European Commission

ISSN 1725-3209

EUROPEAN ECONOMY

Occasional Papers 162 | October 2013

Economic Adjustment Programme for Ireland
Summer 2013 Review

Economic and Financial Affairs

Occasional Papers are written by the Staff of the Directorate-General for Economic and Financial Affairs, or by experts working in association with them. The Papers are intended to increase awareness of the technical work being done by staff and cover a wide spectrum of subjects. Views expressed in unofficial documents do not necessarily reflect the official views of the European Commission. Comments and enquiries should be addressed to:

European Commission
Directorate-General for Economic and Financial Affairs
Unit Communication
B-1049 Brussels
Belgium
E-mail: Ecfin-Info@ec.europa.eu

This paper exists in English only and can be downloaded from http://ec.europa.eu/economy_finance/publications/.

More information on the European Union is available on http://europa.eu.

KC-AH-13-162-EN-N
ISBN 978-92-79-31385-1
doi: 10.2765/15004

European Commission
Directorate-General for Economic and Financial Affairs

Economic Adjustment Programme for Ireland

Summer 2013 Review

EUROPEAN ECONOMY Occasional Papers 162

ACKNOWLEDGEMENTS

The report was prepared in the Directorate General for Economic and Financial Affairs under the direction of István P. Székely, Director and European Commission mission chief to Ireland, and Martin Larch, Head of Unit for Ireland, Poland and Lithuania. The report reflects information available as of 31 August, 2013.

Contributors:

Davide Lombardo, Quentin Dupriez, Martin Larch, Kristin Magnusson, Danila Malvolti, Jānis Malzubris, Joao Mederios, Marie Mulvihill, Nigel Nagarajan, Wolfgang Pointner, Etienne Sail, Victor Savin, Graham Stull, Stephanie Medina Cas, and Jacek Szelożyński. Input and comments from Servaas Deroose (GE ECFIN), Uwe Boewer (DG ECFIN), Ioana Diaconescu (DG ECFIN), Brigitte Brockmoeller (DG EMPL), Dirk Van Den Steen (DG SANCO), and the financial crisis task force of the Directorate General for Competition are gratefully acknowledged.

Comments on the report would be gratefully received and should be sent, by mail or e-mail to:

Martin Larch

European Commission

Head of Unit responsible for Ireland, Lithuania and Poland

CHAR 14/174

B-1049 Brussels

E-mail: martin.larch@ec.europa.eu

CONTENTS

LIST OF TABLES

LIST OF GRAPHS

LIST OF BOXES

EXECUTIVE SUMMARY

Under the EU/IMF-supported economic adjustment programme, Ireland continues to make good progress towards addressing the crisis legacy of high indebtedness in public and private balance sheets. A number of developments, including European decisions to extend loan maturities, have further reduced market financing needs in the coming years. This, together with confidence in the Irish authorities' commitment to programme reforms, has supported improved funding conditions for both the Irish sovereign and the banks. Programme implementation remains strong overall: all milestones for 2013 Q2 were met, with the exception of the publication of an e-Health strategy (which is delayed to the third quarter), and some outstanding issues in relation to the medium-term budgetary framework.

Steadfast programme implementation has been rewarded by an impressive turnaround in investor sentiment. The decline in Irish government bond yields since their peak in mid-2011 has been remarkable. Yet, challenges and risks remain on the road to full recovery and sustained growth including a still large government deficit and debt-to-GDP ratio, high unemployment, and banks' growing non-performing loans. As the end of the programme is in sight, Ireland needs to sustain regained market confidence by a steadfast implementation under the programme and by continuing on the path of reform and fiscal consolidation. Discussions on programme exit continue. The authorities have indicated that they are assessing all options.

A gradual recovery for the second half of this year is expected, although the national accounts release of the first quarter 2013 was lower than projected, which has implications for the forecast of annual GDP growth rate in 2013. Near-term real GDP growth forecasts were revised down accordingly. Key factors underlying the changes are the negative statistical carry-over and a reassessment of the buoyancy of exports, which now appear to be more closely linked to foreign demand, the near-term forecast of which has been lowered since the time of the last review. However, more recent high-frequency data are more positive both in Ireland and abroad, and appear to support the expectation of a measured recovery during the second half of the year.

The Commission's revised preliminary 2013 deficit forecast is 7.6% of GDP, just slightly above the programme ceiling of 7.5% of GDP showing the need for careful budget execution. This reflects mostly the effect of lower economic growth and related downward reassessment of tax revenue. Other deficit-increasing risks bear close monitoring, including potential overruns in the health budget in the second half of 2013 due to delayed implementation of certain budgetary measures. The authorities have reiterated their commitment to manage budget execution proactively so as to ensure that overall expenditure will remain within the budget ceilings, including by offsetting any overruns with savings elsewhere. The introduction of the new property tax represents key progress towards a broader and more stable tax base, and proved smoother than had been the case with its precursor (the household charge) last year.

The 2014 Budget will be key to secure durable and fair consolidation and put the debt ratio on a downward path. During the July 2013 review mission, the authorities were not yet in a position to discuss their precise intentions as regards the 2014 Budget. The troika reiterated that, in order to underpin the recent improved market confidence, it is essential that the 2014 Budget is in line with the requirements of the EU "two-pack" regulation and be fully consistent with the 2010 EDP Council recommendation. In particular, the recommended structural consolidation effort should be maintained and interest savings should be used to accelerate debt reduction. The authorities have reiterated their commitment to meeting the targets in line with Council recommendation under the EDP. The 2014 Budget should also set out the main contours of structural reforms in key spending areas that could underpin savings while safeguarding access to key services and protecting the most vulnerable.

Progress was made with the recently agreed 2013 bank diagnostic exercise and with fine-tuning the target-based approach of the Central Bank of Ireland (CBI) to deal with mortgage arrears:

- *Assessment of banks' balance sheets:* progress has been made regarding methodological aspects of this all-important exercise. The Central Bank of Ireland will be assisted in the execution of the exercise by independent third parties, who will also independently validate the exercise.

- *Targets for the completion of sustainable mortgage solutions*: given the delay in dealing decisively with mortgage arrears there is a need for targets to ensure that banks deal with their arrears in a timely fashion and so devote themselves to new credit extension in support of the recovery. It is important that a balance is achieved whereby the targets are appropriately ambitious but do not result in the banks unduly relying on the legal route as a way to reach them. Moreover, the court system might not be adequately prepared and resourced to deal with the resulting acceleration in legal cases.

- *Repossession procedures:* Legislation removing the unintended legal impediments to repossession (from the so-called Dunne judgment) was enacted at the end of July 2013. A review of the effectiveness, length, predictability and costs of repossession procedures is to be conducted by end-year by an expert group, based on terms of reference agreed with the troika.

- *"Tracker" mortgages:* the authorities continue to explore feasible options to lower the drag on banks' profits from "tracker" mortgages.

Structural reforms continue to advance, though sometimes at a measured pace. The authorities had identified the outsourcing of employment services as an option for addressing capacity constraints in mid-2011. However, it will likely be another year until private providers are in operation. In the meantime, some progress is being made in increasing the number of case-workers within the Department of Social Protection, even though the totals are still small. Two key laws to reform the further education and training (FET) system have been enacted in the past quarter. The reshaping of FET institutions and programmes to improve the skills of the unemployed remains to be completed. Collective labour bargaining mechanisms (and the related statute) need to be re-considered as a result of Court rulings and will need additional legal reform to be re-established. The sale of Bord Gaís Energy and two assets of the Electricity Supply Board should be completed by year-end. Progress with water reforms are on track, with the installation of meters having commenced in August and good progress in drafting the Water Services Bill. Some, albeit slow, progress has also been done in moving the Legal Services Regulation Bill closer to enactment. In the healthcare sector, key measures are being taken to reduce the cost to the state of pharmaceuticals. If complemented by wider reforms underpinned by a timely and well-executed e-Health strategy, these could help achieve much needed value-for-money improvements in health spending. This should help to mitigate against medium-term budgetary risks arising from demographics trends.

A successful completion of the 11th review triggers a disbursement of EUR 2.3 bn from the EFSF. The IMF will disburse EUR 0.8 bn and Sweden and Denmark will disburse a combined EUR 0.25 bn in the context of their bilateral loans to Ireland. This will bring the total amount authorised for disbursement under the programme to 97.9% of the overall international assistance of EUR 67.5 bn. On top of the loans from international lenders, the overall programme envelope also includes EUR 17.5 bn of programme funds provided by the Irish authorities. At the end of the second quarter of 2013 the cash balances of the sovereign amounted to EUR 25.7 bn, compared to EUR 12.3 bn at the end of 2010 when the adjustment programme was launched.

INTRODUCTION

A joint European Commission (EC)/European Central Bank (ECB)/International Monetary Fund (IMF) (henceforth, the "troika") mission visited Dublin during July 9-18 2013 for the 11th review of Ireland's EU/IMF-supported economic adjustment programme. Compliance with the programme milestones set for the second quarter of 2013 remained strong overall though with a few 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), and the government funding situation (section 4) ([1]). 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.

([1]) This report reflects information available as of 31 August 2013.

1. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1.1. MACRO-FISCAL AND FINANCIAL DEVELOPMENTS

The first national accounts estimates for Q1 2013 suggest that the economic recovery in Ireland has been more fragile than previously thought, while Q2 data were not available at the time of writing the report. Real GDP is currently estimated to have shrunk by 0.9 % y-o-y in the first quarter, against consensus expectations of positive growth of 0.3-0.5% y-o-y. Growth rates of all expenditure components of GDP fell on annual terms, which especially for private consumption is challenging to square with more positive high frequency data as discussed further below. The large fall of investment (-19.6%) was skewed by the timing of aircraft purchases (investment excluding this category grew by 6.3%). Nominal GDP declined by 2.2% on the year as the terms-of-trade, which has recently supported nominal output measures, turned negative. The diverging developments between GDP and GNP, which measures the income accruing to households and firms resident in Ireland, continued through the first quarter, with the latter measure growing by 6.1%, although the issue of re-domiciled firms outlined in previous reports complicate the assessment ([2]). Large historical revisions to annual national accounts data have also been released, as discussed further in Box 1.

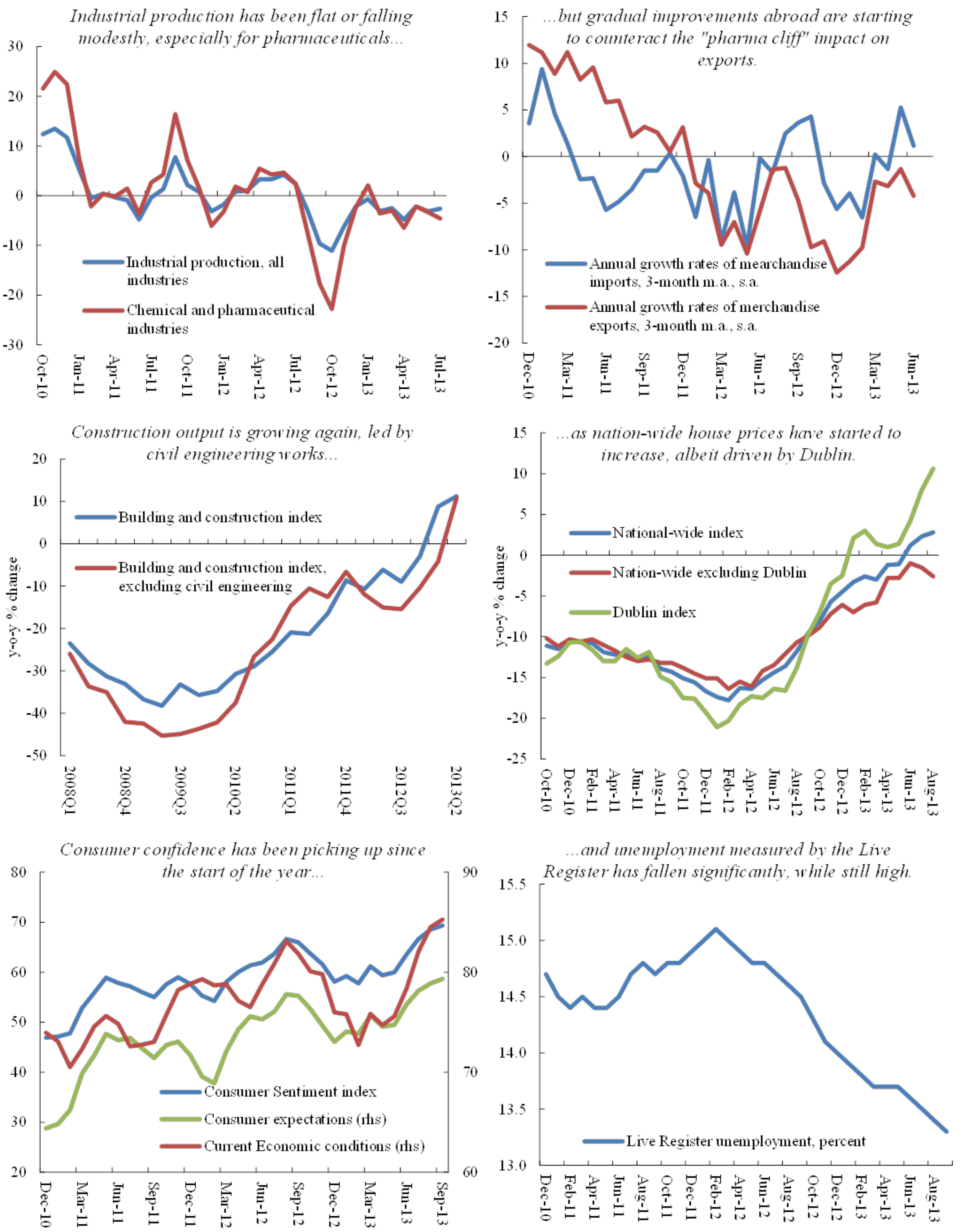
The *"pharma cliff"* and weak trading partner demand have taken a toll on exports, although the latest external indicators have been more supportive. The volume of merchandise exports (which predominantly consist of pharmaceutical goods) fell by 6.8% during the first six months of the year compared to the same period in 2012, with a fall in the volume of merchandise imports of 1.6% over the same period. Declines in exports growth rates were offset by even larger ones of the import category, and as a result the current account surplus surged to over 3% of GDP in the first quarter, compared to a deficit of 1.8% a year ago. The relatively weak export performance appears to be driven by external demand and structural factors such as expiring patents of pharmaceutical drugs as harmonized competitiveness indicators continue to compare very favourably to the pre-crisis years ([3]) and inflation pressures remain muted, with the latest reading of HICP inflation of 0.7% y-o-y in July compared to the euro area estimate of 1.6% y-o-y. Going forward, the impact of the return to positive annual economic growth in the euro area in the second quarter, the upwards revisions to US and UK growth rates for the same period, and the two-year high Purchasing Managers Index (PMI) for the euro area in August should eventually feed through to more robust export performance.

Recent high-frequency data point to a more resilient performance of the domestic economy through the second quarter of 2013. Q1 2013 marked the second consecutive quarter of positive growth q-o-q in the construction sector, though from a very low base, and house prices in Dublin continue to increase, suggesting that the drag on prices from the expiration of mortgage interest rate relief is petering out (house prices remain virtually flat in the rest of the country). The services index grew by about 2.5% during the first half of the year compared to the same period in 2012. The volume of retail sales was virtually unchanged through the first seven months of the year compared to the same period in 2012 (regardless of whether the motor trade category was excluded or not). The Live Register measure of standardised unemployment has resumed its steady downward trend after a period of stability in early 2013 and dropped to 13.5% in July. The quarterly national household survey (QNHS) confirmed this improved performance, with annual employment growth picking up speed to 1.8% in the second quarter, up by almost a full percentage point compared to the first quarter growth rate. The second quarter data also marked the first positive annual growth rate in five years for full time jobs and for the participation rate (as discouraged workers re-entered the labour force). At the same time, nominal wage growth was only 0.1% during the first half of 2013 compared to the same period the previous year, meaning that real wage growth has been negative since the last quarter of 2009. Consumer confidence has however continued to improve, with the three-month moving average in August reaching levels last seen during

([2]) See discussion in the Commission Services' Compliance Report for the 10th review building on the work available at http://www.esri.ie/UserFiles/publications/RN20130102.pdf

([3]) Appreciation of the euro vis-à-vis the GBP might however have adverse effects on Irish exports to the UK.

