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Economic Adjustment Programme for Ireland

Spring 2013 Review

Accompanying the document

Proposal for a
COUNCIL IMPLEMENTING DECISION

amending Implementing Decision 2011/77/EU on granting Union financial assistance to Ireland

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European Commission
Directorate-General for Economic and Financial Affairs

Economic Adjustment Programme for Ireland

Spring 2013 Review

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Contents

Executive summary 6
1. Introduction 9
2. Recent economic developments and outlook 9
3. Policy outlook 18
3.1 Fiscal policies 18
3.2 Financial sector policies 26
3.3 Structural reforms 30
4. Financing issues 37
5. Risks 38
List of abbreviations 40
Annex 1: Programme Implementation 41
Annex 2: Debt sustainability analysis 46
Annex 3: Supplementary tables 48
Annex 4: Updated programme documents 51

Figures

Figure 1: Real GDP growth and contribution from select components**Error! Bookmark not defined.**
Figure 2: HICP price levels **Error! Bookmark not defined.**
Figure 3: Unemployment 11
Figure 4: Annual change in residential property prices 11
Figure 5: Structural employment indicators 12
Figure 6: Yields on select Irish and peripheral banks' covered bonds 14
Figure 7: Retail and corporate deposit flows and interest rates 14
Figure 8: Eurosystem funding 15
Figure 9: Lending to households and NFCs 15
Figure 10: New mortgage lending flows 15
Figure 11: New business rates: mortgage and NFC loans, HH and NFC deposits 15
Figure 14: General government balance projection **Error! Bookmark not defined.**
Figure 15: Nominal GDP projections **Error! Bookmark not defined.**
Figure 12: Pre-crisis gains in per-capita consumption and post-crisis declines 17
Figure 13: Problems facing Irish SMEs 18
Figure 16: Deficit projections and EDP ceilings 23
Figure 17: Revenue and expenditure growth 23
Figure 18: The role of Individual Health Identifiers (IHI) in a functional eHealth system 25
Figure 19: water services, efficiency and cost indicators 35
Figure 20: Legal services costs in perspective 36
Figure 21: Debt repayment schedule **Error! Bookmark not defined.**
Figure 22: Debt-stabilising primary balance in baseline projections 47
Figure 23: Government debt projections 47

Tables

Table 1: Revised macroeconomic framework 16
Table 2: 2013 fiscal accounts 21
Table 3: Budgetary projections of the stability programme 24
Table 4: Financing requirements **Error! Bookmark not defined.**

Boxes

Box 1: Ireland's 2013 Stability Programme 22
Box 2: eHealth priorities remain key to structural improvements in health care 24
Box 3: Activation effectiveness of employment support schemes 32
Box 4: The high cost of legal services continues to cause problems 35

Executive summary

Ireland has come a long way towards addressing the external and internal macroeconomic imbalances accumulated prior to the crisis. On the back of strong political ownership, coupled with appropriate programme design, the steadfast implementation of the Irish adjustment programme is increasingly delivering in terms of regaining market access and making progress towards sustainable economic growth. In view of the size of the macro imbalances and banking problems at the start of the programme, there is a need to safeguard achievements against complacency and to complete the adjustment process, as imbalances in some areas remain significant.

The economic recovery is continuing at a moderate but steady pace. Output is growing above the euro area average and employment has started rising. The drag from domestic demand was lower than previously anticipated in 2012, on account of better-than-expected resilience in private consumption and some initial recovery in investment. Private sector employment has also grown on a yearly basis for the last two quarters of 2012.

Market confidence in Ireland's prospects continues to improve, with yields on medium-term bonds back to pre-crisis levels. Recent policy decisions of the EU and the ECB have strengthened market confidence further. In particular, the Council agreed in principle in April 2013, to extend the maximum average maturity of EFSM and EFSF loans by 7 years; the decision will be formalised end June 2013. In addition to the arrangement on the promissory notes, this has facilitated two successful sales of new Irish debt, including with a 10-year maturity in March, with steadily declining yields in secondary markets. It has also enabled Ireland to build significant cash buffers, which are projected to amount to EUR 22 bn at the end of 2013.

Against this backdrop, the authorities' compliance with programme conditionality remains generally strong. Most milestones for 2013Q1 were met in a timely fashion (the exception was a report on comparative health costs, which has been outsourced and is now expected to be delivered in the next few weeks). Progress on some structural reforms initiated earlier in the programme (e.g., the introduction of household water charges, the reform of the legal services, and the establishment of a central credit register) has been slower than expected.

Fiscal consolidation objectives have so far been achieved, but the deficit remains high. The 2012 deficit was significantly below the programme ceiling, though this reflected in part favourable one-off developments. The structural adjustment of the fiscal position is expected to continue in 2013, although a series of deficit-increasing one-off elements means that only a marginal reduction in the headline deficit is expected in 2013. Fiscal data (on a cash basis) through April have also evolved broadly in line with programme expectations. Yet continued

effort is required to remain within the agreed programme ceiling of 7.5% of GDP for 2013 (including in particular the effective implementation of the recent agreement with public service trade union to deliver further cuts in the public pay and pension bill), further reduce the deficit over the medium-term as per the outstanding excessive deficit procedure, and put the public debt ratio on a firm downward trajectory.

Important challenges remain also in other policy areas, requiring continued determined action. These include the high unemployment rate and its worryingly large long-term component, the large and still growing (albeit at declining pace) bank arrears, the large debt overhang on both households and corporates (especially SMEs), and banks' weak profitability. Unless these challenges are vigorously addressed, they could stifle the demand and supply of credit, put a brake on the incipient recovery of domestic demand, endanger the prospects for continued successful fiscal adjustment, and further weigh on the banks' profitability.

With the appropriate input from the national supervisor and regulator, banks need to step up their efforts to address troubled loans. Some momentum on mortgages is visible, as a result of the recent establishment of targets by the Central Bank of Ireland (CBI) for banks to offer sustainable restructuring solutions to troubled mortgages. But SME loans also require immediate attention (some 25% of SME/corporate loans were impaired at end December 2012, more than half of the total stock of outstanding SME lending is property-related). Addressing the extensive debt overhang in this key sector is equally important to support the economic adjustment and recovery.

At the same time, it is essential that payment discipline is not compromised. The soon-to-be-operational personal insolvency framework represents a key step towards facilitating private sector balance sheet repair (and as such it should be equipped with all necessary infrastructures, in terms of a sufficient number of licensed practitioners and adequate dedicated resources for the courts, from the start). To avoid adverse effects on borrowers' payment discipline, it needs to be supported by the completion of other ongoing reforms, such as the elimination of the legal impediments for banks to repossess their collateral when necessary and the revision of the code of conduct on mortgage arrears to better clarify mortgage borrowers' rights and the obligations (especially in terms of good-faith cooperation).

Addressing structural issues in the labour market remains a priority. Over the past few years the labour market has experienced a sharp increase in overall unemployment (particularly acute for the youth) and rising skills mismatches. Government policies to address these issues have rightly focused on putting in place activation policies, reforming vocational education and training and seeking to foster job-creation. Progress however could have been faster in light of the scale

of the problem. Some bottlenecks are especially evident when it comes to providing a uniform level of service to unemployed across the country.

Other reforms are also continuing, though in some cases delays are accumulating. The authorities have identified new programme milestones to guide the reform of the health sector, while postponing to 2014Q4 (from January 2014) the introduction of water charges for households, to allow for more dwellings to be metered and thus enhance the acceptability of this measure. Another important reform facing obstacles on the way towards completion is that of the legal services, which remain sheltered from competition and a drag on the economy's overall competitiveness. More efforts are needed to overcome the current deadlock so as to complete the parliamentary treatment of the Legal Services Regulation Bill, which was first published by the government under the programme in October 2011.

The strategy to subject PCAR banks to a meaningful capital assessment under the programme has been adapted in light of the evolving calendar for the next European stress testing exercise, envisaged to take place in 2014, before the ECB fully assumes its supervisory role under the Single Supervisory Mechanism (SSM). The diagnostic of the Irish banks will be conducted ahead of, but in close proximity to, the forthcoming SSM/European Banking Authority (EBA) test and is likely to take place in H1 2014. This will ensure the maximum possible extent of consistency in terms of methodology, scenarios, capital requirements, etc. In the meanwhile, and in preparation for the SSM/EBA exercises, a series of supervisory steps will be undertaken by the Irish authorities in consultation with the troika and with the participation, where appropriate, of external consultants. In particular, a balance sheet assessment will be completed before the end of the programme, to inform the supervisor and the banks, as well as the Troika, about actions that can be taken to strengthen banks' balance sheets ahead of the SSM/EBA exercises.

A successful completion of the 10th review triggers a disbursement of EUR 1 bn from the EFSF. The IMF and the UK will disburse, respectively, EUR 1 bn and EUR 0.5 bn. This will bring the total amount authorised for disbursement under the programme to 92.9% of the overall international assistance of EUR 67.5 bn.

1. Introduction

A joint European Commission (EC)/European Central Bank (ECB)/International Monetary Fund (IMF) (henceforth, the "troika") mission visited Dublin during April 23-May 2 2013 for the 10th review of Ireland's EU/IMF-supported economic adjustment programme. Compliance with the programme milestones set for the first quarter of 2013 remained strong overall though with occasional delays—see the compliance monitor in Annex 1 for a detailed account.

The mission discussed recent economic and financial developments as well as the outlook (section 2), the main policy challenges (section 3),[1] and the government funding situation (section 4). The updated Memorandum of Understandings on Specific Economic Conditionality (MOU), reflecting exchanges and agreements with the authorities, is included in Annex IV, together with other updated programme documentation.

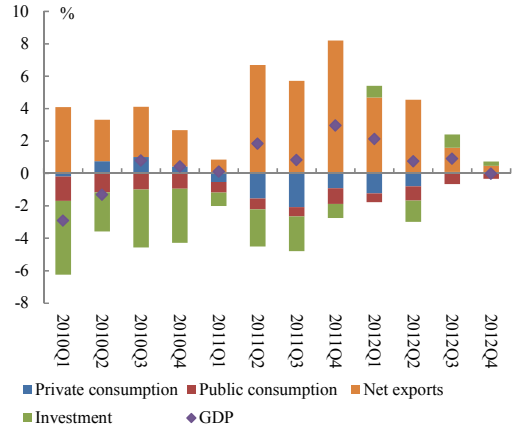
The mission also held constructive discussions on how best to underpin exit from the programme, including in consideration of the evolving calendar for the next round of European banks' stress tests prior to the ECB fully assuming its supervisory role under the Single Supervisory Mechanism (SSM) and currently envisaged in the early part of 2014. No final conclusions have been drawn and discussions will continue in the coming months.

2. Recent economic developments and outlook

The recovery in the Irish economy continued in 2012, and is becoming more broad-based. Real GDP grew by 0.9% in 2012 (0.7% was projected at the time of the 9th review). Domestic demand growth has also proved stronger than anticipated. Private consumption fell by 0.9% in annual terms, almost a full percentage point less than expected, on the back of modest but positive annual growth in the second half of 2012. Also government consumption declined somewhat less than had been estimated at the time of the 9th review. Gross fixed capital formation expanded by 1.2% after contracting by double-digit figures for four consecutive years. While this expansion was mainly driven by investment in aircrafts, other investment categories also appeared to have bottomed out. Nominal GDP grew by 2.9% in 2012, supported by favourable terms of trade developments while inflation continued to be muted in April (0.5% annually) on the back of declining price pressures from energy and mortgages. Aggregate income as captured by real GNP grew even more strongly in 2012 (by 3.4%, after falling by 2.5% in 2011), though this series is traditionally very volatile as it reflects large and lumpy flows related to the profits in the multinational sector.

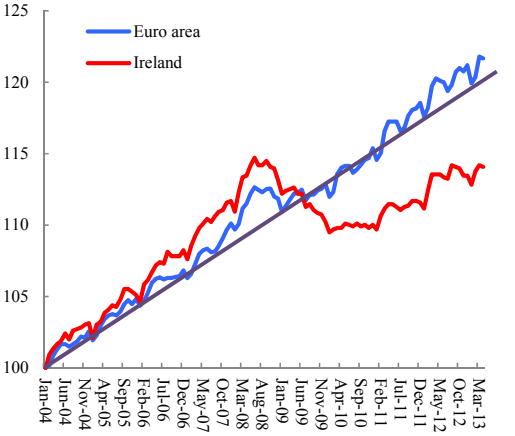
[1] This report reflects information available as of 24 May 2013.

Figure 1: Y-o-y real GDP growth and contribution from select components



Source: CSO.
Note: Annual growth rates; contributions may not add due to chain linking

Figure 2: HICP price levels



Source: Eurostat.
Note: Refers to HICP index, rebased to January 2004 = 100. The straight line refers to the hypothetical HICP level resulting from a 2% annual growth rate approximating the ECB's definition of price stability, i.e. to maintain inflation rates below, but close to, 2% over the medium term.

High-frequency indicators suggest that the modest economic expansion has continued in the beginning of 2013. Industrial production grew by 2.5% q-o-q on a seasonally adjusted basis in quarter of 2013, reversing some of the weak performance of the high-tech and chemical sectors seen during the second half of 2012. The most recent survey indicators such as manufacturing and services PMIs suggest that a relatively modest expansion can also be expected going forward. Retail sales, services indices and housing market indicators have been relatively weak with flat or small annual negative growth rates during the first quarter of 2013, although this might to some extent be driven by temporary factors such as inclement weather and changed incentives for timing of car and first home purchases.

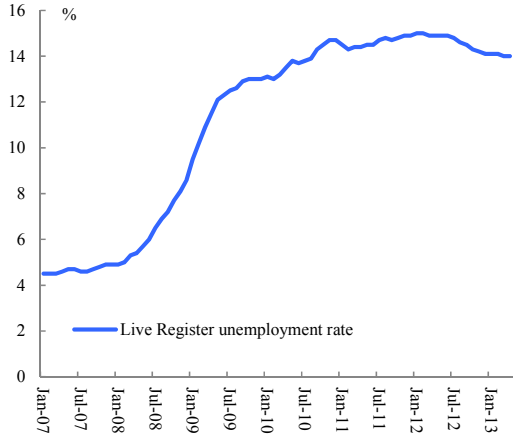
External performance continues to be solid despite headwinds from weak demand from European trading partners. The current account surplus surged to 4.9% of GDP in 2012, reflecting not only the contraction in domestic demand, but also the competitiveness gains achieved through increased productivity, inflation continuously below the euro area average, and cost-cutting measures including on wages. However, recent research suggests that a large share of the current account improvement is due to firm-specific factors and cannot all be ascribed to competitiveness gains.[2] Persistent weakness in trading partner demand is nevertheless affecting demand for merchandise exports, which fell by 4.9% on a seasonally adjusted basis during the first quarter of 2013 compared to the last quarter of 2012, also on account of the anticipated expiration of pharmaceutical patents. Given the high service import content of pharmaceutical sector exports, growth rates of services imports were comparatively weak in the second half of 2012 and most likely buffered the effects on the trade balance. The rise in services exports, which have expanded by around 10% in annual terms every quarter since the second half of 2010, has partly substituted for weak goods export developments.

[2] FitzGerald, John, (2013), "The Effect of Re-domiciled Plcs on Irish Output Measures and the Balance of Payments", QEC Research Notes 2013/1/2

Encouraging private sector employment gains have been recorded, though against a labour market still fraught with serious structural weaknesses and challenges. Private sector employment showed small but positive annual growth rates during the last two quarters of 2012, contributing to stabilising the unemployment rate at 14% of the labour force for the third consecutive month in April 2013, a full one percentage point less than a year earlier. This was also enabled by a shrinking labour force and significantly higher reliance on part-time work, especially for males, although the latter phenomenon is not unusual in the initial stages of recovery. However, the long-term unemployment rate remains high among all age groups for both sexes, with the situation particularly severe for the youth and the low-skilled (Figure 5). The crisis has reinforced the structural shift in the labour market towards more highly qualified jobs, as employment among those with tertiary education steadily increased in the past few years while employment among those with primary and secondary education declined significantly.

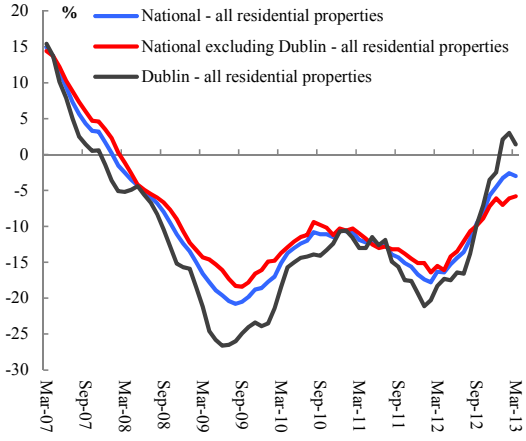
At the same time credit extension to the domestic economy remains weak (Figure 9, Figure 10). Credit advanced to households decreased by 4.1% year-on-year (yoy) in March 2013 (reflecting a 12.1% decline in consumer lending). Loans to Irish resident non-financial corporations (NFCs) declined by 4.1% yoy at a similar pace to preceding months (Figure 9). The stock of mortgage loans is 6% higher on an annual basis at the end Q1 2013, though this reflects increased activity in Q4 2012 (56% annual increase reported in Q4 2012) as, according to data released by the Irish Banking Federation (IBF),[3] there was a decrease in mortgage lending of 65.8% quarter-on-quarter (qoq) in Q1 2013 and a fall of 21.4% yoy. While the IBF reports that the first quarter is traditionally the weakest in any year and quarterly data tends to be volatile, the decrease between Q4 2012 and Q1 2013 was more than double that experienced between Q4 2011 and Q1 2012. This sharp decrease may reflect the end of the tax incentive at the end of 2012 for first time buyers whose share of mortgage lending fell to the lowest levels since Q2 2011.

Figure 3: Unemployment



Source: CSO. Note: In percent.

Figure 4: **Annual change in residential property prices**

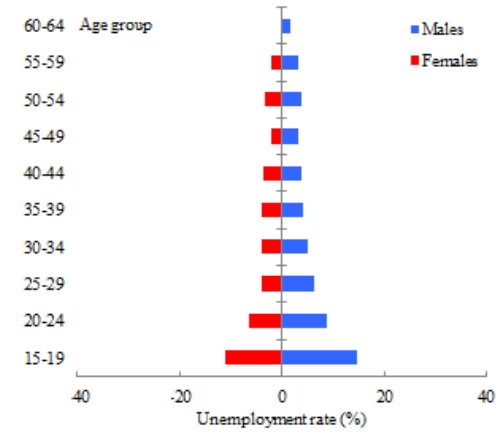


Source: CSO. Note: In percent.

