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COMMISSION STAFF WORKING PAPER

Ireland financial assistance programme documents

Accompanying document to the

Proposal for a

COUNCIL DECISION

on granting Union financial assistance to Ireland

COM(2010) 730 final

Ireland Financial Assistance Programme

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Dublin, December xx, 2010

Mr Jean-Claude Juncker
President
Eurogroup

Mr Didier Reynders
European Union Presidency

Mr Olli Rehn
Commissioner
European Commission

Mr Jean-Claude Trichet
President
European Central Bank

Dear Messrs. Juncker, Reynders, Rehn and Trichet,

1. Ireland faces an economic crisis without parallel in its recent history. The problems of low growth, doubts about fiscal sustainability, and a fragile banking sector are now feeding on each other, undermining confidence. To break this vicious circle, we are proposing a strong, wide-ranging, reform programme, backed by a substantial international financing package, to restore confidence and return the economy to a path of sustained growth and job creation.
2. At the root of the problem is a domestic banking system, which at its peak was five times the size of the economy, and now is under severe pressure. The Irish owned banks were much larger than the size of the economy. The fragility of the banking sector is undermining Ireland's hard-earned economic credibility and adding a severe burden to acute public finance challenges. Decisive actions to restore the strength of the financial sector and re-establish fiscal credibility are needed now.
3. The Irish authorities have already undertaken major steps to address these challenges. For the financial sector, these include measures to facilitate funding of banks, separate good assets from bad, asset disposals, and bank recapitalisation. On the fiscal side, we have pursued a large consolidation programme since 2008 and have announced a National Recovery Plan that accelerates the process of putting public finances on a sound footing.
4. But we recognize that more needs to be done. A fundamental downsizing and reorganisation of our banking system is essential. We are immediately undertaking several bold measures to achieve a robust, smaller, and better capitalised banking system that will effectively serve the needs of the economy. Restoring the banks to viability will also help

insulate public finances from further pressures. We are mindful that the transition to a healthy banking sector will need to be actively managed to avoid fire sales of assets and reduce market uncertainty. We are, therefore, expeditiously raising capital standards, stepping up efforts that will ensure that banks losses are promptly recognised, and creating a mechanism to inject needed capital into the banks.

5. In addition, we are also pressing ahead with our commitment to achieving a sustainable budget position. The National Recovery Plan lays out our strategy for staying the course of needed reform in a way that is socially fair and protects the most vulnerable. Recognising that Ireland already has put in place a business-friendly environment, our Plan also lays out a range of structural reforms that will be implemented to underpin economic stability, and enhance growth and job creation.

6. We turn to our European and international partners for support as we implement these far-reaching objectives. We therefore request support from the European Financial Stability Mechanism/European Financial Stability Facility which can be drawn down over a period of 36 months as well as bilateral loans from the United Kingdom, Sweden and Denmark; the overall total of this support will be €45 billion. We also send a parallel request for financial assistance to the IMF for a total amount of €2.5 billion.. The judicious use of our own existing financial resources (€17.5 billion) will also help ensure financial stability as we restore market confidence and return to durable growth.

7. The attached Memorandum of Economic and Financial Policies outlines the economic and financial policies that the Irish Government and the Central Bank will implement during the remainder of 2010 and the period 2011–13 to strengthen Ireland’s banking sector and fiscal position. An annexed Memorandum of Understanding (MoU) specifies detailed economic policy measures that will serve as benchmarks for assessing policy performance in the context of the quarterly reviews under the financial assistance programme. We are confident that the policies set forth in these memoranda are adequate to achieve the objectives under the programme. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change.

8. The implementation of our programme will be monitored through quantitative performance criteria and structural benchmarks as described in the attached MEFP, and through the detailed and specific economic policy criteria in the MoU. There will be quarterly reviews of the arrangement, in coordination with the IMF. The reviews will assess progress in implementing the programme and reach understandings on any additional measures that may be needed to achieve its objectives.

9. The programme is designed such that it best reflects the interest of Ireland and the international community. We have explored options for the provision of collateral for support under the EFSF and found legal and economic constraints that would risk undermining the goals of the programme. The conditionality under the programme provides substantial

comfort that the programme will be delivered and that the support will be repaid. We will ensure that the financial assistance in the context of the EFSM and EFSF and bilateral lenders to be provided to Ireland will be subject to the loan terms and conditions that will protect the EU's and the euro-area and EU Member States' financial and legal interests in a non discriminatory way as compared to the assistance provided by the EU to other Member States under its Balance of Payments facility and for the EFSF adapted to take into account its structure and credit enhancement mechanism.

10. The Irish authorities believe that the policies set forth in the attached memorandum are adequate to achieve the objectives of our economic programme, but stand ready to take any further measures that may become necessary for this purpose. The authorities will stay in close contact and consult with the European Commission, the ECB and the IMF on the adoption of these measures and in advance of revisions to the policies contained in the MEFP and the MoU. All available information requested by the European Commission, the ECB and the IMF to assess implementation of the programme will be provided.

We are copying this letter to Mr. Strauss-Kahn, Managing Director of the IMF.

Sincerely,

/s/

Brian Lenihan
Minister for Finance

/s/

Patrick Honohan
Governor of the Central Bank of Ireland

Memorandum of Economic and Financial Policies

1. We have concluded that Ireland expeditiously requires a strong programme to restore domestic and external confidence and, thus, snap the pernicious feedback loops between the growth, fiscal, and financial crises.
2. We propose that such a programme comprise of four key elements:
 - A fundamental downsizing and reorganisation of the banking sector—complemented by the availability of capital to underpin solvency—is required to restore confidence. Addressing market perceptions of weak bank capitalisation, overhauling the banks’ funding structure, and immediately beginning a process of downsizing the banking system will be required.
 - An ambitious fiscal consolidation building, on the progress already made.
 - Renewing growth through a multi-pronged effort.
 - A substantial external financial assistance will support the achievement of our policy objectives.

Recent Economic Developments and Outlook

3. After two years of sharp declines in output, the Irish economy is expected to broadly stabilise this year before expanding during 2011–14. As domestic imbalances from the boom years are being repaired, the recovery will, at least initially, be primarily export-driven. We project that GDP growth will increase over time as export performance filters through to investment and consumption, consumer confidence returns, and labour market conditions improve. We recognise that the risks in the short term are tilted to the downside, and, in particular, the headwinds from fiscal consolidation on domestic demand could be larger than anticipated. Over the longer haul also, continued private and public sector balance sheet adjustments, coupled with a weak banking sector, could delay the recovery.
4. Inflation is expected to remain low, reflecting the large output gap and modest external price pressures. Although the inflation rate will likely increase over time, it is expected to remain lower than in trading partner countries. This will have the benefit of improving competitiveness but the low rates of inflation would unavoidably keep real debt burdens high and dampen domestic demand.
5. The current account balance is projected to continue to improve gradually over the medium term, reflecting export expansion and the contraction in domestic demand. However, profit repatriation from multinationals and large interest payments to foreign holders of Irish debt are expected to limit the improvement over the programme period.

Restoring Financial Sector Viability

6. With its large size relative to the economy, its heavy reliance on wholesale funding, and its large exposures to the real estate sector, much of the domestic Irish banking system is in a stressed state. The Government has intervened heavily to safeguard financial stability. In late 2009, we established the National Asset Management Agency (NAMA) to take over certain vulnerable commercial and property development assets of banks. In addition, major efforts have been made to boost banks' capital.

7. Although the Government has made strong efforts to contain the fallout from the sector's vulnerabilities, a continued lack of market access and the loss of deposits have created significant funding pressures, alleviated largely by an increase in recourse to Eurosystem financing facilities and Emergency Liquidity Assistance by the Central Bank. Moreover, capital injections in the banks have placed a heavy burden on public finances.

8. Our proposed programme will take decisive steps to ensure the viability and health of the financial system. We intend to lay the foundations of this process very quickly, if we are to reassure the markets that banks will return to viability and will have the ability to operate without further state support in a reasonable period of time.

9. The key component of our efforts is an overhaul of the financial sector with the objective of substantial downsizing, isolating the non-viable parts of the system and returning the sector to healthy functionality. It will be important to support this process through capital injections into viable financial institutions. In addition, structural measures—a special resolution scheme for deposit-taking institutions and a further strengthening of the supervisory system—will impart greater stability to the system. It is our goal that the leaner and more robust system that emerges from these efforts will not be dependent on state support, will have a more stable funding base, and will provide the credit required to foster growth.

10. The plan to overhaul the banking system has several elements. First, banks will be required to run down non-core assets. Second, land and development property loans that have not yet been transferred to NAMA will also be transferred. Third, banks will be required to promptly and fully provide for all non-performing assets as needed. Fourth, the banks will be required to securitise and/or sell asset portfolios or divisions with credit enhancement if needed, once the market normalises. And finally, swift and decisive action will be taken to resolve the position of Anglo Irish Bank (Anglo) and Irish Nationwide Building Society (INBS) in a way that protects depositors and strengthens the banking system. To this end, by end-January 2011, we will submit to the European Commission a revised proposal developed in collaboration with IMF, to resolve Anglo and INBS. Each of these initiatives will require technical or legislative measures, most of which we believe can be expeditiously instituted.