Graph 1.1: **Recent economic indicators**



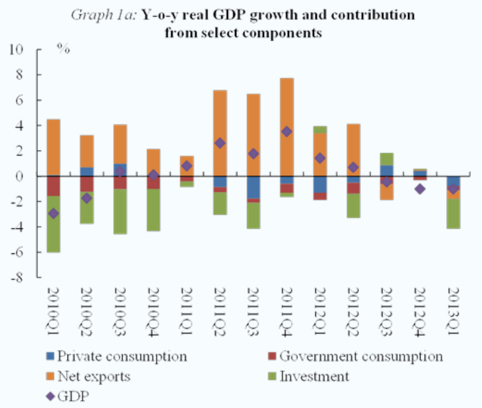
Source: CSO

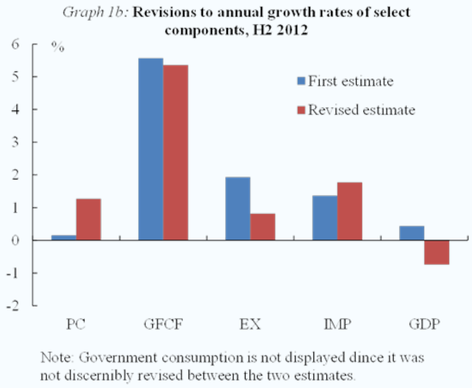
the autumn of 2007. The most recent survey indicators such as manufacturing and services PMIs also suggest that a relatively modest expansion can be expected going forward.

Box 1.1: Revisions to national accounts data in Ireland

On 27 June the Irish statistical agency released a first estimate of national accounts data for the first quarter of 2013, as well as revised historical series for the past decade. The latter incorporates the effects of the census and corporate tax returns in 2011. Revisions to the third and fourth quarter of 2012 and contracting GDP in the first quarter of 2013 imply that Ireland has been in a technical recession since the second half of last year. The negative growth carry-over after Q1 2013 is estimated at -1% ([1]). As seen from the graphs below, net exports also no longer provide the growth impetus earlier estimates suggested, as initial underestimation of the export deflator for services led to subsequent downward corrections of the real growth rates of exports.

Graph 1: **National Accounts Data**





Source: CSO

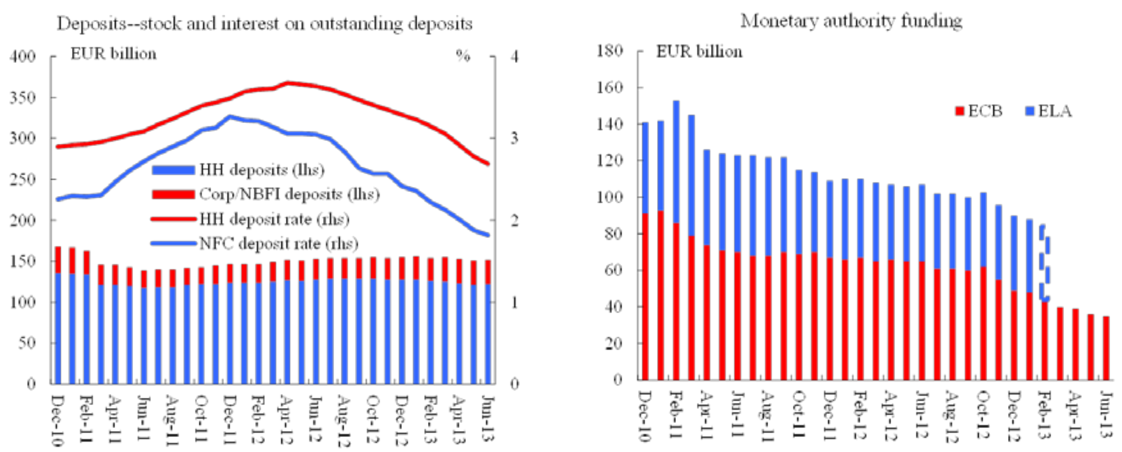
Annual revised series show that the 2008-09 recession was deeper than previously thought and the initial recovery phase stronger. The 2011 GDP growth rate was revised up by 0.6 percentage points to 2.2%. The 2012 GDP growth rate was revised down from 0.9% to 0.2% on the back of the lower estimates of export growth outlined above, suggesting that the problems in sustaining a recovery in the face of adverse trading partner demand has proven more challenging than previously thought. Private consumption was however revised up significantly from 2005 to 2011 as incorporation of the census results revealed an incremental increase in the number of Irish households, resulting in a higher contribution from imputed rents. The most recent estimates of nominal GDP also point to higher levels during the last years (implying that key fiscal and debt ratios in 2012 are marginally more favourable than suggested by the first estimates). The revisions to the annual national accounts were comparably large by Irish standards, which tend to be in line with peers ([2]).

([1]) The growth carry-over is constructed by first assuming that the level of real GDP obtained in the first quarter will remain constant during the remaining three ones of the year. The quarterly levels are summed up to arrive at an estimate for the level of annual real GDP, which is used to calculate the implied annual growth rate compared to the previous year (i.e. the carry-over).

([2]) http://www.esri.ie/UserFiles/publications/20081013171426/QEC2008_Aut_SA_Quill.pdf

The 2013 fiscal outturn so far has been broadly in line with plans, in part benefiting from positive timing factors. Local property tax payments came in earlier than expected, suggesting strong compliance (thus alleviating earlier concerns about the implementation of this new tax, based on last year's experience with its precursor, the household charge). Weaker-than-expected VAT revenue (0.1% of GDP below plans) due to softer domestic demand developments is compensated by stronger corporation tax revenue. Non-tax revenue to-date confirms the expectation of higher surplus payment from the CBI and Eligible Liabilities Guarantee (ELG) fee revenue. Current and capital spending was below plans (0.1% of GDP each), but this is largely a timing issue.

Graph 1.2: **Banks funding developments**



Deposits data covers BOI, AIB and PTSB. Deposit rates data covers all Irish resident banks and refers to deposits with agreed maturity up to 2 years. HH=household; NFC=non-financial corporates; NBFI=non-bank financial intermediaries.
Source: Central Bank of Ireland, Department of Finance

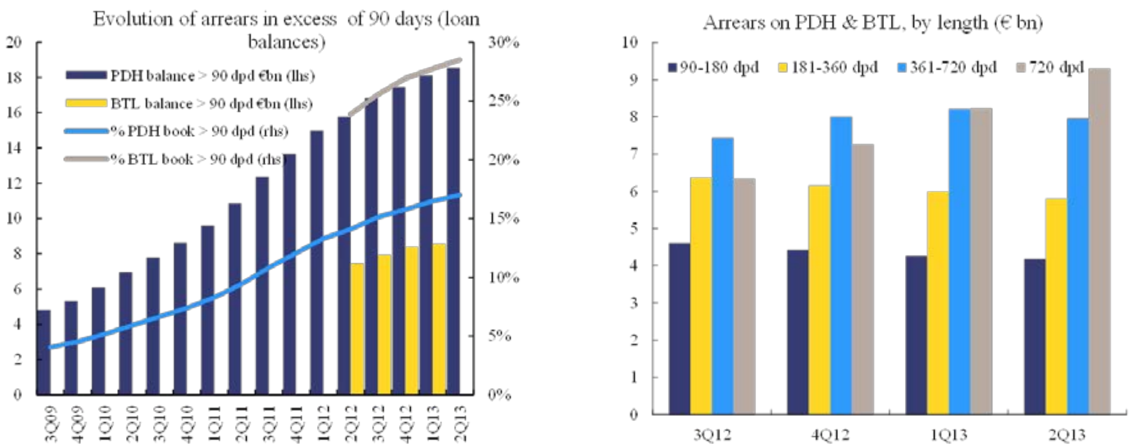
Banks continue to make progress towards a more sustainable funding position. Deposit volumes remained stable in July (at EUR 152 billion), in spite of the continued downward trend in interest rates (the rate on outstanding household term deposits stood at 2.69% at end-June 2013, compared with 2.78% at end-May 2013 and 3.64% at end- June 2012 (left panel in Graph 1.2). Funding by the Eurosystem to domestically-owned banks also continued to decline (year on year borrowing declined by EUR 27 billion in July and by more than EUR 59 billion relative to January 2011), and now represents approximately 4.2% of total Eurosystem funding, down from a peak of nearly 19% in early 2011. Total monetary authority funding to domestically-owned Irish banks fell to approximately EUR 34 billion at end July 2013 from a peak of EUR 156 billion in February 2011 (right panel in Graph 1.2).

Nonetheless, lending remains subdued and lending rates high. Credit advanced to households decreased by 4.4% year-on-year (y-o-y) in July 2013 and have contracted every consecutive month since November 2009, with lending for house purchase down 2.2% y-o-y ([4]). Furthermore, lending to SMEs and businesses continues to be quite constrained (left panel in Graph 1.4) with lending rates remaining higher than euro area average. In terms of new loans to non-financial corporations (NFCs) ([5]), at end June the rate stood at 2.48% compared to the euro area 12 month average of 2.28%. There has been considerable month-on-month volatility in lending rates which, according to the CBI, is due to the particularly low volumes of new lending currently being experienced for NFC loans (there was EUR 442 million new lending in June 2013 in this category compared to a peak of EUR 10.2 billion in March 2009).

([4]) Some positive signs are offered by the July 2013 Euro Area Bank Lending Survey, available here: http://www.centralbank.ie/mpolbo/mpolicy/Documents/Comment%20on%20Results%20July%202013.pdf. This shows that loan demand from households for house purchases increased during Q2 2013, for the fifth successive quarter. According to the survey the increase in mortgage demand was linked to more favourable housing market prospects and higher levels of consumer confidence. An increase in loan demand in respect of household lending is also expected during Q3 2013.

([5]) New NFC loans refers to loans above €1 million with floating rate and up to one year fixed

Graph 1.3: **Mortgage arrears**

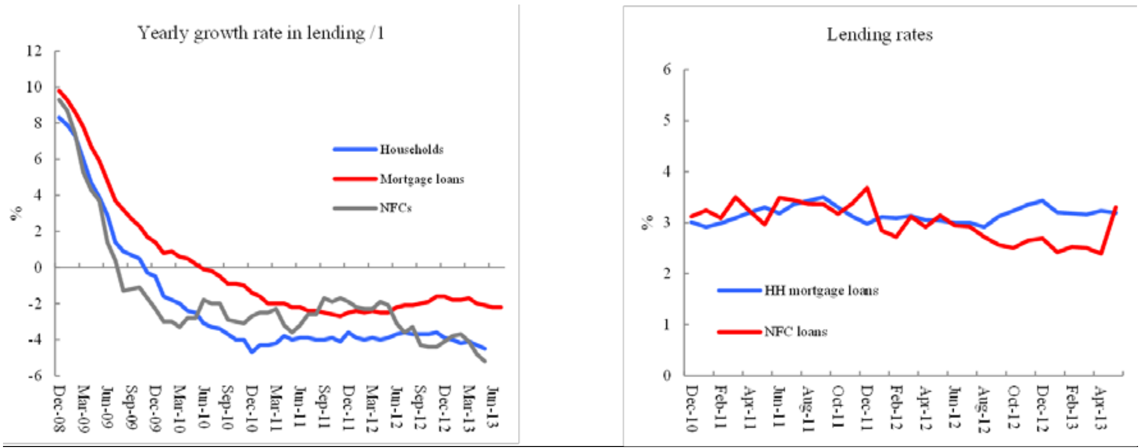


Source: Central Bank of Ireland

While the flow of new arrears continues to slow, the stock and the increased long-term nature of the arrears remain a concern (Graph 1.3). At the end of Q2 2013 there were over 128,000 primary dwelling house (PDH) and buy-to-let (BTL) mortgages in arrears for more than 90 days, representing almost 14% of the total number of mortgages and almost 20% of the outstanding loan balances. Of these, over 76,000 were in arrears for more than one year and almost 30% of accounts (over 39,000) were in arrears for more than two years, representing a quarter on quarter increase of 12.1%. Loan balances in arrears more than 360 days continue to rise, reaching 12.4% of the value of banks' aggregate mortgage book at end Q2 2013 (from 11.7% at end Q1 2013), for PDH and BTL or investment properties.

The majority of restructures in place continue to be of a short term nature. 337 split mortgages, 320 permanent interest rate reductions and 9 trade-down mortgages were in place at end of Q2 2013, whereas there were over 30,000 restructures on interest-only and over 5,700 on less than interest-only arrangements. The authorities have recently begun to provide the re-default rates for restructured loans: 76% of restructured PDH accounts were deemed to be meeting the terms of their arrangement. This means that the borrower is, at a minimum, meeting the agreed monthly repayments according to the restructure arrangement. However, as this covers both short-term and longer-term restructures, this is not a clear measure of the sustainability of arrangements in place.

Graph 1.4: **Banks' lending developments**



1/Data for households includes mortgage loans.
Source: Central Bank of Ireland

While considerable resources have been deployed developing sustainable solutions such as split mortgages, application of these remedies has been limited. According to CBI published data, there were 337 split mortgages at end Q2 2013. It is envisaged that split mortgage will be used as an effective treatment of arrears by cooperating borrowers where considerable restructuring and adjustment is required on both sides for the mortgage to return to sustainability. According to the banks there has been some additional activity in this area in recent months, with PTSB offering some 1,500 split mortgages to-date, of which roughly 1,000 have been accepted and AIB offering 1,600 split mortgages to-date. The official figures do not fully reflect these numbers as the significant majority of these offers are subject to the satisfactory establishment of a repayment record over a six month period. Upon satisfactory completion of this term the offer of the split mortgage is confirmed.

1.2. MACROEONOMIC OUTLOOK

The revised national accounts data have prompted a downgrade of growth forecasts. Real GDP is now expected to grow by 0.6% in 2013 and by 1.8% in 2014, compared with 1.1% and 2.2% at the time of the last review (Table 1.1). A pick-up in economic activity after the first quarter of 2013 is built into these projections, given the Q1 negative carry-over of -1%, and appears to be borne out by the recent high-frequency indicators in Ireland and abroad. The revised national accounts also point to a weaker recovery after the first stage of the crisis, which suggests less scope for a rebound effect going forward. Weaker HICP inflation and worsening terms-of-trade have been reflected in a more subdued outlook for the GDP deflator. Together with the downgrades of real GDP growth, the level of nominal GDP is therefore projected to be somewhat lower going forward than forecast in the previous review.

Growth is still forecast to become more broad-based towards the end of the projection period. Private consumption has been revised down slightly in 2013 on account of the weak performance during the first quarter, weak earnings data and headwinds from the strong performance during the second half of 2012 (on account of one-off effects such as house purchases brought forward to benefit from the expiring mortgage interest rate relief, and the digital switchover). Near-term investment projections have been increased somewhat as momentum in core investment (excluding aircrafts) appears slightly stronger than thought, although it continues to be dominated by the MNE sector. The recent data revisions have shown that Irish exports, including services, are more attuned to trading partner demand than previously thought.

Effects of downwards revisions to trading partner demand in the near term ([6]), and more support from trading partner demand in the outer years, have therefore been incorporated more explicitly in the projections. The so-called "pharma cliff" also appears to have somewhat stronger effects than earlier thought, which is especially thought to impact projections in 2013-2014.

There is substantial uncertainty around the baseline scenario. Current export projections rest on an assumption that the nascent recovery in trading partner demand will become more solid, and will be hard to attain if the latter disappoints. The effects of the "pharma cliff" are also expected to gradually peter out, and some new patented pharmaceuticals to come on stream, but the exact magnitude of these effects are still unknown. Risks to domestic demand projections largely remain as in previous Commission Services' reports, i.e. credit constraints curtailing SME investment ([7]) and hiring and relatively rapid household deleveraging amid diverging cohort effects on private consumption posing downside risks. There are however also upside risks to labour market projections, as unemployment continues to fall and the latest QNHS appear to suggest that the post-crisis trend of part-time employment for new job creation could be coming to an end. If future job creation continues to be in the form of full-time and permanent jobs, it would allow for an increase in weak earnings, dispel uncertainty around future disposable income, and support stronger private consumption developments than what is currently projected.