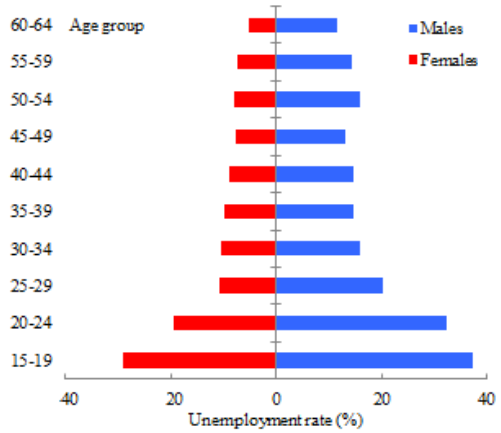
[3] http://www.ibf.ie/Libraries/Research_Statistics/IBF-PwC_Mortgage_Market_Profile_Q1_2013.sflb.ashx

Figure 5: Structural employment indicators

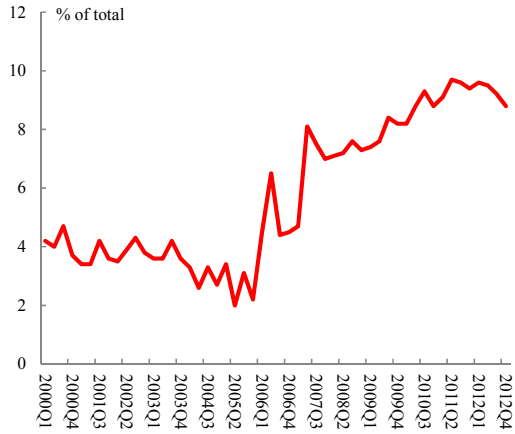
*Unemployment rates increased sharply across all age groups for both men and women between **Q4 2007** and…*



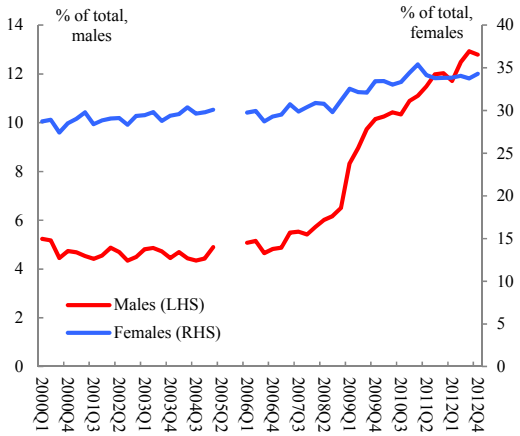
*… **Q4 2012**, with a particularly acute situation for young male job seekers.*



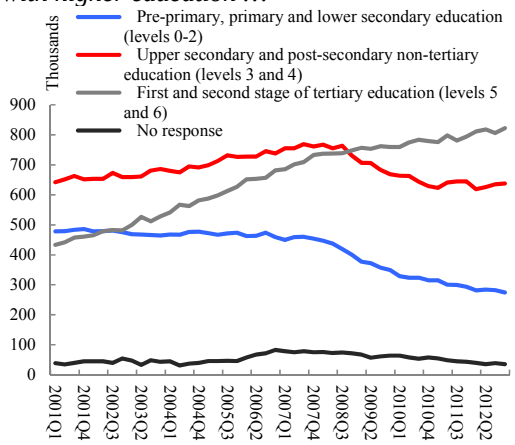
Temporary contracts have become significantly more prevalent…



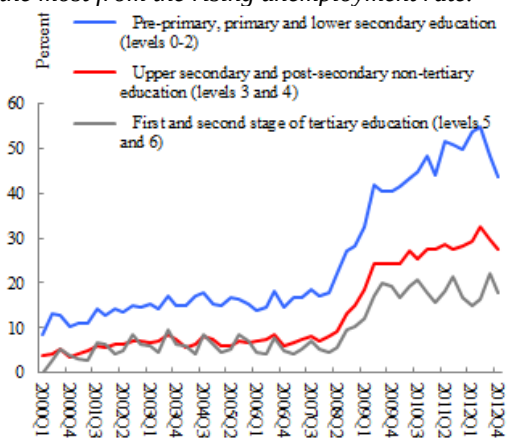
…while part-time employment among men has more than doubled.



Employment never ceased increasing for people with higher education …



… while low-skilled young people have suffered the most from the rising unemployment rate.



Source: Eurostat

Fiscal consolidation objectives have continued to be met. The 2012 fiscal deficit (net of one-off financial sector support measures, which are excluded from the EDP deficit ceilings for Ireland) was substantially lower than the programme ceiling (7.6% of GDP versus 8.6% of GDP), reflecting

continued determined budgetary implementation and strong revenue collection, but also favourable surprises in one-off revenues. As regards 2013, the cash deficit through April is broadly in line with the programme profile, and some 14% lower than the same period last year, mainly due to the proceeds from the sale of contingent capital notes in BOI and the yoy reduction of voted expenditure, partially offset by the ELG payments in March 2013 following the liquidation of IBRC (Table 2).

Banks continue to make progress towards a more sustainable funding structure and, more slowly, adequate profitability. Deposits in the three Irish-owned banks (BOI, AIB, PTSB) have remained resilient[4] despite significant reductions in offered rates (Figure 7), the phasing out of the ELG and the haircuts imposed on non-insured deposits in Cyprus. The reliance on Eurosystem funding has also been further significantly reduced,[5] mostly as a result of the liquidation of IBRC (Figure 8). Cost reductions are also progressing, though much more remains to be done in this area to bring down costs in line with the reduced size of banks' balance sheets. Net Interest Margins (NIM) have improved for BOI in 2012H2, while staying broadly flat-to-marginally-declining for AIB and PTSB. This reflects mostly developments on the funding side (Figure 6), though of note some adjustment has taken place also on the lending rates (most recently AIB increased the lending rate on its SVRs, while BOI increased the spread on part of its UK residential mortgage book—see also **Figure 11**). The recent removal of the ELG at end March continues to improve the NIM as the guarantee rolls off maturing deposits.

However, concerns with respect to asset quality remain. Arrears continue to trend upward, though at a somewhat slower pace. At the end of Q1 2013, non-performing loans (NPLs) accounted for almost 24% of the total loan books for the domestically-owned banks. This increase from 18% at end Q1 2012 is the result of a combination of deleveraging of the loan books and a further deterioration in asset quality. The book that has seen the greatest increase in the proportion of NPLs over the period is the residential mortgage book, particularly the Irish buy-to-let (BTL) segment, where NPLs increased by 16% yoy. The levels of NPLs at end-Q1 2013 were higher than the PCAR 2011 base case across all loan categories.

The outlook for profitability also remains subdued, especially for banks with a large proportion of low yielding "trackers" on their balance sheets.[6] From 2003 to 2008 the tracker rate and the Standard Variable Rate (SVR) closely followed each other. However, since 2008 they have diverged widely[7], with a SVR for a new mortgage ranging between 4.04% - 4.3%[8] at the

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[4] At end April 2013, at EUR 153.4 bn, these were EUR 2.2 bn (+1.5%) higher yoy (this includes a once-off reclassification of a life assurance company deposit which had a negative impact of EUR 1.2 bn), though a decline of EUR 2.4 bn (-1.5%) was experienced month-on-month in April (-0.8% net of once-off reclassification) as deposit rates continue to normalise and balance sheet funding requirements decline as a result of deleveraging (domestically owned banks' loan books size decreased by 7% during 2012).

[5] Eurosystem funding to domestcially owned banks continued to decline and was lower by about EUR 27 bn yoy in April, and by more than EUR 54 bn since January 2011. As a proportion of total Eurosystem funding this has fallen from a peak of nearly 19% to approximately 4.5% at end-April 2013. Total monetary authority funding to domestically-owned Irish banks reduced to about EUR 39 bn at end April 2013 from a peak of EUR 156 bn in February 2011 (Figure 8).

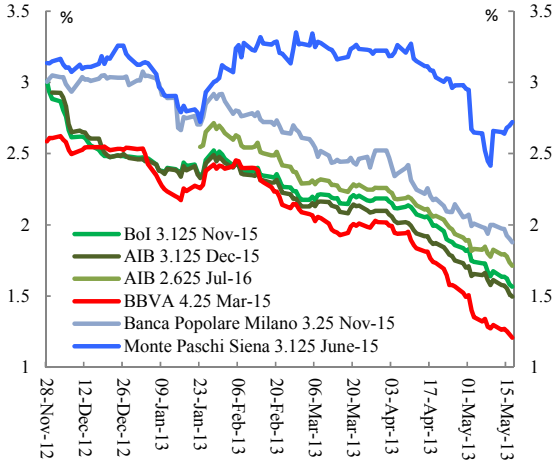
[6] A "tracker" mortgage is priced at fixed margin over the ECB's main refinancing rate. This margin in Ireland's case has historically varied between 50-200 bps.

[7] See http://www.financialregulator.ie/publications/Documents/Variable%20Rates-final2.pdf

domestically owned banks. Given that nearly 54% of the domestically owned banks' Irish mortgage books are tracker mortgages they represent a considerable drag on the banks' profitability outlook for years to come.[9] The Net Interest Margin for each of the banks fell in the past two years ranging from 0.92% - 1.4% in 2011 to 0.72% - 1.25% in 2012 (excluding ELG fees). Interestingly, although they feature substantially lower interest rates, trackers have a delinquency rate not dissimilar to that of the SVRs, possibly reflecting their higher loan-to-value (LTV) ratios on average (itself a reflection of their vintage, with approximately 85% of trackers provided between 2004 and 2008).

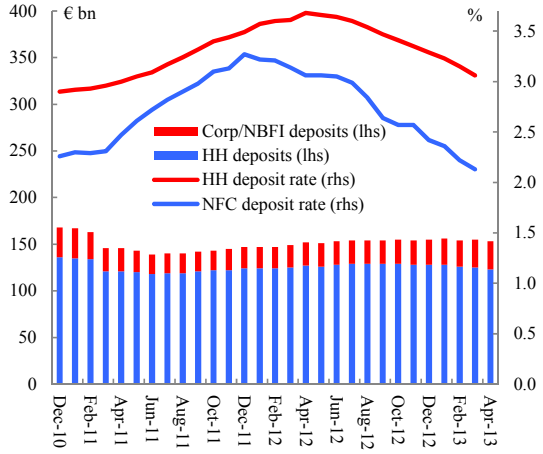
For 2013 and beyond, projections of real GDP have been kept largely unchanged although the composition has changed somewhat compared to the 9th review (Table 1).[10] Following the better than expected outturn for private consumption and domestic demand during the second half of 2012, the projections for these expenditure categories have been revised up, resulting in a smaller drag on growth from domestic demand in 2013 and the coming years. At the same time, forecasts for most trading partners demand have been downgraded since the time of the 9th review which accordingly has prompted slight cuts in export growth forecasts compared to the last set of projections. Based on recent data, contributions from outward migration to the labour force are expected to be somewhat more pronounced than previously thought, resulting in a somewhat slightly lower rate of unemployment compared to the forecast at the time of the 9th review.

Figure 6: Yields on select Irish and peripheral banks' covered bonds



Source: Bloomberg
Note: Data covers daily mid yield-to-maturity (YTM) closing levels for each bond.

Figure 7: Retail and corporate deposit flows and interest rates



Source: CBI
Notes: Deposit flows data covers BOI, AIB and PTSB. Deposit rates data covers all Irish resident banks for fixed term <2 years. HH=household; NFC=non-financial corporates; NBFI=non-bank financial intermediaries.

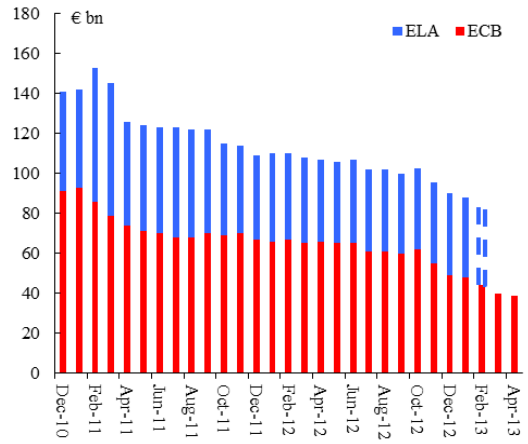
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[8] New SVR 25-year mortgage rates with 75 loan-to-value are presently ranging between 4.04% and 4.3% (source: www.nca.ie). Note: SVRs for existing mortgages may vary.

[9] As trackers have not been issued since early 2009, the share of trackers in the overall stock of mortgages is declining, albeit at a very slow rate. The authorities continue to explore, together with troika staff, options to lower the funding cost of banks' tracker mortgage portfolios to reduce this drag.

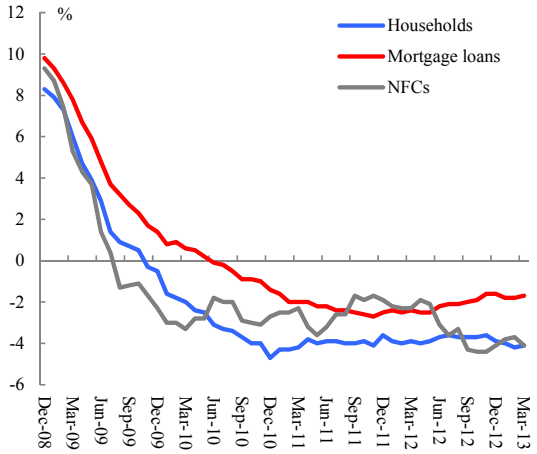
[10] The authorities' latest projections have also gotten close to the projections by the Troika. For 2013 (2014), the Department of Finance (DOF) of Ireland forecasts real GDP growth of 1.3 % (2.4%) according to the latest update of the Stability Programme (in both cases, a slight downward revision compared to the corresponding forecasts underpinning the 2013 budget), while in its latest the Central Bank of Ireland (CBI) forecasts 1.2 % (2.5%).

Figure 8: Eurosystem funding



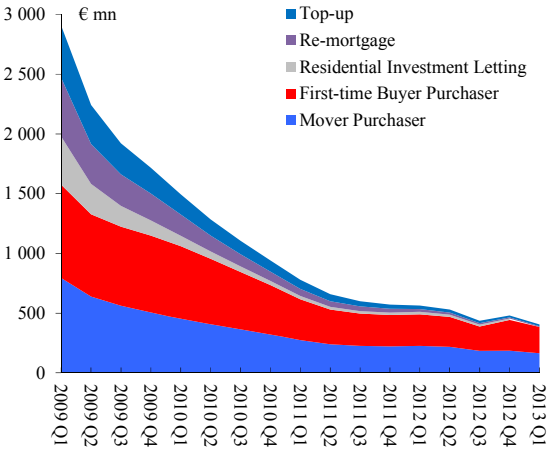
Source: CBI, Department of Finance
Note: Data covers BOI, AIB/EBS, PTSB and IBRC (up to February 2013); ELA is proxied by the CBI's "other assets" series through March 2012 and by "other claims on euro area credit institutions" thereafter.

Figure 9: Lending to households and NFCs



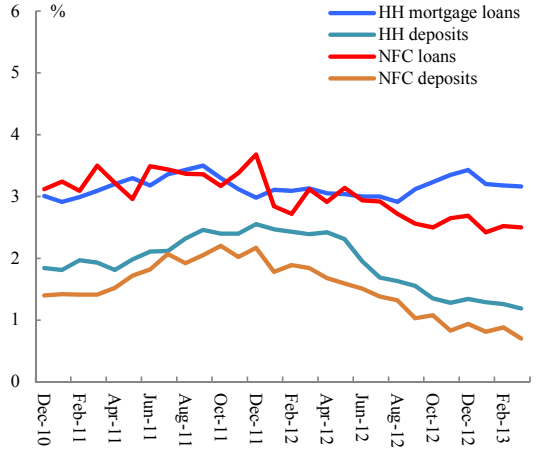
Source: CBI
Notes: Data for households includes mortgage loans. Figure shows annual rate of change (%).

Figure 10: New mortgage lending flows



Source: Irish Banking Federation (IBF)
Note: Figures relate to all new lending (flows) secured by residential property extended by IBF's members. (4 Quarter Moving Average)

Figure 11: New business rates: mortgage and NFC loans, HH and NFC deposits



Source: CBI
Notes: Rates on mortgage loans are for floating rates & up to 1 year fixation. Rates on NFC loans are for > EUR 1 mn with floating rates & up to 1 year fixation. Deposit rates cover deposits with agreed maturity.

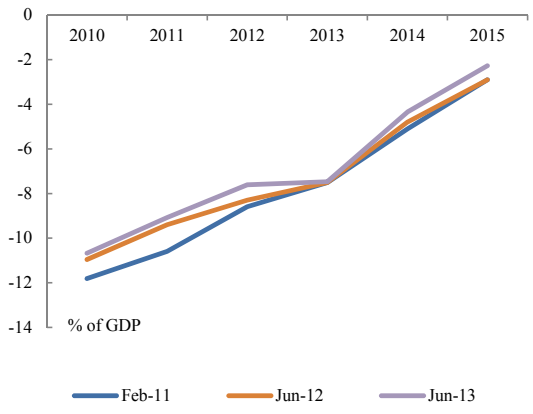
Table 1: Revised macroeconomic framework

	Tenth review forecasts (latest)						Ninth review forecasts (previous)				
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015
	% change on previous year (unless otherwise noted)										
Real GDP growth	1.4	0.9	1.1	2.2	2.7	2.8	1.4	0.7	1.1	2.2	2.8
Private consumption	-2.3	-0.9	-0.1	1.2	1.6	1.6	-2.3	-1.8	-0.5	1.2	1.8
Public consumption	-4.3	-3.4	-2.5	-2.8	-2.5	0.3	-4.3	-3.6	-2.5	-2.8	2.5
Fixed investment	-12.2	1.1	1	4.0	6	5.1	-12.2	-2	-1.5	3.0	5.2
Domestic demand (contribution)	-3.4	-1	-0.4	0.5	1	1.4	-3.4	-1.8	-0.9	0.4	0.9
Inventories (contribution)	0.4	-0.2	0.0	0.0	0.0	0	0.4	0.0	0.0	0.0	0.0
Exports	5.1	2.9	2.6	3.5	4.5	4.5	5.1	2.6	3	4.2	4.4
Imports	-0.3	0.3	1.7	2.6	3.8	4.2	-0.3	0.4	1.6	3.3	3.7
Net trade (contribution)	5.4	2.8	1.5	1.7	1.7	1.5	5.4	2.4	1.9	1.8	1.8
Employment	-1.8	-0.6	0.2	0.9	2	2.1	-1.8	-1	0.1	0.9	2.1
Unemployment (percent)	14.9	14.7	14.1	13.7	12.9	12.4	14.9	14.8	14.6	14.1	13.1
GDP deflator	0.2	1.9	1.3	1.3	1.6	1.6	0.2	1.8	1.3	1.4	1.6
HICP inflation	1.2	1.9	1.3	1.3	1.6	1.8	1.2	1.9	1.3	1.3	1.6
Current account (% of GDP)	1.1	4.9	3.1	3.9	3.8	3.4	1.1	2.1	3.4	4.3	4.3
Nominal GDP (EUR billion)	159.0	163.6	167.5	173.4	180.9	189.1	159.0	162.9	166.7	172.8	180.3

Source: Commission Services' calculations.

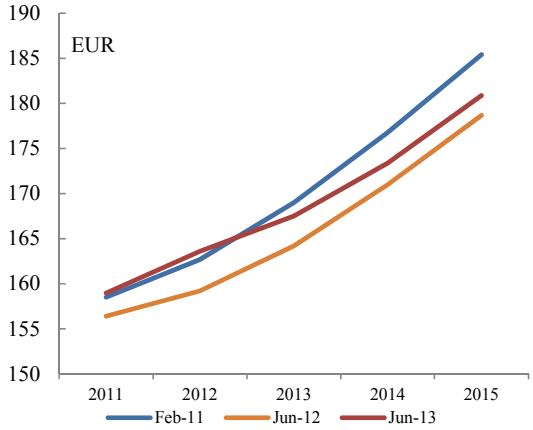
In spite of the deep macroeconomic adjustment, revisions of economic growth forecasts have been comparatively contained since the onset of the programme, and have reflected mostly deteriorations in the external outlook. However, the gap has been narrowing over time and, most importantly, economic growth stayed in positive territory. This is likely to reflect the interplay of a number of important elements, including an appropriate degree of realism of programme projections, growth-friendly design of the programme to the extent possible, and the resilience of the Irish economy, which have helped to underpin consistently strong programme implementation. The shortfall in nominal GDP (the basis for many public finance variables) vis-à-vis the projections, as shown in **Error! Reference source not found.**13 was also somewhat smaller than the shortfall in real GDP, which has supported the (over-) achievement of the fiscal targets.

