
11 September 2013

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

2. The quarterly disbursement of financial assistance from the EFSM[1] will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the 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

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

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 consolidate our return to commercial funding 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).

- Seek to ensure that activation needs are well served by the Further Education and Training (FET) sector, that duplication of advice and guidance is avoided, that resources are optimally assigned and that the jobseeker is provided with a streamlined activation service.

- 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.

- Continue to review lending restrictions on credit unions to determine whether they are set at appropriate levels and will impose any restrictions on credit unions as necessary to protect members' savings.

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

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

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

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

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

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

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

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

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

Financial sector reforms

Capital assessment

5. Taking into account progress in developing the relevant SSM methodology, the authorities will agree with staff of the European Commission, the IMF, and the ECB,as part of the asset quality

review on an incurred loss basis (as per paragraph 24),test parameters for benchmarking provisioning. Sampling and loan file reviews will follow best practice to ensure a high level of coverage and representativeness.

6. With regards to the assessment of balance sheets (as per paragraph 24), the authorities will agree with the staff of the European Commission, the IMF and the ECB by end July:

- the engagement of independent third parties to, respectively: (i) contribute to the implementation of the exercise including through on-site loan file reviews, and (ii) validate the exercise.
- a detailed roadmap for the completion of the exercise specifying regular engagement, with the staff of the European Commission, ECB, and IMF, on an ongoing basis on progress, methodology, inputs, outputs, and findings.

Deleveraging

7. 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

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

Profitability

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

Asset quality

10. The authorities will keep under review the effectiveness of statutory repossession arrangements in Ireland based on ongoing experience with repossession actions. The authorities will agree with staff of the EC, ECB and IMF by mid-August the terms of reference for an expert group that will examine issues such as length, predictability and cost of proceedings, including relative to peer jurisdictions, as well as systems for dealing with non-cooperative borrowers and the merits of

expedited proceedings for non-principal private residences, and propose, where necessary, appropriate measures to be brought forward quickly to deal with any problems arising.

11. 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.

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

13. Following consultation with the staff of the European Commission, the ECB and the IMF, the authorities will publish a target for the conclusion by end-2013 of sustainable solutions of no less than 15 percent of mortgage loans in arrears for more than 90 days, consistent with largely completing sustainable solutions for all mortgage loans in arrears for more than 90 days by end-2014. The authorities will announce Q1 2014 targets for proposed solutions of 70 percent and concluded solutions of no less than 25 percent of mortgage loans in arrears for more than 90 days.

Financial Supervision

14. The authorities will issue new supervisory guidance to credit unions on new requirements contained in the Credit Union and Co-operation with Overseas Regulators Act 2012 which include governance, internal audit, operational risk, outsourcing and strategic planning.

15. 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.

16. 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.

Mortgage Reporting

17. The authorities will agree with the staff of the EC, ECB and IMF on the format and timeliness of regular reports on case load and processing times for repossession cases on a sufficiently granular basis, such as time lapse between civil bill filing and first court appearance.

Structural reforms

Water services reform

18. 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.

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

Further education and training

20. 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

21. The authorities will develop an eHealth Strategy in conjunction with the HSE by end September. 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 Personal Public Service Number (PPSN) – to support and enable the delivery of integrated patient care under the reform agenda.

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

Expenditure ceilings

23. Following the enactment of the Ministers and Secretaries (Amendment) Act 2013 on 23 July 2013, the authorities will publish, by the end of August 2013, a circular specifying the operational details of the ceilings—including on the circumstances under which they can be revised and on the correction mechanisms.

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

Financial sector reforms

Capital Assessment

24. Taking into account progress in developing the relevant SSM methodology and in consultation with staff of the European Commission, ECB and IMF the authorities will complete a preliminary assessment of balance sheets of PCAR banks by end-October incorporating the results

of (i) an assessment of quantative impairment provisions and a review of risk classification i.e., an asset quality review on an incurred loss basis and (ii) a review of the appropriateness of risk weighted assets calculations under alternative assumptions. The asset quality review will be based on the Central Bank of Ireland's Impairment Provisioning and Disclosure Guidelines updated at end May 2013. Outputs will include a sensitivity analysis for critical parameters. The assessment of balance sheets will be finalised by end-November 2013 and the results will be communicated to the PCAR Banks to help inform their assessment of impairment provisions and financial plans going forward.

25. The authorities will analyse current eligible regulatory capital under Basel III/CRD IV by end October.

Deleveraging

26. 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.