Table 1.1: **Revised macroeconomic framework**

	Eleventh review forecasts (latest)						Tenth review forecasts (previous)					
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
	% change on previous year (unless otherwise noted)						% change on previous year (unless otherwise noted)					
Real GDP growth	2.2	0.2	0.6	1.8	2.5	2.8	1.4	0.9	1.1	2.2	2.7	2.8
Private consumption	-1.6	-0.3	-0.3	0.5	1.0	1.3	-2.3	-0.9	-0.1	1.2	1.6	1.6
Public consumption	-2.8	-3.7	-0.9	-2.8	-2.5	0.3	-4.3	-3.4	-2.5	-2.8	-2.5	0.3
Fixed investment	-9.5	-0.8	2.0	3.6	5.5	5.4	-12.2	1.1	1.0	4.0	6.0	5.1
Domestic demand (contribution)	-3.5	-1.5	-0.1	0.1	0.7	1.3	-3.4	-1.0	-0.4	0.5	1.0	1.4
Inventories (contribution)	2.1	0.3	0.0	0.0	0.0	0.0	0.4	-0.2	0.0	0.0	0.0	0.0
Exports	5.3	1.6	1.1	2.9	4.1	4.4	5.1	2.9	2.6	3.5	4.5	4.5
Imports	-0.4	0.0	0.6	1.8	3.2	4.0	-0.3	0.3	1.7	2.6	3.8	4.2
Net trade (contribution)	5.7	1.6	0.7	1.6	1.8	1.5	5.4	2.8	1.5	1.7	1.7	1.5
Employment	-1.8	-0.6	0.7	0.9	1.7	2.1	-1.8	-0.6	0.2	0.9	2.0	2.1
Unemployment (percent)	14.9	14.7	13.7	13.3	12.8	12.3	14.9	14.7	14.1	13.7	12.9	12.4
GDP deflator	0.7	0.7	1.0	1.2	1.4	1.6	0.2	1.9	1.3	1.3	1.6	1.6
HICP inflation	1.2	1.9	1.0	1.2	1.4	1.6	1.2	1.9	1.3	1.3	1.6	1.8
Current account (% of GDP)	1.2	4.9	2.3	3.3	3.5	3.1	1.1	4.9	3.1	3.9	3.8	3.4
Nominal GDP (EUR billion)	162.6	163.94	166.6	171.6	178.4	186.4	159.0	163.6	167.5	173.4	180.9	189.1

Source: Commission Services

Risks to the outlook could be substantially reduced by consistent policy implementation, as underlined in a new medium-term study. In their July 2013 medium-term review, the Economic and Social Research Institute (ESRI) formulate three possible different future scenarios and illustrate the role of domestic policies for improving macroeconomic outcomes by means of en estimated general equilibrium model ([8]). They show that for unemployment to return to the vicinity of the levels seen prior to the crisis, a very strong recovery of trading partner demand and decisive financial sector repair is needed. It would also relatively quickly restore public finances, allowing public consumption to support growth from 2015 onwards to reach on average 4% for the last five years of this decade. Another scenario shows that even if these assumptions about the external environment were to be realized, lack of progress on restoring the financial sector to healthy operations would risk not delivering sufficiently high GDP

([6]) Downgrades to expected euro area demand for Irish exports dominate upgrades to the corresponding U.S. forecasts.
([7]) The magnitude and timing of effects stemming from the new lending vehicles formed by the National Pensions Reserve Fund and Blue Bay Asset Management in July 2013 are still to too uncertain to be factored into the forecast.
([8]) http://www.esri.ie/UserFiles/publications/MTR12.pdf. Assumptions regarding the external environment were generated by the NiGEM model from the National Economic and Social Research Institute, London.

growth to restore the sustainability of public finances, with average growth for 2015-2020 below 1.5% ([9]).

([9]) It should be noted that while the forecasting performance of the model in question has been very good, it has tended to overestimate growth and underestimate unemployment since the crisis, and there growth numbers quoted above should therefore be seen as an upper bound.

2. POLICY OUTLOOK

2.1. FISCAL POLICY

Despite an outstanding track record, there is a risk of slightly exceeding the general government deficit ceiling of 7.5% of GDP for 2013, showing the need for careful budgetary execution.. This is mainly due to the downward revision of growth, delays in the implementation of structural measures in the healthcare sector, and some one-off elements. Turning to the 2014 Budget, underpinning the recent improvements in market confidence requires strictly adhering to Ireland's commitments. Structural reforms in main spending areas and further strengthening of the medium term expenditure ceilings would help ensure that the remaining consolidation is achieved in a durable, fair, and as growth-friendly as possible manner.

The baseline Commission Services forecast for the 2013 general government deficit has been increased to 7.6% of GDP – just slightly above the 7.5% nominal ceiling (which was also the forecast of the previous review)**.** This reflects in broadly equal parts a lower denominator effect, but also some downward reassessment of tax revenue, mainly from a projected continued underperformance in VAT, in line with the downward revision to the forecast for growth in private consumption (Table 2.1 shows updated forecast as compared to the 2013 budget estimates). Other items, such as personal and corporate income tax revenue, non-tax revenue and overall expenditure, have been kept largely unchanged as compared to the 10th review. On the expenditure side, some pressures are expected to emerge in the health sector in the second half of the year, given delayed implementation of certain budget measures. The baseline forecast assumes, consistent with the authorities' reiterated commitment, that contingency measures will be activated if needed to keep overall spending within the aggregate envelope (in this respect, the lower spending to-date may act as a buffer).

The baseline forecast is subject to several risks:

- *Pointing to a potentially higher deficit:* as mentioned above, the baseline forecast assumes that delayed or partial implementation of some health sector measures ([10]) will be offset by compensatory measures, but both the size of the possible overruns and of the corrective actions is uncertain. Moreover, previously identified risks remain, namely:

– *The IBRC liquidation*. 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 ([11]).

– *AIB dividends*. The receipt by the government of ordinary shares as a dividend payment from AIB (0.2% of GDP) may be reclassified as deficit-increasing transfer by Eurostat ([12]).

([10]) Certain 2013 budget saving measures have been delayed or only partially implemented. These include the reduction of professional fees, pay-bill savings under the Employment Control Framework and the introduction of charges to private patients for the use of public hospital beds.

([11]) The volume of loans that may ultimately transfer to NAMA is still unclear. The special liquidators of IBRC are due to complete the valuation of IBRC's assets by 30 November 2013. This valuation is being undertaken by independent third parties. Loan assets are valued using a discounted cash flow analysis applying a 4.5% discount rate. There is an obligation to ensure that the assets of IBRC are sold at a price that is equal to or in excess of the independent valuations. Should a bid not be received that is in excess of the valuation, the loan asset will transfer to NAMA at the independent valuation price. Any shortfall between the valuation of these assets and NAMA's claim on IBRC will be made up by the state. Any compensation to NAMA is likely to be treated as a financial sector measure, given its one-off nature and the viability of NAMA, and would thus be excluded the EDP and programme deficit target. The statistical treatment of this continues to be discussed between the CSO and Eurostat.

([12]) In April 2013, Eurostat decided that the ordinary shares received by the government from AIB as dividends in 2012 (0.2% of GDP) do not represent a financial investment by the state in AIB, but rather a capital transfer from the state to the bank. This transfer offset the deficit-reducing impact of the dividends. The baseline forecast for 2013-16 assumes only the deficit-reducing effect of the dividend payments, i.e. an acquisition of the ordinary shares is assumed as a financial transaction. This is based on an assessment by the CSO that the one-off higher-than-expected AIB losses last year, which triggered the 2012 Eurostat reclassification, are likely not to emerge this year. The treatment of the 2013 dividend payment continues to be discussed.

Table 2.1: **Public finances, 2013**

EUR million	2013 Jan-July			2013 Jan-Dec		
	Profile	Outturn	Outturn vs profile	2013 Budget	Updated EC forecasts	EC forecasts vs budget plans
Revenue	**29930**	**30327**	**398**	**52887**	**53358**	**471**
Tax revenue	**25230**	**25356**	**126**	**45370**	**45520**	**150**
Personal income tax	8677	8593	-84	15860	15910	50
VAT	6810	6630	-180	10560	10410	-150
Corporation tax	1902	2142	240	4135	4385	250
Excise duties	2710	2609	-101	4920	4920	0
Social contributions (PRSI & NTF)	4269	4324	55	7420	7420	0
Other taxes	862	1058	196	2475	2475	0
Appropriations-in-Aid	**1860**	**1940**	**80**	**3787**	**3863**	**77**
Health current receipts	771	727	-44	1460	1457	-3
Education current receipts	295	303	8	670	650	-20
Other current receipts and balances	701	827	126	1323	1422	100
Capital A-in-As	93	83	-10	334	335	1
Non-tax Revenue	**1999**	**2215**	**216**	**2360**	**2604**	**244**
Central Bank Surplus Income	1040	1148	108	1040	1148	108
Bank Guarantee Fees	371	509	138	433	583	150
National Lottery Surplus	105	105	0	220	220	0
Dividends	131	133	2	254	294	40
Interest on contingent capital notes	300	247	-53	300	247	-53
Other	51	74	22	113	113	0
Capital receipts (1)	**841**	**816**	**-25**	**1370**	**1370**	**0**
Below-the-line financial receipts		**2388**	**2388**		**2310**	**2310**
Sale of CoCos in the Bank of Ireland		1010	1010		1010	1010
Sale of Irish Life Limited		1300	1300		1300	1300
Repayment of loan to Risk Equalisation Fund		78	78			
Expenditure	**37159**	**37362**	**204**	**64926**	**66268**	**1342**
Current voted (gross)	**29694**	**29399**	**-294**	**51068**	**51146**	**78**
Social Protection	11793	11801	8	20246	20233	-13
Health	8159	8108	-51	13627	13624	-2
Education	4824	4750	-74	8514	8456	-59
Other	4918	4740	-177	8681	8833	152
Current non-voted (1)	**5993**	**6731**	**738**	**9579**	**10843**	**1264**
Interest	4329	4471	142	7225	7615	390
Debt management expenses	92	87	-5	163	163	0
Promissory Notes interest	506	13	-493	506	13	-493
EU Budget Contribution	929	1048	119	1444	1694	250
ELG claim cost (IBRC liquidation)		989	989		1117	1117
Other non-voted (ex-SF)	137	123	-14	241	241	0
Capital expenditure	**1472**	**1232**	**-240**	**4279**	**4279**	**0**
Exchequer capital funding (gross)	1429	1202	-227	3435	3435	0
FEOGA	0	0	0	800	800	0
Other	43	30	-13	44	44	0
Below-the-line financial transfers	**3106**	**519**	**-2587**	**3361**	**794**	**-2567**
Promissory Notes principal	2579	12	-2567	2579	12	-2567
Loans to Insurance Compensation Fund	272	174	-98	272	272	0
Loan to Risk Equalisation Fund	0	78	78			
ESM capital payment	255	255	0	510	510	0
Exchequer balance	**-10335**	**-5165**	**5169**	**-15400**	**-11394**	**4006**
Below-the-line financial transfers				3361	794	-2567
Below-the-line financial receipts					-2310	-2310
Local government sector				0	0	0
Promissory Notes interest accrual adjustment				-1382	-215	1167
Accrual adjustments and other below-the-line operations				775	473	-302
General government balance (2)				**-12645**	**-12651**	**-6**
% of GDP				-7.5	-7.6	

(1) Excludes Sinking Fund transfer from current to capital account and loan/repayment to/from the Social Insurance Fund which are the Exchequer deficit neutral.
(2) The government balance excludes one-off deficit-increasing financial sector measures. Revised GDP forecast since the budget affects deficit ratio.
Source: Commission services; Department of Finance.

Box 2.1: Protecting the most vulnerable

One objective of programme implementation is for the government to choose adjustment measures that protect the most vulnerable in Irish society. The evolution of a country's income disparities is gauged by looking at poverty figures. At-Risk-Of-Poverty (AROP) is a measure of *relative poverty*, and is defined as the percentage of the population below a certain percentage threshold of median income (usually 60%). AROP indicators show that poverty risk in Ireland is in fact still below pre-crisis levels. However, this appears to be largely driven by falls in median income lowering the AROP thresholds. Severe Material Deprivation (SMD), a standardised measure of the inability to afford at least four of nine items deemed necessary or desirable (e.g. adequate heat, a telephone, etc.), is a more absolute measure, as it does not depend on a median benchmark. While the EU-27 rate of SMD has fallen from 2007 to 2011 (from 9.1% to 8.8%), in Ireland it has risen significantly over the same period (from 4.5% to 7.8%). However, in comparative terms, Ireland is still below the EU average, and only somewhat ahead of the first recording in 2003 (5.6%). The Irish AROP at 15.2% is below the EU average of 16.9% (Graph 1).

In Ireland, social transfers play a key role in cushioning poverty. In 2011, Ireland's AROP rate before factoring in social transfers was 50.5%, the second highest in the EU, while it was below the EU average *after* factoring in social transfers. This important role is in line with spending figures for social transfers: as a percentage of GDP, the increase in social expenditure in Ireland in 2007-2011 has been larger than in other EU countries.

Properly assessing distributional impacts of budget policy in a timely manner is useful. Although the Department of Social Protection (DSP) performs social impact assessments (SIA) on each budget, the timing and completeness of the exercise could be improved. For 2011 and 2012, the SIAs were not published until the following year's budget, while for 2013 the assessment was done in March ([1]). In addition to being published *ex post*, these assessments did not cover budgetary measures in health and education and the impact of indirect taxes. This is particularly relevant for the two percentage point increase in the standard rate of VAT, which took effect in January 2012. It should be noted that Ireland is not alone in underutilising *ex ante* SIA to inform the budgetary process in a fully transparent manner. However, under new economic governance rules, an indication of distributional impact of the main budget measures must be included with the draft budgetary plans submitted by Member States to the Commission each October ([2]).

The progressive impact of the Local Property Tax will depend on the rates of deferral. These have so far been limited. Assuming deferral rates remain low, the magnitude of the regressive effect will be doubled in 2014, as the tax will be charged on a full-year basis.

([1]) The DSP assessment uses the same model as that employed by the ESRI for their recent independent report, which found that, while the 2013 budget was clearly regressive, the cumulative effect of budgetary measures in the consolidation period (2009 – 2013) has preserved progressivity.

([2]) This is a requirement for all Member States in the euro area, except those subject to a macroeconomic adjustment programme. For programme countries, distributional assessment is covered as a part of on-going programme monitoring. For Ireland, reference Box 4 of the Winter 2012 Review of the Programme.

(Continued on the next page)

Box (continued)

Graph 1: **Severe Material Deprivation and At Risk of Poverty (60% of median) 2011**

Source: Eurostat (SILC)

– *The so-called Waterford Crystal case.* The European Court of Justice ruled that the state needs to have mechanisms in place to ensure in excess of 49% of employees' pension benefits are protected in a double insolvency situation – the bankruptcy of a company and its pension fund. The case is back in the Commercial Court for hearing before the end of 2013 and its judgment will determine the public finance implications. While the net present liabilities to the state could amount to some 0.2% of GDP, it is likely that this amount would be spread out over the lifetime of the pensions. The case could possibly still set a precedent for few other instances of double insolvencies and expose the state to further claims.

– *Possible shortfalls in the wage-bill savings from the negotiated agreement with the unions*. It is not yet possible to determine whether the Haddington Road Agreement will deliver in full the planned savings of EUR 300 million for 2013 (0.2% of GDP) ([13]).

– *Pointing to a potentially lower deficit:* spending pressures in areas other than health seem to be under control and the improving labour market situation should alleviate demand for welfare services.

Ireland's fiscal stance has not been overtly pro-cyclical since the beginning of the crisis. Using conventional metrics, discretionary fiscal policy has been clearly leaning against the wind in 2008 and 2009, and did not move openly or blatantly into the wind in 2010 and after, in spite of the significant budgetary adjustment efforts put in place by the Irish government (Graph 2.1) ([14]). Fiscal policy remained, and is expected to remain broadly in line with the stabilisation function of discretionary fiscal policy, or at least not to run counter that function. In the early years (2008-2009) when fiscal policy was incontrovertibly counter-cyclical, the fiscal policy strategy mainly consisted of correcting previous policy commitments built on optimistic growth projections accompanied by the fact that in a deflationary environment, nominal expenditure freezes implied increases in real terms. Since 2011, the improvement of the structural deficit has taken place in an environment of slightly improving economic conditions.

([13]) For example, longer working hours should allow reducing agency and overtime costs in the heath sector, but there has been some resistance from the unions of the affected medical personnel.

([14]) The structural changes of the economy during the economic crisis are beyond normal business cycle fluctuations. Therefore, potential growth and structural government balance estimates need to be treated with caution.

Box 2.2: Ageing costs and long-term fiscal sustainability

Provided the budgetary targets of the 2013 Stability Programme are met, risks to the long-term sustainability of public finances appear to be in the medium range ([1]). Under the assumption that the strong structural primary balance of 3.9% of GDP projected in 2017 is achieved and maintained over the long run (in 2013 the primary balance forecast is a deficit of 2.6% of GDP), the general government debt-to-GDP ratio would rapidly decline from a peak of 123% of GDP in 2013 to 68% in 2030. However, sustainability risks would be higher if the structural primary balance reverted to the lower values observed in the past, such as the average deficit of 1.8% for the last 10 years (i.e. 2003-2012).

Ageing costs represent an important challenge to debt sustainability. While notable pension reforms have been implemented ([2]), the 2012 Ageing Report still concludes that coping with the projected increase in aging-related spending will be challenging for Ireland. The cumulated increase in total age-related public expenditure is projected at 1.8 pp. of GDP between 2014 (base year for extra ageing cost accounted in the current projections) and 2030 ([3]), to be contrasted with a projected increase of 0.8 pps for the EU as a whole. This largely reflects a projected strong increase in gross public expenditure on pensions, only partly offset by an improvement in the labour market and a significant fall in unemployment after the second half of the current decade, with the resulting lower expenditure on unemployment benefits. The projections assume that age-related costs in 2010-2014 are accommodated in the baseline forecast, leaving only to account for the further variation projected for the period between 2014 and 2030 ([4]).