Figure 12: General government balance projection



Source: Commission Services' calculations.

Figure 13: Nominal GDP projections

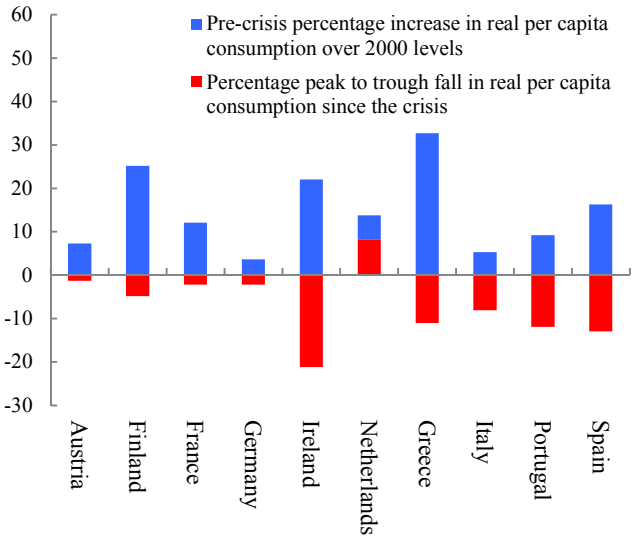


Source: Commission Services' calculations.

Going forward, substantial uncertainty around domestic demand projections prevails, but can be reduced with consistent policy implementation:

- On one hand, there is evidence of potential scope for a rebound in consumption. Recent research[11] has shown that Ireland's decline in per capita private consumption of over 20% since the pre-crisis peak was both about twice as large and more protracted than even the other euro area crisis countries, suggesting that there could be ample pent-up demand going forward given the component's dominant GDP weight. The fall in consumption has been especially pronounced among young households, reflecting their larger exposure to unemployment, mortgage arrears and negative equity or the risk thereof.[12] These are factors that could be influenced by the reforms outlined elsewhere in this report. One motive for cutting back on spending is likely so-called buffer stock savings, i.e. to deleverage, which has also shown up as improvements in indicators of household debt sustainability, as well as the relatively high household savings ratio (12.5% in 2012).
- On the other hand, credit constraints could stifle a recovery in investment, especially by SMEs. While the majority of Irish SMEs continues to cite demand factors rather than fear of credit applications being rejected as a factor for not seeking bank financing, the perceived risk of not getting access to finance is growing. Although two independent data sources conclude that one in nine Irish SMEs appear to be credit constrained, those lacking access to credit are concentrated among small and young firms, further underlining the importance of sticking to policy efforts in this area given the recent evidence of their importance for job creation. [13]

Figure 12: Pre-crisis gains in per-capita consumption and post-crisis declines



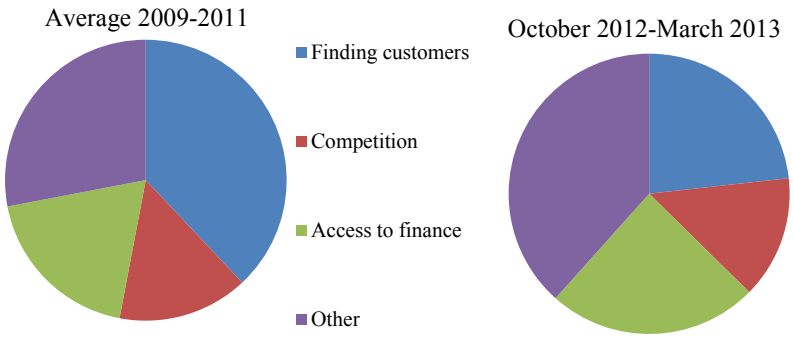
Source: O'Connell, O'Toole and Znuderl (2013) Trends in consumption since the Crisis. ESRI

[11] O'Connell, Brian, Conor O'Toole and Nusa Znuderl (2013), Trends in consumption since the crisis, ESRI Quarterly Economic Commentary, January 2013.

[12] Gerlach-Kristen, Petra (2013), The effect of unemployment, arrears and negative equity on consumption: Ireland in 2009/10, ESRI Working Paper No. 457, May 2013.

[13] O'Toole, Conor, Gerlach-Kristen, Petra, O'Connell, Brian (2013), Measuring Credit Constraints for Irish SMEs, ESRI Quarterly Economic Commentary, March 2013, DKM Economic Consultants (2013) The SME lending market in Ireland and comparisons with European experience, May 2013, Lawless, Martina (2013), Age or Size? Determinants of Job Creation. Central Bank of Ireland Research Technical Paper No. 2/13.

Figure 13: Problems facing Irish SMEs



Source: O'Toole, Gerlach-Kristen and O'Connell (2013) "Measuring Credit Constraints for Irish SMEs", ESRI

3. Policy outlook

3.1 Fiscal policies

The 2013 fiscal target remains achievable, though risks remain related to the planned pay and pension bill savings, cost containment in the health sector, and the winding down of IBRC. The medium-term fiscal plans, as per the 2013 Stability Programme, are consistent with the Council recommendation under the EDP. Looking forward, a timely delineation of the specific measures which will secure the planned medium-term consolidation would help remove uncertainty and enhance the credibility of the fiscal plans. The authorities continue to align their fiscal framework with the EU guidelines and regulations, including in terms of the implications of the "two-pack" for the budgetary process.

Current forecasts indicate that the 2013 fiscal deficit ceiling remains achievable, though buffers have decreased. The structural adjustment of the fiscal position is expected to continue in 2013, although a series of deficit-increasing one-off elements is likely to interrupt the reduction of the headline deficit. Based on data through April and in light of available information, Commission services forecast the 2013 deficit at 7.5% of GDP (7.3% at the time of the 9th review), just in line with the programme deficit ceiling (Table 2). Tax revenue is projected to exceed the budget time forecast by 0.2% of GDP based on over-performance at the end of last year. Other positive developments include a higher-than-budgeted surplus payment from the CBI and receipts from the agreed sale of Irish Life Limited (which, however, is largely a financial transaction). Against that, however, the liquidation of IBRC and the exchange of the promissory notes with long-dated government bonds are now estimated to have a deficit-worsening impact of 0.1% of GDP for 2013. The Revised Estimates show somewhat higher departmental expenditure (less than 0.1% of GDP) largely due to a revision of the public service pay bill made in the context of the allocation of the planned savings from the pay deal under discussion with the unions (see below) to individual department. In addition Ireland's contribution to the 2013 EU budget is now estimated to be more than 0.1% of GDP higher than budgeted. This is largely due to the higher outturn of 2012 GNI as compared to the estimated level used in the 2013 budget. This will be partly offset by higher-than-

expected bank guarantee as a result of the ELG scheme closing on on 28 March rather than end February and a higher than estimated level of liabilities

Several risk factors warrant close monitoring of budget execution and, if necessary, compensatory actions. These include: (i) a possible higher one-off cost from the liquidation of IBRC (the State is required to make up any potential difference between the amount paid by NAMA for IBRC's assets and the valuation of those assets made by the special liquidators); (ii) the effective implementation of the planned savings on the public sector pay and pension bill (0.2% of GDP in 2013— around half of which from paybill savings in the health sector in that year— cumulating to 0.6% of GDP by 2015) in light of the recent challenges to reach and implement a negotiated agreement with trade unions; (iii) continued pressures on health care budget,[14] and (iv) the possibility that, as happened in 2012, the planned receipt in 2013 of some 0.2% of GDP in dividends from AIB in the form of ordinary shares may be offset by corresponding government expenditure.[15]

It is therefore essential that the planned savings in the public service pay and pension bill are achieved. The public service gross pay bill represents about one-third of total government expenditure so that failure to secure the planned savings could significantly derail the achievement of the government's overall consolidation objectives, both in 2013 and in the medium term. Moreover, as pointed out in previous reports[16], there is still a significant differential between public and private sector wages after controlling for such determinants as education, experience and age. Reducing the unit cost of delivering public services, rather than the number of service providers, is important to limit the adverse impacts of the necessary consolidation on the provision of public services and on access to them for the most disadvantaged. This is especially important when it comes to the health sector, where around half of the 2013 pay and pension bill savings are assumed to be obtained.

The government has sought to secure these savings in a negotiation with public sector unions, to preserve industrial peace. A first negotiated deal, the so-called "Croke Park II" deal, was however rejected by union members. A revised agreement, the so-called Haddington Road Agreement (HRA), was published on 21 May 2013 and is to be decided upon by union memberships over the next few weeks. At the same time, legislation underpinning the Haddington Agreement was published. In addition to core pay and pensions reductions measures it contains contingency measures designed to permit the authorities to make the necessary savings sought under the agreement in case the agreement was not accepted. Based on currently available information, the government expects the HRA to deliver savings that are close to the budgeted

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[14] The HSE March 2013 report underlined a shortfall against the budget of around EUR 27 mn, mainly stemming from hospitals, community services and Primary Care Reimbursement scheme (PCRS), the main areas which caused slippages in the past. The report highlighted that this negative trend could lead to significant level of spending overruns by year-end in absence of significant delivery on health cost containment initiatives and additional control measures. Concerns were expressed on the current PCRS shortfall against budget (EUR 5 mn), the risks from the implementation of Croke Park II and the related flexibility arrangement actions under the original Croke Park agreement, as well as from measures to increase income from private insurances.

[15] See Eurostat for a discussion of the issues to be considered in determining whether the ordinary shares received by the government from AIB as dividends contain an element of *capital transfer* offsetting the deficit-reducing impact of the dividends.

[16] See Economic Adjustment Programme for Ireland Autumn 2012 Review, p. 28.

EUR 300 mn in 2013. [17] In parallel to the cost saving objective, the agreement seeks to improve the effectiveness and efficiency of government employees, encourage flexibility with regard to redeployment, and put in place and/or improve performance management and work-sharing arrangements.

The authorities have also agreed to step up efforts to increase efficiencies in the provision of health services. As discussed in previous review reports, Ireland spends per capita comparatively more on the health sector than most EU countries, without achieving improved health outcomes. The government intends to pursue a so-called "eHealth" strategy (see Box 2), which is based on a stepped-up reliance on IT to improve allocation of resources and ultimately strengthen incentives for efficient outcomes at all levels (i.e., healthcare providers within the acute hospital sector, those in primary care, and the patient). This increased focus is welcome, considering the pressures that have been building on the health budget. Other areas that offer significant prospects of increased efficiency, as discussed in previous reports, include mandatory prescriptions by International Non-proprietary Name (INN) to encourage generic penetration,[18] a tighter internal reference pricing system (to base the reference reimbursable price on the *lowest,* rather than the average, price within the cluster), as well as prescribing protocols addressing therapeutic substitution in line with international best practices, and a faster entry into the market for generics once the related patent has expired.[19]

Monitoring, reporting, and evaluation of the Irish healthcare system need to be further strengthened. Currently, there are many fragmented information and monitoring systems on the provision of healthcare services, which negatively impact on the quality and timeliness of reporting. Some reports are produced on a timely basis (e.g. monthly surveys), but their accuracy is limited, mainly due to manual intervention and the need to consolidate information from many different regional databases. The authorities are committed to enhancing their monitoring capacity and tracking systems to better evaluate the effect of health reforms. By end-October 2013, a new framework will be adopted to reduce the existing fragmentation and streamline financial management and accounting systems and processes. When it comes to public hospitals, this is a priority to enable them to operate on a cost allocation basis, ensuring full recovery for the state of the costs arising from the use of public hospitals for the treatment of patients covered by private insurances. The authorities are also committed to the introduction of a case-based payment system for public hospitals. It intended that this system will commence on a shadow basis in 2013 ahead of the full implementation from 2014.

[17] The draft bill, published on 23 May 2013, provides for pay reduction for those earning over EUR 65,000, the parallel reduction in public service pensions, and other contingent savings measures in the event of non-ratification of collective agreements. The legislation will be operational in time to secure the planned savings to the 2013 pay and pensions bill, i.e. by 1 July 2013. Detailed estimates of the budgetary impact of the HRA were not available by the cut-off date of the report.

[18] Such reform would also facilitate compliance with a new EU Directive aiming at cross-border recognition of prescriptions, which must be transposed by October 2013.

[19] The Health (Pricing and Supply of Medical Goods) Bill 2012, passed by both Houses of the Oireachtas on 22 May 2013, would have seemed to be a natural place to pursue such reforms.

Table 2: 2013 fiscal accounts

	Jan-Apr			Full year		
	Outturn	Profile	Outturn vs profile	Updated EC forecasts	2013 Budget	EC forecasts vs budget plans
			EUR million			
Revenue	**15 921**	**15 583**	**338**	**53 428**	**52 887**	**541**
Tax revenue	**13415**	**13418**	**-3**	**45690**	**45370**	**320**
Personal income tax	5044	5102	-58	15960	15860	100
VAT	3476	3581	-105	10560	10560	0
Corporation tax	423	302	121	4255	4135	120
Excise duties	1406	1450	-44	5020	4920	100
Social contributions (PRSI & NTF) [1]	2471	2466	5	7420	7420	0
Other taxes	597	517	80	2475	2475	0
Appropriations-in-Aid	**1141**	**951**	**190**	**3763**	**3787**	**-23**
Health current receipts	373			1457	1460	-3
Education current receipts	179			650	670	-20
Other current receipts	562			1322	1323	-1
Capital A-in-As	27			335	334	1
Non-tax Revenue	**573**	**407**	**166**	**2605**	**2360**	**245**
Central Bank Surplus Income	0	0	0	1148	1040	108
Bank Guarantee Fees	418	307	111	583	433	150
National Lottery Surplus	70	70	0	220	220	0
Dividends	5	0	5	294	254	40
Interest on contingent capital notes	47	0	47	247	300	-53
Other	33	30	3	113	113	0
Capital receipts [2]	**793**	**807**	**-14**	**1370**	**1370**	**0**
Below-the-line financial receipts	**1010**		**1010**	**2310**		**2310**
Sale of CoCos in the Bank of Ireland	1010		1010	1010		1010
Sale of Irish Life Limited				1300		1300
Expenditure	**22 666**	**22 412**	**254**	**66 268**	**64 926**	**1 342**
Current voted (gross)	**16985**	**17023**	**-38**	**51146**	**51068**	**78**
Social Protection	6702			20233	20246	-13
Health	4734			13624	13627	-2
Education	2833			8456	8514	-59
Other	2716			8833	8681	152
Current non-voted [2]	**5058**	**4670**	**388**	**10843**	**9579**	**1264**
Interest	3295	3342	-47	7615	7225	390
Debt management expenses	46	49	-3	163	163	0
Promissory Notes interest	0	493	-493	13	506	-493
EU Budget Contribution	700	697	3	1694	1444	250
ELG claim cost (IBRC liquidation)	934		934	1117		1117
Other non-voted (ex-SF)	83	89	-6	241	241	0
Capital expenditure	**624**	**719**	**-95**	**4279**	**4279**	**0**
Exchequer capital funding (gross)	595	687	-92	3435	3435	0
FEOGA	0	0	0	800	800	0
Other	29	32	-3	44	44	0
Below-the-line financial transfers	**409**	**2 976**	**-2567**	**794**	**3361**	**-2567**
Promissory Notes principal [3]	0	2567	-2567	12	2579	-2567
Loans to Insurance Compensation Fund	154	154	0	272	272	0
ESM capital payment	255	255	0	510	510	0
Exchequer balance [3]	**-6 144**	**-9 805**	**3 661**	**-11 323**	**-15 400**	**4076**
Below-the-line financial transfers				794	3361	-2567
Below-the-line financial receipts				-2310		-2310
Local government sector				0	0	0
Promissory Notes interest accrual adjustment				-213	-1382	1169
Accrual adjustments and other below-the-line operations				458	775	-317
General government balance [4]				**-12 594**	**-12 645**	**51**
% of GDP				-7.5	-7.5	

Sources: End-April 2013 Exchequer statement; April 2013 EDP returns; 2013 Stability Programme; 2013 budget and Commission Services estimates
Notes:
1 Pay Related Social Insurance (PRSI) is a social contribution. National Training Fund (NTF) contribution largely consists of Training Levy, which is direct taxation.
2 Excludes Sinking Fund transfer from current to capital account and loan/repayment to/from the Social Insurance Fund which are the Exchequer deficit neutral.
3 In February 2013 all promissory notes in IBRC were exchanged for government bonds. This operation is estimated to reduce accrual interest expenditure by EUR 1 billion in 2013, partly offset by one-off ELG claim cost of EUR 1.1 billion.
Remaining promissory notes in EBS will be repaid overtime (EUR 25 million annual payment including principle and interest).
4 The government balance excludes one-off deficit-increasing financial sector measures.

The budgetary outlook through 2015 is consistent with programme understandings and the EDP recommendations, but greater clarity on the actual measures underpinning the planned consolidation would enhance its credibility. The 2013 Stability Programme published at end April 2013 (Box 1) presents lower fiscal deficits in 2014 and 2015 than the ceilings set in the December 2010 EDP recommendation (

Table 3), reflecting inter alia the gains generated by the promissory note operation.[20,21] More explicit commitment and clarity on the specific budgetary measures for the outer years of the programme would enhance the credibility of the fiscal adjustment path.

Significant progress has been made to align the national budgetary framework to the EU economic governance rules. In particular, and reflecting extensive discussions with EC staff, the authorities have agreed to progress and, if necessary, amend the Ministers and Secretaries legislation (which establishes the legal basis for the already operational ceilings on aggregate and departmental expenditure), so as to ensure that they are both binding and consistent with the expenditure benchmark under the Stability and Growth Pact. Moreover, they are revising the budgetary process in line with the new "two-pack" requirements,[22] e.g. as regards the publication of the annual budget, which will be brought forward to before October 15;[23] and the conferral to the Irish Fiscal Advisory Council of the task to independently endorse the macro forecasts underpinning the Budget (legislation to this effect is being prepared).

Box 1: Ireland's 2013 Stability Programme

Ireland submitted its 2013 Stability Programme (SP) to the European Commission on 30 April 2013. Over the programme period (2014-2016), the projected general government deficit, net of financial sector support measures, is within the deficit ceilings set out in the Council recommendation issued under the Excessive Deficit Procedure (EDP).[24] The programme restates the commitment to the fiscal adjustment presented in the November 2012 Medium-Term Fiscal Statement of EUR 3.1 bn (1.8% of GDP) in 2014 and EUR 2 bn (1.1% of GDP) in 2015, as well as demonstrates that savings from the replacement of the promissory notes with longer-dated government bonds are used to accelerate debt reduction. Taking into account revisions of potential output growth and revenue developments as compared to the standard budgetary elasticity, the annual average adjustment in the structural balance is estimated at around 2 % of GDP over period 2011-15. This is consistent with the structural adjustment recommended by the Council.