11. To achieve the above goals, banks will be required to submit deleveraging plans to the national authorities by end-February 2011. The plans will be prepared on the basis of clear periodic targets defined by the Central Bank, taking into consideration the Prudential Liquidity Assessment Review (PLAR) to be conducted in consultation with the EC, ECB and IMF. By end-March 2011, the Central Bank with assistance from an internationally recognised consulting firm, will complete the assessment of the banks' restructuring plans (structural benchmark). The deleveraging plans will be a component of the restructuring plans to be submitted to the European Commission for approval under EU competition rules.

12. This reorganisation and downsizing of the banks will be bolstered by raising capital standards. While we expect that, in a restructured system, banks will be able to raise capital in the market, we recognise that the higher standards may imply that, in the short run, public provision of capital will be needed for banks that are deemed to be viable. To support this process—and to render it credible—we will undertake a review of the capital needs of banks on the basis of a diagnostic of current asset valuations and stringent stress tests (PCAR 2011).

- As an immediate step, to enhance confidence in the solvency of the banking system, the Central Bank will direct Allied Irish Bank (AIB), Bank of Ireland (BoI) and EBS to achieve a capital ratio of 12 percent core tier 1 by end-February 2011 (structural benchmark) and Irish Life & Permanent by end-May 2011 (structural benchmark). This would imply an injection of fresh equity capital of €7bn into these four banks and provide an additional buffer for a potential increase in expected losses. This action, along with early measures to support deleveraging and taking account of haircuts on the additional loans to be transferred to NAMA (see ¶10) would result in an injection of €10bn of fresh capital into the banking system, above and beyond the already committed capital injection of €6.6bn for AIB previously announced by the Irish authorities.
- By end-December 2010, in consultation with EC, ECB, and IMF staff, we will define the criteria to run stringent stress test scenarios (structural benchmark). We will also agree with EC, ECB, and IMF staff, by end-December 2010, on draft terms of reference for the due diligence of bank assets by internationally recognised consulting firms (structural benchmark). We intend to complete the diagnostic evaluation of banks' assets by end-March 2011 and the stress tests (PCAR 2011) by end-March 2011 (both structural benchmarks), and transparently communicate our findings.
- Based on these assessments, starting end-April 2011, banks will be required to maintain a core tier 1 capital ratio of 10.5 percent. Banks will report their capital adequacy ratios to the Central Bank on a quarterly basis. The Central Bank's assessment of banks' capital adequacy ratio will be made public at least semi-annually.

13. The question of whether burden should be imposed on bank sub debt is influenced by two factors: the quantum of capital the State has committed to support the institution and the perceived viability of the bank in the absence of receiving such capital. Forced burden sharing through legislation is possible and legislation is currently being prepared in this regard. Alternatively, in certain cases, a very deeply discounted liquidity management exercise might also be an appropriate option.

14. In addition, we will finalise proposals to strengthen the legal framework for dealing with distressed deposit-taking institutions in line with recent EU developments (including EU competition rules) and international sound practices. Such a special resolution regime will broaden the available resolution tools with the aim of promoting financial stability and protecting depositors. In particular, the draft legislation will (i) provide for the appointment of a special manager where, in the opinion of the Central Bank, an institution's financial condition has severely deteriorated; (ii) grant powers to the Central Bank for the transfer of assets and liabilities to other institutions; and (iii) create a framework for the establishment of bridge banks. We seek to submit draft legislation including the above-mentioned elements to Dáil Éireann by end-February 2011 (structural benchmark).

15. Moreover, we will continue the efforts to strengthen banking supervision by ensuring higher staffing levels and budget allocations in line with OECD best practices. We will enhance the risk assessment framework and raise the corporate governance standards. By end-September 2011, a report by an independent assessor on our compliance with Basel core principles for effective banking supervision will be made public.

16. We will also reform the personal insolvency regime for financially responsible individuals (including sole traders), which will balance the interests of both creditors and debtors. The objectives will be to lower the cost and increase the speed and efficiency of proceedings, while at the same time mitigating moral hazard and maintaining credit discipline. The new legal framework will include a non-judicial debt settlement and enforcement mechanism as an alternative to court-supervised proceedings.

17. We will continue to provide means-tested financial assistance to limit the economic and social fallout of the crisis. The existing mortgage interest supplement scheme is crucial for providing temporary assistance to distressed mortgage holders. The scheme's administration will be centralised to ensure a more consistent application focusing on households that are most in need, and further modification will be introduced in the 2011 Social Welfare Act.

18. Our strategy for the credit union sector is based on three components. First, we will complete a full assessment of their loan portfolios by end-April 2011 (structural benchmark). Second, by end-April 2011, we will have ready a comprehensive strategy to enhance the viability of the sector. And third, by end-December 2011 we will submit legislation to

Dáil Éireann to assist the credit unions with a strengthened regulatory framework including effective governance and stabilisation requirements.

19. We will continue efforts to ensure the flow of credit to viable businesses, building on actions already taken under previous recapitalisations and NAMA legislation. Allied Irish Banks and Bank of Ireland have agreed, in connection with recapitalisation last March, to make available not less than €3 billion each for targeted lending for new or increased credit facilities to small and medium-sized enterprises in both 2010 and 2011 as well as funds for seed and venture capital and for Environmental lending. The lending policies and decisions of both banks are subject to review by the Credit Review Office, which enables businesses who have had credit refused or withdrawn, to apply for an independent review of the bank's decision.

20. NAMA is subject to an extensive range of statutory Governance and Accountability arrangements and these will be fully adhered to. Members of the NAMA Board must have relevant experience and expertise, and the work of the Board is supported by audit and other sub-committees. NAMA operations are also subject to statutory codes of practice. NAMA is required to prepare various reports, including quarterly reports of its activities, and these are subject to scrutiny by Oireachtas committees. The Comptroller and Auditor General audit the annual accounts and prepare reports on NAMA for review by the Public Accounts committee.

Safeguarding Public Finances

21. To continue with the programme of fiscal consolidation, a comprehensive National Recovery Plan 2011-14 was approved by the Government and published on 24 November 2010. This Plan forms the basis for the 2011 budget consistent with fiscal consolidation measures amounting to €15 billion, a 9 percent of GDP budgetary correction over the period 2011-14. Having stabilised the deficit, albeit at a high level, the steps announced in the Plan will place the budget deficit-to-GDP ratio on a firm downward path. While the debt-to-GDP ratio will remain at high levels for the next few years, it is projected to decline thereafter, underpinning debt sustainability. We also propose to keep under review progress towards meeting the Stability and Growth Pact targets.

22. Budget 2011 which will include adjustment measures of €6 billion, will be submitted to the Dáil Éireann for passage on 7 December (prior action). As set out in the National Recovery Plan, most of this adjustment will come from the expenditure side. The capital budget will be reduced, partly through greater value for money in our infrastructure procurements. On current expenditures, we are pursuing public service numbers reductions through natural attrition and voluntary schemes, adjustments in public service pensions, and further savings on social transfers (from reductions in working age payments, reductions in universal child benefit payments and other reforms). Protecting the socially vulnerable at a time of difficult economic adjustment remains a central policy goal. Current savings will also

be realised from streamlining government programmes and through administrative efficiencies. Should these savings or the expected numbers reductions not materialise, we reserve the option to take further measures.

23. An income tax-led revenue package—sized at over €2 billion in a full year—will supplement the above expenditure measures in 2011. Over the past decade, the proportion of citizens exempt from income tax has risen to 45 percent and tax credits have doubled, resulting in a comparatively low burden of tax on ordinary incomes. This is no longer sustainable. Accordingly, we are widening the tax base, by lowering income tax bands and credits by 10 percent, and by reducing various pension-related tax reliefs. We are also taking action on other tax expenditures, and distortions arising from the existence of multiple levies.

24. To secure our fiscal targets, a number of fiscal measures have been identified for 2012–14. We will continue to rely on expenditure savings (€6.1 billion), led by current spending (€4.9 billion), as outlined in the National Recovery Plan. We are targeting further reductions in public sector numbers, social benefits and programme spending, and have anchored the prospective savings by publishing multi-year expenditure ceilings by Vote Group through 2014. We are also planning to move towards full cost-recovery in the provision of water services and ensuring a greater student contribution towards tertiary education, while ensuring that lower-income groups remain supported. In addition, we will accelerate the process of placing the pension systems on a path consistent with long-term sustainability of public finances. On the tax side, we will build on the base-broadening measures outlined above and establish a sound basis for sub-national finances through a new residential-property based site value tax. The Finance Bill 2012 will contain necessary provisions to bring into effect the already signalled VAT increases in 2013 and 2014.

25. We are preparing institutional reform of the budget system taking into account anticipated reforms of economic governance at the EU level. A reformed Budget Formation Process will be put in place. Furthermore, we will introduce a Fiscal Responsibility Law which will include provision for a medium-term expenditure framework with binding multi-annual ceilings on expenditure in each area by end-July 2011 (structural benchmark). A Budget Advisory Council, to provide an independent assessment of the Government's budgetary position and forecasts will also be introduced by end-June 2011 (structural benchmark). These important reforms will enhance fiscal credibility and anchor long-term debt sustainability.