Table 1: **Ageing costs**

% of GDP	2014	2020	2030	2040	2050	2060	Δ 2060-2014
Ireland - Total cost of ageing	**24.9**	**27.7**	**26.7**	**27.4**	**29.7**	**30.3**	**5.4**
of which							
Gross public pensions expenditure	7.5	9.0	9.0	10.0	11.4	11.7	4.1
Health care expenditure	7.3	7.2	7.7	8.1	8.2	8.3	1.1
Long-term care expenditure	1.1	1.3	1.5	1.9	2.3	2.6	1.5
Education expenditure	6.3	7.1	6.5	6.0	6.5	6.4	0.0
Unemployment benefits expenditure	2.6	3.1	2.0	1.5	1.4	1.3	-1.3
European Union - Total cost of ageing	**26.0**	**25.9**	**26.9**	**28.0**	**28.7**	**28.9**	**2.9**
Euro Area - Total cost of ageing	**27.0**	**27.1**	**28.0**	**29.4**	**30.2**	**30.1**	**3.0**

Source: 2012 Ageing Report updated for countries (BE, NL, DK, HU, BG, CZ, LV, PL, SK, SI) after EPC's endorsement of pension reforms.

Fiscal sustainability indicators developed in the context of EU surveillance point to the importance of completing the planned fiscal consolidation:

- The *S1 medium-term sustainability gap indicator* ([5]) is slightly positive (0.6 pp. of GDP), thereby suggesting that further fiscal consolidation would be required on top of achieving the structural primary balance of 3.9% in 2017 in order to reach the Maastricht debt threshold of 60% of GDP in 2030. If GDP growth, interest rates, and structural primary balance values all revert back to their respective average values of the past 10 years (the combined constant historical scenario), the S1 indicator peaks at +8.7,

([1]) European Economy No. 8/2012, "Fiscal sustainability report 2012".
([2]) State pension age will increase to 67 in 2021 and 68 in 2028. A single pension scheme for all new entrants to the public service was introduced in 2012. Under the single scheme the minimum pension age is increased to 66 years initially and then to the state pension age and pensions are calculated based on career average earnings rather than final salary.
([3]) European Economy No. 2/2012, "The 2012 Ageing Report: Economic and budgetary projections for the EU27 Member States (2010-2060)".
([4]) Unemployment-related costs after 2014 are updated in line with the forecast of the 2013 Stability Programme, which are lower than the 2012 Ageing Report projections (published in February 2012).
([5]) The S1 indicator shows the upfront adjustment effort required (in the structural primary balance to be introduced until 2020 and then sustained for a decade), to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure until the target date arising from an ageing population.

(Continued on the next page)

Box (continued)

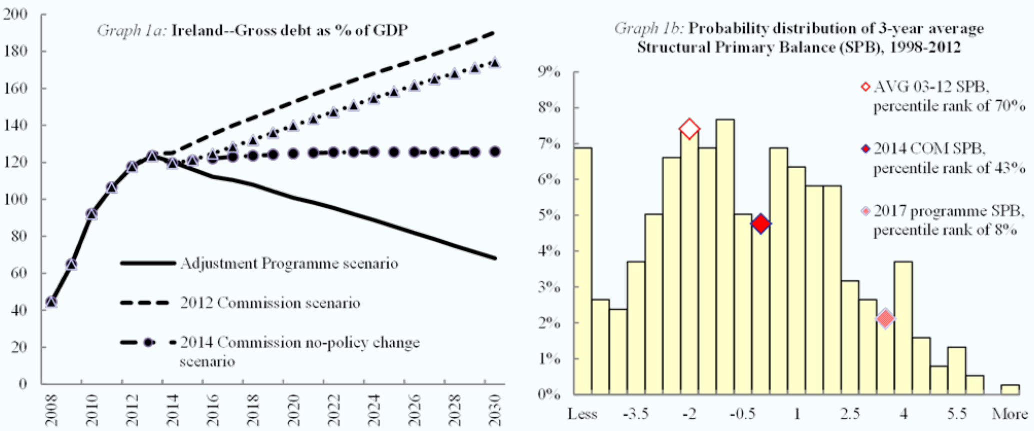
indicating a high risk to fiscal sustainability in a medium-term perspective. This highlights the importance of achieving the strong planned fiscal consolidation under the programme and beyond and reaching and maintaining a high structural primary balance.

- The *S2 long-term sustainability gap indicator* ([6]) of 0.6% of GDP suggests a required permanent increase in primary balance in addition to achieving and maintaining primary balance of 3.9% beyond 2017 in order to fully accommodate the projected increase in the long term cost of ageing of 5.4 pps. of GDP (which compare to 3 pps. of GDP for the Euro Area as a whole – see Table 1). Under the combined constant historical scenario, the S2 indicator peaks at 4.3% of GDP, significantly above the Euro Area average of 2.6% of GDP.

This is also confirmed by a scenario analysis:

- Graph 1a shows debt-to-GDP trajectories up to 2030 under four scenarios: i) the "Stability Programme"; ii) the "2012 Commission scenario" in which the structural primary balance is kept constant at the last outturn value (2012); iii) the "2014 Commission no-policy-change scenario", in which the structural primary balance is kept constant at the end-of-forecast ([7]) value (2014); and iv) the "combined constant historical scenario" in which GDP growth, interest rates and structural primary balance values are kept constant at their average values of the last 10 years (i.e. 2003-2012). The projected debt paths for the various scenarios suggest that the additional consolidation in the medium-term is paramount to secure a significant reduction in the debt ratio. Moreover, returning to historical trends or retaining the structural primary balance of 2012 would imply the emergence of a continuous rise in the debt-to-GDP ratio.

Graph 1: **Debt sustainability scenarios, including in historical context**



Source: Commission services

- Graph 1b demonstrates that Ireland has historically had a relatively low structural primary balance as compared to other Member States, ranking only in the 70th percentile ([8]). The low primary balances

([6]) The S2 indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the long term costs of ageing (LTC). The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will eventually fall below the EU Treaty 60% debt threshold.

([7]) DG ECFIN's Spring 2013 forecasts.

([8]) That is 70% of observations were higher. Indeed, the rank is an indication as to where the country specific fiscal effort observed or projected lies in the overall distribution of fiscal efforts made by all EU countries over the years 1998 to 2012.

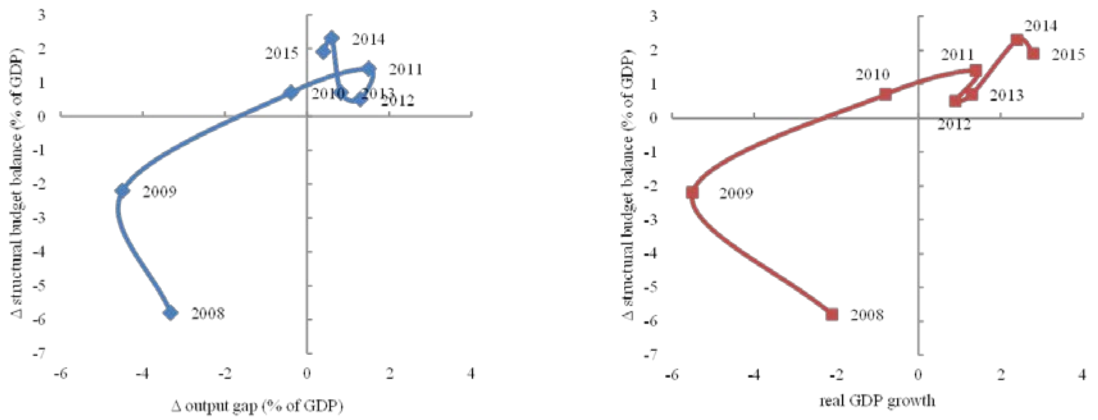
(Continued on the next page)

Box (continued)

largely reflect Ireland's relatively low debt level up to the economic crisis. Conversely, reaching and sustaining a structural primary surplus of 3.9% of GDP would be much more demanding, as such surplus would correspond to the 8th percentile of the distribution (9).

(9) That is, only 8% of the observations in the whole sample correspond to a higher structural primary balance.

Graph 2.1: **Fiscal stance, Ireland**



Source: Eurostat for real GDP growth 2007-2011; Irish Stability Programme 2013 for real GDP growth 2012-2015

The latest official deficit targets for the coming years were outlined in the budget 2013 package and the 2013 Stability Programme. In April this year the government adopted the 2013 Stability Programme which, for 2014 and 2015, features deficit targets of 4.3% of GDP and 2.2% of GDP targets, respectively. The stability programme essentially restated previous commitments to fiscal adjustment presented in the November 2012 Medium-Term Fiscal Statement, as part of the budget 2013, and allocated the dividend from the replacement of the promissory notes with longer-dated government bonds to faster debt reduction. If fully implemented, these commitments would be consistent with the requirements under the programme and the Council recommendation under the EDP.

During the July review mission, the authorities were not in a position to discuss the 2014 budget, as preparations were at an early stage. In order to underpin the recent improvements in market confidence and put the debt ratio on a declining path, it remains crucial for Ireland to adhere strictly to the commitments undertaken under the programme and the EDP, thus enhancing prospects for a sustained return to affordable market funding. The fiscal adjustment presented in the 2013 Stability Programme is estimated to be consistent with the nominal and structural adjustment recommended under the EDP (see Box 1 of the previous review report). The Stability Programme restates the commitment to the fiscal adjustment presented in the November 2012 Medium-Term Fiscal Statement of EUR 3.1 billion (1.8% of GDP) in 2014 and EUR 2 billion (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. To ensure that the remaining adjustment is achieved in a sustainable, fair and growth-friendly matter, the 2014 budget should also spell out the key elements of reforms in the main spending areas that increase efficiency while protecting access to services for the most vulnerable. The remaining consolidation options identified in the 2011 Comprehensive Expenditure Review represent a good starting position in this respect.

Significant progress has been made from the beginning of the programme to strengthen Ireland's medium-term fiscal framework. As highlighted in previous Commission reports under the programme ([15]) and more recently by the IMF Fiscal Transparency Assessment (FTA) ([16]), several important reforms have been introduced in recent years, including the passage of the Fiscal Responsibility Act (FRA), the establishment of a new Fiscal Advisory Council (IFAC), the introduction of a medium-term expenditure framework (MTEF), and enhanced reporting (e. g. quarterly government finance statistics and alternative presentation of Exchequer returns).

Despite important improvements, the multi-annual expenditure framework is not yet fully consistent with the EU Fiscal Framework Directive, the recommendations of the Economic Policy Committee, and international best practice ([17]). In particular, the recently legislated Ministers and the Secretaries (Amendment) Act does not identify the specific circumstances and modalities in which the multi-year expenditure limits can be changed by the government. Moreover, the Irish multi-year expenditure ceilings cover a different aggregate than that defined by the SGP's "expenditure benchmark" ([18]).

These remaining issues in the framework could be addressed through appropriate legislative reforms. This would enhance the capacity of the expenditure ceilings to serve as medium-term policy anchors, subject of course to well defined escape clauses, and foster transparency and accountability and especially in light of the experience with fiscal policy making in the years preceding the crisis. From this perspective, the authorities' intention to specify the escape clauses in an administrative circular may leave leeway for ad-hoc modifications of the ceilings in the future.

The authorities consider that the existing audit arrangements and reporting satisfy the EU requirement for a comprehensive audit of public finances for Member States under a macroeconomic adjustment programme ([19]). Existing annual audits of public finances by the Office of the Comptroller and Auditor General ensure legality and regularity of public finances. Also, public finance data reporting has been continuously improved by more comprehensive publications, streamlined data collection procedures and quality checks. Dedicated reports by Regling and Watson (2010), Honohan (2010) and Nyberg (2011) have analysed policy and market failures leading to the Irish financial crisis. This satisfies one of the objectives of the comprehensive audit, going beyond the traditional audit activities and assessing broader functions of the public institutions, including government, and supervisory and regulatory bodies. Moreover, the budgetary framework has been strengthened under the EU-IMF programme with a move towards multi-annual budget planning and the establishment of the Irish Fiscal Advisory Council.

([15]) See http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp127_en.pdf, p. 29

([16]) The Fiscal Transparency Assessment (FTA) report for Ireland was carried out by the IMF at the request of the Irish Government. The FTA highlighted several weaknesses in the Irish fiscal reporting system. In particular: (i) cash-based budget execution reports are published monthly but cover only the Exchequer and use a classification which does not correspond to the ESA95 rules; (ii) fiscal statistics cover all general government entities, but still exclude public corporations; and (iii) multiple and inconsistent charts of accounts are used by different general government entities. It therefore recommended a series of actions over five years to: (i) expand the institutional coverage of budgets, statistics, and accounts; (ii) recognize all assets, liabilities, and associated fiscal flows in fiscal reports; (iii) modernize and harmonize accounting standards across the public sector; (iv) accelerate the timetable for submission and approval of the annual budget and financial statements; and (v) improve the analysis forecast changes, long-term trends, and fiscal risks. (See http://www.imf.org/external/np/sec/pr/2013/pr13258.htm)

([17]) This has been pointed out in previous reports, see for example: http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp131_en.pdf, p. 21 and http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp127_en.pdf p. 27

([18]) Specifically, "government expenditure" in the context of the abovementioned Act is defined as the expenditure voted by the Dáil each year and excludes: (i) debt service costs; (ii) non-voted expenditure financed directly from the "central fund" (judges' pay, and the budgets of the Houses of Oireachtas and the Fiscal Advisory Council); and (iii) expenditure by local governments and non-market public corporations. In contrast, the EU expenditure benchmark is set for general government sector excluding interest expenditure, non-discretionary changes in unemployment benefit expenditure and discretionary expenditure increase fully offset by discretionary revenue-increasing measures.

([19]) Art. 7(9) of Regulation (EU) No 472/2013: "A Member State subject to a macroeconomic adjustment programme shall carry out a comprehensive audit of its public finances in order, inter alia, to assess the reasons that led to the building up of excessive levels of debt as well as to track any possible irregularity."

2.2. FINANCIAL SECTOR REFORM

Progress has been made regarding the resolution of mortgage arrears but, given the increasingly long-term nature of arrears, more needs to be done. Appropriately ambitious targets are required to ensure the vast majority of arrears cases are effectively dealt with by end 2014. The recent regulatory and system changes (remedying of the legal lacuna created by the "Dunne" judgment, updating of the Code of Conduct on Mortgage Arrears), and the roll out of key reforms such as the Personal Insolvency regime are welcome. The authorities now need to ensure that the legal system is fully equipped to deal with the expected increases in case loads, including by deploying additional resources if required. Progress continues to be made regarding the methodology for the f diagnostics of the Irish banking sector that will be completed in Q4 2013.

Prompted by the CBI target-based approach implemented in March 2013, banks have begun to offer proposals to restructure mortgages in arrears, but the mix has not been ideal. All banks report that they have met the end June target of offering sustainable solutions to 20% of customers in arrears for more than 90 days. The CBI will monitor and audit the banks' progress, assessing the sustainability of offered solutions and will report the findings of this review to the troika in November. It appears that the approach being undertaken by the banks is to deal with the *extreme* arrears firstly i.e. the very early arrears through such options as arrears capitalisation and appropriate lifestyle adjustment, and to deal with longer dated arrears, where there has been no engagement for a sustained period, by initiating legal proceedings.

The authorities need to set ambitious targets for concluding sustainable solutions for a substantial proportion of loans in arrears by end 2013. During September, the CBI will set public targets for the principal mortgage banks to conclude sustainable restructurings for a significant share of problem loans by year end to achieve the objective that the vast majority of loans in arrears greater than 90 days will be sustainably treated by end 2014. It is important that a balance is achieved whereby the target is appropriately ambitious but does not result in the banks unduly relying on the legal route as a way to reach the targets. A sustainable solution which does not include legal action is usually in the best interest of both parties as legal actions are costly for both sides and the revised payment terms under the new arrangement can in most instances be more affordable than renting for the customer. Any further delays in dealing decisively with mortgage arrears are a considerable drag on the recovery of the domestic economy.