The Irish Fiscal Advisory Council is established and active. The national fiscal framework has been strengthened by the Fiscal Responsibility Act. The already operational multi-annual expenditure ceilings will be soon put on statutory basis. A new single pension scheme for the public service employees has been introduced with pensions now calculated on the basis of career average earnings, and the minimum pension age increased to 66 years initially and to 68 years by 2028, in line with the state pension age increase. Long-term costs of the aging population are high as compared to the EU average and further pension system reforms are necessary.

The 2013 SP updates Ireland's MTO to a balanced budget in structural terms (previously the MTO for Ireland was set at a deficit of 0.5% of GDP). The 2013 SP also includes the path towards the

[20] The EDP deficit ceilings are 7.5%, 5.1% and 2.9% of GDP in 2013, 2014 and 2015, respectively. The deficits communicated under the stability programme for the same years are of 7.4%, 4.3% and 2.2% of GDP. A faster deficit reduction would be in line with the reference in the EDP recommendation to "*seize opportunities […] to accelerate reducing the gross debt ratio towards the 60 % of GDP reference value*".

[21] The Irish Fiscal Advisory Council also supports the Government adhering to its planned fiscal adjustments of EUR 5.1 billion in 2014 and 2015, reducing the fiscal deficit to around 2% of GDP by 2015

[22] Regulation (EU) No 473/2013 and Regulation (EU) No 472/2013

[23] The plan is for the corresponding Finance Bill to complete Parliamentary consideration in December. The detailed Estimates for Public Services would also be submitted in December.

MTO beyond the programme period, i.e. beyond 2016. In particular, the MTO is expected to be achieved by 2018 when the structural budget surplus is estimated at 0.2% of GDP and is projected to improve further to 1.2% in 2019.

After the correction of the excessive deficit in 2015, the structural deficit is projected to be reduced by 0.6 % of GDP in 2016 and 1% in 2017 and 2018. This is in line with the provisions of the SGP, which call for adjustment above the benchmark minimum annual improvement of 0.5 % of GDP for countries with high debt or pronounced sustainability risks. However, while the structural adjustment in 2017 and 2018 is appropriate, it could be more ambitious in 2016 in view of the high government debt level and the high risks to the long-term sustainability of public finances.[25]

As to the expenditure benchmark, programme projections for 2016 and 2017 would seem to deviate from the respective provisions of the preventive arm of the Stability and Growth Pact (SGP) as the real rate of growth of expenditure net of discretionary revenue measures[26] is expected to exceed the lower reference rate of -0.7%. Moreover, the projected adjustment of the structural deficit is predicated on medium-term growth assumption that exceeds the medium-term reference potential growth rate used to calculate the expenditure benchmark. Thus, if confirmed by actual developments, Ireland faces the risk of non-compliance with the preventive arm in the future.

Subject to the full implementation of the budgetary strategy, the government debt is projected to decline from around 123% of GDP in 2013 to 98% of GDP in 2019. This assumes a projected pickup in economic growth and a reduction in the currently high precautionary cash balances. The debt reduction plan in the programme exceeds the minimum linear structural adjustment required under the SGP and would ensure sufficient progress towards compliance with the debt criterion in the 2016-19 transition period (see note 5 and 6 to

Table 3).

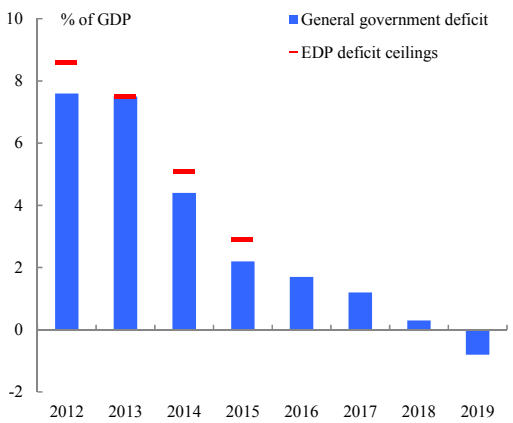
Figure 14: Deficit projections and EDP ceilings

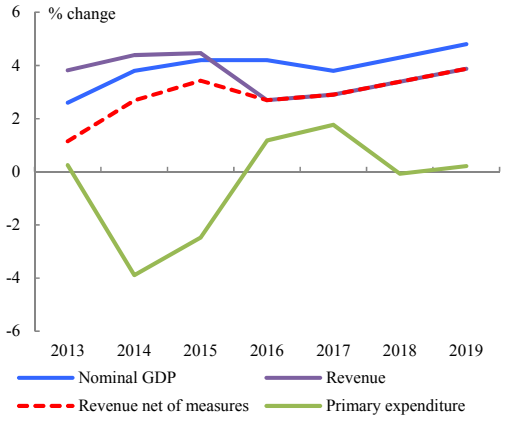
Figure 15: Revenue and expenditure growth

[24] http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/104-07_council/2010-12-07_ie_126-7_council_en.pdf

[25] See http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2009-10/02_technical_assessment/ie_2010-03-31_ta_en.pdf, and, for more recent estimates, Table V here: http://ec.europa.eu/europe2020/pdf/nd/swd2012_ireland_en.pdf

[26] The expenditure aggregate also excludes interest expenditure, expenditure on EU programmes fully matched by EU funds revenue and non-discretionary changes in unemploymetn benefits, while annual expenditure on gross fixed capital formation is replaced by its 4-year average.





Source: Stability programme, Commission services' calculations

Table 3: Budgetary projections of the stability programme

(% of GDP)	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	**34.6**	**35.0**	**35.2**	**35.3**	**34.8**	**34.5**	**34.2**	**33.9**
Expenditure	**42.2**	**42.5**	**39.6**	**37.5**	**36.5**	**35.8**	**34.5**	**33.1**
of which:								
- Primary expenditure	38.5	37.6	34.7	32.6	31.7	31.0	29.7	28.4
- Interest expenditure	3.7	4.9	4.9	4.9	4.8	4.8	4.8	4.7
General government balance (GGB)	**-7.6**	**-7.5**	**-4.4**	**-2.2**	**-1.7**	**-1.2**	**-0.3**	**0.8**
Primary balance	**-3.9**	**-2.6**	**0.5**	**2.7**	**3.1**	**3.6**	**4.5**	**5.5**
One-off and other temporary measures	0.4	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0
Output gap[1]	-1.6	-0.8	-0.2	0.2	0.1	-0.1	-0.2	0.0
Cyclically-adjusted balance[1]	-6.8	-7.1	-4.3	-2.3	-1.8	-1.2	-0.2	0.8
Structural balance (SB)[2]	**-7.2**	**-6.5**	**-4.2**	**-2.3**	**-1.8**	**-0.8**	**0.2**	**1.2**
Change in SB	*0.5*	*0.7*	*2.3*	*1.9*	*0.6*	*1.0*	*1.0*	*1.0*
Expenditure benchmark								
Applicable reference rate[3]	-0.84	-0.84	-0.70	-0.70	-0.70	-0.70	-0.70	0.65
Deviation[4] (% GDP)	-6.4	-1.1	-2.5	-1.4	0.2	0.4	-0.2	-0.6
Gap to the debt benchmark[5]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Minimum linear structural adjustment[6]	n.r.	n.r.	n.r.	n.r.	n.r.	0.5	1.0	0.0
Additional required adjustment[7]	n.r.	n.r.	n.r.	n.r.	n.r.	-0.4	-0.9	-2.7

Notes:

[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[2]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[3] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[4] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

[5]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[6]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[7]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed - Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that SP budgetary projections for the previous years are achieved.

Source :

Stability programme (SP); Commission services' calculations.

Box 2: eHealth priorities remain key to structural improvements in health care

Ensuring value for money in public health care in Ireland is essential if budgetary discipline is to be maintained in a way that does not compromise frontline services. In addition to immediate measures to bring wage costs under control, this will also require structural reforms to the way

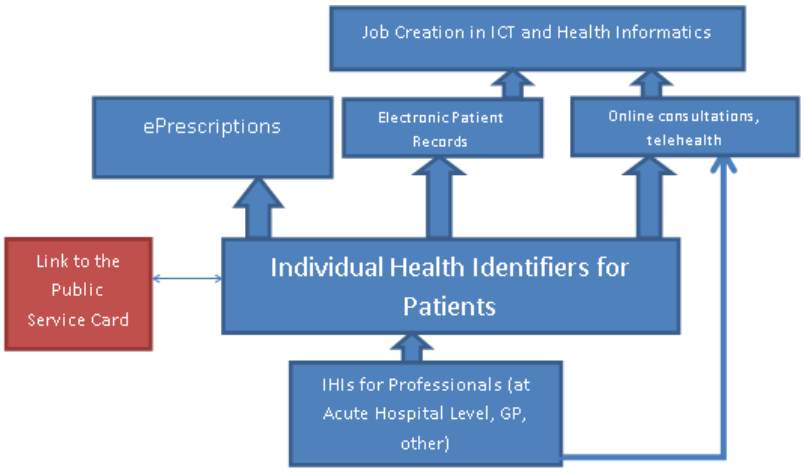
healthcare is delivered. eHealth policies can play a major part in this structural change.

A cornerstone of any eHealth strategy must be a universal system of individual health identifiers (IHIs) for patients and healthcare professionals. As has been highlighted by Commission services in previous reports, such a system is in itself a significant means of achieving cost savings. Identifiers reduce the risk of duplication and medical error, and therefore improve operating efficiencies. But beyond this, IHIs are a first step in delivering:

- More rational financial systems, such as the Money Follows the Patient model.
- The roll-out of a full system of ePrescription (i.e. electronic prescribing and dispensing of pharmaceuticals). International evidence shows that ePrescription is a crucial means of achieving savings on volumes of pharmaceuticals, because it facilitates monitoring of interactions and side effects and allows for quick and rational assessment of prescribing practices, including the implementation of prescription protocols using patient-level longitudinal data.
- More ambitious aspects of eHealth such as online referrals and consultations, which will drive down prices by bolstering competition. Of course, patient safety considerations must be duly respected.

As with other reform initiatives in the health sector, implementation of eHealth policies has been slow in Ireland. The development of the new eHealth strategy – a programme commitment for end-Q2 2013 - is welcome, but must be sufficiently detailed and contain time bound elements that are delivered upon. Certain concrete steps in relation to the IHI – the key building block – have been agreed under the Programme, including a deadline (end-October 2013) for the introduction to the Oireachtas of the necessary legislation to establish IHIs on a statutory basis.

Figure 16: The role of Individual Health Identifiers (IHI) in a functional eHealth system



Considering the long lag for a full identifier system to be operational, a comprehensive effort is necessary to use and improve existing ICT systems for pharmaceutical reimbursement schemes (GMS, PCRS, etc.) to identify and eliminate waste and to create greater efficiencies. Moreover, monitoring and reporting systems should be further strengthened by streamlining the many information systems and tools in place to control healthcare services, some of which rely on manual data inputting and the consolidation of different and fragmented regional datasets.

These reforms would also enable (and be further supported by) streamlining the hospital financial management and accounting systems, so that hospitals could operate on a cost allocation basis—a precondition to ensure the full recovery of the costs to the State arising from private patient treatment carried out in public hospitals.

3.2 Financial sector policies

Despite the significant progress made, concerns remain regarding the quality of Irish banks' assets. Appropriately, efforts to work through unsustainable mortgages are being accelerated, and provisioning guidelines updated. The reform of the personal insolvency regime is due to become operational in the next few weeks, and while this could provide much needed drive to deal with debt overhang in households' balance sheets in a sustainable manner, it could also undermine debt payment discipline, especially if lack of adequate resources in the court system leads to arrangements which are not sufficiently tailored to the effective capacity to repay of the individual borrower. To minimize this risk, complementary reforms such as the revised code of conduct for mortgage arrears and the removal of the legislative impediments to banks' ability to recover collateral in defaulted mortgages need to be implemented in parallel. Finally, the bank stress test timeline under the programme has been adapted in light of the evolving calendar of the next European bank diagnostic exercises in the lead-up to the SSM. The additional time needs to be used to ensure that the Irish banks are in the strongest possible shape when the ECB fully assumes its supervisory role under the SSM, presently expected at some point in the first half of next year.

The large stock of mortgage arrears remains a source of concern and risk to banks' asset quality. At the end of 2012 there were almost 123,000 primary dwelling house (PDH) and buy-to-let (BTL) mortgages in arrears for more than 90 days, representing 13% of the total mortgage books, with over 3% of all mortgages in arrears greater than two years. The provision of permanent restructurings has been limited so far with less than 10,000 (approximately 8%) permanent restructurings in place for customers in arrears greater than 90 days at end 2012.

The recent target-based framework appears to have spurred banks' efforts to address mortgage NPLs, but it is important that the loan modifications are sustainable. The banks report they are making good progress towards the recently announced mortgage restructuring targets[27] but the sustainability of the modifications is essential. To tackle this issue and ensure consistency[28] in treatment of distressed borrowers the authorities will, by the end of June, issue guidance to the banks relating to sustainable restructuring arrangement. The assessment of the sustainability of a proposed restructuring is to be based on affordability and sustainability of the arrangement from both the borrower and the lender's perspective. The lender must evaluate, on a case by case basis, the actual and prospective servicing capacity of the borrower in relation to all outstanding debts and the capital implications for the credit institutions in terms of their prudential responsibility to minimize losses.

The target-based framework is now being developed for the distressed SME loan portfolios. The weakness in domestic demand continues to impact on asset quality in the SME loan portfolios and. at end 2012 25% of the domestically owned banks' SME/Corporate loan book was impaired. The workout of this loan book is further complicated by the overhang of property related debt;

[27] The banks have to offer sustainable restructurings to 50% of their customers in arrears greater than 90 dpd by end 2013. See: http://www.centralbank.ie/press-area/press-releases/documents/approach%20to%20mortage%20arrears%20resolution%20-.pdf

[28] One example of inconsistent treatment across banks is the "split mortgage", which involves splitting a distressed mortgage into an affordable mortgage and a "warehoused" balance. The design of this product varies widely across banks, particularly with regards to the interest charged on the warehoused balance ranging from 0% to the full interest rate on the mortgage. The sustainability of a solution which parks a significant portion of a mortgage for a number of years incurring full interest is questionable.

more than half of the total stock of outstanding SME lending (52%) is property related as opposed to trade related lending. Thus this sector poses a comparable threat to the health of the banks' balance sheets as the mortgages, and yet efforts to deal with unsustainable loans to SMEs have lagged. Dealing resolutely with these arrears is also important to reduce the debt overhang in this key sector. Key performance indicators (KPIs) designed by the CBI, to track SME debt resolution have been established and the banks are reporting on these since the end of March. Targets requiring the banks to complete a substantial share of durable restructuring arrangements for SME loans in arrears in 2013 are currently being finalized. Given the complexities of connected borrowers and to minimize undue adverse effects on payment discipline, it is essential that sustainable solutions are found on a case-by-case basis.[29]

More needs to be done to address BTL arrears. At the end of 2012 there were over 24,000 BTL properties in arrears greater than 90 days (about 1/3 of which were in arrears for more than 2 years), representing 27% of the total value of this loan book. The banks have begun to engage the services of rent receivers to directly collect the income from these loan assets. This approach has been successfully adopted by NAMA in relation to its portfolio of loan assets and has resulted in significant greater cash flow receipts from these assets.[30] Given the volume of long dated arrears in the BTL sector the number of receivers appointed to date appears low. The appointment of a rent receiver is not without costs, as a court order has to be attained and the receiver's fees have also to be paid, but given the inefficiencies and lengthy delays of the repossession system in Ireland there are many cases where a rent receiver may be a preferable choice to repossession. Obviously as this option is increasingly relied upon, a functional system of registration and notification of the appointment of rent receivers needs to be put in place to provide clarity for tenants.

In light of these elevated NPLs, and of the expected increase in restructurings, the authorities have updated the provisioning guidelines to ensure conservative provisioning across the domestically owned banks. A key objective is to provide greater clarity regarding the underlying health of the books e.g. by setting out the prudent criteria for a restructured loan to be classified as cured and the possibility for some of the provision to be released (importantly, under the updated guidelines, a loan cannot be deemed to be cured until there has been payment of principal and interest for at least one year). Furthermore, to promote greater consistency of provisioning treatment across institutions, the authorities will assess the banks' provisioning models against benchmarks parameters.

These amendments to the guidelines are welcome, as they enhance the transparency of the banks' provisioning levels while ensuring a cautious and conservative approach, to further strengthen banks' incentives to identify sustainable restructurings, the authorities intend to introduce an extra layer of rules-based provisioning with effect from 1 January 2014. For banks' assets that are (i) more than 90 days in arrears and (ii) for which no sustainable restructuring has taken place, banks would be allowed to use a valuation based on the expected net proceeds of collateral disposal only (i.e. banks would no longer be allowed to incorporate assumed or expected future cash flows from other sources in the valuation of these assets, as may be the case currently).

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[29] Although some banks are more advanced than others with regards to the appropriate infrastructure to durably address the arrears issue in this sector, consideration should be given to outsource this work where the necessary systems and trained staff are not in place.

[30] NAMA have indicated at the time of transfer the banks were capturing 15% of income from the assets under control of debtors and this figure is now in excess of 85%.

Moreover, a robust review of the underlying quality of the banks' balance sheets is required prior to programme exit, to inform banks' provisioning and financial planning going forward and help identify and remove any impediments to the provision of credit. In line with the evolving timeline for the forthcoming European stress test in the context of the ECB fully assuming its supervisory role under the SSM, the timeline for such diagnostics under the programme has been adapted. Specifically, the assessment exercise of the Irish banks' will now be broken down into a series of diagnostics in preparation of the full stress test, in accordance with the new EU methodology, ahead of though in close proximity to the upcoming SSM/EBA exercises. It is envisaged that this exercise will be held in the first half of 2014.

A key building block of the preparatory diagnostics will be a comprehensive Balance Sheet Assessment, to be finalised by end-November 2013. This will provide greater clarity regarding the underlying quality of the banks' balance sheet and the appropriateness of their risk-weighted asset (RWA) calculations for determining regulatory capital requirements. This assessment will consist of two elements: (i) an asset quality review, based on the updated Impairment Provisioning and Disclosure Guidelines of the CBI and (ii) a review of the appropriateness of RWA calculations, including sensitivity analysis to alternative assumptions and inputs. The first step will provide the supervisor with a quantitative assessment of impairment provisions and a review of the appropriateness of risk classification for all loan portfolios. The results will be communicated to the banks to help inform their assessments of loan loss provisions and any mitigating actions. The methodology for the asset quality review will take into account progress in developing the relevant SSM methodology and will be agreed with the troika by end July 2013.

This will be complemented by other work streams aimed at ensuring that the Irish banks are well placed for the SSM entry exercise. The authorities will assess banks' current capital positions relative to the requirements under CRD IV/CRR, and their profitability outlook through a forward-looking operating profit analysis under various funding costs scenarios. Options to potentially lower the funding cost of the banks' tracker books in order to enhance the banks' profitability outlook will also continue to be explored. This set of comprehensive measures will increase banks' incentives to pursue sustainable solutions for problem loans and provision in a prudent and conservative manner, and will also assist the banks with their financial planning. The process will also allow for the implementation by the authorities of specific mitigating actions prior to the European stress tests.

Institutional reform is being advanced to deal with the debt overhangs in private sector balance sheets:

- The **personal insolvency system** is on track to start accepting applications by end June [31] The Insolvency Service Ireland[32] (ISI) was officially launched on 18 April 2013 with the launch of its website and the publication of reasonable standard of living guidelines[33], which will ensure consistency in the calculation of debtor's debt servicing capacity for all

[31] On this basis, the issuance of the first Debt Relief Notices is expected during July. Given the longer timeframe involved for the Debt Settlement Arrangements and Personal Insolvency Arrangements processes, the first of these arrangements would not be expected to be completed before late September, early October 2013.