Funding and liquidity monitoring

27. 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 liquidity and funding requirements using the advanced monitoring framework, and will produce a final report on progress towards compliance with Basel III liquidity and funding requirements by the relevant dates.

Asset quality

28. 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.

29. The authorities will monitor the principal mortgage banks' progress on resolving mortgage arrears including through audits of performance against the resolution targets as set out in the MART framework, and assessing the sustainability of offered and concluded solutions. The authorities will provide an update to staff of the EC, ECB, and IMF by early-November on the number and nature of solutions proposed in Q3 2013 with a preliminary assessment of sustainability issues. Furthermore, by mid-November, the authorities will report on the outcome of the audit of banks' Q2 2013 proposed solutions for mortgage loans in arrears, which will include an assessment of the sustainability of banks' solutions. The authorities will devise a system for lenders to report on legal proceedings with a view to ensuring progress towards achieving sustainable solutions. The authorities will also require lenders to have in place a strategy to address any potential shortfall from the repossession of the property.

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

31. Building on the expedited proceedings in the Commercial Court, the authorities will examine the possibility of introducing tight deadlines on plenary repossession proceedings for non-principal private residences by end-October.

32. The authorities will announce Q2 2014 targets for the principal mortgage banks to propose and conclude restructuring solutions for mortgage loans in arrears for more than 90 days.

33. The authorities will examine by end-October the merits of assigning additional functions to the Specialist Judges appointed to deal with personal insolvency cases which will enable them to deal with repossession cases as needed.

34. The authorities will discuss with staff of the EC, ECB and IMF the results and the policy implications of the review of the effectiveness of statutory repossession arrangements as per paragraph 10.

35. The authorities will seek to accelerate the adoption of relevant provisions of the Companies Bill 2012 that give optional jurisdiction to Circuit Courts for SME examinership.

36. 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.

Financial Supervision

37. 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.

38. 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.

39. The authorities will promptly commence the Credit Reporting Bill 2012 upon its enactment—which is expected by November. Through utilisation of an array of personal identifiers including the Personal Public Service Number (PPSN), this centralised credit register will enable a more accurate borrower-by-borrower determination of credit exposures and payment histories. To ensure the earliest operation of the register the Central Bank of Ireland will tender for the design and implementation of the register shortly after the commencement of the Act. Furthermore, the authorities will prepare a final comprehensive report on the remaining steps towards the full and timely implementation of the Central Credit Register, which will be discussed with the staff of European Commission, the IMF, and the ECB.

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

41. 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

Labour market reform

42. The authorities will report on compliance with the action plan to double the number and ensure adequate training of Intreo case managers. They will seek ways to increase redeployments beyond existing targets by redeploying staff from outside of the Department of Social Protection (DSP).

43. The authorities will determine the scope and structure of a contracting model of activation services to private providers and issue a request for tender by end-November.

Water services reform

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

45. The authorities will finalise and communicate a template service level agreement between Irish Water and local authorities, with the view to ensuring that such agreements are in place with all local authorities by the end of 2013.

Health

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

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

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

49. Consistent with the new powers afforded by the recently enacted "Health (Pricing and Supply of Medical Goods) Act 2013" and the recommendations of the June 2013 ESRI report titled

"Ireland: Pharmaceutical Prices, Prescribing Practices and Usage of Generics in a Comparative Context", the authorities will provide, by end-October 2013, an update on the exercise of these powers, including a plan for the mid-term review of the Oct 2012 agreement with IPHA, under which they will carry out a comprehensive pricing re-alignment exercise, including in the hospital sector.

50. Given the significant discrepancy in generic pricing identified in various reports, and consistent with the new powers afforded by the recently enacted "Health (Pricing and Supply of Medical Goods) Act 2013", the authorities will complete by end October 2013, a comprehensive exercise to realign downwards the prices of off-patent listed items.