Regulatory and legislative reforms should facilitate the legal process with repossessions, but there are concerns that the judicial system may be unprepared to deal with an increase in cases. There have been several key advances on the regulatory framework, such as the revision of the Code of Conduct on Mortgage Arrears, which now provides greater clarity regarding non-cooperative borrowers and allowable contact, and the enactment of the Central Bank (Supervision and Enforcement) Act 2013, giving more supervisory powers to the CBI and of the Land and Conveyancing Law Reform Act 2013([20]), which removes unintended obstacles to repossessions. Furthermore, work continues on ensuring the first personal insolvency applications are accepted from early September. While all these steps are welcome and reflect the culmination of work under the programme, there are concerns regarding the ability of the courts' system to deal with the expected increase in work load arising from the various policy initiatives. While safeguards have been put in place to keep co-operating borrowers in their homes, given the number of non-cooperating borrowers, particularly in investment properties, an increase in the number of repossessions from the very low levels experienced in recent years is likely ([21]).

([20]) The Act removes the 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.

([21]) The bank took possession of approximately 1300 residences in the period Q1 2012- Q2 2013 with the vast majority of these coming through voluntary surrender.

The authorities have committed to examine by end October the merits of assigning additional functions to the Specialist Judges dealing with personal insolvency cases, which will enable them to deal with repossession cases as needed. Furthermore, an expert group will be established to review by end-2013, the length, predictability and cost of proceedings, including relative to peer jurisdictions, and propose measures to deal with any problems arising. It is important that there is a clear distinction between the family home and pure investment properties; this distinction is evident with regards to the Code of Conduct on Mortgage Arrears (CCMA), which only protects the family home, but should also be made also more clearly in respect to legal proceedings. In light of this, the authorities will examine the possibility of introducing expedited proceedings, based on the experience of the Commercial Court ([22]), for repossession cases relating to investment properties and will report to the troika by end October. The introduction of such a fast-track scheme would reduce the costs of BTL repossessions and would allow the banks to focus their resources on working with co-operating borrowers to find sustainable solutions.

A framework to facilitate multiple-creditor debt for borrowers with both secured and unsecured loans will commence in September on a pilot basis. The scheme for 750 multiple creditor will run for three months. This aims to achieve sustainable and fair outcomes without the need for the borrower to enter the statutory insolvency process. To be eligible for the framework, a borrower must be cooperating with their lenders and have taken steps to adjust their expenditure to established norms. The focus of the pilot is a protocol to enhance cooperation between lenders of secured and unsecured debt at an early stage. While the establishment of this protocol is welcome, banks report that some customers in mortgage arrears continue to access new unsecured credit from other lenders, which they then prioritise over their mortgage payments. This acts as a disincentive for borrowers to engage with banks' efforts to restore payment discipline, and could indicate that the financial system is not allowing banks to recycle their capital efficiently. Restoring debt-servicing priority is an essential condition for a well-functioning mortgage market and is vital for ensuring that the strategy of addressing mortgage arrears can ultimately succeed.

Going beyond mortgages, SME loans in arrears also need to be addressed with greater urgency. The authorities have set restructuring targets for the two main banks involved in SME lending, consistent with ensuring a migration from short term forbearance measures to sustainable solutions. In order to ensure these restructurings are sustainable, the CBI's on-site reviews in the second half of the year will focus on the banks’ operational restructuring capabilities and strategies, the durability of the solutions, and the appropriateness of collateral valuations. The authorities are progressing with the necessary legal provisions to grant the option for SME examinership to be considered by the Circuit Court, which would reduce the associated costs. However, these provisions are provided for in an extensive bill reforming the Company Law, which is not expected to be passed until 2014. Given the importance of the issue, the authorities are seeking to accelerate the adoption of the relevant provision by year-end. In addition, the authorities are considering additional legislative amendments to enhance the SME examinership legal framework to reduce costs and achieve efficiency gains, drawing on experience with the operation of the Insolvency Service in the personal insolvency reform and recommendations in the Company Law Review report. One key policy option is the potential for an administrative body to facilitate SME restructuring out of courts, which would reduce the costs and allow for a more efficient timely process.

The credit guarantee scheme for SMEs ([23]) and the microfinance fund ([24]) should be reviewed, in light of low levels of take-up ([25]). As regards the former, an external review of the scheme is due to be

([22]) The Commercial Court is a division of the High Court that was established in 2004 to provide efficient and effective dispute resolution in commercial cases. The court deals with disputes of a commercial nature between commercial bodies where the value of the claim is at least EUR 1 million. The Court uses a detailed case management system that is designed to streamline the preparation for trial, remove unnecessary costs and stalling tactics, and ensure full pre-trial disclosure.

([23]) The scheme was introduced in October 2012 and provides a Government guarantee to the lender of 75% on individual loans to viable businesses, which is paid to the lender on the unrecovered outstanding balance on a loan in the event of an SME defaulting on the loan repayments.

([24]) The Microenterprise Loan Fund was introduced in October 2012 to provide loans of up to EUR 25,000 to businesses and sole traders employing up to ten people who have been refused credit by the banks.

completed by end August, and if legislative changes are recommended every effort should be made to advance these through the legislative process. As regards the second, the authorities have committed to reviewing this scheme. After two years of operation and given the disappointing low levels of engagement, the authorities should consider bringing forward the review. The recent Government decision to dissolve the thirty five County Enterprise Boards and transfer their functions, assets, and liabilities to Enterprise Ireland should enhance the delivery of State support to micro and small businesses and thus should be implemented soon.

Separately, but importantly, progress continues to be made in terms of banks' diagnostics:

- *Progress has been made regarding methodological and practical elements of the forthcoming assessments of the banks' balance sheets*. In particular, external consultants will have an active role in both aiding the CBI in executing the exercise and in independently validating the exercise and the results. Furthermore, a roadmap for the delivery of the exercise has been agreed with programme partners who will be consulted regularly on progress and results.

- *The authorities continue to explore feasible options to lower the drag on banks' profits from "tracker" mortgages.*

2.3. STRUCTURAL REFORMS

Important steps have been taken recently that will pave the way for additional reforms in activation policies and further education and training. These steps are strategic, and will still need to develop into operational strides to ensure that improved services and support are provided to the unemployed as quickly as possible. Further ground has been laid for the reorganisation of the water sector and the introduction of domestic charges during the final quarter of 2014, and the Legal Services Regulation Bill is moving somewhat closer to enactment. Further reforms should be pursued to reduce costs and increase efficiency in the provision of health care, such as introducing a system of e-prescriptions, lowering the cost of drugs, promoting the use of generics, and increasing the recovery of costs from private patients in public beds.

2.3.1. Labor market activation

The Government has decided to outsource some activation services to private providers. The shortfall in activation resources has been evident for a long time and the outsourcing option had been considered as early as mid-2011. In late 2012, the Government commissioned a study by external experts to assess the options and suggest a contracting model. The study, completed in early 2013, confirmed the feasibility of outsourcing in Ireland and proposed key features for contract design and the tendering procedure, including a focus on the long-term unemployed, a payments-by-results approach, a four-year duration, and a sub-division of the country in five areas with contractual exclusivity. Many suggested features are expected to be maintained, but the Government indicated that it intended to modify others in order to guarantee a high-level of service delivery, appropriate coverage of different categories of unemployed and adequate cost competition.

([25]) The intention was for the credit guarantee scheme to provide EUR 150 m in additional credit to companies per year for a three year period and it was intended to benefit 5,600 businesses. However at end August only 59 loans have been granted, worth a total of EUR 8,6 m. Similarly, for the microfinance fund, only 280 applications were received, with a 44% approval rate. This limited take-up is particularly disappointing, given that 96% of SMEs in Ireland employ less than 10 people and the average lending to SMEs is EUR 40,000.

In spite of recent measures, it will likely be at least a year before private activation services are in place. A Prior Information Notice (PIN) was issued in early July that specifies that the contracts could encompass the provision of activation services (e.g. job searching, coaching, personal action plans and preparation of CVs) to between 50,000 and 100,000 unemployed people. The authorities indicated that they received significant expressions of interest, and a formal request for tenders will be issued before the end of November following final Government decision on the scope and structure of the outsourcing contracts. Although the issuance of the PIN should accelerate the procedure, the authorities expect that the procurement process and establishment procedures will be such that service delivery will not start until late 2014, in line with recommendation of the external experts.

There is scope for increasing the targets to engage the long-term unemployed in the activation process. Three hundred public service staff members are expected to be redeployed as case managers as targeted by end-2013, with an additional 200 redeployments as soon as possible in 2014. These redeployed officers will need to receive adequate training to take on their new functions. The authorities intend to allocate a significant share of these additional resources to provide activation support to the long-term unemployed. They are committed to provide group engagement sessions for 15,000 long-term unemployed people per quarter starting in Q4 2013 and to integrate 10,000 long-term unemployed people in the process of regular one-to-one interviews each quarter. They also intend to review these targets as the redeployment and training of case workers progress; increasing them would be desirable given the scale of the long-term unemployment problem and the amount of resources that have been mobilised. In addition, these targets do not appear compatible with the objective announced in August under the *Pathways to Work 2013* to provide one-on-one interviews to 185,000 for 2013 ([26]).

Strict adherence to the roll-out targets for *Intreo* offices is essential. Despite the outsourcing of some activation services to private providers, the Department of Social Protection's (DSP) *Intreo* offices will remain the backbone of Ireland's activation services. Additional delays in rolling-out *Intreo* offices should therefore be avoided so as to provide an even level of services across the whole country, and the targets of having 43 offices opened by end-2013 should be adhered to. The authorities' willingness to consider redeployments of staff beyond the DSP as case officers is a positive development that could enhance the level of activation services and should translate into prompt action.

Reforms of the further education and training (FET) system are set to move to the operational phase. The recent enactment of the Education and Training Boards Act 2013 and Further Education and Training Act 2013 means that the new institutional landscape for the FET sector is now formally in place. No benefit will be reaped, however, until vocational education centres (VECs) and FÁS training centres are consolidated into the 16 Education and Training Boards (ETBs), a process that is projected to be finalised by the end of 2014 and that should be speeded up. In addition, the most critical aspects of FET reforms lie ahead as training programmes and courses still have to be reviewed to ensure their relevance for the needs of jobseekers and employers. A seamless process between Intreo offices and ETBs will also need to be established to ensure appropriate referrals and effective participation in training programmes. SOLAS – the new institution tasked to channel funds to ETBs, and monitor and guide their FET work – needs to lay out a credible strategy for the sector quickly and make use of its powers to allocate funds among ETBs to ensure efficiency and the relevance of programmes. The work to prepare the strategic review of the training and education provision offered by ETBs by end-September, a programme requirement, should guide and accelerate the preparation of SOLAS' strategic plan, which is due by end-March 2014.

([26]) See http://www.welfare.ie/en/downloads/Pathways-to-Work-2013.pdf.

2.3.2. Wage setting mechanisms

Collective bargaining mechanisms have suffered some setbacks despite recent reforms. Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs) were struck down by two Court rulings in 2011 and May 2013. The Industrial Relations (Amendment) Act 2012 aimed to put in place a stricter legal framework for the setting of the terms and conditions defined under EROs and REAs([27]), but now appears inadequate to address the unconstitutionality of the two mechanisms stemming from the excessive delegation of legislative powers to Joint Labour Committees, labour Courts or the Minister. While the terms and conditions of employees recruited prior to the Court rulings are not affected, as their individual contracts remain valid, employers are not bound by the terms of past EROs and REAs when it comes to new recruitments.

Further legal reforms are needed to re-establish collective bargaining mechanisms. The authorities aim to fill the legal vacuum by preparing a new Bill to further reform EROs and REAs, potentially before end-2013. While employers strongly oppose the Joint Labour Committees that underpin EROs, they are keen to maintain the system of REAs as a channel for negotiations with trade unions in sectors where labour representation is strong. Fast action on the new framework is needed to reinstate a proper industrial relations management mechanism. Many aspects of the 2012 reform ought to be preserved, including the increased flexibility and consideration given to international competitiveness and relative wage levels in the EU, while the scope of REAs ought to be reduced. The authorities also aim to avail of the new reforms to reduce the number of sectors subject to EROs, with some falling under the scope of REAs in the future ([28]).

Nominal wages have been sticky across all levels of skills, allowing for a gradual adjustment of real wages. The reforms introduced under the Industrial Relations (Amendment) Act 2012 do not appear to have had an impact on e.g. nominal wages so far. In part, this can be attributed to the continuity of individual contracts and nominal wage rigidity due to efficiency wage and skill-retention policies among firms ([29]). The legal uncertainty and recent vacuum on EROs and REAs, however, is also likely a contributing factor, as firms may be unwilling to re-negotiate wages and benefits in light of new labour market conditions in an uncoordinated manner, and new collective agreements at the sectoral level cannot be concluded. This phenomenon is likely to be more prevalent at the low-end of the skills range and in selected sectors subject to EROs and REAs, where nominal hourly wages have either fallen only marginally in the post-crisis period or increased slightly, despite the sharp increase in unemployment (Graph 2.2). Given accumulated inflation, this however translates into falling real wages as outlined earlier in the report. Composition effects and rising productivity have also generated improvements in unit labour costs relative to most other EU countries.

([27]) See Economic Adjustment Programme for Ireland, Autumn 2012 Review, page 37.
([28]) The authorities recently published a review of all Joint Labour Committees, with the view to streamlining them where necessary.
([29]) A survey of Irish firms indicates that 87% invoke reduced effort or morale as a reason not to cut nominal wages, with 83% indicating a fear of seeing their best staff leave as another reason. This survey was conducted during late-2007 and early-2008, however, a period during which only 1% of Irish firms reported having cut wages.

Box 2.3: Issues in relation with water charges

Ireland will introduce water charges for domestic users in the fourth quarter of 2014. The authorities have determined that consumption-based charges are not only the fairest way to bill customers, but also provide an important tool to promote responsible usage and an efficient management of scarce water resources. As a result, they have embarked on an ambitious metering programme, which should see the installation of meters for about one million households over the next few years. Although the aim is to have the vast majority of households connected through a meter, this will not be feasible in all cases, which means that metered and assessed charges will need to coexist.

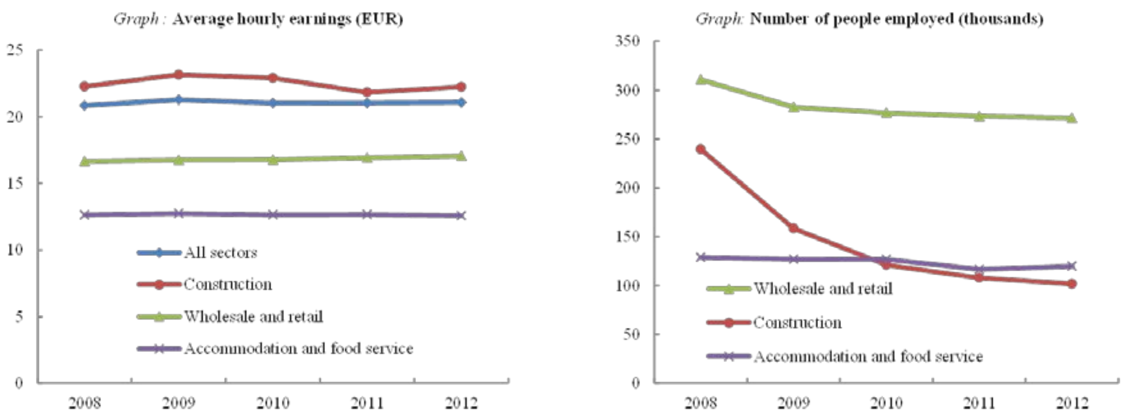
Four potentially conflicting policy objectives can be identified in setting water charges: (1) environmental sustainability; (2) economic efficiency; (3) financial sustainability; and (4) social concerns([1]). In balancing these objectives and defining the level of structure of charges, Ireland will need to consider:

- The timeframe under which it seeks to make Irish Water self-funded and phase out State support, with the implications in terms of EU State-aid rules;
- Obligations under the EU Water Framework Directive to: (1) apply the polluter pays principle; (2) generate adequate contributions from the different water uses, disaggregated into at least households, industry and agriculture; and (3) take into account environmental and resource costs;
- The determination of water supply vs. waste water treatment costs;
- The methodology to determine assessed charges so as to ensure fairness between metered and non-metered households;
- The possibility to introduce block charges and/or capacity charges;
- The determination of social tariffs or free allowances and their funding options;
- The harmonisation of water charges for non-domestic users across the country.

It is important that the CER initiate consultations with stakeholders soon, and that clarity be provided to domestic and non-domestic users well ahead of all changes, given the sensitivity and complexity of the issues at stake.

([1]) See OECD, Pricing Water Resources and Water Sanitation Services.