[32] More information is avilable at: http://www.isi.gov.ie/

[33] Guidelines can be found here: http://www.isi.gov.ie/en/ISI/GuidelinesUnderSection23-FINAL.pdf/Files/GuidelinesUnderSection23-FINAL.pdf

personal insolvency applicants. The guidelines provide an extensive breakdown of the estimated costs of living for individuals and families in a broad range of scenarios. As they appear to be lower than what banks are currently offered as part of their long-term sustainable mortgage solutions, they do provide an incentive for the borrower to seek first a negotiated agreement with the bank and to resort to the Personal Insolvency route only when all else fails. One concern remains that —given the expected level of applications[34] relative to the current number of bankruptcies cases—the system might quickly run into capacity constraints. The authorities will shortly appoint a cadre of specialist judges to deal specifically with personal insolvency cases. Any other necessary steps should be taken to ensure the court system is sufficiently resourced in a timely manner.

- A **protocol to deal with the situation of multiple creditors and unsecured debt** has been brokered by the CBI[35] to facilitate resolution arrangements acceptable for both secured and unsecured creditors as well as for the individual consumer without the need to proceed to a full Personal Insolvency Arrangement (PIA) or bankruptcy.[36] At present, many debtors continue to prioritise unsecured debt over secured debt in order to maintain access to these credit lines, or resort to borrowing unsecured even after being offered a restructuring arrangement on the secured part of their debts. The pilot scheme is a welcome attempt to address the problem of unsustainable debts with multiple creditors, however the rejection of the pilot by the Irish League of Credit Unions (ILCU) is regrettable considering that approximately 1/3 of total unsecured debt (estimated at EUR 15 bn) is owed to the Credit Unions. It will be important that Credit Unions which participate in the pilot represent a cross-section of the broader population of credit unions to ensure the pilot examines the case of a representative sample of borrowers.

- **The code of conduct on mortgage arrears is being revised** to clarify the definition of "contact" and "co-operating borrower". This should facilitate pre-PIA restructuring agreements between the bank and a borrower by providing greater certainty regarding the appropriate terms of engagement and the obligations expected of both sides. The troika considered that the code should also be modified to permit modifications of the interest rate setting mechanism when these are advantageous to the borrower in the long term (e.g., moving with his/her agreement a customer from a tracker to an alternative mortgage product as part of a wider sustainable solution). This possibility is only envisaged in a limited number of cases, i.e. only where the alternative may be the loss of the family home.

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[34] The Department of Justice have previously estimated that, in the first full year, some 15,000 applications can be expected for both Debt Settlement Arrangements and Personal Insolvency Arrangements, plus a further 3,000 to 4,000 applications for Debt Relief Notices and some 3000 bankruptcy applications. This strong interest would appear to be borne out by the queries to the ISI, which in the first few weeks have exceeded 100 per day. This workload needs to be compared with the 30 bankruptcy adjudications in 2011.

[35]The pilot is for a 3-month period with a sample of 750 borrowers; participation by the banks and other creditors is voluntary. The framework applies to cooperating borrowers under the CCMA framework with both secured and unsecured debt. It does not however apply in situations where there is a BTL or business-related debt. Full details are available here: http://www.centralbank.ie/press-area/press releases/Pages/CentralBankAnnouncesPilotSchemeforConsumerMulti-DebtRestructuring.aspx

[36] Unsecured debt to multiple creditors is quite widespread in Ireland. A recent survey by the Money Advise and Budgeting Services (MABS) found that 86% of their clients had additional debts over and above their mortgages, with 50% having between 2 and 4 additional debts and 5% having 10 additional debts or more.

Several pieces of important legislation will be enacted in the coming weeks, though progress on the introduction of a credit register remains slow. The Central Bank (Supervision and Enforcement) Bill, strengthening the ability of the CBI to impose and supervise compliance with regulatory requirements and to undertake timely prudential interventions, and the Land and Conveyancing Law Reform Bill, removing unintended constraints on banks' ability to realise the value of loan collateral in certain instances while providing additional new safeguards for the family home in repossessions proceedings are both set to be enacted by the end of the current Parliamentary session. However, limited progress has been made on the introduction of a credit register, and in fact the timeline envisaged for introduction has been further delayed since the last mission, with the authorities now intending to phase in the introduction of the credit register during 2015/2016, from early 2014 previously (the legislation was published in 2012 and the introduction of the register has been part of the programme since inception). The limited priority that the authorities assign to this important reform is surprising, considering how this institutional lacuna enabled the proliferation of multiple loans to the same borrower in the run up to the crisis,[37] and considering that problems with prioritising of secured loans and ensuring the stability of debt restructuring plans continue to occur (see above the discussion on arrears in multiple creditors' settings).[38]

3.3 Structural reforms

There have been dramatic structural changes in the labour markets over the past few years, not only with the sharp increase in overall unemployment, but also through the development of rising skills mismatches and the surge in youth unemployment. Government policies to address these issues have rightly focused on putting in place activation policies, reforming vocational education and training and seeking to foster job-creation. Progress has not been sufficiently fast in light of the urgency and scale of the situation, however, and more needs to be done on these three fronts. Delays have also been experienced in some other priority areas for structural reforms, including regarding the legal services and water sectors.

The government is addressing the challenges faced by the labor market via activation reforms and job creation initiatives. The authorities continue to make progress with the implementation of the *Pathways to Work* initiative, which seeks to establish proper activation mechanisms, have followed-up on their *Action Plan for Jobs* strategy with an updated plan for 2013 released in February, and are pressing ahead with reforms of the further education and training (FET) system. The pace of reforms and the resources mobilised, however, are at times insufficient given the scale and the urgency of the situation.

The capacity to meaningfully engage with job-seekers remains short. Regular engagement on a one-to-one basis is key for the effectiveness of activation services and to the provision of meaningful support to job-seekers. There are, however, currently only around 300 case workers for over 400,000 claimants on the Live Register and the Department of Social Protection (DSP)

[37] The situation reached outright extremes, with the ten largest borrowers whose loans were transferred to NAMA accounting for total debt of EUR16 bn (over 10% of GDP), but the problem was quite widespread.

[38] One issue appears linked to the reluctance to confirm the use of the Personal Public Service Number (PPSN) as unique identifier, akin to the situation in the health sector. In contrast, all other EU countries operate with a strong unique identifier in place as part of their credit register systems.

expects the number to increase only to 600 by end-2013 and perhaps up to 800 by end-2014.[39] This increase is expected to be reached through redeployment of existing staff, many of whom do not necessarily have the case-worker qualifications and would therefore need significant training of their own.

Rapid decisions and actions on the possible outsourcing of some activation services are therefore needed. The DSP has considered the outsourcing of some activation services to private providers and engaged external consultants at the end of 2012 for advice on the possible options. The analysis of options and decision-making process have been initiated in the first quarter of 2013, but progress has been slow. A decision at Cabinet level on whether to outsource (and, if so, how and to what extent) should be taken during the second quarter of 2013. A quick decision is called for and, if positive, extensive efforts should be made to ensure a rapid completion of the procurement process so as to provide the necessary support to jobseekers.

Special attention needs to be dedicated to re-skilling, up-skilling and training, in particular for the long-term unemployed and the youth. Structural labour market developments (see section 2) mean that efforts to improve the FET system and make it more attune to the needs of the labour market and of the unemployed are critical. The establishment of the SOLAS and Education and Training Boards (ETBs) should be a matter of priority. SOLAS, in turn, will need to rapidly develop a credible strategy to orient the provision of FET and ensure the delivery of high-quality and relevant programmes by the ETBs, in full consultation with relevant stakeholders. Consideration should also be given to enhancing work-based apprenticeships in collaboration with the private sector. In addition, Ireland will have to ensure that it avails of all opportunities offered to support its youth under the EU's Youth Guarantee, to which both regions will be eligible.

The level of service to unemployed across the country remains uneven. *Intreo* offices, essential for the provision of an integrated process of welfare and activation assistance, have only been opened in 11 locations so far, even though the reforms established under the *Pathways to Work* apply equally nationwide. This means that most of the population does not benefit from the "one-stop-shop" facility and the improved activation support it delivers. The authorities have encountered difficulties in establishing *Intreo* offices as scheduled, and indicate that they are likely to fall short of their target of 43 by end-2013. All recourses should be considered to address the planning, design and staff relocation issues that are generating these delays.

Faster action is also required to reform employment support schemes to increase their effectiveness. The authorities have started implementing some reforms following an internal review process and consultations with stakeholders in February 2013. In particular, they have initiated a pilot programme to create two strands for the community employment scheme: one properly focused on activation and progression towards the regular labour market, and one aimed at providing support to local communities for the delivery of social services. They have also recently revised the recruitment protocols for community employment to eliminate self-referral and provide a decision-making role to case officers. Although significant, these reforms are only a small component of the wider reforms proposed under the review conducted by the DSP. Many such reforms are left for further consultation and later decision, typically well into 2014. A greater sense of urgency in this reform process is warranted, and further consideration should also be given to a

[39] In comparison, Germany, Sweden and the United Kingdom have ratios of case workers to employees slightly below 1:100, while France has a ratio of around 1:140.

more fundamental rethink of some schemes to ensure that they effectively support jobseekers in returning to non-supported work (Box 3).

Job creation efforts continue, but much hinges upon a broad economic recovery. Aside from measures to improve the overall business environment and promote the development of key industries, the *Action Plan for Jobs* 2013 includes the launch in July of the JobsPlus scheme that directly subsidises the recruitment of the long-term unemployed. The scheme, which will replace the PRSI exemption scheme, is subject to a cap of 2,500 recruitments. It will therefore have a limited impact on job creation in the best of cases, and will be reviewed before a possible extension into 2014. Overall, the impact of the Action Plan for Jobs on job creation is unknown, but the authorities have committed to conduct a thorough evaluation of the 2012 and 2013 plans in order to guide further efforts into 2014.

Box 3: Activation effectiveness of employment support schemes

Ireland has established a range of employment support/activation schemes, which were recently reviewed from a conceptual perspective. Few of them, however, have been evaluated from a cost/efficiency perspective, i.e. in terms of the extent to which they increase the ability of the unemployed to return to non-supported employment and the net benefits to the DSP. An exception is the recent independent evaluation of the JobBridge internship scheme, which shows broadly positive outcomes in terms of the relatively high transition rates from internship to full-time employment, and in terms of net benefits to the DSP (gains through reduced social payments minus internship costs).

The JobBridge evaluation is a useful first step towards a comprehensive assessment of the activation effectiveness of all employment schemes. The DSP is also building up its analytical toolkit by cross-referencing feeds from various datasets, including Live Register data and Central Records systems (employment and tax data). Although this remains work-in-progress, individual-level data on unemployment, employment and activation experiences should facilitate the effectiveness assessment. Based on preliminary data made available by the DSP, some basic and tentative findings emerge:

- The number of beneficiaries from employment support programmes has steadily increased from an average of around 51 000 in 2007 to 75 000 in 2012. Community Employment, which serves little activation purposes, represented about 30% of the total in 2012, with another 12% for FÁS training programmes and 31% for the Back to Education scheme. The Back to Education, Back to Work and JobBridge schemes represent most of the increase in the placement in employment schemes between 2007 and 2012.

- Employment support schemes appear to have been relatively inefficient in enabling the unemployed to return to non-supported employment, and the situation has seriously deteriorated as a result of the crisis. However, it must be noted that employment data is incomplete for later time periods due to lags for returns. Exits to employment have represented around 11% of the total for people engaged in FÁS training courses since 2009, down from around 22% in 2006–2007[40]. Exits to employment for people participating in Back to Education were typically around 20% on average but have declined since the beginning of the crisis. Exits to employment for people participating in

[40] These percentages do not take into account people for whom the "next event" after activation is unknown. Known "next events" include a return on the Live Register or participation in another employment support scheme.

Community Employment have only declined moderately and are at around 18% of the total in the period 2008–2011.

The preliminary data indicate that activation schemes, including those aimed at re-skilling and up-skilling the unemployed, have not been very successful in returning people to regular employment. This assessment remains extremely partial and tentative, however, as the micro-level data presents significant methodological issues that still have to be resolved by the DSP. However, it does highlight the need to carefully assess the effectiveness of programmes in the future.

Important State asset sales are nearing completion. The sale of Bord Gáis Energy and the Electricity Supply Board's stake in two overseas power plants is expected to be completed in coming quarters. Although the proceeds will accrue to the parent companies in the first instance, the programme gives room for Ireland to use up to half of them for reinvestment in projects of a commercial nature that meet ex-ante cost/benefit criteria and enhance employment. This job-creation opportunity should be used as long as viable projects can be identified and to complement efforts to promote public-private partnership projects in infrastructure. Such projects have gathered momentum recently with the award or publication of tenders for road, school and primary health care centre projects. The employment impact is likely to be very limited in 2013, however.

The authorities intend to postpone the introduction of water charges to late 2014. While they remain committed to and have continued to make progress on the implementation of the wider process of reforming the water sector, they intend to postpone the introduction of household charges by a few quarters to enable a sufficient percentage of households to be equipped with meters. This would avoid a situation whereby charges may be perceived as unfairly distributed between metered and non-metered households, and also ensure that sufficient metering data will have been collected to enable the determination of assessed charges on a reliable basis. They also believe that public acceptance of charges, and therefore the success of the reform, will be maximised with a higher proportion of metered households and a longer time gap between the introduction of the property tax and the phasing-in of water charges. In a statement to the Dáil, the Taoiseach indicated that water would be billed on a quarterly basis starting from Q4 2014 instead of end 2013/early 2014 as envisaged thus far under the programme.

Postponing the introduction of water charges is acceptable inasmuch as the wider reform process continues apace. The delay should not materially affect the reform process as long as it remains limited.[41] In addition, significant steps have been taken during the past quarter in view of the progressive transfer of responsibility for water services from local authorities to a national utility. The Water Services Act 2013 was adopted on 20 March 2013, which formally establishes Irish Water as a 100% publicly-owned subsidiary of Bord Gáis Éireann, provides the legal basis for the installation of meters, eliminates the ban on charges for households and grants interim regulatory powers to the Commission for Energy Regulation (CER). In turn, the tenders for the supply of meters and boundary boxes have been completed, while the contracts for installation

[41] Irish Water is intended to be a commercial state-owned company with the majority of costs to be covered by water charges. As such, it would be classified outside the general government sector. A delay in the introduction of charges could affect the statistical classification of the company, at least until such time when charges cover a sufficient proportion of costs.

work are to be awarded in June. Irish Water reports that it will start rolling out installation in July, with an objective of about 27,000 meters per month on average.[42]

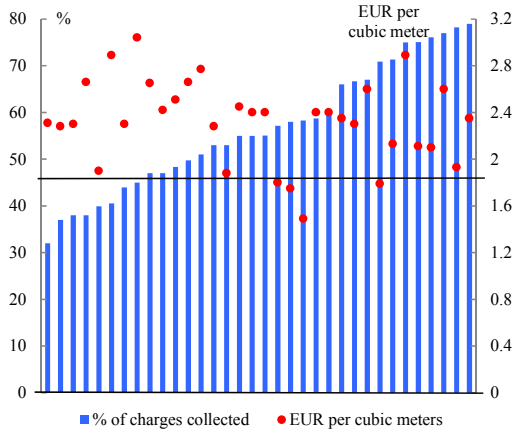
Completing the reform process is essential for efficiency, competitiveness and a rational use of water. By abolishing water charges for households in 1997, Ireland eliminated an essential mechanism to ensure the efficient, rational and sustainable use and supply of a scarce and valuable resource. Fragmentation on the supply side has led to inefficiencies and significant charge differentials for non-domestic users, while the reliance on State funding for operating and capital expenditures has led to insufficient investment in maintenance and new infrastructure. Local authorities have proved extremely inefficient in collecting charges on non-domestic users, and Ireland currently experiences staggering 41% system losses. The provision of water supply and treatment services, including to businesses, has exerted therefore a significant drag on public finances in spite of the insufficient level of investment in the sector (Figure 17).

Key measures will have to be completed by end-2013 to ensure that the reform process remains on track. It is critical that the authorities publish a comprehensive Water Services Bill by September 2013 as expected, so as to establish the new legal framework under which Irish Water will operate and charges will be set. It is also essential that the funding model for Irish Water be firmly established and that a tentative schedule for the utility to be mostly self-funded be determined. As part of this, the CER will soon need to start drawing ahead of public consultations in early 2014 the outline of future water charges in order to ensure fairness, affordability, efficiency, conservation and the recovery of costs. The authorities will also need to ensure that Irish Water is in a position to proceed with the installation of meters without undue hurdles imposed by local authorities. In addition, given that charges will in any case be introduced before the majority of households are metered, the CER will have to determine both metered and assessed charges. The coexistence of these two systems of charges is common in other regions, including England, Scotland and Wales, and should not constitute a hurdle in Ireland either.

[42] The installation of meters to around 1 mn households is expected to take up to 3 years.

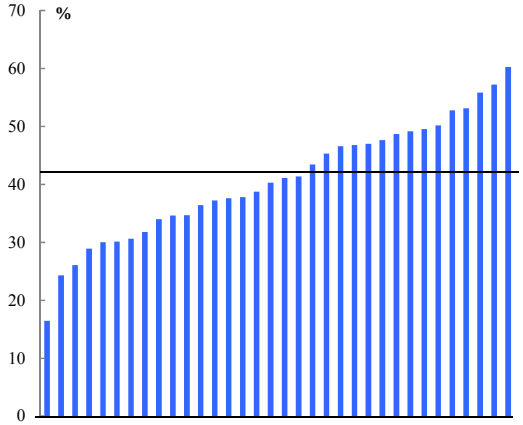
Figure 17: water services, efficiency and cost indicators

Local authorities are poor collectors of non-domestic charges, which also vary greatly



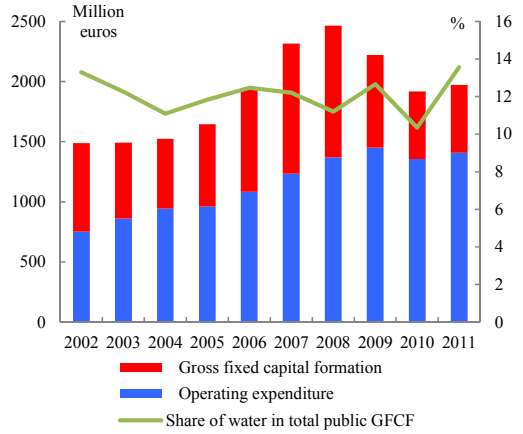
Sources: Service indicators in local authorities and IBEC.

System losses range from 16.5% at best to 60.3% at worst, with an average of 40.8%



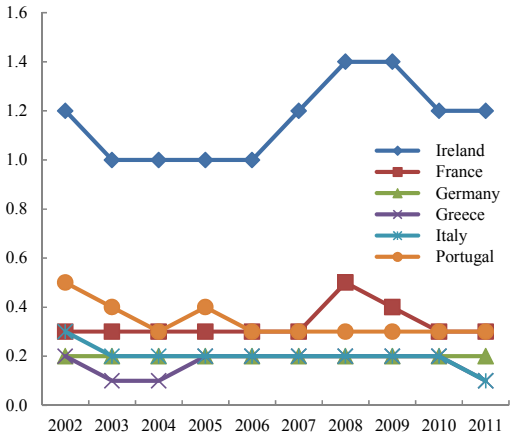
Source: Service indicators in local authorities.