Raising the Growth Potential

26. We recognise the need to restore strong sustainable growth. The structural changes to the financial and fiscal sectors, described above, are critical for improving the prospects of economic recovery and raise the medium-term growth potential. Although, as is widely recognised, Ireland is a global leader in providing a business-friendly environment, the National Recovery Plan includes a strategy to remove remaining structural impediments to

competitiveness and employment creation. It also details appropriate sectoral policies to encourage exports and a recovery of domestic demand, which will also support growth and promote jobs.

27. Specifically, we will continue to press ahead with other structural reform as set out in the Memorandum of Understanding on specific economic policy conditionality:

- We will promote service sector growth through vigorous action to remove remaining restrictions on trade and competition, and will propose amendments to legislation to enable the imposition of financial and other sanctions in civil law cases relating to competition.
- Building on the forthcoming report of the Review Group on State Assets & Liabilities the government will undertake an independent assessment of the electricity and gas sectors with a view to enhancing their efficiency. State authorities will consult with the Commission Services on the results of this assessment with a view to setting appropriate targets for the possible privatisation of state-owned assets.
- To reduce long-term unemployment and to facilitate re-adjustment in the labour market, we will reform the benefits system and legislate to reform the national minimum wage. Specifically, changes will be introduced to create greater incentives to take up employment.

Programme Financing

28. Ireland is facing large and medium-term balance of payments needs that arise from (i) substantial pressures on the capital account that need to be relieved, and (ii) the need to build up reserves to improve banks' ability to meet their large external debt rollover needs. The programme's success is dependent on substantive external financial assistance. This external financing will serve as a bridge during the implementation of the critical reforms to fundamentally restructure the banking system and restore fiscal sustainability. It is our view that, given Ireland's medium-term structural adjustment needs, an arrangement under the Extended Fund Facility (EFF) would be appropriate. Such an arrangement would also have the added benefit of a more realistic repayment schedule for Ireland.

29. Notwithstanding the large fiscal adjustment, we estimate the financing need to be up to €85 billion until the end of 2013. This includes a contingency element for bank recapitalisation. An amount of €17.5 billion will be covered by an Irish contribution through the Treasury cash buffer and investments of the National Pension Reserve Fund. We expect commitments from the IMF under the Extended Arrangement to amount to €2.5 billion and EU financial support from the European Financial Stability Mechanism/European Financial Stability Facility and bilateral arrangements to amount to €45 billion. Ireland will draw on these resources in parallel throughout the programme period. While the envelope of resources to be provided to Ireland is a source of reassurance to the authorities and to

financial markets, we plan to draw *pari passu* on IMF and EU financial support on an as needed basis. Moreover, if market access is restored on a sustainable basis, we would anticipate paying down the drawings made on an advanced schedule.

30. We are confident that the implementation of the fiscal and banking sector reforms will help the economy recover.

Programme Monitoring

31. Progress in the implementation of the policies under the programme will be monitored through quarterly and continuous performance criteria, indicative targets, structural benchmarks, and quarterly programme reviews and compliance with requirements under the Excessive Deficit Procedure (EDP). The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria and indicative targets under the programme. The Government's targets for the exchequer balance (central government cash balance) excluding interest payments will be monitored through quarterly performance criteria and net central government debt will be an indicative target (Table 1). As is standard in IMF arrangements, there will be a continuous performance criterion on the non-accumulation of external payment arrears. Progress on implementing structural reforms will be monitored through structural benchmarks (Table 2). A joint EC-ECB Memorandum of Understanding specifies, notably, the structural policies recommended in the MEFP, and sets a precise time frame for their implementation,

32. As is standard in all Fund arrangements, a safeguards assessment of the Central Bank of Ireland will be completed by the first review of the arrangement. In this regard, the Central Bank will receive a safeguards mission from the Fund and provide the information required to complete the assessment by the first review. As a related matter, and given that financing from the IMF will be used to provide direct budget support, a framework agreement will be established between the government and the Central Bank of Ireland on their respective responsibilities for servicing financial obligations to the IMF. As part of these arrangements, Fund disbursements will be deposited into the government's account at the Central Bank.

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

Table 1. Ireland: Quantitative Performance Criteria and Indicative Targets under the Economic Programme for 2010–11

	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
(In billions of Euros)					
	Performance Criterion	Performance Criterion	Indicative Target	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance 1/	-15.3	-7.8	-11	-14.3	-14.6
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government 2/	0	0	0	0	0
	Indicative Target	Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt	83.1	91.6	96.5	100	102.2

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

2/ Applies on a continuous basis.

Table 2. Prior Action and Structural Benchmarks Under the Economic Programme for 2010–11

Measure		
Submit the 2011 Budget to Dáil Éireann (MEFP, ¶22).	7 December 2010	Prior Action
Define the criteria to run stringent stress tests scenarios (MEFP ¶12).	End-December 2010	Structural Benchmark
Agree on terms of reference for the due diligence of bank assets by internationally recognised consulting firms (MEFP, ¶12).	End-December 2010	Structural Benchmark
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 (MEFP, ¶12).	End-February 2011	Structural Benchmark
Submit to Dáil Éireann the draft legislation on a special resolution regime (MEFP, ¶14).	End-February 2011	Structural Benchmark
The Central Bank to complete the assessment of the banks' restructuring plans (MEFP, ¶11).	End-March 2011	Structural Benchmark
Complete the diagnostic evaluation of banks' assets (MEFP, ¶12).	End-March 2011	Structural Benchmark
Complete stress tests (PCAR 2011) (MEFP, ¶12).	End-March 2011	Structural Benchmark
Complete a full assessment of credit unions' loan portfolios (MEFP, ¶18).	End-April 2011	Structural Benchmark
The Central Bank will direct the recapitalisation of ILP to achieve a capital ratio of 12 percent core tier 1 (MEFP, ¶12).	End-May 2011	Structural Benchmark
Establish a Budget Advisory Council (MEFP, ¶25).	End-June 2011	Structural Benchmark
Introduce a medium-term expenditure framework with binding multi-annual ceilings on expenditure in each area (MEFP, ¶25).	End-July 2011	Structural Benchmark

Fiscal measures included in the programme

2011

<i>in million EUR</i>		% of GDP
Revenue measures	1400	0.9
One-off and other revenue measures	700	0.4
Current expenditure measures	2090	1.3
Capital expenditure measures	1800	1.1
TOTAL IMPACT in 2011	5990	3.8

2012

<i>in million EUR</i>		% of GDP
New revenue measures	880	0.5
Revenue carryover from previous year	620	0.4
Current and capital expenditure measures	2100	1.3
TOTAL ANNUAL IMPACT	3600	2.2

2013

<i>in million EUR</i>		% of GDP
New revenue measures	850	0.5
Revenue carryover from previous year	250	0.1
Current and capital expenditure measures	2000	1.2
TOTAL ANNUAL IMPACT	3100	1.8

Table. FINANCING NEEDS AND SOURCES - IRELAND, 15/12/2010-2013, bn EUR

29-Nov-10

	Dec-2010	2011	2011	2011	2010/11	2012	2013	2010-2013
	2011-Q1	Q2	Q3	Q4	Year	Year	Year	Total
A. Gross financing needs public sector	16.1	10.3	4.9	8.9	40.2	29.5	29.2	98.9
Exchequer cash deficit, incl. promissory notes 1/	7.0	8.6	4.5	3.1	23.2	18.7	17.4	59.4
Long-term debt securities, maturing	0.0	0.0	0.0	4.4	4.4	5.6	6.0	16.0
Short-term debt, maturing	7.0	1.4	0.1	1.2	9.6	3.4	3.7	16.7
Treasury Bill	4.7	1.2	0.0	0.1	6.0	2.0	2.0	10.0
Commercial paper	2.3	0.1	0.1	1.1	3.6	1.4	1.7	6.7
Retail debt 2/	2.1	0.3	0.3	0.3	3.0	1.8	2.1	6.9
B. Debt issuance/ Roll-over	5.4	1.5	1.0	2.0	9.8	12.3	26.8	48.9
Exchequer cash deficit, financing	0.0	0.0	0.0	0.0	0.0	3.7	14.0	17.7
Long-term debt securities , issuance	0.0	0.0	0.0	0.0	0.0	1.1	4.8	5.9
Short-term debt, issuance	2.7	0.5	0.1	1.1	4.5	3.7	3.8	12.0
Treasury Bill	1.6	0.4	0.0	0.0	2.0	2.0	2.0	6.0
Commercial paper	1.2	0.1	0.1	1.1	2.5	1.7	1.8	6.1
Retail debt	2.7	0.9	0.9	0.9	5.4	3.8	4.2	13.3
C. Net financing needs public sector (A-B)	10.7	8.8	3.9	7.0	30.4	17.2	2.5	50.0
Budget deficit and promissory notes	7.0	8.6	4.5	3.1	23.2	15.0	3.5	41.7
Long-term debt	0.0	0.0	0.0	4.4	4.4	4.5	1.2	10.0
Short-term debt	4.3	0.8	0.0	0.1	5.1	-0.3	-0.2	4.6
Treasury Bill	3.2	0.8	0.0	0.1	4.0	0.0	0.0	4.0
Commercial paper	1.1	0.0	0.0	0.0	1.1	-0.3	-0.2	0.6
Retail debt	-0.6	-0.6	-0.6	-0.6	-2.4	-2.0	-2.1	-6.4
D. Bank recapitalization	13.8	7.5	3.7	0.0	25.0	5.0	5.0	35.0
Direct capital injection 3/	7.0	0.0	0.0	0.0	7.0	0.0	0.0	7.0
Further capital provisions	6.8	7.5	3.7	0.0	18.0	5.0	5.0	28.0
TOTAL - FINANCING NEEDS (C+D)	24.5	16.3	7.6	7.0	55.4	22.2	7.5	85.0
FINANCING and PHASING								
Use of Ireland's financial buffers	6.9	3.8	1.9	0.0	12.5	2.5	2.5	17.5
Treasury cash buffer	6.9	1.9	0.0	0.0	8.8	0.0	0.0	8.8
National Pension Reserve Fund (NPRF)	0.0	1.9	1.9	0.0	3.7	2.5	2.5	8.7
EU-IMF loan disbursement 4/ 5/	17.6	12.6	5.8	7.0	42.9	19.7	5.0	67.5
EU, disbursement	11.7	8.4	3.9	4.6	28.6	13.1	3.3	45.0
IMF	5.9	4.2	1.9	2.3	14.3	6.6	1.6	22.5
TOTAL - FINANCING	24.5	16.3	7.6	7.0	55.4	22.2	7.5	85.0