Graph 2.2: **Labor market developments**



Source: CSO

2.3.3. Reform of water sector

The definitive legal basis for reforming the water sector is being introduced. The authorities are on target to publish the Water Services (No. 2) Bill 2013 by the end of September, having prepared a General Scheme of the Bill and published a summary of it in July. The Bill, which the authorities aim to have enacted before the end of 2013, will achieve several key objectives, including: (1) the transfer of water services functions from local authorities to Irish Water; (2) the transfer of assets and liabilities related to water services; (3) the imposition of charges to domestic and non-domestic users in accordance with the cost-recovery principles set in the EU Water Framework Directive; (4) the assignment of economic regulatory powers, including the approval of tariffs submissions by Irish Water, to the Commission for Energy Regulation (CER); and (5) the delivery of water services by local authorities on behalf of Irish Water and under service level agreements for an initial period of 12 years, with reviews after two and seven years.

Operational milestones are being reached in view of reforming the sector and introducing domestic charges. Irish Water was incorporated in July, and all contracts for the installation of water meters have been awarded, with work commencing in mid-August. The company has put together a two-step communication campaign in order to foster social acceptance of the metering programme and minimise disruptions in the process. In addition, the Irish Water customer contact centre was established in July and the company is in the process of recruiting about 300 workers, mostly from local authorities and Bord Gáis Eireann.

Key decisions on the funding model remain to be made. The authorities are committed to make Irish Water self-funded over time, which implies the gradual phasing-in of charges at a level sufficient to cover operating and capital costs. They are making progress in developing the funding model for Irish Water and are keen to ensure that Eurostat classifies the company outside the general government sector from the onset, which would require that a credible plan be presented to guarantee that the company covers over 50% of operating costs from water charges. Definitive plans on the level of Exchequer support to Irish Water, the level of charges and the precise timeframe under which the company will become self-funded still have to be drawn and communicated to the public. These decisions will be part of the budgetary process, but CER-led consultations on the structure and level of charges (Box 2.3) ought to start sooner rather than later to prepare the ground for the announcement of a definitive time-plan for the introduction of domestic water charges, an end-year commitment under the Memorandum of Understanding. The finalisation of the funding model is also needed to ensure that the reform of the sector is in compliance with EU State-aid rules.

2.3.4. Asset disposals

Privatisation proceeds will soon become available for debt reduction and growth-enhancing projects. The sale of Bord Gáis Energy is the largest and closest forthcoming transaction, with short-listed companies involved in the final bidding stage. The disposal process of two of the Electricity Supply Board's overseas power plants is slightly less advanced, although transactions are expected to be completed before the end of 2013. While proceeds will at first accrue to the parent companies, the authorities should already draw up their strategy on how to use at least half of the revenue for eventual debt reduction and start identifying specific growth-enhancing projects of a commercial nature. As far as *Coillte* (the State-owned company operating in the forestry sector) is concerned, the authorities have determined that appropriate conditions for the sale of harvesting rights are not currently met, and that the priority should be on restructuring the company. The privatisation issue will be re-considered at a future date, and it is important that adequate measures be put in place to refocus the company on its core functions and business and to avoid the further build-up of contingent liabilities.

2.3.5. Legal service reforms

Legal services reforms have progressed but still need to be completed. The Legal Services Regulation Bill 2011 moved to Committee stage in July, following the completion of proposed amendments to Parts 1 to 4 of the bill. These included amendments that address concerns about the independence of the Legal Services Regulation Authority and were approved by the Committee. Proposed amendments to Parts 5 to 12 of the bill remain to be completed, however, even though it was initially planned that they would be published by early July. The critical issues dealt with in Parts 5 to 12 of the bill are: (1) complaints and disciplinary hearings; (2) alternative business structures; and (3) legal costs. The proposed amendments will determine the effectiveness of the bill in reducing legal services costs and therefore need to be considered carefully and without fear of confronting narrow vested interests. In particular, alternative business structures should not be victim of the amendments, and careful consideration should be given to the concerns raised by the Competition Authority of Ireland regarding how legal fees are to be determined. It is also essential that the Committee stage resume as quickly as possible after the summer recess to avoid further delays in enacting the bill.

2.3.6. Healthcare sector

Several important reforms are being implemented, though more work is still needed:

- The new "Health (pricing and supply of medical goods)" Act ([30]) affords the authorities significant new scope to achieve important savings on the state's pharmaceutical bill. In particular, as recommended by the recently published ESRI study ([31]), significant savings could be obtained by, for example, setting the maximum ex-factory price of in-patent pharmaceuticals at the *lowest price* of the current basket of nine EU Member States, rather than at the average (as is the case at present) and update these prices more frequently, i.e. every six or at maximum twelve months. The authorities have undertaken by end-October 2013 to: (i) provide a plan for the mid-term review of the IPHA agreement to be conducted by mid-2014 at the latest, under which they will carry out a comprehensive pricing re-alignment exercise, including in the hospital sector; and (ii) conduct a comprehensive exercise to realign downwards the prices of off-patent listed items.

- A national e-Health strategy, originally due by end-June, is now expected to be submitted by the authorities at end-September. Legislation necessary to allow for the introduction of health identifiers

([30]) See: http://www.dohc.ie/press/releases/2013/20130624.html
([31]) The report, titled "Ireland: Pharmaceutical Prices, Prescribing Practices and Usage of Generics in a Comparative Context", was an MoU commitment. It finds that drugs prices remain high in comparative terms (including for generic drugs), despite the recent realignments, and generic penetration low.

for individuals and professionals is being finalised and will be introduced to the Oireachtas in the autumn ([32]).

- Work to enable the cost recovery for private use of public hospitals has started. Progress is being made on the HSE enhanced financial and accounting framework and the case-based payment system linked to the principle of cost recovery for private use of public hospitals. Work has also started to develop a new IT platform (through external consultants) enabling the break-down of the full hospital budget, including outpatients, by clinical cost drivers.

Improving prescriber and dispenser practices would complement important work underway to reduce pharmaceutical costs. Two important needed reforms in this area are the compulsory use of active ingredient names (so called International Nonproprietary Name, or INN) by prescribers, and clear rules for the display of retail drugs prices by pharmacists. Both these measures would help ensure consumers gain the full benefits of greater generic penetration. The authorities have, however, committed to make arrangements for compulsory prescription by INN, where appropriate, and this should be in place by the end of 2013. The regulatory body for pharmacists has also been asked to examine how greater price transparency can be achieved at the retail pharmacy level.

([32]) The relevant provisions were originally included in the Health Information Bill—which dealt with a wider range of issues—but will now be introduced separately to ensure the roll-out of the identifiers is not unduly delayed.

3. FINANCING ISSUES

The programme remains well financed. Earlier in the year the authorities have issued some EUR 7.5 bn in medium-to-long term bonds. The authorities sustained their T-bill programme by selling EUR 500 mn of 3-months bills on a regular basis, at low yields and high bid-to-cover ratios ([33]). Cash balances have been further strengthened by some asset sales (e.g., the state's holdings of convertible contingent bonds in Bank of Ireland).

The Irish sovereign debt market also weathered well recent negative events, although short-term volatility is indicative of limited liquidity. Despite recent bouts of higher volatility in international bond markets, yields on Irish sovereign bonds have stayed low. After falling steadily through April to record lows of around 3.4% in the 10-year maturity, Irish sovereign yields rose somewhat over the summer in line with international market dynamics on heightened concerns that the US Federal Reserve could taper its quantitative easing over the next few quarters, as well as specific factors such as poor liquidity and lack of domestic buying. By the end of the summer 10-year yields appeared to have stabilized around 4%, while spreads to German bond yields had narrowed to around 200 basis points (less than half of the spreads prevailing a year ago). These developments are in line with recent research suggesting that developments in euro area bond yields are beginning to return to pre-crisis patterns, as opposed to the broad-based systemic concerns dominating the market up the summer of 2012 ([34]). Standard and Poor's upgraded its outlook on Ireland's credit rating to positive from stable on 12 July 2013, noting that Ireland’s general government debt may decline faster than previously expected.

The authorities are on track to achieve their funding objectives by the end of the programme. By the end of 2013, Ireland is expected to have accumulated a cash buffer of EUR 22.8 billion, sufficient to cover the total financing needs for 15 months. This includes disbursements of EUR 2.3 billion from the EFSF, EUR 0.8 billion from the IMF and EUR 0.25 billion from Sweden and Denmark following the completion of this 11th review ([35]). This sizeable cash reserve has been a stable feature of the authorities' funding strategy as a key tool to underpin market confidence. Compared to the 10th review, cash reserves are now larger, because contingencies did not materialize and the retail bond sales were stronger than expected. In July 2013, the authorities redeemed EUR 750 million of the 4% Treasury bond due to mature on 15 January 2014, which together with the maturity extensions of official EU loans agreed earlier in the year will reduce future funding needs considerably. For 2014, the cash buffer at the end of the year is also forecasted to cover the financing needs for the following 15 months.

([33]) The yields of the T-bills were at 0.2% at the latest auction on 18 July, with a cover ratio of 3.6.
([34]) Conefrey, Thomas and Cronin, David (2013) "Spillover in Euro Area Sovereign Bond Markets", CBI Research Technical Paper 05/RT/13, http://www.centralbank.ie/publications/Documents/Research%20Technical%20Paper%2005RT13.pdf
([35]) This will bring the released disbursements to EUR 66.1 billion, representing 97.9% of the total international assistance of EUR 67.5 billion available under the programme.

Table 3.1: **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**	**2.9**	**1.2**	**3.5**	**11.2**	**51.4**
B. Debt redemption 2/	**2.5**	**9.7**	**6.3**	**-0.6**	**-0.7**	**4.4**	**9.4**	**1.7**	**6.9**	**5.0**	**2.7**	**16.3**	**37.9**
of which: long term bonds	0.0	4.8	5.6	0.0	-0.3	0.7	6.0	0.4	4.6	0.8	0.0	5.8	16.7
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**	**0.0**	**1.1**	**0.5**	**1.6**	**2.1**
E. EU-IMF loan disbursement	**0.0**	**34.5**	**10.5**	**4.4**	**3.7**	**2.6**	**21.2**	**1.6**	**4.1**	**2.2**	**3.9**	**11.8**	**67.5**
EFSM/EFSF	0.0	21.5	6.2	2.8	2.3	1.0	12.3	0.0	2.4	1.0	3.1	6.5	40.2
Bilaterals 4/	0.0	0.5	1.1	0.2	0.5	0.7	2.5	0.5	0.7	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**	**2.2**	**2.9**	**20.9**	**35.2**
of which: long term bonds	0.0	0.0	0.0	3.1	5.1	0.0	8.1	7.8	0.0	0.0	2.2	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	25.5	22.7	22.8	22.8	

1/ Includes promissory note payments
2/ Includes long-term bonds, T-bills, commercial paper and others
3/ Include contingencies
4/ UK, Sweden and Denmark.

Source: Commission services; NTMA.

4. RISKS

As underscored also in previous reviews, and discussed above, Ireland continues to face important challenges and risks, which require close monitoring and determined policy action:

- On the real side, weak growth remains a key risk. The latest revisions of the recent export performance underscore that Ireland's prospects are closely linked to those of its key trading partners. These remain uncertain, and thus represent a key source of risks in the short term. Domestic demand could also fail to produce the envisaged support to economic activity, especially if financial sector reform stalls and unemployment remains high. In the latter respect, there is a risk that, barring a marked increase in activation resources and a timely reform of the training programs, the large cohort of long-term unemployed could find it difficult to return to the labour market, which would have serious adverse consequences for long-term potential growth and the sustainability of public finances.

- Fiscal risks persist. Commission services' best forecast at present is that the programme ceiling on the 2013 general government deficit might be exceeded, albeit by possibly small amounts. Although data through June suggest that expenditure is being contained below the budgeted profile, some pressures are expected to become apparent in the health sector. Additional risks are linked to the IBRC liquidation, the reclassification of AIB shares received by government as a dividend payment and difficulties to achieve full savings from the new public service wage agreement (Haddington Road Agreement). As the more lumpy expenditure (mostly in the capital budget) are completed by the end of the year, these pressures—unless proactively managed—could result in overruns. Moreover, at around 7½% of GDP, the deficit remains high, implying that considerable further fiscal consolidation is necessary going forward to bring public debt firmly back on a sustainable path, even if real economic growth returns to around 3% per year in the medium to long term. It is important that the authorities maintain the set policy course, and that they identify measures that are as much as possible equitable, durable and growth-friendly.

- Financial sector risks remain prevalent. On the one hand, an overly lengthy and protracted resolution of banks' still growing non-performing loans could hinder banks' capacity/willingness to extend new loans which would threaten a sustained recovery, and undermine their profitability and attractiveness to private funding. On the other hand, a speedier resolution could run into administrative and system bottlenecks, especially as far as the court system is concerned, unless procedures are appropriately streamlined and additional resources timely mobilized. Thus, there is a need to mobilize additional resources for the judicial system. It is also essential to preserve and, where possible, improve on the basic institutional framework underpinning the local credit market, to avoid costlier and/or scarcer credit in the post-crisis steady state. From this perspective, reports that unsecured debt is effectively serviced prior and in detriment of secured debt are concerning. Similarly, a functional credit registry, enabling a system-wide picture of a borrower's total indebtedness, should be established without further delays.

ABBREVIATIONS

AIB	Allied Irish Bank
BOI	Bank of Ireland
BGE	Bord Gáis Energy
BTL	Buy-to-Let
CBI	Central Bank of Ireland
CCMA	Code of Conduct on Mortgage Arrears
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
ERO	Employment Regulation Order
ESRI	Economic and Social Research Institute
ETB	Education and Training Board
FAS	Foras Áiseanna Saothair
FET	Further Education and Training
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
IBF	Irish Banking Federation
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
REA	Registered Employment Agreement
REER	Real Effective Exchange Rate
sa	Seasonally Adjusted
SGP	Stability and Growth Pact
SOLAS	An tSeirbhís Oideachas Leanúnaigh Agus Scileana (Further Education and Training Authority)
SME	Small and Medium Enterprise
SSM	Single Supervisory Mechanism
y-o-y	Year-on-year
WHO	World Health Organisation

ANNEX 1
Programme Implementation

Table A1.1: **Compliance assessment for Q2 2013**

Permanent conditions	Status and COM assessment
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.	**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). **Our current 2013 deficit forecast** (7.6% of GDP) is just above the 2013 EDP and programme ceiling (see main text).
ii. Any additional unplanned revenues must be allocated to debt reduction.	**ii. Observed.** **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. Moreover, the nominal value of Social Welfare pensions will not be increased.	**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).

(Continued on the next page)

Table (continued)

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).	**Observed, though pace/ambition of reforms could be stepped up.** 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 is to ensure the proper mobilisation of resources for engagement with and re-skilling of the long-term unemployed.
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.	**Observed.** (i) Detailed set of annual accounts, an Annual Statement and quarterly reports on NAMA activities were 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 center, 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 EUR 4.75 bn in NAMA senior bonds (63% of end 2013 target) and has reaffirmed the commitment to redeem EUR 7.5 bn by end 2013.

(Continued on the next page)

Table (continued)

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.	**Observed.** 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 contained in 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.	**Partly observed.** **Compliance with expenditure benchmark is insufficient. (***See dedicated milestone in 2013Q2.)* **The Irish Fiscal Advisory Council has been tasked with independently endorsing the macroeconomic forecasts underlying the budgetary plans.** The MOU setting out practical arrangements between the IFAC and the DoF was published on 9 August 2013.

(Continued on the next page)

Table (continued)

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. Observed.
PC.12 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.	**Not yet applicable.**
Q2: financial sector reform	
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.	**Observed.**
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.	**Observed.**
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.**

(Continued on the next page)

Table (continued)

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.	**Observed.**
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.**
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.	**Observed.**
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.	**Observed.**
The authorities will issue guidance to the credit institutions on the definition of a sustainable restructuring arrangement by end-June.	**Observed.**
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.	**Observed.**
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.	**Observed.**

(Continued on the next page)

Table (continued)

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.	**Observed.**
The authorities will report on the exploration of options to lower the funding cost of banks' tracker mortgage portfolios.	**Observed.**
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.	**Observed.**
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.**
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.	**Observed.**
Q2: structural reforms	
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.	**Not fully observed/ongoing.** As part of the Irish authorities' response to (i) the Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States and (ii) specific programme conditionality, the Ministers and Secretaries (Amendment) Act 2013, signed into law on the 23 July, introduces multi-year expenditure ceilings for the central government. The Act provides for implementing details of the ceilings to be arranged via administrative circulars. The aggregate covered by the multi-year expenditure ceiling is somewhat different from aggregate defined by the SGP's "expenditure benchmark" (see Art. 9 of EU Regulation 1175/2011). Moreover, the law does not clearly define the specific circumstances under which discretionary revisions of the

(Continued on the next page)

Table (continued)

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.	**Not fully observed/ongoing.** As part of the Irish authorities' response to (i) the Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States and (ii) specific programme conditionality, the Ministers and Secretaries (Amendment) Act 2013, signed into law on the 23 July, introduces multi-year expenditure ceilings for the central government. The Act provides for implementing details of the ceilings to be arranged via administrative circulars. The aggregate covered by the multi-year expenditure ceiling is somewhat different from aggregate defined by the SGP's "expenditure benchmark" (see Art. 9 of EU Regulation 1175/2011). Moreover, the law does not clearly define the specific circumstances under which discretionary revisions of the ceilings could be considered nor does it require a clear and detailed explanation for the proposed revisions. These circumstances could be set out in the administrative circular which, as per MoU conditionality, is expected to be published one month after the entering into force of the Ministers and Secretaries (Amendment) Act. It remains to be seen the extent to which the forthcoming circular, which is expected to be published by the end of August, will adequately specify the circumstances under which the expenditure ceilings can be modified, and whether, even assuming it does, it will have the necessary legal strength to ensure that the ceilings act as the desired policy anchor in practice.
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.	**Observed.** The authorities reported on progress towards the forthcoming sale of Bord Gáis Energy and two overseas power plants of the ESB. They reported their decision not to concession Coillte's harvesting rights at this stage.
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.	**Observed.**
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	**Observed, on-going.** Action plan has been prepared, with actions to be undertaken through end-2014. Faster progress than experienced so far would be needed in some areas.