General government spending on water services is large in spite of insufficient capital investment



Source: Eurostat, Classification of the functions of government database.

Ireland devotes more public funds to water services than other EU countries (spending as % of GDP)



Source: Eurostat, Classification of the functions of government database.

The process of reforming legal services has been unduly and frequently delayed and needs to come to fruition rapidly. The Minister for Justice, Equality and Defence indicated that amendments to the Legal Services Regulation Bill would be completed soon and made publicly available before the Bill would be considered at Committee Stage from 10–12 July. Legal services reforms constitute a key component of the overall strategy to facilitate regaining competitiveness by realigning domestic costs to costs in other jurisdictions. Until this reform is completed, legal services costs will remain excessively high, having for the most part failed to adjust during the crisis, unlike other sectors of the economy. Such high costs affect the competitiveness of the Irish economy as a whole (Box 4).

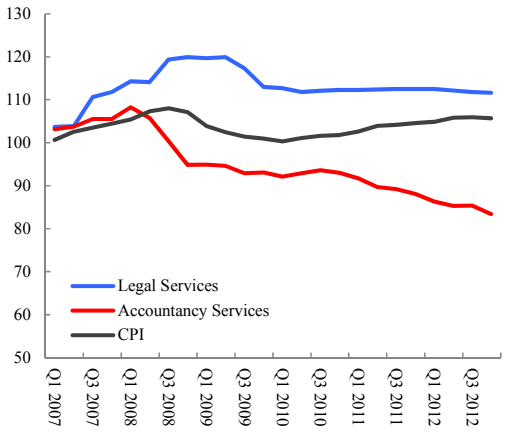
Box 4: The high cost of legal services continues to cause problems

Structural reforms are essential for boosting growth, increasing competitiveness and enhancing the prospects for job creation, but often involve confronting vested interests. While overall the Irish economy has adjusted well since the onset of the crisis, the pace and scale of price adjustment in the non-traded sector has been uneven. This may be due in part to structural factors such as barriers

to competition. In particular, the cost of legal services has not fallen significantly from pre-crisis levels. This is in contrast to other professional services for which the underlying cost dynamics should be comparable, for example accountancy services. Here, prices have adjusted more in line with developments in the economy as a whole (Figure 18).

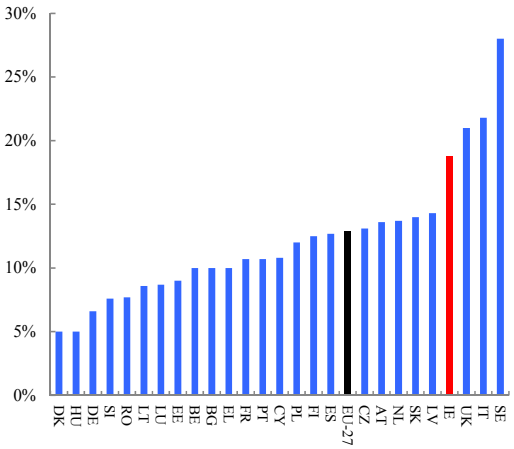
Figure 18: Legal services costs in perspective

Legal services remain costly while accountancy has adjusted since the peak (indices, 2006=100)



Source: CSO (2006 = 100)

Legal costs for contract enforcement in IE are among the highest in the EU (% of the claim)



Source: Doing Business, World Bank Group, June 2012

Studies show inefficiency in the legal system impacts on the economy. High legal costs feed through to higher prices for goods and services, and therefore have important implications for competitiveness. This has repeatedly been cited by the Irish Small and Medium Enterprises Association (ISME), as a constraint on Irish businesses.[43] In particular, costs may act as a barrier to small companies seeking redress for contract enforcement. Figure 18 shows that as a percentage of the claim, attorney fees in Ireland are among the highest in the EU-27.

Since 2006, a number of significant barriers to competition in the supply of legal services in Ireland have been identified[44], including in areas such as advertising, training and the formation of joint practices. In line with programme commitments, the Authorities introduced a new Legal Services Regulatory Bill in late 2011 to address many of these concerns. However, the Bill as initiated encountered vocal criticism from the legal professions and did not advanced despite repeated commitments by the Authorities to the contrary. After 19 months, the draft bill has yet to be enacted. Amendments to address concerns around the independence from the executive of the new regulatory authority have not yet been made available. As such an assessment of their potential impact on competition is not possible.

Given this lack of progress, and considering that other avenues of competitiveness improvements (such as wage containment) seem to be approaching their limit, addressing high legal costs has now become an important policy challenge, including through the timely completion of the remaining legislative and executive steps to ensure the new Legal Services Regulatory Authority is operational without any further delay.

[43] See ISME Press release (14/03/13) *Cost Competitiveness must be Government Priority*. Commission staff have also raised this issue in the Autumn 2012 Review. It should be recognised that the efficiency of the legal system can also be a factor in explaining high legal costs. Data from the World Bank indicates that Ireland was sixth worse in terms of the time taken to conclude legal procedures for contract enforcement.

[44] See The Competition Authority *Competition in Professional Services: Solicitors and Barristers* (2006)

4. Financing issues

Market sentiment towards Ireland has continued to improve, as attested by the strong demand of the 10-year bond issued in March (which had tightened by around 500bp in secondary markets in mid-May from 4.15% at issuance) and the steadily declining yield on the ongoing T-bill auctions with a three-month tenor (down to 0.129% as of mid-May).

Plans are on-track to build a sizeable cash buffer by the end of the year. The authorities have already completed ¾ of their targeted bond issuance of EUR 10 bn for 2013. Together with the possibility of more regular issuance of sovereign bonds later in the year and the remaining planned disbursements under the programme (EUR 9.36 bn[45]), this would allow Ireland to accumulate a cash buffer of approximately EUR 22.4 bn (**Error! Reference source not found.**)[46] at end-2013 which should be sufficient to cover total financing needs for the following 12-15 months., The ample cash reserve serves as a prudent signal to investors as the Adjustment Programme reaches its conclusion.

Table 4: Financing requirements

	2010	2011	2012					2013					2010-2013
	Dec	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Total
A. Exchequer cash deficit 1/	**5.4**	**18.4**	**4.3**	**6.9**	**1.7**	**3.5**	**16.4**	**3.7**	**3.9**	**0.3**	**3.3**	**11.2**	**51.4**
B. Debt redemption 2/	**2.5**	**9.7**	**6.3**	**-0.6**	**-0.7**	**4.4**	**9.4**	**1.7**	**8.6**	**2.6**	**1.5**	**14.5**	**36.0**
of which: long term bonds	0.0	4.8	5.6	0.0	-0.3	0.7	6.0	0.4	4.6	0.0	0.0	5.1	15.9
C. Bank recapitalisation	**0.0**	**16.6**	**0.0**	**1.3**	**0.0**	**0.3**	**1.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**18.1**
D. Other Financing needs 3/	**0.0**	**0.7**	**0.2**	**-0.9**	**0.0**	**0.5**	**-0.2**	**0.0**	**1.1**	**1.5**	**0.5**	**3.1**	**3.6**
E. EU-IMF loan disbursement	**0.0**	**34.5**	**10.5**	**4.4**	**3.7**	**2.6**	**21.2**	**1.6**	**4.2**	**3.2**	**2.8**	**11.7**	**67.5**
EFSM/EFSF	0.0	21.5	6.2	2.8	2.3	1.0	12.3	0.0	2.4	2.0	2.0	6.4	40.1
Bilaterals 5/	0.0	0.5	1.1	0.2	0.5	0.7	2.5	0.5	0.8	0.4	0.3	1.9	4.8
IMF	0.0	12.6	3.2	1.5	0.9	0.9	6.4	1.1	1.0	0.8	0.6	3.5	22.5
F. Market Funding	**0.5**	**1.4**	**0.4**	**3.4**	**6.5**	**1.9**	**12.3**	**12.2**	**3.7**	**2.6**	**1.7**	**20.2**	**34.4**
of which: long term bonds	0.0	0.0	0.0	3.1	5.1	0.0	8.1	7.8	0.5	1.0	0.7	10.0	18.1
Memorandum item:													
Cash balances, eop	22.3	13.0	13.2	14.3	23.5	19.3	19.3	27.6	21.9	23.2	22.4	22.4	

Notes:
1/ Includes promissory note payments
2/ Includes long-term bonds, T-bills, commercial paper and others. The timing of the issuances is purely indicative and not reflecting the NTMA's intentions.
3/ Include contingencies
4/ Includes Treasury cash reserves and NPRF assets
5/ UK, Sweden and Denmark.

The recently approved extension of EFSF/EFSM loan maturities will help restore full market access in the immediate post-programme period. At their meeting on 12 April 2013, Eurogroup and Ecofin Ministers agreed to lengthen the maturities of the EFSM and EFSF loans to Ireland and Portugal by a weighted average of 7 years, conditional—in the case of Ireland—on the successful completion of the 9th programme review (which was confirmed by the European Commission this past April). Between 2015 and 2019, loans from the EFSF and the EFSM totalling EUR 15.4 bn

[45] This includes both yet-to-be-authorized amount (subject to positive conclusion of current and last two reviews), as well as amounts that have been authorized but not yet disbursed. As to the latter, EUR 1.6 bn EFSF disbursement authorized in April upon the completion of the 9th review is presently expected to be borrowed by Ireland in June, while the EUR 0.8 bn EFSF disbursement from the 8th review was borrowed by Ireland on May 2, 2013.

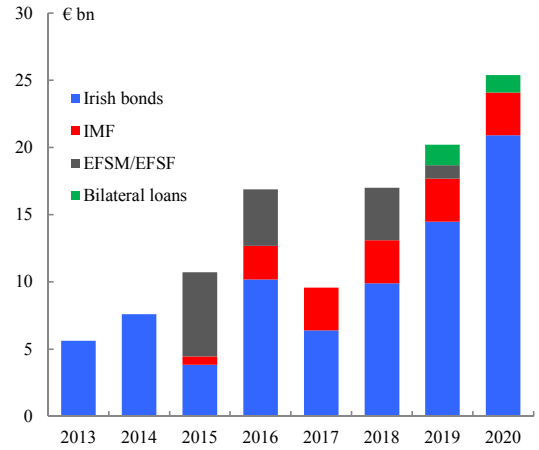
[46] The financing requirements for the year 2013 in **Error! Reference source not found.** also provide a contingency for potential unforeseen payments.

would have matured based on the original repayment schedule. The extension of maturities will be especially targeted to reduce the redemptions of EFSF/EFSM loans in this period by shifting them beyond 2020, while avoiding redemption humps after 2020. The 7-year average extension of EFSM and EFSF loans increases the weighted average maturity of Ireland's total public debt to 12.4 years, which compares very favourably to the corresponding average debt maturity in all euro area countries (7.3 years) notwithstanding the heavy schedule of bond maturities which Ireland has in the period 2016 to 2020.[47]

The successful completion of this review would trigger a disbursement of EUR 1 bn from the EFSF. The IMF will also disburse EUR 1 bn and the UK EUR 0.5 bn under its bilateral loan. This will bring the released or approved disbursements so far to EUR 62.7 bn, representing some 92.9% of the total international assistance of EUR 67.5 bn available under the programme.

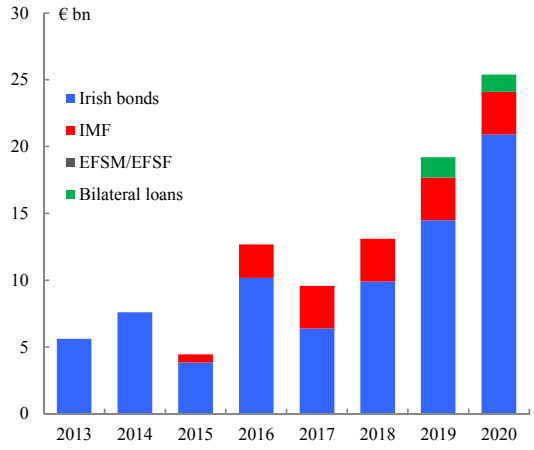
Figure 19: Debt repayment schedule

Before maturity extension



Source: Commission Services

After maturity extension



Source: Commission Services

5. Risks

Despite the considerable progress achieved under the programme so far, as highlighted in previous reports important challenges and risks remain, which require close monitoring and determined policy action:

- With a 2013 government deficit estimated by Commission services at 7.5% of GDP (primary deficit of 2.6% of GDP), fiscal consolidation requirements remain considerable. The initial rejection of the Croke Park II agreement, followed by a more recent agreement with trade unions (yet to be put into practice), underscores the need for continued vigilance

[47] Public debt here refers to outstanding central government bonds and official IMF plus EFSF/EFSM/ESM loans for applicable countries. The Irish debt stock includes EUR 25 billion of long term bonds with maturities between 25 and 40 years issued to the CB to replace the IBRC Promissory Note. In fact, Ireland's public debt has the second-longest average maturity in the euro area, after Greece (15.2 years), and only the programme countries (Greece, Portugal and Ireland) have average debt maturities over 8 years.

with respect to correcting fiscal imbalances. . This needs to be carefully managed by the authorities, in particular by ensuring that the adjustment is and is perceived as equitable.

- Banks' asset quality remains a source of uncertainty. A more dragged-out process of discovery/capital assessment could stymie banks' efforts to reduce reliance on system funding, which could undermine their capacity/willingness to extend new loans in support of the recovery. Weak profitability can have a similarly limiting effect.
- The ongoing reforms in the mortgage market might result in diminished debt repayment discipline. It is essential that adequate protection is offered to cooperating distressed debtors so that they can work out a solution with their creditors. But, even after the planned reforms of the legal framework for repossessions and of the code of conduct on mortgage arrears, undue incentives may remain for strategic non-payment/default. This would harm the functioning of credit markets for the medium to long term and thus impede the efficient allocation of savings.
- The modification of the timeline for a meaningful assessment of bank capital under the programme in the wake of the evolving calendar of the EBA/SSM stress testing exercise is primarily meant to ensure consistency across successive supervisory steps and in turn to safeguard their credibility. The new staggered approach is to be taken as an opportunity to well prepare the various individual steps. Any attempt to defer or to weaken the individual elements of the process would undermine the very reason for modifying the original calendar of stress testing of banks.

List of abbreviations

AIB	Allied Irish Bank
BOI	Bank of Ireland
BGE	Bord Gáis Energy
BTL	Buy-to-Let
CBI	Central Bank of Ireland
CER	Commission for Energy Regulation
CPI	Consumer Price Index
CSO	Central Statistics Office
dpd	Days Past Due
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Fund
EFSM	European Financial Stabilisation Mechanism
ELG	Eligible Liabilities Guarantee
ETB	Education and Training Board
GDP	Gross Domestic Product
GNP	Gross National Product
GP	General Practitioner
GVA	Gross Value-Added
HICP	Harmonised Indices of Consumer Prices
HSE	Health Service Executive
IBEC	Irish Business and Employers' Confederation
IBRC	Irish Bank Resolution Corporation
IMF	International Monetary Fund
LTV	Loan-to-Value ratio
ma	Moving average
MEFP	Memorandum of Economic and Financial Polities
MOU	Memorandum of Understanding
MTFS	Medium Term Financial Statement
NAMA	National Asset Management Agency
NBFI	Non-Bank Financial Intermediary
NFC	Non-Financial Corporation
PDH	Primary dwelling house
PCAR	Prudential Capital Assessment Review
PTSB	Permanent TSB
qoq	Quarter-on-quarter
REER	Real Effective Exchange Rate
sa	Seasonally Adjusted
SME	Small and Medium Enterprise
SSM	Single Supervisory Mechanism
yoy	Year-on-year
WHO	World Health Organisation

Annex 1: Programme Implementation

Compliance Monitor for Q1 2013

The conditions below are from the 8th update of the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU).

	Status and COM assessment
Permanent conditions	
PC.1 i. Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. In particular, the Department of Finance and the Department of Public Expenditure and Reform will continue to ensure effective tax collection and tight supervision of expenditure commitments by the line departments to ensure that the primary deficit target in cash (see Table 1 of MEFP and the Technical Memorandum of Understanding, TMU) and the general Government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved. ii. Any additional unplanned revenues must be allocated to debt reduction. iii. Moreover, the nominal value of Social Welfare pensions will not be increased.	i. Observed EDP deficit ceilings were met with ample margin in 2011 and 2012 (in particular, based on the April 2013 EDP notification, the 2012 deficit outturn was 7.6% of GDP, against a programme ceiling of 8.6% of GDP, and better than the estimate as per the 9th review, i.e. 7.7% of GDP, due to small changes in cash-accrual adjustments). Commission services estimate the 2013 deficit (7.5% of GDP) in line with the 2013 EDP and programme ceiling. Supervision of health expenditure is being enhanced through dedicated data provision requirements established in the 9th review, i.e. (i) Report on implementation of budgetary measures in the health sector; (ii) report comparing (a) health expenditure by main service areas, (b) pay and non-pay element of current expenditure, and (c) capital expenditure and income collected , against the monthly targets; and (iii) report on pharmaceutical prescriptions and expenditure. Data availability is not always complete, but efforts are being made to improve it. ii. Revenue overperformance has been saved (i.e., the deficit has undershoot the programme ceiling by an amount equal to or greater than the revenue overperformance), although some expenditure have been allowed to exceed programmed amounts (for example, on unemployment benefits and health). Overall expenditure have been in line with original programme projections because of the windfall savings on the interest bill including resulting from EU policy decisions. It needs to be kept in mind that it has been agreed that some proceeds from identified asset sales will be spendable on growth-enhancing projects (see PC.3 below). iii. Observed
PC.2 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.	Broadly observed (in some cases the consultation period before announcement has been very short).

PC.3 Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of 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.	Not applicable (there have been no privatisation proceeds so far).
PC.4 Continuously monitor financial markets to exploit opportunities to return to commercial funding as soon as possible.	Observed
PC.5 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).	Reforms of activation policies are on-going and in line with programme requirements, though progress has at times been slower than hoped for. A key challenge appears to be ensuring proper mobilisation of resources for engagement with the long-term unemployed and for adequate reforms to further education and training system (see main report).
PC.6 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.	Observed
PC.7 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 bn worth of senior bonds by end 2013.	(i) Detailed set of annual accounts, an Annual Statement and quarterly reports on NAMA activities submitted to Minister for Finance and laid before both Houses of the Oireachtas. (ii) Administrative expenses fell slightly in 2012 to EUR 119 mn (2011: EUR 128 mn). (iii) NAMA is progressing with its EUR 2 bn capital investment plan which includes the completion of properties which are currently under development and the development of certain land, particularly in Dublin city centre, in anticipation of future demand. Total 2012 disposal receipts amounted to EUR 2.8 bn resulting in receipts of EUR 6.8 bn since inception. NAMA has redeemed EUR4.75 bn in NAMA senior bonds (63% of end 2013 target) and has reaffirmed the commitment to redeem EUR7.5 bn by end 2013.