Notes:

1/ Includes interest payments. Deficit projections are based on more prudent assumptions than those underlying the macroeconomic projections.

2/ Includes retail debt (primarily post office accounts) and maturing debt of Housing Finance Agency (with direct call on exchequer if not funded).

3/ Capital injection in 2010-Q4 to meet 12% Core Tier 1 ratio for AIB, BoI, ILP and EBS.

4/ EU-IMF share equally split among IMF (1/3), EFSM (1/3) and EFSF/bilaterals (1/3).

5/ First disbursement will be in Q4 2010

Ireland
Memorandum of Understanding
on

SPECIFIC ECONOMIC POLICY CONDITIONALITY
2 December, 2010

The quarterly disbursement of financial assistance from the European Financial Stabilisation Mechanism (EFSM), the European Financial Stability Facility (EFSF) and bilateral loans by UK, Sweden and Denmark will be subject to quarterly reviews of conditionality for the duration of the programme. Release of the instalments will be based on observance of quantitative performance criteria, respect for EU Council Decisions and Recommendations in the context of the excessive deficit procedure, and a positive evaluation of progress made with respect to policy criteria in the Memorandum of Economic and Financial Policies (MEFP) and in this Memorandum of Understanding on specific economic policy conditionality (MoU), which specifies the detailed 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.

The authorities commit to consult with the European Commission, the ECB and the IMF on the adoption of policies that are not consistent with this Memorandum. They will also provide the European Commission, the ECB and the IMF with all information requested that is available to monitor progress during programme implementation and to track the economic and financial situation. Prior to the release of the instalments, the authorities shall provide a compliance report on the fulfilment of the conditionality.

The release of the first instalments will be conditional on the successful adoption of Budget 2011 as described in the MEFP and this MoU.

1. Actions for the first review (actions to be completed by end Q1-2011)

i. Fiscal consolidation

Government submits the draft budget for 2011 for Dáil approval. The budget provides information and prudent projections on the entire general government sector and targets a further reduction of the general government deficit in line with the MEFP. It includes a detailed presentation of fiscal consolidation adjustments for 2011 of €6 billion.

The budget includes the following measures (in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs);

- Revenue measures to raise at least €1,400m in 2011 and an extra €20m in a full year will be introduced to the Houses of the Oireachtas, including:
 - A lowering of personal income tax bands and credits or equivalent measures to yield €45m in 2011 and an extra €300m in a full year.

- A reduction in pension tax relief and pension related deductions to yield €155m in 2011, and an extra €105m in a full year.
 - A reduction in general tax expenditures to yield €220m in 2011, and an extra €185m in a full year.
 - Excise and miscellaneous tax measures to raise €80m in 2011 and a further €30m in a full year will be introduced.
 - The government will outline methods to raise at least €700m in one-off and other measures in 2011.
- A reduction of current expenditure in 2011 of at least €2,090m will be implemented including;
 - Social Protection expenditure reductions.
 - Reduction of public service employment numbers in 2011.
 - A reduction of existing public service pensions on a progressive basis averaging over 4% will be introduced.
 - Other expenditure savings of €1,030m including savings on goods and services.
 - A reduction of at least €1,800m in public capital expenditure against existing plans for 2011 will be introduced.

Government will rigorously implement the budget for 2011 and the fiscal consolidation measures announced afterwards, consistent with the requirements of the excessive deficit procedure. Progress is assessed against the (cumulative) quarterly primary deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP) including the Technical Memorandum of Understanding (TMU).

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

Recapitalisation measures

- The measures proposed for the recapitalisation of Irish banks in the government statement of 30 September 2010 will be implemented, taking into account any changes in strategy for the future of the banking sector agreed under the programme.
- Further deleveraging of the banks will be achieved by the extension of the NAMA programme to include approximately €16bn of land and development loans in AIB and Bank of Ireland, which had previously been excluded as they were below a value

threshold of €20m. NAMA will categorise sub-€20m AIB and BOI land and development and associated loans (roughly estimated to number 10,000) by reference to asset type and region. NAMA will then apply different discounts to each category based on NAMA's loan valuation experience up to the point of valuation. On this basis it is expected that all loans will be transferred by end-March 2011. NAMA will issue bonds in return for the assets transferred. NAMA would build on the existing outsourcing arrangements with the banks for the management of these smaller loans and performance will be incentivised as appropriate. The NAMA legislation will be amended to underpin the valuation and acquisition of these assets on a portfolio basis. The additional capital requirement will be met by the programme and is included in the figure below. These measures will be notified to the European Commission in accordance with EU competition rules.

- Prudential Capital Assessment Review (PCAR) minimum capital requirement for the Irish banks (AIB, BOI, EBS and ILP) will be set at 10.5% core tier 1;
- In addition the Irish authorities will ensure that AIB, BOI and EBS are initially recapitalised to a level of 12% core tier 1 capital, which will take account of haircuts on the additional loans to be transferred to NAMA and will fund early deleveraging by making available EUR 10 billion in the system; the recapitalisation will take the form of equity shares (or equivalent instruments for EBS);
- The PCAR exercise will be enhanced to provide a comprehensive evaluation of the underlying assets of the banks, taking into account future expected losses.
- The PCAR for 2011 will be completed based on comprehensive Terms of Reference for its design and implementation, which will have been previously agreed between the Central Bank, the European Commission, IMF and ECB staff. The methodology used will be published in detail. The Commission, IMF and ECB shall be involved in the validation of the PCAR process. In particular, key data and information that relates to the PCAR exercise will be available to the Commission, IMF and ECB upon request.

Deleveraging measures

- The Central Bank will complete a Prudential Liquidity Assessment Plan (PLAR) for 2011, outlining measures to be implemented with a view to steadily deleveraging the banking system and reducing the banks' reliance on short term funding by the end of the programme period. Ambitious target loan to deposit ratios, to be achieved by end 2013, will be established for each bank by the Irish authorities in consultation with the ECB, EC and the IMF by end Dec 2010. These targets will be designed to ensure that convergence to Basel III standards can be readily met by the relevant dates. To this end, the PLAR will establish target funding ratios for 2013 for each of the banks, identify non core assets and set an adjustment path to these targets based on specified non public annual benchmarks. Banks will be informed of necessary actions to be taken so as to comply with the respective funding targets and adjustment paths. The design and implementation of the PLAR will be agreed with the European Commission, the ECB and the IMF. Compliance with the PLAR benchmarks will be monitored and enforced by the Central Bank taking account of prevailing market conditions. The PLAR will be updated on an annual basis.

Reorganisation of banking sector

- The strategy for the future structure, functioning and viability of Irish credit institutions will be developed in detail and agreed with the European Commission, the ECB and the IMF. Within the context of a comprehensive reorganisation and downsizing of the banking sector the strategy will identify the appropriate path to ensure that the banking system will operate without the need of further State support. The Irish authorities are committed to divest the participations in the banks acquired during the crisis within the shortest timeframe possible which is compatible with financial stability and public finance considerations. Building on restructuring undertaken to date, further restructuring and viability plans for the institutions concerned will be submitted in accordance with EU competition rules; these plans will also be made available to the IMF and ECB. Commitments undertaken by the Irish authorities in the context of EU competition decisions will be maintained.
- In the context of the above strategy, a specific plan for the resolution of Anglo Irish Bank and Irish Nationwide Building Society will be established and submitted to the European Commission in accordance with EU competition rules. Any related legal procedures will be set in motion under a precise timetable. This plan will seek to minimise capital losses arising from the working out of these non-viable credit institutions. The Government will ensure that these credit institutions adhere to the requisite capital ratios.
- Legislation on improved procedures for early intervention in distressed banks and special bank resolution regime (SRR) will be introduced. The SRR should include a robust set of powers and tools to ensure the competent authorities can promptly and effectively resolve distressed banks e.g. when they pose a risk to financial stability. The legislation will be consistent with the EU Treaty rules and will be consistent with similar initiatives ongoing at EU level.
- Central Bank staffing in relation to the PCAR and PLAR exercises will be reviewed and augmented as necessary to guarantee that both exercises can be conducted on a timely and efficient basis.