Legal services reform

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

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 105 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly, 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly, 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- 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 current expenditure, (iii) capital expenditure and (iv) income collected.	Monthly, 7 working days after the end of each month.
F.13	Report on pharmaceutical prescriptions and expenditure, including information on value and volume of drugs and the extent of the use of generics and off-patent drugs.	Quarterly, 30 working days after the end of each quarter.
F.14	Report on prescribing and dispensing practices by doctors and pharmacies.	Quarterly, 30 working days after the end of each quarter.
F15	Report on the quantum of pre-installation surveys completed and water meters installed by geographical area.	Monthly, 15 working days after the end of each month.
To be provided by the NTMA		
N.1	Monthly information on the central Government's cash position with indication of sources as well of number of days covered	Monthly, three working days after the end of each month
N.2	Data on below-the-line financing for central Government.	Monthly, no later than 15 working days after the end of each month
N.3	Data on the National Debt	Monthly, 15 working days after the end of each month
N.4	Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for the National Debt.	Monthly, 30 working days after the end of each month
N.5	Updated estimates of financial sources (bonds issuance, other financing sources) for the Exchequer Borrowing Requirement / National Debt in the next 12 months	Monthly, 30 working days after the end of each month

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

INTERNATIONAL MONETARY FUND

IRELAND

ELEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT—SUPPLEMENTARY INFORMATION

September 18, 2013

Prepared By	European Department

This supplement provides information that has become available since the issuance of the staff report on September 12, 2013 (EBS/13/119). The information does not alter the thrust of the staff appraisal.

All program conditionality for the eleventh review has been met following the completion of the prior action on mortgage resolution targets. On September 17, 2013 the Central Bank of Ireland published the end 2013 target for banks to conclude sustainable solutions for mortgages in arrears for more than 90 days. At 15 percent of each banks' total mortgages in arrears for more than 90 days, this target is consistent with the prior action set out in paragraph 8 of the MEFP. At the same time, the central bank also published targets for March 2014 consistent with the MEFP. The text of the press release for this central bank statement is provided below.

Central Bank statement on Mortgage Arrears Resolution Targets: "Concluded" Arrangements

Statement 17 September 2013

In March 2013, the Central Bank announced targets (end June, end September and end December) for banks offering sustainable long term solutions for mortgage arrears customers. The Central Bank also intimated that targets for "concluded" arrangements with mortgage arrears customers would follow. The Central Bank, in agreement with the Troika, has now set its expectations of the banks in this regard and requires banks to have concluded arrangements with 15 per cent of their over 90-day mortgage arrears customers by end of December 2013. Furthermore, the Central Bank is now setting expectations for end March 2014 for sustainable solutions offered to customers to reach 70 per cent of over 90-day arrears and for concluded solutions to reach 25 per cent.

INTERNATIONAL MONETARY FUND

IRELAND

ELEVENTH REVIEW UNDER THE EXTENDED ARRANGEMENT—FURTHER SUPPLEMENTARY INFORMATION

September 24, 2013

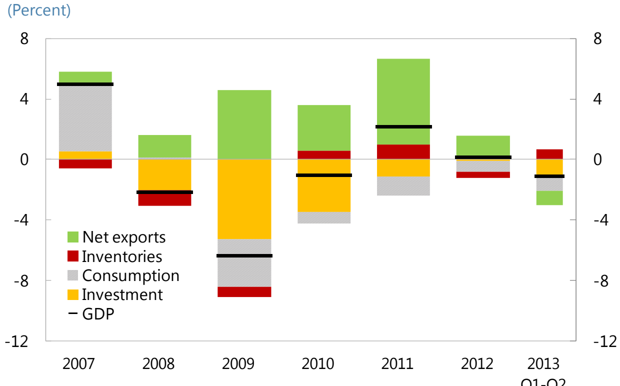
Prepared By | European Department

This supplement provides information that has become available since the issuance of the staff report on September 12, 2013 (EBS/13/119). The information does not alter the thrust of the staff appraisal.

Ireland's real GDP firmed by 0.4 percent q/q in Q2 but still contracted 1.2 percent y/y, according to first estimates released on September 19, 2013. Exports recovered from a sharp dip in Q1 to increase 1 percent y/y in Q2, led by service exports growth of 3.6 percent. Final domestic demand contracted 0.3 percent q/q in Q2, to be down by 1.1 percent y/y, as a 0.7 percent q/q rise in private consumption was outweighed by weak total investment and public consumption. Nonetheless, fixed investment excluding the volatile aircraft component exhibited growth of 11.8 percent y/y, driven by machinery and equipment spending and a rebound in construction. The current account balance remained strong in Q2 in the wake of stronger exports and stable imports, posting a record surplus of 7 percent of GDP. These data are consistent with the macroeconomic outlook in the staff report which incorporated improved growth in the second quarter. Staff projections for the twelfth review will be updated taking into account these and other data.