PC.8 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.	Authorities' efforts continue towards these objectives and in line with the principles in (i), (ii), and (iii).
(i) 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 approval.	(i) The Credit Union Restructuring Board (ReBo) was put on a statutory footing on 1 January 2013 and shall remain in place until 31 December 2015. Its role is to facilitate and support the restructuring of the Credit Union Sector and comprises of representatives from the Credit Union sector, the Central Bank of Ireland, the Department of Finance and a number of independent members. ReBo has established its operational team which will be engaging with credit unions in the coming months.
(ii) 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.	(ii) Statutory arrangements in place to ensure all Exchequer funding is recouped from CU concerned/sector; compliance with State Aid rules provided for in Credit Union & Co-operation with Overseas Regulators Act 2012.
(iii) In parallel, the Central Bank will continue its inspections to determine the financial condition of the weakest credit unions, and may engage its resolution powers drawing on Resolution Fund resources.	(iii) Statutory provisions made in Credit Union & Co-operation with Overseas Regulators Act 2012 and the Central Bank and Credit Institutions Resolution Act 2011.
PC.9 Ensure continued compliance with the minimum capital ratio of 10.5 percent for all PCAR banks (AIB, BOI, and PTSB).	Observed
PC.10 Continue to strengthen the fiscal framework and reporting in line with that of the EU.	Two-pack implementation on track (in particular, as regards 2014 Budget calendar, which is being brought forward). As regards the multi-year expenditure ceilings, under the current Irish legislative proposal these would cover a somewhat different aggregate than defined by the SGP's "expenditure benchmark (see Art. 5 of Council Regulation (EC) No 1466/97). Current provisions are based on administrative circulars implementing details of the ceilings, giving considerable leeway for discretionary changes to the framework. The authorities have undertaken to ensure full consistency and robust applicability of the expenditure benchmark with required legislative amendments if necessary by June 2013 (see 9th update of the MOU)
PC.11 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.	Observed Observed Observed
Q1: financial sector reform	
The authorities will provide the staff of the European Commission, the ECB and the IMF a review of developments in the PCAR banks relative to PCAR 2011. Overall results of this work will be published by end February 2013. The authorities will agree with the staff of the European Commission, the ECB and the IMF on the specific details of the review.	Observed (small delay of publication, which took place on 1st March 2013)
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.	Done during the 10th review mission
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.	Observed (report received on 26 March 2013).
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.	Observed (report received on 27 March 2013).
The authorities will publish banks' reported data on loan modifications, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.	Observed (the Q4 2012 mortgage arrears report was published on March 6 2013).
The authorities will establish by end-March a public target requiring the principal mortgage banks to offer durable restructuring arrangements for a substantial share of problem mortgage loans during 2013.	Observed. The public target for offering durable restructures was announced on 13 March 2013.
Having secured adequate protections for debtors' principal private residence through the enactment of the Personal Insolvency Bill, the authorities will introduce legislation remedying the issues identified by case law in the 2009 Land and	Observed. (The bill was published on 31 March 2013).

Conveyancing Law Reform Act, so as to remove unintended constraints on banks to realise the value of loan collateral under certain circumstances.	
The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it with the staff of the European Commission, the IMF, and the ECB.	Observed. (Report received on 26 March 2013).
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.	Observed. (Report received on 27 March 2013).
The authorities will engage with each bank to ensure appropriately prudent provisioning including on key inputs, such as for estimating cure rates for originally performing, forborne, and modified loans, to ensure these cures reflect durable modifications.	Observed. (Letters issued 12 February 2013)
Following completion of annual model performance reviews assessing banks' risk-weighted asset calculations forecasting and stress testing in advance of PCAR 2013, the authorities will report to the staff of the European Commission, the IMF and the ECB on progress with implementation of the findings from the credit regulatory capital review process and with the specific mitigating actions communicated to the banks.	Observed. (Report received on 26 March 2013).
Q1: structural reforms	
The authorities will conduct a study to compare the cost of drugs, prescription practices and the usage of generics in Ireland with comparable EU jurisdictions.	Delayed. The study has been outsourced to the ESRI, though only at the beginning of March (despite the study had been agreed during the October mission). It is expected to be delivered in the next few weeks.

Annex 2: Debt sustainability analysis

Compared to the 9th review, the sustainability of Ireland's public debt has improved, reflecting the recent decision in principle by Eurogroup and Ecofin Ministers to extend the maturities of the EFSM and EFSF loans on average by 7 years and the commitment by the Irish authorities to achieve a fiscal surplus by 2019.[48] These positive developments come on top of the savings generated by the exchange of the promissory notes with longer-dated government bonds, which itself is estimated to lower the debt-to-GDP ratio by some 3 pps by 2020.[49] Needless to say, the pace of debt reduction is dependent on realized growth, as well as on the actual fiscal policy conducted in the period ahead.[50]

The programme's baseline scenario includes updated fiscal and macroeconomic projections until 2016 and assumes continued structural adjustment containing expenditure growth over the period 2017-19 as presented in the 2013 Stability Programme. The extensions of the EU loan maturities is estimated to lower the 2020 debt level by around 1pp of GDP given the lower borrowing needs at the marginal interest rate of 5.5%. The government balance is projected to register a deficit of 2.3% of GDP in 2015 and to improve gradually to reach a surplus of 0.6% of GDP in 2019 (no further fiscal adjustment is assumed after that point). This path is consistent with gross debt peaking at 123% of GDP in 2013, and declining steadily thereafter to 96% of GDP by 2020. The baseline scenario assumes nominal GDP growth of 4.4% and a marginal interest rate of 5.5% over the period 2016-2020.

A stress scenario with a 1pp lower GDP growth and no additional consolidation measures would see the deficit exceed the programme nominal deficit targets, reaching 4.1% of GDP in 2015 (against a programme target of below 3% of GDP). In the absence of consolidation measures for 2016, the deficit is projected to worsen to 4.4% of GDP given a negative differential between the rate of economic growth and the rate of interest. The primary surplus would be insufficient to stop the debt ratio from increasing. Assuming further that a deficit reduction path similar to that of the stability programme would be resumed in 2017, the deficit ratio would fall below 3% in 2018. The debt ratio in this scenario would reach 117% of GDP in 2020 (rather than 96% in the baseline).

If instead one assumes that, in the wake of a negative growth shock (1 pp lower growth), additional measures are taken to ensure that the programme and EDP deficit path are respected, the debt ratio would decline to 110% of GDP by 2020.

A scenario with a substantially higher marginal interest rate (7.5%) does not materially alter the debt trajectory due to relatively low refinancing needs.

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[48] This commitment is stronger than the previously used technical assumption of an annual 0.5% GDP adjustment (in line with the SGP provision of a minimum structural adjustment of 0.5% of GDP as a benchmark—see also Box 1).

[49] The baseline debt path below is also lower than the corresponding path in the 9th review because the authorities' medium term plans, as incorporated in the 2013 Stability Programme (see Box 1) are for a stronger fiscal balance than had been previously assumed on a technical basis.

[50] All the scenarios in this annex assume the full drawdown of the programme financing envelope.

Figure 20: Debt-stabilising primary balance in baseline projections

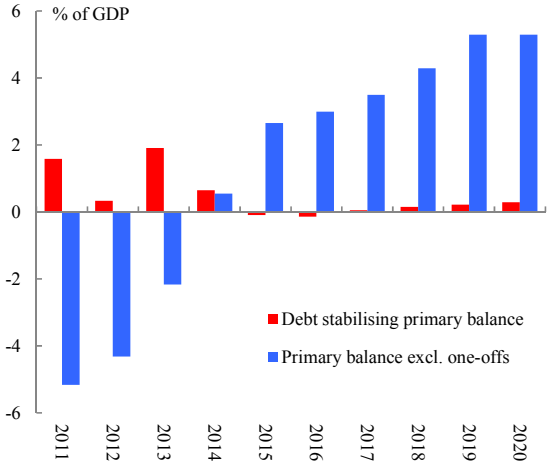
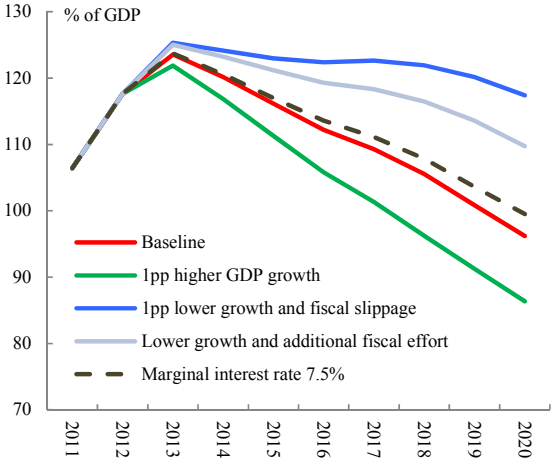


Figure 21: Government debt projections



Source: Commission service's estimates

Notes:

Baseline assumptions: Programme projections until 2016. Exchequer cash balances of EUR 18 bn at the end of 2013, EUR 10 bn at the end of 2014 and EUR 7 bn at the end of 2015 and thereafter. After 2016, general government deficit is reduced by the adjustment path presented in the stability programme (0.3pp of GDP in 2017, 0.9 pp in 2018 and 1.1 pps in 2019) until a surplus is reached; real GDP growth of 2.8% (4.4% nominal growth); marginal interest rate on new government bonds of 5.5%; cash balances of EUR 7 bn maintained in each year. Some 10% of the general government debt, including short-term debt, local government debt and other general government liabilities are assumed to remain unchanged/rolled-over at constant rates without contributing to analysis dynamics.

Stress scenario assumptions: GDP scenarios assume lower/higher nominal GDP, and a 0.5 sensitivity of fiscal balance to GDP. In the scenario with no policy response (represented by the dark blue in the figure above) the planned annual fiscal consolidation effort until 2015 is maintained, while annual fiscal deficit targets may not be met. The budget deficit in this scenario would increase to 4.4% of GDP in 2016 from a deficit of 4.1% of GDP in 2015, as the negative growth effect would exceed the baseline adjustment in 2016, but applying the baseline correction for 2017-19 the deficit would decline to 1.9% of GDP in 2019 and to 0.9% of GDP in 2020 (assuming adjustment of 1pp of GDP). In the scenario with additional fiscal effort (grey line in figure above), the government ensures that the fiscal deficit targets under the programme/EDP are met, even though this requires additional consolidation measures and has an additional contractionary impact on growth. The scenario assumes that the adjustment path of the stability programme is implemented for the period 2016-19 and reaching a balance in 2020.

Annex 3: Supplementary tables

Table A1: Use and supply of goods and services (volume)

Annual % change	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	0.5	-2.3	-0.9	-0.1	1.2	1.6	1.6
2. Government consumption expenditure	-4.6	-4.3	-3.4	-2.5	-2.8	-2.5	0.3
3. Gross fixed capital formation	-22.7	-12.2	1.1	1.0	4.0	6.0	5.1
4. Final domestic demand	**-5.0**	**-4.2**	**-1.2**	**-0.6**	**0.7**	**1.3**	**1.9**
5. Change in inventories							
6. Domestic demand	**-4.4**	**-3.7**	**-1.5**	**-0.6**	**0.7**	**1.3**	**1.9**
7. Exports of goods and services	6.2	5.1	2.9	2.6	3.5	4.5	4.5
7a. - of which goods	5.3	2.7	-2.8	-0.9	2.0	4.4	4.5
7b. - of which services	7.2	7.7	8.9	6.0	4.8	4.5	4.5
8. Final demand	**1.1**	**1.2**	**1.1**	**1.3**	**2.4**	**3.2**	**3.5**
9. Imports of goods and services	3.6	-0.3	0.3	1.7	2.6	3.8	4.2
9a. - of which goods	-1.1	-2.3	-2.7	1.6	2.5	4.1	4.2
9b. - of which services	6.5	0.8	2.0	1.7	2.6	3.7	4.2
10. Gross domestic product at market prices	**-0.8**	**1.4**	**0.9**	**1.1**	**2.2**	**2.7**	**2.8**
Contribution to change in GDP							
11. Final domestic demand	-4.3	-3.4	-1.0	-0.4	0.5	1.0	1.4
12. Change in inventories + net acq. of valuables	0.6	0.4	-0.2	0.0	0.0	0.0	0.0
13. External balance of goods and services	2.9	5.4	2.8	1.5	1.7	1.7	1.5

Table A2: Use and supply of goods and services (value)

Annual % change	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	-1.6	-0.8	0.5	1.4	2.4	3.2	3.2
2. Government consumption expenditure	-8.8	-1.8	-1.3	-1.6	-1.8	-1.5	1.2
3. Gross fixed capital formation	-26.9	-13.7	2.1	5.0	8.4	11.0	10.2
4. Final domestic demand	**-8.0**	**-3.0**	**0.3**	**1.2**	**2.2**	**3.3**	**3.9**
5. Change in inventories	-66.1	-142.9	-137.3	21.6	-11.0	0.0	0.0
6. Domestic demand	**-7.4**	**-2.7**	**0.0**	**1.5**	**2.2**	**3.3**	**3.9**
7. Exports of goods and services	7.8	5.7	6.2	3.7	4.5	5.7	5.5
8. Final demand	**2.5**	**-1.9**	**5.6**	**2.8**	**3.6**	**4.7**	**4.9**
9. Imports of goods and services	6.6	2.8	4.4	3.0	3.7	5.2	5.3
10. Gross national income at market prices	-2.2	-2.5	3.2	-1.7	3.4	3.2	3.4
11. Gross value added at basic prices	-1.9	2.4	2.3	2.4	3.3	4.3	4.7
12. Gross domestic product at market prices	**-3.0**	**1.6**	**2.9**	**2.4**	**3.5**	**4.3**	**4.5**

Table A3: Implicit price deflators

% change in implicit price deflator	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	-2.1	1.5	1.5	1.6	1.1	1.6	1.5
2. Government consumption expenditure	-4.3	2.6	2.1	0.9	1.0	1.0	0.9
3. Gross fixed capital formation	-5.4	-1.7	1.0	4.0	4.2	4.7	4.8
4. Domestic demand	**-3.2**	**1.4**	**1.5**	**1.7**	**1.5**	**1.9**	**1.9**
5. Exports of goods and services	1.6	0.6	3.2	1.0	1.0	1.2	1.0
6. Final demand	**-0.6**	**0.9**	**2.5**	**1.3**	**1.2**	**1.5**	**1.4**
7. Imports of goods and services	2.9	3.1	4.1	1.3	1.1	1.3	1.0
8. Gross domestic product at market prices	**-2.2**	**0.2**	**1.9**	**1.3**	**1.3**	**1.6**	**1.6**
HICP	**-1.6**	**1.2**	**1.9**	**1.3**	**1.3**	**1.6**	**1.8**

Table A4: Labor market and labor costs

Annual % change	2010	2011	2012	2013	2014	2015	2016
1. Labour productivity	3.4	3.3	1.5	0.8	1.3	0.6	0.7
2. Compensation of employees per head	-3.0	-0.1	0.8	0.3	0.2	0.3	0.3
3. Unit labour costs	-6.7	0.2	-0.1	-0.6	-0.9	-0.4	-0.5
4. Total population	0.3	2.3	0.4	0.8	0.9	1.0	1.2
5. Population of working age (15-64 years)	-0.8	2.1	-0.6	-0.6	-0.1	0.1	0.4
6. Total employment	-4.0	-1.8	-0.6	0.2	0.9	2.0	2.1
7. Calculated unemployment rate - Eurostat definition (%)	13.9	14.9	14.7	14.1	13.7	12.9	12.4

Table A5: External balance

levels	2010	2011	2012	2013	2014	2015	2016
1. Exports of goods (fob)	82.6	84.9	86.4	86.7	89.3	94.4	99.6
2. Imports of goods (fob)	46.9	48.3	50.0	51.5	53.4	56.2	59.2
3. Trade balance (goods, fob/fob) (1-2)	**35.8**	**36.6**	**36.4**	**35.2**	**35.9**	**38.1**	**40.4**
3a. p.m. (3) as % of GDP	*22.8*	*23.0*	*22.2*	*21.0*	*20.7*	*21.1*	*21.4*
4. Exports of services	75.2	81.9	90.7	97.0	102.7	108.6	114.6
5. Imports of services	81.5	83.6	87.6	90.3	93.6	98.4	103.6
6. Services balance (4-5)	**-6.3**	**-1.7**	**3.1**	**6.7**	**9.1**	**10.2**	**11.0**
6a. p.m. 6 as % of GDP	*-4.0*	*-1.1*	*1.9*	*4.0*	*5.2*	*5.6*	*5.8*
7. External balance of goods & services (3+6)	**29.5**	**34.9**	**39.5**	**41.9**	**45.0**	**48.3**	**51.4**
7a. p.m. 7 as % of GDP	*18.8*	*22.0*	*24.1*	*25.0*	*26.0*	*26.7*	*27.2*
8. Balance of primary incomes and current	-27.7	-33.2	-31.5	-36.8	-38.3	-41.5	-45.0
8a. - of which, balance of primary income	*-25.2*	*-31.0*	*-31.5*	*-37.7*	*-39.3*	*-42.4*	*-45.9*
8b. - of which, net current Transfers	*-2.5*	*-2.2*	*0.0*	*0.9*	*1.0*	*0.9*	*1.0*
8c. p.m. 8 as % of GDP	*-17.7*	*-20.9*	*-19.2*	*-22.0*	*-22.1*	*-22.9*	*-23.8*
9. Current external balance (7+8)	**1.8**	**1.7**	**8.0**	**5.1**	**6.7**	**6.8**	**6.4**
9a. p.m. 9 as % of GDP	1.1	1.1	4.9	3.1	3.9	3.8	3.4
10. Net capital transactions	-0.7	-0.2	-0.2	-2.6	-0.9	-0.2	-0.2
11. Net lending (+)/ net borrowing (-) (9+10)	**1.1**	**1.5**	**7.8**	**2.6**	**5.8**	**6.6**	**6.2**
11a. p.m. 11 as % of GDP	*0.7*	*0.9*	*4.8*	*1.5*	*3.4*	*3.7*	*3.3*