Burden sharing by holders of subordinated debt

- Consistent with EU State aid rules, burden sharing will be achieved with holders of subordinated debt in relevant credit institutions over the period of the programme. This will be based on the quantum of capital and other financial assistance the State commits to support specific credit institutions and the financial viability of those institutions in the absence of such support. Resolution and restructuring legislation which will address the issue of burden sharing by subordinated bondholders will be submitted to the Oireachtas by end-2010. Where it is appropriate in line with the above criteria, the process of implementing liability management exercises similar to that which is currently being undertaken in relation to holders of subordinated debt in Anglo Irish Bank will be commenced by end-Q1 2011.

iii. Structural reforms

To facilitate adjustment in the labour market

The government will introduce legislation to reform the minimum wage in such a way as to foster job creation notably for categories at higher risk of unemployment and prevent distortions of wage conditions across sectors associated with the presence of sectoral minimum wages in addition to the national minimum wage. Measures will be as follows:

- Reduce by €1.00 per hour the nominal level of the current national minimum wage.
- Enlarge the scope of the "inability to pay clause" permitting firms to invoke this clause more than once;

These measures should come into effect by May 2011.

An independent review of the Framework REA and ERO arrangements will be initiated by the end of Q1 2011. Terms of Reference and follow up actions will be agreed with European Commission Services.

To reduce the risk of long-term unemployment

The government will reform the unemployment benefit system in such a way as to provide incentives for an early exit from unemployment. This reform of unemployment and social assistance benefits will be part of overall reforms in the welfare system designed to reach budgetary savings of €750m in 2011.

Legislative measures will be *introduced* with a view to:

Taking steps to tackle unemployment and poverty traps including through reducing replacement rates for individuals receiving more than one type of benefit (including housing allowance).

The government reforming the system of activation policies in such a way as to adapt it to the reform in benefits and make it more effective. Legislative and other measures will be introduced with a view to:

- improving the efficiency of the administration of unemployment benefits, social assistance and active labour market policies, by exploiting synergies and reducing the overlapping of competencies across different departments;
- enhancing conditionality on work and training availability;
- strengthening activation measures via:
 - i. the introduction of instruments to better identify of job seekers' needs ("profiling") and increased engagement;
 - ii. a more effective monitoring of jobseekers' activities with regular evidence-based reports;

- iii. the application of sanction mechanisms for beneficiaries not complying with job-search conditionality and recommendations for participation in labour market programmes set in such a way as to imply an effective loss of income without being perceived as excessively penalising so that it could credibly be used whenever lack of compliance is ascertained.

At each subsequent review of the programme, the government will submit reports containing an assessment (including by means of quantitative indicators) of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.

Legislative measures should come into effect by May 2011.

An in-depth review of the personal debt regime will be published shortly. Work will commence on reform of legislation which will balance the interests of both creditors and debtors.

2. Actions for the second review (actions to be completed by end Q2-2011)

i. Fiscal consolidation

Government will rigorously implement the budget for 2011 and the fiscal consolidation measures announced afterwards, consistent with the requirements of the excessive deficit procedure. Progress will be assessed against the (cumulative) quarterly primary deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP) including the Technical Memorandum of Understanding (TMU).

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

The government will submit a timetable for implementing the recommendations of the Memorandum. Upon consideration by the European Commission, IMF and ECB staffs the measures in this timetable shall become the performance benchmarks for future reviews.

ii. Financial sector reforms

- The results of the PCAR for 2011 will be assessed by the authorities, together with the European Commission, the ECB and the IMF. The results will be published in detail and on a bank-by-bank basis.
- Depending on the results of the PCAR 2011, the Government will ensure that the banks are recapitalised in the form of equity, if needed, so as to ensure that the minimum capital requirement of 10.5% will be maintained.

- Introduce legislation for the enhancement of financial regulation, expanding the supervisory and enforcement powers of the Central Bank.
- The Irish authorities will ensure that ILP is recapitalised to a level of 12% core tier 1 capital.
- Progress in implementation of the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.

iii. Structural reforms

To enhance long-term fiscal sustainability

- The Authorities undertake to introduce legislation to increase the state pension age. Under the Government's National Pension Framework the age at which people will qualify for the State Pension will be increased to 66 years in 2014, 67 in 2021 and 68 in 2028.

iv. Structural fiscal reforms

To reinforce a credible budgetary strategy

- The government will continue to ensure the reliability and the regular availability of budgetary data for both the whole of the general government sector and its breakdown into government layers. Specifically, reporting will comply with the provisions included in annex 1 of the MoU.
- Under the period of this financial assistance programme, any additional unplanned revenues must be allocated to debt reduction.
- In accordance with the proposal set out in the National Recovery Plan 2011-2014, the government will establish a budgetary advisory council to provide an independent assessment of the Government's budgetary position and forecasts.
- Government extends the voluntary 15 day rule relating to prompt payments to the health service executive, local authorities and state agencies.

3. Actions for the third review (actions to be completed by end Q3-2011)

i. Fiscal consolidation

Government will rigorously implement the budget for 2011 and the fiscal consolidation measures announced afterwards, consistent with the requirements of the excessive deficit procedure. Progress is assessed against the (cumulative) quarterly primary deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP) including the Technical Memorandum of Understanding (TMU).

Government will consider an appropriate adjustment, including to the overall public service wage bill, to compensate for potential shortfalls in the projected savings arising from administrative efficiencies and public service numbers reductions.

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- Interim review of progress under PLAR 2011 and any related actions will be assessed, together with the European Commission, the ECB and the IMF.
- Progress in implementing the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.
- Review progress against PCAR requirements.

iii. Structural reforms

To increase growth in the domestic services sector

Government will introduce legislative changes to remove restrictions to trade and competition in sheltered sectors including:

- the legal profession, establishing an independent regulator for the profession and implementing the recommendations of the Legal Costs Working Group and outstanding Competition Authority recommendations to reduce legal costs.
- medical services, eliminating restrictions on the number of GPs qualifying and removing restrictions on GPs wishing to treat public patients as well as restrictions on advertising.
- the pharmacy profession, ensuring that the recent elimination of the 50% mark-up paid for medicines under the State's Drugs Payments Scheme is enforced.

To enhance competition in open markets

- Government should introduce reforms to legislation to (1) empower judges to impose fines and other sanctions in competition cases in order to generate more credible deterrence and (2) require the competition authorities to list restrictions in competition law which exclude certain sectors from its scope and to identify processes to address those exclusions.

To encourage growth in the retail sector

- The government will conduct a study on the economic impact of eliminating the cap on the size of retail premises with a view to enhancing competition and lowering prices for consumers and discuss implementation of its policy implications with the Commission services.

iv. Structural fiscal reforms

To put the public service pension system on a more sustainable basis

- Pension entitlements for new entrants to the public service will be reformed with effect from 2011. This will include a review of accelerated retirement for certain categories of public servants and an indexation of pensions to consumer prices. Pensions will be based

on career average earnings. New public service entrants will also see a 10% pay reduction. New entrants' retirement age will also be linked to the state pension retirement age.

To ensure a more credible fiscal framework

- Assessment of work in progress related to the fiscal governance requirements considered in the previous quarters.

To facilitate better government at a local level

- Government will ensure that effective measures are in place to cap the contribution of the local government sector to general government borrowing at an acceptable level. The mechanisms in place to underpin this position will be kept under close review, in consultation with the Commission services. The review will also consider how to provide data on the financial position including assets and liabilities of the sector on a timelier basis.

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

i. Fiscal consolidation

Government will rigorously implement the budget for 2011 and the fiscal consolidation measures announced afterwards, consistent with the requirements of the excessive deficit procedure. Progress is assessed against the (cumulative) quarterly primary deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP) including the Technical Memorandum of Understanding (TMU).

The government will provide a draft budget for 2012 aiming to further reduce the general government deficit in line with the National Recovery Plan and the programme and including the detailed presentation of consolidation measures amounting to at least €3.6bn.

- Revenue measures to yield €1,500m¹ in a full year will be introduced, including:
 - A lowering of personal income tax bands and credits.
 - A reduction in private pension tax reliefs.
 - A reduction in general tax expenditures.
 - A property tax.
 - A reform of capital gains tax and acquisitions tax.
 - An increase in the carbon tax.
- The budget will provide for a reduction of expenditure in 2012 of €2,100m including:
 - Social expenditure reductions.
 - Reduction of public service numbers. and public service pension adjustments.
 - Other programme expenditure, and reductions in capital expenditure.

¹ Inclusive of 2011 carryover

The Authorities will introduce measures to ensure that the deficit reduction targets as set out in the National Recovery Plan are achieved.

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- Progress in implementing of the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.

iii. Structural reforms

To assist in financing need and to increase competition

- Building on the forthcoming report of the Review Group on State Assets & Liabilities the government will undertake an independent assessment of the electricity and gas sectors. State authorities will consult with the Commission Services on the results of this assessment with a view to setting appropriate targets.