(Continued on the next page)

Table (continued)

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.	**Observed.** A first attempt to evaluate the impact of the Action Plan for Job process has been prepared, but struggles to assess the effectiveness of specific categories of measures. It recognises that more systemic metrics should be developed to measure impact in the future.
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.	**Partly observed.** The authorities have engaged with the European Commission and prepared a General Scheme of the Water Services (No.2) Bill. They published a relatively detailed summary of the General Scheme, but not the entire document.
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.	**Observed.** The final version of the study, written by the ESRI, was submitted to the EC on the 11 June and in terms of content fulfils the conditionality. The study was published on the website of the ESRI on 27 June. The report includes several policy recommendations, such as: (i) increasing transparency and improving cost-containing procedures/benchmarks in the setting of internal reference prices; ii) making INN prescribing compulsory and iii) committing to conduct a pricing realignment exercise for in-patent and single source post-patent drugs at the latest during the Mid-Term Review of the current agreement with the association of brand pharmaceutical companies (IPHA). Commission services strongly support all the policy options identified by ESRI.
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.	**Not observed.** No deliverable strategy with time-bound benchmarks received or communicated to the Troika by end Q2. The authorities will be in a position to submit the eHealth Strategy by the end of September.

Source: Commission services

ANNEX 2
Supplementary Tables

Table A2.1: **Use and supply of goods and services (volume)**

Annual % change	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	0.6	-1.6	-0.3	-0.3	0.5	1.0	1.3
2. Government consumption expenditure	-6.9	-2.8	-3.7	-0.9	-2.8	-2.5	0.3
3. Gross fixed capital formation	-22.6	-9.5	-0.8	2.0	3.6	5.5	5.4
4. Final domestic demand	**-5.6**	**-3.1**	**-1.2**	**-0.1**	**0.2**	**0.9**	**1.8**
5. Change in inventories							
6. Domestic demand	**-6.2**	**-0.5**	**-0.8**	**-0.1**	**0.2**	**0.9**	**1.8**
7. Exports of goods and services	6.4	5.3	1.6	1.1	2.9	4.1	4.4
7a. - of which goods	5.2	3.8	-3.6	-1.5	1.6	4.1	4.4
7b. - of which services	7.7	7.0	6.9	3.6	4.1	4.1	4.4
8. Final demand	**0.3**	**2.8**	**0.6**	**0.6**	**1.8**	**2.8**	**3.4**
9. Imports of goods and services	3.8	-0.4	0.0	0.6	1.8	3.2	4.0
9a. - of which goods	-1.1	-2.4	-2.9	0.1	1.7	3.2	4.0
9b. - of which services	6.7	0.8	1.7	0.9	1.9	3.2	4.0
10. Gross domestic product at market prices	**-1.1**	**2.2**	**0.2**	**0.6**	**1.8**	**2.5**	**2.8**
Contribution to change in GDP							
11. Final domestic demand	-0.7	-3.5	-1.5	-0.1	0.1	0.7	1.3
12. Change in inventories + net acq. of valuables	-0.5	2.1	0.3	0.0	0.0	0.0	0.0
13. External balance of goods and services	3.1	5.7	1.6	0.7	1.6	1.8	1.5

Source: Commission services

Table A2.2: **Use and supply of goods and services (value)**

Annual % change	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	-1.7	0.3	0.1	0.6	1.4	2.1	2.8
2. Government consumption expenditure	-9.2	-1.8	-1.3	-0.2	-1.8	-1.5	1.0
3. Gross fixed capital formation	-26.2	-10.1	1.4	6.0	7.9	10.5	10.5
4. Final domestic demand	**-8.1**	**-1.8**	**0.0**	**1.2**	**1.6**	**2.6**	**3.7**
5. Change in inventories	-65.1	-289.1	-70.2	21.6	-11.0	0.0	0.0
6. Domestic demand	**-7.3**	**-0.6**	**-0.6**	**1.0**	**1.6**	**2.6**	**3.7**
7. Exports of goods and services	7.8	5.8	5.9	2.2	3.9	5.3	5.4
8. Final demand	**3.4**	**-2.9**	**6.1**	**1.7**	**3.0**	**4.2**	**4.7**
9. Imports of goods and services	6.6	2.7	3.9	1.9	2.9	4.5	5.1
10. Gross national income at market prices	-1.8	-1.5	0.5	-2.7	2.7	2.8	3.3
11. Gross value added at basic prices	-2.6	3.3	0.5	1.6	2.8	4.1	4.7
12. Gross domestic product at market prices	**-2.6**	**2.8**	**0.8**	**1.6**	**3.0**	**4.0**	**4.5**

Source: Commission services

Table A2.3: **Implicit price deflators**

% change in implicit price deflator	2010	2011	2012	2013	2014	2015	2016
1. Private consumption expenditure	-2.3	1.9	0.5	0.9	0.9	1.1	1.4
2. Government consumption expenditure	-2.4	1.0	2.5	0.7	1.0	1.0	0.7
3. Gross fixed capital formation	-4.6	-0.7	2.2	3.9	4.2	4.7	4.8
4. Domestic demand	**-1.4**	**-0.2**	**0.2**	**1.3**	**1.4**	**1.6**	**1.9**
5. Exports of goods and services	1.3	0.4	4.2	1.0	1.0	1.2	1.0
6. Final demand	**0.1**	**0.2**	**2.5**	**1.2**	**1.2**	**1.4**	**1.3**
7. Imports of goods and services	2.8	3.1	3.9	1.3	1.1	1.3	1.0
8. Gross domestic product at market prices	**-1.5**	**0.7**	**0.7**	**1.0**	**1.2**	**1.4**	**1.6**
HICP	**-1.6**	**1.2**	**1.9**	**1.0**	**1.2**	**1.4**	**1.6**

Source: Commission services

Table A2.4: **Labour market and cost**

Annual % change	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1. Labour productivity	3.1	4.0	0.7	-0.1	0.9	0.8	0.7
2. Compensation of employees per head	-4.3	-0.1	0.7	0.1	-0.6	-0.1	0.2
3. Unit labour costs	-7.9	0.2	0.4	0.2	-1.3	-1.0	-0.7
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	0.7	0.9	1.7	2.1
7. Calculated unemployment rate - Eurostat definition (%)	13.9	14.9	14.7	13.7	13.3	12.8	12.3

Source: Commission services

Table A2.5: **External balance**

levels	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1. Exports of goods (fob)	82.6	85.0	85.9	85.6	87.8	92.5	97.5
2. Imports of goods (fob)	46.9	48.3	49.5	50.2	51.6	53.9	56.6
3. Trade balance (goods, fob/fob) (1-2)	**35.8**	**36.7**	**36.4**	**35.4**	**36.2**	**38.6**	**40.9**
3a. p.m. (3) as % of GDP	*22.6*	*22.6*	*22.2*	*21.3*	*21.1*	*21.6*	*21.9*
4. Exports of services	75.2	82.0	90.9	95.0	99.9	105.2	110.9
5. Imports of services	81.5	83.5	87.5	89.4	92.1	96.3	101.2
6. Services balance (4-5)	**-6.3**	**-1.6**	**3.4**	**5.5**	**7.7**	**8.9**	**9.7**
6a. p.m. 6 as % of GDP	*-4.0*	*-1.0*	*2.1*	*3.3*	*4.5*	*5.0*	*5.2*
7. External balance of goods & services (3+6)	**29.5**	**35.1**	**39.7**	**40.9**	**43.9**	**47.5**	**50.6**
7a. p.m. 7 as % of GDP	*18.6*	*21.6*	*24.2*	*24.6*	*25.6*	*26.6*	*27.1*
8. Balance of primary incomes and current	-27.7	-33.2	-31.7	-37.0	-38.3	-41.3	-44.8
8a. - of which, balance of primary income	*-25.2*	*-31.0*	*-31.8*	*-38.0*	*-39.5*	*-42.7*	*-46.3*
8b. - of which, net current Transfers	*-2.5*	*-2.2*	*0.0*	*1.0*	*1.3*	*1.4*	*1.5*
8c. p.m. 8 as % of GDP	*-17.5*	*-20.4*	*-19.3*	*-22.2*	*-22.3*	*-23.1*	*-24.0*
9. Current external balance (7+8)	**1.8**	**1.9**	**8.0**	**3.9**	**5.7**	**6.2**	**5.8**
9a. p.m. 9 as % of GDP	1.1	1.2	4.9	2.3	3.3	3.5	3.1
10. Net capital transactions	-0.7	-0.2	-0.2	-2.3	-1.2	-0.2	-0.2
11. Net lending (+)/ net borrowing (-) (9+10)	**1.1**	**1.7**	**7.9**	**1.6**	**4.5**	**5.9**	**5.5**
11a. p.m. 11 as % of GDP	*0.7*	*1.0*	*4.8*	*1.0*	*2.6*	*3.3*	*3.0*

Source: Commission services

Table A2.6: **Fiscal accounts**

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				% of GDP					
Indirect taxes	12.3	11.3	11.3	10.9	11.0	10.9	11.1	11.1	10.9
Direct taxes	11.5	10.7	10.6	11.8	12.8	13.0	13.4	13.7	13.7
Social contributions	6.8	7.4	7.3	6.3	5.8	5.9	5.8	5.6	5.4
Sales	2.3	2.8	3.3	3.1	3.0	2.6	2.4	2.2	2.1
Other current revenue	1.3	1.3	1.4	1.3	1.4	1.7	1.5	1.4	1.3
Total current revenue	**34.2**	**33.5**	**33.9**	**33.4**	**33.9**	**34.0**	**34.2**	**34.0**	**33.4**
Capital transfers received	1.2	1.0	1.0	0.7	0.6	0.6	0.6	0.3	0.3
Total revenue	**35.4**	**34.5**	**34.9**	**34.1**	**34.5**	**34.7**	**34.8**	**34.4**	**33.7**
Compensation of employees	11.8	12.8	12.2	11.8	11.5	11.1	10.3	9.7	9.3
Intermediate consumption	5.8	6.4	5.9	5.5	5.2	4.8	4.6	4.3	4.1
Social transfers in kind via market producers	2.1	2.3	2.4	2.3	2.5	2.5	2.4	2.3	2.2
Social transfers other than in kind	12.2	15.2	15.4	15.3	15.0	14.4	13.6	12.8	12.6
Interest paid	1.3	2.0	3.1	3.3	3.7	4.9	5.0	5.0	5.0
Subsidies	0.5	0.6	0.6	0.4	0.4	0.3	0.3	0.3	0.3
Other current expenditure	1.9	1.9	1.5	1.4	1.4	1.3	1.1	1.0	1.0
Total current expenditure	**35.6**	**41.1**	**41.2**	**40.0**	**39.7**	**39.3**	**37.4**	**35.4**	**34.5**
Gross fixed capital formation	5.3	3.7	3.5	2.5	2.0	1.7	1.6	1.6	1.5
Other capital expenditure	1.8	3.5	20.7	4.7	0.4	1.2	0.7	0.1	0.1
Total expenditure	**42.7**	**48.3**	**65.4**	**47.2**	**42.1**	**42.2**	**39.6**	**37.1**	**36.2**
General Government balance	**-7.3**	**-13.8**	**-30.5**	**-13.1**	**-7.6**	**-7.6**	**-4.8**	**-2.8**	**-2.4**
Underlying Government balance (EDP)	**-7.3**	**-11.3**	**-10.6**	**-8.9**	**-7.6**	**-7.6**	**-4.7**	**-2.8**	**-2.4**
				EUR billion					
Indirect taxes	22.2	18.3	17.9	17.7	18.0	18.2	19.1	19.7	20.2
Direct taxes	20.7	17.4	16.7	19.2	20.9	21.6	23.1	24.5	25.6
Social contributions	12.2	12.0	11.5	10.3	9.5	9.8	10.0	10.0	10.1
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	2.6	2.4
Total current revenue	**61.7**	**54.3**	**53.6**	**54.3**	**55.6**	**56.7**	**58.7**	**60.7**	**62.3**
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**	**57.7**	**59.8**	**61.3**	**62.9**
Compensation of employees	21.2	20.7	19.3	19.1	18.8	18.5	17.7	17.3	17.3
Intermediate consumption	10.4	10.4	9.3	8.9	8.6	8.0	7.9	7.7	7.7
Social transfers in kind via market producers	3.9	3.8	3.9	3.8	4.1	4.1	4.1	4.1	4.2
Social transfers other than in kind	22.0	24.6	24.3	25.0	24.6	23.9	23.3	22.9	23.5
Interest paid	2.4	3.3	5.0	5.3	6.1	8.2	8.6	9.0	9.3
Subsidies	0.9	0.9	0.9	0.6	0.6	0.6	0.5	0.5	0.5
Other current expenditure	3.4	3.1	2.4	2.3	2.3	2.2	1.9	1.8	1.8
Total current expenditure	**64.2**	**66.7**	**65.1**	**65.1**	**65.0**	**65.5**	**64.1**	**63.2**	**64.4**
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	2.0	1.1	0.2	0.2
Total expenditure	**77.0**	**78.4**	**103.4**	**76.7**	**69.1**	**70.4**	**68.0**	**66.3**	**67.4**
General Government balance	**-13.2**	**-22.4**	**-48.3**	**-21.3**	**-12.5**	**-12.6**	**-8.3**	**-4.9**	**-4.5**
Deficit-increasing financial sector measures		4.0	31.6	6.8	0.0	0.0	0.1	0.0	0.0
Underlying Government balance (EDP)	**-13.2**	**-18.4**	**-16.7**	**-14.4**	**-12.5**	**-12.6**	**-8.1**	**-4.9**	**-4.5**

Source: Commission services

Table A2.7: **Debt developments**

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Government deficit (% of GDP)	**-7.3**	**-13.8**	**-30.5**	**-13.1**	**-7.6**	**-7.6**	**-4.8**	**-2.8**	**-2.4**
Government gross debt (% of GDP)	44.2	64.4	91.2	104.1	117.4	125.4	121.5	119.5	116.2
				levels, EUR billion					
Government deficit	**-13.2**	**-22.4**	**-48.3**	**-21.3**	**-12.5**	**-12.6**	**-8.3**	**-4.9**	**-4.5**
Gross debt	79.6	104.5	144.2	169.2	192.5	208.9	208.6	213.2	216.6
Change in gross debt	32.3	24.9	39.6	25.1	23.2	16.4	-0.3	4.6	3.4
Nominal GDP	180.2	162.3	158.1	162.6	163.9	166.6	171.6	178.4	186.4
Real GDP	171.8	160.9	159.1	162.6	162.9	163.8	166.7	170.9	175.7
Real GDP growth (% change)	**-2.2**	**-6.4**	**-1.1**	**2.2**	**0.2**	**0.6**	**1.8**	**2.5**	**2.8**
Change in gross debt (% of GDP)	17.9	15.4	25.1	15.4	14.2	9.8	-0.2	2.6	1.8
Stock-flow adjustments (% of GDP)	10.6	1.6	-5.5	2.3	6.6	2.3	-5.0	-0.2	-0.6
				% of GDP					
Gross debt ratio	**44.2**	**64.4**	**91.2**	**104.1**	**117.4**	**125.4**	**121.5**	**119.5**	**116.2**
Change in gross debt ratio	19.2	20.3	26.8	12.9	13.3	8.0	-3.8	-2.1	-3.3
				Contribution to change in gross debt					
Primary balance	6.0	11.8	27.4	9.8	3.9	2.6	-0.2	-2.3	-2.6
"Snow-ball" effect	2.7	7.0	4.9	0.8	2.9	3.1	1.4	0.4	-0.1
of which									
Interest expenditure	*1.3*	*2.0*	*3.1*	*3.3*	*3.7*	*4.9*	*5.0*	*5.0*	*5.0*
Real growth effect	*0.6*	*3.1*	*0.7*	*-1.9*	*-0.2*	*-0.7*	*-2.1*	*-2.9*	*-3.2*
Inflation effect	*0.8*	*1.9*	*1.0*	*-0.6*	*-0.7*	*-1.2*	*-1.5*	*-1.7*	*-1.8*
Stock-flow adjustments	**10.6**	**1.6**	**-5.5**	**2.3**	**6.6**	**2.3**	**-5.0**	**-0.2**	**-0.6**
Implicit interest rate	*5.1*	*4.1*	*4.8*	*3.7*	*3.6*	*4.3*	*4.1*	*4.3*	*4.4*

The projections assume no borrowing for precautionary contingencies foreseen in the programme's financing plan. Stock-flow adjustments include a reduction in cash balances from around 14% of GDP at end-2013 to around 4% by end-2016 and other and other financial transactions.
Source: Commission services

ANNEX 3

Updated programme documents

Dublin, 11 September 2013

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

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

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

Mr. Rimantas Šadžius
Minister of Finance
Lukiškių 2,
01512 Vilnius,
Lithuania

Dear Messrs. Draghi, Dijsselbloem, Rehn and Šadžius,

1. We remain determined to leave the crisis behind, support the emerging economic recovery and meaningfully reduce our high unemployment rate. As we near the completion of our programme, the Government's focus is firmly on continuing to underpin a durable and sustainable return to market based funding that will be essential in a post programme setting. The Irish Government's performance in terms of commitment to the programme remains firm as is clearly illustrated by our continued strong record in implementing the agreed policy frameworks and measures.