Contributions to Real GDP Growth

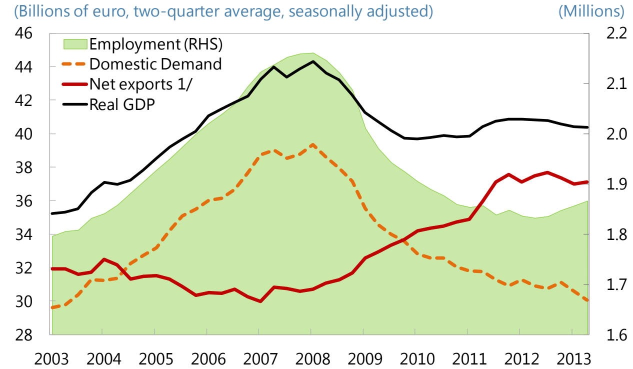
(Percent)



Sources: CSO; and IMF staff calculations.

Real GDP Components and Employment

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



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

1/Adjusted uniformly upward by €28 billion to fit on the left scale.

The ratings agency Moody's changed the outlook on Ireland's sovereign bond rating from negative to stable on September 20. Ireland is rated Ba1 by Moody's, one notch below investment grade. The agency referred to the progress made in restoring sound public finances, the stated intention to achieve a budgetary primary surplus in 2014, a better economic performance and current account position and the recently improved prospects for growth in key trading partners. Moody's also noted Ireland's return to capital market, a large liquidity buffer allowing full pre-funding of 2014 debt rollover needs and other financing requirements, and the stable performance of its bonds in a volatile market context. This news contributed to a narrowing in Irish bond spreads since the staff report was issued with the 10 year bond yield declining to 3.89 percent on September 24.

Press Release No. 13/361
FOR IMMEDIATE RELEASE
September 26, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Eleventh Review Under the Extended Fund Facility Arrangement for Ireland and Approves €770 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the eleventh review of Ireland's performance under an economic program supported by a three-year arrangement under the Extended Fund Facility (EFF), for the equivalent of SDR 19.5 billion (about €22.09 billion, or about US$29.83 billion) or the equivalent of 1,548 percent of Ireland's IMF quota. The completion of the review enables the disbursement of an amount equivalent to SDR 681 million (about €770 million, or about US$1.04 billion), bringing total disbursements under the EFF to the equivalent of SDR 18.9 billion (about €21.43 billion, or about US$28.94 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$96.5 billion), also supported by the European Financial Stabilization Mechanism and European Financial Stability Facility, bilateral loans from Denmark, Sweden, and the United Kingdom, and Ireland's own contributions.

The Irish economy grew 0.4 percent in the second quarter but still contracted 1.2 percent year-on-year as exports dipped and-domestic demand continued to decline at the pace seen in 2012. At the same time, employment grew 1.8 percent year-on-year and recent indicators suggest a growth pick up in the second half of 2013. The unemployment rate has eased from 15 percent in early 2012 to a still high 13.4 percent in August, yet 58 percent of the unemployed have been out of work for over a year.

Fiscal results for the first eight months are in line with Budget 2013, with the fiscal deficit expected to be about 6.8 percent of GDP (excluding one-off guarantee payments) in 2013 and public debt reaching 123 percent of GDP. Irish banks are gradually returning to profitability but carry nonperforming loans of 26½ percent of their loan portfolios and credit to the private sector declined by 4.5 percent year-on-year in July. In March the authorities set targets for banks to resolve mortgages in arrears and they are conducting diagnostics of Irish banks ahead of European stress tests in 2014.

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

"The Irish authorities continue to show strong commitment to the objectives of their EU-IMF supported economic program. In light of the fragility of the recovery underway and remaining risks to debt sustainability, strong policy implementation and continued European support remain critical for the period ahead.

"Resolving nonperforming loans is key to a lasting revival in bank lending, domestic demand, and job creation. Bringing the Insolvency Service into operation, removing unintended legal barriers to repossession, and facilitating banks' engagement with borrowers have been important steps to enable the resolution of mortgages in arrears. The authorities must be vigilant to ensure this framework functions effectively to accelerate progress on that front. Close supervisory oversight of banks' efforts is also needed to reach sustainable resolution targets.

"Ireland's track record of steady fiscal consolidation should be maintained to protect market access on favorable terms. While budget execution remains on track in 2013, narrow buffers make continued careful implementation essential. The budget for 2014 should set out targets for cumulative consolidation in 2014-15 consistent with prior Medium Term Fiscal Statements while allowing full operation of the automatic stabilizers. Averting a rise in structural unemployment requires a further redeployment of resources to facilitate a return to work of the long-term unemployed."