In advance of the introduction of water charges

- The government will have undertaken an independent assessment of transfer of responsibility for water services provision from local authorities to a water utility, and prepare proposals for implementation, as appropriate with a view to start charging in 2012/2013.

iv. Structural fiscal reforms

To reinforce the credibility of the budgetary process

- Assessment of work in progress related to the fiscal governance requirements considered in the previous quarters.
- The Government will introduce a Fiscal Responsibility Law which will include provision for a medium-term expenditure framework with binding multi-annual ceilings on expenditure in each area by Q4 2011. This will take into account any revised economic governance reforms at EU level and will build on reforms already in place.

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

i. Fiscal consolidation

Government will rigorously implement the budget for 2012 and the fiscal consolidation measures announced afterwards, consistent with the requirements of the excessive deficit

procedure. Progress is assessed against the (cumulative) quarterly primary deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP) including the Technical Memorandum of Understanding (TMU). Finance Bill 2012 will contain necessary provisions to bring into effect the already signalled VAT increases in 2013 and 2014.

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- PCAR for 2012 will be completed. The methodology used will be published in detail. The Government will ensure that the banks adhere to the requisite capital ratios.
- PLAR 2012 will be completed and any related actions will be assessed, together with the European Commission, the ECB and the IMF.
- Progress in implementing of the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF
- Legislation to reform the personal debt regime to be presented to the Houses of the Oireachtas.

iii. Structural reforms

To boost the integrity of the fiscal framework

- Assessment of work in progress related to the fiscal governance requirements considered in the previous quarters.

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

i. Fiscal Consolidation

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- The results of the PCAR for 2012 will be assessed, together with European Commission, the ECB and the IMF. The results will then be published in detail and on a bank-by-bank basis.
- Depending on the results of the PCAR 2012, the Government will ensure that the minimum capital requirement of 10.5% will be maintained.
- Progress in implementation of the strategy for the restructuring of the Irish credit institutions banking system will be assessed by the authorities, together with the European Commission, the ECB and the IMF.

iii. Structural fiscal reforms

To further enhance the credibility of the fiscal framework

- Assessment of work in progress related to the fiscal governance requirements considered in the previous quarters.

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

i. Fiscal Consolidation

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- Interim review of progress under PLAR 2011 and any related actions will be assessed, together with the European Commission, the ECB and the IMF.
- Progress in implementing of the strategy for restructuring of the Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.
- Review progress against PCAR requirements.

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

i. Fiscal consolidation

The government will provide a draft budget for 2013 aiming at a further reduction of the general government deficit in line with the 4-year plan and the programme and including the detailed presentation of consolidation measures amounting to at least €3,100m.

- Revenue measures to raise at least €1,100m² in the full year will be introduced, including:
 - A lowering of personal income tax bands and credits.
 - A reduction in private pension tax relief.
 - A reduction in general tax expenditures.
 - An increase in property tax.
- The budget will provide for a reduction in expenditure in 2013 of no less than €2,000m, including:
 - Social expenditure reductions.
 - Reduction of public service numbers and public service pension adjustments.
 - Other programme expenditure, and reductions in capital expenditure.

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- Progress in implementation of the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.
- Implementing of the plan for restructuring and strengthening the balance sheets of the credit union sector will be completed.

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

i. Fiscal consolidation

Government will rigorously implement the budget for 2013 and the fiscal consolidation measures announced afterwards, consistent with the requirements of the excessive deficit procedure. Progress is assessed against the (cumulative) quarterly primary deficit ceilings in the Memorandum of Economic and Financial Policies (MEFP) including the Technical Memorandum of Understanding (TMU).

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

² Inclusive of carryover from 2012

ii. Financial sector reforms

- PCAR for 2013 will be completed. The methodology used will be published in detail.
- PLAR 2012 will be completed and any related actions will be assessed, together with the European Commission, the ECB and the IMF.
- Progress in implementing of the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.

iii. Structural fiscal reforms

- Assessment of work in progress related to the fiscal reforms considered in the previous quarters.
- The nominal value of the State pension should not rise over the period of the programme.

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

i. Fiscal Consolidation

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- The results of the PCAR for 2013 will be assessed, together the European Commission, the ECB and the IMF. The results will then be published in detail and on a bank-by-bank basis.
- Depending on the results of the PCAR 2013, the Government will ensure that the minimum capital requirement of 10.5% will be maintained.
- The PLAR for 2013 will be completed.
- Progress in implementation of the strategy for the restructuring the banking system will be assessed by the authorities, together with the European Commission, the ECB and the IMF.

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

i. Fiscal Consolidation

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- Interim review of progress under PLAR 2011 and any related actions will be assessed, together with the European Commission, the ECB and the IMF.
- Progress in implementing of the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.
- Review progress against PCAR requirements

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

i. Fiscal Consolidation

The Department of Finance will continue to ensure tight supervision of expenditure commitments by the line departments, and effective tax collection, to make certain that the primary deficit target in cash (see Table 1 of MEFP) and the general government nominal budget deficit on ESA95 basis as set out in the EU Council Recommendation on excessive deficit procedures are achieved.

ii. Financial sector reforms

- Progress in implementing of the strategy for the reorganisation of Irish credit institutions will be assessed by the authorities, together with the European Commission, the ECB and the IMF.

Annex 1. Provision of data

During the programme, the following indicators and reports shall be made available to the European Commission, the ECB and the IMF staffs by the authorities on a regular basis.

To be provided by the Department of Finance

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
Updated monthly report on the central government's budget execution and prospects for the remainder of the year.	Monthly, 30 days after the end of each month
Quarterly data on main revenue and expenditure items of local government.	Quarterly, 90 days after the end of each quarter
Updated annual plans for the general government balance showing transition from the Exchequer balance to the general government balance (using presentation in Table 1 and Table 2A of the EDP notification).	Monthly, 30 days after the end of each month
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
Information on the main Government spending and receipt items	Weekly on Friday, reporting on the previous Thursday
Quarterly data on general government accounts, and general government debt as per the relevant EU regulations on statistics.	Quarterly accrual data, 90 days after the end of each quarter
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.	Together with EDP notification

To be provided by the NTMA

Weekly information on the Government's cash position with indication of sources as well of number of days covered	Weekly on Friday, reporting on the previous Thursday
Data on below-the-line financing for the general government.	Monthly, no later than 15 days after the end of each month
Data on public debt, new guarantees and other instruments issued by the general government to public enterprises, banks and the private sector.	Monthly, 30 days after the end of each month
Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months for the general government (interest and amortisation) and for central government and local authorities	Monthly, 30 days after the end of each month
Data on short-, medium- and long-term debt falling due (all instruments) over the next 36 months for State-guaranteed enterprises (interest and amortisation) (or Dept of Finance)	Quarterly, 30 days after the end of each quarter
Updated estimates of financial sources (bonds issuance, other financing sources) for the banking and government sectors in the next 12 months	Monthly, 30 days after the end of each month

To be provided by the Central Bank

Assets and liabilities of the Central Bank	Weekly, next working day
Assets and liabilities of the Irish banking system - aggregate monetary balance sheet of credit institutions	Monthly, 30 days after the end of each month
Short-, medium- and long-term debt falling due (by type of instrument) over the next 36 months for domestic banks of systemic importance (interest and amortisation).	Monthly, 30 days after the end of each month
Weekly individual operational balance sheets of commercial banks (of systemic importance), including detailed information on deposits (by maturity and type of depositor) and loans provided to the public and the private sector (households and corporates)	Weekly, next working day
Public debt and new guarantees issued by the general government to banks.	Monthly, 30 days after the end of each month
Financial stability indicators (IMF core set: deposits, non-performing loans, capital adequacy ratios) for systemic domestic banks	Monthly, 30 days after the end of each month
Estimates of domestic banks' capital needs in the next 12 months	Monthly, 30 days after the end of each month
Estimates of funding sources for the banking sector for the next 12 months	Monthly, 30 days after the end of each month

TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

December 1, 2010

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 [1] 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 [November 24], as shown on the European Central bank web-page, in particular, € = [1.3339] U.S. dollar and € = [0.86547] SDR.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. 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 law³. The Exchequer balance is the difference between total receipts into, and total expenditure out of, the Exchequer Account. It measures the sum of the current and capital balances. The current balance is defined as current receipts (tax and non-tax revenue) minus current expenditure (voted expenditure and non-voted expenditure charged directly on the Central Fund, including the Sinking Fund). The capital balance is defined as capital receipts (Sinking Fund and other capital receipts) minus capital expenditure (voted and non-voted expenditure). The Sinking Fund provision is a transfer from the current account to the capital account to reduce national debt and has no effect on the overall exchequer balance.

³ 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.

4. The performance criteria are set on the exchequer primary balance (the exchequer balance excluding net debt interest payments in the service of the National Debt) ⁴.

5. For the purposes of the programme, the floor on the exchequer primary balance (quantitative performance criterion) will be adjusted 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 (required recapitalisation), unrequited recapitalisation, and purchases of troubled assets, which are carried out in line with programme objectives. Any other financial operation by Government to support banks, including the issuance of guarantees or provision of liquidity, will be reported to IMF staff.