2. There have been a number of positive developments. Although, first-quarter national accounts data have been disappointing with export growth slowing due to sector-specific developments as well as weak trading partner growth, more high-frequency data have been encouraging, with house prices returning to year-on-year growth, broad-based employment growth has resumed and unemployment is down. The yields on Irish government bonds remain low and are now well below the levels seen before the programme. This has been supported by the general improvement in market sentiment following the announcement by the ECB of its outright monetary transactions programme as well as, more specifically to Ireland, by the replacement of the promissory notes with longer-duration, government bonds following the liquidation of IBRC and by the decision by the Eurogroup and the ECOFIN to extend by seven years the average duration of the EU loans. We have also made progress with the bank diagnostic exercise and remain committed to completing the assessment of banks' balance sheets by the end of November. There have also been advances with the target based approach to deal with mortgage arrears.

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

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

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

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

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

8. This letter is being copied to Mme Lagarde.

Sincerely,

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

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

1. With regard to Council Regulation (EU) n° 407/2010 of 11 May 2010 establishing a European Financial Stabilisation Mechanism (EFSM), and in particular Article 3(5) thereof, this tenth 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[36] 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-supported economic adjustment programme the Irish authorities will take all the necessary measures to ensure a successful implementation of the programme and minimise the costs to the taxpayers, while protecting the most vulnerable. In particular, they commit to:

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

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

   Use at least half of the proceeds from state asset sales for eventual debt reduction while also reinvesting the remainder of the total realised proceeds in projects which are of a commercial nature, meet ex-ante

[36] 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.

cost benefit criteria, enhance employment and preserve long term fiscal sustainability, including Programme and EDP fiscal targets.

Continuously monitor financial markets to exploit opportunities to consolidate our return to commercial funding on a sustainable basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial sector reforms

Capital assessment

5. Taking into account progress in developing the relevant SSM methodology, the authorities will agree with staff of the European Commission, the IMF, and the ECB,as part of the asset quality review on an incurred loss basis (as per paragraph 24),test parameters for benchmarking provisioning. Sampling and loan file reviews will follow best practice to ensure a high level of coverage and representativeness.

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

- the engagement of independent third parties to, respectively: (i) contribute to the implementation of the exercise including through on-site loan file reviews, and (ii) validate the exercise.

- a detailed roadmap for the completion of the exercise specifying regular engagement, with the staff of the European Commission, ECB, and IMF, on an ongoing basis on progress, methodology, inputs, outputs, and findings.

Deleveraging

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

Funding and liquidity monitoring

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

Profitability

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

Asset quality

10. The authorities will keep under review the effectiveness of statutory repossession arrangements in Ireland based on ongoing experience with repossession actions. The authorities will agree with staff of the EC, ECB and IMF by mid-August the terms of reference for an expert group that will examine issues such as length, predictability and cost of proceedings, including relative to peer jurisdictions, as well as systems for dealing with non-cooperative borrowers and the merits of expedited proceedings for non-principal private residences, and propose, where necessary, appropriate measures to be brought forward quickly to deal with any problems arising.

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

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

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

Financial Supervision

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

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

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

Mortgage Reporting

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

Structural reforms

Water services reform

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

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

Further education and training

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

Health

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

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

Expenditure ceilings

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

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

Financial sector reforms

Capital Assessment

24. Taking into account progress in developing the relevant SSM methodology and in consultation with staff of the European Commission, ECB and IMF the authorities will complete a preliminary assessment of balance sheets of PCAR banks by end-October incorporating the results of (i) an assessment of quantative impairment provisions and a review of risk classification i.e., an asset quality review on an incurred loss basis and (ii) a review of the appropriateness of risk weighted assets calculations under alternative assumptions. The asset quality review will be based on the Central Bank of Ireland's Impairment Provisioning and Disclosure Guidelines updated at end May 2013. Outputs

will include a sensitivity analysis for critical parameters. The assessment of balance sheets will be finalised by end-November 2013 and the results will be communicated to the PCAR Banks to help inform their assessment of impairment provisions and financial plans going forward.

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

Deleveraging

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

Funding and liquidity monitoring

27. The authorities will provide staff of the European Commission, the IMF, and the ECB with a detailed assessment of banks' progress towards the relevant Basel III liquidity and funding requirements using the advanced monitoring framework, and will produce a final report on progress towards compliance with Basel III liquidity and funding requirements by the relevant dates.

Asset quality

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

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

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

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

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

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

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

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

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

Financial Supervision

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

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

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

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

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

Structural reforms

Labour market reform

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

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

Water services reform

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

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

Health

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

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

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

49. Consistent with the new powers afforded by the recently enacted "Health (Pricing and Supply of Medical Goods) Act 2013" and the recommendations of the June 2013 ESRI report titled "Ireland: Pharmaceutical Prices, Prescribing Practices and Usage of Generics in a Comparative Context", the authorities will provide, by end-October 2013, an update on the exercise of these powers, including a plan for the mid-term review of the Oct 2012 agreement with IPHA, under which they will carry out a comprehensive pricing re-alignment exercise, including in the hospital sector.

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

Legal services reform

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

Annex 1. Provision of data

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

To be provided by the Department of Finance in consultation with the Department of Public Expenditure and Reform as appropriate		
Ref.	Report	Frequency
F.1	Monthly data on adherence to budget targets (Exchequer statement, details on Exchequer revenues and expenditure with information on Social Insurance Fund to follow as soon as practicable).	Monthly, 10 days after the end of each month
F.2	Updated monthly report on the Exchequer Balance and General Government Balance outlook for the remainder of the year which shows transition from the Exchequer Balance to the General Government Balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 20 days after the end of each month
F.3	Quarterly data on main revenue and expenditure items of local Government.	Quarterly, 90 days after the end of each quarter
F.4	Quarterly data on the public service wage bill, number of employees and average wage (using the presentation of the Pay and Pension Bill with further details on pay and pension costs of local authorities).	Quarterly, 30 days after the end of each quarter
F.5	Quarterly data on general Government accounts, and general Government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 105 days after the end of each quarter
F.6	Updated annual plans of the general Government balance and its breakdown into revenue and expenditure components for the current year and the following four years, using presentation in the stability programme's standard table on general Government budgetary prospects.	30 days after EDP notifications
F.7	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for Non-Commercial State Agencies	Quarterly, 30 working days after the end of each quarter
F.8	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months (interest and amortisation) for local authorities	Quarterly, 30 working days after the end of each quarter
F.9	Data on short- and medium- /long-term debt falling due (all instruments) over the next 36 months for State- owned commercial enterprises (interest and amortisation)	Quarterly, 30 working days after the end of each quarter
F.10	Assessment report of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.	Quarterly, 30 working days after the end of each quarter.
F.11	Report on implementation of budgetary measures in the health sector, covering inter alia assessment of timeliness and effects vis-à-vis 2013 Budget plans and explanation for any delay/shortfall, as well as update on status of any remaining actions required for effective implementation.	Monthly, 30 working days after the end of each month.
F.12	Report comparing, against the monthly targets: (i) health expenditure by mains service areas, (ii) pay and non-pay element of current expenditure, (iii) capital expenditure and (iv) income collected.	Monthly, 7 working days after the end of each month.
F.13	Report on pharmaceutical prescriptions and expenditure,	Quarterly, 30 working days

	including information on value and volume of drugs and the extent of the use of generics and off-patent drugs.	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.

IRELAND: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

A. Recent Economic and Financial Developments and Outlook

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

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

B. Fiscal Policies

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

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

5. **To ensure equitable, durable and growth-friendly budget measures, we are analysing a range of reform options.** Budget 2013 incorporated significant measures contributing to our medium term fiscal consolidation effort. For the remaining consolidation needed, we are developing revenue and expenditure reforms that preserve core public services and protect the most vulnerable. On the spending side, we are seeking to better target our social supports and subsidies, to reform key public services to generate savings while preserving outcomes, and to continue targeted capital investment. On the revenue side, we are looking to further broaden the tax base. We will implement reforms of the health and water sectors as specified in the MoU.

C. Financial Sector Policies

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

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

8. **We are further articulating our system of mortgage resolution targets with a view to substantially resolving mortgage arrears by end-2014.** All lenders subject to the Mortgage Arrears Resolution Targets framework have reported that they have fulfilled the mid-year target

for sustainable solutions proposed. Based on consultations with the staff of the EC, ECB, and IMF, we will as soon as practicable, and no later than the Board meeting for this review, publish a target for the conclusion by end-2013 of sustainable solutions of no less than 15 percent of mortgage loans in arrears for more than 90 days, consistent with largely completing sustainable solutions by end-2014 (**prior action**). Each quarter we will announce future targets on a rolling basis, including, by mid-September, Q1 2014 targets for proposed solutions of 70 percent and for concluded solutions of no less than 25 percent. We will monitor each bank's progress, including through audits of performance against the resolution targets as set out in the MART framework, and assessing the sustainability of offered and concluded solutions. We will report to staff of the EC, ECB, and IMF by early-November on the number and nature of solutions proposed in Q3 with a preliminary assessment of sustainability issues, and in mid- November, on the outcome of the audit of banks' proposed solutions for Q2, which will include an assessment of the sustainability of banks' solutions,. We will devise a system for lenders to report on legal proceedings with a view to ensuring progress towards achieving sustainable solutions. We will also require lenders to have in place a strategy to address any potential shortfall from the repossession of the property.

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

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

11. **We are preparing a preliminary assessment of the balance sheets of the PCAR banks by end-October, to be finalised by end-November.** This review will incorporate the results of: (i) an assessment of quantitative impairment provisions and a review of risk classification, i.e., an asset quality review on an incurred loss basis, and (ii) a review of the appropriateness of risk weights for regulatory capital purposes. Third parties independent of the banks will contribute to the implementation of the exercise, including through on-site loan file reviews. A separate independent third party will be engaged to validate the exercise. Sampling and loan file reviews will follow best practice to ensure a high level of coverage and representativeness. The test parameters for benchmarking provisioning will be agreed by end-September. Outputs will include a sensitivity analysis for critical parameters. In the course of this assessment we will engage, with staff of the EC, ECB, and IMF, on an ongoing basis on progress, methodology, inputs, outputs, and findings.

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

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

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

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

D. Structural Reforms

16. **Our plans to support economic activity, including employment through a range of investment projects are proceeding as planned.** In addition to our normal Exchequer funded capital investment plan, two Public-Private Partnership (PPPs) projects in the areas of education and roads have entered the construction phase and several other projects will advance to construction at various stages over the next two years. These projects will be funded through PPPs and—to a limited extent—through additional direct funding from the budget. To link in with our labour activation policy measures, we are piloting the use of social procurement clauses to ensure that a portion of workers are recruited from the long term unemployed and from apprenticeship programmes. The disposal of state assets is also advancing and the sale of key energy sector assets will be completed by end-2013. We will use at least half of the resulting proceeds to reduce public debt in due course, with the details on timing and implementation to be agreed. The remainder will be invested in job-rich projects of a commercial nature, consistent with our fiscal targets.

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

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

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

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

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

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

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

- We are promoting awareness and understanding of the full range of Government initiatives to support SME financing. We will undertake a review of the Credit Guarantee Scheme to identify and address issues that have a bearing on the take-up and the future performance and success of the Scheme. The NPRF SME funds announced earlier this year (the Restructuring Fund, Turnaround Fund and Credit Fund) will be operational within the coming months and provide, in partnership with private sector players, up to €900 million of equity finance and new lending to SMEs. These funds will also help to facilitate the workout of viable SMEs with loans in arrears. We will continue our efforts to deploy these initiatives and study further options in the context of the EFC high-level expert group on long-term finance and SMEs that was set-up following a recommendation of the 2013 Irish EU Presidency.

- **We are taking steps to facilitate SME restructurings.** The full amendments to the Company Law are currently anticipated for 2014. Given the imperatives of SME loan resolution, we will seek to accelerate the adoption of provisions that give jurisdiction to Circuit Courts for SME examinership by year-end. To facilitate SME restructuring, especially in multi-creditor cases, we will consider by end-2013 the appropriateness of additional legislative amendments to the SME examinership legal framework to reduce costs and achieve efficiency gains. By end-2013, drawing on initial experience with the operation of the Insolvency Service in the personal insolvency reform and recommendations in the Company Law Review report, we will consider the potential for an administrative body to facilitate SME restructuring.

E. Programme Financing and Monitoring

19. **To date in 2013, €7.5 billion has been raised by the NTMA from two syndicated bond sales in the first quarter of 2013 - both of which attracted strong international interest and were heavily oversubscribed – we expect to end the year with a cash buffer covering 12-15 months of future financing needs.** Decisions on potential bond auctions will be taken later in the year in the light of prevailing market conditions. The recent confirmation of

the 7 year extension in EFSM/EFSF maximum average maturities reduces refinancing needs in coming years. These positive developments support Ireland's ability to access long-term market funding on sustainable terms and we remain on course to consolidate a durable return to the debt markets in 2014. We are also developing a Medium Term Economic Strategy until 2020 to underpin our growth and debt sustainability prospects, which will support our access to market financing.

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

Table 1. Programme Monitoring

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

Table 1. Programme Monitoring (concluded)

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

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

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

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

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

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

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

Table 3. Structural Benchmarks Under the Programme

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

IRELAND: TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

11 September, 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.[37] The Exchequer balance is the difference between total receipts into, and total expenditure out of, the Exchequer Account. It measures the sum of the current and capital balances. The current balance is defined as current receipts (tax and non-tax revenue) minus current expenditure (voted expenditure and non-voted expenditure charged directly on the Central Fund, including the Sinking Fund). The capital balance is defined as capital receipts (Sinking Fund and other capital receipts) minus capital expenditure (voted and non-voted expenditure). The Sinking Fund provision is a transfer from the

[37] 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.

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.[38]

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

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

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

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

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

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

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

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

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

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

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

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

revenues, pay-related social insurance contributions (PRSI) and national training fund contributions against the current projection which is listed below:[39]

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

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

Ceiling on the Stock of Central Government Net Debt

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

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

(i) upward by debt arising from payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy.[40] These payments may include, inter alia, loans to banks; investments in their equity (requited recapitalisation); unrequited recapitalisation; and purchases of troubled assets, which are carried out in line with programme objectives,

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

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

[39] 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).

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

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

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

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

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

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

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

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

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

Non-accumulation of External Payments Arrears by Central Government

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

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

II. REPORTING REQUIREMENTS

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

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

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

HOW TO OBTAIN EU PUBLICATIONS

Free publications:

- one copy:
  via EU Bookshop (http://bookshop.europa.eu);

- more than one copy or posters/maps:
  from the European Union's representations (http://ec.europa.eu/represent_en.htm);
  from the delegations in non-EU countries (http://eeas.europa.eu/delegations/index_en.htm);
  by contacting the Europe Direct service (http://europa.eu/europedirect/index_en.htm) or
  calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (*).

  (*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

Priced publications:

- via EU Bookshop (http://bookshop.europa.eu).

Priced subscriptions:

- via one of the sales agents of the Publications Office of the European Union (http://publications.europa.eu/others/agents/index_en.htm).

KC-AH-13-162-EN-N

Publications Office