Table A6: Fiscal accounts

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				% of GDP					
Indirect taxes	12.4	11.3	11.5	11.1	11.0	11.0	11.1	11.1	10.9
Direct taxes	11.5	10.8	10.7	12.1	12.8	13.1	13.6	13.9	13.9
Social contributions	6.8	7.4	7.3	6.4	5.8	5.9	5.8	5.6	5.5
Sales	2.3	2.8	3.3	3.2	3.0	2.6	2.3	2.2	2.1
Other current revenue	1.3	1.3	1.4	1.3	1.4	1.7	1.4	1.4	1.2
Total current revenue	**34.5**	**33.7**	**34.2**	**34.2**	**34.0**	**34.1**	**34.3**	**34.3**	**33.7**
Capital transfers received	1.2	1.0	1.0	0.7	0.6	0.6	0.6	0.3	0.3
Total revenue	**35.7**	**34.7**	**35.2**	**34.9**	**34.6**	**34.7**	**34.9**	**34.6**	**34.0**
Compensation of employees	11.9	12.8	12.3	12.0	11.5	11.1	10.6	10.1	9.7
Intermediate consumption	5.8	6.4	6.0	5.6	5.2	4.8	4.4	4.0	3.9
Social transfers in kind via market producers	2.2	2.3	2.5	2.4	2.5	2.3	2.1	2.0	1.9
Social transfers other than in kind	12.3	15.2	15.5	15.7	15.0	14.3	13.5	12.6	12.4
Interest paid	1.3	2.0	3.2	3.3	3.7	4.9	4.9	4.9	4.9
Subsidies	0.5	0.6	0.6	0.4	0.4	0.4	0.4	0.4	0.3
Other current expenditure	1.9	1.9	1.6	1.5	1.4	1.3	1.3	1.3	1.2
Total current expenditure	**35.9**	**41.3**	**41.6**	**40.9**	**39.8**	**39.1**	**37.1**	**35.2**	**34.3**
Gross fixed capital formation	5.3	3.8	3.5	2.5	2.0	1.7	1.6	1.5	1.5
Other capital expenditure	1.9	3.5	20.9	4.8	0.4	1.4	0.5	0.1	0.1
Total expenditure	**43.1**	**48.6**	**66.1**	**48.2**	**42.2**	**42.2**	**39.2**	**36.9**	**35.9**
General Government balance	**-7.4**	**-13.9**	**-30.8**	**-13.4**	**-7.6**	**-7.5**	**-4.4**	**-2.3**	**-1.9**
Underlying Government balance (EDP)	**-7.4**	**-11.4**	**-10.7**	**-9.1**	**-7.6**	**-7.5**	**-4.4**	**-2.3**	**-1.9**
				EUR billion					
Indirect taxes	22.2	18.3	17.9	17.7	18.0	18.4	19.3	20.1	20.7
Direct taxes	20.7	17.4	16.7	19.2	20.9	21.9	23.5	25.2	26.3
Social contributions	12.2	12.0	11.5	10.3	9.5	9.8	10.1	10.2	10.3
Sales	4.2	4.5	5.2	5.1	4.9	4.3	4.1	4.0	4.0
Other current revenue	2.3	2.1	2.2	2.1	2.3	2.8	2.5	2.5	2.4
Total current revenue	**61.7**	**54.3**	**53.6**	**54.3**	**55.6**	**57.1**	**59.5**	**62.0**	**63.7**
Capital transfers received	2.2	1.7	1.6	1.1	1.0	1.0	1.0	0.6	0.6
Total revenue	**63.9**	**56.0**	**55.1**	**55.4**	**56.6**	**58.1**	**60.5**	**62.6**	**64.3**
Compensation of employees	21.2	20.7	19.3	19.1	18.8	18.6	18.3	18.3	18.3
Intermediate consumption	10.4	10.4	9.3	8.9	8.6	8.0	7.6	7.3	7.3
Social transfers in kind via market producers	3.9	3.8	3.9	3.8	4.1	3.9	3.7	3.5	3.6
Social transfers other than in kind	22.0	24.6	24.3	25.0	24.6	23.9	23.3	22.8	23.4
Interest paid	2.4	3.3	5.0	5.3	6.1	8.2	8.5	8.9	9.3
Subsidies	0.9	0.9	0.9	0.6	0.6	0.6	0.6	0.6	0.6
Other current expenditure	3.4	3.1	2.4	2.3	2.3	2.2	2.2	2.3	2.3
Total current expenditure	**64.2**	**66.7**	**65.1**	**65.1**	**65.0**	**65.5**	**64.4**	**63.7**	**64.9**
Gross fixed capital formation	9.5	6.1	5.5	4.0	3.3	2.8	2.8	2.8	2.8
Other capital expenditure	3.3	5.6	32.8	7.6	0.7	2.3	0.9	0.2	0.2
Total expenditure	**77.0**	**78.4**	**103.4**	**76.7**	**69.1**	**70.7**	**68.0**	**66.7**	**67.9**
General Government balance	**-13.2**	**-22.4**	**-48.3**	**-21.3**	**-12.5**	**-12.6**	**-7.5**	**-4.1**	**-3.6**
Deficit-increasing financial sector measures		4.0	31.6	6.8	0.0	0.0	0.0	0.0	0.0
Underlying Government balance (EDP)	**-13.2**	**-18.4**	**-16.7**	**-14.4**	**-12.5**	**-12.6**	**-7.5**	**-4.1**	**-3.6**

Table A7: Debt developments

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Government deficit (% of GDP)	**-7.4**	**-13.9**	**-30.8**	**-13.4**	**-7.6**	**-7.5**	**-4.4**	**-2.3**	**-1.9**
Government gross debt (% of GDP)	44.5	64.8	92.1	106.4	117.6	123.6	120.2	116.2	112.2
				levels, EUR billion					
Government deficit	**-13.2**	**-22.4**	**-48.3**	**-21.3**	**-12.5**	**-12.6**	**-7.5**	**-4.1**	**-3.6**
Gross debt	79.6	104.5	144.2	169.2	192.5	207.0	208.3	210.1	212.1
Change in gross debt	32.3	24.9	39.6	25.1	23.2	14.5	1.3	1.8	2.0
Nominal GDP	178.9	161.3	156.5	159.0	163.6	167.5	173.4	180.9	189.1
Real GDP	177.4	167.7	166.4	168.8	170.4	172.2	176.0	180.6	185.7
Real GDP growth (% change)	**-2.1**	**-5.5**	**-0.8**	**1.4**	**0.9**	**1.1**	**2.2**	**2.7**	**2.8**
Change in gross debt (% of GDP)	18.0	15.5	25.3	15.8	14.2	8.7	0.8	1.0	1.1
Stock-flow adjustments (% of GDP)	10.7	1.6	-5.5	2.4	6.6	1.2	-3.6	-1.3	-0.9
				% of GDP					
Gross debt ratio	**44.5**	**64.8**	**92.1**	**106.4**	**117.6**	**123.6**	**120.2**	**116.2**	**112.2**
Change in gross debt ratio	19.4	20.3	27.3	14.3	11.2	5.9	-3.4	-4.0	-4.0
				Contribution to change in gross debt					
Primary deficit	6.0	11.8	27.7	10.0	3.9	2.6	-0.5	-2.7	-3.0
"Snow-ball" effect	2.7	7.0	5.2	1.9	0.8	2.2	0.7	0.0	0.0
of which									
Interest expenditure	*1.3*	*2.0*	*3.2*	*3.3*	*3.7*	*4.9*	*4.9*	*4.9*	*4.9*
Real growth effect	*0.6*	*2.7*	*0.5*	*-1.3*	*-1.0*	*-1.2*	*-2.6*	*-3.1*	*-3.1*
Inflation effect	*0.8*	*2.3*	*1.5*	*-0.2*	*-2.0*	*-1.5*	*-1.5*	*-1.9*	*-1.8*
Stock-flow adjustments	**10.7**	**1.6**	**-5.5**	**2.4**	**6.6**	**1.2**	**-3.6**	**-1.3**	**-0.9**
Implicit interest rate	*5.1*	*4.1*	*4.8*	*3.7*	*3.6*	*4.3*	*4.1*	*4.3*	*4.4*

Notes:
The projections assume no use of precautionary contingencies foreseen in the programme's financing plan. Stock-flow adjustments include an assumed reduction in liquid assets by some 3% of GDP by 2015 and other smaller financial transactions.

Annex 4: Updated programme documents

Letter of Intent

An Roinn Airgeadais
Department of Finance

Dublin, 3 June 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
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Mr. Olli Rehn
Vice-President of the European Commission responsible for Economic and Monetary Affairs and the euro
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Mr. Uwe Corsepius
Secretary-General
General Secretariat of the Council of the European Union
Rue de la Loi 175
1048 Brussels
Belgium

Dear Messrs. Draghi, Dijsselbloem, Corsepius and Rehn,

1. We remain determined to leave the crisis behind, ensure that the emerging recovery gathers pace, and meaningfully reduce our high unemployment rate. The Government's focus is firmly on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. We believe that the Irish Government's performance in terms of commitment to the programme

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Ireland

remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

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

3. We continue to move towards the goal of fully regaining durable and sustainable market access during 2013. The continuation of regular Treasury Bill auctions which recommenced in July 2012, and our bond issues to date are positive steps in this direction. The issue, in January 2013 of an existing 5-year bond in an amount of €2.5 billion at a yield of 3.32%, and the issue in March 2013 of a new 10-year bond at yield of 4.15%, demonstrate that we have re-connected with a diversified investor base across many key

geographic areas and, importantly, with real money investors. The NTMA has also engaged with the market in relation to a return to regular bond auctions during 2013 subject to market conditions, with the specific details to be announced at a later date.

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

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

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

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

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

Sincerely,

Michael Noonan, T.D.
Minister for Finance

Patrick Honohan
Governor of the Central Bank of Ireland

Ireland
Memorandum of Understanding
On
Specific Economic Policy Conditionality
(Ninth Update)
3 June 2013

DRAFT

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 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

[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.

debt reduction. Moreover, the nominal value of Social Welfare pensions will not be increased.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial sector reforms

Capital assessment

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

Deleveraging

6. The authorities, in consultation with the staff of the European Commission, the IMF, and the ECB, will assess banks' deleveraging based on the existing nominal targets for disposal and run-off of non-core assets in line with the 2011 Financial Measures

Programme. Fire sales of assets will be avoided, as will any excessive deleveraging of core portfolios, so as not to impair the flow of credit to the domestic economy.

Funding and liquidity monitoring

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

Asset quality

8. In consultation with staff of the EC, ECB, and IMF, the authorities will update, where necessary, by end-May 2013 the 2011 Impairment Provisioning and Disclosure Guidelines specifying the criteria to observe for exposures returning from non-performing to performing restructured status, acceptable methods for provisioning loans under temporary forbearance as well as to calculate cure rates used for collective provisioning purposes. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks.
9. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their 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.
10. The authorities will publish banks' reported data on mortgage loan modifications, including re-defaults of modified loans, to permit analysis of the effectiveness of alternative resolution approaches in improving debt service performance.
11. The authorities will propose a public target requiring the principal mortgage banks to complete durable restructuring arrangements on a substantial share of problem mortgage loans during 2013.
12. The authorities will issue guidance to the credit institutions on the definition of a sustainable restructuring arrangement by end-June.
13. The authorities will establish individual bank targets requiring them to complete a substantial share of durable restructuring arrangements for SME loans in arrears in 2013.
14. As a stock-taking of progress in addressing mortgage arrears, the authorities will prepare a comprehensive review by end-June. The review will assess the effectiveness of the banks' mortgage restructuring and resolution actions based on available experience, having regard to the broader policy framework and based on its findings consider any necessary adjustments.
15. While ensuring that balanced incentives and debtors' sustainability are maintained, the authorities will prepare amendments to the Code of Conduct on Mortgage Arrears (CCMA) focused on: (i) replacing the current restrictions on the number of unsolicited contacts with contact policies set out by lenders and approved by the boards of those

lenders; (ii) amending the definition of a non-cooperative borrower such that key protections extend only to borrowers that engage constructively with lenders within a specified time period in a manner that is consistent with addressing their arrears. In addition the authorities are considering amendments to permitting modifications of the interest rate setting mechanism where the lender has offered an alternative arrangement which is advantageous to the borrower in the long term.

Profitability

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

Financial supervision

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

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

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

Structural reforms

Expenditure ceilings

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

State assets

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

Labour market reform

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

23. The authorities will prepare an action plan aimed at increasing the effectiveness of training and activation supports, building on the recommendations of the DSP Review of Employment Support Schemes and the evaluation of JobBridge by end-April 2013. The authorities will also review the progress in the rolling out of Intreo offices and

define measures to address potential shortcomings. The authorities are actively considering the potential for private sector involvement in providing employment services to the long-term unemployed with a view to a decision by end-June 2013.

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

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

Water services reform

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

Health sector

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

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

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

Financial sector reforms

Capital assessment

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

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

Deleveraging

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

Funding and liquidity monitoring

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

Profitability

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

Asset quality

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

35. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their 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.

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

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

Financial Supervision

38. The authorities will present a comprehensive report on progress in implementing the Central Bank of Ireland's action plan for strengthening supervision of credit institutions and discuss it together with the staff of the European Commission, the IMF, and the ECB.
39. The authorities will report on banks' progress with the implementation of their strategies to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios.
40. Upon publication of the EU directive establishing a framework for the recovery and resolution of credit institutions and investment firms, the authorities will review the Resolution fund levy regulation.

Structural reforms

Access to SME credit

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

Water services reform

42. The Government will publish, as early as possible in Q3 2013, a Water Services Bill with the aim of defining the regulatory framework for the water sector under a national public utility setting and providing for the establishment of Irish Water in its final form. There will be prior engagement with the European Commission as appropriate, in developing the legislative arrangements.
43. The authorities will communicate the funding model for Irish Water, including an outline of the expected levels of State support until such time as it is substantially self-funded.

Further education and training

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

Health

45. The authorities will set high level annual targets for increasing the share of generic drug usage in the medium-term. Enabling measures – such as compulsory prescription by International non-propriety name (INN) by end-October 2013, where appropriate –

required for the achievement of these targets will be put in place and kept under further review.

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

Financial sector reforms

Capital Assessment

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

Deleveraging

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

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

Asset quality

49. The authorities will provide staff of the European Commission, the IMF, and the ECB with their assessment of banks' performance with the work-out of their 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.

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

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

Financial Supervision

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

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

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

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

Structural reforms

Labour market reform

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

Water services reform

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

Health

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

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

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

Legal services reform

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

Annex 1. Provision of data

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

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

A. Recent Economic and Financial Developments and Outlook

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

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

B. Financial Sector Policies

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

actively pursue sustainable solutions, and to remove impediments from their path, to ensure a demonstrable improvement in credit quality during 2013.

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

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

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

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

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

9. **The CBI will ensure that the banks continue to observe sound practices for identification of impairment and determining provisioning needs.** As specified in the MEFP for the 9th review, by end May the CBI will update, where necessary, the 2011 Impairment Provisioning and Disclosure Guidelines. This update will specify the criteria to observe for exposures returning from non-performing to performing restructured status, acceptable methods for provisioning loans under temporary forbearance as well as to calculate cure rates used for collective provisioning purposes. This review will take account of the assessment of the application of the current guidelines and existing provisioning methodologies and assumptions employed by the banks.

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

11. **We are advancing our preparatory work on a number of fronts in the interim.** Taking into account progress in developing the relevant SSM methodology and in consultation with the staff of the EC, ECB, and IMF, we will complete a preliminary balance sheet assessment of the PCAR banks by end October (proposed structural benchmark) incorporating the results of: (i) an assessment of quantitative impairment provisions and a review of risk classification, i.e., an asset quality review on an incurred loss basis, and (ii) a review of the appropriateness of risk weights for regulatory capital purposes. The asset quality review will be based on the CBI's Impairment Provisioning and Disclosure Guidelines as updated at end May. Other methodological aspects—such as the appropriate sample size and selection for loan reviews and involvement of third parties independent of the banks—are to be agreed by end-July 2013 and the test parameters for benchmarking provisioning by end-September 2013. This balance sheet assessment will be finalised by end-November 2013. In addition, we will conduct a forward-looking analysis of operating profits for each of the PCAR banks to end 2015, including sensitivity analysis to funding costs, by end September (proposed structural benchmark). In parallel, we will report in June and

September 2013 on the exploration of options to lower the funding cost of banks' tracker mortgage portfolios, and assess banks' fee income relative to peers in selected other jurisdictions, with a view to completing an external review of our regulation of bank fees by end December. We will also analyze current eligible regulatory capital under Basel III/CRD IV by end October. All of these work streams will inform the banks' business and financial plans going forward, and we will report to the staff of the EC, ECB, and IMF progress with the implementation of specific mitigating actions communicated to banks.

C. Fiscal Policies

12. **We are committed to achieve the 7.5 percent of GDP deficit target for 2013.** The finance and social welfare bills implementing many of the Budget 2013 measures have been enacted. Property tax notifications have been issued and filings are due by end-May. A new bill has been published to promote competition to lower drug costs and we are preparing legislation to charge private patients in public hospital beds. Budget implementation is on track in the first quarter and we will maintain a careful and proactive budget management to contain spending within allocations. We are pressing ahead with work place reform to drive up efficiency in public service delivery. We also reaffirm our commitment to a durable reduction in public service pay and pensions, including through additional saving measures of €300 million in 2013 and €1 billion by 2015, if possible on a negotiated basis.

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

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

steps will largely complete our Medium Term Budgetary Framework in line with EU requirements.

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

D. Structural Reforms

16. **We will continue to implement measures to improve the environment for job creation including through the 2013 Action Plan for Jobs and new capital projects.** The reforms outlined in the 2013 Action Plan for Jobs will support private sector firms where Ireland has a competitive advantage including data processing, ICT, and healthcare technologies and products. We will create a single licensing application system for the retail sector to further reduce administrative burdens; and will encourage an increase in the number of SMEs trading on-line. We will also improve energy efficiency. We will conduct an evaluation of the employment impact of the 2012 and 2013 Action Plan for Jobs to inform our policy choices for the Action Plan in 2014. As part of our approach to economic stimulus and supporting job creation, we are advancing a range of capital projects in key public infrastructure areas including roads and schools. The implementation of state asset disposal plans for the energy sector is advancing, with the view of obtaining proceeds this year. We will use at least half of the resulting proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed. The remaining proceeds will be invested in job-rich projects of a commercial nature, consistent with our fiscal targets.

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

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

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

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

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

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

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

E. Programme Financing and Monitoring

19. **The programme remains adequately financed and we continue to plan to maintain a healthy cash buffer.** Over recent months we have made substantial progress in further deepening our market access, as demonstrated by our successful issue of a new 10-year benchmark bond. This brought the total long-term issuance for the year to date to around three quarters of the working plan of €10 billion. The remaining issuance could be fulfilled through bond auctions subject to market conditions. Incorporating the 7 year extension in EFSM/EFSF maximum average maturities agreed on April 12 by EU Finance Ministers into our medium-term financing plan will help smooth financing peaks in coming years. As part of our prudent return to the markets we expect to conclude 2013 with a cash buffer covering 12-15 months of future funding needs.

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

Ireland: Technical Memorandum of Understanding (TMU)

June 3, 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

[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.

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

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

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

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

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

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

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

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

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

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

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

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

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

7. The performance criterion on the Exchequer primary balance (floor) will be adjusted upward (downward) for the full amount of any over-performance (under-performance) in Exchequer tax revenues, pay-related social insurance contributions (PRSI) and national training fund contributions against the current projection which is listed below:[3]

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

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

Ceiling on the Stock of Central Government Net Debt

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

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

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

[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.

recapitalisation; and purchases of troubled assets, which are carried out in line with programme objectives,

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

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

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

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

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

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

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

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

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

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

Non-accumulation of External Payments Arrears by Central Government

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

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

II. REPORTING REQUIREMENTS

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

- The Department of Finance will report to the EC, IMF and ECB staff, with a lag of no more than seven days after the test date the following data: the Exchequer primary balance, Exchequer tax revenues, payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy, proceeds from sales of bank equity held by the government or NPRF that are treated as Exchequer receipts, receipts from disposals of state assets specified in the paragraph 21 of the MEFP dated 29 November 2012 and associated outlays on growth-enhancing projects not included in Budget 2013, Exchequer outlays for the resolution and restructuring of credit unions, any return of such outlays to the Exchequer and also for the recoupment of such outlays by the Exchequer from the Resolution Fund and the Restructuring and Stabilisation Fund.
- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt, including an unaudited analysis of NPRF holdings, with a lag of no more than seven days after the test date. The revised figures will be provided within three months of the test date.
- The National Treasury Management Agency will provide the final stock of the central government system external payments arrears to the EC, IMF and ECB staffs, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

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

Table 1. Programme Monitoring

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

Table 1. Programme Monitoring (concluded)

Measure	Date	Status
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
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
Establish a public target requiring the principal mortgage banks to offer a substantial share of restructuring arrangements during 2013	End-March 2013	Observed

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

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

3/ Effective end-October 2011 and posted on November 8, 2011.

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

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

1/ Adjusted.

2/ Measured by the exchequer balance excluding interest payments. Cumulative from the start of the relevant calendar year.

3/ Applies on a continuous basis.

Table 3. Structural Benchmarks Under the Programme

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