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, 2010:	
End-December 2010 (performance criterion)	-15.3
From January 1, 2011:	
End-March 2011 (performance criterion)	-7.8
End-June 2011 (indicative target)	-11.0
End-September 2011 (indicative target)	-14.3
End-December 2011 (indicative target)	-14.6

7. The performance criterion on the exchequer primary balance (floor) for end-March 2011 and thereafter, will be adjusted upward (downward) for the full amount of any over-performance (under-performance) in Exchequer tax revenues, pay-related social insurance contributions (PRSI), health levy and national training fund contributions against the current projection which is listed below⁵:

Cumulative Exchequer tax revenue & other receipts (as outlined in 7. above)	(In billions of Euros)
End-March 2011 (projection)	9.7
End-June 2011 (projection)	19.4
End-September 2011 (projection)	29.7
End-December 2011 (projection)	41.9

8. Any policy changes, including in tax administration and enforcement, which impact the above revenue projection will lead to a reassessment of the adjustor in the context of program reviews.

⁴ Net debt interest payments are as per the end-month Exchequer Statements.

⁵ Exchequer tax receipts are comprised of income tax, value added tax (VAT), corporation tax, excise duties, stamp duties, capital gains tax, capital acquisitions tax and customs duties.

B. Ceiling on the Stock of Central Government Net Debt

9. The stock of central government net 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 to 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, 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 include equities, investment grade government bonds and other listed investments. NPRF shares in domestic Irish banks 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 upward by debt arising from payments for bank restructuring carried out under the programme's banking sector support and restructuring strategy. 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. The programme exchange rates will apply to all non-euro denominated debt.

11. 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-October 2010 central government net debt.

Central government net debt	(In billions of Euros)
Outstanding stock:	
End-October 2010 (provisional)	78.6
End-December 2010 (indicative target)	83.1
End-March 2011 (indicative target)	91.6
End-June 2011 (indicative target)	96.5
End-September 2011 (indicative target)	100.0
End-December 2011 (indicative target)	102.2

C. Non-accumulation of External Payments Arrears by Central Government

12. The central government will accumulate no external payment 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. The performance criterion will apply on a continuous basis.

13. 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. This performance criterion does not cover arrears with regard to trade credits.

II. REPORTING REQUIREMENTS

14. Performance criteria under the programme will be monitored using data supplied to the IMF. The Irish authorities will transmit promptly any data revisions in a timely manner.

- The Department of Finance will report the Exchequer balance to the IMF staff, with a lag of no more than seven days after the test date.
- The National Treasury Management Agency will provide provisional figures on the outstanding stock of net government debt 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 IMF staff, with a lag of not more than seven days after the arrears arise in accordance with the definition of external payments arrears as set forth in paragraph 12 of this memorandum.

Detailed macroeconomic projections

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

<i>Annual % change</i>	2008	2009	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	-1.8	-7.2	-1.4	-1.9	-1.0	0.5	1.6	1.6
2. Government consumption expenditure	2.8	-4.1	-2.2	-5.7	-0.8	-2.4	-3.7	-2.0
3. Gross fixed capital formation	-14.3	-31.1	-21.1	-8.9	1.8	4.3	7.5	5.1
4. Final domestic demand	-4.6	-12.4	-5.1	-3.8	-0.6	0.4	1.3	1.4
5. Change in inventories								
6. Domestic demand	-5.0	-13.9	-4.3	-3.4	-0.7	0.3	1.4	1.4
7. Exports of goods and services	-0.8	-4.1	5.7	4.5	4.5	4.6	4.7	4.9
7a. - of which goods	-0.2	-5.2	4.5	5.0	4.8	4.6	4.7	4.9
7b. - of which services	-1.4	-2.9	7.1	4.0	4.2	4.6	4.7	4.9
8. Final demand	-3.0	-9.2	0.9	0.9	2.3	2.8	3.4	3.5
9. Imports of goods and services	-2.9	-9.7	2.3	0.9	2.7	3.3	3.9	4.2
9a. - of which goods	-13.3	-18.4	0.6	0.7	3.0	3.3	3.9	4.2
9b. - of which services	6.5	-3.3	3.4	1.1	2.5	3.3	3.9	4.2
10. Gross domestic product at market prices	-3.5	-7.6	-0.2	0.9	1.9	2.5	3.0	3.0
<i>Contribution to change in GDP</i>								
11. Final domestic demand	-4.2	-11.3	-4.4	-3.1	-0.5	0.3	1.0	1.0
12. Change in inventories + net acq. of valuables	-0.4	-1.4	0.7	0.3	-0.1	0.0	0.0	0.0
13. External balance of goods and services	1.4	3.8	3.4	3.7	2.5	2.2	1.9	2.0

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

<i>Annual % change</i>	2008	2009	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	1.2	-11.3	-2.8	-1.5	-0.2	2.1	3.5	3.6
2. Government consumption expenditure	9.1	-5.9	-5.0	-4.8	-1.3	-1.9	-3.2	-1.5
3. Gross fixed capital formation	-20.5	-38.0	-25.6	-10.2	2.1	7.0	11.8	10.2
4. Final domestic demand	-3.8	-16.6	-7.4	-3.5	-0.2	1.9	3.2	3.6
5. Change in inventories	-82.6	-898.7	-52.5	-43.5	15.0	3.0	-11.0	0.0
6. Domestic demand	-4.8	-18.0	-6.5	-3.2	-0.3	1.9	3.3	3.6
7. Exports of goods and services	-1.4	-3.6	6.2	5.1	6.6	5.6	5.8	6.0
8. Final demand	-3.3	-11.1	0.1	1.4	3.7	4.0	4.8	5.0
9. Imports of goods and services	-1.1	-10.1	2.7	1.4	4.9	4.3	4.9	5.2
10. Gross national income at market prices	-5.1	-15.4	-4.7	-0.5	1.1	2.4	4.0	4.4
11. Gross value added at basic prices	-3.9	-9.3	-2.4	1.6	2.9	3.7	4.5	4.8
12. Gross domestic product at market prices	-5.0	-11.3	-2.0	1.4	2.7	3.8	4.6	4.8

Table 3: Implicit price deflators

<i>% change in implicit price deflator</i>	2008	2009	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	3.0	-4.4	-1.5	0.4	0.8	1.6	1.8	1.9
2. Government consumption expenditure	6.2	-1.8	-2.9	1.0	-0.5	0.4	0.5	0.5
3. Gross fixed capital formation	-7.3	-10.0	-5.6	-1.4	0.3	2.6	4.0	4.8
4. Domestic demand	0.5	-4.9	-2.4	0.3	0.4	1.5	1.9	2.1
5. Exports of goods and services	-0.7	0.6	0.5	0.5	2.0	1.0	1.0	1.0
6. Final demand	0.0	-2.2	-0.9	0.4	1.4	1.2	1.3	1.4
7. Imports of goods and services	1.9	-0.4	0.4	0.5	2.1	1.0	1.0	1.1
8. Gross domestic product at market prices	-1.5	-4.0	-1.8	0.4	0.8	1.4	1.6	1.7
HICP	3.1	-1.7	-1.5	0.4	0.6	1.6	1.8	1.9

Table 4: Labour market and cost

<i>Annual % change</i>	2008	2009	2010	2011	2012	2013	2014	2015
1. Labour productivity	-2.4	0.6	3.9	1.7	1.3	1.3	1.4	1.1
2. Compensation of employees per head	3.4	0.0	-2.1	0.5	0.1	1.1	1.4	1.5
3. Unit labour costs	4.5	-3.5	-5.5	-1.5	-1.4	0.0	0.1	0.5
4. Total population	1.6	0.6	0.1	0.0	0.1	0.4	0.5	0.5
5. Population of working age (15-64 years)	1.0	-0.1	-0.8	-0.9	-0.8	-0.3	-0.1	0.1
6. Total employment	-1.1	-8.1	-4.0	-0.8	0.6	1.1	1.5	2.0
7. Calculated unemployment rate - Eurostat definition (%)	6.3	11.8	13.6	13.4	12.7	11.4	10.1	8.7

Table 5: External balance

<i>levels</i>	2008	2009	2010	2011	2012	2013	2014	2015
1. Exports of goods (fob)	81.0	77.0	81.1	85.8	91.4	96.4	102.0	108.1
2. Imports of goods (fob)	57.2	44.7	45.3	45.9	48.1	50.1	52.6	55.4
3. Trade balance (goods, fob/fob) (1-2)	23.8	32.4	35.8	39.9	43.3	46.3	49.4	52.7
<i>3a. p.m. (3) as % of GDP</i>	<i>13.2</i>	<i>20.3</i>	<i>22.9</i>	<i>25.1</i>	<i>26.6</i>	<i>27.4</i>	<i>27.9</i>	<i>28.4</i>
4. Exports of services	69.1	67.8	72.7	75.8	80.9	85.4	90.4	95.8
5. Imports of services	76.7	75.7	78.3	79.4	83.3	86.9	91.2	95.9
6. Services balance (4-5)	-7.5	-8.0	-5.7	-3.6	-2.4	-1.4	-0.8	-0.1
<i>6a. p.m. 6 as % of GDP</i>	<i>-4.2</i>	<i>-5.0</i>	<i>-3.6</i>	<i>-2.3</i>	<i>-1.5</i>	<i>-0.9</i>	<i>-0.4</i>	<i>-0.1</i>
7. External balance of goods & services (3+6)	16.3	24.4	30.1	36.3	40.9	44.9	48.6	52.6
<i>7a. p.m. 7 as % of GDP</i>	<i>9.1</i>	<i>15.3</i>	<i>19.3</i>	<i>22.9</i>	<i>25.1</i>	<i>26.5</i>	<i>27.5</i>	<i>28.4</i>
8. Balance of primary incomes and current	-25.2	-29.2	-31.5	-34.3	-37.2	-40.4	-43.1	-45.7
<i>8a. - of which, balance of primary income</i>	<i>-22.7</i>	<i>-27.0</i>	<i>-29.7</i>	<i>-32.4</i>	<i>-35.4</i>	<i>-38.6</i>	<i>-41.3</i>	<i>-43.8</i>
<i>8b. - of which, net current Transfers</i>	<i>-2.5</i>	<i>-2.2</i>	<i>-1.8</i>	<i>-1.9</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.8</i>	<i>-1.9</i>
<i>8c. p.m. 8 as % of GDP</i>	<i>-14.0</i>	<i>-18.3</i>	<i>-20.1</i>	<i>-21.6</i>	<i>-22.9</i>	<i>-23.9</i>	<i>-24.3</i>	<i>-24.7</i>
9. Current external balance (7+8)	-8.9	-4.8	-1.4	2.0	3.7	4.4	5.6	6.9
<i>9a. p.m. 9 as % of GDP</i>	<i>-5.0</i>	<i>-3.0</i>	<i>-0.9</i>	<i>1.2</i>	<i>2.3</i>	<i>2.6</i>	<i>3.1</i>	<i>3.7</i>
10. Net capital transactions	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.1
11. Net lending (+)/ net borrowing (-) (9+10)	-8.9	-6.1	-1.3	2.0	3.7	4.4	5.6	7.0
<i>11a. p.m. 11 as % of GDP</i>	<i>-4.9</i>	<i>-3.8</i>	<i>-0.9</i>	<i>1.2</i>	<i>2.3</i>	<i>2.6</i>	<i>3.1</i>	<i>3.8</i>

Table 6: Fiscal accounts

	2008	2009	2010	2011	2012	2013	2014	2015
	<i>% of GDP</i>							
Indirect taxes	12.4	11.3	11.3	11.1	10.9	11.0	11.1	11.2
Direct taxes	11.5	10.7	10.3	11.1	11.7	12.0	12.2	12.1
Social contributions	7.0	7.2	7.3	7.2	7.1	7.0	6.8	7.0
Sales	1.7	2.2	2.4	2.4	2.0	1.9	1.9	1.9
Other current revenue	1.7	1.7	1.8	1.9	1.6	1.6	1.6	1.5
Total current revenue	34.3	33.2	33.1	33.6	33.3	33.4	33.6	33.7
Capital transfers received	1.2	1.3	2.1	1.3	1.4	1.4	1.4	1.4
Total revenue	35.4	34.5	35.2	34.9	34.7	34.8	35.0	35.0
Compensation of employees	11.3	12.3	11.7	11.3	10.8	10.2	9.6	9.1
Intermediate consumption	5.5	5.8	5.9	5.2	4.9	4.6	4.0	3.7
Social transfers in kind via market producers	2.0	2.1	2.1	2.0	1.8	1.5	1.3	1.2
Social transfers other than in kind	12.4	15.3	16.1	15.6	14.8	13.9	13.0	12.4
Interest paid	1.4	2.2	3.0	4.1	4.1	5.7	6.2	6.0
Subsidies	0.5	0.5	0.8	0.7	0.7	0.7	0.7	0.6
Other current expenditure	2.5	2.7	2.2	2.1	2.1	2.0	1.9	1.8
Total current expenditure	35.7	40.9	41.8	41.0	39.2	38.5	36.7	34.8
Gross fixed capital formation	5.2	4.7	4.5	3.5	3.1	2.8	2.4	2.3
Other capital expenditure	1.9	3.2	21.0	1.1	1.0	1.0	0.9	0.9
Total expenditure	42.7	48.9	67.2	45.6	43.3	42.3	40.0	38.0
General Government balance (EDP)	-7.3	-14.4	-32.0	-10.6	-8.6	-7.5	-5.1	-2.9
	<i>% change</i>							
Indirect taxes	-11.6	-19.1	-1.9	-0.8	0.9	5.1	5.5	5.3
Direct taxes	-13.9	-17.3	-5.9	9.4	8.6	6.3	6.6	4.0
Social contributions	2.7	-8.8	-0.1	-0.5	0.8	2.1	2.7	7.2
Sales	0.3	17.8	3.6	1.4	-11.2	-5.5	4.6	4.8
Other current revenue	35.6	-9.6	0.5	4.6	-12.4	3.2	3.7	3.8
Total current revenue	-7.7	-14.1	-2.3	2.9	1.9	4.2	5.2	5.1
Capital transfers received	-29.1	3.1	50.2	-33.6	6.9	3.1	3.8	4.2
Total revenue	-8.6	-13.5	-0.2	0.7	2.1	4.1	5.1	5.1
Compensation of employees	7.0	-3.1	-7.0	-2.3	-2.3	-1.6	-1.5	-0.5
Intermediate consumption	3.8	-6.4	-1.3	-9.9	-3.2	-3.7	-7.7	-5.1
Social transfers in kind via market producers	10.8	-5.7	-2.2	-5.3	-7.7	-10.4	-8.5	-6.6
Social transfers other than in kind	13.3	9.1	3.2	-1.6	-2.3	-2.9	-2.0	-0.1
Interest paid	25.1	38.7	38.3	35.5	3.8	44.0	13.3	1.9
Subsidies	7.9	-9.4	38.0	0.0	0.0	0.0	0.0	0.3
Other current expenditure	3.4	-5.8	-21.2	-1.0	0.0	0.0	0.0	0.3
Total current expenditure	9.2	1.8	-0.1	-0.4	-1.9	2.1	-0.4	-0.6
Gross fixed capital formation	4.9	-18.9	-7.2	-21.4	-7.3	-7.8	-8.5	0.0
Other capital expenditure	69.8	52.2	535.0	-94.8	-3.8	0.0	0.0	0.0
Total expenditure	10.4	1.5	34.6	-31.3	-2.4	1.4	-0.9	-0.6
Nominal GDP, EUR bn	180.0	159.6	156.4	158.5	162.8	169.1	176.9	185.5

Table 7: Government debt dynamics

	2008	2009	2010	2011	2012	2013	2014	2015
EDP deficit (% of GDP)	-7.3	-14.4	-32.0	-10.6	-8.6	-7.5	-5.1	-2.9
EDP gross debt (% of GDP)	44.3	65.5	98.9	113.5	120.0	121.8	120.3	116.7
<i>levels, EUR bn</i>								
EDP deficit	-13.1	-23.0	-50.1	-16.8	-14.0	-12.6	-9.0	-5.4
Gross debt	79.8	104.6	154.7	179.9	195.3	205.9	212.9	216.4
Change in gross debt	32.5	24.8	50.1	25.2	15.4	10.5	7.0	3.6
Nominal GDP	180.0	159.6	156.4	158.5	162.8	169.1	176.9	185.5
Real GDP	146.9	135.8	135.5	136.8	139.4	142.8	147.1	151.6
Real GDP growth (% change)	-3.5	-7.6	-0.2	0.9	1.9	2.5	3.0	3.0
Change in gross debt (% of GDP)	18.0	15.5	32.0	15.9	9.5	6.2	4.0	1.9
Stock-flow adjustments (% of GDP)	10.7	1.1	0.0	5.3	0.8	-1.3	-1.1	-1.0
<i>% of GDP</i>								
Gross debt ratio	44.3	65.5	98.9	113.5	120.0	121.8	120.3	116.7
Change in gross debt ratio	19.3	21.2	33.4	14.6	6.4	1.8	-1.4	-3.6
<i>Contribution to change in gross debt</i>								
Primary balance	5.9	12.2	29.0	6.6	4.5	1.8	-1.1	-3.1
"Snow-ball" effect	2.7	8.0	4.4	2.8	1.1	1.3	0.8	0.5
of which								
<i>Interest expenditure</i>	<i>1.4</i>	<i>2.2</i>	<i>3.0</i>	<i>4.1</i>	<i>4.1</i>	<i>5.7</i>	<i>6.2</i>	<i>6.0</i>
<i>Real growth effect</i>	<i>0.9</i>	<i>3.8</i>	<i>0.1</i>	<i>-0.9</i>	<i>-2.1</i>	<i>-2.8</i>	<i>-3.4</i>	<i>-3.5</i>
<i>Inflation effect</i>	<i>0.4</i>	<i>2.0</i>	<i>1.2</i>	<i>-0.4</i>	<i>-0.8</i>	<i>-1.6</i>	<i>-1.9</i>	<i>-2.0</i>
Stock-flow adjustments	10.7	1.1	0.0	5.3	0.8	-1.3	-1.1	-1.0
<i>Implicit interest rate</i>	<i>5.2</i>	<i>4.3</i>	<i>4.6</i>	<i>4.2</i>	<i>3.7</i>	<i>4.9</i>	<i>5.3</i>	<i>5.2</i>

Note:

Gross debt projections include injections of EUR 10 bn of fresh capital into the banking system in 2010 and EUR 15 bn in 2011, above and beyond the already announced capital injections.